



# Half Year Report

2020 1 JANUARY–30 JUNE 2020

MuniFin



## In brief: MuniFin Group in the first half of 2020

- The Group's net operating profit excluding unrealised fair value changes increased by 3.6% and amounted to EUR 93 million in the reporting period (EUR 90 million). The net interest income grew by 5.3%, totalling EUR 123 million (EUR 117 million). Costs in the reporting period amounted to EUR 32 million (EUR 31 million), making it 3.2% greater than in the first half of 2019. The COVID-19 pandemic had only a minor effect on the Group's net operating profit.
- The net operating profit including unrealised fair value changes amounted to EUR 62 million (EUR 34 million). In this reporting period, the unrealised fair value changes were EUR -31 million (EUR -56 million).
- At 87.8% (83.1%), the Group's CET1 capital ratio was very strong.
- The Group's leverage ratio was 3.8% (4.0%) at the end of June.
- The Group's long-term customer financing grew by 7.8% (3.3%) in the reporting period. The long-term customer financing portfolio stood at EUR 26,743 million at the end of the reporting period (EUR 24,798 million). This figure includes both long-term loans and leased assets. The total of new lending in January–June amounted to EUR 2,543 million (EUR 1,386 million). The growth was spurred by the increase in the demand of loans and a drop in the availability of financing from other credit institutions, both due to the COVID-19 pandemic.
- In the entire customer finance portfolio, the amount of green financing targeted at environmentally friendly investments totalled EUR 1,436 million (EUR 1,263 million).
- In January–June, new long-term funding reached EUR 5,504 million (EUR 3,432 million). At the end of June, the long-term funding totalled EUR 35,805 million (EUR 33,929 million).
- The Group's liquidity has remained excellent. At the end of June 2020, total liquidity amounted to EUR 8,311 million (EUR 9,882 million). The Liquidity Coverage Ratio was 353.9% (430.2%) at the end of the reporting period.
- Return on equity (ROE) was 6.2% (6.8%) at the end of June.
- Outlook for the second half of 2020: the Group expects its net operating profit excluding unrealised fair value changes to remain at the same level as in 2019. A more detailed outlook is presented in the section *Outlook for the second half of 2020*.

*Comparison figures deriving from the income statement and figures describing the change during the reporting period are based on figures reported for the corresponding period in 2019. Comparison figures deriving from the balance sheet and other cross-sectional items are based on the figures of 31 December 2019 unless otherwise stated.*



Key figures

## Key figures

Net operating profit  
excluding unrealised  
fair value changes,  
EUR million

**93.0**

New lending,  
EUR million

**2,543**

CET1 capital ratio, %

**87.8**

Personnel

**167**

MuniFin



Key figures (group)

KEY FIGURES (GROUP)	30 JUN 2020	30 JUN 2019	31 DEC 2019
Net operating profit excluding unrealised fair value changes (EUR million)*	93	90	186
Net operating profit (EUR million)*	62	34	131
Net interest income (EUR million)*	123	117	240
New lending (EUR million)*	2,543	1,386	3,175
Long-term customer financing (EUR million)*	26,743	23,719	24,798
New long-term funding (EUR million)*	5,504	3,432	7,385
Balance sheet total (EUR million)	41,288	36,956	38,934
CET1 capital (EUR million)	1,172	1,076	1,162
Tier 1 capital (EUR million)	1,519	1,423	1,510
Total own funds (EUR million)	1,519	1,423	1,510
CET1 capital ratio, %	87.8	69.1	83.1
Tier 1 capital ratio, %	113.8	91.4	107.9
Total capital ratio, %	113.8	91.4	107.9
Leverage ratio, %	3.8	4.0	4.0
Return on equity (ROE), %*	6.2	3.6	6.8
Cost-to-income ratio*	0.3	0.5	0.3
Personnel	167	163	167

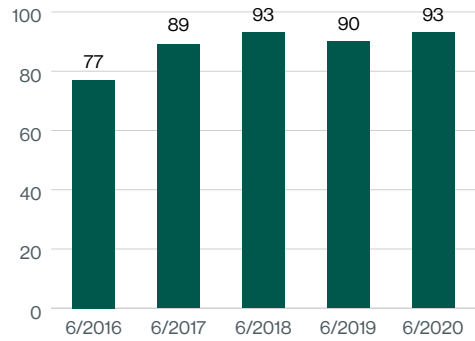
\* Alternative Performance Measure. For more information on Alternative Performance Measures, see pages 37–43.



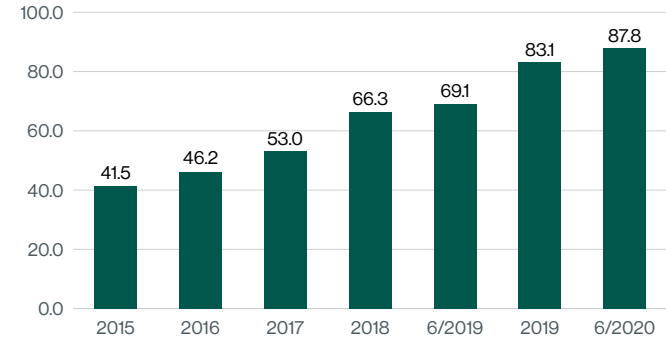
The calculation formulas for all key figures can be found on pages 37–44. All figures presented here in this Half Year Report are those of the MuniFin Group, unless otherwise stated.

Key figures

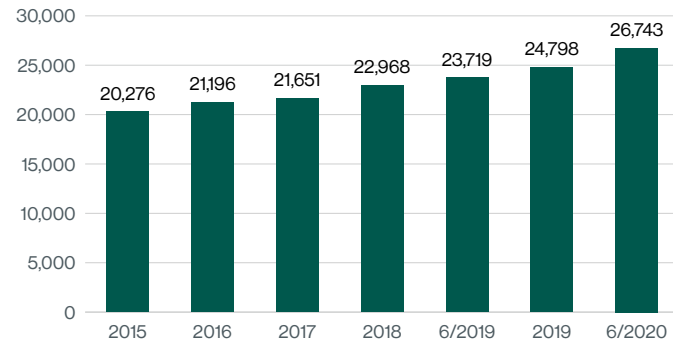
**Net operating profit excluding unrealised fair value changes**



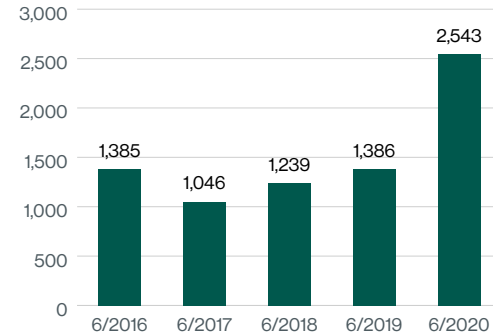
**CET1 capital ratio**



**Long-term customer financing**



**New lending**



## CEO's review

**With the COVID-19 pandemic turning the world upside down, the first half of 2020 was exceptional. In Finland, the economic impact of the COVID-19 pandemic's first wave is proving to be lesser than in Central Europe and the United States. Thanks to proactively imposed restrictive measures, Finland has been able to control the development of the pandemic without having to resort to extreme restrictive measures. However, the service sector faced the full force of the crisis and its financial impact from the very start. Predicting the pandemic's long-term economic effects continues to be difficult. Finland may go through the first wave of the pandemic with less economic impact than many other countries, but due to the structure of our economy, the long-term implications may be greater for Finland in EU comparison.**

For the MuniFin Group's customers, the economic crisis triggered by the COVID-19 pandemic has been very different than previous downturns. In municipalities, the pandemic increased expenditure and reduced income base. It first hit the large cities whose economic structure is particularly service-heavy and whose finances rely greatly on their own tax revenue.



The pandemic-influenced increased expenditure and reduced income will reflect negatively on municipal finances for a long time to come. The central government is committed to compensating municipalities' losses with large-scale fiscal measures, but they are unlikely to fully cover the deficit resulting from the pandemic. The municipal sector is facing some very challenging years. Finding a way out of the COVID-19 crisis will not be easy, and it will require a combination of various measures.

It is important to view the public sector as a whole: in the long term, both the state and municipal finances must be in balance. With the population ageing and the proportion of working age population on the decline, Finland would have been facing a challenging situation even without the COVID-19 crisis. The pandemic only emphasises these future challenges. In the future, we may not be able to afford all the current public services. We must therefore objectively assess and prioritise their significance and impact, and be prepared to make bold structural changes. Public stimulus methods are needed to recover from the crisis, but to ensure long-term economic resilience, it is essential that the private sector continues to make bold investments for future growth.

In housing construction, the effects of the COVID-19 pandemic have been more moderate than in municipal finances. Private construction is expected to slow down at least temporarily due to the pandemic, but the crisis may give further boost to state-subsidised housing production.

The Finnish Government's COVID-19 stimulus package includes many welcome initiatives on boosting municipal economy and state-subsidised housing production. The MAL agreements on land use, housing and transport for large city regions concluded between the state and the largest city regions are used, for example, to define the level of housing development and ensure the continuity of housing production in growth centres. Increasing the interest subsidy mandate of the Housing Finance and Development Centre of Finland (ARA) will have similar effects. Both measures will allow housing production to remain at a high enough level even when privately financed housing production is likely to decrease due to the economic downturn. This will improve employment and stimulate the economy.

The pandemic has significantly increased the demand for MuniFin's financing. The lending portfolio grew strongly – by almost 8 per cent – which was partly due to other credit institutions' partial withdrawal from financing municipalities. MuniFin's new lending increased by almost EUR 1.2 billion in January–June compared to the previous year's figure. Our customers' financing has been secured throughout the crisis.

Our funding has continued effectively and without interruptions throughout the pandemic. We issued three successful benchmark bonds during the reporting period. These issues were several times oversubscribed despite exceptionally challenging market conditions.

Successful issues are a strong testimonial of our ability to ensure our customers' access to funding also in difficult market conditions. The pandemic had only a minor effect on the Group's profit. The net operating profit excluding unrealised fair value changes increased by 3.6% in the reporting period, and the capital position remained strong in relation to business operations.

The COVID-19 crisis is a very concrete reminder of MuniFin's core duty. Our role is to ensure that our customers receive financing also in difficult times. I believe we have come out successful in fulfilling this role during the pandemic.

Despite new remote working practices and increased workload, our personnel have gone above and beyond to serve our customers in their usual, highly flexible, professional and approachable manner. I want to warmly thank our staff for the unyielding spirit and commitment they have showed during these exceptional times.

**Esa Kallio**  
President and CEO



**Municipality Finance Group**  
performance for the reporting period  
1 January–30 June 2020

MuniFin





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## Operating environment in the first half of 2020

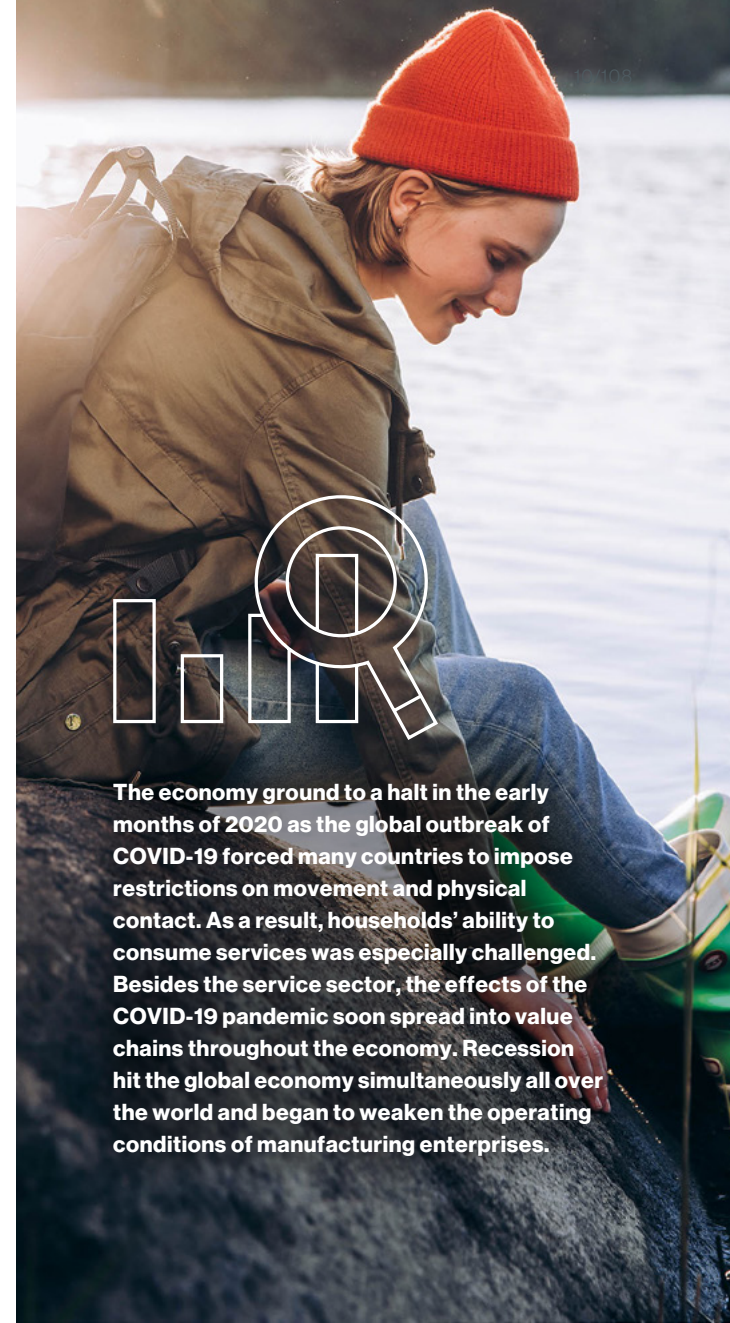
When the pandemic broke out, economic uncertainty rocketed, eliciting a strong reaction from the markets. Major stock market indices dropped by more than 30%, credit risk spreads widened, and confidence in the debt-carrying capacity of the most deeply indebted countries wavered. The euro area interbank money market conditions were also challenging, which caused Euribor rates to rise temporarily.

Central banks responded to the economic shock exceptionally fast. In March, the US central bank Fed lowered its key interest rate by 1.5 percentage points to a target range of 0.00–0.25% and launched an unlimited bond-buying plan. The European Central Bank (ECB) maintained its already negative deposit rate at -0.50% but implemented other extensive recovery measures. For example, it relaxed the conditions of central bank financing and launched a new temporary asset purchase programme of securities (*Pandemic Emergency Purchase Programme, PEPP*), the envelope of which was later increased to more than EUR 1,350 billion.

Many countries also launched extensive recovery measures to prevent a wave of bankruptcies and mass unemployment. These measures had a strong and straightforward focus on supporting private consumption and compensating businesses for the COVID-19-induced losses they had suffered. EU leaders also agreed on several measures to help the member states most heavily hit by the crisis. In 2020, the deficit-to-GDP ratio of industrialised countries is on average expected to reach or even surpass 10%, with the debt-to-GDP ratio rising by 10 to 20 percentage points.

The fast response of central banks and governments combined with large-scale stimulus plans worked to calm the markets over the spring months. The scope of the crisis considered, the financing conditions of companies, banks and public operators can be said to have stabilised fairly quickly. In July, the European Union published a EUR 750 billion economic stimulus plan which further contributes to this end.

Changes in the Finnish operating environment are described in the next chapter.



**The economy ground to a halt in the early months of 2020 as the global outbreak of COVID-19 forced many countries to impose restrictions on movement and physical contact. As a result, households' ability to consume services was especially challenged. Besides the service sector, the effects of the COVID-19 pandemic soon spread into value chains throughout the economy. Recession hit the global economy simultaneously all over the world and began to weaken the operating conditions of manufacturing enterprises.**

## Effects of the COVID-19 pandemic on the MuniFin Group

The outbreak of the COVID-19 pandemic and the resulting surge in economic uncertainty have had only a minor effect on the MuniFin Group's economic situation. The general pandemic restrictions have had some practical effects on the Group's operating practices, for example with increased remote work arrangements, but otherwise the Group's activities have continued in the usual manner. Between January and June 2020, costs rose and income plummeted significantly especially in the municipal sector, which increased their financing needs. Simultaneously, other credit institutions partially withdrew from the municipal lending market due to the pandemic. These changes resulted in increased demand for MuniFin's services. Despite the exceptional circumstances, MuniFin's own funding has been successful and liquidity has been maintained on a very good level. Thus, MuniFin has succeeded in fulfilling its customers' financing needs.

MuniFin is a nationally significant credit institution and the continuity of its activities is critical for the continuity of the Finnish society. The Group has protected the health and safety of its personnel and the continuity of its services by having the majority of employees work remotely during the crisis. This has in its part ensured the continuity of socially critical services and business processes also during the COVID-19 crisis.

To facilitate customers' use of services while the restriction measures are in force, the Group has developed its digital channels, for example by taking up the use of e-signatures in financing agreements. MuniFin has also enhanced the remote support for its digital services and organised popular online classes that instruct customers in their efficient use. The Group has also held several webinars for customers and other stakeholder groups on themes related to the economic outlook and its effects on municipal finances.

Few of the MuniFin Group's customers have run into economic challenges due to the COVID-19 crisis. If the pandemic has impacted their repayment ability, MuniFin has offered them repayment holidays and concessions to the payment terms of the loans. The COVID-19 pandemic has not increased MuniFin Group's expected credit losses in the reporting period. More information on repayment holidays and concessions to payment terms is available in Note 9 of this Half Year Report.

In order to secure the banking sector's ability to continue financing its customers in exceptional circumstances, the banking authorities have eased some requirements of supervised banks. This easing has had only a limited effect on MuniFin Group's capital adequacy and leverage ratio. The applied easing rules are described in more detail in the sections *MuniFin Group's capital adequacy* and *Minimum capital requirements and capital buffers*.

## Information on Group results

CONSOLIDATED INCOME STATEMENT	01-06/2020	01-06/2019	Change, %	01-12/2019
(EUR million)				
Net interest income	123	117	5.3	240
Other income	1	3	-57.4	6
<b>Income excluding unrealised fair value changes</b>	<b>125</b>	<b>120</b>	<b>3.6</b>	<b>246</b>
Commission expenses	-2	-2	21.9	-4
Personnel expenses	-9	-9	-1.6	-18
Other administrative expenses	-7	-7	1.9	-15
Depreciation and impairment on tangible and intangible assets	-3	-2	35.8	-6
Other operating expenses	-11	-11	-1.6	-18
<b>Costs</b>	<b>-32</b>	<b>-31</b>	<b>3.2</b>	<b>-60</b>
Credit loss and impairments on financial assets	0	0	-54.5	0
<b>Net operating profit excluding unrealised fair value changes</b>	<b>93</b>	<b>90</b>	<b>3.6</b>	<b>186</b>
Unrealised fair value changes	-31	-56	-44.9	-54
<b>Net operating profit</b>	<b>62</b>	<b>34</b>	<b>84.6</b>	<b>131</b>
<b>Profit for the period</b>	<b>50</b>	<b>27</b>	<b>84.7</b>	<b>105</b>

### Group's net operating profit excluding unrealised fair value changes

The Group's business operations remained strong during the first half of 2020. The Group's net operating profit excluding unrealised fair value changes grew by 3.6%, totalling EUR 93 million (EUR 90 million). Income excluding unrealised fair value changes grew by 3.6% to EUR 125 million (EUR 120 million). Costs grew by 3.2%, reaching EUR 32 million (EUR 31 million). The COVID-19 pandemic curbed the growth of costs, but boosted MuniFin Group's business, which had a positive effect on net interest income. As a whole, the pandemic had only a minor overall effect on Group's core business and profitability.

Net interest income grew by 5.3%, totalling EUR 123 million (EUR 117 million). This growth is due to increased customer financing, successful funding operations and favourable interest rate environment. The Group's net interest income does not recognise the interest expenses of the AT1 capital instrument 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 equity upon realisation of interest payment on an annual basis.

Other profit in the first half of 2020 amounted to EUR 1.4 million (EUR 3.3 million). These include fee and commission income, realised net income from securities and foreign exchange transactions, net income from financial assets measured at fair value through other comprehensive income, and other operating income. Also included in other profit is the turnover of MuniFin's subsidiary Inspira.

The Group's costs grew less than expected, by 3.2%, and were EUR 32 million (EUR 31 million) during the reporting period.

Commission expenses totalled EUR 2.4 million (EUR 2.0 million) and consisted primarily of paid guarantee fees, custody fees and fees of the funding programmes.

Administrative expenses remained at the level of comparison period at EUR 16 million (EUR 16 million), of which personnel expenses comprised EUR 8.8 million (EUR 8.9 million) and other administrative expenses EUR 6.9 million (EUR 6.8 million). Personnel expenses decreased by 1.6% as a result of slower growth in employee numbers, redefined principles for the capitalisation of the acquisition costs of development projects, and the government's decision to temporarily reduce all Finnish companies' pension contributions due to COVID-19 pandemic. The average number of employees in the parent company was 156 (149). Other administrative expenses have grown moderately. The COVID-19 pandemic has reduced certain types of expenditure such as travelling expenses, but on the other hand, the Group invests heavily in the development of information systems. Loan lifecycle management system is one of the current projects. In 2019, MuniFin Group signed outsourcing agreements for IT end-user and infrastructure services as well as the operation of the business IT systems to improve operational reliability and the availability of services. The practical implementation of the outsourcing agreements is currently underway and expected to be completed in late 2020.

