

MUNICIPALITY FINANCE

Corporate Governance Statement

2014

March 5, 2015

The following statement on Municipality Finance's (hereinafter "Municipality Finance" or "the Company") Corporate Governance in 2014 is in compliance with Chapter 7, Section 7 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.

According to Chapter 7, Section 7, of the Act on Credit Institutions (610/2014), a credit institution shall keep an account of how it complies with the provisions of Chapter 7, Sections 1–5 this Act available on its website. The following describes compliance with the said provisions with regard to Municipality Finance Plc.

A. Corporate governance

The Company has a strategy approved by the Board of Directors according to which the Company's business operations, risk management and corporate governance are managed. The Company also has operating policies approved by the Board of Directors which function as key principles for the Company's risk management and internal control. In addition, the Company has a considerable number of other internal guidelines to support the corporate governance and risk management operations.

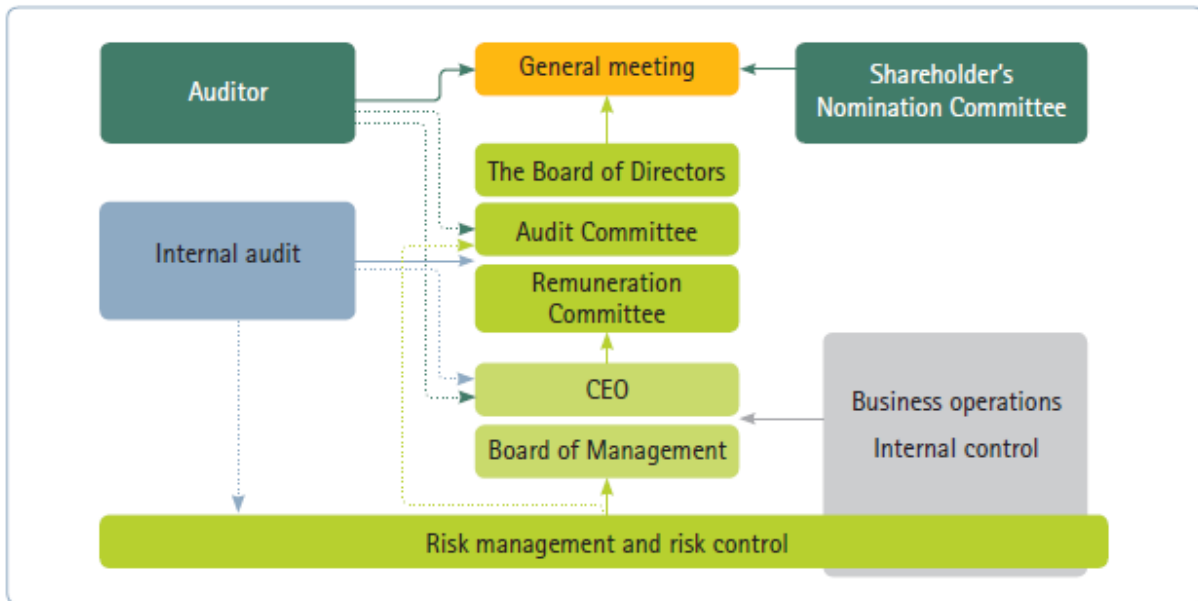
The Governance Policies and the main practices gathered internal guides (The Corporate Governance Policy of Municipality Finance) are included in the previously mentioned internal guidelines approved by the Board of Directors, which is updated regularly. The policy was last updated in the summer of 2014. The Principles of managing conflicts of interest is also included in the Corporate Governance Policy.

Internal guidelines for governance are based on the legislative provisions of Act on Credit Institutions and the regulations issued by the authorities (especially the Financial Supervisory Authority regulations and guidelines) and 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 listed bonds and its shares are not subject to public trading, applying the Finnish Corporate Governance Code for listed companies in its entirety is not appropriate. Nevertheless, the company has decided to use the Corporate Governance Code as the basis for preparing its own internal guidelines for corporate governance.

