Annual Report
2019

MuniFin

Municipality Finance Plc • Annual Report 2019

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CEO's Review

In 2019, the Finnish economy continued suprisingly strong despite the slump in global trade. Demand for financing exceeded expectations and MuniFin once again succeeded very well in its funding. The company continued to make investments in digitalisation in line with plans.

Uncertainty persisted in the global economy in 2019. In addition, growth in world trade slowed down. Central banks lowered interest rates to stimulate the economy, even though at the end of the previous year interest rate hikes were expected. The trade war between the United States and China showed signs of abating towards the end of the year.

Economic growth in Finland slowed down in the beginning of the year, but managed to remain surprisingly strong throughout the rest of the year. The downbeat tone in world trade did not impact Finland even though confidence indicators took a downward turn in the autumn. On the other hand, the year was more challenging than expected for local government finances due to lower-than-anticipated tax revenue – one of the reasons behind this was the tax card and tax register reforms. The health and social services reform collapsed in the first part of the year. Uncertainty over investments in health and social services will therefore continue in municipalities and hospital districts. For instance, there is still a great need for investments in infrastructure and schools in growing regions.

For these reasons, the need for financing among our customers exceeded expectations. A total of EUR 3,175 million in financing was granted to new projects.

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Demand for financing exceeded expectations and MuniFin once again succeeded very well in its funding. The company continued to make investments in digitalisation in line with plans.

In 2019, new forecasts on regional population trends in Finland sparked lively discussion about the future of our country and how it is dividing into regressive and growing regions. As a result of the ageing of the population and with diminishing age groups, the society cannot afford social exclusion of young people . A small society needs to tap into all its expertise and the high level of education in Finland is an important competitive edge for our country.

In honour of our 30th anniversary in 2019, we deepened our cooperation with the association Junior Achievement Finland. They support the opportunities of young people to learn financial literacy, skills for employment and entrepreneurship. MuniFin has built an online learning environment for the JA Company Programme, which helps young people in upper comprehensive school to identify their strengths and interests.

Interest in responsibility in Finland and abroad
International investors are showing ever-greater interest in responsible investing and our Finnish customers have discovered the benefits of green finance. MuniFin was the first credit institution to launch green finance onto the Finnish market and the first Finnish green bond issuer. We continue investments into sustainable finance with a new social finance product that we launched in February 2020. Social finance is meant for investments in non-profit housing production promoting equality and sense of community, as well as investments in wellbeing and education.

Funding was very successful in 2019, too. Our benchmark bonds, including our fourth green bond were several times oversubscribed. One of the reasons for this is that there is plenty of demand for sustainable and safe investments around the world – but it is also a testament of MuniFin's good reputation in the international capital market.

Mobilising values in everyday activities
2019 could be described as the year of values at MuniFin. Following up on the polishing of our strategy and vision two years ago, we updated our values. We worked on our values with personnel in 2018. Employees voted on customer orientation, responsibility and openness as our values. We continued these efforts in the review year by making the values more concrete and mobilising them in everyday work. We will keep working on our strategy and values with our personnel in the year ahead, too. Building on our brand and strategy work, we refreshed MuniFin's image to better reflect what the company is today.

In line with our mission that aims at the success of our customers, we continued to invest in the development of digital services. With digital solutions, we seek to enhance the efficiency of our own operations for our customers' benefit and to give our experts and customers access to a broader range of information. Also the increasing regulation in our field of business has significantly added to the development needs of information systems.

Due to our development efforts to address greater regulation and information systems, MuniFin's personnel count saw further growth in 2019. Our mission and responsibility are also evident in our recruitment: the meaningfulness of the work we do is an important criterion for many of those who join our company. In accordance with our values, we want to be open to the ideas and working methods of new people.

MuniFin's 30th anniversary was a year of renewal for the company and it was also financially strong. I would like to thank our customers and partners for these successes. I am particularly grateful for our staff for their commitment to the socially meaningful work that we do.

Esa Kallio
President and CEO
Municipality Finance Plc

We continue investments into sustainable finance with the launch of a new social finance product.

MuniFin

MuniFin in brief

MuniFin builds a healthy society in Finland together with its customers. Its customers consist of municipalities, joint municipal authorities, and municipality-controlled entities, as well as non-profit organisations and projects nominated by the Housing Finance and Development Centre of Finland (ARA).

The Municipality Finance Group offers its customers diverse financial services and is by far the biggest single provider of financing for its customer segments. The company's experts help customers make investment decisions that are sustainable for the economy, environment and society.

The effects of MuniFin's work can be seen in 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 acquires financing efficiently from international capital market, where it is known as a reliable and highly responsible partner. Funding is guaranteed by the Municipal Guarantee Board, whose members are all Finnish mainland municipalities.

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 efficiently and profitably as the best financing expert in the field, providing customers with solutions that are the best fit for their needs.

The company constantly develops new services to meet the changing needs of its customers. MuniFin helps its customers with the management of all their investment and financial needs, including investment planning and identifying investment opportunities, all the way to the end of 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.

Shareholders

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

Credit rating

AA+
Aa1

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

Lending portfolio, EUR billion

24.0

The best financing partner for customers (scale 1 – 7)

5.7

Customer survey: How would you rate MuniFin by this criterion?

Development of the green finance portfolio 12/2017–12/2019, EUR million

2017	**803**
2018	**1,081**
2019	**1,263**

New long-term funding in 2019, EUR billion

7.4

Key Figures (Group)	**2019**	2018	Change, %
Net interest income (EUR million)	**240**	236	2 %
Net operating profit excluding unrealised fair value changes (EUR million)	**186**	190	-2 %
Long-term customer financing (EUR million)	**23,970**	22,354	7 %
Total funding (EUR million)	**33,929**	30,856	10 %
Balance sheet total (EUR million)	**38,934**	35,677	9 %
Total own funds (EUR million)	**1,510**	1,413	7 %
CET1 capital ratio, %	**107.9**	88.0	23 %
Leverage ratio, %	**4.0**	4.1	-2 %

Highlights of 2019

- New lending by MuniFin in 2019 amounted to EUR 3,175 million. The lending portfolio grew by 7.2% compared to the end of 2018. 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. At the end of 2019, the total amount of green finance withdrawn stood at EUR 1,263 million. The amount of green finance withdrawn in 2019 was EUR 182 million.
- MuniFin developed its digital services and launched new applications for customers. For example, a total of 105 customer organisations started using the financial forecasting application. Most of them are municipalities, but they also include hospital districts and non-profit housing organisations.
- MuniFin continued to make investments in business and digital solutions development in 2019. The company launched the largest IT project in its history to modernise loan lifecycle management. The company spent EUR 10 million on the development of its operations, a year-on-year increase of 9.6%.
- MuniFin celebrated its 30th anniversary. In honour of the anniversary year, MuniFin partnered up with the association Junior Achievement Finland. With this cooperation, MuniFin wants to help young people to identify their strengths and to support their learning of financial, entrepreneurial and working life skills and thereby do its part in preventing youth alienation.

New loans withdrawn from MuniFin in 2019, EUR million

3,175

New funding in 2019, EUR million

7,385

Balance sheet total 31 Dec 2019, EUR million

38,934

Spenditure on the development of operations, EUR million

10

01/2019
MuniFin included its digital financial management services a new financial forecasting application that enables municipalities to draft long-term financial forecasts.

MuniFin awarded the City of Joensuu as the Green Pioneer of the Year.

02/2019
MuniFin's funding once again earned plaudits for its work in the Japanese capital markets when the London-based market data provider CMD Portal selected the company as the Uridashi Issuer of the Year.

04/2019
MuniFin listed four benchmark bonds on Nasdaq Helsinki. Going forward, the company will continue to list bonds requiring listing under its EUR 35 billion EMTN programme (Euro Medium Term Note) on Nasdaq Helsinki.

07/2019
MuniFin issued the fourth green bond in its history. Green bonds finance the company's green portfolio, which comprises, for instance, public transport projects, low-carbon buildings such as schools, day-care centres and residential buildings, water treatment plants and renewable energy development projects.

09/2019
MuniFin issued a benchmark bond in US dollars, which became the most subscribed benchmark bond in the company's history.

MuniFin published its first ever economic forecast.

MuniFin's revamped brand and visual image were unveiled at the company's 30th anniversary seminar.

09/2019
MuniFin joined the international Climate Bonds Initiative partner network. CBI is a non-profit organisation whose mission is to increase investments in the low-carbon economy.

MuniFin launched the largest IT project in its history to modernise loan lifecycle management.

10/2019
MuniFin's Huomisen talous (*Economy of the Future*) podcast series began. It delves into current issues and phenomena in the economy and society.

Incorporating values into day-to-day work

MuniFin's mission is to build a better future in line with the principles of responsibility and in cooperation with its customers. In 2019, MuniFin focused especially on making its values and strategy concrete and visible in day-to-day work.

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 is the only credit institution in Finland specialised solely in financing the municipal sector and non-profit housing production. Its experts have the country's best understanding of the needs of its customer base.

The organisation constantly engages in strategy work. In 2019, these efforts focused especially on values. The values were drafted in cooperation with personnel and are customer orientation, responsibility and openness. Work on the values with personnel continued by tangibly expressing what they mean in everyday work and operations.

We build a better future in line with the principles of responsibility and in cooperation with our customers.

The customer is at the heart of development efforts
The work on the strategy and brand started in 2017 and centres on customer-orientation. Customers have been involved in different phases of the work. MuniFin carries out all its development efforts with a focus on meeting customers' needs. The development of digital services continued on the basis of a plan drafted in 2018. The company's large-scale internal digitalisation projects – such as a centralised data warehouse to improve efficiency as well as data quality and availability – will be completed in 2020. Investments in digital projects will be continued to broaden service range and ensure both operational efficiency and reliability throughout the organisation.

In the first months of the year, a financial forecast feature was added to the range of digital services offered to customers. Over the year, it was expanded with comparative data on other municipalities and municipal federations. In 2020, the services will be rounded out with a cash management application.

The information provided by the company's digital services is utilised in cooperation with customers in the planning of investments and assessment of their long-term impacts. Cooperation with Inspira, a subsidiary that offers financial advisory services, will become even closer.

MuniFin strengthened the sharing of economic information and insight to benefit customers in 2019 when it appointed its first Chief Economist. Under his lead, MuniFin started publishing its own economic forecasts. Customers have even greater access to the knowledge of the Chief Economist and all other experts in the organisation through its renewed Internet site and both virtual and face-to-face meetings.

Further steps in responsibility
Responsibility has been built into MuniFin's operations throughout its history. The projects financed by MuniFin build the Finnish welfare society. In the granting process MuniFin assesses the sustainability of investment decision in the long term for the customer's finances. The company helps customers to find the most suitable solution for the changing needs of their organisation and their financial situation, taking the entire financing lifecycle into consideration.

Municipalities play a key role in tackling climate change. With green finance, MuniFin encourages its customers to adopt environmentally sustainable solutions. In 2019, the company defined a framework for a new financial product: social finance, which is intended for non-profit housing production and municipal investments in wellbeing and education was launched in the beginning of 2020.

MuniFin works with partners on a variety of social projects. The theme of the company's 30th jubilee year was to invest in young people and their expertise. MuniFin is the main partner of the Junior Achievement Finland association, giving young people the opportunity to find their own passions and skills. More information on MuniFin's partnerships is provided in the responsibility section of this report.

Operating environment

The growth rate of the global economy slowed down and central banks rapidly changed course in their monetary policy. The Finnish economy was not impacted too badly by this, but public sector debt continued to grow.

The growth rate of the global economy slowed down significantly in 2019, above all due to the trade war between the United States and China. Further Brexit delays caused economic uncertainty.

A historical turn occurred in monetary policy in 2019. The U.S. Federal Reserve System had already raised its benchmark interest rate in the previous year and further hikes were still expected at the beginning of 2019. However, the Fed ended up cutting rates three times during the year.

The European Central Bank ended its quantitative easing in December 2018 by stopping net purchases under their asset purchase programme. However, due to the slowdown in economic growth, it resumed buying assets in 2019.

Although monetary policy took a sharp turn during the review year, no dramatic changes occurred in the economy or pace of inflation. Slower growth in world trade and industrial output did not have a significant impact on services. The domestic market continued to see moderate growth in all the major economic areas.

The problems of the European economy could largely be pinpointed to specific causes; for example, the contraction of the German economy was largely caused by the problems faced by the automotive industry. The Swedish economy also slowed down faster than expected. Riksbank, the central bank of Sweden, announced that it seeks to eliminate negative interest rates in spite of the slowdown. It has been argued that the negative interest rates ushered in by the stimulus measures of central banks might even tighten the monetary economy and make banks less willing to grant loans.

One of the most interesting questions regarding the economy in 2020 is what direction the ECB will take in its monetary policy.

The Finnish economy remained resilient

The downturn in the global economy did not have a strong impact on the Finnish economy – in fact, the rate of growth even picked up in 2019. Growth in Finnish industrial output also remained positive in spite of the subdued world trade. Employment improved slightly and both housing and retail sales remained at a good level.

Growth in public sector debt continued to accelerate in 2019. Local government finances weakened more than expected. This was partly due to the temporary deficit caused by tax revenues, but growth in the structural expenditure of municipalities also exceeded expectations.

The health and social services reform had been under preparation for years, but collapsed in the early part of the year. Uncertainty over investments in health and social services thus persists in municipalities and hospital districts. The new government, which was appointed in June, announced that it would continue to prepare the health and social services reform. The government is also planning major new rail projects and it is anticipated that MuniFin can contribute to their financing. However, it is expected that these projects won't be launched until many years down the line.

Regional population forecasts published in 2019 sparked plenty of debate. Regions are diverging into population growth and decrease areas faster than was anticipated. Changes in the age structure of the population have also occurred more rapidly than expected due to the declining fertility rate. This causes the need to overhaul the service structure of municipalities, as the ageing of the population continues while the number of children of kindergarten and school age is decreasing.

Uncertainty expected to continue

The global economy is forecasted to keep slowing down in the first half of 2020. The economy is forecasted to start recovering gradually no later than in the latter half of the year. The economy might improve even earlier if political stress factors impacting on the economy, such as the trade war between the U.S. and China, ease up.

The presidential elections that will be held in the United States at the end of 2020 are expected to affect the country's economy. The incumbent president will most likely seek to maintain good domestic demand. If the markets slow down more than expected in the first part of the year, this may impact on both interest rates and equity markets.

The monetary policy of the European Central Bank is uncertain because a new president took the helm in autumn 2019. One of the most interesting questions regarding the economy in 2020 is what direction the ECB will take in its monetary policy. Brexit will continue to cause uncertainty for the European economy in 2020.

At the start of the year, central banks were not expected to continue rate cuts in 2020. Due to the sudden coronavirus outbreak, however, monetary authorities may increase accommodative measures in order to cushion the negative impact of the epidemic on economic activity.

In Finland, local government finances are expected to become slightly more balanced as the deficit in tax revenues starts to correct in the first half of the year.

Changes in capital adequacy regulations

The long-prepared changes in bank capital adequacy regulations (CRR II and CRD V) were adopted by the European Parliament in April 2019 and these changes will largely be applicable in June 2021. This change package also includes a leverage ratio requirement, whereby a credit institution's leverage ratio must be at least 3%. MuniFin has been preparing for several years for the introduction of the leverage ratio requirement, and its leverage ratio exceeds the required 3%.

Once the established regulations are applied, a public development credit institution may deduct from the liabilities of leverage ratio calculation all receivables from central administrations, regional administrations, local authorities, public entities or bodies governed by public law, and receivables related to public sector investment and promotional loans. According to MuniFin's self-assessment, the company meets the definition of a public development credit institution and may in future make use of this in leverage ratio calculation. The change will have a significant positive impact on MuniFin's leverage ratio. According to preliminary estimates, the other changes in the regulatory package will have a less significant effect for MuniFin.

MuniFin helps North Karelia prepare for the future through its digital services

An ageing population and migration pose challenges both in North Karelia's smaller municipalities and the region's administrative centre, the city of Joensuu. A joint economic forecast and report have been undertaken to find solutions to problems experienced throughout the region.

The purpose of this project was to produce a comprehensive and realistic vision of North Karelia's economic situation and future carrying capacity, as well as to harmonise economic reporting and forecasting throughout the whole region. MuniFin is making the project possible through its digital economic forecasting application.

While long-term forecasts had previously been prepared throughout North Karelia's municipalities, drafting a report covering the region as a whole naturally brought its own challenges. MuniFin's forecasting and reporting tools were the perfect solutions to this issue. The apps received particular praise for its clear user interface, the visual consistency of its reports, and its capability of accounting for the specifics of local situations.

The project also contributed to inter-municipal cooperation and discussion, which is invaluable in circumstances in which the birth rate is in decline and level of retirement is increasing, leading to labour shortages in the region and other additional challenges.

Business operations

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Financing and other services

Demand for financing remained stronger than expected in 2019. The need for advisory services for investment and long-term economic modelling also saw year-on-year growth.

MuniFin's customers consist of municipalities, municipal federations, municipality-controlled entities and non-profit corporations nominated by the Housing Finance and Development Centre of Finland (ARA). MuniFin is by far the largest single financier in its customer segments. Growth in the demand for financing in 2019 was driven by factors such as the lower-than-anticipated municipal tax revenues due to the tax card and tax register reforms as well as an increase in social and healthcare costs.

The amount of new financing withdrawn from MuniFin in 2019 was EUR 3.5 billion, of which EUR 3.2 billion consisted of loans and EUR 311 million of lease financing. The total lending portfolio at year-end amounted to EUR 24.0 billion and the leasing portfolio to EUR 828 million. The amount of loans withdrawn during the review year grew by 7.5% on the previous year's figure and the amount of lease financing by 14.3%. With respect to lease financing, steady growth is seen in demand for real estate leasing in particular.

Competition remained tight in financing throughout 2019. Demand for financing and services is expected to remain strong in 2020 as well.

The amount of new financing withdrawn from MuniFin in 2019 was EUR 3.5 billion.

A new responsible financing option

Demand for green finance intended for environmental investments was stable in 2019. A total of EUR 182 million in green finance was withdrawn. Decisions on granting green finance are made by a Green Evaluation Team comprised of independent experts. MuniFin grants a margin discount on green finance to encourage customers to pursue more environmentally friendly solutions.

Investors have also become even more interested in responsible investments. In 2019, MuniFin prepared the framework for social finance. Starting from 2020, the company offers its customers a new financial product, aimed at certain investments in non-profit housing production promoting equality and sense of community, as well as investments in wellbeing and education.

Need for affordable housing is still rising

The population is concentrated in growth centres, increasing the need to step up state-subsidised housing production. Market-financed housing production took a downward turn in 2019, but demand for housing in central cities has not declined.

MuniFin keeps an eye on real estate prices and demand, especially in areas of decreasing population. It provides information to support municipalities in their decision-making and together with its customers seeks solutions to solve challenging financial situations. It is key to react early enough before the financial situation escalates into a crisis. In this effort, MuniFin works in cooperation with the State Treasury and ARA.

Affordable housing production is essential for labour mobility and availability as well as to maintain economic growth. MuniFin's number of customers in financing for housing production saw slight growth in 2019, as new players entered the non-profit housing production sector. Financing for housing is expected to remain in high demand in 2020.

Digital and advisory services expanded

In recent years, MuniFin has invested heavily in the development of its services, harnessing the opportunities of digitalisation and developing the company's own processes. Digital services provide customers with even more information to support their decision-making. In addition, digital services enhance both efficiency and transparency in customers' financial management.

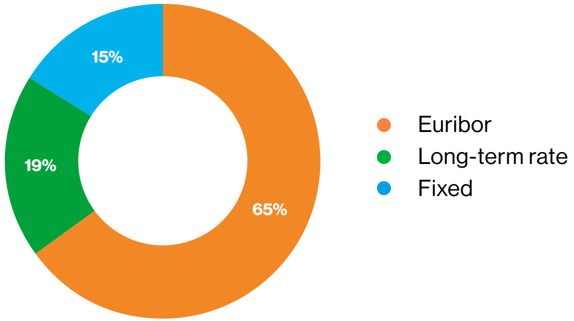
MuniFin's digital services portfolio was rounded out in 2019 with a financial forecasting application for assessing the long-term impact of investments on municipal finances. The application was upgraded during the year with a feature that makes it possible to compare the figures of a municipality with those of other municipalities or municipal federations.

The content and features of digital services are expanded continuously in accordance with customers' wishes. In autumn 2019, MuniFin started working on a tool for comparing different forms of financing, which combines a financial forecast and loan portfolio. The new tool will be piloted in early 2020. In 2020, the service portfolio will also be rounded out with a cash management feature.

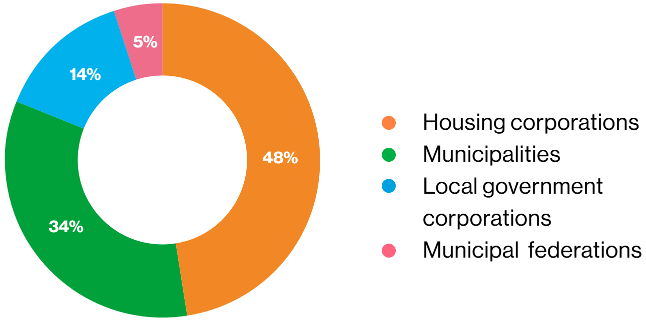
The need for municipalities to model the impacts of large investments over the long term increased in 2019. Many municipalities held financial workshop days in 2019 in order to find optimal solutions for implementing investments and balancing their finances in the long term. This service is provided in cooperation with Inspira, MuniFin's subsidiary that specialises in financial advisory services.

Inspira's turnover was about EUR 3.5 million (EUR 2.5 million). Inspira provides financial advisory services, particularly to municipalities, their enterprises and municipal federations such as hospital districts. Its clientele also includes operators involved in state-subsidised housing production.

Lending portfolio by rate type %



Lending portfolio by customer type %



Lending portfolio 2014-2019 (EUR billion)

2015	2016	2017	2018	2019
20.1	20.9	21.2	22.4	24.0

Unique artistic city block fosters community spirit

Completed in early 2020 and situated in the Kalasatama area of downtown Helsinki, the Viehe123 development transforms this former harbour and industrial district into a new kind of community-minded living space for generations to come. Consisting of three conjoining apartment buildings, this artistic quarter is the brainchild of a group of property developers – Kiinteistöyhtiö Ars Longa Oy, NAL Asunnot Oy, and Setlementtiasunnot Oy. This community-driven development consists of three eight-storey, accessible apartment buildings and includes affordable rental apartments for residents of different ages. The apartments in the Ars Longa Oy building are suitable for retirees, as well as working artists, designers, and writers. The NAL Asunnot building offers 77 apartments for young professionals and those just starting out in their careers. For its part, the Setlementtiasunnot building provides housing for students from Diaconia University of Applied Sciences in the form of 81 apartments.

Inspiration for the artisan city block was drawn from around the world. This is the first residential initiative of its kind in Finland. As per the wishes of the residents, the development offers plenty of studio and 2-room apartments. The need for small, affordable housing is enormous in the metropolitan area, and the number of single inhabitants is expected to increase as a result of the changing age demographic and immigration.

In addition to voluntary tenant activity, the development fosters a sense of communality through the various spaces and facilities available in the city block. Communal facilities include a laundry, a rooftop sauna area, various recreational rooms, and a roof terrace with a community garden. As well as financing the development of the city block, MuniFin also functions as an active advisor to the project as a whole.

MuniFin

Kiinteistöyhtiö Ars Longa Oy, NAL Asunnot Oy ja Setlementtiasunnot Oy

Safe investments are in demand around the world

MuniFin acquires all of its funding for customers from the international capital market. It succeeded very well in its funding transactions in 2019.

Economic uncertainty was also evident in the international capital market. At the beginning of 2019, the situation on the international capital market was challenging due to economic uncertainties and there was upward pressure on the credit risk premiums of bonds. Credit risk premiums were also under pressure due to the European Central Bank ECB cutting down its stimulus measures, which contributed to uncertainty in the market. However, investor confidence soon returned.

After a challenging start of the year, the bond markets performed well during the review year. The liquidity conditions in the market were strong, which led to tighter credit risk premiums and lower interest rates.

The focus in MuniFin's funding was once again on public arrangements, in which the company performed very well. Safe investments have been in high demand due to economic and political uncertainties. The total amount of new funding in 2019 was EUR 7.4 billion (EUR 7.4 billion).

Total number of funding transactions 2014-2019

2015	2016	2017	2018	2019
315	204	318	260	198

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Successful issuances
MuniFin issued four benchmark bonds in 2019, two in euros and two in US dollars.

In euros MuniFin issued two benchmark bonds. The first euro benchmark of the year was issued in the beginning of January. In June, a new EUR 500 million green bond was successfully launched. This was the fourth green bond issued by MuniFin.

The USD 1.25 billion benchmark bond issued in September was oversubscribed almost three times, which rendered it the company's most popular benchmark bond in the dollar market in terms of the size of the order book. It was also the company's largest USD benchmark bond since 2013.

All benchmark bonds issued during the year were oversubscribed substantially. In addition to the demand for safe investments, this is also a testament of MuniFin's good reputation in the international capital market.

When looking at other currencies, NOK was a positive surprise. Approximately EUR 1.0 billion was issued in 2019 in NOK.

In April, MuniFin started listing its bonds issued under the Euro Medium Term Note programme on Nasdaq Helsinki. MTN programme is MuniFin's standardised debt programme under which most of its bonds are issued.

Activity in the Japanese market

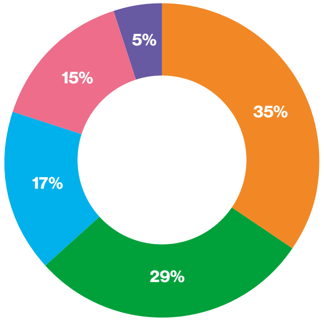
In February, the UK-based CMD Portal selected MuniFin as the Uridashi Issuer of the Year in the Japanese market. CMD Portal connects bond issuers, dealers and investors globally. It also provides information on capital markets and increases their transparency.

The amount of funding issued in Japan totalled EUR 1.2 billion in 2019 (EUR 1.5 billion). MuniFin's presence in the Japanese market has been strong in the last two decades. Due to demographic changes, increased competition and shift in product categories, issuance volumes have slightly declined.

Framework for social bonds has been published

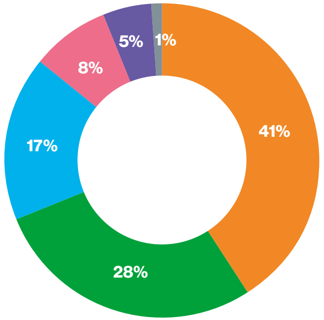
During the recent years, investors have become increasingly interested in responsible investments. In 2019, after several years of development, MuniFin completed its Social Bonds Framework. MuniFin is the first Nordic credit institution to launch social finance in 2020, with the aim to issue its first social bond in 2020.

With respect to funding, 2020 is expected to be much like 2019. The company's funding needs are slightly greater than a year before due to refinancing needs. If customers' financing needs are growing, this will also increase the size of the funding programme. It is also expected that benchmark bonds will account for a larger share of total funding in 2020.



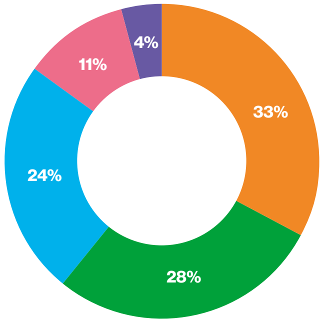
Funding by currency 2019 %

- Euro (EUR)
- US Dollar (USD)
- Japanese Yen (JPY)
- Norwegian Kron (NOK)
- Other currencies



Funding by investor type in 2019 %

- Banks
- Central banks and official institutions
- Retail
- Asset managers
- Insurance companies and pension funds
- Corporation



Funding by region in 2019 %

- Europe
- Asia Pacific
- Nordics
- Americas
- Africa and The Middle East

Hospital converted to Town Hall through real estate leasing

Raseborg has been seeking new premises for its Town Hall for some time. At the same time, the magnificent hospital grounds in the Tammiharju area of the town have been under threat of becoming wasteland. After careful consideration, the decision was made to restore the old hospital and convert it into the Town Hall rather than investing in an entirely new development.

The EUR 8 million loan required for such a development would have overburdened the city budget. Instead, the option to fund the renovation of the 1930s hospital through real estate leasing proved to be the most viable. MuniFin bought the hospital site and the town became a tenant. The town has the option to buy the building itself at the end of the lease period.

The doors to the new Town Hall were opened after almost 18 months of renovation work. Designed by architect **Axel Mörne**, the building was renovated practically from floor to ceiling. Its classic architecture, refined use of indoor space, winding corridors, and beautiful park-like grounds have captivated visitors. The Town Hall and the influx of public servants from the entire region to the Tammisaari area has been positively received by both users and residents alike.


Raaseporin kaupunki

Liquidity management

2019 was a stable and highly predictable year for the company's liquidity investments. During the first half of the year, international economic development showed signs of weakening and interest rates plummeted. In the latter half of the year, predictive indicators of economic development and the upbeat mood on the financial markets led to a slight upswing in interest rates. MuniFin hedges against the interest rate risk of liquidity investments with interest rate swaps. Thus changes in interest rates do not have a direct impact on changes in the value of liquidity investments.

The risk premiums – or spreads – of issuers narrowed in the first half of the year. Towards the end of 2019, spreads returned from their record lows to the same levels – or slightly above – as at the beginning of the year. The company had already prepared for the widening of risk premiums in the previous 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 2019 were EUR 9.9 billion (EUR 8.7 billion). At the end of 2019, investments in securities totalled EUR 4.9 billion (EUR 5.1 billion) and their average credit rating was AA+ (AA). The year-end average maturity of the securities portfolio was 2.3 years (2.1).

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%. 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 2019, MuniFin's LCR was 430.2% (167.7%) and the total amount of liquidity was enough to cover uninterrupted business for 13.6 months (13.2 months). MuniFin is also preparing for the Net Stable Funding Ratio (NSFR), which will take effect in June 2021. At the end of 2019, MuniFin's NSFR was 116.3% (110.5%) as calculated according to current interpretations. The minimum NSFR is 100%.

MuniFin regularly evaluates the liquidity of its investments and the eligibility of its assets as collateral on the repo markets. At the end of 2019, 83.1 per cent of all long-term investments met the eligibility requirements of ECB (84.7%).

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. The average maturity of investments was not changed and their spread sensitivity was kept low in 2019.

In 2019, the share of investments in financial institutions was decreased, and the share of covered bonds was increased. In addition, outstanding long-term investments were allocated more to central bank deposits due to poor expected returns.

Responsible investing

MuniFin makes liquidity investments in compliance with the Responsibility Policy approved by the company's Board of Directors. This means favouring responsible issuers in the portfolio and investing in specific responsible investments.In 2019, the company's investments ESG score exceeded the market benchmark.

More information on responsible investments is available in the responsibility section of this report on page 46.

Organisation

MuniFin

Personnel

Knowledgeable employees who enjoy their work are MuniFin's most important resource, and that's why 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.

The number of MuniFin employees grew once again in 2019, up from 151 to 167. Recruitment focused particularly on the skills of risk management, reporting, and financial and business development.

The largest age group in 2019 was aged between 30 and 39 and the age structure of the employees is evenly distributed between 26 and 62 years. Despite the increase in employees, MuniFin remains a close community, with everyone working at the same location.

MuniFin's strategic aim is to be the best financing partner for its customers. As such, the development of personnel expertise is driven by this aim.

The company is investing in education and also seeks to provide staff with opportunities for development. Staff wellbeing and resilience at work are supported with many measures intended to enhance occupational fitness and prevent overburdening.

In 2019, a key effort was made to mobilise the values and customer strategy policies that were jointly refined in 2018 through day-to-day work with employees.

During the year, a human resources information system reform was carried out to streamline the HR processes and reduce the risk of error. In addition, a digital learning environment was created and included interactive material that is in the first phase intended to improve staff orientation and ensure that knowledge of financial regulations and company policies remained current in all working roles.

More information on staff and the development of workplace wellbeing can be found in this report's responsibility section on page 48.

Number of employees 2014-2019

2014	2015	2016	2017	2018	2019
90	95	106	134	151	167

Corporate governance

Responsible business conduct is one of MuniFin's values and therefore its operations must be socially, economically and environmentally sustainable. MuniFin's administration and policies are constantly developed to answer the needs of the owners, customers, investors, staff and increasing regulation.

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). Where applicable, MuniFin also complies with the Governance Code of Nasdaq Helsinki for listed companies.

MuniFin is under 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 the ethics of MuniFin's operations and compliance.

Strategy and internal policies guide to responsible corporate culture

MuniFin's strategy is approved by the Board of Directors and it also determines the guidelines for the company's business operations, risk management and administration. Additionally, the Board of Directors has approved internal policies that serve as principles for the company's risk management and internal control. The company also has a considerable amount of other internal guidelines in support of the arrangement of administration and risk management.

The leading principle in the work of MuniFin's employees is to ensure that all operations are conducted in a responsible way. The Responsibility Policy, together with Corporate Governance Policy, offers guidelines for the principles of responsibility and helps identify any conflicts of interest and includes principles for managing any conflicts of interest. The whole of MuniFin staff participates in Responsibility Policy training and is expected to pass a web-based test on the policy annually.

The Board of Directors of MuniFin 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.

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

Responsible business conduct is one of MuniFin's values and therefore its operations must be socially, economically and environmentally sustainable.

Board of Directors

Helena Walldén, b. 1953
Chair
member of the Board of Directors since 2016
Education: M.Sc. (Eng.)
Primary occupation: Board professional
Other material positions of trust: -
Independence: independent of the company and its significant shareholders
Previous key work history and positions of trust: Long and diverse experience of tasks at a large banking corporation (OP Pohjola, 1976-2008, out of which 14 years in executive board and management team positions) and Board work at several companies (e.g. Fingrid Oyj, Oy Alko Ab, Apetit Oyj) prior to joining MuniFin.

Tuula Saxholm, b. 1961
Vice chair
member of the Board of Directors since 2013
Education: M.Sc. (Econ.)
Primary occupation: Finance Director, City of Helsinki
Other material positions of trust: Helsinki Metropolia University of Applied Sciences Oy, 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; City of Helsinki's Department of Financial Management Services, chair of the Executive Management; Pääkaupunkiseudun junakalusto Oy, Chair of the Board of Directors; HYKSin kliiniset palvelut Oy, member of the Board of Directors
Independence: not independent of the company and its significant shareholders (employed by a significant shareholder and customer)
Previous key work history and positions of trust: Long and diverse experience of the administration of a large city in various positions (City of Helsinki, 1991-), including a significant amount of Board experience in a variety of public sector-owned companies.

Maaria Eriksson, b. 1967
member of the Board of Directors since 2019
Education: M.Sc. (Econ.), CEFA
Primary occupation: Deputy CIO, Head of External Income, Keva
Other material positions of trust: member of the Advisory Committee for Investments of the University of Oulu; Kannelmäki school, chair of the Board of Directors
Independence: independent of the company, not independent of its significant shareholders (employed by a significant shareholder)
Previous key work history and positions of trust: Long and diverse experience in capital market tasks at Keva, Finland's largest occupational pension insurance company (since 1998) and before that as portfolio manager and economist in the banking sector (Merita 1996-1998) and as an economist at the Bank of Finland (1994-1996).

Raija-Leena Hankonen, b. 1960
member of the Board of Directors since 2019
Education: M.Sc. (Econ.), APA
Primary occupation: Board professional
Other material positions of trust: Brigadeiro Holding Oy, member of the Board of Directors; Helsinki Deaconess Institute Foundation sr, member of the Board of Directors; Jalmari and Rauha Ahokas Foundation, chair of the Administrative Board; Savonlinna Opera Festival Ltd, member of the Board of Directors; Savonlinna Opera Festival Patrons' Association, member of the Board of Directors
Independence: independent of significant shareholders, not independent of the company (employed by the company's audit firm in recent years)
Previous key work history and positions of trust: Long and diverse experience of auditing and advisory services especially in the large companies and financial sector (KPMG, 1987-2019). Has also acted as the CEO and the Chair of the Board of Directors of KPMG Finland.

Under the Articles of Association, the Board of Directors has a minimum of five and a maximum of nine members. The Annual General Meeting elects the members of the Board and each member's term of office will terminate when the Annual General Meeting following their election concludes. In accordance with the Shareholders' proposal of the Shareholders' Nomination Committee, the 2019 Annual General Meeting elected the members to the Board of Directors for the 2019–2020 term (from the end of the AGM to the end of the next AGM).

Board of Directors

Minna Helppi, b. 1967
member of the Board of Directors since 2017
Education: M.Sc. (Econ.)
Primary occupation: SVP Group Treasurer, Metso Corporation
Other material positions of trust: Metso Lithuania UAB, member of the Board of Directors; Rauma Oy, chair of the Board of Directors
Independence: independent of the company and its significant shareholders
Previous key work history and positions of trust: Long and diverse experience as a senior executive at listed companies and in corporate finance activities (Uponor and Andritz, 2004-2012) and before that in the banking sector (Nordea 1989-2004) in positions involving project financing, for instance.

Markku Koponen, b. 1957
member of the Board of Directors since 2018
Education: Master of Laws (LL.M.), trained on the bench, EMBA
Primary occupation: Board professional
Other material positions of trust: -
Independence: independent of the company and its significant shareholders
Previous key work history and positions of trust: Long and diverse experience of various tasks at one of the largest banking groups in Finland, particularly communications, legal affairs and banking regulation (OP Pohjola, 1985-2017 out of which over 20 years in executive board and board of directors duties).

Jari Koskinen, b. 1960
member of the Board of Directors since 2017
Education: M.A. (Pol. Sci.)
Primary occupation: Independent consultant, Rapidaile Oy
Other material positions of trust: Suomen Puukerrostalot Oy, member of the Board of Directors
Independence: independent of the company and its significant shareholders
Previous key work history and positions of trust: Long experience in the Finnish Government and public sector as the Minister of Agriculture and Forestry (2011-2014, 2002-2003) and as a Member of Parliament (1996-2009). Experience of international finance at the European Bank for Reconstruction and Development (2009-2011). The CEO of the Association of Finnish Local and Regional Authorities 2015-2019.

Kari Laukkanen, b. 1964
member of the Board of Directors since 2018
Education: M.Sc. (Econ.)
Primary occupation: Board professional and financial consultant (Lauvest Oy)
Other material positions of trust: Bankify Oy, member of the Board of Directors; Emittor Oy, chair of the Board of Directors; Junior Achievement Finland, member of the Board of Directors
Independence: independent of the company and its significant shareholders
Previous key work history and positions of trust: Long and diverse international banking experience in various positions at a global banking group (Citigroup, 1990-2016, last 13 years Managing Director, Citi Country Officer of the Finnish branch).

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 material positions of trust: LocalTapiola Lappi Mutual Insurance Company, member of the Board of Directors
Independence: independent of the company and its significant shareholders
Previous key work history and positions of trust: Long and diverse experience of auditing in the public sector and at listed companies (1990-2001 and 2011-2015) as well as a city finance director (2001-2011).

Executive Management Team

Esa Kallio, b. 1963
President and CEO
Employed by MuniFin since 2005
Education: M.Sc. (Econ.)

Mari Tyster, b. 1975
Executive Vice President, Legal and Governance,
Deputy to the CEO
Employed by MuniFin since 2009
Education: Master of Laws

Under the Articles of Association, the company has a CEO and a Deputy to the CEO appointed by the Board of Directors. The CEO's duty is to manage the company's operations in order to implement the resolutions made by the Board of Directors and maintain the company's operations in line with the strategy, risk management principles and limits set by the Board of Directors. Supported by the 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.

Executive Management Team

Aku Dunderfelt, b. 1975
Executive Vice President, Customer Finance
Employed by MuniFin since 2019
Education: BBA

Toni Heikkilä, b. 1965
Executive Vice President, CRO, Risk Management
Employed by MuniFin since 1997
Education: Lic.Sc. (Econ.), M.Sc. (Finance)

Rainer Holm, b. 1973
Executive Vice President, Business Information Solutions
Employed by MuniFin since 2016
Education: M.Sc. (Econ.)

Joakim Holmström, b. 1977
Executive Vice President, Capital Markets
Employed by MuniFin since 2008
Education: M.Sc. (Econ.)

Harri Luhtala, b. 1965
Executive Vice President, CFO, Finance
Employed by MuniFin since 2019
Education: M.Sc. (Econ.)

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 MuniFin Group employed 167 people, of whom 156 worked for the parent company. The Group's turnover was EUR 718 million and the profit before tax EUR 131 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)	**2019**	**2018**
Income tax	2,060	5,491
Employer's social security contributions	2,772	2,690
Stability fee to the EU crisis resolution fund	4,328	4,977
Total	**9,160**	**13,158**

Taxes to be remitted (EUR 1,000)	**2019**	**2018**
Withholding taxes	4,721	4,565
Employee's social security contributions	1,206	1,120
Total	**5,927**	**5,685**

Responsibility

MuniFin

Responsibility is in the core of MuniFin's operations

The projects MuniFin finances maintain and develop the Finnish welfare society.

The financing provided by MuniFin helps keep the Finnish welfare society running, all the way from housing solutions to public infrastructure. The company's operations affect the lives of almost all Finns – and thus responsibility plays a particularly major role in MuniFin's operations and organisation.

MuniFin is committed to building a better future together with its customers in a responsible way. The company's mission is to ensure the availability of financing to its customers in all market conditions. A key aspect of responsibility is to also ensure that the financing alternatives offered to customers are sustainable, taking into account the overall situation and economic capacity of each customer.

Due to its business model, shareholders, and customer base, MuniFin only provides financing in the domestic market. MuniFin is an efficient, flexible, and committed partner for the municipal sector and state-subsidised housing production.

The company is the largest financier in its customer segments in Finland.

MuniFin offers services and solutions that meet its customers' existing and future financing and financial management needs. The main products are loan and lease financing.

The company is committed to a customer-focused operating model: it does not seek to increase the financing needs of customers to grow the volume of its own operations. On the contrary, MuniFin strives to create positive long-term effects in society by actively working with its customers to find financing solutions and investment methods that best fit each customer.

MuniFin's business model is based on the zero risk level of municipalities in bank capital adequacy regulations and the Finnish public sector's solid credit rating. The company acquires funding through bond issues within international capital markets. The company's funding is guaranteed by the Municipal Guarantee Board.

MuniFin’s value creation model

Resources

- Skilled and motivated employees
- Strong financial status
- Committed customers and stakeholders
- Global investor base
- Common funding system
- Strong credit rating
- Partnerships

MuniFin

- Responsibility
- Transparency
- Customer-focus
- Efficiency
- Risk management
- Specialisation in own client segment
- Inputs to develop personnel’s know-how and wellbeing
- Business is not based on profit maximisation but offering the best service for customers

Impacts

- Happy customers
- Competitiveness and availability of finance
- Solvency
- Growth of wellbeing in the society
- Equal opportunities for good life
- Ensuring the sustainability of municipalities’ investments
- Healthy, motivated and skilled personnel

Key principles for corporate social responsibility at MuniFin

MuniFin assesses the focus areas and goals of responsibility in line with the framework of the UN's Sustainable Development Goals. Through its work, the company in one way or another promotes the achievement of nearly all of the Sustainable Development Goals set by the UN.

As part of its responsibility strategy, MuniFin has defined four key principles for the corporate social responsibility of its operations. The most significant UN Sustainable Development Goal (SDG) has been set for each key principle, along with other sustainable development goals that the company can substantially influence. In addition, one longer-term company-level goal has been set for each key principle.

Background of the responsibility strategy
The key principles are based on a materiality analysis carried out in 2016. As part of this analysis, the key principles for corporate social responsibility and the related goals were defined in workshops in which all the company's staff were invited to participate. The importance of the key principles from the stakeholder perspective was verified through surveys and interviews with customers, investors, and influencers in society.

In 2017, responsibility was designated as part of company-level strategy, and in 2018, responsibility was defined as one of MuniFin's three values. The core areas of responsibility and the Responsibility Policy based on them have been approved by the company's Board of Directors. The indicators of each key principle are reported to stakeholders on an annual basis.

Key principles for responsibility and the UN Sustainable Development Goals

MuniFin

Key principle 1: Responsible products and services

The targets financed by MuniFin have a wide-ranging impact on Finnish society. Social responsibility is emphasised in MuniFin's operations because the projects financed by MuniFin aim to maintain and improve the Finnish welfare society in the long run. Examples of socially responsible projects include schools, daycare centres, the production of housing for special groups, affordable rental housing, cultural and sports premises, hospitals and healthcare centres.

In addition to social responsibility, responsibility at MuniFin also emphasises an environmental perspective. MuniFin offers green finance for environmental investments.

Responsibility in lending also means taking the overall financial situation of the customer and the long-term profitability of the planned investments into account when granting financing.

KEY PRINCIPLES AND GOALS	INDICATORS
Financing long-term wellbeing and MuniFin's role in the society Goal: Increasing the positive social impact of MuniFin	• Breakdown of non-profit housing • Financing for state-subsidised housing production • Breakdown of housing for special groups
Enhancing expertise Goal: Launching new products and services with respect to customer needs and securing balance in customer's finances	• Training sessions and seminars • Cooperation with universities and education institutions • Number of people using MuniFin's digital services
Responsible business operations Goal: Ensuring financing for customers	• Responsibility in lending • Funding by investor type

GOAL 2022

Customer satisfaction "very good"

Finance for maintaining the Finnish welfare society in the long run and MuniFin's role in society

MuniFin offers loan and lease financing to municipalities, municipally owned corporations, municipal federations, and state-subsidised housing production. The financing can therefore be considered to be fully directed at building the Finnish welfare society.

MuniFin's services finance a variety of municipal vitality projects, hospitals, healthcare centres, libraries, schools, swimming halls, cultural and sports facilities, and municipal infrastructure, such as roads, streets, parks, illumination, and waste and water management.

MuniFin is committed to understanding and managing the social and environmental impact of its operations, as well as those relating to the services and products that it offers, in order to contribute to the achievement of the Finnish welfare society's long-term goals.

Financing for state-subsidised housing production

Almost half of MuniFin's lending portfolio comprises financing for state-subsidised housing production, which consists of reasonably priced rental and right-of-occupancy housing and housing for special groups.

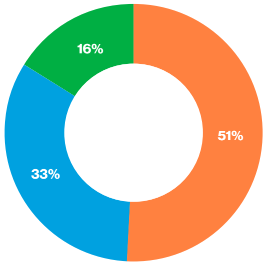
The criteria for selecting the occupants of affordably-priced state-subsidised rental and right-of-occupancy housing are the applicant's need for a home, income level, and personal net worth. The rental and right-of-occupancy apartments financed by MuniFin are therefore especially intended for applicants who are in urgent need of a home and have a low net worth and income level. In 2019, the total amount of financing granted for new residential buildings eligible for an interest subsidy loan was approximately EUR 986 million.

In addition to affordable rental and right-of-occupancy housing, MuniFin offers financing for the production of housing intended for special groups. This financing provides housing for students, young people, the disabled, the elderly and those in mental health and substance abuse rehabilitation. In 2019, MuniFin provided a total of about EUR 162 million in financing for new housing for people with special needs, enabling the construction of homes for hundreds of people.

Care and service homes for special groups also create jobs. In other words, MuniFin's financing for state-subsidised housing not only creates jobs in construction, but also has indirect, long-term effects on employment. In addition, state-subsidised housing production reduces social inequality and increases wellbeing. For example, financing of housing for people with special needs is used to build solutions that are tailored for their needs. The projects emphasise community and enable many people to live good lives.

MuniFin

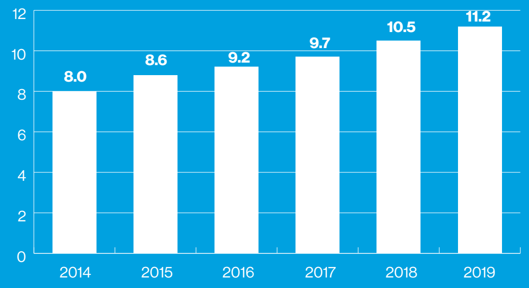
Breakdown of non-profit housing 2019



- state-subsidised rental
- right-of-occupancy housing
- housing for special groups

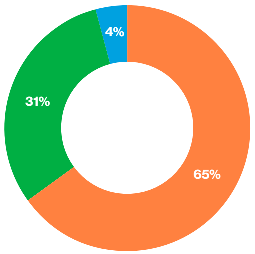
Breakdown of social housing, tenders won in 2019. New buildings.

Financing for state-subsidised housing production



EUR billion, based on the figures from the balance sheet.

Breakdown of housing for special groups 2019



- students
- elderly people
- people with disabilities

Breakdown of social housing for special groups, tenders won in 2019. New buildings.

Enhancing expertise
MuniFin's aim is to be the best possible financing expert in its customer segments in an ever-changing world. The company enhances expertise in both its own organisation and surrounding society through a variety of partnerships.

Customers are the most important partners. The company seeks to achieve a rating of "very good" in its customer satisfaction survey by 2022. Customer satisfaction is measured using an index compiled from several indicators and performance in its achievement is monitored annually.

MuniFin's operations are aimed at enhancing financial expertise relating to public finances, as well as specialising in municipal sector and government-subsidised housing production investments within the business sectors of its customers. The company works closely with, for example governmental agencies, ministries, and municipal networks. Cooperation is a significant way of gaining and disseminating new insights and solutions for business and the challenges encountered by MuniFin customers.

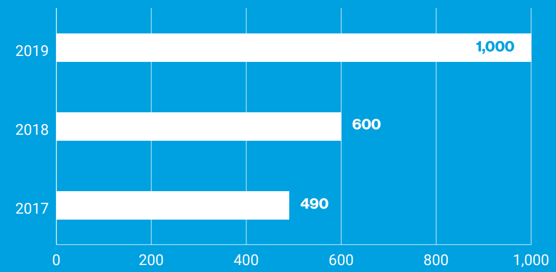
In 2018, together with its partners representing the Finnish municipal sector, MuniFin started the Klash challenge competition, which seeks new, replicable solutions for societal challenges. The challenge competition ended at the beginning of 2020. The dissemination of the winning solutions in the Finnish municipal sector is being assessed with their developers.

With green finance, MuniFin proactively promotes the development of environmentally sustainable solutions that mitigate climate change. To this end, the company is – together with more than 70 municipalities aiming at carbon neutrality – a member of the Hinku Network, coordinated by the Finnish Environment Institute. MuniFin also cooperates with several other networks and environmental agencies and non-profits.

A key means of boosting expertise suitable for customers' needs is to further bolster expertise in the total management of financing and finances. MuniFin offers its customers a comprehensive range of digital services for finance and financing management. These include a wide range of modelling, reporting and forecasting functions, which facilitate balancing municipal finances and provide a comprehensive and analytical overview of the financial situation and future of customers.

MuniFin's digital services facilitate balancing municipal finances and provide a comprehensive and analytical overview of the financial situation and future of customers.

Number of people using MuniFin's digital services



MuniFin

Cooperation with universities and education institutions

MuniFin cooperates with universities and higher education institutions in order to generate more expertise in public finances, financing and social and wellbeing issues in Finland.

MuniFin is one of the donors to the professorship for urban economics established at Aalto University in 2018.

In 2019, MuniFin started up cooperation with the University of Helsinki with a view to finding solutions to current societal changes and challenges. Students completing the cross-disciplinary Master Class study module developed solutions for four challenges faced by the welfare society.

Supporting the financial skills of young people is an important aspect of MuniFin's social responsibility. MuniFin supports the Yrityskylä activities of Young Business Generations (TAT). Yrityskylä is a learning environment in which school children learn practical skills about working life, the economy and society. Developed in Finland, it has won an award as the best learning innovation in the world. In addition to providing financial support, MuniFin employees have been able to volunteer as counsellors at Yrityskylä.

In 2019, MuniFin also became Junior Achievement Finland's main partner. With the support of MuniFin, Junior Achievement Finland developed a module on identifying your own strengths for an online learning environment designed for ninth-graders. As part of this cooperation, MuniFin also has its own signature award category in Junior Achievement Finland's national entrepreneurship competition. MuniFin's President and CEO Esa Kallio has also been able to spar different aspects of his work with young talents participating the organisation's entrepreneurship programme in the JA Finland's Job Shadow campaign.