During the reporting period, depreciation and impairment of tangible and intangible assets reached EUR 2.8 million (EUR 2.1 million). The increased deprecation resulted mainly from substantial recent investments in developing IT systems and business operations.

Other operating expenses decreased by 1.6% to EUR 11 million (EUR 11 million). Fees collected by authorities increased by 16.1% to EUR 6.3 million (5.5 million), mainly due to an increase in the contribution to the Single Resolution Fund. Other fees to authorities decreased by 19.5%.

The amount of expected credit losses (*ECL*), calculated according to IFRS 9, decreased during the reporting period. At the end of June, change recognised in the income statement was EUR 0.0 million (EUR 0.1 million). The COVID-19 pandemic had practically no effect on MuniFin Group's credit risk position because the Group's customers are public sector entities or institutions guaranteed by public sector entities. The Group has total of EUR 24 million (EUR 2 million) guarantee receivables from public sector entities due to customer insolvency. The increase is caused by only a few customers. More information on the credit risks on financial assets and other commitments are available in Note 9.

Due to the COVID-19 pandemic, the MuniFin Group has updated the scenarios and probabilities used for calculating expected credit losses in accordance with the IFRS 9 requirements. The different scenarios are provided with probability weights. The adverse scenario was given more weight because of the uncertainty caused by the pandemic. These scenarios and their weights are included in Note 9.

### Group's profit and unrealised fair value changes

The Group's net operating profit including unrealised fair value changes was EUR 62 million for the first half of 2020 (EUR 34 million). During the first half year the unrealised fair value changes were EUR -31 million (-56 million). The EUR 29 million growth in the Group's net operating profit is explained mainly by the unrealised fair value changes of EUR 25 million. Net income from hedge accounting amounted to EUR -1.6 million (EUR -27 million) and unrealised net income from securities to EUR -29 million (EUR -30 million). After taxes, the Group's profit was EUR 50 million (EUR 27 million).

The Group's comprehensive income includes EUR -19 million (EUR 14 million) of unrealised fair value changes. In the reporting period, the most significant item effecting the comprehensive income was the Cost-of-Hedging of EUR -40 million (EUR -0.3 million). The fair value change due to changes in own credit risk on financial liabilities designated at fair value through profit or loss totalled EUR 22 million (EUR 14 million).

The unrealised fair value changes net of deferred tax affected the amount of the Group's equity by EUR -40 million (EUR -34 million) and CET1 capital net of deferred tax in capital adequacy by EUR -57 million (EUR -43 million).

The cumulative effect of unrealised fair value changes was EUR -30 million (EUR 27 million) on MuniFin Group's own funds in capital adequacy calculations. The effect on individual contracts is expected to diminish to zero by the end of the contract period.

Unrealised changes in fair value reflect the temporary impact of market conditions on the valuation levels of financial instruments at the reporting time. The value changes may vary significantly from one reporting period to another, causing volatility in profit, equity and own funds in capital adequacy calculations.

In accordance with its risk management principles, the MuniFin Group uses derivatives to financially hedge against interest rate, exchange rate and other market and price risks. Cash flows under agreements are hedged, but due to the generally used valuation methods, changes in fair value differ between the financial instrument and the respective hedging derivative. Changes in the shape of the interest rate curve and credit risk spreads in different currencies affect the valuations, which 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 the MuniFin Group primarily holds financial instruments and their hedging derivatives until the maturity date. Changes

in credit risk spreads do not materialise as credit losses for the Group because the liquidity investments have very low credit risk. In the reporting period, unrealised fair value changes were influenced in particular by changes in interest rate expectations in the Group's main funding markets.

The Group's effective tax rate in the reporting period was 20.0% (20.1%). Taxes recognised in the income statement amounted to EUR 12 million (EUR 6.8 million). The Group's return on equity (ROE) was 6.2% (6.8%) at the end of the period. The ROE excluding unrealised fair value changes recognised during the reporting period was 9.3% (9.6%).

## Information on the consolidated statement of financial position

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (EUR million)	30 Jun 2020	31 Dec 2019	Change, %
Cash and balances with central banks	3,474	4,909	-29.2
Loans and advances to credit institutions	1,345	818	64.3
Loans and advances to the public and public sector entities	26,743	24,798	7.8
Debt securities	6,692	5,716	17.1
Derivative contracts	2,627	2,245	17.0
Other items included in the assets	408	446	-8.7
<b>Total assets</b>	<b>41,288</b>	<b>38,934</b>	<b>6.0</b>
Liabilities to credit institutions	900	1,178	-23.6
Liabilities to the public and public sector entities	3,919	3,862	1.5
Debt securities issued	31,794	29,984	6.0
Derivative contracts	2,371	1,762	34.6
Other items included in the liabilities	695	554	25.5
Total equity	1,610	1,594	1.0
<b>Total liabilities and equity</b>	<b>41,288</b>	<b>38,934</b>	<b>6.0</b>

The Group's consolidated statement of financial position increased by 6.0% in the first half of 2020, totalling EUR 41,288 million (EUR 38,934 million) at the end of the reporting period. The increase in assets was mainly due to growth in the long-term loan portfolio and leased assets, cash collateral for derivatives, municipal commercial papers, and the valuation of derivative contracts. The increase in liabilities was due to issued bonds and the valuation of derivatives.

At the end of June, MuniFin Group's equity stood at EUR 1,610 million (EUR 1,594 million), including the AT1 capital loan of EUR 347 million (347 million). Equity increased due to the profit for the 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 instrument were deducted from the equity upon the realisation of the interest payment in April. The dividends of EUR 6.3 million (EUR 6.3 million) paid to MuniFin's shareholders were likewise deducted from the equity.

## Financing and other services for customers

The MuniFin Group's customers include municipalities, municipal federations and municipality-controlled entities, as well as non-profit housing organisations and non-profit housing projects nominated by the Housing Finance and Development Centre of Finland (*ARA*). The COVID-19 pandemic substantially increased costs and lowered the income of municipal sector. This clearly increased municipal sector's demand for financing and other services.

The MuniFin Group is by far the largest single provider of financing for its customer segment, and its position was further strengthened. The MuniFin Group was able to continue providing financing for its customers in the usual manner despite the increased demand and unstable financial markets.

The demand for MuniFin's financing grew in the first six months of 2020. New lending amounted to EUR 2,543 million (EUR 1,386 million). This growth is mainly due to the COVID-19 pandemic, which resulted in increased demand for financing among municipal customers and other credit institutions' partial withdrawal from the municipal financing market.





## Financing and other services for customers

The Group's long-term customer financing grew by 7.8% (3.3%) in the reporting period and amounted to EUR 26,743 million (EUR 24,798 million) at the end of June. Of this figure, lending portfolio amounted to EUR 25,810 million (EUR 23,970 million) while total leased assets amounted to EUR 933 million (EUR 828 million). Long-term customer financing excluding unrealised fair value changes grew by 7.3% (2.4%) in the reporting period and was EUR 26,237 million (EUR 24,458 million) at the end of June. Of the new long-term customer financing, 75% (67%) was directed towards the municipal sector and 25% (33%) towards state-subsidised housing production.

Short-term financing in municipal commercial papers grew from EUR 804 million to EUR 1,922 million in the reporting period.

MuniFin Group has granted green finance for environmental investments since 2016, being the first institution to offer green finance product in the Finnish market. At the end of June 2020, the green finance portfolio stood at EUR 1,436 million (EUR 1,263 million). Green finance has been granted for a project pool worth EUR 1,839 million (EUR 1,474 million), but part of this total sum has not yet been withdrawn.

In February 2020, MuniFin Group published a social bonds framework and introduced a social finance product targeted at investments that provide especially wide-ranging benefits for the society. The first social finance projects were approved in May and the Group plans to issue its first social bond during 2020.

MuniFin's subsidiary Inspira specialises in financial advisory services. Inspira's turnover for January–June 2020 totalled EUR 1.9 million (EUR 2.0 million), while its net operating profit amounted to EUR 0.2 million (EUR 0.3 million).

The Group offers diverse tools for financial management and for the prediction and modelling of finances, and their user base has been growing steadily. The COVID-19 pandemic has increased the MuniFin Group's customers' need to use digital services in remote working contexts and to model various economic effects of the crisis. MuniFin Group has managed to introduce new customer service channels and adopted e-signatures to facilitate the use of remote services. With the crisis pushing customers more and more towards online services and meetings, MuniFin Group has been able to provide even more efficient customer service. Online events and training on digital services have proved very popular among customers.

# Funding and liquidity management

The COVID-19 pandemic caused significant disruptions in the international capital markets. The swift action and substantial stimulus packages of central banks had an important role in stabilising the markets.

Despite the exceptional circumstances, during the reporting period the MuniFin Group has been able to acquire funds in a nearly usual manner, securing uninterrupted financing for its customers. Due to the increased demand for financing, the 2020 funding programme was increased during the first half of the year.

The MuniFin Group's long-standing funding strategy has relied on diversification into multiple currencies, markets, maturities and investor types. This strategy, combined with MuniFin's good reputation among investors as well as the safety of investments in the Finnish municipal sector, secured MuniFin's access to markets this spring in times when this was difficult or even impossible to many other issuers.



At the end of June 2020, the green finance portfolio stood at EUR 1,436 million.



In February 2020, the MuniFin Group published a social bonds framework and introduced a social finance product targeted at investments that provide especially wide-ranging benefits for the society.

## Funding and liquidity management

In January–June 2020, the Group acquired EUR 5,504 million in new long-term funding (EUR 3,432 million). The number of funding transactions totalled 110 (84) in 10 (9) different currencies. The Group hedges funding-related market risks using derivative instruments.

During the reporting period, MuniFin issued three benchmark bonds. In January and April, MuniFin issued 5-year EUR denominated benchmark bonds, the first one of EUR 1.5 billion and the second of EUR 1 billion. Both benchmark bonds were three times oversubscribed. The April issue was carried out in exceptionally demanding market conditions. At the end of June MuniFin also issued a 3-year benchmark bond of USD 1 billion, which was also nearly three times oversubscribed. This bond's settlement date was in July and is therefore not included in the figures of the reporting period.

At the end of June, MuniFin Group's total funding portfolio amounted EUR 35,805 million (EUR 33,929 million).

The Group's liquidity has remained excellent. At the end of June 2020, MuniFin Group's total liquidity amounted to EUR 8,311 million (EUR 9,882 million). Investments in securities totalled EUR 4,770 million (EUR 4,922 million) with the average credit rating of AA+ (AA+) with the average maturity of 2.7 years (2.3 years). In addition to this, other investments amounted to EUR 3,541 million (EUR 4,960 million), of which EUR 3,513 million (EUR 4,936 million) were in central bank deposits and EUR 28 million (EUR 24 million) in money market deposits in credit institutions.

MuniFin monitors the sustainability of its liquidity investments with ESG scores (*Environmental, Social and Governance*). At the end of June 2020, MuniFin's liquidity investments had an ESG average score of 56.1 (53.0) on a scale of 1–100. The benchmark index is 53.2 (50.6). In addition to monitoring the ESG scoring of its investments, MuniFin has also direct socially responsible investments. They amounted to EUR 158 million (EUR 150 million) at the end of the reporting period, which is 3.4% (3.1%) of all investments in securities. MuniFin has a higher ratio of socially responsible investments than the market benchmark 1.9% (1.9%). The ratio of socially responsible investments to MuniFin's own green funding was 10.5% (10%).

# MuniFin's credit ratings

## RATING AGENCY



Long-term funding



Outlook



Short-term funding

Moody's Investors Service

**Aa1**

Stable

**P-1**

Standard & Poor's

**AA+**

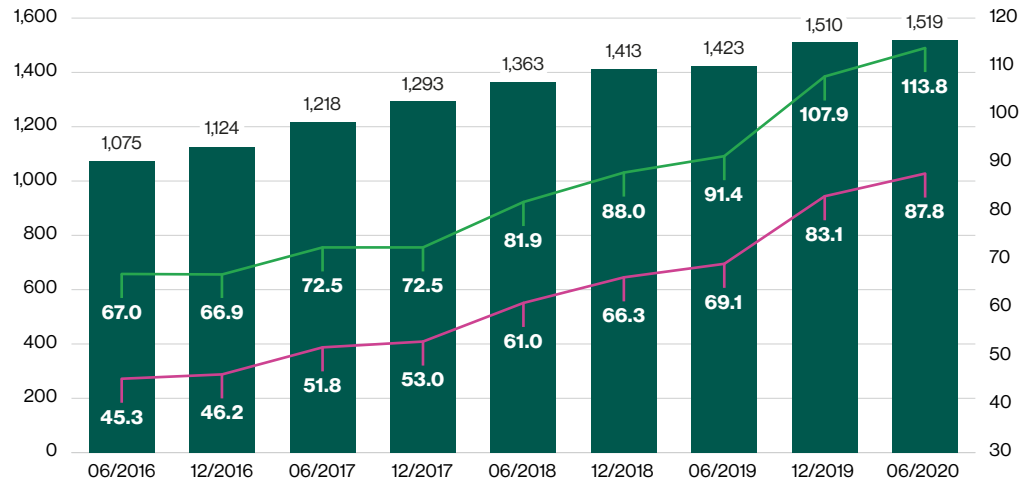
Stable

**A-1+**

MuniFin's credit ratings correspond to those of the Government of Finland.  
The credit ratings did not change in the reporting period.

# Capital adequacy

Group's own funds and capital adequacy



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

## MuniFin Group's capital adequacy

The Group's total capital ratio was 113.8% at the end of June 2020 (107.9%) and the CET1 capital ratio was 87.8% (83.1%). The CET1 capital ratio increased from the end of 2019 by 4.7 percentage points mainly due to decreased risk exposure amount and lowered operational risk capital requirement. The Group's capital adequacy has remained strong, surpassing legal requirements by a wide margin. MuniFin Group's own funds exceed the minimum requirement set in legislation by EUR 1,371 million (EUR 1,332 million), taking valid capital buffers into account.

## Capital adequacy

<b>CONSOLIDATED OWN FUNDS</b>	<b>30 Jun 2020</b>	<b>31 Dec 2019</b>
(EUR 1,000)		
Common Equity Tier 1 before adjustments	1,225,858	1,218,199
Adjustments to Common Equity Tier 1	-53,880	-55,747
<b>Common Equity Tier 1 (CET1)</b>	<b>1,171,977</b>	<b>1,162,452</b>
Additional Tier 1 capital before adjustments	347,454	347,454
Adjustments to Additional Tier 1 capital	-	-
<b>Additional Tier 1 capital (AT1)</b>	<b>347,454</b>	<b>347,454</b>
<b>Tier 1 capital (T1)</b>	<b>1,519,431</b>	<b>1,509,906</b>
Tier 2 capital before adjustments	-	-
Adjustments to Tier 2 capital	-	-
<b>Tier 2 capital (T2)</b>	<b>-</b>	<b>-</b>
<b>Total own funds</b>	<b>1,519,431</b>	<b>1,509,906</b>

At the end of the reporting period, the Group's CET1 capital totalled EUR 1,172 million (EUR 1,162 million) and Tier 1 capital EUR 1,519 million (EUR 1,510 million). MuniFin Group had no Tier 2 capital. The Group's own funds totalled EUR 1,519 million (EUR 1,510 million).

CET1 capital includes profit for the period of 1 January–30 June 2020 as the profit has been subject to a review by the auditors. It can therefore be included in CET1 capital based on the permission granted by the ECB in accordance with the Capital Requirements Regulation.

MuniFin Group has applied the Commission's Delegated Regulation (2020/866) on additional valuation adjustment (AVA) in prudent valuation. The delegated regulation changes the aggregation factor applied in valuation related to the uncertainty of market price uncertainty, close-out costs and model risks. The aggregation factor is temporarily raised to 66% until the end of 2020, after which it will be returned to its previous level of 50%. The effect this had on MuniFin Group's own funds at the end of June 2020 was EUR 8 million.

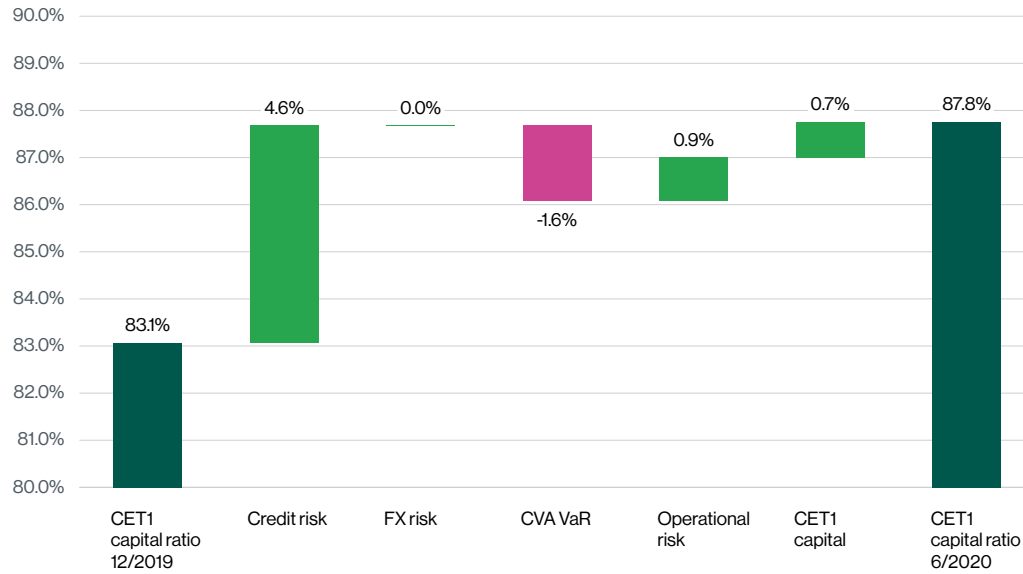
## Capital adequacy

CONSOLIDATED MINIMUM REQUIREMENT FOR OWN FUNDS (EUR 1,000)	30 Jun 2020		31 Dec 2019	
	Capital requirement	Risk exposure amount	Capital requirement	Risk exposure amount
<b>Credit and counterparty risk, standardised approach</b>	<b>55,137</b>	<b>689,213</b>	<b>61,038</b>	<b>762,976</b>
Exposures to central governments or central banks	-	-	-	-
Exposures to regional governments or local authorities	291	3,639	289	3,613
Exposures to public sector entities	486	6,077	-	-
Exposures to multilateral development banks	807	10,087	323	4,043
Exposures to institutions	31,148	389,349	37,847	473,090
Exposures in the form of covered bonds	20,449	255,617	20,676	258,456
Items representing securitisation positions	-	-	-	-
Exposures in the form of shares in CIUs	-	-	84	1,049
Other items	1,956	24,444	1,818	22,724
<b>Market risk</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Credit valuation adjustment risk (CVA VaR), standard method</b>	<b>18,995</b>	<b>237,433</b>	<b>17,085</b>	<b>213,561</b>
<b>Operational risk, basic indicator approach</b>	<b>32,704</b>	<b>408,795</b>	<b>33,841</b>	<b>423,016</b>
<b>Total</b>	<b>106,835</b>	<b>1,335,442</b>	<b>111,964</b>	<b>1,399,553</b>

The Group's total risk exposure amount decreased by 4.6% from the end of 2019, totalling EUR 1,335 million (EUR 1,400 million) at the end of the reporting period. The overall credit and counterparty risk decreased from the year-end 2019 figure of EUR 763 million to EUR 689 million at the end of the reporting period. This was particularly influenced by decrease in the risk-weights of liquidity portfolio. There was no capital requirement for market risk at the end of June or in the comparison year, because the currency position was less than 2% of own funds, and, based on Article 351 of the Capital Requirements Regulation (CRR), the own funds requirement for market risk has therefore not been calculated. The credit valuation adjustment risk increased to EUR 237 million (EUR 214 million). The risk exposure amount of operational risk decreased by 3.4% to EUR 409 million due to a decrease in the profit indicator (EUR 423 million).

Capital adequacy

**Group's CET1 capital ratio changes**



In addition to this Half Year Report, the MuniFin Group concurrently published a separate Pillar III Disclosure Report on capital adequacy and risk management, which is available in English on the MuniFin's website.



## Capital adequacy

<b>OWN FUNDS, PARENT COMPANY</b>	<b>30 Jun 2020</b>	<b>31 Dec 2019</b>
(EUR 1,000)		
Common Equity Tier 1 before adjustments	1,223,899	1,216,578
Adjustments to Common Equity Tier 1	-53,894	-55,762
<b>Common Equity Tier 1 (CET1)</b>	<b>1,170,004</b>	<b>1,160,816</b>
Additional Tier 1 capital before adjustments	349,141	348,896
Adjustments to Additional Tier 1 capital	-	-
<b>Additional Tier 1 capital (AT1)</b>	<b>349,141</b>	<b>348,896</b>
<b>Tier 1 capital (T1)</b>	<b>1,519,145</b>	<b>1,509,712</b>
Tier 2 capital before adjustments	-	-
Adjustments to Tier 2 capital	-	-
<b>Tier 2 capital (T2)</b>	<b>-</b>	<b>-</b>
<b>Total own funds</b>	<b>1,519,145</b>	<b>1,509,712</b>

**Parent company's capital adequacy**

The parent company's total capital ratio was 116.8% at the end of June 2020 (110.5%), and its CET1 capital ratio was 89.9% (85.0%). At the end of the reporting period, CET1 capital totalled EUR 1,170 million (EUR 1,161 million) and Tier 1 capital EUR 1,519 million (EUR 1,510 million). There was no Tier 2 capital, and the company's own funds totalled EUR 1,519 million (EUR 1,510 million).

