

Responsibility Policy

MUNICIPALITY FINANCE GROUP

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1. Background and purpose

The Municipality Finance Group (“**MuniFin**”) operates to serve as a trusted, honest and ethical institution in the course of all of its activities and relationships including customer relationships, relationships with partners, employment relationships and other relationships or interactions. The ethical procedures and principles described in this Policy are a natural part of MuniFin’s business operations and MuniFin does not in any way compromise their application. Municipality Finance Group includes Municipality Finance plc and its subsidiary Financial Advisory Services Inspira Ltd (“**Inspira**”).

This Responsibility Policy (“**Policy**”) has been updated in February 2018 and re-named from Code of Conduct to Responsibility Policy. Entirely new sections added include customer finance and risk management. In addition, customer relationships and approach to responsibility as well as funding and liquidity portfolio sections have been updated to reflect MuniFin’s current approach to corporate social responsibility (“**CSR**”).

MuniFin is committed to understand, monitor and manage the social, environmental and economic impact of its own activities and finance offered in order to contribute to Finnish society’s wider goals for sustainable development. This commitment is integrated in core values and mission and are demonstrated through all operations and policies.

Through this Policy MuniFin aims to reduce the risks to which MuniFin and its employees are exposed, in particular operational and reputational risks, which can have a considerable adverse impact on profitability and sustainability through fines, litigation costs, restrictions imposed by competent authorities, other financial and criminal penalties, and the loss of brand value and consumer confidence. More specifically, this Policy:

- reminds that all MuniFin’s activities should be conducted in compliance with the applicable law and with the institution’s corporate values;
- promotes risk awareness through a strong risk culture as set in its Risk Management Policies, conveying the management’s expectation that activities will not go beyond the defined risk appetite or limits and the respective responsibilities of the employees;
- sets out principles on and provide examples of acceptable and unacceptable behaviours linked in particular to financial misreporting and misconduct, economic and financial crime (including fraud, money laundering and anti-trust practices, financial sanctions, bribery and corruption, market manipulation, mis-selling and other violations of consumer protection laws);
- clarifies that in addition to complying with legal and regulatory requirements and internal policies, employees are expected to conduct themselves with honesty and integrity and perform their duties with due skill, care and diligence; and
- ensures that employees are aware of the potential internal and external disciplinary actions, legal actions and sanctions that may follow misconduct and unacceptable behaviours.

The management of MuniFin is committed to develop, adopt, adhere to and promote high ethical and professional standards, and ensures the implementation of such standards.

2. Scope of application

This Policy has been approved by MuniFin's Board of Directors ("**Board**") and shall be applied throughout all operations and interactions within MuniFin. All employees of MuniFin are obligated to comply with, and promote the compliance of, this Policy in all their activities in addition to complying with all currently valid legislation and official regulations.

MuniFin monitors compliance with such standards and ensures employee awareness, e.g. by providing training. MuniFin has designated the Compliance department as the function responsible for monitoring compliance related issues and evaluating breaches of this Policy and maintaining a process for dealing with issues of non-compliance. The results are periodically reported to the Board.

In addition to the applicable regulation and this Policy, the management and employees of MuniFin are bound by other internal guidelines and procedures in place at MuniFin at any given time. Such internal guidelines and procedures may not be in conflict with the Policy, nor lessen the strength of its application. However, such procedures and guidelines may set ethical requirements on operations that are even more stringent than those stipulated within this Policy.

3. Social and environmental responsibility

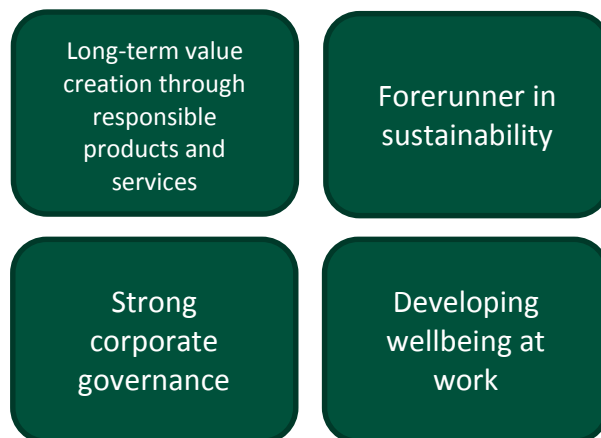
For MuniFin, responsibility plays a key role, externally and internally, as all its customers are related to the public sector and the majority of the finance offered is long-term. All projects financed by MuniFin are aimed at maintaining and improving the Finnish welfare society in the long-run. Examples of such socially responsible projects include hospitals, schools, day care centres and social housing for special groups, including housing for disabled, elderly and low-income persons.

MuniFin's customers also have an important role in achieving the national environmental goals set by the Ministry of Environment. Recent trends in the international capital markets show that responsibility is becoming a key value creation component for both issuers and investors. MuniFin is committed to carrying its weight as an issuer, promoting these goals and increasing awareness about low-carbon investments among its customers when granting finance.

