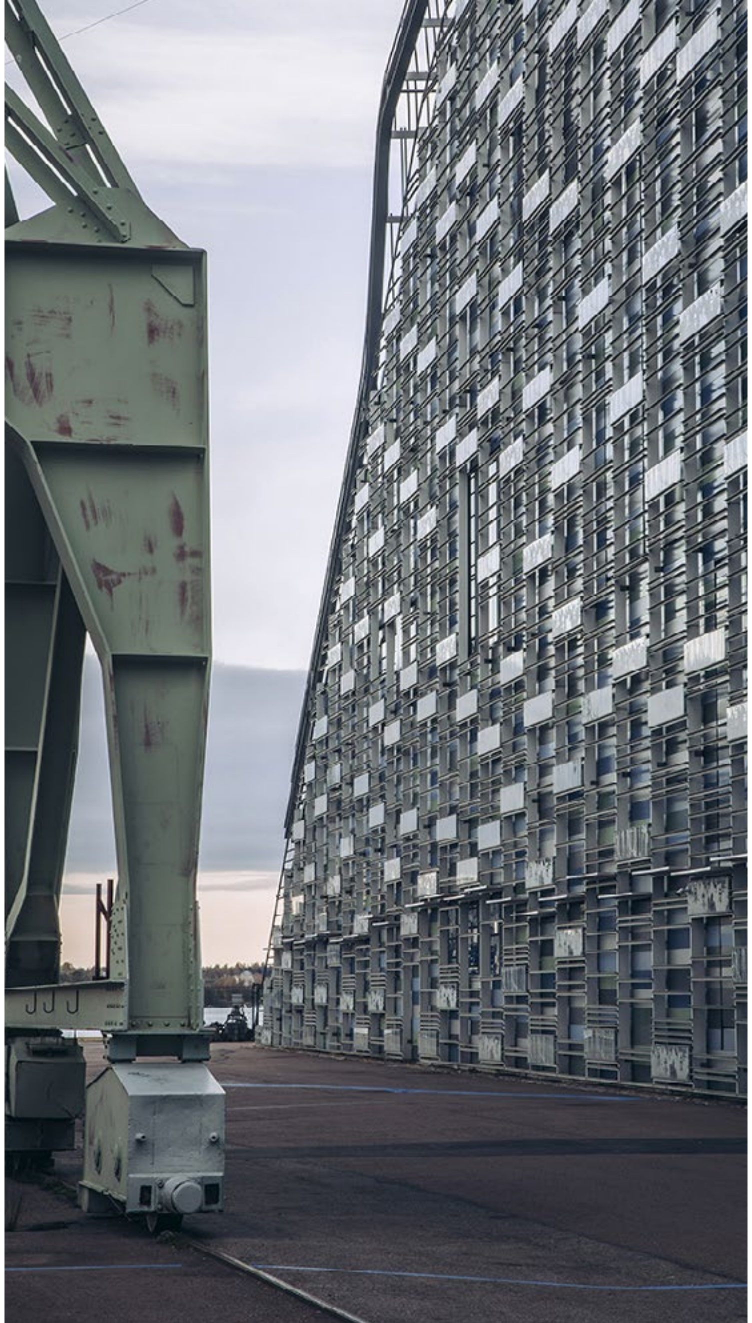
13 February 2020 at 2 pm. (EET)

Municipality Finance Plc Financial Statements Bulletin

1 January–31 December 2019

MuniFin



In brief: MuniFin Group in 2019

- **The Group's net operating profit excluding unrealised fair value changes** amounted to EUR 186 million (EUR 190 million), down 2.1% on the previous year. **The Group's net interest income** improved slightly to EUR 240 million (EUR 236 million). **Expenses** grew as expected and amounted to EUR 60 million (EUR 49 million, +22.8%).

- **Unrealised fair value changes** weakened the net operating profit for the financial year by EUR 54 million, whereas they had no impact on the result in the previous year (EUR 0 million). Taking into account these valuations, Group's net operating profit amounted to EUR 131 million (EUR 190 million).

- **The Group's capital adequacy** continued to strengthen and its CET1 capital ratio was 83.1% (66.3%). Tier 1 and total capital ratio were 107.9% (88.0%) at the end of 2019.

- **Leverage ratio** amounted to 4.0% (4.1%) at the end of December.

- **Long-term customer financing** grew by 8.0% (6.1%) and the portfolio amounted to EUR 24,798 million (EUR 22,968 million) at the end of the year. New loans withdrawn during the year totalled EUR 3,175 million (EUR 2,953 million). In the entire customer finance portfolio, the amount of green financing aimed at environmental investments totalled EUR 1,263 million (EUR 1,081 million).

- **New long-term funding** in January–December amounted to EUR 7,385 million (EUR 7,436 million). The total amount of funding was EUR 33,929 million (EUR 30,856 million) at the end of the year. At year-end, the total amount of green bonds issued amounted to EUR 1,478 million (EUR 978 million).

- **Liquid assets** grew by the end of the year to EUR 9,882 million (EUR 8,722 million). At the end of December, the Liquidity Coverage Ratio (LCR) was 430.2% (176.7%).

- **Return on equity** (ROE) declined due to unrealised fair value changes to 6.8% (10.8%).

- The Board of Directors proposes to the Annual General Meeting to be held in spring 2020 that EUR 0.16 per share be paid in **dividends**, totalling EUR 6,250,207.68. Dividends of EUR 6,250,207.68 were paid in 2019.

- **Outlook for 2020:** MuniFin expects that net operating profit excluding unrealised fair value changes will be on a par with 2019. The adoption of IFRS 9 has led to a significant increase in the recognition of unrealised fair value changes in profit or loss, which increases the volatility of net operating profit. For more information on the outlook, see the section entitled "Outlook for 2020".

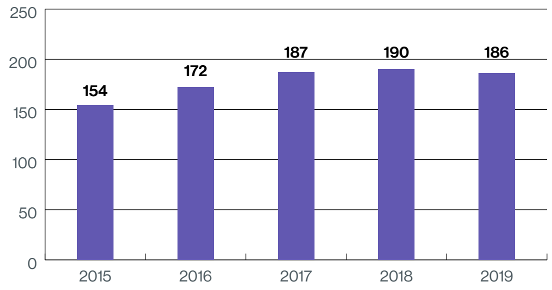
Key figures (Group)	31 Dec 2019	31 Dec 2018
Net operating profit excluding unrealised fair value changes (EUR million)*	186	190
Net operating profit (EUR million)*	131	190
Net interest income (EUR million)*	240	236
New loans withdrawn (EUR million)*	3,175	2,953
Long-term customer financing (EUR million)*	24,798	22,968
New long-term funding (EUR million)*	7,385	7,436
Balance sheet total (EUR million)	38,934	35,677
CET1 capital (EUR million)	1,162	1,065
Tier 1 capital (EUR million)	1,510	1,413
Total own funds (EUR million)	1,510	1,413
CET1 capital ratio, %	83.1	66.3
Tier 1 capital ratio, %	107.9	88.0
Total capital ratio, %	107.9	88.0
Leverage ratio, %	4.0	4.1
Return on equity (ROE), %*	6.8	10.8
Cost-to-income ratio*	0.3	0.2
Personnel	167	151

**Alternative Performance Measure*

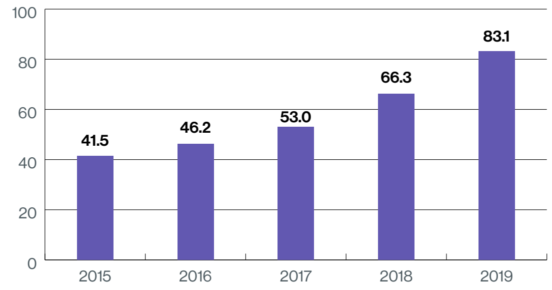
MuniFin Group defines the Alternative Performance Measures (APMs) to be financial measures that have not been defined in the IFRS standards or the capital requirements regulation (CRD/CRR). The APMs improve comparability between companies in the same sector and between reporting periods and provide valuable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

Definitions, calculation formulas and reconciliations of Alternative Performance Measures are presented in the Note of the Report of the Board of Directors. The Alternative Performance Measures are presented in the Group's financial reporting according to the guidelines by European Securities and Market Authority (ESMA). MuniFin Group's Annual Report will be published on 4 March 2020.

