15 February 2021 at 1 pm (EET)

# Municipality Finance Plc Financial Statements Bulletin

1 January–31 December 2020

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 the 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.*

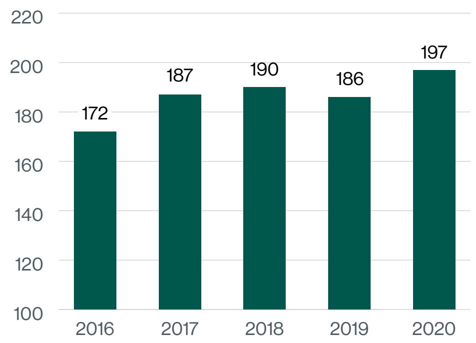
# Key figures (Group)

| | 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 finance (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 |

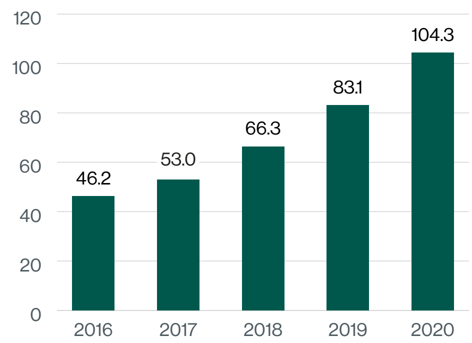
**Alternative performance measure.*

*The calculation formulas for all key figures can be found on pages 39–46. All figures presented in the Financial Statements Bulletin are those of MuniFin Group, unless otherwise stated.*

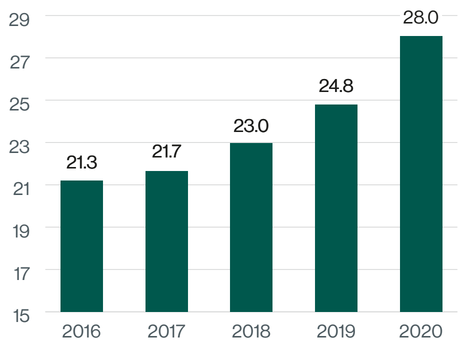
**Net operating profit excluding unrealised fair value changes, EUR million***



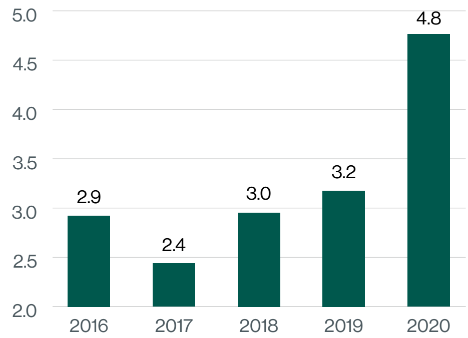

**CET1 capital ratio, %**




**Long-term customer financing, EUR billion***




**New lending, EUR billion***




**Alternative performance measure.*

*The calculation formulas for all key figures can be found on pages 39–46. All figures presented in the Financial Statements Bulletin are those of MuniFin Group, unless otherwise stated.*

# Comment on the 2020 financial year by President and CEO Esa Kallio



**The COVID-19 pandemic strained the economy in 2020, but the worst of the predicted crisis scenarios did not materialise. The first wave of the pandemic caught the households, corporates and markets by surprise, but swift recovery measures by governments and central banks brought the situation quickly under control.**

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. The most significant economic effects caused by the pandemic have accumulated at the municipal level, especially in large cities and tourism-heavy northern regions.

In 2020, MuniFin's customers required substantially more financing. Uncertainty caused an unusual spike in demand from March to May, when especially our customers in municipality sector prepared for the expected increase in expenditure while reducing their income caused by the pandemic. At the same time, the supply of financing to our customers decreased as other credit institutions focused on financing private sector. Housing production was largely unaffected by the pandemic, and the demand for financing of the non-profit housing production remained unchanged.

The situation on the international capital markets changed rapidly in the spring of 2020 due to the uncertainty caused by the COVID-19, and funding operations in general were more challenging. However, thanks to MuniFin's long-term cooperation with investors and reputation as a reliable and responsible partner, we were able to continue our own funding without interruption during the whole year.

International investors have shown growing interest in responsible and safe investments. 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.

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. During this exceptional year, we also managed to find new ways to meet our customers. Good examples of these are i.e. expanding the digital services, digital services training that proved very popular and our chief economist's webinars for different stakeholder groups.

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

# 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.

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 costs 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 finance, successful funding operations and a favourable interest rate environment. The Group's net interest income does not include the 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 of 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+.

### 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 totalled 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 at the latest 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 finance, 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 in 2020. 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 digital 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 the 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 customers' 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'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 Groups 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%).

