

Remuneration Report

2020

MuniFin

1 Background and objectives

This annual Remuneration Report provides information on the remuneration policies and earned or paid remuneration in Municipality Finance Plc (hereinafter “MuniFin” or “the Company”), in accordance with the regulations concerning credit institutions (Chapter 8, section 15 of the Act on Credit Institutions, and Article 450 of the Regulation (EU) No 575/2013 of the European Parliament and of the Council).

2 Remuneration of the Board of Directors

According to the MuniFin's Articles of Association, the fees paid to the Board of Directors are determined by the Annual General Meeting (AGM).

The members of the Board of Directors (the Board) will be paid an annual fee for the period of term that starts from the end of AGM and ends at the end of the next AGM. The fee consists of the annual fee and fees paid for each meeting.

In 2020 the fees paid for the Board are paid based on the decision of AGM 2019 until the AGM 2020. From the AGM 2020 onwards, the payments have been made based on the decision of the AGM 2020.

At term 2019–2020 the fees paid to the Board members are as follows:

- Annual fee for the Chair of the Board EUR 35,000
- Annual fee for the Vice-Chair of the Board EUR 23,000
- Annual fee for the Member of the Board EUR 20,000
- The fee paid for the Chairs of the Board and its Committees EUR 800 per meeting and for the members of the Board and its Committees EUR 500 per meeting

At term 2020–2021 the fees paid to the Board members are as follows:

- Annual fee for the Chair of the Board EUR 35,000
- Annual fee for the Vice-Chair of the Board EUR 23,000
- Annual fee for the Chair of the Audit Committee and the Chair of the Risk Committee EUR 25,000
- Annual fee for the Member of the Board EUR 20,000
- The fee paid for the Chairs of the Board and its Committees EUR 800 per meeting and for the members of the Board and its Committees EUR 500 per meeting

The Members of the Board are entitled to be compensated for their travel expenses and are paid a per diem in accordance with the company's travel policy. Meeting related fees apply also to obligatory meetings with supervisory authorities.

In 2020, the Board convened 17 times. One of the meetings was conducted by email. During 2020, the Audit Committee convened 11 times, the Risk Committee 9 times and the Remuneration Committee 8 times.

Remuneration paid to the Board 2020

MEMBERS	Remuneration 2020 (EUR 1,000)
Helena Walldén, Chair of the Board	56
Tuula Saxholm, Vice Chair of the Board	36
Maaria Eriksson	32
Raija-Leena Hankonen, until 21 Feb 2020	6
Minna Helppi, until AGM 25 March 2020	9
Markku Koponen	46
Jari Koskinen, until AGM 25 March 2020	9
Kari Laukkanen	45
Vivi Marttila	34
Denis Strandell, new member, AGM decision 25 March 2020	25
Kimmo Viertola, new member, AGM decision 25 March 2020	24
Total	318

The Members of the Board are not employed by the Company and are not covered by the Company's Remuneration Policy. The Shareholders' Nomination Committee is a body established by the AGM. No remuneration is paid to the members of the Committee.

3 Remuneration of the executive management and employees

3.1 General information

Remuneration paid to the executive management and to the employees comprises of fixed remuneration (salary in money and benefits in kind) and variable remuneration, in accordance with the terms of the Remuneration Policy. Possible car benefit is part of an individual's fixed total salary. MuniFin does not offer any unusual benefits in kind that would diverge from the normal practice. A fixed total salary forms the largest share of the total annual remuneration paid to the executive management and to other employees.

In accordance with a strategy approved by the Board of Directors, MuniFin follows the development of salaries and remuneration in the finance sector and the operating environment. An evaluation has been carried out for each position in order to establish sufficient comparability with market data. In 2020 the help of KornFerry Hay Group Oy has been used for market comparisons that have been based on evaluation of each position and related classification of positions. The Company has also obtained benchmark data of the remuneration of the management roles by participating in the remuneration study of Evli Alexander Incentives Oy. The Purpose of the external support is to ensure that the remuneration framework meets the market practise within finance sector.

The pensionable age and pensions of the executive management and the employees are determined in accordance with the Employees' Pensions Act. Part of the members of the Executive Management Team (starting in the position before 2018) have a contribution-based group pension insurance taken out by the Company. Pension can be paid from the insurance to members who have turned 63. In 2020, the CEO and the members of the Executive Management Team entitled to this pension at 1 Jan 2020 were paid a total of EUR 57,372.23 in pension insurance.

