Annual Report
2020

MuniFin

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MuniFin

The pandemic highlighted MuniFin's role

The COVID-19 pandemic strained the economy in 2020, but the worst of the predicted crisis scenarios did not materialise. The year was unusual in many ways, substantially increasing the demand for MuniFin's services. This created some pressure for MuniFin's own funding, but our operations were highly successful despite the challenging market situation.

In January 2020, discussions on the economy were dominated by the China–US trade war and its effects on political relations and the global economic balance. These topics were moved to the background in February, however, as the new coronavirus spreading across the globe flooded the news. The first wave of the pandemic caught the markets by surprise, but swift recovery measures by governments and central banks brought the situation quickly under control.

In Finland, past economic crises have typically first hit the export industry and investments and then spread into the service sector from there. With the COVID-19 crisis, it was the other way around, and the municipalities that took the hardest hit were the largest cities and tourism-dependent northern regions. Overall, Finland managed to prevent the spread of the virus relatively well; in the end, economic activity and tax revenues fell less than we initially feared.

In 2020, MuniFin's customers required substantially more financing than before. Uncertainty caused an unusual spike in demand from March to May, when it was anticipated that the pandemic would quickly increase municipalities' expenditure while reducing their income. Financing for new projects totalled EUR 4,699 million in 2020, which is a remarkable 52% increase from 2019. Housing production was largely unaffected by the pandemic, so its financing did not change significantly from the previous year.

Investors ever more interested in responsible and stable investing

The pandemic stirred international capital markets during the spring. Plummeting stock prices and rising interest rates kept investors on their toes, impacting funding acquisition from international markets. However, thanks to our long-term cooperation with investors and our reputation as a reliable and responsible counterparty, we were able to continue our own funding without interruption.

International investors have shown growing interest in responsible and safe investments in the last few years. In 2016, we introduced green financing, and in 2020, we added social financing to our portfolio of responsible financing products. Social financing is targeted at projects that yield particularly effective and wide-ranging benefits for the society.

Working consistently in the long term is an important element of responsibility. In October, MuniFin became a signatory to the United Nations Global Compact. This membership demonstrates that we are committed to the continuous development of corporate and social responsibility and our expertise in it.

Towards even better service

MuniFin continued to renew and restructure its organisation and operating model in 2020. This included cooperation negotiations in the autumn, resulting in changes to our operating model and organisation as of 1 January 2021. We aim for a flexible operating model to ensure continued customer centricity and the ability to adapt to changes in the operating environment.

We continued to further develop our digital services as planned and even speed up the process somewhat due to the increased demand caused by the pandemic. Our team made a smooth transition into remote work in just a matter of days, without causing any disruption to our customers, and we also adopted new channels to foster customer contact. For example, we expanded our digital services, offered our customers online events and digital services training that proved very popular, and continued to provide our chief economist's economic reports for different stakeholder groups. In 2021, we will continue to improve our services with the aim of offering our customers even better and more efficient service.

The year 2020 highlighted MuniFin's core mandate. We successfully met our customers' greatly increased demand for financing despite the challenging market environment. For this I want to thank our staff, who have shown exceptional ability in adapting to the new situation. I would also like to thank our customers, who were open to adopting new practices and enabled our close collaboration to continue throughout this unusual year.

Esa Kallio
President and CEO
Municipality Finance Plc

MuniFin in brief

MuniFin's mission is to build a better and more sustainable future with its customers. MuniFin 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).

MuniFin's most important task is to ensure that our customers can acquire funding regardless of the market situation. We offer our customers diverse financial services and are by far the biggest single provider of financing for our customer segments. MuniFin'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 our customers, we acquire financing efficiently from the international capital markets, where we are 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 State of Finland. Due to the shareholder base, we do not seek to maximise profit, but to serve efficiently and profitably as the best financing expert in the field, providing our customers with solutions that are the best fit for their needs.

We constantly develop new services to meet the changing needs of our customers and help 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. MuniFin employs more than 165 financial and economic experts. We aim to provide an attractive and adaptable working environment with values-based management.

In addition to the 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 %

53/31/16

Municipalities / Keva / State of Finland

Long-term customer financing, EUR billion

28.0

New long-term funding, EUR billion

11.0

Social finance, EUR billion

0.6

Green finance, EUR billion

1.8

AA+ **Aa1**

Credit rating

Standard & Poor's: AA+, Moody's: Aa1

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

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

6.1

Key Figures (Group)	2020	2019	Change, %
Net interest income (EUR million)	254	240	6%
Net operating profit excluding unrealised fair value changes (EUR million)	197	186	6%
Long-term customer financing (EUR million)	28,022	24,798	13%
Total funding (EUR million)	38,139	33,929	12%
Balance sheet total (EUR million)	44,042	38,934	13%
Total own funds (EUR million)	1,624	1,510	8%
CET1 capital ratio, %	104.3%	107.9%	-3%
Leverage ratio, %	3.9%	4.0%	-3%

Highlights of 2020

The year 2020 was exceptional also for MuniFin. The global COVID-19 pandemic resulted in a sudden spike in the demand for financing in municipalities. MuniFin's own funding was highly successful, and we managed to fulfil our core mandate despite the underlying conditions.

We met the increased demand for information with new online events, digital training sessions and economic reports, which attracted a large audience from one month to another. We continued our work as our customers' main financing partner, offering new tools and services for financial forecasting.

We also took new steps forward in responsibility: we expanded the range of our sustainable products, updated our responsibility strategy indicators, and became a signatory to the UN Global Compact.

New lending, EUR billion

4.8

Balance sheet total 31 Dec 2020, EUR billion

44.0

New funding in 2020, EUR billion

11.0

Expenditure on the development of operations, EUR million

9

Highlights of 2020

01

24 January: We introduced a comparison calculator on our website to facilitate the planning phase of investments. The calculator allows customers to quickly map out the different implementation and financing alternatives of a project.

02

13 February: We were the first Nordic SSA public sector credit institution to launch a social finance product.

03

25 March: Finland declared state of emergency due to the COVID-19 pandemic. We offered our customers and stakeholders our first webinar on the financial impact of the crisis.

04

16 April: We issued our first remote-transaction benchmark worth EUR 1 billion. Despite the challenging market conditions amid COVID-19, the issuance was highly successful, and the final order book was more than three times oversubscribed.

22 April: We awarded Momo's Bubbles from Oulu with our signature award #Huomisentekijät (#TomorrowMakers) in Junior Achievement Finland's Company of the Year Competition. Our partnership with Junior Achievement Finland is an important aspect of MuniFin's social responsibility.

07

7 July: We introduced an investment solutions library on our Finnish website. The solutions library lists a number of projects from all over Finland and offers insight into the best practices in planning and deciding on new investments.

09

17 September: We issued the Group's debut social bond as the first Nordic issuer in the SSA (Sovereigns, Supranationals, Agencies) category. Demand from investors was strong: the 15-year EUR 500 million social bond was almost four times oversubscribed.

10

13 October: We issued the Group's fifth public benchmark Green bond, in which the proceeds are used to finance sustainable public transportation and sustainable buildings (such as schools, day care centres and residential buildings), water and wastewater management, and renewable energy development.

26 October: We joined the United Nations Global Compact. The Compact's principles bind companies to obligations related to human rights, working conditions, the environment and anti-corruption.

12

14 December: We set new goals until 2024 for the development of our sustainable finance portfolio and corporate governance. We also updated indicators in our responsibility strategy.

18 December: The UK-based Capital Market Daily (CMD) Portal awarded MuniFin as the best Uridashi issuer in its annual market awards. We also won the best structured note issuer award.

18 December: We responded to the European Commission's consultations on the EU Green Bond Standard and the EU Taxonomy. We consider both initiatives highly welcome.

Strategy

MuniFin continued to renew and improve in 2020. The COVID-19 pandemic shook the world and further highlighted the importance of our core mandate. To adapt to the unusual circumstances and best help our customers, we created new channels for customer service. We also introduced a new product in sustainable financing.

MuniFin is the only credit institution in Finland that specialises solely in financing the municipal sector and non-profit housing production. Our core mandate is to offer our customers affordable financing under all market conditions.

MuniFin continued to renew in 2020, restructuring its organisation and operating practices. We also updated our strategy starting in 2021.

The COVID-19 crisis highlighted the importance of MuniFin's core mandate

We are committed to building a better and more sustainable future with our customers. Our vision is to be the main financing partner for our customers. In our work, we adhere to our values of customer centricity, responsibility and openness.

The COVID-19 pandemic shook the entire world in 2020, highlighting the importance of MuniFin's core mandate. In line with our strategy, we focused on strengthening our core operations and preserving the availability of reasonably priced financing for our customers. Thanks to our fast reacting and strong business model, we were able to secure access to capital markets despite the challenging market situation. We also applied in advance the upcoming changes in capital requirements regulation, taking force in June 2021, and performed our capital planning and risk calculation in accordance with our status as a public development credit institution.

Updated strategy for an even better customer experience

The changing operating environment requires us to adapt our business activities accordingly. In 2020, we continued to renew and restructure our organisation to lay the groundwork for successful future operations. We launched organisational restructuring measures to make our customer processes even better and to improve the company's efficiency as a whole. This included changes to our operating model to better support our core duty. These changes took effect on 1 January 2021.

Our customers are at the heart of our new strategy. We aim to provide financing for our customers in all market situations. Instead of aiming to increase our own profitability, we seek to maximise customer benefit by offering competitively priced financing and even better service.

Our own development also starts from our customers' needs. In 2020, we introduced new services and digital tools for financial management, launched a new product in responsible financing, and continued to further develop our digital services. In order to support our customers' financial planning, we opened two new main sections on our Finnish website: a calculator for comparing financing models and a detailed investment solutions library of past customer projects. We also further enhanced our customer communications with new flexible ways to share information and expertise, organising webinars on current financial topics and offering training on our digital services, both of which proved very popular.

New responsible products

Responsibility is the cornerstone of all MuniFin operations and what sets us apart from other credit institutions in the market. We offer financing solutions that support and promote sustainable development, and help our customers to find the best solutions for their needs.

In 2020, MuniFin introduced social finance as the first Nordic SSA public sector credit institution. Social finance is targeted towards investments that provide especially effective and wide-ranging benefits for the society.

In addition to expanding our range of responsible financing products, we continued working with our partners in several social projects, which are explored in more detail in the responsibility section of this report.

Responsibly towards a better future

Our core mission and values

MISSION Building a better and more sustainable future with our customers

VISION Main financing partner for our customers

VALUES Customer centricity
Responsibility
Transparency

Our strategy

Our work is always responsible, and we offer financing solutions that support and promote sustainable development.

1. We ensure the availability of financing for our customers in all market conditions.
2. We create customer benefits through competitively priced long-term financing, a smooth service model and customer-centric services that bring additional value to our customers' financing and financial management.
3. We secure our strong position in the capital markets with good risk management, a low risk profile and a joint municipal funding system.
4. We constantly improve our operations through further development and digitalisation.
5. We are an attractive and adaptable working environment with values-based leadership.
6. We aim to secure our profitability and operations in the long term, but do not aim to maximise our profit.

Business Operations

MuniFin strengthened its position as a provider of financing

MuniFin's customers consist of municipalities, joint municipal authorities, municipality-controlled entities and non-profit organisations nominated by the Housing Finance and Development Centre of Finland (ARA). MuniFin is by far the largest single financier in its customer segments.

The amount of new financing withdrawn in 2020 was EUR 5.2 billion, of which EUR 4.8 billion consisted of loans and 0.4 billion of lease financing. Long-term customer financing at year-end amounted to EUR 28.0 billion, of which loans totalled EUR 26.9 billion and leasing EUR 1.1 billion. The amount of new lending during the year grew by 50.1% on the previous year's figure and the amount of lease financing by 26.2%. MuniFin gained significant importance in the market of short-term commercial paper issued by municipalities, at times even standing as the sole buyer of such papers. Inspira, MuniFin's subsidiary that specialises in financial advisory services, had a turnover of about EUR 2.8 million in 2020.

We expect the demand for financing and services to continue to grow in 2021.

Service as usual despite the underlying crisis

The COVID-19-induced crisis significantly increased municipalities' need for financing in 2020, and the exceptional market conditions only underlined MuniFin's societal importance. We successfully met the increased demand, granting 52% more financing compared to 2019.

In March, Finland declared a state of emergency due to the COVID-19 outbreak. We quickly enhanced our customer communications and updated our operating policies to adapt to the changes in day-to-day business. MuniFin's traditionally high customer satisfaction ratings climbed even higher in 2020, further proving the success of our adaptation to the changed conditions.

The pandemic had less impact on the housing market than anticipated. Construction continued more or less without interruption, and rental demand remained stable. The Finnish Government's recovery policy even boosted subsidised housing production.

MuniFin's position as a financer of subsidised housing production remained strong and only continued to strengthen during the year. In the municipal sector, the pandemic increased the demand for financing, especially in the early stages of the crisis, when expenditures were expected to rise substantially. The state's COVID-19 stimulus package compensated expenditures that municipalities incurred from the pandemic, but at the same time, the demand for financing increased due to municipalities' reduced tax income.

In 2020, we expanded our digital services expanded by a number of new applications. The Finnish MuniFin website now includes an investment solutions library and a financial comparison calculator. The solutions library lists a number of projects from all over Finland and offers insight into the best practices in planning and deciding on new investments. The comparison calculator has been developed to facilitate the planning phase of investments. It allows the user to quickly map out the different implementation and financing alternatives of a project. We also piloted our cash flow forecasting application with customers, and its public launch to customers is scheduled for spring 2021.

New social financing speeds up investments with wide-ranging benefits

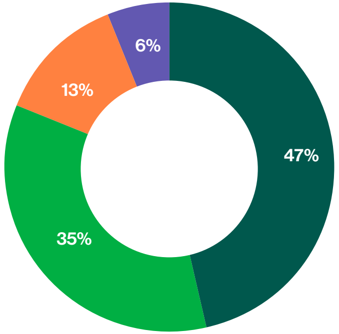
In spring 2020, MuniFin increased its sustainable product offering for customers by introducing a new social finance product. At the end of 2020, the number of projects approved to the social finance portfolio was 27 projects.

At the end of 2020, the outstanding amount amount of social finance totalled EUR 589 million.

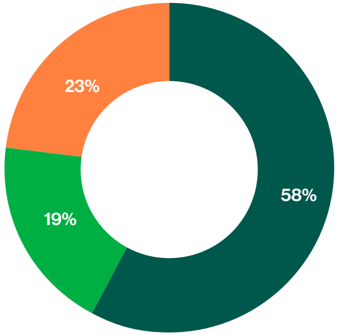
Our sustainable finance products are designed to promote the sustainable development goals of the Finnish Government Programme. These include, for example, working to ensure that Finland is carbon neutral by 2035 and that the society is fair, equal and inclusive.

Demand for green finance increased from 2019. The outstanding amount of green finance totalled EUR 1.8 billion (EUR 1.3 billion). We grant a margin discount on green and social finance to encourage our customers to pursue more sustainable solutions. Decisions on granting social and green finance are made by evaluation teams comprised of independent experts.

Lending portfolio by customer type %



Lending portfolio by rate type %



Lending portfolio 2016–2020 (EUR billion)

26.9 2020

24.0 2019

22.4 2018

21.2 2017

20.9 2016

Hospital Nova designed with patient needs front and centre

Hospital Nova, the new hospital of the Central Finland Health Care District, will replace the current central hospital that was built in 1954 and is scattered across several buildings. Almost all of the hospital's functions will move under one roof, and the hospital's operational processes will be completely reorganised. The hospital will also acquire new equipment and adopt a new patient information system. The staff have had an active role in planning the new organisation.

In designing the facilities and operations, the patient was always front and centre. The hospital will not only be functional, healthy and safe, but also comfortable to stay in. In addition to the staff, customer panels, patient associations and experts by experience have tested models created of the new facilities to ensure this.

Hospital Nova is the largest public investment in the history of Central Finland. The domestic content in construction is significant, and the project has also brought business to other companies in the area. The hospital building and equipment are partly funded with MuniFin's social finance. The hospital opened in January 2021.

Funding successful despite challenging conditions

A good reputation and funding strategy ensured MuniFin's operational capacity and access to funding also in the crisis environment of 2020. The challenging year increased customers' need for financing and also spurred the volume of MuniFin's funding to a record high.

MuniFin acquires all of its funding for customers from the international capital markets as standardised issuances under debt programmes. MuniFin's long-standing funding strategy has focused on diversification into multiple currencies, markets, maturities and investor types to secure access to funding in all market conditions.

The global COVID-19 pandemic shook international capital markets in early 2020. By March, it was clear it would also cause problems to the real economy. The stock markets plummeted, and the possibility of a new financial crisis was raised. The central banks nevertheless managed to stabilise the markets by increasing liquidity through securities purchase programmes and financing operations.

Effective strategy secured access to funding

Our funding strategy proved effective and resilient during the tough year. Good reputation and recognition ensured our access to the market also during the high uncertainty in the spring, when access to funding was difficult or even impossible to many other institutions. Despite the exceptional circumstances, we were able to continue our funding as usual and successfully secure the availability of funding, allowing us to ensure financing for our customers throughout the year.

New long-term funding in 2020 amounted to EUR 11.0 billion (EUR 7.4 billion). MuniFin's short-term debt instruments under the Euro Commercial Paper (ECP) programme amounted to EUR 3.9 billion at the end of the year (EUR 2.7 billion). Total funding at the end of 2020 amounted to EUR 38.1 billion (EUR 33.9 billion). Of this amount, 50% was denominated in euros (34%) and 50% in foreign currencies (66%). During the year, we issued bonds denominated in 11 different currencies (11 currencies in 2019).

Total number of funding transactions 2014-2019

218	2020
198	2019
260	2018
318	2017
204	2016

First Finnish social bond issuance was highly successful
In 2020, we increased our funding programme three times. The main focus in MuniFin's funding was on the public markets. We issued five benchmark bonds: four were denominated in euros and one in US dollars. Most of our funding was denominated in euros. Our activity in terms of funding denominated in dollars was lower than previously planned.

We kicked off the year 2020 with the issuance of a 5-year EUR denominated benchmark bond in January. In April, at the height of the COVID-19 pandemic, we issued a five-year benchmark of EUR 1 billion. Despite the underlying challenging market conditions, interest from investors was overwhelming, and the final order book was oversubscribed by over three times. The three-year USD 1 billion benchmark bond was issued in June and was also successful in terms of investor demand.

In September, we issued our first social bond. This EUR 500 million social bond was the first one issued by any Nordic SSA (*Sovereigns, Supranationals, Agencies*) issuer. Again, investor interest was very strong, and the 15-year bond was oversubscribed by almost five times.

In September, we also participated in the ECB's third series of targeted longer-term refinancing operations (TLTRO III) with EUR 1.25 billion to support our customers' financing on competitive terms.

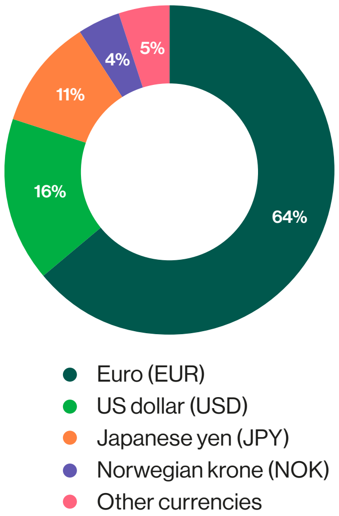
In October, we issued a ten-year EUR 500 million green bond. The bond was quickly almost seven times oversubscribed at EUR 3.4 billion.

Such highly successful issuances in these uncertain times show that there is a growing demand for sustainable and safe investments around the world, but they are also a testament of MuniFin's good reputation in the international capital markets.

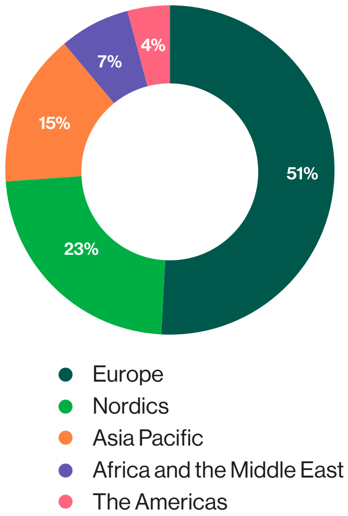
MuniFin's reputation and customer satisfaction among investors improved
MuniFin actively monitors its performance in the international capital markets relative to its peers by conducting an annual survey. In 2020, MuniFin's scores improved noticeably. Our high customer satisfaction ratings can be accredited to our transparent operations, active communications and responsible funding strategy. Results show that we have succeeded in solidifying a strong reputation as a responsible and trusted partner.

Our strong brand and high-quality, long-term work with investors brought us international acclaim in 2020. In December, the UK-based Capital Market Daily (CMD) Portal chose MuniFin as the best Uridashi issuer. In 2020, Uridashi volumes for MuniFin reached EUR 1.2 billion. This is about 11.1% of our total funding in 2020. MuniFin also won the best structured note issuer award.

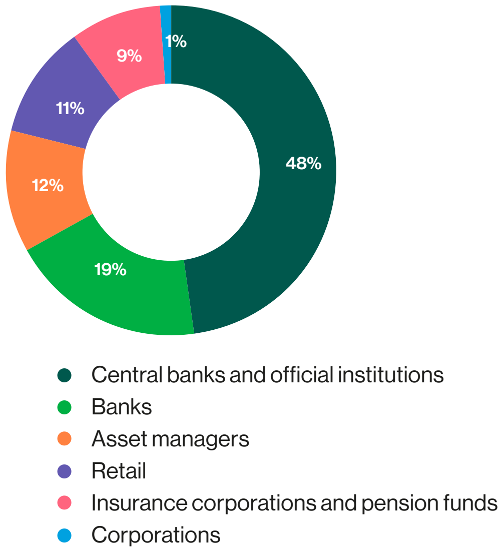
Funding by currency 2020 %



Funding by region in 2020 %



Funding by investor type in 2020 %



Liquity secured despite challenging market conditions

The first half of the year was particularly challenging due to strong market changes and periodically weakened market liquidity. The impact of the market crisis was mostly reflected in liquidity management as changes in issuers' credit risk premiums, which temporarily lowered the market value of liquidity investments. For the full review year, however, market values improved.

The credit and market risks as well as the expected yield of MuniFin's long-term liquidity are diversified geographically and by asset class. The year 2020 was very challenging for our liquidity investments. The average maturity of investments was unchanged, and their spread sensitivity was kept low. We decreased our share of investments in financial institutions and increased our share of investments in publicly owned credit institutions and development banks. In addition, we decreased the share of long-term liquidity investments out of our total liquidity due to lower expected yields, and increased the share of central bank deposits.

At the end of 2020, MuniFin's total liquidity was EUR 10.0 billion (EUR 9.9 billion). Investments in securities totalled EUR 4.5 billion (EUR 4.9 billion) at the end of 2020, and their average credit rating was AA+ (AA+). The year-end average maturity of the securities portfolio was 2.8 years (2.3).

MuniFin hedges against the interest rate risk of liquidity investments with interest rate swaps. Changes in interest rates do not thus have a direct impact on changes in the value of liquidity investments.

MuniFin's treasury ensures the optimised use of our total liquidity. The minimum amount of short-term liquidity, measured by the liquidity coverage ratio (*LCR*), must meet the statutory requirement of 100% on a daily basis. As a long-term requirement, the total liquidity amount must be enough to cover uninterrupted business for a survival horizon of at least 12 months as per the company's risk appetite framework.

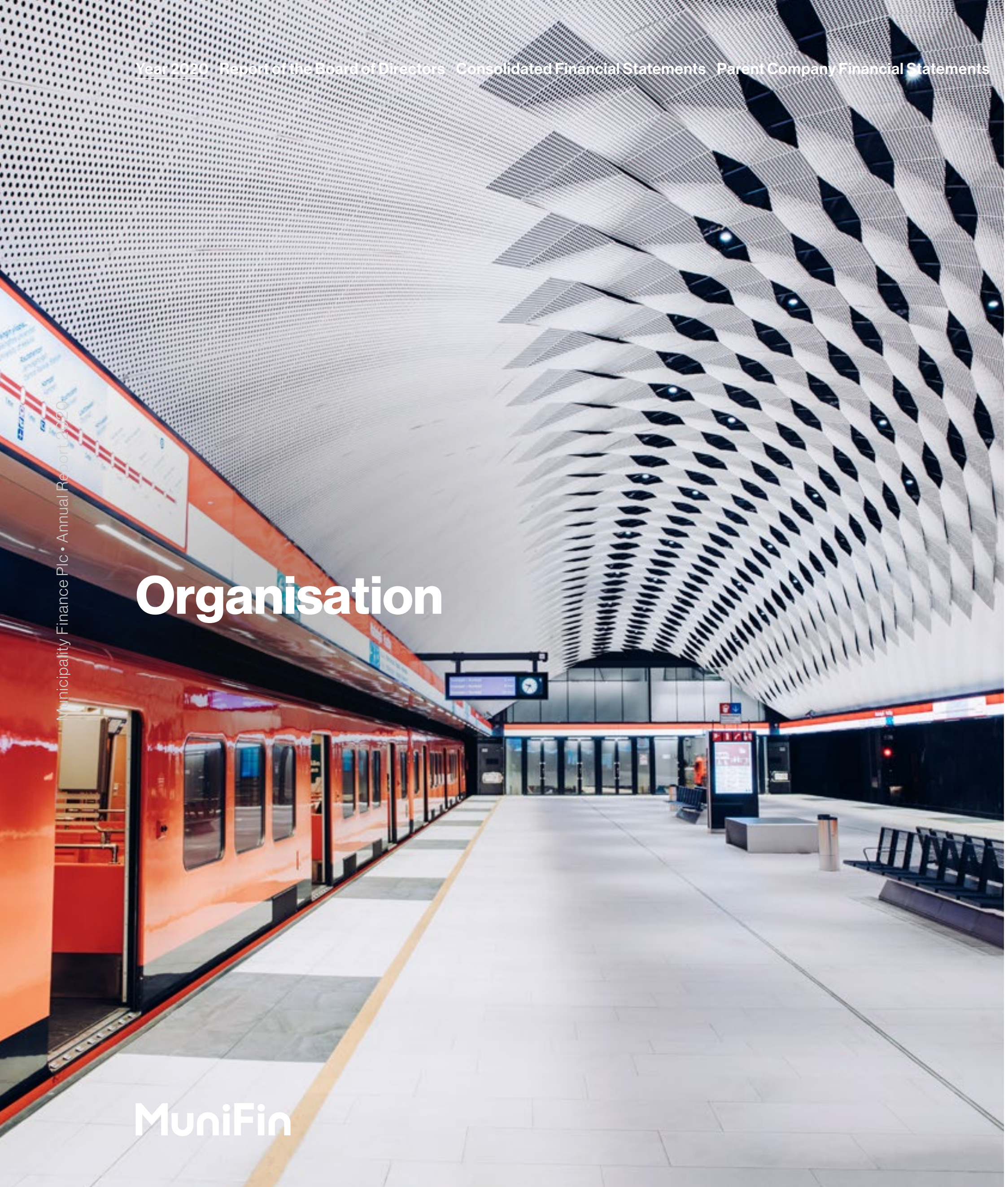
At the end of 2020, MuniFin's LCR was 264.4% (430.2%), and our total amount of liquidity was enough to cover uninterrupted business for 12.3 months (13.6). MuniFin is also preparing for the Net Stable Funding Ratio (*NSFR*), which will take effect in June 2021. At the end of 2020, MuniFin's NSFR was 116.4% (116.3%) as calculated according to current interpretations. The minimum NSFR is 100%.

Responsible investing

All investments in MuniFin's liquidity portfolio must comply with our ethical requirements. We make liquidity investments in line with the Responsibility Policy, which requires that the average ESG score of the portfolio must be at least as high as the market benchmark score. Furthermore, a certain share of the portfolio must be in socially responsible investments.

More information on responsible investments is available in the responsibility section of this report on page 43.

Organisation



MuniFin renewed its organisation to improve customer and employee experience

In 2020, MuniFin planned the renewal of its operational model and organisation, involving most of the Group's employees in the process. The objective of the changes was to further improve the Group's customer and employee experience, as well as the fluency and quality of its operations.

The new organisation, which entered into force on 1 January 2021, is more strongly based around the core business processes of the company; namely customer financing solutions and capital markets processes. The development operations was also moved closer to the business operations.

At the end of 2020, the number of MuniFin employees was 165. The organisational restructuring led to the termination of ten positions. We were able to offer a new role for some of these employees, but the employment of eight people was terminated.

MuniFin's strategic aim is to create customer benefits with our competitive long-term financing, flexible and fluent operational model, and customer-centric services that bring additional value to our customers' financing and financial management. To this aim, we develop employee expertise by investing in training and providing our staff with opportunities for development. Employee wellbeing and resilience at work are supported with many measures intended to enhance occupational fitness and prevent overburdening.

In 2020, we adopted into regular use the digital learning environment created in 2019 to streamline our HR processes and training. The interactive learning environment also enables us to ensure that knowledge of financial regulations and company policies remains current in all working roles.

More information on our personnel and the development of workplace wellbeing are available in the responsibility section of this report on page 46.

Number of employees 2016–2020

165	2020
167	2019
151	2018
134	2017
106	2016

Governance is guided by regulation and stakeholder expectations

We continuously develop our governance model and policies to respond to the needs of our customers, investors and personnel, as well as to the requirements of evolving regulation.

Our operations are governed by EU-level regulations and Finnish acts and decrees applied to credit institutions. Besides legislation, MuniFin complies with the regulations and guidelines issued by EU authorities and the Finnish Financial Supervisory Authority (FIN-FSA). As an issuer of listed bonds, we also comply with the Finnish Securities Market Association's Corporate Governance Code for listed companies when applicable.

MuniFin is under direct supervision of the European Central Bank (ECB). The corporate governance requirements of banking supervision are strict, and meeting them provides an excellent foundation for compliance and the ethics of our operations.

MuniFin's strategy and internal policies promote a responsible administrative culture. Our strategy is approved by the Board of Directors, and it determines the guidelines for our business operations, risk management and administration. The Board of Directors has also approved internal policies that serve as principles for our risk management and internal control. In addition, MuniFin has a comprehensive collection of other internal guidelines that support our governance and risk management.

Responsibility drives the day-to-day work of MuniFin employees. MuniFin's Corporate Governance Policy and Board-approved Responsibility Policy offer guidelines for the principles of responsibility and help identify any conflicts of interest, including principles for managing such conflicts, should they arise.

The Board is responsible for setting principles for MuniFin's risk management. MuniFin's risk management framework covers, for example, market risk policy, credit risk policy, the risk policies for liquidity management and funding, the policy for operational risks, and the risk appetite framework. Strict limits and limit values have been set for different types of risks, and any and all breaches of these risk limits will be addressed immediately.

MuniFin's website has an anonymous whistleblowing channel, which makes it easy to report any suspicions of internal or external misconduct.

Board of Directors

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 proposal of the Shareholders' Nomination Committee, the 2020 Annual General Meeting elected eight members to the Board of Directors for the 2020–2021 term (from the end of the AGM to the end of the next AGM).

Helena Walldén, b. 1953,
Chair
Board member 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
Board member 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
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
Board member since 2019
Education: M.Sc. (Econ.), CEFA
Primary occupation: Deputy CIO, COO, Investments, 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).

MuniFin

Markku Koponen, b. 1957
Board member 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.

Kari Laukkanen, b. 1964
Board member since 2018
Education: M.Sc. (Econ.)
Primary occupation: Board professional and financial consultant (Lauvest Oy)
Other material positions of trust: Emittor 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 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
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).

Denis Strandell, b. 1958
Board member since 2020
Education: M.Sc. (Econ.)
Primary occupation: Mayor of the City of Hanko
Other material positions of trust: C-Fiber Hanko Oy, member of the Board of Directors; Novago Business Development Ltd, deputy 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 in capital market tasks and investment services at Finnish and Nordic banking and investment services groups (1986–2011, Protos, Aktia, Unibank, Danske Bank, FIM). Long experience (since 2000) of Finnish municipal sector administration in Kirkkonummi municipal council and municipal government prior to becoming Mayor of the City of Hanko (since 2015).

Kimmo Viertola, b. 1961
Board member since 2020
Education: M.Sc. (Econ.)
Primary occupation: Director General, Ownership Steering Department at the Prime Minister's Office
Other material positions of trust: Solidium Oy, member of the Board of Directors; Fortum, Chair of the Shareholders' Nomination Board; Neste, Chair of Neste Shareholders' Nomination Board
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 experience in management and finance in various tasks at Finnish Industry Investment Ltd (1998–2017), banking experience in Skopbank (1993–1994) and FennoScandia Bank in London (1989–1992) as well as from board work in several companies.

Executive Management Team

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, maintaining an effective organisational structure and reporting to the Board of Directors.

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

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

MuniFin Group's tax strategy and operating principles
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 Group complies with tax legislation in the payment, remittance and notification of taxes and charges. The objective of MuniFin's strategy in taxation is to support its 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. MuniFin therefore requests the tax authorities to provide preliminary rulings whenever necessary.

Taxes and tax-like payments paid and remitted
MuniFin acquires funding from the international capital markets, but because it only conducts business in Finland, it pays income taxes in full to Finland. MuniFin does not receive any income from abroad for which it would pay significant withholding tax at the source. MuniFin has no investments or operations in countries defined as tax havens by the OECD.

In 2020, the MuniFin Group employed 165 people, 154 of whom worked for the parent company. The Group's turnover was EUR 532 million and the profit before tax EUR 194 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. MuniFin therefore does not have the right to deduct the VAT related to purchases in its own VAT-exempt operations, and the VAT remains as a final cost for the Group. 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)	2020	2019
Income tax	5,604	2,060
Employer's social security contributions	2,707	2,772
Stability fee to the EU crisis resolution fund	5,163	4,328
Total	**13,473**	**9,160**

TAXES TO BE REMITTED (EUR 1,000)	2020	2019
Withholding taxes	4,727	4,721
Employee's social security contributions	1,326	1,206
Total	**6,053**	**5,927**

Responsibility at MuniFin
2020

Responsibility is at the heart of all MuniFin operations

The projects that we finance maintain and develop the Finnish welfare society. The financing we provide helps keep the Finnish welfare society running and further evolving, all the way from equal housing solutions and public infrastructure to curbing climate change. Our operations affect the lives of almost all Finns, obliging us to take responsibility into account in all our operations.

We are committed to building a better and more sustainable future with our customers. Our core mandate is to ensure that affordable financing is available to our customers in all market conditions.

Our operating model is customer-centric: we aim to secure our profitability and operations in the long term. We do not seek to increase the financing needs of our customers to maximise the profit of our own operations. Instead, we strive to create positive long-term effects in Finnish society by actively collaborating with our customers to find financing solutions and investment methods that best suit their needs.

How we create value

MuniFin's operations create value for our customers, our employees, and the society at large. Our value creation model illustrates the resources we use in this mission, the underlying choices that support our value creation, and the impacts of our operations.

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 centricity
- Efficiency
- Risk management
- Specialisation in own customer segment
- Investing in employee know-how and wellbeing
- We aim to secure our profitability and operationsin the long term, but do not aim to maximise our profit

Impacts

- Happy customers
- We ensure the availability of financing for our customers and create customer benefits through competitively priced long-term financing
- Solvency
- Growth of wellbeing in the society
- Equal opportunities for good life
- Ensuring the sustainability of municipalities' investments
- Healthy, motivated and skilled personnel

Responsibility strategy

Responsibility is a key part of our strategy. Our responsibility strategy is based on a materiality analysis, which defines four key principles and their goals for corporate social responsibility. The importance of the key principles from the stakeholder perspective was verified through surveys and interviews with customers, investors and key players in society.

In 2020, we set ambitious goals for 2024 in the areas of sustainable finance and corporate governance, and updated our reporting indicators to enhance their clarity.

The MuniFin responsibility strategy and the related responsibility policy have been approved by our Board of Directors. We report the indicators of each key principle to stakeholders on an annual basis.

Key principles for responsibility:

1. Responsible products and services
2. Forerunner in sustainability
3. Developing wellbeing at work
4. Strong corporate governance

Key principles for responsibility and the UN Sustainable Development Goals

1. Responsible products and services

Goal 2024:
Customer satisfaction is at a very good level

2. Forerunner in sustainability

Goal 2024:
Green and social finance accounts for 20% of the long-term customer finance portfolio

3. Developing wellbeing at work

Goal 2024:
Personnel satisfaction is at a good level

4. Strong corporate governance

Goal 2024:
All ESG risks associated with customers are assessed with a uniform methodology

Key principles for responsibility and the UN Sustainable Development Goals

We assess the focus areas and goals of responsibility in line with the framework of the United Nations Sustainable Development Goals (SDGs). Through our work, we strive to promote the achievement of as many of the SDGs as possible.

We have linked each key principle with the relevant UN Sustainable Development Goals that we can substantially influence. In addition, we have set one long-term company-level goal for each key principle.

1. Responsible products and services

MuniFin's products and services create long-term benefits for the Finnish society and support the sustainability of public finances.

The projects that we finance touch the lives of almost all Finns and are connected to maintaining sustainable public finances. The investments that we finance are aimed at maintaining and improving the Finnish welfare society in the long term. We are committed to understanding and managing the social, environmental and economic impact of our products and services in order to contribute to the Finnish society's wider goals for sustainable development.

Our loan and lease financing and other services are designed to meet our customers' current and emerging needs in financing and financial management. We also ensure that the financing alternatives we offer are sustainable, taking into account the overall situation, economic capacity and long-term profitability of the planned investments of each customer.

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

Responsible financing

Responsible financing includes a thorough assessment of the profitability of investments and comprehensive insight into the customer's situation. In addition, constantly evolving banking regulation requires financiers to acquire an even better understanding of their customers' situation and the risks of the financed project.

At MuniFin, we assess the customer's situation on the basis of customer information sources and analytics, but the final assessment is done together with the customer. Discussions on their financial situation and financing options provide valuable insights to both parties.

A key mean of boosting expertise suitable for customers' needs is to further bolster expertise in the overall management of financing and finances. We offer our customers a comprehensive range of digital services in 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 our customers.

Enhancing expertise

Our aim is to be the main financing partner for our customers. We enhance our expertise in both our own organisation and surrounding society through a variety of partnerships.

Our most important partners are our customers. We seek to achieve a very good customer satisfaction level. In 2020 we reached this goal. The aim of our renewed organisation, which takes effect as of 2021, is to further develop our operations and improve our customer experience.

Jaana Kuuva
Head of Financial Planning

Case Financial modelling – Kuopio

Kuopio plays out different scenarios in a financial forecast application

The City of Kuopio is struggling with challenges familiar to many cities: its economy shows a structural deficit, and its costs are growing faster than its tax revenue. Being an active investor, Kuopio worked on its economic outlook and solutions to balancing its economy in scenario workshops with MuniFin's experts in spring 2020.

In the virtual Future Finances workshop, financial administration representatives from various service sectors, including social and healthcare services, facility services, education and culture, came together to work on different economic scenarios. The team filled in figures from the 2019 financial year in MuniFin's financial forecast application and made the first estimates about the influence of COVID-19.

Municipalities can use the financial forecast application to project their economy and create different scenarios based on what might happen in the future. The application takes advantage of public domain information that municipalities can use to create scenarios for assessing how investments, different financing options and other factors affect their economy in the long term.

Our operations are aimed at enhancing financial expertise related to public finances and specialising in municipal-sector and government-subsidised housing production investments. We work closely with, for example, ministries, governmental agencies, municipal and other networks, environmental agencies and non-profits. Cooperation is an important way of gaining and disseminating new insights and solutions for business and the challenges encountered by our customers and the Finnish society as a whole.

Each year, we offer our customers and stakeholders seminars and trainings on finance, financing and responsible investments. In 2020, we moved these and other events online due to the corona crisis, and they attracted thousands of participants from different stakeholder groups.

Cooperation with universities and educational institutions

We cooperate with universities and higher education institutions in order to generate more expertise in public finances, financing and social and welfare issues in Finland.

MuniFin is one of the donors to the urban economics professorship established at Aalto University. We have also collaborated with Aalto University, Hanken School of Economics, the University of Helsinki and the University of Tampere on various student projects in recent years.

Promoting the financial skills of the young is an important aspect of our corporate social responsibility. MuniFin therefore supports the Yrityskylä activities of the Economy and youth TAT and is Junior Achievement Finland's partner.

Responsible funding

Although MuniFin only finances Finnish customers, we acquire funds globally. To us, responsibility also means that we must be able to ensure that financing is available to our customers under all market conditions.

We ensure the availability of financing by diversifying our funding effectively across different markets, currencies, maturities and investor groups. We also maintain a liquidity buffer to secure business continuity in the event of market disruptions.

In funding and liquidity management, we only work with preapproved counterparties. The counterparties must comply not only with banking regulation, but also with our own ethical requirements. For example, in our funding arrangements, we do not accept underlying instruments directly related to fossil fuel production, the military industry or the tobacco industry.

In 2020, we analysed the success of our funding activities in various areas with a study. Respondents included 23 contact persons from the dealer bank network. In the results, MuniFin was ranked the best Nordic municipal financier with a total score of 4.54 (on a scale of 0–5). The questions and the peer group were the same as in the 2019 survey. Figures related to funding are available on pages 17–19 of this Annual Report.

Number of people using MuniFin's digital services

1,170	**2020**
1,000	**2019**
600	**2018**
490	**2017**

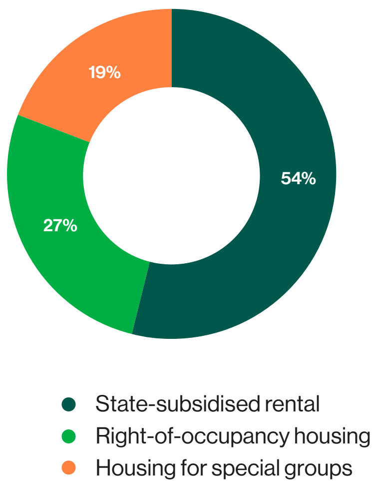
MuniFin's digital services facilitate balancing municipal finances and provide a comprehensive and analytical overview of the financial situation and future of our customers.

Almost half of our 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 housing that we provide financing for are especially intended for applicants who are in urgent need of a home and have a low net worth and income level. In addition to affordable rental and right-of-occupancy housing, we also offer financing for the production of housing intended for special groups. This financing provides housing for students, young people, the elderly, people with disabilities and people in mental health or substance abuse rehabilitation.

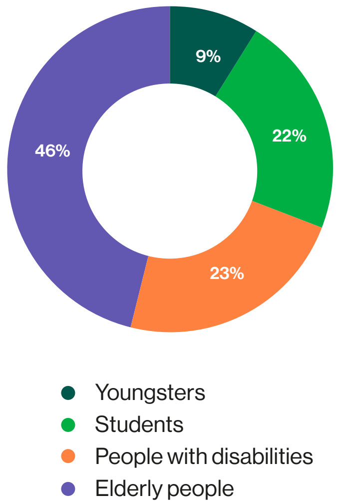
In 2020, the total amount of financing granted for new residential buildings eligible for an interest subsidy loan was approximately EUR 827 million. We also provided a total of about EUR 195 million in financing for new housing for people with special needs, enabling the construction of homes for hundreds of people.

Breakdown of state-subsidised housing finance 2020



Breakdown of state-subsidised housing. Tenders won in 2020, new buildings.

Breakdown of state-subsidised housing for special groups 2020



Breakdown of state-subsidised housing for special groups. Tenders won in 2020, new buildings.

The Urhea Campus combines sports practice and student housing

The Mäkelänrinne Upper Secondary School in Vallila, Helsinki, is famous for having educated many promising young athletes over the years. Starting from early autumn 2021, its students will be able to live on campus, in the first student housing complex in Helsinki designed specifically for athletes. The building is commissioned by Hoas, the Foundation for Student Housing in the Helsinki Region, and it will be accompanied by an adjoining sports hall.

The Hoas apartment building will have 88 student apartments and accommodate 176 students in total. Only 40% of the apartments are studios, and the rest are shared apartments. To encourage communal living, the building will have more shared facilities than Hoas buildings usually do, all designed to make students' life as easy as possible. In addition to the school, sports hall and student housing, the campus will also have many other services that young athletes need.

The project was originally inspired by a desire to better support young athletes and boost their performance. When completed, the Urhea Campus will house the Urhea sports hall, the Hoas apartment building and the Mäkelänrinne Upper Secondary School and its expansion. MuniFin is one of the financiers for the student apartments.

2. Forerunner in sustainability

Through its operations, MuniFin promotes investments in ecologically, socially, economically and humanely sustainable development in the Finnish society. MuniFin's target is to especially accelerate the green transition.

In line with our strategy, we offer our customers financing products that support and promote sustainable development. Examples of sustainable projects include schools, day-care centres, the production of housing for special groups, affordable rental housing, cultural and sports facilities, hospitals, healthcare centres and environmental investments. Such investments play a vital role in the achievement of the UN Sustainable Development Goals.

KEY PRINCIPLES AND GOALS	INDICATORS
Green finance Goal: Green and social finance account for 20% of the long-term customer finance portfolio by 2024	• Amount of green and social finance and distribution of projects by category • Number of green and social finance projects • Proportion of responsible finance in long-term customer finance portfolio • Reduction of CO_2 emissions in green projects • Energy savings in green projects
Green and social bonds and socially responsible investing *(SRI)* Goal: Increasing the amount of sustainable bonds and socially responsible investments (*SRI*) and the number of socially responsible investors	• Green bond issued • Social bond issued • Amount of green and social bonds and distribution • Total amount of socially responsible investments (SRI) • ESG score of the investment portfolio compared to the benchmark
Environmental impact of MuniFin's own operations Goal: Constant mitigation of MuniFin's own environmental load	MuniFin annually reports to the Green Office systems on e.g. 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 its personnel.

Green finance

The municipal sector and housing construction play a key role in Finland's climate goals. With green finance, we can actively promote investments that combat climate change and are sustainable for the environment. Because green finance is more affordably priced, it also promotes the achievement of our customers' climate strategies and Finland's national climate goals.

MuniFin introduced green finance to the Finnish market in 2016. At the end of 2020, the number of projects with green finance totalled 147. The amount of total committed green finance was EUR 2.2 billion and outstanding amount was EUR 1.8 billion.

Projects eligible for green finance include projects in any of the Green Bonds Framework categories, which are renewable energy, sustainable public transportation, sustainable buildings, water and wastewater management, waste management, energy efficiency and environmental management. Green projects are approved by an independent evaluation team of environmental experts. Green projects receive a margin discount, the amount of which depends on the scope of the project's environmental impacts.

We report on the impacts of our green finance annually in the Sustainable Bonds Impact Report. In the report, the calculations of the green finance section are performed by an independent expert. We are also part of a Nordic collaboration which has drafted recommendations for green finance impact reporting. The recommendations and eligibility criteria for green projects have been updated and tightened as the market has evolved.

We keep a close eye on the progress of the European Union's action plan on financing sustainable growth, with particular attention on the EU Green Bond Standard and the EU Taxonomy. MuniFin responded to the European Commission's consultations on the EU Green Bond Standard and the EU Taxonomy in 2020. We consider both projects highly welcome, because there is need to harmonise the definitions of environmentally sustainable economic activities, and investment to such activities should be increased. We are currently analysing the impacts of the Green Bond Standard and Taxonomy on our own green finance framework.

Proportion of green and social finance in long-term customer finance portfolio

8.6%

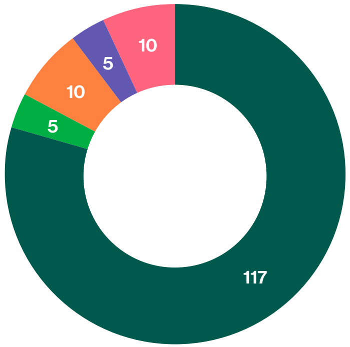
Green financing portfolio 2020

MuniFin Green bond

1.8

EUR billion

Number of green finance projects by category



- Sustainable buildings
- Sustainable public transportation
- Water and wastewater management
- Renewable energy
- Energy efficiency

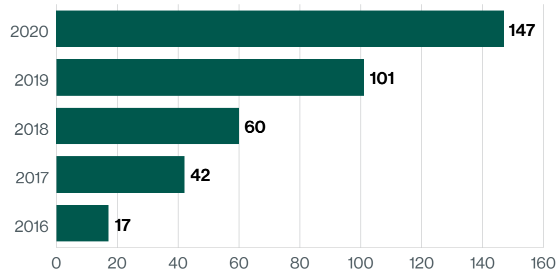
Annual CO_2 emissions avoided/reduced in green finance projects

tCO_2 **50,260**

Annual energy savings in green finance projects (avoided/reduced)

MWh **23,558**

Development of the amount of green finance projects

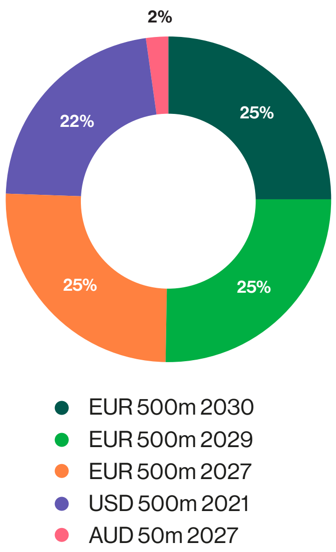


Green bonds

Our green finance portfolio is financed entirely with green bonds, which are bonds allocated for financing environmental investments.

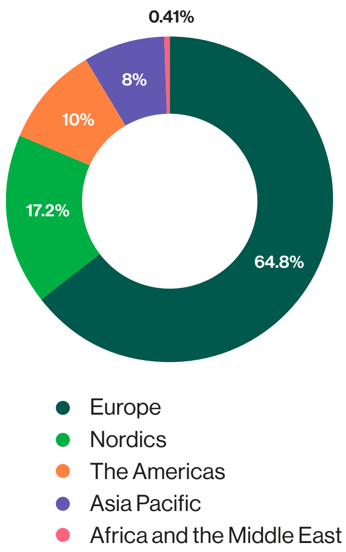
MuniFin issued its first green bond in 2016 as the first green bond in Finland. At the end of 2020, the total amount of green bonds was EUR 1.98 billion. Our green bonds are listed in the Sustainable Bond Market on Nasdaq Helsinki.

Total amount and distribution of green bonds



Foreign currencies in euros

Geographical distribution of green bond investors



Social finance

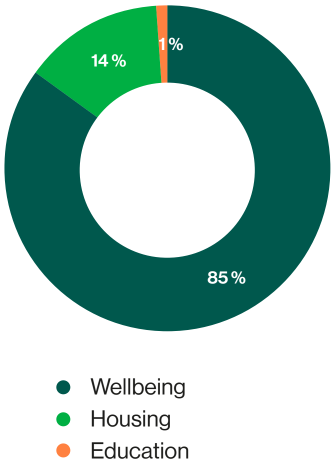
MuniFin offers social finance for projects that produce widespread social benefits and assess the impacts of the investments on their target groups from various perspectives. Social finance projects impact their users and communities in a positive way: they promote equality, communality, welfare, safety or regional vitality.

MuniFin launched social finance in the Finnish market in 2020. At the end of 2020, the number of projects with social finance totalled 27. The amount of total committed social finance was EUR 768 million. The outstanding amount of social finance was EUR 589 million at the end of 2020.

