MuniFin
MUNICIPALITY FINANCE

Annual Report 2018

Contents

CEO's review: A year of development

2018 was a good year for MuniFin and its customers. Demand for financing was growing and our performance in funding was excellent. With our revamped customer strategy we aim to provide even more suitable solutions.

Finland's economy continued to grow in 2018, although the pace slowed down towards the end of the year. Investment needs among our customers remained high, and thus we saw continued strong demand for our financing, both among municipalities and in state-subsidised housing production. Migration to growth centres maintained the need for affordable rental housing.

The postponement of the regional government, health and social services reform causes further uncertainty among municipalities and hospital districts. While they wait for decisions to be made, they have to keep their services running and implement vital investments. Even if the reform will be carried out and the municipal social and healthcare obligations removed, we estimate that the investment needs of municipalities will decline by only 10-15 per cent as rural-urban migration, extensive new investments such as into infrastructure and the maintenance backlog will maintain the need for financing. Accordingly, we expect that demand for financing will remain stable in 2019 as well.

The international economy was filled with uncertainties in 2018. These include the growing tension between major world powers, the threat of a trade war, Brexit turmoil and Italy's worrying debt situation, all of which will also have an impact on the capital markets in 2019. Despite the instability, we performed extremely well in our funding activities – we were successful in the timing of our benchmark bond issuances and saw great demand among international investors.

In addition, we were praised for our long-term work in the international capital markets. In the early months of 2018, we won the Green Bond of the Year Award from Environmental Finance magazine, and in October the UK-based market data provider mtn-i selected MuniFin as the best Uridashi Issuer of the Year in the Japanese capital markets. In May, MuniFin became the first issuer of sustainable bonds in the Finnish market with two green bonds when Nasdaq Helsinki opened its new Sustainable Bond Market.

Solutions for changing needs

Our strategy was revamped in 2017 and it extends until 2022. Our vision is to be the best possible financial expert for our customers in an ever-changing world. With this goal in mind, we polished our values and sharpened our customer strategy this year.

Our strategy is built on rock-solid foundations. In the future, we will continue to focus on financing the diverse needs of municipalities and state-subsidised housing production. Our customers live in the midst of change. In particular, migration within Finland from sparsely populated areas to growing urban centres affects all our customers in some way.

With our new customer service model, we seek to find solutions that are an even better fit for our customers' changing needs. We feel that our responsibility as a builder of an affluent society extends over the entire lifecycle of financing. We want to get involved in the investment planning phase to come up with optimal solutions for our customers – and to still be on board later when the investment is being examined in our customers' balance sheets.

One of the greatest ongoing changes in our own operating environment is the stricter regulation of the finance industry. This has been going on for several years. We have responded to this challenge by recruiting more experts and investing in information systems.

In 2019, we will launch a centralised data warehouse that will improve data availability and transparency as well as boost operational efficiency. In addition, it will enable all our experts to have better access to our wide range of information to benefit our customers. By harnessing technology, we also seek to free up our experts' time so they can provide even better, more insightful customer service. We will continue to focus on the development of digital solutions for both in-house and customer use in 2019 and during the entire strategy period up to 2022.

Investments in expertise

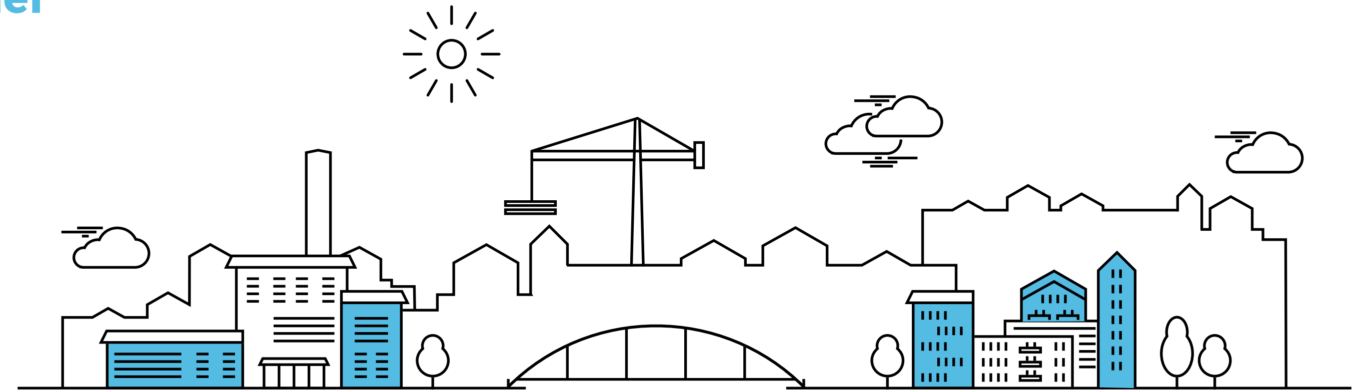
MuniFin's number of personnel grew again in 2018, however the increase was more moderate than in the previous year. More employees were hired particularly in the areas of risk management, reporting and business development.

The growth in personnel has also required us to develop our own operations. Experts who enjoy their work are our major success factor, and therefore, we intend to provide them with opportunities for growth and development also in the future.

MuniFin's operating model is based on partnership. I would like to take the opportunity to thank our customers for our excellent cooperation, constantly developed together along the lines of the customers' expectations. MuniFin's own experts have worked throughout the year with strong commitment and I owe this year's good result for them.

Esa Kallio
President and CEO
Municipality Finance Plc

MuniFin in brief



MuniFin provides a broad range of financing solutions to the municipal sector and non-profit housing production.

The company's experts help customers make sustainable investment decisions. The financing improves the everyday lives of local residents: the financed projects include schools, hospitals, libraries, roads, bridges, sewerage, rental apartments and housing for people with special needs.

To meet the needs of its customers, MuniFin efficiently acquires financing from international capital markets where it is known as a flexible and responsive partner. Funding is guaranteed by the Municipal Guarantee Board, whose members include all municipalities in mainland Finland.

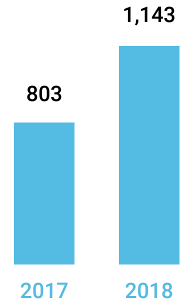
The shareholders of MuniFin are Finnish municipalities, Keva and the Republic of Finland. Due to its shareholder base, MuniFin does not seek to maximise profit, but to serve its customers efficiently and profitably as the best financing expert in the field, providing solutions that best fit their needs.

MuniFin is constantly developing new services to meet the changing needs of its customers. MuniFin's objective is to comprehensively help its customers with the management of all their investment and financial needs, including investment planning, identifying investment opportunities and providing support throughout the investment lifecycle.

In addition to its parent company Municipality Finance Plc, the Municipality Finance Group consists of Financial Advisory Services Inspira Ltd, which specialises in financial advisory services for the municipal sector.

KEY FIGURES (GROUP)	2018	2017	Change
Net interest income (EUR million)	236.3	228.5	3%
Net operating profit (EUR million)	190.0	198.4	-4%
Lending portfolio (EUR million)	22,354	21,219	5%
Leasing portfolio (EUR million)	614	432	42%
Total funding (EUR million)	30,856	30,153	2%
Balance sheet total (EUR million)	35,677	34,738	3%
Ratio of total own funds to risk-weighted assets, %	87.97	72.50	21%
Total own funds (EUR million)	1,413	1,293	9%
Leverage ratio, %	4.06	3.84	6%

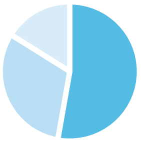
Development of the green finance portfolio 12/2017–12/2018, EUR million



7.4

New long-term funding in 2018, EUR billion

Shareholders



Municipalities **53%**
Keva **31%**
Government of Finland **16%**

Lending portfolio, EUR billion

22.4

Credit rating

AA+ Standard & Poor's | **Aa1** Moody's

Happy customers, scale of 1–7

6.3 How positive is your image of MuniFin compared to other actors in the same field?

Responsible financing solutions for the common good

MuniFin's mission is to build a better future in line with the principles of responsibility and in cooperation with its customers. MuniFin began updating its strategy in 2017 and this work continued in 2018 with the sharpening of values and the customer strategy. In addition, the implementation of the strategy was boosted, particularly with investments in digital solutions.

Many long-term changes are under way in the operating environment of MuniFin which has created new kind of needs for MuniFin's services. For example, migration to regional centres is ongoing and the population is ageing. In addition, investment needs in growth centres compared to other regions are very different. Furthermore, the wait for the postponed regional government, health and social services reform and the changes it may usher in has also caused uncertainty among customers in recent years. Therefore, in 2018 MuniFin updated its customer strategy in order to even better identify customer needs and provide optimal solutions for their individual situations.

The most suitable financing solution from the best expert

In its strategy extending up to 2022, MuniFin's vision is to be the best possible financial expert for our customers in an ever-changing world. MuniFin's experts have the best understanding of the needs of its customer base as it is the only credit institution in Finland specialised solely in financing the municipal sector and non-profit housing production.

In order to offer each customer optimal solutions for their particular situation, the company draws on expertise from different functions on a broad scale. For instance, capital market experts participate in cooperation when searching for the best solutions for Finnish customers. Expertise is ensured not only by means of competence development, but also through even more efficient information sharing.

In order to find the optimal solution, alternatives must often be considered early in the investment planning phase. In this effort, MuniFin has stepped up its cooperation with its subsidiary Inspira, which specialises in advisory services.

Municipalities play a key role in tackling climate change. MuniFin seeks to support municipalities in these efforts by, for instance, providing green financing.

Digital solutions yield information and efficiency

The development of digital solutions is key to the implementation of MuniFin's strategy. MuniFin is harnessing various technologies more extensively to develop services for customers, boost the efficiency of its own operations, respond to ever-stricter regulations and improve risk management.

The development of digital solutions ensures that customers are provided with even more information to support their decision-making as well as enhances both efficiency and transparency in their financial management. MuniFin keeps a close eye on technological development and constantly assesses new opportunities to benefit both customers and the company's internal work. Service development is carried out in cooperation with selected partners.

A roadmap for the development of digital services was created in 2018. Going forward, service development will be based on this roadmap. In 2019, MuniFin will also deploy a centralised data warehouse that will boost operational efficiency and improve both risk management and data integrity and availability.

Responsibility is built into operations

MuniFin's mission is to build a better future in line with the principles of responsibility and in cooperation with its customers. At the end of 2018, new values drafted in cooperation with personnel were approved. Responsibility was defined as one of MuniFin's values alongside customer focus and transparency.

All of the company's operations, from financing solutions to internal development and funding, are guided by the objective of providing customers with the best expertise and optimal solutions. Openness is increasingly evident not only in the provision of information to customers and the sharing of the entire company's expertise, but also in insights and participation in discussions on social issues.

Responsibility has been built into the company's operations throughout its history. The projects financed by MuniFin build the Finnish welfare society. Financing is granted when the investment decision is deemed to be sustainable in the long term for the customer's finances. MuniFin helps customers to find the solution that is the best fit for their changing needs and finances, not only now but also in the later phases of the financing lifecycle.

In February, MuniFin approved its Responsibility Policy, which applies to all of the Group's employees. Competent and responsible employees are at the heart of the Responsibility Policy. They have a deep understanding of the impacts of MuniFin's operations and are committed to both complying with the company's practices and pursuing long-term goals. The Responsibility Policy also serves as MuniFin's key external policy for its stakeholders, such as shareholders, customers, funding investors, authorities, media and other actors.

MuniFin builds partnerships and cooperation with key stakeholders in a goal-oriented manner. For more information on partnerships and cooperation projects, see MuniFin's Responsibility Report.

The carbon footprint of VAV Asunnot Oy's Nordic Swan Ecolabel building over its lifecycle is a fifth smaller than that of an ordinary apartment building.

The Nordic Swan Ecolabel building focuses on sustainable eco-thinking and indoor air quality

An apartment building developed by VAV Asunnot Oy is Finland's first and largest Nordic Swan Ecolabel building that complies with the stricter criteria. The building is located at Kaskelantie 1 in Vantaa. Its design set out to ensure safe and healthy living – both now and in the future. The building has 27 affordable rental apartments.

Complying with sustainable environmental principles, the building design ensures healthy indoor air and chemical safety, which were taken into consideration in, for instance, the choice of materials.

The building was financed with MuniFin's green financing, which is intended for environmentally friendly investments.

VAV wants to do its part in tackling climate change and developing environmentally friendly construction and housing. The carbon footprint of the Nordic Swan Ecolabel building over its lifecycle is a fifth smaller than that of an ordinary apartment building. VAV will continue to focus on environmental friendliness. Its future new properties will also comply with the criteria of the Nordic Swan Ecolabel.

Highlights of 2018

New loans withdrawn from MuniFin in 2018

2,953
EUR million

New funding acquisition 2018

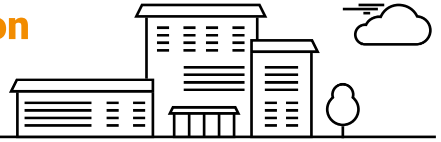
7,436
EUR million

Balance sheet total 31 Dec 2018

35,677
EUR million

Green financing projects in 2018

340
EUR million



- New lending by MuniFin amounted to EUR 2,953 million in 2018. The lending portfolio grew by 5.3% compared to the end of 2017. Demand for financing exceeded expectations, particularly in the municipal sector, due to reasons such as the lower-than-anticipated recognition of tax revenue.
- Demand for green finance remained stable. By the end of 2018, the total amount of withdrawn green finance stood at EUR 1,143 million. In 2018, EUR 340 million worth of green finance was withdrawn. The popularity of the financial product increased in state-subsidised housing production, in which 12 green finance projects were started during the review year.
- MuniFin started building a large-scale centralised data warehouse in 2018. This data warehouse complies with official requirements and will, for instance, boost operational efficiency and improve both risk management and data integrity and availability.
- MuniFin continued to make investments in business and digital solutions development in 2018. The number of MuniFin employees grew from 134 to 151 during the review year. More employees were hired particularly in the areas of risk management, reporting and development.

01

MuniFin issued a 15-year euro-denominated benchmark bond, the longest in its history.

02

Esa Kallio, M.Sc. (Econ.), who has worked at MuniFin since 2005, took the helm as CEO on 28 February 2018.

02

MuniFin approved a company-level Responsibility Policy that applies to all of the company's employees and also serves as a key external policy for MuniFin stakeholders.

05

MuniFin became the first issuer of sustainable bonds in the Finnish market when Nasdaq Helsinki opened its new Sustainable Bond Market on 31 May 2018. MuniFin dual listed its two green bonds in Helsinki.

06

MuniFin launched an online version of its Huomisen tekijät customer magazine. It is available at *huomisentekijat.kuntarahoitus.fi*.

09

Apollo, a digital financial management service that is already used by 160 customers, was expanded with a service for managing housing corporation loan portfolios. In addition, a tool for financial forecasting went into the pilot phase. Its large-scale launch is scheduled for early 2019.

10

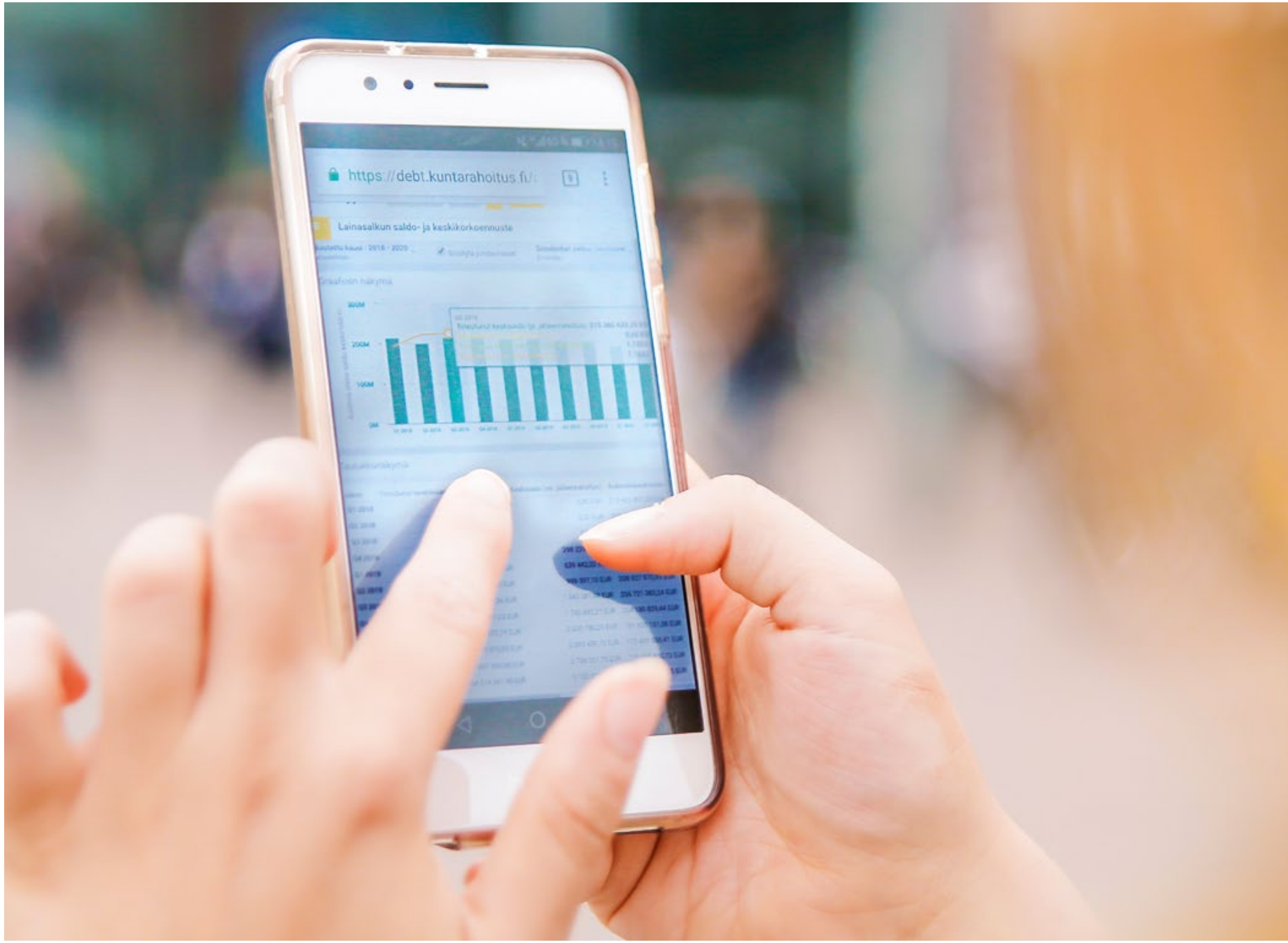
MuniFin's funding earned plaudits for its work in the Japanese capital markets when the UK-based market data provider mtn-i selected the company as the Uridashi Issuer of the Year. Additionally, MuniFin received the Deal of the Year Award in the category of equity index-linked deals.

11

MuniFin began updating its strategy in 2017 and this work continued with sharpening of values and the customer strategy. MuniFin aims to be the best possible financial expert for its customers and to harness the company's expertise to find optimal solutions for customers.

Business

Demand for financing remained strong in 2018. The company's funding was also very successful.



Financing for investment decisions that build a sustainable society

MuniFin offers financing for the investments of the municipal sector and for state-subsidised housing production. Financing is used to build housing, hospitals, schools, day care centres, bridges and roads all around Finland. MuniFin is the major financier in its customer segment and provides comprehensive advice from investment planning to implementation. In 2018, a total of EUR 2,953 million in financing was withdrawn to new projects.

Demand for financing from MuniFin remained strong in 2018. Demand for financing exceeded expectations in the municipal sector, due to reasons such as the lower-than-anticipated tax revenue. Financing for state-subsidised housing production also developed steadily during the year. Rapid urbanisation and migration into growth centres maintained the need for affordable rental housing, and state-subsidised housing production remained at a good level in spite of the abundance of market-financed housing construction.

MuniFin issued a total of EUR 3.0 billion in new loans in 2018. The total lending portfolio at year-end amounted to EUR 22.4 billion and the leasing portfolio to EUR 614 million. The amount of loans withdrawn during the one-year period grew by 21% from the previous year.

Competition remained tight in financing in 2018. MuniFin remains by far the largest financier in its customer segment. It further bolstered its position as a provider of financing for central government-subsidised housing production in 2018. Demand for financing is expected to remain stable in 2019.

Support for many changes in the operating environment

Although general economic development was favourable in 2018, the uncertainty prevailing in international markets is reflected in Finland and municipal finances. The global political situation, indications of a slowdown in European economic growth and the tapering of quantitative easing by central banks caused tension in the economy. MuniFin actively follows and analyses the outlook for the global economy. The company also informs its customers about market trends, such as with its monthly market reviews, updated in October 2018.

In Finland, the anticipated regional government, health and social services reform may have a significant impact on MuniFin and its customers' operating environment. It has posed uncertainty in the investment decisions of municipalities for a long time. Even though the situation is unclear, municipalities have plenty of vital investment needs that must be satisfied. MuniFin helps its customers to evaluate the effects of the regional government, health and social services reform on their investment needs.

In its own operations, MuniFin is prepared for the potential changes that may follow the regional government, health and social services reform.

In its housing production, MuniFin closely monitors and analyses trends in population-drain regions, produces information to support municipalities in their decision-making and seeks the best solutions with customers to solve their challenging financial situations. It is key to react early enough before the financial situation escalates into a crisis. In this effort, MuniFin works in close cooperation with the State Treasury and ARA.

Ensuring the continuity of affordable housing production is vital for the continuation of strong economic development as it improves the mobility and availability of labour. The future of state-subsidised housing production will largely be determined by the Parliamentary elections in spring 2019 and the housing policy programme laid down by the incoming government.

Comprehensive assistance with investments, right from the start

In line with its strategy, MuniFin focuses on providing even better service to its customers and their ever-changing needs. In 2018, MuniFin sharpened its customer strategy. Based on the customer strategy, a new customer relationship management model has been adopted and customer teams have been reorganised. The aim is to harness the company's broad expertise to benefit customers even better and to find the solutions that are the best fit for each customer.

MuniFin wants to support its customers at an early stage when they are planning investments, helping them to assess the financial impacts of investments and alternative solutions. To ensure comprehensive service, MuniFin has also firmed up its cooperation with its subsidiary Inspira, which specialises in financial advisory services.

Digital financial management services to support decision-making

MuniFin is making increasingly extensive use of a variety of technologies in both its internal work and services for customers.

MuniFin's strength is its deep knowledge of its customer base. The development of e-services ensures that customers are provided with even more information to support their decision-making as well as enhances both efficiency and transparency in their financial management.

A plan for the development of digital services was drafted in 2018. The plan guides digital development efforts going forward. MuniFin's strength is its deep knowledge of its customer base. The development of e-services ensures that customers are provided with even more information to support their decision-making as well as enhances both efficiency and transparency in their financial management.

The user base of Apollo, MuniFin's digital financial management service package, expanded to more than 160 customers in 2018. MuniFin is committed to the continuous development of the Apollo service in close cooperation with customers.

Apollo was expanded with significant new functionalities in 2018. A financial forecasting tool enables municipalities to make assessments on the long-term effects of investment decisions on their municipal finances. This tool was developed and piloted in close cooperation with customers. MuniFin intends to make it widely available to customers as part of the Apollo service in 2019. Another cooperation, integrating loan portfolios of housing corporations into Apollo enables a clearer overview of the finances of municipal enterprise groups.

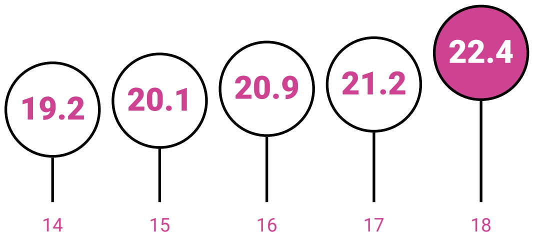
Responsible financing options

Alongside traditional loans, alternative forms of financing have grown in popularity, catering to the need for flexibility in the face of changes in the operating environment. For example, demand for real-estate leasing remained strong in 2018 and has been widely used in school projects. Projects that combine real-estate leasing financing and the lifecycle model have also become more popular. In 2018, MuniFin launched a credit facility product designed especially for the needs of large municipalities and hospital districts, which enables municipalities to secure financing for large projects, such as hospitals.

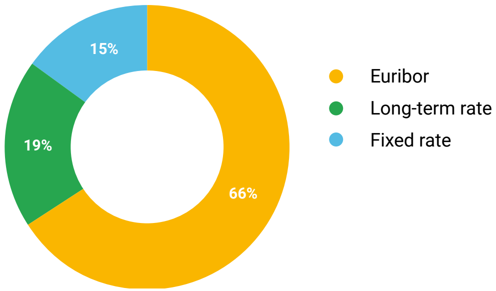
MuniFin's green financing for environmental investments was also in demand in 2018. A total of EUR 340 million in green financing was withdrawn in 2018. The total number of projects started up in the review year remained on a par with 2017. This form of financing for investments that yield clear and quantifiable environmental benefits has also become more popular in the housing sector, in which 12 green finance projects were initiated during the year.

Decisions on granting green finance are made by a Green Evaluation Team comprising external experts. By offering a margin discount for green finance, MuniFin encourages its customers to opt for more environmentally friendly solutions.

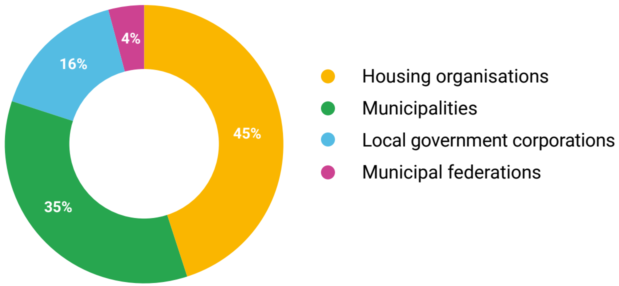
Lending portfolio in 2014–2018, EUR billion



Lending portfolio by rate type



Lending portfolio by customer type



The financial forecast tool was built in agile cooperation with customers.

Apollo produces financial forecasts in a visual format

In 2019, MuniFin customers will be able to draft long-term financial forecasts with the Apollo service's new tool. In addition to forecasts, this tool enables the assessment of the long-term effects of future investments on municipal finances.

Along with figures, the financial forecasting tool produces visual graphs that facilitate the communication of the forecasts. Users can select different criteria to calculate forecasts. The tool sources actual financial figures, results, balance sheets and cash flow statements of municipalities from data kept by Statistics Finland. It also enables users to compare the financial figures of their municipality with those of other municipalities.

The tool was built in a short period of time and in agile cooperation with customers. Information and decision-making tools are being added to the Apollo service one piece at a time to help users with their investments and financing. At the same time, MuniFin is promoting digital service development, financial planning and responsible decision-making in the whole sector.

Inspira: Changes in the operating environment of customers increase the demand for services

The MuniFin subsidiary Inspira specialises in advisory services. Its assignments focused on the regional government, health and social services reform under preparation, participating in the competitive tendering processes of school and daycare centre buildings, and M&A projects. Inspira is taking a central role in the group's expert service offering.

Changes are occurring in the operating environment – of these, the ageing of the population and migration within Finland in particular increase demand for Inspira's services. There is a growing need for care services in municipalities with an ageing population, while new infrastructure and schools and daycare centres are being built in growth centres.

In 2018, a large share of Inspira's assignments concerned the regional government, health and social services reform in one way or another. The drafted legislation would have a wide-ranging impact on municipal activities. The projects have dealt with, for instance, organising tenders, sales of nursing homes, and organising municipal support services.

Demand for advisory services for municipal construction projects based on a lifecycle model also remained strong, as municipalities are seeking sustainable solutions for indoor air problems in schools and daycare centres. During the fiscal year Inspira participated in several ownership arrangements within municipal service production, for example in energy sector and property maintenance. It also supported hospital districts in the rearrangement of support functions. Inspira's turnover in 2018 was EUR 2.5 million (2017: EUR 2.7 million).

Anssi Wright assumed the position of CEO in September. At the end of the year, Inspira had a total of 10 experts in its employ.

Inspira continues to develop the competence of its employees in order to offer best expertise for its customers in varying situations. The service offering is continuously refined to better serve changing customer needs. In the future, Inspira seeks to take a more central role in the group's expert service offering.

The Mansikkala school centre is a bold, innovative and nationally pioneering project.

Finland's largest wooden school centre will be built using a lifecycle model

As part of the renovation of Imatra's schools and daycare centres, a school complex made from solid wood will be built in the Mansikkala district. The approximately 11,000 m2 building, which has been valued at EUR 45 million, is a bold, innovative and nationally pioneering project that combines environmental friendliness, wooden construction and extreme flexibility in terms of the use of space.

MuniFin's subsidiary Inspira identified alternative implementation and financing models for the school project. The school centre will be implemented using a lifecycle model. In the lifecycle model, all engineering works, construction works and long-term maintenance comprise a single contract that is put out to tender. The contractual counterparty is responsible for all technical project risks during the contract period, which in the case of the Mansikkala school centre is 20 years.

Efficient global networks enable investments in Finland

MuniFin acquires all its funding from international capital markets. In 2018 good conditions prevailed in the markets, although some risks emerged towards the end of the year and weakened the markets. Finland's improving economy benefits the company's already good reputation.

2018 was characterised by growing tension between major world powers and the threat of an international trade war, the deteriorating economy of Italy and the countdown to Brexit in early 2019.

However, the economy boomed in 2018. Growth in the Finnish economy outperformed the Euro zone and the debt-to-GDP ratio is expected to decline. The capital markets have also noticed this, further bolstering Finland's and thus MuniFin's reputation.

In the second half of the year, the market mood became more unstable and risk premiums started to surge. At the same time, interest rates took a downward turn towards the end of the year. Underlying these developments were the weaker outlook for international trade, economic policy problems in the Euro zone and the tapering of the European Central Bank's asset purchase programme.

These uncertainties had only a slight impact on MuniFin's funding, in which the company's performance was excellent. The total amount of new funding in 2018 was EUR 7.4 billion (2017: EUR 9.5 billion).

Successful issuances

The share of MuniFin's funding accounted for by public issuances in 2018 was higher than planned. Demand for euro-denominated bonds in particular saw growth.

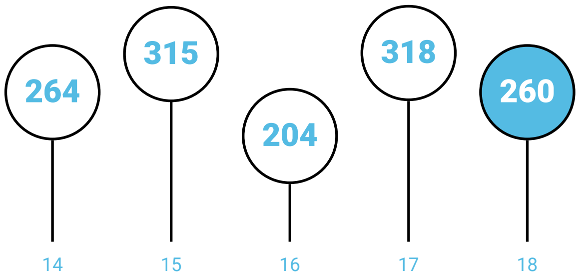
MuniFin issued four benchmark bonds, with two denominated in USD, one in GBP, and one in EUR. The 15-year tenor of the EUR 500 million benchmark bond is the longest in the company's history so far.

The timing of the benchmark bond transactions was excellent. The company expected that the European Central Bank would start exiting its asset purchase programme, which is why the benchmark bond transaction was carried out in the euro market at the beginning of the year. In addition to new transactions, the company increased its existing euro benchmark bonds by opening them up to new investments.

The share of public benchmark bonds in MuniFin's funding and the proportion of institutional investors among its investor base have grown continuously. Accordingly, the company maintains an even stronger focus on predictability in its benchmark bond strategy in order to serve its institutional investor base even better. MuniFin has around 20 international banks as long-term partners that assist as brokers for benchmark bonds.

MuniFin acquires a significant share of its funding in Japan, where it was one of the major Nordic issuers in terms of volume in 2018.

Total number of funding transactions 2014–2018



Investors are interested in responsibility

The public green bonds issued by MuniFin, that is, bonds earmarked for environmental investments, have been in high demand. Issuances have been oversubscribed quickly. In March, MuniFin won the annual Green Bond Award from Environmental Finance magazine. The award-winning EUR 500 million bond was issued in autumn 2017 and is the most sought after bond in the company's history. It was oversubscribed six times.

MuniFin became the first issuer of sustainable bonds on the Finnish stock exchange, when Nasdaq Helsinki opened its new Sustainable Bond Market on 31 May 2018. MuniFin dual listed its two green bonds, originally listed on the London Stock Exchange, on the Nasdaq Helsinki as well.

The company keeps a close eye on demand for sustainable products in the international capital markets. Demand for green bonds earmarked for environmental investments has grown. MuniFin intends to issue its next green bond in 2019.

Award-winning work in the Japanese market

MuniFin has actively issued structured products in Japan. In October, the company was recognised for its work in the country's capital markets: MuniFin won in the most respected category of the awards organised by the UK-based market data provider mtn-i, which selected the company as the Uridashi Issuer of the Year. Additionally, MuniFin received the Deal of the Year Award in the category of equity index-linked deals.

The Uridashi market accounts for about 20 per cent of MuniFin's annual funding. Additionally, the company intends to keep proactively serving its Japanese investors in the future.

Preparing for uncertainty

A potential trade war poses a great risk to the growth of the global economy. In the second half of 2018, share prices already started to slide. As uncertainty mounts, financial costs are also expected to rise. The European Central Bank is expected to increase its key interest rate in the latter half of 2019.

If Italy's debt situation escalates into a crisis and its discord with the EU continues, this will unavoidably impact all of Europe. MuniFin maintains a diversified funding programme and is prepared to replace funding in the Euro zone with other currencies if the Euro zone faces a crisis and demand for euro currency and risk declines.

In 2018, MuniFin prepared itself for Brexit to minimise its impacts on the company's operations. New agreements were drafted with new counterparties established in the EU, and this work will continue in early 2019.

The reference rate reform also causes instability in the capital markets. A decision has been made of discontinuation the London Interbank Offered Rate (LIBOR) by the end of 2021. Like Euribor, Libor is a floating rate to which a substantial number of financing agreements have been tied. Changes in it also have a great impact on the international financial markets. It is not yet known how and with what Libor will be replaced. MuniFin seeks to avoid Libor-linked products for the time being.

The reference rate reform also concerns the Euro zone, as the future of the Eonia and Euribor rates also remains uncertain. It has already been decided that Eonia will be discontinued. Euribor does not fulfil the new requirements either.

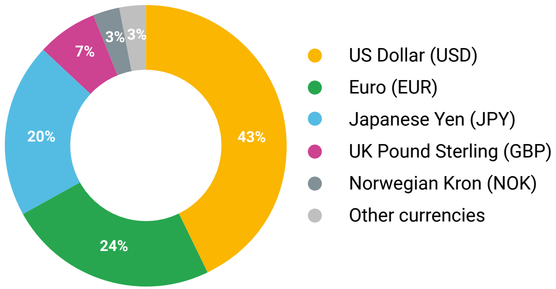
2019 will be a challenging year in the international capital markets. MuniFin has a solid position in these markets and thus it is expected that the availability of financing will remain good in the year ahead in spite of the uncertainties. MuniFin will issue benchmark bonds in 2019 as well.

Establishing global networks to best serve Finnish customers

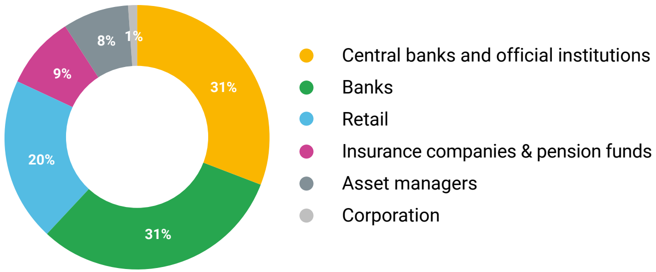
MuniFin's funding seeks to ensure the availability of financing from international capital markets for Finnish customers as cost-effectively as possible over the long term, in spite of the market situation. One of the guiding principles of MuniFin's funding is effective diversification. MuniFin has diversified its funding across markets, currencies, maturities, and different types of investors. The company ensures that its funding avoids the use of unethical underlying instruments in index loans and selects the issuance currencies carefully. Derivatives are used to hedge against currency and interest rate risks.

The work of capital market experts became even more visible to MuniFin's customers in 2018. In October, experts started the publication of a monthly market review on the economic outlook for the Euro zone. In addition, a capital market expert participates as necessary in the development of customer service plans together with account managers.

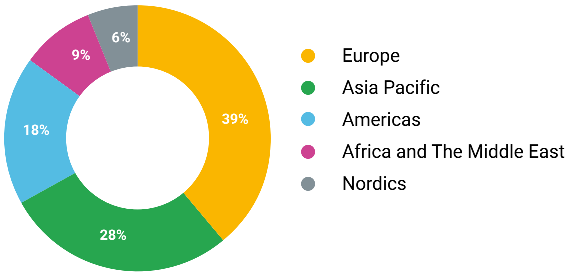
New funding by currency in 2018 %



New funding by investor type in 2018 %



New funding by region in 2018 %



MuniFin was the winner of the award for the largest local issue in Environmental Finance's Green Bond Awards.

Awards for responsible funding and work in Japan

Environmental Finance magazine, which focuses on environmental finance themes and green bonds, handed an award in March 2018 to the euro-denominated green bond MuniFin issued in 2017. In addition, MuniFin was the winner of the award for the largest local issue in Environmental Finance's Green Bond Awards. The jury included investors, banks and other environmental experts who have a major influence on how international environmental investors perceive investments.

MuniFin was also recognised for its long-term work in the Japanese capital markets: it was the winner in the most respected category of the Uridashi Awards, which were handed out for the first time. The UK-based market data provider mtn-i selected MuniFin as the best Uridashi Issuer of the Year in October 2018. Additionally, MuniFin received the Deal of the Year Award in the category of equity index-linked deals.

Uridashi bonds are targeted at Japanese retail investors. The Uridashi market accounts for about 20 per cent of MuniFin's annual funding.

Liquidity management and treasury

2018 was a twofold year in terms of the market and liquidity investments. The first half of the year was stable and the mood on the financial markets remained upbeat thanks to the strong previous year. Long-term interest rates in the Euro zone saw moderate growth on the heels of US interest rates, and issuers' risk premiums remained low.

In the second half of the year, the market mood became more unstable and risk premiums started to surge. At the same time, interest rates took a downward turn towards the end of the year. Underlying these developments were the weaker outlook for international trade, economic policy problems in the Euro zone and the tapering of the European Central Bank's asset purchase programme.

The market change did not have a significant impact on liquidity investments, as the interest rate risk is hedged with interest rate swaps. In addition, the company prepared for the widening of risk premiums throughout the year by increasing the amount of cash investments and shortening the maturities of new long-term investments to reduce their sensitivity.

MuniFin's total liquid assets at the end of 2018 were EUR 8.7 billion (2017: EUR 9.3 billion). At the end of 2018, investments in securities totalled EUR 5.1 billion (2017: EUR 5.8 billion), and their average credit rating was AA (2017: AA). The year-end average maturity of the securities portfolio was 2.1 years (2017: 2.5).

Optimised liquidity management

MuniFin's treasury ensures the optimised use of total liquidity. The minimum amount of short-term liquidity, measured by the liquidity coverage ratio (LCR), must meet the statutory requirement on a daily basis. The minimum LCR requirement is 100 per cent. As a long-term requirement, the total liquidity amount must be enough to cover uninterrupted business for at least 12 months (Survival Horizon) in line with the company's risk appetite framework. The maximum liquidity is adjusted in line with the balance sheet total to prevent it from growing too big in relation to own funds.

At the end of 2018, MuniFin's LCR was 177% (2017: 173%) and the year-end total amount of liquidity was enough to cover uninterrupted business for 13 months (2017: 12 months).

MuniFin regularly evaluates the liquidity of its investments and the eligibility of its assets as collateral on the repo markets. At the end of 2018, 84.7 percent of all long-term investments met the eligibility requirements of ECB.

Effective market risk management

The treasury department is responsible for the management of market risk at MuniFin in accordance with its risk policies and risk appetite framework. As a rule, the balance sheet interest rate risk position in 2018 was kept at its previous low level by applying interest rate hedging to fixed-rate debts and assets. In 2018, MuniFin decided to change its interest rate risk strategy such that going forward the main focus in interest rate risk management is to stabilise net interest income, taking the prevailing interest rate environment into consideration. The new strategy will be introduced in phases.

MuniFin seeks to effectively manage the currency risk and applies the same very conservative principles as in its management of other risks. MuniFin hedges currency risk with derivatives. The main principle is that all foreign currency denominated funding and investments are hedged on the trading day. Furthermore, MuniFin is obligated to submit foreign currency cash collateral to the central clearing counterparty for use in foreign currency interest rate swaps. This, however, does not have significant profit and loss effects.

Management of liquidity investments

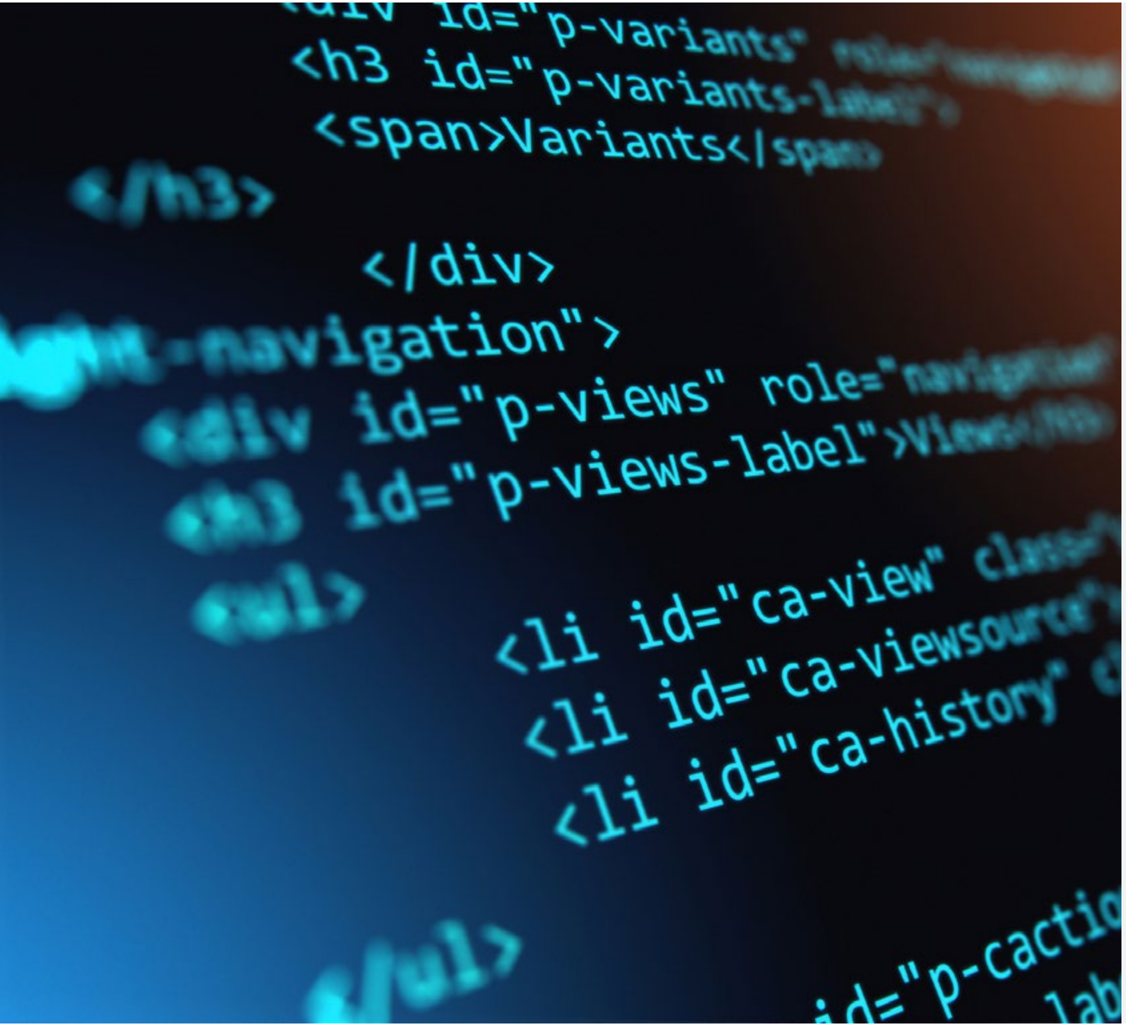
The credit and market risks as well as the expected yield of MuniFin's long-term liquidity are diversified into asset classes and different countries. In 2018, the spread sensitivity of investments was reduced by shortening their average maturity.

In 2018, the share of investments in financial institutions was decreased, and the share of secured bonds was increased. In addition, outstanding long-term investments were allocated more to short-term investments due to poor expected returns. On the national level, MuniFin reduced the amount of investments with UK issuers, among others.

Responsible investing

In 2018, MuniFin continued to increase its investments in socially responsible investment (SRI) targets. At year-end such investments totalled EUR 110 million. The target amount for SRI was determined on the basis of a percentage share of MuniFin's outstanding amount of green bonds.

MuniFin makes liquidity investments in compliance with the Responsibility Policy approved by the company's Board of Directors. The company monitors the environmental and social responsibility and governance practices of the issuers in the liquidity portfolio. This is done by monitoring the ESG scores of investments.



> *Väinö has boosted efficiency and freed up time by taking over manual work which enables experts to focus on solving customers' problems.*

Robot colleague Väinö processes expiring agreements

Väinö the Robot started work in summer 2018. MuniFin employees were pleased to welcome their first robot colleague, as it performs manual work that they previously sometimes had to do as overtime on weekends. Väinö processes expiring leasing agreements tirelessly and whenever necessary.

The robot utilises an UiPath software robotics platform and was created in cooperation with a specialised robotics company. At the same time, MuniFin has trained employees and built up its capability to make greater use of robotics with its in-house resources.

Väinö has boosted efficiency and freed up time by taking over manual work which enables experts to focus on solving customers' problems. Job satisfaction has also increased. This is the objective in all of MuniFin's technology utilisation projects.

Responsibility

Through its work, MuniFin promotes the achievement of nearly all of the sustainable development goals (SDG) set by the United Nations. In 2018, a particular focus was placed on mobilising the Responsibility Policy in practical work. In addition, several projects were launched with different partners.

Responsibility guides choices

MuniFin's mission is to build a better future in line with the principles of responsibility and in cooperation with its customers. Through its work, the company promotes the achievement of nearly all of the sustainable development goals (SDG) set by the United Nations. In the review year, the company focused particularly on mobilising the Responsibility Policy in practical work.

MuniFin and its stakeholders, customers, investors and Finnish society need the decisions and operations of the company to be sustainable. Through its work, the company promotes the achievement of nearly all of the sustainable development goals (SDG) set by the United Nations and the focus areas of the Finnish government's Agenda 2030 implementation plan, which include a carbon neutral, resource-wise and competent Finland where non-discrimination and equality are secured. Responsibility is built into the company's operations and financed projects are used to build the Finnish welfare society.

Due to its wide social impact, MuniFin is also building partnerships and cooperation with other key stakeholders in a goal-oriented manner. These include the Association of Finnish Local and Regional Authorities, Keva, the Housing Finance and Development Centre of Finland (ARA), the Ministry of the Environment, the State Treasury, the Finnish Environment Institute (SYKE), universities and other higher education institutions, commercial banks, and many others.

The municipal sector plays a large role in the implementation of Finland's objectives for sustainable development. MuniFin's green finance supports the carbon neutral target by encouraging municipalities to engage in more environmentally friendly construction. An impact assessment of green finance projects is carried out.

MuniFin contributes to building the foundations of Finnish welfare. In its work, it focuses particularly on promoting education and learning, health and wellbeing and the safety and accessibility of housing. Non-profit housing construction accounts for about 40% of MuniFin's financing annually. In addition to providing affordable apartments and housing for people with special needs, non-profit housing construction can prevent inequalities between regions and people.

The company supports Finnish universities and other higher education institutions through donations and competence sharing, especially with regards to municipal sector finances and investments. Together with the cities of the Greater Helsinki Area and the Association of Finnish Local and Regional Authorities,

Forerunner in sustainability

Long-term value creation through responsible products and services

Developing well-being at work

Strong corporate governance

MuniFin has donated Finland's first professorship of urban economics to Aalto University to provide expertise and knowledge on urban vitality and industrial policy issues.

In 2018, new projects were launched with parties such as the University of Helsinki. At the Mini Challenge, a weekend-long workshop organised in December by MuniFin, the University of Helsinki and Helsinki Think Company, participants examined the building blocks of wellbeing and designed solutions for assessing the impacts of investments. With the University of Helsinki, MuniFin also prepared the Hyvä (yhteis)kunta (Affluent Society) Master Class programme that will be held in 2019 on the theme of sustainable wellbeing in the municipalities and cities of the future. MuniFin also teamed up with Yrityskylä to support its activities in educating sixth-graders about working life, the economy and society. More information on partnerships and cooperation projects is available in the Responsibility Report.

The Responsibility Policy applies to everyone

In March 2018, the company published its first Responsibility Report. Covering 2017, the report discusses the main principles, objectives and indicators of responsibility at MuniFin. The Responsibility Report for 2018 will be published in March 2019.

In February 2018, MuniFin ratified a company-level Responsibility Policy (previously referred to as Code of Conduct). It was also published on MuniFin's internet site. The Responsibility Policy applies to all aspects of MuniFin's operations and employees. The policy defines how the company operates and what is expected from its employees. With the Responsibility Policy, MuniFin aims to reduce the risks to which the company and its employees are exposed, in particular operational and reputational risks, which can have a considerable adverse impact on the company's operations and profitability.

Three training events on the Responsibility Policy were organised for employees during the year. These events paid particular attention to identifying ethically unclear situations and what to do in such situations. In addition, each employee must pass online test on the Responsibility Policy.

Responsibility in all areas of operations

MuniFin grants financing only when the investment decision is deemed to be sustainable in the long term for the customer's finances. MuniFin helps customers to find the solution that is the best fit for their changing needs and finances, not only now but also in the later phases of the financing lifecycle.

In funding, responsibility is most apparent in green bonds and other sustainable bonds that the company may issue in the future. Integral aspects of MuniFin's operations in the international capital markets include openness, transparency, predictability, avoidance of high-risk products and, above all, acquiring financing for Finnish customers at the most cost-effective price. MuniFin also monitors the responsibility of its investments based on an ESG score calculated on a quarterly basis.

At MuniFin, significant efforts are put into the well- being and job satisfaction of employees as well as offering equal opportunities. The company monitors defined targets and indicators for the development of well-being at work. MuniFin's employees feel that their work is meaningful. The company is making greater use of partners, especially in system development. Responsibility is also taken into consideration in the selection of partners and development efforts. Development projects that support responsibility are prioritised. **For more information on responsibility at MuniFin, see the company's Responsibility Report.**

Personnel

MuniFin's number of personnel continued to grow. In 2018, HR services focused on supervisory practices, orientation and preparations for HR process digitalisation. Employees feel that their work is meaningful and they value the development opportunities it provides.

Meaningful work in a growing and evolving community

Knowledgeable employees who enjoy their work are MuniFin's most important resource, and the company invests in their wellbeing and training. MuniFin's employees feel that their work is meaningful and they value the opportunities for growth and development it provides. In 2018, MuniFin focused especially on harmonising supervisory practices, developing orientation and preparing for the digitalisation of HR processes.

The number of MuniFin employees grew once again in 2018, up from 134 to 151. The company's investments in business development and greater regulatory requirements increase personnel needs. Recruitment focused especially on risk management, reporting, finances and IT development.

MuniFin's employees are committed to their work, which is evident in low personnel turnover and the long length of employment relationships. The largest age group of employees in 2018 was 30–39. The age structure of personnel is spread evenly between 26 to 62 years. In spite of the growth in number of employees, MuniFin is a close community where all employees work at the same location.

Like working for your own benefit

Employees feel that MuniFin's responsible role as a financier of projects that support the wellbeing of society increases their motivation and the meaningfulness of their work. Some of the respondents stated that working at MuniFin is like working for your own benefit, as the financed projects affect almost all Finnish lives.

In addition to operating responsibly, MuniFin shoulders its responsibilities as an employer by taking care of personnel's wellbeing at work and offering training and development opportunities.

Personnel wellbeing and coping at work are supported with many measures that enhance occupational fitness and prevent overburdening. In 2018, for instance, employees were provided with the opportunity to participate in a coaching programme on wellbeing at work. An anonymous survey was conducted during the review year to assess coping at work. On the basis of the results, employees have been able to turn to an occupational psychologist as part of their occupational healthcare.

According to the personnel survey, employees particularly value the opportunities for professional development offered by MuniFin. Employees feel that diverse and broad-ranging tasks at a small, international financial institution support their professional growth and career development, which increases their job satisfaction. At MuniFin, employees have a close view of the effects of the entire financing chain on societal wellbeing and service provision.

System development and digitalisation are focus areas

MuniFin will continue to focus on personnel training and development opportunities. The company's strategic objective is to be the best expert for customers both now and in the future. Personnel expertise development is driven by this objective.

In 2018, MuniFin supported supervisory work and leadership by creating a long-term coaching programme that harmonised supervisory practices. The job competence evaluation system was also updated during the year.

Furthermore, in 2018 the company laid the groundwork for the digitalisation of HR processes. The aim of the HR system overhaul project planned for 2019 is to streamline supervisory processes, reduce error proneness and support personnel development with an e-learning environment and interactive orientation materials.

Harnessing automation and robotics that boost work efficiency shifts the focus from manual work to jobs that produce higher added value. This frees up resources for more pleasant tasks. However, it also requires personnel to have the ability to change and develop. In future, the company will support these capabilities through encouragement of taking initiative, supervisory coaching and management.

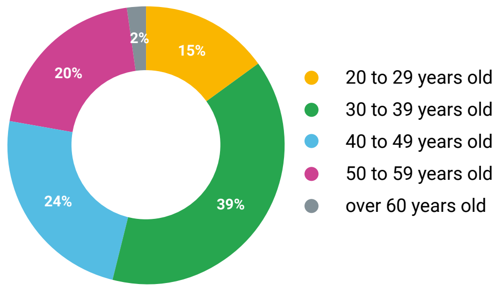
In addition, stricter regulatory requirements impose greater requirements for HR resources, due to which MuniFin made outlays on the orientation of new employees in 2018. Due to regulatory requirements, the company recruited more employees for positions in risk management, reporting, finance and the IT and business development.

On the path of growth and development

A good economy creates competition for the best experts in the industry, which sets new requirements for recruitment. MuniFin has succeeded in its recruitment in spite of the difficult situation. In 2019 the company will more systematically focus on student cooperation. The growth of the organisation also poses a challenge to information flows between employees. A future development focus is the specification of means and channels that will best serve the information needs of employees and information exchange between them.

In 2019, a key effort for MuniFin and its employees will be the implementation of values, strategy and customer strategy which were sharpened in 2018.

Employee breakdown by age in 2018, %



Employee breakdown by gender in 2018, %

Level of dedication in 2018

77.3%

Work exchange is one of the most meaningful means of self-development. It's a wonderful opportunity. I intend to share what I've learned at MuniFin.