Supporting the financial skills of young people is an important aspect of MuniFin's social responsibility.

Training sessions and seminars

MuniFin and its subsidiary Inspira have substantial expertise in Finnish municipal finances and investments. Each year, MuniFin and Inspira organise seminars and events targeted at municipal managers, experts in municipal construction and the environment, and university students. In addition, representatives of the company's personnel appear as speakers or trainers at events organised by other parties. The most important events in which MuniFin participated as an exhibitor and organiser in 2019 were the Finance and Financing Forum of the Association of Finnish Local and Regional Authorities and the Kuntamarkkinat municipal fair.

Responsible business

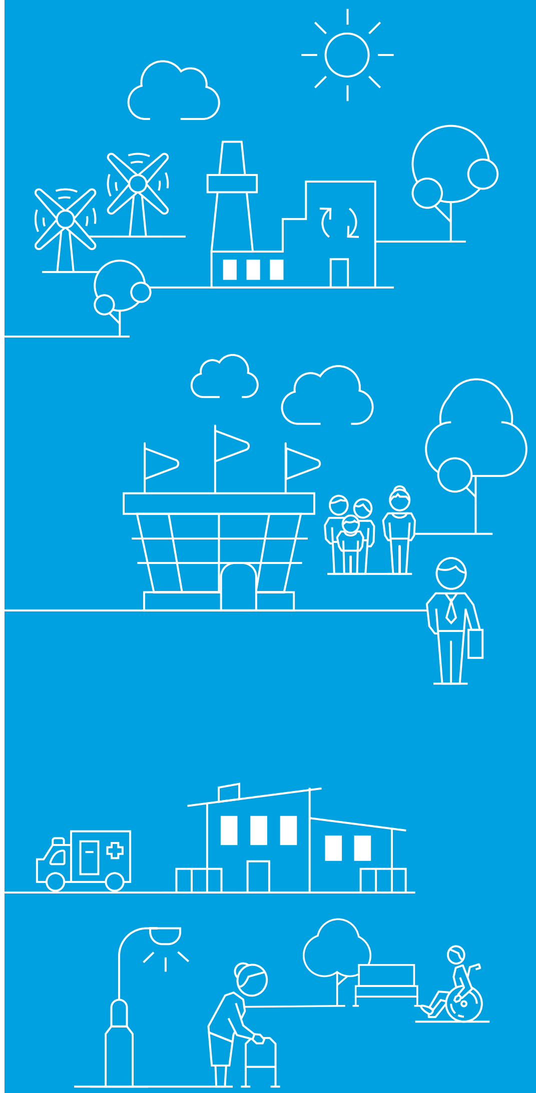
MuniFin's financing develops Finnish society, but the company acquires funding globally. To MuniFin, sustainability also means that it must be able to ensure the availability of financing for its customers under all market conditions.

MuniFin ensures the availability of financing by diversifying its funding effectively across different markets, currencies, maturities, and investor groups as well as by maintaining a liquidity buffer in order to secure business continuity in the event of any market disruptions. In funding and liquidity management, the company only works with preapproved counterparties. The counterparties must comply not only with banking regulation, but also with MuniFin's own ethical requirements. For example, in its funding arrangements, MuniFin does not accept underlying instruments directly related to fossil fuel production, the military industry or the tobacco industry.

In 2019, MuniFin continued to develop its loan granting process and business systems. Responsible financing includes a thorough assessment of the profitability of investments and comprehensive insight into the customer's situation in a changing world. In addition, constantly evolving bank regulation requires financiers to have an even better view of the customers' situation and the risks of the financed projects.

MuniFin assesses the customer's situation on the basis of customer information sources and analytics, but the final assessment is done together with the customer. Discussions and mappings relating to financing and the financial situation provide valuable insights to both parties.

Figures related to funding are available on page 21 of Annual Report.



Master Class was a celebration of cooperation

Arranged jointly by MuniFin and the University of Helsinki, the Master Class course combines an interdisciplinary, pragmatic, problem-solving, and authentic approach to tackling challenges in society. Representing a range of fields and major subjects, the teams of students who participated in the course developed their own concrete solutions to the real challenges faced by the diverse Finnish municipalities, varying in size and population development. In the teams' solutions, themes such as communality, interaction, inclusion, leveraging data, sustainable development, and digital services emerged.

According to students, it was precisely the interdisciplinary nature of the course that led to a wide variety of approaches to problem-solving and gave them confidence about the scope of their expertise. The course culminated in the Final Pitch event held in March, where the student teams presented their solutions to a judging panel.

The eventual winner was the Thinking about Wellbeing team, which developed a model for measuring the impact investments make on our wellbeing. The team focused on preventing social exclusion among young people. The winning team's solution was based on a concrete visual model and drew upon a diverse range of theories about the welfare impact of investments.

Key principle 2: Forerunner in sustainability

The UN's Sustainable Development Goals (SDG) guide Finland and other countries to promote sustainable development.

In the promotion of sustainable development, MuniFin has focused particularly on achieving climate goals. The municipal sector and housing construction play a key role in Finland's climate goals. With green finance, MuniFin can significantly accelerate the uptake of large-scale, environmentally sustainable investments.

MuniFin actively participates in discussions on achieving climate and sustainable development targets with different institutions and seeks to forge partnerships to come up with solutions to these global issues. In 2019, the company became a partner of the Climate Bonds Initiative network.

The company also takes environmental responsibility into consideration in its own operations by committing to continuously reducing the negative environmental impacts of its operations.

Through green finance MuniFin guides its customers towards more resource-conscious and sustainable investments and helps them realise their own climate strategies and reach national climate objectives. The green finance granting process has increased the company's own expertise in evaluating climate-related risks which makes it easier to implement climate-related risk analysis in the overall granting policy in the coming years. MuniFin is actively developing its ability to better understand and evaluate the climate-related risks in its portfolio. This investigation is to take physical, technological and regulatory risks into account.

KEY PRINCIPLES AND GOALS	INDICATORS
Green finance Goal: Share of green finance from total lending 10% by 2022	• Green portfolio • Amount of green projects • Share of green finance from total lending and leasing portfolio • CO_2 emissions avoided in green projects • Energy savings in green projects • Pilot projects and green innovations
Green bonds and socially responsible investments (SRI) Goal: Increasing the amount of socially responsible investors and investments (SRI)	• New green bond issued • Green bonds, total and breakdown • Green bonds investors, geographical location • Socially responsible investments (SRI), total • ESG score of investment portfolio vs. benchmark
Environmental impact of MuniFin's own operations Goal: Constant mitigation of the impact of MuniFin's own operations on the environment	• Energy consumption at MuniFin • Use of office paper at MuniFin

GOAL 2022

Green finance accounts for 10% of the financing portfolio

Green finance

MuniFin launched green finance back in 2016. Over a four-year period, the company has financed a total of about a hundred environmentally friendly projects with EUR 1.474 billion, of which EUR 1.236 billion has been disbursed. MuniFin's objective is that by 2022 green finance will account for 10% of the total financing portfolio.

The projects eligible for green finance can be included in any of the Green Framework's categories, which are renewable energy, sustainable public transportation, sustainable buildings, water and wastewater management, energy efficiency, and waste management, as well as environmental management. The eligibility of projects is decided by an independent evaluation team of environmental experts. A margin discount can be granted to green projects. The amount of the discount depends on the scope of the environmental impacts of the project.

The impacts of green finance are reported on annually in a separate report. The calculations are performed by an independent expert. MuniFin also participates in Nordic cooperation in which recommendations have been drafted for green finance impact reporting. Recommendations have been updated and tightened as the market has evolved.

MuniFin Green Bonds Impact Report is published annually on the same date as MuniFin Annual Report.

Share of green finance from total lending and leasing portfolio

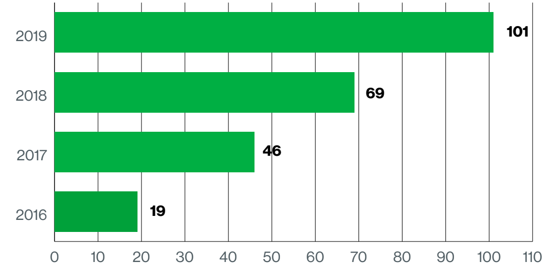
5.2%

Green portfolio total disbursed financing

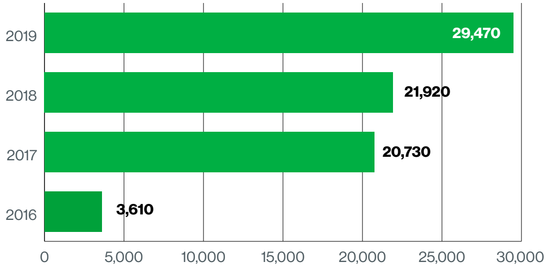
1.263

EUR billion

Cumulative amount of green projects

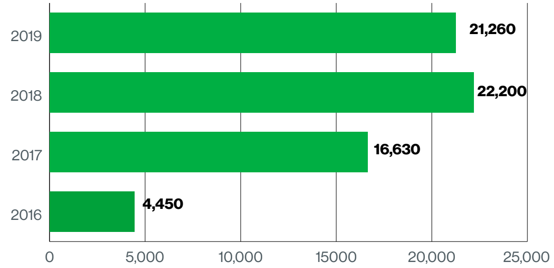


CO_2 emissions avoided in green projects



Annually (tCO_2), cumulative

Energy savings in green projects



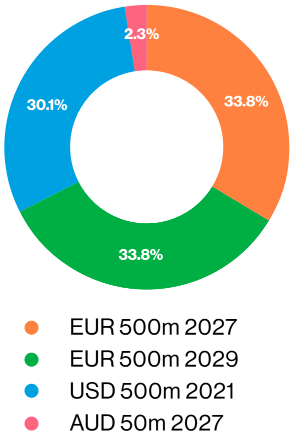
Annually (MWh), cumulative

Figures based on disbursed amounts, 31 December 2019

Green bonds

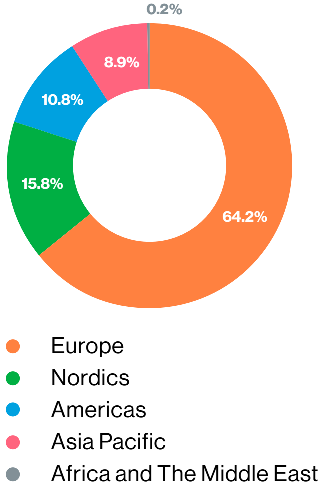
MuniFin's green finance portfolio is financed entirely with green bonds, that is, bonds allocated for financing environmental investments. MuniFin issued its first green bond in 2016. It was also the first green bond in Finland. At the end of 2019, the total amount of green bonds was EUR 1.478 billion. MuniFin's green bonds are listed in the Sustainable Bond Market on Nasdaq Helsinki.

Total amount of green bonds



Currencies in euros.

Green bonds investors geographical location



Green bonds cumulative breakdown 2016–2019

MuniFin issued its first green bond in 2016. It was also the first green bond in Finland. At the end of 2019, the total amount of green bonds was EUR 1.478 billion.

A separate Green Bonds Impact Report highlighting the green projects and their impacts is published each year.

Responsible investing

Responsible investing is an intrinsic value at MuniFin. Investments are only made in issuers from OECD countries. This enables maintaining both economic and sustainable stability of the investments. In addition, the investment process accounts for Environmental, Social and Governance (ESG) factors. The average ESG figures of all investments are compared to a benchmark index using an asset class breakdown corresponding to the company's liquidity investments.

The ESG analysis of issuers is carried out by an external operator. At the end of 2019, MuniFin's liquidity investments had an ESG average of 53.0, which is over the benchmark index (50.6).

MuniFin also has a separate SRI portfolio (socially responsible investments), whose target size is linked to the total number of green bonds issued by the company. SRI investments can be made in green, social or other bonds that fulfil MuniFin's criteria for such investments. In addition, the company evaluates the issuer framework that specifies the objects of financing and obtains an opinion on the framework from a reliable third party. The responsible investment portfolio amounted to a total of EUR 150 million at the end of 2019.

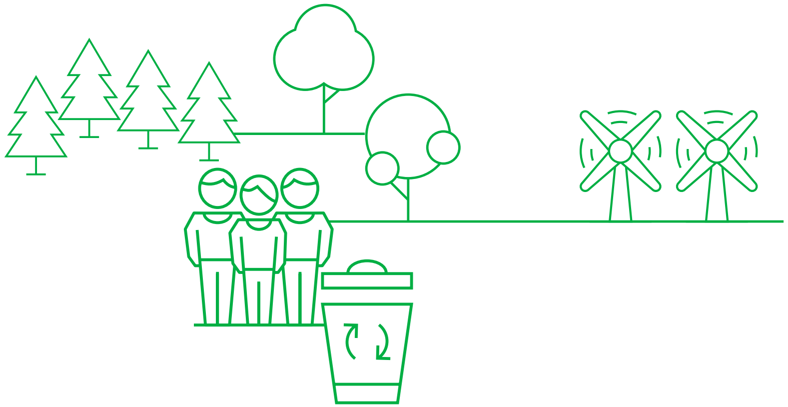
Responsible investing is an intrinsic value at MuniFin. The investment process accounts for Environmental, Social and Governance (ESG) factors.

Environmental impact of MuniFin's own operations

MuniFin is aware of its corporate responsibility with respect to environmental issues and thus seeks to prioritise environmentally friendly and resource-wise choices in its own operations and to raise the environmental awareness of its employees.

MuniFin has a Green Office certificate audited by WWF. Green Offices are expected to take environmental issues into broad consideration in their business premises, decision-making and operations. Green Offices also commit to continuously improving the environmental responsibility of their operations.

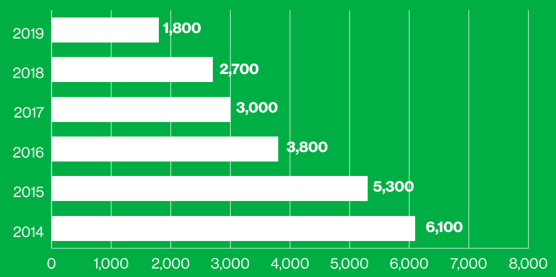
MuniFin annually reports to the Green Office systems on, for instance, its energy and paper consumption as well as the amount of waste produced, which MuniFin seeks to reduce. The company also makes outlays on raising the environmental awareness of personnel. MuniFin compensates for the air transport emissions of its employees and carbon dioxide emissions from large customer events that it organises.



Energy consumption at MuniFin

tCO_2, source: the WWF Climate Calculator

Use of office paper at MuniFin



sheets/worker, source: the WWF Climate Calculator

Key principle 3: Developing wellbeing at work

Personnel wellbeing and job satisfaction comprise an important success factor and MuniFin invests extensively in them. MuniFin's staff feel that their work is meaningful and socially important.

The company pays particular attention to the wellbeing of its employees, their job satisfaction, and offering equal opportunities to everyone at the workplace. MuniFin provides extensive healthcare services, good training opportunities, commuting benefits and recreational benefits as well as organises joint leisure-time activities.

Developing occupational wellbeing and job satisfaction is an essential goal for the company to ensure that its skilled employees feel that their work is meaningful. The company seeks a personnel satisfaction rating of "very good" by 2022. Personnel satisfaction is measured based on an anonymous survey conducted by an independent research company. Each year a development plan is made based on the results.

The realisation of equality is measured annually at MuniFin in an anonymous employee survey. The evaluation is based on four questions that cover equal treatment in relation to age, origin, gender and sexual orientation.

KEY PRINCIPLES AND GOALS	INDICATORS
Diversity and equal opportunities Goal: Increasing diversity and equal opportunities	• Breakdown of employees by gender • Breakdown of managerial staff by gender • Breakdown of Board of Directors by gender • Breakdown of employees by age group • Equal treatment of employees
Employee wellbeing Goal: Promoting wellbeing at work and job satisfaction	• Level of dedication • Supporting professional development • Employee turnover • Amount of sick leave • Performance appraisal

GOAL 2022

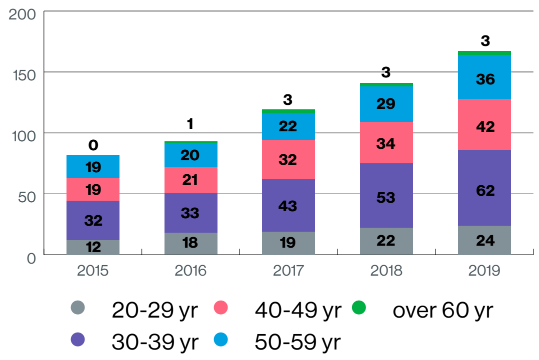
***Job satisfaction "very good"**

Diversity and equal opportunities

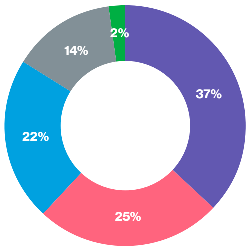
Diversity and offering equal opportunities to everyone at the workplace are important elements of MuniFin's corporate culture. The gender distribution of employees, managerial staff and the Board of Directors at MuniFin is very equal. On the Executive Management Team, men have a clear majority.

The age distribution of personnel is also very even. This indicates that MuniFin treats its employees equally, which is also evident in the company's personnel surveys. It is important for the company that employees experience it as an equal employer.

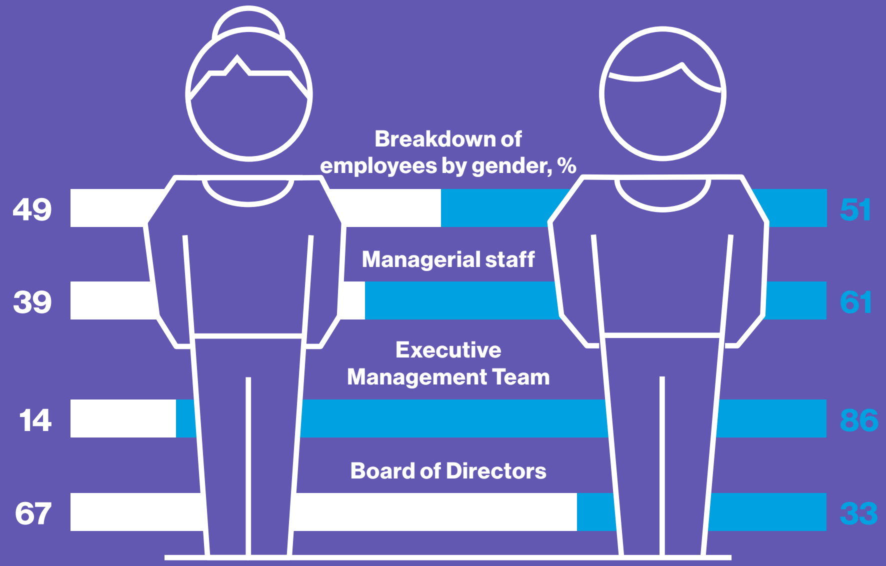
Breakdown of employees by age group and amount of people



Breakdown of employees by age group in 2019



2019



Equal treatment of employees 0-4

3.7

Average score for five questions measuring equal treatment on a scale of 1 to 4 (poor–good)

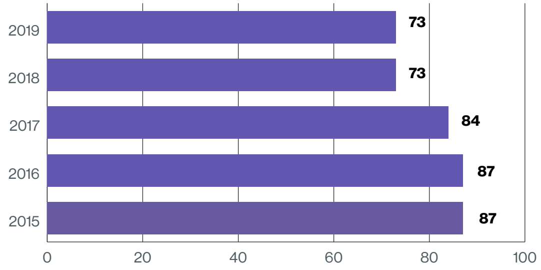
Employee wellbeing

The competence and job satisfaction of employees are key factors for ensuring MuniFin's success. Work tasks are versatile, and accountability and continuous professional development are required to perform them. The company therefore offers plenty of opportunities to participate in training, and supports the employees' ability to cope with their tasks and to find an appropriate work–life balance.

MuniFin invests in employee wellbeing in many ways. The company aims at supporting the wellbeing of employees and preventingto work-related stress and excessive workload. To this end, the company offers for example leisure-time activities for employees, in which MuniFin organises free sports, cultural and other leisure-time activities each year. Additionally, the company offers comprehensive benefits for its personnel.

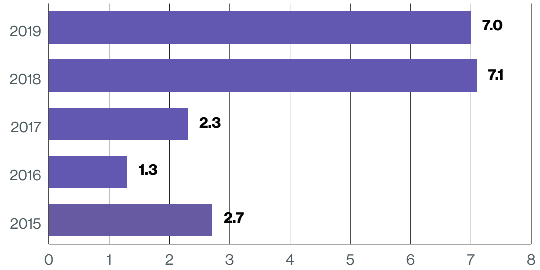
The company's number of personnel grew rapidly in the 2010s. As the number of employees has grown, so has turnover.

Supporting professional development



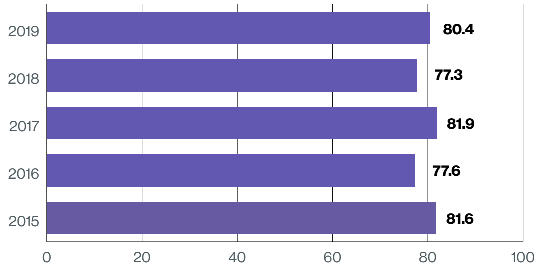
Positive answers to the question "My employer supports my professional development", %

Employee turnover



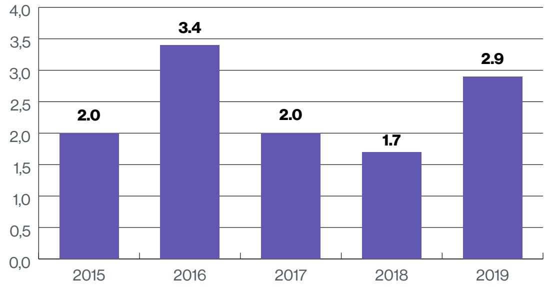
Turnover of employees with permanent contract in relation with number of employees on 31 December the previous year, %

Level of dedication



Scale 0 to 100

Amount of sick leave



Sick leaves, % / working hours

MuniFin and Junior Achievement Finland work together to prevent social exclusion among young people

MuniFin's commitment to socially important cooperation was further advanced in celebration of the company's 30th anniversary through its new key partnership with Junior Achievement Finland. Junior Achievement Finland (JA Finland) is a non-profit organisation that supports entrepreneurship education aimed at helping children and young people identify and make the most of their abilities through learning by doing. The NGO is part of the global Junior Achievement network.

MuniFin's support has enabled the development of the JA Company Program portal, an online learning environment that helps young people identify their strengths and interests. The portal content is specifically geared toward ninth graders coming to the end of their comprehensive education. In addition to the educational material, the cooperation also involves MuniFin granting a signature award in JA Finland's Uskalla Yrittää final to be held in Spring 2020.

JA Finland programs were used by 35% of Finnish schools and educational institutions in 2018–2019. The young people benefiting from these programmes come from all across Finland – from Hanko to Ivalo. The programs are carried out as a part of the schools' own curriculum and help them develop an entrepreneurial attitude, working life competencies, and financial literature.

The cooperation with JA Finland provides MuniFin with a new vehicle for promoting its cause across the country and draws upon a range of networks and experts. Helping young people develop their financial expertise is an important aspect of the socially responsible work MuniFin carries out.

MuniFin

Key principle 4: Strong corporate governance

The commitment in strong corporate government is emphasised in MuniFin's key values and strategy, and implemented in all its operations.

In addition to social and environmental responsibility, corporate responsibility includes responsible governance. The operations of the Municipality Finance Group and its personnel are guided by its Responsibility Policy.

Strong corporate governance also includes the company's HR policy. In the terms and conditions of employment, MuniFin complies with Finnish legislation and the collective agreement for the financial sector (TES). The key Finnish legislation governing the employment relationship are the Occupational Safety and Health Act, Collective Agreements Act, Working Hours Act, Annual Holidays Act, Act on Equality between Women and Men, Non-discrimination Act, Act on Co-operation within Undertakings, Occupational Health Care Act, Employment Accidents Insurance Act, Act on the Protection of Privacy in Working Life, Employees Pensions Act and Young Workers' Act.

KEY PRINCIPLES AND GOALS	INDICATORS
Business ethics and Responsibility Policy Goal: Developing responsible practices and ensuring the employees' commitment to complying with the Responsibility Policy	• Responsibility Policy • Staff training • Violations of regulations • Memberships of associations and national interest organisations

GOAL

100% of employees complete the Responsibility Policy annually

Responsibility Policy

The operations of the Municipality Finance Group are guided by its Responsibility Policy. This policy aims to ensure responsibility in all operations and reduce the risks to which MuniFin 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.

The Responsibility Policy includes general guidelines for work with a special focus on high-risk issues such as anti-corruption and information security.

MuniFin's website includes a whistle-blowing channel that can be used to report any suspicions of misconduct, including anonymously, if necessary.

Corporate governance training for staff

Every new MuniFin employee is provided with orientation on the company's Responsibility Policy and demonstrates that they have understood it by completing an online test. In addition, all employees must complete an annual online test on responsibility topics.

At the beginning of their employment, each new employee participates in multi-day induction covering all the operations of the company, including compliance and the Responsibility Policy.

All employees must complete an annual online test on responsibility topics.

No violations of regulations

There have been no material regulatory violations at MuniFin during all its years in operation that would have led to official sanctions.

The compliance function oversees the company's compliance with regulation based on an annual control plan. Any significant contraventions of regulations are reported on a monthly basis to the management and Board of Directors as part of the reporting on the company's risk position. The reporting practice in its current form has been part of MuniFin's risk appetite framework since 2016.

Commitments and memberships of associations and national interest organisations

At the core of MuniFin's competence is knowing the operating environment, having market expertise, understanding the expectations of customers and stakeholders, and understanding that regulations change. MuniFin's memberships of associations are mainly related to developing and securing competence and information sharing.

MuniFin is committed to accelerating the wider use of sustainable and environmentally friendly investments through the Commitment 2050 social responsibility pledge. The Commitment 2050 – or Sitoumus 2050 – is an initiative of the Finnish Prime Minister's Office, aiming to fulfill the national sustainable development goals.

Memberships of associations, networks and national interest organisations:

- Carbon Neutral Municipalities network (Hinku)
- Climate Bonds Initiative
- European Association of Public Banks
- FIBS Pro sustainable business network
- Finsif – Finland's Sustainable Investment Forum
- International Swaps and Derivatives Association ISDA
- International Capital Market Association ICMA
- Nordic Capital Markets Forum

Commitment 2050:

MuniFin promotes the emergence of a carbon neutral society and greater use of environmentally sustainable investments all around Finland. MuniFin steers its customers to make environmentally friendly choices by offering more affordable financing for these options. We accelerate the creation of sustainable projects by sharing information, assessing the environmental impacts of projects and providing visibility.

KEY PRINCIPLES	SDG	GOALS	PERFORMANCE AND DIRECTION OF CHANGE
Responsible products and services	11 SUSTAINABLE CITIES AND COMMUNITIES	**GOAL 2022: Customer satisfaction "very good"** • Increasing the positive social impact of MuniFin • Launching new products and services with respect to customer needs and securing balance in customer's finances • Ensuring financing for customers	• GOAL 2022: Customer satisfaction • Breakdown of non-profit housing • Financing for state-subsidised housing production • Breakdown of social housing for special groups • Cooperation with universities and education institutions • Number of people using MuniFin's digital services
Forerunner in sustainability	13 CLIMATE ACTION	**GOAL 2022: Green finance accounts for 10% of the financing portfolio** • Increasing the amount of socially responsible investors and investments (SRI) • Constant mitigation of the impact of MuniFin's own operations on the environment	• GOAL 2022: Share of green finance from total lending and leasing portfolio • Green portfolio • Amount of green projects • Green projects CO_2 emissions avoided • Green projects energy savings • New green bond issued • Socially responsible investments (SRI) total • ESG score of investment portfolio vs. benchmark • Energy consumption at MuniFin • Use of office paper at MuniFin
Developing wellbeing at work	8 DECENT WORK AND ECONOMIC GROWTH	**GOAL 2022: Personnel satisfaction "very good"** • Increasing diversity and equal opportunities • Promoting wellbeing at work and job satisfaction	• GOAL 2022: Personnel satisfaction • Breakdown of employees by gender • Breakdown of managerial staff by gender • Breakdown of Board of Directors by gender • Equal treatment of employees • Level of dedication • Supporting professional development • Employee turnover • Amount of sick leave
Strong corporate governance	17 PARTNERSHIPS FOR THE GOALS	**GOAL: 100% of employees complete the Responsibility Policy annually** • Developing responsible practices and ensuring the employees' commitment to complying with the Responsibility Policy	• GOAL: 100% of employees complete the Responsibility Policy annually • Staff training • No violations of regulations • Memberships of associations and national interest organisations

Positive performance/ Performance in line with the goal

Neutral performance/ Minor change

Negative performance/ Goal not achieved

Principles of responsibility reporting

Reporting framework
The framework for responsibility reporting was prepared by the consultancy company Deloitte, together with MuniFin, in autumn 2017. The EU directive on disclosure requirements in non-financial reporting that came into force in 2016 applies to large public-interest entities with more than 500 employees on average during the accounting period. Since MuniFin has fewer than 500 employees, according to the Accounting Act, it is not obliged to disclose non-financial information in a separate report. However, due to the social significance of its operations, MuniFin has decided to start publishing a corporate social responsibility report annually, even though it is not legally obliged to do so. The report will be prepared in accordance with the GRI standards, where applicable.

Scope and key content of the report
Special attention was paid to MuniFin's long-term impact on Finnish society when deciding the scope of the report, because MuniFin's corporate responsibility is indirectly emphasised through the financing it grants. Due to MuniFin's commitment to promoting the long-term objectives in mitigating climate change in relation to its own operations and those of its customers, attention was also paid to the environmental effects of MuniFin's own operations and financing.

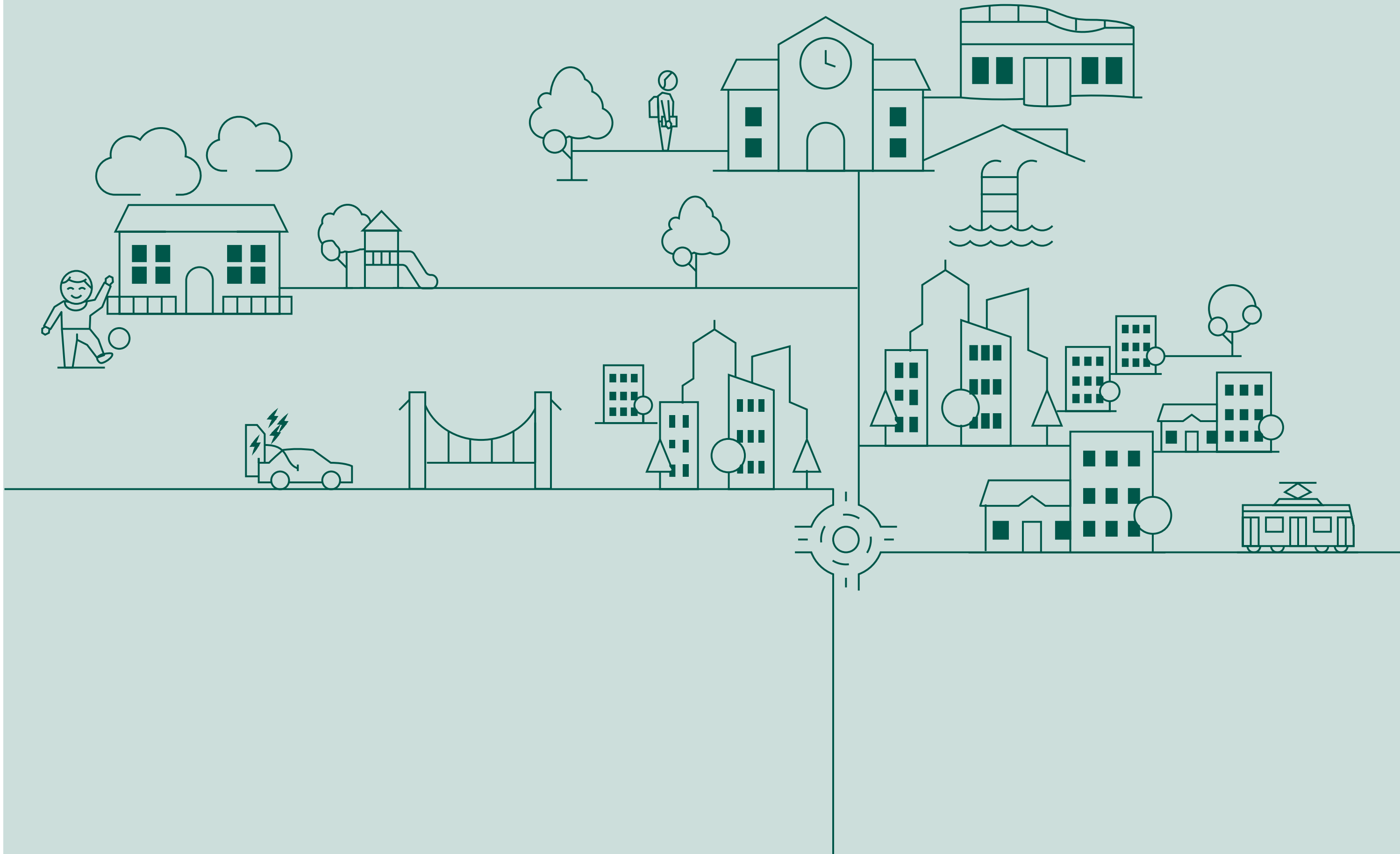
Reporting indicators are based on the key principles of responsibility approved by MuniFin's Board of Directors. MuniFin reserves the right to add, remove, or change the existing indicators and objectives. However, if any changes are made, they must be in line with the key principles specified in the company's responsibility strategy.

Minor changes have been made to the reported indicators with an eye on materiality. The 2019 report no longer includes indicators on the number of customer organisations and institutional investors in green bonds, as this information was not deemed to be significant in describing the company's responsibility. In the case of certain indicators, the source data or reporting method have changed, due to which historical data is not available for the indicator or the presentation of the indicator has been changed.

Information retrieval
The data and figures used in reporting are sourced from MuniFin's internal systems, the customer experience survey conducted by MuniFin, an external provider of personnel surveys, an external provider of ESG ratings, the WWF Climate Calculator, the calculations of the consulting company Deloitte and the public databases of the Ministry of Finance and the Association of Finnish Local and Regional Authorities. The data has not been verified by an external party.

Report of the Board of Directors and Financial Statements

MuniFin



In brief: MuniFin Group in 2019

- **The Group's net operating profit excluding unrealised fair value changes** amounted to EUR 186 million (EUR 190 million), down 2.1% on the previous year. **The Group's net interest income** improved slightly to EUR 240 million (EUR 236 million). **Expenses** grew as expected and amounted to EUR 60 million (EUR 49 million, +22.8%).

- **Unrealised fair value changes** weakened the net operating profit for the financial year by EUR 54 million, whereas they had no impact on the result in the previous year (EUR 0 million). Taking into account these valuations, consolidated net operating profit amounted to EUR 131 million (EUR 190 million).

- **The Group's capital adequacy** continued to strengthen and its CET1 capital adequacy was 83.1% (66.3%). Tier 1 and overall capital adequacy were 107.9% (88.0%) at the end of 2019.

- **Leverage ratio** amounted to 4.0% (4.1%) at the end of December.

- **Long-term customer financing** grew by 8.0% (6.1%) and the portfolio amounted to EUR 24,798 million (EUR 22,968 million) at the end of the year. New loans withdrawn during the year totalled EUR 3,175 million (EUR 2,953 million). In the entire customer finance portfolio, the amount of green financing aimed at environmental investments totalled EUR 1,263 million (EUR 1,081 million).

- **New long-term funding** in January–December amounted to EUR 7,385 million (EUR 7,436 million). The total amount of funding was EUR 33,929 million (EUR 30,856 million) at the end of the year. At year-end, the amount of green bonds issued amounted to EUR 1,478 million (EUR 978 million).

- **Liquid assets** grew by the end of the year to EUR 9,882 million (EUR 8,722 million). At the end of December, the Liquidity Coverage Ratio (LCR) was 430.2% (176.7%).

- **Return on equity** (ROE) declined due to unrealised fair value changes to 6.8% (10.8%).

- The Board of Directors proposes to the Annual General Meeting to be held in spring 2020 that EUR 0.16 per share be paid in **dividends**, totalling EUR 6,250,207.68. Dividends of EUR 6,250,207.68 were paid in 2019.

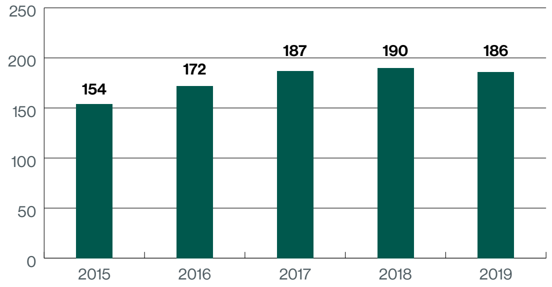
- **Outlook for 2020**: MuniFin expects that net operating profit excluding unrealised fair value changes will be on a par with 2019. The adoption of IFRS 9 has led to a significant increase in the recognition of unrealised fair value changes in profit or loss, which increases the volatility of net operating profit. For more information on the outlook, see the section entitled "Outlook for 2020".

Key figures (Group)	31 Dec 2019	31 Dec 2018
Net operating profit excluding unrealised fair value changes (EUR million)*	186	190
Net operating profit (EUR million)*	131	190
Net interest income (EUR million)*	240	236
New loans withdrawn (EUR million)*	3,175	2,953
Long-term customer financing (EUR million)*	24,798	22,968
New long-term funding (EUR million)*	7,385	7,436
Balance sheet total (EUR million)	38,934	35,677
CET1 capital (EUR million)	1,162	1,065
Tier 1 capital (EUR million)	1,510	1,413
Total own funds (EUR million)	1,510	1,413
CET1 capital ratio, %	83.1	66.3
Tier 1 capital ratio, %	107.9	88.0
Total capital ratio, %	107.9	88.0
Leverage ratio, %	4.0	4.1
Return on equity (ROE), %*	6.8	10.8
Cost-to-income ratio*	0.3	0.2
Personnel	167	151

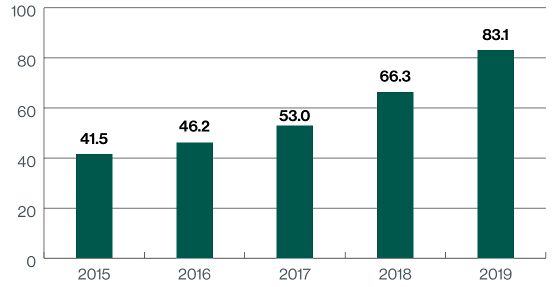
**Alternative performance measure. For more information on alternative performance measures, see pages 85–89.*

The calculation formulas for all key figures can be found on pages 85–90. All figures presented in the Report of the Board of Directors are those of the MuniFin Group, unless otherwise stated.

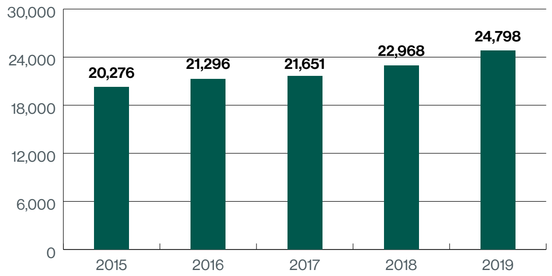
Net operating profit excluding unrealised fair value changes 2015–2019, EUR million



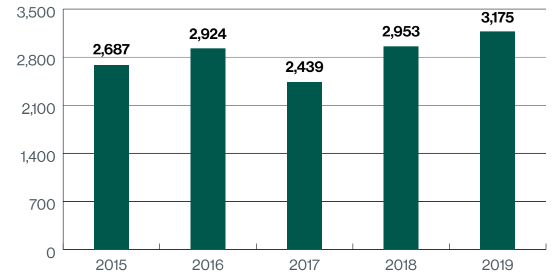
CET1 capital ratio 2015–2019, %



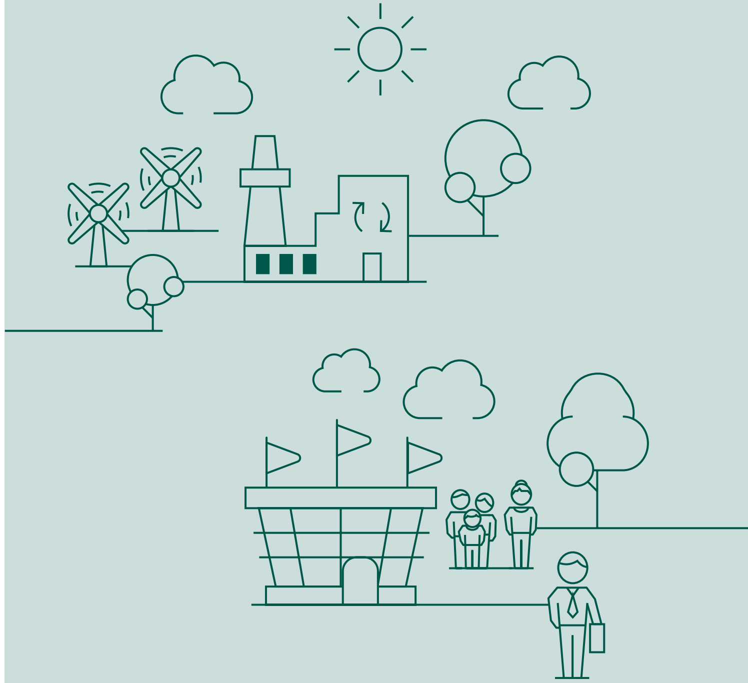
Long term customer financing 2015–2019, EUR million



New loans withdrawn 2015–2019, EUR million



Report of the Board of Directors 1 January–31 December 2019



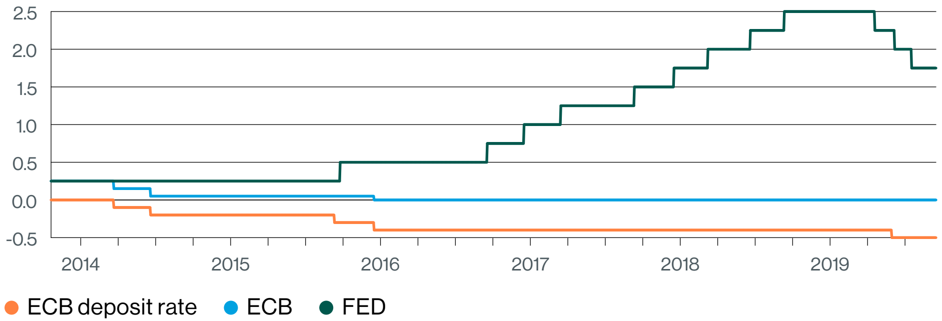
Operating environment in 2019

In 2019, growth in the global economy continued to slow down. The trade war between the United States and China started to reduce the volume of global trade, which plunged industry into recession in many economic areas. The political tensions caused by the trade war were reflected widely in economic confidence and companies' willingness to invest. The growing risk of a no-deal Brexit ramped up uncertainty in Europe.

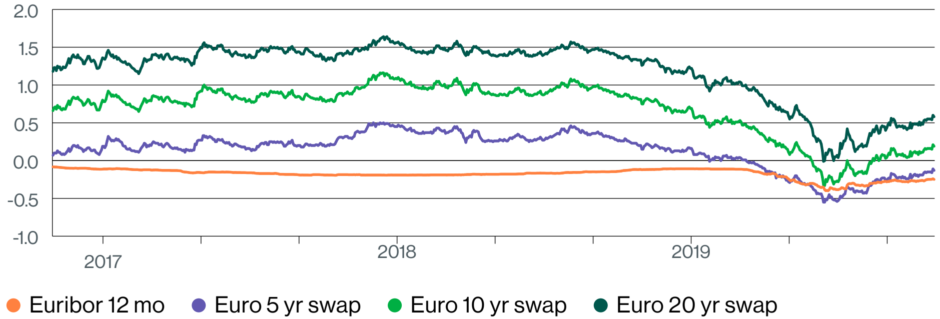
Due to the substantial deterioration of the outlook for the world economy, central banks rapidly changed course in their monetary policies in 2019. At the beginning of 2019, the U.S. Federal Reserve System – the Fed – was expected to continue raising its benchmark interest rate in 2019, but it ended up cutting rates three times during the year. The European Central Bank ECB also stepped up its economic stimulus measures towards the end of the year. The ECB decreased its deposit rate by 10 basis points to -0.50 per cent and announced that it will keep interest rates at either the current or lower level until the inflation target is reached. The ECB also resumed its purchases of securities, relaxed the terms of its TLTRO programme for banks and implemented a deposit tiering system to help banks.

The uncertainty posed by the trade war, Brexit and worries about the business cycle was at its peak in August–September, when market interest rates also fell to historical lows: At their lowest points, the 6-month Euribor dipped to -0.45 per cent, the German 10-year bund rate to -0.75 per cent and the eurozone 10-year swap rate to -0.33 per cent.

Central Bank policy rates



Euro area long-term swap rates and euribor (12 mo)

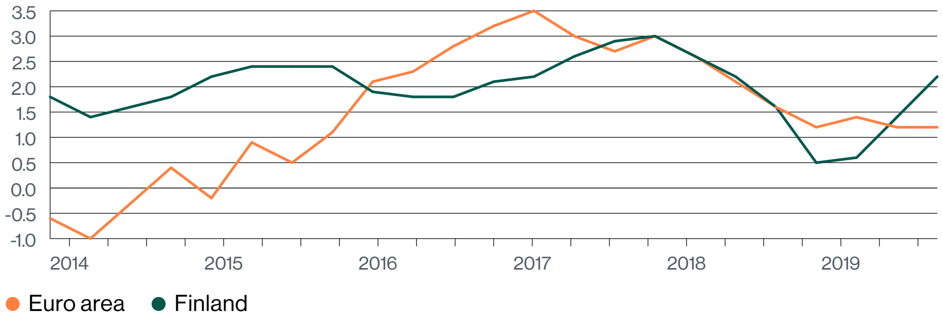


Towards the end of the year, the outlook for the global economy began to stabilise gradually. The trade war also de-escalated into a conciliatory phase and a no-deal Brexit was avoided. Positive development on the political and macroeconomic fronts during the fourth quarter shored up confidence in both the financial markets and real economy. Share prices recovered and interest rates started rising slightly. However, at the end of the year, interest rates were still significantly lower than in the beginning of the year.

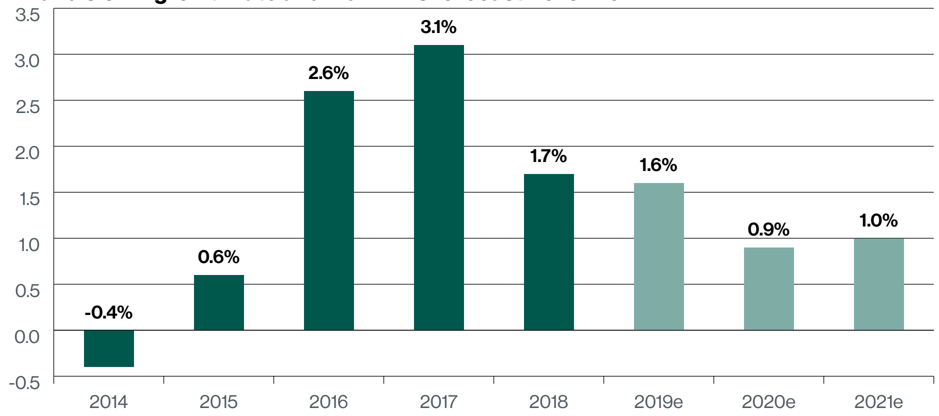
Finnish economic development outperformed expectations in 2019. Growth did not slow down in the line with the European economy, after all, but accelerated instead, especially around the middle of the year. Good employment situation and generous tax refunds in the autumn supported private consumption. The real estate market was also active. In foreign trade, service exports saw particularly nice growth.

The development of local government finances in 2019 was weaker than that of the Finnish economy in general. One of the underlying reasons was an unexpected – but temporary – shortfall in tax revenues due to the tax card and tax register reforms. Its impacts on local government finances will level off over time. However, at the same time, the operating expenses and investment needs of municipalities have grown.

Annual GDP growth rate



Finland's GDP growth rate and MuniFin's forecast 2019–2021



Information on Group results

Consolidated income statement (EUR million)	**1–12/2019**	**1–12/2018**	**Change, %**
Net interest income	240	236	1.7
Other income	6	2	205.0
Total income	**246**	**238**	**3.3**
Commission expenses	-4	-4	1.3
Personnel expenses	-18	-15	15.3
Other administrative expenses	-15	-12	22.6
Depreciation and impairment on tangible and intangible assets	-6	-2	165.0
Other operating expenses	-18	-15	14.7
Total expenses	**-60**	**-49**	**22.8**
Credit loss and impairments on financial assets	0	1	-95.1
Net operating profit excluding unrealised fair value changes	**186**	**190**	**-2.1**
Unrealised fair value changes	-54	0	14,320.8
Net operating profit	**131**	**190**	**-30.9**
Profit for the financial year	**105**	**152**	**-30.9**

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

Group's net operating profit excluding unrealised fair value changes

The Group's core business operations remained strong during 2019. MuniFin Group's net operating profit excluding unrealised fair value changes saw a slight year-on-year decline, 2.1%, and amounted to EUR 186 million (EUR 190 million). Income grew by 3.3% year on year. The profit was reduced by growth in expenses, as expected.

Net interest income was up 1.7% on the previous year to EUR 240 million (EUR 236 million). Net interest income grew due to successful funding operations, growth in customer finance and a favourable interest rate environment. The Group's net interest income does not recognise the EUR 16.2 million in 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 interest payment on an annual basis.

Other income tripled from the previous year to EUR 6 million (EUR 2 million). Other income includes commission income, realised net income from securities and foreign exchange transactions, net income from financial assets measured at fair value through other comprehensive income and other operating income. The most significant item under the Group's other income was the turnover of the subsidiary Inspira.

The Group's expenses grew by 22.8% compared with the previous year and amounted to EUR 60 million (EUR 49 million) at the end of 2019.

Commission expenses totalled EUR 4 million (EUR 4 million) and primarily comprise of paid guarantee fees, custody fees and funding programme update fees.

Administrative expenses grew by 18.5% to EUR 32 million (EUR 27 million), of which personnel expenses comprised EUR 18 million (EUR 15 million) and other administrative expenses EUR 15 million (EUR 12 million). Administrative expenses were increased by growth in the number of employees at the Group's parent company. The average number of parent company employees during the financial year was 151, as compared to 135 in the previous year. The personnel count has risen because banking regulation has led to a continuous need to develop the company's risk management, administration and processes as well as due to major development investments. The growth in other administrative expenses has been influenced by the company's investments in ensuring the operational reliability of information systems and developing customer service and the service offering. During the report year, MuniFin signed outsourcing agreements for information system end-user and infrastructure services as well as to ensure the operational reliability of business systems and to improve the availability of services. A project to implement outsourcing procedures is under way and is expected to be completed in 2020.

Depreciation and impairment on tangible and intangible assets amounted to EUR 6 million at the end of 2019 (EUR 2 million). The increase in depreciation is largely due to strong investments in system development in recent years. MuniFin also updated its depreciation principles during the financial year. As a result, an additional cost item of EUR 2.5 million was recognised in depreciation and certain other cost items.

Other operating expenses increased by 14.7% year-on-year to EUR 18 million (EUR 15 million). Growth in other operating expenses was mainly due to costs related to systems and process development. Fees collected by the authorities decreased by EUR 0.3 million (-4.7%) compared to the previous year and amounted to EUR 7 million (EUR 7 million).

The amount of expected credit losses (ECL) calculated in accordance with IFRS 9 decreased during the financial year, and the change recognised in the profit was EUR 0 million (EUR 1 million).