The Finnish Corporate Governance Code for listed companies is available at www.cgfinland.fi and the Financial Supervisory Authority regulations and guidelines at www.finanssivalvonta.fi.

In addition to this document, descriptions related to Municipality Finance's administration and managing are available at the company's website.

The following chart is a general illustration of the administrative structure of Municipality Finance. Solid arrows indicate formal reporting responsibility while dotted arrows indicate agreed additional/parallel reporting methods.



General Meeting

The Limited Liability Companies Act and the Articles of Association define issues concerned in the Annual General Meeting. All shareholders have the right to attend the General Meeting and exercise their right of speech and vote with the shares in their ownership, each share entitling the owner to one vote.

The Annual General Meeting must be held annually before the end of April on a date set by the Board of Directors. In 2014 the Annual General Meeting was held in 26.3.2014. In the Annual General Meeting, there were 32 participants representing 30 523 302 shares and votes, which corresponds 78.14 percent of the total number of shares and votes.

Shareholders' Nomination Committee

Municipality Finance has a Shareholders' Nomination Committee established by the Annual General Meeting, which is charged with making a proposal to the Annual General Meeting on the number of members of the Board of Directors, candidates for election to the Board of Directors and their remuneration. In addition, the Shareholders' Nomination Committee makes a proposal on the Chairman and Vice Chairman of the Board of Directors to be elected at the Annual General Meeting.

In this proposal, the Nomination Committee shall, in accordance with its mandate, take into account the requirements set for the governance of a credit institution, including competence requirements for members of the Board of Directors, the nature of the Company's business operations and its ownership structure. As part of the Corporate Governance, the Board of Directors has approved principles for the Company according to which the diversity of the composition of the Board of Directors shall be promoted by ensuring that the Board of Directors' views on the factors influencing its composition

(including the balanced representation of the genders) are communicated to the Shareholders' Nomination Committee.

According to the decision of the General Meeting, the Shareholders' Nomination Committee is comprised of four members. The company's three largest shareholders each nominate one member and the Association of Finnish Local and Regional Authorities nominates one member. The three largest shareholders are Keva, the Republic of Finland and the City of Helsinki.

The three largest shareholders and the Association of Finnish Local and Regional Authorities nominated the following representatives to the Shareholders' Nomination Committee for the 2014 Annual General Meeting:

- Pekka Alanen (CEO, Keva, Chairman)
- Helena Säteri (Director General, Ministry of the Environment)
- Tapio Korhonen (Director General, City of Helsinki)
- Kari-Pekka Mäki-Lohiluoma (Director General, Association of Finnish Local and Regional Authorities).

The three largest shareholders and the Association of Finnish Local and Regional Authorities nominated the following representatives to the Shareholders' Nomination Committee for the 2015 Annual General Meeting:

- Jukka Männistö (CEO, Deputy to CEO, Keva), Chairman
- Helena Säteri (Director General, Ministry of the Environment)
- Tapio Korhonen (Director General, City of Helsinki)
- Timo Kietäväinen (Deputy Managing Director, Association of Finnish Local and Regional Authorities).

The Shareholders' Nomination Committee convened for the 2014 Annual General Meeting and made the required proposals to the General Meeting. The Annual General Meeting approved the proposals as submitted.

The proposals made to the 2015 Annual General Meeting and the Board of Directors to be elected at the meeting will be published as an appendix to the invitation to the 2015 Annual General Meeting and made available on the company's website.

Board of Directors

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 Limited Liability Companies Act, the Articles of Association and other legislative provisions and regulations issued by the authorities. In the Municipality Finance, duties and principles of the Board of Directors are confirmed as part of the internal instructions at Board's Rules of Procedure. The main duties of the Board include confirming the company's strategy, annual 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 of Directors makes also all the far-reaching decisions related to the volume and scope of the activities.

The auditor and internal control report to the Board of Directors, which ensures that the Board of Directors receives independent information on the status of the company. 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 employment of the CEO and Deputy to the CEO and decides on the principles of the remuneration system.

