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Enabler of sustainable welfare in society

MuniFin's sustainability agenda

MuniFin



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1 Introduction

MuniFin is a public limited company whose main shareholders are Finnish municipalities, public sector pension provider Keva and the State of Finland. MuniFin is an authorised credit institution that offers diverse financing services to the municipal sector, wellbeing services counties and affordable social housing organisations. Our core mandate is to ensure that our limited customer base, which is assigned to carry out public duties, has access to affordable financing under all market conditions, and to do it in a way that seeks to genuinely serve our customers' best interests in the long term. We are by far the largest single provider of financing for our customer segment.

MuniFin's raison d'être is to support the Finnish welfare society. Our financing solutions allow our customers to fund environmentally sustainable and socially responsible projects, such as public transportation, sustainable construction, hospitals, health centres, schools, day-care centres, affordable rental apartments and housing for special groups. In addition to our customers, our stakeholders include our shareholders, investors, partner banks, supervising authorities, municipal organisations and other collaboration partners.

Because of our social significance, sustainability has been a key part of our strategy for years now, best made concrete through our business operations and the financing we offer to our customers. Through our work, we want to promote the achievement of the United Nations Sustainable Development Goals (SDGs), Finland's related Agenda2030, the Paris Agreement on climate change and other international and national sustainability goals. Our customers play a key role in achieving these goals.

We have also made many other commitments through which we promote sustainable development goals. These goals include climate change mitigation, greenhouse gas emission reduction and the prevention of inequality and social exclusion. We have done pioneering work in sustainable finance by launching green finance as the first Finnish credit institution in 2016 and following it up with social finance in 2020. We publish an impact report of both our green and our social finance annually.

Entitled *Enabler of sustainable welfare in society*, this sustainability agenda focuses on our business operations and the impact achieved through them. The agenda s built around two main themes: foundation of the Finnish welfare society and driver of the green transition. In line with these themes, our goal is to support the development of a sustainable welfare society and promote investments that are friendly for the climate and environment. We are committed to doing our best to achieve these goals. We will describe this work in our reports.

In this sustainability agenda, we are now establishing clear and measurable long-term sustainability goals and indicators for the first time in our company's history. By doing so, we are committing to integrating the themes of sustainable development even more tightly into our operations. The selected indicators track our success in reaching our goals.

We have sought to make our sustainability agenda and its goals as clear as possible. We promote a very broad range of developments in society through our work, and the selected themes and goals allow us to focus our work on categories that have the greatest impact. To successfully meet the goals of our sustainability agenda, we must all work together across the entire company.

Sustainable finance products will continue to play a central role in our sustainability work. We will be paying increasing attention to our financed emissions and keep improving and expanding the analysis of our financed emissions in the coming years.

Our opportunities and role in promoting sustainable business operations are largely dictated by our operating environment. We will discuss key aspects of the operating environment in section two of this sustainability agenda. We will then present the core of our sustainability agenda – its themes, goals and indicators – in section three, and go on to discuss the future of our sustainability work in section four.

This sustainability agenda is approved by the MuniFin Board of Directors and will be updated as necessary.



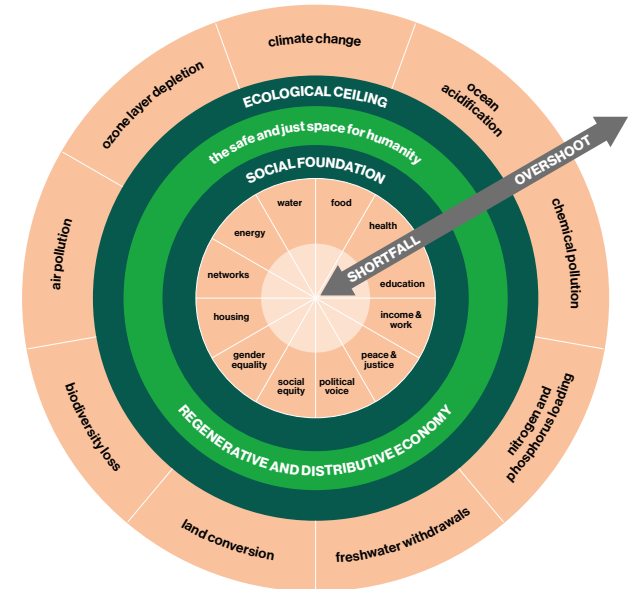
2 Sustainable development and MuniFin's operating environment