Group's results and unrealised fair value changes

Taking unrealised fair value changes into account, net operating profit in 2019 was EUR 131 million (EUR 190 million). Unrealised fair value changes weakened MuniFin's net operating profit by EUR 54 million during the financial year; in the previous year, they had no impact (EUR 0 million). Unrealised fair value changes account for EUR 54 million of the EUR 59 million weakening in net operating profit. In 2019, net income from hedge accounting amounted to EUR -19 million (EUR 28 million) and unrealised net income from securities transactions to EUR -35 million (EUR -27 million). The Group's profit for the financial year totalled EUR 105 million (EUR 152 million).

The Group's comprehensive income includes unrealised fair value changes of EUR 28 million (EUR 72 million). During the financial year, the most significant item affecting the comprehensive income was a net change in Cost-of-Hedging totalling EUR 17 million (EUR 28 million). The fair value change due to changes in own credit risk associated with financial liabilities designated at fair value through profit or loss amounted to EUR 10 million (EUR 49 million).

On the whole, unrealised fair value changes net of deferred tax decreased the amount of consolidated equity by EUR 21 million (EUR +57 million) and CET1 capital net of deferred tax in capital adequacy by EUR 28 million (EUR +19 million).

The adoption of IFRS 9 at the beginning of 2018, and the related changes in preparation and valuation principles, have significantly increased volatility of unrealised fair value changes, as financial instruments are increasingly measured at fair value. Changes in fair value reflect the temporary impact of market conditions on the valuation levels of financial instruments on the reporting date. Unrealised fair value changes may vary significantly from one reporting period to another, causing increased volatility in profit, equity and own funds in capital adequacy calculations.

In accordance with its risk management principles, MuniFin uses derivatives to financially hedge against interest rate, foreign exchange risk and other market and price risks. Cash flows are hedged, but due to the generally used valuation methods, changes in fair value differ between the hedged financial instrument and the respective hedging derivative. Changes in the shape of the interest rate curve and credit risk spreads in different currencies affect the valuations, which causes the fair values of hedged assets and liabilities and hedging instruments to behave in different ways. In practice, the changes in valuations are not realised on a cash basis because MuniFin primarily holds loan and funding agreements and their hedging derivatives until the maturity date. The unrealised fair value changes in the financial year were influenced, in particular, by changes in interest rate expectations in MuniFin's main funding markets.

The Group's effective tax rate during the financial year was 20.0% (20.0%). Taxes in the consolidated income statement amounted to EUR 26 million in 2019 (EUR 38 million). The Group's full-year return on equity (ROE) was 6.8% (10.8%). Excluding unrealised fair value changes, ROE was 9.6% (10.7%).

Parent company's result

MuniFin's total net interest income at year-end was EUR 224 million (EUR 220 million) and net operating profit stood at EUR 115 million (EUR 174 million). The profit after appropriations and taxes was EUR 8 million (EUR 22 million). The interest expenses of EUR 16.2 million for 2019 on the AT1 capital loan, which forms part of Additional Tier 1 capital in capital adequacy calculation, have been deducted in full from the parent company's net interest income (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 was EUR 38,933 million (EUR 35,676 million).

Inspira

The turnover of MuniFin's subsidiary Inspira was EUR 3.5 million for 2019 (EUR 2.5 million), and its net operating profit amounted to EUR 0.2 million (EUR 0.0 million).

Information on the Group balance sheet

Consolidated statement of financial position (EUR million)	**31 Dec 2019**	**31 Dec 2018**	**Change, %**
Cash and balances with central banks	4,909	3,522	39.4
Loans and advances to credit institutions	818	1,381	-40.7
Loans and advances to the public and public sector entities	24,798	22,968	8.0
Debt securities	5,716	5,863	-2.5
Derivative contracts	2,245	1,539	45.9
Other items included in the assets	446	405	10.3
Total assets	**38,934**	**35,677**	**9.1**
Liabilities to credit institutions	1,178	823	43.3
Liabilities to the public and public sector entities	3,862	3,871	-0.2
Debt securities issued	29,984	26,902	11.5
Derivative contracts	1,762	2,205	-20.1
Other items included in the liablities	554	390	42.0
Total equity	1,594	1,486	7.3
Total liabilities and equity	**38,934**	**35,677**	**9.1**

The consolidated balance sheet saw growth of 9.1% from the end of 2018 (2.7%) and amounted to EUR 38,934 million at the end of 2019 (EUR 35,677 million). The increase in the assets is primarily due to growth in the lending and leasing portfolio, deposits with the Bank of Finland and valuation of derivatives. The growth of liabilities is due to increased funding and is shown in *Liabilities to credit institutions* and *Debt securities issued*.

Equity at the end of the year stood at EUR 1,594 million (EUR 1,486 million), including the AT1 capital loan of EUR 347 million (EUR 347 million). Equity increased due to profit for the financial year. In addition, in the consolidated accounts interest expenses amounting to EUR 12.6 million net of deferred tax on the AT1 capital loan (EUR 12.6 million) were deducted from the equity, and the dividends of EUR 6.3 million paid to MuniFin shareholders for the 2018 financial year were likewise deducted (EUR 6.3 million).

Financing and other services for customers

MuniFin is the only credit institution in Finland which specialises in the financing for the local government sector and state-subsidised housing production, and is by far the largest financier for its customer base. 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). All loans granted by MuniFin have the risk level associated with Finnish public sector entities and a riskweight of 0% in capital adequacy calculations. The Group offers its customers diverse financing services, as well as comprehensive support for investment planning and financial management.

Demand for MuniFin's financing saw year-on-year growth. More new loans were withdrawn than in the previous year, EUR 3,175 million (EUR 2,953 million).

One of the factors affecting demand for financing was an unexpected – but temporary – shortfall in tax revenues due to the tax card and tax register reforms. Its impacts on local government finances will level off over time. However, at the same time, the operating expenses and investment needs of municipalities have grown. Changes in service needs call for investments in municipal infrastructure, traffic arrangements and the development of the service network – this increases the need for investments, particularly in growth centres. Migration to growth centres is gaining momentum, maintaining the need to build reasonably priced rental housing.

MuniFin's long-term customer financing grew by 8.0% (6.1%) and amounted to EUR 24,798 million (EUR 22,968 million) at the end of 2019. This figure includes long-term loans and leasing. Long-term customer financing excluding unrealised fair value changes grew by 7.4% (6.0%) and amounted to EUR 24,458 million (EUR 22,783 million) at the end of the year.

In the entire customer finance portfolio, the amount of green financing aimed at environmental investments totalled EUR 1,263 million (EUR 1,081 million). MuniFin was the first credit institution in Finland to launch green finance onto the market in 2016. The projects are approved by the Green Evaluation Team, which consists of independent experts. The company continues its investments into sustainable finance by preparing a new social finance product that is launched in 2020. Social finance is meant for certain investments in non-profit housing production promoting equality and sense of community, as well as investments in wellbeing and education.

The company's year-end balance sheet included EUR 804 million in municipal papers and municipal commercial papers issued by municipalities and municipal companies (EUR 726 million).

MuniFin continued to expand its range of digital services for customers. The company offers a wide range of services for financing management, analysis and reporting. In the development of its e-services in 2019, MuniFin focused especially on services for financial forecasting and modelling.

Funding and liquidity management

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

At the beginning of 2019, the situation on the international capital markets was challenging due to economic uncertainties and there was upward pressure on the credit risk premiums of bonds. In addition to credit risk premiums, there was significant volatility on the fixed-income markets. The weakening global economy and actions of central banks impacted on interest rates. Short- and long-term interest rates were at a lower level at the end of the year than at the beginning. In spite of these challenging market conditions, MuniFin succeeded very well in its funding transactions.

The main focus in MuniFin's funding is on public arrangements. All four benchmark bonds issued during 2019 were oversubscribed substantially. Two of the benchmark bonds were denominated in euros and two in US dollars. The USD 1.25 billion benchmark bond issued in September was oversubscribed almost threefold, which made it MuniFin's most sought-after benchmark bond measured by the size of the order book.

In 2019 MuniFin's long-term bonds issuance totalled EUR 7,385 million (EUR 7,436 million). MuniFin's short-term debt instruments under the Euro Commercial Paper (ECP) programme amounted to EUR 2,728 million at the end of the year (EUR 3,062 million).

Total funding at the end of 2019 amounted to EUR 33,929 million (EUR 30,856 million). Of this amount, 34% was denominated in euros (30%) and 66% in foreign currencies (70%). During the year, the company issued bonds denominated in 11 different currencies (11 currencies).

MuniFin acquires all of its funding from the international capital market. In total, 198 long-term funding arrangements were made in 2019 (260).

The majority of funding transactions are arranged as standardised issues under debt programmes, of which MuniFin uses the following:

Medium Term Note (MTN) programme	EUR 35,000 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 central government. The Municipal Guarantee Board is a publiclaw institution whose members are all Finnish mainland municipalities. The members are responsible for the liabilities of the Guarantee Board in proportion to their population. The Municipal Guarantee Board has granted guarantees for the debt programmes, as well as for funding arrangements outside the programmes. Based on this, debt instruments issued by MuniFin are classified as zero-risk when calculating the capital adequacy of credit institutions and solvency of insurance companies, and as Level 1 liquid assets in liquidity calculation in the EU.

Liquidity remained strong. MuniFin's investment operations mostly comprise the management of prefunding. 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 customer financing) for at least the following 12 months.

At the end of 2019, total liquidity was EUR 9,882 million (EUR 8,722 million). Investments in securities totalled EUR 4,922 million (EUR 5,146 million) and their average credit rating was AA+ (AA). The average maturity of the investment portfolio stood at 2.3 years at year-end (2.1 years). In addition to this, MuniFin had EUR 4,960 million in other investments (EUR 3,576 million), of which EUR 4,936 million were in central bank deposits (EUR 3,554 million) and EUR 24 million in money market deposits in credit institutions (EUR 22 million). The company invests cash collateral received on the basis of derivative collateral agreements primarily in short-term money market investments.

MuniFin monitors the responsibility of its liquidity investments with ESG ratings (Environmental, Social and Governance).At the end of 2019, MuniFin's liquidity investments had an ESG average of 53.0 on a scale of 1–100 (50.9). The benchmark index is 50.6 (50.8). In addition to monitoring the ESG scores of its investments, MuniFin has socially responsible investments. Socially responsible investments amounted to EUR 150 million of the liquidity portfolio at the turn of the year, accounting for 3.1% of all investments in securities. MuniFin has a higher ratio of socially responsible investments than the market benchmark (1.9%). The ratio of socially responsible investments to MuniFin's own green funding was 10%.

MuniFin credit ratings

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

MuniFin's credit ratings correspond to the Finnish sovereign ratings. MuniFin's credit ratings did not change during the financial year.

Capital adequacy

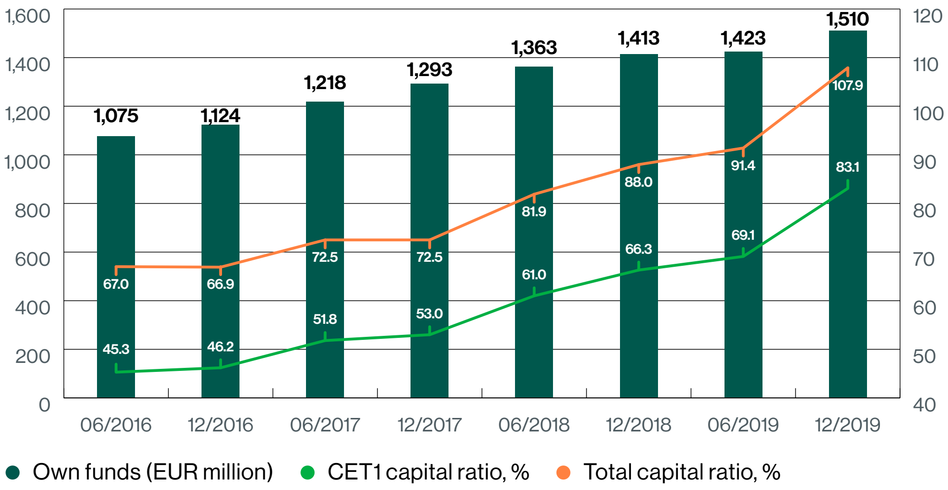
Capital adequacy key ratios

At the end of 2019, the MuniFin Group's total capital ratio was 107.9% (88.0%) and its CET1 capital ratio was 83.1% (66.3%). The total capital ratio rose by 19.9 percentage points compared with the end of 2018 due to a reduction in risk-weighted assets and an increase in own funds. The Group's capital adequacy has remained strong and is many times higher than the statutory minimum capital adequacy requirements set by the authorities. MuniFin's own funds exceed the minimum requirement set in legislation by EUR 1,332 million (EUR 1,221 million), taking valid capital buffers into account.

At the end of the year, MuniFin Group's Common Equity Tier capital (CET1) amounted to EUR 1,162 million (EUR 1,065 million) and Tier 1 capital (T1) to EUR 1,510 million (EUR 1,413 million). There was no Tier 2 capital, and the Group's own funds totalled EUR 1,510 million (EUR 1,413 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.

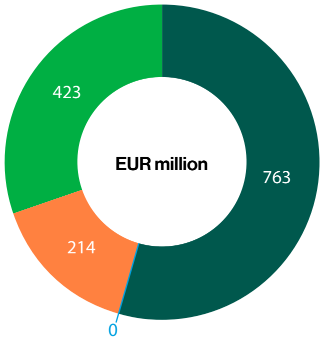
Group's own funds and capital ratio



Consolidated own funds (EUR 1,000)	**31 Dec 2019**	**31 Dec 2018**
Common Equity Tier 1 before adjustments	1,218,199	1,118,171
Adjustments to Common Equity Tier 1	-55,747	-52,715
COMMON EQUITY TIER 1 (CET1)	**1,162,452**	**1,065,455**
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)	**1,509,906**	**1,412,909**
Tier 2 capital before adjustments	-	-
Adjustments to Tier 2 capital	-	-
TIER 2 CAPITAL (T2)	**-**	**-**
TOTAL OWN FUNDS	**1,509,906**	**1,412,909**

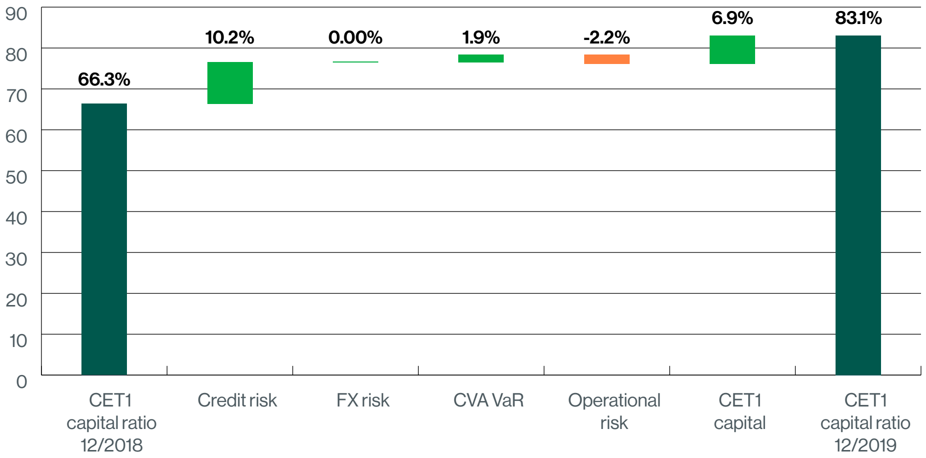
The Group's risk exposure amount decreased by 12.9% since the end of 2018 and amounted to EUR 1,400 million at year-end (EUR 1,606 million). The credit and counterparty risk decreased from the year-end 2018 figure of EUR 977 million to EUR 763 million at the end of 2019. This was particularly affected by the decrease in the risk weights of liquidity investments. There was no market risk at the end of 2019 or in the comparison year, as 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 credit valuation adjustment risk (CVA VaR) declined to EUR 214 million (EUR 247 million). The amount of derivatives cleared under central counterparty clearing increased significantly during the year, which in turn decreased the exposure value of the derivatives under the credit valuation adjustment risk. The counter value of operational risk increased by 10.4% to EUR 423 million due to an increase in the profit indicator (EUR 383 million).

Total risk exposure amount 12/2019
EUR 1,400 million



Total risk exposure amount 12/2018
EUR 1,606 million

CET1 capital ratio changes



Detailed key figures on the capital adequacy of both the MuniFin Group and the parent company are provided in the Notes to this report. The principles for capital adequacy management are described in Note 2 to the consolidated financial statements, *Risk management principles and the Group's risk position*. Concurrently as this Report of the Board of Directors and the Financial Statements, MuniFin is publishing a separate Pillar III Disclosure Report on capital adequacy and risk management, which is available in English on the company's website.

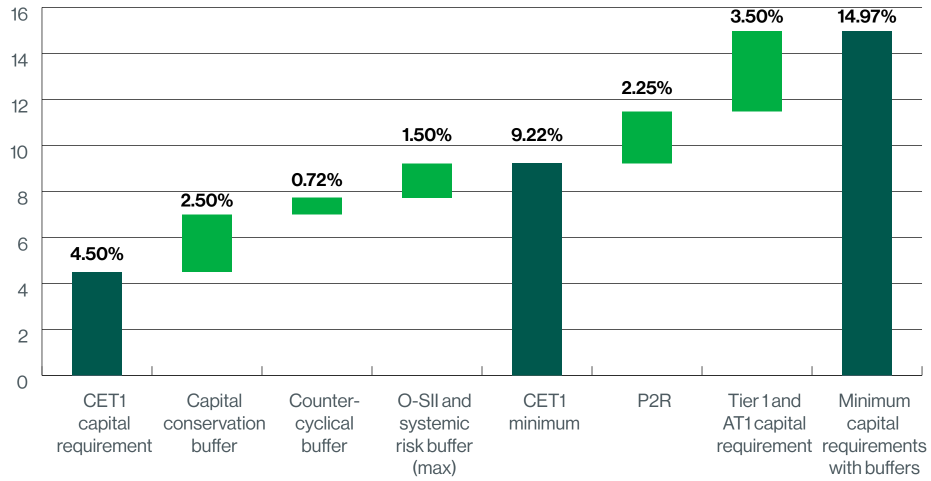
Minimum capital requirements and capital buffers

The minimum capital requirement for capital adequacy is 8% and for CET1 capital adequacy, 4.5%. Under the Act on Credit Institutions, the capital conservation buffer is 2.5% and, for MuniFin, the additional capital requirement for other systemically important credit institutions (O-SII) is 0.5%. The Financial Supervisory Authority decides on a countercyclical capital buffer requirement on a quarterly basis. In December 2019, it decided not to impose a countercyclical capital buffer. In June 2018, the Financial Supervisory Authority made a macroprudential decision on structural additional capital requirements, and an additional capital requirement of 1.5% based on a systemic risk buffer was set for MuniFin. This new requirement became effective on 1 July 2019. 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 is reviewed annually, and the Financial Supervisory Authority confirmed in June 2019 that it would maintain MuniFin's requirement as from 1 July 2020 as well. For MuniFin, the credit institution-specific countercyclical capital buffer requirement imposed based on the geographical distribution of exposures is 0.72%. Therefore, the minimum requirement for CET1 capital adequacy is 9.22% and the minimum requirement for overall capital adequacy 12.72%.

In addition to the above, as part of the annual supervisor's review (SREP), the European Central Bank has imposed an additional capital requirement of 2.25% (P2R) on MuniFin, effective from 1 March 2019. At the end of December 2019, the minimum level of CET1 capital adequacy was 11.47% when taking account of the P2R additional capital requirement, and the minimum level of overall capital adequacy was 14.97%.

The P2R additional capital requirement is reviewed annually by the ECB. In November 2019, the ECB confirmed that it will maintain MuniFin's P2R requirement unchanged at 2.25% as from 1 January 2020.

Minimum capital requirements and capital buffers, %



Leverage ratio and Liquidity Coverage Ratio

At the end of the year, MuniFin's leverage ratio was 4.0% (4.1%), calculated according to the current accounting principles (CRR I). Negative unrealised fair value changes contributed to the slight weakening of the leverage ratio in the financial year. The minimum requirement for the leverage ratio is 3% effective as from June 2021. Changes in regulation of the leverage ratio are described in the section "*Changes in the regulation of leverage ratio and capital requirements*".

At the end of December, the Liquidity Coverage Ratio (LCR) was 430.2% (176.7%). The minimum Liquidity Coverage Ratio is 100%.

MuniFin is also preparing for the Net Stable Funding Ratio (NSFR), which will take effect in June 2021. At the end of 2019, MuniFin's NSFR was 116.3% (110.5%) as calculated according to current interpretations. The minimum NSFR is 100%.

Changes in the regulation of leverage ratio and capital requirements

The long-prepared changes in bank capital adequacy regulations (CRR II and CRD V) were adopted by the European Parliament in April 2019 and, to a large extent, these changes will be applicable in June 2021. This amendment also includes a leverage ratio requirement, whereby a credit institution's leverage ratio must be at least 3%. MuniFin has been preparing for several years for the introduction of the leverage ratio requirement, and its leverage ratio exceeds the required 3%, being 4.0% at the end of December (4.1%).

According to the adopted regulations, a public development credit institution may, from June 2021, deduct in the calculation of leverage ratio all credit receivables from central government and local government. Based on self-assessment, MuniFin has determined that it fulfils the definition of a public development credit institution. Should the definition be fulfilled, the changes in CRR II would have a significant positive effect on MuniFin's leverage ratio. According to preliminary estimates, the other changes in this package will have a less significant effect on the leverage ratio.

The amendment is not expected to substantially alter MuniFin's capital adequacy position. MuniFin Group's CET1 capital ratio at the end of December was very high at 83.1%; even after the entry into force of CRR II and CRD V, the CET1 capital ratio is estimated to remain at a very high level.

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 SRB has for the time being decided not to impose a binding *Minimum Requirement for own funds and Eligible Liabilities* (MREL) on MuniFin, but considers that, taking into account MuniFin's business model, any crisis situations of the company are governed by national statutory procedures. The decision is positive for MuniFin, and it identifies well the specificities of the company's business operations, such as the Municipal Guarantee Board's guarantee for bonds issued by the company. The Single Resolution Board (SRB) has preliminarily estimated that a binding minimum requirement may be imposed on MuniFin at a later date, corresponding to the company's capital adequacy requirement and the binding buffer requirements related to it.

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 conservative principles in its risk management. The aim is to keep the overall risk status at such a low level that the parent 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 material 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, *Risk management principles and the Group's risk position*. Concurrently as this Report of the Board of Directors and the Financial Statements, MuniFin is publishing a separate Pillar III Disclosure Report on capital adequacy and risk management, which is available in English on the company's website.

The Group's risk position

There were no material changes in the Group's risk appetite in 2019. Risks remained within the limits set during the financial year, and the risk position remained stable. The IFRS 9 standard adopted at the beginning of 2018 has increased the volatility of financial results through unrealised fair value changes of financial instruments. MuniFin continuously monitors and analyses the volatility arising from valuations and prepares for any impacts it may have on profit and capital adequacy.

Credit risks are part of MuniFin's business. Due to the nature of the customer base, the credit risks are minor but 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. MuniFin offers to its customers derivatives for hedging purposes to cover their interest rate risk positions. MuniFin has made offsetting derivatives in the interbank market. Derivatives are only used for hedging against market risks. MuniFin's credit risk position remained stable during the year, with a low risk level.

In view of its credit risk mitigation techniques (mortgage collateral and guarantees received), MuniFin is not exposed to customer risk in its customer financing, and thus the customer risk of no single customer exceeded 10% of own funds. The amount of expected credit losses declined during the year, and a EUR 0.03 million change in expected credit losses was recognised through profit or loss at the end of December. The amount of forborne loans at the end of 2019 was EUR 33 million, which is EUR 29 million lower than in the comparison year. At the end of December, MuniFin had non-performing exposures of EUR 62 million to which MuniFin has absolute guarantees by municipalities or mortgage collateral and guarantees from municipalities and/or the state. Non-performing exposures represented 0.3% of total customer exposures (0.0%).

Market risks include interest rate, exchange rate, and other market and 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 interest rate types applicable to the receivables and liabilities in the balance sheet. Interest rate risk is actively monitored and hedged, such as by measuring the earnings risk and economic value of equity. Eight scenarios are used in the calculation of the earnings risk and the most unfavourable outcome is considered. Earnings risk at the end of 2019 was EUR -14 million (EUR -8 million). Several scenarios are also used in the calculation of the economic value of equity, and the most unfavourable outcome is considered. Economic value of equity at the end of December was EUR -114 million (EUR -37 million).

MuniFin 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 exchange rate risks in its operations. However, a small temporary exchange rate risk may arise due to collateral management in the clearing of derivatives by central counterparties. This exchange rate risk is actively monitored and hedged. Derivatives are also used to hedge against other market and price risks. Derivatives can only be used for hedging purposes, as MuniFin is not engaged in trading activities. 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 past few years 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. Survival horizon ratio was 13.6 months (13.2 months) at the end of 2019. MuniFin's liquidity is good and the availability of financing has remained solid during the entire year. In January–December 2019, MuniFin issued EUR 7,385 million in long-term funding (EUR 7,436 million).

Operational risks are estimated to be at a moderate level. No material losses were incurred as a result of operational risks in 2019.

Governance

In addition to corporate legislation, MuniFin complies with the governance requirements of the Finnish Act on Credit Institutions and the guidelines issued by the authorities.

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 guidelines issued by the authorities. Governance practices are described in more detail on the company's Internet site.

Group structure

The Municipality Finance Group consists of Municipality Finance Plc and Financial Advisory Services Inspira Ltd. MuniFin owns 100% of Inspira. No changes occurred in the Group structure during the financial year.

Annual General Meeting

The Annual General Meeting (AGM) of MuniFin was held on 28 March 2019. The AGM confirmed the Financial Statements for 2018 and discharged the members of the Board of Directors, the CEO and the Deputy CEO from liability for the financial year 2018. 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 (EUR 0.16 per share), amounting to a total of EUR 6,250,207.68 (EUR 6,250,207.68), and the remaining part of distributable funds, EUR 127,617,814.70 (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 2019–2020 term of office (from the 2019 AGM to the end of the subsequent AGM). The AGM also confirmed the proposal of the Shareholders' Nomination Committee on the remuneration of Board members.

In addition, the meeting elected KPMG Oy Ab as the auditor of the company, with Tiia Kataja, APA, as the principal auditor. In the previous financial year, the principal auditor was Marcus Tötterman, APA. According to the audit rotation rules, Marcus Tötterman had the maximum number of years as the principal auditor of the company.

Board of Directors

On 28 March 2019, the AGM decided that MuniFin's Articles of Association were to be amended so that the maximum number of ordinary members of the company's Board of Directors is nine. Under the previous Articles of Association, the Board of Directors has a maximum of eight members. At the same time, 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 2019 AGM and concludes at the end of the following AGM.

The AGM elected the following members to the Board of Directors: Maaria Eriksson, Raija-Leena Hankonen, Minna Helppi, Markku Koponen, Jari Koskinen, Kari Laukkanen, Vivi Marttila, Tuula Saxholm and Helena Walldén. The term of Raija-Leena Hankonen started when the amendment to the Articles of Association concerning the number of Board members was registered in the Trade Register.

The Board of MuniFin nominated Helena Walldén as the Chair of the Board and Tuula Saxholm as the Vice Chair. They also served in these tasks in the previous financial year. As required by legislation on credit institutions and in order to organise its work as efficiently as possible, the Board of MuniFin has established Audit, Risk and Remuneration Committees for assistance and the preparation of matters. The members of the Audit Committee are Markku Koponen (Chair), Raija-Leena Hankonen, Kari Laukkanen, and Vivi Marttila. The members of the Risk Committee are Kari Laukkanen (Chair), Maaria Eriksson, Raija-Leena Hankonen, and Minna Helppi. The members of the Remuneration Committee are Helena Walldén (Chair), Markku Koponen, Jari Koskinen, and Tuula Saxholm.

From the 2018 AGM to the 2019 AGM, the members of the Board of Directors were: Helena Walldén (Chair), Tuula Saxholm (Vice Chair), Fredrik Forssell, Minna Helppi, Markku Koponen, Jari Koskinen, Kari Laukkanen, and Vivi Marttila.

The work of the company's Board of Directors and its Committees is described in more detail in MuniFin's Corporate Governance Statement for 2019 and on the company's website.

Personnel

MuniFin Group employed 167 people at the end of December 2019 (151), of whom 156 worked for the parent company (141). Personnel grew as planned. Salaries and remuneration paid to the personnel totalled EUR 14.5 million in the Group (EUR 12.5 million).

The President and CEO of MuniFin is Esa Kallio, with Mari Tyster, Executive Vice President, acting as the deputy for the President and CEO. In addition, the Executive Management Team of MuniFin includes Executive Vice Presidents Aku Dunderfelt, Toni Heikkilä, Rainer Holm, Joakim Holmström, and Harri Luhtala.

During the financial year, Harri Luhtala was appointed as the new CFO and a member of the MuniFin Executive Management Team in May 2019 to replace Marjo Tomminen. Aku Dunderfelt was appointed as the Executive Vice President, Customer Finance and as a member of the Executive Management Team. He entered MuniFin's employ in August 2019. He was appointed to replace Jukka Helminen.

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, refer to Note 46, *Salaries and Remuneration*, in this report and to the Remuneration Report for 2019, 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.

Share capital and shareholders

At the end of the 2019 financial year, MuniFin had paid share capital registered in the Trade Register to the amount of EUR 43,008,044.20, 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 2019, MuniFin had 277 shareholders (278).

10 largest shareholders 31 Dec 2019		No. of shares	Per cent
1.	Keva	11,975,550	30.7%
2.	Republic of Finland	6,250,000	16.0%
3.	City of Helsinki	4,066,525	10.4%
4.	City of Espoo	1,547,884	4.0%
5.	VAV Asunnot Oy (City of Vantaa)	963,048	2.5%
6.	City of Tampere	919,027	2.4%
7.	City of Oulu	903,125	2.3%
8.	City of Turku	763,829	2.0%
9.	City of Kuopio	592,303	1.5%
10.	City of Lahti	537,926	1.4%

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

The company is not aware of any material changes in the holdings of major shareholders during the year.

Events after the reporting period

In January, MuniFin issued its largest-ever public benchmark bond denominated in euros, valued at EUR 1.5 billion. The bond issue was with the largest order book in MuniFin's history. This testifies to MuniFin's long and active cooperation with stakeholders and good reputation in the international capital market.

Outlook for 2020

2020 began on a more positive note for the international economy than the previous year. On the basis of trend indicators, the global economy will most likely ride out its weakest phase during the winter and expectations of gradual recovery have strengthened. However, economic growth in 2020 will be slower than the long-term trend. In Europe, the situation is still affected by the hard-to-predict impacts of Brexit.

Problems in the global economy have a delayed impact on Finland – slowdown in growth still largely lies ahead. Economic momentum is losing steam, which is already evident in the stalled growth of goods exports and the decline in new orders in industry. The improvement in the employment rate has in practice also come to a standstill. Going forward, economic growth in Finland will be slowed particularly by the cooldown in new construction. That said, non-profit housing production financed by MuniFin will in all likelihood remain at the same level as in previous years. GDP growth is currently expected to decline to around one per cent, or even slightly less, in 2020. In spite of the slowdown in economic growth, municipalities remain under pressure to invest, especially in growth centres.

Preparations for the health and social services reform have been ongoing in Finland for a long time. The reform is also on the agenda of the current Government. However, it is challenging to assess its overall effects on MuniFin's customers and operations, as no concrete proposals or decisions have as yet been made about the reform. The reform is not currently expected to have a fundamental impact on MuniFin's operating volumes in 2020.

In 2020, MuniFin will continue to put major effort into developing its systems in order to further enhance its efficiency and operations, as well as on the digitisation of services. MuniFin expects that costs will rise year-on-year, particularly due to these outlays on information system development.

According to the bank capital adequacy regulations (CRR II) adopted in 2019 and applicable in June 2021 onwards, a public development credit institution may in the leverage ratio calculation deduct all credit receivables from the Sovereign and municipalities. Based on the self-assessment, MuniFin has determined that it fulfils the definition of a public development credit institution. Should the definition be fulfilled, the changes in CRR II would have a significant positive effect on MuniFin's leverage ratio.

Considering the above factors, and assuming that the trend in market rates and credit risk premiums does not deviate significantly from forecasts, MuniFin expects that net operating profit excluding unrealised fair value changes will be on a par with 2019. The adoption of IFRS 9 has led to a significant increase in the recognition of unrealised fair value changes in profit or loss, which increases the volatility of net operating profit.

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 2019

Municipality Finance Plc has distributable funds of EUR 135,368,162.93, of which the profit for the financial year totalled EUR 7,750,348.23.

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 129,117,955.25 be retained in equity.

The profit for the financial year is good, albeit smaller than previous year. The Board of Directors considers the payment of this dividend to be a strongly grounded decision.

MuniFin clearly fulfils all the prudential requirements set for it. No events have taken place since the end of the financial year that would have a material effect on the company's financial position. In the Board's opinion, the proposed distribution of profits does not place the fulfilment of the capital requirements or the company's liquidity in jeopardy.

Dividends will be paid to shareholders who are recorded in the company's list of shareholders on 1 April 2020. The Board of Directors proposes that the dividends be paid on 6 April 2020.

The Group's Development	31 Dec 2019	31 Dec 2018	31 Dec 2017	31 Dec 2016	31 Dec 2015
Turnover (EUR million)	718	714	204	184	204
Net interest income (EUR million)*	240	236	229	206	172
% of turnover	33.5	33.1	112.0	112.2	84.4
Net operating profit (EUR million)*	131	190	198	174	152
% of turnover	18.3	26.6	97.2	94.8	74.4
Unrealised fair value changes (EUR million)*	-54	0	11	3	-3
Net operating profit excluding unrealised fair value changes (EUR million)*	186	190	187	172	154
Cost-to-income ratio*	0.3	0.2	0.2	0.2	0.1
Cost-to-income ratio excluding unrealised fair value changes*	0.2	0.2	0.2	0.2	0.1
Return on equity (ROE), %*	6.8	10.8	12.6	12.5	14.8
Return on equity (ROE) excluding unrealised fair value changes, %*	9.6	10.7	11.9	12.3	15.1
Return on assets (ROA), %*	0.3	0.4	0.5	0.4	0.4
Return on assets (ROA) excluding unrealised fair value changes, %*	0.4	0.4	0.4	0.4	0.4
Long-term loan portfolio (EUR million)*	23,970	22,354	21,219	20,910	20,088
New loans withdrawn (EUR million)*	3,175	2,953	2,439	2,924	2,687
Long-term funding (EUR million)*	33,929	30,856	30,153	28,662	28,419
New long-term funding (EUR million)*	7,385	7,436	9,510	6,733	7,344
Equity (EUR million)	1,594	1,486	1,339	1,184	1,043
Total balance sheet (EUR million)	38,934	35,677	34,738	34,052	33,889
Total liquidity (EUR million)*	9,882	8,722	9,325	7,505	7,732
Liquidity Coverage Ratio (LCR), %	430.2	176.7	173.0	149.1	296.6
Equity ratio, %*	4.1	4.2	3.9	3.5	3.1

The Group's Development	31 Dec 2019	31 Dec 2018	31 Dec 2017	31 Dec 2016	31 Dec 2015
CET1 capital (EUR million)	1,162	1,065	946	777	686
Tier 1 capital (EUR million)	1,510	1,413	1,293	1,124	1,034
Total own funds (EUR million)	1,510	1,413	1,293	1,124	1,069
CET1 capital ratio, %	83.1	66.3	53.0	46.2	41.5
Tier 1 capital ratio, %	107.9	88.0	72.5	66.9	62.5
Total capital ratio, %	107.9	88.0	72.5	66.9	64.6
Leverage ratio, %	4.0	4.1	3.8	3.5	3.2
Personnel	167	151	134	106	95

Following the adoption of IFRS 9 at the beginning of 2018, the amount of derivatives measured at fair value through profit or loss has grown and they are treated as gross amounts divided into interest income and interest expenses. This has increased the key figure for turnover, as interest income grew in 2018 and 2019. As permitted under IFRS 9, the company has not restated earlier periods.

*Alternative performance measure. For more information on alternative performance measures, see pages 85–89.

The calculation formulas for all key figures can be found on pages 85–90. All figures presented in the Report of the Board of Directors are those of the MuniFin Group, unless otherwise stated.

Note 1. Key figures

MuniFin Group defines the Alternative Performance Measures (APMs) to be financial measures that have not been defined in the IFRS standards or the capital requirements regulation (CRD/CRR). The APMs improve comparability between companies in the same sector and between reporting periods and provide valuable information to the readers of the financial reports. The APMs provide a more consistent basis for comparing the results of financial periods and for assessing MuniFin Group's performance. They are also an important aspect of the way in which Group's management defines operating targets and monitors performance.

The Alternative Performance Measures are presented in MuniFin's financial reports in accordance with the guidelines for Alternative Performance Measures issued by the European Securities and Markets Authority (ESMA).

MuniFin has amplified its definition and presentation of alternative performance measures (APM) during the reporting period so that all of the performance measures that are defined either in IFRS or CRR are not alternative performance measures. At the same time changes were made to the alternative performance measures and to the way they are presented taking into account the ESMA guidelines.

Most of the changes in APM's are due to transition to IFRS 9 as more financial instruments are fair valued through profit and loss which increases PnL volatility. To enhance comparability of business performance between periods and companies, it is often necessary to exclude the PnL effect of the unrealised changes in fair values.

Figures are in million EUR.

Alternative Performance Measure	Definition / Explanation	Reconciliation	1 Jan–31 Dec 2019	1 Jan–31 Dec 2018
Net interest income	Interest income and expense from financial assets and liabilities are recognised in net interest income. A significant part of Group's revenues consists of net interest income.	Interest and similar income (incl. leasing)	767	712
		Interest and similar expense	-526	-475
		Net interest income	**240**	**236**
Unrealised fair value changes	Due to IFRS 9 implementation more financial instruments are measured at fair value through profit and loss which increases PnL volatility. To enhance comparability of business performance between periods and companies, it is often necessary to exclude the PnL effect of the unrealised changes in fair values.	Net income from securities and foreign exchange transactions, fair value changes	-35	-27
		Net income from hedge accounting	-19	28
		Unrealised fair value changes	**-54**	**0**
Net operating profit	Net operating profit describes Group's operating profit before taxes.	**Net operating profit**	**131**	**190**
Net operating profit excluding unrealised fair value changes	Net operating profit excluding unrealised changes in fair value as an APM is of interest of showing MuniFin's underlying earnings capacity.	Net operating profit	131	190
		Unrealised fair value changes	-54	0
		Net operating profit excluding unrealised fair value changes	**186**	**190**
Income	Income, which describes the Group's total income including net interest income, is used e.g. as a denominator (minus commission expenses) in Cost-to-income ratio.	Net interest income	240	236
		Commission income	3	2
		Net income from securities and foreign exchange transactions	-33	-28
		Net income on financial assets at fair value through other comprehensive income	0	0
		Net income from hedge accounting	-19	28
		Other operating income	0	0
		Income	**192**	**239**

Alternative Performance Measure	Definition / Explanation	Reconciliation	1 Jan–31 Dec 2019	1 Jan–31 Dec 2018
Costs	Costs, which describe the Group's total costs, is used e.g. as a numerator (excl. commission expenses) in Cost-to-income ratio.	Commission expenses	4	4
		Administrative expenses	32	27
		Depreciation and impairment on tangible and intangible assets	6	2
		Other operating expenses	18	15
		Costs	**60**	**49**
Cost-to-income ratio	The cost-to-income ratio is an established key ratio in the banking sector for assessing the relationship between expenses and income. The ratio gives investors a comparative view of MuniFin's cost-effectiveness.	Costs (excl. Commission expenses)	56	45
		÷ Income (incl. Net commission income)	187	235
		Cost-to-income ratio	**0.3**	**0.2**
Cost-to-income ratio excluding unrealised fair value changes	Cost-to-income ratio excluding unrealised changes in fair values gives a more precise picture of MuniFin's operative effectiveness as it excludes the income volatility of unrealised fair value changes. Cost-to-income ratio excluding unrealised changes in fair value as an performance measure is more widely used after the implementation of IFRS 9 as PnL volatility of income has grown due to unrealised fair value changes of financial intstruments. It improves comparability of operative effectiveness between companies and reporting periods.	Costs (excl. Commission expenses)	56	45
		÷ (Income (incl. Net commission income)	187	235
		- Unrealised fair value changes)	-54	0
		Cost-to-income ratio excluding unrealised fair value changes	**0.2**	**0.2**

Alternative Performance Measure	Definition / Explanation	Reconciliation	31 Dec 2019	31 Dec 2018
Return on Equity (ROE), %	ROE measures the efficiency of MuniFin's capital usage. It is commonly used performance measure and as an APM improves comparability between companies.	((Net operating profit	131	190
		- Taxes)	-26	-38
		÷ Equity and non-controlling interest (average of values at the beginning and end of the period)) x100	1,540	1,413
		Return on Equity (ROE), %	**6.8%**	**10.8%**
Return on Equity (ROE) excluding unrealised fair value changes, %	MuniFin's strategy indicator. Excluding the unrealised changes in fair values increases comparability between reporting periods.	((Net operating profit excluding unrealised fair value changes	186	190
		- Taxes)	-37	-38
		÷ Equity and non-controlling interest (average of values at the beginning and end of the period)) x100	1,540	1,413
		Return on Equity (ROE) excluding unrealised fair value changes, %	**9.6%**	**10.7%**
Return on Assets (ROA), %	ROA measures the efficiency of MuniFin's investments. It is commonly used performance measure and as an APM improves comparability between companies.	((Net operating profit	131	190
		- Taxes)	-26	-38
		÷ Average balance sheet total (average of values at the beginning and end of the period)) x100	37,305	35,207
		Return on Assets (ROA), %	**0.3%**	**0.4%**
Return on Assets (ROA) excluding unrealised fair value changes, %	Excluding the unrealised changes in fair values increases comparability of ROA between reporting periods.	((Net operating profit excluding unrealised fair value changes	186	190
		- Taxes)	-37	-38
		÷ Average balance sheet total (average of values at the beginning and end of the period)) x100	37,305	35,207
		Return on Assets (ROA) excluding unrealised fair value changes, %	**0.4%**	**0.4%**
Equity ratio, %	The equity ratio is an investment leverage and solvency ratio that measures the amount of assets that are financed by equity. It is commonly used performance measure and as an APM improves comparability between companies.	(Equity and non-controlling interest	1,594	1,486
		÷ Balance sheet total) x 100	38,934	35,677
		Equity ratio, %	**4.1%**	**4.2%**
Long-term loan portfolio	Key indicator used in management reporting to describe MuniFin's business volume.	Loans and advances to the public and public sector entities	24,798	22,968
		- Leasing	-828	-614
		Long-term loan portfolio	**23,970**	**22,354**

Alternative Performance Measure	Definition / Explanation	Reconciliation	31 Dec 2019	31 Dec 2018
Long-term customer financing	Key indicator used in management reporting to describe MuniFin's business volume.	Loans and advances to the public and public sector entities	24,798	22,968
		Long-term customer financing	**24,798**	**22,968**
Long-term customer financing excluding unrealised fair value changes	Key indicator used in management reporting to describe MuniFin's business volume. In this indicator the unrealised fair value changes have been excluded to enhance comparability of business performance between periods.	Loans and advances to the public and public sector entities (excl. fair value changes)	24,458	22,783
		Long-term customer financing excluding unrealised fair value changes	**24,458**	**22,783**
New loans withdrawn	Key indicator used in management reporting to describe MuniFin's business volume during the reporting period. The indicator includes the amount of new loans excluding unrealised fair value changes.	**New loans withdrawn**	**3,175**	**2,953**
Long-term funding	Key indicator used in management reporting to describe MuniFin's funding volume.	Liabilities to credit institutions	1,178	823
		Liabilities to the public and public sector entities	3,862	3,871
		Debt securities issued	29,984	26,902
		Total	35,024	31,595
		-CSA collateral (received)	-1,095	-739
		Long-term funding	**33,929**	**30,856**
New long-term funding	Key indicator used in management reporting to describe MuniFin's funding activity during the reporting period. The indicator includes the amount of new funding (over 1 year) issued excluding unrealised fair values during the reporting period.	**New long-term funding**	**7,385**	**7,436**
Total liquidity	Key indicator used in management reporting to describe MuniFin's liquidity position.	Debt securities	5,716	5,863
		-Short-term customer finance	-804	-726
		Shares and participations	10	9
		Investments in securities total	4,922	5,146
		Cash and balances with central banks	4,909	3,522
		Other deposits	51	54
		Other investments total	4,960	3,576
		Total liquidity	**9,882**	**8,722**

Other measures	Definition	Reconciliation	1 Jan–31 Dec 2019	1 Jan–31 Dec 2018
Turnover	Defined in IFRS (IAS 1). Turnover is not disclosed in MuniFin's income statement so the formula for turnover should be given even though it is not considered to be an APM.	Interest and similar income (incl. Leasing)	767	712
		Commission income	3	2
		Net income from securities and foreign exchange transactions	-33	-28
		Net income on financial assets at fair value through other comprehensive income	0	0
		Net income from hedge accounting	-19	28
		Other operating income	0	0
		Turnover	**718**	**714**
			31 Dec 2019	**31 Dec 2018**
Liquidity Coverage Ratio (LCR), %	Defined in CRR.	(Liquid assets	8,291	6,760
		÷ (Liquidity outflows - liquidity inflows in a stress situation)) x100	1,928	3,826
		Liquidity Coverage Ratio (LCR), %	**430.2%**	**176.7%**
Net Stable Funding Ratio (NSFR), %	Prior to the implementation of CRR II, providing data on NSFR is based on EU 1024/2013 Article 4 and the calculation of the ratio is based on Basel III NSFR guidelines.	(Available Stable Funding (ASF)	26,179	23,852
		÷ Required Stable Funding (RSF)) x100	22,518	21,584
		Net Stable Funding Ratio (NSFR), %	**116.3%**	**110.5%**
CET1 capital ratio, %	Defined in CRR.	(Common Equity Tier 1 (CET1)	1,162	1,065
		÷ Risk-weighted assets) x100	1,400	1,606
		CET1 capital ratio, %	**83.1%**	**66.3%**
Tier 1 capital ratio, %	Defined in CRR.	(Tier 1 capital	1,510	1,413
		÷ Risk-weighted assets) x100	1,400	1,606
		Tier 1 capital ratio, %	**107.9%**	**88.0%**
Total capital ratio, %	Defined in CRR.	(Total own funds	1,510	1,413
		÷ Risk-weighted assets) x100	1,400	1,606
		Total capital ratio, %	**107.9%**	**88.0%**
Leverage ratio, %	Defined in CRR.	(Tier 1 capital	1,510	1,413
		÷ Total exposure) x100	37,982	34,832
		Leverage ratio, %	**4.0%**	**4.1%**

Note 2. Group's capital adequacy position

Table 1. Minimum own funds requirements and capital buffers

Minimum capital requirements and capital buffers, % 31 Dec 2019	**Capital requirement**	**Capital conservation buffer [1]**	**Countercyclical buffer [2]**	**O-SII [3]**	**Systemic risk buffer [4]**	**Total capital buffers**	**Total**
Common Equity Tier 1 (CET1) capital	4.50%	2.50%	0.72%	0.50%	1.50%	4.72%	9.22%
Tier 1 (T1) capital	6.00%	2.50%	0.72%	0.50%	1.50%	4.72%	10.72%
Total own funds	8.00%	2.50%	0.72%	0.50%	1.50%	4.72%	12.72%
Minimum capital requirements and capital buffers (EUR 1,000) **31 Dec 2019**	**Capital requirement**	**Capital conservation buffer [1]**	**Countercyclical buffer [2]**	**O-SII [3]**	**Systemic risk buffer [4]**	**Total capital buffers**	**Total**
Common Equity Tier 1 (CET1) capital	62,980	34,989	10,082	6,998	20,993	66,064	129,044
Tier 1 (T1) capital	83,973	34,989	10,082	6,998	20,993	66,064	150,037
Total own funds	111,964	34,989	10,082	6,998	20,993	66,064	178,028
Minimum capital requirements and capital buffers, % 31 Dec 2018	**Capital requirement**	**Capital conservation buffer [1]**	**Countercyclical buffer [2]**	**O-SII [3]**	**Systemic risk buffer [4]**	**Total capital buffers**	**Total**
Common Equity Tier 1 (CET1) capital	4.50%	2.50%	0.45%	1.00%	-	3.95%	8.45%
Tier 1 (T1) capital	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]**	**Systemic risk buffer [4]**	**Total capital buffers**	**Total**
Common Equity Tier 1 (CET1) capital	72,278	40,154	7,168	16,062	-	63,384	135,662
Tier 1 (T1) capital	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

[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 13 December 2019 (20 December 2018), 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 0.72% (31 Dec 2018: 0.45%).

[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 0.5%. The decision of the Board of FIN-FSA on 29 June 2018, effective on 1 January 2019 (31 Dec 2018: 1%).

[4] On 29 June 2018 the Financial Supervisory Authority made a macroprudential decision to impose a systemic risk buffer requirement on credit institutions. The buffer set for MuniFin is 1.5% and it will be covered by CET1. The systemic risk buffer and the O-SII additional capital requirement are parallel buffers, of which the greater is applied. The new requirement is effective on 1 July 2019.

As part of the yearly Supervisory Review and Evaluation Process, ECB updated the additional capital requirement (P2R) for MuniFin to 2.25%, effective on 1 March 2019. Considering the additional capital requirement, the new minimum level for CET1 capital ratio is 11.47% and total capital ratio 14.97%.

Future changes in capital buffers

ECB has updated the capital buffer requirement (P2R) imposed on MuniFin as part of the yearly Supervisory Review and Evaluation Process (SREP). The requirement was kept unchanged at 2.25%. The updated capital buffer requirement is effective on 1 January 2020.

Table 2. Own Funds

(EUR 1,000)	31 Dec 2019	31 Dec 2018
Share capital	42,583	42,583
Reserve for invested non-restricted equity	40,366	40,366
Retained earnings	1,121,774	1,035,692
Fair value reserve	28,882	14,961
Other reserves	277	277
Foreseeable dividend	-6,250	-6,250
Accrued interest net of deferred taxes of AT1 capital loan treated as equity	-9,433	-9,459
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**1,218,199**	**1,118,171**
Intangible assets	-14,704	-14,850
Deductions due to prudential filters on Common Equity Tier 1	-41,043	-37,865
Common Equity Tier 1 (CET1) capital	**1,162,452**	**1,065,455**
Instruments included in Additional Tier 1 capital	347,454	347,454
Additional Tier 1 (AT1) capital	**347,454**	**347,454**
Tier 1 (T1) capital	**1,509,906**	**1,412,909**
Tier 2 (T2) capital	**-**	**-**
Total own funds	**1,509,906**	**1,412,909**

Common Equity Tier 1 capital includes the profit for the year, which 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 are made up of MuniFin's debt value adjustment (DVA) and prudent valuation adjustment (PVA). 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 Art. 33).

Additional Tier 1 capital contains MuniFin's AT1 capital loan EUR 350 million at face value, from which EUR 347.5 million can be included in the own funds. The AT1 loan was issued on October 1st 2015. A more detailed description of AT1 capital loan is included in the parent company Note 34 *Subordinated liabilities*. In addition, 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 2019	31 Dec 2018
CET1 capital ratio, %	83.06	66.34
Tier 1 capital ratio, %	107.88	87.97
Total capital ratio, %	107.88	87.97

Table 4. Consolidated 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 2019 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% 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.