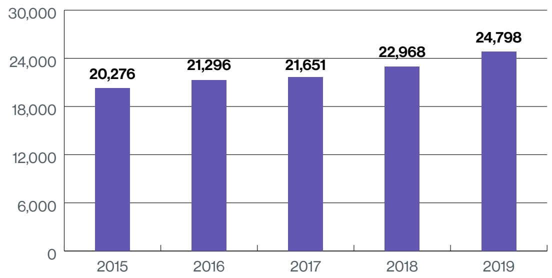
Net operating profit excluding unrealised fair value changes 2015–2019, EUR million



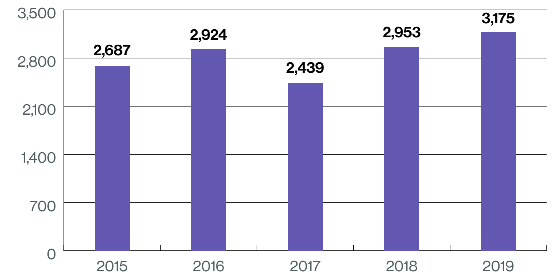
CET1 capital ratio 2015–2019, %



Long-term customer financing 2015–2019, EUR million



New loans withdrawn 2015–2019, EUR million



Comment on the 2019 financial year by President and CEO Esa Kallio

Uncertainty continued to prevail in the global economy in 2019, but the Finnish economy remained surprisingly robust. The development of local government finances was not as strong as that of the country's economy. This was a challenging year for municipalities due to the shortfall in tax revenues caused by the tax card and tax register reform.

The health and social services reform collapsed in the beginning of the year. Uncertainty still continues relating to municipal and hospital districts' investments in health and social services, even though the reform is on the agenda of the new Government. In spite of this uncertainty, investment needs are high, particularly in growing areas where there is pressure to develop infrastructure and the service network. Migration has gained momentum, which has also increased the need to step up state-subsidised housing production. Market-financed housing production decreased in 2019, but demand for housing in central cities has not declined, but in fact continues to increase.

MuniFin once again performed excellently in its funding. Our benchmark bonds were oversubscribed multiple times, including our fourth green bond. One of the reasons for this is that there is plenty of demand for safe investments around the world – but it also testifies to MuniFin's good reputation in the international capital market.

In line with our mission, we continued to invest in the development of digital services. With digital solutions, we seek to enhance the efficiency of both our own and our customers' operations and to give our customers and own experts access to a broader range of information. Information systems are also in need of development due to increasing regulation in our sector and the necessity to develop both the efficiency of our operations and knowledge-based management.

International investors are showing ever-greater interest in responsible investing and our Finnish customers have discovered the benefits of green finance. MuniFin was the first credit institution to launch green finance onto the Finnish market and the first Finnish green bond issuer. The company continues investments into sustainable finance by preparing a new social finance product that we are launching in 2020. Social finance is meant for investments in non-profit housing production promoting equality and sense of community, as well as investments in wellbeing and education.

MuniFin celebrated its 30th anniversary in 2019 – this was a financially stable year of renewal for the company. I would like to thank our customers and partners for these successes . I am particularly grateful for our staff for their commitment to the socially meaningful work that we do.

Esa Kallio
President and CEO
Municipality Finance Plc

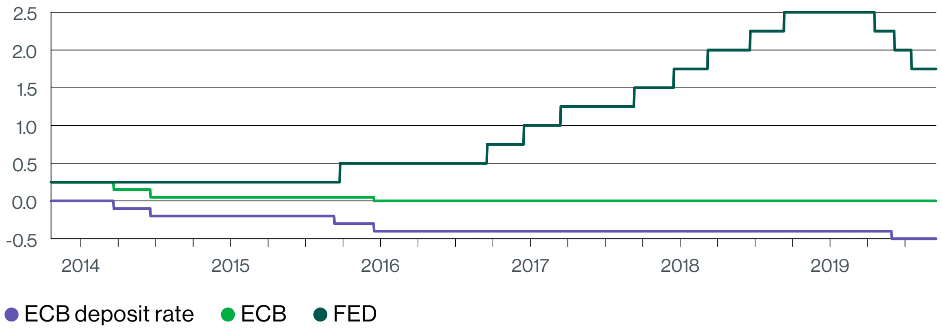
Operating environment in 2019

In 2019, growth in the global economy continued to slow down. The trade war between the United States and China started to reduce the volume of global trade, which plunged industry into recession in many economic areas. The political tensions caused by the trade war were reflected widely in economic confidence and companies' willingness to invest. The growing risk of a no-deal Brexit ramped up uncertainty in Europe.

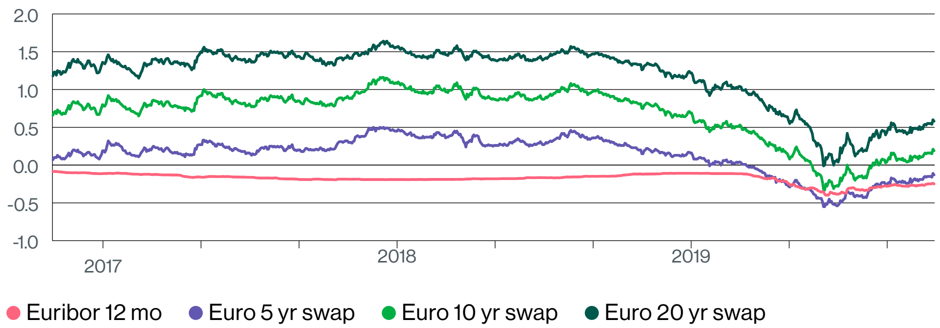
Due to the substantial deterioration of the outlook for the world economy, central banks rapidly changed course in their monetary policies in 2019. At the beginning of 2019, the U.S. Federal Reserve System – the Fed – was expected to continue raising its benchmark interest rate in 2019, but it ended up cutting rates three times during the year. The European Central Bank ECB also stepped up its economic stimulus measures towards the end of the year. The ECB decreased its deposit rate by 10 basis points to -0.50 per cent and announced that it will keep interest rates at either the current or lower level until the inflation target is reached. The ECB also resumed its purchases of securities, relaxed the terms of its TLTRO programme for banks and implemented a deposit tiering system to help banks.

The uncertainty posed by the trade war, Brexit and worries about the business cycle was at its peak in August–September, when market interest rates also fell to historical lows: At their lowest points, the 6-month Euribor dipped to -0.45 per cent, the German 10-year bund rate to -0.75 per cent and the eurozone 10-year swap rate to -0.33 per cent.