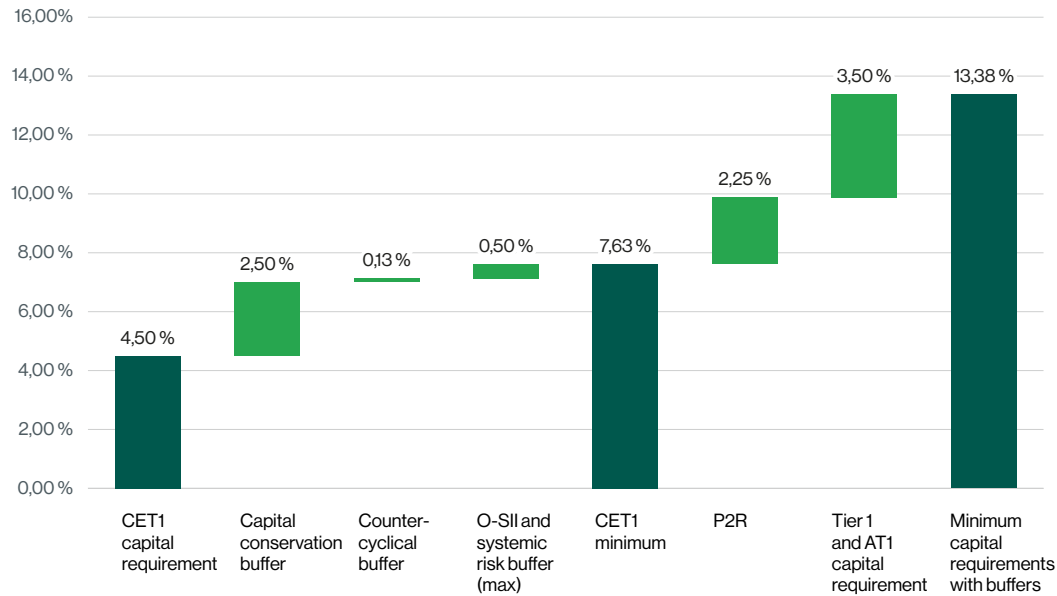
Capital adequacy

**MINIMUM REQUIREMENT FOR OWN FUNDS, PARENT COMPANY**

(EUR 1,000)	30 Jun 2020		31 Dec 2019	
	Capital requirement	Risk exposure amount	Capital requirement	Risk exposure amount
<b>Credit and counterparty risk, standardised approach</b>	<b>55,183</b>	<b>689,790</b>	<b>61,090</b>	<b>763,631</b>
Exposures to central governments or central banks	-	-	-	-
Exposures to regional governments or local authorities	291	3,639	289	3,613
Exposures to public sector entities	486	6,077	-	-
Exposures to multilateral development banks	807	10,087	323	4,043
Exposures to institutions	31,131	389,135	37,833	472,917
Exposures in the form of covered bonds	20,449	255,617	20,676	258,456
Items representing securitisation positions	-	-	-	-
Exposures in the form of shares in CIUs	-	-	84	1,049
Equity exposure	131	1,639	131	1,639
Other items	1,888	23,596	1,753	21,912
<b>Market risk</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Credit valuation adjustment risk (CVA VaR), standard method</b>	<b>18,995</b>	<b>237,433</b>	<b>17,085</b>	<b>213,561</b>
<b>Operational risk, basic indicator approach</b>	<b>29,904</b>	<b>373,803</b>	<b>31,081</b>	<b>388,508</b>
<b>Total</b>	<b>104,082</b>	<b>1,301,025</b>	<b>109,256</b>	<b>1,365,700</b>

Capital adequacy

Group's minimum capital requirements and capital buffers



**Minimum capital requirements and capital buffers**

The minimum capital requirement for capital adequacy is 8% and 4.5% for CET1 capital adequacy. Under the Finnish Act on Credit Institutions, the capital conservation buffer is 2.5% and MuniFin Group's additional capital requirement for other systemically important credit institutions (*O-SII*) is 0.5%. The Finnish Financial Supervisory Authority (*FIN-FSA*) decides on a countercyclical capital buffer requirement on a quarterly basis. In June 2020, it decided not to impose a countercyclical capital buffer. *FIN-FSA* also decides on an additional capital requirement for MuniFin Group based on the systemic risk buffer and adjusts it annually. In July 2019, the additional capital requirement was set to 1.5%. The systemic risk buffer and the *O-SII* buffer are not cumulative; only the larger is applied.

On 6 April 2020, *FIN-FSA* adjusted the capital requirements for the largest credit institutions in Finland. The purpose of these adjustments was to mitigate the negative effect the COVID-19 pandemic has on the stability of financial markets and on the credit institutions' ability to finance the economy. *FIN-FSA* removed MuniFin Group's systemic risk buffer of 1.5%, which reduced Group's overall capital requirements by 1.0 percentage points.

For MuniFin Group, the credit institution-specific countercyclical capital buffer requirement that is imposed based on the geographical distribution of exposures is 0.13%. Therefore, MuniFin Group has a minimum requirement of 7.63% (9.22%) for CET1 capital ratio and 11.13% (12.72%) for total capital ratio.

## Capital adequacy

In addition to the above-mentioned requirements, the European Central Bank has imposed an additional capital requirement of 2.25% (*P2R*) on MuniFin Group as part of the annual supervisor's review (*SREP*). Including this *P2R* requirement, the minimum level of CET1 capital ratio was 9.88% (11.47%) and the minimum level of total capital ratio was 13.38% (14.97%) at the end of June 2020.

MuniFin Group surpasses these minimum requirements by a wide margin. The Group's CET1 capital ratio was 87.8% (83.1%) at the end of June and total capital ratio was 113.8% (107.9%).

#### Leverage ratio and Liquidity Coverage Ratio

At the end of the reporting period, MuniFin Group's leverage ratio was 3.8% (4.0%), calculated using currently valid calculation principles (*CRR*). The slight decrease in leverage ratio was caused by the strong growth in MuniFin Group's credit portfolio and the negative unrealised fair value changes in the reporting period. As of June 2021, the minimum leverage ratio will be 3%. Changes to the regulation concerning the leverage ratio and capital requirements are discussed in the section *Changes in the regulation of the leverage ratio and capital requirements*.

At the end of June, MuniFin Group's Liquidity Coverage Ratio (*LCR*) was 353.9% (430.2%). The minimum requirement is 100%.

MuniFin Group is also preparing for the adoption of the Net Stable Funding Ratio (*NSFR*), which will take effect in June 2021 with the minimum requirement of 100%. At the end of June 2020, the Group's *NSFR* was 117.5% (116.3%).

#### Changes in the regulation of the leverage ratio and capital requirements

Long-prepared changes to the regulation of banking capital adequacy (*CRR II and CRD V*) were adopted by the European Parliament in April 2019. To a large extent, these changes will be applied in June 2021. This package also includes a leverage ratio requirement, which requires a credit institution to have a leverage ratio of at least 3%. For several years now, MuniFin Group has been preparing for the introduction of the leverage ratio requirement, and its leverage ratio already exceeds the requirement, reaching 3.8% at the end of June (4.0%).

According to the adopted regulation, a public development credit institution may, from June 2021 onwards, deduct all receivables from central government

and regional government in the calculation of leverage ratio. Based on its own assessment, MuniFin fulfils the criteria of a public development credit institution. The changes in *CRR II* will therefore have a substantial positive effect on the Group's leverage ratio. Other changes included in the package are so far estimated to have less significant effects on MuniFin Group's leverage ratio.

The change package is not expected to substantially alter the Group's capital adequacy position. At the end of June 2020, the MuniFin Group's CET1 ratio was very high at 87.8%, and it is estimated that the adoption of *CRR II* and *CRD V* will not have a great effect on the CET1 capital ratio.

#### Liabilities under the Act on the Resolution of Credit Institutions and Investment Firms

The crisis resolution authority for MuniFin is the EU's Single Resolution Board (*SRB*). The *SRB* is about to impose on MuniFin a binding minimum requirement for own funds and eligible liabilities (*MREL*). The *MREL* is expected to take effect in the beginning of 2022. MuniFin's own funds and eligible liabilities are estimated to exceed the minimum requirements imposed to the Group by a wide margin.

## Risk management

The MuniFin Group's operations require risk management mechanisms to ensure that the Group's risk position remains within the limits set by the Board of Directors. To preserve its strong credit rating, the Group applies conservative risk management principles and aims to keep the overall risk status low.

The relevant risk types associated with the MuniFin Group's operations include credit risk, counterparty risk, market risk and liquidity risk. All operations also involve strategic and operational risks, including compliance risk and climate risk.

### Risk position

The COVID-19 pandemic may affect the MuniFin Group's counterparty risk, liquidity portfolio credit risk and risks related to liquidity, lending and business processes. So far, however, the pandemic has not had any significant negative effects in these risks.

There were no material changes in the Group's risk appetite in the first half of 2020. Risks remained within the limits set during the reporting period and the risk position remained stable. Unrealised fair value changes of financial instruments increased the volatility of profits. The Group continuously monitors and analyses the volatility arising from valuations and prepare for any impacts it may have on profit and capital adequacy.



## Risk management

The Group is exposed to credit risks as part of its business. Due to the nature of its customer base, credit risks are low, but it is impossible to completely eliminate them. The credit risks almost exclusively emerge from customer financing and the liquidity portfolio investments and the derivatives portfolio. MuniFin also offers derivative products for its customers for hedging their interest rate positions. These products are covered with offsetting contracts from the market. Derivatives are only used for hedging against market risks. During the reporting period, MuniFin's credit risk position has remained at a low and stable level.

In view of its credit risk mitigation techniques (mortgage collateral and guarantees received), MuniFin is not exposed to customer risk in its customer financing, and thus the customer risk of no single customer exceeds 10% of own funds. The amount of expected credit losses declined in the first half of the year and was EUR 0.0 million (EUR 0.1 million) recognised in the income statement. The amount of forborne receivables at the end of June was EUR 77 million, which is EUR 44 million more than in the end of 2019. Non-performing exposures amounted to EUR 44 million in the end of June (EUR 67 million). For these non-performing exposures, MuniFin has absolute guarantees by municipalities or mortgage collateral and guarantees from municipalities and/or the state, and therefore these exposures are not expected to carry risk of an eventual credit loss. Non-performing exposures represented 0.1% of total customer exposures (0.3%).

Market risks include interest rate risk, exchange rate risk and other market and price risks. Interest rate risk mainly arises from the differences in Euribor rates applicable to the assets and liabilities in the balance sheet. MuniFin actively monitors and hedges interest rate risk and manages it by using derivatives. Eight scenarios are used in the calculation of the earnings risk and the most unfavourable outcome is considered. The most unfavourable scenario was based on an assumption of one percentage point rise in the whole interest rate curve. One-year earnings risk at the end of June was EUR -21 million (EUR -14 million). Several scenarios are also used in the calculation of the economic value of equity, and the most unfavourable outcome is considered. The most unfavourable scenario was based on an assumption of two percentage point rise in the whole interest rate curve. Economic value of equity at the end of June was EUR -302 million (EUR -114 million).

MuniFin's exchange rate risks are hedged by using derivative contracts to swap all funding and investments denominated in foreign currency into euros. In practice, MuniFin's operations are not exposed to exchange rate risks, but a small temporary exchange rate risk may arise due to collateral management in the clearing of derivatives by central counterparties. This exchange rate risk is actively monitored and hedged. Derivatives are also used to hedge against other market and price risks. Derivatives can only be used for hedging purposes as MuniFin is not engaged in trading activities. The Group's market risk has remained stable, even though the profit and loss volatility caused by unrealised fair value changes of financial instruments has increased.

The MuniFin Group actively develops its understanding of climate risks related to its lending and investment activities. This includes the consideration of a wide range of physical, technological and regulatory risks.

MuniFin manages refinancing risk by limiting the average maturity between financial assets and liabilities. In addition, MuniFin manages liquidity risk by setting a limit for the minimum adequacy of the available short and long-term liquidity. At the end of the reporting period, its survival horizon was 15.5 months (13.6 months). The MuniFin Group's liquidity remained good, with LCR being 353.9% (430.2%) at the end of June. The availability of financing also remained good. In January–June 2020, MuniFin issued EUR 5,504 million (EUR 3,432 million) in long-term funding.

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 2020. MuniFin estimates that the COVID-19 pandemic has not increased the Group's operational risks. Increased remote work arrangements have had some practical effects on the Group's operating practices, but for example the control points related to processes and information security have been in place and continued to work in the usual way.

Despite the COVID-19 pandemic, the MuniFin Group's risk position has remained stable and at a moderate level in the reporting period.

## Governance

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

Upon the publication of the Annual Report, MuniFin also 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 Annual Report 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 as well as information on how MuniFin 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, this code does not apply directly to MuniFin. However, MuniFin has used the Finnish Corporate Governance Code as the basis for preparing its internal Corporate Governance Policy.



### Group structure

The Municipality Finance Group (MuniFin Group) consists of Municipality Finance Plc (MuniFin) and Financial Advisory Services Inspira Ltd (Inspira). MuniFin owns 100% of Inspira. No changes to the group structure took place in the reporting period.

### General meeting

The Annual General Meeting (AGM) of MuniFin was held on 25 March 2020. The AGM confirmed the Financial Statements for 2019 and discharged the members of the Board of Directors, the CEO and the Deputy CEO from liability for the financial year 2019. 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). The remaining part of distributable funds, EUR 129,117,955.25 (EUR 127,617,814.70) will be retained in equity.

Based on the proposal of the Shareholders' Nomination Committee, the AGM appointed the Board of Directors for the 2020–2021 term, lasting from the 2020 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 MuniFin's auditor, with APA Tiia Kataja as the principal auditor. She has acted as the principal auditor during the previous term as well.

### Board of Directors

The Shareholders' Nomination Committee made a proposal to the AGM held on 25 March 2020 regarding the members to be elected for the term that began at the end of the 2020 AGM and will conclude at the end of the 2021 AGM.

The AGM elected the following members to the Board of Directors:

- Maaria Eriksson
- Markku Koponen
- Kari Laukkanen
- Vivi Marttila
- Tuula Saxholm
- Denis Strandell
- Kimmo Viertola
- Helena Walldén

The MuniFin Board 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 MuniFin Board has appointed Audit, Risk and Remuneration Committees. The MuniFin Board has selected Helena Walldén (chair), Markku Koponen, Tuula Saxholm and Kimmo Viertola as the members of the Remuneration Committee. In the Audit Committee, the Board selected Markku Koponen (chair), Kari Laukkanen and Vivi Marttila as members. In the Risk Committee, the Board selected Kari Laukkanen (chair), Maaria Eriksson and Denis Strandell.

From the 2019 AGM to the 2020 AGM, the members of the Board of Directors were Helena Walldén (chair), Tuula Saxholm (vice chair), Maaria Eriksson, Minna Helppi, Markku Koponen, Jari Koskinen, Kari Laukkanen and Vivi Marttila. Raija-Leena Hankonen resigned from the MuniFin Board and its committees on 21 February 2020.

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



### Personnel

At the end of June 2020, the MuniFin Group had 167 employees (167).

The President and CEO of MuniFin is Esa Kallio, with Mari Tyster, Executive Vice President, acting as deputy to the President and CEO. In addition, the MuniFin Executive Management Team includes Executive Vice Presidents Aku Dunderfelt, Toni Heikkilä, Rainer Holm, Joakim Holmström and Harri Luhtala.

### Internal audit

The purpose of the internal audit is to monitor the reliability and accuracy of MuniFin's financial and other management information. It also ensures that MuniFin 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 reporting period

No material events occurred after the reporting period.

## Outlook for the second half of 2020

The COVID-19 crisis is a global and highly unusual economic shock because it was caused by the virus rather than any imbalance in the economy. Effectively controlling the pandemic could quickly make the economic outlook more positive. However, the development of the disease situation and the risk for new pandemic waves will largely determine how much the investing and consuming capacity of private households is affected and for how long, which might have great impact on the municipal tax revenue.

The current political situation also poses substantial risks. The UK's "no-deal Brexit" may still take place at the end of the year, the US–China trade war has the potential to escalate further, and the US presidential elections may increase political unrest in the US.

The potential renewed escalation of the COVID-19 pandemic and the restrictions that may ensue are very difficult to predict. For now, the pandemic has only had a very moderate effect on MuniFin's funding, while it is expected to further increase the demand for MuniFin's financing.

Finland has been working on a reform of social and health care services for several years now. The latest legislative proposals are currently in consultation. While there is no telling how the reform will materialise and what effects it will have on MuniFin or its customers, it is not expected to have any significant effects on the MuniFin Group's operations in the year 2020.

The Group continues to invest substantial resources to further optimise and improve its operations and digitalise future services. Due to the development of IT systems, the Group expects its expenses to continue to grow in 2020, notwithstanding the fact that the COVID-19 pandemic has slowed down the growth of overall expenditure.

According to the Capital Requirements Regulation (*CRR II*) confirmed in 2019 and to be implemented in June 2021, a public development credit institution may deduct its receivables from municipalities and the government when calculating its leverage ratio. Based on its own assessment, MuniFin fulfils the criteria of a public development credit institution. If this is the case, *CRR II* will have a considerable positive effect on MuniFin Group's leverage ratio.

Considering the above-mentioned circumstances and assuming that there will be no major changes in the development of market interest rates and credit risk premiums when compared to market expectations, MuniFin Group estimates its net operating profit excluding unrealised fair value changes to remain at the same level as in 2019. The valuation principles set in IFRS 9 standard may cause significant unrealised fair value changes, some of which increase the volatility of net operating profit and make it more difficult to estimate.

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

Helsinki, 14 August 2020

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

<b>THE GROUP'S DEVELOPMENT</b>	<b>30 Jun 2020</b>	<b>30 Jun 2019</b>	<b>31 Dec 2019</b>
Turnover (EUR million)	257	348	718
Net interest income (EUR million)*	123	117	240
% of turnover	48.1	33.6	33.5
Net operating profit (EUR million)*	62	34	131
% of turnover	24.3	9.7	18.3
Unrealised fair value changes (EUR million)*	-31	-56	-54
Net operating profit excluding unrealised fair value changes (EUR million)*	93	90	186
Cost-to-income ratio*	0.3	0.5	0.3
Cost-to-income ratio excluding unrealised fair value changes*	0.2	0.2	0.2
Return on equity (ROE), %*	6.2	3.6	6.8
Return on equity (ROE) excluding unrealised fair value changes, %*	9.3	9.6	9.6
Return on assets (ROA), %*	0.2	0.1	0.3
Return on assets (ROA) excluding unrealised fair value changes, %*	0.4	0.4	0.4

The Group's Development



<b>THE GROUP'S DEVELOPMENT</b>	<b>30 Jun 2020</b>	<b>30 Jun 2019</b>	<b>31 Dec 2019</b>
Long-term loan portfolio (EUR million)*	25,810	23,019	23,970
New lending (EUR million)*	2,543	1,386	3,175
Long-term funding (EUR million)*	35,805	31,822	33,929
New long-term funding (EUR million)*	5,504	3,432	7,385
Equity (EUR million)	1,610	1,506	1,594
Total balance sheet (EUR million)	41,288	36,956	38,934
Total liquidity (EUR million)*	8,311	8,554	9,882
Liquidity Coverage Ratio (LCR), %	353.9	207.3	430.2
Equity ratio, %*	3.9	4.1	4.1
CET1 capital (EUR million)	1,172	1,076	1,162
Tier 1 capital (EUR million)	1,519	1,423	1,510
Total own funds (EUR million)	1,519	1,423	1,510
CET1 capital ratio, %	87.8	69.1	83.1
Tier 1 capital ratio, %	113.8	91.4	107.9
Total capital ratio, %	113.8	91.4	107.9
Leverage ratio, %	3.8	4.0	4.0
Personnel	167	163	167

\* Alternative Performance Measure. For more information on Alternative Performance Measures, see pages 37–43.

## Key figures

MuniFin Group defines the Alternative Performance Measures (APMs) to be financial measures that have not been defined in the IFRS standards or the capital requirements regulation (CRD/CRR). The APMs improve comparability between companies in the same sector and between reporting periods and provide valuable information to the readers of the financial reports. The APMs provide a more consistent basis for comparing the results of financial periods and for assessing MuniFin Group's performance. They are also an important aspect of the way in which Group's management defines operating targets and monitors performance.

The Alternative Performance Measures are presented in MuniFin Group's financial reports in accordance with the guidelines for Alternative Performance Measures issued by the European Securities and Markets Authority (ESMA).

MuniFin Group has not made any adjustments to APMs nor included any new APMs due to the impacts of COVID-19 pandemic.

## Key figures

Figures are in million EUR.