	31 Dec 2019		31 Dec 2018	
(EUR 1,000)	Capital requirement	Risk exposure amount	Capital requirement	Risk exposure amount
Credit and counterparty risk, standardised approach	**61,038**	**762,976**	**78,128**	**976,596**
Exposures to central governments or central banks	-	-	-	-
Exposures to regional governments or local authorities	289	3,613	353	4,413
Exposures to public sector entities	-	-	4,807	60,086
Exposures to multilateral development banks	323	4,043	951	11,884
Exposures to institutions	37,847	473,090	52,470	655,875
Exposures in the form of covered bonds	20,676	258,456	18,986	237,323
Items representing securitisation positions	-	-	13	165
Exposures in the form of shares in CIUs	84	1,049	88	1,103
Other items	1,818	22,724	460	5,746
Market risk	**-**	**-**	**-**	**-**
Credit valuation adjustment risk (CVA VaR), standard method	**17,085**	**213,561**	**19,722**	**246,528**
Operational risk, basic indicator approach	**33,841**	**423,016**	**30,644**	**383,048**
Total	**111,964**	**1,399,553**	**128,494**	**1,606,172**

The capital requirement for counterparty risk is EUR 2,896 thousand (EUR 3,617 thousand).

Table 5. Consolidated exposure by class

Exposure classes 31 Dec 2019 (EUR 1,000)	**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	5,170,467	-	-	5,170,467	4,794,138	-
Exposures to regional governments or local authorities	11,316,007	724,183	290,560	12,330,750	12,420,665	3,613
Exposures to public sector entities	342,131	-	-	342,131	283,806	-
Exposures to multilateral development banks	182,632	-	-	182,632	196,299	4,043
Exposures to international organisations	111,246	-	-	111,246	93,708	-
Exposures to institutions	1,907,819	-	506,879	2,414,698	2,574,145	473,090
Exposures to corporates	6,031,136	1,629,526	-	7,660,662	7,146,923	-
Exposures secured by mortgages on immovable property	8,515,464	7,609	-	8,523,074	8,683,596	-
Exposures in default	61,757	-	-	61,757	39,091	-
Exposures in the form of covered bonds	2,137,947	-	-	2,137,947	2,005,152	258,456
Items representing securitisation positions	-	-	-	-	574	-
Exposures in the form of shares in CIUs	9,769	-	-	9,769	9,806	1,049
Other items	31,920	-	-	31,920	27,942	22,724
Total	**35,818,296**	**2,361,319**	**797,439**	**38,977,054**	**38,275,845**	**762,976**

Exposure classes 31 Dec 2018 (EUR 1,000)	**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**

Table 6. Consolidated leverage ratio

Leverage ratio (EUR 1,000)	**31 Dec 2019**	**31 Dec 2018**
Tier 1 (T1) capital	1,509,906	1,412,909
Total exposure	37,982,245	34,832,360
Leverage ratio, %	3.98	4.06

Exposures (EUR 1,000)	**31 Dec 2019**	**31 Dec 2018**
On-balance sheet exposures (excl. derivatives and intangible assets)	36,504,446	33,988,372
Derivatives exposure	355,758	-495,677
Off-balance sheet exposure	1,122,041	1,339,665
Total	**37,982,245**	**34,832,360**

Breakdown of on-balance sheet exposure (excluding derivatives and exempted exposures) (EUR 1,000)	**31 Dec 2019 Leverage ratio exposure value**	**31 Dec 2018 Leverage ratio exposure value**
Covered bonds	2,137,947	1,887,770
Exposures treated as sovereigns	17,083,751	14,234,064
Exposures to regional governments, multilateral development banks, international organisations and public sector entities	38,732	329,683
Institutions	1,907,819	2,525,096
Secured by mortgages of immovable properties	8,515,464	8,527,156
Corporate	6,031,136	5,129,701
Exposures in default	61,757	-
Other exposures	56,393	42,555
Total	**35,833,000**	**32,676,025**

Note 3. Parent company's capital adequacy position

Table 1. Own funds

(EUR 1,000)	31 Dec 2019	31 Dec 2018
Share capital	43,008	43,008
Reserve for invested non-restricted equity	40,743	40,743
Retained earnings	1,109,919	1,024,394
Fair value reserve	28,882	14,961
Other reserves	277	277
Foreseeable dividend	-6,250	-6,250
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**1,216,578**	**1,117,133**
Intangible assets	-14,719	-14,904
Deductions due to prudential filters on Common Equity Tier 1	-41,043	-37,865
Common Equity Tier 1 (CET1) capital	**1,160,816**	**1,064,363**
Instruments included in Additional Tier 1 capital	348,896	348,406
Additional Tier 1 (AT1) capital	**348,896**	**348,406**
Tier 1 (T1) capital	**1,509,712**	**1,412,770**
Tier 2 (T2) capital	**-**	**-**
Total own funds	**1,509,712**	**1,412,770**

Common Equity Tier 1 capital includes the profit for the year, which 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 are made up of MuniFin's debt value adjustment (DVA) and prudent valuation adjustment (PVA). In addition, the amount of foreseeable dividend has been deducted from CET1 capital.

Own credit risk changes are not included in the own funds (CRR Art. 33).

Additional Tier 1 capital contains MuniFin's AT1 capital loan EUR 350 million at face value, from which EUR 348.9 million can be included in the own funds. The AT1 loan was issued on October 1st 2015. A more detailed description of AT1 capital loan is included in the parent company Note 34 *Subordinated liabilities*. In addition, 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 2. Key figures for capital adequacy

Key figures for capital adequacy	31 Dec 2019	31 Dec 2018
CET1 capital ratio, %	85.00	67.33
Tier 1 capital ratio, %	110.54	89.37
Total capital ratio, %	110.54	89.37

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 2019 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% 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.

	31 Dec 2019		31 Dec 2018	
(EUR 1,000)	Capital requirement	Risk exposure amount	Capital requirement	Risk exposure amount
Credit and counterparty risk, standardised approach	**61,090**	**763,631**	**78,249**	**978,115**
Exposures to central governments or central banks	-	-	-	-
Exposures to regional governments or local authorities	289	3,613	353	4,413
Exposures to public sector entities	-	-	4,807	60,086
Exposures to multilateral development banks	323	4,043	951	11,884
Exposures to institutions	37,833	472,917	52,466	655,825
Exposures in the form of covered bonds	20,676	258,456	18,986	237,323
Items representing securitisation positions	-	-	13	165
Exposures in the form of shares in CIUs	84	1,049	88	1,103
Equity exposure	131	1,639	131	1,639
Other items	1,753	21,912	454	5,676
Market risk	**-**	**-**	**-**	**-**
Credit valuation adjustment risk (CVA VaR), standardised method	**17,085**	**213,561**	**19,722**	**246,528**
Operational risk, basic indicator approach	**31,081**	**388,508**	**28,487**	**356,092**
Total	**109,256**	**1,365,700**	**126,459**	**1,580,735**

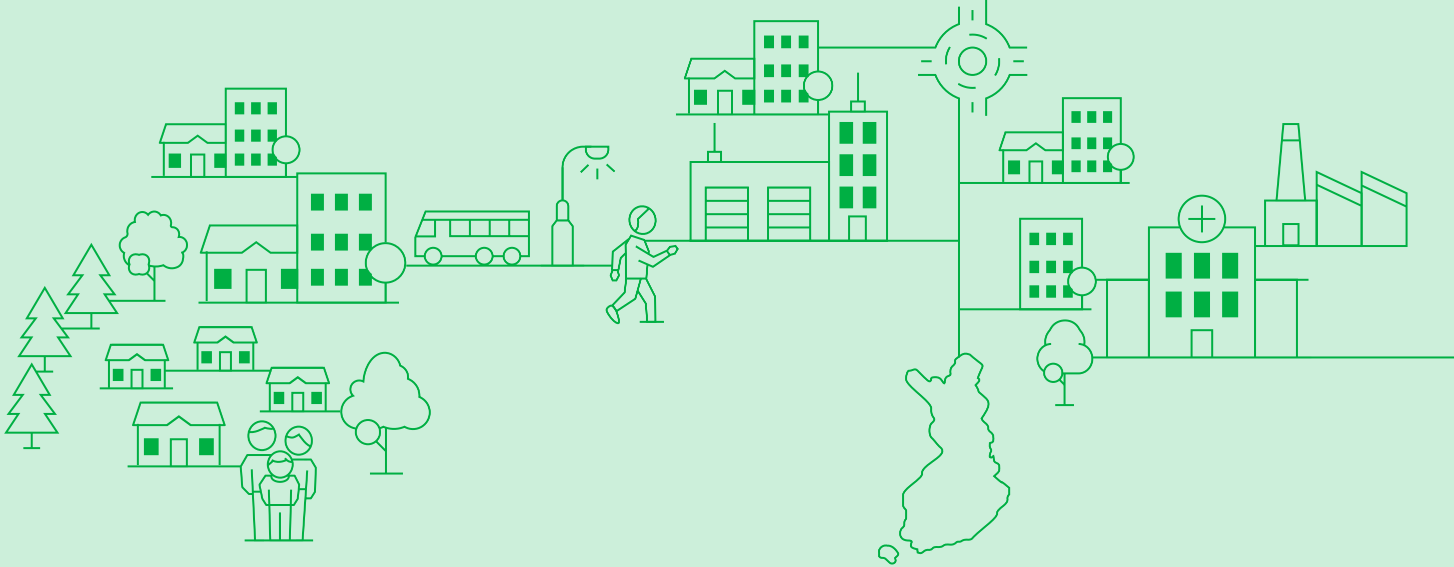
The capital requirement for counterparty risk is EUR 2,896 thousand (EUR 3,617 thousand).

Table 4. Exposure by class

Exposure classes 31 Dec 2019 (EUR 1,000)	**On-balance sheet exposure**	**Off-balance sheet exposure**	**Derivatives exposure**	**Total exposure**	**Risk-weighted assets**
Exposures to central governments or central banks	5,170,467	-	-	5,170,467	-
Exposures to regional governments or local authorities	11,316,007	724,183	290,560	12,330,750	3,613
Exposures to public sector entities	342,131	-	-	342,131	-
Exposures to multilateral development banks	182,632	-	-	182,632	4,043
Exposures to international organisations	111,246	-	-	111,246	-
Exposures to institutions	1,906,958	-	506,879	2,413,837	472,917
Exposures to corporates	6,031,136	1,629,526	-	7,660,662	-
Exposures secured by mortgages on immovable property	8,515,464	7,609	-	8,523,074	-
Exposures in default	61,757	-	-	61,757	-
Exposures in the form of covered bonds	2,137,947	-	-	2,137,947	258,456
Items representing securitisation positions	-	-	-	-	-
Exposures in the form of shares in CIUs	9,769	-	-	9,769	1,049
Equity exposures	656	-	-	656	1,639
Other items	31,101	-	-	31,101	21,912
Total	**35,817,272**	**2,361,319**	**797,439**	**38,976,029**	**763,631**

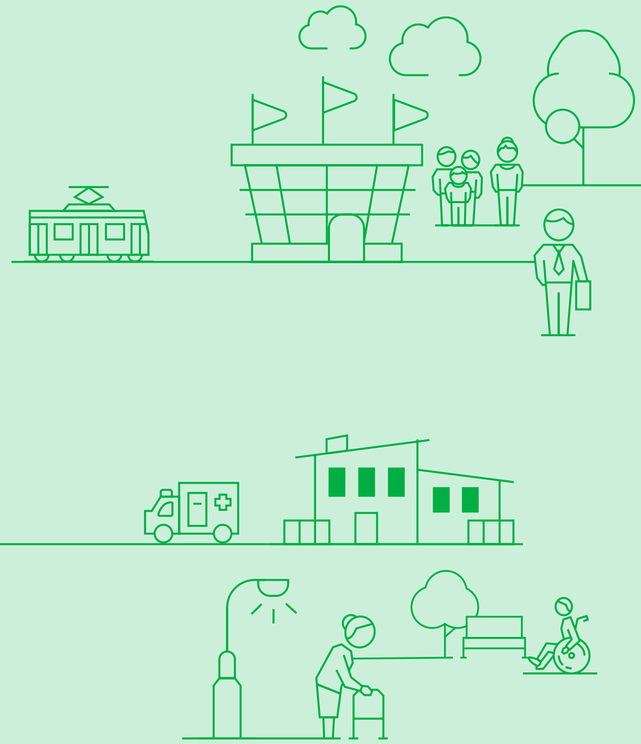
Exposure classes 31 Dec 2018 (EUR 1,000)	**On-balance sheet exposure**	**Off-balance sheet exposure**	**Derivatives exposure**	**Total exposure**	**Risk-weighted assets**
Exposures to central governments or central banks	3,920,338	-	-	3,920,338	0
Exposures to regional governments or local authorities	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**

Consolidated Financial Statements



MuniFin

MuniFin Financial Statements 1 January–31 December 2019



Consolidated Income Statement

(EUR 1,000)	Note	1 Jan–31 Dec 2019	1 Jan–31 Dec 2018
Interest and similar income	(3)	766,581	711,731
Interest and similar expense	(3)	-526,326	-475,434
NET INTEREST INCOME		**240,255**	**236,297**
Commission income	(4)	3,490	2,395
Commission expense	(5)	-4,235	-4,180
Net income from securities and foreign exchange transactions	(6, 7)	-33,373	-27,910
Net income on financial assets at fair value through other comprehensive income	(8)	114	38
Net income from hedge accounting	(9, 26)	-19,097	27,645
Other operating income	(11)	135	66
Administrative expenses	(12)	-32,268	-27,225
Depreciation and impairment on tangible and intangible assets	(30)	-6,183	-2,333
Other operating expenses	(13)	-17,626	-15,368
Credit loss and impairments on financial assets	(14)	28	564
NET OPERATING PROFIT		**131,239**	**189,989**
Income tax expense	(15)	-26,307	-38,032
PROFIT FOR THE FINANCIAL YEAR		**104,932**	**151,958**

Statement of Comprehensive Income

(EUR 1,000)	Note	1 Jan–31 Dec 2019	1 Jan–31 Dec 2018
Profit for the financial year		104,932	151,958
Components of other comprehensive income			
Items not to be reclassified to profit or loss in subsequent periods			
Net fair value changes due to changes in own credit risk on financial liabilities designated at fair value through profit or loss	(7)	10,325	48,953
Net change in Cost-of-Hedging	(26)	17,299	27,693
Items to be reclassified to profit or loss in subsequent periods			
Net change in fair value on financial assets at fair value through other comprehensive income	(8)	308	-5,093
Net amount transferred to profit or loss from the fair value reserve	(8)	-90	-162
Net changes in expected credit loss of debt instruments at fair value through other comprehensive income	(27)	-117	-96
Taxes related to components of other comprehensive income		-5,545	-14,259
Total components of other comprehensive income		22,181	57,035
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR		**127,113**	**208,993**

Consolidated Statement of Financial Position

(EUR 1,000)	Note	31 Dec 2019	31 Dec 2018
ASSETS			
Cash and balances with central banks	(20)	4,909,338	3,522,200
Loans and advances to credit institutions	(21)	818,323	1,380,544
Loans and advances to the public and public sector entities	(22)	24,798,432	22,968,118
Debt securities	(23)	5,716,318	5,862,591
Shares and participations	(24)	9,797	9,521
Derivative contracts	(19, 25)	2,244,997	1,538,610
Intangible assets	(28, 30)	14,704	14,850
Tangible assets	(29, 30)	9,041	2,427
Other assets	(31)	170,359	174,818
Accrued income and prepayments	(32)	242,450	203,061
TOTAL ASSETS	**(16, 17, 18)**	**38,933,758**	**35,676,739**

(EUR 1,000)	Note	31 Dec 2019	31 Dec 2018
LIABILITIES AND EQUITY			
LIABILITIES			
Liabilities to credit institutions	(34, 37)	1,178,256	822,504
Liabilities to the public and public sector entities	(35, 37)	3,862,053	3,870,918
Debt securities issued	(36, 37)	29,983,585	26,901,998
Derivative contracts	(19, 25)	1,762,010	2,205,427
Other liabilities	(38)	116,374	6,149
Accrued expenses and deferred income	(39)	180,917	148,377
Deferred tax liabilities	(33)	256,241	235,307
TOTAL LIABILITIES	**(16, 17, 18)**	**37,339,436**	**34,190,680**
EQUITY			
Share capital	(40)	42,583	42,583
Reserve fund	(40)	277	277
Fair value reserve of investments	(40)	807	726
Own credit revaluation reserve	(40)	12,985	4,726
Cost-of-Hedging reserve	(40)	28,075	14,235
Reserve for invested non-restricted equity	(40)	40,366	40,366
Retained earnings	(40)	1,121,774	1,035,692
Total equity attributable to parent company equity holders		**1,246,868**	**1,138,605**
Other equity instruments issued		**347,454**	**347,454**
TOTAL EQUITY		**1,594,321**	**1,486,059**
TOTAL LIABILITIES AND EQUITY		**38,933,758**	**35,676,739**

Consolidated Statement of Changes in Equity

(EUR 1,000)	Total equity attributable to parent company equity holders									
	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	Other equity instruments issued	Total equity
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 loss of financial assets at fair value 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**

(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	Other equity instruments issued	Total equity
	Total equity attributable to parent company equity holders									
Interest paid on Additional Tier 1 capital loan	-	-	-	-	-	-	-12,600	**-12,600**	-	-12,600
Dividends paid for 2018	-	-	-	-	-	-	-6,250	**-6,250**	-	-6,250
Acquisition of subsidiary shares	-	-	-	-	-	-	-	**-**	-	-
Profit for the period	-	-	-	-	-	-	104,932	**104,932**	-	104,932
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	-	-	-	8,260	-	-	-	**8,260**	-	8,260
Net change in Cost-of-Hedging	-	-	-	-	13,840	-	-	**13,840**	-	13,840
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	-	-	247	-	-	-	-	**247**	-	247
Net amount reclassified to the income statement on the sales of financial assets at fair value through other comprehensive income	-	-	-72	-	-	-	-	**-72**	-	-72
Net changes in expected credit loss of financial assets at fair value through other comprehensive income	-	-	-94	-	-	-	-	**-94**	-	-94
EQUITY AT 31 DECEMBER 2019	**42,583**	**277**	**807**	**12,985**	**28,075**	**40,366**	**1,121,774**	**1,246,868**	**347,454**	**1,594,321**

Consolidated Statement of Cash Flows

(EUR 1,000)	1 Jan–31 Dec 2019	1 Jan–31 Dec 2018
CASH FLOW FROM OPERATING ACTIVITIES	**1,444,778**	**39,300**
Net change in long-term funding	1,951,565	1,463,125
Net change in short-term funding	-298,985	-838,441
Net change in long-term loans	-1,701,327	-1,310,278
Net change in short-term loans	-79,193	20,395
Net change in investments	227,376	529,922
Net change in collaterals	1,048,093	-25,340
Interest on assets	103,695	89,571
Interest on liabilities	215,113	146,307
Other income	57,319	50,762
Payments of operating expenses	-70,685	-71,359
Taxes paid	-8,192	-15,363
CASH FLOW FROM INVESTING ACTIVITIES	**-3,646**	**-6,827**
Acquisition of tangible assets	93	-538
Acquisition of intangible assets	-3,739	-6,289
CASH FLOW FROM FINANCING ACTIVITIES	**-23,688**	**-22,000**
Paid interest on AT1 instrument	-15,750	-15,750
Dividend paid	-6,250	-6,250
Total cash flow from leases	-1,688	-
CHANGE IN CASH AND CASH EQUIVALENTS	**1,417,443**	**10,473**
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**3,573,206**	**3,562,733**
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**4,990,649**	**3,573,206**

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 2019	31 Dec 2018
Cash and balances with central banks	4,909,338	3,522,200
Loans and advances to credit institutions	81,311	51,006
TOTAL CASH AND CASH EQUIVALENTS	**4,990,649**	**3,573,206**

Notes to the Consolidated Financial Statements

Notes to the Income Statement

Notes to the Statement of Financial Position

MuniFin

Note 1. Summary of significant accounting policies

General information on the Group
Municipality Finance Group (referred to as MuniFin Group or Group) consists of Municipality Finance Plc (referred to as MuniFin or the parent 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 2020. 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 2019. 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.

Capital adequacy information in compliance with Part Eight of the EU Capital Requirements Regulation (EU No. 575/2013) is presented in a Pillar III Disclosure 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 euro. 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's 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* of this Note 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 encompasses the Financial Statements of MuniFin, the parent company, and the subsidiary Financial Advisory Services Inspira Ltd, in which the parent company has control. The Group has control over an investee if it is exposed or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Inspira is fully owned by the Group and thus the Group's control is based on votes. Intra-group holdings have been eliminated by using the acquisition method. Intra-group transactions, receivables and liabilities as well as distribution of profit have been eliminated in the Consolidated Financial Statements.

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 3 *Interest income and expense* and 4 *Commission income*. The Group has not broken down income or assets based on geographical areas due to operating in Finland only. The Group 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 Group's total interest income. The chief operating decision maker of the Group is the Chief Executive Officer of the parent company as he is responsible for allocating resources to and assess the performance of the Group.

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 reporting 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 securities and 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 and measurement of financial instruments

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 that are incremental and directly attributable to the acquisition cost or issue of the financial asset or liability, unless the financial asset or liability is measured 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, fair value through other comprehensive income or fair value through profit or loss. 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. 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 Group 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 Group 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 Group 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 Group'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 under IFRS 9.

The solely payment of principal and interest (SPPI) test
As a second step of its classification process the Group 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 it 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 Group 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. Group's shares in investment fund and some structured lending agreements do not fulfil the SPPI criteria and are thus measured at fair value through profit or loss.

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 expected credit losses are recognised in 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 Group 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 recognised in 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*. Expected credit losses are recognised in 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 other comprehensive income*.

On initial recognition of an equity investment that is not held for trading, the Group 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. The Group measures 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 shares in an investment fund, which 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 recorded 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 Group 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 the Group 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 or at fair value through profit or loss. 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 the fair value option. 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 Group applies fair value hedge accounting according to IFRS 9 to financial liabilities at amortised cost which have been hedged. Hedge accounting principles are described in section *Hedge accounting* of this Note. Note 26 *Hedge accounting* describes how hedge accounting has been implemented in the Group.

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, the Group 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.

The Group has designated short-term isued 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 Group 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 Group's risk management policy, but for which IFRS 9 fair value hedge accounting is not applicable. To eliminate the accounting mismatch resulting from the economic hedge, these debt instruments have been designated at fair value through profit or loss. 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, the embedded derivative of a debt instrument is required to be separated. The separated embedded derivative is measured at fair value through profit or loss. If the fair value of the embedded derivative cannot be separately measured, the entire hybrid instrument is designated at fair value through profit or loss. 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. The Group does not have embedded derivatives in financial liabilities at amortised cost. The Group hedges all structured interest and redemption terms in its issued debt securities with offsetting derivatives and designates them at fair value through profit and loss.

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 Group'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 Group's credit risk are presented separately in *Other comprehensive income* as changes of the *Own credit revaluation reserve*.

The Group 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 statement of financial position 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 Group 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 and measurement of financial instruments* 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 stages. 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 fulfil 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 Group'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 Group 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. PD is defined on a client level.

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 Group 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 Group 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 represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 (12MPD ≤ 1%: 12MPD doubled and increased by 0.5 percentage points/ 12MPD > 1%: 12MPD doubled or increased by 2.0 percentage points)
- Additional qualitative factors, such as forbearance on a financial asset or counterparty watch list based
- Financial assets which repayments are more than 30 days past due

Movements between stage 2 and stage 3 are based on whether a financial asset is credit impaired due to the change in credit risk. A financial asset 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.

Transition from stage 1 to stages 2 and 3 and from stage, 2 to stage 3 are immediate. Transition from stage 2 to stage 1 and from stage 3 to stage 2 requires that the criteria for transition must be met for six months before transition (*probation period*).

In the measurement of expected credit losses forward looking information and macroeconomic scenarios are included in the model. The scenarios are the same as used in Group's financial annual planning and stress testing. The macroeconomic projections cover three-year period and as no reliable macroeconomic projections exceeding a three-year time horizon are available, forward looking adjustment will be limited to a three-year period. Mainly three scenarios are used; base, optimistic and adverse. Scenarios also include probability weights. ECL model consists the following macroeconomic variables for Finnish counterparties of financial assets; Finnish government long-term EUR-rates, inflation, GDP growth, the development of residential housing prices and unemployment rate. The projections are included in the macroeconomic scenarios. For non-Finnish financial assets, stress test scenarios published by the European Central Bank are used.

Forborne and modified loans

The Group sometimes makes concessions or modifications to the original terms of loans or other receivables 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 Group 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 Group would not have agreed to them if the borrower had been financially healthy. Forbearance may involve extending the payment arrangements and the agreement of the conditions of a new loan or other receivable. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modifications of terms. It is the Group'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 or other receivable, it is disclosed and managed as an impaired stage 3 forborne asset until it is collected or written off.

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

- All of its loan facilities and other receivables 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 fair value through other comprehensive income: 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: recognised as a provision in other liabilities.

Write-off

Financial assets are written off, either partially or in full, when the Group has no reasonable expectations of recovering the financial asset. This is generally the case when the Group determines that the borrower or guarantor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. Taking into consideration the client base as well as the security and guarantee arrangements of the Group, no significant write-offs emerge. The Group's credit risks and credit risk management are further discussed in Note 2. 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 Group'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 Group are managed by entering into derivative transactions. According to the Market Risk Policy the Group's hedging strategy is to mainly 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 Group's risk management objectives and strategy. The Group does not apply cash flow hedge accounting.

The Group 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 Group 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 the Group is not included in the hedging relationship. For each financial liability in fair value hedge accounting, the Group 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. The Group 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. 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. MuniFin 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 on a 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 Group 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 be effective throughout the hedged period, until maturity. As the portfolio consists of several hedges and lending agreements, prospective effectiveness testing is performed for each new 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. The Group performs 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 16 *Financial assets and liabilities*. The fair values of derivatives included in hedge accounting are presented in Note 25 *Derivatives*. 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 26 *Hedge accounting*. The impact of hedge accounting on profit or loss is also shown in Note 9 *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 recognised 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 statement of financial position 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 in presented in Note 19.

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 17.

Leases
The Group has applied IFRS 16 Leases standard from 1 January 2019. IFRS 16 replaces IAS 17 and amends the accounting requirements for lessees. The accounting requirements for lessors remain essentially unchanged. The Group applies IFRS 16 retrospectively with the cumulative effect recognised on initial application in accordance with IFRS 16.C5(b). Consequently, the comparative information is not restated according to IFRS 16.C7. The impact of the initial application of IFRS 16 standard is presented later in this Note in section *Application of new standards*.

The application of IFRS 16 impacted the treatment of leases where the Group is the lessee. These have been previously classified as operating leases according to IAS 17. The Group is the lessee of various items such as office space, parking facilities and cars. The lease terms are negotiated on individual basis and they can contain extension options. The use of extension options are considered on contractual basis. Under IFRS 16, these lease liabilities have been measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate of at the date of initial application. Right-of-use assets are measured at an amount equal to lease liability at the date of initial application. Right-of-use assets are presented in the consolidated statement of financial position as part of

Tangible assets and lease liabilities are presented under *Other liabilities*. The Group has elected to use the following practical expedient as allowed by IFRS 16.C10(a): a single discount rate is applied to all lease liabilities. The majority of the Group's lease liability relates to office premises for which the interest rate implicit in the lease is not readily determined. Consequently, an incremental borrowing rate (IBR) is used. Maturity has been defined based on the lease term of office premises and parking space. The same maturity is used for all leases since the impact of other leases than office premises are considered not material.

The Group has not utilised the other practical expedients of IFRS 16.C10 in the retrospective application of the standard. The right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Lease payments are allocated between interest expense and the deduction of the lease liability.

Lease agreements, where the Group is the lessor, have been classified as finance leases. A lease is a finance lease if the financial benefits and risks of the asset are substantially transferred to the lessee. The finance lease agreements are recognised on the statement of financial position 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*.

The Group's finance leases are long-term leases of movable fixed assets such as machines, medical equipment, furniture, vehicles, IT and office equipment. In addition the Group offers property leasing. Leasing customers are the same as in lending, i.e. municipalities, cities, joint municipal authorities and companies owned and controlled by municipalities. The Group does not bear the residual value risk of the lease agreements.

The accounting policies of the lessee in the comparison year (2018)

According to IAS 17 Leases standard leases were classified as finance leases and operating leases depending on whether the significant risks and benefits of ownership are transferred to the lessee.

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

Intangible assets

An intangible asset is recognised in the statement of financial position only if it is probable that the expected future economic benefits that are attributable to the asset will flow to the Group and the acquisition cost can be measured reliably. The initial measurement is at cost. The acquisition cost includes all costs that are directly attributable to preparing the asset for its intended use, including in-house work. The recognised intangible asset does not include costs of using the asset, staff training expenses or administration and other overhead costs.

After initial recognition, an intangible asset is recognised at its cost less accumulated depreciation and impairment. Intangible assets are depreciated at straight-line basis over 3–8 years depending on the useful life of the asset. Depreciation begins when the asset is available for use. At each reporting date, all intangible assets are reviewed for indications of impairment and change in their useful lives. An intangible asset that is not yet available for use is tested for impairment annually. Impairment testing is performed more frequently if required due to any indication of impairment. The impairment charge is the difference between the carrying amount and the recoverable amount of the intangible asset.

Tangible assets

Tangible assets are recognised in the statement of financial position 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:

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 Group assesses at each reporting date whether there is any evidence of the tangible 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. Contingent liabilities are disclosed in Note 41 *Contingent assets or liabilities*.

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 Group 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 MuniFin 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 the Group. 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 recognised in the income statement through the tax deduction of the transaction expense amortisation. The equity is disclosed in Note 40.

Recognition of income and expenses

Net interest income

Interest income and expense from financial assets and liabilities are recognised in net interest income. Transaction expenses and premium or discount as well as commissions and fees received and paid which are considered as compensation for the risk incurred by the Group in relation to the financial instrument and are considered as an integral part of the effective interest rate, 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 Group 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 the amortisation to the next interest date is not justifiable. The Group 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 recognised in interest income.

Commission income and expenses

Fees that are not an integral part of the effective interest rate of a financial instrument are accounted for in accordance with IFRS 15 standard. Commission income in accordance with IFRS 15 is recognised when the Group transfers control of services' performance obligations to a customer. The key criterion is the transfer of control. Commission income is recognised to the extent that the Group is expected to be entitled of the services rendered to the customer.

The Group's commission income consist of fees for financial advisory services and fees for digital services. The performance obligations of the services are met either over time or at a point in time, depending on the nature of the service. The commissions for advisory services are mainly charged from the customer after the service has been performed in accordance with the terms of the agreement and commission for digital services are charged once a year and recognised over time. Other commissions are charged and recognised at the time of the service is provided.

Commission expenses include paid guarantee fees, custody fees as well as funding programme update fees. Commission expenses are recognised on accrual basis.

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 other comprehensive income

Net income on financial assets at fair value through the 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 from securities and 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 sections *Intangible assets* 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 the Group.

Expenses to authorities include stability fees as well as other administrative and supervisory fees. Stability fees are contributions paid to EU crisis resolution fund. The Resolution Fund is managed by EU Joint Resolution Council, 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, the Group pays the Financial Stability Agency (FSA) an administrative fee that is determined on the same basis as the FSA's supervisory fee. The administrative fee is recognised on an accrual basis as other operating expenses.

The FSA's supervisory fee is based on the fixed basic fee and the total assets. The supervisory fee payable to the European Central Bank is determined on the basis of the significance and the risk profile to be monitored. 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 Group'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 Group. The Group's pension plans are defined contribution plans. For defined contribution plans, the Group makes fixed payments to external pension insurance companies. After this, the Group has no legal or actual obligation to make further payments if the pension insurance company does not have sufficient assets to pay the employees' pensions for current or preceding periods. 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 carrying amount 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 Group. 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 recorded 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 Group's statutory financial statements and the consolidated financial statements. Deferred taxes which are presented in Note 33 *Deferred tax* 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 the items of the statement of financial position 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 Group concern key uncertainty factors pertaining to the future and the estimates at the reporting date. These relate 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 are presented in Note 17 *Fair values of financial assets and liabilities*. The risk management principles have been described in Note 2. The impact of financial instruments designated at fair value through profit or loss is disclosed in Note 7.

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 27.

The Group'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 Group's internal credit grading model, which assigns probabilities of default (PD) to the individual grades.
- The Group'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.

The Group 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 2018, with the exception of the following new standards, interpretations and amendments to existing standards that the Group has applied starting from 1 January 2019.

The Group has applied IFRS 16 Leases standard from 1 January 2019. IFRS 16 replaces IAS 17 and amends the accounting requirements for lessees. The accounting requirements for lessors remain essentially unchanged. The Group applies IFRS 16 retrospectively with the cumulative effect recognised on initial application in accordance with IFRS 16.C5(b). Consequently, the comparative information is not restated according to IFRS 16.C7. The new accounting policies are presented as a whole in section *Leases* of this Note.

Impact of IFRS 16 initial application
(EUR 1,000)

31 Dec 2018	
Lease liabilities disclosed as operating leases under IAS 17	8,384
1 Jan 2019	
Lease liabilities recognised based on initial application of IFRS 16 due to different treatment of extension options	693
Impact of discounting at incremental borrowing rate	-340
Total lease liabilities recognised based on initial application of IFRS 16	**8,737**

The weighted average incremental borrowing rate utilised in the initial recognition of lease liabilities on 1 Jan 2019 1.35%.

At the end of the financial year, IFRS 16 right-of-use assets totaled EUR 7,340 thousand and the lease liabilities presented in Other liabilities totaled 7,388 thousand. The initial application of IFRS 16 did not impact equity.

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 for accounting is the assessment of whether the tax authority will accept the entity's chosen tax treatment or not. When considering this the assumption is that tax authorities will have full knowledge of all relevant information in assessing a tax treatment proposed by the entity. The Group does not have open tax issues and thus the interpretation does not have an impact on the Consolidated Financial Statement.

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 prepayable financial assets with so-called negative compensation. The amendment did not have an impact on the Consolidated Financial Statement.

Amendments to IAS 28 — *Long-term Interests in Associates and Joint Ventures* (effective for financial years beginning on or after 1 January 2019). The amendments clarify that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that forms part of the net investment in the associate or joint venture. MuniFin Group does not have associated companies or joint ventures and thus the amendment does not have an impact on the Consolidated Financial Statement of the Group.

Plan amendment, Curtailment or Settlement (Amendments to IAS 19) (effective for financial years beginning on or after 1 January 2019). The amendments clarify that on amendment, curtailment or settlement of a defined benefit plan, an entity uses updated actuarial assumptions to determine its current service cost and net interest for the period and the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income (OCI). MuniFin Group does not have defined benefit plans and thus the amendment does not have an impact on the Consolidated Financial Statement of the Group.

Other new or amended standards and interpretations that entered into effect in 2019 did not have an impact on the Consolidated Financial Statement.

New and amended standards and interpretations not yet adopted

The Group has not yet adopted the following new and amended standards and interpretations already issued by the IASB. The Group 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 2019:

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.

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.

Interest Rate Benchmark Reform – Phase I (Amendments to IFRS 9, IAS 39 and IFRS 7) (effective for financial years beginning on or after 1 January 2020). Amendments have been issued to address uncertainties related to the ongoing reform of interbank offered rates (IBOR). The amendments provide targeted relief for financial instruments qualifying for hedge accounting in the lead up to IBOR reform. The amendments modify hedge accounting requirements, allowing the Group to assume that the interest rate benchmark on which the cash flows of the hedged item and the hedging instrument are based are not altered as a result of IBOR reform, thereby allowing hedge accounting to continue. Mandatory application of the amendments ends at the earlier of when the uncertainty regarding the timing and amount of interest rate benchmark-based cash flow is no longer present and the discontinuation of the hedging relationship. The amendment requires additional disclosures during the time of the applications. Phase II of the IASB's project on IBOR is underway and will address the transition to IBOR reform. The Group's current hedging relationships are disclosed in Note 26 *Hedge accounting*. Management estimates that IASB's IBOR project will have an impact on the Consolidated Financial Statements of the Group. It is not possible at this stage to accurately assess the extent of the impact.

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

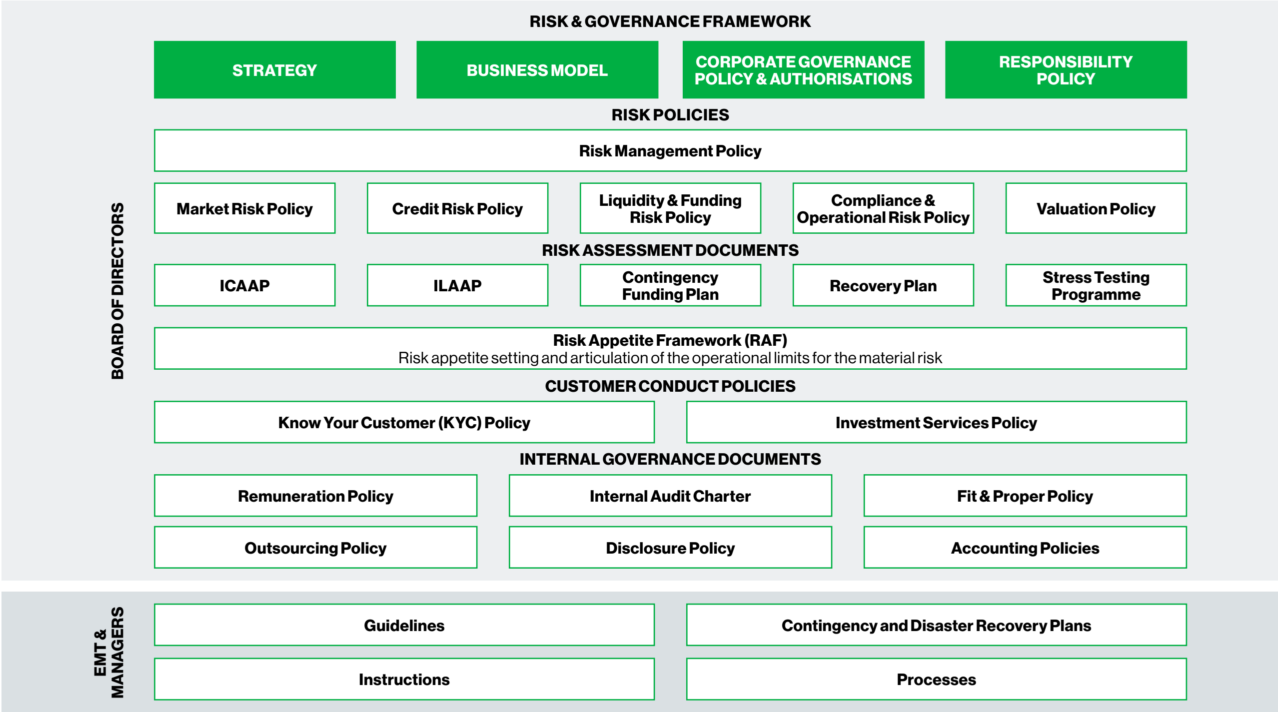
Note 2. Risk management principles and the Group's risk position

General risk management principles

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

The Group 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 Group mitigates risks it has identified with collateral, guarantees, derivatives, insurance and active risk management. According to its own analysis, the Group does not have any liabilities containing wrong-way risk (the likelihood of a default by counterparty is positively correlated with general market risk factors).

The Board of Directors has ratified the Group's Risk and Governance Framework and, as part of it, key policies and processes for the effective implementation of internal control and risk management, as shown in the figure below.



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

The Risk Appetite Framework is described in the following table. The Group's risks have remained within the set limits during the financial year.

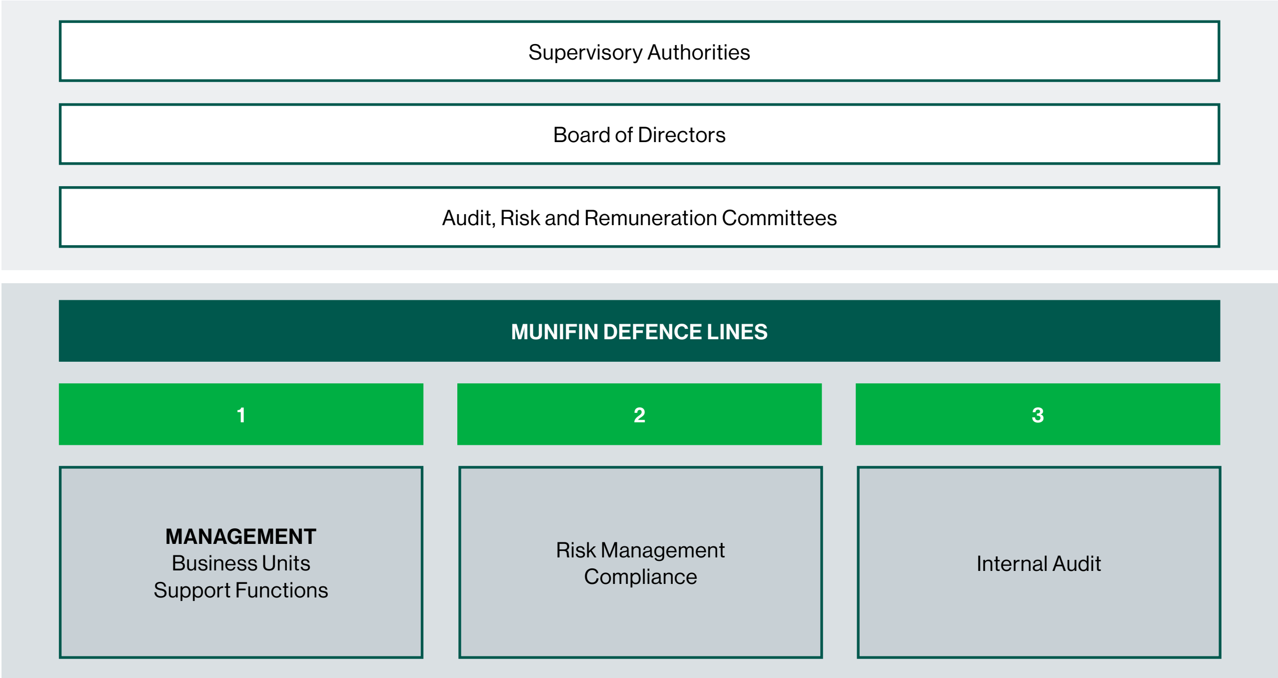
Summary of Risk Appetite Framework indicators

Risk pillars	Risk indicators	Objectives
Profitability & Capital	Credit rating Leverage ratio Net interest income ratio Cost-to-income ratio Change in CET1 ratio	Maintain a sufficient level of earnings, profitability and capital, even in stress periods.
Liquidity & Funding	Liquidity coverage ratio Net stable funding ratio Financing gap Indicators related to funding Survival horizon	Maintain a adequate liquidity buffer and a sustainable funding position and profile, even in stress periods.
Credit risk	Non-performing exposures Impairments Average credit rating (liquidity portfolio) Geographic concentration (liquidity portfolio)	Maintain a sound credit risk profile appropriate for MuniFin's business model.
Market risk	EVE NII risk Basis risk FX risk Spread risk Fair valuation risk	Maintain a sound market risk profile appropriate for MuniFin's business model.
Operational risk	Reputation Indicators related to HR IT and business continuity risks Cybercrime and data protection risks Internal fraud and financial crime Process and conduct risk Regulatory breaches Operational losses	Maintain a effective operational control and compliance to support functional and responsible operations.

There were no material changes in the Group's risk position in 2019. Risks remained within the set limits and, based on the Group's assessment, risk management met the requirements set for it. The volatility arising from the unrealised fair value changes of financial instruments has increased significantly because of the adoption of IFRS 9. The Group continuously monitors and analyses the volatility arising from valuations and prepares for its potential profitability and solvency impacts. The Group'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 Group's risk positions.

Group's risk management and internal control practices are developed continuously. For example during 2019, the Group further developed its valuation uncertainty assessment, the Prudent Valuation calculations. In addition, the Valuation and model risk management framework was developed and implemented during 2019, which includes among others the Independent Price Verification (IPV) as well as the independent model validation. The IPV process validates that market prices and inputs are accurate and valuations serve as a valid base for internal and external reporting. Independent model validation aims to provide an independent assessment of the soundness and accuracy of valuation models and their output, but also serves to identify and assess the potential impact of assumptions and limitations applied in the modelling technique or calibration of model input. The IPV and model validation are performed by independent third-party service providers.

Organisation of risk and capital adequacy management
For the implementation of internal control framework, the Group applies the three lines of defence model. MuniFin Group has an extensive risk management organisation, which covers all operations including the tasks and responsibilities of different departments and decision-making bodies. Internal control framework is supported by controls of different processes. Internal control is performed at all levels of the organisation and the nature and scope of operations are taken into account in defining the operating methods used in internal control. Internal control is primarily carried out in line operations, where internal control is continuous and part of day-to-day operations.



The Board of Directors of the parent company is responsible for the parent company's management and the proper arrangement of its operations. The Board of Directors is responsible for the duties specified for it in the Limited Liability Companies Act, the Articles of Association and other legislative provisions and regulations issued by the authorities. Duties and principles of the Board of Directors are confirmed as part of MuniFin's Corporate Governance Policy and the appended Board's Rules of Procedure. The Corporate Governance Statement is available on MuniFin's website. The main duties of the Board include confirming the Group's strategy, annual operating plan and budget, monitoring the Group's financial situation and ensuring through supervision that the management, and risk management in particular, are properly arranged by management. The Board of Directors also makes all the far-reaching decisions related to the nature and scope of the activities.

As requested by the regulation and in order to organise its work as efficiently as possible, the Board has established an Audit Committee, a Risk Committee, and a Remuneration Committee for assistance and for the preparation of matters. The Board may also establish other committees as necessary.

The purpose of the Audit Committee, as a preparatory body, is to assist the Board of Directors in duties related to financial reporting and internal control. The Audit Committee supervises work of the external and internal audit.

The Risk Committee assists the Board in the matters in regards to the Group's overall risk appetite and strategy, and in overseeing that the management complies with the risk strategy decided by the Board. The Risk Committee is to estimate whether the prices for the services that tie up capital correspond with the Group's business model and risk strategy and, in the event this is not the case, to present a remedy plan to the Board. Furthermore, the Risk Committee shall assist the Remuneration Committee in the establishment of sound remuneration policies, and to assess whether the incentives provided by the remuneration system take into consideration the Group's risks, capital and liquidity requirements, and the likelihood and timing of the earnings.

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 Group'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 persons reporting to the CEO.

In the first line of defence, management, business units and support functions have the ownership of material risk types and are responsible for identifying, evaluating and managing risks. The Group's risk appetite, guidelines, processes, controls and limits guide this work. All employees who work in the first line of defence are responsible for the risk management of their own work.

The second line of defence includes Risk Management and Compliance functions. The independent Risk Management function supplements the business units' work with their independent supervisory and reporting responsibilities. They are also responsible for risk-related guidelines and processes, advice and information, risk strategy, limits and risk appetite alignment as part of RAF. The second line of defence informs the Board and the Executive Management Team (EMT) on issues that may have or has had an impact on MuniFin Group's risk profile or strategy. The main responsibilities of the Compliance function include reporting to the management of the changes in the regulations affecting the operations of MuniFin Group including their potential impact on operational activities. In addition, the tasks include internal communication, training and advice for the staff to ensure compliance with the regulations, assess internal processes for ensuring compliance with the regulations as well as communication with the supervising authorities and monitoring the related actions within the Group.

In the third line of defence, an independent internal audit regularly conducts risk-based audits in accordance with the annual plan approved by the Board. The task of internal audit is to conduct an independent review of the first two lines of defence.

Stress testing

MuniFin Group 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 group-level solvency and liquidity adequacy. Risk management, independent of the Group's business, is responsible for designing stress scenarios in cooperation with business units. The main objective of the stress testing conducted in early 2019 was to analyse the development of MuniFin's solvency and profitability in 2019–2023. Business, market and credit risks and their estimated economic impact under different circumstances were tested. In addition, the liquidity adequacy of the Group 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 equity in the Group during the period under review is sufficient even under very unfavourable conditions. In addition, the Group's total own funds also fulfilled the expected 3% leverage ratio. In terms of liquidity, stress tests showed that the liquidity of the Group is sufficient even under very unfavourable conditions.

In late 2019, the Group also carried out a so-called reverse stress testing using several scenarios as part of its recovery plan. This stress test aims to find extremely negative scenarios that threaten the Group's business continuity, as well as the steps that the Group can take to cope with the situation and continue its business.

Capital adequacy management principles

MuniFin Group's objectives regarding equity in relation to risk taking and the operating environment are defined as part of the annual planning. The planning horizon extends to at least the following three 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 Group 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 Group'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 Group'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 parent company approves the final strategy. Management ensures that the operative measures of the Group 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 Group's risk position and its effect on the Group'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.

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 Group hedges against exchange rate risks by using derivative contracts to translate all foreign currency denominated funding into euros, the Group'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, the Group uses credit mitigation techniques 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 (MGB) are used for reducing the risk exposure amount related to the counterparty risk of derivative counterparties.

In addition to the Report of the Board of Directors and the Consolidated Financial Statements, the Group publishes a separate Pillar III Disclosure Report on capital adequacy and risk management, which is available in English on MuniFin's website.

Strategic risks

Strategic risk means that MuniFin Group would choose a wrong strategy for pursuing financially profitable operations or that the Group 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 Directors. The existing strategy extends to 2022, and its need for updating is evaluated at least annually.

Refinancing risk and liquidity risk

Refinancing risk means the risk related to refinancing of the loans. The Group manages refinancing risk by limiting the average maturity of the financial assets and liabilities. The financing gap is calculated as the difference between average maturity of assets (customer financing and liquidity portfolio) and the average maturity of liabilities (funding portfolio).

Liquidity risk means the risk of the Group not being able to perform its payment obligations arising from settling financial agreements or other financing activities on their due date. The Group manages the liquidity risk by limiting the short-term Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) and the survival horizon for the long-term liquidity.

In order to maintain its conservative liquidity and funding risk profile as defined in RAF, MuniFin Group has identified several sources of liquidity. Primary sources of liquidity are short-term and long-term funding, liquidity portfolio, repo markets and cash. Central Bank liquidity facility is a second source of liquidity.

MuniFin Group follows the principle of prefunding and acquires its funding in the form of short- and long-term funding. This is to ensure that adequate liquidity is available at any given time and in all market conditions. For this purpose, the required minimum amount for the liquidity portfolio is determined through scenario analyses to meet internal and regulatory liquidity requirements. In the case that the Group needed to acquire additional liquidity, it would first assess the availability of funding from the capital markets in the form of short-term or long-term funding. If this is not available, the Group could utilise the liquidity portfolio as a source of liquidity by selling assets or using them as collateral in the repo markets. MuniFin Group has existing agreements in place with counterparties to enter into bilateral repurchase agreements (repo agreements). These repo arrangements could be used to cover funding redemptions in short-term and to cover any unexpected changes in the liquidity position.

A key aspect of the Group's liquidity and funding risk management is the maintenance of a well-balanced, low risk liquidity portfolio in the form of highly liquid assets, which could be liquidised or used as collateral in the repo markets in the event that the Group experiences an unexpected and sudden liquidity shortage. The overall liquidity portfolio mainly consists of prefunding that is raised from the markets, but not yet utilised for customer financing. In case of a sudden outflow of funds, the Group holds a liquidity portfolio at such a level that its LCR and survival horizon have a sufficient buffer to continue normal operations even under such conditions. The assets used to manage the Group's liquidity are presented in the table below:

Liquidity portfolio (EUR 1,000)	**31 Dec 2019**	**31 Dec 2018**
Liquidity group 1	7,967,061	6,553,828
Liquidity group 2	1,511,703	1,651,657
Counterbalancing buffer	**9,478,763**	**8,205,485**
Liquidity groups 3–5	361,995	436,349
Total liquidity portfolio	**9,840,758**	**8,641,834**

The liquidity portfolio is divided into liquidity quality groups so that group 1 includes highly liquid assets and group 2 liquid assets. Assets in the liquidity group 3 are liquid in normal market conditions.

