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Pillar III Disclosure Report
2020

MuniFin

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Section 1

Introduction and basis for preparation

Introduction

Municipality Finance Plc (MuniFin) is a Finnish credit institution supervised by the European Central Bank and the Finnish Financial Supervisory Authority. As a credit institution MuniFin has to comply with EU capital requirements for credit institutions consisting of the capital requirement directive ("CRD IV") (2013/36/EU) and the capital requirements regulation ("CRR") (EU 575/2013) which are based on the revised capital adequacy framework of the Basel Committee on Banking Supervision, known as 'Basel III'.

The capital requirements for banks consist of three pillars:

- Pillar 1: The minimum capital requirements for each category of risk: credit and counterparty risk, market risk, credit valuation adjustment risk and operational risk.
- Pillar 2: Internal assessment of overall risks and capital adequacy based on those risks: Internal Capital Adequacy Assessment Process (*ICAAP*) and Supervisory Review and Evaluation Process (*SREP*).
- Pillar 3: Disclosure requirements concerning capital adequacy and risks.

This document fulfils MuniFin's Pillar 3 disclosure requirements of the current regulation and provides a comprehensive overview of the risk profile of MuniFin. In case required information has been published as part of some other document published by MuniFin, this information has been incorporated into this document with a reference.

Description of MuniFin Group

Municipality Finance Group (MuniFin Group or the Group) consists of Municipality Finance Plc (MuniFin, the Parent Company or the Company) and Financial Advisory Services Inspira (Inspira or the Subsidiary Company) Ltd. MuniFin owns 100% of Inspira.

Measured by the balance sheet, MuniFin is Finland's third largest credit institution; the balance sheet totals over EUR 44 billion. MuniFin is owned by Finnish municipalities, the public sector pension fund Keva and the Republic of Finland. MuniFin is an integral part of the Finnish public sector economy.

MuniFin's mission is to build a better future in line with the principles of responsibility and in cooperation with its customers. MuniFin's customers consist of municipalities, joint municipal authorities and municipality-controlled entities, as well as non-profit organisations and projects nominated by the Housing Finance and Development Centre of Finland (*ARA*). MuniFin is the only credit institution in Finland specialised in providing financing for the local government sector and central government-subsidised housing production. Lending is used for environmentally and socially responsible investments such as public transportation, sustainable buildings, hospitals and healthcare centers, schools and day care centers, and homes for the elderly.

MuniFin's customers are domestic but the Company operates in a global business environment. It is the most active Finnish bond issuer in international capital markets. The funding is exclusively guaranteed by the Municipal Guarantee Board. The Municipal Guarantee Board is established by a special law and all Finnish mainland municipalities (local governments) are permanent members of the Municipal Guarantee Board.

Disclosure principles
This Pillar III Disclosure Report 2020 discloses information on the capital adequacy of the MuniFin Group, as specified in Part 8 of EU Capital Requirements Regulation (575/2013) in compliance with the guidelines issued by EBA for publishing disclosures. All the figures in this Pillar III Disclosure Report 2020 are consolidated figures of the MuniFin Group unless otherwise stated.

Majority of information required to be published by MuniFin Group based on Pillar III regulation will be disclosed in this Pillar III Report, which is separate from the annually published Report of the Board of Directors and the Financial Statements. In addition, there are documents (e.g. Corporate Governance Statement and Remuneration Report) available on MuniFin's webpage supplementing the information disclosed in this Pillar III Report.

MuniFin's Business Control and Reporting department is responsible for the process of publishing financial information. Risk management function and Legal and Governance function take also part into the disclosure process. The Executive Management Team examines risk and solvency information prior to delivering the information for the Audit Committee's review. After Audit Committee the report is delivered to the Board of Directors for approval.

In order to support its work, the Board of Directors has established an Audit Committee and a Risk Committee. The purpose of the Audit Committee is to assist the Board of Directors in duties related to financial reporting and internal control arrangements. The Risk Committee assists the Board in the matters concerning the institution's overall risk appetite and risk strategy, and in overseeing that the management complies with the risk strategy decided by the Board.

In the second half of the year 2020, MuniFin Group decided to renew its organisation and operating model. The changes to the organisation came into force on 1 January 2021. These changes are not yet reflected in the Pillar III Disclosure Report 2020. For further details, see Section 2 “Changes in governance structure from 1 January 2021”.

The Group's Financial Statements are annually audited by the External Auditor and the interim report is subject to review by the External Auditor.

This Disclosure Report comprises a comprehensive disclosure on capital adequacy, capital management and risk management. This Pillar III Disclosure Report includes disclosures required according to the Part Eight of EU CRR and also tables and templates required according to EBA guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013 valid from 31 December 2017. The Pillar III disclosures of MuniFin Group are published semiannually. The annual disclosures are published in conjunction with the date of publication of MuniFin Group's Annual Report (including the Report of the Board of Directors and the Financial Statements). Half Year Pillar III disclosures are published in conjunction with the date of publication of MuniFin Group's Half Year Report (interim report).

This Report is divided into sections mainly based on the breakdown described in the EBA guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013. Section 16 includes table of reference to Part Eight Regulation (EU) No 575/2013 and the location where the information can be found.

Following EBA guidelines on disclosure requirements on the frequency of the disclosures MuniFin Group has assessed the need to publish Pillar III disclosures more frequently than annually. MuniFin Group has considered the matter thoroughly and decided to publish Pillar III disclosures semiannually at the same time as publication of the Financial Statements and the Half Year Report. The semiannual publication of the comprehensive Pillar III disclosures is deemed to be sufficient despite MuniFin being one of the three largest institutions in its home Member State and has been identified by competent authorities as an Other Systemically Important Institution (*O-SII*). MuniFin Group's business model is stable with a limited range of activities and exposures. MuniFin Group applies very conservative principles to its risk management and the resulting risk profile of MuniFin Group is not prone to any sudden changes. There has been no essential changes in MuniFin Group's risk appetite. On the basis of these considerations MuniFin Group has deemed it is sufficient to publish Pillar III information semiannually.

Following EBA guidelines (EBA/GL/2016/11) MuniFin Group has not disclosed empty tables or specific rows / columns that are not considered to be relevant for MuniFin Group's activities.

Information of this Pillar III report has not been audited. The appropriateness of the Pillar III disclosed information is approved by MuniFin's Board of Directors. If there is information considered to be proprietary or confidential the information is not published, but disclosed in more general manner.

Effects of the COVID-19 pandemic on MuniFin Group

The outbreak of the COVID-19 pandemic and the resulting surge in economic uncertainty have had a significant increase in the Group's business operating volumes, but only a limited effect on MuniFin Group's financial 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.

Few MuniFin Group's customers have run into economic challenges due to the COVID-19 pandemic. If the pandemic has affected their repayment ability, MuniFin Group has offered them repayment holidays and concessions to the payment terms of the loans. The need for repayment holidays and concessions has been on a moderate level. However, the Group's total credit risk has remained at low level. More information on non-performing exposures is available in Section 9 in this Report and in MuniFin Group's Consolidated Financial Statements 2020, which is available on MuniFin's website.

MuniFin Group has also reviewed the EBA Guidelines on COVID-19 measures reporting and disclosure (EBA/GL/2020/07) and concluded following: For the purpose of EBA/GL/2020/07 templates 1 and 2, moratoria refers to general moratoria in accordance with paragraph 10 of EBA Guidelines (EBA/GL/2020/02) on legislative and non-legislative moratoria. The concessions MuniFin Group has made in response to the COVID-19 pandemic have been assessed individually for each counterparty, hence the concessions do not meet the criteria of moratoria in accordance with EBA/GL/2020/02. For the purpose of EBA/GL/2020/07 Template 3, MuniFin Group has not received any public guarantees introduced in response to the COVID-19 pandemic. As a result, MuniFin Group has not disclosed these templates.

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. 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 was temporarily changed to 66% until the end of 2020, after which it was returned to its previous level of 50%. The effect this had on MuniFin Group's own funds at the end of December 2020 was EUR 8 million.

In 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 the Group's overall capital requirements by 1.0 percentage points.

MuniFin Group has not applied any other reliefs.

Section 2

Risk management objectives and policies

EU OVA
General information on risk management, objectives and policies

Risk management principles

MuniFin Group has a Risk and Governance Framework in place. The Framework is created to ensure that risk culture, business and strategy risk, risk appetite, risk governance, people and processes are aligned and effectively working. The following principles are followed across the Group:

- The Risk and Governance Framework is supported by comprehensive set of risk policies and underlying guidelines and instructions.
- MuniFin Group has a clearly defined Risk Appetite Framework (*RAF*), which sets out the level of risk the Group is willing to take and able to assume in pursuit of its strategic objectives.
- Limits and targets are defined and embedded throughout MuniFin Group to ensure the Group remains at any given time within the set risk appetite.
- Risk management activities are included in all parts of the organisation to ensure that limits are adhered.
- A three-line defence governance model is in place, which ensures that an independent control, review and challenge of all operations is provided by an independent Risk Management function.
- Material risk types are actively managed in line with MuniFin Group's approach of identifying, measuring, managing, monitoring and reporting risks. Identification of risks is forward looking to allow management to take a proactive approach to risk management.
- The Group is managed in such a way that it is confident of weathering extreme but plausible stress scenarios. Stress testing is used to demonstrate that MuniFin Group is able to withstand these shocks.
- An effective risk culture is in place to ensure that limits are adhered to. Risk culture is embedded throughout the Group and communicated through the implementation of RAF.

The components of MuniFin Group's Risk and Governance Framework are presented in the figure below:

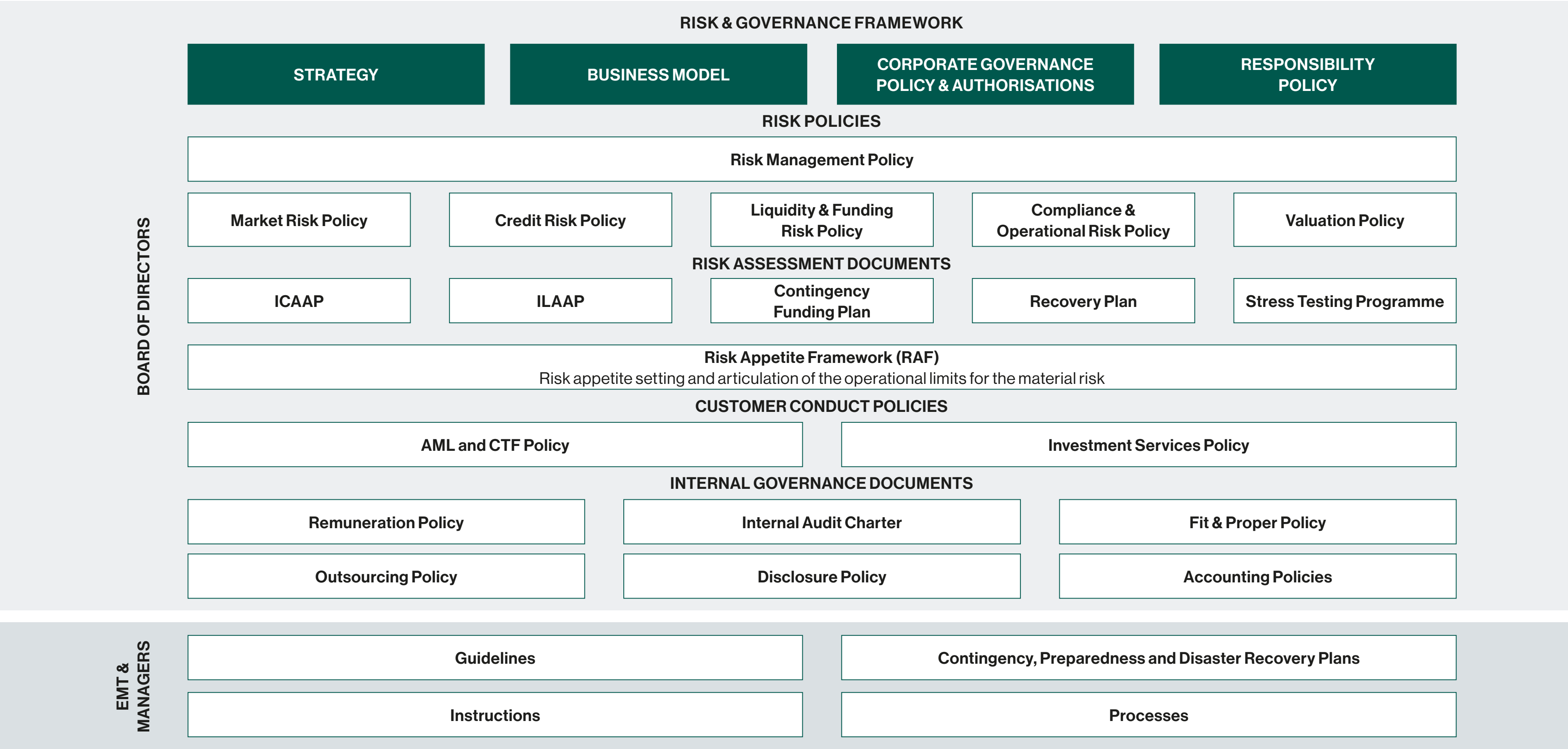

Figure 1. Risk and Governance Framework of MuniFin Group

Governance of risk management

MuniFin Group has an extensive risk management organisation, which covers all operations including the tasks and responsibilities of different departments and decision-making bodies. Internal control framework is supported by controls of different processes. Internal control is performed at all levels of the organisation and the nature and scope of operations are taken into account in defining the operating methods used in internal control.

Internal control is primarily carried out in line operations, where internal control is continuous and part of day-to-day operations.

For the implementation of internal control framework, the Group applies the three lines of defence model. The three lines of defence model has been adopted to ensure that responsibilities are allocated to all the relevant parties, and risks are reported and escalated.

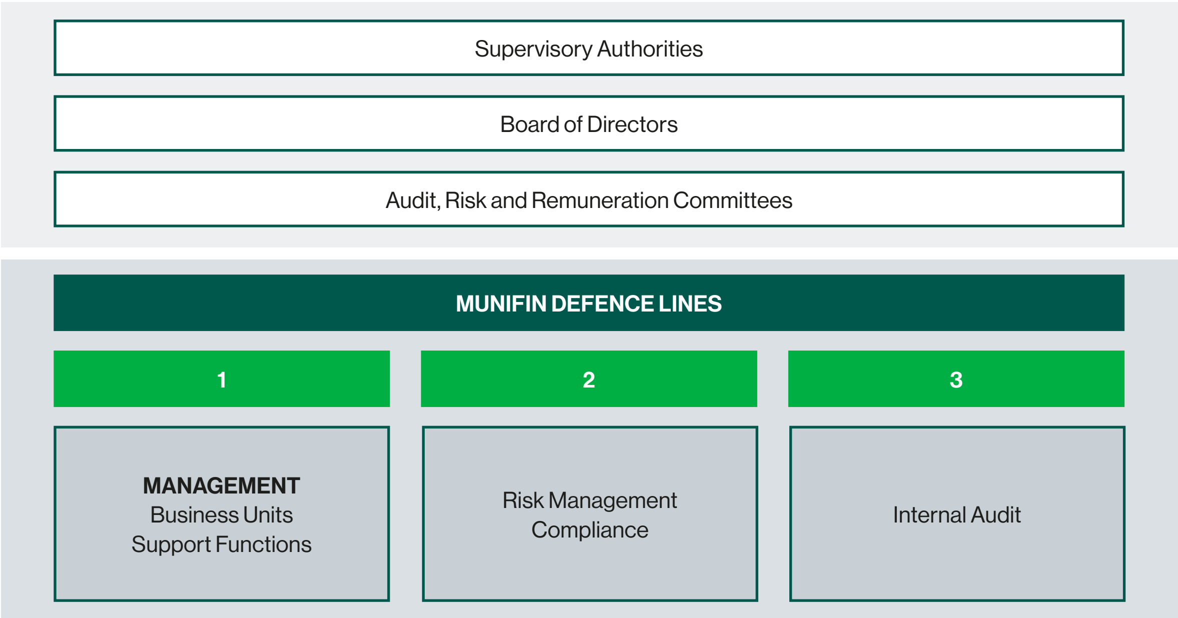

Figure 2. Three lines of defence risk governance model

The first line of defence is represented by the management, business units and support functions that are responsible and accountable for the on-going identification, assessment and management of risks. The first line of defence operates business activities within the set limits and in accordance with the internal control framework.

The first line of defence has the following main responsibilities:

- Measuring risk exposures and ensuring that they are managed in line with the risk appetite.
- Putting in place processes to ensure that the business is operating within risk appetite and policy objectives through implementing guidelines and instructions.
- Having processes in place for monitoring risk exposure against limits and targets, and for the timely escalation processes in a case of any breaches of limits and targets.

The Capital Markets division is responsible for managing the interest rate risk profile of the consolidated balance sheet by entering into market transactions within the limits set by the Board of Directors. The risk positions and limit usage are reported to the MuniFin's Executive Management Team and its subgroups and Board of Directors on a regular basis. Customer Finance division maintains customer relationships and is in charge of credit decisions within the set limits and managing the granted credit limits. The Finance division, led by the Chief Financial Officer, is responsible for the principles related to capital adequacy, the structure of own funds and internal control over financial reporting.

The second line of defence includes independent risk management and compliance functions. MuniFin's Risk Management complements the risk activities of the business units through its risk control and reporting responsibilities. Risk Management is responsible for overseeing MuniFin's risk-taking activities, assessing risks independently from the business units, establishing actions for the management of risks and developing policies, methodologies and systems for the management of risks. Finally, Risk Management's task is to ensure that the Risk and Governance Framework is in line with the risk strategy, risk appetite and risk limits. The Compliance and Operational Risk function monitors the Group's compliance with regulation as well as operational risks.

The third line of defence is the Internal Audit function, which is in charge of conducting risk-based and general audits, providing an independent review and objective assurance to the Board of Directors on the quality and effectiveness of the internal control framework, the first and second line of defence and the Risk and Governance Framework including links to organisational culture, as well as strategic and business planning, remuneration and decision-making processes. Internal Audit's task is to review and audit independently the first and second line of defence and to carry out its functions independently of any other line of defence.

The risk management and the capital management are governed by procedures set in policies, charters, risk assessment and planning documents, guidelines and instructions and other descriptions under the Risk and Governance Framework. All entities in the MuniFin Group (Parent Company MuniFin and Subsidiary Inspira) are subject to the same Risk and Governance Framework.

Board of Directors and Committees

The Board of Directors is the highest decision-making body, both in strategic and risk related matters. Regarding risk management, the Board of Directors approves the risk strategy, general principles, risk policies, limits and processes. The Board of Directors is responsible for deciding on MuniFin Group's risk appetite and defining target capital ratios. The Board of Directors also approves MuniFin Group's Risk Management Policy, Risk Appetite Framework and risk policies e.g. Credit Risk Policy and Market Risk Policy. In addition, the Board of Directors approves Stress-testing Programme, Remuneration Policy and risk assessment and planning documents (*ICAAP, ILAAP, contingency funding plan and Recovery Plan*).

As required by regulation and in order to organise its work as efficiently as possible, the Board of Directors has established three committees: Audit Committee, Risk Committee and Remuneration Committee. These committees are responsible for assisting and preparing matters for the Board of Directors and also challenging the management in the matters of their responsibilities.

The Risk Committee of the Board assists the Board of Directors in matters regarding the risk strategy and risk taking and in supervising that the MuniFin Group follows the risk strategy set by the Board. The purpose of risk management is to ensure that risks associated with lending, funding, liquidity management and other business operations are in line with MuniFin Group's conservative risk profile defined in the Risk Appetite Framework and related risk policies. In addition, the Risk Committee monitors the compliance of the business operations in relation to the risk strategy set by the Board of Directors.

The purpose of the Audit Committee, as a preparatory body, is to assist the Board of Directors in duties related to financial reporting and internal control. The Audit Committee supervises work of the external and internal audit. Board's Audit Committee is responsible for directing Internal Audit to undertake independent audits on MuniFin Group's risk and control framework. In collaboration with the Risk Committee, the Audit Committee evaluates the assessments and audit findings concerning the Risk Appetite Framework on at least an annual basis. Based on these audit findings, the Audit Committee opines on the adequacy and effectiveness of the framework, including the MuniFin Group's level of compliance with regulatory standards.

The Remuneration Committee is responsible for including the risk appetite as a key component in the performance objectives, remuneration and incentive structures of the staff. The Remuneration Committee ensures that the remuneration systems do not lead to undesired operating processes or uncontrolled risk-taking. In addition, the remuneration policies shall be such that a significant breach of the set risk appetite limits may have consequences for the involved individuals' appraisal and remuneration.

CEO and Executive Management Team

The policies, business plans and strategies are approved by the Board and cascaded top-down through the Executive Management Team. The Executive Management Team is chaired by the CEO and membered by the Heads of MuniFin's divisions. The CEO is responsible for organising MuniFin's operational activities, and is ultimately responsible to the Board for ensuring that the activities meet the set requirements. The Executive Management Team handles the organisation of operational activities by approving the set of operational guidelines supplementing the Risk Management Policy, Risk Appetite Framework, Risk Policies and other policies of the Board of Directors. The Executive Management Team also delegates duties to the necessary divisions, departments and responsible individuals.

Concerning risk management, the Executive Management Team is also responsible for ensuring that the limits set by the Board and other principles related to risk management are taken into account in MuniFin Group's operations by arranging the necessary control points and regular reporting.

The Executive Management Team is supported by six executive-level decision-making bodies: the Risk Group, the ALM Group, the Credit Group, the Security Management Group, the Valuation Control Group and the Data Governance Group. All Groups support the Executive Management Team with matters concerning the MuniFin Group's risk position and risk profile approved by the Board.

The Chief Risk Officer (CRO) reports directly to the Board's Risk Committee on MuniFin Group's overall risk position at each meeting and presents a more thorough risk review at least twice a year.

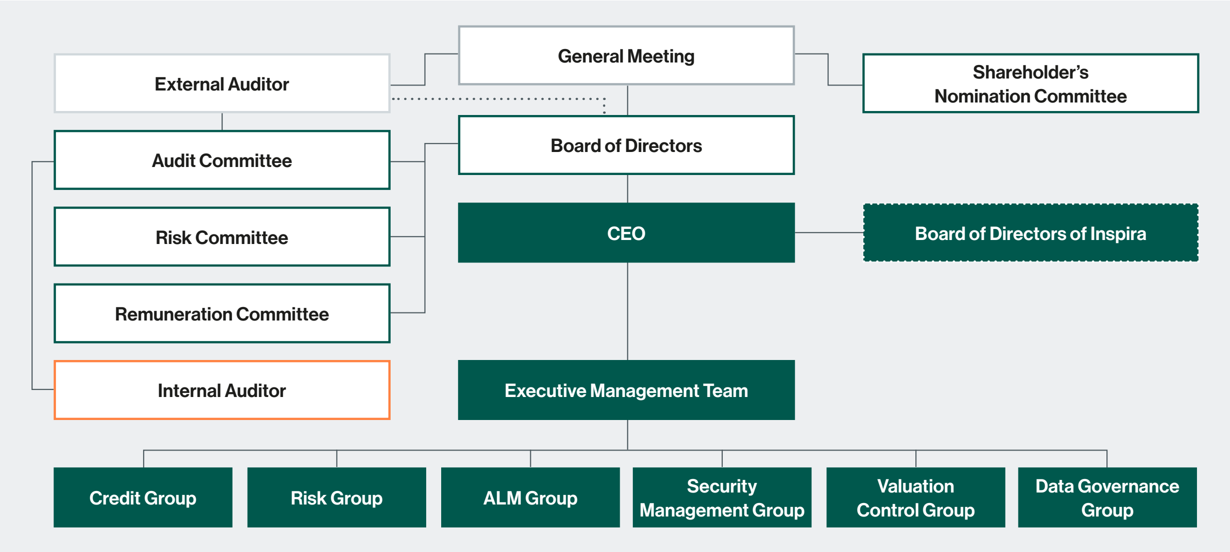

Figure 3. Risk related governance structure of MuniFin Group

Changes in governance structure from 1 January 2021

In the second half of 2020, MuniFin Group decided to renew its organisation and operating model. The changes to the organisation came into force on 1 January 2021. This change has also an impact on MuniFin Group's governance structure in the operational level. The operational level bodies under the Executive Management Team have been discontinued and tasks allocated to these bodies have been reallocated to new division-level Management Teams (MT). Capital Markets and Sustainability MT has tasks of ALM Group and Risk Management and Compliance MT has Risk Group's matters. Finance MT has previous tasks of Valuation Control Group and Data Governance Group. Technology Services MT takes care of Security Management Group's tasks. Credit Group continues also in the new operating model and there is new Customer Solutions MT for other client relations management issues.

MuniFin Group's overall risk profile associated with the business strategy and business model and MuniFin Group's risk statement

In the Finnish economy and financial system, MuniFin's dedicated role is to ensure the availability of market-based funding to the municipality sector and central government-subsidised housing production. Market based funding is acquired from capital markets at the most competitive rates available to MuniFin under all market conditions. MuniFin Group operates a low-risk business model with a limited scope of services offered for a restricted customer base. Furthermore, MuniFin Group has conservative risk management policies. MuniFin's business activity is strictly limited to the financing of Finnish municipalities, municipal federations, central government-subsidised housing production and companies controlled by municipalities in case the operations of the Company are needed to ensure the availability of services essential to Finnish citizens due to local or regional circumstances. The services provided by MuniFin Group do not include services typically provided by traditional commercial banks, such as deposit-taking, payments and custody services or asset management related services. Due to the limited business activities focusing on offering financing services only to municipal and local government sectors, MuniFin Group has no material financial fee income, with net interest income being the only material source of earnings. All MuniFin's customer financing is direct municipal risk or has a guarantee by a municipality or central government (deficiency guarantee). Hence, all MuniFin's exposures to its customers are treated with zero risk-weight in the calculation of capital adequacy.

MuniFin Group's overall risk profile is described in the Risk Appetite Framework approved by the Board of Directors and updated at least annually. Risk Appetite Framework is linked to both short-term and long-term strategic plans, capital and financial plans, Recovery Plan and the Remuneration Policy. It is fully aligned with ICAAP (*Internal Capital Adequacy Assessment Process*) and ILAAP (*Internal Liquidity Adequacy Assessment Process*). Business model and strategy are the key drivers that determine MuniFin Group's risk appetite along with the areas of profitability and capital, liquidity and funding, credit risk, market risk and operational risks.

In the Risk Appetite Framework MuniFin Group has defined the types and amounts of risk that MuniFin Group is willing and able to take in pursuing its strategic objectives. The key dimensions of Risk Appetite Framework are:

- Overall risk appetite statement of MuniFin Group
- Risk appetite pillars: profitability and capital, liquidity and funding risks, credit risk, market risk and operational risks
- For each pillar its strategic objective or risk appetite statement and material risks
- Risk indicators for each material risk
- Risk limits and thresholds for each risk indicator

MuniFin Group's Risk Appetite Framework starts with the overall Risk Appetite Statement, which expresses the level of risk that MuniFin Group is willing to accept in order to achieve its strategy. MuniFin Group's overall Risk Appetite Statement is as follows: "Maintain the overall risk profile at such a low level that enables MuniFin to maintain its credit ratings equal to those of the Republic of Finland and that customer financing will be secured in all market conditions".

There were no material changes in MuniFin Group's risk appetite in 2020. MuniFin's Board of Directors assures that the risk management arrangements in place are adequate with respect to the Group's risk profile and strategy. Risks remained within the set limits during the financial year and, according to MuniFin Group's assessment, risk management met the requirements set for it. Financial instruments unrealised fair value changes have increased the volatility in PnL and in own funds. The Group monitors and analyses continuously volatility of fair value changes and prepares for possible impacts on financial results and capital adequacy.

Despite the COVID-19 pandemic in 2020, the Group's risk position has remained stable and at a moderate level. MuniFin Group's risk management and internal control practices and processes are developed continuously. During 2020 the risk management system environment has been developed in particular. The Group's risk position is regularly reported to the Board of Directors as a part of monthly risk reporting, and, in addition, the Chief Risk Officer provides the Risk Committee of the Board a semi-annual extended risk review of the Group's risk positions. In the exceptional circumstances caused by the COVID-19 pandemic, the Group's risk position has been reported to the management and Board more frequently than normal.

If the COVID-19 pandemic continued longer than expected, this could affect the Group's counterparty risk, liquidity portfolio credit risk and risks related to liquidity, lending and business processes. MuniFin Group has deliberately made changes to the allocation of its liquidity portfolio and thereby sought to further reduce the already low risk levels. For now 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 financial 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.

In the Risk Appetite Framework ,MuniFin Group has recognised risks associated with its business operations in five areas. Risk Appetite Framework defines risk indicators for each material risk. Risk limits and threshold values are then set for each risk indicator. Altogether, these form the Group's risk profile and define the amount of risk that MuniFin is able and willing to take. At least annually, the risk limits and thresholds are reviewed and recalibrated in order to align Risk Appetite Framework with MuniFin Group's strategy and external and macro-economic developments. MuniFin Group has established a set of thresholds that are used to monitor and review the amount of risk taken compared to its risk appetite. The available historical data, regulatory requirements and external benchmarks as well as other publically available information are used to establish, evaluate and calibrate the thresholds.

A "traffic light approach" is used to set the thresholds and to report the risk levels for each of the risk indicators. Target zone (green) is defined as the desired risk appetite level set by the Board of Directors. Early warning zone (yellow) refers to a risk level, which exceeds the desired risk appetite and triggers active monitoring and decision-making. MuniFin Group may decide to stay temporarily on the yellow zone, but additional risk-taking should be avoided. In addition, a plan will be made to steer the risk level back to green zone. Limit breach zone (red) refers to a risk level, which breaches the risk appetite and leads to immediate actions to steer the level of risk back to the risk appetite level. Board of Director's Risk Committee and the Board are immediately informed and involved in the decision-making.

All financial risk indicators were clearly within the risk tolerance levels set by the Board of Directors at the end of 2020.

Stress testing forms an integral part of MuniFin Group's overall Risk and Governance Framework as stress testing is used to support the limit and threshold calibration of MuniFin Group's Risk Appetite Framework. Stress-testing Programme ensures that stress-test scenarios are aligned within Risk Appetite Framework and capital planning framework.

