

# Sustainability Policy

MUNICIPALITY FINANCE GROUP

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# 1. Introduction and purpose

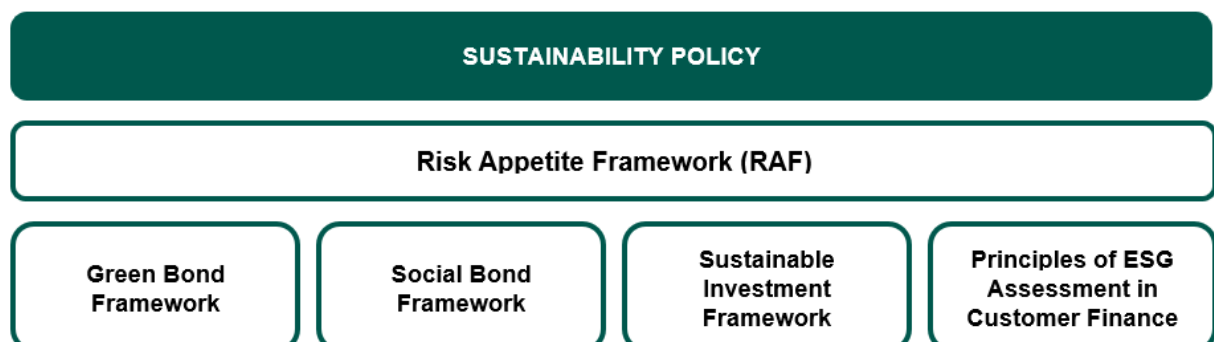
Municipality Finance Group (“**MuniFin**”) operates to serve as a trusted, honest and ethical institution in the course of all of its activities and relationships, including customer and employment relationships, partnerships and other relations. The Group includes Municipality Finance Plc and its subsidiary, Financial Advisory Services Inspira Ltd (“**Inspira**”). Unless otherwise specified, “MuniFin” and “the company” hereinafter refer to both companies together.

MuniFin’s customer relationships are typically very long, so it is particularly important to take sustainability (including responsibility) broadly into consideration in the company’s business operations. Sustainability is one of MuniFin’s core values, and it is also included in the company’s strategy. Sustainability covers environmental, social and governance (ESG) factors.

In this policy, the term “sustainability” covers the ethics of MuniFin’s operations as well as the ESG aspects related to social responsibility and stakeholder needs. This context includes risks pertaining to the environment, climate, social responsibility and governance. All of MuniFin’s operations reflect the company’s values of customer orientation, transparency and sustainability.

This policy is approved by the MuniFin Board of Directors (“**the Board**”). The purpose of this policy is to not only strengthen the positive impact, but also reduce and avoid the negative impact MuniFin has on society and the environment through its business operations, and to reduce the risks to which the company, its reputation and its employees are exposed.

The following documents describe and steer MuniFin’s sustainability work. Apart from the Risk Appetite Framework (RAF), the documents are available on the MuniFin website.



## 2. Sustainability-related roles and responsibilities

MuniFin's sustainability-related roles and responsibilities are divided between the Board and executive management as follows.



### 2.1 Board of Directors and its committees

The MuniFin Board's task is to approve the company's strategy, which includes the key strategic choices, priorities and goals related to sustainability. The Board monitors the development of MuniFin's operating environment and observes the sustainability-related development needs, such as regulatory changes and the expectations of its customers and key stakeholders, in the company's strategic development.

The Board identifies MuniFin's key business risks, including its ESG risks, and monitors the development of the company's ESG risks to ensure that its risk profile corresponds to the Board's risk appetite and aligns with the company's strategy, goals, corporate culture and values.

If necessary, the Board decides on essential strategic changes and other measures related to business operations or risk management based on sustainability developments in the operating environment and risks.

The Board has a Risk Committee, which supports the Board especially in duties concerning sustainability risks and reports regularly to the Board on its activities. The committee assesses strategic risks, taking aspects of sustainability into account in its assessment.

## 2.2 Executive management

MuniFin's executive management is tasked with the implementation of the strategy set by the Board, within the risk appetite approved by the Board. This responsibility also includes acting in accordance with MuniFin's Board-approved sustainability strategy and adjusting operations to the risk limits and goals set for ESG risks. The Executive Management Team also approves MuniFin's Green Bond Framework, Social Bond Framework and Sustainable Investment Framework.

