13 February 2019, at 2:00 p.m.

Municipality Finance Plc
Financial Statements Bulletin
1 January - 31 December 2018

2018 in Brief

- The Group's net operating profit without unrealised fair value changes grew by 1.2% and amounted to EUR 189.6 million at the end of the financial year (2017: EUR 187.4 million). Taking fair value changes into account, net operating profit was EUR 190.0 million (2017: EUR 198.4 million).
- The Group's net interest income grew by 3.4% from the previous year and amounted to EUR 236.3 million (2017: EUR 228.5 million).
- The balance sheet total grew by 2.7% and was EUR 35,677 million (2017: EUR 34,738 million) at the end of the year.
- The Group's capital adequacy continued to strengthen and CET1 capital ratio was 66.34% (2017: 53.01%). Tier 1 capital ratio and total capital ratio were 87.97% at the end of December (2017: 72.50%).
- At the end of December, the Group's leverage ratio amounted to 4.06% (2017: 3.84%).
- New loans withdrawn in the January-December period totalled EUR 2,953 million (2017: EUR 2,439 million). The lending portfolio amounted to EUR 22,354 million (2017: EUR 21,219 million). Of this amount, EUR 1,143 million had been withdrawn at the end of December 2018 as green finance targeted for environment-friendly investments (2017: EUR 803 million).
- The leasing portfolio increased 42.2% and amounted to EUR 614 million at the end of December (2017: EUR 432 million).
- In January-December, EUR 7,436 million was acquired in long-term funding (2017: EUR 9,510 million). The total amount of acquired funding was EUR 30,856 million (2017: EUR 30,153 million).
- At the end of December, total liquidity was EUR 8,722 million (2017: EUR 9,325 million).
- Return on equity (ROE) decreased slightly to 10.76% (2017: 12.57%).
- The Board of Directors proposes to the Annual General Meeting in spring 2019 that EUR 0.16 per share will be paid in dividends, totalling EUR 6,250,207.68. In 2018, a dividend of EUR 6,250,207.68 was paid.

KEY FIGURES (GROUP)	**31 Dec 2018**	**31 Dec 2017**
Net operating profit without unrealised changes in fair value (EUR million)	189.6	187.4
Net operating profit (EUR million)	190.0	198.4
Net interest income (EUR million)	236.3	228.5
New loans withdrawn (EUR million)	2,953	2,439
New funding acquisition (EUR million)	7,436	9,510
Balance sheet total (EUR million)	35,677	34,738
Common Equity Tier 1 (CET1) (EUR million)	1,065	946
Tier 1 capital (EUR million)	1,413	1,293
Total own funds (EUR million)	1,413	1,293
Ratio of Common Equity Tier 1 (CET1) to risk-weighted assets, %	66.34	53.01
Ratio of Tier 1 capital (T1) to risk-weighted assets, %	87.97	72.50
Ratio of total own funds to risk-weighted assets, %	87.97	72.50
Leverage ratio, %	4.06	3.84
Return on Equity (ROE), %	10.76	12.57
Cost-to-income ratio	0.21	0.18
Personnel	151	134

Comment on the Financial Year by President and CEO Esa Kallio:

2018 was a good year for MuniFin and its customers. Demand for financing grew slightly and our performance in funding was excellent. With our revamped customer strategy, we aim to provide even more suitable solutions.

Finland's economy continued to grow in 2018, although the pace slowed down towards the end of the year. Investment needs among our customers remained high, and thus we saw continued good demand for our financing, both among municipalities and in state-subsidised housing production. Migration to growth centres maintained the need for affordable rental housing.

The international economy was filled with uncertainties in 2018. These include the growing tension between major world powers, the threat of a trade war, Brexit turmoil and Italy's worrying debt situation, all of which will also have an impact on the capital markets in 2019. Despite the instability, we performed extremely well in our funding activities – we were successful in the timing of our benchmark bond issuances and they were in great demand among international investors.

Our strategy was revamped in 2017 and it extends to 2022. Our vision is to be the best possible financial expert for our customers in an ever-changing world. With this goal in mind, we polished our values and sharpened our customer strategy this year.

