

MUNICIPALITY FINANCE PLC

Corporate Governance Statement

2017

7 March 2018

A. Introduction

The following statement on MuniFin's (hereinafter "MuniFin" or "the Company") Corporate Governance in 2017 is in compliance with Chapter 7, Section 7 of the Securities Markets Act (746/2012). This statement is provided here as a comprehensive description of MuniFin's Corporate Governance, separate from the Report of the Board of Directors.

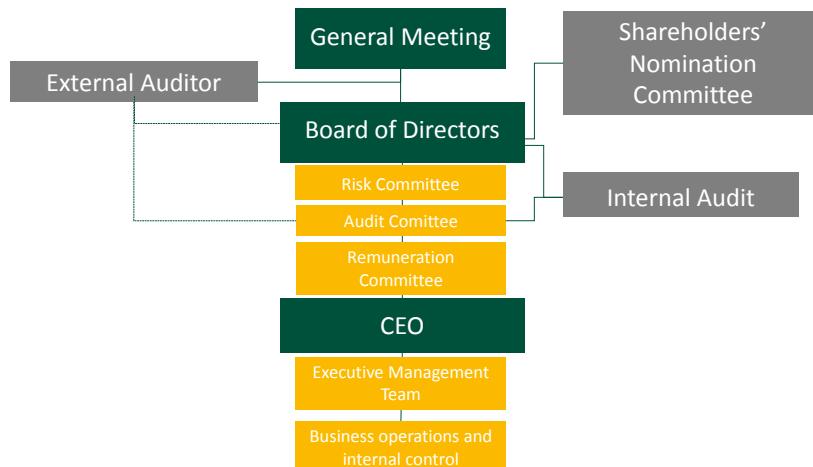
According to Chapter 7, Section 7, of the Act on Credit Institutions (610/2014), a credit institution shall keep an account of how it complies with the provisions of Chapter 7, Sections 1–5 this Act available on its website. The following describes compliance with the said provisions with regard to MuniFin.

Credit institutions related legislation and guidelines given by relevant authorities include significant amount of governance related requirements that MuniFin complies with. In addition to these MuniFin's governance structure follows, partially, the Finnish Corporate Governance Code for listed companies published by the Finnish Securities Market Association. As MuniFin is solely an issuer of listed bonds and its shares are not subject to public trading, applying the Finnish Corporate Governance Code for listed companies in its entirety is not appropriate. Bonds issued by the Company are listed in the exchanges in London, Dublin, Switzerland and Taipei. The Finnish Corporate Governance Code for listed companies is available at www.cgfinland.fi. In addition to this document, descriptions related to MuniFin's administration and management are available at the Company's website.

B. Corporate governance

The Company has a strategy approved by the Board of Directors according to which the Company's business operations, risk management and corporate governance are managed. The Company also has operating policies approved by the Board of Directors which function as key principles for the Company's risk management and internal control. In addition, the Company has a considerable number of other internal guidelines to support the corporate governance and risk management operations.

The previously mentioned internal guidelines approved by the Board of Directors, include the Corporate Governance Policy of MuniFin. The policy is updated frequently, lastly in February 2017. The Principles of managing conflicts of interest are also included in the Corporate Governance Policy. The following chart is a general illustration of the administrative structure of MuniFin. Solid arrows indicate formal reporting responsibility while dotted arrows indicate agreed additional/parallel reporting methods.



General Meeting

The Finnish Limited Liability Companies Act (624/2006) and the Articles of Association of MuniFin define issues concerned in the Annual General Meeting. All shareholders have the right to attend the General Meeting and exercise their right of speech and vote with the shares in their ownership, each share entitling the owner to one vote.

The Annual General Meeting must be held annually before the end of April on a date set by the Board of Directors. In 2017 the Annual General Meeting was held in March 23, 2017. In the Annual General Meeting, there were 31 participants representing 27,820,750 shares and votes, which corresponds to 71.22 percent of the total number of shares and votes.

Shareholders' Nomination Committee

MuniFin has a Shareholders' Nomination Committee established by the General Meeting, which is charged with making a proposal to the Annual General Meeting on the number of members of the Board of Directors, candidates for election to the Board of Directors and their remuneration. In addition, the Shareholders' Nomination Committee makes a proposal to the Board of Director elected by the Annual General Meeting on the Chairman and Vice Chairman of the Board.