MuniFin's CEO is responsible for managing the company's operational organisation and activities based on these principles set by the Board. The operational organisation includes the Executive Management Team and the operational management teams of MuniFin's departments, which are tasked with supporting their management and making decisions that concern matters assigned to them under various policies and guidelines. The decision-making powers and duties of the operational management teams have been determined separately. MuniFin's organisation is made up of different departments and units, including the Risk Management and Compliance function that is independent of the business units, which make operational decisions related to sustainability in accordance with the company's management system.

MuniFin's executive management is tasked with monitoring and guiding the development of the company's sustainability-related measures at the company level and ensuring that sustainability is taken into account in accordance with the company's strategy in all areas of operations in a way that is appropriate for each case considering the materiality principle. As part of the regular monitoring of the company's operations, the executive management must also ensure the identification and development of employees' competence needs related to sustainability.

## 2.3 Sustainability coordination team

MuniFin's sustainability work is coordinated by the Sustainability virtual team, which includes representatives from different departments. The Sustainability virtual team coordinates the development of MuniFin's sustainability, follows market developments and addresses development needs that concern multiple units and departments. It does not have decision-making powers: proposals made by the team and its working groups are presented for decision-making in accordance with MuniFin's governance model.

## 3. Sustainability at MuniFin

MuniFin's strategy includes a strategic policy stand on sustainability: "We act as our customers' partner in building a sustainable society, while efficiently managing climate-related and environmental risks that are relevant to us."

Sustainability is also integrated into MuniFin's values:

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

MuniFin is committed to working actively with its key stakeholders to ensure that all essential aspects of sustainability, including environmental and social welfare, are taken into consideration.

### 3.1 Customer solutions

For MuniFin, sustainable business refers to economically, socially and environmentally sustainable business operations that take into account stakeholder needs. Social and environmental responsibility must be emphasised in both external and internal work because MuniFin's customers are public sector and social housing organisations, whose operations are aimed at maintaining and improving the Finnish welfare state in the long run. MuniFin's customers play a key role in the achievement of Finland's national climate goals. As a lender, MuniFin's role is to enable their work.

Through its business, MuniFin can help its customers and stakeholders solve significant social and sustainability challenges. MuniFin helps its customers make sustainable choices and encourages sustainable investments through information sharing, competitive pricing, impact assessment and visibility. MuniFin also informs its customers of the importance of ESG risk management and of the increasing ESG requirements. The better customers can take ESG risks into account in their operations, the lower MuniFin's ESG risks will be.

#### 3.1.1 The importance of long-term customer relationships

MuniFin places great importance on customer orientation, long-term customer relations, active collaboration and reliable partnerships. These values help to make sure that MuniFin meets the needs of its customers in an equitable, open and transparent manner. MuniFin strives to be a genuine partner to its customers and thus create an atmosphere that encourages progress and creativity in customer relations.

In order to offer its customers the best possible solutions, MuniFin invests in maintaining and improving the expertise of its employees and ensuring the effectiveness of its internal systems and processes.

### 3.1.2 Responsibility in the finance-granting process

Supporting customers' sustainable financial management and long-term goals is a key aspect of MuniFin's products and services. MuniFin's financing processes must be based on reliable financial analyses, which ensure that the customer is in a sound financial position and risk position and that the products and services offered meet the customer's needs.

MuniFin must always conduct an ESG risk assessment as part of the customer's financial assessment. This assessment emphasises the effects of climate and environmental risks that can be realised to the customer through direct physical risks or as transition risks in the work to mitigate and prepare for climate change. The ESG factors are incorporated into the customer's internal risk classification, which may affect the pricing of the offered finance. MuniFin also conducts annual customer assessments, which also take ESG risks into account.

MuniFin can offer financing products and services only if all the required criteria are fulfilled. This policy is complemented by the more detailed principles of ESG assessment in customer finance, which are available on the MuniFin website.

### 3.1.3 Green and social finance

In MuniFin's operations, the role of social responsibility is emphasised, as all projects funded by MuniFin are aimed at maintaining and improving the Finnish welfare society in the long run.