New perspectives from international work exchange

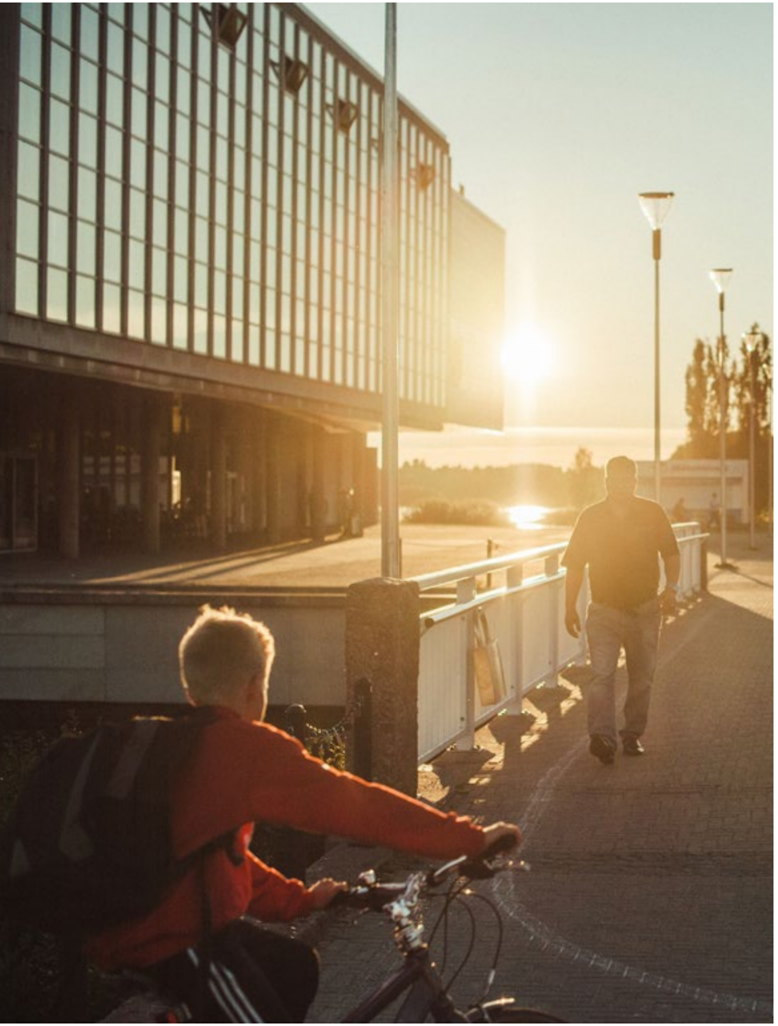
MuniFin supports the professional development of its employees in many ways, such as by offering training and enabling experts to share their knowledge. One means of developing competence is to participate in international work exchange in which MuniFin cooperates with parties such as BNG, the Dutch local government funding agency.

BNG is based in the Hague and like MuniFin is under the direct supervision of the European Central Bank. When BNG got in touch to ask about volunteers for work exchange, especially those specialising in reporting to the authorities, reporting manager **Katariina Ulanen** immediately seized the opportunity.

"I wanted to improve my understanding of the areas in which we could cooperate with BNG in regulatory supervision, reporting and data management, and to familiarise myself with BNG's operating methods. I also wanted to share our expertise about tried-and-true models for reporting to the authorities."

Work exchange clarified Ulanen's own work priorities and gave her a perspective on how things could be done differently. In addition, she made plenty of important contacts during her trip who she can turn to later for sparring advice. She recommends the exchange experience without reservations.

"Work exchange is one of the most meaningful means of self-development. It's wonderful when an employer provides this opportunity to employees. I intend to share what I've learned with my colleagues at MuniFin."



Corporate governance

Responsible business conduct is included in the mission statement of MuniFin: its operations must be socially, economically and environmentally sustainable.

MuniFin's operations are governed by EU-level regulations, as well as Finnish acts and decrees applicable to credit institutions. Besides legislation, MuniFin complies with the regulations and guidelines issued by European authorities and the Finnish Financial Supervisory Authority (FIN-FSA). Furthermore, where applicable, MuniFin also complies with the Governance Code of Nasdaq Helsinki for listed companies.

Since 1 January 2016, MuniFin has been under the direct supervision of the European Central Bank (ECB). The corporate governance requirements of the banking supervision are strict, and meeting them provides an excellent foundation for MuniFin's operations.

More resources to fulfil the requirements of good governance

In 2018, MuniFin placed special emphasis on developing further its governance structure. Up until 2018 the internal audit function was outsourced to an external third party but during 2018 the company restructured its audit operations and the Board of Directors appointed a Senior Vice President responsible for internal auditing function. The Senior Vice President of internal auditing reports directly to the Audit Committee and the Board of Directors. In addition the compliance function was further strengthened.

The Board of Directors of Municipality Finance is responsible for preparing MuniFin's risk management policies. MuniFin's risk management framework covers, for example, the market risk policy, credit risk policy, the risk policies for liquidity management and funding, the policy for operative risks, and the risk appetite framework. Strict limits and limit values have been set for different types of risks, and MuniFin fully intends to adhere to them. Any and all breaches of risk limits will be addressed immediately.

Responsibility Policy guides operations

The leading principle in the work of MuniFin's employees is to ensure that all operations are conducted in a responsible way. The company's operations are guided by Responsibility Policy, which offers guidelines for the principles of responsibility and helps identify any conflicts of interest. In 2018, the whole of MuniFin staff participated in Responsibility Policy training and had to pass a web-based test on the policy.

MuniFin's website includes a whistleblowing channel that can be used to report any suspicions of misconduct, also anonymously, if necessary.

Board of Directors

According to the company's 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 terminates at the end of the next AGM. In accordance with the proposal of the Shareholders' Nomination Committee, the 2018 Annual General Meeting elected the following persons to the Board of Directors for the 2018–2019 term (from the end of the AGM to the end of the next AGM):

Helena Walldén, b. 1953
Chairperson of the Board of Directors
Chairperson of the Board of Directors since 2016
Education: M.Sc. (Eng)
Primary occupation: Board professional
Other key positions of trust: -
Independence: Independent of the company and its significant shareholders

Tuula Saxholm, b. 1961
Vice Chairperson of the Board of Directors
Member of the Board of Directors since 2013
Education: M.Sc. (Econ.)
Primary occupation: Finance Director, City of Helsinki
Other key positions of trust: Helsinki Metropolia University of Applied Sciences, member of the Board of Directors; Helsingin kaupungin asunnot Oy, member of the Board of Directors; Helsingin Leijona Oy, member of the Board of Directors; Port of Helsinki, member of the Board of Directors; chairperson of the Board of Directors of the City Financial Administration Services Corporation; Pääkaupunkiseudun Junakalusto Oy, chairperson of the Board of Directors; HYKSin kliiniset palvelut Oy, member of the Board of Directors
Independence: Non-independent of the company (employed by a significant customer)

Fredrik Forssell, b. 1968
Member of the Board of Directors since 2011
Education: M.Sc. (Econ.)
Primary occupation: CIO, Internal equity & FI, Keva
Other key positions of trust: -
Independence: Independent of the company

Minna Helppi, b. 1967
Member of the Board of Directors since 2017
Education: M.Sc. (Econ.)
Primary occupation: SVP Group Treasurer, Metso Corporation
Other key positions of trust: Rauma Oy, chairperson of the Board of Directors
Independence: Independent of the company and its significant shareholders

Markku Koponen, b. 1957
Member of the Board of Directors since 2018
Education: Master of Laws with court training, EMBA
Primary occupation: Board professional
Other key positions of trust: Kiinteistö Oy Opetustalo, vice chairperson of the Board of Directors
Independence: Independent of the company and its significant shareholders

Jari Koskinen, b. 1960
Member of the Board of Directors since 2017
Education: M.A. (Pol.Sc.)
Primary occupation: Director General, Association of Finnish Local and Regional Authorities (until February 2019)
Other key positions of trust: Finnish Wooden Tall Buildings, member of the Board of Directors
Independence: Independent of the company and its significant shareholders

Kari Laukkanen, b. 1964
Member of the Board of Directors since 2018
Education: M.Sc. (Econ.)
Primary occupation: Board professional and independent consultant
Other key positions of trust: Bankify Oy, member of the Board of Directors; Nuori Yrittäjyys ry, member of the Board of Directors
Independence: Independent of the company and its significant shareholders

Vivi Marttila, b. 1966
Member of the Board of Directors since 2016
Education: M.Sc. (Econ.)
Primary occupation: Mayor of the municipality of Simo
Other key positions of trust: LocalTapiola Lappi Mutual Insurance Company, board member
Independence: Independent of the company and its significant shareholders

Executive Management Team

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 operations in line with the strategy, risk management principles and limits set by the Board of Directors. Supported by the Executive Management Team, 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.

Esa Kallio, b. 1963
President and CEO
At Municipality Finance since 2005
Education: M.Sc. (Econ.)

Toni Heikkilä, b. 1965
Executive Vice President, CRO, Risk Management
At Municipality Finance since 1997
Education: M.Sc. (Finance)

Jukka Helminen, b. 1964
Executive Vice President, Customer Finance
At Municipality Finance since 2013
Education: M.Sc. (Eng.)

Rainer Holm, b. 1973
Executive Vice President,
Business Information Solutions
At Municipality Finance since 2016
Education: M.Sc. (Econ.)

Joakim Holmström, b. 1977
Executive Vice President, Capital Markets
At Municipality Finance since 2008
Education: M.Sc. (Econ.)

Marjo Tomminen, b. 1962
Executive Vice President, CFO, Finance
At Municipality Finance since 1992
Education: Vocational Qualification in Business and Administration MTT, EMBA

Mari Tyster, b. 1975
Executive Vice President, Legal and Governance, Deputy to the CEO
At Municipality Finance since 2009
Education: Master of Laws

Tax Footprint

The Strategy and Operating Principles of MuniFin in Taxation

The management of tax affairs is organised as part of the Group's financial management. The main observations and measures related to tax issues and tax risks are reported to the Board of Directors.

The Municipality Finance Group complies with the tax legislation in the payment, remittance and notification of taxes and charges. MuniFin's strategy in taxation is to support the business solutions and take taxation into account as one of the factors influencing the planning and decision-making related to the business solutions. Tax planning aims at controlling the uncertainties related to taxation and avoiding risks in interpretation. Therefore, MuniFin requests the tax authorities to provide preliminary rulings whenever necessary.

The Taxes and Tax-like Payments Paid and Remitted

MuniFin acquires financing from the international capital markets but conducts business only in Finland. Therefore, MuniFin pays income taxes in full to Finland. MuniFin does not receive any income from abroad for which relevant withholding tax at the source is paid. MuniFin has no investments or operations in countries defined by the OECD as tax havens.

In 2018, the Municipality Finance Group employed 151 people, of whom 141 worked for the parent company. The Group's turnover was EUR 714.0 million and the profit before tax EUR 190.0 million. As a credit institution, MuniFin had the possibility to assign a credit loss provision in its accounting and taxation, in accordance with the Business Tax Act. The credit loss provision involves a deferred tax liability.

MuniFin's operations are mainly exempt from value-added tax. As MuniFin is unable to deduct the VAT related to purchases in its operations exempt from VAT, the VAT remains as final costs for MuniFin. MuniFin also runs leasing operations subject to VAT, for which VAT is paid and the VAT included in the purchases is deducted. The operations of MuniFin's subsidiary Inspira are subject to VAT. Inspira deducts VAT from its purchases and pays VAT for its sales. The amounts of VAT paid and remitted vary according to business volumes, and value-added taxes are not taken into account in the taxes paid and remitted.

Taxes and tax-like payments paid

(EUR 1,000)	2018	2017
Income tax	5,491	8,590
Employer's social security contributions	2,690	2,428
Stability fee to the EU crisis resolution fund	4,977	3,756
Total	13,158	14,774

Taxes to be remitted

(EUR 1,000)	2018	2017
Withholding taxes	4,565	3,819
Employee's social security contributions	1,120	879
Total	5,685	4,698

Report of the Board of Directors

Report of the Board of Directors 1 January – 31 December 2018

CONTENT

2018 in Brief

- The Group's net operating profit without unrealised fair value changes grew by 1.2% and amounted to EUR 189.6 million at the end of the financial year (2017: EUR 187.4 million). Taking fair value changes into account, net operating profit was EUR 190.0 million (2017: EUR 198.4 million).
- The Group's net interest income grew by 3.4% from the previous year and amounted to EUR 236.3 million (2017: EUR 228.5 million).
- The balance sheet total grew by 2.7% and was EUR 35,677 million (2017: EUR 34,738 million) at the end of the year.
- The Group's capital adequacy continued to strengthen and CET1 capital ratio was 66.34% (2017: 53.01%). Tier 1 capital ratio and total capital ratio were 87.97% at the end of December (2017: 72.50%).
- At the end of December, the Group's leverage ratio amounted to 4.06% (2017: 3.84%).
- New loans withdrawn in the January–December period totalled EUR 2,953 million (2017: EUR 2,439 million). The lending portfolio amounted to EUR 22,354 million (2017: EUR 21,219 million). Of this amount, EUR 1,143 million had been withdrawn at the end of December 2018 as green finance targeted for environment-friendly investments (2017: EUR 803 million).
- The leasing portfolio increased 42.2% and amounted to EUR 614 million at the end of December (2017: EUR 432 million).
- In January–December, EUR 7,436 million was acquired in long-term funding (2017: EUR 9,510 million). The total amount of acquired funding was EUR 30,856 million (2017: EUR 30,153 million).
- At the end of December, total liquidity was EUR 8,722 million (2017: EUR 9,325 million).
- Return on equity (ROE) decreased slightly to 10.76% (2017: 12.57%).

KEY FIGURES (GROUP)	31 Dec 2018	31 Dec 2017
Net operating profit without unrealised changes in fair value (EUR million)	189.6	187.4
Net operating profit (EUR million)	190.0	198.4
Net interest income (EUR million)	236.3	228.5
New loans withdrawn (EUR million)	2,953	2,439
New funding acquisition (EUR million)	7,436	9,510
Balance sheet total (EUR million)	35,677	34,738
Common Equity Tier 1 (CET1) (EUR million)	1,065	946
Tier 1 capital (T1) (EUR million)	1,413	1,293
Total own funds (EUR million)	1,413	1,293
Common Equity Tier 1 (CET1) capital ratio, %	66.34	53.01
Tier 1 (T1) capital ratio, %	87.97	72.50
Total capital ratio, %	87.97	72.50
Leverage ratio, %	4.06	3.84
Return on equity (ROE), %	10.76	12.57
Cost-to-income ratio	0.21	0.18
Personnel	151	134

The formulas for calculating key figures are on pages 58–59. Unless otherwise stated, the figures presented in this report are the figures of the Municipality Finance Group. Alternative key figures have been reported after the key figures.

Group structure

Municipality Finance Group (hereinafter the Group) consists of Municipality Finance Plc (MuniFin or Company) and Financial Advice Services Inspira Oy (Inspira). MuniFin owns 100% of Inspira.

MuniFin is a credit institution by the Act on Credit Institutions and it's owned by municipalities, Keva and the government of Finland, providing a wide range of financial services for the local government sector and the state-subsidised housing production. The core of the company's strategy is to build a better future in cooperation with its customers. MuniFin is Finland's only financier specialising in the local government sector and state-subsidised housing production. The company's vision is to be the best financial expert for customers in a changing world.

Inspira is a company specialised in providing financial advisory services to municipalities and state-subsidised housing production. It provides financial advisory services in investment activities and in reorganising operations.

Operating Environment in 2018

In 2018, trends in the Finnish and global economies remained generally favourable, but the rate of growth slowed down in many areas. Forecasting market trends was complicated by, among other things, the growing tensions between the major world powers, the consequent restrictions on international trade, and, in Europe, particularly by the risks posed by Italy's debt situation and the difficulties involved in the Brexit negotiations. However, these, and the ongoing uncertainties affecting global politics, did not have a major impact on the markets. In 2018, the European Central Bank ended net purchases under its purchase programme, but in spite of this plenty of liquidity was available in the market for most of the year, meaning that the availability of financing remained at a good level. However, towards the end of the year market liquidity weakened substantially compared with the beginning of the year.

Housing construction remained brisk in Finnish growth centres. Municipalities also stepped up their investments, and demand for financing grew towards the end of the year due to lower-than-anticipated municipal tax revenue. Changes in service needs ushered in investment pressures in growth centres with respect to municipal infrastructure, traffic arrangements, and schools and daycare centres. Also the property maintenance backlog was shortened around the country.

The regional government, health and social services reform did not progress as expected during the year. This uncertainty involves MuniFin's customer base, but it does not appear to have had a significant impact on the appetite for investments.

Credit ratings

The credit ratings of Moody's and Standard & Poor's and their outlooks for MuniFin did not change in 2018. The credit rating of MuniFin is the same as the government's credit rating: Standard & Poor's rating is AA+ and Moody's rating is Aa1. The ratings' outlooks are stable.

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

Income Statement and Statement of Financial Position

Municipality Finance Group

The Group's business operations remained strong during 2018. The Group's net operating profit without unrealised fair value changes amounted to EUR 189.6 million (2017: EUR 187.4 million). This was affected particularly by the year-on-year improvement in net interest income, but also by higher costs. Taking unrealised fair value changes into account, net operating profit was EUR 190.0 million (2017: EUR 198.4 million).

Net interest income grew by 3.4% to EUR 236.3 million (2017: EUR 228.5 million) at the end of the financial year. Growth of net interest income was due to successful funding operations, volume growth and a favourable interest rate environment for MuniFin's business operations. The Group's net interest income does not recognise the interest expenses of the AT1 capital loan through profit or loss, as the capital loan is treated as an equity instrument in the consolidated accounts. The interest expenses of the capital loan are treated similarly to dividend distribution, that is, as a decrease in retained earnings under shareholders' equity upon realisation of payment on an annual basis.

CONSOLIDATED INCOME STATEMENT (EUR million)	**1–12/2018 ***	**1–12/2017**	**Change, %**
Net interest income	236.3	228.5	3.4
Unrealised fair value changes	0.4	11.0	-96.5
Other income	1.9	1.8	5.6
Total income	**238.5**	**241.3**	**-1.1**
Commission expenses	-4.2	-4.1	2.7
Personnel expenses	-15.2	-13.6	12.1
Other administrative expenses	-12.0	-8.8	37.0
Depreciation and impairment on tangible and intangible assets	-2.3	-2.0	18.2
Other operating expenses	-15.4	-14.5	6.0
Total expenses	**-49.1**	**-42.9**	**14.5**
Expected credit losses (ECL)	0.6	-	-
Net operating profit	**190.0**	**198.4**	**-4.2**
Net operating profit without unrealised fair value changes	**189.6**	**187.4**	**1.2**

Figures have been rounded, so the total of individual figures may differ from the total figure presented.

** The company has applied the IFRS 9 option to not restate prior periods, and thus the unrealised fair value changes for 2017 are not fully comparable due to reclassification.*

Following the adoption of IFRS 9 at the beginning of 2018, MuniFin reclassified financial assets and liabilities. Due to reclassification, the unrealised fair value changes of financial instruments have increased the volatility of financial results during the year. At year-end, the impact of the unrealised fair value changes on profit totalled EUR 0.4 million (2017: EUR 11 million), of which net income from hedge accounting amounted to EUR 27.6 million (2017: EUR 2.7 million). Unrealised net income from securities transactions totalled EUR -27.3 million (2017: EUR 8.3 million). The company has applied the IFRS 9 option to not restate prior periods, and thus the unrealised fair value changes for the previous year are not fully comparable due to reclassification.

The Group's expenses grew by 14.5% and amounted to EUR 49.1 million at the end of December (2017: EUR 42.9 million).

Commission expenses totalled EUR 4.2 million (2017: EUR 4.1 million) and primarily comprise paid guarantee fees, custody fees and funding programme update fees.

Administrative expenses were EUR 27.2 million (2017: EUR 22.3 million), of which personnel expenses comprised EUR 15.2 million (2017: EUR 13.6 million) and other administrative expenses EUR 12.0 million (2017: EUR 8.8 million). Administrative expenses were increased particularly by growth in the number of employees at the parent company. Due to increase in banking regulation, the company needs to develop its governance, risk management and processes. In addition, the company made substantial investments in developing customer service as well as service offerings and systems.

Depreciation and impairment on tangible and intangible assets amounted to EUR 2.3 million at the end of the financial year (2017: EUR 2.0 million).

Other operating expenses grew to EUR 15.4 million (2017: EUR 14.5 million). Growth in other operating expenses was mainly due to financial supervision costs paid to the ECB and to the Finnish Financial Supervisory Authority (FIN-FSA), and the contributions paid to EU-level crisis resolution fund.

Impairments of financial assets have been calculated as from the beginning of 2018 in accordance with the requirements of IFRS 9. The amount of expected credit losses (ECL) calculated in accordance with IFRS 9 decreased during the financial year compared with the amount booked at the time of IFRS 9 transition on 1 January 2018 and the change recognised in profit or loss was EUR 0.6 million at the end of the year.

The Group's comprehensive income includes unrealised fair value changes related to financial instruments due to the IFRS 9 transition that are not treated as fair value changes through profit or loss. During the financial year, the largest items affecting the comprehensive income were a fair value change of EUR 49.0 million due to changes in own credit risk on financial liabilities designated at fair value through profit or loss as well as a net change in cost-of-hedging totalling EUR 27.7 million. The changes in the fair value of items included in the comprehensive income reflect the temporary effects of market conditions on the valuation level of financial instruments at the reporting date. Deferred valuation changes may vary significantly over the reporting periods, causing more volatility in fair value equity reserves.

The consolidated balance sheet saw growth of 2.7% from the end of 2017 and at the end of December 2018 amounted to EUR 35,677 million (2017: EUR 34,738 million). The increase in balance sheet assets is primarily due to growth in the lending and leasing portfolio. The growth of liabilities is due to increased funding and is shown in liabilities to credit institutions, liabilities to the public and public sector entities, and debt securities issued. Equity at the end of the year totalled EUR 1,486 million (2017: EUR 1,339 million), including the AT1 capital loan of EUR 347.4 million. Equity increased due to profit for the period. However, the transition to IFRS 9 as from 1 January 2018 decreased equity by EUR 43 million. In addition, in the consolidated accounts interest expenses amounting to EUR 12.6 million net of deferred tax on the AT1 capital loan were deducted from the equity upon the realisation of the interest payment in April, and the dividends of EUR 6.3 million paid to MuniFin shareholders were likewise deducted.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (EUR million)	**31 Dec 2018**	**31 Dec 2017**	**Change, %**
Cash and balances with central banks	3,522	3,554	-0.9
Loans and advances to credit institutions	1,381	1,251	10.3
Loans and advances to the public and public sector entities	22,968	21,651	6.1
Debt securities	5,863	6,494	-9.7
Derivative contracts	1,539	1,433	7.3
Other assets	405	354	14.3
Total assets	**35,677**	**34,738**	**2.7**
Liabilities to credit institutions	823	802	2.5
Liabilities to the public and public sector entities	3,871	3,747	3.3
Debt securities issued	26,902	26,304	2.3
Derivative contracts	2,205	2,216	-0.5
Other liabilities	390	330	18.2
Total equity	1,486	1,339	10.9
Total liabilities and equity	**35,677**	**34,738**	**2.7**

The Parent Company

At the end of 2018, MuniFin's net interest income was EUR 220.1 million (2017: EUR 212.3 million), and the company's net operating profit amounted to EUR 173.8 million (2017: EUR 181.9 million). The interest expenses of EUR 16.2 million for 2018 on the AT1 capital loan, which forms part of the Additional Tier 1 capital in capital adequacy calculation, have been deducted in full from the parent company's net interest income (2017: EUR 16.2 million). In the parent company, the AT1 capital loan has been recorded under the balance sheet item Subordinated liabilities. The balance sheet of the parent company at the end of the year amounted to EUR 35,676 million (2017: EUR 34,738 million).

Inspira

The turnover of MuniFin's subsidiary Inspira was EUR 2.5 million for 2018 (2017: EUR 2.7 million), while its net operating profit amounted to EUR 0.0 million (2017: EUR 0.2 million).

Financing and other services for customers

MuniFin is the only credit institution in Finland which specialises in financing the local government sector and central government-subsidised housing production, and is by far the largest financier for its customer base. MuniFin's customers consist of municipalities, municipal federations and municipality-controlled entities, as well as organisations and housing sites defined as not for profit by the Housing Finance and Development Centre of Finland (ARA). The company offers its customers versatile financing services, as well as comprehensive support for investment planning and financial management.

Demand for MuniFin's financing saw year-on-year growth. Changes in service needs in growth centres call for new investments in municipal infrastructure, traffic arrangements and the development of the service network, and shortening of the maintenance backlog. Demand for financing grew towards the end of the year, partly due to lower-than-anticipated municipal tax revenue. Migration to growth centres maintained the need for the construction of affordable rental housing.

The total of new loans withdrawn, EUR 2,953 million, was more than the year before (2017: EUR 2,439 million).

MuniFin's total customer financing year-on-year growth was 6.1% and amounted to EUR 22,968 million at year-end (2017: EUR 21,651 million). The long-term loan portfolio increased 5.3% and amounted to EUR 22,354 million at the end of the year (2017: EUR 21,219 million). Financial leasing portfolio increased 42.2% and amounted to EUR 614 million at year-end (2017: EUR 432 million). The largest share of portfolio growth is generated by property leasing agreements. Property leasing is typically used to finance school buildings, for instance.

Green finance, launched in 2016 to finance environmental investments, continued to attract interest, and the company has successfully increased awareness of the product among its customers. By the end of 2018, EUR 1,143 million in green finance had been withdrawn (2017: EUR 803 million). Whether or not a project fits in with the green finance framework is determined by an evaluation team comprising external experts.

The company's year-end balance sheet included EUR 726 million in municipal papers and municipal commercial papers issued by municipalities and municipal companies (2017: EUR 749 million).

In 2018, MuniFin's Apollo e-service for financial portfolio management was expanded to include features such as investment management. With pilot customers, it was deployed for use in wide-ranging economic modelling and forecasting. Customers are rapidly adopting the Apollo service. Its users include all of Finland's largest cities.

Demand for the services provided by MuniFin's subsidiary Inspira was brisk in 2018. Its assignments focused on the regional government, health and social services reform that is currently under preparation, participating in the competitive tendering processes of schools and daycare centre buildings, and M&A projects.

Funding and liquidity management

MuniFin's funding strategy is to diversify its funding sources, which aims to ensure the continuity of its funding under all market conditions. MuniFin actively diversifies its funding across different currencies and maturities as well as geographical areas and investor groups. Active long-term cooperation with investors has increased name recognition of MuniFin in different markets.

Liquidity remained generally strong in the international capital markets during 2018, and MuniFin's funding operations were very successful. Extensive diversification has also made funding efficient, which makes the funding terms for MuniFin's customers competitive. MuniFin's name is widely known in the international capital markets, where investors regard it as one of the most flexible, reliable and fast-reacting issuers.

MuniFin's public benchmark issuances were in extremely high demand. In 2018, MuniFin organised four benchmark bonds: two in USD (both 1 billion), one in GBP (400 million) and one in EUR (750 million). The 15-year term of the EUR 500 million benchmark bond issued in January 2018 is the longest benchmark bond in the company's history so far and the size of the bond was increased by EUR 250 million in October. These benchmark bonds are listed on the London Stock Exchange.

Long-term funding acquired during the year totalled EUR 7,436 million (2017: EUR 9,510 million). MuniFin's short-term debt instruments under the Euro Commercial Paper (ECP) programme amounted to EUR 3,062 million at the end of the year (2017: EUR 3,833 million).

Total funding at the end of 2018 was EUR 30,856 million (2017: EUR 30,153 million). Of this amount, 24% was denominated in euros (2017: 23%) and 76% in foreign currencies (2017: 77%). In total, the company issued bonds denominated in 11 different currencies in 2018 (2017: 14 currencies).

MuniFin currently acquires all of its funding from the international capital market. In total, 260 long-term funding arrangements were made in 2018 (2017: 318).

The majority of funding is carried out as standardised issues under debt programmes, of which MuniFin uses the following:

Medium Term Note (MTN) programme	EUR 30,000 million
Euro Commercial Paper (ECP) programme	EUR 7,000 million
AUD debt programme (Kangaroo)	AUD 2,000 million

MuniFin's funding is guaranteed by the Municipal Guarantee Board, which has the same credit ratings from Moody's and Standard & Poor's as MuniFin and the Finnish government. The Municipal Guarantee Board is a public-law institution, whose members are all Finnish mainland municipalities. The members are responsible for the liabilities of Guarantee Board in proportion to their population. The Municipal Guarantee Board has granted guarantees for MuniFin's debt programmes, as well as for funding arrangements outside the programmes. As a result, debt instruments issued by MuniFin are classified as zero-risk when calculating the capital adequacy of credit institutions and as Level 1 liquid assets in liquidity calculation in the EU.

The company's liquidity remained excellent during 2018. MuniFin's investment operations mostly comprise the management of acquired funding. The funds are invested in liquid and highly rated financial instruments, so as to ensure business continuity under all market conditions.

According to the company's liquidity policy, its liquidity must be sufficient to cover the needs of continued undisturbed operations (including new net lending) for at least the following 12 months.

At the end of 2018, total liquidity was EUR 8,722 million (2017: EUR 9,325 million). Investments in debt securities totalled EUR 5,146 million (2017: EUR 5,755 million) and their average credit rating was AA (2017: AA). The average maturity of the portfolio stood at 2.1 years at year-end (2017: 2.5 years). In addition to this, the company had EUR 3,576 million in other investments (2017: EUR 3,570 million), of which EUR 3,554 million was in central bank deposits (2017: EUR 3,554 million) and EUR 22 million in money market deposits in credit institutions (2017: EUR 16 million). The company invests cash collateral received on the basis of derivative collateral agreements primarily in short-term money market investments.

As of 2015, MuniFin has also monitored the ESG performance (Environmental, Social and Governance) of its liquidity investments. At the end of 2018, MuniFin's liquidity investments had an ESG average of 50.9 on a scale of 1–100 (2017: 49.1). The benchmark index is 50.8 (2017: 49.2).

Capital adequacy

Minimum capital requirements and capital buffers

MINIMUM CAPITAL REQUIREMENTS AND CAPITAL BUFFERS, % 31 DEC 2018	Capital requirement	Capital conservation buffer [1]	Countercyclical buffer [2]	O-SII [3]	Total capital buffers	Total	Realised 31 Dec 2018
Common Equity Tier 1 (CET1)	4.50%	2.50%	0.45%	1.00%	3.95%	8.45%	66.34%
Tier 1 Capital (T1)	6.00%	2.50%	0.45%	1.00%	3.95%	9.95%	87.97%
Total own funds	8.00%	2.50%	0.45%	1.00%	3.95%	11.95%	87.97%

MINIMUM CAPITAL REQUIREMENTS AND CAPITAL BUFFERS (EUR 1,000) 31 DEC 2018	Capital requirement	Capital conservation buffer [1]	Countercyclical buffer [2]	O-SII [3]	Total capital buffers	Total
Common Equity Tier 1 (CET1)	72,278	40,154	7,168	16,062	63,384	135,662
Tier 1 Capital (T1)	96,370	40,154	7,168	16,062	63,384	159,754
Total own funds	128,494	40,154	7,168	16,062	63,384	191,878

MINIMUM CAPITAL REQUIREMENTS AND CAPITAL BUFFERS, % 31 DEC 2017	Capital requirement	Capital conservation buffer [1]	Countercyclical buffer [2]	O-SII [3]	Total capital buffers	Total	Realised 31 Dec 2017
Common Equity Tier 1 (CET1)	4.50%	2.50%	0.34%	0.50%	3.34%	7.84%	53.01%
Tier 1 Capital (T1)	6.00%	2.50%	0.34%	0.50%	3.34%	9.34%	72.50%
Total own funds	8.00%	2.50%	0.34%	0.50%	3.34%	11.34%	72.50%

MINIMUM CAPITAL REQUIREMENTS AND CAPITAL BUFFERS (EUR 1,000) 31 DEC 2017	Capital requirement	Capital conservation buffer [1]	Countercyclical buffer [2]	O-SII [3]	Total capital buffers	Total
Common Equity Tier 1 (CET1)	80,258	44,588	6,017	8,918	59,522	139,780
Tier 1 Capital (T1)	107,010	44,588	6,017	8,918	59,522	166,532
Total own funds	142,680	44,588	6,017	8,918	59,522	202,202

[1] Act on Credit Institutions (610/2014), Chapter 10, Section 3, and the EU capital requirements Regulation (575/2013; CRR) and Directive (2013/36/EU; CRD IV). Valid from 1 January 2015.

[2] Act on Credit Institutions (610/2014) Sect 10:4-5 § and Capital Requirements Regulation and Directive (CRR/CRD4). On 20th December 2018 (21 December 2017), the Board of Financial Supervisory Authority (FIN-FSA) decided not to set countercyclical capital buffer requirement for credit exposures allocated to Finland. The institution-specific countercyclical capital buffer requirement is determined on the basis of the geographical distribution of the exposures. For MuniFin it is 0.45% on 31 December 2018 (31 December 2017: 0.34%).

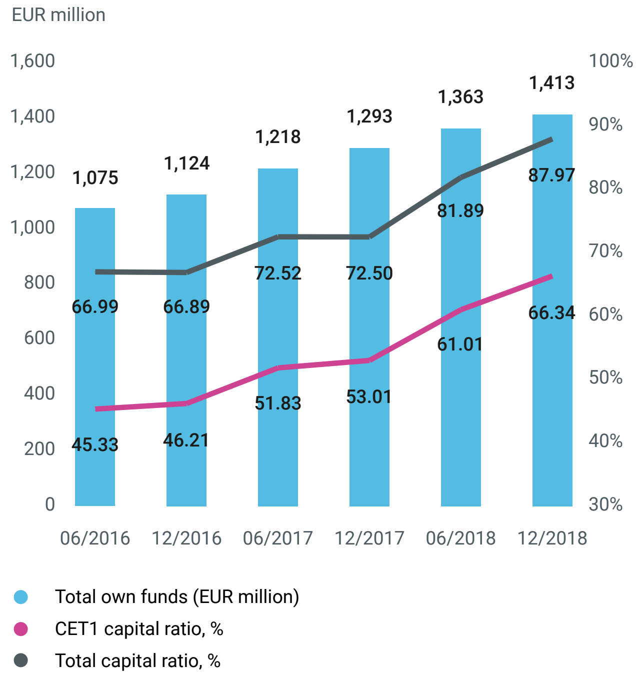
[3] Other Systemically Important Institutions additional capital requirements: Act on Credit Institutions (610/2014) Sect 10:8 § and Capital Requirements Regulation and Directive (CRR/CRD4). Additional capital requirement (O-SII) for MuniFin is 1%. The decision of the Board of FIN-FSA on 21 December 2017, effective on 1 July 2018 (31 December 2017: 0.5%).

The minimum capital adequacy is 8% and the minimum CET1 capital adequacy 4.5%. Under the Act on Credit Institutions, the capital conservation buffer is 2.5%. In December 2017, the Financial Supervisory Authority (FIN-FSA) decided that the additional capital requirement for other systematically important institutions applied to MuniFin will be increased from 0.5% to 1.0%. This requirement became effective on 1 July 2018. The FIN-FSA decides on a countercyclical capital buffer requirement on a quarterly basis. In December 2018, it decided not to impose a countercyclical capital buffer. For MuniFin, the credit institution-specific countercyclical capital buffer requirement imposed based on the geographical distribution of exposures is 0.45%. Therefore, the minimum requirement for CET1 capital ratio is 8.45% and the minimum requirement for total capital ratio 11.95%.

In addition as part of the annual Supervisory Review and Evaluation Process (SREP), the European Central Bank has imposed an additional Pillar II capital requirement of 1.75% (P2R) on MuniFin, effective from 1 January 2018. The minimum level of CET1 capital ratio is 10.20% when taking account of the P2R additional capital requirement, and the minimum level of total capital ratio is 13.70% at the end of 2018.

In February 2019, the European Central Bank has updated MuniFin's additional Pillar II capital requirement (P2R) as part of SREP and the new requirement is 2.25% effective from 1 March 2019. In June 2018, the FIN-FSA took a decision on the additional capital requirement for other systematically important institutions and reduced the requirement applied to MuniFin back to 0.5%. This change came into force on 1 January 2019. In the same context, the FIN-FSA made a macro-prudential decision on structural additional capital requirements and decided to impose a systemic risk buffer on credit institutions. For MuniFin, the additional capital requirement imposed based on the systemic risk buffer is 1.5%. The systemic risk buffer and the O-SII additional capital requirement are parallel buffers, of which the greater is applied. The systemic risk buffer requirement will come into force on 1 July 2019.

Group's own funds and capital adequacy



Key figures for capital adequacy

At the end of 2018, the Municipality Finance Group's total capital ratio was 87.97% (2017: 72.50%), and its CET1 capital ratio was 66.34% (2017: 53.01%). The capital ratio saw year-on-year growth of 15.47 percentage points, largely due to growth in own funds and the decline in total risk. The Group's capital adequacy has remained strong and clearly above the statutory requirements and the minimum capital adequacy requirements set by the authorities. MuniFin's own funds exceed the minimum requirement set in legislation by EUR 1,221 million (2017: EUR 1,091 million), taking valid capital buffers into account.

Common Equity Tier 1 capital (CET1) at the end of the year totalled EUR 1,065 million (2017: EUR 946 million), and Tier 1 capital (T1) amounted to EUR 1,413 million (2017: EUR 1,293 million). There was no Tier 2 capital, and the company's own funds totalled EUR 1,413 million (2017: EUR 1,293 million).

Common Equity Tier 1 capital includes the profit for the financial year, as the result for the financial year has been subject to a financial review by the auditors and can, therefore, be included in CET1 capital based on the permission granted by the ECB in accordance with the Capital Requirements Regulation.

The Group's risk-weighted assets decreased by 10% since the end of 2017 and amounted to EUR 1,606 million at year-end (2017: EUR 1,784 million). The overall credit and counterparty risk decreased from the year-end 2017 figure of EUR 1,108 million to EUR 977 million at the end of the financial year. This was particularly affected by the decrease in the size of liquidity portfolio. The credit valuation adjustment risk (CVA VaR) declined to EUR 247 million (2017: EUR 341 million). This was mainly due to the lower amount of derivatives exposure and shortening average maturity of the derivatives. The currency position was less than 2% of own funds and therefore, based on Article 351 of the Capital Requirements Regulation (CRR), the own funds requirement for market risk has not been calculated. The exposure for operational risk grew by EUR 48 million to EUR 383 million (2017: EUR 335 million) due to an increase in the relevant indicator.

CONSOLIDATED OWN FUNDS (EUR 1,000)	**31 Dec 2018**	**31 Dec 2017**
Common Equity Tier 1 before adjustments	1,118,171	976,260
Adjustments to Common Equity Tier 1	-52,715	-30,741
COMMON EQUITY TIER 1 (CET1)	**1,065,455**	**945,519**
Additional Tier 1 capital before adjustments	347,454	347,454
Adjustments to Additional Tier 1 capital	-	-
ADDITIONAL TIER 1 CAPITAL (AT1)	**347,454**	**347,454**
TIER 1 CAPITAL (T1)	**1,412,909**	**1,292,973**
Tier 2 capital before adjustments	-	-
Adjustments to Tier 2 capital	-	-
TIER 2 CAPITAL (T2)	**-**	**-**
TOTAL OWN FUNDS	**1,412,909**	**1,292,973**

TOTAL RISK EXPOSURE (EUR MILLION)	**31 Dec 2018**	**31 Dec 2017**
Credit and counterparty credit risk	977	1,108
Market risk	0	0
Credit valuation adjustment risk	247	341
Operational risk	383	335
Total	**1,606**	**1,784**

MuniFin has updated the capital adequacy figures for the 2017 comparison year, accounting for a technical correction to the calculation of CVA VaR and the fact that guarantees are not taken into consideration as means of mitigating risk with respect to derivative counterparties in the calculation of CVA VaR. These changes increased the CVA VaR. In the same context, MuniFin refined the treatment of given cash collateral under derivatives netting agreements, which reduced the amount of credit and counterparty risk. In the comparison year, also the currency risk amounted to less than 2% of own funds.

The capital adequacy management principles applied and key figures are described in Notes to this Report of the Board of Directors: in Note 2 capital adequacy management principles, in Note 3 the Group's capital adequacy position and in Note 4 the parent company's capital adequacy. In addition to the Report of the Board of Directors and the Financial Statements, MuniFin publishes a separate Pillar III Disclosure Report on capital adequacy and risk management, which is available in English on the company's website.

Leverage ratio and liquidity coverage ratio

The leverage ratio of MuniFin at the end of the year was 4.06% (2017: 3.84%), calculated using currently valid calculation principles. According to the draft legislation, the minimum leverage ratio is 3%. A proposal concerning the leverage ratio is currently under consideration at the EU level and the leverage ratio with its calculation principles is expected to come into effect no earlier than in 2021.

At the end of the year, the liquidity coverage ratio (LCR) was 177% (2017: 173%). As from the beginning of 2018, LCR must be at least 100%.

MuniFin is also preparing for the Net Stable Funding Ratio (NSFR), which is being made ready at EU level and will, according to the current estimate, not take effect until sometime in 2021.

Liabilities under the Act on the Resolution of Credit Institutions and Investment Firms

MuniFin's crisis resolution authority is the EU's Single Resolution Board (SRB). The Single Resolution Board decided against setting a minimum requirement for own funds and eligible liabilities (MREL) for the company in year 2018.

Risk management

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

The significant risks associated with the Group's operations are credit and counterparty risk, market risk and liquidity risk. All operations also involve strategic risks and operational risks, including compliance risk.

The Group's risks are described in greater detail in Note 2 to the consolidated Financial Statements. In addition to the Report of the Board of Directors and the Financial Statements, MuniFin publishes a separate Pillar III Disclosure Report on capital adequacy and risk management, which is available in English on the company's website.

Group's risk position

There were no material changes in the company's risk appetite in 2018. The company's Board of Directors assures that the risk management arrangements in place are adequate with respect to the Group's risk profile and strategy. Risks remained within the set limits during the financial year and, according to the company's assessment, risk management met the requirements set for it. The IFRS 9 standard adopted at the beginning of 2018 has increased volatility of the financial results through unrealised fair value changes of financial instruments. In the adoption, MuniFin reclassified financial assets and liabilities, and the profit and loss volatility of financial liabilities in particular has grown. The company continuously monitors and analyses the volatility arising from valuations and prepares for any impacts it may have on profit and capital adequacy.

Credit risks comprise a key aspect of MuniFin's business. Due to the nature of the risks, it is impossible to entirely eliminate them from operations. MuniFin's credit risks primarily emerge from customer financing and the receivables of the liquidity portfolio and the derivatives portfolio. Derivatives are only used for hedging against market risks. MuniFin calculates expected credit losses in accordance with IFRS 9. On the transition date, 1 January 2018, a provision for expected credit losses of EUR -0.9 million was recorded in equity. The amount of expected credit losses declined during the year and a EUR 0.6 million change in credit losses on financial assets was recognised through profit or loss at the end of the financial year. MuniFin's credit risk position remained stable during the year, with a low risk level.

Market risks comprise IRRBB, FX exchange, share price and other price risks. MuniFin manages the interest rate risk arising from business operations by means of derivatives. Interest rate risk mainly arises from the differences in the Euribor interest rates applicable to the receivables and liabilities in the balance sheet. Interest rate risk is actively monitored and hedged. The company hedges against exchange rate risks by using derivative contracts to swap all foreign currency denominated funding and investments into euros. The company is not in practice exposed to FX risk in its operations. However, a small temporary FX risk may arise due to collateral management in the clearing of derivatives by central counterparties. FX risk is actively monitored and hedged. Derivatives are also used to hedge against other market risks. Derivative contracts may only be concluded for hedging purposes as MuniFin does not have a trading book. The Group's market risk has remained stable, even though the profit and loss volatility of unrealised valuations of financial instruments has increased during the financial year due to the adoption of IFRS 9.

MuniFin manages the refinancing risk by limiting the average maturity between financial assets and liabilities. In addition, the company manages the liquidity risk by setting a limit for the minimum adequacy of the available short- and long-term liquidity. At the end of 2018, the company had EUR 8,688 million (2017: EUR 9,313 million) in assets for managing liquidity that, irrespective of their contractual maturity dates, can be sold in order to manage liquidity. MuniFin's liquidity is good and the availability of financing has remained solid during the financial year.

Operational risks are estimated to be at a moderate level. No material losses were incurred as a result of operational risks in 2018.

Governance

In addition to corporate legislation, MuniFin complies with the governance requirements of the Finnish Act on Credit Institutions. The company's governance policy is described in more detail on the company's website. Upon the publication of the Annual Report, MuniFin publishes a Corporate Governance Statement on its website, pursuant to Chapter 7, Section 7 of the Finnish Securities Market Act. The statement is separate from the Report of the Board of Directors and includes a description of the main features of the internal audit and risk management systems pertaining to the financial reporting process. The statement also includes the governance descriptions required by the Act on Credit Institutions and information on how the company complies with the Finnish Corporate Governance Code for listed companies published by the Finnish Securities Market Association. Since MuniFin is exclusively an issuer of listed bonds, and since its shares are not subject to public trading, it is not appropriate to directly apply this Code with respect to MuniFin. However, the company has used the Corporate Governance Code as the basis for preparing its own internal Corporate Governance Policy.

Annual General Meeting

The Annual General Meeting (AGM) of MuniFin was held on 28 March 2018. The AGM confirmed the Financial Statements for 2017 and discharged the members of the Board of Directors and the President and CEO from liability for the financial year 2017. In addition, in accordance with the proposal of the Board of Directors, the AGM decided that a dividend of EUR 0.16 per share will be paid, amounting to a total of EUR 6,250,207.68, and the remaining part of distributable funds (EUR 89,206,444.47) will be retained in equity.

Based on the proposal of the Shareholders' Nomination Committee, the AGM appointed the Board of Directors for the 2018–2019 term of office (from the 2018 AGM to the end of the 2019 AGM). The AGM also adopted the proposal of the Shareholders' Nomination Committee on the remuneration of Board members.

The meeting also elected KPMG Oy Ab as the auditor of the company, with Marcus Tötterman, APA, as the principal auditor. Marcus Tötterman was also the principal auditor in the previous financial year.

Board of Directors

At the AGM of 28 March 2018, the Shareholders' Nomination Committee made a proposal to the meeting regarding the Board members to be elected for the term that began at the end of the 2018 AGM and concludes at the end of the following AGM. The AGM elected the following members to the Board of Directors: Helena Walldén (Chair of the Board), Tuula Saxholm (Vice Chair of the Board), Fredrik Forssell, Minna Helppi, Markku Koponen, Jari Koskinen, Kari Laukkanen and Vivi Marttila.

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

The members of the Audit Committee are Markku Koponen (Chair of the Committee), Kari Laukkanen, and Vivi Marttila. The members of the Risk Committee are Fredrik Forssell (Chair of the Committee), Minna Helppi, and Kari Laukkanen. The members of the Remuneration Committee are Helena Walldén (Chair of the Committee), Tuula Saxholm, Markku Koponen, and Jari Koskinen.

From the 2017 AGM to the 2018 AGM, the members of the Board of Directors were: Helena Walldén (Chair of the Board), Tapani Hellstén (Vice Chair of the Board), Fredrik Forssell, Minna Helppi, Teppo Koivisto, Jari Koskinen, Vivi Marttila, and Tuula Saxholm.

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

Personnel

At the end of December 2018, Municipality Finance Group had 151 employees (2017: 134), of whom 141 were staff of the parent company (2017: 119). The significant increase in the number of employees is due to changes in the operating environment and customer needs, as well as the need created by banking regulations to develop the company's governance, risk management and processes. New employees have been hired for almost all of the company's functions, including customer service, business development, administrative services, IT, finance and risk management. Wages and salaries paid to the personnel totalled EUR 12.5 million in the Group (2017: EUR 11.0 million).

The President and CEO of MuniFin is Esa Kallio. He was appointed CEO on 28 February 2018. Before he served as interim CEO since 22 August 2017. Mari Tyster, Executive Vice President, has served as deputy to the CEO as from 1 March 2018. In addition, the Executive Management Team of MuniFin includes Executive Vice Presidents Toni Heikkilä, Jukka Helminen, Rainer Holm, Joakim Holmström, and Marjo Tomminen.

Salaries and remuneration

The remuneration paid to the management and employees of MuniFin consists of fixed remuneration (base salary and fringe benefits) and a variable element based on the conditions of the remuneration scheme. The principles for the remuneration scheme are confirmed by the Board of Directors, and they are reviewed on an annual basis. The Remuneration Committee advises the Board of Directors on remuneration-related matters. For more information on salaries and remuneration, please refer to Note 31 *Salaries and Remuneration*, and to the Remuneration Report for 2018, which is published as a separate document from the Report of the Board of Directors and the Financial Statements, and is available on the company's website.

Internal audit

Internal audit is tasked with monitoring the reliability and accuracy of MuniFin's financial and other management information. Other tasks include ensuring that the company has sufficient and appropriately organised manual and IT systems for its operations, and that the risks associated with the operations are adequately managed.

The internal audit function has been outsourced to Deloitte Ltd, which reported directly to the Board of Directors and its Audit Committee. In the 2018 financial year, the company's Board of Directors decided that the auditing function will be handled internally instead of by an external third party. At the beginning of September 2018, MuniFin appointed a Senior Vice President responsible for the internal auditing function, who reports directly to the Audit Committee and Board of Directors.

Share capital and shareholders

At the end of the 2018 financial year, MuniFin had paid share capital registered in the Trade Register to the amount of EUR 43,008,044.20 million, and the number of shares was 39,063,798. The company has two series of shares (A and B), with equal voting and dividend rights. Each share confers one vote at the Annual General Meeting.

At the end of 2018, MuniFin had 278 shareholders (31 December 2017: 278).

Events after the reporting period

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

Outlook for 2019

Developments in the global economy and capital markets seem fairly stable, but the financial markets are filled with uncertainties. The international financial markets are characterised particularly by the slowdown in the global economy, the financial system-level risks related to Italy's debt situation and the hard-to-predict impacts of the UK's potential exit from the EU. The company is prepared for Brexit, and it is not expected to result in material changes in the company's operations.

From the perspective of Finnish local government finances, the outlook for 2019 is still stable. The regional government, health and social services reform is still under preparation; evaluating its overall effects on MuniFin's customer base and the company's

10 LARGEST SHAREHOLDERS 31 DEC 2018		No. of shares	Per cent
1.	Keva	11,975,550	30.66%
2.	Republic of Finland	6,250,000	16.00%
3.	City of Helsinki	4,066,525	10.41%
4.	City of Espoo	1,547,884	3.96%
5.	VAV Asunnot Oy (City of Vantaa)	963,048	2,47%
6.	City of Tampere	919,027	2.35%
7.	City of Oulu	903,125	2.31%
8.	City of Turku	615,681	1.58%
9.	City of Kuopio	592,028	1.52%
10.	City of Lahti	537,926	1.38%

The amounts of shares presented in the above table do not include any shares owned by the Group companies of the listed shareholders.

According to the company, there has been no material changes in the shares owned by the largest shareholders.

own operations is challenging. The reform is not currently expected to have a fundamental impact on MuniFin's operating volumes in 2019.

In 2019, MuniFin will continue to put major effort into developing the service offering and systems in order to further enhance its efficiency and operations, as well as on the digitisation of services. MuniFin expects that expenses will be higher than in 2018 due to personnel increases, the development of IT systems and higher fees collected by authorities. Considering the above-mentioned outlook in the operational environment and assuming that there are no major changes in the development of interest rates and credit risk premiums when compared to market expectations, MuniFin expects its net operating profit without unrealised fair value changes to remain in the same level than in 2018 or decrease. The developments in financial markets and the IFRS 9 standard adopted at the beginning of 2018 might increase the volatility of financial results through the unrealised fair value changes of financial instruments.

The estimates presented herein are based on current views on the development of the operating environment and operations.

Proposal from the Board of Directors concerning profit for the financial year 2018

Municipality Finance Plc has distributable funds of EUR 133,868,022.38, of which the profit for the financial year totalled EUR 21,831,739.09.

The Board of Directors proposes to the Annual General Meeting that

- EUR 0.16 per share be paid in dividends, totalling EUR 6,250,207.68, and that
- the distributable funds of EUR 127,617,814.70 be retained in equity.

The result for the financial year is good, and the Board of Directors considers the payment of a moderate dividend to be a strongly grounded decision. In recent years, the company has been preparing for the anticipated banking regulation's capital requirements, in particular leverage ratio's entry into force. Own funds have been strengthened with retained earnings and the issue of an AT1 loan. At the end of 2018, the company's leverage ratio was 4.06%. The effective date for the leverage ratio requirement has not yet been finalised, but the company currently fulfils the anticipated leverage ratio requirement of 3%. The Board of Directors estimates that the moderate distribution of dividends will not place the fulfilment of the capital requirements or the company's liquidity in jeopardy. MuniFin clearly fulfils all the prudential requirements set for it.

Dividends will be paid to shareholders who are recorded in the company's list of shareholders on 4 April 2019. The Board of Directors proposes that the dividends be paid on 9 April 2019.

No events have taken place since the end of the financial year that would have a material effect on the company's financial position. The company's liquidity is solid and, in the Board's opinion, the proposed distribution of profits does not put the company's liquidity in jeopardy.

THE GROUP'S DEVELOPMENT	31 Dec 2018	31 Dec 2017	31 Dec 2016	31 Dec 2015	31 Dec 2014
Turnover (EUR million)*	714.0	204.1	183.7	204.1	222.0
Net interest income (EUR million)	236.3	228.5	206.1	172.2	160.0
% of turnover	33.1	112.0	112.2	84.4	72.1
Net operating profit (EUR million)	190.0	198.4	174.2	151.8	144.2
% of turnover	26.6	97.2	94.8	74.4	64.9
Cost-to-income ratio	0.21	0.18	0.17	0.16	0.15
Lending portfolio (EUR million)	22,354	21,219	20,910	20,088	19,205
Total funding acquired (EUR million)	30,856	30,153	28,662	28,419	26,616
Total balance sheet (EUR million)	35,677	34,738	34,052	33,889	30,009
Return on Equity (ROE), %	10.76	12.57	12.51	14.84	21.66
Return on Assets, (ROA), %	0.43	0.46	0.41	0.38	0.41
Equity ratio, %	4.17	3.86	3.48	3.08	1.98
CET1 capital (EUR million)	1,065	946	777	686	556
Tier 1 capital (EUR million)	1,413	1,293	1,124	1,034	557
Total own funds (EUR million)	1,413	1,293	1,124	1,069	623
CET1 capital ratio, %	66.34	53.01	46.21	41.49	29.94
Tier 1 capital ratio, %	87.97	72.50	66.89	62.49	29.98
Total capital ratio, %	87.97	72.50	66.89	64.61	33.53
Leverage ratio, %	4.06	3.84	3.54	3.15	1.8
Personnel	151	134	106	95	90

*) Based on IFRS 9 standard, effective from 1 January 2018, the amount of derivatives that are measured at fair value through profit or loss have increased and are presented in gross figures in interest income and expenses. This has increased the turnover as interest income increased. The company has applied the IFRS 9 option not to restate prior periods. More detailed information on the distribution of interest income and expenses can be found in consolidated Financial Statement Note 32.