Risk profile described in Risk Appetite Framework is always an essential part of the strategic business planning process. In the process, identified risk factors are considered and included in the base and stress scenarios of the business plan.

Summary of Risk Appetite Framework indicators

RISK PILLARS	RISK INDICATORS	OBJECTIVES
Profitability and capital	Credit rating Leverage ratio Net interest income ratio Cost-to-income ratio Change in the CET1 ratio	Maintain a sufficient level of earnings, profitability and capital, even in stress periods.
Liquidity and funding	Liquidity Coverage Ratio Net Stable Funding Ratio Financing Gap Indicators related to funding Survival horizon	Maintain an adequate liquidity buffer and a sustainable funding position and profile, even in stress periods.
Credit risk	Non-performing exposures Expected credit losses (*ECL*) Average credit rating in liquidity portfolio and geographic concentration in liquidity portfolio Average credit rating in customer financing and single name concentration	Maintain a sound credit risk profile appropriate for MuniFin's business model.
Market risk	EVE NII risk Basis risk FX risk Spread risk Fair value volatility Prudent valuation	Maintain a sound market risk profile appropriate for MuniFin's business model.
Operational risks	Reputation Indicators related to HR IT and business continuity risks Cybercrime and data protection risks Internal fraud and financial crime Process and conduct risk Regulatory breaches Operational losses	Maintain an effective operational control and compliance to support functional and responsible operations.

Key figures of profitability and capital in Risk Appetite Dashboard

	31 Dec 2020	31 Dec 2019	31 Dec 2018
Change in the CET1 ratio, percentage point	21.2	17.7	13.9
Leverage ratio, %	3.9	4.0	4.1
Cost-to-income ratio	0.2	0.3	0.2

Risk management process

In MuniFin Group, risks are identified through continuous monitoring and analyses of the operating environment and, especially, during the annual strategy update and business planning process. Risks are also identified as part of the Risk Appetite Framework development and annual update and in an annual operational risk self-assessment process. Complementary to this, ICAAP and ILAAP look at these risk types to assess capital and liquidity requirements that should be allocated to material risk types.

Risk measurement quantifies risks and it is used to assess and select the appropriate means of managing relevant risks and to enable appropriate resources to be dedicated to the management of that risk. The first line of defence risk owners are responsible for measuring risk exposures and ensuring that risks are managed in line with Group's risk appetite. In risk measurement, considerations are given to both normal and stressed conditions and processes put in place to ensure that changes in risk trends are identified and factored into the risk measurement. This includes the identification of appropriate stress-testing methodologies to test MuniFin Group's resilience under a range of stress scenarios.

Risk management identifies the appropriate strategy to address material risks. The second line of defence is responsible for developing the risk policies for each risk type as well as the overall Risk Appetite Framework. The first line of defence risk owners are responsible for putting in place processes to ensure that the business is operating within risk appetite and policy objectives through implementing operational level guidelines and instructions. Stress testing is also used as a risk management tool to assess the Group's potential risk exposure under stress and to put in place processes and procedures to limit risk exposure.

Risk monitoring is used to track identified risks and identify new or emerging risks. It allows MuniFin Group to put in place risk management processes and evaluate their effectiveness. The first line of defence risk owners have processes in place for monitoring risk exposure against limits and targets and second line of defence is responsible for monitoring exposures of material risk types against Risk Appetite Framework and other risk limits.

Escalation processes are in place within the first and the second line to escalate any breaches of limits and targets in a timely manner. In the case of a breach being identified within the first line of defence, the breach is reported to the Risk Management and then escalated according to relevant governance processes, e.g. a breach of risk appetite limits must follow Risk Appetite Framework escalation processes. Conversely, in the case of a breach being identified by the second line of defence the case must be first discussed with the first line of

defence function, before being escalated through relevant governance processes. The frequency of monitoring processes varies according to individual risk types.
Risk reporting provides the Board of Directors and its Risk Committee, the Executive Management Team and other management with an accurate, timely and clear oversight of the current risk exposure and highlights any risks that might impede the achievement of business objectives. Reporting tools and methodologies are in place to ensure timely and accurate risk reporting. Frequency of risk reporting varies according to the materiality of risk types. MuniFin Group's risk profile reflected by the Risk Appetite Framework, is reported to the Board through the Risk Appetite Dashboard on a monthly basis. The Board of Directors and its Committees receive also monthly risk reports as well as monthly business and finance reports. In addition to these, various other reports are produced frequently such as CRO's risk review, CFO's financial review and business reviews prepared by business units. Annually, the Board of Directors approves ICAAP, ILAAP and recovery plan. Internal Audit prepares to the Audit Committee and to the Board of Directors regularly internal audit reports and MuniFin Group's external auditor KPMG prepares interim audit reviews. All of these reports are first discussed by the Executive Management Team. In addition, the Executive Management Team's subgroups receive regularly different type of risk reports.

Stress testing
MuniFin Group pursues stress testing activities in a manner that is suitable to the specifications of its operations, business model and risk profile according to the Stress Test Programme, which has been approved by the Board of Directors. The stress testing programme focuses on principles of governance (including stress testing governance structures and their use), data infrastructure, stress testing scope and coverage, scenario development, stress testing programme model, methodologies and the application of stress testing programmes. The Group's stress testing programme is a pivotal part of risk management. Stress test outputs are used to assess the viability of MuniFin Group's Capital Plan as well as the Liquidity and Funding Plan in adverse circumstances in the context of internal capital adequacy assessment process (*ICAAP*), the internal liquidity adequacy assessment process (*ILAAP*) and recovery planning.

MuniFin's Risk Management division is heavily involved in the design, update and application of the Stress testing Programme. Other divisions involved in operating the programme are Capital Markets, Customer Finance, and Finance.

The annual ICAAP and ILAAP processes include stress testing on group-level solvency and liquidity adequacy. Risk management, independent of the Group's business, is responsible for designing stress scenarios in cooperation with business units. The main objective of the stress testing conducted in early 2020 was to analyse the development of MuniFin Group's solvency and profitability in 2020–2023. Business, market and credit risks and their estimated economic impact under different circumstances were tested. In addition, the liquidity adequacy of the Group was tested with several different stress scenarios. As previous years, the results of the stress tests showed that with the current capital requirements, the level of equity in the Group during the period under review is sufficient even under very unfavourable conditions. In addition, the Group's total own funds also fulfilled the expected 3% leverage ratio. In terms of liquidity, stress tests showed that the liquidity of the Group is sufficient even under very unfavourable conditions.

In late 2020, the Group also carried out a so-called reverse stress testing including a pandemic scenario as part of its recovery plan. This stress test aims to find extremely negative scenarios that threaten the Group's business continuity, as well as the steps that the Group can take to cope with the situation and continue its business.
In 2020, MuniFin Group also participated ECB's stress test, which was, however, terminated by ECB due to the COVID-19 pandemic in March 2020.

Capital adequacy management principles

MuniFin Group's objectives regarding equity in relation to risk taking and the operating environment are defined as part of the annual planning. The planning horizon typically extends to the following four to five years, in order to be able to predict the business performance trend and the sufficiency of own funds with respect to the increasing capital requirements arising from changing regulation and to be able to react to potential needs for additional capitalisation in sufficient time. The Board of Directors approves the capital adequacy plan and monitors it. The Group updates its capital adequacy plan at least annually and follows implementation of the plan quarterly.

The aim for the capital adequacy management is to monitor the capital adequacy and to confirm that MuniFin Group's capital adequacy fulfills its targets and requirements set by banking authorities to ensure continuity of the operations. Controlling capital adequacy is continuous and essential part of the MuniFin Group's strategic planning process, which covers setting strategic goals, specifying development projects and making financial forecasts for the following years. This is done in cooperation with the management and the Board of Directors. The Board of MuniFin approves the final strategy. Management ensures that the operational measures of the Group correspond with the principles determined in the strategy approved by the Board of Directors. As part of the annual planning, the management prepares a business plan for the coming year and business forecasts for the years that follow. The Group's risk position and its effect on the MuniFin's financial status are also evaluated. Regular risk analyses as well as various stress test scenarios are used for evaluating and measuring risks. Based on these, the capital adequacy plan is updated annually and potential actions needed to strengthen own funds are determined. The adequacy of own funds is also monitored as part of monthly business analyses.

Information on risk management, objectives and policies by category of risks

EU CRA, EU CCRA
Qualitative disclosure requirements related to credit risk and credit counterparty risk

Credit risk refers to the possibility that MuniFin Group's counterparty fails to meet its obligations in accordance with the agreed terms and conditions.

Customer financing is one source of credit risk, but credit risk can also arise from other types of receivables, such as bonds, short-term debt instruments and derivative contracts. In addition, geographical concentration and settlement risks are considered as credit risks.

Concentration risk refers to the risk related to the overall spread of a Group's exposures over the variety of debtors.

Governance of credit risk
The management of credit risk in MuniFin Group is based on the risk framework approved by the Board of Directors and it aligns the risk appetite with the Group's strategy and business model.

The credit risk management operates under the three lines of defence framework as described in Governance of risk management in Section 2. Credit risk management utilises the existing governance structure and processes involving all organisational levels of the MuniFin Group.

The first line of defence is represented by the Group's business operations. Customer Finance division offers to MuniFin Group's limited clientele loans, short-term lending, financial lease assets and derivatives for hedging purposes. MuniFin Group's customers consist of municipalities, joint municipal authorities and municipality-controlled entities, as well as non-profit organisations and projects nominated by the Housing Finance and Development Centre of Finland (*ARA*). Customer Financing maintains customer relationships and is in charge of credit decisions within the set limits and managing the granted credit limits. The division also develops and maintains effective internal controls to ensure that credit risks are treated prudently within the Group's Risk Appetite Framework, internal policies and guidelines.

Capital Markets division includes MuniFin's Treasury operations, Funding operations and ALM operations. Treasury unit is responsible for managing MuniFin Group's liquidity portfolio. The guiding principle is to invest in cash and liquid and highly rated financial instruments to ensure business continuity under all market conditions. The Capital Markets division is also responsible for the Group's hedging operations using derivatives. MuniFin Group only uses derivatives for hedging purposes and it does not have a trading book.

In the second line of defence, the Risk Management and Compliance function, headed by the CRO, is independent of the Group's business operations. Risk Management has a responsibility for developing and maintaining the Group's credit risk management framework and credit risk policies in accordance with the relevant regulation. Risk Management monitors and analyses Group's credit risks and assures that credit granting process including the credit approval is conducted in accordance with MuniFin Group's credit risk policies. Risk Management also reports on a regular basis to the Risk Group, Executive Management Team and to the Board of Directors of Group's overall credit risk position. The second line of defence also includes the Compliance function, which monitors that the Group is compliant with applicable credit risk regulation.

The third line of defence, internal audit, regularly performs risk-based audits in accordance with the annual plan approved by the Board and its Audit Committee.

Board of Directors and Risk Committee

The Board of Directors has the overall responsibility for Group's risk management and approves the main principles of credit risk management. MuniFin Group's risk appetite is defined in Risk Appetite Framework, which also includes the indicators for monitoring the Group's risk appetite on credit risk.

The Board of Directors steers the credit risk management through the credit risk appetite and other relevant policies, collateral management and credit-granting principles that aim to ensure that the level of credit risk remains at a moderate level and at the same time, the solvency and profitability targets are taken into consideration.

The Risk Committee of the Board supports the Board of Directors in the tasks related to credit risk management, i.e. evaluates the changes in the credit risk framework and policies before the Board approval and follows regularly credit risk reporting and the risk indicators in the Risk Appetite Framework.

Executive Management Team, Risk Group, Credit Group and ALM Group

The Executive Management Team is responsible for the practical implementation of the Credit Risk Policy approved by the Board of Directors and for developing the procedures necessary for identifying, measuring, managing, monitoring and reporting credit risks in MuniFin Group.

The Executive Management Team has set up a Risk Group to develop Group's credit risk management principles and policies. It monitors credit risk limits and indicators defined in Risk Appetite Framework and analyses the status of credit risk, credit counterparty risk and concentration risk. The CEO appoints Risk Group members, noting that the Risk Group cannot have business representatives as decision-makers. Risk Group does not participate in business decision-making and business representatives do not participate in Risk Group's decision-making. Risk Group's decisions are decisions of its Chair, namely the CRO.

MuniFin Group has a Credit Group set up by the Executive Management Team, which decides on credit granting for customers with certain risk level. The Credit Group also follows the development of credit risk position and customers' payment behaviour and decides needed action related to them. Also, Credit Group decides on forbearance measures to customers.

In addition, the Group has an ALM Group set up by the Executive Management Team, which decides on new counterparties and issuers in investment and derivatives operations and their limits in the context of credit risk policies and guidelines.

Management of credit and counterparty credit risk

Credit risk management in customer financing

MuniFin Group's customers consist of municipalities, joint municipal authorities and municipality-controlled entities, as well as non-profit organisations and projects nominated by the Housing Finance and Development Centre of Finland (*ARA*). MuniFin Group may only grant loans and lease financing without a separate security directly to a municipality or municipal federation. For others, loans must be secured with an absolute guarantee issued by a municipality or municipal federation, or mortgage collateral and state deficiency guarantee. When a loan has a deficiency guarantee by the Republic of Finland, primary pledge of mortgage collateral is required unless the loan is a central-government subsidised housing loan granted for municipality or municipal federation in which case there is no collateral required by law. Under deficiency guarantee, the State of Finland is responsible for the primary debt in respect of the part that is not recovered from liquidation of the mortgage collateral. The guarantee or guarantee together with a real estate collateral has to fully cover the financing provided. Because such a guarantee is required to reduce the credit risk, all loans granted are classified as zero-risk when calculating capital adequacy.

The Group does not bear the residual value risk related to its leasing services. MuniFin Group has not had any credit losses in the financing of its customers after possible realisation of mortgage collaterals and guarantees.

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 the sovereign, 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, MuniFin Group can apply for payment directly from the guarantor in accordance with the terms of the loan. The guarantor is obligated 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 time 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 be at least 1.3 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 the liquidation of the mortgage collateral.

The Act on the Municipal Guarantee Board (*MGB Act*) sets limits on the operations of MuniFin Group, which can also be considered as an important credit risk management tool. The Municipal Guarantee Board (*MGB*) is an institution governed by the public law, whose purpose under the MGB Act is to secure and develop the joint municipal funding. To accomplish this purpose MGB can grant guarantees to the funding of credit institutions controlled or owned directly or indirectly by municipalities if the funding is used for financing of municipalities, joint municipal authorities and municipality-controlled entities, as well as non-profit corporations and other non-profit entities nominated by the Housing Finance and Development Centre of Finland (*ARA*). Financing, derivatives and other services can be offered only to customers and objects in accordance with the MGB Act. All funding issued by MuniFin has a MGB guarantee. In addition, MuniFin has guarantees granted by MGB to mitigate the counterparty credit risk of some derivative counterparties.

In addition to the MGB Act, a material credit risk management principle is that all customer financing and the derivatives offered to customers have to obtain the so-called zero risk weight in MuniFin Group's capital adequacy calculation. As a business model, this zero-risk requirement for all customer financing, is different from other credit institutions and the credit risk principles inherent and required in their credit risk policies. MuniFin Group's Credit risk policy and credit risk management practices rely significantly on this principle.

Despite MuniFin Group's business model, which is based on the zero risk-weighting customers, the Group has an internal risk-rating system for all customers, which assigns a risk score to the customer as part of the credit granting process. In addition, independent Risk Management prepares an annual analysis of all customers, which identifies their respective risk rating. The annual analysis and update of the risk rating is based on the financial statements, the report of the board of directors and other available information. Customer's risk rating will affect the need for further analysis of the customer in the process of granting financing, the financing decisions, decision-making power inside the Group and possibly also the pricing. The Group has customer-specific credit limits in use from the beginning of 2020. In addition, MuniFin Group calculates the ratio loan-to-value (*LTV*) for its loans with real estate collateral and regularly monitors the development of LTV values.

Group's credit risk management is based on proactive customer relationship management, customer knowledge (*KYC*), careful selection of counterparties, credit rating and volume limits for counterparties, trustworthy and professional staff, decision-making powers, comprehensive documentation and an on-going internal monitoring and reporting.

Credit risk management in liquidity portfolio

MuniFin Group is also exposed to credit risk from its liquidity portfolio investments and derivative instruments. In selecting counterparties, the Group evaluates credit risk using the principles and limits, approved by the Board of Directors, based on external credit ratings. Nominal values of debt securities and equivalent market values of derivatives are used in monitoring credit risk.

Investments in liquidity portfolio must have at least one credit rating from an approved rating agency: Standard & Poor's, Moody's or Fitch. MuniFin Group follows a principle that credit rating in liquidity portfolio must be at least A-. If credit rating is downgraded below A-, MuniFin's Risk Group decides what measures should be taken. The Group may invest in domestic financial counterparties or domestic public sector entities, which are not rated but investments in these counterparties are restricted by separate limits. MuniFin Group also limits foreign country risk exposure by setting separate limit to this risk.

Liquidity portfolio is divided into short-term and long-term portfolios. The Group's short-term liquidity portfolio consists of cash, deposits to the central bank, money market instruments and debt securities with remaining maturity less than 12 months at the time of the purchase. The long-term liquidity portfolio can be divided into 3 different sub-portfolios based on the issuer's risk profile: government and SSA sectors debt instruments, covered bonds and banks senior preferred bonds. Long-term liquidity investments are divided into the above portfolios in accordance with the annual investment plan. The Group's risk appetite for credit risk is taken into account when planning the portfolio allocation and the maturity of the investments. The investment plan is prepared in connection with the annual planning and is part of the Group's Liquidity and Funding Plan.

Counterparty credit risk

Counterparty credit risk is the risk that the MuniFin Group's counterparty in derivative contracts or repo agreements is not able to meet its obligations. The Group uses derivatives only for hedging purposes in its own operations, for example hedging all non-euro funding and investment transactions to euros and fixed and long-term interest rate transactions to short-term interest rate risk (euribor). The Group also uses derivatives for hedging balance sheet fixing risk. Furthermore, derivatives transacted with customers are hedged in the markets.

Derivatives are traded over-the-counter (*OTC*), which means that the terms of contract are individually defined and agreed with the derivative counterparty. Under the requirements set by “EMIR”, the European Markets Infrastructure Regulation, standard plain-vanilla OTC interest rate swaps are cleared using Central Counterparties (*CCPs*). In this model, at the end of the clearing process, a CCP becomes the counterparty to each cleared trade. The purpose of CCP clearing is to reduce counterparty risk. The Group has two global banks providing clearing broker services. The variation margin of the derivatives with the CCPs is based on the daily margining of the cash collateral (*Collateralised-to-Market, CTM*).

The counterparty credit risk is also subject to strict limits. When approving the financial counterparty for derivatives, a counterparty must have at least one credit rating from either Standard & Poor’s, Moody’s or Fitch and, with some exceptions, it must be at least A- or equivalent. All contracts are valued daily using market information and advanced valuation models and reconciled with counterparty valuations. Derivatives with financial counterparties are executed only under ISDA Master Agreements. MuniFin limits credit risk arising from its derivative counterparties with ISDA Credit Support Annexes (*CSA*). The Group limits the credit risk arising from its derivative contracts with ISDA Credit Support Annexes. MuniFin Group has 40 derivative counterparties with which it has active derivative contracts. The Group has the above-mentioned collateral agreement with all of these counterparties. MuniFin Group only enters into the trade with counterparties which have a variation margin CSA with daily margining. The Group only accepts cash as a collateral in derivatives agreements. Additionally, the Municipal Guarantee Board’s guarantees are used for reducing the derivative counterparty risk of certain financial counterparties.

The Credit Valuation Adjustment (*CVA*) that measures counterparty credit risk and MuniFin’s own Debt Valuation Adjustment (*DVA*) are both taken into account when calculating credit risk exposures arising from derivative counterparties. The CVA is estimated for each derivative counterparty by calculating MuniFin’s expected positive exposure throughout the maturity of the derivative portfolio, taking into account the probability of default and the estimated amount of loss in the possible event of default. Input data for the calculation is based on the terms of CSA agreements, generally accepted assumptions in the markets on the loss given default and expected probabilities of default based on historical credit rating matrices. Similarly, the DVA is determined on the basis of MuniFin Group’s expected negative exposures, taking into account the probability of MuniFin’s own default and the loss given default.

According to its own analysis, MuniFin Group does not have any exposures containing general or specific wrong-way risk. The general wrong-way risk is the risk that the credit quality of the counterparty might positively correlate with macro-economic factors, which also effects the value of derivatives transactions. Specific wrong-way risk is the risk when future exposure to a specific counterparty is positively correlated with the counterparty’s PD due to the nature of the transactions with the counterparty.

Settlement risk

MuniFin Group may also be exposed to settlement risks in the course of its operations in respect to issued bonds, customer financing, liquidity portfolio investments or derivative transactions. Group’s customer financing transactions are dependent on the operations of domestic payment banks and similarly the capital market transactions are dependent on the operations of the Group’s international payment banks and clearing parties. In order to minimise the credit risk associated with clearing and settlement, transactions are in principle carried out through delivery against payment.

Concentration risk

MuniFin is the only credit institution in Finland, which specialises in the provision of financing for the local government sector and central government-subsidised housing production, and is by far the largest financier for its customer base. MuniFin Group’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*). All loans granted by MuniFin have the risk level associated with Finnish public sector entities.

Taking into account the nature of MuniFin Group's business, the Group has some recognised and accepted concentration risk in its customer financing, i.e. geographically (locally), by customer type (municipality sector, central government-subsidised housing production) and by collateral type (mortgages). The Group's largest sub-portfolio in the customer financing is for municipality sector. This risk concentration on the municipality sector is unavoidable and inherent to MuniFin Group's business model.

Considerable portion of the exposure to customers is indirectly related to Finnish sovereign risk due to the deficiency guarantee in loan arrangements for the state-subsidised housing production. This is inextricably linked to MuniFin Group's business model and to its place in the Finnish social system. Furthermore, the ultimate purpose of MuniFin is to be a financier for municipality sector and central government-subsidised housing production and limitations on MuniFin Group's customer base and operations are set in the Act on Municipality Guarantee Board. Therefore, the concentration risk cannot be significantly modified. On the other hand, all receivables from the Group's customers have 0% risk weights in capital adequacy calculations and taking into account MuniFin Group's business model, the concentration risk is acceptable and in line with the Group's strategy. In addition, in the calculation of large exposures, all receivables from customers are zero after mitigation techniques. Concentration risk in the customer financing is inherent to the Group's business model. However, in the ICAAP, the Group has reserved some internal capital to cover this risk.

The main responsible for recognising the risk concentrations as well as managing them is Customer Finance division. The independent Risk Management monitors and analyses the portfolio and reports its risk concentrations to the Risk Group, the Executive Management Team, the Risk Committee and the Board of Directors. From the beginning of 2020, MuniFin Group has had a limit and monitoring framework for the management of concentration risk in place.

The Group could be exposed to concentration risk in its liquidity portfolio. However, limits related to investments in liquidity portfolio guide to diversify investments between issuers, geographical areas and instrument types, for example. The Board of Directors approves an annual Liquidity and Funding Plan, in which the investment goals are aligned with principles and limits set in risk policies. In addition to this, the Executive Management Team ensures with set guidelines that concentration risk is manageable and within set limits. Concentration risk related to the liquidity portfolio is monitored by the first line of defence, the Treasury unit, as well as independently by the second line of defence, the Risk Management function. Reports are submitted to the Risk Group, the Executive Management Team, the Risk Committee and the Board of Directors.

Non-performing exposures and expected credit losses

The Group defines the non-performing exposures (*NPE*) as receivables that fulfil at least one of the criteria below.

- Significant receivables past due more than 90 days;
- MuniFin Group's Credit Group's (customer financing) or ALM Group's (liquidity portfolio) assessment that it is probable that the debtor is not likely to pay its obligation in full without realisation of the collateral, regardless of whether there have been any delays in payments or how many days the payments have been past due.

Non-performing exposures are treated as Stage 3 receivables in the calculation of expected credit losses.

Forborne receivables include receivables that have been renegotiated due to the customer's financial difficulties. Details about the principles applied to forborne and modified receivables are in the accounting policies of the Consolidated Financial Statements 2020 in Note 1 available on MuniFin's website.

IFRS 9 requirements for impairment are based on a three-stage approach to measure expected credit losses (*ECLs*). Financial assets measured at amortised cost or fair value through other comprehensive income are in scope for recognising impairment under the IFRS 9 standard. In addition, financial lease receivables and off-balance sheet binding loan commitments are in scope for recognising impairment due to their credit risk. Impairment of financial assets is calculated based on the credit loss expected to arise over a 12-month period, unless there has been a significant increase in credit risk since origination, in which case, the allowance is calculated based on the expected credit losses over the life of the asset. Both lifetime and 12-month expected credit losses (ECLs) are calculated on an individual basis. The definition of default used in ECL is in line with the MuniFin Group's capital adequacy calculations and risk management as well as with that required by international regulators. When estimating the ECLs, MuniFin Group considers different scenarios. Each scenario is associated with different PDs, EADs and LGDs. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered. The maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Group has the legal right to call it earlier.

In the measurement of expected credit losses, past events and forward-looking information is used. Utilising forward-looking information in the expected credit loss model requires judgement. In addition to the aforementioned factors, also meaningful macroeconomic variables are included in the model. Their forecasts are included in the macroeconomic scenarios.

In 2020, the amount of expected credit losses during the year has increased slightly and the amount of expected credit losses recognised in the result for the financial year was EUR 0.9 million. In the second half of 2020, the Group specified the methods for estimating and modeling expected credit losses and the assumptions used in the model. This increased the provision for expected credit losses by EUR 0.5 million. In addition, the MuniFin Group has recorded an additional discretionary provision (*management overlay*) of EUR 0.34 million to cover the weakening of customers' credit risk due to the COVID-19 pandemic.

The amount of the Group's expected credit losses in relation to the Group's statement of financial position is very low, 0.003% (0.001%). Expected credit losses in relation to the total assets and commitments included in the calculations are 0.003% (0.001%). The amount of expected credit losses is materially influenced by the Group's conservative risk management principles, in particular the guarantees and collaterals received by the Group, as well as the customer base and the high credit ratings of counterparties.

Impacts of COVID-19 pandemic on credit risk

The COVID-19 pandemic has not yet weakened MuniFin Group's credit risk position, and the credit risk position is also expected to remain stable in the future in accordance with the Group's credit risk strategy. Few of MuniFin Group's customers run into economic challenges in the spring due to the COVID-19 pandemic. If the pandemic impacted their repayment ability, MuniFin offered them repayment holidays and concessions to the payment terms of the loans. In addition to the model based expected credit losses, the Group has recorded an additional discretionary provision (*management overlay*) amounting to EUR 0.34 million to cover the deterioration of its customers' credit risk due to the COVID-19 pandemic, which is not yet reflected in the Group's internal risk ratings which are based on the client's 2019 financial statement data. The sudden worsening of the pandemic could affect the Group through a widening of credit risk premiums and through valuations of the liquidity portfolio. In addition, an increase in customers' financial difficulties could increase the Group's credit risk and thus also the expected credit losses.

Measurement and reporting of credit risk and counterparty credit risk
MuniFin Group's objective for credit risks is to maintain a sound credit-risk profile, keeping inherent financial risks to capital within the boundaries of risk appetite. MuniFin Group's most material credit risks arise from its liquidity portfolio and derivatives counterparties. This exposure is managed through high credit rating requirements and daily CSA collateral management. The credit risk arising from customer financing is low due to MuniFin Group's specialised business model and restricted customer base.

Under the Risk Appetite Framework, MuniFin Group monitors credit risk using different credit risk indicators. Maintaining high credit-quality customer financing, liquidity and derivatives portfolios is a key aspect of MuniFin Group's business model. For this, the Group monitors non-performing exposures and expected credit losses on a regular basis. The expected credit loss risk indicator is fully aligned with MuniFin Group's IFRS 9 expected credit loss calculations. For customer finance portfolio, MuniFin Group monitors the average credit rating (internal rating) for certain customer portfolios, as well as single-name concentration risk indicator, which measures the share of a single-name customer group exposure to total amount of customer financing exposure.

MuniFin Group is also exposed to credit risk from its liquidity portfolio. In selecting counterparties, the Group evaluates credit risk with principles and limits approved by the Board of Directors, based on external credit ratings and internal credit risk analysis. In the Risk Appetite Framework, MuniFin Group monitors the credit quality of liquidity portfolio using the average rating of individual investments, which is calculated as a weighted average of the ratings of individual liquidity portfolio investments. The geographic concentration risk indicator measures the amount of liquidity portfolio exposure concentrated in any individual country. It aims to ensure that MuniFin Group's credit risk exposure from any single country is not too high. According to Credit Risk Policy, only investments to the OECD countries and issuers operating in these countries are allowed.

MuniFin Group's credit risks are reported to the Board of Directors, Risk Committee, Executive Management Team and to the Risk Group. The Risk Management function is responsible for producing regular risk reporting on the Group's risk positions including indicators set in the Risk Appetite Framework.

The Risk Management function monitors the counterparty credit ratings on a daily basis and reports immediately to the Executive Management Team of any significant changes.

Capital requirements for credit risk and counterparty credit risk
MuniFin Group calculates capital requirements for credit risk using the standardised approach. For counterparty credit risk, the Group is applying the mark-to-market method.

EU MRA
Qualitative disclosure requirements related to market risk

Market risk means the risk of the company incurring a loss as a result of an unfavourable change in market price or its volatility. Market risks include interest rate, foreign exchange, share price and other price risks.

MuniFin Group has identified under Risk Appetite Framework the following sources of material market risks: Interest rate risk (*Interest Rate Risk in the Banking Book, IRRBB*), FX risk and spread risk as well as fair valuation risk.

Risks are defined following:

- Interest rate risk is a risk of losses to earnings and capital arising from a change in the value of financial instruments, both from the economic value and earnings perspectives, due to changes in interest rates.
- FX risk is a risk of losses to earnings and capital arising from unfavourable exchange rate fluctuations.
- Spread risk is a risk of losses to earnings and capital arising from unfavourable credit risk spread fluctuations.
- Fair valuation risk is a risk of losses to earnings and capital arising from adverse movements in the market valuation inputs, such as tenor basis spreads, cross-currency basis spreads and credit spreads. Fair valuation risk also covers valuation uncertainties of fair valued financial instruments.