The secondary source of liquidity is a public funding source in the form of the existing Central Bank liquidity facility (Note 42 *Collateral given*), which is considered as an alternative, if primary sources were either not sufficient, available in a timely manner or the cost of using primary sources of liquidity were considered too high. Loans granted by MuniFin Group to the municipal sector are accepted as collateral for this facility and the Group has pre-pledged part of the loan portfolio in order to ensure access to this liquidity source at any time, if required. In addition, the Group is able to increase the facility through pledging additional municipal loans to the collateral pool. The facility is tested regularly to ensure that the liquidity is available intraday, if needed.

Liquidity stress testing is a key tool used by MuniFin Group to assess liquidity adequacy and these stress tests are mainly performed on a monthly basis. The main objective is to determine whether the Group has sufficient liquidity to continue its normal business operations under both business-as-usual or baseline scenario and stress scenarios.

The Group prepares, in connection with the business planning process, a Liquidity and funding (L&F) plan. The plan is approved by the Board of the parent company and reviewed on a quarterly basis by Risk Committee, which reports its observations to the Board. The L&F plan and the quarterly review of the plan include regular back testing. The L&F plan is part of the Group's ongoing Internal Liquidity Adequacy Assessment Process ("ILAAP") and it includes forecasting and planning of funding and liquidity position. The L&F plan is aligned with the ICAAP baseline scenario during the annual business planning process. The plan aims at keeping the level of the Group's liquidity and funding within its risk appetite defined by the Board. It also takes into account economic perspective to ensure a sufficient long-term profitability for the Group.

Within the ILAAP performed annually, the Group assesses the adequacy of its liquidity resources to cover the forecast liquidity needs under the business-as-usual and stress scenarios. ILAAP is an integral part of the Group's risk management framework that includes other strategic processes such as RAF, ICAAP, Recovery Plan and remuneration framework. RAF formalises the interplay between these processes. Stress tests are required to assess the Group's liquidity adequacy in a comprehensive, integrated and forward-looking manner. ILAAP consists of a baseline scenario and adverse scenarios and is fully aligned with the ICAAP baseline scenario; the only exception being the assumed restricted access to funding markets.

The Group aims to maintain strong credit ratings in all market conditions to be able to execute its funding plan in an efficient and cost-efficient manner. To support the cost efficiency and quick execution, the Group has in place debt issuance programmes. Standardised programmes provide the Group the flexibility and ease of execution. Furthermore, MuniFin Group uses bilateral loan document with some funding counterparties. All funding issued by MuniFin is explicitly guaranteed by the Municipal Guarantee Board (MGB).

Funding concentration risk refers to the risk that the Group is overly dependent on funding from a limited number of products, markets, geographical area, investors or maturities. To mitigate the risk, MuniFin Group ensures the funding diversification across various products, markets, maturities and investor type and by not placing too much reliance on any one funding source. MuniFin Group aims to keep this mix relatively stable, with the goal being to ensure continuity of funding while simultaneously avoiding overreliance on any specific market. To maintain access to diversified funding sources, the Group aims to maintain its good relationship with investors and arranging banks and to actively seek new potential markets and investors. The diversification of the Group's funding requirements is set out and planned for in detail through the annual Liquidity and funding plan.

The table below presents the maturity breakdown of MuniFin Group's financial liabilities.

Breakdown of financial liabilities by maturity 31 Dec 2019 (EUR 1,000)	**0–3 months**	**3–12 months**	**1–5 years**	**5–10 years**	**over 10 years**	**Total**
Liabilities to credit institutions	1,096,374	841	7,049	30,054	67,817	1,202,135
Liabilities to the public and public sector entities	56,844	151,225	1,159,614	1,510,590	1,610,580	4,488,853
Debt securities issued	6,837,785	4,188,237	14,343,596	4,143,021	1,891,846	31,404,486
Other liabilities	96,239	-	-	-	-	96,239
Total	**8,087,242**	**4,340,303**	**15,510,259**	**5,683,666**	**3,570,243**	**37,191,712**

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 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 1,178,256 thousands (EUR 739,260 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 20–40% is expected to be called during 2020. During 2019 24% (29%) of such debts matured prematurely.

The table below presents the maturity breakdown of MuniFin Group's derivatives at fair value.

Breakdown of derivatives by maturity 31 Dec 2019 (EUR 1,000)	**0–3 months**	**3–12 months**	**1–5 years**	**5–10 years**	**over 10 years**	**Total**
Derivative assets	95,560	82,925	623,358	404,855	1,038,300	2,244,997
Derivative liabilities	-112,249	-224,564	-846,044	-143,177	-435,976	-1,762,010
Interest flows related to derivatives assets and liabilities	178,431	272,975	800,940	231,360	95,151	1,578,857

Breakdown of derivatives by maturity31 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

The Group hedges all of 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 on one line. Derivatives containing call option are shown in the table in the maturity bucket during which the derivative can be called on the next call date.

The Group has presented the maturities of financial assets based on their maturity dates in Note 18.

Market liquidity risk

Market liquidity risk means that the Group 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 Group 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.

The valuation techniques and valuation inputs are described in more detail in Note 17 *Fair values of financial assets and liabilities*.

Credit risk

Credit risk means the risk of a counterparty defaulting on its commitments to the Group. Credit risk has been identified as a material risk in the Risk Appetite Framework, but is mitigated by the loan guarantees and/or collaterals as well as the fact that MuniFin only finances public-sector entities with a zero-percent risk weighting. Customer financing is one source of credit risk, but credit risk can also arise from other types of receivables, such as bonds, short-term debt instruments and derivative contracts as well as off-balance sheet items such as unused credit facilities, limits and guarantees. In addition, geographical concentration and settlement risks are considered as credit risks.

The table below presents the Group's exposure to credit risk grouped by the items on the statement of financial position.

		Carrying values of items		
31 Dec 2019 (EUR 1,000)	**Carrying amount**	**Subject to credit risk framework**	**Subject to CCR framework**	**Not subject to capital requirements or subject to deduction from capital**
Assets				
Cash and balance with central banks	4,909,338	4,909,338	-	-
Loans and advances to credit institution	818,323	132,194	686,129	-
Loans and advances to the public and public sector entities	24,798,432	24,798,432	-	-
Debt securities	5,716,318	5,716,318	-	-
Shares and participations	9,797	9,797	-	-
Derivative contracts	2,244,997	-	2,244,997	-
Intangible assets	14,704	-	-	14,704
Tangible assets	9,041	9,041	-	-
Other assets	170,359	170,571	-	-213
Accrued income and prepayments	242,450	72,605	169,845	-
Total assets	**38,933,758**	**35,818,296**	**3,100,970**	**14,491**
Off-balance sheet amounts		**2,361,319**		

31 Dec 2018 (EUR 1,000)	Carrying amount	Carrying values of items		
		Subject to credit risk framework	Subject to CCR framework	Not subject to capital requirements or subject to deduction from capital
Assets				
Cash and balance with central banks	3,522,200	3,522,200	-	-
Loans and advances to credit institution	1,380,544	104,694	1,275,850	-
Loans and advances to the public and public sector entities	22,968,118	22,968,118	-	-
Debt securities	5,862,591	5,862,591	-	-
Shares and participations	9,521	9,521	-	-
Derivative contracts	1,538,610	-	1,538,610	-
Intangible assets	14,850	-	-	14,850
Tangible assets	2,427	2,427	-	-
Other assets	174,818	123,471	51,347	-
Accrued income and prepayments	203,061	68,153	134,908	-
Total assets	**35,676,739**	**32,661,175**	**3,000,714**	**14,850**
Off-balance sheet amounts		**2,796,753**		

The Act on the Municipal Guarantee Board (MGB Act) sets limits on the operations of MuniFin Group, which can also be considered as an important credit risk management tool. The Municipal Guarantee Board (MGB) is an institution governed by the public law, whose purpose under the MGB Act is to secure and develop the joint municipal funding. To accomplish this purpose MGB can grant guarantees to the funding of credit institutions controlled or owned directly or indirectly by municipalities if the funding is used for financing of municipalities, joint municipal authorities and municipality-controlled entities, as well as non-profit corporations and other non-profit entities nominated by the Housing Finance and Development Centre of Finland (ARA). All funding issued by MuniFin has a MGB guarantee. In addition, MuniFin has guarantees granted by MGB to mitigate the counterparty credit risk of some derivative counterparties.

Financing, derivatives and other services can be offered only to customers and objects in accordance with the MGB Act. The MGB Act permits MuniFin to finance municipalities, joint municipal authorities as well as non-profit corporations and other non-profit entities or entities controlled by the above-mentioned and nominated by the Housing Finance and Development Centre of Finland which, on the basis of their social function, rent or produce and maintain housing (in accordance with the state aid rules of the European Community). In addition, financing is permitted to entities owned or controlled by municipalities or joint municipal authorities and municipal enterprises which carry out statutory public service tasks or those which are of direct service to municipalities or other services essential to the public, where the provision of such services is necessary to ensure their availability or efficient production because of local or regional circumstances.

In addition to the MGB Act, a material credit risk management principle is that all customer financing and the derivatives offered to customers have to obtain the so-called zero risk weight in MuniFin Group's capital adequacy calculation. As a business model, this zero risk requirement for all customer financing, is different from other credit institutions' and the credit risk principles inherent and required in their credit risk policies. MuniFin Group's Credit risk policy and credit risk management practices rely significantly on this principle.

Despite MuniFin Group's business model, which is based on the zero risk-weighting customers, the Group has a risk rating system for all customers, which assigns a risk score to the customer as part of the credit granting process. In addition, independent Risk Management prepares an annual analysis of all customers, which identifies their respective risk rating. The annual analysis and update of the risk rating is based on the financial statements, the report of the board of directors and other available information. The customer's risk rating will affect the need for further analysis of the customer in the process of granting financing, the financing decisions, decision-making power inside the Group and possibly also the pricing.

In addition, the credit risk management is based on proactive customer relationship management, customer knowledge (KYC), careful selection of counterparties, credit rating and volume limits for counterparties, trustworthy and professional staff, decision-making powers, comprehensive documentation and an on-going internal monitoring and reporting.

MuniFin Group's customers consist of municipalities, joint municipal authorities and municipality-controlled entities, as well as non-profit corporations and other non-profit entities nominated by the Housing Finance and Development Centre of Finland (ARA). MuniFin may only grant loans and leasing financing without a separate security directly to a municipality or joint municipal authority. For others, loans must be secured with an absolute guarantee or a deficiency guarantee issued by a municipality or joint municipal authority, or by a state deficiency guarantee. The guarantee or guarantee scheme has to fully cover the financing provided. If a real estate is used as collateral for the loan, a mortgage is attached to it. MuniFin Group calculates the ratio loan-to-value (LTV) for its loans with real estate collateral and regularly monitors the development of LTV values. Because such a guarantee is required to reduce the credit risk, all loans granted are classified as zero-risk when calculating capital adequacy. The Group does not bear the residual value risk for the objects of its leasing services. MuniFin Group has not had credit losses from the financing of its customers after the realisation of any real estate collateral and guarantees have taken place. The Group has customer-specific credit limits in use from the beginning of 2020.

The Group defines the non-performing exposures (NPE) as receivables that fulfil at least one of the criteria's below.

- Significant receivables past due more than 90 days;
- MuniFin Group's Credit Group's (customer financing) or ALM Group's (liquidity portfolio) assessment that it is probable that the debtor is not likely to pay its obligation in full without realisation of the collateral, regardless of whether there have been any delays in payments or how many days the payments have been past due.

Non-performing exposures are treated as stage 3 receivables in the calculation of expected credit losses.

Forborne receivables include receivables that have been renegotiated due to the customer's financial difficulties. Details about the principles applied to forborne and modified receivables are described in accounting policies (Note 1) in section *Forborne and modified receivables*.

The non-performing exposures and forborne receivables are disclosed in Note 27 in table *Non-performing and forborne receivables on financial assets and other commitments*.

Impairments for loans and other financial assets, which are classified according to IFRS 9 to amortised cost or fair value through other comprehensive income, are measured using the expected credit loss model under IFRS 9 standard. In addition, lease agreements and off-balance sheet credit commitments are subject to expected credit loss calculation due to the credit risk involved in the contracts. The methods used for calculating expected credit losses are described in the accounting policies (Note 1) in section *Impairment of financial assets*. Quantitative information on the Group's expected credit losses and their development during the financial year is presented in the Notes 14 and 27.

The amount of the Group's expected credit losses in relation to the Group's statement of financial position is very low, 0.001% (0.001%). Expected credit losses in relation to the total assets and commitments included in the calculations are 0.001% (0.001%). The amount of expected credit losses is materially influenced by the Group's conservative risk management principles, in particular the guarantee and collateral arrangements used by the Group, as well as the customer base and the high credit ratings of counterparties. A significant part of the expected credit losses is generated by the Group's liquidity portfolio (Note 27).

MuniFin Group 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. The credit rating of investments is one of the key indicators used by the Group to make investment decisions concerning its liquidity portfolio. Nominal values of debt securities and equivalent credit values of derivatives (fair value method) are used in monitoring credit risk.

The table below presents the credit rating breakdown of the liquidity portfolio investments.

Credit rating	31 Dec 2019	31 Dec 2018
AAA	24.4%	24.1%
AA+	54.3%	47.2%
AA	4.5%	4.8%
AA-	12.0%	13.7%
A+	2.3%	5.4%
A	0.9%	3.0%
A-	1.5%	1.7%
Total	**100.0%**	**100.0%**

The Group limits the credit risk arising from its derivative counterparties with ISDA Credit Support Annexes. The Group has a total of 57 Credit Support Annexes in force of which 49 require daily margining. 37 of these agreements are in active use and of this 36 require daily margining. New CSA agreements have been made during 2019 in preparing for Brexit.

Breakdown of nominal value of derivative agreements by counterparty credit rating

(EUR 1,000)	31 Dec 2019	31 Dec 2018
Finnish municipalities	2,023,949	1,992,140
Central counterparty	27,171,984	17,674,051
AA	20,107,295	19,537,993
A	13,145,277	17,725,086
BBB	2,320,387	2,672,840
Total	**64,768,893**	**59,602,109**

Given and received cash collateral based on CSA agreements

(EUR 1,000)	31 Dec 2019	31 Dec 2018
Given collateral	-686,155	-1,275,850
Given collateral to central counterparty	-158,494	-164,345
Received collateral	1,095,340	739,260
Received from central counterparty	96,239	-
Net collateral	**346,930**	**-700,935**

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 Group's expected negative exposures, taking into account the probability of MuniFin's own default and the loss given default.

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

MuniFin Group may also be exposed to settlement risks in the course of its operations in respect to issued bonds, customer financing, liquidity portfolio investments or derivative transactions. Group's customer financing transactions are dependent on the operations of domestic payment banks and similarly the capital market transactions are dependent on the operations of the Group's international payment banks and clearing parties. In order to minimise the credit risk associated with clearing and settlement, transactions are in principle carried out through delivery against payment.

Taking into account the nature of MuniFin Group's business model, the Group has acknowledged risk concentration in customer financing in i.e. geographical areas (locally), customer types (municipal sector, central government subsidised housing production) and collaterals (mortgagesl). The Group's largest subportfolio in the customer financing is for municipality sector. This risk concentration on the municipality sector is unavoidable and inherent to MuniFin's business model. In addition, a considerable portion of the exposure to customers is indirectly related to Finnish sovereign risk due to the deficiency guarantee in loan arrangements for the government-subsidised housing production. This is inextricably linked to MuniFin's business model and to its place in the Finnish social system. Furthermore MuniFin has been established specifically to finance the municipal sector and social housing and its operations are limited by the MGB Act. Therefore, the concentration risk inherent in the business model cannot be significantly modified. On the other hand, all Group's receivables are in the zero risk weight class in capital adequacy calculations and therefore the concentration risk is acceptable considering the Group's business model and in line with the Group's business strategy. In addition, in the calculation of large exposures, all receivables from customers are zero after mitigation techniques. Due to these factors, the Group accepts the concentration risk in its customer financing as inherent to its business model.

Concentration risk is also inherent in the liquidity portfolio due to investments being made in a narrow selection of high quality liquid assets. In order to manage this to the extent possible, MuniFin Group defines country-specific limits on the concentration of its liquidity portfolio in any single country.

The table below presents the geographical distribution of the liquidity portfolio investments (including Central bank counterparty).

Country/counterparty	31 Dec 2019	31 Dec 2018
Central Bank	50.2%	41.1%
Finland	9.1%	10.1%
Sweden	5.4%	4.5%
France	5.3%	7.1%
Canada	5.1%	6.3%
Norway	4.7%	3.7%
Netherlands	3.9%	4.5%
Supranational	2.6%	3.3%
Great Britain	2.5%	3.7%
Denmark	2.3%	2.2%
Germany	2.1%	2.8%
Australia	2.1%	3.5%
Belgium	1.1%	1.7%
New Zealand	1.1%	1.0%
South Korea	1.0%	1.3%
Japan	0.5%	1.2%
Luxembourg	0.4%	0.1%
Switzerland	0.3%	1.1%
Austria	0.3%	0.9%
Total	**100.0%**	**100.0%**

Market risk

Market risk is the risk of the Group 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 Group has identified under RAF the following sources of material market risks: Interest rate risk (Interest Rate Risk in the Banking Book, IRRBB), FX risk and spread risk as well as fair valuation risk.

The Group hedges its market risk with derivative contracts. Derivative contracts may only be used for hedging purposes. The Group applies fair value hedge accounting in accordance with IFRS 9 and IAS 39 standards. The application of hedge accounting is described in more detail in the accounting policies (Note 1) in section *Hedge accounting* and quantitative information on current hedging relationships and their impact on earnings is presented in the Notes 26 *Hedge accounting* and 9 *Net income from hedge accounting*. The Group also makes use of the fair value option (FVO) permitted by IFRS 9 standard in some of its hedging relationship to eliminate or to significantly reduce accounting mismatch due to hedging. The use of fair value option is described in the accounting policies (Note 1) in section *Classification and measurement of financial liabilities - Designated at fair value through profit or loss*. Quantitative information of the use of fair value option is presented in Note *7 Financial assets and liabilities designated at fair value through profit or loss* and in Note *16 Financial assets and liabilities*.

Interest rate risk

MuniFin Group manages the interest rate risk arising from the business operations by means of derivative contracts. Interest rate risk arises mainly from the difference in euribor rate terms between assets and liabilities.

MuniFin Group's strategy for interest rate risk in the banking book (IRRBB) is to ensure sustainable profitability regardless of the level of interest rates. Therefore, the focus is to stabilise earnings by minimising Earnings at Risk (NII risk) measure. Economic Value of Equity (EVE) of interest rate sensitivity is a secondary measure but also kept within risk appetite.

The main principle for managing the Group's interest rate risk hedging is to utilise interest rate swaps to hedge fixed-rate exposures back-to-back to floating-rate. The back-to-back interest rate swaps replicate all the details of underlying liability, asset or portfolio of assets to offset the risk of the underlying transaction.

However, given the strategy of earnings stabilisation, the Group may decide on strategic mismatch position, i.e. leave fixed-rate exposures unhedged in order to steer the Group's net interest income towards the objective of earnings stabilisation. The strategic mismatch position is created using assets only, and include both fixed and revisable rate loans as well as fixed-rate investments in the liquidity portfolio. Derivatives are not used in the creation of the strategic mismatch.

Earnings at Risk

Earning at Risk refers to the negative impact of interest rate changes on the Group's net interest income. Eight different scenarios are used to measure interest rate risk, the most unfavourable one being considered. The impact is examined in relation to the Group's total net interest income for the previous year. The figures take into account the zero floor option in the loans.

Earnings at Risk (EUR 1,000)	**Impact**	**In relation to net interest income**
31 Dec 2019	-14,288	6.5%
31 Dec 2018	-7,600	3.6%

The following scenarios are used in calculating the Earnings at Risk:

1. Parallel shock up (+100bp);
2. Parallel shock up (+200bp);
3. Parallel shock down (-100bp);
4. Parallel shock down (-200bp);
5. Steepener shock (short rates down and long rates up);
6. Flattener shock (short rates up and long rates down);
7. Short rates shock up; and
8. Short rates shock down.

Economic Value of Equity

Economic Value of Equity describes the interest rate sensitivity of the present value of the statement of financial position. 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 unfavourable one being considered. The impact will be examined in relation to the Group's total own funds. The figures take into account the zero floor option in the loans.

Economic Value of Equity (EUR 1,000)	**Impact**	**In relation to own funds**
31 Dec 2019	-114,219	7.6%
31 Dec 2018	-37,100	2.6%

Basis risk

The basis risk measure captures interest rate risk that results from narrowing or widening of tenor basis swap spreads. The impact is examined in relation to the Group's total net interest income for the previous year. The figures take into account the zero floor option in the loans.

Basis risk (EUR 1,000)	**Impact**	**In relation to net interest income**
31 Dec 2019	-19,348	8.8%
31 Dec 2018	-6,231	2.9%

The worst of two scenarios is used to measure basis risk:

- Narrowing basis swap spreads assuming that the basis swap spreads are narrowed to zero from their current level and
- Widening basis swap spreads is based on basis swap spread changes experienced during the euro area crises in 2011.

FX risk

MuniFin Group's FX risk strategy is in line with its conservative market risk management. The Group does not bear any material foreign exchange risk. The Group's lending and other customer finance items are denominated in euros. FX risk is hedged by translating all foreign currency denominated funding and liquidity investments into euros using derivatives. However, due to collateral management related to Central Counterparty clearing (CCP) activities, the Group may temporarily incur minor FX risk. The functionality of the cross-currency derivative markets are always assessed before entering into new funding or liquidity investments in order to ensure that currency hedges can be put in place according to hedging strategy in order to hedge all transactions back to euros. Furthermore, funding transactions with possible call options are hedged fully for potential call situations.

The tables below present the breakdown of the Group's financial assets and liabilities into domestic and foreign currency denominated items.

Financial assets in domestic and foreign currencies 31 Dec 2019 (EUR 1,000)	**Domestic currency**	**Foreign currency**	**Total**
Cash and balances with central banks	4,909,338	-	4,909,338
Loans and advances to credit institutions	740,664	77,659	818,323
Loans and advances to the public and public sector entities	24,152,839	-	24,152,839
Debt securities	5,552,820	163,498	5,716,318
Shares and participations	9,797	-	9,797
Other assets	158,494	-	158,494
Total	**35,523,952**	**241,156**	**35,765,108**

Financial liabilities in domestic and foreign currencies 31 Dec 2019 (EUR 1,000)	**Domestic currency**	**Foreign currency**	**Total**
Liabilities to credit institutions	1,178,256	-	1,178,256
Liabilities to the public and public sector entities	3,688,168	173,885	3,862,053
Debt securities issued	7,899,909	22,083,677	29,983,585
Other liabilities	20,563	75,676	96,239
Total	**12,786,895**	**22,333,237**	**35,120,133**

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**

Financial liabilities in domestic and foreign currencies 31 Dec 2018

(EUR 1,000)	Domestic currency	Foreign currency	Total
Liabilities to credit institutions	822,504	-	822,504
Liabilities to the public and public sector entities	3,630,214	240,705	3,870,918
Debt securities issued	5,446,636	21,455,363	26,901,998
Total	**9,899,353**	**21,696,067**	**31,595,421**

The tables below present the currency breakdown of the Group's financial assets and liabilities at their carrying amount and their corresponding hedges.

Distribution of financial assets by currency based on carrying amounts and hedges 31 Dec 2019 (EUR 1,000)	**USD**	**JPY**	**NOK**	**CHF**	**Other currencies**	**Total**
Loans and advances to credit institutions	76,712	52	3	364	529	77,659
Debt securities	105,001	-	-	30,282	28,214	163,497
Other assets	-	-	-	-	-	-
Currency risk total	**181,713**	**52**	**3**	**30,646**	**28,743**	**241,156**
Hedging derivatives	-105,001	-	-	-30,282	-28,214	-163,497
Total	**76,712**	**52**	**3**	**364**	**529**	**77,659**

Distribution of financial liabilities by currency based on carrying amounts and hedges 31 Dec 2019 (EUR 1,000)	**USD**	**JPY**	**NOK**	**CHF**	**Other currencies**	**Total**
Long-term funding	-10,414,390	-2,989,036	-1,809,795	-1,216,650	-3,300,302	-19,730,173
Short-term funding	-2,468,682	-	-	-	-58,706	-2,527,388
Other liabilities	-75,676	-	-	-	-	-75,676
Currency risk total	**-12,958,749**	**-2,989,036**	**-1,809,795**	**-1,216,650**	**-3,359,008**	**-22,333,237**
Hedging derivatives	12,883,073	2,989,036	1,809,795	1,216,650	3,359,008	22,257,561
Total	**-75,676**	**-**	**-**	**-**	**-**	**-75,676**
Net currency position	**1,035**	**52**	**3**	**364**	**529**	**1,983**

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
Total	**1,376**	**15**	**224**	**354**	**78**	**2,047**

Distribution of financial liabilities by currency based on carrying amounts and hedges 31 Dec 2018
(EUR 1,000)

	USD	JPY	GBP	CHF	Other currencies	Total
Long-term funding	-10,499,222	-2,895,708	-1,282,568	-1,413,786	-3,093,915	-19,185,197
Short-term funding	-2,119,801	-	-391,069	-	-	-2,510,870
Currency risk total	**-12,619,022**	**-2,895,708**	**-1,673,637**	**-1,413,786**	**-3,093,915**	**-21,696,067**
Hedging derivatives	12,619,022	2,895,708	1,673,637	1,413,786	3,093,915	21,696,067
Total	**-**	**-**	**-**	**-**	**-**	**-**
Net currency position	**1,376**	**15**	**224**	**354**	**78**	**2,047**

Currency position

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

Currency position (EUR 1,000)	Currency position
31 Dec 2019	1,983
31 Dec 2018	2,047

Price risk

Price risk refers to the possibility of changes in the market values of the prefunding 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 liquidity portfolio spread risk is managed in Group's Treasury within the portfolio management framework. Main principle in portfolio management is to guarantee a sufficient amount of earnings within the liquidity requirements, such as LCR, NSFR and survival horizon.

Spread risk (EUR 1,000)	Change in required return	Impact	In relation to own funds
31 Dec 2019	0.22 p.p.	-22,200	1.5%
31 Dec 2018	0.32 p.p.	-33,900	2.4%

The change in required return is calculated at a 99% confidence level.

Fair valuation risk

MuniFin Group has identified fair valuation risk as material risk for its operations. IFRS 9 implementation increased the amount of financial instruments measured at fair value, and increased the volatility affecting both profit and loss and MuniFin Group's own funds. In addition to the profit, the Group's own funds are also affected by valuations measured at fair value through *Other comprehensive income* (OCI). The classification and measurement of financial instruments are described in more detail in the accounting policies (Note 1) in section *Classification and measurement of financial instruments*. The volatility of the fair valued instruments arises from changes in market risk factors, such as tenor basis spreads as the spread between different interest rate curves changes. In accordance with the market practice and IFRS 13 standard, the Group discounts hedged items with the swap curve and the hedging derivatives with the OIS curve, which causes a significant part of the Group's valuation volatility. The unrealised fair value changes of financial instruments are recorded in the income statement under line item *Net income from securities and foreign exchange transactions* and they are specified in Note 6. In addition, the unrealised fair values of financial instruments in hedge accounting (both hedged items and hedging instruments) are recorded under line item *Net income from hedge accounting* and specified in Note 9. The Group continuously monitors and analyses the volatility arising from valuations and prepares for its potential profitability and solvency impacts.

Operational risks

Operational risk refers to 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 financial results or the interruption of operations.

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

MuniFin Group uses various methods for managing operational risks. The Group 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 of the parent company. 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 Group 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 Group has insurance policies related to its operations and assesses the level of insurance cover on regular basis. The Group has a contingency plan for situations in which business operations are interrupted. The plan is designed to ensure that the Group 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 Group's continuity planning.

MuniFin Group's compliance function continuously monitors the development of legislation and regulations issued by authorities relevant to the Group's operations and ensures that any regulatory changes are appropriately responded to. The legislation and regulations 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 Group's compliance. The Group has tried to minimise the risks related to this with an active contact with the authorities and interest groups as well as organisation of the Group's internal compliance function (incl. reporting, impact analysis).

The Group 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 Group 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 Group 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 Group has outsourcing arrangements of which the most important are IT and infrastructure services. 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 to the Executive Management Team and the Board of Directors of the parent company. No material losses were incurred as a result of operational risks in 2019.

Notes to the Income Statement

Note 3. Interest income and expense

2019 (EUR 1,000)	Interest and similar income	Interest and similar expense	Net
Assets			
Financial assets at amortised cost			
Cash and balances with central banks	-	-18,992	-18,992
Loans and advances to credit institutions	741	-3,657	-2,916
Loans and advances to the public and public sector entities	191,481	-	191,481
Debt securities	149	-1,172	-1,024
Other assets	98	-	98
Derivatives in hedge accounting	-78,835	-	-78,835
Financial assets at fair value through other comprehensive income			
Debt securities	0	-1,690	-1,690
Financial assets designated at fair value through profit or loss			
Debt securities	20,024	-	20,024
Financial assets mandatorily at fair value through profit or loss			
Loans and advances to the public and public sector entities	1,364	-	1,364
Debt securities	-	0	0
Derivative contracts	63,986	-91,324	-27,338
Leasing	4,969	-	4,969
Interest on non-financial other assets	6	-	6
Interest on assets	**203,981**	**-116,834**	**87,147**

2019 (EUR 1,000)	**Interest and similar income**	**Interest and similar expense**	**Net**
Liabilities			
Financial liabilities at amortised cost			
Liabilities to credit institutions	4,378	-1,569	2,809
Liabilities to the public and public sector entities	-	-64,333	-64,333
Debt securities issued	3,305	-362,051	-358,745
Other liabilities	-	-2,090	-2,090
Derivatives in hedge accounting	-	496,796	496,796
Financial liabilities designated at fair value through profit or loss			
Liabilities to credit institutions	-	-1,245	-1,245
Liabilities to the public and public sector entities	-	-36,018	-36,018
Debt securities issued	-	-103,427	-103,427
Financial liabilities at fair value through profit or loss			
Derivative contracts	554,916	-335,447	219,469
Interest on non-financial other liabilities	-	-109	-109
Interest on liabilities	**562,600**	**-409,492**	**153,107**
Grand Total	**766,581**	**-526,326**	**240,255**

Interest income on financial assets recognised on stage 3 in the expected credit loss (ECL) calculations were EUR 373 thousand in 2019. These are shown on the line item *Loans and advances to the public and public sector* entities under *Financial assets at amortised cost*.

Interest on non-financial other liabilities consists of interest on lease liabilities of EUR 109 thousand recorded according to IFRS 16 Leases standard.

In 2019, there were EUR 192 million of interest income on financial assets and EUR 26 million of interest expense on financial assets calculated using the effective interest rate method. Accordingly, there were EUR 8 million of interest income on financial liabilities and EUR 430 million of interest expense on financial liabilities calculated using the effective interest rate method.

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 short-term lending. 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 / discount 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 included 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, in addition 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 and 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 expense 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.

2018 (EUR 1,000)	**Interest and similar income**	**Interest and similar expense**	**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
Leasing	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 expense**	**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**

Note 4. Commission income

The following table presents commission income from the contracts with customers divided by service type.

(EUR 1,000)	2019	2018
Financial advisory services	2,903	2,061
Digital services	579	334
Other operations	8	0
Total	**3,490**	**2,395**

EUR 3.5 (2.4) million out of commission income from the contracts with customers has been received from municipalities, joint municipal authorities and municipality-controlled entities.

MuniFin Group does not disclose segment information of IFRS 8 Operating Segments standard in the Consolidated Financial Statement as the Group operates in a single segment, which also forms the basis of reporting to the Group's chief operating decision-maker. Information regarding segment reporting can be found in the accounting policies (Note 1) in section *Segment reporting*.

The commissions for advisory services are mainly charged from the customer after the service has been performed in accordance with the terms of the agreement and commission for digital services are charged once a year and recognised over time.

Other commissions are charged and recognised at the time of the service is provided.
The accounting treatment of the commission income from the contracts with customers is presented in the accounting policies (Note 1) in section *Commission income and expenses*.

Note 5. Commission expense

(EUR 1,000)	2019	2018
Commission fees paid	183	219
Other	4,052	3,960
Total	**4,235**	**4,180**

The line item *Other* includes paid guarantee fees, custody fees and funding programme update costs.

Note 6. Net income from securities and foreign exchange transactions

2019 (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	-	-	-79	-79
Debt securities	-	-1	8	7
Shares and participations	37	-	275	312
Financial assets designated at fair value through profit or loss				
Debt securities	2,468	-	-1,797	672
Financial liabilities designated at fair value through profit or loss				
Issued commercial papers	-	-	-1,941	-1,941
Liabilities to credit institutions	-	-	1,360	1,360
Liabilities to the public and public sector entities	-	-	-78,173	-78,173
Debt securities issued	-	-	-545,095	-545,095
Derivative contracts at fair value through profit or loss	6	-2,032	590,161	588,135
Total net income from securities transactions	**2,511**	**-2,033**	**-35,279**	**-34,801**
Net income from foreign exchange transactions	**14,471**	**-10,827**	**-2,215**	**1,428**
Total	**16,982**	**-12,861**	**-37,494**	**-33,373**

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**

Note 7. Financial assets and liabilities designated at fair value through profit or loss

Financial assets and liabilities designated at fair value through profit or loss (EUR 1,000)	**Nominal value 31 Dec 2019**	**Carrying amount 31 Dec 2019**	**Nominal value 31 Dec 2018**	**Carrying amount 31 Dec 2018**
Financial assets				
Debt securities	3,843,076	3,940,456	3,612,233	3,701,796
Total financial assets	**3,843,076**	**3,940,456**	**3,612,233**	**3,701,796**
Financial liabilities				
Liabilities to credit institutions	-	-	45,000	46,399
Liabilities to the public sector entitities	1,870,254	1,548,639	1,986,668	1,569,561
Debt securities issued	11,855,073	11,391,573	10,958,060	9,990,255
Total financial liabilities	**13,725,327**	**12,940,212**	**12,989,728**	**11,606,215**

Debt securities designated at fair value through profit or loss are exposed to credit risk up to the carrying amounts of those securities at 31 Dec 2019.

Change in fair value in Financial assets designated at fair value through profit or loss in Net income from securities (EUR 1,000)	**31 Dec 2019**	**31 Dec 2018**	**Fair value change recognised in the income statement 2019**	**of which due to credit risk**	**of which due to market risk**
Financial assets					
Debt securities	53,109	54,906	-1,797	-2,788	991
Total financial assets	**53,109**	**54,906**	**-1,797**	**-2,788**	**991**

Financial assets that MuniFin Group has designated to be measured at fair value through profit or loss include debt securities in the liquidity portfolio of which the interest rate risk is hedged with interest rate and cross currency interest rate swaps. The designation is made as it significantly 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 IFRS 9 business model. MuniFin Group does not have credit derivatives hedging these financial assets.

Change in fair value in Financial liabilities designated at fair value through profit or loss (EUR 1,000)	**31 Dec 2019**	**31 Dec 2018**	**Fair value change recognised in the income statement 2019**	**Change in own credit risk recognised in the other comprehensive income 2019**	**Total fair value change in 2019**
Financial liabilities					
Liabilities to credit institutions	-	-1,360	1,360	39	1,399
Liabilities to the public sector entitities	-218,911	-140,738	-78,173	9,281	-68,891
Debt securities issued	328,802	875,841	-547,039	1,004	-546,035
Total financial liabilities	**109,891**	**733,743**	**-623,852**	**10,325**	**-613,527**

Net change in fair value in Net income from securities (EUR 1,000)	**Cumulative change in fair value 31 Dec 2019**	**Fair value change recognised in the income statement 2019**
Financial liabilities designated at fair value through profit or loss	109,891	-623,852
Derivative contracts hedging financial liabilities	-131,456	590,431
Net change in fair value	**-21,564**	**-33,421**

MuniFin Group 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. The financial liabilities designated at fair value through profit or loss consist of financial liabilities, which have been hedged according to the Group's risk management policy, but which are not 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 above describes the net impact of these financial liabilities and their hedges on profit or loss.

When a financial liability is designated at fair value through profit or loss, the fair value change, with exception to MuniFin's own credit risk that is presented in other comprehensive income as changes of the *Own credit revaluation reserve*, is presented in *Net income from securities and foreign exchange transactions*.

MuniFin Group 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 designated at fair value through profit of loss are not traded.

Change in fair value of financial liabilities designated at fair value through profit or loss in Net income from securities
(EUR 1,000)

	31 Dec 2018	Change in fair value 2018	of which due to credit risk	of which due to market risk
Financial assets				
Debt securities	54,906	-19,591	-21,739	2,148
Total financial assets	**54,906**	**-19,591**	**-21,739**	**2,148**

Change in fair value of financial liabilities designated at fair value through profit or loss
(EUR 1,000)

	Cumulative change in fair value 2018	Change in fair value 2018	of which due to credit risk	of which due to market risk
Financial liabilities				
Liabilities to credit institutions	-1,360	2,872	428	2,444
Liabilities to the public and public sector entities	-140,738	-4,578	15,383	-19,961
Debt securities issued	875,841	620,782	33,142	587,641
Total financial liabilities	**733,743**	**619,077**	**48,953**	**570,123**

Net change in fair value in Net income from securities
(EUR 1,000)

	Cumulative change in fair value 2018	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**

Note 8. Net income on financial assets at fair value through other comprehensive income

(EUR 1,000)	2019	2018
Capital gains from financial assets	36	-
Capital losses from financial assets	-11	-125
Unrealised gains transferred from fair value reserve	100	162
Unrealised losses transferred from fair value reserve	-11	-
Total	**114**	**38**

The income statement line *Net income on financial assets at fair value through other comprehensive income* contains the transferred cumulative gain or loss of the financial assets measured at fair value through other comprehensive income from fair value reserve in equity.

Note 9. Net income from hedge accounting

(EUR 1,000)	2019	2018
Unrealised gains from hedging instruments	410,768	9,654
Unrealised losses from hedging instruments	-38,098	-46,662
Net income from hedging instruments	**372,670**	**-37,008**
Unrealised gains from hedged items	17,021	110,980
Unrealised losses from hedged items	-408,787	-46,326
Net income from hedged items	**-391,767**	**64,653**
Net income from hedge accounting	**-19,097**	**27,645**

Unrealised gains and losses include risks to which fair value hedge accounting is applied. The foreign exchange difference of both hedging instruments and hedged items are presented on line item *Net income from foreign exchange transactions* in Note 6. A specification of the net income from hedge accounting is presented in Note 26.

Note 10. Impact of the reclassified financial assets and liabilities

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 standard. 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 2019**	**Fair value gain or loss for the period (i)**	**EIR determined as at 1 Jan 2018 (ii)**	**Interest revenue recognised during 2019**
Loans and advances to the public sector entities	Fair value option	Amortised cost	126,171	225	0.14%	203

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 other comprehensive income on initial application of IFRS 9 standard matured during 2018.

Note 11. Other operating income

(EUR 1,000)	2019	2018
Other income from credit institution operations	135	66
Total	**135**	**66**

The line includes fees from lending and capital gains from sold tangible assets.

Note 12. Administrative expenses

(EUR 1,000)	2019	2018
Personnel expenses		
Wages and salaries	14,519	12,473
Pension costs	2,623	2,306
Other social security expenses	410	443
Total personnel expenses	**17,553**	**15,222**
Other personnel related costs	2,179	2,182
Marketing and communication expenses	1,515	1,054
IT and information expenses	10,458	8,372
Other administrative expenses	563	395
Total	**32,268**	**27,225**

	2019		2018	
Personnel	**Average**	**End of financial year**	**Average**	**End of financial year**
Permanent full-time	148	155	132	136
Permanent part-time	4	4	4	3
Fixed term	10	8	11	12
Total	**162**	**167**	**147**	**151**

Note 13. Other operating expenses

(EUR 1,000)	2019	2018
Regulatory expenses		
Contributions to the Single Resolution Fund	4,328	4,977
Other administrative and supervisory fees	2,179	1,850
Rental expenses	396	2,182
External services	9,025	5,014
Credit rating fees	926	564
Audit fees	274	255
Insurances	301	222
Other expenses from credit institution operations	197	305
Total	**17,626**	**15,368**

The change in rental expenses results from the application of IFRS 16 Leases standard (as of 1 Jan 2019), whereby leases under the IFRS 16 standard are recognised as assets on MuniFin Group's statement of financial position. Depreciation is recorded on the lease asset and an interest expense is recognised on the lease liability. The rental expenses recognised for the leases are adjusted correspondingly. IFRS 16 implementation decreased MuniFin Group's rental expenses by EUR 1.7 million during the financial year. The impact of the initial application of IFRS 16 standard is disclosed in the accounting policies (Note 1) in section *Application of new standards*. The accounting policies for leases are presented in section *Leases*.

Note 14. Credit losses and impairments on financial assets

MuniFin Group's credit risks are described in Note 2 *Risk management principles and the Group's risk position* in section *Credit Risk*. The accounting policies of the expected credit loss calculations and impairment stages are described in Note 1 *Summary of significant accounting policies* in section *Presentation of allowance for ECL in the statement of financial position* and *Measurement of ECLs.*

Total expected credit losses and impairments 2019
(EUR 1,000)

	Expected credit losses			Realised credit losses		
	Additions	**Subtractions**	**Profit and loss**	**Additions**	**Subtractions**	**Profit and loss**
Expected credit losses on financial assets at amortised cost						
Cash and balances with central banks	0	0	0	-	-	-
Loans and advances to credit institutions	-1	24	22	-	-	-
Loans and advances to the public and public sector entities	-159	49	-110	-180	-	-180
Leasing receivables	-1	0	-1	-	-	-
Debt securities	0	0	0	-	-	-
Cash collateral to CCPs in Other assets	-1	1	0	-	-	-
Credit commitments (off-balance sheet item)	-3	2	-1	-	-	-
Total expected credit losses on financial assets at amortised cost	**-166**	**77**	**-89**	**-180**	**-**	**-180**
Expected credit losses and impairments on other financial assets						
Debt securities at fair value through other comprehensive income	-53	170	117	-	-	-
Guarantee receivables from the public and public sector entities	-	-	-	-	180	180
Total expected credit losses and impairments on other financial assets	**-53**	**170**	**117**	**-**	**180**	**180**
Total	**-219**	**247**	**28**	**-180**	**180**	**0**

MuniFin Group assesses all the expected credit losses on an individual basis and does not use collective assessment.

During the financial year 2019 MuniFin group wrote-off loans and advances to the public and public sector entities totalling EUR 180 (434) thousand. Group has collaterals in form of properties of the equivalent for loans and advances to the public and public sector entities in addition to deficiency guarantees from the State. The written-off receivables are shown in the statement of financial position on line *Guarantee receivables from the public and public sector entities* under *Other assets* and shown as a decrease of the write-offs recoveries in the income statement. Group will not incur a final credit losses.

Total expected credit losses and impairments 2018 (EUR 1,000)	Expected credit losses			Realised credit losses		
	Additions	**Subtractions**	**Profit and loss**	**Additions**	**Subtractions**	**Profit and loss**
Expected credit losses on financial assets at amortised cost						
Cash and balances with central banks	0	-	0	-	-	-
Loans and advances to credit institutions	-2	362	360	-	-	-
Loans and advances to the public and public sector entities	-14	71	57	-434	-	-434
Leasing receivables	0	1	1	-	-	-
Debt securities	0	1	1	-	-	-
Cash collateral to CCPs in Other assets	-5	50	45	-	-	-
Credit commitments (off-balance sheet item)	-3	5	3	-	-	-
Total expected credit losses on financial assets at amortised cost	**-24**	**491**	**467**	**-434**	**-**	**-434**
Expected credit losses and impairments on other financial assets						
Debt securities at fair value through other comprehensive income	-103	199	96	-	-	-
Guarantee receivables from the public and public sector entities	-	-	-	-	434	434
Total expected credit losses and impairments on other financial assets	**-103**	**199**	**96**	**-**	**434**	**434**
Total	**-127**	**690**	**564**	**-434**	**434**	**0**

MuniFin Group assesses all the expected credit losses on an individual basis and does not use collective assessment. Subsidiary shares do not include expected credit losses.

Note 15. Income tax expense

(EUR 1,000)	2019	2018
Tax based on the profit for the financial year	2,067	5,491
Tax based on the profit for previous financial years	-7	0
Deferred tax	24,247	32,541
Total	**26,307**	**38,032**
Profit before tax	131,239	189,989
Taxes at domestic tax rate	26,248	37,998
Non-taxable income	-	-
Other deductibles	-10	-7
Non-deductible expenses	76	34
Taxes for previous financial years	-7	0
Losses of group companies	-	7
Total	**26,307**	**38,032**
Income tax percentage	20.0%	20.0%
Effective tax base	20.0%	20.0%

Notes to the Statement of Financial Position

Note 16. Financial assets and liabilities

Financial assets 31 Dec 2019 (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	4,909,338	-	-	-	-	4,909,338	4,909,338
Loans and advances to credit institutions	818,323	-	-	-	-	818,323	818,323
Loans and advances to the public and public sector entities	24,101,739	51,100	-	-	-	24,152,839	26,250,281
Debt securities	804,358	-	3,940,456	971,505	-	5,716,318	5,716,940
Shares and participations	-	9,797	-	-	-	9,797	9,797
Derivative contracts	-	860,695	-	-	1,384,303	2,244,997	2,244,997
Other assets	158,494	-	-	-	-	158,494	158,494
Total	**30,792,252**	**921,591**	**3,940,456**	**971,505**	**1,384,303**	**38,010,106**	**40,108,170**

Loans and advances to the public sector entities includes EUR 182,865 thousand receivables based on leasing agreements for which the Group applies fair value hedge accounting. Unhedged leasing is not presented in this Note of financial assets and liabilities, as lease assets are not regarded as a financial assets for the purpose of IFRS 9 classification.

Other assets includes EUR 158,494 thousands of cash collateral given to central counterparties.

Financial liabilities 31 Dec 2019 (EUR 1,000)	Amortised cost	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	1,178,256	-	-	-	1,178,256	1,178,371
Liabilities to the public and public sector entities	2,313,414	-	1,548,639	-	3,862,053	3,886,369
Debt securities issued	18,592,012	-	11,391,573	-	29,983,585	30,034,713
Derivative contracts	-	918,706	-	843,304	1,762,010	1,762,010
Other liabilities	96,239	-	-	-	96,239	96,239
Total	**22,179,921**	**918,706**	**12,940,212**	**843,304**	**36,882,143**	**36,957,703**

Other liabilities includes EUR 96,239 thousands of cash collateral received from central counterparties.

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	164,341	-	-	-	-	164,341	164,341
Total	**28,199,795**	**601,552**	**3,701,796**	**1,434,383**	**1,004,212**	**34,941,738**	**36,864,763**

Loans and advances to the public sector entities includes EUR 109,836 thousand receivables based on leasing agreements for which the Group applies fair value hedge accounting. Unhedged leasing is not presented in this Note of financial assets and liabilities, as lease assets are not regarded as a financial assets 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)	**Amortised cost**	**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**

Note 17. Fair values of financial assets and liabilities

Fair value is the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Level 1:
Inputs that are quoted market prices (unadjusted) for identical instruments in active markets that the Group can access at the measurement date. The market is considered to be active if trading is frequent and price data is regularly available. These quotes (mid) represent the price for an orderly transaction between parties in the market on the valuation date. Level 1 instruments comprise mainly investments in debt securities.

Level 2:
Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This level includes instruments valued using quoted prices for identical instruments in markets that are considered less than active or other valuation techniques in which all significant inputs are directly or indirectly observable from market data. Level 2 instruments comprise mainly of OTC derivatives, Group's issued plain-vanilla financial liabilities and Group's lending agreements.

Level 3:
This level includes all instruments for which the valuation technique includes inputs that are not observable and the unobservable inputs have a significant effect on the instrument's valuation. Non-observable inputs are used only to the extent that no relevant observable inputs are available. If the valuation input is illiquid, extrapolated or based on historical prices, the valuation input will be defined as a level 3 valuation input as these types of inputs are per definition non-observable. This level includes financial instruments with equity and FX structures due to impact of the utilisation of inputs such as dividend yield on the fair value measurement. In addition, level 3 contains some interest rate structures with long maturities (exceeding e.g. 35 years) or in currencies where the interest rate curve is not considered liquid for all maturities.

Due to the nature of MuniFin Group's funding portfolio (i.e. issued bond is hedged back-to-back), if a swap that is hedging an issued bond is designated as a level 3 instrument, then the issued bond will also be designated as a level 3 instrument. Same principle applies to other portfolios and levels of the hierarchy as well. The Group does not have non-financial assets or liabilities measured at fair value nor does it have assets or liabilities with non-recurring fair value measurements.

The following table presents financial instruments by the level of the fair value hierarchy into which the fair value measurement is categorised.

Financial assets 31 Dec 2019 (EUR 1,000)		Fair value			
	Carrying amount	Level 1	Level 2	Level 3	Total
Financial assets at fair value					
Fair value through other comprehensive income					
Debt securities	971,505	798,874	172,631	-	971,505
Designated at fair value through profit or loss					
Debt securities	3,940,456	3,812,154	128,302	-	3,940,456
Mandatorily at fair value through profit or loss					
Loans and advances to the public and public sector entities	51,100	-	1,072	50,028	51,100
Debt securities	-	-	-	-	-
Shares in investment funds	9,797	9,797	-	-	9,797
Fair value through profit or loss					
Derivative assets	860,695	-	727,687	133,007	860,695
Derivatives in hedge accounting	1,384,303	-	1,380,574	3,728	1,384,303
Total financial assets at fair value	**7,217,853**	**4,620,824**	**2,410,266**	**186,764**	**7,217,853**
In fair value hedge accounting					
At amortised cost					
Loans and advances to the public and public sector entities	8,729,122	-	9,326,515	-	9,326,515
Total in fair value hedge accounting	**8,729,122**	**-**	**9,326,515**	**-**	**9,326,515**
Financial assets at amortised cost					
Cash and balances with central banks	4,909,338	4,909,338	-	-	4,909,338
Loans and advances to credit institutions	818,323	136,694	681,629	-	818,323
Loans and advances to the public and public sector entities	15,372,617	-	16,872,666	-	16,872,666
Debt securities	804,358	-	804,980	-	804,980
Other assets	158,494	-	158,494	-	158,494
Total financial assets at amortised cost	**22,063,130**	**5,046,032**	**18,517,769**	**-**	**23,563,801**
Total financial assets	**38,010,106**	**9,666,857**	**30,254,549**	**186,764**	**40,108,170**

Financial liabilities 31 Dec 2019 (EUR 1,000)		Fair value			
	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	-	-	-	-	-
Liabilities to the public and public sector entities	1,548,639	-	1,409,955	138,684	1,548,639
Debt securities issued	11,391,573	-	8,313,844	3,077,729	11,391,573
Fair value through profit or loss					
Derivative liabilities	918,706	-	460,463	458,243	918,706
Derivatives in hedge accounting	843,304	-	830,658	12,646	843,304
Total financial liabilities at fair value	**14,702,222**	**-**	**11,014,920**	**3,687,302**	**14,702,222**
In fair value hedge accounting					
Liabilities to credit institutions	82,916	-	83,031	-	83,031
Liabilities to the public and public sector entities	2,313,414	-	2,337,730	-	2,337,730
Debt securities issued *	18,391,689	-	18,291,146	151,671	18,442,817
Total in fair value hedge accounting	**20,788,019**	**-**	**20,711,908**	**151,671**	**20,863,579**
Financial liabilities at amortised cost					
Liabilities to credit institutions	1,095,340	-	1,095,340	-	1,095,340
Debt securities issued	200,323	-	200,323	-	200,323
Other liabilities	96,239	-	96,239	-	96,239
Total financial liabilities at amortised cost	**1,391,902**	**-**	**1,391,902**	**-**	**1,391,902**
Total financial liabilities	**36,882,143**	**-**	**33,118,730**	**3,838,973**	**36,957,703**

* MuniFin Group's fixed-rate benchmark bond issuances are presented in level 2 due the fact 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 Group's fixed-rate benchmark bonds fair value is adjusted to reflect fair value based on the quoted prices from Bloomberg. Quoted price is level 1 input data.

