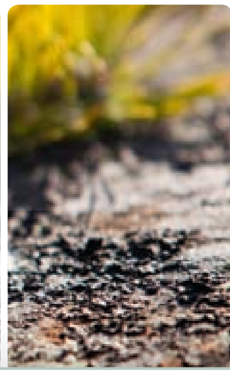





Annual Report 2010

Kuntarahoitus
MUNICIPALITY FINANCE

Contents

A competitive **funding partner for the local goverment sector**

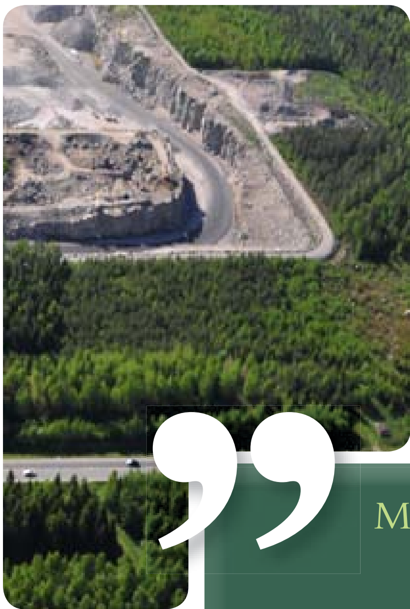
Municipality Finance is a credit institution owned by municipalities, Keva and the Finnish State. It offers competitive financial services for its customers under all market conditions. The efficient operations of the company have resulted in sustained growth in profitability. The company aims to build the capital needed for growth through profits and thereby ensure capital adequacy.

The company's competitive pricing is based on the best possible credit ratings for long-term funding, i.e. Aaa from Moody's and AAA from Standard & Poor's. Funding is acquired from both international and domestic capital markets. The company's funding is guaranteed by the Municipal Guarantee Board.

A significant portion of lending by Municipality Finance is used for various socially important investments. Funding is used for schools, day care centres, elderly care homes and institutions, hospitals, health care centres and rental housing.

Westenergy in Mustasaari

Westenergy Oy Ab is building a waste incineration power plant in Mustasaari to generate electricity and district heating from waste instead of coal and oil. The company uses combustible household waste collected from an extensive area as the raw material. Municipality Finance made the project possible by arranging EUR 80 million in funding for the construction of the facility. The tailored funding solution provides significant savings in financial costs for the construction project.



Pictures: Westenergy

"Municipality Finance is the most reliable, **active and innovative** financing partner."

Innovative funding solutions

One of Municipality Finance's key operating principles is a complete focus on the customer's financial needs. The company offers market-based funding to municipalities and municipal federations, municipality-controlled entities and non-profit housing corporations. The goal of its operations is to support competition in the lending market and ensure the availability of funding under all circumstances.

Municipality Finance is at the forefront of product development in the financial sector, offering its customers the innovative solutions and products required by the rapidly developing market. The key factors in the company's operations are reliability, innovation, an active approach and the expertise of its personnel.

2010 in brief

Municipality Finance's business continued to grow rapidly in 2010 in terms of both lending and funding acquisition. The Group's net interest income increased by 56 per cent in 2010 to EUR 78.7 million. The Group's operating profit grew by 73 per cent to EUR 58.3 million. The balance sheet total increased by 38 per cent to EUR 20,047 million. Capital adequacy was 19.28 per cent at the end of the year.

The lending portfolio grew by 20 per cent to EUR 11,706 million. New loans amounting to EUR 2,842 million were withdrawn during the year. Municipality Finance introduced financial leasing as a new form of lending offered to customers as an option for funding investments in fixed assets.

Funding acquisition was highly successful in 2010. The company concluded a total of 229 funding arrangements with an aggregate value of EUR 6,469 million on the international funding markets. The company issued 11 Municipal Bonds with a total value of EUR 35 million.

"In 2010, Municipality Finance provided EUR 2.8 billion in funding to its customers."

STRATEGY

Municipality Finance places great emphasis on customer-responsiveness, active co-operation and reliable partnership. These values help the company ensure that its operations meet customer needs in an equitable, open and transparent manner.

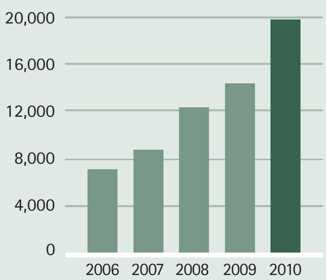
The success of the company is based on an atmosphere of renewal, initiative and creativity, resulting in the most suitable financing solutions for customers.

The strategy of Municipality Finance is to invest in customer relationships in an active and focused manner, and to develop them in a way that best serves municipalities, public corporations under municipal control and non-profit organisations. Being the only financial institution specialised in this customer segment, Municipality Finance has an in-depth understanding of its customers' special needs and operating environment.

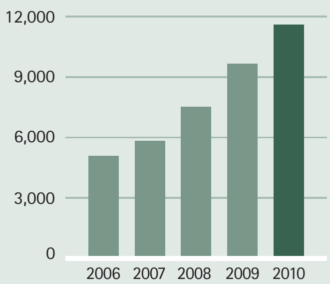
In order to offer the most suitable solutions for our customers, we invest in developing our own staff and broad-based expertise to ensure the effectiveness of our operations.

Key figures (Group)	2009	2010	Change, %
Net interest income (MEUR)	50.6	**78.7**	56%
Net operating profit (MEUR)	33.7	**58.3**	73%
Lending portfolio (MEUR)	9,741	**11,698**	20%
Total funding acquired (MEUR)	13,218	**17,162**	30%
Balance sheet total (MEUR)	14,557	**20,047**	38%
Capital adequacy ratio, %	20.17%	**19.28%**	-4%
Own funds (MEUR)	207.7	**245.9**	18%

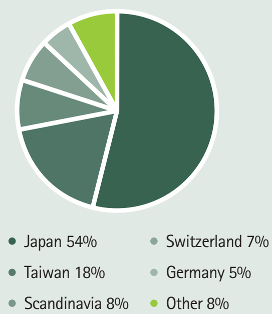
Balance sheet total 2006–2010 (MEUR)

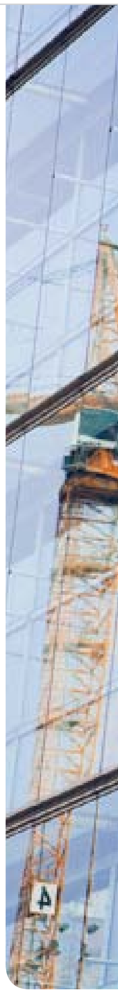


Lending portfolio 2006–2010 (MEUR)



Funding by country in 2010





CEO's Review

The year 2010 was characterised by nervousness on the financial markets, with estimates of future developments varying greatly throughout the year. One significant consequence of this atmosphere was that investors sought lower risk investments. This led to Municipality Finance being offered even more funding than it required.

The disappointing aspect of the situation was that the financial sector overreacted to speculation outside the industry concerning imbalances in the national economies of certain countries that were known about for quite some time. If the operators lack patience and solutions to the imbalances are not found, 2011 will be another difficult year.

However, for Municipality Finance 2010 was a successful year. The company remains the largest lender for its customer base. The company's funding acquisition was very successful and the operating result shows a marked improvement from the previous year. A strong result is important for ensuring the company's operating conditions for the future.

Regulation must take different operating models into consideration

From Municipality Finance's perspective the most significant topic of discussion in the financial sector was the Basel III framework and the upcoming amendments to the EU Capital Requirements Directive based on Basel III. If implemented in their presented form, the changes would significantly tighten the operating conditions of financial institutions. The most difficult problem among the changes would be the planned leverage ratio requirement. If adopted, the requirement would force Municipality Finance to either acquire significant additional capital or downsize operations.

The Directive should take into account the operating models of specialised public sector credit institutions with a low risk profile, such as Municipality Finance. Otherwise the additional financial costs for the local government sector in Finland, for example, would be tremendous and the availability of financing would suffer greatly, especially during times of financial crisis and even minor market disturbances.

Commercial banks have not been active in offering funding to the local government sector in recent years, and any change in this regard is unlikely in the coming years. Exceptional circumstances such as the financial crisis in 2008-2009 are particularly problematic. During the most recent crisis, Municipality Finance was practically the only lender available to its clients with a 94% market share. This kept the wheels of society turning.

Municipality Finance's position as a financial institution with the highest possible credit rating is a unique strength for Finnish society. Municipality Finance is a lender of last resort that can continue to provide funding to its customers even under the most difficult circumstances. The company is a trusted partner for investors seeking a low credit risk level, such as Japanese private investors and Swiss institutions looking for long term investments.

Based on its strong credit rating and active role in the international funding markets, Municipality Finance can secure

"Municipality Finance has ensured its **customers the funding they need,** even in challenging circumstances."

financing for its customers at competitive prices. Our operating model has proven to be effective under all circumstances. It is therefore no wonder that several countries are now planning to establish similar financial institutions modelled after Municipality Finance's approach to arranging funding for the public sector.

Added value to the funding of municipalities

Municipality Finance's subsidiary, Financial Advisory Services Inspira Ltd, reached a turnover of EUR 2.2 million in its third year of operations, up 51% from the previous period.

Inspira's operations have grown significantly and remain profitable. The company has brought a great deal of added value by providing alternative financial solutions for municipalities and demand for its services continues to increase.

As a new addition to its service offering, Municipality Finance launched financial leasing services for its customers in 2010. The use of leasing in financing municipal investments in fixed assets is increasing and there is widespread interest in it. Municipality Finance intends to make financial leasing one of the standard financing alternatives for municipalities.

Future prospects

The uncertainty in the international capital markets makes analysing future prospects at the beginning of 2011 very difficult. Managing the European financial crisis now calls for calm, decisive and long term measures from national governments, political decision-makers and the financial sector to regain market confidence.

There are no major risks evident in Finland that would be likely to weaken the financial sector's belief in the development of our national economy in the near term. In fact, Finland and Germany are the highest rated national economies in the euro zone, which is a further sign of confidence in our ability to manage our financial obligations. The economic situation of Finnish municipalities is seen as similarly reliable by the financial markets based on low debt ratios compared to international levels and our highly developed support system for municipal economies.

Municipality Finance is confident about its prospects for 2011 despite the prevailing uncertainty and turbulence in the financial sector. I would like to extend my warm thanks to our personnel and partners for the successful co-operation over the past year. Our services are needed now more than ever and by developing in response to our customers' needs we will continue to be successful in the future.

Pekka Averio
CEO

Markets have great trust in Municipality Finance

The United States and the global capital markets have recovered well from the 2008 financial crisis, but the euro zone national debt crisis sent shockwaves through all of the Western economy in 2010. Economic growth was strong in the euro zone in 2010 while the USA and Japan saw their growth slow down. Central banks have maintained a very loose monetary policy by keeping interest rates at record low levels. Central banks in the United States and Europe have also engaged in unusual stimulus policies by making massive support purchases of long term bonds. This caused long term interest rates to fall sharply in 2010.

The impact of the financial crisis on municipal economies was less severe than anticipated. Municipal tax revenues in 2010 exceeded the forecasts made in 2009. This was further helped by municipalities receiving a temporarily elevated share of corporate taxes, 32% instead of 22%, in 2009-2011. The income tax base of municipal tax revenue increased slightly and increased limits on real estate taxes resulted in higher real estate tax revenue. Another factor in municipal economies developing better than expected was slower growth in operating expenses, which was enabled by costs increasing less than in previous years.

The funding requirements of municipalities increased slightly from the previous year despite municipal economies exceeding anticipated growth rates. In the early part of 2010 municipalities financed their operations by short term funding due to decreasing margin expectations in long term financing. As prices stabilised in the second half of the year, municipalities again began favouring long term funding.

Funding by currency in 2010

- Japanese yen (JPY) 47%
- US Dollar (USD) 22%
- Euro (EUR) 7%
- Swiss franc (CHF) 7%
- Swedish krona (SEK) 5%
- Other currencies 12%

Funding by country in 2010

- Japan 54%
- Taiwan 18%
- Scandinavia 8%
- Switzerland 7%
- Germany 5%
- Other 8%

Successful funding in 2010

Municipality Finance acquires the funding for its lending operations from both international and domestic financial markets with the aim of diversifying its funding acquisitions to various markets and different types of investors. The company's long history and active role in the international capital markets and its best possible credit rating facilitate funding acquisition and lower its cost.

Municipality Finance is highly valued and widely recognised among international investors, exemplified by the company being selected as Issuer of the Year in a category of public sector entities in a vote organised by MTNi in early 2010.

During the recent period of great uncertainty, Municipality Finance's role as an extremely reliable operator with the highest possible credit rating was highlighted. The company was seen during the crisis as one of the safe havens on the international financial markets, resulting in Municipality Finance being offered more funding than it required. In 2010 the company acquired EUR 6.5 billion in long term funding, which ensured its ability to offer financing to its customers throughout the year.

The focus of Municipality Finance's long term funding acquisition remained in Asia where the demand for bonds increased significantly, particularly in the Uridashi market

Uridashi bonds from Japan

Uridashi bonds are foreign currency denominated bonds sold to Japanese private investors. Municipality Finance typically issues them in a single transaction, with the bonds subsequently sold to Japanese investors through banks and investment companies. The bonds are linked to e.g. currency exchange rates or equity indices. Municipality Finance's popularity as an issuer of Uridashi bonds is primarily based on the company's exceptionally low credit risk and long term presence on the market.

targeted at private investors in Japan. Taiwanese investors were also a significant source of funding in Asia for the company. The third largest area for Municipality Finance's funding acquisition in 2010 was Switzerland. Some of the bonds issued to Swiss investors were very long term, which speaks for the high level of confidence in Municipality Finance in that market. This confidence has been earned through long term partnerships with various investors and by operating in an investor focused and flexible manner.

"In 2010 Municipality Finance raised EUR **6,504** **million in long-term funding.**"

Best possible credit rating

Municipality Finance is the only Finnish credit institution with the best possible credit ratings for long-term funding, equal to those of the Finnish State, i.e. AAA from both Moody's and Standard & Poor's. The company's AAA credit rating makes its bonds highly desired among both private and institutional investors.

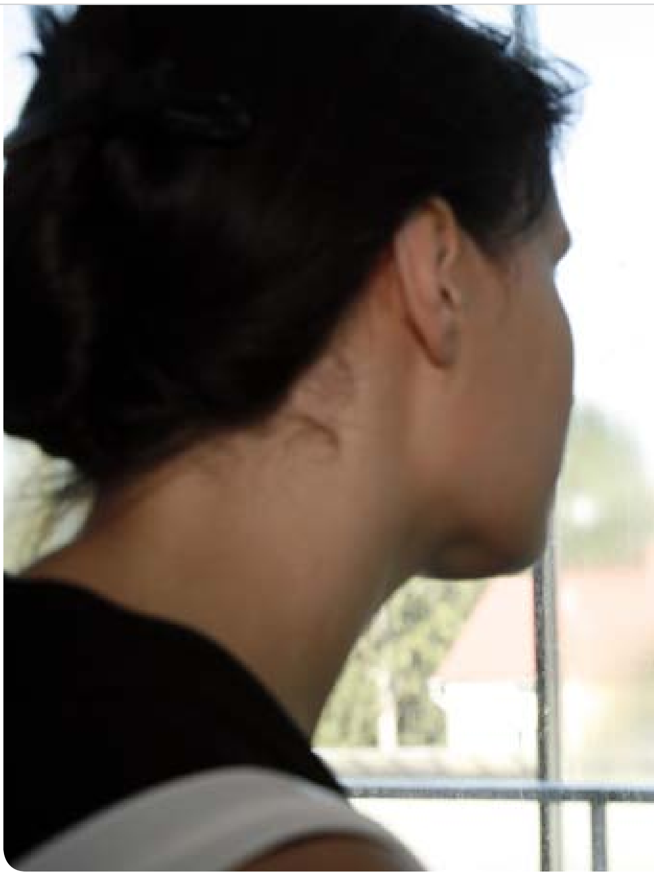
With the highest rating from two leading credit rating institutions, Municipality Finance is the safest investment there is. In practice, the rating represents the credit rating institution's assessment of the debtor's credit risk in relation to other debtors at a given time. The AAA credit rating is typically only granted to governments and economic operators owned or guaranteed by states or state-owned entities. Only a small number of other issuers have the best possible credit rating at present. In Europe there are several countries that do not have the best possible credit rating, with Spain for instance losing its AAA rating in 2009 as a consequence of the financial crisis.