As a lender, MuniFin promotes solutions that are sustainable for the environment and climate. For this purpose, MuniFin offers its customers green finance to projects that meet the criteria set out in the MuniFin Green Bond Framework. MuniFin can offer green finance to investments that produce clear and measurable long-term environmental benefits and promote the transition to a low-carbon society. Green finance projects are aimed at climate change mitigation or adaptation and granted a margin discount.

MuniFin promotes social responsibility especially through its social finance. MuniFin can offer social finance to projects that produce widespread social benefits. The financed projects must have a positive impact on individuals and communities by promoting equality, communality, safety, welfare or regional vitality. Project selection is based on the MuniFin Social Bond Framework. Projects can be accepted into the social finance portfolio only if they create widespread social benefits.

## 3.2 Funding

Funding is the cornerstone of MuniFin's business operations, and it must be carried out in a way that ensures the availability and competitive price of customer financing even in challenging market situations. For this reason, MuniFin's funding must be well-diversified and based on an active long-term presence in the international capital markets.

In order to comply with all banking regulation, MuniFin only works with counterparties that have been internally approved in advance. In the approval process, MuniFin ensures that it adheres to the know-your-customer (KYC) requirements and that the counterparty operates in an ethical way.

MuniFin only acquires funds through instruments that have been approved in accordance with its internal approval process. MuniFin may use financial products denominated in internally approved foreign currencies. The internal approval process includes an analysis of political and ethical factors.

MuniFin's green and social finance projects are funded through targeted bonds. MuniFin can also issue tailored green or social bonds targeted at a single institutional investor.

Due to its diversified funding strategy, MuniFin can also issue structured products, in which the return paid to investors is based on the development of a given underlying instrument. MuniFin does not accept ETFs or stocks as underlying instruments if their main business activity relates to any of the following:

- Fossil fuel production
- Military industry
- Tobacco industry
- Other unethical underlying instruments defined by MuniFin.

A substantial amount of MuniFin's funding consists of benchmark bonds through public offerings. If these bonds are oversubscribed, MuniFin aims to allocate the bond fairly between different investors in the same investor group.

In funding operations, MuniFin must ensure that investors have sufficient knowledge of the risks of financial instruments. If MuniFin's products are offered as retail products for individual investors, these products must be marketed and sold through arranging banks pre-approved by MuniFin. Arranging banks are responsible for ensuring that retail investors are familiar with the product and its risk components to the extent required by local laws before making an investment decision.



### 3.3 Sustainable investments

Liquidity management ensures the continuation of business operations regardless of the market situation. MuniFin's primary objective in liquidity portfolio management is to preserve liquidity and invested capital while generating sufficient income from net interest income. All investments made in the liquidity portfolio must be carefully selected with approved counterparties so that they meet the risk, return and ESG objectives set by MuniFin. Investments are made only in issuers residing in OECD countries, with the exception of multinational issuers whose country of origin can be difficult to determine. In such cases, the Risk Management function conducts a risk analysis on a case-by-case basis with the limit application. This allows MuniFin to limit the financial and sustainability risks of investments.

MuniFin's investments must be made in accordance with the company's Sustainable Investment Framework and take ESG factors into consideration. In the context of this framework, the MuniFin Executive Management Team can, for example, define entire sectors that are completely excluded from the company's investment activities. Moreover, the framework defines sustainability criteria that need to be fulfilled both in making new investments and during the lifetime of investments. The framework also serves to limit ESG risks associated with investments.

### 3.4 Strong corporate governance

As per the Finnish Act on Credit Institutions (610/2014), MuniFin is a credit society and therefore governed by regulation on credit institutions and related supervisory guidelines. These contain a substantial number of requirements on governance management. In addition to the minimum legal requirements, MuniFin has internal policies that require its corporate governance to be professional, efficient and a solid basis for healthy business principles. MuniFin also follows the Finnish Corporate Governance Code issued by the Securities Market Association where applicable. MuniFin's decision-making and responsibilities are described in its Corporate Governance Policy, approved by the Board, as well as in its annual Corporate Governance Statement. The basic premise for responsible operations is that MuniFin adheres to the law, supervisory norms, generally approved practices, existing contracts and its own stated promises in all its operations.