In this proposal, the Nomination Committee shall, in accordance with its mandate, take into account the requirements set in the regulation for the governance of a credit institution, including competence requirements for members of the Board of Directors, the nature of the Company's business operations and its ownership structure. The Nomination committee has confirmed its rules of procedure which includes more detailed descriptions of the principles that will be followed in order to comply with the objectives and tasks set by legislation and the General Meeting for the Shareholders' Nomination Committee.

According to the decision of the General Meeting, the Shareholders' Nomination Committee is comprised of four members. The Company's three largest shareholders each nominate one member and the Association of Finnish Local and Regional Authorities nominates one member. The three largest shareholders are Keva, the Republic of Finland and the City of Helsinki.

The members of the Shareholder's Nomination Committee at the end of the 2017 financial year were:

- Timo Kietäväinen (Managing Director, Keva), Chairman
- Timo Leivo (Director of Finance and Administration, Association of Finnish Local and Regional Authorities)
- Sami Sarvilinna (City Manager City of Helsinki)
- Helena Säteri (Director General, Ministry of the Environment)

The Shareholders' Nomination Committee convened for the 2017 Annual General Meeting and made the required proposals to the Annual General Meeting. The Annual General Meeting approved the proposals as submitted. The proposals made to the 2018 Annual General Meeting and the Board of Directors to be elected at the meeting will be published as an appendix to the invitation to the 2018 Annual General Meeting and made available on the Company's website.

The members of the Shareholders' Nomination Committee are paid no remuneration.

Board of Directors

The duties of the Board of Directors

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

The auditor and internal auditor report to the Board of Directors, which ensures that the Board of Directors receives independent information on the status of the Company. The Board confirms the Company's values and ethical operating principles and other policies that guide operations. The Board is responsible for the appointment and termination of employment of the CEO and Deputy to the CEO and decides on their remuneration and benefits. The Board of Directors approves remuneration and benefits of persons reporting to the CEO. The Board decides on the principles of the remuneration system for the whole Company.

Composition of the Board of Directors and the term of office

Under the Articles of Association, the Board of Directors has a minimum of five and a maximum of eight members. The Annual General Meeting elects the members of the Board and each member's term of office will terminate when the Annual General Meeting following their election concludes. Each year, the Shareholders' Nomination Committee prepares a proposal to the Annual General Meeting concerning the composition of the Board of Directors.

The Board of Directors shall always operate independently, taking into account the interests of the Company and all shareholders.

The executive management together with the Chairman of the Board see to it that new Board members are sufficiently briefed on the requirements of being a Board member, the Company's business operations and the risks involved in its operations.

There is no rotation system for retiring members of the Board of Directors and a member for a previous term can be re-elected. A new Board member can be elected at the Annual General Meeting or at an extraordinary meeting of shareholders to take, for the remainder of the term of office, the place of a member who has resigned or become permanently incapable of performing the duties of a board member. In preparing their proposal for the composition of the Board of Directors, the Shareholders' Nomination Committee strives to take into account the requirements with regard to rotation of the Board members.

Members of the Board must also have specific familiarity with the activities of a credit institution as well as the statutory requirements and risks concerning credit institutions. When planning its proposal for the composition of the Board of Directors, the Shareholders' Nomination Committee shall also take into account professional competence and the independency requirements of the Board and the person's ability to use enough time to their duties. The Annual General Meeting 2017 approved the Board of Directors' proposal to remove the upper age limitation clause for Board members from the Articles of Association.

The Annual General Meeting, held on 23 March 2011, decided on permanent establishment of the Shareholders' Nomination Committee and defined that the proposal for the composition of the Board of Directors shall take

into account understanding on operational environment, capital markets, financing related risks, customers and owners and general operational experience on corporate governance. In addition to this, the Board of Directors has evaluated diversity of the composition of the Board of Directors and set more detailed targets for knowledge, experience and independency which take into account the described requirements and current regulation. The Board of Directors has analysed the composition of the Board of Directors to meet these requirements. The composition of the Board of Directors also takes into account equal representation of both genders. The Shareholders' Nomination Committee has set a target according to which representatives of both genders shall be minimum 40 %. This corresponds the Act on Equality in force and the Company complies with the target, as representation of both genders is 50%.

The Board will elect from among its members a Chairman and a Vice Chairman, whose term of office will last until the conclusion of the Annual General Meeting following their election. The Shareholders' Nomination Committee will make a proposal to the Board on the Chairman and the Vice Chairman to be elected.

With regard to the members of the Board of Directors, each person's reliability and competence is always assessed before the person is finally selected or before they take up their duties, as separately prescribed in the applicable legislation and guidelines issued by authorities.