MuniFin Group manages the interest rate risk arising from its business operations by means of using derivative contracts. Interest rate risk arises mainly from the difference in euribor rate terms between assets and liabilities. The AT1 transaction and the Group's equity also causes interest rate risk. The Group hedges against exchange rate risks by using derivative contracts to translate all foreign currency denominated funding and investments into euros. The Group does not bear any material foreign exchange risk. Derivative contracts are also used to hedge against other market risks. Derivative contracts may only be used for hedging purposes. The Group applies fair value hedge accounting in accordance with IFRS 9 and IAS 39 standards. The Group also makes use of the fair value option *(FVO)* permitted by IFRS 9 standard in some of its hedging relationship to eliminate or to significantly reduce accounting mismatch due to hedging. The use of hedge accounting and fair value option is described in the Consolidated Financial Statements 2020, in Note 1.

MuniFin Group does not have a trading portfolio.

Governance of market risk

The market risk management operates under the three lines of defence framework as described in Governance of risk management in Section 2. Market risk management utilises the existing governance structure and processes involving all organisational levels of the MuniFin Group.

MuniFin Group's Capital Markets division (ALM, Treasury and Funding) is the main responsible for managing market risk. The primary first line risk owner is the Capital Markets' Treasury unit, which is responsible for managing the day-to-day market risk positions of MuniFin Group. In addition, the Funding unit, as another first line risk owner, is responsible for executing funding transactions so that suitability and hedging possibilities of new funding is always assessed according to the set principles before entering into a transaction.

The second line tasks are conducted by the Risk Management and Compliance function. Risk Management is responsible for the development of market risk policies, while Treasury and Funding as the first line risk owners are responsible for making sure that guidelines, instructions and processes are in place to ensure that the relevant policies are being complied with and the Group is operating in line with the defined risk appetite at any given time. The Risk Management function identifies, measures and monitors market risk independently of the business functions. The function ensures that risks remain within limits and that MuniFin Group's Risk Appetite Framework is in line with the risk strategy and the risk appetite. The independent Compliance function's task is to ensure that MuniFin complies with internal and external regulations related to market risk.

The independent Risk Management function is responsible for the development and maintenance of MuniFin Group's market risk management framework. The framework is described in the Market Risk Policy, which is owned by MuniFin's CRO. The policy is updated at least annually and changes reflect any material changes to the organisational design, best practices, and external environment. The Risk Group is responsible for reviewing any changes proposed by the Risk Management function prior to the Market Risk Policy being subject to a review by the Executive Management Team.

The third line of defence, the Internal Audit function, conducts risk-based and general audits, independently reviews and provides objective assurance to the Board of Directors on the quality and effectiveness of the internal control systems.

The Executive Management Team is responsible for ensuring that limits set by the Board of Directors and other principles related to market risk management are taken into account in the operations by arranging the necessary control points and regular reporting.

MuniFin Group has three sub-groups that operate under the Executive Management Team in market risk management related matters. The ALM Group's key duties are management of market risk position of the balance sheet, steering the IRRBB strategy, monitoring the balance sheet profitability as well as monitoring key Risk Appetite Framework indicators and financial markets. The Risk Group's task is to ensure that the Group's risks remain within risk appetite and at a level sufficient to maintain the Group's business continuity, strong credit rating and compliance with relevant regulatory requirements. The Valuation Control Group monitors MuniFin Group's financial assets and liabilities fair values and is responsible for the final decision of the Group's fair values for financial reporting.

The Board of Directors approves the Market Risk Policy as well as the risk appetite set in Risk Appetite Framework, including the market risk related risk appetite, risk indicators, limits and thresholds. The Board of Directors is responsible for setting the scope and general requirements for the risk measurement and assessment, defining the principles for organising market risk management and related quality assurance and confirming the risk level and risk appetite based on the MuniFin Group's strategy and business plan.

The main Board's Committee responsible for market risk management is the Risk Committee. The Risk Committee reviews and challenges the updates proposed to the Market Risk Policy. The Committee is responsible for reviewing the market risk related reporting.

Market risk appetite

MuniFin Group's overall risk appetite is described in the Risk Appetite Framework. The Group has identified the following material market risk areas: interest rate risk in banking book, FX risk, spread risk and fair valuation risk. Interest rate risk in banking book has been divided into the following sub-risk types: Economic Value of Equity, NII (*net interest income*) risk and basis risk. The fair valuation risk consists of fair value volatility and prudent valuation.

Under the Risk Appetite Framework, MuniFin Group has further defined material risks and for each material risk the Group has set risk indicators defining the tolerance for market risks. At least on an annual basis, the risk limits and thresholds are reviewed and recalibrated in order to align the Risk Appetite Framework with the Group's strategy and external and macro-economic developments.

Due to MuniFin Group's business model the Group does not have risk appetite for equity, equity index, commodity or any other similar market risk types. However, MuniFin

Group is exposed to these types of market risks through its funding operations. These risks are always fully hedged using derivatives.

Capital requirements for market risk

MuniFin Group calculates capital requirements for the overall net foreign exchange position. The Group hedges against exchange rate risks by using derivative contracts to translate all foreign currency denominated funding and investments into euros. However, a small temporary exchange rate risk may arise due to collateral management in the clearing of derivatives by Central Counterparties. This exchange risk is actively monitored and hedged.

At the end of December 2020 and 2019, the FX position was less than 2% of own funds. There was no capital requirement for market risk since the FX net position did not exceed 2% of the total own funds based on CRR (575/2013) Article 351.

In the evaluation of the credit risk exposure, MuniFin Group uses accounting credit valuation adjustment (*accounting CVA*) and regulatory CVA (*CVA VaR*). MuniFin Group calculates regulatory CVA in accordance with the standardised approach and it is an estimate of potential unexpected losses.

Management of market risk

General principles

The objective is to maintain a sound market risk profile appropriate for MuniFin Group's business model. The purpose of market risk management is to ensure that the market risk arising from the Group's banking book operations correspond to the accepted risk profile as defined in the Risk Appetite Framework. The aim is to keep the overall risk profile at such a low level that MuniFin's credit rating remains equal to that of the Republic of Finland and MuniFin Group is able to secure customer financing in all market conditions.

IRRBB

MuniFin Group's strategy for interest rate risk in the banking book (*IRRBB*) is to ensure sustainable profitability regardless of the level of interest rates. The focus is to stabilise earnings by minimising Earnings at Risk (*NII risk*) measure. Economic Value of Equity (*EVE*) of interest rate sensitivity is a secondary measure but also kept within risk appetite. Interest rate risk arises from the operations in funding, customer financing and investment activities (liquidity portfolio). MuniFin Group does not have a trading book.

The main principle for managing Group's interest rate risk hedging is to utilise interest rate swaps to hedge fixed-rate exposures back-to-back to floating-rate. The back-to-back interest rate swaps (*IRS*) replicate all the details of underlying liability, asset or portfolio of assets to offset the risk of the underlying transaction.

As a norm, interest rate hedges are executed on all fixed-rate assets and liabilities with maturities longer than one year. All shorter maturities and floating-rate items are subject to tenor basis risk and fixing risk (*seasonal mismatch*) management on a balance sheet level and hedged as balance sheet overlay hedge.

The ALM Group decides on a strategic mismatch position, i.e. leave fixed-rate exposures unhedged in order to steer the Group's net interest income towards the objective of earnings stabilisation. The strategic mismatch position is created using assets only, and include both fixed and revisable rate loans as well as fixed-rate investments in the liquidity portfolio. Derivatives are not used in the creation of the strategic mismatch.

Fair value hedge accounting is applied to certain financial assets and liabilities, where the plain-vanilla interest rate of the hedged item has been swapped to a floating rate using derivatives. In addition, fair value hedge accounting is applied to foreign currency denominated financial liabilities with fixed interest rates, which have been hedged by exchanging the principal into euros and the interest rate into a floating rate. The hedging relationships within hedge accounting are documented and they comply with the Group's risk management objectives and strategy. MuniFin Group does not apply cash flow hedge accounting.

For financial assets, the Group applies fair value hedge accounting in accordance with IAS 39 portfolio hedge accounting to lending at fixed rates and long-term reference rates. For the aforementioned financial assets, the hedged risk is interest rate risk. In addition, fair value hedge accounting according to IFRS 9 is applied to lease agreements at fixed rates and structured lending transactions which pass the SPPI test and which have been hedged 1:1 with an interest rate swap.

The ALM Group is responsible for monitoring MuniFin Group's interest rate risk and for the principles of IRRBB risk management. Treasury supports the ALM Group in relation to IRRBB risk management activities and is responsible for managing interest rate risk at an operational level in accordance with the decisions made by the ALM Group. Interest rate risk management is regularly controlled and reported by the Risk Management function.

MuniFin Group performs IRRBB calculations based on a number of different interest rate shock scenarios, including non-parallel shifts in the interest-rate curve (steepener and flattener scenarios). Furthermore, parallel down -200 basis point parallel shift is used with rates floored to zero.

MuniFin Group does not take deposits and such, do not model the behavior of non-maturity deposits.

Earnings at Risk (NII risk)

Earnings at Risk or NII risk is measured through a financial forecast model for the Group's projected financial income by measuring how adverse changes in interest rates may affect the net interest income. The impact is assessed in proportion to MuniFin Group's profitability. The model includes the entire balance sheet of MuniFin Group (all interest rate sensitive cash flows) and takes into account any optionality in the balance sheet. Negative interest rates and zero floors are taken into account in NII scenarios.

Earnings at Risk is measured monthly for the following 12-month period. The measurement compares the projected financial income of the base scenario of the forecast model to a set of selected eight interest rate scenarios. The most negative scenario is used as a measure for earnings risk.

Scenarios used are:

1. Parallel shock up (+100bp)
2. Parallel shock up (+200bp)
3. Parallel shock down (-100bp)
4. Parallel shock down (-200bp)
5. Steepener shock (short rates down and long rates up)
6. Flattener shock (short rates up and long rates down)
7. Short rates shock up
8. Short rates shock down.

EARNINGS AT RISK (EUR 1,000)	Impact	In relation to net interest income
31 Dec 2020	-32,180	13.4%
31 Dec 2019	-14,288	6.5%

Risk Management performs monthly backtesting of the financial forecast model.

Interest rate sensitivity

Interest rate sensitivity or Economic Value of Equity (*EVE*) measures how much the present value of assets and liabilities will fluctuate due to changes in the interest rate environment. The impact is assessed in proportion to MuniFin Group's own funds. The Group applies six interest rate scenarios to measure interest rate sensitivity of the balance sheet. In addition, MuniFin Group applies the standard regulatory approach by measuring the total negative impact of a +/- 200 basis point parallel shift of the yield curve applying a zero floor.

MuniFin currently applies following standard interest rate scenarios:

1. Parallel shock up (+200bp)
2. Parallel shock down (-200bp)
3. Steepener shock (short rates down and long rates up)
4. Flattener shock (short rates up and long rates down)
5. Short rates shock up
6. Short rates shock down.

ECONOMIC VALUE OF EQUITY (EUR 1,000)	Impact	In relation to own funds
31 Dec 2020	-344,620	21.22 %
31 Dec 2019	-114,219	7.6%

In 2020, MuniFin has reported to the competent authority (*ECB*) that Economic Value of Equity is above 20% threshold (*Supervisory outlier test*) set in EBA's Guidelines on the management of interest rate risk arising from non-trading book activities (EBA/GL/2018/02). When calculating the Economic Value of Equity, MuniFin Group includes zero floors in its lending portfolio to the calculations and this has caused that MuniFin Group has exceeded the 20% threshold. Excluding the zero floor effect, interest rate sensitivity of the balance sheet would be low.

Basis risk

Basis risk refers to the impact of the relative changes in interest rates for financial instruments that have similar tenors but are priced using different interest rate indices. Unfavourable changes in basis swap spreads may have a negative effect on MuniFin Group's net interest income. Maintaining a stable earnings profile, even under stressed interest rate conditions, is an important part of ensuring MuniFin Group is able to operate according to its business model.

Basis risk at MuniFin Group refers to the single-currency basis risk arising from assets and liabilities, which are linked to different euribor reference indices. The basis risk indicator is defined as a negative effect of an unfavourable change in basis swap spread on NII, and calculated as a proportion of the preceding year's total net interest income. When measuring basis risk the Group applies two different scenarios:

1. Narrowing basis swap spreads assuming that the basis swap spreads are narrowed to zero from their current level and
2. Widening basis swap spreads is based on basis swap spread changes experienced during the euro area crises in 2011.

Basis risk is actively monitored and managed by Treasury both using euribor basis swaps to mitigate the risk and by matching lending and funding fixing dates. Furthermore, basis risk is controlled by the Risk Management function.

BASIS RISK (EUR 1,000)	Impact	In relation to NII
31 Dec 2020	-12,550	5.2%
31 Dec 2019	-19,348	8.8%

FX risk

The ALM Group is responsible for monitoring MuniFin Group's FX risk and for the principles of FX risk management. Treasury supports ALM Group in relation to FX risk management activities and is responsible for managing the FX risk at an operational level in accordance with the decisions made by the ALM Group. Risk Management monitors and reports on FX risk related risk limits.

Based on the guidance from the Board of Directors, MuniFin Group's lending and other customer finance products are all denominated in euros. All foreign currency denominated funding and liquidity investments are translated into euros using derivatives at the time of underlying transaction. The functionality of the cross-currency derivative markets is always assessed before entering into new funding or investments in order to ensure that currency hedges can be put in place according to hedging strategy in order to hedge all transactions back to euros.

Furthermore, all currency nominated funding transactions with early call options are hedged fully for potential call situations.

Despite this, MuniFin Group is not able to completely hedge out all FX risk, due to the need for conducting daily collateral management in foreign currency when non-euro interest rate derivatives are cleared with Central Counterparties.

MuniFin will avoid cross-currency basis risk on its foreign currency denominated funding and liquidity investments by executing hedges to the maturity date of underlying hedged item. Thus, future changes in the cross-currency bases will not affect MuniFin Group's cash-flow-based risk profile.

The currency position is calculated as the euro-denominated difference between assets and liabilities in various currencies.

CURRENCY POSITION (EUR 1,000)	Position
31 Dec 2020	2,146
31 Dec 2019	1,983

Spread risk management

Spread risk refers to the risk premium component of an investment, indicating the additional return demanded by investors for an instrument with a specific credit rating instead of investing in the risk-free yield. Spread risk is defined as a probability of change in the market value of an instrument, if the market required return changes. The change may be caused by a change in the instrument's level of risk or a change in the risk sensitivity of the market.

For MuniFin Group, spread risk refers to the risk of loss due to a negative change in the market value of the liquidity portfolio. It is measured by calculating the change in the market value when the portfolio's yield requirement (discount curve) is stressed by a certain number of basis points. The change in the yield requirement corresponds to the estimated monthly spread risk of the liquidity portfolio.

The liquidity portfolio spread risk is managed in Treasury within the portfolio management framework. Main principle in portfolio management is to guarantee a sufficient amount of earnings within the liquidity requirements. The spread risk, which affects the market value of liquidity investments, is managed on an aggregate level by controlling the average maturity of liquidity portfolio. Targets for average maturity and portfolio composition are decided for each year as part of Liquidity & Funding Plan, in association with business planning.

In MuniFin Group's investment policy, all investments are classified and limited according to their liquidity, credit rating and geographic concentration. Risk Management performs back testing for its monthly spread risk calculations by comparing the realised fair value reserve change and the estimated spread risk from previous month.

(EUR 1,000)	Change in required return	Impact	In relation to own funds
31 Dec 2020	0.18 p.p.	-22,300	1.4%
31 Dec 2019	0.22 p.p.	-22,200	1.5%

Fair valuation risk

MuniFin Group has identified fair valuation risk as material risk for its operations. Unrealised fair value changes of financial instruments increase the volatility of profits. In addition to the profit, the Group's own funds are also affected by valuations measured at fair value through other comprehensive income (*OCI*). The volatility of the fair valued instruments arises from changes in market risk factors, such as tenor basis spreads as the spread between different interest rate curves changes. In accordance with the market practice and IFRS 13 standard, the Group discounts the financial assets and liabilities measured at fair value and the hedged items with the swap curve and the hedging derivatives with the OIS curve, which causes a significant part of the Group's valuation volatility. The Group continuously monitors and analyses the volatility arising from valuations and prepares for its potential profitability and solvency impacts.

The fair value volatility is regularly monitored and reported to capture any changes in the financial position or in sensitivities to market movements. MuniFin Group has set up daily and monthly controls to validate the valuations and monitor PnL, Cost-of-Hedging and own credit risk volatility. The Valuation Control Group, steered by the CFO, monitors Group's fair values and is responsible for the final decision of fair values for financial reporting. Fair value risk is regularly also reported to the Executive Management Team, Risk Committee and to the Board of Directors.

The Group has implemented an efficient control and performance monitoring framework with regards to its valuation models, which aims to ensure the accuracy and appropriateness of model output. The model performance monitoring consists of four main controls:

1. Counterparty valuation control (*CVC*),
2. Fair value explanation,
3. Independent price verification (*IPV*) and
4. Independent model validation.

Counterparty valuation control (*CVC*) is performed by Risk Management, who shall assess any deviations in valuation model output compared to MuniFin Group's own earlier valuations and to counterparty valuations. The results of the assessment shall be reported monthly to the Valuation Control Group. Fair value explanation process consists of daily analysis and explanation of the changes in fair values done by Risk Management and a monthly fair value explanation report to the Valuation Control Group. MuniFin Group's fair valuations are produced daily by the independent Risk Management. Furthermore, the independent the independent price verification (*IPV*) is performed monthly as part of MuniFin Group's IPV process by a third-party service provider. The results of the control activities are reported monthly to the Valuation Control Group. Based on the results, the Valuation Control Group may require making fair value adjustments. At the end of December 2020 there are no fair value adjustments based on the IPV results. The independent model validation is performed yearly for a subset of MuniFin Group's valuation models by a third-party service provider. The results of the model validation are reported to the Valuation Control Group.

Through fair valuations, MuniFin Group is also exposed to prudent valuation risk. Prudent valuation risk arises from valuation uncertainties of fair valued financial instruments. Prudent valuation refers to additional valuation adjustments (*AVAs*) that reflect valuation uncertainties of fair valued financial instruments. Fair value is considered "prudent" following the adjustments reflecting all relevant AVAs. MuniFin applies the Core approach for prudent valuation. MuniFin Group has set limits for prudent valuation risk in its Risk Appetite Framework.

Impacts of COVID-19 pandemic on market risk

The COVID-19 pandemic caused market volatility, especially in the spring 2020, which was also reflected in increased valuation volatility in MuniFin Group's profit. The market situation has since calmed down and volatility has not been so significant towards the end of the year due to the pandemic. Valuations have also returned close to the levels at the beginning of the year. The Group has also deliberately made changes to the allocation of its liquidity portfolio and thereby sought to further reduce its already low risk levels.

IBOR reform

The IBOR reform is under way, a global change aimed at replacing Interbank Offered Rates (*IBORs*) with alternative nearly risk-free rates (*RFR*). The reason for the reform is, among other things, the revealed cases of manipulation of IBOR reference rates. In the European Union the reform is regulated by the EU Benchmark Regulation (EU BMR). 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) and whose quotation is expected to expire after 2021, therefore the financial instruments tied to those reference rates must be changed or replaced during 2021. However, the timing, in particular for the USD LIBOR reference rate, is still uncertain and may be delayed for some tenors. Under the EU BMR, interest rate benchmarks such as EONIA, EURIBOR, LIBOR, WIBOR and STIBOR have been classified as critical. For now, the IBOR reform has not have significant impacts on the Group's risk management principles. The status of the Group's IBOR transition project is discussed more broadly in the accounting policies of the Consolidated Financial Statements in Note 1 in Section *IBOR reform*.

Stress testing

MuniFin Group's stress-testing framework documented in Stress Testing Programme has been developed to be in line with EBA Guidelines on stress testing, taking into consideration the principle of proportionality in both the quantitative and the qualitative aspects of stress testing within MuniFin Group. Group's stress testing performed for market risks covers IRRBB related stress test for earnings and economic value following EBA Guideline on IRRBB non-trading book activities (EBA/GL/2018/02) and Risk Appetite Framework calibration related to IRRBB, FX risk, credit spread risk and fair valuation risk. Market risk is also part of the comprehensive Group-wide ICAAP stress test, which measures risk over a predefined time horizon.

Stress testing enables MuniFin Group to gain a more in-depth understanding of its individual risk profile (e.g. related to interest rate risk) and thus enhance its risk management activities. Stress testing allows the Group to gain insights into how key measures predicted as part of the planning process could change under different stress situations.

Market risk stress testing is carried out regularly and results are reported to the Risk Group, Risk Committee and to the Board of Directors.

Market risk reporting

Monthly reports of market risk development are delivered to the Board of Directors, Risk Committee and Executive Management Team as part of regular risk reporting. All changes in MuniFin Group's market risk profile or position and necessary actions, which are taken in order for the Group to remain within set risk appetite, are reported to the Board of Directors. In addition to regular reporting, ad-hoc reporting is prepared to the Board of Directors as needed.

For operational purposes, MuniFin Group has daily market risk dashboards to monitor and follow-up the development of certain market risk indicators such as Economic Value at Equity and NII risk (*balance sheet interest rate sensitivities*).

EU LIQA
Liquidity risk management

Liquidity and funding risk is the risk that MuniFin Group is unable to meet its financial obligations as they become due, resulting in an inability to support normal business activities or a failure to meet regulatory liquidity requirements or rating agency expectations. The Group is exposed to liquidity risk in its customer financing, funding, investment activities and other operations.

Market liquidity risk means that the Group would fail to realise or cover its position at the market price, because the market lacks depth or is not functioning due to a disruption.

MuniFin Group has identified a sub-set of liquidity and funding risks as material risks in the Risk Appetite Framework. When identifying liquidity and funding risks, the Group considers the connection between liquidity and funding risk and other risks, such as interest rate risk, credit risk, operational and reputational risk as these risks may have an effect on MuniFin Group's liquidity position.

Management of liquidity risk

MuniFin Group's liquidity risk management is based on the Liquidity and Funding Risk Policy, which describes e.g. roles and responsibilities, sources of liquidity and funding risk, management and monitoring of liquidity and funding risks. Liquidity and Funding Risk Policy is in line with the Business Model document and overall risk management principles. The policy is an integral part of the Group's risk management framework.

MuniFin Group's liquidity risk posture is conservative. The Group strives to ensure liquidity adequacy under all market conditions by maintaining sufficient number of liquidity sources. The primary sources of liquidity are short-term and long-term funding, liquidity portfolio, repo markets and cash.

MuniFin Group follows the principle of prefunding and acquires its funding in the form of short and long-term funding. For this purpose, the required minimum amount for the liquidity portfolio is determined through scenario analyses to meet internal and regulatory liquidity requirements. In the case that the Group needed to acquire additional liquidity, it would first assess the availability of funding from the capital markets in the form of short-term or long-term funding. If this is not available, the Group could utilise the liquidity portfolio as a source of liquidity by selling assets or using them as collateral in the repo markets. MuniFin Group has existing agreements in place with counterparties to enter into bilateral repurchase agreements (*repo agreements*). These repo arrangements could be used to cover funding redemptions in short-term and to cover any unexpected changes in the liquidity position.

All of MuniFin Group's funding is from international capital markets. The Group's funding strategy is to diversify its funding sources, which aims to ensure the availability of funding under all market conditions. MuniFin Group actively diversifies its funding across different currencies, maturities, geographical areas and investor groups. Active long-term cooperation with investors has increased name recognition of MuniFin Group in different markets. The Group has a number of debt programmes that enables to have access to funding at all time at competitive price. MuniFin Group has following programmes available for long-term funding:

- Medium Term Note (MTN) programme of EUR 40 billion. Green bonds and Social bonds are issued under this programme.
- AUD debt programme of AUD 2 billion (Kangaroo – Kauri programme), specifically for the Australian and New Zealand market.

For short-term funding, MuniFin Group has following programmes and arrangements available:

- Euro Commercial Paper (*ECP*) programme of EUR 10 billion
- Repo transactions with selected interbank counterparties under Global Master Repurchase Agreement (*GMRA*), where Group's debt securities in the liquidity portfolio may use as collateral.

MuniFin Group's funding is guaranteed by the Municipal Guarantee Board (*MGB*), which has the same credit ratings from Moody's and Standard & Poor's as MuniFin and the Finnish central government. The Municipal Guarantee Board is a public-law institution whose members are all Finnish mainland municipalities. The members are responsible for the liabilities of the Guarantee Board in proportion to their population. The Municipal Guarantee Board has granted guarantees for the debt programmes, as well as for funding arrangements outside the programmes. Based on this, debt instruments issued by MuniFin are classified as zero-risk when calculating the capital adequacy of credit institutions and solvency of insurance companies, and as Level 1 liquid assets in liquidity calculation in the EU. As defined in the Act on the Municipal Guarantee Board (487/1996) MuniFin has pledged a sufficient amount of loans for the Municipal Guarantee Board's guarantee (31 Dec 2020 EUR 10,997 million).

MuniFin Group does not enter into transactions with private individuals.

A key aspect of the Group's liquidity and funding risk management is the maintenance of a well-balanced, low risk liquidity portfolio in the form of highly liquid assets, which could be liquidised or used as collateral in the repo markets in the event that the Group experiences an unexpected and sudden liquidity shortage. The overall liquidity portfolio mainly consists of prefunding that is raised from the markets, but not yet utilised for customer financing. In case of a sudden outflow of funds, the Group holds a liquidity portfolio at such a level that its Liquidity Coverage Ratio (*LCR*) and Survival Horizon have a sufficient buffer to continue normal operations even under such conditions.

MuniFin Group is also a monetary policy counterparty of the Bank of Finland. This is treated as a secondary source of liquidity, if primary sources were either not sufficient, available in a timely manner or the cost of using primary sources of liquidity were considered too high. MuniFin Group may participate in Eurosystem's open market operations and use standing facilities. The minimum reserve requirement applies to MuniFin Group, and thus is required to deposit a certain amount of funds with the Bank of Finland (31 Dec 2020 EUR 34.9 million). MuniFin Group has pledged part of its lending portfolio to the Bank of Finland in order to ensure access to this secondary source of liquidity (31 Dec 2020 EUR 5,182 million).

MuniFin Group conducts systematic liquidity and funding planning. The Liquidity and Funding Plan is prepared annually, in the connection with the business planning process, and the development of the Liquidity and Funding Plan is reviewed quarterly. The Liquidity and Funding Plan and the quarterly review of the plan include regular back testing. The Liquidity and Funding Plan is part of the Group's ongoing Internal Liquidity Adequacy Assessment Process (*ILAAP*) and it includes forecasting and planning of funding and liquidity position. The Liquidity and Funding Plan is aligned with the ICAAP baseline scenario during the annual business planning process. The plan aims at keeping the level of the Group's liquidity and funding within its risk appetite defined by the Board. It also takes into account economic perspective to ensure a sufficient long-term profitability for the Group. In addition, the plan is complemented by a rolling short-term 3 months operational plan for liquidity management.

Within the ILAAP performed annually, the Group assesses the adequacy of its liquidity resources to cover the forecast liquidity needs under the business-as-usual and stress scenarios. ILAAP is an integral part of the Group's risk management framework that includes other strategic processes such as Risk Appetite Framework, ICAAP, Recovery Plan and remuneration framework. Risk Appetite Framework formalises the interplay between these processes.

Stress tests are required to assess the Group's liquidity adequacy in a comprehensive, integrated and forward-looking manner. ILAAP consists of a baseline scenario and adverse scenarios and is fully aligned with the ICAAP baseline scenario; the only exception being the assumed restricted access to funding markets. The Group maintains a Contingency Funding Plan, which will be activated in the event of a liquidity crisis. MuniFin Group also maintains a sufficient liquidity portfolio of unencumbered, highly liquid assets to be able to continue normal operations even under severe market distress for at least a period of time defined in Risk Appetite Framework without any new long-term funding.

The Group has set risk indicators defining the tolerance for liquidity and funding risk in its Risk Appetite Framework. At least on a yearly basis, the risk limits and thresholds are reviewed and calibrated in order to align the Risk Appetite Framework with the Group's strategy and external and macro-economic developments. MuniFin Group has set targets and early warning threshold levels which, when breached, will trigger corrective actions in order to ensure that the Group remains within its risk appetite.

MuniFin Group supports its assessment of liquidity requirements with regular stress testing applying severe but plausible stress scenarios to its liquidity and funding risk profile. Liquidity stress test framework assess MuniFin Groups liquidity adequacy and the main objective is to determine the Group's survival horizon under stress in order to determine whether it has sufficient liquid assets to ensure it is operating within the liquidity and funding risk appetite set by the Board of Directors. The limits for the survival horizon have been set to weather severe stress scenario assumptions.

For market liquidity risk, the Group monitors the liquidity of markets and products on a continuous basis. In addition, established market standards are observed when derivative contracts are transacted. Almost all market values of debt securities valued at fair value are calculated based on quotations received from the market. For the remaining debt securities, the market value is calculated using other market information. The valuation techniques and valuation inputs are described in the Consolidated Financial Statements in Note *17 Fair values of financial assets and liabilities*.

The COVID-19 pandemic caused significant disruptions in the international capital markets during the spring. The swift action and substantial stimulus packages of central banks had an important role in stabilising the markets. Despite the exceptional circumstances, during the financial year 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 multiple times during the year. The main focus in MuniFin Group's funding was on public arrangements. During the financial year 2020, MuniFin Group issued two euro denominated benchmark bonds (EUR 1.5 billion and EUR 1 billion) and one USD benchmark bond (USD 1 billion). The Group's first Social Bond of EUR 500 million was issued in September and the bond was first Nordic SSA issuer's Social Bond. In October, MuniFin issued Green Bond of EUR 500 million. In addition, MuniFin Group participated in ECB's third series of targeted longer-term refinancing operations (*TLTRO III*). The size of the operation was EUR 1,250 million, which partly enabled to ensure Group's customer financing on competitive terms. The Group's long-standing diversified funding 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 year in times when this was difficult or even impossible to many other issuers.