Central Bank policy rates



Euro area long-term swap rates and euribor (12 mo)

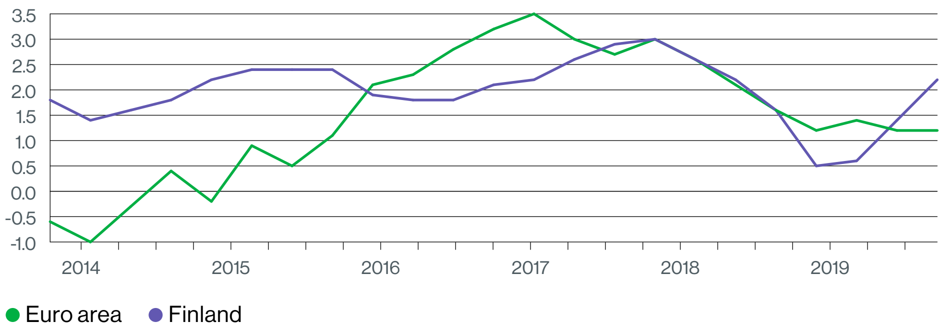


Towards the end of the year, the outlook for the global economy began to stabilise gradually. The trade war also de-escalated into a conciliatory phase and a no-deal Brexit was avoided. Positive development on the political and macroeconomic fronts during the fourth quarter shored up confidence in both the financial markets and real economy. Share prices recovered and interest rates started rising slightly. However, at the end of the year, interest rates were still significantly lower than in the beginning of the year.

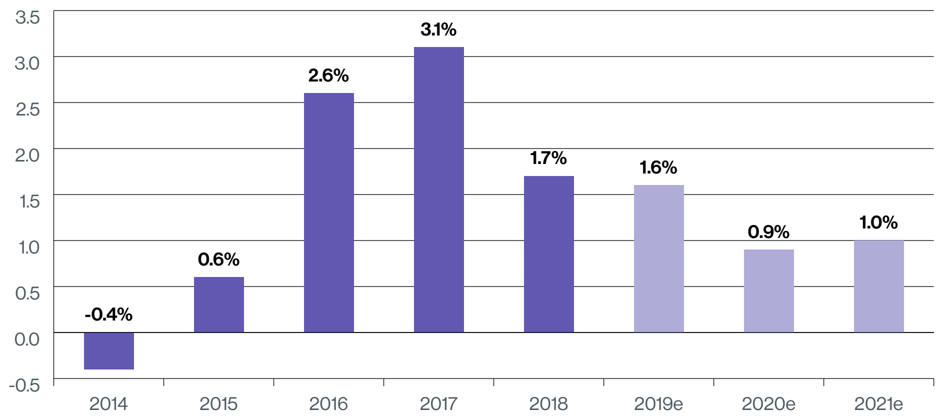
Finnish economic development outperformed expectations in 2019. Growth did not slow down in the line with the European economy, after all, but accelerated instead, especially around the middle of the year. Good employment situation and generous tax refunds in the autumn supported private consumption. The real estate market was also active. In foreign trade, service exports saw particularly nice growth.

The development of local government finances in 2019 was weaker than that of the Finnish economy in general. One of the underlying reasons was an unexpected – but temporary – shortfall in tax revenues due to the tax card and tax register reforms. Its impacts on local government finances will level off over time. However, at the same time, the operating expenses and investment needs of municipalities have grown.

Annual GDP growth rate



Finland's GDP growth rate and MuniFin's forecast 2019–2021



Information on Group results

Consolidated income statement (EUR million)	**1–12/2019**	**1–12/2018**	**Change, %**
Net interest income	240	236	1.7
Other income	6	2	205.0
Total income	**246**	**238**	**3.3**
Commission expenses	-4	-4	1.3
Personnel expenses	-18	-15	15.3
Other administrative expenses	-15	-12	22.6
Depreciation and impairment on tangible and intangible assets	-6	-2	165.0
Other operating expenses	-18	-15	14.7
Total expenses	**-60**	**-49**	**22.8**
Credit loss and impairments on financial assets	0	1	-95.1
Net operating profit excluding unrealised fair value changes	**186**	**190**	**-2.1**
Unrealised fair value changes	-54	0	14,320.8
Net operating profit	**131**	**190**	**-30.9**
Profit for the financial year	**105**	**152**	**-30.9**

Figures have been rounded, so the total of individual figures may differ from the total figure presented.

Group's net operating profit excluding unrealised fair value changes

The Group's core business operations remained strong during 2019. MuniFin Group's net operating profit excluding unrealised fair value changes saw a slight year-on-year decline, 2.1%, and amounted to EUR 186 million (EUR 190 million). Income grew by 3.3% year on year. The profit was reduced by growth in expenses, as expected.

Net interest income was up 1.7% on the previous year to EUR 240 million (EUR 236 million). Net interest income grew due to successful funding operations, growth in customer finance and a favourable interest rate environment. The Group's net interest income does not recognise the EUR 16.2 million in interest expenses of the AT1 capital loan through profit or loss, as the capital loan is treated as an equity instrument in the consolidated accounts. The interest expenses of the capital loan are treated similarly to dividend distribution, that is, as a decrease in retained earnings under shareholders' equity upon realisation of interest payment on an annual basis.

Other income tripled from the previous year to EUR 6 million (EUR 2 million). Other income includes commission income, realised net income from securities and foreign exchange transactions, net income from financial assets measured at fair value through other comprehensive income and other operating income. The most significant item under the Group's other income was the turnover of the subsidiary Inspira.

The Group's expenses grew by 22.8% compared with the previous year and amounted to EUR 60 million (EUR 49 million) at the end of 2019.

Commission expenses totalled EUR 4 million (EUR 4 million) and primarily comprise of paid guarantee fees, custody fees and funding programme update fees.

Administrative expenses grew by 18.5% to EUR 32 million (EUR 27 million), of which personnel expenses comprised EUR 18 million (EUR 15 million) and other administrative expenses EUR 15 million (EUR 12 million). Administrative expenses were increased by growth in the number of employees at the Group's parent company. The average number of parent company employees during the financial year was 151, as compared to 135 in the previous year. The personnel count has risen because banking regulation has led to a continuous need to develop the company's risk management, administration and processes as well as due to major development investments. The growth in other administrative expenses has been influenced by the company's investments in ensuring the operational reliability of information systems and developing customer service and the service offering. During the report year, MuniFin signed outsourcing agreements for information system end-user and infrastructure services as well as to ensure the operational reliability of business systems and to improve the availability of services. A project to implement outsourcing procedures is under way and is expected to be completed in 2020.

Depreciation and impairment on tangible and intangible assets amounted to EUR 6 million at the end of 2019 (EUR 2 million). The increase in depreciation is largely due to strong investments in system development in recent years. MuniFin also updated its depreciation principles during the financial year. As a result, an additional cost item of EUR 2.5 million was recognised in depreciation and certain other cost items.

Other operating expenses increased by 14.7% year-on-year to EUR 18 million (EUR 15 million). Growth in other operating expenses was mainly due to costs related to systems and process development. Fees collected by the authorities decreased by EUR 0.3 million (-4.7%) compared to the previous year and amounted to EUR 7 million (EUR 7 million).

The amount of expected credit losses (ECL) calculated in accordance with IFRS 9 decreased during the financial year, and the change recognised in the profit was EUR 0 million (EUR 1 million).

Group's result and unrealised fair value changes

Taking unrealised fair value changes into account, net operating profit in 2019 was EUR 131 million (EUR 190 million). Unrealised fair value changes weakened MuniFin's net operating profit by EUR 54 million during the financial year; in the previous year, they had no impact (EUR 0 million). Unrealised fair value changes account for EUR 54 million of the EUR 59 million weakening in net operating profit. In 2019, net income from hedge accounting amounted to EUR -19 million (EUR 28 million) and unrealised net income from securities transactions to EUR -35 million (EUR -27 million). The Group's profit for the financial year totalled EUR 105 million (EUR 152 million).