Composition of the Board of Directors and the term of office

Under the Articles of Association, the Board of Directors has a minimum of five and a maximum of eight members. The Annual General Meeting elects the members of the Board and each member's term of office will terminate when the Annual General Meeting following their election concludes. Each year, the Nomination Committee prepares a proposal to the Annual General Meeting concerning the composition of the Board of Directors.

The Board of Directors shall always operate independently, taking into account the interests of the Company and all shareholders.

The management together with the Chairman of the Board see to it that new Board members are sufficiently briefed on the requirements of being a Board member, the Company's business operations and the risks involved in its operations.

There is no rotation system for retiring members of the Board of Directors and a member whose term of office expires can be re-elected. A new Board member can be elected at the Annual General Meeting or at an extraordinary meeting of shareholders to take, for the remainder of the term of office, the place of a member who has resigned or become permanently incapable of performing the duties of a director.

Members of the Board must also have specific familiarity with the activities of a credit institution as well as the statutory requirements and risks concerning credit institutions. When planning its proposal for the composition of the Board of Directors, the Nomination Committee shall also take into account professional competence and the independency requirements of the Board and the person's ability to use enough time to their duties. According to the Articles of Association, a person who is under 68 years of age at the time of election can be elected as a member of Municipality Finance's Board of Directions.

The Board will elect from among its number a Chairman and Vice Chairman, whose term of office will last until the conclusion of the Annual General Meeting following their election. The Owners' Nomination Committee will make a proposal to the Board on the Chairman and Vice Chairman to be elected.

With regard to the members of the Board of Directors, each person's reliability and competence is always assessed before the person is finally selected or before they take up their duties, as separately prescribed in the regulations and guidelines of the Finnish Financial Supervisory Authority.

In accordance with the proposal of the Shareholders' Nomination Committee, the 2014 Annual General Meeting elected the following persons to the Board of Directors for the 2014-2015 term (from the Annual General Meeting to the next Annual General Meeting):

Eva Liljebloom

Chairman

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

Tapani Hellstén

Vice Chairman

on the Board of Directors since 2014

Education: M.A. (Adm. Sci.)

Year of birth: 1957

Primary occupation: Deputy CEO, Keva

Independence: Independent of the company

Fredrik Forssell

on the Board of Directors since 2011

Education: M.Sc. (Econ)

Year of birth: 1968

Primary occupation: CIO, Internal equity & FI Management, Keva

Independence: Independent of the company

Teppo Koivisto

on the Board of Directors since 2011

Education: M.A. (Pol. Sci.)

Year of birth: 1966

Primary occupation: Head of Division, State Treasury

Independence: Independent of the company

Sirpa Louhevirta

on the Board of Directors since 2011

Education: M.Sc. (Econ)

Year of birth: 1964

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

Independence: Independent of the company and its significant shareholders

Tuula Saxholm

on the Board of Directors since 2013

Education: M.Sc. (Econ)

Year of birth: 1961

Primary occupation: Finance Director, City of Helsinki
Independence: Independent of the company

Asta Tolonen

on the Board of Directors since 2011

Education: M.Sc. (Econ)

Year of birth: 1960

Primary occupation: Municipal Manager, Municipality of Suomussalmi

Independence: Independent of the company and its significant shareholders

Juha Yli-Rajala

on the Board of Directors since 2011

Education: M.A. (Adm. Sci)

Year of birth: 1964

Primary occupation: Director, City of Tampere

Independence: Independent of the company and its significant shareholders

All of the persons acted in the Board of Directors also during the previous term of office (whole year of 2014) excluding Tapani Hellstén.

More accurate information about the members of the Board of Directors are available at the company's website.

The company's Board of Directors has confirmed its rules of procedure. The Board will convene upon the summons of the Chairman as often as company business requires. During the 2014 financial year the Board of Directors convened eight times. The average attendance rate of Board members at these meetings was 95%. The Board conducts an annual independent assessment of the effectiveness and quality of its work and performance of its duties.