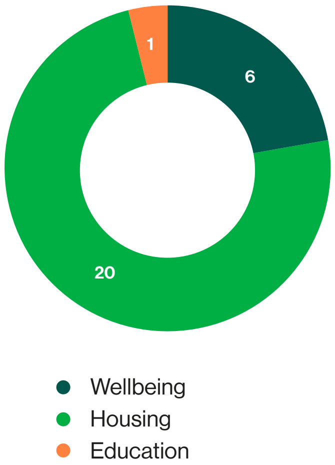
Projects eligible for social finance include projects in any of the Social Bonds Framework categories, which are social housing, welfare and education. Social projects are approved by an evaluation team of social experts that includes two external members and one MuniFin member. Social projects receive a margin discount.

We report on the impacts of our social finance annually in the Sustainable Bonds Impact Report.

Projects with social finance by category



Number of projects with social finance



Social bonds

Our social finance portfolio is financed entirely with social bonds, which are bonds allocated for financing social investments.

We issued the first social bond in the Nordic SSA category in September 2020. The bond had a EUR 500 million issue size and a maturity of 15 years. The product was met with overwhelming investor demand, and the bond was overbooked by nearly four times. The share of sustainable investors was significant. MuniFin issued a new tranche in the amount of EUR 100 million in November 2020.

Our social bond is listed in the Sustainable Bond Market on Nasdaq Helsinki.

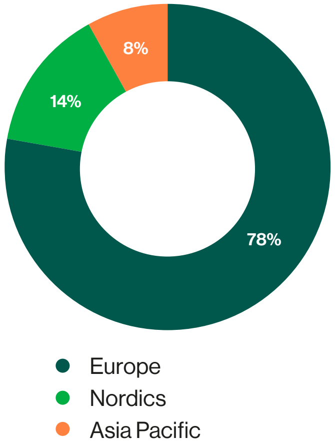
Responsible investing

Responsible investing is the cornerstone of our investment activities. Investments are only made in issuers from OECD countries, allowing us to secure the economic stability of the investments and promote sustainable development. In addition, we account for Environmental, Social and Governance (ESG) factors in the investment process. We compare the average ESG figures of all of our investments to a benchmark index using an asset class breakdown corresponding to our liquidity investments.

The ESG analysis of issuers is carried out by an external operator. At the end of 2020, our liquidity investments had an ESG average of 55.7, which exceeds the benchmark index of 53.3.

MuniFin also has a separate portfolio for socially responsible investments (*SRI*), whose target size is linked to the total number of green and social bonds we have issued. Socially responsible investments can be made in green and social bonds or other bonds that fulfil our criteria for such investments. In addition, we evaluate the issuer framework that specifies the objects of financing and obtain an opinion on the framework from a reliable third party. At the end of 2020, our SRI portfolio amounted to a total of EUR 355 million.

Geographical distribution of social bond investors



Amount of social finance

0.6

EUR billion

Environmental impact of MuniFin's own operations

We take environmental responsibility into consideration in our own operations by committing to continuously reducing their negative environmental impacts. However, the majority of our positive environmental impact is indirect, created in our customers' own activities.

The MuniFin Group has received WWF Green Office certification. Green Offices are required 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.

We report on the environmental impact of our operations on an annual basis. In 2020, our focus was on replacing travel by online meetings and developing online events. Because the demand for online events skyrocketed due to COVID-19, we were not only able to meet our objectives, but also exceed them.

We compensate for the emissions generated by our employees' air travel and for the CO_2 emissions caused by large customer events that we organise.

MuniFin's signature award to Momo's Bubbles

In April 2020, Junior Achievement (JA) Finland's annual Company of the Year Competition Uskalla yrittää awarded the best companies run by pupils and students from different educational levels. As the main partner, MuniFin awarded the best comprehensive school company with its signature award #Huomisentekijät (#TomorrowMakers). The winning team Momo's Bubbles hails from Oulu International School.

According to the competition's jury, Momo's Bubbles hit on a topical business idea by serving Taiwanese bubble tea. The jury also praised the company's personal brand and the team's approach to entrepreneurship. The prize accompanying the MuniFin #Huomisentekijät signature award was a sparring session with Jenny Pitkänen of the YouTube channel Jennysvoices, a JA alumni herself.

Preventing social exclusion and helping young people develop their skills are an important part of MuniFin's social responsibility. In addition to being Junior Achievement Finland's main partner, MuniFin also supports Economy and youth TAT's Yrityskylä learning concept.

John Joseph, Raha Torabihaghighi, Lucrezia Adora Ng and Raya Amokachi

Developing wellbeing at work

MuniFin provides a physically and mentally safe working environment that promotes the general wellbeing of employees and offers equal opportunities.

The competence and job satisfaction of our employees are key factors for ensuring our success. Work tasks at MuniFin are versatile, and they require accountability and continuous professional development to perform. We therefore offer our employees plenty of opportunities to participate in training, support their ability to cope with their tasks and help them find a good work–life balance.

An essential goal for us is to improve occupational wellbeing and job satisfaction to ensure that our skilled employees feel that their work is meaningful. Our objective is to achieve good level of personnel satisfaction. Personnel satisfaction is measured through an anonymous survey conducted by an independent research company. Each year, we make a development plan based on the results.

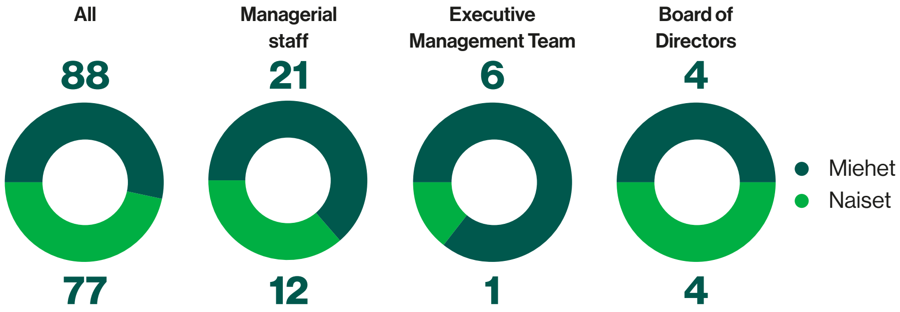
KEY PRINCIPLES AND GOALS	INDICATORS
Diversity and equal opportunities Goal: Increasing diversity and equal opportunities	• Gender distribution of employees • Gender distribution of managerial staff • Gender distribution of Executive Management Team • Gender distribution of Board of Directors • Age distribution of employees
Employee wellbeing Goal: Promoting wellbeing at work and job satisfaction	• Employer's pension insurance (TyEL) category • Training days per employee • Gender pay gap (%) • Employee turnover

Diversity and equal opportunities

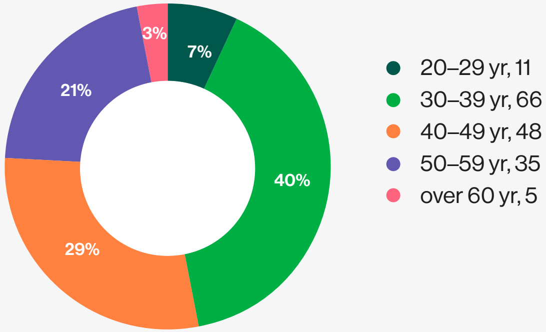
Diversity and offering equal opportunities to everyone at the workplace are important elements of our corporate culture. Diversity refers to unique, individual characteristics such as work experience, competence, gender or national origin. We want to attract, foster and retain diverse employees in our company, and want to promote an inclusive working environment that appreciates the positive value of individual differences.

MuniFin had a very even gender and age distribution in 2020. While managerial and executive positions were largely male-dominated, the majority of MuniFin's Board of Directors were female.

Gender distribution of employees 2020



Breakdown of employees by age group (%) and amount of people



Gender pay gap in similar positions

1,5%

Women have higher pay than men.

Employer's pension insurance (TyEL) category

1

The TyEL contribution category indicates the rate of disability pensions due to reduced working ability. The fewer people are granted disability pension, the better the employer's category (with 1 being the best on a scale of 1–11). Due to its smaller payroll, the TyEL categories do not apply to Inspira, which pays the average TyEL contribution instead of a category-based contribution.

Employee wellbeing

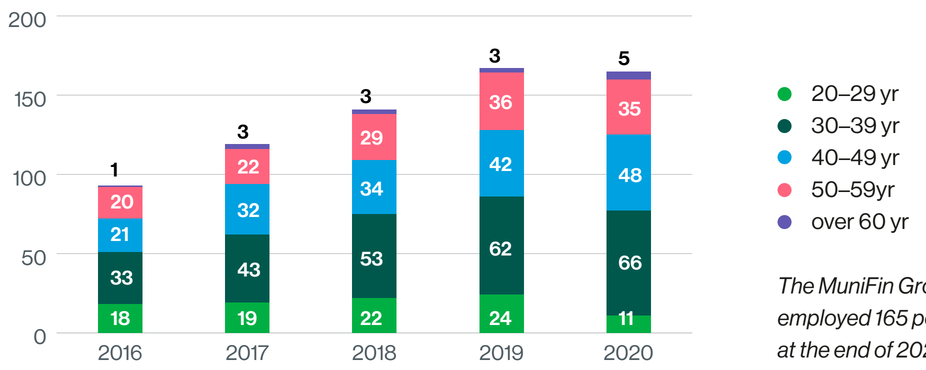
We invest in employee wellbeing in many ways. We also strive to support the wellbeing of our employees and to prevent work-related stress and excessive workloads.

We provide extensive healthcare services, good training opportunities, commuting benefits and recreational benefit. We also organise joint leisure-time activities.

Our number of personnel has grown rapidly since the 2010s. Our employee turnover has remained modest.

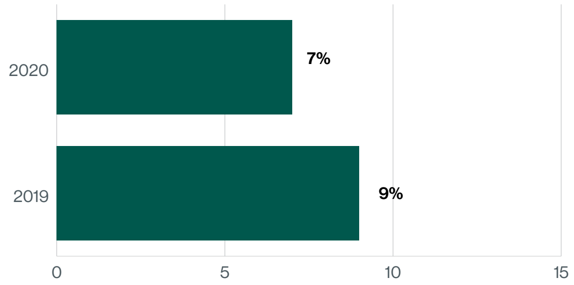
Training days per employee **2.5**

Age distribution and number of employees



The MuniFin Group employed 165 people at the end of 2020.

Employee turnover



Exit turnover of employees in permanent positions, % compared to previous year.

Strong corporate governance

MuniFin promotes a level of responsibility that goes over and above minimum legal requirements in its decision-making and structures.

Our commitment to strong corporate governance is emphasised in our key values and strategy and implemented in all our operations. Our operations are guided by the Responsibility Policy, which is approved by our Board of Directors and available on our website. Strong corporate governance also includes a good understanding of the ESG risks involved in our financing portfolio and the voluntary application of various recommendations and guidelines.

Strong corporate governance also includes our HR policy. In the terms and conditions of employment, we comply with Finnish legislation and the collective agreement for the financial sector. 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 with 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 • National and international commitments

Responsibility Policy

Our operations are guided by our Responsibility Policy. This policy aims to ensure responsibility in all operations and reduce the risks to which MuniFin and our employees are exposed, in particular operational and reputational risks, which can have a considerable adverse impact on our 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.

At the beginning of their employment, each new employee participates in an induction that covers all the MuniFin operations. The induction also covers our Responsibility Policy, and new employees must complete an online test to demonstrate that they have understood it. In addition, all employees must complete an annual online training on responsibility topics. At the end of 2020, 92% of our employees had completed the online training.

The MuniFin website has a whistleblowing channel that can be used to report any suspected misconduct, also anonymously.

No violations of regulations

During all our years of operation, there have been no material regulatory violations that would have led to official sanctions.

Our compliance function oversees MuniFin's compliance with regulation based on an annual monitoring plan and provides internal guidance and support in compliance-related matters. Any significant contraventions of regulations are reported on a monthly basis to the management and Board of Directors as part of our risk position reporting. This reporting practice is part of our risk appetite framework.

Commitments and memberships of associations and national interest organisations

We actively participate in discussion on achieving climate and sustainable development targets with different institutions and seek to forge partnerships to come up with solutions to these global issues. In 2020, we joined the United Nations Global Compact.

Commitment 2050:
MuniFin offers green and social finance to promote the emergence of a carbon neutral society and greater use of environmentally and socially sustainable investments all around Finland. We help our customers to make sustainable choices and accelerate the creation of responsible investments by offering more affordable financing for these projects, sharing information, conducting impact assessments and providing visibility.

At the core of our expertise is knowing the operating environment, having market expertise, understanding the expectations of our customers and stakeholders, and anticipating regulatory changes. Our association memberships are mainly related to developing and securing competence and information sharing.

Memberships of associations, networks and national interest organisations:

- **Climate Bonds Initiative**
- **European Association of Public Banks**
- **FIBS Pro – sustainable business network**
- **Finsif – Finland's Sustainable Investment Forum**
- **Hinku network – Towards Carbon Neutral Municipalities and Regions**
- **International Swaps and Derivatives Association ISDA**
- **International Capital Market Association ICMA**
- **Nordic Capital Markets Forum**
- **REETTA – economic and climate management project for municipalities**
- **Ilmava – climate work coaching for municipal leaders**

Commitments:

- **UN Global Compact initiative**
- **Commitment 2050 initiative of the Finnish Prime Minister's Office**

KEY PRINCIPLE	GOALS	PERFORMANCE AND TRENDS
Responsible products and services	**GOAL 2024: Customer satisfaction is at a very good level** • Developing products and services that respond to customer needs • Securing balance in customer finances • Ensuring the availability of financing • Identifying and considering climate risks	GOAL 2024: Customer satisfaction is at a very good level Training sessions and seminars (including Economy Now webinars, economic and market reviews, and training sessions on digital services) Cooperation and partnerships with educational institutions Number of users of digital MuniFin services Dealer banks' opinion of MuniFin Geographical distribution of funding Distribution of financing for housing Distribution of financing for housing for special groups
Forerunner in sustainability	**GOAL 2024: Green and social accounts for 20% of the long-term customer finance portfolio** • Increasing MuniFin's impact through sustainable investments • Increasing the proportion of responsible finance in annual new lending • Increasing the amount of socially responsible investing (SRI) • Constantly mitigating MuniFin's own environmental load	GOAL 2024: Green and social accounts for 20% of the long-term customer finance portfolio Amount of green and social finance and distribution of projects by category Number of green and social finance projects Reduction of CO_2 emissions in green projects Energy savings in green projects Green bond issued (Y/N) Social bond issued (Y/N)) Total amount of socially responsible investments ESG score of the investment portfolio compared to the benchmark
Developing wellbeing at work	**GOAL 2024: Personnel satisfaction is at a good level** • Increasing diversity and equal opportunities • Promoting wellbeing at work and job satisfaction	GOAL 2024: Personnel satisfaction is at a good level (survey not conducted in 2020) Gender distribution of employees Gender distribution of managerial staff Gender distribution of the Executive Management Team Gender distribution of the Board of Directors Age distribution of employees Employer's pension insurance (TyEL) category Training days per employee Gender pay gap Employee turnover
Strong corporate governance	**GOAL 2024: All ESG risks associated with customers are assessed with a uniform methodology** • Developing responsible practices and ensuring the employees' commitment to complying with the Responsibility Policy	GOAL 2024: All ESG risks associated with customers are assessed with a uniform methodology 100% of employess have completed Responsibility Policy training Violations of regulations Memberships of associations and national interest organisations National and international commitments

Positive performance/ in line with the goal
Neutral performance/ minor change
Negative performance/ goal not achieved
New indicator/ no comparison data available

Principles of responsibility reporting

Reporting framework
The framework for responsibility reporting was prepared in collaboration with the consultancy company Deloitte. The EU Non-Financial Reporting Directive that came into force in 2016 applies to large public-interest entities with more than 500 employees on average during the accounting period. Since we have fewer than 500 employees, we are not obliged by the Accounting Act to disclose non-financial information in a separate report. However, due to the social significance of our operations, we publish a corporate social responsibility report annually, even though we are not legally obliged to do so. The report is prepared in accordance with the GRI standards, where applicable.

Scope and key content of the report
The report's scope takes into consideration MuniFin's long-term impact on the Finnish society, because our corporate responsibility is indirectly emphasised through the financing we grant. Due to our commitment to promoting the long-term objectives in mitigating climate change in our own operations and those of our customers, attention is also paid to the environmental effects of our own operations and funding.

The reporting indicators are based on the key principles of responsibility approved by the MuniFin Board of Directors. We reserve the right to add, remove or change the existing indicators and objectives, but any changes must be in line with the key principles specified in our responsibility strategy.

In 2020, some changes have been made to the reported indicators with an eye on materiality. New indicators include ones that describe customer satisfaction, digital services user experience, dealer banks' opinion of MuniFin, gender distribution in the Executive Management Team, employee training and gender differences in pay.

The 2020 report no longer includes indicators that were deemed insignificant in describing the company's responsibility. These include funding by investor type, amount of sickness leave and the percentage of performance appraisals. Indicators describing our energy consumption and use of office paper were also removed because they have developed positively and their impact is minor. Indicators on responsibility in lending and the pilot projects launched with green finance were also left out because no quantitative indicator could be found for reporting them. Our personnel survey, normally conducted in the final quarter of the year, was postponed to spring 2021 to analyse how well we have met the objectives for our recent reorganisation. For this reason, some personnel indicators are not available for 2020.

Information retrieval
The data and figures used in reporting are sourced from our internal systems, our customer satisfaction survey, an external provider of ESG ratings, the WWF Climate Calculator, the calculations of the consultancy 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 2020

Report of the Board of Directors and Financial Statements 2020 are a translation of the original Finnish version of "Toimintakertomus ja tilinpäätös 2020". In case of discrepancies, the Finnish version shall prevail.

This is voluntarily published pdf report, so it does not fulfill the disclosure obligation pursuant to Section 7:5§ of the Securities Markets Act.

MuniFin

In brief: MuniFin Group in 2020

- The year 2020 was characterised by the COVID-19 pandemic. The pandemic significantly increased the demand for MuniFin Group's customer financing, especially the growth of municipal sector's financing. Otherwise, the pandemic only had a minor effect on the Group's operating profit and financial standing.

- The Group's net operating profit excluding unrealised fair value changes was EUR 197 million (EUR 186 million) and it increased by 6.2% (-2.1%). The net interest income totalled EUR 254 million (EUR 240 million) and it grew by 5.8% (1.7%). The costs in the financial year amounted to EUR 58 million (EUR 60 million), making it 3.0% (+22.8%) smaller than in the previous year.

- The net operating profit amounted to EUR 194 million (EUR 131 million). Unrealised fair value changes amounted to EUR -3 million (EUR -54 million).

- At 104.3% (83.1%), the Group's CET1 capital ratio remained very strong. Tier 1 and total capital ratio were 132.7% (107.9%) at the end of 2020.

- The Group's leverage ratio was 3.9% (4.0%) at the end of December. Calculated using the CRR II calculation principles, to be enforced in June 2021, MuniFin Group's leverage ratio was 13.4%, including deductions made based on MuniFin's status as a public development credit institution, according to which the Group's customer financing can be excluded from the leverage ratio.

- Long-term customer financing was at the end of December EUR 28,022 million (EUR 24,798 million) and it grew by 13.0% (8.0%). Long-term customer financing includes both long-term loans and leased assets. New lending in January–December amounted to EUR 4,764 million (EUR 3,175 million). Short-term customer financing reached EUR 1,310 million (EUR 804 million) and grew by 62.9% (10.9%) from the previous year. The growth was spurred by the increase in the demand of loans and a drop in the availability of financing from other credit institutions, both due to the COVID-19 pandemic.

- In the entire long-term customer financing, the amount of green financing aimed at environmental investments totalled EUR 1,786 million (EUR 1,263 million) and the social finance projects amounted to EUR 589 million (EUR - million) at the end of the year.

- In 2020, new long-term funding reached EUR 10,966 million (EUR 7,385 million), and total funding totalled EUR 38,139 million (EUR 33,929 million) at the end of December.

- The Group's liquidity has remained at a good level. At the end of December, total liquidity amounted to EUR 10,089 million (EUR 9,882 million). The Liquidity Coverage Ratio was 264.4% (430.2%) at the end of the year.

- The Board of Directors proposes that it may based on the authorisation of the Annual General Meeting, decide paying dividend maximum amount of EUR 0.52 per share, totalling EUR 20,313,174.96. The authorisation is valid until the next Annual General Meeting. Based on the ECB's recommendation, the Board of Directors intends to refrain from deciding on the distribution of dividends until 30 September 2021.

- Outlook for 2021: The Group expects its net operating profit excluding unrealised fair value changes to remain at the same level as in 2020. The valuation principles set in IFRS 9 standard may cause significant unrealised fair value changes, some of which increase the volatility of net operating profit and make it more difficult to estimate in the short-term. A more detailed outlook is presented in the Section *Outlook for 2021*.

Comparison figures deriving from the income statement and figures describing the change during financial year are based on figures reported for the corresponding period in 2019. Comparison figures deriving from the balance sheet and other cross-sectional items are based on the figures of 31 December 2019 unless otherwise stated.

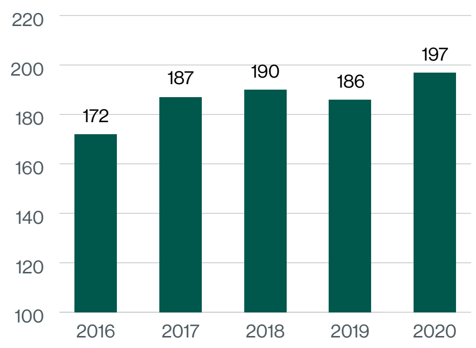
Key figures (Group)

	31 Dec 2020	31 Dec 2019
Net operating profit excluding unrealised fair value changes (EUR million)*	197	186
Net operating profit (EUR million)*	194	131
Net interest income (EUR million)*	254	240
New lending (EUR million)*	4,764	3,175
Long-term customer financing (EUR million)*	28,022	24,798
New long-term funding (EUR million)*	10,966	7,385
Balance sheet total (EUR million)	44,042	38,934
CET1 capital (EUR million)	1,277	1,162
Tier 1 capital (EUR million)	1,624	1,510
Total own funds (EUR million)	1,624	1,510
CET1 capital ratio, %	104.3	83.1
Tier 1 capital ratio, %	132.7	107.9
Total capital ratio, %	132.7	107.9
Leverage ratio, %	3.9	4.0
Return on equity (ROE), %*	9.4	6.8
Cost-to-income ratio*	0.2	0.3
Personnel	165	167

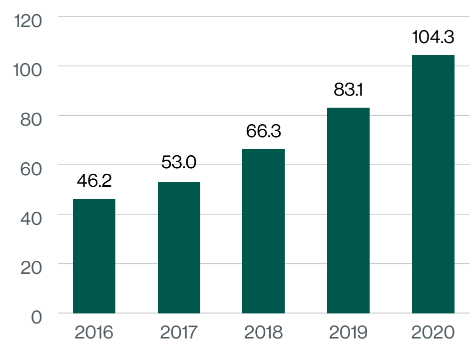
**Alternative performance measure. For more information on alternative performance measures, see pages 87–92.*

The calculation formulas for all key figures can be found on pages 87–94. All figures presented in the Report of the Board of Directors are those of MuniFin Group, unless otherwise stated.

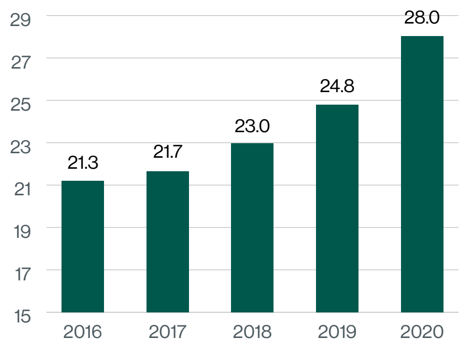
Net operating profit excluding unrealised fair value changes, EUR million*



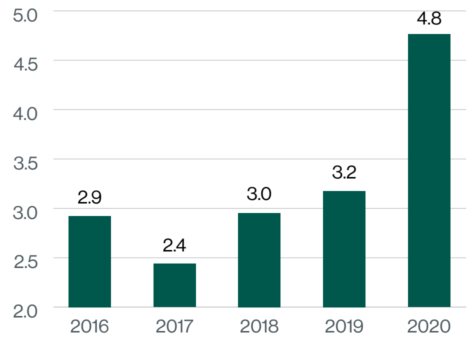
CET1 capital ratio, %



Long-term customer financing, EUR billion*



New lending, EUR billion*



**Alternative performance measure. For more information on alternative performance measures, see pages 87–92.*
The calculation formulas for all key figures can be found on pages 87–94. All figures presented in the Report of the Board of Directors are those of MuniFin Group, unless otherwise stated.

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Operating environment in 2020

At the beginning of 2020, the global economic outlook had already deteriorated as a result of the trade war between the United States and China. The outbreak of the COVID-19 pandemic in the first quarter nevertheless caused the economy to plunge further into contraction, as many countries had no choice but to enact shutdown measures. The crisis impaired the spending capacity of households in particular. While the early stages of the crisis also caused significant disruptions in the value chains of the manufacturing industry, it was the services sector that was hit the hardest. Unemployment rose rapidly, especially in the US.

When the pandemic broke out, it elicited a strong reaction from the markets. Major stock market indices dropped by more than 30% in a matter of weeks, credit risk spreads grew wider and the loan rates of the most deeply indebted countries increased. Confidence in the interbank money market wavered as well, causing Euribor rates to rise noticeably in March–April.

Central banks and governments responded to the economic shock by launching extensive recovery measures, which helped turn the real economy round relatively quickly. Globally, the lowest point in economic activity was in April–May. By mid-summer, economic recovery already exceeded expectations. Employment also recovered better than estimated.

The markets also settled fairly quickly. The stock market started to recover and credit risk spreads shrank already in late March. Even the loan interest rates of Southern European countries, severely impacted by the first wave of the pandemic, took a downward trend in late spring. During the summer, Euribor rates slowly returned closer to the ECB key deposit rate, dipping even below it later in the year. The euro strengthened.

In late 2020, the second wave of the pandemic pushed the economy back into recession, but this time without a sharp decline. Although contagion prevention measures were in effect, the fundamental function of the economy was maintained much better than in the spring. According to estimates, the global economy shrank by 4.5% in 2020. The euro area economy is estimated to have shrunk by more than 7%, and the Finnish economy by 3.5%.

The pandemic situation remained much calmer in Finland than in many other countries. In consequence, total production fell less than expected and also recovered better than expected in the summer. The Finnish GDP fell only modestly in international comparison.

However, Finnish municipalities suffered substantial losses in revenue as the pandemic reduced their income from municipal taxes and other sources. Thanks to the State's stimulus package, the year 2020 was nevertheless better for local government finances than previous year was.

Impact of the COVID-19 pandemic on MuniFin Group

The outbreak of the COVID-19 pandemic and the resulting economic uncertainty have had a significant growth on the Group's business volume but only a limited impact on the Group's financial standing.

The general pandemic restrictions have had some practical effects on the Group's operating practices, for example through increased remote work arrangements, but otherwise the Group's activities have continued in the usual manner. The pandemic increased the demand for financing especially in its first few months, because it was expected to increase municipalities' expenditures. While much of these costs were compensated for by the State, reduced income nonetheless increased the financing needs of municipalities. At the same time, other credit institutions also partially withdrew from the municipal financing market due to the pandemic and concentrated on serving other customer groups.

These changes resulted in the increased demand for MuniFin Group's services. Despite the exceptional circumstances, the Group's own funding has been successful and liquidity has maintained on a good level. Thus, MuniFin Group has succeeded in fulfilling its customers' financing needs.

MuniFin is a nationally significant credit institution and the continuity of its activities is essential for the Finnish society. The Group has ensured the health and safety of its personnel and the continuity of its services by having the majority of employees work remotely during the crisis. This has in part ensured the continuity of socially essential services and business processes also during the COVID-19 pandemic.

To facilitate customers' access to services while the restriction measures are in force, the Group has further developed its digital services. MuniFin has enhanced the remote support for its digital services and organised popular online classes that instruct customers in their efficient use. The Group has also held several webinars for customers and other stakeholder groups on themes related to the economic outlook and its effects on municipal finances.

MuniFin Group has individual customers who have run into economic challenges due to the COVID-19 pandemic. If the pandemic has impacted their repayment ability temporarily, MuniFin has offered them repayment holidays and made concessions to the payment terms of their loans. The demand for such arrangements has been modest, however.

MuniFin Group's total credit risk has remained low and the amount of expected credit losses (*ECL*) remains low. The Group's customer exposures have zero risk weight in MuniFin Group's capital adequacy calculation because they are from Finnish municipalities or involve a municipal guarantee or a state deficiency guarantee supplementing the real estate collateral. Based on the management's assessment, all receivables from customers will be fully recovered and no final credit losses are therefore expected. More information on forbearance measures and expected credit losses are in the Consolidated Financial Statement's Note *27*.

In order to secure the banking sector's ability to continue financing its customers in exceptional circumstances, the banking authorities have eased some requirements of supervised banks. Regardless of the underlying conditions, MuniFin Group's capital adequacy ratios are strong and the supervisory decisions have only had a minor effect on them. More information on the applied concessions and their effects are provided in the Sections *Group's own funds and capital adequacy* and *Group's minimum capital requirements and capital buffers*.

Information on the Group results

CONSOLIDATED INCOME STATEMENT (EUR million)	01–12/2020	01–12/2019	Change, %
Net interest income	254	240	5.8
Other income	2	6	-57.0
Income excluding unrealised fair value changes	**257**	**246**	**4.3**
Commission expenses	-5	-4	19.6
Personnel expenses	-18	-18	0.8
Other items in administrative expenses	-15	-15	4.0
Depreciation and impairment on tangible and intangible assets	-6	-6	-6.3
Other operating expenses	-15	-18	-17.1
Costs	**-58**	**-60**	**-3.0**
Credit loss and impairments on financial assets	-1	0	<-100.0
Net operating profit excluding unrealised fair value changes	**197**	**186**	**6.2**
Unrealised fair value changes	-3	-54	-94.3
Net operating profit	**194**	**131**	**47.9**
Profit for the financial year	**155**	**105**	**48.0**

Figures have been rounded, so the total of individual figures may differ from the total figure presented. The changes over 100% are described in the table as >100% or <-100%.

Group's net operating profit excluding unrealised fair value changes

The Group's core business operations remained strong during 2020. MuniFin Group's net operating profit excluding unrealised fair value changes grew by 6.2% (-2.1%) and totalled EUR 197 million (EUR 186 million). Income excluding unrealised fair value changes was EUR 257 million (EUR 246 million) and grew by 4.3% (3.3%). The Group's expenses shrank to EUR 58 million (EUR 60 million), by 3.0% (+22.8%). During 2020, the COVID-19 pandemic slowed cost growth, but at the same time, it accelerated business growth, which had a positive impact on the net interest income. Overall, the pandemic did not have any significant negative impact on MuniFin Group's core business' results or profitability.

Net interest income totalled EUR 254 million (EUR 240 million), up 5.8% (1.7%) on the previous year. This was due to growth in customer financing, successful funding operations and a favourable interest rate environment. The Group's net interest income does not include EUR 16 million in interest expenses of the AT1 capital loan, 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 deduction in retained earnings under equity upon realisation of interest payment on an annual basis.

Other income shrank from the previous year to EUR 2 million (EUR 6 million). Other income includes commission income, realised net income from securities and foreign exchange transactions, net income on financial assets at fair value through other comprehensive income, and other operating income. Other income also includes the turnover of the Subsidiary Company Inspira.

Commission expenses totalled EUR 5 million (EUR 4 million) and primarily comprised paid guarantee fees, custody fees and funding programme update fees.

Administrative expenses were EUR 33 million (EUR 32 million) and they grew by 2.3% (18.5%). Of which personnel expenses comprised EUR 18 million (EUR 18 million) and other administrative expenses EUR 15 million (EUR 15 million). Personnel expenses were 0.8% higher than previous year. Personnel expenses were affected by slower growth in employee numbers, redefined principles for the capitalisation of the acquisition costs of development projects, and the Government's decision to temporarily reduce all Finnish companies' pension contributions due to COVID-19 pandemic. Personnel expenses include a restructuring provision of EUR 0.6 million due to the Group's reorganisation in 2020 and the related cooperation negotiations. The average number of employees in the Group during the financial year was 167, as compared to 162 in the previous year.

Other items in administrative expenses grew moderately, 4.0% during the financial year. The COVID-19 pandemic reduced certain types of expenditure, such as travelling expenses, but on the other hand, the Group has invested heavily in the development of IT systems, such as the loan lifecycle management system. In 2019, MuniFin Group signed outsourcing agreements for IT end-user and infrastructure services as well as for the operation of the business IT systems to improve operational reliability and the availability of services. The practical implementation of the outsourcing agreements is currently underway and services are partially in production. The project is expected to be completed in 2021.

During the financial year, depreciation and impairment on tangible and intangible assets reached EUR 6 million (EUR 6 million). The Group has invested significantly recently in developing IT systems and business operations, which have increased the amount of depreciation in the recent years.

Other operating expenses decreased to EUR 15 million (EUR 18 million), by 17.1% (+14.7%). Fees collected by authorities were EUR 7 million (EUR 7 million) and increased by 13.6% (-4.7%), mainly due to an increase in the contribution to the Single Resolution Fund. These fees excluded, other expenses were EUR 7 million (EUR 11 million) and decreased by 35.1% (+23.7%). This decrease is mostly due to smaller purchases of external services compared to the previous year.

The amount of expected credit losses (*ECL*), calculated according to IFRS 9, increased during the financial year. Change recognised in the income statement was EUR 0.9 million (EUR 0.0 million). Due to the COVID-19 pandemic, MuniFin Group has updated the scenarios used for calculating expected credit losses to take into account the effect of the COVID-19 pandemic. Scenarios include probability weights. Due to uncertainty caused by the COVID-19 pandemic, MuniFin Group has given a larger weight to the adverse scenario. During the second half of 2020, MuniFin Group has specified the methods for estimating and modelling expected credit losses, as well as the assumptions used in the model. The change in the modelling methodology affected the modelling of the probability of default over the lifetime of the loan, therefore increasing the expected credit losses by approximately EUR 0.5 million.

In addition, MuniFin Group has recorded an additional discretionary provision (*management overlay*) of EUR 0.34 million to take into account the financial effects of the COVID-19 pandemic. The year 2020 was financially exceptionally weak for certain customer segments, such as the arts sector and sports facilities providers. However, the deteriorating financial situation is not yet reflected in the Group's internal risk ratings, which have been mainly updated based on the 2019 financial statements. As the credit risk of certain customer segments is estimated to have increased since then, MuniFin Group's management decided to record an additional discretionary provision based on a group-specific assessment. MuniFin Group's overall credit risk position has remained low due to the fact, that the COVID-19 pandemic has not had an impact on the guarantees the Group has received. According to the management's assessment, all receivables will be recovered in full and therefore no final credit loss will arise, because the receivables are from Finnish municipalities or they are accompanied by a securing municipal guarantee or a state deficiency guarantee. During the Group's more than 30 years history, it has never recognised any final credit losses in its customer financing.

On 31 December 2020, the Group had a total of EUR 24 million (EUR 2 million) guarantee receivables from public sector entities due to customer insolvency. This increase is caused by a few individual customers. The credit risk of the liquidity portfolio has remained at a good level, its average credit rating being AA+. More information on the credit risks on financial assets and other commitments are available in Note *27* in the Consolidated Financial Statements.

Group's profit and unrealised fair value changes

Net operating profit was EUR 194 million (EUR 131 million). Unrealised fair value changes weakened MuniFin Group's net operating profit by EUR 3 million during the financial year; in the previous year, they had a negative impact of EUR 54 million. In 2020, net income from hedge accounting amounted to EUR 4 million (EUR -19 million) and unrealised net income from securities and foreign exchange transactions to EUR -7 million (EUR -35 million).

The Group's effective tax rate during the financial year was 20.0% (20.0%). Taxes in the consolidated income statement amounted to EUR 39 million (EUR 26 million). After taxes, the Group's profit for the financial year was EUR 155 million (EUR 105 million) The Group's full-year return on equity (*ROE*) was 9.4% (6.8%). Excluding unrealised fair value changes, ROE was 9.6% (9.6%).

The Group's other comprehensive income includes unrealised fair value changes of EUR -32 million (EUR 28 million). During the financial year, the most significant item affecting the other comprehensive income was the fair value change due to changes in own credit risk of financial liabilities designated at fair value through profit or loss of EUR -17 million (EUR 10 million). Net change in Cost-of-Hedging totalling EUR -16 million (EUR 17 million).

On the whole, unrealised fair value changes net of deferred tax affected the amount of consolidated equity by EUR -28 million (EUR -21 million) and CET1 capital net of deferred tax in capital adequacy by EUR -15 million (EUR -28 million). In capital adequacy calculations, the cumulative effect of unrealised fair value changes was EUR 12 million (EUR 27 million) on MuniFin Group's own funds.

Unrealised fair value changes reflect the temporary impact of market conditions on the valuation levels of financial instruments at the reporting time. The value changes may vary significantly from one reporting period to another, causing volatility in profit, equity and own funds in capital adequacy calculations. The effect on individual contracts will be removed by the end of the contract period.

In accordance with its risk management principles, MuniFin Group uses derivatives to financially hedge against interest rate, exchange rate and other market and price risks. Cash flows under agreements are hedged, but due to the generally used valuation methods, changes in fair value differ between the 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 cause 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 the Group primarily holds financial instruments and their hedging derivatives almost always until the maturity date. Changes in credit risk spreads are not expected to be materialised as credit losses for the Group, because the Group's liquidity reserve has been invested in instruments with low credit risk. In the financial year, unrealised fair value changes were influenced in particular by changes in interest rate expectations and credit risk spreads in the Group's main funding markets.

Parent Company's result

MuniFin's total net interest income at year-end was EUR 238 million (EUR 224 million), and net operating profit stood at EUR 178 million (EUR 115 million). The profit after appropriations and taxes was EUR 22 million (EUR 8 million). The interest expenses of EUR 16.2 million for 2020 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*.

Subsidiary Inspira

The turnover of MuniFin's subsidiary, Financial Advisory Services Inspira Ltd., was EUR 2.8 million for 2020 (EUR 3.5 million), and its net operating profit amounted to EUR 0.1 million (EUR 0.2 million).

Information on the consolidated statement of financial position

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (EUR million)	31 Dec 2020	31 Dec 2019	Change, %
Cash and balances with central banks	5,566	4,909	13.4
Loans and advances to credit institutions	1,842	818	>100.0
Loans and advances to the public and public sector entities	28,022	24,798	13.0
Debt securities	5,763	5,716	0.8
Derivative contracts	2,358	2,245	5.0
Other items included in the assets	491	446	10.0
Total assets	**44,042**	**38,934**	**13.1**
Liabilities to credit institutions	2,001	1,178	69.9
Liabilities to the public and public sector entities	3,884	3,862	0.6
Debt securities issued	32,912	29,984	9.8
Derivative contracts	2,861	1,762	62.3
Other items included in the liabilities	679	554	22.7
Total equity	1,705	1,594	6.9
Total liabilities and equity	**44,042**	**38,934**	**13.1**

The changes over 100% are described in the table as >100% or <-100%.

The Group's consolidated statement of financial position saw 13.1% of growth from the end of 2019 (9.1%) and amounted to EUR 44,042 million at the end of 2020 (EUR 38,934 million). The increase in the assets is mainly due to substantial growth in customer financing, cash collateral for derivatives, and increased liquidity. The increase in liabilities is due to debt securities issued and the valuation of derivatives.

At the end of the year, the Group's equity stood at EUR 1,705 million (EUR 1,594 million), including the AT1 capital loan of EUR 347 million (EUR 347 million). The profit of the financial year increased the equity. 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, as were the dividends of EUR 6.3 million paid to MuniFin shareholders for the 2019 financial year (EUR 6.3 million).

The Parent Company's balance sheet at the end of the year was EUR 44,042 million (EUR 38,933 million).

Financing and other services for customers

MuniFin is the only credit institution in Finland that specialises in financing for the local government sector and state-subsidised housing production. It is by far the largest financier for its customer base.

MuniFin Group's 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*). All loans granted by MuniFin have the risk level associated with Finnish public sector entities and a risk weight of 0% in capital adequacy calculations. The Group offers its customers diverse financing services and extensive support in investment planning and financial management.

The customers demand for MuniFin's financing grew in 2020. New lending from January to December was higher than in the previous year, and amounted to EUR 4,764 million (EUR 3,175 million).

This growth in new lending is mainly due to the COVID-19 pandemic, which resulted in an increased demand for financing among municipal customers but also in other credit institutions concentrating on financing other customer groups than municipal customers.

MuniFin's long-term customer financing amounted to EUR 28,022 million (EUR 24,798 million) at the end of 2020 and it grew by 13.0% (8.0%). This figure includes long-term loans and leased assets. Long-term customer financing excluding unrealised fair value changes amounted to EUR 27,511 million (EUR 24,458 million) at the end of the year. The growth was 12.5% (7.4%).

In the entire long-term customer financing, the amount of green financing aimed at environmental investments totalled EUR 1,786 million (EUR 1,263 million). Green finance projects are approved by an evaluation team of independent experts outside of MuniFin Group. In 2020, the Group further increased its sustainable finance and granted the first social finance loans. Social finance is available for non-profit housing production investments that promote equality and communality in a particularly significant way, and for investments in welfare and education. At the end of 2020, social finance amounted to EUR 589 million (EUR - million).

The Group offers a wide range of financial management, analysis and reporting tools for its customers.
The COVID-19 pandemic increased customers' need to use digital services in remote working contexts and to model various economic effects of the crisis. With the crisis pushing customers more and more towards online services and meetings, MuniFin Group has been able to provide even more efficient customer service. Online events and training on digital services have proved very popular among customers.

Funding and liquidity management

MuniFin Group's funding strategy is to diversify its funding sources to ensure access to funding under all market conditions. The Group actively diversifies its funding across multiple currencies, maturities, geographical areas and investor groups. Proactive long-term cooperation with investors has increased MuniFin's name recognition in various markets. The COVID-19 pandemic caused severe disruptions in the capital markets in 2020, but MuniFin's good reputation among investors as well as the safety of the investments in the Finnish municipal sector secured MuniFin's access to markets in times when this was difficult or even impossible for many other issuers.

Despite the exceptional circumstances, MuniFin Group was able to acquire funds nearly as usual during the financial year, securing uninterrupted financing for its customers. Due to the increased demand for financing, the size of 2020 funding programme was increased several times during the year.

The main focus in MuniFin Group's funding was on public arrangements, which had very strong demand among investors. During 2020, MuniFin issued euro-denominated benchmark bonds of EUR 1.5 billion and 1 billion, and a dollar-denominated bond of USD 1 billion. In addition to these three benchmark bonds, MuniFin issued a social bond of EUR 500 million in September. This was the first social bond ever issued in Finland, and the first ever social bond issued by a Nordic issuer in the SSA (*Sovereign, Supranational, Agency*) category. In October, MuniFin also issued a green bond of EUR 500 million.

Moreover, MuniFin participated in the ECB's third series of targeted longer-term refinancing operations (*TLTRO III*) with EUR 1,250 million, which partly enabled to ensure its customer's financing on competitive terms.

MuniFin Group acquires all of its funding from the international capital market. In 2020, MuniFin Group's new long-term funding totalled EUR 10,966 million (EUR 7,385 million) in 11 (11) different currencies. A total of 218 (198) funding arrangements were made.

MuniFin Group's total funding at the end of 2020 amounted to EUR 38,139 million (EUR 33,929 million). MuniFin's short-term debt instruments under the Euro Commercial Paper (*ECP*) programme amounted to EUR 3,896 million (EUR 2,728 million). Of total funding, 50% (34%) was denominated in euros and 50% (66%) in foreign currencies.

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 40,000 million
Euro Commercial Paper (ECP) programme	EUR 10,000 million
AUD debt programme (Kangaroo)	AUD 2,000 million

MuniFin

MuniFin's funding is guaranteed by the Municipal Guarantee Board, a public law institution whose membership consists of all municipalities in mainland Finland. The members are responsible for the liabilities of the Municipal 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.

MuniFin Group's liquidity remained good. MuniFin's investment operations mostly comprise the management of prefunding, and the funds are invested in liquid and highly rated financial instruments to ensure business continuity under all market conditions.

According to the Group's liquidity policy, its total liquidity amount must be enough to cover uninterrupted business (including new net customer financing) for at least 12 months.

At the end of 2020, MuniFin Group's total liquidity was EUR 10,089 million (EUR 9,882 million). Investments in securities totalled EUR 4,453 million (EUR 4,922 million) and their average credit rating remained at AA+. The average maturity of the investment portfolio stood at 2.8 years (2.3 years) at year-end. In addition to this, MuniFin Group had EUR 5,636 million (EUR 4,960 million) in other investments, of which EUR 5,601 million (EUR 4,936 million) were in central bank deposits and EUR 35 million (EUR 24 million) in money market deposits in credit institutions.

MuniFin Group monitors the sustainability of its liquidity investments with ESG scores *(Environmental, Social and Governance)*. The Group's liquidity investments ESG score has improved in 2020 from 53.0 to 55.7 on a scale of 1–100. The benchmark index is 53.3 (50.6).

In addition to monitoring the ESG scoring of its investments, MuniFin Group also has direct sustainable investments. At the end of the year, they amounted to EUR 355 million (EUR 150 million), which is 8.0% (3.0%) of all investments in securities. The Group's ratio of sustainable investments is higher than the market benchmark 2.1% (1.9%). The ratio of socially responsible investments to MuniFin Group's own green funding was 13.8% (10%).

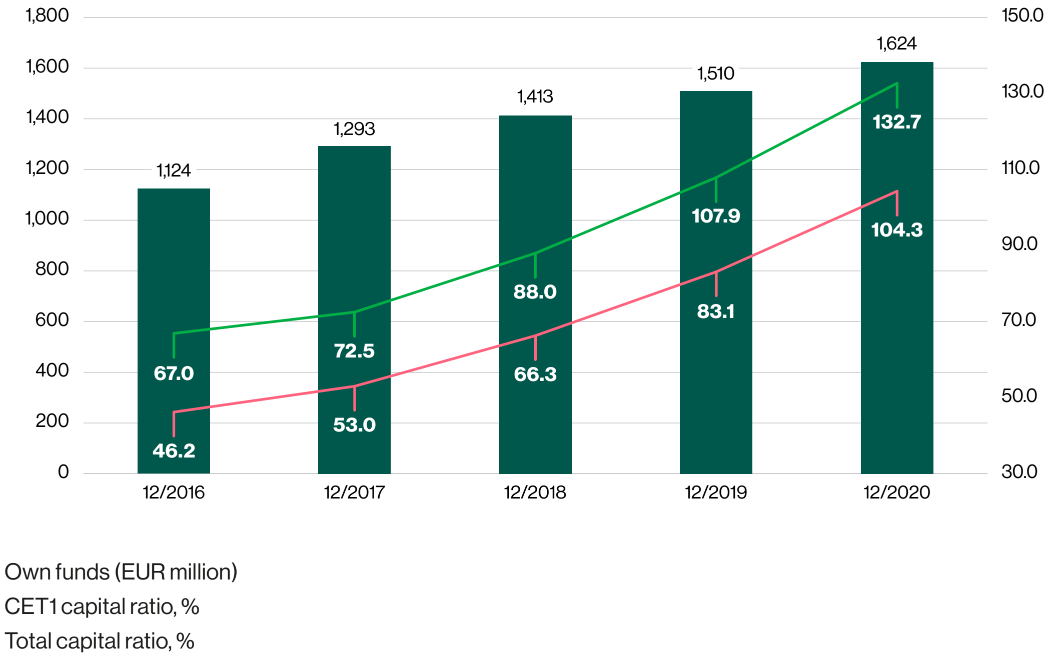
MuniFin's credit ratings

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 those of the Government of Finland. The credit ratings did not change during the financial year. The Municipal Guarantee Board, which guarantees MuniFin Group's funding, also has the corresponding ratings.

Capital adequacy

Group's own funds and capital adequacy



Group's own funds and capital adequacy
At the end of 2020, the Group's total capital ratio was 132.7% (107.9%) and the CET1 capital ratio 104.3% (83.1%). The CET1 capital ratio increased from the end of 2019 by 21.3 percentage points mainly due to a decreased risk exposure amount and the lowered operational risk capital requirement. The Group's capital adequacy has remained strong, surpassing legal requirements by a wide margin. The Group's own funds exceed the minimum requirement set in legislation by EUR 1,487 million (EUR 1,332 million), taking valid capital buffers into account.

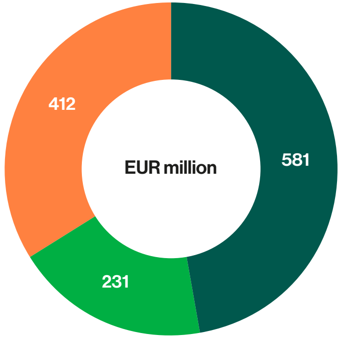
GROUP'S OWN FUNDS (EUR 1,000)	31 Dec 2020	31 Dec 2019
Common Equity Tier 1 capital before adjustments	1,328,150	1,218,199
Adjustments to Common Equity Tier 1 capital	-51,338	-55,747
Common Equity Tier 1 capital (CET1)	**1,276,812**	**1,162,452**
Additional Tier 1 capital before adjustments	347,454	347,454
Adjustments to Additional Tier 1 capital	-	-
Additional Tier 1 capital (AT1)	**347,454**	**347,454**
Tier 1 capital (T1)	**1,624,265**	**1,509,906**
Tier 2 capital before adjustments	-	-
Adjustments to Tier 2 capital	-	-
Tier 2 capital (T2)	**-**	**-**
Total own funds	**1,624,265**	**1,509,906**

At the end of 2020, MuniFin Group's CET1 capital totalled EUR 1,277 million (EUR 1,162 million) and Tier 1 capital EUR 1,624 million (EUR 1,510 million). The Group had no Tier 2 capital. The Group's own funds totalled EUR 1,624 million (EUR 1,510 million).

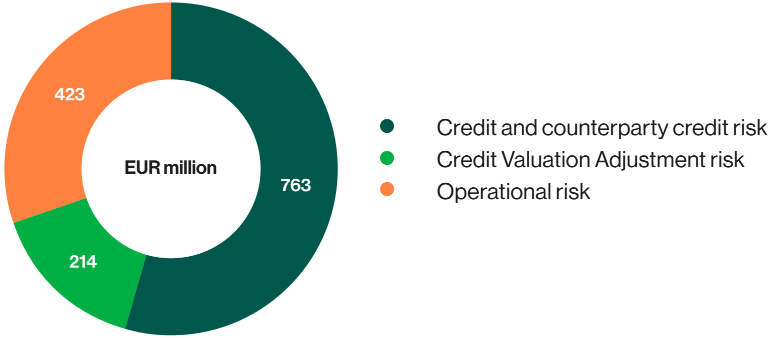
The CET1 capital includes the profit for the financial year, as it has been subject to a financial review by the auditors and can therefore be included in CET1 capital based on the permission granted by the ECB in accordance with the Capital Requirements Regulation.

MuniFin Group has applied the Commission's Delegated Regulation (2020/866) on additional valuation adjustment (*AVA*) in prudent valuation. The delegated regulation changed the aggregation factor applied in valuation related to market price uncertainty, close-out costs and model risks. The aggregation factor was temporarily changed to 66% until the end of 2020, after which it was returned to its previous level of 50%. At the end of December 2020, this had a EUR 8 million effect on the Group's own funds.

