Half Year Report 2019

1 JANUARY–30 JUNE 2019

In brief: Municipality Finance Group in the first half of 2019

The net operating profit excluding unrealised fair value changes decreased by 2.9% and amounted to EUR 90.0 million in the review period (EUR 92.7 million). Taking into account unrealised fair value changes, net operating profit amounted to EUR 33.7 million (EUR 124.4 million).

The Group's net interest income remained at the same level than in the previous year and amounted to EUR 117.2 million (EUR 118.0 million). The expenses grew, as anticipated, by 17.5% from the previous year and amounted to EUR 30.6 million (EUR 26.0 million). The unrealised fair value changes weakened the result by EUR 56.3 million, while a year earlier they improved the result by EUR 31.7 million.

The Group's capital adequacy was further strengthened and the CET1 capital ratio was 69.1% (66.3%). Tier 1 capital ratio and total capital ratio were 91.4% (88.0%) at the end of the review period.

At the end of June, the Group's **leverage ratio** amounted to 3.99% (4.06%).

Long-term customer financing grew by 3.3% (1.7%) and the portfolio amounted to EUR 23,719 million at the end of the review period (EUR 22,968 million). This figure includes long-term loans and leasing. The total of new loans withdrawn in January–June amounted to EUR 1,386 million (EUR 1,239 million). In the entire customer finance portfolio, the amount of green financing aimed at environmentally friendly investments totalled EUR 1,194 million (EUR 1,081 million).

In January–June, EUR 3,432 million was acquired in **long-term funding** (EUR 3,985 million). The total amount of acquired funding was EUR 31,822 million (EUR 30,856 million).

Total liquidity remained close to the year-end level and stood at EUR 8,554 million at the end of June (EUR 8,722 million).

Return on equity (ROE) decreased due to unrealised fair value changes and was 3.60% (10.76%).

Outlook for the second half of 2019: MuniFin estimates its net operating profit excluding unrealised fair value changes to remain at the same level as in 2018 or decrease, even though MuniFin's net operating profit excluding unrealised fair value changes was better than anticipated in the first half of 2019. The IFRS 9 standard adopted at the beginning of 2018 has significantly increased unrealised fair value changes recognised in profit and loss and in equity, which respectively increases the volatility of net operating profit. More information on outlook in section "Outlook for the second half of 2019".

Comparatives deriving from the income statement are based on figures reported for the corresponding period in 2018. Balance sheet and other cross-sectional figures on 31 December 2018 are used as derivatives unless otherwise stated.

GROUP'S KEY FIGURES	30 Jun 2019	31 Dec 2018	30 Jun 2018
Net operating profit excluding unrealised fair value changes (EUR million)	90	190	93
Net operating profit (EUR million)	34	190	124
Net interest income (EUR million)	117	236	118
New loans withdrawn (EUR million)	1,386	2,953	1,239
New funding acquisition (EUR million)	3,432	7,436	3,985
Balance sheet total (EUR million)	36,956	35,677	35,521
Common Equity Tier 1 (CET1) capital (EUR million)	1,076	1,065	1,016
Tier 1 capital (EUR million)	1,423	1,413	1,363
Total own funds (EUR million)	1,423	1,413	1,363
CET1 capital ratio, %	69.1	66.3	61.0
Tier 1 capital ratio, %	91.4	88.0	81.9
Total capital ratio, %	91.4	88.0	81.9
Leverage ratio, %	3.99	4.06	3.97
Return on equity (ROE), %	3.60	10.76	14.56
Cost-to-income ratio	0.46	0.19	0.16
Personnel	163	151	147

Net operating profit excluding unrealised fair value changes

90

EUR million

The formulas for calculating key figures are on pages 25–27. Unless otherwise stated, the figures presented in this Half year report are those of the Municipality Finance Group. Alternative performance measures are reported after the formulas for calculating key figures.

CEO’s Review

MuniFin celebrates its 30th anniversary this year.

Considering the turbulence in the international markets at the end of last year, the start of 2019 was surprisingly calm in terms of the economy. There was no major turmoil in the market despite the many uncertainty factors related to political and commercial relations.

Towards the end of the first half of the year the situation worsened. The customs disputes between China and the US escalated into a trade war, and there is an increasing number of signs indicating that the Finnish economy is slowing down. Market interest rates continued to drop in the first half of the year despite opposite expectations. In the US, the central bank lowered its Federal Reserve interest rates as per market expectations. In addition, the European Central Bank has promised actions to speed up economic growth in Europe.

In MuniFin’s operations, the first six months of 2019 were in line with business expectations. In the past years, MuniFin has invested strongly in responding to the changing customer needs. This year we have hired for the first time in our company’s history a chief economist who has a central role in supporting our customers with insight into market developments and their effects on the economy and financial market. We have also been active in growing our service portfolio. Leasing has been a welcome financing option among customers and the customer base of green financing is growing continuously: both products are well-established in the market and have managed to deepen MuniFin’s customer relations. Demand for financing remained at a good level in both the municipal and social housing production segments.

Therefore, our core business remained strong but the result was weakened mainly due to the volatility brought about by the accounting standards adopted in the beginning of 2018 concerning the unrealised fair value changes of financial instruments.

In Finland a new government was formed in June. While the task of restructuring the organisation and production of Finland’s health and social services failed during the term of the previous government, the reform proposedly based on a regional model is also on the new government’s agenda. These reforms are much needed and in addition to an actual decision, also the implementation should start during this government’s term.

This time, the discussions regarding the financing of the health and social services reform should not only concern the operational expenditure but also how the funding for the required investments in premises, infrastructure and equipment is arranged. The current funding model of MuniFin and the Municipal Guarantee Board has proven effective in the financing of the municipal and housing sectors and going forward, its use should also continue in relation to investments related to health and social services.

The new government has major infrastructure projects on its agenda. The existing funding model is recommended to be used for the financing of these projects. MuniFin’s participation in the financing of regional health and social services investments or national infrastructure projects would require some changes to the current legislation applicable to the Municipal Guarantee Board.

The new government promises to stimulate production of reasonably priced housing. Extending the agreement procedure applicable to land use, housing and transport to a larger number of urban regions strengthens the attractiveness of the growth areas in counties by offering affordable housing to an extended workforce. The Finnish model for social housing production allows economic growth by improving workforce availability and is a key method for increasing equality in society and for preventing segregation. MuniFin is by far the largest financier of social housing production in Finland.

New banking regulation requirements were published during this review period. One of the aims of the wide-ranging regulation renewal is to significantly ease the leverage ratio requirements for public development credit institutions such as MuniFin in the future. The final effects of the change will be clarified after possible discussions with the supervisory authority European Central Bank.

MuniFin celebrates its 30th anniversary this year. For the second consecutive time, MuniFin was recognised as the best bank in Finland in Kauppalehti newspaper’s annual comparison of banks, which was published in May. MuniFin is a highly committed work community, and we are motivated by our joint mission to build the future success factors of Finnish society. Therefore, we should extend our thanks for our successes to both our customers, with whom we work in close cooperation, and our staff.

Helsinki 15 August 2019
Esa Kallio
President and CEO

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Operating environment in the first half of 2019

In the first half of 2019, the economic growth in Finland continued to slow down. Employment continued to develop positively, but all other economic performance indicators weakened. Finland is highly dependent on the development of the international economy, which especially towards the end of the period was marked by uncertainties in the international economy.

Finnish parliamentary elections were held in May 2019. For municipalities and hospital districts, the uncertainty related to the health and social services reform and the investments in the sector have hindered the planning of investments. The new government, which started its work in June, announced that it will continue the preparation of these health and social services reforms.

During the first six months, the international capital markets developed rather calmly compared to the turbulence that prevailed at the turn of the year. However, towards the end of these first six months uncertainty increased. In the global market, the main reason for this was the trade war between the superpowers, whereas in Europe, the main causes were the unresolved issues concerning Brexit.

At the beginning of the 2019, market expectations were for slight increases in interest rates but on the contrary market interest rates have continued to fall and the expectations for an interest rate hike have been postponed. This is a cause for concern especially in Europe, where low interest rate levels coincide with a slowing trend in economy.

CONSOLIDATED INCOME STATEMENT	01–06/2019	01–06/2018	Change, %	01–12/2018
(EUR million)				
Net interest income	117.2	118.0	-0.7	236.3
Other income	3.3	0.8	301.2	1.9
Total income	**120.5**	**118.8**	**1.4**	**238.2**
Commission expenses	-2.0	-2.0	0.9	-4.2
Personnel expenses	-8.9	-7.7	15.2	-15.2
Other administrative expenses	-6.8	-5.4	24.8	-12.0
Depreciation and impairment on tangible and intangible assets	-2.1	-1.2	77.8	-2.3
Other operating expenses	-10.9	-9.7	11.4	-15.4
Total expenses	**-30.6**	**-26.0**	**17.5**	**-49.1**
Expected credit losses (ECL)	0.1	-0.1	-161.3	0.6
Net operating profit excluding unrealised fair value changes	**90.0**	**92.7**	**-2.9**	**189.6**
Unrealised fair value changes	-56.3	31.7	-277.7	0.4
Net operating profit	**33.7**	**124.4**	**-72.9**	**190.0**

Figures have been rounded, so the total of individual figures may differ from the total figure presented.

Group results

Net operating profit excluding unrealised changes in fair value

The Group's business operations remained strong during the first half of 2019. Municipality Finance Group's net operating profit, excluding unrealised fair value changes during the review period, amounted to EUR 90.0 million (EUR 92.7 million). Net operating profit, excluding unrealised fair value changes, decreased by EUR 2.7 million from the comparative period. This was particularly influenced by increased expenditure, which was anticipated.

Net interest income amounted to EUR 117.2 million (EUR 118.0 million). The Group's net interest income does not recognise the interest expenses of the AT1 capital loan through profit or loss, 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 decrease in retained earnings under shareholders' equity upon realisation of interest payment on an annual basis.

The Group's expenses increased by 17.5% to the comparison period and amounted to EUR 30.6 million in the review period (EUR 26.0 million).

Commission expenses totalled EUR 2.0 million (EUR 2.0 million) and primarily comprise paid guarantee fees, custody fees and funding programme maintenance fees.

Administrative expenses totalled EUR 15.7 million (EUR 13.1 million), of which personnel expenses comprised EUR 8.9 million (EUR 7.7 million) and other administrative expenses EUR 6.8 million (EUR 5.4 million). Administrative expenses were increased particularly by growth in the number of employees at the Group's parent company. The average number of staff was up by 9% compared to the previous year. The company has made substantial investments in developing customer service and service offering. Additionally, the number of employees has been increased by the need to continuously develop the company's risk management, governance and processes, caused by banking regulation. MuniFin is responding to future challenges by modernising its systems and therefore investments in system development have increased administrative expenditure. During the review period MuniFin has entered into outsourcing agreements regarding IT end user and infrastructure services as well as operation of the business IT systems to ensure operational reliability and improve the availability of services over time.

Depreciation and impairment of tangible and intangible assets amounted to EUR 2.1 million at the end of the review period (EUR 1.2 million).

Other operating expense increased by 11.4% from the comparison period to EUR 10.9 million (EUR 9.7 million). Growth in other operating expenses was mainly due to costs related to system and process development. The contributions to crisis resolution funds have been recorded in their entirety as expenses during the review period and the comparison period.

The amount of expected credit losses (ECL) calculated according to the IFRS 9 standard decreased during the review period, and the change recognised in the result was EUR 0.1 million (-0.1 million) at the end of June.

Group's net operating profit and unrealised fair value changes

The Group's net operating profit including unrealised fair value changes was EUR 33.7 million (EUR 124.4 million). The unrealised fair value changes weakened the result by EUR 56.3 million, while a year earlier they improved the result by EUR 31.7 million. The change of EUR -90.6 million in the Group's net operating profit compared to previous period is explained mainly by the unrealised fair value changes of EUR -88.0 million. In January–June the net income from hedge accounting was EUR -26.5 million (EUR 37.8 million) and EUR -29.8 million was unrealised net income from securities (EUR -6.1 million).

The Group's comprehensive income includes EUR 14.4 million unrealised fair value changes (EUR 20.6 million). In the review period the most significant item effecting the comprehensive income was a fair value change of EUR 13.9 million (EUR 3.7 million) due to changes in own credit risk on financial liabilities designated at fair value through profit or loss. Net change in Cost-of-Hedging totalled EUR -0,3 million (EUR 20.0 million).

The unrealised fair value changes net of deferred tax decreased the amount of Group's equity by EUR -33.7 million (EUR 41.8 million) and CET1 capital net of deferred tax in capital adequacy by EUR -42.9 million (EUR 39.3 million).

The IFRS 9 standard introduced at the beginning of 2018 and the related changes in preparation and valuation principles have significantly increased volatility of unrealised fair value changes. Changes in value reflect the temporary impact of market conditions at the reporting time on the valuation levels of financial instruments, and unrealised fair value changes may vary significantly from one reporting period to another, causing increased volatility in profit, equity, and own funds in capital adequacy calculations.

In accordance with MuniFin's risk management principles, MuniFin 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 causes 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 MuniFin primarily holds loan and funding agreements and their hedging derivatives until the maturity date. The unrealised fair value changes in the review period were influenced, in particular, by changes in interest rate expectations in the company's main funding markets.

The Group's effective tax rate in the review period was 20.05% (20.03%). The Group's profit for the period amounted to EUR 27.0 million (EUR 99.5 million). The Group's return on equity (ROE) at the end of the period was 3.60% (10.76%). Excluding unrealised fair value changes recognised during the review period, ROE was 9.63% (10.74%).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION	30 Jun 2019	31 Dec 2018	Change, %
(EUR million)			
Cash and balances with central banks	3,470	3,522	-1.5
Loans and advances to credit institutions	1,202	1,381	-12.9
Loans and advances to the public and public sector entities	23,719	22,968	3.3
Debt securities	5,949	5,863	1.5
Derivative contracts	2,200	1,539	43.0
Other assets	415	405	2.5
Total assets	**36,956**	**35,677**	**3.6**
Liabilities to credit institutions	1,071	823	30.2
Liabilities to the public and public sector entities	3,949	3,871	2.0
Debt securities issued	27,807	26,902	3.4
Derivative contracts	2,122	2,205	-3.8
Other liabilities	502	390	28.8
Total equity	1,506	1,486	1.3
Total liabilities and equity	**36,956**	**35,677**	**3.6**

Group balance sheet

The consolidated balance sheet increased by 3.6% (2.3%) from the end of 2018, totalling EUR 36,956 million at the end of the review period (EUR 35,677 million). The increase in balance sheet assets is primarily due to growth in the lending and leasing portfolio. The growth of liabilities is due to increased funding and is shown in liabilities to credit institutions, liabilities to the public and public sector entities, and debt securities issued.

At the end of June, equity stood at EUR 1,506 million (EUR 1,486 million), including the AT1 capital loan of EUR 347 million (EUR 347 million). Equity increased due to profit for the financial period. In addition, in the consolidated accounts interest expenses amounting to EUR 12.6 million (EUR 12.6 million) net of deferred tax on the AT1 capital loan were deducted from the equity upon the realisation of the interest payment in April, and the dividends of EUR 6.3 million (EUR 6.3 million) paid to MuniFin shareholders were likewise deducted.