Our strategy is built on rock-solid foundations. In the future, we will continue to focus on financing the diverse needs of municipalities and state-subsidised housing production. With our new customer operations model, we seek to find solutions that are an even better fit for our customers' changing needs. We feel that our responsibility as a builder of an affluent society extends over the entire lifecycle of financing.

MuniFin's operating model is based on partnership. I would like to take the opportunity to thank our customers for our excellent cooperation, constantly developed together along the lines of the customers' expectations. MuniFin's own experts have worked throughout the year with strong commitment and I owe this year's good result to them.

Operating Environment in 2018

In 2018, trends in the Finnish and global economies remained generally favourable, but the rate of growth slowed down in many areas. Forecasting market trends was complicated by, among other things, the growing tensions between the major world powers, the consequent restrictions on international trade, and, in Europe, particularly by the risks posed by Italy's debt situation and the difficulties involved in the Brexit negotiations. However, these, and the ongoing uncertainties affecting global politics, did not have a major impact on the markets. In 2018, the European Central Bank ended net purchases under its purchase programme, but in spite of this plenty of liquidity was available in the market for most of the year, meaning that the availability of financing remained at a good level. However, towards the end of the year market liquidity weakened substantially compared with the beginning of the year.

Housing construction remained brisk in Finnish growth centres. Municipalities also stepped up their investments, and demand for financing grew towards the end of the year due to lower-than-anticipated municipal tax revenue. Changes in service needs ushered in investment pressures in growth centres with respect to municipal infrastructure, traffic arrangements, and schools and daycare centres. Also the property maintenance backlog was shortened around the country.

The regional government, health and social services reform did not progress as expected during the year. This uncertainty involves MuniFin's customer base, but it does not appear to have had a significant impact on the appetite for investment.

Credit ratings

The credit ratings of Moody's and Standard & Poor's and their outlooks for MuniFin did not change in 2018. The credit rating of MuniFin is the same as the state's credit rating: Standard & Poor's rating is AA+ and Moody's rating is Aa1. The ratings' outlooks are stable.

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

Income Statement and Statement of Financial Position

Municipality Finance Group

CONSOLIDATED INCOME STATEMENT (EUR million)	**1-12/2018 ***	**1-12/2017**	**Change, %**
Net interest income	236.3	228.5	3.4
Unrealised fair value changes	0.4	11.0	-96.5
Other income	1.9	1.8	5.6
Total income	**238.5**	**241.3**	**-1.1**
Commission expenses	-4.2	-4.1	2.7
Personnel expenses	-15.2	-13.6	12.1
Other administrative expenses	-12.0	-8.8	37.0
Depreciation and impairment on tangible and intangible assets	-2.3	-2.0	18.2
Other operating expenses	-15.4	-14.5	6.0
Total expenses	**-49.1**	**-42.9**	**14.5**
Expected credit losses (ECL)	0.6	-	-
Net operating profit	**190.0**	**198.4**	**-4.2**
Net operating profit without unrealised fair value changes	**189.6**	**187.4**	**1.2**

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

** The company has applied the IFRS 9 option to not restate prior periods, and thus the unrealised fair value changes for 2017 are not fully comparable due to reclassification.*

The Group's business operations remained strong during 2018. The Group's net operating profit without unrealised fair value changes amounted to EUR 189.6 million (2017: EUR 187.4 million). This was affected particularly by the year-on-year improvement in net interest income, but also by higher costs. Taking unrealised fair value changes into account, net operating profit was EUR 190.0 million (2017: EUR 198.4 million).

Net interest income grew by 3.4% to EUR 236.3 million (2017: EUR 228.5 million) at the end of the financial year. Growth of net interest income was due to successful funding operations, volume growth and a favourable interest rate environment for MuniFin's business operations. The Group's net interest income does not recognise the 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 payment on an annual basis.

Following the adoption of IFRS 9 at the beginning of 2018, MuniFin reclassified financial assets and liabilities. Due to reclassification, the unrealised fair value changes of financial instruments have increased the volatility of financial results. At year-end, the impact of the unrealised fair value changes on profit totalled EUR 0.4 million (2017: EUR 11 million), of which net income from hedge accounting amounted to EUR 27.6 million (2017: EUR 2.7 million). Unrealised net income from securities transactions totalled EUR -27.3 million (2017: EUR 8.3 million). The company has applied the IFRS 9 option to not restate prior periods, and thus the unrealised fair value changes for the previous year are not fully comparable due to reclassification.

