Supplemental Offering Circular dated 14 September 2018

MUNICIPALITY FINANCE PLC
(Kuntarahoitus Oyj)

(Public limited liability company incorporated in the Republic of Finland)

€30,000,000,000
Programme for the Issuance of Debt Instruments

Guaranteed by

THE MUNICIPAL GUARANTEE BOARD
(Kuntien takauskeskus)

(Established as a public law institution under the laws of the Republic of Finland)

This supplement (the "**Supplement**") to the offering circular dated 11 May 2018 (the "**Offering Circular**") is prepared in connection with the €30,000,000,000 Programme for the Issuance of Debt Instruments established by Municipality Finance Plc (the "**Issuer**" or "**Municipality Finance**") and the Municipal Guarantee Board (the "**Guarantor**" or the "**MGB**"). Terms defined in the Offering Circular have the same meaning when used in this Supplement.

This Supplement is supplemental to, and should be read in conjunction with, the Offering Circular and any other supplements to the Offering Circular issued by the Issuer and the Guarantor from time to time and, in relation to any Tranche of Notes which is the subject of Final Terms, must be read and construed together with the relevant Final Terms.

The Offering Circular comprises neither a prospectus for the purposes of Part VI of the Financial Services and Markets Act 2000 (as amended) (the "**FSMA**"), a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC, as amended (the "**Prospectus Directive**"), nor listing particulars given in compliance with the listing rules (the "**Listing Rules**") made under Part VI of the FSMA by the United Kingdom Financial Conduct Authority in its capacity as competent authority under the FSMA (the "**FCA**"). Accordingly, this Supplement does not constitute a base prospectus supplement for the purposes of Article 16 of the Prospectus Directive or supplementary listing particulars for the purposes of Article 81 of the FSMA.

The Issuer and the Guarantor accept responsibility for the information contained in this Supplement. To the best of the knowledge and belief of the Issuer and the Guarantor (which have taken all reasonable care to ensure that such is the case), the information contained in this Supplement is in accordance with the facts and does not omit anything likely to affect the import of such information.

To the extent that there is any inconsistency between (a) any statements in or incorporated by reference into this Supplement and (b) any statement in or incorporated by reference into the Offering Circular, the statements in this Supplement will prevail.

Save as disclosed in this Supplement, no other significant new factor, material mistake or inaccuracy relating to information included in the Offering Circular has arisen or been noted since the publication of the Offering Circular.

AMENDMENTS TO THE OFFERING CIRCULAR

With effect from the date of this Supplement, the information appearing in the Offering Circular shall be supplemented in the manner described below.

Interim Report 2018

On 14 August 2018, the Issuer published its half-year report for the six months ending 30 June 2018 (the "**Interim Report 2018**"). The Interim Report 2018 contains unaudited consolidated financial statements. The unaudited consolidated income statement, the statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows and the related notes of the Interim Report 2018 are set out in the annex hereto (included in) and such annex forms part of this Supplement and the Offering Circular.

Exchange Rates

The section headed "Exchange Rates" on page 6 of the Offering Circular shall be deemed to be supplemented by the addition of the following information.

	Low	High
	(U.S. dollars per euro)	
May 2018	1.1546	1.2017
June 2018	1.1570	1.1808
July 2018	1.1600	1.1747
August 2018	1.1342	1.1718
September 2018 (through to September 12)	1.1553	1.1629

The euro versus the U.S. dollar European Central Bank exchange rate on 12 September 2017 was U.S.$ 1.1629 per Euro 1.00.

Capitalisation and Indebtedness

The section headed "Capitalisation and Indebtedness" starting on page 75 of the Offering Circular shall be deemed to be supplemented by the addition of the following information.

The following table sets forth consolidated cash and balances with central banks and capitalisation (including short term debt, long-term debt and shareholders' equity) of the Issuer as at 30 June 2018.

The information in this table should be read in conjunction with "*Management's Discussion and Analysis of Financial Position and Results of Operations of the Group*", the Group Consolidated Financial Statements and the notes to those statements included elsewhere in the Offering Circular and the Interim Report 2018 and the notes to that statement included elsewhere in this Supplement.

	As at 30 June 2018
	(Euro '000)
Cash and balances with central banks	4,017,525
Indebtedness:	
Liabilities to credit institutions	4,245,482
Liabilities to the public and public sector entities	553,025
Debt securities issued	26,648,097
Total indebtedness	31,446,604
Shareholders' equity	
Share capital	42,583
Reserve fund	277
Fair value reserve of investments	2,510
Own credit revaluation reserve	(31,508)
Cost-of-hedging reserve	8,068
Reserve for invested non-restricted equity	40,366

	As at 30 June 2018
	(Euro '000)
Retained earnings	983,195
Total equity attributable to parent company equity holders	1,045,491
Non-controlling interest	-
Other equity instruments issued	347,454
Total equity	1,392,945
Total capitalisation[(1)]	32,839,549

(1) Total capitalisation is the sum of total indebtedness and total equity.

Selected Financial Information Relating to the Group

The section headed "Selected Financial Information Relating to the Group" starting on page 76 of the Offering Circular shall be deemed to be supplemented by the addition of the following information.

IFRS 9 Financial Instruments was adopted at the beginning of 2018 and replaces the existing principles in IAS 39. The new standard includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. The Group has enacted the option of the IFRS 9 reporting standard not to restate earlier reporting periods according to IFRS 9. Therefore, the comparative information for 2017 is not fully comparable to the information presented for the first half of 2018 due to the reclassifications. For more information on IFRS 9 see "*Management's Discussion and Analysis of Financial Position and Results of Operations of the Group—Significant Factors Affecting Operating and Financial Results—IFRS 9*" and Note 2 "*IFRS 9 Financial instruments transition disclosure*" to the Interim Report 2018.

INCOME STATEMENT DATA

Consolidated income statement

	For the six months ended 30 June	
	2018	**2017**
	(Euro '000)	
Interest and similar income	**358,990**	**93,422**
Interest and similar expense	**(240,989)**	**17,143**
NET INTEREST INCOME	**118,001**	**110,564**
Commission income	1,169	1,822
Commission expense	(1,969)	(1,903)
Net income from securities and foreign exchange transactions	(6,541)	4,425
Net income from available-for-sale financial assets	-	(46)
Net income on financial assets at fair value through fair value reserve	7	-
Net income from hedge accounting	37,821	1,533
Other operating income	45	62
Administrative expenses	(13,138)	(10,335)
Depreciation and impairment on tangible and intangible assets	(1,158)	(932)
Other operating expenses	(9,741)	(9,338)
Expected credit loss on financial assets at amortised cost	(173)	-
Expected credit loss and impairments on other financial assets	44	-
NET OPERATING PROFIT	**124,368**	**95,852**
Income tax expense	(24,907)	(19,193)
PROFIT FOR THE PERIOD	**99,461**	**76,659**
Profit attributable to:		
Equity holders of the parent company	99,461	76,585
Non-controlling interest	-	75

CONSOLIDATED FINANCIAL POSITION DATA

	As at 30 June 2018
	(Euro '000)
ASSETS	
Cash and balances with central banks	4,017,525
Loans and advances to credit institutions	1,374,941
Loans and advances to the public and public sector entities	22,018,669
Debt securities	6,204,906
Shares and participations	9,603
Derivative contracts	1,517,611
Intangible assets	12,756
Tangible assets	1,949
Other assets	189,421
Accrued income and prepayments	173,161
TOTAL ASSETS	**35,520,542**
LIABILITIES AND EQUITY	
LIABILITIES	
Liabilities to credit institutions	4,245,482
Liabilities to the public and public sector entities	553,025
Debt securities issued	26,648,097
Derivative contracts	2,332,625
Other liabilities	9,798
Accrued expenses and deferred income	121,924
Deferred tax liabilities	216,647
TOTAL LIABILITIES	**34,127,598**
EQUITY	
Share capital	42,583
Reserve fund	277
Fair value reserve of investments	2,510
Own credit risk revaluation reserve	(31,508)
Cost-of-hedging reserve	8,068
Reserve for invested non-restricted equity	40,366
Retained earnings	983,195
Total equity attributable to parent company equity holders	**1,045,491**
Other equity instruments issued	**347,454**
TOTAL EQUITY	**1,392,945**
TOTAL LIABILITIES AND EQUITY	**35,520,542**

CONSOLIDATED CASH FLOW DATA

	For the six months ended 30 June	
	2018	**2017**
	(Euro '000)	
Cash flow from operating activities	494,848	1,133,099
Cash flow from investing activities	(3,073)	(1,758)
Cash flow from financing activities	(22,000)	(15,750)
Change in cash and cash equivalents	469,775	1,115,591
Cash and cash equivalents at 1 January	3,562,733	996,480
Cash and cash equivalents at 30 June	4,032,508	2,112,071

KEY PERFORMANCE INDICATORS

	As at and for the six months ended 30 June	
	2018	2017
Turnover[1] (mEUR)	391.5	101.2
Net interest income (mEUR)	118.0	110.6
% of turnover	30.1	109.2
Net operating profit (mEUR)	124.4	95.9
% of turnover	31.8	94.7
Cost-to-income ratio[2]	0.17	0.19
Lending portfolio[3] (mEUR)	21,508	20,913
Total funding acquired[4] (mEUR)	30,633	29,272
Total assets (mEUR)	35,521	33,793
Return on equity (%) (ROE)[5]	14.56	12.57
Return on assets (%) (ROA)[6]	0.57	0.45
Equity ratio (%)[7]	3.92	3.71
Common Equity Tier 1 (CET1) (mEUR)	1,016	870
Tier 1 capital (mEUR)	1,363	1,218
Total own funds (mEUR)	1,363	1,218
Ratio of Common Equity Tier 1 to risk-weighted assets (%)[8]	53.95	51.83
Ratio of Tier 1 capital to risk-weighted assets (%)[9]	72.41	72.52
Ratio of total own funds to risk-weighted assets (%)[10]	72.41	72.52
Leverage ratio, %[11]	3.97	3.72
Personnel	147	119

(1) Turnover is calculated as the sum of interest income, commission income, net income from securities and foreign exchange transactions, net income from available-for-sale financial assets, net income from hedge accounting and other operating income.

(2) Cost-to-income ratio is calculated as the sum of commission expenses, administrative expenses, depreciation and other operating expenses divided by the sum of net interest income, commission income, net income from securities and foreign exchange transactions, net income from available-for-sale financial assets, net income from hedge accounting and other operating income.

(3) Lending portfolio is calculated as loans and advances to the public and public sector entities less leasing receivables.

(4) Total funding acquired is calculated as the sum of liabilities to credit institutions, liabilities to the public and public sector entities and debt securities issued less collateral received.

(5) Return on equity (per cent.) (ROE) is calculated as net operating profit less income taxes divided by average total equity and non-controlling interest (average of the beginning of the year and the end of the year).

(6) Return on assets (per cent.) (ROA) is calculated as net operating profit less income taxes divided by average total assets (average of the beginning of the year and the end of the year).

(7) Equity ratio (per cent.) is calculated as the sum of total equity and non-controlling interest divided by total assets.

(8) Ratio of Common Equity Tier 1 to risk-weighted assets (per cent.) equals total Common Equity Tier 1 capital divided by risk-weighted assets.

(9) Ratio of Tier 1 capital to risk-weighted assets (per cent.) equals total Tier 1 capital divided by risk-weighted assets.

(10) Ratio of total own funds to risk-weighted assets (per cent.) equals total own funds divided by risk-weighted assets.

(11) Leverage ratio is calculated by dividing Tier 1 Capital by total exposure.

Other Alternative Performance Measures (Non-IFRS)

	As at and for the six months ended 30 June	
	2018	**2017**
Net interest income with interest expenses on AT1 capital loan[(1)] (mEUR)	109.9	102.5
Cost-to-income ratio without unrealised fair value changes[(2)]	0.22	0.20
Net operating profit without unrealised fair value changes[(3)] (mEUR)	92.7	88.9

(1) See below for a reconciliation of net interest income with interest expenses on AT1 capital loan:

	For the six months ended 30 June	
	2018	**2017**
Reconciliation of net interest income with interest expenses on AT1 capital loan		
Interest and similar income (incl. leasing)	359.0	93.4
Interest and similar expenses	(241.0)	17.1
Interest expenses on AT1 capital loan	(8.1)	(8.1)
Net interest income with interest expenses on AT1 capital loan	**109.9**	**102.5**

(2) Cost-to-income ratio without unrealised fair value changes comprises the Group's costs in relation to its income without unrealised fair value changes.

(3) See below for a reconciliation of net operating profit without unrealised fair value:

	For the six months ended 30 June	
	2018	**2017**
Reconciliation of net operating profit without unrealised fair value changes		
Net interest income	118.0	110.6
Commission income	1.2	1.8
Commission expense	(2.0)	(1.9)
Net income from securities and foreign exchange transactions	(0.4)	(1.0)
Net income from available-for-sale financial assets	-	0.0
Net income on financial assets at fair value through the fair value reserve	0.0	-
Other operating income	0.0	0.1
Administrative expenses	(13.1)	(10.3)
Depreciation and impairment on tangible and intangible assets	(1.2)	(0.9)
Other operating expenses	(9.7)	(9.3)
Expected credit loss on financial assets at amortised cost	(0.2)	(-)
Expected credit loss and impairments on other financial assets	0.0	-
Net operating profit without unrealised fair value changes	**92.7**	**88.9**

Management's Discussion and Analysis of Financial Position and Results of Operations of the Group

The section headed "Management's Discussion and Analysis of Financial Position and Results of Operations of the Group" starting on page 79 of the Offering Circular shall be deemed to be supplemented by the addition of the following information.

Overview

The Issuer's fully paid-up capital was Euro 42.6 million and its own funds amounted to Euro 1,363.0 million at 30 June 2018. The Issuer's total assets on 30 June 2018 were Euro 35.5 billion, of which the lending portfolio represented Euro 21.5 billion.

Significant Factors Affecting Financial Position and Results of Operations of the Group for the Six Months Ended 30 June 2018

The volume of the Group's lending and its market share

The total amount of new loans made in the six months ended 30 June 2018 was higher than in the same period last year at Euro 1,239 million (Euro 1,046 million in the six months ended 30 June 2017). As of 30 June 2018, the Group's lending portfolio stood at Euro 21,508 million (31 December 2017: Euro 21,219 million).

Fluctuations in interest rates, currency exchange rates and the valuation of derivatives

The Group's total funding acquired as at 30 June 2018 was Euro 30,633 million. The Group hedges against all currency risks by using derivative contracts to translate foreign currency denominated funding into euros. Also, while the Group's lending and funding is in both floating and fixed interest rates, the Group also hedges all of its fixed rate interest exposure (both borrowings and loans to customers) to floating rate.

As a result of these activities, the Group had derivative contracts with a nominal value of Euro 60,666.3 million as at 30 June 2018.

The following table sets forth, as of the date indicated, information on the derivative contracts of the Group:

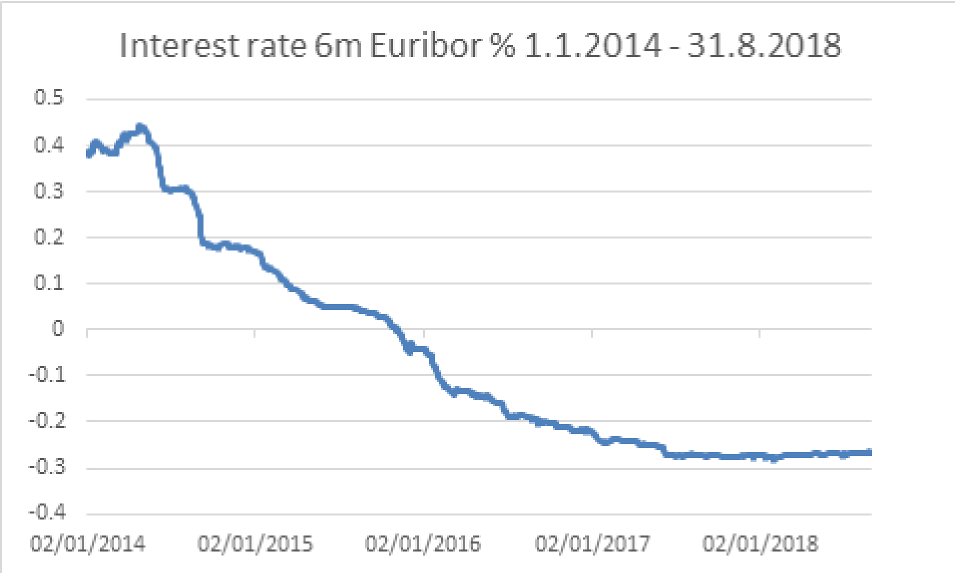
	As at 30 June 2018		
	Nominal value	Fair Value	
	Total	Positive	Negative
		Euro ('000)	
Contracts in hedge accounting			
Interest rate derivatives			
Interest rate swaps	19,542,489	390,670	(247,681)
of which are cleared by the central counterparty	10,293,017	35,083	(101,002)
Currency derivatives			
Cross currency interest rate swaps	13,251,825	508,964	(955,650)
Total contracts in hedge accounting	**32,794,314**	**899,635**	**(1,203,331)**
Contracts at fair value through profit or loss[1]			
Interest rate derivatives			
Interest rate swaps	16,828,233	336,491	(266,085)
of which cleared by the central counterparty	5,259,766	10,028	(42,512)
Interest rate options	119,860	524	(524)
Currency derivatives			
Cross currency interest rate swaps	5,304,437	165,083	(758,235)
Forward exchange contracts	3,937,940	99,098	(11,004)
Equity derivatives	1,681,520	16,779	(93,446)
Other derivatives	-	-	-
Total contracts at fair value through profit or loss	**27,871,990**	**617,976**	**(1,129,294)**
Total derivative contracts	**60,666,304**	**1,517,611**	**(2,332,625)**

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

While the Group uses derivatives only for hedging purposes, certain derivatives entered into by the Group do not qualify for hedge accounting and create volatility in the Group's income statement. This volatility is a function of the volatility of market interest rates and currency exchange rates and the related fair value changes of those derivatives which the Group must recognise on its income statement. The total nominal value of derivative contracts not included in hedge accounting under EU IFRS was Euro 27,872.0 million as at 30 June 2018. Changes in the fair value of such derivatives are recognised on the income statement during the period in which they occur as one component of the net result for the line item "Net income from securities and foreign exchange transactions".

Interest rate movements

The chart below shows the Euribor 6-month interest rate for 2014, 2015, 2016, 2017 and the first eight months of 2018.



IFRS 9

IFRS 9 Financial Instruments was adopted at the beginning of 2018 and replaces the existing principles in IAS 39. The new standard includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

The IFRS 9 standard adopted has increased profit and loss volatility through unrealised gains and losses of financial instruments. In the adoption of IFRS 9 the Group reclassified its financial assets and liabilities. As a result of the reclassification the impact of the financial liabilities on profit and loss has increased. The Group's profit for the six months ended 30 June 2018 includes EUR 31.7 million of unrealised changes in the fair value of financial items compared to only EUR 7.0 million in the six months ended 30 June 2017.

In addition, the reclassifications resulted in the reduction in the use of hedge accounting for certain assets and liabilities. The reduction of hedge accounting resulted in higher gross levels of interest income and interest expense. Previously, the interest of derivatives hedging assets in hedge accounting was according to hedge accounting principles and presented as a net figure in interest income. Interest on derivatives hedging liabilities in hedge accounting was presented as a net figure in interest expense. After the transition to IFRS 9, all derivatives no longer in hedge accounting are presented as gross figures divided into interest income and expense, thus increasing the gross levels. The impact of IFRS 9 reclassifications is, however eliminated, on the net interest income line item. For more information regarding the impact of these changes, see Note 11 "*Interest Income and Expense*" to the Interim Report 2018.

The Group has enacted the option of the IFRS 9 reporting standard not to restate earlier reporting periods according to IFRS 9. Therefore, the comparative information for 2017 is not fully comparable to the information presented for the first half of 2018 due to the reclassifications. For more information on IFRS 9 see Note 2 "*IFRS 9 Financial instruments transition disclosure*" to the Interim Report 2018.

Results of Operations for the six months ended 30 June 2018 versus the six months ended 30 June 2017

The following tables set forth, as of the dates indicated, certain summary financial information about the results of the Group's operations for the six months ended 30 June 2018 versus the six months ended 30 June 2017:

	For the six months ended 30 June		Change 2017 to 2018
	2018	2017	
	(Euro '000)		(%)
Interest and similar income	**358,990**	**93,422**	**284.3**
Interest and similar expense	**(240,989)**	**17,143**	**(1,505.8)**
NET INTEREST INCOME	**118,001**	**110,564**	**6.7**
Commission income	1,169	1,822	(35.8)
Commission expense	(1,969)	(1,903)	3.5
Net income from securities and foreign exchange transactions	(6,541)	4,425	(247.8)
Net income from available-for-sale financial assets	-	(46)	-
Net income on financial assets at fair value through fair value reserve	7	-	-
Net income from hedge accounting	37,821	1,533	2,367.1
Other operating income	45	62	(27.4)
Administrative expenses	(13,138)	(10,335)	27.1
Depreciation and impairment on tangible and intangible assets	(1,158)	(932)	24.2
Other operating expenses	(9,741)	(9,338)	4.3
Credit loss on financial assets at amortised cost	(173)	-	-
Credit loss and impairments on other financial assets	44	-	-
NET OPERATING PROFIT	**124,368**	**95,852**	**29.8**
Income tax expense	(24,907)	(19,193)	29.8
PROFIT FOR THE FINANCIAL PERIOD	**99,461**	**76,659**	**29.7**
Profit attributable to:			
Equity holders of the parent company	99,461	76,585	29.9
Non-controlling interest	-	75	-

Net Interest Income

Net interest income increased by Euro 7.4 million, or 6.7 per cent., to Euro 118.0 million for the six months ended 30 June 2018, compared to Euro 110.6 million for the six months ended 30 June 2017 primarily due to the reasons set out below.

Interest income and expenses on assets

Net interest income from assets decreased by Euro 21.1 million, or 31.3 per cent., to Euro 46.4 million for the six months ended 30 June 2018, compared to Euro 67.5 million for the six months ended 30 June 2017 primarily due to an increase in net interest expense payable on derivative contracts and a decrease in net interest income on loans and advances to the public and public sector entities.

Net interest income from loans and advances to the public and public sector entities and leasing (in 2017 leasing was included within net interest income from loans and advances to public and public sector entities) decreased by Euro 3.1 million, or 3.0 per cent., to Euro 99.4 million for the six months ended 30 June 2018, compared to Euro 102.5 million for the six months ended 30 June 2017 primarily due to a minor decrease in the average interest rate of the lending portfolio, which was partially off-set by an increase in the size of the lending and leasing portfolios.

Net interest income from debt securities (i.e., the Group's liquidity portfolio) was Euro 10.7 million for the six months ended 30 June 2018 compared to net interest income from debt securities of Euro 12.9 million for the six months ended 30 June 2017 primarily due to a decrease in the amount of debt securities invested in the Group's liquidity portfolio.

Net interest expense payable on derivative contracts increased by Euro 11.4 million, or 26.1 per cent., to Euro 54.9 million for the six months ended 30 June 2018, compared to Euro 43.6 million for the six months ended 30 June 2017 primarily due to changes in interest rates.

Interest income and expenses on liabilities

Net interest income on liabilities increased by Euro 28.5 million, or 66.3 per cent., to Euro 71.6 million for the six months ended 30 June 2018, compared to Euro 43.1 million for the six months ended 30 June 2017, primarily due to a significant increase in net interest expense on liabilities from debt securities issued.

Net interest expense on liabilities from debt securities issued increased by Euro 123.3 million, or 71.9 per cent., to Euro 294.8 million for the six months ended 30 June 2018, compared to Euro 171.5 million for the six months ended 30 June 2017. This increase was partially due to a slight increase in funding but was mainly explained by an amendment of accounting principles in the second half of 2017. The figures for the six months ended 30 June 2017 and 2018 are not entirely comparable, as figures shown in the income statement as net for the six months ended 30 June 2017 are shown as gross for the six months ended 30 June 2018, which increased the figures presented for debt securities and derivative contracts in liabilities. The change in presentation does not impact the net interest for these items on a net level.