OTHER ALTERNATIVE PERFORMANCE MEASURES	31 Dec 2018	31 Dec 2017
Net interest income including interest expenses on AT1 capital loan (EUR million)	220.1	212.3
Expenses (EUR million)	49.1	42.9
Income (EUR million)	238.5	241.3
Unrealised fair value changes (EUR million)	0.4	11.0
Cost-to-income ratio without unrealised fair value changes	0.21	0.19
Net operating profit without unrealised fair value changes (EUR million)	189.6	187.4
Return on Equity (ROE) at fair value, %	14.79	13.32

Calculation of Key Figures

Turnover
Interest and similar income + commission income + net income from securities and foreign exchange transactions + net income on financial assets at fair value through fair value reserve + net income from hedge accounting + other operating income

Net interest income including interest expenses on AT1 capital loan
Interest and similar income– interest and similar expenses - AT1 capital loan interest in the parent company

Cost-to-income ratio

$$\frac{\text{Commission expenses + administrative expenses + depreciation + other operating expenses}}{\text{Net interest income + commission income + net income from securities and foreign exchange transactions + net income on financial assets at fair value through fair value reserve + net income from hedge accounting + other operating income}}$$

Unrealised fair value changes
Net income from securities and foreign exchange transactions, unrealised fair value changes + net income from hedge accounting

Cost-to-income ratio without unrealised fair value changes

$$\frac{\text{Commission expenses + administrative expenses + depreciation + other operating expenses}}{\text{Net interest income + commission income + net income from securities and foreign exchange transactions + net income on financial assets at fair value through fair value reserve + net income from hedge accounting + other operating income - unrealised fair value changes}} \times 100$$

Lending portfolio
Loans and advances to the public and public sector entities - lease receivables

Total funding acquired
Liabilities to credit institutions + liabilities to the public and public sector entities + debt securities issued - CSA collateral (received)

Return on equity (ROE), %

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

Return on Equity (ROE) at fair value, %

$$\frac{\text{Total comprehensive income for the period}}{\text{Equity and non-controlling interest (average of beginning and end of financial year)}} \times 100$$

Return on Assets (ROA), %

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

Equity ratio, %

$$\frac{\text{Equity and non-controlling interest}}{\text{Balance sheet total}} \times 100$$

Common Equity Tier 1 (CET1) capital ratio, %

$$\frac{\text{Common Equity Tier 1 (CET1) capital}}{\text{Risk exposure amount}} \times 100$$

Tier 1 (T1) capital ratio, %

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

Total capital ratio, %

$$\frac{\text{Total own funds}}{\text{Risk exposure amount}} \times 100$$

Leverage ratio, %

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

Liquidity coverage ratio (LCR), %

$$\frac{\text{Liquid assets}}{\text{Liquidity outflows - liquidity inflows in a stress situation}} \times 100$$

Note 1. Alternative Performance Measures

The alternative performance measures required by the European Securities and Markets Authority (ESMA) are presented to illustrate the financial performance of business operations and to improve comparability between reporting periods.

(EUR MILLION)	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
Interest and similar income (incl. lease assets)	711.7	191.4
Commission income	2.4	3.2
Net income from securities and foreign exchange transactions	-27.9	6.2
Net income from available-for-sale financial assets	-	0.5
Net income on financial assets at fair value through fair value reserve	0.0	-
Net income from hedge accounting	27.6	2.7
Other operating income	0.1	0.1
Turnover	**714.0**	**204.1**
Interest and similar income (incl. lease assets)	711.7	191.4
Interest and similar expenses	-475.4	37.2
AT1 capital loan interest in the parent company	-16.2	-16.2
Net interest income with interest expenses on AT1 capital loan	**220.1**	**212.3**
Commission expenses	4.2	4.1
Administrative expenses	27.2	22.3
Depreciation and impairment on tangible and intangible assets	2.3	2.0
Other operating expenses	15.4	14.5
Costs	**49.1**	**42.9**

(EUR MILLION)	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
Net interest income	236.3	228.5
Commission income	2.4	3.2
Net income from securities and foreign exchange transactions	-27.9	6.2
Net income from available-for-sale financial assets	-	0.5
Net income on financial assets at fair value through fair value reserve	0.0	-
Net income from hedge accounting	27.6	2.7
Other operating income	0.1	0.1
Income	**238.5**	**241.3**
Net income from securities and foreign exchange transactions, unrealised fair value changes	-27.3	8.3
Net income from hedge accounting	27.6	2.7
Unrealised fair value changes	**0.4**	**11.0**
Costs	49.1	42.9
Income	238.5	241.3
Cost-to-income ratio	**0.21**	**0.18**
Costs	49.1	42.9
Income	238.5	241.3
Net income from securities and foreign exchange transactions, unrealised fair value changes	-27.3	8.3
Net income from hedge accounting	27.6	2.7
Income without unrealised fair value changes	238.1	230.3
Cost-to-income ratio without unrealised fair value changes	**0.21**	**0.19**

(EUR MILLION)	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
Net operating profit	190.0	198.4
Net income from securities and foreign exchange transactions, unrealised fair value changes	-27.3	8.3
Net income from hedge accounting	27.6	2.7
Net operating profit without unrealised fair value changes	**189.6**	**187.4**
Liabilities to credit institutions	823	802
Liabilities to the public and public sector entities	3,871	3,747
Debt securities issued	26,902	26,304
Total	31,595	30,853
- CSA-collateral (received)	-739	-700
Total funding acquired	**30,856**	**30,153**
Net operating profit	190.0	198.4
Taxes	-38.0	-39.7
Equity and non-controlling interest (average of beginning and end of financial year)	1,412.7	1,261.9
Return on Equity (ROE), %	**10.76%**	**12.57%**
Total comprehensive income for the period	209.0	168.1
Equity and non-controlling interest (average of beginning and end of financial year)	1,412.7	1,261.9
Return on Equity (ROE) at fair value, %	**14.79%**	**13.32%**
Net operating profit	190.0	198.4
Taxes	-38.0	-39.7
Average balance sheet total (average of beginning and end of financial year)	35,207.4	34,395.2
Return on Assets (ROA), %	**0.43%**	**0.46%**

(EUR MILLION)	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
Equity	1,486.1	1,339.4
Non-controlling interest	-	-
Balance sheet total	35,676.7	34,738.1
Equity ratio, %	**4.17%**	**3.86%**
Common Equity Tier 1 (CET1) capital	1,065.5	945.5
Risk exposure amount	1,606.2	1,783.5
Common Equity Tier 1 (CET1) capital ratio, %	**66.34%**	**53.01%**
Tier 1 (T1) capital	1,412.9	1,293.0
Risk exposure amount	1,606.2	1,783.5
Tier 1 capital ratio, %	**87.97%**	**72.50%**
Total own funds	1,412.9	1,293.0
Risk exposure amount	1,606.2	1,783.5
Total capital ratio, %	**87.97%**	**72.50%**
Tier 1 capital	1,412.9	1,293.0
Total exposure	34,832.4	33,669.4
Leverage ratio, %	**4.06%**	**3.84%**

Note 2. Capital adequacy management principles

MuniFin's objectives regarding own funds in relation to risk taking and the operating environment are defined as part of the annual planning. The planning horizon extends to the following five years, in order to be able to predict the business performance trend and the sufficiency of own funds with respect to the increasing capital requirements arising from changing regulation and to be able to react to potential needs for additional capitalisation in sufficient time. The Board of Directors approves the capital adequacy plan and monitors it. The company updates its capital adequacy plan at least annually and follows implementation of the plan quarterly.

The aim for the capital adequacy management is to monitor the capital adequacy and to confirm that MuniFin's capital adequacy fulfills its targets and requirements set by financial authorities to ensure continuity of the operations. Controlling capital adequacy is continuous and an essential part of the company's strategic planning process, which covers setting strategic goals, specifying development projects and making financial forecasts for the following years. This is done in cooperation with management and the Board. The Board of the company approves the final strategy. Management ensures that the operative measures of the company correspond with the principles determined in the strategy approved by the Board. As part of the annual planning, the management prepares a business plan for the coming year and business forecasts for the years that follow. The company's risk position and its effect on the company's financial status are also evaluated. Regular risk analyses as well as various stress test scenarios are used for evaluating and measuring risks. Based on these, the capital adequacy plan is updated annually and actions needed to strengthen own funds are determined. The adequacy of own funds is also monitored through monthly business analyses and in quarterly compiled capital plan review. Capital adequacy and minimum capital requirements are evaluated during the planning horizon through different scenario calculations in the capital plan review. Capital plan review includes also i.e. anticipated changes in the own funds, capital requirements and a contingency plan.

The Group calculates its capital adequacy based on the EU Capital Requirements Regulation (EU 575/2013) and Directive (2013/36/EU). The capital adequacy requirement for credit risk is calculated using the standardised approach, and the capital adequacy requirement for operative risks using the basic indicator approach. As the Group has neither a trading book nor share and commodity positions, only currency risks are taken into account in the capital adequacy calculations for market risk.

As the company hedges against exchange rate risks by using derivative contracts to translate all foreign currency denominated funding into euros, the company's currency position is very small. The credit ratings given by Standard & Poor's, Moody's Investor Service and Fitch Ratings are used for determining the risk weights used in the capital adequacy calculations. The aforementioned companies are credit rating institutions approved by the Finnish Financial Supervisory Authority for capital adequacy calculations. In capital adequacy calculations for the credit risk, MuniFin uses methods for reducing the credit risk such as guarantees provided by municipalities as well as deficiency guarantees given by the State of Finland. For derivatives, netting agreements, collateral agreements (ISDA/Credit Support Annex) and guarantees granted by the Municipal Guarantee Board are used for reducing the risk exposure amount related to the counterparty risk of derivative counterparties.

Disclosures on capital adequacy are provided in Notes 3-4 to the Report of the Board of Directors. In addition to the Report of the Board of Directors and the Financial Statements, MuniFin publishes a separate Pillar III disclosure Report on capital adequacy and risk management, which is available in English on the company's website.

Note 3. Group's capital adequacy position

Table 1.
Minimum capital requirements and capital buffers

MINIMUM CAPITAL REQUIREMENTS AND CAPITAL BUFFERS, % 31 DEC 2018	Capital requirement	Capital conservation buffer [1]	Countercyclical buffer [2]	O-SII [3]	Total capital buffers	Total
Common Equity Tier 1 (CET1)	4.50%	2.50%	0.45%	1.00%	3.95%	8.45%
Tier 1 Capital (T1)	6.00%	2.50%	0.45%	1.00%	3.95%	9.95%
Total own funds	8.00%	2.50%	0.45%	1.00%	3.95%	11.95%

MINIMUM CAPITAL REQUIREMENTS AND CAPITAL BUFFERS (EUR 1,000) 31 DEC 2018	Capital requirement	Capital conservation buffer [1]	Countercyclical buffer [2]	O-SII [3]	Total capital buffers	Total
Common Equity Tier 1 (CET1)	72,278	40,154	7,168	16,062	63,384	135,662
Tier 1 Capital (T1)	96,370	40,154	7,168	16,062	63,384	159,754
Total own funds	128,494	40,154	7,168	16,062	63,384	191,878

MINIMUM CAPITAL REQUIREMENTS AND CAPITAL BUFFERS, % 31 DEC 2017	Capital requirement	Capital conservation buffer [1]	Countercyclical buffer [2]	O-SII [3]	Total capital buffers	Total
Common Equity Tier 1 (CET1)	4.50%	2.50%	0.34%	0.50%	3.34%	7.84%
Tier 1 Capital (T1)	6.00%	2.50%	0.34%	0.50%	3.34%	9.34%
Total own funds	8.00%	2.50%	0.34%	0.50%	3.34%	11.34%

MINIMUM CAPITAL REQUIREMENTS AND CAPITAL BUFFERS (EUR 1,000) 31 DEC 2017	Capital requirement	Capital conservation buffer [1]	Countercyclical buffer [2]	O-SII [3]	Total capital buffers	Total
Common Equity Tier 1 (CET1)	80,258	44,588	6,017	8,918	59,522	139,780
Tier 1 Capital (T1)	107,010	44,588	6,017	8,918	59,522	166,532
Total own funds	142,680	44,588	6,017	8,918	59,522	202,202

[1] Act on Credit Institutions (610/2014), Chapter 10, Section 3, and the EU capital requirements Regulation (575/2013; CRR) and Directive (2013/36/EU; CRD IV). Valid from 1 January 2015.

[2] Act on Credit Institutions (610/2014) Sect 10:4-5 § and Capital Requirements Regulation and and the EU capital requirements Regulation (575/2013; CRR) and Directive (2013/36/EU; CRD IV). On 20 December 2018 (21 December 2017), the Board of Financial Supervisory Authority (FIN-FSA) decided not to set countercyclical capital buffer requirement for credit exposures allocated to Finland. The institution-specific countercyclical capital buffer requirement is determined on the basis of the geographical distribution of the exposures. For MuniFin it is 0,45% (31 December 2017: 0,34%)

[3] Other Systemically Important Institutions additional capital requirements: Act on Credit Institutions (610/2014) Sect 10:8 § and the EU capital requirements Regulation (575/2013; CRR) and Directive (2013/36/EU; CRD IV). Additional capital requirement (O-SII) for MuniFin is 1%. The decision of the Board of FIN-FSA on 21 December 2017, effective on 1 July 2018 (31 Dec 2017: 0,5%).

ECB updated the additional capital requirements for MuniFin to 1.75% (P2R) as part of the yearly Supervisory Review and Evaluation Process, effective on 1 January 2018. Considering the additional capital requirements the new minimum level for CET1 capital ratio is 10,20% and total capital ratio 13,70% at the end of 2018.

Future changes in capital buffers

ECB updated in February 2019 as part of SREP decision MuniFin's additional capital requirement (P2R), which will be 2.25% from 1 March 2019 onwards. On 29 June 2018 the Financial Supervisory Authority decided to lower MuniFin's O-SII buffer from 1% to 0.5%. The change is effective on 1 Jan 2019. At the same time the FIN-FSA also made a macroprudential decision to impose a systemic risk buffer requirement on credit institutions. The buffer set for MuniFin is 1.5%. The systemic risk buffer and the O-SII additional capital requirement are parallel buffers, of which the greater is applied. The new requirement will be effective on 1 July 2019.

Table 2.
Own Funds

CONSOLIDATED OWN FUNDS (EUR 1,000)	31 Dec 2018	31 Dec 2017
Share capital	42,583	42,583
Reserve for invested non-restricted equity	40,366	40,366
Retained earnings	1,035,692	879,799
Fair value reserve	14,961	28,944
Other reserves	277	277
Foreseeable dividend	-6,250	-6,250
Accrued interest net of deferred taxes of AT1 capital loan treated as equity	-9,459	-9,459
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**1,118,171**	**976,260**
Intangible assets	-14,850	-10,196
Deductions due to prudential filters on Common Equity Tier 1	-37,865	-20,544
Common Equity Tier 1 (CET1) capital	**1,065,455**	**945,519**
Instruments included in Additional Tier 1 capital	347,454	347,454
Additional Tier 1 (AT1) capital	**347,454**	**347,454**
Tier 1 (T1) capital	**1,412,909**	**1,292,973**
Tier 2 (T2) capital	**-**	**-**
Total own funds	**1,412,909**	**1,292,973**

Based on EU Capital requirements regulation and FIN-FSA regulations and guidelines 25/2013 unrealised gains on assets measured at fair value (fair value reserve) are included in Common Equity Tier 1 (transition period 1 January 2015– 31 December 2017). Common Equity Tier 1 capital includes the profit for the financial year, as the result for the financial year has been subject to a review by the auditors, and therefore can be included in CET1 capital on the basis of permission granted by the ECB in accordance with the Capital Requirements Regulation. Deductions due to prudential filters on Common Equity Tier 1 consist of MuniFin's debt value adjustment (DVA) and other value adjustments and the anticipated distribution of earnings.

Change in own credit risk is not included in the own funds (CRR Article 33).

Additional Tier 1 capital contains MuniFin's AT1 capital loan EUR 350 million which was issued on October 1 2015. Main features of capital instruments are included in a separate Pillar III Disclosure report from this Report of Board of Directors and Financial Statements. Pillar III Disclosure Report is available in English on the company's website.

Table 3.
Consolidated key figures for capital adequacy

CONSOLIDATED KEY FIGURES FOR CAPITAL ADEQUACY	31 Dec 2018	31 Dec 2017
Common Equity Tier 1 (CET1) capital ratio, %	66.34	53.01
Tier 1 (T1) capital ratio, %	87.97	72.50
Total capital ratio, %	87.97	72.50

Table 4.
Consolidated minimum requirement for own funds

The capital requirement for credit risk is calculated using the standardised approach. At the end of 2017 loan portfolio's interest receivables were included in Other items. From 2018 onwards these interest receivables are included in the same exposure class than the nominal of the loan. When calculating the capital requirements for market risk, only foreign exchange risk is taken into account as the group does not have a trading book nor share or commodity positions. As foreign exchange risk is hedged by swapping all currency denominated funding and investments into euros, the company's foreign exchange position is very small. On 31 December 2018 the FX net position was EUR 2.0 million, which is less than 2% of total own funds. There was no capital requirement for market risk since the FX net position did not exceed 2 percent of the total own funds (CRR 575/2013 Art. 351). Guarantees granted by the Municipal Guarantee Board for certain derivative counterparties are not taken into account in credit valuation adjustment risk. The capital requirement for operational risk is calculated using the basic indicator approach.

MuniFin has updated capital ratios for the comparison year 2017. In the revised capital ratios MuniFin made a technical correction to the calculation of credit valuation adjustment risk and also guarantees by the Municipality Guarantee Board are not taken into consideration as means of risk mitigation technique when calculating the exposure value for the credit valuation adjustment risk. These changes increased the amount of credit valuation adjustment risk. MuniFin has refined the treatment of given cash collateral under derivatives netting agreement in counterparty credit risk (CCR) calculations, which has reduced the CCR exposure at default. There has been no market risk requirement for the comparison year 2017 as the FX risk did not exceed 2% of the total own funds.

	31 Dec 2018		31 Dec 2017	
(EUR 1,000)	**Capital requirement**	**Risk exposure amount**	**Capital requirement**	**Risk exposure amount**
Credit and counterparty risk, standardised approach	**78,128**	**976,596**	**88,603**	**1,107,536**
Exposures to central governments or central banks	0	0	302	3,780
Exposures to regional governments or local authorities	353	4,413	332	4,153
Exposures to public sector entities	4,807	60,086	4,742	59,271
Exposures to multilateral development banks	951	11,884	953	11,914
Exposures to institutions	52,470	655,875	62,294	778,671
Exposures in the form of covered bonds	18,986	237,323	19,063	238,284
Items representing securitisation positions	13	165	104	1,296
Exposures in the form of shares in CIUs	88	1,103	103	1,286
Other items	460	5,746	710	8,881
Market risk	-	-	-	-
Credit valuation adjustment risk (CVA VaR), standard method	**19,722**	**246,528**	**27,294**	**341,179**
Operational risk, basic indicator approach	**30,644**	**383,048**	**26,783**	**334,786**
Total	**128,494**	**1,606,172**	**142,680**	**1,783,501**

The capital requirement for counterparty risk is EUR 3,617 thousand (2017: EUR 3,158 thousand).

Table 5.
Consolidated exposure by class

31 DEC 2018 (EUR 1,000) EXPOSURE CLASSES	On-balance sheet exposure	Off-balance sheet exposure	Derivatives exposure	Total exposure	Average exposure amount over the period	Risk exposure amount
Exposures to central governments or central banks	3,920,338	-	-	3,920,338	4,144,181	0
Exposures to regional governments or local authorities	10,077,540	1,161,635	163,192	11,402,367	11,159,722	4,413
Exposures to public sector entities	270,265	-	-	270,265	286,313	60,086
Exposures to multilateral development banks	222,280	-	-	222,280	222,498	11,884
Exposures to international organisations	73,324	-	-	73,324	73,660	-
Exposures to institutions	2,525,096	-	536,274	3,061,369	3,626,873	655,875
Exposures to corporates	5,129,701	292,570	-	5,422,271	5,380,951	-
Exposures secured by mortgages on immovable property	8,527,156	1,342,548	-	9,869,704	9,532,723	-
Exposures in default	0	-	-	0	113	-
Exposures in the form of covered bonds	1,887,770	-	-	1,887,770	1,898,486	237,323
Items representing securitisation positions	825	-	-	825	1,282	165
Exposures in the form of shares in CIUs	9,494	-	-	9,494	9,554	1,103
Other items	17,386	-	-	17,386	14,135	5,746
Total	**32,661,175**	**2,796,753**	**699,466**	**36,157,395**	**36,350,490**	**976,596**

31 DEC 2017 (EUR 1,000) EXPOSURE CLASSES	On-balance sheet exposure	Off-balance sheet exposure	Derivatives exposure	Total exposure	Average exposure amount over the period	Risk exposure amount
Exposures to central governments or central banks	4,004,347	-	-	4,004,347	3,307,052	3,780
Exposures to regional governments or local authorities	9,578,898	873,521	160,014	10,612,433	10,890,553	4,153
Exposures to public sector entities	281,233	-	-	281,233	278,233	59,271
Exposures to multilateral development banks	232,631	-	-	232,631	238,805	11,914
Exposures to international organisations	73,917	-	-	73,917	95,083	-
Exposures to institutions	2,891,157	-	521,880	3,413,037	4,283,925	778,671
Exposures to corporates	5,086,565	274,461	-	5,361,025	5,459,483	-
Exposures secured by mortgages on immovable property	7,733,922	1,122,364	-	8,856,287	8,564,424	-
Exposures in default	450	-	-	450	113	-
Exposures in the form of covered bonds	1,938,881	-	-	1,938,881	1,961,964	238,284
Items representing securitisation positions	6,478	-	-	6,478	18,128	1,296
Exposures in the form of shares in CIUs	9,635	-	-	9,635	9,663	1,286
Other items	79,780	-	-	79,780	88,119	8,881
Total	**31,917,893**	**2,270,346**	**681,895**	**34,870,134**	**35,195,544**	**1,107,536**

Table 6.
Leverage ratio

CONSOLIDATED LEVERAGE RATIO (EUR 1,000)	31 Dec 2018	31 Dec 2017
Tier 1 (T1) capital	1,412,909	1,292,973
Total exposure	34,832,360	33,669,410
Leverage ratio, %	4.06	3.84

EXPOSURES, CONSOLIDATED (EUR 1,000)	31 Dec 2018	31 Dec 2017
On-balance sheet exposure (excl. derivatives and intangible assets)	33,988,372	33,188,269
Derivatives exposure	-495,677	-593,976
Off-balance sheet exposure	1,339,665	1,075,117
Total	**34,832,360**	**33,669,410**

BREAKDOWN OF ON-BALANCE SHEET EXPOSURE, CONSOLIDATED (EUR 1,000)	31 Dec 2018 Leverage ratio exposure value	31 Dec 2017 Leverage ratio exposure value
Covered bonds	1,887,770	1,938,881
Exposures treated as sovereigns	14,234,064	13,830,222
Exposures to regional governments, multilateral development banks, international organisations and public sector entities	329,683	340,804
Institutions	2,525,096	2,795,792
Secured by mortgages of immovable properties	8,527,156	7,733,922
Corporate	5,129,701	5,086,565
Exposures in default	-	450
Other exposures	42,555	86,257
Total	**32,676,025**	**31,812,893**

Note 4. Parent company's capital adequacy position

Based on EU Capital requirements regulation and FIN-FSA regulations and guidelines 25/2013 unrealised gains on assets measured at fair value (fair value reserve) are included in Common Equity Tier 1 (transition period 1 January 2015–31 December 2017). Common Equity Tier 1 capital includes the profit for the financial year, as the result for the financial year has been subject to a review by the external auditor, and therefore can be included in CET1 capital on the basis of permission granted by the ECB in accordance with the Capital Requirements Regulation. Deductions due to prudential filters on CET1 capital consist of MuniFin's debt value adjustment (DVA) and other value adjustments. In addition, the amount of foreseeable dividend has been deducted from CET1 capital.

Change in own credit risk is not included in the own funds (CRR Article 33).

Additional Tier 1 capital contains MuniFin's AT1 capital loan EUR 350 million which was issued on October 1 2015. Main features of capital instruments are included in a separate Pillar III Disclosure report from this Report of Board of Directors and Financial Statements. Pillar III Disclosure Report is available in English on the company's website.

Table 1.
Own funds

OWN FUNDS (EUR 1,000)	31 Dec 2018	31 Dec 2017
Share capital	43,008	43,008
Reserve for invested non-restricted equity	40,743	40,743
Retained earnings	1,024,394	868,811
Fair value reserve	14,961	28,944
Other reserves	277	277
Foreseeable dividend	-6,250	-6,250
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**1,117,133**	**975,532**
Intangible assets	-14,904	-10,330
Deductions due to prudential filters on Common Equity Tier 1	-37,865	-20,544
Common Equity Tier 1 (CET1) capital	**1,064,363**	**944,658**
Instruments included in Additional Tier 1 capital	348,406	347,916
Additional Tier 1 (AT1) capital	**348,406**	**347,916**
Tier 1 (T1) capital	**1,412,770**	**1,292,574**
Tier 2 (T2) capital	**-**	**-**
Total own funds	**1,412,770**	**1,292,574**

Table 2.
Key figures for capital adequacy

KEY FIGURES FOR CAPITAL ADEQUACY	31 Dec 2018	31 Dec 2017
Common Equity Tier 1 (CET1) capital ratio, %	67.33	53.46
Tier 1 (T1) capital ratio, %	89.37	73.15
Total capital ratio, %	89.37	73.15

Table 3.
Minimum requirement for own funds

The capital requirement for credit risk is calculated using the standardised approach. When calculating the capital requirements for market risk, only foreign exchange risk is taken into account as the group does not have a trading book nor share or commodity positions. As foreign exchange risk is hedged by swapping all currency denominated funding and investments into euros, the company's foreign exchange position is very small. On 31 December 2018 the FX net position was EUR 2.0 million, which is less than 2% of total own funds. There was no capital requirement for market risk since the FX net position did not exceed 2 percent of the total own funds (CRR 575/2013 Art. 351). Guarantees granted by the Municipal Guarantee Board for certain derivative counterparties are not taken into account in credit valuation adjustment risk. The capital requirement for operational risk is calculated using the basic indicator approach.

MuniFin has updated capital ratios for the comparison year 2017. In the revised capital ratios MuniFin made a technical correction to the calculation of credit valuation adjustment risk and also guarantees by the Municipality Guarantee Board was not taken into consideration as means of risk mitigation technique when calculating the exposure value for the credit valuation adjustment risk. These changes increased the amount of credit valuation adjustment risk. MuniFin has refined the treatment of given cash collateral under derivatives netting agreement in counterparty credit risk (CCR) calculations, which has reduced the CCR exposure at default. There has been no market risk requirement for the comparison year 2017 as the FX risk did not exceed 2% of the total own funds.

	31 Dec 2018		31 Dec 2017	
(EUR 1,000)	**Capital requirement**	**Risk exposure amount**	**Capital requirement**	**Risk exposure amount**
Credit and counterparty risk, standardised approach	**78,249**	**978,115**	**88,629**	**1,107,858**
Exposures to central governments or central banks	0	0	302	3,780
Exposures to regional governments or local authorities	353	4,413	332	4,153
Exposures to public sector entities	4,807	60,086	4,742	59,271
Exposures to multilateral development banks	951	11,884	953	11,914
Exposures to institutions	52,466	655,825	62,283	778,542
Exposures in the form of covered bonds	18,986	237,323	19,063	238,284
Items representing securitisation positions	13	165	104	1,296
Exposures in the form of shares in CIUs	88	1,103	103	1,286
Equity exposure	131	1,639	-	-
Other items	454	5,676	747	9,333
Market risk	**-**	**-**	**-**	**-**
Credit valuation adjustment risk (CVA VaR), standardised method	**19,722**	**246,528**	**27,294**	**341,179**
Operational risk, basic indicator approach	**28,487**	**356,092**	**25,441**	**318,019**
Total	**126,459**	**1,580,735**	**141,364**	**1,767,056**

The capital requirement for counterparty risk is EUR 3,617 thousand (2016: EUR 3,158 thousand).

Table 4.
Exposure by class

31 DEC 2018 (EUR 1,000) EXPOSURE CLASSES	On-balance sheet exposure	Off-balance sheet exposure	Derivatives exposure	Total exposure	Risk exposure amount
Exposures to central governments or central banks	3,920,338	-	-	3,920,338	0
Exposures to regional governments or local authorities	10,077,540	1,161,635	163,192	11,402,367	4,413
Exposures to public sector entities	270,265	-	-	270,265	60,086
Exposures to multilateral development banks	222,280	-	-	222,280	11,884
Exposures to international organisations	73,324	-	-	73,324	-
Exposures to institutions	2,524,843	-	536,274	3,061,116	655,825
Exposures to corporates	5,129,701	292,570	-	5,422,271	-
Exposures secured by mortgages on immovable property	8,527,156	1,342,548	-	9,869,704	-
Exposures in default	0	-	-	0	-
Exposures in the form of covered bonds	1,887,770	-	-	1,887,770	237,323
Items representing securitisation positions	825	-	-	825	165
Exposures in the form of shares in CIUs	9,494	-	-	9,494	1,103
Equity exposures	656	-	-	656	1,639
Other items	16,658	-	-	16,658	5,676
Total	**32,660,851**	**2,796,753**	**699,466**	**36,157,070**	**978,115**

31 DEC 2017 (EUR 1,000) EXPOSURE CLASSES	On-balance sheet exposure	Off-balance sheet exposure	Derivatives exposure	Total exposure	Risk exposure amount
Exposures to central governments or central banks	4,004,347	-	-	4,004,347	3,780
Exposures to regional governments or local authorities	9,578,898	873,521	160,014	10,612,433	4,153
Exposures to public sector entities	281,233	-	-	281,233	59,271
Exposures to multilateral development banks	232,631	-	-	232,631	11,914
Exposures to international organisations	73,917	-	-	73,917	-
Exposures to institutions	2,890,512	-	521,880	3,412,392	778,542
Exposures to corporates	5,086,565	274,461	-	5,361,025	-
Exposures secured by mortgages on immovable property	7,733,922	1,122,364	-	8,856,287	-
Exposures in default	450	-	-	450	-
Exposures in the form of covered bonds	1,938,881	-	-	1,938,881	238,284
Items representing securitisation positions	6,478	-	-	6,478	1,296
Exposures in the form of shares in CIUs	9,635	-	-	9,635	1,286
Equity exposures	-	-	-	-	-
Other items	79,838	-	-	79,838	9,333
Total	**31,917,306**	**2,270,346**	**681,895**	**34,869,547**	**1,107,858**

Municipality Finance Financial Statements 1 January – 31 December 2018

CONTENT

Group Financial Statements

Consolidated Statement of Financial Position

(EUR 1,000)	Note	31 Dec 2018	31 Dec 2017
ASSETS			
Cash and balances with central banks	(8)	3,522,200	3,554,182
Loans and advances to credit institutions	(9)	1,380,544	1,251,391
Loans and advances to the public and public sector entities		22,968,118	21,650,847
Debt securities	(10)	5,862,591	6,494,234
Shares and participations	(11)	9,521	9,662
Derivative contracts	(7, 12)	1,538,610	1,433,318
Intangible assets	(15, 17)	14,850	10,196
Tangible assets	(16, 17)	2,427	2,594
Other assets	(18)	174,818	157,862
Accrued income and prepayments	(19)	203,061	173,853
TOTAL ASSETS	**(4 ,5, 6)**	**35,676,739**	**34,738,139**

(EUR 1,000)	Note	31 Dec 2018	31 Dec 2017
LIABILITIES AND EQUITY			
LIABILITIES			
Liabilities to credit institutions	(21)	822,504	802,277
Liabilities to the public and public sector entities		3,870,918	3,746,762
Debt securities issued	(22)	26,901,998	26,303,961
Derivative contracts	(7, 12)	2,205,427	2,216,034
Other liabilities	(23)	6,149	2,587
Accrued expenses and deferred income	(24)	148,377	124,574
Deferred tax liabilities	(20)	235,307	202,522
TOTAL LIABILITIES		**34,190,680**	**33,398,716**
EQUITY			
Share capital	(25)	42,583	42,583
Reserve fund	(25)	277	277
Fair value reserve of investments	(25)	726	28,944
Own credit revaluation reserve	(25)	4,726	-
Cost-of-hedging reserve	(25)	14,235	-
Reserve for invested non-restricted equity	(25)	40,366	40,366
Retained earnings	(25)	1,035,692	879,799
Total equity attributable to parent company equity holders		**1,138,605**	**991,969**
Other equity instruments issued		**347,454**	**347,454**
TOTAL EQUITY		**1,486,059**	**1,339,422**
TOTAL LIABILITIES AND EQUITY		**35,676,739**	**34,738,139**

Consolidated income statement

(EUR 1,000)	Note	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
Interest and similar income	(32)	711,731	191,360
Interest and similar expenses	(32)	-475,434	37,186
NET INTEREST INCOME		**236,297**	**228,546**
Commission income	(33)	2,395	3,245
Commission expenses	(34)	-4,180	-4,071
Net income from securities and foreign exchange transactions	(35)	-27,910	6,196
Net income from available-for-sale financial assets		-	494
Net income on financial assets at fair value through fair value reserve	(37)	38	-
Net income from hedge accounting	(38)	27,645	2,655
Other operating income	(40)	66	134
Administrative expenses	(41)	-27,225	-22,343
Depreciation and impairment on tangible and intangible assets	(17)	-2,333	-1,974
Other operating expenses	(42)	-15,368	-14,495
Credit losses on financial assets at amortised cost	(43)	467	-
Credit losses and impairments on other financial assets	(43)	96	-
NET OPERATING PROFIT		**189,989**	**198,386**
Income tax expenses	(44)	-38,032	-39,721
PROFIT FOR THE PERIOD		**151,958**	**158,665**

Statement of comprehensive income

(EUR 1,000)		1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
Profit for the financial year		151,958	158,665
Components of other comprehensive income			
Items to be reclassified to profit or loss in subsequent periods (IAS 39)			
Net change in fair value		-	11,644
Net amount transferred to profit or loss	(37)	-	137
Items not to be reclassified to profit or loss in subsequent periods (IFRS 9)			
Net fair value changes due to changes in own credit risk on financial liabilities designated at fair value through profit or loss	(36)	48,953	-
Net change in cost-of-hedging	(13)	27,693	-
Items to be reclassified to profit or loss in subsequent periods (IFRS 9)			
Net change in fair value on financial assets at fair value through fair value reserve	(37)	-5,093	-
Net amount transferred to profit or loss from fair value reserve	(37)	-162	-
Net changes in expected credit loss of debt instruments at fair value through other comprehensive income	(43)	-96	-
Taxes related to components of other comprehensive income		-14,259	-2,356
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR		**208,993**	**168,090**

Consolidated statement of cash flows

(EUR 1,000)	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
CASH FLOW FROM OPERATING ACTIVITIES	**39,300**	**2,587,445**
Net change in long-term funding	1,463,125	1,598,929
Net change in short-term funding	-838,441	2,776,446
Net change in long-term loans	-1,310,278	-566,163
Net change in short-term loans	20,395	223,584
Net change in investments	529,922	678,585
Net change in collaterals	-25,340	-2,361,837
Interest on assets	89,571	98,337
Interest on liabilities	146,307	160,533
Other income	50,762	39,193
Payments of operating expenses	-71,359	-59,436
Taxes paid	-15,363	-725
CASH FLOW FROM INVESTING ACTIVITIES	**-6,827**	**-5,442**
Acquisition of tangible assets	-538	-745
Acquisition of intangible assets	-6,289	-4,697
CASH FLOW FROM FINANCING ACTIVITIES	**-22,000**	**-15,750**
Interest on AT1 capital loan and subordinated liabilities and other profit distribution	-22,000	-15,750
CHANGE IN CASH AND CASH EQUIVALENTS	**10,473**	**2,566,253**
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**3,562,733**	**996,480**
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**3,573,206**	**3,562,733**

Cash and cash equivalents include the following balance sheet items:
Cash and balances with central banks and loans and advances to credit institutions payable on demand.

(EUR 1,000)	31 Dec 2018	31 Dec 2017
Cash and balances with central banks	3,522,200	3,554,182
Loans and advances to credit institutions	51,006	8,551
TOTAL CASH AND CASH EQUIVALENTS	**3,573,206**	**3,562,733**

Consolidated statement of changes in equity

	Total equity attributable to parent company equity holders										
(EUR 1,000)	**Share capital**	**Reserve fund**	**Fair value reserve of investments**	**Own credit revaluation reserve**	**Cost-of-hedging reserve**	**Reserve for invested non-restricted equity**	**Retained earnings**	**Total**	**Non-controlling interest**	**Other equity instruments issued**	**Total equity**
EQUITY AT 31 DECEMBER 2016	**42,583**	**277**	**19,519**	**-**	**-**	**40,366**	**734,107**	**836,852**	**127**	**347,454**	**1,184,433**
Interest paid on Additional Tier 1 capital loan	-	-	-	-	-	-	-12,600	**-12,600**	-	-	-12,600
Dividends paid for 2016	-	-	-	-	-	-	-	**-**	-	-	-
Acquisition of subsidiary shares	-	-	-	-	-	-	-373	**-373**	-127	-	-500
Profit for the period	-	-	-	-	-	-	158,665	**158,665**	-	-	158,665
Components of other comprehensive income net of tax											
Items to be reclassified to profit or loss in subsequent periods											
Available-for-sale financial assets (fair value reserve):											
Net change in fair value	-	-	9,315	-	-	-	-	**9,315**	-	-	9,315
Net amount transferred to profit or loss	-	-	110	-	-	-	-	**110**	-	-	110
EQUITY AT 31 DECEMBER 2017	**42,583**	**277**	**28,944**	**-**	**-**	**40,366**	**879,799**	**991,969**	**-**	**347,454**	**1,339,422**
Impact of adopting IFRS 9	-	-	-23,936	-34,437	-7,919	-	22,830	**-43,462**	-	-	-43,462

EQUITY AT 1 JANUARY 2018 UNDER IFRS 9	**42,583**	**277**	**5,008**	**-34,437**	**-7,919**	**40,366**	**902,628**	**948,507**	**-**	**347,454**	**1,295,960**
Interest paid on Additional Tier 1 capital loan	-	-	-	-	-	-	-12,600	**-12,600**	-	-	-12,600
Dividends paid for 2017	-	-	-	-	-	-	-6,250	**-6,250**	-	-	-6,250
Acquisition of subsidiary shares	-	-	-	-	-	-	-44	**-44**	-	-	-44
Profit for the period	-	-	-	-	-	-	151,958	**151,958**	-	-	151,958
Components of other comprehensive income net of tax											
Items not to be reclassified to profit or loss in subsequent periods											
Net fair value changes due to own credit risk on financial liabilities designated at fair value	-	-	-	39,163	-	-	-	**39,163**	-	-	39,163
Net change in cost-of-hedging	-	-	-	-	22,154	-	-	**22,154**	-	-	22,154
Items to be reclassified to profit or loss in subsequent periods											
Net change in fair value of financial assets at fair value through other comprehensive income	-	-	-4,075	-	-	-	-	**-4,075**	-	-	-4,075
Net amount reclassified to the income statement on the sales of financial assets at fair value through other comprehensive income	-	-	-130	-	-	-	-	**-130**	-	-	-130
Net changes in expected credit losses of financial assets at fair value through profit or loss through other comprehensive income	-	-	-77	-	-	-	-	**-77**	-	-	-77
EQUITY AT 31 DECEMBER 2018	**42,583**	**277**	**726**	**4,726**	**14,235**	**40,366**	**1,035,692**	**1,138,605**	**-**	**347,454**	**1,486,059**

Notes to the consolidated financial statements

Notes to the statement of financial position and other notes

Notes to the income statement

Notes to the consolidated financial statements

Note 1. Summary of significant accounting policies

General information on the Group

Municipality Finance Group consists of Municipality Finance Plc (referred to as MuniFin or the company) and Financial Advisory Services Inspira Ltd (Inspira or the subsidiary). The Group's parent company is a Finnish public limited liability company established under Finnish legislation and domiciled in Helsinki. Its registered address is Jaakonkatu 3 A, 00100 Helsinki. The subsidiary's domicile is Helsinki and registered address Jaakonkatu 3 A, 00100 Helsinki. A copy of the consolidated financial statements is available online at www.munifin.fi or from the Group's parent company at Jaakonkatu 3 A, 00100 Helsinki.

The Board of Directors of MuniFin has approved these financial statements for disclosure at its meeting on 13 February 2019. According to the Finnish Limited Liability Companies Act, shareholders may accept or reject the financial statements at the Annual General Meeting held after the publication. The Annual General Meeting may also decide to alter the financial statements.

Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and in compliance with IAS and IFRS and the SIC and IFRIC interpretations in force on 31 December 2018. International Financial Reporting Standards refer to the standards and their interpretations approved for application in the EU in accordance with the procedure stipulated in EU Regulation (EC) No. 1606/2002 and embodied in the Finnish Accounting Act and the decrees enacted under it. In addition, the notes to the consolidated financial statements comply with the requirements of the Finnish accounting and corporate legislation complementing the IFRS requirements.

MuniFin has applied IFRS 9 and the amended IFRS 7 from the beginning of financial year 2018 onwards. IFRS 9 replaced IAS 39 for annual periods starting on or after 1 January 2018. Information on the impact of initial of application of IFRS 9 is presented in Note 3. The comparative period was not restated upon adoption of IFRS 9 requirements. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings as of 1 January 2018 and are disclosed in Note 3, table 4. The impact of the other new IFRS standards effective on 1 January 2018 or standards to be adopted in financial year 2019 or later, has been presented at the end of this note.

Capital adequacy information in compliance with Part Eight of the EU Capital Requirements Regulation (EU No. 575/2013) is presented in a Pillar III report which is a separate report from the report of the Board of Directors and the financial statements.

The consolidated financial statements have been prepared under historical cost convention, except for financial assets and liabilities measured at fair value and hedged items in fair value hedge accounting for the risk hedged.

The Group's functional currency is the euro and the notes of 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.

In preparing the financial statements under IFRS, the Group management is required to make certain estimates and use judgement in the application of the accounting policies. The section Accounting policies requiring management judgement and key uncertainty factors related to estimates under Summary of significant accounting policies provides information on the items in which the figures presented may be most affected by management judgement or uncertainty factors.

Basis of consolidation

The consolidated financial statements contain the financial statements of MuniFin, the parent company, and Financial Advisory Services Inspira Ltd, a subsidiary directly owned by it. Inter-company share ownership has been eliminated by using the acquisition method. Intra-group business transactions as well as internal receivables and liabilities have been eliminated. The allocation of the profit for the financial year to the parent company and non-controlling interest is presented in the income statement for 2017. Non-controlling interest is presented in the statement of financial position as a separate item under Equity. In February 2018 MuniFin redeemed all shares held by minority shareholders of its subsidiary, Inspira. After the redemption, MuniFin has owned 100% of Inspira. The redemption was related to the shareholders' agreement, which expired in 2017, and MuniFin accounted for these changes in the financial statements of 2017.

Segment reporting

The group's line of business is credit institution operations and providing financial services. The Group operates in a single segment, which also forms the basis of reporting to the Group's chief operating decision-maker. Group-level information pursuant to IFRS 8 with respect to information on products and services are presented in Note 32. *Interest income and expense* and 33. *Commission income*. The Group has not broken down income or assets based on geographical areas due to operating in Finland only. The company regularly monitors the development of the lending portfolio by customer and the proportion of interest paid by each customer of the total interest income. The largest cities measured by population and non-profit companies focused on rental housing development are the largest borrowers. One customer group accumulates over 10% of company's total interest income.

Translation of foreign currency denominated items

Transactions denominated in a foreign currency have been recorded in euro, the Group's functional currency, using the exchange rates of the transaction dates. On the balance sheet date, monetary receivables and liabilities denominated in a foreign currency have been translated into euros using the European Central Bank's average exchange rate of that date and the resulting translation differences are recorded through profit or loss under Net income from foreign exchange transactions. The fair value changes of financial assets denominated in a foreign currency and measured at fair value through other comprehensive income are divided into translation differences arising from changes to the amortised cost of the asset and other changes in carrying amount. Translation differences related to changes in amortised cost are recorded through profit or loss, while other changes in carrying amount are recognised in Other comprehensive income.

Classification of financial instruments and measurement principles

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at fair value taking into account transaction costs which were incurred, unless the financial asset or liability is recorded at fair value through profit or loss. Trade receivables are measured at the transaction price.

CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS

On initial recognition, a financial asset is classified as measured at: amortised cost (AC), fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL). Certain financial assets, that otherwise meet the requirements to be measured at amortised cost or at fair value through other comprehensive income, can be irrevocably designated to be measured at fair value through profit or loss by applying fair value option (FVO). The classification of financial assets is dependent on the business model applied to managing the financial assets and the characteristics of their contractual cash flows. Financial assets are reclassified only when the business model for managing financial assets is changed.

Business model assessment

The company has determined its business models at the level that best reflects how it manages groups of financial assets to achieve its business objective. Business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregation and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- The risks that affect the performance of the business model and the financial assets held within that business model and, in particular, the way those risks are managed
- How managers of the business are compensated, for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected
- The expected frequency, value and timing of sales

The business model assessment is based on reasonably expected scenarios without taking "worst case" or "stress case" scenarios into account. If cash flows after initial recognition are realised in a way that is different from original expectations, the company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

MuniFin has identified two different business models for managing financial assets: the first business model is based on holding financial assets and collecting contractual cash flows. The other business model is based on collecting contractual cash flows and selling financial assets.

The company's lending is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows. In addition, financial assets such as bank account balances, bank deposits, CSA collateral receivables and reverse repurchase agreements are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows.

Liquidity investments are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. Thus based on the business model the financial assets are to be measured at fair value through other comprehensive income (FVOCI) under IFRS 9.

The impact of the business models on the classification of financial assets on transition is presented in Note 3 in detail.

The solely payment of principal and interest (SPPI) test
As a second step of its classification process the company assesses the contractual terms of financial assets to identify whether they meet the SPPI test. In the SPPI test, the contractual cash flows of the financial asset are assessed. In order to pass the SPPI test, the cash flows need to consist solely of payments of principal and interest.

"Principal" for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset for example, if there are repayments of principal or amortisation of the premium or discount.

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the company applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

Financial assets are required to be measured at fair value through profit or loss, if they contain contractual terms that are unrelated to a basic lending agreement and give rise to cash flows that are not solely payments of principal and interest on the amount outstanding. These contractual terms are required to introduce a more than de minimis exposure to risks or volatility in the contractual cash flows, in order for the financial asset to fail the SPPI test.

As a result of the requirements in the SPPI test, embedded derivatives in financial assets would be classified at fair value through profit or loss. IFRS 9 does not allow for the separation of embedded derivatives from financial asset host contracts.

Amortised cost
A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated at fair value through profit or loss:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets in this category are initially recognised at fair value adjusted by directly attributable transaction costs. Subsequently, these assets are measured at amortised cost using the effective interest method. The measurement of impairment is based on the expected credit loss model described in section Impairment of Financial assets. Interest received on financial assets at amortised cost is recognised through profit or loss under Interest and similar income. The allowance for expected credit losses is recognised through profit or loss under Credit loss on financial assets at amortised cost.

Based on the business model assessment required by IFRS 9, financial assets that are measured at amortised cost include the lending portfolio consisting of short-term and long-term lending, money market deposits, reverse repurchase agreements, bank account balances and CSA collateral receivables. Not all aforementioned assets can be measured at amortised cost as required by the business model as certain lending agreements fail the test of solely payments of principal and interest. These lending agreements are valued at fair value through profit or loss.

As a rule, the company hedges fixed rate lending and lending at long-term reference rates and applies fair value hedge accounting to these. Lending that is designated as hedged item in a hedging relationship, is measured at fair value for the risk hedged.

Fair value through other comprehensive income
A financial asset, that is a debt instrument, is measured at fair value through other comprehensive income if it meets both of the following conditions and is not designated to be measured at fair value through profit or loss:

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets in this category are initially recognised at fair value adjusted by directly attributable transaction costs. Subsequent changes in fair value are recognised in Other comprehensive income and are presented in the Fair value reserve adjusted by deferred tax. The measurement of impairment is based on the expected credit loss model described in section Impairment of Financial assets. Foreign exchange gains and losses on debt securities denominated in foreign currencies are recognized through profit or loss under Net income from securities and foreign exchange transactions. Interest received on debt securities is recognised through profit or loss under Interest and similar income.

Allowance for expected credit losses is recognised through profit or loss under Credit loss and impairments on other financial assets. Upon disposal, the cumulative gain or loss previously recognised in Other comprehensive income is reclassified from the fair value reserve in equity to profit or loss and presented under Net income on financial assets at fair value through fair value reserve.

On initial recognition of an equity investment that is not held for trading, the company may irrevocably elect to present subsequent changes in fair value in Other comprehensive income. When this election is made, amounts presented in other comprehensive income are not subsequently transferred to profit or loss. Dividends on such investments are recognised in profit or loss unless the dividend clearly represents a partial recovery of the initial investment. This election is made on an investment-by-investment basis. As of 1 January 2018 the company has measured all of its investments in equity instruments at fair value through profit or loss.

Based on the business model assessment required by IFRS 9, investments of the liquidity portfolio are to be measured at fair value through Other comprehensive income. The majority of the liquidity portfolio consists of fixed and floating rate debt securities and investments in commercial paper. These investments pass the SPPI test. In addition to the aforementioned financial assets, the liquidity portfolio contains an investment fund and investments in asset backed securities. These financial assets fail the test of solely payments of principal and interest and as a result are measured at fair value through profit or loss.

Fair value through profit or loss
A financial asset is classified as subsequently measured at fair value through profit or loss unless it is classified as subsequently measured at amortised cost or at fair value through other comprehensive income. This category comprises of the following assets:

- derivative assets
- debt instruments with contractual terms that do not represent solely payments of principal and interest on the principal amount outstanding
- investments in equity instruments
- financial assets designated at fair value through profit or loss on initial recognition.

Financial assets in this category are initially recognised at fair value, with transaction costs recognised in the income statement as incurred. Subsequently, these assets are measured at fair value through profit or loss. Fair value changes are reported in the income statement under Net income from securities and foreign exchange transactions. Interest received on financial assets at fair value through profit or loss is recognised through profit or loss under Interest and similar income.

Designated at fair value through profit or loss
On initial recognition, the company can designate certain financial assets as measured at fair value through profit or loss (fair value option). This irrevocable designation is made if doing so eliminates or significantly reduces measurement or recognition inconsistencies (i.e. eliminates an accounting mismatch) which would otherwise arise from measuring financial assets on different bases. Financial assets that MuniFin has designated to be measured at fair value through profit or loss include debt securities of the liquidity portfolio of which the interest rate risk is hedged with interest rate and cross currency interest rate swaps.

CLASSIFICATION AND MEASUREMENT OF FINANCIAL LIABILITIES
On initial recognition, a financial liability is classified as measured at amortised cost (AC) or at fair value through profit or loss (FVTPL). Certain financial liabilities, that otherwise meet the requirements to be measured at amortised cost, can be irrevocably designated to be measured at fair value through profit or loss by applying fair value option (FVO). Financial liabilities are not reclassified after initial recognition.

Amortised cost
Financial liabilities are measured at amortised cost, except for

- derivative liabilities; and
- liabilities that are designated to be measured at fair value through profit or loss.

Financial liabilities in this category are initially recognised at fair value adjusted by directly attributable transaction costs. Subsequently, these liabilities are measured at amortised cost using the effective interest method. Interest paid on liabilities is recognised through profit or loss under Interest and similar expense.

Financial liabilities that are measured at amortised cost include liabilities to credit institutions, liabilities to the public and public sector entities and debt securities issued. MuniFin applies fair value hedge accounting according to IFRS 9 to financial liabilities at amortised cost which have been hedged. Hedging accounting principles are described in section Hedge accounting of this note. Note 13 *Hedge accounting* describes how hedge accounting has been implemented in MuniFin.

Fair value through profit or loss
A financial liability is classified as subsequently measured at fair value through profit or loss, unless it is classified as subsequently measured at amortised cost. This category includes derivative contracts and liabilities that are designated to be measured at fair value through profit or loss upon initial recognition.

Financial liabilities in this category are initially recognised at fair value. Subsequent changes in fair value are reported in the income statement under Net income from securities and foreign exchange transactions. Interest paid on liabilities is recognised through profit or loss under Interest and similar expense.

Designated at fair value through profit or loss
On initial recognition, MuniFin can designate certain financial liabilities as measured at fair value through profit or loss. This designation is made:

- If it eliminates or significantly reduces an accounting mismatch; or
- If financial liabilities are both managed and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

MuniFin has designated short-term debt instruments denominated in foreign currencies, which have been hedged with FX swaps at fair value through profit or loss. The designation reduces accounting mismatch which would otherwise arise between the measurement of the derivative and financial liability. In the transition to IFRS 9, the company also designated certain financial liabilities at fair value through profit or loss. The financial liabilities designated at fair value through profit or loss in the transition consist of financial liabilities, which have been hedged according to the company's risk management policy, but which cannot be included in fair value hedge accounting according to IFRS 9. As a result of the designation all financial liabilities containing embedded derivatives requiring separation are measured at fair value through profit or loss.

An embedded derivative is part of a hybrid financial instrument, which contains a non-derivative host and an embedded derivative which causes the contractual cash flows to be modified in similar way to that of stand-alone derivative cash flows. If the economic characteristics and risks of an embedded derivative are not closely related to the characteristics and risks of the host contract, is the embedded derivative required to be separated. The separated embedded derivative is measured at fair value through profit or loss. If a financial liability is measured at fair value through profit or loss in its entirety, the separation of the embedded derivative is not required. The fair value changes of the hybrid instrument are measured at fair value through profit or loss due to the fair valuation of the entire financial liability. Debt securities issued by MuniFin can contain interest or redemption terms with the economic characteristics and risks that are not closely related to the host contract. For example interest or redemption terms which are based on foreign exchange rates or equity indices would be considered embedded derivatives requiring separation if these were contained in a host contract measured at amortised cost. MuniFin does not have embedded derivatives in financial liabilities at amortised cost. MuniFin hedges all structured interest and redemption terms in its issued debt securities with offsetting derivatives. Unhedged debt securities cannot contain embedded derivatives requiring separation.

The fair value changes of financial liabilities designated at fair value through profit or loss are shown in the income statement under Net income from securities and foreign exchange transactions, except for fair value changes attributable to changes in MuniFin's own credit risk. The fair value changes of the derivative hedging the financial liability are shown in the same income statement line item. When a financial liability is designated at fair value through profit or loss, the fair value changes due to changes of MuniFin's credit risk are presented separately in other comprehensive income as changes of the Own credit revaluation reserve.

MuniFin applies the income approach of IFRS 13 to the separation of fair value changes related to changes in own credit risk from the fair value changes of the financial liability. For the majority of financial liabilities at fair value, no market price is available as there is no active secondary market. The methodology for separation of own credit risk, utilises MuniFin's benchmark curves, cross currency basis spreads and credit spreads of MuniFin's issued debt securities as input. Based on the aforementioned inputs, valuation curves can be constructed for various reporting periods for valuing financial liabilities designated at fair value through profit or loss. By comparing fair values calculated using the trade date and reporting period curves, the impact of the change in own credit risk on the fair value of the financial liability can be determined.