Financing and other services for customers

MuniFin's customers consist of municipalities, joint municipal authorities, and municipality-controlled entities, as well as non-profit corporations and other non-profit organisations nominated by the Housing Finance and Development Centre of Finland (ARA). The group offers its customers diverse financial services and is by far the biggest single provider of financing for its customer segments.

The total of new loans withdrawn in the first six months was higher than the year before and amounted to EUR 1.386 million (EUR 1,239 million).). In the first half of the year, the total of new loans withdrawn grew by 11.9% (18.4%) from the review period. Of the new lending, 65.0% (58.5%) was directed towards the municipal sector and 35.0% (41.5%) towards central government-subsidised social housing production. At the end of June, the lending portfolio amounted to EUR 23,019 million (EUR 22,354 million). Out of this total loans to the municipal sector totalled EUR 12,536 million (EUR 12,131 million) and social housing loans EUR 10,483 million (EUR 10,223 million).

In addition to lending, MuniFin's financial leasing is also steadily becoming more popular in sizable investment projects such as buildings, for which real estate leasing is an alternative form of funding. At the end of June, MuniFin's leasing portfolio stood at EUR 700 million (EUR 614 million).

In recent years, MuniFin has invested heavily in the development of its operations and services. The development work is carried out in order to be able to respond to the evolving service needs of customers, leverage opportunities provided by digitalisation and develop the company's own processes, for example, in terms of efficiency, responsibility and risk management.

MuniFin's aim is to be the best possible financing expert in its customer segments in an ever-changing world. In order to meet its objective, the company has among other things invested heavily in the development of the Apollo service. This digital service provides customers with comprehensive support concerning various analysis and reporting requirements related to portfolio management and financial planning. The content and features of these services are developed continuously in accordance with customer feedback.

MuniFin has granted green financing for environmental investments since 2016. At the end of June 2019, MuniFin's green finance portfolio stood at EUR 1,194 million (EUR 1,081 million). Green financing has been granted for a project pool worth EUR 1,269 million, but part of this total sum is not yet withdrawn. In January 2019 the company awarded the first Green Pioneer award among its customers who have received green financing. The award was given to the City of Joensuu in recognition of its sustained efforts to minimise environmental impacts. With this award and green financing, MuniFin wants to accelerate the transition of municipalities towards a carbon-neutral society. The company may grant a margin discount to green projects.

MuniFin's fully-owned subsidiary Inspira is specialised in financial advisory services which it offers to municipalities and social housing projects. The parent company's customer finance department and Inspira are constantly increasing their cooperation in customer service. In the first half of the year, Inspira's assignments have involved, for example, organising competitive bidding processes related to the life cycle models of building investments and comparing the implementation and financing models of building investments. In addition, the implementation and financing options for hospital investments have been compared on behalf of hospital districts. Furthermore, Inspira assisted the Group's customers in their investments in energy-efficiency, M&A transactions and in studies related to the organisation models for service production. The turnover of Inspira was EUR 2.0 million (EUR 1.2 million) for January–June 2019, while its net operating profit amounted to EUR 0.3 million (EUR -0.1 million).

Funding and liquidity management

During the first six months of the year, the situation in the capital markets was fairly calm after the instability that preceded the turn of the year. However, credit risk premiums have clearly increased and there has been an increase in the funding margins compared to the level that prevailed a year ago.

MuniFin obtains all of its funding in the international capital markets, and the company benefits from the excellent reputation of Finland and the Finnish municipal sector. In the capital markets, MuniFin is a well-known and an active issuer: a total of 84 long-term funding transactions were concluded in the period of January–June 2019 (118).

The focus in MuniFin's funding has been on the public market. In January–June 2019, EUR 3,432 million was acquired in long-term funding (EUR 3,985 million). Benchmark bonds were issued in both euros and US dollars. The USD one billion benchmark bond issued in March was three times oversubscribed within an hour, which makes it the company's most popular benchmark bond in the dollar market in terms of the size of the order book. At the end of June 2019, the total funding portfolio amounted to EUR 31,822 million (EUR 30,856 million).

As part of its refinancing risk management, the company issued bonds denominated overall in 9 different currencies in the first half of 2019 (9). In addition to currencies, funding is dispersed across various markets, maturities, and investor groups. The company applies conservative principles in its risk management and all market risks related to funding are hedged using derivative contracts.

Besides diversification, MuniFin's funding strategy is based on reliability, speed, and flexibility. The majority of funding is carried out as standardised issuance under debt programmes.

The company's liquidity remained excellent during the first half of 2019. MuniFin's investment activities involve assets that are used for the company's liquidity management. The investments aim to minimise the expenditure caused by the need to fulfil liquidity requirements. The funds are invested in liquid and highly rated financial instruments in order to ensure business continuity under all market conditions.

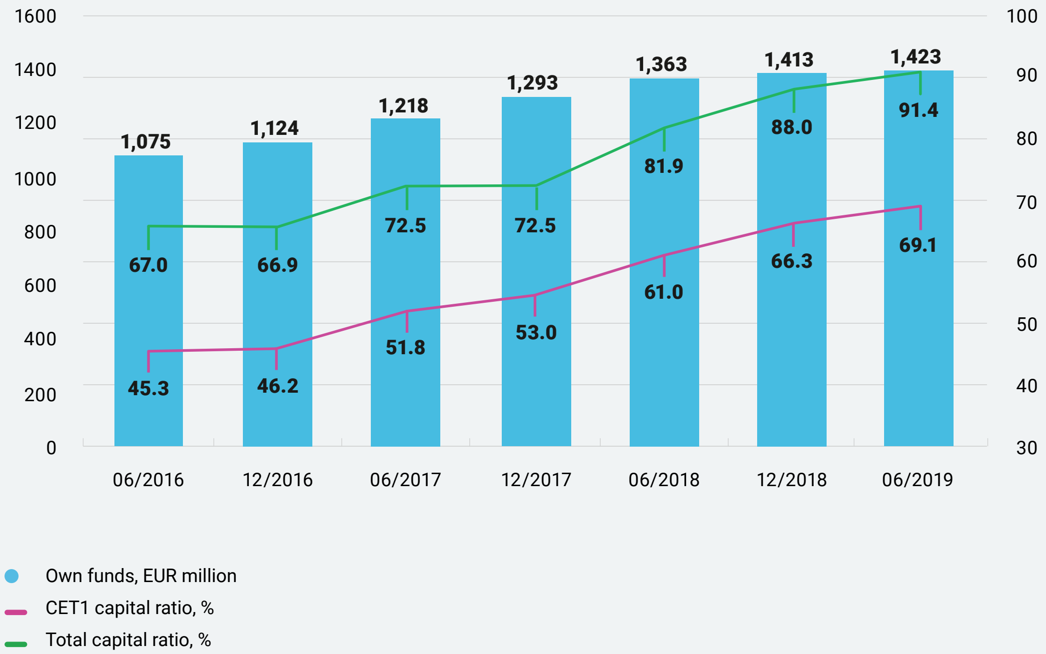
At the end of June 2019, the company's liquid funds amounted to EUR 8,554 million (EUR 8,722 million). Investments in securities totalled EUR 5,034 million (EUR 5,146 million), and their average credit rating was AA (AA). The average maturity of the security portfolio stood at 2.3 years at the end of June (2.1 years).

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+

The credit ratings of MuniFin are the same as those of the government of Finland. The credit ratings did not change in the review period.

Own funds and capital adequacy

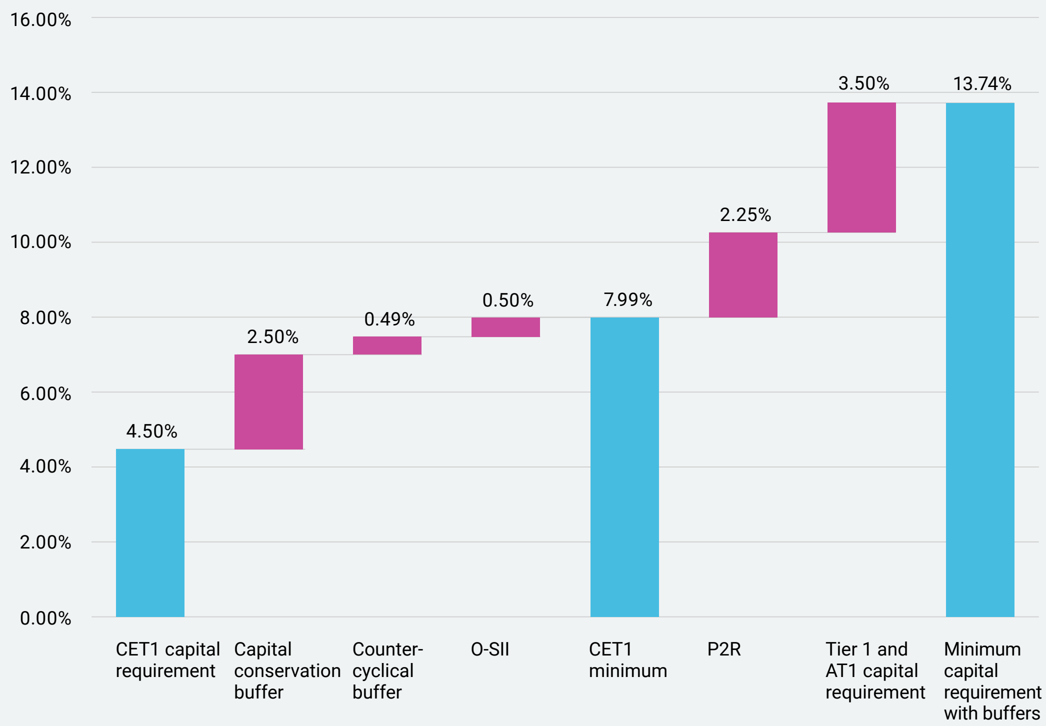


Capital Adequacy

Municipality Finance Group

The Group's total capital ratio was 91.4% at the end of June 2019 (88.0%), and its CET1 capital ratio was 69.1% (66.3%). The total capital ratio increased from the end of 2018 by 3.4 percentage points mainly due to decreased risk exposure amount. The Group's capital adequacy has remained strong and clearly above the statutory requirements and the minimum capital adequacy requirements set by the authorities. MuniFin's own funds exceed the minimum requirement set in legislation by EUR 1,244 million (EUR 1,221 million), taking valid capital buffers into account.

Minimum capital requirements and capital buffers 30 June 2019



The minimum capital requirement for capital adequacy is 8% and for CET1 capital adequacy, 4.5%. Under the Act on Credit Institutions, the capital conservation buffer is 2.5% and, for MuniFin, the additional capital requirement for other systemically important credit institutions (O-SII) is 0.5%. The Finnish Financial Supervisory Authority decides on a countercyclical capital buffer requirement on a quarterly basis. In June 2019, it decided not to impose a countercyclical capital buffer. For MuniFin, the credit institution-specific countercyclical capital buffer requirement imposed based on the geographical distribution of exposures is 0.49%. Therefore, the minimum requirement for CET1 capital ratio is 7.99% and the minimum requirement for total capital ratio is 11.49%. In addition to the above, as part of the annual supervisor's review (SREP), the European Central Bank has imposed an additional capital requirement of 2.25% (P2R) on MuniFin, effective from 1 March 2019. At the end of June 2019, the minimum level of CET1 capital ratio was 10.24% when taking account of the P2R additional capital requirement, and the minimum level of total capital ratio was 13.74%.

In June 2018, the Financial Supervisory Authority made a macroprudential decision on structural additional capital requirements, and an additional capital requirement of 1.5% based on a systemic risk buffer was set for MuniFin. This new requirement became effective on 1 July 2019. The systemic risk buffer and the O-SII additional capital requirement are parallel buffers, of which the greater is applied. The systemic risk buffer requirement is reviewed annually, and the Financial Supervisory Authority confirmed in June 2019 that it would maintain MuniFin's requirement also effective on 1 July 2020. From the beginning of July 2019, the new minimum level of CET1 capital ratio will be 11.24% when taking account of the P2R additional capital requirement, and the minimum level of total capital ratio will be 14.74%.

CONSOLIDATED OWN FUNDS (EUR 1,000)	30 Jun 2019	31 Dec 2018
Common Equity Tier 1 before adjustments	1,136,028	1,118,171
Adjustments to Common Equity Tier 1	-60,234	-52,715
COMMON EQUITY TIER 1 (CET1)	**1,075,794**	**1,065,455**
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)	**1,423,248**	**1,412,909**
Tier 2 capital before adjustments	-	-
Adjustments to Tier 2 capital	-	-
TIER 2 CAPITAL (T2)	**-**	**-**
TOTAL OWN FUNDS	**1,423,248**	**1,412,909**

The Group's Common Equity Tier 1 (CET1) capital at the end of the review period totalled EUR 1,076 million (EUR 1,065 million), and Tier 1 capital amounted to EUR 1,423 million (EUR 1,413 million). There was no Tier 2 capital, and the Group's own funds totalled EUR 1,423 million (EUR 1,413 million). Common Equity Tier 1 capital includes the net profit for the period of 1 January–30 June 2019 as the result for the period has been subject to a 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.

CONSOLIDATED MINIMUM REQUIREMENT FOR OWN FUNDS (EUR 1,000)	30 Jun 2019		31 Dec 2018	
	Capital requirement	Risk exposure amount	Capital requirement	Risk exposure amount
Credit and counterparty risk, standardised approach	**69,307**	**866,340**	**78,128**	**976,596**
Exposures to regional governments or local authorities	150	1,878	353	4,413
Exposures to public sector entities	1,729	21,608	4,807	60,086
Exposures to multilateral development banks	526	6,580	951	11,884
Exposures to institutions	44,675	558,440	52,470	655,875
Exposures in the form of covered bonds	19,315	241,436	18,986	237,323
Items representing securitisation positions	763	9,543	13	165
Exposures in the form of shares in CIUs	81	1,009	88	1,103
Other items	2,068	25,846	460	5,746
Market risk	**3,341**	**41,762**	**-**	**-**
Credit valuation adjustment risk (CVA VaR), standard method	**18,090**	**226,121**	**19,722**	**246,528**
Operational risk, basic indicator approach	**33,841**	**423,016**	**30,644**	**383,048**
Total	**124,579**	**1,557,240**	**128,494**	**1,606,172**

The Group's risk exposure amount decreased by 3% from the end of 2018 and amounted to EUR 1,557 million at the end of the review period (EUR 1,606 million). The overall credit and counterparty risk decreased from the year-end 2018 figure of EUR 977 million to EUR 866 million at the end of the review period. This was particularly influenced by decreases in the amount of liquid assets and risk weights. The market risk consists of foreign currency position and increased to EUR 42 million. The currency position was less than 2% of own funds and therefore, based on Article 351 of the Capital Requirements Regulation (CRR), the own funds requirement for market risk has not been calculated.
The credit valuation adjustment risk (CVA VaR) decreased to EUR 226 million (EUR 247 million). The amount of derivatives cleared under central counterparty clearing has increased significantly during the reporting period, which in turn decreased the exposure value of the derivatives under the credit valuation adjustment risk. The counter value of operational risk increased by 10.4% to EUR 425 million due to an increase in the profit indicator (EUR 383 million).