Net interest income on liabilities on derivative contracts increased by Euro 168.7 million, or 67.6 per cent., to Euro 418.3 million for the six months ended 30 June 2018, compared to Euro 249.6 million for the six months ended 30 June 2017. This increase was partially due to changes in interest rates—and it offsets an equivalent increase in the net interest expense on liabilities from debt securities—but was mainly explained by an amendment of accounting principles in the second half of 2017. The figures for the six months ended 30 June 2017 and 2018 are not entirely comparable, as figures shown in the income statement as net for the six months ended 30 June 2017 are shown as gross for the six months ended 30 June 2018, which increased the figures presented for debt securities and derivative contracts in liabilities. The change in presentation does not impact the net interest for these items on a net level.

Net income from securities and foreign exchange transactions

Net income from securities and foreign exchange transactions was a loss of Euro 6.5 million for the six months ended 30 June 2018, compared to a gain of Euro 4.4 million for the six months ended 30 June 2017 primarily due to fluctuations in interest rates, the credit risk (credit valuation adjustments ("**CVA**")) arising from counterparties in derivative transactions and the market conditions of own derivative liabilities (debt valuation adjustments ("**DVA**")). The unrealised net income from securities and foreign exchange transactions includes Euro 1.7 million of CVA and DVA.

Net income from hedge accounting

The Group has enacted the option of the IFRS 9 standard not to restate earlier reporting periods according to IFRS 9. Therefore, the comparative information for 2017 is not fully comparable to the information presented for the first half of 2018 due to reclassifications.

Net income from hedge accounting increased by Euro 36.3 million, or 2,420 per cent, to Euro 37.8 million for the six months ended 30 June 2018, compared to Euro 1.5 million for the six months ended 30 June 2017 primarily due to the implementation of IFRS 9 for the six months ended 30 June 2018 for hedge accounting as compared to the accounting principles that were applicable during the six months ended 30 June 2017.

For a breakdown of the Group's derivative contracts during the periods under review see "*—Significant Factors Affecting Operating and Financial Results—Fluctuations in interest rates, currency exchange rates and the valuation of derivatives*".

Administrative expenses

The Group had 147 total personnel as at 30 June 2018 compared to 119 total personnel as at 30 June 2017.

Administrative expenses increased by Euro 2.8 million, or 27.2 per cent., to Euro 13.1 million for the six months ended 30 June 2018, compared to Euro 10.3 million for the six months ended 30 June 2017 primarily due to an increase in personnel.

Other operating expenses

Other operating expenses increased by Euro 0.4 million, or 4.3 per cent., to Euro 9.7 million for the six months ended 30 June 2018, compared to Euro 9.3 million for the six months ended 30 June 2017 due to financial supervision costs paid to the ECB and to the Financial Supervisory Authority and contributions paid to the EU-level crisis resolution fund.

Income taxes

Income taxes increased by Euro 5.7 million, or 29.8 per cent., to Euro 24.9 million for the six months ended 30 June 2018, compared to Euro 19.2 million for the six months ended 30 June 2017 due to an increase in operating profit in the first six months of 2018 compared with the first six months of 2017.

Financial Position

Assets as at 30 June 2018 compared to 31 December 2017

The following table sets forth, as of the dates indicated, certain summary financial information about the assets of the Group:

	As at 30 June	**As at 31 December**
	2018	**2017**
	(Euro '000)	
Assets		
Cash and balances with central banks	4,017,525	3,554,182
Loans and advances to credit institutions	1,374,941	1,251,391
Loans and advances to the public and public sector entities	22,018,669	21,650,847
Debt securities	6,204,906	6,494,234
Shares and participations	9,603	9,662
Derivative contracts	1,517,611	1,433,318
Intangible assets	12,756	10,196
Tangible assets	1,949	2,594
Other assets	189,421	157,862
Accrued income and prepayments	173,161	173,853
Total assets	**35,520,542**	**34,738,139**

As of 30 June 2018, the main components of the total assets of the Group were loans and advances to the public and public sector entities, debt securities and cash and balances with central banks, representing 62.0 per cent., 17.5 per cent. and 11.3 per cent., respectively, of total assets. As of 30 June 2018, total assets had increased by Euro 782.4 million, or by 2.3 per cent., to Euro 35,520.5 million, compared to Euro 34,738.1 million as of 31 December 2017, which was mainly attributable to an increase in cash balances with central banks and loans and advances to the public and public sector entities.

Loans and advances to the public and public sector entities

Loans and advances to the public and public sector entities increased by Euro 367.8 million, or 1.7 per cent., to Euro 22,018.7 million as at 30 June 2018, compared to Euro 21,650.8 million as at 31 December 2017 due to an increase in the volume of lending by the Group.

Debt securities

Debt securities decreased by Euro 289.3 million, or 4.5 per cent., to Euro 6,204.9 million as at 30 June 2018, compared to Euro 6,494.2 million as at 31 December 2017 due to a decrease in the amount of funds invested in debt securities.

Derivative contracts

For a breakdown of the Group's derivative contracts during the periods under review see "*—Significant Factors Affecting Operating and Financial Results—Fluctuations in interest rates, currency exchange rates and the valuation of derivatives*".

Derivative contract assets increased by Euro 84.3 million, or 5.9 per cent., to Euro 1,517.6 million as at 30 June 2018, compared to Euro 1,433.3 million as at 31 December 2017 primarily due to changes in interest rates and currency exchange rates.

Liabilities as at 30 June 2018 compared to 31 December 2017

The following table sets forth, as of the dates indicated, certain summary financial information about the liabilities of the Group:

	As at 30 June	As at 31 December
	2018	2017
	(Euro '000)	
Liabilities		
Liabilities to credit institutions	4,245,482	3,902,480
Liabilities to the public and public sector entities	553,025	646,558
Debt securities issued	26,648,097	26,303,961
Derivative contracts	2,332,625	2,216,034
Other liabilities	9,798	2,587
Accrued expenses and deferred income	121,924	124,574
Deferred tax liabilities	216,647	202,522
Total liabilities	**34,127,598**	**33,398,716**

As of 30 June 2018, the main components of the total liabilities of the Group were debt securities issued, liabilities to credit institutions, derivative contracts and liabilities to public and public sector entities, representing 78.1 per cent., 12.4 per cent., 6.8 per cent. and 1.6 per cent., respectively, of total liabilities. As of 30 June 2018, total liabilities had increased by Euro 728.9 million, or by 2.2 per cent., to Euro 34,127.6 million, compared to Euro 33,398.7 million as of 31 December 2017, which was mainly attributable to an increase in debt securities issued of Euro 344.1 million compared to the balance as of 31 December 2017.

Debt securities issued

The total amount (nominal value) of unmatured bonds and other funding issued by the Issuer as at 30 June 2018 was:

	As at 30 June 2018
	(Euro '000)
Domestic funding	
Kuntaobligaatiot	-
Total	-
International funding	
Debt instruments issued under EMTN Programmes	22,795,365
Debt instruments issued under the AUD Programme	662,179
Debt instruments issued under stand-alone MTN documentation	25,000
Commercial Paper of the Issuer	4,429,968
Total	27,912,512
Other international funding	3,407,192
Total	31,319,704

Debt securities issued by the Group increased by Euro 674.9 million, or 2.2 per cent., to Euro 31,319.7 million as at 30 June 2018, compared to Euro 30,644.8 million as at 31 December 2017 primarily due to an increase in the volume of debt securities issued by the Group to accommodate its increased funding requirements.

Liabilities to credit institutions

Liabilities to credit institutions increased by Euro 343.0 million, or 8.8 per cent., to Euro 4,245.5 million as at 30 June 2018, compared to Euro 3,902.5 million as at 31 December 2017 mainly due to an increase in bilateral loans with credit institutions.

Liabilities to the public and public sector entities

Liabilities to the public and public sector entities consists of primarily of bilateral loans. Liabilities to the public and public sector entities decreased by Euro 93.5 million, or 14.5 per cent., to Euro 553.0 million as at 30 June 2018, compared to Euro 646.6 million as at 31 December 2017 primarily due to maturing liabilities.

Derivative contracts

For a breakdown of the Group's derivative contracts during the period see "*—Significant Factors Affecting Operating and Financial Results—Fluctuations in interest rates, currency exchange rates and the valuation of derivatives*".

Derivative contracts liabilities for the Group increased by Euro 116.6 million, or 5.3 per cent., to Euro 2,332.6 million as at 30 June 2018, compared to Euro 2,216.0 million as at 31 December 2017 primarily due to changes in interest rates and currency exchange rates.

Capital Adequacy

The table below shows the Group's own funds for the periods indicated.

Consolidated own funds

	As at 30 June	**As at 31 December**
	2018	**2017**
	(Euro '000)	
Common Equity Tier 1 before adjustments	1,056,759	976,260
Adjustments to Common Equity Tier 1	(41,196)	(30,740)
Common Equity Tier 1	**1,015,564**	**945,519**
Additional Tier 1 capital before adjustments	347,454	347,454
Adjustments to Additional Tier 1 capital	-	-
Additional Tier 1 Capital	**347,454**	**347,454**
Tier 1 Capital	**1,363,017**	**1,292,973**
Tier 2 Capital	-	-
Total own funds	**1,363,017**	**1,292,973**

Minimum requirement for own funds, Group

	30 June 2018		31 December 2017	
	Capital requirement	**Risk-weighted assets**	**Capital requirement**	**Risk-weighted assets**
	(Euro '000)			
Credit and counterparty risk, standard method	**80,384**	**1,004,800**	**108,144**	**1,351,799**
Exposure to central governments or central banks	0	0	302	3,780
Exposure to regional governments or local authorities	342	4,272	332	4,153
Exposures to public sector entities	5,166	64,580	4,742	59,271
Exposure to multilateral development banks	953	11,909	953	11,914
Exposures to institutions	54,126	676,570	81,835	1,022,934
Exposures in the form of covered bonds	19,242	240,526	19,063	238,284
Items representing securitisation positions	23	287	104	1,296
Exposures in the form of shares in CIUs	96	1,194	103	1,286
Other items	437	5,462	710	8,881
Market risk	**0**	**0**	**1,075**	**13,436**
Credit valuation adjustment risk (CVA VaR), standard method	**39,552**	**494,402**	**979**	**12,233**
Operational risk, basic method	**30,644**	**383,048**	**26,783**	**334,786**
Total	**150,580**	**1,882,251**	**136,980**	**1,712,254**

Consolidated key figures for capital adequacy

	As at 30 June	**As at 31 December**
	2018	**2017**
Ratio of Common Equity Tier 1 (CET1) to risk-weighted assets, %	53.95	55.22
Ratio of Tier 1 capital (T1) to risk-weighted assets, %	72.41	75.51
Ratio of total own funds to risk-weighted assets, %	72.41	75.51

In addition to the above, the table below shows the own funds for the Issuer only for the periods indicated.

Own funds, parent company

	As at 30 June	**As at 31 December**
	2018	**2017**
	(Euro '000)	
Common Equity Tier 1 before adjustments	1,055,957	975,532
Adjustments to Common Equity Tier 1	(41,290)	(30,874)
Common Equity Tier 1	**1,014,667**	**944,658**
Additional Tier 1 capital before adjustments	348,159	347,916
Adjustments to Additional Tier 1 capital	-	-
Additional Tier 1 Capital	**348,159**	**347,916**
Tier 1 Capital	**1,362,826**	**1,292,574**
Tier 2 Capital	**-**	**-**
Total own funds	**1,362,826**	**1,292,574**

Minimum requirement for own funds, parent company

	30 June 2018		31 December 2017	
	Capital requirement	Risk-weighted assets	Capital requirement	Risk-weighted assets
	(Euro ´000)			
Credit and counterparty risk, standard method	**80,420**	**1,005,244**	**108,170**	**1,352,121**
Exposure to central governments or central banks	0	0	302	3,780
Exposure to regional governments or local authorities	342	4,272	332	4,153
Exposures to public sector entities	5,166	64,580	4,742	59,271
Exposure to multilateral development banks	953	11,909	953	11,914
Exposures to institutions	54,119	676,492	81,824	1,022,805
Exposures in form of covered bonds	19,242	240,526	19,063	238,284
Items representing securitisation positions	23	287	104	1,296
Exposures in form of shares in CIUs	96	1,194	103	1,286
Other items	479	5,984	747	9,333
Market risk	**0**	**0**	**1,075**	**13,436**
Credit valuation adjustment risk (CVA VaR), standard method	**39,552**	**494,402**	**979**	**12,233**
Operational risk, basic method	**28,487**	**356,092**	**25,441**	**318,019**
Total	**148,459**	**1,855,738**	**135,665**	**1,695,809**

Key figures for capital adequacy, parent company

	As at 30 June	As at 31 December
	2018	2017
Ratio of Common Equity Tier 1 (CET1) to risk-weighted assets, %	54.68	55.71
Ratio of Tier 1 capital (T1) to risk-weighted assets, %	73.44	76.22
Ratio of total own funds to risk-weighted assets, %	73.44	76.22

As at 30 June 2018, the Group's own funds totalled Euro 1,363.0 million and its Tier 1 capital totalled Euro 1,363.0 million. No provision for a dividend distribution was made for Tier 1 capital.

As at 30 June 2018, the Group's leverage ratio, calculated under the current Basel III Standards and in accordance with EU Capital Requirements Regulation, was 3.97 per cent.

Contingent Liabilities

In the ordinary course of business, the Group enters into transactions which, upon being concluded, are not disclosed in the Group's statement of financial position as assets or liabilities, but result in contingent liabilities. The main item of these off-financial position liabilities of the Group is financial commitments, mainly binding loan commitments granted.

Breakdown of off-balance sheet unmatured commitments and contingent liabilities	As at 30 June 2018
	(Euro '000)
Binding loan commitments	2,557,759
AT1 accrued interest	3,100

Commitments

As a rule, debt instruments issued to the municipal sector by the Issuer have been given to the Guarantor as collateral.

On 30 June 2018, the Issuer had given collateral to the Guarantor as follows:

Bonds	As at 30 June 2018
	(Euro '000)
Loans pledged to the central bank	2,550,969
Loans pledged to the Guarantor	10,411,785
Total	**12,962,754**

Cash Flows

The Six Months Ended 30 June 2018 Compared to the Six Months Ended 30 June 2017

The table below sets out, for the period indicated, information on the Group's net consolidated cash flows on operating, investing and financing activities as well as cash and cash equivalents at the beginning and end of the period.

	For the six months ended 30 June	
	2018	2017
	(Euro '000)	
Cash flow from operating activities	494,848	1,133,099
Cash flow from investing activities	(3,073)	(1,758)
Cash flow from financing activities	(22,000)	(15,750)
Change in cash and cash equivalents	469,775	1,115,591
Cash and cash equivalents at 1 January	3,562,733	996,480
Cash and cash equivalents at period end	4,032,508	2,112,071

Operating Activities

The operating activities of the Group for the six months ended 30 June 2018 generated net cash inflows of Euro 494.8 million compared to net cash inflows of Euro 1,133.1 million for the six months ended 30 June 2017. The main driver for this change was the change in long- and short-term funding. The Group's change in long-term funding was a cash inflow of Euro 125.2 million in the six months ended 30 June 2018 compared to an inflow of Euro 978.4 million in the six months ended 30 June 2017. The Group's change in short-term funding was a cash inflow of Euro 449.1 million in the six months ended 30 June 2018 compared to an inflow of Euro 1,545.0 million in the six months ended 30 June 2017. The Group's change in collateral was a decrease of Euro 82.5 million in the six months ended 30 June 2018 and a decrease of Euro 1,452.4 million in the six months ended 30 June 2017, respectively.

Investing Activities

The investing activities of the Group generated net cash outflows of Euro 3.1 million and Euro 1.8 million for the six months ended 30 June 2018 and 30 June 2017, respectively, from the acquisition of tangible and intangible assets.

Financing Activities

Net cash outflow from financing activities was Euro 22.0 million for the six months ended 30 June 2018 primarily reflecting a full year of interest from 2017 paid on the AT1 capital loan in April 2018. Net cash outflow from financing activities was Euro 15.8 million for the six months ended 30 June 2017 primarily reflecting a full year of interest from 2016 paid on the AT1 capital loan in April 2017.

Municipality Finance Plc

The subsection headed "Risk Management" within the section headed "Municipality Finance Plc" starting on page 102 of the Offering Circular shall be deemed to be supplemented by the addition of the following information.

As at 30 June 2018, of the Issuer's 51 counterparties under ISDA Master Agreements, the Issuer had 51 Credit Support Annexes in force.

Management and Shareholders of Municipality Finance Plc

The section headed "Management and Shareholders of Municipality Finance Plc" starting on page 104 of the Offering Circular shall be deemed to be supplemented by the addition of the following additional sentences to the end of paragraph 3 under the subsection headed "Administration of the Issuer" beginning "The Board of Directors has an Audit Committee", which shall be deemed to be replaced by the following statement.

During the first half of 2018, the Board of Directors initiated a restructuring of internal audit operations in order to transfer the responsibility for the internal auditing function from an external third party to an internal function. Consequently, the Board appointed a Senior Vice President responsible for the internal auditing function. The Senior Vice President of internal auditing will report directly to the Audit Committee and the Board of Directors. With this new position, the objective is to develop the Group's internal audit operations and to assess how the Group should utilise external resources to support internal audit operations in the future.

No Significant Change

Paragraph 4 under the section headed "General Information" on page 130 of the Offering Circular shall be deemed to be replaced by the following statement.

Since 30 June 2018 there has been no significant change in the financial or trading position of the Issuer or the Municipality Finance Group.

Amendments to Conditions and Fiscal Agency Agreement

The Fiscal Agency Agreement has been amended and restated to (i) reflect the changes set out in "Process Agent" and "Registrar" below; and (ii) include the following language in the Conditions of each new Series of Notes issued on or after the date hereof:

20. "**Acknowledgment of Bail-in and Loss Absorption Powers**

Notwithstanding and to the exclusion of any other term of the Notes or any other agreements, arrangements or understanding between the Issuer and any Holder (which, for the purposes of this Condition 20, includes each holder of a beneficial interest in the Notes), by its acquisition of the Notes, each Holder acknowledges and accepts that any liability arising under the Notes may be subject to the exercise of Bail-in and Loss Absorption Powers by the Relevant Resolution Authority and acknowledges, accepts, consents to and agrees to be bound by:

(a) the effect of the exercise of any Bail-in and Loss Absorption Powers by the Relevant Resolution Authority, which exercise (without limitation) may include and result in any of the following, or a combination thereof:

(i) the reduction of all, or a portion, of the Relevant Amounts in respect of the Notes;

(ii) the conversion of all, or a portion, of the Relevant Amounts in respect of the Notes into shares, other securities or other obligations of the Issuer or another person, and the issue to or conferral on the Holder of such shares, securities or obligations, including by means of an amendment, modification or variation of the terms of the Notes;

(iii) the cancellation of the Notes or the Relevant Amounts in respect of the Notes; and

(iv) the amendment or alteration of the Maturity Date of the Notes or amendment of the amount of interest payable on the Notes, or the date on which interest becomes payable, including by suspending payment for a temporary period; and

(b) the variation of the terms of the Notes, as deemed necessary by the Relevant Resolution Authority, to give effect to the exercise of any Bail-in and Loss Absorption Powers by the Relevant Resolution Authority.

"**Bail-in and Loss Absorption Powers**" means any loss absorption, write-down, conversion, transfer, modification, suspension or similar or resolution related power existing from time to time under, and exercised in compliance with, any laws, regulations, rules or requirements in effect in the Republic of Finland, relating to (i) the transposition of the BRRD or the application of the SRM Regulation and (ii) the instruments, rules and standards created under the BRRD or the SRM Regulation, pursuant to which any obligation of the Issuer (or any affiliate of the Issuer) can be reduced, cancelled, modified, or converted into shares, other securities or other obligations of the Issuer or any other person (or suspended for a temporary period).

"**BRRD**" means the Bank Recovery and Resolution Directive 2014/59/EU.

"**Relevant Amounts**" means the outstanding principal amount of the Notes, together with any accrued but unpaid interest and additional amounts due on the Notes. References to such amounts will include amounts that have become due and payable, but which have not been paid, prior to the exercise of any Bail-in and Loss Absorption Powers by the Relevant Resolution Authority.

"**Relevant Resolution Authority**" means the resolution authority with the ability to exercise any Bail-in and Loss Absorption Powers in relation to the Issuer.

"**SRM Regulation**" means Regulation (EU) No. 806/2014."

Process Agent

The section headed "General Information" starting on page 130 of the Offering Circular shall be deemed to be supplemented by the addition of the following information.

11. The address of our appointed process agent is Suite 1, 3rd Floor, 11-12 St. James's Square, London SW1Y 4LB, United Kingdom.

Registrar

The name of the Registrar on the penultimate page of the Offering Circular shall be deemed to be replaced with the following.

Citigroup Global Markets Europe AG

ANNEX

Municipality Finance Plc Interim Report 2018

2018

HALF YEAR REPORT

1 JANUARY–30 JUNE 2018

Building a responsible tomorrow.

MuniFin

MUNICIPALITY FINANCE

CEO's Review

Good economic development in Finland continued in the first half of 2018. The situation is looking good from various perspectives. The finances of municipalities seem stable and government-supported construction continues with strong volumes. It would appear that there is a wide societal interest for Finland to support the economic growth that is picking up steam after a long period of slow growth. The conciliatory and fast concluded collective labour agreement rounds were good manifestations of this.

Uncertainty over the health, social services and regional government reform continues as Parliament's processing of the legislative package related to the reform was again delayed and subsequently the reform's entry into force has been postponed by another year. However, this uncertainty has continued for so long that municipalities and hospital districts must continue their operations and make the necessary investments despite the outlook for the next few years being uncertain.

In the first half of the year, MuniFin's market position was strengthened particularly in government-supported housing production. Even with the current large volume of privately financed housing production, there continues to be a steady demand for construction approved for state-subsided financing by the Housing Finance and Development Centre of Finland. This ensures the availability of moderate-priced housing production, especially in growth centres, which is a prerequisite for continued economic growth.

The supply of financing has remained at a good level. However, MuniFin's efficient funding has enabled us to strengthen our market position: we are still the clear market leader in the financing of both municipal customers and government-supported housing production. Despite the competition, the company's net interest income and financial result remained at a good level in the first half of the year.

The trends in the international capital markets served MuniFin well in the first half of the year. Despite the customs disputes between the US and the other markets, the increased tension in the relationships between superpowers and the political crisis in Italy, we did extremely well in our funding transactions. Our benchmark bonds were exceptionally sought-after by international investors. This proves that the investors have a strong and continued confidence in us and the Finnish society.

In the first six months of the year, MuniFin received several major acknowledgements for its work. Environmental Finance selected us for the Green Bond of the Year (SSA) 2018 award based on the green bond we issued in September 2017. In May, MuniFin was recognised as the best bank in Finland in Kauppalehti business newspaper's annual comparison. At the end of May, we participated in the launch of Nasdaq Helsinki's sustainable bonds market as the first issuer in the new marketplace.

MuniFin was recognised as the best bank in Finland in Kauppalehti business newspaper's annual comparison.

These external acknowledgements are a clear indication that we have been investing in the right areas: listening to what customers want, contributing to market development and ensuring that our own operations remain agile and efficient. We promise to continue to invest in these areas in the future. In accordance with our mission, we want to build a better future – responsibly and together with our customers.

Helsinki, 14 August 2018
Esa Kallio
President and CEO

Half year report

1 January–30 June, 2018

The first half of 2018 in brief

- The Group's net interest income grew by 6.7% compared to the previous year reaching EUR 118.0 million (1 January–30 June 2017: EUR 110.6 million).
- The Group's net operating profit without unrealised fair value changes grew by 4.3% totalling EUR 92.7 million at the end of the reporting period (1 January–30 June 2017: EUR 88.9 million). Including these valuations the net operating profit amounted to EUR 124.4 million (1 January–30 June 2017: EUR 95.9 million).
- The balance sheet total was EUR 35,521 million (31 December 2017: EUR 34,738 million). The growth compared to the end of 2017 was 2.3%.
- The Group's capital adequacy remained strong, with the ratio of own funds to risk-weighted assets being 72.41% at the end of June (31 December 2017: 75.51%).
- At the end of June, the Group's leverage ratio amounted to 3.97% (31 December 2017: 3.84%).
- The leasing portfolio stood at EUR 511 million at the end of June 2018 (31 December 2017: EUR 432 million).
- At the end of June, total liquidity was EUR 9,273 million (31 December 2017: EUR 9,325 million).
- The total of new loans withdrawn in January-June amounted to EUR 1,239 million (1 January–30 June 2017: EUR 1,046 million). The lending portfolio stood at EUR 21,508 million (31 December 2017: EUR 21,219 million). Of this amount, EUR 138 million was granted as green finance targeted for environmental-friendly investments during the first half of the year (1 January–30 June 2017: EUR 277 million). At the end of June 2018 the portfolio of reimbursed green finance stood at EUR 917 million (31 December 2017: EUR 803 million).
- In January-June, EUR 4,100 million was acquired in long-term funding (1 January–30 June 2017: EUR 5,411 million). A total of EUR 7,994 million was issued in short-term debt instruments under the Euro Commercial Paper programme during the first half of the year (1 January–30 June 2017: EUR 4,305 million). The total amount of funding grew to EUR 30,633 million (31 December 2017: EUR 30,153 million).