Recognition and derecognition of financial assets and liabilities

Financial assets are recognised on the balance sheet on the settlement day. Financial liabilities are recognised when the consideration is received. Derivatives are recognised on the trade date.

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.

Derecognition due to substantial modification of terms and conditions

The company derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan. The newly recognised loans are classified as Stage 1 for the purposes of measurement of expected credit loss, unless the modified loan is deemed to be a credit-impaired financial asset. If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition.

Impairment of financial assets

The IFRS 9 requirements for impairment are based on a three-stage approach to measure expected credit losses (ECLs). Financial assets measured at amortised cost or fair value through other comprehensive income are in scope for recognising impairment under the IFRS 9 standard. Also finance lease receivables and off-balance sheet binding loan commitments are in scope for recognising impairment due to their credit risk. For further information on the classification of financial assets, see section Classification of financial instruments and measurement principles above.

Impairment of financial assets is calculated based on the credit loss expected to arise over a 12 month period, unless there has been a significant increase in credit risk since origination, in which case, the allowance is calculated based on the expected credit losses over the life of the asset. Both lifetime and 12 months expected credit losses (ECLs) are calculated on an individual basis.

Measurement of ECLs
The assets in the scope of the expected credit loss impairment model are classified into three categories. Stage 1 includes assets with no significant increase in credit risk. Stage 2 includes assets with significantly increased credit risk, and stage 3 includes assets that fulfill the definition of default. Default is defined as a situation where the obligor is more than 90 days-past-due or the obligor is considered unlikely to pay its credit obligations. The definition of default is in line with the company's capital adequacy calculations and risk management. The provision for stage 1 is equivalent to the credit loss expected for 12 months. For stages 2 and 3, the provision is equivalent to the expected credit losses for the entire lifetime. The company calculates ECLs based on three probability-weighted scenarios to measure the expected cash shortfalls. The net present value of the contractual cash flows of the exposure are compared to the sum of the net present value of expected future cash flows. If the contractual cash flows are higher than expected future cash flows, the difference is recognised as an expected credit loss. The expected future cash flows are discounted with the effective interest rate (EIR). The fair value of collateral and received guarantees are taken into account when calculating expected future cash flows.

The principles of the ECL calculations are outlined below and the key elements are, as follows:

PD The probability of default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the exposure has not been previously derecognised and is still in the portfolio.

EAD The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including prepayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

LGD The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including cash flows from the realisation of any collateral.

When estimating the ECLs, the company considers three scenarios. Each of these are associated with different PDs, EADs and LGDs. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset. The maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the company has the legal right to call it earlier.

Impairment losses and their reversals are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value.

The accounting principles of ECL are summarised below:

- Stage 1: If there has been no significant increase in credit risk since initial recognition, the provision for exposures are based on the 12 month expected loss. The 12 month ECL is calculated as the portion of the lifetime ECL that represents the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The company calculates the 12 month ECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12 month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an EIR.

- Stage 2: When the exposure has shown a significant increase in credit risk since origination but is not credit impaired, the company records a provision for the lifetime expected credit losses. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by their EIR.

- Stage 3: For assets considered credit-impaired, the company recognises the lifetime expected credit losses. The method is similar to that for Stage 2 assets, with the PD set at 100%. For these exposures interest revenue is calculated by applying the EIR to the amortised cost (net of provision).

- Purchased or originated credit impaired assets (POCI) are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or reversed to the extent that there is a subsequent change in the expected credit losses.

- Loan commitments: When estimating ECLs for undrawn loan commitments, the company estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then calculated based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on probability-weighting of the three scenarios. The expected cash shortfalls are discounted at an approximation to the expected EIR of the loan.

At each reporting date, the company assesses whether there has been a significant increase in credit risk for exposures since initial recognition on an individual basis by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The company considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. If one of the following factors indicate that credit risk has increased significantly, the instrument is transferred from stage 1 to stage 2:

- Thresholds for significant increases in credit risk based on both the percentage and absolute change in probability of default relative to initial recognition.
- Additional qualitative factors, such as forbearance on a financial asset.
- Financial assets which repayments are more than 30 days past due.

Movements between Stage 2 and Stage 3 are based on whether a financial assets is credit impaired due to the change in credit risk. A financial assets is impaired if there is objective evidence of impairment. An exposure will migrate through the ECL stages as asset quality deteriorates. If, in a subsequent period, asset quality improves and also reverses any previously assessed significant increase in credit risk since origination after a probation period and after fulfilment of certain criteria, then the calculation basis for ECL reverts from lifetime ECL to 12-months ECL.

In the measurement of expected credit losses, past events and forward looking information is used. Utilising forward looking information in the expected credit loss model requires judgement. In addition to the aforementioned factors also meaningful macroeconomic variables are included in the model. Their forecasts are included in the macroeconomic scenarios.

Forborne and modified loans
The company sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than enforcing the collection of collateral. Not all modifications are due to the weakening of the client's ability to pay, a part of the modifications of payment plans are done based on the management of the client relationship. These modifications do not affect the recognition of impairment.

The company considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the company would not have agreed to them if the borrower had been financially healthy. Forbearance may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modifications of terms. It is the company's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur. Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forborne asset until it is collected or written off.

Once an asset has been classified as forborne, it will remain forborne for a minimum 24-month probation period. In order for the asset to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

- All of its loan facilities have to be considered performing.
- The probation period of two years has passed from the date the forborne contract was considered performing.
- Regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period.
- The customer does not have any contract that is more than 30 days past due.

Forborne loans and payment delays are regularly reported to management as an indicator of anticipated client payment ability/solvency.

Presentation of allowance for ECL in the statement of financial position
Loss allowances for ECL are recognised in profit or loss with a corresponding charge to statement of financial position as follows:

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets.
- Debt instruments measured at FVOCI: no loss allowance is recognised as a deduction from the gross carrying amount of the assets in the statement of financial position because the carrying amount of these assets is at fair value. However, the loss allowance is recognised in the fair value reserve. The accumulated loss recognised in OCI is recycled to the profit or loss upon derecognition of the assets.
- Finance lease receivables: as a deduction from the gross carrying amount of the assets.
- Binding loan commitments: recognized as a provision in other liabilities.

Write-off
Financial assets are written off, either partially or in full, when the company has no reasonable expectations of recovering the financial asset. This is generally the case when the company determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

Financial assets that are written off could still be subject to enforcement activities in order to comply with MuniFin's procedures for recovery of amounts due. Subsequent recoveries of amounts previously written off reduce the amount of the expense in the income statement.

Hedge accounting

The interest rate and foreign exchange rate risk of the company are managed by entering into derivative transactions. According to the Market Risk Policy the company's hedging strategy is to hedge all material foreign exchange and interest risks of financial assets and liabilities with maturities exceeding one year. As a result, foreign currency denominated items are translated into euros, fixed rate and long-term reference rates are swapped to floating interest rates with shorter terms.

Fair value hedge accounting is applied to financial assets and liabilities denominated in euros, where the plain-vanilla interest rate of the hedged item has been swapped to a floating rate using derivatives. In addition fair value hedge accounting is applied to foreign currency denominated financial liabilities with fixed interest rates, which have been hedged by exchanging the principal into euros and the interest rate into a floating rate. The hedging relationships within hedge accounting are documented and they comply with the company's risk management objectives and strategy. MuniFin does not apply cash flow hedge accounting.

MuniFin applies both hedge accounting according to IFRS 9 and portfolio hedge accounting according to IAS 39. Fair value hedge accounting according to IFRS 9 is applied to fixed rate funding and zero coupon funding denominated in euros. The hedged item for euro denominated funding is interest rate risk. IFRS 9 fair value hedge accounting is also applied to fixed rate funding and zero coupon funding denominated in foreign currencies. For all foreign currency hedge relationships the company has elected to utilise cost-of-hedging. For each hedge relationship, when the cross currency swap is designated as a hedging instrument, the cross currency basis spread is separated and excluded from the designation and accounted for as "cost-of-hedging". The difference between the changes in fair value of the actual derivative and the designated portion of the derivative are recorded in other comprehensive income as cost-of-hedging to the cost of hedging reserve. Thus, changes in cross currency basis spreads will impact other comprehensive income and not create ineffectiveness in the hedge relationship.

For financial liabilities the hedged item is at amortised cost, excluding the portion of hedged interest risk, which is subject to fair value hedge accounting. The credit risk of MuniFin is not included in the hedging relationship. For each financial liability in fair value hedge accounting, MuniFin determines the credit spread of each trade at inception. The credit spread corresponds to the margin, which is need to be added to the discount curve in order for the fair value at inception to match the issue price. The credit spread is held constant throughout the hedge relationship and based on its present value, the fair value of the financial liability with respect to the hedged risk can be calculated. The change in the value of the hedged risk is recognised as an adjustment to the carrying amount of the hedged item through profit or loss under item Net income from hedge accounting. Ineffectiveness between the hedged item and the designated portion of the hedge are recorded in the income statement. Separating the credit risk from the fair value is a requirement for applying hedge accounting only on interest rate and foreign exchange risks. MuniFin uses interest rate swaps and cross currency interest rate swaps as hedging instruments.

In addition, fair value hedge accounting according to IFRS 9 is applied to structured lending, which passes the SPPI test and which has been hedged 1:1 with interest rate swaps. The customer marginal of the lending agreement is not part of the hedge relationship. Both funding and structured lending are hedged with hedging instruments with terms that match the hedged item. The hedge ratio between the hedged item and hedging instrument is 1:1. As a result, it is expected that the fair value changes of the derivative offset the fair value changes of the hedged item related to the hedged risk. Prospective effectiveness testing has been performed by verifying that the critical terms match. Retrospective effectiveness testing is performed using dollar offset by reviewing to which extent the fair value changes of the hedging instrument and hedged item offset each other. Ineffectiveness is introduced into the hedge relationship due to the differences in the interest rate curves used in valuing the hedged item and hedging instrument. In addition ineffectiveness could be created if the critical terms would differ or if the credit risk of the derivative would increase. MuniFn has CSA collateral agreements with its derivative counterparties to mitigate the counterparty credit risk related to derivatives. The effectiveness of all hedge relationships is verified at inception of the hedge relationship and regularly after that, at least on quarterly basis.

Fair value hedge accounting according to IFRS 9 is also applied to lease agreements at fixed rates. The interest risk of lease agreements is hedged with interest rate derivatives. Due to the size of the agreements, several lease agreements are hedged with one interest rate derivative. The terms of the derivative match the combined terms of the hedged agreements. The customer marginal of the lease agreement is not part of the hedge relationship. The principles of fair value hedge accounting applied to lease agreements resemble those presented above to a large extent. Due to the way the agreements are hedged, the prospective effectiveness testing is performed using sensitivity analysis. In the analysis the fair value change of the hedged item and hedging instrument is simulated by shifting the interest rate curves.

For financial assets, the company applies fair value hedge accounting in accordance with IAS 39 portfolio hedge accounting to lending at fixed rates and long-term reference rates. The hedged risk is interest rate risk. The customer marginal of the lending agreement is not part of the hedge relationship. Lending is hedged as a portfolio, as such the hedged item consists of several lending agreements. The lending agreements are grouped and hedged by pricing and re-fixing dates. The interest rates and payments dates of the interest rate derivatives hedging the lending agreements contained in the portfolio are defined so that the notionals and cash flows match the terms of the lending agreements of the hedged item. Therefore, the fair value changes of the hedging instrument is assumed to offset that of the lending agreements. The effectiveness of the hedge relationship is expected to remain within the range of 80% and 125% and the hedging instruments to be effective throughout the hedged period, until maturity. As the portfolio consists of several hedges and lending agreements, prospective effectiveness testing is performed for new each group of hedged items and for the entire portfolio at the inception of each new hedge. Prospective effectiveness testing is performed as a sensitivity analysis and by reviewing the notionals of the hedges and hedged items by maturity bucket. After the transition to utilizing the OIS curve for valuing derivatives at the beginning of 2018, MuniFin has performed retrospective effectiveness testing using regression analysis on fair value changes.

The hedged items, lease agreements and lending, are measured at amortised cost excluding the portion of hedged interest risk, which is subject to fair value hedge accounting. The change in the value of the hedged risk is recognised as an adjustment to the carrying amount of the hedged item through profit or loss under item Net income from hedge accounting.

The carrying amounts of assets and liabilities in hedge accounting are presented in Note 4, as part of the Financial assets and liabilities note. The fair values of derivatives included in hedge accounting are presented in Note 12. The notionals of hedged items, the fair value of the hedged items, the impact of hedge accounting on profit or loss and on equity is shown in Note 13. The impact of hedge accounting on profit or loss is also shown in Note 38 *Net income from hedge accounting*.

The change in fair value due to foreign exchange differences of derivatives in hedge accounting and the hedged items are recognised in the income statement under Net income from securities and foreign exchange transactions. Other changes in fair value of the hedged items and derivatives hedging them are recognized in the income statement under Net income from hedge accounting. The ineffective portion of the hedging relationship is also shown on this line in the income statement. The interest received and paid on derivative contracts is recognised as an adjustment to Interest and similar expenses of hedged liabilities or as an adjustment to interest and similar income of hedged assets.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported on the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. Offsetting financial instruments is presented in Note 7.

Cash and cash equivalents

Cash and cash equivalents contains cash and loans and advances to credit institutions payable on demand. Deposits and investments with maturities less than three months on the date of the acquisition can also be included in cash and cash equivalents.

Determination of fair value

The fair values of financial instruments are determined on the basis of either price quotations obtained from functioning markets or, if such markets do not exist, by applying valuation 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 independent parties.

The market values of debt security investments 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 valuation techniques. The fair values of other financial assets, liabilities and derivative contracts are calculated based on publicly-quoted interest and exchange rates and valuation methods widely recognised on the market. Fair value levels and valuation methods are described in Note 5.

Leases

Leases are classified as finance leases and operating leases depending on whether the significant risks and benefits of ownership are transferred to the lessee.

Lease agreements, where MuniFin is the lessor, have been classified as finance leases. The lease agreements are recognised on the balance sheet as a receivable at an amount corresponding to the net investment in the lease. The proceeds from the leases are divided into repayments and interest income. Interest income is recognised over the term of the lease in a way that the remaining net investment yields the same rate of return over the period of the lease. Finance leases are presented in the Loans and advances to the public and public sector entities. Interest received is presented in the income statement under Interest income and similar income.

Leases, for which MuniFin is the lessee are classified as operating leases. Operating leases are primarily related to office premises. Lease payments from the operating leases are recognised as an expense in the income statement in equal instalments over the of the lease term.

Intangible and tangible assets

Intangible and tangible assets are recognised in the balance sheet at historical cost, net of accumulated depreciation and impairment. Assets are depreciated on a straight-line basis over their estimated useful lives. The estimated useful lives are:

Software and licences	4-10 years
Office renovation costs	during the lease term
Buildings	25 years
Machinery and equipment	5 years
IT equipment	4 years

The assets' residual values and useful lives are reviewed at the end of each financial year and, if necessary, adjusted to reflect the changes in the expected economic benefit.

The costs or development activities have been recognised as part of software to the extent they comply with the recognition requirements of development costs.

Impairment of intangible and tangible fixed assets

The company assesses at each financial statement 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 carrying amount of an asset item is greater than the recoverable amount, an impairment loss is recognised in the income statement.

Provisions and contingent liabilities

A provision is recognised for an obligation resulting from a past event and it is probable that the obligation will be realised, yet the timing and the exact amount are uncertain. The obligation needs to be based on either an actual or legal obligation towards a third party. A contingent liability is a potential obligation based on past events. The existence of the obligation will not be confirmed until the uncertain future event outside the control of the Group occurs. Contingent liabilities can also be such obligations, that do not require an outflow to settle or of which the amount cannot be reliably estimated.

Equity

Equity consists of share capital, retained earnings and reserves of equity (reserve fund, fair value reserve, own credit risk reserve, cost-of-hedging reserve and reserve for invested non-restricted equity). Other instruments issued by the company can be classified into equity based on their nature. Perpetual instruments with interest payments which are at the discretion of the issuer are classified as equity in the consolidated financial statements.

The EUR 350 million AT1 capital loan issued by the company is an equity instrument and included in consolidated equity. The capital loan is perpetual and the interest payments and redemption are at the discretion of MuniFin. The AT1 capital loan is subordinated to other liabilities. It is senior to other items contained in equity. The instrument holders do not bear rights of shareholders, control or voting rights at the annual general meeting. Interest payments are treated as a deduction of equity based on the decisions of the issuer. Transaction expenses are deducted from the capital. These are presented in equity net of deferred taxes as a deduction of the capital loan. The deferred tax assets are recognized in the income statement through the tax deduction of the transaction expense amortisation. The deferred tax assets and liabilities are presented in Note 20.

Recognition of income and expenses

Net interest income

Interest income and expense are recognised in net interest income. Commissions and fees received and paid, transaction expenses as well as premium or discount are taken into account when the effective interest rate is calculated. For floating rate financial liabilities premium or discount is amortised from the date of issuance to the next interest payment date. For fixed rate financial liabilities the premium or discount is amortised until maturity. Since 2015 the company has amortised the premium or discount of floating rate debt security investments until maturity. In the current market conditions, the premium or discount on a financial asset is not based on changes in market rates, but credit risk. The market value of a floating rate investment does not reset to the nominal when its interest rate is re-fixed to market interest rates, therefore amortisation to the next interest date is not justifiable. The company evaluates the impact of changes in market conditions on the amortisation principle and applying it regularly.

The negative interest income from assets is presented as interest expense and the negative interest expense from liabilities is presented as interest income. The interest income and expenses on derivatives hedging liabilities in hedge accounting is recognised in interest expense and the interest income and expenses on derivatives hedging assets in hedge accounting is recognized in interest income.

Commission income and expenses
Commission income includes the commissions and fees received for financial advisory services and other received fees. Commission expenses include paid guarantee fees, custody fees as well as funding programme update fees. Commission income and expenses are recognised when the service is provided.

Net income from securities and foreign exchange transactions
Net income from securities includes fair value changes of financial assets and liabilities measured at fair value through profit or loss, fair value changes of derivatives not included in hedge accounting as well as capital gains and losses related to these items. Net income from foreign exchange transactions includes unrealised and realised translation differences for all items denominated in foreign currencies. Translation differences related to the hedged items and hedging instruments in hedge accounting are also presented under this item.

Net income on financial assets at fair value through fair value reserve
Net income on financial assets at fair value through fair value reserve includes realised gains and losses of the financial assets measured at fair value through other comprehensive income.

Net income from hedge accounting
Net income from hedge accounting includes the net result from recognising financial assets and liabilities and derivative contracts hedging them at fair value for the hedged risk. Foreign exchange gains and losses on hedged items and hedging instruments are recognised in Net income foreign exchange transactions.

Other operating income
Other operating income includes gains from the disposal of tangible and intangible assets and other operating income.

Administrative expenses
Administrative expenses include salaries and fees, pension costs as well as other social security costs. In addition, costs related to IT, marketing and other administrative costs are presented as administrative expenses.

Depreciation and impairment on tangible and intangible assets
Depreciation and impairment on tangible and intangible assets include depreciation according to plan and possible impairment of tangible and intangible assets. The depreciation principles have been discussed in section Intangible and tangible assets of this note.

Other operating expenses
Other operating expenses include expenses to authorities, rental expenses and other expenses from credit institution operations paid by MuniFin.

Expenses to authorities include stability fees as well as other administrative and supervisory fees. Stability fees are contributions paid to EU Single Resolution Fund. The Resolution Fund is managed by EU Single Resolution Board, which decides on the amount of the stability fees. The stability fee is determined by the size of the entity and the risks involved in its business. The fee is fully expensed at the beginning of the financial year using the estimate of the amount of the payment and adjusted after the payment has been made. In addition to the stability fee, MuniFin pays the Financial Stability Authority an administrative fee that is determined on the same basis as the FIN-FSA's supervisory fee. The administrative fee is recognised on an accrual basis as other operating expenses.

The FIN-FSA's supervisory fee is based on the fixed basic fee and the balance sheet total. The supervisory fee payable to the European Central Bank is determined on the basis of the significance and the risk profile of the institution. Supervisory fees are recognised on an accrual basis as other operating expenses.

Expected credit loss and impairments
Expected credit loss on financial assets at amortised cost include the expected credit losses recognised according to IFRS 9 for the financial assets measured at amortised cost. Expected credit loss and impairments on other financial assets include the expected credit losses recognised according to IFRS 9 for the financial assets measured at fair value through other comprehensive income as well as impairments and subsequent recoveries recognised for all financial assets.

The accounting principles of the impairment have been discussed in section Impairment of financial assets of this note.

Remuneration

The company's remuneration system is in its entirety contribution based. The description of the remuneration system is available online at www.munifin.fi. Pension coverage has been arranged via an external pension insurance company. Pension plans are classified as defined contribution plans. The contributions payable are recognised as expenses in the income statement for the period to which the payments relate.

Income taxes

Income taxes in the consolidated income statement 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 are recognised in the income statement, with the exception of taxes related to items recognised in other comprehensive income or in equity. In this case, the tax is also recognised correspondingly in other comprehensive income or directly in equity. Taxes based on the taxable income for the period are calculated based on tax legislation enacted or approved in practice by the financial statement date.

Deferred taxes may comprise of temporary differences between accounting book value and taxable value, as well as confirmed tax losses. Deferred taxes in the consolidated financial statements consist of the release and transfer to equity of the voluntary credit loss provision and depreciation difference recorded by the parent company. In addition, deferred taxes arise from financial assets measured at fair value through other comprehensive income, changes in own credit risk on financial liabilities designated at fair value through profit or loss and cost-of-hedging booked directly into equity.

Deferred taxes arise from differences in the treatment of the AT1 capital loan and issuance expenses and interest expenses related to the AT1 capital loan in the parent company's statutory financial statements and the consolidated financial statements. Deferred taxes are presented in Note 20. Deferred tax liabilities and assets are calculated based on the tax rate that is anticipated to be in force at the time of the temporary difference being released. If a deferred tax arises from balance sheet items for which changes do not have an impact on the income statement, the change in deferred tax is recognised in other comprehensive income, not in the income statement.

Accounting policies requiring management judgement and key uncertainty factors related to estimates

Preparation of the accounts in accordance with the IFRS requires management estimates and assumptions that affect the revenue, expenses, assets and liabilities presented in the financial statements.

The key assumptions made by the company concern key uncertainty factors pertaining to the future and the estimates at the reporting date. These are related to, among other things, the determination of fair value and the expected credit losses and impairment of financial assets.

Where market price information is limited, the valuation of financial instruments that are not publicly quoted or other financial instruments requires management judgement. Valuation and determination of own credit risk and its changes for financial liabilities designated at fair value also requires management judgement. The principles used in calculating fair values is presented in Note 5 *Fair values of financial assets and liabilities*. The risk management principles have been described in Note 2. The impact of financial liabilities designated at fair value through profit or loss in disclosed in Note 36.

The measurement of impairment losses under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. Expected credit losses are disclosed in Note 14.

The company's ECL (expected credit loss) calculations are output of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of ECL models that are considered accounting judgements and estimates include:

- The company's internal credit grading model, which assigns probabilities of default (PD) to the individual grades.
- The company's criteria for assessing if there has been a significant increase in credit risk and qualitative assessment.
- Development of ECL models, including the various formulas and the choice of inputs.
- Determination of relationships between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and their effect on PDs (probabilities of default), EADs (exposures at default) and LGDs (losses given default).
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

Company regularly reviews its models in the context of actual loss experience and adjusts them when necessary.

Application of new standards

The consolidated financial statements have been prepared in accordance with the same accounting policies as in 2017, with the exception of the following new standards, interpretations and amendments to existing standards that the Group has applied starting from 1 January 2018.

IFRS 9
MuniFin has applied IFRS 9 and and the amended IFRS 7 as of 1 January 2018. The transition to IFRS 9 is disclosed within this note in section Basis of preparation.

Other IFRS standards
IFRS 15 Revenue from Contracts with Customers came into effective as of 1 January 2018. The new standard replaced IAS 18 and IAS 11 standards and related interpretations. In IFRS 15 a five-step model is applied to determine when to recognise revenue, and at what amount. Revenue is recognised when (or as) a company transfers control of goods or services to a customer either over time or at a point in time. The standard also introduced extensive new disclosure requirements. The new standard does not have an impact on the company's consolidated financial statements.

IFRIC 22 Interpretation Foreign Currency Transactions and Advance Consideration (effective for financial years beginning on or after 1 January 2018). When foreign currency consideration is paid or received in advance of the item it relates to – which may be an asset, an expense or income – IAS 21 The Effects of Changes in Foreign Exchange Rates -standard is not clear on how to determine the transaction date for translating the related item. The interpretation clarifies that the transaction date is the date on which the company initially recognises the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date. The new interpretation has not had an impact on the company's consolidated financial statements.

Other new or amended standards that entered into effect in 2018 did not have an impact on the consolidated financial statements.

New and amended standards and interpretations not yet adopted
The company has not yet adopted the following new and amended standards and interpretations already issued by the IASB. The company will adopt them on their effective date or, if the date is other than the first day of the financial year, from the beginning of the subsequent financial year. Standards published by IASB that enter into effect after 1 January 2018:

IFRS 16 Leases (effective for financial years beginning on or after 1 January 2019) concerns the definition, recognition and measurement of lease agreements and notes related to leases. The new standard replaces the current IAS 17 standard and related interpretations. IFRS 16 requires the lessees to recognise the lease agreements on the balance sheet as lease liabilities and right-of-use assets. The standard includes optional exemptions for leases with a term of less than 12 months and for assets of low value. The lessor accounting remains mostly similar to current IAS 17 accounting, thus, the division into finance leases and other leases remains. Management estimates that the new standard will not have a material impact on the consolidated financial statements.

IFRIC 23 Uncertainty over Income Tax Treatments (effective for financial years beginning on or after 1 January 2019). The interpretation brings clarity to the accounting for income tax treatments that have yet to be accepted by tax authorities. The key test is whether the tax authority will accept the tax treatment the company has elected. When considering this, the assumption is that tax authorities will have full knowledge of all relevant information in assessing a proposed tax treatment. Management estimates that the change will not have a material impact on the consolidated financial statements.

Amendments to IFRS 9: Prepayment Features with Negative Compensation (effective for financial years beginning on or after 1 January 2019). The amendments enable entities to measure at amortised cost some pre-payable financial assets with so-called negative compensation. Management estimates that the change will not have a material impact on the consolidated financial statements.

Amendments to References to Conceptual Framework in IFRS Standards (effective for financial years beginning on or after 1 January 2020). The revised Framework codifies IASB's thinking adopted in recent standards. The Conceptual Framework primarily serves as a tool for the IASB to develop standards and to assist the IFRS Interpretations Committee in interpreting them. It does not override the requirements of individual IFRSs. Management estimates that the change will not have a material impact on the consolidated financial statements. The amendments have not yet endorsed for use by the European Union as of 31 December 2018.

Definition of Material (Amendments to IAS 1 and IAS 8) (effective for financial years beginning on or after 1 January 2020). The amendments clarify the definition of material and include guidance to help improve consistency in the application of that concept across all IFRS Standards. In addition, the explanations accompanying the definition have been improved. Management estimates that the change will not have a material impact on the consolidated financial statements. The amendments have not yet endorsed for use by the European Union as of 31 December 2018.

Other standards and interpretations to be applied in future financial periods are not assessed to have material impact on the consolidated financial statements.

Note 2. Risk management principles and the Group's risk position

General principles of risk management

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

The company regularly surveys risks related to its operations and continuously develops methods for recognising and managing risks. Risks are assessed with regular risk analyses. The aim of the analyses is to recognise the new challenges and risks created by changes in the operating environment and prioritise the risks and their management on the basis of the results. The company mitigates risks it has identified with collaterals, guarantees, derivatives, insurance and active risk management. According to its own analysis, MuniFin does not have any liabilities containing wrong-way risk (the likelihood of a default by counterparty is positively correlated with general market risk factors).

MuniFin's Risk Appetite Framework (RAF) defines target and maximum levels for risk indicators. The framework is updated regularly, at least annually, and MuniFin's Board of Directors approves the document. Risk Appetite Frameworks enables the company to:

1. Effectively identify, assess and manage the risks inherent in its strategy as well as its internal risks,
2. Understand and decide on the amount of risk it is willing and able to take in executing its business strategy, and to actively communicate it,
3. Promote sound discussion about the risk appetite of the company and an effective and credible discussion and challenging of business and risk taking decisions.

The Risk Appetite Framework is linked to both short-term and long-term strategic plans, capital and financial plans, the recovery plan and the remuneration policy. It is fully aligned with the ICAAP (Internal Capital Adequacy Assessment Process) and the ILAAP (Internal Liquidity Adequacy Assessment Process).

MuniFin constantly conducts stress testing related to its business in accordance with the stress testing program approved by the Board of Directors. The annual ICAAP and ILAAP processes include stress-testing on company-level solvency and liquidity adequacy. Risk management, independent of the company's business, is responsible for designing stress scenarios in cooperation with business units. The main objective of the stress testing conducted in early 2018 was to analyse the development of MuniFin's solvency and profitability in 2018–2022. Business, market and credit risks and their estimated economic impact under different circumstances were tested. In addition, the liquidity adequacy of the company was tested with several different stress scenarios. As previous years, the results of the stress tests showed that with the current capital requirements, the level of own funds in the company during the period under review is sufficient even under very unfavorable conditions. In addition, the company's total own funds also fulfilled the expected 3% leverage ratio. In terms of liquidity, stress tests showed that the liquidity of the company is sufficient even under very unfavorable conditions.

In late 2018, the company also carried out a so-called reverse stress testing as part of its recovery plan. This stress test aims to find extremely negative scenarios that threaten the company's business continuity, as well as the steps that the company can take to cope with the situation and continue its business.

There were no material changes in the company's risk position in 2018. Risks remained within the set limits and, based on the company's assessment, risk management met the requirements set for it. The volatility arising from the unrealised fair value changes in financial instruments has increased significantly in connection with the adoption of IFRS 9. The company continuously monitors and analyses the volatility arising from valuations and prepares for its potential profitability and solvency impacts. The company's risk position is regularly reported to the Board of Directors as a part of monthly risk reporting, and, in addition, the Chief Risk Officer provides the Risk Committee of the Board a semi-annual extended risk review of the company's risk positions.

Organisation of risk and capital adequacy management

MuniFin's general principles, limits and measurement methods used in risk management are determined by the Board of Directors. The Risk Committee of the Board assists the Board of Directors in matters regarding the risk strategy and risk taking and in supervising that the company follows the risk strategy defined by the Board. The purpose of risk management is to ensure that the risks associated with lending, funding, investment and other business operations are in line with MuniFin's low risk profile defined in the Risk Appetite Framework and related risk policies. The Board of Directors considers the company to have adequate level of risk management in proportion to the nature and riskiness of its operations.

MuniFin has an extensive risk management organisation, which covers all operations including the tasks and responsibilities of different departments and decision-making bodies.

The Risk Management department, which serves as the 2nd line of defence and is independent of the business functions, is responsible for risk management principles and processes led by the Chief Risk Officer. The Capital Markets function (1st line of defence) is responsible for managing the interest rate risk profile of the consolidated balance sheet by entering into market transactions within the limits set by the Board of Directors. The risk position and limit usage are reported to the Executive Management Team and the Board of Directors on a regular basis. The Business Control and Reporting department, led by the Chief Financial Officer, is responsible for the principles related to capital adequacy and the structure of own funds. The Compliance function (2nd line of defence) monitors the company's compliance with regulation. Finally, the Internal Audit (3rd line of defence) regularly audits different parts of the company's operations.

Strategic risks

Strategic risk means that MuniFin would choose a wrong strategy for pursuing financially profitable operations or that the company would fail to adapt its strategy to changes in the operating environment. The management of strategic risks is based on continuous monitoring and analyses of customers' needs, forecasts of market trends, and analyses of changes in the competition and the operating environment. Risks and their significance are assessed annually as a part of the strategy process and in connection with annual assessment of the Board of Management. The existing strategy extends to 2022, and it is updated at least annually.

Credit risk

Credit risk means the risk of a counterparty defaulting on its commitments to the company. MuniFin's customers consist of municipalities, joint municipal authorities and municipality-controlled entities, as well as non-profit corporations and other non-profit organisations nominated by the Housing Finance and Development Centre of Finland (ARA). MuniFin may only grant loans and lease financing without a separate collateral directly to a municipality or municipal federation. For others, loans must be secured with an absolute guarantee by a municipality or municipal federation, absolute guarantee by municipality of municipal federation plus deficiency guarantee by the State or mortgage security plus deficiency guarantee by the State. The amount of the primary pledge must cover the amount of the loan. If the loan is secured by real estate , mortgage will be confirmed. MuniFin calculates in it customer financing loan-to-values (LTV) and monitors regularly the development of LTVs. Because of these credit mitigation techniques, all loans granted are classified as zero-risk when calculating capital adequacy. The company does not bear the residual value risk for the objects of its finance lease services. MuniFin has not had credit losses in the financing of its customers after possible realisation of mortgage collaterals and guarantees. The company does not have customer limits for lending as all lending is to counterparties which are allocated the risk weight of zero percent in the capital adequacy calculations. The company, however, analyses the credit risk and payment behaviour of its customers regularly.

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

BALANCE SHEET AND BINDING LOAN COMMITMENT LIABILITIES 31 DEC 2018 (EUR 1,000)	Total	Loans and advances to the public and public sector entities	Loans and advances to credit institutions	Debt securities	Binding loan commitments
Public sector entities	14,084,635	10,565,632	-	2,294,055	1,224,948
Enterprises and housing corporations	13,515,260	12,017,624	-	84,070	1,413,565
Non-profit organisations	396,321	384,862	-	-	11,460
Credit institutions	4,864,186	-	1,380,544	3,483,642	-
Other	825	-	-	825	-
Total	**32,861,226**	**22,968,118**	**1,380,544**	**5,862,591**	**2,649,973**

BALANCE SHEET AND BINDING LOAN COMMITMENT LIABILITIES 31 DEC 2017 (EUR 1,000)	Total	Loans and advances to the public and public sector entities	Loans and advances to credit institutions	Debt securities	Binding loan commitments
Public sector entities	12,947,021	9,672,506	-	2,506,927	767,588
Enterprises and housing corporations	13,024,370	11,598,759	-	87,670	1,337,941
Non-profit organisations	394,258	379,581	-	-	14,677
Credit institutions	5,144,550	-	1,251,391	3,893,159	-
Other	6,478	-	-	6,478	-
Total	**31,516,678**	**21,650,847**	**1,251,391**	**6,494,234**	**2,120,206**

BREAKDOWN OF NOMINAL VALUE OF DERIVATIVE AGREEMENTS BY COUNTERPARTY CREDIT RATING (EUR 1,000)	**31 Dec 2018**	**31 Dec 2017**
Finnish municipalities	1,992,140	2,007,231
Central counterparty	17,674,051	10,241,247
AA	19,537,993	15,810,173
A	17,725,086	28,859,102
BBB	2,672,840	4,472,630
Total	**59,602,109**	**61,390,383**

GIVEN AND RECEIVED CASH COLLATERAL BASED ON CSA AGREEMENTS (EUR 1,000)	**31 Dec 2018**	**31 Dec 2017**
Given collateral	-1,275,850	-1,227,170
Given collateral to central counterparty	-164,345	-148,205
Received collateral	739,260	699,780
Net collateral	**-700,935**	**-675,595**

monitoring credit risk.

MuniFin limits credit risk arising from its derivative counterparties with ISDA Credit Support Annexes. The company has 49 Credit Support Annexes in force of which 39 require daily margining. Additionally, the Municipal Guarantee Board's guarantees are used for reducing the derivative counterparty risk of certain counterparties.

The Credit Valuation Adjustment (CVA) that measures counterparty credit risk and MuniFin's own Debt Valuation Adjustment (DVA) are both taken into account when calculating credit risk exposures arising from derivative counterparties. The CVA is estimated for each derivative counterparty by calculating MuniFin's expected positive exposure throughout the maturity of the derivative portfolio, taking into account the probability of default and the estimated amount of loss in the possible event of default. Input data for the calculation is based on the terms of CSA agreements, generally accepted assumptions in the markets on the loss given default and expected probabilities of default based on historical credit rating matrices. Similarly, the DVA is determined on the basis of MuniFin's expected negative exposures, taking into account the probability of MuniFin's own default and the loss given default.

MuniFin uses central counterparties (CCPs) in the clearing of standard over-the-counter (OTC) derivative contracts, as required by "EMIR", the European Markets Infrastructure Regulation. In this model, at the end of a daily clearing process, a CCP becomes the counterparty to each cleared trade. The purpose of CCP clearing is to reduce counterparty risk. MuniFin has two global banks providing clearing broker services.

Market risk

Market risk means the risk of the company incurring a loss as a result of an unfavourable change in market price or its volatility. Market risks include interest rate, foreign exchange, share price and other price risks. MuniFin manages the interest rate risk arising from business operations by means of derivative contracts. Interest rate risk arises mainly from the difference in euribor rate terms between assets and liabilities. The company hedges against exchange rate risks by using derivative contracts to translate all foreign currency denominated funding into euros. The company does not bear any material foreign exchange risk. Derivative contracts are also used to hedge against other market risks. Derivative contracts may only be used for hedging purposes.

FINANCIAL ASSETS IN DOMESTIC AND FOREIGN CURRENCIES 31 DEC 2018 (EUR 1,000)	**Domestic currency**	**Foreign currency**	**Total**
Cash and balances with central banks	3,522,200	-	3,522,200
Loans and advances to credit institutions	1,336,431	44,113	1,380,544
Loans and advances to the public and public sector entities	22,968,118	-	22,968,118
Debt securities	5,672,779	189,812	5,862,591
Shares and participations	9,521	-	9,521
Other assets	158,368	16,449	174,818
Total	**33,667,418**	**250,374**	**33,917,792**

DISTRIBUTION OF ASSETS BY CURRENCY BASED ON CARRYING AMOUNTS AND HEDGES 31 DEC 2018 (EUR 1,000)	**USD**	**JPY**	**GBP**	**CHF**	**Other currencies**	**Total**
Loans and advances to credit institutions	43,442	15	224	354	78	44,113
Debt securities	128,825	-	26,653	34,334	-	189,812
Other assets	16,449	-	-	-	-	16,449
Currency risk total	**188,716**	**15**	**26,876**	**34,688**	**78**	**250,374**
Hedging derivatives	-187,341	-	-26,653	-34,334	-	-248,327
Unhedged currency risk	**1,376**	**15**	**224**	**354**	**78**	**2,047**

FINANCIAL ASSETS IN DOMESTIC AND FOREIGN CURRENCIES
31 DEC 2017

(EUR 1,000)	Domestic currency	Foreign currency	Total
Cash and balances with central banks	3,554,182	-	3,554,182
Loans and advances to credit institutions	1,245,650	5,742	1,251,391
Loans and advances to the public and public sector entities	21,650,847	-	21,650,847
Debt securities	6,287,365	206,869	6,494,234
Shares and participations	9,662	-	9,662
Other assets	135,508	12,697	148,205
Total	**32,883,213**	**225,308**	**33,108,521**

DISTRIBUTION OF ASSETS BY CURRENCY BASED ON CARRYING AMOUNTS AND HEDGES
31 DEC 2017

(EUR 1,000)	USD	JPY	GBP	CHF	Other currencies	Total
Loans and advances to credit institutions	5,239	-1	83	345	76	5,742
Debt securities	91,091	18,899	17,948	51,193	27,737	206,869
Other assets	12,697	-	-	-	-	12,697
Currency risk total	**109,027**	**18,898**	**18,031**	**51,538**	**27,814**	**225,308**
Hedging derivatives	-96,094	-18,899	-17,948	-51,193	-27,737	-211,872
Unhedged currency risk	**12,933**	**-1**	**83**	**345**	**76**	**13,436**

DOMESTIC AND FOREIGN CURRENCY DENOMINATED FUNDING 31 DEC 2018 (EUR 1,000)	**Domestic currency**	**Foreign currency**	**Total**
Liabilities to credit institutions	790,705	31,799	822,504
Liabilities to the public and public sector entities	2,314,073	1,556,846	3,870,918
Debt securities issued	5,030,954	21,871,044	26,901,998
Total	**8,135,732**	**23,459,688**	**31,595,421**

DISTRIBUTION OF FUNDING BY CURRENCY BASED ON CARRYING AMOUNTS AND HEDGES 31 DEC 2018 (EUR 1,000)	**USD**	**JPY**	**GBP**	**CHF**	**Other currencies**	**Total**
Long-term funding	9,662,763	2,594,617	891,988	897,339	2,062,859	16,109,566
Short-term funding	2,119,801	-	391,069	-	-	2,510,870
Currency risk total	**11,782,564**	**2,594,617**	**1,283,057**	**897,339**	**2,062,859**	**18,620,436**
Hedging derivatives	-11,782,564	-2,594,617	-1,283,057	-897,339	-2,062,859	-18,620,436
Unhedged currency risk	**-**	**-**	**-**	**-**	**-**	**-**

DOMESTIC AND FOREIGN CURRENCY DENOMINATED FUNDING
31 DEC 2017

(EUR 1,000)	Domestic currency	Foreign currency	Total
Liabilities to credit institutions	3,860,290	42,190	3,902,480
Liabilities to the public and public sector entities	393,161	253,398	646,558
Debt securities issued	3,530,439	22,773,522	26,303,961
Total	**7,783,890**	**23,069,109**	**30,853,000**

DISTRIBUTION OF FUNDING BY CURRENCY BASED ON CARRYING AMOUNTS AND HEDGES
31 DEC 2017

(EUR 1,000)	USD	JPY	GBP	CHF	Other currencies	Total
Long-term funding	9,324,063	3,592,093	985,231	1,485,552	3,848,825	19,235,764
Short-term funding	3,608,134	-	225,212	-	-	3,833,346
Currency risk total	**12,932,197**	**3,592,093**	**1,210,443**	**1,485,552**	**3,848,825**	**23,069,109**
Hedging derivatives	-12,932,197	-3,592,093	-1,210,443	-1,485,552	-3,848,825	-23,069,109
Unhedged currency risk	-	-	-	-	-	-

The company has specified limits for the following market risks:

- Currency position
- Interest rate risk
  - Economic Value of Equity
  - Earnings at Risk
- Spread risk of liquidity portfolio investments

Currency position
The currency position is calculated as the euro-denominated difference between assets and liabilities in various currencies.

(EUR 1,000)	Currency position
31 Dec 2018	2,047
31 Dec 2017	13,436

Economic Value of Equity
Economic Value describes the interest rate sensitivity of the present value of the balance sheet. It is measured by calculating the change in the present value of interest rate sensitive cash flows for different interest rate curve changes. Several interest rate scenarios are used to measure interest rate risk, the most unfavorable one being taken into account. The impact will be examined in relation to the company's total own funds.

(EUR 1,000)	Impact	In relation to own funds
31 Dec 2018	-37,100	2.6%
31 Dec 2017	-5,600	0.44%

The figures take into account the zero floor option in the loans.

Earnings at Risk
Earning at Risk refers to the negative impact of interest rate changes on the company's net interest income. Several different scenarios are used to measure interest rate risk, the most unfavorable one being considered. The impact is examined in relation to the company's total net interest income for the previous year.

(EUR 1,000)	Impact	In relation to net interest income
31 Dec 2018	-7,600	3.6%
31 Dec 2017	-20,207	10.7%

The figures take into account the zero floor option in the loans.

Price risk
Price risk refers to the possibility of changes in the market values of liquidity investments due to a change in the market's required return as a consequence of a change in the investment's risk or in the market's risk sensitivity. The change in required return is calculated at a 99% confidence level.

(EUR 1,000)	Change in required return	Impact	In relation to own funds
31 Dec 2018	0.32 p.p.	-33,900	2.4%
31 Dec 2017	0.20 p.p.	-26,800	2.1%

Refinancing risk and liquidity risk

Refinancing risk means the risk related to refinancing of the loans. The company manages refinancing risk by limiting the average maturity of the financial assets and liabilities. The Board of Directors has set the limit to the financing gap.

Liquidity risk means the risk of the company not being able to perform its payment obligations arising from settling financial agreements or other financing activities on their due date. The company manages the liquidity risk by limiting the short-term liquidity coverage ratio and the survival horizon for the long-term liquidity.

BREAKDOWN OF FINANCIAL LIABILITIES BY MATURITY 31 DEC 2018 (EUR 1,000)	**0–3 months**	**3–12 months**	**1–5 years**	**5–10 years**	**over 10 years**	**Total**
Liabilities to credit institutions	739,576	50,278	17,812	23,815	42,107	873,589
Liabilities to the public and public sector entities	48,427	179,988	1,215,183	1,496,284	1,853,972	4,793,854
Debt securities issued	5,250,874	4,527,236	13,477,687	3,570,564	1,841,718	28,668,080
Total	**6,038,878**	**4,757,502**	**14,710,682**	**5,090,663**	**3,737,798**	**34,335,523**

BREAKDOWN OF FUNDING DERIVATIVES BY MATURITY 31 DEC 2018 (EUR 1,000)	**0–3 months**	**3–12 months**	**1–5 years**	**5–10 years**	**over 10 years**	**Total**
Derivative assets	43,285	229,001	461,255	311,419	493,649	1,538,610
Derivative liabilities	-785,582	-293,774	-835,956	-118,189	-171,926	-2,205,428
Interest flows related to derivatives assets and liabilities	231,402	343,059	1,131,011	178,595	61,096	1,945,164

BREAKDOWN OF FINANCIAL LIABILITIES BY MATURITY 31 DEC 2017 (EUR 1,000)	**0–3 months**	**3–12 months**	**1–5 years**	**5–10 years**	**over 10 years**	**Total**
Liabilities to credit institutions	711,675	22,743	67,528	18,491	7,457	827,895
Liabilities to the public and public sector entities	75,609	140,094	1,204,590	1,354,650	1,743,715	4,518,659
Debt securities issued	7,175,041	4,381,393	11,659,302	3,675,861	774,213	27,665,810
Total	**7,962,325**	**4,544,230**	**12,931,420**	**5,049,003**	**2,525,385**	**33,012,364**

BREAKDOWN OF FUNDING DERIVATIVES BY MATURITY 31 DEC 2017 (EUR 1,000)	**0–3 months**	**3–12 months**	**1–5 years**	**5–10 years**	**over 10 years**	**Total**
Derivative assets	50,377	176,489	473,695	550,167	182,590	1,433,318
Derivative liabilities	-537,816	-324,615	-1,010,354	-206,494	-136,754	-2,216,034
Interest flows related to derivatives assets and liabilities	221,767	374,643	1,012,351	191,576	52,411	1,852,748

Breakdown of financial liabilities by maturity is presented using carrying amounts and future interest payments translated into euros using year-end foreign exchange rates. Financial liabilities containing a call option are shown in the table at the amount at which the liability can be called on the next call date. These liabilities are also shown in the maturity bucket corresponding to the next call date. The financial statement line Liabilities to credit institutions contains CSA-collateral totalling EUR 739,260 thousands (2017: EUR 699,780 thousand). These are presented in the maturity bucket 0-3 months although their outflow date is not known and is dependent on the development of derivative fair values. A part of the financial liabilities presented as maturing during the next 12 months are callable. Based on the current forecast of this amount 29% (2017: 30-50%) is expected to be called. The company hedges all its funding to floating rate euros. In addition, all lending is hedged to floating rates. For evaluating the impact of derivatives, the interest flows of derivative assets and liabilities are shown netted on one line. Derivatives containing a call option are presented in the maturity bucket at which the derivative can be called on the next call date.

Liquid assets can be used to pay off future maturing liabilities. In addition, the company has well diversified funding sources, which allows the company to acquire new funding flexibly on various markets, and new funding can be acquired to cover outflows on maturing liabilities.

The company is a monetary policy counterparty of the Bank of Finland. The company has pledged loans to the Bank of Finland and can obtain credit from the central bank against these collaterals (Note 27 to the consolidated financial statements).

Liquidity management

The company has presented the maturities of financial assets based on their maturity dates in Note 6. Despite the maturities shown in the table, the company has the following assets for managing liquidity. Irrespective of their contractual maturity dates, the assets can be sold in order to manage liquidity.

FINANCIAL ASSETS FOR MAINTAINING LIQUIDITY (EUR 1,000)	**31 Dec 2018**	**31 Dec 2017**
Cash and balances with central banks (deposits at central banks payable on demand)	3,522,200	3,554,182
Loans and advances to credit institutions		
Loans and advances to credit institutions payable on demand	51,006	8,551
Debt securities	5,137,004	5,740,375
Shares in investment funds	9,494	9,635
Total	**8,719,704**	**9,312,744**

Debt securities classified by issuer type are presented in Note 10.

Market liquidity risk

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

The company monitors the liquidity of markets and products on a continuous basis. In addition, established market standards are observed when derivative contracts are transacted. Almost all market values of 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, insufficient or failed policies, systems or external factors. Operational risks also include risks arising from failure to comply with internal and external regulation (compliance risk), legal risks and reputational risk. Operational risks may result in expenses, payable compensation, loss of reputation, false information on position, risk and results or the interruption of operations.

Operational risks are recognised as part of the company's operations and processes. This has been implemented with an annual mapping of operational risk, which is carried out by departments through a self-assessment. The management of operational risks is the responsibility of each function and department. In addition, the company's Risk Management function supports the other functions and departments and has the responsibility at the company level for coordinating the management of operational risks.

MuniFin uses various methods for managing operational risks. The company has internal policies approved by the Board and supplementing internal guidelines approved by the management in order to guide operations. Operational risks are also covered by the Risk Appetite Framework approved by the Board of Directors. Key duties and processes have been charted and described. Internal instructions and processes are updated on a regular basis, and the compliance with them is supervised. The tasks related to business activities, risk control, back office functions, documentation and accounting are separated. The company has adequate substitution systems to ensure the continuity of key functions. The expertise of the personnel is maintained and developed through regular development discussions and training plans. MuniFin has the insurance policies related to its operations and assesses the level of insurance cover on regular basis. MuniFin has a contingency plan for situations in which business operations are interrupted. The plan is designed to ensure that the company is able to continue functioning and to limit its losses in different disruptive scenarios. The annual mapping of operational risks and the operational risk event report process support the company's continuity planning.

MuniFin's compliance function continuously monitors the development of legislation and regulations issued by authorities relevant to the company's operations and ensures that any regulatory changes are appropriately responded to. The legislation and regulations concerning the operations of credit institutions have faced significant changes during the past few years and will continue to change in the future, which creates challenges for the company's compliance. The company has tried to minimise the risks related to this by active contact with the authorities and interest groups as well as organisation of the company's internal compliance function (incl. reporting, evaluation of effects).

The company has significant information system and business process related projects aimed at improving the quality, efficiency and regulatory compliance of current operations. The extent of these projects creates operational risks that the company strives to minimise by developing and implementing models related to project management and monitoring (incl. regular reporting) and ensuring sufficient resources. The risks related to development projects are surveyed and monitored regularly.

The company has an approval process for new products and services. The process aims to ensure that all material risks and operational requirements are taken into account when developing new products and services. The company does not have material outsourced functions in its operations. The main outsourced arrangements are related to IT support and back-up facilities of IT-servers.

The realisation of operational risks is monitored with systematic operational risk event reporting, which is used to change operating principles or implement other measures to reduce operational risks where necessary. Operational risk events are reported the Executive Management Team and the Board of Directors. No material losses were incurred as a result of operational risks in 2018.

Notes to the statement of financial position and other notes

Note 3. IFRS 9 Financial instruments transition disclosure

Table 1.
Classification of financial assets and liabilities on the date of initial application of IFRS 9

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for MuniFin's financial assets and liabilities as at 1 January 2018.

FINANCIAL ASSETS 1 JAN 2018 (EUR 1,000)	Note	Original measurement category under IAS 39	New measurement category under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Cash and balances with central banks		Loans and receivables	Amortised cost	3,554,182	3,554,182
Loans and advances to credit institutions		Loans and receivables	Amortised cost	1,251,391	1,250,980
Loans and advances to the public and public sector entities	a)	Loans and receivables	Amortised cost	21,002,690	21,002,556
Loans and advances to the public and public sector entities	b)	Fair value option	Amortised cost	153,642	151,037
Loans and advances to the public and public sector entities	c)	Loans and receivables	Mandatorily at fair value through profit or loss	62,783	63,866
Loans and advances to the public and public sector entities	d)	Loans and receivables	Not in scope	431,732	431,732
Debt securities	e)	Available-for-sale	Fair value through other comprehensive income	1,815,904	1,815,904
Debt securities	e)	Available-for-sale	Designated at fair value through profit or loss	3,811,080	3,811,080
Debt securities	e)	Fair value option	Designated at fair value through profit or loss	42,750	42,750
Debt securities	f)	Fair value option	Fair value through other comprehensive income	69,035	69,035
Debt securities	a)	Held to maturity	Amortised cost	748,988	748,986
Debt securities	g)	Available for sale	Mandatorily at fair value through profit or loss	1,607	1,607
Debt securities	g)	Held to maturity	Mandatorily at fair value through profit or loss	4,871	4,878
Shares and participations	h)	Available for sale	Mandatorily at fair value through profit or loss	9,662	9,662
Derivative contracts	i)	Held-for-trading	At fair value through profit or loss	206,388	150,178
Derivative contracts	i)	Derivatives in hedge accounting	At fair value through profit or loss	237,489	308,371
Derivative contracts	i)	Derivatives in hedge accounting	Derivatives in hedge accounting	989,440	994,655
Other assets	j)	Loans and receivables	Amortised cost	148,205	148,156

FINANCIAL LIABILITIES 1 JAN 2018 (EUR 1,000)	Note	Measurement category under IAS 39	New measurement category under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Liabilities to credit institutions	k)	Amortised cost	Amortised cost	2,670,694	2,685,367
Liabilities to credit institutions	l)	Amortised cost	Designated at fair value through profit or loss	1,231,786	1,287,053
Liabilities to the public and public sector entities	k)	Amortised cost	Amortised cost	435,738	427,357
Liabilities to the public and public sector entities	l)	Amortised cost	Designated at fair value through profit or loss	210,821	225,475
Debt securities issued	k)	Amortised cost	Amortised cost	16,001,331	15,987,628
Debt securities issued	l)	Amortised cost	Designated at fair value through profit or loss	6,469,284	6,482,821
Debt securities issued	m)	Fair value option	Designated at fair value through profit or loss	3,833,346	3,834,269
Derivative contracts	i)	Held-for-trading	At fair value through profit or loss	258,308	202,098
Derivative contracts	i)	Derivatives in hedge accounting	At fair value through profit or loss	691,156	727,759
Derivative contracts	i)	Derivatives in hedge accounting	Derivatives in hedge accounting	1,266,570	1,270,741

The accounting policies on the classification of financial instruments under IFRS 9 are set out in Note 1.
The application of these policies resulted in the reclassifications set out in table 1 and explained below in points a) to m).

Impact of the business model assessment on the classification of financial assets

The measurement of financial assets as required by the business models assessment, matches the measurement under IAS 39 classification to a large extent.

The company's lending is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows. Based on the identified business model for the company's short and long term lending, these financial assets are measured at amortised cost in IFRS 9. Long-term lending is contained in the line item Loans and advances to the public and public sector entities and short-term lending, which consist of municipal paper and municipal company commercial paper is contained in financial statement line item Debt securities. In IAS 39 lending was primarily classified within Loans and receivables, whereas municipal commercial paper and municipal company commercial paper were classified as held-to-maturity. Lending previously measured with the fair value option in IAS 39, will be measured at amortised cost in IFRS 9. As a result of the SPPI test performed on the contractual cash flows of lending agreements, certain agreements with structured interest terms are measured mandatorily at fair value through profit and loss.

