

Sustainability Policy

MUNICIPALITY FINANCE GROUP

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Colophon

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1 Introduction and purpose

Municipality Finance Plc and the entire Municipality Finance Group (unless otherwise specified, “**MuniFin**” and “**the company**” hereinafter refer to both entities together) offer financing services to municipalities, wellbeing services counties and affordable social housing organisations. MuniFin’s raison d’être is to support the development of a sustainable welfare society. A comprehensive consideration of sustainability is at the heart of MuniFin’s business operations: sustainability is one of MuniFin’s core values and an integral part of the company’s strategy. MuniFin’s operations impact not only the company itself, but also its customers, shareholders, investors and Finnish society.

MuniFin takes responsibility and sustainability widely into consideration in planning, carrying out and managing its business operations. This sustainability policy outlines MuniFin’s commitment to sustainable development and describes the company’s sustainability practices and leadership. It applies to all MuniFin employees, management and members of the Board of Directors and covers environmental, social and governance (ESG) factors. MuniFin has separate guidelines on sustainable investment (‘Sustainable Investment Framework’) and ethical principles (‘Ethical Principles’). MuniFin’s sustainability goals are set out in MuniFin’s Sustainability Agenda. These documents are available on MuniFin’s website. MuniFin’s risk management principles, including ESG risks, are defined in the company’s Risk and Governance Framework.

This policy is approved by the MuniFin Board of Directors (“**the Board**”). The purpose of this policy is to not only strengthen the positive impact MuniFin’s business operations have on society and the environment, but also to reduce and avoid their negative impact, and to reduce the risks to which the company, its reputation and its employees are exposed.

2 Sustainability at MuniFin

At MuniFin, sustainable business refers to economically, socially and environmentally sustainable business operations that take stakeholder needs into account. MuniFin has identified its key sustainability themes and impacts and analysed the risks and opportunities material to its business operations.

Sustainable development is realised by meeting the social foundation – the social requirements that affect people’s wellbeing – while still staying within the Earth’s ecological limits. In practice, this requires the fulfilment of needs related to things like health, education and housing, while at the same time curbing the progress of climate change, adapting to the climatic changes that have already taken place and safeguarding biodiversity. Finland’s municipal sector, wellbeing services counties and affordable social housing organisations play a key role in both social and ecological sustainability.

MuniFin’s role as a lender is to enable sustainable welfare in society. At the heart of MuniFin’s sustainability work are its public sector customers, whose investments produce wide-reaching social benefits. MuniFin’s financing solutions allow its customers to fund environmentally and socially significant projects, such as public transportation, sustainable construction, hospitals, health centres, schools, day-care centres, affordable rental apartments and housing for special groups.

Through its business, MuniFin can help its customers and stakeholders solve significant sustainability challenges. MuniFin’s decisions support solutions that are sustainable for the company and its customers, owners, investors and Finnish society. MuniFin’s work promotes not only the achievement of Finland’s climate goals and widespread social wellbeing, but also the realisation of several UN Sustainable Development Goals.

Sustainability is an important part of MuniFin’s values:

- We promote social wellbeing and sustainable development.
- We operate reliably and predictably.
- We take responsibility for our operations and for each other.

2.1 Strategy

Sustainability is integrated into MuniFin's strategy. It is implemented with strategic goals and annual focus areas in a way that also meets regulatory requirements and fulfils stakeholder expectations and requirements.

MuniFin's sustainability agenda sets the direction and goals for the company's sustainability work and clarifies MuniFin's role in the achievement of national and international sustainable development goals. The agenda serves as a key leadership tool for strategy implementation.

The sustainability agenda takes into account key stakeholder groups and their expectations. MuniFin regularly reviews the goals set in the agenda – also ensuring they match the company's strategy – and revises the agenda as necessary.

At MuniFin, sustainability is not contained to the strategy and sustainability agenda alone; instead, it is incorporated into the company's support functions and culture. MuniFin promotes a company culture that places genuine value on sustainability and sustainable development and ensures that everyone in the organisation has the necessary sustainability skills. This approach ensures that sustainability is integrated not only into MuniFin's business strategy but also put into practice in the company's operations.