Total risk exposure amount 12/2020
EUR 1,224 million



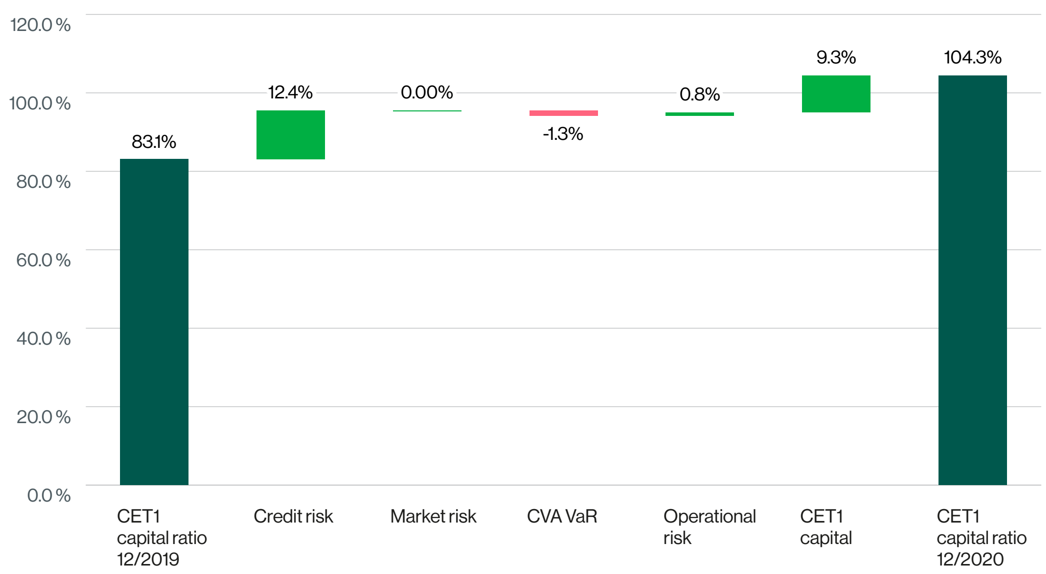
Total risk exposure amount 12/2019
EUR 1,400 million



There was no capital requirement for market risk at the end of 2020 and 2019.

The Group's total risk exposure amount decreased by 12.6% from the end of 2019, totalling EUR 1,224 million (EUR 1,400 million) at the end of 2020. The overall credit and counterparty risk decreased from the year-end 2019 figure of EUR 763 million to EUR 581 million at the end of the financial year. This was particularly influenced by a decrease in the risk weights of the liquidity portfolio. There was no capital requirement for market risk at the end of 2020 or in the comparison year, because the currency position was less than 2% of own funds, and, based on Article 351 of the Capital Requirements Regulation (*CRR*), the own funds requirement for market risk has therefore not been calculated. The credit valuation adjustment risk increased to EUR 231 million (EUR 214 million). The risk exposure amount of operational risk decreased by 2.6% to EUR 412 million due to a decrease in the profit indicator (EUR 423 million). In November 2020, the European Banking Authority published an answer in the Single Rulebook QA process (2018_3969) regarding the calculation of operational risk requirements. The way the profit indicator is calculated at the end of the year had previously been subject to interpretation. According to the EBA's answer, at the end of the year, last three year-end observations including the current reporting period's year-end observation shall be used. Previously, MuniFin Group has applied the same relevant indicator for the whole reporting year, when calculating the operational risk requirement. MuniFin Group adheres to this calculation method from December 2020 onwards. This will not have a significant effect on MuniFin Group's capital adequacy figures.

Group's CET1 capital ratio changes

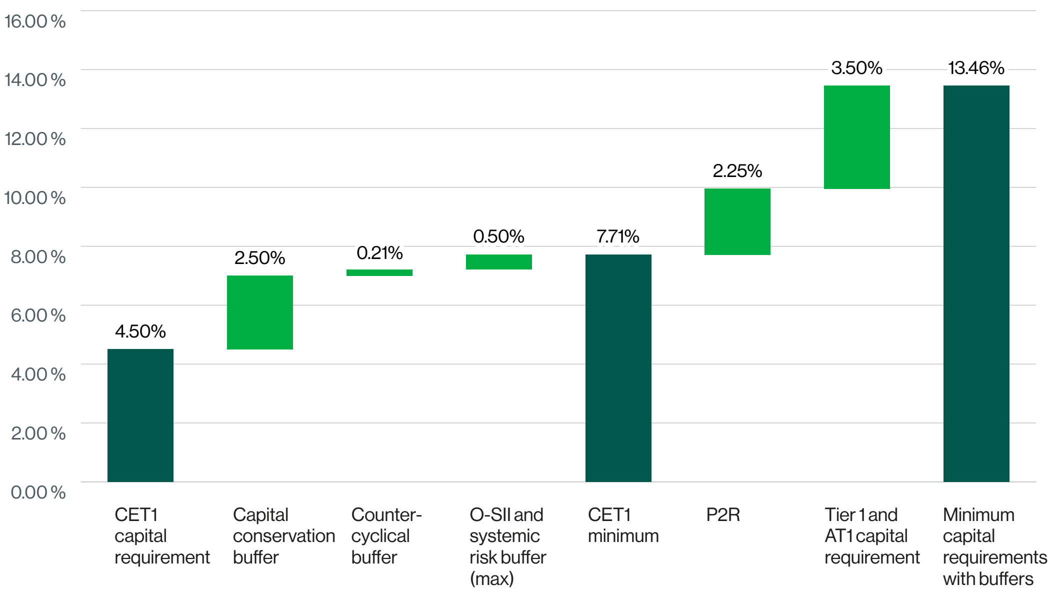


Detailed key figures on the capital adequacy of both MuniFin Group and the Parent Company are provided in the Notes to this Report. The principles of capital adequacy management are described in Note *2* to the Consolidated Financial Statements, *Risk management principles and the Group's risk position.*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

Group's minimum capital requirements and capital buffers

The minimum capital requirement is 8% for capital adequacy and 4.5% for CET1 capital adequacy. Under the Act on Credit Institutions, the capital conservation buffer is 2.5% and, for MuniFin Group, the additional capital requirement for other systemically important credit institutions (*O-SII*) is 0.5%. Based on the systemic risk buffer set by the Financial Supervision Authority (*FIN-FSA*), there has been an additional capital requirement of 1.5% for MuniFin Group from July 2019 and it will be reviewed annually. The systemic risk buffer and the O-SII additional capital requirement are parallel buffers, of which the greater is applied. In April 2020, the FIN-FSA updated the capital requirements for Finland's largest credit institutions, aiming to mitigate the negative effects the COVID-19 pandemic could have on the stability of the financial markets and on the credit institutions' capacity to finance the economy. The FIN-FSA removed MuniFin Group's abovementioned additional capital requirement of 1.5%,

Group's minimum capital requirements and capital buffers



effective immediately, which reduced the Group's capital requirements by 1.0 percentage points. The FIN-FSA also decides on a countercyclical capital buffer requirement on a quarterly basis, and it decided not to impose it on December 2020.

For MuniFin Group, the credit institution-specific countercyclical capital buffer requirement that is imposed based on the geographical distribution of exposures is 0,21% (0.72%). The Group therefore has a minimum requirement of 7.71% (9.22%) for CET1 capital ratio and 11.21% (12.72%) for total capital ratio.

In addition to the abovementioned requirements, the European Central Bank has imposed an additional capital requirement of 2.25% (*P2R*) on MuniFin Group as part of the annual supervisor's review (*SREP*). Due to the COVID-19 pandemic in 2020, the ECB did not perform the annual SREP, but instead gave MuniFin Group an operational letter confirming the continuation of the previous P2R requirement of 2.25%. Including this P2R requirement, the total SREP capital requirement ratio (*TSCR*) was 10.25% (10.25%) at the end of 2020. The minimum level of total capital ratio was 13.46% (14.97%) including P2R and other additional capital requirements.

MuniFin Group fulfils these minimum capital adequacy requirements many times. The Group's CET1 capital ratio was 104.3 % (83.1%) and total capital ratio was 132.7% (107.9%) at the end of December.

Leverage ratio and Liquidity Coverage Ratio
At the end of the year, MuniFin Group's leverage ratio was 3.9% (4.0%), calculated using currently valid calculation principles (*CRR*). The slight decrease in the leverage ratio was caused by the strong growth in the Group's credit portfolio during the financial year. As of June 2021, the minimum leverage ratio will be 3%. Changes to the regulation concerning the leverage ratio and capital requirements are discussed in the Section *Changes in the regulation of the leverage ratio and capital requirements.*

At the end of December, MuniFin Group's Liquidity Coverage Ratio (*LCR*) was 264.4% (430.2%).
The minimum requirement is 100%.

MuniFin Group is also preparing for the adoption of the Net Stable Funding Ratio (*NSFR*), which will take effect in June 2021 with the minimum requirement of 100%. At the end of December 2020, the Group's NSFR was 116.4% (116.3%) calculated according to current interpretations.

Changes in the regulation of the leverage ratio and capital requirements
Changes to the regulation of banks' capital adequacy (*CRR II and CRD V*) will be largely applied in June 2021. MuniFin fulfils the CRR II definition of a public development credit institution and may therefore deduct in the calculation of its leverage ratio all credit receivables from the central government and municipalities. This has a significant positive effect on the Group's leverage ratio.

At the end of 2020, MuniFin Group's leverage ratio was 13.9%, taking the abovementioned legislative change into account. Without it, the leverage ratio stood at 3.9%. According to the current estimates, changes in the calculation of derivatives exposure also affect on the leverage ratio (*CRR II*). This is estimated to have around 0.5 percentage points negative effect on the leverage ratio. Taking into account both changes, leverage ratio (*CRR II*) is 13.4%. Minimum requirement for leverage ratio will be 3%.The leverage ratio, in force from June 2021, has been the strictest of the capital requirements imposed on MuniFin Group, and therefore this may have impact on MuniFin Group's profitability goals and capital planning in the long run.

New capital requirements regulation will slightly lower MuniFin Group's CET1 capital ratio. The most significant increase is in counterparty credit risk capital requirement, which will bring down MuniFin Group's CET1 ratio by an estimated 3.4 percentage points, while the total of all the other changes are estimated to remain clearly lower. Even after these changes, MuniFin Group's CET1 ratio will remain very high at 100.9% compared to the minimum requirement of 9.96% including P2R and other additional capital requirements.

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 is expected to impose a binding minimum requirement for own funds and eligible liabilities (*MREL*) on MuniFin. MuniFin expects the decision to be made in early 2021 and take effect in 2022. MuniFin expects its own funds and eligible liabilities to exceed the minimum requirements by a wide margin.

MuniFin

Risk management

MuniFin Group's operations require adequate risk management mechanisms to ensure that the Group's risk position remains within the limits set by Parent Company's Board of Directors. To preserve its strong credit rating, the Group applies conservative risk management principles and aims to keep its overall risk status low.

The relevant risk types associated with the Group's operations include credit and counterparty credit risk, market risk and liquidity risk. All operations also involve strategic and operational risks, including compliance risk and ESG (*Environmental, Social and Governance*) risk.

The Group's risks are described in greater detail in Note *2* to the Consolidated Financial Statements, entitled *Risk management principles and the Group's risk position.* Concurrently with this Report of the Board of Directors and the Financial Statements, MuniFin Group is publishing a separate Pillar III Disclosure Report on capital adequacy and risk management, which is available in English on MuniFin's website.

Risk position

The COVID-19 pandemic may affect MuniFin Group's counterparty risk, liquidity portfolio credit risk and risks related to liquidity, lending and business processes. So far, however, the pandemic has not had any significant negative effects on these risks.

There were no material changes in the Group's risk appetite during 2020. Risks remained within the limits set by the Board of Directors during the year, and the risk position remained stable despite the COVID-19 pandemic. Unrealised fair value changes of financial instruments caused the volatility of profits. The Group continuously monitors and analyses the volatility arising from valuations and prepares for any impacts this may have on its profit and capital adequacy.

The Group is exposed to credit risks as part of its business. Due to the nature of its customer base, credit risks are low, but it is impossible to completely eliminate them. The credit risks emerge almost exclusively from customer financing, the liquidity portfolio investments and the derivatives portfolio. MuniFin also offers derivative products for its customers for hedging their interest rate positions. These products are covered with offsetting contracts from the market. The Group only uses derivatives for hedging against market risks. During the year, MuniFin's credit risk position remained at a low and stable level.

In view of its credit risk mitigation techniques (mortgage collateral and guarantees received) and exemptions set out in CRR Article 400 related to the calculation of large exposures, MuniFin Group is not exposed to customer risk in its customer financing, and thus the customer risk of any individual customer does not exceed 10% of own funds. The amount of expected credit losses increased slightly and was EUR 0.9 million recognised in the income statement. During the second half of 2020, MuniFin Group has specified the methods for estimating and modelling expected credit losses, as well as the assumptions used in the model. The change increased the expected credit losses by approximately EUR 0.5 million. In addition, the Group has recorded an additional discretionary provision (*management overlay*) to cover the deterioration of its customers' credit risk due to the COVID-19 pandemic, which is not yet reflected in the Group's internal risk ratings, which are based on the client's 2019 financial statement data.

The amount of forborne receivables at the end of December was EUR 88 million, which is EUR 55 million higher than at the end of 2019. MuniFin has individual customers who have faced economic challenges due to the COVID-19 pandemic. If their repayment ability was impaired temporarily, MuniFin offered them repayment holidays and made concessions to the payment terms of their loans. In 2020, these amounted to EUR 208 million. Part of this amount was classified as forbourne exposures. Non-performing exposures amounted to EUR 136 million at the end of December (EUR 67 million), for which the Group has absolute guarantees by municipalities or real estate collateral and state deficiency guarantee, and these exposures are therefore not expected to carry the risk of a final credit loss. Non-performing exposures represented 0.5% of total customer exposures (0.3%).

The COVID-19 pandemic has not weakened MuniFin Group's credit risk position so far. The credit risk position is expected to remain stable and in line with the Group's credit risk strategy. However, if prolonged, the pandemic may affect MuniFin's counterparty risks, liquidity portfolio credit risk and risks related to liquidity, lending and business processes. MuniFin Group has intentionally changed allocations in its liquidity portfolio to lower its risk levels even further. For now, the pandemic and related economic uncertainty has only had a modest effect on the Group's financial situation and risk position. Due to pandemic-related restrictions, MuniFin Group has changed its operating practices and remote work arrangements, but has otherwise carried out normal business operations without any interruptions.

Market risks include interest rate risk, exchange rate risk and other market and price risks. MuniFin Group actively monitors and hedges its interest rate risk and manages it by using derivatives. Interest rate risk mainly arises from the differences in Euribor rates applicable to the assets and liabilities in the balance sheet. Eight scenarios are used in the calculation of the earnings risk, of which the least favourable outcome is considered. The least favourable scenario was based on an assumption of a rise of one percentage point in the whole interest rate curve. One-year earnings risk at the end of December was EUR -32 million (EUR -14 million). Several scenarios are also used in the calculation of the Economic Value of Equity, of which the least favourable outcome is considered. The least favourable scenario was based on an assumption of a rise of two percentage points in the whole interest rate curve. The Economic Value of Equity at the end of December was EUR -345 million (EUR -114 million).

MuniFin Group's FX risk is hedged by using derivative contracts to swap all funding and investments denominated in foreign currency into euros. In practice, the Group's operations are not exposed to exchange rate risks, but 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 the Group does not engage in trading activities. MuniFin Group has also determined valuation risk as a significant risk for its business. Unrealised fair value changes of financial instruments increase the Group's earnings volatility. MuniFin Group continuously monitors and analyses the volatility arising from valuations and prepares for any impacts this may have on its profit and capital adequacy.

The Group's market risk has remained stable. The COVID-19 pandemic caused market volatility especially during the spring, which manifested in increased valuation volatility in the Group's profits. The market became more stable towards the end of the year, reducing the pandemic-related volatility.

MuniFin Group manages its refinancing risk by limiting the average maturity between financial assets and liabilities. In addition, the Group manages its liquidity risk by setting a limit for the minimum adequacy of the available short-term and long-term liquidity. At the end of 2020, its survival horizon was 12.3 months (13.6 months). The Group's liquidity remained good, with the LCR being 264.4% (430.2%) at the end of the year. The availability of funding also remained at a good level throughout the year, and the Group was able to continue to acquire funding almost normally despite the exceptional situation caused by the COVID-19 pandemic. In January–December 2020, MuniFin Group issued EUR 10,966 million (EUR 7,385 million) in long-term funding.

MuniFin Group's operational risks are estimated to be at a moderate level, and there were no material losses from operational risks in 2020. According to MuniFin's estimate, the COVID-19 pandemic has not increased the Group's operational risks. The extensive remote work arrangements have had some effects on the Group's operating practices, but its business operations have continued normally. Control points related to processes and information security, for example, have remained in place and continued to function in the usual way.

ESG risks include environmental, social and governance risks. MuniFin Group actively monitors climate risks and their potential effect on its business. The Group's current estimate is that climate risks are unlikely to manifest substantially in the short-term. In analysing its customer finance portfolio, MuniFin Group has included climate risk in its risk management framework in the medium and long-term. All of MuniFin Group's customers are located in Finland, which protects the Group from the negative effects of climate change to some degree. In the medium and long-term, climate risks may nevertheless have an adverse economic effect on the Group's customers and therefore on their loan repayment ability.

From MuniFin Group's point of view, social risks related to the Finnish society and the Group's customers mostly concern economic inequality, inequalities of minority groups, regional inequality, uneven distribution of welfare and imbalances in regional vitality. MuniFin Group actively monitors the social risks related to its customers and their potential effect on business. According to its estimate, the Group is currently not exposed to any substantial social risks.

Finland is a well-governed country and on a list of the 180 least corrupted countries, Finland ranks third. From MuniFin Group's perspective, governance risks mainly only manifest in individual misconduct cases. The Group aims to assess, predict and manage these risks by acquiring adequate customer information and employing efficient risk management procedures. MuniFin Group actively monitors the governance risks related to its customers and their potential effect on business and continuously develops its own governance practices, which are described in the following Section *Governance*. According to MuniFin Group's estimate, it is currently not exposed to any substantial governance risks.

Governance

In addition to corporate legislation, MuniFin complies with the governance requirements of the Finnish Act on Credit Institutions. MuniFin's governance policy is described in more detail on MuniFin's website.

Upon the publication of the Annual Report, MuniFin Group also 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 Annual Report and includes a description of the main features of the internal control and risk management systems pertaining to the financial reporting process. The statement also includes the governance descriptions required by the Act on Credit Institutions as well as information on how MuniFin complies with the Finnish Corporate Governance Code for listed companies published by the Finnish Securities Market Association. The code applies to Finnish listed companies, i.e. companies whose shares are listed on the Helsinki Stock Exchange. Since MuniFin is exclusively an issuer of listed bonds and its shares are not subject to public trading, this code does not apply directly to MuniFin.

Group structure

The Municipality Finance Group (MuniFin Group or the Group) consists of Municipality Finance Plc (MuniFin or the Parent Company) and Financial Advisory Services Inspira Ltd (Inspira or Subsidiary Company). MuniFin owns 100% of Inspira. No changes to the group structure took place in the financial year.

General meeting

MuniFin Annual General Meeting (*AGM*) was held on 25 March 2020. The AGM confirmed the Financial Statements for 2019 and discharged the members of the Board of Directors, the CEO and the Deputy CEO from liability for the financial year 2019. In addition, in accordance with the proposal of the Board of Directors, the AGM decided that a dividend of EUR 0.16 per share (EUR 0.16 per share) will be paid, amounting to a total of EUR 6,250,207.68 (EUR 6,250,207.68). The remaining part of distributable funds, EUR 129,117,955.25 (EUR 127,617,814.70) will be retained in equity.

Based on the proposal of the Shareholders' Nomination Committee, the AGM appointed the Board of Directors for the 2020–2021 term, lasting from the 2020 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 MuniFin's auditor, with APA Tiia Kataja as the principal auditor. Kataja acted as the principal auditor during the previous term as well.

Board of Directors

The Shareholders' Nomination Committee made a proposal to the AGM held on 25 March 2020 regarding the members to be elected for the term that began at the end of the 2020 AGM and will conclude at the end of the 2021 AGM.

The AGM elected the following members to the Board of Directors: Maaria Eriksson, Markku Koponen, Kari Laukkanen, Vivi Marttila, Tuula Saxholm, Denis Strandell, Kimmo Viertola and Helena Walldén.

The MuniFin Board nominated Helena Walldén as the Chair of the Board and Tuula Saxholm as the Vice Chair. Both held the same positions in the previous term.

In order to comply with laws governing credit institutions and organise its work as efficiently as possible, the MuniFin Board has appointed the Audit, Risk and Remuneration Committees. The MuniFin Board has selected Markku Koponen (Chair), Kari Laukkanen and Vivi Marttila as the members of the Audit Committee. In the Risk Committee, the Board selected Kari Laukkanen (Chair), Maaria Eriksson and Denis Strandell. In the Remuneration Committee, the Board selected Helena Walldén (Chair), Markku Koponen, Tuula Saxholm and Kimmo Viertola.

From the 2019 AGM to the 2020 AGM, the members of the Board of Directors were Helena Walldén (Chair), Tuula Saxholm (Vice Chair), Maaria Eriksson, Minna Helppi, Markku Koponen, Jari Koskinen, Kari Laukkanen and Vivi Marttila. Raija-Leena Hankonen resigned from the MuniFin's Board and its committees on 21 February 2020.

The operations of the MuniFin's Board of Directors and its committees are described in more detail in the Corporate Governance Statement 2020 and on MuniFin's website.

Personnel

At the end of December 2020, MuniFin Group had 165 (167) employees, of which 154 worked for the Parent Company (156). Salaries and remuneration paid across the Group amounted to EUR 14.9 million (EUR 14.5 million).

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

In November 2020, MuniFin restructured its organisation and operating practices to streamline its operations, to further improve its products, services and customer experience. The renewed organisation is more strongly based on MuniFin's core operations, i.e., customer financing solutions and capital market processes. The changes took effect on 1 January 2021. This process included cooperation negotiations with the entire staff and resulted in the termination of 10 positions. For some of those, who performed these positions, new positions could be offered, resulting in an termination of employment of 8 people within the Group.

MuniFin established a new Development and HR Services division to manage the development portfolio and support change management. The new function is headed by the Group's current HR Director, Minna Mäkeläinen, who is also a member of the MuniFin's Executive Management Team as from 1 January 2021.

In January 2021, changes took place in MuniFin's management as Rainer Holm, Executive Vice President of Technology Services, will leave the service of MuniFin by 30 April 2021. Holm will be succeeded by Juha Volotinen as from 1 April 2021. Volotinen will also act as a member of MuniFin's Executive Management Team.

Salaries and remuneration

The remuneration paid to MuniFin Group's management and employees consists of fixed remuneration (base salary and fringe benefits) and a variable element based on the conditions of the remuneration scheme. The principles of the remuneration scheme are confirmed by Parent Company's 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 *45 Salaries and Remuneration* in this Report and to the Remuneration Report 2020, which is published as a separate document from the Report of the Board of Directors and the Financial Statements and is available on MuniFin's website.

Internal audit

The purpose of the internal audit is to monitor the reliability and accuracy of MuniFin's information on finances and other management. It also ensures that MuniFin 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 2020 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 2020, MuniFin had 277 shareholders (277).

	10 LARGEST SHAREHOLDERS 31 Dec 2020	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 *	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	592,028	1.5%
10.	City of Lahti	537,926	1.4%

* VAV Asunnot Oy is fully owned by City of Vantaa.

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

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

Events after the reporting period

MuniFin's Board of Directors is not aware of any events having taken place after the end of the reporting period that would have a material effect on the Group's financial standing.

Outlook for 2021

The COVID-19 pandemic will continue to weigh down the economy in early 2021, when susceptible new virus variants require the maintenance of restrictions. Vaccination of high-risk groups and health care workers will gradually strengthen confidence in the economy. It is generally estimated that in Western countries, the vaccination coverage necessary for easing most restrictions will be reached by the autumn. However, the vaccination schedule and the availability of vaccines are still very much uncertain.

In the second half of 2021, economic growth in the euro area, and also in Finland, may temporarily be quite rapid, as accumulated household consumer demand begins to unravel. The COVID-19 pandemic has scarred the production structure, which slows down the recovery of economy. Governments have introduced stimulus packages to prevent mass unemployment and a wave of bankruptcies, but the economy's normal recovery process has ground to a halt. It will take time until companies will fully regain their ability to make investments.

If demand recovers much faster than supply, the economy may face inflationary pressure for the first time in a long time. This may make it harder to correctly adjust stimulus policies and cause uncertainty in the markets. Long-term interest rates and asset pricing in general are sensitive to changes in inflation expectations.

As a whole, the economic outlook for 2021 is hopeful. Joe Biden's US presidency is expected to restore a sense of stability and predictability in international relations, and trade policy tensions are also expected to ease, although the EU–UK Brexit deal leaves many unanswered questions in the trade relations between the EU and the UK. In 2021, the euro area economy is expected to grow by approximately 4%. Finland's GDP accumulates slower than the euro area on average, as the economic downturn has also been milder.

In 2020, the Government of Finland's COVID-19 subsidies brought temporary relief to the municipal economy. The comprehensive COVID-19 subsidy for municipalities will decrease in 2021 and attention will gradually turn back to the structural imbalances in the municipal economy.

Finland's long-running social welfare and health care reform took a step forward in 2020, when the Government introduced a new implementation proposal to the Parliament. Parliament's committees will continue to prepare the reform in 2021. Assessing the wide-ranging impact of the reform remains challenging, but the reform is currently not expected to have any significant effects on MuniFin Group's operations in 2021.

Changes to the regulation of banks' capital adequacy (*CRR II and CRD V*) will be largely applied in June 2021. MuniFin fulfils the CRR II definition of a public development credit institution and may therefore deduct in the calculation of its leverage ratio all credit receivables from the central government and municipalities. This has a significant positive effect on the Group's leverage ratio.

Thanks to strong growth in business operations already in 2020 and the projected growth to 2021, successful funding and a favourable interest rate environment, MuniFin Group's net interest income is expected to develop positively in 2021. The expenses are expected to grow as the costs were at exceptionally low level in 2020, but clearly slower than before COVID-19 pandemic. Investments in IT systems and improvement of operational reliability will increase the expenses.

Considering the above-mentioned circumstances and assuming that there will be no major changes in the development of market interest rates and credit risk premiums when compared to market expectations, the Group expects its net operating profit excluding unrealised fair value changes to remain at the same level as in 2020. The valuation principles set in IFRS 9 standard may cause significant unrealised fair value changes, some of which increase the volatility of net operating profit and make it more difficult to estimate in the short-term.

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

The Board's proposal concerning the profit for the financial year 2020

Municipality Finance Plc has distributable funds of EUR 151,454,113.07, of which the profit for the financial year totalled EUR 22,336,157.82.

On 15 December 2020, the European Central Bank (*ECB*) recommended that, due to the COVID-19 pandemic, until 30 September 2021 significant credit institutions exercise extreme prudence when deciding on dividends.

Although MuniFin's financial position is stable and strong, and the negative effects of COVID-19 pandemic to MuniFin's results or capital adequacy have been limited, MuniFin's Board of Directors has nevertheless decided to adhere to the ECB's recommendation. Therefore, the Board of Directors proposes to the Annual General Meeting (*AGM*) the following authorisation:

The AGM will authorise MuniFin's Board of Directors to decide on the dividend and its payment in one or more instalments at a time it deems best, taking into account the current authority recommendations. The MuniFin's Board of Directors proposes that the AGM will authorise the Board of Directors to decide on a dividend payment of a maximum of EUR 0.52 per share, totalling EUR 20,313,174.96. The authorisation will be valid until the next AGM.

The Board of Directors intends to follow the current recommendation adopted by the ECB and refrains from deciding on a dividend payment based on the authorisation until 30 September 2021.

MuniFin will publish possible decisions on dividend payment separately, and simultaneously confirm the dividend record and payment dates. The possible dividend will be paid to the shareholders who are registered as shareholders in the Company's register of shareholders as maintained by the Company on the record date.

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.

The Group's development

	31 Dec 2020	31 Dec 2019	31 Dec 2018	31 Dec 2017	31 Dec 2016
Turnover (EUR million)	532	718	714	204	184
Net interest income (EUR million)	254	240	236	229	206
% of turnover	47.7	33.5	33.1	112.0	112.2
Net operating profit (EUR million)	194	131	190	198	174
% of turnover	36.5	18.3	26.6	97.2	94.8
Unrealised fair value changes (EUR million)*	-3	-54	0	11	3
Net operating profit excluding unrealised fair value changes (EUR million)*	197	186	190	187	172
Cost-to-income ratio*	0.2	0.3	0.2	0.2	0.2
Cost-to-income ratio excluding unrealised fair value changes*	0.2	0.2	0.2	0.2	0.2
Return on equity (ROE), %*	9.4	6.8	10.8	12.6	12.5
Return on equity (ROE) excluding unrealised fair value changes, %*	9.6	9.6	10.7	11.9	12.3
Return on assets (ROA), %*	0.4	0.3	0.4	0.5	0.4
Return on assets (ROA) excluding unrealised fair value changes, %*	0.4	0.4	0.4	0.4	0.4

	31 Dec 2020	31 Dec 2019	31 Dec 2018	31 Dec 2017	31 Dec 2016
Long-term customer financing (EUR million)*	28,022	24,798	22,968	21,651	21,196
New lending (EUR million)*	4,764	3,175	2,953	2,439	2,924
Total funding (EUR million)*	38,139	33,929	30,856	30,153	28,662
New long-term funding (EUR million)*	10,966	7,385	7,436	9,510	6,733
Equity (EUR million)	1,705	1,594	1,486	1,339	1,184
Total balance sheet (EUR million)	44,042	38,934	35,677	34,738	34,052
Total liquidity (EUR million)*	10,089	9,882	8,722	9,325	7,505
Liquidity Coverage Ratio (LCR), %	264.4	430.2	176.7	173.0	149.1
Equity ratio, %*	3.9	4.1	4.2	3.9	3.5
CET1 capital (EUR million)	1,277	1,162	1,065	946	777
Tier 1 capital (EUR million)	1,624	1,510	1,413	1,293	1,124
Total own funds (EUR million)	1,624	1,510	1,413	1,293	1,124
CET1 capital ratio, %	104.3	83.1	66.3	53.0	46.2
Tier 1 capital ratio, %	132.7	107.9	88.0	72.5	66.9
Total capital ratio, %	132.7	107.9	88.0	72.5	66.9
Leverage ratio, %	3.9	4.0	4.1	3.8	3.5
Personnel	165	167	151	134	106

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, 2019 and 2020. As permitted under IFRS 9, the Company has not restated earlier periods.

** Alternative Performance Measure. For more information on Alternative Performance Measures, see pages 87–92.*
The calculation formulas for all key figures can be found on pages 87–94. 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 Group's financial reports in accordance with the guidelines for Alternative Performance Measures issued by the European Securities and Markets Authority (*ESMA*).

MuniFin Group has not made any adjustments to APMs nor included any new APMs due to the impacts of COVID-19 pandemic.

ALTERNATIVE PERFORMANCE MEASURE EUR million	DEFINITION / EXPLANATION	RECONCILIATION	1 Jan–31 Dec 2020	1 Jan–31 Dec 2019
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)	533	767
		Interest and similar expense	-279	-526
		Net interest income	**254**	**240**
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 fair values changes.	Net income from securities and foreign exchange transactions, unrealised fair value changes	-7	-35
		Net income from hedge accounting	4	-19
		Unrealised fair value changes	**-3**	**-54**
Net operating profit	Net operating profit describes Group's operating profit before taxes.	**Net operating profit**	**194**	**131**
Net operating profit excluding unrealised fair value changes	Net operating profit excluding unrealised fair value changes as an APM is of interest of showing MuniFin Group's underlying earnings capacity.	Net operating profit	194	131
		- Unrealised fair value changes	-3	-54
		Net operating profit excluding unrealised fair value changes	**197**	**186**
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	254	240
		Commission income	3	3
		Net income from securities and foreign exchange transactions	-8	-33
		Net income on financial assets at fair value through other comprehensive income	0	0
		Net income from hedge accounting	4	-19
		Other operating income	0	0
		Income	**253**	**192**

ALTERNATIVE PERFORMANCE MEASURE EUR million	DEFINITION / EXPLANATION	RECONCILIATION	1 Jan–31 Dec 2020	1 Jan–31 Dec 2019
Income excluding unrealised fair value changes	Income excluding unrealised fair value changes reflects the Group's operating income, of which the most significant is net interest income.	Income	253	192
		- Unrealised fair value changes	-3	-54
		Income excluding unrealised fair value changes	**257**	**246**
Other income	Other income includes all other income of the Group than net interest income and unrealised fair value changes.	Commission income	3	3
		Net income from securities and foreign exchange transactions, realised	-1	2
		Net income on financial assets at fair value through other comprehensive income	0	0
		Other operating income	0	0
		Other income	**2**	**6**
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	5	4
		Administrative expenses	33	32
		Depreciation and impairment on tangible and intangible assets	6	6
		Other operating expenses	15	18
		Costs	**58**	**60**
Cost-to-income ratio	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 Group's cost-effectiveness.	Costs (excl. Commission expenses)	53	56
		÷ Income (incl. Net commission income)	248	187
		Cost-to-income ratio	**0.2**	**0.3**
Cost-to-income ratio excluding unrealised fair value changes	Cost-to-income ratio excluding unrealised fair value changes gives a more precise picture of MuniFin Group's operative effectiveness as it excludes the income volatility of unrealised fair value changes. Cost-to-income ratio excluding unrealised fair value changes 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	53	56
		÷ (Income	248	187
		- Unrealised fair value changes)	-3	-54
		Cost-to-income ratio excluding unrealised fair value changes	**0.2**	**0.2**

ALTERNATIVE PERFORMANCE MEASURE EUR million	DEFINITION / EXPLANATION	RECONCILIATION	1 Jan–31 Dec 2020	1 Jan–31 Dec 2019
The effect of unrealised fair value changes on other comprehensive income and equity net of tax	The key figure describes the effect of unrealised fair value changes during the reporting period on the Group's comprehensive income and equity net of tax.	Unrealised fair value changes (through PnL)	-3	-54
		Taxes related to the unrealised fair value changes (through PnL)	1	11
		Net change in fair value due to changes in own credit risk on financial liabilities designated at fair value through profit or loss, net of tax	-13	8
		Net change in Cost-of-Hedging, net of tax	-12	14
		Net change in fair value of financial assets at fair value through other comprehensive income, net of tax	0	0
		The effect of unrealised fair value changes on other comprehensive income and equity net of tax	**-28**	**-21**
New lending	Key indicator used in management reporting to describe MuniFin Group's business volume during the reporting period. The indicator includes the amount of new loans excluding unrealised fair value changes.	**New lending**	**4,764**	**3,175**
New long-term funding	Key indicator used in management reporting to describe MuniFin Group's funding activity during the reporting period. The indicator includes the amount of new funding (over 1 year) issued excluding unrealised fair values changes.	**New long-term funding**	**10,966**	**7,385**

ALTERNATIVE PERFORMANCE MEASURE EUR million	DEFINITION / EXPLANATION	RECONCILIATION	31 Dec 2020	31 Dec 2019
Return on Equity (ROE), %	ROE measures the efficiency of MuniFin Group's capital usage. It is commonly used performance measure and as an APM improves comparability between companies.	((Net operating profit	194	131
		- Taxes)	-39	-26
		÷ Equity and non-controlling interest (average of values at the beginning and end of the period)) x100	1,650	1,540
		Return on Equity (ROE), %	**9.4%**	**6.8%**
Return on Equity (ROE) excluding unrealised fair value changes, %	MuniFin Group's strategy indicator. Excluding the unrealised fair value changes increases comparability between reporting periods.	((Net operating profit excluding unrealised fair value changes	197	186
		- Taxes	-39	-37
		÷ Equity and non-controlling interest (average of values at the beginning and end of the period)) x100	1,650	1,540
		Return on Equity (ROE) excluding unrealised fair value changes, %	**9.6%**	**9.6%**
Return on Assets (ROA), %	ROA measures the efficiency of MuniFin Group's investments. It is commonly used performance measure and as an APM improves comparability between companies.	((Net operating profit	194	131
		- Taxes)	-39	-26
		÷ Average balance sheet total (average of values at the beginning and end of the period)) x100	41,488	37,305
		Return on Assets (ROA), %	**0.4%**	**0.3%**
Return on Assets (ROA) excluding unrealised fair value changes, %	Excluding the unrealised fair value changes increases comparability of ROA between reporting periods.	((Net operating profit excluding unrealised fair value changes	197	186
		- Taxes)	-39	-37
		÷ Average balance sheet total (average of values at the beginning and end of the period)) x100	41,488	37,305
		Return on Assets (ROA) excluding unrealised fair value changes, %	**0.4%**	**0.4%**
Equity ratio, %	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	1,705	1,594
		÷ Balance sheet total) x100	44,042	38,934
		Equity ratio, %	**3.9%**	**4.1%**
Long-term loan portfolio	Key indicator used in management reporting to describe MuniFin Group's business volume.	Loans and advances to the public and public sector entities	28,022	24,798
		- Leasing	1,091	828
		Long-term loan portfolio	**26,931**	**23,970**

ALTERNATIVE PERFORMANCE MEASURE EUR million	DEFINITION / EXPLANATION	RECONCILIATION	31 Dec 2020	31 Dec 2019
Long-term customer financing	Key indicator used in management reporting to describe MuniFin Group's business volume.	Loans and advances to the public and public sector entities	28,022	24,798
		Long-term customer financing	**28,022**	**24,798**
Long-term customer financing excluding unrealised fair value changes	Key indicator used in management reporting to describe MuniFin Group'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	28,022	24,798
		- Unrealised fair value changes	-511	-340
		Long-term customer financing excluding unrealised fair value changes	**-27,511**	**24,458**
Short-term customer financing	Key indicator used in management reporting to describe MuniFin Group's business volume.	Debt securities, commercial papers (municipalities and municipal companies)	1,310	804
		Short-term customer financing	**1,310**	**804**
Total funding	Key indicator used in management reporting to describe MuniFin Group's funding volume.	Liabilities to credit institutions	2,001	1,178
		Liabilities to the public and public sector entities	3,884	3,862
		Debt securities issued	32,912	29,984
		Total	**38,797**	**35,024**
		- CSA collateral (received)	-658	-1,095
		Total funding	**38,139**	**33,929**
Total liquidity	Key indicator used in management reporting to describe MuniFin Group's liquidity position.	Debt securities	5,763	5,716
		- Short-term customer financing	-1,310	-804
		Shares and participations	0	10
		Investments in securities total	**4,453**	**4,922**
		Cash and balances with central banks	5,566	4,909
		Other deposits	70	51
		Other investments total	**5,636**	**4,960**
		Total liquidity	**10,089**	**9,882**

OTHER MEASURES EUR million	DEFINITION	RECONCILIATION	1 Jan-31 Dec 2020	1 Jan-31 Dec 2019
Turnover	Defined in IFRS (IAS 1). Turnover is not disclosed in MuniFin Group'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)	533	767
		Commission income	3	3
		Net income from securities and foreign exchange transactions	-8	-33
		Net income on financial assets at fair value through other comprehensive income	0	0
		Net income from hedge accounting	4	-19
		Other operating income	0	0
		Turnover	**532**	**718**
			31 Dec 2020	**31 Dec 2019**
Liquidity Coverage Ratio (LCR), %	Defined in CRR.	(Liquid assets	9,229	8,291
		÷ (Liquidity outflows - liquidity inflows in a stress situation)) x100	3,490	1,928
		Liquidity Coverage Ratio (LCR), %	**264.4%**	**430.2%**
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)	30,883	26,179
		÷ Required Stable Funding (RSF)) x100	26,539	22,518
		Net Stable Funding Ratio (NSFR), %	**116.4%**	**116.3%**
CET1 capital ratio, %	Defined in CRR.	(Common Equity Tier 1 (CET1) capital	1,277	1,162
		÷ Risk exposure amount) x100	1,224	1,400
		CET1 capital ratio, %	**104.3%**	**83.1%**

			31 Dec 2020	31 Dec 2019
Tier 1 capital ratio, %	Defined in CRR.	(Tier 1 capital	1,624	1,510
		÷ Risk exposure amount) x100	1,224	1,400
		Tier 1 capital ratio, %	**132.7%**	**107.9%**
Total capital ratio, %	Defined in CRR.	(Total own funds	1,624	1,510
		÷ Risk exposure amount) x100	1,224	1,400
		Total capital ratio, %	**132.7%**	**107.9%**
Leverage ratio, %	Defined in CRR.	(Tier 1 capital	1,624	1,510
		÷ Total exposure) x100	42,100	37,982
		Leverage ratio, %	**3.9%**	**4.0%**
CET1 capital ratio (CRR II preliminary), %	Defined in CRR II, which enters into force June 2021.	(Common Equity Tier 1 (CET1) capital	1,277	
		÷ Risk exposure amount (CRR II preliminary)) x100	1,265	
		CET1 capital ratio (CRR II preliminary), %	**100.9%**	
Leverage ratio (CRR II preliminary), %	Defined in CRR II, which enters into force June 2021.	(Tier 1 capital	1,624	
		÷ Total exposure (CRR II preliminary)) x100	12,122	
		Leverage ratio (CRR II preliminary), %	**13.4%**	

Note 2. Group's capital adequacy position

Table 1. Minimum capital requirements and capital buffers

MINIMUM CAPITAL REQUIREMENTS AND CAPITAL BUFFERS, % 31 Dec 2020	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%	0.21%	0.50%	0.00%	3.21%	7.71%
Tier 1 (T1) Capital	6.00%	2.50%	0.21%	0.50%	0.00%	3.21%	9.21%
Total own funds	8.00%	2.50%	0.21%	0.50%	0.00%	3.21%	11.21%

MINIMUM CAPITAL REQUIREMENTS AND CAPITAL BUFFERS (EUR 1,000) 31 Dec 2020	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	55,065	30,592	2,630	6,118	0	39,340	94,405
Tier 1 (T1) Capital	73,420	30,592	2,630	6,118	0	39,340	112,760
Total own funds	97,893	30,592	2,630	6,118	0	39,340	137,234

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)	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

1) Act on Credit Institutions (610/2014), Chapter 10, Section 3, and the EU Capital Requirements Regulation (575/2013) and Directive (2013/36/EU). Valid from 1 January 2015.

2) Act on Credit Institutions (610/2014) Sect 10:4-6 § and the EU Capital Requirements Regulation (575/2013) and Directive (2013/36/EU). On 18 December 2020 (13 December 2019), 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 Group, it is 0.21% (0.72%). Several countries have reduced their countercyclical capital buffer rates due to challenges of COVID-19 pandemic.

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) and Directive (2013/36/EU). Additional capital requirement (O-SII) for MuniFin Group is 0.5% (0.5%). The decision of the Board of FIN-FSA on 29 June 2018, effective on 1 January 2019.

4) Act on Credit Institutions (610/2014) Sect 10:6a § and the EU Capital Requirements Regulation (575/2013) and Directive (2013/36/EU). On 6 April 2020, the FIN-FSA made a decision to remove the additional capital requirement determined on the basis of the structural characteristics of the financial system (systemic risk buffer) from Finnish credit institutions. The aim of the decision is to mitigate the negative effects of the COVID-19 pandemic on the stability of the financial markets. The decision entered into force immediately. The systemic risk buffer and the O-SII additional capital requirement are parallel buffers, of which the greater is applied.

Due to the ongoing pandemic, the European Central Bank (*ECB*) will not give the yearly Supervisory Review and Evaluation Process Decision (*SREP Decision*) this year. Instead, the ECB has given MuniFin Group an Operational Letter, in which the capital buffer requirement (*P2R*) imposed on MuniFin Group last year is confirmed to continue in force unchanged at 2.25%. Considering the additional capital requirement the new minimum level for CET1 capital ratio is 9.96% (11.47%) and total capital ratio 13.46 % (14.97%).

Table 2. Own Funds

(EUR 1,000)	31 Dec 2020	31 Dec 2019
Share capital	42,583	42,583
Reserve for invested non-restricted equity	40,366	40,366
Retained earnings	1,258,224	1,121,774
Fair value reserve	16,471	28,882
Other reserves	277	277
Foreseeable dividend	-20,313	-6,250
Accrued interest net of deferred taxes of AT1 capital loan treated as equity	-9,459	-9,433
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**1,328,150**	**1,218,199**
Intangible assets	-17,346	-14,704
Deductions due to prudential filters on Common Equity Tier 1 capital	-33,992	-41,043
Common Equity Tier 1 (CET1) capital	**1,276,812**	**1,162,452**
Instruments included in Additional Tier 1 capital	347,454	347,454
Additional Tier 1 (AT1) capital	**347,454**	**347,454**
Tier 1 (T1) capital	**1,624,265**	**1,509,906**
Tier 2 (T2) capital	**-**	**-**
Total own funds	**1,624,265**	**1,509,906**

Table 3. Consolidated key figures for capital adequacy

	31 Dec 2020	31 Dec 2019
CET1 capital ratio, %	104.34	83.06
Tier 1 capital ratio, %	132.74	107.88
Total capital ratio, %	132.74	107.88

Common Equity Tier 1 capital includes the profit for the financial year, which has been subject to a financial 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 MuniFin's website.

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 Group's foreign exchange position is very small. On 31 December 2020 the FX net position was EUR 2.1 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). Also in the comparison year, the FX net position was less than 2% of total own funds.

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. The calculation of the relevant indicator has been changed in accordance with EBA recommendation (Q&A 2018_3969) to include also the reporting date's observation in the average over three years for the year-end requirement. The change has no significant impact on the capital adequacy.

	31 Dec 2020		31 Dec 2019	
(EUR 1,000)	**Capital requirement**	**Risk exposure amount**	**Capital requirement**	**Risk exposure amount**
Credit and counterparty risk, standardised approach	**46,448**	**580,596**	**61,038**	**762,976**
Exposures to central governments or central banks	-	0	-	0
Exposures to regional governments or local authorities	458	5,721	289	3,613
Exposures to public sector entities	718	8,975	-	0
Exposures to multilateral development banks	-	0	323	4,043
Exposures to institutions	30,970	387,121	37,847	473,090
Exposures in the form of covered bonds	12,243	153,037	20,676	258,456
Exposures in the form of shares in CIUs	-	-	84	1,049
Other items	2,059	25,742	1,818	22,724
Market risk	**-**	**-**	**-**	**-**
Credit valuation adjustment risk (CVA VaR), standard method	**18,470**	**230,876**	**17,085**	**213,561**
Operational risk, basic indicator approach	**32,976**	**412,196**	**33,841**	**423,016**
Total	**97,893**	**1,223,668**	**111,964**	**1,399,553**

The capital requirement for counterparty risk is EUR 3,275 thousand (EUR 2,896 thousand).

Table 5. Consolidated exposure by class

31 Dec 2020 (EUR 1,000) EXPOSURE CLASSES	On-balance sheet exposure	Off-balance sheet exposure	Derivatives exposure	Total exposure	Average exposure amount over the period	Risk exposure amount
Exposures to central governments or central banks	5,873,259	-	-	5,873,259	4,907,696	0
Exposures to regional governments or local authorities	13,893,677	753,517	397,641	15,044,834	14,778,461	5,721
Exposures to public sector entities	495,823	-	-	495,823	432,695	8,975
Exposures to multilateral development banks	185,612	-	-	185,612	208,265	0
Exposures to international organisations	158,697	-	-	158,697	146,967	0
Exposures to institutions	1,970,555	-	559,905	2,530,460	2,384,224	387,121
Exposures to corporates	6,360,654	1,594,447	-	7,955,101	7,975,930	0
Exposures secured by mortgages on immovable property	9,275,460	4,809	-	9,280,269	8,943,126	0
Exposures in default	136,700	1,201	-	137,901	76,111	0
Exposures in the form of covered bonds	1,530,373	-	-	1,530,373	1,956,922	153,037
Items representing securitisation positions	-	-	-	-	-	-
Exposures in the form of shares in CIUs	-	-	-	-	-	-
Other items	33,791	-	.	33,791	27,576	25,742
Total	**39,914,602**	**2,353,973**	**957,545**	**43,226,121**	**41,837,973**	**580,596**

31 Dec 2019 (EUR 1,000) EXPOSURE CLASSES	On-balance sheet exposure	Off-balance sheet exposure	Derivatives exposure	Total exposure	Average exposure amount over the period	Risk exposure amount
Exposures to central governments or central banks	5,170,467	-	-	5,170,467	4,794,138	0
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	0
Exposures to multilateral development banks	182,632	-	-	182,632	196,299	4,043
Exposures to international organisations	111,246	-	-	111,246	93,708	0
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	0
Exposures secured by mortgages on immovable property	8,515,464	7,609	-	8,523,074	8,683,596	0
Exposures in default	61,757	-	-	61,757	39,091	0
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**

Table 6. Leverage ratio

CONSOLIDATED LEVERAGE RATIO (EUR 1,000)	31 Dec 2020	31 Dec 2019
Tier 1 (T1) capital	1,624,265	1,509,906
Total exposure	42,102,840	37,982,245
Leverage ratio, %	3.86	3.98

EXPOSURES (EUR 1,000)	31 Dec 2020	31 Dec 2019
On-balance sheet exposures (excl. derivatives and intangible assets)	41,533,974	36,504,446
Derivatives exposure	-512,445	355,758
Off-balance sheet exposure	1,081,310	1,122,041
Total	**42,102,840**	**37,982,245**

BREAKDOWN OF ON-BALANCE SHEET EXPOSURE (EXCLUDING DERIVATIVES AND EXEMPTED EXPOSURES) (EUR 1,000)	31 Dec 2020 Leverage ratio exposure value	31 Dec 2019 Leverage ratio exposure value
Covered bonds	1,530,373	2,137,947
Exposures treated as sovereigns	20,533,442	17,083,751
Exposures to regional governments, multilateral development banks, international organisations and public sector entities not treated as sovereigns	73,627	38,732
Institutions	1,970,555	1,907,819
Secured by mortgages of immovable properties	9,275,460	8,515,464
Corporate	6,360,654	6,031,136
Exposures in default	136,700	61,757
Other exposures	51,137	56,393
Total	**39,931,948**	**35,833,000**

Note 3. Parent Company's capital adequacy position

Table 1. Own funds

(EUR 1,000)	31 Dec 2020	31 Dec 2019
Share capital	43,008	43,008
Reserve for invested non-restricted equity	40,743	40,743
Retained earnings	1,245,898	1,109,919
Fair value reserve	16,471	28,882
Other reserves	277	277
Foreseeable dividend	-20,313	-6,250
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**1,326,084**	**1,216,578**
Intangible assets	-17,358	-14,719
Deductions due to prudential filters on Common Equity Tier 1 capital	-33,992	-41,043
Common Equity Tier 1 (CET1) capital	**1,274,733**	**1,160,816**
Instruments included in Additional Tier 1 capital	349,388	348,896
Additional Tier 1 (AT1) capital	**349,388**	**348,896**
Tier 1 (T1) capital	**1,624,121**	**1,509,712**
Tier 2 (T2) capital	**-**	**-**
Total own funds	**1,624,121**	**1,509,712**

Common Equity Tier 1 capital includes the profit for the financial year, which has been subject to a financial 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 349.4 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 MuniFin's website.