In accordance with the proposal of the Shareholders' Nomination Committee, the 2017 Annual General Meeting elected the following persons to the Board of Directors for the 2017-2018 term (from the Annual General Meeting to the next Annual General Meeting). Following information includes also information based on the Directive 2013/36/EU ("CRD") Article 91 and the Finnish Act on Credit Institutions Section 7, Paragraph 5 on number of directorships regarding the members of the Board of Directors. According to the Directive and the Act on Credit institutions members of the management body (Board of Directors) are allowed to have maximum one (1) executive directorship (primary occupation) and maximum two (2) non-executive directorships (memberships of the Board of Directors). A person who does not have a primary occupation may have maximum four (4) non-executive directorships. The calculation does not take into account duties that involve entities that do not pursue commercial objectives (non-commercial entities). Additionally, directorships being part of the same group shall count a single directorship (see detailed information under CRD Article 91). Members of the Board of Directors meet these requirements.

Helena Walldén, Chairman

Year of birth: 1953

on the Board of Directors since 2016

Education: M.Sc. (Eng)

Primary occupation: Board professional

Other material positions of trust: No other positions

Number of directorships as defined by the CRD: No directorships to be taken into account

Independence: Independent of the Company and its significant shareholders

Tapani Hellstén, Vice Chairman

on the Board of Directors since 2014

Education: M.A. (Adm. Sci.)

Year of birth: 1957

Primary occupation: Deputy CEO, Keva

Other material positions of trust:

- Kuurojen palvelusäätiö, chairman of the supervisory board (non-commercial entity)
- Palkansaajasäätiö, chair of the board of directors (non-commercial entity)

Number of directorships as defined by the CRD: 1 primary occupation, 0 non-executive directorships to be taken into account

Independence: Independent of the Company

Fredrik Forsell

Year of birth: 1968

on the Board of Directors since 2011

Education: M.Sc. (Econ)

Primary occupation: CIO, Internal equity & FI Management, Keva

Other material positions of trust: No other positions

Number of directorships as defined by the CRD: 1 primary occupation, 0 non-executive directorships to be taken into account

Independence: Independent of the Company

Minna Helppi

Year of birth: 1967

on the Board of Directors since 2017

Education: M.Sc. (Econ)

Primary occupation: Senior Vice President, Group Treasurer, Metso Corporation

Other material positions of trust:

- Rauma Oy, chair of the Board of Directors (part of Metso Group, company currently non-active, part of the primary occupation)

Number of directorships as defined by the CRD: 1 primary occupation, 0 non-executive directorships to be taken into account

Independence: Independent of the Company and its significant shareholders

Teppo Koivisto

Year of birth: 1966

on the Board of Directors since 2011

Education: M.A. (Pol. Sci.)

Primary occupation: Head of Division, State Treasury

Other material positions of trust:

- Tiukulan Säätiö, chair of the board of directors (non-commercial entity)

Number of directorships as defined by the CRD: 1 primary occupation, 0 non-executive directorships to be taken into account

Independence: Independent of the Company

Jari Koskinen

Year of birth: 1960

on the Board of Directors since 2017

Education: M.Soc.Sc

Primary occupation: Directors General, Association of Finnish Local and Regional Authorities

Other material positions of trust:

- Finnish Consulting Group Oy, chair of the board of directors; (part of primary occupation, belonging to group of the Association of Finnish Local and Regional Authorities)
- KL-Kustannus Oy, chair of the board of directors; (part of primary occupation, belonging to group of the Association of Finnish Local and Regional Authorities)
- HPK Liiga Oy, chair of the board of directors

Number of directorships as defined by the CRD: 1 primary occupation, 1 non-executive directorships to be taken into account

Independence: Independent of the Company

Vivi Marttila

Year of Birth: 1966

on the Board of Directors since 2016

Education: M.Sc. (Econ)

Primary occupation: Mayor of the municipality of Simo

Other material positions of trust:

- Mehiläinen Meri-Lappi Oy, member of the board of directors
- LähiTapiola Lappi Keskinäinen Vakuutusyhtiö, member of the board of directors

Number of directorships as defined by the CRD: 1 primary occupation, 2 non-executive directorships to be taken into account

Independence: Independent of the Company and its significant shareholders

Tuula Saxholm

Year of birth: 1961

on the Board of Directors since 2013

Education: M.Sc. (Econ)