Municipal Guarantee Board guarantees funding

The Municipal Guarantee Board is an institution under the Municipal Guarantee Board Act, whose purpose, according to the Act on the Municipal Guarantee Board, is to safeguard and develop joint funding for municipalities.

In order to fulfill this purpose, the Municipal Guarantee Board can grant guarantees for such funding of credit institutions directly or indirectly owned or controlled by municipalities, such as Municipality Finance, which will be used for lending to municipalities and municipal federations, and to institutions which are wholly owned by municipalities or under their control and for credit institution funding, which will be used for lending to corporations designated by government authorities and engaged in the renting or construction and maintenance of housing on social grounds or corporations controlled by them.

The Municipal Guarantee Board's long term funding has the same ratings as Municipality Finance, i.e. Aaa from Moody's and AAA from Standard & Poor's.



Competitive lending

The key principles governing Municipality Finance's lending operations are confidential and long term partnerships with customers and ensuring the competitiveness of financing. The majority of Municipality Finance's customers are also its shareholders. The company's operations are based on strong partnerships.

Municipality Finance's lending is used entirely for various investments made by municipalities, municipally owned corporations and non-profit organisations. The majority of the lending portfolio is made up of long term loans, which increased by 20 per cent in 2010.

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

Funding for housing construction is provided for municipally owned housing corporations as well as non-profit organisations for the production of state-subsidised social rental housing and housing construction for special groups such as the elderly, the disabled and students.

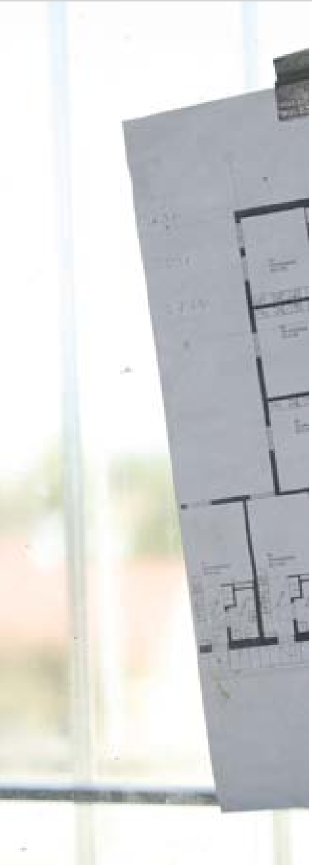
Short term financing is granted to municipalities for liquidity management purposes. The instruments used include municipal papers and municipal commercial papers. At the end of 2010 there were 342 municipal paper and municipal commercial paper programmes in effect between Municipality Finance and its customers.

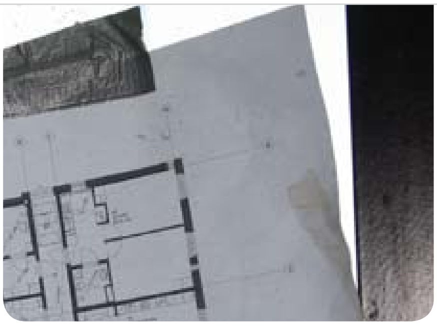
Municipality Finance expanded its service offering to provide financial leasing products in summer 2010. Financial leasing is used in a variety of ways by customers to fund investments in fixed assets.

Tarvasjoki Wellness Centre

Opened in August 2010, Tarvasjoki Wellness Centre comprises an around-the-clock child care centre, apartments for elderly people with memory problems or physical disabilities, apartments providing opportunities for independent living for those with intellectual and developmental disabilities as well as supported living options for people with severe disabilities. The same complex also houses the Tarvasjoki health centre. The idea behind the centre is to have the various departments co-operate in serving all citizens of the municipality. Municipality Finance was involved in funding the construction of the wellness centre.

Picture: Municipality of Tarvasjoki





HOAS student housing in Viikki

The Foundation for Student Housing in the Helsinki Region (HOAS) offers housing for full-time secondary level students in the Helsinki metropolitan area. HOAS owns approximately 7,700 apartments and has some 16,000 tenants. Von Daehnin katu 14 is an apartment building with 58 units developed by HOAS. Construction of the building in the Latokartano district of Viikki was completed in spring 2009. The project was funded by Municipality Finance.

> ”Municipality Finance **constantly develops its operations and solutions** to better respond to its customers' needs.”

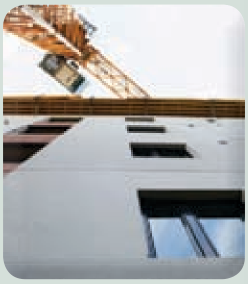
Solutions for managing financial risk

Municipality Finance also serves its customers in response to their needs related to the management of interest risk. Hedging against interest rate increases has been a sensible strategy in recent times due to the historically low interest rates prevailing in the market.

The interest hedging solutions are tailored on a customer specific basis. Municipality Finance offers each customer the most suitable hedging options based on an analysis of their loan portfolio.

Municipality Finance constantly monitors the changing financing needs of its customers and seeks the best solutions for them. The company's active role in the international capital markets enables advanced product development and the offering of competitive solutions for customers.

Zero energy building in Kuopio



Municipality Finance financed Finland's first zero energy building in Kuopio. The project to design and build a zero energy building involved the creation of a model that is compliant with 2020 energy efficiency regulations and suitable for state subsidised ARA housing production. The result was a high-quality building with rental units for special groups that offers reasonable acquisition and living costs. The zero energy building constructed in Kuopio is used for student housing.

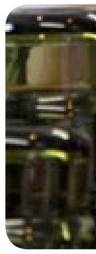
Picture: Kuopion Opiskelija-asunnot Oy

Transparency is key in financial leasing

Municipality Finance's leasing services launched in 2010 have already been used by its customers to acquire assets such as a harbour crane, street lighting solutions and portable buildings for day care centres and schools. The leasing services were also used to finance more conventional projects such as acquisitions of hospital equipment, various vehicles and smaller assets such as IT equipment, photocopiers and office furniture.

Leasing as a financing solution can help customers better match the economic and technical usable life of an asset. The predictability of expenses also makes budgeting and financial planning easier. As the assets are owned by the financing party, the customer's capital is not tied up in their ownership.

The key principles of Municipality Finance's financial leasing services are transparency and making solutions easy to understand. In practice the competitiveness of Municipality Finance's leasing solutions is based on all expenses being predictable for the customer throughout the term of the agreement. The company also provides supplementary services such as reporting, asset life cycle management planning and maintaining technical and economic information for use in equipment registers.



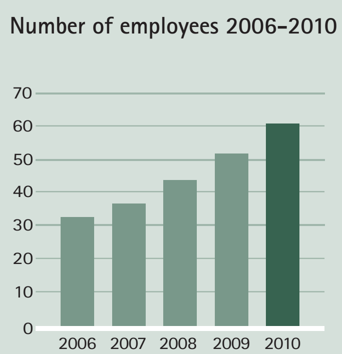
A growing organisation of talented people

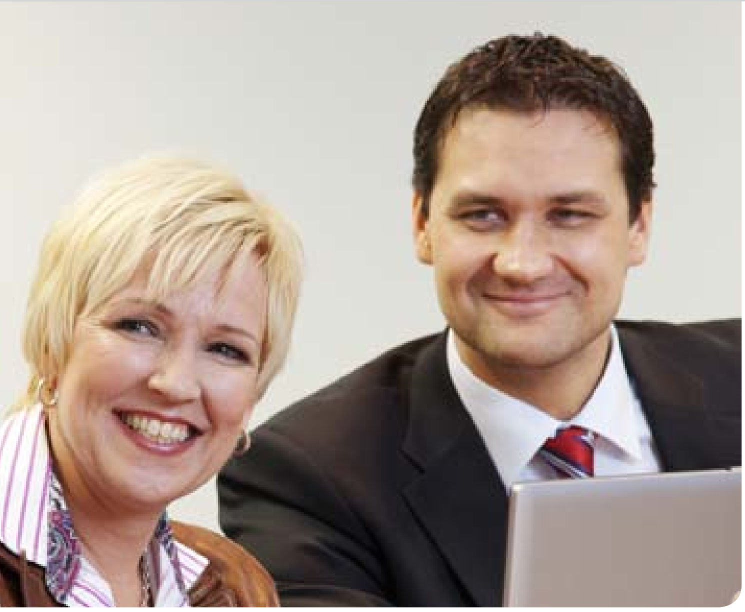
Municipality Finance's staff has doubled over the past four years. At the end of 2010 the group had a total of 61 employees. The growth in the number of employees is the result of the significant increase in volume, particularly in funding acquisition and lending operations. The company's subsidiary, Inspira, has also actively recruited staff.

The Group's operations were reorganised in 2009-2010 in response to rapid growth. The reorganisation involved the creation of a new managerial level for the operational areas. Human resource management was also strengthened by the appointment of a Human Resources Manager, who led the formulation of an extensive development programme for the company's entire staff. The key personnel development measures carried out in 2010 were related to human resources policies, the practices pertaining to performance and expertise management, management work and improving the operating efficiency of the company's human resources administration.

The company also invested in organisational development by training managers and adopting a policy of goal-oriented development discussions.

The goal of Municipality Finance is to turn customer service into a competitive advantage. This calls for the continuous improvement of services in response to customer needs under all market conditions.





"In 2010 Municipality Finance employed 61 financial professionals."

Trainee programme develops new experts

Since 2007, Municipality Finance has recruited university students in the latter stages of their studies to become future professionals through the company's own trainee programme. Thus far the programme has produced five young talented employees for Municipality Finance.

Suitable candidates are found primarily through recruitment fairs and focused search procedures. The most suitable candidate is selected from the applicants based on interviews and aptitude tests.

The one-year programme is divided into units of one to three months to give the trainee the opportunity to become familiar with the various departments of Municipality Finance Group. The recruits also have the opportunity to write their thesis during the trainee programme.

After the training period is completed, the goal is to offer trainees a full-time position that matches their areas of interest and aptitude.

Juha Mäntykorpi and Iris Rekola, who both applied and were accepted in the programme in 2010, decided to send in applications after hearing positive comments from other students.

"The goal-oriented nature of the Municipality Finance trainee programme makes it unique among corporate trainee programmes. The company really invests in its trainees. I have felt very welcome here", says Iris Rekola, a recent inductee into the trainee programme.

"I have had the opportunity to become familiar with the company's complete range of operations and all the employees here. The best part about the trainee period so far has been the chance to join different departments and always be assigned actual work with real responsibilities. I also value the positive working atmosphere here", enthuses Juha Mäntykorpi, a trainee who is now halfway through the programme.

Inspira

An expert in financing models

Financial Advisory Services Inspira Ltd provides expert advisory services specialising in public sector financing solutions. The company acts as an independent expert and advisor in investment projects and restructuring arrangements. The company's mission is to help the public sector carry out financial arrangements in a more cost-effective manner, with higher quality and on a faster schedule.

Inspira's most significant projects thus far have been major infrastructure projects, with the company's experts closely involved in the planning of financial solutions. In 2010 such projects included the implementation of a Public Private Partnership model for the Kokkola-Ylivieska double track railway and the Public Private Partnership model for Espoo Hospital and Senior Centre in Espoo.

The company's expertise is used in these types of projects in the planning of various financing models, the choice of financing providers and project planning. Inspira co-operates closely with companies specialising in law, taxation and the planning of infrastructure projects.

The company also specialises in restructuring arrangements to help municipalities free up capital for other uses. The company assists customers in restructuring arrangements by finding interested buyers and investors, supporting incorporation processes where necessary and providing advice on contract law.

Inspira's services

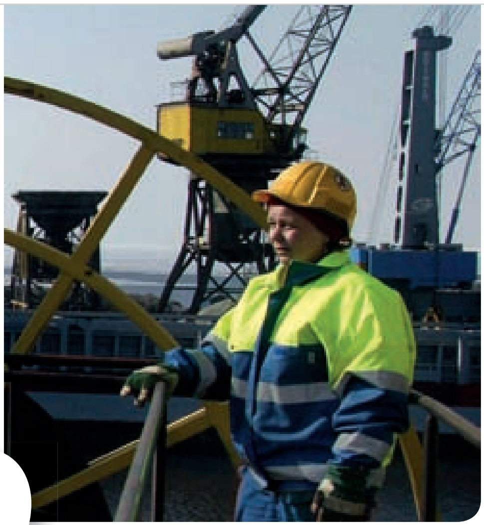
Real estate	Infrastructure	Social services and health care	Municipal economy and financing
Real estate, office properties, housing, parking, regional development etc.	Energy, water, transport routes, harbours, municipal engineering etc.	Social and health care services	Municipalities, hospital districts, rental housing providers, municipal corporations etc.

- Project financing
- Restructuring arrangements
- Financing arrangements
- Analysis services

Raahe harbour plan

Inspira assisted the City of Raahe in selecting an organisational model for its harbour.

The goal of the assignment was to analyse the current state of the harbour operations and evaluate the long term prospects of the harbour's financial position. One of the key roles of Inspira was to act as an advisor to the City of Raahe in choosing an organisational model for the harbour. Based on the analysis, the City of Raahe prepared an action plan for developing the harbour operations.



"Inspira helps the public sector carry out financial arrangements in a **a more cost-effective manner,** with higher quality and a faster schedule."

Inspira

The Inspira Team from left to right:
Analyst Matias Vitie,
Director Riku Tolvanen,
CEO Kimmo Lehto,
Analyst Lauri Pekkilä,
Executive Secretary Sanna Rannikko,
Associate Director Ilkka Laurila,
Analyst Ville Riihinen,
Associate Director Jon Forssell
and Analyst Tuomas Määttä.

Kokkola-Ylivieska double track railway

The implementation of a project to construct a double track railway from Kokkola to Ylivieska and the renovation of the existing track will mark the first time a Public Private Partnership is used for a Finnish railway project. In the Public Private Partnership model, the contractor is responsible for not only the planning and construction of the track, but also for its maintenance and financing for an agreed period of time. Inspira and Hannes Snellman Attorneys Ltd advised the Finnish Transport Agency on economic, financial and legal issues related to the competitive bidding process to choose a contractor to build and maintain the track.

Picture: Seppo Mäkitupa

Municipality Finance Corporate Governance Statement 2010

The following statement on Municipality Finance's Corporate Governance in 2010 is given comply with Chapter 2, Section 6 of the Securities Markets Act. This statement is provided here as a comprehensive description of Municipality Finance's Corporate Governance, separate from the Report of the Board of Directors.

Corporate governance

Corporate Governance Policy

The Board of Directors of the parent company confirmed Municipality Finance's internal Corporate Governance Policy in 2005. The Policy was last updated in autumn 2010. In addition to the Corporate Governance Policy, the company has a number of other policies pertaining to governance, financial reporting, internal control and risk management.

The Corporate Governance Policy of Municipality Finance has been prepared in compliance, where applicable, with the Finnish Corporate Governance Code for listed companies published by the Finnish Securities Market Association. As Municipality Finance is solely an issuer of bonds and its shares are not subject to public trading, applying the Finnish Corporate Governance Code for listed companies directly in its entirety is not appropriate. Nevertheless, the company has decided to use the Corporate Governance Code as the basis for preparing its own Corporate Governance Policy.

In addition to the Finnish Corporate Governance Code for listed companies, the Corporate Governance Policy of Municipality Finance has been prepared in compliance, where applicable, with Finnish Financial Supervisory Authority standard 1.3 on Internal Governance and Organisation of Activities.

The Finnish Corporate Governance Code for listed companies is available at www.cgfinland.fi and the Financial Supervisory Authority standard at www.finanssivalvonta.fi. Municipality Finance's Corporate Governance Policy is available in Finnish and English on the company's Internet website at www.munifin.fi.

The above chart is a general illustration of the administrative structure of Municipality Finance. Solid arrows indicate specific reporting obligations while dotted arrows indicate other reporting relationships.