Table 2. Key figures for capital adequacy

	31 Dec 2020	31 Dec 2019
CET1 capital ratio, %	107.14	85.00
Tier 1 capital ratio, %	136.51	110.54
Total capital ratio, %	136.51	110.54

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 MuniFin 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 2020 the FX net position was EUR 2.1 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). Also in the comparison year, the FX net position was less than 2% of total own funds.

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. The calculation of the relevant indicator has been changed in accordance with EBA recommendation (Q&A 2018_3969) to include also the reporting date's observation in the average over three years for the year-end requirement. The change has no significant impact on the capital adequacy.

	31 Dec 2020		31 Dec 2019	
(EUR 1,000)	Capital requirement	Risk exposure amount	Capital requirement	Risk exposure amount
Credit and counterparty risk, standardised approach	**46,522**	**581,522**	**61,090**	**763,631**
Exposures to central governments or central banks	-	0	-	0
Exposures to regional governments or local authorities	458	5,721	289	3,613
Exposures to public sector entities	718	8,975	-	0
Exposures to multilateral development banks	-	0	323	4,043
Exposures to institutions	30,956	386,946	37,833	472,917
Exposures in the form of covered bonds	12,243	153,037	20,676	258,456
Exposures in the form of shares in CIUs	-	-	84	1,049
Equity exposure	131	1,639	131	1,639
Other items	2,016	25,203	1,753	21,912
Market risk	**-**	**-**	**-**	**-**
Credit valuation adjustment risk (CVA VaR), standardised method	**18,470**	**230,876**	**17,085**	**213,561**
Operational risk, basic indicator approach	**30,190**	**377,380**	**31,081**	**388,508**
Total	**95,182**	**1,189,778**	**109,256**	**1,365,700**

The capital requirement for counterparty risk is EUR 3,275 thousand (EUR 2,896 thousand).

Table 4. Exposure by class

31 DEC 2020 (EUR 1,000) EXPOSURE CLASSES	On-balance sheet exposure	Off-balance sheet exposure	Derivatives exposure	Total exposure	Risk exposure amount
Exposures to central governments or central banks	5,873,259	-	-	5,873,259	0
Exposures to regional governments or local authorities	13,893,677	753,517	397,641	15,047,725	5,721
Exposures to public sector entities	495,823	-	-	495,823	8,975
Exposures to multilateral development banks	185,612	-	-	185,612	0
Exposures to international organisations	158,697	-	-	158,697	0
Exposures to institutions	1,969,682	-	559,905	2,529,586	386,946
Exposures to corporates	6,360,654	1,594,447	-	7,943,173	0
Exposures secured by mortgages on immovable property	9,275,460	4,809	-	9,289,297	0
Exposures in default	136,700	1,201	-	137,910	0
Exposures in the form of covered bonds	1,530,373	-	-	1,530,373	153,037
Items representing securitisation positions	-	-	-	-	-
Exposures in the form of shares in CIUs	-	-	-	-	-
Equity exposures	656	-	-	656	1,639
Other items	33,252	-	-	33,252	25,203
Total	**39,913,845**	**2,353,973**	**957,545**	**43,225,364**	**581,522**

31 DEC 2019 (EUR 1,000) EXPOSURE CLASSES	On-balance sheet exposure	Off-balance sheet exposure	Derivatives exposure	Total exposure	Risk exposure amount
Exposures to central governments or central banks	5,170,467	-	-	5,170,467	0
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	0
Exposures to multilateral development banks	182,632	-	-	182,632	4,043
Exposures to international organisations	111,246	-	-	111,246	0
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	0
Exposures secured by mortgages on immovable property	8,515,464	7,609	-	8,523,074	0
Exposures in default	61,757	-	-	61,757	0
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**

Consolidated Financial Statements

MuniFin

Municipality Finance Group Consolidated Financial Statements
1 January–31 December 2020

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Consolidated income statement

(EUR 1,000)	Note	1 Jan–31 Dec 2020	1 Jan–31 Dec 2019
Interest and similar income	(3)	532,935	766,581
Interest and similar expense	(3)	-278,814	-526,326
Net interest income		**254,121**	**240,255**
Commission income	(4)	2,834	3,490
Commission expense	(5)	-5,066	-4,235
Net income from securities and foreign exchange transactions	(6, 7)	-7,790	-33,373
Net income on financial assets at fair value through other comprehensive income	(8)	-3	114
Net income from hedge accounting	(9, 26)	4,183	-19,097
Other operating income	(11)	127	135
Administrative expenses	(12)	-33,004	-32,268
Depreciation and impairment on tangible and intangible assets	(30)	-5,794	-6,183
Other operating expenses	(13)	-14,610	-17,626
Credit loss and impairments on financial assets	(14)	-857	28
Net operating profit		**194,141**	**131,239**
Income tax expense	(15)	-38,840	-26,307
Profit for the financial year		**155,301**	**104,932**

Statement of comprehensive income

(EUR 1,000)	Note	1 Jan–31 Dec 2020	1 Jan–31 Dec 2019
Profit for the financial year		155,301	104,932
Components of other comprehensive income			
Items not to be reclassified to income statement in subsequent periods			
Net change in fair value due to changes in own credit risk on financial liabilities designated at fair value through profit or loss	(7)	-16,551	10,325
Net change in Cost-of-Hedging	(26)	-15,564	17,299
Items to be reclassified to income statement in subsequent periods			
Net change in fair value of financial assets at fair value through other comprehensive income	(8)	112	308
Net amount reclassified to the income statement on the sales of financial assets at fair value through other comprehensive income	(8)	-	-90
Net change in expected credit loss of financial assets at fair value through other comprehensive income	(27)	-62	-117
Taxes related to components of other comprehensive income		6,413	-5,545
Total components of other comprehensive income		-25,652	22,181
Total comprehensive income for the financial year		**129,649**	**127,113**

Consolidated statement of financial position

(EUR 1,000)	Note	31 Dec 2020	31 Dec 2019
Assets			
Cash and balances with central banks	(20)	5,565,801	4,909,338
Loans and advances to credit institutions	(21)	1,841,853	818,323
Loans and advances to the public and public sector entities	(22)	28,022,325	24,798,432
Debt securities	(23)	5,763,214	5,716,318
Shares and participations	(24)	27	9,797
Derivative contracts	(19, 25)	2,358,163	2,244,997
Intangible assets	(28, 30)	17,346	14,704
Tangible assets	(29, 30)	10,364	9,041
Other assets	(31)	259,785	170,359
Accrued income and prepayments	(32)	203,547	242,450
Total assets	**(16, 17, 18)**	**44,042,426**	**38,933,758**

(EUR 1,000)	Note	31 Dec 2020	31 Dec 2019
Liabilities and equity			
Liabilities			
Liabilities to credit institutions	(34, 37)	2,001,478	1,178,256
Liabilities to the public and public sector entities	(35, 37)	3,884,026	3,862,053
Debt securities issued	(36, 37)	32,911,906	29,983,585
Derivative contracts	(19, 25)	2,860,570	1,762,010
Provisions and other liabilities	(38)	247,021	116,374
Accrued expenses and deferred income	(39)	152,398	180,917
Deferred tax liabilities	(33)	279,906	256,241
Total liabilities	**(16, 17, 18)**	**42,337,306**	**37,339,436**
Equity			
Share capital	(40)	42,583	42,583
Reserve fund	(40)	277	277
Fair value reserve of investments	(40)	847	807
Own credit revaluation reserve	(40)	-255	12,985
Cost-of-Hedging reserve	(40)	15,624	28,075
Reserve for invested non-restricted equity	(40)	40,366	40,366
Retained earnings	(40)	1,258,224	1,121,774
Total equity attributable to Parent Company equity holders		**1,357,666**	**1,246,868**
Other equity instruments issued	**(40)**	**347,454**	**347,454**
Total equity		**1,705,120**	**1,594,321**
Total liabilities and equity		**44,042,426**	**38,933,758**

Consolidated statement of changes in equity

	Total equity attributable to parent company equity holders									
(EUR 1,000)	Share capital	Reserve fund	Fair value reserve of investments	Own credit revaluation reserve	Cost-of-Hedging reserve	Reserve for invested non-restricted equity	Retained earnings	Total	Other equity instruments issued	Total equity
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**
Interest paid on Additional Tier 1 capital instrument	-	-	-	-	-	-	-12,600	-12,600	-	-12,600
Dividends paid for 2018	-	-	-	-	-	-	-6,250	-6,250	-	-6,250
Profit for the financial year	-	-	-	-	-	-	104,932	104,932	-	104,932
Components of other comprehensive income net of tax										
Items not to be reclassified to income statement in subsequent periods										
Net change in fair value due to changes in own credit risk on financial liabilities designated at fair value through profit or loss	-	-	-	8,260	-	-	-	8,260	-	8,260
Net change in Cost-of-Hedging	-	-	-	-	13,840	-	-	13,840	-	13,840
Items to be reclassified to income statement 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 change 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**

	Total equity attributable to parent company equity holders									
(EUR 1,000)	Share capital	Reserve fund	Fair value reserve of investments	Own credit revaluation reserve	Cost-of-Hedging reserve	Reserve for invested non-restricted equity	Retained earnings	Total	Other equity instruments issued	Total equity
Interest paid on Additional Tier 1 capital instrument	-	-	-	-	-	-	-12,600	-12,600	-	-12,600
Dividends paid for 2019	-	-	-	-	-	-	-6,250	-6,250	-	-6,250
Profit for the financial year	-	-	-	-	-	-	155,301	155,301	-	155,301
Components of other comprehensive income net of tax										
Items not to be reclassified to income statement in subsequent periods										
Net change in fair value due to changes in own credit risk on financial liabilities designated at fair value through profit or loss	-	-	-	-13,241	-	-	-	-13,241	-	-13,241
Net change in Cost-of-Hedging	-	-	-	-	-12,451	-	-	-12,451	-	-12,451
Items to be reclassified to income statement in subsequent periods										
Net change in fair value of financial assets at fair value through other comprehensive income	-	-	90	-	-	-	-	90	-	90
Net amount reclassified to the income statement on the sales of financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-	-
Net change in expected credit loss of financial assets at fair value through other comprehensive income	-	-	-50	-	-	-	-	-50	-	-50
Equity at 31 December 2020	**42,583**	**277**	**847**	**-255**	**15,624**	**40,366**	**1,258,224**	**1,357,666**	**347,454**	**1,705,120**

Consolidated statement of cash flows

(EUR 1,000)	1 Jan–31 Dec 2020	1 Jan–31 Dec 2019
Cash flow from operating activities	**772,020**	**1,444,778**
Net change in long-term funding	3,702,396	1,951,565
Net change in short-term funding	1,257,523	-298,985
Net change in long-term loans	-3,074,492	-1,701,327
Net change in short-term loans	-506,296	-79,193
Net change in investments	462,373	227,376
Net change in collaterals	-1,287,941	1,048,093
Interest on assets	83,389	103,695
Interest on liabilities	161,397	215,113
Other income	62,547	57,319
Payments of operating expenses	-86,847	-70,685
Taxes paid	-2,028	-8,192
Cash flow from investing activities	**-8,236**	**-3,646**
Acquisition of tangible assets	-3,644	-289
Proceeds from sale of tangible assets	165	382
Acquisition of intangible assets	-4,758	-3,739
Cash flow from financing activities	**-23,753**	**-23,688**
Paid interest on AT1 instrument	-15,750	-15,750
Dividend paid	-6,250	-6,250
Total cash flow from leases	-1,753	-1,688
Change in cash and cash equivalents	**740,031**	**1,417,443**
Change in cash and cash equivalents at 1 January	**4,990,649**	**3,573,206**
Change in cash and cash equivalents at 31 December	**5,730,680**	**4,990,649**

Cash and cash equivalents include the following statement of financial position items: *Cash and balances with central banks* and *Loans and advances to credit institutions payable on demand.*

(EUR 1,000)	31 Dec 2020	31 Dec 2019
Cash and balances with central banks	5,565,801	4,909,338
Loans and advances to credit institutions	164,879	81,311
Total cash and cash equivalents	**5,730,680**	**4,990,649**

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Notes to the Consolidated Financial Statements

Note 1. Summary of significant accounting policies

General information on the Group
Municipality Finance Group (referred to as MuniFin Group or the 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 15 February 2021. 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 2020. 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 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 in Note *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 the 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 in the income statement under *Net income from securities and foreign exchange transactions*. The fair value changes of financial assets denominated in a foreign currency and classified as 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 recognised in the income statement, 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 for financial assets on 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.

<u>Classification and measurement of financial assets</u>

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. On initial recognition, a financial asset is classified as amortised cost (*AC*), fair value through other comprehensive income (*FVOCI*) or fair value through profit or loss (*FVTPL*). Certain financial assets, that otherwise meet the requirements to be classified as amortised cost or fair value through other comprehensive income, can be irrevocably designated to be measured at fair value through profit or loss by applying fair value option (*FVO*).

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 Group'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 classified as fair value through other comprehensive income (*FVOCI*) under IFRS 9.

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 classified 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. Some of the Group's structured lending agreements do not fulfil the SPPI criteria and are thus classified mandatorily 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 classified 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 in the income statement under *Interest and similar income*. The expected credit losses are recognised in the income statement under *Credit loss and impairments on financial assets.*

Based on the business model assessment required by IFRS 9, financial assets that are classified at amortised cost include the Group's 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 classified at amortised cost as required by the business model as certain lending agreements fail the test of solely payments of principal and interest. These structured lending agreements are classified mandatorily 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 hedge relationship, is measured at fair value for the risk 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 other comprehensive income
A financial asset, that is a debt instrument, is classified at fair value through other comprehensive income 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 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 through the 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 the income statement under *Net income from securities and foreign exchange transactions*. Interest received on debt securities is recognised in the income statement under *Interest and similar income*. The expected credit losses are recognised in the income statement under *Credit loss and impairments on financial assets*. Upon disposal, the cumulative gain or loss previously recognised in the other comprehensive income is reclassified from the fair value reserve in equity to the income statement 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 the other comprehensive income. When this election is made, amounts presented in the other comprehensive income are not subsequently transferred to the income statement. Dividends on such investments are recognised in the income statement unless the dividend clearly represents a partial recovery of the initial investment. This election is made on an investment-by-investment basis. The Group classifies 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 classified 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 papers. These investments pass the SPPI test.

Fair value through profit or loss
A financial asset is classified at fair value through profit or loss unless it is classified at amortised cost or 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 in the income statement under *Interest and similar income*.

Designated at fair value through profit or loss
On initial recognition, the Group can designate certain financial assets 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 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 at amortised cost (*AC*) or fair value through profit or loss (*FVTPL*). Certain financial liabilities, that otherwise meet the requirements to be classified at amortised cost, can be irrevocably designated at fair value through profit or loss by applying the fair value option (*FVO*). Financial liabilities are not reclassified after initial recognition.

Amortised cost
Financial liabilities are classified at amortised cost, except for
- derivative liabilities; and
- liabilities that are designated 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 in the income statement under *Interest and similar expense.*

Financial liabilities that are classified 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 at fair value through profit or loss, unless it is classified at amortised cost. This category includes derivative contracts and liabilities that are designated 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 recorded in the income statement under *Net income from securities and foreign exchange transactions*. Interest paid on liabilities is recognised in the income statement under *Interest and similar expense.*

Designated at fair value through profit or loss
On initial recognition, the Group can designate certain financial liabilities 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 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 to which fair value hedge accounting in accordance with IFRS 9 is not applied. 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 classified 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 a 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. 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 and thus the above mentioned components are not separated from the host contract.

The fair value changes of financial liabilities designated at fair value through profit or loss are recorded in the income statement under *Net income from securities and foreign exchange transactions*, except for fair value changes attributable to changes in the Group's own credit risk. The fair value changes of the derivative hedging the financial liability are recorded 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 the Group's credit risk are presented separately in the other comprehensive income under *Net change in fair value due to changes in own credit risk on financial liabilities designated at fair value through profit or loss.*

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 designated at fair value through profit or loss, 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 (*Purchased or Originated Credit Impaired, POCI*). If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition.

If an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of the existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability.

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 classified as amortised cost or fair value through other comprehensive income are in scope for recognising impairment under the IFRS 9 standard. Also finance lease receivables and off-balance sheet binding loan commitments are in scope for recognising impairment due to their credit risk. For further information on the classification of financial assets, see Section *Classification of financial instruments and measurement principles* of this Note.

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 lifetime of the asset. Both lifetime and 12-month expected credit losses (ECLs) are calculated on an individual basis. Collective assessment has been used to determine the management overlay provision.

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 since origination, and stage 3 includes assets that are credit impaired and thus 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 for example due to the obligor's bankruptcy or distressed restructuring. The definition of default is in line with the Group's capital adequacy calculations and risk management as well as with that required by international regulators. 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 the 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. The PD used in stage transition is defined on a client level. The PD used to calculate the exposures expected credit loss takes also into account the guarantees received, so that the Finnish government PD is applied in the ECL calculation instead.

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. 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.

- 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 basis points/ 12MPD > 1%: 12MPD doubled or increased by 2.0 basis points)
- Additional qualitative factors, such as forbearance on a financial asset or watch list of counterparties
- 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 the 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-month 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 the Group's financial annual planning and stress testing. The macroeconomic projections cover a 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. The ECL model consists of the following macroeconomic variables for Finnish counterparties of financial assets; Finnish government long-term EUR rates, 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. Forbearance measures are concessions to original contractual payment terms agreed at the customers' initiative to help the customer through temporary payment difficulties. Performing forborne exposures include forborne exposures reclassified as performing during their probation period or forbearance measures made into a performing loan. Loan modifications due to reasons other than the customer's financial difficulties are not classified as forborne exposures. 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.

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 the income statement with a corresponding charge to the statement of financial position as follows:

- Financial assets classified at amortised cost: as a deduction from the gross carrying amount of the assets.
- Debt instruments classified at FVOCI: no loss allowance is recognised as a deduction from the gross carrying amount of the assets in the statement of financial position because the carrying amount of these assets is at fair value. However, the loss allowance is recognised through the other comprehensive income in the fair value reserve. The accumulated loss recognised in the fair value reserve is recycled through OCI to the income statement upon derecognition of the assets.
- Finance lease receivables: as a deduction from the gross carrying amount of the assets.
- Binding loan commitments: recognised in *Provisions and 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. 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 of the expected credit losses, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of the 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 through the other comprehensive income under *Net change in 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 needs 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 in the income statement 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 is thus at amortised cost 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 and long-term reference rates. The interest risk of these 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. The negative reference rates in the current interest rate environment are taken into account as part of the eliminated margin. 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 in the income statement 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 are 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

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 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.

If a quoted price in an active market is not available for a financial instrument, the Group uses valuation techniques standard across the industry and for which sufficient information is available to determine the fair value. The chosen valuation technique should include all factors that market participants would consider in pricing the financial instrument. The valuation technique maximises the use of observable inputs and as few as possible unobservable inputs are used.

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 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 3: This level includes all instruments for which the valuation technique includes inputs that are unobservable and the unobservable inputs have a significant impact on the instrument's valuation. 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 unobservable. Unobservable inputs are used only to the extent that no relevant observable inputs are available.

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 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 lifetime of the contract. For callable instruments, the amortisation period is considered to be until the first call date.

The fair value hierarchy levels, the Group's valuation methods and the valuation framework is described in more detail in Note *17*.

Leases

A lease is defined as a contract, or part of a contract, that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Lease liabilities are initially measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate. The lease liability is subsequently measured at amortised cost using the effective interest method. Right-of-use assets are initially measured at cost which is the amount equal to lease liability. Lease liabilities are presented in the statement of financial position under *Provisions and other liabilities* and the interest expense under *Interest and similar expense*. Lease payments are allocated between interest expense and the deduction of the lease liability. Right-of-use assets are presented under *Tangible assets*. 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.

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 a contractual basis. When the Group is reasonably certain to exercise extension and termination options, they are included in the lease term.

The Group has elected to use the practical expedient as allowed by IFRS 16.C10(a) by applying a single discount rate 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 for the discount rate is used for all leases since the impact of other leases than office premises are considered not material.

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 statement of financial position under *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.

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 at least 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. The recoverable amount is determined for the cash generating unit to which the asset belongs to. A cash-generating unit is the smallest identifiable group of assets whose cash flows are largely independent of the cash inflows from other asset groups. As MuniFin's operations are treated as a single segment and the operations cannot be divided into smaller, fully independent cash-generating units, the impairment is determined by considering MuniFin as a single cash-generating unit.

Software as a service (SaaS)
The development costs related to the implementation of SaaS services are recognised in *Accrued income and prepayments*. The amount capitalised in prepayments is a project that is performed before the SaaS service is available to the Group to the extent necessary for its use. In SaaS, the other party has control and thus it cannot be recognised as an intangible asset. Prepayment costs are spread over the contract period from the date when the asset is ready for use. Purchased services and other project-related external costs, among other things, are capitalised in prepayments.

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 each financial statement date 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. Provisions may arise, for example, from onerous contracts or as a result of reorganisations that have a material effect on the nature and focus of the Group's operations. Restructuring provision is recognised when the Group has prepared a detailed restructuring plan and has begun to implement the plan or communicated the matter. Provisions are disclosed in Note *38 Provisions and other liabilities.*

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 revaluation 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 MuniFin is an equity instrument and included in the 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 a 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. The Group amortises 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 derivative contracts at fair value through profit or loss (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 other comprehensive income includes realised gains and losses of the financial assets 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 are 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 FIN-FSA's supervisory fee. The administrative fee is recognised on an accrual basis as *Other operating expenses*.

The FIN-FSA's supervisory fee is based on the fixed basic fee and the 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*.

Credit loss and impairments on financial assets
Credit loss and impairments on financial assets include the expected credit losses recognised according to IFRS 9 for the financial assets classified as amortised cost and fair value through other comprehensive income as well as write-offs and subsequent recoveries recognised for all financial assets.

The accounting principles of the impairments are 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.

Salaries and remuneration consist of short-term employee benefits and termination benefits. Short-term employee benefits are employee benefits (other than termination benefits) that are expected to be settled in their entirety within twelve months of the financial reporting period in which the employees render the related service. Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of the Group's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment.

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 and taxable value, as well as confirmed tax losses. Deferred taxes in the Consolidated Financial Statements consist of the release and transfer to equity of the voluntary credit loss provision and depreciation difference recorded by the Parent Company. In addition, deferred taxes arise from financial assets measured at fair value through other comprehensive income, changes in own credit risk on financial liabilities designated at fair value through profit or loss and Cost-of-Hedging recorded through other comprehensive income.

Deferred taxes arise from differences in the treatment of the AT1 capital loan and issuance expenses and interest expenses related to the AT1 capital loan in the Parent Company's statutory Financial Statements and the Consolidated Financial Statements. Deferred taxes 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.

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 financial statement date including the uncertainties related to the potential short- and long-term impact of the COVID-19 pandemic. These relate to, among other things, the determination of fair value and the expected credit losses and impairment of financial assets.

<u>Management judgement related to the determination of fair value</u>

The level of management judgement required in establishing fair value of financial instruments for which there is a quoted price in an active market is usually minimal. For the valuation of financial instruments where prices quoted in active markets are not available, the Group uses valuation techniques to establish the fair value. These valuation techniques involve some level of management estimation and judgement, the degree of which will depend on observability of the input parameters and the instrument's complexity. For instruments, valued using valuation models which are standard across the industry and where all inputs are quoted in active markets, the level of subjectivity or judgement required is low. The level of subjectivity and degree of management judgement required is more significant for those instruments valued using sophisticated models and where some or all of the inputs are less liquid or unobservable. Management judgement is required in the selection and application of appropriate parameters, assumptions and modelling techniques in particular, where data is obtained from infrequent market transactions or extrapolation techniques are applied.

MuniFin Group discloses financial assets and liabilities according to their fair value hierarchy levels in the Notes to the Financial Statements. Management judgement is required in determining the hierarchy level to which a financial instrument should be classified specifically when the valuation is determined by a number of inputs, of which some are observable and others not. Furthermore, the classification of an instrument can change over time to reflect changes in input liquidity. The Group also discloses a sensitivity analysis of the impact on the level 3 financial instruments by using reasonably possible alternatives for the unobservable input. The determination of reasonably possible alternatives requires management judgement.

The valuation methods and controls and quantitative disclosures with respect to the determination of fair value as well as the fair value hierarchy levels and sensitivity analysis are disclosed in Note *17 Fair values of financial assets and liabilities*. The changes in the fair values of financial instruments impact the income statement line items *Net income from securities and foreign exchange transactions* and *Net income from hedge accounting* as well as the other comprehensive income line items *Net change in fair value of financial assets at fair value through other comprehensive income*, *Net change in fair value due to changes in own credit risk on financial liabilities designated at fair value through profit or loss* and *Net change in Cost-of-Hedging*.

<u>Management judgement related to the expected credit losses</u>

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 changes of the expected credit losses are recognised under the income statement line *Credit loss and impairments of financial assets*.

The Group's ECL (*Expected Credit Losses*) calculations are an 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, EADs and LGDs.
- 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.

In addition to the model-based expected credit losses, the Group has recorded an additional discretionary provision (*management overlay*) amounting to EUR 340 thousand to cover the deterioration of its customers' credit risk due to the COVID-19 pandemic, which is not yet reflected in the Group's internal risk ratings which are based on the clients' 2019 financial statement data.

Application of new standards

The Consolidated Financial Statements have been prepared in accordance with the same accounting policies as in 2019, with the exception of the following new standards, interpretations and amendments to existing standards that the Group has applied starting from 1 January 2020.

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 and did not have a direct impact on the Consolidated Financial Statements of MuniFin Group.

Definition of a Business – Amendments to IFRS 3 Business Combinations (effective for financial years beginning on or after 1 January 2020). The amendments narrowed and clarified the definition of a business. They also permit a simplified assessment of whether an acquired set is a group of assets rather than a business. The amendment did not have a direct impact on the Consolidated Financial Statements of MuniFin Group.

Definition of Materiality – Amendments to IAS 1 Presentation of Financial Instruments and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (effective for financial years beginning on or after 1 January 2020). The amendments clarify the definition of materiality 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. The amendment did not have a direct impact on the Consolidated Financial Statements of MuniFin Group.

COVID-19-Related Rent Concessions – Amendment to IFRS 16 Leases (effective for financial years beginning on or after 1 June 2020). The amendment allows the lessees not to account for rent concessions as lease modifications if the concessions are a direct consequence of the COVID-19 pandemic and only if certain conditions are met. The amendment did not impact on the Consolidated Financial Statements of MuniFin Group as the Group has not have any rent concessions related to COVID-19 pandemic.

<u>Amendments related to the IBOR reform</u>

IBOR reform

IBOR reform is a global change aimed at replacing Interbank Offered Rates (*IBORs*) with alternative nearly risk-free rates (*RFR*). The reason for the reform is, among other things, the revealed manipulation cases of the IBOR reference rates. In European Union the reform is regulated by the EU Benchmark Regulation (*EU BMR*). Most prominently, IBOR reform affects the London Interbank Offered Rate (*LIBOR*), a panel-based benchmark that is available in five currencies (USD, GBP, EUR, CHF, JPY) and whose quotation is expected to expire after 2021, and therefore the financial instruments referencing to those rates must be changed or replaced during 2021. However, the timing, in particular for the USD LIBOR reference rate, is still uncertain and may be delayed for some tenors. Under the EU BMR, interest rate benchmarks such as EONIA, EURIBOR, LIBOR, WIBOR and STIBOR have been classified as critical.

Euribor is the most important IBOR used by MuniFin Group. The calculation methodology of Euribor changed during 2019. In July 2019, the Belgian Financial Services and Markets Authority (*FSMA*) granted authorisation with respect to Euribor under the EU BMR. This allows market participants to continue to use Euribor for both existing and new contracts. The Group's current view is that Euribor will continue to exist as a benchmark rate for the foreseeable future.

MuniFin Group has exposures to IBORs on its financial instruments that will be replaced or reformed as part of these market-wide initiatives. There is uncertainty over the timing and the methods of transition across the jurisdictions that the Group operates in. The Group anticipates that the IBOR reform will especially affect its funding products and derivatives, risk management, IT systems, valuations, collateral management and hedge accounting.

For now, the IBOR reform has not have significant impacts on the Group's risk management principles, which are discussed in more detail in Note *2 Risk management principles and the Group's risk position.*

Reliefs given by the IASB
The IASB (*International Accounting Standards Board*) is addressing the IBOR reform and its effects on financial reporting in two phases. The aim of the reliefs is to facilitate the transition of companies from IBOR reference rates to alternative risk-free rates and to temporarily ease the requirements of those IFRS standards that could form an obstacle to the implementation of the IBOR reform. The reliefs apply only to changes, which are a direct consequence of the IBOR reform. Any other changes will be subject to the normal requirements of IFRS standards also during the IBOR reform. The amendments are relevant to MuniFin Group given that the fair values of financial instruments depend on the relevant IBORs and that the Group applies hedge accounting to hedge relationships with IBOR terms.

In September 2019, the IASB issued the Interest Rate Benchmark Reform– Amendments to IFRS 9, IAS 39 and IFRS 7. The EU endorsed the amendments on 15 January 2020. These phase 1 amendments modify specific hedge accounting requirements related to the uncertainty arising from the IBOR reform to the timing and amount of cash flows of a hedged item or hedging instrument during the period of uncertainty to allow hedge accounting to continue for affected hedge relationships.

The Group has initially adopted IBOR reform related phase 1 amendments to IFRS 9, IAS 39 and IFRS 7 from 1 January 2020. The Group applies amendments retrospectively to hedging relationships that existed at 1 January 2020 or have been designated thereafter and that are directly affected by the IBOR reform. The Group will cease to apply the phase 1 amendments when the uncertainty arising from the IBOR reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows of the hedged item or hedging instrument, or when the hedge accounting is discontinued.

In August 2020, the IASB issued the phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 standards. EU endorsed the amendments on 14 January 2021. The phase 2 amendments address issues that might affect financial reporting when an existing interest rate benchmark is actually replaced. The phase 2 amendments allow hedge accounting not to be discontinued simply because the hedged item, hedging instrument or hedged risk is changed as a direct consequence of the IBOR reform. However, any valuation adjustments resulting from the changes are recognised as part of hedge ineffectiveness. The phase 2 amendments introduce a practical expedient for modifications required as a direct consequence of the IBOR reform and made on an economically equivalent basis. These modifications are accounted for by updating the effective interest rate so that it corresponds to the change in the market interest rate. The amendments are effective for annual periods beginning on or after 1 January 2021, with earlier application permitted. MuniFin Group applies the phase 2 amendments as of 31 December 2020. The phase 2 amendments will cease to apply once the changes required by IBOR reform have been implemented.

IBOR reform and hedge accounting
The Group's accounting policies related to hedge accounting are discussed in more detail in the Section *Hedge accounting* of this Note.

The Group has issued fixed rate debt instruments in various foreign currencies to which the Group applies IFRS 9 fair value hedge accounting using cross currency interest rate swaps or a combination of fixed-to-floating interest rate swap (pay leg USD LIBOR) and floating-to-floating cross currency swap (receive leg USD LIBOR) as the hedging instruments. The phase 1 amendments permit continuation of hedge accounting even if in the future the hedged risk, GBP LIBOR, USD LIBOR or other benchmark rates (IBORs), may no longer be separately identifiable. However, this relief does not extend to the requirement that the designated interest rate risk component must continue to be reliably measureable. If the risk component is no longer reliably measureable, the hedging relationship is discontinued. The phase 2 amendments on the other hand, allow the hedge accounting of existing IBOR hedge relationships to be continued in situations where, as a consequence of the IBOR reform, changes are made to the hedging relationship that would normally lead to the discontinuation of hedge accounting. Such changes include e.g. changing the hedged risk from IBOR reference rate to an alternative risk-free rate or changes to the hedging instrument if the hedging instrument refers to IBOR and is changed to an alternative risk-free rate as a direct consequence of the IBOR reform. The Group has not made any above mentioned phase 2 related changes to its hedge relationships during 2020.

MuniFin Group also applies IFRS 9 fair value hedge accounting to issued euro-denominated fixed rate debt, which are hedged to floating rate Euribor. In addition, the Group has fixed and revisable rate lending and leasing financing in euros. The interest rate risk of the loans and leased assets are hedged using Euribor interest rate swaps. MuniFin Group applies fair value portfolio hedge accounting in accordance with IAS 39 to its fixed and revisable rate loans and IFRS 9 fair value hedge accounting to its fixed and revisable rate leased assets and structured lending. As Euribor is expected to continue, MuniFin Group does not currently anticipate changes to these hedge relationships due to the IBOR reform.

In accordance with the phase 1 reliefs, while uncertainty due to the IBOR reform exists, prospective effectiveness testing is based on existing critical terms, hedged cash flows or hedged risks. Any ineffectiveness arising from hedge relationships is recognised in *Net income from hedge accounting*. In addition to potential sources of ineffectiveness outlined in Note *26 Hedge accounting*, the IBOR reform may result in ineffectiveness as the transition of hedged items and related hedging instruments from IBORs to alternative risk-free rates may occur at different times. This may result in different impacts on the valuation of hedged items and related hedging instruments.

Modifications of financial instruments as a consequence of the IBOR reform
MuniFin Group has some issued foreign currency floating rate debt exposure referencing to IBORs for which the maturities go beyond 2021. MuniFin Group does not apply hedge accounting to these financial liabilities as they are initially classified as designated at fair value through profit or loss. The Group has entered into negotiations to re-purchase or restructure these liabilities. Compared to the Group's total funding exposure, the share of IBOR-linked funding is minor.

In addition, the Group has derivative contracts referencing to ceasing IBOR reference rates and with maturity beyond 2021. These derivative contracts include both derivative contracts in hedge accounting (described above in Section *IBOR reform and hedge accounting)* and other hedging derivative contracts. The changes required by the IBOR reform may be conducted, inter alia, through restructuring, activation of fallback conditions or termination of the contract, depending on the manner in which the changes required by the IBOR reform are implemented in the financial instrument hedged by that derivative in question.

The Group's bilateral derivative instruments are governed by the International Swaps and Derivatives Association's (*ISDA*) Master Agreement. ISDA has amended the standardised contract terms for situations where quotations for a reference rate are not available (*fallback clauses*). The Group has agreed with its derivative counterparties to include these new terms in the agreements. The changes to the agreements will take effect in January 2021.

MuniFin Group's IBOR exposure

The table below presents a summary of the Group's financial instruments (excluding derivative contracts) which refer to an IBOR reference rate and have maturity beyond 2021.

31 Dec 2020 (EUR 1,000)	The carrying amount of financial instruments referring to IBOR and with maturity beyond 2021
Financial assets	
Euribor *	12,497,869
Financial assets in total	**12,497,869**
Financial liabilities	
Euribor *	-
USD Libor	51,433
JPY Libor	28,176
Financial liabilities in total	**79,609**

* The Group's current view is that Euribor will continue to exist as a benchmark rate for the foreseeable future.

The table below presents a summary of the notionals of the Group's derivative contracts under hedge accounting, which refer to an IBOR reference rate and have maturity beyond 2021.

31 Dec 2020 (EUR 1,000) FLOATING RATE INTEREST	Notional of derivative contracts referring to IBOR and with maturity beyond 2021
SEK Stibor	99,658
USD Libor	8,556,760
Euribor*	31,825,920
Total	**40,482,338**

* The Group's current view is that Euribor will continue to exist as a benchmark rate for the foreseeable future.

Hedges with two floating legs (*receive/pay leg*) are presented in the table under each applicable reference rate.

IBOR transition project

The Group has set up an IBOR transition project, owned by the Head of Capital Markets, in which, but not limited to, risk management, funding, treasury, legal, finance and IT are represented. The aim of the project is to prepare the Group for a smooth transition to alternative risk-free rates.

In 2019, the Group conducted an impact assessment and prepared for the IBOR transition project.

In July 2020, the discounting methodology of Euro denominated interest rate derivatives centrally cleared through LCH (*London Clearing House*) changed from EONIA (*Euro Overnight Index Average*) to €STR (*Euro Short-term Rate*). A similar change was conducted in October for USD centrally cleared interest rate derivatives to change discounting from Federal Funds rate to SOFR (*Secured Overnight Financing Rate*). During the last quarter of 2020 the Group also renegotiated the interest rate term of the collaterals for the majority of its CSA agreements with its bilateral derivative counterparties. The CSA agreements transitioned from EONIA to €STR rate and the discounting methodology for those derivative agreements was changed accordingly. Part of the CSA negotiations were postponed to 2021 and for the derivatives with these counterparties the discounting methodology change will be conducted in 2021 accordingly. The change in discounting methodologies did not have a material impact on the Group's consolidated income statement as the valuation impact was in principle offset by equivalent cash compensations.

During 2021, the Group's IBOR transition project will focus in particular on changing or replacing the ceasing IBOR -linked instruments with alternative risk-free rates or on otherwise economically equivalent terms.

MuniFin Group is also closely monitoring the market and preparing readiness for the issuance of new RFR products. In addition, the Group monitors new investment opportunities offered by alternative risk-free rate products entering the market.

MuniFin Group's floating rate customer loans and leasing agreements all reference to Euribor. As Euribor is expected to continue, the Group currently expects only limited impacts on its client-facing activities due to the IBOR reform. The Group is committed to treating its customers fairly and is closely monitoring the evolving market practices. The Group will prepare a communication and training plan to ensure that client-facing staff will have sufficient knowledge and competence to respond to customer needs appropriately.

Other new or amended standards and interpretations that entered into effect in 2020 did not have a material impact on the Consolidated Financial Statements.

New and amended standards and interpretations not yet adopted

* = Not yet endorsed for use by the European Union as of 31 December 2020.

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 2020:

Property, Plant and Equipment — Proceeds before Intended Use – Amendments to IAS 16 Property, Plant and Equipment* (effective for financial years beginning or after 1 January 2022). Under the amendments, proceeds from selling items before the related item of PPE is available for use should be recognised in profit or loss, together with the costs of producing those items. Management estimates that the change will not have a material impact on the Consolidated Financial Statements of MuniFin Group.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets* (effective for financial years beginning or after 1 January 2022). When an onerous contract is accounted for based on the costs of fulfilling the contract, the amendments clarify that these costs comprise both the incremental costs and an allocation of other direct costs. Management estimates that the change will not have a material impact on the Consolidated Financial Statements of MuniFin Group.

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

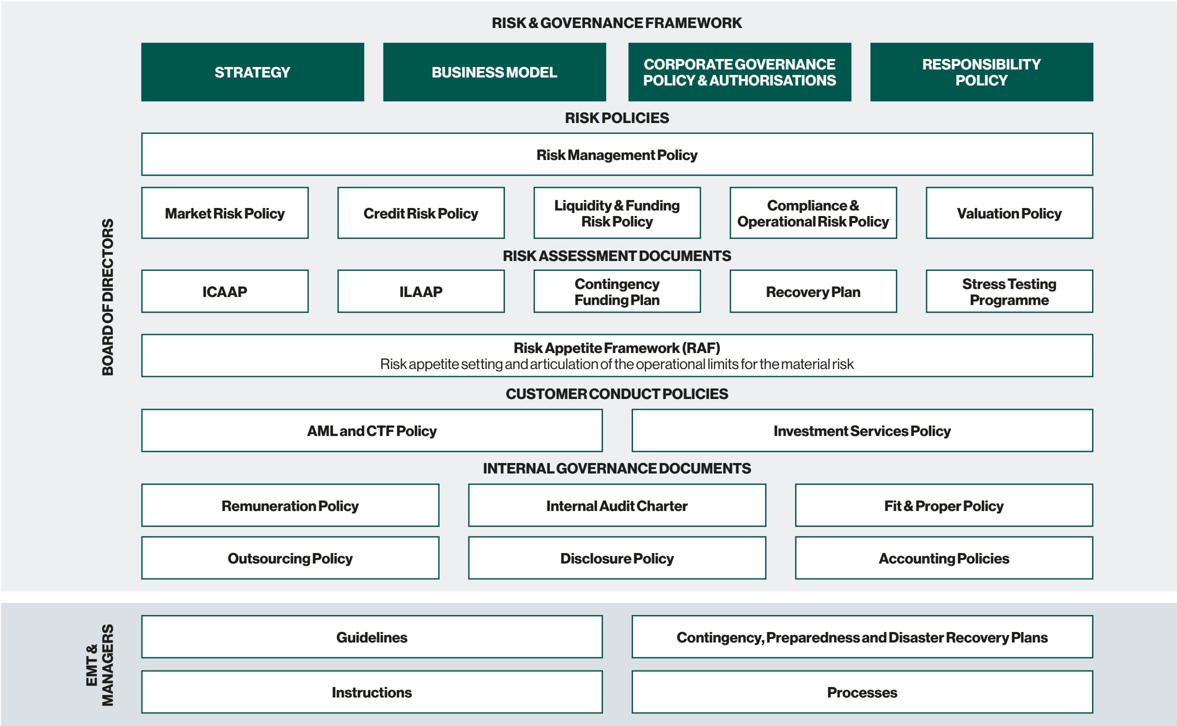
Note 2. Risk management principles and the Group's risk position

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, derivative contracts, 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 other internal and external business risks,
2. Understand and decide on the amount of risk it is willing to take in executing its business strategy, and to actively communicate it,
3. Promote sound discussions of MuniFin Group's risk appetite and enable 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 has remained within the risk appetite set by the Board of Directors during the financial year.

Summary of Risk Appetite Framework indicators

Risk pillars	Risk indicators	Objectives
Profitability & Capital	Credit rating Leverage ratio (CRR and CRR II) 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 an adequate liquidity buffer and a sustainable funding position and profile, even in stress periods.
Credit risk	Non-performing exposures Expected credit losses Average credit rating (customer financing) Single-name concentration Average credit rating (liquidity portfolio) Geographic concentration (liquidity portfolio)	Maintain a sound credit risk profile appropriate for MuniFin's business model.
Market risk	Economic value of equity NII risk Basis risk FX risk Spread risk Fair value volatility Prudent valuation	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 an effective operational control and compliance to support functional and responsible operations.

There were no material changes in the Group's risk position in 2020. Despite the COVID-19 pandemic, the Group's risk position has remained stable and at a moderate level. Based on the Group's assessment, risk management met the requirements set for it. MuniFin Group's risk management and internal control practices and processes are developed continuously. During 2020 the risk management system environment has been developed in particular. 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. In the exceptional circumstances caused by the COVID-19 pandemic, the Group's risk position has been reported to the management and Board more frequently than normal.

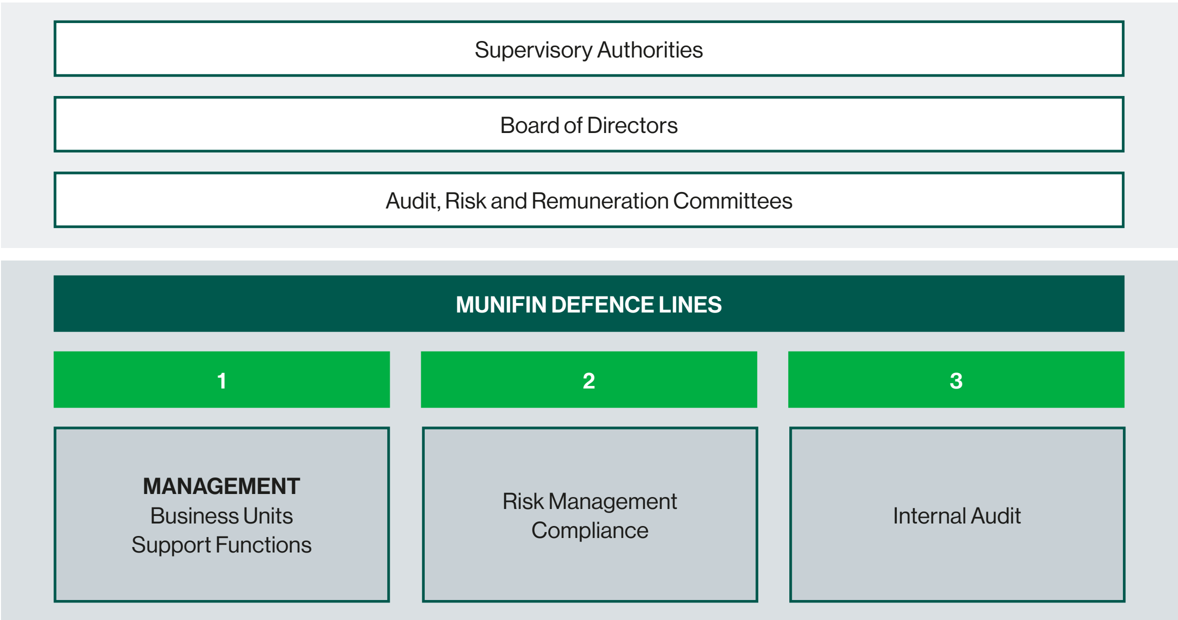
If the COVID-19 pandemic would prolong it might affect the Group's counterparty risk, liquidity portfolio credit risk and risks related to liquidity, lending and business processes. MuniFin Group has deliberately made changes to the allocation of its liquidity portfolio and thereby sought to further reduce the already low risk levels. For now the outbreak of the COVID-19 pandemic and the resulting surge in economic uncertainty have had only a minor effect on MuniFin Group's economic situation. The general pandemic restrictions have had some practical effects on the Group's operating practices, for example with increased remote work arrangements, but otherwise the Group's activities have continued in the usual manner.

A number of the Group's counterparties in capital markets transactions are based in the United Kingdom (UK). Following the UK's withdrawal from the European Union (EU), some of the Group's UK-based counterparties have become restricted in their ability to provide financial services to counterparties located in EU from their UK entities. Consequently, such counterparties have decided to transition their operations from the UK to member states of the EU. In order to ensure continuity of its funding and liquidity management activities, the Group has restructured its business relationships accordingly. Such restructuring has involved negotiating and entering into new legal documentation and transitioning business activities to new entities. The immediate effects to the Group of UK's withdrawal from the EU were very limited. However, the full impact of Brexit in the long-term to the Group and to financial markets in general remains difficult to determine.

In addition, the IBOR reform is under way, a global change aimed at replacing Interbank Offered Rates (*IBORs*) with alternative nearly risk-free rates (*RFR*). The reason for the reform is, among other things, the revealed cases of manipulation of IBOR reference rates. In European Union the reform is regulated by the EU Benchmark Regulation (*EU BMR*). Most prominently, IBOR reform affects the London Interbank Offered Rate (LIBOR), a panel-based benchmark that is available in five currencies (USD, GBP, EUR, CHF, JPY) and whose quotation is expected to expire after 2021, therefore the financial instruments tied to those reference rates must be changed or replaced during 2021. However, the timing, in particular for the USD LIBOR reference rate, is still uncertain and may be delayed for some tenors. Under the EU BMR, interest rate benchmarks such as EONIA, EURIBOR, LIBOR, WIBOR and STIBOR have been classified as critical. For now, the IBOR reform has not have significant impacts on the Group's risk management principles. The status of the Group's IBOR transition project is discussed more broadly in the accounting policies (Note 1) in Section *IBOR reform*.

Organisation of risk and capital adequcy 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 Group'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 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 and it carries out its tasks independently of the other 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 of the Parent Company. 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 2020 was to analyse the development of MuniFin Group's solvency and profitability in 2020–2023. 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 in 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 2020, the Group also carried out a so-called reverse stress testing including a pandemic scenario 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 the 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 operational 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 methods for reducing the credit risk such as guarantees provided by municipalities as well as deficiency guarantees given by the State of Finland. For derivatives, netting agreements, collateral agreements (*ISDA/Credit Support Annex*) and guarantees granted by the Municipal Guarantee Board (*MGB*) are used for reducing the capital adequacy requirement 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 2024, and its need for updating is evaluated at least annually.

According to an assessment by the Group's management, the COVID-19 pandemic has not significantly affected the strategic risks of the Group.

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 the short term and to cover any unexpected changes in the liquidity position.

LIQUID ASSETS, HQLA (EUR 1,000)	31 Dec 2020	%	31 Dec 2019	%
Level 1	8,560,796	85%	7,748,230	79%
Level 2a	896,100	9%	762,354	8%
Level N	580,086	6%	1,341,015	14%
Total	**10,036,984**	**100%**	**9,851,601**	**100%**

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 high quality liquid assets (*HQLA*) used to manage the Group's liquidity are presented in the table below:

The liquidity portfolio is divided into liquidity quality levels so that level 1 and 2a are considered high quality liquid assets. Assets on the liquidity level N are liquid in normal market conditions (*other liquid assets*).

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 Plan (*L&F Plan*). The plan is approved by the Board of the Parent Company and reviewed on a quarterly basis by the 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 of standardised templates. 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 L&F Plan.

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

BREAKDOWN OF FINANCIAL LIABILITIES BY MATURITY

31 Dec 2020 (EUR 1,000)	0–3 months	3–12 months	1–5 years	5–10 years	over 10 years	Total
Liabilities to credit institutions	658,737	759	29,601	38,614	37,488	765,199
Liabilities to the public and public sector entities	137,168	388,332	979,706	1,427,094	1,505,614	4,437,915
Debt securities issued	8,673,256	4,505,609	13,857,502	3,185,728	3,754,717	33,976,813
Provisions and other liabilities	237,212	-	-	-	-	237,212
Total	**9,706,373**	**4,894,700**	**14,866,809**	**4,651,436**	**5,297,819**	**39,417,138**

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
Provisions and other liabilities	103,627	-	-	-	-	103,627
Total	**8,094,630**	**4,340,303**	**15,510,259**	**5,683,666**	**3,570,243**	**37,199,101**

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 658,120 thousand (EUR 1,095,340 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 30–50% is expected to be called during 2021. During 2020 34% (24%) 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 2020 (EUR 1,000)	0–3 months	3–12 months	1–5 years	5–10 years	over 10 years	Total
Derivative assets	13,995	81,899	454,061	583,520	1,224,688	2,358,163
Derivative liabilities	-184,922	-124,631	-1,728,905	-185,014	-637,098	-2,860,570
Interest flows related to derivative assets and liabilities	133,434	239,860	698,692	268,969	128,374	1,469,329

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 derivative assets and liabilities	178,431	272,975	800,940	231,360	95,151	1,578,857

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.*

The COVID-19 pandemic caused significant disruptions in the international capital markets during the spring. The swift action and substantial stimulus packages of central banks had an important role in stabilising the markets. Despite the exceptional circumstances, during the financial year MuniFin Group has been able to acquire funds in a nearly usual manner, securing uninterrupted financing for its customers. Due to the increased demand for financing, the 2020 funding programme was increased during the year. The Group's long-standing funding strategy has relied on diversification into multiple currencies, markets, maturities and investor types. This strategy, combined with MuniFin's good reputation among investors as well as the safety of investments in the Finnish municipal sector, secured MuniFin's access to markets this spring in times when this was difficult or even impossible to many other issuers.

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 maximum exposure to credit risk grouped by the items on the statement of financial position.