Primary occupation: Finance Director, City of Helsinki

Other material positions of trust:

- Metropolia Ammattikorkeakoulu Oy, member of the board of directors, (affiliated company of City of Helsinki, non-commercial entity)
- Länsimetro Oy, member of the board of directors (affiliated company of City of Helsinki, non-commercial entity)
- eHelsingin kaupungin asunnot Oy, member of the board of directors, (Helsingin kaupungin konserniyhtiö, osa päätoimea)
- Helsingin Leijona Oy, member of the board of directors (part of the primary occupation, belonging to the group of the City of Helsinki)
- Kiinteistöosakeyhtiö Helsingin Tennispalatsi Oy, chair of the Board of Directors (part of the primary occupation, belonging to the group of the City of Helsinki)
- Helsingin Satama Oy, member of the board of directors (part of the primary occupation, belonging to the group of the City of Helsinki)
- Pääkaupunkiseudun Junakalusto Oy, chair of the Board of Directors (part of the primary occupation, belonging to the group of the City of Helsinki)
- HYKSin kliiniset palvelut Oy, member of the board of directors
- Taloushallintopalvelu-liikelaitos, chair of the management board (part of the primary occupation)

Number of directorships as defined by the CRD: 1 primary occupation, 1 non-executive directorship to be taken into account

Independence: Independent of the Company (employed by a significant customer of MuniFin)

Minna Helppi and Jari Koskinen were elected to the Board of Directors for the first time in the 2017 Annual General Meeting. Other Board members acted in the Board of Directors also during the previous term of office (whole year of 2017). Sirpa Louhevirta and Juha Yli-Rajala were Board members until the 2017 Annual General Meeting.

The Company's Board of Directors has confirmed its rules of procedure. The Board will convene upon the summons of the Chairman as often as Company business requires. During the 2017 financial year the Board of Directors convened 17 times. The average attendance rate of Board members at these meetings was 98%. The Board conducts an annual self-assessment of the effectiveness and quality of its work and performance of its duties.

The individual attendance rates of the Board members in the meetings for the 2017 financial year were as follows:

Helena Walldén	100%
Fredrik Forssell	100%
Tapani Hellstén	100%
Minna Helppi*	94%
Teppo Koivisto	94%
Jari Koskinen*	94%
Sirpa Louhevirta**	100%
Vivi Marttila	100%
Tuula Saxholm	100%
Juha Yli-Rajala**	100%

*Board member from 23 March 2017, and the attendance rate has been calculated for the meetings after that date

**Board member until 23 March 2017, and the attendance rate has been calculated for the meetings before that date

Composition of the Board of Directors for the term 2018 - 2019

The Shareholders' Nomination Committee has made a proposal for the composition of the Board of Directors for the term that starts at the end of the 2018 Annual General meeting and ends at the end of the Annual General Meeting following the election. The proposal is attached to the invitation to the Annual General Meeting, published on 7 March 2018. The Shareholders' Nomination Committee has proposed eight (8) members to be elected to the Board of Directors. As Tapani Hellstén and Teppo Koivisto, being current members of the Board of Directors, have announced not to be available to the Board of Directors for the next term, the Shareholders' Nomination Committee proposes current members Fredrik Forssell, Minna Helppi, Jari Koskinen, Vivi Marttila, Tuula Saxholm ja Helena Walldén being re-elected and new members Markku Koponen and Kari Laukkanen to be elected for the period starting at the end of the Annual General Meeting.

Markku Koponen

Year of birth: 1957

New proposed board member

Education: Master of Laws, Trained on the bench, eMBA

Primary occupation: board professional

Other material positions of trust:

- Helia-säätiö, chair of the board of directors (non-commercial entity)
- HSO-säätiö, chair of the board of directors, (non-commercial entity)
- Kiinteistö Oy Opetustalo, vice chair of the board of directors (non-commercial entity)

Number of directorships as defined by the CRD: 1 primary occupation, 0 non-executive directorships to be taken into account

Independence: Independent of the Company and its significant shareholders

Kari Laukkanen

Year of birth: 1964

New proposed board member

Eduacation: M.Sc. (Econ)

Primary occupation: Lauvest Oy, CEO, chair of the board of directors (consultancy company owned by Kari Laukkanen, not full-time position and treated as a non-executive position in relation to the CRD)

Other material positions of trust:

- Bankify Oy, member of the board of directors
- Nuori Yrittäjyys ry, member of the board of directors (non-commercial entity)

Number of directorships as defined by the CRD: no primary occupation, 1 non-executive directorship to be taken into account

Independence: Independent of the Company and its significant shareholders

Board Committees

MuniFin is, based on the Act on Credit Institutions, a nationally significant credit institution and the Board of Directors has, as required by the legislation, established Audit, Risk and Remuneration Committees. The Board appoints, from among its own members, the chairmen and the members of these committees. Committees regularly report to the Board of Directors on their activities.

