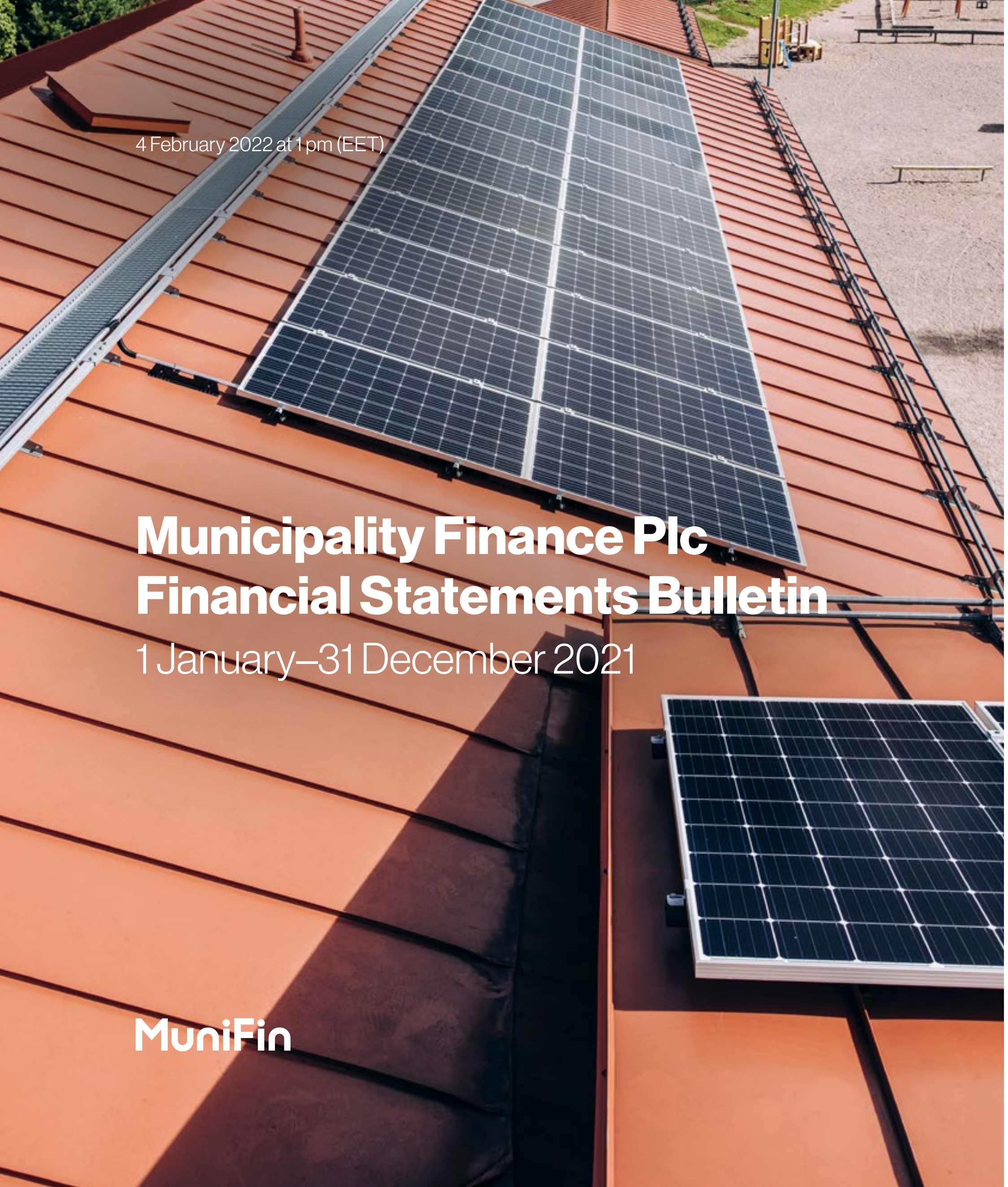


4 February 2022 at 1 pm (EET)

Municipality Finance Plc Financial Statements Bulletin

1 January–31 December 2021

MuniFin

In brief: MuniFin Group in 2021

- The Group's net operating profit excluding unrealised fair value changes amounted EUR 213 million (EUR 197 million) and it increased by 8.0% (6.2%). The Group's net interest income totalled EUR 280 million (EUR 254 million) and grew by 10.3% (5.8%). Costs in the financial year amounted to EUR 72 million (EUR 58 million). Costs excluding the non-recurring item grew as expected and were EUR 2.6 million higher, making the figure 4.4% greater than in the previous year.

- The net operating profit amounted to EUR 240 million (EUR 194 million). Unrealised fair value changes amounted to EUR 27 million (EUR -3 million) in the financial year.

- Changes to the regulation of banks' capital adequacy (*CRR II* and *CRD V*) were applied at the end of June 2021. The Group's leverage ratio was 12.8% (3.9%) at the end of December. MuniFin fulfils the CRR II definition of a public development credit institution and may therefore deduct all credit receivables from the central government and municipalities in the calculation of its leverage ratio. This change explains the growth of leverage ratio.

- At the end of December 2021, the Group's CET1 capital ratio remained very strong, 95.0% (104.3%). Tier 1 and total capital ratio were 118.4% (132.7%). The new CRR II regulation lowered the capital ratio mainly due to the changes in the calculation of the counterparty credit risk and CVA VaR. CET1 capital ratio nevertheless exceeded the total requirement of 13.4% by over seven times, with capital buffers accounted for.

- The COVID-19 pandemic that broke out in March 2020 has now lasted almost two years, although its intensity has varied. As a whole, the pandemic has only had a minor effect on the Group's financial standing. In this financial year, the demand for financing in the municipal sector remained lower than expected due to surprisingly good economic development and the Government's temporary COVID-19 recovery measures in 2020.

- Long-term customer financing, including both long-term loans and leased assets totalled EUR 29,214 million (EUR 28,022 million) and grew by 4.3% (13.0%) at the end of December. The total of new lending in January–December amounted to EUR 3,275 million (EUR 4,764 million). Short-term customer financing decreased by 16.9% (previous year's growth was 62.9%) and reached EUR 1,089 million (EUR 1,310 million).

- Of all long-term customer financing, the amount of green finance aimed at environmentally sustainable investments totalled EUR 2,328 million (EUR 1,786 million) and the amount of social finance aimed at investments promoting equality and communality totalled EUR 1,164 million (EUR 589 million) at the end of December. Green and social finance have been well received by customers, and the amount of this finance increased by 47.0% (88.0%) from the previous year.

- In 2021, new long-term funding reached EUR 9,395 million (EUR 10,966 million). At the end of December, the total amount of acquired funding was EUR 40,712 million (EUR 38,139 million), of which long-term funding made up for EUR 36,893 million (EUR 34,243 million).

- The Group's liquidity has remained at a very good level. At the end of December, total liquidity amounted to EUR 12,222 million (EUR 10,089 million). The Liquidity Coverage Ratio (*LCR*) stood at 334.9% (264.4%) at the end of the year and the Net Stable Funding Ratio (*NSFR*) at 123.6% (116.4%).

- The Board of Directors proposes to the Annual General Meeting to be held in spring 2022 a dividend of EUR 1.03 per share for 2021, totalling EUR 40,235,711.94. The total dividend payment for 2020 was EUR 20,313,174.96.

- Outlook for 2022: The Group expects its net operating profit excluding unrealised fair value changes to be significantly lower than in the previous year, as per the Group's long-term profitability targets and more beneficial customer pricing enabled by these targets. The Group expects its capital adequacy ratio and leverage ratio to remain very strong. The valuation principles set in IFRS 9 may cause significant but temporary unrealised fair value changes, some of which increase the volatility of net operating profit and make it more difficult to estimate in the short term. A more detailed outlook is presented in the section *Outlook for 2022*.

Comparison figures deriving from the income statement and figures describing the change during the financial year are based on figures reported for the corresponding period in 2020. Comparison figures deriving from the balance sheet and other cross-sectional items are based on the figures of 31 December 2020 unless otherwise stated.

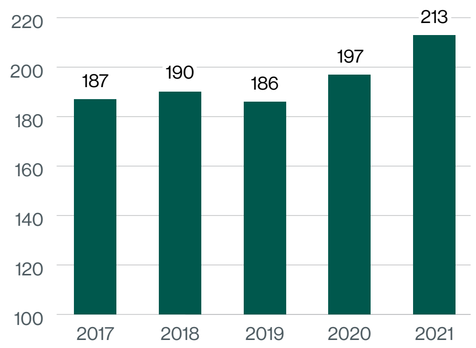
Key figures (Group)

	31 Dec 2021	31 Dec 2020
Net operating profit excluding unrealised fair value changes (EUR million)*	213	197
Net operating profit (EUR million)*	240	194
Net interest income (EUR million)*	280	254
New lending (EUR million)*	3,275	4,764
Long-term customer financing (EUR million)*	29,214	28,022
New long-term funding (EUR million)*	9,395	10,966
Balance sheet total (EUR million)	46,360	44,042
CET1 capital (EUR million)	1,408	1,277
Tier 1 capital (EUR million)	1,756	1,624
Total own funds (EUR million)	1,756	1,624
CET1 capital ratio, %**	95.0	104.3
Tier 1 capital ratio, %**	118.4	132.7
Total capital ratio, %**	118.4	132.7
Leverage ratio, %**	12.8	3.9
Return on equity (*ROE*), %*	10.7	9.4
Cost-to-income ratio*	0.2	0.2
Personnel	164	165

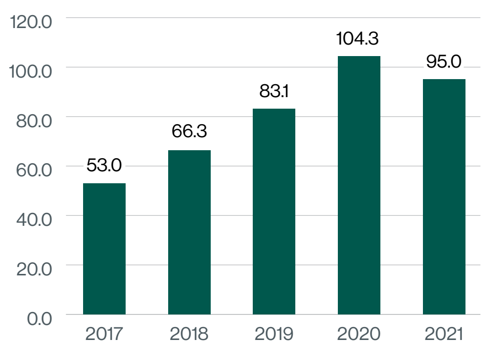
** Alternative performance measure.*
*** Figures for the financial year 2021 are calculated in accordance with CRR II. Comparison periods have not been restated to reflect the updated capital requirements regulation.*

The calculation formulas for all key figures can be found on pages 44–51. All figures presented in this Financial Statements Bulletin are those of MuniFin Group, unless otherwise stated.

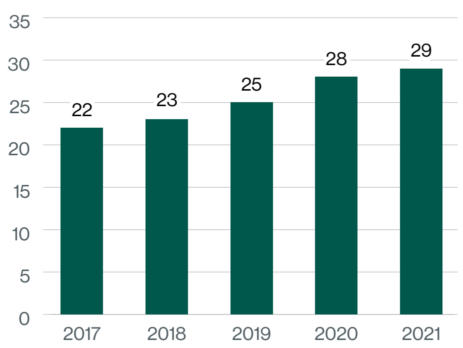
Net operating profit excluding unrealised fair value changes, EUR million*



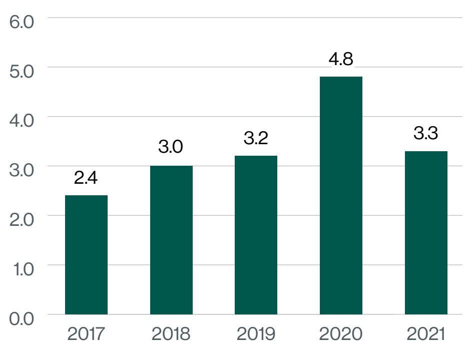
CET1 capital ratio, %**



Long-term customer financing, EUR billion*



New lending, EUR billion*



**Alternative performance measure.*
*** Figures for the financial year 2021 are calculated in accordance with CRR II. Comparison periods have not been restated to reflect the updated capital requirements regulation.*

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Comment on the 2021 financial year by President and CEO Esa Kallio

Finland's economic and employment situation exceeded expectations in 2021 and reached a surprisingly good level. The central government's COVID-19 support package ensured that municipalities have not had to shoulder the negative economic effects of the pandemic.

Municipal sector's demand for financing was lower than expected in 2021. The demand for state-subsidised housing finance grew moderately, as expected. MuniFin's market position is strong, and we continue to be by far the largest single credit institution offering long-term loans for our customer base.

Despite the temporarily improved financial situation, the fiscal sustainability gap and structural problems in the public economy continue to exist. In 2022, we therefore expect the demand for financing in the municipal sector to return to the pre-pandemic level.

The European Union's changes to the capital adequacy regulation were applied at the end of June. Under the new regulation, MuniFin gained the status of a public development credit institution, which significantly eases MuniFin's ability to comply with the leverage ratio capital requirement. This has allowed us to increasingly

transfer the benefit from negative interest rates to our customers, making our loan financing even more affordable than before. This change in our credit terms took force in October, and its benefits will begin to have a wider impact in the interest expenses of our loan customers in 2022.

Once again, our funding succeeded excellently, and the availability of funding in the international capital market remained good. Thanks to our effective funding, we were again able to ensure affordable financing for our customers.

The legislative package for Finland's long-prepared health and social services reform was largely completed in June, allowing municipalities to launch practical preparations. In the future, MuniFin's customers will include the new wellbeing services counties.

Our customers play a key role in mitigating climate change and promoting the green transition. We support our customers in this transition by offering them green finance and sharing our expertise. In 2021, the demand for our green finance continued to grow, and the social finance that we launched in 2020 established its position among our customers.

MuniFin's year started with a renewed organisation and was characterised by renewal and the rooting of new operating models.

I wish to thank our customers for their close collaboration and our staff for their excellent work during this year of external and internal upheaval.

Esa Kallio
President and CEO
Municipality Finance Plc

Operating environment in 2021

The global economy continued to recover rapidly from the COVID-19 recession in the first half of 2021. In Western countries, vaccination programmes proceeded relatively quickly and allowed restrictions to be gradually eased, which strengthened economic confidence and hastened the recovery of demand drivers. Further in the year, the release of pent-up demand put global supply chains to a test, causing a shortage of components and transport services. Disrupted supply chains and the steep increase in energy prices accelerated inflation and weakened consumer buying power. Towards the end of the year, bottlenecks in production and the outbreak of new, quickly spreading coronavirus variants slowed down global growth. The slowdown of growth was particularly substantial in China, where the cooling down of the overheated property sector weakened the development of construction investments and ran large construction companies into difficulties. The global economy is nevertheless expected to have achieved a growth of almost 6% in 2021.

The Finnish economy recovered better than expected. Finland's GDP exceeded the pre-pandemic level already in the second quarter of 2021. Employment also recovered briskly, with the total number of people in employment reaching an all-time high late in the year. The global component shortage also affected Finland's industrial production, but less than in many comparison countries. Finland also saw a smaller increase in inflation than the euro area on average. Labour shortage, the cost increase and the aggravation of the pandemic situation all slowed down Finland's economic growth in the second half of the year. As a whole, residential construction picked up in 2021. The volume of social housing production levelled off slightly after the strong growth of the previous year. The number of housing sales clearly grew in 2021 and the prices of dwellings rose by 3.5–4.0% in Finland. Municipal economy continued to strengthen in 2021 thanks to the central government's COVID-19 support package and surprisingly positive tax income development. The Finnish economy is expected to have grown by approximately 3.5% in 2021.