Concurrently, in addition to the Half Year Report, the Municipality Finance Group publishes a separate Pillar III disclosure report on capital adequacy and risk management, which is available in English on the company's website.

OWN FUNDS, PARENT COMPANY (EUR 1,000)	30 Jun 2019	31 Dec 2018
Common Equity Tier 1 before adjustments	1,134,534	1,117,133
Adjustments to Common Equity Tier 1	-60,264	-52,769
COMMON EQUITY TIER 1 (CET1)	**1,074,270**	**1,064,363**
Additional Tier 1 capital before adjustments	348,649	348,406
Adjustments to Additional Tier 1 capital	-	-
ADDITIONAL TIER 1 CAPITAL (AT1)	**348,649**	**348,406**
TIER 1 CAPITAL (T1)	**1,422,919**	**1,412,770**
Tier 2 capital before adjustments	-	-
Adjustments to Tier 2 capital	-	-
TIER 2 CAPITAL (T2)	**-**	**-**
TOTAL OWN FUNDS	**1,422,919**	**1,412,770**

The Parent Company

The Parent Company's total capital ratio was 93.4% at the end of June 2019 (89.4%), and its CET1 capital ratio was 70.5% (67.3%). CET1 capital at the end of the review period totalled EUR 1,074 million (EUR 1,064million), and Tier 1 capital amounted to EUR 1,423million (EUR 1,413 million). There was no Tier 2 capital, and the Group's own funds totalled EUR 1,423 million (EUR 1.413 million).

MINIMUM REQUIREMENT FOR OWN FUNDS, PARENT COMPANY (EUR 1,000)	30 Jun 2019		31 Dec 2018	
	Capital requirement	Risk exposure amount	Capital requirement	Risk exposure amount
Credit and counterparty risk, standardised approach	**69,337**	**866,713**	**78,249**	**978,115**
Exposures to regional governments or local authorities	150	1,878	353	4,413
Exposures to public sector entities	1,729	21,608	4,807	60,086
Exposures to multilateral development banks	526	6,580	951	11,884
Exposures to institutions	44,664	558,297	52,466	655,825
Exposures in the form of covered bonds	19,315	241,436	18,986	237,323
Items representing securitisation positions	763	9,543	13	165
Exposures in the form of shares in CIUs	81	1,009	88	1,103
Equity exposure	131	1,639	131	1,639
Other items	1,978	24,722	454	5,676
Market risk	**3,341**	**41,762**	**-**	**-**
Credit valuation adjustment risk (CVA VaR), standardised method	**18,090**	**226,121**	**19,722**	**246,528**
Operational risk, basic indicator approach	**31,081**	**388,508**	**28,487**	**356,092**
Total	**121,848**	**1,523,105**	**126,459**	**1,580,735**

Leverage ratio and liquidity coverage ratio

The leverage ratio of MuniFin at the end of the review period was 3.99% (4.06%), calculated using currently valid calculation principles. The decrease in leverage ratio was effected by the negative unrealised fair value changes in the review period. The minimum leverage ratio is 3% and the requirement will be effective in June 2021.

At the end of June, the liquidity coverage ratio (LCR) was 207% (177%). The minimum LCR requirement is 100%.

MuniFin is also preparing for the Net Stable Funding Ratio (NSFR), which will take effect in June 2021.

Future changes in capital requirements regulation

The long-prepared changes in bank capital adequacy regulations were adopted (CRR II and CRD V) by the European Parliament in April 2019 and, to a large extent, these changes will be applicable in June 2021. This change package also includes a leverage ratio requirement, whereby a credit institution's leverage ratio must be at least 3%. MuniFin has been preparing for several years for the introduction of the leverage ratio requirement, and its leverage ratio exceeds the required 3%, being 3.99% at the end of June (4.06%).

According to adopted regulations, a public development credit institution may, from June 2021, deduct in the calculation of leverage ratio all receivables from central government and regional government. The change is expected to have a positive impact on MuniFin's leverage ratio. The final effects of the change will be clarified after possible discussions with ECB, the supervisory authority. The effects of the other changes included in the change package to the leverage ratio have been assessed to be limited.

The change package is not expected to substantially alter MuniFin's capital adequacy position. MuniFin's CET1 ratio at the end of June was very high at 69.1%; even after the change package, the CET1 ratio is estimated to remain at a very high level.

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 has decided for the time being not to impose a binding Minimum Requirement for own funds and Eligible Liabilities (MREL) on MuniFin, but considers that, taking into account MuniFin's business model, any crisis situations of the company are governed by national insolvency proceedings. The decision is positive for MuniFin, and it identifies well the specificities of the company's business operations, such as the Municipal Guarantee Board's guarantee for bonds issued by the company. The SRB has preliminary estimated that later on MuniFin may be imposed with a binding Minimum Requirement that will correspond with the company's capital adequacy requirement and the binding buffer requirements related to it.

Risk Management

MuniFin's operations require sufficient risk management mechanisms to ensure that the company's risk position remains within the limits confirmed by the Board of Directors. MuniFin applies conservative principles in its risk management. The aim is to keep the overall risk status at such a low level that the company's strong credit rating is not compromised.

The significant risks associated with the Group's operations are credit and counterparty risk, market risk and liquidity risk. All operations also involve material strategic risks and operational risks, including compliance risk.

The Group's risk position

There were no material changes in the company's risk appetite in the first half of 2019. Risks remained within the limits set during the review period, and the risk position remained stable. The IFRS 9 standard adopted at the beginning of 2018 has increased the volatility of financial results through unrealised fair value changes of financial instruments. The company continuously monitors and analyses the volatility arising from valuations and prepares for any impacts it may have on profit and capital adequacy.

Credit risks are part of MuniFin's business. Due to the nature of the customer base the credit risks are minor but it is impossible to entirely eliminate them from operations. MuniFin's credit risks primarily emerge from customer financing and the receivables of the liquidity portfolio and the derivatives portfolio. MuniFin offers to its customers derivatives for hedging purposes to cover their interest rate risk positions. MuniFin has made offsetting derivatives in the interbank market. Derivatives are only used for hedging against market risks. MuniFin's credit risk position remained at a stable low risk level during the review period. The amount of expected credit losses declined during the first half of the year, and a EUR 0.1 million change in expected credit losses on financial assets was recognised through profit or loss at the end of June. The amount of forborne loans at the end of the review period was EUR 47 million, which is EUR 14 million less than at the end of 2018. At the end of reporting period MuniFin had non-performing exposures of EUR 28 million to which MuniFin has absolute guarantees by municipalities. Non-performing exposures represented 0.1% of total customer exposures.

Market risks include interest rate, exchange rate, and other market and price risks. MuniFin manages the interest rate risk arising from business operations by means of derivatives. Interest rate risk mainly arises from the differences in the interest rate types applicable to the receivables and liabilities in the balance sheet. Interest rate risk is actively monitored and hedged. The company hedges against exchange rate risks by using derivative contracts to swap all foreign currency denominated funding and investments into euros. The company is not in practice exposed to exchange rate risks in its operations. However, 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 risks. Derivatives can only be used for hedging purposes as MuniFin is not engaged in trading activities. The Group's market risk has remained stable, even though the profit and loss volatility of unrealised valuations of financial instruments has increased during the review period due to the adoption of IFRS 9.

MuniFin manages the refinancing risk by limiting the average maturity between financial assets and liabilities. In addition, the company manages the liquidity risk by setting a limit for the minimum adequacy of the available short- and long-term liquidity. Survival horizon ratio was 16.0 months (13.2 months) at the end of reporting period. MuniFin's liquidity is good and the availability of financing has remained solid during the review period. In January–June 2019, EUR 3,432 million was issued in long-term funding (EUR 3,985 million).

Operational risks are estimated to be at a moderate level. No material losses were incurred as a result of operational risks in the first half of 2019.

Governance

In addition to corporate legislation, MuniFin complies with the governance requirements of the Finnish Act on Credit Institutions. The company's governance policy is described in more detail on the company's website.

Upon the publication of the Annual Report, MuniFin publishes a Corporate Governance Statement on its website, pursuant to Chapter 7, Section 7 of the Finnish Securities Market Act. The statement is separate from the Report of the Board of Directors and includes a description of the main features of the internal audit and risk management systems pertaining to the financial reporting process. The statement also includes the governance descriptions required by the Act on Credit Institutions and information on how the company complies with the Finnish Corporate Governance Code for listed companies published by the Finnish Securities Market Association.

Since MuniFin is exclusively an issuer of listed bonds and its shares are not subject to public trading, it is not appropriate to directly apply this Code with respect to MuniFin. However, the company has used the Finnish Corporate Governance Code as the basis for preparing its own internal Corporate Governance Policy.

Group Structure

The Municipality Finance Group consists of Municipality Finance Plc (MuniFin or the company) and Financial Advisory Services Inspira Ltd (Inspira). MuniFin owns 100% of Inspira.

General Meeting

The Annual General Meeting (AGM) of MuniFin was held on 28 March 2019. The AGM confirmed the financial statements for 2018 and discharged the members of the Board of Directors, the CEO and the Deputy CEO from liability for the financial year 2018. In addition, in accordance with the proposal of the Board of Directors, the AGM decided that a dividend of EUR 0.16 per share (EUR 0.16 per share) will be paid, amounting to a total of EUR 6,250,207.68 (EUR 6,250,207.68), and the remaining part of distributable funds of EUR 127,617,814.70 (EUR 89,206,444.47) will be retained in equity.

Based on the proposal of the Shareholders' Nomination Committee, the AGM appointed the Board of Directors for the 2019–2020 term of office (from the 2019 AGM to the end of the subsequent AGM). The AGM also confirmed the proposal of the Shareholders' Nomination Committee on the remuneration of Board members.

In addition, the meeting elected KPMG Oy Ab as the auditor of the company, with Tiia Kataja, APA, as the principal auditor. In the previous financial year, the principal auditor was Marcus Tötterman. According to the audit rotation rules, Marcus Tötterman had the maximum number of years as the principal auditor of the company.

Board of Directors

On 28 March 2019, the AGM decided that MuniFin's Articles of Association were to be amended so that the maximum number of ordinary members of the company's Board of Directors is nine. Under the previous Articles of Association, the Board of Directors had a maximum of eight members. At the same time, the Shareholders' Nomination Committee made a proposal to the meeting regarding the Board members to be elected for the term that began at the end of the 2019 AGM and concludes at the end of the following AGM.

The AGM elected the following members to the Board of Directors: Maaria Eriksson, Raija-Leena Hankonen, Minna Helppi, Markku Koponen, Jari Koskinen, Kari Laukkanen, Vivi Marttila, Tuula Saxholm and Helena Walldén. The term of Raija-Leena Hankonen started when the amendment to the Articles of Association concerning the number of Board members was registered at the Register of Companies.

The Board of MuniFin nominated Helena Walldén as the Chair of the Board and Tuula Saxholm as the Vice Chair. In order to organise its work as efficiently as possible, the Board of MuniFin has established Audit, Risk and Remuneration Committees for assistance and the preparation of matters. The members of the Audit Committee are Markku Koponen (Chair), Raija-Leena Hankonen, Kari Laukkanen, and Vivi Marttila. The members of the Risk Committee are Kari Laukkanen (Chair), Maaria Eriksson, Raija-Leena Hankonen, and Minna Helppi. The members of the Remuneration Committee are Helena Walldén (Chair), Markku Koponen, Jari Koskinen, and Tuula Saxholm.

From the 2018 AGM to the 2019 AGM, the members of the Board of Directors were: Helena Walldén (Chair), Tuula Saxholm (Vice-Chair), Fredrik Forssell, Minna Helppi, Markku Koponen, Jari Koskinen, Kari Laukkanen, and Vivi Marttila.

The operations of the Board of Directors and its committees are described in more detail on the company's website.

Personnel

At the end of June 2019, the Municipality Finance Group had 163 employees (2018: 151). The increase in the amount of employees was as planned. The President and CEO of MuniFin is Esa Kallio, with Mari Tyster, Executive Vice President, acting as the deputy for the President and CEO. In addition, the Executive Management Team of MuniFin includes Executive Vice Presidents Toni Heikkilä, Rainer Holm, Joakim Holmström, and Harri Luhtala.

During the operating period, Harri Luhtala was appointed as the new CFO and a member of MuniFin Executive Management Team in May 2019 after Marjo Tomminen had resigned from her position. Aku Dunderfelt was appointed as the Executive Vice President, Customer Finance and began his new role in August 2019. Mr. Dunderfelt was appointed after Jukka Helminen had resigned from the company's service.

Internal Audit

Internal audit is tasked with monitoring the reliability and accuracy of MuniFin's financial and other management information. Other tasks include ensuring that the company has sufficient and appropriately organised manual and IT systems for its operations, and that the risks associated with the operations are adequately managed.

Events after the review period

In early July, MuniFin issued its third publicly traded green benchmark bond targeted to finance environmental projects. The EUR 500 million bond was highly sought after, which is an indication of the MuniFin's active work and long-term commitment in investor cooperation, as well as the strong market interest in green investments.

Outlook for the second half of 2019

The continued growth of the Finnish economy seems dubious while at the same time there are many uncertainty factors related to the international economy. Particularly concerns focus on the trade war between the US and China, while in Europe Brexit is the major cause for concern. For the time being however, these are not expected to significantly affect the funding or financing activities of MuniFin.

The preparations for the health and social services reform were discontinued during the term of the previous Finnish government. The new government, which started in June, has included the reform in its task list, but the content and timing of the legislative proposals concerning the reform are not yet known. For this reason, evaluating the overall effects that the reform will have on MuniFin's customer base or the company's own operations continues to be a challenge. However, the reform is not expected to have a fundamental impact on MuniFin's operating volumes in 2019.

MuniFin continues to significantly invest in the development of its service offering and systems to further improve the customer experience and to enhance efficiency of its operations. Due to personnel increases and the development of IT systems, MuniFin expects that expenses will be higher in 2019 than in the previous year.

Considering the above-mentioned circumstances and assuming that there are no major changes in the development of market interest rates and credit risk premiums when compared to market expectations, MuniFin estimates its net operating profit excluding unrealised fair value changes to remain at the same level as in 2018 or decrease, even though MuniFin's net operating profit excluding unrealised fair value changes was better than anticipated in the first half of 2019. The IFRS 9 standard adopted at the beginning of 2018 has significantly increased unrealised fair value changes recognised in profit and loss and in equity, which respectively increases the volatility of net operating profit.

The estimates presented herein are based on the current views in relation to the development of the operating environment and MuniFin's operations.