Shareholders' Nomination Committee

The Shareholders' Nomination Committee was established by a decision of the Annual General Meeting on 23 March 2010. The Shareholders' Nomination Committee is charged with making a proposal to the 2011 Annual General Meeting on the number and term of the members of the Board of Directors to be recorded in the Articles of Association. The Committee will also make a proposal on the number and names of members of the Board of Directors to be elected at the 2011 Annual General Meeting and their remuneration. In addition, the Shareholders' Nomination Committee will make a proposal on the Chairman and Vice Chairman of the Board of Directors to be elected at the 2011 Annual General Meeting.

According to the decision of the General Meeting, the Shareholders' Nomination Committee is comprised of four members. The company's three largest shareholders on 30 September 2010 each nominate one member and the Association of Finnish Local and Regional Authorities nominates one member. The three largest shareholders on the date in question were Keva, the Finnish state and the City of Helsinki. The following were elected as members of the Shareholders' Nomination Committee:

- Merja Ailus (CEO, Keva), Chairman,
- Helena Säteri (Director General, Ministry of the Environment),
- Seppo Olli (City Treasurer, City of Helsinki),
- Kari-Pekka Mäki-Lohiluoma (Director General, Association of Finnish Local and Regional Authorities).

The proposals made by the Committee to the General Meeting and the Board of Directors will be included as an appendix to the invitation to the 2011 Annual General Meeting.

The Board of Directors

From left to right: Hannes Manninen, Liisa Linna-Angelvuo, Eva Liljeblom, Markku Pohjola, Hanna Tainio, Tapio Korhonen, Pekka Timonen, Antti Rantakangas

Absent from the picture: Sisko Seppä, Pekka Alanen, Mikko Pukkinen

The duties of the Board of Directors
The Board is responsible for the company's management and the proper arrangement of its operations. The Board is responsible for the duties specified for it in the Companies Act, the Articles of Association and other legislative provisions and regulations issued by the authorities.

The main duties of the Board include confirming the company's strategy, operating plan and budget, monitoring the company's financial situation and ensuring through supervision that the company's management, and risk management in particular, are properly arranged by management. The Board also maintains adequate contact with the internal audit and the auditor. The Board confirms the company's values and ethical operating principles and other policies that guide operations. The Board is responsible for the appointment and termination of the CEO and Deputy to the CEO and decides on the principles of the remuneration and incentive systems for management and staff.

Composition of the Board of Directors
Under the Articles of Association, the Board of Directors has a minimum of nine and a maximum of eleven members. The Annual General Meeting elects the members of the Board and each member's term of office will terminate when the second Annual General Meeting following their election ends.

The 2009 Annual General Meeting elected members of the Board of Directors for the specified term and, as such, no changes were made to the composition of the Board by the Annual General Meeting of 23 March 2010. The Board of Directors had the following eleven members at the conclusion of the financial year:

Markku Pohjola, Chairman of the Board,
on the Board of Directors since 2009
- Education: M. Sc. (Econ.)
- Year of birth: 1948
- Primary occupation: serves on the Board of Directors of several companies
- Independence: independent of the company and its significant shareholders.

Sisko Seppä, Vice Chairman of the Board,
on the Board of Directors since 2007
- Education: M.A. (Pol. Sci.)
- Year of birth: 1954
- Primary occupation: Secretary General, Social Democratic Parliamentary Group
- Independence: independent of the company and its significant shareholders.

Pekka Alanen,
on the Board of Directors since 2009
- Education: M.A. (Adm. Sci)
- Year of birth: 1946
- Primary occupation: Deputy CEO, Keva
- Independence: independent of the company.

Tapio Korhonen,
on the Board of Directors since 2005
- Education: Master of Laws, M.Sc. (Econ)
- Year of birth: 1949
- Primary occupation: Finance Director, City of Helsinki
- Independence: independent of the company.

Eva Liljeblom,
on the Board of Directors since 2003
- Education: D.Sc. (Econ)
- Year of birth: 1958
- Primary occupation: Rector, Professor, Hanken School of Economics in Helsinki
- Independence: independent of the company and its significant shareholders.

Liisa Linna-Angelvuo,
on the Board of Directors since 2009
- Education: Master of Laws with court training
- Year of birth: 1954
- Primary occupation: Ministerial Counsellor, Ministry of the Environment
- Independence: independent of the company.

Hannes Manninen,
on the Board of Directors since 2009
- Education: Lic.Sc. (Adm. Sci.)
- Year of birth: 1946
- Primary occupation: Member of Parliament, Centre Party of Finland
- Independence: independent of the company and its significant shareholders.

Mikko Pukkinen,
on the Board of Directors since 2007
- Education: Master of Laws with court training
- Year of birth: 1954
- Primary occupation: Director General, Confederation of Finnish Industries EK
- Independence: independent of the company and its significant shareholders.

Antti Rantakangas,
on the Board of Directors since 2009
- Education: Bachelor of Natural Resources
- Year of birth: 1964
- Primary occupation: Member of Parliament, Centre Party of Finland
- Independence: independent of the company and its significant shareholders.

Hanna Tainio,
on the Board of Directors since 2009
- Education: Doctor of Medicine
- Year of birth: 1960
- Primary occupation: Medical Advisor, Pirkanmaa Hospital District
- Independence: independent of the company and its significant shareholders.

Pekka Timonen,
on the Board of Directors since 2009
- Education: Doctor of Laws
- Year of birth: 1960
- Primary occupation: Director General, Ownership Steering Department, Prime Minister's Office
- Independence: independent of the company.

The company's assessment of the independence of the members of the Board of Directors is based on the criteria specified in the Finnish Corporate Governance Code for listed companies.

Convocation of the Board of Directors

The company's Board of Directors has confirmed its rules of procedure, which form a part of the company's Corporate Governance Policy and are available on Municipality Finance's website at www.munifin.fi.

The Board will convene at the summons of the Chairman as often as company business requires. During the 2010 financial year the Board of Directors convened nine times. The average attendance rate of Board members in these meetings was 91%.

The Board has conducted an annual independent assessment of the effectiveness of its work and the quality of the performance of its duties during the 2010 financial year.

Board of Management

From left to right: Marjo Tomminen, Jarkko Vuorenmaa, Esa Kallio, Pekka Averio, Toni Heikkilä

Board Committees

In order to organise its work as efficiently as possible, the Board has established an Audit Committee and a Remuneration Committee for the preparation of matters. Where necessary, the Board may also establish other committees in addition to the two specified above. The Board appoints from among its number the members and chairmen of committees. Committees regularly report to the Board on their activities, including the submission of minutes of Committee meetings to the Board.

The objective of the Audit Committee is to act as a preparatory body assisting the Board in duties related to financial reporting, internal control and risk management. Within this framework, the Audit Committee also supervises the work of auditors and the internal audit. The rules of procedure of the Audit Committee form a part of the company's Corporate Governance Policy.

The Remuneration Committee of the Board of Directors is responsible for preparatory work to assist in the Board's decision-making concerning the setting of objectives related to the company's performance-related incentive schemes, assessment of whether the objectives are attained, development of the incentive system and the remuneration and other benefits for the CEO and Deputy to the CEO.

The members of the Audit Committee at the end of the 2010 financial year were:

- Eva Liljeblom, Chairman
- Pekka Alanen
- Tapio Korhonen

The Audit Committee convened a total of four times during the financial year and the average attendance rate was 100%.

The members of the Remuneration Committee at the end of the 2010 financial year were:

- Markku Pohjola, Chairman
- Sisko Seppä
- Pekka Timonen

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

CEO and the Board of Management

Under the Articles of Association, the company has a CEO appointed by the Board of Directors and a Deputy to the CEO. The CEO's duty is to manage the company's operations in order to implement the resolutions made by the Board of Directors and maintain the company's operations in line with the strategy, risk management principles and limits set by the Board. Supported by the Board of Management, the CEO is responsible for monitoring the effectiveness of the company's day-to-day operations (including internal control, risk management and supervision of regulatory compliance), maintaining an effective organisational structure and reporting to the Board of Directors. More detailed descriptions of the duties of the CEO and the Board of Management are included in the company's Corporate Governance Policy.

CEO and Board of Management in the 2010 financial year:

Pekka Averio, CEO, Master of Laws, MBA, born 1956, at Municipality Finance since 1993.

Esa Kallio, Deputy to the CEO, Executive Vice President M.Sc. (Econ), born 1963, at Municipality Finance since 2005.

Toni Heikkilä, Senior Vice President, Risk Management, Lic.Sc. (Econ), M.Sc., born 1965, at Municipality Finance since 1997.

Marjo Tomminen, Senior Vice President, Finance and Business Development, vocational qualification in Business Administration, eMBA, born 1962, at Municipality Finance since 1992.

Jarkko Vuorenmaa, Senior Vice President, Administration, M.Sc. (Econ), born 1966, at Municipality Finance since 1996.

Description of the main features of the internal control and risk management systems pertaining to the financial reporting process

Internal control, risk management and reporting

Municipality Finance acknowledges that, due to the nature of its operations, it is inevitably exposed to a number of risks and, as such, internal control and risk management are a key aspect of strategic planning and management. Appropriately implemented internal control and risk management are part of day-to-day operations that improve security and customer satisfaction and facilitate the accomplishment of set objectives.

Risk management concerning financing activities is intended to ensure that the risks associated with lending, funding acquisition, investment activities and other business operations are in line with the company's accepted risk profiles. The objective is to minimise open risk positions and maintain the overall risk position at a level that is low enough not to compromise the parent company's strong credit rating (Aaa/AAA). The tasks specified above are the responsibility of the company's treasury department.

Municipality Finance's internal control comprises the financial administration function, which is in charge of financial reporting, the risk management function, responsible for reporting on the company's risk position and changes thereto and operational level internal control, which produces reports that are processed by the managers responsible for the functions in question, the CEO assisted by the Board of Management and the Board of Directors.

<u>Reporting and supervision at the Board level</u>

The Board of Directors is responsible for ensuring that internal control and risk management are sufficiently comprehensive and effective and that the company does not, in its operations, take risks which would fundamentally endanger the capital adequacy of the company. The Board is assisted in this supervision by the Audit Committee. The Board of Directors and the Audit Committee have confirmed, as part of Municipality Finance Plc's Corporate Governance Policy, rules of procedure that also specify the Board's and Audit Committee's duties concerning internal control and risk management in more detail.

The Board of Directors has confirmed the company's operating policies (including liquidity policy), which includes the operating principles and limits pertaining to internal control and risk management with the aim of guiding the company's operations to ensure that the company's risk position is maintained at a level that corresponds to the confirmed risk profile. The operating policies are revised annually, with the latest revision made in autumn 2010.

As part of the effective implementation of internal control and risk management, the Board of Directors has confirmed the company's operating principles for internal control, the annual audit plan for internal control as well as the key principles concerning regulatory compliance (as part of the operating policies), the information security policy, business continuity plan and other guidelines and principles necessary for the management of operational risks. These principles are assessed on a regular basis to ensure that their status is current and they are revised as necessary.

The Board of Directors approves the plan for capital adequacy management, which is revised annually. The latest revision was made in December 2010. The plan for capital adequacy management also includes a process description for capital adequacy management. Information pertaining to capital adequacy is presented as part of the company's annual reports as required by legislation.

The Group has adopted the Basel II parameters for capital adequacy. The standard approach is applied for calculating the regulatory capital for credit risk and the basic approach for calculating that of operational risk. The capital adequacy calculations for market risk take into account only exchange rate risks, as the Group does not have a trading book or share or commodity positions.

Financial reporting and reporting on risk management to the Board of Directors is the responsibility of the CEO.

<u>Supervision and reporting at the operational level</u>

Internal control plays a part in the duties of each individual belonging to the management or staff of the company and everyone in the organisation is responsible for reporting any observed deficiencies concerning internal control. Internal control is based on an organisation specific to each operational area or department, where everyone involved has their own duties and areas of responsibility. Decision-making and the implementation of decisions have been divided among different operational areas or individuals.

Reliable and timely reporting on the company's financial performance is a key tool for management. Reporting on financial performance is carried out by the financial administration, but in part also independently at the operational level to control the accuracy and sufficiency of financial reporting. The basic elements of financial reporting include internally produced reports on a monthly basis and the interim and annual reports required for external reporting.

Financial reporting is based on appropriately prepared bookkeeping and other materials pertaining to business activities. In order to ensure the accuracy of financial reporting, the financial administration function has detailed internal instructions on the recording of business activities and other financial management processes, including amongst other things the control principles concerning the approval and implementation of various transactions. These control measures include regular routines pertaining to the balancing of accounts and transactions and payment traffic processes that always follow the four-eye principle. Part of the control measures are automated by the company's information systems while part are based on manual inspection. The Audit Committee is charged with supervising the financial reporting processes.

The company has a risk management function that is independent of the company's business operations and of risk management related to operational activities; it maintains, develops and prepares risk management principles for confirmation by the Board of Directors and develops methods for use in the assessment and measurement of risks. The company's various functions are responsible for day-to-day risk management decisions within the established principles, policies, authorisations and limits. The risk management function ensures that risks are maintained within acceptable limits and that the methods used for measuring risks are appropriate. The risk management function reports to the management on a monthly basis on the company's risk position relative to the limits set and, as necessary, on individual risk events of material significance.

The management of operational risks, including information systems critical to the company's operations, and the supervision of operational risks is part of the normal processes of functional areas and departments. In addition to that, the department charged with supervision of overall risk has general responsibility for coordinating the management of operational risks.

The CEO, supported by the Board of Management, is responsible for managing the company's operations and organising risk management and financial reporting. In addition, the company has a separate credit risk group whose duty is to monitor and supervise the company's credit risk and make decisions pertaining to the management of credit risks. The Board of Directors has confirmed the duties of the credit risk group and the decisions of the credit risk group are considered the CEO's decisions. In the autumn of 2010, the company established an IFRS group to ensure the accuracy of financial reporting. The group's task is to develop and monitor the Group's IFRS bookkeeping, taking operational and market changes into consideration.

Duties related to compliance with external and internal regulation (monitoring regulations, disseminating information, training, supervising) are handled by the company's compliance department as part of the company's risk management function. Reports on the compliance function are produced on a monthly basis to the Board of Management and annually to the Board of Directors. The reporting frequency may be increased if necessary.

In addition to the operating policies confirmed by the Board of Directors, the company has operating guidelines specific to functional areas and departments confirmed by the Board of Management. The operating guidelines are supported by process descriptions that are prepared for all essential processes and revised regularly. In addition, each employee has a job description that specifies their key duties and substitute arrangements.

As part of the company's risk management, risk surveys are undertaken on a regular basis to identify risks related to the company's operations and assess the measures used to manage those risks. The most recent risk survey was undertaken in the autumn of 2009.

Regular external reporting on the company's operations to the Financial Supervisory Authority, the Bank of Finland, the Tax Administration, Statistics Finland and, where necessary, other authorities is undertaken based on the reporting obligations set forth by the authorities at the times required.

External and internal audit

The company has outsourced its internal audit to Deloitte & Touche Oy. The practical coordination of internal audit operations on Municipality Finance's side is the responsibility of the company's compiliance department. Its tasks include monitoring the reliability and accuracy of Municipality Finance's financial and other management information. Its tasks also include ensuring that the company has adequate and properly organized manual and IT systems for its operations and that the risks associated with operations are being managed adequately.

The Board of Directors approves the internal audit plan for each financial year and all inspections undertaken by the internal audit during the 2010 financial year have been reported to the company's Board of Management, the Audit Committee and the Board of Directors. The recommendations issued by the internal audit are systematically monitored by the company and their implementation is reported to the company's Board of Management and the Audit Committee and Board of Directors annually. The internal audit function assesses the status of the implementation of recommended measures. The most recent reporting on this was undertaken in the autumn of 2010.

Municipality Finance Plc's auditors during the 2010 financial year were KPMG Oy Ab with Authorized Public Accountant Raija-Leena Hankonen as the responsible auditor.