Bank account balances, bank deposits, CSA collateral receivables and reverse repos contained in the balance sheet line item Loans and advances to credit institutions are held within a business model whose objective is achieved by collecting contractual cash flows. Thus these financial assets, classified as loans and receivables in IAS 39, will continue to be measured at amortised cost.

Liquidity investments are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. Thus based on the business model the financial assets are to be measured at fair value through other comprehensive income (FVOCI) under IFRS 9. Of these financial assets, the majority of fixed rate debt securities are hedged with interest rate swaps in accordance with the company's risk management policy. MuniFin has elected to designate these financial assets at fair value through profit or loss utilising the fair value option in order to eliminate the otherwise created measurement or recognition inconsistency ('Accounting mismatch'). Whereas commercial paper investments, measured using the fair value option in IAS 39, are measured at fair value through other comprehensive income in IFRS 9 as they are part of the same business model as other liquidity investments.

The company's liquidity investments also include shares in an investment fund and asset backed securities. The company has carried out SPPI tests on its financial assets, in order to evaluate whether all contractual cash flows of these financial assets fulfil the IFRS 9 requirement of being solely payments principal and interest. Contractual cash flows of investment funds and asset backed securities cannot be regarded solely as payments of principal and interest, and thus, despite of the business model they will be measured at fair value through profit or loss as a result of the SPPI test.

Changes in measurement categories

a) The change in the carrying amount of lending agreements at amortised cost shows the impact of the allowance for expected credit losses. The expected credit loss for lease agreements is shown on this row as well.

b) Under IAS 39, certain lending agreements were designated as at fair value through profit and loss utilising the fair value option as as these acquired loans were initially reported to the management and managed on a fair value basis. At the date of initial application of IFRS 9 this designation is revoked, because these financial assets no longer meet the condition to be designated as fair value through profit or loss. As of 1 January 2018 these financial assets are classified as measured at amortised cost because they are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and the contractual terms of these financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The change in the measurement basis of these agreements results in a difference in the carrying amounts in IAS 39 and IFRS 9.

c) Loans and advances to the public and public sector entities include structured loans that were classified as at loans and receivables under IAS 39. Under IFRS 9, these assets meet the criteria for mandatory measurement at fair value through profit or loss because the contractual cash flows of these assets are not solely payments of principal and interest on the principal outstanding. The change in the measurement basis results in a difference in the carrying amounts in IAS 39 and IFRS 9.

d) Lease receivables were presented as loans and receivables in the 2017 financial statements. Lease receivables are not in IFRS 9 scope for classification. These receivables are in IFRS 9 scope for impairments and their expected credit losses are shown under amortised cost.

e) Under IAS 39, the majority of MuniFin liquidity portfolio was classified as Available-for-sale with EUR 43 million of hedged investment bonds being designated at fair value through profit or loss using the fair value option. As of 1 January 2018 these financial assets could be classified as measured at fair value through other comprehensive income, because they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. For all hedged investment bonds MuniFin has elected to designate these at fair value through profit or loss in order to reduce accounting mismatch between the fair valuation of the investment bond and hedging derivative.

f) Under IAS 39, investments in commercial papers were designated as at fair value through profit or loss utilising the fair value option as they were reported to the management and managed on a fair value basis. At the date of initial application of IFRS 9 this designation is revoked, because these financial assets no longer meet the condition to be designated as fair value through profit or loss. As of 1 January 2018 these financial assets are classified as measured at fair value through other comprehensive income because they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. The contractual terms of the financial asset gives rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

g) MuniFin has a minor investment in asset backed securities which have been classified as available-for-sale or held-to-maturity under IAS 39. Under IFRS 9, these assets meet the criteria for mandatory measurement at fair value through profit or loss because the contractual cash flows of these securities are not solely payments of principal and interest on the principal outstanding

h) Shares and participations that have been classified as available-for-sale under IAS 39, include an investment fund. Under IFRS 9, these assets meet the criteria for mandatory measurement at fair value through profit or loss because these assets do not have a maturity date and the contractual cash flows of these securities are not solely payments of principal and interest on the principal outstanding.

i) The amount of derivatives at fair value through profit or loss has increased due to the fact MuniFin has decreased the use of fair value hedge accounting. Financial liabilities previously in fair value hedge accounting, have been designated at fair value through profit or loss. Therefore derivatives previously classified as derivatives in hedge accounting have been reclassified to derivatives at fair value through profit or loss. Vice versa, the amount of derivatives in hedge accounting has decreased. Under IFRS 9 the impact of cost-of-hedging on cross currency derivatives is shown in equity in the Cost of hedging reserve. In addition the impact of developing the valuation methods of derivatives is reflected in the change of the carrying amount. Parts of Table 2 describe the impact of remeasurement. Starting 1 January 2018 MuniFin has valued all derivatives using the OIS curve and included the impact of the cross currency basis in its derivative valuations.

j) Cash collateral receivables from the Central Counterparty Clearing House is presented in Other assets. These receivables are measured at amortised cost based on the business model.

k) Financial liabilities at amortised cost under both IAS 39 and IFRS 9. The carrying amount of financial liabilities which are in fair value hedge accounting contains the fair valuation with respect to the hedged risk.

l) Financial liabilities at amortised cost under IAS 39 but designated at fair value through profit or loss under IFRS 9, contains financial liabilities which were in fair value hedge accounting under IAS 39. Under IFRS 9 these financial liabilities are no longer in fair value hedge accounting as MuniFin has elected to designate these liabilities at fair value through profit or loss. The impact of the change in the credit risk of MuniFin on the fair value of these liabilities is shown in equity under the Own credit revaluation reserve.

m) Financial liabilities designated at fair value through profit or loss under IAS 39 and IFRS 9 contains short-term funding in foreign currencies. On transition to IFRS 9 the change in the credit risk of MuniFin on these liabilities in also shown in Equity under the Own Credit revaluation reserve.

Table 2 of this note shows the reclassification and remeasurements by financial statement line item and measurement category.

Table 2.
Reconciliation of IAS 39 carrying amounts to IFRS 9 carrying amounts

The following table reconciles the carrying amounts under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018 by balance sheet item and measurement category. The column Impact on equity is presented net of deferred taxes.

Financial assets

(EUR 1,000)	IAS 39 carrying amount as at 31 Dec 2017	Reclassification	Remeasurement	IFRS 9 carrying amount as at 1 Jan 2018	Impact on equity as at 1 Jan 2018
Held-to-maturity					
Debt securities	**753,859**			**753,859**	
Subtractions					
Reclassification to amortised cost based on business model		-748,988	-	-748,988	-
Reclassification to fair value through profit or loss based on SPPI test		-4,871	-	-4,871	-
Total Debt securities	**753,859**	**-753,859**	**-**	**-**	**-**
Total in Held-to-maturity	**753,859**	**-753,859**	**-**	**-**	**-**

(EUR 1,000)	IAS 39 carrying amount as at 31 Dec 2017	Reclassification	Remeasurement	IFRS 9 carrying amount as at 1 Jan 2018	Impact on equity as at 1 Jan 2018
Loans and receivables					
Cash and balances with central banks	**3,554,182**			**3,554,182**	
Subtractions					
Reclassification to amortised cost based on business model		-3,554,182	-	-3,554,182	-
Total Cash and balance with central banks	**3,554,182**	**-3,554,182**	**-**	**-**	**-**
Loans and advances to credit institutions	**1,251,391**				
Subtractions					
Reclassification to amortised cost based on business model		-1,251,391	-	-	-
Total Loans and advances to credit institutions	**1,251,391**	**-1,251,391**	**-**	**-**	**-**
Loans and advances to the public and public sector entities	**21,497,205**			21,497,205	
Subtractions					
Reclassification to amortised cost based on business model		-21,002,690	-	-21,002,690	-
Reclassification to fair value through profit or loss based on SPPI test		-62,783	-	-62,783	-
Leases not in scope of IFRS 9 classification		-431,732	-	-431,732	-
Total Loans and advances to the public and public sector entities	**21,497,205**	**-21,497,205**	**-**	**-**	**-**
Other assets	**148,205**			148,205	
Subtractions					
Reclassification to amortised cost based on business model		-148,205	-	-148,205	-
Total Other assets	**148,205**	**-148,205**	**-**	**-**	**-**
Total in Loans and receivables	**26,450,983**	**-26,450,983**	**-**	**-**	**-**

(EUR 1,000)	IAS 39 carrying amount as at 31 Dec 2017	Reclassification	Remeasurement	IFRS 9 carrying amount as at 1 Jan 2018	Impact on equity as at 1 Jan 2018
Available-for-sale					
Debt securities	**5,628,591**			5,628,591	
Subtractions					
Reclassification to fair value through other comprehensive income, debt instruments based on business model		-1,815,904	-	-1,815,904	-
Reclassification to fair value through profit or loss based on SPPI test		-1,607	-	-1,607	-
Reclassification to designated at fair value through profit or loss		-3,811,080	-	-3,811,080	-
Total Debt securities	**5,628,591**	**-5,628,591**	**-**	-	**-**
Shares and participations	**9,662**			9,662	
Subtractions					
Reclassification to fair value through profit or loss based on SPPI test		-9,662	-	-9,662	-
Total Shares and participations	**9,662**	**-9,662**	**-**	**-**	**-**
Total in Available-for-sale	**5,638,253**	**-5,638,253**	**-**	**-**	**-**

(EUR 1,000)	IAS 39 carrying amount as at 31 Dec 2017	Reclassification	Remeasurement	IFRS 9 carrying amount as at 1 Jan 2018	Impact on equity as at 1 Jan 2018
Fair value option - Designated at fair value through profit or loss					
Loans and advances to the public and public sector entities	**153,642**			153,642	
Subtractions					
Reclassification to amortised cost based on business model. Fair value option designation criteria no longer met.		-153,642	-	-153,642	-
Total Loans and advances to the public and public sector entities	**153,642**	**-153,642**	**-**	-	**-**
Debt securities	**111,785**			111,785	
Additions					
Reclassification from available-for-sale, designated at fair value through profit or loss		3,811,080	-	3,811,080	-
Subtractions					
Reclassification to fair value through other comprehensive income based on business model		-69,035	-	-69,035	-
Total Debt securities	**111,785**	**3,742,045**	**-**	**3,853,830**	**-**
Total Designated at fair value through profit or loss	**265,427**	**3,588,403**	**-**	**3,853,830**	**-**

(EUR 1,000)	IAS 39 carrying amount as at 31 Dec 2017	Reclassification	Remeasurement	IFRS 9 carrying amount as at 1 Jan 2018	Impact on equity as at 1 Jan 2018
Amortised cost					
Cash and balances with central banks	**-**				
Additions					
Reclassification from loans and receivables based on business model		3,554,182	-	3,554,182	-
Total Cash and balances with central banks	**-**	**3,554,182**	**-**	**3,554,182**	**-**
Loans and advances to credit institutions	**-**				
Additions					
Reclassification from loans and receivables based on business model		1,251,391	-	1,251,391	-
Subtractions					
Increase in expected credit loss		-	-411	-411	-329
Total Loans and advances to credit institutions	**-**	**1,251,391**	**-411**	**1,250,980**	**-329**
Loans and advances to the public and public sector entities	**-**				
Additions					
Reclassification from loans and receivables based on business model		21,002,690	-	21,002,690	-
Reclassification fair value through profit or loss, fair value option designation criteria no longer met. Classification based on business model.		153,642	-2,605	151,037	-2,084
Subtractions					
Increase in expected credit losses*		-	-132	-132	-106
Increase in expected credit losses. Leases only in scope of IFRS 9 for impairment.		-	-2	-2	-1
Total Loans and advances to the public and public sector entities	**-**	**21,156,332**	**-2,738**	**21,153,594**	**-2,191**

(EUR 1,000)	IAS 39 carrying amount as at 31 Dec 2017	Reclassification	Remeasurement	IFRS 9 carrying amount as at 1 Jan 2018	Impact on equity as at 1 Jan 2018
Debt securities	**-**				
Additions					
Reclassification from held-to-maturity based on business model		748,988	-	748,988	-
Subtractions					
Increase in expected credit losses		-	-1	-1	-1
Total Debt securities	**-**	**748,988**	**-1**	**748,986**	**-1**
Other assets	**-**				
Additions					
Reclassification from loans and receivables based on business model		148,205	-	148,205	-
Increase in expected credit losses		-	-49	-49	-39
Total Other assets	**-**	**148,205**	**-49**	**148,156**	**-39**
Total Amortised cost	**-**	**26,859,098**	**-3,200**	**26,855,898**	**-2,560**

* Expected credit losses on binding loan commitments are presented in Other liabilities.

(EUR 1,000)	IAS 39 carrying amount as at 31 Dec 2017	Reclassification	Remeasurement	IFRS 9 carrying amount as at 1 Jan 2018	Impact on equity as at 1 Jan 2018
Fair value through other comprehensive income - debt instruments					
Debt securities	**-**				
Additions					
Reclassification from available-for-sale based on business model		1,815,904	-	1,815,904	-
Reclassification fair value through profit or loss, fair value option designation criteria no longer met. Classification based on business model.		69,035	-	69,035	-
Total Debt securities	**-**	**1,884,939**	**-**	**1,884,939**	**-**
Total Fair value through other comprehensive income	**-**	**1,884,939**	**-**	**1,884,939**	**-**

(EUR 1,000)	IAS 39 carrying amount as at 31 Dec 2017	Reclassification	Remeasurement	IFRS 9 carrying amount as at 1 Jan 2018	Impact on equity as at 1 Jan 2018
Mandatorily at fair value through profit or loss	-				
Loans and advances to the public and public sector entities					
Additions					
Reclassification from loans and receivables based on SPPI test		62,783	1,083	63,866	866
Total Loans and advances to the public and public sector entities	-	**62,783**	**1,083**	**63,866**	**866**
Debt securities	-				
Additions					
Reclassification from available-for-sale based on SPPI test		1,607	-	1,607	-
Reclassification from held-to-maturity based on SPPI test		4,871	8	4,878	6
Total Debt securities	-	**6,478**	**8**	**6,485**	**6**
Shares and participations	-				
Additions					
Reclassification from available-for-sale based on SPPI test		9,662	-	9,662	-
Total Shares and participations	-	**9,662**	-	**9,662**	-
Total Mandatorily at fair value through profit or loss	-	**78,923**	**1,090**	**80,013**	**872**
Total change to financial asset balances (excluding derivative assets), reclassification and remeasurement at 1 Jan 2018	**33,108,521**	**-431,732**	**-2,109**	**32,674,679**	**-1,688**

Reclassification of financial assets EUR -431.7 million on row Total change to financial asset balances is explained by lease assets, which are not regarded as financial assets for the purpose of IFRS 9 classification.

Derivative contracts

(EUR 1,000)	IAS 39 carrying amount as at 31 Dec 2017	Reclassification	Remeasurement	IFRS 9 carrying amount as at 1 Jan 2018	Impact on equity as at 1 Jan 2018
Derivative assets					
Derivatives in hedge accounting	**1,226,930**			**1,226,930**	
Subtractions					
Reclassification to derivatives at fair value through profit or loss		-237,489	-	-237,489	-
Remeasurement of derivatives in hedge accounting		-	5,215	5,215	4,172
Total Derivatives in hedge accounting	**1,226,930**	**-237,489**	**5,215**	**994,655**	**4,172**
Contracts at fair value through profit or loss (previously held-for-trading)	**206,388**			**206,388**	
Additions					
Reclassification from derivatives in hedge accounting		237,489	-	237,489	-
Subtractions					
Remeasurement of bifurcated embedded derivatives. Host contract financial liabilities designated at fair value through profit or loss.		-	-39,122	-39,122	-31,298
Remeasurement of derivatives at fair value through profit or loss		-	53,793	53,793	43,035
Total Contracts at fair value through profit or loss	**206,388**	**237,489**	**14,671**	**458,549**	**11,737**
Total Derivative assets	**1,433,318**	**0**	**19,886**	**1,453,204**	**15,909**

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(EUR 1,000)	IAS 39 carrying amount as at 31 Dec 2017	Reclassification	Remeasurement	IFRS 9 carrying amount as at 1 Jan 2018	Impact on equity as at 1 Jan 2018
Derivative liabilities					
Derivatives in hedge accounting	**1,957,725**			1,957,725	
Subtractions					
Reclassification to derivatives at fair value through profit or loss		-691,156	-	-691,156	-
Remeasurement of derivatives in hedge accounting		-	4,171	4,171	-3,337
Total Derivatives in hedge accounting	**1,957,725**	**-691,156**	**4,171**	**1,270,741**	**-3,337**
Contracts at fair value through profit or loss (previously held-for-trading)	**258,308**			**258,308**	
Additions					
Reclassification from hedge accounting		691,156	-	691,156	-
Subtractions					
Remeasurement of bifurcated embedded derivatives. Host contract financial liabilities designated at fair value through profit or loss		-	-17,088	-17,088	13,670
Remeasurement of derivatives at fair value through profit or loss		-	-2,519	-2,519	2,015
Total Contracts at fair value through profit or loss	**258,308**	**691,156**	**-19,607**	**929,857**	**15,686**
Total Derivative liabilities	**2,216,034**	**0**	**-15,436**	**2,200,598**	**12,349**
Net Derivative contracts	**-782,716**	**0**	**35,322**	**-747,394**	**28,258**

Financial liabilities

(EUR 1,000)	IAS 39 carrying amount as at 31 Dec 2017	Reclassification	Remeasurement	IFRS 9 carrying amount as at 1 Jan 2018	Impact on equity as at 1 Jan 2018
Amortised cost					
Liabilities to credit institutions	**3,902,480**			3,902,480	
Subtractions					
Reclassification of financial liabilities to designated at fair value through profit or loss		-1,231,786	-	-1,231,786	-
Remeasurement of financial liabilities in fair value hedge accounting		-	14,674	14,674	-11,739
Total Liabilities to credit institutions	**3,902,480**	**-1,231,786**	**14,674**	**2,685,367**	**-11,739**
Liabilities to the public and public sector entities	**646,558**			646,558	
Subtractions					
Reclassification of financial liabilities to designated at fair value through profit or loss		-220,660	-	-220,660	-
Reclassification of bifurcated embedded derivative host contract		812	-	812	-
Remeasurement of financial liabilities in fair value hedge accounting			646	646	-517
Total Liabilities to the public and public sector entities	**646,558**	**-219,847**	**646**	**427,357**	**-517**
Debt securities issued	**22,470,615**			22,470,615	
Subtractions					
Reclassification of financial liabilities to designated at fair value through profit or loss		-6,469,284	-	-6,469,284	-
Reclassification of bifurcated embedded derivative host contract		-11,375	-	-11,375	-
Remeasurement of financial liabilities in fair value hedge accounting		-	-2,328	-2,328	1,863
Total Debt securities issued	**22,470,615**	**-6,480,659**	**-2,328**	**15,987,628**	**1,863**
Total Amortised cost	**27,019,653**	**-7,932,292**	**12,992**	**19,100,353**	**-10,394**

(EUR 1,000)	IAS 39 carrying amount as at 31 Dec 2017	Reclassification	Remeasurement	IFRS 9 carrying amount as at 1 Jan 2018	Impact on equity as at 1 Jan 2018
Fair value option - Designated at fair value through profit or loss					
Liabilities to credit institutions	**-**				
Additions					
Reclassification from amortised cost		1,231,786	55,267	1,287,053	-44,213
Total liabilities to credit institutions	**-**	**1,231,786**	**55,267**	**1,287,053**	**-44,213**
Liabilities to the public and public sector entities	**-**				
Additions					
Reclassification from amortised cost		220,660	4,815	225,475	-3,852
Total liabilities to the public and public sector entities	**-**	**220,660**	**4,815**	**225,475**	**-3,852**
Debt securities issued	**3,833,346**			3,833,346	
Additions					
Reclassification from amortised cost		6,469,284	14,621	6,483,905	-11,697
Remeasurement of financial liabilities valued using the fair value option under IAS 39			-160	-160	128
Total Debt securities issued	**3,833,346**	**6,469,284**	**14,461**	**10,317,091**	**-11,568**
Total at Designated at fair value through profit or loss	**3,833,346**	**7,921,730**	**74,542**	**11,829,619**	**-59,634**

(EUR 1,000)	IAS 39 carrying amount as at 31 Dec 2017	Reclassification	Remeasurement	IFRS 9 carrying amount as at 1 Jan 2018	Impact on equity as at 1 Jan 2018
Accrued expenses and deferred income	**-10,562**				
Reclassification of bifurcated embedded derivative host contract		10,562	-	-	-
Total Accrued expenses and deferred income	**-10,562**	**10,562**	**-**	**-**	**-**
Other liabilities	**-**				
Increase in expected credit loss of off-balance sheet items		-	6	6	-5
Total Other liabilities	**-**	**-**	**6**	**6**	**-5**
Total change to financial liability balances (excluding derivative liabilities), reclassification and remeasurement at 1 Jan 2018	**30,842,438**	**0**	**87,540**	**30,929,977**	**-70,032**

Table 3.
Reconciliation of deferred taxes

(EUR 1,000)	IAS 39 carrying amount as at 31 Dec 2017	Remeasurement	IFRS 9 carrying amount as at 1 Jan 2018
Deferred tax liabilities	**202,522**		**202,522**
Changes			
Cost-of-hedging in Cost of hedging reserve		-1,980	-1,980
Change in own credit risk in own credit risk revaluation reserve		-8,609	-8,609
Remeasurement arising from financial assets		-303	-303
Remeasurement arising from financial liabilities		-8,898	-8,898
Remeasurement of derivatives		9,044	9,044
Expected credit losses		-120	-120
Total Deferred tax liabilities	**202,522**	**-10,866**	**191,657**

Table 4.
Reconciliation of equity

The following table analyses the impact of transition to IFRS 9 on reserves in equity and retained earnings. The figures are presented net of taxes.

In the transition the following items within equity were impacted: Fair value reserve and Retained earnings. In addition two new reserves were created, Own credit risk reserve, which contains the changes in MuniFin's credit risk on all liabilities designated at fair value through profit or loss and the Cost of hedging reserve, which contains the cost-of-hedging on cross currency swaps in fair value hedge accounting.

(EUR 1,000)	IAS 39 carrying amount as at 31 Dec 2017	Reclassification	Remeasurement	IFRS 9 carrying amount as at 1 Jan 2018
Fair value reserve, Available-for-sale financial assets	**28,944**			
Subtractions				
Reclassification to retained earnings, debt instruments designated at fair value through profit or loss		-24,495	-	-
Reclassification to fair value through profit or loss, required classification based on SPPI test		301	-	-
Reclassification to fair value reserve, debt instruments at fair value through other comprehensive income. Classification based on business model		-4,751	-	-
Total Fair value reserve, Available-for-sale financial assets	**28,944**	**-28,944**	**-**	**-**

(EUR 1,000)	IAS 39 carrying amount as at 31 Dec 2017	Reclassification	Remeasurement	IFRS 9 carrying amount as at 1 Jan 2018
Fair value reserve, Debt instrument at fair value through other comprehensive income	**-**			
Additions				
Reclassification from fair value reserve, Available-for-sale financial assets. Classification based on business model		4,751	-	4,751
Reclassification from retained earnings. Classification based on business model		3	-	3
Subtractions				
Increase in expected credit losses		-	254	254
Total Fair value reserve - Debt instruments at fair value through other comprehensive income	**-**	**4,754**	**254**	**5,008**
Own credit revaluation reserve (Change in own credit risk)	**-**			
Reclassification from retained earnings. Impact of change in own credit risk of financial liabilities designated at fair value through profit or loss		-34,437	-	-34,437
Total Own credit revaluation reserve	**-**	**-34,437**	**-**	**-34,437**
Cost of hedging reserve	**-**			
Reclassification from retained earnings. Impact of cost-of-hedging of derivatives in fair value hedge accounting		-7,919	-	-7,919
Total Cost of hedging reserve	**-**	**-7,919**	**-**	**-7,919**

(EUR 1,000)	IAS 39 carrying amount as at 31 Dec 2017	Reclassification	Remeasurement	IFRS 9 carrying amount as at 1 Jan 2018
Retained earnings	**879,799**			879,799
Additions				
Reclassification from fair value reserve, available-for-sale financial assets. Debt instruments designated at fair value through profit or loss		24,495	-	24,495
Reclassification from fair value reserve, available for sale financial assets. Required classification based on SPPI test		-301	-	-301
Subtractions				
Reclassification to fair value reserve, available-for-sale financial assets. Classification based on business model		-3	-	-3
Reclassification of cost-of-hedging on derivatives in fair value hedge accounting to cost of hedging reserve		7,919	-	7,919
Reclassification of changes in own credit risk on financial liabilities designated at fair value through profit or loss to Own credit revaluation reserve		34,437	-	34,437
Remeasurement				
Remeasurement following reclassification from held-to-maturity to mandatorily at fair value through profit or loss		-	6	6
Remeasurement following reclassification from fair value option to amortised cost		-	-2,084	-2,084
Remeasurement following reclassification from loans and receivables to mandatorily at fair value through profit or loss		-	866	866
Remeasurement following reclassification of liabilities to designated at fair value through profit or loss in IFRS 9		-	-59,762	-59,762
Remeasurement of liabilities utilising the fair value option in IAS 39 and designated at fair value through profit or loss in IFRS 9		-	128	128
Remeasurement of liabilities classified under amortised cost and included in fair value hedge accounting in IFRS 9		-	-10,394	-10,394
Remeasurement of derivatives		-	45,885	45,885
Remeasurement of bifurcated embedded derivatives. Measured as financial liabilities designated at fair value through profit or loss		-	-17,627	-17,627
Increase in expected credit losses		-	-735	-735
Total Retained earnings	**879,799**	**66,546**	**-43,716**	**902,628**
Total impact of reclassification and remeasurement on Retained earnings and reserves at 1 Jan 2018	**908,743**	**0**	**-43,462**	**865,281**

Table 5.
Reconciliation of changes in the extent hedge accounting is applied in IAS 39 and IFRS 9

In the transition to IFRS 9 MuniFin has amended the extent to which fair value hedge accounting is applied.

For financial assets MuniFin continues to utilise portfolio hedge accounting in accordance with IAS 39 for fixed rate and long-term reference rate lending. Lending which has been hedged 1:1 with an interest rate swap and not included in macro hedge accounting, utilise IFRS 9 fair value hedge accounting from 1 January 2018 onwards. In the transition to IFRS 9 MuniFin elected to no longer utilise fair value hedge accounting for its investments in debt securities. These debt securities are designated at fair value through profit or loss.

For fixed rate lease contracts, MuniFin moved to using IFRS 9 fair value hedge accounting. The amount hedged leasing contracts in included in the figures on row Loans and advances to the public and public sector entities at a balance of EUR 99 065 thousand.

(EUR 1,000)	IAS 39 carrying amount as at 31 Dec 2017	Reclassification	Remeasurement	IFRS 9 carrying amount as at 1 Jan 2018
Loans and advances to the public and public sector entities				
Fair value hedge accounting	**7,068,042**			7,068,042
Reclassification to mandatorily at fair value through profit or loss		-62,783	-	-62,783
Total loans and advances to the public and public sector entities	**7,068,042**	**-62,783**	**-**	**7,005,259**
of which IAS 39 portfolio hedge accounting				6,730,660
of which IFRS 9 hedge accounting				274,599
Debt securities				
Fair value hedge accounting	**3,811,080**			3,811,080
Reclassification to designated at fair value through profit or loss		-3,811,080	-	-3,811,080
Total Debt securities	**3,811,080**	**-3,811,080**	**-**	**-**

For financial liabilities fair value hedge accounting according to IFRS 9 is applied, but in comparison to IAS 39 MuniFin has decreased the extent to which fair value hedge accounting is applied on financial liabilities due to the increased amount of financial liabilities designated at fair value through profit or loss. In addition in its fair value hedge accounting of foreign currency liabilities, MuniFin utilises the option to exclude the foreign currency basis spread (cost-of-hedging) from the hedge relationship.

(EUR 1,000)	IAS 39 carrying amount as at 31 Dec 2017	Reclassification	Remeasurement	IFRS 9 carrying amount as at 1 Jan 2018
Liabilities to credit institutions				
Fair value hedge accounting	3,198,950			3,198,950
Reclassification to designated at fair value through profit or loss		-1,231,786	14,674	-1,217,113
Total Liabilities to credit institutions	**3,198,950**	**-1,231,786**	**14,674**	**1,981,837**
of which IFRS 9 hedge accounting with cost-of-hedging				-
Liabilities to the public and public sector entities				
Fair value hedge accounting	617,371			617,371
Reclassification to designated at fair value through profit or loss		-220,660	646	-220,013
Total Liabilities to the public and public sector entities	**617,371**	**-220,660**	**646**	**397,358**
of which IFRS 9 hedge accounting with cost-of-hedging				253,945
Debt securities issued				
Fair value hedge accounting	19,961,876			19,961,876
Reclassification to designated at fair value through profit or loss		-4,260,545	-2,328	-4,262,873
Total Debt securities issued	**19,961,876**	**-4,260,545**	**-2,328**	**15,699,003**
of which IFRS 9 hedge accounting with cost-of-hedging				13,153,617

(EUR 1,000)	IAS 39 carrying amount as at 31 Dec 2017	Reclassification	Remeasurement	IFRS 9 carrying amount as at 1 Jan 2018
Total fair value hedge accounting	**34,657,319**	**-9,586,854**	**12,992**	**25,083,457**
of which IAS 39 portfolio hedge accounting				6,730,660
of which IFRS 9 hedge accounting				4,945,235
of which IFRS 9 hedge accounting with cost-of-hedging				13,407,562

Table 6.
Reconciliation of impairment allowances under IAS 39 and IFRS 9

The following table reconciles the closing impairment allowance in accordance with IAS 39 to the opening impairment allowance determined in accordance with IFRS 9 as at 1 January 2018. Changes to the impairment allowance under IFRS 9 are due to remeasurement of impairment using the expected credit loss requirements.

(EUR 1,000)	Notional 1 Jan 2018	Impairment 1 Jan 2018
Stage 1	26,912,659	-842
Stage 2	102,991	-77
Stage 3	-	-
Total	**27,015,650**	**-918**

(EUR 1,000)	IAS 39 impairment 31 Dec 2017	Remeasurement	IFRS 9 impairment 1 Jan 2018
Loans and advances to credit institutions at amortised cost	0	-411	-411
Loans and advances to the public and public sector entities at amortised cost	0	-132	-132
Leasing receivables in loans and advances to the public and public sector entities	0	-2	-2
Debt securities at amortised cost	0	-1	-1
Debt securities at fair value through other comprehensive income (1)	0	-317	-317
Cash collateral to Central Counterparty Clearing House in other assets at amortised cost	0	-49	-49
Binding credit commitments (off-balance sheet)	0	-6	-6
Total impairment provision	**0**	**-918**	**-918**

(1) Included within the fair value reserve (fair value through other comprehensive income).

At year end 2017 MuniFin reported an impairment loss totalling EUR 1,366 thousand on Loans and advances to the the public and public sector entities. This amount was written off at year end 2017 and not shown in the table above.

Note 4. Financial assets and liabilities

Financial assets

31 DEC 2018 (EUR 1,000)	Amortised cost	Mandatorily at fair value through profit or loss	Designated at fair value through profit or loss	Fair value through other comprehensive income	Derivatives in hedge accounting	Total	Fair value
Cash and balances with central banks	3,522,200	-	-	-	-	3,522,200	3,522,200
Loans and advances to credit institutions	1,380,544	-	-	-	-	1,380,544	1,380,544
Loans and advances to the public and public sector entities	22,407,123	56,808	-	-	-	22,463,931	24,386,586
Debt securities	725,587	825	3,701,796	1,434,383	-	5,862,591	5,862,961
Shares and participations	-	9,521	-	-	-	9,521	9,521
Derivative contracts	-	534,398	-	-	1,004,212	1,538,610	1,538,610
Other assets	164,345	-	-	-	-	164,345	164,345
Total	**28,199,799**	**601,552**	**3,701,796**	**1,434,383**	**1,004,212**	**34,941,743**	**36,864,767**

Loans and advances to the public sector entities includes EUR 109,836 thousand receivables based on lease agreements, which are in fair value hedge accounting. Unhedged lease assets are not presented in financial assets and liabilities, as lease assets are not regarded as a financial asset for the purpose of IFRS 9 classification.

Other assets includes EUR 164,345 thousands of cash collateral given to central counterparties.

Financial liabilities

31 DEC 2018 (EUR 1,000)	At amortised cost	At fair value through profit or loss	Designated at fair value through profit or loss	Derivatives in hedge accounting	Total	Fair value
Liabilities to credit institutions	776,105	-	46,399	-	822,504	822,733
Liabilities to the public and public sector entities	2,301,358	-	1,569,561	-	3,870,918	3,896,366
Debt securities issued	16,911,743	-	9,990,255	-	26,901,998	26,950,268
Derivative contracts	-	1,197,905	-	1,007,522	2,205,427	2,205,427
Total	**19,989,205**	**1,197,905**	**11,606,215**	**1,007,522**	**33,800,848**	**33,874,795**

Financial assets

31 DEC 2017 (EUR 1,000)	Loans and receivables	Available-for-sale financial assets	Held-to-maturity investments	Fair value option	Held-for-trading	Derivatives in hedge accounting	Total	Fair value
Cash and balances with central banks	3,554,182	-	-	-	-	-	3,554,182	3,554,182
Loans and advances to credit institutions	1,251,391	-	-	-	-	-	1,251,391	1,251,391
Loans and advances to the public and public sector entities	21,497,205	-	-	153,642	-	-	21,650,847	23,440,944
Debt securities	-	5,628,591	753,859	111,785	-	-	6,494,234	6,494,663
Shares and participations	-	9,662	-	-	-	-	9,662	9,662
Derivative contracts	-	-	-	-	206,388	1,226,930	1,433,318	1,433,318
Other assets	148,205	-	-	-	-	-	148,205	148,205
Total	**26,450,983**	**5,638,253**	**753,859**	**265,427**	**206,388**	**1,226,930**	**34,541,839**	**36,332,366**

Loans and advances to the public sector entities includes EUR 431,732 thousand receivables based on lease agreements.

In 2017 fair value hedge accounting is applied to EUR 3,811,080 thousand of debt securities classified as available-for-sale financial assets.
Loans and advances to the public and public sector entities includes EUR 7,068,042 thousand in loans and receivables included in fair value hedge accounting.
Other assets includes EUR 148,205 thousands of cash collateral given to central counterparties.

Financial liabilities

31 DEC 2017 (EUR 1,000)	Financial liabilities at amortised cost	Fair value option	Held-for-trading	Derivatives in hedge accounting	Total	Fair value
Liabilities to credit institutions *	802,277	-	-	-	802,277	804,267
Liabilities to the public and public sector entities *	3,746,762	-	-	-	3,746,762	3,824,994
Debt securities issued	22,470,615	3,833,346	-	-	26,303,961	26,356,850
Derivative contracts	-	-	258,308	1,957,725	2,216,034	2,216,034
Total	**27,019,654**	**3,833,346**	**258,308**	**1,957,725**	**33,069,033**	**33,202,145**

* In 2017 fair value hedge accounting is applied to EUR 23,778,197 thousand of financial liabilities at amortised cost.

Note 5. Fair values of financial assets and liabilities

		Fair value			
31 DEC 2018 (EUR 1,000)	**Carrying amount**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value					
Fair value through other comprehensive income					
Debt securities	1,434,383	1,344,347	90,037	-	1,434,383
Designated at fair value through profit or loss					
Debt securities	3,701,796	3,701,796	-	-	3,701,796
Mandatorily at fair value through profit or loss					
Loans and advances to the public and public sector entities	56,808	-	56,808	-	56,808
Debt securities	825	-	825	-	825
Shares in investment funds	9,521	9,521	-	-	9,521
Derivative assets	534,398	-	533,454	944	534,398
Derivatives in hedge accounting	1,004,212	-	1,004,212	-	1,004,212
Total financial assets at fair value	**6,741,943**	**5,055,663**	**1,685,336**	**944**	**6,741,943**
In fair value hedge accounting					
At amortised cost					
Loans and advances to the public and public sector entities	7,746,628	-	8,278,225	-	8,278,225
Total in fair value hedge accounting	**7,746,628**	**-**	**8,278,225**	**-**	**8,278,225**
Financial assets at amortised cost					
Cash and balances with central banks	3,522,200	3,522,200	-	-	3,522,200
Loans and advances to credit institutions	1,380,544	119,437	1,261,107	-	1,380,544
Loans and advances to the public and public sector entities	14,660,495	-	16,051,552	-	16,051,552
Debt securities	725,587	-	725,957	-	725,957
Other assets	164,345	-	164,345	-	164,345
Total financial assets at amortised cost	**20,453,171**	**3,641,637**	**18,202,962**	**-**	**21,844,599**
Total financial assets	**34,941,742**	**8,697,300**	**28,166,523**	**944**	**36,864,767**

		Fair value			
31 DEC 2018 (EUR 1,000)	**Carrying amount**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial liabilities at fair value					
Designated at fair value through profit or loss					
Liabilities to credit institutions	46,399	-	46,399	-	46,399
Liabilities to the public and public sector entities	1,569,561	-	1,569,561	-	1,569,561
Debt securities issued	9,990,255	-	9,221,807	768,448	9,990,255
At fair value through profit or loss					
Derivative liabilities	1,197,905	-	1,005,905	192,000	1,197,905
Derivatives in hedge accounting	1,007,522	-	1,007,522	-	1,007,522
Total financial liabilities at fair value	**13,811,642**	**-**	**12,851,194**	**960,448**	**13,811,642**
In fair value hedge accounting					
Liabilities to credit institutions	36,845	-	37,073	-	37,073
Liabilities to the public and public sector entities	2,301,358	-	2,326,806	-	2,326,806
Debt securities issued *	16,360,789	-	16,409,059	-	16,409,059
Total in fair value hedge accounting	**18,698,991**	**-**	**18,772,938**	**-**	**18,772,938**
Financial liabilities at amortised cost					
Liabilities to credit institutions	739,260	-	739,260	-	739,260
Debt securities issued	550,954	-	550,954	-	550,954
Total financial liabilities at amortised cost	**1,290,214**	**-**	**1,290,214**	**-**	**1,290,214**
Total financial liabilities	**33,800,848**	**-**	**32,914,346**	**960,448**	**33,874,794**

*In the above table, MuniFin's fixed-rate benchmark bond issuances are presented in Level 2 due to that these bonds are in fair value hedge accounting with respect to the hedged risk. Valuation of hedged risk is based on the input data on level 2. For the financial reporting purposes MuniFin's fixed-rate benchmark bonds fair value is reported based on the quoted prices from Bloomberg. Quoted price is Level 1 input data.

		Fair value			
31 DEC 2017 (EUR 1,000)	**Carrying amount**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value					
Available-for-sale financial assets					
Debt securities	1,817,511	1,815,904	1,607	-	1,817,511
Shares in investment funds	9,662	9,662	-	-	9,662
Fair value option					
Debt securities	111,785	42,750	69,035	-	111,785
Loans and advances to the public and public sector entities	153,642	-	153,642	-	153,642
Held-for-trading					
Derivative assets	206,388	-	167,692	38,696	206,388
Derivatives in hedge accounting	1,226,930	-	1,226,930	-	1,226,930
Total financial assets at fair value	**3,525,917**	**1,868,316**	**1,618,905**	**38,696**	**3,525,918**
In fair value hedge accounting					
Loans and receivables					
Loans and advances to the public and public sector entities	7,068,042	-	7,562,122	-	7,562,122
Available-for-sale financial assets					
Debt securities	3,811,080	3,811,080	-	-	3,811,080
Total in fair value hedge accounting	**10,879,122**	**3,811,080**	**7,562,122**	**-**	**11,373,202**
Financial assets at amortised cost					
Loans and receivables					
Cash and balances with central banks	3,554,182	3,554,182	-	-	3,554,182
Loans and advances to credit institutions	1,251,391	61,521	1,189,870	-	1,251,391
Loans and advances to the public and public sector entities	14,429,162	-	15,725,180	-	15,725,180
Other assets	148,205	-	148,205	-	148,205
Held-to-maturity					
Debt securities	753,859	-	749,409	4,878	754,288
Total financial assets at amortised cost	**20,136,799**	**3,615,703**	**17,812,664**	**4,878**	**21,433,246**
Total financial assets	**34,541,839**	**9,295,099**	**26,993,692**	**43,575**	**36,332,366**

31 DEC 2017 (EUR 1,000)	Carrying amount	Fair value Level 1	Level 2	Level 3	Total
Financial liabilities at fair value					
Fair value option					
Debt securities issued	3,833,346	-	3,833,346	-	3,833,346
Held-for-trading					
Derivative liabilities	258,308	-	219,612	38,696	258,308
Derivatives in hedge accounting	1,957,725	-	1,957,725	-	1,957,725
Total financial liabilities at fair value	**6,049,379**	**-**	**6,010,683**	**38,696**	**6,049,379**
In fair value hedge accounting					
Liabilities to credit institutions	98,747	-	100,730	-	100,730
Liabilities to the public and public sector entities	3,717,574	-	3,795,533	-	3,795,533
Debt securities issued	19,961,876	-	20,044,115	-	20,044,115
Total in fair value hedge accounting	**23,778,197**	**-**	**23,940,379**	**-**	**23,940,379**
Financial liabilities at amortised cost					
Liabilities to credit institutions	703,530	-	703,538	-	703,538
Liabilities to the public and public sector entities	29,188	-	19,621	9,839	29,460
Debt securities issued	2,508,739	-	1,535,834	943,555	2,479,389
Total financial liabilities at amortised cost	**3,241,456**	**-**	**2,258,993**	**953,394**	**3,212,387**
Total financial liabilities	**33,069,034**	**-**	**32,210,054**	**992,091**	**33,202,145**

Level 1

Valuation is based on quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date. The prices used are unadjusted. A market is considered to be functioning if trading is frequent and price data is regularly available. MuniFin bases its valuations for some instruments on quoted prices for identical instruments from Bloomberg and Reuters. These quotes (mid) represent the price for an orderly transaction between parties in the market on the valuation date. These quotes therefore represent the fair value for these products. Level 1 financial assets comprise mainly investments in debt securities.

Level 2

Valuation is based on input data other than Level 1 quoted prices. Prices can be observed either directly or indirectly. Level 2 financial instruments are not actively traded on functioning markets and the fair value is determined by using generally accepted valuation models and methods.

The fair values may be based on quotations of similar assets or liabilities in active markets or quotations of equivalent or similar assets or liabilities in markets that are not active. The fair values may also be calculated based on other input data than quoted prices that can be observed for an asset or a liability. Examples of such input data include bank rates and profit curves for which regular quotations are available, implicit volatilities and credit spreads. The requirement is that the input data is observable on regular intervals. If a financial asset or a financial liability has a fixed maturity, the level 2 input data must be observable to a material extent during the existence of a financial asset or liability.

Level 2 valuation is based on methods in which contractual cash flows are modeled using forward curves after which the cash flows are discounted using currency and interest based discount curves. Valuation of contracts containing options is performed using interest and option pricing models which are generally accepted on the financial markets. The valuation methods utilise observable input data. Level 2 financial instruments primarily comprise OTC derivatives, the company's own issued bonds, lending and investments in commercial paper.

Fair value of OTC derivatives is based on valuation models. Observable market interest rates are used for discounting. In addition valuations are based on other input data depending on attributes of an instrument. Numerix (a pricing model library) is used for valuing structured instruments. Valuation models in Numerix are equivalent to those models generally accepted on the financial markets. OTC derivatives are classified to level 2, if all material input data used in valuation models can be verified on functioning markets.

Level 3

Valuation is based on inputs other than level 1 quoted prices or the observable inputs used in level 2 in valuation methods. Level 3 valuation includes unobservable inputs for the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that relevant observable inputs are not available. MuniFin's level 3 input is the historical volatility, which is only used in cases where implied volatility is not available.

Level 3 valuation is based on methods in which contractual cash flows are modelled using forward curves after which the cash flows are discounted using currency and interest based discount curves. Valuation of contracts containing options is performed using interest and option pricing models which are generally accepted on the financial markets. These valuation methods may utilise input data, which is not directly observable from the market and has a material impact on the valuation. Level 3 financial instruments primarily comprise equity-linked OTC-derivatives financial liabilities.

All valuation models take advantage of market information such as interest rates, volatilities and correlations. Some of the input data used may be verified whereas some of it may not be. All interest rates of main currencies can be verified, as well as interest rates, volatilities and correlation up to a certain point in time. If the impact of unverified input data is material, an instrument is classified to the fair value hierarchy level 3.

Transfers in the fair value hierarchy

During 2018 financial year, no reclassifications have been made between Level 1 and Level 2.
During 2018 financial year, no reclassifications have been made between Level 2 and Level 3.

	Derivative assets	Derivative liabilities	Debt securities	Debt securities issued	
2018 (EUR 1,000)	**At fair value through profit or loss**	**At fair value through profit or loss**	**Mandatorily at fair value through profit or loss**	**Designated as at fair value through profit or loss**	**Total**
1 Jan 2018	38,696	-38,696	4,878	-953,394	-948,516
Change in fair value in the income statement	-32,799	-41,437	-	9,207	-65,029
Purchases	657	-130,858	-	-414,543	-544,744
Sales and matured contracts	-5,611	18,992	-4,878	590,282	598,785
Transfers into Level 3	-	-	-	-	-
Transfers out of Level 3	-	-	-	-	-
31 Dec 2018	**944**	**-192,000**	**0**	**-768,448**	**-959,503**

During 2017 financial year, no reclassifications have been made between Level 1 and Level 2.

During 2017 financial year, some financial assets have been transfered from level 2 to Level 3 due to changes in input data used in the valuation. The transfers are presented using fair values of 31 December 2016.

	Derivative assets	Derivative liabilities	Debt securities	
2017 (EUR 1,000)	**Held-for-trading**	**Held-for-trading**	**Held-to-maturity**	**Total**
1 Jan 2017	67,453	-67,453	-	0
Change in fair value in the income statement	-9,465	9,465	-	0
Purchases	22,188	-22,188	-	0
Sales and matured contracts	-41,480	41,480	-	0
Transfers into level 3	-	-	4,878	4,878
Transfers out of level 3	-	-	-	-
31 Dec 2017	**38,696**	**-38,696**	**4,878**	**4,878**

Sensitivity analysis of unobservable inputs

Unobservable inputs are share and index volatilities for which no quotations exists in liquid markets. Historic market quotations for 2014 - 2018 have been used to calculate ranges for unobservable inputs. The fair values of the contracts in high volatility and low volatility scenarios have been estimated based on the range of the inputs. In the low volatility scenario the fair value of the derivatives increases by EUR 36.8 million (2017: EUR 40.4 million) and the fair value of the debt instrument decreases by EUR 37.3 million (2017: EUR 40.4 million). In the high volatility scenario the fair value of the derivatives decreases by EUR 10.8 million (2017: EUR 24.7 million) and the fair value of the debt instrument increases by EUR 11.0 million (2017: EUR 24.7 million).

Note 6. Breakdown of the balance sheet by maturity

31 DEC 2018 (EUR 1,000)	0–3 months	3–12 months	1–5 years	5–10 years	Over 10 years	Total
Cash and balances with central banks	3,522,200	-	-	-	-	3,522,200
Loans and advances to credit institutions	1,358,652	-	21,892	-	-	1,380,544
Loans and advances to the public and public sector entities	373,289	1,305,217	7,307,362	4,332,912	9,649,337	22,968,118
Debt securities	1,078,478	1,009,914	3,653,451	119,924	825	5,862,591
Shares and participations	-	-	-	-	9,521	9,521
Derivative contracts	43,285	229,001	461,255	311,419	493,649	1,538,610
Intangible assets	-	-	-	14,850	-	14,850
Tangible assets	-	-	2,074	353	-	2,427
Other assets	174,818	-	-	-	-	174,818
Accrued income and prepayments	131,225	71,097	739	-	-	203,061
Total	**6,681,946**	**2,615,229**	**11,446,774**	**4,779,458**	**10,153,333**	**35,676,739**

31 DEC 2018 (EUR 1,000)	0–3 months	3–12 months	1–5 years	5–10 years	Over 10 years	Total
Liabilities to credit institutions	739,260	46,399	-	6,200	30,644	822,504
Liabilities to the public and public sector entities	30,124	126,215	900,223	1,254,490	1,559,866	3,870,918
Debt securities issued	5,093,825	4,217,958	12,611,338	3,355,363	1,623,514	26,901,998
Derivative contracts	785,582	293,774	835,956	118,189	171,926	2,205,426
Other liabilities	6,149	-	-	-	-	6,149
Accrued expenses and deferred income	90,035	58,342	-	-	-	148,377
Deferred tax liabilities	235,307	-	-	-	-	235,307
Equity	-	-	-	-	1,486,059	1,486,059
Total	**6,980,281**	**4,742,688**	**14,347,517**	**4,734,243**	**4,872,010**	**35,676,738**

Liabilities and hedging derivatives that may be called before maturity have been classified in the maturity class corresponding to the first possible call date. The company estimates it will call 20-40% of its callable liabilities in 2019. In 2018, the company called 29% of its callable liabilities.

31 DEC 2017 (EUR 1,000)	0–3 months	3–12 months	1–5 years	5–10 years	Over 10 years	Total
Cash and balances with central banks	3,554,182	-	-	-	-	3,554,182
Loans and advances to credit institutions	1,235,721	-	15,670	-	-	1,251,391
Loans and advances to the public and public sector entities	322,221	1,245,432	6,885,017	3,921,096	9,277,081	21,650,847
Debt securities	1,159,874	773,454	3,927,457	631,842	1,607	6,494,234
Shares and participations	-	-	-	-	9,662	9,662
Derivative contracts	50,377	176,489	473,695	550,167	182,590	1,433,318
Intangible assets	-	-	-	10,196	-	10,196
Tangible assets	-	-	1,881	-	713	2,594
Other assets	157,862	-	-	-	-	157,862
Accrued income and prepayments	100,775	72,301	746	27	3	173,853
Total	**6,581,012**	**2,267,677**	**11,304,466**	**5,113,328**	**9,471,657**	**34,738,139**

31 DEC 2017 (EUR 1,000)	0–3 months	3–12 months	1–5 years	5–10 years	Over 10 years	Total
Liabilities to credit institutions	711,359	18,773	57,293	11,196	3,655	802,277
Liabilities to the public and public sector entities	57,284	84,886	899,712	1,136,899	1,567,981	3,746,762
Debt securities issued	7,028,322	4,165,987	10,885,693	3,517,107	706,851	26,303,961
Derivative contracts	537,816	324,615	1,010,354	206,494	136,754	2,216,034
Other liabilities	2,587	-	-	-	-	2,587
Accrued expenses and deferred income	61,625	62,887	31	27	3	124,574
Deferred tax liabilities	202,522	-	-	-	-	202,522
Equity	-	-	-	-	1,339,422	1,339,422
Total	**8,601,516**	**4,657,149**	**12,853,084**	**4,871,724**	**3,754,667**	**34,738,139**

Liabilities that may be called before maturity have been classified in the maturity class corresponding to the first possible call date. The company estimates it will call 30-50% of its callable liabilities in 2018. In 2017, the company called 35% of its callable liabilities.

Note 7. Offsetting financial assets and liabilities

The following financial assets and liabilities are subject to enforceable master netting agreements:

Cash given as collateral is included in the balance sheet line item Loans and advances to credit institutions, excluding cash given as collateral to central counterparties, which is presented on the balance sheet in line item Other assets. Cash received as collateral is included in the balance sheet on line Liabilities to credit institutions.

				Amounts not offset in the statement of financial position		
31 DEC 2018 (EUR 1,000)	**Carrying amount, gross**	**Offset in the statement of financial position, gross**	**Carrying amount, net**	**Received cash collateral**	**Given cash collateral***	**Net**
Financial assets						
Derivative contracts	1,538,610	-	1,538,610	739,260	-	799,350
Total	**1,538,610**	**-**	**1,538,610**	**739,260**	**-**	**799,350**
Financial liabilities						
Derivative contracts	2,205,427	-	2,205,427	-	1,440,195	765,231
Total	**2,205,427**	**-**	**2,205,427**	**-**	**1,440,195**	**765,231**

The company has not offset any financial assets or liabilities in its statement of financial position in 2018.

*Includes EUR 164,345 thousands of cash collateral given to central counterparties.

31 DEC 2017 (EUR 1,000)	Carrying amount, gross	Offset in the statement of financial position, gross	Carrying amount, net	Amounts not offset in the statement of financial position		
				Received cash collateral	Given cash collateral*	Net
Financial assets						
Derivative contracts	1,433,318	-	1,433,318	699,780	-	733,538
Total	**1,433,318**	**-**	**1,433,318**	**699,780**	**-**	**733,538**
Financial liabilities						
Derivative contracts	2,216,034	-	2,216,034	-	1,375,375	840,659
Total	**2,216,034**	**-**	**2,216,034**	**-**	**1,375,375**	**840,659**

The company has not offset any financial assets or liabilities in its statement of financial position in 2017.

*Includes EUR 148,205 thousands of cash collateral given to central counterparties.

Note 8. Cash and cash equivalents

31 DEC 2018 (EUR 1,000)	Total	Cash and cash equivalents	Expected credit losses
Cash	4	4	-
Central bank deposits payable on demand	3,522,196	3,522,196	0
Cash and balances with central banks	**3,522,200**	**3,522,200**	**0**
Loans and advances to credit institutions payable on demand	51,006	51,006	0
Total cash and cash equivalents	**3,573,206**	**3,573,206**	**0**

(EUR 1,000)	31 Dec 2017
Cash	5
Central bank deposits payable on demand	3,554,177
Cash and balances with central banks	**3,554,182**
Loans and advances to credit institutions payable on demand	8,551
Total cash and cash equivalents	**3,562,733**

Note 9. Loans and advances to credit institutions

31 DEC 2018 (EUR 1,000)	Total	Payable on demand	Other than payable on demand	Expected credit losses
Receivables from central bank	31,839	-	31,839	0
Domestic credit institutions	86,061	49,469	36,600	-8
Foreign credit institutions	1,262,644	1,537	1,261,150	-43
Total	**1,380,544**	**51,006**	**1,329,589**	**-51**

Loans and advances to credit institutions other than repayable on demand does not include reverse repo agreements at year end 2018.

31 DEC 2017 (EUR 1,000)	Total	Payable on demand	Other than payable on demand
Domestic credit institutions	61,220	8,250	52,970
Foreign credit institutions	1,190,171	301	1,189,870
Total	**1,251,391**	**8,551**	**1,242,840**

Loans and advances to credit institutions other than repayable on demand does not include reverse repo agreements at year end 2017.