Monetary policy continued to focus heavily on recovery also in 2021. In the United States, financial policy supported especially private consumption, but late in the year, the Congress passed President Biden's Build Back Better Act introducing massive public investments. In Europe, national measures were complemented by investment programmes funded through NextGenerationEU, the EU's temporary recovery instrument. Monetary policy remained very light, although in the United States, the central bank Fed began to reduce its securities purchases in November and signalled that further tightening measures will be introduced in 2022.

In the first half of 2021, equity markets increased steeply and corporate loan risk premiums shrank in the wake of strong economic recovery. Long-term interest rates also increased, thus setting the price for the gradual normalisation of the monetary policy over the next few years. In the second half of the year, the spread of the Delta and Omicron coronavirus variants and the acceleration of cost-push inflation increased cyclical uncertainty. Share yields and long-term interest rate increases evened out towards the end of the year.

The yield on 10-year Finnish government bonds came to 0.07%, when it stood at -0.40% at the start of the year. Euribor rates remained relatively stable. At the end of 2021, 3-month Euribor was -0.57%. The value of the euro decreased in relation to the US dollar by over 7% in 2021. The drop was particularly influenced by the prospect of the Fed tightening its monetary policy at a considerably brisker pace than the European Central Bank (*ECB*).

Effects of the COVID-19 pandemic on MuniFin Group

The COVID-19 pandemic broke out in March 2020, and although its intensity has fluctuated, the pandemic has now plagued the world for almost two years. As a whole, the pandemic has only had a minor effect on MuniFin Group's financial standing. The pandemic has transformed working methods in the Group: the staff has mostly worked remotely throughout the pandemic.

In the 2021 financial year, the Finnish municipal sector's demand for financing was moderate in comparison, falling back from the spike in demand seen a year ago. The central government's COVID-19 support package in 2020 temporarily improved the financial position of municipalities, which reduced the demand for financing. The pandemic's effects on the demand for state-subsidised housing finance have remained minor throughout the crisis. Overall, the demand for financing in 2021 was slightly smaller than normal.

In 2021, the situation in the funding market stabilised after the previous year's disruptions caused by the COVID-19 pandemic. The Group had good access to funding.

The Group has protected the health and safety of its staff and the continuity of its operations by adhering to the national recommendation to work remotely. This has in part ensured the continuity of MuniFin Group's socially essential services and business processes also during the crisis. In October, the Group introduced a new hybrid work model and began to gradually return to the office, but returned to remote work in late November following the new national recommendation.

To facilitate customers' access to services while the restriction measures are in force, the Group has further developed its digital services and their support. MuniFin Group has also held several online events for customers and other stakeholder groups on themes related to the economic outlook and its effects on municipal finances.

Individual MuniFin Group customers have run into financial difficulties due to the COVID-19 pandemic. If the pandemic has temporarily impacted customers' repayment ability, the Group has offered them repayment holidays and made concessions to the payment terms of their loans. The demand for such arrangements has been modest: the Group granted only a few concessions in 2021. MuniFin Group's total credit risk has remained low, and the amount of expected credit losses (*ECL*) calculated according to the IFRS 9 standard also remains low. The Group's customer exposures have zero risk weight in the Group's capital adequacy calculation because they are from Finnish municipalities or involve a municipal guarantee or a state deficiency guarantee supplementing the real estate collateral. Based on the management's assessment, all receivables from customers will be fully recovered and no final credit losses are therefore expected.

In order to secure the banking sector's ability to continue financing its customers in exceptional circumstances, the banking authorities have eased some requirements for supervised banks. Most of these concessions were no longer applicable in 2021. Regardless of the underlying conditions, MuniFin Group's capital adequacy ratios remain strong.

New variants of the coronavirus continue to cause uncertainty about the course of the pandemic and its effects on MuniFin Group and the economy in general. In any case, growing vaccination coverage significantly helps control this increasing uncertainty.

Effects of the health and social services reform on MuniFin Group

After a lengthy preparation process, the Finnish Parliament passed the legislative package concerning the reform of health and social services in the summer 2021, with the new wellbeing services counties to begin operations on 1 January 2023. At this stage, the wellbeing services counties will be largely funded by the central government, but the counties will nevertheless have government authorisation and guarantees for borrowing.

In terms of financing, the new legislation allows MuniFin to continue to act as a lender/counterparty to the loans and other liabilities that will be transferred to the counties. The Parliament is discussing a proposal that would also allow MuniFin to grant new loans. The purpose is to pass this bill by the time the wellbeing services counties begin their work. The entire health and social services reform and all its parties will benefit if the existing loans and future financing options will not undergo significant changes and the continuity of financing can be secured.

The FIN-FSA decided in January 2022, based on the consultation round held in late 2021, that wellbeing services counties, similar to the central and local government, will also fall in the zero-risk category in the capital adequacy regulation of banks. This decision simplifies the financing arrangements because it means that separate government guarantees are not required and that MuniFin can finance wellbeing services counties in the same way it does municipalities.

In 2022, the health and social services reform will be reflected in the Group's operations as practical preparation to act as a financing counterparty to the new wellbeing services counties. It is difficult to estimate the wider economic impact of the reform at this stage, when there is no practical information available on how wellbeing services counties will function. Wellbeing services counties' future level of investments will effect on MuniFin's financing volumes, but on the other hand the operating expenditures of the counties will be covered from the government's budget. In MuniFin's financing operations, health and social services lending plays such a role that changes in it will not have a material impact on MuniFin Group's financial development in the near future.

Information on the Group results

Consolidated income statement (EUR million)	01–12/2021	01–12/2020	Change, %
Net interest income	280	254	10.3
Other income	4	2	85.4
Income excluding unrealised fair value changes	**285**	**257**	**11.0**
Commission expenses	-5	-5	-0.2
Personnel expenses	-18	-18	-0.3
Other administrative expenses	-17	-15	11.6
Depreciation and impairment on tangible and intangible assets	-16	-6	>100
Other operating expenses	-16	-15	6.6
Costs	**-72**	**-58**	**22.4**
Credit loss and impairments on financial assets	0	-1	-87.8
Net operating profit excluding unrealised fair value changes	**213**	**197**	**8.0**
Unrealised fair value changes	27	-3	<-100
Net operating profit	**240**	**194**	**23.5**
Profit for the financial year	**192**	**155**	**23.4**

The sum of individual results may differ from the displayed total due rounding. Changes of more than 100% are shown as >100% or <-100%.

Group's net operating profit excluding unrealised fair value changes

MuniFin Group's core business operations remained strong during 2021. The Group's net operating profit excluding unrealised fair value changes grew by 8.0% (6.2%) and totalled EUR 213 million (EUR 197 million). Income excluding unrealised fair value changes was EUR 285 million (EUR 257 million) and grew by 11.0% (4.3%). The Group's costs were EUR 72 million (EUR 58 million) rising by 22.4% from the previous year. The non-recurring item related to impairment on on-going IT system implementation, EUR 10.5 million, increased costs. Costs excluding the non-recurring item grew as predicted and were 4.4% higher than in previous year (-3.0%). The COVID-19 pandemic did not have a significant negative impact on the Group's core business and profitability in 2021 or in comparison year.

Net interest income totalled EUR 280 million (EUR 254 million), and increased by 10.3% (5.8%) from the previous year. Net interest income was positively affected by growing volumes and low market interest rates. In October 2021, the Group changed the conditions of its long-term customer loans with variable interest rates so that its customers will benefit from negative reference rates better than before. This change only had a minor effect on the Group's profits. The Group's net interest income does not recognise the interest expenses of EUR 16 million of the AT1 capital instrument, as the capital loan is treated as an equity instrument in the consolidated accounts. The interest expenses of the capital loan are treated similarly to dividend distribution; that is, as a decrease in retained earnings under equity upon realisation of interest payment on an annual basis.

Other income grew from the previous year to EUR 4 million (EUR 2 million). Other income includes commission income, realised net income from securities and foreign exchange transactions, net income on financial assets at fair value through other comprehensive income, and other operating income. In addition, the turnover of MuniFin's subsidiary company Financial Advisory Services Inspira is included in the other income.

During 2020, the COVID-19 pandemic slowed cost growth, making the year's costs unusually low. Costs started rising again in 2021, although the growth was slower than before the pandemic.

Commission expenses totalled EUR 5 million (EUR 5 million) and consisted primarily of paid guarantee fees, custody fees and funding programme update fees.

Administrative expenses reached EUR 35 million (EUR 33 million) and grew by 5.2% (2.3%). Of this, personnel expenses comprised EUR 18 million (EUR 18 million) and other administrative expenses EUR 17 million (EUR 15 million). Personnel expenses were almost at the same level than in previous year and were 0.3% (0.8%) less than in 2020. There were no significant changes in employee numbers and the average number of employees in the Group was 162 (167). Salary and pension costs decreased slightly during the financial year.

Other items in administrative expenses grew by 11.6% (4.0%) during the financial year. The cost of maintaining and developing information systems has increased IT expenses, but on the other hand, the COVID-19 pandemic has reduced certain types of expenditure, such as travelling expenses both in 2021 and 2020. In 2019, MuniFin Group signed outsourcing agreements for IT end-user and infrastructure services as well as the operation of the business IT systems to improve operational reliability and the availability of services. This implementation project was completed in late 2021.

During the financial year, depreciation and impairment of tangible and intangible assets reached EUR 16 million (EUR 6 million). The item includes impairment of EUR 10.5 million on the Group's significant on-going IT system implementation.

Other operating expenses increased by 6.6% (-17.1%) to EUR 16 million (EUR 15 million). Fees collected by authorities increased by 23.0% (13.6%) to EUR 9 million (EUR 7 million), mainly due to an increase in the contribution to the Single Resolution Fund, which grew by 30.5% to EUR 6.7 million (EUR 5.2 million). These fees excluded, other expenses were EUR 6 million (EUR 7 million), decreasing by 10.3% (-35.1%), mostly due to smaller purchases of external services compared to 2020. Other expenses include a provision of EUR 0.4 million related to a possible tax increase following a tax interpretation issue from previous years.

The amount of expected credit losses (*ECL*), calculated according to IFRS 9, decreased during the financial year and was EUR -0.1 million (EUR -0.9 million). MuniFin Group has updated the scenarios and weights used to calculate ECL.

In 2020, MuniFin Group recorded an additional discretionary provision (*management overlay*) of EUR 0.3 million to take into account the financial effects of the COVID-19 pandemic. This was due to the fact that the deteriorating financial situation of certain customer segments had not yet reflected in MuniFin Group's internal risk ratings for these segments, and therefore the Group's management decided to record an additional discretionary provision based on a group-specific assessment. The financial situation of these customer segments later improved, and the management decided to remove the additional discretionary provision in late 2021. At the end of 2021, the Group's management decided to record an additional discretionary provision of EUR 0.4 million to take into account ECL model changes that will take place in 2022. During 2022, the Group will further develop loss given default (*LGD*) calculation of mortgage loans as well as lifetime ECL calculations.

The Group's overall credit risk position has remained low. According to the management's assessment, all receivables will be recovered in full and no final credit loss will therefore arise, because the receivables are from Finnish municipalities, or they are accompanied by a securing municipal guarantee or a state deficiency guarantee supplementing mortgage collateral. During the Group's history of more than 30 years, it has never recognised any final credit losses in its customer financing.

At the end 2021, the Group had a total of EUR 19 (EUR 24 million) of guarantee receivables from public sector entities due to customer insolvency, which are still under 0.01% of total customer exposure. The credit risk of the liquidity portfolio has remained at a good level, its average credit rating being AA+ (AA+).

Group's profit and unrealised fair value changes

The Group's net operating profit was EUR 240 million (EUR 194 million). Unrealised fair value changes improved the Group's net operating profit by EUR 27 million, while in the previous year it had a negative impact of EUR 3 million. In 2021, net income from hedge accounting amounted to EUR 5 million (EUR 4 million) and unrealised net income from securities transactions to EUR 22 million (EUR -7 million).

The Group's effective tax rate during the financial year was 20.1% (20.0%). Taxes in the consolidated income statement amounted to EUR 48 million (EUR 39 million). After taxes, the Group's profit for the financial year was EUR 192 million (EUR 155 million). The Group's full-year return on equity (*ROE*) was 10.7% (9.4%). Excluding unrealised fair value changes, the ROE was 9.6% (9.6%).

The Group's other comprehensive income includes unrealised fair value changes of EUR -3 million (EUR -32 million). During the financial year, the most significant item affecting the other comprehensive income was cost-of-hedging, EUR -3 million (EUR -16 million). The fair value change due to changes in own credit risk of financial liabilities designated at fair value through profit or loss totalled EUR 0.4 million (EUR -17 million).

On the whole, unrealised fair value changes net of deferred tax affected the Group's equity by EUR 19 million (EUR -28 million) and CET1 capital net of deferred tax in capital adequacy by EUR 19 million (EUR -15 million). The cumulative effect of unrealised fair value changes on the Group's own funds in capital adequacy calculations was EUR 31 million (EUR 12 million).

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

In accordance with its risk management principles, MuniFin Group uses derivatives to financially hedge against interest rate, exchange rate and other market and price risks. Cash flows under agreements are hedged, but due to the generally used valuation methods, changes in fair value differ between the financial instrument and the respective hedging derivative. Changes in the shape of the interest rate curve and credit risk spreads in different currencies affect the valuations, which cause the fair values of hedged assets and liabilities and hedging instruments to behave in different ways. In practice, the changes in valuations are not realised on a cash basis because the Group primarily holds financial instruments and their hedging derivatives almost always until the maturity date. Changes in credit risk spreads are not expected to be materialised as credit losses for the Group, because the Group's liquidity reserve has been invested in instruments with low credit risk. In the financial year, unrealised fair value changes were influenced in particular by changes in interest rate expectations and credit risk spreads in the Group's main funding markets.

Parent Company's result

MuniFin's total net interest income at year-end was EUR 264 million (EUR 238 million), and its net operating profit stood at EUR 223 million (EUR 178 million). The profit after appropriations and taxes was EUR 137 million (EUR 22 million). The interest expenses of EUR 16 million for 2021 on the AT1 capital loan, which forms part of Additional Tier 1 capital in capital adequacy calculation, have been deducted in full from the Parent Company's net interest income (EUR 16 million). In the Parent Company, the AT1 capital loan has been recorded under the balance sheet item *Subordinated liabilities*.

Subsidiary Inspira

The turnover of MuniFin's subsidiary company, Financial Advisory Services Inspira Ltd, was EUR 1.7 million for 2021 (EUR 2.8 million), and its net operating profit amounted to EUR 0.1 million (EUR 0.1 million).

