Municipality Finance Plc

Disclosure based on the Capital Requirement Regulation (CRR) (Pillar 3)

31 December 2015

MuniFin
MUNICIPALITY FINANCE

1. Introduction

Municipality Finance Plc ("MuniFin") is a Finnish credit institution supervised by the Finnish Financial Supervisory Authority. As a credit institution MuniFin has to comply with EU capital requirements for credit institution consisting of the CRD IV Directive (2013/36/EU) and the CRR (EU 575/2013) and is based on the revised capital adequacy framework of the the Basel Committee on Banking Supervision, known as 'Basel III'.

The capital requirements for banks consist of three pillars:

- Pillar 1: The minimum capital requirements for each category of risk: credit risk, market risk, operational risk and concentration risk
- Pillar 2: Internal processes for risk management and setting internal capital requirements: Internal Capital Adequacy Assessment Plan (ICAAP) and Supervisory Review and Evaluation Process (SREP) and
- Pillar 3: Publication requirements concerning capital adequacy, risks

This document fulfils MuniFin's Pillar 3 disclosure requirements of the current regulation. In case required information has been published as part of some other document published by MuniFin, this information has been incorporated to this document by a reference.

2. MuniFin

Measured by the group's balance sheet, MuniFin is Finland's third largest credit institution. The company is owned by Finnish municipalities, the public sector pension fund Keva and the Republic of Finland. MuniFin is an integral part of the Finnish public economy.

MuniFin's balance sheet totals nearly EUR 34 billion (June 30, 2015). Funding for the company is primarily obtained through the international capital markets. MuniFin's funding is guaranteed by the Municipal Guarantee Board.

MuniFin's mission is to ensure competitive funding for its customers in all market conditions. The company's customers are Finnish municipalities, municipal federations, municipally controlled companies and non-profit housing corporations. A significant portion of lending is used for socially responsible projects such as building hospitals, healthcare centers, schools, day care centers and homes for the elderly.

The Municipality Finance Group also includes the subsidiary company, Financial Advisory Services Inspira Ltd.

3. Disclosure principles

Majority of information required to be published by MuniFin based on Pillar 3 will be disclosed annually as part of the company's financial statements. In addition, there are documents (e.g. Corporate Governance Statement) available on MuniFin's webpages which supplement together with this Pillar 3 document information disclosed in the financial statements.

MuniFin's Finance department is responsible for the process for publishing financial information. Risk management and compliance functions of the company take also part into the disclosure process. The Executive Management Team examines financial information prior delivering the information for the Board of Directors to approve.

In order to support its work, the Board of Directors has established an Audit Committee and a Risk Committee. The purpose of the Audit Committee is to assist the Board of Directors in duties related to financial reporting and internal control arrangement. The Risk Committee assists the Board in matters with regard to the institution's overall risk appetite and strategy, and in overseeing that the management complies with the risk strategy decided by the Board.

The company's financial statements are annually audited by the External Auditor, who also reviews the interim report annually.

MuniFin publishes the required Pillar 3 information on an annual basis. However, MuniFin may assess a need to more frequent disclosure on the basis of amongst others market conditions, company's financial performance or change in the risk position.

Pillar 3 information will be disclosed on MuniFin's website.