Helsinki 15 August 2019
Municipality Finance Plc
Board of Directors

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

The Group's Development

Net interest income
117.2
EUR million

Lending portfolio
23.0
EUR billion

Balance sheet total
37.0
EUR billion

Number of employees
163
persons

THE GROUP'S DEVELOPMENT	30 Jun 2019	31 Dec 2018	30 Jun 2018
Turnover (EUR million)	348.3	714.0	391.5
Net interest income (EUR million)	117.2	236.3	118.0
% of turnover	33.6	33.1	30.1
Net operating profit (EUR million)	33.7	190.0	124.4
% of turnover	9.7	26.6	31.8
Cost-to-income ratio	0.46	0.19	0.16
Return on Equity (ROE), %	3.60	10.76	14.56
Return on Assets (ROA), %	0.15	0.43	0.57
Lending portfolio (EUR million)	23,019	22,354	21,508
Total funding acquired (EUR million)	31,822	30,856	30,633
Total balance sheet (EUR million)	36,956	35,677	35,521
Equity ratio, %	4.07	4.17	3.92
CET1 capital (EUR million)	1,076	1,065	1,016
Tier 1 capital (EUR million)	1,423	1,413	1,363
Total own funds (EUR million)	1,423	1,413	1,363
CET1 capital ratio, %	69.1	66.3	61.0
Tier 1 capital ratio, %	91.4	88.0	81.9
Total capital ratio, %	91.4	88.0	81.9
Leverage ratio, %	3.99	4.06	3.97
Personnel	163	151	147

OTHER ALTERNATIVE PERFORMANCE MEASURES	30 Jun 2019	30 Jun 2018
Net interest income including AT1 capital loan interest (EUR million)	109.2	109.9
Expenses (EUR million)	30.6	26.0
Income (EUR million)	64.2	150.5
Unrealised fair value changes (EUR million)	-56.3	31.7
Cost-to-income ratio excluding unrealised fair value changes	0.24	0.21
Net operating profit excluding unrealised fair value changes (EUR million)	90.0	92.7

	30 Jun 2019	31 Dec 2018
Return on Equity (ROE) excluding unrealised fair value changes, %	9.63	10.74
Return on Equity (ROE) at fair value, %	5.13	14.79

Calculation of key figures

Turnover
Interest and similar income + commission income + net income from securities and foreign exchange transactions + Net income on financial assets at fair value through fair value reserve + net income from hedge accounting + other operating income

Net interest income including AT1 capital loan interest
Interest and similar income - interest and similar expenses - AT1 capital loan interest in the parent company

Unrealised fair value changes
Net income from securities and foreign exchange transactions, fair value changes + net income from hedge accounting

Cost-to-income ratio
$$\frac{\text{Administrative expenses + depreciation + other operating expenses}}{\text{Net interest income + net commission income + net income from securities and foreign exchange transactions + net income on financial assets at fair value through fair value reserve + net income from hedge accounting + other operating income}}$$

Cost-to-income ratio excluding unrealised fair value changes
$$\frac{\text{Administrative expenses + depreciation + other operating expenses}}{\text{Net interest income + net commission income + net income from securities and foreign exchange transactions + net income on financial assets at fair value through fair value reserve + net income from hedge accounting + other operating income – unrealised fair value}}$$

Effective tax rate
$$\frac{\text{Taxes}}{\text{Net operating profit}} \times 100$$

Lending portfolio
Loans and advances to the public and public sector entities - leasing receivables

Total funding acquired
Liabilities to credit institutions + liabilities to the public and public sector entities + Debt securities issued - CSA collateral (received)

Return on equity (ROE), %

$$\frac{\text{Net operating profit – taxes}}{\text{Equity and non-controlling interest (average of values at the beginning and end of the reporting period)}} \times 100$$

Return on equity (ROE) excluding unrealised fair value changes, %

$$\frac{\text{Net operating profit excluding unrealised fair value changes – taxes}}{\text{Equity and non-controlling interest (average of values at the beginning and end of the reporting period)}} \times 100$$

Return on equity (ROE) at fair value, %

$$\frac{\text{Total comprehensive income for the period}}{\text{Equity and non-controlling interest (average of values at the beginning and end of the reporting period)}} \times 100$$

Return on assets (ROA), %

$$\frac{\text{Net operating profit – taxes}}{\text{Average balance sheet total (average of values at the beginning and end of the reporting period)}} \times 100$$

Equity ratio, %

$$\frac{\text{Equity and non-controlling interest}}{\text{Balance sheet total}} \times 100$$

CET1 capital ratio, %

$$\frac{\text{Common Equity Tier 1 (CET1) capital}}{\text{Risk exposure amount}} \times 100$$

Tier 1 capital ratio, %

$$\frac{\text{Tier 1 capital}}{\text{Risk exposure amount}} \times 100$$

Total capital ratio, %

$$\frac{\text{Total own funds}}{\text{Risk exposure amount}} \times 100$$

Leverage ratio, %

$$\frac{\text{Tier 1 capital}}{\text{Total exposure}} \times 100$$

Liquidity coverage ratio (LCR), %

$$\frac{\text{Liquid assets}}{\text{Liquidity outflows - liquidity inflows in a stress situation}} \times 100$$

Alternative Performance Measures

The alternative performance measures required by the European Securities and Markets Authority (ESMA) are presented to illustrate the financial performance of business operations and to improve comparability between reporting periods.

FIGURES ARE IN MILLION EUR.	1 Jan–30 Jun 2019	1 Jan–30 Jun 2018
Interest and similar income (incl. lease assets)	401.3	359.0
Commission income	2.1	1.2
Net income from securities and foreign exchange transactions	-28.8	-6.5
Net income on financial assets at fair value through fair value reserve	0.1	0.0
Net income from hedge accounting	-26.5	37.8
Other operating income	0.1	0.0
Turnover	**348.3**	**391.5**
Interest and similar income (incl. lease assets)	401.3	359.0
Interest and similar expenses	-284.1	-241.0
AT1 capital loan interest in the parent company	-8.0	-8.1
Net interest income including AT1 capital loan interest	**109.2**	**109.9**
Commission expenses	2.0	2.0
Administrative expenses	15.7	13.1
Depreciation and impairment on tangible and intangible assets	2.1	1.2
Other operating expenses	10.9	9.7
Costs	**30.6**	**26.0**

FIGURES ARE IN MILLION EUR.	1 Jan–30 Jun 2019	1 Jan–30 Jun 2018
Net interest income	117.2	118.0
Commission income	2.1	1.2
Net income from securities and foreign exchange transactions	-28.8	-6.5
Net income on financial assets at fair value through fair value reserve	0.1	0.0
Net income from hedge accounting	-26.5	37.8
Other operating income	0.1	0.0
Income	**64.2**	**150.5**
Net income from securities and foreign exchange transactions, fair value changes	-29.8	-6.1
Net income from hedge accounting	-26.5	37.8
Unrealised fair value changes	**-56.3**	**31.7**
Costs (excl. commission expenses)	28.6	24.0
Income (incl. net commission income)	62.4	147.6
Cost-to-income ratio	**0.46**	**0.16**
Costs	28.6	24.0
Income	62.4	147.6
Net income from securities and foreign exchange transactions, fair value changes	-29.8	-6.1
Net income from hedge accounting	-26.5	37.8
Income excluding unrealised fair value changes	118.7	115.9
Cost-to-income ratio excluding unrealised fair value changes	**0.24**	**0.21**
Net operating profit	33.7	124.4
Net income from securities and foreign exchange transactions, fair value changes	-29.8	-6.1
Net income from hedge accounting	-26.5	37.8
Net operating profit excluding unrealised fair value changes	**90.0**	**92.7**

FIGURES ARE IN MILLION EUR.	30 Jun 2019	31 Dec 2018
Liabilities to credit institutions	1,071	823
Liabilities to the public and public sector entities	3,949	3,871
Debt securities issued	27,807	26,902
Total	32,826	31,595
- CSA-collateral (received)	-1,004	-739
Total funding acquired	**31,822**	**30,856**
Net operating profit	33.7	190.0
Taxes	-6.8	-38.0
Equity and non-controlling interest (average of values at the beginning and end of the reporting period)	1,495.8	1,412.7
Return on equity (ROE), %	**3.60%**	**10.76%**
Total comprehensive income for the period	38.3	209.0
Equity and non-controlling interest (average of values at the beginning and end of the reporting period)	1,495.8	1,412.7
Return on equity (ROE) at fair value, %	**5.13%**	**14.79%**
Net operating profit excluding unrealised fair value changes	90.0	189.6
Taxes	-18.0	-37.9
Equity and non-controlling interest (average of values at the beginning and end of the reporting period)	1,495.8	1,412.7
Return on equity (ROE) excluding unrealised fair value changes, %	**9.63%**	**10.74%**
Net operating profit	33.7	190.0
Taxes	-6.8	-38.0
Average balance sheet total (average of values at the beginning and end of the reporting period)	36,316.2	35,207.4
Return on assets (ROA), %	**0.15%**	**0.43%**
Equity	1,505.5	1,486.1
Non-controlling interest	-	-
Balance sheet total	36,955.6	35,676.7
Equity ratio, %	**4.07%**	**4.17%**

Capital adequacy ratios

FIGURES ARE IN MILLION EUR.	30 Jun 2019	31 Dec 2018
Common Equity Tier 1 (CET1) capital	1,075.8	1,065.5
Risk exposure amount	1,557.2	1,606.2
CET1 capital ratio, %	**69.1%**	**66.3%**
Tier 1 capital	1,423.2	1,412.9
Risk exposure amount	1,557.2	1,606.2
Tier 1 capital ratio, %	**91.4%**	**88.0%**
Total own funds	1,423.2	1,412.9
Risk exposure amount	1,557.2	1,606.2
Total capital ratio, %	**91.4%**	**88.0%**
Tier 1 capital	1,423.2	1,412.9
Total exposure	35,701.5	34,832.4
Leverage ratio, %	**3.99%**	**4.06%**

Municipality Finance Group's Half Year Report

1 January–30 June 2019

Consolidated income statement

(EUR 1,000)	Note	1 Jan–30 Jun 2019	1 Jan–30 Jun 2018
Interest and similar income	(2)	401,302	358,990
Interest and similar expense	(2)	-284,107	-240,989
NET INTEREST INCOME		**117,195**	**118,001**
Commission income		2,093	1,169
Commission expense		-1,988	-1,969
Net income from securities and foreign exchange transactions	(3)	-28,780	-6,541
Net income on financial assets at fair value through fair value reserve		112	7
Net income from hedge accounting	(4)	-26,501	37,821
Other operating income		77	45
Administrative expenses		-15,654	-13,138
Depreciation and impairment on tangible and intangible assets		-2,058	-1,158
Other operating expenses		-10,850	-9,741
Credit losses on financial assets at amortised cost	(8)	33	-173
Credit losses and impairments on other financial assets	(8)	46	44
NET OPERATING PROFIT		**33,724**	**124,368**
Income tax expense		-6,763	-24,907
PROFIT FOR THE PERIOD		**26,961**	**99,461**

Statement of comprehensive income

(EUR 1,000)	Note	1 Jan–30 Jun 2019	1 Jan–30 Jun 2018
Profit for the period		26,961	99,461
Components of other comprehensive income			
Items not to be reclassified to profit or loss in subsequent periods			
Net fair value changes due to changes in own credit risk on financial liabilities designated at fair value through profit or loss	(3)	13,893	3,660
Net change in Cost-of-Hedging	(4)	-346	19,984
Items to be reclassified to profit or loss in subsequent periods			
Net change in fair value on financial assets at fair value through the fair value reserve		815	-3,058
Net amount transferred to profit or loss from fair value reserve		-97	-20
Net changes in expected credit loss of debt instruments at fair value through other comprehensive income		-46	-44
Taxes related to components of other comprehensive income		-2,844	-4,104
Total of components of other comprehensive income		11,375	16,418
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**38,337**	**115,878**

Consolidated statement of financial position

(EUR 1,000)	Note	30 Jun 2019	31 Dec 2018
ASSETS			
Cash and balances with central banks		3,470,308	3,522,200
Loans and advances to credit institutions		1,201,906	1,380,544
Loans and advances to the public and public sector entities		23,719,133	22,968,118
Debt securities		5,949,146	5,862,591
Shares and participations		9,855	9,521
Derivative contracts	(7)	2,200,434	1,538,610
Intangible assets		17,100	14,850
Tangible assets		10,044	2,427
Other assets		170,578	174,818
Accrued income and prepayments		207,070	203,061
TOTAL ASSETS	**(5, 6)**	**36,955,574**	**35,676,739**

(EUR 1,000)	Note	30 Jun 2019	31 Dec 2018
LIABILITIES AND EQUITY			
LIABILITIES			
Liabilities to credit institutions		1,070,751	822,504
Liabilities to the public and public sector entities		3,948,995	3,870,918
Debt securities issued	(9)	27,806,579	26,901,998
Derivative contracts	(7)	2,121,762	2,205,427
Other liabilities		109,830	6,149
Accrued expenses and deferred income		160,353	148,377
Deferred tax liabilities		231,758	235,307
TOTAL LIABILITIES	**(5, 6)**	**35,450,029**	**34,190,680**
EQUITY			
Share capital		42,583	42,583
Reserve fund		277	277
Fair value reserve of investments		1,264	726
Own credit revaluation reserve		15,840	4,726
Cost-of-Hedging reserve	(4)	13,959	14,235
Reserve for invested non-restricted equity		40,366	40,366
Retained earnings		1,043,803	1,035,692
Total equity attributable to parent company equity holders		**1,158,092**	**1,138,605**
Other equity instruments issued	**(10)**	**347,454**	**347,454**
TOTAL EQUITY		**1,505,545**	**1,486,059**
TOTAL LIABILITIES AND EQUITY		**36,955,574**	**35,676,739**

Consolidated statement of changes in equity

(EUR 1,000)	Total equity attributable to parent company equity holders								Other equity instruments issued	Total equity
	Share capital	Reserve fund	Fair value reserve of investments	Own credit revaluation reserve	Cost-of-Hedging reserve	Reserve for invested non-restricted equity	Retained earnings	Total		
EQUITY AT 31 DECEMBER 2018	**42,583**	**277**	**726**	**4,726**	**14,235**	**40,366**	**1,035,692**	**1,138,605**	**347,454**	**1,486,059**
Interest paid on Additional Tier 1 capital loan	-	-	-	-	-	-	-12,600	**-12,600**	-	**-12,600**
Dividends paid for 2018	-	-	-	-	-	-	-6,250	**-6,250**	-	**-6,250**
Profit for the period	-	-	-	-	-	-	26,961	**26,961**	-	**26,961**
Components of other comprehensive income net of tax										
Items not to be reclassified to profit or loss in subsequent periods										
Net change in fair value due to own credit risk on financial liabilities designated at fair value	-	-	-	11,114	-	-	-	**11,114**	-	**11,114**
Net change in Cost-of-Hedging	-	-	-	-	-277	-	-	**-277**	-	**-277**
Items to be reclassified to profit or loss in subsequent periods										
Net change in fair value of financial assets at fair value through other comprehensive income	-	-	652	-	-	-	-	**652**	-	**652**
Net amount reclassified to the income statement on the sales of financial assets at fair value through other comprehensive income	-	-	-78	-	-	-	-	**-78**	-	**-78**
Net change in expected credit losses of financial assets at fair value through profit or loss through other comprehensive income	-	-	-37	-	-	-	-	**-37**	-	**-37**
EQUITY AT 30 JUNE 2019	**42,583**	**277**	**1,264**	**15,840**	**13,959**	**40,366**	**1,043,803**	**1,158,092**	**347,454**	**1,505,545**