Information on the consolidated statement of financial position

Consolidated statement of financial position (EUR million)	31 Dec 2021	31 Dec 2020	Change, %
Cash and balances with central banks	8,399	5,566	50.9
Loans and advances to credit institutions	1,417	1,842	-23.0
Loans and advances to the public and public sector entities	29,214	28,022	4.3
Debt securities	4,841	5,763	-16.0
Derivative contracts	2,000	2,358	-15.2
Other items included in the assets	489	491	-0.5
Total assets	**46,360**	**44,042**	**5.3**
Liabilities to credit institutions	2,801	2,001	39.9
Liabilities to the public and public sector entities	3,325	3,884	-14.4
Debt securities issued	35,328	32,912	7.3
Derivative contracts	2,224	2,861	-22.2
Other items included in the assets	821	679	20.8
Total equity	1,862	1,705	9.2
Total liabilities and equity	**46,360**	**44,042**	**5.3**

MuniFin Group's consolidated statement of financial position totalled EUR 46,360 million (EUR 44,042 million) and grew by 5.3% (13.1%). The increase in assets was mainly due to growth in total liquidity under central bank deposits (cash and balances with central banks) and in long-term customer financing (loans and advances to the public and public sector entities). The increase in liabilities is due to liabilities to credit institutions and in debt securities issued.

At the end of 2021, the Group's equity stood at EUR 1,862 million (EUR 1,705 million), including the AT1 capital loan of EUR 347 million (EUR 347 million). The profit of the financial year increased the equity. In addition, in the consolidated accounts, interest expenses amounting to EUR 12.6 million (EUR 12.6 million) net of deferred tax on the AT1 capital instrument were deducted from the equity upon the realisation of the interest payment in April, as were the dividends of EUR 20.3 million (EUR 6.3 million) for the 2020 financial year, paid to MuniFin's shareholders in October 2021.

The Parent Company's balance sheet at the end of the year was EUR 46,359 million (EUR 44,042 million).

Financing and other services for customers

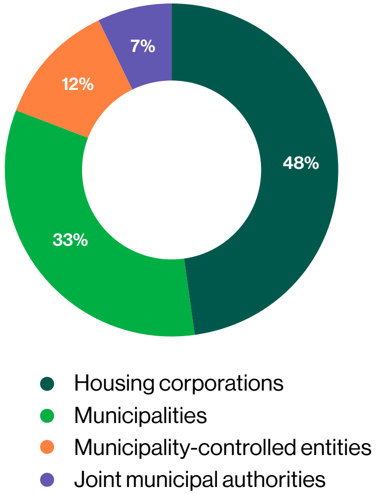
MuniFin is a public development credit institution under CRD/CRR and is the only credit institution in Finland that specialises in financing for the local government sector and state-subsidised housing production. It is by far the largest financier for its customer base. MuniFin Group's customers consist of municipalities, joint municipal authorities, and municipality-controlled entities, as well as non-profit organisations and projects 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 and a risk weight of 0% in capital adequacy calculations. The Group offers its customers diverse financing services and extensive support in investment planning and financial management.

In 2021, the demand for financing in the municipal sector was moderate, returning to normal levels from the spike created by the COVID-19 pandemic a year earlier. The central government's COVID-19 support package in 2020 temporarily improved the financial position of municipalities, and because the economic situation of municipalities has been better than expected, the demand for financing has been lower. The pandemic has only had a minor effect on the demand for state-subsidised housing finance throughout the duration of the pandemic, and as a whole, the demand for this type of financing increased moderately in 2021.

MuniFin Group's position as a provider of financing for its customer segment remained strong also in 2021. Demand for MuniFin's financing decreased during the year: new lending was EUR 3,275 million (EUR 4,764 million). The decrease in new lending was mainly due to the demand of financing returning back to its normal level after the unusually high demand of 2020 caused by the COVID-19 pandemic.

The Group's long-term customer financing amounted to EUR 29,214 million (EUR 28,022 million) at the end of 2021 and grew by 4.3% (13.0%). This figure includes long-term loans and leased assets. Long-term customer financing excluding unrealised fair value changes amounted to EUR 29,064 million (EUR 27,511 million) at the end of the year. The growth was 5.6% (12.5%). Short-term customer financing (commercial papers to municipalities and municipal companies) decreased during the financial year and was EUR 1,089 million (EUR 1,310 million) at the end of the year. Customer interest in sustainable finance products continued

Lending portfolio by customer type at 31 Dec 2021, %



to increase. MuniFin grants green finance to investments that produce clear and measurable environmental benefits. Of long-term customer financing, green finance accounted for EUR 2,328 million (EUR 1,786 million) at the end of the year. Projects funded with MuniFin's social finance produce widespread social benefits and promote equality, communality, welfare or regional vitality. Social finance accounted for EUR 1,164 million (EUR 589 million) of long-term customer financing. MuniFin puts forward suitable projects to evaluation teams mostly comprised of independent experts outside the Group, which then decide which projects are granted green and social finance.

The turnover of MuniFin's subsidiary company Inspira, specialising in financial advisory services, decreased during the financial year. In 2021, Inspira focused on improving its service offering, introducing development projects that offer tools for more comprehensive financial planning and launching new services that help municipalities analyse the financial effects of Finland's health and social services reform.

MuniFin Group offers its customers a wide range of tools for financial management, forecasting, modelling and reporting, and their user base has been growing steadily also in 2021. The COVID-19 pandemic has increased the need to use the Group's digital services in remote working contexts. The Group has continued to develop its digital services and the digitalisation of its financing process in order to make the customer experience even more user-friendly and efficient; for example, customers now have the option to apply for financing online. MuniFin Group's online events, digital training sessions and economic reports have gained a firm foothold and keep attracting larger audiences.

In 2021, the Group decided to change the conditions of its long-term customer loans with variable interest rates so that its customers will benefit from negative reference rates more than before. The change took effect in October and was received very positively among the Group's customers. It did not significantly affect the Group's results for 2021 or benefits received by the customers. The impact of the decision on customer benefits is estimated to be significantly larger in 2022. This change was enabled by the CRR II regulation that entered into force at the end of June and recognised MuniFin's role as a public development credit institution, substantially decreasing the Group's total exposure of leverage ratio, which in turn decreases the Group's long-term profitability target and enabled previously described changes in lending terms.

Funding and liquidity management

MuniFin Group's funding strategy is to diversify its funding sources to ensure access to funding under all market conditions. The Group actively diversifies its funding across multiple currencies, maturities, geographical areas and investor groups. Proactive long-term cooperation with investors has increased MuniFin Group's name recognition in various markets.

Capital markets remained stable in 2021 despite the prolonged COVID-19 pandemic. Central banks' financing operations and securities purchase programmes helped maintain strong market liquidity, low interest rates and low credit risk premiums. The global economy recovered from the pandemic at a rapid rate, but uncertainty began to increase towards the end of the year as inflation started to make the headlines both in Europe and the US.

MuniFin Group's funding operations were successful and carried out as planned in 2021. The stable market situation upheld high investor demand, which kept the Group's funding costs lower than expected. Many of MuniFin Group's customers performed well financially and therefore required less financing, which in turn made the Group's own need for funding slightly lower than anticipated.

The main focus in MuniFin Group's funding continued to be on public arrangements, which attracted very strong investor demand. During 2021, MuniFin issued dollar-denominated benchmark bonds of USD 1.5 billion and USD 1 billion, and euro-denominated benchmark bonds of EUR 1 billion and EUR 500 million. In addition to these benchmark bonds, MuniFin continued to issue sustainable bonds, increasing its social bond, launched in 2020, by EUR 500 million, and issuing a green bond of GBP 300 million in November. Moreover, MuniFin participated for the second time in the ECB's third series of targeted longer-term refinancing operations (*TLTRO III*) with EUR 750 million, which partly enabled to ensure customer financing on competitive terms.

In 2021, the Group also continued its strong operations in the Japanese Uridashi market, releasing bonds totalling EUR 1,369 million (EUR 1,221 million) and thus being one the most active issuers in this market.

MuniFin Group acquires all of its funding from the international capital market. In 2021, MuniFin Group's new long-term funding totalled EUR 9,395 million (EUR 10,966 million). A total of 208 (218) long-term funding arrangements were made in 13 (11) different currencies. The Group uses derivatives to hedge against market risks.

At the end of 2021, MuniFin Group's total funding amounted to EUR 40,712 million (EUR 38,139 million) of which MuniFin's short-term debt instruments under the Euro Commercial Paper (*ECP*) programme amounted to EUR 3,819 million (EUR 3,896 million). Of total funding, 49% (50%) was denominated in euros and 51% (50%) in foreign currencies.

The majority of MuniFin Group's funding transactions are arranged as standardised issues under debt programmes, of which MuniFin uses the following:

Medium Term Note *(MTN)* programme	EUR 40,000 million
Euro Commercial Paper (*ECP*) programme	EUR 10,000 million
AUD debt programme (*Kangaroo*)	AUD 2,000 million

MuniFin's funding is guaranteed by the Municipal Guarantee Board (*MGB*), a public law institution whose members consists of all municipalities in mainland Finland. The members are responsible for the liabilities of the MGB in proportion to their population. The MGB 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.

MuniFin Group's liquidity has remained excellent. The Group's investment operations mostly comprise the management of prefunding, and the funds are invested in liquid and highly rated financial instruments to ensure business continuity under all market conditions. According to the Group's liquidity policy, its total liquidity amount must be enough to cover uninterrupted business (including new net customer financing) for at least 12 months.

At the end of 2021, MuniFin Group's total liquidity was EUR 12,222 million (EUR 10,089 million). Of this, central bank deposits totalled EUR 8,435 million (EUR 5,601 million) and investments in liquid, low-risk securities EUR 3,753 million (EUR 4,453 million), with the average credit rating of AA+ (AA+) and average maturity of 2.6 years (2.8). In addition to this, money market deposits in credit institutions totalled EUR 34 million (EUR 35 million).

The Group actively monitors and improves the sustainability of its funding and investments. In addition to low credit risk and high liquidity, MuniFin Group monitors the sustainability of its liquidity investments through ESG *(Environmental, Social and Governance)* scores [1]. At the end of 2021, MuniFin Group's liquidity investments had an average ESG score of 59.3 (55.7) on a scale of 1–100, well above the benchmark index of 55.9 (53.3). In addition to monitoring the ESG scoring of its investments, the Group also has direct sustainable investments. At the end of the year, these amounted to EUR 456 million (EUR 355 million), which is 12.1% (8.0%) of all investments in securities. The Group's ratio of sustainable investments is higher than the market benchmark of 5.0% (2.1%). The ratio of socially responsible investments to MuniFin Group's own green and social funding was 15.6% (13.8%). In September 2021, MuniFin Group published its Sustainable Investment Framework, which describes the principles, processes and responsibilities of the Group's investment operations. The Framework is available in English on MuniFin's website.

[1] *ESG score is calculated quarterly by external service provider. ESG score takes into account inter alia the quality of ESG governance, business model and possible controversies in ESG matters.*

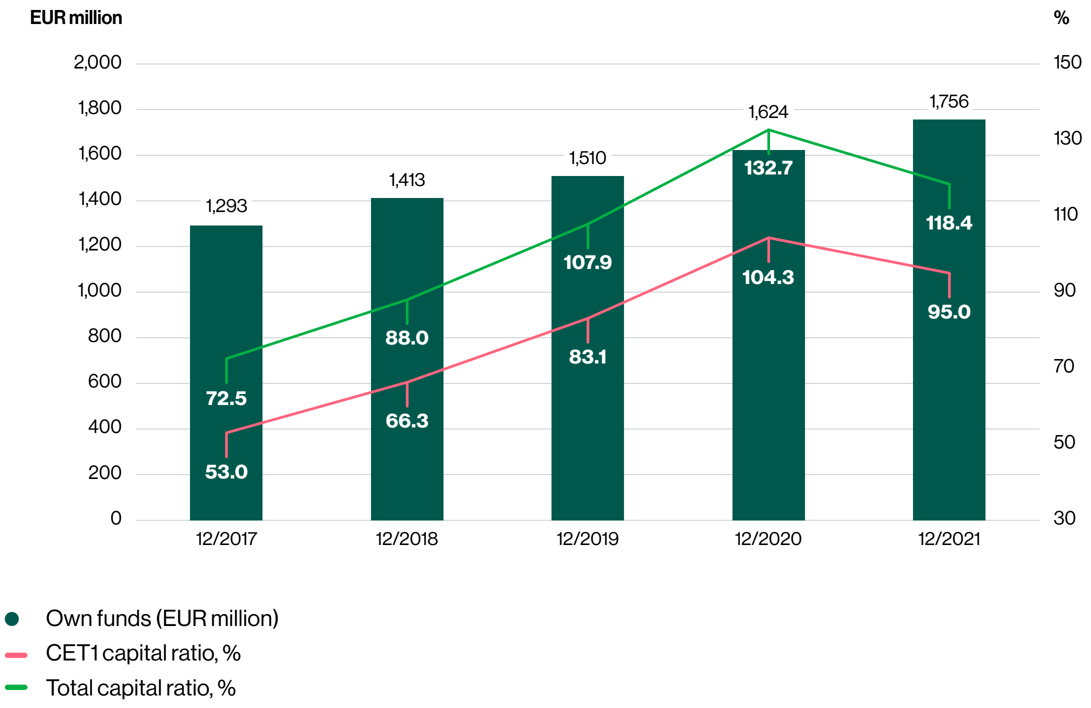
MuniFin's credit ratings

RATING AGENCY	Long-term funding	Outlook	Short-term funding
Moody's Investors Service	Aa1	Stable	P-1
Standard & Poor's	AA+	Stable	A-1+

MuniFin's credit ratings correspond to those of the Government of Finland. The credit ratings did not change during the financial year. The MGB, which guarantees MuniFin Group's funding, also has the corresponding ratings.

Capital adequacy

Group's own funds and capital adequacy



Group's own funds and capital adequacy
At the end of 2021, the Group's total capital ratio was 118.4% (132.7%) and its CET1 capital ratio was 95.0% (104.3%). The CRR II regulation applied at the end of June 2021 had a depressing effect on capital adequacy, especially due to the changes in the standardised method for measuring counterparty credit risk *(SA-CCR)* and the credit valuation adjustment risk *(CVA VaR)*. This impact was considerably greater than estimated. Figures for the comparison period have not been adjusted to reflect the updated regulation.

At 95.0%, MuniFin Group's CET1 capital ratio surpasses the minimum requirement set in legislation, taking into account also valid capital buffers, over sevenfold.