Note 10. Debt securities

DEBT SECURITIES ISSUED BY PUBLIC SECTOR ENTITIES 31 DEC 2018 (EUR 1,000)	Publicly quoted	Other	Total	Expected credit losses
Mandatorily at fair value through profit or loss	**-**	**-**	**-**	**-**
Designated at fair value through profit or loss	**1,552,085**	**0**	**1,552,085**	**-**
Government bonds	363,192	-	363,192	-
Bonds issued by other public sector entities	1,188,892	-	1,188,892	-
Financial assets at amortised cost	**-**	**641,517**	**641,517**	**-**
Commercial paper issued by other public sector entities	-	641,517	641,517	0
Fair value through other comprehensive income	**100,453**	**-**	**100,453**	**-**
Government bonds	-	-	0	-
Bonds issued by other public sector entities	100,453	-	100,453	-
Total	**1,652,538**	**641,517**	**2,294,055**	**0**
Eligible for central bank refinancing	1,413,185	-	1,413,185	0

DEBT SECURITIES ISSUED BY OTHER THAN PUBLIC SECTOR ENTITIES 31 DEC 2018 (EUR 1,000)	Publicly quoted	Other	Total	Expected credit losses
Mandatorily at fair value through profit or loss	**-**	**825**	**825**	**-**
Other debt securities	-	825	825	-
Designated at fair value through profit or loss	**2,149,711**	**-**	**2,149,711**	**-**
Bank bonds	2,149,711	-	2,149,711	-
Financial assets at amortised cost	**-**	**84,070**	**84,070**	**0**
Commercial papers	-	84,070	84,070	-
Fair value through other comprehensive income	**1,333,930**	**-**	**1,333,930**	**-**
Bank bonds	1,268,885	-	1,268,885	-
Bank commercial papers	65,046	-	65,046	0
Total	**3,483,642**	**84,895**	**3,568,536**	**0**
Eligible for central bank refinancing	2,936,518	-	2,936,518	0

31 DEC 2018 (EUR 1,000)	Publicly quoted	Other	Total	Expected credit losses
Debt securities total	**5,136,179**	**726,412**	**5,862,591**	**0**

Debt securities do not contain any securities given as collateral for reverse repo agreements at year end 2018.
ECL for financial assets measured at fair value through other comprehensive income is recognised in the fair value reserve.

DEBT SECURITIES ISSUED BY PUBLIC SECTOR ENTITIES 31 DEC 2017 (EUR 1,000)	**Publicly quoted**	**Other**	**Total**
Held-to-maturity	**-**	**661,318**	**661,318**
Municipal commercial papers	-	661,318	661,318
Available-for-sale	**1,845,609**	**-**	**1,845,609**
Government bonds	450,170	-	450,170
Bonds issued by other public sector entities	1,395,439	-	1,395,439
Fair value option	**-**	**-**	**-**
Government treasury bills	-	-	-
Bonds issued by other public sector entities	-	-	-
Commercial paper issued by other public sector entities	-	-	-
Total	**1,845,609**	**661,318**	**2,506,927**
Eligible for central bank refinancing	1,583,001	-	1,583,001

DEBT SECURITIES ISSUED BY OTHER THAN PUBLIC SECTOR ENTITIES 31 DEC 2017 (EUR 1,000)	Publicly quoted	Other	Total
Held-to-maturity	**-**	**92,541**	**92,541**
Commercial papers	-	87,670	87,670
Other debt securities	-	4,871	4,871
Available-for-sale	**3,781,374**	**1,607**	**3,782,981**
Bank bonds	3,781,374	-	3,781,374
Other debt securities	-	1,607	1,607
Fair value option	**42,750**	**69,035**	**111,785**
Bank commercial paper	-	69,035	69,035
Bank bonds	42,750	-	42,750
Total	**3,824,124**	**163,182**	**3,987,307**
Eligible for central bank refinancing	3,385,314	40,028	3,425,343

31 DEC 2017 (EUR 1,000)	Publicly quoted	Other	Total
Debt securities total	**5,669,734**	**824,500**	**6,494,234**

Debt securities do not contain any securities given as collateral for reverse repo agreements at year end 2017.

RECLASSIFICATION (EUR 1,000)	Transfer date	Fair value of investments at transfer date
Transferred from available-for-sale to held-to-maturity investments	1 Jan 2008	171,935
Transferred from available-for-sale to held-to-maturity investments	1 Jul 2008	34,967
Total		**206,902**

(EUR 1,000)	Impact on fair value reserve, if not reclassified	Valuation difference released from fair value reserve
2018	-8	-
2017	139	-
2016	4,194	24
2015	2,018	84
2014	7,001	92
2013	1,139	167
2012	2,182	272
2011	5,238	652
2010	3,903	765
2009	-3,487	953
2008	-22,319	852
	0	**3,861**

Debt securities reclassified in 2008 have matured by the end of year 2018.

Note 11. Shares and participations

31 DEC 2018 (EUR 1,000)	Publicly quoted	Other	Total	In credit institutions
Mandatorily at fair value through profit or loss	9,494	27	9,521	-
Total	**9,494**	**27**	**9,521**	**-**

31 DEC 2017 (EUR 1,000)	Publicly quoted	Other	Total	In credit institutions
Available-for-sale	9,635	27	9,662	-
Total	**9,635**	**27**	**9,662**	**-**

Note 12. Derivative contracts

31 DEC 2018 (EUR 1,000)	Nominal value of underlying instrument Remaining maturity				Fair value	
	Less than 1 year	1–5 years	Over 5 years	Total	Positive	Negative
Contracts in hedge accounting						
Interest rate derivatives						
Interest rate swaps	1,829,469	8,029,613	9,814,625	19,673,707	412,028	-211,683
Cleared by the central counterparty	445,781	4,602,017	6,581,056	11,628,854	60,528	-84,031
Currency derivatives						
Cross currency interest rate swaps	3,482,924	7,576,260	1,416,785	12,475,969	592,184	-795,839
Total contracts in hedge accounting	**5,312,394**	**15,605,873**	**11,231,410**	**32,149,676**	**1,004,212**	**-1,007,522**
Contracts at fair value through profit or loss						
Interest rate derivatives						
Interest rate swaps	3,396,376	8,685,592	4,793,987	16,875,955	357,439	-254,720
Cleared by the central counterparty	1,024,147	4,285,456	735,593	6,045,196	5,281	-54,167
Interest rate options	120,000	40,105	-	160,105	417	-417
Currency derivatives						
Cross currency interest rate swaps	2,157,838	3,638,589	292,965	6,089,391	152,459	-675,090
Forward exchange contracts	2,538,297	-	-	2,538,297	18,865	-8,036
Equity derivatives	1,642,296	146,389	-	1,788,685	5,217	-259,641
Other derivatives	-	-	-	-	-	-
Total contracts at fair value through profit or loss	**9,854,806**	**12,510,675**	**5,086,952**	**27,452,433**	**534,398**	**-1,197,905**
Total Derivative contracts	**15,167,200**	**28,116,547**	**16,318,362**	**59,602,109**	**1,538,610**	**-2,205,427**

Contracts that are measured at fair value through profit or loss contain all derivatives of the company which are not included in hedge accounting, even if they are entered into for risk management purposes. The category contains derivatives used for hedging financial assets and liabilities which are designated at fair value through profit or loss, all derivatives with municipalities and all derivatives hedging derivatives with municipalities. In addition to these, the category contains derivatives used for hedging interest rate risk of the balance sheet, for which no hedged item has been specified.

Starting 1.1.2018 MuniFin has valued all derivatives using the OIS curve and included the impact of the cross currency basis in its derivative valuations.

	Nominal value of underlying instrument				Fair value	
	Remaining maturity					
31 DEC 2017 (EUR 1,000)	**Less than 1 year**	**1–5 years**	**Over 5 years**	**Total**	**Positive**	**Negative**
Contracts in hedge accounting						
Interest rate derivatives						
Interest rate swaps	4,454,724	16,163,172	10,432,188	31,050,085	531,951	-369,866
Cleared by the central counterparty	-	3,597,917	1,758,500	5,356,417	19,821	-40,314
Interest rate options	-	-	-	-	-	-
Currency derivatives						
Cross currency interest rate swaps	5,287,321	10,681,946	1,665,703	17,634,970	694,979	-1,587,860
Total contracts in hedge accounting	**9,742,045**	**26,845,118**	**12,097,891**	**48,685,054**	**1,226,930**	**-1,957,725**
Contracts held-for-trading						
Interest rate derivatives						
Interest rate swaps	577,565	3,220,905	2,640,360	6,438,830	144,237	-138,367
Cleared by the central counterparty	54,400	2,554,967	2,275,464	4,884,831	25,037	-56,989
Interest rate options	-	162,175	-	162,175	628	-628
Currency derivatives						
Cross currency interest rate swaps	27,737	5,289	-	33,026	186	-146
Forward exchange contracts	3,846,382	-	-	3,846,382	5,127	-62,956
Equity derivatives	1,438,846	766,070	-	2,204,916	56,078	-56,078
Other derivatives	-	20,000	-	20,000	133	-133
Total contracts held-for-trading	**5,890,530**	**4,174,438**	**2,640,360**	**12,705,329**	**206,388**	**-258,308**
Total Derivative contracts	**15,632,576**	**31,019,557**	**14,738,251**	**61,390,383**	**1,433,318**	**-2,216,034**

Contracts held-for-trading contains all derivatives of the company which are not included in hedge accounting, even if they are entered into for risk management purposes. The category contains derivatives used for hedging financial assets and liabilities which are measured using the fair value option, all derivatives with municipalities, all derivatives hedging derivatives with municipalities. In addition to these, the category contains derivatives used for hedging interest rate risk of the balance sheet, for which no hedged item has been specified, the derivatives which hedge embedded derivatives and the embedded derivatives which have been bifurcated from the financial liability.

Note 13. Hedge accounting

HEDGE ACCOUNTING 31 DEC 2018 (EUR 1,000)	**IAS 39 portfolio hedge accounting**	**IFRS 9 fair value hedge accounting**	**IFRS 9 fair value hedge accounting incl. Cost-of-hedging**	**Total**
Financial assets				
Loans and advances to the public and public sector entities	7,491,823	144,970	-	7,636,793
Lease assets	-	109,835	-	109,835
Total Financial assets	**7,491,823**	**254,805**	**-**	**7,746,628**
Financial liabilities				
Liabilities to credit institutions	-	36,845	-	36,845
Liabilities to the public and public sector entities	-	2,101,889	199,469	2,301,358
Debt securities issued	-	4,100,363	12,260,426	16,360,789
Total Financial liabilities	**-**	**6,239,096**	**12,459,895**	**18,698,991**

FAIR VALUE CHANGE WITH RESPECT TO THE HEDGED RISK (EUR 1,000)	**31 Dec 2018**	**1 Jan 2018**	**Recognised in the income statement 2018**
Financial assets			
IAS 39 Portfolio hedge accounting			
Loans and advances to the public and public sector entities	155,610	127,428	28,182
Hedging instruments	-127,621	-100,054	-27,567
IAS 39 Portfolio hedge accounting, net	**27,989**	**27,374**	**615**
IFRS 9 Fair value hedge accounting			
Loans and advances to the public and public sector entities	22,752	25,596	-2,844
Hedging instruments	-23,636	-26,701	3,064
IFRS 9 Fair value hedge accounting, net	**-884**	**-1,105**	**220**
Financial liabilities			
IFRS 9 Fair value hedge accounting			
Liabilities to credit institutions	-11,845	-4,851	-6,994
Liabilities to the public and public sector entities	-339,599	-363,087	23,487
Debt securities issued	-73,873	-96,695	22,822
Hedging instruments	432,237	444,743	-12,506
IFRS9 Fair value hedge accounting, net	**6,921**	**-19,889**	**26,810**
Total hedge accounting	**34,025**	**6,380**	**27,645**

The figures presented in the table contain the fair value change with respect to the hedged risk. These fair value changes have been presented in the consolidated income statement on row Net income from hedge accounting. Net income from hedge accounting is split in Note 38. The total of the hedging instruments in this table does therefore not reconcile to the row Contracts in Hedge accounting in Note 12. For more details regarding principles applied to hedge accounting see Note 1 in consolidated Financial Statements.

HEDGING IMPACT ON OWN EQUITY (EUR 1,000)	31 Dec 2018	1 Jan 2018	Impact on Cost-of-hedging reserve
Cost-of-hedging			
Hedging instrument*	14,235	-7,919	22,154
Total	**14,235**	**-7,919**	**22,154**

*Under IFRS 9 the impact of cost-of-hedging on cross currency derivatives is shown in equity in the Cost of hedging reserve. Figures are presented after deferred taxes.

EFFECTIVENESS OF THE HEDGE ACCOUNTING (EUR 1,000) 31 DEC 2018

HEDGED ITEM	Hedging instrument	Gains/losses attributable to the hedged risk: Hedged item	Gains/losses attributable to the hedged risk: Hedging instrument	Hedge ineffectiveness
Financial assets				
IAS 39 Portfolio hedge accounting				
Fixed rate and revisable rate loans	Interest rate derivatives	155,610	-127,621	27,989
IFRS 9 Fair value hedge accounting				
Structured loans	Interest rate derivatives	21,574	-22,680	-1,106
Fixed rate lease contracts	Interest rate derivatives	1,178	-956	222
Financial assets total		**178,362**	**-151,257**	**27,105**
Financial liabilities				
IFRS 9 Fair value hedge accounting				
Financial liability denominated in EUR	Interest rate derivatives	-404,442	402,382	-2,060
Financial liability denominated in foreign currencies	Currency derivatives (Cross currency interest rate swaps), Interest rate derivatives	-20,875	29,855	8,981
Financial liabilities total		**-425,317**	**432,237**	**6,921**

FAIR VALUE CHANGES WITH RESPECT TO THE HEDGED RISK (EUR 1,000)	31 Dec 2017	31 Dec 2016	Recognised in the income statement 2017
Financial assets			
IAS 39 Portfolio hedge accounting			
Loans and advances to the public and public sector entities	128,136	213,373	-85,238
Hedging instruments	-110,438	-197,474	87,037
IAS 39 Portfolio hedge accounting, net	**17,698**	**15,899**	**1,799**
Fair value hedge accounting			
Loans and advances to the public and public sector entities	31,507	44,344	-12,837
Hedging instruments	-31,755	-43,936	12,181
Fair value hedge accounting, net	**-248**	**408**	**-656**
Financial liabilities			
Fair value hedge accounting			
Liabilities to credit institutions	-404,663	-519,016	114,352
Liabilities to the public and public sector entities	-56,718	-75,203	18,485
Debt securities issued	154,820	-30,934	185,754
Hedging instruments	306,070	623,149	-317,079
Fair value hedge accounting, net	**-491**	**-2,004**	**1,512**
Total hedge accounting	**16,959**	**14,303**	**2,655**

The figures presented in the table contain the fair value change with respect to the hedged risk. These fair value changes have been presented in the consolidated income statement on row Net income from hedge accounting. Net income from hedge accounting is split in Note 38. The total of the hedging instruments in this table does therefore not reconcile to the row Contracts in Hedge accounting in Note 12.

IMPACT OF AVAILABLE-FOR-SALE FINANCIAL ASSETS ON THE INCOME STATEMENT DUE TO THE APPLICATION OF HEDGE ACCOUNTING (EUR 1,000)	**31 Dec 2017**	**31 Dec 2016**	**Impact of interest rate risk on the income statement in 2017**	**Impact on fair value reserve in 2017 ***	**Change in fair value ***
Financial assets					
Fair value hedge accounting					
Debt securities	74,497	102,062	43,879	8,991	24,495
Hedging instruments	-43,879	-82,683	-43,879	-	-
Fair value hedge accounting, net	**30,618**	**19,379**	**0**	**8,991**	**24,495**

* Figures in columns Impact on fair value reserve and Change in fair value are presented after deferred taxes.

Note. 14 Credit losses

EXPECTED CREDIT LOSSES	Not credit-impaired		Credit-impaired		
	Stage 1	Stage 2	Stage 3	Total	
31 DEC 2018 (EUR 1,000)	**12 month ECL**	**Lifetime ECL**	**Lifetime ECL**	**ECL**	**Gross carrying amount**
Cash and balances with central banks at amortised cost at 1 January 2018 [1]	**-**	**-**	**-**	**-**	**3,554,182**
New assets originated or purchased	-	-	-	-	0
Assets derecognised or repaid (excluding write-offs)	-	-	-	-	-31,982
Transfers to Stage 1	-	-	-	-	
Transfers to Stage 2	-	-	-	-	
Transfers to Stage 3	-	-	-	-	
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	
Changes to models [2] and inputs [3] used for ECL calculations	0	-	-	0	
Write-offs	-	-	-	-	-
Total cash and balances with central banks at amortised cost at 31 December 2018	**0**	**-**	**-**	**0**	**3,522,200**

EXPECTED CREDIT LOSSES	Not credit-impaired		Credit-impaired		
	Stage 1	Stage 2	Stage 3	Total	
31 DEC 2018 (EUR 1,000)	**12 month ECL**	**Lifetime ECL**	**Lifetime ECL**	**ECL**	**Gross carrying amount**
Loans and advances to credit institutions at amortised cost at 1 January 2018 [1]	**411**	**-**	**-**	**411**	**1,250,980**
New assets originated or purchased	2	-	-	2	164,922
Assets derecognised or repaid (excluding write-offs)	-2	-	-	-2	-35,358
Transfers to Stage 1	-	-	-	-	
Transfers to Stage 2	-	-	-	-	
Transfers to Stage 3	-	-	-	-	
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	
Changes to models [2] and inputs [3] used for ECL calculations	-361	-	-	-361	
Write-offs	-	-	-	-	-
Total loans and advances to credit institutions at amortised cost at 31 December 2018	**51**	**-**	**-**	**51**	**1,380,544**

EXPECTED CREDIT LOSSES	Not credit-impaired		Credit-impaired		
	Stage 1	Stage 2	Stage 3	Total	
31 DEC 2018 (EUR 1,000)	**12 month ECL**	**Lifetime ECL**	**Lifetime ECL**	**ECL**	**Gross carrying amount**
Loans and advances to the public and public sector entities at amortised cost at 1 January 2018 [1]	**55**	**77**	**0**	**132**	**21,002,558**
New assets originated or purchased	1	0	-	1	2,953,285
Assets derecognised or repaid (excluding write-offs)	-5	-1	-	-6	-1,658,121
Transfers to Stage 1	0	-1	-	-1	
Transfers to Stage 2	0	13	-	12	
Transfers to Stage 3	-	-	-	-	
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	
Changes to models [2] and inputs [3] used for ECL calculations	-36	-28	-	-63	
Write-offs	-	-	0	0	-434
Total loans and advances to the public and public sector entities at amortised cost at 31 December 2018	**15**	**59**	**0**	**75**	**22,297,288**

EXPECTED CREDIT LOSSES	Not credit-impaired		Credit-impaired		
	Stage 1	Stage 2	Stage 3	Total	
31 DEC 2018 (EUR 1,000)	**12 month ECL**	**Lifetime ECL**	**Lifetime ECL**	**ECL**	**Gross carrying amount**
Lease receivables to the public and public sector entities at amortised cost at 1 January 2018 [1]	**2**	**0**	**-**	**2**	**431,732**
New assets originated or purchased	0	-	-	0	217,193
Assets derecognised or repaid (excluding write-offs)	-1	0	-	-1	-34,904
Transfers to Stage 1	-	-	-	-	
Transfers to Stage 2	-	-	-	-	
Transfers to Stage 3	-	-	-	-	
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	
Changes to models [2] and inputs [3] used for ECL calculations	-	-	-	-	
Write-offs	-	-	-	-	-
Total lease receivables to the public and public sector entities at amortised cost at 31 December 2018	**1**	**0**	**-**	**1**	**614,021**

EXPECTED CREDIT LOSSES	Not credit-impaired		Credit-impaired		
	Stage 1	Stage 2	Stage 3	Total	
31 DEC 2018 (EUR 1,000)	**12 month ECL**	**Lifetime ECL**	**Lifetime ECL**	**ECL**	**Gross carrying amount**
Debt securities at amortised cost at 1 January 2018 [1]	**1**	**-**	**-**	**1**	**748,986**
New assets originated or purchased	0	0	-	0	725,607
Assets derecognised or repaid (excluding write-offs)	-1	-	-	-1	-749,006
Transfers to Stage 1	-	-	-	-	
Transfers to Stage 2	0	-	-	0	
Transfers to Stage 3	-	-	-	-	
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	
Changes to models [2] and inputs [3] used for ECL calculations	-	-	-	-	
Write-offs	-	-	-	-	-
Total debt securities at amortised cost at 31 December 2018	**0**	**0**	**-**	**0**	**725,587**

EXPECTED CREDIT LOSSES	Not credit-impaired		Credit-impaired		
	Stage 1	Stage 2	Stage 3	Total	
31 DEC 2018 (EUR 1,000)	**12 month ECL**	**Lifetime ECL**	**Lifetime ECL**	**ECL**	**Gross carrying amount**
Debt securities at fair value through other comprehensive income at 1 January 2018 [1]	**317**	**-**	**-**	**317**	**1,815,904**
New assets originated or purchased	103	-	-	103	395,108
Assets derecognised or repaid (excluding write-offs)	-199	-	-	-199	-776,629
Transfers to Stage 1	-	-	-	-	
Transfers to Stage 2	-	-	-	-	
Transfers to Stage 3	-	-	-	-	
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	
Changes to models [2] and inputs [3] used for ECL calculations	0	-	-	0	
Write-offs	-	-	-	-	-
Total debt securities at fair value through other comprehensive income at 31 December 2018	**221**	**-**	**-**	**221**	**1,434,383**

EXPECTED CREDIT LOSSES	**Not credit-impaired**		**Credit-impaired**		
	Stage 1	**Stage 2**	**Stage 3**	**Total**	
31 DEC 2018 (EUR 1,000)	**12 month ECL**	**Lifetime ECL**	**Lifetime ECL**	**ECL**	**Gross carrying amount**
Cash collateral to Central Counterparty Clearing House in Other assets at amortised cost at 1 January 2018 [1]	**49**	**-**	**-**	**49**	**148,205**
New assets originated or purchased	5	-	-	5	16,140
Assets derecognised or repaid (excluding write-offs)	-	-	-	-	-
Transfers to Stage 1	-	-	-	-	
Transfers to Stage 2	-	-	-	-	
Transfers to Stage 3	-	-	-	-	
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	
Changes to models [2] and inputs [3] used for ECL calculations	-50	-	-	-50	
Write-offs	-	-	-	-	-
Total cash collateral to Central Counterparty Clearing House in Other assets at amortised cost at 31 December 2018	**4**	**-**	**-**	**4**	**164,345**

EXPECTED CREDIT LOSSES	**Not credit-impaired**		**Credit-impaired**		
	Stage 1	**Stage 2**	**Stage 3**	**Total**	
31 DEC 2018 (EUR 1,000)	**12 month ECL**	**Lifetime ECL**	**Lifetime ECL**	**ECL**	**Gross carrying amount**
Guarantee receivables from the public and public sector entities in Other assets at 1 January 2018 [1]	**-**	**-**	**-**	**-**	**1,366**
New assets originated or purchased	-	-	-	-	-
Assets derecognised or repaid (excluding write-offs)	-	-	-	-	-
Transfers to Stage 1	-	-	-	-	
Transfers to Stage 2	-	-	-	-	
Transfers to Stage 3	-	-	-	-	
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	
Changes to models [2] and inputs [3] used for ECL calculations	-	-	-	-	
Write-offs	-	-	-	-	-
Recoveries	-	-	-	-	434
Total guarantee receivables from the public and public sector entities in Other assets at 31 December 2018	**-**	**-**	**-**	**-**	**1,800**

EXPECTED CREDIT LOSSES	Not credit-impaired		Credit-impaired		
	Stage 1	Stage 2	Stage 3	Total	
31 DEC 2018 (EUR 1,000)	**12 month ECL**	**Lifetime ECL**	**Lifetime ECL**	**ECL**	**Gross carrying amount**
Binding credit commitments (off-balance sheet) at 1 January 2018 [1]	**6**	**0**	**-**	**6**	**2,120,206**
New assets originated or purchased	2	0	-	2	1,950,198
Assets derecognised or repaid (excluding write-offs)	-5	-	-	-5	-1,342,941
Transfers to Stage 1	-	-	-	-	
Transfers to Stage 2	0	-	-	0	
Transfers to Stage 3	-	-	-	-	
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	
Changes to models [2] and inputs [3] used for ECL calculations	1	-	-	1	
Write-offs	-	-	-	-	-
Total binding credit commitments (off-balance sheet) at 31 December 2018	**3**	**0**	**0**	**3**	**2,727,463**

EXPECTED CREDIT LOSSES	Not credit-impaired		Credit-impaired		
	Stage 1	Stage 2	Stage 3	Total	
31 DEC 2018 (EUR 1,000)	**12 month ECL**	**Lifetime ECL**	**Lifetime ECL**	**ECL**	**Gross carrying amount**
Total expected credit loss at 1 January 2018 [1]	**842**	**77**	**0**	**918**	**31,074,120**
New assets originated or purchased	113	0	-	113	6,422,453
Assets derecognised or repaid (excluding write-offs)	-214	-1	0	-215	-4,628,942
Transfers to Stage 1	0	-1	-	-1	
Transfers to Stage 2	0	13	-	12	
Transfers to Stage 3	-	-	-	-	
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	
Changes to models [2] and inputs [3] used for ECL calculations	-445	-28	-	-473	
Write-offs	-	-	0	0	-434
Recoveries	-	-	-	-	434
Total expected credit losses at 31 December 2018	**295**	**59**	**0**	**355**	**32,867,631**

[1] Represents movements prior to re-measurement.
[2] Represent changes in the model.
[3] Represents changes to model parameters (e.g. GDP rates, unemployment rates).

During the financial year, MuniFin has specified the methods for estimating expected credit losses and the assumptions used in the model. The revaluation had no material impact on the expected amount of credit losses.

EXPECTED CREDIT LOSSES 31 DEC 2018 (EUR 1,000)	**Not credit-impaired**		**Credit-impaired**	
	Stage 1	**Stage 2**	**Stage 3**	**Gross carrying amount total**
Cash and balances with central banks at amortised cost	3,522,200	-	-	3,522,200
Loans and advances to credit institutions at amortised cost	1,380,544	-	-	1,380,544
Loans and advances to the public and public sector entities at amortised cost	22,075,706	221,581	-	22,297,288
Lease receivables in loans and advances to the public and public sector entities at amortised cost	613,825	196	-	614,021
Debt securities at amortised cost	721,187	4,400	-	725,587
Debt securities at fair value through other comprehensive income	1,434,383	-	-	1,434,383
Cash collateral to Central Counterparty Clearing House in Other assets at amortised cost	164,345	-	-	164,345
Guarantee receivables from the public and public sector entities in Other assets	1,800	-	-	1,800
Binding credit commitments (off-balance sheet)	2,727,035	428	-	2,727,463
Total	**32,641,027**	**226,605**	**-**	**32,867,631**

Forborne loans

At the end of 2018 loans and advances to the public and public sector entities included EUR 61,551 thousand of forborne loans (2017: EUR 47,351 thousand).

Realised credit losses

During the financial year 2018 MuniFin wrote off a loan totalling EUR 434 thousand. The company has collateral in form of property of the equivalent amount in addition to a deficiency guarantee from the State. The receivable is shown in the statement of financial position in Other assets (stage 1) as guarantee receivables from the public and public sector entities and shown as a decrease of the write-offs recoveries in the income statement. MuniFin will not incur a final credit loss on the loan.

Compared with the previous year 2017 MuniFin wrote off a loan totalling EUR 1,344 thousand. The company has collateral in form of property of the equivalent amount in addition to a deficiency guarantee from the State. The receivable is shown in the statement of financial position in Other assets (stage 1) as guarantee receivables from the public and public sector entities and shown as a decrease of the write-offs recoveries in the income statement. MuniFin will not incur a final credit loss on the loan.

Note 15. Intangible assets

(EUR 1,000)	31 Dec 2018	31 Dec 2017
IT systems	14,850	10,196
Total	**14,850**	**10,196**

Note 16. Tangible assets

(EUR 1,000)	31 Dec 2018	31 Dec 2017
Real estate	299	713
Office renovation expenses	54	135
Other tangible assets	2,074	1,746
Total	**2,427**	**2,594**

Note 17. Changes in intangible and tangible assets during the financial year

31 DEC 2018 (EUR 1,000)	**Intangible assets**	**Tangible assets**		
	Total	**Other real estates**	**Other tangible assets**	**Total**
Acquisition cost 1 Jan	17,239	1,207	5,671	6,878
+ Additions	6,289	-	1,153	1,153
− Disposals	-	-908	-436	-1,343
Acquisition cost 31 Dec	23,528	299	6,389	6,688
Accumulated depreciation 1 Jan	7,043	494	3,791	4,284
− Accumulated depreciation on disposals	-	-511	-211	-722
+ Depreciation for the financial year	1,635	17	681	698
Accumulated depreciation 31 Dec	8,678	-	4,261	4,261
Carrying amount 31 Dec	**14,850**	**299**	**2,128**	**2,427**

31 DEC 2017 (EUR 1,000)	**Intangible assets**	**Tangible assets**		
	Total	**Other real estates**	**Other tangible assets**	**Total**
Acquisition cost 1 Jan	12,542	1,207	5,099	6,306
+ Additions	4,697	-	931	931
− Disposals	-	-	-359	-359
Acquisition cost 31 Dec	17,239	1,207	5,671	6,878
Accumulated depreciation 1 Jan	5,766	454	3,390	3,844
− Accumulated depreciation on disposals	-	-	-258	-258
+ Depreciation for the financial year	1,276	40	658	698
Accumulated depreciation 31 Dec	7,043	494	3,791	4,284
Carrying amount 31 Dec	**10,196**	**713**	**1,881**	**2,594**

Note 18. Other assets

(EUR 1,000)	31 Dec 2018	31 Dec 2017
Invoiced lease payments	7,725	6,737
Given cash collateral receivables to Central Counterparty Clearing House	164,341	148,205
Other	2,752	2,920
Total	**174,818**	**157,862**

The Group did not have receivables related to payment transfers as at 31 December 2018 or at 31 December 2017.
Cash collaterals include ecpected credit losses amounting to EUR 4 thousand.

Note 19. Accrued income and prepayments

(EUR 1,000)	31 Dec 2018	31 Dec 2017
Interest	198,517	171,639
Other	4,543	2,214
Total	**203,061**	**173,853**

Note 20. Deferred tax

DEFERRED TAX LIABILITIES (EUR 1,000)	**31 Dec 2017**	**Recognised in the income statement**	**Recognised in the statement of comprehensive income**	**Recognised in equity**	**31 Dec 2018**
Other temporary differences					
On fair value reserve	7,236	-	14,259	-	21,495
On change in cumulative depreciation difference	1,233	493	-	-	1,726
On change in voluntary provisions	192,106	28,800	-	-	220,906
On reversing the accrued interest of the AT1 capital loan booked in the financial statements of the parent company	2,364	3,150	-	-3,150	2,364
On reversing the amortisation of the AT1 capital loan transaction expenses booked in the parent company financial statements	-417	98	-	-	-319
On revaluation of financial assets and liabilities in IFRS 9 transition	-	-	-	-10,866	-10,866
Total	**202,522**	**32,541**	**14,259**	**-14,016**	**235,307**

Municipality Group did not have any deferred tax assets as at 31 December 2018.

DEFERRED TAX LIABILITIES (EUR 1,000)	**31 Dec 2016**	**Recognised in the income statement**	**Recognised in the statement of comprehensive income**	**Recognised in equity**	**31 Dec 2017**
Other temporary differences					
On fair value reserve	4,880	-	2,356	-	7,236
On change in cumulative depreciation difference	460	773	-	-	1,233
On change in voluntary provisions	164,996	27,110	-	-	192,106
On reversing the accrued interest of the AT1 capital loan booked in the financial statements of the parent company	2,364	3,150	-	-3,150	2,364
On reversing the amortisation of the AT1 capital loan transaction expenses booked in the parent company financial statements	-515	98	-	-	-417
Total	**172,185**	**31,131**	**2,356**	**-3,150**	**202,522**

Municipality Group did not have any deferred tax assets as at 31 December 2017.

Note 21. Liabilities to credit institutions

(EUR 1,000)	31 Dec 2018	31 Dec 2017
Bilateral loans to credit institutions	83,244	102,497
Received collateral on derivatives	739,260	699,780
Total	**822,504**	**802,277**

Note 22. Debt securities issued

	31 Dec 2018		31 Dec 2017	
(EUR 1,000)	Carrying amount	Nominal value	Carrying amount	Nominal value
Bonds	23,840,174	24,983,497	22,470,615	23,239,066
Other	3,061,824	3,067,904	3,833,346	3,841,305
Total	**26,901,998**	**28,051,402**	**26,303,961**	**27,080,371**

All parent company funding is guaranteed by the Municipal Guarantee Board.

Note 23. Other liabilities

(EUR 1,000)	31 Dec 2018	31 Dec 2017
Payment transfer	-	-
Other	6,149	2,587
Total	**6,149**	**2,587**

Note 24. Accrued expenses and deferred income

(EUR 1,000)	31 Dec 2018	31 Dec 2017
Interest	134,757	106,176
Other	13,620	18,398
Total	**148,377**	**124,574**

Note 25. Equity

(EUR 1,000)	Number of shares	Share capital
1 Jan 2017	39 063 798	42,583
31 Dec 2017	39 063 798	42,583
31 Dec 2018	39 063 798	42,583

There were no changes to the number of shares during the financial year.

The shares of 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.

Reserves in equity:

The reserve fund is restricted equity referred to in Chapter 8, Section 1 of the Limited Liability Companies Act. The fair value reserve of investments contains the fair value changes of financial instruments which are measured at fair value through other comprehensive income. The own credit revaluation reserve contains the changes in credit risk of financial liabilities designated at fair value through profit and loss.

The cost-of-hedging reserve contains the impact of cost-of-hedging of derivatives in fair value hedge accounting. The proportion of payment made for shares that is not recorded in share capital 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. Retained earnings contains the profit of previous periods.

Other issued equity instruments

Other issued equity instruments contains a EUR 350 million unsecured debenture loan with special terms designed to fulfil the requirements set for so-called AT1 capital loans in the Capital Requirements Regulation (EU 575/2013). The loan is included in Additional Tier 1 capital. The loan does not have a maturity date. Interest on the loan may only be paid out of distributable funds in accordance with the terms set in the Capital Requirements Regulation, and the company will decide whether interest will be paid on the interest payment date. The cancellation of interest payments is final, and unpaid interest will not be added to the loan capital. The company has the right but not the obligation to repay the loan on 1 April 2022 or, after that, annually on the interest payment date, as long as the buy-back is approved in advance by the regulatory authority. Due to terms stated above AT1 capital loan is recognised as equity in consolidated financial statements.

The main features of capital instruments included in equity are described in further detail in the Report of the Board of Directors and the Pillar III report which is separate from the financial statements. The Pillar III report is avaiable on the company's website in English.

(1,000 EUR)	31 Dec 2018	31 Dec 2017
Share capital	42,583	42,583
Reserve fund	277	277
Fair value reserve of investments	726	28,944
Own credit revaluation reserve	4,726	-
Cost-of-hedging reserve	14,235	-
Reserve for invested non-restricted equity	40,366	40,366
Retained earnings	1,035,692	879,799
Total equity attributable to parent company equity holders	**1,138,605**	**991,969**
Other equity instruments issued	350,000	350,000
Transaction costs deducted from other equity instruments issued	-2,546	-2,546
Total other equity instruments issued	**347,454**	**347,454**
Total equity	**1,486,059**	**1,339,422**

Transition to IFRS 9 impacted the split of equity within the retained earnings, the fair value reserve, own credit revaluation reserve and cost-of-hedging reserve.
More information on the impact of the transition is available in Notes 1 and 3.

Note 26. Contingent assets and liabilities

The accrued interest on the company's AT1 capital loan is a contingent liability, totalling EUR 9.5 million as 31 December 2018. The contingent liability will be realised as a deduction of equity once the company decides on the payment of interest. In the comparative period of 2017, the company had a contingent liability of EUR 9.5 million, which realised upon interest payment on 3 April 2018. The group does not have any contingent assets in 2018 or 2017.

Note 27. Pledged assets

LIABILITIES AND COLLATERAL (EUR 1,000)	31 Dec 2018	31 Dec 2017
Loans pledged to the central bank	2,718,254	2,476,968
Loans pledged to the Municipal Guarantee Board	10,693,577	18,581,280
Total	**13,411,831**	**21,058,248**

Pledged assets:

[1] MuniFin is a monetary policy counterparty approved by the central bank (the Bank of Finland), and, for this purpose, a sufficient amount of collateral has been pledged to the central bank for possible operations related to this counterparty position.

[2] MuniFin has pledged amount of loans shown in the table to the Municipal Guarantee Board. In February 2018 MuniFin and the Municipal Guarantee Board updated the Framework Agreement for NSFR purposes. As a result, the amount of pledged loans have declined. The Municipal Guarantee Board guarantees MuniFin's funding and MuniFin places collateral for the Municipal Guarantee Board's guarantees as defined in the Act on the Municipal Guarantee Board. The updated Framework Agreement also clarified the terms between MuniFin and the Municipal Guarantee Board.

Note 28. Off-balance-sheet commitments

OFF-BALANCE-SHEET COMMITMENTS (EUR 1,000)	31 Dec 2018	31 Dec 2017
Binding credit commitments	2,796,753	2,270,346
Total	**2,796,753**	**2,270,346**

Note 29. Lease liabilities

(EUR 1,000)	31 Dec 2018	31 Dec 2017
Maturing within one year	1,644	1,392
Maturing in one to five years	5,796	806
Maturing in more than five years	944	-
Total	**8,384**	**2,198**

Leases mainly relate to office premises of Municipality Group. Lease agreements are fixed-term and the rent paymens are tied to cost of living index.

Note 30. Related-party transactions

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

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

TRANSACTIONS WITH THE SUBSIDIARY (EUR 1,000)	2018	2017
Sales	38	62
Purchases	423	239

INTERCOMPANY RECEIVABLES AND LIABILITIES (EUR 1,000)	31 Dec 2018	31 Dec 2017
Receivables	-	-
Liabilities	31	15

Note 31. Salaries and remuneration

Employee benefits for management

Salaries and remuneration paid to the President and CEO, Deputy to the CEO and other members of the Executive Management Team subject to withholding tax:

SALARIES AND REMUNERATION (EUR 1,000)	2018	2017
President and CEO	437	426
Deputy to the CEO	273	360
Other members of the Executive Management Team in total	1,310	936
Total	**2,020**	**1,722**

The salaries and remuneration shown in the table include both the fixed remuneration and paid variable remuneration. According to regulation on credit institutions, the payment of variable remuneration earned each year is delayed and paid over the following years if a person's remuneration exceeds EUR 50,000. More information on the salary and remuneration principles is available on the company's website and in the Remuneration Report for 2018 which is not a part of the financial statements.

The company has provided Executive Management Team members appointed as members of the Executive Management Team (including President and CEO and the Deputy to the CEO) before 21 December 2017 with a contribution-based group pension insurance. Executive Management Team members are entitled to pension from the insurance after they have turned 63 years.

In the event of termination of employment on the company's initiative, the President and CEO and Deputy to the CEO are entitled to a severance payment of six times the total monthly salary. The period of notice for termination of employment is six months for the President and CEO and the Deputy to the CEO. Employee benefits for the President and CEO and the Deputy to the CEO are terminated at the end of the period of notice.

The President and CEO of MuniFin is Mr Esa Kallio. He was appointed CEO on 28 February 2018. As a Deputy to the CEO acts Executive Vice President Ms Mari Tyster since 1 March 2018. Figures reported in this Note for year 2018 include remuneration paid to Mr Esa Kallio under President and CEO and respectively remuneration paid to Ms Mari Tyster under Deputy to the CEO. Mr Rainer Holm and Mr Joakim Holmström have acted as new members of the Executive Management Team since 1 March 2018.

The retirement age for the President and CEO and Deputy to the CEO is stipulated by the Employees Pensions Act.

The company has paid the following statutory pension contributions related to the President and CEO, the Deputy to the CEO and other Executive Management Team members.

Remuneration of the Board of Directors

The members of the Board of Directors of the parent company are paid an annual remuneration as well as remuneration for each meeting in accordance with the decision of the Annual General Meeting. The annual remuneration is EUR 35,000 for the Chairman of the Board, EUR 25,000 for the Vice Chairman and EUR 20,000 for the other members of the Board. The remuneration paid for Board and committee meetings is EUR 800 per meeting for the Chairman of the Board and the chairmen of committees and EUR 500 per meeting for the other members. In addition, meeting remuneration is paid for the meetings required by the supervisory authorities. These remunerations are valid from 28 March 2018. Prior to this, the annual remuneration was EUR 30,000 for the Chairman of the Board, EUR 18,000 for the Vice Chairman and EUR 15,000 for the other members of the Board. The meeting remunerations have remain unchanged.

Salaries and remuneration

The remuneration paid to the management and employees of MuniFin consists of a fixed remuneration (base salary and fringe benefits) and a variable remuneration based on the conditions of the remuneration system. Principles of remuneration system are confirmed by the Board of Directors on annual basis. The Remuneration Committee of the Board of Directors is responsible for preparatory work concerning the matters of remuneration system. More information about salaries and remuneration is available on the company's website www.munifin.fi.

STATUTORY PENSION CONTRIBUTIONS (EUR 1,000)	2018	2017
President and CEO	78	76
Deputy to the CEO	48	65
Other members of the Executive Management Team in total	233	168
Total	**359**	**309**

SALARIES AND REMUNERATION (EUR 1,000)	2018	2017
Members of the Board of Directors		
Helena Walldén, Chairman	53	65
Tapani Hellstén, Vice Chairman and member until 28 March 2018	9	37
Tuula Saxholm, Vice Chairman 28 March 2018 onwards	32	35
Fredrik Forssell	33	36
Minna Helppi, member 23 March 2017 onwards	29	21
Teppo Koivisto, member until 28 March 2018	9	38
Markku Koponen, member 28 March 2018 onwards	28	-
Jari Koskinen, member 23 March 2017 onwards	29	20
Kari Laukkanen, member 28 March 2018 onwards	27	-
Sirpa Louhevirta, member until 23 March 2017	-	13
Vivi Marttila	31	32
Juha Yli-Rajala, member until 23 March 2017	-	13
Total	**278**	**310**

Notes to the income statement

Note 32. Interest income and expenses

2018 (EUR 1,000)	Interest and similar income	Interest and similar expenses	Net
Assets			
Financial assets at amortised cost			
Cash and balances with central banks	-	-14,538	-14,538
Loans and advances to credit institutions	161	-5,578	-5,417
Loans and advances to the public and public sector entities	193,798	-	193,798
Debt securities	118	-1,212	-1,094
Other assets	1,000	-	1,000
Derivatives in hedge accounting	-79,493	-	-79,493
Financial assets at fair value through other comprehensive income			
Debt securities	2	-1,472	-1,470
Financial assets designated at fair value through profit or loss			
Debt securities	24,158	-	24,158
Financial assets mandatorily at fair value through profit or loss			
Loans and advances to the public and public sector entities	1,489	-	1,489
Debt securities	1	0	1
Derivative contracts	63,218	-92,975	-29,757
Lease assets	3,437	-	3,437
Interest on non-financial other assets	7	-	7
Interest on assets	**207,895**	**-115,775**	**92,120**

2018 (EUR 1,000)	Interest and similar income	Interest and similar expenses	Net
Liabilities			
Financial liabilities at amortised cost			
Liabilities to credit institutions	2,390	-1,103	1,288
Liabilities to the public and public sector entities	-	-63,291	-63,291
Debt securities issued	1,446	-348,797	-347,352
Other liabilities	-	-912	-912
Derivatives in hedge accounting	-	472,255	472,255
Financial liabilities designated at fair value through profit or loss			
Liabilities to credit institutions	-	-2,107	-2,107
Liabilities to the public and public sector entities	-	-38,871	-38,871
Debt securities issued	-	-231,865	-231,865
Financial liabilities at fair value through profit or loss			
Derivative contracts	500,000	-144,968	355,032
Interest on liabilities	**503,836**	**-359,659**	**144,177**
Grand Total	**711,731**	**-475,434**	**236,297**

Interest expenses on financial assets at amortised cost on Cash and balances with central banks consists of interest paid on central bank deposits and interest on Loans and advances to credit institutions of interest on collateral receivables. Interest expenses on debt securities consists of interest paid on municipal papers and municipal commercial papers. Derivatives in hedge accounting hedge loans and advances to the public and public sector entities. Negative interest arises on debt securities at fair value through other comprehensive income due to the premium amortisation of debt securities and commercial papers. Interest expenses on derivatives mandatorily at fair value through profit or loss consist of negative interest income on derivatives that are not in hedge accounting. The derivatives contained in this line item hedge financial assets which are designated at fair value through profit or loss, derivatives with municipalities and derivatives hedging derivatives with municipalities, and to derivatives used for hedging interest rate risk of the balance sheet, for which no hedged item has been specified.

Interest income on financial liabilities at amortised cost to credit institutions consists of interest received on collateral liabilities. Interest income on debt securities issued consists of interest received on ECPs. Derivatives in hedge accounting are used as hedges for liabilities to credit institutions, liabilities to the public and public sector entities and debt securities issued. Interest income on derivatives in financial liabilities at fair value through profit or loss consists of positive interest expenses on derivatives that are not included in hedge accounting. The derivatives contained in this line item hedge financial liabilities which are designated at fair value through profit or loss.

Due to IFRS 9 standard implementation applicable since 1 January 2018, the amount of derivatives at fair value through profit or loss has increased as MuniFin has decreased the use of fair value hedge accounting. Part of the financial liabilities previously in fair value hedge accounting have been classified as designated at fair value through profit or loss. Therefore derivatives previously classified as derivatives in hedge accounting have been reclassified as derivatives at fair value through profit or loss and their interest income and expenses are shown as gross amounts.

Derivatives shown as adjusting interest expenses are derivatives in hedge accounting and are used as hedges for liabilities to credit institutions, liabilities to the public and public sector entities and debt securities issued. Starting 1 January 2018 this amount has decreased due to reclassification. More detailed information regarding the reclassification is presented in Note 3.

2017 (EUR 1,000)	Interest income	Interest expenses	Net
Assets			
Loans and advances to credit institutions and central banks	352	-12,476	-12,124
Loans and advances to the public and public sector entities	204,035	-	204,035
Debt securities	26,556	-1,996	24,561
Derivatives in hedge accounting	-118,942	-	-118,942
Derivatives held-for-trading	70,761	-30,494	40,268
Other interest income	2,190	-	2,190
Interest on assets	**184,953**	**-44,965**	**139,988**
Liabilities			
Liabilities to credit institutions	6,407	-13,972	-7,565
Liabilities to the public and public sector entities	-	-83,185	-83,185
Debt securities issued	0	-345,955	-345,955
Derivatives in hedge accounting	-	525,996	525,996
Subordinated liabilities	-	-	0
Other interest expense	-	-733	-733
Interest on liabilities	**6,407**	**82,152**	**88,559**
Total	**191,360**	**37,187**	**228,546**

Interest expenses on loans and advances to credit institutions and central banks consists of interest paid on central bank deposits and collaterals. Interest expenses on debt securities consists of interest paid on ECPs. Also interest income from debt securities is negative due to the premium/discount amortisation. Derivative contracts treated as items adjusting interest income and included in hedge accounting are used as hedges for loans and advances to the public and public sector entities and debt securities.

Interest income on liabilities to credit institutions consists of interest received on collaterals. Derivative contracts treated as items adjusting interest expenses and included in hedge accounting are used as hedges for liabilities to credit institutions, liabilities to the public and public sector entities and debt securities issued.

Note 33. Commission income

(EUR 1,000)	2018	2017
Financial advisory services	2,061	2,487
Other operations	334	757
Total	**2,395**	**3,245**

Note 34. Commission expense

(EUR 1,000)	2018	2017
Commission fees paid	219	210
Other	3,960	3,861
Total	**4,180**	**4,071**

“Other” includes paid guarantee fees, custody fees and funding programme update fees.

Note 35. Net income from securities and foreign exchange transactions

2018 (EUR 1,000)	Capital gains	Capital losses	Change in fair value	Total
Financial assets mandatorily as at fair value through profit or loss				
Loans and advances to the public and public sector entities	-	-	-1,210	-1,210
Debt securities	1,460	-	-4	1,456
Shares and participations	60	-	-141	-81
Financial assets designated at fair value through profit or loss				
Debt securities	-	-	-19,588	-19,588
Financial liabilities designated at fair value through profit or loss				
Issued commercial papers	-	-	-1,334	-1,334
Liabilities to credit institutions	-	-	2,872	2,872
Liabilities to the public and public sector entities	-	-	-4,578	-4,578
Debt securities issued	-	-	622,116	622,116
Derivative contracts at fair value through profit or loss	46	-1,537	-625,396	-626,887
Total net income from securities transactions	**1,565**	**-1,537**	**-27,263**	**-27,235**
Net income from foreign exchange transactions	**20,999**	**-20,843**	**-831**	**-675**
Total	**22,564**	**-22,380**	**-28,094**	**-27,910**

2017 (EUR 1,000)	Capital gains	Capital losses	Change in fair value	Total
Items valued with the fair value option				
Loans	-	-	-247	-247
Debt securities	-	-	-560	-560
ECPs	-	-	14	14
Issued ECPs	-	-	963	963
Total items valued with the fair value option	**-**	**0**	**170**	**170**
Derivative contracts held-for-trading	395	-278	8,145	8,261
Total net income from securities transactions	**395**	**-278**	**8,315**	**8,432**
Net income from foreign exchange transactions	**175**	**-2,385**	**-26**	**-2,236**
Total	**570**	**-2,663**	**8,289**	**6,196**

Note 36. Financial assets and liabilities designated at fair value through profit or loss

2018 (EUR 1,000)	Carrying amount	Nominal value	Cumulative change in fair value	Change in fair value 2018	of which due to credit risk	of which due to market risk
Financial assets						
Debt securities	3,701,796	3,612,233	54,906	-19,591	-21,739	2,148
Total financial assets	**3,701,796**	**3,612,233**	**54,906**	**-19,591**	**-21,739**	**2,148**

Debt securities designated at fair value through profit and loss are exposed to credit risk up to the carrying amounts of those securities in 2018. Financial assets that MuniFin has designated to be measured at fair value through profit or loss include debt securities of the liquidity portfolio of which the interest rate risk is hedged with interest rate and cross currency interest rate swaps. The designation reduces accounting mismatch, which would otherwise arise from measuring the derivative at fair value through profit or loss and the debt security at fair value through other comprehensive income based on the business model. MuniFin does not have credit derivatives for hedging these financial assets.

2018 (EUR 1,000)	Carrying amount	Nominal value	Cumulative change in fair value	Change in fair value 2018	of which due to credit risk	of which due to market risk
Financial liabilities						
Liabilities to credit institutions	46,399	45,000	-1,360	2,872	428	2,444
Liabilities to the public and public sector entities	1,569,561	1,986,668	-140,738	-4,578	15,383	-19,961
Debt securities issued	9,990,255	10,958,060	875,841	620,782	33,142	587,641
Total financial liabilities	**11,606,215**	**12,989,728**	**733,743**	**619,077**	**48,953**	**570,123**

MuniFin has designated short-term issued debt instruments denominated in foreign currencies, which have been hedged with FX swaps at fair value through profit or loss. The designation reduces accounting mismatch which would otherwise arise between the measurement of the derivative and the financial liability. In the transition to IFRS 9, the company also designated certain financial liabilities at fair value through profit or loss. The financial liabilities designated at fair value through profit and loss in the transition consist of financial liabilities, which have been hedged according to the company's risk management policy, but which cannot be included in fair value hedge accounting according to IFRS 9. The fair value changes of the financial liabilites impact profit or loss, but as they have been hedged the expected profit or loss is restricted to interest. The table below describes the net impact of these financial liabilities and their hedges on profit and loss.

When a financial liability is designated at fair value through profit and loss, the fair value changes due to changes of MuniFin's own credit risk is presented separately in other comprehensive income as changes of the Own credit revaluation reserve. MuniFin applies the income approach of IFRS 13 to the separation of fair value changes related to changes in own credit risk from the fair value changes of the financial liability. For the majority of financial liabilities at fair value, no market price is available as there is no active secondary market. The methodology for separation of own credit risk, utilises MuniFin's benchmark curves, cross currency basis spreads and credit spreads of MuniFin's issued debt securities on the primary market as input. Based on the aforementioned inputs valuation curves can be constructed for various reporting periods for valuing financial liabilities designated at fair value through profit or loss. By comparing fair values calculated using the trade date and reporting date, the impact of change in own credit risk on the fair value of the financial liability can be determined.

Financial liabilities desginated at fair value through profit of loss are not traded.

NET CHANGE IN FAIR VALUE 2018 (EUR 1,000)	Cumulative change in fair value	Change in fair value 2018
Financial liabilities designated at fair value through profit or loss	733,743	619,077
Hedging instruments	-721,886	-614,317
Net change in fair value	**11,857**	**4,760**

IMPACT OF THE CHANGE IN OWN CREDIT RISK ON EQUITY (EUR 1,000)*	31 Dec 2018	1 Jan 2018	Impact on Own credit revaluation reserve
Change in own credit risk of financial liabilities			
Liabilities to credit institutions	-31	-374	343
Liabilities to the public and public sector entities	-10,082	-22,389	12,307
Debt securities issued	14,839	-11,674	26,513
Total	**4,726**	**-34,437**	**39,163**

*Figures in the table are presented after deferred taxes.

2017 (EUR 1,000)	Carrying amount	Change in fair value	Due to credit risk	Due to market risk
Financial assets				
Loans	153,642	-247	0	-247
Debt securities	42,750	-560	-119	-442
ECPs	69,035	14	0	14
Total financial assets	**265,427**	**-793**	**-119**	**-674**

2017 (EUR 1,000)	Carrying amount	Change in fair value	Due to credit risk	Due to market risk
Financial liabilities				
Issued ECPs	3,833,346	963	0	963
Total financial liabilities	**3,833,346**	**963**	**0**	**963**

Debt securities and ECPs valued with the fair value option are exposed to credit risk up to the carrying amounts of those securities in 2017. Loans to corporates and non-profit organisations designated using the fair value option all have an absolute guarantee or deficiency guarantee by a municipality or municipal federation, mortgage security and a state deficiency guarantee.

Note 37. Net income on financial assets at fair value through fair value reserve

(EUR 1,000)	2018
Capital gains from financial assets	-
Capital losses from financial assets	-125
Unrealised gains transferred from the fair value reserve	162
Unrealised losses transferred from the fair value reserve	-
Total	**38**

In 2018 the consolidated income statement line Net income on financial assets at fair value through fair value reserve contains the transferred cumulative gains or losses of the financial assets measured at fair value through other comprehensive income from the fair value reserve in equity.

Net income from available-for-sale financial assets

(EUR 1,000)	2017
Income from shares in investment funds	62
Capital gains from financial assets	579
Capital losses from financial assets	-10
Unrealised gains transferred from the fair value reserve	183
Unrealised losses transferred from the fair value reserve	-320
Total	**494**

In 2017 the consolidated income statement line Net income from available-for-sale financial assets contained the transferred cumulative gains or losses of the available-for-sale assets from the fair value reserve. Notes from 2017 and 2018 are combined as one note due to the similarity of their content.