4. Pillar 3 disclosures in accordance with the Articles 435 – 451 of CRR

Article	Item	Comment	Reference
435.1 Risk management objectives and policies			
(a)	Strategies and processes to manage risks	Municipality Finance's operations require sufficient risk management mechanisms to ensure that the company's risk position remains within the limits confirmed by the Board of Directors. Municipality Finance applies very conservative principles to its risk management. The aim is to keep the overall risk status at such a low level that the company's strong credit rating is not compromised. Municipality Finance's general principles, limits and measurement methods used in risk management are determined by the Board of Directors. The purpose of risk management is to ensure that the risks associated with lending, funding acquisition, investment and other business operations are in line with Municipality Finance's low risk profile. Risks are assessed with regular risk analyses.	Annual Report 2015, page 48
(b)	Structure and organisation	MuniFin has risk management organization that covers MuniFin's operations widely, including clear roles and responsibilities of different departments and decision-making bodies.	Annual Report 2015, page 48, Corporate Governance Statement 2015, pages 8–12
(c)	Scope and nature of risk reporting and measurement systems	MuniFin monitors and reports widely all major risk areas: strategic risks, credit risks, market risks, liquidity risks and operational risks.	Annual Report 2015, pages 48 -53
(d)	Policies for hedging and mitigating risk	Munifin hedges itself and mitigates risks identified by collateral arrangements, guarantees, derivatives, insurance policies and active risk management.	Annual Report 2015, pages 48 -53
(e)	Declaration approved by the management body on the adequacy of risk management arrangements	The Financial statements of MuniFin includes descriptions of different risks, company's risk position and risk management. The Board of Directors has approved the financial statements and by that approves the adequacy of risk management arrangements. There were no material changes in the company's risk position in 2015. Risks remained within the set limits and, based on the company's assessment, risk management met the requirements established for it. The board considers the company to have adequate risk management required by the nature of its operations.	Annual Report 2015, pages 28–112 (signed by the Board of Directors on page 112)

Article	Item	Comment	Reference
(f)	Concise risk statement approved by the management body succinctly describing the institution's overall risk profile associated with the business strategy.	Municipality Finance's operations require sufficient risk management mechanisms to ensure that the company's risk position remains within the limits confirmed by the Board of Directors. Municipality Finance applies very conservative principles to its risk management. The aim is to keep the overall risk status at such a low level that the company's strong credit rating is not compromised. The Board of Directors has confirmed the company's operating policies which include the operating principles and limits pertaining to internal control and risk management There were no material changes in the company's risk position in 2015. Risks remained within the set limits and, based on the company's assessment, risk management met the requirements established for it. The board considers the company to have adequate risk management required by the nature of its operations.	Annual Report 2015, pages 48–53 (signed by the Board of Directors on page 112) Corporate Governance statement 2015, pages 8–10
435.2. Governance arrangements			
(a)	Number of directorships held by members of the Board of Directors;		Information available on the company's website: www.munifin.fi/board-directors
(b)	Recruitment policy for the selection of members of the Board of Directors and their actual knowledge, skills and expertise;	MuniFin has a Shareholders' Nomination Committee established by the Annual General Meeting, which is charged with making a proposal to the Annual General Meeting on the number of members of the Board of Directors, candidates for election to the Board of Directors and their remuneration. Additionally, the Nomination Committee makes a proposal to the Board of Directors to be elected by the Annual General meeting on the election of the Chairman and Vice Chairman of the Board of Directors. In this proposal, the Nomination Committee shall, in accordance with its mandate, take into account the requirements set for the governance of a credit institution, including competence requirements for members of the Board of Directors, the nature of the Company's business operations and its ownership structure.	Corporate Governance statement 2015, pages 4–5

Article	Item	Comment	Reference
(c)	Policy on diversity with regard to selection of members of the Board of Directors	As part of the Corporate Governance, the Board of Directors has approved principles for the Company according to which the diversity of the composition of the Board of Directors shall be promoted by ensuring that the Board of Directors' views on the factors influencing its composition (including the balanced representation of the genders) are communicated to the Shareholders' Nomination Committee.	Corporate Governance statement 2015, pages 3 and 5 (composition of the Board of Directors)
(d)	Set up a separate risk committee and the number of times the risk committee has met;	The Board of Directors of MuniFin has set up a Risk Committee in spring 2015. Number of its meetings will be available on the Corporate Governance Statement 2015.	Information available on the company's website: www.munifin.fi/board-directors
(e)	Description of the information flow on risk to the management body.	Financial reporting and reporting on risk management to the Board of Directors is the responsibility of the CEO. The company's risk position is regularly reported to the Board of Directors as a part of monthly reporting, and, in addition, the director responsible for risk management prepares a broader overall review of the company's risk position in relation to various risk areas to the Board of Directors every six months.	Annual Report 2015, page 48, Corporate Governance statement 2015, page 10