The CEO's period of notice from the Company is six months. The CEO's benefits in kind (car, meal and telephone benefit) are cancelled at the end of the period of notice. Should the Company give notice to the CEO for reasons beyond him or her, the Company shall pay the CEO's salary for the period of notice and severance pay corresponding to the CEO's total salary for six months.

The business activities of MuniFin are very narrow and do not comprise extensive products or services. The Company has a simple organisational structure and legal form. That being so, the Company has been able to comply with requirements in principles concerning remuneration taking into account the principle of proportionality contained in the regulations.

3.2 Role of the Board of Directors and the Remuneration Committee

The Board of Directors decides all remuneration related matters prepared by the Remuneration Committee, including the Remuneration Policy and changes thereto, setting of the company level targets, assessment of the achievement of company-level targets and subsequent performance pay, variable remuneration paid to the CEO and persons reporting to the CEO and any changes to their fixed remuneration. The Board of Directors follows the remuneration of the entire personnel assisted by the Remuneration Committee. In addition, the Board assesses the Remuneration Policy annually and determines the payment of deferred remuneration in accordance with the regulations. At the end of 2020, the members of the Remuneration Committee were Chair of the Board Helena Walldén (Chair of the Committee), Tuula Saxholm, Markku Koponen and Kimmo Viertola.

The Board of Directors determines the remuneration paid to the CEO and to his or her deputy, and the terms of their employment. Furthermore, the Board of Directors determines the remuneration paid to the employees who report directly to the CEO, based on a proposal made by the CEO. The members of the Executive Management Team include the key employee responsible for internal control (Executive Vice President, Risk Management and Compliance) whose remuneration is, in accordance with the current regulations, dependent on supervision carried out by the Board of Directors. The Board may separately decide, based on the proposal

by the Remuneration Committee, on the remuneration of the Head and employees of Internal Audit and it also follows the remuneration of individuals whose professional activities materially influence the company's risk profile ("risk takers") (including the remuneration of the internal control functions like Compliance).

The Board's Risk Committee likewise follows the setting of targets and remuneration so that remuneration is in line with the Company's risk appetite. The executive responsible for Risk Management and the Head of Compliance also provide the Board of Directors and its Committees with statements on whether the targets and remuneration are consistent with the Company's risk appetite and regulations.

The Board of Directors is always entitled to make the final decision on changing or terminating the Remuneration Policy, or on not paying variable remuneration. With regard to remuneration payments, all known factors that could prevent payment (such as capital adequacy or liquidity requirements, or other factors affecting a risk-based assessment) are to be considered. The Board of Directors can also decide not to pay earned or deferred remuneration to an individual on the grounds of a risk-based assessment.

Internal audit provides the Remuneration Committee and the Board of Directors with an annual statement on whether or not the Remuneration Policy determined by the Board has been complied with. In addition, internal audit will assess more comprehensively the Remuneration Policy and related documentation and processes in the manner required by the regulations.

The Board of Directors of MuniFin and the Remuneration Committee also follow the remuneration of MuniFin's subsidiary Financial Advisory Services Inspira Ltd ("Inspira"). Remuneration related performance targets and any variable remuneration based on the performance targets are determined by Inspira's Board of Directors. Inspira is not a supervised entity nor does it issue financial instruments on the regulated markets, thus the information of the amount of remuneration in this report does not include information of Inspira.

3.3 Principles concerning variable remuneration in 2020

The purpose of variable remuneration is to promote the achievement of challenging targets, to ensure the availability and retention of skilled employees and to increase work efficiency.

The Company does not have a separate remuneration policy for the management. A single Remuneration Policy, approved by the Board of Directors, applies to all employees. Consequently, the remuneration framework applies to whole personnel, unless otherwise decided based on the nature of employment (e.g. temporary employments). Within the single Remuneration Policy variable remuneration related maximum and target levels vary depending on the position.

