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## RULES OF PROCEDURE OF THE RISK COMMITTEE

### Background

In order to organise its work as efficiently as possible, and as required by the Act on Credit Institutions the Board of Directors (“Board”) of Municipality Finance Plc (“MuniFin”) has established a Risk Committee (“Committee”) for assistance and for the preparation of matters.

The Board has confirmed the following rules of procedure:

### Composition of the Committee

The following principles apply to the composition of the Committee:

- The Board of MuniFin appoints the members and the Chair of the Committee annually from among themselves.
- The Committee comprises no fewer than three members.
- The Committee shall not be composed of the same group of members that forms another committee.
- Majority of the members of the Committee and the Chair of the shall be independent. If the number of members is even, the majority shall be considered independent if half of the members are independent, including the chair of the Committee, who shall have the casting vote in the event of a tie.
- The Chair of the Committee should be neither the Chair of the Board nor the Chair of any other committee.
- Members of the Committee must possess, individually and collectively, appropriate knowledge, skills and expertise concerning risk management and control practices.

The term of the Committee members lasts until the closing of the Annual General Meeting following an election, unless the Board needs to change the composition of the Committee in the middle of a term due to, for example, a resignation of a Board member.

### Duties of the Committee

The purpose of the Committee is to assist the Board in matters related to the company's risk strategy and risk-taking covering all risk types except compliance risk, which is in addition to financial reporting and its process-related risks covered by the duties of the Audit Committee. The Committee reviews decision proposals to be submitted for Board approval in the areas of the Committee's duties.

Regarding matters reviewed by the Committee where no decision proposal is made, the Committee shall escalate the matter to be discussed by the Board when deemed necessary by the Committee.

The role of the Committee takes especially into account the below listed duties in relation to capital risks, liquidity and funding risks, credit risks, market risks, operational risks and ESG risks in any form of these risks. Furthermore, operational risks related role of the Committee includes responsibility to support the Board in the area of ICT risk management to ensure stability and continuity of MuniFin's system environment relevant for MuniFin's business and critical processes. The Committee monitors whether management complies with the risk strategy set by the Board.

In order to fulfil the aforementioned purpose, the Committee has the following main duties, which include making recommendations and action proposals for the Board, when necessary. Furthermore, the MuniFin has several Board approved risk policies which may set more detailed duties for the Committee relevant for the risk type.

### **MuniFin's risk strategy and risk management framework**

- Advises and supports the Board regarding the monitoring of MuniFin's overall risk appetite and strategy, taking into account all types of risks to ensure that they are in line with the business strategy, objectives, corporate and risk culture and values of MuniFin.
- Assesses MuniFin's risk profile, risk definitions, risk-taking capabilities including company's Risk Appetite Framework ("RAF"), and key limits set by the Board and the risk management framework, taking into account the development of the operating environment and the company's outlook for the future.
- Provides the Board with recommendations on necessary adjustments to the risk strategy resulting from, *inter alia*, changes in MuniFin's business model, market developments or recommendations made by MuniFin's independent risk management function.
- Reviews stress-testing framework and the results of stress tests in order to assess how MuniFin's risk profile would react to external and internal events of stress.
- Reviews risk measures and methodologies, as well as limit structures and risk reporting capabilities, including risk data aggregation.

- Monitors reporting on various risks and limits.
- Prepares, for decision-making by the Board, matters pertaining to the various risk types. This matters, *inter alia*, include:
  - Risk limits;
  - RAF risk indicators and their calibration;
  - Internal risk policies.
- Assesses the effectiveness of the Risk Management function, including the ICT risk management framework.