Key figures (group)

	30 Jun 2018	31 Dec 2017	30 Jun 2017
Net interest income (EUR million)	118.0	228.5	110.6
Net operating profit (EUR million)	124.4	198.4	95.9
Net operating profit without unrealised changes in fair value (EUR million)	92.7	187.4	88.9
New loans issued (EUR million)	1,239	2,439	1,046
New funding acquisition (EUR million)	4,100	9,557	5,411
Balance sheet total (EUR million)	35,521	34,738	33,793
Common Equity Tier 1 (CET1) (EUR million)	1,016	946	870
Tier 1 capital (EUR million)	1,363	1,293	1,218
Total own funds (EUR million)	1,363	1,293	1,218
Ratio of Common Equity Tier 1 (CET1) to risk-weighted assets, %	53.95	55.22	51.83
Ratio of Tier 1 capital (T1) to risk-weighted assets, %	72.41	75.51	72.52
Ratio of total own funds to risk-weighted assets, %	72.41	75.51	72.52
Leverage ratio, %	3.97	3.84	3.72
Return on equity (ROE), %	14.56	12.57	12.57
Cost-to-income ratio	0.17	0.18	0.19
Personnel	147	134	119

The calculation formulas for the key figures are given on page 16. All figures presented in this half year report are those of the Municipality Finance Group, unless otherwise stated. Alternative Performance Measures are reported after Calculation of key figures.

The Group structure

The Municipality Finance Group consists of Municipality Finance Plc and Financial Advisory Services Inspira Ltd. MuniFin controls 100% of the shares of Inspira.

Operating environment in the first half of 2018

In the first half of 2018, Finland's economy continued to grow at the same strong pace as in 2017 and Finland's outlook for the near future is positive. The strong economic development will most likely also affect MuniFin's customers whose finances seem to have developed positively.

There are still significant uncertainty factors related to the implementation of the health, social services, and regional government reform. The Parliament's decision on the final legislative package sealing the reform has been delayed and therefore the whole reform's entry into force will be postponed. However, the uncertainty factors related to the reform seem to have no major impact on the implementation of investments among MuniFin's customers.

The tone of the international markets remained positive, even though they were keeping an eye on the trade disputes between the US and world's other markets, and the increased tension between superpowers. The weaknesses in Italy's financial sector made a comeback to news headlines with the anti-euro stance of Italy's new government. The European economy continued to grow at a brisk pace even though the confidence indicators imply that the growth has already passed its peak. The European Central Bank ECB announced in June that it will shut its extensive purchase programme down at the end of the year.

During the first six months of 2018, the liquidity of international capital markets was high, which meant that the availability of financing was at a good level.

This half year report is a translation of the original report, "Puolivuosikatsaus 1.1.–30.6.2018", written in Finnish. In case of conflict between the two versions, the Finnish version shall take precedence.

Income Statement and Statement of Financial Position

Consolidated Income Statement	1 Jan-30 Jun 2018*	1 Jan-30 Jun 2017	Change, %	1 Jan-30 Dec 2017
(EUR million)				
Net interest income	118.0	110.6	6.7	228.6
Unrealised fair value changes	31.7	7.0	355.3	11.0
Other income	0.8	0.8	-2.2	1.8
Total income	150.5	118.4	27.2	241.3
Commission expenses	-2.0	-1.9	3.5	-4.1
Personnel expenses	-7.7	-6.3	22.2	-13.6
Other administrative expenses	-5.4	-4.0	34.9	-8.8
Depreciation and impairment on tangible and intangible assets	-1.2	-0.9	24.3	-2.0
Other operating expenses	-9.7	-9.3	4.3	-14.5
Total expenses	-26.0	-22.5	15.5	-42.9
Expected credit losses (ECL)	-0.1	-	-	-
Net operating profit	124.4	95.9	29.8	198.4

*The comparative period was not restated upon adoption of IFRS 9 standard. Therefore, the comparative information for 2017 is not fully comparable to the information presented for the first half of 2018 due to reclassifications.

The Group's business operations remained good during the first half of 2018.

Operating profit (without unrealised changes in the fair value of financial items) was EUR 92.7 million (1 January–30 June 2017: EUR 88.9 million). Improvement in the operating profit was mainly attributable to increased net interest income. Net operating profit for the review period amounted to EUR 124.4 million (1 January–30 June 2017: EUR 95.9 million).

Net interest income grew 6.7% compared to the previous period totalling EUR 118.0 million (1 January–30 June 2017: EUR 110.6 million). The improvement in net interest income was attributable to successful funding and interest rate conditions that proved favourable for Munifin's business operations. Net interest income includes EUR 0.1 million in commissions from the repurchase of own bonds (1 January–30 June 2017: EUR 0.3 million). In consolidated accounts, the AT1 capital loan is treated as an own equity instrument. The related interest expenses are not recognised through profit or loss in the consolidated accounts, but they are treated similar to dividend distribution, namely as a decrease in retained earnings under shareholders' equity upon realisation of payment on an annual basis.

The IFRS 9 standard adopted in the beginning of 2018 has increased profit and loss volatility through unrealised gains and losses of financial instruments. In the adoption of IFRS 9 MuniFin reclassified its financial assets and liabilities. As a result of the reclassification the impact of the financial liabilities on profit and loss has increased. More detailed information about the impact of the reclassification is provided in Note 2 to this half year report. The profit includes EUR 31.7 million of unrealised changes in the fair value of financial items (1 January–30 June 2017: EUR 7.0 million) – of this amount, the net income from hedge accounting amounted to EUR 37.8 million (1 January–30 June 2017: EUR 1.5 million). EUR -6.1 million (1 January–30 June 2017: EUR 5.5 million) was unrealised net income from securities and foreign exchange transactions. The unrealised net income from securities and foreign exchange transactions includes EUR -1.7 million of CVA and DVA adjustments (1 January–30 June 2017: EUR -0.2 million).

The company has enacted the option of the IFRS 9 standard not to restate earlier reporting periods according to IFRS 9. Therefore, the comparative information for 2017 is not fully comparable to the information presented for the first half of 2018 due to reclassifications.

The Group's other income stood at EUR 0.8 million and have remained at the same level as in comparative period (1 January–30 June 2017: EUR 0.8 million).

The Group's total expenses grew by 15.5% compared to the previous period and totalled EUR 26.0 million at the end of June (1 January–30 June 2017: EUR 22.5 million).

Commission expenses were EUR 2.0 million (1 January–30 June 2017: EUR 1.9 million) and consist mainly of paid guarantee fees, custody fees and funding program update fees.

Administrative expenses totalled EUR 13.1 million (1 January–30 June 2017: EUR 10.3 million), from which personnel expenses amounted to EUR 7.7 million (1 January–30 June 2017: EUR 6.3 million) and other administrative expenses EUR 5.4 million (1 January–30 June 2017: EUR 4.0 million). Administrative expenses have increased mainly due to growth in personnel in the Group's parent company. The company has invested significantly in the development of customer service, product offering and

IT systems. Also the need to develop the company administration and processes to comply with the requirements of bank regulation has led to growth in staff numbers.

Depreciation and impairment on tangible and intangible assets were EUR 1.2 million at the end of the period (1 January–30 June 2017: EUR 0.9 million).

Other operating expenses grew to EUR 9.7 million (1 January–30 June 2017: EUR 9.3 million). The increase is mainly due to financial supervision costs paid to the ECB and to the Financial Supervisory Authority and contributions paid to the EU-level crisis resolution fund. Contribution fee to the Single resolution fund has been fully recognised as expense during the reporting period.

Impairment of financial assets have been calculated according to IFRS 9 requirements since the beginning of 2018. The expected credit losses (ECL) amounted to EUR 0.1 million during the reporting period. Expected credit losses were not calculated in the comparative period. More detailed information about expected credit losses is presented in notes 1, 2 and 6 to this half year report.

Due to the IFRS 9 transition Group's comprehensive income includes fair value changes related to financial instruments which are not treated at fair value through profit or loss. During the period the largest item affected to the comprehensive income was the net change in cost-of-hedging which totalled EUR 20.0 million. The changes in the fair value of items included in the comprehensive income reflect the temporary effects of market conditions on the valuation level of financial instruments at the reporting date. Deferred valuation changes may vary significantly over the reporting periods, causing more volatility in equity reserves.

Consolidated Statement of Financial Position	30 Jun 2018	31 Dec 2017	Change, %
(EUR million)			
Cash and balances with central banks	4,018	3,554	13.1
Loans and advances to credit institutions	1,375	1,251	9.9
Loans and advances to the public and public sector entities	22,019	21,651	1.7
Debt securities	6,205	6,494	-4.4
Derivative contracts	1,518	1,433	5.9
Other assets	387	354	9.2
Total assets	35,521	34,738	2.3
Liabilities to credit institutions	4,245	3,902	8.8
Liabilities to the public and public sector entities	553	647	-14.5
Debt securities issued	26,648	26,304	1.3
Derivative contracts	2,333	2,216	5.3
Other liabilities	348	330	5.7
Equity	1,393	1,339	4.0
Total liabilities and equity	35,521	34,738	2.3

The consolidated balance sheet amounted to EUR 35,521 million at the end of June 2018 and grew by 2.3% compared to the year end 2017 (31 December 2017: EUR 34,738 million). Assets grew mainly due to increased amount of deposits to central bank (cash and balances with central bank) and increased lending and leasing portfolios. The growth of liabilities is due to increased funding and is shown in liabilities to credit institutions and debt securities issued. Equity amounted to EUR 1,393 million at the end of the reporting period (31 December 2017: EUR 1,339 million). Equity increased due to profit for the period. Transition to IFRS 9 standard beginning 1 January 2018 decreased the amount of equity by EUR 43.0 million. In addition, in the consolidated accounts the interest expenses of AT1 capital loan of EUR 12.6 million net of deferred tax were deducted from the equity upon the realization of the interest payment in April.

Financing and other services for customers

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

The strong supply of financing led to tight price competition during the first half of the year. With interest rate levels remaining low, customers have been able to finance their investments on very favourable terms.

The total of new loans withdrawn in the first six months was higher than the year before and amounted to EUR 1,239 million (1 January–30 June 2017: EUR 1,046 million). At the end of June, MuniFin's long-term loan portfolio stood at EUR 21,508 million (31 December 2017: EUR 21,219 million).

In accordance with its mission, MuniFin continued to develop its services to meet the evolving needs of its customers and to provide them with added value. During the first half of the year, MuniFin's concept for economic modelling analysis was developed into an online tool with which customers themselves can forecast the development of their finances while taking national and local factors extensively into account. The first customers started to pilot the service in June 2018.

At the same time, the company is developing other online tools for customer service. The Apollo service which has been created for the analysis of financing portfolios, has been developed in accordance with the customers' requirements to include, for example, extensive reporting functions and the management of guarantee liabilities and investments.

Customers have become more aware of green finance, which was launched in 2016 for the financing of environmental investments and as a result, its popularity has grown. Decisions on projects that are eligible for green finance are made by an evaluation team consisting of external experts. Green finance is believed to increase the municipal sector's environmental investments, as the customer costs of green lending and green leasing are lower than the costs of other financial instruments. At the end of June 2018, the total amount of green finance granted by MuniFin was EUR 1,191 million (31 December 2017: EUR 1,022 million).

In addition to lending, MuniFin's financial leasing is steadily becoming more popular also among big investments such as buildings, for which it is an alternative form of funding. At the end of June, MuniFin's leasing portfolio stood at EUR 511 million (31 December 2017: EUR 432 million).

Demand for the services provided by MuniFin's subsidiary Inspira remained stable. In particular, consulting related to preparations for the health care, social welfare, and regional government reform were in demand, for example in projects relating to property management. In addition, Inspira has played a key role, among other things, in competitive bidding related to lifecycle projects. Inspira's turnover in January–June was EUR 1.2 million (1 January–30 June 2017: EUR 1.4 million) with a net operating profit of EUR -0.1 million (1 January–30 June 2017: EUR 0.2 million).

Operations in international capital markets

MuniFin obtains all of its funding in the international capital markets and the company benefits from the excellent reputation that Finland and the Finnish municipal sector have as targets for investments. In the capital markets, MuniFin is a well-known and active operator: a total of 129 long-term funding arrangements were concluded in the period of January–June 2018 (1 January–30 June 2017: 152).

In January–June 2018, EUR 4,100 million was acquired in long-term funding (1 January–30 June 2017: EUR 5,411 million). A total of EUR 7,994 million was issued in short-term debt instruments under the Euro Commercial Paper programme during the first half of the year (1 January–30 June 2017: EUR 4,305 million) and funding under the programme amounted to EUR 4,423 million at the end of June (31 December 2017: EUR 3,833 million).

The total sum of funding at the end of June 2018 amounted to EUR 30,633 million (31 December 2017: EUR 30,153 million). MuniFin issued four benchmark bonds with two denominated in USD, one in GBP and one in EUR. The 15-year term of the EUR 500 million benchmark bond is the longest in the company's history so far. All benchmark bond issues proved very successful.

Overall, the company issued bonds denominated in 9 different currencies in the first half of 2018 (1 January–30 June 2017: 12). In addition to currencies, funding is dispersed across various markets, maturities and investor groups. The company hedges against exchange rate risks by using derivative contracts to swap all foreign currency denominated funding and investments into euros.

In May 2018, Nasdaq Helsinki launched a sustainable bond market. MuniFin dual listed its two green bonds in Helsinki and was the first issuer in the new marketplace. The Nordic countries have been the pioneers in the market for green bonds, with MuniFin being the trailblazer in the new market in Finland.

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

The company's liquidity position remained very strong in the first half of 2018. MuniFin's investment operations mainly comprise the management of acquired funding. The funds are invested in liquid and highly rated financial instruments to ensure the stability of the company's operations in all market conditions.

At the end of June 2018, MuniFin's liquid assets totalled EUR 9,273 million (31 December 2017: EUR 9,325 million). Investments in securities totalled EUR 5,236 million (31 December 2017: EUR 5,755 million) with an average credit rating of AA (31 December 2017: AA). The average maturity of the securities portfolio was 2.4 years (31 December 2017: 2.5 years).

In addition to this, the company had EUR 4,037 million in other investments (31 December 2017: EUR 3,570 million), of which EUR 4,018 million were in central bank deposits (31 December 2017: EUR 3,554 million) and EUR 19 million in money market deposits in credit institutions (31 December 2017: EUR 16 million).

Municipality Finance credit ratings

The credit rating agency Standard & Poor's renewed its rating methodology for public sector funding agencies during the first half of the year. With this new methodology Standard & Poor's placed MuniFin's rating under observation (UCO) in May, together with the ratings of nine other public sector funding agencies. In July, the rating company affirmed MuniFin's rating remaining at AA+ (outlook stable).

Municipality Finance 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+

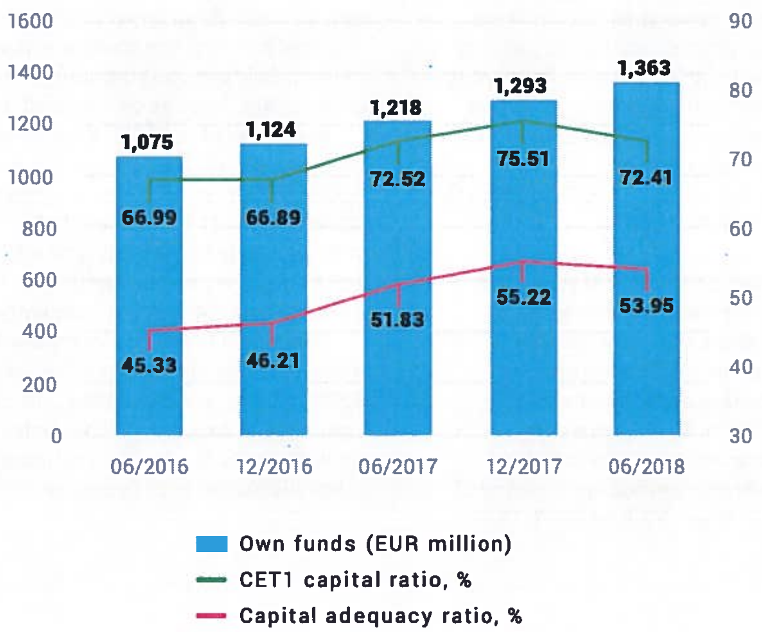
Capital Adequacy

At the end of June 2018, the Municipality Finance Group's ratio of total own funds to total risk was 72.41% (31 December 2017: 75.51%) and its CET1 capital adequacy was 53.95% (31 December 2017: 55.22%). The capital adequacy ratio has decreased by 3.1 percentage points from the year end, mainly due to an increase in credit valuation adjustment. The Group's capital adequacy has remained strong and clearly above the statutory requirements and the minimum capital adequacy requirements set by the authorities.

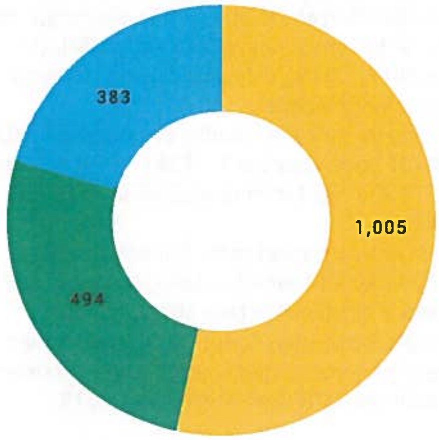
The minimum capital adequacy is 8% and the minimum CET1 capital adequacy 4.5%. Under the Act on Credit Institutions, the capital conservation buffer is 2.5% and for MuniFin the additional capital requirement for other systemically important credit institutions (O-SII) is 0.5%. The Financial Supervisory Authority decides on a countercyclical capital buffer requirement on a quarterly basis. In June 2018, it decided not to impose a countercyclical capital buffer. For MuniFin the credit institution-specific countercyclical capital buffer requirement imposed based on the geographical distribution of exposures is 0.36%. Therefore the minimum requirement for CET1 capital adequacy is 7.86% and the minimum requirement for overall capital adequacy 11.36%.

As part of the annual supervisor's review (SREP), the European Central Bank has imposed an additional Pillar II capital requirement of 1.75% (P2R) on MuniFin effective from 1 January 2018. The minimum level of CET1 capital adequacy is 9.61% when taking into account the P2R additional capital requirement, and the minimum level of overall capital adequacy

Own funds and capital adequacy

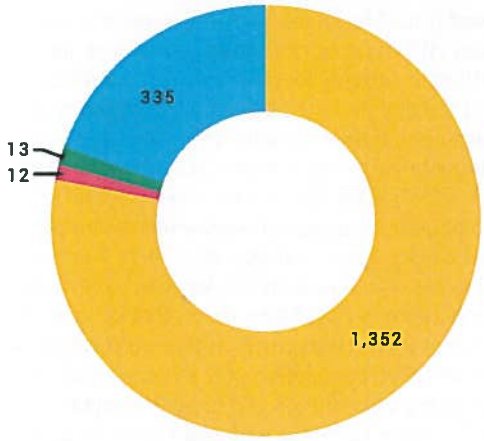


Total risk exposure amount 06/2018 (MEUR)



Credit and counterparty risk 1,005
CVA Var 494
Operational risk 383
Total 1,882

Total risk exposure amount 12/2017 (MEUR)



Credit and counterparty risk 1,352
Market risk 13
CVA Var 12
Operational risk 335
Total 1,712

is 13.11%. In relation to this, the ECB also updated the indicative additional capital requirement of 4.0% (P2G). Falling below this level does not have an effect on issues such as the distribution of profit. Based on the above, at the end of June 2018, with the additional capital requirement and the indicative additional capital requirement taken into account, the new minimum for CET1 capital adequacy is 13.61%.

In December 2017 the Financial Supervisory Authority decided that the additional capital requirement for other systematically important institutions applied to MuniFin will be increased from 0.5% to 1.0%. This requirement is effective from 1 July 2018. Taking the P2R additional capital requirement into account, the new minimum for CET1 capital adequacy is 10.11% from the beginning of July 2018.

Furthermore, in June 2018, the Financial Supervisory Authority made a macro-prudential decision on structural additional capital requirements and decided to impose a systemic risk buffer on credit institutions. For MuniFin the additional capital requirement imposed based on the systemic risk buffer is 1.5%. The Financial Supervisory Authority also reviewed the additional capital requirements for global (G-SII/B) and national (O-SII) systemically important credit institutions, and in relation to this, it lowered the O-SII requirement for MuniFin to 0.5%. The systemic risk buffer and the O-SII additional capital requirement are parallel buffers of which the greater is applied. The effective date of these requirements is 1 July 2019, with the CET1 capital adequacy requirement set at a minimum of 10.61%.

At the end of the period, the Municipality Finance Group's Common Equity Tier 1 capital was EUR 1,016 million (31 December 2017: EUR 946 million), with its Tier 1 Capital amounting to EUR 1,363 million (31 December 2017: EUR 1,293 million). There was no Tier 2 capital and the company's own funds totalled EUR 1,363 million (31 December 2017: EUR 1,293 million).

Based on the permission granted by the ECB and in accordance with the Capital Requirements Regulation, Common Equity Tier 1 capital includes the net profit for the period of 1 January–30 June 2018. The result for the period has been subject to a review by the auditors and has been included in the CET1 capital calculations.

The Group's risk-weighted assets increased by 9.9% compared to the end of 2017, amounting to EUR 1,882 million at the end of June 2018 (31 December 2017: EUR 1,712 million). The overall credit and counterparty risk decreased from the EUR 1,352 at the end of 2017 to EUR 1,005 million at the end of June 2018. In June 2018 MuniFin refined the treatment of given cash collateral under derivatives netting agreements, which resulted to the lower credit and counterparty risk requirement.

The credit valuation adjustment risk (CVA VaR) grew to EUR 494 million (31 December 2017: EUR 12 million). The guarantees granted by Municipal Guarantee Board (MGB) for certain derivative counterparties in June 2018 have not been taken into account in CVA VaR calculations. MuniFin's foreign currency position at the end of June 2018 was less than 2% of own funds and therefore, based on the Article 315 of Capital Requirements Regulation (CRR), the own funds requirement for market risk has not been calculated. MuniFin calculates the capital requirements for operational risks using basic indicator approach. The risk-weighted assets for operational risks grew by EUR 48 million amounting to EUR 383 million. This increase is mainly attributable to the growth of the profit indicator.

A more detailed description of the Group's and the parent company's own funds and capital adequacy is included in Note 12 to this half year report. In addition to the interim report the company will publish a separate Pillar III H1/2018 report which is available in English on the company's website.

The leverage ratio, liquidity coverage ratio and MREL requirement

A proposal concerning the leverage ratio is currently under consideration at the EU level. The leverage ratio of MuniFin at the end of June 2018 was 3.97% (31 December 2017: 3.84%), calculated using currently valid calculation principles.

At the end of June the liquidity coverage ratio (LCR) was 183% (31 December 2017: 173%). Since the beginning of 2018, the regulatory requirement for LCR is 100% or higher.

MuniFin is also preparing for the Net Stable Funding Ratio (NSFR), which is being prepared at the EU level and is expected to take effect in 2020.

The Single Resolution Board (SRB) has decided not to impose a minimum requirement for own funds and eligible liabilities (MREL) on MuniFin for 2018.

Governance

In addition to corporate legislation, MuniFin complies with the governance requirements of the Finnish Act on Credit Institutions. The company's governance policy is described in more detail on the company's website. Pursuant to Chapter 7, Section 7 of the Finnish Securities Market Act and together with the publication of the Annual Report, MuniFin publishes a Corporate Governance Statement on its website. The statement is separate from the Report of the Board of Directors and includes a description of the main features of the internal audit and risk management systems pertaining to the financial reporting process. The statement also includes the governance descriptions required by the Act on Credit Institutions and information on how the company complies with the Finnish Corporate Governance Code for listed companies as published by the Finnish Securities Market Association. Since MuniFin is exclusively an issuer of listed bonds, and since its shares are not subject to public trading, it is not appropriate to directly apply this Code with respect to MuniFin. However, the company has used the Corporate Governance Code as the basis for preparing its own internal Corporate Governance Policy.