The Group's comprehensive income includes unrealised fair value changes of EUR 28 million (EUR 72 million). During the financial year, the most significant item affecting the comprehensive income was a net change in Cost-of-Hedging totalling EUR 17 million (EUR 28 million). The fair value change due to changes in own credit risk associated with financial liabilities designated at fair value through profit or loss amounted to EUR 10 million (EUR 49 million).

On the whole, unrealised fair value changes net of deferred tax decreased the amount of consolidated equity by EUR 21 million (EUR +57 million) and CET1 capital net of deferred tax in capital adequacy by EUR 28 million (EUR +19 million).

The adoption of IFRS 9 at the beginning of 2018, and the related changes in preparation and valuation principles, have significantly increased volatility of unrealised fair value changes, as financial instruments are increasingly measured at fair value. Changes in fair value reflect the temporary impact of market conditions on the valuation levels of financial instruments on the reporting date. Unrealised fair value changes may vary significantly from one reporting period to another, causing increased volatility in profit, equity and own funds in capital adequacy calculations.

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

The Group's effective tax rate during the financial year was 20.0% (20.0%). Taxes in the consolidated income statement amounted to EUR 26 million in 2019 (EUR 38 million). The Group's full-year return on equity (ROE) was 6.8% (10.8%). Excluding unrealised fair value changes, ROE was 9.6% (10.7%).

Parent company's result

MuniFin's total net interest income at year-end was EUR 224 million (EUR 220 million) and net operating profit stood at EUR 115 million (EUR 174 million). The profit after appropriations and taxes was EUR 8 million (EUR 22 million). The interest expenses of EUR 16.2 million for 2019 on the AT1 capital loan, which forms part of Additional Tier 1 capital in capital adequacy calculation, have been deducted in full from the parent company's net interest income (EUR 16.2 million). In the parent company, the AT1 capital loan has been recorded under the balance sheet item "*Subordinated liabilities*". The balance sheet of the parent company at the end of the year was EUR 38,933 million (EUR 35,676 million).

Inspira

The turnover of MuniFin's subsidiary Inspira was EUR 3.5 million for 2019 (EUR 2.5 million), and its net operating profit amounted to EUR 0.2 million (EUR 0.0 million).

Information on the Group balance sheet

Consolidated statement of financial position (EUR million)	**31 Dec 2019**	**31 Dec 2018**	**Change, %**
Cash and balances with central banks	4,909	3,522	39.4
Loans and advances to credit institutions	818	1,381	-40.7
Loans and advances to the public and public sector entities	24,798	22,968	8.0
Debt securities	5,716	5,863	-2.5
Derivative contracts	2,245	1,539	45.9
Other items included in the assets	446	405	10.3
Total assets	**38,934**	**35,677**	**9.1**
Liabilities to credit institutions	1,178	823	43.3
Liabilities to the public and public sector entities	3,862	3,871	-0.2
Debt securities issued	29,984	26,902	11.5
Derivative contracts	1,762	2,205	-20.1
Other items included in the liabilities	554	390	42.0
Total equity	1,594	1,486	7.3
Total liabilities and equity	**38,934**	**35,677**	**9.1**

The consolidated balance sheet saw growth of 9.1% from the end of 2018 (2.7%) and amounted to EUR 38,934 million at the end of 2019 (EUR 35,677 million). The increase in the assets is primarily due to growth in the lending and leasing portfolio, deposits with the Bank of Finland and valuation of derivatives. The growth of liabilities is due to increased funding and is shown in "*Liabilities to credit institutions*" and "*Debt securities issued*".

Equity at the end of the year stood at EUR 1,594 million (EUR 1,486 million), including the AT1 capital loan of EUR 347 million (EUR 347 million). Equity increased due to profit for the financial year. In addition, in the consolidated accounts interest expenses amounting to EUR 12.6 million net of deferred tax on the AT1 capital loan (EUR 12.6 million) were deducted from the equity, and the dividends of EUR 6.3 million paid to MuniFin shareholders for the 2018 financial year were likewise deducted (EUR 6.3 million).

Financing and other services for customers

MuniFin is the only credit institution in Finland which specialises in the financing for the local government sector and state-subsidised housing production, and is by far the largest financier for its customer base. 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). All loans granted by MuniFin have the risk level associated with Finnish public sector entities and a risk-weight of 0% in capital adequacy calculations. The Group offers its customers diverse financing services, as well as comprehensive support for investment planning and financial management.

Demand for MuniFin's financing saw year-on-year growth. More new loans were withdrawn than in the previous year, EUR 3,175 million (EUR 2,953 million).

One of the factors affecting demand for financing was an unexpected – but temporary – shortfall in tax revenues due to the tax card and tax register reforms. Its impacts on local government finances will level off over time. However, at the same time, the operating expenses and investment needs of municipalities have grown. Changes in service needs call for investments in municipal infrastructure, traffic arrangements and the development of the service network – this increases the need for investments, particularly in growth centres. Migration to growth centres is gaining momentum, maintaining the need to build reasonably priced rental housing.

MuniFin's long-term customer financing grew by 8.0% (6.1%) and amounted to EUR 24,798 million (EUR 22,968 million) at the end of 2019. This figure includes long-term loans and leasing. Long-term customer financing excluding unrealised fair value changes grew by 7.4% (6.0%) and amounted to EUR 24,458 million (EUR 22,783 million) at the end of the year.

In the entire customer finance portfolio, the amount of green financing aimed at environmental investments totalled EUR 1,263 million (EUR 1,081 million). MuniFin was the first credit institution in Finland to launch green finance onto the market in 2016. The projects are approved by the Green Evaluation Team, which consists of independent experts. The company continues its investments into sustainable finance by preparing a new social finance product that is launched in 2020. Social finance is meant for certain investments in non-profit housing production promoting equality and sense of community, as well as investments in wellbeing and education.

The company's year-end balance sheet included EUR 804 million in municipal papers and municipal commercial papers issued by municipalities and municipal companies (EUR 726 million).

MuniFin continued to expand its range of digital services for customers. The company offers a wide range of services for financing management, analysis and reporting. In the development of its e-services in 2019, MuniFin focused especially on services for financial forecasting and modelling.

Funding and liquidity management

MuniFin's funding strategy is to diversify its funding sources, which aims to ensure the availability of its funding under all market conditions. MuniFin actively diversifies its funding across different currencies, maturities, geographical areas and investor groups. Active long-term cooperation with investors has increased name recognition of MuniFin in different markets.

At the beginning of 2019, the situation on the international capital markets was challenging due to economic uncertainties and there was upward pressure on the credit risk premiums of bonds. In addition to credit risk premiums, there was significant volatility on the fixed-income markets. The weakening global economy and actions of central banks impacted on interest rates. Short- and long-term interest rates were at a lower level at the end of the year than at the beginning. In spite of these challenging market conditions, MuniFin succeeded very well in its funding transactions.

The main focus in MuniFin's funding is on public arrangements. All four benchmark bonds issued during 2019 were oversubscribed substantially. Two of the benchmark bonds were denominated in euros and two in US dollars. The USD 1.25 billion benchmark bond issued in September was oversubscribed almost threefold, which made it MuniFin's most sought-after benchmark bond measured by the size of the order book.

In 2019 MuniFin's long-term bonds issuance totalled EUR 7,385 million (EUR 7,436 million). MuniFin's short-term debt instruments under the Euro Commercial Paper (ECP) programme amounted to EUR 2,728 million at the end of the year (EUR 3,062 million).

Total funding at the end of 2019 amounted to EUR 33,929 million (EUR 30,856 million). Of this amount, 34% was denominated in euros (30%) and 66% in foreign currencies (70%). During the year, the company issued bonds denominated in 11 different currencies (11 currencies).

MuniFin acquires all of its funding from the international capital market. In total, 198 long-term funding arrangements were made in 2019 (260).