Climate change and environmental risks are global issues that demand collective action. For us to achieve our sustainability goals, the basic social structures of society must be in place. The changing climate will present new obstacles to preserving our welfare state. All individuals and entities in society wield an impact on their surroundings through their actions, thereby giving rise to new business opportunities and potential risks within the business landscape.

The financial sector plays a pivotal role in advancing both national and international sustainable development goals. By redirecting financial resources to more sustainable projects, financial sector organisations can drive significant positive change. MuniFin is committed to contributing to this mission within the context of its own sustainability work and operating environment.

2.1 Sustainable development

Sustainable development – as we understand it – seeks to ensure people's wellbeing within the limits of the planet's carrying capacity. MuniFin's sustainability agenda is based on the Doughnut Economics model, in which sustainable development is realised by meeting the social foundation – the social requirements that affect people's wellbeing – while still staying within the Earth's ecological limits. In practice, this requires the fulfilment of needs related to things like health, education and housing, while at the same time ensuring that climate change does not spin out of control, that we can adapt to the climatic changes that have already taken place and that biodiversity is safeguarded. Finland's municipal sector, wellbeing services counties and affordable social housing organisations have a key role in both social and ecological sustainability.



Doughnut Economics. Original picture: Kate Raworth, Doughnut Economics. Editing: Prime Minister's Office. Source: kestavakehitys.fi

2.2 National and international developments towards a sustainable world

The United Nations Sustainable Development Goals (SDGs) set the course for global sustainable development efforts. Nations, municipalities, corporations and numerous other organisations have pledged their commitment to these goals. Finland is committed to the UN's 2030 Agenda for Sustainable Development, outlining its dedication through a national 2030 Agenda Roadmap specifying the actions Finland needs to undertake to achieve the SDGs.

Both climate change and biodiversity loss are pressing global crises. The climate reports by the Intergovernmental Panel on Climate Change (IPCC) give alarming insight into the rapidly worsening climate situation. In Europe, the European Union and many countries have established goals and taken initiatives aimed at halting and reversing biodiversity loss and limiting global warming to less than 1.5°C as stipulated by the Paris Agreement.

The EU has launched several agendas that together seek to carry out the green transition, safeguard biodiversity and meet the EU's goal to become climate neutral by 2050. Of these agendas, the Sustainable Finance Action Plan (SFAP) stands out as the most relevant for MuniFin and the financial sector in general.



2.3 Finland as a welfare state and a leader in climate work

In the OECD's report titled "Well-Being in Finland: Bringing together people, economy and planet", Finland is regarded as "an established international leader in well-being and sustainability, with good outcomes for people, the economy and the planet in a wide range of well-being aspects". However, the report also mentions key future challenges that Finland must address in order to meet the conditions for maintaining a sustainable welfare society. These challenges should be approached with comprehensive, balanced and inclusive solutions.

The goal of the welfare state is to ensure that citizens have equal opportunities for wellbeing and livelihood. In Finland, the welfare state is founded on free, high-quality education, extensive social security, affordable public healthcare and a strong track record in equality. Finland also stands out for its cooperative international relations, political stability, innovation and low levels of corruption.

Although the overall situation regarding social issues is good, Finland nevertheless faces challenges related to the ageing population, unemployment, mental health, social exclusion, and the upholding of its competitiveness and equal and high-quality education.