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

The members of the Audit Committee, and their individual attendance rates in the meetings for the 2017 financial year were:

Tuula Saxholm, chair	100%
Tapani Hellstén**	100%
Jari Koskinen*	100%
Vivi Marttila	100%

*Member from 23 March 2017, and the attendance rate has been calculated for the meetings after that date

**Member until 23 March 2017, and the attendance rate has been calculated for the meetings before that date

The Audit Committee convened a total of five times during the financial year, and the average attendance rate was 100%.

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

The members of the Risk Committee, and their individual attendance rates in the meetings for the 2017 financial year were:

Fredrik Forssell, chair	100%
Minna Helppi*	100%
Sirpa Louhevirta**	100%
Teppo Koivisto	100%

*Member from 23 March 2017, and the attendance rate has been calculated for the meetings after that date

**Member until 23 March 2017, and the attendance rate has been calculated for the meetings before that date

The Risk Committee convened a total of six times during the financial year, and the average attendance rate was 100%.

The Remuneration Committee of the Board of Directors is responsible for preparatory work to assist in the Board's decision-making concerning the setting of objectives related to the Company's remuneration system, assessment of whether the objectives are attained, development of the remuneration system and the remuneration and other benefits for the CEO and persons reporting to the CEO.

The members of the Remuneration Committee, and their individual attendance rates in the meetings for the 2017 financial year were:

Helena Walldén, chair	100%
Tapani Hellstén*	100%
Teppo Koivisto	82%
Juha Yli-Rajala**	100%

*Member from 23 March 2017, and the attendance rate has been calculated for the meetings after that date

**Member until 23 March 2017, and the attendance rate has been calculated for the meetings before that date

The Remuneration Committee convened a total of eleven times during the financial year and the average attendance rate was 95.5%.

CEO and the Executive Management Team

Under the Articles of Association, the Company has a CEO and a Deputy to the CEO appointed by the Board of Directors.

The CEO's duty is to manage the Company's operations in order to implement the resolutions made by the Board of Directors and maintain the Company's operations in line with the strategy, risk management principles and limits set by the Board of Directors. Supported by the Executive Management Team, the CEO is responsible for monitoring the effectiveness of the Company's day-to-day operations (including internal control, risk management and supervision of regulatory compliance), maintaining an effective organizational structure and reporting to the Board of Directors. The Board of Directors appoints and decides on resignation of members of the Executive Management team based on the proposal by the CEO. The Chief Risk Officer and Head of Compliance report also directly to the Board of Directors and the Board may decide on resignation of holders of these positions also without proposal by the CEO.

With regard to the CEO, Deputy to the CEO and members of the Executive Management Team, each person's reliability and competence is always assessed before the person is finally selected or before they take up their duties, as separately prescribed in the applicable legislation and guidelines issued by the authorities.

The Executive Management Team convenes regularly at least two times a month. During the year 2017, the Executive Management Team convened a total of 32 times out of which one was email meeting due to urgency of matters handled.

CEO and the Executive Management Team during the financial year of 2017:

Pekka Averio

President and CEO until 22 August 2017

At MuniFin since 1993

Education: Master of Laws, MBA

Other material positions of trust: No other material positions of trust outside the group

Year of birth: 1956

Esa Kallio

Interim President and CEO from 22 August 2017, President and CEO from 28 February 2018 (previously deputy to the CEO, Executive Vice President, Capital Markets)

At MuniFin since 2005

Education: M.Sc. (Econ)

Other material positions of trust: No other material positions of trust outside the group

Year of birth: 1963

Toni Heikkilä

Executive Vice President, CRO, Risk management

At MuniFin since 1997

Education: Lic.Sc. (Econ), M.Sc. (Finance)

Other material positions of trust: No other material positions of trust outside the group

Year of birth: 1965

Jukka Helminen

Executive Vice President, Customer Finance

At MuniFin since 2013

Education: M.Sc. (Tech)

Other material positions of trust: No other material positions of trust outside the group

Year of birth: 1964

Marjo Tomminen

Executive Vice President, CFO, Finance

At MuniFin since 1992

Education: vocational qualification in Business Administration, EMBA

Other material positions of trust: No other material positions of trust outside the group

Year of birth: 1962

Mari Tyster

Executive Vice President, Legal and Compliance, starting from 1 March 2018 Executive Vice President, Legal and Governance, Deputy to the CEO

At MuniFin since 2009

Education: Master of Laws

Other material positions of trust: No other material positions of trust outside the group

Year of birth: 1975

The CEO or members of the Executive Management Team do not have memberships in the boards of directors of other companies outside MuniFin Group or other material commitments, and all of their positions in the Company are full-time.