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

Medium Term Note (MTN) programme	EUR 35,000 million
Euro Commercial Paper (ECP) programme	EUR 7,000 million
AUD debt programme (Kangaroo)	AUD 2,000 million

MuniFin's funding is guaranteed by the Municipal Guarantee Board, which has the same credit ratings from Moody's and Standard & Poor's as MuniFin and the Finnish central government. The Municipal Guarantee Board is a public-law institution whose members are all Finnish mainland municipalities. The members are responsible for the liabilities of the Guarantee Board in proportion to their population. The Municipal Guarantee Board has granted guarantees for the debt programmes, as well as for funding arrangements outside the programmes. Based on this, debt instruments issued by MuniFin are classified as zero-risk when calculating the capital adequacy of credit institutions and solvency of insurance companies, and as Level 1 liquid assets in liquidity calculation in the EU.

Liquidity remained strong. MuniFin's investment operations mostly comprise the management of prefunding. The funds are invested in liquid and highly rated financial instruments, so as to ensure business continuity under all market conditions.

According to the company's liquidity policy, its liquidity must be sufficient to cover the needs of continued undisturbed operations (including new net customer financing) for at least the following 12 months.

At the end of 2019, total liquidity was EUR 9,882 million (EUR 8,722 million). Investments in securities totalled EUR 4,922 million (EUR 5,146 million) and their average credit rating was AA+ (AA). The average maturity of the investment portfolio stood at 2.3 years at year-end (2.1 years). In addition to this, MuniFin had EUR 4,960 million in other investments (EUR 3,576 million), of which EUR 4,936 million were in central bank deposits (EUR 3,554 million) and EUR 24 million in money market deposits in credit institutions (EUR 22 million). The company invests cash collateral received on the basis of derivative collateral agreements primarily in short-term money market investments.

MuniFin monitors the responsibility of its liquidity investments with ESG ratings (Environmental, Social and Governance). At the end of 2019, MuniFin's liquidity investments had an ESG average of 53.0 on a scale of 1–100 (50.9). The benchmark index is 50.6 (50.8). In addition to monitoring the ESG scores of its investments, MuniFin has socially responsible investments. Socially responsible investments amounted to EUR 150 million of the liquidity portfolio at the turn of the year, accounting for 3.1% of all investments in securities. MuniFin has a higher ratio of socially responsible investments than the market benchmark (1.9%). The ratio of socially responsible investments to MuniFin's own green funding was 10%.

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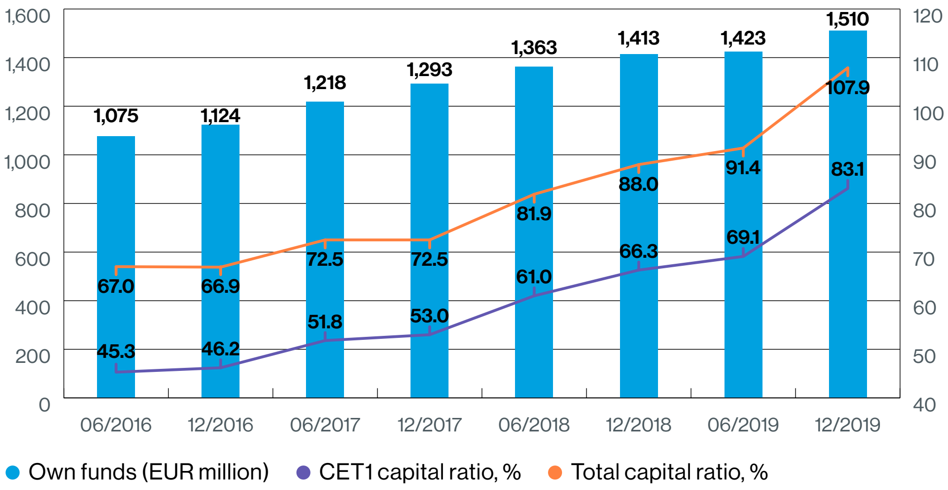
Capital adequacy

At the end of 2019, the MuniFin Group's total capital ratio was 107.9% (88.0%) and its CET1 capital ratio was 83.1% (66.3%). The total capital ratio rose by 19.9 percentage points compared with the end of 2018 due to a reduction in risk-weighted assets and an increase in own funds. The Group's capital adequacy has remained strong and is many times higher than the statutory minimum capital adequacy requirements set by the authorities. MuniFin's own funds exceed the minimum requirement set in legislation by EUR 1,332 million (EUR 1,221 million), taking valid capital buffers into account.

At the end of the year, MuniFin Group's Common Equity Tier capital (CET1) amounted to EUR 1,162 million (EUR 1,065 million) and Tier 1 capital (T1) to EUR 1,510 million (EUR 1,413 million). There was no Tier 2 capital, and the Group's own funds totalled EUR 1,510 million (EUR 1,413 million).

Common Equity Tier 1 capital includes the profit for the financial year, as the result for the financial year has been subject to a financial review by the auditors and can, therefore, be included in CET1 capital based on the permission granted by the ECB in accordance with the Capital Requirements Regulation.