Note 38. Net income from hedge accounting

(EUR 1,000)	2018	2017
Unrealised gains from hedging instruments	9,654	129,576
Unrealised losses from hedging instruments	-46,662	-317,079
Net income from hedging instruments	**-37,008**	**-187,503**
Unrealised gains from hedged items	110,980	318,591
Unrealised losses from hedged items	-46,326	-128,433
Net income from hedged items	**64,653**	**190,158**
Net income from hedge accounting	**27,645**	**2,655**

Unrealised gains and losses are formed by risks to which fair value hedge accounting is applied, with the exception of the foreign exchange difference of hedging instruments and hedged items. The foreign exchange difference of both items is shown on line item Net income from foreign exchange transactions in Note 35. See more information about net income from hedge accounting in Note 13.

Note 39. Impact of the reclassified financial assets and liabilities in 2018

The following table shows the impact of reclassification of financial assets from at fair value through profit or loss under IAS 39 into amortised cost under IFRS 9. MuniFin did not reclassify any financial liabilities from fair value through profit or loss into amortised cost.

FINANCIAL ASSETS (EUR 1,000)	Original measurement category under IAS 39	New measurement category under IFRS 9	Fair value at 31 Dec 2018	Fair value gain or loss for the period (i)	EIR determined as at 1 Jan 2018 (ii)	Interest revenue recognised during 2018
Loans and advances to the public sector entities	Fair value option	Amortised cost	136,960	-312	0.14%	215

(i) The fair value gain or loss that would have been recognised in profit or loss during the reporting period ending if the financial assets had not been reclassified.

(ii) Effective interest rate determined on the date of initial application.

All investments in commercial papers which were reclassified from fair value option to fair value through in other comprehensive income on initial application of IFRS 9 matured during 2018.

Note 40. Other operating income

(EUR 1,000)	2018	2017
Other income from credit institution operations	66	134
Total	**66**	**134**

The line includes fees from lending and capital gains from sold tangible assets.

Note 41. Administrative expenses

(EUR 1,000)	2018	2017
Personnel expenses		
Wages and salaries	12,473	11,012
Pension costs	2,306	2,196
Other personnel-related expenses	443	377
Total	**15,222**	**13,584**
Other administrative expenses	12,003	8,759
Total	**27,225**	**22,343**

	2018		2017	
PERSONNEL	**Average**	**End of year**	**Average**	**End of year**
Permanent full-time	132	136	111	122
Permanent part-time	4	3	3	5
Fixed term	11	12	9	7
Total	**147**	**151**	**122**	**134**

Note 42. Other operating expenses

(EUR 1,000)	2018	2017
Regulatory expenses		
Contributions to the single resolution fund	4,977	3,756
Other administrative and supervisory fees	1,850	1,844
Rental expenses	2,182	2,065
Other expenses from credit institution operations	6,360	6,830
Total	**15,368**	**14,495**

Note 43. Expected credit losses and impairment losses

31 DEC 2018 (EUR 1,000)	Expected credit losses			Realised credit losses		
	Additions	**Subtractions**	**Profit and loss**	**Additions**	**Subtractions**	**Profit and loss**
Financial assets measured at amortised cost and off-balance sheet items						
Cash and balances with central banks	0	-	0	-	-	-
Loans and advances to credit institutions	-10	370	360	-	-	-
Loans and advances to the public and public sector entities	-14	71	58	-434	-	-434
Lease receivables	0	1	1	-	-	-
Debt securities	0	1	1	-	-	-
Cash collateral to Central Counterparty Clearing House in Other assets	-5	50	45	-	-	-
Binding credit commitments (off-balance sheet)	-3	5	3	-	-	-
Total Financial assets measured at amortised cost and off-balance sheet items	**-32**	**499**	**467**	**-434**	**-**	**-434**
Other assets						
Debt securities at fair value through other comprehensive income	-103	199	96	-	-	-
Guarantee receivables from the public and public sector entities in Other assets	-	-	-	-	434	434
Total Other assets	**-103**	**199**	**96**	**-**	**434**	**434**
Total	**-135**	**699**	**564**	**-434**	**434**	**0**

MuniFin assesses all the expected credit losses on an individual basis and does not use collective assessment. Subsidiary shares do not include expected credit losses.

During the financial year 2018 MuniFin wrote off loan receivables totalling EUR 434 thousand. The company has collateral in form of property of the equivalent amount in addition to a deficiency guarantee from the State. The receivable is shown in the statement of financial position in Other assets (Stage 1) as guarantee receivables from the public and public sector entities and shown as a decrease of the write-offs recoveries in the income statement. MuniFin will not incur a final credit loss on the loan.

Compared with the previous year 2017 MuniFin wrote off loan receivables totalling EUR 1,344 thousand. The company has collateral in form of property of the equivalent amount in addition to a deficiency guarantee from the State. The receivable is shown in the statement of financial position in Other assets (Stage 1) as guarantee receivables from the public and public sector entities and shown as a decrease of the write-offs recoveries in the income statement. MuniFin will not incur a final credit loss on the loan.

31 DEC 2017 (EUR 1,000)	**Individual impairment losses, gross**	**Adjustments**	**Profit and Loss**
Loans and advances to the public and public sector entities	1,366	-1,366	0
Total credit losses on loans and other commitments	**1,366**	**-1,366**	**0**

MuniFin has not made any credit losses or their reversals on other financial assets in 2017.

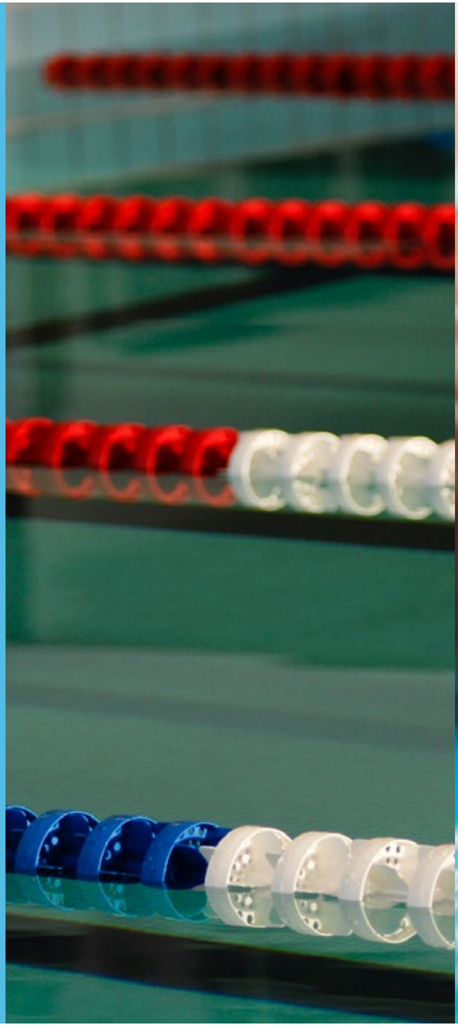
Note 44. Income tax expense

(EUR 1,000)	2018	2017
Tax based on the profit for the financial year	5,491	8,590
Tax based on the profit for previous financial years	0	-
Deferred tax	32,541	31,131
Total	**38,032**	**39,721**
Profit before tax	189,989	198,386
Taxes at domestic tax rate	37,998	39,677
Non-taxable income	-	-1
Other deductibles	-7	-5
Non-deductible expenses	34	49
Taxes for previous financial years	0	-
Losses of group companies	7	-
Total	**38,032**	**39,721**

Note 45. Events after the reporting period

There were no events after the reporting period that would have a material impact on the information presented in the financial statements.

Parent Company Financial Statements



Balance Sheet

(EUR 1,000)	Note	31 Dec 2018	31 Dec 2017
ASSETS			
Cash and balances with central banks		3,522,200	3,554,182
Cash		4	5
Central bank receivables payable on demand		3,522,196	3,554,177
Debt securities eligible for central bank refinancing	(5)	4,349,703	5,008,344
Other		4,349,703	5,008,344
Loans and advances to credit institutions	(3, 23)	1,380,291	1,250,746
Payable on demand		50,753	7,906
Other		1,329,538	1,242,840
Loans and advances to the public and public sector entities	(4)	22,354,096	21,219,114
Lease assets	(6)	614,022	431,732
Debt securities	(5)	1,512,889	1,485,890
From public sector entities		700,498	720,889
From others		812,391	765,002
Shares and participations	(8)	9,521	9,662
Shares and participations in Group companies	(8)	656	612
Derivative contracts	(9)	1,538,610	1,433,318
Intangible assets	(11, 13)	14,904	10,330
Tangible assets	(12, 13)	2,364	2,447
Other tangible assets		2,364	2,447
Other assets	(14)	174,160	157,469
Accrued income and prepayments	(15)	203,054	173,838
TOTAL ASSETS	(22, 23, 25)	**35,676,468**	**34,737,685**

(EUR 1,000)	Note	31 Dec 2018	31 Dec 2017
LIABILITIES AND EQUITY			
LIABILITIES			
Liabilities to credit institutions and central banks	(23)	822,504	802,277
To credit institutions		822,504	802,277
Other		822,504	802,277
Liabilities to the public and public sector entities		3,870,918	3,746,762
Other liabilities		3,870,918	3,746,762
Debt securities issued	(17)	26,901,998	26,303,961
Bonds		23,840,174	22,470,615
Other		3,061,824	3,833,346
Derivative contracts	(9)	2,205,427	2,216,034
Other liabilities	(18)	5,789	2,421
Accrued expenses and deferred income	(19)	160,056	135,958
Subordinated liabilities	(20)	348,406	347,916
Deferred tax liabilities	(16)	10,629	7,236
TOTAL LIABILITIES	(22, 23, 25)	**34,325,728**	**33,562,564**
APPROPRIATIONS			
Depreciation difference		8,627	6,163
Taxation based provisions		1,104,530	960,530
TOTAL APPROPRIATIONS		**1,113,157**	**966,693**

(EUR 1,000)	Note	31 Dec 2018	31 Dec 2017
EQUITY	(27, 28, 29)		
Share capital		43,008	43,008
Other restricted reserves		19,964	29,221
Reserve fund		277	277
Fair value reserve		19,687	28,944
Change in fair value		19,687	28,944
Non-restricted reserves		40,743	40,743
Reserve for invested non-restricted equity		40,743	40,743
Retained earnings		112,036	61,496
Profit for the financial period		21,832	33,960
TOTAL EQUITY		**237,583**	**208,428**
TOTAL LIABILITIES AND EQUITY	(22, 23, 25)	**35,676,468**	**34,737,685**
OFF-BALANCE SHEET COMMITMENTS	(47)		
Irrevocable commitments given in favour of customer		2,649,973	2,120,206

Income Statement

(EUR 1,000)	Note	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
Interest income	(30)	708,294	188,256
Net income from leasing operations	(31)	3,437	3,104
Interest expenses	(30)	-491,672	20,948
NET INTEREST INCOME		**220,059**	**212,308**
Commission income	(33)	335	758
Commission expenses	(33)	-4,175	-4,067
Net income from securities and foreign exchange transactions	(35)	-27,910	6,196
Net income from securities		-27,235	8,432
Net income from foreign exchange transactions		-675	-2,236
Net income from available-for-sale financial assets	(36)	-	494
Net income on financial assets at fair value through fair value reserve	(36)	38	-
Net income from hedge accounting	(37)	27,645	2,655
Other operating income	(39)	104	196

(EUR 1,000)	Note	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
Administrative expenses		-25,647	-20,306
Personnel expenses	(48)	-13,862	-11,812
Salaries and fees		-11,343	-9,545
Personnel-related expenses		-2,519	-2,267
Pension expenses		-2,074	-1,926
Other personnel-related expenses		-446	-341
Other administrative expenses		-11,784	-8,494
Depreciation and impairment on tangible and intangible assets	(41)	-2,330	-1,970
Other operating expenses	(40)	-14,895	-14,344
Expected credit losses on financial assets at amortised cost	(42)	467	-
Expected credit losses and impairments on other financial assets	(42)	96	-
NET OPERATING PROFIT		**173,787**	**181,919**
Appropriations		-146,465	-139,415
Income taxes		-5,491	-8,544
PROFIT FOR THE FINANCIAL YEAR		**21,832**	**33,960**

Statement of Cash Flows

(EUR 1,000)	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
CASH FLOW FROM OPERATING ACTIVITIES	**23,942**	**2,571,319**
Net change in long-term funding	1,463,125	1,598,929
Net change in short-term funding	-838,441	2,776,446
Net change in long-term loans	-1,310,278	-566,163
Net change in short-term loans	20,395	223,584
Net change in investments	529,922	678,585
Net change in cash collaterals	-25,340	-2,361,837
Interest on assets	89,573	98,339
Interest on liabilities	130,557	144,783
Other income	48,563	36,560
Payments of operating expenses	-68,770	-57,202
Taxes paid	-15,363	-705

(EUR 1,000)	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
CASH FLOW FROM INVESTING ACTIVITIES	**-6,827**	**-5,433**
Acquisition of tangible assets	-538	-642
Acquisition of intangible assets	-6,289	-4,791
CASH FLOW FROM FINANCING ACTIVITIES	**-6,250**	**-**
Dividends paid	-6,250	-
CHANGE IN CASH AND CASH EQUIVALENTS	**10,865**	**2,565,886**
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**3,562,088**	**996,202**
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**3,572,953**	**3,562,088**

Cash and cash equivalents include the following balance sheet items:
Cash and balances with central banks and loans and advances to credit institutions payable on demand.

EUR 1,000	31 Dec 2018	31 Dec 2017
Cash and balances with central banks	3,522,200	3,554,182
Loans and advances to credit institutions	50,753	7,906
TOTAL CASH AND CASH EQUIVALENTS	**3,572,953**	**3,562,088**

Notes to the parent company financial statements, FAS

Notes to the balance sheet

Notes to the income statement

Notes on collateral and contingent liabilities

Notes on personnel and management

Related party transactions

Holdings in other companies

Other notes

Notes to the parent company financial statements, FAS

Note 1. Significant accounting policies of the parent company's financial statements

Municipality Finance Plc, the parent company of the Municipality Finance Group, prepares its financial statements in accordance with the Act on Credit Institutions, the Ministry of Finance Decree on Credit Institutions and the Financial Supervisory Authority Regulations and Guidelines 2/2016. The company reports regularly on its operations to the European Central Bank, the Finnish Financial Supervisory Authority, the Bank of Finland, the Municipal Guarantee Board and Statistics Finland.

Leases in which MuniFin is a lessor, has been classified as finance leases in financial statements of both group and the parent company. The accounting treatment of finance leases does not differ from group to parent, but the lease receivables are presented in line Loans and advances to the public and public sector entities in the consolidated financial statement. In the parent company, they are presented in line Lease assets.

Appropriations

The difference between the depreciation according to plan and the depreciation of assets in taxation, is presented as a depreciation difference on line Total appropriations in the statement of financial position of the parent company.

In the income statement the depreciation difference is shown on line Appropriations. The voluntary credit loss provision and depreciation difference recognised under the Finnish Accounting Standards does not meet the recognition criteria set out in IAS 37 Provisions, Contingent Liabilities and Contingent Assets, and the credit loss provision and depreciation difference are thus released in the consolidated financial statements into equity and deferred tax liability in accordance with IAS 12 Income Tax.

The parent company's credit loss provisions are made in accordance with tax law.

According to the Act on Credit Institutions certain fair value changes are required to be reported in the fair value reserve within equity. The fair value reserve corresponds to term other comprehensive income used in IFRS 9 and in the Summary of significant accounting policies of the consolidated financial statements. The following fair value changes are presented in the fair value reserve: fair value changes on financial assets at fair value through other comprehensive income, changes in fair value due to changes in own credit risk of financial liabilities designated at fair value through profit or loss and cost-of-hedging from fair value hedge accounting, consisting of cross currency basis spread which has been separated and excluded from the hedge relationship.

Other valuation and amortisation principles are described in the notes to the consolidated financial statements.

In these financial statements MuniFin has applied IFRS 9, effective for annual periods beginning on 1 January 2018. IFRS 9 replaced IAS 39 for annual periods starting on or after 1 January 2018. The changes in the accounting principles and the the financial information on the impact of initial of application of IFRS 9 is presented in Note 1 and Note 4 in the consolidated financial statement. The comparative period was not restated upon adoption of IFRS 9 requirements. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018.

Notes to the balance sheet

The company has not combined any items on the balance sheet under Chapter 2, Section 14(4), of the Ministry of Finance Decree.

Note 2. Financial assets and liabilities

FINANCIAL ASSETS 31 DEC 2018 (EUR 1,000)	Amortised cost	Mandatorily at fair value through profit or loss	Designated at fair value through profit or loss	Fair value through other comprehensive income	Derivatives in hedge accounting	Total	Fair value
Cash and balances with central banks	3,522,200	-	-	-	-	3,522,200	3,522,200
Loans and advances to credit institutions	1,380,291	-	-	-	-	1,380,291	1,380,291
Loans and advances to the public and public sector entities	22,297,288	56,808	-	-	-	22,354,096	24,276,751
Lease assets	109,835	-	-	-	-	109,835	109,835
Debt securities	725,587	825	3,701,796	1,434,383	-	5,862,591	5,862,961
Shares and participations	-	9,521	-	-	-	9,521	9,521
Derivative contracts	-	534,398	-	-	1,004,212	1,538,610	1,538,610
Other assets	164,345	-	-	-	-	164,345	164,345
Total	**28,199,546**	**601,552**	**3,701,796**	**1,434,383**	**1,004,212**	**34,941,490**	**36,864,514**

Unhedged lease assets are not presented in financial assets and liabilities, as lease assets are not regarded as a financial asset for the purpose of IFRS 9 classification.
Other assets includes EUR 164,345 thousands of cash collateral given to central counterparties.

FINANCIAL LIABILITIES 31 DEC 2018 (EUR 1,000)	At amortised cost	At fair value through profit or loss	Designated at fair value through profit or loss	Derivatives in hedge accounting	Total	Fair value
Liabilities to credit institutions	776,105	-	46,399	-	822,504	822,733
Liabilities to the public and public sector entities	2,301,358	-	1,569,561	-	3,870,918	3,896,366
Debt securities issued	16,911,743	-	9,990,255	-	26,901,998	26,950,268
Derivative contracts	-	1,197,905	-	1,007,522	2,205,427	2,205,427
Subordinated liabilities	348,406	-	-	-	348,406	377,255
Total	**20,337,611**	**1,197,905**	**11,606,215**	**1,007,522**	**34,149,254**	**34,252,050**

FINANCIAL ASSETS 31 DEC 2017 (EUR 1,000)	Loans and receivables	Available-for-sale financial assets	Held-to-maturity investments	Fair value option	Held-for-trading	Derivatives in hedge accounting	Total	Fair value
Cash and balances with central banks	3,554,182	-	-	-	-	-	3,554,182	3,554,182
Loans and advances to credit institutions	1,250,746	-	-	-	-	-	1,250,746	1,250,746
Loans and advances to the public and public sector entities	21,065,473	-	-	153,642	-	-	21,219,114	23,006,055
Lease assets	431,732	-	-	-	-	-	431,732	434,889
Debt securities	-	5,628,591	753,859	111,785	-	-	6,494,234	6,494,663
Shares and participations	-	9,662	-	-	-	-	9,662	9,662
Derivative contracts	-	-	-	-	206,388	1,226,930	1,433,318	1,433,318
Other assets	148,205	-	-	-	-	-	148,205	148,205
Total	**26,450,337**	**5,638,253**	**753,859**	**265,427**	**206,388**	**1,226,930**	**34,541,193**	**36,331,720**

In 2017 fair value hedge accounting is applied to EUR 3,811,080 thousand of debt securities classified as available-for-sale financial assets. Loans and advances to the public and public sector entities includes EUR 7,068,042 thousand in loans and receivables included in fair value hedge accounting. Other assets includes EUR 148,205 thousands of cash collateral given to central counterparties.

FINANCIAL LIABILITIES 31 DEC 2017 (EUR 1,000)	Financial liabilities at amortised cost	Fair value option	Held-for-trading	Derivatives in hedge accounting	Total	Fair value
Liabilities to credit institutions*	802,277	-	-	-	802,277	804,267
Liabilities to the public and public sector entities*	3,746,762	-	-	-	3,746,762	3,824,994
Debt securities issued*	22,470,615	3,833,346	-	-	26,303,961	26,356,850
Derivative contracts	-	-	258,308	1,957,725	2,216,034	2,216,034
Subordinated liabilities	347,916	-	-	-	347,916	397,194
Total	**27,367,570**	**3,833,346**	**258,308**	**1,957,725**	**33,416,949**	**33,599,339**

*In 2017 fair value hedge accounting is applied to EUR 23,778,197 thousand of other financial liabilities.

Note 3. Loans and advances to credit institutions

31 DEC 2018 (EUR 1,000)	Total	Payable on demand	Other than payable on demand	Expected credit losses
Receivables from central bank	31,839	-	31,839	0
Domestic credit institutions	85,808	49,216	36,600	-8
Foreign credit institutions	1,262,644	1,537	1,261,150	-43
Total	**1,380,291**	**50,753**	**1,329,589**	**-51**

31 DEC 2017 (EUR 1,000)	Total	Payable on demand	Other than payable on demand
Domestic credit institutions	60,575	7,605	52,970
Foreign credit institutions	1,190,171	301	1,189,870
Total	**1,250,746**	**7,906**	**1,242,840**

Note 4. Loans and advances to the public and public sector entities

	31 Dec 2018		31 Dec 2017
(EUR 1,000)	**Total**	**Of which expected credit losses**	
Enterprises and housing corporations	11,988,299	-62	11,590,300
Public sector entities	9,973,674	-12	9,249,234
Non-profit organisations	392,123	-1	379,581
Total	**22,354,096**	**-75**	**21,219,114**

Note 5. Debt securities

DEBT SECURITIES ISSUED BY PUBLIC SECTOR ENTITIES 31 DEC 2018 (EUR 1,000)	**Publicly quoted**	**Other**	**Total**	**Expected credit losses**
Designated at fair value through profit or loss	**1,552,085**	**-**	**1,552,085**	**-**
Government bonds	363,192	-	363,192	-
Bonds issued by other public sector entities	1,188,892	-	1,188,892	-
Financial assets at amortised cost	**-**	**641,517**	**641,517**	**0**
Municipal commercial papers	-	641,517	641,517	0
Fair value through other comprehensive income	**100,453**	**-**	**100,453**	**-**
Government bonds	-	-	-	-
Bonds issued by other public sector entities	100,453	-	100,453	-
Total	**1,652,538**	**641,517**	**2,294,055**	**0**
Eligible for central bank refinancing	1,413,185	-	1,413,185	

DEBT SECURITIES ISSUED BY OTHER THAN PUBLIC SECTOR ENTITIES 31 DEC 2018 (EUR 1,000)	Publicly quoted	Other	Total	Expected credit losses
Mandatorily at fair value through profit or loss	**-**	**825**	**825**	**-**
Other debt securities	-	825	825	-
Designated at fair value through profit or loss	**2,149,711**	**-**	**2,149,711**	**-**
Bank bonds	2,149,711	-	2,149,711	-
Financial assets at amortised cost	**-**	**84,070**	**84,070**	**0**
Commercial papers	-	84,070	84,070	0
Fair value through other comprehensive income	**1,333,930**	**-**	**1,333,930**	**-**
Bank bonds	1,268,885	-	1,268,885	-
Bank commercial papers	65,046	-	65,046	-
Total	**3,483,642**	**84,895**	**3,568,536**	**0**
Eligible for central bank refinancing	2,936,518	-	2,936,518	

31 DEC 2018 (EUR 1,000)	Publicly quoted	Other	Total
Total debt securities	**5,136,179**	**726,412**	**5,862,591**

Debt securities do not contain any securities given as collateral for reverse repo agreements at year end 2018.

At the end of 2018 there are no financial assets measured mandatorily at fair value through profit or loss.

RECLASSIFICATION (EUR 1,000)	Transfer date	Fair value of investments at transfer date
Transferred from available-for-sale to held-to-maturity investments	1 Jan 2008	171,935
Transferred from available-for-sale to held-to-maturity investments	1 Jul 2008	34,967
Total		**206,902**

Without this reclassification, changes in fair value of investments would have had an impact of EUR -8 thousand on the fair value reserve in 2018. Without this reclassification, changes in fair value of investments would have had an impact of EUR 139 thousand on the fair value reserve in 2017. The remainder of the valuation difference resulting from the transfer of debt securities to held-to-maturity investments was released from the fair value reserve by the end of year 2016. Debt securities reclassified in 2008 have matured by the end of 2018.

DEBT SECURITIES ISSUED BY PUBLIC SECTOR ENTITIES 31 DEC 2017 (EUR 1,000)	**Publicly quoted**	**Other**	**Total**
Held-to-maturity	**-**	**661,318**	**661,318**
Municipal commercial papers	-	661,318	661,318
Available-for-sale	**1,845,609**	**-**	**1,845,609**
Government bonds	450,170	-	450,170
Bonds issued by other public sector entities	1,395,439	-	1,395,439
Fair value option	**-**	**-**	**-**
Government treasury bills	-	-	-
Bonds issued by other public sector entities	-	-	-
Commercial paper issued by other public sector entities	-	-	-
Total	**1,845,609**	**661,318**	**2,506,927**
Eligible for central bank refinancing	1,583,001	-	1,583,001

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DEBT SECURITIES ISSUED BY OTHER THAN PUBLIC SECTOR ENTITIES 31 DEC 2017 (EUR 1,000)	**Publicly quoted**	**Other**	**Total**
Held-to-maturity	**-**	**92,541**	**92,541**
Bank bonds	-	-	-
Commercial papers	-	87,670	87,670
Other debt securities	-	4,871	4,871
Available-for-sale	**3,781,374**	**1,607**	**3,782,981**
Bank bonds	3,781,374	-	3,781,374
Other debt securities	-	1,607	1,607
Fair value option	**42,750**	**69,035**	**111,785**
Bank commercial papers	-	69,035	69,035
Bank bonds	42,750	-	42,750
Total	**3,824,124**	**163,182**	**3,987,307**
Eligible for central bank refinancing	3,385,314	40,028	3,425,343

31 DEC 2017 (EUR 1,000)	**Publicly quoted**	**Other**	**Total**
Total debt securities	**5,669,734**	**824,500**	**6,494,234**

Note 6. Lease assets

(EUR 1,000)	31 Dec 2018	31 Dec 2017
Prepayments	268,317	149,653
Machinery and equipment	185,088	151,514
Fixed assets and buildings	160,494	129,278
Other assets	124	1,288
Expected credit losses	0	-
Total	**614,022**	**431,732**

Note 7. Credit risk

MuniFin's Credit risk management principles are described in Municipality Finance Group's Note 1. Summary of significant accounting policies and Note 2. Risk management principles and group risk position.

EXPECTED CREDIT LOSSES

	Not credit-impaired		Credit-impaired	Total	
	Stage 1	Stage 2	Stage 3		
31 DEC 2018 (EUR 1,000)	**12 month ECL**	**Lifetime ECL**	**Lifetime ECL**	**ECL**	**Gross carrying amount**
Cash and balances with central banks at amortised cost at 1 January 2018 [1]	**-**	**-**	**-**	**-**	**3,554,182**
New assets originated or purchased	-	-	-	-	-
Assets derecognised or repaid (excluding write-offs)	-	-	-	-	-31,982
Transfers to Stage 1	-	-	-	-	
Transfers to Stage 2	-	-	-	-	
Transfers to Stage 3	-	-	-	-	
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	
Changes to models [2] and inputs [3] used for ECL calculations	0	-	-	0	
Write-offs	-	-	-	-	-
Total cash and balances with central banks at amortised cost at 31 December 2018	**0**	**-**	**-**	**0**	**3,522,200**

EXPECTED CREDIT LOSSES	**Not credit-impaired**		**Credit-impaired**		
	Stage 1	**Stage 2**	**Stage 3**	**Total**	
31 DEC 2018 (EUR 1,000)	**12 month ECL**	**Lifetime ECL**	**Lifetime ECL**	**ECL**	**Gross carrying amount**
Loans and advances to credit institutions at amortised cost at 1 January 2018 [1]	**411**	**-**	**-**	**411**	**1,250,335**
New assets originated or purchased	2	-	-	2	164,922
Assets derecognised or repaid (excluding write-offs)	-2	-	-	-2	-34,965
Transfers to Stage 1	-	-	-	-	
Transfers to Stage 2	-	-	-	-	
Transfers to Stage 3	-	-	-	-	
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	
Changes to models [2] and inputs [3] used for ECL calculations	-361	-	-	-361	
Write-offs	-	-	-	-	-
Total loans and advances to credit institutions at amortised cost at 31 December 2018	**51**	**-**	**-**	**51**	**1,380,291**

EXPECTED CREDIT LOSSES	Not credit-impaired		Credit-impaired		
	Stage 1	Stage 2	Stage 3	Total	
31 DEC 2018 (EUR 1,000)	12 month ECL	Lifetime ECL	Lifetime ECL	ECL	Gross carrying amount
Loans and advances to the public and public sector entities at amortised cost at 1 January 2018 [1]	**55**	**77**	**0**	**132**	**21,002,558**
New assets originated or purchased	1	0	-	1	2,953,285
Assets derecognised or repaid (excluding write-offs)	-5	-1	-	-6	-1,658,121
Transfers to Stage 1	0	-1	-	-1	
Transfers to Stage 2	0	13	-	12	
Transfers to Stage 3	-	-	-	-	
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	
Changes to models [2] and inputs [3] used for ECL calculations	-36	-28	-	-63	
Write-offs	-	-	0	0	-434
Total loans and advances to the public and public sector entities at amortised cost at 31 December 2018	**15**	**59**	**0**	**75**	**22,297,288**

EXPECTED CREDIT LOSSES	**Not credit-impaired**		**Credit-impaired**		
	Stage 1	**Stage 2**	**Stage 3**	**Total**	
31 DEC 2018 (EUR 1,000)	**12 month ECL**	**Lifetime ECL**	**Lifetime ECL**	**ECL**	**Gross carrying amount**
Lease receivables to the public and public sector entities at amortised cost at 1 January 2018 [1]	**2**	**0**	**-**	**2**	**431,732**
New assets originated or purchased	0	-	-	0	217,193
Assets derecognised or repaid (excluding write-offs)	-1	0	-	-1	-34,904
Transfers to Stage 1	-	-	-	-	
Transfers to Stage 2	-	-	-	-	
Transfers to Stage 3	-	-	-	-	
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	
Changes to models [2] and inputs [3] used for ECL calculations	-	-	-	-	
Write-offs	-	-	-	-	-
Total lease receivables to the public and public sector entities at amortised cost at 31 December 2018	**1**	**0**	**-**	**1**	**614,021**

EXPECTED CREDIT LOSSES	**Not credit-impaired**		**Credit-impaired**		
	Stage 1	**Stage 2**	**Stage 3**	**Total**	
31 DEC 2018 (EUR 1,000)	**12 month ECL**	**Lifetime ECL**	**Lifetime ECL**	**ECL**	**Gross carrying amount**
Debt securities at amortised cost at 1 January 2018 [1]	**1**	**-**	**-**	**1**	**748,986**
New assets originated or purchased	0	0	-	0	725,607
Assets derecognised or repaid (excluding write-offs)	-1	-	-	-1	-749,006
Transfers to Stage 1	-	-	-	-	
Transfers to Stage 2	0	-	-	0	
Transfers to Stage 3	-	-	-	-	
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	
Changes to models [2] and inputs [3] used for ECL calculations	-	-	-	-	
Write-offs	-	-	-	-	-
Total debt securities at amortised cost at 31 December 2018	**0**	**0**	**-**	**0**	**725,587**

EXPECTED CREDIT LOSSES	**Not credit-impaired**		**Credit-impaired**		
	Stage 1	**Stage 2**	**Stage 3**	**Total**	
31 DEC 2018 (EUR 1,000)	**12 month ECL**	**Lifetime ECL**	**Lifetime ECL**	**ECL**	**Gross carrying amount**
Debt securities at fair value through other comprehensive income at 1 January 2018 [1]	**317**	**-**	**-**	**317**	**1,815,904**
New assets originated or purchased	103	-	-	103	395,108
Assets derecognised or repaid (excluding write-offs)	-199	-	-	-199	-776,629
Transfers to Stage 1	-	-	-	-	
Transfers to Stage 2	-	-	-	-	
Transfers to Stage 3	-	-	-	-	
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	
Changes to models [2] and inputs [3] used for ECL calculations	0	-	-	0	
Write-offs	-	-	-	-	-
Total debt securities at fair value through other comprehensive income at 31 December 2018	**221**	**-**	**-**	**221**	**1,434,383**

EXPECTED CREDIT LOSSES	Not credit-impaired		Credit-impaired		
	Stage 1	Stage 2	Stage 3	Total	
31 DEC 2018 (EUR 1,000)	**12 month ECL**	**Lifetime ECL**	**Lifetime ECL**	**ECL**	**Gross carrying amount**
Cash collateral to Central Counterparty Clearing House in Other assets at amortised cost at 1 January 2018 [1]	**49**	**-**	**-**	**49**	**148,205**
New assets originated or purchased	5	-	-	5	16,140
Assets derecognised or repaid (excluding write-offs)	-	-	-	-	-
Transfers to Stage 1	-	-	-	-	
Transfers to Stage 2	-	-	-	-	
Transfers to Stage 3	-	-	-	-	
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	
Changes to models [2] and inputs [3] used for ECL calculations	-50	-	-	-50	
Write-offs	-	-	-	-	-
Total cash collateral to Central Counterparty Clearing House in Other assets at amortised cost at 31 December 2018	**4**	**-**	**-**	**4**	**164,345**

EXPECTED CREDIT LOSSES	Not credit-impaired		Credit-impaired	Total	
	Stage 1	Stage 2	Stage 3		
31 DEC 2018 (EUR 1,000)	**12 month ECL**	**Lifetime ECL**	**Lifetime ECL**	**ECL**	**Gross carrying amount**
Guarantee receivables from the public and public sector entities in Other assets at 1 January 2018 [1]	**-**	**-**	**-**	**-**	**1,366**
New assets originated or purchased	-	-	-	-	-
Assets derecognised or repaid (excluding write-offs)	-	-	-	-	-
Transfers to Stage 1	-	-	-	-	
Transfers to Stage 2	-	-	-	-	
Transfers to Stage 3	-	-	-	-	
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	
Changes to models [2] and inputs [3] used for ECL calculations	-	-	-	-	
Write-offs	-	-	-	-	-
Recoveries	-	-	-	-	434
Total guarantee receivables from the public and public sector entities in Other assets at 31 December 2018	**-**	**-**	**-**	**-**	**1,800**

EXPECTED CREDIT LOSSES	Not credit-impaired		Credit-impaired		
	Stage 1	Stage 2	Stage 3	Total	
31 DEC 2018 (EUR 1,000)	12 month ECL	Lifetime ECL	Lifetime ECL	ECL	Gross carrying amount
Binding credit commitments (off-balance sheet) at 1 January 2018 [1]	**6**	**0**	**-**	**6**	**2,120,206**
New assets originated or purchased	2	0	-	2	1,950,198
Assets derecognised or repaid (excluding write-offs)	-5	-	-	-5	-1,342,941
Transfers to Stage 1	-	-	-	-	
Transfers to Stage 2	0	-	-	0	
Transfers to Stage 3	-	-	-	-	
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	
Changes to models [2] and inputs [3] used for ECL calculations	1	-	-	1	
Write-offs	-	-	-	-	-
Total binding credit commitments (off-balance sheet) at 31 December 2018	**3**	**0**	**0**	**3**	**2,727,463**

EXPECTED CREDIT LOSSES	**Not credit-impaired**		**Credit-impaired**		
	Stage 1	**Stage 2**	**Stage 3**	**Total**	
31 DEC 2018 (EUR 1,000)	**12 month ECL**	**Lifetime ECL**	**Lifetime ECL**	**ECL**	**Gross carrying amount**
Total expected credit losses at 1 January 2018 [1]	**842**	**77**	**0**	**918**	**31,073,474**
New assets originated or purchased	113	0	-	113	6,422,453
Assets derecognised or repaid (excluding write-offs)	-214	-1	0	-215	-4,628,549
Transfers to Stage 1	0	-1	-	-1	
Transfers to Stage 2	0	13	-	12	
Transfers to Stage 3	-	-	-	-	
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	
Changes to models [2] and inputs [3] used for ECL calculations	-445	-28	-	-473	
Write-offs	-	-	0	0	-434
Recoveries	-	-	-	-	434
Total expected credit losses at 31 December 2018	**244**	**59**	**0**	**355**	**32,867,378**

[1] Represents movements prior to re-measurement.
[2] Represent changes in the model.
[3] Represents changes to model parameters (e.g. GDP rates, unemployment rates).

During the financial year, MuniFin has specified the methods for estimating expected credit losses and the assumptions used in the model. The revaluation had no material impact on the expected amount of credit losses.

EXPECTED CREDIT LOSSES

31 DEC 2018 (EUR 1,000)	Not credit-impaired		Credit-impaired	
	Stage 1	Stage 2	Stage 3	Gross carrying amount total
Cash and balances with central banks at amortised cost	3,522,200	-	-	3,522,200
Loans and advances to credit institutions at amortised cost	1,380,291	-	-	1,380,291
Loans and advances to the public and public sector entities at amortised cost	22,075,706	221,581	-	22,297,288
Lease receivables to the public and public sector entities at amortised cost	613,825	196	-	614,021
Debt securities at amortised cost	721,187	4,400	-	725,587
Debt securities at fair value through other comprehensive income	1,434,383	-	-	1,434,383
Cash collateral to Central Counterparty Clearing House in Other assets at amortised cost	164,345	-	-	164,345
Guarantee receivables from the public and public sector entities in Other assets	1,800	-	-	1,800
Binding credit commitments (off-balance sheet)	2,727,035	428	-	2,727,463
Total	**32,640,774**	**226,605**	**-**	**32,867,378**

Forborne loans

At the end of 2018 loans and advances to the public and public sector entities included EUR 61,551 thousand of forborne loans (2017: EUR 47,351 thousand).

Realised credit losses

During the financial year 2018 MuniFin wrote off loan receivables totalling EUR 434 thousand. The company has collateral in form of property of the equivalent amount in addition to a deficiency guarantee from the State. The receivable is shown in the statement of financial position in Other assets (stage 1) as guarantee receivables from the public and public sector entities and shown as a decrease of the write-offs recoveries in the income statement. MuniFin will not incur a final credit loss on the loan.

Compared with the previous year 2017 MuniFin wrote off loan receivables totalling EUR 1,344 thousand. The company has collateral in form of property of the equivalent amount in addition to a deficiency guarantee from the State. The receivable is shown in the statement of financial position in Other assets (stage 1) as guarantee receivables from the public and public sector entities and shown as a decrease of the write-offs recoveries in the income statement. MuniFin will not incur a final credit loss on the loan.

Note 8. Shares and participations

31 DEC 2018 (EUR 1,000)	Publicly quoted	Other	Total	In credit institutions
Shares and participations				
Mandatorily at fair value through profit or loss	9,494	27	9,521	-
Shares and participations in group companies	-	656	656	-
Total	**9,494**	**683**	**10,177**	**-**
of which at acquisition cost	-	656	656	-

MuniFin does not have equity instruments valued at fair value through comprehensive income.

31 DEC 2017 (EUR 1,000)	Publicly quoted	Other	Total	In credit institutions
Shares and participations				
Available-for-sale	9,635	27	9,662	-
Shares and participations in group companies	-	612	612	-
Total	**9,635**	**639**	**10,274**	**-**
of which at acquisition cost	-	639	639	-

MuniFin does not have shares and participations subject to securities lending.

Note 9. Derivative contracts

31 DEC 2018 (EUR 1,000)	Nominal value of underlying instrument				Fair value	
	Remaining maturity					
	Less than 1 year	1–5 years	Over 5 years	Total	Positive	Negative
Contracts in hedge accounting						
Interest rate derivatives						
Interest rate swaps	1,829,469	8,029,613	9,814,625	**19,673,707**	412,028	-211,683
Cleared by the central counterparty	445,781	4,602,017	6,581,056	**11,628,854**	60,528	-84,031
Currency derivatives						
Cross currency interest rate swaps	3,482,924	7,576,260	1,416,785	**12,475,969**	592,184	-795,839
Total contracts in hedge accounting	**5,312,394**	**15,605,873**	**11,231,410**	**32,149,676**	**1,004,212**	**-1,007,522**
Contracts at fair value through profit or loss						
Interest rate derivatives						
Interest rate swaps	3,396,376	8,685,592	4,793,987	**16,875,955**	357,439	-254,720
Cleared by the central counterparty	1,024,147	4,285,456	735,593	**6,045,196**	5,281	-54,167
Interest rate options	120,000	40,105	-	**160,105**	417	-417
Currency derivatives						
Cross currency interest rate swaps	2,157,838	3,638,589	292,965	**6,089,391**	152,459	-675,090
Forward exchange contracts	2,538,297	-	-	**2,538,297**	18,865	-8,036
Equity derivatives	1,642,296	146,389	-	**1,788,685**	5,217	-259,641
Other derivatives	-	-	-	**-**	-	-
Total contracts at fair value through profit or loss	**9,854,806**	**12,510,675**	**5,086,952**	**27,452,433**	**534,398**	**-1,197,905**
Grand total	**15,167,200**	**28,116,547**	**16,318,362**	**59,602,109**	**1,538,610**	**-2,205,427**

Contracts that are measured at fair value through profit or loss contain all derivatives of the company which are not included in hedge accounting, even if they are entered into for risk management purposes. The category contains derivatives used for hedging financial assets and liabilities which are designated at fair value through profit or loss, all derivatives with municipalities and all derivatives hedging derivatives with municipalities. In addition to these, the category contains derivatives used for hedging interest rate risk of the balance sheet, for which no hedged item has been specified.

Starting 1 January 2018 MuniFin has valued all derivatives using the OIS curve and included the impact of the cross currency basis spreads in its derivative valuations.

MuniFin hasn’t agreed any derivative contracts with the counterparties within the same Group.

	Nominal value of underlying instrument					
	Remaining maturity				Fair value	
31 DEC 2017 (EUR 1,000)	**Less than 1 year**	**1–5 years**	**Over 5 years**	**Total**	**Positive**	**Negative**
Contracts in hedge accounting						
Interest rate derivatives						
Interest rate swaps	4,454,724	16,163,172	10,432,188	**31,050,085**	531,951	-369,866
Cleared by the central counterparty	-	3,597,917	1,758,500	**5,356,417**	19,821	-40,314
Interest rate options	-	-	-	**-**	-	-
Currency derivatives						
Cross currency interest rate swaps	5,287,321	10,681,946	1,665,703	**17,634,970**	694,979	-1,587,860
Total contracts in hedge accounting	**9,742,045**	**26,845,118**	**12,097,891**	**48,685,054**	**1,226,930**	**-1,957,725**
Contracts held-for-trading						
Interest rate derivatives						
Interest rate swaps	577,565	3,220,905	2,640,360	**6,438,830**	144,237	-138,367
Cleared by the central counterparty	54,400	2,554,967	2,275,464	**4,884,831**	25,037	-56,989
Interest rate options	-	162,175	-	**162,175**	628	-628
Currency derivatives						
Cross currency interest rate swaps	27,737	5,289	-	**33,026**	186	-146
Forward exchange contracts	3,846,382	-	-	**3,846,382**	5,127	-62,956
Equity derivatives	1,438,846	766,070	-	**2,204,916**	56,078	-56,078
Other derivatives	-	20,000	-	**20,000**	133	-133
Total	**5,890,530**	**4,174,438**	**2,640,360**	**12,705,329**	**206,388**	**-258,308**
Grand total	**15,632,576**	**31,019,557**	**14,738,251**	**61,390,383**	**1,433,318**	**-2,216,034**

Contracts held-for-trading contains all derivatives of the company which are not included in hedge accounting, even if they are entered into for risk management purposes. The category contains derivatives used for hedging financial assets and liabilities which are measured using the fair value option, all derivatives with municipalities, all derivatives hedging derivatives with municipalities. In addition to these, the category contains derivatives used for hedging interest rate risk of the balance sheet, for which no hedged item has been specified, the derivatives which hedge embedded derivatives and the embedded derivatives which have been bifurcated from the financial liability.

MuniFin hasn't agreed any derivative contracts with the counterparties within the same Group.

Note 10. Hedge accounting

HEDGE ACCOUNTING 31 DEC 2018 (EUR 1,000)	IAS 39 portfolio hedge accounting	IFRS 9 fair value hedge accounting	IFRS 9 fair value hedge accounting incl. Cost-of-hedging	Total fair value hedge accounting
Financial assets				
Loans and advances to the public and public sector entities	7,491,823	144,970	-	7,636,793
Lease assets	-	109,835	-	109,835
Total financial assets	**7,491,823**	**254,805**	**-**	**7,746,628**
Financial liabilities				
Liabilities to credit institutions	-	36,845	-	36,845
Liabilities to the public and public sector entities	-	2,101,889	199,469	2,301,358
Debt securities issued	-	4,100,363	12,260,426	16,360,789
Total financial liabilities	**-**	**6,239,096**	**12,459,895**	**18,698,991**

FAIR VALUE CHANGE WITH RESPECT TO THE HEDGED RISK (EUR 1,000)	31 Dec 2018	1 Jan 2018	Recognised in the income statement 2018
Financial assets			
IAS 39 Portfolio hedge accounting			
Loans and advances to the public and public sector entities	155,610	127,428	28,182
Hedging instruments	-127,621	-100,054	-27,567
IAS 39 Portfolio hedge accounting, net	**27,989**	**27,374**	**615**
IFRS 9 Fair value hedge accounting			
Loans and advances to the public and public sector entities	22,752	25,596	-2,844
Hedging instruments	-23,636	-26,701	3,064
IFRS 9 Fair value hedge accounting, net	**-884**	**-1,105**	**220**
Financial liabilities			
IFRS 9 Fair value hedge accounting			
Liabilities to credit institutions	-11,845	-4,851	-6,994
Liabilities to the public and public sector entities	-339,599	-363,087	23,487
Debt securities issued	-73,873	-96,695	22,822
Hedging instruments	432,237	444,743	-12,506
IFRS 9 Fair value hedge accounting, net	**6,921**	**-19,889**	**26,810**
Total hedge accounting	**34,025**	**6,380**	**27,645**

The figures presented in the table contain the fair value change with respect to the hedged risk. These fair value changes have been presented in the consolidated income statement on row Net income from hedge accounting. Net income from hedge accounting is split in Note 37. The total of the hedging instruments in this table does therefore not reconcile to the row Contracts in Hedge accounting in Note 9. For more details regarding principles applied to hedge accounting see Note 1. in consolidated financial statements.

HEDGING IMPACT ON OWN EQUITY (EUR 1,000)	31 Dec 2018	1 Jan 2018	Impact on Cost-of-hedging reserve
Cost-of-hedging			
Hedging instrument*	14,235	-7,919	22,154
Total	**14,235**	**-7,919**	**22,154**

*Under IFRS 9 the impact of cost-of-hedging on cross currency derivatives is shown in equity in the Cost-of-hedging reserve.
Figures are presented after deferred taxes.

EFFECTIVENESS OF THE HEDGE ACCOUNTING ON HEDGED ITEM

31 DEC 2018 (EUR 1,000)		Gains/(losses) attributable to the hedged risk		
HEDGED ITEM	**Hedging instrument**	**Hedged item**	**Hedging instrument**	**Hedge ineffectiveness**
Financial assets				
IAS 39 Portfolio hedge accounting				
Fixed rate and revisable rate loans	Interest rate derivatives	155,610	-127,621	27,989
IFRS 9 Fair value hedge accounting				
Structured loans	Interest rate derivatives	21,574	-22,680	-1,106
Fixed rate lease contracts	Interest rate derivatives	1,178	-956	222
Financial assets total		**178,362**	**-151,257**	**27,105**
Financial liabilities				
IFRS 9 Fair value hedge accounting				
Financial liabilities denominated in EUR	Interest rate derivatives	-404,442	402,382	-2,060
Financial liabilities denominated in foreign currencies	Currency derivatives (Cross currency interest rate swaps) Interest rate derivatives	-20,875	29,855	8,981
Financial liabilities total		**-425,317**	**432,237**	**6,921**

FAIR VALUE CHANGES WITH RESPECT TO THE HEDGED RISK (EUR 1,000)	31 Dec 2017	31 Dec 2016	Recognised in the income statement 2017
Financial assets			
IAS 39 Portfolio hedge accounting			
Loans and advances to the public and public sector entities	128,136	213,373	-85,238
Hedging instruments	-110,438	-197,474	87,037
IAS 39 Portfolio hedge accounting, net	**17,698**	**15,899**	**1,799**
Fair value hedge accounting			
Loans and advances to the public and public sector entities	31,507	44,344	-12,837
Hedging instruments	-31,755	-43,936	12,181
Fair value hedge accounting, net	**-248**	**408**	**-656**
Financial liabilities			
Fair value hedge accounting			
Liabilities to credit institutions	-404,663	-519,016	114,352
Liabilities to the public and public sector entities	-56,718	-75,203	18,485
Debt securities issued	154,820	-30,934	185,754
Hedging instruments	306,070	623,149	-317,079
Fair value hedge accounting, net	**-491**	**-2,004**	**1,512**
Total hedge accounting	**16,959**	**14,303**	**2,655**

The figures presented in the table contain the fair value change with respect to the hedged risk. These fair value changes have been presented in the consolidated income statement on row Net income from hedge accounting. Net income from hedge accounting is split in Note 37. The total of the hedging instruments in this table does therefore not reconcile to the row Contracts in Hedge accounting in Note 9.

IMPACT OF AVAILABLE-FOR-SALE FINANCIAL ASSETS ON THE INCOME STATEMENT DUE TO THE APPLICATION OF HEDGE ACCOUNTING

(EUR 1,000)	31 Dec 2017	31 Dec 2016	Impact of interest rate risk on the income statement in 2017	Impact on fair value reserve in 2017 *	Change in fair value *
Financial assets					
Fair value hedge accounting					
Debt securities	74,497	102,062	43,879	8,991	24,495
Hedging instruments	-43,879	-82,683	-43,879	-	-
Fair value hedge accounting, net	**30,618**	**19,379**	**0**	**8,991**	**24,495**

* Figures in columns Impact on fair value reserve and Change in fair value are presented after deferred taxes.

Note 11. Intangible assets

(EUR 1,000)	31 Dec 2018	31 Dec 2017
IT systems	14,850	10,196
Other intangible assets	54	134
Total	**14,904**	**10,330**

Intangible assets do not include other development expenses or goodwill.

Note 12. Tangible assets

(EUR 1,000)	31 Dec 2018	31 Dec 2017
Other real estates		
Buildings	-	279
Land	-	135
Other real estate corporation shares	299	299
Other tangible assets	2,065	1,735
Total	**2,364**	**2,447**

MuniFin does not have investment properties.

Note 13. Changes in intangible and tangible assets during the financial year

31 DEC 2018 (EUR 1,000)	Intangible assets	Tangible assets		
	Total	Other real estates	Other tangible assets	Total
Acquisition cost 1 Jan	18,781	1,207	4,103	5,310
+ Additions	6,289	-	1,153	1,153
– Disposals	-	-908	-436	-1,343
Acquisition cost 31 Dec	25,070	299	4,820	5,119
Accumulated depreciation 1 Jan	8,451	494	2,369	2,862
– Accumulated depreciation on disposals	-	-511	-211	-722
+ Depreciation for the financial year	1,715	17	598	614
Accumulated depreciation 31 Dec	10,166	0	2,755	2,755
Book value 31 Dec	**14,904**	**299**	**2,065**	**2,364**

31 DEC 2017 (EUR 1,000)	Intangible assets	Tangible assets		
	Total	Other real estates	Other tangible assets	Total
Acquisition cost 1 Jan	13,990	1,207	3,633	4,840
+ Additions	4,791	-	829	829
– Disposals	-	-	-359	-359
Acquisition cost 31 Dec	18,781	1,207	4,103	5,310
Accumulated depreciation 1 Jan	7,109	454	2,037	2,491
– Accumulated depreciation on disposals	-	-	-258	-258
+ Depreciation for the financial year	1,341	40	589	629
Accumulated depreciation 31 Dec	8,451	494	2,369	2,862
Book value 31 Dec	**10,330**	**713**	**1,735**	**2,447**

Note 14. Other assets

(EUR 1,000)	31 Dec 2018	31 Dec 2017
Invoiced lease rents	7,725	6,737
Given cash collateral to Central Counterparty Clearing House	164,341	148,205
Other	2,094	2,527
Total	**174,160**	**157,469**

Company did not have receivables related to payment transfers as at 31 December 2018 or 31 December 2017.
Cash collaterals include ecpected credit losses amounting to EUR 4 thousand.

Note 15. Accrued income and prepayments

(EUR 1,000)	31 Dec 2018	31 Dec 2017
Interest	198,517	171,639
Other	4,536	2,200
Total	**203,054**	**173,838**

Note 16. Deferred tax assets and liabilities

DEFERRED TAX LIABILITIES (EUR 1,000)	31 Dec 2017	Recognised in the income statement	Recognised in equity	31 Dec 2018
On other temporary differences				
On fair value reserve	7,236	-	14,259	21,495
On revaluation of financial assets and liabilities in IFRS 9 transition	-	-	-10,866	-10,866
Total	**7,236**	**-**	**3,393**	**10,629**

Voluntary provisions and depreciation difference include EUR 222,631 thousand in non-recognised deferred tax liabilities.
Company did not have deferred tax assets as at 31 December 2018.

DEFERRED TAX LIABILITIES (EUR 1,000)	31 Dec 2016	Recognised in the income statement	Recognised in equity	31 Dec 2017
On other temporary differences				
On fair value reserve	4,880	-	2,356	7,236
Total	**4,880**	**-**	**2,356**	**7,236**

Voluntary provisions and depreciation difference include EUR 193,339 thousand in non-recognised deferred tax liabilities.
Company did not have deferred tax assets as at 31 December 2017.

Note 17. Debt securities issued

	31 Dec 2018		31 Dec 2017	
(EUR 1,000)	**Book value**	**Nominal value**	**Book value**	**Nominal value**
Bonds	23,840,174	24,983,497	22,470,615	23,239,066
Other	3,061,824	3,067,904	3,833,346	3,841,305
Total	**26,901,998**	**28,051,402**	**26,303,961**	**27,080,371**

All parent company funding is guaranteed by the Municipal Guarantee Board.