The Group's expenses grew by 14.5% and amounted to EUR 49.1 million at the end of December (2017: EUR 42.9 million).

Commission expenses totalled EUR 4.2 million (2017: EUR 4.1 million) and primarily comprise paid guarantee fees, custody fees and funding programme update fees.

Administrative expenses were EUR 27.2 million (2017: EUR 22.3 million), of which personnel expenses comprised EUR 15.2 million (2017: EUR 13.6 million) and other administrative expenses EUR 12.0 million (2017: EUR 8.8 million). Administrative expenses were increased particularly by growth in the number of employees at the parent company. Due to increase in banking regulation, the company needs to develop its governance, risk management and processes. In addition, the company made substantial investments in developing customer service as well as service offerings and systems.

Depreciation and impairment on tangible and intangible assets amounted to EUR 2.3 million at the end of the financial year (2017: EUR 2.0 million).

Other operating expenses grew to EUR 15.4 million (2017: EUR 14.5 million). Growth in other operating expenses was mainly due to financial supervision costs paid to the ECB and to the Finnish Financial Supervisory Authority, and the contributions paid to EU-level crisis resolution fund.

Impairments of financial assets have been calculated as from the beginning of 2018 in accordance with the requirements of IFRS 9. The amount of expected credit losses (ECL) calculated in accordance with IFRS 9 decreased during the financial year compared with the amount booked at the time of IFRS 9 transition on 1 January 2018 and the change recognised in profit or loss was EUR 0.6 million at the end of the year.

The Group's comprehensive income includes unrealised fair value changes related to financial instruments due to the IFRS 9 transition that are not treated as fair value changes through profit or loss.

During the financial year, the largest items affecting the comprehensive income were a fair value change of EUR 49.0 million due to changes in own credit risk on financial liabilities designated at fair value through profit or loss as well as a net change in cost-of-hedging totalling EUR 27.7 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 fair value equity reserves.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (EUR million)	**31 Dec 2018**	**31 Dec 2017**	**Change, %**
Cash and balances with central banks	3,522	3,554	-0.9
Loans and advances to credit institutions	1,381	1,251	10.3
Loans and advances to the public and public sector entities	22,968	21,651	6.1
Debt securities	5,863	6,494	-9.7
Derivative contracts	1,539	1,433	7.3
Other assets	405	354	14.3
Total assets	**35,677**	**34,738**	**2.7**
Liabilities to credit institutions	823	802	2.5
Liabilities to the public and public sector entities	3,871	3,747	3.3
Debt securities issued	26,902	26,304	2.3
Derivative contracts	2,205	2,216	-0.5
Other liabilities	390	330	18.2
Total equity	1,486	1,339	10.9
Total liabilities and equity	**35,677**	**34,738**	**2.7**

The consolidated balance sheet saw growth of 2.7% from the end of 2017 and at the end of December 2018 amounted to EUR 35,677 million (2017: EUR 34,738 million). The increase in balance sheet assets is primarily due to growth in the lending and leasing portfolio. The growth of liabilities is due to increased funding and is shown in liabilities to credit institutions, liabilities to the public and public sector entities, and debt securities issued. Equity at the end of the year totalled EUR 1,486 million (2017: EUR 1,339 million), including the AT1 capital loan of EUR 347.4 million. Equity increased due to profit for the period. However, the transition to IFRS 9 as from 1 January 2018 decreased equity by EUR 43 million. In addition, in the consolidated accounts interest expenses amounting to EUR 12.6 million net of deferred tax on the AT1 capital loan were deducted from the equity upon the realisation of the interest payment in April, and the dividends of EUR 6.3 million paid to MuniFin shareholders were likewise deducted.