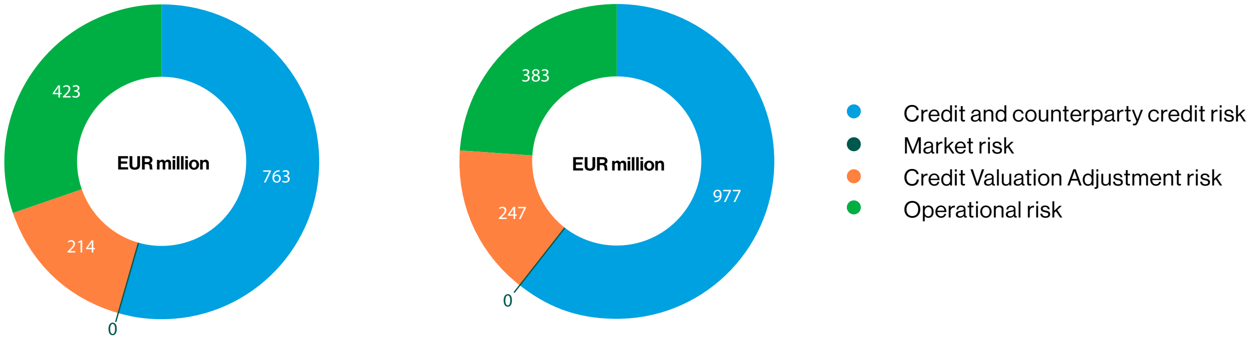
Group's own funds and capital ratio



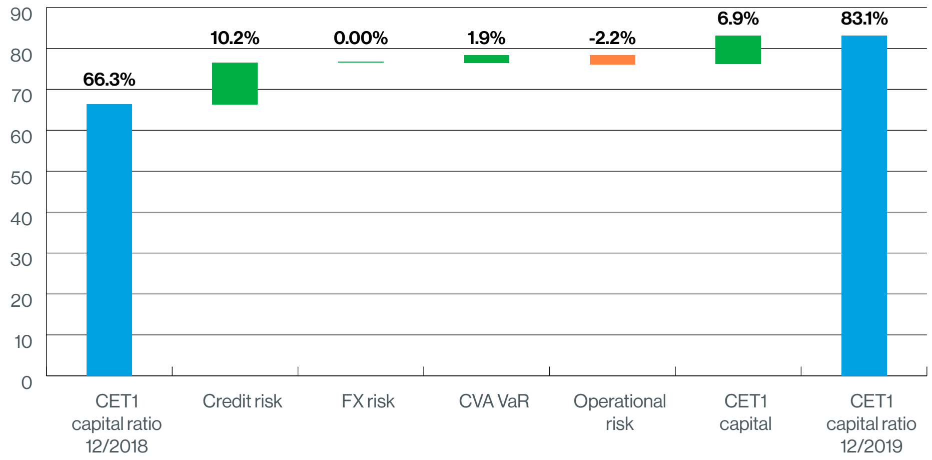
The Group's risk exposure amount decreased by 12.9% since the end of 2018 and amounted to EUR 1,400 million at year-end (EUR 1,606 million). The credit and counterparty risk decreased from the year-end 2018 figure of EUR 977 million to EUR 763 million at the end of 2019. This was particularly affected by the decrease in the risk weights of liquidity portfolio. There was no market risk at the end of 2019 or in the comparison year, as the currency position was less than 2% of own funds and therefore, based on Article 351 of the Capital Requirements Regulation (CRR), the own funds requirement for market risk has not been calculated. The credit valuation adjustment risk (CVA VaR) declined to EUR 214 million (EUR 247 million). The amount of derivatives cleared under central counterparty clearing increased significantly during the year, which in turn decreased the exposure value of the derivatives under the credit valuation adjustment risk. The counter value of operational risk increased by 10.4% to EUR 423 million due to an increase in the profit indicator (EUR 383 million).

Total risk exposure amount 12/2019, EUR 1,400 million

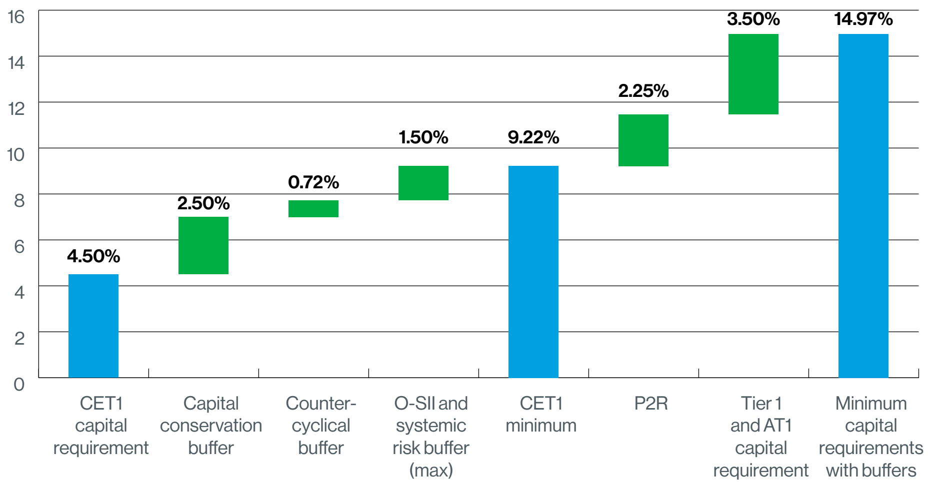
Total risk exposure amount 12/2018, EUR 1,606 million



CET1 capital ratio changes



Minimum capital requirements and capital buffers, %



Minimum capital requirements and capital buffers
The minimum capital requirement for capital adequacy is 8% and for 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 December 2019, it decided not to impose a countercyclical capital buffer. In June 2018, the Financial Supervisory Authority made a macroprudential decision on structural additional capital requirements, and an additional capital requirement of 1.5% based on a systemic risk buffer was set for MuniFin. This new requirement became effective on 1 July 2019. The systemic risk buffer and the O-SII additional capital requirement are parallel buffers, of which the greater is applied. The systemic risk buffer requirement is reviewed annually, and the Financial Supervisory Authority confirmed in June 2019 that it would maintain MuniFin's requirement as from 1 July 2020 as well. For MuniFin, the credit institution-specific countercyclical capital buffer requirement imposed based on the geographical distribution of exposures is 0.72%. Therefore, the minimum requirement for CET1 capital adequacy is 9.22% and the minimum requirement for overall capital adequacy 12.72%.

In addition to the above, as part of the annual supervisor's review (SREP), the European Central Bank has imposed an additional capital requirement of 2.25% (P2R) on MuniFin, effective from 1 March 2019. At the end of December 2019, the minimum level of CET1 capital adequacy was 11.47% when taking account of the P2R additional capital requirement, and the minimum level of overall capital adequacy was 14.97%.

The P2R additional capital requirement is reviewed annually by the ECB. In November 2019, the ECB confirmed that it will maintain MuniFin's P2R requirement unchanged at 2.25% as from 1 January 2020.

Leverage ratio and liquidity coverage ratio

At the end of the year, MuniFin's leverage ratio was 4.0% (4.1%), calculated according to the current accounting principles (CRR I). Negative unrealised fair value changes contributed to the slight weakening of the leverage ratio in the financial year. The minimum requirement for the leverage ratio is 3% effective as from June 2021. Changes in regulation of the leverage ratio are described in the section "Changes in the regulation of leverage ratio and capital requirements".

At the end of December, the liquidity coverage ratio (LCR) was 430.2% (176.7%). The minimum liquidity coverage ratio is 100%.

MuniFin is also preparing for the Net Stable Funding Ratio (NSFR), which will take effect in June 2021. At the end of 2019, MuniFin's NSFR was 116.3% (110.5%) as calculated according to current interpretations. The minimum NSFR is 100%.

Changes in the regulation of leverage ratio and capital requirements

The long-prepared changes in bank capital adequacy regulations (CRR II and CRD V) were adopted by the European Parliament in April 2019 and, to a large extent, these changes will be applicable in June 2021. This amendment also includes a leverage ratio requirement, whereby a credit institution's leverage ratio must be at least 3%. MuniFin has been preparing for several years for the introduction of the leverage ratio requirement, and its leverage ratio exceeds the required 3%, being 4.0% at the end of December (4.1%).

According to the adopted regulations, a public development credit institution may, from June 2021, deduct in the calculation of leverage ratio all credit receivables from central government and local government. Based on self-assessment, MuniFin has determined that it fulfils the definition of a public development credit institution. Should the definition be fulfilled, the changes in CRR II would have a significant positive effect on MuniFin's leverage ratio. According to preliminary estimates, the other changes in this package will have a less significant effect on the leverage ratio.

The amendment is not expected to substantially alter MuniFin's capital adequacy position. MuniFin Group's CET1 capital ratio at the end of December was very high at 83.1%; even after the entry into force of CRR II and CRD V, the CET1 capital ratio is estimated to remain at a very high level.

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

MuniFin's crisis resolution authority is the EU's Single Resolution Board (SRB). The SRB has for the time being decided not to impose a binding Minimum Requirement for own funds and Eligible Liabilities (MREL) on MuniFin, but considers that, taking into account MuniFin's business model, any crisis situations of the company are governed by national statutory procedures. The decision is positive for MuniFin, and it identifies well the specificities of the company's business operations, such as the Municipal Guarantee Board's guarantee for bonds issued by MuniFin. The Single Resolution Board (SRB) has preliminarily estimated that a binding minimum requirement may be imposed on MuniFin at a later date, corresponding to the company's capital adequacy requirement and the binding buffer requirements related to it.

Risk management

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 conservative principles in its risk management. The aim is to keep the overall risk status at such a low level that the parent company's strong credit rating is not compromised.

The significant risks associated with the Group's operations are credit and counterparty risk, market risk and liquidity risk. All operations also involve material strategic risks and operational risks, including compliance risk.

The Group's risk position

There were no material changes in the Group's risk appetite in 2019. Risks remained within the limits set during the financial year, and the risk position remained stable. The IFRS 9 standard adopted at the beginning of 2018 has increased the volatility of financial results through unrealised fair value changes of financial instruments. MuniFin continuously monitors and analyses the volatility arising from valuations and prepares for any impacts it may have on profit and capital adequacy.