CONSOLIDATED OWN FUNDS (EUR 1,000)	31 Dec 2021	31 Dec 2020
Common Equity Tier 1 before regulatory adjustments	1,464,442	1,328,150
Regulatory adjustments to Common Equity Tier 1	-56,172	-51,338
Common Equity Tier 1 (*CET1*)	**1,408,270**	**1,276,812**
Additional Tier 1 capital before regulatory adjustments	347,454	347,454
Regulatory adjustments to Additional Tier 1 capital	-	-
Additional Tier 1 capital (*AT1*)	**347,454**	**347,454**
Tier 1 capital (*T1*)	**1,755,723**	**1,624,265**
Tier 2 capital before regulatory adjustments	-	-
Regulatory adjustments to Tier 2 capital	-	-
Tier 2 capital (*T2*)	**-**	**-**
Total own funds	**1,755,723**	**1,624,265**

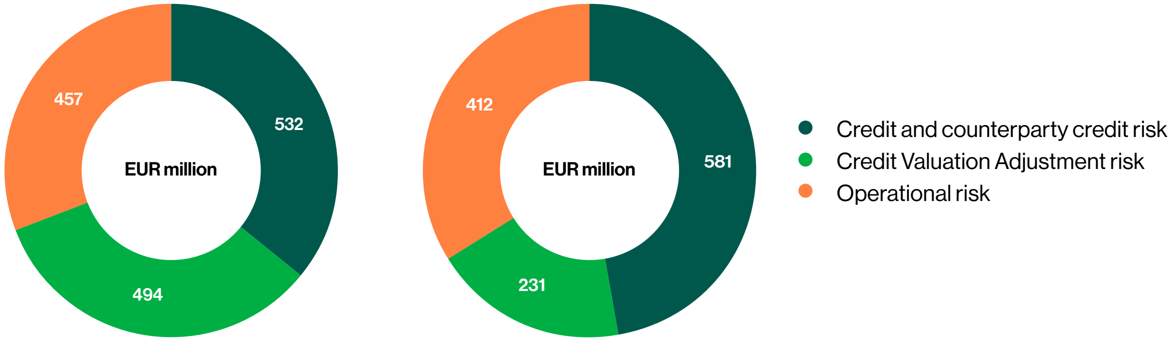
At the end of 2021, MuniFin Group's CET1 capital totalled EUR 1,408 million (EUR 1,277 million) and Tier 1 capital EUR 1,756 million (EUR 1,624 million). The Group had no Tier 2 capital. The Group's own funds totalled EUR 1,756 million (EUR 1,624 million).

The CET1 capital includes the profit for the financial year. The profit has been subject to a financial review by auditors and can therefore be included in CET1 capital based on the permission granted by the ECB in accordance with the Capital Requirements Regulation (*CRR*).

MuniFin Group applies the core approach for additional valuation adjustment (*AVA*) in prudent valuation. At the end of 2020, the Group applied the Commission's Delegated Regulation that relaxed the aggregation factor that is applied in certain valuations in the AVA calculation. The aggregation factor was returned to its previous level at the start of 2021, and at the end of the reporting period, the Group deducted the prudent valuation adjustment from its CET1 capital in full. At the end of December 2020, this temporary relief had a EUR 8 million effect on the Group's own funds.

Total risk exposure amount 12/2021
EUR 1,482 million

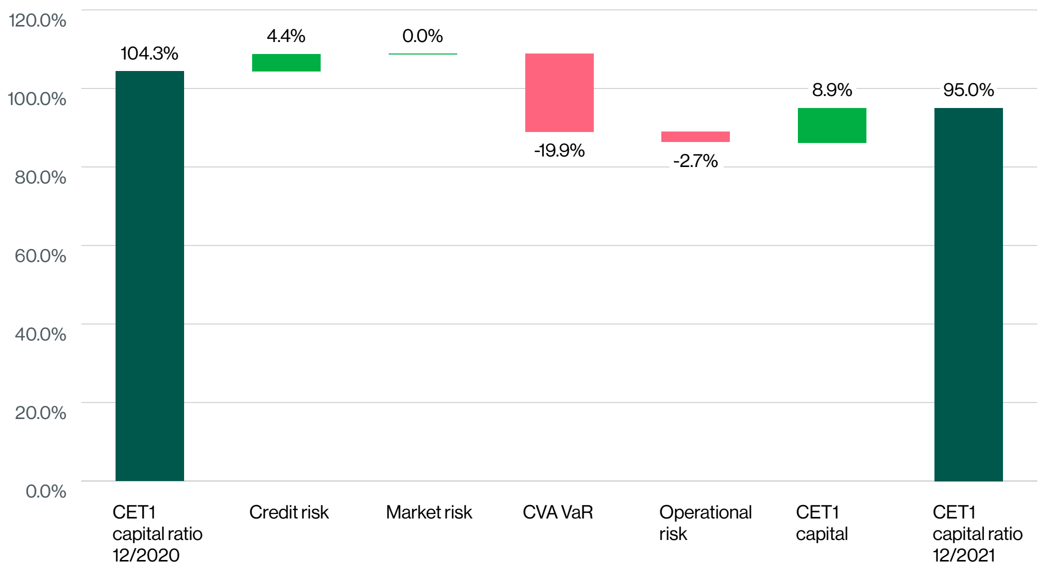
Total risk exposure amount 12/2020
EUR 1,224 million



There was no capital requirement for market risk at the end of 2021 and 2020.

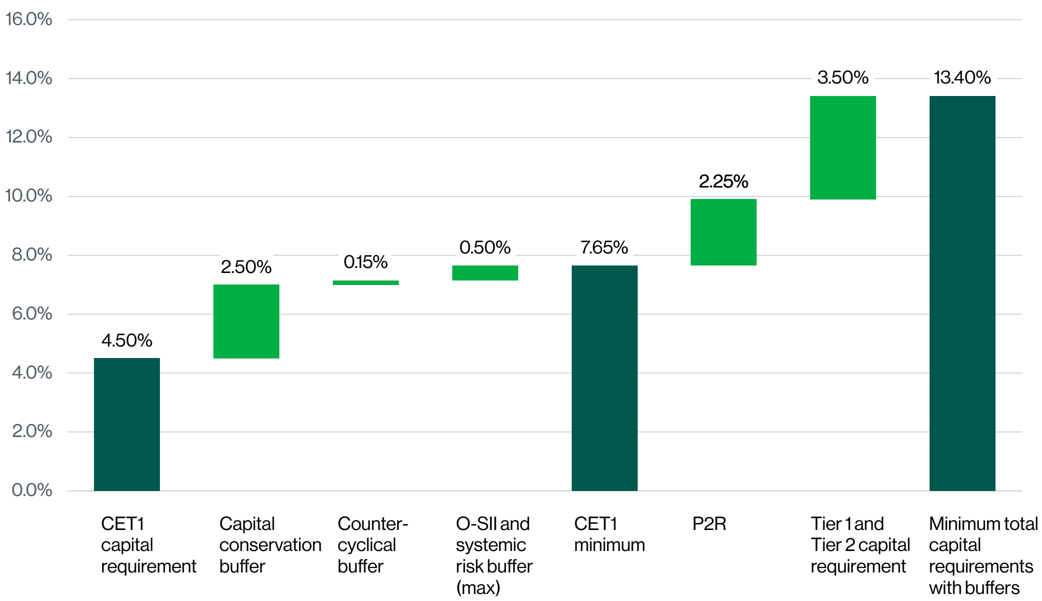
The Group's total risk exposure amount increased by 21.2% from the end of 2020, totalling EUR 1,482 million (EUR 1,224 million) at the end of the 2021. In total, the risk exposure amount for credit and counterparty credit risk decreased by EUR 49 million. However, for counterparty credit risk, the risk exposure amount under CRR II, calculated using the standardised method, increased to EUR 59 million from EUR 41 million at the end of 2020. In addition, a reclassification was made in the credit risk calculation in the category *Exposures to corporates*, which includes receivables from credit institutions and clearing houses located in the United Kingdom. Following Brexit, these counterparties will no longer be reported as receivables from institutions under Article 107 (3) of CRR.

Group's CET1 capital ratio changes, %



There was no capital requirement for market risk at the end of 2021 or in the comparison year, because the currency position was less than 2% of own funds, and, based on Article 351 of the CRR, the own funds requirement for market risk has therefore not been reported. The credit valuation adjustment risk increased to EUR 494 million (EUR 231 million). The increase was especially related to the exposure-at-default (*EAD*) value of derivatives used in the calculation, as the calculation changed with CRR II regulation. The risk exposure amount of operational risk was EUR 457 million (EUR 412 million) and the growth was due to the increase in profit indicators. As of the end of 2020, the Group has applied the European Banking Authority EBA's recommendation regarding the calculation of the profit indicator for operational risk. According to this recommendation, the profit indicator is to be calculated using the last three year-end observations, including the current reporting period's year-end observation. The indicator is then applied for the next twelve months from the time of calculation.

Group's minimum capital requirements and capital buffers, %



Group's minimum capital requirements and capital buffers

The minimum capital requirement is 8% for capital adequacy and 4.5% for CET1 capital adequacy. Under the Act on Credit Institutions, the capital conservation buffer is 2.5% and, for MuniFin Group, the additional capital requirement for other systemically important credit institutions (*O-SII*) is 0.5%. At the end of June 2021, the FIN-FSA gave its annual decision and MuniFin Group's O-SII buffer was kept unchanged at 0.5%.

The FIN-FSA decides on an additional capital requirement for the MuniFin Group based on the systemic risk buffer and adjusts it annually. This requirement has been 1.5% since July 2019. In April 2020, the FIN-FSA adjusted the capital requirements for the largest credit institutions in Finland, aiming to mitigate the negative effect the COVID-19 pandemic could have on the stability of financial markets and on the capacity of credit institutions to finance the economy. The FIN-FSA removed MuniFin Group's abovementioned systemic risk buffer of 1.5%, effective immediately, which reduced the Group's overall capital requirements by 1.0 percentage points. By the end of the financial year, the FIN-FSA had not imposed a new systemic risk buffer for the MuniFin Group. The systemic risk buffer and the O-SII buffer are parallel buffers, of which only the greater is applied.

The FIN-FSA also decides on a countercyclical capital buffer requirement on a quarterly basis, and it decided not to impose such a buffer in December 2021. For MuniFin Group, the credit institution-specific countercyclical capital buffer requirement that is imposed based on the geographical distribution of exposures is 0.15% (0.21%). The Group therefore has a minimum requirement of 7.65% (7.71%) for CET1 capital ratio and 11.15% (11.21%) for total capital ratio.

In addition to the above-mentioned requirements, the ECB has imposed a bank-specific Pillar 2 Requirement (*P2R*) of 2.25% on MuniFin Group as part of the annual Supervisory Review and Evaluation Process (*SREP*). Including this P2R requirement, the total SREP capital requirement ratio (*TSCR*) was 10.25% (10.25%) at the end of December 2021. The minimum level of total capital ratio was 13.40% (13.46%) including P2R and other additional capital buffers. For 2021 SREP, MuniFin Group received the decision early February 2022. The P2R is 2.00% from 1 March 2022 onwards, and the minimum level of total capital ratio is 13.15% and TSCR is 10.00%.

Leverage ratio, Liquidity Coverage Ratio and Net Stable Funding Ratio

At the end of December, MuniFin Group's leverage ratio was 12.8% (3.9%). MuniFin fulfils the CRR II definition of a public development credit institution and may therefore deduct all credit receivables from municipalities and the central government in the calculation of its leverage ratio. The amount of credit receivables from municipalities and the central government was EUR 31,568 million at the end of December. This change explains the growth of leverage ratio. The effect of the CRR II regulation coming into force at the end of June 2021, was 8.8 percentage points to the leverage ratio. The minimum requirement for leverage ratio has stood at 3%. Figures for the comparison period have not been adjusted to reflect the updated regulation.

At the end of 2021, MuniFin Group's Liquidity Coverage Ratio (*LCR*) was 334.9% (264.4%). The minimum requirement is 100%.

As part of the changes to the regulation of banks' capital adequacy, a new Net Stable Funding Ratio (*NSFR*) requirement took effect in June 2021. At the end of December, the Group's NSFR was 123.6% (116.4%). The minimum requirement is 100%.

Future changes in banking regulation

At the end of October, the European Commission published its proposal for the implementation of the final Basel III banking regulatory standards in the EU (so called *CRR III package*). The reform will affect the bank's solvency calculation, especially in credit, market and operational risk calculations, in CVA VaR, in leverage ratio calculation and introduces a new output floor. MuniFin Group's business model is based on zero risk-weighted customer financing and there will not be any changes on this when implementing Basel III package. However, the reform will affect on the Group's calculation methods and reporting in capital adequacy calculations. Impact assessment of the changes will become more precise in the coming years as the Group prepares for the entry into force of the CRR III regulations.

MuniFin Group also prepares for the implementation of the European Commission's delegated regulation (2016/2251) on the replacement of the initial margin of bilateral derivative transactions with securities collateral. The Group will enter this in phase 6, which comes into the force in September 2022.

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

MuniFin's crisis resolution authority is the EU's Single Resolution Board (*SRB*). The SRB has imposed on MuniFin a binding minimum requirement for own funds and eligible liabilities (*MREL*). The size of the MREL requirement is 10.25% of the total risk exposure amount and 3.00% of the leverage ratio exposure. The MREL requirement takes into account SRB's decision on that the simplified resolution strategy is applied to MuniFin.

The MREL requirement will take effect on 1 January 2024, but MuniFin must fully comply with the final MREL target levels from 1 January 2022 onwards. MuniFin's own funds and eligible liabilities exceed the minimum requirements by a wide margin. Because the Group's own funds and eligible liabilities currently fulfil the MREL requirements, there is no present need for MuniFin to issue Tier 3 instruments.

Risk management

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

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

The Group's risk position

There were no material changes in MuniFin Group's risk appetite during 2021, and risks remained within the limits set by the Board of Directors during the year. The COVID-19 pandemic may affect the Group's counterparty risk, liquidity portfolio credit risk and risks related to liquidity, lending and business processes. So far, however, the Group's risk position has remained stable and at a moderate level throughout the pandemic. Unrealised fair value changes of financial instruments caused volatility of profits during the financial year. The Group continuously monitors and analyses the volatility arising from valuations and prepares for any impacts this may have on its profit and capital adequacy.

The direct impact of the withdrawal of the United Kingdom from the European Union (*Brexit*) has been limited to MuniFin Group. The Group has reshaped its business relationships to ensure its funding and liquidity after Brexit.

Also underway during the financial year, was the process of replacing IBOR reference rates with alternative, nearly risk-free reference rates. So far, the IBOR reform has not had a significant impact on the Group's risk management principles.

In early 2021, MuniFin Group participated in the SSM Stress Test led by the ECB. The stress test covered the years 2021–2023. MuniFin Group's capital adequacy and leverage ratio remained extremely strong even under the adverse scenario. In this adverse scenario, the Group's CET1 capital ratio stood at 67% and its leverage ratio at 3.6% *(CRR)* at the end of 2023. Both figures clearly exceed regulatory requirements.

The Group is exposed to credit risks as part of its business. Due to the nature of its customer base, credit risks are low. The credit risks emerge almost exclusively from customer financing, the liquidity portfolio investments and the derivatives portfolio. MuniFin also offers derivative products for its customers for hedging their interest rate positions. These products are covered with offsetting contracts from the market. The Group only uses derivatives for hedging against market risks.