The targets and the weights for the targets related to the remuneration framework are set out for each calendar year (earnings year). Across all pay grades, the remuneration is based on both company-level and/or department/individual performance targets. The targets are set out to support company strategy and operational targets, and efficient risk management. Such targets may not encourage employees to take risks that can exceed the approved risk bearing capacity. In the Remuneration Policy, the weighting of company-level, departmental and individual targets varies across the remuneration categories. The CEO and the members of the Executive Management Team have company-level targets, and additionally they have their individual performance targets, related to each individual's responsibility areas, set by the Board. The targets of other personnel are based on company and department level targets. In addition, individual performance targets are set for all employees and based on the achievement of the individual performance targets it is possible to either raise or lower the performance assessment of the of department level target on an individual level.

The company-level performance appraisal is approved by the Board of Directors. The Executive Management Team approves division- or department-level performance appraisals, and individual performance appraisals are approved by the individual's superior. In risk control, the remuneration of employees is not based on the results of controlled operations, but the employees working in roles of risk control have the Company's net operating profit as a company-level target. The CEO approves the amount of remuneration paid to employees and the Board of Directors approves the remuneration of the CEO and employees reporting to the CEO.

In 2019, company-level targets and those affecting the remuneration of all employees for which remuneration were paid in 2020 were targeted at the Company's net operating profit, certain strategic projects promoting efficiency, customer satisfaction and, for superiors, to the job satisfaction of other personnel. The economic targets set out were in line with the Company's risk appetite and were based on the economic forecasts for the Company taking into account the limits set out and the limitations of activities. As for any other target, there is a maximum target set for the Company's net operating profit, and if exceeded, the variable remuneration cannot exceed the maximum remuneration. Similarly, there is a minimum target, and if not exceeded no variable remuneration will be paid.

In accordance with the regulations governing credit institutions, if an individual's remuneration for the earnings from the performance period is EUR 50,000 or more, 60% of the remuneration shall be paid over the following year, and 40% of the remuneration shall be deferred and paid in instalments of equal amounts over the three years following the payment year. However, the deferral period for the CEO and other members of the Executive Management Team is five years. According to the deferral requirements laid down in the regulations, MuniFin maintains a list of risk takers. However, the aforementioned limit of EUR 50,000 applies to all individuals, independent of their position in the company. In addition, if the remuneration exceeds EUR 135,000, 40% of the remuneration shall be paid over the following year and 60% of the remuneration shall be deferred.

Variable remuneration is invariably paid in money, and the Company does not have any share- or option-based remuneration. Variable remuneration is based on actual performance, and the Company does not commit to paying variable remuneration in advance. The Board of Directors is always entitled to decide non-payment of variable remuneration based on the risk based approach, if payment would endanger Company's capital adequacy, liquidity or otherwise would be against sound business practices. Also actions of individual persons are taken into account in the risk based approach of variable remuneration.

For those who the deferral rules apply to, half of the variable remuneration is tied to the development of MuniFin's Common Equity Tier 1, CET1 (a class of instrument used in remuneration in compliance with the regulations). According to the terms and conditions, the value of variable remuneration can be temporarily reduced if the Company's CET1 capital falls below 15,96%. Finally, for those who the deferral rules apply to, variable remuneration is subject to a 12-months' waiting period, referring to the time between the making of the remuneration decision and the payment of remuneration. Variable remuneration is paid annually, after the financial statements have been adopted for the earnings year. The recipients of remuneration may not use the financial instruments to protect themselves against personal risk related to variable remuneration.

3.4 Remuneration in 2020

The variable remuneration paid in 2020 is based on MuniFin's Remuneration Policy, approved by the Board of Directors, and the 2019 performance targets set out in the Remuneration Policy. Additionally, in 2020 MuniFin has paid remuneration that has been deferred from previous years to be paid in 2020. In the table below, there is the information of the remuneration paid for the whole personnel of MuniFin and especially remuneration paid to Customer Finance division. Customer Finance is the only core business line of MuniFin and remuneration for Customer Finance is shown separately in the table below. All figures in the below tables are exclusive of the employer's social contributions.