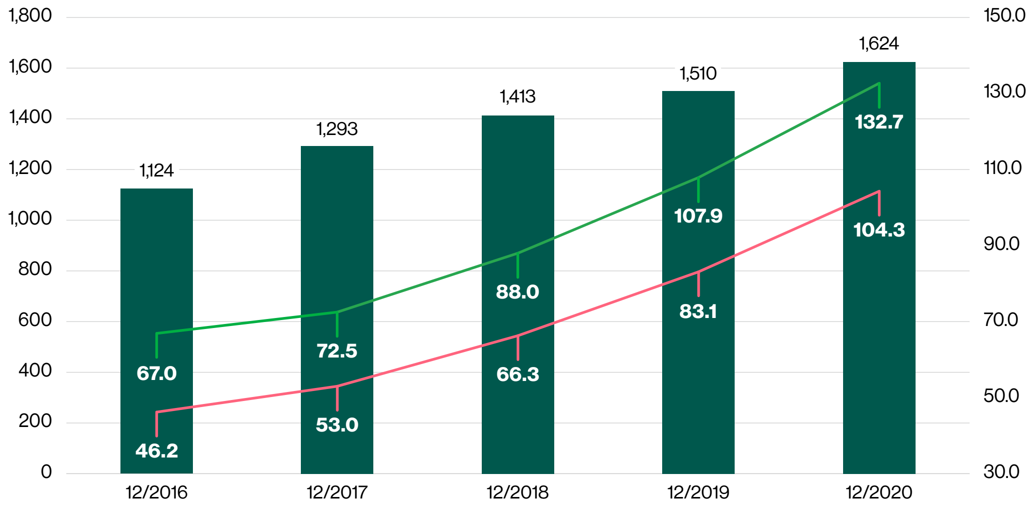
# MuniFin's credit ratings

| 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




Own funds (EUR million)
CET1 capital ratio, %
Total capital ratio, %

## 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.

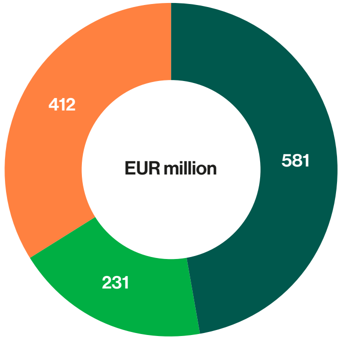
| GROUP'S OWN FUNDS (EUR 1,000) | 31 Dec 2020 | 31 Dec 2019 |
|---|---|---|
| Common Equity Tier 1 capital before adjustments | 1,328,150 | 1,218,199 |
| Adjustments to Common Equity Tier 1 capital | -51,338 | -55,747 |
| **Common Equity Tier 1 capital (CET1)** | **1,276,812** | **1,162,452** |
| Additional 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).

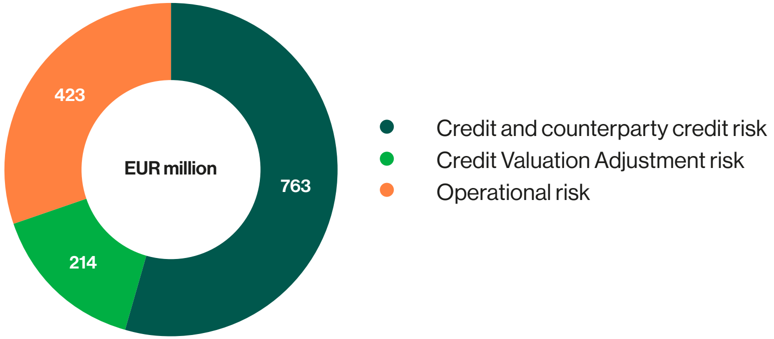
The CET1 capital includes the profit for the financial year, as it has been subject to a financial review by the auditors and can therefore be included in CET1 capital based on the permission granted by the ECB in accordance with the Capital Requirements Regulation.