The Board of Directors agreed with CEO Pekka Averio that Averio will resign from his role as the CEO on 22 August 2017. The Board of Directors appointed Executive Vice President as interim President and CEO from 22 August 2017 until the Board of Directors has appointed a new CEO and they have started in the position. The Board of Directors appointed Esa Kallio as the new President and the CEO of the company from 28 February 2018 and Mari Tyster as the deputy to the CEO from 1 March 2018. Additionally, Joakim Holmström was appointed as Executive Vice President, Capital Markets and member of the Executive Management Team and Rainer Holm Executive Vice President, Business Information Solutions, as member of the Executive Management team from 1 March 2018.

C. Description of the main features of the internal control and risk management systems pertaining to the financial reporting process

Internal control, risk management and reporting

MuniFin is, due to the nature of its operations, inevitably exposed to a number of risks and, as such, internal control and risk management are key aspects of strategic planning and management. Appropriately implemented internal control and risk management are included in the day-to-day operations and facilitate the accomplishment of set objectives and ensure the company's risk level to stay at the desired level.

The internal control is intended to ensure that the risks associated with lending, funding, investment management and other business operations are in line with MuniFin's accepted risk profiles and that the operations will achieve their targets. The objective is to maintain MuniFin's overall risk position at a level that is the best possible related to the credit rating of Republic of Finland and not to compromise the parent Company's strong credit rating through its own actions.

Company's business units and support functions identify and manage MuniFin's risks as part of their daily operations, having regard to MuniFin's risk appetite, internal policies and guidelines, and limits. The Capital Markets function is responsible for managing the risk profile of the consolidated balance sheet by entering into market transactions within the limits set by the Board of Directors. The risk position and limit usage are reported to the Board of Management and Board of Directors on a regular basis. Finance and Accounting department is responsible for the principles related to capital adequacy and the structure of own funds, led by the Chief Financial Officer.

The Risk Management function, which is independent of the business functions, is responsible for risk management principles and processes led by the Chief Risk Officer. The Compliance department monitors compliance with regulation. Internal audit regularly audits different parts of the Company's operations.

MuniFin has an extensive risk management organisation, which covers the main parts of the Company's operations including the tasks and responsibilities of different departments and decision-making bodies.

MuniFin regularly surveys risks related to its operations and continuously develops methods for recognising and managing risks. Risks are assessed with regular risk analyses. The aim of the analyses is to recognise the new challenges and risks created by changes in the operating environment and prioritise the risks and their management on the basis of the results. The Company hedges and reduces risks it has identified with collateral,

guarantees, derivatives, insurance and active risk management. According to its own analysis, MuniFin does not have any liabilities containing wrong-way risk.

Reporting and supervision at the Board level

MuniFin's general principles, limits and measurement methods used in risk management are determined by the Board of Directors. The risk committee of the Board of Directors assists the board in matters regarding risk strategy and risk taking and in supervision of that the Company follows the risk strategy defined by the Board. The purpose of risk management is to ensure that the risks associated with lending, funding, investment and other business operations are in line with MuniFin's low risk profile. The Board of Directors is responsible for ensuring that internal control and risk management are sufficiently comprehensive and effective and that the Company does not, in its operations, take risks which would endanger the continuity of the Company's operations. The Board is assisted and supported in this supervision by the Audit Committee. The Board of Directors and the Committees have confirmed rules of procedure that also specify the Board's and Committee's duties concerning internal control and risk management in more detail.

The Board of Directors has confirmed principal risk policies which include the operating principles and limits pertaining to internal control and risk management. The Board of Directors has confirmed the risk management strategy as part of the Company's overall strategy. The aim of the policies is to guide the company's operations such that the Company's risk position is maintained at a level that corresponds to its confirmed risk profile through guiding the Company's operations. The policies are revised regularly.