Note 18. Other liabilities

(EUR 1,000)	31 Dec 2018	31 Dec 2017
Interest	-	-
Other	5,789	2,421
Total	**5,789**	**2,421**

Note 19. Accrued expenses and deferred income

(EUR 1,000)	31 Dec 2018	31 Dec 2017
Interest	146,580	117,999
Other	13,476	17,959
Total	**160,056**	**135,958**

Note 20. Subordinated liabilities

31 DEC 2018 (EUR 1,000)	Currency	Nominal value	Book value	Interest rate	Earliest repayment
AT1 capital loan	EUR	350,000	348,406	Fixed	1st April 2022
Total		**350,000**	**348,406**		

31 DEC 2017 (EUR 1,000)	Currency	Nominal value	Book value	Interest rate	Earliest repayment
AT1 capital loan	EUR	350,000	347,916	Fixed	1st April 2022
Total		**350,000**	**347,916**		

Loan terms and conditions:

The loan is an unsecured debenture loan included under Additional Tier 1 capital, with special terms designed to fulfil the requirements set for so-called AT1 capital loans in the Capital Requirements Regulation (EU 575/2013). The loan does not have a maturity date. Interest on the loan may only be paid out of distributable funds in accordance with the terms set in the Capital Requirements Regulation, and the company will decide whether interest will be paid on the interest payment date. The cancellation of interest payments is final, and unpaid interest will not be added to the loan capital. The loan capital will be written off if the proportion of the company's Common Equity Tier 1 (CET1) capital to risk-weighted assets falls below 5.125%. The company may decide to re-book the loan capital partially or entirely if the Capital Requirements Regulation permits this based on an improvement in the company's finances. The company has the right but not the obligation to repay the loan on 1 April 2022 or, after that, annually on the interest payment date, as long as the buy-back is approved in advance by the regulatory authority. The regulatory authority may authorise the repayment of the loan also for particular reasons, for example if legislation or regulatory practice should change in such a way that the company loses the right to deduct the interest in full, or if the company should be forced to make the additional payments mentioned in the loan terms. The authorities may also permit repayment of the loan if the loan's official classification changes in such a way that the loan would be likely to be excluded from the company's own funds, or if it is reclassified as lower-value funds. The loan capital, interest payments and other repayments shall take lower priority than all other higher-level debts in case of the company's dissolution or bankruptcy. AT1 capital loan is recognised as equity in consolidated financial statements. In parent's company's financial statements AT1 capital loan is recognised in balance sheet item Subordinated liabilities.

Note 21. Liabilities under the Resolution Act (1194/2014)

MuniFin's crisis resolution authority is EU's Single Resolution Board (SRB).
SRB has decided not to set minimum requirement for own funds and eligible liabilities (MREL) for year 2018.

Note 22. Breakdown of financial assets and liabilities by maturity

31 DEC 2018 (EUR 1,000)	0–3 months	3–12 months	1–5 years	5–10 years	Over 10 years	Total
Debt securities eligible for central bank refinancing	380,936	754,168	3,104,615	109,984	-	4,349,703
Loans and advances to credit institutions	1,358,399	-	21,892	-	-	1,380,291
Loans and advances to the public and public sector entities	360,962	1,269,057	7,135,109	4,301,596	9,287,372	22,354,096
Lease assets	5,427	15,612	69,082	12,448	7,267	109,836
Debt securities	697,542	255,746	548,836	9,939	825	1,512,889
Derivative contracts	43,285	229,001	461,255	311,419	493,649	1,538,610
Total	**2,846,550**	**2,523,584**	**11,340,789**	**4,745,387**	**9,789,113**	**31,245,423**

Unhedged leasing is not presented in financial assets as it is not recognised as financial asset under IFRS 9.

31 DEC 2018 (EUR 1,000)	0–3 months	3–12 months	1–5 years	5–10 years	Over 10 years	Total
Liabilities to credit institutions	739,260	46,399	-	6,200	30,644	822,504
Liabilities to the public and public sector entities	30,124	126,215	900,223	1,254,490	1,559,866	3,870,918
Debt securities issued	5,093,825	4,217,958	12,611,338	3,355,363	1,623,514	26,901,998
Subordinated liabilities	-	-	348,406	-	-	348,406
Derivative contracts	785,582	293,774	835,956	118,189	171,926	2,205,427
Total	**6,648,791**	**4,684,347**	**14,695,923**	**4,734,243**	**3,385,951**	**34,149,254**

Liabilities and their hedging derivatives that may be called before maturity have been classified in the maturity class corresponding to the first possible call date. The company estimates it will call 20-40% of its callable liabilities in 2019. In 2018, the company called 29% of its callable liabilities.

31 DEC 2017 (EUR 1,000)	0–3 months	3–12 months	1–5 years	5–10 years	Over 10 years	Total
Debt securities eligible for central bank refinancing	408,061	631,907	3,380,919	587,457	-	5,008,344
Loans and advances to credit institutions	1,235,076	-	15,670	-	-	1,250,746
Loans and advances to the public and public sector entities	312,024	1,214,653	6,743,859	3,896,547	9,052,032	21,219,115
Lease assets	10,198	30,779	141,159	24,548	225,049	431,732
Debt securities	751,813	141,548	546,538	44,385	1,607	1,485,890
Derivative contracts	50,377	176,489	473,695	550,167	182,590	1,433,318
Total	**2,767,548**	**2,195,376**	**11,301,840**	**5,103,104**	**9,461,278**	**30,829,145**

31 DEC 2017 (EUR 1,000)	0–3 months	3–12 months	1–5 years	5–10 years	Over 10 years	Total
Liabilities to credit institutions	711,359	18,773	57,293	11,196	3,655	802,277
Liabilities to the public and public sector entities	57,284	84,886	899,712	1,136,899	1,567,981	3,746,762
Debt securities issued	7,028,322	4,165,987	10,885,693	3,517,107	706,851	26,303,961
Subordinated liabilities	-	-	347,916	-	-	347,916
Derivative contracts	537,816	324,615	1,010,354	206,494	136,754	2,216,034
Total	**8,334,781**	**4,594,262**	**13,200,969**	**4,871,697**	**2,415,241**	**33,416,949**

Liabilities and their hedging liabilities that may be called before maturity, have been classified in the maturity class corresponding to the first possible call date. The company estimates it will call 30-50% of its callable liabilities in 2018. In 2017, the company called 35% of its callable liabilities.

Note 23. Breakdown of the balance sheet items into domestic and foreign currency

31 DEC 2018 (EUR 1,000)	Domestic currency	Foreign currency	Total	Intra group
Loans and advances to credit institutions	1,336,178	44,113	1,380,291	-
Loans and advances to the public and public sector entities	22,354,096	-	22,354,096	-
Leasing	614,022	-	614,022	-
Debt securities	1,332,021	180,868	1,512,889	-
Debt securities eligible for central bank refinancing	4,340,759	8,944	4,349,703	-
Derivative contracts	756,848	781,761	1,538,610	-
Other assets incl. cash and balances with central banks	3,910,409	16,449	3,926,858	-
Total	**34,644,333**	**1,032,136**	**35,676,468**	**-**

31 DEC 2018 (EUR 1,000)	Domestic currency	Foreign currency	Total	Intra group
Liabilities to credit institutions	790,705	31,799	822,504	-
Liabilities to the public and public sector entities	2,314,073	1,556,846	3,870,918	-
Debt securities issued	5,030,954	21,871,044	26,901,998	-
Derivative contracts	405,346	1,800,081	2,205,427	-
Other liabilities	1,527,214	-	1,527,214	31
Subordinated liabilities	348,406	-	348,406	-
Total	**10,416,699**	**25,259,769**	**35,676,468**	**31**

31 DEC 2017 (EUR 1,000)	**Domestic currency**	**Foreign currency**	**Total**	**Intra group**
Loans and advances to credit institutions	1,245,004	5,742	1,250,746	-
Loans and advances to the public and public sector entities	21,219,114	-	21,219,114	-
Lease assets	431,732	-	431,732	-
Debt securities	1,279,021	206,869	1,485,890	-
Debt securities eligible for central bank refinancing	5,008,344	-	5,008,344	-
Derivative contracts	1,426,476	6,842	1,433,318	-
Other assets incl. cash and balances with central banks	3,895,844	12,697	3,908,541	-
Total	**34,505,535**	**232,150**	**34,737,685**	**-**

31 DEC 2017 (EUR 1,000)	**Domestic currency**	**Foreign currency**	**Total**	**Intra group**
Liabilities to credit institutions	802,277	-	802,277	-
Liabilities to the public and public sector entities	3,451,174	295,588	3,746,762	-
Debt securities issued	3,559,822	22,744,139	26,303,961	-
Derivative contracts	2,132,419	83,615	2,216,034	-
Other liabilities	1,320,736	-	1,320,736	15
Subordinated liabilities	347,916	-	347,916	-
Total	**11,614,344**	**23,123,341**	**34,737,685**	**15**

Note 24. Repurchase agreements

The company did not have any receivables or liabilities related to repurchase agreements as at 31 December 2018 or 31 December 2017.

Note 25. Fair values and book values of financial assets and liabilities

FINANCIAL ASSETS	31 Dec 2018		31 Dec 2017	
(EUR 1,000)	**Book value**	**Fair value**	**Book value**	**Fair value**
Cash and balances with central banks	3,522,200	3,522,200	3,554,182	3,554,182
Debt securities eligible for central bank refinancing	4,349,703	4,349,703	5,008,344	5,008,344
Loans and advances to credit institutions	1,380,291	1,380,291	1,250,746	1,250,746
Loans and advances to the public and public sector entities	22,354,096	24,276,751	21,219,114	23,006,055
Lease assets	109,835	109,835	431,732	434,889
Debt securities	1,512,889	1,513,258	1,485,890	1,486,320
Shares and participations	9,521	9,521	9,662	9,662
Shares and participations in group companies	656	656	612	612
Derivative contracts	1,538,610	1,538,610	1,433,318	1,433,318
Other assets	164,345	164,345	148,205	148,205
Total	**34,942,145**	**36,865,170**	**34,541,806**	**36,332,333**

FINANCIAL LIABILITIES	31 Dec 2018		31 Dec 2017	
(EUR 1,000)	**Book value**	**Fair value**	**Book value**	**Fair value**
Liabilities to credit institutions	822,504	822,733	802,277	804,267
Liabilities to the public and public sector entities	3,870,918	3,896,366	3,746,762	3,824,994
Debt securities issued	26,901,998	26,950,268	26,303,961	26,356,850
Derivative contracts	2,205,427	2,205,427	2,216,034	2,216,034
Subordinated liabilities	348,406	377,255	347,916	397,194
Total	**34,149,254**	**34,252,049**	**33,416,950**	**33,599,339**

Note 26. Hierarchy of fair values of financial assets and liabilities

31 DEC 2018 (EUR 1,000)	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Financial assets at fair value					
Fair value through other comprehensive income					
Debt securities	1,434,383	1,344,347	90,037	-	1,434,383
Designated at fair value through profit or loss					
Debt securities	3,701,796	3,701,796	-	-	3,701,796
Mandatorily at fair value through profit or loss					
Loans and advances to the public and public sector entities	56,808	-	56,808	-	56,808
Debt securities	825	-	825	-	825
Shares in investment funds	9,521	9,521	-	-	9,521
Derivative assets	534,398	-	533,454	944	534,398
Derivatives in hedge accounting	1,004,212	-	1,004,212	-	1,004,212
Total financial assets at fair value	**6,741,943**	**5,055,664**	**1,685,336**	**944**	**6,741,943**
In fair value hedge accounting					
At amortised cost					
Loans and advances to the public and public sector entities	7,636,793	-	8,168,390	-	8,168,390
Lease assets	109,835	-	109,835	-	109,835
Total in fair value hedge accounting	**7,746,628**	**-**	**8,278,225**	**-**	**8,278,225**
Financial assets at amortised cost				**-**	
Cash and balances with central banks	3,522,200	3,522,200	-	-	3,522,200
Loans and advances to credit institutions	1,380,291	119,184	1,261,107	-	1,380,291
Loans and advances to the public and public sector entities	14,660,495	-	16,051,552	-	16,051,552
Debt securities	725,587	-	725,957	-	725,957
Other assets	164,345	-	164,345	-	164,345
Total financial assets at amortised cost	**20,452,918**	**3,641,384**	**18,202,962**	**-**	**21,844,346**
Total financial assets	**34,941,490**	**8,697,047**	**28,166,523**	**944**	**36,864,514**

31 DEC 2018 (EUR 1,000)	Carrying amount	Fair value Level 1	Level 2	Level 3	Total
Financial liabilities at fair value					
Designated at fair value through profit or loss					
Liabilities to credit institutions	46,399	-	46,399	-	46,399
Liabilities to the public and public sector entities	1,569,561	-	1,569,561	-	1,569,561
Debt securities issued	9,990,255	-	9,221,807	768,448	9,990,255
At fair value through profit or loss					
Derivative liabilities	1,197,905	-	1,005,905	192,000	1,197,905
Derivatives in hedge accounting	1,007,522	-	1,007,522	-	1,007,522
Total financial liabilities at fair value	**13,811,642**	**-**	**12,851,194**	**960,448**	**13,811,642**
In fair value hedge accounting					
Liabilities to credit institutions	36,845	-	37,073	-	37,073
Liabilities to the public and public sector entities	2,301,358	-	2,326,806	-	2,326,806
Debt securities issued*	16,360,789	-	16,409,059	-	16,409,059
Total in fair value hedge accounting	**18,698,991**	**-**	**18,772,938**	**-**	**18,772,938**
Financial liabilities at amortised cost					
Liabilities to credit institutions	739,260	-	739,260	-	739,260
Debt securities issued	550,954	-	550,954	-	550,954
Subordinated liabilities	348,406	-	377,255	-	377,255
Total financial liabilities at amortised cost	**1,638,620**	**-**	**1,667,469**	**-**	**1,667,469**
Total financial liabilities	**34,149,254**	**-**	**33,291,601**	**960,448**	**34,252,050**

*In the above table, MuniFin's fixed-rate benchmark bond issuances are presented in Level 2 due to that these bonds are in fair value hedge accounting with respect to the hedged risk. Valuation of hedged risk is based on the input data on level 2. For the financial reporting purposes MuniFin's fixed-rate benchmark bonds fair value is reported based on the quoted prices from Bloomberg. Quoted price is Level 1 input data.

		Fair value			
31 DEC 2017 (EUR 1,000)	**Carrying amount**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value					
Available-for-sale financial assets					
Debt securities	1,817,511	1,815,904	1,607	-	1,817,511
Shares in investment funds	9,662	9,662	-	-	9,662
Fair value option					
Debt securities	111,785	42,750	69,035	-	111,785
Loans and advances to the public and public sector entities	153,642	-	153,642	-	153,642
Held-for-trading					
Derivative assets	206,388	-	167,692	38,696	206,388
Derivatives in hedge accounting	1,226,930	-	1,226,930	-	1,226,930
Total financial assets at fair value	**3,525,917**	**1,868,316**	**1,618,905**	**38,696**	**3,525,917**
In fair value hedge accounting					
Loans and receivables					
Loans and advances to the public and public sector entities	6,968,978	-	7,459,901	-	7,459,901
Lease assets	99,065	-	102,222	-	102,222
Available-for-sale financial assets					
Debt securities	3,811,080	3,811,080	-	-	3,811,080
Total in fair value hedge accounting	**10,879,122**	**3,811,080**	**7,562,123**	**-**	**11,373,202**
Financial assets at amortised cost					
Loans and receivables					
Cash and balances with central banks	3,554,182	3,554,182	-	-	3,554,182
Loans and advances to credit institutions	1,250,746	60,575	1,190,171	-	1,250,746
Loans and advances to the public and public sector entities	14,096,495	-	15,392,513	-	15,392,513
Lease assets	332,667	-	332,667	-	332,667
Other assets	148,205	-	148,205	-	148,205
Held-to-maturity					
Debt securities	753,859	-	749,409	4,878	754,288
Total financial assets at amortised cost	**20,136,154**	**3,614,756**	**17,812,965**	**4,878**	**21,432,600**
Total financial assets	**34,541,193**	**9,294,153**	**26,993,993**	**43,575**	**36,331,720**

		Fair value			
31 DEC 2017 (EUR 1,000)	**Carrying amount**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial liabilities at fair value					
Fair value option					
Debt securities issued	3,833,346	-	3,833,346	-	3,833,346
Held-for-trading					
Derivative liabilities	258,308	-	219,612	38,696	258,308
Derivatives in hedge accounting	1,957,725	-	1,957,725	-	1,957,725
Total financial liabilities at fair value	**6,049,379**	**-**	**6,010,683**	**38,696**	**6,049,379**
In fair value hedge accounting					
Liabilities to credit institutions	98,747	-	100,730	-	100,730
Liabilities to the public and public sector entities	3,717,574	-	3,795,533	-	3,795,533
Debt securities issued	19,961,876	-	20,044,115	-	20,044,115
Total in fair value hedge accounting	**23,778,197**	**-**	**23,940,379**	**-**	**23,940,379**
Financial liabilities at amortised cost					
Liabilities to credit institutions	703,530	-	703,538	-	703,538
Liabilities to the public and public sector entities	29,188	-	19,621	9,839	29,460
Debt securities issued	2,508,739	-	1,535,834	943,555	2,479,389
Subordinated liabilities	347,916	-	397,194	-	397,194
Total financial liabilities at amortised cost	**3,589,372**	**-**	**2,656,187**	**953,394**	**3,609,581**
Total financial liabilities	**33,416,949**	**-**	**32,607,248**	**992,091**	**33,599,339**

Level 1

Valuation is based on quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date. The prices used are unadjusted. A market is considered to be functioning if trading is frequent and price data is regularly available. MuniFin bases its valuations for some instruments on quoted prices for identical instruments from Bloomberg and Reuters. These quotes (mid) represent the price for an orderly transaction between parties in the market on the valuation date. These quotes therefore represent the fair value for these products. Level 1 financial assets comprise mainly investments in debt securities.

Level 2

Valuation is based on input data other than Level 1 quoted prices. Prices can be observed either directly or indirectly. Level 2 financial instruments are not actively traded on functioning markets and the fair value is determined by using generally accepted valuation models and methods.

The fair values may be based on quotations of similar assets or liabilities in active markets or quotations of equivalent or similar assets or liabilities in markets that are not active. The fair values may also be calculated based on other input data than quoted prices that can be observed for an asset or a liability. Examples of such input data include bank rates and profit curves for which regular quotations are available, implicit volatilities and credit spreads. The requirement is that the input data is observable on regular intervals. If a financial asset or a financial liability has a fixed maturity, the level 2 input data must be observable to a material extent during the existence of a financial asset or liability.

Level 2 valuation is based on methods in which contractual cash flows are modeled using forward curves after which the cash flows are discounted using currency and interest based discount curves. Valuation of contracts containing options is performed using interest and option pricing models which are generally accepted on the financial markets. The valuation methods utilise observable input data. Level 2 financial instruments primarily comprise OTC derivatives, the company's own issued bonds, lending and investments in commercial paper.

Fair value of OTC derivatives is based on valuation models. Observable market interest rates are used for discounting. In addition valuations are based on other input data depending on attributes of an instrument. Numerix (a pricing model library) is used for valuing structured instruments. Valuation models in Numerix are equivalent to those models generally accepted on the financial markets. OTC derivatives are classified to level 2, if all material input data used in valuation models can be verified on functioning markets.

Level 3

Valuation is based on inputs other than level 1 quoted prices or the observable inputs used in level 2 in valuation methods. Level 3 valuation includes unobservable inputs for the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that relevant observable inputs are not available. MuniFin's level 3 input is the historical volatility, which is only used in cases where implied volatility is not available.

Level 3 valuation is based on methods in which contractual cash flows are modelled using forward curves after which the cash flows are discounted using currency and interest based discount curves. Valuation of contracts containing options is performed using interest and option pricing models which are generally accepted on the financial markets. These valuation methods may utilise input data, which is not directly observable from the market and has a material impact on the valuation. Level 3 financial instruments primarily comprise equity-linked OTC-derivatives financial liabilities.

All valuation models take advantage of market information such as interest rates, volatilities and correlations. Some of the input data used may be verified whereas some of it may not be. All interest rates of main currencies can be verified, as well as interest rates, volatilities and correlation up to a certain point in time. If the impact of unverified input data is material, an instrument is classified to the fair value hierarchy level 3.

Transfers in the fair value hierarchy

During 2018, no reclassifications have been made between Level 1 and Level 2.
During 2018 no reclassifications have been made between Level 2 and Level 3.

2018 (EUR 1,000)	Derivative assets	Derivative liabilities	Debt securities	Debt securities issued	
	At fair value through profit or loss	At fair value through profit or loss	Mandatorily at fair value through profit or loss	Designated as at fair value through profit or loss	Total
1 Jan 2018	**38,696**	**-38,696**	**4,878**	**-953,394**	**-948,516**
Change in fair value in the income statement	-32,799	-41,437	-	9,207	-65,029
Purchases	657	-130,858	-	-414,543	-544,744
Sales and matured contracts	-5,611	18,992	-4,878	590,282	598,785
Transfers into level 3	-	-	-	-	0
Transfers out of level 3	0	0	-	-	0
31 Dec 2018	**944**	**-192,000**	**0**	**-768,448**	**-959,503**

During 2017, no reclassification have been made between Level 1 and Level 2.

During 2017 some financial assets have been transfered from Level 2 to Level 3 due to changes in input data used in the valuation. The transfers are presented using fair values of 31 December 2016.

	Derivative assets	**Derivative liabilities**	**Debt securities**	
2017 (EUR 1,000)	**Held-for-trading**	**Held-for-trading**	**Held to maturity**	**Total**
1 Jan 2017	**67,453**	**-67,453**	**-**	**0**
Change in fair value in the income statement	-9,465	9,465	-	0
Purchases	22,188	-22,188	-	0
Sales	-41,480	41,480	-	0
Transfers into level 3	-	-	4,878	4,878
Transfers out of level 3	-	-	-	-
31 Dec 2017	**38,696**	**-38,696**	**4,878**	**4,878**

Sensitivity analysis of unobservable inputs

Unobservable inputs are share and index volatilities for which no quotations exists in liquid markets. Historical market quotations for 2014 - 2018 have been used to calculate ranges for unobservable inputs. The fair values of the contracts in high volatility and low volatility scenarios have been estimated based on the range of the inputs. In the low volatility scenario the fair value of the derivatives increases by EUR 36.8 million (2017: EUR 40.4 million) and the fair value of the debt instrument decreases by EUR 37.3 million (2017: EUR 40.4 million). In the high volatility scenario the fair value of the derivatives decreases by EUR 10.8 million (2017: EUR 24.7 million) and the fair value of the debt instrument increases by EUR 11.0 million (2017: EUR 24.7 million).

Note 27. Equity

31 DEC 2018 (EUR 1,000)	Share capital	Reserve fund	Fair value reserve of investments	Own credit revaluation reserve	Cost-of-hedging reserve	Reserve for invested non-restricted equity	Retained earnings	Total
Book value, beginning of period, 31 Dec 2017	43,008	277	28,944	-	-	40,743	95,457	208,428
IFRS 9 transition effect	-	-	-23,936	-34,437	-7,919	-	22,830	-43,462
Book value, IFRS 9, beginning of period, 1 Jan 2018	**43,008**	**277**	**5,007**	**-34,437**	**-7,919**	**40,743**	**118,286**	**164,966**
+ increase	-	-	-	39,163	22,154	-	21,832	83,149
– decrease	-	-	-4,282	-	-	-	-6,250	-10,532
Book value 31 Dec 2018	**43,008**	**277**	**726**	**4,726**	**14,235**	**40,743**	**133,868**	**237,583**

31 DEC 2017 (EUR 1,000)	Share capital	Reserve fund	Fair value reserve	Reserve for invested non-restricted equity	Retained earnings	Total
Book value, beginning of period, 31 Dec 2016	43,008	277	19,519	40,743	61,496	165,043
+ increase	-	-	9,425	-	33,960	43,385
– decrease	-	-	-	-	-	-
Book value 31 Dec 2017	**43,008**	**277**	**28,944**	**40,743**	**95,457**	**208,428**

Note 28. 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 2017, 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 which is divided into A shares (26,331,646) and B shares (12,732,152).

Note 29. Largest shareholders

The ten largest shareholders in terms of voting rights and the number of shares held by them, their portion of all shares in the credit institution and of all votes carried by the shares as well as the total number of shareholders.

31 Dec 2018	No. of shares	Per cent
1. Keva	11,975,550	30.66%
2. Republic of Finland	6,250,000	16.00%
3. City of Helsinki	4,066,525	10.41%
4. City of Espoo	1,547,884	3.96%
5. VAV Asunnot Oy (City of Vantaa)	963,048	2.47%
6. City of Tampere	919,027	2.35%
7. City of Oulu	903,125	2.31%
8. City of Turku	615,681	1.58%
9. City of Kuopio	592,028	1.52%
10. City of Lahti	537,926	1.38%

The total number of shareholders is 278 (2017: 278).

The number of shares in the table does not include possible shares held by shareholders' group companies.

Notes to the income statement

The company has not combined any items in the income statement under Chapter 2, Section 14(4), of the Ministry of Finance Decree.

Note 30. Interest income and expenses

31 DEC 2018 (EUR 1,000)	Interest and similar income	Interest and similar expenses	Net
Assets			
Financial assets at amortised cost			
Cash and balances with central banks	-	-14,538	-14,538
Loans and advances to credit institutions	161	-5,576	-5,415
Loans and advances to the public and public sector entities	193,798	-	193,798
Debt securities	118	-1,212	-1,094
Other assets	1,000	-	1,000
Derivatives in hedge accounting	**-79,493**	**-**	**-79,493**
Financial assets at fair value through other comprehensive income			
Debt securities	2	-1,472	-1,470
Financial assets designated at fair value through profit or loss			
Debt securities	24,158	-	24,158
Financial assets mandatorily at fair value through profit or loss			
Loans and advances to the public and public sector entities	1,489	-	1,489
Debt securities	1	0	1
Derivative contracts	63,218	-92,975	-29,757
Lease assets	**3,437**	**-**	**3,437**
Interest on non-financial other assets	**7**	**-**	**7**
Interest on assets	**207,895**	**-115,773**	**92,122**

In accordance with Financial Supervisory Authority Regulations and Guidelines 2/2016 sections 99 ja 104 negative interest income on assets is presented in interest expenses and negative interest expenses on liabilities as interest income.

Interest expenses on financial assets at amortised cost on Cash and balances with central banks consists of interest paid on central bank deposits and interest on Loans and advances to credit institutions of interest on collateral receivables. Interest expenses on debt securities consists of interest paid on municipal papers and municipal commercial papers. Derivatives in hedge accounting hedge loans and advances to the public and public sector entities. Negative interest arises on debt securities at fair value through other comprehensive income due to the premium amortisation of debt securities and commercial papers. Interest expenses on derivatives mandatorily at fair value through profit or loss consist of negative interest income on derivatives that are not in hedge accounting. The derivatives contained in this line item hedge financial assets which are designated at fair value through profit or loss, derivatives with municipalities and derivatives hedging derivatives with municipalities, and to derivatives used for hedging interest rate risk of the balance sheet, for which no hedged item has been specified.

...

31 DEC 2018 (EUR 1,000)	Interest and similar income	Interest and similar expenses	Net
Liabilities			
Financial liabilities at amortised cost			
Liabilities to credit institutions	2,390	-1,103	1,288
Liabilities to the public and public sector entities	-	-63,291	-63,291
Debt securities issued	1,446	-348,797	-347,352
Subordinated liabilities	-	-16,240	-16,240
Other liabilities	-	-912	-912
Derivatives in hedge accounting	-	472,255	472,255
Financial liabilities designated at fair value through profit or loss			
Liabilities to credit institutions	-	-2,107	-2,107
Liabilities to the public and public sector entities	-	-38,871	-38,871
Debt securities issued		-231,865	-231,865
Financial liabilities at fair value through profit or loss			
Derivative contracts	500,000	-144,968	355,032
Interest on liabilities	**503,836**	**-375,899**	**127,937**
Grand Total	**711,731**	**-491,672**	**220,059**

Interest income on financial liabilities at amortised cost to credit institutions consists of interest received on collateral liabilities. Interest income on debt securities issued consists of interest received on ECPs. Derivatives in hedge accounting are used as hedges for liabilities to credit institutions, liabilities to the public and public sector entities and debt securities issued. Interest income on derivatives at fair value through profit or loss consists of positive interest expenses on derivatives that are not included in hedge accounting. The derivatives contained in this line item hedge financial liabilities which are designated at fair value through profit or loss.

Due to IFRS 9 standard implementation applicable since 1 January 2018, the amount of derivatives at fair value through profit or loss has increased as MuniFin has decreased the use of fair value hedge accounting. Part of the financial liabilities previously in fair value hedge accounting have been classified as designated at fair value through profit or loss. Therefore derivatives previously classified as derivatives in hedge accounting have been reclassified as derivatives at fair value through profit or loss and their interest income and expenses are shown as gross amounts.

Derivatives shown as adjusting interest expenses are derivatives in hedge accounting and are used as hedges for liabilities to credit institutions, liabilities to the public and public sector entities and debt securities issued. Starting 1 January 2018 this amount has decreased due to reclassification. More detailed information regarding the reclassification is presented in Note 3. in consolidated financial statements.

31 DEC 2017 (EUR 1,000)	Interest income	Interest expenses	Net
Assets			
Loans and advances to credit institutions and central banks	352	-12,476	-12,124
Loans and advances to the public and public sector entities	200,931	-	200,931
Lease assets	3,104	-	3,104
Debt securities	26,556	-1,996	24,561
Derivatives in hedge accounting	-118,942	-	-118,942
Derivatives held-for-trading	70,761	-30,494	40,268
Other interest income	2,190	-	2,190
Interest on assets	**184,953**	**-44,965**	**139,988**
Liabilities			
Liabilities to credit institutions	6,407	-13,972	-7,565
Liabilities to the public and public sector entities	-	-83,184	-83,184
Debt securities issued	0	-345,955	-345,954
Derivatives in hedge accounting	-	525,996	525,996
Subordinated liabilities	-	-16,240	-16,240
Other interest expense	-	-733	-733
Interest on liabilities	**6,407**	**65,913**	**72,320**
Total	**191,360**	**20,948**	**212,308**

In accordance with Financial Supervisory Authority Regulations and Guidelines 2/2016 sections 99 ja 104 negative interest income on assets is presented in interest expenses and negative interest expense on liabilities as interest income.

Interest expenses on loans and advances to credit institutions and central banks consists of interest paid on central bank deposits and collaterals. Interest expenses on debt securities consists of interest paid on ECPs. Also interest income from debt securities is negative due to the premium/discount amortisation. Derivative contracts treated as items adjusting interest income and included in hedge accounting are used as hedges for loans and advances to the public and public sector entities and debt securities.

Interest income on liabilities to credit institutions consists of interest received on collaterals. Derivative contracts treated as items adjusting interest expenses and included in hedge accounting are used as hedges for liabilities to credit institutions, liabilities to the public and public sector entities and debt securities issued.

Note 31. Net income from leasing operations

(EUR 1,000)	2018	2017
Leasing income	40,510	33,569
Depreciation on leased assets according to plan	-37,127	-30,466
Capital gains and losses on leased assets	54	0
Total	**3,437**	**3,104**

Note 32. Income from equity investments

Company has not received dividend income from its subsidiary in 2018 or 2017.

Note 33. Commission income and expenses

COMMISSION INCOME (EUR 1,000)	2018	2017
From other operations	335	758
Total	**335**	**758**

COMMISSION EXPENSE (EUR 1,000)	2018	2017
Commission fees paid	215	206
Other	3,960	3,861
Total	**4,175**	**4,067**

Line item Other includes paid guarantee fees, custody fees and funding programme update fees.

Note 34. Financial assets and liabilities designated at fair value through profit or loss

2018 (EUR 1,000)	Carrying amount	Nominal value	Cumulative change in fair value	Change in fair value 2018	of which due to credit risk	of which due to market risk
Financial assets						
Debt securities	3,701,796	3,612,233	54,906	-19,591	-21,739	2,148
Total financial assets	**3,701,796**	**3,612,233**	**54,906**	**-19,591**	**-21,739**	**2,148**

2018 (EUR 1,000)	Carrying amount	Nominal value	Cumulative change in fair value	Change in fair value 2018	of which due to credit risk	of which due to market risk
Financial liabilities						
Liabilities to credit institutions	46,399	45,000	-1,360	2,872	428	2,444
Liabilities to the public and public sector entities	1,569,561	1,986,668	-140,738	-4,578	15,383	-19,961
Debt securities issued	9,990,255	10,958,060	875,841	620,782	33,142	587,641
Total financial liabilities	**11,606,215**	**12,989,728**	**733,743**	**619,077**	**48,953**	**570,123**

MuniFin has designated short-term issued debt instruments denominated in foreign currencies, which have been hedged with FX swaps, at fair value through profit or loss. The designation reduces accounting mismatch which would otherwise arise between the measurement of the derivative and the financial liability. In the transition to IFRS 9, the company also designated certain financial liabilities at fair value through profit or loss. The financial liabilities designated at fair value through profit and loss in the transition consist of financial liabilities, which have been hedged according to the company's risk management policy, but which cannot be included in fair value hedge accounting according to IFRS 9. The fair value changes of the financial liabilites impact profit or loss, but as they have been hedged the expected profit or loss is restricted to interest. The table on next page describes the net impact of these financial liabilities and their hedges on profit and loss.

When a financial liability is designated at fair value through profit and loss, the fair value changes due to changes of MuniFin's own credit risk is presented separately in other comprehensive income as changes of the Own credit revaluation reserve. MuniFin applies the income approach of IFRS 13 to the separation of fair value changes related to changes in own credit risk from the fair value changes of the financial liability. For the majority of financial liabilities at fair value, no market price is available as there is no active secondary market. The methodology for separation of own credit risk, utilises MuniFin's benchmark curves, cross currency basis spreads and credit spreads of MuniFin's issued debt securities on the primary market as input. Based on the aforementioned inputs valuation curves can be constructed for various reporting periods for valuing financial liabilities designated at fair value through profit or loss. By comparing fair values calculated using the trade date and reporting date, the impact of change in own credit risk on the fair value of the financial liability can be determined.

Financial liabilities desginated at fair value through profit of loss are not traded.

NET CHANGE IN FAIR VALUE (EUR 1,000)	**Cumulative change in fair value**	**Change in fair value 2018**
Financial liabilities designated at fair value through profit or loss	733,743	619,077
Hedging instruments	-721,886	-614,317
Net change in fair value	**11,857**	**4,760**

IMPACT OF THE CHANGE IN OWN CREDIT RISK IN EQUITY (EUR 1,000)*	**31 Dec 2018**	**1 Jan 2018**	**Impact on Own credit revaluation reserve**
Own credit risk change in financial liabilities			
Liabilities to credit institutions	-31	-374	343
Liabilities to the public and public sector entities	-10,082	-22,389	12,307
Debt securities issued	14,839	-11,674	26,513
Total	**4,726**	**-34,437**	**39,163**

*Figures in the table are presented after deferred taxes.

2017 (EUR 1,000)	Carrying amount	Change in fair value	Due to credit risk	Due to market risk
Financial assets				
Loans	153,642	-247	0	-247
Debt securities	42,750	-560	-119	-442
ECPs	69,035	14	0	14
Total financial assets	**265,427**	**-793**	**-119**	**-674**

2017 (EUR 1,000)	Carrying amount	Change in fair value	Due to credit risk	Due to market risk
Financial liabilities				
Issued ECPs	3,833,346	963	0	963
Total financial liabilities	**3,833,346**	**963**	**0**	**963**

Debt securities and ECPs valued with the fair value option are exposed to credit risk up to the carrying amounts of those securities in 2017. Loans to corporates and non-profit organisations designated using the fair value option all have an absolute guarantee or deficiency guarantee by a municipality or municipal federation, mortgage security with a state defiency guarantee.

Note 35. Net income from securities and foreign exchange transactions

2018 (EUR 1,000)	Capital gains and losses (net)	Changes in fair value	Total
Derivative contracts	-1,492	-625,396	-626,888
Items designated at fair value through profit or loss	1,519	598,133	599,653
Total net income from securities transactions	**27**	**-27,263**	**-27,234**
Net income from foreign exchange transactions	156	-831	-675
Total	**184**	**-28,094**	**-27,909**

2017 (EUR 1,000)	Capital gains and losses (net)	Changes in fair value	Total
Derivative contracts	117	8,145	8,261
Items valued with the fair value option	-	170	170
Total net income from securities transactions	**117**	**8,315**	**8,432**
Net income from foreign exchange transactions	-2,210	-26	-2,236
Total	**-2,093**	**8,289**	**6,196**

Note 36. Net income on financial assets at fair value through fair value reserve

(EUR 1,000)	2018
Capital gains from financial assets	-
Capital losses from financial assets	-125
Unrealised gains transferred from the fair value reserve	162
Unrealised losses transferred from the fair value reserve	-
Total	**38**

In 2018 the income statement line Net income on financial assets at fair value through fair value reserve contains the transferred cumulative gains or losses of the financial assets measured at fair value through other comprehensive income from the fair value reserve in equity.

NET INCOME FROM AVAILABLE-FOR-SALE FINANCIAL ASSETS

(EUR 1,000)	2017
Income from shares in investment funds	62
Disposal of financial assets	569
Transfers from the fair value reserve	-137
Total	**494**

In 2017 the income statement line Net income from available-for-sale financial assets contained the transferred cumulative gains or losses of the available-for-sale assets from the fair value reserve. Notes from 2017 and 2018 are combined as one note due to the similarity of their content.

Note 37. Net income from hedge accounting

(EUR 1,000)	2018	2017
Net income from hedging instruments	-37,008	-187,503
Net income from hedged items	64,653	190,158
Total	**27,645**	**2,655**

Unrealised gains and losses include risks to which fair value hedge accounting is applied, with the exception of the foreign exchange difference of hedging instruments and hedged items. The foreign exchange difference on both items is shown on line item Net income from foreign exchange transactions in Note 35. For more information regarding net income from hedge accounting in Note 10.

Note 38. Impact of the reclassified financial assets and liabilities in 2018

The following table shows the effects of reclassification of financial assets from IAS 39 categories at fair value through profit or loss into amortised cost. MuniFin did not reclassify any financial liabilities from fair value through profit or loss into amortised cost.

FINANCIAL ASSETS (EUR 1,000)	Original measurement category under IAS 39	New measurement category under IFRS 9	Fair value at 31 Dec 2018	Fair value gain or loss for the period (i)	EIR determined as at 1 Jan 2018 (ii)	Interest revenue recognised during 2018
Loans and advances to the public and public sector entities	Fair value option	Amortised cost	136,960	-312	0.14%	215

(i) The fair value gains or losses that would have been recognised in profit or loss during the reporting period ending if the financial assets had not been reclassified.

(ii) Effective interest rate determined on the date of initial application.

All investments in commercial papers which were reclassified from fair value option to fair value through in other comprehensive income on initial application of IFRS 9 have matured during the first half of 2018.

Note 39. Other operating income

(EUR 1,000)	2018	2017
Other income from credit institution operations	104	196
Total	**104**	**196**

Note 40. Other operating expenses

(EUR 1,000)	2018	2017
Regulatory expenses		
Contributions to the single resolution fund	4,977	3,756
Other administrative and supervisory fees	1,850	1,844
Rental expenses	2,022	1,908
Other expenses from credit institution operations	6,047	6,836
Total	**14,895**	**14,344**

Note 41. Depreciation and impairment on tangible and intangible assets

(EUR 1,000)	2018	2017
Depreciation on tangible assets	614	629
Depreciation on intangible assets	1,715	1,341
Total	**2,330**	**1,970**

No impairments for tangible or intangible assets have been recognised during financial year 2017 or 2018.

Note 42. Expected credit losses and Impairment losses

31 DEC 2018 (EUR 1,000)	Expected credit losses			Impairment losses		
	Additions	Subtractions	Profit and loss	Additions	Subtractions	Profit and loss
Financial assets measured at amortised cost and off-balance sheet items						
Cash and balances with central banks	0	-	0	-	-	-
Loans and advances to credit institutions	-10	370	360	-	-	-
Loans and advances to the public and public sector entities	-14	71	58	-434	-	-434
Lease receivables	0	1	1	-	-	-
Debt securities	0	1	1	-	-	-
Cash collateral to Central Counterparty Clearing House in Other assets	-5	50	45	-	-	-
Binding credit commitments (off-balance sheet)	-3	5	3	-	-	-
Total Financial assets measured at amortised cost and off-balance sheet items	**-32**	**499**	**467**	**-434**	**-**	**-434**
Other assets						
Debt securities at fair value through other comprehensive income	-103	199	96	-	-	-
Guarantee receivables from the public and public sector entities in Other assets	-	-	-	-	434	434
Total Other assets	**-103**	**199**	**96**	**-**	**434**	**434**
Total	**-135**	**699**	**564**	**-434**	**434**	**0**

MuniFin assesses all the expected credit losses on an individual basis and does not use collective assessment. Subsidiary shares do not include expected credit losses.

During the financial year 2018 MuniFin wrote off loan receivables totalling EUR 434 thousand. The company has collateral in form of property of the equivalent amount in addition to a deficiency guarantee from the Stae. The receivable is shown in the statement of financial position in Other assets (stage 1) as guarantee receivables from the public and public sector entities and shown as a decrease of the write-offs recoveries in the income statement. MuniFin will not incur a final credit loss on the loan.

Compared with the previous year 2017 MuniFin wrote off loan receivables totalling EUR 1,344 thousand. The company has collateral in form of property of the equivalent amount in addition to a deficiency guarantee from the State. The receivable is shown in the statement of financial position in Other assets (stage 1) as guarantee receivables from the public and public sector entities and shown as a decrease of the write-offs recoveries in the income statement. MuniFin will not incur a final credit loss on the loan.

31 DEC 2017 (EUR 1,000)	**Individual impairment losses, gross**	**Adjustments**	**Profit and Loss**
Loans and advances to the public and public sector entities	1,366	-1,366	0
Total impairment losses on loans and other commitments	**1,366**	**-1,366**	**0**

MuniFin has not recognised any impairment losses or their reversals on other financial assets in 2017.

Note 43. Information on business areas and geographical market

MuniFin's operating segment is credit institution operations and the market for lending is Finland.

Notes on collateral and contingent liabilities

Note 44. Collateral given

PLEDGES FOR OWN DEBT (EUR 1,000)	31 Dec 2018	31 Dec 2017
Liabilities to credit institutions	822,504	802,277
Liabilities to the public and public sector entities	3,870,918	3,746,762
Debt securities issued	26,901,998	26,303,961
Total	**31,595,421**	**30,853,000**

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

LIABILITIES AND COLLATERAL (EUR 1,000)	31 Dec 2018	31 Dec 2017
Loans pledged to the central bank	2,718,254	2,476,968
Loans pledged to the Municipal Guarantee Board	10,693,577	18,581,280
Total	**13,411,831**	**21,058,248**

Pledged assets:

1) MuniFin is a monetary policy counterparty approved by the central bank (the Bank of Finland), and, for this purpose, a sufficient amount of collateral has been pledged to the central bank for possible operations related to this counterparty position.

2) MuniFin has pledged amount of loans shown in the table to the Municipal Guarantee Board. In February 2018 MuniFin and the Municipal Guarantee Board updated the Framework Agreement for NSFR purposes. As a result, the amount of pledged loans have declined. The Municipal Guarantee Board guarantees MuniFin's funding and MuniFin places collateral for the Municipal Guarantee Board's guarantees as defined in the Act on the Municipal Guarantee Board. The updated Framework Agreement also clarified the terms between MuniFin and the Municipal Guarantee Board.

Note 45. Pension liabilities

Pension coverage has been arranged via an external pension insurance company. Pension plans are classified as defined contribution plans.

Note 46. Lease liabilities

(EUR 1,000)	31 Dec 2018	31 Dec 2017
Maturing within one year	1,534	1,246
Maturing in one to five years	5,501	740
Maturing in more than five years	898	-
Total	**7,934**	**1,986**

Leases mainly relate to MuniFin's office premises. Lease agreement is fixed-term and the rent paymens are tied to cost of living index.

Note 47. Off-balance sheet commitments

(EUR 1,000)	31 Dec 2018	31 Dec 2017
Binding credit commitments	2,796,753	2,270,346
Total	**2,796,753**	**2,270,346**

Notes on personnel and management

Note 48. Personnel

	2018		2017	
	Average	End of year	Average	End of year
Permanent full-time	121	126	95	108
Permanent part-time	3	3	2	4
Fixed term	11	12	9	7
Total	**135**	**141**	**106**	**119**

Employee benefits for management

Salaries and remuneration paid to the President and CEO, Deputy to the CEO and other members of the Executive Management Team subject to withholding tax:

SALARIES AND REMUNERATION (EUR 1,000)	2018	2017
President and CEO	437	426
Deputy to the CEO	273	360
Other members of the Executive Management Team in Total	1,310	936
Total	**2,020**	**1,722**

The company has paid the following statutory pension contributions related to the President and CEO, the Deputy to the CEO and other Executive Management Team members:

STATUTORY PENSION CONTRIBUTIONS (EUR 1,000)	2018	2017
President and CEO	78	76
Deputy to the CEO	48	65
Other members of the Executive Management Team in total	233	168
Total	**359**	**309**

Remuneration of the Board of Directors

The members of the Board of Directors of the parent company are paid an annual remuneration as well as remuneration for each meeting in accordance with the decision of the Annual General Meeting. The annual remuneration is EUR 35,000 for the Chairman of the Board, EUR 25,000 for the Vice Chairman and EUR 20,000 for the other members of the Board. The remuneration paid for Board and committee meetings is EUR 800 per meeting for the Chairman of the Board and the chairmen of committees and EUR 500 per meeting for the other members. In addition, meeting remuneration is paid for the meetings required by the supervisory authorities. These remunerations are valid from 28 March 2018. Prior to this, the annual remuneration was EUR 30,000 for the Chairman of the Board, EUR 18,000 for the Vice Chairman and EUR 15,000 for the other members of the Board. The meeting remunerations have remain unchanged.

SALARIES AND REMUNERATION (EUR 1,000) MEMBERS OF THE BOARD OF DIRECTORS	2018	2017
Helena Walldén, Chairman	53	65
Tapani Hellstén, Vice Chairman and member until 28 March 2018	9	37
Tuula Saxholm, Vice Chairman 28 March 2018 onwards	32	35
Fredrik Forssell	33	36
Minna Helppi, member 23 March 2017 onwards	29	21
Teppo Koivisto, member until 28 March 2018	9	38
Markku Koponen, member 28 March 2018 onwards	28	-
Jari Koskinen, member 23 March 2017 onwards	29	20
Kari Laukkanen, member 28 March 2018 onwards	27	-
Sirpa Louhevirta, member until 23 March 2017	-	13
Vivi Marttila	31	32
Juha Yli-Rajala, member until 23 March 2017	-	13
Total	**278**	**310**

Related party transactions

Note 49. Loans and other financial receivables from the related parties

MuniFin 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.

Holdings in other companies

Note 50. Holdings in other companies

	2018		2017	
(EUR 1,000)	**Proportion of all shares (%)**	**Book value**	**Proportion of all shares (%)**	**Book value**
Subsidiaries				
Financial Advisory Services Inspira Ltd	100.0	656	100.0	612
Total	**100.0**	**656**	**100.0**	**612**

On 31 December 2018, Municipality Finance Plc has reported its subsidiary, Financial Advisory Services Inspira Ltd, as 100% owned subsidiary. The redemption of shares held by minority shareholders has been finalised in the beginning of 2018. The obligation related to the redemption has been accounted for on 31 December 2017. The redemption is related to Inspira's shareholder agreement that expired in 2017.

Other notes

Note 51. Audit and other fees paid to the audit firm

(EUR 1,000)	**2018**	**2017**
Audit	405	232
Tax advisory services	37	5
Other services	110	131
Total	**552**	**368**

Amounts do not include VAT.

Signatures to the Report of the Board of Directors and Financial Statements

Helsinki, 13 February 2019

MUNICIPALITY FINANCE PLC

Helena Walldén
Chairman of the Board

Tuula Saxholm
Vice Chairman of the Board

Fredrik Forssell
Member of the Board

Minna Helppi
Member of the Board

Markku Koponen
Member of the Board

Jari Koskinen
Member of the Board

Kari Laukkanen
Member of the Board

Vivi Marttila
Member of the Board

Esa Kallio
President and CEO

Auditor's Note

A report of the audit performed has been issued today.

Helsinki, 13 February 2019

KPMG Oy Ab

Marcus Tötterman
Authorized Public Accountant

Auditor's Report

To the Annual General Meeting of Municipality Finance Plc

Report on the Audit of the Financial Statements

Opinion
We have audited the financial statements of Municipality Finance Plc (business identity code 1701683-4) for the year ended 31 December, 2018. The financial statements comprise the the consolidated statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, statement of cash flows and notes.

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial position, financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

Our opinion is consistent with the additional report submitted to the Audit Committee.

Basis for Opinion
We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

In our best knowledge and understanding, the non-audit services that we have provided to the parent company and group companies are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note 51 to the parent company's financial statements.

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

Materiality
The scope of our audit was influenced by our application of materiality. The materiality is determined based on our professional judgement and is used to determine the nature, timing and extent of our audit procedures and to evaluate the effect of identified misstatements on the financial statements as a whole. The level of materiality we set is based on our assessment of the magnitude of misstatements that, individually or in the aggregate, could reasonably be expected to have influence on the economic decisions of the users of the financial statements. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

Key Audit Matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The significant risks of material misstatement referred to in the EU Regulation No 537/2014 point (c) of Article 10(2) are included in the description of key audit matters below.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

THE KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT

Application of IFRS 9
(Refer to Summary of significant accounting policies of the group and the parent company and note 3 to the consolidated financial statements)

- IFRS 9 'Financial Instruments' applicable for the group and the corresponding updates to FIN-FSA regulations and guidelines on reporting of financial information, applicable for the parent company, became effective for the 2018 reporting period and has been applied by Municipality Finance since January 1st 2018.
- The renewed accounting standards on financial instruments have a significant impact on the 2018 financial statements especially concerning comparability to previous financial periods due to the changes in accounting treatments and classifications of financial instruments.
- In connection to the introduction of IFRS 9 Municipality Finance determined to treat certain funding arrangements including embedded derivatives, under the fair value option, aiming to reduce accounting mismatch. The introduction of the fair valuation of Municipality Finance's own credit risk, includes judgment and valuation techniques are applied in determining the fair value. The fair value changes of the credit risk is accounted for in the own credit risk revaluation reserve.

- Regarding the accounting policy choices we reviewed the accounting policies designated to determine whether this has been set up in accordance with the requirements of IFRS 9.
- We obtained an understanding of the client's implementation procedures for determining the impact of adoption, including an understanding of the processes and controls introduced in financial year 2018.

Our audit work comprised of the following procedures:

- In connection with classification and measurement, the application of the fair value option on structured funding arrangements including embedded derivatives and the valuation techniques applied for determining the fair value of the own credit risk has been subject to assessment. As part of our testing we analysed the valuation data and the valuation techniques applied in the valuation procedures.

- The key change for Municipality Finance on hedge accounting according to IFRS 9 is that cross-currency basic risk of a derivative contract can be separated and excluded from the designated hedging instrument and treated as cost of hedging. This means that fair value movements arising from the cross-currency basis spread included in the valuation of derivatives, which are used in hedge accounting, can be separated and accounted for as cost of hedging within OCI and accumulated in in a separate item in equity. In doing so, judgment is applied, since there is no single method for separating the cross-currency basis spread from a derivative, separation of the cross-currency basis spread from a derivative is a technical area and thus include valuation expertise.

- The new impairment rules in IFRS 9 lead to an increase in complexity and in the degree of judgement required to calculate the expected credit losses. Given the impacts of this new accounting standard on the opening balance sheet as at 1 January 2018 and the accounting policy choices and assumptions taken by management on the implementation of IFRS 9, we consider this a key audit matter in our audit.

- For IFRS 9 hedge accounting, with the assistance of our valuation specialists, we tested the appropriateness of the valuation methodology applied in the separation of the cross-currency basis spread from a derivative. Furthermore, we have compared input data used in the separation of the cross-currency basis spread to independent sources and external available market data. We inspected hedge documentation of the hedging relationship and evaluated that the hedge accounting policies and documentation meets the hedge effectiveness requirements.

- We assessed the reasonableness over inputs and justifications concerning applications of models and the applied procedures for monitoring changes in fair values.

- For impairments, we assessed, with the assistance of our specialists that the impairment methodology applied by Municipality Finance is consistent with the requirements of IFRS 9.

- We also evaluated that the disclosures adequately reflect the significant changes introduced in connection to the application and implementation of IFRS 9.

Valuation of financial assets and financial liabilities accounted at fair value
(Refer to Summary of significant accounting policies and notes 4, 5, 12 and 36 to the consolidated financial statements, and notes 9, 26 and 34 to the parent company's separate financial statements)

- Assessing the accuracy of valuation of financial instruments measured at fair value (below referred to as "investments") was one of our focus areas, as valuation of investments partly involves management judgement. In addition, Municipality Finance uses fair value models for valuation purposes, when quotations or prices are not directly available in an active market.
- Investments account for a substantial part of assets and liabilities in the statement of financial position, any deviation in the main assumptions could have an impact on result and equity, consequently the accounting of fair valued investments was considered a key audit matter.

Our audit procedures included, among others:

- We tested key internal controls over the accuracy of investment valuation process. We also assessed valuation processes and practices used by Municipality Fi-nance as well as valuation techniques, inputs, assumptions and procedures ap-plied in fair value measurement. With the assistance of our valuation specialists, we analysed the appropriateness of the val-uation methodologies and models ap-plied.
- We tested the accuracy of investment valuations on a sample basis. We as-sessed the inputs used in fair value mod-els on a sample basis by comparing with market information at the financial year-end. For derivative instruments we also examined the portfolio reconciliation with counterparties and the follow-up of any differences reported to provide audit evi-dence about the appropriateness of the valuation.
- Furthermore, we considered the appro-priateness of the information included in the notes in respect of investments.

Application of hedge accounting
(Refer to Summary of significant accounting policies and notes 5, 12, 13 and 38 to the consolidated financial statements and notes 9, 10 and 37 to the parent company's sepa-rate financial statements)

- Municipality Finance applies hedge accounting to reduce the accounting mismatch between financial assets and liabilities and the related derivative contracts hedging market risks of borrowing and lending activities, to the extent the hedging relationship is effective.
- Due to the application of hedge accounting, the carrying values of those financial assets and financial liabilities to which hedge accounting is applied, include unrealized fair value change related to hedged risks.
- The hedge accounting process includes various accounting phases that has been subject to updates in 2018 in connection to application of IFRS 9. Due to its significant impact on financial statements, hedge accounting was considered as key audit matter.

Our audit procedures included, among others:

- We evaluated the hedge accounting practices applied for compliance with the relevant financial reporting standards, and the adequacy of the related notes to the financial statements.
- We also assessed the functionality of accounting data processing in Municipali-ty Finance.
- In addition, we considered the hedge effectiveness testing prepared by Munici-pality Finance.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

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, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

— Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit 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 parent company's or the group's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

— Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.

— Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Requirements

Information on our audit engagement
KPMG Oy Ab was first appointed as audit firm by the Annual General Meeting in 2001, and our appointment represents a total period of uninterrupted engagement of 18 years.

Other Information
The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors and the information included in in the Annual Report, but does not include the financial statements and our auditor's report thereon. We have obtained the report of the Board of Directors prior to the date of this auditor's report, and the Annual Report is expected to be made available to us after that date. Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Other Opinion
We support that the financial statements should be adopted. The proposal by the Board of Directors regarding the use of the profit shown in the balance sheet and the profit distribution is in compliance with the Limited Liability Companies Act. We support that the Members of the Board of Directors, the Managing Director and the Deputy Managing Director should be discharged from liability for the financial period audited by us.

Helsinki 13 February, 2019

KPMG OY AB

MARCUS TÖTTERMAN
Authorised Public Accountant, KHT

Municipality Finance Plc
Jaakonkatu 3 A, P.O. Box 744
00101 Helsinki, Finland
Tel. +358 9 6803 5666
www.munifin.fi
firstname.lastname@munifin.fi