2.2 Materiality

MuniFin bases its sustainability strategy on materiality.

MuniFin uses a materiality analysis to assess which sustainability themes are material to it. The materiality analysis of sustainability topics gauges what both external and internal stakeholder groups think of different sustainability factors in terms of their impact materiality and financial materiality. The results of this materiality analysis serve as the basis for MuniFin's sustainability agenda, sustainability reporting and focus area planning. MuniFin also conducts a separate materiality analysis to assess its ESG-risks. Both analyses are repeated regularly to ensure that MuniFin focuses on the positive impacts and opportunities for its operations, while also paying attention to and, where possible, minimizing the most significant negative impacts and risks.

2.3 Stakeholder collaboration and memberships

MuniFin is committed to working actively with its key stakeholder groups to ensure that its strategy and sustainability agenda include all material aspects of sustainability.

Stakeholder collaboration covers active and regular stakeholder consultations as well as memberships of relevant organisations promoting sustainability and responsibility. These are presented in the annual report.

2.4 Customer relations

MuniFin takes into account sustainability and its customers' social significance in its customer relations and the financing products and solutions it offers to customers.

MuniFin places great importance on customer orientation, long-term customer relations, active collaboration and reliable partnerships.

MuniFin acknowledges that its customers have a particularly significant role in society: they build up the Finnish welfare society, play an important role in the economy and have extensive value chains. MuniFin also recognises the key role its customers have in the achievement of Finland's national environmental goals. As a lender, MuniFin supports investments that are necessary to meet these goals.

MuniFin encourages its customers to make more sustainable choices and accelerates responsible investments by sharing information, providing sustainable financing products and offering more affordable financing for these projects. MuniFin analyses its customers' sustainability and related goals regularly by engaging in active discussion about its customers' progress.

MuniFin's financing processes are based on financial analyses, which ensure that the customer is in a sound financial position and risk position and that the products and services offered align with their needs. Process also includes an ESG risk assessment. In addition, MuniFin conducts annual customer assessments, that takes ESG risks into account. ESG-related information is further gathered through an ESG survey, which clients submit at least when applying for new financing. The responses to this survey are, among other factors, used to assess ESG risks and the overall sustainability profile of the client.

MuniFin can offer financing products and services only if all the required criteria are fulfilled. MuniFin offers a more detailed account of the criteria it sets for its customers' sustainability and ESG risks in the document 'Principles of ESG assessment in customer finance' and the Pillar III disclosure report required under the EU Capital Requirements Regulation. Both documents are available on MuniFin's website.

2.5 Sustainable finance

MuniFin is committed to promoting investments that are friendly for the climate and environment.

MuniFin encourages its customers to find solutions that are increasingly sustainable for the environment and society. A key tool in this work are more affordable sustainable finance products, which have their own eligibility criteria and frameworks. These products allow MuniFin's investors to make impactful investments.

At the moment, MuniFin's sustainable finance products are the following:

- **Green finance**, which can be applied for investment projects that generate clear beneficial impacts on the climate and environment. The criteria are defined in the **Green Bond Framework**.

- **Social finance**, which can be applied for projects that produce broad societal benefits. The criteria are defined in the **Social Bond Framework**.
- **Sustainability linked loan**, which supports municipalities in achieving their emission reduction targets.

Activities financed by sustainable finance must produce clear and measurable benefits for society. Sustainable finance must motivate customers to develop and adopt solutions that are friendlier for the climate and environment and prompt them to analyse their own operations. Sustainable finance also promotes the achievement of equality, communality, safety, welfare and regional vitality.

MuniFin regularly reviews the eligibility criteria set out in its sustainable finance frameworks to ensure that they reflect best market practices and generate added value. MuniFin annually reports on the positive impacts of the financed projects.

2.6 Funding

MuniFin's funding relies on wide diversification and a long-standing active presence in the international capital markets. In funding activities, sustainability means only working with counterparties that have been internally approved in advance and actively issuing green and social bonds, for example.

To fulfil its mission, MuniFin carries out its funding in a way that ensures that its customers have access to affordable financing even in challenging market conditions.