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**



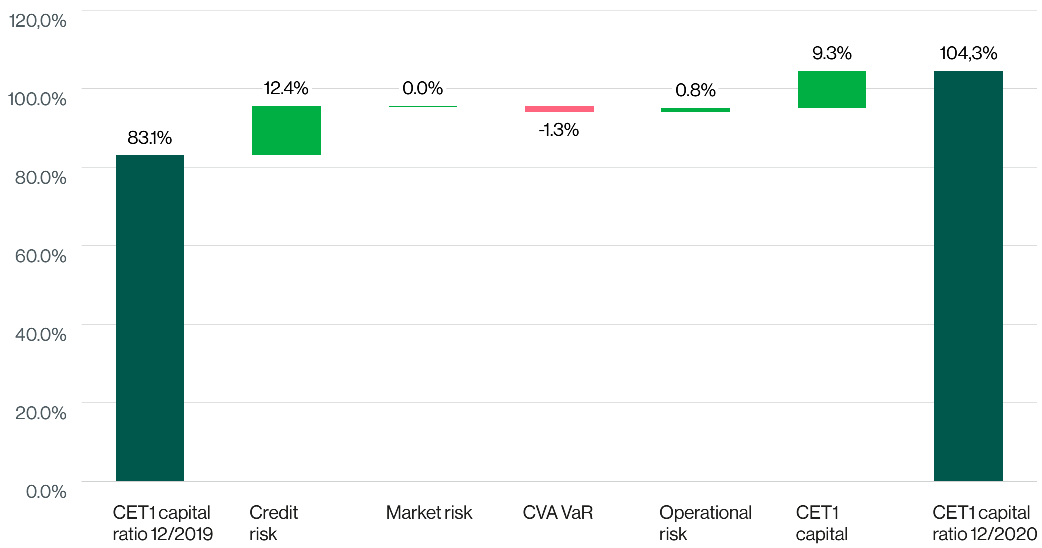

**Total risk exposure amount 12/2019**
**EUR 1,400 million**




*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**

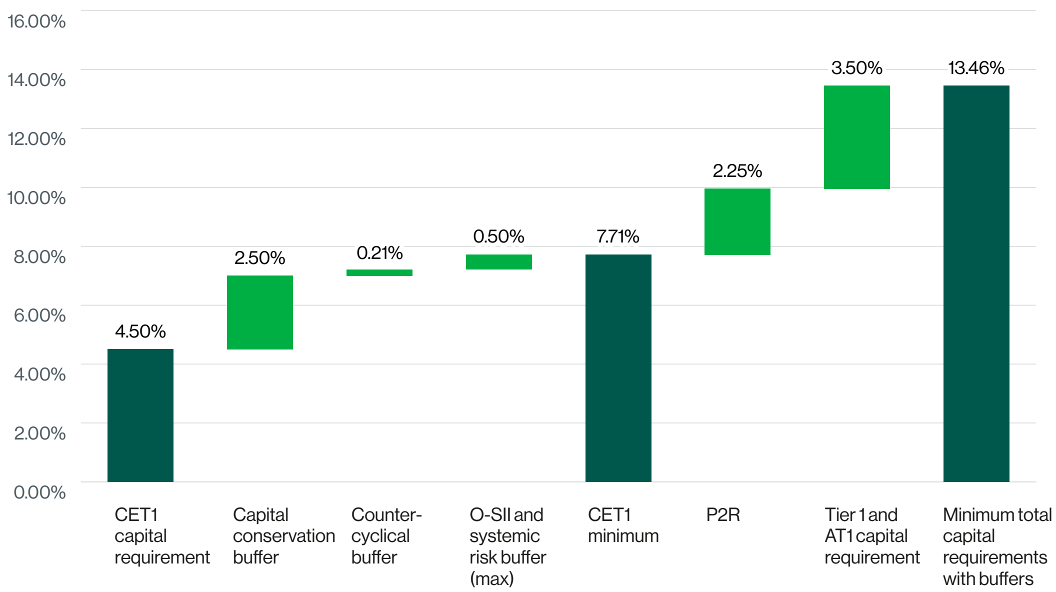



## Group's minimum capital requirements and capital buffers

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 institution (*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%, 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 counter-cyclical 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.

**Group's minimum capital requirements and capital buffers**




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 point 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 change 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.

# 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.

## 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 at 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 at 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 new 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. According to MuniFin Group's estimate, it is currently not exposed to any substantial governance risks.

# Personnel

At the end of December 2020, MuniFin Group had 165 (167) employees, of which 156 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, MuniFin's 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 the quality of 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.

# Board of Directors

Members of the Board of Directors for the term that continues until the end of the following AGM:

- Helena Walldén, Chairperson of the Board
- Tuula Saxholm, Vice Chairperson of the Board
- Maaria Eriksson
- Markku Koponen
- Kari Laukkanen
- Vivi Marttila
- Denis Strandell
- Kimmo Viertola

# 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 refrain 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 of Director's opinion, the proposed distribution of profits does not place the fulfilment of the capital requirements or the Company's liquidity in jeopardy.