Financial assets 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
Fair value through profit or loss					
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	164,341	-	164,341	-	164,341
Total financial assets at amortised cost	**20,453,167**	**3,641,637**	**18,202,958**	**-**	**21,844,594**
Total financial assets	**34,941,738**	**8,697,300**	**28,166,519**	**944**	**36,864,763**

Financial liabilities 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
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**

All valuation models, both complex and simple models, use market prices and other inputs. These market prices and inputs comprise interest rates, FX rates, volatilities, correlations etc. The Group applies different types of valuation inputs depending on the type and complexity of the instruments and the related risk factors and payoff structures. The Group's defined categorisation is based on the analysis performed with regards to the valuation input, stress testing (reasonable possible alternative assumption) and model complexity. If the inputs used to measure fair value are categorised into different levels of the fair value hierarchy, the fair value measurement is categorised in its entirety in the level of the lowest level input that is significant to the entire measurement.

The Group assesses the appropriateness and correctness of the categorisation with regards to the fair value hierarchy classification at initial recognition and at the end of each reporting period. This is to determine the initial classification of a level 1, 2 and 3 instrument and the subsequent potential transfers between levels within the fair value hierarchy. An example of transfer between the fair value hierarchies can occur when a previously assumed observed input requires an adjustment using an unobservable input. The procedure is the same for transfers into and out of the fair value levels. Transfers between the levels are considered to take place at the end of the quarter during which an event causes such transfer or when circumstances change.

IFRS 13 classifies valuation models and techniques into three different categories; market approach, income approach and cost approach.

The Group applies a market-based approach when the instrument has a functioning market and public price quotations are available. The Group uses the market approach for the valuation of investment bonds and funds. For all level 1 assets, the Group uses market prices available for identical assets (same ISIN). The Group does not make use of prices for comparable assets.

Income approach is applied when valuation is based, for example, on determining the present value of future cash flows (discounting). Valuation methods take into account an assessment of the credit risk, discount rates used, the possibility of early repayment and other factors that influence the fair value of a financial instrument reliably. The Group uses the income approach for many of its financial instruments, for example derivatives, lending and funding.

The Group does not use the cost approach for the valuation of any of its financial instruments.

The Group uses widely recognised valuation models to determine the fair value of common and simple financial instruments, such as interest rate and currency swaps, that use only observable market data and require little management judgement and estimation. Observable prices or model inputs are usually available in the market for listed debt and equity securities and simple OTC derivatives such as interest rate swaps. The availability of observable market prices and model inputs reduces the need for management judgement and estimation and reduces the uncertainty associated with determining fair values. The availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

The Group applies different models in order to derive the fair value of a certain type of instruments. The choice of base models and its calibration depends on the complexity of the financial instrument and the observability of the relevant inputs. In line with market practice, the primary choice of base model is contingent on the underlying instrument classes. Additionally instruments are broken down into different categories granular enough to capture the most important risk drivers and different kind of calibration techniques. The specific combination of base models and the different assumptions and calibrations techniques are documented. The Group's fair value instruments that are subject to mark-to-model valuation techniques consists out of four asset classes:

- Interest rate instruments,
- Foreign exchange instruments,
- Equity-linked instruments,
- Hybrid instruments.

Financial instruments under FX, equity and hybrid classes are mainly classified as level 3 instruments.

Fair value of financial assets and liabilities is generally calculated as the theoretical net present value of the individual instruments. This calculation is supplemented by counterparty level adjustments. The Group incorporates credit valuation adjustments (CVA) and debit valuation adjustments (DVA) into derivative valuations. CVA reflects the impact on fair value from the counterparty's credit risk and DVA MuniFin's own credit quality. The Group uses the same methodology to compute CVA and DVA. They are both assessed as the result of three inputs: Loss Given Default (LGD), Probability of Default (PD, own for DVA and of the counterparty for CVA), Expected Exposure (EE).

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price. If the fair value on initial recognition differs from the transaction price and the fair value is evidenced, neither by a quoted price in an active market for an identical asset or liability, nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value and adjusted to defer the difference between the fair value on initial recognition and the transaction price (Day 1 gain or loss). The difference is amortised on a straight-line basis throughout the life time of the contracts. For callable instruments, the amortisation period is considered to be until the first call date.

Valuation framework

The Group has implemented a framework for the arrangements, activities and procedures with regards to the Group's model risk management. The purpose of the model risk management framework is to ensure the effective management of model risk and mitigation of fair value uncertainty, as well as to ensure compliance with external and internal requirements. The Group ensures that all aspects of the lifecycle of valuation models (i.e. approval, design and development, testing and maintenance, monitoring and execution) are subject to effective governance, clear roles and responsibilities and effective internal control.

The Group manages and maintains a model inventory which provides a holistic view of all valuation models, their business purpose and characteristics as well as their applications and conditions for use. The Executive management team (EMT) is responsible of the approval of new valuation models (including limitations and conditions of use), and material changes to existing models. All approved valuation models within the model inventory are subject to annual review and re-approval by the EMT.

The Group has implemented an efficient control and performance monitoring framework with regards to its valuation models, which aims to ensure the accuracy and appropriateness of model output. The model performance monitoring consists of four main controls:

- Fair value control and reconciliation to counterparty valuations;
- Fair value differences report;
- Independent Price Verification (IPV) by a third-party service provider and
- Independent model validation by a third-party service provider

Transfers in the fair value hierarchy

During 2019, reclassifications have been made between level 1 and level 2 totaling EUR 155,113 thousands.

During 2019 reclassifications have been made between level 2 and level 3 totaling EUR 4,025,735 thousands.

Level 3 transfers 2019 (EUR 1,000)	1 Jan 2019	Change in fair value in the income statement	Purchases and new contracts	Sales and matured contracts	Transfers into level 3	Transfers out of level 3	31 Dec 2019
Financial assets at fair value							
Mandatorily at fair value through profit or loss							
Loans and advances to the public and public sector entities	-	-	-	-	50,028	-	**50,028**
Fair value through profit or loss							
Derivative contracts	944	6,653	3,585	-944	122,769	-	**133,007**
In fair value hedge accounting							
Derivative contracts	-	-	299	-	3,429	-	**3,728**
Financial assets in total	**944**	**6,653**	**3,884**	**-944**	**176,227**	**-**	**186,763**
Financial liabilities at fair value							
Designated at fair value through profit or loss							
Liabilities to the public and public sector entities	-	-	-	-	138,684	-	**138,684**
Debt securities issued	768,448	54,249	773,030	-466,038	1,948,040	-	**3,077,728**
Fair value through profit or loss							
Derivative contracts	192,000	-46,235	31,275	-107,943	389,146	-	**458,243**
In fair value hedge accounting							
Debt securities issued	-	-	67	-	12,579	-	**12,646**
Derivative contracts	-	-	16,187	-	135,483	-	**151,671**
Financial liabilities in total	**960,447**	**8,014**	**820,559**	**-573,981**	**2,623,933**	**-**	**3,838,972**
Level 3 financial assets and liabilities in total	**961,390**	**14,666**	**824,443**	**-574,924**	**2,800,159**	**-**	**4,025,735**

The Group recognises these gains and losses within the line items *Net income from securities and foreign exchange transactions* and *Net income from hedge accounting*.

The Group has amplified its fair value hierarchy categorisation approach during 2019. Based on performed analyses the Group has taken more conservative view on which input is considered unobservable and what impact is considered significant on the fair value measurement. As a result, larger amounts of financial instruments are now classified on level 3. The fair value categorisation changes explain majority of the transfers to level 3 during 2019.

Sensitivity analysis

Although the Group believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in level 3, changing one or more of the assumptions used to reasonably possible alternative assumptions would have the following effects.

Sensitivity analysis of unobservable inputs 2019 (EUR 1,000)	**Fair value**	**Valuation technique**	**Unobservable input**	**Positive range of fair value**	**Negative range of fair value**
Loans and advances to the public and public sector entities					
Loans	50,028	Stochastic model	Volatility – extrapolated or illiquid Interest rates – extrapolated Illiquid	50	-604
Derivative contracts					
Equity linked derivatives	-33,683	Stochastic model	Volatility – extrapolated or illiquid Interest rates – extrapolated or Illiquid Dividend yield	21,111	-19,805
FX linked cross currency and interest rate derivatives	-319,759	Stochastic model	Correlation parameters Volatility – extrapolated or illiquid Interest rates – extrapolated or Illiquid	7,734	-4,547
Other interest rate derivatives	19,289	Stochastic model	Correlation parameters Volatility – extrapolated or illiquid Interest rates – extrapolated or Illiquid	4,218	-4,307
Debt securities issued and liabilities to the public and public sector entities					
Equity linked liabilities	1,486,858	Stochastic model	Volatility – extrapolated or illiquid Interest rates – extrapolated or Illiquid Dividend yield	16,459	-22,005
FX linked liabilities	1,538,974	Stochastic model	Correlation parameters Volatility – extrapolated or illiquid Interest rates – extrapolated or Illiquid	4,691	-6,072
Other structured liabilities	342,250	Stochastic model	Correlation parameters Volatility – extrapolated or illiquid Interest rates – extrapolated or Illiquid	4,378	-3,452
Total				**58,641**	**-60,792**

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.

Level 3 transfer 2018 (EUR 1,000)	**Derivative assets** At fair value through profit or loss	**Derivative liabilities** At fair value through profit or loss	**Debt securities** Mandatorily at fair value through profit or loss	**Debt securities issued** 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**

Sensitivity analysis of unobservable inputs 2018

Unobservable inputs are share and index volatilities for which no quotations exists in liquid markets. 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 and the fair value of the debt instrument decreases by EUR 37.3 million. In the high volatility scenario the fair value of the derivatives decreases by EUR 10.8 million and the fair value of the debt instrument increases by EUR 11.0 million.

Note 18. Breakdown of the financial assets and liabilities at carrying amount by maturity

Financial assets 31 Dec 2019 (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	4,909,338	-	-	-	-	4,909,338
Loans and advances to credit institutions	794,029	-	24,293	-	-	818,323
Loans and advances to the public and public sector entities	294,741	1,406,169	5,702,857	4,854,592	11,894,479	24,152,839
, of which leasing	6,745	18,251	58,470	35,274	64,125	182,865
Debt securities	1,213,001	1,148,481	2,844,420	510,416	-	5,716,318
Shares and participations	-	-	-	-	9,797	9,797
Derivative contracts	135,426	86,165	664,050	541,895	817,461	2,244,997
Other assets	158,494	-	-	-	-	158,494
Total	**7,505,030**	**2,640,815**	**9,235,621**	**5,906,903**	**12,721,737**	**38,010,106**

Unhedged leasing is not presented in the breakdown of the financial assets and liabilities by maturity, as lease assets are not regarded as a financial assets for the purpose of IFRS 9 classification.

Financial liabilities 31 Dec 2019 (EUR 1,000)	**0–3 months**	**3–12 months**	**1–5 years**	**5–10 years**	**Over 10 years**	**Total**
Liabilities to credit institutions	1,095,340	-	-	20,025	62,891	1,178,256
Liabilities to the public and public sector entities	-	103,922	938,253	1,315,413	1,504,465	3,862,053
Debt securities issued	6,690,700	3,948,367	13,641,920	3,946,765	1,755,834	29,983,585
Derivative contracts	444,670	235,078	537,835	151,611	392,817	1,762,010
Other liabilities	96,649	1,187	5,791	-	-	103,627
, of which lease liabilities	410	1,187	5,791	-	-	7,388
Total	**8,327,358**	**4,288,554**	**15,123,800**	**5,433,813**	**3,716,007**	**36,889,532**

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 Group estimates it will call 20–40% of its callable liabilities in 2020. In 2019, the Group called 24% of its callable liabilities.

Financial assets 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
Other assets	164,345	-	-	-	-	164,345
Total	**6,540,250**	**2,544,132**	**11,443,960**	**4,764,255**	**10,153,333**	**35,445,929**

Financial liabilities 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	2,205,427
Other liabilities	-	-	-	-	-	-
Total	**6,648,791**	**4,684,346**	**14,347,517**	**4,734,243**	**3,385,951**	**33,800,848**

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 Group estimates it will call 20–40% of its callable liabilities in 2019. In 2018, the Group called 29% of its callable liabilities.

Note 19. Offsetting financial assets and liabilities

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

Cash given as collateral is included on the statement of financial position in line item *Loans and advances to credit institutions*, excluding cash given as collateral to central counterparties, which is presented on the statement of financial position in line item *Other assets*. Cash received as collateral is included on the statement of financial position in line *Liabilities to credit institutions*, excluding cash received from central counterparties, which is presented on the statement of financial position in line item *Other liabilities*.

31 Dec 2019 (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	2,244,997	-	2,244,997	1,191,579	-	1,053,418
Total	**2,244,997**	**-**	**2,244,997**	**1,191,579**	**-**	**1,053,418**
Financial liabilities						
Derivative contracts	1,762,010	-	1,762,010	-	844,649	917,362
Total	**1,762,010**	**-**	**1,762,010**	**-**	**844,649**	**917,362**

The Group has not offset any financial assets or liabilities in its statement of financial position in 2019.
*Includes EUR 96,239 thousands of cash collateral received from central counterparties.
**Includes EUR 158,494 thousands of cash collateral given to central counterparties.

31 Dec 2018 (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	1,538,610	-	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.

Note 20. Cash and cash equivalents

31 Dec 2019 (EUR 1,000)	Total	Cash and cash equivalents	Expected credit loss
Cash	2	2	-
Central bank deposits payable on demand	4,909,336	4,909,336	0
Cash and balances with central banks	**4,909,338**	**4,909,338**	**0**
Loans and advances to credit institutions payable on demand	81,311	81,311	0
Total cash and cash equivalents	**4,990,649**	**4,990,649**	**0**

31 Dec 2018 (EUR 1,000)	Total	Cash and cash equivalents	Expected credit loss
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**

Note 21. Loans and advances to credit institutions

31 Dec 2019 (EUR 1,000)	**Total**	**Payable on demand**	**Other than payable on demand**	**Expected credit loss**
Receivables from central bank	26,590	-	26,590	0
Domestic credit institutions	32,390	3,597	28,800	-7
Foreign credit institutions	759,343	77,714	681,650	-21
Total	**818,323**	**81,311**	**737,040**	**-28**

Loans and advances to credit institutions other than repayable on demand does not include reverse repo agreements at year end 2019.

31 Dec 2018 (EUR 1,000)	**Total**	**Payable on demand**	**Other than payable on demand**	**Expected credit loss**
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.

Note 22. Loans and advances to the public and public sector entities

	31 Dec 2019		31 Dec 2018	
(EUR 1,000)	Total	Of which expected credit loss	Total	Of which expected credit loss
Enterprises and housing corporations	12,647,283	-155	11,988,299	-62
Public sector entities	10,943,542	-19	9,973,674	-12
Non-profit organisations	379,149	-11	392,123	-1
Leasing receivables	828,458	-1	614,022	-1
Total	**24,798,432**	**-186**	**22,968,118**	**-75**

Note 23. Debt securities

Debt securities issued by public sector entities 31 Dec 2019 (EUR 1,000)	Publicly quoted	Other	Total	Expected credit loss
Mandatorily at fair value through profit or loss	**-**	**-**	**-**	**-**
Designated at fair value through profit or loss	**1,451,716**	**-**	**1,451,716**	**-**
Government bonds	232,178	-	232,178	-
Bonds issued by other public sector entities	1,219,537	-	1,219,537	-
Financial assets at amortised cost	**-**	**721,585**	**721,585**	**0**
Commercial papers issued by other public sector entities	-	721,585	721,585	0
Fair value through other comprehensive income	**58,268**	**-**	**58,268**	**-**
Government bonds	-	-	-	-
Bonds issued by other public sector entities	58,268	-	58,268	-
Total	**1,509,984**	**721,585**	**2,231,569**	**0**
Eligible for central bank refinancing	1,345,703	-	1,345,703	-
Non-interest bearing	-	-	-	-

Debt securities issued by other than public sector entities 31 Dec 2019 (EUR 1,000)	**Publicly quoted**	**Other**	**Total**	**Expected credit loss**
Mandatorily at fair value through profit or loss	**-**	**-**	**-**	**-**
Other debt securities	-	-	-	-
Designated at fair value through profit or loss	**2,488,740**	**-**	**2,488,740**	**-**
Bank bonds	2,488,740	-	2,488,740	-
Financial assets at amortised cost	**-**	**82,772**	**82,772**	**0**
Commercial papers	-	82,772	82,772	0
Fair value through other comprehensive income	**913,236**	**-**	**913,236**	**-**
Bank bonds	848,196	-	848,196	-
Bank commercial papers	65,040	-	65,040	-
Total	**3,401,976**	**82,772**	**3,484,748**	**0**
Eligible for central bank refinancing	2,743,816	-	2,743,816	-
Non-interest bearing	-	-	-	-

31 Dec 2019 (EUR 1,000)	**Publicly quoted**	**Other**	**Total**	**Expected credit loss**
Debt securities total	**4,911,960**	**804,358**	**5,716,318**	**0**

Debt securities do not contain any securities given as collateral for reverse repo agreements at year end 2019.
Expected credit loss of financial assets measured at fair value through other comprehensive income is recognised in fair value reserve.

Debt securities issued by public sector entities 31 Dec 2018

(EUR 1,000)	Publicly quoted	Other	Total	Expected credit loss
Mandatorily at fair value through profit or loss	**-**	**-**	**-**	**-**
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**
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	-	-	-	-
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 loss
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	Expected credit loss
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.

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
Total	**0**	**3,861**

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

Note 24. Shares and participations

31 Dec 2019 (EUR 1,000)	Publicly quoted	Other	Total	In credit institutions
Mandatorily at fair value through profit or loss	9,769	27	9,797	-
Total	**9,769**	**27**	**9,797**	**-**

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**	**-**

Note 25. Derivative contracts

Derivative contracts 31 Dec 2019
(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	2,048,695	9,799,601	11,559,243	**23,407,538**	811,648	-346,270
Cleared by the central counterparty	934,155	7,260,466	9,065,291	**17,259,913**	368,439	-202,025
Currency derivatives						
Cross currency interest rate swaps	2,845,533	7,733,901	1,044,699	**11,624,134**	572,655	-497,034
Total contracts in hedge accounting	**4,894,228**	**17,533,502**	**12,603,942**	**35,031,672**	**1,384,303**	**-843,304**
Contracts at fair value through profit or loss						
Interest rate derivatives						
Interest rate swaps	2,457,175	11,119,011	5,072,029	**18,648,214**	608,438	-375,507
Cleared by the central counterparty	518,410	8,221,487	1,172,175	**9,912,071**	10,769	-116,120
Interest rate options	35	40,000	-	**40,035**	225	-225
Currency derivatives						
Cross currency interest rate swaps	4,286,054	2,351,154	271,291	**6,908,499**	209,582	-443,720
Forward exchange contracts	2,044,786	490,839	-	**2,535,624**	2,183	-25,303
Equity derivatives	1,585,879	18,969	-	**1,604,848**	40,268	-73,951
Other derivatives	-	-	-	**-**	-	-
Total contracts at fair value through profit or loss	**10,373,929**	**14,019,972**	**5,343,320**	**29,737,220**	**860,695**	**-918,706**
Total derivative contracts	**15,268,157**	**31,553,474**	**17,947,262**	**64,768,893**	**2,244,997**	**-1,762,010**

Contracts that are measured at fair value through profit or loss contain all derivatives of the Group 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.

Interest received or paid from derivative contracts is included in the statement of financial position line items *Accrued income and prepayments* and *Accrued expenses and deferred income*.

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 contains all derivatives of the Group 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.

Interest received or paid from derivative contracts is included in the statement of financial position line items *Accrued income and prepayments* and *Accrued expenses and deferred income*.

Note 26. Hedge accounting

The interest rate and foreign exchange rate risk of the Group are managed by entering into derivative transactions. According to the Market Risk Policy, the Group's hedging strategy is mainly to hedge all material foreign exchange and interest rate 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. The risk management principles related to the Group' s hedging of market risk are described in more detail in Note 2 *Risk Management principles and the Group's risk position*.

The Group applies both fair value hedge accounting according to IFRS 9 and fair value portfolio hedge accounting according to IAS 39. The Group does not apply cash flow hedge accounting. Accounting policies related to hedge accounting are described in accounting polices (Note 1) under paragraph *Hedge Accounting*.

In the table below the hedged assets and liabilities are presented according to statement of financial position line items divided into IAS 39 portfolio hedge accounting and IFRS 9 fair value hedge accounting, which is further subdivided into whether hedging is subject to the separation of the Cost-of-Hedging.

Hedge accounting 31 Dec 2019 (EUR 1,000)	**Nominal value**	**Fair value hedge accounting total**	**IAS 39 portfolio hedge accounting**	**IFRS 9 fair value hedge accounting**	**IFRS 9 fair value hedge accounting incl. Cost-of-Hedging**
Assets					
Loans and advances to the public and public sector entities - Loans	8,256,680	8,546,257	8,420,004	126,253	-
Loans and advances to the public and public sector entities - Leasing	181,261	182,865	-	182,865	-
Total assets	**8,437,941**	**8,729,122**	**8,420,004**	**309,118**	**-**
Liabilities					
Liabilities to credit institutions	70,000	82,916	-	82,916	-
Liabilities to the public and public sector entities	1,968,524	2,313,414	-	2,162,575	150,839
Debt securities issued	18,042,510	18,391,689	-	6,668,732	11,722,957
Total liabilities	**20,081,034**	**20,788,019**	**-**	**8,914,223**	**11,873,796**

The figures presented in the table below contain the cumulative fair value change at the beginning and end of the financial year, in addition to the fair value change of the hedged risk and the hedging instrument during the period. The figures presented in the table do not include the change in fair value due to foreign exchange differences of hedging instruments and the hedged items, which are recognised in the income statement under *Net income from securities and foreign exchange transactions*. Due to the above mentioned reason, the total amount of the hedging instruments does not correspond to the fair value presented in Note 25 *Derivatives* on line Total contracts in hedge accounting. The fair value changes of the hedged risk of the hedged items and all other fair value changes of the hedging instruments are recognised in the income statement under *Net income from hedge accounting*. The ineffective portion of the hedging relationship is thus shown on this line in the income statement. Net income from securities and foreign exchange transactions is specified in Note 6 and net income from hedge accounting in Note 9.

In accordance with the market practice and IFRS 13 standard, the Group discounts hedged items with the swap curve and the hedging derivatives with the OIS curve, which causes a significant part of the Group's hedge ineffectiveness. In addition, ineffectiveness may also arise to some extent from differences in notional, day count methods or timing of the cash flows.

Fair value change with respect to the hedged risk (EUR 1,000)	**31 Dec 2019**	**31 Dec 2018**	**Recognised in the income statement 2019**
Assets			
IAS 39 portfolio hedge accounting			
Loans and advances to the public and public sector entities	303,139	155,610	147,530
Hedging instruments	-276,831	-127,621	-149,210
IAS 39 portfolio hedge accounting, net	**26,308**	**27,989**	**-1,681**
IFRS 9 fair value hedge accounting			
Loans and advances to the public and public sector entities	30,934	22,752	8,182
Hedging instruments	-33,193	-23,636	-9,556
IFRS 9 fair value hedge accounting, net	**-2,258**	**-884**	**-1,374**
Liabilities			
IFRS 9 fair value hedge accounting			
Liabilities to credit institutions	-12,916	-11,845	-1,071
Liabilities to the public and public sector entities	-434,953	-339,599	-95,353
Debt securities issued	-524,923	-73,869	-451,054
Hedging instruments	963,674	432,237	531,436
IFRS9 fair value hedge accounting, net	**-9,118**	**6,924**	**-16,042**
Total hedge accounting	**14,932**	**34,029**	**-19,097**

The table below presents the impact of Cost-of-Hedging of cross currency derivatives on equity in the Cost-of-Hedging reserve. The figures are presented net of deferred taxes.

For all foreign currency hedge relationships the Group 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 do not create ineffectiveness in the hedge relationship.

Hedging impact on own equity (EUR 1,000)	**31 Dec 2019**	**31 Dec 2018**	**Impact on Cost-of-Hedging reserve**
Cost-of-Hedging			
Hedging instrument	28,075	14,235	13,840
Total	**28,075**	**14,235**	**13,840**

The table below presents the cumulative effectiveness of hedge accounting by hedged items. In addition, the table shows the hedging instruments used.

Effectiveness of the hedge accounting 31 Dec 2019
(EUR 1,000)

Hedged item	Hedging instruments	Gains/losses attributable to the hedged risk: Hedged items	Gains/losses attributable to the hedged risk: Hedging instruments	Hedge ineffectiveness
Assets				
IAS 39 portfolio hedge accounting				
Fixed rate and revisable rate loans	Interest rate derivatives	303,139	-276,831	26,308
IFRS 9 fair value hedge accounting				
Structured lending	Interest rate derivatives	29,330	-31,086	-1,756
Fixed rate leasing contracts	Interest rate derivatives	1,605	-2,107	-502
Assets total		**334,074**	**-310,024**	**24,050**
Liabilities				
IFRS 9 fair value hedge accounting				
Financial liability denominated in EUR	Interest rate derivatives	-693,747	697,685	3,938
Financial liability denominated in foreign currencies	Currency derivatives (Cross currency interest rate swaps) Interest rate derivatives	-279,045	265,988	-13,057
Liabilities total		**-972,792**	**963,674**	**-9,118**

Hedge accounting 31 Dec 2018 (EUR 1,000)	**Nominal value**	**Total fair value hedge accounting**	**IAS 39 portfolio hedge accounting**	**IFRS 9 fair value hedge accounting**	**IFRS 9 fair value hedge accounting incl. Cost-of-Hedging**
Assets					
Loans and advances to the public and public sector entities - Loans	7,536,559	7,636,793	7,491,823	144,970	-
Loans and advances to the public and public sector entities - Leasing	108,658	109,835	-	109,835	-
Total assets	**7,645,217**	**7,746,628**	**7,491,823**	**254,805**	**-**
Liabilities					
Liabilities to credit institutions	45,000	36,845	-	36,845	-
Liabilities to the public and public sector entities	2,085,358	2,301,358	-	2,101,889	199,469
Debt securities issued	16,543,342	16,360,789	-	4,100,363	12,260,426
Total liabilities	**18,673,700**	**18,698,992**	**-**	**6,239,097**	**12,459,895**

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**

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**

Effectiveness of the hedge accounting 31 Dec 2018

(EUR 1,000)

Hedged item	Hedging instruments	Gains/losses attributable to the hedged risk: Hedged items	Gains/losses attributable to the hedged risk: Hedging instruments	Hedge ineffectiveness
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 lending	Interest rate derivatives	21,574	-22,680	-1,106
Fixed rate leasing contracts	Interest rate derivatives	1,178	-956	222
Assets total		**178,362**	**-151,257**	**27,105**
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
Liabilities total		**-425,317**	**432,237**	**6,921**

Note 27. Credit risk of financial assets and other commitments

MuniFin Group's credit risks are described in Note 2 *Risk management principles and the Group's risk position* in section *Credit Risk*. The accounting policies of the expected credit loss calculations and impairment stages are described in Note 1 *Summary of significant accounting policies* in section *Presentation of allowance for ECL in the statement of financial position* and *Measurement of ECLs*.

The table below presents exposures under expected credit loss calculations by asset groups and impairment stages. The table describes MuniFin Group's exposure to the credit risk.

	Not credit-impaired				Credit-impaired			
	Stage 1		Stage 2		Stage 3		Total	
Exposures by asset groups and impairment stages 31 Dec 2019 (EUR 1,000)	Gross carrying amount	12-month ECL	Gross carrying amount	Lifetime ECL	Gross carrying amount	Lifetime ECL	Gross carrying amount	Expected credit losses
Cash and balances with central banks at amortised cost	4,909,338	0	-	-	-	-	4,909,338	0
Loans and advances to credit institutions at amortised cost	818,323	-28	-	-	-	-	818,323	-28
Loans and advances to the public and public sector entities at amortised cost	23,672,686	-24	184,586	-80	61,602	-80	23,918,874	-185
Leasing receivables in loans and advances to the public and public sector entities at amortised cost	828,272	-1	186	0	-	-	828,458	-1
Debt securities at amortised cost	780,667	0	23,690	0	-	-	804,358	0
Debt securities at fair value through other comprehensive income	971,505	-104	-	-	-	-	971,505	-104
Cash collateral to CCPs in Other assets at amortised cost	158,494	-4	-	-	-	-	158,494	-4
Guarantee receivables from the public and public sector entities in Other assets	1,603	-	-	-	-	-	1,603	-
Credit commitments (off-balance sheet item)	2,359,038	-4	2,285	0	-	-	2,361,323	-4
Total	**34,499,925**	**-167**	**210,747**	**-80**	**61,602**	**-80**	**34,772,275**	**-327**

The Group has real estate collaterals and government deficiency guarantees of the equivalent amount to the loans and advances to the public and public sector entities. Based on the collateral position, the Group has assessed that the receivables in Stage 3 will be recovered in full and no final credit losses will incur.

Exposures by asset groups and impairment stages 31 Dec 2018 (EUR 1,000)	**Not credit-impaired**				**Credit-impaired**			
	Stage 1		**Stage 2**		**Stage 3**		**Total**	
	Gross carrying amount	**12-month ECL**	**Gross carrying amount**	**Lifetime ECL**	**Gross carrying amount**	**Lifetime ECL**	**Gross carrying amount**	**Expected credit losses**
Cash and balances with central banks at amortised cost	3,522,200	0	-	-	-	-	3,522,200	0
Loans and advances to credit institutions at amortised cost	1,380,544	-51	-	-	-	-	1,380,544	-51
Loans and advances to the public and public sector entities at amortised cost	22,075,706	-15	221,581	-59	-	-	22,297,288	-75
Leasing receivables in loans and advances to the public and public sector entities at amortised cost	613,826	-1	196	0	-	-	614,022	-1
Debt securities at amortised cost	721,187	0	4,400	0	-	-	725,587	0
Debt securities at fair value through other comprehensive income	1,434,383	-221	-	-	-	-	1,434,383	-221
Cash collateral to CCPs in Other assets at amortised cost	164,341	-4	-	-	-	-	164,341	-4
Guarantee receivables from the public and public sector entities in Other assets	1,800	-	-	-	-	-	1,800	-
Credit commitments (off-balance sheet item)	2,472,176	-3	428	0	-	-	2,472,604	-3
Total	**32,386,164**	**-295**	**226,605**	**-59**	**-**	**-**	**32,612,768**	**-355**

The table below presents summary of total changes and reconciliation of expected credit losses by impairment stages during the financial year.

Total expected credit losses by impairment stages 31 Dec 2019 (EUR 1,000)	**Not credit-impaired** Stage 1	Stage 2	**Credit-impaired** Stage 3	**Total**	
	12-month ECL	**Lifetime ECL**	**Lifetime ECL**	**ECL**	**Gross carrying amount**
Total expected credit loss at 1 January 2019	**-295**	**-59**	**-**	**-355**	**32,612,768**
New assets originated or purchased	-49	-48	-28	-126	7,569,678
Assets derecognised or repaid (excluding write-offs)	200	10	-	210	-5,410,336
Transfers to Stage 1	0	16	-	16	16
Transfers to Stage 2	0	-20	-	-20	-20
Transfers to Stage 3	0	21	-52	-30	-30
Changes to contractual cash flows due to modifications not resulting in derecognition	0	-	-	0	199
Changes to models [1] and inputs [2] used for ECL calculations	-22	-	-	-22	0
Write-offs	-	-	-	-	-180
Recoveries	-	-	-	-	180
Total expected credit loss at 31 December 2019	**-167**	**-80**	**-80**	**-327**	**34,772,275**

[1] Represent changes in the model.
[2] Represents changes to model parameters (e.g. GDP rates, unemployment rates)

During the financial year, the Group 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.

Total expected credit losses by impairment stages 31 Dec 2018 (EUR 1,000)	**Not credit-impaired**		**Credit-impaired**		
	Stage 1	**Stage 2**	**Stage 3**	**Total**	
	12-month ECL	**Lifetime ECL**	**Lifetime ECL**	**ECL**	**Gross carrying amount**
Total expected credit loss at 1 January 2018	**-842**	**-77**	**0**	**-918**	**31,073,200**
New assets originated or purchased	-113	0	-	-113	6,422,445
Assets derecognised or repaid (excluding write-offs)	214	1	-	215	-4,884,210
Transfers to Stage 1	0	1	-	1	1
Transfers to Stage 2	0	-13	-	-12	-12
Transfers to Stage 3	-	-	-	-	-
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	-
Changes to models [1] and inputs [2] used for ECL calculations	445	28	-	473	474
Write-offs	-	-	0	0	-434
Recoveries	-	-	-	-	434
Total expected credit loss at 31 December 2018	**-295**	**-59**	**0**	**-355**	**32,612,768**

[1] Represent changes in the model.
[2] Represents changes to model parameters (e.g. GDP rates, unemployment rates)

During the financial year 2018, the Group 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.

Tables below presents changes and reconciliation of expected credit losses by impairment stages and asset groups during the financial year.

Expected credit losses on Cash and balances with central banks at amortised cost by impairment stages 31 Dec 2019 (EUR 1,000)	**Not credit-impaired**		**Credit-impaired**		
	Stage 1	**Stage 2**	**Stage 3**	**Total**	
	12-month ECL	**Lifetime ECL**	**Lifetime ECL**	**ECL**	**Gross carrying amount**
Cash and balances with central banks at amortised cost at 1 January 2019	**0**	**-**	**-**	**0**	**3,522,200**
New assets originated or purchased	0	-	-	0	1,387,140
Assets derecognised or repaid (excluding write-offs)	0	-	-	0	-1
Transfers to Stage 1	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-
Changes to models and inputs used for ECL calculations	0	-	-	0	0
Total cash and balances with central banks at amortised cost at 31 December 2019	**0**	**-**	**-**	**0**	**4,909,338**

Expected credit losses on Loans and advances to credit institutions at amortised cost by impairment stages 31 Dec 2019 (EUR 1,000)	**Not credit-impaired**		**Credit-impaired**		
	Stage 1	**Stage 2**	**Stage 3**	**Total**	
	12-month ECL	**Lifetime ECL**	**Lifetime ECL**	**ECL**	**Gross carrying amount**
Loans and advances to credit institutions at amortised cost at 1 January 2019	**-51**	**-**	**-**	**-51**	**1,380,544**
New assets originated or purchased	-1	-	-	-1	37,003
Assets derecognised or repaid (excluding write-offs)	24	-	-	24	-599,225
Transfers to Stage 1	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-
Changes to models and inputs used for ECL calculations	0	-	-	0	0
Total loans and advances to credit institutions at amortised cost at 31 December 2019	**-28**	**-**	**-**	**-28**	**818,323**

Expected credit losses on Loans and advances to the public and public sector entities at amortised cost by impairment stages 31 Dec 2019
(EUR 1,000)

	Not credit-impaired		Credit-impaired		
	Stage 1	Stage 2	Stage 3	Total	
	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 2019	**-15**	**-59**	**-**	**-75**	**22,297,288**
New assets originated or purchased	-11	-48	-28	-88	3,261,510
Assets derecognised or repaid (excluding write-offs)	2	10	-	12	-1,639,908
Transfers to Stage 1	0	16	-	16	16
Transfers to Stage 2	0	-20	-	-20	-20
Transfers to Stage 3	0	21	-52	-30	-30
Changes to contractual cash flows due to modifications not resulting in derecognition	0	-	-	0	199
Changes to models and inputs used for ECL calculations	-	-	-	0	-
Write-offs	-	-	-	-	-180
Total loans and advances to the public and public sector entities at amortised cost at 31 December 2019	**-24**	**-80**	**-80**	**-185**	**23,918,874**

Expected credit losses on Leasing receivables in loans and advances to the public and public sector entities at amortised cost by impairment stages 31 Dec 2019
(EUR 1,000)

	Not credit-impaired		Credit-impaired		
	Stage 1	Stage 2	Stage 3	Total	
	12-month ECL	Lifetime ECL	Lifetime ECL	ECL	Gross carrying amount
Leasing receivables in loans and advances to the public and public sector entities at amortised cost at 1 January 2019	**-1**	**0**	**-**	**-1**	**614,022**
New assets originated or purchased	-1	0	-	-1	258,164
Assets derecognised or repaid (excluding write-offs)	0	-	-	0	-43,728
Transfers to Stage 1	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-
Changes to models and inputs used for ECL calculations	0	-	-	0	0
Total leasing receivables in loans and advances to the public and public sector entities at amortised cost at 31 December 2019	**-1**	**0**	**-**	**-1**	**828,458**

Expected credit losses on Debt securities at amortised cost by impairment stages 31 Dec 2019
(EUR 1,000)

	Not credit-impaired		Credit-impaired		
	Stage 1	Stage 2	Stage 3	Total	
	12-month ECL	Lifetime ECL	Lifetime ECL	ECL	Gross carrying amount
Debt securities at amortised cost at 1 January 2019	**0**	**0**	**-**	**0**	**725,587**
New assets originated or purchased	0	0	-	0	804,358
Assets derecognised or repaid (excluding write-offs)	0	0	-	0	-725,587
Transfers to Stage 1	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-
Changes to models and inputs used for ECL calculations	-	-	-	-	-
Total debt securities at amortised cost at 31 December 2019	**0**	**0**	**-**	**0**	**804,358**

Expected credit losses on Debt securities at fair value through other comprehensive income by impairment stages 31 Dec 2019
(EUR 1,000)

	Not credit-impaired		Credit-impaired		
	Stage 1	Stage 2	Stage 3	Total	
	12-month ECL	Lifetime ECL	Lifetime ECL	ECL	Gross carrying amount
Debt securities at fair value through other comprehensive income at 1 January 2019	**-221**	**-**	**-**	**-221**	**1,434,383**
New assets originated or purchased	-31	-	-	-31	215,461
Assets derecognised or repaid (excluding write-offs)	170	-	-	170	-678,340
Transfers to Stage 1	-	-	-	-	
Transfers to Stage 2	-	-	-	-	
Transfers to Stage 3	-	-	-	-	
Changes to models and inputs used for ECL calculations	-22	-	-	-22	
Total debt securities at fair value through other comprehensive income at 31 December 2019	**-104**	**-**	**-**	**-104**	**971,505**

The loss allowance on debt instruments measured at fair value through other comprehensive income is recognised in the fair value reserve. The accumulated loss allowance is recognised to the profit or loss upon derecognition of the assets. More details regarding presentation of allowance for expected credit losses in Note 1 *Summary of significant accounting policies* in section *Presentation of allowance in the statement of financial position*.

Expected credit losses on Cash collateral to CCPs in Other assets at amortised cost by impairment stages 31 Dec 2019
(EUR 1,000)

	Not credit-impaired		Credit-impaired	Total	
	Stage 1	Stage 2	Stage 3		
	12-month ECL	Lifetime ECL	Lifetime ECL	ECL	Gross carrying amount
Cash collateral to CCPs in Other assets at amortised cost at 1 January 2019	**-4**	**-**	**-**	**-4**	**164,341**
New assets originated or purchased	-1	-	-	-1	45,499
Assets derecognised or repaid (excluding write-offs)	1	-	-	1	-51,346
Transfers to Stage 1	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-
Changes to models and inputs used for ECL calculations	-	-	-	-	-
Total cash collateral to CCPs in Other assets at amortised cost at 31 December 2019	**-4**	**-**	**-**	**-4**	**158,494**

Expected credit losses on Guarantee receivables from the public and public sector entities in Other assets by impairment stages 31 Dec 2019
(EUR 1,000)

	Not credit-impaired		Credit-impaired	Total	
	Stage 1	Stage 2	Stage 3		
	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 2019	**-**	**-**	**-**	**-**	**1,800**
New assets originated or purchased	-	-	-	-	-
Assets derecognised or repaid (excluding write-offs)	-	-	-	-	-377
Transfers to Stage 1	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-
Changes to models and inputs used for ECL calculations	-	-	-	-	-
Recoveries	-	-	-	-	180
Total guarantee receivables from the public and public sector entities in Other assets at 31 December 2019	**-**	**-**	**-**	**-**	**1,603**

Expected credit losses on Credit commitments (off-balance sheet item) by impairment stages 31 Dec 2019 (EUR 1,000)	**Not credit-impaired**		**Credit-impaired**		
	Stage 1	**Stage 2**	**Stage 3**	**Total**	
	12-month ECL	**Lifetime ECL**	**Lifetime ECL**	**ECL**	**Gross carrying amount**
Credit commitments (off-balance sheet item) at 1 January 2019	**-3**	**0**	**-**	**-3**	**2,472,604**
New assets originated or purchased	-3	0	-	-3	1,560,543
Assets derecognised or repaid (excluding write-offs)	2	-	-	2	-1,671,824
Transfers to Stage 1	-	-	-	-	
Transfers to Stage 2	-	-	-	-	
Transfers to Stage 3	-	-	-	-	
Changes to models and inputs used for ECL calculations	-	-	-	-	
Total credit commitments (off-balance sheet item) at 31 December 2019	**-4**	**-**	**-**	**-4**	**2,361,323**

The loss allowance on binding credit commitments is recognised as a provision in *Other liabilities*. More details regarding presentation of allowance for expected credit losses in Note 1 *Summary of significant accounting policies* in section *Presentation of allowance in the statement of financial position*.

Non-performing and forborne receivables on financial assets and other commitments

Table below presents non-performing and forborne receivables on financial assets and other commitments at the carrying amount on 31 December.

Non-performing and forborne receivables on financial assets and other commitments 31 Dec 2019 (EUR 1,000)	Performing receivables (gross)	Non-performing receivables (gross)	Total receivables (gross)	Total expected credit losses	Total receivables (net)
Over 90 days past due	-	-	-	-	-
Unlikely to be paid	-	61,682	61,682	-80	61,602
Forborne receivables	27,854	4,968	32,822	-27	32,795

Non-performing and forborne receivables on financial assets and other commitments 31 Dec 2018 (EUR 1,000)	Performing receivables (gross)	Non-performing receivables (gross)	Total receivables (gross)	Total expected credit losses	Total receivables (net)
Over 90 days past due	-	-	-	-	-
Unlikely to be paid	-	-	-	-	-
Forborne receivables	61,746	-	61,746	-21	61,725

Non-performing receivables refer to receivables that are more than 90 days past due, other receivables classified as risky and forborne receivables due to the customer's financial difficulties. Details about principles applied to non-performing receivables are described in Note 2 *Risk management principles and the Group's risk position* in section *Credit Risk*.

Forborne receivables include receivables that have been renegotiated due to the customer's financial difficulties. The loan terms and conditions of renegotiated receivables have been eased due to the customer's financial difficulties for example by transferring to interest only terms for a period of 6–12 months. Details about principles applied to forborne and modified receivables are described in Note 1 *Summary of significant accounting policies* in section *Forborne and modified receivables*.

Realised credit losses

During the financial year 2019 MuniFin Group wrote-off loans and advances to the public and public sector entities totalling EUR 180 (434) thousand. The Group has real estate collaterals and government deficiency guarantees of the equivalent amount to the loans and advances to the public and public sector entities. The written-off receivable is shown in the statement of financial position on line *Guarantee receivables from the public and public sector entities* in *Other assets* and shown as a decrease of the write-offs recoveries in the income statement. The Group will not incur a final credit loss.

Note 28. Intangible assets

(EUR 1,000)	31 Dec 2019	31 Dec 2018
IT systems	14,704	14,850
, of which assets not yet available for use	1,425	6,801
Total	**14,704**	**14,850**

Note 29. Tangible assets

(EUR 1,000)	31 Dec 2019	31 Dec 2018
Real estate	299	299
Office renovation expenses	16	54
Right-of-use assets	7,340	-
Other tangible assets	1,387	2,074
Total	**9,041**	**2,427**

Note 30. Changes in intangible and tangible assets during the financial year

31 Dec 2019 (EUR 1,000)	Intangible assets	Tangible assets			
	Total	Other real estate	Other tangible assets	Right-of-use assets	Total
Acquisition cost 1 Jan 2019	23,528	299	6,389	8,737	15,424
+ Additions	3,739	-	289	206	495
– Disposals	-1,561	-	-1,029	-	-1,029
Acquisition cost 31 Dec	25,706	299	5,649	8,942	14,890
Accumulated depreciation 1 Jan	8,678	-	4,261	-	4,261
– Accumulated depreciation on disposals	-1,561	-	-709	-	-709
+ Depreciation for the financial year	3,886	-	695	1,602	2,298
Accumulated depreciation 31 Dec	11,002	-	4,247	1,602	5,849
Carrying amount 31 Dec 2019	**14,704**	**299**	**1,402**	**7,340**	**9,041**

Right-of-use assets consist of lease agreements that are recognised in the consolidated statement of financial position since the application of IFRS 16 Leases standard from the beginning of 1 Jan 2019. The most significant item in the right-of-use assets is leases related to office space rental agreements. The accounting policies are described in Note 1 in section *Leases.*

31 Dec 2018 (EUR 1,000)	Intangible assets	Tangible assets		
	Total	Other real estate	Other tangible assets	Total
Acquisition cost 1 Jan 2018	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 2018	**14,850**	**299**	**2,128**	**2,427**

Note 31. Other assets

(EUR 1,000)	31 Dec 2019	31 Dec 2018
Invoiced leasing payments	8,984	7,725
Given cash collateral receivables to CCPs	158,494	164,341
Other	2,881	2,752
Total	**170,359**	**174,818**

The Group did not have receivables related to payment transfers as at 31 December 2019 or at 31 December 2018. Cash collaterals include expected credit loss amounting to EUR 4 thousand.

Note 32. Accrued income and prepayments

(EUR 1,000)	31 Dec 2019	31 Dec 2018
Accrued interest income	231,777	198,517
Other accrued income	9,189	3,058
Prepayments	1,484	1,486
Total	**242,450**	**203,061**

The Group's other accrued income includes mainly tax income.

Note 33. Deferred tax

Deferred tax liabilities (EUR 1,000)	31 Dec 2018	Recognised in the income statement	Recognised in the statement of comprehensive income	Recognised in equity	Paid during the financial year	31 Dec 2019
On fair value reserve	4,922	-	5,545	-	-	10,467
On change in cumulative depreciation difference	1,726	1,006	-	-	-	2,732
On change in voluntary provisions	220,906	20,000	-	-	-	240,906
On reversing the accrued interest of the AT1 capital loan booked in the separate financial statements of the parent company	2,364	3,144	-	-3,150	-	2,358
On reversing the amortisation of the AT1 capital loan transaction expenses booked in the parent company financial statements	-319	98	-	-	-	-221
On right-of-use assets	-	-1	-	-	-	-1
On revaluation of financial assets and liabilities in IFRS 9 transition	5,707	-	-	-	-5,707	-
Total	**235,307**	**24,247**	**5,545**	**-3,150**	**-5,707**	**256,241**

MuniFin Group did not have any deferred tax assets as at 31 December 2019.

Deferred tax liabilities (EUR 1,000)	31 Dec 2017	IFRS 9 transition	1 Jan 2018	Recognised in the income statement	Recognised in the statement of comprehensive income	Recognised in equity	31 Dec 2018
On fair value reserve	7,236	-16,573	-9,336	-	14,259	-	4,922
On change in cumulative depreciation difference	1,233	-	1,233	493	-	-	1,726
On change in voluntary provisions	192,106	-	192,106	28,800	-	-	220,906
On reversing the accrued interest of the AT1 capital loan booked in the separate financial statements of the parent company	2,364	-	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	-	-417	98	-	-	-319
On revaluation of financial assets and liabilities in IFRS 9 transition	-	5,707	5,707	-	-	-	5,707
Total	**202,522**	**-10,866**	**191,657**	**32,541**	**14,259**	**-3,150**	**235,307**

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

Note 34. Liabilities to credit institutions

(EUR 1,000)	31 Dec 2019	31 Dec 2018
Bilateral loans to credit institutions	82,916	83,244
Received collateral on derivatives	1,095,340	739,260
Total	**1,178,256**	**822,504**

Note 35. Liabilities to the public and public sector entities

(EUR 1,000)	31 Dec 2019	31 Dec 2018
Liabilities to the public and public sector entities	3,862,053	3,870,918
Total	**3,862,053**	**3,870,918**

Note 36. Debt securities issued

(EUR 1,000)	31 Dec 2019		31 Dec 2018	
	Carrying amount	Nominal value	Carrying amount	Nominal value
Bonds	27,255,873	27,361,959	23,840,174	24,983,497
Other	2,727,712	2,735,624	3,061,824	3,067,904
Total	**29,983,585**	**30,097,583**	**26,901,998**	**28,051,402**

The line item *Other* contains short-term funding issued by the MuniFin Group.

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

Benchmark issuances during the year 2019	Value date	Maturity date	Interest-%	Nominal value (1,000)	Currency
Fixed rate benchmark bond, issued under the MTN programme	16.1.2019	7.3.2024	0.125%	1,000,000	EUR
Fixed rate benchmark bond, issued under the MTN programme	10.7.2019	6.9.2029	0.05%	500,000	EUR
Fixed rate benchmark bond, issued under the MTN programme	18.10.2019	7.3.2024	0.125%	350,000	EUR
Fixed rate benchmark bond, issued under the MTN programme	12.11.2019	26.11.2026	0.625%	350,000	EUR
Fixed rate benchmark bond, issued under the MTN programme	20.12.2019	7.3.2024	0.125%	100,000	EUR
Fixed rate benchmark bond, issued under the MTN programme	20.3.2019	15.11.2023	2.50%	1,000,000	USD
Fixed rate benchmark bond, issued under the MTN programme	12.9.2019	12.9.2022	1.375%	1,250,000	USD

Note 37. Reconciliation of the carrying amount of issued debt

(EUR 1,000)	Liabilities to credit institutions	Liabilities to public and public sector entities	Debt securities issued
Carrying amount 31 Dec 2018	**83,244**	**3,870,918**	**26,901,998**
Cash flow changes from operating activities			
Additions to issued debt "bonds"	62,891	19,832	6,948,465
Additions to issued debt "other"	-	-	9,611,202
Additions total	**62,891**	**19,832**	**16,559,666**
Deductions to issued debt "bonds"	-50,375	-220,667	-4,620,310
Deductions to issued debt "other"	-	-	-9,945,314
Deductions total	**-50,375**	**-220,667**	**-14,565,624**
Cash flow changes from operating activities in total	**12,517**	**-200,835**	**1,994,043**
Changes in the balance sheet value including valuations and FX revaluations	-12,845	191,970	1,087,544
Carrying amount 31 Dec 2019	**82,916**	**3,862,053**	**29,983,585**

Note 38. Other liabilities

(EUR 1,000)	31 Dec 2019	31 Dec 2018
Lease liabilities	7,388	-
Cash collateral taken from CCPs	96,239	-
Other	12,747	6,149
Total	**116,374**	**6,149**

The Group has applied IFRS 16 Leases standard as of 1 January 2019. Additional information regarding the initial application and accounting policies is disclosed in the accounting policies (Note 1) in sections *Leases* and *Application of new standards*. Other liabilities consist mainly of accounts payable. Other liabilities include also the loss allowance on binding credit commitments of EUR 4 thousand. The Group did not have payables related to payment transfers as at 31 December 2019 or 31 December 2018.

Note 39. Accrued expenses and deferred income

(EUR 1,000)	31 Dec 2019	31 Dec 2018
Accrued interest expenses	164,531	134,757
Other accrued expenses	5,386	4,997
Deferred income	10,999	8,623
Total	**180,917**	**148,377**

The Group's deferred income consists mainly of leasing income.

Note 40. Equity

(EUR 1,000)	Number of shares	Share capital
1 Jan 2018	39,063,798	42,583
31 Dec 2018	39,063,798	42,583
31 Dec 2019	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 throught other comprehensive income. The *Own credit revaluation reserve* contains the changes in credit risk of financial liabilities designated at fair value through profit or 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 debenture loan is included in Additional Tier 1. 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 MuniFin 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. MuniFin 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 terms of the instruments included in equity are described in further detail in the Report of the Board of Directors and the Pillar III Disclosure Report which is separate from the Financial Statements. The Pillar III Disclosure Report is available on MuniFin's website in English.