The Parent Company

At the end of 2018, MuniFin's net interest income was EUR 220.1 million (2017: EUR 212.3 million), and the company's net operating profit amounted to EUR 173.8 million (2017: EUR 181.9 million). The interest expenses of EUR 16.2 million for 2018 on the AT1 capital loan, which forms part of the Additional Tier 1 capital in capital adequacy calculation, have been deducted in full from the parent company's net interest income (2017: 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 amounted to EUR 35,676 million (2017: EUR 34,738 million).

Inspira

The turnover of MuniFin's subsidiary Inspira was EUR 2.5 million for 2018 (2017: EUR 2.7 million), while its net operating profit amounted to EUR 0.0 million (2017: EUR 0.2 million).

Business

Financing and other services for customers

MuniFin is the only credit institution in Finland which specialises in financing 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, municipal federations and municipality-controlled entities, as well as organisations and housing sites defined as not for profit by the Housing Finance and Development Centre of Finland (ARA). The company offers its customers versatile financing services, as well as comprehensive support for investment planning and financial management.

Demand for MuniFin's financing saw year-on-year growth. Changes in service needs in growth centres call for new investments in municipal infrastructure, traffic arrangements and the development of the service network, and shortening of the maintenance backlog. Demand for financing grew towards the end of the year, partly due to lower-than-anticipated municipal tax revenue. Migration to growth centres maintained the need for the construction of affordable rental housing.

The total of new loans withdrawn, EUR 2,953 million, was more than the year before (2017: EUR 2,439 million).

MuniFin's total customer financing year-on-year growth was 6.1% and amounted to EUR 22,968 million at year-end (2017: EUR 21,651 million). The long-term loan portfolio increased 5.3% and amounted to EUR 22,354 million at the end of the year (2017: EUR 21,219 million). Financial leasing portfolio increased 42.2% and amounted to EUR 614 million at year-end (2017: EUR 432 million). The largest share of portfolio growth is generated by property leasing agreements. Property leasing is typically used to finance school buildings, for instance.

Green finance, launched in 2016 to finance environmental investments, continued to attract interest, and the company has successfully increased awareness of the product among its customers. By the end of 2018, EUR 1,143 million in green finance had been withdrawn (2017: EUR 803 million). Whether or not a project fits in with the green finance framework is determined by an evaluation team comprising external experts.

The company's year-end balance sheet included EUR 726 million in municipal papers and municipal commercial papers issued by municipalities and municipal companies (2017: EUR 749 million).

In 2018, MuniFin's Apollo e-service for financial portfolio management was expanded to include features such as investment management. With pilot customers, it was deployed for use in wide-ranging economic modelling and forecasting. Customers are rapidly adopting the Apollo service. Its users include all of Finland's largest cities.

Demand for the services provided by MuniFin's subsidiary Inspira was brisk in 2018. Its assignments focused on the regional government, health and social services reform that is currently under preparation, participating in the competitive tendering processes of schools and daycare centre buildings, and M&A projects.

Funding and liquidity management

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

Liquidity remained generally strong in the international capital markets during 2018, and MuniFin's funding operations were very successful. Extensive diversification has also made funding efficient, which makes the funding terms for MuniFin's customers competitive. MuniFin's name is widely known in the international capital markets, where investors regard it as one of the most flexible, reliable and fast-reacting issuers.

MuniFin's public benchmark issuances were in extremely high demand. In 2018, MuniFin organised four benchmark bonds: two in USD (both 1 billion), one in GBP (400 million) and one in EUR (750 million). The 15-year term of the EUR 500 million benchmark bond issued in January 2018 is the longest benchmark bond in the company's history so far and the size of the bond was increased by EUR 250 million in October. These benchmark bonds are listed on the London Stock Exchange.

Long-term funding acquired during the year totalled EUR 7,436 million (2017: EUR 9,510 million). MuniFin's short-term debt instruments under the Euro Commercial Paper (ECP) programme amounted to EUR 3,062 million at the end of the year (2017: EUR 3,833 million).

Total funding at the end of 2018 was EUR 30,856 million (2017: EUR 30,153 million). Of this amount, 24% was denominated in euros (2017: 23%) and 76% in foreign currencies (2017: 77%). In total, the company issued bonds denominated in 11 different currencies in 2018 (2017: 14 currencies).

MuniFin currently acquires all of its funding from the international capital market. In total, 260 long-term funding arrangements were made in 2018 (2017: 318).