Climate change will affect Finland in various ways. Due to our country's geographical location, temperatures in Finland are expected to rise faster than the global average. Heat waves, increasing droughts, shorter winters and extreme weather events will affect all natural ecosystems. Rainfall is predicted to increase, and its distribution remains uncertain. Moreover, rising sea levels could pose new environmental risks for coastal regions. Given these looming changes, there is an amplified urgency across all sectors to adapt, intensify efforts to mitigate climate change and actively combat biodiversity loss.

In order to prepare for the challenges of climate change and to do its part in solving the climate crisis, Finland has written down one of the world's most ambitious climate goals in its Climate Act, aiming for climate neutrality by 2035 and further emission reductions after that. The Act also has a stated objective that national measures are taken to adapt to climate change by promoting climate change resilience. In addition to sustainability, Finland's climate policy aims to ensure the fairness of climate actions.

The decisions, investments and financial standing of our customers, such as municipalities and the entities under their control, are pivotal in determining Finland's ability to respond to the above-mentioned social challenges and the goals of the green transition. As a public sector lender, MuniFin is committed to furthering these national objectives.

2.4 The role of municipalities and affordable social housing organisations in the Finnish welfare society

Municipalities have key roles in building the Finnish welfare society and securing basic services, thereby creating the conditions for a good life. The statutory duties of municipalities include education, early childhood education and care, urban planning, land use, water and waste management, and services related to culture, youth, library, sports and the environment.

Affordable social housing organisations ensure the availability of affordable housing options in Finland. The activities of these organisations promote equality and communality and support individual and collective wellbeing. Housing for special groups is a prime example of their impact.



2.5 The climate work of municipalities and the affordable social housing sector

Globally, Finnish municipalities belong to a group of forerunners who have chosen to lead the way in mitigating climate change through voluntary action. Municipalities have important roles in achieving both international and national environmental goals and especially in creating conditions for sustainable life locally. Economically, climate initiatives hold great significance for municipalities through direct investments, cost savings and long-term multiplier effects. For example, reducing energy dependence on fossil fuels increases economic sustainability while also reducing risks.

Municipalities set the scene for sustainable living: housing, transportation, land use, service networks and other everyday infrastructure. In municipalities, the key goals of the green transition relate to investments in renewable energy, such as solar and wind power. Municipalities also aim to promote sustainable forms of transportation, such as walking, cycling and public transport. With buildings, municipalities strive to improve energy efficiency and promote sustainable construction practices. They also actively work on improving their waste management, promoting recycling and reducing landfill waste. In response to climate change mitigation and adaptation measures, municipalities anticipate a rise in the costs associated with climate-resilient urban construction in the near future.

At the time of writing this sustainability agenda, the Carbon Neutral Municipalities (Hinku) network encompassed about 100 Finnish municipalities that have set ambitious emission reduction targets. According to a climate survey conducted by the Association of Finnish Municipalities in 2021, 80% of Finns live in a municipality that has set a climate goal, indicating a substantial change in recent years. Municipalities have been able to reduce their emissions by an average of 21% from 2005 to 2019. Most of the municipalities with a climate goal have set their sights on an 80% emission reduction, if not complete carbon neutrality, by 2030. Achieving these targets would result in municipalities halving their 2018 emission levels by 2035, which would cover over half of the emission reductions necessary to realise Finland's overarching goal of carbon neutrality.

Despite the clear goals, it often remains a challenge for municipalities to allocate adequate resources for their climate work. Many municipalities have chosen to tackle this challenge by collaborating with each other and with their stakeholders. Municipalities also receive support from organisations like the Finnish Environmental Institute, whose emissions monitoring tool helps municipalities understand and influence their climate impact. This tool is unique even on an international scale.

Like municipalities, housing sector organisations are significant developers. As a whole, buildings account for more than 40% of Finland's greenhouse gas emissions. Since properties are long-term investments, their long-term emissions must be factored in during the planning phase. The real estate and construction sectors have a broad range of methods for promoting low-carbon and resource-wise solutions both during construction and the building's entire life cycle. These methods include, for example, energy-efficient construction, utilisation of renewable energy, flexible facilities and the location of buildings as well as biodiversity considerations. Well-devised building and housing solutions can also encourage sustainable habits and lifestyle choices.