When bonds issued through public offering are oversubscribed, MuniFin aims to allocate the bond fairly between different investors in the same investor group.

MuniFin's green and social finance projects are funded through targeted bonds. Green and social finance have their own frameworks that detail the eligibility criteria for financed projects. Second party opinions on the frameworks are available on MuniFin's website. MuniFin is committed to reporting on the impact and amount of its green and social finance annually.

2.7 Liquidity management

In MuniFin's liquidity management, sustainability is based on MuniFin's Sustainable Investment Framework and the goals set in it. These ensure that sustainability is considered in the liquidity management activities and that the amount of responsible investments in the portfolio is on the increase.

Liquidity management ensures the continuation of business operations regardless of the market situation. MuniFin's primary objective in liquidity portfolio management is to preserve liquidity. In addition, the aim is to achieve a competitive net interest income. Liquidity management activities are based on a risk management framework that also covers ESG risks.

Investments are made only in issuers residing in OECD countries. This limits not only the financial risks associated with investments but also the related ESG risks. An exception applies to multinational

issuers whose country of origin can be difficult to determine. In such cases, the Risk Management function conducts a risk analysis on a case-by-case basis with the limit application.

MuniFin's investments must be made in accordance with the company's Sustainable Investment Framework. Sustainability targets for liquidity portfolio are defined in the framework. The framework defines sectors excluded from the liquidity management activities. It also sets out the sustainability-related criteria that must be met for all new investments and throughout their entire lifecycle. These established parameters guide liquidity management responsibly and limit associated ESG risks. Sustainability is integrated into both targeted liquidity management and risk management procedures. The ESG development of the investment portfolio is linked to the portfolio manager's targets, and the approved ESG minimum threshold serves as a risk indicator as part of the material risks approved by the Board.

2.8 Strong corporate governance

MuniFin's corporate governance must be professional, efficient and create a solid basis for healthy business principles. Strong corporate governance lays the groundwork for a culture of doing the right thing, which provides employees with a framework in which to operate in accordance with laws and ethical principles in all situations. MuniFin's management and employees are expected to perform their duties with due honesty, skill and care.

As per the Finnish Act on Credit Institutions (610/2014), MuniFin is a credit society and therefore governed by regulation on credit institutions and related supervisory guidelines. These contain a substantial number of requirements on governance management. The basic premise for MuniFin's operations is to adhere to the law, supervisory norms, generally approved practices, existing contracts and the company's own stated promises in all its operations. MuniFin also follows the Finnish Corporate Governance Code issued by the Securities Market Association where applicable. The structure, principles and responsibilities of MuniFin's decision-making are described in the Board-approved Corporate Governance Policy and the annual Corporate Governance Statement.

MuniFin has laid out its ethical principles in a separate document, which applies to all the company personnel in all their duties. In addition to complying with legislation, administrative regulations, internal policies and work instructions, MuniFin's management and employees are expected to perform their duties with due honesty, skill and care.

MuniFin also expects its partners to comply with ethical principles. MuniFin has published a Supplier Code of Conduct, which defines the minimum rules that MuniFin requires its partners to meet. In addition to the minimum requirements, partners may be required to meet sustainability criteria that exceed these minimum requirements, especially if they support the implementation of MuniFin's strategy and sustainability objectives. MuniFin expects all its partners to comply with all relevant legislation, regulatory standards, generally accepted practices and existing contracts and commitments.

2.9 Commitments and responsibility in MuniFin's own operations

MuniFin is committed to national and international initiatives that promote sustainable development and fundamental values. This promotes sustainability in governance.

By committing to initiatives, MuniFin publicly demonstrates that it takes sustainability and responsibility considerations into account in its operations and in the company's strategy. Through these initiatives, the company is also obliged to report on its progress in a consistent manner. These commitments provide access to expert support, enable the company to influence the development of best practices in different sectors, and increase the transparency of its activities both nationally and internationally.

MuniFin takes environmental responsibility into account in its operations.

MuniFin must monitor its environmental impact and prevent, avoid and mitigate the negative environmental effects of its operations. Procurement must take into account appropriateness and environmental impacts throughout the lifecycle. MuniFin is also committed to assessing the indirect environmental impact created through its customers in its business operations.