MuniFin also pays special attention in increasing its environmental commitment by decreasing the use of paper and the amount of biowaste, replacing travel with online meetings and educating employees on sustainable practices. MuniFin is a certified Green Office by WWF.

4. Core areas for Corporate Social Responsibility and reporting

In 2017 MuniFin defined its four core areas for Corporate Social Responsibility (“CSR”):



These core areas are based on MuniFin’s business model and numerous stakeholder interviews conducted in 2016. Both long-term value creation and a status as a forerunner in sustainability relate to MuniFin’s customer finance, funding and liquidity management operations. Strong corporate governance and employee wellbeing create a framework for successful operations and are closely related to HR, legal and compliance. Each of the core areas contain long-term goals and future development plans.

MuniFin will publish an annual CSR report including both quantitative and qualitative indicators approved by MuniFin. Furthermore, the report also includes environmental impact reporting for green finance.

5. Customer finance

MuniFin may grant financing for Finnish municipalities, municipal federations, companies owned by a municipality or by a municipal federation and pre-approved customers for social housing (by government authority). All loan and leasing agreements granted by MuniFin have BIS 0% risk weighting as they carry direct municipal risk or are guaranteed by either municipalities or the central government.

5.1 The importance of long-term relationships with customers

MuniFin places great priority on customer-responsiveness, active co-operation and reliable partnerships. These values help to ensure that MuniFin meets its clients' needs in an equitable, open and transparent manner.

Through strong team spirit, MuniFin strives to create an atmosphere of renewal and creativity. As a result, MuniFin can successfully fulfil its mission: *Building a better future together with our customers in a responsible way.*

MuniFin's strategy is to invest in customer relationships in an active and focused manner, and to develop them in a way that best serves its customers: Finnish municipalities, entities controlled by the municipalities and non-profit organisations engaged in government-subsidised housing sector. Best customer service is achieved by developing solutions that, in each market situation, recognise the current needs of the customer base as well as the changes taking place in the operating environment. In addition, services must be responsive in an effective and competitive manner. In order to offer the most suitable solutions for customers, MuniFin also invests in developing the expertise of its employees and ensure the effectiveness of the internal systems.

Long-term relationships with clients and business partners are important for MuniFin. Therefore, MuniFin and its employees shall act in a fair and professional manner in all such relationships, taking into account any special characteristics of its clients or business partners.

5.2 General procedures for granting finance and suitability

MuniFin carefully evaluates the financial position of each customer before offering financing products and services. These products and services are only offered if they promote a sustainable level of debt and other long-term goals of the customers.

In addition to MuniFin's own assessment, 3rd party analyses are used. Further analyses are conducted to ensure that MuniFin has a sufficient and accurate picture of the financial position of the customer.

Furthermore, MuniFin's risk management department conducts an annual assessment of the ability of the customers to meet their future obligations. With such assessment MuniFin will have a broader view of the risk

position of the customer. With regard to social housing, MuniFin applies well-established analytics. For municipal loans, the municipal evaluation criteria set by the Ministry of Finance and additional criteria by MuniFin are used. These are forward-looking and based on the estimates of future developments in the local government sector.

MuniFin may offer financing products and services for its customers if the requirements meet MuniFin's criteria for granting finance.

5.3 Green finance

MuniFin offers green finance - both loans and leasing - for selected projects that promote the transition to low-carbon and climate resilient growth. These projects seek to mitigate or adapt to climate change. Project selection is based on MuniFin's Green Framework, which has been evaluated by a Norwegian-based second opinion provider CICERO together with the Stockholm Environment Institute (SEI). The Second Opinion on MuniFin's Green Framework can be found from MuniFin's website.

All green projects are evaluated and approved by an external Green Evaluation Team, which consists of two or more members from the environmental departments of MuniFin's customers and/or other environmental experts from relevant public sector entities/organizations.

The projects are evaluated independently and only approved if there is a high likelihood of achieving positive long-term environmental impacts. Before the application can be transferred to the Green Evaluation Team, MuniFin requires its customers to provide project-specific information including ex-ante environmental impact calculations. Projects in the green finance portfolio are funded by green bonds issued by MuniFin.

6. Funding and liquidity management

MuniFin's funding strategy is based on frequent presence in the international capital markets to obtain the best conditions for borrowing over long-term. A key element of MuniFin's funding strategy is diversification. MuniFin actively diversifies its funding sources and acquires funding from different markets (public, retail, private placements and Euro Commercial Paper, ECP), as well as in different maturities and currencies. MuniFin also maintains a significant liquidity portfolio financed by its pre-funding portfolio, which is used to ensure the continuity of business operations regardless of the market situation.

6.1 Approved counterparties

MuniFin only works with counterparties that have been internally approved in advance. Counterparties are accepted in accordance with MuniFin's internal processes. Accepted counterparties must not only meet ethical standards in their operations, but they must also satisfy requirements related to the legislation and regulations of the banking sector, such as requirements concerning the prevention of money laundering, terrorism financing, customer identification and due diligence.