(1,000 EUR)	**31 Dec 2019**	**31 Dec 2018**
Share capital	42,583	42,583
Reserve fund	277	277
Fair value reserve of investments	807	726
Own credit revaluation reserve	12,985	4,726
Cost-of-Hedging reserve	28,075	14,235
Reserve for invested non-restricted equity	40,366	40,366
Retained earnings	1,121,774	1,035,692
Total equity attributable to parent company equity holders	**1,246,868**	**1,138,605**
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	**1,594,321**	**1,486,059**

Note 41. Contingent assets and liabilities

The accrued interest on the company's AT1 capital loan is a contingent liability, totalling EUR 9.4 million as 31 December 2019. The contingent liability will be realised as a deduction of equity once MuniFin decides on the payment of interest. In the comparative period of 2018, MuniFin had a contingent liability of EUR 9.5 million, which realised upon interest payment on April 1 2019. The Group does not have any contingent assets in 2019 or 2018.

Note 42. Collateral given

Given collaterals on behalf of own liabilities and commitments (1,000 EUR)	**31 Dec 2019**	**31 Dec 2018**
Loans and advances to credit institutions to the counterparties of derivative contracts[1]	686,129	1,275,807
Loans and advances to credit institutions to the central bank[2]	26,590	31,839
Loans and advances to the public and public sector entities to the central bank[2]	2,765,089	2,774,460
Loans and advances to the public and public sector entities to the Municipal Guarantee Board[3]	11,521,341	10,794,812
Other assets to the counterparties of derivative contracts[1]	158,494	164,341
Total	**15,157,643**	**15,041,259**

Collateral given is presented at the carrying amounts of 31 December.

Pledged assets:

1. MuniFin Group has pledged a sufficient amount of collateral to the counterparties of derivative contracts based on an additional collateral agreement of derivative contracts (ISDA/Credit Support Annex).
2. 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.
3. MuniFin Group has pledged a sufficient amount of loans shown in the table to the Municipal Guarantee Board. The Municipal Guarantee Board guarantees MunFin's funding and MuniFin places collateral for the Municipal Guarantee Board's guarantees as defined in the Act on the Municipal Guarantee Board.

Note 43. Off-balance-sheet commitments

(EUR 1,000)	31 Dec 2019	31 Dec 2018
Credit commitments	2,361,323	2,472,604
Total	**2,361,323**	**2,472,604**

Note 44. Leasing and other rental liabilities

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

The lease agreements are treated as of 1 January 2019 in accordance with IFRS 16 Leases standard. The maturity breakdown of the lease liabilities are presented in the Note 18 *Breakdown of financial assets and liabilities at carrying amount by maturity*. The lease agreements mainly relate to office premises of MuniFin Group. The accounting policies for leases are presented in the accounting policies (Note 1) in section *Leases* and the impact of the initial application in section *Application of new standards*.

Note 45. Related-party transactions

The MuniFin Group's related parties are MuniFin's shareholders whose ownership and corresponding voting in the company exceed 20%. In addition, the Group's related parties consist of the CEO, the Deputy to the CEO, other members of the Executive Management Team, members of the Board of Directors, the spouses, children and dependants of the persons and the children and dependants of the persons' spouses. In addition, MuniFin Group's related parties are entities which are directly or indirectly controlled or jointly controlled by the persons or where the persons have significant influence. MuniFin's related party is also its subsidiary Financial Advisory Services Inspira Ltd.

The Group'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, joint municipal authorities, 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).

The Group has carried out only employment-based remuneration transactions with related party persons. The Group does not have loan or financial receivables from these related parties. Transactions with Inspira comprise of fees related to administrative services and advisory services MuniFin has purchased from Inspira.

There have been no material changes in the related party transactions after 31 Dec 2018.

Transactions with the subsidiary (EUR 1,000)	**2019**	**2018**
Sales	22	38
Purchases	551	423

Inter-group receivables and liabilities (EUR 1,000)	**31 Dec 2019**	**31 Dec 2018**
Receivables	-	-
Liabilities	26	31

Note 46. Salaries and remuneration

Employee benefits for management

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

Salaries and remuneration (EUR 1,000)	2019	2018
President and CEO	420	437
Deputy to the CEO	251	273
Other members of the Executive Management Team in total	1,384	1,310
Total	**2,055**	**2,020**

MuniFin has paid the following statutory pension contributions related to the CEO, the Deputy to the CEO and other members of the Executive Management Team:

Statutory pension contributions (EUR 1,000)	2019	2018
President and CEO	73	78
Deputy to the CEO	43	48
Other members of the Executive Management Team (total)	240	233
Total	**356**	**359**

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 MuniFin's website and in the Remuneration Report for 2019 which is not a part of the Financial Statements.

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

In the event of termination of employment onMuniFin's initiative, the 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 CEO and the Deputy to the CEO. Employee benefits for the CEO and the Deputy to the CEO are terminated at the end of the period of notice.

The CEO of MuniFin is Mr Esa Kallio and Executive Vice President Ms Mari Tyster acts as a Deputy to the CEO. Figures reported in the note Salaries and remuneration include remuneration paid to Esa Kallio under President and CEO and respectively remuneration paid to Mari Tyster under Deputy to the CEO.

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

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 23,000 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 2019. Prior to this, the annual remuneration was 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 meeting remunerations have remain unchanged.

Salaries and remuneration

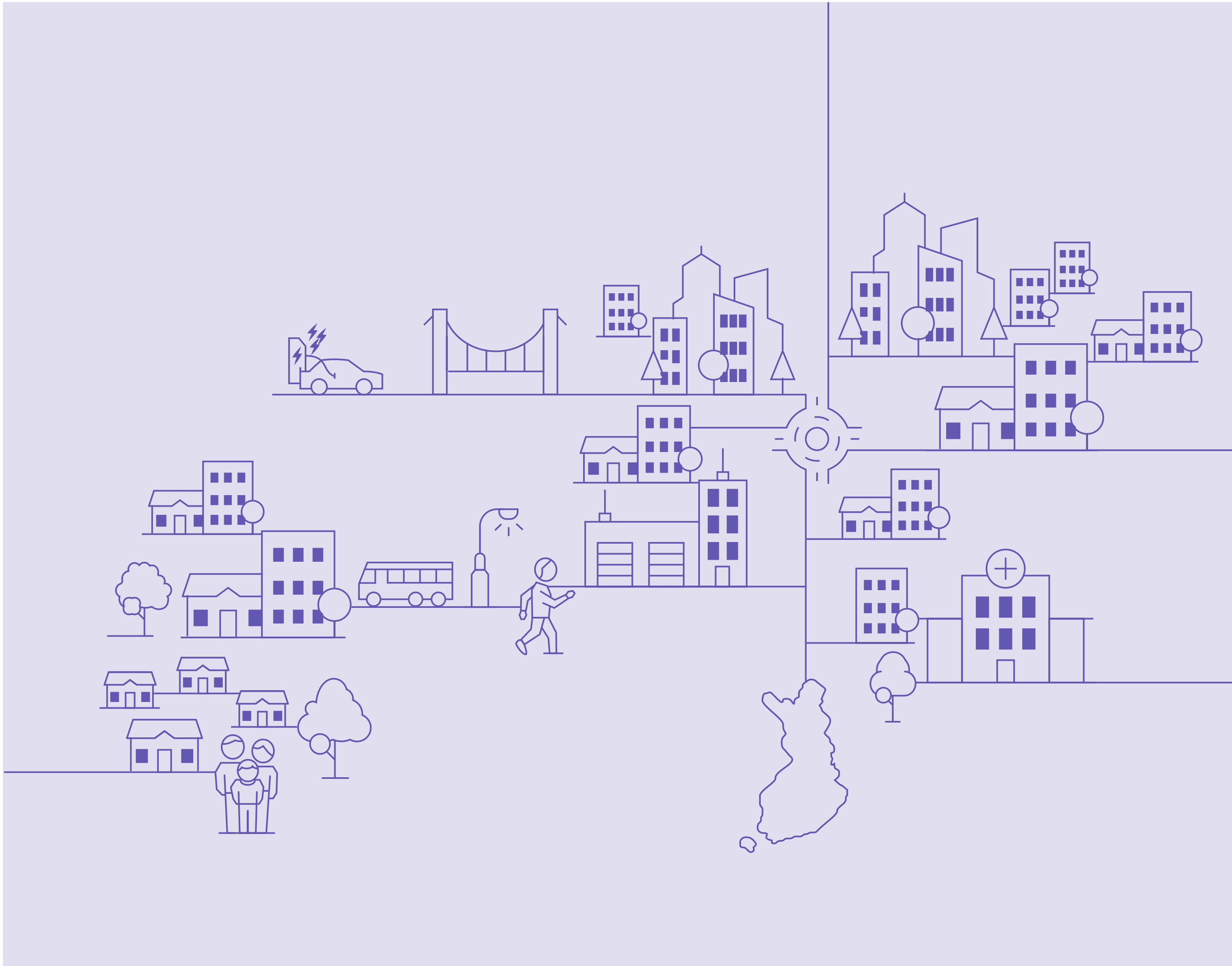
The remuneration paid to the management and employees of MuniFin Group consists of a fixed remuneration (base salary and fringe benefits) and a variable remuneration based on the conditions of the remuneration system. Principles of remuneration system are confirmed by the Board of Directors on annual 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 MuniFin's website www.munifin.fi.

Salaries and remuneration (EUR 1,000)	**2019**	**2018**
Members of the Board of Directors		
Helena Walldén, Chairman	52	53
Tapani Hellstén, Vice Chairman and member until 28 March 2018	-	9
Tuula Saxholm, Vice Chairman 28 March 2018 onwards	33	32
Fredrik Forssell, member until 28 March 2019	9	33
Minna Helppi	32	29
Teppo Koivisto, member until 28 March 2018	-	9
Markku Koponen, elected 28 March 2018	39	28
Jari Koskinen	30	29
Kari Laukkanen, elected 28 March 2018	39	27
Vivi Marttila	32	31
Maaria Eriksson, elected 28 March 2019	23	-
Raija-Leena Hankonen, elected 28 March 2019	23	-
Total	**311**	**278**

Note 47. Events after the reporting period

In January 2020, MuniFin issued its largest-ever public benchmark bond denominated in euros, face valued at EUR 1.5 billion. The bond was issued under MuniFin's MTN debt programme and the offering circular is available at MuniFin's website.

Parent Company Financial Statements



MuniFin

Income Statement

(EUR 1,000)	Note	1 Jan–31 Dec 2019	1 Jan –31 Dec 2018
Interest income	(2)	761,612	708,294
Net income from leasing operations	(3)	4,969	3,437
Interest expense	(2)	-542,525	-491,672
NET INTEREST INCOME		**224,056**	**220,059**
Commission income	(5)	588	335
Commission expense	(5)	-4,230	-4,175
Net income from securities and foreign exchange transactions	(6, 7)	-33,373	-27,910
Net income from securities		-34,801	-27,235
Net income from foreign exchange transactions		1,428	-675
Net income on financial assets at fair value through fair value reserve	(8)	114	38
Net income from hedge accounting	(9, 24)	-19,097	27,645
Other operating income	(11)	157	104
Administrative expenses		-30,884	-25,647
Personnel expenses	(48)	-16,336	-13,862
Salaries and fees		-13,511	-11,343
Personnel-related costs		-2,825	-2,519
Pension costs		-2,431	-2,074
Other personnel-related costs		-394	-446
Other administrative expenses		-14,548	-11,784
Depreciation and impairment on tangible and intangible assets	(12)	-6,073	-2,330
Other operating expenses	(13)	-16,485	-14,895
Expected credit loss on financial assets at amortised cost	(14)	-89	467
Expected credit loss and impairments on other financial assets	(14)	117	96
NET OPERATING PROFIT		**114,802**	**173,787**
Appropriations		-105,031	-146,465
Income taxes		-2,020	-5,491
PROFIT FOR THE FINANCIAI YEAR		**7,750**	**21,832**

Balance Sheet

(EUR 1,000)	Note	31 Dec 2019	31 Dec 2018
ASSETS			
Cash and balances with central banks		4,909,338	3,522,200
Cash		2	4
Central bank receivables payable on demand		4,909,336	3,522,196
Debt securities eligible for central bank refinancing	(19)	4,089,519	4,349,703
Other		4,089,519	4,349,703
Loans and advances to credit institutions	(17, 37)	817,462	1,380,291
Payable on demand		80,450	50,753
Other		737,012	1,329,538
Loans and advances to the public and public sector entities	(18)	23,969,974	22,354,096
Leasing assets	(20)	828,458	614,022
Debt securities	(19)	1,626,798	1,512,889
From public sector entities		741,772	700,498
From others		885,026	812,391
Shares and participations	(22)	9,797	9,521
Shares and participations in Group companies	(22)	656	656
Derivative contracts	(23)	2,244,997	1,538,610
Intangible assets	(25, 27)	14,719	14,904
Tangible assets	(26, 27)	8,539	2,364
Other tangible assets		8,539	2,364
Other assets	(28)	170,063	174,160
Accrued income and prepayments	(29)	242,428	203,054
TOTAL ASSETS	**(16, 36, 37, 39)**	**38,932,749**	**35,676,468**

(EUR 1,000)	Note	31 Dec 2019	31 Dec 2018
LIABILITIES AND EQUITY			
LIABILITIES			
Liabilities to credit institutions and central banks	(37)	1,178,256	822,504
To credit institutions		1,178,256	822,504
Other		1,178,256	822,504
Liabilities to the public and public sector entities		3,862,053	3,870,918
Other liabilities		3,862,053	3,870,918
Debt securities issued	(31)	29,983,585	26,901,998
Bonds		27,255,873	23,840,174
Other		2,727,712	3,061,824
Derivative contracts	(23)	1,762,010	2,205,427
Other liabilities	(32)	115,686	5,789
Accrued expenses and deferred income	(33)	192,343	160,056
Subordinated liabilities	(34)	348,896	348,406
Deferred tax liabilities	(30)	10,467	10,629
TOTAL LIABILITIES	**(16, 36, 37, 39)**	**37,453,297**	**34,325,728**
APPROPRIATIONS			
Depreciation difference		13,658	8,627
Taxation based provisions		1,204,530	1,104,530
TOTAL APPROPRIATIONS		**1,218,188**	**1,113,157**

(EUR 1,000)	Note	31 Dec 2019	31 Dec 2018
EQUITY	**(41, 42, 43)**		
Share capital		43,008	43,008
Other restricted reserves		42,145	19,964
Reserve fund		277	277
Fair value reserve		41,868	19,687
Change in fair value		41,868	19,687
Non-restricted reserves		40,743	40,743
Reserve for invested non-restricted equity		40,743	40,743
Retained earnings		127,618	112,036
Profit for the financial period		7,750	21,832
TOTAL EQUITY		**261,264**	**237,583**
TOTAL LIABILITIES AND EQUITY		**38,932,749**	**35,676,468**
OFF-BALANCE SHEET COMMITMENTS	**(47)**		
Irrevocable commitments given in favour of customer		2,361,323	2,472,604

Statement of Cash Flows

(EUR 1,000)	1 Jan–31 Dec 2019	1 Jan–31 Dec 2018
CASH FLOW FROM OPERATING ACTIVITIES	**1,428,303**	**23,942**
Net change in long-term funding	1,951,565	1,463,125
Net change in short-term funding	-298,985	-838,441
Net change in long-term loans	-1,701,327	-1,310,278
Net change in short-term loans	-79,193	20,395
Net change in investments	227,376	529,922
Net change in collaterals	1,048,093	-25,340
Interest on assets	103,697	89,573
Interest on liabilities	199,363	130,557
Other income	53,819	48,563
Payments of operating expenses	-67,960	-68,770
Taxes paid	-8,145	-15,363
CASH FLOW FROM INVESTING ACTIVITIES	**-3,646**	**-6,827**
Acquisition of tangible assets	111	-538
Acquisition of intangible assets	-3,757	-6,289
CASH FLOW FROM FINANCING ACTIVITIES	**-7,821**	**-6,250**
Dividends paid	-6,250	-6,250
Total cash flow from leases	-1,571	-
CHANGE IN CASH AND CASH EQUIVALENTS	**1,416,835**	**10,865**
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**3,572,953**	**3,562,088**
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**4,989,788**	**3,572,953**

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 2019	31 Dec 2018
Cash and balances with central banks	4,909,338	3,522,200
Loans and advances to credit institutions	80,450	50,753
TOTAL CASH AND CASH EQUIVALENTS	**4,989,788**	**3,572,953**

Notes to the Parent Company Financial Statements, FAS

Notes to the Income Statement

Notes to the Balance Sheet

Notes on Collateral and Contingent Liabilities

Notes on Personnel and Management

Notes on Related Party Transactions

Notes on Holdings in Other Companies

Other notes

Notes to the Parent Company Financial Statements

Note 1. Significant accounting policies of the Parent Company Financial Statements, FAS

Municipality Finance Plc (MuniFin), the parent company of the Municipality Finance Group (MuniFin 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.

The significant accounting policies of the parent company, Municipality Finance Plc, correspond to the accounting policies of the Consolidated Financial Statements (Note 1) with the exceptions described below.

Leases

MuniFin has applied from 1 January 2019 the Chapter 5, section 5b of the Accounting Act and the Accounting Boards Opinion 1988/2018 (June 27, 2018) to the accounting treatment of leases in the Financial Statements. The change amends the accounting requirements for lessees, but leaves the accounting requirements for lessors essentially unchanged. The accounting treatment is based on IFRS 16 Leases standard, which MuniFin Group applies in its Consolidated Financial Statements accordingly.

The application of IFRS 16 impacted the treatment of leases where the MuniFin is the lessee such as office space, parking facilities and cars. These have been previously classified as operating leases. The lease terms are negotiated on individual basis and they can contain extension options. The use of extension options are considered on contractual basis. Under IFRS 16, these lease liabilities have been measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate of at the date of initial application. Right-of-use assets are measured at an amount equal to lease liability at the date of initial application. Right-of-use assets are presented in the balance sheet as part of *Tangible assets* and lease liabilities are presented under *Other liabilities.*

MuniFin has elected to use the following practical expedient as allowed by IFRS 16.C10(a): a single discount rate is applied to all lease liabilities. The majority of the MuniFin's lease liability relates to office premises for which the interest rate implicit in the lease is not readily determined. Consequently, an incremental borrowing rate (IBR) is used. Maturity has been defined based on the lease term of office premises and parking space. The same maturity used for all leases since the impact of other leases than office premises are considered not material. MuniFin has not utilised the other practical expedients of IFRS 16.C10 in the retrospective application of the standard. The right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Lease payments are allocated between interest expense and the deduction of the lease liability.

MuniFin applies IFRS 16 retrospectively with the cumulative effect recognised on initial application in accordance with IFRS 16.C5(b) and Financial Supervisory Authority Regulations and Guidelines 2/2016. Consequently, the comparative information is not restated according to IFRS 16.C7.

Leases in which MuniFin is a lessor, have been classified as finance leases in the financial statements of both the Group and the parent company. The accounting treatment of finance leases does not differ from Group to parent, but the lease receivables are presented on line *Loans and advances to the public and public sector entities* in the Consolidated Financial Statements. In the parent company, they are presented on line *Leasing assets*. With the adoption of IFRS 16, there have been no changes in the accounting treatment of leases where MuniFin is the lessor.

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 balance sheet 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.

Fair value reserve

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 fair value reserve: fair value changes of 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.

AT1 capital loan

MuniFin has issued an AT1 capital loan, which 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, interest payments and other repayments shall take lower priority than all other higher-level debts in case of the company's dissolution or bankruptcy. The loan terms and conditions are disclosed in Note 34 *Subordinated liabilities*.

In parent's company's Financial Statements the AT1 capital loan is recognised as debt under the balance sheet item *Subordinated liabilities*. Interest paid on the AT1 capital loan is recognized in the income statement under *Interest expense*. AT1 capital loan is recognised as equity in consolidated financial statements. Interest payments are recognised in the Consolidated Financial Statements as a deduction from equity in accordance with the issuer's interest payment decisions.

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 2. Interest income and expense

2019 (EUR 1,000)	**Interest and similar income**	**Interest and similar expense**	**Net**
Assets			
Financial assets at amortised cost			
Cash and balances with central banks	-	-18,992	-18,992
Loans and advances to credit institutions	741	-3,654	-2,913
Loans and advances to the public and public sector entities	191,481	-	191,481
Debt securities	149	-1,172	-1,024
Other assets	98	-	98
Derivatives in hedge accounting	-78,835	-	-78,835
Financial assets at fair value through the fair value reserve			
Debt securities	0	-1,690	-1,690
Financial assets designated at fair value through profit or loss			
Debt securities	20,024	-	20,024
Financial assets mandatorily at fair value through profit or loss			
Loans and advances to the public and public sector entities	1,364	-	1,364
Debt securities	-	0	0
Derivative contracts	63,986	-91,324	-27,338
Leasing	4,969	-	4,969
Interest on non-financial other assets	6	-	6
Interest on assets	**203,981**	**-116,832**	**87,150**

2019 (EUR 1,000)	Interest and similar income	Interest and similar expense	Net
Liabilities			
Financial liabilities at amortised cost			
Liabilities to credit institutions	4,378	-1,569	2,809
Liabilities to the public and public sector entities	-	-64,333	-64,333
Debt securities issued	3,305	-362,051	-358,745
Subordinated liabilities	-	-16,208	-16,208
Other liabilities	-	-2,090	-2,090
Derivatives in hedge accounting	-	496,796	496,796
Financial liabilities designated at fair value through profit or loss			
Liabilities to credit institutions	-	-1,245	-1,245
Liabilities to the public and public sector entities	0	-36,018	-36,018
Debt securities issued	0	-103,427	-103,427
Financial liabilities at fair value through profit or loss			
Derivative contracts	554,916	-335,447	219,469
Interest on non-financial other liabilities	-	-102	-102
Interest on liabilities	**562,600**	**-425,693**	**136,907**
Grand total	**766,581**	**-542,525**	**224,056**
Of which interest income from leasing	**4,969**		
Interest income without interest income from leasing	**761,612**		

In accordance with Financial Supervisory Authority Regulations and Guidelines 2/2016 articles 99 and 104 negative interest income on assets is presented in interest expenses and negative interest expense on liabilities as interest income.

Interest income on financial assets on stage 3 in the expected credit loss (ECL) calculations were EUR 373 thousand in 2019. These are shown on the line item Loans and advances to the public and public sector entities under Financial assets at amortised cost.

Interest on non-financial other liabilities consists of interest on lease liabilities of EUR 102 thousand recorded according to IFRS 16 Leases standard.

In 2019, there were EUR 192 million of interest income on financial assets and EUR 26 million of interest expense on financial assets calculated using the effective interest rate method. Accordingly, there were EUR 8 million of interest income on financial liabilities and EUR 446 million of interest expense on financial liabilities calculated using the effective interest rate method.

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 short-term lending. 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 included 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, in addition 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 and 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 expense 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.

2018 (EUR 1,000)	Interest and similar income	Interest and similar expense	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
Leasing	3,437	-	3,437
Interest on non-financial other assets	7	-	7
Interest on assets	**207,895**	**-115,773**	**92,122**

2018 (EUR 1,000)	**Interest and similar income**	**Interest and similar expense**	**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**
Of which interest income from leasing	**3,437**		
Interest income without interest income from leasing	**708,294**		

Note 3. Net income from leasing operations

(EUR 1,000)	2019	2018
Leasing income	49,993	40,510
Depreciation on leased assets according to plan	-45,056	-37,127
Capital gains and losses on leased assets	32	54
Total	**4,969**	**3,437**

Note 4. Income from equity investments

Company has not received dividend income from its subsidiary in 2019 or 2018.

Note 5. Commission income and expense

Commission income (EUR 1,000)	2019	2018
From other operations	588	335
Total	**588**	**335**

Commission expense (EUR 1,000)	2019	2018
Commission fees paid	178	215
Other	4,052	3,960
Total	**4,230**	**4,175**

The line item *Other* includes paid guarantee fees, custody fees and funding programme update costs.

Note 6. Net income from securities and foreign exchange transactions

2019 (EUR 1,000)	Capital gains and losses (net)	Changes in fair value	Total
Derivative contracts	-2,026	590,161	588,135
Items designated at fair value through profit or loss	2,504	-625,440	-622,936
Total net income from securities transactions	**478**	**-35,279**	**-34,801**
Net income from foreign exchange transactions	3,643	-2,215	1,428
Total	**4,121**	**-37,494**	**-33,373**

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**

Note 7. Financial assets and liabilities designated at fair value through profit or loss

Financial assets and liabilities designated at fair value through profit or loss (EUR 1,000)	**Nominal value 31 Dec 2019**	**Carrying amount 31 Dec 2019**	**Nominal value 31 Dec 2018**	**Carrying amount 31 Dec 2018**
Financial assets				
Debt securities	3,843,076	3,940,456	3,612,233	3,701,796
Total financial assets	**3,843,076**	**3,940,456**	**3,612,233**	**3,701,796**
Financial liabilities				
Liabilities to credit institutions	-	-	45,000	46,399
Liabilities to the public sector entitities	1,870,254	1,548,639	1,986,668	1,569,561
Debt securities issued	11,855,073	11,391,573	10,958,060	9,990,255
Total financial liabilities	**13,725,327**	**12,940,212**	**12,989,728**	**11,606,215**

Debt securities designated at fair value through profit or loss are exposed to credit risk up to the carrying amounts of those securities in 31 Dec 2019.

Change in fair value of Financial assets designated at fair value through profit or loss in Net income from securities (EUR 1,000)	**31 Dec 2019**	**31 Dec 2018**	**Fair value change recognised in the income statement 2019**	**of which due to credit risk**	**of which due to market risk**
Financial assets					
Debt securities	53,109	54,906	-1,797	-2,788	991
Total financial assets	**53,109**	**54,906**	**-1,797**	**-2,788**	**991**

Financial assets that MuniFin has designated to be measured at fair value through profit or loss include debt securities in the liquidity portfolio of which the interest rate risk is hedged with interest rate and cross currency interest rate swaps. The designation is made as it significantly 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 IFRS 9 business model. MuniFin does not have credit derivatives hedging these financial assets.

Change in fair value of Financial liabilities designated at fair value through profit or loss (EUR 1,000)	**31 Dec 2019**	**31 Dec 2018**	**Fair value change recognised in the income statement 2019**	**Change in own credit risk recognised in the other comprehensive income 2019**	**Total fair value change in 2019**
Financial liabilities					
Liabilities to credit institutions	-	-1,360	1,360	39	1,399
Liabilities to the public sector entitities	-218,911	-140,738	-78,173	9,281	-68,891
Debt securities issued	328,802	875,841	-547,039	1,004	-546,035
Total financial liabilities	**109,891**	**733,743**	**-623,852**	**10,325**	**-613,527**

Net change in fair value in Net income from securities (EUR 1,000)	**Cumulative change in fair value 31 Dec 2019**	**Fair value change recognised in the income statement 2019**
Financial liabilities designated at fair value through profit or loss	109,891	-623,852
Derivative contracts hedging financial liabilities	-131,456	590,431
Net change in fair value	**-21,564**	**-33,421**

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. The financial liabilities designated at fair value through profit and loss consist of financial liabilities, which have been hedged according to the company's risk management policy, but which are not 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 above describes the net impact of these financial liabilities and their hedges on profit or loss.

When a financial liability is designated at fair value through profit or loss, the fair value change, with exception to MuniFin's own credit risk that is presented in other comprehensive income as changes of the Own credit revaluation reserve, is presented in Net income from securities and foreign exchange transactions.

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 period, 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.

Change in fair value of financial liabilities designated at fair value through profit or loss in Net income from securities (EUR 1,000)	**31 Dec 2018**	**Change in fair value 2018**	**of which due to credit risk**	**of which due to market risk**
Financial assets				
Debt securities	54,906	-19,591	-21,739	2,148
Total financial assets	**54,906**	**-19,591**	**-21,739**	**2,148**

Change in fair value of financial liabilities designated at fair value through profit or loss (EUR 1,000)	**Cumulative change in fair value 2018**	**Change in fair value 2018**	**of which due to credit risk**	**of which due to market risk**
Financial liabilities				
Liabilities to credit institutions	-1,360	2,872	428	2,444
Liabilities to the public and public sector entities	-140,738	-4,578	15,383	-19,961
Debt securities issued	875,841	620,782	33,142	587,641
Total financial liabilities	**733,743**	**619,077**	**48,953**	**570,123**

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 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**

Note 8. Net income on financial assets at fair value through fair value reserve

(EUR 1,000)	2019	2018
Capital gains from financial assets	36	-
Capital losses from financial assets	-11	-125
Unrealised gains transferred from fair value reserve	100	162
Unrealised losses transferred from fair value reserve	-11	-
Total	**114**	**38**

The income statement line *Net income on financial assets at fair value through fair value reserve* contains the transferred cumulative gain or loss of the financial assets measured at fair value through other comprehensive income from the fair value reserve in equity.

Note 9. Net income from hedge accounting

(EUR 1,000)	2019	2018
Net income from hedging instruments	372,670	-37,008
Net income from hedged items	-391,767	64,653
Total	**-19,097**	**27,645**

Unrealised gains and losses include risks to which fair value hedge accounting is applied. The foreign exchange difference of both hedging instruments and hedged items are presented on line item *Net income from foreign exchange transactions* in Note 6. A specification of the net income from hedge accounting is presented in Note 24.

Note 10. Impact of the reclassified financial assets and liabilities

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 2019**	**Fair value gain or loss for the period (i)**	**EIR determined as at 1 Jan 2018 (ii)**	**Interest revenue recognised during 2019**
Loans and advances to the public sector entities	Fair value option	Amortised cost	126,171	225	0.14%	203

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 other comprehensive income on initial application of IFRS 9 have matured during 2018.

Note 11. Other operating income

(EUR 1,000)	2019	2018
Other income from credit institution operations	157	104
Total	**157**	**104**

Note 12. Depreciation and impairment on tangible and intangible assets

(EUR 1,000)	2019	2018
Depreciation on tangible assets	2,131	614
Depreciation on intangible assets	3,942	1,715
Total	**6,073**	**2,330**

Impairment for tangible or intangible assets has not been recognised during financial year 2019 or 2018.

Note 13. Other operating expenses

(EUR 1,000)	2019	2018
Regulatory expenses		
Contributions to the Single Resolution Fund	4,328	4,977
Other administrative and supervisory fees	2,179	1,850
Rental expenses	391	2,022
External services	7,925	4,738
Credit rating fees	926	564
Audit fees	271	250
Insurances	287	212
Other expenses from credit institution operations	179	282
Total	**16,485**	**14,895**

The change in rental expenses results from the application of IFRS 16 Leases standard (as of 1 Jan 2019), whereby leases under the IFRS 16 standard are recognised as assets on Muni-Fin's balance sheet. Depreciation is recorded on the lease asset and an interest expense is recognised on the lease liability. The rental expenses recognised for the leases are adjusted correspondingly. IFRS 16 implementation decreased MuniFin's rental expenses by EUR 1.6 million during the financial year. The impact of the initial application of IFRS 16 is disclosed in the accounting policies of the Consolidated Financial Statements (Note 1) in section *Application of new standards*. The accounting policies for leases are presented in section *Leases*.

Note 14. Credit losses and impairments on financial assets

MuniFin's credit risks are described in the Consolidated Financial Statements in Note 2 *Risk management principles and the Group's risk position* in section *Credit Risk*. The accounting policies of the expected credit loss calculations and impairment stages are described in the accounting policies (Note 1) in section *Presentation of allowance for ECL in the statement of financial position* and *Measurement of ECLs*.

Total expected credit losses and impairments 2019 (EUR 1,000)	**Expected credit losses**			**Realised credit losses**		
	Additions	**Subtractions**	**Profit and loss**	**Additions**	**Subtractions**	**Profit and loss**
Expected credit losses on financial assets at amortised cost						
Cash and balances with central banks	0	0	0	-	-	-
Loans and advances to credit institutions	-1	24	22	-	-	-
Loans and advances to the public and public sector entities	-159	49	-110	-180	-	-180
Leasing receivables	-1	0	-1	-	-	-
Debt securities	0	0	0	-	-	-
Cash collateral to CCPs in Other assets	-1	1	0	-	-	-
Binding credit commitments (off-balance sheet item)	-3	2	-1	-	-	-
Total expected credit losses on financial assets at amortised cost	**-166**	**77**	**-89**	**-180**	**-**	**-180**
Expected credit losses and impairments on other financial assets						
Debt securities at fair value through other comprehensive income	-53	170	117	-	-	-
Guarantee receivables from the public and public sector entities	-	-	-	-	180	180
Total expected credit losses and impairments on other financial assets	**-53**	**170**	**117**	**-**	**180**	**180**
Total	**-219**	**247**	**28**	**-180**	**180**	**0**

MuniFin assesses all the expected credit losses on an individual basis and does not use collective assessment.

During the financial year 2019 MuniFin wrote-off loans and advances to the public and public sector entities totalling EUR 180 (434) thousand. MuniFin has collaterals in form of properties of the equivalent for loans and advances to the public and public sector entities in addition to deficiency guarantees from the government. The written-off receivables are shown in the balance sheet on line *Guarantee receivables from the public and public sector entities* under *Other assets* and shown as a decrease of the write-offs recoveries in the income statement. MuniFin will not incur a final credit losses.

Total expected credit losses and impairments 2018 (EUR 1,000)	Expected credit losses			Realised credit losses		
	Additions	**Subtractions**	**Profit and loss**	**Additions**	**Subtractions**	**Profit and loss**
Expected credit losses on financial assets at amortised cost						
Cash and balances with central banks	0	-	0	-	-	-
Loans and advances to credit institutions	-2	362	360	-	-	-
Loans and advances to the public and public sector entities	-14	71	57	-434	-	-434
Leasing receivables	0	1	1	-	-	-
Debt securities	0	1	1	-	-	-
Cash collateral to CCPs in Other assets	-5	50	45	-	-	-
Binding credit commitments (off-balance sheet item)	-3	5	3	-	-	-
Total expected credit losses on financial assets at amortised cost	**-24**	**491**	**467**	**-434**	**-**	**-434**
Expected credit losses and impairments on other financial assets						
Debt securities at fair value through other comprehensive income	-103	199	96	-	-	-
Guarantee receivables from the public and public sector entities	-	-	-	-	434	434
Total expected credit losses and impairments on other financial assets	**-103**	**199**	**96**	**-**	**434**	**434**
Total	**-127**	**690**	**564**	**-434**	**434**	**0**

MuniFin assesses all the expected credit losses on an individual basis and does not use collective assessment.

Note 15. Information on business areas and geographical market

Municipality Finance Plc's operating segment is credit institution operations and the market for lending is Finland.

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 16. Financial assets and liabilities

Financial assets 31 Dec 2019 (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	4,909,338	-	-	-	-	4,909,338	4,909,338
Loans and advances to credit institutions	817,462	-	-	-	-	817,462	817,462
Loans and advances to the public and public sector entities	23,918,874	51,100	-	-	-	23,969,974	26,067,416
Leasing	182,865	-	-	-	-	182,865	182,865
Debt securities	804,358	-	3,940,456	971,505	-	5,716,318	5,716,940
Shares and participations	-	9,797	-	-	-	9,797	9,797
Shares and participations in group companies	656	-	-	-	-	656	656
Derivative contracts	-	860,695	-	-	1,384,303	2,244,997	2,244,997
Other assets	158,494	-	-	-	-	158,494	158,494
Total	**30,792,047**	**921,591**	**3,940,456**	**971,505**	**1,384,303**	**38,009,900**	**40,107,965**

Unhedged leasing is not presented in this note of financial assets and liabilities, as leasing is not regarded as a financial asset for the purpose of IFRS 9 classification.
Other assets includes EUR 158,494 thousand of cash collateral given to central counterparties.

Financial liabilities 31 Dec 2019 (EUR 1,000)	**Amortised cost**	**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	1,178,256	-	-	-	1,178,256	1,178,371
Liabilities to the public and public sector entities	2,313,414	-	1,548,639	-	3,862,053	3,886,369
Debt securities issued	18,592,012	-	11,391,573	-	29,983,585	30,034,713
Derivative contracts	-	918,706	-	843,304	1,762,010	1,762,010
Other liabilities	96,239	-	-	-	96,239	96,239
Subordinated liabilities	348,896	-	-	-	348,896	382,160
Total	**22,528,818**	**918,706**	**12,940,212**	**843,304**	**37,231,040**	**37,339,862**

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
Leasing	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	164,341	-	-	-	-	164,341	164,341
Total	**28,199,542**	**601,552**	**3,701,796**	**1,434,383**	**1,004,212**	**34,941,485**	**36,864,510**

Unhedged leasing is not presented in financial assets and liabilities, as leasing is not regarded as a financial asset for the purpose of IFRS 9 classification.
Other assets includes EUR 164,341 thousands of cash collateral given to central counterparties.

Financial liabilities 31 Dec 2018 (EUR 1,000)	**Amortised cost**	**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**

Note 17. Loans and advances to credit institutions

31 Dec 2019 (EUR 1,000)	Total	Payable on demand	Other than payable on demand	Expected credit loss
Receivables from central bank	26,590	-	26,590	0
Domestic credit institutions	31,529	2,736	28,800	-7
Foreign credit institutions	759,343	77,714	681,650	-21
Total	**817,462**	**80,450**	**737,040**	**-28**

31 Dec 2018 (EUR 1,000)	Total	Payable on demand	Other than payable on demand	Expected credit loss
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**

Note 18. Loans and advances to the public and public sector entities

	31 Dec 2019		31 Dec 2018	
(EUR 1,000)	Total	Of which expected credit loss	Total	Expected credit loss
Enterprises and housing corporations	12,647,283	-155	11,988,299	-62
Public sector entities	10,943,542	-19	9,973,674	-12
Non-profit organisations	379,149	-11	392,123	-1
Total	**23 969 974**	**-185**	**22 354 096**	**-75**

Note 19. Debt securities

Debt securities issued by public sector entities 31 Dec 2019 (EUR 1,000)	**Publicly quoted**	**Other**	**Total**	**Expected credit loss**
Designated at fair value through profit or loss	**1,451,716**	**-**	**1,451,716**	**-**
Government bonds	232,178	-	232,178	-
Bonds issued by other public sector entities	1,219,537	-	1,219,537	-
Financial assets at amortised cost	**-**	**721,585**	**721,585**	**0**
Commercial papers issued by other public sector entities	-	721,585	721,585	0
Fair value through other comprehensive income	**58,268**	**-**	**58,268**	**-**
Government bonds	-	-	-	-
Bonds issued by other public sector entities	58,268	-	58,268	-
Total	**1,509,984**	**721,585**	**2,231,569**	**0**
Eligible for central bank refinancing	1,345,703	-	1,345,703	
Non-interest bearing	-	-	-	

Debt securities issued by other than public sector entities 31 Dec 2019 (EUR 1,000)	**Publicly quoted**	**Other**	**Total**	**Expected credit loss**
Mandatorily at fair value through profit or loss	**-**	**-**	**0**	**-**
Other debt securities	-	-	0	-
Designated at fair value through profit or loss	**2,488,740**	**-**	**2,488,740**	**-**
Bank bonds	2,488,740	-	2,488,740	-
Financial assets at amortised cost	**-**	**82,772**	**82,772**	**0**
Commercial papers	-	82,772	82,772	0
Fair value through other comprehensive income	**913,236**	**-**	**913,236**	**-**
Bank bonds	848,196	-	848,196	-
Bank commercial papers	65,040	-	65,040	-
Total	**3,401,976**	**82,772**	**3,484,748**	**0**
Eligible for central bank refinancing	2,743,816	-	2,743,816	
Non-interest bearing	-	-	-	

31 Dec 2019 (EUR 1,000)	Publicly quoted	Other	Total
Debt securities total	**4,911,960**	**804,358**	**5,716,318**

Debt securities do not contain any securities given as collateral for reverse repo agreements at year end 2019.
At the end of 2019 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.
Debt securities reclassified in 2008 have matured by the end of 2018.

Debt securities issued by public sector entities 31 Dec 2018

(EUR 1,000)	Publicly quoted	Other	Total	Expected credit loss
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**
Commercial papers issued by other public sector entities	-	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	
Non-interest bearing	-	-	-	

Debt securities issued by other than public sector entities 31 Dec 2018

(EUR 1,000)	Publicly quoted	Other	Total	Expected credit loss
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	
Non-interest bearing	-	-	-	

31 Dec 2018

(EUR 1,000)	Publicly quoted	Other	Total
Debt securities total	**5,136,179**	**726,412**	**5,862,591**

Note 20. Leasing assets

(EUR 1,000)	31 Dec 2019	31 Dec 2018
Prepayments	339,726	268,317
Machinery and equipment	200,556	185,088
Fixed assets and buildings	288,062	160,494
Other assets	116	124
Expected credit loss	-1	-1
Total	**828,458**	**614,022**

Note 21. Credit risks of financial assets and other commitments

MuniFin's credit risks are described in the Consolidated Financial Statements in Note 2 *Risk management principles and the Group's risk position* in section *Credit Risk*. The accounting policies of the expected credit loss calculations and impairment stages are described in the accounting policies (Note 1) section *Presentation of allowance for ECL in the statement of financial position* and *Measurement of ECLs*.

A table below presents exposures under expected credit loss calculations by asset groups and impairment stages. The table describes MuniFin's exposure to the credit risk.

Exposures by asset groups and impairment stages 31 Dec 2019 (EUR 1,000)	**Not credit-impaired**				**Credit-impaired**			
	Stage 1		**Stage 2**		**Stage 3**		**Total**	
	Gross carrying amount	**12-month ECL**	**Gross carrying amount**	**Lifetime ECL**	**Gross carrying amount**	**Lifetime ECL**	**Gross carrying amount**	**Expected credit losses**
Cash and balances with central banks at amortised cost	4,909,338	0	-	-	-	-	4,909,338	0
Loans and advances to credit institutions at amortised cost	817,462	-28	-	-	-	-	817,462	-28
Loans and advances to the public and public sector entities at amortised cost	23,672,686	-24	184,586	-80	61,602	-80	23,918,874	-185
Leasing receivables in loans and advances to the public and public sector entities at amortised cost	828,272	-1	186	0	-	-	828,458	-1
Debt securities at amortised cost	780,667	0	23,690	0	-	-	804,358	0
Debt securities at fair value through other comprehensive income	971,505	-104	-	-	-	-	971,505	-104
Cash collateral to CCPs in Other assets at amortised cost	158,494	-4	-	-	-	-	158,494	-4
Guarantee receivables from the public and public sector entities in Other assets	1,603	-	-	-	-	-	1,603	-
Credit commitments (off-balance sheet item)	2,359,038	-4	2,285	0	-	-	2,361,323	-4
Total	**34,499,064**	**-167**	**210,747**	**-80**	**61,602**	**-80**	**34,771,414**	**-327**

MuniFin has real estate collaterals and government deficiency guarantees of the equivalent amount to the loans and advances to the public and public sector entities. Based on the collateral position, MuniFin has assessed that the receivables in Stage 3 will be recovered in full and no final credit losses will incur.

Exposures by asset groups and impairment stages 31 Dec 2018 (EUR 1,000)	**Not credit-impaired**				**Credit-impaired**			
	Stage 1		**Stage 2**		**Stage 3**		**Total**	
	Gross carrying amount	**12-month ECL**	**Gross carrying amount**	**Lifetime ECL**	**Gross carrying amount**	**Lifetime ECL**	**Gross carrying amount**	**Expected credit losses**
Cash and balances with central banks at amortised cost	3,522,200	0	-	-	-	-	3,522,200	0
Loans and advances to credit institutions at amortised cost	1,380,291	-51	-	-	-	-	1,380,291	-51
Loans and advances to the public and public sector entities at amortised cost	22,075,706	-15	221,581	-59	-	-	22,297,288	-75
Leasing receivables in loans and advances to the public and public sector entities at amortised cost	613,826	-1	196	0	-	-	614,022	-1
Debt securities at amortised cost	721,187	0	4,400	0	-	-	725,587	0
Debt securities at fair value through other comprehensive income	1,434,383	-221	-	-	-	-	1,434,383	-221
Cash collateral to CCPs in Other assets at amortised cost	164,341	-4	-	-	-	-	164,341	-4
Guarantee receivables from the public and public sector entities in Other assets	1,800	-	-	-	-	-	1,800	-
Credit commitments (off-balance sheet item)	2,472,176	-3	428	0	-	-	2,472,604	-3
Total	**32,385,911**	**-295**	**226,605**	**-59**	**-**	**-**	**32,612,515**	**-355**

A table below presents summary of total changes and reconciliation of expected credit losses by impairment stages during the financial year.

Total expected credit losses by impairment stages 31 Dec 2019 (EUR 1,000)	**Not credit-impaired**		**Credit-impaired**	**Total**	
	Stage 1	**Stage 2**	**Stage 3**		
	12-month ECL	**Lifetime ECL**	**Lifetime ECL**	**ECL**	**Gross carrying amount**
Total expected credit loss at 31 December 2018	**-295**	**-59**	**-**	**-355**	**32,612,515**
New assets originated or purchased	-49	-48	-28	-126	7,569,070
Assets derecognised or repaid (excluding write-offs)	200	10	-	210	-5,410,336
Transfers to Stage 1	0	16	-	16	16
Transfers to Stage 2	0	-20	-	-20	-20
Transfers to Stage 3	0	21	-52	-30	-30
Changes to contractual cash flows due to modifications not resulting in derecognition	0	-	-	0	199
Changes to models [1] and inputs [2] used for ECL calculations	-22	-	-	-22	0
Write-offs	-	-	-	-	-180
Recoveries	-	-	-	-	180
Total expected credit loss at 31 December 2019	**-167**	**-80**	**-80**	**-327**	**34,771,414**

[1] Represent changes in the model.

[2] Represent changes to model parameters (e.g. GDP rates, unemployment rates)

During the financial year 2019, 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.

Total expected credit losses by impairment stages 31 Dec 2018
(EUR 1,000)

	Not credit-impaired		Credit-impaired	Total	
	Stage 1	Stage 2	Stage 3		
	12-month ECL	Lifetime ECL	Lifetime ECL	ECL	Gross carrying amount
Total expected credit loss at 1 January 2018	**-842**	**-77**	**0**	**-918**	**31,073,425**
New assets originated or purchased	-113	0	-	-113	6,422,445
Assets derecognised or repaid (excluding write-offs)	214	1	-	215	-4,883,818
Transfers to Stage 1	0	1	-	1	1
Transfers to Stage 2	0	-13	-	-12	-12
Transfers to Stage 3	-	-	-	-	-
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	-
Changes to models [1] and inputs [2] used for ECL calculations	445	28	-	473	474
Write-offs	-	-	0	0	-434
Recoveries	-	-	-	-	434
Total expected credit loss at 31 December 2018	**-295**	**-59**	**0**	**-355**	**32,612,515**

[1] Represent changes in the model.
[2] Represents changes to model parameters (e.g. GDP rates, unemployment rates)

During the financial year 2018, MuniFin 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.

Tables below presents changes and reconciliation of expected credit losses by impairment stages and asset groups during financial year.

Expected credit losses on Cash and balances with central banks at amortised cost by impairment stages 31 Dec 2019 (EUR 1,000)	**Not credit-impaired**		**Credit-impaired**		
	Stage 1	**Stage 2**	**Stage 3**	**Total**	
	12-month ECL	**Lifetime ECL**	**Lifetime ECL**	**ECL**	**Gross carrying amount**
Cash and balances with central banks at amortised cost at 1 January 2019	**0**	**-**	**-**	**0**	**3,522,200**
New assets originated or purchased	0	-	-	0	1,387,140
Assets derecognised or repaid (excluding write-offs)	0	-	-	0	-1
Transfers to Stage 1	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-
Changes to models and inputs used for ECL calculations	0	-	-	0	0
Total cash and balances with central banks at amortised cost at 31 December 2019	**0**	**-**	**-**	**0**	**4,909,338**

Expected credit losses on Loans and advances to credit institutions at amortised cost by impairment stages 31 Dec 2019 (EUR 1,000)	**Not credit-impaired**		**Credit-impaired**		
	Stage 1	**Stage 2**	**Stage 3**	**Total**	
	12-month ECL	**Lifetime ECL**	**Lifetime ECL**	**ECL**	**Gross carrying amount**
Loans and advances to credit institutions at amortised cost at 1 January 2019	**-51**	**-**	**-**	**-51**	**1,380,291**
New assets originated or purchased	-1	-	-	-1	36,395
Assets derecognised or repaid (excluding write-offs)	24	-	-	24	-599,225
Transfers to Stage 1	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-
Changes to models and inputs used for ECL calculations	0	-	-	0	0
Total loans and advances to credit institutions at amortised cost at 31 December 2019	**-28**	**-**	**-**	**-28**	**817,462**

Expected credit losses on Loans and advances to the public and public sector entities at amortised cost by impairment stages 31 Dec 2019
(EUR 1,000)

	Not credit-impaired		Credit-impaired	Total	
	Stage 1	Stage 2	Stage 3		
	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 2019	**-15**	**-59**	**-**	**-75**	**22,297,288**
New assets originated or purchased	-11	-48	-28	-88	3,261,510
Assets derecognised or repaid (excluding write-offs)	2	10	-	12	-1,639,908
Transfers to Stage 1	0	16	-	16	16
Transfers to Stage 2	0	-20	-	-20	-20
Transfers to Stage 3	0	21	-52	-30	-30
Changes to contractual cash flows due to modifications not resulting in derecognition	0	-	-	0	199
Changes to models and inputs used for ECL calculations	-	-	-	0	-
Write-offs	-	-	-	-	-180
Total loans and advances to the public and public sector entities at amortised cost at 31 December 2019	**-24**	**-80**	**-80**	**-185**	**23,918,874**

Expected credit losses on Leasing receivables in loans and advances to the public and public sector entities at amortised by impairment stages 31 Dec 2019
(EUR 1,000)

	Not credit-impaired		Credit-impaired	Total	
	Stage 1	Stage 2	Stage 3		
	12-month ECL	Lifetime ECL	Lifetime ECL	ECL	Gross carrying amount
Leasing receivables in loans and advances to the public and public sector entities at amortised cost at 1 January 2019	**-1**	**0**	**-**	**-1**	**614,022**
New assets originated or purchased	-1	0	-	-1	258,164
Assets derecognised or repaid (excluding write-offs)	0	-	-	0	-43,728
Transfers to Stage 1	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-
Changes to models and inputs used for ECL calculations	0	-	-	0	0
Total leasing receivables in loans and advances to the public and public sector entities at amortised cost at 31 December 2019	**-1**	**0**	**-**	**-1**	**828,458**

Expected credit losses on Debt securities at amortised cost by impairment stages 31 Dec 2019
(EUR 1,000)

	Not credit-impaired		Credit-impaired	Total	
	Stage 1	Stage 2	Stage 3		
	12-month ECL	Lifetime ECL	Lifetime ECL	ECL	Gross carrying amount
Debt securities at amortised cost at 1 January 2019	**0**	**0**	**-**	**0**	**725,587**
New assets originated or purchased	0	0	-	0	804,358
Assets derecognised or repaid (excluding write-offs)	0	0	-	0	-725,587
Transfers to Stage 1	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-
Changes to models and inputs used for ECL calculations	-	-	-	-	-
Total debt securities at amortised cost at 31 December 2019	**0**	**0**	**-**	**0**	**804,358**

Expected credit losses on Debt securities at fair value through other comprehensive income by impairment stages 31 Dec 2019
(EUR 1,000)

	Not credit-impaired		Credit-impaired	Total	
	Stage 1	Stage 2	Stage 3		
	12-month ECL	Lifetime ECL	Lifetime ECL	ECL	Gross carrying amount
Debt securities at fair value through other comprehensive income at 1 January 2019	**-221**	**-**	**-**	**-221**	**1,434,383**
New assets originated or purchased	-31	-	-	-31	215,461
Assets derecognised or repaid (excluding write-offs)	170	-	-	170	-678,340
Transfers to Stage 1	-	-	-	-	
Transfers to Stage 2	-	-	-	-	
Transfers to Stage 3	-	-	-	-	
Changes to models and inputs used for ECL calculations	-22	-	-	-22	
Total debt securities at fair value through other comprehensive income at 31 December 2019	**-104**	**-**	**-**	**-104**	**971,505**

The loss allowance on debt instruments measured at fair value through other comprehensive income is recognised in fair value reserve. The accumulated loss is recognised to the profit or loss upon derecognition of the assets. More details about presentation of allowance for expected credit losses is in the Consolidated Financial Statements in Note 1 *Summary of significant accounting policies* in section *Presentation of allowance in the statement of financial position*.