Municipality Finance

Financial statements

1 Jan–31 Dec 2010

Report of the Board of Directors

Summary of 2010:

- Net interest income grew to EUR 78.7 million (2009: EUR 50.6 million). This represents a 56% increase on the previous year.
- The Group's net operating profit for the period was EUR 58.3 million (2009: EUR 33.7 million), up nearly 73% from the previous year.
- The balance sheet of Municipality Finance Group grew by 38%, reaching EUR 20,047 million (2009: EUR 14,557 million).
- The Group's risk-bearing capacity remained strong, with capital adequacy ratio at 19.28% at year's end (2009: 20.17%) and capital adequacy ratio, Tier 1 capital at 13.92% (2009: 14.12%).
- The total funding acquisition for the year 2010 amounted to EUR 6,504 million (2009: EUR 5,789 million). The total amount of funding grew to EUR 17,162 million (2009: EUR 13,218 million).
- Municipality Finance's loan portfolio increased to EUR 11,698 million (2009: EUR 9,741 million). New loans issued amounted to EUR 2,842 million (2009: EUR 2,940 million).
- The company launched financial leasing operations in summer 2010. In the initial stages, leasing operations are focused on funding investments in fixed assets.
- The Group's investments totalled EUR 4,839 million at the end of the year (2009: EUR 3,270 million). The market values of investments continued to improve during the year and the fair value reserve amounted to EUR -6.7 million at year's end (2009: EUR -12.7 million).
- The turnover of Municipality Finance's subsidiary, Inspira, increased 51% and reached EUR 2.2 million (2009: EUR 1.5 million). Inspira's net operating profit for the financial period was EUR 0.4 million, up 43% from the previous year (2009: EUR 0.3 million).

Key figures, Group:

	31 Dec 2010	31 Dec 2009
Net interest income (MEUR)	78.7	50.6
Net operating profit (MEUR)	58.3	33.7
New loans issued (MEUR)	2,842	2,940
New funding acquisition (MEUR)	6,504	5,789
Balance sheet total (MEUR)	20,047	14,557
Own funds (MEUR)	245.9	207.7
Capital adequacy ratio, %	19.28	20.17
Capital adequacy ratio for Tier 1 capital, %	13.92	14.12
Return on equity (ROE), %	28.42	27.84
Cost-to-income ratio	0.23	0.31

The calculation formulas for the key figures are given in page 35.

Credit ratings

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

Moody's Investors Service	Aaa (stable)
Standard & Poor's	AAA (stable)

The credit ratings of the company's short-term funding have been confirmed as the best possible:

Moody's Investors Service	P1 (stable)
Standard & Poor's	A-1+ (stable)

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:

Moody's Investors Service	Aaa (stable)
Standard & Poor's	AAA (stable)

Operating environment in 2010

The euro zone national debt crisis caused instability throughout the Western economy in 2010. In spite of this uncertainty, economic growth was strong in the major euro zone countries in 2010, especially in Germany, while the USA and Japan saw their growth slow down. Central banks have maintained very loose monetary policies by keeping interest rates at record low levels. Central banks in the United States and Europe have also engaged in stimulus policies by making massive support purchases of long term bonds. This caused long term interest rates to fall sharply in 2010.

The amendments to the regulations on liquidity and capital adequacy requirements proposed by the Basel Committee on Banking Supervision and the European Commission have been a hot topic on the financial markets in 2010. If implemented as planned, the new regulations would severely tighten the operating conditions of credit institutions. Municipality Finance was active in predicting the impacts of the amended regulations and taking steps to prepare for them.

The impact of the financial crisis on municipal economies in Finland was less severe than anticipated. Municipal tax revenues in 2010 exceeded forecasts. This was further helped by municipalities still receiving a temporarily elevated share of corporate taxes, 32% instead of 22%, in 2009-2011. As a result of the elevated municipal tax rates and the expansion of the income tax base, municipal tax revenues were clearly above expectations. Increased limits on real estate taxes also resulted in higher real estate tax revenue. Another factor in municipal economies developing better than expected was slower growth in operating expenses, which was enabled by costs increasing less than in previous years. Municipalities' funding requirements increased slightly from the previous year despite municipal economies exceeded anticipated growth rates. While the short term developments have been positive, the public sector economy still faces long term economic and structural challenges.

Non-subsidised housing production recovered faster than anticipated. State-subsidised housing production decreased from the record-high levels of 2009 but remained above the long term average. Refinancing of housing loans went also down from the previous year.

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 analysis and arrangements of alternative forms of funding for public sector investments. 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
The Group reached a good operating result. The growth of the business continued and net operating profit for the financial year before appropriations and taxes stood at EUR 58.3 million (2009: EUR 33.7 million). The Group's net interest income grew by 56%, reaching EUR 78.7 million (2009: EUR 50.6 million).

Municipality Finance's net operating profit was EUR 58.0 million (2009: EUR 33.0 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 8.9 million in 2010 (2009: EUR 5.8 million). Municipality Finance's subsidiary, Inspira, continued to grow and recorded an operating profit of EUR 0.4 million for the period (2009: EUR 0.3 million).

Expenses

The Group's operating expenses increased by 16%, reaching EUR 14.9 million (2009: EUR 12.8 million). The increase in expenses was primarily caused by growth in volume and personnel.

Administrative expenses totalled EUR 10.2 million (2009: EUR 9.0 million), of which personnel expenses represented EUR 6.9 million (2009: EUR 6.0 million). Total depreciation of tangible and intangible assets amounted to EUR 0.6 million (2009: EUR 0.4 million). Other operating expenses for the period were EUR 4.1 million (2009: EUR 3.3 million).

Balance sheet

The Group's balance sheet total continued to grow rapidly during the year, reaching EUR 20,047 million at the end of the period, compared to EUR 14,557 million the year before. This represents an increase of 38%. 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 capital 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 2010.

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. The company has no trading book or capital requirements caused by 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 com-

Own funds and capital adequacy, Group

Consolidated own funds and capital adequacy (EUR 1,000)	31 Dec 2010	31 Dec 2009
OWN FUNDS		
Share capital	42,583	42,583
Minority interest	303	179
Reserve fund	277	277
Reserve for invested non-restricted equity	40,366	40,366
Retained profit	51,540	36,551
Profit for the financial year	42,929	14,931
./. Provision for dividend distribution	-10,006	
Capital loans	11,009	11,177
Intangible assets	-1,464	-708
Total Tier 1 capital	**177,537**	**145,356**
Fair value reserve	-6,653	-12,698
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	**68,347**	**62,302**
Total own funds	**245,884**	**207,658**

Risk weighed exposure, Group

(EUR 1,000)	31 Dec 2010	31 Dec 2009
Credit risk, standard method	**1,177,113**	**969,386**
Total minimum requirement for own funds		
Credit risk, standard method		
Claims on credit institutions and investment firms	53,240	40,465
Covered bonds	5,036	1,741
Securitised items	33,400	33,361
Other items	2,493	1,984
Total credit risk, standard method	94,169	77,551
Market risk	-	-
Operational risk, basic method	7,839	4,821
Total minimum requirement for own funds	**102,008**	**82,372**
Capital adequacy ratio, Tier 1 capital, %	13.92%	14.12%
Capital adequacy ratio, %	**19.28%**	**20.17%**

panies 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.

At the end of 2010, the Tier 1 capital totalled EUR 177.5 million (2009: EUR 145.4 million). Tier 1 capital include the net profit of 2010, and dividends suggested by the Board have been deducted from it. In the comparison data for 2009, the net profit includes the dividends paid out. The secondary own funds increased by EUR 6.0 million to a total of EUR 68.3 million (2009: EUR 62.3 million). The increase was caused by the improvement of the fair value reserve. 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 ratio at the end of 2010 was 19.28%, whereas at the end of 2009 it was 20.17%. The capital adequacy ratio of Tier 1 capital stood at 13.92% (2009: 14.12%). The Group's own funds at the end of the year were EUR 245.9 million (2009: EUR 207.7 million), and the minimum requirement of own funds was EUR 102.0 million (2009: EUR 82.4 million). The capital adequacy requirement of credit risk tied up the largest sum of Group's own funds, EUR 94.2 million (2009: EUR 77.6 million), the most significant items being claims from credit institutions and investment firms as well as securitised items.

Funding

Municipality Finance has the best possible international credit ratings: Aaa from Moody's and AAA from Standard & Poor's. Funding is based on reliability, speed, flexibility and presence in several key capital markets. The majority of funding is done as standardised issues under debt programmes. Municipality Finance uses the following debt programmes:

Euro Medium Term Note (EMTN) programme	EUR 20,000 million
Domestic debt programme	EUR 800 million
Treasury Bill programme	EUR 2,000 million
AUD debt programme (Kangaroo)	AUD 2,000 million

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 programmes and funding arrangements outside the programmes; debt instruments issued by Municipality Finance are classified as zero-risk in calculating the capital adequacy of credit institutions in Finland and, in at least several European countries.

New long term funding amounted to EUR 6,504 million in 2010 (2009: EUR 5,789 million), of which Municipal Bonds represented EUR 35 million (2009: EUR 86 million). A total of EUR 1,566 million was issued in short-term debt instruments in the period (2009: EUR 2,218 million). Total funding at the end of the year amounted to EUR 17,162 million (2009: EUR 13,218 million). Of this total amount, 15% was denominated in euros (2009: 26%) and 85% in foreign currencies (2009: 74%).

International funding

The year 2010 was characterised by continued restlessness on the markets. With the Nordic countries maintaining strong credit ratings and untarnished reputations through the financial crisis, investor interest in bonds issued by Municipality Finance continues to grow. Despite the challenges faced by the Finnish economy, Finland and the country's public sector maintain a good reputation on the financial markets.

Municipality Finance's funding acquisition, measured in euros, reached a record high in 2010. The company concluded a total of 229 arrangements (2009: 216) in the international funding markets. Nearly three out of four funding arrangements were structured.

A very significant proportion of Municipality Finance's funding is acquired on the international capital markets. Asia, in particular, remained a key area for the company's funding acquisition, with Japan and Taiwan maintaining their positions as the key markets. 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. Active cooperation with investors has boosted the company's position and recognisability in various markets and the strategy of diversifying funding sources has proved to be a successful move on the unstable markets. The company has managed to keep funding costs at a competitive level despite the challenges it has faced in this aspect.

Domestic funding

A total of 11 Municipal Bonds were issued under the domestic debt programme in 2010. Seven of them were directed at public investors and four at institutional investors. In addition, Municipality Finance issued a bond for which profit is tied to the development of inflation in Finland. Municipality Finance is still the only issuer who has issued bonds in that market.

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

Long-term financing

Demand for loans in the municipal sector remained high in 2010. In 2010 the level of investment on the part of municipalities and municipal federations stayed at the same level as in the previous year. Environmental investments, among others, were important investments of municipal-owned companies, including various energy investments, such as constructing power and heat stations and Finland's first zero-energy building in Kuopio. The activity of state-subsidised housing production has decreased from the record-high levels in 2009 but is still above the long-term average. Privately financed housing production has slowly revived during 2010 and taken some of the market from state-subsidised housing production.

The total number of requests for tenders received by Municipality Finance decreased by 19% from the previous year. The total value of requests received in 2010 was EUR 3,735 million (2009: EUR 4,630 million), of which the company won EUR 2,675 million (2009: EUR 3,578 million), or 80% of all its competitive bidding. Tenders worth EUR 1,422 million were won in the municipalities and municipal federations segment (2009: EUR 1,353 million), EUR 326 million in the municipal enterprises category (2009: EUR 626 million) and EUR 927 million in bids to housing corporations (2009: EUR 1,599 million).

The company's long term loan portfolio at the end of 2010 amounted to EUR 11,698 million (2009: EUR 9,741 million). This represents a 20% increase on the previous year. New loans granted amounted to EUR 2,842 million, close to the total for the previous year (2009: EUR 2,940 million).

Municipality Finance's market share is still high. In lending the competitive situation has not returned to the level prior to the financial crisis. Competitors have mainly focused on the larger requests for tender. Because 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. Competition has been hardest in the derivative products offered to municipalities. As long as the level of interest rates remains low, customers are likely to increase their hedging against any future increase in interest rates.

Leasing operations

At the beginning of 2010, Municipality Finance started offering financial leasing operations to municipalities, municipal federations as well as companies owned or controlled by municipalities. In the initial stages, leasing operations are focused on funding investments in fixed assets.

The aim of the leasing operations is to increase the service offering and transparency in the leasing market. The leasing system investments and recruitment needed for starting operations were carried out during 2010.

The outlook for expanding leasing operations is good as financial leasing is considered an interesting option for acquisitions within municipal-owned companies and hospital districts.

Short-term financing

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

In 2010 low interest rates and lower customer margins attracted customers towards 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 2,623 million (2009: EUR 2,426 million). The company's year-end balance sheet included EUR 581 million (2009: EUR 516 million) in commercial papers issued by municipalities and enterprises controlled by municipalities, and during the year customers raised a total of EUR 6,420 million through these programmes (2009: EUR 5,013 million).

Investment operations

Municipality Finance's investment operations comprise the investment of acquired funding in liquid deposits and financial sector securities with a good credit rating in order to ensure that the company can remain operational under all market conditions. The company maintains a liquidity portfolio that enables it to continue its operations uninterrupted for a minimum of six months under all market conditions.

At the end of 2010 the total value of investments stood at EUR 4,839 million (2009: EUR 3,270 million) and the average credit rating of all investments was AA+ (2009: AA+). The duration of all investments at year's end was 2.38 years (2009: 2.22 years).

Thanks to ample funding, the liquidity has stayed good. New investments are mainly done in bonds issued by banks with an average maturity of two years, covered bonds and certificates of deposit of less than one year.

Inspira

Inspira's net operating profit before taxes for the financial period grew by 51% and amounted to EUR 2.2 million (2009: EUR 1.5 million). The net operating profit for the financial period was EUR 0.4 million (EUR 0.3 million in the previous year).

Inspira offers financial expert services to the public sector, related to investments as well as company and asset arrangements. The demand for expert financial services has grown especially in the financing of investments. During the year, Inspira acted as the city's adviser in the tender processes concerning two lifecycle projects and prepared several preliminary studies for lifecycle projects and regional development projects. With regard to company and asset arrangements, Inspira participated in the planning and implementation of several incorporation projects in the field of health care, among others. In addition, Inspira assisted its customers in several financing arrangements.

Governance

Corporate Governance

The Board has approved the company's Corporate Governance guidelines in compliance, where applicable, with the Finnish Securities Market Association Corporate Governance Code for listed companies in Finland. The Finnish Corporate Governance Code applies to listed share issuers and does not therefore concern Municipality Finance directly, as it issues bonds. Municipality Finance's shares are not subject to public trading and can only be owned by the parties mentioned in the Articles of Association. The company wanted to, however, as an issuer of public bonds and an operator on the international capital market, prepare its own guidelines for corporate governance based on the recommendations relating to listed companies. The Board is responsible for making sure that Municipality Finance complies with the Corporate Governance rules and is committed to developing them further. As part of the 2010 annual report (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 on the company's website (www.munifin.fi).

Annual General Meeting

The Annual General Meeting of Municipality Finance was held on 23 March 2010. The Annual General Meeting confirmed the financial statements of 2009 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. The Annual General Meeting also decided on the setting up of a Shareholders' Nomination Committee that shall prepare suggestions of the composition of the Board for the Annual General Meeting of 2011. A more detailed description of the duties and composition of the Shareholders' Nomination Committee is given in the corporate governance statement included in the annual report. The meeting also elected KPMG Oy Ab as the auditor of the company with Authorized Public Accountant Raija-Leena Hankonen as the accountable auditor.

The Board of Directors

According to the Articles of Association of Municipality Finance, the Board of Directors of the company shall comprise at least nine and at most eleven members. The General Meeting elects the members of the Board and each member's term of office will terminate when the second Annual General Meeting following their election concludes. 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 were elected as the Members of the Board of Municipality Finance in the Annual General Meeting of 2009.

In order to organise its work as efficiently as possible, the Board of Municipality Finance has established an Audit Committee and a Remuneration Committee for the preparation of matters. Eva Liljeblom (chairman), Pekka Alanen and Tapio Korhonen were the members of the Audit Committee at the end of the financial year 2010. Markku Pohjola (chairman), Sisko Seppä and Pekka Timonen were the members of the Remuneration Committee at the end of the financial year 2010.