MuniFin's Board of Directors has confirmed a Risk Appetite Framework ("RAF"), the purpose of which is to enable the company to:

- Effectively identify, assess and manage the risks inherent in its strategy as well as its internal risks,
- Understand and decide on the amount and quality of risk it is willing and able to take in executing its business strategy, and to actively communicate it, and
- Promote sound discussion about the risk appetite of the company and an effective and credible discussion and challenge of business and risk taking decisions.

RAF is linked to both short-term and long-term strategic plans, capital, liquidity and financial plans, the recovery plan and the remuneration policy. The RAF is reviewed and recalibrated at least annually.

As part of the effective implementation of internal audit and risk management, the Board of Directors has confirmed the Company's operating principles for internal audit, the annual audit plan for internal audit as well as the key principles concerning regulatory compliance, the information security policy, business continuity plan and other guidelines and principles necessary for the management of operational risks. These principles are assessed on a regular basis to ensure that their status is current and they are revised as necessary.

Capital Adequacy

The Board of Directors approves the plan for capital adequacy management, which is revised annually. The plan for capital adequacy management also includes a process description for capital adequacy management. Information pertaining to capital adequacy is presented as part of the Company's annual report as required by legislation or otherwise at the Company's website. Capital adequacy disclosures according to Pillar III are published along with the annual report.

Since the financial crisis, the Company's capital planning has been mainly affected by the leverage ratio requirement along with the already executed and pending regulation renewals. The possible implementation of the leverage ratio requirement has forced the Company to begin preparations, as the implementation of the leverage ratio would mean that requirements concerning the Company's own funds would be multiplied. The leverage ratio requirement is based on comparing total own of funds with balance sheet assets without consideration for risks related to the assets that are incorporated into capital adequacy calculations. It is still uncertain as to when the leverage ratio requirement enters into force on EU level.

As a part of the Company's capital adequacy planning and its execution MuniFin issued a Tier 1 capital loan (AT1 instrument) in 2015, which reinforced the Company's capital structure in anticipation on the previously mentioned leverage ratio requirements.

The Capital Adequacy is calculated as required by the EU's capital requirements regulation and the related directive (so called CRDIV-package), which are based on the Basel III framework. The capital adequacy requirement for credit risk is calculated using the standardized approach, and the capital adequacy requirement for operative risks using the basic indicator approach. As the Group has neither a trading book nor share or commodity positions, only currency risks are taken into account in the capital adequacy calculations for market risk. As the Company hedges against currency risks by using derivative contracts to convert all foreign currency denominated funding into euros, the Company's currency position is very small and it is therefore not necessary to allocate capital for the currency risk.

Financial reporting and reporting on risk management to the Board of Directors is the responsibility of the CEO. Further, the CRO reports directly to the Board of Directors and its Risk Committee on a regular basis. There were no material changes in the Company's risk position in 2017. Risks remained within the set limits and, based on the Company's assessment, risk management met the requirements established for it. The Company's risk position is regularly reported to the Board of Directors as a part of monthly reporting, and, in addition, the risk management director provides the risk committee with a broader overall review of the Company's risk position in relation to various risk areas every six months.

A comprehensive stress test is conducted annually by an independent external party in cooperation with the companies risk management function and business areas.

Supervision and reporting at the operational level

Internal control plays a part in the duties of each individual belonging to the management or staff of the Company and everyone in the organization is responsible for reporting any observed deficiencies concerning internal control. Internal control is based on an organization specific to each operational area or department, where everyone involved has their own duties and areas of responsibility. Decision-making and the implementation of decisions have been delegated to different functions or individuals.

Reliable and timely reporting on the Company's financial performance is a key tool for management. Reporting on financial performance is carried out by the Company's financial administration and risk management functions, but in part also independently at the operational level to control the accuracy and sufficiency of financial reporting. The basic elements of financial reporting include internally produced reports on a monthly basis and the interim and annual reports required for external reporting.

Financial reporting is based on appropriately prepared bookkeeping and other materials pertaining to transactions. In order to ensure the accuracy of financial reporting, the Company's financial administration has detailed internal instructions on the recording of business activities and other financial management processes,

including amongst other things the control principles concerning the approval and implementation of various transactions. These control procedures include regular routines pertaining to the reconciliation of accounts and transactions and payment transfer processes that always follow the four-eye principle. Some of the control measures are automated by the Company's information systems while some are based on manual inspection. The Audit Committee is charged with supervising the financial reporting processes.