<b>ALTERNATIVE PERFORMANCE MEASURE</b>	<b>DEFINITION / EXPLANATION</b>	<b>RECONCILIATION</b>	<b>1 Jan–30 Jun 2020</b>	<b>1 Jan–30 Jun 2019</b>
Net interest income	Interest income and expense from financial assets and liabilities are recognised in net interest income. A significant part of Group's revenues consists of net interest income.	Interest and similar income (incl. leasing) interest and similar expense	286 -163	401 -284
		<b>Net interest income</b>	<b>123</b>	<b>117</b>
Unrealised fair value changes	Due to IFRS 9 implementation more financial instruments are measured at fair value through profit or loss which increases PnL volatility. To enhance comparability of business performance between periods and companies, it is often necessary to exclude the PnL effect of the unrealised fair value changes.	Net income from securities and foreign exchange transactions, fair value changes Net income from hedge accounting	-29 -2	-30 -27
		<b>Unrealised fair value changes</b>	<b>-31</b>	<b>-56</b>
Net operating profit	Net operating profit describes Group's operating profit before taxes.	<b>Net operating profit</b>	<b>62</b>	<b>34</b>
Net operating profit excluding unrealised fair value changes	Net operating profit excluding unrealised fair value changes as an APM is of interest of showing MuniFin Group's underlying earnings capacity.	Net operating profit Unrealised fair value changes	62 -31	34 -56
		<b>Net operating profit excluding unrealised fair value changes</b>	<b>93</b>	<b>90</b>
Income	Income, which describes the Group's total income including net interest income, is used e.g. as a denominator (minus commission expenses) in Cost-to-income ratio.	Net interest income Commission income Net income from securities and foreign exchange transactions Net income on financial assets at fair value through other comprehensive income Net income from hedge accounting Other operating income	123 2 -30 0 -2 0	117 2 -29 0 -27 0
		<b>Income</b>	<b>94</b>	<b>64</b>

Key figures



**ALTERNATIVE  
PERFORMANCE  
MEASURE**

	<b>DEFINITION / EXPLANATION</b>	<b>RECONCILIATION</b>	<b>1 Jan–30 Jun 2020</b>	<b>1 Jan–30 Jun 2019</b>
Income excluding unrealised fair value changes	Income excluding unrealised fair value changes reflects the Group's operating income, of which the most significant is net interest income.	Income - Unrealised fair value changes <b>Income excluding unrealised fair value changes</b>	94 31 <b>125</b>	64 56 <b>120</b>
Other income	Other income includes all other income of the Group than net interest income and unrealised fair value changes.	Commission income Net income from securities and foreign exchange transactions, realised Net income on financial assets at fair value through other comprehensive income Other operating income <b>Other income</b>	2 -1 0 0 <b>1</b>	2 1 0 0 <b>3</b>
Costs	Costs, which describe the Group's total costs, is used e.g. as a numerator (excl. commission expenses) in Cost-to-income ratio.	Commission expenses Administrative expenses Depreciation and impairment on tangible and intangible assets Other operating expenses <b>Costs</b>	2 16 3 11 <b>32</b>	2 16 2 11 <b>31</b>
Cost-to-income ratio	The Cost-to-income ratio is an established key ratio in the banking sector for assessing the relationship between expenses and income. The ratio gives investors a comparative view of MuniFin Group's cost-effectiveness.	Costs (excl. Commission expenses) ÷ Income (incl. Net commission income) <b>Cost-to-income ratio</b>	29 91 <b>0.3</b>	29 62 <b>0.5</b>



Key figures



**ALTERNATIVE  
PERFORMANCE  
MEASURE**

	<b>DEFINITION / EXPLANATION</b>	<b>RECONCILIATION</b>	<b>1 Jan–30 Jun 2020</b>	<b>1 Jan–30 Jun 2019</b>
Cost-to-income ratio excluding unrealised fair value changes	Cost-to-income ratio excluding unrealised fair values changes gives a more precise picture of MuniFin Group's operative effectiveness as it excludes the income volatility of unrealised fair value changes. Cost-to-income ratio excluding unrealised fair value changes as a performance measure is more widely used after the implementation of IFRS 9 as PnL volatility of income has grown due to unrealised fair value changes of financial instruments. It improves comparability of operative effectiveness between companies and reporting periods.	Costs (excl. Commission expenses) ÷ (Income (incl. Net commission income) - Unrealised fair value changes)	29 91 -31	29 62 -56
		<b>Cost-to-income ratio excluding unrealised fair value changes</b>	<b>0.2</b>	<b>0.2</b>
The effect of unrealised fair value changes on other comprehensive income and equity net of tax	The key figure describes the effect of unrealised fair value changes during the reporting period on the Group's comprehensive income and equity net of tax.	Unrealised fair value changes (through PnL) - Taxes related to the unrealised fair value changes (through PnL) Net change in fair value due to changes in own credit risk on financial liabilities designated at fair value through profit or loss, net of tax Net change in Cost-of-Hedging, net of tax Net change in fair value of financial assets at fair value through other comprehensive income, net of tax	-31 6 18 -32 0	-56 11 11 0 1
		<b>The effect of unrealised fair value changes on other comprehensive income and equity net of tax</b>	<b>-40</b>	<b>-34</b>





Key figures



**ALTERNATIVE  
PERFORMANCE  
MEASURE**

	DEFINITION / EXPLANATION	RECONCILIATION	30 Jun 2020	31 Dec 2019
Return on Equity (ROE), %	ROE measures the efficiency of MuniFin Group's capital usage. It is commonly used performance measure and as an APM it improves comparability between companies.	((Net operating profit - Taxes) ÷ Equity and non-controlling interest (average of values at the beginning and end of the period)) x 100	62 -12 1,602	131 -26 1,540
		<b>Return on Equity (ROE), %</b>	<b>6.2%</b>	<b>6.8%</b>
Return on Equity (ROE) excluding unrealised fair value changes, %	MuniFin Group's strategy indicator. Excluding the unrealised fair value changes increases comparability between reporting periods.	((Net operating profit excluding unrealised fair value changes - Taxes) ÷ Equity and non-controlling interest (average of values at the beginning and end of the period)) x 100	93 -19 1,602	186 -37 1,540
		<b>Return on Equity (ROE) excluding unrealised fair value changes, %</b>	<b>9.3%</b>	<b>9.6%</b>
Return on Assets (ROA), %	ROA measures the efficiency of the Group's investments. It is commonly used performance measure and as an APM it improves comparability between companies.	((Net operating profit - Taxes) ÷ Average balance sheet total (average of values at the beginning and end of the period)) x 100	62 -12 40,111	131 -26 37,305
		<b>Return on Assets (ROA), %</b>	<b>0.2%</b>	<b>0.3%</b>
Return on Assets (ROA) excluding unrealised fair value changes, %	Excluding the unrealised fair value changes increases comparability of ROA between reporting periods.	((Net operating profit excluding unrealised fair value changes - Taxes) ÷ Average balance sheet total (average of values at the beginning and end of the period)) x 100	93 -19 40,111	186 -37 37,305
		<b>Return on Assets (ROA) excluding unrealised fair value changes, %</b>	<b>0.4%</b>	<b>0.4%</b>



Key figures



**ALTERNATIVE  
PERFORMANCE  
MEASURE**

	<b>DEFINITION / EXPLANATION</b>	<b>RECONCILIATION</b>	<b>30 Jun 2020</b>	<b>31 Dec 2019</b>
Equity ratio, %	The equity ratio is an investment leverage and solvency ratio that measures the amount of assets that are financed by equity. It is commonly used performance measure and as an APM it improves comparability between companies.	(Equity and non-controlling interest ÷ Balance sheet total) x 100 <b>Equity ratio, %</b>	1,610 41,288	1,594 38,934
Long-term loan portfolio	Key indicator used in management reporting to describe MuniFin Group's business volume.	Loans and advances to the public and public sector entities - Leased assets <b>Long-term loan portfolio</b>	26,743 -933 <b>25,810</b>	24,798 -828 <b>23,970</b>
Long-term customer financing	Key indicator used in management reporting to describe MuniFin Group's business volume.	Loans and advances to the public and public sector entities <b>Long-term customer financing</b>	26,743 <b>26,743</b>	24,798 <b>24,798</b>
Long-term customer financing excluding unrealised fair value changes	Key indicator used in management reporting to describe MuniFin Group's business volume. In this indicator the unrealised fair value changes have been excluded to enhance comparability of business performance between periods.	Loans and advances to the public and public sector entities (excl. unrealised fair value changes) <b>Long-term customer financing excluding unrealised fair value changes</b>	26,237 <b>26,237</b>	24,458 <b>24,458</b>



Key figures



**ALTERNATIVE  
PERFORMANCE  
MEASURE**

	<b>DEFINITION / EXPLANATION</b>	<b>RECONCILIATION</b>	<b>30 Jun 2020</b>	<b>31 Dec 2019</b>
Long-term funding	Key indicator used in management reporting to describe MuniFin Group's funding volume.	Liabilities to credit institutions	900	1,178
		Liabilities to the public and public sector entities	3,919	3,862
		Debt securities issued	31,794	29,984
		Total	36,612	35,024
		- CSA collateral (received)	-807	-1,095
		<b>Long-term funding</b>	<b>35,805</b>	<b>33,929</b>
Total liquidity	Key indicator used in management reporting to describe MuniFin Group's liquidity position.	Debt securities	6,692	5,716
		-Short-term customer finance	-1,922	-804
		Shares and participations	-	10
		Investments in securities total	4,770	4,922
		Cash and balances with central banks	3,474	4,909
		Other deposits	67	51
		Other investments total	3,541	4,960
		<b>Total liquidity</b>	<b>8,311</b>	<b>9,882</b>
		<b>1 Jan–30 Jun 2020</b>	<b>1 Jan–30 Jun 2019</b>	
New lending	Key indicator used in management reporting to describe MuniFin Group's business volume during the reporting period. The indicator includes the amount of new loans excluding unrealised fair value changes.	<b>New lending</b>	<b>2,543</b>	<b>1,386</b>
New long-term funding	Key indicator used in management reporting to describe MuniFin Group's funding activity during the reporting period. The indicator includes the amount of new funding (over 1 year) issued excluding unrealised fair value changes during the reporting period.	<b>New long-term funding</b>	<b>5,504</b>	<b>3,432</b>

## Key figures

<b>OTHER MEASURES</b>	<b>DEFINITION</b>	<b>RECONCILIATION</b>	<b>1 Jan–30 Jun 2020</b>	<b>1 Jan–30 Jun 2019</b>
Turnover	Defined in IFRS (IAS 1). Turnover is not disclosed in MuniFin Group's consolidated income statement which is why the formula for turnover is presented even though it is not considered to be an APM.	Interest and similar income (incl. leasing) Commission income Net income from securities and foreign exchange transactions Net income on financial assets at fair value through other comprehensive income Net income from hedge accounting Other operating income	286 2 -30 0 -2 0	401 2 -29 0 -27 0
		<b>Turnover</b>	<b>257</b>	<b>348</b>
			<b>30 Jun 2020</b>	<b>31 Dec 2019</b>
Liquidity Coverage Ratio (LCR), %	Defined in CRR.	(Liquid assets ÷ (Liquidity outflows - liquidity inflows in a stress situation)) x 100	7,202 2,035	8,291 1,928
		<b>Liquidity Coverage Ratio (LCR), %</b>	<b>353.9%</b>	<b>430.2%</b>
Net Stable Funding Ratio (NSFR), %	Prior to the implementation of CRR II, providing data on NSFR is based on EU 1024/2013 Article 4 and the calculation of the ratio is based on Basel III NSFR guidelines.	(Available Stable Funding (ASF) ÷ Required Stable Funding (RSF)) x 100	29,029 24,700	26,179 22,518
		<b>Net Stable Funding Ratio (NSFR), %</b>	<b>117.5%</b>	<b>116.3%</b>
CET1 capital ratio, %	Defined in CRR.	(Common Equity Tier 1 (CET1) ÷ Risk exposure amount) x 100	1,172 1,335	1,162 1,400
		<b>CET1 capital ratio, %</b>	<b>87.8%</b>	<b>83.1%</b>
Tier 1 capital ratio, %	Defined in CRR.	(Tier 1 capital ÷ Risk exposure amount) x 100	1,519 1,335	1,510 1,400
		<b>Tier 1 capital ratio, %</b>	<b>113.8%</b>	<b>107.9%</b>
Total capital ratio, %	Defined in CRR.	(Total own funds ÷ Risk exposure amount) x 100	1,519 1,335	1,510 1,400
		<b>Total capital ratio, %</b>	<b>113.8%</b>	<b>107.9%</b>
Leverage ratio, %	Defined in CRR.	(Tier 1 capital ÷ Total exposure) x 100	1,519 39,844	1,510 37,982
		<b>Leverage ratio, %</b>	<b>3.8%</b>	<b>4.0%</b>



**Municipality Finance Group's**  
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1 January–30 June 2020

**MuniFin**



## Consolidated income statement

(EUR 1,000)	Note	1 Jan–30 Jun 2020	1 Jan–30 Jun 2019
Interest and similar income	(2)	286,339	401,302
Interest and similar expense	(2)	-162,965	-284,107
<b>Net interest income</b>		<b>123,374</b>	<b>117,195</b>
Commission income		1,903	2,093
Commission expense		-2,424	-1,988
Net income from securities and foreign exchange transactions	(3)	-29,931	-28,780
Net income on financial assets at fair value through other comprehensive income		-3	112
Net income from hedge accounting	(4)	-1,618	-26,501
Other operating income		47	77
Administrative expenses		-15,641	-15,654
Depreciation and impairment on tangible and intangible assets	(8)	-2,795	-2,058
Other operating expenses		-10,681	-10,850
Credit loss and impairments on financial assets	(9)	36	79
<b>Net operating profit</b>		<b>62,266</b>	<b>33,724</b>
Income tax expense		-12,458	-6,763
<b>Profit for the period</b>		<b>49,809</b>	<b>26,961</b>

## Statement of comprehensive income

(EUR 1,000)	Note	1 Jan–30 Jun 2020	1 Jan–30 Jun 2019
Profit for the period		49,809	26,961
Components of other comprehensive income			
Items not to be reclassified to income statement in subsequent periods			
Net change in fair value due to changes in own credit risk on financial liabilities designated at fair value through profit or loss	(3)	22,150	13,893
Net change in Cost-of-Hedging	(4)	-40,374	-346
Items to be reclassified to income statement in subsequent periods			
Net change in fair value of financial assets at fair value through other comprehensive income		-540	815
Net amount reclassified to the income statement on the sales of financial assets at fair value through other comprehensive income		-	-97
Net change in expected credit loss of financial assets at fair value through other comprehensive income		-25	-46
Taxes related to components of other comprehensive income		3,758	-2,844
Total components of other comprehensive income		-15,031	11,375
<b>Total comprehensive income for the period</b>		<b>34,777</b>	<b>38,337</b>

## Consolidated statement of financial position

(EUR 1,000)	Note	30 Jun 2020	31 Dec 2019
<b>Assets</b>			
Cash and balances with central banks		3,473,933	4,909,338
Loans and advances to credit institutions		1,344,792	818,323
Loans and advances to the public and public sector entities		26,743,115	24,798,432
Debt securities		6,691,977	5,716,318
Shares and participations		27	9,797
Derivative contracts	(7)	2,626,631	2,244,997
Intangible assets	(8)	16,021	14,704
Tangible assets	(8)	8,937	9,041
Other assets		191,526	170,359
Accrued income and prepayments		191,062	242,450
<b>Total assets</b>	<b>(5, 6)</b>	<b>41,288,022</b>	<b>38,933,758</b>





(EUR 1,000)	Note	30 Jun 2020	31 Dec 2019
<b>Liabilities and equity</b>			
<b>Liabilities</b>			
Liabilities to credit institutions		899,817	1,178,256
Liabilities to the public and public sector entities		3,918,526	3,862,053
Debt securities issued	(10)	31,793,727	29,983,585
Derivative contracts	(7)	2,371,104	1,762,010
Other liabilities		285,310	116,374
Accrued expenses and deferred income		153,098	180,917
Deferred tax liabilities		256,190	256,241
<b>Total liabilities</b>	<b>(5, 6)</b>	<b>39,677,774</b>	<b>37,339,436</b>
<b>Equity</b>			
Share capital		42,583	42,583
Reserve fund		277	277
Fair value reserve of investments		355	807
Own credit revaluation reserve		30,705	12,985
Cost-of-Hedging reserve	(4)	-4,224	28,075
Reserve for invested non-restricted equity		40,366	40,366
Retained earnings		1,152,732	1,121,774
<b>Total equity attributable to parent company equity holders</b>		<b>1,262,795</b>	<b>1,246,868</b>
<b>Other equity instruments issued</b>		<b>347,454</b>	<b>347,454</b>
<b>Total equity</b>		<b>1,610,249</b>	<b>1,594,321</b>
<b>Total liabilities and equity</b>		<b>41,288,022</b>	<b>38,933,758</b>

## Consolidated statement of changes in equity

(EUR 1,000)	Total equity attributable to parent company equity holders									
	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
<b>Equity at 31 Dec 2019</b>	<b>42,583</b>	<b>277</b>	<b>807</b>	<b>12,985</b>	<b>28,075</b>	<b>40,366</b>	<b>1,121,774</b>	<b>1,246,868</b>	<b>347,454</b>	<b>1,594,321</b>
Interest paid on Additional Tier 1 capital instrument	-	-	-	-	-	-	-12,600	-12,600	-	-12,600
Dividends paid for 2019	-	-	-	-	-	-	-6,250	-6,250	-	-6,250
Profit for the period	-	-	-	-	-	-	49,809	49,809	-	49,809
Components of other comprehensive income net of tax										
Items not to be reclassified to income statement in subsequent periods										
Net change in fair value due to changes in own credit risk on financial liabilities designated at fair value through profit or loss	-	-	-	17,720	-	-	-	17,720	-	17,720
Net change in Cost-of-Hedging	-	-	-	-	-32,299	-	-	-32,299	-	-32,299
Items to be reclassified to income statement in subsequent periods										
Net change in fair value of financial assets at fair value through other comprehensive income	-	-	-432	-	-	-	-	-432	-	-432
Net amount reclassified to the income statement on the sales of financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-	-
Net change in expected credit loss of financial assets at fair value through other comprehensive income	-	-	-20	-	-	-	-	-20	-	-20
<b>Equity at 30 Jun 2020</b>	<b>42,583</b>	<b>277</b>	<b>355</b>	<b>30,705</b>	<b>-4,224</b>	<b>40,366</b>	<b>1,152,732</b>	<b>1,262,795</b>	<b>347,454</b>	<b>1,610,249</b>





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
<b>Equity at 31 Dec 2018</b>	<b>42,583</b>	<b>277</b>	<b>726</b>	<b>4,726</b>	<b>14,235</b>	<b>40,366</b>	<b>1,035,692</b>	<b>1,138,605</b>	<b>347,454</b>	<b>1,486,059</b>
Interest paid on Additional Tier 1 capital instrument	-	-	-	-	-	-	-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 income statement in subsequent periods										
Net change in fair value due to changes in own credit risk on financial liabilities designated at fair value through profit or loss	-	-	-	11,114	-	-	-	11,114	-	11,114
Net change in Cost-of-Hedging	-	-	-	-	-277	-	-	-277	-	-277
Items to be reclassified to income statement in subsequent periods										
Net change in fair value of financial assets at fair value through other comprehensive income	-	-	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 loss of financial assets at fair value through other comprehensive income	-	-	-37	-	-	-	-	-37	-	-37
<b>Equity at 30 Jun 2019</b>	<b>42,583</b>	<b>277</b>	<b>1,264</b>	<b>15,840</b>	<b>13,959</b>	<b>40,366</b>	<b>1,043,803</b>	<b>1,158,092</b>	<b>347,454</b>	<b>1,505,545</b>

## Consolidated statement of cash flows

(EUR 1,000)	1 Jan–30 Jun 2020	1 Jan–30 Jun 2019
<b>Cash flow from operating activities</b>	<b>-1,249,874</b>	<b>26,246</b>
Net change in long-term funding	1,511,097	562,531
Net change in short-term funding	378,609	-592,339
Net change in long-term loans	-1,788,614	-563,799
Net change in short-term loans	-1,119,934	-205,192
Net change in investments	140,050	123,183
Net change in collaterals	-492,543	597,042
Interest on assets	41,573	39,780
Interest on liabilities	87,889	74,468
Other income	35,271	27,524
Payments of operating expenses	-46,859	-35,712
Taxes paid	3,588	-1,240
<b>Cash flow from investing activities</b>	<b>-3,459</b>	<b>-3,156</b>
Acquisition of tangible assets	-915	-39
Acquisition of intangible assets	-2,544	-3,117
<b>Cash flow from financing activities</b>	<b>-22,864</b>	<b>-22,855</b>
Paid interest on AT1 capital instrument	-15,750	-15,750
Dividend paid	-6,250	-6,250
Total cash flow from leases	-864	-855
<b>Change in cash and cash equivalents</b>	<b>-1,276,198</b>	<b>235</b>
<b>Cash and cash equivalents at 1 Jan</b>	<b>4,990,649</b>	<b>3,573,206</b>
<b>Cash and cash equivalents at 30 Jun</b>	<b>3,714,451</b>	<b>3,573,441</b>

Cash and cash equivalents include the following statement of financial position items: Cash and balances with central banks and loans and advances to credit institutions payable on demand.

(EUR 1,000)	30 Jun 2020	30 Jun 2019
Cash and balances with central banks	3,473,933	3,470,308
Loans and advances to credit institutions	240,518	103,133
<b>Total cash and cash equivalents</b>	<b>3,714,451</b>	<b>3,573,441</b>

# Notes to the Half Year Report

- Note 1. Basis of preparation of the Half Year Report
- Note 2. Interest income and expenses
- Note 3. Net income from securities and foreign exchange transactions
- Note 4. Hedge accounting
- Note 5. Financial assets and liabilities
- Note 6. Fair values of financial assets and liabilities
- Note 7. Derivative contracts
- Note 8. Changes in intangible and tangible assets
- Note 9. Credit risks of financial assets and other commitments
- Note 10. Debt securities issued
- Note 11. Capital instruments
- Note 12. Collateral given
- Note 13. Contingent assets and liabilities
- Note 14. Off-balance sheet commitments
- Note 15. Related-party transactions
- Note 16. Events after the reporting period

## 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 policies presented in the Consolidated Financial Statements 2019 (*Note 1*). Accounting policies, which have been amended during the reporting period due to the application of new and amended standards, are explained below.