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 eight people in 2010, and at the end of the year, Municipality Finance Group had a total of 61 employees (2009: 53), of which 53 worked for the parent company (2009: 47). Salaries and fees paid to the staff totalled EUR 5.6 million in the Group (2009: EUR 5.0 million).

Pekka Averio is the 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, Senior Vice President Marjo Tomminen and Senior Vice President Jarkko Vuorenmaa.

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

Remuneration and performance-related incentive scheme

The Board of the company has prepared and approved Municipality Finance's short and long-term remuneration schemes. The Remuneration committee of the Board determines the goals and criteria for remuneration. These are approved by the Board on an annual basis. For remunerations, the focus is on the long-term scheme.

The short-term scheme applies to the entire staff, and remunerations earned are paid annually. For the CEO and the management group, the maximum remuneration in the short-term scheme is six months' salary. The target remuneration level is two months' salary. The maximum remuneration can only be paid on the basis of exceptional performance.

The long-term scheme applies to the CEO, management and key employees. It consists of three-year schemes starting annually. In the future, three long-term schemes will be active in parallel so that remunerations are only paid based on one scheme each year. The goals are set on the basis of Municipality Finance's strategy. After the end of the three-year period, the payments from the scheme are delayed and paid out during the following two years. For the CEO and the management group, the annual maximum fee paid in the long-term scheme corresponds to eight months' salary with a target remuneration level of four 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 management group.

According to Ministry of Finance decree on remuneration schemes of credit institutions that came into force at the end of 2010, credit institutions must amend their remuneration schemes so that they meet the requirements of the decree by the beginning of June 2011. Municipality Finance's current remuneration scheme focuses on long-term remuneration and takes into account the company's requirements concerning capital adequacy and risk management. According to Municipality Finance's view, the current remuneration schemes and the related procedures are in line with the spirit of the underlying capital requirements directive. However, during spring 2011 the company will evaluate the need for any specific changes in the remuneration scheme and procedures that may be required based on the decree.

Internal audit

Internal auditing has been outsourced to Deloitte & Touche. Internal auditing tasks include monitoring the reliability and accuracy of Municipality Finance's financial and other management information. The tasks also include ensuring that the company has adequate and properly organised manual and IT systems for its operations and that the risks associated with 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 risk management mechanisms sufficient enough 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 practical implementation of market and financial risk management. The Risk Control unit is responsible for the supervision of investment operations and counterparty and market risks, and reports on them. Risk standing and limit usage are reported to the Board of Management and Board of Directors on a regular basis.

Municipality Finance performs risk analyses on different risk areas at regular intervals with the aim of identifying new challenges and risks presented by changes in the operating environment and to prioritise risks and their management based on the results of the analyses.

There were no material changes in the company's risk standing in 2010. Risks remained within the set limits and, based on the company's assessment, risk management has met the requirements set for it.

In the spring of 2010, a comprehensive stress test was carried out in the company by an external consulting company. The primary objectives of the testing were to analyse Municipality Finance's equity trends and range in 2010-2015. The testing applied to operational market and credit risks and their estimated financial impacts under different scenarios. The test also included a reverse stress test to analyse exceptional scenarios where the company's capital could fall to a critically low level. The results of the test indicate that under present capital adequacy requirements, the company's capital is sufficient for the period in question, even under very unfavourable circumstances.

Strategic risks

Strategic risk means that the company chooses the wrong strategy for financially profitable operations or that the company fails 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 client 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 2015.

Credit risk

Credit risk means the risk of a counterparty defaulting on its commitment to the company. Municipality Finance may only grant loans without a separate security directly to a municipality or municipal federation. For other loans, only an absolute guarantee or deficiency guarantee issued by a municipality or municipal federation, or a state deficiency guarantee serve as security. Because such security is required to reduce the credit risk, all granted loans are classified as zero-risk in calculating

Values of credit commitments in the balance sheet and binding credit commitments

31 Dec 2010 (EUR 1,000)	Total	Loans and advances to the public and public sector entities	Loans to credit institutions	Debt securities	Binding credit commitments
Total	**18,269,066**	**11,698,050**	**35,347**	**5,420,238**	**1,115,431**
Public sector entities	6,426,936	5,560,455	-	752,106	114,375
Companies and housing institutions	7,098,436	6,004,214	-	93,166	1,001,056
Non-profit institutions	133,381	133,381	-	-	-
Credit institutions	3,993,513	-	35,347	3,958,166	-
Others	616,800	-	-	616,800	-

31 Dec 2009 (EUR 1,000)	Total	Loans and advances to the public and public sector entities	Loans to credit institutions	Debt securities	Binding credit commitments
Total	**15,174,924**	**9,740,502**	**86,904**	**3,785,444**	**1,562,074**
Public sector entities	5,362,925	4,779,553	-	479,636	103,736
Companies and housing institutions	6,383,014	4,853,302	-	71,374	1,458,338
Non-profit institutions	107,647	107,647	-	-	-
Credit institutions	2,806,623	-	86,904	2,719,719	-
Others	514,715	-	-	514,715	-

capital adequacy. Municipality Finance has not had any non-performing assets or credit losses during its operations.

In 2010, Municipality Finance began offering financial leasing services to municipalities, municipal federations and municipally owned corporations. Leasing receivables from municipally owned corporations must be secured with an absolute guarantee or deficiency guarantee issued by a municipality or municipal federation. Municipality Finance does not bear depreciation risk for the objects of its leasing services.

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 certificates and market values of derivatives (fair value method) are used in monitoring credit risk.

On 31 December 2010, Municipality Finance had EUR 4 million in pre-funding invested in a credit institution (Hypo Real Estate Holding Ag), which failed to pass the stress test of the Committee of European Banking Supervisors (CEBS). The investment matures on 12 October 2011 and does not, according to the company's current opinion, include a significant risk of credit loss.

The fair value method is used to calculate a credit countervalue for each derivatives counterparty. The parent company limits credit risk with ISDA Credit Support Annexes in case of major derivatives counterparties. The company has 43 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.

Distribution of derivative agreements according to the credit rating of the counterparty

(EUR 1,000)	31 Dec 2010	31 Dec 2009
	Nominal value	Nominal value
Finnish municipalities	368,826	170,829
AAA	281,489	1,088,831
AA	19,494,256	12,584,700
A	14,188,922	8,589,523
BBB	442,715	479,489
Total	**34,776,208**	**22,913,372**

Market risk

Market risk means that the company would suffer a loss if the market price or market price volatility undergo a change that is unfavourable to the company. Market risks include those related to interest rates, exchange rates, share prices and other prices.

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. Derivative contracts may only be made for hedging purposes.

Breakdown of funding by denomination

31 Dec 2010, (EUR 1,000)	Domestic currency	Foreign currency	Total
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 securities issued	1,106,931	13,772,329	14,879,261
Total	**3,974,215**	**14,502,905**	**18,477,121**

31 Dec 2009, (EUR 1,000)	Domestic currency	Foreign currency	Total
Liabilities to credit institutions	709,919	241,231	951,150
Liabilities to the public and public sector entities	556,551	282,360	838,911
Debt securities issued	2,099,772	9,245,754	11,345,526
Total	**3,366,242**	**9,769,345**	**13,135,587**

The Board has specified limits for the following market risks:

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

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

Currency position

(EUR 1,000)	Currency	Currency position
31 Dec 2010	USD	-5
31 Dec 2009	USD	-6

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

Duration

	Claims	Liabilities	Difference
31 Dec 2010	1.627 years	1.654 years	-10 days
31 Dec 2009	1.529 years	1.473 years	20 days

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 1% in euros. In 2010, the VaR calculation was developed to better describe the interest rate sensitivity of the balance sheet.

Value-at-risk

(EUR 1,000)	31 Dec	Annual average	Annual low	Annual high
2010	990	1,078	840	1,290
2009	5,320	4,193	1,970	6,240

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.

Liquidity risks
Liquidity risk refers to the risk that the company would be unable to handle its payment obligations, arising from the implementation of funding agreements or other funding operations, on the due date. Debts 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. Municipality Finance expects to call in 35-45% of its debts in 2011. In 2010, 34% of such debt became due.

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

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

For securing liquidity, Municipality Finance has access to a total of EUR 140 million in the form of credit limit arrangements from other banks.

The company was approved in 2010 as a counterparty of monetary policy of the Bank of Finland. This means that the company has a credit account in the central bank system and the right to participate in money market operations in the central bank system, which improves the company's liquidity even further. The central bank has evaluated Municipality Finance's receivables from the Finnish municipal sector as eligible assets in the central bank system. The practical arrangements related to the counterparty status, including agreements and systems related to the status, have allowed deposits in the central bank account and participating in money market operations from January 2011.

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

The company monitors the liquidity of markets and products on a continuous basis. Additionally, the established market standards are adhered to when concluding derivative contracts. The market values of almost all (98%) debt securities valued at fair value are calculated based on quotations received from the market. For the remaining debt securities, the market value is calculated using other market information.

Operational risks
Operational risk means the risk of loss due to insufficient or failed internal processes, 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. The management of operational risks is the responsibility of each function/department. In addition, the compliance department supports functions/departments

Breakdown of financial liabilities by maturity

31 Dec 2010, (EUR 1,000)	Max. 1 year	1–5 years	More than 5 years	Total
Liabilities to credit institutions	1,561,202	285,143	766,914	2,613,259
Liabilities to the public and public sector entities	15,793	53,477	915,331	984,601
Debt securities issued	8,113,822	5,445,655	1,319,784	14,879,261
Subordinated liabilities	10,000	40,000	38,972	88,972
Total	**9,700,817**	**5,824,275**	**3,041,001**	**18,566,093**

31 Dec 2009, (EUR 1,000)	Max. 1 year	1–5 years	More than 5 years	Total
Liabilities to credit institutions	122,532	372,056	538,762	1,033,350
Liabilities to the public and public sector entities	26,963	39,532	772,416	838,911
Debt securities issued	5,309,606	4,650,975	1,384,945	11,345,526
Subordinated liabilities	10,000	40,000	38,577	88,577
Total	**5,469,101**	**5,102,563**	**2,734,700**	**13,306,364**

in this and has general responsibility at the company level for coordinating the management of operational risks.

In order to manage operational risks, Municipality Finance has numerous internal policies and operational guidelines that are revised regularly and compliance with them is monitored. 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. Municipality Finance's compliance function continuously monitors the development of legislation and regulations issued by authorities relevant to the company's operations and ensures that any regulatory changes are appropriately responded to.

The realisation of operational risks is monitored with systematic damage reporting, which is used to 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 2010.

Share capital and owners

At the end of the 2010 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 general meeting.

At the end of 2010, Municipality Finance had 299 shareholders (31 December 2009: 304).

10 largest shareholders on 31 December 2010

	no. shares	%
Keva (former name Local Government Pensions Institution)	11,975,550	30.66
Republic of Finland	6,250,000	16.00
City of Helsinki	4,066,525	10.41
City of Espoo	1,547,884	3.96
VAV-Asunnot Oy (City of Vantaa)	963,048	2.47
City of Tampere	919,027	2.35
City of Oulu	841,825	2.16
City of Turku	615,681	1.58
City of Kuopio	538,000	1.38
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 closing of the books that would have a relevant effect on the company's financial situation.

Prospects for 2011

Demand for lending is expected to remain strong in 2011, close to the levels seen in 2010. Investment activity in the local government sector is also anticipated to remain high. Municipal federations of hospital districts, in particular, are set to make major investments in real estate and equipment. The primary financing needs in the municipal corporations segment are likely to be seen in energy companies and water management projects. As non-subsidised housing production is increasing, lending for state-subsidised housing production is expected to continue to decrease. The company does not foresee major changes in the competitive situation compared to the past year.

Municipality Finance's financial leasing operations are expected to grow in 2011, which will be the second year the company offers leasing services. Leasing demand in the municipal and municipal corporation segment is expected to remain close to the levels seen in 2010. Hospital districts and energy companies, in particular, are set to launch major projects that may be funded by leasing products in addition to traditional balance sheet loans. The incorporation and restructuring arrangements of municipally owned enterprises also hold significant potential for financial leasing.

Thanks to the company's excellent credit rating and strong position in funding acquisition as well as the positive economic conditions in the Finnish public sector, Municipality Finance foresees no problems with the availability of funding. Funding acquisition in 2011 is expected to remain close to the levels seen in 2010.

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 new Capital Requirements Directive.

Municipality Finance will begin implementing an action plan based on the company's IT strategy in 2011. In order to achieve the stated objectives, investments in IT development will be primarily focused on improving systems and services. The development project will begin with the drafting of an architecture design to support system development.

Inspira's operations are expected to grow in 2011. The company expects that pressures to improve the efficiency of public sector operations will continue to grow, which will be particularly reflected in the reorganisation of activities in the local government sector. The operating environment in 2011 is expected to be conducive to growth in the demand for the services offered by Inspira.

The Group's profitability is also expected to remain at the current strong level in 2011.

The Group's development

Key figures describing the financial development of the Municipality Finance Group

	31 Dec 2010	31 Dec 2009	31 Dec 2008	31 Dec 2007	31 Dec 2006
Net operating profit (MEUR)	198.9	285.3	443.2	308.0	198.5
Net interest income (MEUR)	78.7	50.6	29.5	21.3	16.2
% of turnover	39.6 %	17.7%	6.7%	6.9%	8.2%
Net operating profit (MEUR)	58.3	33.7	2.7	8.8	7.1
% of turnover	29.32%	11.82%	0.60%	2.9%	3.6%
Cost-to-income ratio	0.23	0.31	0.80	0.56	0.59
Loan portfolio (MEUR)	11,698	9,741	7,567	5,849	5,105
Funding portfolio (MEUR)	17,162	13,218	11,336	7,550	6,451
Balance sheet total (MEUR)	20,047	14,557	12,512	8,913	7,235
Return on equity (%) (ROE)	28.42%	27.84%	6.20%	15.20%	15.30%
Return on assets (%) (ROA)	0.42%	0.31%	0.03%	0.13%	0.13%
Equity ratio (%)	0.85%	0.91%	0.37%	0.73%	1.02%
Own funds (MEUR)	245.9	207.7	132.8	108.3	102.3
Capital adequacy ratio (%)	19.28%	20.17%	13.60%	23.84%	27.10%
Capital adequacy ratio, Tier 1 capital, %	13.92%	14.12%	9.29%	19.50%	18.52%

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-to-income ratio

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

Return on equity (%) (ROE)

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

Return on assets (%) (ROA)

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

Equity ratio (%)

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

Capital adequacy ratio (%)

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

Capital adequacy ratio, Tier 1 capital (%)

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

Consolidated statement of financial position

EUR	Note	31 Dec 2010	31 Dec 2009
ASSETS			
Liquid assets		35,502,783.31	40,484,136.91
Loans and advances to credit institutions	(2)	36,053,182.53	87,321,308.95
Loans and advances to the public and public sector entities		11,706,412,906.27	9,740,501,908.40
Debt securities	(3)	5,420,237,793.92	3,785,444,184.48
Shares and participations	(4)	27,219.06	27,219.06
Derivative contracts	(5)	2,634,014,984.96	730,326,574.15
Intangible assets	(6, 8)	1,464,145.81	708,268.31
Tangible assets	(7, 8)	1,485,462.47	1,318,607.71
Other assets	(9)	1,984,763.93	273,049.02
Accrued income and prepayments	(10)	207,555,556.99	166,624,356.00
Deferred tax assets	(11)	2,337,550.00	4,461,452.00
TOTAL ASSETS	(1)	**20,047,076,349.25**	**14,557,491,064.99**
LIABILITIES AND EQUITY			
LIABILITIES			
Liabilities to credit institutions		2,613,258,982.50	1,033,350,139.54
Liabilities to the public and public sector entities		984,601,185.13	838,910,546.43
Debt securities issued	(12)	14,879,260,808.75	11,345,526,182.36
Derivative contracts	(5)	916,708,857.67	750,276,986.49
Other liabilities	(13)	1,223,063.43	976,737.77
Accrued expenses and deferred income	(14)	362,293,397.17	350,074,640.59
Subordinated liabilities	(15)	88,971,777.74	88,576,876.32
Deferred tax liabilities	(11)	29,413,800.00	17,786,600.00
TOTAL LIABILITIES	(1)	**19,875,731,872.39**	**14,425,478,709.50**
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		-6,653,025.18	-12,697,980.60
Reserve for invested non-restricted equity		40,366,099.60	40,366,099.60
Retained earnings		94,468,599.24	61,305,710.65
Total equity attributable to parent company equity holders		**171,041,580.16**	**131,833,736.15**
Non-controlling interest		**302,896.70**	**178,619.34**
TOTAL EQUITY AND NON-CONTROLLING INTEREST		**171,344,476.86**	**132,012,355.49**
TOTAL LIABILITIES AND EQUITY		**20,047,076,349.25**	**14,557,491,064.99**