Expected credit losses on Cash collateral to CCPs in Other assets at amortised cost by impairment stages 31 Dec 2019

(EUR 1,000)

	Not credit-impaired		Credit-impaired		
	Stage 1	Stage 2	Stage 3	Total	
	12-month ECL	Lifetime ECL	Lifetime ECL	ECL	Gross carrying amount
Cash collateral to CCPs in Other assets at amortised cost at 1 January 2019	**-4**	**-**	**-**	**-4**	**164,341**
New assets originated or purchased	-1	-	-	-1	45,499
Assets derecognised or repaid (excluding write-offs)	1	-	-	1	-51,346
Transfers to Stage 1	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-
Changes to models and inputs used for ECL calculations	-	-	-	-	-
Total cash collateral to CCPs in Other assets at amortised cost at 31 December 2019	**-4**	**-**	**-**	**-4**	**158,494**

Expected credit losses on Guarantee receivables from the public and public sector entities in Other assets by impairment stages 31 Dec 2019

(EUR 1,000)

	Not credit-impaired		Credit-impaired		
	Stage 1	Stage 2	Stage 3	Total	
	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 2019	**-**	**-**	**-**	**-**	**1,800**
New assets originated or purchased	-	-	-	-	-
Assets derecognised or repaid (excluding write-offs)	-	-	-	-	-377
Transfers to Stage 1	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-
Changes to models and inputs used for ECL calculations	-	-	-	-	-
Write-offs	-	-	-	-	-
Recoveries	-	-	-	-	180
Total guarantee receivables from the public and public sector entities in Other assets at 31 December 2019	**-**	**-**	**-**	**-**	**1,603**

Expected credit losses on Credit commitments (off-balance sheet item) by impairment stages 31 Dec 2019 (EUR 1,000)	**Not credit-impaired**		**Credit-impaired**		
	Stage 1	**Stage 2**	**Stage 3**	**Total**	
	12-month ECL	**Lifetime ECL**	**Lifetime ECL**	**ECL**	**Gross carrying amount**
Credit commitments (off-balance sheet item) at 1 January 2019	**-3**	**0**	**-**	**-3**	**2,472,604**
New assets originated or purchased	-3	0	-	-3	1,560,543
Assets derecognised or repaid (excluding write-offs)	2	-	-	2	-1,671,824
Transfers to Stage 1	-	-	-	-	
Transfers to Stage 2	-	-	-	-	
Transfers to Stage 3	-	-	-	-	
Changes to models and inputs used for ECL calculations	-	-	-	-	
Total binding credit commitments (off-balance sheet item) at 31 December 2019	**-4**	**-**	**-**	**-4**	**2,361,323**

The loss allowance on binding credit commitments is recognised as a provision in *Other liabilities*. More details about presentation of allowance for expected credit losses is in the Consolidated Financial Statements in Note 1 *Summary of significant accounting policies* in section *Presentation of allowance in the statement of financial position*.

Non-performing and forborne receivables on financial assets and other commitments

Table below presents non-performing and forborne receivables on financial assets and other commitments at the carrying amount on 31 December.

Non-performing and forborne receivables on financial assets and other commitments 31 Dec 2019 (EUR 1,000)	Performing receivables (gross)	Non-performing receivables (gross)	Total receivables (gross)	Total expected credit losses	Total receivables (net)
Over 90 days past due	-	-	-	-	-
Unlikely to be paid	-	61,682	61,682	-80	61,602
Forborne receivables	27,854	4,968	32,822	-27	32,795

Non-performing and forborne receivables on financial assets and other commitments 31 Dec 2018 (EUR 1,000)	Performing receivables (gross)	Non-performing receivables (gross)	Total receivables (gross)	Total expected credit losses	Total receivables (net)
Over 90 days past due	-	-	-	-	-
Unlikely to be paid	-	-	-	-	-
Forborne receivables	61,746	-	61,746	-21	61,725

Non-performing receivables refer to receivables that are more than 90 days past due, other receivables classified as risky and forborne receivables due to the customer's financial difficulties. Details about principles applied to non-performing receivables are described in the Consolidated Financial Statements in Note 2 *Risk management principles and the Group's risk position* in section *Credit Risk*.

Forborne receivables include receivables that have been renegotiated due to the customer's financial difficulties. The loan terms and conditions of renegotiated receivables have been eased due to the customer's financial difficulties for example by transferring to interest only terms for a period of 6–12 months. Details about principles applied to forborne and modified receivables are described in the Consolidated Financial Statements in Note 1 *Summary of significant accounting policies* in section *Forborne and modified receivables*.

Realised credit losses

During the financial year 2019 MuniFin wrote-off loans and advances to the public and public sector entities totalling EUR 180 (434) thousand. The company has collaterals in form of properties of the equivalent for loans and advances to the public and public sector entities in addition to deficiency guarantees from the government. The written-off receivable are shown in the balance sheet on line *Guarantee receivables from the public and public sector entities* under *Other assets* and shown as a decrease of the write-offs recoveries in the income statement. MuniFin will not incur a final credit loss.

Note 22. Shares and participations

31 Dec 2019 (EUR 1,000)	Publicly quoted	Other	Total	In credit institutions
Shares and participations				
Mandatorily at fair value through profit or loss	9,769	27	9,797	-
Shares and participations in group companies	-	656	656	-
Total	**9,769**	**683**	**10,452**	**-**
of which at acquisition cost	-	656	656	-

MuniFin does not have equity instruments valued at fair value through other comprehensive income. MuniFin does not have shares and participations subject to securities lending.

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	-

Note 23. Derivative contracts

31 Dec 2019 (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	2,048,695	9,799,601	11,559,243	**23,407,538**	811,648	-346,270
Cleared by the central counterparty	934,155	7,260,466	9,065,291	**17,259,913**	368,439	-202,025
Currency derivatives						
Cross currency interest rate swaps	2,845,533	7,733,901	1,044,699	**11,624,134**	572,655	-497,034
Total contracts in hedge accounting	**4,894,228**	**17,533,502**	**12,603,942**	**35,031,672**	**1,384,303**	**-843,304**
Contracts at fair value through profit or loss						
Interest rate derivatives						
Interest rate swaps	2,457,175	11,119,011	5,072,029	**18,648,214**	608,438	-375,507
Cleared by the central counterparty	518,410	8,221,487	1,172,175	**9,912,071**	10,769	-116,120
Interest rate options	35	40,000	-	**40,035**	225	-225
Currency derivatives						
Cross currency interest rate swaps	4,286,054	2,351,154	271,291	**6,908,499**	209,582	-443,720
Forward exchange contracts	2,044,786	490,839	-	**2,535,624**	2,183	-25,303
Equity derivatives	1,585,879	18,969	-	**1,604,848**	40,268	-73,951
Other derivatives	-	-	-	**-**	-	-
Total contracts at fair value through profit or loss	**10,373,929**	**14,019,972**	**5,343,320**	**29,737,220**	**860,695**	**-918,706**
Grand total	**15,268,157**	**31,553,474**	**17,947,262**	**64,768,893**	**2,244,997**	**-1,762,010**

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.

MuniFin hasn't agreed any derivative contracts with the counterparties within the same Group.

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**

Note 24. Hedge accounting

The interest rate and foreign exchange rate risk of MuniFin are managed by entering into derivative transactions. According to the Market Risk Policy, MuniFin's hedging strategy is mainly to hedge all material foreign exchange and interest rate 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. The risk management principles related to the MuniFin' s hedging of market risk are described in more detail in the Consolidated Financial Statements in Note 2 *Risk Management principles and the Group's risk position*.

MuniFin applies both fair value hedge accounting according to IFRS 9 and fair value portfolio hedge accounting according to IAS 39. MuniFin does not apply cash flow hedge accounting. Accounting policies related to hedge accounting are described in the Consolidated Financial Statements in accounting polices (Note 1) under paragraph *Hedge Accounting*.

In the table below the hedged assets and liabilities are presented according to balance sheet line items divided into IAS 39 portfolio hedge accounting and IFRS 9 fair value hedge accounting, which is further subdivided into whether hedging is subject to the separation of the Cost-of-Hedging.

Hedge accounting 31 Dec 2019 (EUR 1,000)	**Nominal value**	**Total fair value hedge accounting**	**IAS 39 portfolio hedge accounting**	**IFRS 9 fair value hedge accounting**	**IFRS 9 fair value hedge accounting incl. Cost-of-Hedging**
Assets					
Loans and advances to the public and public sector entities - Loans	8,256,680	8,546,257	8,420,004	126,253	-
Leasing assets	181,261	182,865	-	182,865	-
Total assets	**8,437,941**	**8,729,122**	**8,420,004**	**309,118**	**-**
Liabilities					
Liabilities to credit institutions	70,000	82,916	-	82,916	-
Liabilities to the public and public sector entities	1,968,524	2,313,414	-	2,162,575	150,839
Debt securities issued	18,042,510	18,391,689	-	6,668,732	11,722,957
Total liabilities	**20,081,034**	**20,788,019**	**-**	**8,914,223**	**11,873,796**

The figures presented in the table below contain the cumulative fair value change at the beginning and at the end of the financial year, in addition to the fair value change of the hedged risk and the hedging instrument during the period. The figures presented in the table do not include the change in fair value due to foreign exchange differences of hedging instruments and the hedged items, which are recognised in the income statement under *Net income from securities and foreign exchange transactions*. Due to the above mentioned reason, the total amount of the hedging instruments does not correspond to the fair value presented in Note 23 *Derivatives* on line Total contracts in hedge accounting. The fair value changes of the hedged risk of the hedged items and all other fair value changes of the hedging instruments are recognised in the income statement under *Net income from hedge accounting*. The ineffective portion of the hedging relationship is thus shown on this line in the income statement. *Net income from securities and foreign exchange transactions* is specified in Note 6 and *Net income from hedge accounting* in Note 9.

In accordance with the market practice and IFRS 13 Fair value measurement standard, MuniFin discounts hedged items with the swap curve and the hedging derivatives with the OIS curve, which causes a significant part of MuniFin's hedge ineffectiveness. In addition, ineffectiveness may also arise to some extent from differences in notional, day count methods or timing of the cash flows.

Fair value change with respect to the hedged risk (EUR 1,000)	**31 Dec 2019**	**31 Dec 2018**	**Recognised in the income statement 2019**
Assets			
IAS 39 portfolio hedge accounting			
Loans and advances to the public and public sector entities	303,139	155,610	147,530
Hedging instruments	-276,831	-127,621	-149,210
IAS 39 portfolio hedge accounting, net	**26,308**	**27,989**	**-1,681**
IFRS 9 fair value hedge accounting			
Loans and advances to the public and public sector entities	30,934	22,752	8,182
Hedging instruments	-33,193	-23,636	-9,556
IFRS 9 fair value hedge accounting, net	**-2,258**	**-884**	**-1,374**
Liabilities			
IFRS 9 fair value hedge accounting			
Liabilities to credit institutions	-12,916	-11,845	-1,071
Liabilities to the public and public sector entities	-434,953	-339,599	-95,353
Debt securities issued	-524,923	-73,869	-451,054
Hedging instruments	963,674	432,237	531,436
IFRS 9 fair value hedge accounting, net	**-9,118**	**6,924**	**-16,042**
Total hedge accounting	**14,932**	**34,029**	**-19,097**

The table below presents the impact of Cost-of-Hedging of cross currency derivatives on equity in the *Cost-of-Hedging reserve*. The figures are presented net of deferred taxes.

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 do not create ineffectiveness in the hedge relationship.

Hedging impact on own equity (EUR 1,000)	**31 Dec 2019**	**31 Dec 2018**	**Impact on Cost-of-Hedging reserve**
Cost-of-Hedging			
Hedging instrument	28,075	14,235	13,840
Total	**28,075**	**14,235**	**13,840**

The table below presents the cumulative effectiveness of hedge accounting by hedged items. In addition, the table shows the hedging instruments used.

Effectiveness of the hedge accounting 31 Dec 2019
(EUR 1,000)

		Gains/(losses) attributable to the hedged risk		
Hedged item	**Hedging instruments**	**Hedged items**	**Hedging instruments**	**Hedge ineffectiveness**
Assets				
IAS 39 portfolio hedge accounting				
Fixed rate and revisable rate loans	Interest rate derivatives	303,139	-276,831	26,308
IFRS 9 fair value hedge accounting				
Structured lending	Interest rate derivatives	29,330	-31,086	-1,756
Fixed rate leasing contracts	Interest rate derivatives	1,605	-2,107	-502
Assets total		**334,074**	**-310,024**	**24,050**
Liabilities				
IFRS 9 fair value hedge accounting				
Financial liability denominated in EUR	Interest rate derivatives	-693,747	697,685	3,938
Financial liability denominated in foreign currencies	Currency derivatives (Cross currency interest rate swaps) Interest rate derivatives	-279,045	265,988	-13,057
Liabilities total		**-972,792**	**963,674**	**-9,118**

Hedge accounting 31 Dec 2018 (EUR 1,000)	**Nominal value**	**Total fair value hedge accounting**	**IAS 39 portfolio hedge accounting**	**IFRS 9 fair value hedge accounting**	**IFRS 9 fair value hedge accounting incl. Cost-of-Hedging**
Assets					
Loans and advances to the public and public sector entities - Loans	7,536,559	7,636,793	7,491,823	144,970	-
Leasing	108,658	109,835	-	109,835	-
Total assets	**7,645,217**	**7,746,628**	**7,491,823**	**254,805**	**-**
Liabilities					
Liabilities to credit institutions	45,000	36,845	-	36,845	-
Liabilities to the public and public sector entities	2,085,358	2,301,358	-	2,101,889	199,469
Debt securities issued	16,543,342	16,360,789	-	4,100,363	12,260,426
Total liabilities	**18,673,700**	**18,698,991**	**-**	**6,239,096**	**12,459,895**

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	-73,869	-96,695	22,826
Hedging instruments	432,237	444,743	-12,506
IFRS 9 fair value hedge accounting, net	**6,924**	**-19,889**	**26,813**
Total hedge accounting	**34,029**	**6,380**	**27,649**

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**

Effectiveness of the hedge accounting 31 Dec 2018

(EUR 1,000)

		Gains/(losses) attributable to the hedged risk		
Hedged item	**Hedging instruments**	**Hedged items**	**Hedging instruments**	**Hedge ineffectiveness**
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 lending	Interest rate derivatives	21,574	-22,680	-1,106
Fixed rate leasing contracts	Interest rate derivatives	1,178	-956	222
Assets total		**178,362**	**-151,257**	**27,105**
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
Liabilities total		**-425,317**	**432,237**	**6,921**

Note 25. Intangible assets

(EUR 1,000)	31 Dec 2019	31 Dec 2018
IT systems	14,704	14,850
Other intangible assets	16	54
Total	**14,719**	**14,904**

Intangible assets do not include other development costs or goodwill.

Note 26. Tangible assets

(EUR 1,000)	31 Dec 2019	31 Dec 2018
Real estate corporation shares	299	299
Right-of-use assets	6,860	-
Other tangible assets	1,380	2,065
Total	**8,539**	**2,364**

MuniFin does not have investment properties.

Note 27. Changes in intangible and tangible assets during the financial year

31 Dec 2019 (EUR 1,000)	Intangible assets	Tangible assets			
	Total	**Other real estate**	**Other tangible assets**	**Right-of-use assets**	**Total**
Acquisition cost 1 Jan 2019	25,070	299	4,820	8,188	13,307
+ Additions	3,757	-	271	167	438
– Disposals	-1,561	-	-1,029	-	-1,029
Acquisition cost 31 Dec	27,266	299	4,062	8,355	12,716
Accumulated depreciation 1 Jan	10,166	-	2,755	-	2,755
– Accumulated depreciation on disposals	-1,561	-	-709	-	-709
+ Depreciation for the financial year	3,942	-	637	1,494	2,131
Accumulated depreciation 31 Dec	12,547	0	2,682	1,494	4,177
Carrying amount 31 Dec 2019	**14,719**	**299**	**1,380**	**6,860**	**8,539**

Right-of-use assets consist of lease agreements that are recognised in the consolidated statement of financial position since the application of IFRS 16 Leases standard from the beginning of 1 Jan 2019. The most significant item in the right-of-use assets is leases related to office space rental agreements. The accounting policies are described in Note 1 in section *Leases.*

31 Dec 2018 (EUR 1,000)	Intangible assets	Tangible assets		
	Total	**Other real estate**	**Other tangible assets**	**Total**
Acquisition cost 1 Jan 2018	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
Carrying amount 31 Dec 2018	**14,904**	**299**	**2,065**	**2,364**

Note 28. Other assets

(EUR 1,000)	31 Dec 2019	31 Dec 2018
Invoiced leasing	8,984	7,725
Given cash collateral to CCPs	158,494	164,341
Other	2,585	2,094
Total	**170,063**	**174,160**

MuniFin did not have receivables related to payment transfers as at 31 December 2019 or 31 December 2018. Cash collaterals include expected credit loss amounting to EUR 4 thousand.

Note 29. Accrued income and prepayments

(EUR 1,000)	31 Dec 2019	31 Dec 2018
Accrued interest income	231,777	198,517
Other accrued income	9,182	3,058
Prepayments	1,470	1,479
Total	**242,428**	**203,054**

The company's *Other accrued income* includes mainly tax income.

Note 30. Deferred tax assets and liabilities

Deferred tax liabilities (EUR 1,000)	31 Dec 2018	Recognised in the income statement	Recognised in equity	Paid during the financial year	31 Dec 2019
On fair value reserve	4,922	-	5,545	-	10,467
On revaluation of financial assets and liabilities in IFRS 9 transition	5,707	-	-	-5,707	-
Total	**10,629**	**-**	**5,545**	**-5,707**	**10,467**

Voluntary provisions and depreciation difference include EUR 243,638 thousand in non-recognised deferred tax liabilities.
Company did not have deferred tax assets as at 31 December 2019.

Deferred tax liabilities (EUR 1,000)	31 Dec 2017	IFRS 9 transition	01 Jan 2018	Recognised in the income statement	Recognised in equity	31 Dec 2018
On fair value reserve	7,236	-16,573	-9,337	-	14,259	4,922
On revaluation of financial assets and liabilities in IFRS 9 transition	-	5,707	5,707	-	-	5,707
Total	**7,236**	**-10,866**	**-3,629**	**-**	**14,259**	**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.

Note 31. Debt securities issued

	31 Dec 2019		31 Dec 2018	
(EUR 1,000)	Carrying amount	Nominal value	Carrying amount	Nominal value
Bonds	27,255,873	27,361,959	23,840,174	24,983,497
Other	2,727,712	2,735,624	3,061,824	3,067,904
Total	**29,983,585**	**30,097,583**	**26,901,998**	**28,051,402**

The line item *Other* contains short-term funding issued by MuniFin.
All parent company funding is guaranteed by the Municipal Guarantee Board.

Largest issuances during the year 2019	Value date	Maturity date	Interest-%	Nominal value (1,000)	Currency
Fixed rate benchmark bond, issued under the MTN programme	16.1.2019	7.3.2024	0.125%	1,000,000	EUR
Fixed rate benchmark bond, issued under the MTN programme	10.7.2019	6.9.2029	0.05%	500,000	EUR
Fixed rate benchmark bond, issued under the MTN programme	18.10.2019	7.3.2024	0.125%	350,000	EUR
Fixed rate benchmark bond, issued under the MTN programme	12.11.2019	26.11.2026	0.625%	350,000	EUR
Fixed rate benchmark bond, issued under the MTN programme	20.12.2019	7.3.2024	0.125%	100,000	EUR
Fixed rate benchmark bond, issued under the MTN programme	20.3.2019	15.11.2023	2.50%	1,000,000	USD
Fixed rate benchmark bond, issued under the MTN programme	12.9.2019	12.9.2022	1.375%	1,250,000	USD

Reconciliation of the carrying amount of the issued debt
(EUR 1,000)

	Liabilities to credit institutions	Liabilities to public and public sector entities	Debt securities issued
Carrying amount 31 Dec 2018	**83,244**	**3,870,918**	**26,901,998**
Cash flow changes from operating activities			
Additions to issued debt "bonds"	62,891	19,832	6,948,465
Additions to issued debt "other"	-	-	9,611,202
Additions total	**62,891**	**19,832**	**16,559,666**
Deductions to issued debt "bonds"	-50,375	-220,667	-4,620,310
Deductions to issued debt "other"	-	-	-9,945,314
Deductions total	**-50,375**	**-220,667**	**-14,565,624**
Cash flow changes from operating activities in total	**12,517**	**-200,835**	**1,994,043**
Changes in the balance sheet value including valuations and FX revaluations	-12,845	191,970	1,087,544
Carrying amount 31 Dec 2019	**82,916**	**3,862,053**	**29,983,585**

Note 32. Other liabilities

(EUR 1,000)	31 Dec 2019	31 Dec 2018
Lease liabilities	6,906	-
Cash collateral taken from CCPs	96,239	-
Other	12,542	5,789
Total	**115,686**	**5,789**

MuniFin has applied IFRS 16 Leases standard as of 1 January 2019. Additional information regarding the initial application and accounting policies is disclosed in the Consolidated Financial Statements' accounting policies (Note 1) in sections *Leases* and *Application of new standards*. Other liabilities consist mainly of accounts payable. Other liabilities include also the loss allowance on binding credit commitments of EUR 4 thousand. Company did not have payables related to payment transfers as at 31 December 2019 or 31 December 2018.

Note 33. Accrued expenses and deferred income

(EUR 1,000)	31 Dec 2019	31 Dec 2018
Accrued interest expenses	176,322	146,580
Other accrued expenses	5,022	4,853
Deferred income	10,999	8,623
Total	**192,343**	**160,056**

The company's deferred income consists mainly of leasing income.

Note 34. Subordinated liabilities

31 Dec 2019 (EUR 1,000)	Currency	Nominal value	Book value	Interest rate	Earliest repayment
AT1 capital loan	EUR	350,000	348,896	Fixed	1st April 2022
Total		**350,000**	**348,896**		

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**		

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 35. Act on Credit Institutions (1194/2014)

MuniFin's Resolution Authority is EU's shared Resolution Board (Single Resolution Board, SRB).
SRB has decided not to set minimum requirement for own funds and eligible liabilities (MREL) for year 2019.

Note 36. Breakdown of financial assets and liabilities at carrying amount by maturity

Financial assets 31 Dec 2019 (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	4,909,338	-	-	-	-	4,909,338
Debt securities eligible for central bank refinancing	326,938	763,054	2,520,163	479,365	-	4,089,519
Loans and advances to credit institutions	793,168	-	24,293	-	-	817,462
Loans and advances to the public and public sector entities	287,996	1,387,918	5,644,387	4,819,318	11,830,354	23,969,974
Leasing	6,745	18,251	58,470	35,274	64,125	182,865
Debt securities	886,063	385,427	324,257	31,051	-	1,626,798
Shares and participations	-	-	-	-	9,797	9,797
Shares and participations in group companies	-	-	-	-	656	656
Derivative contracts	135,426	86,165	664,050	541,895	817,461	2,244,997
Other assets	158,494	-	-	-	-	158,494
Total	**7,504,169**	**2,640,815**	**9,235,621**	**5,906,903**	**12,722,392**	**38,009,900**

Unhedged leasing is not presented in financial assets and liabilities, as leasing is not regarded as a financial asset for the purpose of IFRS 9 classification.

Financial liabilities 31 Dec 2019 (EUR 1,000)	**0–3 months**	**3–12 months**	**1–5 years**	**5–10 years**	**Over 10 years**	**Total**
Liabilities to credit institutions	1,095,340	-	-	20,025	62,891	1,178,256
Liabilities to the public and public sector entities	-	103,922	938,253	1,315,413	1,504,465	3,862,053
Debt securities issued	6,690,700	3,948,367	13,641,920	3,946,765	1,755,834	29,983,585
Derivative contracts	444,670	235,078	537,835	151,611	392,817	1,762,010
Other liabilities	96,621	1,104	5,420	-	-	103,144
, of which lease liabilities	382	1,104	5,420	-	-	6,906
Subordinated liabilities	-	-	348,896	-	-	348,896
Total	**8,327,330**	**4,288,470**	**15,472,325**	**5,433,813**	**3,716,007**	**37,237,945**

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 2020. In 2019, the company called 24% of its callable liabilities.

Financial assets 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
Leasing	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**

Financial liabilities 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 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.

Note 37. Breakdown of the balance sheet items into domestic and foreign currency

Financial assets 31 Dec 2019 (EUR 1,000)	**Domestic currency**	**Foreign currency**	**Total**	**of which intra-group**
Loans and advances to credit institutions	739,803	77,659	817,462	-
Loans and advances to the public and public sector entities	23,969,974	-	23,969,974	-
Leasing	828,458	-	828,458	-
Debt securities	1,472,706	154,092	1,626,798	-
Debt securities eligible for central bank refinancing	4,080,114	9,406	4,089,519	-
Derivative contracts	1,319,007	925,990	2,244,997	-
Other assets incl. cash and balances in central banks	5,355,540	-	5,355,540	656
Total	**37,765,602**	**1,167,146**	**38,932,749**	**656**

Financial liabilities 31 Dec 2019 (EUR 1,000)	**Domestic currency**	**Foreign currency**	**Total**	**of which intra-group**
Liabilities to credit institutions	1,178,256	-	1,178,256	-
Liabilities to the public and public sector entities	3,688,168	173,885	3,862,053	-
Debt securities issued	7,899,909	22,083,677	29,983,585	-
Derivative contracts	706,278	1,055,732	1,762,010	-
Other liabilities	1,722,272	75,676	1,797,948	26
Subordinated liabilities	348,896	-	348,896	-
Total	**15,543,779**	**23,388,969**	**38,932,749**	**26**

Financial assets 31 Dec 2018

(EUR 1,000)	Domestic currency	Foreign currency	Total	of which 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 in central banks	3,910,409	16,449	3,926,858	656
Total	**34,644,333**	**1,032,136**	**35,676,468**	**656**

Financial liabilities 31 Dec 2018

(EUR 1,000)	Domestic currency	Foreign currency	Total	of which intra-group
Liabilities to credit institutions	822,504	-	822,504	-
Liabilities to the public and public sector entities	3,630,214	240,705	3,870,918	-
Debt securities issued	5,446,636	21,455,363	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	**12,180,320**	**23,496,149**	**35,676,468**	**31**

Note 38. Repurchase agreements

The company did not have any receivables or liabilities related to repurchase agreements as at 31 December 2019 or 31 December 2018.

Note 39. Fair values and book values of financial assets and liabilities

Financial assets (EUR 1,000)	**31 Dec 2019**		**31 Dec 2018**	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Cash and balances with central banks	4,909,338	4,909,338	3,522,200	3,522,200
Debt securities eligible for central bank refinancing	4,089,519	4,089,519	4,349,703	4,349,703
Loans and advances to credit institutions	817,462	817,462	1,380,291	1,380,291
Loans and advances to the public and public sector entities	23,969,974	26,067,416	22,354,096	24,276,751
Leasing	182,865	182,865	109,835	109,835
Debt securities	1,626,798	1,627,420	1,512,889	1,513,258
Shares and participations	9,797	9,797	9,521	9,521
Shares and participations in group companies	656	656	656	656
Derivative contracts	2,244,997	2,244,997	1,538,610	1,538,610
Other assets	158,494	158,494	164,341	164,341
Total	**38,009,900**	**40,107,965**	**34,942,141**	**36,865,166**

Financial liabilities (EUR 1,000)	**31 Dec 2019**		**31 Dec 2018**	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Liabilities to credit institutions	1,178,256	1,178,371	822,504	822,733
Liabilities to the public and public sector entities	3,862,053	3,886,369	3,870,918	3,896,366
Debt securities issued	29,983,585	30,034,713	26,901,998	26,950,268
Derivative contracts	1,762,010	1,762,010	2,205,427	2,205,427
Other liabilities	96,239	96,239	-	-
Subordinated liabilities	348,896	382,160	348,406	377,255
Total	**37,231,040**	**37,339,862**	**34,149,254**	**34,252,049**

Note 40. Hierarchy of fair values of financial assets and liabilities

Fair value is the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. MuniFin measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Level 1:
Inputs that are quoted market prices (unadjusted) for identical instruments in active markets that MuniFin can access at the measurement date. The market is considered to be active if trading is frequent and price data is regularly available. These quotes (mid) represent the price for an orderly transaction between parties in the market on the valuation date. Level 1 instruments comprise mainly investments in debt securities.

Level 2:
Inputs other than quoted prices included within level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This level includes instruments valued using quoted prices for identical instruments in markets that are considered less than active or other valuation techniques in which all significant inputs are directly or indirectly observable from market data. Level 2 instruments comprise mainly of OTC derivatives, MuniFin's issued plain-vanilla financial liabilities and lending agreements.

Level 3:
This level includes all instruments for which the valuation technique includes inputs that are not observable and the unobservable inputs have a significant effect on the instrument's valuation. Non-observable inputs are used only to the extent that no relevant observable inputs are available. If the valuation input is illiquid, extrapolated or based on historical prices, the valuation input will be defined as a level 3 valuation input as these types of inputs are per definition non-observable. This level includes financial instruments with equity and FX structures due to impact of the utilisation of inputs such as dividend yield on the fair value measurement. In addition, level 3 contains some interest rate structures with long maturities (exceeding e.g. 35 years) or in currencies where the interest rate curve is not considered liquid for all maturities.

Due to the nature of MuniFin's funding portfolio (i.e. issued bond is hedged back-to-back), if a swap that is hedging an issued bond is designated as a level 3 instrument, then the issued bond will also be designated as a level 3 instrument. Same principle applies to other portfolios and levels of the hierarchy as well.

MuniFin does not have non-financial assets or liabilities measured at fair value nor does it have assets or liabilities with non-recurring fair value measurements.

The following table presents financial instruments by the level of the fair value hierarchy into which the fair value measurement is categorised.

Financial assets 31 Dec 2019 (EUR 1,000)		Fair value			
	Carrying amount	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value					
Fair value through fair value reserve					
Debt securities	971,505	798,874	172,631	-	971,505
Designated at fair value through profit or loss					
Debt securities	3,940,456	3,812,154	128,302	-	3,940,456
Mandatorily at fair value through profit or loss					
Loans and advances to the public and public sector entities	51,100	-	1,072	50,028	51,100
Debt securities	-	-	-	-	-
Shares in investment funds	9,797	9,797	-	-	9,797
Fair value through profit or loss					
Derivative assets	860,695	-	727,687	133,007	860,695
Derivatives in hedge accounting	1,384,303	-	1,380,574	3,728	1,384,303
Total financial assets at fair value	**7,217,853**	**4,620,824**	**2,410,266**	**186,764**	**7,217,853**
In fair value hedge accounting					
At amortised cost					
Loans and advances to the public and public sector entities	8,546,257	-	9,143,650	-	9,143,650
Leasing	182,865	-	182,865	-	182,865
Total in fair value hedge accounting	**8,729,122**	**-**	**9,326,515**	**-**	**9,326,515**
Financial assets at amortised cost					
Cash and balances with central banks	4,909,338	4,909,338	-	-	4,909,338
Loans and advances to credit institutions	817,462	135,833	681,629	-	817,462
Loans and advances to the public and public sector entities	15,372,617	-	16,872,666	-	16,872,666
Shares and participations in group companies	656	-	-	656	656
Debt securities	804,358	-	804,980	-	804,980
Other assets	158,494	-	158,494	-	158,494
Total financial assets at amortised cost	**22,062,924**	**5,045,171**	**18,517,769**	**656**	**23,563,596**
Total financial assets	**38,009,900**	**9,665,996**	**30,254,549**	**187,420**	**40,107,965**

Financial liabilities 31 Dec 2019 (EUR 1,000)		Fair value			
	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	-	-	-	-	-
Liabilities to the public and public sector entities	1,548,639	-	1,409,955	138,684	1,548,639
Debt securities issued	11,391,573	-	8,313,844	3,077,729	11,391,573
Fair value through profit or loss					
Derivative liabilities	918,706	-	460,463	458,243	918,706
Derivatives in hedge accounting	843,304	-	830,658	12,646	843,304
Total financial liabilities at fair value	**14,702,222**	**-**	**11,014,920**	**3,687,302**	**14,702,222**
In fair value hedge accounting					
Liabilities to credit institutions	82,916	-	83,031	-	83,031
Liabilities to the public and public sector entities	2,313,414	-	2,337,730	-	2,337,730
Debt securities issued*	18,391,689	-	18,291,146	151,671	18,442,817
Total in fair value hedge accounting	**20,788,019**	**-**	**20,711,908**	**151,671**	**20,863,579**
Financial liabilities at amortised cost					
Liabilities to credit institutions	1,095,340	-	1,095,340	-	1,095,340
Debt securities issued	200,323	-	200,323	-	200,323
Other liabilities	96,239	-	96,239	-	96,239
Subordinated liabilities	348,896	-	382,160	-	382,160
Total financial liabilities at amortised cost	**1,740,798**	**-**	**1,774,062**	**-**	**1,774,062**
Total financial liabilities	**37,231,040**	**-**	**33,500,890**	**3,838,973**	**37,339,862**

*In the above table, MuniFin's fixed-rate benchmark bond issuances are presented in level 2 due the fact 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 adjusted to reflect fair value based on the quoted prices from Bloomberg. Quoted price is level 1 input data.

Financial assets 31 Dec 2018 (EUR 1,000)		**Fair value**			
	Carrying amount	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value					
Fair value through fair value reserve					
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
Fair value through profit or loss					
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
Leasing	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
Shares and participations in group companies	656	-	-	656	656
Debt securities	725,587	-	725,957	-	725,957
Other assets	164,341	-	164,341	-	164,341
Total financial assets at amortised cost	**20,453,570**	**3,641,384**	**18,202,958**	**656**	**21,844,997**
Total financial assets	**34,942,141**	**8,697,047**	**28,166,519**	**1,599**	**36,865,166**

Financial liabilities 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
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**	**34,252,049**

*In the above table, MuniFin's fixed-rate benchmark bond issuances are presented in level 2 due the fact 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 adjusted to reflect fair value based on the quoted prices from Bloomberg. Quoted price is level 1 input data.

All valuation models, both complex and simple models, use market prices and other inputs. These market prices and inputs comprise interest rates, FX rates, volatilities, correlations etc. MuniFin applies different types of valuation inputs depending on the type and complexity of the instruments and the related risk factors and payoff structures. MuniFin's defined categorisation is based on the analysis performed with regards to the valuation input, stress testing (reasonable possible alternative assumption) and model complexity. If the inputs used to measure fair value are categorised into different levels of the fair value hierarchy, the fair value measurement is categorised in its entirety in the level of the lowest level input that is significant to the entire measurement.

MuniFin assesses the appropriateness and correctness of the categorisation with regards to the fair value hierarchy classification at initial recognition and at the end of each reporting period. This is to determine the initial classification of a level 1, 2 and 3 instrument and the subsequent potential transfers between levels within the fair value hierarchy. An example of transfer between the fair value hierarchies can occur when a previously assumed observed input requires an adjustment using an unobservable input. The procedure is the same for transfers into and out of the fair value levels. Transfers between the levels are considered to take place at the end of the quarter during which an event causes such transfer or when circumstances change.

IFRS 13 classifies valuation models and techniques into three different categories; market approach, income approach and cost approach.

MuniFin applies a market-based approach when the instrument has a functioning market and public price quotations are available. MuniFin uses the market approach for the valuation of investment bonds and funds. For all level 1 assets, MuniFin uses market prices available for identical assets (same ISIN). MuniFin does not make use of prices for comparable assets.

Income approach is applied when valuation is based, for example, on determining the present value of future cash flows (discounting). Valuation methods take into account an assessment of the credit risk, discount rates used, the possibility of early repayment and other factors that influence the fair value of a financial instrument reliably. MuniFin uses the income approach for many of its financial instruments, for example derivatives, lending and funding.

MuniFin does not use the cost approach for the valuation of any of its financial instruments.

MuniFin uses widely recognised valuation models to determine the fair value of common and simple financial instruments, such as interest rate and currency swaps, that use only observable market data and require little management judgement and estimation. Observable prices or model inputs are usually available in the market for listed debt and equity securities and simple OTC derivatives such as interest rate swaps. The availability of observable market prices and model inputs reduces the need for management judgement and estimation and reduces the uncertainty associated with determining fair values. The availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

MuniFin applies different models in order to derive the fair value of a certain type of instruments. The choice of base models and its calibration depends on the complexity of the financial instrument and the observability of the relevant inputs. In line with market practice, the primary choice of base model is contingent on the underlying instrument classes. Additionally instruments are broken down into different categories granular enough to capture the most important risk drivers and different kind of calibration techniques. The specific combination of base models and the different assumptions and calibrations techniques are documented. MuniFin's fair value instruments that are subject to mark-to-model valuation techniques consists out of four asset classes:

- Interest rate instruments,
- Foreign exchange instruments,
- Equity-linked instruments,
- Hybrid instruments.

Financial instruments under FX, equity and hybrid classes are mainly classified as level 3 instruments.

Fair value of financial assets and liabilities is generally calculated as the theoretical net present value of the individual instruments. This calculation is supplemented by counterparty level adjustments. MuniFin incorporates credit valuation adjustments (CVA) and debit valuation adjustments (DVA) into derivative valuations. CVA reflects the impact on fair value from the counterparty's credit risk and DVA MuniFin's own credit quality. MuniFin uses the same methodology to compute CVA and DVA. They are both assessed as the result of three inputs: Loss Given Default (LGD), Probability of Default (PD, own for DVA and of the counterparty for CVA), Expected Exposure (EE).

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price. If the fair value on initial recognition differs from the transaction price and the fair value is evidenced, neither by a quoted price in an active market for an identical asset or liability, nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value and adjusted to defer the difference between the fair value on initial recognition and the transaction price (Day 1 gain or loss). The difference is amortised on a straight-line basis throughout the life time of the contracts. For callable instruments, the amortisation period is considered to be until the first call date.

Valuation framework

MuniFin has implemented a framework for the arrangements, activities and procedures with regards to MuniFin's model risk management. The purpose of the model risk management framework is to ensure the effective management of model risk and mitigation of fair value uncertainty, as well as to ensure compliance with external and internal requirements. MuniFin ensures that all aspects of the lifecycle of valuation models (i.e. approval, design and development, testing and maintenance, monitoring and execution) are subject to effective governance, clear roles and responsibilities and effective internal control.

MuniFin manages and maintains a model inventory which provides a holistic view of all valuation models, their business purpose and characteristics as well as their applications and conditions for use. The Executive Management Team is responsible of the approval of new valuation models (including limitations and conditions of use), and material changes to existing models. All approved valuation models within the model inventory are subject to annual review and re-approval by the Executive Management Team.

MuniFin has implemented an efficient control and performance monitoring framework with regards to its valuation models, which aims to ensure the accuracy and appropriateness of model output. The model performance monitoring consists of four main controls:

- Fair value control and reconciliation to counterparty valuations;
- Fair value differences report;
- Independent Price Verification (IPV) by a third-party service provider and
- Independent model validation by a third-party service provider

Transfers in the fair value hierarchy

During 2019, reclassifications have been made between level 1 and level 2 totaling EUR 155,113 thousands.

During 2019 reclassifications have been made between level 2 and level 3 totaling EUR 4,025,735 thousands.

Level 3 transfers 2019 (EUR 1,000)	**1 Jan 2019**	**Change in value in the income statement**	**Purchases and new contracts**	**Sales and matured contracts**	**Transfers into level 3**	**Transfers out of level 3**	**31 Dec 2019**
Financial assets at fair value							
Mandatorily at fair value through profit or loss							
Loans and advances to the public and public sector entities	-	-	-	-	50,028	-	**50,028**
Fair value through profit or loss							
Derivative contracts	944	6,653	3,585	-944	122,769	-	**133,007**
In fair value hedge accounting							
Derivative contracts	-	-	299	-	3,429	-	**3,728**
Financial assets in total	**944**	**6,653**	**3,884**	**-944**	**176,227**	**-**	**186,763**
Financial liabilities at fair value							
Designated at fair value through profit or loss							
Liabilities to the public and public sector entities	-	-	-	-	138,684	-	**138,684**
Debt securities issued	768,448	54,249	773,030	-466,038	1,948,040	-	**3,077,728**
Fair value through profit or loss							
Derivative contracts	192,000	-46,235	31,275	-107,943	389,146	-	**458,243**
In fair value hedge accounting							
Debt securities issued	-	-	67	-	12,579	-	**12,646**
Derivative contracts	-	-	16,187	-	135,483	-	**151,671**
Financial liabilities in total	**960,447**	**8,014**	**820,559**	**-573,981**	**2,623,933**	**-**	**3,838,972**
Level 3 financial assets and liabilities in total	**961,390**	**14,666**	**824,443**	**-574,924**	**2,800,159**	**-**	**4,025,735**

MuniFin recognises these gains and losses within the line items *Net income from securities and foreign exchange transactions* and *Net income from hedge accounting*.

MuniFin has amplified its fair value hierarchy categorisation approach during 2019. Based on performed analyses the group has taken more conservative view on which input is considered unobservable and what impact is considered significant on the fair value measurement. As a result, larger amounts of financial instruments are now classified on level 3. The fair value categorisation changes explain majority of the transfers to level 3 during 2019.

Sensitivity analysis

Although MuniFin believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in level 3, changing one or more of the assumptions used to reasonably possible alternative assumptions would have the following effects.

Sensitivity analysis of unobservable inputs 2019 (EUR 1,000)	Fair value	Valuation technique	Unobservable input	Positive range of fair value	Negative range of fair value
Loans and advances to the public and public sector entities					
Loans	50,028	Stochastic model	Volatility – Extrapolated or illiquid Interest rates – Extrapolated and Illiquid	50	-604
Derivative contracts					
Equity linked derivatives	-33,683	Stochastic model	Volatility – Extrapolated or illiquid Interest rates – Extrapolated and Illiquid Dividend yield	21,111	-19,805
FX linked cross currency and interest rate derivatives	-319,759	Stochastic model	Correlation parameters Volatility – Extrapolated or illiquid Interest rates – Extrapolated and Illiquid	7,734	-4,547
Other interest rate derivatives	19,289	Stochastic model	Correlation parameters Volatility – Extrapolated or illiquid Interest rates – Extrapolated and Illiquid	4,218	-4,307
Debt securities issued and liabilities to the public and public sector entities					
Equity linked liabilities	1,486,858	Stochastic model	Volatility – Extrapolated or illiquid Interest rates – Extrapolated and Illiquid Dividend yield	16,459	-22,005
FX linked liabilities	1,538,974	Stochastic model	Correlation parameters Volatility – Extrapolated or illiquid Interest rates – Extrapolated and Illiquid	4,691	-6,072
Other structured liabilities	342,250	Stochastic model	Correlation parameters Volatility – Extrapolated or illiquid Interest rates – Extrapolated and Illiquid	4,378	-3,452
				58,641	**-60,792**

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.

Level 3 transfers 2018 (EUR 1,000)	**Derivative assets** Mandatorily at fair value through profit or loss	**Derivative liabilities** Financial liabilities at fair value through profit or loss	**Debt securities** Mandatorily at fair value through profit or loss	**Debt securities issued** 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	-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**

Sensitivity analysis of unobservable inputs 2018

Unobservable inputs are share and index volatilities for which no quotations exists in liquid markets. 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 and the fair value of the debt instrument decreases by EUR 37.3 million. In the high volatility scenario the fair value of the derivatives decreases by EUR 10.8 million and the fair value of the debt instrument increases by EUR 11.0 million.

Note 41. Equity

31 Dec 2019 (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
Carrying amount 1 Jan 2019	43,008	277	726	4,726	14,235	40,743	133,868	237,583
+ increase	-	-	82	8,260	13,840	-	7,750	29,931
– decrease	-	-	-	-	-	-	-6,250	-6,250
Carrying amount 31 Dec 2019	**43,008**	**277**	**807**	**12,985**	**28,075**	**40,743**	**135,368**	**261,264**

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
Carrying amount 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
Carrying amount, 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
Carrying amount 31 Dec 2018	**43,008**	**277**	**726**	**4,726**	**14,235**	**40,743**	**133,868**	**237,583**

Note 42. Share capital

The shares of 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 2019, 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 to A shares (26,331,646) and B shares (12,732,152).

Note 43. 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 2019		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	763,829	1.96 %
9.	City of Kuopio	592,028	1.52 %
10.	City of Lahti	537,926	1.38 %

The total number of shareholders is 277 (278).

The number of shares in the table does not include possible shares held by shareholders' group companies.

Notes on Collateral and Contingent Liabilities

Note 44. Collateral given

Given collaterals on behalf of own liabilities and commitments (EUR 1,000)	31 Dec 2019	31 Dec 2018
Loans and advances to credit institutions to the counterparties of derivative contracts[1]	686,129	1,275,807
Loans and advances to credit institutions to the central bank[2]	26,590	31,839
Loans and advances to the public and public sector entities to the central bank[2]	2,765,089	2,774,460
Loans and advances to the public and public sector entities to the Municipal Guarantee Board[3]	11,521,341	10,794,812
Other assets to the counterparties of derivative contracts[1]	158,494	164,341
Total	**15,157,643**	**15,041,259**

Collateral given is presented at the carrying amounts of 31 December.

Pledged assets:

1) MuniFin has pledged a sufficient amount of collateral to the counterparties of derivative contracts based on an additional collateral agreement of derivative contracts (ISDA/Credit Support Annex).

2) 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.

3) MuniFin has pledged a sufficient amount of loans to the Municipal Guarantee Board. The Municipal Guarantee Board guarantees MunFin's funding and MuniFin places collateral for the Municipal Guarantee Board's guarantees as defined in the Act on 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. Leasing and other rental liabilities

(EUR 1,000)	31 Dec 2018
Maturing within one year	1,534
Maturing in one to five years	5,501
Maturing in more than five years	898
Total	**7,934**

The lease agreements are treated as of 1 January 2019 in accordance with IFRS 16 Leases standard. The maturity breakdown of the lease liabilities are presented in the Note 36 *Breakdown of financial assets and liabilities by maturity*. The lease agreements mainly relate to MuniFin's office premises. The accounting policies for Lease agreements are presented in the Consolidated financial statement's accounting policies (Note 1) in section *Leases* and the impact of the initial application in section *Application of new standards*.

Note 47. Off-balance sheet commitments

(EUR 1,000)	31 Dec 2019	31 Dec 2018
Credit commitments	2,361,323	2,472,604
Total	**2,361,323**	**2,472,604**

Notes on Personnel and Management

Note 48. Personnel

	2019		2018	
	Average	End of year	Average	End of year
Permanent full-time	137	144	121	126
Permanent part-time	4	4	3	3
Fixed term	10	8	11	12
Total	**151**	**156**	**135**	**141**

Employee benefits for management

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

Salaries and remuneration (EUR 1,000)	2019	2018
President and CEO	420	437
Deputy to the CEO	251	273
Other members of the Executive Management Team (Total)	1,384	1,310
Total	**2,055**	**2,020**

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

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

Statutory pension contributions (EUR 1,000)	2019	2018
President and CEO	73	78
Deputy to the CEO	43	48
Other members of the Executive Management Team (Total)	240	233
Total	**356**	**359**

Remuneration of the Board of Directors

The members of the Board of Directors of the 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 23,000 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 2019. Prior to this, the annual remuneration was 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 meeting remunerations have remain unchanged.

Salaries and remuneration (EUR 1,000)	**2019**	**2018**
Members of the Board of Directors		
Helena Walldén, Chairman	52	53
Tapani Hellstén, Vice Chairman and member until 28 March 2018	-	9
Tuula Saxholm, Vice Chairman 28 March 2018 onwards	33	32
Fredrik Forssell, member until 28 March 2019	9	33
Minna Helppi	32	29
Teppo Koivisto, member until 28 March 2018	-	9
Markku Koponen, elected 28 March 2018	39	28
Jari Koskinen	30	29
Kari Laukkanen, elected 28 March 2018	39	27
Vivi Marttila	32	31
Maaria Eriksson, elected 28 March 2019	23	-
Raija-Leena Hankonen, elected 28 March 2019	23	-
Total	**311**	**278**

Notes on 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 Chapter 15 Section 13 (2) of the Act on Credit Institutions from related parties.

Notes on Holdings in Other Companies

Note 50. Holdings in other companies

(EUR 1,000)	2019		2018	
	Proportion of all shares (%)	Carrying amount	Proportion of all shares (%)	Carrying amount
Subsidiaries				
Financial Advisory Services Inspira Ltd	100.0	656	100.0	656
Total	**100.0**	**656**	**100.0**	**656**

On 31 December 2019, 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)	2019	2018
Audit	345	405
Tax advisory services	90	37
Other services	375	110
Total	**810**	**552**

Amounts do not include VAT. Part of the other services paid to the audit firm is recognised as intangible assets according to the MuniFin's accounting policies for the recognition of intangible assets.

Signatures to the Report of the Board of Directors and Financial Statements

Helsinki, 13 February 2020

MUNICIPALITY FINANCE PLC

Helena Walldén
Chairman of the Board

Tuula Saxholm
Vice Chairman of the Board

Maaria Eriksson
Member of the Board

Raija-Leena Hankonen
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 2020

KPMG Oy Ab

Tiia Kataja
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 2019. 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 *Auditors 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
Financial assets and financial liabilities measured at fair value (notes 1, 2, 3, 6, 7, 8, 10, 16, 17, and 25)	
— The carrying amount of financial assets measured at fair value totaled EUR 7.2 billion and that of financial liabilities measured at fair value EUR 14.7 billion — Fair values of financial instruments carried at fair value are determined using either prices quoted in an active market or Municipality Finance's own valuation techniques where no active market exists. Determining fair values involves management judgements, especially in respect of those instruments for which market-based data is not available. — Financial assets and financial liabilities measured at fair value account for a substantial part of assets and liabilities in the consolidated statement of financial position. Changes in market interest rates and foreign exchange rates may have a significant impact on the result for the financial year and equity. Consequently, the accounting of fair valued financial assets and liabilities was considered a key audit matter.	— We analysed the appropriateness of the accounting principles and valuation methodologies applied by Municipality Finance as well as tested key controls over the valuation process. — We assessed the appropriateness of the valuation methodologies and models applied with the assistance of our IFRS and financial instrument specialists. — We utilised data analyses to test the accuracy of valuation of financial assets and financial liabilities. We also assessed the inputs used in valuation models on a sample basis by comparing with market information at the financial year-end. In respect of derivative instruments, we compared reconciliations prepared by Municipality Finance with confirmations obtained from the counterparties. — Furthermore, we considered the appropriateness of the notes provided on financial assets and financial liabilities measured at fair value.

Hedge accounting (notes 1, 2, 9, 25 and 26)

- Municipality Finance applies hedge accounting to hedge against interest rate and currency risks related to financial assets and financial liabilities, and to reduce the accounting mismatch.
- Municipality Finance applies fair value hedge accounting under IFRS 9 and fair value portfolio hedge accounting under IAS 39.
- Due to the application of hedge accounting, the carrying amounts of those financial assets and financial liabilities to which hedge accounting is applied, include unrealised fair value change related to hedged risks.
- The hedge accounting process includes various accounting phases and hedge accounting has a significant impact on the consolidated financial statements. Accordingly hedge accounting was considered as key audit matter.

- We evaluated the hedge accounting practices applied for compliance with the relevant financial reporting standards with the assistance of our IFRS and financial instrument specialists.
- We assessed the hedge effectiveness testing and the appropriateness of the related documentation prepared by Municipality Finance.
- Finally, we considered the appropriateness of the related notes to the financial statements.

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 the 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 19 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 2020

KPMG OY AB

TIIA KATAJA
Authorised Public Accountant, KHT

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