At MuniFin, we want to act as a partner for all our customers in enabling and speeding up their climate work.

2.6 MuniFin's role in society calls for sustainable business

MuniFin's core mandate is to ensure that its limited customer base, which is assigned to carry out public duties, has access to affordable financing under all market conditions. We aim to create genuine long-term benefits for our customers. As outlined in our strategy, we act as our customers' partner in building a sustainable society, while efficiently managing climate-related and environmental risks that are relevant to us.

Sustainability is an important part of MuniFin's values:

- **We promote social wellbeing and sustainable development.**
- **We operate reliably and predictably.**
- **We take responsibility for our operations and for each other.**

We are convinced that the financial markets can help solve the challenges of the environment and society. In line with our strategy, our role is to enable necessary investments and help make them in a way that is sustainable for the climate and environment, but also socially responsible. The themes of this sustainability agenda – *foundation of the Finnish welfare society and driver of the green transition* – embody this role.

The comprehensive consideration of sustainability carries particular importance in our business operations, where customer relationships typically last a long time. For us, sustainability covers environmental, social and governance (ESG) aspects.

Through our business, we can help our customers and stakeholders solve significant sustainability challenges. It is essential that our decisions and actions are sustainable for the company, our customers, owners, investors and Finnish society. In particular, we promote the achievement of Finland's climate goals and widespread wellbeing in society as well as the realisation of several UN Sustainable Development Goals.

MuniFin is a signatory to the UN Global Compact and is committed to adopting, supporting and implementing fundamental values related to human rights, working life principles, environment and anti-corruption work within its sphere of influence. The principles of UN Global Compact are based on the UN Universal Declaration of Human Rights, ILO Declaration on Fundamental Principles and Rights at Work, UN Rio Declaration on Environment and Development,

and the UN Convention against Corruption. We are also a signatory to the Society's Commitment to Sustainable Development, entitled *The Finland We Want by 2050*, through which we are also committed to promoting the 2030 Agenda goals by accelerating the spread of sustainable and environmentally friendly investments.

MuniFin is also involved in several associations, networks, projects and national interest organisations related to the themes of the sustainability agenda. These include the following:

- Finnish Business & Society (FIBS) corporate responsibility network
- Finland's Sustainable Investment Forum (Finsif)
- Green Building Council Finland (FIGBC)
- Towards Carbon Neutral Municipalities (Hinku) network
- Partnership for Carbon Accounting Financials (PCAF)
- Nordic cooperation on the Nordic Position Paper on Green Bonds Impact Reporting
- Knowledge management in resource-smart Finnish municipalities (REIJO)
- WWF Green Office

3 Enabler of sustainable welfare in society

This sustainability agenda summarises the main themes and goals of our sustainability work. Through them, we aim to fulfil our role in a manner that ensures everyone's wellbeing while safeguarding the opportunities for future generations to meet their needs. Entitled *Enabler of sustainable welfare in society*, our sustainability agenda focuses on the impacts that we can create in our value chain through our business operations. These impacts centre specifically on supporting the foundations of the Finnish welfare society and on promoting sustainable development. As a lender, our role is essentially to enable and empower the work of others.

We built our sustainability agenda around our social role and business model in consultation with our stakeholders. In 2023, we conducted a materiality analysis of sustainability topics, gauging what both external and internal stakeholder groups thought of different sustainability factors in terms of their impact materiality and financial materiality. We then

used this materiality analysis as the foundation for this sustainability agenda and as validation for the selected themes. It also serves as the foundation for our sustainability reporting.

Our sustainability agenda is built on two main themes: *foundation of the Finnish welfare society* and *driver of the green transition*. In line with these themes, our goal is to help build and develop the foundations for a sustainable welfare society and promote investments that benefit the climate and environment. As they are closely interlinked, both themes must be addressed for basic social needs to be met within the limits of the planet's carrying capacity. The transition to sustainable economy must be carried out in a way that is fair to everyone.