Consolidated income statement

EUR	Note	1 Jan – 31 Dec 2010	1 Jan – 31 Dec 2009
Interest income		201,187,397.20	286,985,694.38
Interest expense		-122,472,786.52	-236,418,823.92
NET INTEREST INCOME	(21)	**78,714,610.68**	**50,566,870.46**
Commission income	(22)	2,248,794.07	1,176,658.22
Commission expense	(23)	-2,315,363.60	-2,352,800.83
Net income from securities and foreign exchange transactions	(24)	-8,062,474.13	2,920,064.93
Net income from available-for-sale financial assets	(25)	-141,504.61	-2,311,678.45
Net income from hedge accounting	(26)	3,586,465.17	-3,573,334.42
Other operating income	(27)	62,229.79	91,429.29
Administrative expenses	(28)	-10,225,078.93	-9,042,405.60
Depreciation and impairment on tangible and intangible assets	(8)	-574,324.65	-423,919.32
Other operating expenses	(29)	-4,091,058.51	-3,336,867.55
Impairment losses on other financial assets	(30)	-900,000.00	0.00
OPERATING PROFIT		**58,302,295.28**	**33,714,016.73**
Income taxes	(31)	-15,192,579.83	-8,836,057.58
PROFIT FOR THE PERIOD		**43,109,715.45**	**24,877,959.15**
Profit attributable to:			
Equity holders of the parent company		42,928,838.09	24,753,984.78
Non-controlling interest		180,877.36	123,974.37

Statement of comprehensive income

EUR	1 Jan – 31 Dec 2010	1 Jan – 31 Dec 2009
Profit for the financial period	43,109,715.45	24,877,959.15
Available-for-sale financial assets (fair value reserve):		
Net change in fair value	7,497,027.36	26,467,728.20
Net amount transferred to profit or loss	-93,279.94	-143,072.62
IAS 39 reclassification adjustment	765,110.00	952,820.00
Taxes relating to other components of comprehensive income	-2,123,902.93	-7,092,145.00
TOTAL COMPREHENSIVE INCOME	**49,154,669.94**	**45,063,289.73**
Total comprehensive income attributable to:		
Equity holders of the parent company	48,973,792.58	44,939,315.36
Non-controlling interest	180,877.36	123,974.37

Consolidated statement of cash flows

EUR	1 Jan – 31 Dec 2010	1 Jan – 31 Dec 2009
Cash flow from operating activities	**902,839,169.32**	**479,106,122.55**
Change in long term funding	2,626,765,265.24	2,578,673,859.68
Change in short term funding	-347,360,937.41	-2,379,171.24
Change in long term loans	-1,966,460,353.85	-2,069,420,636.81
Change in short term loans	-64,503,185.68	-172,808,983.53
Change in investments	-619,793,352.01	173,174,467.63
Change in deposited guarantees	1,233,120,000.00	-51,460,000.00
Interest paid	-120,216,305.59	-304,261,993.26
Interest received	191,407,185.72	341,597,623.22
Other income	2,205,739.50	2,112,509.28
Payments of operating expenses	-26,244,022.61	-16,026,038.24
Taxes paid	-6,080,863.99	-95,514.18
Cash flow from investing activities	**-1,497,056.91**	**-570,961.00**
Acquisition of tangible assets	-396,170.35	-180,570.00
Acquisition of intangible assets	-1,100,886.56	-390,391.00
Cash flow from financing activities	**-9,990,737.43**	**40,675,386.40**
Change in capital loans	-168,187.93	0.00
Dividends paid	-9,822,549.50	-92,500.00
Change in invested non-restricted equity	0.00	40,742,886.40
Change in share capital	0.00	25,000.00
Net increase in cash funds	**891,351,374.98**	**519,210,547.95**
Cash funds at 1 January	**1,322,885,948.86**	**803,675,400.91**
Cash funds at 31 December	**2,214,237,323.84**	**1,322,885,948.86**

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 2010	31 Dec 2009
Liquid assets	35,502,783.31	40,484,136.91
Loans and advances to credit institutions	36,053,182.53	87,321,308.95
Debt securities maturing within three months	2,142,681,358.00	1,195,080,503.00

Consolidated statement of changes in equity

(EUR 1,000)	Share capital	Reserve fund	Fair value reserve	Reserve for invested non-restricted equity	Retained earnings	Total	Non-controlling interest	Total equity
	Attributable to equity holders of the parent company							
Equity at 31 December 2008	**42,583**	**277**	**–32,884**	**0**	**36,552**	**46,528**	**122**	**46,650**
Share issue				40,366		40,366	25	40,391
Dividends paid for 2008							-93	-93
Comprehensive income for the period			20,186		24,754	44,940	124	45,064
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**

Notes to the consolidated financial statements

Basic information on the Group

The Municipality Finance Group consists of Municipality Finance Plc (henceforth 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 Antinkatu 3 C, 00100 Helsinki. The subsidiary's domicile is Helsinki and registered address Antinkatu 3 C, 00100 Helsinki.

A copy of the consolidated financial statements is available on the Internet at www.munifin.fi or at the Group's parent company, Antinkatu 3 C, 00100 Helsinki.

The Board of Directors of Municipality Finance Plc approved these financial statements for publication at its meeting on 18 February 2011. 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 December 31 2010. 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 presentation of the statement of cash flows has been changed from indirect to direct. The comparison figures have been drawn up using the same principles.

The following standards and IFRIC interpretations that have been published after the previous financial statements have been adopted but not have influenced on Municipality Finance's financial statements:

- IFRS 3 (revised in 2008) Business Combinations
- IAS 27 (amended in 2008) Consolidated and Separate Financial Statements
- IFRIC 17 Distributions of Non-cash Assets to Owners
- IFRIC 18 Transfers of Assets from Customers
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items
- Amendments to IFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions

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 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 section investments held to maturity on July 1 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, has to make certain estimates and use its judgment in the application of the accounting policies. The section "Accounting policies requiring management judgment and key uncertainty factors related to estimates" under "accounting principles" provides information on the subsections in which the figures presented may be most affected by management consideration or uncertainty factors.

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 minority interest is presented in the income statement. Minority interests are 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 euros 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, and are not 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 measured at effectively 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 the issuer's credit rating has been markedly downgraded. If the market value of a security decreases further after the impairment has been recognised, the impairment is recognised in the income statement.

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 "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 fair value option is applied to debt securities hedged with interest rate derivatives, as well as to certain loans and to 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, public sector and non-profit organisations have been given a deficiency guarantee by a municipality, municipal federation, or state. The values of loans and other receivables have 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, under the loan terms and conditions, to repay, 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

Financial assets and liabilities measured at fair value

December 31 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**

December 31 2009	Level 1	Level 2	Level 3	Total
Assets measured at fair value				
Items measured at fair value through profit/loss				
Debt securities	1,005,381	-	-	1,005,381
Loans and advances to the public	-	4,695,898	-	4,695,898
Derivative contracts	-	168,995	-	168,995
Hedging derivatives	-	561,332	-	561,332
Available-for-sale assets				
Debt securities	1,954,622	122,805	3,724	2,081,151
Total assets measured at fair value	**2,960,003**	**5,549,030**	**3,724**	**8,512,757**
Liabilities measured at fair value				
Items measured at fair value through profit/loss				
Liabilities to credit institutions	-	769,025	-	769,025
Liabilities to the public and public sector entities	-	684,531	-	684,531
Debt instruments issued	-	9,285,713	-	9,285,713
Subordinated liabilities	-	37,400	-	37,400
Derivative contracts	-	169,923	690	170,613
Hedging derivatives	-	579,664	-	579,664
Total liabilities measured at fair value	**-**	**11,526,256**	**690**	**11,526,946**

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 2009 financial year no debt securities have been reclassified from Level 3 to other classes or from other classes to Level 3. During the 2010 financial year one debt security was reclassified from Level 3 to Level 1.

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 derivative 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 as well as funding hedged with derivative contracts. 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 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 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's withdrawal of 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.

Municipality Finance began providing financial leasing services in 2010. Financial leasing agreements 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 hardware and software are depreciated primarily on a straight-line basis over four years. Software developed for lending and customer relation management is depreciated over seven years. Software used for leasing operations is depreciated over seven years. Office renovation costs are depreciated on a straight-line basis by the expiry of the fixed-term lease of the given office. 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 of 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 provisions

The voluntary credit loss provisions 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 provision is thus released in the consolidated financial statements and transferred to equity. A deferred tax liability has been recorded for released credit loss provision 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 as well as the release of the parent company's credit loss provision in the consolidated financial statements.

Accounting policies requiring management judgment 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 judgment. 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 Board of Directors.

Application of new standards

The following standards and interpretations, which are not believed to have a significant effect on the consolidated financial statements of Municipality Finance, will be implemented in 2011:

- IAS 24 (revised) Related Party Disclosures
- IFRIC 14 IAS 19 (amended) The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
- Amendments to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
- Amendments to IFRS 7 Financial Instruments: Disclosures.

The IASB has issued a new standard, IFRS 9, which is still pending EU approval. The company will assess the implementation of the standard during 2011.

Notes to the balance sheet

1. Classification of financial assets and liabilities

31 December 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
Intangible assets	1,464	-	-	-	-	1,464	1,464
Tangible assets	1 485	-	-	-	-	1 485	1 485
Other assets	1,985	-	-	-	-	1,985	1,985
Accrued income and prepayments	207,556	-	-	-	-	207,556	207,556
Deferred tax assets	2,338	-	-	-	-	2,338	2,338
Total	**6,796,812**	**2 827,884**	**173,224**	**7,835,653**	**2,413,503**	**20,047,076**	**20,285,220**

31 December 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
Other liabilities	1,223	-	-	1,223	1,223
Accrued expenses and deferred income	362,293	-	-	362,293	362,293
Subordinated liabilities	51,009	37,963	-	88,972	87,759
Deferred tax liabilities	29,414	-	-	29,414	29,414
Total	**4,953,203**	**14,230,113**	**692,416**	**19,875,732**	**19,852,226**

Loans and advances to the public and public sector entities includes EUR 8,365 thousand in receivables based on leasing agreements.

31 December 2009 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	40,484	-	-	-	-	40,484	40,484
Loans and advances to credit institutions	87,321	-	-	-	-	87,321	87,321
Loans and advances to the public and public sector entities	5,044,604	-	-	4,695,898	-	9,740,502	9,875,602
Debt securities	515,749	2,081,151	183,163	1,005,381	-	3,785,444	3,761,130
Shares and participations	-	27	-	-	-	27	27
Derivative contracts	-	-	-	168,995	561,332	730,327	730,327
Intangible assets	708	-	-	-	-	708	708
Tangible assets	1,319	-	-	-	-	1,319	1,319
Other assets	273	-	-	-	-	273	273
Accrued income and prepayments	166,624	-	-	-	-	166,624	166,624
Deferred tax assets	4,461	-	-	-	-	4,461	4,461
Total	**5,861,543**	**2,081,178**	**183,163**	**5,870,274**	**561,332**	**14,557,491**	**14,668,276**

31 December 2009 Financial liabilities	Other financial liabilities	Recognised at fair value through p/l	Hedging derivative contracts	Total	Fair value
Liabilities to credit institutions	264,325	769,025	-	1,033,350	1,032,879
Liabilities to the public and public sector entities	154,379	684,531	-	838,910	780,557
Debt securities issued	2,059,813	9,285,713	-	11,345,526	11,324,239
Derivative contracts	-	170,613	579,664	750,277	750,277
Other liabilities	977	-	-	977	977
Accrued expenses and deferred income	350,075	-	-	350,075	350,075
Subordinated liabilities	51,177	37,400	-	88,577	87,384
Deferred tax liabilities	17,787	-	-	17,787	17,787
Total	**2,898,533**	**10,947,282**	**579,664**	**14,425,479**	**14,344,175**

2. Loans and advances to credit institutions

31 December 2010	Total	Repayable on demand	Other than repayable on demand
Domestic credit institutions	35,273	989	34,284
Foreign credit institutions	780	780	-
Total loans to credit institutions	**36,053**	**1,769**	**34,284**

31 December 2009	Total	Repayable on demand	Other than repayable on demand
Domestic credit institutions	86,048	1,819	84,229
Foreign credit institutions	1,274	1,274	-
Total loans to credit institutions	**87,321**	**3,093**	**84,229**

3. Debt securities

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:

2010	3,903
2009	- 3,487
2008	- 22,319
Cumulatively	- 21,903

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:

2010	765
2009	953
2008	852

4. Shares and participations

31 December 2010	Publicly quoted	Other	In credit institutions
Available for sale	-	27	-
Total	**-**	**27**	**-**

31 December 2009	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 December 2010	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**

31 December 2009	Nominal value of underlying instrument Remaining maturity Less than 1 year	1 – 5 years	Over 5 years	Total	Fair value Positive	Negative
Contracts made for other than hedging purposes (IFRS classification)						
Interest rate derivatives						
Interest rate swaps	92,000	790,467	350,224	1,232,691	6,166	8,771
Currency derivatives						
Interest rate and currency swaps	-	-	91,469	91,469	378	416
Equity derivatives	144,074	856,619	193,755	1,194,448	148,052	148,052
Other derivatives	3,150	57,475	231,271	291,895	14,399	13,374
Total	**239,224**	**1,704,560**	**866,719**	**2,810,503**	**168,995**	**170,613**
Contracts made for hedging purposes (IFRS classification)						
Interest rate derivatives						
Interest rate swaps	900,879	1,811,639	8,097,098	10,809,616	72,300	166,102
Currency derivatives						
Interest rate and currency swaps	1,859,580	4,078,995	3,354,678	9,293,253	489,032	413,562
Total	**2,760,459**	**5,890,634**	**11,451,777**	**20,102,869**	**561,332**	**579,664**
All total	**2,999,683**	**7,595,194**	**12,318,495**	**22,913,372**	**730,327**	**750,277**

6. Intangible assets

	31 Dec 2010	31 Dec 2009
IT expenditures	1,333	580
Other intangible assets	131	128
Total	**1,464**	**708**

7. Tangible assets

	31 Dec 2010	31 Dec 2009
Real estate	937	972
Other tangible assets	549	346
Total	**1,485**	**1,319**

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

31 December 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 Jan	1,351	182	845	1,027
– Accumulated depreciation on decrease	-	-	-	-
+ Depreciation for the financial year	345	36	193	229
Accumulated depreciation on 31 Dec	1,696	218	1,038	1,256
Book value 31 Dec	1,464	937	549	1,485

31 December 2009	Intangible assets	Tangible assets		
		Real estate	Other tangible assets	Total
Acquisition cost 1 Jan	1,711	1,155	1,160	2,315
+ Increase for financial year	390	-	181	181
– Decrease for financial year	42	-	149	149
Acquisition cost 31 Dec	2,059	1,155	1,191	2,346
Accumulated depreciation 1 Jan	1,154	147	845	992
– Accumulated depreciation on decrease	42	-	149	149
+ Depreciation for the financial year	239	36	149	185
Accumulated depreciation 31 Dec	1,351	182	845	1,027
Book value 31 Dec	708	972	346	1,319

9. Other assets

	31 Dec 2010	31 Dec 2009
Other	1,985	273

10. Accrued income and prepayments

	31 Dec 2010	31 Dec 2009
Interest	207,134	166,094
Other	422	531
Total	**207,556**	**166,624**

11. Deferred tax assets and liabilities

Deferred tax assets	31 Dec 2009	Recognised in income statement	Recognised in equity	31 Dec 2010
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**

Deferred tax assets	31 Dec 2008	Recognised in income statement	Recognised in equity	31 Dec 2009
On fair value reserve	11,554	-	-7,092	4,461
On impairment	-	-	-	-
On net income from securities transactions	-	-	-	-
On net income from hedge accounting	-	-	-	-
Total	**11,554**	**-**	**-7,092**	**4,461**
Deferred tax liabilities				
On net income from securities transactions	-	-	-	-
On change in voluntary provisions	12,644	5,143	-	17,787
On other items	-	-	-	-
Total	**12,644**	**5,143**	**-**	**17,787**

12. Debt securities

	31 Dec 2010		31 Dec 2009	
	Book value	Nominal value	Book value	Nominal value
Bonds	14,717,813	22,110,332	10,836,599	15,066,325
Other	161,447	161,500	508,927	509,100
Total	**14,879,261**	**22,271,832**	**11,345,526**	**15,575,425**

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

13. Other liabilities

	31 Dec 2010	31 Dec 2009
Payment transfer	117	74
Other	1,106	902
Total	**1,223**	**977**

14. Accrued expenses and deferred income

	31 Dec 2010	31 Dec 2009
Interest	359,168	345,233
Other	3,126	4,841
Total	**362,293**	**350,075**

15. Subordinated liabilities

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 Mar 2013
Total		**86,009**	**88,972**		

31 Dec 2009	Currency	Nominal value	Book value	Interest rate	Earliest repayment
1) Debenture loan 1/06	EUR	35,000	37,400	Fixed	9 May 2016
2) Capital loan 1/03	EUR	10,000	10,000	Euribor 6 mths	10 Dec 2010
3) Capital investments	EUR	1,117	1,177	Euribor 12 mths	
4) Perpetual loan 1/08	EUR	40,000	40,000	Euribor 6 mths	31 Mar 2013
Total		**86,177**	**88,577**		

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 an equivalent 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. Company did not exercise the said right to repay the loan in the 2010 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 2010. In January 2010, the company repaid a capital investment of EUR 168,187.93 with the permission of the Financial Supervisory Authority.