MAXIMUM EXPOSURE TO CREDIT RISK (EUR 1,000)	31 Dec 2020			31 Dec 2019		
	Amortised cost and Fair value through other comprehensive income	, of which expected credit losses	Fair value through profit or loss *	Amortised cost and Fair value through other comprehensive income	, of which expected credit losses	Fair value through profit or loss *
Cash and balances with central banks	5,565,801	0	-	4,909,338	0	-
Loans and advances to credit institutions	1,841,853	-43	-	818,323	-28	-
Loans and advances to the public and public sector entities	27,977,887	-1,091	44,438	24,747,332	-186	51,100
Debt securities	1,733,355	-42	4,029,859	1,775,862	-104	3,940,456
Derivative contracts	-	-	2,358,163	-	-	2,244,997
Other assets	244,875	-4	-	160,097	-4	-
Credit commitments (off-balance sheet item)	2,353,978	-4	-	2,361,323	-4	-
Total	**39,717,750**	**-1,184**	**6,432,459**	**34,772,275**	**-327**	**6,236,553**

* Includes all financial assets measured at fair value through profit or loss (IFRS 9 classifications; designated at fair value through profit or loss, mandatorily at fair value through profit or loss and fair value through profit or loss).

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*). Financing, derivatives and other services can be offered only to customers and objects in accordance with the MGB Act. 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.

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.

MuniFin's customers consist of municipalities, joint municipal authorities, and municipality-controlled entities, as well as non-profit corporations and other non-profit organisations nominated by the Housing Finance and Development Centre of Finland (*ARA*). MuniFin Group 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 issued by a municipality or joint municipal authority or a real estate collateral and a state deficiency guarantee. The guarantee or guarantee together with a real estate collateral has to fully cover the financing provided. Guarantees and the fair value of collateral received are also taken into account in the calculation of expected credit losses. 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.

Municipal customers are divided into three sectors: municipalities, joint municipal authorities and municipal companies. By law, a Finnish municipality cannot default (Bankruptcy Act 120/2004). The municipalities have an unlimited right to increase local income tax rates and due to this, together with other elements of autonomy, the Finnish municipal sector has, similar to sovereigns, a zero credit risk weighting in capital adequacy calculation of credit institutions. Finnish municipalities and cities can also establish joint municipal authorities to provide services that they are legally required to provide for their citizens or undertake regional development activities. Municipalities are jointly members of these joint municipal authorities and are commonly responsible for their funding and other liabilities. All loans to municipal companies are guaranteed by municipalities (or joint municipal authorities). Thus there is always a municipality, that cannot default by law, to carry the risk of default. When a loan has a 100% absolute guarantee from a municipality or a joint municipal authority, MuniFin Group can apply for payment directly from the guarantor in accordance with the terms of the loan. The guarantor is committed based on the guarantee commitment to pay the interest and other ancillary costs in addition to the principal.

The housing customer group consists of two types of housing institutions: institutions owned or controlled by municipalities (or joint municipal authorities) and state-subsidised housing institutions. Loans for housing companies owned by municipalities or joint municipal authorities are guaranteed by municipalities, or these loans can also at the same be categorised as state-subsidised housing loans. In such cases there is real estate collateral and a deficiency guarantee from the State of Finland. State-subsidised housing institutions are defined as corporations designated by state authority and engaged in the renting or production and maintenance of housing, or corporations controlled by them. The housing companies are nominated by the Housing Finance and Development Centre of Finland (*ARA*), a governmental agency operating under the supervision of the Ministry of the Environment. Loans for housing companies have a deficiency guarantee from the State of Finland that covers the residual risk over the collateral value of the respective property. When a loan has a deficiency guarantee by the State of Finland, primary pledge of mortgage collateral is mainly required unless the loan is a state-subsidised housing loan granted for municipality or joint municipal authority in which case there is no collateral required by law. The amount of the primary pledge must be at least 1.3 times the amount of the loan. Under deficiency guarantee, the State of Finland is responsible for the primary debt in respect of the part that is not covered from the liquidation of the mortgage collateral.

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. The Group has customer-specific credit limits in use from the beginning of 2020. In addition, MuniFin Group calculates the ratio loan-to-value (*LTV*) for its loans with real estate collateral and regularly monitors the development of LTV values.

The table below shows the risk rating (of which risk rating 5 represents the best credit worthiness) distribution of the Group's customer financing in relation to total capital, which includes lending, leased assets, municipal certificates and off-balance sheet credit commitments.

RISK RATING	31 Dec 2020	31 Dec 2019
5	24.7%	18.6%
4	28.0%	35.9%
3	37.9%	37.3%
2	7.7%	6.2%
1	1.8%	2.1%
Total	**100.0%**	**100.0%**

In addition to the above mentioned, the Group's 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.

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 exposures include exposures that have been renegotiated due to the customer's financial difficulties. Details about the principles applied to forborne and modified exposures are described in the accounting policies (Note 1) in Section *Forborne and modified loans*. The non-performing and forborne exposures are disclosed in Note *27* in table *Non-performing and forborne exposures*.

Impairments for loans and other financial assets, which are classified according to IFRS 9 as amortised cost (*AC*) or fair value through other comprehensive income (*FVOCI*), 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, 0.003% (0.001%). Expected credit losses in relation to the total assets and commitments included in the calculations are 0.003% (0.001%). The amount of expected credit losses is materially influenced by the Group's conservative risk management principles, in particular the guarantees and collaterals received by the Group, as well as the customer base and the high credit ratings of counterparties.

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 2020	31 Dec 2019
AAA	25.4%	24.4%
AA+	59.7%	54.3%
AA	5.6%	4.5%
AA-	6.9%	12.0%
A+	1.5%	2.3%
A	0.6%	0.9%
A-	0.3%	1.5%
Total	**100.0%**	**100.0%**

BREAKDOWN OF NOMINAL VALUE OF DERIVATIVE CONTRACTS BY COUNTERPARTY CREDIT RATING (EUR 1,000)

	31 Dec 2020	31 Dec 2019
Finnish municipalities	1,930,687	2,023,949
Central counterparty	36,721,506	27,171,984
AA	14,520,186	20,107,295
A	12,406,794	13,145,277
BBB	2,045,830	2,320,387
Total	**67,625,003**	**64,768,893**

GIVEN AND RECEIVED CASH COLLATERAL BASED ON CSA AGREEMENTS (EUR 1,000)

	31 Dec 2020	31 Dec 2019
Given collateral	-1,607,100	-686,155
Given collateral to central counterparty	-243,272	-158,494
Received collateral	658,120	1,095,340
Received from central counterparty	231,180	96,239
Net collateral	**-961,072**	**346,930**

The Group limits the credit risk arising from its derivative contracts with ISDA Credit Support Annexes. MuniFin Group has 40 derivative counterparties with which it has valid derivative contracts. The Group has the above-mentioned collateral agreement with all of these counterparties.

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

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 (municipality sector, state-subsidised housing production) and collaterals (mortgages). 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 state-subsidised housing production. This is inextricably linked to MuniFin's business model. 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 on the right presents the geographical distribution of the liquidity portfolio investments (including Central bank counterparty).

COUNTRY/ COUNTERPARTY	31 Dec 2020	31 Dec 2019
Central bank	55.5%	50.2%
Finland	8.6%	9.1%
Sweden	4.5%	5.4%
France	4.7%	5.3%
Canada	4.4%	5.1%
Norway	4.2%	4.7%
Netherlands	2.5%	3.9%
Supranational	2.8%	2.6%
Great Britain	1.6%	2.5%
Denmark	2.5%	2.3%
Germany	2.6%	2.1%
Australia	1.1%	2.1%
Belgium	1.4%	1.1%
New Zealand	1.1%	1.1%
South Korea	0.9%	1.0%
Japan	0.2%	0.5%
Luxembourg	0.6%	0.4%
Switzerland	0.5%	0.3%
Austria	0.3%	0.3%
Total	**100.0%**	**100.0%**

The COVID-19 pandemic has not yet weakened MuniFin Group's credit risk position, and the credit risk position is also expected to remain stable in the future in accordance with the Group's credit risk strategy. Few of MuniFin Group's customers run into economic challenges in the spring due to the COVID-19 crisis. If the pandemic impacted their repayment ability temporarily, MuniFin offered them repayment holidays and concessions to the payment terms of the loans. In addition to the model-based expected credit losses, the Group has recorded an additional discretionary provision (*management overlay*) amounting to EUR 340 thousand to cover the deterioration of its customers' credit risk due to the COVID-19 pandemic, which is not yet reflected in the Group's internal risk ratings which are based on the client's 2019 financial statement data. More information on repayment holidays and expected credit losses is presented in Note *27 Credit risks of financial assets and other commitments*. The sudden worsening of the pandemic could affect the Group through a widening of credit risk premiums and through valuations of the liquidity portfolio. In addition, an increase in customers' financial difficulties could increase the Group's credit risk and thus also the expected credit losses.

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 (*IRS*) 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. Several 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 Group measures the Earnings at Risk both with and without the zero floor option. The figures below 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 2020	-32,180	13.4%
31 Dec 2019	-14,288	6.5%

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 Group measures the Economic Value of Equity both with and without the zero floor option. The figures below 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 2020	-344,620	21.2%
31 Dec 2019	-114,219	7.6%

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 below take into account the zero floor option in the loans.

BASIS RISK (EUR 1,000)	Impact	In relation to net interest income
31 Dec 2020	-12,550	5.2%
31 Dec 2019	-19,348	8.8%

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
- 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, all foreign currency denominated funding transactions with early 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 2020
(EUR 1,000)

	Domestic currency	Foreign currency	Total
Cash and balances with central banks	5,565,801	-	5,565,801
Loans and advances to credit institutions	1,680,218	161,635	1,841,853
Loans and advances to the public and public sector entities	27,146,828	-	27,146,828
Debt securities	5,718,838	44,375	5,763,214
Shares and participations	27	-	27
Other assets	243,269	-	243,269
Total	**40,354,982**	**206,010**	**40,560,992**

FINANCIAL LIABILITIES IN DOMESTIC AND FOREIGN CURRENCIES
31 Dec 2020
(EUR 1,000)

	Domestic currency	Foreign currency	Total
Liabilities to credit institutions	2,001,478	-	2,001,478
Liabilities to the public and public sector entities	3,796,824	87,202	3,884,026
Debt securities issued	14,027,359	18,884,547	32,911,906
Provisions and other liabilities	77,723	159,489	237,212
Total	**19,903,384**	**19,131,238**	**39,034,622**

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
Provisions and other liabilities	27,951	75,676	103,627
Total	**12,794,283**	**22,333,237**	**35,127,521**

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 2020 (EUR 1,000)	USD	NOK	JPY	CHF	Other currencies	Total
Loans and advances to credit institutions	159,986	3	768	361	517	161,635
Debt securities	44,375	-	-	-	-	44,375
Other assets	-	-	-	-	-	-
Currency risk total	**204,361**	**3**	**768**	**361**	**517**	**206,010**
Hedging derivatives	-44,375	-	-	-	-	-44,375
Total	**159,986**	**3**	**768**	**361**	**517**	**161,635**

DISTRIBUTION OF FINANCIAL LIABILITIES BY CURRENCY BASED ON CARRYING AMOUNTS AND HEDGES

31 Dec 2020 (EUR 1,000)	USD	NOK	JPY	CHF	Other currencies	Total
Long-term funding	-7,432,620	-2,012,624	-1,957,647	-1,264,680	-2,788,493	-15,456,063
Short-term funding	-3,515,686	-	-	-	-	-3,515,686
Provisions and other liabilities	-159,489	-	-	-	-	-159,489
Currency risk total	**-11,107,796**	**-2,012,624**	**-1,957,647**	**-1,264,680**	**-2,788,493**	**-19,131,238**
Hedging derivatives	10,948,306	2,012,624	1,957,647	1,264,680	2,788,493	18,971,749
Total	**-159,489**	**0**	**0**	**0**	**0**	**-159,489**
Net currency position	**497**	**3**	**768**	**361**	**517**	**2,146**

DISTRIBUTION OF 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
Provisions and other liabilities	-75,676	-	-	-	-	-75,676
Currency risk total	**-12,958,749**	**-2,989,036**	**-1,809,795**	**-1,216,650**	**-3,359,008**	**-22,333,238**
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**

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 2020	2,146
31 Dec 2019	1,983

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 2020	0.18 p.p.	-22,300	1.4%
31 Dec 2019	0.22 p.p.	-22,200	1.5%

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. Unrealised fair value changes of financial instruments increase the volatility of profits. 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 the financial assets and liabilities measured at fair value and the 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.

The COVID-19 pandemic caused market volatility, especially in the spring, which was also reflected in increased valuation volatility in MuniFin Group's profit. The market situation has since calmed down and volatility has not been so significant towards the end of the year due to the pandemic. Valuations have also returned close to the levels at the beginning of the year. The Group has also deliberately made changes to the allocation of its liquidity portfolio and thereby sought to further reduce its already low risk levels.

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 a 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. system support, reporting, evaluation of effects).

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. Only small losses from operational risks have been realised during 2020.

The effects of the COVID-19 pandemic on the Group's continuity and operational risks in 2020 have been small. The organisation's transition to remote working did not significantly increase operational risks or the resulting losses. The functions and processes of the various departments have been adapted on a fast schedule to suit continuous remote working. In addition, efforts have been made to improve internal communication and continuity, as well as to reduce operational risks.

Notes to the income statement

Note 3. Interest income and expense

2020 (EUR 1,000)	Interest and similar income	Interest and similar expense	Net
Assets			
Amortised cost			
Cash and balances with central banks	-	-23,479	-23,479
Loans and advances to credit institutions	51	-6,035	-5,984
Loans and advances to the public and public sector entities	193,108	-	193,108
Debt securities	369	-3,247	-2,878
Other assets	251	-	251
Fair value through other comprehensive income			
Debt securities	-	-1,063	-1,063
Designated at fair value through profit or loss			
Debt securities	13,206	-	13,206
Mandatorily at fair value through profit or loss			
Loans and advances to the public and public sector entities	955	-	955
Debt securities	-	-	-
Fair value through profit or loss			
Derivative contracts at fair value through profit or loss	71,077	-95,237	-24,160
Derivative contracts in hedge accounting	-79,399	-	-79,399
Leased assets	5,986	-	5,986
Interest on non-financial other assets	6	-	6
Interest on assets	**205,610**	**-129,061**	**76,549**
, of which interest income/expense according to the effective interest method	*193,779*	*-33,824*	

2020 (EUR 1,000)	Interest and similar income	Interest and similar expense	Net
Liabilities			
Amortised cost			
Liabilities to credit institutions	8,089	-	8,089
Liabilities to the public and public sector entities	-	-60,239	-60,239
Debt securities issued	1,971	-255,909	-253,937
Provisions and other liabilities	-	-2,062	-2,062
Designated at fair value through profit or loss			
Liabilities to credit institutions	-	-49	-49
Liabilities to the public and public sector entities	-	-35,494	-35,494
Debt securities issued	-	-139,066	-139,066
Fair value through profit or loss			
Derivative contracts at fair value through profit or loss	317,265	-138,029	179,236
Derivative contracts in hedge accounting	-	481,095	481,095
Interest on liabilities	**327,325**	**-149,753**	**177,572**
, of which interest income/expense according to the effective interest method	*10,060*	*-318,210*	
Total	**532,935**	**-278,814**	**254,121**

Interest income on stage 3 financial assets in the expected credit loss (*ECL*) calculations totalled EUR 1,340 thousand (EUR 373 thousand) during the financial year. These are included in the line items *Loans and advances to the public and public sector entities* and *Leased assets*.

Interest expense on provisions and other liabilities includes EUR 91 thousand (EUR 109 thousand) of interest on lease liabilities recognised in accordance with IFRS 16 *Leases* standard.

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 cash collateral receivables. Interest expenses on debt securities consists of interest paid on short-term lending. 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 derivative contracts at fair value through profit or loss consist of negative interest income on derivative contracts that are not included in hedge accounting. The derivative contracts contained in this line item hedge financial assets which are designated at fair value through profit or loss, derivative contracts with municipalities and derivative contracts hedging derivatives with municipalities, in addition to derivative contracts used for hedging interest rate risk of the balance sheet, for which no hedged item has been specified. Derivative contracts in hedge accounting hedge loans and advances to the public and public sector entities.

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

2019 (EUR 1,000)	Interest and similar income	Interest and similar expense	Net
Assets			
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
Fair value through other comprehensive income			
Debt securities	0	-1,690	-1,690
Designated at fair value through profit or loss			
Debt securities	20,024	-	20,024
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
Fair value through profit or loss			
Derivative contracts at fair value through profit or loss	63,986	-91,324	-27,338
Derivative contracts in hedge accounting	-78,835	-	-78,835
Leased assets	4,969	-	4,969
Interest on non-financial other assets	6	-	6
Interest on assets	**203,981**	**-116,834**	**87,147**
, of which interest income/expense according to the effective interest method	*192,468*	*-25,510*	

2019 (EUR 1,000)	Interest and similar income	Interest and similar expense	Net
Liabilities			
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
Provisions and other liabilities	-	-2,199	-2,199
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
Fair value through profit or loss			
Derivative contracts at fair value through profit or loss	554,916	-335,447	219,469
Derivative contracts in hedge accounting	-	496,796	496,796
Interest on liabilities	**562,600**	**-409,492**	**153,107**
, of which interest income/expense according to the effective interest method	*7,683*	*-430,151*	
Total	**766,581**	**-526,326**	**240,255**

Note 4. Commission income

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

(EUR 1,000)	2020	2019
Financial advisory services	2,158	2,903
Digital services	676	579
Other operations	0	8
Total	**2,834**	**3,490**

EUR 2,812 thousand (EUR 3,481 thousand) 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 standard in the Consolidated Financial Statements 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)	2020	2019
Commission fees paid	669	183
Other *	4,396	4,052
Total	**5,066**	**4,235**

* Line item includes paid guarantee fees, custody fees and funding programme update costs.

Note 6. Net income from securities and foreign exchange transactions

2020 (EUR 1,000)	Capital gains	Capital losses	Change in fair value	Total
Financial assets				
Designated at fair value through profit or loss				
Debt securities	853	-	16,750	17,603
Mandatorily at fair value through profit or loss				
Loans and advances to the public and public sector entities	-	-	-515	-515
Debt securities	-	-	-	-
Shares and participations	-	-111	231	119
Financial liabilities				
Designated at fair value through profit or loss				
Issued commercial papers	-	-	1,318	1,318
Liabilities to credit institutions	-	-	418	418
Liabilities to the public and public sector entities	-	-	-25,235	-25,235
Debt securities issued	-	-	55,304	55,304
Fair value through profit or loss				
Derivative contracts at fair value through profit or loss	3,878	-1,008	-55,499	-52,629
Day 1 gain or loss	-	-	-29	-29
Total net income from securities transactions	**4,732**	**-1,119**	**-7,257**	**-3,644**
Net income from foreign exchange transactions	**37,031**	**-34,380**	**-6,797**	**-4,146**
Total	**41,763**	**-35,500**	**-14,053**	**-7,790**

Net income from securities transactions includes fair value changes of financial assets and liabilities measured at fair value through profit or loss, fair value changes of derivative contracts not included in hedge accounting (derivative contracts at fair value through profit or loss) 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. The definition for Day 1 gain or loss is presented in the accounting policies (Note 1) in Section *Determination of fair value*. The reconciliation for Day 1 gain or loss is presented in Note *17 Fair values of financial assets and liabilities.*

2019 (EUR 1,000)	Capital gains	Capital losses	Change in fair value	Total
Financial assets				
Designated at fair value through profit or loss				
Debt securities	2,468	-	-1,797	672
Mandatorily 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 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
Fair value through profit or loss				
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**

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 2020	Carrying amount 31 Dec 2020	Nominal value 31 Dec 2019	Carrying amount 31 Dec 2019
Financial assets				
Debt securities *	3,912,451	4,029,859	3,843,076	3,940,456
Total financial assets	**3,912,451**	**4,029,859**	**3,843,076**	**3,940,456**
Financial liabilities				
Liabilities to credit institutions	25,000	24,558	-	-
Liabilities to the public sector entitities	1,908,373	1,637,674	1,870,254	1,548,639
Debt securities issued	10,927,113	10,454,282	11,855,073	11,391,573
Total financial liabilities	**12,860,486**	**12,116,514**	**13,725,327**	**12,940,212**

* 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 2020 and 31 Dec 2019.

CHANGE IN FAIR VALUE OF FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS (EUR 1,000)	31 Dec 2020	1 Jan 2020	Fair value change recognised in the income statement 2020	, of which due to credit risk	, of which due to market risk
Financial assets					
Debt securities	69,859	53,109	16,750	3,203	13,547
Total financial assets	**69,859**	**53,109**	**16,750**	**3,203**	**13,547**

Financial assets that MuniFin Group has designated 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 contract 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 OF FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS (EUR 1,000)	31 Dec 2020	1 Jan 2020	Fair value change recognised in the income statement 2020	Change in own credit risk recognised in the other comprehensive income 2020	Total fair value change in 2020
Financial liabilities					
Liabilities to credit institutions	418	-	418	-	418
Liabilities to the public sector entitities	-244,146	-218,911	-25,235	-813	-26,048
Debt securities issued	385,424	328,802	56,622	-15,739	40,883
Total financial liabilities	**141,696**	**109,891**	**31,805**	**-16,551**	**15,254**

NET CHANGE IN FAIR VALUE IN NET INCOME FROM SECURITIES TRANSACTIONS (EUR 1,000)	Cumulative change in fair value 31 Dec 2020	Fair value change recognised in the income statement 2020
Financial liabilities designated at fair value through profit or loss	141,696	31,805
Derivative contracts at fair value through profit or loss hedging financial liabilities	-167,847	-36,391
Net change in fair value	**-26,151**	**-4,586**

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 contract and financial liability. 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 subject to IFRS 9 fair value hedge accounting. The fair value changes of the financial liabilities impact the income statement, 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 the income statement.

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 change of the own credit revaluation reserve, is presented in *Net income from securities 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 designated at fair value through profit or loss, 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 or loss are not traded.

CHANGE IN FAIR VALUE OF FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS (EUR 1,000)	31 Dec 2019	1 Jan 2019	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**

CHANGE IN FAIR VALUE OF FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS (EUR 1,000)	31 Dec 2019	1 Jan 2019	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 TRANSACTIONS (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 at fair value through profit or loss hedging financial liabilities	-131,456	590,431
Net change in fair value	**-21,564**	**-33,421**

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

(EUR 1,000)	2020	2019
Capital gains from financial assets	-	36
Capital losses from financial assets	-3	-11
Unrealised gains transferred from fair value reserve	-	100
Unrealised losses transferred from fair value reserve	-	-11
Total	**-3**	**114**

Note 9. Net income from hedge accounting

(EUR 1,000)	2020	2019
Unrealised gains from hedging instruments	317,380	410,768
Unrealised losses from hedging instruments	-100,701	-38,098
Net income from hedging instruments	**216,679**	**372,670**
Unrealised gains from hedged items	135,530	17,021
Unrealised losses from hedged items	-345,985	-408,787
Net income from hedged items	**-210,455**	**-391,767**
IBOR reform related compensations *	-2,041	-
Net income from hedge accounting	**4,183**	**-19,097**

* Compensations relate to the ongoing IBOR reform of which more information is presented in the accounting policies (Note 1) in Section *IBOR reform*.

Unrealised gains and losses from hedged items include fair value of the risks to which fair value hedge accounting is applied and which are measured at fair value. 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 in the implementation of IFRS 9 standard (as of 1 Jan 2018) from at fair value through profit or loss under IAS 39 into amortised cost under IFRS 9 standard. MuniFin Group 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 31 Dec 2020	Fair value gain or loss for the financial year *	EIR determined as at 1 Jan 2018 **	Interest revenue recognised during 2020
Loans and advances to the public and public sector entities	Fair value option	Amortised cost	113,143	1,119	0.14%	187

* The fair value gain or loss that would have been recognised in the income statement during the financial year if the financial assets had not been reclassified.
** Effective interest rate determined on the date of initial application.

FINANCIAL ASSETS (EUR 1,000)	Original measurement category under IAS 39	New measurement category under IFRS 9	Fair value 31 Dec 2019	Fair value gain or loss for the financial year	EIR determined as at 1 Jan 2018	Interest revenue recognised during 2019
Loans and advances to the public and public sector entities	Fair value option	Amortised cost	126,171	225	0.14%	203

Note 11. Other operating income

(EUR 1,000)	2020	2019
Other income from credit institution operations *	127	135
Total	**127**	**135**

* Line item includes fees from lending and capital gains from sold tangible assets.

Note 12. Administrative expenses

(EUR 1,000)	2020	2019
Personnel expenses		
Wages and salaries	14,925	14,519
Pension costs	2,290	2,623
Other social security expenses	481	410
Total personnel expenses	**17,696**	**17,553**
Other personnel related costs	1,233	2,179
Marketing and communication expenses	726	1,515
IT and information expenses	12,605	10,458
Other administrative expenses	744	563
Total	**33,004**	**32,268**

	2020		2019	
PERSONNEL	Average	End of year	Average	End of year
Permanent full-time	157	154	148	155
Permanent part-time	2	3	4	4
Fixed term	8	8	10	8
Total	**167**	**165**	**162**	**167**

Note 13. Other operating expenses

(EUR 1,000)	2020	2019
Regulatory expenses		
Contributions to the Single Resolution Fund	5,163	4,328
Other administrative and supervisory fees	2,227	2,179
Rental expenses	375	396
External services	5,171	9,025
Credit rating fees	894	926
Audit fees	394	274
Insurances	358	301
Other expenses from credit institution operations	28	197
Total	**14,610**	**17,626**

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 the accounting policies (Note 1) in Section *Impairment of financial assets*.

CREDIT LOSSES AND IMPAIRMENTS 2020 (EUR 1,000)	Expected credit losses			Realised credit losses		
	Additions	Subtractions	Recognised in the income statement	Additions	Subtractions	Recognised in the income statement
Expected credit losses on financial assets at amortised cost						
Cash and balances with central banks	0	0	0	-	-	-
Loans and advances to credit institutions	-36	21	-15	-	-	-
Loans and advances to the public and public sector entities	-1,026	121	-904	-	-	-
Leased assets in Loans and advances to the public and public sector entities	-1	0	-1	-	-	-
Debt securities	0	0	0	-	-	-
Cash collateral to CCPs in Other assets	-2	2	0	-	-	-
Credit commitments (off-balance sheet)	-3	3	0	-	-	-
Total expected credit losses on financial assets at amortised cost	**-1,068**	**148**	**-920**	**-**	**-**	**-**
Expected credit losses and impairments on other financial assets						
Debt securities at fair value through other comprehensive income	-29	92	62	-	-	-
Guarantee receivables from the public and public sector entities in Other assets	-	-	-	-	-	-
Total expected credit losses and impairments on other financial assets	**-29**	**92**	**62**	**-**	**-**	**-**
Total	**-1,097**	**240**	**-857**	**-**	**-**	**-**

CREDIT LOSSES AND IMPAIRMENTS 2019 (EUR 1,000)	Expected credit losses			Realised credit losses		
	Additions	Subtractions	Recognised in the income statement	Additions	Subtractions	Recognised in the income statement
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
Leased assets in Loans and advances to the public and public sector entities	-1	0	-1	-	-	-
Debt securities	0	0	0	-	-	-
Cash collateral to CCPs in Other assets	-1	1	0	-	-	-
Credit commitments (off-balance sheet)	-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 in Other assets	-	-	-	-	180	180
Total expected credit losses and impairments on other financial assets	**-53**	**170**	**117**	**-**	**180**	**180**
Total	**-219**	**247**	**28**	**-180**	**180**	**0**

During the financial year 2019 MuniFin Group wrote-off loans and advances to the public and public sector entities totalling EUR 180 thousand. The Group has real estate collaterals and state deficiency guarantees to fully cover these loans. 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. Thus the Group will not incur final credit losses.

Note 15. Income tax expense

(EUR 1,000)	2020	2019
Tax based on the profit for the financial year	5,604	2,067
Tax based on the profit for previous financial years	9	-7
Deferred tax	33,228	24,247
Total	**38,840**	**26,307**
Profit before tax	194,141	131,239
Taxes at domestic tax rate	38,828	26,248
Other deductibles	-8	-10
Non-deductible expenses	11	76
Taxes for previous financial years	9	-7
Taxes in the income statement	**38,840**	**26,307**
Income tax percentage	20.0%	20.0%
Effective tax base	20.0%	20.0%

Notes to the statement of financial position and other notes

Note 16. Financial assets and liabilities

FINANCIAL ASSETS 31 Dec 2020 (EUR 1,000)	Amortised cost	Fair value through other comprehensive income	Designated at fair value through profit or loss	Mandatorily at fair value through profit or loss	Fair value through profit or loss	Total	Fair value
Cash and balances with central banks	5,565,801	-	-	-	-	5,565,801	5,565,801
Loans and advances to credit institutions	1,841,853	-	-	-	-	1,841,853	1,841,853
Loans and advances to the public and public sector entities *	27,102,391	-	-	44,438	-	27,146,828	29,643,718
Debt securities	1,310,305	423,050	4,029,859	-	-	5,763,214	5,763,793
Shares and participations	-	-	-	27	-	27	27
Derivative contracts at fair value through profit or loss	-	-	-	-	833,293	833,293	833,293
Derivative contracts in hedge accounting	-	-	-	-	1,524,870	1,524,870	1,524,870
Other assets **	243,269	-	-	-	-	243,269	243,269
Total	**36,063,619**	**423,050**	**4,029,859**	**44,465**	**2,358,163**	**42,919,155**	**45,416,624**

* Line item includes EUR 215,444 thousand of leased assets for which the Group applies fair value hedge accounting. Unhedged leased assets are not presented in this Note of financial assets and liabilities as leased assets are not regarded as financial assets for the purpose of IFRS 9 classification.

** Line item includes cash collateral given to central counterparties.

FINANCIAL LIABILITIES 31 Dec 2020 (EUR 1,000)	Amortised cost	Designated at fair value through profit or loss	Fair value through profit or loss	Total	Fair value
Liabilities to credit institutions	1,976,920	24,558	-	2,001,478	2,001,414
Liabilities to the public and public sector entities	2,246,352	1,637,674	-	3,884,026	3,906,619
Debt securities issued	22,457,624	10,454,282	-	32,911,906	32,968,471
Derivative contracts at fair value through profit or loss	-	-	1,403,900	1,403,900	1,403,900
Derivative contracts in hedge accounting	-	-	1,456,670	1,456,670	1,456,670
Provisions and other liabilities *	237,212	-	-	237,212	237,212
Total	**26,918,108**	**12,116,514**	**2,860,570**	**41,895,193**	**41,974,287**

* Line item includes EUR 231,180 thousand of cash collateral received from central counterparties and EUR 6,032 thousand of lease liabilities in accordance with IFRS 16 standard.

FINANCIAL ASSETS 31 DEC 2019 (EUR 1,000)	Amortised cost	Fair value through other comprehensive income	Designated at fair value through profit or loss	Mandatorily at fair value through profit or loss	Fair value through profit or loss	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	26,260,550
Debt securities	804,358	971,505	3,940,456	-	-	5,716,318	5,716,940
Shares and participations	-	-	-	9,797	-	9,797	9,797
Derivative contracts at fair value through profit or loss	-	-	-	-	860,695	860,695	860,695
Derivative contracts in hedge accounting	-	-	-	-	1,384,303	1,384,303	1,384,303
Other assets **	158,494	-	-	-	-	158,494	158,494
Total	**30,792,252**	**971,505**	**3,940,456**	**60,896**	**2,244,997**	**38,010,106**	**40,118,439**

* Line item includes EUR 182,865 thousand of leased assets for which the Group applies fair value hedge accounting.

** Line item includes cash collateral given to central counterparties.

FINANCIAL LIABILITIES 31 Dec 2019 (EUR 1,000)	Amortised cost	Designated at fair value through profit or loss	Fair value through profit or loss	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 at fair value through profit or loss	-	-	918,706	918,706	918,706
Derivative contracts in hedge accounting	-	-	843,304	843,304	843,304
Provisions and other liabilities *	103,627	-	-	103,627	103,627
Total	**22,187,310**	**12,940,212**	**1,762,010**	**36,889,532**	**36,965,091**

* Line item includes EUR 96,239 thousand of cash collateral received from central counterparties and EUR 7,388 thousand of lease liabilities in accordance with IFRS 16 standard.

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 fair value 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 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. Unobservable 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 unobservable. 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. In addition to financial assets and liabilities, the Group does not hold other assets or liabilities which are measured at fair value or assets or liabilities which are non-recurringly measured at fair value.

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 2020 (EUR 1,000)		Fair value			
	Carrying amount	Level 1	Level 2	Level 3	Total
At fair value					
Fair value through other comprehensive income					
Debt securities	423,050	321,308	101,741	-	423,050
Designated at fair value through profit or loss					
Debt securities	4,029,859	3,922,131	107,728	-	4,029,859
Mandatorily at fair value through profit or loss					
Loans and advances to the public and public sector entities	44,438	-	702	43,735	44,438
Shares and participations	27	-	-	27	27
Fair value through profit or loss					
Derivative contracts at fair value through profit or loss	833,293	-	753,841	79,452	833,293
Derivative contracts in hedge accounting	1,524,870	-	1,524,298	572	1,524,870
Total at fair value	**6,855,536**	**4,243,439**	**2,488,310**	**123,787**	**6,855,536**
In fair value hedge accounting					
Amortised cost					
Loans and advances to the public and public sector entities	11,829,557	-	12,614,580	-	12,614,580
Total in fair value hedge accounting	**11,829,557**	**-**	**12,614,580**	**-**	**12,614,580**
At amortised cost					
Cash and balances with central banks	5,565,801	5,565,801	-	-	5,565,801
Loans and advances to credit institutions	1,841,853	298,085	1,543,769	-	1,841,853
Loans and advances to the public and public sector entities	15,272,833	-	16,984,700	-	16,984,700
Debt securities	1,310,305	-	1,310,885	-	1,310,885
Other assets	243,269	-	243,269	-	243,269
Total at amortised cost	**24,234,062**	**5,863,886**	**20,082,621**	**-**	**25,946,507**
Total financial assets	**42,919,155**	**10,107,325**	**35,185,512**	**123,787**	**45,416,624**

FINANCIAL LIABILITIES 31 Dec 2020 (EUR 1,000)	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
At fair value					
Designated at fair value through profit or loss					
Liabilities to credit institutions	24,558	-	24,558	-	24,558
Liabilities to the public and public sector entities	1,637,674	-	1,413,261	224,413	1,637,674
Debt securities issued	10,454,282	-	8,328,568	2,125,714	10,454,282
Fair value through profit or loss					
Derivative contracts at fair value through profit or loss	1,403,900	-	757,607	646,293	1,403,900
Derivative contracts in hedge accounting	1,456,670	-	1,432,280	24,391	1,456,670
Total at fair value	**14,977,085**	**-**	**11,956,273**	**3,020,811**	**14,977,085**
In fair value hedge accounting					
Amortised cost					
Liabilities to credit institutions	68,800	-	68,736	-	68,736
Liabilities to the public and public sector entities	2,246,352	-	2,268,946	-	2,268,946
Debt securities issued *	22,077,489	-	22,040,007	94,048	22,134,054
Total in fair value hedge accounting	**24,392,642**	**-**	**24,377,688**	**94,048**	**24,471,736**
At amortised cost					
Liabilities to credit institutions	1,908,120	-	1,908,120	-	1,908,120
Debt securities issued	380,134	-	380,134	-	380,134
Provisions and other liabilities	237,212	-	237,212	-	237,212
Total at amortised cost	**2,525,467**	**-**	**2,525,467**	**-**	**2,525,467**
Total financial liabilities	**41,895,193**	**-**	**38,859,428**	**3,114,859**	**41,974,287**

* MuniFin Group's fixed-rate benchmark bond issuances are presented on level 2 due the fact that these bonds are in fair value hedge accounting with respect to the hedged risk. Valuation of the hedged risk is based on the level 2 inputs. In the Notes of the Financial Statements the Group's fixed-rate benchmark bonds' fair values are adjusted to reflect fair value based on the quoted prices from Bloomberg. The market price is a level 1 input.

FINANCIAL ASSETS 31 Dec 2019 (EUR 1,000)	Carrying amount	Fair value Level 1	Level 2	Level 3	Total
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
Shares and participations	9,797	9,797	-	-	9,797
Fair value through profit or loss					
Derivative contracts at fair value through profit or loss	860,695	-	727,687	133,007	860,695
Derivative contracts in hedge accounting	1,384,303	-	1,380,574	3,728	1,384,303
Total at fair value	**7,217,853**	**4,620,824**	**2,410,266**	**186,764**	**7,217,853**
In fair value hedge accounting					
Amortised cost					
Loans and advances to the public and public sector entities	8,729,122	-	9,336,784	-	9,336,784
Total in fair value hedge accounting	**8,729,122**	**-**	**9,336,784**	**-**	**9,336,784**
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 at amortised cost	**22,063,130**	**5,046,032**	**18,517,769**	**-**	**23,563,801**
Total financial assets	**38,010,106**	**9,666,857**	**30,264,818**	**186,764**	**40,118,439**

FINANCIAL LIABILITIES 31 Dec 2019 (EUR 1,000)	Carrying amount	Fair value Level 1	Level 2	Level 3	Total
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 contracts at fair value through profit or loss	918,706	-	460,463	458,243	918,706
Derivative contracts in hedge accounting	843,304	-	830,658	12,646	843,304
Total at fair value	**14,702,222**	**-**	**11,014,920**	**3,687,302**	**14,702,222**
In fair value hedge accounting					
Amortised cost					
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**
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
Provisions and other liabilities	103,627	-	103,627	-	103,627
Total at amortised cost	**1,399,291**	**-**	**1,399,291**	**-**	**1,399,291**
Total financial liabilities	**36,889,532**	**-**	**33,126,119**	**3,838,973**	**36,965,091**

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 to the fair value hierarchy levels 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 on the fair value hierarchy, the fair value measurement is categorised in its entirety on the level of the lowest level input that is significant to the entire measurement.

IFRS 13 classifies valuation models and techniques into three different categories: Market approach, Income approach and Cost approach. The Group applies the 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 of the liquidity portfolio. 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.

MuniFin 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 consist of four asset classes:

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

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

Fair value of financial instruments is generally calculated as the 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 of the counterparty's credit risk on fair value 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*).

Valuation framework

MuniFin 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. Executive Management Team (*EMT*) is responsible for 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.

Valuation Control Group (*VCG*) monitors MuniFin Group's fair values and is responsible for the final approval of the Group's fair values for financial reporting. VCG monitors and controls MuniFin Group's valuation process and the performance of valuation models, decides on the necessary measures and reports to the EMT. VCG assesses whether the valuation models and valuation process provide sufficiently accurate information to be used in financial reporting and, based on the information received, decides on possible adjustments to the values generated by the valuation process.

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:

- Counterparty valuation control (*CVC*),
- Fair value explanation,
- Independent price verification (*IPV*) and
- Independent model validation.

Counterparty valuation control (*CVC*) is performed daily by Risk Management, who assesses any deviations in valuation model output compared to MuniFin Group's own earlier valuations and to counterparty valuations. The results of the assessment are reported monthly to the VCG. Fair value explanation process consists of a daily analysis and explanation of the changes in fair values by Risk Management and a monthly fair value explanation report to the VCG. The independent price verification is performed monthly as part of MuniFin Group's IPV process by a third party service provider. The results of the control activities are reported monthly to the VCG. The independent model validation is performed annually for a subset of MuniFin Group's valuation models by a third-party service provider. The results of the model validation are reported to the VCG.

Transfers in the fair value hierarchy

MuniFin 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. A transfer between the fair value hierarchies can occur for example 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.

During 2020 transfers totaling EUR 205,516 thousand have been made between level 1 and level 2.

During 2020 transfers totaling EUR 35,796 thousand have been made between level 2 and level 3.

LEVEL 3 TRANSFERS 2020 (EUR 1,000)	1 Jan 2020	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 2020
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	-4,714	-	-1,578	-	-	43,735
Shares and participations	-	-	-	-	27	-	27
Fair value through profit or loss							
Derivative contracts at fair value through profit or loss	133,007	-12,405	-32	-41,804	686	-	79,452
Derivative contracts in hedge accounting	3,728	-2,118	117	-	-	-1,154	572
Financial assets in total	**186,764**	**-19,238**	**84**	**-43,382**	**713**	**-1,154**	**123,787**
Financial liabilities							
At fair value							
Designated at fair value through profit or loss							
Liabilities to the public and public sector entities	138,684	9,860	49,782	-	26,088	-	224,413
Debt securities issued	3,077,729	-259,858	868,572	-1,566,659	8,617	-2,686	2,125,714
Fair value through profit or loss							
Derivative contracts at fair value through profit or loss	458,243	289,125	37,906	-139,179	378	-181	646,293
Derivative contracts in hedge accounting	12,646	18,479	1,432	-	-	-8,167	24,391
In fair value hedge accounting							
Amortised cost							
Debt securities issued	151,671	-13,650	21,314	-	-	-65,286	94,048
Financial liabilities in total	**3,838,973**	**43,955**	**979,006**	**-1,705,838**	**35,083**	**-76,320**	**3,114,859**
Level 3 financial assets and liabilities in total *	**4,025,736**	**24,717**	**979,090**	**-1,749,220**	**35,796**	**-77,474**	**3,238,646**

* 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 fair value change due to changes in own credit risk of financial liabilities designated at fair value through profit or loss is recognised in the other comprehensive income.

Sensitivity analysis of unobservable inputs

Sensitivity analysis illustrates the impact of the reasonably possible assumptions on the fair value of financial instruments for which valuation is dependent on unobservable inputs. However, it is unlikely in practice that all unobservable inputs would simultaneously move to extremes of reasonably possible alternatives used in the sensitivity analysis. Hence, the impact of the sensitivity analysis disclosed in this Note is likely to be greater than the true uncertainty in the fair values at the financial statement date. Furthermore, the disclosure is neither predictive nor indicative of future movements in the fair value of financial instruments.

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 on level 3, changing one or more of the assumptions to the reasonably possible alternative assumptions would have the following effects: as of 31 December 2020, these assumptions could have increased fair values by EUR 44.6 million or decreased fair values by EUR 33.7 million. As of 31 December 2019, they could have increased fair values by EUR 58.6 million or decreased fair values by EUR 60.1 million.

SENSITIVITY ANALYSIS OF SIGNIFICANT UNOBSERVABLE INPUTS BY INSTRUMENT TYPE
31 Dec 2020 (EUR 1,000)

	Positive range of fair value	Negative range of fair value
Loans and advances to the public and public sector entities		
Loans	542	327
Derivative contracts		
Equity linked derivatives	12,416	-7,240
FX linked cross currency and interest rate derivatives	1,786	-365
Other interest rate derivatives	8,686	-10,165
Debt securities issued and Liabilities to the public and public sector entities		
Equity linked liabilities	11,690	-5,248
FX linked liabilities	-941	-1,681
Other liabilities	10,430	-9,276
Total	**44,609**	**-33,648**

The behaviour of the fair value of the unobservable inputs on level 3 is not necessarily independent and dynamic relationships often exist between the unobservable inputs and the observable inputs. Such relationships, where material to the fair value of a given instrument, are controlled via pricing models or valuation techniques.

MuniFin Group uses stochastic models to generate a distribution of future cash flows of each financial instrument. The future cash flows are then discounted back to present to get the fair value of each financial instrument. The stochastic models used by the Group are Hull-White model and Dupire volatility model.

The unobservable inputs used by the Group are described below. The unobservable inputs are used only to the extent that no relevant observable inputs are available.

Correlation parameters

If the fair value of a financial instrument is impacted by more than one unobservable input, correlations describe the relationship between these different underlyings. For example for equity linked instruments, correlation has a significant impact on fair value, if the underlying is dependant on more than one equity. For FX linked cross currency and interest rate derivatives, correlations exist between FX rates of currencies, which impact the fair value of the financial instrument.

If a high correlation exists between the unobservable inputs, it will lead to an increase in fair value. A low correlation between the unobservable inputs will lead to a decrease in fair value.

The majority of the financial instruments with correlation as significant unobservable input are the Group's funding products and their hedging instruments.

Volatility (extrapolated or illiquid)

A financial instrument whose value is based on a stochastic model will typically require the volatility of the underlying instrument as an input. The Group uses Dupire local volatility model as its stochastic valuation model. For interest rate volatilities at-the-money implied volatility is used. For FX and equity components (both equity indices and single stock prices), a full volatility surface is used that includes quotes for different strikes and maturities. The Group uses implied volatility for the majority of the equity linked structures. In some cases no liquid volatility surface exists. In these cases, a proxy volatility is typically used instead.

The majority of the financial instruments, which use volatility as significant unobservable input, are the Group's funding products and their hedging instruments.

Dividend yield

The main drivers influencing the fair value of equity-linked instruments are the dividend yield and volatility of the underlying equities. Equity-linked instruments require a dividend parameter as an input to the fair value. The equity component is modelled using the Dupire local volatility model where the underlying equity prices are assumed to follow a random walk.

Instruments that have dividend yield as a significant unobservable input are the Group's funding products and their hedging instruments.

Interest rates (extrapolated or illiquid)

The Group uses unobservable inputs in defining fair value of complex interest rate structures. The future cash flows and their fair value is determined by using forward rates and volatilities of the underlying interest rates using Hull-White stochastic model. Financial instruments whose payoffs are dependent on the value of complex interest rate structures are categorised on level 3.

The majority of these instruments requiring extrapolated or illiquid interest rates as input are the Group's funding products and their hedging instruments.

The table below illustrates the effect that changing one or more of the assumptions in the unobservable input (reasonably possible alternative assumptions) could have on the valuations at the financial statement date.

SENSITIVITY ANALYSIS OF UNOBSERVABLE INPUTS 31 Dec 2020 (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	43,735	Stochastic model	Volatility – Extrapolated or Illiquid	542	327
Derivative contracts					
Equity linked derivatives	-75,037	Stochastic model	Correlation parameters	1,324	-932
			Volatility – Extrapolated or Illiquid	9,142	-7,641
			Dividend yield	1,951	1,333
FX linked cross currency and interest rate derivatives	-517,779	Stochastic model	Correlation parameters	51	-368
			Volatility – Extrapolated or Illiquid	1,642	96
			Interest rates – Extrapolated or Illiquid	93	-93
Other interest rate derivatives	2,156	Stochastic model	Correlation parameters	8	-6
			Volatility – Extrapolated or Illiquid	8,230	-9,711
			Interest rates – Extrapolated or Illiquid	447	-448
Debt securities issued and Liabilities to the public and public sector entities					
Equity linked liabilities	885,327	Stochastic model	Correlation parameters	2,810	2,088
			Volatility – Extrapolated or Illiquid	7,733	-7,746
			Dividend yield	1,148	410
FX linked liabilities	1,027,104	Stochastic model	Correlation parameters	213	54
			Volatility – Extrapolated or Illiquid	-1,161	-1,729
			Interest rates – Extrapolated or Illiquid	6	-6
Other liabilities	531,744	Stochastic model	Correlation parameters	1	-1
			Volatility – Extrapolated or Illiquid	10,220	-9,066
			Interest rates – Extrapolated or Illiquid	209	-209
Total				**44,609**	**-33,648**

DAY 1 GAIN OR LOSS (EUR 1,000)	2020
Opening balance 1 Jan 2020	-
Recognised gain in the income statement	242
Recognised loss in the income statement	-67
Deferred gain or loss on new transactions	-204
Total 31 Dec 2020	**-29**

The definition and amortisation method for the Day 1 gain or loss is presented in the accounting policies (Note 1) in Section *Determination of fair value*.

Transfers in the fair value hierarchy and sensitivity analysis 2019

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

During 2019 transfers totaling EUR 2,800,159 thousand have been made between level 2 and level 3.

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 at fair value through profit or loss	944	6,653	3,585	-944	122,769	-	133,007
Derivative contracts in hedge accounting	-	-	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 at fair value through profit or loss	192,000	-46,235	31,275	-107,943	389,146	-	458,243
Derivative contracts in hedge accounting	-	-	67	-	12,579	-	12,646
In fair value hedge accounting							
Amortised cost							
Debt securities issued	-	-	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**

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 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**

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

FINANCIAL ASSETS 31 Dec 2020 (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	5,565,801	-	-	-	-	5,565,801
Loans and advances to credit institutions	1,806,864	-	34,989	-	-	1,841,853
Loans and advances to the public and public sector entities	361,651	1,567,812	6,373,992	6,099,127	12,744,246	27,146,828
*, of which Leased assets **	*8,059*	*19,545*	*64,691*	*37,320*	*85,829*	*215,444*
Debt securities	1,474,537	761,052	2,737,816	789,809	-	5,763,214
Shares and participations	-	-	-	-	27	27
Derivative contracts	21,851	86,840	551,548	718,929	978,995	2,358,163
Other assets **	243,269	-	-	-	-	243,269
Total	**9,473,973**	**2,415,705**	**9,698,345**	**7,607,864**	**13,723,269**	**42,919,155**

* Line item includes leased assets for which the Group applies fair value hedge accounting. Unhedged leased assets are not presented in this note of the financial assets and liabilities by maturity, as leased assets are not regarded as financial assets for the purpose of IFRS 9 classification.

** Line item includes cash collateral given to central counterparties.

FINANCIAL LIABILITIES 31 Dec 2020 (EUR 1,000)	0–3 months	3–12 months	1–5 years	5–10 years	Over 10 years	Total
Liabilities to credit institutions	658,120	1,250,000	24,558	34,106	34,694	2,001,478
Liabilities to the public and public sector entities	118,097	342,933	777,940	1,257,086	1,387,970	3,884,026
Debt securities issued	6,285,271	3,729,067	15,784,772	4,702,293	2,410,503	32,911,906
Derivative contracts	799,531	143,081	1,119,670	200,609	597,678	2,860,570
Provisions and other liabilities *	231,598	1,261	4,353	-	-	237,212
, of which Lease liabilities	*418*	*1,261*	*4,353*	-	-	*6,032*
Total	**8,092,617**	**5,466,342**	**17,711,294**	**6,194,095**	**4,430,845**	**41,895,193**

* Line item includes cash collateral received from central counterparties and lease liabilities in accordance with IFRS 16 standard.

Liabilities and hedging derivative contracts 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 30–50% of its callable liabilities in 2021. In 2020 the Group called 34% of its callable liabilities.

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 Leased assets	*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**

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
Provisions and 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. In 2019 the Group called 24% 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 on line *Loans and advances to credit institutions*, excluding cash given as collateral to central counterparties, which is presented on line *Other assets*. Cash received as collateral is included on the statement of financial position on line *Liabilities to credit institutions*, excluding cash received from central counterparties, which is presented on line *Provisions and other liabilities*.

				Amounts not offset in the statement of financial position		
31 Dec 2020 (EUR 1,000)	Carrying amount, gross	Offset in the statement of financial position, gross	Carrying amount, net	Received cash collateral *	Given cash collateral **	Net
Financial assets						
Derivative contracts	2,358,163	-	2,358,163	889,300	-	1,468,863
Total financial assets	**2,358,163**	**-**	**2,358,163**	**889,300**	**-**	**1,468,863**
Financial liabilities						
Derivative contracts	2,860,570	-	2,860,570	-	1,850,372	1,010,198
Total financial liabilities	**2,860,570**	**-**	**2,860,570**	**-**	**1,850,372**	**1,010,198**

* Includes EUR 231,180 thousand of cash collateral received from central counterparties.
** Includes EUR 243,272 thousand of cash collateral given to central counterparties.

The Group has not offset any financial assets or liabilities in its statement of financial position in 2020.