In view of its credit risk mitigation techniques (mortgage collateral and guarantees received) and exemptions set out in CRR II Article 400 related to the calculation of large exposures, the Group is not exposed to customer risk meant by large exposure regulation in its customer financing, and thus the customer risk of any individual customer does not exceed 10% of own funds. The amount of expected credit losses slightly decreased during the financial year and was EUR -0.1 million (EUR -0.9 million) recognised in the income statement. The amount of forborne receivables at the end of 2021 was EUR 88 million (EUR 88 million), while non-performing exposures amounted to EUR 128 million at the end of 2021 (EUR 136 million). For these non-performing exposures, MuniFin has absolute guarantees by municipalities or real estate collateral and state deficiency guarantee, and these exposures are therefore not expected to carry the risk of a final credit loss. Non-performing exposures represented 0.4% of total customer exposure (0.5%).

MuniFin's credit risk position remained stable and at a low level during the reporting period. The COVID-19 pandemic has not weakened the Group's credit risk position, and it is expected to remain stable and in line with the Group's credit risk strategy also in the future.

Market risks include interest rate risk, exchange rate risk and other market and price risks. The Group uses derivatives to hedge against market risks. Derivatives can only be used for hedging purposes as the Group does not engage in trading activities. Interest rate risk mainly arises from the differences in Euribor rates applicable to the assets and liabilities in the balance sheet. MuniFin Group actively monitors and hedges its interest rate risk. Eight scenarios are used in the calculation of the NII risk, of which the least favourable outcome is considered. The least favourable scenario was based on an assumption of a rise of 50 basis points in the whole interest rate curve. One-year NII risk at the end of the year was EUR 0 million (EUR -32 million). Several scenarios are also used in the calculation of the Economic Value of Equity, of which the least favourable outcome is considered. The least favourable scenario was based on an assumption of a rise of 50 basis points in the whole interest rate curve. The Economic Value of Equity at the end of the year was EUR -13 million (EUR -345 million).

MuniFin Group's FX risk is hedged by using derivative contracts to swap all funding and investments denominated in foreign currency into euros. The Group's lending and other customer finance items are denominated in euros. The Group has no significant open FX positions. In practice, a small temporary exchange rate risk may arise due to collateral management in the clearing of derivatives by central counterparties. This exchange rate risk is actively monitored and hedged. Derivatives are also used to hedge against other market and price risks. The Group has also determined valuation risk as a significant risk for its business. Unrealised fair value changes of financial instruments increase the Group's earnings volatility. The Group continuously monitors and analyses the volatility arising from valuations and prepares for any impacts this may have on its profit and capital adequacy.

The Group's market risk has remained stable. The market was relatively stable during the reporting period, which has manifested in less valuation volatility in the Group's profits than in the comparison period.

The Group manages its refinancing risk by limiting the average maturity between financial assets and liabilities. In addition, the Group manages its liquidity risk by setting a limit for the minimum adequacy of the available short-term and long-term liquidity. At the end of 2021, the Group's survival horizon was 14.2 months (12.3 months). The Group's liquidity remained good, with the LCR being 334.9% (264.4%) at the end of the year. The availability of long-term funding is monitored via the Net Stable Funding Ratio (*NSFR*). The NSFR requirement entered into force in June 2021 and the ratio was 123.6% (116.4%) at the end of the year. The availability of funding remained good throughout the year. In January–December 2021, MuniFin Group issued EUR 9,395 million (EUR 10,966 million) in long-term funding.

MuniFin Group's operational risks are estimated to be at a moderate level, and there were no material losses from operational risks in 2021. According to MuniFin's estimate, the COVID-19 pandemic has not increased significantly the Group's operational risks. The extensive remote work arrangements have had some effect on the Group's operating practices, but its business operations have continued normally. Control points related to processes and information security, for example, have remained in place and continued to function in the usual way.

ESG risks include environmental, social and governance risks. There have been no material changes in ESG risks during the year. According to the Group's estimate, it is currently not exposed to any substantial social or governance risks. Also, the Group's current estimate is that environmental and climate risks are unlikely to manifest substantially in the short-term. In the medium and long-term, climate risks may nevertheless have an adverse economic effect on the Group's customers. However, any changes in the customers' financial situation are not expected to affect the Group's credit risk position.

Group structure

Municipality Finance Group (MuniFin Group or the Group) consists of Municipality Finance Plc (MuniFin or the Parent Company) and Financial Advisory Services Inspira Ltd (Inspira). Inspira is fully owned by MuniFin. No changes to the group structure took place during the reporting period.

Personnel

At the end of December 2021, MuniFin Group had 164 (165) employees, of which 153 (154) worked for the Parent Company. Salaries and remuneration paid across the Group amounted to EUR 14.6 million (EUR 14.9 million).

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

MuniFin Group has restructured its organisation and operating practices to streamline its operations and to further improve its products, services and customer experience. The renewed organisation is more strongly based on MuniFin's core operations, i.e. customer financing solutions and capital markets processes. The changes took effect on 1 January 2021. MuniFin established a new Development and HR Services division to manage the development portfolio and support change management. The new division is headed by Minna Piitulainen, who is also a member of the MuniFin Executive Management Team as from 1 January 2021.

During the reporting period, Rainer Holm, MuniFin's Executive Vice President of Technology Services and member of the Executive Management Team, left the service of MuniFin. Holm was succeeded by Juha Volotinen as from 1 April 2021. Volotinen also acts as a member of the MuniFin Executive Management Team.

Board of Directors

Members of the Board of Directors for the term 2021–2022 (term that began at the end of the 2021 AGM and will conclude at the end of subsequent AGM in 2022):

- Kari Laukkanen, Chair of the Board
- Maaria Eriksson, Vice Chair of the Board
- Markku Koponen
- Vivi Marttila
- Tuomo Mäkinen
- Minna Smedsten
- Denis Strandell
- Leena Vainiomäki
- Kimmo Viertola

Events after the reporting period

The FIN-FSA decided in January 2022, based on the consultation round held in late 2021, that wellbeing services counties, similar to the central and local government, will also fall in the zero-risk category in the capital adequacy regulation of banks. This decision simplifies the financing arrangements because it means that separate government guarantees are not required and that MuniFin can finance wellbeing services counties in the same way it does municipalities.

For 2021 SREP, MuniFin Group received the decision early February 2022. The P2R is 2.00% from 1 March 2022 onwards, and the minimum level of total capital ratio is 13.15% and TSCR is 10.00%. At the end of December 2021, the minimum requirement of total capital ratio was 13.40% and TSCR was 10.25%.

Outlook for 2022

According to the MuniFin Group's current view, global economic growth is slowing down, but the main trend in the economic outlook remains still relatively positive. Employment continues to have room for growth, household savings lend support to consumption potential and private investments are expected to remain at a good level. The first half of the year will suffer from the uncertainty caused by the coronavirus Omicron variant. The high price of energy and the ongoing component shortage will continue to cause cost pressures and take their toll on economic activity. Economic forecasts continue to be highly uncertain.

The main trends in monetary policy are the same in the United States and Europe, but their central banks will move at a considerably different pace. The risk of the economy overheating in the United States is real, and the central bank Fed is likely to have to raise its key interest rates several times, already in 2022. In the euro area, the increased inflation is still mainly explained by reasons that are expected to be temporary. The ECB's new symmetrical inflation target of 2% leaves the central bank more leeway to ignore temporary cost-push inflation. The ECB is likely to scale down its non-standard measures in 2022, but presumably very gradually. It now seems that a prudent normalisation of the interest rate policy could begin in late 2023, when the euro area should reach its pre-pandemic growth path. The outlook in monetary policy continues to be highly prone to changes in the pandemic situation.

In Finland, labour shortage and the increasing price of necessities will slow down economic growth in 2022. GDP growth will nevertheless remain somewhat stronger than Finland's long-term growth potential. Unemployment is expected to fall below 7%.

The central government's COVID-19 support package will no longer boost municipal finances in 2022, returning the focus on structural imbalances. More specific assessments of how the health and social services reform will impact individual municipalities will not be available until spring 2022. The reform's practical challenges and the uncertainty of its financial impact make it difficult to predict municipal finances over the next few years.

In 2022, the health and social services reform will be reflected in the Group's operations as practical preparation to act as a financing counterparty to the new wellbeing services counties. It is difficult to estimate the wider economic impact of the reform at this stage, when there is no practical information available on how wellbeing services counties will function. Wellbeing services counties' future level of investments will effect on MuniFin's financing volumes, but on the other hand the operating expenditures of the counties will be covered from the government's budget. In MuniFin's financing operations, health and social services lending plays such a role that changes in it will not have a material impact on MuniFin's financial development in the near future.

After confirmation of its status as a public development credit institution, MuniFin decided in June 2021 to change the conditions of its long-term customer loans with variable interest rates in a way that will allow customers to benefit from negative reference rates better than before, which will clearly make the Group's 2022 net interest income lower than in the previous year. The Group's customer operations and funding are expected to continue to run and develop steadily. Operating expenses are expected to grow from 2021, as investments in IT systems and operational reliability as well as the marked rise in supervisory fees all increase expenses.

Considering the above-mentioned circumstances, the Group expects its net operating profit excluding unrealised fair value changes to be significantly lower than in the previous year, as per the Group's long-term profitability targets and more beneficial customer pricing enabled by these targets. The Group expects its capital adequacy ratio and leverage ratio to remain very strong. The valuation principles set in the IFRS regulatory framework may cause significant but temporary unrealised fair value changes, some of which increase the volatility of net operating profit and make it more difficult to estimate in the short term.

These estimates are based on a current assessment of the development of MuniFin Group's operations and the operating environment.

The Board's proposal concerning the profit for the financial year 2021

Municipality Finance Plc has distributable funds of EUR 267,949,619.07, of which the profit for the financial year totalled EUR 136,808,680.96.

The Board of Directors proposes to the Annual General Meeting that EUR 1.03 per share be paid in dividend, totalling EUR 40,235,711.94.

MuniFin's profit for the financial year was very good. The Board of Directors considers the payment of this dividend to be well justified.

MuniFin clearly fulfils all the prudential requirements set for it. No events have taken place since the end of the financial year that would have a material effect on the Company's financial position. In the Board's opinion, the proposed distribution of profits does not place the fulfilment of the capital requirements or the Company's liquidity in jeopardy.

Dividends will be paid to shareholders who are recorded in the Company's list of shareholders on 31 March 2022. The Board of Directors proposes that the dividends be paid on 5 April 2022.

Helsinki 4 February 2022
Municipality Finance Plc
The Board of Directors

Further information

Esa Kallio, President and CEO, tel. +358 50 337 7953
Harri Luhtala, Executive Vice President, Finance, CFO, tel. +358 50 592 9454

Consolidated income statement

CONSOLIDATED INCOME STATEMENT (EUR 1,000)	1 Jan–31 Dec 2021	1 Jan–31 Dec 2020
Interest and similar income	503,536	532,935
Interest and similar expense	-223,339	-278,814
Net interest income	**280,197**	**254,121**
Commission income	2,126	2,834
Commission expense	-5,056	-5,066
Net income from securities and foreign exchange transactions	24,095	-7,790
Net income on financial assets at fair value through other comprehensive income	-	-3
Net income from hedge accounting	4,823	4,183
Other operating income	95	127
Administrative expenses	-34,722	-33,004
Depreciation and impairment on tangible and intangible assets	-16,208	-5,794
Other operating expenses	-15,568	-14,610
Credit loss and impairments on financial assets	-104	-857
Net operating profit	**239,678**	**194,141**
Income tax expense	-48,073	-38,840
Profit for the financial year	**191,605**	**155,301**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (EUR 1,000)

	1 Jan–31 Dec 2021	1 Jan–31 Dec 2020
Profit for the financial year	191,605	155,301
Components of other comprehensive income		
Items not to be reclassified to income statement in subsequent periods		
Net change in fair value due to changes in own credit risk on financial liabilities designated at fair value through profit or loss	400	-16,551
Net change in Cost-of-Hedging	-2,504	-15,564
Items to be reclassified to income statement in subsequent periods		
Net change in fair value of financial assets at fair value through other comprehensive income	-672	112
Net change in expected credit loss of financial assets at fair value through other comprehensive income	0	-62
Taxes related to components of other comprehensive income	555	6,413
Total components of other comprehensive income	-2,222	-25,652
Total comprehensive income for the financial year	**189,383**	**129,649**

Consolidated statement of financial position

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (EUR 1,000)	31 Dec 2021	31 Dec 2020
Assets		
Cash and balances with central banks	8,399,045	5,565,801
Loans and advances to credit institutions	1,417,310	1,841,853
Loans and advances to the public and public sector entities	29,214,043	28,022,325
Debt securities	4,841,428	5,763,214
Shares and participations	-	27
Derivative contracts	1,999,676	2,358,163
Intangible assets	12,296	17,346
Tangible assets	7,491	10,364
Other assets	256,117	259,785
Accrued income and prepayments	212,655	203,547
Total assets	**46,360,060**	**44,042,426**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (EUR 1,000)

	31 Dec 2021	31 Dec 2020
Liabilities and equity		
Liabilities		
Liabilities to credit institutions	2,801,016	2,001,478
Liabilities to the public and public sector entities	3,324,685	3,884,026
Debt securities issued	35,327,525	32,911,906
Derivative contracts	2,224,294	2,860,570
Provisions and other liabilities	349,331	247,021
Accrued expenses and deferred income	181,732	152,398
Deferred tax liabilities	289,887	279,906
Total liabilities	**44,498,470**	**42,337,306**
Equity		
Share capital	42,583	42,583
Reserve fund	277	277
Fair value reserve of investments	309	847
Own credit revaluation reserve	64	-255
Cost-of-Hedging reserve	13,621	15,624
Reserve for invested non-restricted equity	40,366	40,366
Retained earnings	1,416,916	1,258,224
Total equity attributable to parent company equity holders	**1,514,136**	**1,357,666**
Other equity instruments issued	**347,454**	**347,454**
Total equity	**1,861,590**	**1,705,120**
Total liabilities and equity	**46,360,060**	**44,042,426**