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.

16. Notes on equity

Effects of changes to the number of shares:

	Number of shares	Share capital	Reserve fund	Reserve for invested non-restricted equity	Total
1 Jan 2009	26,331,646	42,583	277	-	42,860
31 Dec 2009	39,063,798	42,583	277	40,366	83,226
31 Dec 2010	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 13,786 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 2010	31 Dec 2009
Bonds pledged to the Municipal Guarantee Board	11,557,902	9,591,205
Debt securities pledged to the Municipal Guarantee Board	4,852,991	3,299,986
Total	**16,410,893**	**12,891,190**

Off-balance-sheet commitments	31 Dec 2010	31 Dec 2009
Binding credit commitments	1,115,431	1,562,074

19. Lease commitments

	31 Dec 2010	31 Dec 2009
Maturing within one year	1,007	625
Maturing in one to five years	4,107	1,299
Maturing in more than five years	658	-
Total	**5,772**	**1,925**

20. Related parties

Salaries and remuneration paid to management	2010	2009
CEO	351	268
Executive Vice President	265	193

In the event of termination at the company's initiative, the CEO and Executive Vice President are entitled to six months' severance pay.

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 term of notice for termination of the CEO or Executive Vice President is six months. The retirement age of the CEO and Executive Vice President is determined by the Employees' Pensions Act.

The members of the Board of Directors of the parent company are paid an annual remuneration and remuneration for each meeting. The annual remunerations are EUR 15,000 for the Chairman of the Board, EUR 12,000 for the Vice Chairman and EUR 10,000 for the other members of the Board. The chairmen of the audit and remuneration committees are paid an annual fee of EUR 10,000. The remuneration paid for meetings is EUR 250 per meeting.

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.

Any business transactions carried out with a related party are governed by the same principles as Municipality Finance's other business transactions.

Notes to the income statement

21. Breakdown of net interest income

Interest income	2010	2009
Loans and advances to credit institutions and central banks	926	854
Loans and advances to the public and public sector entities	249,142	270,534
Debt securities	63,660	79,532
Derivative contracts	-114,753	-66,348
Leasing operations	11	-
Other interest income	2,200	2,413
Total	**201,187**	**286,986**

Interest expense	2010	2009
Liabilities to the public	28,631	21,819
Liabilities to credit institutions and central banks	36,350	19,448
Debt securities issued	563,532	295,446
Derivative contracts	-509,319	-103,897
Subordinated liabilities	2,504	3,209
Other interest expense	776	395
Total	**122,473**	**236,419**

22. Commission income

	2010	2009
Financial advisory services	2,249	1,177
Total	**2,249**	**1,177**

23. Commission expense

	2010	2009
Commission fees paid	65	92
Other	2,250	2,261
Total	**2,315**	**2,353**

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

24. Net income from securities and foreign exchange transactions

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 gains from foreign exchange transactions	-5	-196	-201
Total	**59**	**-8,121**	**-8,062**

2009	Capital gains and losses (net)	Fair value changes	Total
Measured at fair value through p/l			
Debt securities	1,364	180	1,544
Derivative contracts	-	4,219	4,219
Other financial assets	-	-2,749	-2,749
Total net income from securities transactions	1,364	1,650	3,014
Net gains from foreign exchange transactions	-	-94	-94
Total	**1,364**	**1,556**	**2,920**

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

	2010	2009
Disposal of financial assets	-257	-974
Impairment		
Lehman Brothers Holdings Inc.	-	-157
Claris Ltd	22	-1,324
Transfers from fair value reserve	93	143
Total	**-142**	**-2,312**

26. Net income from hedge accounting

	2010	2009
Net income from hedging instruments	35,770	-885,714
Net income from hedged items	-32,184	882,141
Total	**3,586**	**–3,573**

27. Other operating income

	2010	2009
Other income from actual credit institution operations	62	91
Total	**62**	**91**

28. Administrative expenses

	2010	2009
Personnel expenses		
Wages and salaries	5,571	4,951
Pension costs	1,071	789
Other personnel related costs	246	265
Total	6,889	6,005
Other administrative expenses	3,336	3,038
Total	**10,225**	**9,042**

Personnel	2010		2009	
	Average	End of year	Average	End of year
Permanent full-time	60	60	49	52
Permanent part-time	1	1	1	1
Total	**61**	**61**	**50**	**53**

29. Other operating expenses

	2010	2009
Rental expenses	1,273	1,003
Other expenses from actual credit institution operations	2,818	2,333
Total	**4,091**	**3,337**

30. Impairment losses on other financial assets

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 Dec 2009	Impairment losses per agreement	Recognised in the income statement
Debt securities held to maturity		
Glitnir Bank hf.	-	-
Landsbanki Islands hf.	-	-
Total	**-**	**-**

31. Income taxes

	2010	2009
Tax based on the profit for the financial year	3,566	3,545
Tax on previous financial years	-	16
Deferred tax items	11,627	5,275
Total	**15,193**	**8,836**
Profit before tax	58,302	33,714
Taxes at domestic tax rate	15,159	8,766
Tax exempt income	-	- 122
Non-deductible expenses	34	176
Taxes on previous years	-	16
Taxes in income statement	15,193	8,836

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.

Financial Statements 2010

Municipality Finance Plc parent company

Balance sheet

EUR	Note		31 Dec 2010		31 Dec 2009
ASSETS					
Liquid assets					
Cash			2,271.70		1,017.10
Cash reserve deposit			35,500,511.61		40,483,119.81
Debt securities eligible for central bank refinancing	(3)		3,036,603,723.47		1,946,525,951.21
Loans and advances to credit institutions	(1)				
Payable on demand		1,062,734.51		2,675,067.82	
Other		34,283,994.77	35,346,729.28	84,228,583.46	86,903,651.28
Loans and advances to the public and public sector entities	(2)		11,698,048,383.92		9,740,501,908.40
Lease assets	(4)		8,364,522.35		0.00
Debt securities	(3)				
From public sector entities		492,269,451.63		449,375,384.47	
From others		1,891,364,618.82	2,383,634,070.45	1,389,542,848.80	1,838,918,233.27
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)		2,634,014,984.96		730,326,574.15
Intangible assets	(7, 9)		1,464,145.81		708,268.31
Tangible assets	(8, 9)				
Other tangible assets			1,485,462.47		1,318,607.71
Other assets	(10)		1,716,403.45		0.00
Accrued income and prepayments	(11)		207,555,556.99		166,576,034.00
Deferred tax assets	(12)		2,337,550.00		4,461,452.00
TOTAL ASSETS	(17–19)		**20,046,201,535.52**		**14,556,852,036.30**

EUR	Note		31 Dec 2010		31 Dec 2009
LIABILITIES AND EQUITY					
LIABILITIES					
Liabilities to credit institutions and central banks					
To credit institutions					
Other			2,613,258,982.50		1,033,350,139.54
Liabilities to the public and public sector entities					
Other liabilities			984,601,185.13		838,910,546.43
Debt securities issued	(13)				
Bonds		14,717,813,476.39		10,836,599,147.90	
Other		161,447,332.36	14,879,260,808.75	508,927,034.46	11,345,526,182.36
Derivative contracts	(6)		916,708,857.67		750,276,986.49
Other liabilities	(14)		1,073,601.58		849,459.92
Accrued expenses and deferred income	(15)		362,014,712.81		349,823,141.23
Subordinated liabilities	(16)		88,971,777.74		88,576,876.32
APPROPRIATIONS					
Voluntary provisions			113,130,000.00		68,410,000.00
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		-6,653,025.18	-6,376,314.17	-12,697,980.60	-12,421,269.59
Non-restricted reserves					
Reserve for invested non-restricted equity			40,742,886.40		40,742,886.40
Retained earnings		33,093.50		28,532.21	
Profit for the period		9,773,899.41	9,806,992.91	9,770,510.79	9,799,043.00
TOTAL LIABILITIES	(17–19)		**20,046,201,535.52**		**14,556,852,036.30**
OFF-BALANCE-SHEET COMMITMENTS	(37)				
Irrevocable commitments given in favour of customers			1,115,430,513.90		1,562,073,957.10

Income statement

EUR	Note	1 Jan – 31 Dec 2010		1 Jan – 31 Dec 2009	
Interest income	(23)		201,175,961.45		286,985,055.49
Net income from leasing operations	(24)		11,435.75		0.00
Interest expense	(23)		-122,472,786.52		-236,418,823.92
NET INTEREST INCOME			78,714,610.68		50,566,231.57
Income from equity investments					
in Group companies			43,300.00		107,500.00
Commission expense	(25)		-2,313,612.60		-2,351,217.52
Net income from securities and foreign exchange transactions	(26)				
Net income from securities		-7,861,762.08		3,013,905.64	
Net income from foreign exchange transactions		-200,712.05	-8,062,474.13	-93,840.71	2,920,064.93
Net income from available-for-sale financial assets	(27)		-141,504.61		-2,311,678.45
Net income from hedge accounting	(28)		3,586,465.17		-3,573,334.42
Other operating income	(29)		99,447.03		173,327.25
Administrative expenses					
Personnel expenses					
Salaries and fees		-4,875,706.30		-4,452,858.14	
Personnel-related costs					
Pension costs		-939,314.67		-705,703.85	
Other personnel-related costs		-221,676.97		-245,283.43	
Other administrative expenses		-3,141,762.56	-9,178,460.50	-2,947,118.03	-8,350,963.45
Depreciation and impairment on tangible and intangible assets	(31)		-574,324.65		-423,919.32
Other operating expenses	(30)		-3,317,372.91		-3,716,045.96
Impairment losses on other financial assets	(32)		-900,000.00		0.00
OPERATING PROFIT			57,956,073.48		33,039,964.63
Appropriations			-44,720,000.00		-19,780,000.00
Income taxes			-3,462,174.07		-3,489,453.84
PROFIT FOR THE PERIOD			9,773,899.41		9,770,510.79

Statement of cash flows

EUR	1 Jan–31 Dec 2010	1 Jan–31 Dec 2009
Cash flow from operating activities	**902,493,773.74**	**478,818,904.90**
Change in long term funding	2,626,765,265.24	2,578,673,859.68
Change in short term funding	-347,360,937.41	-2,379,171.24
Change in long term loans	-1,966,460,353.85	-2,069,420,636.81
Change in short term loans	-64,503,185.68	-172,808,983.53
Change in investments	-619,793,352.01	173,174,467.63
Change in deposited guarantees	1,233,120,000.00	-51,460,000.00
Interest paid	-120,216,305.59	-304,261,993.26
Interest received	191,407,185.72	341,596,984.33
Other income	-592,468.47	3,000.15
Payments of operating expenses	-23,926,347.56	-14,278,066.27
Taxes paid	-5,945,726.65	-20,555.78
Cash flow from investing activities	**-1,497,056.91**	**-570,961.00**
Acquisition of tangible assets	-396,170.35	-180,570.00
Acquisition of intangible assets	-1,100,886.56	-390,391.00
Cash flow from financing activities	**-9,934,137.43**	**40,742,886.40**
Change in capital loans	-168,187.93	0.00
Dividends paid	-9,765,949.50	0.00
Change in invested non-restricted equity	0.00	40,742,886.40
Net increase in cash funds	**891,062,579.40**	**518,990,830.30**
Cash funds at 1 January	**1,322,468,291.19**	**803,477,460.89**
Cash funds at 31 December	**2,213,530,870.59**	**1,322,468,291.19**

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 2010	31 Dec 2009
Liquid assets	35,502,783.31	40,484,136.91
Loans and advances to credit institutions	35,346,729.28	86,903,651.28
Debt securities maturing within three months	2,142,681,358.00	1,195,080,503.00

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 Standards 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 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 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 Decree of the Ministry of Finance.

1. Loans and advances to credit institutions

31 December 2010	Total	Repayable on demand	Other than repayable on demand
Domestic credit institutions	34,567	283	34,284
Foreign credit institutions	780	780	-
Total loans to credit institutions	**35,347**	**1,063**	**34,284**

31 December 2009	Total	Repayable on demand	Other than repayable on demand
Domestic credit institutions	85,630	1,401	84 229
Foreign credit institutions	1,274	1,274	-
Total loans to credit institutions	**86,904**	**2,675**	**84,229**

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

	31 December 2010	31 December 2009
Enterprises and housing corporations	6,004,214	4,853,302
Public sector entities	5,560,455	4,779,552
Non-profit organisations	133,381	107,647
Total	**11,698,048**	**9,740,502**

3. Debt securities

31 December 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
Treasury Bills	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 a negative 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 has been released from the fair value reserve in 2010.

31 December 2009	Publicly	Other	Total
Debt securities issued by public sector entities	35,261	444,375	479,636
Held to maturity	-	-	-
Bonds issued by other public sector entities	-	-	-
Available for sale	35,261	444,375	479,636
Municipal commercial papers	-	444,375	444,375
Bonds issued by other public sector entities	35,261	-	35,261
Debt securities issued by other than public sector entities	2,311,946	993,862	3,305,808
Held to maturity	183,163	-	183,163
Bank bonds	23,691	-	23,691
Other debt securities	159,472	-	159,472
Available for sale	2,128,783	993,862	3,122,645
Banks' certificates of deposit	-	796,036	796,036
Commercial papers	-	71,374	71,374
Bank bonds	1,830,048	69,944	1,899,993
Other debt securities	298,735	56,508	355,243
Total debt securities	2,347,206	1,438,238	3,785,444
Eligible for central bank refinancing	1,840,901	105,625	1,946,526
Total non-interest bearing	6,137	11,976	18,113

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 a negative impact of EUR 3,487 thousand on the fair value reserve.

EUR 953 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 2009.