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 financial assets	**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 financial liabilities	**1,762,010**	**-**	**1,762,010**	**-**	**844,649**	**917,362**

* Includes EUR 96,239 thousand of cash collateral received from central counterparties.
** Includes EUR 158,494 thousand of cash collateral given to central counterparties.

The Group has not offset any financial assets or liabilities in its statement of financial position in 2019.

Note 20. Cash and cash equivalents

31 Dec 2020 (EUR 1,000)	Total	Cash and cash equivalents	Expected credit losses
Cash	2	2	-
Central bank deposits payable on demand	5,565,799	5,565,799	0
Cash and balances with central banks	**5,565,801**	**5,565,801**	**0**
Loans and advances to credit institutions payable on demand	164,878	164,879	-1
Total cash and cash equivalents	**5,730,679**	**5,730,680**	**-1**

31 Dec 2019 (EUR 1,000)	Total	Cash and cash equivalents	Expected credit losses
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**

Note 21. Loans and advances to credit institutions

31 Dec 2020 (EUR 1,000)	Payable on demand	Other than payable on demand *	Expected credit losses	Total
Receivables from central bank	34,918	-	0	34,918
Domestic credit institutions	89,636	98,300	-11	187,925
Foreign credit institutions	75,242	1,543,800	-32	1,619,011
Total	**199,796**	**1,642,100**	**-43**	**1,841,853**

* Loans and advances to credit institutions other than repayable on demand does not include reverse repo agreements at the financial statement date 31 Dec 2020 or 31 Dec 2019.

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

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

(EUR 1,000)	31 Dec 2020 Total	31 Dec 2020 , of which expected credit losses	31 Dec 2019 Total	31 Dec 2019 , of which expected credit losses
Enterprises and housing corporations	13,794,905	-983	12,647,283	-155
Public sector entities	12,772,899	-38	10,943,542	-19
Non-profit organisations	363,580	-67	379,149	-11
Leased assets	1,090,940	-2	828,458	-1
Total	**28,022,325**	**-1,091**	**24,798,432**	**-186**

Note 23. Debt securities

DEBT SECURITIES ISSUED BY PUBLIC SECTOR ENTITIES 31 Dec 2020 (EUR 1,000)	Publicly quoted	Other	Total	Expected credit losses *
Amortised cost	**-**	**1,199,621**	**1,199,621**	**0**
Commercial papers issued by other public sector entities	-	1,199,621	1,199,621	0
Fair value through other comprehensive income	**124,157**	**-**	**124,157**	**2**
Bonds issued by other public sector entities	124,157	-	124,157	2
Designated at fair value through profit or loss	**1,869,431**	**-**	**1,869,431**	**-**
Government bonds	266,874	-	266,874	-
Bonds issued by other public sector entities	1,602,557	-	1,602,557	-
Total	**1,993,588**	**1,199,621**	**3,193,209**	**3**
, of which eligible for central bank refinancing	*1,780,922*	-	*1,780,922*	*2*

DEBT SECURITIES ISSUED BY OTHER THAN PUBLIC SECTOR ENTITIES 31 Dec 2020 (EUR 1,000)	Publicly quoted	Other	Total	Expected credit losses *
Amortised cost	**-**	**110,684**	**110,684**	**0**
Commercial papers	-	110,684	110,684	0
Fair value through other comprehensive income	**298,893**	**-**	**298,893**	**39**
Bank bonds	298,893	-	298,893	39
Bank commercial papers	-	-	-	-
Designated at fair value through profit or loss	**2,160,427**	**-**	**2,160,427**	**-**
Bank bonds	2,160,427	-	2,160,427	-
Total	**2,459,320**	**110,684**	**2,570,005**	**39**
, of which eligible for central bank refinancing	*2,169,064*	-	*2,169,064*	*25*

31 Dec 2020 (EUR 1,000)	Publicly quoted	Other	Total	Expected credit losses *
Debt securities total	**4,452,908**	**1,310,305**	**5,763,214**	**42**

* The expected credit losses have been recognised on debt securities, which have been classified at fair value through other comprehensive income. Therefore, the expected credit loss is not recognised as a deduction from the gross carrying amount of the debt securities in the statement of financial position, but through other comprehensive income to the fair value reserve as described in the accounting policies (Note 1) in Section *Presentation of allowance for ECL in the statement of financial position.*

Debt securities do not contain any securities given as collateral for reverse repo agreements at the financial statement date 31 Dec 2020.

DEBT SECURITIES ISSUED BY PUBLIC SECTOR ENTITIES 31 Dec 2019 (EUR 1,000)	Publicly quoted	Other	Total	Expected credit losses
Amortised cost	**-**	**721,585**	**721,585**	**0**
Commercial paper issued by other public sector entities	-	721,585	721,585	0
Fair value through other comprehensive income	**58,268**	**-**	**58,268**	**0**
Bonds issued by other public sector entities	58,268	-	58,268	0
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	-
Total	**1,509,984**	**721,585**	**2,231,569**	**0**
, of which eligible for central bank refinancing	*1,345,703*	-	*1,345,703*	*0*

DEBT SECURITIES ISSUED BY OTHER THAN PUBLIC SECTOR ENTITIES 31 Dec 2019 (EUR 1,000)	Publicly quoted	Other	Total	Expected credit losses
Amortised cost	**-**	**82,772**	**82,772**	**0**
Commercial papers	-	82,772	82,772	0
Fair value through other comprehensive income	**913,236**	**-**	**913,236**	**104**
Bank bonds	848,196	-	848,196	101
Bank commercial papers	65,040	-	65,040	3
Designated at fair value through profit or loss	**2,488,740**	**-**	**2,488,740**	**-**
Bank bonds	2,488,740	-	2,488,740	-
Total	**3,401,976**	**82,772**	**3,484,748**	**104**
, of which eligible for central bank refinancing	*2,743,816*	-	*2,743,816*	*77*

31 Dec 2019 (EUR 1,000)	Publicly quoted	Other	Total	Expected credit losses
Debt securities total	**4,911,960**	**804,358**	**5,716,318**	**104**

Note 24. Shares and participations

31 Dec 2020 (EUR 1,000)	Publicly quoted	Other	Total	, of which in credit institutions
Mandatorily at fair value through profit or loss	-	27	27	-
Total	**-**	**27**	**27**	**-**

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

Note 25. Derivative contracts

DERIVATIVE CONTRACTS 31 Dec 2020 (EUR 1,000)	Nominal value of underlying instrument: Remaining maturity: Less than 1 year	1–5 years	Over 5 years	Total	Fair value: Positive	Negative
Derivative contracts in hedge accounting						
Interest rate derivatives						
Interest rate swaps	2,933,188	11,186,060	15,825,475	29,944,724	1,155,265	-470,736
, of which cleared by the central counterparty	*1,474,582*	*10,182,656*	*13,852,888*	*25,510,126*	*684,090*	*-314,856*
Currency derivatives						
Cross currency interest rate swaps	1,577,593	7,155,034	1,105,354	9,837,981	369,605	-985,934
Total derivative contracts in hedge accounting	**4,510,781**	**18,341,095**	**16,930,830**	**39,782,706**	**1,524,870**	**-1,456,670**
Derivative contracts at fair value through profit or loss						
Interest rate derivatives						
Interest rate swaps	3,800,843	9,751,683	5,000,317	18,552,843	749,891	-488,850
, of which cleared by the central counterparty	*2,784,644*	*6,910,928*	*1,515,808*	*11,211,380*	*5,605*	*-189,246*
Interest rate options	-	40,000	-	40,000	106	-106
Currency derivatives						
Cross currency interest rate swaps	2,385,939	2,284,168	130,374	4,800,480	82,985	-713,063
Forward exchange contracts	3,516,421	-	-	3,516,421	-	-126,805
Equity derivatives	932,553	-	-	932,553	313	-75,076
Total derivative contracts at fair value through profit or loss	**10,635,756**	**12,075,850**	**5,130,691**	**27,842,297**	**833,293**	**-1,403,900**
Total derivative contracts	**15,146,537**	**30,416,945**	**22,061,521**	**67,625,003**	**2,358,163**	**-2,860,570**

Derivative contracts 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 derivative contracts used for hedging financial assets and liabilities designated at fair value through profit or loss, all derivative contracts with municipalities and all derivative contracts hedging derivatives with municipalities. In addition to these, the category contains derivative contracts 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*.

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DERIVATIVE CONTRACTS 31 Dec 2019 (EUR 1,000)	Nominal value of underlying instrument Remaining maturity Less than 1 year	1–5 years	Over 5 years	Total	Fair value Positive	Negative
Derivative 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
, of which 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 derivative contracts in hedge accounting	**4,894,228**	**17,533,502**	**12,603,942**	**35,031,672**	**1,384,303**	**-843,304**
Derivative 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
, of which 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
Total derivative 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**

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 the accounting polices (Note 1) in Section *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 2020 (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	11,183,657	11,614,114	11,483,819	130,295	-
Loans and advances to the public and public sector entities - Leased assets	211,223	215,444	-	215,444	-
Total assets	**11,394,880**	**11,829,557**	**11,483,819**	**345,739**	**-**
Liabilities					
Liabilities to credit institutions	55,000	68,800	-	68,800	-
Liabilities to the public and public sector entities	1,853,956	2,246,352	-	2,181,931	64,421
Debt securities issued	21,260,721	22,077,489	-	11,898,132	10,179,357
Total liabilities	**23,169,677**	**24,392,642**	**-**	**14,148,863**	**10,243,779**

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The figures presented in the following table 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 financial year. 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 derivative 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.

VALUE OF HEDGED RISK (EUR 1,000)	31 Dec 2020	1 Jan 2020	Recognised in the income statement 2020
Assets			
IAS 39 portfolio hedge accounting			
Loans and advances to the public and public sector entities	464,688	303,139	161,548
Derivative contracts in hedge accounting	-428,083	-276,831	-151,252
Accumulated fair value accrual from the termination of hedge accounting	47	-	47
IAS 39 portfolio hedge accounting, net	**36,653**	**26,308**	**10,344**
IFRS 9 fair value hedge accounting			
Loans and advances to the public and public sector entities	41,424	30,934	10,489
Derivative contracts in hedge accounting	-42,044	-33,193	-8,851
IFRS 9 fair value hedge accounting, net	**-620**	**-2,258**	**1,638**
Liabilities			
IFRS 9 fair value hedge accounting			
Liabilities to credit institutions	-13,800	-12,916	-884
Liabilities to the public and public sector entities	-481,546	-434,953	-46,593
Debt securities issued	-859,986	-524,923	-335,063
Derivative contracts in hedge accounting	1,340,456	963,674	376,782
IFRS 9 fair value hedge accounting, net	**-14,876**	**-9,118**	**-5,757**
IBOR reform related compensations *	-2,041	-	-2,041
Total hedge accounting	**19,115**	**14,932**	**4,183**

* Compensations relate to the ongoing IBOR reform of which more information is presented in the accounting policies (Note 1) in Section *IBOR reform*.

The following table 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 EQUITY (EUR 1,000)	31 Dec 2020	1 Jan 2020	Impact on Cost-of-Hedging reserve
Cost-of-Hedging			
Derivative contracts in hedge accounting	15,624	28,075	-12,451
Total	**15,624**	**28,075**	**-12,451**

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

EFFECTIVENESS OF HEDGE ACCOUNTING
31 Dec 2020 (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	464,688	-428,083	36,605
IFRS 9 fair value hedge accounting				
Structured lending	Interest rate derivatives	37,203	-37,739	-537
Fixed rate and revisable rate leased assets	Interest rate derivatives	4,221	-4,305	-84
Assets total		**506,111**	**-470,126**	**35,985**
Liabilities				
IFRS 9 fair value hedge accounting				
Financial liabilities denominated in EUR	Interest rate derivatives	-952,949	945,353	-7,596
Financial liabilities denominated in foreign currencies	Currency derivatives (Cross currency interest rate swaps) Interest rate derivatives	-402,383	395,103	-7,280
Liabilities total		**-1,355,332**	**1,340,456**	**-14,876**

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 - Leased 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**

VALUE OF HEDGED RISK (EUR 1,000)	31 Dec 2019	1 Jan 2019	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
Derivative contracts in hedge accounting	-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
Derivative contracts in hedge accounting	-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
Derivative contracts in hedge accounting	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**

HEDGING IMPACT ON EQUITY (EUR 1,000)	31 Dec 2019	1 Jan 2019	Impact on Cost-of-Hedging reserve
Cost-of-Hedging			
Derivative contracts in hedge accounting	28,075	14,235	13,840
Total	**28,075**	**14,235**	**13,840**

EFFECTIVENESS OF 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 and revisable rate leased assets	Interest rate derivatives	1,605	-2,107	-502
Assets total		**334,074**	**-310,024**	**24,050**
Liabilities				
IFRS 9 fair value hedge accounting				
Financial liabilities denominated in EUR	Interest rate derivatives	-693,747	697,685	3,938
Financial liabilities 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**

Note 27. Credit risks 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 the accounting policies (Note 1) in Section *Impairment of financial assets*.

The table below presents exposures under expected credit loss calculations by asset groups and impairment stages.

	Not credit-impaired				Credit-impaired		Total	
	Stage 1		Stage 2		Stage 3 *			
EXPOSURES BY ASSET GROUPS AND IMPAIRMENT STAGES 31 Dec 2020 (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	5,565,801	0	-	-	-	-	5,565,801	0
Loans and advances to credit institutions at amortised cost	1,841,853	-43	-	-	-	-	1,841,853	-43
Loans and advances to the public and public sector entities at amortised cost	26,606,595	-30	145,061	-835	135,291	-224	26,886,947	-1,089
Leased assets in Loans and advances to the public and public sector entities at amortised cost	1,090,768	-2	-	-	173	-	1,090,940	-2
Debt securities at amortised cost	1,303,105	0	7,200	-	-	-	1,310,305	0
Debt securities at fair value through other comprehensive income	423,050	-42	-	-	-	-	423,050	-42
Cash collateral to CCPs in Other assets at amortised cost	243,269	-4	-	-	-	-	243,269	-4
Guarantee receivables from the public and public sector entities in Other assets	1,606	-	-	-	-	-	1,606	-
Credit commitments (off-balance sheet)	2,348,271	-4	4,506	0	1,201	0	2,353,978	-4
Total	**39,424,318**	**-126**	**156,767**	**-835**	**136,665**	**-224**	**39,717,750**	**-1,184**

* The Group has collateral and guarantee arrangements that fully cover the stage 3 receivables as described in Note *2 Risk management principles and the Group's risk position* in Section *Credit risk*. The Group's management expects that all the stage 3 reveivables will be recovered and no final credit loss will emerge. Stage 3 receivables include EUR 2,404 thousand of originated credit impaired receivables (*Purchased or Originated Credit Impaired, POCI*). Expected credit losses for the POCI receivables amount to EUR 4 thousand.

EXPOSURES BY ASSET GROUPS AND IMPAIRMENT STAGES 31 Dec 2019 (EUR 1,000)	Not credit-impaired				Credit-impaired		Total	
	Stage 1		Stage 2		Stage 3			
	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
Leased assets 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)	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 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 (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
Opening balance 1 Jan 2020	**-167**	**-80**	**-80**	**-327**	**34,772,275**
New assets originated or purchased	-83	-30	-13	-126	10,624,630
Assets derecognised or repaid (excluding write-offs)	119	10	43	173	-5,678,253
Transfers to Stage 1	0	30	-	30	30
Transfers to Stage 2	0	-50	9	-41	-41
Transfers to Stage 3	0	19	-7	12	12
Additional provision (*Management overlay*)	-	-340	-	-340	-340
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	-
Changes to models * and inputs ** used for ECL calculations	5	-395	-176	-566	-564
Write-offs	-	-	-	-	-
Recoveries	-	-	-	-	-
Total 31 Dec 2020	**-126**	**-835**	**-224**	**-1,184**	**39,717,750**

* Represents changes in the model.
** Represents changes to model parameters (e.g. GDP rates, unemployment rates)

During the second half of 2020, MuniFin Group has specified the methods for estimating and modeling expected credit losses as well as the assumptions used in the model. The change in the modeling methodology affected the modeling of the probability of default over the lifetime of the loan and thus affected the amount of expected credit losses on stages 2 and 3, which increased by approximately EUR 0.5 million due to the change.

In addition, MuniFin Group has recorded an additional discretionary provision (*management overlay*) of EUR 340 thousand to take into account the financial effects of the COVID-19 pandemic. Year 2020 can be said to have been financially exceptionally weak for certain customer segments such as the arts sector and the operation of sports halls. However, the deteriorating financial situation is not yet reflected in the Group's internal risk ratings, which have been mainly updated based on the 2019 financial statements. As the credit risk of certain customer segments is estimated to have increased since then, MuniFin Group's management decided to record an additional discretionary provision based on a group-specific assessment. The additional provision relates to the statement of financial position line item *Loans and advances to the public and public sector entities*. The additional provision has not been allocated to contract level.

The assessment of the need for additional provisions is based on the fact that MuniFin Group's management estimates that due to the increase in credit risk (not yet reflected in the internal risk ratings), part of the exposures would transfer to stage 2 in the expected credit loss calculations. More detailed information on the financial situation of the companies subject to the additional provision will be available after the completion of their 2020 financial statements, so that any change in expected credit losses can be allocated to individual contracts and determined according to the normal ECL calculation process.

MuniFin Group's total credit risk has remained low and the amount of expected credit losses (*ECL*) remains low. The Group's customer exposures have zero risk weight in MuniFin Group's capital adequacy calculation because they are from Finnish municipalities or involve a municipal guarantee or a state deficiency guarantee supplementing the real estate collateral, as described in Note *2 Risk management principles and the Group's risk position* under Section *Credit risk.* The Group's management estimates that all receivables will be recovered in full and therefore no final credit loss will arise. On 31 December 2020, the Group has a total of EUR 24 million (EUR 2 million) in guarantee receivables from the public sector due to the insolvency of customers. The growth is due to individual customers. Credit risk of the liquidity portfolio has remained of good quality with the average rating of AA+.

TOTAL EXPECTED CREDIT LOSSES BY IMPAIRMENT STAGES	Not credit-impaired		Credit-impaired	Total	
	Stage 1	Stage 2	Stage 3		
(EUR 1,000)	12-month ECL	Lifetime ECL	Lifetime ECL	ECL	Gross carrying amount
Opening balance 1 Jan 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 and inputs used for ECL calculations	-22	-	-	-22	0
Write-offs	-	-	-	-	-180
Recoveries	-	-	-	-	180
Total 31 Dec 2019	**-167**	**-80**	**-80**	**-327**	**34,772,275**

During the financial year 2019, 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 amount of expected of credit losses.

Tables below present 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

	Not credit-impaired		Credit-impaired	Total	
	Stage 1	Stage 2	Stage 3		
(EUR 1,000)	12-month ECL	Lifetime ECL	Lifetime ECL	ECL	Gross carrying amount
Opening balance 1 Jan 2020	**0**	**-**	**-**	**0**	**4,909,338**
New assets originated or purchased	0	-	-	0	656,463
Assets derecognised or repaid (excluding write-offs)	0	-	-	0	0
Transfers to Stage 1	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-
Changes to models and inputs used for ECL calculations	-	-	-	-	-
Total 31 Dec 2020	**0**	**-**	**-**	**0**	**5,565,801**

EXPECTED CREDIT LOSSES ON LOANS AND ADVANCES TO CREDIT INSTITUTIONS AT AMORTISED COST BY IMPAIRMENT STAGES

	Not credit-impaired		Credit-impaired	Total	
	Stage 1	Stage 2	Stage 3		
(EUR 1,000)	12-month ECL	Lifetime ECL	Lifetime ECL	ECL	Gross carrying amount
Opening balance 1 Jan 2020	**-28**	**-**	**-**	**-28**	**818,323**
New assets originated or purchased	-35	-	-	-35	1,687,210
Assets derecognised or repaid (excluding write-offs)	21	-	-	21	-663,679
Transfers to Stage 1	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-
Changes to models and inputs used for ECL calculations	-1	-	-	-1	-1
Total 31 Dec 2020	**-43**	**-**	**-**	**-43**	**1,841,853**

EXPECTED CREDIT LOSSES ON LOANS AND ADVANCES TO THE PUBLIC AND PUBLIC SECTOR ENTITIES AT AMORTISED COST BY IMPAIRMENT STAGES	Not credit-impaired		Credit-impaired	Total	
	Stage 1	Stage 2	Stage 3		
(EUR 1,000)	12-month ECL	Lifetime ECL	Lifetime ECL	ECL	Gross carrying amount
Opening balance 1 Jan 2020	**-24**	**-80**	**-80**	**-185**	**23,918,874**
New assets originated or purchased	-15	-30	-13	-58	4,825,655
Assets derecognised or repaid (excluding write-offs)	3	10	43	56	-1,856,679
Transfers to Stage 1	0	30	-	30	30
Transfers to Stage 2	0	-50	9	-41	-41
Transfers to Stage 3	0	19	-7	12	12
Additional provision (*Management overlay*)	-	-340	-	-340	-340
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	-
Changes to models and inputs used for ECL calculations	6	-395	-176	-564	-564
Write-offs	-	-	-	-	-
Total 31 Dec 2020	**-30**	**-835**	**-224**	**-1,089**	**26,886,947**

EXPECTED CREDIT LOSSES ON LEASED ASSETS IN LOANS AND ADVANCES TO THE PUBLIC AND PUBLIC SECTOR ENTITIES AT AMORTISED COST BY IMPAIRMENT STAGES	Not credit-impaired		Credit-impaired	Total	
	Stage 1	Stage 2	Stage 3		
(EUR 1,000)	12-month ECL	Lifetime ECL	Lifetime ECL	ECL	Gross carrying amount
Opening balance 1 Jan 2020	**-1**	**0**	**-**	**-1**	**828,458**
New assets originated or purchased	-1	-	0	-1	318,638
Assets derecognised or repaid (excluding write-offs)	0	-	-	0	-56,155
Transfers to Stage 1	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-
Transfers to Stage 3	-	0	-	0	0
Changes to models and inputs used for ECL calculations	0	-	-	0	0
Total 31 Dec 2020	**-2**	**0**	**0**	**-2**	**1,090,940**

EXPECTED CREDIT LOSSES ON DEBT SECURITIES AT AMORTISED COST BY IMPAIRMENT STAGES

	Not credit-impaired		Credit-impaired	Total	
	Stage 1	Stage 2	Stage 3		
(EUR 1,000)	12-month ECL	Lifetime ECL	Lifetime ECL	ECL	Gross carrying amount
Opening balance 1 Jan 2020	**0**	**0**	**-**	**0**	**804,358**
New assets originated or purchased	0	0	-	0	1,310,305
Assets derecognised or repaid (excluding write-offs)	0	0	-	0	-804,358
Transfers to Stage 1	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-
Changes to models and inputs used for ECL calculations	-	-	-	-	-
Total 31 Dec 2020	**0**	**0**	**-**	**0**	**1,310,305**

EXPECTED CREDIT LOSSES ON DEBT SECURITIES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME BY IMPAIRMENT STAGES

	Not credit-impaired		Credit-impaired	Total	
	Stage 1	Stage 2	Stage 3		
(EUR 1,000)	12-month ECL	Lifetime ECL	Lifetime ECL	ECL	Gross carrying amount
Opening balance 1 Jan 2020	**-104**	**-**	**-**	**-104**	**971,505**
New assets originated or purchased	-28	-	-	-28	159,570
Assets derecognised or repaid (excluding write-offs)	92	-	-	92	-708,025
Transfers to Stage 1	-	-	-	-	
Transfers to Stage 2	-	-	-	-	
Transfers to Stage 3	-	-	-	-	
Changes to models and inputs used for ECL calculations	-2	-	-	-2	
Total 31 Dec 2020	**-42**	**-**	**-**	**-42**	**423,050**

The loss allowance for expected credit losses on debt instruments at fair value through other comprehensive income is recognised in fair value reserve. The accumulated loss allowance is reclassified to the income statement upon derecognition of the assets. More details regarding the presentation of allowance for expected credit losses is presented in the accounting policies (Note 1) 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	Not credit-impaired		Credit-impaired	Total	
	Stage 1	Stage 2	Stage 3		
(EUR 1,000)	12-month ECL	Lifetime ECL	Lifetime ECL	ECL	Gross carrying amount
Opening balance 1 Jan 2020	**-4**	**-**	**-**	**-4**	**158,494**
New assets originated or purchased	-2	-	-	-2	84,772
Assets derecognised or repaid (excluding write-offs)	1	-	-	1	1
Transfers to Stage 1	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-
Changes to models and inputs used for ECL calculations	2	-	-	2	2
Total 31 Dec 2020	**-4**	**-**	**-**	**-4**	**243,269**

EXPECTED CREDIT LOSSES ON GUARANTEE RECEIVABLES FROM THE PUBLIC AND PUBLIC SECTOR ENTITIES IN OTHER ASSETS BY IMPAIRMENT STAGES

(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
Opening balance 1 Jan 2020	**-**	**-**	**-**	**-**	**1,603**
New assets originated or purchased	-	-	-	-	184
Assets derecognised or repaid (excluding write-offs)	-	-	-	-	-180
Transfers to Stage 1	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-
Changes to models and inputs used for ECL calculations	-	-	-	-	-
Recoveries	-	-	-	-	-
Total 31 Dec 2020	**-**	**-**	**-**	**-**	**1,606**

EXPECTED CREDIT LOSSES ON CREDIT COMMITMENTS (OFF-BALANCE SHEET) BY IMPAIRMENT STAGES	**Not credit-impaired**		**Credit-impaired**	**Total**	
	Stage 1	**Stage 2**	**Stage 3**		
(EUR 1,000)	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**ECL**	**Gross carrying amount**
Opening balance 1 Jan 2020	**-4**	**0**	**-**	**-4**	**2,361,323**
New assets originated or purchased	-3	-	0	-3	1,581,833
Assets derecognised or repaid (excluding write-offs)	3	0	-	3	-1,589,178
Transfers to Stage 1	-	-	-	-	
Transfers to Stage 2	0	0	-	0	
Transfers to Stage 3	-	-	-	-	
Changes to models and inputs used for ECL calculations	0	0	-	0	
Total 31 Dec 2020	**-4**	**0**	**0**	**-4**	**2,353,978**

The loss allowance on binding credit commitments is recognised under *Provisions and other liabilities*. More details regarding the presentation of allowance for expected credit losses is presented in the accounting policies (Note 1) in Section *Presentation of allowance in the statement of financial position*.

EXPECTED CREDIT LOSSES ON CASH AND BALANCES WITH CENTRAL BANKS AT AMORTISED COST BY IMPAIRMENT STAGES	Not credit-impaired		Credit-impaired	Total	
	Stage 1	Stage 2	Stage 3		
(EUR 1,000)	12-month ECL	Lifetime ECL	Lifetime ECL	ECL	Gross carrying amount
Opening balance 1 Jan 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 31 Dec 2019	**0**	**-**	**-**	**0**	**4,909,338**

EXPECTED CREDIT LOSSES ON LOANS AND ADVANCES TO CREDIT INSTITUTIONS AT AMORTISED COST BY IMPAIRMENT STAGES

	Not credit-impaired		Credit-impaired	Total	
	Stage 1	Stage 2	Stage 3		
(EUR 1,000)	12-month ECL	Lifetime ECL	Lifetime ECL	ECL	Gross carrying amount
Opening balance 1 Jan 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 31 Dec 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	Not credit-impaired		Credit-impaired	Total	
	Stage 1	Stage 2	Stage 3		
(EUR 1,000)	12-month ECL	Lifetime ECL	Lifetime ECL	ECL	Gross carrying amount
Opening balance 1 Jan 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 31 Dec 2019	**-24**	**-80**	**-80**	**-185**	**23,918,874**

EXPECTED CREDIT LOSSES ON LEASED ASSETS IN LOANS AND ADVANCES TO THE PUBLIC AND PUBLIC SECTOR ENTITIES AT AMORTISED COST BY IMPAIRMENT STAGES

	Not credit-impaired		Credit-impaired	Total	
	Stage 1	Stage 2	Stage 3		
(EUR 1,000)	12-month ECL	Lifetime ECL	Lifetime ECL	ECL	Gross carrying amount
Opening balance 1 Jan 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 31 Dec 2019	**-1**	**0**	**-**	**-1**	**828,458**

EXPECTED CREDIT LOSSES ON DEBT SECURITIES AT AMORTISED COST BY IMPAIRMENT STAGES

	Not credit-impaired		Credit-impaired	Total	
	Stage 1	Stage 2	Stage 3		
(EUR 1,000)	12-month ECL	Lifetime ECL	Lifetime ECL	ECL	Gross carrying amount
Opening balance 1 Jan 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 31 Dec 2019	**0**	**0**	**-**	**0**	**804,358**

EXPECTED CREDIT LOSSES ON DEBT SECURITIES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME BY IMPAIRMENT STAGES	Not credit-impaired		Credit-impaired	Total	
	Stage 1	Stage 2	Stage 3		
(EUR 1,000)	12-month ECL	Lifetime ECL	Lifetime ECL	ECL	Gross carrying amount
Opening balance 1 Jan 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 31 Dec 2019	**-104**	**-**	**-**	**-104**	**971,505**

EXPECTED CREDIT LOSSES ON CASH COLLATERAL TO CCPS IN OTHER ASSETS AT AMORTISED COST BY IMPAIRMENT STAGES	Not credit-impaired		Credit-impaired	Total	
	Stage 1	Stage 2	Stage 3		
(EUR 1,000)	12-month ECL	Lifetime ECL	Lifetime ECL	ECL	Gross carrying amount
Opening balance 1 Jan 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 31 Dec 2019	**-4**	**-**	**-**	**-4**	**158,494**

EXPECTED CREDIT LOSSES ON GUARANTEE RECEIVABLES FROM THE PUBLIC AND PUBLIC SECTOR ENTITIES IN OTHER ASSETS BY IMPAIRMENT STAGES	Not credit-impaired		Credit-impaired	Total	
	Stage 1	Stage 2	Stage 3		
(EUR 1,000)	12-month ECL	Lifetime ECL	Lifetime ECL	ECL	Gross carrying amount
Opening balance 1 Jan 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 31 Dec 2019	**-**	**-**	**-**	**-**	**1,603**

EXPECTED CREDIT LOSSES ON CREDIT COMMITMENTS (OFF-BALANCE SHEET) BY IMPAIRMENT STAGES

	Not credit-impaired		Credit-impaired	Total	
	Stage 1	Stage 2	Stage 3		
(EUR 1,000)	12-month ECL	Lifetime ECL	Lifetime ECL	ECL	Gross carrying amount
Opening balance 1 Jan 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 31 Dec 2019	**-4**	**-**	**-**	**-4**	**2,361,323**

Forward-looking information

In the assessment of whether the credit risk of an instrument has significantly increased (*SICR*) and in the measurement of expected credit losses, forward-looking information and macroeconomic scenarios are included in the model. The scenarios for Finland have been updated by the Chief Economist and Scenario Design Team of MuniFin Group to take into account the effect of COVID-19 pandemic. The macroeconomic projections cover a 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 include probability weights. Due to uncertainty caused by the COVID-19 pandemic, MuniFin Group has given a larger weight to the adverse scenario.

The scenario probability weightings are as following:

	31 Dec 2020			31 Dec 2019		
SCENARIO	**2021**	**2022**	**2023**	**2020**	**2021**	**2022**
Adverse	50%	40%	40%	5%	5%	5%
Base	40%	40%	40%	75%	75%	75%
Optimistic	10%	20%	20%	20%	20%	20%

The Group has identified key drivers of credit losses for each portfolio that share similar kind of credit risk characteristics and estimated the relationship between macroeconomic variables and credit losses. ECL model consists of the following macroeconomic variables for Finnish counterparties of financial assets; Finnish government long-term rate, the development of residential housing prices and unemployment rate. For non-Finnish financial assets, stress test scenarios published by the European Central Bank are employed in the model and scenario parameters. Each variable covers an estimate over a period of three years. The following table presents the macroeconomic variables and their forecasts over the three-year forecast period.

		31 Dec 2020			31 Dec 2019		
MACROECONOMIC VARIABLES	**Scenario**	**2021**	**2022**	**2023**	**2020**	**2021**	**2022**
10Y Fin Government rate, %	Adverse	0.1	-0.25	0.0	0.94	1.14	1.3
	Base	-0.37	-0.25	0.1	0.25	0.75	1.0
	Optimistic	0.0	0.3	0.6	0.85	1.1	1.35
Residential Real Estate (selling price, YoY change), %	Adverse	-12.5	-2.5	2.0	-9.0	-12.0	-5.0
	Base	0.5	1.0	2.0	1.5	1.5	2.0
	Optimistic	2.0	2.5	2.0	2.8	3.0	2.5
Unemployment rate, %	Adverse	9.5	9.2	8.7	7.8	9.5	9.2
	Base	8.2	7.8	7.6	6.5	6.4	6.3
	Optimistic	7.7	7.2	6.9	6.1	5.8	5.2

The outbreak of COVID-19 pandemic led to a sharp decline in global GDP in the first half of 2020. Output started recovering in May–June 2020 as countries reopened their economies. Towards the end of the year, however, the second wave of the pandemic renewed the pressure on economic activity. In MuniFin Group's base scenario, the Finnish GDP to contract is 3.5% in 2020. COVID-19 pandemic will still have a negative impact on the economy during the winter and early spring of 2021. By summer, recovery will gain more momentum as wider vaccination programs support economic confidence. MuniFin Group expects output to grow 2.0% in 2021 and 3.5% in 2022. From 2023 onwards, the economy gradually converges to its long-term growth path and the annual pace of expansion is around 1.3–1.5%. In the base scenario, unemployment rate peaks at 8.2% in 2021. Unemployment will remain several years above its structural level, which is estimated to be around 6.5–7.0%. Negative output gap keeps price pressures subdued. CPI inflation is assumed to recover rather slowly in 2021–2022. The European Central Bank is committed to a very accommodative monetary policy stance and interest rate expectations will rise only gradually in line with economic recovery. On the national level, housing prices are expected to rise only marginally in 2020–2021. After the pandemic, from 2022 onwards, housing prices inflation accelerates moderately as rising personal income supports home buying intentions.

Compared to the base scenario, the optimistic scenario factors in slightly less severe economic effects from the COVID-19 pandemic and assumes somewhat faster recovery in global trade and investment spending. As a result, the Finnish GDP would decline less in 2020 and grow more in the subsequent years. In the optimistic scenario, unemployment peaked already in 2020. Consumer and housing prices rise at about 2.0–2.5% pace in 2021–2022. Narrowing output gap and reviving inflation expectations lead to somewhat higher interest rates than in the base scenario.

The adverse scenario represents an outcome where the COVID-19 pandemic causes significant and persistent damage to the productive capacity. Economic recession continues well into 2021. Unemployment rises more and remains high much longer than in the base scenario. Deflationary pressures keep CPI inflation very low in 2020–2021. Lack of demand in the housing market leads to relatively sharp declines in housing price indices. Prolonged global recession creates tensions in financial markets, which gives rise to wider risk premiums in asset pricing.

The table below presents the sensitivity of the expected credit losses assuming 100% weight for adverse scenario until 2023.

SENSITIVITY ANALYSIS 31 Dec 2020 (EUR 1,000)	**Weighted scenario**	**Adverse scenario (100%)**
ECL	844	1,083
Proportion of the exposure in Stage 2 and 3	0.75%	1.04%

The sensitivity analysis does not include the additional discretionary provision (*management overlay*) recorded on 31 Dec 2020.

Non-performing and forborne exposures

Non-performing and forborne exposures refer to receivables that are more than 90 days past due, other receivables classified as risky and forborne exposures due to the customer's financial difficulties.

NON-PERFORMING AND FORBORNE EXPOSURES 31 Dec 2020 (EUR 1,000)	Performing exposures (gross)	Non-performing exposures (gross)	Total exposures (gross)	Total expected credit losses	Total exposures (net)
Over 90 days past due	-	-	-	-	-
Unlikely to be paid	-	116,263	116,263	-162	116,102
Forborne exposures	68,715	19,584	88,299	-288	88,010
Total	**68,715**	**135,847**	**204,562**	**-450**	**204,112**

NON-PERFORMING AND FORBORNE EXPOSURES 31 Dec 2019 (EUR 1,000)	Performing exposures (gross)	Non-performing exposures (gross)	Total exposures (gross)	Total expected credit losses	Total exposures (net)
Over 90 days past due	-	-	-	-	-
Unlikely to be paid	-	61,682	61,682	-80	61,602
Forborne exposures	27,854	4,968	32,822	-27	32,795
Total	**27,854**	**66,650**	**94,505**	**-107**	**94,398**

Forbearance measures are concessions to original contractual payment terms agreed at the customers' initiative to help the customer through temporary payment difficulties. Performing forborne exposures include forborne exposures reclassified as performing during their probation period or forbearance measures made into a performing loan. Loan modifications due to reasons other than the customer's financial difficulties are not classified as forborne exposures. 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.

The COVID-19 pandemic affected the financial situation and liquidity of MuniFin Group's customers. The Group therefore offered concessions to the payment terms of the loans to customers whose finances have been temporarily affected by the pandemic. The granted repayment holidays concerned the year 2020 and were mainly between 6–9 months in length. The uncollected installments were mainly transferred to the end of the loan term to be paid in connection with the last installment. Most of the repayment holidays were granted during April and May. No lease concessions were granted to Group's leasing customers.

During the financial year, customers were granted repayment holidays (concessions to contractual payment terms) for loans with a remaining notional amounting to EUR 226 million (82 individual loans), most of which, EUR 208 million (72 loans), were repayment holidays due to COVID-19 pandemic. Of the loans with granted repayment holidays, EUR 82 million (57 loans) were classified as forborne exposures, of which EUR 64 million (35 loans) were performing forborne exposures (stage 2 in the measurement of expected credit losses) and EUR 18 million (22 loans) non-performing forborne exposures (stage 3 in the measurement of expected credit losses).

Realised credit losses

The Group has not had any final realised credit losses during the financial year or the comparison year.

Note 28. Intangible assets

(EUR 1,000)	31 Dec 2020	31 Dec 2019
IT systems	17,346	14,704
, of which assets not yet available for use	*6,592*	*1,425*
Total	**17,346**	**14,704**

The intangible assets not yet available for use consists of ongoing development projects of IT systems.
The principles of MuniFin Group's impairment testing for intangible assets not yet available for use are described in the accounting policies (Note 1) in Section *Intangible assets*.

Note 29. Tangible assets

(EUR 1,000)	31 Dec 2020	31 Dec 2019
Real estate	299	299
Office renovation expenses	12	16
Right-of-use assets	5,955	7,340
Other tangible assets	4,098	1,387
Total	**10,364**	**9,041**

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

	Intangible assets	Tangible assets			
2020 EUR 1,000)	**Total**	**Other real estate**	**Other tangible assets**	**Right-of-use assets**	**Total**
Acquisition cost 1 Jan 2020	25,706	299	5,649	8,942	14,890
+ Additions	5,924	-	3,644	296	3,939
– Disposals	-	-	-343	-85	-428
Acquisition cost 31 Dec 2020	31,630	299	8,950	9,152	18,401
Accumulated depreciation 1 Jan 2020	11,002	-	4,247	1,602	5,849
– Accumulated depreciation on disposals	-	-	-252	-72	-324
+ Depreciation for the financial year	3,281	-	845	1,667	2,513
Accumulated depreciation 31 Dec 2020	14,283	-	4,840	3,197	8,037
Carrying amount 31 Dec 2020	**17,346**	**299**	**4,110**	**5,955**	**10,364**

	Intangible assets	Tangible assets			
2019 (EUR 1,000)	**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 2019	25,706	299	5,649	8,942	14,890
Accumulated depreciation 1 Jan 2019	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 2019	11,002	-	4,247	1,602	5,849
Carrying amount 31 Dec 2019	**14,704**	**299**	**1,402**	**7,340**	**9,041**

Note 31. Other assets

(EUR 1,000)	31 Dec 2020	31 Dec 2019
Invoiced leasing payments	11,185	8,984
Given cash collateral to CCPs *	243,269	158,494
Other	5,331	2,881
Total	**259,785**	**170,359**

* Cash collaterals include expected credit loss amounting to EUR 4 thousand (EUR 4 thousand).

The Group did not have receivables related to payment transfers as at 31 Dec 2020 or at 31 Dec 2019.

Note 32. Accrued income and prepayments

(EUR 1,000)	31 Dec 2020	31 Dec 2019
Accrued interest income	198,057	231,777
Other accrued income *	5,637	9,189
Prepayments	-147	1,484
Total	**203,547**	**242,450**

* Line item includes mainly tax receivables.

Note 33. Deferred tax

DEFERRED TAX LIABILITIES (EUR 1,000)	1 Jan 2020	Recognised in the income statement	Recognised in the other comprehensive income	Recognised in equity	Paid during the financial year	31 Dec 2020
On fair value reserve	10,467	-	-6,413	-	-	4,054
On change in cumulative depreciation difference	2,732	1,373	-	-	-	4,105
On change in voluntary provisions	240,906	28,600	-	-	-	269,506
On reversing the accrued interest of the AT1 capital loan recorded in the financial statements of the Parent Company	2,358	3,156	-	-3,150	-	2,364
On reversing the amortisation of the AT1 capital loan transaction expenses recorded in the financial statements of the Parent Company	-221	98	-	-	-	-123
On right-of-use assets	-1	0	-	-	-	-1
Total	**256,241**	**33,228**	**-6,413**	**-3,150**	**-**	**279,906**

DEFERRED TAX LIABILITIES (EUR 1,000)	1 Jan 2019	Recognised in the income statement	Recognised in the other 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 recorded in the 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 recorded in the financial statements of the Parent Company	-319	98	-	-	-	-221
On right-of-use assets	-	-1	-	-	-	-1
On revaluation of financial assets and liabilities in IFRS 9 transition 1 Jan 2018	5,707	-	-	-	-5,707	0
Total	**235,307**	**24,247**	**5,545**	**-3,150**	**-5,707**	**256,241**

Note 34. Liabilities to credit institutions

(EUR 1,000)	31 Dec 2020	31 Dec 2019
Bilateral loans to credit institutions	93,358	82,916
TLTRO *	1,250,000	-
Received collateral on derivatives	658,120	1,095,340
Total	**2,001,478**	**1,178,256**

* In September 2020 MuniFin Group participated in ECB's third series of targeted longer-term refinancing operation that is, the so-called TLTRO III operation with EUR 1.25 billion. According to the terms of the TLTRO III operation, if eligible net lending is positive during the reference period (1 March 2020–31 March 2021) the interest rate for TLTRO III debt is 0.5% lower than the average deposit facility rate for borrowings between 24 June 2020 and 23 June 2021. This would currently equate to an all-in rate of -1%. On 10 December 2020, the ECB issued an update to the terms and conditions so that the low-interest period was extended from 24 June 2021 to 23 June 2022, if the conditions for net lending were met in the reference period from 1 October 2020 to 31 December 2021.

Based on the historical development of MuniFin Group's lending portfolio as well as business forecast for future years, the Group expects to meet the conditions of positive net lending in the reference period and recognises the interests with the -1% rate. Although the interest rate for the TLTRO III debt described above is favorable for MuniFin Group, it is assessed not to differ from the Group's other funding price to the extent that the Group would have received a government grant in accordance with IAS 20. Therefore, the Group treats TLTRO III debt in its entirety as an IFRS 9 financial liability.

Note 35. Liabilities to the public and public sector entities

(EUR 1,000)	31 Dec 2020	31 Dec 2019
Liabilities to the public and public sector entities	3,884,026	3,862,053
Total	**3,884,026**	**3,862,053**

Note 36. Debt securities issued

(EUR 1,000)	31 Dec 2020 Carrying amount	31 Dec 2020 Nominal value	31 Dec 2019 Carrying amount	31 Dec 2019 Nominal value
Bonds	29,016,086	28,671,412	27,255,873	27,361,959
Other *	3,895,820	3,896,421	2,727,712	2,735,624
Total	**32,911,906**	**32,567,833**	**29,983,585**	**30,097,583**

* Line item contains short-term funding issued by MuniFin.

MuniFin's funding is guaranteed by the Municipal Guarantee Board.

BENCHMARK ISSUANCES DURING THE YEAR 2020	Value date	Maturity date	Interest-%	Nominal value (1,000)	Currency
Fixed rate benchmark bond, issued under the MTN programme	15 Jan 2020	15 Nov 2024	0.000%	1,500,000	EUR
Fixed rate benchmark bond, issued under the MTN programme	22 Apr 2020	22 Apr 2025	0.000%	1,000,000	EUR
Fixed rate benchmark bond, issued under the MTN programme	14 Oct 2020	14 Oct 2030	0.000%	500,000	EUR
Fixed rate benchmark bond, issued under the MTN programme	1 Jul 2020	1 Sep 2023	0.375%	1,000,000	USD
Fixed rate benchmark bond, issued under the MTN programme	10 Sep 2020	10 Sep 2035	0.050%	500,000	EUR

In the above table, the benchmark issuances are included by the settlement date. The offering circular is available in English on the website at www.munifin.fi/investor-relations.

Note 37. Reconciliation of the carrying amount of the issued debt

(EUR 1,000)	Liabilities to credit institutions	Liabilities to the public and public sector entities	Debt securities issued
Carrying amount 1 Jan 2020	**82,916**	**3,862,053**	**29,983,585**
Cash flow changes from operating activities			
Additions to issued debt "bonds"	1,288,567	108,792	9,031,390
Additions to debt securities issued "other"	-	-	14,442,817
Additions total	**1,288,567**	**108,792**	**23,474,207**
Deductions to issued debt "bonds"	-34,608	-155,105	-6,619,454
Deductions to debt securities issued "other"	-	-	-13,274,709
Deductions total	**-34,608**	**-155,105**	**-19,894,163**
Cash flow changes from operating activities in total	**1,253,959**	**-46,314**	**3,580,044**
Changes in the balance sheet value including valuations and FX revaluations	6,483	68,287	-651,724
Carrying amount 31 Dec 2020	**1,343,358**	**3,884,026**	**32,911,906**

(EUR 1,000)	Liabilities to credit institutions	Liabilities to the public and public sector entities	Debt securities issued
Carrying amount 1 Jan 2019	**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 debt securities issued "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 debt securities issued "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. Provisions and other liabilities

(EUR 1,000)	31 Dec 2020	31 Dec 2019
Provisions		
Restructuring provision	562	-
Other liabilities		
Lease liabilities	6,032	7,388
Cash collateral taken from CCPs	231,180	96,239
Other	9,247	12,747
Total	**247,021**	**116,374**

The restructuring provision is related to the reorganisation of the Group's operations and the co-operation negotiations conducted during the financial year 2020 due to the reorganisation.

(EUR 1,000)	Restructuring provision
Carrying amount 1 Jan 2020	-
Increase in provisions	641
Provisions used	-79
Carrying amount 31 Dec 2020	**562**

Note 39. Accrued expenses and deferred income

(EUR 1,000)	31 Dec 2020	31 Dec 2019
Accrued interest expenses	132,030	164,531
Other accrued expenses	7,193	5,386
Deferred income *	13,175	10,999
Total	**152,398**	**180,917**

* Item consists mainly of leasing income.

Note 40. Equity

(EUR 1,000)	Number of shares	Share capital
1 Jan 2019	39 063 798	42,583
31 Dec 2019	39 063 798	42,583
31 Dec 2020	39 063 798	42,583

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

The shares of the Parent Company, 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. All issued shares have been paid in full.

Reserves in equity

Reserve fund is restricted equity referred to in Chapter 8, Section 1 of the Limited Liability Companies Act. *Fair value reserve of investments* contains the fair value changes of financial instruments at fair value through other comprehensive income. *Own credit revaluation reserve* contains the changes in own credit risk of financial liabilities designated at fair value through profit or loss. *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 the Consolidated Financial Statements.

The terms of the instruments included in equity are described in further detail in the Pillar III Disclosure Report which is separate from the Report of the Board of Directors and the Financial Statements. The Pillar III Disclosure Report is available on MuniFin's website in English.

(1,000 EUR)	31 Dec 2020	31 Dec 2019
Share capital	42,583	42,583
Reserve fund	277	277
Fair value reserve of investments	847	807
Own credit revaluation reserve	-255	12,985
Cost-of-Hedging reserve	15,624	28,075
Reserve for invested non-restricted equity	40,366	40,366
Retained earnings	1,258,224	1,121,774
Total equity attributable to Parent Company equity holders	**1,357,666**	**1,246,868**
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	**1,705,120**	**1,594,321**

Note 41. Contingent assets and liabilities

The accrued interest on the Parent Company's AT1 capital loan is a contingent liability, totalling EUR 9,459 thousand on the financial statement date 31 Dec 2020. The contingent liability will be realised as a deduction of equity once MuniFin decides on the payment of interest. In the comparative period of 2019, MuniFin had a contingent liability of EUR 9,433 thousand, which realised upon interest payment on 1 April 2020. The Group has no contingent assets on the financial statement date 31 Dec 2020 or 31 Dec 2019.

Note 42. Collateral given

GIVEN COLLATERALS ON BEHALF OF OWN LIABILITIES AND COMMITMENTS (EUR 1,000)	31 Dec 2020	31 Dec 2019
Loans and advances to credit institutions to the counterparties of derivative contracts *	1,607,069	686,129
Loans and advances to credit institutions to the central bank **	34,918	26,590
Loans and advances to the public and public sector entities to the central bank **	5,181,646	2,765,089
Loans and advances to the public and public sector entities to the Municipal Guarantee Board ***	10,997,495	11,521,134
Other assets to the counterparties of derivative contracts *	243,269	158,494
Total	**18,064,396**	**15,157,436**

* MuniFin Group has pledged a sufficient amount of collateral to the counterparties of derivative contracts based on the CSA agreements of the derivative contracts (*ISDA/Credit Support Annex*).

** 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.

*** MuniFin Group has pledged a sufficient amount of loans shown in the table to the Municipal Guarantee Board. The Municipal Guarantee Board guarantees MuniFin's funding and MuniFin places collateral for the Municipal Guarantee Board's guarantees as defined in the Act on the Municipal Guarantee Board.

Collateral given is presented at the carrying amounts of the financial statement date.

Note 43. Off-balance-sheet commitments

(EUR 1,000)	31 Dec 2020	31 Dec 2019
Credit commitments	2,353,978	2,361,323
Total	**2,353,978**	**2,361,323**

Note 44. Related-party transactions

MuniFin Group's related parties include MuniFin's shareholders whose ownership and corresponding voting rights in the Company exceed 20%. In addition, the Group's related parties consist of the key management personnel including the CEO, the Deputy to the CEO, other members of the Executive Management Team, members of the Board of Directors, as well as the spouses, children and dependents of these persons and the children and dependents of these persons' spouses. In addition, MuniFin Group's related parties are entities, which are directly or indirectly controlled or jointly controlled by the above-mentioned persons or where these 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 MuniFin and the Municipal Guarantee Board, pursuant to which MuniFin 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 the related party persons. The Group does not have loan or financial receivables from these related parties. Transactions with Inspira comprise fees related to administrative and advisory services MuniFin has purchased from Inspira.

There have been no material changes in the related party transactions and relationships during the financial year.