Consolidated statement of changes in equity

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (EUR 1,000)	Total equity attributable to parent company equity holders								Other equity instruments issued	Total equity
	Share capital	Reserve fund	Fair value reserve of investments	Own credit revaluation reserve	Cost-of-Hedging reserve	Reserve for invested non-restricted equity	Retained earnings	Total		
Equity at 31 December 2019	**42,583**	**277**	**807**	**12,985**	**28,075**	**40,366**	**1,121,774**	**1,246,868**	**347,454**	**1,594,321**
Interest paid on Additional Tier 1 capital instrument	-	-	-	-	-	-	-12,600	-12,600	-	-12,600
Dividends paid for 2019	-	-	-	-	-	-	-6,250	-6,250	-	-6,250
Profit for the financial year	-	-	-	-	-	-	155,301	155,301	-	155,301
Components of other comprehensive income net of tax										
Items not to be reclassified to income statement in subsequent periods										
Net change in fair value due to changes in own credit risk on financial liabilities designated at fair value through profit or loss	-	-	-	-13,241	-	-	-	-13,241	-	-13,241
Net change in Cost-of-Hedging	-	-	-	-	-12,451	-	-	-12,451	-	-12,451
Items to be reclassified to income statement in subsequent periods										
Net change in fair value of financial assets at fair value through other comprehensive income	-	-	90	-	-	-	-	90	-	90
Net change in expected credit loss of financial assets at fair value through other comprehensive income	-	-	-50	-	-	-	-	-50	-	-50
Equity at 31 December 2020	**42,583**	**277**	**847**	**-255**	**15,624**	**40,366**	**1,258,224**	**1,357,666**	**347,454**	**1,705,120**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (EUR 1,000)	Total equity attributable to parent company equity holders									
	Share capital	Reserve fund	Fair value reserve of investments	Own credit revaluation reserve	Cost-of-Hedging reserve	Reserve for invested non-restricted equity	Retained earnings	Total	Other equity instruments issued	Total equity
Interest paid on Additional Tier 1 capital instrument	-	-	-	-	-	-	-12,600	-12,600	-	-12,600
Dividends paid for 2020	-	-	-	-	-	-	-20,313	-20,313	-	-20,313
Profit for the financial year	-	-	-	-	-	-	191,605	191,605	-	191,605
Components of other comprehensive income net of tax										
Items not to be reclassified to income statement in subsequent periods										
Net change in fair value due to changes in own credit risk on financial liabilities designated at fair value through profit or loss	-	-	-	320	-	-	-	320	-	320
Net change in Cost-of-Hedging	-	-	-	-	-2,004	-	-	-2,004	-	-2,004
Items to be reclassified to income statement in subsequent periods										
Net change in fair value of financial assets at fair value through other comprehensive income	-	-	-538	-	-	-	-	-538	-	-538
Net change in expected credit loss of financial assets at fair value through other comprehensive income	-	-	0	-	-	-	-	0	-	0
Equity at 31 December 2021	**42,583**	**277**	**309**	**64**	**13,621**	**40,366**	**1,416,916**	**1,514,136**	**347,454**	**1,861,590**

Consolidated statement of cash flows

CONSOLIDATED STATEMENT OF CASH FLOWS (EUR 1,000)	1 Jan–31 Dec 2021	1 Jan–31 Dec 2020
Cash flow from operating activities	**2,750,437**	**772,020**
Net change in long-term funding	3,085,073	3,702,396
Net change in short-term funding	-354,008	1,257,523
Net change in long-term loans	-1,580,112	-3,074,492
Net change in short-term loans	224,130	-506,296
Net change in investments	667,724	462,373
Net change in collaterals	480,083	-1,287,941
Interest on assets	16,875	83,389
Interest on liabilities	221,595	161,397
Other income	74,355	62,547
Payments of operating expenses	-88,798	-86,847
Taxes paid	3,518	-2,028
Cash flow from investing activities	**-7,747**	**-8,236**
Acquisition of tangible assets	-3	-3,644
Proceeds from sale of tangible assets	226	165
Acquisition of intangible assets	-7,970	-4,758
Cash flow from financing activities	**-37,866**	**-23,753**
Paid interest on AT1 capital instrument	-15,750	-15,750
Dividend paid	-20,313	-6,250
Total cash flow from leases	-1,803	-1,753
Change in cash and cash equivalents	**2,704,824**	**740,031**
Cash and cash equivalents at 1 Jan	**5,730,680**	**4,990,649**
Cash and cash equivalents at 31 Dec	**8,435,504**	**5,730,680**

Capital adequacy

OWN FUNDS, GROUP AND PARENT COMPANY (EUR 1,000)	Group		Parent Company	
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
Common Equity Tier 1 before regulatory adjustments	1,464,442	1,328,150	1,461,934	1,326,084
Regulatory adjustments to Common Equity Tier 1	-56,172	-51,338	-56,181	-51,350
Common Equity Tier 1 (*CET1*)	**1,408,270**	**1,276,812**	**1,405,753**	**1,274,733**
Additional Tier 1 capital before regulatory adjustments	347,454	347,454	349,878	349,388
Regulatory adjustments to Additional Tier 1 capital	-	-	-	-
Additional Tier 1 capital (*AT1*)	**347,454**	**347,454**	**349,878**	**349,388**
Tier 1 capital (*T1*)	**1,755,723**	**1,624,265**	**1,755,631**	**1,624,121**
Tier 2 capital before regulatory adjustments	-	-	-	-
Regulatory adjustments to Tier 2 capital	-	-	-	-
Tier 2 capital (*T2*)	**-**	**-**	**-**	**-**
Total own funds	**1,755,723**	**1,624,265**	**1,755,631**	**1,624,121**

KEY FIGURES FOR CAPITAL ADEQUACY, GROUP AND PARENT COMPANY	Group		Parent Company	
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
CET1 capital ratio, %	95.0	104.3	97.0	107.1
Tier 1 capital ratio, %	118.4	132.7	121.1	136.5
Total capital ratio, %	118.4	132.7	121.1	136.5

MINIMUM REQUIREMENT FOR OWN FUNDS, GROUP (EUR 1,000)	31 Dec 2021		31 Dec 2020	
	Capital requirement	Risk exposure amount	Capital requirement	Risk exposure amount
Credit and counterparty risk, standardised approach	**42,524**	**531,547**	**46,448**	**580,596**
Exposures to central governments or central banks	-	0	-	0
Exposures to regional governments or local authorities	451	5,634	458	5,721
Exposures to public sector entities	705	8,807	718	8,975
Exposures to multilateral development banks	-	0	-	0
Exposures to institutions	23,422	292,771	30,970	387,121
Exposures to corporates	6,038	75,471	-	-
Exposures in the form of covered bonds	9,734	121,670	12,243	153,037
Other items	2,176	27,194	2,059	25,742
Market risk	**-**	**-**	**-**	**-**
Credit valuation adjustment risk (CVA VaR), standard method	**39,549**	**494,362**	**18,470**	**230,876**
Operational risk, basic indicator approach	**36,527**	**456,587**	**32,976**	**412,196**
Total	**118,600**	**1,482,496**	**97,893**	**1,223,668**

MINIMUM REQUIREMENT FOR OWN FUNDS, PARENT COMPANY (EUR 1,000)	31 Dec 2021 Capital requirement	31 Dec 2021 Risk exposure amount	31 Dec 2020 Capital requirement	31 Dec 2020 Risk exposure amount
Credit and counterparty risk, standardised approach	**42,604**	**532,547**	**46,522**	**581,522**
Exposures to central governments or central banks	-	0	-	0
Exposures to regional governments or local authorities	451	5,634	458	5,721
Exposures to public sector entities	705	8,807	718	8,975
Exposures to multilateral development banks	-	0	-	0
Exposures to institutions	23,410	292,622	30,956	386,946
Exposures to corporates	6,038	75,471	-	-
Exposures in the form of covered bonds	9,734	121,670	12,243	153,037
Equity exposure	131	1,639	131	1,639
Other items	2,136	26,704	2,016	25,203
Market risk	**-**	**-**	**-**	**-**
Credit valuation adjustment risk (CVA VaR), standardised method	**39,549**	**494,362**	**18,470**	**230,876**
Operational risk, basic indicator approach	**33,788**	**422,344**	**30,190**	**377,380**
Total	**115,940**	**1,449,252**	**95,182**	**1,189,778**

Key figures

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

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

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

ALTERNATIVE PERFORMANCE MEASURE EUR million	DEFINITION / EXPLANATION	RECONCILIATION	1 Jan–31 Dec 2021	1 Jan–31 Dec 2020
Net interest income	Interest income and expense from financial assets and liabilities are recognised in net interest income. A significant part of the Group's revenues consists of net interest income.	Interest and similar income (incl. Leasing)	504	533
		interest and similar expense	-223	-279
		Net interest income	**280**	**254**
Unrealised fair value changes	Due to IFRS 9 implementation more financial instruments are measured at fair value through profit and loss which increases PnL volatility. To enhance comparability of business performance between periods and companies, it is often necessary to exclude the PnL effect of the unrealised fair value changes.	Net income from securities transactions, unrealised fair value changes	22	-7
		Net income from hedge accounting	5	4
		Unrealised fair value changes	**27**	**-3**
Net operating profit	Net operating profit describes the Group's operating profit before taxes.	**Net operating profit**	**240**	**194**
Net operating profit excluding unrealised fair value changes	Net operating profit excluding unrealised fair value changes as an APM is of interest for showing MuniFin Group's underlying earnings capacity.	Net operating profit	240	194
		- Unrealised fair value changes	27	-3
		Net operating profit excluding unrealised fair value changes	**213**	**197**
Income	Income, which describes the Group's total income including net interest income, is used e.g. as a denominator (excl. Commission expenses) in Cost-to-income ratio.	Net interest income	280	254
		Commission income	2	3
		Net income from securities and foreign exchange transactions	24	-8
		Net income on financial assets at fair value through other comprehensive income	-	0
		Net income from hedge accounting	5	4
		Other operating income	0	0
		Income	**311**	**253**

ALTERNATIVE PERFORMANCE MEASURE EUR million	DEFINITION / EXPLANATION	RECONCILIATION	1 Jan–31 Dec 2021	1 Jan–31 Dec 2020
Income excluding unrealised fair value changes	Income excluding unrealised fair value changes reflects the Group's operating income, of which the most significant is net interest income.	Income	311	253
		- Unrealised fair value changes	27	-3
		Income excluding unrealised fair value changes	**285**	**257**
Other income	Other income includes all other income of the Group except net interest income and unrealised fair value changes.	Commission income	2	3
		Net income from securities and foreign exchange transactions, realised	2	-1
		Net income on financial assets at fair value through other comprehensive income	-	0
		Other operating income	0	0
		Other income	**4**	**2**
Costs	Costs, which describe the Group's total costs, is used e.g. as a numerator (excl. Commission expenses) in Cost-to-income ratio.	Commission expenses	5	5
		Administrative expenses	35	33
		Depreciation and impairment on tangible and intangible assets	16	6
		Other operating expenses	16	15
		Costs	**72**	**58**
Costs excluding the non-recurring item	Costs excluding the non-recurring item reflects the amount of costs comparable between financial periods.	Costs	72	-
		Non-recurring item (impairment on on-going IT system implementation)	-10	-
		Costs excluding non-recurring item	**61**	**-**
Cost-to-income ratio	Cost-to-income ratio is an established key ratio in the banking sector for assessing the relationship between expenses and income. The ratio gives investors a comparative view of MuniFin Group's cost-effectiveness.	Costs (excl. Commission expenses)	66	53
		÷ Income (incl. Net commission income)	306	248
		Cost-to-income ratio	**0.2**	**0.2**

ALTERNATIVE PERFORMANCE MEASURE EUR million	DEFINITION / EXPLANATION	RECONCILIATION	1 Jan–31 Dec 2021	1 Jan–31 Dec 2020
Cost-to-income ratio excluding unrealised fair value changes	Cost-to income ratio excluding unrealised fair value changes gives a more precise picture of MuniFin Group's operative effectiveness as it excludes the income volatility of unrealised fair value changes. Cost-to income ratio excluding unrealised fair value changes as a performance measure has become more widely used after the implementation of IFRS 9 as PnL volatility of income has grown due to unrealised fair value changes of financial instruments. It improves comparability of operative effectiveness between companies and reporting periods.	Costs (excl. Commission expenses)	66	53
		÷ (Income (incl. Net commission income)	306	248
		- Unrealised fair value changes)	27	-3
		Cost-to-income ratio excluding unrealised fair value changes	**0.2**	**0.2**
The effect of unrealised fair value changes on other comprehensive income and equity net of tax	Key indicator used in management reporting to describe the effect of unrealised fair value changes during the reporting period on the Group's comprehensive income and equity net of tax.	Unrealised fair value changes through PnL	27	-3
		Taxes related to the unrealised fair value changes through PnL	-5	1
		Net change in fair value due to changes in own credit risk on financial liabilities designated at fair value through profit or loss, net of tax	0	-13
		Net change in Cost-of-Hedging, net of tax	-2	-12
		Net change in fair value of financial assets at fair value through other comprehensive income, net of tax	-1	0
		The effect of unrealised fair value changes on other comprehensive income and equity net of tax	**19**	**-28**
New lending	Key indicator used in management reporting to describe MuniFin Group's business volume during the reporting period. The indicator includes the amount of new loans excluding unrealised fair value changes.	**New lending**	**3,275**	**4,764**
New long-term funding	Key indicator used in management reporting to describe MuniFin Group's funding activity during the reporting period. The indicator includes the amount of new funding (over 1 year) issued excluding unrealised fair values changes.	**New long-term funding**	**9,395**	**10,966**

ALTERNATIVE PERFORMANCE MEASURE EUR million	DEFINITION / EXPLANATION	RECONCILIATION	31 Dec 2021	31 Dec 2020
Return on Equity *(ROE)*, %	ROE measures the efficiency of MuniFin Group's capital usage. It is a commonly used performance measure and as an APM improves comparability between companies.	((Net operating profit	240	194
		- Taxes)	-48	-39
		÷ Equity and non-controlling interest (average of values at the beginning and end of the period)) x100	1,783	1,650
		Return on Equity *(ROE)*, %	**10.7%**	**9.4%**
Return on Equity *(ROE)* excluding unrealised fair value changes, %	MuniFin Group's strategy indicator. Excluding the unrealised changes in fair values increases comparability between reporting periods.	((Net operating profit excluding unrealised fair value changes	213	197
		- Taxes)	-43	-39
		÷ Equity and non-controlling interest (average of values at the beginning and end of the period)) x100	1,783	1,650
		Return on Equity *(ROE)* excluding unrealised fair value changes, %	**9.6%**	**9.6%**
Return on Assets *(ROA)*, %	ROA measures the efficiency of MuniFin Group's investments. It is a commonly used performance measure and as an APM improves comparability between companies.	((Net operating profit	240	194
		- Taxes)	-48	-39
		÷ Average balance sheet total (average of values at the beginning and end of the period)) x100	45,201	41,488
		Return on Assets *(ROA)*, %	**0.4%**	**0.4%**
Return on Assets *(ROA)* excluding unrealised fair value changes, %	Excluding the unrealised changes in fair values increases comparability of ROA between reporting periods.	((Net operating profit excluding unrealised fair value changes	213	197
		- Taxes)	-43	-39
		÷ Average balance sheet total (average of values at the beginning and end of the period)) x100	45,201	41,488
		Return on Assets *(ROA)* excluding unrealised fair value changes, %	**0.4%**	**0.4%**
Equity ratio, %	Equity ratio is an investment leverage and solvency ratio that measures the amount of assets that are financed by equity. It is a commonly used performance measure and as an APM improves comparability between companies.	(Equity and non-controlling interest	1,862	1,705
		÷ Balance sheet total) x100	46,360	44,042
		Equity ratio, %	**4.0%**	**3.9%**
Long-term loan portfolio	Key indicator used in management reporting to describe MuniFin Group's business volume.	Loans and advances to the public and public sector entities	29,214	28,022
		- Leasing	1,334	1,091
		Long-term loan portfolio	**27,880**	**26,931**
Long-term customer financing	Key indicator used in management reporting to describe MuniFin Group's business volume.	Loans and advances to the public and public sector entities	29,214	28,022
		Long-term customer financing	**29,214**	**28,022**