Article	Item	Comment	Reference
436 Scope of application			
(a)	The name of the institution to which the requirements of the CRR apply;	Municipality Finance Plc (Kuntarahoitus Oyj in Finnish)	Annual Report 2015 and website (www.munifin.fi)
(b)	an outline of the differences in the basis of consolidation for accounting and prudential purposes, with a brief description of the entities therein, explaining whether they are: (i) fully consolidated; (ii) proportionally consolidated; (iii) deducted from own funds; (iv) neither consolidated nor deducted	The Municipality Finance Group consists of Municipality Finance Plc and Financial Advisory Services Inspira Ltd (subsidiary) (fully consolidated in financial statements). When calculating consolidated own funds subsidiary's minority interest cannot be included in consolidated Common Equity Tier 1 (CET1) as MuniFin's subsidiary does not fulfill the requirements of CRR Article 81. Based on the Article 479 minority interest is recognized in consolidated Common Equity Tier 1 up to 80% in 2014 determined by the competent authority. In 2015 minority interest is recognized up to 60%, 2016 40% and 2017 20% in consolidated Common Equity Tier 1.	Annual Report 2015, pages 42 and 76
(c)	Any current or foreseen material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries	Not applicable.	
(d)	The aggregate amount by which the actual own funds are less than required in all subsidiaries not included in the consolidation, and the name or names of such subsidiaries	Not applicable.	
(e)	If applicable, the circumstance of making use of the provisions laid down in Articles 7 and 9	Not applicable.	

Article	Item	Comment	Reference
437.1 Own funds			
(a)	A full reconciliation of Common Equity Tier 1 items, Additional Tier 1 items, Tier 2 items and filters and deductions applied pursuant to Articles 32 to 35, 36, 56, 66 and 79 to own funds of the institution and the balance sheet in the audited financial statements of the institution		Annual Report 2015, pages 75 and 82–83
(b)	A description of the main features of the Common Equity Tier 1 and Additional Tier 1 instruments and Tier 2 instruments issued by the institution		Annual Report 2015, pages 83–84
(c)	the full terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments	In October 2015 MuniFin issued AT1 capital loan and its terms are available on company's website. Regarding material terms of other CET1 and T2 instruments reference is made to the Article of Association and the Annual report 2015	Annual Report 2015, pages 83–84 and Articles of Association (www. munifin.fi)
(d)	separate disclosure of the nature and amounts of the following: (i) each prudential filter applied pursuant to Articles 32 to 35; (ii) each deduction made pursuant to Articles 36, 56 and 66; (iii) items not deducted in accordance with Articles 47, 48, 56, 66 and 79		Annual Report 2015, pages 82–83
(e)	A description of all restrictions applied to the calculation of own funds in accordance with the CRR and the instruments, prudential filters and deductions to which those restrictions apply;	Not applicable.	
(f)	Where institutions disclose capital ratios calculated using elements of own funds determined on a basis other than that laid down in this Regulation, a comprehensive explanation of the basis on which those capital ratios are calculated.	Not applicable as MuniFin does not deviate from CRR.	

Article	Item	Comment	Reference
438 Capital requirements			
(a)	a summary of the institution's approach to assessing the adequacy of its internal capital to support current and future activities;	MuniFin assess its capital adequacy annually and more frequently if needed on the basis of amongst others market conditions, company's financial performance or change in the risk position.	Corporate Governance Statement 2015, page 10
(b)	Upon demand from the supervisory authority, the result of the institution's internal capital adequacy assessment process including the composition of the additional own funds requirements based on the supervisory review process as referred to in point (a) of Article 104(1) of CRDIV	Not applicable, as no referred requirements has been set for MuniFin.	
(c)	Risk-weighted exposure amounts in accordance with the standardized approach		Annual Report 2015, page 77
(d)	Risk-weighted exposure amounts in accordance with internal ratings based (IRB) approach	Not applicable, as MuniFin does not use IRB approach.	
(e)	Own funds requirements		Annual Report 2015, page 76
(f)	Own funds requirements calculated in accordance with CRR, Part Three, Title III, Chapters 2, 3 and 4 and disclosed separately.	MuniFin calculates capital adequacy requirement for operational risks using the basic method.	Annual Report 2015, page 76