In addition, MuniFin Group has implemented a comprehensive Fund Transfer Pricing (*FTP*) framework based on the matched-maturity, marginal cost principle. The purpose of the FTP framework is to ensure that all users and providers of liquidity are fully aware of the related costs and benefits, to support timely and accurate pricing decisions when transacting new business, and to quantify and ensure awareness of the contribution to profitability arising from the maturity mismatch of assets and liabilities and from interest rate risk. Furthermore, the FTP framework allows business units to be appropriately and correctly incentivised with regards to liquidity and interest rate risk. The FTP framework supports the overall risk management of MuniFin Group in relation to liquidity and interest rate risk and supports sustainable profitability.

Structure and organisation of the liquidity risk
In the first line of defence, MuniFin Group's Capital Markets division (ALM, Treasury and Funding units) is responsible for managing liquidity and funding risk within limits set by the Board of Directors. Treasury and Funding as first line risk owners are also responsible for ensuring that liquidity guidelines, instructions and processes are in place and the Group is operating in line with the defined risk appetite at any given time. Treasury unit is responsible for planning and managing MuniFin Group's day-to-day liquidity and funding position with support from ALM unit. Treasury ensures that there is a sufficient amount of liquidity to cover daily and intraday needs using liquidity forecast with sufficient time horizon. Capital Markets back-office operations monitor and manage intraday liquidity and payment transactions.

Capital Markets division prepares annual Liquidity and Funding Plan. Treasury is in charge of drafting and presenting an operational liquidity plan for each ALM Group meeting to cover all short-term funding needs and to ensure a desired risk appetite concerning liquidity and funding risk at all times. The Funding unit is in charge of drafting and implementing the long-term funding (over 12 months) plan. It is also responsible for all long-term funding operations of MuniFin Group. The ALM unit is responsible for funds transfer pricing, liquidity projections and supporting both Treasury and Funding units in liquidity and funding related planning.

Risk Management and Compliance division as an independent control function in the second line of defence, is responsible for risk management policies and framework and measures, monitors and reports liquidity risk independently from the business functions. It ensures that risks remain within the set limits and that the Risk Management Framework is in line with MuniFin Group's risk strategy and appetite, and provides recommendations for updates and revisions where necessary. Risk Management is responsible for the day-to-day risk management and oversight of liquidity and funding risk in MuniFin Group. It is responsible for validation of the FTP (*Fund-Transfer-Pricing*) methodologies and calculations implemented by the first line of defence. The Risk Management and Compliance division includes also MuniFin Group's compliance function which is responsible for monitoring Group's compliance with external and internal regulation.

The third line of defence, the Internal Audit function, conducts risk-based and general audits, independently reviews and provides objective assurance to the Board of Directors on the quality and effectiveness of the internal control system. The Board of Directors is responsible for setting the scope and general requirements for the liquidity risk measurement and assessment, defining the principles for organising liquidity and funding risk management, confirming the risk level and risk appetite based on MuniFin's strategy and business plan and approving the plan for maintaining liquidity adequacy proportionate to the risk appetite. The annual Liquidity and Funding Plan is approved by the Board of Directors. Also, the Contingency Funding Plan as part of ILAAP framework for recognising, managing and responding to the possible future liquidity and funding stress situations, is approved by the Board of Directors. In addition, the Board of Directors decides about new debt programs and the total amount of debt programs. Risk Committee assists the Board of Directors in the matter of liquidity and funding risks.

The Executive Management Team's responsibility is to ensure that all liquidity and funding risk related processes are clearly defined and documented, up to date and contain the duties and responsibilities for each of MuniFin Group's divisions, units or responsible persons. In addition, the Executive Management Team is responsible for organising the work in order to enable an efficient liquidity and funding risk identification, measuring, managing, monitoring and reporting. The Executive Management Team makes decisions on updating the debt programmes, provided that the size of the debt program is not increased and no material changes are made to the content of the debt program.

The ALM Group, which operates under the Executive Management Team, is responsible for liquidity and funding risk operational management related to monitoring and decisions of quality and quantity of liquidity and funding. It also reviews quarterly the Liquidity and Funding Plan and makes decisions on the short-term liquidity plan taking into account the Risk Appetite Framework indicators. The Risk Group, which operates also under the Executive Management Team, ensures that risks of MuniFin Group remain within risk appetite and at a level sufficient to maintain the Group's business continuity, strong credit rating and compliance with relevant regulatory requirements. It monitors the limits for liquidity and funding risks and reports any material deviations from the risk management policies and guidelines.

Measurement and reporting of liquidity risk
For each liquidity risk drivers, which are assessed as relevant to MuniFin Group's business, a set of qualitative mitigation processes and quantitative measures are in place to ensure that liquidity and funding risk is managed within its risk appetite.

For quantitative measures of the liquidity and funding risk, MuniFin Group monitors both short-term and long-term liquidity. Refinancing risk occurs when MuniFin Group is holding assets with a longer-term maturity than that of its liabilities. The risk is that liabilities will need to be refinanced at an unacceptably high cost or, in extreme cases, cannot be refinanced at all. Financing gap risk indicator measures the difference between the average maturity of assets, i.e. customer financing and liquidity portfolio, and the average maturity of liabilities. MuniFin Group also measures short-term callable funding (call date within the next 12-month period) and limits the amount of callable funding as a proportion of the total funding portfolio.

One goal of MuniFin Group's risk appetite is to ensure that it has sufficient liquidity under both normal and stressed market conditions. The Group aims to have a sufficient liquidity buffer to be able to continue normal operations under extraordinary circumstances in which its access to the funding markets has temporarily ceased. Liquidity buffers are of the utmost importance in times of stress, when MuniFin Group has an urgent need to raise liquidity within a short timeframe, and normal funding sources are no longer available or do not provide enough liquidity. These buffers, composed of cash and other highly liquid unencumbered assets, should be sufficient to enable the Group to "survive" during its defined survival horizon without requiring adjustments to its business operations. This risk is included in the Risk Appetite Framework and measured by survival horizon risk indicator.

For measuring short-term liquidity risk, MuniFin Group uses Liquidity Coverage Ratio as a risk indicator. Liquidity Coverage Ratio measures the adequacy of Group's high-quality liquid assets (*HQLA*) against total net cash outflows over a 30-day period under regulatory defined stress assumptions. The regulatory minimum requirement for the Liquidity Coverage Ratio is 100%. The ratio measures MuniFin Group's ability to operate even under negative market conditions. Due to the amount of callable funding, the net cash outflow fluctuations cause volatility to the ratio. Thus, large enough liquidity buffers are maintained to keep Liquidity Coverage Ratio at an acceptable level.

MuniFin Group has measured Liquidity Coverage Ratio since 2014 using EU regulation as a calculation basis. The Board of Directors has set limits for Liquidity Coverage Ratio in Risk Appetite Framework. The Group is compliant with Liquidity Coverage Ratio according to EU regulation.

Stable funding risk is the risk that MuniFin Group does not have sufficient stable funding available to cover its funding needs in the long-term. To mitigate this, the Group ensures that it has sufficient long-term funding to cover the funding needs of its long-term assets. This is measured by Net Stable Funding Ratio, where the amount of long-term stable funding is weighted against funded assets and off-balance sheet exposures. A minimum requirement of 100% will be effective on June 28, 2021 when the CRR II will be applied.

Liquidity and funding risk indicators are reported to the Board of Directors and Executive Management Team regularly. Both bodies are informed of any material changes in MuniFin Group's liquidity risk profile or position and of any necessary actions, which should be taken in order for the Group to remain within the set risk appetite. In addition to this, ad-hoc reporting is prepared in the event that any liquidity and funding risk appetite thresholds are breached. These breaches are reported immediately to the CRO, who in turn escalates as appropriate according to the escalation processes set out in Risk Appetite Framework.

For operational purposes, MuniFin Group has daily liquidity risk dashboards for liquidity management and planning purposes. Daily liquidity projections are produced and they are taking into account forecasted new business and the latest call forecast. Risk Management monitors, on a daily basis, the development of Risk Appetite Framework liquidity risk indicators.

The adequacy of liquidity risk management
In the Internal Liquidity Adequacy Assessment Process (ILAAP) performed annually, MuniFin Group assesses the adequacy of its liquidity resources to cover forecasted liquidity needs under the business-as-usual and stress scenarios. ILAAP is integral part of MuniFin Group's risk management framework in addition to other strategic processes such as Risk Appetite Framework, ICAAP, Recovery Plan and remuneration framework. The ILAAP document is approved by the Board of Directors.

Stress testing is required to assess MuniFin Group's liquidity adequacy in a comprehensive, integrated and forward-looking manner. All liquidity risk indicators from the Risk Appetite Framework and other liquidity indicators used by MuniFin Group are included in ILAAP.

Impact of Brexit to liquidity and funding risk
A number of the Group's counterparties in capital markets transactions are based in the United Kingdom (UK). Following the UK's withdrawal from the European Union (EU), some of the Group's UK-based counterparties have become restricted in their ability to provide financial services to counterparties located in EU from their UK entities. Consequently, such counterparties have decided to transition their operations from the UK to member states of the EU. In order to ensure continuity of its funding and liquidity management activities, the Group has restructured its business relationships accordingly. Such restructuring has involved negotiating and entering into new legal documentation and transitioning business activities to new entities. The immediate effects to the Group of UK's withdrawal from the EU were very limited. However, the full impact of Brexit in the long-term to the Group and to financial markets in general remains difficult to determine.

Operational risk
Operational risk means the risk of loss due to insufficient or failed internal processes, insufficient or failed policies, systems or external factors. Operational risks also include risks arising from a failure to comply with internal and external regulation (compliance risk), legal risks and reputational risk. Operational risks may result in expenses, payable compensation, loss of reputation, false information on position, risk and results or an interruption of operations.

The purpose of operational risk management is to identify operational risks related to MuniFin Group's operations and define methods and principles according to the Group's risk appetite. The Group applies very conservative risk management for all its risks. However, operational risks are inherent in all MuniFin Group's businesses and operations. Therefore, MuniFin Group aims to minimize operational risks related to its business and operations by carefully identifying and analysing the impact and probability of the risks.

Governance of operational risk

MuniFin Group's divisions and units are accountable for the operational and compliance risks related to their area of responsibility. They are also responsible for managing the operational risks within the limits set and by risk appetite framework. Furthermore, managing compliance risks related to their areas of responsibilities are the responsibility of respective functions and departments.

MuniFin Group's independent Risk Management and Compliance function (the second line of defence) is responsible for developing and maintaining the framework for managing operational risk and for supporting and controlling the first line of defence in their implementation of the operational risk framework. Compliance and Operational Risk unit maintains adequate operational risk policies and procedures. In addition, the unit monitors and reports the adequacy and effectiveness of operational risk framework on a regular basis.

The same function is responsible for developing and maintaining the framework for managing compliance risk. It also supports the first line of defence in their implementation of the compliance risk framework.

Compliance and Operational Risk reports to the Risk Group on a regular basis about all operational risk incidents and controls needed. The Risk Group decides if any operational actions are needed. It also reviews and approves the findings of an annual operational risk self-assessment process. Given the scale of the matter, the issue may be referred by the Risk Group to the Executive Management Team or, where appropriate, to the Board of Directors. In addition, to ensure the independence of the Compliance function, the Head of Compliance may report directly to the Board's Audit Committee and to the CEO.

Internal Audit (the third line of defence) performs regularly risk-based audits in accordance with the annual plan approved by the Board of Directors.

The Board of Directors approves the principles of operational risk management. The Risk Committee of the Board of Directors assists the Board on matters concerning the Group's risk strategy and risk appetite level, for example by evaluating changes in the operational risk management policy. The Risk Committee supports the Board in the supervision that the Group adheres to the risk strategy approved by the Board.

Management and measurement of operational risk

Operational risks are recognised as part of the Group's daily operations and processes. This has been supplemented by an annual operational risk survey, which is carried out by units through a self-assessment led by Compliance and Operational Risk. The assessment of risks is conducted by assigning the probability of the occurrence and the impact on the materialisation of the event. In addition, mitigation actions are recognised and agreed. Each division's and unit's responsibilities include the management of operational risks on a daily basis. In addition, the Group's Risk Management and Compliance functions support the other divisions and units and have the responsibility at the Group level for coordinating the management of operational risks.

MuniFin Group uses various methods for managing operational risks. The Group has internal policies approved by the Board of Directors and supplementing internal guidelines approved by the management in order to guide operations. Operational risks are also covered by the Risk Appetite Framework approved by the Board of Directors. Key duties and processes have been charted and described. Internal instructions and processes are updated on a regular basis, and the compliance with them is supervised. The tasks related to business activities, risk control, back-office functions, documentation and financial accounting are separated. The Group has adequate backup systems to ensure the continuity of key functions. The expertise of the personnel is maintained and developed through regular development discussions and training plans. MuniFin Group has insurance policies related to its operations and assesses the level of insurance cover on a regular basis.

The Group has a contingency plan for situations in which business operations are interrupted. The plan is designed to ensure that the Group is able to continue functioning and to limit its losses in different disruptive scenarios to minimise their impact on MuniFin Group's operations and customers. The business continuity and crisis management also includes disaster recovery plan for technical infrastructure and IT systems. MuniFin Group's business continuity is the responsibility of the Executive Management Team. The annual operational risk survey and the operational risk-event reporting process support the Group's continuity planning.

MuniFin Group's compliance function continuously monitors the development in legislation and regulations issued by authorities relevant to the Group's operations and ensures that any regulatory changes are appropriately responded. The legislation and regulation concerning the operations of credit institutions have faced significant changes during the past few years and will continue to change in the future, which creates challenges for Group's Compliance function. The Group has tried to minimise the risks related to this by maintaining active contacts with the authorities and interest groups as well as through the organisation of the Group's internal compliance function (incl. Reporting and evaluation of effects).

MuniFin Group has significant information system and business process related projects aimed at improving the quality, efficiency and regulatory compliance of current operations. The extent of these projects creates operational risks that the Group strives to minimise by developing and implementing models related to project management and monitoring (incl. regular reporting) and ensuring sufficient resources. The risks related to development projects are surveyed and monitored regularly. In addition, project audits are in scope of the internal audit when included on the annual audit plan.

The Group has an approval process for new products and services. The process aims to ensure that all material risks and operational requirements are taken into account when developing new products and services.

During 2019, MuniFin has entered into outsourcing agreements regarding IT end-user and infrastructure services as well as operations of the business IT system to ensure operational reliability and improve the availability of services over time. The project for the implementation of these outsourcing agreements has been advanced in 2020 and MuniFin Group is partly in production with these new outsourced services. The project is estimated to be finalised during 2021.

The realisation of operational risks is monitored with systematic operational risk event reporting, which is used to change operating principles or implement other measures to reduce operational risks where necessary. The aggregated incident information is included in the regular risk reporting to the Executive Management Team and the Board of Directors. MuniFin Group's operational risk position is monitored and reported on a monthly basis following the risk indicators defined in the Risk Appetite Framework. Only small losses from operational risks realised during 2020.

The effects of the COVID-19 pandemic on the Group's continuity and operational risks in 2020 were limited. The organisation's transition to remote working did not significantly increase operational risks or the resulting losses. The functions and processes of the various departments have been adapted on a fast schedule to suit continuous remote working. In addition, efforts have been made to improve internal communication and continuity, as well as to reduce operational risks.

MuniFin Group has a whistleblowing process in place for reporting potential internal or external misconducts or breaches of ethical standards or internal or external rules. The whistleblowing channel for employees and other stakeholders is a safe way to report any misconduct. Concerns can be raised anonymously and confidentially through MuniFin's website.

Operational risk assessment is also part of the MuniFin Group's internal capital adequacy assessment process (*ICAAP*). The ICAAP process takes into account the Group's most significant operational risks and estimates the amount of capital needed to be allocated to them. The Group's internal liquidity adequacy assessment process (*ILAAP*) also takes into account operational risks. Responsibilities related to liquidity management are clearly defined and include necessary controls as well as limit structures and restrictions on access rights and authorisations.

Minimum own funds requirement for operational risk
MuniFin calculates the minimum own funds requirement for operational risk using the basic indicator approach. Under the basic indicator approach, the own funds requirement for operational risk equals to 15% of the average over three years of the relevant indicator as set out in the Capital Requirements Regulation in Article 316.

At the end of November 2020, the European Banking Authority (*EBA*) published in a Single Rulebook QA process an answer (2018_3969) related to the calculation of the operational risk indicator. In the past, the regulation has not unequivocally taken a position on which findings the year-end operational risk indicator is calculated from. According to the answer, at the end of the reporting year, the end-of-year observation of the last three years is used, including the reporting date. MuniFin Group has previously used the same operational risk indicator for the entire year in the capital adequacy calculation of operational risk. From the end of December 2020, the Group will take the EBA's recommendation into account in its capital adequacy calculation. The change has no significant effect on the Group's capital ratios.

Information on governance arrangements
Information on governance arrangements is described in a separate document, Corporate Governance Statement 2020, which is available on MuniFin's website at www.munifin.fi.

Section 3

Information on the scope of application of the regulatory framework

EU LI1

Differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories

	a & b	c	d	f	g
		Carrying values of items			
31 Dec 2020 (EUR 1,000)	Carrying values as reported in published financial statements & Carrying values under scope of regulatory consolidation	Subject to credit risk framework	Subject to CCR framework	Subject to market risk framework	Not subject to capital requirements or subject to deduction from capital
Assets					
Cash and balance with central banks	5,565,801	5,565,801	-	-	-
Loans and advances to credit institution	1,841,853	234,785	1,607,069	161,636	-
Loans and advances to the public and public sector entities	28,022,325	28,022,325	-	-	-
Debt securities	5,763,214	5,763,214	-	44,375	-
Shares and participations	27	27	-	-	-
Derivative contracts	2,358,163	-	2,358,163	452,902	-
Intangible assets	17,346	-	-	-	17,346
Tangible assets	10,364	10,364	-	-	-
Other assets	259,785	248,499	12,272	-	-986
Accrued income and prepayments	203,547	69,587	134,686	-	-727
Total assets	**44,042,426**	**39,914,602**	**4,112,191**	**658,914**	**15,633**

Liabilities					
Liabilities to credit institutions	2,001,478	-	657,828	-	-
Liabilities to the public and public sector entities	3,884,026	-	-	87,202	-
Debt securities issued	32,911,906	-	-	18,884,547	-
Derivative contracts	2,860,570	-	2,860,570	1,900,878	2,453
Other liabilities	247,021	-	231,332	159,489	-
Accrued expenses and deferred income	152,398	-	1,588	-	-
Deferred tax liabilities	279,906	-	-	-	-
Total liabilities	**42,337,306**	**-**	**3,751,318**	**21,032,116**	**2,453**

31 Dec 2019 (EUR 1,000)	a & b Carrying values as reported in published financial statements & Carrying values under scope of regulatory consolidation	c Carrying values of items Subject to credit risk framework	d Subject to CCR framework	f Subject to market risk framework	g Not subject to capital requirements or subject to deduction from capital
Assets					
Cash and balance with central banks	4,909,338	4,909,338	-	-	-
Loans and advances to credit institution	818,323	132,194	686,129	77,659	-
Loans and advances to the public and public sector entities	24,798,432	24,798,432	-	-	-
Debt securities	5,716,318	5,716,318	-	163,498	-
Shares and participations	9,797	9,797	-	-	-
Derivative contracts	2,244,997	-	2,244,997	824,687	-
Intangible assets	14,704	-	-	-	14,704
Tangible assets	9,041	9,041	-	-	-
Other assets	170,359	170,571	-	-	-213
Accrued income and prepayments	242,450	72,605	169,845	-	-
Total assets	**38,933,758**	**35,818,296**	**3,100,970**	**1,065,843**	**14,491**
Liabilities					
Liabilities to credit institutions	1,178,256	-	1,094,885	-	-
Liabilities to the public and public sector entities	3,862,053	-	-	173,885	-
Debt securities issued	29,983,585	-	-	22,083,677	-
Derivative contracts	1,762,010	-	1,762,010	1,040,009	3,356
Other liabilities	116,374	-	96,342	75,676	-
Accrued expenses and deferred income	180,917	-	1,406	-	-
Deferred tax liabilities	256,241	-	-	-	-
Total liabilities	**37,339,436**	**-**	**2,954,643**	**23,373,246**	**3,356**

The table above provides a breakdown of the published Financial Statements into the various risk frameworks. Certain items such as foreign currency assets and liabilities are subject to both the credit risk framework and the market risk framework. Cross currency derivatives hedging these foreign currency assets and liabilities are taken into account in the market risk and counterparty credit risk frameworks.

EU LI2
Main sources of differences between regulatory exposure amounts and carrying values in financial statements

		a	b	c	e
			Items subject to		
31 Dec 2020 (EUR 1,000)		Total	Credit risk framework	CCR framework	Market risk framework
1	Assets carrying value amount under the scope of regulatory consolidation (as per template EU LI1)	44,042,426	39,914,602	4,112,191	658,914
2	Liabilities carrying value amount under the regulatory scope of consolidation (as per template EU LI1)	-24,783,434	-	-3,751,318	-21,032,116
3	Total net amount under the regulatory scope of consolidation	19,258,991	39,914,602	360,873	-20,373,203
4	Off-balance sheet amounts	2,353,973	2,353,973	-	-
5	Differences due to Article 274 mark-to-market method and carrying amounts	596,673	-	596,673	-
6	Differences due to Article 352 foreign exhchange risk treatment and carrying amounts	-	-	-	20,373,203
7	**Exposure amounts considered for regulatory purposes**	**43,226,120**	**42,268,575**	**957,545**	**-**

		a	b	c	e
			Items subject to		
31 Dec 2019 (EUR 1,000)		Total	Credit risk framework	CCR framework	Market risk framework
1	Assets carrying value amount under the scope of regulatory consolidation (as per template EU LI1)	38,933,758	35,818,296	3,100,970	1,065,843
2	Liabilities carrying value amount under the regulatory scope of consolidation (as per template EU LI1)	-26,327,889	-	-2,954,643	-23,373,246
3	Total net amount under the regulatory scope of consolidation	12,605,868	35,818,296	146,327	-22,307,403
4	Off-balance sheet amounts	2,361,319	2,361,319	-	-
5	Differences due to Article 274 mark-to-market method and carrying amounts	651,112	-	651,112	-
6	Differences due to Article 352 foreign exhchange risk treatment and carrying amounts	-	-	-	22,307,403
7	**Exposure amounts considered for regulatory purposes**	**38,977,054**	**38,179,615**	**797,439**	**-**

EU LI3
Outline of the differences in the scopes of consolidation (entity by entity)

31 Dec 2020	a Method of accounting consolidation	b Method of regulatory consolidation	f Description of the entity
Name of the entity		**Full consolidation**	
Municipality Finance Plc	Full consolidation	x	Credit institution
Financial Advisory Services Inspira Ltd	Full consolidation	x	Financial advisory services

There has been no changes in the scope of the consolidation compared to year-end 2019.

EU LIA
Explanation of differences between accounting and regulatory exposure amounts

The differences between the carrying values used in the Financial Statements and regulatory exposure amounts arise mainly from off-balance sheet items, the difference in the treatment of derivatives between the IFRS framework and regulatory framework and treatment of market risk. Off-balance sheet items include credit commitments, which are included in the regulatory exposure on row 4, but not included in the carrying amounts in the Financial Statements. The difference in the treatment of derivatives between the IFRS and regulatory frameworks is shown on row 5 and arises from the counterparty credit risk framework and applying CRR Article 274 mark-to-market method to derivatives. The derivative assets and liabilities in the Financial Statements are fair valued on instrument level, with no netting applied on counterparty level and without considering the impact of any collateral. As shown on row 6 a difference also arises from the market risk framework in comparison to the accounting framework.

In calculating the capital requirements for market risk, only foreign exchange risk is taken into account as the Group does not have a trading book nor share or commodity positions. With regard to foreign exchange risk, the accounting carrying amounts of cross currency derivatives do not represent the actual long or short positions in only foreign currency, therefore a difference exists in comparison to the treament of foreign currency positions in CRR Article 352. As foreign exchange risk is hedged by swapping all currency denominated assets and liabilities into euros, the Group's net foreign exchange position is small. There is no capital requirement for foreign exchange risk, as the Group's the net position does not exceed 2 percent of own funds at the end of 2020 (CRR Article 351).

The basis of consolidation does not differ between the Consolidated Financial Statements and regulatory consolidation.

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 fair values of financial instruments are determined on the basis of either price quotations obtained from functioning markets or, if such markets do not exist, by applying valuation methods. A market is deemed to be functioning if price quotations are readily and consistently available, and they reflect real market transactions executed in a consistent manner between independent parties. If a quoted price in an active market is not available for a financial instrument, MuniFin Group uses valuation techniques standard across the industry and for which sufficient information is available to determine the fair value. The chosen valuation technique should include all factors that market participants would consider in pricing the financial instrument. The valuation technique uses as much observable inputs as possible and as little unobservable inputs as possible.

Financial instruments are valued in accordance with MuniFin Group's Valuation Policy. MuniFin Group assigns fair value to its financial instruments based on quotes and market data input from Bloomberg, Reuters and other external sources. Instruments are valued by using the quotes either directly or indirectly, i.e. using them as inputs of the valuation techniques used to assign fair value. MuniFin Group applies both market approach and income approach in its valuation of financial instruments.

MuniFin Group applies a market-based approach when the instrument has a functioning market and public price quotations are available. The market approach is used mainly for the valuation of investment bonds. All instruments for which quoted market prices are available, the Group uses quoted unadjusted market price 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. The mid price quotes are considered to represent the price for an orderly transaction between parties in the market on the valuation date.

Income approach is applied when valuation is based, for example, on determining the present value of future cash flows (discounting). The Group uses the income approach for many of its financial instruments, for example derivatives, lending and funding. If the market has a well-established valuation approach for a financial instrument that is not quoted, the fair value is based on an established, appropriate underlying valuation method provided that sufficient information is available to determine fair value for that purpose. If a valuation practice is not established on the market, the valuation model for the product concerned is based on commonly used calculation methods covering all the elements that would be taken into account by market participants when setting the price. In addition the selected method is required to be consistent with the accepted financial methods used in pricing financial instruments.

All valuation models, both complex and simple models, use market prices and other inputs. These market prices and inputs comprise interest rates, FX rates, volatilities, correlations etc. MuniFin Group applies different types of valuation inputs depending on the type and complexity of the instruments and the related risk factors and payoff structures. Valuation methods take into account an assessment of the credit risk, discount rates used, the possibility of early repayment and other factors that influence the fair value of a financial instrument reliably. Stochastic models are used to generate a distribution of future rates, FX, equity or inflation values. These values are used in the payoff of each instrument to generate a distribution of possible instrument values in the future. The future values are then discounted in order to produce valuations for the instruments.

MuniFin Group uses widely recognised valuation models to determine the fair value of common and simple financial instruments, such as interest rate and currency swaps, that use only observable market data and require little judgement and estimation. Observable prices or model inputs are usually available in the market for listed debt and equity securities and simple OTC derivatives such as interest rate swaps. The availability of observable market prices and model inputs reduces the need for management judgement and estimation and reduces the uncertainty associated with determining fair values. The availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

MuniFin Group applies different models in order to derive the fair value of a certain type of instruments. The choice of base models and its calibration depends on the complexity of the financial instrument and the observability of the relevant inputs. In line with market practice, the primary choice of base model is contingent on the underlying instrument classes. Additionally instruments are broken down into different categories granular enough to capture the most important risk drivers and different kind of calibration techniques. The specific combination of base models and the different assumptions and calibrations techniques are documented. The Group's fair value instruments that are subject to mark-to-model valuation techniques consists out of four asset classes:

- Interest rate instruments,
- Foreign exchange instruments,
- Equity-linked instruments and
- Hybrid instruments.

MuniFin Group has implemented a framework for the arrangements, activities and procedures with regards to the Group's model risk management. The purpose of the model risk management framework is to ensure the effective management of model risk and mitigation of fair value uncertainty, as well as to ensure compliance with external and internal requirements. The Group ensures that all aspects of the lifecycle of valuation models (i.e. approval, design and development, testing and maintenance, monitoring and execution) are subject to effective governance, clear roles and responsibilities and effective internal control.

The Group manages and maintains a model inventory which provides a holistic view of all valuation models, their business purpose and characteristics as well as their applications and conditions for use. Executive management team (*EMT*) is responsible of the approval of new valuation models (including limitations and conditions of use), and material changes to existing models. All approved valuation models within the model inventory are subject to annual review and re-approval by the EMT.

Valuation Control Group (*VCG*) monitors MuniFin Group's fair values and is responsible for the final approval of Group's fair values for financial reporting. VCG monitors and controls MuniFin Group's valuation process and the performance of valuation models, decide on the necessary measures and report to the EMT. VCG assesses whether the valuation models and valuation process provide sufficiently accurate information to be used in financial reporting and, based on the information received, decides on possible adjustments to the values generated by the valuation process.

The Group has implemented an efficient control and performance monitoring framework with regards to its valuation models, which aims to ensure the accuracy and appropriateness of model output. The model performance monitoring consists of four main controls:

- Counterparty valuation control (*CVC*),
- Fair value explanation,
- Independent price verification (*IPV*) and
- Independent model validation.

Counterparty valuation control (*CVC*) is performed by Risk Management, who shall assess any deviations in valuation model output compared to MuniFin Group's own earlier valuations and to counterparty valuations. The results of the assessment shall be reported monthly to the VCG. Fair value explanation process consists of daily analysis and explain of the changes in fair values by Risk Management and a monthly fair value explain report to the VCG. The independent price verification is performed monthly as part of MuniFin Group's IPV process by a third party service provider. The results of the control activities are reported monthly to the VCG. The independent model validation is performed yearly for a subset of MuniFin Group's valuation models by a third-party service provider. The results of the model validation are reported to the VCG.

MuniFin Group does not have a trading book.

At year end 2020 MuniFin Group deducted a prudent valuation adjustment totalling EUR 32.0 million (EUR 38.4 million) from Common Equity Tier 1 capital. MuniFin Group's fair valued assets and liabilities exceed the threshold of EUR 15 billion set for applying the simplified approach and when calculating prudent valuation adjustment MuniFin Group applies core approach.