4. Assets leased out under finance leases

	31 December 2010	31 December 2009
Machinery and equipment	8,320	-
Other assets	46	-
Total	**8,365**	**–**

5. Shares and participations

31 December 2010	Publicly quoted	Other	In credit institutions
Available for sale	-	27	-
Group companies	-	100	-
Total	**-**	**127**	**-**

31 December 2009	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 December 2010	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**

31 December 2009	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	92,000	790,467	350,224	1,232,691	6,166	8,771
Currency derivatives Interest rate and currency swaps	-	-	91,469	91,469	378	416
Equity derivatives	144,074	856,619	193,755	1,194,448	148,052	148,052
Other derivatives	3,150	57,475	231,271	291,895	14,399	13,374
Total	**239,224**	**1,704,560**	**866,719**	**2,810,503**	**168,995**	**170,613**
Contracts made for hedging purposes (IFRS classification)						
Interest rate derivatives Interest rate swaps	900,879	1,811,639	8,097,098	10,809,616	72,300	166,102
Currency derivatives Interest rate and currency swaps	1,859,580	4,078,995	3,354,678	9,293,253	489,032	413,562
Total	**2,760,459**	**5,890,634**	**11,451,777**	**20,102,869**	**561,332**	**579,664**
All total	**2,999,683**	**7,595,194**	**12,318,495**	**22,913,372**	**730,327**	**750,277**

7. Intangible assets

	31 December 2010	31 December 2009
IT expenditures	1,333	580
Other intangible assets	131	128
Total	**1,464**	**708**

8. Tangible assets

	31 December 2010	31 December 2009
Real estate		
Buildings	503	538
Land	135	135
Real estate corporation shares	299	299
Other tangible assets	549	346
Total	**1,485**	1,319

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

31 December 2010	Intangible assets	Tangible assets: Other real estate and real estate corporation shares	Tangible assets: 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

31 December 2009	Intangible assets	Tangible assets: Other real estate and real estate corporation shares	Tangible assets: Other tangible assets	Total
Acquisition cost 1 January	1,711	1,155	1,160	2,315
+ Increase for financial year	390	-	181	181
– Decrease for financial year	42	-	149	149
Acquisition cost 31 December	2,059	1,155	1,191	2,346
Accumulated depreciation 1 January	1,154	147	845	992
– Accumulated depreciation on decrease	42	-	149	149
+ Depreciation for the financial year	239	36	149	185
Accumulated depreciation 31 December	1,351	182	845	1,027
Book value 31 December	708	972	346	1,319

10. Other assets

	31 December 2010	31 December 2009
Other	1,716	-
Total	**1,716**	**–**

11. Accrued income and prepayments

	31 December 2010	31 December 2009
Interest	207,134	166,094
Other	422	482
Total	**207,556**	**166,576**

12. Deferred tax assets and liabilities

Deferred tax assets	31 Dec 2009	Recognised in income statement	Recognised in balance sheet	31 Dec 2010
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.

Deferred tax assets	31 Dec 2008	Recognised in income statement	Recognised in balance sheet	31 Dec 2009
On fair value reserve	11,554	-	-7,092	4,461
On impairment	-	-	-	-
Total	**11,554**	**-**	**-7,092**	**4,461**
Deferred tax liabilities				
On valuation of available-for-sale financial assets	-	-	-	-
On valuation of derivative contracts at fair value	-	-	-	-
Total	**-**	**-**	**-**	**-**

Voluntary provisions include EUR 17,787 thousand in non-recognised deferred tax liabilities.

13. Debt securities issued

	31 December 2010		31 December 2009	
	Book value	Nominal value	Book value	Nominal value
Bonds	14,717,813	22,110,332	10,836,599	15,066,325
Other	161,447	161,500	508,927	509,100
Total	**14,879,261**	**22,271,832**	**11,345,526**	**15,575,425**

14. Other debts

	31 December 2010	31 December 2009
Payment transfer	117	74
Other	957	776
Total	**1,074**	**849**

15. Accrued expenses and deferred income

	31 December 2010	31 December 2009
Interest	359,168	345,233
Other	2,847	4,590
Total	**362,015**	**349,823**

16. Subordinated liabilities

31 December 2010	Currency	Nominal value	Book value	Interest rate	Earliest repayment
1) Debenture loan 1/06	EUR	35,000	37,400	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**		

31 December 2009	Currency	Nominal value	Book value	Interest rate	Earliest repayment
1) Debenture loan 1/06	EUR	35,000	37,400	Fixed	9 May 2016
2) Capital loan 1/03	EUR	10,000	10,000	Euribor 6 mths	10 Dec 2010
3) Capital investments	EUR	1,117	1,177	Euribor 12 mths	
4) Perpetual loan 1/08	EUR	40,000	40,000	Euribor 6 mths	31 March 2013
Total		**86,177**	**88,577**		

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 an equivalent 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 on each date of interest payment thereafter, to repay the loan subject to the aforementioned conditions being met. The company did not exercise the said right to repay the loan in the 2010 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 other 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 that 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 terms and conditions for loans for 2010. In January 2010, the company repaid a capital investment of EUR 168,187.93 with the permission of the Financial Supervisory Authority.

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.

17. Breakdown of financial assets and liabilities by maturity

31 December 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	2,383,633
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 expects to call in 35–45% of its loans in 2011. In 2010, the company called in 34% of its loans.

31 December 2009	0–3 months	3–12 months	1–5 years	5–10 years	Over 10 years	Total
Debt securities eligible for central bank refinancing	258,011	689,493	948,153	18,183	32,686	1,946,526
Loans and advances to credit institutions	86,304	600	-	-	-	86,904
Loans and advances to the public and public sector entities	139,175	627,843	3,165,928	3,058,331	2,749,225	9,740,502
Debt securities	937,069	606,852	229,895	55,650	9,452	1,838,918
Total	**1,420,559**	**1,924,788**	**4,343,976**	**3,132,163**	**2,791,364**	**13,612,850**
Liabilities to credit institutions	89,690	32,842	372,056	35,647	503,115	1,033,350
Liabilities to the public	15 207	11 755	39,532	396,572	375,843	838,911
Debt securities issued	1,969,612	3,339,994	4,650,975	876,766	508,179	11,345,526
Subordinated liabilities	-	10,000	40,000	37,400	1,177	88,577
Total	**2,074,510**	**3,394,591**	**5,102,563**	**1,346,384**	**1,388,315**	**13,306,364**

Loans 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 expected to call in 15–25% of its loans in 2010. In 2009, the company called in 27.6% of its loans.

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

31 December 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 incl. "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 securities issued	1,106,931	13,772,329	14,879,260
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**

31 December 2009	Domestic currency	Foreign currency	Total
Debt securities eligible for central bank refinancing	1,946,526	-	1,946,526
Loans and advances to credit institutions	86,829	77	86,904
Loans and advances to the public and public sector entities	9,740,502	-	9,740,502
Debt securities	1,838,918	-	1,838,918
Derivative contracts	730,327	-	730,327
Other assets incl. "Liquid assets"	213,675	-	213,675
Total	**14,556,775**	**77**	**14,556,852**
Liabilities to credit institutions	792,119	241,231	1,033,350
Liabilities to the public and public sector entities	556,551	282,360	838,911
Debt securities issued	2,099,772	9,245,754	11,345,526
Derivative contracts	750,277	-	750,277
Subordinated liabilities	88,577	-	88,577
Other liabilities	379,898	120,313	500,211
Total	**4,667,194**	**9,889,658**	**14,556,852**

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

	31 December 2010		31 December 2009	
	Book value	Fair value	Book value	Fair value
Financial assets				
Liquid assets	35,503	35,503	40,484	40,484
Debt securities eligible for central bank refinancing	3,036,604	3,027,307	1,946,526	1,935,918
Loans and advances to credit institutions	35,347	35,347	86,904	86,904
Loans and advances to the public and public sector entities	11,698,048	11,966,619	9,740,502	9,875,602
Debt securities	2,383,634	2,370,868	1,838,918	1,825,212
Shares and participations	27	27	27	27
Shares and participations in Group companies	100	100	100	100
Derivative contracts	2,634,015	2,634,015	730,327	730,327
Total	**19,823,278**	**20,069,786**	**14,383,788**	**14,494,574**
Financial liabilities				
Liabilities to credit institutions	2,613,259	2,612,959	1,033,350	1,032,879
Liabilities to the public and public sector entities	984,601	981,048	838,911	780,557
Debt securities issued	14,879,261	14,860,821	11,345,526	11,324,239
Derivative contracts	916,709	916,709	750,277	750,277
Subordinated liabilities	88,972	87,759	88,577	87,384
Total	**19,482,802**	**19,459,295**	**14,056,641**	**13,975,336**

20. Equity items

31 December 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**

31 December 2009	Share capital	Reserve fund	Fair value reserve	Reserve for invested non-restricted equity	Retained earnings	Total
Book value, beginning of FY, 1 January 2009	43,008	277	-32,884	-	29	10,430
+ increase	-	-	20,186	40,743	9,771	70,700
– decrease	-	-	-	-	-	-
Book value 31 December 2009	**43 008**	**277**	**-12,698**	**40,743**	**9,799**	**81,129**

The company has recorded an increase in voluntary provisions of EUR 44,720 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 113,130 thousand. The company may release provisions net of taxes calculated in accordance with the valid tax rate 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 2010, 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 December 2010	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	538,000	1.38
10. City of Lahti	502,220	1.29

The total number of shareholders is 299. The number of shareholders on 1 January 2011 after mergers of municipalities 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 Decree of the Ministry of Finance.

23. Breakdown of net interest income

Interest income	2010	2009
Loans and advances to credit institutions and central banks	926	853
Loans and advances to the public and public sector entities	249,142	270,534
Debt securities	63,660	79,532
Derivative contracts	-114,753	- 66,348
Other interest income	2,200	2,413
Total	**201,176**	**286,985**

Interest expense	2010	2009
Liabilities to the public	28,631	21,819
Liabilities to credit institutions and central banks	36,350	19,448
Debt securities issued	563,532	295,446
Derivative contracts	-509,319	-103,897
Subordinated liabilities	2,504	3,209
Other interest expense	776	395
Total	**122,473**	**236,419**

24. Net income from leasing operations

	2010	2009
Leasing income	86	-
Depreciation of lease assets according to plan	-75	-
Total	**11**	**–**

25. Commission expense

	2010	2009
Commission fees paid	63	90
Other	2,251	2,261
Total	**2,314**	**2,351**

26. Net income from securities and foreign exchange transactions

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 gains from foreign exchange transactions	-5	-196	-201
Total	**59**	**–8,121**	**–8,062**

2009	Capital gains and –losses (net)	Fair value changes	Total
Measured at fair value through p/l			
Debt securities	1,364	180	1,544
Derivative contracts	-	4,219	4,219
Other financial assets	-	-2 749	-2,749
Total net income from securities transactions	1,364	1,650	3,014
Net gains from foreign exchange transactions	-	- 94	- 94
Total	**1,364**	**1 556**	**2,920**

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

	2010	2009
Disposal of financial assets	-257	-974
Impairment		
Lehman Brothers Holdings Inc.	-	-157
Claris Ltd	22	-1,324
Transfers from fair value reserve	93	143
Total	**–142**	**–2,312**

28. Net income from hedge accounting

	2010	2009
Net income from hedging instruments	35,770	-885,714
Net income from hedged items	-32,184	882,141
Total	3,586	-3,573

29. Other operating income

	2010	2009
Other income from actual credit institution operations	99	173
Total	**99**	**173**

30. Other operating expenses

	2010	2009
Rental expenses	1,130	963
Other expenses from actual credit institution operations	2,187	2,753
Total	**3,317**	**3,716**

31. Depreciation and impairment on tangible and intangible assets

The item consists of planned depreciation.

32. Impairment losses on other financial assets

31 December 2010	Impairment losses per agreement	Recognised in the income statement
Debt securities held to maturity	900	900
Total	**900**	**900**

31 December 2009	Impairment losses per agreement	Recognised in the 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

For own liabilities	31 December 2010	31 December 2009
Pledges		
Balance sheet item		
Liabilities to credit institutions	2,613,259	1,033,350
Liabilities to the public and public sector entities	984,601	838,911
Debt securities issued	14,879,261	10,836,599
Total given on own liabilities	**18,477,121**	**12,708,860**

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

Liabilities and collateral	31 December 2010	31 December 2009
Bonds pledged to the Municipal Guarantee Board	11,557,902	9,591,205
Debt securities pledged to the Municipal Guarantee Board	4,852,991	3,299,986
Total	**16,410,893**	**12,891,190**

35. Pension liabilities

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

36. Leasing and other rental liabilities

	31 December 2010	31 December 2009
Maturing within one year	893	578
Maturing in one to five years	4,087	1,238
Maturing in more than five years	658	-
Total	**5,638**	**1,816**

37. Off-balance-sheet commitments

	31 December 2010	31 December 2009
Binding credit commitments	1,115,431	1,562,074

Notes on personnel and management

38. Municipality Finance Plc's personnel

	2010		2009	
	Average	End of year	Average	End of year
Permanent full-time	51	51	43	46
Permanent part-time	2	2	1	1
Total	**53**	**53**	**44**	**47**

Salaries and remuneration paid to management	2010	2009
CEO	351	268
Executive Vice President	265	193

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 15,000 for the Chairman of the Board, EUR 12,000 for the Vice Chairman and EUR 10,000 for the other members of the Board. The chairmen of the audit and remuneration committees are paid an annual fee of EUR 10,000. The remuneration paid for meetings is EUR 250 per meeting.

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 corporations

	2010	2009
Auditing	79	119
Tax advice	3	17
Other services	175	87
Total	**256**	**223**

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

Municipality Finance Plc's distributable funds total EUR 9,806,992.91, of which the profit for the financial year is EUR 9,773,899.41.

The Board of Directors will propose to the Annual General Meeting that the distributable funds be used as follows:
- A dividend of EUR 0.25 per share will be distributed, representing a total of EUR 9,765,949.50
- EUR 41,043.41 will be retained in equity.

The company has a total of 39,063,798 outstanding shares entitling their holder to a dividend.

No significant changes have taken place in the company's financial position after the end of the financial year. The company's liquidity is good and the proposed distribution of profits does not, in the view of the Board of Directors, compromise the company's ability to pay.

Signatures to the report of Board of Directors and financial statements

In Helsinki on 18 February 2011

MUNICIPALITY FINANCE PLC

Markku Pohjola
Chairman of the Board

Sisko Seppä
Vice Chairman of the Board

Pekka Alanen
Member of the Board

Tapio Korhonen
Member of the Board

Eva Liljeblom
Member of the Board

Liisa Linna-Angelvuo
Member of the Board

Hannes Manninen
Member of the Board

Mikko Pukkinen
Member of the Board

Antti Rantakangas
Member of the Board

Hanna Tainio
Member of the Board

Pekka Timonen
Member of the Board

Pekka Averio
CEO

Auditor's note
A report on the audit carried out has been submitted today.
In Helsinki on 18 February 2011

KPMG OY AB

Raija-Leena Hankonen
Authorized Public Accountant

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

Auditors' report

To the Annual General Meeting of Municipality Finance Plc

We have audited the accounting records, the financial statements, the report of the Board of Directors, and the administration of Municipality Finance Plc for the year ended 31 December 2010. The financial statements comprise the consolidated statement of financial position, income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows, and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

Responsibility of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the preparation of financial statements and the report of the Board of Directors that give a true and fair view in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the Managing Director shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the report of the Board of Directors are free from material misstatement, and whether the members of the Board of Directors of the parent company, the Managing Director or the deputy Managing Director are guilty of an act or negligence which may result in liability in damages towards the company or have violated the Limited Liability Companies Act, Finnish Credit Institutions Act or the articles of association of the company.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and report of the Board of Directors that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

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

Opinion on the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Opinion on the company's financial statements and the report of the Board of Directors

In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of both the consolidated and the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

Other opinions

We support the adoption of the financial statements. The proposal by the Board of Directors regarding the treatment of distributable funds is in compliance with the Limited Liability Companies Act. We support that the Board of Directors of the parent company, the Managing Director and the deputy Managing Director be discharged from liability for the financial period audited by us.

In Helsinki on 18 February 2011
KPMG OY AB

Raija-Leena Hankonen
Authorized Public Accountant

MUNICIPALITY FINANCE PLC
Antinkatu 3 C, P.O. Box 744
FI-00101 Helsinki
Tel. +358 (0)9 6803 5666
www.munifin.fi
firstname.lastname@munifin.fi