Article	Item	Comment	Reference
439 Exposure to counterparty credit risk			
(a)	A discussion of the methodology used to assign internal capital and credit limits for counterparty credit exposures	MuniFin applies Mark-to-market Method to calculate exposure from derivatives.	Annual Report 2015, pages 48–49
(b)	A discussion of policies for securing collateral and establishing credit reserves	Not applicable as for derivatives exposures MuniFin accepts only cash as collateral.	Annual Report 2015, pages 48–49
(c)	A discussion of policies with respect to wrong-way risk exposures	MuniFin has no wrong-way-risk exposure.	
(d)	A discussion of the impact of the amount of collateral the institution would have to provide given a downgrade in its credit rating	No material impact.	
(e)	Gross positive fair value of contracts, netting benefits, netted current credit exposure, collateral held and net derivatives credit exposure. Net derivatives credit exposure is the credit exposure on derivatives transactions after considering both the benefits from legally enforceable netting agreements and collateral arrangements		Annual Report 2015, page 81
(f)	Measures for exposure value under the methods set out in the CRR in Part Three, Title II, Chapter 6, Sections 3 to 6 whichever method is applicable	MuniFin applies Mark-to-market Method (CRR Article 274) to calculate exposure from derivatives.	Annual Report 2015, pages 48–49
(g)	The notional value of credit derivative hedges, and the distribution of current credit exposure by types of credit exposure	Not applicable, as MuniFin has no credit derivatives.	

Article	Item	Comment	Reference
(h)	the notional amounts of credit derivative transactions, segregated between use for the institution's own credit portfolio, as well as in its intermediation activities, including the distribution of the credit derivatives products used, broken down further by protection bought and sold within each product group	Not applicable, as MuniFin has no credit derivatives.	
(i)	The estimate of α if the institution has received the permission of the competent authorities to estimate α	Not applicable.	
440 Capital buffers			
(a)	The geographical distribution of its credit exposures relevant for the calculation of its countercyclical capital buffer	MuniFin has no countercyclical capital buffer requirement.	
(b)	The amount of its institution specific countercyclical capital buffer	MuniFin has no countercyclical capital buffer requirement.	
441 Indicators of global systemic importance			
Not applicable. MuniFin is a not globally systemic important bank.			
442 Credit risk adjustments			
(a)	The definitions for accounting purposes of past due and impaired		Annual Report 2015, pages 43–44
(b)	A description of the approaches and methods adopted for determining specific and general credit risk adjustments	MuniFin has not adopted credit risk adjustments.	
(c)	The total amount of exposures after accounting offsets and without taking into account the effects of credit risk mitigation, and the average amount of the exposures over the period broken down by different types of exposure classes		Annual Report 2015, page 80 (Exposures by risk weight before and after credit risk mitigation)

Article	Item	Comment	Reference
(d)	The geographic distribution of the exposures, broken down in significant areas by material exposure classes, and further detailed if appropriate		Annual Report 2015, page 78 (Exposures by geographic region and exposure category)
(e)	The distribution of the exposures by industry or counterparty type, broken down by exposure classes, including specifying exposure to SMEs, and further detailed if appropriate	This has not been disclosed due to the limited clientele of MuniFin.	
(f)	The residual maturity breakdown of all the exposures, broken down by exposure classes, and further detailed if appropriate		Annual Report 2015, page 79 (Remaining maturity of exposures by category)
(g)	By significant industry or counterparty type, the amount of: (i) impaired exposures and past due exposures, provided separately; (ii) specific and general credit risk adjustments; (iii) charges for specific and general credit risk adjustments during the reporting period	Not applicable, MuniFin has no impairments.	
(h)	the amount of the impaired exposures and past due exposures, provided separately, broken down by significant geographical areas including, if practical, the amounts of specific and general credit risk adjustments related to each geographical area	Not applicable, MuniFin has no impairments.	