MuniFin invests in good employee experience.

MuniFin regularly monitors employee wellbeing and annually measures its employee satisfaction through an anonymous survey conducted by an independent research company. Managers and employees examine the survey results together and identify the necessary steps to tackle any identified issues. MuniFin offers its employees extensive occupational health services and opportunities for skills development. MuniFin promotes equality, workplace diversity and awareness of these themes.

2.10 ESG risk management

MuniFin's operations include sufficient risk management mechanisms to ensure that its risk position remains within the limits set by the Board. MuniFin applies conservative principles to its risk management. The aim is to keep the overall risk profile at a low enough level so as not to compromise its strong credit ratings. MuniFin's risk management is organised according to the 'three lines of defence' governance model, where responsibilities in risk management are allocated clearly.

MuniFin's Risk Management Framework has been built on the premise that business operations, risk culture, risk strategy, risk appetite, risk governance, personnel and processes are all aligned and working efficiently. The framework is supported by a comprehensive set of risk policies and underlying guidelines and instructions.

MuniFin is committed to taking climate-related, environmental, social and governance risks into account in all its operations and to continuously developing its ESG risk management methods.

The emphasis in MuniFin's ESG risk management is on environmental and climate-related risks, but it also covers social and governance risks.

MuniFin identifies, measures and manages the most important ESG risks related to its operations and the effects of these risks on the company. ESG indicators are included in MuniFin's Risk Appetite Framework. To ensure that MuniFin remains within its ESG risk limits at any given time, it has set risk limits and targets and integrated them throughout the organisation. The Risk Management and Compliance function coordinates an annual materiality analysis of ESG risks, which serves as the basis for climate and environmental stress testing. This testing assesses both physical risks and transition risks. Stress testing is integrated into the ICAAP process, ensuring its connection to capital adequacy assessment and strategic risk management. MuniFin's internal audit assesses ESG risk management in accordance with the internal audit action plan, which is confirmed annually by the Board.

The specific nature of MuniFin's line of business limits the company's ESG risks. MuniFin's customers operate in Finland, which substantially limits the ESG risks associated with its customers. MuniFin's lending is also highly focused on specific sectors, in which customers' ESG risks are limited and easier to identify. At the same time, it is acknowledged that some of MuniFin's suppliers operate outside Finland, which means ESG risk assessment also extends to international supply chains.

2.11 Reporting

MuniFin regularly publishes information on its sustainability work. This information includes quantitative and qualitative indicators on the development of sustainable operating practices that serve MuniFin's stakeholders.

MuniFin publishes several annual and half-yearly reports and other publications on responsibility and sustainability. These reports describe the development of MuniFin's business into an even more sustainable direction as measured by relevant indicators. MuniFin is a member of the Partnership for Carbon Accounting Financials (PCAF) network and is committed to measuring and reporting the greenhouse gas emissions of its lending and investment portfolio.

Every year, MuniFin publishes a sustainability information as part of the annual report and a green and social impact report. Every six months, MuniFin also publishes a Pillar III disclosure report required under the EU Capital Requirements Regulation, which contains information on the company's ESG risk management. Every quarter, MuniFin publishes information on the sustainability of its investments by reporting on the realisation of the goals of its investment portfolio.

3 Sustainability-related roles and responsibilities

This section describes MuniFin's sustainability-related leadership model, roles and the division of responsibilities between the Board of Directors and executive management.