The majority of funding is carried out as standardised issues under debt programmes, of which MuniFin uses the following:

Medium Term Note (MTN) programme	EUR 30,000 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 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 Guarantee Board in proportion to their population. The Municipal Guarantee Board has granted guarantees for MuniFin's debt programmes, as well as for funding arrangements outside the programmes. As a result, debt instruments issued by MuniFin are classified as zero-risk when calculating the capital adequacy of credit institutions and as Level 1 liquid assets in liquidity calculation in the EU.

The company's liquidity remained excellent during 2018. MuniFin's investment operations mostly comprise the management of acquired funding. 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 lending) for at least the following 12 months.

At the end of 2018, total liquidity was EUR 8,722 million (2017: EUR 9,325 million). Investments in debt securities totalled EUR 5,146 million (2017: EUR 5,755 million) and their average credit rating was AA (2017: AA). The average maturity of the portfolio stood at 2.1 years at year-end (2017: 2.5 years). In addition to this, the company had EUR 3,576 million in other investments (2017: EUR 3,570 million), of which EUR 3,554 million was in central bank deposits (2017: EUR 3,554 million) and EUR 22 million in money market deposits in credit institutions (2017: EUR 16 million). The company invests cash collateral received on the basis of derivative collateral agreements primarily in short-term money market investments.

As of 2015, MuniFin has also monitored the ESG performance (Environmental, Social and Governance) of its liquidity investments. At the end of 2018, MuniFin's liquidity investments had an ESG average of 50.9 on a scale of 1–100 (2017: 49.1). The benchmark index is 50.8 (2017: 49.2).

Capital Adequacy

The Group's capital adequacy has remained strong and clearly above the statutory requirements and the minimum capital adequacy requirements set by the authorities.

At the end of 2018, the Municipality Finance Group's ratio of total own funds to total risk was 87.97% (2017: 72.50%), and its CET1 capital ratio was 66.34% (2017: 53.01%). The total capital ratio saw year-on-year growth of 15.47 percentage points, largely due to growth in own funds and the decline in total risk exposure. The parent company's total capital ratio was 89.37% (2017: 73.15%), and its CET1 capital adequacy was 67.33% (2017: 53.46%).

Common Equity Tier 1 capital (CET1) at the end of the year totalled EUR 1,065 million (2017: EUR 946 million), and Tier 1 capital (T1) amounted to EUR 1,413 million (2017: EUR 1,293 million). There was no Tier 2 capital, and the company's own funds totalled EUR 1,413 million (2017: EUR 1,293 million).

CET1 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.

The parent company's CET1 capital totalled EUR 1,064 million at the end of the year (2017: EUR 945 million), and Tier 1 capital (T1) amounted to EUR 1,413 million (2017: EUR 1,293 million). There was no Tier 2 capital, and the company's own funds totalled EUR 1,413 million (2017: EUR 1,293 million).

The Group's risk-weighted assets decreased by 10% since the end of 2017 and amounted to EUR 1,606 million at year-end (2017: EUR 1,784 million). The overall credit and counterparty risk decreased from the year-end 2017 figure of EUR 1,108 million to EUR 977 million at the end of the financial year. This was particularly affected by the decrease in the size of liquidity portfolio. The credit valuation adjustment risk (CVA VaR) declined to EUR 247 million (2017: EUR 341 million). This was mainly due to the lower amount of derivatives exposure and shortening average maturity of the derivatives. 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 exposure for operational risk grew by EUR 48 million to EUR 383 million (2017: EUR 335 million) due to an increase in the profit indicator.

The leverage ratio of MuniFin at the end of the year was 4.06% (2017: 3.84%), calculated using currently valid calculation principles. According to the draft legislation, the minimum leverage ratio is 3%. A proposal concerning the leverage ratio is currently under consideration at the EU level and the leverage ratio with its calculation principles is expected to come into effect no earlier than 2021.

At the end of the year, the liquidity coverage ratio (LCR) was 177% (2017: 173%). As from the beginning of 2018, LCR must be at least 100%. MuniFin is also preparing for the Net Stable Funding Ratio (NSFR), which is being made ready at EU level and will, according to the current estimate, not take effect until sometime in 2021.