ALTERNATIVE PERFORMANCE MEASURE EUR million	DEFINITION / EXPLANATION	RECONCILIATION	31 Dec 2021	31 Dec 2020
Long-term customer financing excluding unrealised fair value changes	Key indicator used in management reporting to describe MuniFin Group's business volume. In this indicator the unrealised fair value changes have been excluded to enhance comparability of business performance between periods.	Loans and advances to the public and public sector entities	29,214	28,022
		- Unrealised fair value changes	-150	-511
		Long-term customer financing excluding unrealised fair value changes	**29,064**	**27,511**
Short-term customer financing	Key indicator used in management reporting to describe MuniFin Group's business volume.	Debt securities, commercial papers (municipalities and municipal companies)	1,089	1,310
		Short-term customer financing	**1,089**	**1,310**
Total funding	Key indicator used in management reporting to describe MuniFin Group's funding volume.	Liabilities to credit institutions	2,801	2,001
		Liabilities to the public and public sector entities	3,325	3,884
		Debt securities issued	35,328	32,912
		Total	**41,453**	**38,797**
		- CSA collateral (received)	-741	-658
		Total funding	**40,712**	**38,139**
Long-term funding	Key indicator used in management reporting to describe MuniFin Group's funding volume.	Total funding	40,712	38,139
		- Short-term issued funding (*ECP*)	-3,819	-3,896
		Long-term funding	**36,893**	**34,243**
Total liquidity	Key indicator used in management reporting to describe MuniFin Group's liquidity position.	Debt securities	4,841	5,763
		- Short-term customer financing	-1,089	-1,310
		Shares and participations	-	0
		Investments in securities total	**3,753**	**4,453**
		Cash and balances with central banks	8,399	5,566
		Other deposits	70	70
		Other investments total	**8,469**	**5,636**
		Total liquidity	**12,222**	**10,089**
Ratio of socially responsible investments to MuniFin Group's own green and social funding	Key indicator used in management reporting for social responsibility area.	(Socially responsible investments	456	355
		÷Green and social funding) x100	2,930	2,578
		Ratio of socially responsible investments to MuniFin Group's own green and social funding	**15.6%**	**13.8%**

OTHER MEASURES EUR million	DEFINITION	RECONCILIATION	1 Jan-31 Dec 2021	1 Jan-31 Dec 2020
Turnover	Defined in IFRS (IAS 1). Turnover is not disclosed in MuniFin Group's income statement so the formula for turnover should be given even though it is not considered to be an APM.	Interest and similar income (incl. Leasing)	504	533
		Commission income	2	3
		Net income from securities and foreign exchange transactions	24	-8
		Net income on financial assets at fair value through other comprehensive income	-	0
		Net income from hedge accounting	5	4
		Other operating income	0	0
		Turnover	**535**	**532**
			31 Dec 2021	**31 Dec 2020**
Liquidity Coverage Ratio *(LCR)*, %	Defined in CRR.	(Liquid assets	11,564	9,229
		÷ (Liquidity outflows - liquidity inflows in a stress situation)) x100	3,453	3,490
		Liquidity Coverage Ratio *(LCR)*, %	**334.9%**	**264.4%**
Net Stable Funding Ratio *(NSFR)*, %	Defined in CRR. The 31 Dec 2021 ratio has been calculated in accordance with CRR II. The comparative ratio has not been restated. The comparative ratio has been calculted based on Basel III NSFR guidelines.	(Available Stable Funding (*ASF*)	33,638	30,883
		÷ Required Stable Funding (*RSF*)) x100	27,221	26,539
		Net Stable Funding Ratio *(NSFR)*, %	**123.6%**	**116.4%**
CET1 capital ratio, %	Defined in CRR. The 31 Dec 2021 ratio has been calculated in accordance with CRR II. The comparative ratio has not been restated.	(Common Equity Tier 1 (*CET1*) capital	1,408	1,277
		÷ Risk exposure amount) x100	1,482	1,224
		CET1 capital ratio, %	**95.0%**	**104.3%**

OTHER MEASURES EUR million	DEFINITION	RECONCILIATION	31 Dec 2021	31 Dec 2020
Tier 1 capital ratio, %	Defined in CRR. The 31 Dec 2021 ratio has been calculated in accordance with CRR II. The comparative ratio has not been restated.	(Tier 1 capital	1,756	1,624
		÷ Risk exposure amount) x100	1,482	1,224
		Tier 1 capital ratio, %	**118.4%**	**132.7%**
Total capital ratio, %	Defined in CRR. The 31 Dec 2021 ratio has been calculated in accordance with CRR II. The comparative ratio has not been restated.	(Total own funds	1,756	1,624
		÷ Risk exposure amount) x100	1,482	1,224
		Total capital ratio, %	**118.4%**	**132.7%**
Leverage ratio, %	Defined in CRR. The 31 Dec 2021 ratio has been calculated in accordance with CRR II. The comparative ratio has not been restated.	(Tier 1 capital	1,756	1,624
		÷ Total exposure) x100	13,714	42,100
		Leverage ratio, %	**12.8%**	**3.9%**

MuniFin Group's fair values of financial assets and liabilities

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

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

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

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

Due to the nature of MuniFin Group's funding portfolio (i.e. issued bonds are hedged back-to-back), if a swap that is hedging an issued bond is designated as a level 3 instrument, then the issued bond will also be designated as a level 3 instrument. Same principle applies to other portfolios and levels of the hierarchy as well. The Group does not hold other assets or liabilities which are measured at fair value or assets or liabilities which are non-recurringly measured at fair value.

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

FINANCIAL ASSETS 31 Dec 2021 (EUR 1,000)		Fair value			
	Carrying amount	Level 1	Level 2	Level 3	Total
At fair value					
Fair value through other comprehensive income					
Debt securities	213,466	172,717	40,748	-	213,466
Designated at fair value through profit or loss					
Loans and advances to the public and public sector entities	38,941	-	38,941	-	38,941
Debt securities	3,539,074	3,451,809	87,265	-	3,539,074
Mandatorily at fair value through profit or loss					
Loans and advances to the public and public sector entities	35,204	-	344	34,861	35,204
Shares and participations	-	-	-	-	-
Fair value through profit or loss					
Derivative contracts at fair value through profit or loss	761,023	-	698,194	62,829	761,023
Derivative contracts in hedge accounting	1,238,653	-	1,238,246	407	1,238,653
Total at fair value	**5,826,360**	**3,624,526**	**2,103,737**	**98,097**	**5,826,360**
In fair value hedge accounting					
Amortised cost					
Loans and advances to the public and public sector entities	12,968,390	-	13,749,512	-	13,749,512
Total in fair value hedge accounting	**12,968,390**	**-**	**13,749,512**	**-**	**13,749,512**
At amortised cost					
Cash and balances with central banks	8,399,045	8,399,045	-	-	8,399,045
Loans and advances to credit institutions	1,417,310	106,734	1,310,576	-	1,417,310
Loans and advances to the public and public sector entities	15,080,299	-	16,483,029	-	16,483,029
Debt securities	1,088,888	-	1,089,253	-	1,089,253
Other assets	238,930	-	238,930	-	238,930
Total at amortised cost	**26,224,472**	**8,505,779**	**19,121,788**	**-**	**27,627,567**
Total financial assets	**45,019,222**	**12,130,305**	**34,975,037**	**98,097**	**47,203,439**

FINANCIAL LIABILITIES 31 Dec 2021 (EUR 1,000)	Carrying amount	Fair value Level 1	Level 2	Level 3	Total
At fair value					
Designated at fair value through profit or loss					
Liabilities to credit institutions	4,787	-	4,787	-	4,787
Liabilities to the public and public sector entities	1,548,394	-	1,284,601	263,793	1,548,394
Debt securities issued	10,008,299	-	8,248,729	1,759,569	10,008,299
Fair value through profit or loss					
Derivative contracts at fair value through profit or loss	1,114,003	-	369,705	744,299	1,114,003
Derivative contracts in hedge accounting	1,110,291	-	1,084,602	25,690	1,110,291
Total at fair value	**13,785,774**	**-**	**10,992,423**	**2,793,350**	**13,785,774**
In fair value hedge accounting					
Amortised cost					
Liabilities to credit institutions	55,120	-	55,016	-	55,016
Liabilities to the public and public sector entities	1,776,291	-	1,795,941	-	1,795,941
Debt securities issued *	24,852,845	-	24,873,880	86,040	24,959,920
Total in fair value hedge accounting	**26,684,256**	**-**	**26,724,837**	**86,040**	**26,810,877**
At amortised cost					
Liabilities to credit institutions	2,741,110	-	2,741,110	-	2,741,110
Debt securities issued	466,381	-	466,381	-	466,381
Provisions and other liabilities	337,823	-	337,823	-	337,823
Total at amortised cost	**3,545,314**	**-**	**3,545,314**	**-**	**3,545,314**
Total financial liabilities	**44,015,343**	**-**	**41,262,574**	**2,879,390**	**44,141,965**

* MuniFin Group's fixed-rate benchmark bond issuances are presented on level 2 due the fact that these bonds are in fair value hedge accounting with respect to the hedged risk. Valuation of the hedged risk is based on the level 2 inputs. The Group's fixed-rate benchmark bonds' fair values are adjusted to reflect fair value based on the quoted prices from Bloomberg. The market price is a level 1 input.

FINANCIAL ASSETS 31 Dec 2020 (EUR 1,000)	Carrying amount	Fair value Level 1	Level 2	Level 3	Total
At fair value					
Fair value through other comprehensive income					
Debt securities	423,050	321,308	101,741	-	423,050
Designated at fair value through profit or loss					
Debt securities	4,029,859	3,922,131	107,728	-	4,029,859
Mandatorily at fair value through profit or loss					
Loans and advances to the public and public sector entities	44,438	-	702	43,735	44,438
Shares and participations	27	-	-	27	27
Fair value through profit or loss					
Derivative contracts at fair value through profit or loss	833,293	-	753,841	79,452	833,293
Derivative contracts in hedge accounting	1,524,870	-	1,524,298	572	1,524,870
Total at fair value	**6,855,536**	**4,243,439**	**2,488,310**	**123,787**	**6,855,536**
In fair value hedge accounting					
Amortised cost					
Loans and advances to the public and public sector entities	11,829,557	-	12,614,580	-	12,614,580
Total in fair value hedge accounting	**11,829,557**	**-**	**12,614,580**	**-**	**12,614,580**
At amortised cost					
Cash and balances with central banks	5,565,801	5,565,801	-	-	5,565,801
Loans and advances to credit institutions	1,841,853	298,085	1,543,769	-	1,841,853
Loans and advances to the public and public sector entities	15,272,833	-	16,984,700	-	16,984,700
Debt securities	1,310,305	-	1,310,885	-	1,310,885
Other assets	243,269	-	243,269	-	243,269
Total at amortised cost	**24,234,062**	**5,863,886**	**20,082,621**	**-**	**25,946,507**
Total financial assets	**42,919,155**	**10,107,325**	**35,185,512**	**123,787**	**45,416,624**

FINANCIAL LIABILITIES 31 Dec 2020 (EUR 1,000)	Carrying amount	Fair value Level 1	 Level 2	 Level 3	 Total
At fair value					
Designated at fair value through profit or loss					
Liabilities to credit institutions	24,558	-	24,558	-	24,558
Liabilities to the public and public sector entities	1,637,674	-	1,413,261	224,413	1,637,674
Debt securities issued	10,454,282	-	8,328,568	2,125,714	10,454,282
Fair value through profit or loss					
Derivative contracts at fair value through profit or loss	1,403,900	-	757,607	646,293	1,403,900
Derivative contracts in hedge accounting	1,456,670	-	1,432,280	24,391	1,456,670
Total at fair value	**14,977,085**	**-**	**11,956,273**	**3,020,811**	**14,977,085**
In fair value hedge accounting					
Amortised cost					
Liabilities to credit institutions	68,800	-	68,736	-	68,736
Liabilities to the public and public sector entities	2,246,352	-	2,268,946	-	2,268,946
Debt securities issued	22,077,489	-	22,040,007	94,048	22,134,054
Total in fair value hedge accounting	**24,392,642**	**-**	**24,377,688**	**94,048**	**24,471,736**
At amortised cost					
Liabilities to credit institutions	1,908,120	-	1,908,120	-	1,908,120
Debt securities issued	380,134	-	380,134	-	380,134
Provisions and other liabilities	237,212	-	237,212	-	237,212
Total at amortised cost	**2,525,467**	**-**	**2,525,467**	**-**	**2,525,467**
Total financial liabilities	**41,895,193**	**-**	**38,859,428**	**3,114,859**	**41,974,287**

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. The Group applies different types of valuation inputs depending on the type and complexity of the instruments and the related risk factors and payoff structures. The Group's defined categorisation to the fair value hierarchy levels is based on the analysis performed with regards to the valuation input, stress testing (reasonable possible alternative assumption) and model complexity. If the inputs used to measure fair value are categorised into different levels on the fair value hierarchy, the fair value measurement is categorised in its entirety on the level of the lowest level input that is significant to the entire measurement.

IFRS 13 classifies valuation models and techniques into three different categories: Market approach, Income approach and Cost approach. The Group applies the market-based approach when the instrument has a functioning market and public price quotations are available. The Group uses the market approach for the valuation of investment bonds of the liquidity portfolio. For all level 1 assets, the Group uses market prices available for identical assets (same ISIN). The Group does not make use of prices for comparable assets.

Income approach is applied when valuation is based, for example, on determining the present value of future cash flows (discounting). 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. The Group uses the income approach for many of its financial instruments, for example derivatives, lending and funding. The Group does not use the cost approach for the valuation of any of its financial instruments.

The 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 management 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 model 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 kinds of calibration techniques. The specific combination of base models and the different assumptions and calibration techniques are documented. The Group's fair value instruments that are subject to mark-to-model valuation techniques consist of four asset classes:

- Interest rate instruments,
- FX instruments,
- Equity-linked instruments and
- Hybrid instruments.

Financial instruments under *FX, equity-linked* and *hybrid* classes are mainly classified as level 3 instruments.

Fair value of financial instruments is generally calculated as the net present value of the individual instruments. This calculation is supplemented by counterparty level adjustments. The Group incorporates credit valuation adjustments (*CVA*) and debit valuation adjustments (*DVA*) into derivative valuations. CVA reflects the impact of the counterparty's credit risk on fair value and DVA MuniFin Group's own credit quality. The Group uses the same methodology to compute CVA and DVA. They are both assessed as the result of three inputs: Loss Given Default (*LGD*), Probability of Default (*PD, own for DVA and of the counterparty for CVA*) and Expected Exposure (*EE*).

Valuation framework

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. All approved valuation models within the model inventory are subject to annual review and re-approval by the Executive Management Team (*EMT*).