### **Capital and liquidity management**

- Oversees MuniFin's strategy for capital management to ensure that the Internal Capital Adequacy Assessment Process (ICAAP) sufficiently takes into account MuniFin's risks covering all material risk areas and that they are aligned with MuniFin's risk appetite.
- Oversees MuniFin's strategy for liquidity management to ensure that the Internal Liquidity Adequacy Assessment Process (ILAAP) sufficiently takes into account MuniFin's risks covering all material risk areas related to liquidity management and that they are aligned with MuniFin's risk appetite.
- Oversees that scenarios are taken into account appropriately as part of the ICAAP and ILAAP.
- Reviews regularly the progress of the Capital Plan and the Liquidity and Funding Plan.
- Monitors the results of stress tests and, on their basis, if deemed warranted, submit proposals to the Board on changes to the company's risk appetite or for the development of its capital structure.
- Evaluates whether the prices charged by the company for services that tie up capital are proportional to the business model and risk strategy; if this is not the case, the Committee must prepare, for approval by the Board, a plan to rectify the situation.
- Assesses regularly MuniFin's Recovery Plan (including its alignment with the Risk Appetite Framework).
- Evaluates the recommendations of internal audits concerning risk-related matters such as ICAAP, ILAAP, RAF and Recovery Plan and stress testing.

### **Other duties**

- Monitors findings of supervisory authorities and ensures compliance with their recommendations, as well as those from the second and third line defence functions, external audit, and other external validations and authorities related to the Committee's duties
- Assists the Remuneration Committee of the Board with the assessment of MuniFin's remuneration framework and changes to it to ensure the establishment of sound remuneration systems.
- The Committee oversees the setting and assessment of company-level performance targets and remuneration of the executive management and Risk Takers to ensure that risk-based evaluation, covering all material risks mentioned above, is part of the remuneration process and takes into account appropriately capital and liquidity requirements, as well as both the timing of income recognition and the likelihood of income realisation. The Committee shall assess that the remuneration systems shall not encourage employees to undesired risk-taking.
- Appoints external consultants supporting the Committee's work related to risk management and other areas of the Committee's work, unless the cost of consultancy is deemed material and requiring Board approval.
- And other duties as appointed by the Board case by case.

The above is not a fully comprehensive list of the duties of the Committee. The Committee may also deal with other matters or tasks, if deemed necessary, relating to the company's risk profile and risk management.

### **Convening meetings**

The Committee convenes, at the summons of the Chair of the Committee, as often as the company's business requires. As a general rule, the date and place and preliminary agenda of the next Committee meetings should be agreed upon, at least until the next General Meeting following an election. The goal is that all Committee members are present at the meetings. The number of Committee meetings held during the financial period and the average participation rate are reported in the annual Corporate Governance Statement.

As a general rule, the notice of a Committee meeting and necessary preparatory material shall be delivered, by uploading it to the meeting portal of the Committee, one week before the meeting, to ensure the best possible opportunity for the Committee members to familiarise themselves with the material prior to the meeting.

Committee meetings are held at the company's premises in Helsinki, or at another location specified by the Committee. Meetings can also be arranged as remote meetings by using necessary online tools or by using other means of communication (e.g., email).

The meeting invitation always includes the agenda for the meeting. In addition to the agenda, Committee members are sent proposals for decisions, essential appendices concerning matters on the agenda, and any other material intended for the Committee. Every Committee member has the right to propose matters to be included on the agenda and dealt with during the meeting. In addition to the Committee members, the Board, the Chair of the Board, the CEO and the CRO have a right to propose matters to be included on the agenda.

The members of the Committee may always ask for more information directly from the executive management, which will inform the CEO, if necessary. Additionally, the secretary of the Committee is always a contact point for members to ask further information or material.

### **Right of presence, right to speak, and minutes**

Meetings of the Committee are in general attended by the CRO, who always has the right to submit reports and proposals to the Committee, unless the Committee decides otherwise with regard to an individual matter. The secretary of the Committee, who is responsible for taking minutes, is also present at the meetings. The Committee may invite executive management and other experts (e.g. internal audit) to attend meetings and grant them the right to speak. The Committee may at also any time convene without the presence of the executive management, if deemed necessary.

The secretary of the Committee is a person designated for this duty by the Chair.

Minutes shall be taken at meetings and signed by the Chair of the meeting, at least one Committee member, and the secretary of the meeting. Material used as the basis for decision-making shall be attached to the minutes as an appendix.

Minutes shall be given consecutive numbers during the calendar year. Minutes must include the date and place of the meeting, a list of those present at the meeting, and a record of the material remarks and possible decisions made by

the Committee at the meeting. Minutes and their appendices shall be reliably stored throughout the existence of the company.

The Committee regularly reports its operations to the Board by, for instance, submitting their minutes to the Board members. Other members of the Board may also attend the meetings of the Committee.