RISK EXPOSURE AMOUNT, GROUP EUR million	**31 Dec 2018**	**31 Dec 2017**
Credit and counterparty credit risk	977	1,108
Market risk	-	-
Credit valuation adjustment risk	247	341
Operational risk	383	335
Total	**1,606**	**1,784**

Risk Management

There were no material changes in the company's risk appetite in 2018. Risks remained within the set limits during the financial year and, according to the company's assessment, risk management met the requirements set for it. The IFRS 9 standard adopted at the beginning of 2018 has increased volatility of the financial results through unrealised fair value changes of financial instruments. In the adoption, MuniFin reclassified financial assets and liabilities, and the profit and loss volatility of financial liabilities in particular has grown. The company continuously monitors and analyses the volatility arising from valuations and prepares for any impacts it may have on profit and capital adequacy.

Outlook for 2019

Developments in the global economy and capital markets seem fairly stable, but the financial markets are filled with uncertainties. The international financial markets are characterised particularly by the slowdown in the global economy, the financial system-level risks related to Italy's debt situation and the hard-to-predict impacts of the UK's potential exit from the EU. The company is prepared for Brexit, and it is not expected to result in material changes in the company's operations.

From the perspective of Finnish local government finances, the outlook for 2019 is still stable. The regional government, health and social services reform is still under preparation; evaluating its overall effects on MuniFin's customer base and the company's own operations is challenging. The reform is not currently expected to have a fundamental impact on MuniFin's operating volumes in 2019.

In 2019, MuniFin will continue to put major effort into developing the service offering and systems in order to further enhance its efficiency and operations, as well as on the digitisation of services. MuniFin expects that expenses will be higher than in 2018 due to personnel increases, the development of IT systems and higher fees collected by authorities. Considering the above-mentioned outlook in the operational environment and assuming that there are no major changes in the development of interest rates and credit risk premiums when compared to market expectations, MuniFin expects its net operating profit without unrealised fair value changes to remain in the same level than in 2018 or decrease. The developments in financial markets and the IFRS 9 standard adopted at the beginning of 2018 might increase the volatility of financial results through the unrealised fair value changes of financial instruments.

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 2018

Municipality Finance Plc has distributable funds of EUR 133,868,022.38, of which the profit for the financial year totalled EUR 21,831,739.09.

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 127,617,814.70 be retained in equity.

The result for the financial year is good, and the Board of Directors considers the payment of a moderate dividend to be a strongly grounded decision. In recent years, the company has been preparing for the anticipated banking regulation's capital requirements, in particular leverage ratio's entry into force. Own funds have been strengthened with retained earnings and the issue of an AT1 loan. At the end of 2018, the company's leverage ratio was 4.06%. The effective date for the leverage ratio requirement has not yet been finalised, but the company currently fulfils the anticipated leverage ratio requirement of 3%. The Board of Directors estimates that the moderate distribution of dividends will not place the fulfilment of the capital requirements or the company's liquidity in jeopardy. MuniFin clearly fulfils all the prudential requirements set for it.

Dividends will be paid to shareholders who are recorded in the company's list of shareholders on 4 April 2019. The Board of Directors proposes that the dividends be paid on 9 April 2019.

No events have taken place since the end of the financial year that would have a material effect on the company's financial position. The company's liquidity is solid and, in the Board's opinion, the proposed distribution of profits does not put the company's liquidity in jeopardy.

Municipality Finance Plc

Further information:
Esa Kallio, President and CEO, tel. +358 50 337 7953
Marjo Tomminen, CFO, tel. +358 50 386 1764