The goals outlined in this sustainability agenda describe our desired direction, while the indicators serve to track our progress. We have chosen the amount of finance and financed emissions as our indicators.

- The amount of finance offers a clear and commensurate measure of our impact because all sustainable finance projects must meet pre-determined criteria that reliably assess how these projects promote sustainability. The amount of sustainable finance also offers an overview of the sustainability of our business operations as a whole, which is crucial in terms of risk management.
- An essential aspect of our green and social finance is impact measurement and reporting. Green finance is also linked to our financed emissions goal: for example, financing targeted at more energy-efficient buildings promotes the decarbonisation of the real estate portfolio.
- For us to achieve our goals, we must significantly increase the overall amount of sustainable finance and keep increasing the proportion of sustainable finance in our long-term customer finance portfolio. Even more financed projects must meet the criteria for sustainable finance and be accepted into our green or social finance portfolio. As we advance these goals, we must ensure that the criteria for green finance remain at least on a par with market standards.

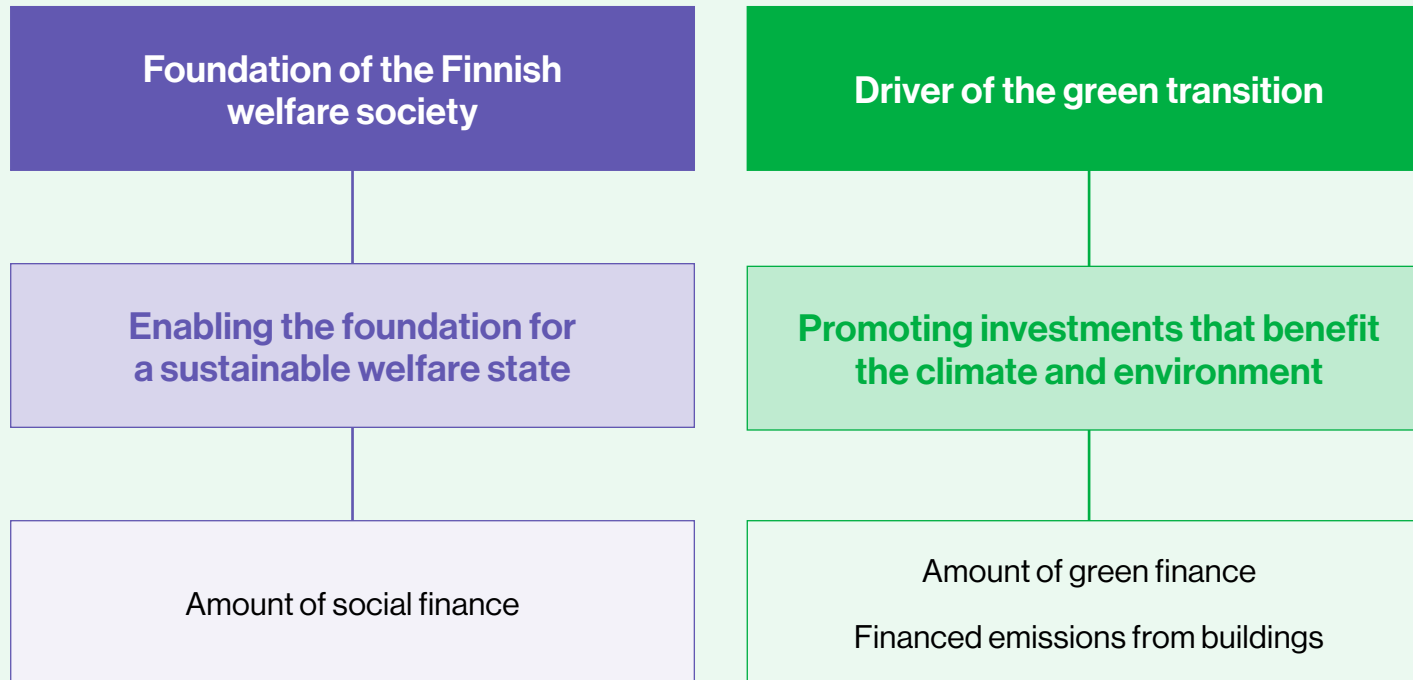
- Financed emissions refer to emissions associated with the customers and projects that we finance. In the case of financial institutions, focusing on lowering financed emissions is important because their scale. By reducing our financed emissions, we can reach an impact that is many times greater than that of reducing our own emissions only.
- We are a member of the Partnership for Carbon Accounting Financials (PCAF) and thus committed to calculating and disclosing our financed emissions. With more than 400 banks and investors around the world already taking part, the partnership aims to develop and implement a standardised approach to assessing and disclosing the greenhouse gas emissions associated with loans and investments.
- For us to meet our goal, the average energy efficiency of buildings included in our portfolio must be improved, and the energy production for these buildings must rely increasingly on low-carbon energy sources. The carbon intensity of buildings must also continue to decrease even after the 2035 goal has been reached, which is why the goal must be revised in the future.