The Finance Management Team acts as a valuation control group for MuniFin Group's fair values and is responsible for the final approval of the Group's fair values for financial reporting. The Finance Management Team monitors and controls MuniFin Group's valuation process and the performance of valuation models, decides on the necessary measures and reports to the EMT. The Finance Management Team 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 daily by Risk Management, that assesses any deviations in valuation model output compared to MuniFin Group's own earlier valuations and to counterparty valuations. The results of the assessment are reported monthly to the CFO and quarterly to the Finance Management Team. Fair value explanation process consists of a daily analysis and explain of the changes in fair values by Risk Management and a monthly fair value explain report to the CFO and quarterly to the Finance Management Team. 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 CFO and quarterly to the Finance Management Team. The independent model validation is performed annually 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 Finance Management Team.

Transfers in the fair value hierarchy

MuniFin Group assesses the appropriateness and correctness of the categorisation with regards to the fair value hierarchy classification at initial recognition and at the end of each reporting period. This is to determine the initial classification of a level 1, 2 and 3 instrument and the subsequent potential transfers between levels within the fair value hierarchy. A transfer between the fair value hierarchies can occur for example when a previously assumed observed input requires an adjustment using an unobservable input. The procedure is the same for transfers into and out of the fair value levels. Transfers between the levels are considered to take place at the end of the quarter during which an event causes such a transfer or when circumstances change.

During 2021, transfers totaling EUR 50,127 thousand have been made between level 1 and level 2. During 2021, there were no transfers from level 2 to level 3.

LEVEL 3 TRANSFERS 2021 (EUR 1,000)	1 Jan 2021	Change in fair value in the income statement	Purchases and new contracts	Sales and matured contracts	Transfers into level 3	Transfers out of level 3	31 Dec 2021
Financial assets							
At fair value							
Mandatorily at fair value through profit or loss							
Loans and advances to the public and public sector entities	43,735	-4,878	-	-3,997	-	-	34,861
Shares and participations	27	-	-	-27	-	-	-
Fair value through profit or loss							
Derivative contracts at fair value through profit or loss	79,452	-14,590	604	-2,636	-	-	62,829
Derivative contracts in hedge accounting	572	-366	317	-	-	-117	407
Financial assets in total	**123,787**	**-19,834**	**921**	**-6,660**	**-**	**-117**	**98,097**
Financial liabilities							
At fair value							
Designated at fair value through profit or loss							
Liabilities to the public and public sector entities	224,413	-8,408	47,787	-	-	-	263,793
Debt securities issued	2,125,714	-144,658	762,861	-975,731	-	-8,617	1,759,569
Fair value through profit or loss							
Derivative contracts at fair value through profit or loss	646,293	136,055	38,581	-76,252	-	-378	744,299
Derivative contracts in hedge accounting	24,391	6,797	450	-	-	-5,948	25,690
In fair value hedge accounting							
Amortised cost							
Debt securities issued	94,048	-1,802	27,162	-	-	-33,368	86,040
Financial liabilities in total	**3,114,859**	**-12,015**	**876,840**	**-1,051,984**	**-**	**-48,310**	**2,879,390**
Level 3 financial assets and liabilities in total *	**3,238,646**	**-31,849**	**877,761**	**-1,058,644**	**-**	**-48,427**	**2,977,487**

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

Sensitivity analysis of unobservable inputs
Sensitivity analysis illustrates the impact of the reasonably possible assumptions on the fair value of financial instruments for which valuation is dependent on unobservable inputs. However, it is unlikely in practice that all unobservable inputs would simultaneously move to extremes of reasonably possible alternatives used in the sensitivity analysis. Hence, the impact of the sensitivity analysis disclosed is likely to be greater than the true uncertainty in the fair values at the financial statement date. Furthermore, the disclosure is neither predictive nor indicative of future movements in the fair value of financial instruments.

Although the Group believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements on level 3, changing one or more of the assumptions to the reasonably possible alternative assumptions would have the following effects: as of 31 December 2021, these assumptions could have increased fair values by EUR 60.3 million or decreased fair values by EUR 59.6 million and as of 31 December 2020, they could have increased fair values by EUR 44.6 million or decreased fair values by EUR 33.7 million.

SENSITIVITY ANALYSIS OF SIGNIFICANT UNOBSERVABLE INPUTS BY INSTRUMENT TYPE (EUR 1,000)	Positive range of fair value 2021	Negative range of fair value 2021	Positive range of fair value 2020	Negative range of fair value 2020
Loans and advances to the public and public sector entities				
Loans	133	-84	542	327
Derivative contracts				
Equity-linked derivatives	18,864	-11,446	12,416	-7,240
FX-linked cross currency and interest rate derivatives	2,644	-1,537	1,786	-365
Other interest rate derivatives	13,173	-13,344	8,686	-10,165
Debt securities issued and Liabilities to the public and public sector entities				
Equity-linked liabilities	12,350	-18,115	11,690	-5,248
FX-linked liabilities	704	-2,233	-941	-1,681
Other liabilities	12,412	-12,810	10,430	-9,276
Total	**60,279**	**-59,570**	**44,609**	**-33,648**

The behaviour of the fair value of the unobservable inputs on level 3 is not necessarily independent, and dynamic relationships often exist between the unobservable inputs and the observable inputs. Such relationships, where material to the fair value of a given instrument, are controlled via pricing models or valuation techniques. MuniFin Group uses stochastic models to generate a distribution of future cash flows of each financial instrument. The future cash flows are then discounted back to present to get the fair value of each financial instrument. The stochastic models used by the Group are Hull-White model and Dupire volatility model.

The unobservable inputs used by the Group are described next. The unobservable inputs are used only to the extent that no relevant observable inputs are available.

Correlation parameters

If the fair value of a financial instrument is impacted by more than one unobservable input, correlations describe the relationship between these different underlyings. For example for equity-linked instruments, correlation has a significant impact on fair value, if the underlying is dependent on more than one equity. For FX-linked cross currency and interest rate derivatives, correlations exist between FX rates of currencies, which impact the fair value of the financial instrument. If a high correlation exists between the unobservable inputs, it will lead to an increase in fair value. A low correlation between the unobservable inputs will lead to a decrease in fair value.

MuniFin Group has financial instruments, in which the correlation is a significant unobservable input, mainly in funding products and their hedging instruments.

Volatility (extrapolated or illiquid)

A financial instrument whose value is based on a stochastic model will typically require the volatility of the underlying instrument as an input. The Group uses Dupire local volatility model as its stochastic valuation model. For interest rate volatilities at-the-money implied volatility is used. For FX and equity components (both equity indices and single stock prices), a full volatility surface is used that includes quotes for different strikes and maturities. The Group uses implied volatility for the majority of the equity-linked structures. In some cases no liquid volatility surface exists. In these cases, a proxy volatility is typically used instead. The majority of the financial instruments, which use volatility as a significant unobservable input, are the Group's funding products and their hedging instruments.

Dividend yield

The main drivers influencing the fair value of equity-linked instruments are dividend yield and volatility of the underlying equities. Equity-linked instruments require a dividend parameter as an input to the fair value. The equity component is modelled using the Dupire local volatility model where the underlying equity prices are assumed to follow a random walk. Instruments that have dividend yield as a significant unobservable input are the Group's funding products and their hedging instruments.

Interest rates (extrapolated or illiquid)

The Group uses unobservable inputs in defining fair value of complex interest rate structures. The future cash flows and their fair value is determined by using forward rates and volatilities of the underlying interest rates using Hull-White stochastic model. Financial instruments whose payoffs are dependent on the value of complex interest rate structures are categorised on level 3. The majority of these instruments requiring extrapolated or illiquid interest rates as input are the Group's funding products and their hedging instruments.

The following table illustrates the effect that changing one or more of the assumptions in the unobservable input (reasonably possible alternative assumptions) could have on the valuations at the financial statement date.

SENSITIVITY ANALYSIS OF UNOBSERVABLE INPUTS 31 Dec 2021 (EUR 1,000)	Fair value	Valuation technique	Unobservable input	Positive range of fair value	Negative range of fair value
Loans and advances to the public and public sector entities					
Loans	34,861	Stochastic model	Volatility – Extrapolated or Illiquid	133	-84
Derivative contracts					
			Correlation parameters	759	653
Equity-linked derivatives	-37,319	Stochastic model	Volatility – Extrapolated or Illiquid	17,551	-11,504
			Dividend yield	554	-595
			Correlation parameters	498	-353
FX-linked cross currency and interest rate derivatives	-647,461	Stochastic model	Volatility – Extrapolated or Illiquid	2,145	-1,183
			Interest rates – Extrapolated or Illiquid	1	-1
			Correlation parameters	7	0
Other interest rate derivatives	-21,972	Stochastic model	Volatility – Extrapolated or Illiquid	12,870	-13,048
			Interest rates – Extrapolated or Illiquid	296	-296
Debt securities issued and Liabilities to the public and public sector entities					
			Correlation parameters	229	-149
Equity-linked liabilities	741,554	Stochastic model	Volatility – Extrapolated or Illiquid	11,455	-16,829
			Dividend yield	666	-1,137
			Correlation parameters	17	-123
FX-linked liabilities	785,053	Stochastic model	Volatility – Extrapolated or Illiquid	677	-2,099
			Interest rates – Extrapolated or Illiquid	11	-11
			Correlation parameters	1	0
Other liabilities	582,795	Stochastic model	Volatility – Extrapolated or Illiquid	12,313	-12,711
			Interest rates – Extrapolated or Illiquid	98	-98
Total				**60,279**	**-59,570**

DAY 1 GAIN OR LOSS (EUR 1,000)	2021	2020
Opening balance 1 Jan	-29	-
Recognised gain in the income statement	412	242
Recognised loss in the income statement	-711	-67
Deferred gain or loss on new transactions	91	-204
Total 31 Dec	**-236**	**-29**

Transfers in the fair value hierarchy and sensitivity analysis 2020

During 2020 transfers totaling EUR 205,516 thousand have been made between level 1 and level 2.
During 2020 transfers totaling EUR 35,796 thousand between level 2 and 3.

LEVEL 3 TRANSFERS 2020 (EUR 1,000)	1 Jan 2020	Change in fair value in the income statement	Purchases and new contracts	Sales and matured contracts	Transfers into level 3	Transfers out of level 3	31 Dec 2020
Financial assets							
At fair value							
Mandatorily at fair value through profit or loss							
Loans and advances to the public and public sector entities	50,028	-4,714	-	-1,578	-	-	43,735
Shares and participations	-	-	-	-	27	-	27
Fair value through profit or loss							
Derivative contracts at fair value through profit or loss	133,007	-12,405	-32	-41,804	686	-	79,452
Derivative contracts in hedge accounting	3,728	-2,118	117	-	-	-1,154	572
Financial assets in total	**186,764**	**-19,238**	**84**	**-43,382**	**713**	**-1,154**	**123,787**
Financial liabilities							
At fair value							
Designated at fair value through profit or loss							
Liabilities to the public and public sector entities	138,684	9,860	49,782	-	26,088	-	224,413
Debt securities issued	3,077,729	-259,858	868,572	-1,566,659	8,617	-2,686	2,125,714
Fair value through profit or loss							
Derivative contracts at fair value through profit or loss	458,243	289,125	37,906	-139,179	378	-181	646,293
Derivative contracts in hedge accounting	12,646	18,479	1,432	-	-	-8,167	24,391
In fair value hedge accounting							
Amortised cost							
Debt securities issued	151,671	-13,650	21,314	-	-	-65,286	94,048
Financial liabilities in total	**3,838,973**	**43,955**	**979,006**	**-1,705,838**	**35,083**	**-76,320**	**3,114,859**
Level 3 financial assets and liabilities in total	**4,025,735**	**24,717**	**979,090**	**-1,749,220**	**35,796**	**-77,474**	**3,238,646**

SENSITIVITY ANALYSIS OF UNOBSERVABLE INPUTS 2020 (EUR 1,000)	Fair value	Valuation technique	Unobservable input	Positive range of fair value	Negative range of fair value
Loans and advances to the public and public sector entities					
Loans	43,735	Stochastic model	Volatility – Extrapolated or Illiquid	542	327
Derivative contracts					
Equity-linked derivatives	-75,037	Stochastic model	Correlation parameters	1,324	-932
			Volatility – Extrapolated or Illiquid	9,142	-7,641
			Dividend yield	1,951	1,333
FX-linked cross currency and interest rate derivatives	-517,779	Stochastic model	Correlation parameters	51	-368
			Volatility – Extrapolated or Illiquid	1,642	96
			Interest rates – Extrapolated or Illiquid	93	-93
Other interest rate derivatives	2,156	Stochastic model	Correlation parameters	8	-6
			Volatility – Extrapolated or Illiquid	8,230	-9,711
			Interest rates – Extrapolated or Illiquid	447	-448
Debt securities issued and Liabilities to the public and public sector entities					
Equity-linked liabilities	885,327	Stochastic model	Correlation parameters	2,810	2,088
			Volatility – Extrapolated or Illiquid	7,733	-7,746
			Dividend yield	1,148	410
FX-linked liabilities	1,027,104	Stochastic model	Correlation parameters	213	54
			Volatility – Extrapolated or Illiquid	-1,161	-1,729
			Interest rates – Extrapolated or Illiquid	6	-6
Other liabilities	531,744	Stochastic model	Correlation parameters	1	-1
			Volatility – Extrapolated or Illiquid	10,220	-9,066
			Interest rates – Extrapolated or Illiquid	209	-209
Total				**44,609**	**-33,648**

MuniFin Group's Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (*IFRS*) as adopted by the EU. The Financial Statements Bulletin has been prepared in accordance with IAS 34 standard to a significant extent. No significant changes have been made to the significant accounting policies and calculation methods stated in the 2020 Consolidated Financial Statements.

The Financial Statements Bulletin is based on the audited Financial Statements of 2021. The Auditor's Report has been issued on 4 February 2022. The Financial Statements Bulletin is published in Finnish and English. The Finnish version of the Financial Statements Bulletin is the official version, that will apply if there is any discrepancy between the language versions.

The Report of the Board of Directors and Financial Statements 2021 will be published on 3 March 2022.

MuniFin (Municipality Finance Plc) is one of Finland's largest credit institutions. The Company is owned by Finnish municipalities, the public sector pension fund Keva and the Republic of Finland. MuniFin Group also includes the Subsidiary Company, Financial Advisory Services Inspira Ltd. The Group's balance sheet is over EUR 46 billion.

MuniFin builds a better and more sustainable future with its customers. MuniFin's customers are Finnish municipalities, municipal federations, municipally controlled entities and non-profit housing organisations. Lending is used for environmentally and socially responsible investment targets such as public transportation, hospitals and healthcare centres, schools and day care centres, and homes for people with special needs.

MuniFin's customers are domestic but the Company operates in a completely global business environment. The Company is an active Finnish bond issuer in international capital markets and the first Finnish green and social bond issuer. The funding is exclusively guaranteed by the Municipal Guarantee Board.

Read more: www.munifin.fi

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