Strong corporate governance lays the groundwork for a culture of doing the right thing, which provides employees with a framework in which to operate in accordance with laws and ethical principles in all situations. This is particularly relevant when it comes to financial misreporting and misconduct, and economic and financial crime (including fraud, money laundering and anti-trust practices, financial sanctions, bribery and corruption, market manipulation, mis-selling, inappropriate trading practices and other violations of laws). MuniFin has created a policy on ethical principles containing internal instructions for its employees.

MuniFin aims to fulfil these principles also in its customer and collaboration partner relationships.

MuniFin is committed to national and international initiatives that promote sustainable development and fundamental values. MuniFin is a signatory to the UN Global Compact and is committed to adopting, supporting and implementing fundamental values related to human rights, working life principles, environment and anti-corruption work within its sphere of influence. The principles of the UN Global Compact are based on the UN Universal Declaration of Human Rights, ILO Declaration on Fundamental Principles and Rights at Work, UN Rio Declaration on Environment and Development, and the UN Convention against Corruption. MuniFin is also a signatory to the Society's Commitment to Sustainable Development, entitled *The Finland We Want by 2050*, through which the company is also committed to promoting the 2030 Agenda goals by accelerating the spread of sustainable and environmentally friendly investments.

MuniFin takes environmental responsibility into account in its operations. The company must monitor its environmental impact and prevent, avoid and mitigate the negative environmental effects of its operations. MuniFin is committed to complying with environmental legislation and regulation and to also assessing the indirect environmental impact created through its customers in its business operations.

Every year, MuniFin publishes information on its sustainability work as part of its annual report and other reports, including its qualitative and quantitative indicators, to track the development of its sustainability practices. MuniFin also publishes annual green and social impact reports.

### 3.5 Management of climate and environmental risks

MuniFin's operations include sufficient risk management mechanisms to ensure that its risk position remains within the limits set by the Board. MuniFin applies conservative principles to its risk management. The aim is to keep the overall risk profile at a low enough level so as not to compromise its strong credit ratings. MuniFin's risk management is organised according to the 'three lines of defence' governance model, where responsibilities in risk management are clearly allocated to all the relevant parties.

MuniFin's Risk Management Framework has been built on the premise that business operations, risk culture, risk strategy, risk appetite, risk governance, personnel and processes are all aligned and working efficiently. The framework is supported by a comprehensive set of risk policies and underlying guidelines and instructions.

ESG risk management is an essential aspect of MuniFin's sustainability goals and risk management. MuniFin is committed to taking climate-related, environmental, social and governance risks into account in all its operations and to continuously developing its ESG risk management methods. The emphasis in MuniFin's ESG risk management is on environmental and climate-related risks, but it also covers social and governance risks.

MuniFin identifies, measures and manages the most important ESG risks related to its operations and the effects of these risks on the company. ESG indicators are included in MuniFin's Risk Appetite Framework (RAF). To ensure that MuniFin remains within its ESG risk limits at any given time, it has set risk limits and targets and integrated them throughout the organisation. The ESG indicators included in the RAF target the key sectors in MuniFin's lending and investments. However, the specific nature of MuniFin's line of business substantially limits its ESG risks. MuniFin's customers operate in Finland, which is a limiting factor of ESG risks in itself, but MuniFin's lending is also highly focused on specific sectors, which makes it easier for the company to limit and identify the ESG risks associated with its customers.

## 4. Scope of application and violations

This Board-approved policy is binding for MuniFin's executive management and employees alike. As a rule, it may not be deviated from and must be applied throughout all MuniFin operations and interactions. The persons in charge of MuniFin's units and departments must ensure and monitor that the requirements set out in this policy are considered and adhered to in all operations.

MuniFin's executive management must ensure that this policy is adhered to in day-to-day operations and that the independent Risk Management and Compliance function monitors this.

The MuniFin Board supervises that internal control, and risk management as part of it, is performed extensively and effectively enough to ensure that the company does not take risks that could endanger the continuity of its operations. The internal audit, the third line of defence, conducts supervision with the purpose of ensuring the effectiveness of risk management, internal control and governance processes. The Board must confirm the internal audit action plan annually.