Our primary methods for achieving our goals revolve around meeting our customers' comprehensive financing requirements.

A good understanding our customers, their goals and the changing operating environment hold a key position in this. Through this sustainability agenda, we are establishing signposts for collaborative efforts that identify both current and future risks and opportunities. The core functions in society must be organised in an increasingly sustainable manner. This requires that we engage in active stakeholder collaboration and continue to constantly develop our operations and expertise. This includes, for example, calculating our financed emissions, tracking and communicating our progress, discussing best practices with our customers on a regular basis and honing our sustainable finance products. It is also essential that we integrate the identified sustainability perspectives into our risk management practices.

We will continue to work together with other organisations, associations and initiatives to increase our understanding, improve our operating practices and encourage others to do the same. We also encourage more and more organisations – our customers, investees and collaboration partners alike – to set their own sustainability and emission reduction goals and to report on their progress.

Enabler of sustainable welfare in society



3.1 Foundation of the Finnish welfare society

Our raison d'être and the main duty of our customers is to build and develop the Finnish welfare state. Our customers are tasked with organising the basic functions of society, such as health and social services, basic education and daycare, care for the elderly, affordable housing and various sports and cultural services. Because of our unique customer base, the financing we offer is closely linked with upholding and developing the Finnish welfare society.

Rooted in the Nordic welfare state model and robust local governance, Finland has a deep-seated tradition of investing in wellbeing. Finland guarantees its citizens high-quality healthcare, education and social services, which gives people equal opportunities for moving forward and finding success. Starting from early childhood education and care, the education system promotes skills growth and boosts employment and social developments. Elderly care and social services ensure that the weakest are also taken care of.

Close collaboration between municipalities and local companies creates opportunities for economic activity and innovations. Various culture and leisure activities support mental wellbeing and community spirit, which also directly reduces the need for healthcare and other services. Municipalities also invest in making their surroundings pleasant and promoting sustainable development, which supports wellbeing in the long term.

We have been granting social finance since 2020 to investments that produce widespread social benefits. Our social finance projects promote equality, communality, welfare and regional vitality.

GOAL: ENABLING THE FOUNDATIONS FOR A SUSTAINABLE WELFARE STATE

INDICATOR	TARGET VALUE	TARGET YEAR
Amount of social finance	8% of the long-term customer finance portfolio	2030



3.2 Driver of the green transition

Our customers play a key role in improving Finland's environmental and climate resilience and in achieving the Paris Agreement goals. The municipal and affordable social housing production sectors impact Finland's sustainability through energy production, buildings, transportation, land use planning, forestry, waste management, circular economy solutions and water and wastewater management. The decisions, actions and investments of our customers make a great difference to the achievement of Finland's sustainability goals and the progress of the green transition.

We have been granting green finance since 2016 to projects that benefit the climate and environment. Our green finance has not only enabled such investments, but also increased both our own and our customers' understanding of sustainable solutions. Green finance also helps bring international attention to pioneering Finnish projects.