	Total equity attributable to parent company equity holders									
(EUR 1,000)	Share capital	Reserve fund	Fair value reserve of investments	Own credit revaluation reserve	Cost-of-Hedging reserve	Reserve for invested non-restricted equity	Retained earnings	Total	Other equity instruments issued	Total equity
EQUITY AT 31 DECEMBER 2017	**42,583**	**277**	**28,944**	**-**	**-**	**40,366**	**879,799**	**991,969**	**347,454**	**1,339,422**
Impact of adopting IFRS 9	-	-	-23,936	-34,437	-7,919	-	22,830	-43,462	-	**-43,462**
EQUITY AT 1 JANUARY 2018 UNDER IFRS 9	**42,583**	**277**	**5,008**	**-34,437**	**-7,919**	**40,366**	**902,628**	**948,507**	**347,454**	**1,295,960**
Interest paid on Additional Tier 1 capital loan	-	-	-	-	-	-	-12,600	**-12,600**	-	**-12,600**
Dividends paid for 2017	-	-	-	-	-	-	-6,250	**-6,250**	-	**-6,250**
Acquisition of subsidiary shares	-	-	-	-	-	-	-44	**-44**	-	**-44**
Profit for the period	-	-	-	-	-	-	99,461	**99,461**	-	**99,461**
Components of other comprehensive income net of tax										
Items not to be reclassified to profit or loss in subsequent periods										
Net change in fair value due to own credit risk on financial liabilities designated at fair value	-	-	-	2,928	-	-	-	**2,928**	-	**2,928**
Net change in Cost-of-Hedging	-	-	-	-	15,987	-	-	**15,987**	-	**15,987**
Items to be reclassified to profit or loss in subsequent periods										
Net change in fair value of financial assets at fair value through other comprehensive income	-	-	-2,446	-	-	-	-	**-2,446**	-	**-2,446**
Net amount reclassified to the income statement on the sales of financial assets at fair value through other comprehensive income	-	-	-16	-	-	-	-	**-16**	-	**-16**
Net change in expected credit losses of financial assets at fair value through profit or loss through other comprehensive income	-	-	-35	-	-	-	-	**-35**	-	**-35**
EQUITY AT 30 JUNE 2018	**42,583**	**277**	**2,510**	**-31,508**	**8,068**	**40,366**	**983,195**	**1,045,491**	**347,454**	**1,392,945**

Consolidated statement of cash flows

(EUR 1,000)	1 Jan–30 Jun 2019	1 Jan–30 Jun 2018
CASH FLOW FROM OPERATING ACTIVITIES	**25,391**	**494,848**
Net change in long-term funding	568,661	125,209
Net change in short-term funding	-592,339	449,143
Net change in long-term loans	-563,799	-367,163
Net change in short-term loans	-205,192	-229,340
Net change in investments	117,053	498,402
Net change in collaterals	597,042	-82,517
Interest on assets	39,780	44,301
Interest on liabilities	74,468	74,986
Other income	27,524	24,288
Payments of operating expenses	-36,566	-34,774
Taxes paid	-1,240	-7,687
CASH FLOW FROM INVESTING ACTIVITIES	**-3,156**	**-3,073**
Acquisition of tangible assets	-39	302
Acquisition of intangible assets	-3,117	-3,374
CASH FLOW FROM FINANCING ACTIVITIES	**-22,000**	**-22,000**
Interest on AT1 capital loan and subordinated liabilities and other profit distribution	-22,000	-22,000
CHANGE IN CASH AND CASH EQUIVALENTS	**235**	**469,775**
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**3,573,206**	**3,562,733**
CASH AND CASH EQUIVALENTS AT 30 JUNE	**3,573,441**	**4,032,508**

(EUR 1,000)	30 Jun 2019	30 Jun 2018
Cash and balances with central banks	3,470,308	4,017,525
Loans and advances to credit institutions, payable on demand	103,133	14,983
TOTAL CASH AND CASH EQUIVALENTS	**3,573,441**	**4,032,508**

Notes to the Half Year Report

Note 1. Basis of preparation of the Half Year Report

The Half Year Report has been prepared in accordance with International Financial Reporting Standards (IFRS). This Half Year Report complies with IAS 34 Interim Financial Reporting and the accounting principles presented in the 2018 consolidated financial statements. Accounting principles which have been amended during the financial year 2019 due to the application of new and amended standards are explained below.

The figures in the notes to the financial statements are presented in thousand euro. All figures in the Half Year Report have been rounded, so the total of individual figures may differ from the total figure presented. The Half Year Report has been subject to a review by the auditors.

In this Half Year Report MuniFin has applied IFRS 16 Leases from 1 January 2019, for the first time. IFRS 16 replaces IAS 17 and amends the accounting requirements for lessees. The accounting requirements for lessors remain mainly unchanged. MuniFin applies IFRS 16 retrospectively with the cumulative effect recognized on initial application in accordance with IFRS 16.C5(b). This application method is also applied to the parent company as required by the Financial Supervisory Authority Regulations and Guidelines 2/2016. Consequently, the comparative information is not restated according to IFRS 16.C7.

The application of IFRS 16 impacted the treatment of leases where MuniFin is the lessee mainly in items such as office space, parking facilities and cars. These have been previously classified as operating leases according to IAS 17. The lease terms are negotiated on individual basis and they can contain extension options. Under IFRS 16, these lease liabilities have been measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate of at the date of initial application. Right-of-use assets are measured at an amount equal to lease liability at the date of initial application. Right-of-use assets are presented in the consolidated balance sheet as part of Tangible assets and lease liabilities are presented under Other liabilities. MuniFin has elected to use the following practical expedient as allowed by IFRS 16.C10(a): a single discount rate is applied to all lease liabilities. MuniFin has not utilized the other practical expedients of IFRS 16.C10 in the retrospective application of the standard. The right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Lease payments are allocated between interest expense and the deduction of the lease liability.

Impact of IFRS 16 initial application

(EUR 1,000)

31 DEC 2018	
Lease liabilities disclosed as operating leases under IAS 17	8,384
1 JAN 2019	
Lease liabilities recognized based on initial application of IFRS 16 due to different treatment of extension options	693
Impact of discounting at incremental borrowing rate	-340
Total lease liabilities recognised based on initial application of IFRS 16	**8,737**

The weighted average incremental borrowing rate utilised in the initial recognition of lease liabilities on 1 Jan 2019 was 1.35%.

At the end of the reporting period, IFRS 16 right-of-use assets totalled EUR 7,929 thousand and the lease liabilities presented within Other liabilities totalled EUR 7,955 thousand. The initial application of IFRS 16 did not impact equity.

Note 2. Interest income and expenses

1 JAN–30 JUN 2019 (EUR 1,000)	Interest and similar income	Interest and similar expense	Net
Assets			
Financial assets at amortised cost			
Cash and balances with central banks	-	-8,398	-8,398
Loans and advances to credit institutions	266	-1,981	-1,715
Loans and advances to the public and public sector entities	95,949	-	95,949
Debt securities	48	-440	-391
Other assets	78	-	78
Derivatives in hedge accounting	-38,879	-	-38,879
Financial assets at fair value through other comprehensive income			
Debt securities	0	-811	-811
Financial assets designated at fair value through profit or loss			
Debt securities	11,060	-	11,060
Financial assets mandatorily at fair value through profit or loss			
Loans and advances to the public and public sector entities	699	-	699
Debt securities	-	0	0
Derivative contracts	30,197	-43,675	-13,477
Lease assets	2,531	-	2,531
Interest on non-financial other assets	2	-	2
Interest on assets	**101,953**	**-55,304**	**46,649**

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1 JAN–30 JUN 2019 (EUR 1,000)	Interest and similar income	Interest and similar expense	Net
Liabilities			
Financial liabilities at amortised cost			
Liabilities to credit institutions	1,740	-260	1,479
Liabilities to the public and public sector entities	-	-31,150	-31,150
Debt securities issued	1,765	-183,958	-182,193
Other liabilities	-	-624	-624
Derivatives in hedge accounting	-	246,102	246,102
Financial liabilities designated at fair value through profit or loss			
Liabilities to credit institutions	-	-1,020	-1,020
Liabilities to the public and public sector entities	-	-18,180	-18,180
Debt securities issued	-	-66,225	-66,225
Financial liabilities at fair value through profit or loss			
Derivative contracts	295,845	-173,431	122,414
Interest on non-financial other liabilities	**-**	**-57**	**-57**
Interest on liabilities	**299,349**	**-228,803**	**70,546**
Grand Total	**401,302**	**-284,107**	**117,195**

Interest expenses on financial assets at amortised cost on cash and balances with central banks consist of interest paid on central bank deposits and interest on loans and advances to credit institutions of interest paid on collateral receivables. Interest expenses on debt securities consist of interest paid on municipal papers and municipal commercial papers. Derivatives shown as adjusting interest income are derivatives in hedge accounting and are used as hedges for loans and advances to the public and public sector entities. Interest expenses arise on debt securities at fair value through other comprehensive income due to the premium/discount amortisation of debt securities and commercial papers. Interest expenses on derivatives designated at fair value through profit or loss consist of interest on derivatives that are not included in hedge accounting and these are shown as gross amounts, divided into interest income and interest expenses. The derivatives contained in this line item are hedges for financial assets which are designated at fair value through profit or loss, derivatives with municipalities and derivatives hedging derivatives with municipalities, and derivatives used for hedging interest rate risk of the balance sheet, for which no hedged item has been specified.

Interest income on financial liabilities at amortised cost to credit institutions consists of interest received on collateral liabilities. Interest income on debt securities issued consists of interest received on ECPs. Derivatives shown as adjusting interest expenses are derivatives in the hedge accounting and are used as hedges for liabilities to credit institutions, liabilities to the public and public sector entities and debt securities issued. Interest income and expenses from derivatives hedging financial liabilities designated at fair value through profit or loss are shown as gross amounts, divided into interest income and interest expenses. Derivatives contained in this line item hedge financial liabilities which are designated at fair value through profit or loss.

1 JAN–30 JUN 2018 (EUR 1,000)	Interest and similar income	Interest and similar expense	Net
Assets			
Financial assets at amortised cost			
Cash and balances with central banks	-	-6,593	-6,593
Loans and advances to credit institutions	71	-2,667	-2,596
Loans and advances to the public and public sector entities	97,004	-	97,004
Debt securities	72	-665	-593
Other assets	364	-	364
Derivatives in hedge accounting	-40,196	-	-40,196
Financial assets at fair value through other comprehensive income			
Debt securities	1	-768	-767
Financial assets designated at fair value through profit or loss			
Debt securities	12,051	-	12,051
Financial assets mandatorily at fair value through profit or loss			
Loans and advances to the public and public sector entities	755	-	755
Debt securities	1	-	1
Derivative contracts	29,445	-44,172	-14,728
Lease assets	1,682	-	1,682
Interest on non-financial other assets	2	-	2
Interest on assets	**101,250**	**-54,865**	**46,385**

1 JAN–30 JUN 2018 (EUR 1,000)	Interest and similar income	Interest and similar expense	Net
Liabilities			
Financial liabilities at amortised cost			
Liabilities to credit institutions*	1,074	-101	973
Liabilities to the public and public sector entities*	-	-32,329	-32,329
Debt securities issued	115	-172,579	-172,464
Other liabilities	-	-479	-479
Derivatives in hedge accounting	-	231,933	231,933
Financial liabilities designated at fair value through profit or loss			
Liabilities to credit institutions*	-	-1,351	-1,351
Liabilities to the public and public sector entities*	-	-18,691	-18,691
Debt securities issued	-	-122,338	-122,338
Financial liabilities at fair value through profit or loss			
Derivative contracts	256,551	-70,189	186,362
Interest on liabilities	**257,740**	**-186,125**	**71,616**
Grand Total	**358,990**	**-240,989**	**118,001**

*During 2018, MuniFin realigned accounting mapping criteria which affected balance sheet line items Liabilites to credit institutions and Liabilities to the public and public sector entities.
As a consequence, the figures in these line items for year 2018 differ from those presented in the Half Year Report 2018.

Note 3. Net income from securities and foreign exchange transactions

NET INCOME FROM SECURITIES AND FOREIGN EXCHANGE TRANSACTIONS 1 JAN–30 JUN 2019 (EUR 1,000)	Capital gains and losses (net)	Changes in fair value recognised in the income statement	Total
Financial assets			
Mandatorily at fair value through profit or loss	-	956	956
Designated at fair value through profit or loss	2,041	25,753	27,795
Financial liabilities			
Designated at fair value through profit or loss	-	-397,070	-397,070
Derivative contracts at fair value through profit or loss	-1,676	340,576	338,899
Total net income from securities transactions	**365**	**-29,785**	**-29,420**
Net income from foreign exchange transactions	**-740**	**1,379**	**640**
Total	**-375**	**-28,405**	**-28,780**

Net income from securities includes fair value changes of financial assets and liabilities measured at fair value through profit or loss, fair value changes of derivatives not included in hedge accounting as well as capital gains and losses related to these items. Net income from foreign exchange transactions includes unrealised and realised translation differences for all items denominated in foreign currencies.

Tables below present carrying amounts of financial assets and financial liabilities designated at fair value through profit or loss and their fair value change recognised in the income statement.

FINANCIAL ASSETS AND LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT AND LOSS (EUR 1,000)	Nominal value 30 Jun 2019	Carrying amount 30 Jun 2019	Nominal value 31 Dec 2018	Carrying amount 31 Dec 2018
Financial assets*				
Debt securities	3,624,477	3,697,380	3,612,233	3,701,796
Total financial assets	**3,624,477**	**3,697,380**	**3,612,233**	**3,701,796**
Financial liabilities				
Liabilities to credit institutions	40,000	40,265	45,000	46,399
Liabilities to the public sector entitities	1,886,968	1,570,138	1,986,668	1,569,561
Debt securities issued	10,846,799	10,128,055	10,958,060	9,990,255
Total financial liabilities	**12,773,768**	**11,738,458**	**12,989,728**	**11,606,215**

*Debt securities designated at fair value through profit and loss are exposed to credit risk up to the carrying amounts of those securities in 30 Jun 2019.

CHANGE IN FAIR VALUE IN FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT AND LOSS IN NET INCOME FROM SECURITIES (EUR 1,000)	**30 Jun 2019**	**31 Dec 2018**	**Fair value change recognised in the income statement 1 Jan–30 Jun 2019**	**of which due to credit risk**	**of which due to market risk**
Financial assets					
Debt securities	80,659	54,906	25,753	658	25,095
Total financial assets	**80,659**	**54,906**	**25,753**	**658**	**25,095**

Financial assets that MuniFin has designated to be measured at fair value through profit or loss include debt securities in the liquidity portfolio of which the interest rate risk is hedged with interest rate and cross currency interest rate swaps. The designation is made as it significantly reduces accounting mismatch which would otherwise arise from measuring the derivative at fair value through profit or loss and the debt security at fair value through other comprehensive income based on the IFRS 9 business model. MuniFin does not have credit derivatives hedging these financial assets.