Annual General Meeting

The Annual General Meeting of MuniFin was held on 28 March 2018. The AGM confirmed the financial statements for 2017 and discharged the members of the Board of Directors and the CEO from liability for the financial year 2017. In addition, in accordance with the proposal of the Board of Directors, the AGM decided that a dividend of EUR 0.16 per share will be paid, amounting to a total of EUR 6,250,207.68 and the remaining part of distributable funds (EUR 89,206,444.47) will be retained in equity.

Based on the proposal of the Shareholders' Nomination Committee, the AGM appointed the Board of Directors for the 2018–2019 term of office (from the 2018 AGM to the end of the 2019 AGM). The AGM also adopted the proposal of the Shareholders' Nomination Committee on the remuneration of Board members.

In addition, KPMG Oy Ab was elected in the meeting as the auditor of the company with Marcus Tötterman, APA, as the principal auditor. Marcus Tötterman was also the principal auditor in the previous financial year.

The Board of Directors

At the Annual General Meeting of 28 March 2018, the Shareholders' Nomination Committee made a proposal regarding the Board members to be elected for the term that began at the end of the 2018 AGM and concludes at the end of the following AGM. The AGM elected the following members to the Board of Directors: Helena Walldén (Chair of the Board of Directors), Tuula Saxholm (Vice Chair of the Board of Directors), Fredrik Forssell, Minna Helppi, Markku Koponen, Jari Koskinen, Kari Laukkanen and Vivi Marttila.

In order to organise its work as efficiently as possible, the Board of MuniFin has established Audit, Risk, and Remuneration Committees to assist with and prepare matters.

The members of the Audit Committee are Markku Koponen (Chair), Kari Laukkanen and Vivi Marttila. The members of the Risk Committee are Fredrik Forssell (Chair), Minna Helppi and Kari Laukkanen. The members of the Remuneration Committee are Helena Walldén (Chair), Tuula Saxholm, Markku Koponen and Jari Koskinen.

From the 2017 AGM to the 2018 AGM, the members of the Board of Directors were: Helena Walldén (Chair), Tapani Hellstén (Vice Chair), Fredrik Forssell, Minna Helppi, Teppo Koivisto, Jari Koskinen, Vivi Marttila, and Tuula Saxholm.

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

Personnel

At the end of June 2018, Municipality Finance Group had 147 employees (31 December 2017: 134), of whom 136 were employees of the parent company (31 December 2017: 119).

The President and CEO of MuniFin is Esa Kallio. He was appointed President and CEO on 28 February 2018. Mari Tyster, Executive Vice President, acts as deputy to the CEO. In addition, the Executive Management Team of MuniFin includes Executive Vice Presidents Toni Heikkilä, Jukka Helminen, Rainer Holm, Joakim Holmström and Marjo Tomminen.

Internal Audit

The internal audit function has been outsourced to Deloitte & Touche Ltd which reports directly to the Board of Directors and its Audit Committee.

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

During the first half of 2018, the Board of Directors initiated a restructuring of internal audit operations in order to transfer the responsibility for the internal auditing function from an external third party to an internal function. Consequently, the Board appointed a Senior Vice President responsible for internal auditing function. The Senior Vice President of internal auditing will report directly to the Audit Committee and the Board of Directors. With this new position, the objective is to develop the company's internal audit operations and to assess how the company should utilise external resources to support internal audit operations in the future.

Risk management principles and the Group's risk position

MuniFin's operations require sufficient risk management mechanisms to ensure that the company's risk position remains within the limits confirmed by the Board of Directors. MuniFin applies very conservative principles in its risk management. The aim is to keep the overall risk status at such a low level that the company's strong credit rating (Aa1/AA+) is not compromised.

MuniFin regularly maps risks related to its operations and continuously develops methods for recognising and managing them. Risks are assessed through regular risk analyses. The aim of the analyses is to recognise new challenges and risks created by changes in the operating environment and to prioritise risks and their management based on the results. The company hedges against and reduces the recognised risks through collateral, guarantees, derivatives, insurance, and active risk management. According to its own assessment, MuniFin has no derivatives in which a parallel correlation exists between the creditworthiness of the counterparty to the derivative contract and interest rates (so-called wrong-way risk).

There were no material changes in the company's risk position in the first half of 2018. Risks remained within the set limits and according to the company's assessment, risk management was performed in accordance to all requirements. The Board receives regular reports on the company's risk position as part of monthly risk reporting. Additionally, the Executive Vice President for Risk Management gives the Board's Risk Committee at least semi-annually a more extensive overall view of the company's risk position in relation to various risk areas.

The 2017 financial statement and the separately published Pillar III 2017 report provide further information on risk management. Both publications are available on the company's website.

Strategic risks

Strategic risk refers to MuniFin choosing the wrong strategy in pursuit of financially profitable operations or the inability of the company to adapt the chosen strategy to changes in the operating environment. The Group's management of strategic risks is based on continuous monitoring and analyses of customer needs, market trend forecasts and changes in the competition and the operating environment. Risks and their significance are evaluated on an annual basis as part of the strategy process and in connection with the annual review carried out by the Executive Management Team. The existing strategy extends to 2022 and it is updated at least annually.

Credit risk

Credit risk refers to the risk of a counterparty defaulting on its commitments to the company. MuniFin's customers consist of municipalities, joint municipal authorities and municipality-controlled entities as well as non-profit corporations and other non-profit organisations nominated by the Housing Finance and Development Centre of Finland (ARA). MuniFin may grant loans and leasing financing without separate securities only directly to municipalities or joint municipal authorities. Other loans must be secured with an absolute guarantee or deficiency guarantee issued by a municipality or joint municipal authority or with a state deficiency guarantee. A primary pledge is required when the loan is given a deficiency guarantee by a municipality or the state. The amount of the primary pledge must equal 1.2 times the amount of the loan. The use of these guarantees to reduce credit risk enables the classification of all granted loans as zero-risk when calculating capital adequacy. The company does not bear the residual value risk for the objects of its leasing services. In its history, MuniFin has never incurred credit losses from financing its customers. The company has no customer-specific limits because within the capital adequacy calculations, all lending is carried out to zero risk customers. However, the company analyses the credit risks and payment behaviour of its customers on a regular basis.

MuniFin is also exposed to credit risk from its pre-funding investment portfolio and derivative instruments. In selecting counterparties, MuniFin evaluates credit risk with principles and limits based on external credit ratings approved by the Board of Directors. The nominal values of debt securities and equivalent credit values of derivatives (fair value method) are used to monitor credit risk.

With derivative counterparties, MuniFin limits the credit risk of derivative contracts with ISDA Credit Support Annexes. The company has 51 Credit Support Annexes in force, of which 39 require the daily exchange of collateral. Additionally, the Municipal Guarantee Board's guarantees are used to reduce the counterparty risk related to the derivative transactions with certain counterparties.

Credit Valuation Adjustments (CVA) that take credit risk into account and MuniFin's own Debt Valuation Adjustment (DVA) are applied to the counterparties of derivatives. CVA is calculated for each derivative counterparty by simulating MuniFin's expected positive exposures throughout the maturity of the portfolio, taking into account the probability of default and the estimated amount of loss in the possible event of default. The input information for calculating credit risk adjustments for counterparties includes, for example, the information in the Credit Support Annexes, general market assumptions concerning the probable loss incurred as a result of a default and the expected probabilities of default based on a credit assessment matrix. Similarly, DVA is determined based on MuniFin's expected negative exposures, taking into account the probability of MuniFin's default and loss in case of default.

In May 2016, MuniFin switched to using central counterparties (CCPs) in the clearing of standard over-the-counter (OTC) derivative contracts as required by the European Markets Infrastructure Regulation (EMIR). In this model, at the end of a daily clearing process, a CCP becomes the counterparty to each cleared trade. The purpose of CCP clearing is to reduce the counterparty risk. MuniFin uses two global banks as the counterparties for CCP clearing, meaning as the providers of clearing broker services.

Market risk

Market risk refers to the risk of the company incurring a loss as a result of an unfavourable change in market price or its volatility. Market risks include interest rate, exchange rate, share price and other price risks. MuniFin manages the interest rate risk arising from business operations by means of derivatives. Interest rate risk mainly arises from the differences in the euribor interest rate types applicable to the receivables and liabilities in the balance sheet. The company hedges against exchange rate risks by using derivative contracts to swap all foreign currency denominated funding and investments into euros. In practice, the company is not exposed to exchange rate risks. Derivatives are also used to hedge against other market risks. Derivative contracts may only be concluded for hedging purposes.

The company has specified limits for the following market risks:

- Currency position risk
- Interest rate risk
  - o Value-at-Risk
  - o Economic Value
  - o Income risk
- Price risk of pre-funding investments

Liquidity risk

Liquidity risk refers to the risk of the company not being able to perform payment obligations arising from the implementation of financing agreements or other financing activities on their due date. The company manages liquidity risk by limiting the average maturity between customer financing and funding. In addition, the company has set a limit for the minimum adequacy of the available liquidity (survival horizon). The Board of Directors of MuniFin has set liquidity risk limits for refinancing gap and sufficiency of liquid assets measured as a minimum time period.

In addition, the company is a monetary policy counterparty of the Bank of Finland. The company has pledged loans to the Bank of Finland and can obtain credit from the central bank against this collateral.

Market liquidity risk

Market liquidity risk refers to the company failing to realise or cover its position at market price due to the market lacking depth or not functioning due to disruption.

The company continuously monitors the liquidity of markets and investment products. In addition, derivative contracts are concluded in accordance with established market standards. Nearly all market values of debt securities valued at fair value are calculated based on quotations received from the market. For the remaining debt securities, the market value is calculated using other market information.

Operational risks

Operational risk refers to the risk of financial loss or other negative consequence due to insufficient or failed internal processes, deficient or unsuccessful procedures, systems or external factors. Operational risks also include risks arising from failure to comply with internal and external regulations (compliance risk), legal risks and reputational risk. Operational risks may result in costs, compensation payable, loss of reputation, false information on position, risk and results or the interruption of operations.

The operational risks have been recognised as part of the company's functions and processes through an annual operational risk assessment project that departments carry out as a self-assessment. Each function and department is responsible for the management of its operational risks. In addition, the company's Risk Management and Compliance function supports the other functions and departments in these tasks and has company-wide responsibility for the coordination of operational risk management.

The realisation of operational risks is monitored through systematic operational risk reporting, based on which, operating principles are adjusted or other measures implemented to reduce operational risks where necessary. Operational risk events are reported to the Executive Management Team and the Board of Directors. No material losses were incurred as a result of operational risks in the first half of 2018.

Events after the reporting period

No material events occurred after the review period.

Outlook for the second half of 2018

After a long period of slow growth, Finland's good economic growth has been welcomed. The uncertainty factors related to the global economy are not expected to have any significant impact on MuniFin's funding, its other operations, nor on the situation of its customers. United States is a driving force in the global economy and the country's economic growth seems steady, although its economic growth cycle might be coming to an end. The customs disputes and increased tension in international trade politics are threatening to ignite a global trade war. Should this happen, it would have negative effect in economic growth. In Europe, the UK's planned withdrawal from the EU is creating growing uncertainty. The ECB announced in June that it will shut down its vast purchase programme which, as a result of reduced liquidity, may lead to rising interest rate levels and credit risk premia.

The health, social services, and regional government reform is still in preparation and evaluating its overall effects on MuniFin's customer base or the company's own operations is challenging. The delay in the parliamentary decision process of the Finnish Government's proposal for the health, social services, and regional government reform has caused the postponement of the reform's entry into force until 2021. The reform is not currently expected to have a fundamental impact on MuniFin's operating volumes in 2018.

Considering the above-mentioned outlook in the operational environment and assuming that there are no major changes in the development of interest rates when compared to market expectations, MuniFin expects its net operating profit without unrealised fair value changes to remain at a good level in 2018. Increases in the number of employees, investments in information systems and higher fees collected by authorities will result in MuniFin's expenses somewhat to grow in 2018. The developments in financial markets may have an effect in the unrealised valuation of financial instruments. The IFRS 9 standard, adopted at the beginning of 2018, has increased the volatility of financial results through the unrealised valuation of financial instruments.

These estimates are based on the current outlook of operating environment and business operations.

Helsinki, 14 August 2018
Municipality Finance Plc
The Board of Directors

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The Group's Development

	30 Jun 2018	31 Dec 2017	30 Jun 2017
Turnover (EUR million)	391.5	204.1	101.2
Net interest income (EUR million)	118.0	228.5	110.6
% of turnover	30.1	112.0	109.2
Net operating profit (EUR million)	124.4	198.4	95.9
% of turnover	31.8	97.2	94.7
Cost-to-income ratio	0.17	0.18	0.19
Lending portfolio (EUR million)	21,508	21,219	20,913
Total funding acquired (EUR million)	30,633	30,153	29,272
Balance sheet total (EUR million)	35,521	34,738	33,793
Return on equity (ROE), %	14.56	12.57	12.57
Return on assets (ROA), %	0.57	0.46	0.45
Equity ratio, %	3.92	3.86	3.71
Common Equity Tier 1 (CET1) (EUR million)	1,016	946	870
Tier 1 capital (EUR million)	1,363	1,293	1,218
Total own funds (EUR million)	1,363	1,293	1,218
Ratio of Common Equity Tier 1 (CET1) to risk-weighted assets, %	53.95	55.22	51.83
Ratio of Tier 1 capital (Tier 1) to risk-weighted assets, %	72.41	75.51	72.52
Ratio of total own funds to risk-weighted assets, %	72.41	75.51	72.52
Leverage ratio, %	3.97	3.84	3.72
Personnel	147	134	119

Net interest income

118.0

EUR million

Lending portfolio

21.5

EUR billion

Number of employees

147

Balance sheet total

35,5

EUR billion

Calculation of key figures

Turnover

Interest income + commission income + net income from securities and foreign exchange transactions + net income from available-for-sale financial assets + net income from hedge accounting + other operating income

Cost-to-income ratio

$$\frac{\text{Commission expenses + administrative expenses + depreciation + other operating expenses}}{\text{Net interest income + commission income + net income from securities and foreign exchange transactions + net income from available-for-sale financial assets + net income from hedge accounting + other operating income}}$$

Return on equity (ROE), %

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

Return on assets (ROA), %

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

Equity ratio, %

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

Ratio of Common Equity Tier 1 (CET1) to risk-weighted assets, %

$$\frac{\text{Common Equity Tier 1 (CET1)}}{\text{Risk-weighted assets}} \times 100$$

Ratio of Tier 1 capital to risk-weighted assets, %

$$\frac{\text{Tier 1 capital}}{\text{Risk-weighted assets}} \times 100$$

Ratio of total own funds to risk-weighted assets, %

$$\frac{\text{Total own funds}}{\text{Risk-weighted assets}} \times 100$$

Leverage ratio, %

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

Lending portfolio

Loans and advances to the public and public sector entities – Leasing receivables

Alternative Performance Measures

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

Figures are in EUR million.

	1 Jan-30 Jun 2018	1 Jan-30 Jun 2017
Interest and similar income (incl. leasing)	359.0	93.4
Interest and similar expenses	-241.0	17.1
Interest expenses on AT1 capital loan	-8.1	-8.1
Net interest income with interest expenses on AT1 capital loan	**109.9**	**102.5**
Interest and similar income (incl.leasing)	359.0	93.4
Commission income	1.2	1.8
Net income from securities and foreign exchange transactions	-6.5	4.4
Net income from available-for-sale financial assets	-	0.0
Net income on financial assets at fair value through the fair value reserve	0.0	-
Net income from hedge accounting	37.8	1.5
Other operating income	0.0	0.1
Turnover	**391.5**	**101.2**
Commission expenses	2.0	1.9
Administrative expenses	13.1	10.3
Depreciation and impairment on tangible and intangible assets	1.2	0.9
Other operating expenses	9.7	9.3
Costs	**26.0**	**22.5**
Net interest income	118.0	110.6
Commission income	1.2	1.8
Net income from securities and foreign exchange transactions	-6.5	4.4
Net income from available-for-sale financial assets	-	0.0
Net income on financial assets at fair value through the fair value reserve	0.0	-
Net income from hedge accounting	37.8	1.5
Other operating income	0.0	0.1
Income	**150.5**	**118.4**
Expenses	26.0	22.5
Income without unrealised fair value changes	118.8	111.4
Cost-to-income ratio without unrealised fair value changes	**0.22**	**0.20**
Net interest income	118.0	110.6
Commission income	1.2	1.8
Commission expense	2.0	1.9
Net income from securities and foreign exchange transactions	-0.4	-1.0
Net income from available-for-sale financial assets	-	0.0
Net income on financial assets at fair value through the fair value reserve	0.0	-
Other operating income	0.0	0.1
Administrative expenses	13.1	10.3
Depreciation and impairment on tangible and intangible assets	1.2	0.9
Other operating expenses	9.7	9.3
Expected credit loss on financial assets at amortised cost	-0.2	-
Expected credit loss and impairments on other financial assets	0.0	-
Net operating profit without unrealised fair value changes	**92.7**	**88.9**

	30 Jun 2018	31 Dec 2017
Liabilities to credit institutions	4,245	3,902
Liabilities to the public and public sector entities	553	647
Debt securities issued	26,648	26,304
Total	31,447	30,853
- CSA-collateral (received)	-813	-700
Total funding acquired	**30,633**	**30,153**
Net operating profit	124.4	198.4
Taxes	-24.9	-39.7
Equity and non-controlling interest (average of values at the beginning and end of the period)	1,366.2	1,261.9
Return on equity, % (ROE)	**14.56**	**12.57**
Total comprehensive income for the period	115.9	82.6
Equity and non-controlling interest (average of values at the beginning and end of the period)	1,366.2	1,261.9
Return on equity, % (ROE) at fair value	**16.96**	**13.54**
Net operating profit	124.4	198.4
Taxes	-24.9	-39.7
Average balance sheet total (average of values at the beginning and end of the period)	35,129.3	34,395.2
Return on assets, % (ROA)	**0.57**	**0.46**
Equity	1,392.9	1,339.4
Non-controlling interest	-	-
Balance sheet total	35,520.5	34,738.1
Equity ratio, %	**3.92**	**3.86**
Common Equity Tier 1 (CET1)	1,015.6	945.5
Risk-weighted assets	1,882.3	1,712.3
Ratio of Common Equity Tier 1 to risk-weighted assets, %	**53.95**	**55.22**
Tier 1 capital	1,363.0	1,293.0
Risk-weighted assets	1,882.3	1,712.3
Ratio of Tier 1 capital to risk-weighted assets, %	**72.41**	**75.51**
Total own funds	1,363.0	1,293.0
Risk-weighted assets	1,882.3	1,712.3
Ratio of total own funds to risk-weighted assets, %	**72.41**	**75.51**
Tier 1 capital	1,363.0	1,293.0
Total exposure	34,363.4	33,636.3
Leverage ratio, %	**3.97**	**3.84**

Consolidated statement of financial position

(EUR 1,000)	30 Jun 2018	31 Dec 2017
ASSETS		
Cash and balances with central banks	4,017,525	3,554,182
Loans and advances to credit institutions	1,374,941	1,251,391
Loans and advances to the public and public sector entities	22,018,669	21,650,847
Debt securities	6,204,906	6,494,234
Shares and participations	9,603	9,662
Derivative contracts	1,517,611	1,433,318
Intangible assets	12,756	10,196
Tangible assets	1,949	2,594
Other assets	189,421	157,862
Accrued income and prepayments	173,161	173,853
TOTAL ASSETS	**35,520,542**	**34,738,139**
LIABILITIES AND EQUITY		
LIABILITIES		
Liabilities to credit institutions	4,245,482	3,902,480
Liabilities to the public and public sector entities	553,025	646,558
Debt securities issued	26,648,097	26,303,961
Derivative contracts	2,332,625	2,216,034
Other liabilities	9,798	2,587
Accrued expenses and deferred income	121,924	124,574
Deferred tax liabilities	216,647	202,522
TOTAL LIABILITIES	**34,127,598**	**33,398,716**
EQUITY		
Share capital	42,583	42,583
Reserve fund	277	277
Fair value reserve of investments	2,510	28,944
Own credit risk revaluation reserve	-31,508	-
Cost-of-hedging reserve	8,068	-
Reserve for invested non-restricted equity	40,366	40,366
Retained earnings	983,195	879,799
Total equity attributable to parent company equity holders	**1,045,491**	**991,969**
Other equity instruments issued	**347,454**	**347,454**
TOTAL EQUITY	**1,392,945**	**1,339,422**
TOTAL LIABILITIES AND EQUITY	**35,520,542**	**34,738,139**

Consolidated income statement

(EUR 1,000)	1 Jan-30 Jun 2018	1 Jan-30 Jun 2017
Interest and similar income	358,990	93,422
Interest and similar expense	-240,989	17,143
NET INTEREST INCOME	118,001	110,564
Commission income	1,169	1,822
Commission expense	-1,969	-1,903
Net income from securities and foreign exchange transactions	-6,541	4,425
Net income from available-for-sale financial assets	-	-46
Net income on financial assets at fair value through the fair value reserve	7	-
Net income from hedge accounting	37,821	1,533
Other operating income	45	62
Administrative expenses	-13,138	-10,335
Depreciation and impairment on tangible and intangible assets	-1,158	-932
Other operating expenses	-9,741	-9,338
Expected credit loss on financial assets at amortised cost	-173	-
Expected credit loss and impairments on other financial assets	44	-
NET OPERATING PROFIT	124,368	95,852
Income tax expense	-24,907	-19,193
PROFIT FOR THE PERIOD	99,461	76,659
Profit attributable to:		
Equity holders of the parent company	99,461	76,585
Non-controlling interest	-	75

Statement of comprehensive income

(EUR 1,000)	1 Jan-30 Jun 2018	1 Jan-30 Jun 2017
Profit for the period	99,461	76,659
Components of other comprehensive income		
Items to be reclassified to profit or loss in subsequent periods (IAS 39)		
Net change in fair value	-	7,253
Net amount transferred to profit or loss	-	136
Items not to be reclassified to profit or loss in subsequent periods (IFRS 9)		
Net fair value changes due to changes in own credit risk on financial liabilities designated at fair value through profit or loss	3,660	-
Net change in cost-of-hedging	19,984	-
Items to be reclassified to profit or loss in subsequent periods (IFRS 9)		
Net change in fair value	-3,058	-
Net amount transferred to profit or loss	-20	-
Net changes in expected credit loss of debt instruments at fair value through other comprehensive income	-44	-
Taxes related to components of other comprehensive income	-4,104	-1,478
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	115,878	82,571
Total comprehensive income attributable to:		
Equity holders of the parent company	115,878	82,496
Non-controlling interest	-	75

Consolidated statement of cash flows

(EUR 1,000)	1 Jan - 30 Jun 2018	1 Jan - 30 Jun 2017
CASH FLOW FROM OPERATING ACTIVITIES	494,848	1,133,099
Net change in long-term funding	125,209	978,391
Net change in short-term funding	449,143	1544,985
Net change in long-term loans	-367,163	-157,331
Net change in short-term loans	-229,340	-285,111
Net change in investments	498,402	402,377
Net change in collaterals	-82,517	-1,452,357
Interest on assets	44,301	49,881
Interest on liabilities	74,986	59,547
Other income	24,288	17,713
Payments of operating expenses	-34,774	-24,792
Taxes paid	-7,687	-206
CASH FLOW FROM INVESTING ACTIVITIES	-3,073	-1,758
Acquisition of tangible assets	302	-487
Acquisition of intangible assets	-3,374	-1,271
CASH FLOW FROM FINANCING ACTIVITIES	-22,000	-15,750
Dividends paid and other profit distribution	-22,000	-15,750
CHANGE IN CASH AND CASH EQUIVALENTS	469,775	1,115,591
CASH AND CASH EQUIVALENTS AT 1 JANUARY	3,562,733	996,480
CASH AND CASH EQUIVALENTS AT 30 JUNE	4,032,508	2,112,071

Cash and cash equivalents include the following balance sheet items:
Cash and balances with central banks and loans and advances to credit institutions payable on demand.