Consolidated statement of financial position

(EUR 1,000)	31 Dec 2018	31 Dec 2017
ASSETS		
Cash and balances with central banks	3,522,200	3,554,182
Loans and advances to credit institutions	1,380,544	1,251,391
Loans and advances to the public and public sector entities	22,968,118	21,650,847
Debt securities	5,862,591	6,494,234
Shares and participations	9,521	9,662
Derivative contracts	1,538,610	1,433,318
Intangible assets	14,850	10,196
Tangible assets	2,427	2,594
Other assets	174,818	157,862
Accrued income and prepayments	203,061	173,853
TOTAL ASSETS	**35,676,739**	**34,738,139**
LIABILITIES AND EQUITY		
LIABILITIES		
Liabilities to credit institutions	822,504	802,277
Liabilities to the public and public sector entities	3,870,918	3,746,762
Debt securities issued	26,901,998	26,303,961
Derivative contracts	2,205,427	2,216,034
Other liabilities	6,149	2,587
Accrued expenses and deferred income	148,377	124,574
Deferred tax liabilities	235,307	202,522
TOTAL LIABILITIES	**34,190,680**	**33,398,716**
EQUITY		
Share capital	42,583	42,583
Reserve fund	277	277
Fair value reserve of investments	726	28,944
Own credit risk revaluation reserve	4,726	-
Cost-of-hedging reserve	14,235	-
Reserve for invested non-restricted equity	40,366	40,366
Retained earnings	1,035,692	879,799
Total equity attributable to parent company equity holders	**1,138,605**	**991,969**
Other equity instruments issued	**347,454**	**347,454**
TOTAL EQUITY	**1,486,059**	**1,339,422**
TOTAL LIABILITIES AND EQUITY	**35,676,739**	**34,738,139**

Consolidated income statement

(EUR 1,000)	1 Jan-31 Dec 2018	1 Jan-31 Dec 2017
Interest and similar income	711,731	191,360
Interest and similar expense	-475,434	37,186
NET INTEREST INCOME	**236,297**	**228,546**
Commission income	2,395	3,245
Commission expense	-4,180	-4,071
Net income from securities and foreign exchange transactions	-27,910	6,196
Net income from available-for-sale financial assets	-	494
Net income on financial assets at fair value through the fair value reserve	38	-
Net income from hedge accounting	27,645	2,655
Other operating income	66	134
Administrative expenses	-27,225	-22,343
Depreciation and impairment on tangible and intangible assets	-2,333	-1,974
Other operating expenses	-15,368	-14,495
Credit loss on financial assets at amortised cost	467	-
Credit loss and impairments on other financial assets	96	-
NET OPERATING PROFIT	**189,989**	**198,386**
Income tax expense	-38,032	-39,721
PROFIT FOR THE PERIOD	**151,958**	**158,665**

Statement of comprehensive income

(EUR 1,000)	1 Jan-31 Dec 2018	1 Jan-31 Dec 2017
Profit for the period	151,958	158,665
Components of other comprehensive income		
Items to be reclassified to profit or loss in subsequent periods (IAS 39)		
Net change in fair value	-	11,644
Net amount transferred to profit or loss	-	137
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	48,953	-
Net change in cost-of-hedging	27,693	-
Items to be reclassified to profit or loss in subsequent periods (IFRS 9)		
Net change in fair value on financial assets at fair value through the fair value reserve	-5,093	-
Net amount transferred to profit or loss from the fair value reserve	-162	-
Net changes in expected credit loss of debt instruments at fair value through other comprehensive income	-96	-
Taxes related to components of other comprehensive income	-14,259	-2,356
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**208,993**	**168,090**

Capital Adequacy

Own funds, consolidated and parent company

OWN FUNDS (EUR 1,000)	GROUP		PARENT COMPANY	
	31 Dec 2018	**31 Dec 2017**	**31 Dec 2018**	**31 Dec 2017**
Common Equity Tier 1 before adjustments	1,118,171	976,260	1,117,133	975,532
Adjustments to Common Equity Tier 1	-52,715	-30,741	-52,769	-30,875
COMMON EQUITY TIER 1 (CET1)	**1,065,455**	**945,519**	**1,064,363**	**944,658**
Additional Tier 1 capital before adjustments	347,454	347,454	348,406	347,916
Adjustments to Additional Tier 1 capital	-	-	-	-
ADDITIONAL TIER 1 CAPITAL (AT1)	**347,454**	**347,454**	**348,406**	**347,916**
TIER 1 CAPITAL (T1)	**1,412,909**	**1,292,973**	**1,412,770**	**1,292,574**
Tier 2 capital before adjustments	-	-	-	-
Adjustments to Tier 2 capital	-	-	-	-
TIER 2 CAPITAL (T2)	**-**	**-**	**-**	**-**
TOTAL OWN FUNDS	**1,412,909**	**1,292,973**	**1,412,770**	**1,292,574**