In addition to the prudent valuation adjustment, MuniFin Group has calculated Credit Valuation and Debit valuation adjustments in accordance with IFRS 13 to account for the non-performance risk in the fair values of its derivatives.

Section 4
Own funds

CONSOLIDATED OWN FUNDS (EUR 1,000)	31 Dec 2020	31 Dec 2019
Share capital	42,583	42,583
Reserve for invested non-restricted equity	40,366	40,366
Retained earnings	1,258,224	1,121,774
Fair value reserve	16,471	28,882
Other reserves	277	277
Foreseeable dividend	-20,313	-6,250
Accrued interest net of deferred taxes of AT1 capital loan treated as equity	-9,459	-9,433
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**1,328,150**	**1,218,199**
Intangible assets	-17,346	-14,704
Deductions due to prudential filters on Common Equity Tier 1 capital	-33,992	-41,043
Common Equity Tier 1 (CET1) capital	**1,276,812**	**1,162,452**
Instruments included in Additional Tier 1 capital	347,454	347,454
Additional Tier 1 (AT1) capital	**347,454**	**347,454**
Tier 1 (T1) capital	**1,624,265**	**1,509,906**
Tier 2 (T2) capital	**-**	**-**
Total own funds	**1,624,265**	**1,509,906**

At the end of the reporting period, the Group's CET1 capital totalled EUR 1,276 million (EUR 1,162 million) and Tier 1 capital EUR 1,624 million (1,510 million). MuniFin Group had no Tier 2 capital. The Group's own funds totalled EUR 1,624 million (EUR 1,510 million).

Common Equity Tier 1 capital includes the profit for the financial year, which has been subject to a financial review by the external auditor, and therefore can be included in CET1 capital on the basis of permission granted by the ECB in accordance with the Capital Requirements Regulation. Deductions due to prudential filters on CET1 capital are made up of MuniFin Group's debt value adjustment (*DVA*) and prudent valuation adjustment (*PVA*). In addition, the amount of foreseeable dividend has been deducted from CET1 capital.

Change in own credit risk is not included in the own funds (CRR Art. 33).

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 changed to 66% until the end of 2020, after which it was returned to its previous level of 50%. The effect this had on MuniFin Group's own funds at the end of December 2020 was EUR 8 million.

Additional Tier 1 capital contains MuniFin Group's AT1 capital loan EUR 350 million at face value, from which EUR 347.5 million can be included in the own funds. The AT1 loan was issued on October 1st 2015. A detailed description of the instruments included in the Additional Tier 1 capital is included in the Financial Statements 2020 (Parent Company's Financial Statements, Note 34) and in this Pillar III Disclosure Report that is available in English on MuniFin's website.

Main features of capital instruments

		Common Equity Tier 1 capital	Additional Tier 1 instrument
		Shares A and B of share capital	EUR 350,000,000 Perpetual Fixed Rate Resettable Additional Tier 1 Securities
1.	Issuer	Municipality Finance Plc	Municipality Finance Plc
2.	Unique identifier	N/A	ISIN: XS1299724911
3.	Governing law(s) of the instrument	Finnish Law	English law, except for the provisions of Status and Subordination (Section 3) and Enforcement Events (Section 10) which are governed by Finnish law.
Regulatory treatment			
4.	Transitional CRR rules	CET1	AT1
5.	Post-transitional CRR rules	CET1	AT1
6.	Eligible at solo/consolidated / solo and consolidated	Solo and consolidated	Solo and consolidated
7.	Instrument type (types to be specified by each jurisdiction)	Share capital as defined in Regulation No (EU) 575/2013 Article 28, Finnish Limited Liability Companies Act	Additional Tier 1 as defined in Regulation No (EU) 575/2013 Article 52, Finnish Limited Liability Companies Act
8.	Amount recognised in regulatory capital (currency in EUR million, as of most recent reporting date)	42.583	347.454
9.	Nominal amount of instrument	N/A	EUR 350 million
9a.	Issue price	N/A	100%
9b.	Redemption price	Redemption price according to the Articles of Association depending of the redemption situation	100%
10.	Accounting classification	Shareholders' equity	Other equity instrument issued
11.	Original date of issuance	N/A	Oct 1, 2015
12.	Perpetual or dated	Perpetual	Perpetual

	Common Equity Tier 1 capital Shares A and B of share capital	Additional Tier 1 instrument EUR 350,000,000 Perpetual Fixed Rate Resettable Additional Tier 1 Securities
13. Original maturity date	No maturity	No maturity
14. Issuer call subject to prior supervisory approval	Yes	Yes
15. Optional call date, contingent call dates and redemption amount	N/A	1) Right to redeem on April 1, 2022 and subsequently on each annual coupon payment date; 2) Right to redeem subsequent to a Capital or Tax Event as defined in the terms. Redemption price is 100%.
16. Subsequent call dates, if applicable	N/A	Annually April 1 after the first call date.
Coupons/Dividends		
17. Fixed or floating dividend/coupon	Fixed	Fixed coupon until April 1 2022, thereafter floating.
18. Coupon rate and any related index	N/A	4.5% to but excluding the first call date 1 April 2022. After 1 April 2022 the rate is the 5 year swap rate plus a margin of 3.960% and reset each fifth anniversary.
19. Existence of a dividend stopper	No	No
20a. Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Fully discretionary
20b. Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Fully discretionary
21. Existence of step up or other incentive to redeem	No	No
22. Noncumulative or cumulative	Non-cumulative	Non-cumulative
23. Convertible or non-convertible	Non-convertible	Non-convertible
24. If convertible, conversion trigger(s)	N/A	N/A
25. If convertible, fully or partially	N/A	N/A
26. If convertible, conversion rate	N/A	N/A
27. If convertible, mandatory or optional conversion	N/A	N/A

	Common Equity Tier 1 capital	Additional Tier 1 instrument
	Shares A and B of share capital	EUR 350,000,000 Perpetual Fixed Rate Resettable Additional Tier 1 Securities
28. If convertible, specify instrument type convertible into	N/A	N/A
29. If convertible, specify issuer of instrument it converts to	N/A	N/A
30. Write-down features	No	Yes
31. If write-down, write-down trigger(s)	N/A	CET1 ratio of the Issuer and/or the Group less than 5.125%
32. If write-down, full or partial	N/A	Full or partially
33. If write-down, permanent or temporary	N/A	Temporary
34. If temporary write-down, description of write-up mechanism	N/A	Fully discretionary
35. Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Additional Tier 1	Tier 2
36. Non-compliant transitioned features	No	No
37. If yes, specify non-compliant features	N/A	N/A

The prospectus of MuniFin's Additional Tier 1 instrument is available on MuniFin's website at https://www.kuntarahoitus.fi/app/uploads/sites/2/2019/09/munifin_at1_-_offering_circular.pdf

Transitional own funds

31 Dec 2020 (EUR 1,000)	Amount at disclosure date	Regulation (EU) No 575/2013 article reference	Amounts subject to pre-regulation (EU) No 575/2013 treatment or prescribed residual amount of regulation (EU) No 575/2013
Common Equity Tier 1 capital: instruments and reserves			
1. Capital instruments and the related share premium accounts	42,583	26 (1), 27, 28, 29, EBA list 26 (3)	
2. Retained earnings	1,102,924	26 (1) c	
3. Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	57,114	26 (1)	
5a. Independently reviewed interim profits net of any foreseeable charge or dividends	125,529	26 (2)	
6. Common Equity Tier 1 (CET1) capital before regulatory adjustments	**1,328,150**		
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7. Additional value adjustments (negative amount)	-32,029	34, 105	
8. Intangible assets (net of related tax liability) (negative amount)	-17,346	36 (1) (b), 37, 472 (4)	
14. Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-1,963	33 (b)	
28. Total regulatory adjustments to Common Equity Tier 1 (CET1)	**-51,338**		
29. Common Equity Tier 1 (CET1) capital	**1,276,812**		
Additional Tier 1 (AT1) capital: instruments			
30. Capital instruments and the related share premium	347,454	51, 52	
31. of which: classified as equity under applicable accounting standards	347,454		
36. Additional Tier 1 (AT1) capital before regulatory adjustments	**347,454**		
43. Total regulatory adjustments to Additional Tier 1 (AT1) capital	**-**		
44. Additional Tier 1 (AT1) capital	**347,454**		
45. Tier 1 capital (T1 = CET1 + AT1)	**1,624,265**		
59. Total capital (TC = T1 + T2)	**1,624,265**		
60. Total risk weighted assets	**1,223,668**		

31 Dec 2020 (EUR 1,000)		Amount at disclosure date	Regulation (EU) No 575/2013 article reference	Amounts subject to pre-regulation (EU) No 575/2013 treatment or prescribed residual amount of regulation (EU) No 575/2013
Capital ratios and buffers				
61.	Common Equity Tier 1 (as percentage of risk exposure amount)	104.34%	92 (2) (a), 465	
62.	Tier 1 (as percentage of risk exposure amount)	132.74%	92 (2) (b), 465	
63.	Total capital (as percentage of risk exposure amount)	132.74%	92 (2) (c)	
64.	Institution specific buffer requirement (CET1 requirement in accordance with Article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII), expressed as a percentage of risk exposure amount)	7.71%	CRD 128, 129, 130, 131, 133	
65.	of which: capital conservation buffer requirement	2.50%	CRD 129	
66.	of which: countercyclical buffer requirement	0.21%	CRD 130	
67.	of which: systemic risk buffer requirement	0.00%	CRD 133	
67a.	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0.50%	CRD 131	
68.	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	99.84%	CRD 128	

31 Dec 2019 (EUR 1,000)	Amount at disclosure date	Regulation (EU) No 575/2013 article reference	Amounts subject to pre-regulation (EU) No 575/2013 treatment or prescribed residual amount of regulation (EU) No 575/2013
Common Equity Tier 1 capital: instruments and reserves			
1. Capital instruments and the related share premium accounts	42,583	26 (1), 27, 28, 29, EBA list 26 (3)	
2. Retained earnings	1,016,842	26 (1) c	
3. Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	69,525	26 (1)	
5a. Independently reviewed interim profits net of any foreseeable charge or dividends	89,249	26 (2)	
6. Common Equity Tier 1 (CET1) capital before regulatory adjustments	**1,218,199**		
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7. Additional value adjustments (negative amount)	-38,358	34, 105	
8. Intangible assets (net of related tax liability) (negative amount)	-14,704	36 (1) (b), 37, 472 (4)	
14. Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-2,685	33 (b)	
28. Total regulatory adjustments to Common Equity Tier 1 (CET1)	**-55,747**		
29. Common Equity Tier 1 (CET1) capital	**1,162,452**		
Additional Tier 1 (AT1) capital: instruments			
30. Capital instruments and the related share premium	347,454	51, 52	
31. of which: classified as equity under applicable accounting standards	347,454		
36. Additional Tier 1 (AT1) capital before regulatory adjustments	**347,454**		
43. Total regulatory adjustments to Additional Tier 1 (AT1) capital	**-**		
44. Additional Tier 1 (AT1) capital	**347,454**		
45. Tier 1 capital (T1 = CET1 + AT1)	**1,509,906**		
59. Total capital (TC = T1 + T2)	**1,509,906**		
60. Total risk weighted assets	**1,399,553**		

31 Dec 2019 (EUR 1,000)	Amount at disclosure date	Regulation (EU) No 575/2013 article reference	Amounts subject to pre-regulation (EU) No 575/2013 treatment or prescribed residual amount of regulation (EU) No 575/2013
Capital ratios and buffers			
61. Common Equity Tier 1 (as percentage of risk exposure amount)	83.06%	92 (2) (a), 465	
62. Tier 1 (as percentage of risk exposure amount)	107.88%	92 (2) (b), 465	
63. Total capital (as percentage of risk exposure amount)	107.88%	92 (2) (c)	
64. Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII), expressed as a percentage of risk exposure amount)	9.72%	CRD 128, 129, 130, 131, 133	
65. of which: capital conservation buffer requirement	2.50%	CRD 129	
66. of which: countercyclical buffer requirement	0.72%	CRD 130	
67. of which: systemic risk buffer requirement	1.50%	CRD 133	
67a. of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0.50%	CRD 131	
68. Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	78.56%	CRD 128	

IFRS 9-FL

Comparison of institutions' own funds and capital and leverage ratios with and without the application of transitional arrangements for IFRS 9 or analogous ECLs

MuniFin Group is not applying the transitional arrangements specified in Capital Requirements Regulation's Article 473a for IFRS 9 or analogous ECLs. MuniFin Group's own funds, capital and leverage ratios already reflect the full impact of IFRS 9 or analogous ECLs.

As the Group has not applied this transitional arrangement, it does not have nothing to report regarding the EBA Guidelines (EBA/GL/2020/12) amending Guidelines EBA/GL/2018/01 on uniform disclosures under Article 473a of Regulation (EU) No 575/2013 (CRR) on the transitional period for mitigating the impact of the introduction of IFRS 9 own funds to ensure compliance with the CRR 'quick fix' in response to the COVID-19 pandemic.

Section 5

Capital requirements

MuniFin Group's objectives regarding equity in relation to risk taking and the operating environment are defined as part of the annual planning. The planning horizon typically extends to the following four to five years, in order to be able to predict the business performance trend and the sufficiency of own funds with respect to the increasing capital requirements arising from changing regulation and to be able to react to potential needs for additional capitalisation in sufficient time. The Board of Directors approves the capital adequacy plan and monitors it. The Group updates its capital adequacy plan at least annually and follows implementation of the plan quarterly.

The aim for the capital adequacy management is to monitor the capital adequacy and to confirm that MuniFin Group's capital adequacy fulfills its targets and requirements set by banking authorities to ensure continuity of the operations. Controlling capital adequacy is continuous and an essential part of the MuniFin Group's strategic planning process, which covers setting strategic goals, specifying development projects and making financial forecasts for the following years. This is done in cooperation with the management and the Board of Directors. The Board of MuniFin approves the final strategy. Management ensures that the operational measures of the Group correspond with the principles determined in the strategy approved by the Board of Directors. As part of the annual planning, the management prepares a business plan for the coming year and business forecasts for the years that follow. The Group's risk position and its effect on the MuniFin's financial status are also evaluated. Regular risk analyses as well as various stress test scenarios are used for evaluating and measuring risks. Based on these, the capital adequacy plan is updated annually and potential actions needed to strengthen own funds are determined. The adequacy of own funds is also monitored as part of monthly business analyses.

In the internal capital adequacy plan MuniFin Group calculates capital requirements on Pillar I risk and for Pillar II risks. Pillar I capital requirements are calculated for credit risk, counterparty credit risk, market risk, credit valuation adjustment risk and operational risk as outlined in the Capital Requirements Regulation. For Pillar II risks MuniFin Group considers additional capital requirements for business risk, credit risk and market risk.

Furthermore to the regulatory minimum capital requirements, as part of the annual supervisor's review (*SREP*), the European Central Bank (*ECB*) has imposed an additional capital requirement of 2.25% (Pillar 2 Requirement) on MuniFin Group, effective from 1 March 2019 to cover additional risks not covered in Pillar I. The amount of the additional capital requirement is evaluated by the ECB at least annually. Due to the ongoing COVID-19 pandemic, the European Central Bank (*ECB*) did not give the yearly Supervisory Review and Evaluation Process Decision (*SREP Decision*) during 2020. Instead, the ECB has given MuniFin Group an Operational Letter, in which the capital buffer requirement (*P2R*) imposed on MuniFin Group last year is confirmed to continue in force unchanged at 2.25%.

The regulatory capital requirement for credit risk is calculated using the standardised approach and for counterparty credit risk MuniFin Group uses mark-to-market method. In calculating the regulatory capital requirements for market risk, only foreign exchange risk is taken into account as the Group does not have a trading book nor share or commodity positions. As foreign exchange risk is hedged by swapping all currency denominated funding and investments into euros, the Group's foreign exchange position is small and consists of FX trades made for daily collateral management purposes in other currencies than euros. At the end of 2020 and 2019 there was no capital requirement for foreign exchange risk since the net position did not exceed 2% of the own fund (CRR 575/2013 Art. 351). The capital requirement for operational risks is calculated using the basic indicator approach.

Consolidated key figures for capital adequacy
The total capital ratio increased to 132.74% (107.88%) over the reporting period. The change was mainly driven by decrease in the risk exposure amount stemming from lower risk-weights in the liquidity portfolio.

CONSOLIDATED KEY FIGURES FOR CAPITAL ADEQUACY

	31 Dec 2020	31 Dec 2019
CET1 capital ratio, %	104.34	83.06
Tier 1 capital ratio, %	132.74	107.88
Total capital ratio, %	132.74	107.88

Consolidated minimum requirement for own funds
The regulatory capital requirement for credit risk is calculated using the standardised approach and for counterparty credit risk MuniFin Group uses mark-to-market method. The overall credit and counterparty risk decreased from the year-end 2019 figure of EUR 763 million to EUR 581 million at the end of the reporting period. This was particularly influenced by decrease in the risk-weights of liquidity portfolio. The credit valuation adjustment risk increased to EUR 231 million (EUR 214 million). Guarantees granted by the Municipal Guarantee Board for certain derivative counterparties are not taken into account in credit valuation adjustment risk.

In calculating the regulatory capital requirements for market risk, only foreign exchange risk is taken into account as the Group does not have a trading book nor share or commodity positions. As foreign exchange risk is hedged by swapping all currency denominated funding and investments into euros, the Group's foreign exchange position is small and consists of FX trades made for daily collateral management purposes in other currencies than euros. On 31 December 2020, the FX net position was EUR 2.1 million, which is less than 2% of total own funds. There was no capital requirement for market risk since the FX net position did not exceed 2% of the total own funds (CRR 575/2013 Art. 351).

The capital requirement for operational risk is calculated using the basic indicator approach. The calculation of the relevant indicator has been changed in accordance with EBA recommendation (Q&A 2018_3969) to include also the reporting date's observation in the average over three years for the year-end requirement from year-end 2020 onwards. The change has no significant impact on the capital adequacy. The risk exposure amount of operational risk decreased by 2.6% to EUR 412 million (EUR 423 million) due to a decrease in the relevant indicator.

The total risk exposure amount decreased by 12.6% from the end of 2019, totalling EUR 1,224 million (EUR 1,400 million) at the end of the reporting period.

(EUR 1,000)	31 Dec 2020 Capital requirement	31 Dec 2020 Risk exposure amount	31 Dec 2019 Capital requirement	31 Dec 2019 Risk exposure amount
Credit and counterparty risk, standardised approach	**46,448**	**580,596**	**61,038**	**762,976**
Exposures to central governments or central banks	-	-	-	-
Exposures to regional governments or local authorities	458	5,721	289	3,613
Exposures to public sector entities	718	8,975	-	-
Exposures to multilateral development banks	-	-	323	4,043
Exposures to institutions *	30,970	387,121	37,847	473,090
Exposures in the form of covered bonds	12,243	153,037	20,676	258,456
Items representing securitisation positions	-	-	-	-
Exposures in the form of shares in CIUs	-	-	84	1,049
Other items	2,059	25,742	1,818	22,724
Market risk	**-**	**-**	**-**	**-**
Credit valuation adjustment risk (CVA VaR), standard method	**18,470**	**230,876**	**17,085**	**213,561**
Operational risk, basic indicator approach	**32,976**	**412,196**	**33,841**	**423,016**
Total	**97,893**	**1,223,668**	**111,964**	**1,399,553**

* Exposures to institutions includes capital requirement for counterparty credit risk by EUR 3,275 thousand (EUR 2,896 thousand).

Consolidated exposure by class

31 Dec 2020 (EUR 1,000) EXPOSURE CLASSES	On-balance sheet exposure	Off-balance sheet exposure	Derivatives exposure	Total exposure	Average exposure amount over the period	Risk exposure amount
Exposures to central governments or central banks	5,873,259	-	-	5,873,259	4,907,696	0
Exposures to regional governments or local authorities	13,893,677	753,517	397,641	15,044,834	14,778,461	5,721
Exposures to public sector entities	495,823	-	-	495,823	432,695	8,975
Exposures to multilateral development banks	185,612	-	-	185,612	208,265	0
Exposures to international organisations	158,697	-	-	158,697	146,967	0
Exposures to institutions	1,970,555	-	559,905	2,530,460	2,384,224	387,121
Exposures to corporates	6,360,654	1,594,447	-	7,955,101	7,975,930	0
Exposures secured by mortgages on immovable property	9,275,460	4,809	-	9,280,269	8,943,126	0
Exposures in default	136,700	1,201	-	137,901	76,111	0
Exposures in the form of covered bonds	1,530,373	-	-	1,530,373	1,956,922	153,037
Items representing securitisation positions	-	-	-	-	-	-
Exposures in the form of shares in CIUs	-	-	-	-	-	-
Other items	33,791	-	-	33,791	27,576	25,742
Total	**39,914,602**	**2,353,973**	**957,545**	**43,226,121**	**41,837,973**	**580,596**

31 Dec 2019 (EUR 1,000) EXPOSURE CLASSES	On-balance sheet exposure	Off-balance sheet exposure	Derivatives exposure	Total exposure	Average exposure amount over the period	Risk exposure amount
Exposures to central governments or central banks	5,170,467	-	-	5,170,467	4,794,138	0
Exposures to regional governments or local authorities	11,316,007	724,183	290,560	12,330,750	12,420,665	3,613
Exposures to public sector entities	342,131	-	-	342,131	283,806	0
Exposures to multilateral development banks	182,632	-	-	182,632	196,299	4,043
Exposures to international organisations	111,246	-	-	111,246	93,708	0
Exposures to institutions	1,907,819	-	506,879	2,414,698	2,574,145	473,090
Exposures to corporates	6,031,136	1,629,526	-	7,660,662	7,146,923	0
Exposures secured by mortgages on immovable property	8,515,464	7,609	-	8,523,074	8,683,596	0
Exposures in default	61,757	-	-	61,757	39,091	0
Exposures in the form of covered bonds	2,137,947	-	-	2,137,947	2,005,152	258,456
Items representing securitisation positions	-	-	-	-	574	-
Exposures in the form of shares in CIUs	9,769	-	-	9,769	9,806	1,049
Other items	31,920	-	-	31,920	27,942	22,724
Total	**35,818,296**	**2,361,319**	**797,439**	**38,977,054**	**38,275,845**	**762,976**

EU OV1
Overview of RWAs

The overall RWA has moderately decreased in the last quarter of 2020. The credit risk (excluding CCR) has decreased due to the changes in the liquidity portfolio. The RWA for CCR including CVA increased moderately. There are no risk exposure amount for market risk, as the foreign exchange net position did not exceed 2% of the own funds.

		RWAs		Minimum capital requirements	
	(EUR 1,000)	**31 Dec 2020**	**30 Sep 2020**	**31 Dec 2020**	**30 Sep 2020**
1	Credit risk (excluding CCR)	539,658	591,848	43,173	47,348
2	Of which the standardised approach	539,658	591,848	43,173	47,348
6	CCR	271,814	244,712	21,745	19,577
7	Of which mark to market	40,938	35,630	3,275	2,850
12	Of which CVA	230,876	209,083	18,470	16,727
14	Securitisation exposures in the banking book (after the cap)	-	-	-	-
18	Of which standardised approach	-	-	-	-
19	Market risk	-	-	-	-
20	Of which the standardised approach	-	-	-	-
23	Operational risk	412,196	408,795	32,976	32,704
24	Of which basic indicator approach	412,196	408,795	32,976	32,704
29	**Total**	**1,223,668**	**1,245,355**	**97,893**	**99,628**

Section 6

Capital buffers

MINIMUM CAPITAL REQUIREMENTS AND CAPITAL BUFFERS (%) 31 DEC 2020	Capital requirement	Capital conservation buffer [1]	Counter-cyclical buffer [2]	O-SII [3]	Systemic risk buffer [4]	Total capital buffers	Total
Common Equity Tier 1 (CET1) capital	4.50%	2.50%	0.21%	0.50%	0.00%	3.21%	7.71%
Tier 1 (T1) Capital	6.00%	2.50%	0.21%	0.50%	0.00%	3.21%	9.21%
Total own funds	8.00%	2.50%	0.21%	0.50%	0.00%	3.21%	11.21%

MINIMUM CAPITAL REQUIREMENTS AND CAPITAL BUFFERS (EUR 1,000) 31 DEC 2020	Capital requirement	Capital conservation buffer [1]	Counter-cyclical buffer [2]	O-SII [3]	Systemic risk buffer [4]	Total capital buffers	Total
Common Equity Tier 1 (CET1) capital	55,065	30,592	2,630	6,118	0	39,340	94,405
Tier 1 (T1) Capital	73,420	30,592	2,630	6,118	0	39,340	112,760
Total own funds	97,893	30,592	2,630	6,118	0	39,340	137,234

MINIMUM CAPITAL REQUIREMENTS AND CAPITAL BUFFERS (%) 31 DEC 2019	Capital requirement	Capital conservation buffer [1]	Counter-cyclical buffer [2]	O-SII [3]	Systemic risk buffer [4]	Total capital buffers	Total
Common Equity Tier 1 (CET1) capital	4.50%	2.50%	0.72%	0.50%	1.50%	4.72%	9.22%
Tier 1 (T1) Capital	6.00%	2.50%	0.72%	0.50%	1.50%	4.72%	10.72%
Total own funds	8.00%	2.50%	0.72%	0.50%	1.50%	4.72%	12.72%

MINIMUM CAPITAL REQUIREMENTS AND CAPITAL BUFFERS (EUR 1,000) 31 DEC 2019	Capital requirement	Capital conservation buffer [1]	Counter-cyclical buffer [2]	O-SII [3]	Systemic risk buffer [4]	Total capital buffers	Total
Common Equity Tier 1 (CET1) capital	62,980	34,989	10,082	6,998	20,993	66,064	129,044
Tier 1 (T1) Capital	83,973	34,989	10,082	6,998	20,993	66,064	150,037
Total own funds	111,964	34,989	10,082	6,998	20,993	66,064	178,028

1) Act on Credit Institutions (610/2014), Chapter 10, Section 3, and the EU capital requirements Regulation (575/2013; CRR) and Directive (2013/36/EU; CRD IV). Valid from 1 January 2015.

2) Act on Credit Institutions (610/2014) Sect 10:4-6 § and the EU Capital Requirements Regulation (575/2013; CRR) and Directive (2013/36/EU; CRD IV). On 18 December 2020 (13 December 2019), the Board of Financial Supervisory Authority (FIN-FSA) decided not to set countercyclical capital buffer requirement for credit exposures allocated to Finland. The institution-specific countercyclical capital buffer requirement is determined on the basis of the geographical distribution of the exposures. For MuniFin Group it is 0.21% (0.72%). Several countries have reduced their countercyclical capital buffer rates due to challenges of COVID-19 pandemic.

3) Other Systemically Important Institutions additional capital requirements: Act on Credit Institutions (610/2014) Sect 10:8 § and the EU Capital Requirements Regulation (575/2013; CRR) and Directive (2013/36/EU; CRD IV). Additional capital requirement (O-SII) for MuniFin Group is 0.5%. The decision of the Board of FIN-FSA on 29 June 2018, effective on 1 January 2019.

4) Act on Credit Institutions (610/2014) Sect 10:6a § and the EU Capital Requirements Regulation (575/2013; CRR) and Directive (2013/36/EU; CRD IV). On 6 April 2020, the FIN-FSA made a decision to remove the additional capital requirement determined on the basis of the structural characteristics of the financial system (systemic risk buffer) from Finnish credit institutions. The aim of the decision is to mitigate the negative effects of the COVID-19 pandemic on the stability of the financial markets. The decision entered into force immediately. The systemic risk buffer and the O-SII additional capital requirement are parallel buffers, of which the greater is applied.

Due to the ongoing COVID-19 pandemic, the European Central Bank (*ECB*) did not give the yearly Supervisory Review and Evaluation Process Decision (*SREP Decision*) during 2020. Instead, the ECB has given MuniFin Group an Operational Letter, in which the capital buffer requirement (*P2R*) imposed on MuniFin Group last year is confirmed to continue in force unchanged at 2.25%. Considering the additional capital requirement the new minimum level for CET1 capital ratio is 9.96% (11.47%) and total capital ratio 13.46% (14.97%).

Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

Countercyclical capital buffer is calculated only for the relevant credit exposure classes as defined in Article 140(4) of the Capital Requirement Directive. Exposure classes not included in the calculation are exposures to a) central governments or central banks; b) regional governments or local authorities; c) public sector entities; d) multilateral development banks; e) international organisations; f) institutions.

On 31 December 2020, MuniFin Group has changed the reporting of covered bonds which has affected the amount of relevant exposures in the scope of countercyclical capital buffer calculation. Although the preferential treatment set out in Article 129 of the Capital Requirements Regulation has not been applied for third country covered bonds, they were previously included in the exposure class 'Covered bonds'. On 31 December 2020, these contracts have been reported in the 'Institutions' exposure class which is not included in the relevant exposures. The change can be seen in exposures allocated to Australia, Canada and New Zealand. At 31 December 2020, the institution-specific countercyclical buffer rate for MuniFin Group was 0.21%.