(EUR 1,000)	30 Jun 2018	30 Jun 2017
Cash and balances with central banks	4,017,525	2,089,438
Loans and advances to credit institutions	14,983	22,633
TOTAL CASH AND CASH EQUIVALENTS	4,032,508	2,112,071

Consolidated statement of changes in equity

(EUR 1,000)	Share capital	Reserve fund	Cost of hedging reserve	Fair value reserve of investments	Own credit revaluation reserve	Reserve for invested non-restricted equity	Retained earnings	Total	Non-controlling interest	Other equity instruments issued	Total equity
	Total equity attributable to parent company equity holders										
EQUITY AT 31 DECEMBER 2016	42,583	277	-	19,519	-	40,366	734,107	836,852	127	347,454	1,184,433
Interest paid on Additional Tier 1 capital loan	-	-	-	-	-	-	-12,600	-12,600	-	-	-12,600
Dividends paid for 2016	-	-	-	-	-	-	-	-	-	-	-
Acquisition of subsidiary shares	-	-	-	-	-	-	-373	-373	-127	-	-500
Profit for the period	-	-	-	-	-	-	158,665	158,665	-	-	158,665
Components of other comprehensive income net of tax											
Items to be reclassified to profit or loss in subsequent periods											
Available-for-sale financial assets (fair value reserve):											
Net change in fair value	-	-	-	9,315	-	-	-	9,315	-	-	9,315
Net amount transferred to profit or loss	-	-	-	110	-	-	-	110	-	-	110
EQUITY AT 31 DECEMBER 2017	42,583	277	-	28,944	-	40,366	879,799	991,969	-	347,454	1,339,422
Impact of adopting IFRS 9	-	-	-7,919	-23,936	-34,437	-	22,830	-43,462	-	-	-43,462
EQUITY AT 1 JANUARY 2018 UNDER IFRS 9	42,583	277	-7,919	5,008	-34,437	40,366	902,628	948,507	-	347,454	1,295,960
Interest paid on Additional Tier 1 capital loan	-	-	-	-	-	-	-12,600	-12,600	-	-	-12,600
Dividends paid for 2017	-	-	-	-	-	-	-6,250	-6,250	-	-	-6,250
Acquisition of subsidiary shares	-	-	-	-	-	-	-44	-44	-	-	-44
Profit for the period	-	-	-	-	-	-	99,461	99,461	-	-	99,461
Components of other comprehensive income net of tax											
Items not to be reclassified to profit or loss in subsequent periods											
Net fair value changes due to own credit risk on financial liabilities designated at fair value	-	-	-	-	2,928	-	-	2,928	-	-	2,928
Net change in cost-of-hedging	-	-	15,987	-	-	-	-	15,987	-	-	15,987
Items to be reclassified to profit or loss in subsequent periods											
Net change in fair value of financial assets at fair value through other comprehensive income	-	-	-	-2,446	-	-	-	-2,446	-	-	-2,446
Net amount reclassified to the income statement on the sales of financial assets at fair value through other comprehensive income	-	-	-	-16	-	-	-	-16	-	-	-16
Net changes in expected credit loss of financial assets at fair value through profit or loss through other comprehensive income	-	-	-	-35	-	-	-	-35	-	-	-35
EQUITY AT 30 JUNE 2018	42,583	277	8,068	2,510	-31,508	40,366	983,195	1,045,491	-	347,454	1,392,945

Notes to the half year report

Note 1. Basis of preparation of the half year report

The half year report has been prepared in accordance with International Financial Reporting Standards (IFRS). This half year report complies with IAS 34 Interim Financial Reporting and the accounting principles presented in the 2017 consolidated financial statements. Accounting principles which have been amended during the financial year 2018 due to the application of new and amended standards are explained below.

In this half year report MuniFin has applied IFRS 9 and IFRS 7R, effective for annual periods beginning on or after 1 January 2018, for the first time. IFRS 9 replaces IAS 39 for annual periods starting on or after 1 January 2018. Information on the impact of initial of application of IFRS 9 is presented in Note 2.

The IAS 39 measurement categories of financial assets (fair value through profit or loss (FVPL), available-for-sale (AFS), held-to-maturity and loans and receivables) have been replaced by:

- Debt instruments at amortised cost
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on derecognition
- Equity instruments at fair value through other comprehensive income, with no recycling of gains and losses on profit or loss on derecognition
- Financial assets at fair value through profit or loss.

The accounting of financial liabilities remains largely the same as it was under IAS 39, except for the treatment of gains or losses arising from changes in an entity's own credit risk related to liabilities designated at fair value through profit or loss. Such movements are presented in OCI with no subsequent reclassification to the income statement.

The comparative period was not restated upon adoption of IFRS 9 requirements. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for the first half of 2018. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings as of 1 January 2018 and are disclosed in Note 2, table 4.

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

1. Classification of financial instruments and measurement principles

1.1. Policy applicable from 1 January 2018

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at fair value taking into account transaction costs which were incurred, unless the financial asset or liability is recorded at fair value through profit or loss. Trade receivables are measured at the transaction price.

1.1.1. Classification and measurement of financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost (AC), fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL). Certain financial assets, that otherwise meet the requirements to be measured at amortised cost or at fair value through other comprehensive income, can be irrevocably designated to be measured at fair value through profit or loss by applying fair value option (FVO). The classification of financial assets is dependent on the business model applied to managing the financial assets and the characteristics of their contractual cash flows. Financial assets are reclassified only when the business model for managing financial assets is changed.

Business model assessment

The company has determined its business models at the level that best reflects how it manages groups of financial assets to achieve its business objective. Business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregation and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- The risks that affect the performance of the business model and the financial assets held within that business model and, in particular, the way those risks are managed
- How managers of the business are compensated, for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected
- The expected frequency, value and timing of sales.

The business model assessment is based on reasonably expected scenarios without taking "worst case" or "stress case" scenarios into account. If cash flows after initial recognition are realised in a way that is different from original expectations, the company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

MuniFin has identified two different business models for managing financial assets: the first business model is based on holding financial assets and collecting contractual cash flows. The other business model is based on collecting contractual cash flows and selling financial assets.

The company's lending is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows. In addition financial assets, such as bank account balances, bank deposits, CSA collateral receivables and reverse repurchase agreements are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows.

Liquidity investments are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. Thus based on the business model the financial assets are to be measured at fair value through other comprehensive income (FVOCI) under IFRS 9. The impact of the business models on the classification of financial assets is presented in Note 2 in detail.

The solely payment of principal and interest (SPPI) test

As a second step of its classification process the company assesses the contractual terms of financial assets to identify whether they meet the SPPI test.

"Principal" for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset for example, if there are repayments of principal or amortisation of the premium or discount.

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the company applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at fair value through profit or loss.

Amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated at fair value through profit or loss:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets in this category are initially recognised at fair value adjusted by directly attributable transaction costs. Subsequently, these assets are measured at amortised cost using the effective interest method. The measurement of impairment is based on the expected credit loss model described in section 2. Impairment of Financial assets. Interest received on financial assets at amortised cost is recognised through profit or loss under Interest and similar income. The allowance for expected credit losses is recognised through profit or loss under Credit loss on financial assets at amortised cost.

Based on the business model assessment required by IFRS 9, financial assets that are measured at amortised cost include the lending portfolio consisting of short-term and long-term lending, money market deposits, reverse repurchase agreements, bank balances and collateral receivables. Not all aforementioned assets can be measured at amortised cost as required by the business model as certain lending agreements fail the test of solely payments of principal and interest. These lending agreements are valued at fair value through profit or loss. The amount of these agreements is shown in Note 2, table 2. As a rule, the company hedges fixed rate lending and lending at long-term reference rates and applies fair value hedge accounting to these. Lending that is designated as hedged item in a hedging relationship, is measured at fair value for the risk hedged.

Fair value through other comprehensive income

A financial asset, that is a debt instrument, is measured at fair value through other comprehensive income if it meets both of the following conditions and is not designated to be measured at fair value through profit or loss:

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets in this category are initially recognised at fair value adjusted by directly attributable transaction costs. Subsequent changes in fair value are recognised in Other comprehensive income and are presented in the Fair value reserve adjusted by deferred tax. The measurement of impairment is based on the expected credit loss model described in section 2. Impairment of Financial assets. Foreign exchange gains and losses on debt securities denominated in foreign currencies are recognised through profit or loss under Net income from securities and foreign exchange transactions. Interest received on debt securities is recognised through profit or loss under Interest and similar income. Allowance for expected credit losses is recognised through profit or loss under Credit loss and impairments on other financial assets. Upon disposal, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from the fair value reserve in equity to profit or loss and presented under Net income on financial assets at fair value through the fair value reserve.

On initial recognition of an equity investment that is not held for trading, the company may irrevocably elect to present subsequent changes in fair value in other comprehensive income. When this election is made, amounts presented in other comprehensive income are not subsequently transferred to profit or loss. Dividends on such investments are recognised in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. This election is made on an investment-by-investment basis. As of 1 January 2018 the company has measured all of its investments in equity instruments at fair value through profit or loss.

Based on the business model assessment required by IFRS 9, investments of the liquidity portfolio are to be measured at fair value through other comprehensive income. The majority of the liquidity portfolio consists of fixed and floating rate debt securities and investments in commercial papers. These investments pass the SPPI test. In addition to the aforementioned financial assets liquidity portfolio contains an investment fund and investments in asset backed securities. These financial assets fail the test of solely payments of principal and interest and as a result are valued at fair value through profit or loss. The amount of these agreements is shown in Note 2, table 2.

Fair value through profit or loss

A financial asset is classified as subsequently measured at fair value through profit or loss unless it is classified as subsequently measured at amortised cost or at fair value through other comprehensive income. This category comprises of the following assets:

- Derivative assets
- Debt instruments with contractual terms that do not represent solely payments of principal and interest on the principal amount outstanding
- Investments in equity instruments
- Financial assets specifically designated at fair value through profit or loss on initial recognition.

Financial assets in this category are initially recognised at fair value, with transaction costs recognised in the income statement as incurred. Subsequently, these assets are measured at fair value through profit or loss. Fair value changes are reported in the income statement under Net income from securities and foreign exchange transactions. Interest received on financial assets at fair value through profit or loss is recognised through profit or loss under Interest and similar income.

Fair value option

On initial recognition, the company can designate certain financial assets as measured at fair value through profit or loss. This irrevocable designation is made if doing so eliminates or significantly reduces measurement or recognition inconsistencies (i.e. eliminates an accounting mismatch) which would otherwise arise from measuring financial assets on different bases. Financial assets that MuniFin has designated to be measured at fair value through profit or loss include debt securities of the liquidity portfolio of which the interest rate risk is hedged with interest rate and cross currency interest rate swaps.

1.1.2. Classification and measurement of financial liabilities

On initial recognition, a financial liability is classified as measured at amortised cost (AC) or at fair value through profit or loss (FVTPL). Certain financial liabilities, that otherwise meet the requirements to be measured at amortised cost, can be irrevocably designated to be measured at fair value through profit or loss by applying fair value option (FVO). Financial liabilities are not reclassified after initial recognition.

Amortised cost

Financial liabilities are measured at amortised cost, except for

- Derivative liabilities; and
- Liabilities that are designated to be measured at fair value through profit or loss.

Financial liabilities in this category are initially recognised at fair value adjusted by directly attributable transaction costs. Subsequently, these liabilities are measured at amortised cost using the effective interest method. Interest paid on liabilities is recognised through profit or loss under Interest and similar expense.

Financial liabilities that are measured at amortised cost include Liabilities to credit institutions, Liabilities to the public and public sector entities and Debt securities issued. MuniFin applies fair value hedge accounting according to IFRS 9 to financial liabilities at amortised cost which have been hedged. Hedging accounting principles are described in section 3 of this note.

Issued structured debt securities can contain embedded derivatives. If economic characteristics of the embedded derivative are not closely related with the economic characteristics of the host contract, the embedded derivative is required to be separated and accounted for separately from the host contract if the host contract is measured at amortised cost. The separated embedded derivative is required to be measured at fair value through profit or loss. MuniFin does not have embedded derivatives in financial liabilities at amortised cost.

Fair value through profit or loss

A financial liability is classified as subsequently measured at fair value through profit or loss unless it is classified as subsequently measured at amortised cost. This category includes derivative contracts and liabilities that are designated to be measured at fair value through profit or loss upon initial recognition.

Financial liabilities in this category are initially recognised at fair value. Subsequent changes in fair value are reported in the income statement under Net income from securities and foreign exchange transactions. Interest paid on liabilities is recognised through profit or loss under Interest and similar expense.

Designated at fair value through profit or loss

On initial recognition, MuniFin can designate certain financial liabilities as measured at fair value through profit or loss. This designation is made:

- If it eliminates or significantly reduces and accounting mismatch; or
- If financial liabilities are both managed and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

When a financial liability is designated at fair value through profit or loss, the movement in fair value attributable to changes in MuniFin's own credit risk is presented separately in other comprehensive income as changes of the Own credit revaluation reserve.

MuniFin has designated short-term debt instruments denominated in foreign currencies, which have been hedged with FX swaps at fair value through profit or loss. In addition in the transition to IFRS 9 the company also elected to designate certain financial liabilities at fair value through profit or loss. All financial liabilities with embedded derivatives which are required to be separated have been designated at fair value through profit or loss under IFRS 9. These do thus not require to be separated. MuniFin hedges the fair value changes of these financial liabilities and both the hedge and the financial liability are recognised in the income statement under Net income from securities and foreign exchange transactions.

1.2. Derecognition of financial assets and liabilities

Derecognition due to substantial modification of terms and conditions

The company derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan. The newly recognised loans are classified as Stage 1 for the purposes of measurement of expected credit loss, unless the modified loan is deemed to be a credit-impaired financial asset. If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition.

1.3. Policy applicable before 1 January 2018

The comparative period was not restated upon adoption of IFRS 9. The accounting policy applicable to the year ended 31 December 2017 can be found in the 2017 Financial statements.

2. Impairment of financial assets

2.1. Policy applicable from 1 January 2018

The IFRS 9 requirements for impairment are based on a three-stage approach to measure expected credit losses (ECLs). Financial assets measured at amortised cost or fair value through other comprehensive income are in scope for recognising impairment under the IFRS 9 standard. Also finance lease receivables and off-balance sheet binding loan commitments are in scope for recognising impairment due to their credit risk. For further information on the classification of financial assets, see section 1.1.1 above.

Impairment of financial assets is calculated based on the credit loss expected to arise over a 12 month period, unless there has been a significant increase in credit risk since origination, in which case, the allowance is calculated based on the expected credit losses over the life of the asset. Both life time and 12 months expected credit losses (ECLs) are calculated on an individual basis.

Measurement of ECLs

The assets in the scope of the expected credit loss impairment model are classified into three categories. Stage 1 includes assets with no significant increase in credit risk. Stage 2 includes assets with significantly increased credit risk, and stage 3 includes assets that fulfil the definition of default. The definition of default is in line with the company's capital adequacy calculations and risk management. The provision for stage 1 is equivalent to the credit loss expected for 12 months. For stages 2 and 3, the provision is equivalent to the expected credit losses for the entire lifetime.

The company calculates ECLs based on three probability-weighted scenarios to measure the expected cash shortfalls. The net present value of the contractual cash flows of the exposure are compared to the sum of the net present value of expected future cash flows. If the contractual cash flows are higher than expected future cash flows, the difference is recognised as an expected credit loss. The expected future cash flows are discounted with the effective interest rate (EIR). The fair value of collaterals and received guarantees are taken into account when calculating expected future cash flows.

The principles of the ECL calculations are outlined below and the key elements are, as follows:

PD The probability of default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the exposure has not been previously derecognised and is still in the portfolio.

EAD The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including prepayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

LGD The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including cash flows from the realisation of any collateral.

When estimating the ECLs, the company considers three scenarios. Each of these are associated with different PDs, EADs and LGDs. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset. The maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the company has the legal right to call it earlier.

Impairment losses and their reversals are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value.

The mechanics of the ECL method is summarised below:

- Stage 1: If there has been no significant increase in credit risk since initial recognition, the provision for exposures are based on the 12 month expected loss. The 12 month ECL is calculated as the portion of the lifetime ECL that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The company calculates the 12 month ECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12 month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an EIR.
- Stage 2: When the exposure has shown a significant increase in credit risk since origination but is not credit impaired, the company records an provision for the lifetime expected credit losses. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by their EIR.
- Stage 3: For assets considered credit-impaired, the company recognises the lifetime expected credit losses. The method is similar to that for Stage 2 assets, with the PD set at 100%. For these exposures interest revenue is calculated by applying the EIR to the amortised cost (net of provision).
- Purchased or originated credit impaired assets (POCI) are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or reversed to the extent that there is a subsequent change in the expected credit losses.
- Loan commitments: When estimating ECLs for undrawn loan commitments, the company estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then calculated based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on probability-weighting of the three scenarios. The expected cash shortfalls are discounted at an approximation to the expected EIR of the loan.

At each reporting date, the company assesses whether there has been a significant increase in credit risk for exposures since initial recognition on an individual basis by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The company considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. If one of the following factors indicate that credit risk has increased significantly, the instrument is transferred from stage 1 to stage 2:

- Thresholds for significant increases in credit risk based on both the percentage and absolute change in probability of default relative to initial recognition
- Additional qualitative factors, such as forbearance on a financial asset
- Financial assets which repayments are more than 30 days past due.

Movements between Stage 2 and Stage 3 are based on whether a financial assets is credit impaired based on credit risk. A financial assets is impaired if there is objective evidence of impairment. An exposure will migrate through the ECL stages as asset quality deteriorates. If, in a subsequent period, asset quality improves and also reverses any previously assessed significant increase in credit risk since origination after a probation period and after fulfilment of certain criteria, then the calculation basis for ECL reverts from lifetime ECL to 12-months ECL.

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

Forborne and modified loans

The company sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than enforcing the collection of collateral. Not all modifications are due to the weakening of the clients ability to pay, a part of the modifications of payment plans are done based on the management of the client relationship. These modifications do not affect the recognition of impairment.

The company considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the company would not have agreed to them if the borrower had been financially healthy. Forbearance may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modifications of terms. It is the company's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur. Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forborne asset until it is collected or written off.

Once an asset has been classified as forborne, it will remain forborne for a minimum 24-month probation period. In order for the asset to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

- All of its facilities have to be considered performing
- The probation period of two years has passed from the date the forborne contract was considered performing
- Regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period
- The customer does not have any contract that is more than 30 days past due

Forborne loans and payment delays are regularly reported to management as an indicator of anticipated client payment ability/solvency.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are recognised in profit or loss with a corresponding charge to statement of financial position as follows:

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets.
- Debt instruments measured at FVOCI: no loss allowance is recognised as a deduction from the gross carrying amount of the assets in the statement of financial position because the carrying amount of these assets is in their fair value. However, the loss allowance is recognised in the fair value reserve. The accumulated loss recognised in OCI is recycled to the profit or loss upon derecognition of the assets.
- Finance lease receivables: as a deduction from the gross carrying amount of the assets.
- Binding loan commitments: recognised as a provision in other liabilities.

Write-off

Financial assets are written off, either partially or in full, when the company has no reasonable expectations of recovering the financial asset. This is generally the case when the company determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

Financial assets that are written off could still be subject to enforcement activities in order to comply with MuniFin's procedures for recovery of amounts due. Subsequent recoveries of amounts previously written off reduce the amount of the expense in the income statement.

2.2. Policy applicable before 1 January 2018

The comparative period was not restated upon adoption of IFRS 9 impairment requirements.
The accounting policy applicable to the year ended 31 December 2017 can be found in the 2017 Financial statements.

3. Hedge accounting

The interest rate and foreign exchange rate risk of the company are managed by entering into derivative transactions. Foreign currency denominated items are translated into euros, fixed rate and long-term reference rates are swapped to floating interest rates with shorter terms.

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

For financial assets, the company applies fair value hedge accounting in accordance with IAS 39 portfolio hedge accounting to lending at fixed rates and long-term reference rates. In addition fair value hedge accounting according to IFRS 9 is applied to leasing agreements at fixed rates and lending transactions which have been hedged 1:1 with an interest rate swap and not included in portfolio hedge accounting. For the aforementioned financial assets the hedged risk is interest rate risk.

The hedged items are at amortised cost with exception of the interest rate risk, which is subject to fair value hedge accounting. The change in the value of the hedged risk is accounted for as an adjustment to the carrying amount of the hedged item through profit or loss under Net income from hedge accounting. The customer margin for lending and leasing is not part of the hedging relationship. Interest rate swaps with interest terms equivalent to the financial asset are used as hedging instruments.

As for financial liabilities, IFRS 9 fair value hedge accounting is applied to fixed rate funding and zero coupon funding denominated in euros. The hedged item for euro denominated funding is interest rate risk. IFRS 9 fair value hedge accounting is also applied to fixed rate funding and zero coupon funding denominated in foreign currencies. For all foreign currency hedge relationships the company has elected to utilise cost-of-hedging. For each hedge relationship, when the cross currency swap is designated as a hedging instrument, the cross currency basis spread is separated and excluded from the designation and accounted for as "cost-of-hedging". Going forward, the difference between the changes in fair value of the actual derivative and the designated portion of the derivative are recorded in other comprehensive income as part of the cost of hedging reserve. Thus, the cross currency basis spread changes will impact other comprehensive income and not create ineffectiveness in the hedge relationship.

For financial liabilities the hedged item is at amortised cost, excluding the portion of hedged risk, which is subject to fair value hedge accounting. The credit risk of MuniFin is not included in the hedging relationship. The change in the value of the hedged risk is recognised as an adjustment to the carrying amount of the hedged item through profit or loss under item Net income from hedge accounting. Ineffectiveness between the hedged item and the designated portion of the hedge are recorded in the income statement. Separating the credit risk from the fair value is a requirement for applying hedge accounting only on interest rate and foreign exchange risks. MuniFin uses interest rate swaps and cross currency interest rate swaps as hedging instruments.

The carrying amounts of assets and liabilities in hedge accounting are presented in Note 3. The fair values of derivatives included in hedge accounting are presented in Note 5. The change in fair value due to foreign exchange differences of derivatives in hedge accounting and the hedged items are recognised in the income statement under Net income from securities and foreign exchange transactions. Other changes in fair value of the hedged items and derivatives hedging them are recognised in the income statement under Net income from hedge accounting. The ineffective portion of the hedging relationship is also shown on this line in the income statement. The interest received and paid on derivative contracts is recognised as an adjustment to Interest and similar expenses of hedged liabilities or as an adjustment to interest and similar income of hedged assets.

The effectiveness of the hedging relationships is evaluated when the relationship is created and during subsequent hedging periods. For IAS 39 portfolio hedge accounting the hedge relationship has been effective if the changes in fair value of the hedged item as well as the changes in fair value of the hedging instrument fall within the range 80% and 125%. The effectiveness of all hedge relationships is verified at inception of the hedge relationship and regularly after that, at least on quarterly basis. Quarterly effectiveness testing includes both prospective and retrospective testing.

4. Accounting policies requiring management judgement and key uncertainty factors related to estimates

Preparation of the accounts in accordance with the IFRS requires management estimates and assumptions that affect the revenue, expenses, assets and liabilities presented in the financial statements.

The key assumptions made by the company concern key uncertainty factors pertaining to the future and the estimates at the financial statement date. These are relate to, among other things, the determination of fair value and the expected credit losses and impairment of financial assets. Where market price information is limited, the valuation of financial assets that are not publicly quoted or other financial assets requires management judgement. The principles used in calculating fair values is presented in Note 4. Fair values of financial assets and liabilities. The risk management principles are described as part of the 2017 Financial statements.

The measurement of impairment losses under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The company's ECL calculations are output of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of ECL models that are considered accounting judgements and estimates include:

- The company's internal credit grading model, which assigns PDs to the individual grades
- The company's criteria for assessing if there has been a significant increase in credit risk and qualitative assessment
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

It has been the company's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

Note 2. IFRS 9 Financial instruments transition disclosure

Table 1. Classification of financial assets and liabilities on the date of initial application of IFRS 9

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for MuniFin's financial assets and liabilities as at 1 January 2018.