TRANSACTIONS WITH THE SUBSIDIARY (EUR 1,000)	2020	2019
Sales	38	22
Purchases	681	551

INTRA-GROUP RECEIVABLES AND LIABILITIES (EUR 1,000)	31 Dec 2020	31 Dec 2019
Receivables	4	-
Liabilities	53	26

Note 45. Salaries and remuneration

Employee benefits for management

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

SALARIES AND REMUNERATION (EUR 1,000)	2020	2019
President and CEO	412	420
Deputy to the CEO	251	251
Other members of the Executive Management Team in total	1,122	1,384
Total	**1,785**	**2,055**

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)	2020	2019
President and CEO	71	73
Deputy to the CEO	43	43
Other members of the Executive Management Team in total	194	240
Total	**308**	**356**

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 in the Remuneration Report for the year 2020 which is a separate document of the Financial Statements. The salaries and remuneration consist of short-term employee benefits excluding termination benefits. Such termination benefits have not occurred in the financial year 2020 (EUR 191 thousand).

The Group has provided to those members of the Executive Management Team (EMT) that have been appointed as members (including CEO and the Deputy to the CEO) before 21 Dec 2017 with a contribution-based group pension insurance. Members of the EMT are entitled to pension from the insurance after they have turned 63 years.

In the event of a termination of the employment on MuniFin'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 this note 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

During financial years 2020–2021 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 Chair of the Board, EUR 23,000 for the Vice Chair, EUR 25,000 for the Chairs of Committees 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 Chair of the Board and the Chairs 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 25 March 2020. Prior to this, the annual remuneration was EUR 35,000 for the Chair of the Board, EUR 25,000 for the Vice Chair and EUR 20,000 for the other members of the Board. The meeting remunerations have remained 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 the remuneration system are confirmed by the Board of Directors on an annual basis. The Remuneration Committee of the Board of Directors is responsible for preparatory work concerning the matters of the remuneration system. More information about salaries and remuneration is available on MuniFin's website www.munifin.fi.

SALARIES AND REMUNERATION (EUR 1,000) MEMBERS OF THE BOARD OF DIRECTORS	2020	2019
Helena Walldén, Chair	56	52
Tuula Saxholm, Vice Chair	36	33
Maaria Eriksson, elected 28 March 2019	32	23
Fredrik Forssell, member until 28 March 2019	-	9
Raija-Leena Hankonen, elected 28 March 2019, member until 21 February 2020	6	23
Minna Helppi, member until 25 March 2020	9	32
Markku Koponen	46	39
Jari Koskinen, member until 25 March 2020	9	30
Kari Laukkanen	45	39
Vivi Marttila	34	32
Denis Strandell, elected 25 March 2020	25	-
Kimmo Viertola, elected 25 March 2020	24	-
Total	**318**	**311**

Note 46. Events after the reporting period

MuniFin's Board of Directors is not aware of any events having taken place after the end of the reporting period that would have a material effect on the Group's financial standing.

Parent Company Financial Statements

MuniFin

Income Statement

(EUR 1,000)	Note	1 Jan–31 Dec 2020	1 Jan–31 Dec 2019
Interest income	(2)	526,949	761,612
Net income from leasing operations	(3)	5,986	4,969
Interest expense	(2)	-295,078	-542,525
Net interest income		**237,857**	**224,056**
Commission income	(5)	677	588
Commission expense	(5)	-5,060	-4,230
Net income from securities and foreign exchange transactions	(6, 7)	-7,790	-33,373
Net income from securities		-3,644	-34,801
Net income from foreign exchange transactions		-4,146	1,428
Net income on financial assets at fair value through fair value reserve	(8)	-3	114
Net income from hedge accounting	(9, 24)	4,183	-19,097
Other operating income	(11)	165	157
Administrative expenses		-31,811	-30,884
Personnel expenses	(47)	-16,598	-16,336
Salaries and fees		-13,991	-13,511
Personnel-related costs		-2,607	-2,825
Pension costs		-2,147	-2,431
Other personnel-related costs		-460	-394
Other administrative expenses		-15,213	-14,548
Depreciation and impairment on tangible and intangible assets	(12)	-5,679	-6,073
Other operating expenses	(13)	-13,880	-16,485
Expected credit loss on financial assets at amortised cost	(14)	-920	-89
Expected credit loss and impairments on other financial assets	(14)	62	117
Net operating profit		**177,802**	**114,802**
Appropriations		-149,866	-105,031
Income taxes		-5,599	-2,020
Profit for the financial year		**22,336**	**7,750**

Balance Sheet

(EUR 1,000)	Note	31 Dec 2020	31 Dec 2019
Assets			
Cash and balances with central banks		5,565,801	4,909,338
Cash		2	2
Central bank receivables payable on demand		5,565,799	4,909,336
Debt securities eligible for central bank refinancing	(19)	3,949,985	4,089,519
Other		3,949,985	4,089,519
Loans and advances to credit institutions	(17)	1,840,980	817,462
Payable on demand		164,005	80,450
Other		1,676,975	737,012
Loans and advances to the public and public sector entities	(18)	26,931,384	23,969,974
Leased assets	(20)	1,090,940	828,458
Debt securities	(19)	1,813,228	1,626,798
From public sector entities		1,199,621	741,772
From others		613,607	885,026
Shares and participations	(22)	27	9,797
Shares and participations in Group companies	(22)	656	656
Derivative contracts	(23)	2,358,163	2,244,997
Intangible assets	(25, 27)	17,358	14,719
Tangible assets	(26, 27)	9,980	8,539
Other tangible assets		9,980	8,539
Other assets	(28)	259,635	170,063
Accrued income and prepayments	(29)	203,542	242,428
Total assets	**(16, 36, 37, 39)**	**44,041,681**	**38,932,749**

(EUR 1,000)	Note	31 Dec 2020	31 Dec 2019
Liabilities and equity			
Liabilities			
Liabilities to credit institutions and central banks		2,001,478	1,178,256
To central banks		1,250,000	-
To credit institutions		751,478	1,178,256
Other		751,478	1,178,256
Liabilities to the public and public sector entities		3,884,026	3,862,053
Other liabilities		3,884,026	3,862,053
Debt securities issued	(31)	32,911,906	29,983,585
Bonds		29,016,086	27,255,873
Other		3,895,820	2,727,712
Derivative contracts	(23)	2,860,570	1,762,010
Other liabilities	(32)	246,543	115,686
Accrued expenses and deferred income	(33)	163,963	192,343
Subordinated liabilities	(34)	349,388	348,896
Deferred tax liabilities	(30)	4,054	10,467
Total liabilities	**(16, 36, 37, 39)**	**42,421,929**	**37,453,297**
Appropriations			
Depreciation difference		20,524	13,658
Taxation based provisions		1,347,530	1,204,530
Total appropriations		**1,368,054**	**1,218,188**

(EUR 1,000)	Note	31 Dec 2020	31 Dec 2019
Equity	**(41, 42, 43)**		
Share capital		43,008	43,008
Other restricted reserves		16,493	42,145
Reserve fund		277	277
Fair value reserve		16,216	41,868
Change in fair value		16,216	41,868
Non-restricted reserves		40,743	40,743
Reserve for invested non-restricted equity		40,743	40,743
Retained earnings		129,118	127,618
Profit for the financial year		22,336	7,750
Total equity		**251,698**	**261,264**
Total liabilities and equity		**44,041,681**	**38,932,749**
Off-balance sheet commitments	**(46)**		
Irrevocable commitments given in favour of customer		2,353,978	2,361,323

Statement of cash flows

(EUR 1,000)	1 Jan–31 Dec 2020	1 Jan–31 Dec 2019
Cash flow from operating activities	**756,147**	**1,428,303**
Net change in long-term funding	3,702,396	1,951,565
Net change in short-term funding	1,257,523	-298,985
Net change in long-term loans	-3,074,492	-1,701,327
Net change in short-term loans	-506,296	-79,193
Net change in investments	462,373	227,376
Net change in collaterals	-1,287,941	1,048,093
Interest on assets	83,394	103,697
Interest on liabilities	145,647	199,363
Other income	59,925	53,819
Payments of operating expenses	-84,361	-67,960
Taxes paid	-2,020	-8,145
Cash flow from investing activities	**-8,236**	**-3,646**
Acquisition of tangible assets	-3,644	-271
Proceeds from sale of tangible assets	165	382
Acquisition of intangible assets	-4,758	-3,757
Cash flow from financing activities	**-7,892**	**-7,821**
Dividends paid	-6,250	-6,250
Total cash flow from leases	-1,642	-1,571
Change in cash and cash equivalents	**740,019**	**1,416,835**
Cash and cash equivalents at 1 January	**4,989,788**	**3,572,953**
Cash and cash equivalents at 31 December	**5,729,806**	**4,989,788**

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 2020	31 Dec 2019
Cash and balances with central banks	5,565,801	4,909,338
Loans and advances to credit institutions	164,005	80,450
Total cash and cash equivalents	**5,729,806**	**4,989,788**

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Notes to the Parent Company Financial Statements

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Notes to the Parent Company Financial Statements

Note 1. Significant accounting policies of the Parent Company Financial Statements, FAS

Municipality Finance Plc (MuniFin) 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. Municipality Finance Plc is the Parent Company of Municipality Finance Group (MuniFin Group). The significant accounting policies and the presentation of the Financial Statements of the Parent Company, Municipality Finance Plc, correspond to the accounting policies of the Consolidated Financial Statements (Note 1) with the exceptions described below.

Debt securities

Debt securities are presented in the Parent Company's Financial Statements under two balance sheet items: *Debt securities eligible for central bank refinancing* and *Debt securities*, so that *Debt securities eligible for central bank refinancing*, contains as the name implies, debt securities eligible for central bank refinancing.

Leases

Leases in which MuniFin acts as the lessee are treated in the Parent Company in accordance with the accounting policies described in the Consolidated Financial Statements. 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 Company, but the leased assets 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 *Leased assets*. Income related to leasing operations is presented under the income statement item *Net income from leasing operations*. In the Consolidated Financial Statements, this income is presented under *Interest and similar income*.

Other long-term expenses

Other long-term expenses include expenses intended to generate income in several financial years that are not objects, separately transferable rights or other assets. MuniFin's other long-term expenses consist of renovation expenses for leased premises. These items are presented in the Parent Company's Financial Statements as part of *Intangible assets* under item *Other intangible assets* and in the Consolidated Financial Statements as part of *Tangible assets* under item *Office renovation expenses*. The depreciation period for the renovation expenses of the leased premises is consistent with the lease term.

Appropriations

The difference between the depreciation according to plan and the depreciation of assets in taxation (*Depreciation difference*), and the voluntary credit loss provision (*Taxation based provisions*) are presented under *Total appropriations* in the balance sheet of the Parent Company. In the income statement, the change in depreciation difference and credit loss provision is shown on line *Appropriations*. The voluntary credit loss provision and depreciation difference recognised under the Finnish Accounting Standards do 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 recognised in accordance with tax law (Act on the Taxation of Business Income 46§).

Fair value reserve

According to the Act on Credit Institutions certain fair value changes are required to be recorded in the fair value reserve within equity. The fair value reserve corresponds to term other comprehensive income used in IFRS 9 and in the Note *1 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 the Parent 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 recognised in the income statement under *Interest expense*. AT1 capital loan is recognised as equity in the 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

2020 (EUR 1,000)	Interest and similar income	Interest and similar expense	Net
Assets			
Amortised cost			
Cash and balances with central banks	-	-23,479	-23,479
Loans and advances to credit institutions	51	-6,030	-5,980
Loans and advances to the public and public sector entities	193,108	-	193,108
Debt securities	369	-3,247	-2,878
Other assets	251	-	251
Fair value through fair value reserve			
Debt securities	-	-1,063	-1,063
Designated at fair value through profit or loss			
Debt securities	13,206	-	13,206
Mandatorily at fair value through profit or loss			
Loans and advances to the public and public sector entities	955	-	955
Debt securities	-	-	-
Fair value through profit or loss			
Derivative contracts at fair value through profit or loss	71,077	-95,237	-24,160
Derivative contracts in hedge accounting	-79,399	-	-79,399
Leased assets	5,986	-	5,986
Interest on non-financial other assets	6	-	6
Interest on assets	**205,610**	**-129,057**	**76,553**
, of which interest income/expense according to the effective interest method	*193,779*	*-33,819*	

2020 (EUR 1,000)	Interest and similar income	Interest and similar expense	Net
Liabilities			
Amortised cost			
Liabilities to credit institutions	8,089	-	8,089
Liabilities to the public and public sector entities	-	-60,239	-60,239
Debt securities issued	1,971	-255,909	-253,937
Subordinated liabilities	-	-16,274	-16,274
Other liabilities	-	-2,057	-2,057
Designated at fair value through profit or loss			
Liabilities to credit institutions	-	-49	-49
Liabilities to the public and public sector entities	-	-35,494	-35,494
Debt securities issued	-	-139,066	-139,066
Fair value through profit or loss			
Derivative contracts at fair value through profit or loss	317,265	-138,029	179,236
Derivative contracts in hedge accounting	-	481,095	481,095
Interest on liabilities	**327,325**	**-166,021**	**161,304**
, of which interest income/expense according to the effective interest method	*10,060*	*-334,478*	
Total	**532,935**	**-295,078**	**237,857**
, of which interest income from leasing operations	*5,986*		
Total interest income excluding interest income from leasing operations	**526,949**		

Interest income on stage 3 financial assets in the expected credit loss (*ECL*) calculations totalled EUR 1,340 thousand (EUR 373 thousand) during the financial year. These are included in the line items *Loans and advances to the public and public sector entities* and *Leased assets*.

Interest expense on other liabilities includes EUR 85 thousand (EUR 102 thousand) of interest on lease liabilities recognised in accordance with IFRS 16 *Leases* standard.

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 cash collateral receivables. Interest expenses on debt securities consists of interest paid on short-term lending. Negative interest arises on debt securities at fair value through fair value reserve due to the premium / discount amortisation of debt securities and commercial papers. Interest expenses on derivative contracts at fair value through profit or loss consist of negative interest income on derivative contracts that are not included in hedge accounting. The derivative contracts contained in this line item hedge financial assets which are designated at fair value through profit or loss, derivative contracts with municipalities and derivative contracts hedging derivatives with municipalities, in addition to derivative contracts used for hedging interest rate risk of the balance sheet, for which no hedged item has been specified. Derivative contracts in hedge accounting hedge loans and advances to the public and public sector entities.

Interest income on financial liabilities at amortised cost to credit institutions consists of interest received on cash collateral liabilities as well as on TLTRO III debt and interest income on debt securities issued consists of interest received on ECPs. Interest income on derivative contracts 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. Derivative contracts in hedge accounting are used as hedges for liabilities to credit institutions, liabilities to the public and public sector entities and debt securities issued.

2019 (EUR 1,000)	Interest and similar income	Interest and similar expense	Net
Assets			
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
Fair value through fait value reserve			
Debt securities	0	-1,690	-1,690
Designated at fair value through profit or loss			
Debt securities	20,024	-	20,024
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
Fair value through profit or loss			
Derivative contracts at fair value through profit or loss	63,986	-91,324	-27,338
Derivative contracts in hedge accounting	-78,835	-	-78,835
Leased assets	4,969	-	4,969
Interest on non-financial other assets	6	-	6
Interest on assets	**203,981**	**-116,832**	**87,150**
, of which interest income/expense according to the effective interest method	*192,468*	*-25,508*	

2019 (EUR 1,000)	Interest and similar income	Interest and similar expense	Net
Liabilities			
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	-	-2,192	-2,192
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
Fair value through profit or loss			
Derivative contracts at fair value through profit or loss	554,916	-335,447	219,469
Derivative contracts in hedge accounting	-	496,796	496,796
Interest on liabilities	**562,600**	**-425,693**	**136,907**
, of which interest income/expense according to the effective interest method	*7,683*	*-446,352*	
Total	**766,581**	**-542,525**	**224,056**
, of which interest income from leasing operations	*4,969*		
Total interest income excluding interest income from leasing operations	**761,612**		

Note 3. Net income from leasing operations

(EUR 1,000)	2020	2019
Leasing income	59,427	49,993
Depreciation on leased assets according to plan	-53,509	-45,056
Capital gains and losses on leased assets	69	32
Total	**5,986**	**4,969**

Note 4. Income from equity investments

The Company has not received dividend income from its subsidiary in financial years 2020 and 2019.

Note 5. Commission income and expense

COMMISSION INCOME (EUR 1,000)	2020	2019
From other operations	677	588
Total	**677**	**588**

COMMISSION EXPENSE (EUR 1,000)	2020	2019
Commission fees paid	664	178
Other *	4,396	4,052
Total	**5,060**	**4,230**

* Line item includes paid guarantee fees, custody fees and funding programme update costs.

Note 6. Net income from securities and foreign exchange transactions

2020 (EUR 1,000)	Capital gains and losses (net)	Changes in fair value	Total
Derivative contracts at fair value through profit or loss	853	48,555	49,408
Designated at fair value through profit or loss	2,870	-55,499	-52,629
Mandatorily at fair value through profit or loss	-111	-284	-395
Day 1 gain or loss	-	-29	-29
Total net income from securities transactions	**3,612**	**-7,257**	**-3,644**
Net income from foreign exchange transactions	2,651	-6,797	-4,146
Total	**6,263**	**-14,053**	**-7,790**

2019 (EUR 1,000)	Capital gains and losses (net)	Changes in fair value	Total
Derivative contracts at fair value through profit or loss	-2,026	590,161	588,135
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**

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 2020	Carrying amount 31 Dec 2020	Nominal value 31 Dec 2019	Carrying amount 31 Dec 2019
Financial assets				
Debt securities *	3,912,451	4,029,859	3,843,076	3,940,456
Total financial assets	**3,912,451**	**4,029,859**	**3,843,076**	**3,940,456**
Financial liabilities				
Liabilities to credit institutions	25,000	24,558	-	-
Liabilities to the public sector entitities	1,908,373	1,637,674	1,870,254	1,548,639
Debt securities issued	10,927,113	10,454,282	11,855,073	11,391,573
Total financial liabilities	**12,860,486**	**12,116,514**	**13,725,327**	**12,940,212**

* 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 2020 and 31 Dec 2019.

CHANGE IN FAIR VALUE OF FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS (EUR 1,000)

	31 Dec 2020	1 Jan 2020	Fair value change recognised in the income statement 2020	, of which due to credit risk	, of which due to market risk
Financial assets					
Debt securities	69,859	53,109	16,750	3,203	13,547
Total financial assets	**69,859**	**53,109**	**16,750**	**3,203**	**13,547**

Financial assets that MuniFin has designated 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 contract at fair value through profit or loss and the debt security at fair value through fair value reserve based on the IFRS 9 business model. The Company 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 2020	1 Jan 2020	Fair value change recognised in the income statement 2020	Change in own credit risk recognised in the own credit revaluation reserve 2020	Total fair value change in 2020
Financial liabilities					
Liabilities to credit institutions	418	-	418	-	418
Liabilities to the public sector entitities	-244,146	-218,911	-25,235	-813	-26,048
Debt securities issued	385,424	328,802	56,622	-15,739	40,883
Total financial liabilities	**141,696**	**109,891**	**31,805**	**-16,551**	**15,254**

NET CHANGE IN FAIR VALUE IN NET INCOME FROM SECURITIES TRANSACTIONS (EUR 1,000)	Cumulative change in fair value 31 Dec 2020	Fair value change recognised in the income statement 2020
Financial liabilities designated at fair value through profit or loss	141,696	31,805
Derivative contracts at fair value through profit or loss hedging financial liabilities	-167,847	-36,391
Net change in fair value	**-26,151**	**-4,586**

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 or loss consist of financial liabilities, which have been hedged according to the Company's risk management policy, but which are not subject to IFRS 9 fair value hedge accounting. The fair value changes of the financial liabilities impact the income statement, 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 the income statement.

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 as change of the *Own credit revaluation reserve*, is presented in *Net income from securities 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 designated at fair value through profit or loss, 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 or loss are not traded.

CHANGE IN FAIR VALUE OF FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS (EUR 1,000)	31 Dec 2019	1 Jan 2019	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**

CHANGE IN FAIR VALUE OF FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS (EUR 1,000)	31 Dec 2019	1 Jan 2019	Fair value change recognised in the income statement 2019	Change in own credit risk recognised in the own credit revaluation reserve 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 TRANSACTIONS (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 at fair value through profit or loss hedging financial liabilities	-131,456	590,431
Net change in fair value	**-21,564**	**-33,421**

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

(EUR 1,000)	2020	2019
Capital gains from financial assets	-	36
Capital losses from financial assets	-3	-11
Unrealised gains transferred from fair value reserve	-	100
Unrealised losses transferred from fair value reserve	-	-11
Total	**-3**	**114**

Note 9. Net income from hedge accounting

(EUR 1,000)	2020	2019
Net income from hedging instruments	216,679	372,670
Net income from hedged items	-210,455	-391,767
IBOR reform related compensations *	-2,041	-
Total	**4,183**	**-19,097**

* Compensations relate to the ongoing IBOR reform of which more information is presented in the accounting policies of the Consolidated Financial Statements (Note 1) in Section *IBOR reform.*

Unrealised gains and losses include fair value of the risks to which fair value hedge accounting is applied and which are measured at fair value. 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 impact of reclassification of financial assets in the implementation of IFRS 9 standard (as of 1 Jan 2018) 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 31 Dec 2020	Fair value gain or loss for the financial year *	EIR determined as at 1 Jan 2018 **	Interest revenue recognised during 2020
Loans and advances to the public and public sector entities	Fair value option	Amortised cost	113,143	1,119	0.14%	187

* The fair value gain or loss that would have been recognised in the income statement during the financial year if the financial assets had not been reclassified.
** Effective interest rate determined on the date of initial application.

FINANCIAL ASSETS (EUR 1,000)	Original measurement category under IAS 39	New measurement category under IFRS 9	Fair value 31 Dec 2019	Fair value gain or loss for the financial year	EIR determined as at 1 Jan 2018	Interest revenue recognised during 2019
Loans and advances to the public and public sector entities	Fair value option	Amortised cost	126,171	225	0.14%	203

Note 11. Other operating income

(EUR 1,000)	2020	2019
Other income from credit institution operations	165	157
Total	**165**	**157**

Note 12. Depreciation and impairment on tangible and intangible assets

(EUR 1,000)	2020	2019
Depreciation on tangible assets	2,394	2,131
Depreciation on intangible assets	3,285	3,942
Total	**5,679**	**6,073**

Impairments for tangible or intangible assets have not been recognised during financial year 2020 or 2019.

Note 13. Other operating expenses

(EUR 1,000)	2020	2019
Regulatory expenses		
Contributions to the single resolution fund	5,163	4,328
Other administrative and supervisory fees	2,227	2,179
Rental expenses	381	391
External services	4,466	7,925
Credit rating fees	894	926
Audit fees	389	271
Insurances	348	287
Other expenses from credit institution operations	11	179
Total	**13,880**	**16,485**

Note 14. Credit losses and impairments on financial assets

MuniFin's credit risks are described in the Consolidated Financial Statements' 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 of the Consolidated Financial Statements (Note 1) in Section *Impairment of financial assets*.

CREDIT LOSSES AND IMPAIRMENTS 2020 (EUR 1,000)	Expected credit losses			Realised credit losses		
	Additions	Subtractions	Recognised in the income statement	Additions	Subtractions	Recognised in the income statement
Expected credit losses on financial assets at amortised cost						
Cash and balances with central banks	0	0	0	-	-	-
Loans and advances to credit institutions	-36	21	-15	-	-	-
Loans and advances to the public and public sector entities	-1,026	121	-904	-	-	-
Leased assets	-1	0	-1	-	-	-
Debt securities	0	0	0	-	-	-
Cash collateral to CCPs in Other assets	-2	2	0	-	-	-
Credit commitments (off-balance sheet)	-3	3	0	-	-	-
Total expected credit losses on financial assets at amortised cost	**-1,068**	**148**	**-920**	**-**	**-**	**-**
Expected credit losses and impairments on other financial assets						
Debt securities at fair value through fair value reserve	-29	92	62	-	-	-
Guarantee receivables from the public and public sector entities in Other assets	-	-	-	-	-	-
Total expected credit losses and impairments on other financial assets	**-29**	**92**	**62**	**-**	**-**	**-**
Total	**-1,097**	**240**	**-857**	**-**	**-**	**-**

CREDIT LOSSES AND IMPAIRMENTS 2019 (EUR 1,000)	Expected credit losses			Realised credit losses		
	Additions	Subtractions	Recognised in the income statement	Additions	Subtractions	Recognised in the income statement
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
Leased assets	-1	0	-1	-	-	-
Debt securities	0	0	0	-	-	-
Cash collateral to CCPs in Other assets	-1	1	0	-	-	-
Credit commitments (off-balance sheet)	-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 fair value reserve	-53	170	117	-	-	-
Guarantee receivables from the public and public sector entities in Other assets	-	-	-	-	180	180
Total expected credit losses and impairments on other financial assets	**-53**	**170**	**117**	**-**	**180**	**180**
Total	**-219**	**247**	**28**	**-180**	**180**	**0**

During the financial year 2019 MuniFin wrote-off loans and advances to the public and public sector entities totalling EUR 180 thousand. The Company has real estate collaterals and state deficiency guarantees to fully cover these loans. 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. Thus the Company will not incur final credit loss.

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 2020 (EUR 1,000)	Amortised cost	Fair value through fair value reserve	Designated at fair value through profit or loss	Mandatorily at fair value through profit or loss	Fair value through profit or loss	Total	Fair value
Cash and balances with central banks	5,565,801	-	-	-	-	5,565,801	5,565,801
Loans and advances to credit institutions	1,840,980	-	-	-	-	1,840,980	1,840,980
Loans and advances to the public and public sector entities	26,886,947	-	-	44,438	-	26,931,384	29,415,707
Leased assets *	215,444	-	-	-	-	215,444	228,011
Debt securities	1,310,305	423,050	4,029,859	-	-	5,763,214	5,763,793
Shares and participations	-	-	-	27	-	27	27
Shares and participations in Group companies	-	-	-	656	-	656	656
Derivative contracts at fair value through profit or loss	-	-	-	-	833,293	833,293	833,293
Derivative contracts in hedge accounting	-	-	-	-	1,524,870	1,524,870	1,524,870
Other assets **	243,269	-	-	-	-	243,269	243,269
Total	**36,062,746**	**423,050**	**4,029,859**	**45,121**	**2,358,163**	**42,918,938**	**45,416,406**

* Line item includes leased assets for which MuniFin applies fair value hedge accounting. Unhedged leased assets are not presented in this Note of financial assets and liabilities as leased assets are not regarded as financial assets for the purpose of IFRS 9 classification.

** Line item includes cash collateral given to central counterparties.

FINANCIAL LIABILITIES

31 Dec 2020 (EUR 1,000)	Amortised cost	Designated at fair value through profit or loss	Fair value through profit or loss	Total	Fair value
Liabilities to credit institutions	1,976,920	24,558	-	2,001,478	2,001,414
Liabilities to the public and public sector entities	2,246,352	1,637,674	-	3,884,026	3,906,619
Debt securities issued	22,457,624	10,454,282	-	32,911,906	32,968,471
Derivative contracts at fair value through profit or loss	-	-	1,403,900	1,403,900	1,403,900
Derivative contracts in hedge accounting	-	-	1,456,670	1,456,670	1,456,670
Other liabilities *	236,840	-	-	236,840	236,840
Subordinated liabilities	349,388	-	-	349,388	367,455
Total	**27,267,124**	**12,116,514**	**2,860,570**	**42,244,209**	**42,341,369**

* Line item includes EUR 231,180 thousand of cash collateral received from central counterparties and EUR 5,660 thousand of lease liabilities in accordance with IFRS 16 standard.

FINANCIAL ASSETS 31 Dec 2019 (EUR 1,000)	Amortised cost	Fair value through fair value reserve	Designated at fair value through profit or loss	Mandatorily at fair value through profit or loss	Fair value through profit or loss	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
Leased assets *	182,865	-	-	-	-	182,865	193,134
Debt securities	804,358	971,505	3,940,456	-	-	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 at fair value through profit or loss	-	-	-	-	860,695	860,695	860,695
Derivative contracts in hedge accounting	-	-	-	-	1,384,303	1,384,303	1,384,303
Other assets **	158,494	-	-	-	-	158,494	158,494
Total	**30,791,391**	**971,505**	**3,940,456**	**61,552**	**2,244,997**	**38,009,900**	**40,118,234**

* Line item includes leased assets for which MuniFin applies fair value hedge accounting.
** Line item includes cash collateral given to central counterparties.

FINANCIAL LIABILITIES 31 Dec 2019 (EUR 1,000)	Amortised cost	Designated at fair value through profit or loss	Fair value through profit or loss	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 at fair value through profit or loss	-	-	918,706	918,706	918,706
Derivative contracts in hedge accounting	-	-	843,304	843,304	843,304
Other liabilities *	103,144	-	-	103,144	103,144
Subordinated liabilities	348,896	-	-	348,896	382,160
Total	**22,535,723**	**12,940,212**	**1,762,010**	**37,237,945**	**37,346,768**

* Line item includes EUR 96,239 thousand of cash collateral received from central counterparties and EUR 6,906 thousand of lease liabilities in accordance with IFRS 16 standard.

Note 17. Loans and advances to credit institutions

31 Dec 2020 (EUR 1,000)	Payable on demand	Other than payable on demand	Expected credit losses	Total
Receivables from central bank	-	34,918	0	34,918
Domestic credit institutions	88,763	98,300	-11	187,052
Foreign credit institutions	75,242	1,543,800	-32	1,619,011
Total	**164,005**	**1,677,018**	**-43**	**1,840,980**

31 Dec 2019 (EUR 1,000)	Payable on demand	Other than payable on demand	Expected credit losses	Total
Receivables from central bank	-	26,590	0	26,590
Domestic credit institutions	2,736	28,800	-7	31,529
Foreign credit institutions	77,714	681,650	-21	759,343
Total	**80,450**	**737,040**	**-28**	**817,462**

Note 18. Loans and advances to the public and public sector entities

	31 Dec 2020		31 Dec 2019	
(EUR 1,000)	Total	, of which expected credit losses	Total	, of which expected credit losses
Enterprises and housing corporations	13,794,905	-983	12,647,283	-155
Public sector entities	12,772,899	-38	10,943,542	-19
Non-profit organisations	363,580	-67	379,149	-11
Total	**26,931,384**	**-1,089**	**23,969,974**	**-185**

Note 19. Debt securities

DEBT SECURITIES ISSUED BY PUBLIC SECTOR ENTITIES 31 Dec 2020 (EUR 1,000)	Publicly quoted	Other	Total	Expected credit losses *
Amortised cost	**-**	**1,199,621**	**1,199,621**	**0**
Commercial papers issued by other public sector entities	-	1,199,621	1,199,621	0
Fair value through fair value reserve	**124,157**	**-**	**124,157**	**2**
Bonds issued by other public sector entities	124,157	-	124,157	2
Designated at fair value through profit or loss	**1,869,431**	**-**	**1,869,431**	**-**
Government bonds	266,874	-	266,874	-
Bonds issued by other public sector entities	1,602,557	-	1,602,557	-
Total	**1,993,588**	**1,199,621**	**3,193,209**	**3**
, of which eligible for central bank refinancing	*1,780,922*	-	*1,780,922*	*2*

DEBT SECURITIES ISSUED BY OTHER THAN PUBLIC SECTOR ENTITIES

31 Dec 2020 (EUR 1,000)	Publicly quoted	Other	Total	Expected credit losses *
Amortised cost	**-**	**110,684**	**110,684**	**0**
Commercial papers	-	110,684	110,684	0
Fair value through fair value reserve	**298,893**	**-**	**298,893**	**39**
Bank bonds	298,893	-	298,893	39
Bank commercial papers	-	-	-	-
Designated at fair value through profit or loss	**2,160,427**	**-**	**2,160,427**	**-**
Bank bonds	2,160,427	-	2,160,427	-
Total	**2,459,320**	**110,684**	**2,570,005**	**39**
, of which eligible for central bank refinancing	*2,169,064*	-	*2,169,064*	*25*

31 Dec 2020 (EUR 1,000)	Publicly quoted	Other	Total	Expected credit losses *
Debt securities total	**4,452,908**	**1,310,305**	**5,763,214**	**42**

* The expected credit losses have been recognised on debt securities, which have been classified at fair value through fair value reserve. Therefore, the expected credit loss is not recognised as a deduction from the gross carrying amount of the debt securities in the balance sheet, but from the fair value reserve as described in the accounting policies of the Consolidated Financial Statements (Note 1) in Section *Presentation of allowance for ECL in the statement of financial position.*

Debt securities do not contain any securities given as collateral for reverse repo agreements at the financial statement date 31 Dec 2020.

At the financial statement date 31 Dec 2020 MuniFin has no debt securities measured mandatorily at fair value through profit or loss.

DEBT SECURITIES ISSUED BY PUBLIC SECTOR ENTITIES

31 Dec 2019 (EUR 1,000)	Publicly quoted	Other	Total	Expected credit losses
Amortised cost	**-**	**721,585**	**721,585**	**0**
Commercial papers issued by other public sector entities	-	721,585	721,585	0
Fair value through fair value reserve	**58,268**	**-**	**58,268**	**0**
Government bonds	-	-	-	-
Bonds issued by other public sector entities	58,268	-	58,268	0
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	-
Total	**1,509,984**	**721,585**	**2,231,569**	**0**
, of which eligible for central bank refinancing	*1,345,703*	-	*1,345,703*	*0*

DEBT SECURITIES ISSUED BY OTHER THAN PUBLIC SECTOR ENTITIES

31 Dec 2019 (EUR 1,000)	Publicly quoted	Other	Total	Expected credit losses
Amortised cost	**-**	**82,772**	**82,772**	**0**
Commercial papers	-	82,772	82,772	0
Fair value through fair value reserve	**913,236**	**-**	**913,236**	**104**
Bank bonds	848,196	-	848,196	101
Bank commercial papers	65,040	-	65,040	3
Designated at fair value through profit or loss	**2,488,740**	**-**	**2,488,740**	**-**
Bank bonds	2,488,740	-	2,488,740	-
Total	**3,401,976**	**82,772**	**3,484,748**	**104**
, of which eligible for central bank refinancing	*2,743,816*	-	*2,743,816*	*77*

31 Dec 2019 (EUR 1,000)	Publicly quoted	Other	Total	Expected credit losses
Debt securities total	**4,911,960**	**804,358**	**5,716,318**	**104**

Note 20. Leased assets

(EUR 1,000)	31 Dec 2020	31 Dec 2019
Prepayments	415,943	339,726
Machinery and equipment	230,343	200,556
Fixed assets and buildings	444,378	288,062
Other assets	278	116
Expected credit losses	-2	-1
Total	**1,090,940**	**828,458**

Note 21. Credit risks of financial assets and other commitments

MuniFin's credit risks are described in the Consolidated Financial Statements's Note *2 Risk management principles and the Group's risk position* in Section *Credit Risk*. The expected credit loss calculations and impairment stages are described in the accounting policies of the Consolidated Financial Statements (Note 1) in Section *Impairment of financial assets*.

The table below presents exposures under expected credit loss calculations by asset groups and impairment stages.

EXPOSURES BY ASSET GROUPS AND IMPAIRMENT STAGES 31 Dec 2020 (EUR 1,000)	Not credit-impaired				Credit-impaired		Total	
	Stage 1		Stage 2		Stage 3 *			
	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	5,565,801	0	-	-	-	-	5,565,801	0
Loans and advances to credit institutions at amortised cost	1,840,980	-43	-	-	-	-	1,840,980	-43
Loans and advances to the public and public sector entities at amortised cost	26,606,595	-30	145,061	-835	135,291	-224	26,886,947	-1,089
Leased assets at amortised cost	1,090,768	-2	-	-	173	-	1,090,940	-2
Debt securities at amortised cost	1,303,105	0	7,200	-	-	-	1,310,305	0
Debt securities at fair value through fair value reserve	423,050	-42	-	-	-	-	423,050	-42
Cash collateral to CCPs in Other assets at amortised cost	243,269	-4	-	-	-	-	243,269	-4
Guarantee receivables from the public and public sector entities in Other assets	1,606	-	-	-	-	-	1,606	-
Credit commitments (off-balance sheet)	2,348,271	-4	4,506	0	1,201	0	2,353,978	-4
Total	**39,423,445**	**-126**	**156,767**	**-835**	**136,665**	**-224**	**39,716,876**	**-1,184**

* MuniFin has collateral and guarantee arrangements that fully cover the stage 3 receivables as described in the Consolidated Financial Statements' Note *2 Risk management principles and the Group's risk position* in Section *Credit risk*. MuniFin's management expects that all the stage 3 receivables will be recovered and no final credit loss will emerge. Stage 3 receivables include EUR 2,404 thousand of originated credit impaired receivables (*Purchased or Originated Credit Impaired, POCI*). Expected credit losses for the POCI-receivables amount to EUR 4 thousand.

EXPOSURES BY ASSET GROUPS AND IMPAIRMENT STAGES 31 Dec 2019 (EUR 1,000)	Not credit-impaired				Credit-impaired		Total	
	Stage 1		Stage 2		Stage 3			
	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
Leased assets 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 fair value reserve	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)	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**

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 (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
Opening balance 1 Jan 2020	**-167**	**-80**	**-80**	**-327**	**34,771,414**
New assets originated or purchased	-83	-30	-13	-126	10,624,618
Assets derecognised or repaid (excluding write-offs)	119	10	43	173	-5,678,253
Transfers to Stage 1	0	30	-	30	30
Transfers to Stage 2	0	-50	9	-41	-41
Transfers to Stage 3	0	19	-7	12	12
Additional provision (*Management overlay*)	-	-340	-	-340	-340
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	-
Changes to models * and inputs ** used for ECL calculations	5	-395	-176	-566	-564
Write-offs	-	-	-	-	-
Recoveries	-	-	-	-	-
Total 31 Dec 2020	**-126**	**-835**	**-224**	**-1,184**	**39,716,876**

* Represents changes in the model.
** Represents changes to model parameters (e.g. GDP rates, unemployment rates)

During the second half of 2020, MuniFin has specified the methods for estimating and modeling expected credit losses as well as the assumptions used in the model. The change in the modeling methodology affected the modeling of the probability of default over the lifetime of the loan and thus affected the amount of expected credit losses on stages 2 and 3, which increased by approximately EUR 0.5 million due to the change.

In addition, MuniFin has recorded an additional discretionary provision (*management overlay*) of EUR 340 thousand to take into account the financial effects of the COVID-19 pandemic. Year 2020 can be said to have been financially exceptionally weak for certain customer segments such as the arts sector and the operation of sports halls. However, the deteriorating financial situation is not yet reflected in MuniFin's internal risk ratings, which have been mainly updated based on the 2019 financial statements. As the credit risk of certain customer segments is estimated to have increased since then, MuniFin's management decided to record an additional discretionary provision based on a group-specific assessment. The additional provision relates to the balance sheet line item *Loans and advances to the public and public sector entities.* The additional provision has not been allocated to contract level.

The assessment of the need for additional provisions is based on the fact that MuniFin's management estimates that due to the increase in credit risk (not yet reflected in the internal risk ratings), part of the exposures would transfer to stage 2 in the expected credit loss calculations. More detailed information on the financial situation of the companies subject to the additional provision will be available after the completion of their 2020 financial statements, so that any change in expected credit losses can be allocated to individual contracts and determined according to the normal ECL calculation process.

MuniFin's total credit risk has remained low and the amount of expected credit losses (*ECL*) remains low. MuniFin's customer exposures have zero risk weight in the capital adequacy calculation because they are from Finnish municipalities or involve a municipal guarantee or a state deficiency guarantee supplementing the real estate collateral as described in the Consolidated Financial Statements' Note *2 Risk management principles and the Group's risk position* under Section *Credit ris*k. The Company's management estimates that all receivables will be recovered in full and therefore no final credit loss will arise. On 31 December 2020, MuniFin has a total of EUR 24 million (EUR 2 million) in guarantee receivables from the public sector due to the insolvency of customers. The growth is due to individual customers. Credit risk of the liquidity portfolio has remained of good quality with the average rating of AA+.

TOTAL EXPECTED CREDIT LOSSES BY IMPAIRMENT STAGES (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
Opening balance 1 Jan 2019	**-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 and inputs used for ECL calculations	-22	-	-	-22	0
Write-offs	-	-	-	-	-180
Recoveries	-	-	-	-	180
Total 31 Dec 2019	**-167**	**-80**	**-80**	**-327**	**34,771,414**

During the financial year 2019, MuniFin specified the methods for estimating expected credit losses and the assumptions used in the model. The revaluation had no material impact on the amount of expected of credit losses.

Tables below present 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 (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
Opening balance 1 Jan 2020	**0**	**-**	**-**	**0**	**4,909,338**
New assets originated or purchased	0	-	-	0	656,463
Assets derecognised or repaid (excluding write-offs)	0	-	-	0	0
Transfers to Stage 1	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-
Changes to models and inputs used for ECL calculations	-	-	-	-	-
Total 31 Dec 2020	**0**	**-**	**-**	**0**	**5,565,801**

EXPECTED CREDIT LOSSES ON LOANS AND ADVANCES TO CREDIT INSTITUTIONS AT AMORTISED COST BY IMPAIRMENT STAGES (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
Opening balance 1 Jan 2020	**-28**	**-**	**-**	**-28**	**817,462**
New assets originated or purchased	-35	-	-	-35	1,687,198
Assets derecognised or repaid (excluding write-offs)	21	-	-	21	-663,679
Transfers to Stage 1	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-
Changes to models and inputs used for ECL calculations	-1	-	-	-1	-1
Total 31 Dec 2020	**-43**	**-**	**-**	**-43**	**1,840,980**

EXPECTED CREDIT LOSSES ON LOANS AND ADVANCES TO THE PUBLIC AND PUBLIC SECTOR ENTITIES AT AMORTISED COST BY IMPAIRMENT STAGES (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
Opening balance 1 Jan 2020	**-24**	**-80**	**-80**	**-185**	**23,918,874**
New assets originated or purchased	-15	-30	-13	-58	4,825,655
Assets derecognised or repaid (excluding write-offs)	3	10	43	56	-1,856,679
Transfers to Stage 1	0	30	-	30	30
Transfers to Stage 2	0	-50	9	-41	-41
Transfers to Stage 3	0	19	-7	12	12
Additional provision (*Management overlay*)	-	-340	-	-340	-340
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-	-
Changes to models and inputs used for ECL calculations	6	-395	-176	-564	-564
Write-offs	-	-	-	-	-
Total 31 Dec 2020	**-30**	**-835**	**-224**	**-1,089**	**26,886,947**

EXPECTED CREDIT LOSSES ON LEASED ASSETS AT AMORTISED COST BY IMPAIRMENT STAGES (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
Opening balance 1 Jan 2020	**-1**	**0**	**-**	**-1**	**828,458**
New assets originated or purchased	-1	-	0	-1	318,638
Assets derecognised or repaid (excluding write-offs)	0	-	-	0	-56,155
Transfers to Stage 1	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-
Transfers to Stage 3	-	0	-	0	0
Changes to models and inputs used for ECL calculations	0	-	-	0	0
Total 31 Dec 2020	**-2**	**0**	**0**	**-2**	**1,090,940**

EXPECTED CREDIT LOSSES ON DEBT SECURITIES AT AMORTISED COST BY IMPAIRMENT STAGES (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
Opening balance 1 Jan 2020	**0**	**0**	**-**	**0**	**804,358**
New assets originated or purchased	0	0	-	0	1,310,305
Assets derecognised or repaid (excluding write-offs)	0	0	-	0	-804,358
Transfers to Stage 1	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-
Changes to models and inputs used for ECL calculations	-	-	-	-	-
Total 31 Dec 2020	**0**	**0**	**-**	**0**	**1,310,305**

EXPECTED CREDIT LOSSES ON DEBT SECURITIES AT FAIR VALUE THROUGH FAIR VALUE RESERVE BY IMPAIRMENT STAGES (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
Opening balance 1 Jan 2020	**-104**	**-**	**-**	**-104**	**971,505**
New assets originated or purchased	-28	-	-	-28	159,570
Assets derecognised or repaid (excluding write-offs)	92	-	-	92	-708,025
Transfers to Stage 1	-	-	-	-	
Transfers to Stage 2	-	-	-	-	
Transfers to Stage 3	-	-	-	-	
Changes to models and inputs used for ECL calculations	-2	-	-	-2	
Total 31 Dec 2020	**-42**	**-**	**-**	**-42**	**423,050**

The loss allowance on debt instruments classified at fair value through fair value reserve is recognised in 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 is presented in the accounting policies of the Consolidated Financial Statements (Note 1) in Section *Presentation of allowance in the statement of financial position*.

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EXPECTED CREDIT LOSSES ON CASH COLLATERAL TO CCPS IN OTHER ASSETS AT AMORTISED COST BY IMPAIRMENT STAGES (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
Opening balance 1 Jan 2020	**-4**	**-**	**-**	**-4**	**158,494**
New assets originated or purchased	-2	-	-	-2	84,772
Assets derecognised or repaid (excluding write-offs)	1	-	-	1	1
Transfers to Stage 1	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-
Changes to models and inputs used for ECL calculations	2	-	-	2	2
Total 31 Dec 2020	**-4**	**-**	**-**	**-4**	**243,269**

EXPECTED CREDIT LOSSES ON GUARANTEE RECEIVABLES FROM THE PUBLIC AND PUBLIC SECTOR ENTITIES IN OTHER ASSETS BY IMPAIRMENT STAGES (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
Opening balance 1 Jan 2020	**-**	**-**	**-**	**-**	**1,603**
New assets originated or purchased	-	-	-	-	184
Assets derecognised or repaid (excluding write-offs)	-	-	-	-	-180
Transfers to Stage 1	-	-	-	-	-
Transfers to Stage 2	-	-	-	-	-
Transfers to Stage 3	-	-	-	-	-
Changes to models and inputs used for ECL calculations	-	-	-	-	-
Recoveries	-	-	-	-	-
Total 31 Dec 2020	**-**	**-**	**-**	**-**	**1,606**

EXPECTED CREDIT LOSSES ON CREDIT COMMITMENTS (OFF-BALANCE SHEET) BY IMPAIRMENT STAGES (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
Opening balance 1 Jan 2020	**-4**	**0**	**-**	**-4**	**2,361,323**
New assets originated or purchased	-3	-	0	-3	1,581,833
Assets derecognised or repaid (excluding write-offs)	3	0	-	3	-1,589,178
Transfers to Stage 1	-	-	-	-	
Transfers to Stage 2	0	0	-	0	
Transfers to Stage 3	-	-	-	-	
Changes to models and inputs used for ECL calculations	0	0	-	0	
Total 31 Dec 2020	**-4**	**0**	**0**	**-4**	**2,353,978**

The loss allowance on binding credit commitments is recognised under *Other liabilities*. More details regarding presentation of allowance for expected credit losses is presented in the accounting policies of the Consolidated Financial Statements (Note 1) in Section *Presentation of allowance in the statement of financial position.*

EXPECTED CREDIT LOSSES ON CASH AND BALANCES WITH CENTRAL BANKS AT AMORTISED COST BY IMPAIRMENT STAGES (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
Opening balance 1 Jan 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 31 Dec 2019	**0**	**-**	**-**	**0**	**4,909,338**

EXPECTED CREDIT LOSSES ON LOANS AND ADVANCES TO CREDIT INSTITUTIONS AT AMORTISED COST BY IMPAIRMENT STAGES (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
Opening balance 1 Jan 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 31 Dec 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 (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
Opening balance 1 Jan 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 31 Dec 2019	**-24**	**-80**	**-80**	**-185**	**23,918,874**

EXPECTED CREDIT LOSSES ON LEASED ASSETS AT AMORTISED COST BY IMPAIRMENT STAGES (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
Opening balance 1 Jan 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 31 Dec 2019	**-1**	**0**	**-**	**-1**	**828,458**

EXPECTED CREDIT LOSSES ON DEBT SECURITIES AT AMORTISED COST BY IMPAIRMENT STAGES (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
Opening balance 1 Jan 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 31 Dec 2019	**0**	**0**	**-**	**0**	**804,358**

EXPECTED CREDIT LOSSES ON DEBT SECURITIES AT FAIR VALUE THROUGH FAIR VALUE RESERVE BY IMPAIRMENT STAGES (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
Opening balance 1 Jan 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 31 Dec 2019	**-104**	**-**	**-**	**-104**	**971,505**

EXPECTED CREDIT LOSSES ON CASH COLLATERAL TO CCPS IN OTHER ASSETS AT AMORTISED COST BY IMPAIRMENT STAGES (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
Opening balance 1 Jan 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 31 Dec 2019	**-4**	**-**	**-**	**-4**	**158,494**

EXPECTED CREDIT LOSSES ON GUARANTEE RECEIVABLES FROM THE PUBLIC AND PUBLIC SECTOR ENTITIES IN OTHER ASSETS BY IMPAIRMENT STAGES (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
Opening balance 1 Jan 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 31 Dec 2019	**-**	**-**	**-**	**-**	**1,603**

EXPECTED CREDIT LOSSES ON CREDIT COMMITMENTS (OFF-BALANCE SHEET) BY IMPAIRMENT STAGES (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
Opening balance 1 Jan 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 31 Dec 2019	**-4**	**-**	**-**	**-4**	**2,361,323**

Forward-looking information

In the assessment of whether the credit risk of an instrument has significantly increased (*SICR*) and in the measurement of expected credit losses, forward-looking information and macroeconomic scenarios are included in the model. The scenarios for Finland have been updated by MuniFin's Chief Economist and Scenario Design Team to take into account the effect of COVID-19 pandemic. The macroeconomic projections cover a 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 include probability weights. Due to uncertainty caused by the COVID-19 pandemic, MuniFin has given a larger weight to the adverse scenario.

The scenario probability weightings are as following:

	31 Dec 2020			31 Dec 2019		
SCENARIO	2021	2022	2023	2020	2021	2022
Adverse	50%	40%	40%	5%	5%	5%
Base	40%	40%	40%	75%	75%	75%
Optimistic	10%	20%	20%	20%	20%	20%

MuniFin has identified key drivers of credit losses for each portfolio that share similar kind of credit risk characteristics and estimated the relationship between macroeconomic variables and credit losses. ECL model consists of the following macroeconomic variables for Finnish counterparties of financial assets; Finnish government long-term rate, the development of residential housing prices and unemployment rate. For non-Finnish financial assets, stress test scenarios published by the European Central Bank are employed in the model and scenario parameters. Each variable covers an estimate over a period of three years.

The table below presents the macroeconomic variables and their forecasts over the three-year forecast period.