The figures in the Notes to the Half Year Report 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.

### IBOR transition

A fundamental reform of major interest rate benchmarks is being undertaken globally as a response to market developments and the EU Benchmark Regulation (*EU BMR*), including the replacement of interbank offered rates (*IBORs*) with alternative nearly risk-free rates (*RFR*) referred to as IBOR reform. Most prominently, IBOR reform affects the London Interbank Offered Rate (*LIBOR*), a panel-based benchmark that is available in five currencies (USD, GBP, EUR, CHF, JPY). Under the *EU BMR*, interest rate benchmarks such as EONIA, EURIBOR, LIBOR, WIBOR and STIBOR have been classified as critical.

The MuniFin Group has exposures to IBORs on its financial instruments that will be replaced or reformed as part of these market-wide initiatives. There is uncertainty over the timing and the methods of transition across the jurisdictions that the Group operates in. The Group anticipates that the IBOR reform will especially affect its funding products and derivatives, risk management, IT systems, valuations, collateral management and hedge accounting.

Euribor is the most important IBOR used in the MuniFin Group. The calculation methodology of Euribor changed during 2019. In July 2019, the Belgian Financial Services and Markets Authority (*FSMA*) granted authorisation with respect to Euribor under the *EU BMR*. This allows market participants to continue to use Euribor for both existing and new contracts. The Group's current view is that Euribor will continue to exist as a benchmark rate for the foreseeable future.

### IASB amendments and hedge accounting

The IASB (*International Accounting Standards Board*) is addressing the IBOR reform and its effects on financial reporting in two phases. In September 2019, the IASB issued the Interest Rate Benchmark Reform– Amendments to IFRS 9, IAS 39 and IFRS 7. The EU endorsed the amendments on 15 January 2020.

These amendments (phase 1) modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedge relationships during the period of uncertainty before the hedging relationships affected by the current IBORs are amended as a result of the on-going IBOR reform. The amendments provide specific disclosure requirements related to IBOR reform and for the affected hedge relationships.

The Group has initially adopted IBOR reform related (phase 1) amendments to IFRS 9, IAS 39 and IFRS 7 from 1 January 2020. The Group applies amendments retrospectively to hedging relationships that existed at 1 January 2020 or have been designated thereafter and that are directly affected by the IBOR reform. The Group will cease to apply the phase 1 amendments when the uncertainty arising from the IBOR reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows of the hedged item or hedging instrument, or when the hedge accounting is discontinued.

The Group's accounting policies relating to hedge accounting are described in Note 1 of the Consolidated Financial Statements 2019. While uncertainty due to the IBOR reform exists, prospective effectiveness testing is based on existing critical terms, hedged cash

flows or hedged risks. Any ineffectiveness arising from hedge relationships is recognised in *Net income from hedge accounting*. In addition to potential sources of ineffectiveness outlined in Note 1 of the Consolidated Financial Statements 2019, the IBOR reform may result in ineffectiveness as the transition of hedged items and related hedging instruments from IBORs to new risk-free rates may occur at different times. This may result in different impacts on the valuation of hedged items and related hedging instruments.

In April, the IASB published exposure draft (*ED*) amendments for phase 2. The Group's preliminary interpretation is that existing hedge relationships with IBOR terms can be continued. The ED proposes an effective date of 1 January 2021 and permits early application. It also proposes mandatory retrospective application, which would include reinstating hedging relationships that have been discontinued solely due to changes directly required by IBOR reform.

The amendments are relevant to the MuniFin Group given that the fair values of financial instruments depend on the relevant IBORs and that the Group applies hedge accounting to hedge relationships with IBOR terms.

The Group has issued fixed rate debt instruments in various foreign currencies to which the Group applies IFRS 9 fair value hedge accounting using cross currency interest rate swaps or a combination of fixed to floating interest rate swap (pay leg USD LIBOR) and floating to floating cross currency swap (receive leg USD LIBOR) as the hedging instruments. The amendments permit continuation of hedge accounting even if in the future the hedged risk, GBP LIBOR, USD LIBOR or other benchmark rates (IBORs), may no longer be separately identifiable. However, this relief does not extend to the requirement that the designated interest rate risk component must continue to be reliably measureable. If the risk component is no longer reliably measureable, the hedging relationship is discontinued.

The MuniFin Group also applies IFRS 9 fair value hedge accounting to issued euro-denominated fixed rate debt, which are hedged to floating rate Euribor. In addition, the Group has fixed and revisable rate lending and leasing financing in euros. The interest rate risk of the loans and leased assets are hedged using Euribor interest rate swaps. The MuniFin Group applies fair value portfolio hedge accounting in accordance with IAS 39 to its fixed and revisable rate loans and IFRS 9 fair value hedge accounting to its fixed and revisable rate leased assets. As Euribor is expected to continue, the MuniFin Group does not anticipate changes to these hedge relationships due to the IBOR reform.

The following table summarises the Group's derivative contracts in hedge accounting as at 30 June 2020 relating to hedges directly affected by the IBOR reform:

<b>30 Jun 2020 (EUR 1,000 ) INTEREST RATE BENCHMARK INDEX</b>	<b>Notional of derivative contracts in hedge accounting maturing after 2021</b>
SEK Stibor	95,285
USD Libor	9,376,674
Euribor*	28,414,653
<b>Total</b>	<b>37,886,613</b>

Hedges with two floating legs (*receive/pay leg*) are presented in the table under each applicable reference rate.

\* The Group's current view is that Euribor will continue to exist as a benchmark rate for the foreseeable future.

### *IBOR transition project*

The Group is closely monitoring the market and the output from the various industry working groups managing the transition to new alternative risk-free interest rates. The Group has set up an IBOR transition project, owned by the Head of Capital Markets, in which, but not limited to, risk management, funding, treasury, legal, finance and IT are represented. The aim of the project is to prepare the Group for a smooth transition to alternative risk-free rates. In 2019, the Group conducted an impact assessment and prepared for the IBOR transition project. In 2020, the transition from EONIA to €STR discounting and from Fed funds to SOFR discounting are scheduled to take place. The MuniFin Group is also closely monitoring the market and preparing readiness for the issuance of new RFR products.

The Group's derivative instruments are governed by the International Swaps and Derivatives Association (ISDA)'s Master Agreement. ISDA is currently drafting new improved standardised contract terms for situations where quotations for a reference rate are not available (*fall back clauses*). When ISDA's new standardised terms are available, the Group plans to negotiate with its derivative counterparties to include these new fall back clauses in the contracts. No derivative instruments have been modified as at 30 June 2020.

The MuniFin Group has some issued foreign currency floating rate debt exposure referencing to IBORs for which the maturities go beyond 2021. Compared to the Group's total funding exposure, the share of IBOR linked funding is minor. The Group is actively monitoring the development in market practices and exploring options to handle the transition of its IBOR exposures.

The MuniFin Group's floating rate customer loans and leasing agreements all reference to Euribor. As Euribor is expected to continue, the Group expects only a limited impact on its client-facing activities due to the IBOR reform. The Group is committed to treating its customers fairly and is closely monitoring the evolving market practices. The Group will prepare a communication and training plan to ensure that client-facing staff will have sufficient knowledge and competence to respond to customer needs appropriately.

### **The impact of the COVID-19 pandemic on management's judgements and estimates**

Preparation of the Half Year Report in accordance with IFRS requires management judgement and estimates. The key assumptions made by the Group concern key uncertainty factors pertaining to the future and the estimates at the reporting date.

Due to the uncertainties in relation to the potential short and long-term impact of the COVID-19 pandemic, the MuniFin Group has applied management judgement in the preparation of the Half Year Report. Areas particularly important in the first half of 2020 are expected credit losses of loans, in particular in relation to the assessments of significant increase in credit risk and credit impaired (staging) due to increase in forbearance measures and the application of macroeconomic scenarios related to COVID-19 pandemic. More information on the forbearance measures as well as the macroeconomic scenarios can be found in Note 9 *Credit risks of financial assets and other commitments*.

More information on where management judgement is generally applied and where estimation uncertainty exists can be found in the Consolidated Financial Statements 2019 in Note 1 *Summary of significant accounting policies*, section *Accounting policies requiring management judgement and key uncertainty factors related to estimates*.



## Note 2. Interest income and expenses

1 Jan–30 Jun 2020  
(EUR 1,000)

	Interest and similar income	Interest and similar expense	Net
<b>Assets</b>			
<b>Amortised cost</b>			
Cash and balances with central banks	-	-11,883	-11,883
Loans and advances to credit institutions	36	-2,229	-2,193
Loans and advances to the public and public sector entities	96,207	-	96,207
Debt securities	276	-1,076	-800
Other assets	96	-	96
<b>Fair value through other comprehensive income</b>			
Debt securities	-	-637	-637
<b>Designated at fair value through profit or loss</b>			
Debt securities	7,335	-	7,335
<b>Mandatorily at fair value through profit or loss</b>			
Loans and advances to the public and public sector entities	492	-	492
Debt securities	-	-	-
<b>Fair value through profit or loss</b>			
Derivative contracts at fair value through profit or loss	35,819	-47,153	-11,334
Derivative contracts in hedge accounting	-38,811	-	-38,811
<b>Leased assets</b>	2,840	-	2,840
<b>Interest on non-financial other assets</b>	3	-	3
<b>Interest on assets</b>	<b>104,292</b>	<b>-62,978</b>	<b>41,314</b>
<i>, of which interest income/expense according to the effective interest method</i>	96,615	-15,825	





**1 Jan–30 Jun 2020**  
**(EUR 1,000)**

	Interest and similar income	Interest and similar expense	Net
<b>Liabilities</b>			
<b>Amortised cost</b>			
Liabilities to credit institutions	2,748	-	2,748
Liabilities to the public and public sector entities	-	-30,654	-30,654
Debt securities issued	1,560	-131,101	-129,540
Other liabilities	-	-1,052	-1,052
<b>Designated at fair value through profit or loss</b>			
Liabilities to credit institutions	-	-31	-31
Liabilities to the public and public sector entities	-	-17,488	-17,488
Debt securities issued	-	-85,915	-85,915
<b>Fair value through profit or loss</b>			
Derivative contracts at fair value through profit or loss	177,738	-37,203	140,535
Derivative contracts in hedge accounting	-	203,505	203,505
<b>Interest on non-financial other liabilities</b>	-	-48	-48
<b>Interest on liabilities</b>	<b>182,047</b>	<b>-99,987</b>	<b>82,060</b>
<i>, of which interest income/expense according to the effective interest method</i>	<i>4,308</i>	<i>-162,807</i>	
<b>Total</b>	<b>286,339</b>	<b>-162,965</b>	<b>123,374</b>

Interest income on stage 3 financial assets in the expected credit loss (*ECL*) calculations totalled EUR 546 thousand during the reporting period 1 Jan–30 Jun 2020. These are included in the line items *Loans and advances to the public and public sector entities* and *Leased assets*.

Interest on non-financial other liabilities consists of interest on lease liabilities of EUR 48 thousand (EUR 57 thousand) recognised in accordance with IFRS 16 Leases standard.

Interest expenses on financial assets at amortised cost on cash and balances with central banks consists of interest paid on central bank deposits and interest on loans and advances to credit institutions of interest on cash collateral receivables. Interest expenses on debt securities consists of interest paid on short-term lending. Negative interest arises 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 derivative contracts at fair value through profit or loss consist of negative interest income on derivative contracts that are not included in hedge accounting. The derivative contracts contained in this line item hedge financial assets which are designated at fair value through profit or loss, derivative contracts with municipalities and derivative contracts hedging derivatives with municipalities, in addition to derivative contracts used for hedging interest rate risk of the balance sheet, for which no hedged item has been specified. Derivative contracts in hedge accounting hedge loans and advances to the public and public sector entities.

Interest income on financial liabilities at amortised cost to credit institutions consists of interest received on cash collateral liabilities and interest income on debt securities issued consists of interest received on ECPs. Interest income on derivative contracts at fair value through profit or loss consists of positive interest expense on derivatives that are not included in hedge accounting. The derivatives contained in this line item hedge financial liabilities which are designated at fair value through profit or loss. Derivative contracts in hedge accounting are used as hedges for liabilities to credit institutions, liabilities to the public and public sector entities and debt securities issued.

1 Jan–30 Jun 2019  
(EUR 1,000)

	Interest and similar income	Interest and similar expense	Net
<b>Assets</b>			
<b>Amortised cost</b>			
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
<b>Fair value through other comprehensive income</b>			
Debt securities	0	-811	-811
<b>Designated at fair value through profit or loss</b>			
Debt securities	11,060	-	11,060
<b>Mandatorily at fair value through profit or loss</b>			
Loans and advances to the public and public sector entities	699	-	699
Debt securities	-	0	0
<b>Fair value through profit or loss</b>			
Derivative contracts at fair value through profit or loss	30,197	-43,675	-13,477
Derivative contracts in hedge accounting	-38,879	-	-38,879
<b>Leased assets</b>	<b>2,531</b>	<b>-</b>	<b>2,531</b>
<b>Interest on non-financial other assets</b>	<b>2</b>	<b>-</b>	<b>2</b>
<b>Interest on assets</b>	<b>101,953</b>	<b>-55,304</b>	<b>46,649</b>
<i>, of which interest income/expense according to the effective interest method</i>	<i>96,341</i>	<i>-11,630</i>	





1 Jan–30 Jun 2019  
(EUR 1,000)

	Interest and similar income	Interest and similar expense	Net
<b>Liabilities</b>			
<b>Amortised cost</b>			
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
<b>Designated at fair value through profit or loss</b>			
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
<b>Fair value through profit or loss</b>			
Derivative contracts at fair value through profit or loss	295,845	-173,431	122,414
Derivative contracts in hedge accounting	-	246,102	246,102
<b>Interest on non-financial other liabilities</b>			
	-	-57	-57
<b>Interest on liabilities</b>			
	<b>299,349</b>	<b>-228,803</b>	<b>70,546</b>
<i>, of which interest income/expense according to the effective interest method</i>	<i>3,504</i>	<i>-215,993</i>	
<b>Total</b>	<b>401,302</b>	<b>-284,107</b>	<b>117,195</b>

## Note 3. Net income from securities and foreign exchange transactions

NET INCOME FROM SECURITIES AND FOREIGN EXCHANGE TRANSACTIONS 1 Jan–30 Jun 2020 (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	-111	578	466
Designated at fair value through profit or loss	-	9,079	9,079
Financial liabilities			
Designated at fair value through profit or loss	-	111,710	111,710
Derivative contracts at fair value through profit or loss	-165	-150,717	-150,882
Day 1 gain or loss	-	-33	-33
<b>Total net income from securities transactions</b>	<b>-276</b>	<b>-29,384</b>	<b>-29,660</b>
<b>Net income from foreign exchange transactions</b>	<b>-41</b>	<b>-230</b>	<b>-271</b>
<b>Total</b>	<b>-317</b>	<b>-29,614</b>	<b>-29,931</b>

Net income from securities transactions includes fair value changes of financial assets and liabilities measured at fair value through profit or loss, fair value changes of derivative contracts not included in hedge accounting (derivative contracts at fair value through profit or loss) 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. The definition for Day 1 gain or loss and a reconciliation for the changes during the reporting period are presented in Note 6 *Fair values of financial assets and liabilities*.

Tables below present carrying amounts of financial assets and liabilities designated at fair value through profit or loss and their fair value changes recognised during the reporting period in the income statement (*Net income from securities transactions*) and in the other comprehensive income as a change in own credit revaluation reserve.

<b>FINANCIAL ASSETS AND LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS (EUR 1,000)</b>	<b>Nominal value 30 Jun 2020</b>	<b>Carrying amount 30 Jun 2020</b>	<b>Nominal value 31 Dec 2019</b>	<b>Carrying amount 31 Dec 2019</b>
<b>Financial assets</b>				
Debt securities	4,023,723	4,119,384	3,843,076	3,940,456
<b>Total financial assets</b>	<b>4,023,723</b>	<b>4,119,384</b>	<b>3,843,076</b>	<b>3,940,456</b>
<b>Financial liabilities</b>				
Liabilities to credit institutions	25,000	24,085	-	-
Liabilities to the public and public sector entities	1,885,325	1,595,763	1,870,254	1,548,639
Debt securities issued	10,724,326	9,991,555	11,855,073	11,391,573
<b>Total financial liabilities</b>	<b>12,634,651</b>	<b>11,611,404</b>	<b>13,725,327</b>	<b>12,940,212</b>

Debt securities designated at fair value through profit or loss are exposed to credit risk up to the carrying amounts of those securities at 30 Jun 2020 and 31 Dec 2019.

**CHANGE IN FAIR VALUE OF FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS (EUR 1,000)**

	30 Jun 2020	31 Dec 2019	Fair value change recognised in the income statement 1 Jan–30 Jun 2020	, of which due to credit risk	, of which due to market risk
<b>Financial assets</b>					
Debt securities	62,188	53,109	9,079	-6,399	15,478
<b>Total financial assets</b>	<b>62,188</b>	<b>53,109</b>	<b>9,079</b>	<b>-6,399</b>	<b>15,478</b>

Financial assets that the MuniFin Group has designated 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 contract 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. The MuniFin Group does not have credit derivatives hedging these financial assets.

**CHANGE IN FAIR VALUE OF FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS (EUR 1,000)**

	30 Jun 2020	31 Dec 2019	Fair value change recognised in the income statement 1 Jan–30 Jun 2020	Change in own credit risk recognised in the other comprehensive income 1 Jan–30 Jun 2020	Total fair value change in 1 Jan–30 Jun 2020
<b>Financial liabilities</b>					
Liabilities to credit institutions	915	-	915	-	915
Liabilities to the public and public sector entities	-253,279	-218,911	-34,368	13,427	-20,941
Debt securities issued	473,966	328,802	145,164	8,723	153,887
<b>Total financial liabilities</b>	<b>221,601</b>	<b>109,891</b>	<b>111,710</b>	<b>22,150</b>	<b>133,860</b>



**NET CHANGE IN FAIR VALUE IN NET INCOME FROM SECURITIES TRANSACTIONS  
(EUR 1,000)**

	Cumulative change in fair value 30 Jun 2020	Fair value change recognised in the income statement 1 Jan–30 Jun 2020
Financial liabilities designated at fair value through profit or loss	221,601	111,710
Derivative contracts at fair value through profit or loss hedging financial liabilities	-253,195	-121,740
<b>Net change in fair value</b>	<b>-31,594</b>	<b>-10,029</b>

The MuniFin Group 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 or loss consist of financial liabilities, which have been hedged according to the Group's risk management policy, but which are not subject to IFRS 9 fair value hedge accounting. The fair value changes of the financial liabilities 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 or loss.

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

The MuniFin Group 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 through profit or loss, no market price is available as there is no active secondary market. The methodology for separation of own credit risk utilises 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 date, the impact of change in own credit risk on the fair value of the financial liability can be determined.

Financial liabilities designated at fair value through profit or loss are not traded.

**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
<b>Financial assets</b>			
Mandatorily at fair value through profit or loss	-	956	956
Designated at fair value through profit or loss	2,041	25,753	27,795
<b>Financial liabilities</b>			
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
<b>Total net income from securities transactions</b>	<b>365</b>	<b>-29,785</b>	<b>-29,420</b>
<b>Net income from foreign exchange transactions</b>	<b>-740</b>	<b>1,379</b>	<b>640</b>
<b>Total</b>	<b>-375</b>	<b>-28,405</b>	<b>-28,780</b>

**FINANCIAL ASSETS AND LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS**  
**(EUR 1,000)**

	Nominal value 30 Jun 2019	Carrying amount 30 Jun 2019	Nominal value 31 Dec 2018	Carrying amount 31 Dec 2018
<b>Financial assets</b>				
Debt securities	3,624,477	3,697,380	3,612,233	3,701,796
<b>Total financial assets</b>	<b>3,624,477</b>	<b>3,697,380</b>	<b>3,612,233</b>	<b>3,701,796</b>
<b>Financial liabilities</b>				
Liabilities to credit institutions	40,000	40,265	45,000	46,399
Liabilities to the public and public sector entities	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
<b>Total financial liabilities</b>	<b>12,773,768</b>	<b>11,738,458</b>	<b>12,989,728</b>	<b>11,606,215</b>

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

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

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

## Note 4. Hedge accounting

The interest rate and foreign exchange rate risk of the Group are managed by entering into derivative transactions. According to the Market Risk Policy, the Group's hedging strategy is mainly to hedge all material foreign exchange and interest rate risks of financial assets and liabilities with maturities exceeding one year. As a result, foreign currency denominated items are translated into euros, fixed rate and long-term reference rates are swapped to floating interest rates with shorter terms. The risk management principles related to the Group's hedging of market risk are described in

more detail in the Consolidated Financial Statements 2019 in Note 2 *Risk Management principles and the Group's risk position*.

The Group applies both fair value hedge accounting according to IFRS 9 and fair value portfolio hedge accounting according to IAS 39. The Group does not apply cash flow hedge accounting. Accounting policies related to hedge accounting are described in the Consolidated Financial Statements 2019 in Note 1 under paragraph *Hedge Accounting*.