Financial assets 1 Jan 2018 (EUR 1,000)	Note	Original measurement category under IAS 39	New measurement category under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Cash and balances with central banks		Loans and receivables	Amortised cost	3,554,182	3,554,182
Loans and advances to credit institutions		Loans and receivables	Amortised cost	1,251,391	1,250,980
Loans and advances to the public and public sector entities	a)	Loans and receivables	Amortised cost	21,002,690	21,002,556
Loans and advances to the public and public sector entities	b)	Fair value option	Amortised cost	153,642	151,037
Loans and advances to the public and public sector entities	c)	Loans and receivables	Mandatorily at fair value through profit or loss	62,783	63,866
Loans and advances to the public and public sector entities	d)	Loans and receivables	Not in scope	431,732	431,732
Debt securities	e)	Available-for-sale	Fair value through other comprehensive income	1,815,904	1,815,904
Debt securities	e)	Available-for-sale	Designated at fair value through profit or loss	3,811,080	3,811,080
Debt securities	e)	Fair value option	Designated at fair value through profit or loss	42,750	42,750
Debt securities	f)	Fair value option	Fair value through other comprehensive income	69,035	69,035
Debt securities	a)	Held to maturity	Amortised cost	748,988	748,986
Debt securities	g)	Available for sale	Mandatorily at fair value through profit or loss	1,607	1,607
Debt securities	g)	Held to maturity	Mandatorily at fair value through profit or loss	4,871	4,878
Shares and participations	h)	Available for sale	Mandatorily at fair value through profit or loss	9,662	9,662
Derivative contracts	i)	Held-for-trading	At fair value through profit or loss	206,388	150,178
Derivative contracts	i)	Derivatives in hedge accounting	At fair value through profit or loss	237,489	308,371
Derivative contracts	i)	Derivatives in hedge accounting	Derivatives in hedge accounting	989,440	994,655
Other assets	j)	Loans and receivables	Amortised cost	148,205	148,156

Financial liabilities 1 Jan 2018 (EUR 1,000)	Note	Original measurement category under IAS 39	New measurement category under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Liabilities to credit institutions	k)	Amortised cost	Amortised cost	2,670,694	2,685,367
Liabilities to credit institutions	l)	Amortised cost	Designated at fair value through profit or loss	1,231,786	1,287,053
Liabilities to the public and public sector entities	k)	Amortised cost	Amortised cost	435,738	427,357
Liabilities to the public and public sector entities	l)	Amortised cost	Designated at fair value through profit or loss	210,821	225,475
Debt securities issued	k)	Amortised cost	Amortised cost	16,001,331	15,987,628
Debt securities issued	l)	Amortised cost	Designated at fair value through profit or loss	6,469,284	6,482,821
Debt securities issued	m)	Fair value option	Designated at fair value through profit or loss	3,833,346	3,834,269
Derivative contracts	i)	Held-for-trading	At fair value through profit or loss	258,308	202,098
Derivative contracts	i)	Derivatives in hedge accounting	At fair value through profit or loss	691,156	727,759
Derivative contracts	i)	Derivatives in hedge accounting	Derivatives in hedge accounting	1,266,570	1,270,741

The accounting policies on the classification of financial instruments under IFRS 9 are set out in Note 1. The application of these policies resulted in the reclassifications set out in table 1 and explained below in points a) to m).

Impact of the business model assessment on the classification of financial assets

The measurement of financial assets as required by the business models assessment, matches the measurement under IAS 39 classfication to a large extent.

The company's lending is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows. Based on the identified business model for the company's short and long-term lending, these financial assets are measured at amortised cost in IFRS 9. Long-term lending is contained in the line item Loans and advances to the public and public sector entities and short-term lending, which consist of municipal paper and municipal company commerical paper is contained in financial statement line item Debt securities. In IAS 39 lending was primarily classified within Loans and receivables, whereas municipal commercial paper and municipal company commercial paper were classified as held-to-maturity. Lending previously measured with the fair value option in IAS 39, will be measured at amortised cost in IFRS 9. As a result of the SPPI test performed on the contractual cash flows of lending agreements, certain agreements with structured interest terms are measured mandatorily at fair value through profit and loss.

Bank account balances, bank deposits, CSA collateral receivables and reverse repos contained in the balance sheet line item Loans and advances to credit institutions are held within a business model whose objective is achieved by collecting contractual cash flows. Thus these financial assets, classified as loans and receivables in IAS 39, will continue to be measured at amortised cost.

Liquidity investments are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. Thus based on the business model the financial assets are to be measured at fair value through other comprehensive income (FVOCI) under IFRS 9. Of these financial assets, the majority of fixed rate debt securities are hedged with interest rate swaps in accordance with the company's risk management policy. MuniFin has elected to designate these financial assets at fair value through profit or loss utilising the fair value option in order to eliminate the otherwise created measurement or recognition inconsistency ('Accounting mismatch'). Whereas commercial paper investments, measured using the fair value option in IAS 39, are measured at fair value through other comprehensive income in IFRS 9 as they are part of the same business model as other liquidity investments.

The company's liquidity investments also include shares in an investment fund and asset backed securities. The company has carried out SPPI tests on its financial assets, in order to evaluate whether all contractual cash flows of these financial assets fulfil the IFRS 9 requirement of being solely payments principal and interest. Contractual cash flows of investment funds and asset backed securities cannot be regarded solely as payments of principal and interest, and thus, despite of the business model they will be measured at fair value through profit or loss as a result of the SPPI test.

Changes in measurement categories

a) The change in the carrying amount of lending agreements at amortised cost shows the impact of the allowance for expected credit losses. The expected credit loss for leasing agreements is shown on this row as well.

b) Under IAS 39, certain lending agreements were designated as at fair value through profit and loss utilising the fair value option as as these acquired loans were initially reported to the management and managed on a fair value basis. At the date of initial application of IFRS 9 this designation is revoked, because these financial assets no longer meet the condition to be designated as fair value through profit or loss. As of 1 January 2018 these financial assets are classified as measured at amortised cost because they are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and the contractual terms of these financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The change in the measurement basis of these agreements results in a difference in the carrying amounts in IAS 39 and IFRS 9.

c) Loans and advances to the public and public sector entities include structured loans that were classified as at loans and receivables under IAS 39. Under IFRS 9, these assets meet the criteria for mandatory measurement at fair value through profit or loss because the contractual cash flows of these assets are not solely payments of principal and interest on the principal outstanding. The change in the measurement basis results in a difference in the carrying amounts in IAS 39 and IFRS 9.

d) Leasing receivables were presented as loans and receivables in the 2017 financial statements. Leasing receivables are not in IFRS 9 scope for classification. These receivables are in IFRS 9 scope for impairments and their expected credit loss is shown under amortised cost.

e) Under IAS 39, the majority of MuniFin liquidity portfolio was classified as available-for-sale with EUR 43 million of hedged investment bonds being designated at fair value through profit or loss using the fair value option. As of 1 January 2018 these financial assets could be classified as measured at fair value through other comprehensive income, because they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. For all hedged investment bonds MuniFin has elected to designate these at fair value through profit or loss in order to reduce accounting mismatch between the fair valuation of the investment bond and hedging derivative.

f) Under IAS 39, investments in commercial papers were designated as at fair value through profit or loss utilising the fair value option as they were reported to the management and managed on a fair value basis. At the date of initial application of IFRS 9 this designation is revoked, because these financial assets no longer meet the condition to be designated as fair value through profit or loss. As of 1 January 2018 these financial assets are classified as measured at fair value through other comprehensive income because they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. The contractual terms of the financial asset gives rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

g) MuniFin has a minor investment in asset backed securities which have been classified as available-for-sale or held-to-maturity under IAS 39. Under IFRS 9, these assets meet the criteria for mandatory measurement at fair value through profit or loss because the contractual cash flows of these securities are not solely payments of principal and interest on the principal outstanding.

h) Shares and participations that have been classified as available-for-sale under IAS 39, include an investment fund. Under IFRS 9, these assets meet the criteria for mandatory measurement at fair value through profit or loss because these assets do not have a maturity date and the contractual cash flows of these securities are not solely payments of principal and interest on the principal outstanding.

i) The amount of derivatives at fair value through profit or loss has increased due to the fact MuniFin has decreased the use of fair value hedge accounting. Financial liabilities previously in fair value hedge accounting, have been designated at fair value through profit or loss. Therefore derivatives previously classified as derivatives in hedge accounting have been reclassified to derivatives at fair value through profit or loss. Vice versa, the amount of derivatives in hedge accounting has decreased. Under IFRS 9 the impact of cost-of-hedging on cross currency derivatives is shown in equity in the Cost of hedging reserve. In addition the impact of developing the valuation methods of derivatives is reflected in the change of the carrying amount. Parts of Table 2 describe the impact of remeasurement. Starting 1st January 2018 MuniFin has valued all derivatives using the OIS curve and included the impact of the cross currency basis in its derivative valuations.

j) Cash collateral receivables from the Central Counterparty Clearing House is presented in Other assets. These receivables are measured at amortised cost based on the business model.

k) Financial liabilities at amortised cost under both IAS 39 and IFRS 9. The carrying amount of financial liabilities which are in fair value hedge accounting contains the fair valuation with respect to the hedged risk.

l) Financial liabilities at amortised cost under IAS 39 but designated at fair value through profit or loss under IFRS 9, contains financial liabilities which were in fair value hedge accounting under IAS 39. Under IFRS 9 these financial liabilities are no longer in fair value hedge accounting as MuniFin has elected to designate these liabilities at fair value through profit or loss. The impact of the change in the credit risk of MuniFin on the fair value of these liabilities is shown in Equity under the Own credit revaluation reserve.

m) Financial liabilities designated at fair value through profit or loss under IAS 39 and IFRS 9 contains short-term funding in foreign currencies. On transition to IFRS 9 the change in the credit risk of MuniFin on these liabilities in also shown in Equity under the Own Credit revaluation reserve.

Table 2 of this note shows the reclassification and remeasurements by financial statement line item and measurement category.

Table 2. Reconciliation of IAS 39 carrying amounts to IFRS 9 carrying amounts

The following table reconciles the carrying amounts under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018 by balance sheet line item and measurement category. The column impact on equity is presented net of deferred taxes.

Financial assets

(EUR 1,000)	IAS 39 carrying amount as at 31 Dec 2017	Reclassification	Remeasurement	IFRS 9 carrying amount as at 1 Jan 2018	Impact on Equity as at 1 Jan 2018
Held-to-maturity					
Debt securities	753,859			753,859	
Subtractions					
Reclassification to amortised cost based on business model		-748,988	-	-748,988	-
Reclassification to fair value through profit or loss based on SPPI test		-4,871	-	-4,871	-
Total Debt securities	753,859	-753,859	-	-	-
Total in Held-to-maturity	753,859	-753,859	-	-	-

(EUR 1,000)	IAS 39 carrying amount as at 31 Dec 2017	Reclassification	Remeasurement	IFRS 9 carrying amount as at 1 Jan 2018	Impact on Equity as at 1 Jan 2018
Loans and receivables					
Cash and balances with central banks	3,554,182			3,554,182	
Subtractions					
Reclassification to amortised cost based on business model		-3,554,182	-	-3,554,182	-
Total Cash and balance with central banks	3,554,182	-3,554,182	-	-	-
Loans and advances to credit institutions:	1,251,391				
Subtractions					
Reclassification to amortised cost based on business model		-1,251,391	-	-	-
Total Loans and advances to credit institutions	1,251,391	-1,251,391	-	-	-
Loans and advances to the public and public sector entities	21,497,205			21,497,205	
Subtractions					
Reclassification to amortised cost based on business model		-21,002,690	-	-21,002,690	-
Reclassification to fair value through profit or loss based on SPPI test		-62,783	-	-62,783	-
Leases not in scope of IFRS 9 classification		-431,732	-	-431,732	-
Total Loans and advances to the public and public sector entities	21,497,205	-21,497,205	-	-	-
Other assets	148,205			148,205	
Subtractions					
Reclassification to amortised cost based on business model		-148,205	-	-148,205	-
Total Other assets	148,205	-148,205	-	-	-
Total in Loans and receivables	26,450,983	-26,450,983	-	-	-

(EUR 1,000)	IAS 39 carrying amount as at 31 Dec 2017	Reclassification	Remeasurement	IFRS 9 carrying amount as at 1 Jan 2018	Impact on Equity as at 1 Jan 2018
Available-for-sale					
Debt securities	5,628,591			5,628,591	
Subtractions					
Reclassification to fair value through other comprehensive income, debt instruments based on business model		-1,815,904	-	-1,815,904	-
Reclassification to fair value through profit or loss based on SPPI test		-1,607	-	-1,607	-
Reclassification to designated at fair value through profit or loss		-3,811,080	-	-3,811,080	-
Total Debt securities	5,628,591	-5,628,591	-	-	-
Shares and participations	9,662			9,662	
Subtractions					
Reclassification to fair value through profit or loss based on SPPI test		-9,662	-	-9,662	-
Total Shares and participations	9,662	-9,662	-	-	-
Total in Available-for-sale	5,638,253	-5,638,253	-	-	-

(EUR 1,000)	IAS 39 carrying amount as at 31 Dec 2017	Reclassification	Remeasurement	IFRS 9 carrying amount as at 1 Jan 2018	Impact on Equity as at 1 Jan 2018
Fair value option - Designated at fair value through profit or loss					
Loans and advances to the public and public sector entities	153,642			153,642	
Subtractions					
Reclassification to amortised cost based on business model. Fair value option designation criteria no longer met.		-153,642	-	-153,642	-
Total Loans and advances to the public and public sector entities	153,642	-153,642	-	-	-
Debt securities	111,785			111,785	
Additions					
Reclassification from available-for-sale, designated at fair value through profit or loss		3,811,080	-	3,811,080	-
Subtractions					
Reclassification to fair value through other comprehensive income based on business model		-69,035	-	-69,035	-
Total Debt securities	111,785	3,742,045	-	3,853,830	-
Total Designated at fair value through profit or loss	265,427	3,588,403	-	3,853,830	-

(EUR 1,000)	IAS 39 carrying amount as at 31 Dec 2017	Reclassification	Remeasurement	IFRS 9 carrying amount as at 1 Jan 2018	Impact on Equity as at 1 Jan 2018
Amortised cost					
Cash and balances with central banks	-				
Additions					
Reclassification from loans and receivables based on business model		3,554,182	-	3,554,182	-
Total Cash and balances with central banks	-	3,554,182	-	3,554,182	-
Loans and advances to credit institutions	-				
Additions					
Reclassification from loans and receivables based on business model		1,251,391	-	1,251,391	-
Subtractions					
Increase in expected credit loss		-	-411	-411	-329
Total Loans and advances to credit institutions	-	1,251,391	-411	1,250,980	-329
Loans and advances to the public and public sector entities	-				
Additions					
Reclassification from loans and receivables based on business model		21,002,690	-	21,002,690	-
Reclassification fair value through profit or loss, fair value option designation criteria no longer met. Classification based on business model.		153,642	-2,605	151,037	-2,084
Subtractions					
Increase in expected credit loss *		-	-132	-132	-106
Increase in expected credit loss. Leases only in scope of IFRS 9 for impairment.		-	-2	-2	-1
Total Loans and advances to the public and public sector entities	-	21,156,332	-2,738	21,153,594	-2,191
Debt securities	-				
Additions					
Reclassification from held-to-maturity based on business model		748,988	-	748,988	-
Subtractions					
Increase in expected credit loss		-	-1	-1	-1
Total Debt securities	-	748,988	-1	748,986	-1
Other assets	-				
Additions					
Reclassification from loans and receivables based on business model		148,205	-	148,205	-
Increase in expected credit loss		-	-49	-49	-39
Total Other assets	-	148,205	-49	148,156	-39
Total Amortised cost	-	26,859,098	-3,200	26,855,898	-2,560

* Expected credit loss on binding loan commitments is presented in Other liabilities.

(EUR 1,000)	IAS 39 carrying amount as at 31 Dec 2017	Reclassifi-cation	Remeasu-rement	IFRS 9 carrying amount as at 1 Jan 2018	Impact on Equity as at 1 Jan 2018
Fair value through other comprehensive income - debt instruments					
Debt securities	-				
Additions					
Reclassification from available-for-sale based on business model		1,815,904	-	1,815,904	-
Reclassification fair value through profit or loss, fair value option designation criteria no longer met. Classification based on business model.		69,035	-	69,035	-
Total Debt securities	-	1,884,939	-	1,884,939	-
Total Fair value through other comprehensive income	-	1,884,939	-	1,884,939	-

(EUR 1,000)	IAS 39 carrying amount as at 31 Dec 2017	Reclassifi-cation	Remeasu-rement	IFRS 9 carrying amount as at 1 Jan 2018	Impact on Equity as at 1 Jan 2018
Mandatorily at fair value through profit or loss	-				
Loans and advances to the public and public sector entities					
Additions					
Reclassification from loans and receivables based on SPPI test		62,783	1,083	63,866	866
Total Loans and advances to the public and public sector entities	-	62,783	1,083	63,866	866
Debt securities	-				
Additions					
Reclassification from available-for-sale based on SPPI test		1,607	-	1,607	-
Reclassification from held-to-maturity based on SPPI test		4,871	8	4,878	6
Total Debt securities	-	6,478	8	6,485	6
Shares and participations	-				
Additions					
Reclassification from available-for-sale based on SPPI test		9,662	-	9,662	-
Total Shares and participations	-	9,662	-	9,662	-
Total Mandatorily at fair value through profit or loss	-	78,923	1,090	80,013	872
Total change to financial asset balances (excluding derivative assets), reclassification and remeasurement at 1 Jan 2018	33,108,521	-431,732	-2,109	32,674,679	-1,688

Reclassification of financial assets EUR -431.7 million on row Total change to financial asset balances is explained by leasing, which is not regarded as a financial asset for the purpose of IFRS 9 classification.

Derivative contracts

(EUR 1,000)	IAS 39 carrying amount as at 31 Dec 2017	Reclassifi-cation	Remeasu-rement	IFRS 9 carrying amount as at 1 Jan 2018	Impact on Equity as at 1 Jan 2018
Derivative assets					
Derivatives in hedge accounting	1,226,930			1,226,930	
Subtractions					
Reclassification to derivatives at fair value through profit or loss		-237,489	-	-237,489	-
Remeasurement of derivatives in hedge accounting		-	5,215	5,215	4,172
Total Derivatives in hedge accounting	1,226,930	-237,489	5,215	994,655	4,172
Contracts at fair value through profit or loss (previously held-for-trading)	206,388			206,388	
Additions					
Reclassification from derivatives in hedge accounting		237,489	-	237,489	-
Subtractions					
Remeasurement of bifurcated embedded derivatives. Host contract financial liabilities designated at fair value through profit or loss.		-	-39,122	-39,122	-31,298
Remeasurement of derivatives at fair value through profit or loss		-	53,793	53,793	43,035
Total Contracts at fair value through profit or loss	206,388	237,489	14,671	458,549	11,737
Total Derivative assets	1,433,318	0	19,886	1,453,204	15,909
Derivative liabilities					
Derivatives in hedge accounting	1,957,725			1,957,725	
Subtractions					
Reclassification to derivatives mandatorily measured at fair value through profit or loss		-691,156	-	-691,156	-
Remeasurement of derivatives in hedge accounting		-	4,171	4,171	-3,337
Total Derivatives in hedge accounting	1,957,725	-691,156	4,171	1,270,741	-3,337
Contracts at fair value through profit or loss (previously held-for-trading)	258,308			258,308	
Additions					
Reclassification from hedge accounting		691,156	-	691,156	-
Subtractions					
Remeasurement of bifurcated embedded derivatives. Host contract financial liabilities designated at fair value through profit or loss.		-	-17,088	-17,088	13,670
Remeasurement of derivatives at fair value through profit or loss		-	-2,519	-2,519	2,015
Total Contracts at fair value through profit or loss	258,308	691,156	-19,607	929,857	15,686
Total Derivative liabilities	2,216,034	0	-15,436	2,200,598	12,349
Net Derivative contracts	-782,716	0	35,322	-747,394	28,258

Financial liabilities

(EUR 1,000)	IAS 39 carrying amount as at 31 Dec 2017	Reclassification	Remeasurement	IFRS 9 carrying amount as at 1 Jan 2018	Impact on Equity as at 1 Jan 2018
Amortised cost					
Liabilities to credit institutions	3,902,480			3,902,480	
Subtractions					
Reclassification of financial liabilities to designated at fair value through profit or loss		-1,231,786	-	-1,231,786	-
Remeasurement of financial liabilities in fair value hedge accounting		-	14,674	14,674	-11,739
Total Liabilities to credit institutions	3,902,480	-1,231,786	14,674	2,685,367	-11,739
Liabilities to the public and public sector entities	646,558			646,558	
Subtractions					
Reclassification of financial liabilities to designated at fair value through profit or loss		-220,660	-	-220,660	-
Reclassification of bifurcated embedded derivative host contract		812	-	812	-
Remeasurement of financial liabilities in fair value hedge accounting			646	646	-517
Total Liabilities to the public and public sector entities	646,558	-219,847	646	427,357	-517
Debt securities issued	22,470,615			22,470,615	
Subtractions					
Reclassification of financial liabilities to designated at fair value through profit or loss		-6,469,284	-	-6,469,284	-
Reclassification of bifurcated embedded derivative host contract		-11,375	-	-11,375	-
Remeasurement of financial liabilities in fair value hedge accounting		-	-2,328	-2,328	1,863
Total Debt securities issued	22,470,615	-6,480,659	-2,328	15,987,628	1,863
Total Amortised cost	27,019,653	-7,932,292	12,992	19,100,353	-10,394

(EUR 1,000)	IAS 39 carrying amount as at 31 Dec 2017	Reclassification	Remeasurement	IFRS 9 carrying amount as at 1 Jan 2018	Impact on Equity as at 1 Jan 2018
Fair value option - Designated at fair value through profit or loss					
Liabilities to credit institutions	-				
Additions					
Reclassification from amortised cost		1,231,786	55,267	1,287,053	-44,213
Total liabilities to credit institutions	-	1,231,786	55,267	1,287,053	-44,213
Liabilities to the public and public sector entities	-				
Additions					
Reclassification from amortised cost		220,660	4,815	225,475	-3,852
Total liabilities to the public and public sector entities	-	220,660	4,815	225,475	-3,852
Debt securities issued	3,833,346			3,833,346	
Additions					
Reclassification from amortised cost		6,469,284	14,621	6,483,905	-11,697
Remeasurement of financial liabilities valued using the fair value option under IAS 39			-160	-160	128
Total Debt securities issued	3,833,346	6,469,284	14,461	10,317,091	-11,568
Total at Designated at fair value through profit or loss	3,833,346	7,921,730	74,542	11,829,619	-59,634

(EUR 1,000)	IAS 39 carrying amount as at 31 Dec 2017	Reclassifi-cation	Remeasu-rement	IFRS 9 carrying amount as at 1 Jan 2018	Impact on Equity as at 1 Jan 2018
Accrued expenses and deferred income	-10,562				
Reclassification of bifurcated embedded derivative host contract		10,562	-	-	-
Total Accrued expenses and deferred income	-10,562	10,562	-	-	-
Other liabilities	-				
Increase in expected credit loss of off-balance sheet items		-	6	6	-5
Total Other liabilities	-	-	6	6	-5
Total change to financial liability balances (excluding derivative liabilities), reclassification and remeasurement at 1 Jan 2018	30,842,438	0	87,540	30,929,977	-70,032

Table 3. Reconciliation of Deferred taxes

(EUR 1,000)	IAS 39 carrying amount as at 31 Dec 2017	Remeasu-rement	IFRS 9 carrying amount as at 1 Jan 2018
Deferred tax liabilities	202,522		202,522
Changes			
Cost-of-hedging in Cost of hedging reserve		-1,980	-1,980
Change in own credit risk in own credit risk revaluation reserve		-8,609	-8,609
Remeasurement arising from financial assets		-303	-303
Remeasurement arising from financial liabilities		-8,898	-8,898
Remeasurement of derivatives		9,044	9,044
Expected credit losses		-120	-120
Total Deferred tax liabilities	202,522	-10,866	191,657

Table 4. Reconciliation of Equity

The following table analyses the impact of transition to IFRS 9 on reserves in equity and retained earnings. The figures are presented net of taxes.

In the transition the following items within Equity were impacted: Fair value reserve and Retained earnings. In addition two new reserves were created, Own credit risk reserve, which contains the changes in MuniFin credit risk on all liabilities designated at fair value through profit or loss and the Cost of hedging reserve, which contains the cost-of-hedging on cross currency swaps in fair value hedge accounting.