Article	Item	Comment	Reference
(i)	the reconciliation of changes in the specific and general credit risk adjustments for impaired exposures, shown separately. The information shall comprise: (i) a description of the type of specific and general credit risk adjustments; (ii) the opening balances; (iii) the amounts taken against the credit risk adjustments during the reporting period; (iv) the amounts set aside or reversed for estimated probable losses on exposures during the reporting period, any other adjustments including those determined by exchange rate differences, business combinations, acquisitions and disposals of subsidiaries, and transfers between credit risk adjustments; (v) the closing balances	Not applicable, MuniFin has no impairments.	
	Specific credit risk adjustments and recoveries recorded directly to the income statement shall be disclosed separately	Not applicable.	

443 Unencumbered assets
Asset encumberance is published on Annual Report 2015, page 85.

Article	Item	Comment	Reference
444 Use of ECAIs			
(a)	The names of the nominated ECAIs and ECAs and the reasons for any changes	Credit ratings by Standard & Poor's, Moody's Investor Service and Fitch Ratings are used for determining the risk weights used in the capital adequacy calculations.	Annual report 2015, page 54
(b)	The exposure classes for which each ECAI or ECA is used	Exposures to central governments and central banks (partly) Exposures to international organisations Exposures to multilateral development banks Exposures to instutions Exposures to public sector entities Exposures in the form of covered bonds Items representing securisation positions Exposures in the form of units or shares in CIUs' Other items	Annual report 2015, pages 76–79
(c)	A description of the process used to transfer the issuer and issue credit assessments onto items not included in the trading book	The capital adequacy requirement for credit risk is calculated using the standard approach, where risk weight is determined by the external credit ratings (see 444 (a)).	Annual report 2015, page 54
(d)	The association of the external rating of each nominated ECAI or ECA with the credit quality steps prescribed in the CRR in Part Three, Title II, Chapter 2, taking into account that this information needs not be disclosed if the institution complies with the standard association published by the European Banking Authority	The capital adequacy requirement for credit risk is calculated using the standard method, where risk weight is determined by the external credit ratings (see 444 (a)).	Annual report 2015, page 54
(e)	The exposure values and the exposure values after credit risk mitigation associated with each credit quality step prescribed in the CRR in Part Three, Title II, Chapter 2 as well as those deducted from own funds	In Financial statements 2015, see table Exposures by risk weight before and after credit risk mitigation.	Annual report 2015, pages 76–79

Article	Item	Comment	Reference
445 Exposure to market risk			
	The institutions calculating their own funds requirements in accordance with points (b) and (c) of Article 92(3) of the CRR shall disclose those requirements separately for each risk referred to in those provisions. In addition, the own funds requirement for specific interest rate risk of securitisation positions shall be disclosed separately.	As MuniFin 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.	Annual Report 2015, page 54
446 Operational risk			
	Institutions shall disclose the approaches for the assessment of own funds requirements for operational risk that the institution qualifies for; a description of the methodology set out in Article 312(2) of the CRR, if used by the institution, including a discussion of relevant internal and external factors considered in the institution's measurement approach, and in the case of partial use, the scope and coverage of the different methodologies used.	MuniFin calculates operational risk using the basic indicator approach.	Annual Report 2015, page 54
447 Exposures in equities not included in the trading book			
Not applicable.			