In the table below the hedged assets and liabilities are presented according to statement of financial position line items divided into IAS 39 portfolio hedge accounting and IFRS 9 fair value hedge accounting, which is further subdivided into whether hedging is subject to the separation of the Cost-of-Hedging.

<b>HEDGE ACCOUNTING 30 June 2020 (EUR 1,000)</b>	<b>Nominal value</b>	<b>Fair value hedge accounting total</b>	<b>IAS 39 portfolio hedge accounting</b>	<b>IFRS 9 fair value hedge accounting</b>	<b>IFRS 9 fair value hedge accounting incl. Cost-of-Hedging</b>
<b>Assets</b>					
Loans and advances to the public and public sector entities - Loans	9,954,299	10,307,413	10,175,658	131,755	-
Loans and advances to the public and public sector entities - Leased assets	194,346	198,315	-	198,315	-
<b>Total assets</b>	<b>10,148,644</b>	<b>10,505,728</b>	<b>10,175,658</b>	<b>330,070</b>	<b>-</b>
<b>Liabilities</b>					
Liabilities to credit institutions	55,000	69,072	-	69,072	-
Liabilities to the public and public sector entities	1,902,212	2,322,763	-	2,254,548	68,215
Debt securities issued	21,363,770	21,211,975	-	9,765,013	11,446,963
<b>Total liabilities</b>	<b>23,320,983</b>	<b>23,603,810</b>	<b>-</b>	<b>12,088,633</b>	<b>11,515,177</b>

The figures presented in the adjacent table contain the cumulative fair value change at the beginning and end of the reporting period, in addition to the fair value change of the hedged risk and the hedging instrument during the period. The figures presented in the table do not include the change in fair value due to foreign exchange differences of hedging instruments and the hedged items, which are recognised in the income statement under *Net income from securities and foreign exchange transactions*. Due to the above mentioned reason, the total amount of the hedging instruments does not correspond to the fair value presented in Note 7 *Derivatives* on line *Total derivative contracts in hedge accounting*. The fair value changes of the hedged risk of the hedged items and all other fair value changes of the hedging instruments are recognised in the income statement under *Net income from hedge accounting*. The ineffective portion of the hedge relationship is thus shown on this line in the income statement.

In accordance with the market practice and IFRS 13 standard, the Group discounts hedged items with the swap curve and the hedging derivatives with the OIS curve, which causes a significant part of the Group's hedge ineffectiveness. In addition, ineffectiveness may also arise to some extent from differences in notional, day count methods or timing of the cash flows.

<b>FAIR VALUE CHANGE WITH RESPECT TO THE HEDGED RISK (EUR 1,000)</b>	<b>30 Jun 2020</b>	<b>31 Dec 2019</b>	<b>Recognised in the income statement 1 Jan–30 Jun 2020</b>
<b>Assets</b>			
IAS 39 portfolio hedge accounting			
Loans and advances to the public and public sector entities	458,260	303,139	155,120
Derivative contracts in hedge accounting	-426,697	-276,831	-149,866
Accumulated fair value accrual from the termination of hedge accounting	68	-	68
<b>IAS 39 portfolio hedge accounting, net</b>	<b>31,630</b>	<b>26,308</b>	<b>5,322</b>
IFRS 9 fair value hedge accounting			
Loans and advances to the public and public sector entities	40,883	30,934	9,949
Derivative contracts in hedge accounting	-43,279	-33,193	-10,086
<b>IFRS 9 fair value hedge accounting, net</b>	<b>-2,396</b>	<b>-2,258</b>	<b>-138</b>
<b>Liabilities</b>			
IFRS 9 fair value hedge accounting			
Liabilities to credit institutions	-14,072	-12,916	-1,156
Liabilities to the public and public sector entities	-510,164	-434,953	-75,211
Debt securities issued	-944,170	-524,923	-419,247
Derivative contracts in hedge accounting	1,452,486	963,674	488,812
<b>IFRS 9 fair value hedge accounting, net</b>	<b>-15,920</b>	<b>-9,118</b>	<b>-6,802</b>
<b>Total hedge accounting</b>	<b>13,314</b>	<b>14,932</b>	<b>-1,618</b>

The table below presents the impact of Cost-of-Hedging of cross currency swaps on equity in the Cost-of-Hedging reserve. The figures are presented net of deferred taxes.

For all foreign currency hedge relationships the Group has elected to utilise Cost-of-Hedging. For each

hedge relationship, when the cross currency swap is designated as a hedging instrument, the cross currency basis spread is separated and excluded from the designation and accounted for as Cost-of-Hedging. The difference between the changes in fair value of the actual derivative and the designated portion of the derivative are recorded as Cost-of-Hedging through the

other comprehensive income to the Cost-of-Hedging reserve. Thus, changes in cross currency basis spreads impact the other comprehensive income and do not create ineffectiveness in the hedge relationship.

#### IMPACT OF HEDGE ACCOUNTING ON EQUITY (EUR 1,000)

	30 Jun 2020	31 Dec 2019	Impact on Cost-of-Hedging reserve
Cost-of-Hedging			
Derivative contracts in hedge accounting	-4,224	28,075	-32,299
<b>Total</b>	<b>-4,224</b>	<b>28,075</b>	<b>-32,299</b>

The table below presents the cumulative effectiveness of hedge accounting by hedged items. In addition, the table shows the hedging instruments used.

### EFFECTIVENESS OF THE HEDGE ACCOUNTING

30 Jun 2020  
(EUR 1,000)

HEDGED ITEM	Gains/losses attributable to the hedged risk			Hedge ineffectiveness
	Hedging instruments	Hedged items	Hedging instruments	
<b>Assets</b>				
IAS 39 portfolio hedge accounting				
Fixed rate and revisable rate loans	Interest rate derivatives	458,260	-426,697	31,562
IFRS 9 fair value hedge accounting				
Structured lending	Interest rate derivatives	36,913	-39,008	-2,095
Fixed rate and revisable rate leased assets	Interest rate derivatives	3,970	-4,271	-301
<b>Total assets</b>		<b>499,143</b>	<b>-469,976</b>	<b>29,166</b>
<b>Liabilities</b>				
IFRS 9 fair value hedge accounting				
Financial liability denominated in EUR	Interest rate derivatives	-951,520	948,220	-3,300
Financial liability denominated in foreign currencies	Currency derivatives (Cross currency interest rate swaps) Interest rate derivatives	-516,886	504,266	-12,621
<b>Total liabilities</b>		<b>-1,468,406</b>	<b>1,452,486</b>	<b>-15,920</b>

<b>HEDGE ACCOUNTING 31 Dec 2019 (EUR 1,000)</b>	<b>Nominal value</b>	<b>Fair value hedge accounting total</b>	<b>IAS 39 portfolio hedge accounting</b>	<b>IFRS 9 fair value hedge accounting</b>	<b>IFRS 9 fair value hedge accounting incl. Cost-of-Hedging</b>
<b>Assets</b>					
Loans and advances to the public and public sector entities - Loans	8,256,680	8,546,257	8,420,004	126,253	-
Loans and advances to the public and public sector entities - Leased assets	181,261	182,865	-	182,865	-
<b>Total assets</b>	<b>8,437,941</b>	<b>8,729,122</b>	<b>8,420,004</b>	<b>309,118</b>	<b>-</b>
<b>Liabilities</b>					
Liabilities to credit institutions	70,000	82,916	-	82,916	-
Liabilities to the public and public sector entities	1,968,524	2,313,414	-	2,162,575	150,839
Debt securities issued	18,042,510	18,391,689	-	6,668,732	11,722,957
<b>Total liabilities</b>	<b>20,081,034</b>	<b>20,788,019</b>	<b>-</b>	<b>8,914,223</b>	<b>11,873,796</b>



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
<b>Assets</b>			
IAS 39 portfolio hedge accounting			
Loans and advances to the public and public sector entities	347,350	155,610	191,740
Derivative contracts in hedge accounting	-329,361	-127,621	-201,741
<b>IAS 39 Portfolio hedge accounting, net</b>	<b>17,989</b>	<b>27,989</b>	<b>-10,000</b>
IFRS 9 fair value hedge accounting			
Loans and advances to the public and public sector entities	33,080	22,752	10,328
Derivative contracts in hedge accounting	-34,543	-23,636	-10,907
<b>IFRS 9 Fair value hedge accounting, net</b>	<b>-1,463</b>	<b>-884</b>	<b>-578</b>
<b>Liabilities</b>			
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
Derivative contracts in hedge accounting	991,896	432,237	559,659
<b>IFRS 9 fair value hedge accounting, net</b>	<b>-8,998</b>	<b>6,924</b>	<b>-15,923</b>
<b>Total hedge accounting</b>	<b>7,528</b>	<b>34,029</b>	<b>-26,501</b>
IMPACT OF HEDGE ACCOUNTING ON EQUITY (EUR 1,000)	30 Jun 2019	31 Dec 2018	Impact on Cost-of-Hedging reserve
Cost-of-Hedging			
Derivative contracts in hedge accounting	13,959	14,235	-277
<b>Total</b>	<b>13,959</b>	<b>14,235</b>	<b>-277</b>

**EFFECTIVENESS OF THE HEDGE ACCOUNTING****30 Jun 2019  
(EUR 1,000)**

HEDGED ITEM	Gains/losses attributable to the hedged risk			Hedge ineffectiveness
	Hedging instruments	Hedged items	Hedging instruments	
<b>Assets</b>				
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 and revisable rate leased assets	Interest rate derivatives	3,454	-3,091	363
<b>Total assets</b>		<b>380,430</b>	<b>-363,904</b>	<b>16,526</b>
<b>Liabilities</b>				
IFRS 9 fair value hedge accounting				
Financial liability denominated in EUR	Interest rate derivatives	-741,981	745,858	3,877
Financial liability denominated in foreign currencies	Currency derivatives (Cross currency interest rate swaps) Interest rate derivatives	-258,913	246,038	-12,875
<b>Total liabilities</b>		<b>-1,000,894</b>	<b>991,896</b>	<b>-8,998</b>

## Note 5. Financial assets and liabilities

<b>FINANCIAL ASSETS 30 Jun 2020 (EUR 1,000)</b>	<b>Amortised cost</b>	<b>Fair value through other comprehensive income</b>	<b>Designated at fair value through profit or loss</b>	<b>Mandatorily at fair value through profit or loss</b>	<b>Fair value through profit or loss</b>	<b>Total</b>	<b>Fair value</b>
Cash and balances with central banks	3,473,933	-	-	-	-	3,473,933	3,473,933
Loans and advances to credit institutions	1,344,792	-	-	-	-	1,344,792	1,344,792
Loans and advances to the public and public sector entities*	25,960,840	-	-	47,680	-	26,008,519	28,408,575
Debt securities	1,922,324	650,269	4,119,384	-	-	6,691,977	6,693,106
Shares and participations	-	-	-	27	-	27	27
Derivative contracts at fair value through profit or loss	-	-	-	-	922,623	922,623	922,623
Derivative contracts in hedge accounting	-	-	-	-	1,704,008	1,704,008	1,704,008
Other assets**	176,359	-	-	-	-	176,359	176,359
<b>Total</b>	<b>32,878,248</b>	<b>650,269</b>	<b>4,119,384</b>	<b>47,707</b>	<b>2,626,631</b>	<b>40,322,239</b>	<b>42,723,423</b>

\* Loans and advances to the public and public sector entities includes EUR 198,315 thousand leased assets for which the Group applies fair value hedge accounting. Unhedged leased assets are not presented in the financial assets and liabilities table, as leased assets are not financial assets defined in IFRS 9.

\*\* Other assets consists of cash collateral given to central counterparties.

<b>FINANCIAL LIABILITIES 30 Jun 2020 (EUR 1,000)</b>	<b>Amortised cost</b>	<b>Designated at fair value through profit or loss</b>	<b>Fair value through profit or loss</b>	<b>Total</b>	<b>Fair value</b>
Liabilities to credit institutions	875,732	24,085	-	899,817	899,762
Liabilities to the public and public sector entities	2,322,763	1,595,763	-	3,918,526	3,942,486
Debt securities issued	21,802,172	9,991,555	-	31,793,727	31,807,973
Derivative contracts at fair value through profit or loss	-	-	1,310,865	1,310,865	1,310,865
Derivative contracts in hedge accounting	-	-	1,060,239	1,060,239	1,060,239
Other liabilities*	273,571	-	-	273,571	273,571
<b>Total</b>	<b>25,274,239</b>	<b>11,611,404</b>	<b>2,371,104</b>	<b>39,256,747</b>	<b>39,294,896</b>

\* Other liabilities include EUR 266,848 thousand of cash collateral received from central counterparties and EUR 6,723 thousand of lease liabilities in accordance with IFRS 16 standard.

**IMPACT OF THE RECLASSIFIED FINANCIAL ASSETS  
AS OF IFRS 9 IMPLEMENTATION 1 JAN 2018 DURING  
1 JAN–30 JUN 2020  
(EUR 1,000)**

	<b>Original measurement category under IAS 39</b>	<b>New measurement category under IFRS 9</b>	<b>Fair value at 30 Jun 2020</b>	<b>Fair value gain or loss for the period*</b>	<b>EIR determined as at 1 Jan 2018**</b>	<b>Interest revenue recognised during 1 Jan–30 Jun 2020</b>
Loans and advances to the public sector entities	Designated at fair value through profit or loss	Amortised cost	118,951	673	0.14%	97

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

\*\* Effective interest rate determined on the date of initial application.

<b>FINANCIAL ASSETS 31 Dec 2019 (EUR 1,000)</b>	<b>Amortised cost</b>	<b>Fair value through other comprehensive income</b>	<b>Designated at fair value through profit or loss</b>	<b>Mandatorily at fair value through profit or loss</b>	<b>Fair value through profit or loss</b>	<b>Total</b>	<b>Fair value</b>
Cash and balances with central banks	4,909,338	-	-	-	-	4,909,338	4,909,338
Loans and advances to credit institutions	818,323	-	-	-	-	818,323	818,323
Loans and advances to the public and public sector entities*	24,101,739	-	-	51,100	-	24,152,839	26,250,281
Debt securities	804,358	971,505	3,940,456	-	-	5,716,318	5,716,940
Shares and participations	-	-	-	9,797	-	9,797	9,797
Derivative contracts at fair value through profit or loss	-	-	-	-	860,695	860,695	860,695
Derivative contracts in hedge accounting	-	-	-	-	1,384,303	1,384,303	1,384,303
Other assets**	158,494	-	-	-	-	158,494	158,494
<b>Total</b>	<b>30,792,252</b>	<b>971,505</b>	<b>3,940,456</b>	<b>60,896</b>	<b>2,244,997</b>	<b>38,010,106</b>	<b>40,108,170</b>

\* Loans and advances to the public and public sector entities includes EUR 182,865 thousand leased assets for which the Group applies fair value hedge accounting. Unhedged leased assets are not presented in the financial assets and liabilities table, as leased assets are not financial assets defined in IFRS 9.

\*\* Other assets consists of cash collateral given to central counterparties.

<b>FINANCIAL LIABILITIES 31 Dec 2019 (EUR 1,000)</b>	<b>Amortised cost</b>	<b>Designated at fair value through profit or loss</b>	<b>Fair value through profit or loss</b>	<b>Total</b>	<b>Fair value</b>
Liabilities to credit institutions	1,178,256	-	-	1,178,256	1,178,371
Liabilities to the public and public sector entities	2,313,414	1,548,639	-	3,862,053	3,886,369
Debt securities issued	18,592,012	11,391,573	-	29,983,585	30,034,713
Derivative contracts at fair value through profit or loss	-	-	918,706	918,706	918,706
Derivative contracts in hedge accounting	-	-	843,304	843,304	843,304
Other liabilities*	103,627	-	-	103,627	103,627
<b>Total</b>	<b>22,187,310</b>	<b>12,940,212</b>	<b>1,762,010</b>	<b>36,889,532</b>	<b>36,965,091</b>

\* Other liabilities include EUR 96,239 thousands of cash collateral received from central counterparties and EUR 7,388 thousand of lease liabilities in accordance with IFRS 16 standard.

<b>IMPACT OF THE RECLASSIFIED FINANCIAL ASSETS AS OF IFRS 9 IMPLEMENTATION 1 JAN 2018 DURING 2019 (EUR 1,000)</b>	<b>Original measurement category under IAS 39</b>	<b>New measurement category under IFRS 9</b>	<b>Fair value at 31 Dec 2019</b>	<b>Fair value gain or loss for the period*</b>	<b>EIR determined as at 1 Jan 2018**</b>	<b>Interest revenue recognised during 2019</b>
Loans and advances to the public sector entities	Designated at fair value through profit or loss	Amortised cost	126,171	225	0.14%	203

\* The fair value gain or loss that would have been recognised in profit or loss at the end of the financial year if the financial assets had not been reclassified.

\*\* Effective interest rate determined on the date of initial application.

## Note 6. Fair values of financial assets and liabilities

Fair value is the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

### Level 1

Inputs that are quoted market prices (unadjusted) for identical instruments in active markets that the Group can access at the measurement date. The market is considered to be active if trading is frequent and price data is regularly available. These quotes (mid) represent the price for an orderly transaction between parties in the market on the valuation date. Level 1 instruments comprise mainly investments in debt securities.

### Level 2

Inputs other than quoted prices included within level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This level includes instruments valued using quoted prices for identical instruments in markets that are considered less than active or other valuation techniques in which all significant inputs are directly or indirectly observable from market data. Level 2 instruments comprise mainly OTC derivatives, the Group's issued plain-vanilla financial liabilities and the Group's lending agreements.

### Level 3

This level includes all instruments for which the valuation technique includes inputs that are not observable and the unobservable inputs have a significant effect on the instrument's valuation. Non-observable inputs are used only to the extent that no relevant observable inputs are available. If the valuation input is illiquid, extrapolated or based on historical prices, the valuation input will be defined as a level 3 valuation input as these types of inputs are per definition non-observable. This level includes financial instruments with equity and FX structures due to impact of the utilisation of inputs such as dividend yield on the fair value measurement. In addition, level 3 contains some interest rate structures with long maturities (exceeding e.g. 35 years) or in currencies where the interest rate curve is not considered liquid for all maturities.

Due to the nature of the MuniFin Group's funding portfolio (i.e. issued bond is hedged back-to-back), if a swap that is hedging an issued bond is designated as a level 3 instrument, then the issued bond will also be designated as a level 3 instrument. Same principle applies to other portfolios and levels of the hierarchy as well.

The Group does not have non-financial assets or liabilities measured at fair value nor does it have assets or liabilities with non-recurring fair value measurements.

The following tables present financial instruments by the level of the fair value hierarchy into which the fair value measurement is categorised.

FINANCIAL ASSETS 30 Jun 2020 (EUR 1,000)	Fair value				Total
	Carrying amount	Level 1	Level 2	Level 3	
<b>At fair value</b>					
Fair value through other comprehensive income					
Debt securities	650,269	550,183	100,085	-	650,269
Designated at fair value through profit or loss					
Debt securities	4,119,384	4,079,367	40,017	-	4,119,384
Mandatorily at fair value through profit or loss					
Loans and advances to the public and public sector entities	47,680	-	886	46,794	47,680
Shares and participations	27	-	-	27	27
Fair value through profit or loss					
Derivative contracts at fair value through profit or loss	922,623	-	829,525	93,098	922,623
Derivative contracts in hedge accounting	1,704,008	-	1,703,842	167	1,704,008
<b>Total at fair value</b>	<b>7,443,991</b>	<b>4,629,551</b>	<b>2,674,354</b>	<b>140,087</b>	<b>7,443,991</b>
<b>In fair value hedge accounting</b>					
Amortised cost					
Loans and advances to the public and public sector entities	10,505,728	-	11,205,753	-	11,205,753
<b>Total in fair value hedge accounting</b>	<b>10,505,728</b>	<b>-</b>	<b>11,205,753</b>	<b>-</b>	<b>11,205,753</b>
<b>At amortised cost</b>					
Cash and balances with central banks	3,473,933	3,473,933	-	-	3,473,933
Loans and advances to credit institutions	1,344,792	356,755	988,038	-	1,344,792
Loans and advances to the public and public sector entities	15,455,111	-	17,155,142	-	17,155,142
Debt securities	1,922,324	-	1,923,453	-	1,923,453
Other assets	176,359	-	176,359	-	176,359
<b>Total at amortised cost</b>	<b>22,372,520</b>	<b>3,830,687</b>	<b>20,242,992</b>	<b>-</b>	<b>24,073,679</b>
<b>Total financial assets</b>	<b>40,322,239</b>	<b>8,460,238</b>	<b>34,123,099</b>	<b>140,087</b>	<b>42,723,423</b>



FINANCIAL LIABILITIES 30 Jun 2020 (EUR 1,000)	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
<b>At fair value</b>					
Designated at fair value through profit or loss					
Liabilities to credit institutions	24,085	-	24,085	-	24,085
Liabilities to the public and public sector entities	1,595,763	-	1,402,409	193,354	1,595,763
Debt securities issued	9,991,555	-	7,678,608	2,312,947	9,991,555
Fair value through profit or loss					
Derivative contracts at fair value through profit or loss	1,310,865	-	656,038	654,827	1,310,865
Derivative contracts in hedge accounting	1,060,239	-	1,039,614	20,625	1,060,239
<b>Total at fair value</b>	<b>13,982,508</b>	<b>-</b>	<b>10,800,754</b>	<b>3,181,753</b>	<b>13,982,508</b>
<b>In fair value hedge accounting</b>					
Amortised cost					
Liabilities to credit institutions	69,072	-	69,016	-	69,016
Liabilities to the public and public sector entities	2,322,763	-	2,346,723	-	2,346,723
Debt securities issued*	21,211,975	-	21,121,559	104,662	21,226,221
<b>Total in fair value hedge accounting</b>	<b>23,603,810</b>	<b>-</b>	<b>23,537,298</b>	<b>104,662</b>	<b>23,641,960</b>
<b>At amortised cost</b>					
Liabilities to credit institutions	806,660	-	806,660	-	806,660
Debt securities issued	590,197	-	590,197	-	590,197
Other liabilities	273,571	-	273,571	-	273,571
<b>Total at amortised cost</b>	<b>1,670,428</b>	<b>-</b>	<b>1,670,428</b>	<b>-</b>	<b>1,670,428</b>
<b>Total financial liabilities</b>	<b>39,256,747</b>	<b>-</b>	<b>36,008,481</b>	<b>3,286,415</b>	<b>39,294,896</b>

\* The MuniFin Group's fixed-rate benchmark bond issuances are presented in level 2 due the fact 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. For the financial reporting purposes the Group'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.