(EUR 1,000)	IAS 39 carrying amount as at 31 Dec 2017	Reclassifi-cation	Remeasu-rement	IFRS 9 carrying amount as at 1 Jan 2018
Fair value reserve, Available-for-sale financial assets	28,944			
Subtractions				
Reclassification to retained earnings, debt instruments designated at fair value through profit or loss		-24,495	-	-
Reclassification to fair value through profit or loss, required classification based on SPPI test		301	-	-
Reclassification to fair value reserve, debt instruments at fair value through other comprehensive income. Classification based on business model.		-4,751	-	-
Total Fair value reserve, Available-for-sale financial assets	28,944	-28,944	-	-

(EUR 1,000)	IAS 39 carrying amount as at 31 Dec 2017	Reclassifi-cation	Remeasu-rement	IFRS 9 carrying amount as at 1 Jan 2018
Fair value reserve, Debt instrument at fair value through other comprehensive income	-			
Additions				
Reclassification from fair value reserve, Available-for-sale financial assets. Classification based on business model.		4,751	-	4,751
Reclassification from retained earnings. Classification based on business model.		3	-	3
Subtractions				
Increase in expected credit losses		-	254	254
Total Fair value reserve - Debt instruments at fair value through other comprehensive income	-	4,754	254	5,008

(EUR 1,000)	IAS 39 carrying amount as at 31 Dec 2017	Reclassifi-cation	Remeasu-rement	IFRS 9 carrying amount as at 1 Jan 2018
Own credit revaluation reserve (Change in own credit risk)	-			
Reclassification from retained earnings. Impact of change in own credit risk of financial liabilities designated at fair value through profit or loss.		-34,437	-	-34,437
Total Own credit revaluation reserve	-	-34,437	-	-34,437

(EUR 1,000)	IAS 39 carrying amount as at 31 Dec 2017	Reclassifi-cation	Remeasu-rement	IFRS 9 carrying amount as at 1 Jan 2018
Cost of hedging reserve	-			
Reclassification from retained earnings. Impact of cost-of-hedging of derivatives in fair value hedge accounting.		-7,919	-	-7,919
Total Cost of hedging reserve	-	-7,919	-	-7,919

(EUR 1,000)	IAS 39 carrying amount as at 31 Dec 2017	Reclassification	Remeasurement	IFRS 9 carrying amount as at 1 Jan 2018
Retained earnings	879,799			879,799
Additions				
Reclassification from fair value reserve, available-for-sale financial assets. Debt instruments designated at fair value through profit or loss.		24,495	-	24,495
Reclassification from fair value reserve, available for sale financial assets. Required classification based on SPPI test.		-301	-	-301
Subtractions				
Reclassification to fair value reserve, available-for-sale financial assets. Classification based on business model.		-3	-	-3
Reclassification of cost-of-hedging on derivatives in fair value hedge accounting to cost of hedging reserve.		7,919	-	7,919
Reclassification of changes in own credit risk on financial liabilities designated at fair value through profit or loss to Own credit revaluation reserve.		34,437	-	34,437
Remeasurement				
Remeasurement following reclassification from held-to-maturity to mandatorily at fair value through profit or loss		-	6	6
Remeasurement following reclassification from fair value option to amortised cost		-	-2,084	-2,084
Remeasurement following reclassification from loans and receivables to mandatorily at fair value through profit or loss		-	866	866
Remeasurement following reclassification of liabilities to designated at fair value through profit or loss in IFRS 9		-	-59,762	-59,762
Remeasurement of liabilities utilising the fair value option in IAS 39 and designated at fair value through profit or loss in IFRS 9		-	128	128
Remeasurement of liabilities classified under amortised cost and included in fair value hedge accounting in IFRS 9		-	-10,394	-10,394
Remeasurement of derivatives		-	45,885	45,885
Remeasurement of bifurcated embedded derivatives. Measured as financial liabilities designated at fair value through profit or loss.		-	-17,627	-17,627
Increase in expected credit loss		-	-735	-735
Total Retained earnings	879,799	66,546	-43,716	902,628
Total impact of reclassification and remeasurement on Retained earnings and reserves at 1 Jan 2018	908,743	0	-43,462	865,281

Table 5. Reconciliation of changes in the extent hedge accounting is applied in IAS 39 and IFRS 9

In the transition to IFRS 9 MuniFin has amended the extent to which fair value hedge accounting is applied.

For financial assets, MuniFin continues to utilise portfolio hedge accounting in accordance with IAS 39 for fixed rate and long-term reference rate lending. Lending which has been hedged 1:1 with an interest rate swap and not included in portfolio hedge accounting, utilise IFRS 9 fair value hedge accounting from 1 January 2018 onwards. In the transition to IFRS 9 MuniFin elected to no longer utilise fair value hedge accounting for its investments in debt securities. These debt securities are designated at fair value through profit or loss.

For fixed rate leasing contracts, MuniFin moved to using IFRS 9 fair value hedge accounting. The amount hedged leasing contracts in included in the figures on row Loans and advances to the public and public sector entities at a balance of EUR 99,065 thousand.

(EUR 1,000)	IAS 39 carrying amount as at 31 Dec 2017	Reclassification	Remeasurement	IFRS 9 carrying amount as at 1 Jan 2018
Loans and advances to the public and public sector entities				
Fair value hedge accounting	7,068,042			7,068,042
Reclassification to mandatorily at fair value through profit or loss		-62,783	-	-62,783
Total loans and advances to the public and public sector entities	**7,068,042**	**-62,783**	**-**	**7,005,259**
of which IAS 39 portfolio hedge accounting				6,730,660
of which IFRS 9 hedge accounting				274,599
Debt securities				
Fair value hedge accounting	3,811,080			3,811,080
Reclassification to designated at fair value through profit or loss		-3,811,080	-	-3,811,080
Total Debt securities	**3,811,080**	**-3,811,080**	**-**	**-**

For financial liabilities fair value hedge accounting according to IFRS 9 is applied, but in comparison to IAS 39 MuniFin has decreased the extent to which fair value hedge accounting is applied on financial liabilities due to the increased amount of financial liabilities designated at fair value through profit or loss. In addition in its fair value hedge accounting of foreign currency liabilities, MuniFin utilises the option to exclude the foreign currency basis spread (cost-of-hedging) from the hedge relationship.

(EUR 1,000)	IAS 39 carrying amount as at 31 Dec 2017	Reclassification	Remeasurement	IFRS 9 carrying amount as at 1 Jan 2018
Liabilities to credit institutions				
Fair value hedge accounting	3,198,950			3,198,950
Reclassification to designated at fair value through profit or loss		-1,231,786	14,674	-1,217,113
Total Liabilities to credit institutions	3,198,950	-1,231,786	14,674	1,981,837
of which IFRS 9 hedge accounting with cost-of-hedging				-
Liabilities to the public and public sector entities				
Fair value hedge accounting	617,371			617,371
Reclassification to designated at fair value through profit or loss		-220,660	646	-220,013
Total Liabilities to the public and public sector entities	617,371	-220,660	646	397,358
of which IFRS 9 hedge accounting with cost-of-hedging				253,945
Debt securities issued				
Fair value hedge accounting	19,961,876			19,961,876
Reclassification to designated at fair value through profit or loss		-4,260,545	-2,328	-4,262,873
Total Debt securities issued	19,961,876	-4,260,545	-2,328	15,699,003
of which IFRS 9 hedge accounting with cost-of-hedging				13,153,617

(EUR 1,000)	IAS 39 carrying amount as at 31 Dec 2017	Reclassification	Remeasurement	IFRS 9 carrying amount as at 1 Jan 2018
Total fair value hedge accounting	34,657,319	-9,586,854	12,992	25,083,457
of which IAS 39 portfolio hedge accounting				6,730,660
of which IFRS 9 hedge accounting				4,945,235
of which IFRS 9 hedge accounting with cost-of-hedging				13,407,562

Table 6. Reconciliation of impairment allowances under IAS 39 and IFRS 9

The following table reconciles the closing impairment allowance in accordance with IAS 39 to the opening impairment allowance determined in accordance with IFRS 9 as at 1 January 2018. Changes to the impairment allowance under IFRS 9 are due to remeasurement of impairment using the expected credit loss requirements.

(EUR 1,000)	Notional 1 Jan 2018	Impairment 1 Jan 2018
Stage 1	26,912,659	-842
Stage 2	102,991	-77
Stage 3	-	-
Total	27,015,650	-918

(EUR 1,000)	IAS 39 impairment 31 Dec 2017	Remeasurement	IFRS 9 impairment 1 Jan 2018
Loans and advances to credit institutions at amortised cost	0	-411	-411
Loans and advances to the public and public sector entities at amortised cost	0	-132	-132
Leasing receivables in loans and advances to the public and public sector entities	0	-2	-2
Debt securities at amortised cost	0	-1	-1
Debt securities at fair value through other comprehensive income (1)	0	-317	-317
Cash collateral to Central Counterparty Clearing House in other assets at amortised cost	0	-49	-49
Binding credit commitments (off-balance sheet)	0	-6	-6
Total impairment provision	0	-918	-918

(1) Included within the fair value reserve (fair value through other comprehensive income).

At year end 2017 MuniFin reported an impairment loss totalling EUR 1,366 thousand on Loans and advances to the public and public sector entities. This amount was written off at year end 2017 and not shown in the table above.

Table 7. Impact of the reclassified financial assets and liabilities in 2018

The following table shows the effects of reclassification of financial assets from IAS 39 categories at fair value through profit or loss into amortised cost. MuniFin did not reclassify any financial liabilities from fair value through profit or loss into amortised cost.

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

(i) The fair value gain or loss that would have been recognised in profit or loss during the reporting period ending if the financial assets had not been reclassified.
(ii) Effective interest rate determined on the date of initial application

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

Note 3. Financial assets and liabilities

Financial assets

30 Jun 2018 (EUR 1,000)	Amortised cost	Mandatorily at fair value through profit or loss	Designated at fair value through profit or loss	Fair value through other comprehensive income	Derivatives in hedge accounting	Total	Fair value
Cash and balances with central banks	4,017,525	-	-	-	-	4,017,525	4,017,525
Loans and advances to credit institutions	1,374,941	-	-	-	-	1,374,941	1,374,941
Loans and advances to the public and public sector entities	21,447,475	60,237	-	-	-	21,507,712	23,417,065
Debt securities	978,266	1,435	3,692,178	1,533,027	-	6,204,906	6,205,361
Shares and participations	-	9,603	-	-	-	9,603	9,603
Derivative contracts	-	617,976	-	-	899,635	1,517,611	1,517,611
Other assets	179,993	-	-	-	-	179,993	179,993
Total	27,998,200	689,250	3,692,178	1,533,027	899,635	34,812,290	36,722,098

Other assets includes EUR 179,933 thousand of cash collateral given to central counterparties.

Financial liabilities

30 Jun 2018 (EUR 1,000)	Amortised cost	Financial liabilities at fair value through profit or loss	Designated at fair value through profit or loss	Derivatives in hedge accounting	Total	Fair value
Liabilities to credit institutions	2,831,551	-	1,413,931	-	4,245,482	4,270,819
Liabilities to the public and public sector entities	337,342	-	215,684	-	553,025	554,964
Debt securities issued	16,256,904	-	10,391,193	-	26,648,097	26,679,745
Derivative contracts	-	1,129,294	-	1,203,331	2,332,625	2,332,625
Total	**19,425,796**	**1,129,294**	**12,020,807**	**1,203,331**	**33,779,229**	**33,838,153**

Hedge Accounting

30 Jun 2018 (EUR 1,000)	IAS 39 portfolio hedge accounting	IFRS 9 fair value hedge accounting	IFRS 9 fair value hedge accounting incl. Cost-of-hedging	Total
Financial assets				
Loans and advances to the public and public sector entities	7,058,182	146,275	-	7,204,457
Leasing	-	100,130	-	100,130
Total financial assets	**7,058,395**	**246,405**	**-**	**7,304,587**
Financial liabilities				
Liabilities to credit institutions	-	2,004,597	11,699	2,016,296
Liabilities to the public and public sector entities	-	151,308	186,033	337,342
Debt securities issued	-	3,560,490	12,094,129	15,654,619
Total financial liabilities	**-**	**5,716,395**	**12,291,861**	**18,008,256**

Financial assets

31 Dec 2017 (EUR 1,000)	Loans and receivables	Available-for-sale financial assets	Held-to-maturity investments	Fair value option	Held-for-trading	Derivatives in hedge accounting	Total	Fair value
Cash and balances with central banks	3,554,182	-	-	-	-	-	3,554,182	3,554,182
Loans and advances to credit institutions	1,251,391	-	-	-	-	-	1,251,391	1,251,391
Loans and advances to the public and public sector entities	21,497,205	-	-	153,642	-	-	21,650,847	23,440,944
Debt securities	-	5,628,591	753,859	111,785	-	-	6,494,234	6,494,663
Shares and participations	-	9,662	-	-	-	-	9,662	9,662
Derivative contracts	-	-	-	-	206,388	1,226,930	1,433,318	1,433,318
Other assets	148,205	-	-	-	-	-	148,205	148,205
Total	26,450,983	5,638,253	753,859	265,427	206,388	1,226,930	34,541,839	36,332,366

Loans and advances to the public sector entities includes EUR 431,732 thousand receivables based on leasing agreements.

In 2017 fair value hedge accounting is applied to EUR 3,811,080 thousand of debt securities classified as available-for-sale financial assets. Loans and advances to the public and public sector entities includes EUR 7,068,042 thousand in loans and receivables included in fair value hedge accounting. Other assets includes EUR 148,205 thousands of cash collateral given to central counterparties.

Financial liabilities

31 Dec 2017 (EUR 1,000)	Financial liabilities at amortised cost	Fair value option	Held-for-trading	Derivatives in hedge accounting	Total	Fair value
Liabilities to credit institutions	3,902,480	-	-	-	3,902,480	3,978,548
Liabilities to the public and public sector entities	646,558	-	-	-	646,558	650,712
Debt securities issued	22,470,615	3,833,346	-	-	26,303,961	26,356,850
Derivative contracts	-	-	258,308	1,957,725	2,216,034	2,216,034
Total	27,019,654	3,833,346	258,308	1,957,725	33,069,033	33,202,145

In 2017 fair value hedge accounting is applied to EUR 23,778,197 thousand of financial liabilities at amortised cost.

Note 4. Fair values of financial assets and liabilities

30 Jun 2018 (EUR 1,000)	Carrying amount	Fair value Level 1	Level 2	Level 3	Total
Financial assets at fair value					
Fair value through other comprehensive income					
Debt securities	1,533,027	1,420,329	112,698	-	1,533,027
Designated at fair value through profit or loss					
Debt securities	3,692,178	3,692,178	-	-	3,692,178
Mandatorily at fair value through profit or loss					
Loans and advances to the public and public sector entities	60,237	-	60,237	-	60,237
Debt securities	1,435	-	1,435	-	1,435
Shares in investment funds	9,603	9,603	-	-	9,603
Derivative assets	617,976	-	614,414	3,562	617,976
Derivatives in hedge accounting	899,635	-	899,635	-	899,635
Total financial assets at fair value	6,814,090	5,122,110	1,688,419	3,562	6,814,090
In fair value hedge accounting					
Financial assets at amortised cost					
Loans and advances to the public and public sector entities	7,204,457	-	7,716,909	-	7,716,909
Total in fair value hedge accounting	7,204,457	-	7,716,909	-	7,716,909
Financial assets at amortised cost					
Cash and balances with central banks	4,017,525	4,017,525	-	-	4,017,525
Loans and advances to credit institutions	1,374,941	41,701	1,333,240	-	1,374,941
Loans and advances to the public and public sector entities	14,243,018	-	15,639,919	-	15,639,919
Debt securities	978,266	-	978,722	-	978,722
Other assets	179,993	-	179,993	-	179,993
Total financial assets at amortised cost	20,793,743	4,059,226	18,131,873	-	22,191,099
Total financial assets	34,812,290	9,181,336	27,537,201	3,562	36,722,098

30 Jun 2018 (EUR 1,000)	Carrying amount	Fair value Level 1	Level 2	Level 3	Total
Financial liabilities at fair value					
Designated at fair value through profit or loss					
Liabilities to credit institutions	1,413,931	-	1,413,931	-	1,413,931
Liabilities to the public and public sector entities	215,684	-	215,684	-	215,684
Debt securities issued	10,391,193	-	9,514,157	877,036	10,391,193
Financial liabilities at fair value through profit or loss					
Derivative liabilities	1,129,294	-	1,045,917	83,377	1,129,294
Derivatives in hedge accounting	1,203,331	-	1,203,331	-	1,203,331
Total financial liabilities at fair value	14,353,433	-	13,393,020	960,412	14,353,432
In fair value hedge accounting					
Liabilities to credit institutions	2,016,296	-	2,041,631	-	2,041,631
Liabilities to the public and public sector entities	337,342	-	339,280	-	339,280
Debt securities issued	15,654,619	-	15,686,185	-	15,686,185
Total in fair value hedge accounting	18,008,256	-	18,067,097	-	18,067,097
Financial liabilities at amortised cost					
Liabilities to credit institutions	815,255	-	815,257	-	815,257
Debt securities issued	602,285	-	602,367	-	602,367
Total financial liabilities at amortised cost	1,417,540	-	1,417,623	-	1,417,623
Total financial liabilities	33,779,229	-	32,877,740	960,412	33,838,153

31 Dec 2017 (EUR 1,000)	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Financial assets at fair value					
Available-for-sale financial assets					
Debt securities	1,817,511	1,815,904	1,607	-	1,817,511
Shares in investment funds	9,662	9,662	-	-	9,662
Fair value option					
Debt securities	111,785	42,750	69,035	-	111,785
Loans and advances to the public and public sector entities	153,642	-	153,642	-	153,642
Held-for-trading					
Derivative assets	206,388	-	167,692	38,696	206,388
Derivatives in hedge accounting	1,226,930	-	1,226,930	-	1,226,930
Total financial assets at fair value	3,525,918	1,868,316	1,618,905	38,696	3,525,918
In fair value hedge accounting					
Loans and receivables					
Loans and advances to the public and public sector entities	7,068,042	-	7,562,122	-	7,562,122
Available-for-sale financial assets					
Debt securities	3,811,080	3,811,080	-	-	3,811,080
Total in fair value hedge accounting	10,879,122	3,811,080	7,562,122	-	11,373,202
Financial assets at amortised cost					
Loans and receivables					
Cash and balances with central banks	3,554,182	3,554,182	-	-	3,554,182
Loans and advances to credit institutions	1,251,391	61,521	1,189,870	-	1,251,391
Loans and advances to the public and public sector entities	14,429,162	-	15,725,180	-	15,725,180
Other assets	148,205	-	148,205	-	148,205
Held-to-maturity					
Debt securities	753,859	-	749,409	4,878	754,288
Total financial assets at amortised cost	20,136,799	3,615,703	17,812,664	4,878	21,433,246
Total financial assets	34,541,839	9,295,099	26,993,692	43,575	36,332,366

31 Dec 2017 (EUR 1,000)	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Financial liabilities at fair value					
Fair value option					
Debt securities issued	3,833,346	-	3,833,346	-	3,833,346
Held-for-trading					
Derivative liabilities	258,308	-	219,612	38,696	258,308
Derivatives in hedge accounting	1,957,725	-	1,957,725	-	1,957,725
Total financial liabilities at fair value	6,049,379	-	6,010,683	38,696	6,049,379
In fair value hedge accounting					
Liabilities to credit institutions	3,198,950	-	3,275,012	-	3,275,012
Liabilities to the public and public sector entities	617,371	-	621,252	-	621,252
Debt securities issued	19,961,876	-	20,044,115	-	20,044,115
Total in fair value hedge accounting	23,778,197	-	23,940,379	-	23,940,379
Financial liabilities at amortised cost					
Liabilities to credit institutions	703,530	-	703,537	-	703,537
Liabilities to the public and public sector entities	29,188	-	19,621	9,839	29,460
Debt securities issued	2,508,739	-	1,535,834	943,555	2,479,389
Total financial liabilities at amortised cost	3,241,456	-	2,258,992	953,394	3,212,386
Total financial liabilities	33,069,034	-	32,210,055	992,091	33,202,145

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

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

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

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

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

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

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

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

Transfers in the fair value hierarchy

During the first half of the 2018 financial year, no reclassifications have been made between Level 1 and Level 2.
During the first half of the 2018 financial year no financial assets or liabilities have been transfered into level 3.

1 Jan - 30 Jun 2018 (EUR 1,000)	Derivative assets At fair value through profit or loss	Derivative liabilities At fair value through profit or loss	Debt securities Mandatorily at fair value through profit or loss	Debt securities issued Designated as at fair value through profit or loss	Total
1 Jan 2018	38,696	-38,696	4,878	-953,394	-948,516
Change in fair value in the income statement	-33,859	-29,874	-	-21,217	-84,950
Purchases	1,696	-26,606	-	-188,430	-213,340
Sales and matured deals	-2,971	11,800	-4,878	286,005	289,956
Transfers into level 3	-	-	-	-	-
Transfers out of level 3	-	-	-	-	-
30 Jun 2018	3,562	-83,377	0	-877,036	-956,850

During 2017, no reclassification have been made between Level 1 and Level 2.
During 2017 financial assets have been transfered into Level 3 due to changes in input data used in the valuation. The transfers are presented using fair values of 31 December 2016.

2017 (EUR 1,000)	Derivative assets Held-for-trading	Derivative liabilities Held-for-trading	Debt securities Held to maturity	Total
1 Jan 2017	67,453	-67,453	-	0
Change in fair value in the income statement	-9,465	9,465	-	0
Purchases	22,188	-22,188	-	0
Sales and matured deals	-41,480	41,480	-	0
Transfers into Level 3	-	-	4,878	4,878
Transfers out of Level 3	-	-	-	-
31 Dec 2017	38,696	-38,696	4,878	4,878

Note 5. Derivative Contracts

30 Jun 2018 (EUR 1,000)	Nominal value of underlying instrument	Fair value Positive	Fair value Negative
Contracts in hedge accounting			
Interest rate derivatives			
Interest rate swaps	19,542,489	390,670	-247,681
of which cleared by the central counterparty	10,293,017	35,083	-101,002
Currency derivatives			
Cross currency interest rate swaps	13,251,825	508,964	-955,650
Total contracts in hedge accounting	**32,794,314**	**899,635**	**-1,203,331**
Contracts at fair value through profit or loss			
Interest rate derivatives			
Interest rate swaps	16,828,233	336,491	-266,085
of which cleared by the central counterparty	5,259,766	10,028	-42,512
Interest rate options	119,860	524	-524
Currency derivatives			
Cross currency interest rate swaps	5,304,437	165,083	-758,235
Forward exchange contracts	3,937,940	99,098	-11,004
Equity derivatives	1,681,520	16,779	-93,446
Other derivatives	-	-	-
Total contracts at fair value through profit or loss	**27,871,990**	**617,976**	**-1,129,294**
Total derivative contracts	**60,666,304**	**1,517,611**	**-2,332,625**

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

Starting 1.1.2018 MuniFin has valued all derivatives using the OIS curve and included the impact of the cross currency basis in its derivative valuations.

31 Dec 2017 (EUR 1,000)	Nominal value of underlying instrument	Fair value Positive	Fair value Negative
Contracts in hedge accounting			
Interest rate derivatives			
Interest rate swaps	31,050,085	531,951	-369,866
of which cleared by the central counterparty	5,356,417	19,821	-40,314
Currency derivatives			
Cross currency interest rate swaps	17,634,970	694,979	-1,587,860
Total contracts in hedge accounting	**48,685,054**	**1,226,930**	**-1,957,725**
Contracts held-for-trading			
Interest rate derivatives			
Interest rate swaps	6,438,830	144,237	-138,367
of which cleared by the central counterparty	4,884,831	25,037	-56,989
Interest rate options	162,175	628	-628
Currency derivatives			
Cross currency interest rate swaps	33,026	186	-146
Forward exchange contracts	3,846,382	5,127	-62,956
Equity derivatives	2,204,916	56,078	-56,078
Other derivatives	20,000	133	-133
Total contracts in held-for-trading	**12,705,329**	**206,388**	**-258,308**
Total derivative contracts	**61,390,383**	**1,433,318**	**-2,216,034**

Contracts held-for-trading contains all derivatives of the company which are not included in hedge accounting, even if they are entered into for risk management purposes. The category contains derivatives used for hedging financial assets and liabilities which are measured using the fair value option, all derivatives with municipalities, all derivatives hedging derivatives with municipalities. In addition to these, the category contains derivatives used for hedging interest rate risk of the balance sheet, for which no hedged item has been specified, the derivatives which hedge embedded derivatives and the embedded derivatives which have been bifurcated from the financial liability.

Note 6. Credit loss

Expected credit losses

30 Jun 2018 (EUR 1,000)	Notional	Impairment
Stage 1	27,846,561	-946
Stage 2	266,385	-102
Stage 3	-	-
Total	28,112,946	-1,047

30 Jun 2018 (EUR 1,000)	Impairment
Loans and advances to credit institutions at amortised cost	-552
Loans and advances to the public and public sector entities at amortised cost	-151
Leasing receivables in loans and advances to the public and public sector entities	-2
Debt securities at amortised cost	-2
Debt securities at fair value through other comprehensive income (1)	-273
Cash collateral to Central Counterparty Clearing House in Other assets at amortised cost	-59
Binding commitments (off-balance sheet)	-8
Total expected credit loss	-1,047

(1) Included within the fair value reserve (fair value through other comprehensive income).