Article	Item	Comment	Reference
448 Exposure to interest rate risk on positions not included in the trading book			
(a)	The nature of the interest rate risk and the key assumptions (including assumptions regarding loan prepayments and behaviour of non-maturity deposits), and frequency of measurement of the interest rate risk;	Interest rate risk arises mainly from different euribor-rate refixing periods between receivables and liabilities in the balance sheet. MuniFin manages interest rate risk of its business operations by using derivatives. Interest rate risk position is being monitored daily.	Annual Report 2015, pages 48–52
(b)	The variation in earnings, economic value or other relevant measure used by the management for upward and downward rate shocks according to management's method for measuring the interest rate risk, broken down by currency.	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 the interest rate sensitive cash flows at different interest rate curve changes. The basic scenario is a 200 basis point increase and decrease of the interest rate curve. Income risk refers to the negative impact of interest rate changes on the company's net interest income. The basis scenario is a 100 basis point shift throughout the interest rate curve. The impact is evaluated in proportion to the company's profitability and own funds.	Annual Report 2015, page 51
449 Exposure to securitization positions			
MuniFin has no securitization operations and the company has a limited number of investments in securitized assets (see Annual Report 2015, page 81).			
450 Remuneration policy			
(a)	Information concerning the decision-making process used for determining the remuneration policy, as well as the number of meetings held by the main body overseeing remuneration during the financial year, including, if applicable, information about the composition and the mandate of a remuneration committee, the external consultant whose services have been used for the determination of the remuneration policy and the role of the relevant stakeholders	The Remuneration Committee of the Board of Directors is responsible for preparatory work to assist in the Board's decision-making concerning the setting of objectives related to the company's remuneration system, assessment of whether the objectives are attained, development of the remuneration system and the remuneration and other benefits for the CEO and the Deputy to the CEO.	Corporate Governance Statement 2015, page 7 Remuneration report 2015
(b)	Information on link between pay and performance		Remuneration report 2015

Article	Item	Comment	Reference
(c)	The most important design characteristics of the remuneration system, including information on the criteria used for performance measurement and risk adjustment, deferral policy and vesting criteria		Remuneration report 2015
(d)	the ratios between fixed and variable remuneration set in accordance with Article 94(1)(g) of the CRDIV		Remuneration report 2015
(e)	information on the performance criteria on which the entitlement to shares, options or variable components of remuneration is based	Munifin does not grant variable remuneration in the form of shares or options.	Remuneration report 2015
(f)	The main parameters and rationale for any variable component scheme and any other non-cash benefits		Remuneration Report 2015
(g)	Aggregate quantitative information on remuneration, broken down by business area	Taking into account small size of MuniFin's organization MuniFin and the proportionality principle MuniFin considers this information not relevant to be disclosed.	
(h)	Aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the institution	Taking into account small size of MuniFin's organization MuniFin and the proportionality principle MuniFin considers this information not entirely relevant to be disclosed.	Remuneration report 2015
(i)	The number of individuals being remunerated EUR 1 million or more per financial year, for remuneration between EUR 1 million and EUR 5 million broken down into pay bands of EUR 500 000 and for remuneration of EUR 5 million and above broken down into pay bands of EUR 1 million	Not applicable, there were no persons employed by MuniFin in 2015 being remunerated EUR 1 million or more.	
(j)	Upon demand from the Member State or competent authority, the total remuneration for each member of the management body or senior management.	Not applicable, no such demand has been made by the supervisory authority. Information on remuneration for the Members of the Board of Directors and the Executive Management Team is available in the Remuneration Report.	Remuneration report 2015

Article	Item	Comment	Reference
451 Leverage			
(a)	The leverage ratio and how the institution applies Article 499(2) and (3) of the CRR		Annual Report 2015, page 86
(b)	A breakdown of the total exposure measure as well as a reconciliation of the total exposure measure with the relevant information disclosed in published financial statements		Annual Report 2015, page 86
(c)	Where applicable, the amount of derecognised fiduciary items in accordance with Article 429(11) of the CRR	Not applicable.	
(d)	A description of the processes used to manage the risk of excessive leverage	Tier 1 capital does not include a provision for dividend distribution, as the Board of Directors evaluates the amount of dividends paid out each year based on the decision of the Annual General Meeting and submits its dividend proposal based on the company's financial situation, the applicable regulation and taking into account the company's ownership structure.	
(e)	A description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers		Annual Report 2015, page 86
452 Use of the IRB Approach to credit risk			
Not applicable, as Munifin does not use IRB approach.			