Board Committees

In order to organize 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 own members, the chairmen and the members of these committees. Committees regularly report to the Board on their activities.

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 is part of the company's Corporate Governance Policy confirmed by Board of Directors.

The members of the Audit Committee at the end of the 2014 financial year were:

- Fredrik Forssell, Chairman

- Tapani Hellstén
- Sirpa Louhevirta
- Tuula Saxholm

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

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 remuneration system, assessment of whether the objectives are attained, development of the remuneration system and the remuneration and other benefits for the CEO and the Deputy to the CEO.

The members of the Remuneration Committee at the end of the 2014 financial year were:

- Eva Liljebloom, Chairman
- Teppo Koivisto
- Asta Tolonen
- Juha Yli-Rajala

The Remuneration Committee convened a total of four 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 and a Deputy to the CEO appointed by the Board of Directors.

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 of Directors. 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 organizational structure and reporting to the Board of Directors.

With regard to the CEO, Deputy to the CEO and members of the Board of Management, each person's reliability and competence is always assessed before the person is finally selected or before they take up their duties, as separately prescribed in the regulations and guidelines of the Finnish Financial Supervisory Authority.

The Board of Management convenes regularly at least two times a month. During the year 2014, Board of Management convened a total of 34 times.

CEO and the Board of Management during the financial year of 2014:

Pekka Averio
President and CEO

At Municipality Finance since 1993
Education: Master of Laws, MBA
Year of birth: 1956

Esa Kallio

Deputy to the CEO, Executive Vice President
At Municipality Finance since 2005
Education: M.Sc. (Econ)
Year of birth: 1963

Toni Heikkilä

Senior Vice President, CRO, Risk management & IT
At Municipality Finance since 1997
Education: Lic.Sc. (Econ), M.Sc. (Finance)
Year of birth: 1965

Jukka Helminen

Senior Vice President, Customer Finance
At Municipality Finance since 2013
Education: M.Sc. (Tech)
Year of birth: 1964

Marjo Tomminen

Senior Vice President, CFO
At Municipality Finance since 1992
Education: vocational qualification in Business Administration,
EMBA
Year of birth: 1962

Mari Tyster

Senior Vice President, Administration and Legal
At Municipality Finance since 2009
Education: Master of Laws
Year of birth: 1975

The CEO or members of the Board of Management do not have memberships in the boards of directors of other companies outside Munifin Group or other material commitments, and all of their positions in the Company are full-time.

B. 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 is, due to the nature of its operations, 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 included in day-to-day operations that improve security and customer satisfaction and facilitate the accomplishment of set objectives and ensure the company's risk level to stay at the desired level.

The internal control 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 and that the operations will achieve its targets. The objective is to maintain the company's overall risk position at a level that it is the best possible related to the credit rating of Finnish government and not to compromise the parent company's strong credit rating through its own actions. Municipality Finance's internal control comprises the financial administration function, which is in charge of financial reporting, the risk management function, which is independent of the company's business operations, reports on the company's risk position and changes thereto and is also responsible for the development of risk management methods, 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.

Reporting and supervision at the Board level

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 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 which include the operating principles and limits pertaining to internal control and risk management. The Board of Directors has confirmed the risk management strategy as part of the company's overall strategy. The aim of the operating policies is to guide the companies' operations such that the company's risk position is maintained at a level that corresponds to its confirmed risk profile through guiding the company's operations. The operating policies are revised annually, with the latest revision made in the summer of 2014.

As part of the effective implementation of internal audit and risk management, the Board of Directors has confirmed the company's operating principles for internal audit, the annual audit plan for internal audit 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.