The impact of expected credit loss on profit and loss during 2018 totals EUR -129 thousand. The impact on profit and loss results from the changes in expected credit losses during the initial date of application 1 January 2018 and the reporting date of the half year report 30 June 2018.

Realised credit losses

During the first half of 2018 MuniFin wrote off a loan totalling EUR 434 thousand. The company has collateral in form of property of the equivalent amount in addition to a deficiency guarantee from the government. The receivable is shown in the statement of financial position on line other assets and shown as a decrease of the impairment loss in the income statement. MuniFin will not incur a final credit loss on the loan.

Note 7. Capital instruments

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

31 Dec 2017 (EUR 1,000)	Currency	Nominal value	Carrying amount	Interest rate	Earliest repayment
1) AT1 capital loan	EUR	350,000	347,454	Fixed	1st April 2022
Total		350,000	347,454		

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

Note 8. Pledged assets

Liabilities and collateral (EUR 1,000)	30 Jun 2018	31 Dec 2017
Loans pledged to the central bank	2,550,969	2,476,968
Loans pledged to the Municipal Guarantee Board	10,411,785	18,581,280
Total	12,962,754	21,058,248

Pledged assets:
1) Municipality Finance is a monetary policy counterparty approved by the central bank (the Bank of Finland), and for this purpose, a sufficient amount of collateral has been pledged to the central bank for possible operations related to this counterparty position.

2) Municipality Finance has pledged the amount of loans shown in the table to the Municipal Guarantee Board. The agreement between Municipality Finance and the Municipal Guarantee Board has been updated in February 2018 taking into consideration the future Net Stable Funding Requirement and decreasing the amount of pledged loans. The Municipal Guarantee Board guarantees Municipality Finance's funding and Municipality Finance places collateral for the Municipal Guarantee Board's guarantees as defined in the Act on the Municipal Guarantee Board.

Off-balance-sheet commitments (EUR 1,000)	30 Jun 2018	31 Dec 2017
Loan commitments	2,557,759	2,270,346
Total	2,557,759	2,270,346

Note 9. Contingent assets and liabilities

The accrued interest on the company's AT1 capital loan is a contingent liability, totaling 3.1 million as per 30th June 2018. The contingent liability will be realised as a deduction of equity once the company decides on the payment of interest. At the end of 2017, the company had a contingent liability of 9.5 million, which realised upon interest payment on 3.4.2018.

The group does not have any contingent assets on 30th June 2018 or at the end of 2017.

Note 10. Related-party transactions

Municipality Finance's related parties are shareholders whose ownership and corresponding voting in the company exceed 20%, the CEO, the Deputy to the CEO, members of the board of Management and members of the Board of Directors, the spouses and minor children of the persons and corporations controlled by them. Municipality Finance's operations are restricted by the Act on the Municipal Guarantee Board and the framework agreement concluded between the company and the Municipal Guarantee Board, pursuant to which the company may only grant loans to parties stipulated by law (municipalities, municipal federations, corporations that are wholly owned by municipalities or under their control and corporations designated by government authorities and engaged in the renting or production and maintenance of housing on social grounds). Municipality Finance has not carried out any business transactions with related parties with the exception of employment-based remuneration. Municipality Finance does not have loan or financial receivables from related parties.

Municipality Finance's related parties also include its subsidiary Inspira. Transactions with Inspira comprise of fees related to administrative services and advisory services Municipality Finance has purchased from Inspira.

Transactions with, receivables from and liabilities to the subsidiary

Transactions with the subsidiary (EUR 1,000)	1 Jan - 30 Jun 2018	1 Jan - 30 Jun 2017
Sales	33	31
Purchases	192	67

Intercompany receivables and liabilities (EUR 1,000)	30 Jun 2018	31 Dec 2017
Receivables	-	-
Liabilities	3	15

Note 11. Interest Income and Expenses

1 Jan - 30 Jun 2018 (EUR 1,000)	Interest and similar income	Interest and similar expense	Net
Assets			
Financial assets at amortised cost			
Cash and balances with central banks	-	-6,593	-6,593
Loans and advances to credit institutions	71	-2,667	-2,596
Loans and advances to the public and public sector entities	97,004	-	97,004
Debt securities	72	-665	-593
Other assets	364	-	364
Derivatives in hedge accounting	-40,196	-	-40,196
Financial assets at fair value through other comprehensive income			
Debt securities	1	-768	-767
Financial assets designated at fair value through profit or loss			
Debt securities	12,051	-	12,051
Financial assets mandatorily at fair value through profit or loss			
Loans and advances to the public and public sector entities	755	-	755
Debt securities	1	-	1
Derivative contracts	29,445	-44,172	-14,728
Leasing	1,682	-	1,682
Interest on non-financial other assets	2	-	2
Interest on assets	101,250	-54,865	46,385
Liabilities			
Financial liabilities at amortised cost			
Liabilities to credit institutions	1,074	-27,439	-26,365
Liabilities to the public and public sector entities	-	-4,991	-4,991
Debt securities issued	115	-172,579	-172,464
Other liabilities	-	-479	-479
Derivatives in hedge accounting	-	231,933	231,933
Financial liabilities designated at fair value through profit or loss			
Liabilities to credit institutions	-	-17,307	-17,307
Liabilities to the public and public sector entities	-	-2,735	-2,735
Debt securities issued	-	-122,338	-122,338
Financial liabilities at fair value through profit or loss			
Derivative contracts	256,551	-70,189	186,362
Interest on liabilities	257,740	-186,125	71,616
Grand Total	358,990	-240,989	118,001

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

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

1 Jan - 30 Jun 2017 (EUR 1,000)	Interest income	Interest expense	Net
Assets			
Loans and advances to credit institutions and central banks	907	-5,880	-4,973
Loans and advances to the public and public sector entities	102,515	-	102,515
Debt securities	13,984	-1,069	12,915
Derivatives in hedge accounting	-60,403	-	-60,403
Derivatives held-for-trading	32,767	-15,933	16,835
Other interest income	602	-	602
Interest on assets	**90,373**	**-22,882**	**67,491**
Liabilities			
Liabilities to credit institutions	3,049	-28,954	-25,905
Liabilities to the public and public sector entities	-	-8,868	-8,868
Debt securities issued	-	-171,489	-171,489
Derivatives in hedge accounting	-	249,649	249,649
Other interest expense	**-**	**-313**	**-313**
Interest on liabilities	**3,049**	**40,024**	**43,073**
Grand Total	**93,422**	**17,143**	**110,564**

Interest expenses on loans and advances to credit institutions and central banks consists of interest paid on central bank deposits and collaterals. Interest expenses on debt securities consists of interest paid on ECPs. Derivative contracts treated as items adjusting interest income and included in hedge accounting are used as hedges for loans and advances to the public and public sector entities and debt securities.

Interest income on liabilities to credit institutions consists of interest received on collaterals. Derivative contracts treated as items adjusting interest expense and included in hedge accounting are used as hedges for liabilities to credit institutions, liabilities to the public and public sector entities and debt securities issued.

Note 12. Capital adequacy

Capital buffers

Minimum capital requirements and capital buffers (%) 30 Jun 2018	Capital requirement	Capital conservation buffer 1)	Counter-cyclical buffer 2)	O-SII 3)	Total capital buffers	Total	Realised 30 Jun 2018
Common Equity Tier 1 (CET1)	4.50%	2.50%	0.36%	0.50%	3.36%	7.86%	53.95%
Tier 1 Capital (T1)	6.00%	2.50%	0.36%	0.50%	3.36%	9.36%	72.41%
Total own funds	8.00%	2.50%	0.36%	0.50%	3.36%	11.36%	72.41%

Minimum capital requirements and capital buffers (EUR 1,000) 30 Jun 2018	Capital requirement	Capital conservation buffer 1)	Counter-cyclical buffer 2)	O-SII 3)	Total capital buffers	Total
Common Equity Tier 1 (CET1)	84 701	47 056	6 862	9 411	63 329	148 031
Tier 1 Capital (T1)	112 935	47 056	6 862	9 411	63 329	176 264
Total own funds	150 580	47 056	6 862	9 411	63 329	213 909

Minimum capital requirements and capital buffers (%) 31 Dec 2017	Capital requirement	Capital conservation buffer 1)	Counter-cyclical buffer 2)	O-SII 3)	Total capital buffers	Total	Realised 31 Dec 2017
Common Equity Tier 1 (CET1)	4.50%	2.50%	0.34%	0.50%	3.34%	7.84%	55.22%
Tier 1 Capital (T1)	6.00%	2.50%	0.34%	0.50%	3.34%	9.34%	75.51%
Total own funds	8.00%	2.50%	0.34%	0.50%	3.34%	11.34%	75.51%

Minimum capital requirements and capital buffers (EUR 1,000) 31 Dec 2017	Capital requirement	Capital conservation buffer 1)	Counter-cyclical buffer 2)	O-SII 3)	Total capital buffers	Total
Common Equity Tier 1 (CET1)	77,051	42,806	5,777	8,561	57,145	134,196
Tier 1 Capital (T1)	102,735	42,806	5,777	8,561	57,145	159,880
Total own funds	136,980	42,806	5,777	8,561	57,145	194,125

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

2) Act on Credit Institutions (610/2014) Sect 10:4-5 § and Capital Requirements Regulation and Directive (CRR/CRD4). On 29th June 2018 (21 December 2017), the Board of Financial Supervisory Authority (FIN-FSA) decided not to set countercyclical capital buffer requirement for credit exposures allocated to Finland. The institution-specific countercyclical capital buffer requirement is determined on the basis of the geographical distribution of the exposures. For MuniFin it is 0,36% on 30 June 2018.

3) The additional capital requirement for other systemically important institutions: Act on Credit Institutions (610/2014), Chapter 10, Section 8, and the EU capital requirements Regulation (575/2013; CRR) and Directive (2013/36/EU; CRD IV). The additional capital requirement (O-SII) imposed on MuniFin is 0.5% as per the decision of the Financial Supervisory Authority made on 6 July 2015, valid from 7 January 2016.

As part of the annual supervisor's review (SREP), the European Central Bank has imposed an additional Pillar II capital requirement of 1.75% (P2R) on MuniFin, effective from 1 January 2018. The minimum level of CET1 capital adequacy is 9.61% when taking into account the P2R additional capital requirement, and the minimum level of overall capital adequacy is 13.11%. In relation to this, the ECB also updated the indicative additional capital requirement of 4.0% (P2G). Falling below this level does not have an effect on issues such as the distribution of profit. Based on the above, at the end of June 2018, with the additional capital requirement and the indicative additional capital requirement taken into account, the new minimum for CET1 capital adequacy is 13.61%.

Future changes in capital buffers
In December 2017, the FIN-FSA decided that the additional capital requirement for other systematically important institutions applied to MuniFin will be increased from 0.5% to 1.0%. This requirement will become effective on 1 July 2018. The new minimum level of CET1 capital adequacy is 10.11% taking into account P2R requirement.

Furthermore, in June 2018, the FIN-FSA made a macro-prudential decision on structural additional capital requirements and decided to impose a systemic risk buffer on credit institutions. For MuniFin, the additional capital requirement imposed based on the systemic risk buffer is 1.5%. The FIN-FSA also reviewed the additional capital requirements for global (G-SII/B) and national (O-SII) systemically important credit institutions, and in relation to this, it lowered the O-SII requirement for MuniFin to 0.5%. The systemic risk buffer and the O-SII additional capital requirement are parallel buffers, of which the greater is applied. The effective date of these requirements is 1 July 2019. The new minimum level of CET1 capital adequacy is 10.61% including P2R.

Own funds

Consolidated own funds (EUR 1,000)	30 Jun 2018	31 Dec 2017
Share capital	42,583	42,583
Reserve for invested non-restricted equity	40,366	40,366
Retained earnings	983,195	879,799
Fair value reserve and cost-of-hedging	10,578	28,944
Other reserves	277	277
Part of interim profit not eligible	-17,133	-6,250
Accrued interest net of deferred taxes of AT1 capital loan treated as equity	-3,107	-9,459
Common Equity Tier 1 (CET1) capital before regulatory adjustments	1,056,759	976,260
Intangible assets	-12,756	-10,196
Deductions due to prudential filters on Common Equity Tier 1	-28,440	-20,544
Common Equity Tier 1 (CET1) capital	1,015,564	945,519
Instruments included in Additional Tier 1 capital	347,454	347,454
Additional Tier 1 (AT1) capital	347,454	347,454
Tier 1 (T1) capital	1,363,017	1,292,973
Tier 2 (T2) capital	-	-
Total own funds	1,363,017	1,292,973

Own funds, parent company (EUR 1,000)	30 Jun 2018	31 Dec 2017
Share capital	43,008	43,008
Reserve for invested non-restricted equity	40,743	40,743
Retained earnings	205,130	95,457
Fair value reserve and cost-of-hedging	10,578	28,944
Other reserves	773,631	773,631
Part of interim profit not eligible	-17,133	-6,250
Common Equity Tier 1 (CET1) capital before regulatory adjustments	1,055,957	975,532
Intangible assets	-12,850	-10,330
Deductions due to prudential filters on Common Equity Tier 1	-28,440	-20,544
Common Equity Tier 1 (CET1) capital	1,014,667	944,658
Instruments included in Additional Tier 1 capital	348,159	347,916
Additional Tier 1 (AT1) capital	348,159	347,916
Tier 1 (T1) capital	1,362,826	1,292,574
Tier 2 (T2) capital	-	-
Total own funds	1,362,826	1,292,574

Common Equity Tier 1 capital includes the net profit for the period of 1 January - 30 June 2018. The result for the period has been subject to a review by the auditors, and therefore can be included in CET1 capital on the basis of permission granted by the ECB in accordance with the Capital Requirements Regulation. Deductions due to prudential filters on Common Equity Tier 1 are made up of MuniFin's debt value adjustment (DVA) and other value adjustments.

Since MuniFin does not have an approved dividend policy, there is a deduction made from CET1 based on Commission Delegated Regulation 241/2014.

Change in own credit risk is excluded from own funds (CRR art. 33).

Additional Tier 1 capital contains MuniFin's AT1 capital loan EUR 350 million which was issued on October 1st 2015.

Key figures for capital adequacy

Consolidated key figures for capital adequacy	30 Jun 2018	31 Dec 2017
Ratio of Common Equity Tier 1 (CET1) to risk-weighted assets, %	53.95	55.22
Ratio of Tier 1 capital (T1) to risk-weighted assets, %	72.41	75.51
Ratio of total own funds to risk-weighted assets, %	72.41	75.51

Key figures for capital adequacy, parent company	30 Jun 2018	31 Dec 2017
Ratio of Common Equity Tier 1 (CET1) to risk-weighted assets, %	54.68	55.71
Ratio of Tier 1 capital (T1) to risk-weighted assets, %	73.44	76.22
Ratio of total own funds to risk-weighted assets, %	73.44	76.22

Minimum requirement for own funds

Consolidated minimum requirement for own funds	30 Jun 2018		31 Dec 2017	
(EUR 1,000)	Capital requirement	Risk-weighted assets	Capital requirement	Risk-weighted assets
Credit and counterparty risk, standardised approach	80,384	1,004,800	108,144	1,351,799
Exposures to central governments or central banks	0	0	302	3,780
Exposures to regional governments or local authorities	342	4,272	332	4,153
Exposures to public sector entities	5,166	64,580	4,742	59,271
Exposures to multilateral development banks	953	11,909	953	11,914
Exposures to institutions	54,126	676,570	81,835	1,022,934
Exposures in the form of covered bonds	19,242	240,526	19,063	238,284
Items representing securitisation positions	23	287	104	1,296
Exposures in the form of shares in CIUs	96	1,194	103	1,286
Other items	437	5,462	710	8,881
Market risk	0	0	1,075	13,436
Credit valuation adjustment risk (CVA VaR), standardised method	39,552	494,402	979	12,233
Operational risk, basic indicator approach	30,644	383,048	26,783	334,786
Total	150,580	1,882,251	136,980	1,712,254

Minimum requirement for own funds, parent company	30 Jun 2018		31 Dec 2017	
(EUR 1,000)	Capital requirement	Risk-weighted assets	Capital requirement	Risk-weighted assets
Credit and counterparty risk, standardised approach	80,420	1,005,244	108,170	1,352,121
Exposures to central governments or central banks	0	0	302	3,780
Exposures to regional governments or local authorities	342	4,272	332	4,153
Exposures to public sector entities	5,166	64,580	4,742	59,271
Exposures to multilateral development banks	953	11,909	953	11,914
Exposures to institutions	54,119	676,492	81,824	1,022,805
Exposures in the form of covered bonds	19,242	240,526	19,063	238,284
Items representing securitisation positions	23	287	104	1,296
Exposures in the form of shares in CIUs	96	1,194	103	1,286
Other items	479	5,984	747	9,333
Market risk	129	1,614	1,075	13,436
Credit valuation adjustment risk (CVA VaR), standardised method	39,552	494,402	979	12,233
Operational risk, basic indicator approach	28,487	356,092	25,441	318,019
Total	148,459	1,855,738	135,665	1,695,809

The capital requirement for credit risk is calculated using the standardised approach. In calculating the capital requirements for market risk, only foreign exchange risk is taken into account as the group does not have a trading book nor share or commodity positions. As foreign exchange risk is hedged by swapping all currency denominated funding and investments into euros, the company's foreign exchange position is very small. On June 30th 2018, there was no capital requirement for foreign exchange risk since the position was less than 2 percent of the own funds (CRR 575/2013 art. 351). The Municipality Guarantee Board's guarantees for certain derivative counterparties are excluded from CVA VaR calculations at the end of June 2018. The capital requirement for operative risks is calculated using the basic indicator approach.

Exposure by class

Consolidated
30 Jun 2018 (EUR 1,000)

Exposure classes	On-balance sheet exposure	Off-balance sheet exposure	Derivatives exposure	Total exposure	Risk-weighted assets
Exposures to central governments or central banks	4,387,757	-	-	4,387,757	0
Exposures to regional governments or local authorities	9,835,433	1,108,616	153,687	11,097,736	4,272
Exposures to public sector entities	292,593	-	-	292,593	64,580
Exposures to multilateral development banks	222,577	-	-	222,577	11,909
Exposures to international organisations	73,590	-	-	73,590	-
Exposures to institutions	2,518,583	-	519,490	3,038,073	676,570
Exposures to corporates	5,038,237	290,901	-	5,329,138	-
Exposures secured by mortgages on immovable property	8,168,052	1,158,243	-	9,326,295	-
Exposures in default	0	-	-	0	-
Exposures in the form of covered bonds	1,901,730	-	-	1,901,730	240,526
Items representing securitisation positions	1,435	-	-	1,435	287
Exposures in the form of shares in CIUs	9,576	-	-	9,576	1,194
Other items	12,647	-	-	12,912	5,462
Total	32,462,475	2,557,759	673,177	35,693,411	1,004,800

Consolidated
31 Dec 2017 (EUR 1,000)

Exposure classes	On-balance sheet exposure	Off-balance sheet exposure	Derivatives exposure	Total exposure	Risk-weighted assets
Exposures to central governments or central banks	4,004,347	-	-	4,004,347	3,780
Exposures to regional governments or local authorities	9,578,898	873,521	160,014	10,612,433	4,153
Exposures to public sector entities	281,233	-	-	281,233	59,271
Exposures to multilateral development banks	232,631	-	-	232,631	11,914
Exposures to international organisations	73,917	-	-	73,917	-
Exposures to institutions	4,161,532	-	590,101	4,751,633	1,022,934
Exposures to corporates	5,086,565	274,461	-	5,361,025	-
Exposures secured by mortgages on immovable property	7,733,922	1,122,364	-	8,856,287	-
Exposures in default	450	-	-	450	-
Exposures in the form of covered bonds	1,938,881	-	-	1,938,881	238,284
Items representing securitisation positions	6,478	-	-	6,478	1,296
Exposures in the form of shares in CIUs	9,635	-	-	9,635	1,286
Other items	79,780	-	-	79,780	8,881
Total	33,188,269	2,270,346	750,115	36,208,730	1,351,799

Parent company
30 Jun 2018 (EUR 1,000)

Exposure classes	On-balance sheet exposure	Off-balance sheet exposure	Derivatives exposure	Total exposure	Risk-weighted assets
Exposures to central governments or central banks	4,387,757	-	-	4,387,757	0
Exposures to regional governments or local authorities	9,835,433	1,108,616	153,687	11,097,736	4,272
Exposures to public sector entities	292,593	-	-	292,593	64,580
Exposures to multilateral development banks	222,577	-	-	222,577	11,909
Exposures to international organisations	73,590	-	-	73,590	-
Exposures to institutions	2,518,188	-	519,490	3,037,678	676,492
Exposures to corporates	5,038,237	290,901	-	5,329,138	-
Exposures secured by mortgages on immovable property	8,168,052	1,158,243	-	9,326,295	-
Exposures in default	0	-	-	0	-
Exposures in the form of covered bonds	1,901,730	-	-	1,901,730	240,526
Items representing securitisation positions	1,435	-	-	1,435	287
Exposures in the form of shares in CIUs	9,576	-	-	9,576	1,194
Other items	13,209	-	-	13,209	5,984
Total	**32,462,378**	**2,557,759**	**673,177**	**35,693,314**	**1,005,244**

Parent company
31 Dec 2017 (EUR 1,000)*

Exposure classes	On-balance sheet exposure	Off-balance sheet exposure	Derivatives exposure	Total exposure	Risk-weighted assets
Exposures to central governments or central banks	4,004,347	-	-	4,004,347	3,780
Exposures to regional governments or local authorities	9,578,898	873,521	160,014	10,612,433	4,153
Exposures to public sector entities	281,233	-	-	281,233	59,271
Exposures to multilateral development banks	232,631	-	-	232,631	11,914
Exposures to international organisations	73,917	-	-	73,917	-
Exposures to institutions	4,160,887	-	590,101	4,750,988	1,022,805
Exposures to corporates	5,086,565	274,461	-	5,361,025	-
Exposures secured by mortgages on immovable property	7,733,922	1,122,364	-	8,856,287	-
Exposures in default	450	-	-	450	-
Exposures in the form of covered bonds	1,938,881	-	-	1,938,881	238,284
Items representing securitisation positions	6,478	-	-	6,478	1,296
Exposures in the form of shares in CIUs	9,635	-	-	9,635	1,286
Other items	79,838	-	-	79,838	9,333
Total	**33,187,681**	**2,270,346**	**750,115**	**36,208,143**	**1,352,121**

Leverage ratio

Consolidated leverage ratio (EUR 1,000)	30 Jun 2018	31 Dec 2017
Tier 1 capital (T1)	1,363,017	1,292,973
Total exposure	34,363,413	33,636,264
Leverage ratio, %	3.97	3.84

Exposures (EUR 1,000)	30 Jun 2018	31 Dec 2017
On-balance sheet exposures (excl. Derivatives and intangible assets)	32,360,475	31,812,893
Derivatives exposure	790,001	748,254
Off-balance sheet exposure	1,213,596	1,075,117
Total	34,364,072	33,636,264

Breakdown of on-balance sheet exposure (EUR 1,000)	30 Jun 2018 Leverage ratio exposure value	31 Dec 2017 Leverage ratio exposure value
Covered bonds	1,901,730	1,938,881
Exposures treated as sovereigns	13,136,350	12,336,314
Exposures to regional governments, multilateral development banks, international organisations and public sector entities	15,642,829	15,462,856
Institutions	1,665,219	1,988,135
Exposures in default	0	450
Other exposures	14,347	86,257
Total	32,360,475	31,812,893

Report on review of the interim report of Municipality Finance Plc as of and for the six-month period ending June 30, 2018

To the Board of Directors of Municipality Finance Plc

Introduction

We have reviewed the consolidated balance sheet as of 30 June, 2018 and the consolidated income statement, the statement of comprehensive income, the statement of changes in equity and the cash flow statement of Municipality Finance Plc for the six-month period then ended, as well as a summary of significant accounting policies and other explanatory notes to the financial statements. The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of this interim financial information in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU, and other Finnish rules and regulations governing the preparation of interim reports. We will express our conclusion on the interim report based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim report does not give a true and fair view of the consolidated financial position as at 30 June, 2018 and the consolidated result of its operations and cash flows for the six-month period then ended, in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU and other applicable rules and regulations governing interim financial reporting preparation in Finland.

Helsinki 14 August, 2018

KPMG OY AB

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