**Municipality Finance Plc**

**Further information**
Esa Kallio, President and CEO, tel. +358 50 337 7953
Harri Luhtala, Executive Vice President, Finance, CFO, tel. +358 50 592 9454

# Consolidated income statement

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

## STATEMENT OF COMPREHENSIVE INCOME (EUR 1,000)

| (EUR 1,000) | 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 | -15,564 | 10,325 |
| Net change in Cost-of-Hedging | -16,551 | 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 | 112 | 308 |
| Net amount reclassified to the income statement on the sales of financial assets at fair value through other comprehensive income | - | -90 |
| Net change in expected credit loss of financial assets at fair value through other comprehensive income | -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

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (EUR 1,000)**

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

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (EUR 1,000)

| | 31 Dec 2020 | 31 Dec 2019 |
|---|---|---|
| **Liabilities and equity** | | |
| **Liabilities** | | |
| Liabilities to credit institutions | 2,001,478 | 1,178,256 |
| Liabilities to the public and public sector entities | 3,884,026 | 3,862,053 |
| Debt securities issued | 32,911,906 | 29,983,585 |
| Derivative contracts | 2,860,570 | 1,762,010 |
| Provisions and other liabilities | 247,021 | 116,374 |
| Accrued expenses and deferred income | 152,398 | 180,917 |
| Deferred tax liabilities | 279,906 | 256,241 |
| **Total liabilities** | **42,337,306** | **37,339,436** |
| **Equity** | | |
| 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** | **347,454** | **347,454** |
| **Total equity** | **1,705,120** | **1,594,321** |
| **Total liabilities and equity** | **44,042,426** | **38,933,758** |

# Capital adequacy

| OWN FUNDS, GROUP AND PARENT COMPANY (EUR 1,000) | Group | | Parent Company | |
|---|---|---|---|---|
| | 31 Dec 2020 | 31 Dec 2019 | 31 Dec 2020 | 31 Dec 2019 |
| Common Equity Tier 1 capital before adjustments | 1,328,150 | 1,218,199 | 1,326,084 | 1,216,578 |
| Adjustments to Common Equity Tier 1 capital | -51,338 | -55,747 | -51,350 | -55,763 |
| **Common Equity Tier 1 capital (CET1)** | **1,276,812** | **1,162,452** | **1,274,733** | **1,160,816** |
| Additional Tier 1 capital before adjustments | 347,454 | 347,454 | 349,388 | 348,896 |
| Adjustments to Additional Tier 1 capital | - | - | - | - |
| **Additional Tier 1 capital (AT1)** | **347,454** | **347,454** | **349,388** | **348,896** |
| **Tier 1 capital (T1)** | **1,624,265** | **1,509,906** | **1,624,121** | **1,509,712** |
| Tier 2 capital before adjustments | - | - | - | - |
| Adjustments to Tier 2 capital | - | - | - | - |
| **Tier 2 capital (T2)** | **-** | **-** | **-** | **-** |
| **Total own funds** | **1,624,265** | **1,509,906** | **1,624,121** | **1,509,712** |

| KEY FIGURES FOR CAPITAL ADEQUACY, GROUP AND PARENT COMPANY | Group | | Parent Company | |
|---|---|---|---|---|
| | 31 Dec 2020 | 31 Dec 2019 | 31 Dec 2020 | 31 Dec 2019 |
| CET1 capital ratio, % | 104.3 | 83.1 | 107.1 | 85.0 |
| Tier 1 capital ratio, % | 132.7 | 107.9 | 136.5 | 110.5 |
| Total capital ratio, % | 132.7 | 107.9 | 136.5 | 110.5 |

| MINIMUM REQUIREMENT FOR OWN FUNDS, GROUP (EUR 1,000) | 31 Dec 2020 | | 31 Dec 2019 | |
|---|---|---|---|---|
| | 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** |

| MINIMUM REQUIREMENT FOR OWN FUNDS, PARENT COMPANY (EUR 1,000) | 31 Dec 2020 | | 31 Dec 2019 | |
|---|---|---|---|---|
| | 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** |

# 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 describes 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 | The cost-to-income ratio is an established key ratio in the banking sector for assessing the relationship between expenses and income. The ratio gives investors a comparative view of MuniFin 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 instruments. 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<br>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, % | The equity ratio is an investment leverage and solvency ratio that measures the amount of assets that are financed by equity. It is commonly used performance measure and as an APM improves comparability between companies. | (Equity and non-controlling interest | 1,705 | 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<br>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%** | |

**MuniFin (Municipality Finance Plc)** is one of Finland's largest credit institutions: the company's balance sheet totals EUR 44 billion. The company is owned by Finnish municipalities, the public sector pension fund Keva and the Republic of Finland.

MuniFin's mission is to build a better future in line with the principles of responsibility and in cooperation with its customers. MuniFin's customers are Finnish municipalities, municipal federations, municipally controlled entities and non-profit housing organisations. Lending is used for environmentally and socially responsible investment targets such as public transportation, sustainable buildings, hospitals and healthcare centres, schools and day care centres, and homes for people with special needs.

MuniFin's customers are domestic but the company operates in a completely global business environment. It is the most active Finnish bond issuer in international capital markets and the first Finnish green and social bond issuer. The funding is exclusively guaranteed by the Municipal Guarantee Board.

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

Read more: www.munifin.fi

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