Capital Adequacy

The Board of Directors approves the plan for capital adequacy management, which is revised annually. The current plan extends until 2020. Since the financial crisis, the company's capital planning has been mainly affected by the leverage ratio requirement along with the already executed and pending regulation renewals. The possible implementation of the leverage ratio requirement in 2018 has forced the company to begin preparations, as the implementation of the leverage ratio would mean that requirements concerning the company's own funds would be multiplied. The leverage ratio requirement is based on comparing total own of funds with balance sheet assets without consideration for risks related to the assets that are incorporated into capital adequacy calculations. 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 report as required by legislation.

The Capital Adequacy is calculated as required by the EU's capital requirements regulation and the related directive (so called CRDIV-package), which are based on the Basel III framework. The capital adequacy requirement for credit risk is calculated using the standard method, and the capital adequacy requirement for operative risks using the basic method. As the Group has neither a trading book nor share or commodity positions, only currency risks are taken into account in the capital adequacy calculations for market risk. As the Company hedges against currency risks by using derivative contracts to translate all foreign currency denominated funding into euros, the Company's currency position is very small and it is therefore not necessary to reserve capital for the currency risk.

Financial reporting and reporting on risk management to the Board of Directors is the responsibility of the CEO. The company's risk position is regularly reported to the Board of Directors as a part of monthly reporting, and, in addition, the director responsible for risk management prepares a broader overall review of the company's risk position in relation to various risk areas to the Board of Directors every six months.

Supervision and reporting at the operational level

Internal control plays a part in the duties of each individual belonging to the management or staff of the company and everyone in the organization is responsible for reporting any observed deficiencies concerning internal control. Internal control is based on an organization 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 delegated to different functions 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 and risk management functions, 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 transactions. In order to ensure the accuracy of financial reporting, the financial administration 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 procedures include regular routines pertaining to the reconciliation of accounts and transactions and payment transfer processes that always follow the four-eye principle. Some of the control measures are automated by the company's information systems while some 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; 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, authorizations 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 are part of the normal processes of functions and departments. In addition, the department charged with the supervision of overall risk has the general responsibility of coordinating the management of operational risks. The company conducts an annual survey of operational risks. The survey evaluates risks and their probability of realization and effects and decides on means of managing the risks in question.

The CEO, supported by the Board of Management, is responsible for managing the company's operations and organizing 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. Besides the credit risk group, the company has an Asset and Liability Management group, which is responsible for market, liquidity and funding risks related guidelines governing the operational work. The company has also established an IFRS group to ensure the accuracy of financial reporting. The group's task is to develop and monitor the Group's IFRS accounting and take operational and market changes into consideration. The business development department is responsible for managing development projects according to the project model in use at the company. Municipality Finance's senior management is represented in the Board of Directors of its subsidiary company Inspira and Inspira's governance is based on the same internal control principles as place in Municipality Finance.

Duties related to compliance with external and internal regulation (monitoring regulations, disseminating information, training, supervising) are handled by the company's Legal and compliance department. 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. The Board of Directors also receives regular reviews of the development of banking regulation and its impacts on Municipality Finance's operations.

In addition to the operating policies confirmed by the Board of Directors, the company has operating guidelines for essential part of business areas and risk management 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 back-up arrangements. The heads of departments also prepare and revise process instructions and other specific guidelines as necessary.

The company conducts annual stress testing to evaluate the impact of various scenarios on financial development (including the need for capital).

Regular external reporting on the company's operations to the Finnish 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 tasks of the internal audit function 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 reviews undertaken by the internal audit during the 2013 financial year were 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 in 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 company has outsourced the audit work of internal auditing to Deloitte & Touche Oy. The practical coordination of internal audit operations on Municipality Finance's side is the responsibility of the company's Legal and compliance department.

The Company's auditor must be an Authorised Public Accountant approved by the Central Chamber of Commerce of Finland. The Auditor's term of office is the Company's financial year and it terminates at the conclusion of the next Annual General Meeting after election. The Company's financial year is the calendar year.

Municipality Finance Plc's auditors during the 2014 financial year were KPMG Oy Ab with Marcus Tötterman, Authorised Public Accountant, as the auditor with principal responsibility.