CHANGE IN FAIR VALUE IN FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT AND LOSS IN NET INCOME FROM SECURITIES (EUR 1,000)	**30 Jun 2019**	**31 Dec 2018**	**Fair value change recognised in the income statement 1 Jan–30 Jun 2019**	**Change in own credit risk recognised in the other compre-hensive income 1 Jan–30 Jun 2019**	**Total fair value change in 1 Jan–30 Jun 2019**
Financial liabilities					
Liabilities to credit institutions	-259	-1,360	1,101	33	1,134
Liabilities to the public sector entitities	-238,068	-140,738	-97,330	10,335	-86,994
Debt securities issued	575,000	875,841	-300,841	3,524	-297,316
Total financial liabilities	**336,673**	**733,743**	**-397,070**	**13,893**	**-383,177**

NET CHANGE IN FAIR VALUE IN NET INCOME FROM SECURITIES (EUR 1,000)	Cumulative change in fair value 30 Jun 2019	Fair value change recognised in the income statement 1 Jan–30 Jun 2019
Financial liabilities designated at fair value through profit and loss	336,673	-397,070
Derivative contracts hedging financial liabilities	-348,121	373,765
Net change in fair value	**-11,448**	**-23,305**

MuniFin has designated short-term debt instruments denominated in foreign currencies, which have been hedged with FX swaps, at fair value through profit or loss. The designation reduces accounting mismatch which would otherwise arise between the measurement of the derivative and financial liability. The financial liabilities designated at fair value through profit and loss consist of financial liabilities, which have been hedged according to the company's risk management policy, but which cannot be included in fair value hedge accounting according to IFRS 9. The fair value changes of the financial liabilites impact profit or loss, but as they have been hedged the expected profit or loss is restricted to interest. The table above describes the net impact of these financial liabilities and their hedges on profit and loss.

When a financial liability is designated at fair value through profit and loss, the fair value change, with exception to MuniFin's own credit risk that is presented in other comprehensive income as changes in Own credit revaluation reserve, is presented in Net income from securities and foreign exchange transactions.

MuniFin applies the income approach of IFRS 13 to the separation of fair value changes related to changes in own credit risk from the fair value changes of the financial liability. For the majority of financial liabilities designated at fair value, no market price is available as there is no active secondary market. The methodology for separation of own credit risk utilizes MuniFin's benchmark curves, cross currency basis spreads and credit spreads of MuniFin's issued debt securities on the primary market as input. Based on the aforementioned inputs, valuation curves can be constructed for various reporting periods for valuing financial liabilities designated at fair value through profit or loss. By comparing fair values calculated using the trade date and reporting period, the impact of change in own credit risk on the fair value of the financial liability can be determined.

Financial liabilities desginated at fair value through profit of loss are not traded.

NET INCOME FROM SECURITIES AND FOREIGN EXCHANGE TRANSACTIONS 1 JAN–30 JUN 2018 (EUR 1,000)	Capital gains and losses (net)	Changes in fair value recognised in the income statement	Total
Financial assets			
Mandatorily at fair value through profit or loss	-	-769	-769
Designated at fair value through profit or loss	28	-6,145	-6,116
Financial liabilities			
Designated at fair value through profit or loss	-	455,189	455,189
Derivative contracts at fair value through profit or loss	11	-454,414	-454,404
Total net income from securities transactions	**39**	**-6,139**	**-6,100**
Net income from foreign exchange transactions	**84**	**-525**	**-441**
Total	**123**	**-6,664**	**-6,541**

CHANGE IN FAIR VALUE IN FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT AND LOSS IN NET INCOME FROM SECURITIES (EUR 1,000)	30 Jun 2018	1 Jan 2018	Fair value change recognised in the income statement 1 Jan–30 Jun 2018	of which due to credit risk	of which due to market risk
Financial assets					
Debt securities	68,365	74,510	-6,145	-8,327	2,182
Total financial assets	**68,365**	**74,510**	**-6,145**	**-8,327**	**2,182**

CHANGE IN FAIR VALUE IN FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT AND LOSS IN NET INCOME FROM SECURITIES (EUR 1,000)	30 Jun 2018	1 Jan 2018	Fair value change recognised in the income statement 1 Jan–30 Jun 2018	Change in own credit risk recognised in the other comprehensive income 1 Jan–30 Jun 2018	Total fair value change in 1 Jan–30 Jun 2018
Financial liabilities					
Liabilities to credit institutions	-2,899	-4,232	1,333	226	1,559
Liabilities to the public sector entitities	-140,387	-136,160	-4,227	-928	-5,155
Debt securities issued	713,141	255,059	458,083	4,363	462,445
Total financial liabilities	**569,855**	**114,666**	**455,189**	**3,660**	**458,849**

NET CHANGE IN FAIR VALUE IN NET INCOME FROM SECURITIES (EUR 1,000)	Cumulative change in fair value 30 Jun 2018	Fair value change recognised in the income statement 1 Jan–30 Jun 2018
Financial liabilities designated at fair value through profit and loss	569,855	455,189
Derivative contracts hedging financial liabilities	-553,970	-446,400
Net change in fair value	**15,886**	**8,789**

Note 4. Hedge accounting

HEDGE ACCOUNTING 30 JUNE 2019 (EUR 1,000)	Nominal value	Total fair value hedge accounting	IAS 39 portfolio hedge accounting	IFRS 9 fair value hedge accounting	IFRS 9 fair value hedge accounting incl. Cost-of-Hedging
Assets					
Loans and advances to the public and public sector entities - Loans	7,709,296	8,034,331	7,895,886	138,445	-
Loans and advances to the public and public sector entities - Lease assets	144,271	147,724	-	147,724	-
Total assets	**7,853,567**	**8,182,056**	**7,895,886**	**286,169**	**-**
Liabilities					
Liabilities to credit institutions	35,000	26,136	-	26,136	-
Liabilities to the public and public sector entities	2,041,473	2,378,858	-	2,211,877	166,981
Debt securities issued	16,534,445	16,827,767	-	5,365,171	11,462,596
Total liabilities	**18,610,919**	**19,232,760**	**-**	**7,603,183**	**11,629,577**

FAIR VALUE CHANGE WITH RESPECT TO THE HEDGED RISK (EUR 1,000)	30 Jun 2019	31 Dec 2018	Recognised in the income statement 1 Jan–30 Jun 2019
Assets			
IAS 39 portfolio hedge accounting			
Loans and advances to the public and public sector entities	347,350	155,610	191,740
Hedging instruments	-329,361	-127,621	-201,741
IAS 39 portfolio hedge accounting, net	**17,989**	**27,989**	**-10,000**
IFRS 9 fair value hedge accounting			
Loans and advances to the public and public sector entities	33,080	22,752	10,328
Hedging instruments	-34,543	-23,636	-10,907
IFRS 9 fair value hedge accounting, net	**-1,463**	**-884**	**-578**
Liabilities			
IFRS 9 fair value hedge accounting			
Liabilities to credit institutions	-11,136	-11,845	709
Liabilities to the public and public sector entities	-461,580	-339,599	-121,980
Debt securities issued	-528,179	-73,869	-454,310
Hedging instruments	991,896	432,237	559,659
IFRS 9 fair value hedge accounting, net	**-8,998**	**6,924**	**-15,923**
Total hedge accounting	**7,528**	**34,029**	**-26,501**

The figures presented in the table contain the fair value change with respect to the hedged risk. These fair value changes have been presented in the consolidated income statement on row Net income from hedge accounting. The total of the hedging instruments in this table does therefore not reconcile to the row Contracts in Hedge accounting in Note 7. More details regarding principles applied to hedge accounting can be found in MuniFin's Financial Statements 2018 in Group's Note 1. Summary of significant accounting policies.

HEDGING IMPACT ON OWN EQUITY (EUR 1,000)	30 Jun 2019	31 Dec 2018	Impact on Cost-of-Hedging reserve
Cost-of-Hedging			
Hedging instrument*	13,959	14,235	-276
Total	**13,959**	**14,235**	**-276**

*The impact of Cost-of-Hedging on cross currency derivatives is shown in Equity in the Cost-of-Hedging reserve. Figures are presented after deferred taxes.

EFFECTIVENESS OF THE HEDGE ACCOUNTING (EUR 1,000)

30 JUN 2019		Gains/losses attributable to the hedged risk		
HEDGED ITEM	**Hedging instruments**	**Hedged items**	**Hedging instruments**	**Hedge ineffectiveness**
Assets				
IAS 39 portfolio hedge accounting				
Fixed rate and revisable rate loans	Interest rate derivatives	347,350	-329,361	17,989
IFRS 9 fair value hedge accounting				
Structured lending	Interest rate derivatives	29,626	-31,452	-1,826
Fixed rate lease contracts	Interest rate derivatives	3,454	-3,091	363
Total assets		**380,430**	**-363,904**	**16,526**
Liabilities				
IFRS 9 fair value hedge accounting				
Liabilities denominated in EUR	Interest rate derivatives	-741,981	745,858	3,877
Liabilities denominated in foreign currencies	Currency derivatives (Cross currency interest rate swaps) Interest rate derivatives	-258,913	246,038	-12,875
Total liabilities		**-1,000,894**	**991,896**	**-8,998**

HEDGE ACCOUNTING

31 DEC 2018 (EUR 1,000)	Nominal value	Total fair value hedge accounting	IAS 39 portfolio hedge accounting	IFRS 9 fair value hedge accounting	IFRS 9 fair value hedge accounting incl. Cost-of-Hedging
Assets					
Loans and advances to the public and public sector entities - Loans	7,536,559	7,636,793	7,491,823	144,970	-
Loans and advances to the public and public sector entities - Lease assets	108,658	109,835	-	109,835	-
Total assets	**7,645,217**	**7,746,628**	**7,491,823**	**254,805**	**-**
Liabilities					
Liabilities to credit institutions	45,000	36,845	-	36,845	-
Liabilities to the public and public sector entities	2,085,358	2,301,358	-	2,101,889	199,469
Debt securities issued	16,543,342	16,360,789	-	4,100,363	12,260,426
Total liabilities	**18,673,700**	**18,698,991**	**-**	**6,239,096**	**12,459,895**

FAIR VALUE CHANGE WITH RESPECT TO THE HEDGED RISK (EUR 1,000)	30 Jun 2018	1 Jan 2018	Recognised in the income statement 1 Jan–30 Jun 2018
Assets			
IAS 39 Portfolio hedge accounting			
Loans and advances to the public and public sector entities	137,757	127,428	10,329
Hedging instruments	-109,258	-100,054	-9,204
IAS 39 Portfolio hedge accounting, net	**28,498**	**27,374**	**1,125**
IFRS 9 Fair value hedge accounting			
Loans and advances to the public and public sector entities	23,115	25,596	-2,481
Hedging instruments	-24,225	-26,701	2,476
IFRS 9 Fair value hedge accounting, net	**-1,109**	**-1,105**	**-5**
Liabilities			
IFRS 9 Fair value hedge accounting			
Liabilities to credit institutions	-4,948	-4,851	-97
Liabilities to the public and public sector entities	-352,671	-363,087	10,416
Debt securities issued	48,018	-96,691	144,709
Hedging instruments	326,417	444,743	-118,326
IFRS9 Fair value hedge accounting, net	**16,816**	**-19,885**	**36,701**
Total hedge accounting	**44,205**	**6,384**	**37,821**

The figures presented in the table contain the fair value change with respect to the hedged risk. These fair value changes have been presented in the consolidated income statement on row Net income from hedge accounting. The total of the hedging instruments in this table does therefore not reconcile to the row Contracts in Hedge accounting in Note 7. More details regarding principles applied to hedge accounting can be found in MuniFin's Financial Statements 2018 in Group's Note 1. Summary of significant accounting policies.

HEDGING IMPACT ON OWN EQUITY (EUR 1,000)	30 Jun 2018	1 Jan 2018	Impact on Cost-of-Hedging reserve
Cost-of-Hedging			
Hedging instrument*	8,068	-7,919	15,987
Total	**8,068**	**-7,919**	**15,987**

*Under IFRS 9 the impact of Cost-of-Hedging on cross currency derivatives is shown in Equity in the Cost-of-Hedging reserve. Figures are presented after deferred taxes.

EFFECTIVENESS OF THE HEDGE ACCOUNTING (EUR 1,000)

30 JUN 2018		Gains/losses attributable to the hedged risk		
HEDGED ITEM	**Hedging instruments**	**Hedged items**	**Hedging instruments**	**Hedge ineffectiveness**
Assets				
IAS 39 portfolio hedge accounting				
Fixed rate and revisable rate loans	Interest rate derivatives	137,757	-109,258	28,498
IFRS 9 fair value hedge accounting				
Structured lending	Interest rate derivatives	22,184	-23,487	-1,303
Fixed rate leasing contracts	Interest rate derivatives	931	-738	193
Total assets		**160,872**	**-133,483**	**27,389**
Liabilities				
IFRS 9 fair value hedge accounting				
Liabilities denominated in EUR	Interest rate derivatives	-369,638	373,734	4,096
Liabilities denominated in foreign currencies	Currency derivatives (Cross currency interest rate swaps) Interest rate derivatives	60,037	-47,317	12,720
Total liabilities		**-309,601**	**326,417**	**16,816**

Note 5. Financial assets and liabilities

Financial assets

30 JUN 2019 (EUR 1,000)	Amortised cost	Mandatorily at fair value through profit or loss	Designated at fair value through profit or loss	Fair value through other comprehen-sive income	Derivatives in hedge accounting	Total	Fair value
Cash and balances with central banks	3,470,308	-	-	-	-	3,470,308	3,470,308
Loans and advances to credit institutions	1,201,906	-	-	-	-	1,201,906	1,201,906
Loans and advances to the public and public sector entities	23,112,701	54,502	-	-	-	23,167,203	25,235,722
Debt securities	925,285	763	3,697,380	1,325,717	-	5,949,146	5,949,767
Shares and participations	-	9,855	-	-	-	9,855	9,855
Derivative contracts	-	850,105	-	-	1,350,329	2,200,434	2,200,434
Other assets	152,437	-	-	-	-	152,437	152,437
Total	**28,862,638**	**915,226**	**3,697,380**	**1,325,717**	**1,350,329**	**36,151,289**	**38,220,428**

Loans and advances to the public sector entities includes EUR 147,724 thousand leases receivables based on lease agreements, which are in fair value hedge accounting. Unhedged lease assets are not presented in financial assets and liabilities table, as lease assets are not recognised as financial asset for the purpose of IFRS 9 classification. Other assets includes EUR 152,437 thousand of cash collateral given to central counterparties.