31 Dec 2020 (EUR 1,000)		General credit exposures	Own funds requirements			
BREAKDOWN BY COUNTRY		Exposure value for SA	Of which: General credit exposures	Total	Own funds requirement weights	Countercyclical capital buffer rate
Row		010	070	100	110	120
010	AU	-	-	-	-	-
010	BE	67,706	542	542	3.8%	0.00%
010	CA	-	-	-	-	-
010	DK	112,040	896	896	6.3%	0.00%
010	FI	464,238	5,503	5,503	38.5%	0.00%
010	FR	117,344	939	939	7%	0.00%
010	GB	95,698	766	766	5%	0.00%
010	LU	-	-	-	-	-
010	NL	39,029	312	312	2.2%	0.00%
010	NO	384,295	3,074	3,074	21.5%	1.00%
010	NZ	-	-	-	-	-
010	SE	283,814	2,271	2,271	15.9%	0.00%
020	Total	1,564,164	14,302	14,302	100.0%	

MuniFin

31 Dec 2019 (EUR 1,000)		General credit exposures	Own funds requirements			
BREAKDOWN BY COUNTRY		Exposure value for SA	Of which: General credit exposures	Total	Own funds requirement weights	Countercyclical capital buffer rate
Row		**010**	**070**	**100**	**110**	**120**
010	AU	113,453	1,815	1,815	8.0%	0.00%
010	BE	54,642	437	437	1.9%	0.00%
010	CA	237,653	3,802	3,802	16.8%	0.00%
010	DK	74,671	597	597	2.6%	1.00%
010	FI	484,823	5,441	5,441	24.1%	0.00%
010	FR	198,676	1,589	1,589	7.0%	0.25%
010	GB	184,353	1,811	1,811	8.0%	1.00%
010	LU	9,769	84	84	0.4%	0.25%
010	NL	96,244	770	770	3.4%	0.00%
010	NO	357,283	2,858	2,858	12.7%	2.50%
010	NZ	53,478	856	856	3.8%	0.00%
010	SE	314,592	2,517	2,517	11.1%	2.50%
020	Total	2,179,636	22,578	22,578	100%	

Amount of institution-specific countercyclical capital buffer

31 Dec 2020
(EUR 1,000)

Row		Column 010
010	Total risk exposure amount	1,223,668
020	Institution-specific countercyclical buffer rate	0.21%
030	Institution-specific countercyclical buffer requirement	2,630

31 Dec 2019
(EUR 1,000)

Row		Column 010
010	Total risk exposure amount	1,399,553
020	Institution-specific countercyclical buffer rate	0.72%
030	Institution-specific countercyclical buffer requirement	10,082

Section 7

Credit risk and general information on credit risk mitigation

EU CRB-A
Additional disclosure related to the credit quality of assets

Definition of default: A default is considered to have occurred with regard to a particular obligor when either or both of the following have taken place: (i) the obligor is unlikely to pay its credit obligations to MuniFin Group, without recourse by the MuniFin Group to actions such as realising the security; (ii) the obligor is past due more than 90 days (i.e. at least 91 days) on any material credit obligation to MuniFin Group.

The definition of default is in line with the Group's capital adequacy calculations and risk management as well as with that required by international regulators.

Impaired: At the end of each reporting period MuniFin Group assesses whether there is objective evidence that a financial asset is impaired. A financial asset is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and this loss event has an impact on the estimated future cash flows that can be reliably estimated. Objective evidence of impairment of an item or group recognised under financial assets can include information on the following loss events: the issuer or debtor is experiencing significant financial difficulty, or breach of contract terms, such as default or delinquency in interest or principal payments.

Past due: A credit obligation is recognised past due when any amount of principal, interest or fee has not been paid at the date it was due according to the schedule of payments.

Non-performing: Exposure is classified as non-performing in the occurence of default, impairment or in case of performing forborne exposure under probation, where additional forbearance measures are granted or where the exposure becomes more than 30 days past due. In other cases, the financial asset is classified as performing.

Forbearance: Forbearance is a a concession by MuniFin Group towards its customer, that is experiencing or is likely to experience difficulties in meeting its financial commitments. If the payment plan is modified or some other change in terms is made on a debt that customer cannot fulfill due to financial difficulties, the exposure is always categorised as forborne. Forbearance is granted to help the customer to overcome its financial difficulties and to ensure full repayment of remaining debt.

EU CRB-B
Total and average net amount of exposures

The total net value of exposures at the end of December 2020 was EUR 43,226 million increasing by EUR 4,249 million from the year-end 2019. Growth in exposure classes 'Regional governments or local authorities', 'Corporates' and 'Secured by mortgages on immovable property' relates to increased lending volumes.

Exposure values for 'Institutions' and 'Covered bonds' have been affected by a change in the classification of covered bonds. Although the preferential treatment set out in Article 129 of the Capital Requirements Regulation has not been applied for third country covered bonds, they were previously included in the exposure class 'Covered bonds'. In 31 December 2020, these contracts have been reported in the 'Institutions' exposure class. The affected exposure amount was EUR 443 million. The change did not have impact on the total capital requirement.

		a	b
	31 Dec 2020 (EUR 1,000)	**Net value of exposures at the end of the period**	**Average net exposures over the period**
16	Central goverments or central banks	5,873,259	4,907,696
17	Regional governments or local authorities	15,044,834	14,778,461
18	Public sector entities	495,823	432,695
19	Multilateral development banks	185,612	208,265
20	International organisations	158,697	146,967
21	Institutions	2,530,460	2,384,224
22	Corporates	7,955,101	7,975,930
26	Secured by mortgages on immovable property	9,280,269	8,943,126
28	Exposures in default	137,901	76,111
30	Covered bonds	1,530,373	1,956,922
32	Collective investments undertakings	-	-
34	Other exposures	33,791	27,576
35	**Total standardised approach**	**43,226,121**	**41,837,973**
36	**Total**	**43,226,121**	**41,837,973**

31 Dec 2019 (EUR 1,000)		a Net value of exposures at the end of the period	b Average net exposures over the period
16	Central goverments or central banks	5,170,467	4,794,138
17	Regional governments or local authorities	12,330,750	12,420,665
18	Public sector entities	342,131	283,806
19	Multilateral development banks	182,632	196,299
20	International organisations	111,246	93,708
21	Institutions	2,414,698	2,574,145
22	Corporates	7,660,662	7,146,923
26	Secured by mortgages on immovable property	8,523,074	8,683,596
28	Exposures in default	61,757	39,091
30	Covered bonds	2,137,947	2,005,152
32	Collective investments undertakings	9,769	9,806
34	Other exposures	31,920	27,942
35	**Total standardised approach**	**38,977,054**	**38,275,272**
36	**Total**	**38,977,054**	**38,275,272**

EU CRB-C
Geographical breakdown of exposures

Table CRB-C shows information on the on- and off-balance sheet exposures with geographical breakdown. On 31 December 2020, a total of EUR 38,731 million (89.6%) of the total exposure amount was stemming from Finland, which is a 13.2% increase compared to year-end 2019. The increase is mainly driven by higher lending volumes and can be seen especially in exposure classes 'Regional governments and local authorities', 'Corporates' and 'Secured by mortgages on immovable property'.

Exposure values for 'Institutions' and 'Covered bonds' in geographical area 'Other countries' have been affected by a change in the classification of covered bonds. Although the preferential treatment set out in Article 129 of the Capital Requirements Regulation has not been applied for third country covered bonds, they were previously included in the exposure class 'Covered bonds'. In 31 December 2020, these contracts have been reported in the 'Institutions' exposure class. The affected exposure amount was EUR 443 million. The change did not have impact on the total capital requirement.

		a	b	c	d	e
		Net value				
31 Dec 2020 (EUR 1,000)		Finland	Other Nordic countries	Other EU countries	Other countries	Total
7	Central goverments or central banks	5,708,025	-	165,235	-	5,873,259
8	Regional governments or local authorities	14,595,161	27,867	190,892	230,915	15,044,834
9	Public sector entities	202,913	133,291	159,619	-	495,823
10	Multilateral development banks	-	-	-	185,612	185,612
11	International organisations	-	-	64,110	94,588	158,697
12	Institutions	387,474	263,281	1,402,444	477,261	2,530,460
13	Corporates	7,955,101	-	-	-	7,955,101
15	Secured by mortgages on immovable property	9,280,269	-	-	-	9,280,269
16	Exposures in default	137,901	-	-	-	137,901
17	Items associated with particularly high risk	-	-	-	-	-
18	Covered bonds	430,448	780,150	319,776	-	1,530,373
20	Collective investments undertakings	-	-	-	-	-
22	Other exposures	33,791	-	-	-	33,791
23	**Total standardised approach**	**38,731,082**	**1,204,588**	**2,302,075**	**988,376**	**43,226,121**
24	**Total**	**38,731,082**	**1,204,588**	**2,302,075**	**988,376**	**43,226,121**

31 Dec 2019 (EUR 1,000)		a	b	c	d	e
		Net value				
		Finland	Other Nordic countries	Other EU countries	Other countries	Total
7	Central goverments or central banks	5,043,035	-	127,432	-	5,170,467
8	Regional governments or local authorities	12,002,303	17,359	114,749	196,340	12,330,750
9	Public sector entities	48,174	154,921	139,037	-	342,131
10	Multilateral development banks	-	-	-	182,632	182,632
11	International organisations	-	-	38,561	72,685	111,246
12	Institutions	393,406	363,693	1,394,575	263,024	2,414,698
13	Corporates	7,660,662	-	-	-	7,660,662
15	Secured by mortgages on immovable property	8,523,074	-	-	-	8,523,074
16	Exposures in default	61,757	-	-	-	61,757
18	Covered bonds	452,903	746,546	533,915	404,583	2,137,947
20	Collective investments undertakings	-	-	9,769	-	9,769
22	Other exposures	31,920	-	-	-	31,920
23	**Total standardised approach**	**34,217,235**	**1,282,519**	**2,358,037**	**1,119,264**	**38,977,054**
24	**Total**	**34,217,235**	**1,282,519**	**2,358,037**	**1,119,264**	**38,977,054**

EU CRB-D

Concentration of exposures by industry or counterparty types and exposure classes

The breakdown for the exposures by industry are shown in the following tables. Industry breakdown for domestic exposures is based on the information from the Statistics Finland. The industries with the highest total net exposure values on 31 December 2020 were 'Real estate activities' by 34.9% (35.8%), 'Public administration and defence, compulsory social security' by 32.4% (29.5%) and 'Financial and insurance activities' by 22.8% (25.1%).

		d	e	f	h		l	o	q	s	u
31 Dec 2020 (EUR 1,000)		Electricity, gas, steam and air conditioning supply	Water supply	Construction	Transport and storage	Financial and insurance activities	Real estate activities	Public administration and defence, compulsory social security	Human health services and social work activities	Other services	Total
7	Central goverments or central banks	-	-	-	-	5,603,911	-	269,348	-	-	5,873,259
8	Regional governments or local authorities	780	8,384	-	-	-	5,899	13,121,762	1,708,308	199,701	15,044,834
9	Public sector entities	-	157,889	-	-	133,291	-	204,493	-	150	495,823
10	Multilateral development banks	-	-	-	-	115,280	-	70,332	-	-	185,612
11	International organisations	-	-	-	-	64,110	-	94,588	-	-	158,697
12	Institutions	-	-	-	-	2,347,791	-	182,669	-	-	2,530,460
13	Corporates	344,998	369,946	254,012	300,021	14,194	5,979,066	72,977	160,410	459,479	7,955,101
15	Secured by mortgages on immovable property	-	-	116,855	1,645	-	8,970,685	-	171,042	20,041	9,280,269
16	Exposures in default	-	-	-	-	-	135,573	-	-	2,328	137,901
18	Covered bonds	-	-	-	-	1,530,373	-	-	-	-	1,530,373
20	Collective investments undertakings	-	-	-	-	-	-	-	-	-	-
22	Other exposures	-	-	-	-	33,791	-	-	-	-	33,791
23	**Total standardised approach**	**345,778**	**536,218**	**370,867**	**301,666**	**9,842,740**	**15,091,223**	**14,016,170**	**2,039,760**	**681,700**	**43,226,121**
23	**Total**	**345,778**	**536,218**	**370,867**	**301,666**	**9,842,740**	**15,091,223**	**14,016,170**	**2,039,760**	**681,700**	**43,226,121**

		d	e	f	h		l	o	q	s	u
31 Dec 2019 (EUR 1,000)		**Electricity, gas, steam and air conditioning supply**	**Water supply**	**Construction**	**Transport and storage**	**Financial and insurance activities**	**Real estate activities**	**Public administration and defence, compulsory social security**	**Human health services and social work activities**	**Other services**	**Total**
7	Central goverments or central banks	-	-	-	-	4,935,926	-	234,541	-	-	5,170,467
8	Regional governments or local authorities	874	9,441	-	-	-	2,183	10,820,149	1,377,152	120,951	12,330,750
9	Public sector entities	-	47,723	-	-	154,921	-	139,037	-	450	342,131
10	Multilateral development banks	-	-	-	-	182,632	-	-	-	-	182,632
11	International organisations	-	-	-	-	38,561	-	72,685	-	-	111,246
12	Institutions	-	-	-	-	2,281,145	-	133,553	-	-	2,414,698
13	Corporates	376,653	346,536	262,527	304,006	14,321	5,668,967	80,073	168,753	438,827	7,660,662
15	Secured by mortgages on immovable property	-	-	97,437	1,903	-	8,246,043	-	160,401	17,289	8,523,074
16	Exposures in default	-	-	-	-	-	33,479	-	-	28,278	61,757
18	Covered bonds	-	-	-	-	2,137,947	-	-	-	-	2,137,947
20	Collective investments undertakings	-	-	-	-	9,769	-	-	-	-	9,769
22	Other exposures	-	-	-	-	31,920	-	-	-		31,920
23	**Total standardised approach**	**377,527**	**403,700**	**359,965**	**305,910**	**9,787,141**	**13,950,673**	**11,480,038**	**1,706,306**	**605,795**	**38,977,054**
23	**Total**	**377,527**	**403,700**	**359,965**	**305,910**	**9,787,141**	**13,950,673**	**11,480,038**	**1,706,306**	**605,795**	**38,977,054**

EU CRB-E
Maturity of exposures

Table CRB-E shows breakdown by residual maturity for on-balance sheet exposures. Off-balance sheet exposures are not included. 65.6% (63.0%) of the exposures were within the > 5 years bucket which increased by EUR 3,750 million during 2020 mainly driven by increased lending volumes.

		a	b	c	d	e	f
		Net exposure value					
31 Dec 2020 (EUR 1,000)		**On demand**	**<= 1 year**	**> 1 year <= 5 years**	**> 5 years**	**No stated maturity**	**Total**
7	Central goverments or central banks	5,600,717	83,208	167,418	21,917	-	5,873,259
8	Regional governments or local authorities	-	1,479,762	2,529,011	10,282,545	-	14,291,318
9	Public sector entities	-	35,158	230,572	230,093	-	495,823
10	Multilateral development banks	-	30,006	62,464	93,142	-	185,612
11	International organisations	-	12,196	108,718	37,783	-	158,697
12	Institutions	164,004	725,303	888,514	716,776	35,863	2,530,460
13	Corporates	-	114,434	395,299	5,850,920	-	6,360,654
15	Secured by mortgages on immovable property	-	47,417	28,904	9,199,139	-	9,275,460
16	Exposures in default	-	240	4,766	131,694	-	136,700
18	Covered bonds	-	286,468	990,520	253,386	-	1,530,373
20	Collective investments undertakings	-	-	-	-	-	-
22	Other exposures	-	-	-	-	33,791	33,791
23	**Total standardised approach**	**5,764,721**	**2,814,193**	**5,406,186**	**26,817,394**	**69,653**	**40,872,147**
24	**Total**	**5,764,721**	**2,814,193**	**5,406,186**	**26,817,394**	**69,653**	**40,872,147**

31 Dec 2019 (EUR 1,000)	a	b	c	d	e	f
	Net exposure value					
	On demand	<= 1 year	> 1 year <= 5 years	> 5 years	No stated maturity	Total
7 Central goverments or central banks	4,935,926	-	234,541	-	-	5,170,467
8 Regional governments or local authorities	3	1,074,155	2,381,977	8,150,432	-	11,606,567
9 Public sector entities	-	125,445	195,940	20,746	-	342,131
10 Multilateral development banks	-	89,499	82,796	10,337	-	182,632
11 International organisations	-	-	65,418	45,828	-	111,246
12 Institutions	80,450	1,023,392	701,103	584,599	25,154	2,414,698
13 Corporates	-	112,816	337,576	5,580,743	-	6,031,136
15 Secured by mortgages on immovable property	-	91,208	81,867	8,342,389	-	8,515,464
16 Exposures in default	-	-	-	61,757	-	61,757
18 Covered bonds	-	445,984	1,430,859	261,103	-	2,137,947
20 Collective investments undertakings	-	-	-	9,769	-	9,769
22 Other exposures	-	-	-	-	31,920	31,920
23 Total standardised approach	**5,016,379**	**2,962,500**	**5,512,078**	**23,067,703**	**57,075**	**36,615,735**
24 Total	**5,016,379**	**2,962,500**	**5,512,078**	**23,067,703**	**57,075**	**36,615,735**

EU CR1-A
Credit quality of exposures by exposure class and instrument

Table CR1-A provides asset quality information of the on- and off-balance sheet exposures broken down by regulatory exposure classes. The total net exposure at the end of December 2020 was EUR 43,226 million increasing by EUR 4,249 million from the year-end 2019. The change was primarily stemming from increase in the loan portfolio and investments in domestic municipal commercial papers. The amount of defaulted exposures increased by EUR 76 million during the reporting period.

Defaulted exposures in column ""a"" include breakdown by the exposure class that corresponds to the exposure before default. In order to avoid double counting of exposures, the "Total standardised approach" in row 35 does not take into account figures disclosed under row 28.

The row 37 ""Of which: Loans"" includes the gross carrying value of Loans and advances to the public and public sector entities, Cash and balances with central banks and Loans and advances to credit institutions, other than posted cash collateral as variation margin.

31 Dec 2020 (EUR 1,000)		a	b	c	f	g
		Gross carrying values of				
		Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	Credit risk adjustment charges of the period	Net values
16	Central goverments or central banks	-	5,873,259	0	0	5,873,259
17	Regional governments or local authorities	-	15,044,873	39	20	15,044,834
18	Public sector entities	-	495,823	0	0	495,823
19	Multilateral development banks	-	185,612	-	-	185,612
20	International organisations	-	158,697	-	-	158,697
21	Institutions	-	2,530,475	16	4	2,530,460
22	Corporates	139,731	7,955,933	832	741	7,955,101
26	Secured by mortgages on immovable property	-	9,280,269	1	0	9,280,269
28	Exposures in default	139,731	-	1,830	147	137,901
30	Covered bonds	-	1,530,373	-	-	1,530,373
32	Collective investments undertakings	-	-	-	-	-
34	Other exposures	-	33,791	-	-	33,791
35	**Total standardised approach**	**139,731**	**43,089,107**	**2,718**	**914**	**43,226,121**
36	**Total**	**139,731**	**43,089,107**	**2,718**	**914**	**43,226,121**
37	*Of which: Loans*	*136,924*	*33,962,008*	*1,107*	*921*	*34,097,826*
38	*Of which: Debt securities*	-	*5,781,486*	*0*	*0*	*5,781,486*
39	*Of which: Off-balance sheet exposures*	*1,201*	*2,352,777*	*4*	*0*	*2,353,973*

31 Dec 2019 (EUR 1,000)	a	b	c	f	g
	Gross carrying values of				
	Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	Credit risk adjustment charges of the period	Net values
16 Central goverments or central banks	-	5,170,467	-	0	5,170,467
17 Regional governments or local authorities	-	12,330,769	19	8	12,330,750
18 Public sector entities	-	342,131	-	0	342,131
19 Multilateral development banks	-	182,632	-	-	182,632
20 International organisations	-	111,246	-	-	111,246
21 Institutions	-	2,414,709	11	-44	2,414,698
22 Corporates	63,440	7,660,753	91	31	7,660,662
26 Secured by mortgages on immovable property	-	8,523,074	1	-4	8,523,074
28 Exposures in default	63,440	-	1,683	-117	61,757
30 Covered bonds	-	2,137,947	-	-	2,137,947
32 Collective investments undertakings	-	9,769	-	-	9,769
33 Equity exposures	-	-	-	-	-
34 Other exposures	-	31,920	-	-	31,920
35 Total standardised approach	**63,440**	**38,915,418**	**1,804**	**-126**	**38,977,054**
36 Total	**63,440**	**38,915,418**	**1,804**	**-126**	**38,977,054**
37 *Of which: Loans*	*61,837*	*29,978,230*	*186*	*111*	*30,039,881*
38 *Of which: Debt securities*	-	*5,736,848*	*0*	*0*	*5,736,848*
39 *Of which: Off-balance sheet exposures*	-	*2,361,323*	*4*	*4*	*2,361,319*

EU CR1-B
Credit quality of exposures by industry or counterparty types

Table CR1-B provides asset quality breakdown for the on- and off-balance sheet exposures broken down by industry. The breakdown for domestic exposures is based on the NACE code information from the Statistics Finland.

The industries with the highest total net exposure values on 31 December 2020 were ‘Real estate activities’ by 34.9% (35.8%), ‘Public administration and defence, compulsory social security’ by 32.4% (29.5%) and ‘Financial and insurance activities’ by 22.8% (25.1%).

		a	b	c	f	g
		Gross carrying values of				
31 Dec 2020 (EUR 1,000)		Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	Credit risk adjustment charges of the period	Net values
4	Electricity, gas, steam and air conditioning supply	-	345,778	1	0	345,778
5	Water supply	-	536,220	2	1	536,218
6	Construction	-	370,878	11	10	370,867
8	Transport and storage	-	301,666	0	0	301,666
XX	Financial and insurance activities	-	9,842,756	16	4	9,842,740
11	Real estate activities	135,795	14,956,396	969	854	15,091,223
14	Public administration and defence, compulsory social security	-	14,016,206	36	20	14,016,170
16	Human health services and social work activities	1,606	2,039,829	1,676	61	2,039,760
18	Other services	2,329	679,378	7	-36	681,700
19	**Total**	**139,731**	**43,089,107**	**2,718**	**914**	**43,226,121**

		a	b	c	f	g
		Gross carrying values of				
31 Dec 2019 (EUR 1,000)		**Defaulted exposures**	**Non-defaulted exposures**	**Specific credit risk adjustment**	**Credit risk adjustment charges of the period**	**Net values**
4	Electricity, gas, steam and air conditioning supply	-	377,528	1	0	377,527
5	Water supply	-	403,700	1	0	403,700
6	Construction	-	359,965	0	0	359,965
8	Transport and storage	-	305,910	1	0	305,910
XX	Financial and insurance activities	-	9,787,152	11	-44	9,787,141
11	Real estate activities	33,517	13,917,270	115	74	13,950,673
14	Public administration and defence, compulsory social security	-	11,480,054	16	7	11,480,038
16	Human health services and social work activities	1,603	1,706,319	1,616	-185	1,706,306
18	Other services	28,320	577,519	44	21	605,795
19	**Total**	**63,440**	**38,915,418**	**1,804**	**-126**	**38,977,054**

EU CR1-C
Credit quality of exposures by geography

Table CR1-C provides asset quality information of the on- and off-balance sheet exposures with geographical breakdown.
On 31 December 2020 a total of EUR 38,731 million or 89.6% of the total net exposures was stemming from Finland, which is a 13.2% increase compared to year-end 2019.

		a	b	c	f	g
		Gross carrying values of				
31 Dec 2020 (EUR 1,000)		Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	Credit risk adjustment charges of the period	Net values
1	Finland	139,731	38,594,065	2,714	914	38,731,082
2	Other Nordic countries	-	1,204,588	-	-	1,204,588
3	Other EU countries	-	2,302,079	4	0	2,302,075
4	Other countries	-	988,376	-	-	988,376
5	**Total**	**139,731**	**43,089,107**	**2,718**	**914**	**43,226,121**

		a	b	c	f	g
		Gross carrying values of				
31 Dec 2019 (EUR 1,000)		Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	Credit risk adjustment charges of the period	Net values
1	Finland	63,440	34,155,595	1,800	-131	34,217,235
2	Other Nordic countries	-	1,282,519	-	-	1,282,519
3	Other EU countries	-	2,358,041	4	4	2,358,036
4	Other countries	-	1,119,264	-	-	1,119,264
5	**Total**	**63,440**	**38,915,418**	**1,804**	**-126**	**38,977,054**

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EU CR2-A
Changes in the stock of general and specific credit risk adjustments

Changes in the stock of specific credit risk adjustments for impaired and defaulted loans and debt securities are presented in the following table. Changes due to ECL calculation model are included in 'Other adjustments'. MuniFin Group did not make any general credit risk adjustments during the reporting period.

31 Dec 2020 (EUR 1,000)		a Accumulated specific credit risk adjustment	b Accumulated general credit risk adjustment
1	Opening balance	80	-
2	Increases due to amounts set aside for estimated loan losses during the period	20	-
3	Decreases due to amounts reversed for estimated loan losses during the period	-9	-
4	Decreases due to amounts taken against accumulated credit risk adjustments	-	-
5	Transfers between credit risk adjustments	-	-
6	Impact of exchange rate differences	-	-
7	Business combinations, including acquisitions and disposals of subsidiaries	-	-
8	Other adjustments	133	-
9	**Closing balance**	**224**	**-**
10	Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	-	-
11	Specific credit risk adjustments directly recorded to the statement of profit or loss	-	-

31 Dec 2019 (EUR 1,000)		a Accumulated specific credit risk adjustment	b Accumulated general credit risk adjustment
1	Opening balance	-	-
2	Increases due to amounts set aside for estimated loan losses during the period	80	-
3	Decreases due to amounts reversed for estimated loan losses during the period	-	-
4	Decreases due to amounts taken against accumulated credit risk adjustments	-	-
5	Transfers between credit risk adjustments	-	-
6	Impact of exchange rate differences	-	-
7	Business combinations, including acquisitions and disposals of subsidiaries	-	-
8	Other adjustments	-	-
9	**Closing balance**	**80**	**-**
10	Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	-	-
11	Specific credit risk adjustments directly recorded to the statement of profit or loss	-	-

EU CR2-B
Changes in the stock of defaulted and impaired loans and debt securities

Changes in the stock of defaulted loans and debt securities are presented in the following table. The stock classified as defaulted is also treated as impaired. During the reporting period 1 January–31 December 2020, 14 counterparties have been reclassified as impaired and defaulted, and 2 counterparties have been returned to non-defaulted status.

31 Dec 2020 (EUR 1,000)		a Gross carrying value of defaulted exposures
1	Opening balance	61,837
2	Loans and debt securities that have defaulted or impaired since the last reporting period	113,232
3	Returned to non-defaulted status	-10,057
4	Amounts written off	-
5	Other changes	-28,089
6	Closing balance	136,924

31 Dec 2019 (EUR 1,000)		a Gross carrying value of defaulted exposures
1	Opening balance	-
2	Loans and debt securities that have defaulted or impaired since the last reporting period	61,837
3	Returned to non-defaulted status	-
4	Amounts written off	-
5	Other changes	-
6	Closing balance	61,837

EU CR3
CRM techniques - Overview

In the following table the unsecured loans include loans granted to MuniFin Group's customers, cash held at the central bank and loans and advances in credit institutions other than posted cash collateral as variation margin. Collaterals reported in this table consist exclusively of immovable property. For further credit risk mitigation, all loans secured by immovable property have guarantees from the State of Finland or municipalities.

On 31 December 2020, unsecured debt securities include covered bonds by EUR 1,530 million (EUR 2,138 million) and municipal commercial paper investments in municipalities by EUR 1,200 million (EUR 722 million).

31 Dec 2020 (EUR 1,000)		Exposures unsecured - Carrying amount	Exposures secured - Carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees
1	Total loans	18,054,570	15,907,439	9,275,460	6,631,979
2	Total debt securities	5,498,837	282,649	-	282,649
3	**Total exposures**	**23,553,407**	**16,190,088**	**9,275,460**	**6,914,628**
4	*Of which defaulted*	-	-	-	*136,700*

31 Dec 2019 (EUR 1,000)		Exposures unsecured - Carrying amount	Exposures secured - Carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees
1	Total loans	15,246,370	14,731,859	8,515,464	6,216,395
2	Total debt securities	5,520,523	216,325	-	216,325
3	**Total exposures**	**20,766,894**	**14,948,185**	**8,515,464**	**6,432,720**
4	*Of which defaulted*	-	-	-	*61,757*

Section 8

Credit risk and credit risk mitigation in the standardised approach

EU CRD
Qualitative disclosure requirements on institutions' use of external credit ratings under the standardised approach for credit risk

The capital requirement for credit risk is calculated using the standardised approach. In the standardised approach external credit assessment may be used according the Capital Requirements Regulation. MuniFin Group uses external credit assessment institutions (*ECAI*) recognised by EBA to determine the risk-weight for liquidity portfolio issuers and issues. MuniFin Group uses three EBA-recognised ECAIs for this purpose: Standard & Poor's, Moody's Investor Services and Fitch Ratings. The mapping of the alphanumeric scale of each ECAI used with the credit quality steps are aligned with the standard association published by the EBA. There were no changes in the ECAI used compared with year-end of 2019.

31 Dec 2020 and 31 Dec 2019

	External rating equivalent		
ASSET CLASS (DEBT SECURITIES)	Standard & Poor's	Moody's	Fitch
Exposures to central governments or central banks	x	x	x
Exposures to regional governments or local authorities	x	x	x
Exposures to multilateral development banks	x	x	x
Exposures to institutions	x	x	x
Exposures to public sector entities	x	x	x
Exposures in the form of covered bonds	x	x	x
Items representing securitisation positions	x	x	x
Exposures in the form of shares in CIUs	x	x	x
Other items	x	x	x

EU CR4
Standardised approach – Credit risk exposure and CRM effects

This table shows on- and off-balance sheet exposures, items treated within the scope of counterparty credit risk are excluded.

Total on- and off-balance sheet exposure amount post CCF and CRM was EUR 40,996 million at the end of December 2020 increasing by 4,056 million from the year-end 2019. The change was mainly driven by increased lending volumes.

MuniFin Group has changed the reporting of covered bonds. Although the preferential treatment set out in Article 129 of the Capital Requirements Regulation has not been applied for third country covered bonds, they were previously included in the exposure class 'Covered bonds'. In 31 December 2020, these contracts have been reported in the 'Institutions' exposure class. The affected exposure amount was EUR 443 million. The change did not have impact on the capital requirement.