		31 Dec 2020			31 Dec 2019		
MACROECONOMIC VARIABLES	Scenario	2021	2022	2023	2020	2021	2022
10Y Fin Government rate, %	Adverse	0.1	-0.25	0.0	0.94	1.14	1.3
	Base	-0.37	-0.25	0.1	0.25	0.75	1.0
	Optimistic	0.0	0.3	0.6	0.85	1.1	1.35
Residential Real Estate (selling price, YoY change), %	Adverse	-12.5	-2.5	2.0	-9.0	-12.0	-5.0
	Base	0.5	1.0	2.0	1.5	1.5	2.0
	Optimistic	2.0	2.5	2.0	2.8	3.0	2.5
Unemployment rate, %	Adverse	9.5	9.5	8.7	7.8	9.5	9.2
	Base	8.2	7.8	7.6	6.5	6.4	6.3
	Optimistic	7.7	7.2	6.9	6.1	5.8	5.2

The outbreak of COVID-19 pandemic led to a sharp decline in global GDP in the first half of 2020. Output started recovering in May–June 2020 as countries reopened their economies. Towards the end of the year, however, the second wave of the pandemic renewed the pressure on economic activity. In MuniFin's base scenario, the Finnish GDP to contract is 3.5 percent in 2020. COVID-19 pandemic will still have a negative impact on the economy during the winter and early spring of 2021. By summer, recovery will gain more momentum as wider vaccination programs support economic confidence. MuniFin expects output to grow 2.0% in 2021 and 3.5% in 2022. From 2023 onwards, the economy gradually converges to its long-term growth path and the annual pace of expansion is around 1.3–1.5%. In the base scenario, unemployment rate peaks at 8.2% in 2021. Unemployment will remain several years above its structural level, which is estimated to be around 6.5–7.0%. Negative output gap keeps price pressures subdued. CPI inflation is assumed to recover rather slowly in 2021–2022. The European Central Bank is committed to a very accommodative monetary policy stance and interest rate expectations will rise only gradually in line with economic recovery. On the national level, housing prices are expected to rise only marginally in 2020-2021. After the pandemic, from 2022 onwards, housing prices inflation accelerates moderately as rising personal income supports home buying intentions.

Compared to the base scenario, the optimistic scenario factors in slightly less severe economic effects from the COVID-19 pandemic and assumes somewhat faster recovery in global trade and investment spending. As a result, the Finnish GDP would decline less in 2020 and grow more in the subsequent years. In the optimistic scenario, unemployment peaked already in 2020. Consumer and housing prices rise at about 2.0–2.5% pace in 2021–2022. Narrowing output gap and reviving inflation expectations lead to somewhat higher interest rates than in the base scenario.

The adverse scenario represents an outcome where the COVID-19 pandemic causes significant and persistent damage to the productive capacity. Economic recession continues well into 2021. Unemployment rises more and remains high much longer than in the base scenario. Deflationary pressures keep CPI inflation very low in 2020–2021. Lack of demand in the housing market leads to relatively sharp declines in housing price indices. Prolonged global recession creates tensions in financial markets, which gives rise to wider risk premiums in asset pricing.

The table below presents the sensitivity of the expected credit losses assuming 100% weight for adverse scenario until 2023.

SENSITIVITY ANALYSIS 31 Dec 2020 (EUR 1,000)	**Weighted scenario**	**Adverse scenario (100%)**
ECL	844	1,083
Proportion of the exposure in Stage 2 and 3	0.75%	1.04%

The sensitivity analysis does not include the additional discretionary provision (*management overlay*) recorded on 31 Dec 2020.

Non-performing and forborne exposures

Non-performing and forborne exposures refer to receivables that are more than 90 days past due, other receivables classified as risky and forborne exposures due to the customer's financial difficulties.

NON-PERFORMING AND FORBORNE EXPOSURES 31 Dec 2020 (EUR 1,000)	Performing exposures (gross)	Non-performing exposures (gross)	Total exposures (gross)	Total expected credit losses	Total exposures (net)
Over 90 days past due	-	-	-	-	-
Unlikely to be paid	-	116,263	116,263	-162	116,102
Forborne exposures	68,715	19,584	88,299	-288	88,010
Total	**68,715**	**135,847**	**204,562**	**-450**	**204,112**

NON-PERFORMING AND FORBORNE EXPOSURES 31 Dec 2019 (EUR 1,000)	Performing exposures (gross)	Non-performing exposures (gross)	Total exposures (gross)	Total expected credit losses	Total exposures (net)
Over 90 days past due	-	-	-	-	-
Unlikely to be paid	-	61,682	61,682	-80	61,602
Forborne exposures	27,854	4,968	32,822	-27	32,795
Total	**27,854**	**66,650**	**94,505**	**-107**	**94,398**

Forbearance measures are concessions to original contractual payment terms agreed at the customers' initiative to help the customer through temporary payment difficulties. Performing forborne exposures include forborne exposures reclassified as performing during their probation period or forbearance measures made into a performing loan. Loan modifications due to reasons other than the customer's financial difficulties are not classified as forborne exposures. MuniFin considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and MuniFin would not have agreed to them if the borrower had been financially healthy.

The COVID-19 pandemic affected the financial situation and liquidity of MuniFin's customers. MuniFin therefore offered concessions to the payment terms of the loans to customers whose finances have been temporarily affected by the pandemic. The granted repayment holidays concerned the year 2020 and were mainly between 6–9 months in length. The uncollected installments were mainly transferred to the end of the loan term to be paid in connection with the last installment. Most of the repayment holidays were granted during April and May. No lease concessions were granted to MuniFin's leasing customers.

During the financial year, customers were granted repayment holidays (concessions to contractual payment terms) for loans with a remaining notional amounting to EUR 226 million (88 individual loans), most of which, EUR 208 million (72 loans), were repayment holidays due to COVID-19 pandemic. Of the loans with granted repayment holidays, EUR 82 million (57 loans) were classified as forborne exposures, of which EUR 64 million (35 loans) were performing forborne exposures (stage 2 in the measurement of expected credit losses) and EUR 18 million (22 loans) non-performing forborne exposures (stage 3 in the measurement of expected credit losses).

Realised credit losses

MuniFin has not had any final realised credit losses during the financial year or the comparison year.

Note 22. Shares and participations

31 Dec 2020 (EUR 1,000)	Publicly quoted	Other	Total	, of which in credit institutions
Mandatorily at fair value through profit or loss	-	27	27	-
Shares and participations in Group companies	-	656	656	-
Total	**-**	**683**	**683**	**-**
, of which at acquisition cost	-	*656*	*656*	-

MuniFin does not have equity instruments valued at fair value through fair value reserve. MuniFin does not have shares and participations subject to securities lending.

31 Dec 2019 (EUR 1,000)	Publicly quoted	Other	Total	, of which in credit institutions
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*	-

Note 23. Derivative contracts

DERIVATIVE CONTRACTS 31 Dec 2020 (EUR 1,000)	Nominal value of underlying instrument, Remaining maturity: Less than 1 year	1–5 years	Over 5 years	Total	Fair value: Positive	Negative
Derivative contracts in hedge accounting						
Interest rate derivatives						
Interest rate swaps	2,933,188	11,186,060	15,825,475	29,944,724	1,155,265	-470,736
, of which cleared by the central counterparty	*1,474,582*	*10,182,656*	*13,852,888*	*25,510,126*	*684,090*	*-314,856*
Currency derivatives						
Cross currency interest rate swaps	1,577,593	7,155,034	1,105,354	9,837,981	369,605	-985,934
Total derivative contracts in hedge accounting	**4,510,781**	**18,341,095**	**16,930,830**	**39,782,706**	**1,524,870**	**-1,456,670**
Derivative contracts at fair value through profit or loss						
Interest rate derivatives						
Interest rate swaps	3,800,843	9,751,683	5,000,317	18,552,843	749,891	-488,850
, of which cleared by the central counterparty	*2,784,644*	*6,910,928*	*1,515,808*	*11,211,380*	*5,605*	*-189,246*
Interest rate options	-	40,000	-	40,000	106	-106
Currency derivatives						
Cross currency interest rate swaps	2,385,939	2,284,168	130,374	4,800,480	82,985	-713,063
Forward exchange contracts	3,516,421	-	-	3,516,421	-	-126,805
Equity derivatives	932,553	-	-	932,553	313	-75,076
Total derivative contracts at fair value through profit or loss	**10,635,756**	**12,075,850**	**5,130,691**	**27,842,297**	**833,293**	**-1,403,900**
Total derivative contracts	**15,146,537**	**30,416,945**	**22,061,521**	**67,625,003**	**2,358,163**	**-2,860,570**

Derivative contracts 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 derivative contracts used for hedging financial assets and liabilities designated at fair value through profit or loss, all derivative contracts with municipalities and all derivative contracts hedging derivatives with municipalities. In addition to these, the category contains derivative contracts 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 balance sheet line items *Accrued income and prepayments* and *Accrued expenses and deferred income*.

DERIVATIVE CONTRACTS 31 Dec 2019 (EUR 1,000)	Nominal value of underlying instrument Remaining maturity Less than 1 year	1–5 years	Over 5 years	Total	Fair value Positive	Negative
Derivative 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
, of which 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 derivative contracts in hedge accounting	**4,894,228**	**17,533,502**	**12,603,942**	**35,031,672**	**1,384,303**	**-843,304**
Derivative 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
, of which 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
Total derivative 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**

Note 24. Hedge accounting

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

The Company applies both fair value hedge accounting according to IFRS 9 and fair value portfolio hedge accounting according to IAS 39. The Company does not apply cash flow hedge accounting. Accounting policies related to hedge accounting are described in the accounting polices of the Consolidated Financial Statements (Note 1) in Section *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 2020 (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	11,183,657	11,614,114	11,483,819	130,295	-
Leased assets	211,223	215,444	-	215,444	-
Total assets	**11,394,880**	**11,829,557**	**11,483,819**	**345,739**	**-**
Liabilities					
Liabilities to credit institutions	55,000	68,800	-	68,800	-
Liabilities to the public and public sector entities	1,853,956	2,246,352	-	2,181,931	64,421
Debt securities issued	21,260,721	22,077,489	-	11,898,132	10,179,357
Total liabilities	**23,169,677**	**24,392,642**	**-**	**14,148,863**	**10,243,779**

The figures presented in the following table 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 financial year. 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 derivative 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, 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.

VALUE OF HEDGED RISK (EUR 1,000)	31 Dec 2020	1 Jan 2020	Recognised in the income statement 2020
Assets			
IAS 39 portfolio hedge accounting			
Loans and advances to the public and public sector entities	464,688	303,139	161,548
Derivative contracts in hedge accounting	-428,083	-276,831	-151,252
Accumulated fair value accrual from the termination of hedge accounting	47	-	47
IAS 39 portfolio hedge accounting, net	**36,653**	**26,308**	**10,344**
IFRS 9 fair value hedge accounting			
Loans and advances to the public and public sector entities	37,203	29,330	7,873
Leased assets	4,221	1,605	2,616
Derivative contracts in hedge accounting	-42,044	-33,193	-8,851
IFRS 9 fair value hedge accounting, net	**-620**	**-2,258**	**1,638**
Liabilities			
IFRS 9 fair value hedge accounting			
Liabilities to credit institutions	-13,800	-12,916	-884
Liabilities to the public and public sector entities	-481,546	-434,953	-46,593
Debt securities issued	-859,986	-524,923	-335,063
Derivative contracts in hedge accounting	1,340,456	963,674	376,782
IFRS9 fair value hedge accounting, net	**-14,876**	**-9,118**	**-5,757**
IBOR reform related compensations *	-2,041	-	-2,041
Total hedge accounting	**19,115**	**14,932**	**4,183**

* Compensations relate to the ongoing IBOR reform of which more information is presented in the accounting policies of the Consolidated Financial Statements (Note 1) in Section *IBOR reform.*

The following table 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 MuniFin 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 as Cost-of-Hedging to the *Cost-of-Hedging reserve*. Thus, changes in cross currency basis spreads do not create ineffectiveness in the hedge relationship.

HEDGING IMPACT ON EQUITY (EUR 1,000)	31 Dec 2020	1 Jan 2020	Impact on Cost-of-Hedging reserve
Cost-of-Hedging			
Derivative contracts in hedge accounting	15,624	28,075	-12,451
Total	**15,624**	**28,075**	**-12,451**

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

EFFECTIVENESS OF HEDGE ACCOUNTING
31 Dec 2020 (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	464,688	-428,083	36,605
IFRS 9 fair value hedge accounting				
Structured lending	Interest rate derivatives	37,203	-37,739	-537
Fixed rate and revisable rate leased assets	Interest rate derivatives	4,221	-4,305	-84
Assets total		**506,111**	**-470,126**	**35,985**
Liabilities				
IFRS 9 fair value hedge accounting				
Financial liabilities denominated in EUR	Interest rate derivatives	-952,949	945,353	-7,596
Financial liabilities denominated in foreign currencies	Currency derivatives (cross currency interest rate swaps) Interest rate derivatives	-402,383	395,103	-7,280
Liabilities total		**-1,355,332**	**1,340,456**	**-14,876**

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	8,256,680	8,546,257	8,420,004	126,253	-
Leased 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**

VALUE OF HEDGED RISK (EUR 1,000)	31 Dec 2019	1 Jan 2019	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
Derivative contracts in hedge accounting	-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	29,330	21,574	7,755
Leased assets	1,605	1,178	427
Derivative contracts in hedge accounting	-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
Derivative contracts in hedge accounting	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**

HEDGING IMPACT ON EQUITY (EUR 1,000)	31 Dec 2019	1 Jan 2019	Impact on Cost-of-Hedging reserve
Cost-of-Hedging			
Derivative contracts in hedge accounting	28,075	14,235	13,840
Total	**28,075**	**14,235**	**13,840**

EFFECTIVENESS OF 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 and revisable rate leased assets	Interest rate derivatives	1,605	-2,107	-502
Assets total		**334,074**	**-310,024**	**24,050**
Liabilities				
IFRS 9 fair value hedge accounting				
Financial liabilities denominated in EUR	Interest rate derivatives	-693,747	697,685	3,938
Financial liabilities 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**

Note 25. Intangible assets

(EUR 1,000)	31 Dec 2020	31 Dec 2019
IT systems	17,346	14,704
Other intangible assets	12	16
Total	**17,358**	**14,719**

Intangible assets do not include other development costs or goodwill.

Note 26. Tangible assets

(EUR 1,000)	31 Dec 2020	31 Dec 2019
Real estate corporation shares	299	299
Right-of-use assets	5,588	6,860
Other tangible assets	4,093	1,380
Total	**9,980**	**8,539**

MuniFin does not have investment properties.

Note 27. Changes in intangible and tangible assets during the financial year

	Intangible assets	Tangible assets			
2020 (EUR 1,000)	**Total**	**Other real estate**	**Other tangible assets**	**Right-of-use assets**	**Total**
Acquisition cost 1 Jan 2020	27,266	299	4,062	8,355	12,716
+ Additions	5,924	-	3,644	295	3,939
– Disposals	-	-	-343	-79	-422
Acquisition cost 31 Dec 2020	33,190	299	7,363	8,570	16,233
Accumulated depreciation 1 Jan 2020	12,547	-	2,682	1,494	4,177
– Accumulated depreciation on disposals	-	-	-252	-66	-318
+ Depreciation for the financial year	3,285	-	840	1,554	2,394
Accumulated depreciation 31 Dec 2020	15,831	-	3,271	2,982	6,253
Carrying amount 31 Dec 2020	**17,358**	**299**	**4,093**	**5,588**	**9,980**

	Intangible assets	Tangible assets			
2019 (EUR 1,000)	**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 2019	27,266	299	4,062	8,355	12,716
Accumulated depreciation 1 Jan 2019	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 2019	12,547	-	2,682	1,494	4,177
Carrying amount 31 Dec 2019	**14,719**	**299**	**1,380**	**6,860**	**8,539**

Note 28. Other assets

(EUR 1,000)	31 Dec 2020	31 Dec 2019
Invoiced leasing	11,185	8,984
Given cash collateral to CCPs *	243,269	158,494
Other	5,181	2,585
Total	**259,635**	**170,063**

* Cash collaterals include expected credit loss amounting to EUR 4 thousand (EUR 4 thousand).

MuniFin did not have receivables related to payment transfers as at 31 Dec 2020 or 31 Dec 2019.

Note 29. Accrued income and prepayments

(EUR 1,000)	31 Dec 2020	31 Dec 2019
Accrued interest income	198,057	231,777
Other accrued income *	5,637	9,182
Prepayments	-152	1,470
Total	**203,542**	**242,428**

* Line item includes mainly tax receivables.

Note 30. Deferred tax assets and liabilities

DEFERRED TAX LIABILITIES (EUR 1,000)	1 Jan 2020	Recognised in the income statement	Recognised in equity	Paid during the financial year	31 Dec 2020
On fair value reserve	10,467	-	-6,413	-	4,054
Total	**10,467**	**-**	**-6,413**	**-**	**4,054**

Voluntary credit loss provision and depreciation difference include EUR 273,611 thousand in non-recognised deferred tax liabilities.
The Company did not have deferred tax assets as at 31 December 2020.

DEFERRED TAX LIABILITIES (EUR 1,000)	1 Jan 2019	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 1 Jan 2018	5,707	-	-	-5,707	-
Total	**10,629**	**-**	**5,545**	**-5,707**	**10,467**

Voluntary credit loss provision and depreciation difference include EUR 243,638 thousand in non-recognised deferred tax liabilities.
The Company did not have deferred tax assets as at 31 December 2019.

Note 31. Debt securities issued

	31 Dec 2020		31 Dec 2019	
(EUR 1,000)	Carrying amount	Nominal value	Carrying amount	Nominal value
Bonds	29,016,086	28,671,412	27,255,873	27,361,959
Other *	3,895,820	3,896,421	2,727,712	2,735,624
Total	**32,911,906**	**32,567,833**	**29,983,585**	**30,097,583**

* Line item contains short-term funding issued by MuniFin.

MuniFin's funding is guaranteed by the Municipal Guarantee Board.

BENCHMARK ISSUANCES DURING THE YEAR 2020	Value date	Maturity date	Interest-%	Nominal value (1,000)	Currency
Fixed rate benchmark bond, issued under the MTN programme	15 Jan 2020	15 Nov 2024	0.000%	1,500,000	EUR
Fixed rate benchmark bond, issued under the MTN programme	22 Apr 2020	22 Apr 2025	0.000%	1,000,000	EUR
Fixed rate benchmark bond, issued under the MTN programme	14 Oct 2020	14 Oct 2030	0.000%	500,000	EUR
Fixed rate benchmark bond, issued under the MTN programme	1 Jul 2020	1 Sep 2023	0.375%	1,000,000	USD
Fixed rate benchmark bond, issued under the MTN programme	10 Sep 2020	10 Sep 2035	0.050%	500,000	EUR

In the above table, the benchmark issuances are included by the settlement date. The offering circular is available in English on the website at www.munifin.fi/investor-relations.

RECONCILIATION OF THE CARRYING AMOUNT OF ISSUED DEBT (EUR 1,000)	Liabilities to credit institutions	Liabilities to the public and public sector entities	Debt securities issued
Carrying amount 1 Jan 2020	**82,916**	**3,862,053**	**29,983,585**
Cash flow changes from operating activities			
Additions to issued debt "bonds"	1,288,567	108,792	9,031,390
Additions to debt securities issued "other"	-	-	14,442,817
Additions total	**1,288,567**	**108,792**	**23,474,207**
Deductions to issued debt "bonds"	-34,608	-155,105	-6,619,454
Deductions to debt securities issued "other"	-	-	-13,274,709
Deductions total	**-34,608**	**-155,105**	**-19,894,163**
Cash flow changes from operating activities in total	**1,253,959**	**-46,314**	**3,580,044**
Changes in the balance sheet value including valuations and FX revaluations	6,483	68,287	-651,724
Carrying amount 31 Dec 2020	**1,343,358**	**3,884,026**	**32,911,906**

RECONCILIATION OF THE CARRYING AMOUNT OF ISSUED DEBT (EUR 1,000)	Liabilities to credit institutions	Liabilities to the public and public sector entities	Debt securities issued
Carrying amount 1 Jan 2019	**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 debt securities issued "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 debt securities issued "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 2020	31 Dec 2019
Mandatory provisions		
Restructuring provision	504	-
Other liabilities		
Lease liabilities	5,660	6,906
Cash collateral taken from CCPs	231,180	96,239
Other	9,199	12,542
Total	**246,543**	**115,686**

The restructuring provision is related to the reorganisation of MuniFin's operations and the co-operation negotiations conducted during the financial year 2020 due to the reorganisation.

(EUR 1,000)	Restructuring provision
Carrying amount 1 Jan 2020	-
Increase in provisions	578
Provisions used	-74
Carrying amount 31 Dec 2020	**504**

Note 33. Accrued expenses and deferred income

(EUR 1,000)	31 Dec 2020	31 Dec 2019
Accrued interest expenses	143,853	176,322
Other accrued expenses	6,935	5,022
Deferred income *	13,175	10,999
Total	**163,963**	**192,343**

* Item consists mainly of leasing prepayments.

Note 34. Subordinated liabilities

31 Dec 2020 (EUR 1,000)	Currency	Nominal value	Book value	Interest rate	Earliest repayment
AT1 capital loan	EUR	350,000	349,388	Fixed	1 April 2022
Total		**350,000**	**349,388**		

31 Dec 2019 (EUR 1,000)	Currency	Nominal value	Book value	Interest rate	Earliest repayment
AT1 capital loan	EUR	350,000	348,896	Fixed	1 April 2022
Total		**350,000**	**348,896**		

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 the Consolidated Financial Statements. In the Parent Company's Financial Statements AT1 capital loan is recognised under balance sheet item *Subordinated liabilities*.

Note 35. Act on the Resolution of Credit Institutions (1194/2014)

MuniFin's crisis resolution authority is the EU's Single Resolution Board (SRB). The SRB is expected to impose a binding minimum requirement for own funds and eligible liabilities (*MREL*) on MuniFin. MuniFin expects the decision to be made in early 2021 and take effect in 2022. MuniFin expects its own funds and eligible liabilities to exceed the minimum requirements by a wide margin.

Note 36. Breakdown of financial assets and liabilities at carrying amount by maturity

FINANCIAL ASSETS 31 Dec 2020 (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	5,565,801	-	-	-	-	5,565,801
Debt securities eligible for central bank refinancing	275,640	493,648	2,448,794	731,904	-	3,949,985
Loans and advances to credit institutions	1,805,991	-	34,989	-	-	1,840,980
Loans and advances to the public and public sector entities	353,592	1,548,268	6,309,301	6,061,806	12,658,418	26,931,384
Leased assets *	8,059	19,545	64,691	37,320	85,829	215,444
Debt securities	1,198,896	267,405	289,022	57,905	-	1,813,228
Shares and participations	-	-	-	-	27	27
Shares and participations in group companies	-	-	-	-	656	656
Derivative contracts	21,851	86,840	551,548	718,929	978,995	2,358,163
Other assets **	243,269	-	-	-	-	243,269
Total	**9,473,100**	**2,415,705**	**9,698,345**	**7,607,864**	**13,723,925**	**42,918,938**

* Line item includes leased assets for which MuniFin applies fair value hedge accounting. Unhedged leased assets are not presented in this Note as leased assets are not regarded as financial assets for the purpose of IFRS 9 classification.

** Line item includes cash collateral given to central counterparties.

FINANCIAL LIABILITIES 31 Dec 2020 (EUR 1,000)	0–3 months	3–12 months	1–5 years	5–10 years	Over 10 years	Total
Liabilities to credit institutions	658,120	1,250,000	24,558	34,106	34,694	2,001,478
Liabilities to the public and public sector entities	118,097	342,933	777,940	1,257,086	1,387,970	3,884,026
Debt securities issued	6,285,271	3,729,067	15,784,772	4,702,293	2,410,503	32,911,906
Derivative contracts	799,531	143,081	1,119,670	200,609	597,678	2,860,570
Other liabilities *	231,570	1,177	4,093	-	-	236,840
, of which lease liabilities	*390*	*1,177*	*4,093*	-	-	*5,660*
Subordinated liabilities	-	-	349,388	-	-	349,388
Total	**8,092,589**	**5,466,259**	**18,060,422**	**6,194,095**	**4,430,845**	**42,244,209**

* Line item includes cash collateral received from central counterparties and lease liabilities in accordance with IFRS 16 standard.

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 30-50% of its callable liabilities in 2021. In 2020, the Company called 34% of its callable liabilities.

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
Leased assets	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**

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**

Note 37. Breakdown of balance sheet items into domestic and foreign currency

ASSETS
31 Dec 2020 (EUR 1,000)

	Domestic currency	Foreign currency	Total	, of which intra-group
Debt securities eligible for central bank refinancing	3,949,985	-	3,949,985	-
Loans and advances to credit institutions	1,679,345	161,635	1,840,980	-
Loans and advances to the public and public sector entities	26,931,384	-	26,931,384	-
Leased assets	1,090,940	-	1,090,940	-
Debt securities	1,768,853	44,375	1,813,228	-
Derivative contracts	2,199,419	158,744	2,358,163	-
Other assets incl. cash and balances in central banks	6,056,999	-	6,056,999	656
Total	**43,676,926**	**364,755**	**44,041,681**	**656**

LIABILITIES AND EQUITY
31 Dec 2020 (EUR 1,000)

	Domestic currency	Foreign currency	Total	, of which intra-group
Liabilities to credit institutions	2,001,478	-	2,001,478	-
Liabilities to the public and public sector entities	3,796,824	87,202	3,884,026	-
Debt securities issued	14,027,359	18,884,547	32,911,906	-
Derivative contracts	2,734,091	126,479	2,860,570	-
Other liabilities incl. appropriations and equity	1,874,810	159,503	2,034,313	53
Subordinated liabilities	349,388	-	349,388	-
Total	**24,783,950**	**19,257,731**	**44,041,681**	**53**

ASSETS
31 Dec 2019 (EUR 1,000)

	Domestic currency	Foreign currency	Total	, of which intra-group
Debt securities eligible for central bank refinancing	4,080,114	9,406	4,089,519	-
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	-
Leased assets	828,458	-	828,458	-
Debt securities	1,472,706	154,092	1,626,798	-
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**

LIABILITIES AND EQUITY
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 incl. appropriations and equity	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**

Note 38. Repurchase agreements

The Company did not have any receivables or liabilities related to repurchase agreements as at 31 Dec 2020 or 31 Dec 2019.

Note 39. Fair values and carrying amounts of financial assets and liabilities

FINANCIAL ASSETS (EUR 1,000)	31 Dec 2020		31 Dec 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and balances with central banks	5,565,801	5,565,801	4,909,338	4,909,338
Debt securities eligible for central bank refinancing	3,949,985	3,949,985	4,089,519	4,089,519
Loans and advances to credit institutions	1,840,980	1,840,980	817,462	817,462
Loans and advances to the public and public sector entities	26,931,384	29,415,707	23,969,974	26,067,416
Leased assets *	215,444	228,011	182,865	193,134
Debt securities	1,813,228	1,813,808	1,626,798	1,627,420
Shares and participations	27	27	9,797	9,797
Shares and participations in group companies	656	656	656	656
Derivative contracts	2,358,163	2,358,163	2,244,997	2,244,997
Other assets **	243,269	243,269	158,494	158,494
Total	**42,918,938**	**45,416,406**	**38,009,900**	**40,118,234**

* Line item includes leased assets for which MuniFin applies fair value hedge accounting. Unhedged leased assets are not presented in this Note as leased assets are not regarded as financial assets for the purpose of IFRS 9 classification.

** Line item includes cash collateral given to central counterparties.

FINANCIAL LIABILITIES (EUR 1,000)	31 Dec 2020		31 Dec 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Liabilities to credit institutions	2,001,478	2,001,414	1,178,256	1,178,371
Liabilities to the public and public sector entities	3,884,026	3,906,619	3,862,053	3,886,369
Debt securities issued	32,911,906	32,968,471	29,983,585	30,034,713
Derivative contracts	2,860,570	2,860,570	1,762,010	1,762,010
Other liabilities *	236,840	236,840	103,144	103,144
Subordinated liabilities	349,388	367,455	348,896	382,160
Total	**42,244,209**	**42,341,369**	**37,237,945**	**37,346,768**

* Line item includes cash collateral received from central counterparties and lease liabilities in accordance with IFRS 16 standard.

Note 40. Fair value hierarchy 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 Company measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the fair value measurements:

Level 1

Inputs that are quoted market prices (unadjusted) for identical instruments in active markets that the Company 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 OTC derivatives, Company'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. Unobservable 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 unobservable. 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. In addition to financial assets and liabilities, the Company does not hold other assets or liabilities which are measured at fair value or assets or liabilities which are non-recurringly measured at fair value.

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 2020 (EUR 1,000)		Fair value			
	Carrying amount	Level 1	Level 2	Level 3	Total
At fair value					
Fair value through fair value reserve					
Debt securities	423,050	321,308	101,741	-	423,050
Designated at fair value through profit or loss					
Debt securities	4,029,859	3,922,131	107,728	-	4,029,859
Mandatorily at fair value through profit or loss					
Loans and advances to the public and public sector entities	44,438	-	702	43,735	44,438
Shares and participations	27	-	-	27	27
Shares and participations in Group companies	656	-	-	656	656
Fair value through profit or loss					
Derivative contracts at fair value through profit or loss	833,293	-	753,841	79,452	833,293
Derivative contracts in hedge accounting	1,524,870	-	1,524,298	572	1,524,870
Total at fair value	**6,856,192**	**4,243,439**	**2,488,310**	**124,443**	**6,856,192**
In fair value hedge accounting					
Amortised cost					
Loans and advances to the public and public sector entities	11,614,114	-	12,386,569	-	12,386,569
Leased assets	215,444	-	228,011	-	228,011
Total in fair value hedge accounting	**11,829,557**	**-**	**12,614,580**	**-**	**12,614,580**
At amortised cost					
Cash and balances with central banks	5,565,801	5,565,801	-	-	5,565,801
Loans and advances to credit institutions	1,840,980	297,211	1,543,769	-	1,840,980
Loans and advances to the public and public sector entities	15,272,833	-	16,984,700	-	16,984,700
Debt securities	1,310,305	-	1,310,885	-	1,310,885
Other assets	243,269	-	243,269	-	243,269
Total at amortised cost	**24,233,188**	**5,863,012**	**20,082,621**	**-**	**25,945,634**
Total financial assets	**42,918,938**	**10,106,452**	**35,185,512**	**124,443**	**45,416,407**

FINANCIAL LIABILITIES 31 Dec 2020 (EUR 1,000)	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
At fair value					
Designated at fair value through profit or loss					
Liabilities to credit institutions	24,558	-	24,558	-	24,558
Liabilities to the public and public sector entities	1,637,674	-	1,413,261	224,413	1,637,674
Debt securities issued	10,454,282	-	8,328,568	2,125,714	10,454,282
Fair value through profit or loss					
Derivative contracts at fair value through profit or loss	1,403,900	-	757,607	646,293	1,403,900
Derivative contracts in hedge accounting	1,456,670	-	1,432,280	24,391	1,456,670
Total at fair value	**14,977,085**	**-**	**11,956,273**	**3,020,811**	**14,977,085**
In fair value hedge accounting					
Amortised cost					
Liabilities to credit institutions	68,800	-	68,736	-	68,736
Liabilities to the public and public sector entities	2,246,352	-	2,268,946	-	2,268,946
Debt securities issued *	22,077,489	-	22,040,007	94,048	22,134,054
Total in fair value hedge accounting	**24,392,642**	**-**	**24,377,688**	**94,048**	**24,471,736**
At amortised cost					
Liabilities to credit institutions	1,908,120	-	1,908,120	-	1,908,120
Debt securities issued	380,134	-	380,134	-	380,134
Other liabilities	236,840	-	236,840	-	236,840
Subordinated liabilities	349,388	-	367,455	-	367,455
Total at amortised cost	**2,874,482**	**-**	**2,892,549**	**-**	**2,892,549**
Total financial liabilities	**42,244,209**	**-**	**39,226,510**	**3,114,859**	**42,341,369**

* MuniFin's fixed-rate benchmark bond issuances are presented on level 2 due the fact that these bonds are in fair value hedge accounting with respect to the hedged risk. Valuation of the hedged risk is based on the level 2 inputs. In the Notes of the Financial Statements the Company's fixed-rate benchmark bonds fair value is adjusted to reflect fair value based on the quoted prices from Bloomberg. The market price is a level 1 input.

FINANCIAL ASSETS 31 Dec 2019 (EUR 1,000)	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
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
Shares and participations	9,797	9,797	-	-	9,797
Shares and participations in Group companies	656	-	-	656	656
Fair value through profit or loss					
Derivative contracts at fair value through profit or loss	860,695	-	727,687	133,007	860,695
Derivative contracts in hedge accounting	1,384,303	-	1,380,574	3,728	1,384,303
Total at fair value	**7,218,509**	**4,620,824**	**2,410,266**	**187,420**	**7,218,509**
In fair value hedge accounting					
Amortised cost					
Loans and advances to the public and public sector entities	8,546,257	-	9,143,650	-	9,143,650
Leased assets	182,865	-	193,134	-	193,134
Total in fair value hedge accounting	**8,729,122**	**-**	**9,336,784**	**-**	**9,336,784**
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
Debt securities	804,358	-	804,980	-	804,980
Other assets	158,494	-	158,494	-	158,494
Total at amortised cost	**22,062,269**	**5,045,171**	**18,517,769**	**-**	**23,562,940**
Total financial assets	**38,009,900**	**9,665,995**	**30,264,818**	**187,420**	**40,118,234**

FINANCIAL LIABILITIES 31 Dec 2019 (EUR 1,000)	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
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 contracts at fair value through profit or loss	918,706	-	460,463	458,243	918,706
Derivative contracts in hedge accounting	843,304	-	830,658	12,646	843,304
Total at fair value	**14,702,222**	**-**	**11,014,920**	**3,687,302**	**14,702,222**
In fair value hedge accounting					
Amortised cost					
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**
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	103,144	-	103,144	-	103,144
Subordinated liabilities	348,896	-	382,160	-	382,160
Total at amortised cost	**1,747,704**	**-**	**1,780,968**	**-**	**1,780,968**
Total financial liabilities	**37,237,945**	**-**	**33,507,796**	**3,838,973**	**37,346,768**

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 Company applies different types of valuation inputs depending on the type and complexity of the instruments and the related risk factors and payoff structures. The Company's defined categorisation to the fair value hierarchy levels 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 on the fair value hierarchy, the fair value measurement is categorised in its entirety on the level of the lowest level input that is significant to the entire measurement.

IFRS 13 classifies valuation models and techniques into three different categories: Market approach, Income approach and Cost approach. The Company applies the market-based approach when the instrument has a functioning market and public price quotations are available. The Company uses the market approach for the valuation of investment bonds of the liquidity portfolio. For all level 1 assets, the Company uses market prices available for identical assets (same ISIN). The Company 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 Company uses the income approach for many of its financial instruments, for example derivatives, lending and funding. The Company does not use the cost approach for the valuation of any of its financial instruments.

The Company 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. The Company'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 and
- Hybrid instruments.

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

Fair value of financial instruments is generally calculated as the net present value of the individual instruments. This calculation is supplemented by counterparty level adjustments. The Company incorporates credit valuation adjustments (*CVA*) and debit valuation adjustments (*DVA*) into derivative valuations. CVA reflects the impact of the counterparty's credit risk on fair value and DVA MuniFin's own credit quality. The Company 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*).

Valuation framework

MuniFin has implemented a framework for the arrangements, activities and procedures with regards to the Company'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 Company 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 Company 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. Executive Management Team (*EMT*) is responsible for 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.

Valuation Control Group (*VCG*) monitors MuniFin's fair values and is responsible for the final approval of Company's fair values for financial reporting. VCG monitors and controls MuniFin's valuation process and the performance of valuation models, decides on the necessary measures and reports to the EMT. VCG assesses whether the valuation models and valuation process provide sufficiently accurate information to be used in financial reporting and, based on the information received, decides on possible adjustments to the values generated by the valuation process.

The Company 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:

- Counterparty valuation control (*CVC)*,
- Fair value explanation,
- Independent price verification (*IPV*) and
- Independent model validation.

Counterparty valuation control (*CVC*) is performed daily by Risk Management, who assesses any deviations in valuation model output compared to MuniFin's own earlier valuations and to counterparty valuations. The results of the assessment are reported monthly to the VCG. Fair value explanation process consists of daily analysis and explain of the changes in fair values by Risk Management and a monthly fair value explanation report to the VCG. The independent price verification is performed monthly as part of MuniFin's IPV process by a third party service provider. The results of the control activities are reported monthly to the VCG. The independent model validation is performed annually for a subset of MuniFin's valuation models by a third-party service provider. The results of the model validation are reported to the VCG.

Transfers in the fair value hierarchy

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. A transfer between the fair value hierarchies can occur for example 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.

During 2020 transfers totaling EUR 205,516 thousand have been made between level 1 and level 2.

During 2020 transfers totaling EUR 35,796 thousand have been made between level 2 and level 3.

LEVEL 3 TRANSFERS 2020 (EUR 1,000)	1 Jan 2020	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 2020
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	-4,714	-	-1,578	-	-	43,735
Shares and participations	-	-	-	-	27	-	27
Shares and participations in Group companies	656	-	-	-	-	-	656
Fair value through profit or loss							
Derivative contracts at fair value through profit or loss	133,007	-12,405	-32	-41,804	686	-	79,452
Derivative contracts in hedge accounting	3,728	-2,118	117	-	-	-1,154	572
Financial assets in total	**187,420**	**-19,238**	**84**	**-43,382**	**713**	**-1,154**	**124,443**
Financial liabilities							
At fair value							
Designated at fair value through profit or loss							
Liabilities to the public and public sector entities	138,684	9,860	49,782	-	26,088	-	224,413
Debt securities issued	3,077,729	-259,858	868,572	-1,566,659	8,617	-2,686	2,125,714
Fair value through profit or loss							
Derivative contracts at fair value through profit or loss	458,243	289,125	37,906	-139,179	378	-181	646,293
Derivative contracts in hedge accounting	12,646	18,479	1,432	-	-	-8,167	24,391
In fair value hedge accounting							
Amortised cost							
Debt securities issued	151,671	-13,650	21,314	-	-	-65,286	94,048
Financial liabilities in total	**3,838,973**	**43,955**	**979,006**	**-1,705,838**	**35,083**	**-76,320**	**3,114,859**
Level 3 financial assets and liabilities in total *	**4,026,391**	**24,717**	**979,090**	**-1,749,220**	**35,796**	**-77,474**	**3,239,302**

* The Company recognises these gains and losses within the line items *Net income from securities and foreign exchange transactions* and *Net income from hedge accounting*. The fair value change due to changes in own credit risk of financial liabilities designated at fair value through profit or loss is recognised in the *Own credit revalution reserve.*

Sensitivity analysis of unobservable inputs

Sensitivity analysis illustrates the impact of the reasonably possible assumptions on the fair value of financial instruments for which valuation is dependent on unobservable inputs. However, it is unlikely in practice that all unobservable inputs would simultaneously move to extremes of reasonably possible alternatives used in the sensitivity analysis. Hence, the impact of the sensitivity analysis disclosed in this Note is likely to be greater than the true uncertainty in the fair values at the financial statement date. Furthermore, the disclosure is neither predictive nor indicative of future movements in the fair value of financial instruments.

Although the Company 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 on level 3, changing one or more of the assumptions to the reasonably possible alternative assumptions would have the following effects: as of 31 December 2020, these assumptions could have increased fair values by EUR 44.6 million or decreased fair values by EUR 33.7 million. As of 31 December 2019, they could have increased fair values by EUR 58.6 million or decreased fair values by EUR 60.1 million.

SENSITIVITY ANALYSIS OF SIGNIFICANT UNOBSERVABLE INPUTS BY INSTRUMENT TYPE
31 Dec 2020 (EUR 1,000)

	Positive range of fair value	Negative range of fair value
Loans and advances to the public and public sector entities		
Loans	542	327
Derivative contracts		
Equity linked derivatives	12,416	-7,240
FX linked cross currency and interest rate derivatives	1,786	-365
Other interest rate derivatives	8,686	-10,165
Debt securities issued and Liabilities to the public and public sector entities		
Equity linked liabilities	11,690	-5,248
FX linked liabilities	-941	-1,681
Other liabilities	10,430	-9,276
Total	**44,609**	**-33,648**

The behaviour of the fair value of the unobservable inputs on level 3 is not necessarily independent and dynamic relationships often exist between the unobservable inputs and the observable inputs. Such relationships, where material to the fair value of a given instrument, are controlled via pricing models or valuation techniques.

MuniFin uses stochastic models to generate a distribution of future cash flows of each financial instrument. The future cash flows are then discounted back to present to get the fair value of each financial instrument. The stochastic models used by the Company are Hull-White model and Dupire volatility model.

The unobservable inputs used by the Company are described below. The unobservable inputs are used only to the extent that no relevant observable inputs are available.

Correlation parameters

If the fair value of a financial instrument is impacted by more than one unobservable input, correlations describe the relationship between these different underlyings. For example for equity linked instruments, correlation has a significant impact on fair value, if the underlying is dependant on more than one equity. For FX linked cross currency and interest rate derivatives, correlations exist between FX rates of currencies, which impact the fair value of the financial instrument.

If a high correlation exists between the unobservable inputs, it will lead to an increase in fair value. A low correlation between the unobservable inputs will lead to a decrease in fair value.

The majority of the financial instruments with correlation as significant unobservable input are the Company's funding products and their hedging instruments.

Volatility (extrapolated or illiquid)

A financial instrument whose value is based on a stochastic model will typically require the volatility of the underlying instrument as an input. The Company uses Dupire local volatility model as its stochastic valuation model. For interest rate volatilities at-the-money implied volatility is used. For FX and equity components (both equity indices and single stock prices), a full volatility surface is used that includes quotes for different strikes and maturities. The Company uses implied volatility for the majority of the equity linked structures. In some cases no liquid volatility surface exists. In these cases, a proxy volatility is typically used instead.

The majority of the financial instruments, which use volatility as significant unobservable input, are the Company's funding products and their hedging instruments.

Dividend yield

The main drivers influencing the fair value of equity-linked instruments are the dividend yield and volatility of the underlying equities. Equity linked instruments require a dividend parameter as an input to the fair value. The equity component is modelled using the Dupire local volatility model where the underlying equity prices are assumed to follow a random walk.

Instruments that have divident yield as a significant unobservable input are the Company's funding products and their hedging instruments.

Interest rates (extrapolated or illiquid)

The Company uses unobservable inputs in defining fair value of complex interest rate structures. The future cash flows and their fair value is determined by using forward rates and volatilities of the underlying interest rates using Hull-White stochastic model. Financial instruments whose payoffs are dependent on the value of complex interest rate structures are categorised on level 3.

The majority of these instruments requiring extrapolated or illiquid interest rates as input are the Company's funding products and their hedging instruments.

The table below illustrates the effect that changing one or more of the assumptions in the unobservable input (reasonably possible alternative assumptions) could have on the valuations at the financial statement date:

SENSITIVITY ANALYSIS OF UNOBSERVABLE INPUTS 31 Dec 2020 (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	43,735	Stochastic model	Volatility – Extrapolated or Illiquid	542	327
Derivative contracts					
Equity linked derivatives	-75,037	Stochastic model	Correlation parameters	1,324	-932
			Volatility – Extrapolated or Illiquid	9,142	-7,641
			Dividend yield	1,951	1,333
FX linked cross currency and interest rate derivatives	-517,779	Stochastic model	Correlation parameters	51	-368
			Volatility – Extrapolated or Illiquid	1,642	96
			Interest rates – Extrapolated or Illiquid	93	-93
Other interest rate derivatives	2,156	Stochastic model	Correlation parameters	8	-6
			Volatility – Extrapolated or Illiquid	8,230	-9,711
			Interest rates – Extrapolated or Illiquid	447	-448
Debt securities issued and Liabilities to the public and public sector entities					
Equity linked liabilities	885,327	Stochastic model	Correlation parameters	2,810	2,088
			Volatility – Extrapolated or Illiquid	7,733	-7,746
			Dividend yield	1,148	410
FX linked liabilities	1,027,104	Stochastic model	Correlation parameters	213	54
			Volatility – Extrapolated or Illiquid	-1,161	-1,729
			Interest rates – Extrapolated or Illiquid	6	-6
Other liabilities	531,744	Stochastic model	Correlation parameters	1	-1
			Volatility – Extrapolated or Illiquid	10,220	-9,066
			Interest rates – Extrapolated or Illiquid	209	-209
Total				**44,609**	**-33,648**

DAY 1 GAIN OR LOSS (EUR 1,000)	2020
Opening balance 1 Jan 2020	-
Recognised gain in the income statement	242
Recognised loss in the income statement	-67
Deferred gain or loss on new transactions	-204
Total 31 Dec 2020	**-29**

The definition and amortisation method for the Day 1 gain or loss is presented in the accounting policies of the Consolidated Financial Statements (Note 1) in Section *Determination of fair value*.

Transfers in the fair value hierarchy and sensitivity analysis 2019

During 2019 transfers totaling EUR 155,113 thousand have been made between level 1 and level 2.
During 2019 transfers totaling EUR 2,800,159 thousand have been made between level 2 and level 3.

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
Shares and participations in Group companies	656	-	-	-	-	-	656
Fair value through profit or loss							
Derivative contracts at fair value through profit or loss	944	6,653	3,585	-944	122,769	-	133,007
Derivative contracts in hedge accounting	-	-	299	-	3,429	-	3,728
Financial assets in total	**1,600**	**6,653**	**3,884**	**-944**	**176,227**	**-**	**187,419**
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 at fair value through profit or loss	192,000	-46,235	31,275	-107,943	389,146	-	458,243
Derivative contracts in hedge accounting	-	-	67	-	12,579	-	12,646
In fair value hedge accounting							
Amortised cost							
Debt securities issued	-	-	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	**962,046**	**14,666**	**824,443**	**-574,924**	**2,800,159**	**-**	**4,026,391**

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 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**

Note 41. Equity

(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 2020	43,008	277	807	12,985	28,075	40,743	135,368	261,264
+ Increase	-	-	40	-	-	-	22,336	22,376
– Decrease	-	-	-	-13,241	-12,451	-	-6,250	-31,942
Carrying amount 31 Dec 2020	**43,008**	**277**	**847**	**-255**	**15,624**	**40,743**	**151,454**	**251,698**

(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**

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 2020, 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 2020	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 *	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%

* VAV Asunnot Oy is fully owned by City of Vantaa.

The total number of shareholders is 277 (277).

The number of shares in this table does not include possible shares held by the 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 2020	31 Dec 2019
Loans and advances to credit institutions to the counterparties of derivative contracts *	1,607,069	686,129
Loans and advances to credit institutions to the central bank **	34,918	26,590
Loans and advances to the public and public sector entities to the central bank **	5,181,646	2,765,089
Loans and advances to the public and public sector entities to the Municipal Guarantee Board ***	10,997,495	11,521,134
Other assets to the counterparties of derivative contracts *	243,269	158,494
Total	**18,064,396**	**15,157,436**

* MuniFin has pledged a sufficient amount of collateral to the counterparties of derivative contracts based on the CSA agreements of the derivative contracts (*ISDA/Credit Support Annex*).

** 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.

*** 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.

Collateral given is presented at the carrying amounts of the financial statement date.

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. Off-balance sheet commitments

(EUR 1,000)	31 Dec 2020	31 Dec 2019
Credit commitments	2,353,978	2,361,323
Total	**2,353,978**	**2,361,323**

Notes on personnel and management

Note 47. Personnel

	2020		2019	
	Average	End of year	Average	End of year
Permanent full-time	146	143	137	144
Permanent part-time	2	3	4	4
Fixed term	8	8	10	8
Total	**156**	**154**	**151**	**156**

Employee benefits for management

Salaries and remuneration paid to the CEO, Deputy to the CEO and other members of the Executive Management Team (*EMT*) subject to withholding tax:

SALARIES AND REMUNERATION (EUR 1,000)	2020	2019
President and CEO	412	420
Deputy to the CEO	251	251
Other members of the Executive Management Team in total	1,122	1,384
Total	**1,785**	**2,055**

MuniFin has provided to those members of the EMT that have been appointed as members (including CEO and the Deputy to the CEO) before 21 Dec 2017 with a contribution-based group pension insurance. Members of the EMT 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 EMT:

STATUTORY PENSION CONTRIBUTIONS (EUR 1,000)	2020	2019
President and CEO	71	73
Deputy to the CEO	43	43
Other members of the Executive Management Team in total	194	240
Total	**308**	**356**

Remuneration of the Board of Directors

During financial years 2020–2021 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 Chair of the Board, EUR 23,000 for the Vice Chair, EUR 25,000 for the Chairs of Committees 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 Chair of the Board and the Chairs 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 25 March 2020. Prior to this, the annual remuneration was EUR 35,000 for the Chair of the Board, EUR 25,000 for the Vice Chair and EUR 20,000 for the other members of the Board. The meeting remunerations have remained unchanged.

SALARIES AND REMUNERATION (EUR 1,000) MEMBERS OF THE BOARD OF DIRECTORS	2020	2019
Helena Walldén, Chair	56	52
Tuula Saxholm, Vice Chair	36	33
Maaria Eriksson, elected 28 March 2019	32	23
Fredrik Forssell, member until 28 March 2019	-	9
Raija-Leena Hankonen, elected 28 March 2019, member until 21 February 2020	6	23
Minna Helppi, member until 25 March 2020	9	32
Markku Koponen	46	39
Jari Koskinen, member until 25 March 2020	9	30
Kari Laukkanen	45	39
Vivi Marttila	34	32
Denis Strandell, elected 25 March 2020	25	-
Kimmo Viertola, elected 25 March 2020	24	-
Total	**318**	**311**

MuniFin

Related party transactions

Note 48. 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.

Holdings in other companies

Note 49. Holdings in other companies

(EUR 1,000)	2020 Proportion of all shares (%)	2020 Carrying amount	2019 Proportion of all shares (%)	2019 Carrying amount
Subsidiaries				
Financial Advisory Services Inspira Ltd	100.0	656	100.0	656
Total	**100.0**	**656**	**100.0**	**656**

Other notes

Note 50. Audit and other fees paid to the audit firm

(EUR 1,000)	2020	2019
Audit	306	345
Assignments as referred to in Subparagraph 2, Paragraph 1 Section 1 of the Auditing Act	7	-
Tax advisory services	10	90
Other services	103	375
Total	**427**	**810**

Amounts do not include VAT. Part of the other services paid to the audit firm is recognised as part of the intangible assets in accordance with MuniFin's accounting policies for the recognition of intangible assets.

Signatures to the Report of the Board of Directors and Financial Statements

Helsinki, 15 February 2021

MUNICIPALITY FINANCE PLC

Helena Walldén
Chair of the Board

Tuula Saxholm
Vice Chair of the Board

Maaria Eriksson
Member of the Board

Markku Koponen
Member of the Board

Kari Laukkanen
Member of the Board

Vivi Marttila
Member of the Board

Denis Strandell
Member of the Board

Kimmo Viertola
Member of the Board

Esa Kallio
President and CEO

Auditor’s Note

A report of the audit performed has been issued today.

Helsinki, 15 February 2021

KPMG Oy Ab

Tiia Kataja
Authorized Public Accountant

Municipality Finance Plc
Auditor's Report
for the year ended 31 December 2020

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 2020. The financial statements comprise the the consolidated statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, statement of cash flows and notes.

In our opinion

— the consolidated financial statements give a true and fair view of the group's financial position, financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU
— the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

Our opinion is consistent with the additional report submitted to the Audit Committee.

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

In our best knowledge and understanding, the non-audit services that we have provided to the parent company and group companies are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note 50 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, ja 25)	
— The carrying amount of financial assets measured at fair value totaled EUR 6.9 billion and that of financial liabilities measured at fair value EUR 15 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. — COVID-19 pandemic impacted on market values of financial assets and liabilities during the financial year. — 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. In respect of derivative instruments we considered the appropriateness of the accounting treatment by reference to the IFRS requirements.. — 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. We examined the accuracy of the inputs used in valuations and assessed the reasonableness of the estimates and assumptions applied. — 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 ja 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 20 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 15th February 2021

KPMG OY AB

TIIA KATAJA
Authorised Public Accountant, KHT

MuniFin

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