Financial liabilities

30 JUN 2019 (EUR 1,000)	At amortised cost	At fair value through profit or loss	Designated at fair value through profit or loss	Derivatives in hedge accounting	Total	Fair value
Liabilities to credit institutions	1,030,486	-	40,265	-	1,070,751	1,070,956
Liabilities to the public and public sector entities	2,378,858	-	1,570,138	-	3,948,995	3,974,593
Debt securities issued	17,678,524	-	10,128,055	-	27,806,579	27,840,598
Derivative contracts	-	1,113,024	-	1,008,739	2,121,762	2,121,762
Other liabilities	92,588	-	-	-	92,588	92,588
Total	**21,180,455**	**1,113,024**	**11,738,458**	**1,008,739**	**35,040,675**	**35,100,498**

Other liabilities includes EUR 92,588 thousand of cash collateral received from central counterparties.

Impact of the reclassified financial assets and liabilities in 2019

FINANCIAL ASSETS (EUR 1,000)	Original measurement category under IAS 39	New measurement category under IFRS 9	Fair value at 30 Jun 2019	Fair value gain or loss for the period (i)	EIR determined as at 1 Jan 2018 (ii)	Interest revenue recognised during 2019
Loans and advances to the public sector entities	Fair value option	Amortised cost	131,818	644	0.14%	137

(i) The fair value gain or loss that would have been recognised in profit or loss at the end of reporting period ending if the financial assets had not been reclassified.

(ii) Effective interest rate determined on the date of initial application.

Financial assets

31 DEC 2018 (EUR 1,000)	Amortised cost	Mandatorily at fair value through profit or loss	Designated at fair value through profit or loss	Fair value through other comprehensive income	Derivatives in hedge accounting	Total	Fair value
Cash and balances with central banks	3,522,200	-	-	-	-	3,522,200	3,522,200
Loans and advances to credit institutions	1,380,544	-	-	-	-	1,380,544	1,380,544
Loans and advances to the public and public sector entities	22,407,123	56,808	-	-	-	22,463,931	24,386,586
Debt securities	725,587	825	3,701,796	1,434,383	-	5,862,591	5,862,961
Shares and participations	-	9,521	-	-	-	9,521	9,521
Derivative contracts	-	534,398	-	-	1,004,212	1,538,610	1,538,610
Other assets	164,341	-	-	-	-	164,341	164,341
Total	**28,199,795**	**601,552**	**3,701,796**	**1,434,383**	**1,004,212**	**34,941,738**	**36,864,763**

Loans and advances to the public sector entities includes EUR 109,836 thousand receivables based on leasing agreements, which are in fair value hedge accounting. Unhedged lease assets are not presented in financial assets and liabilities,as lease assets are not recognised as financial asset for the purpose of IFRS 9 classification. Other assets includes EUR 164,341 thousands of cash collateral given to central counter-parties.

Financial liabilities

31 DEC 2018 (EUR 1,000)	At amortised cost	At fair value through profit or loss	Designated at fair value through profit or loss	Derivatives in hedge accounting	Total	Fair value
Liabilities to credit institutions	776,105	-	46,399	-	822,504	822,733
Liabilities to the public and public sector entities	2,301,358	-	1,569,561	-	3,870,918	3,896,366
Debt securities issued	16,911,743	-	9,990,255	-	26,901,998	26,950,268
Derivative contracts	-	1,197,905	-	1,007,522	2,205,427	2,205,427
Total	**19,989,205**	**1,197,905**	**11,606,215**	**1,007,522**	**33,800,848**	**33,874,794**

Impact of the reclassified financial assets and liabilities in 2018

FINANCIAL ASSETS (EUR 1,000)	Original measurement category under IAS 39	New measurement category under IFRS 9	Fair value at 30 Jun 2018	Fair value gain or loss for the period (i)	EIR determined as at 1 Jan 2018 (ii)	Interest revenue recognised during 2018
Loans and advances to the public sector entities	Fair value option	Amortised cost	144,352	-85	0.14%	109

All investments in commercial papers which were reclassified from fair value option to fair value through in other comprehensive income on initial application of IFRS 9 matured during 2018.

Note 6. Fair values of financial assets and liabilities

30 JUN 2019 (EUR 1,000)	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Financial assets at fair value					
Fair value through other comprehensive income					
Debt securities	1,325,717	1,105,530	220,187	-	1,325,717
Designated at fair value through profit or loss					
Debt securities	3,697,380	3,697,380	-	-	3,697,380
Mandatorily at fair value through profit or loss					
Loans and advances to the public and public sector entities	54,502	-	54,502	-	54,502
Debt securities	763	-	763	-	763
Shares in investment funds	9,855	9,855	-	-	9,855
Derivative assets	850,105	-	840,711	9,394	850,105
Derivatives in hedge accounting	1,350,329	-	1,350,329	-	1,350,329
Total financial assets at fair value	**7,288,651**	**4,812,765**	**2,466,492**	**9,394**	**7,288,651**
In fair value hedge accounting					
Financial assets at amortised cost					
Loans and advances to the public and public sector entities	8,182,056	-	8,757,140	-	8,757,140
Total in fair value hedge accounting	**8,182,056**	**-**	**8,757,140**	**-**	**8,757,140**
Financial assets at amortised cost					
Cash and balances with central banks	3,470,308	3,470,308	-	-	3,470,308
Loans and advances to credit institutions	1,201,906	153,553	1,048,354	-	1,201,906
Loans and advances to the public and public sector entities	14,930,646	-	16,424,080	-	16,424,080
Debt securities	925,285	-	925,907	-	925,907
Other assets	152,437	-	152,437	-	152,437
Total financial assets at amortised cost	**20,680,582**	**3,623,861**	**18,550,777**	**-**	**22,174,637**
Total financial assets	**36,151,289**	**8,436,626**	**29,774,408**	**9,394**	**38,220,428**

30 JUN 2019 (EUR 1,000)	Carrying amount	Fair value Level 1	Level 2	Level 3	Total
Financial liabilities at fair value					
Designated at fair value through profit or loss					
Liabilities to credit institutions	40,265	-	40,265	-	40,265
Liabilities to the public and public sector entities	1,570,138	-	1,570,138	-	1,570,138
Debt securities issued	10,128,055	-	9,533,412	594,644	10,128,055
At fair value through profit or loss					
Derivative liabilities	1,113,024	-	1,039,935	73,089	1,113,024
Derivatives in hedge accounting	1,008,739	-	1,008,739	-	1,008,739
Total financial liabilities at fair value	**13,860,220**	**-**	**13,192,488**	**667,732**	**13,860,220**
In fair value hedge accounting					
Liabilities to credit institutions	26,136	-	26,341	-	26,341
Liabilities to the public and public sector entities	2,378,858	-	2,404,456	-	2,404,456
Debt securities issued *	16,827,767	-	16,861,786	-	16,861,786
Total in fair value hedge accounting	**19,232,760**	**-**	**19,292,583**	**-**	**19,292,583**
Financial liabilities at amortised cost					
Liabilities to credit institutions	1,004,350	-	1,004,350	-	1,004,350
Debt securities issued	850,757	-	850,757	-	850,757
Other liabilities	92,588	-	92,588	-	92,588
Total financial liabilities at amortised cost	**1,947,695**	**-**	**1,947,695**	**-**	**1,947,695**
Total financial liabilities	**35,040,675**	**-**	**34,432,766**	**667,732**	**35,100,498**

*In the above table, MuniFin's fixed-rate benchmark bond issuances are presented in Level 2 due to that these bonds are in fair value hedge accounting with respect to the hedged risk. Valuation of hedged risk is based on the input data on level 2. In this Half Year Report MuniFin's fixed-rate benchmark bonds' fair value is adjusted to reflect fair value based on the quoted prices from Bloomberg. Quoted price is Level 1 input data.

31 DEC 2018 (EUR 1,000)	Carrying amount	Fair value Level 1	Level 2	Level 3	Total
Financial assets at fair value					
Fair value through other comprehensive income					
Debt securities	1,434,383	1,344,347	90,037	-	1,434,383
Designated at fair value through profit or loss					
Debt securities	3,701,796	3,701,796	-	-	3,701,796
Mandatorily at fair value through profit or loss					
Loans and advances to the public and public sector entities	56,808	-	56,808	-	56,808
Debt securities	825	-	825	-	825
Shares in investment funds	9,521	9,521	-	-	9,521
Derivative assets	534,398	-	533,454	944	534,398
Derivatives in hedge accounting	1,004,212	-	1,004,212	-	1,004,212
Total financial assets at fair value	**6,741,943**	**5,055,663**	**1,685,336**	**944**	**6,741,943**
In fair value hedge accounting					
At amortised cost					
Loans and advances to the public and public sector entities	7,746,628	-	8,278,225	-	8,278,225
Total in fair value hedge accounting	**7,746,628**	**-**	**8,278,225**	**-**	**8,278,225**
Financial assets at amortised cost					
Cash and balances with central banks	3,522,200	3,522,200	-	-	3,522,200
Loans and advances to credit institutions	1,380,544	119,437	1,261,107	-	1,380,544
Loans and advances to the public and public sector entities	14,660,495	-	16,051,552	-	16,051,552
Debt securities	725,587	-	725,957	-	725,957
Other assets	164,341	-	164,341	-	164,341
Total financial assets at amortised cost	**20,453,167**	**3,641,637**	**18,202,958**	**-**	**21,844,594**
Total financial assets	**34,941,738**	**8,697,300**	**28,166,519**	**944**	**36,864,763**

31 DEC 2018 (EUR 1,000)	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Financial liabilities at fair value					
Designated at fair value through profit or loss					
Liabilities to credit institutions	46,399	-	46,399	-	46,399
Liabilities to the public and public sector entities	1,569,561	-	1,569,561	-	1,569,561
Debt securities issued	9,990,255	-	9,221,807	768,448	9,990,255
At fair value through profit or loss					
Derivative liabilities	1,197,905	-	1,005,905	192,000	1,197,905
Derivatives in hedge accounting	1,007,522	-	1,007,522	-	1,007,522
Total financial liabilities at fair value	**13,811,642**	**-**	**12,851,194**	**960,448**	**13,811,642**
In fair value hedge accounting					
Liabilities to credit institutions	36,845	-	37,073	-	37,073
Liabilities to the public and public sector entities	2,301,358	-	2,326,806	-	2,326,806
Debt securities issued *	16,360,789	-	16,409,059	-	16,409,059
Total in fair value hedge accounting	**18,698,991**	**-**	**18,772,938**	**-**	**18,772,938**
Financial liabilities at amortised cost					
Liabilities to credit institutions	739,260	-	739,260	-	739,260
Debt securities issued	550,954	-	550,954	-	550,954
Total financial liabilities at amortised cost	**1,290,214**	**-**	**1,290,214**	**-**	**1,290,214**
Total financial liabilities	**33,800,848**	**-**	**32,914,346**	**960,448**	**33,874,794**

*In the above table, MuniFin's fixed-rate benchmark bond issuances are presented in Level 2 due to that these bonds are in fair value hedge accounting with respect to the hedged risk. Valuation of hedged risk is based on the input data on level 2. In the Financial statements MuniFin's fixed-rate benchmark bonds' fair value is adjusted to reflect fair value based on the quoted prices from Bloomberg. Quoted price is Level 1 input data.

Level 1

Valuation is based on quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date. The prices used are unadjusted. A market is considered to be functioning if trading is frequent and price data is regularly available. MuniFin bases its valuations for some instruments on quoted prices for identical instruments from Bloomberg and Reuters. These quotes (mid) represent the price for an orderly transaction between parties in the market on the valuation date. These quotes therefore represent the fair value for these products. Level 1 financial assets comprise mainly investments in debt securities.

Level 2

Valuation is based on input data other than Level 1 quoted prices. Prices can be observed either directly or indirectly. Level 2 financial instruments are not actively traded on functioning markets and the fair value is determined by using generally accepted valuation models and methods.

The fair values may be based on quotations of similar assets or liabilities in active markets or quotations of equivalent or similar assets or liabilities in markets that are not active. The fair values may also be calculated based on other input data than quoted prices that can be observed for an asset or a liability. Examples of such input data include bank rates and profit curves for which regular quotations are available, implicit volatilities and credit margins. The requirement is that the input data is observable on regular intervals. If a financial asset or a financial liability has a fixed maturity, the Level 2 input data must be observable to a material extent during the existence of a financial asset or liability.

Level 2 valuation is based on methods in which contractual cash flows are modeled using forward curves after which the cash flows are discounted using currency and interest based discount curves. Valuation of contracts containing options is performed using interest and option pricing models which are generally accepted on the financial markets. The valuation methods utilise observable input data. Level 2 financial instruments primarily comprise OTC derivatives, the company's own issued bonds, lending and investments in commercial paper.

Fair value of OTC derivatives is based on valuation models. Observable market interest rates are used for discounting. In addition valuations are based on other input data depending on attributes of an instrument. Numerix (a pricing model library) is used for valuing structured instruments. Valuation models in Numerix are equivalent to those models generally accepted on the financial markets. OTC derivatives are classified to Level 2, if all material input data used in valuation models can be verified on functioning markets.

Level 3

Valuation is based on inputs other than Level 1 quoted prices or the observable inputs used in Level 2 in valuation methods. Level 3 valuation includes unobservable inputs for the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that relevant observable inputs are not available. MuniFin's Level 3 input is the proxy volatility, which is only used in cases where implied volatility is not available.

Level 3 valuation is based on methods in which contractual cash flows are modelled using forward curves after which the cash flows are discounted using currency and interest based discount curves. Valuation of contracts containing options is performed using interest and option pricing models which are generally accepted on the financial markets. These valuation methods may utilise input data, which is not directly observable from the market and has a material impact on the valuation. Level 3 financial instruments primarily comprise equity-linked OTC derivatives and financial liabilities.

All valuation models take advantage of market information such as interest rates, volatilities and correlations. Some of the input data used may be verified whereas some of it may not be. All interest rates of main currencies can be verified, as well as interest rates, volatilities and correlation up to a certain point in time. If the impact of unverified input data is material, an instrument is classified to the fair value hierarchy Level 3.

Transfers in the fair value hierarchy

During the reporting period, no transfers have been made between Level 1 and Level 2.
During the reporting period, no transfers have been made between Level 2 and Level 3.

	Derivative assets	Derivative liabilities	Debt securities	Debt securities issued	
1 JAN–30 JUN 2019 (EUR 1,000)	**At fair value through profit or loss**	**At fair value through profit or loss**	**Mandatorily at fair value through profit or loss**	**Designated as at fair value through profit or loss**	**Total**
1 Jan 2019	944	-192,000	-	-768,448	-959,504
Change in fair value in the income statement	7,093	57,158	-	-65,218	-967
Purchases	2,015	-6,645	-	-141,446	-146,076
Sales and matured deals	-657	68,398	-	380,469	448,210
Transfers into level 3	-	-	-	-	-
Transfers out of level 3	-	-	-	-	-
30 Jun 2019	**9,394**	**-73,089**	**-**	**-594,644**	**-658,338**

During 2018 financial year, no transfers have been made between Level 1 and Level 2 or between Level 2 and Level 3.