Credit risks are part of MuniFin's business. Due to the nature of the customer base, the credit risks are minor but it is impossible to entirely eliminate them from operations. MuniFin's credit risks primarily emerge from customer financing and the receivables of the liquidity portfolio and the derivatives portfolio. MuniFin offers to its customers derivatives for hedging purposes to cover their interest rate risk positions. MuniFin has made offsetting derivatives in the interbank market. Derivatives are only used for hedging against market risks. MuniFin's credit risk position remained stable during the year, with a low risk level.

In view of its credit risk mitigation techniques (mortgage collateral and guarantees received), MuniFin is not exposed to customer risk in its customer financing, and thus the customer risk of no single customer exceeded 10% of own funds. The amount of expected credit losses declined during the year, and a EUR 0.03 million change in expected credit losses was recognised through profit or loss at the end of December. The amount of forborne loans at the end of 2019 was EUR 33 million, which is EUR 29 million lower than in the comparison year. At the end of December, MuniFin had non-performing exposures of EUR 62 million to which MuniFin has absolute guarantees by municipalities or mortgage collateral and guarantees from municipalities and/or the state. Non-performing exposures represented 0.3% of total customer exposures (0.0%).

Market risks include interest rate, exchange rate, and other market and 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 interest rate types applicable to the receivables and liabilities in the balance sheet. Interest rate risk is actively monitored and hedged, such as by measuring the earnings risk and economic value of equity. Eight scenarios are used in the calculation of the earnings risk and the most unfavourable outcome is considered. Earnings risk at the end of 2019 was EUR -14 million (EUR -8 million). Several scenarios are also used in the calculation of the economic value of equity, and the most unfavourable outcome is considered. Economic value of equity at the end of December was EUR -114 million (EUR -37 million).

MuniFin hedges against exchange rate risks by using derivative contracts to swap all foreign currency denominated funding and investments into euros. The company is not in practice exposed to exchange rate risks in its operations. However, a small temporary exchange rate risk may arise due to collateral management in the clearing of derivatives by central counterparties. This exchange rate risk is actively monitored and hedged. Derivatives are also used to hedge against other market and price risks. Derivatives can only be used for hedging purposes, as MuniFin is not engaged in trading activities. The Group's market risk has remained stable, even though the profit and loss volatility of unrealised valuations of financial instruments has increased during the past few years due to the adoption of IFRS 9.

MuniFin manages the refinancing risk by limiting the average maturity between financial assets and liabilities. In addition, the company manages the liquidity risk by setting a limit for the minimum adequacy of the available short- and long-term liquidity. Survival horizon ratio was 13.6 months (13.2 months) at the end of 2019. MuniFin's liquidity is good and the availability of financing has remained solid during the entire year. In January–December 2019, MuniFin issued EUR 7,385 million in long-term funding (EUR 7,436 million).

Operational risks are estimated to be at a moderate level. No material losses were incurred as a result of operational risks in 2019.

MuniFin credit ratings

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

MuniFin's credit ratings correspond to the Finnish sovereign ratings. MuniFin's credit ratings did not change during the financial year.

Personnel

MuniFin Group employed 167 people at the end of December 2019 (151), of whom 156 worked for the parent company (141). Personnel grew as planned. Salaries and remuneration paid to the personnel totalled EUR 14.5 million in the Group (EUR 12.5 million).

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

During the financial year, Harri Luhtala was appointed as the new CFO and a member of the MuniFin Executive Management Team in May 2019 to replace Marjo Tomminen. Aku Dunderfelt was appointed as the Executive Vice President, Customer Finance and as a member of the Executive Management Team. He entered MuniFin's employment in August 2019. He was appointed to replace Jukka Helminen.

Board of Directors

Members of the Board of Directors for the term that continues until the end of the following AGM:

- Helena Walldén, Chair of the Board
- Tuula Saxholm, Vice Chair of the Board
- Maaria Eriksson
- Raija-Leena Hankonen
- Minna Helppi
- Markku Koponen
- Jari Koskinen
- Kari Laukkanen
- Vivi Marttila

Outlook for 2020

2020 began on a more positive note for the international economy than the previous year. On the basis of trend indicators, the global economy will most likely ride out its weakest phase during the winter and expectations of gradual recovery have strengthened. However, economic growth in 2020 will be slower than the long-term trend. In Europe, the situation is still affected by the hard-to-predict impacts of Brexit.

Problems in the global economy have a delayed impact on Finland – slowdown in growth still largely lies ahead. Economic momentum is losing steam, which is already evident in the stalled growth of goods exports and the decline in new orders in industry. The improvement in the employment rate has in practice also come to a standstill. Going forward, economic growth in Finland will be slowed particularly by the cooldown in new construction. That said, non-profit housing production financed by MuniFin will in all likelihood remain at the same level as in previous years. GDP growth is currently expected to decline to around one per cent, or even slightly less, in 2020. In spite of the slowdown in economic growth, municipalities remain under pressure to invest, especially in growth centres.

Preparations for the health and social services reform have been ongoing in Finland for a long time. The reform is also on the agenda of the current Government. However, it is challenging to assess its overall effects on MuniFin's customers and operations, as no concrete proposals or decisions have as yet been made about the reform. The reform is not currently expected to have a fundamental impact on MuniFin's operating volumes in 2020.

In 2020, MuniFin will continue to put major effort into developing its systems in order to further enhance its efficiency and operations, as well as on the digitisation of services. MuniFin expects that costs will rise year-on-year, particularly due to these outlays on information system development.

According to the bank capital adequacy regulations (CRR II) adopted in 2019 and applicable in June 2021 onwards, a public development credit institution may in the leverage ratio calculation deduct all credit receivables from the Sovereign and municipalities. Based on the self-assessment, MuniFin has determined that it fulfils the definition of a public development credit institution. Should the definition be fulfilled, the changes in CRR II would have a significant positive effect on MuniFin's leverage ratio.

Considering the above factors, and assuming that the trend in market rates and credit risk premiums does not deviate significantly from forecasts, MuniFin expects that net operating profit excluding unrealised fair value changes will be on a par with 2019. The adoption of IFRS 9 has led to a significant increase in the recognition of unrealised fair value changes in profit or loss, which increases the volatility of net operating profit.

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

Proposal from the Board of Directors concerning profit for the financial year 2019

Municipality Finance Plc has distributable funds of EUR 135,368,162.93, of which the profit for the financial year totalled EUR 7,750,348.23.

The Board of Directors proposes to the Annual General Meeting that

- EUR 0.16 per share be paid in dividends, totalling EUR 6,250,207.68, and that
- the distributable funds of EUR 129,117,955.25 be retained in equity.

The profit for the financial year is good, albeit smaller than previous year. The Board of Directors considers the payment of this dividend to be a strongly grounded decision.

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

Dividends will be paid to shareholders who are recorded in the company's list of shareholders on 1 April 2020. The Board of Directors proposes that the dividends be paid on 6 April 2020.