Key figures for capital adequacy, consolidated and parent company

KEY FIGURES FOR CAPITAL ADEQUACY	GROUP		PARENT COMPANY	
	31 Dec 2018	**31 Dec 2017**	**31 Dec 2018**	**31 Dec 2017**
Ratio of Common Equity Tier 1 (CET1) to risk-weighted assets, %	66.34	53.01	67.33	53.46
Ratio of Tier 1 capital (T1) to risk-weighted assets, %	87.97	72.50	89.37	73.15
Ratio of total own funds to risk-weighted assets, %	87.97	72.50	89.37	73.15

MuniFin has updated the capital adequacy figures for the 2017 comparison year, accounting for a technical correction to the calculation of CVA VaR and the fact that guarantees are not taken into consideration as means of mitigating risk with respect to derivative counterparties in the calculation of the credit valuation adjustment risk. These changes increased the credit valuation adjustment risk. In the same context, MuniFin refined the treatment of given cash collateral under derivatives netting agreements, which reduced the amount of credit and counterparty risk. In the comparison year, the currency risk also amounted to less than 2% of own funds.

Minimum requirement for own funds, Group

	31 Dec 2018		31 Dec 2017	
(EUR 1,000)	**Capital requirement**	**Risk exposure amount**	**Capital requirement**	**Risk exposure amount**
Credit and counterparty risk, standardised approach	**78,128**	**976,596**	**88,603**	**1,107,536**
Exposures to central governments or central banks	0	0	302	3,780
Exposures to regional governments or local authorities	353	4,413	332	4,153
Exposures to public sector entities	4,807	60,086	4,742	59,271
Exposures to multilateral development banks	951	11,884	953	11,914
Exposures to institutions	52,470	655,875	62,294	778,671
Exposures in the form of covered bonds	18,986	237,323	19,063	238,284
Items representing securitisation positions	13	165	104	1,296
Exposures in the form of shares in CIUs	88	1,103	103	1,286
Other items	460	5,746	710	8,881
Market risk	**-**	**-**	**-**	**-**
Credit valuation adjustment risk (CVA VaR), standardised method	**19,722**	**246,528**	**27,294**	**341,179**
Operational risk, basic indicator approach	**30,644**	**383,048**	**26,783**	**334,786**
Total	**128,494**	**1,606,172**	**142,680**	**1,783,501**

Minimum requirement for own funds, parent company

	31 Dec 2018		31 Dec 2017	
(EUR 1,000)	**Capital requirement**	**Risk exposure amount**	**Capital requirement**	**Risk exposure amount**
Credit and counterparty risk, standardised approach	**78,249**	**978,115**	**88,629**	**1,107,858**
Exposures to central governments or central banks	0	0	302	3,780
Exposures to regional governments or local authorities	353	4,413	332	4,153
Exposures to public sector entities	4,807	60,086	4,742	59,271
Exposures to multilateral development banks	951	11,884	953	11,914
Exposures to institutions	52,466	655,825	62,283	778,542
Exposures in the form of covered bonds	18,986	237,323	19,063	238,284
Items representing securitisation positions	13	165	104	1,296
Exposures in the form of shares in CIUs	88	1,103	103	1,286
Equity exposure	131	1,639	-	-
Other items	454	5,676	747	9,333
Market risk	**-**	**-**	**-**	**-**
Credit valuation adjustment risk (CVA VaR), standardised method	**19,722**	**246,528**	**27,294**	**341,179**
Operational risk, basic indicator approach	**28,487**	**356,092**	**25,441**	**318,019**
Total	**126,459**	**1,580,735**	**141,364**	**1,767,056**

Municipality Finance Plc is one of the largest credit institutions in Finland: the company's balance sheet exceeds EUR 35 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 companies 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

Municipality Finance Plc
Jaakonkatu 3 A, P.O. Box 744
00101 Helsinki, Finland
Tel. +358 9 6803 5666
www.munifin.fi
firstname.lastname@munifin.fi