1 JAN–31 DEC 2018 (EUR 1,000)	Derivative assets At fair value through profit or loss	Derivative liabilities At fair value through profit or loss	Debt securities Mandatorily at fair value through profit or loss	Debt securities issued Designated as at fair value through profit or loss	Total
1 Jan 2018	38,696	-38,696	4,878	-953,394	-948,516
Change in fair value in the income statement	-32,799	-41,437	-	9,207	-65,029
Purchases	657	-130,858	-	-414,543	-544,744
Sales and matured deals	-5,611	18,992	-4,878	590,282	598,785
Transfers into Level 3	-	-	-	-	-
Transfers out of Level 3	-	-	-	-	-
31 Dec 2018	**944**	**-192,000**	**-**	**-768,448**	**-959,504**

Sensitivity analysis of unobservable inputs

Unobservable inputs are share and index volatilities for which no quotations exists in liquid markets. Market quotations for 2015–2019 have been used to calculate ranges for unobservable inputs. The fair values of the contracts in high volatility and low volatility scenarios have been estimated based on the range of the inputs. In the low volatility scenario the fair value of the derivatives increases by EUR 3.4 million (2018: EUR 36.8 million) and the fair value of the debt instrument decreases by EUR 3.7 million (2018: EUR 37.3 million). In the high volatility scenario the fair value of the derivatives decreases by EUR 28.8 million (2018: EUR 10.8 million) and the fair value of the debt instrument increases by EUR 28.6 million (2018: EUR 11.0 million).

Note 7. Derivative contracts

30 JUN 2019 (EUR 1,000)	Nominal value of underlying instrument	Fair value Positive	Fair value Negative
Contracts in hedge accounting			
Interest rate derivatives			
Interest rate swaps	20,290,205	813,254	-370,026
Cleared by the central counterparty	13,798,448	343,043	-199,125
Currency derivatives			
Cross currency interest rate swaps	11,408,966	537,075	-638,712
Total contracts in hedge accounting	**31,699,171**	**1,350,329**	**-1,008,739**
Contracts at fair value through profit or loss			
Interest rate derivatives			
Interest rate swaps	18,662,886	620,558	-379,339
Cleared by the central counterparty	9,185,905	780	-118,612
Interest rate options	100,070	176	-176
Currency derivatives			
Cross currency interest rate swaps	6,987,257	192,072	-626,996
Forward exchange contracts	1,601,564	-584	-13,689
Equity derivatives	1,653,223	37,883	-92,824
Other derivatives	-	-	-
Total contracts at fair value through profit or loss	**29,004,999**	**850,105**	**-1,113,024**
Total Derivative contracts	**60,704,170**	**2,200,434**	**-2,121,762**

Contracts that are measured at fair value through profit or loss contain all derivatives of the company which are not included in hedge accounting, even if they are entered into for risk management purposes. The category contains derivatives used for hedging financial assets and liabilities which are designated at fair value through profit or loss, all derivatives with municipalities and all derivatives hedging derivatives with municipalities.
In addition to these, the category contains derivatives used for hedging interest rate risk of the balance sheet, for which no hedged item has been specified.

Interest received or interest paid for derivative contracts are included in balance sheet line items Accrued income and prepayments and Accrued expenses and deferred income.

31 DEC 2018 (EUR 1,000)	Nominal value of underlying instrument	Fair value Positive	Fair value Negative
Contracts in hedge accounting			
Interest rate derivatives			
Interest rate swaps	19,673,707	412,028	-211,683
Cleared by the central counterparty	11,628,854	60,528	-84,031
Currency derivatives			
Cross currency interest rate swaps	**12,475,969**	592,184	-795,839
Total contracts in hedge accounting	**32,149,676**	**1,004,212**	**-1,007,522**
Contracts at fair value through profit or loss			
Interest rate derivatives			
Interest rate swaps	16,875,955	357,439	-254,720
Cleared by the central counterparty	6,045,196	5,281	-54,167
Interest rate options	160,105	417	-417
Currency derivatives			
Cross currency interest rate swaps	6,089,391	152,459	-675,090
Forward exchange contracts	2,538,297	18,865	-8,036
Equity derivatives	1,788,685	5,217	-259,641
Other derivatives	**-**	-	-
Total contracts at fair value through profit or loss	**27,452,433**	**534,398**	**-1,197,905**
Total Derivative contracts	**59,602,109**	**1,538,610**	**-2,205,427**

Contracts that are measured at fair value through profit or loss contain all derivatives of the company which are not included in hedge accounting, even if they are entered into for risk management purposes. The category contains derivatives used for hedging financial assets and liabilities which are designated at fair value through profit or loss, all derivatives with municipalities and all derivatives hedging derivatives with municipalities.
In addition to these, the category contains derivatives used for hedging interest rate risk of the balance sheet, for which no hedged item has been specified.

Starting 1 Jan 2018 MuniFin has valued all derivatives using the OIS curve and included the impact of the cross currency basis in its derivative valuations.

Note 8. Credit losses

Expected credit losses

EXPOSURES WITHIN THE SCOPE OF ACCOUNTING FOR EXPECTED CREDIT LOSSES BY IMPAIRMENT STAGE (EUR 1,000)	30 Jun 2019 Gross Carrying amount*	31 Dec 2018 Gross Carrying amount*
Stage 1	32,963,624	32,641,022
Stage 2	230,474	226,605
Stage 3	28,394	-
Total	**33,222,492**	**32,867,627**

* Gross carrying amount including binding credit commitments (off-balance sheet).

CREDIT RISK EXPOSURES AND RELATED EXPECTED CREDIT LOSSES (EUR 1,000)	30 Jun 2019	31 Dec 2018
Cash and balances with central banks at amortised cost	0	0
Loans and advances to credit institutions at amortised cost	-42	-51
Loans and advances to the public and public sector entities at amortised cost	-51	-75
Lease receivables in Loans and advances to the public and public sector entities at amortised cost	-1	-1
Debt securities at amortised cost	0	0
Debt securities at fair value through other comprehensive income	-175	-221
Cash collateral to Central Counterparty Clearing House in Other assets at amortised cost	-4	-4
Guarantee receivables from the public and public sector entities in Other assets	-	-
Credit commitments (off-balance sheet)	-3	-3
Total expected credit losses	**-276**	**-355**

CHANGES IN EXPECTED CREDIT LOSSES BY IMPAIRMENT STAGE

	Not credit-impaired		Credit-impaired	
	Stage 1	Stage 2	Stage 3	Total
30 JUN 2019 (EUR 1,000)	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Expected credit losses**
Total expected credit losses at 1 January 2019	**-295**	**-59**	**-**	**-355**
New assets originated or purchased	-39	-1	-	-40
Assets derecognised or repaid (excluding write-offs)	116	9	-	125
Transfers to Stage 1	0	17	-	17
Transfers to Stage 2	0	-2	-	-2
Transfers to Stage 3	-	21	-19	2
Changes to models [1] and inputs [2] used for ECL calculations	-22	-	-	-22
Write-offs	-	-	-	-
Recoveries	-	-	-	-
Total expected credit losses at 30 June 2019	**-241**	**-16**	**-19**	**-276**

[1] Represent changes in the model and [2] represents changes to model parameters (e.g. GDP rates, unemployment rates).

The impact of expected credit losses on profit and loss during the first half of 2019 totals EUR +79 thousand. The impact on profit and loss results from the changes in expected credit losses during the first half of 2019.

During the first half of 2019 MuniFin has specified the methods and the assumptions used in the model for estimating expected credit losses. The revaluation had no material impact on the amount of expected credit losses.

The impact of expected credit losses on profit and loss during the financial year of 2018 totals EUR +564 thousand.

During the financial year of 2018, MuniFin specified the methods for estimating expected credit losses and the assumptions used in the model. The revaluation had no material impact on the expected amount of credit losses.

Forborne loans

At the end of June 2019 Loans and advances to the public and public sector entities included EUR 47,110 thousand of forborne loans.

At the end of 2018 Loans and advances to the public and public sector entities included EUR 61,551 thousand of forborne loans.

Realised credit losses

During the first half of 2019 MuniFin wrote off a loan totalling EUR 179 thousand. The company has collateral in form of property of the equivalent amount in addition to a deficiency guarantee from the State of Finland. The receivable is shown in the statement of financial position in Other assets (stage 1) in guarantee receivables from the public and public sector entities and shown as a decrease of the impairment loss in the income statement. MuniFin expects that due to the collateral and received guarantees there is no ultimate credit risk.

During the financial year 2018 MuniFin wrote off a loan totalling EUR 434 thousand. The company has collateral in form of property of the equivalent amount in addition to a deficiency guarantee from the State of Finland. The receivable is shown in the statement of financial position in Other assets (stage 1) in guarantee receivables from the public and public sector entities and shown as a decrease of the write-offs recoveries in the income statement. MuniFin expects that due to the collateral and received guarantees there is no ultimate credit risk.

Note 9. Debt securities issued

	30 Jun 2019		31 Dec 2018	
(EUR 1,000)	**Carrying amount**	**Nominal value**	**Carrying amount**	**Nominal value**
Bonds	25,359,409	25,779,681	23,840,174	24,983,497
Other	2,447,170	2,451,564	3,061,824	3,067,904
Total	**27,806,579**	**28,231,245**	**26,901,998**	**28,051,402**

All parent company funding is guaranteed by the Municipal Guarantee Board.

Note 10. Capital instruments

30 Jun 2019 (EUR 1,000)	Currency	Nominal value	Carrying amount	Interest rate	Earliest repayment
AT1 capital loan	EUR	350,000	347,454	Fixed	1 April 2022
Total		**350,000**	**347,454**		

31 Dec 2018 (EUR 1,000)	Currency	Nominal value	Carrying amount	Interest rate	Earliest repayment
AT1 capital loan	EUR	350,000	347,454	Fixed	1 April 2022
Total		**350,000**	**347,454**		

The loan is an unsecured debenture loan included under Additional Tier 1 capital, with special terms designed to fulfil the requirements set for so-called AT1 capital loans in the Capital Requirements Regulation (EU 575/2013). The loan does not have a maturity date. Interest on the loan may only be paid out of distributable funds in accordance with the terms set in the Capital Requirements Regulation, and the company will decide whether interest will be paid on the interest payment date. The cancellation of interest payments is final, and unpaid interest will not be added to the loan capital. The loan capital will be written off if the proportion of the company's Common Equity Tier 1 (CET1) capital to risk-weighted assets falls below 5.125%. The company may decide to re-book the loan capital partially or entirely if the Capital Requirements Regulation permits this based on an improvement in the company's finances. The company has the right but not the obligation to repay the loan on 1 April 2022 or, after that, annually on the interest payment date, as long as the buy-back is approved in advance by the regulatory authority. The regulatory authority may authorise the repayment of the loan also for particular reasons, for example if legislation or regulatory practice should change in such a way that the company loses the right to deduct the interest in full, or if the company should be forced to make the additional payments mentioned in the loan terms. The authorities may also permit repayment of the loan if the loan's official classification changes in such a way that the loan would be likely to be excluded from the company's own funds, or if it is reclassified as lower-value funds. The loan capital, interest payments and other repayments shall take lower priority than all other higher-level debts in case of the company's dissolution or bankruptcy. AT1 capital loan is recognised in Equity in consolidated financial statements. In parent company's financial statements AT1 capital loan is recognised in balance sheet item Subordinated liabilities.

Note 11. Pledged assets

(EUR 1,000)	30 Jun 2019	31 Dec 2018
Loans pledged to the central bank	2,770,326	2,718,254
Loans pledged to the Municipal Guarantee Board	10,737,861	10,693,577
Total	**13,508,187**	**13,411,831**

Pledged assets:

1) MuniFin is the monetary policy counterparty approved by the central bank (the Bank of Finland), and, for this purpose, a sufficient amount of collateral has been pre-pledged to the central bank for possible operations related to this counterparty position.
2) MuniFin has pledged amount of loans shown in the table to the Municipal Guarantee Board. The Municipal Guarantee Board guarantees MuniFin's funding and MuniFin places collaterals for the Municipal Guarantee Board's guarantees as defined in the Act on the Municipal Guarantee Board.

Note 12. Contingent assets and liabilities

The accrued interest on the company's AT1 capital loan is a contingent liability, totalling EUR 3.1 million as per 30 June 2019. The contingent liability will be realised as a deduction of equity once the company decides on the payment of interest. At the end of 2018, the company had a contingent liability of EUR 9.5 million, which realised upon interest payment on 1 April 2019.

The group does not have any contingent assets on 30 June 2019 or at the end of 2018.

Note 13. Off-balance sheet commitments

(EUR 1,000)	30 Jun 2019	31 Dec 2018
Credit commitments	2,480,229	2,796,753
Total	**2,480,229**	**2,796,753**

Note 14. Related-party transactions

MuniFin's related parties are shareholders whose ownership and corresponding voting in the company exceed 20%, the CEO, the Deputy to the CEO, members of the Board of Management, members of the Board of Directors, the spouses, children and dependants of the persons and the children and dependants of the persons' spouses. In addition, MuniFin's related parties are entities which are directly or indirectly controlled or jointly controlled by the persons or where the persons have significant influence. MuniFin's related party is also its subsidiary Rahoituksen neuvontapalvelut Inspira Oy.

MuniFin's operations are restricted by the Act on the Municipal Guarantee Board and the framework agreement concluded between the company and the Municipal Guarantee Board, pursuant to which the company may only grant loans to parties stipulated by law (municipalities, municipal federations, corporations that are wholly owned by municipalities or under their control and corporations designated by government authorities and engaged in the renting or production and maintenance of housing on social grounds).

MuniFin has carried out only employment-based remuneration transactions with related party persons. MuniFin does not have loan or financial receivables from these related parties. Transactions with Inspira comprise of fees related to administrative services and advisory services MuniFin has purchased from Inspira.

There has been no material changes in the related party transactions after 31 Dec 2018.

Note 15. Events after the reporting period

In early July, MuniFin issued its third publicly traded green benchmark bond targeted to finance environmental projects. The EUR 500 million bond was highly sought after, which is an indication of the MuniFin's active work and long-term commitment in investor cooperation, as well as the strong market interest in green investments.

This document is an English translation of the Finnish auditor's report on review. Only the Finnish version of the report is legally binding.

Report on review of the interim report of Municipality Finance Plc as of and for the six-month period ending June 30, 2019

To the Board of Directors of Municipality Finance Plc

Introduction

We have reviewed the consolidated balance sheet as of 30 June, 2019 and the consolidated income statement, the statement of comprehensive income, the statement of changes in equity and the cash flow statement of Municipality Finance Plc for the six-month period then ended, as well as a summary of significant accounting policies and other explanatory notes to the financial statements. The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of this interim financial information in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU, and other Finnish rules and regulations governing the preparation of interim reports. We will express our conclusion on the interim report based on our review.

Scope of review

We conducted our review in accordance with the Standard on Review Engagements ISRE 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the standards on auditing and other generally accepted auditing practices and consequently does not enable us to obtain a level of assurance that would make us aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim report does not give a true and fair view of the consolidated financial position as at 30 June, 2019 and the consolidated result of its operations and cash flows for the six-month period then ended, in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU and other applicable rules and regulations governing interim financial reporting preparation in Finland.

Helsinki 15 August, 2019
KPMG OY AB

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Authorised Public Accountant, KHT

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