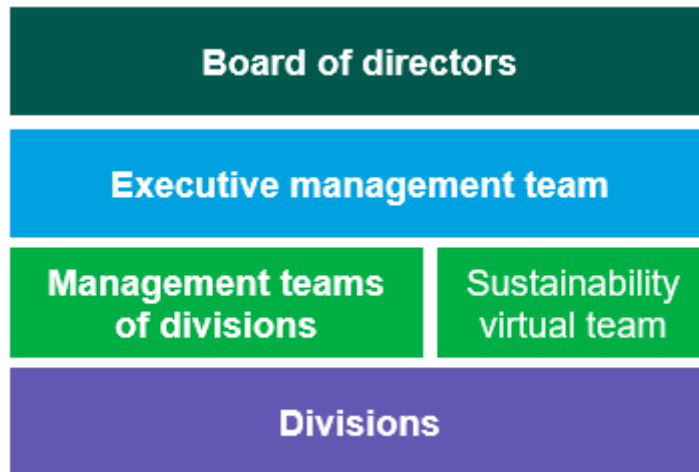


Figure 1. Sustainability governance model

3.1 Board of Directors

The MuniFin Board is tasked with approving the company's strategy and, as part of it, the key strategic choices, priorities and goals related to sustainability. The Board monitors the development of MuniFin's operating environment and takes note of sustainability-related development needs, such as regulatory changes and the expectations of its customers and key stakeholders. The Board also approves MuniFin's sustainability agenda, which summarises the key themes and goals of the company's sustainability work.

The Board identifies MuniFin's key business risks, including its ESG risks, and monitors the development of the ESG risks of the company and its operating environment. This is to ensure that MuniFin's risk profile corresponds to the Board's risk appetite and aligns with the company's strategy, goals, corporate culture and values.

MuniFin has a remuneration policy for its executive management and employees, the terms and implementation of which are decided by the Board. This policy also clarifies the sustainability considerations related to remuneration.

3.2 Executive management

MuniFin's executive management is tasked with the implementation of the strategy set by the Board within the risk appetite framework approved by the Board. This responsibility also includes acting in accordance with MuniFin's Board-approved sustainability strategy and adjusting operations to the risk limits and goals set for ESG risks.

MuniFin's CEO is responsible for managing the company's operational organisation and activities. The operational organisation includes the Executive Management Team and the operational management teams of divisions, which are tasked with divisional management and decision-making that concerns matters assigned to the division under various policies and guidelines. The decision-making powers and duties of the divisional management teams have been determined separately. MuniFin's organisation is made up of different functions and units, including the Risk Management and Compliance function that is independent of the business units, which make operational decisions related to sustainability in accordance with the company's management system.

MuniFin's executive management is committed to monitoring, guiding and developing the company's sustainability work and to ensuring that sustainability is taken into account in all areas of operations in accordance with the company's strategy. As part of the regular monitoring of the company's operations, the executive management also ensures the identification and development of employees' competence needs related to sustainability.

The Executive Management Team has a member in charge of sustainability matters at MuniFin. Each division is responsible for the sustainability matters that fall within its remit. All divisions take sustainability into account in their work as described in the sustainability leadership model and strategy.

3.3 Sustainability virtual team

MuniFin's sustainability work is coordinated by the sustainability virtual team, which consists of sustainability experts and other relevant persons from different divisions and functions.

The sustainability virtual team is tasked with ensuring that sustainability is taken into account across the company and that sustainability-related projects are making progress in accordance with the sustainability agenda and the company strategy. The sustainability virtual team oversees the annual planning and high-level monitoring of MuniFin's sustainability work and coordinates its development. The team tracks projects that are currently underway at MuniFin and follows current market developments and expectations. The team convenes regularly and also invites persons outside the core group to take part as necessary, for example when project-specific matters call for it.

The team is chaired by the Executive Vice President of the Capital Markets and Sustainability division. The team can make decisions on sustainability matters in line with MuniFin's governance model.

4 Scope of application

This Board-approved policy is binding for MuniFin's executive management and employees alike. As a rule, it may not be deviated from, and it must be applied throughout all MuniFin operations and interactions. The persons in charge of MuniFin's units and functions must ensure and monitor that the requirements set out in this policy are considered and adhered to in all operations.

MuniFin's executive management must ensure that this policy is adhered to in day-to-day operations. This is monitored by MuniFin's independent Risk Management and Compliance function.

The MuniFin Board must supervise that internal control, and risk management as part of it, is performed extensively and effectively enough to ensure that the company does not take risks that could endanger the continuity of its operations. The internal audit, the third line of defence, conducts supervision with the purpose of ensuring the effectiveness of risk management, internal control and governance processes. The Board must confirm the internal audit action plan annually.