FINANCIAL ASSETS 31 Dec 2019 (EUR 1,000)	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
<b>At fair value</b>					
Fair value through other comprehensive income					
Debt securities	971,505	798,874	172,631	-	971,505
Designated at fair value through profit or loss					
Debt securities	3,940,456	3,812,154	128,302	-	3,940,456
Mandatorily at fair value through profit or loss					
Loans and advances to the public and public sector entities	51,100	-	1,072	50,028	51,100
Shares in investment funds	9,797	9,797	-	-	9,797
Fair value through profit or loss					
Derivative contracts at fair value through profit or loss	860,695	-	727,687	133,007	860,695
Derivative contracts in hedge accounting	1,384,303	-	1,380,574	3,728	1,384,303
<b>Total at fair value</b>	<b>7,217,853</b>	<b>4,620,824</b>	<b>2,410,266</b>	<b>186,764</b>	<b>7,217,853</b>
<b>In fair value hedge accounting</b>					
Amortised cost					
Loans and advances to the public and public sector entities	8,729,122	-	9,326,515	-	9,326,515
<b>Total in fair value hedge accounting</b>	<b>8,729,122</b>	<b>-</b>	<b>9,326,515</b>	<b>-</b>	<b>9,326,515</b>
<b>At amortised cost</b>					
Cash and balances with central banks	4,909,338	4,909,338	-	-	4,909,338
Loans and advances to credit institutions	818,323	136,694	681,629	-	818,323
Loans and advances to the public and public sector entities	15,372,617	-	16,872,666	-	16,872,666
Debt securities	804,358	-	804,980	-	804,980
Other assets	158,494	-	158,494	-	158,494
<b>Total at amortised cost</b>	<b>22,063,130</b>	<b>5,046,032</b>	<b>18,517,769</b>	<b>-</b>	<b>23,563,801</b>
<b>Total financial assets</b>	<b>38,010,106</b>	<b>9,666,857</b>	<b>30,254,549</b>	<b>186,764</b>	<b>40,108,170</b>

FINANCIAL LIABILITIES 31 Dec 2019 (EUR 1,000)	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
<b>At fair value</b>					
Designated at fair value through profit or loss					
Liabilities to credit institutions	-	-	-	-	-
Liabilities to the public and public sector entities	1,548,639	-	1,409,955	138,684	1,548,639
Debt securities issued	11,391,573	-	8,313,844	3,077,729	11,391,573
Fair value through profit or loss					
Derivative contracts at fair value through profit or loss	918,706	-	460,463	458,243	918,706
Derivative contracts in hedge accounting	843,304	-	830,658	12,646	843,304
<b>Total at fair value</b>	<b>14,702,222</b>	<b>-</b>	<b>11,014,920</b>	<b>3,687,302</b>	<b>14,702,222</b>
<b>In fair value hedge accounting</b>					
Amortised cost					
Liabilities to credit institutions	82,916	-	83,031	-	83,031
Liabilities to the public and public sector entities	2,313,414	-	2,337,730	-	2,337,730
Debt securities issued	18,391,689	-	18,291,146	151,671	18,442,817
<b>Total in fair value hedge accounting</b>	<b>20,788,019</b>	<b>-</b>	<b>20,711,908</b>	<b>151,671</b>	<b>20,863,579</b>
<b>At amortised cost</b>					
Liabilities to credit institutions	1,095,340	-	1,095,340	-	1,095,340
Debt securities issued	200,323	-	200,323	-	200,323
Other liabilities	103,627	-	103,627	-	103,627
<b>Total at amortised cost</b>	<b>1,399,290</b>	<b>-</b>	<b>1,399,290</b>	<b>-</b>	<b>1,399,290</b>
<b>Total financial liabilities</b>	<b>36,889,532</b>	<b>-</b>	<b>33,126,118</b>	<b>3,838,973</b>	<b>36,965,091</b>

### Transfers in the fair value hierarchy

The Group assesses the appropriateness and correctness of the categorisation with regards to the fair value hierarchy classification at initial recognition and at each reporting date. For example, a transfer between the fair value hierarchies can occur when a previously assumed observable input requires an adjustment using an unobservable input. The procedure is the same for transfers into and out of the fair value levels. Transfers between the levels are considered to take place at the end of the quarter during which an event causes such transfer or when circumstances change.

During the reporting period, reclassifications of financial assets have been made between level 1 and level 2 totalling EUR 154,052 thousand. Transfers to and from level 3 are presented in the table next page. Transfers between hierarchy levels are based on normal market changes. The COVID-19 pandemic has not had a significant impact on the observability of the input data used in the valuations.

LEVEL 3 TRANSFERS DURING 1 JAN–30 JUN (EUR 1,000)	1 Jan 2020	Change in fair value	Purchases and new contracts	Sales and matured contracts	Transfers into Level 3	Transfers out of Level 3	30 Jun 2020
<b>Financial assets</b>							
<b>At fair value</b>							
Mandatorily at fair value through profit or loss							
Loans and advances to the public and public sector entities	50,028	-1,656	-	-1,578	-	-	46,794
Shares and participations	-	-	-	-	27	-	27
Fair value through profit or loss							
Derivative contracts at fair value through profit or loss	133,007	-3,267	-206	-36,436	-	-	93,098
Derivative contracts in hedge accounting	3,728	-3,610	27	-	-	21	167
<b>Total financial assets</b>	<b>186,763</b>	<b>-8,533</b>	<b>-178</b>	<b>-38,015</b>	<b>27</b>	<b>21</b>	<b>140,086</b>
<b>Financial liabilities</b>							
<b>At fair value</b>							
Designated at fair value through profit or loss							
Liabilities to the public and public sector entities	138,684	6,569	48,101	-	-	-	193,354
Debt securities issued	3,077,728	-204,103	365,340	-923,332	-	-2,686	2,312,947
Fair value through profit or loss							
Derivative contracts at fair value through profit or loss	458,243	251,560	29,201	-83,996	-	-181	654,827
Derivative contracts in hedge accounting	12,646	15,207	938	-	-	-8,167	20,625
<b>In fair value hedge accounting</b>							
Amortised cost							
Debt securities issued	151,671	-14,544	21,646	-	-	-54,110	104,662
<b>Total financial liabilities</b>	<b>3,838,972</b>	<b>54,688</b>	<b>465,226</b>	<b>-1,007,328</b>	<b>-</b>	<b>-65,144</b>	<b>3,286,415</b>
<b>Total level 3 financial assets and liabilities*</b>	<b>4,025,735</b>	<b>46,156</b>	<b>465,048</b>	<b>-1,045,342</b>	<b>27</b>	<b>-65,123</b>	<b>3,426,501</b>

\* The Group recognises these gains and losses within the line items *Net income from securities and foreign exchange transactions* and *Net income from hedge accounting*. The fair value change of financial liabilities designated at fair value through profit and loss attributable to changes in own credit risk is recognised in the other comprehensive income.

### Sensitivity analysis

Although the Group believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in level 3, changing one or more of the assumptions used to reasonably possible alternative assumptions would have the following effects.

#### SENSITIVITY ANALYSIS OF UNOBSERVABLE INPUTS 1 Jan–30 Jun 2020 (EUR 1,000)

	Fair value	Valuation technique	Unobservable input	Positive range of fair value	Negative range of fair value
<b>Loans and advances to the public and public sector entities</b>					
Loans	46,794	Stochastic model	Volatility – extrapolated or illiquid Interest rates – extrapolated Illiquid	120	14
<b>Derivative contracts</b>					
Equity linked derivatives	-135,968	Stochastic model	Volatility – extrapolated or illiquid Interest rates – extrapolated or Illiquid Dividend yield	27,773	-8,442
FX linked cross currency and interest rate derivatives	-456,752	Stochastic model	Correlation parameters Volatility – extrapolated or illiquid Interest rates – extrapolated or Illiquid	4,810	-17,694
Other interest rate derivatives	10,533	Stochastic model	Correlation parameters Volatility – extrapolated or illiquid Interest rates – extrapolated or Illiquid	6,381	-7,599
<b>Debt securities issued and liabilities to the public and public sector entities</b>					
Equity linked liabilities	1,022,914	Stochastic model	Volatility – extrapolated or illiquid Interest rates – extrapolated or Illiquid Dividend yield	13,117	-25,935
FX linked liabilities	1,209,263	Stochastic model	Correlation parameters Volatility – extrapolated or illiquid Interest rates – extrapolated or Illiquid	17,687	-8,551
Other liabilities	378,786	Stochastic model	Correlation parameters Volatility – extrapolated or illiquid Interest rates – extrapolated or Illiquid	7,452	-6,329
<b>Total</b>				<b>77,340</b>	<b>-74,536</b>

### Day 1 gain or loss

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price. If the fair value on initial recognition differs from the transaction price and the fair value is evidenced, neither by a quoted price in an active market for an identical asset or liability, nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value and adjusted to defer the difference between the fair value on initial recognition and the transaction price (*day 1 gain or loss*). The difference is amortised on a straight-line basis throughout the life time of the contracts. For callable instruments, the amortisation period is considered to be until the first call date.

### DAY 1 GAIN OR LOSS (EUR 1,000)

	2020
<b>Opening balance 1 Jan 2020</b>	-
Recognised gain in the income statement during the period	141
Recognised loss in the income statement during the period	-
Deferred gain or loss on new transactions	-174
<b>Total 30 Jun 2020</b>	<b>-33</b>

### Transfers in the fair value hierarchy

During 2019, reclassifications were made between level 1 and level 2 totalling EUR 155,113 thousands. Transfers to and from level 3 are presented in the table below. The Group amplified its fair value hierarchy categorisation approach during 2019. Based on performed analyses the Group took more conservative view on which input is considered unobservable and what impact is considered significant on the fair value measurement. As a result, larger amounts of financial instruments are now classified on Level 3. The fair value categorisation changes explain majority of the transfers to level 3 during 2019.

LEVEL 3 TRANSFERS 2019 (EUR 1,000)	1 Jan 2019	Change in fair value	Purchases and new contracts	Sales and matured contracts	Transfers into Level 3	Transfers out of Level 3	31 Dec 2019
<b>Financial assets</b>							
<b>At fair value</b>							
Mandatorily at fair value through profit or loss							
Loans and advances to the public and public sector entities	-	-	-	-	50,028	-	50,028
Fair value through profit or loss							
Derivative contracts at fair value through profit or loss	944	6,653	3,585	-944	122,769	-	133,007
Derivative contracts in hedge accounting	-	-	299	-	3,429	-	3,728
<b>Total financial assets</b>	<b>944</b>	<b>6,653</b>	<b>3,884</b>	<b>-944</b>	<b>176,227</b>	<b>-</b>	<b>186,763</b>
<b>Financial liabilities</b>							
<b>At fair value</b>							
Designated at fair value through profit or loss							
Liabilities to the public and public sector entities	-	-	-	-	138,684	-	138,684
Debt securities issued	768,448	54,249	773,030	-466,038	1,948,040	-	3,077,728
Fair value through profit or loss							
Derivative contracts at fair value through profit or loss	192,000	-46,235	31,275	-107,943	389,146	-	458,243
Derivative contracts in hedge accounting	-	-	67	-	12,579	-	12,646
<b>In fair value hedge accounting</b>							
At amortised cost							
Debt securities issued	-	-	16,187	-	135,483	-	151,671
<b>Total financial liabilities</b>	<b>960,447</b>	<b>8,014</b>	<b>820,559</b>	<b>-573,981</b>	<b>2,623,933</b>	<b>-</b>	<b>3,838,972</b>
<b>Total level 3 financial assets and liabilities*</b>	<b>961,390</b>	<b>14,666</b>	<b>824,443</b>	<b>-574,924</b>	<b>2,800,159</b>	<b>-</b>	<b>4,025,735</b>

\* The Group recognises these gains and losses within the line items *Net income from securities and foreign exchange transactions* and *Net income from hedge accounting*. The fair value change of financial liabilities designated at fair value through profit and loss attributable to changes in own credit risk is recognised in the other comprehensive income.



## Sensitivity analysis

SENSITIVITY ANALYSIS OF UNOBSERVABLE INPUTS  
2019 (EUR 1,000)

	Fair value	Valuation technique	Unobservable input	Positive range of fair value	Negative range of fair value
<b>Loans and advances to the public and public sector entities</b>					
Loans	50,028	Stochastic model	Volatility – extrapolated or illiquid Interest rates – extrapolated Illiquid	50	-604
<b>Derivative contracts</b>					
Equity linked derivatives	-33,683	Stochastic model	Volatility – extrapolated or illiquid Interest rates – extrapolated or Illiquid Dividend yield	21,111	-19,805
FX linked cross currency and interest rate derivatives	-319,759	Stochastic model	Correlation parameters Volatility – extrapolated or illiquid Interest rates – extrapolated or Illiquid	7,734	-4,547
Other interest rate derivatives	19,289	Stochastic model	Correlation parameters Volatility – extrapolated or illiquid Interest rates – extrapolated or Illiquid	4,218	-4,307
<b>Debt securities issued and liabilities to the public and public sector entities</b>					
Equity linked liabilities	1,486,858	Stochastic model	Volatility – extrapolated or illiquid Interest rates – extrapolated or Illiquid Dividend yield	16,459	-22,005
FX linked liabilities	1,538,974	Stochastic model	Correlation parameters Volatility – extrapolated or illiquid Interest rates – extrapolated or Illiquid	4,691	-6,072
Other liabilities	342,250	Stochastic model	Correlation parameters Volatility – extrapolated or illiquid Interest rates – extrapolated or Illiquid	4,378	-3,452
<b>Total</b>				<b>58,641</b>	<b>-60,792</b>

## Note 7. Derivative contracts

30 Jun 2020 (EUR 1,000)	Nominal value of underlying instrument	Fair value	
		Positive	Negative
<b>Derivative contracts in hedge accounting</b>			
Interest rate derivatives			
Interest rate swaps	28,168,683	1,190,860	-469,712
Of which cleared by the central counterparty	23,159,583	686,330	-294,943
Currency derivatives			
Cross currency interest rate swaps	11,911,099	513,148	-590,527
<b>Total derivative contracts in hedge accounting</b>	<b>40,079,782</b>	<b>1,704,008</b>	<b>-1,060,239</b>
<b>Derivative contracts at fair value through profit or loss</b>			
Interest rate derivatives			
Interest rate swaps	18,631,875	758,787	-496,977
Of which cleared by the central counterparty	11,086,767	866	-176,067
Interest rate options	40,000	91	-91
Currency derivatives			
Cross currency interest rate swaps	5,653,377	152,553	-645,828
Forward exchange contracts	2,554,003	8,933	-29,743
Equity derivatives	1,225,052	2,257	-138,226
<b>Total derivative contracts at fair value through profit or loss</b>	<b>28,104,308</b>	<b>922,623</b>	<b>-1,310,865</b>
<b>Total derivative contracts</b>	<b>68,184,090</b>	<b>2,626,631</b>	<b>-2,371,104</b>

Derivative contracts at fair value through profit or loss contain all derivatives of the Group which are not included in hedge accounting, even if they are entered into for risk management purposes. The category contains derivative contracts used for hedging financial assets and liabilities which are designated at fair value through profit or loss, all derivative contracts with municipalities and all derivative contracts hedging derivatives with municipalities. In addition to these, the category contains derivative contracts 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 the statement of financial position line items *Accrued income and prepayments* and *Accrued expenses and deferred income*.

31 Dec 2019 (EUR 1,000)	Nominal value of underlying instrument	Fair value	
		Positive	Negative
<b>Derivative contracts in hedge accounting</b>			
Interest rate derivatives			
Interest rate swaps	23,407,538	811,648	-346,270
Of which cleared by the central counterparty	17,259,913	368,439	-202,025
Currency derivatives			
Cross currency interest rate swaps	11,624,134	572,655	-497,034
<b>Total derivative contracts in hedge accounting</b>	<b>35,031,672</b>	<b>1,384,303</b>	<b>-843,304</b>
<b>Derivative contracts at fair value through profit or loss</b>			
Interest rate derivatives			
Interest rate swaps	18,648,214	608,438	-375,507
Of which cleared by the central counterparty	9,912,071	10,769	-116,120
Interest rate options	40,035	225	-225
Currency derivatives			
Cross currency interest rate swaps	6,908,499	209,582	-443,720
Forward exchange contracts	2,535,624	2,183	-25,303
Equity derivatives	1,604,848	40,268	-73,951
<b>Total derivative contracts at fair value through profit or loss</b>	<b>29,737,220</b>	<b>860,695</b>	<b>-918,706</b>
<b>Total derivative contracts</b>	<b>64,768,893</b>	<b>2,244,997</b>	<b>-1,762,010</b>

## Note 8. Changes in intangible and tangible assets

(EUR 1,000)	Intangible assets	Tangible assets			Total
	Total	Real estate	Other tangible assets	Right-of-use assets	
Acquisition cost 1 Jan 2020	25,706	299	5,649	8,942	14,890
+ Additions	2,932	-	947	145	1,092
- Disposals	-	-	-79	-	-79
Acquisition cost 30 Jun 2020	28,637	299	6,517	9,087	15,903
Accumulated depreciation 1 Jan 2020	11,002	-	4,247	1,602	5,849
- Accumulated depreciation on disposals	-	-	-64	-	-64
+ Depreciation for the period	1,614	-	355	827	1,181
Accumulated depreciation 30 Jun 2020	12,616	-	4,537	2,429	6,966
<b>Carrying amount 30 Jun 2020</b>	<b>16,021</b>	<b>299</b>	<b>1,980</b>	<b>6,658</b>	<b>8,937</b>

(EUR 1,000)	Intangible assets	Tangible assets			Total
	Total	Real estate	Other tangible assets	Right-of-use assets	
Acquisition cost 1 Jan 2019	23,528	299	6,389	8,737	15,424
+ Additions	3,739	-	289	206	495
- Disposals	-1,561	-	-1,029	-	-1,029
Acquisition cost 31 Dec 2019	25,706	299	5,649	8,942	14,890
Accumulated depreciation 1 Jan 2019	8,678	-	4,261	-	4,261
- Accumulated depreciation on disposals	-1,561	-	-709	-	-709
+ Depreciation for the period	3,886	-	695	1,602	2,298
Accumulated depreciation 31 Dec 2019	11,002	-	4,247	1,602	5,849
<b>Carrying amount 31 Dec 2019</b>	<b>14,704</b>	<b>299</b>	<b>1,402</b>	<b>7,340</b>	<b>9,041</b>

## Note 9. Credit risks of financial assets and other commitments

The MuniFin Group's credit risks are described in the Consolidated Financial Statements 2019 in *Note 2 Risk management principles and the Group's risk position* in section *Credit Risk*. The accounting policies of the expected credit loss calculations and impairment stages are described in *Note 1 Summary of significant accounting policies* in section *Presentation of allowance for ECL in the statement of financial position and Measurement of ECLs*.

The table below presents exposures under expected credit loss calculations by asset groups and impairment stages.