31 Dec 2020 (EUR 1,000)		a	b	c	d	e	f
		Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
EXPOSURE CLASSES		On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWAs	RWA density
1	Central goverments or central banks	5,873,259	-	16,932,960	741,242	-	0%
2	Regional governments or local authorities	13,893,677	753,517	18,813,914	340,069	5,721	0%
3	Public sector entities	495,823	-	471,369	-	8,975	2%
4	Multilateral development banks	185,612	-	185,612	-	-	0%
5	International organisations	158,697	-	158,697	-	-	0%
6	Institutions	1,970,555	-	1,787,886	-	346,183	19%
7	Corporates	6,360,654	1,594,447	-	-	-	-
9	Secured by mortgages on immovable property	9,275,460	4,809	-	-	-	-
10	Exposures in default	136,700	1,201	-	-	-	0%
12	Covered bonds	1,530,373	-	1,530,373	-	153,037	10%
14	Collective investments undertakings	-	-	-	-	-	-
16	Other exposures	33,791	-	33,791	-	25,742	76%
17	**Total**	**39,914,602**	**2,353,973**	**39,914,602**	**1,081,310**	**539,658**	**1%**

31 Dec 2019 (EUR 1,000)		a	b	c	d	e	f
		Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
EXPOSURE CLASSES		On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWAs	RWA density
1	Central goverments or central banks	5,170,467	-	15,084,145	763,561	-	0%
2	Regional governments or local authorities	11,316,007	724,183	16,144,691	358,480	3,613	0%
3	Public sector entities	342,131	-	341,681	-	-	0%
4	Multilateral development banks	182,632	-	182,632	-	4,043	2%
5	International organisations	111,246	-	111,246	-	-	0%
6	Institutions	1,907,819	-	1,774,266	-	473,090	27%
7	Corporates	6,031,136	1,629,526	-	-	-	-
9	Secured by mortgages on immovable property	8,515,464	7,609	-	-	-	-
10	Exposures in default	61,757	-	-	-	-	-
12	Covered bonds	2,137,947	-	2,137,947	-	258,456	12%
14	Collective investments undertakings	9,769	-	9,769	-	1,049	11%
16	Other exposures	31,920	-	31,920	-	22,724	71%
17	**Total**	**35,818,296**	**2,361,319**	**35,818,296**	**1,122,041**	**762,976**	**2%**

EU CR5
Standardised approach

This table shows on- and off-balance sheet exposures post conversion factor and post risk mitigation techniques. Items treated within the scope of counterparty credit risk are excluded. To determine the exposure's risk weight, MuniFin Group applies credit ratings by Moody's Investors Service, Fitch Ratings or Standard & Poor's Financial Services.

The largest change took place in the 0% risk weight bucket, which increased from EUR 32,957 million to EUR 37,576 million being driven by increased volumes in regional governments exposures. Of the total exposure amount 91.7% (89.2%) is risk-weighted by 0%.

Decrease in the 20% and 50% risk weight buckets is stemming from changes in the liquidity portfolio.

31 Dec 2020
(EUR 1,000)

	EXPOSURE CLASSES	Risk weight 0%	2%	10%	20%	50%	100%	Others	Total	Of which unrated
1	Central goverments or central banks	17,674,201	-	-	-	-	-	-	17,674,201	-
2	Regional governments or local authorities	19,125,380	-	-	28,603	-	-	-	19,153,982	19,139,620
3	Public sector entities	426,495	-	-	44,874	-	-	-	471,369	-
4	Multilateral development banks	185,612	-	-	-	-	-	-	185,612	-
5	International organisations	158,697	-	-	-	-	-	-	158,697	-
6	Institutions	-	230,996	-	1,456,272	100,618	-		1,787,886	35,000
7	Corporates	-	-	-	-	-	-	-	-	-
9	Secured by mortgages on immovable property	-	-	-	-	-	-	-	-	-
10	Exposures in default	-	-	-	-	-	-	-	-	-
12	Covered bonds	-	-	1,530,373	-	-	-	-	1,530,373	-
14	Collective investments undertakings	-	-	-	-	-	-	-		-
16	Other exposures	5,614	-	-	3,043	-	25,134	-	33,791	25,134
17	**Total**	**37,576,000**	**230,996**	**1,530,373**	**1,532,791**	**100,618**	**25,134**	-	**40,995,912**	**19,199,754**

31 Dec 2019 (EUR 1,000)		Risk weight								
EXPOSURE CLASSES		**0%**	**2%**	**10%**	**20%**	**50%**	**100%**	**Others**	**Total**	**Of which unrated**
1	Central goverments or central banks	15,847,706	-	-	-	-	-	-	15,847,706	-
2	Regional governments or local authorities	16,485,103	-	-	18,067	-	-	-	16,503,171	16,482,073
3	Public sector entities	341,681	-	-	-	-	-	-	341,681	-
4	Multilateral development banks	162,417	-	-	20,215	-	-	-	182,632	-
5	International organisations	111,246	-	-	-	-	-	-	111,246	-
6	Institutions	-	158,494	-	1,247,224	368,548	-	-	1,774,266	24,300
7	Corporates	-	-	-	-	-	-	-	-	-
9	Secured by mortgages on immovable property	-	-	-	-	-	-	-	-	-
10	Exposures in default	-	-	-	-	-	-	-	-	-
12	Covered bonds	-	-	1,691,331	446,616	-	-	-	2,137,947	-
14	Collective investments undertakings	-	-	-	-	-	-	9,769	9,769	-
16	Other exposures	9,191	6	-	-	-	22,723	-	31,920	22,723
17	**Total**	**32,957,344**	**158,500**	**1,691,331**	**1,732,122**	**368,548**	**22,723**	**9,769**	**36,940,337**	**16,529,096**

Section 9

Non-performing exposures

Template 1
Credit quality of forborne exposures

The COVID-19 pandemic affected the financial situation and liquidity of 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. By 31 December 2020, 61 loans were classified as forborne exposures, of which 43 were offered due to COVID-19 pandemic.

		a	b	c	d	e	f	g	h
		Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
			Non-performing forborne						
31 Dec 2020 (EUR 1,000)		Performing forborne		Of which defaulted	Of which impaired	On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
1	Loans and advances	68,150	19,480	19,480	19,480	-226	-62	87,342	19,418
6	Non-financial corporations	62,877	19,480	19,480	19,480	-170	-62	82,125	19,418
7	Households	5,274	-	-	-	-56	-	5,217	-
10	**Total**	**68,150**	**19,480**	**19,480**	**19,480**	**-226**	**-62**	**87,342**	**19,418**

31 Dec 2019 (EUR 1,000)	a	b	c	d	e	f	g	h
	Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
		Non-performing forborne						
	Performing forborne		Of which defaulted	Of which impaired	On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
1 Loans and advances	27,834	4,954	4,954	4,954	-26	-1	32,761	4,953
6 Non-financial corporations	27,193	4,954	4,954	4,954	-26	-1	32,120	4,953
7 Households	641	-	-	-	-	-	641	-
10 Total	**27,834**	**4,954**	**4,954**	**4,954**	**-26**	**-1**	**32,761**	**4,953**

Template 3

Credit quality of performing and non-performing exposures by past due days

The following table shows the counterparty breakdown for the gross carrying amount of performing and non-performing exposures. The gross NPL ratio is 0.39% (0.20%).

		a	b	c	d	e	f	g	h	i	j	k	l
		Gross carrying amount/nominal amount											
		Performing exposures			Non-performing exposures								
31 Dec 2020 (EUR 1,000)			Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
1	Loans and advances	35,117,567	35,117,567	-	136,751	116,963	-	19,788	-	-	-	-	136,751
2	Central banks	5,603,911	5,603,911	-	-	-	-	-	-	-	-	-	-
3	General governments	13,526,374	13,526,374	-	-	-	-	-	-	-	-	-	-
4	Credit institutions	1,806,223	1,806,223	-	-	-	-	-	-	-	-	-	-
5	Other financial corporations	243,277	243,277	-	-	-	-	-	-	-	-	-	-
6	Non-financial corporations	13,589,226	13,589,226	-	136,751	116,963	-	19,788	-	-	-	-	136,751
8	Households	348,556	348,556	-	-	-	-	-	-	-	-	-	-
9	Debt securities	5,781,486	5,781,486	-	-	-	-	-	-	-	-	-	-
11	General governments	2,295,533	2,295,533	-	-	-	-	-	-	-	-	-	-
12	Credit institutions	3,075,888	3,075,888	-	-	-	-	-	-	-	-	-	-
13	Other financial corporations	313,081	313,081	-	-	-	-	-	-	-	-	-	-
14	Non-financial corporations	96,984	96,984	-	-	-	-	-	-	-	-	-	-
15	Off-balance sheet exposures	2,352,777	-	-	1,201	-	-	-	-	-	-	-	1,201
17	General governments	783,268	-	-	-	-	-	-	-	-	-	-	-
20	Non-financial corporations	1,546,718	-	-	1,201	-	-	-	-	-	-	-	1,201
21	Households	22,791	-	-	-	-	-	-	-	-	-	-	-
22	**Total**	**43,251,830**	**40,899,053**	**-**	**137,952**	**116,963**	**-**	**19,788**	**-**	**-**	**-**	**-**	**137,952**

		a	b	c	d	e	f	g	h	i	j	k	l
		Gross carrying amount/nominal amount											
		Performing exposures			Non-performing exposures								
	31 Dec 2019 (EUR 1,000)		Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
1	Loans and advances	30,360,978	30,360,978	-	61,726	61,726	-	-	-	-	-	-	61,726
2	Central banks	4,935,926	4,935,926	-	-	-	-	-	-	-	-	-	-
3	General governments	11,568,637	11,568,637	-	-	-	-	-	-	-	-	-	-
4	Credit institutions	791,496	791,496	-	-	-	-	-	-	-	-	-	-
5	Other financial corporations	158,501	158,501	-	-	-	-	-	-	-	-	-	-
6	Non-financial corporations	12,533,555	12,533,555	-	61,726	61,726	-	-	-	-	-	-	61,726
8	Households	372,863	372,863	-	-	-	-	-	-	-	-	-	-
9	Debt securities	5,736,848	5,736,848	-	-	-	-	-	-	-	-	-	-
11	General governments	1,548,556	1,548,556	-	-	-	-	-	-	-	-	-	-
12	Credit institutions	3,770,182	3,770,182	-	-	-	-	-	-	-	-	-	-
13	Other financial corporations	349,038	349,038	-	-	-	-	-	-	-	-	-	-
14	Non-financial corporations	69,072	69,072	-	-	-	-	-	-	-	-	-	-
15	Off-balance sheet exposures	2,361,323	-	-	-	-	-	-	-	-	-	-	-
17	General governments	805,771	-	-	-	-	-	-	-	-	-	-	-
20	Non-financial corporations	1,546,747	-	-	-	-	-	-	-	-	-	-	-
21	Households	8,805	-	-	-	-	-	-	-	-	-	-	-
22	**Total**	**38,459,149**	**36,097,826**	**-**	**61,726**	**61,726**	**-**	**-**	**-**	**-**	**-**	**-**	**61,726**

Template 4
Performing and non-performing exposures and related provisions

	a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
	Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions							Collateral and financial guarantees received	
	Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions					
31 Dec 2020 (EUR 1,000)		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3	Accumulated partial write-off	On performing exposures	On non-performing exposures
1 Loans and advances	35,117,567	34,928,130	144,846	136,751	-	136,751	-915	-79	-835	-224	-	-224	-	15,575,920	136,528
2 Central banks	5,603,911	5,603,911	-	-	-	-	-0	-0	-	-	-	-	-	-	-
3 General governments	13,526,374	13,512,873	7,188	-	-	-	-40	-23	-17	-	-	-	-	1,765,274	-
4 Credit institutions	1,806,223	1,806,223	-	-	-	-	-43	-43	-	-	-	-	-	-	-
5 Other financial corporations	243,277	243,277	-	-	-	-	-4	-4	-	-	-	-	-	-	-
6 Non-financial corporations	13,589,226	13,430,099	128,891	136,751	-	136,751	-760	-8	-752	-224	-	-224	-	13,466,365	136,528
8 Households	348,556	331,747	8,767	-	-	-	-67	-0	-67	-	-	-	-	344,282	-
9 Debt securities	5,781,486	1,726,740	7,200	-	-	-	-0	-0	-0	-	-	-	-	282,649	-
11 General governments	2,295,533	1,252,897	-	-	-	-	-0	-0	-	-	-	-	-	38,004	-
12 Credit institutions	3,075,888	368,372	-	-	-	-	-	-	-	-	-	-	-	182,669	-
13 Other financial corporations	313,081	15,687	-	-	-	-	-	-	-	-	-	-	-	-	-
14 Non-financial corporations	96,984	89,784	7,200	-	-	-	-0	-0	-0	-	-	-	-	61,976	-
15 Off-balance sheet exposures	2,352,777	2,348,271	4,506	1,201	-	1,201	4	4	0	0	-	-	-	1,700,008	-
17 General governments	783,268	783,268	-	-	-	-	1	1	-	-	-	-	-	130,512	-
20 Non-financial corporations	1,546,718	1,542,212	4,506	1,201	-	1,201	3	3	0	0	-	-	-	1,546,705	-
21 Households	22,791	22,791	-	-	-	-	0	0	-	-	-	-	-	22,791	-
22 Total	**43,251,830**	**39,003,141**	**156,552**	**137,952**	**-**	**137,952**	**-910**	**-75**	**-835**	**-224**	**-**	**-224**	**-**	**17,558,577**	**136,528**

31 Dec 2019 (EUR 1,000)	a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
	Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions							Collateral and financial guarantees received	
	Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions					
		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3	Accumulated partial write-off	On performing exposures	On non-performing exposures
1 Loans and advances	30,360,978	30,124,811	184,887	61,726	-	61,726	-139	-59	-80	-80	-	-80	-	14,537,548	61,646
2 Central banks	4,935,926	4,935,926	-	-	-	-	-0	-0	-	-	-	-	-	-	-
3 General governments	11,568,637	11,556,476	3,157	-	-	-	-20	-19	-1	-	-	-	-	1,680,090	-
4 Credit institutions	791,496	791,496	-	-	-	-	-28	-28	-	-	-	-	-	-	-
5 Other financial corporations	158,501	158,501	-	-	-	-	-4	-4	-	-	-	-	-	-	-
6 Non-financial corporations	12,533,555	12,328,250	171,592	61,726	-	61,726	-75	-7	-68	-80	-	-80	-	12,484,607	61,646
8 Households	372,863	354,161	10,138	-	-	-	-11	-0	-11	-	-	-	-	372,852	-
9 Debt securities	5,736,848	1,752,499	23,690	-	-	-	-0	-0	-0	-	-	-	-	216,325	-
11 General governments	1,548,556	721,489	13,796	-	-	-	-0	-0	-0	-	-	-	-	13,700	-
12 Credit institutions	3,770,182	971,832	-	-	-	-	-	-	-	-	-	-	-	133,553	-
13 Other financial corporations	349,038	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14 Non-financial corporations	69,072	59,178	9,894	-	-	-	-0	-0	-0	-	-	-	-	69,072	-
15 Off-balance sheet exposures	2,361,323	2,359,038	2,285	-	-	-	4	4	0	-	-	-	-	1,719,559	-
17 General governments	805,771	805,771	-	-	-	-	1	1	-	-	-	-	-	164,007	-
20 Non-financial corporations	1,546,747	1,544,462	2,285	-	-	-	3	3	0	-	-	-	-	1,546,747	-
21 Households	8,805	8,805	-	-	-	-	0	0	-	-	-	-	-	8,805	-
22 Total	**38,459,149**	**34,236,348**	**210,863**	**61,726**	**-**	**61,726**	**-135**	**-55**	**-80**	**-80**	**-**	**-80**	**-**	**16,473,432**	**61,646**

Template 9
Collateral obtained by taking possession and execution processes

MuniFin Group has not obtained collateral by taking possession and execution processes.

Section 10

Counterparty credit risk

EU CCR1
Analysis of CCR exposure by approach

The Group limits the credit risk arising from its derivative contracts with ISDA Credit Support Annexes. MuniFin Group has 40 derivative counterparties with which it has active derivative contracts. The Group has the above-mentioned collateral agreement with all of these counterparties. Additionally, the Municipal Guarantee Board's guarantees are used for reducing the derivative counterparty risk of certain counterparties. The counterparty credit risk RWA has moderately increased between 2020 and 2019.

		b	c	f	g
31 Dec 2020 (EUR 1,000)		**Replacement cost / current market value**	**Potential future credit exposure**	**EAD post CRM**	**RWAs**
1	Mark to market	415,573	541,973	600,859	40,938
11	**Total**				**40,938**

		b	c	f	g
31 Dec 2019 (EUR 1,000)		**Replacement cost / current market value**	**Potential future credit exposure**	**EAD post CRM**	**RWAs**
1	Mark to market	272,628	524,811	453,585	36,201
11	**Total**				**36,201**

EU CCR2
CVA capital charge

The CVA capital charge has increased moderately between 2020 and 2019. MuniFin Group manages the CVA capital charge with comprehensive use of CSAs and CCP clearing. The number and value of derivatives cleared through the Central Counterparty has increased during 2020.

31 Dec 2020 (EUR 1,000)	a	b
	Exposure value	RWAs
4 All portfolios subject to the standardised method	431,835	230,876
5 Total subject to the CVA capital charge	431,835	230,876

31 Dec 2019 (EUR 1,000)	a	b
	Exposure value	RWAs
4 All portfolios subject to the standardised method	414,433	213,561
5 Total subject to the CVA capital charge	414,433	213,561

EU CCR8
Exposures to CCPs

31 Dec 2020 (EUR 1,000)		a	b
		EAD post CRM	RWAs
1	**Exposures to QCCPs (total)**		**2,528**
3	(i) OTC derivatives	126,399	2,528
7	Segregated initial margin	230,996	
10	Alternative calculation of own funds requirements for exposures		-
11	**Exposures to non-QCCPs (total)**		**-**
17	Segregated initial margin	-	

31 Dec 2019 (EUR 1,000)		a	b
		EAD post CRM	RWAs
1	**Exposures to QCCPs (total)**		**1,849**
3	(i) OTC derivatives	92,446	1,849
7	Segregated initial margin	158,494	
10	Alternative calculation of own funds requirements for exposures		-
11	**Exposures to non-QCCPs (total)**		**-**
17	Segregated initial margin	-	

MuniFin

EU CCR3
Standardised approach – CCR exposures by regulatory portfolio and risk

31 Dec 2020
(EUR 1,000)

EXPOSURE CLASSES		Risk weight					
		0%	2%	20%	50%	Total	Of which unrated
2	Regional governments or local authorities	397,641	-	-	-	397,641	397,641
6	Institutions	-	126,399	215,308	218,197	559,905	-
11	**Total**	**397,641**	**126,399**	**215,308**	**218,197**	**957,545**	**397,641**

31 Dec 2019
(EUR 1,000)

EXPOSURE CLASSES		Risk weight					
		0%	2%	20%	50%	Total	Of which unrated
2	Regional governments or local authorities	290,560	-	-	-	290,560	290,560
6	Institutions	-	92,446	227,849	186,583	506,879	-
11	**Total**	**290,560**	**92,446**	**227,849**	**186,583**	**797,439**	**290,560**

EU CCR5-A
Impact of netting and collateral held on exposure values

31 Dec 2020 (EUR 1,000)	a Gross positive fair value or net carrying amount	b Netting benefits	c Netted current credit exposure	d Collateral held	e Net credit exposure
1 Derivatives	2,505,393	1,256,185	1,249,208	889,300	359,908
4 Total	**2,505,393**	**1,256,185**	**1,249,208**	**889,300**	**359,908**

31 Dec 2019 (EUR 1,000)	a Gross positive fair value or net carrying amount	b Netting benefits	c Netted current credit exposure	d Collateral held	e Net credit exposure
1 Derivatives	2,422,935	1,054,011	1,368,924	1,191,579	177,345
4 Total	**2,422,935**	**1,054,011**	**1,368,924**	**1,191,579**	**177,345**

EU CCR5-B
Composition of collateral for exposures to CCR

The amount of collaterals posted for derivative transactions at year end 2020 was EUR 1,850 million (EUR 844 million). MuniFin holds a strong credit rating (Aa1/AA+). The impact of a possible credit downgrade lower than four notches of MuniFin would not have any impact on the collateral posted.

	a	b	c	d
	Collateral used in derivative transactions			
	Fair value of collateral received		Fair value of posted collateral	
31 Dec 2020 (EUR 1,000)	Segregated	Unsegregated	Segregated	Unsegregated
Cash	-	889,300	230,996	1,619,372
Total	**-**	**889,300**	**230,996**	**1,619,372**

	a	b	c	d
	Collateral used in derivative transactions			
	Fair value of collateral received		Fair value of posted collateral	
31 Dec 2019 (EUR 1,000)	Segregated	Unsegregated	Segregated	Unsegregated
Cash	-	1,191,579	158,494	686,150
Total	**-**	**1,191,579**	**158,494**	**686,150**

EU CCR6
Credit derivatives exposures

MuniFin Group did not hold any credit derivatives during 2020 or 2019.

Section 11

Unencumbered assets

Template A
Encumbered and unencumbered assets

31 Dec 2020 (EUR 1,000)		Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
			of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA
		010	030	040	050	060	080	090	100
010	**Assets of the reporting institution**	**16,807,083**	**34,071**		**-**	**25,545,895**	**8,469,567**		
030	Equity instruments	-	-		-	-	-		
040	Debt securities	-	-	-	-	6,392,468	3,927,887	6,392,468	3,927,887
050	*of which: covered bonds*	-	-	-	-	*2,170,354*	*2,037,221*	*2,170,354*	*2,037,221*
060	*of which: asset-backed securities*	-	-	-	-	-	-	-	-
070	*of which: issued by general governments*	-	-	-	-	*2,484,221*	*1,047,173*	*2,484,221*	*1,047,173*
080	*of which: issued by financial corporations*	-	-	-	-	*3,679,610*	*2,900,663*	*3,679,610*	*2,900,663*
090	*of which: issued by non-financial corporations*	-	-	-	-	*101,602*	-	*101,602*	-
120	Other assets	16,807,083	34,071		-	19,153,426	4,605,510		
121	*of which: loans and advances other than loans on demand*	*16,771,396*	-		-	*11,289,262*	-		

31 Dec 2019 (EUR 1,000)		Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
			of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA
		010	030	040	050	060	080	090	100
010	**Assets of the reporting institution**	**14,811,537**	**26,484**		**-**	**23,753,338**	**8,185,536**		
030	Equity instruments	-	-		-	9,799	9,799		
040	Debt securities	-	-	-	-	5,918,893	3,475,806	5,919,419	3,475,806
050	*of which: covered bonds*	-	-	-	-	*2,045,182*	*2,009,084*	*2,045,182*	*2,009,084*
060	*of which: asset-backed securities*	-	-	-	-	*763*	*763*	*763*	*763*
070	*of which: issued by general governments*	-	-	-	-	*1,691,676*	*822,604*	*1,692,136*	*822,604*
080	*of which: issued by financial corporations*	-	-	-	-	*4,148,475*	*2,675,110*	*4,148,475*	*2,675,110*
090	*of which: issued by non-financial corporations*	-	-	-	-	*79,626*	-	*79,693*	-
120	Other assets	14,811,537	26,484		-	17,939,501	4,711,099		
121	*of which: loans and advances other than loans on demand*	*14,785,285*	*0*		-	*10,095,279*	-		

Template B
Collateral received

Collateral received is cash collateral related to CSA agreements on derivatives. Cash collateral have been classified as “loans and advances other than loans on demand” during 2019. Presented figures for years 2020 and 2019 are based on median values of quarterly data on a rolling basis over the previous twelve months.

31 Dec 2020 (EUR 1,000)		Fair value of encumbered collateral received or own debt securities issued		Unencumbered Fair value of collateral received or own debt securities issued available for encumbrance	
			of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA
		010	030	040	060
130	**Collateral received by the reporting institution**	**-**	**-**	**997,759**	**-**
220	Loans and advances other than loans on demand	-	-	997,759	-
250	**TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED**	**16,807,083**	**34,071**		

31 Dec 2019 (EUR 1,000)		Fair value of encumbered collateral received or own debt securities issued		Unencumbered Fair value of collateral received or own debt securities issued available for encumbrance	
			of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA
		010	030	040	060
130	**Collateral received by the reporting institution**	**-**	**-**	**1,156,189**	**-**
220	Loans and advances other than loans on demand	-	-	1,156,189	-
250	**TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED**	**14,811,537**	**26,484**		

Template C
Sources of encumbrance

(EUR 1,000)		31 Dec 2020		31 Dec 2019	
		010 Matching liabilities, contingent liabilities or securities lent	030 Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered	010 Matching liabilities, contingent liabilities or securities lent	030 Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
010	Carrying amount of selected financial liabilities	38,329,565	16,771,396	32,962,643	14,773,135

Template D
Accompanying narrative information

The above disclosures represents the median values of quarterly data, on a rolling basis over the previous twelve months. The same scope of regulatory consolidation is used for the disclosures on asset encumbrance as for the liquidity requirements used to define HQLA eligibility. Only the assets of the Parent Company entail asset encumbrance.

Financial assets classified as encumbered assets relate to loans that have been pledged to the Municipal Guarantee Board as counter collateral for guarantees it has given to MuniFin's funding, loans that are pledged to the central bank for possible monetary policy operations and cash collateral pertaining to derivatives. MuniFin Group does not have any covered bond or asset-backed security issuances.

During the reporting period, the medium values of encumbered assets related to loans pledged to Municipal Guarantee Board (EUR 10,476 million), loans pledged to Central Bank for possible monetary policy operations (EUR 5,118 million), cash collateral related to derivatives (EUR 1,575 million) and minimum reserves held at the central bank (EUR 34 million). During the reporting period, all encumbered assets have been EUR nominated.

MuniFin Group a sufficient liquidity portfolio of unencumbered, highly liquid assets at all times. The Group constantly monitors the amount of encumbered assets within the liquidity portolio. MuniFin Group uses cash for derivatives collateral management and hence the only source of asset encumbrance in the liquidity portfolio is repo related collateral management. During the reporting period, all assets within liquidity portfolio were unencumbered, of which EUR 8,470 million were HQLA eligible.

Other assets within template A, that have been classified as unencumbered, include cash with central banks, loans and advances, derivative contracts, intangible assets, tangible assets and other fixed assets.

The additional columns for asset quality indicators have been disclosed according to Article 2 (1) of the EBA/RTS/2017/03 to the templates A and B as of 31 December 2020.

Section 12
Market risk

EU MR1
Market risk under the standardised approach

MuniFin Group calculates capital requirements for overall net foreign exchange position. The Group hedges against exchange rate risks by using derivative contracts to translate all foreign currency denominated funding and investments into euros. The Group does not bear any material foreign exchange risk.

The foreign exchange risk position was EUR 2.1 million at the end of 2020 (EUR 2.0 million at the end of 2019). Since the foreign exchange risk position was less than 2% of the own funds, there was no capital requirement for it (CRR 575/2013 Art. 351).

MuniFin Group does not hold trading book exposures.

Section 13
Remuneration

MuniFin Group publishes separate Remuneration Report which is available on MuniFin's website at www.munifin.fi.

Section 14

Leverage ratio

LRSum
Summary reconciliation of accounting assets and leverage ratio exposures

(EUR 1,000)		31 Dec 2020 Applicable amount	31 Dec 2019 Applicable amount
1	Total assets as per published financial statements	44,042,426	38,933,758
4	Adjustments for derivative financial instruments	-3,006,046	-2,059,346
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	1,081,310	1,122,041
7	Other adjustments	-14,850	-14,207
8	**Leverage ratio total exposure measure**	**42,102,840**	**37,982,245**

LRCom
Leverage ratio common disclosure

(EUR 1,000)		31 Dec 2020 CRR leverage ratio exposures	31 Dec 2019 CRR leverage ratio exposures
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	41,551,321	36,519,150
2	(Asset amounts deducted in determining Tier 1 capital)	-17,346	-14,704
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**41,533,974**	**36,504,446**
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	424,006	280,699
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	682,921	761,208
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-1,619,372	-686,150
11	**Total derivatives exposures (sum of lines 4 to 10)**	**-512,445**	**355,758**
	Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	2,353,973	2,361,319
18	(Adjustments for conversion to credit equivalent amounts)	-1,272,663	-1,239,278
19	**Other off-balance sheet exposures (sum of lines 17 and 18)**	**1,081,310**	**1,122,041**
	Capital and total exposure measure		
20	Tier 1 capital	1,624,265	1,509,906
21	Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	42,102,840	37,982,245
	Leverage ratio		
22	Leverage ratio	3.86%	3.98%

LRSpl
Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

(EUR 1,000)		31 Dec 2020 CRR leverage ratio exposures	31 Dec 2019 CRR leverage ratio exposures
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	39,931,948	35,833,000
EU-3	Banking book exposures, of which:	39,931,948	35,833,000
EU-4	Covered bonds	1,530,373	2,137,947
EU-5	Exposures treated as sovereigns	20,533,442	17,083,751
EU-6	Exposures to regional governments, MDB, international organisations and PSE **not** treated as sovereigns	73,627	38,732
EU-7	Institutions	1,970,555	1,907,819
EU-8	Secured by mortgages of immovable properties	9,275,460	8,515,464
EU-10	Corporate	6,360,654	6,031,136
EU-11	Exposures in default	136,700	61,757
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	51,137	56,393

LRQua
Disclosure on qualitative items

The risk of excessive leverage is managed as part of the internal capital management process. Within this process, the target level for leverage ratio is defined. The leverage ratio is part of MuniFin Group's Risk Appetite Framework and is regularly monitored in Risk Appetite Dashboard and in internal monthly reporting. Leverage ratio is also one of the Recovery Plan indicators. The principles for managing maturity mismatch and asset encumbrance are defined in the Liquidity and Funding Risk policy. The maturity mismatch is followed and managed through the Financing gap indicator within the Risk Appetite Framework. The Group maintains a sufficient liquidity portfolio of unencumbered, highly liquid assets at all times.

The consolidated leverage ratio was 3.86% at the end of 2020 compared to 3.98% at the end of the previous year. The balance sheet exposures grew by net EUR 5,030 million during the year. The change was mainly driven by increased lending to the public and public sector entities. Off-balance sheet exposures, loan promises to public and public sector entities, decreased by EUR 41 million during the year. Own funds grew in the period by EUR 114 million, mainly driven by increase in CET1 capital, namely from the continued profit generation.

Section 15

Liquidity coverage ratio

EU LIQ1
LCR disclosure and qualitative information on the LCR

The Liquidity Coverage Ratio was over the target level set in the Risk Appetite Framework at all times during 2020. The buffer for HQLA assets remained on a high level throughout the year. The additional requirement for outflows related to derivative exposures and other collateral requirements is calculated using the historical look-back approach (*HLBA*).