Article	Item	Comment	Reference
453 Use of credit risk mitigation techniques			
Municipality Finance may only grant loans and leasing financing without a separate security directly to a municipality or municipal federation. For others, loans must be secured with an absolute guarantee or deficiency guarantee issued by a municipality or municipal federation, or a state deficiency guarantee. A primary pledge is required when the loan is given a deficiency guarantee by a municipality or a state.			
(a)	The policies and processes for, and an indication of the extent to which the entity makes use of, on- and off-balance sheet netting;	Municipality Finance limits credit risk of the derivative contracts with ISDA Credit Support Annexes in case of major derivative counterparties. The company has 46 Credit Support Annexes in force. Additionally, the Municipal Guarantee Board's guarantees are used for reducing the counterparty risk related to the derivative contracts of certain counterparties. Municipality Finance may only grant loans and leasing financing without a separate security directly to a municipality or municipal federation. For others, loans must be secured with an absolute guarantee or deficiency guarantee issued by a municipality or municipal federation, or a state deficiency guarantee. A primary pledge is required when the loan is given a deficiency guarantee by a municipality or a state.	Annual Report 2015, pages 48–49
(b)	The policies and processes for collateral valuation and management	MuniFin uses derivatives for hedging purposes only and only cash is exchanges as collateral related to derivatives positions. MuniFin may only grant loans and leasing financing without a separate security directly to a municipality or municipal federation. For others, loans must be secured with an absolute guarantee or deficiency guarantee issued by a municipality or municipal federation, or a state deficiency guarantee. A primary pledge is required when the loan is given a deficiency guarantee by a municipality or a state. The amount of the primary pledge must equal 1.2 times the amount of the loan. MuniFin uses derivatives for hedging purposes only and only cash is exchanges as collateral related to derivatives positions.	Annual Report 2015, page 48
(c)	A description of the main types of collateral taken by the institution	The main types of collateral taken by MuniFin for loan transactions are municipality's directly enforceable guarantee, pledge (real estate property) with deficiency guarantee by a municipality or Government of Finland. MuniFin uses derivatives for hedging purposes only and only cash is exchanges as collateral related to derivatives positions.	Annual Report 2015, page 48

Article	Item	Comment	Reference
(d)	The main types of guarantor and credit derivative counterparty and their creditworthiness	The main types of collateral taken by MuniFin for loan transactions are municipality's directly enforceable guarantee, pledge (real estate property) with deficiency guarantee by a municipality or Government of Finland. MuniFin uses derivatives for hedging purposes only and only cash is exchanges as collateral related to derivatives positions. MuniFin has no credit derivatives.	Annual Report 2015, pages 48
(e)	Information about market or credit risk concentrations within the credit mitigation taken	Not applicable. The most significant guarantor is Government of Finland.	
(f)	For institutions calculating risk-weighted exposure amounts under the Standardised Approach or the IRB Approach, but not providing own estimates of LGDs or conversion factors in respect of the exposure class, separately for each exposure class, the total exposure value (after, where applicable, on- or off-balance sheet netting) that is covered — after the application of volatility adjustments — by eligible financial collateral, and other eligible collateral		Annual Report 2015, page 80
(g)	For institutions calculating risk-weighted exposure amounts under the Standardised Approach or the IRB Approach, separately for each exposure class, the total exposure (after, where applicable, on- or off-balance sheet netting) that is covered by guarantees or credit derivatives. For the equity exposure class, this requirement applies to each of the approaches provided in Article 155		Annual Report 2015, page 80

454 Use of the Advanced Measurement Approaches to operational risk

Not applicable as MuniFin uses basic method when calculating operational risk.

455 Use of Internal Market Risk Models

Not applicable. The Bank does not use internal models.