Municipality Finance Plc

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

Consolidated income statement

Consolidated income statement (EUR 1,000)	**1 Jan–31 Dec 2019**	**1 Jan–31 Dec 2018**
Interest and similar income	766,581	711,731
Interest and similar expense	-526,326	-475,434
NET INTEREST INCOME	**240,255**	**236,297**
Commission income	3,490	2,395
Commission expense	-4,235	-4,180
Net income from securities and foreign exchange transactions	-33,373	-27,910
Net income on financial assets at fair value through other comprehensive income	114	38
Net income from hedge accounting	-19,097	27,645
Other operating income	135	66
Administrative expenses	-32,268	-27,225
Depreciation and impairment on tangible and intangible assets	-6,183	-2,333
Other operating expenses	-17,626	-15,368
Credit loss and impairments on financial assets	28	564
NET OPERATING PROFIT	**131,239**	**189,989**
Income tax expense	-26,307	-38,032
PROFIT FOR THE FINANCIAL YEAR	**104,932**	**151,958**

Statement of comprehensive income (EUR 1,000)	**1 Jan–31 Dec 2019**	**1 Jan–31 Dec 2018**
Profit for the financial year	104,932	151,958
Components of other comprehensive income		
Items not to be reclassified to profit or loss in subsequent periods		
Net fair value changes due to changes in own credit risk on financial liabilities designated at fair value through profit or loss	10,325	48,953
Net change in Cost-of-Hedging	17,299	27,693
Items to be reclassified to profit or loss in subsequent periods		
Net change in fair value on financial assets at fair value through other comprehensive income	308	-5,093
Net amount transferred to profit or loss from fair value reserve	-90	-162
Net changes in expected credit loss of debt instruments at fair value through other comprehensive income	-117	-96
Taxes related to components of other comprehensive income	-5,545	-14,259
Total components of other comprehensive income	22,181	57,035
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR	**127,113**	**208,993**

Consolidated statement of financial position

Consolidated statement of financial position (EUR 1,000)	31 Dec 2019	31 Dec 2018
ASSETS		
Cash and balances with central banks	4,909,338	3,522,200
Loans and advances to credit institutions	818,323	1,380,544
Loans and advances to the public and public sector entities	24,798,432	22,968,118
Debt securities	5,716,318	5,862,591
Shares and participations	9,797	9,521
Derivative contracts	2,244,997	1,538,610
Intangible assets	14,704	14,850
Tangible assets	9,041	2,427
Other assets	170,359	174,818
Accrued income and prepayments	242,450	203,061
TOTAL ASSETS	**38,933,758**	**35,676,739**

Consolidated statement of financial position
(EUR 1,000)

	31 Dec 2019	31 Dec 2018
LIABILITIES AND EQUITY		
LIABILITIES		
Liabilities to credit institutions	1,178,256	822,504
Liabilities to the public and public sector entities	3,862,053	3,870,918
Debt securities issued	29,983,585	26,901,998
Derivative contracts	1,762,010	2,205,427
Other liabilities	116,374	6,149
Accrued expenses and deferred income	180,917	148,377
Deferred tax liabilities	256,241	235,307
TOTAL LIABILITIES	**37,339,436**	**34,190,680**
EQUITY		
Share capital	42,583	42,583
Reserve fund	277	277
Fair value reserve of investments	807	726
Own credit revaluation reserve	12,985	4,726
Cost-of-Hedging reserve	28,075	14,235
Reserve for invested non-restricted equity	40,366	40,366
Retained earnings	1,121,774	1,035,692
Total equity attributable to parent company equity holders	**1,246,868**	**1,138,605**
Other equity instruments issued	347,454	347,454
TOTAL EQUITY	**1,594,321**	**1,486,059**
LIABILITIES AND EQUITY	**38,933,758**	**35,676,739**

Capital adequacy

Own funds, group and parent company (EUR 1,000)	Group		Parent company	
	31 Dec 2019	**31 Dec 2018**	**31 Dec 2019**	**31 Dec 2018**
Common Equity Tier 1 before adjustments	1,218,199	1,118,171	1,216,578	1,117,133
Adjustments to Common Equity Tier 1	-55,747	-52,715	-55,763	-52,769
COMMON EQUITY TIER 1 (CET1)	**1,162,452**	**1,065,455**	**1,160,816**	**1,064,363**
Additional Tier 1 capital before adjustments	347,454	347,454	348,896	348,406
Adjustments to Additional Tier 1 capital	-	-	-	-
ADDITIONAL TIER 1 CAPITAL (AT1)	**347,454**	**347,454**	**348,896**	**348,406**
TIER 1 CAPITAL (T1)	**1,509,906**	**1,412,909**	**1,509,712**	**1,412,770**
Tier 2 capital before adjustments	-	-	-	-
Adjustments to Tier 2 capital	-	-	-	-
TIER 2 CAPITAL (T2)	**-**	**-**	**-**	**-**
TOTAL OWN FUNDS	**1,509,906**	**1,412,909**	**1,509,712**	**1,412,770**

Key figures for capital adequacy, group and parent company	Group		Parent company	
	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
CET1 capital ratio, %	83.1	66.3	85.0	67.3
Tier 1 capital ratio, %	107.9	88.0	110.5	89.4
Total capital ratio, %	107.9	88.0	110.5	89.4

Minimum requirement of own funds, group (EUR 1,000)	31 Dec 2019		31 Dec 2018	
	Capital requirement	Risk exposure amount	Capital requirement	Risk exposure amount
Credit and counterparty risk, standardised approach	**61,038**	**762,976**	**78,128**	**976,596**
Exposures to central governments or central banks	-	-	-	-
Exposures to regional governments or local authorities	289	3,613	353	4,413
Exposures to public sector entities	-	-	4,807	60,086
Exposures to multilateral development banks	323	4,043	951	11,884
Exposures to institutions	37,847	473,090	52,470	655,875
Exposures in the form of covered bonds	20,676	258,456	18,986	237,323
Items representing securitisation positions	-	-	13	165
Exposures in the form of shares in CIUs	84	1,049	88	1,103
Other items	1,818	22,724	460	5,746
Market risk	**-**	**-**	**-**	**-**
Credit valuation adjustment risk (CVA VaR), standard method	**17,085**	**213,561**	**19,722**	**246,528**
Operational risk, basic indicator approach	**33,841**	**423,016**	**30,644**	**383,048**
Total	**111,964**	**1,399,553**	**128,494**	**1,606,172**

Minimum requirement of own funds, parent company
(EUR 1,000)

	31 Dec 2019		31 Dec 2018	
	Capital requirement	**Risk exposure amount**	**Capital requirement**	**Risk exposure amount**
Credit and counterparty risk, standardised approach	**61,090**	**763,631**	**78,249**	**978,115**
Exposures to central governments or central banks	-	-	-	-
Exposures to regional governments or local authorities	289	3,613	353	4,413
Exposures to public sector entities	-	-	4,807	60,086
Exposures to multilateral development banks	323	4,043	951	11,884
Exposures to institutions	37,833	472,917	52,466	655,825
Exposures in the form of covered bonds	20,676	258,456	18,986	237,323
Items representing securitisation positions	-	-	13	165
Exposures in the form of shares in CIUs	84	1,049	88	1,103
Equity exposures	131	1,639	131	1,639
Other items	1,753	21,912	454	5,676
Market risk	**-**	**-**	**-**	**-**
Credit valuation adjustment risk (CVA VaR), standard method	**17,085**	**213,561**	**19,722**	**246,528**
Operational risk, basic indicator approach	**31,081**	**388,508**	**28,487**	**356,092**
Total	**109,256**	**1,365,700**	**126,459**	**1,580,735**

MuniFin (Municipality Finance Plc) is one of Finland's largest credit institutions: the company's balance sheet totals nearly EUR 39 billion. The company is owned by Finnish municipalities, the public sector pension fund Keva and the Republic of Finland.

MuniFin's mission is to build a better future in line with the principles of responsibility and in cooperation with its customers. MuniFin's customers are Finnish municipalities, municipal federations, municipally controlled entities and non-profit housing organisations. Lending is used for environmentally and socially responsible investment targets such as public transportation, sustainable buildings, hospitals and healthcare centres, schools and day care centres, and homes for people with special needs.

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

The Municipality Finance Group also includes the subsidiary company, Financial Advisory Services Inspira Ltd.

Read more: www.munifin.fi

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