SCOPE OF CONSOLIDATION: CONSOLIDATED (EUR 1,000)		Total unweighted value (average)				Total weighted value (average)			
		31 Mar 2020	30 Jun 2020	30 Sep 2020	31 Dec 2020	31 Mar 2020	30 Jun 2020	30 Sep 2020	31 Dec 2020
Number of data points used in the calculation of averages		12	12	12	12	12	12	12	12
HIGH-QUALITY LIQUID ASSETS									
1	Total high-quality liquid assets (HQLA)					8,020,003	8,219,628	8,323,631	8,508,303
CASH - OUTFLOWS									
2	Retail deposits and deposits from small business customers, of which:	-	-	-	-	-	-	-	-
3	Stable deposits	-	-	-	-	-	-	-	-
4	Less stable deposits	-	-	-	-	-	-	-	-
5	Unsecured wholesale funding	2,195,685	2,217,534	2,210,006	2,278,038	2,195,685	2,217,534	2,210,006	2,278,038
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-	-	-	-	-	-	-
7	Non-operational deposits (all counterparties)	24,828	21,829	17,728	23,211	24,828	21,829	17,728	23,211
8	Unsecured debt	2,170,857	2,195,706	2,192,277	2,254,828	2,170,857	2,195,706	2,192,277	2,254,828
9	Secured wholesale funding					-	-	-	-
10	Additional requirements	3,297,060	3,402,429	3,543,764	3,685,935	984,413	1,091,699	1,262,714	1,425,041
11	Outflows related to derivative exposures and other collateral requirements	727,719	835,312	1,009,708	1,174,368	727,479	834,987	1,009,309	1,173,884
12	Outflows related to loss of funding on debt products	-	-	-	-	-	-	-	-

SCOPE OF CONSOLIDATION: CONSOLIDATED (EUR 1,000)		Total unweighted value (average)				Total weighted value (average)			
		31 Mar 2020	30 Jun 2020	30 Sep 2020	31 Dec 2020	31 Mar 2020	30 Jun 2020	30 Sep 2020	31 Dec 2020
13	Credit and liquidity facilities	2,569,341	2,567,117	2,534,056	2,511,567	256,934	256,712	253,406	251,157
14	Other contractual funding obligations	3,381	13,439	22,522	25,331	1,375	11,238	20,156	22,801
15	Other contingent funding obligations	3,688,155	3,654,971	3,792,069	3,943,295	369,498	365,497	379,207	394,329
16	**TOTAL CASH OUTFLOWS**					**3,550,971**	**3,685,969**	**3,872,083**	**4,120,209**
CASH - INFLOWS									
17	Secured lending (e.g. reverse repos)	-	-	-	-	-	-	-	-
18	Inflows from fully performing exposures	882,080	882,101	750,244	655,930	508,895	530,622	477,394	441,202
19	Other cash inflows	224,965	444,502	673,143	859,106	224,965	444,502	673,143	859,106
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)					-	-	-	-
EU-19b	(Excess inflows from a related specialised credit institution)					-	-	-	-
20	**TOTAL CASH INFLOWS**	**1,107,045**	**1,326,603**	**1,423,387**	**1,515,036**	**733,860**	**975,124**	**1,150,537**	**1,300,308**
EU-20a	**Fully exempt inflows**	-	-	-	-	-	-	-	-
EU-20b	**Inflows subject to 90% cap**	-	-	-	-	-	-	-	-
EU-20c	**Inflows subject to 75% cap**	**1,107,045**	**1,326,603**	**1,423,387**	**1,515,036**	**733,860**	**975,124**	**1,150,537**	**1,300,308**
21	**LIQUIDITY BUFFER**					**8,020,003**	**8,219,628**	**8,323,631**	**8,508,303**
22	**TOTAL NET CASH OUTFLOWS**					**2,819,611**	**2,713,345**	**2,724,046**	**2,819,901**
23	**LIQUIDITY COVERAGE RATIO (%)**					**307.97%**	**324.42%**	**321.49%**	**318.16%**

SCOPE OF CONSOLIDATION: CONSOLIDATED (EUR 1,000)	Total unweighted value (average)				Total weighted value (average)			
	31 Mar 2019	30 Jun 2019	30 Sep 2019	31 Dec 2019	31 Mar 2019	30 Jun 2019	30 Sep 2019	31 Dec 2019
Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12
HIGH-QUALITY LIQUID ASSETS								
1 Total high-quality liquid assets (HQLA)					7,161,136	7,274,569	7,425,775	7,792,524
CASH - OUTFLOWS								
2 Retail deposits and deposits from small business customers, of which:	-	-	-	-	-	-	-	-
3 Stable deposits	-	-	-	-	-	-	-	-
4 Less stable deposits	-	-	-	-	-	-	-	-
5 Unsecured wholesale funding	1,927,414	1,909,610	1,920,411	1,958,721	1,927,414	1,909,610	1,920,411	1,958,721
6 Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-	-	-	-	-	-	-
7 Non-operational deposits (all counterparties)	8,702	18,563	22,353	26,314	8,702	18,563	22,353	26,314
8 Unsecured debt	1,918,712	1,891,047	1,898,059	1,932,407	1,918,712	1,891,047	1,898,059	1,932,407
9 Secured wholesale funding					-	-	-	
10 Additional requirements	3,863,930	3,826,717	3,665,043	3,413,592	1,497,480	1,404,554	1,252,986	1,082,049
11 Outflows related to derivative exposures and other collateral requirements	1,234,542	1,135,449	985,071	823,163	1,234,542	1,135,428	984,989	823,006
12 Outflows related to loss of funding on debt products	-	-	-	-	-	-	-	-
13 Credit and liquidity facilities	2,629,388	2,691,268	2,679,971	2,590,429	262,939	269,127	267,997	259,043
14 Other contractual funding obligations	1,860	1,860	1,860	1,860	-	-	-	-
15 Other contingent funding obligations	3,669,732	3,731,613	3,688,011	3,714,362	369,912	374,609	375,994	374,084
16 TOTAL CASH OUTFLOWS					**3,794,806**	**3,688,773**	**3,549,391**	**3,414,853**

SCOPE OF CONSOLIDATION: CONSOLIDATED (EUR 1,000)		Total unweighted value (average)				Total weighted value (average)			
		31 Mar 2019	30 Jun 2019	30 Sep 2019	31 Dec 2019	31 Mar 2019	30 Jun 2019	30 Sep 2019	31 Dec 2019
CASH - INFLOWS									
17	Secured lending (e.g. reverse repos)	-	-	-	-	-	-	-	-
18	Inflows from fully performing exposures	629,088	678,987	761,297	786,336	325,853	358,170	412,462	435,721
19	Other cash inflows	174,176	170,066	191,471	210,471	162,984	161,781	184,985	210,471
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)					-	-	-	
EU-19b	(Excess inflows from a related specialised credit institution)					-	-	-	
20	**TOTAL CASH INFLOWS**	**803,264**	**849,052**	**952,767**	**996,806**	**488,838**	**519,951**	**597,447**	**646,192**
EU-20a	**Fully exempt inflows**	-	-	-	-	-	-	-	-
EU-20b	**Inflows subject to 90% cap**	-	-	-	-	-	-	-	-
EU-20c	**Inflows subject to 75% cap**	**803,264**	**849,052**	**952,767**	**996,806**	**488,838**	**519,951**	**597,447**	**646,192**
21	**LIQUIDITY BUFFER**					**7,161,136**	**7,274,569**	**7,425,775**	**7,792,524**
22	**TOTAL NET CASH OUTFLOWS**					**3,305,928**	**3,168,782**	**2,951,904**	**2,771,122**
23	**LIQUIDITY COVERAGE RATIO (%)**					**220.30%**	**236.97%**	**273.10%**	**304.98%**

Concentration of funding and liquidity sources
MuniFin Group acquires funding from international capital markets, mainly with unsecured public bond issues. While there is a high concentration on the unsecured wholesale funding, MuniFin Group has diversified its funding extensively across markets, currencies, durations and maturities.

MuniFin Group holds enough high quality liquid assets to meet the statutory LCR requirement on a daily basis. Furthermore, in line with MuniFin Group's Risk Appetite Framework, the total liquidity amount must be enough to cover uninterrupted business for at least six months.

Derivative exposures and potential collateral calls
MuniFin Group has made CSA agreements including daily margin calls with most of its derivative counterparties. The Group calculates the largest cash collateral movement with the historical look-back approach and considers this as an outflow for the potential collateral calls.

Currency mismatch in the LCR
MuniFin Group monitors and calculates LCR in all significant currencies on a regular basis. The Group hedges against exchange rate risks by using derivative contracts to translate all foreign currency denominated funding into euros. MuniFin Group does not bear any material foreign exchange risk. The Group does not hold a liquidity buffer in other currencies than euro for LCR purposes.

A description of the degree of centralisation of liquidity mangement and interaction between the Group's units
MuniFin Group's liquidity management is based on the Liquidity and Funding Risk Policy which describes e.g. roles and responsibilities, sources of liquidity and funding risk, management and monitoring of liquidity risk. Liquidity and Funding Risk Policy is in line with the Business Model Document and overall risk management principles. The Policy is an integral part of the MuniFin Group's risk management framework.

Other items in the LCR calculation that are not captured in the LCR disclosure template but that the institution considers relevant for its liquidity profile
Outflows from unsecured wholesale funding with call maturity options are treated in the LCR calculation according to the next possible call date. The estimate for the realised calls for the next 12 months is 30–50%.

Section 16

CRR reference table

Pillar 3 disclosures in accordance with the Articles 435–455 of CRR.

CRR ref.	High level summary	Reference
Article 435	**Risk management objectives and policies**	
1 (a)	Strategies and processes to manage risks	Pillar III Disclosure Report 2020 Section 2
1 (b)	Governance structure and organisation	Pillar III Disclosure Report 2020 Section 2, Corporate Governance Statement 2020 pages 3–21
1 (c)	Scope and nature of risk reporting and measurement systems	Pillar III Disclosure Report 2020 Section 2. Annual Report 2020 pages 144–170
1 (d)	Policies for hedging and mitigating risk	Pillar III Disclosure Report 2020, Annual Report 2020 pages 144–170
1 (e)	Declaration approved by the management body on the adequacy of risk management arrangements	Pillar III Disclosure Report 2020 pages 12–13
1 (f)	Concise risk statement approved by the management body succinctly describing the institution's overall risk profile associated with the business strategy.	Pillar III Disclosure Report 2020 pages 12–13
2 (a)	Number of directorships held by members of the Board of Directors	Corporate Governance Statement 2020 pages 8–9
2 (b)	Recruitment policy for the selection of members of the Board of Directors and their actual knowledge, skills and expertise	Corporate Governance Statement 2020 pages 4–13
2 (c)	Policy on diversity with regard to selection of members of the Board of Directors	Corporate Governance Statement 2020 pages 6–7
2 (d)	Set up a separate risk committee and the number of times the risk committee has met.	Corporate Governance Statement 2020 page 12
2 (e)	Description of the information flow on risk to the management body.	Pillar III Disclosure Report 2020 Section 2, Corporate Governance Statement 2020 pages 18–21

CRR ref.	High level summary	Reference
Article 436	**Scope of application**	
(a)	The name of the institution to which the CRR requirements apply	Pillar III Disclosure Report 2020 Section 1, Annual Report 2020 and website www.munifin.fi
(b) (i)-(iv)	Outline of the differences in the basis of consolidation for accounting and prudential purposes, with a brief description of the entities therein, explaining whether they are: (i) fully consolidated; (ii) proportionally consolidated; (iii) deducted from own funds; (iv) neither consolidated nor deducted	Pillar III Disclosure Report 2020 Section 3 pages 43–47, templates EU LI1, EI LI2 and EU LI3
(c)	any current or foreseen material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries;	Not applicable
(d)	The aggregate amount by which the actual own funds are less than required in all subsidiaries not included in the consolidation, and the name or names of such subsidiaries	Not applicable
(e)	If applicable, the circumstance of making use of the provisions laid down in Articles 7 and 9	Not applicable
Article 437	**Own funds**	
1 (a)	A full reconciliation of Common Equity Tier 1 items, Additional Tier 1 items, Tier 2 items and filters and deductions applied pursuant to Articles 32 to 35, 36, 56, 66 and 79 to own funds of the institution and the balance sheet in the audited financial statements of the institution	Pillar III Disclosure Report 2020 Section 4
1 (b)	A description of the main features of the Common Equity Tier 1 and Additional Tier 1 instruments and Tier 2 instruments issued by the institution	Pillar III Disclosure Report 2020 Section 4 pages 53–55
1 (c)	Full terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments	Pillar III Disclosure Report 2020 Section 4 pages 53–55, Articles of Association at www.munifin.fi and AT1 instrument prospectus at https://www.kuntarahoitus.fi/app/uploads/ sites/2/2019/09/munifin_at1_-_offering_circular.pdf
1 (d) (i)-(iii)	Separate disclosure of the nature and amounts of the following: (i) each prudential filter applied pursuant to Articles 32 to 35; (ii) each deduction made pursuant to Articles 36, 56 and 66; (iii) items not deducted in accordance with Articles 47, 48, 56, 66 and 79	Pillar III Disclosure Report 2020 Section 4 pages 56–59
1 (e)	A description of all restrictions applied to the calculation of own funds in accordance with the CRR and the instruments, prudential filters and deductions to which those restrictions apply;	Not applicable
1 (f)	Where institutions disclose capital ratios calculated using elements of own funds determined on a basis other than that laid down in this Regulation, a comprehensive explanation of the basis on which those capital ratios are calculated.	Not applicable

CRR ref.	High level summary	Reference
Article 438	**Capital requirements**	
(a)	A summary of the approach to assessing the adequacy of its internal capital to support current and future activities	Pillar III Disclosure Report 2020 Section 2 page 17 and Section 5, Corporate Governance Statement 2020 pages 18–19
(b)	Upon demand from the supervisory authority, the result of the institution's internal capital adequacy assessment process including the composition of the additional own funds requirements based on the supervisory review process as referred to in point (a) of Article 104(1) of CRDIV	Pillar III Disclosure Report 2020 Section 5 and Section 6
(c)	Risk-weighted exposure amounts in accordance with the standardized approach	Pillar III Disclosure Report 2020 Section 5 template EU OV1
(d)	Risk-weighted exposure amounts in accordance with internal ratings based (IRB) approach	Not applicable
(e)	Own funds requirements	Pillar III Disclosure Report 2020 Section 5 page 62 and template EU OV1
(f)	Own funds requirements calculated in accordance with CRR, Part Three, Title III, Chapters 2, 3 and 4 and disclosed separately.	Pillar III Disclosure Report 2020 Section 5 page 62 and template EU OV1
Article 439	**Exposure to counterparty credit risk**	
(a)	A discussion of the methodology used to assign internal capital and credit limits for counterparty credit exposures	Pillar III Disclosure Report 2020 Section 2 pages 21–22
(b)	A discussion of policies for securing collateral and establishing credit reserves	Pillar III Disclosure Report 2020 Section 2 pages 21–22
(c)	A discussion of policies for wrongway risk exposures	Pillar III Disclosure Report 2020 Section 2 page 22
(d)	A discussion of the impact of the amount of collateral the institution would have to provide given a downgrade in its credit rating	Pillar III Disclosure Report 2020 Section 10 template EU CCR5-B
(e)	Gross positive fair value of contracts, netting benefits, netted current credit exposure, collateral held and net derivatives credit exposure. Net derivatives credit exposure is the credit exposure on derivatives transactions after considering both the benefits from legally enforceable netting agreements and collateral arrangements	Pillar III Disclosure Report 2020 Section 10 templates EU CCR1, EU CCR2, EU CCR8, EU CCR3, EU CCR5-A, EU CCR5-B and EU CCR6
(f)	Measures for exposure value under the methods set out in the CRR in Part Three, Title II, Chapter 6, Sections 3 to 6 whichever method is applicable	Pillar III Disclosure Report 2020 Section 10 templates EU CCR1, EU CCR2, EU CCR8, EU CCR3, EU CCR5-A, EU CCR5-B and EU CCR6
(g)	The notional value of credit derivative hedges, and the distribution of current credit exposure by types of credit exposure	Not applicable
(h)	Notional amounts of credit derivative transactions, segregated between use for the institution's own credit portfolio, as well as in its intermediation activities, including the distribution of the credit derivatives products used, broken down further by protection bought and sold within each product group	Not applicable
(i)	The estimate of α if the institution has received the permission of the competent authorities to estimate α	Not applicable

CRR ref.	High level summary	Reference
Article 440	**Capital buffers**	
(a)	The geographical distribution of credit exposures relevant for the calculation of countercyclical capital buffer	Pillar III Disclosure Report 2020 Section 6 page 69–71
(b)	The amount of institution-specific countercyclical capital buffer	Pillar III Disclosure Report 2020 Section 6 page 69–71
Article 441	**Indicators of global systemic importance**	
1-2	Indicator values used for determining the score of the institution.	Not applicable
Article 442	**Credit risk adjustments**	
(a)	The definitions for accounting purposes of past due and impaired	Pillar III Disclosure Report 2020 Section 7 page 72
(b)	A description of the approaches and methods adopted for determining specific and general credit risk adjustments	Pillar III Disclosure Report 2020 Section 7
(c)	The total amount of exposures after accounting offsets and without taking into account the effects of credit risk mitigation, and the average amount of the exposures over the period broken down by different types of exposure classes	Pillar III Disclosure Report 2020 Section 7 page 73–74 template CRB-B
(d)	The geographic distribution of the exposures, broken down in significant areas by material exposure classes, and further detailed if appropriate	Pillar III Disclosure Report 2020 Section 7 pages 75–76 template CRB-C
(e)	The distribution of the exposures by industry or counterparty type, broken down by exposure classes, including specifying exposure to SMEs, and further detailed if appropriate	Pillar III Disclosure Report 2020 Section 7 pages 77–78 template CRB-D
(f)	The residual maturity breakdown of all the exposures, broken down by exposure classes, and further detailed if appropriate	Pillar III Disclosure Report 2020 Section 7 pages 79–80 template CRB-E
(g) (i)-(iii)	By significant industry or counterparty type, the amount of: (i) impaired exposures and past due exposures, provided separately; (ii) specific and general credit risk adjustments; (iii) charges for specific and general credit risk adjustments during the reporting period	Pillar III Disclosure Report 2020 Section 7 pages 81–86 templates EU CR1-A, EU CR1-B, EU CR1-C and Section 9 pages 96–101
(h)	The amount of the impaired exposures and past due exposures, provided separately, broken down by significant geographical areas including, if practical, the amounts of specific and general credit risk adjustments related to each geographical area	Pillar III Disclosure Report 2020 Section 7 pages 81–86 templates EU CR1-A, EU CR1-B, EU CR1-C and Section 9 pages 96–101
(i) (i)-(v)	Reconciliation of changes in the specific and general credit risk adjustments for impaired exposures, shown separately. The information shall comprise: (i) a description of the type of specific and general credit risk adjustments; (ii) the opening balances; (iii) the amounts taken against the credit risk adjustments during the reporting period; (iv) the amounts set aside or reversed for estimated probable losses on exposures during the reporting period, any other adjustments including those determined by exchange rate differences, business combinations, acquisitions and disposals of subsidiaries, and transfers between credit risk adjustments; (v) the closing balances	Pillar III Disclosure Report 2020 Section 7 pages 87–89 templates EU CR2-A and EU CR2-B

CRR ref.	High level summary	Reference
(XXX)	Specific credit risk adjustments and recoveries recorded directly to the income statement shall be disclosed separately	Annual Report 2020 Consolidated Financial Statements Notes 14 and 27
Article 443	**Unencumbered assets**	
	Disclosure on unencumbered assets according to EBA Guidelines	Pillar III Disclosure Report 2020 Section 11
Article 444	**Use of ECAIs**	
(a)	Names of the nominated ECAIs and ECAs and the reasons for any changes	Pillar III Disclosure Report 2020 Section 8 page 91
(b)	The exposure classes for which each ECAI or ECA is used	Pillar III Disclosure Report 2020 Section 8 page 91
(c)	A description of the process used to transfer the issuer and issue credit assessments onto items not included in the trading book	Pillar III Disclosure Report 2020 Section 8 page 91
(d)	The association of the external rating of each nominated ECAI or ECA with the credit quality steps prescribed in the CRR in Part Three, Title II, Chapter 2, taking into account that this information needs not be disclosed if the institution complies with the standard association published by the European Banking Authority	Pillar III Disclosure Report 2020 Section 8 page 91
(e)	The exposure values before and the exposure values after credit risk mitigation associated with each credit quality step prescribed in the CRR in Part Three, Title II, Chapter 2 as well as those deducted from own funds	Pillar III Disclosure Report 2020 Section 8 pages 92–95 templates EU CR4 and EU CR5
Article 445	**Exposure to market risk**	
	The institutions calculating their own funds requirements in accordance with points (b) and (c) of Article 92(3) of the CRR shall disclose those requirements separately for each risk referred to in those provisions. In addition, the own funds requirement for specific interest rate risk of securitisation positions shall be disclosed separately.	Pillar III Disclosure Report 2020 Section 12 page 114
Article 446	**Operational risk**	
	Institutions shall disclose the approaches for the assessment of own funds requirements for operational risk that the institution qualifies for; a description of the methodology set out in Article 312(2) of the CRR, if used by the institution, including a discussion of relevant internal and external factors considered in the institution's measurement approach, and in the case of partial use, the scope and coverage of the different methodologies used.	Pillar III Disclosure Report 2020 Section 2 pages 39–42
Article 447	**Exposures in equities not included in the trading book**	
	Exposures in equities not included in the trading book	Not applicable
Article 448	**Exposure to interest rate risk on positions not included in the trading book**	
(a)	The nature of the interest rate risk and the key assumptions (including assumptions regarding loan prepayments and behaviour of non-maturity deposits), and frequency of measurement of the interest rate risk	Pillar III Disclosure Report 2020 Section 2 pages 28–30 table EU MRA

CRR ref.	High level summary	Reference
(b)	The variation in earnings, economic value or other relevant measure used by the management for upward and downward rate shocks according to management's method for measuring the interest rate risk, broken 'down by currency.	Pillar III Disclosure Report 2020 Section 2 pages 28–30 table EU MRA
Article 449	**Exposure to securitization positions**	
	Exposure to securitization positions	Pillar III Disclosure Report 2020 Section 5
Article 450	**Remuneration policy**	
(a)	Information concerning the decision-making process used for determining the remuneration policy, as well as the number of meetings held by the main body overseeing remuneration during the financial year, including, if applicable, information about the composition and the mandate of a remuneration committee, the external consultant whose services have been used for the determination of the remuneration policy and the role of the relevant stakeholders	Corporate Governance Statement 2020 pages 12–13, Remuneration Report 2020
(b)	Information on link between pay and performance	Remuneration Report 2020
(c)	The most important design characteristics of the remuneration system, including information on the criteria used for performance measurement and risk adjustment, deferral policy and vesting criteria	Remuneration Report 2020 pages 4–6
(d)	Ratios between fixed and variable remuneration set in accordance with Article 94(1)(g) of the CRDIV	Remuneration Report 2020 pages 7–8
(e)	Information on the performance criteria on which the entitlement to shares, options or variable components of remuneration is based	Remuneration Report 2020, MuniFin does not grant variable remuneration in the form of shares or options.
(f)	The main parameters and rationale for any variable component scheme and any other non-cash benefits	Remuneration Report 2020
(g)	Aggregate quantitative information on remuneration, broken down by business area	Remuneration Report 2020 page 7
(h)	Aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the institution	Remuneration Report 2020 page 8
(i)	The number of individuals being remunerated EUR 1 million or more per financial year, for remuneration between EUR 1 million and EUR 5 million broken down into pay bands of EUR 500,000 and for remuneration of EUR 5 million and above broken down into pay bands of EUR 1 million	Not applicable, there were no individuals employed by MuniFin in 2020 being remunerated EUR 1 million or more.
(j)	Upon demand from the Member State or competent authority, the total remuneration for each member of the management body or senior management.	Not applicable. No such demand has been made by the supervisory authority.
Article 451	**Leverage**	
(a)	The leverage ratio and how the institution applies Article 499(2) and (3) of the CRR	Pillar III Disclosure Report 2020 Section 14 pages 115–117

CRR ref.	High level summary	Reference
(b)	A breakdown of the total exposure measure as well as a reconciliation of the total exposure measure with the relevant information disclosed in published financial statements	Pillar III Disclosure Report 2020 Section 14 pages 115–117
(c)	Where applicable, the amount of derecognised fiduciary items in accordance with Article 429(11) of the CRR	Not applicable
(d)	A description of the processes used to manage the risk of excessive leverage	Pillar III Disclosure Report 2020 Section 14 page 113
(e)	A description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers	Pillar III Disclosure Report 2020 Section 14 page 113
Article 452	**Use of the IRB Approach to credit risk**	
	IRB Approach to credit risk	Not applicable
Article 453	**Use of credit risk mitigation techniques**	
(a)	The policies and processes for, and an indication of the extent to which the entity makes use of, on- and offbalance sheet netting	Pillar III Disclosure Report 2020 Section 2 pages 19–22
(b)	The policies and processes for collateral valuation and management	Pillar III Disclosure Report 2020 Section 2 pages 19–22
(c)	A description of the main types of collateral taken by the institution	Pillar III Disclosure Report 2020 Section 2 pages 19–22
(d)	The main types of guarantor and credit derivative counterparty and their creditworthiness	Pillar III Disclosure Report 2020 Section 2 pages 19–22
(e)	Information about market or credit risk concentrations within the credit mitigation taken	Pillar III Disclosure Report 2020 Section 2 pages 22–23
(f)	For institutions calculating risk-weighted exposure amounts under the Standardised Approach or the IRB Approach, but not providing own estimates of LGDs or conversion factors in respect of the exposure class, separately for each exposure class, the total exposure value (after, where applicable, on- or off-balance sheet netting) that is covered — after the application of volatility adjustments — by eligible financial collateral, and other eligible collateral	Pillar III Disclosure Report 2020 Section 7 page 90 template EU CR3
(g)	For institutions calculating risk-weighted exposure amounts under the Standardised Approach or the IRB Approach, separately for each exposure class, the total exposure (after, where applicable, on- or offbalance sheet netting) that is covered by guarantees or credit derivatives. For the equity exposure class, this requirement applies to each of the approaches provided in Article 155	Pillar III Disclosure Report 2020 Section 7 page 90 template EU CR3
Article 454	**Use of the Advanced Measurement Approaches to operational risk**	
	Advanced Measurement Approaches to operational risk	Not applicable
Article 455	**Use of Internal Market Risk Models**	
	Internal Market Risk Models	Not applicable

Section 17

Information not disclosed due to non-materiality, proprietary or confidential nature

REFERENCE	REASON FOR NOT DISCLOSING	INFORMATION PROVIDED IN PILLAR III DISCLOSURE
EBA/GL/2016/11 Table EU OVA (b), CRR Article 435(1)(b): The approved limits of risks to which the institution is exposed.	Risk Appetite Framework (RAF) limits and thresholds are defined strictly confidential. Limits and thresholds are of strategic nature and as such defined confidential. The Financial Supervisory Authorities have full access to MuniFin Group's RAF limits and thresholds.	RAF is described in detail in Section 2 Risk management objectives and policies, subsection MuniFin Group's overall risk profile associated with the business strategy and business model.
EBA/GL/2018/10 Template 2 – Quality of forbearance, Template 5 – Quality of non-performing exposures by geography, Template 6 – Credit quality of loans and advances by industry, Template 7 – Collateral valuation – loans and advances, Template 8 – Changes in the stock of non-performing loans and advances and Template 10 – Collateral obtained by taking possession and execution processes – vintage breakdown.	EBA/GL/2018/10 Templates 2, 5, 6, 7, 8 and 10 are applicable only to significant credit institutions with a gross NPL ratio of 5% or above. As th NPL ratio does not exceed 5%, MuniFin Group has not disclosed these templates.	MuniFin Group complies the EBA/GL/2018/10 disclosure requirements by disclosing the templates applicable to all credit institutions within Section 9 Non-performing exposures. Additionally, according to Section 3 Implementation (19) of EBA/GL/2018/10, MuniFin Group has disclosed 'Template 12 – EU CR1-B – Credit quality of exposures by industry or counterparty types' and 'Template 13 – EU CR1-C – Credit quality of exposures by geography' in full within Section 7 Credit risk and general information on credit risk mitigation.
EBA/GL/2020/07 Disclosure of exposures subject to measures applied in response to the COVID-19 crisis. Template 1 - Information on loans and advances subject to legislative and non-legislative moratoria Template 2 - Breakdown of loans and advances subject to legislative and non-legislative moratoria by residual maturity of moratoria Template 3 - Information on newly originated loans and advances provided under newly applicable public guarantee schemes introduced in response to COVID-19 crisis	For the purpose of EBA/GL/2020/07 templates 1 and 2, moratoria refers to general moratoria in accordance with paragraph 10 of EBA Guidelines (EBA/GL/2020/02) on legislative and non-legislative moratoria. The concessions MuniFin Group has made in response to the COVID-19 crisis have been assessed individually for each counterparty, hence the concessions do not meet the criteria of moratoria in accordance with EBA/GL/2020/02. For the purpose of EBA/GL/2020/07 Template 3, MuniFin Group has not received any public guarantees introduced in response to the COVID-19 crisis. As a result, MuniFin Group has not disclosed these templates.	

REFERENCE	REASON FOR NOT DISCLOSING	INFORMATION PROVIDED IN PILLAR III DISCLOSURE
EBA/GL/2020/11 Guidelines on supervisory reporting and disclosure requirements in compliance with the CRR 'quick fix' in response to the COVID-19 pandemic	MuniFin Group has not applied the reliefs stated in the Guideline and as such, do not have nothing to report regarding this Guideline.	
EBA/GL/2020/12 EBA Guidelines amending Guidelines EBA/GL/2018/01 on uniform disclosures under Article 473a of Regulation (EU) No 575/2013 (CRR) on the transitional period for mitigating the impact of the introduction of IFRS 9 own funds to ensure compliance with the CRR 'quick fix' in response to the COVID-19 pandemic.	MuniFin Group is not applying the transitional arrangements specified in Capital Requirements Regulation's Article 473a for IFRS 9 or analogous ECLs. MuniFin Group's own funds, capital and leverage ratios already reflect the full impact of IFRS 9 or analogous ECLs. Based on this, there is nothing to report regarding EBA/GL/2020/12.	

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