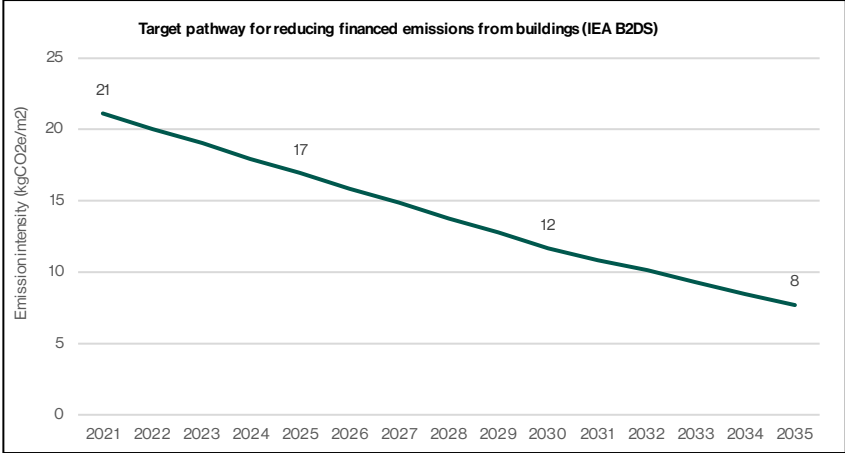
Greener investments are important in managing our own and our customers' climate-related and environmental risks. In our experience, customers are more likely to discuss sustainability from a broader perspective when they are assessing their projects against the criteria for green finance. Green projects often consider a range of sustainability aspects beyond the minimum requirements for green finance. Energy-efficient construction also makes the real estate and construction sectors less prone to transition risks.

The first financed emissions goal that we are setting is for buildings, because the financial sector already has an established methodology for this. Moreover, our real estate portfolio accounts for 56% of our long-term customer finance portfolio. To meet our goal, we must achieve a 38% improvement from the 2022 level by 2035.

GOAL: PROMOTING INVESTMENTS THAT BENEFIT THE CLIMATE AND ENVIRONMENT		
INDICATOR	TARGET VALUE	TARGET YEAR
Amount of green finance	25% of our long-term customer finance portfolio	2030
Financed emissions from buildings	Emission intensity 8 kgCO ₂ e/m ²	2035



The goal for financed emissions from buildings is based on the International Energy Agency's (IEA) Beyond 2°C Scenario (B2DS) decarbonisation pathway. We selected the scenario because it is used in the Science Based Targets initiative's framework for the financial sector and because its target level is more ambitious than that of alternative pathways.



4 The future of MuniFin's sustainability work

The themes, goals and indicators of sustainability described in this agenda are the next step in our long-term sustainability work, which aims to support the Finnish welfare society and accelerate the green transition.

By establishing clear and measurable sustainability goals and indicators, we aim to amplify the amount of sustainable financing and reduce financed emissions from buildings. We believe that these indicators will help us achieve our goals and steer our work in a direction that fortifies the foundations of the welfare society and encourages investments that are friendly for the climate and environment.

In the first phase, the emission targets are squarely focused on the financing of buildings. As the availability and quality of data improve and market practices develop, our aim is to set emission targets for the next segment of our customer financing portfolio no later than 2025. The same applies to our liquidity portfolio. Regulatory developments are anticipated to expedite emission reporting for many organisations included in the portfolio, paving the way for more comprehensive emission reduction targets also for the liquidity portfolio.

Our sustainability work is by no means limited to merely setting these goals – it is an evolving journey that requires constant development, efficient use of data and frequent updating of this agenda. We will build on successful strategies while seeking novel methods to further our sustainability goals. We are committed to reporting on our progress as part of our annual and sustainability reporting.

In addition to setting tangible goals and taking decisive actions, we strongly emphasise fostering an internal culture rooted in responsibility, sustainable development and increasing expertise. Through this approach, we can ensure that sustainability is not only seamlessly integrated into our business strategy but also a core aspect of the work of everyone at MuniFin.

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