The Company has a risk management function that is independent of the Company's business operations; it maintains, develops and prepares risk management principles for confirmation by the Board of Directors and develops methods for use in the assessment and measurement of risks. The Company's various functions are responsible for day-to-day risk business decisions to minimize risks within the established principles, policies, authorizations and limits. The risk management function ensures that risks are maintained within acceptable limits and that the methods used for measuring risks are appropriate. The risk management function reports to the executive management and the Board of Directors on a monthly basis on the Company's risk position relative to the limits set and, as necessary, on individual risk events of material significance. Additionally the Chief Risk Officer reports monthly directly to the chair of the Risk Committee on the risk position of the Company. A broad report on Company's risk position will be presented by the Chief Risk Officer to the Risk Committee and the Board of Directors biannually. As part of the described standard reporting the Risk Committee and Board of Directors evaluate content and comprehensiveness of reporting and may require changes to the content or method of reporting.

The management of operational risks, including information systems critical to the Company's operations, and the supervision of operational risks are part of the normal processes of functions and departments. In addition, the department charged with the supervision of overall risk has the general responsibility of coordinating the management of operational risks. The Company conducts an annual survey of operational risks. The survey evaluates risks and their probability of realization and effects and decides on means of managing the risks in question.

The CEO, supported by the Board of Management, is responsible for managing the Company's operations and organizing risk management and financial reporting. The Executive Management Team has established five executive level decision-making bodies to in order to steer Company's operations, to make essential decisions, and to prepare matters for the Board of Directors and its committees. Business Group's duties include the preparation of MuniFin's business strategy, and implementation of the strategy and the budget on the operative level. Risk Group is responsible for the management of the overall risk position of the Company, and development of MuniFin's risk management and the principles and reporting thereof. The ALM (Asset and Liability Management) Group's duties concern the Company's liquidity position and the liquidity risk position of the balance sheet. Finance Group's duties include matters with regard to Company's internal and external reporting. Credit Group decides on credit granting and changes to the terms and conditions for customers that are deemed to pose a higher credit risk to MuniFin.

MuniFin's senior management is represented in the Board of Directors of its subsidiary Company Inspira and Inspira's governance is based on the same internal control principles as place in MuniFin.

Duties related to compliance with external and internal regulation (monitoring regulations, disseminating information, training, supervising) are handled by the compliance department. Reports on the compliance function are produced on a monthly basis to the Executive Management Team and annually to the Board of Directors. The reporting frequency may be increased if necessary. The Board of Directors also receives regular reviews of the development of banking regulation and its impacts on MuniFin's operations.

In addition to the risk and governance policies confirmed by the Board of Directors, the Company has operating guidelines for essential part of business areas and risk management confirmed by the Executive Management Team. The operating guidelines are supported by process descriptions that are prepared for all essential

processes and revised regularly. In addition, each employee has a job description that specifies their key duties and back-up arrangements. The heads of departments also prepare and revise process instructions and other specific guidelines as necessary.

Regular external reporting on the Company's operations to the Finnish Financial Supervisory Authority, the Bank of Finland, the Tax Administration, Statistics Finland. From the beginning of 2016, the Company has been under the direct supervision of the European Central Bank and has reported on the Company's operations also to the European Central Bank.

Internal and external audit

The tasks of the internal audit function include monitoring the reliability and accuracy of MuniFin's financial and other management information. Its tasks also include ensuring that the Company has adequate and properly organized processes and IT systems for its operations and that the risks associated with operations are being managed adequately.

The Board of Directors approves the internal audit plan for each financial year and all reviews undertaken by the internal audit during the 2017 financial year were reported to the Company's Executive Management Team, the Audit Committee and the Board of Directors. The recommendations issued by the internal audit are systematically monitored in the Company and their implementation is reported to the Company's executive management and the Audit Committee and Board of Directors annually. The internal audit function assesses the status of the implementation of recommended measures.

The Company has outsourced the audit work of internal auditing to Deloitte & Touche Oy, which reports directly to the Board of Directors and its Audit Committee.

The Company's auditor must be an Authorised Public Accountant approved by the Central Chamber of Commerce of Finland. The Auditor's term of office is the Company's financial year and it terminates at the conclusion of the next Annual General Meeting after election. The Company's financial year is the calendar year.

MuniFin Plc's auditors during the 2017 financial year were KPMG Oy Ab with Marcus Tötterman, Authorised Public Accountant, as the auditor with principal responsibility. Marcus Tötterman has acted as the auditor with principal responsibility since 2012.