EXPOSURES BY ASSET GROUPS AND IMPAIRMENT STAGES	Not credit-impaired				Credit-impaired		Total	Expected Credit Losses
	Stage 1		Stage 2		Stage 3			
	Gross carrying amount	12-month ECL	Gross carrying amount	Lifetime ECL	Gross carrying amount	Lifetime ECL		
<b>30 Jun 2020 (EUR 1,000)</b>								
Cash and balances with central banks at amortised cost	3,473,933	0	-	-	-	-	3,473,933	0
Loans and advances to credit institutions at amortised cost	1,344,792	-32	-	-	-	-	1,344,792	-32
Loans and advances to the public and public sector entities at amortised cost	25,495,574	-32	221,979	-96	44,972	-41	25,762,525	-169
Leased assets in Loans and advances to the public and public sector entities at amortised cost	932,731	-2	-	-	180	0	932,911	-2
Debt securities at amortised cost	1,911,323	0	11,001	0	-	-	1,922,324	0
Debt securities at fair value through other comprehensive income	650,269	-79	-	-	-	-	650,269	-79
Cash collateral to Central Counterparty Clearing House in Other assets at amortised cost	176,359	-4	-	-	-	-	176,359	-4
Guarantee receivables from the public and public sector entities in Other assets	1,603	-	-	-	-	-	1,603	-
Credit commitments (off-balance sheet)	2,539,076	-5	1,707	0	-	-	2,540,783	-5
<b>Total</b>	<b>36,525,660</b>	<b>-154</b>	<b>234,688</b>	<b>-96</b>	<b>45,151</b>	<b>-41</b>	<b>36,805,499</b>	<b>-291</b>

EXPOSURES BY ASSET GROUPS AND IMPAIRMENT STAGES	Not credit-impaired				Credit-impaired		Total	
	Stage 1		Stage 2		Stage 3		Gross carrying amount	Expected Credit Losses
	Gross carrying amount	12-month ECL	Gross carrying amount	Lifetime ECL	Gross carrying amount	Lifetime ECL		
<b>31 Dec 2019 (EUR 1,000)</b>								
Cash and balances with central banks at amortised cost	4,909,338	0	-	-	-	-	4,909,338	0
Loans and advances to credit institutions at amortised cost	818,323	-28	-	-	-	-	818,323	-28
Loans and advances to the public and public sector entities at amortised cost	23,672,686	-24	184,586	-80	61,602	-80	23,918,874	-185
Leased assets in Loans and advances to the public and public sector entities at amortised cost	828,272	-1	186	0	-	-	828,458	-1
Debt securities at amortised cost	780,667	0	23,690	0	-	-	804,358	0
Debt securities at fair value through other comprehensive income	971,505	-104	-	-	-	-	971,505	-104
Cash collateral to Central Counterparty Clearing House in Other assets at amortised cost	158,494	-4	-	-	-	-	158,494	-4
Guarantee receivables from the public and public sector entities in Other assets	1,603	-	-	-	-	-	1,603	-
Credit commitments (off-balance sheet)	2,359,038	-4	2,285	0	-	-	2,361,323	-4
<b>Total</b>	<b>34,499,925</b>	<b>-167</b>	<b>210,747</b>	<b>-80</b>	<b>61,602</b>	<b>-80</b>	<b>34,772,275</b>	<b>-327</b>

The table below presents a summary of total changes and reconciliation of expected credit losses by impairment stages during the reporting period.

CHANGES IN EXPECTED CREDIT LOSSES BY IMPAIRMENT STAGE (EUR 1,000)	Not credit-impaired		Credit-impaired	Total Expected Credit Losses
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
<b>Total expected credit losses 1 Jan 2020</b>	<b>-167</b>	<b>-80</b>	<b>-80</b>	<b>-327</b>
New assets originated or purchased	-61	-7	0	-69
Assets derecognised or repaid (excluding write-offs)	75	14	47	136
Transfers to Stage 1	0	3	-	3
Transfers to Stage 2	0	-33	-	-33
Transfers to Stage 3	0	8	-8	0
Changes to models* and inputs** used for ECL calculations	-1	0	0	-1
Write-offs	-	-	-	-
Recoveries	-	-	-	-
<b>Total expected credit losses 30 Jun 2020</b>	<b>-154</b>	<b>-96</b>	<b>-41</b>	<b>-291</b>

\* Represent changes in the model.

\*\* Represents changes to model parameters (e.g. GDP rates, unemployment rates).

CHANGES IN EXPECTED CREDIT LOSSES BY IMPAIRMENT STAGE (EUR 1,000)	Not credit-impaired		Credit-impaired	Total Expected Credit Losses
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
<b>Total expected credit losses 1 Jan 2019</b>	<b>-295</b>	<b>-59</b>	<b>-</b>	<b>-355</b>
New assets originated or purchased	-49	-48	-28	-126
Assets derecognised or repaid (excluding write-offs)	200	10	-	210
Transfers to Stage 1	0	16	-	16
Transfers to Stage 2	0	-20	-	-20
Transfers to Stage 3	0	21	-52	-31
Changes to models* and inputs** used for ECL calculations	-22	-	-	-22
Write-offs	-	-	-	-
Recoveries	-	-	-	-
<b>Total expected credit losses 31 Dec 2019</b>	<b>-167</b>	<b>-80</b>	<b>-80</b>	<b>-327</b>

\* Represent changes in the model.

\*\* Represents changes to model parameters (e.g. GDP rates, unemployment rates).



The MuniFin Group has not introduced any management overlays or unallocated provisions due to the COVID-19 pandemic that the ECL model could not take into account. The Group's expected credit losses are based entirely on the calculation of the ECL model. The overall credit risk of the Group has remained low due to fact that the COVID-19 pandemic has not have an impact on the Group's guarantee schemes and all customer exposures by the Group have the risk level associated with Finnish public sector entities and a riskweight of 0% in capital adequacy calculations. At the reporting date, the Group has a total of EUR 24 million (EUR 2 million) in guarantee receivables from the public sector due to the insolvency of customers. The growth is due to individual customers. Credit risk of the liquidity portfolio has remained of good quality with the average rating of AA+.

### Forward-looking information

In the assessment of whether the credit risk of an instrument has significantly increased and in the measurement of expected credit losses, forward-looking information and macroeconomic scenarios are included in the model. The scenarios for Finland have been updated by the Chief Economist and Scenario Design Team of the MuniFin Group to take into account the effect of COVID-19 pandemic. The macroeconomic projections cover three-year period and as no reliable macroeconomic projections exceeding a three-year time horizon are available, forward-looking adjustment will be limited to a three-year period. Mainly three scenarios are used; base, optimistic and adverse. Scenarios include probability weights. Due to uncertainty caused by the COVID-19 pandemic, the MuniFin Group has given a larger weight to the adverse scenario. The scenario probability weightings are as following.

SCENARIO 30 Jun 2020	2020	2021	2022
Adverse	45%	45%	15%
Base	50%	50%	70%
Optimistic	5%	5%	15%

The Group has identified key drivers of credit losses for each portfolio that share similar kind of credit risk characteristics and estimated the relationship between macroeconomic variables and credit losses. ECL model consists of the following macroeconomic variables for Finnish counterparties of financial assets; Finnish government long-term rate, inflation, GDP growth, the development of residential housing prices and unemployment rate. For non-Finnish financial assets, stress test scenarios published by the European Central Bank are employed in the model and scenario parameters. Each variable covers an estimate over a period of three years. The table below lists the macroeconomic variables and their forecasts over the three-year forecast period.

### MACROECONOMIC VARIABLES 30 Jun 2020

	Scenario	2020	2021	2022
10Y Fin Government rate, %	Adverse	0.9	1.1	1.2
	Base	-0.2	0.1	0.2
	Optimistic	0.2	0.7	1.0
GDP Growth, %	Adverse	-8.0	-0.5	2.5
	Base	-7.0	3.0	1.3
	Optimistic	-4.0	3.5	2.5
Inflation, %	Adverse	-1.0	0.0	2.5
	Base	0.0	1.3	1.5
	Optimistic	0.6	2.0	2.2
Residential Real Estate (selling price, YoY change), %	Adverse	-10.0	-12.0	-5.0
	Base	-2.5	-2.0	0.5
	Optimistic	0.0	2.0	2.5
Unemployment rate, %	Adverse	9.5	10.5	10.0
	Base	8.5	9.0	8.2
	Optimistic	7.6	7.4	7.0

The COVID-19 pandemic is causing a sharp but relatively short-lived global recession in the first half of 2020. In the base scenario, the MuniFin Group expects the Finnish GDP to contract by 7% in 2020. Gradual recovery starts already within the second half of 2020 and output is expected to grow 3% in 2021. From 2022 onwards, the economy converges to its long-term growth path and the annual pace of expansion is around 1.3–1.5%. Albeit being a temporary shock, the COVID-19 recession will also cause some more persistent damage to productive capacity. In the base scenario, unemployment rate rises to 8.5% in 2020 and reaches its cyclical peak at 9.0% in 2021. After that, unemployment remains several years above its structural level, which is estimated to be around 6.5–7.0%. Negative output gap keeps price pressures subdued. The MuniFin Group assumes CPI inflation to recover rather slowly in 2021–2022. The European Central Bank is committed to a very accommodative monetary policy stance and interest rate expectations will rise only gradually in line with economic recovery. On the national level, home prices are assumed to decline moderately in 2020–2021 as COVID-19 pandemic hurts personal income and housing supply is relatively abundant.

Compared to the base scenario, the optimistic scenario factors in slightly less severe economic effects from the COVID-19 pandemic and assumes somewhat faster recovery in global trade and investment spending. As a result, the Finnish GDP would decline less in 2020 and grow more in the subsequent two years. In the optimistic scenario, unemployment peaks already in 2020 at 7.6%. Consumer and home prices bottom out in the first half of 2020 and rise at about 2.0–2.5% pace in 2021–2022. Narrowing output gap and reviving inflation expectations lead to somewhat higher interest rates than in the base scenario.

The adverse scenario represents an outcome where the COVID-19 pandemic causes significant and persistent damage to the productive capacity. Economic recession continues well into 2021. Unemployment rises more and remains high much longer than in the base scenario. Deflationary pressures keep CPI inflation very low in 2020–2021. Lack of demand in the housing market leads to relatively sharp declines in housing price indices. Prolonged global recession creates tensions in financial markets, which gives rise to wider risk premiums in asset pricing.

The below table presents the sensitivity of the expected credit losses assuming 100% weight for adverse scenario until 2022.

<b>SENSITIVITY ANALYSIS</b> <b>30 Jun 2020 (EUR 1,000)</b>	<b>Weighted scenario</b>	<b>Adverse scenario (100%)</b>
ECL	291	322
Proportion of the exposure in Stage 2 and 3	0.77%	0.91%

### Guarantee scheme

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 MuniFin Group may only grant loans and leasing financing without a separate security directly to a municipality or joint municipal authority. For others, loans must be secured with an absolute guarantee issued by a municipality or joint municipal authority, an absolute guarantee issued by a municipality or joint municipal authority together with a state deficiency guarantee or a real estate collateral together with a state deficiency guarantee. The guarantee or guarantee scheme together with a real estate collateral has to fully cover the financing provided. All loans granted by the Group have the risk level associated with Finnish public sector entities and a riskweight of 0% in capital adequacy calculations. Guarantees and the fair value of collateral received are also taken into account in the calculation of expected credit losses.

Municipal customers are divided into three sectors: municipalities, joint municipal authorities and municipal companies. By law, a Finnish municipality cannot default (Bankruptcy Act 120/2004). The municipalities have an unlimited right to increase local income tax rates and due to this, together with other elements of autonomy, the Finnish municipal sector has, similar to sovereigns, a zero credit risk weighting in capital adequacy calculation of credit institutions. Finnish municipalities and cities can also establish joint municipal authorities to provide services that they are legally required to provide for their citizens or undertake regional development activities. Municipalities are jointly members of these joint municipal authorities and are commonly responsible for their funding and other liabilities. All loans to municipal companies are guaranteed by municipalities (or joint municipal authorities). Thus there is always a municipality, that cannot default by law, to carry the risk of default. When a loan has a 100% absolute guarantee from a municipality or a joint municipal authority, the MuniFin Group can apply

for payment directly from the guarantor in accordance with the terms of the loan. The guarantor is committed based on the guarantee commitment to pay the interest and other ancillary costs in addition to the principal.

The housing customer group consists of two types of housing institutions: institutions owned or controlled by municipalities (or joint municipal authorities) and state-subsidised housing institutions. Loans for housing companies owned by municipalities or joint municipal authorities are guaranteed by municipalities, or these loans can also at the same be categorised as state-subsidised housing loans. In such cases there is real estate collateral and a deficiency guarantee from the State of Finland. State-subsidised housing institutions are defined as corporations designated by state authority and engaged in the renting or production and maintenance of housing, or corporations controlled by them. The housing companies are nominated by the Housing Finance and Development Centre of Finland (ARA), a governmental agency operating under the supervision of the Ministry of the Environment. Loans for housing companies have a deficiency guarantee from the State of Finland that covers the residual risk over the collateral value of the respective property. When a loan has a deficiency guarantee by the State of Finland, primary pledge of mortgage collateral is mainly required unless the loan is a state-subsidised housing loan granted for municipality or joint municipal authority in which case there is no collateral required by law. The amount of the primary pledge must equal 1.2 times the amount of the loan. Under deficiency guarantee, the State of Finland is responsible for the primary debt in respect of the part that is not covered from liquidation of the mortgage collateral.

**Non-performing and forborne exposures**

Non-performing exposures refer to receivables that are more than 90 days past due, other receivables classified as risky and forborne exposures due to the customer's financial difficulties.

**NON-PERFORMING AND FORBORNE EXPOSURES****30 Jun 2020  
(EUR 1,000)**

	Performing exposures (gross)	Non-performing exposures (gross)	Total exposures (gross)	Total expected credit losses	Total exposures (net)
Over 90 days past due	-	-	-	-	-
Unlikely to be paid	-	29,074	<b>29,074</b>	-32	29,042
Forborne exposures	62,469	14,599	<b>77,067</b>	-50	77,017
<b>Total</b>	<b>62,469</b>	<b>43,673</b>	<b>106,142</b>	<b>-83</b>	<b>106,059</b>

**NON-PERFORMING AND FORBORNE EXPOSURES****31 Dec 2019  
(EUR 1,000)**

	Performing exposures (gross)	Non-performing exposures (gross)	Total exposures (gross)	Total expected credit losses	Total exposures (net)
Over 90 days past due	-	-	-	-	-
Unlikely to be paid	-	61,682	<b>61,682</b>	-80	61,602
Forborne exposures	27,854	4,968	<b>32,822</b>	-27	32,795
<b>Total</b>	<b>27,854</b>	<b>66,650</b>	<b>94,505</b>	<b>-107</b>	<b>94,398</b>

### The impact of COVID-19 pandemic on forborne exposures

The COVID-19 pandemic affected the financial situation and liquidity of the MuniFin Group's customers. The Group has therefore offered concessions to the payment terms of the loans to customers whose finances have been temporarily affected by the pandemic. The granted repayment holidays are for the year 2020 and are mainly between 6–9 months in length. The uncollected installments have mainly been transferred to the end of the loan term to be paid in connection with the last installment. Most of the repayment holidays were granted during April and May.

During the reporting period, customers were granted repayment holidays (concessions to contractual payment terms) for loans with a remaining notional amounting to EUR 208 million (77 individual cases), most of which, EUR 204 million (70 cases), were repayment holidays due to COVID-19 pandemic. Of the loans with granted repayment holidays, EUR 60 million (50 cases) were classified as forborne exposures, of which EUR 48 million (32 cases) were performing forborne exposures (stage 2 in the measurement of expected credit losses) and EUR 12 million (18 cases) non-performing forborne exposures (stage 3 in the measurement of expected credit losses).

Forbearance measures are concessions to original contractual payment terms agreed at the customers' initiative to help the customer through temporary payment difficulties. Performing forborne exposures include forborne exposures reclassified as performing during their probation period or forbearance measures made into a performing loan. Loan modifications due to reasons other than the customer's financial difficulties are not classified as forborne exposures. The Group considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Group would not have agreed to them if the borrower had been financially healthy.

### Realised credit losses

The Group has not had any realised credit losses during the reporting period.

## Note 10. Debt securities issued

(EUR 1,000)	30 Jun 2020		31 Dec 2019	
	Carrying amount	Nominal value	Carrying amount	Nominal value
Bonds	28,695,472	29,534,093	27,255,873	27,361,959
Other*	3,098,255	3,144,003	2,727,712	2,735,624
<b>Total</b>	<b>31,793,727</b>	<b>32,678,096</b>	<b>29,983,585</b>	<b>30,097,583</b>

\* *Other* contains short-term funding issued by MuniFin.  
MuniFin's funding is guaranteed by the Municipal Guarantee Board.

BENCHMARK ISSUANCES DURING THE REPORTING PERIOD 1 JAN–30 JUN 2020	Settlement date	Maturity date	Interest-%	Nominal value (1,000)	Currency
Fixed rate benchmark bond, issued under the MTN programme	15.1.2020	15.11.2024	0.000%	1,500,000	EUR
Fixed rate benchmark bond, issued under the MTN programme	2.4.2020	15.11.2024	0.000%	350,000	EUR
Fixed rate benchmark bond, issued under the MTN programme	22.4.2020	22.4.2025	0.000%	1,000,000	EUR

In the above table, benchmark issuances are presented by the settlement date. The offering circular is available in english on the website at [www.munifin.fi/investor-relations](http://www.munifin.fi/investor-relations).

At the end of June, MuniFin issued a three-year USD 1 billion benchmark bond. The settlement date of the issued bond was in July, which is why the issue does not yet appear in the figures at the end of the reporting period.

<b>BENCHMARK ISSUANCES DURING THE YEAR 2019</b>	<b>Settlement date</b>	<b>Maturity date</b>	<b>Interest-%</b>	<b>Nominal value (1,000)</b>	<b>Currency</b>
Fixed rate benchmark bond, issued under the MTN programme	16.1.2019	7.3.2024	0.125%	1,000,000	EUR
Fixed rate benchmark bond, issued under the MTN programme	10.7.2019	6.9.2029	0.050%	500,000	EUR
Fixed rate benchmark bond, issued under the MTN programme	18.10.2019	7.3.2024	0.125%	350,000	EUR
Fixed rate benchmark bond, issued under the MTN programme	12.11.2019	26.11.2026	0.625%	350,000	EUR
Fixed rate benchmark bond, issued under the MTN programme	20.12.2019	7.3.2024	0.125%	100,000	EUR
Fixed rate benchmark bond, issued under the MTN programme	20.3.2019	15.11.2023	2.500%	1,000,000	USD
Fixed rate benchmark bond, issued under the MTN programme	12.9.2019	12.9.2022	1.375%	1,250,000	USD

## Note 11. Capital instruments

30 Jun 2020 (EUR 1,000)	Currency	Nominal value	Carrying amount	Interest rate	Earliest repayment
AT1 capital loan	EUR	350,000	347,454	Fixed	14.2022
<b>Total</b>		<b>350,000</b>	<b>347,454</b>		

31 Dec 2019 (EUR 1,000)	Currency	Nominal value	Carrying amount	Interest rate	Earliest repayment
AT1 capital loan	EUR	350,000	347,454	Fixed	14.2022
<b>Total</b>		<b>350,000</b>	<b>347,454</b>		

The capital instrument issued by MuniFin 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 the Consolidated Financial Statements. In parent company's financial statements AT1 capital loan is recognised in balance sheet item *Subordinated liabilities*.



## Note 12. Collateral given

### GIVEN COLLATERALS ON BEHALF OF OWN LIABILITIES AND COMMITMENTS (EUR 1,000)

	30 Jun 2020	31 Dec 2019
Loans and advances to credit institutions to the counterparties of derivative contracts*	1,037,138	686,129
Loans and advances to credit institutions to the central bank**	38,946	26,590
Loans and advances to the public and public sector entities to the central bank**	5,576,762	2,765,089
Loans and advances to the public and public sector entities to the Municipal Guarantee Board***	10,015,273	11,521,341
Other assets to the counterparties of derivative contracts*	176,359	158,494
<b>Total</b>	<b>16,844,478</b>	<b>15,157,643</b>

Collateral given is presented at the carrying amounts of the reporting date.

- \* The MuniFin Group has pledged a sufficient amount of collateral to the counterparties of derivative contracts based on an additional collateral agreement of derivative contracts (*ISDA/Credit Support Annex*).
- \*\* MuniFin is a monetary policy counterparty approved by the central bank (*Bank of Finland*), and, for this purpose, a sufficient amount of collateral has been pledged to the central bank for possible operations related to this counterparty position.
- \*\*\* The MuniFin Group has pledged a sufficient amount of loans to the Municipal Guarantee Board. The Municipal Guarantee Board guarantees MuniFin's funding and MuniFin places collateral for the Municipal Guarantee Board's guarantees as defined in the Act on the Municipal Guarantee Board.

## Note 13. Contingent assets and liabilities

The accrued interest on MuniFin's AT1 capital loan is a contingent liability, totalling EUR 3,107 thousand as per 30 June 2020. The contingent liability will be realised as a deduction of equity once MuniFin decides on the payment of interest. At the end of 2019, MuniFin had a contingent liability of EUR 9,433 thousand, which realised upon interest payment on 1 April 2020.

The Group does not have any contingent assets on 30 June 2020 or at the end of 2019.

## Note 14. Off-balance sheet commitments

(EUR 1,000)	30 Jun 2020	31 Dec 2019
Credit commitments	2,540,783	2,361,323
<b>Total</b>	<b>2,540,783</b>	<b>2,361,323</b>

## Note 15. Related-party transactions

The MuniFin Group's related parties include MuniFin's shareholders whose ownership and corresponding voting rights in the company exceed 20%. In addition, the Group's related parties consist of the key management personnel including the CEO, the Deputy to the CEO, other members of the Executive Management Team, members of the Board of Directors, as well as the spouses, children and dependants of these persons and the children and dependants of these persons' spouses. In addition, the MuniFin Group's related parties are entities which are directly or indirectly controlled or jointly controlled by the above mentioned persons or where these persons have significant influence. MuniFin's related party is also its subsidiary Financial Advisory Services Inspira Ltd.

The Group's operations are restricted by the Act on the Municipal Guarantee Board and the framework agreement concluded between MuniFin and the Municipal Guarantee Board, pursuant to which MuniFin may only grant loans to parties stipulated by law (municipalities, joint municipal authorities, 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).

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

There have been no material changes in the related party transactions after 31 December 2019.

## Note 16. Events after the reporting period

No material events occurred after the reporting period.

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