PAID SALARIES AND VARIABLE REMUNERATION 2020 (EUR 1,000)

	Whole personnel of (incl. senior management)	Customer Finance division
Number of individuals in the group	154	25
Fixed remuneration of the group in 2020	12,518	2,111
Variable remuneration of the group approved in 2020 from the previous performance period)	1,507	271
Total variable remuneration of the group paid in 2020 (including amounts deferred from previous years)	1,490	271

With regard to variable remuneration earned in 2019 and thus paid in 2020, the target and maximum remuneration level varied by remuneration category. For the CEO and the members of the Executive Management Team, the target variable remuneration corresponded to 2.5 months' fixed salary, with a maximum remuneration amount corresponding to 5 months' salary. For the remaining remuneration categories, the target remuneration levels varied between amounts corresponding to 1 months' and 2 months' salary, with maximum remuneration levels of 2 to 4 months' salary. Ratio of maximum remuneration to fixed annual salary, taking into account holiday compensation, is for the CEO and other members of the Executive Management Team 39.7% and for other remuneration categories between 15.7% and 31.7%.

A maximum remuneration amount can only be considered in cases of exceptional performance. In 2020, the maximum remuneration in accordance with the Remuneration Policy was not paid to any individuals out of all individuals covered by the Remuneration Policy. In 2020, the Company did not employ any individuals whose remuneration exceeded a million euros during the financial year.

See the following tables for further information of the remuneration paid in 2020 to individuals whose activities materially influenced the Company's risk profile in a manner described in the regulation: the CEO and other members of the Executive Management Team, employees of Customer Finance division whose activities materially influenced the Company's risk profile, and employees working in other divisions (Capital markets, Risk management, Finance, Business information solutions, HR, Legal and Governance) whose activities materially influenced the Company's risk profile in a manner described in regulation. Relevant positions in these divisions are mainly managerial positions.

Groups, in the tables below, include employees that have been employed in these positions on 10 April 2020, when the variable remuneration from the performance period 2019 has been paid. The payment requires a valid employment without given notice, unless there is a separately defined situation like retirement in question. All figures in the below tables are exclusive of the employer's social contributions. All variable remuneration is paid in cash as the Company does not have any equity or equity linked instruments to pay variable remuneration.

**REMUNERATION OF THE CEO AND MEMBERS OF THE EXECUTIVE MANAGEMENT TEAM
(EUR 1,000)**

	2020
Fixed remuneration paid to the CEO	347
Fixed remuneration paid to the deputy to the CEO	196
Variable remuneration paid to the CEO (includes payment of remuneration deferred from previous years)	65
Variable remuneration paid to deputy to the CEO (includes payment of remuneration deferred from previous years)	55
Fixed remuneration paid to other members of the Executive Management Team	963
Variable remuneration paid to other members of the Executive Management Team (includes payment of remuneration deferred from previous years)	159

**MEMBERS OF EXECUTIVE MANAGEMENT AND MATERIAL RISK TAKERS
(EUR 1,000)**

	2020
Number of individuals in group	35
Fixed remuneration of the group in 2020	4,583
Variable remuneration of the group approved in 2020 from the previous performance period 2019	853
Remuneration approved in 2019/20 but determined to be deferred to future years	94
Remuneration approved in 2020 but determined to be paid after 12 months' waiting period	40
Remuneration deferred from previous years and paid in 2020	52
Total variable remuneration paid in 2020 (including amounts deferred from previous years)	811
Amount of deferred to be paid in future years (including deferrals approved in 2020)	203
Amount of decrease of variable remuneration in 2020 based on the risk based approach	0
Highest variable remuneration earned by an individual in performance period 2020 (approved in 2019)	83

In 2020, the amount of paid variable remuneration to CEO corresponded 2.4 months' salary, for deputy to the CEO the amount of paid variable remuneration corresponded 3.7 months' salary and for other members of the Executive Management Team the amount corresponded 2.1 months' salary. The variable remuneration paid for CEO was 18,7% of his fixed remuneration in 2020, for the deputy of CEO 28,1% and for other members of the Executive Management Team 16,5% of their fixed remuneration.

In 2020 the Company granted two agreement based severance payments within the personnel in the risk taker group. The total amount of agreement based severance payment that shall be paid in 2021 is EUR 150,000 (2 pieces). The Company did not approve or pay any sign-on payments in 2020.

3.5 Changes to remuneration

The Board of Directors has updated the Company's Remuneration Policy in 2020 to better meet the Guidelines on sound remuneration policies of the European Banking Authority (EBA). The remuneration of the control functions has been changed so that the maximum remuneration for the heads of the control functions has been reduced. The other changes made in year 2020 have been mostly technical/clarifying changes that will have an effect to the remuneration system in year 2021.

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