6.2 Suitability of funding transactions and fair dealing

Suitability of funding transactions is based on MuniFin's internal guidelines: duration of assets, overall liquidity situation as well as the list of approved products and counterparties. Before a transaction is executed, suitability of the transaction will be determined in the context of the overall funding portfolio and criteria described above. Regarding benchmark transactions with book building process, MuniFin is committed to deal fairly and objectively within investor groups when allocating bonds.

6.3 Policies for currencies and structured notes

MuniFin may use financial products denominated in foreign currencies in its funding and liquidity management. Only currencies cleared through the Euroclear system are accepted. In addition, MuniFin can issue funding transactions in Non Deliverable Forward (NDF) currencies for which a quote is obtained from a reliable source and that can be converted to a currency cleared through Euroclear. MuniFin reviews countries that are in a sensitive national or political situation and may refuse to issue bonds denominated in currencies of these countries. According to its risk management policies, MuniFin cannot accept any material currency risk. Interest rate risk and currency risk are mitigated by using interest rate and currency derivatives with approved counterparties.

Due to its diversified funding strategy, MuniFin is an active issuer also in structured products, in which the return paid to investors is based on the development of a given underlying instrument. Examples of underlying

instruments include various indices, commodities, exchange traded funds (ETF's), single stocks and currency pairs.

MuniFin does not accept underlying instruments directly related to:

- fossil fuel production
- the military industry
- the tobacco industry
- other unethical underlying instruments defined by MuniFin.

In addition, each commodity-linked transaction is assessed on a case-specific basis. Funding transactions shall not influence the formation of the world market price of the underlying instrument.

6.4 Investment experience of investors

Majority of MuniFin's investors are institutional with broad knowledge of the risks related to financial instruments. Retail products are offered for individual investors and these products are marketed and sold through arranging banks pre-approved by MuniFin. Arranging banks are responsible for ensuring that before making an investment decision, retail investors are familiar with the product and its risk components. Marketing materials always describe the product's attributes, content, typical risks, and potential costs in the most balanced manner possible.

6.5 Green bonds and reporting

MuniFin also offers responsible investment opportunities for investors by issuing green bonds. The outstanding amount of green bonds is directly linked to the amount of assets allocated in the green asset portfolio (loans and leasing). Green bonds are mainly issued in benchmark format (EUR and USD) and the maturities depend on the underlying asset portfolio. MuniFin may also issue green private placements for institutional investors depending on the size of the underlying portfolio and other requirements set by MuniFin. All green bonds are linked to MuniFin's green portfolio and the green framework.

MuniFin is committed to promote transparency between issuers and investors by annually reporting the environmental impacts generated by its green asset portfolio. From 2018 onwards, the green bonds impact report will be part of a wider CSR report, to be published annually at the same time with the annual report of MuniFin. MuniFin has agreed with other Nordic green bond issuers to harmonize impact reporting by introducing recommendations and methods to report environmental impacts. These recommendations and methods can be found on MuniFin's website under the section "Green bonds".

6.6 Liquidity management

All investments made in the liquidity portfolio are carefully selected so that they meet the risk and return objectives set by MuniFin. Each investment decision is evaluated in the context of the total liquidity portfolio.

Investments are only made in issuers from OECD countries. This enables maintaining both economic and sustainable stability of the investments. Investment selection process also includes ethical screening to exclude any issuers for which there are explicit ethical concerns.

Furthermore, environmental, social and governance factors (“**ESG**”) are integrated in the investment process. When selecting new investments into the portfolio, the ESG score for each issuer is evaluated against a sustainability benchmark. The benchmark is composed of market indices replicating the portfolio weights in each asset class.

MuniFin monitors all investments through a quarterly calculated ESG score and has set a risk indicator for the average ESG score of the portfolio. The guideline is that the average ESG score of the portfolio should be at minimum the same as the benchmark score. This drives the selection of investments with a higher ESG score than the benchmark.

6.7 Socially responsible investments

Part of MuniFin’s liquidity portfolio is invested in socially responsible investments (“**SRI investments**”). These may include green bonds, social bonds and other bonds that fulfil MuniFin’s internal criteria for SRI investments. Target size of the portfolio is directly linked to the total outstanding amount of MuniFin green bonds.

In addition to the normal selection process for investments, an additional due diligence is conducted for SRI investments. When making an investment decision, the following issues will be evaluated: green/social bonds framework of the issuer and the second opinion from a reliable third party provider. MuniFin pays special attention to the project selection process, use of proceeds and reporting interval.

7. Risk management

MuniFin's operations require sufficient risk management mechanisms to ensure that MuniFin's risk position remains within the limits set by the Board. MuniFin applies very conservative principles to its risk management. The aim is to keep the overall risk profile at such a low level that strong credit ratings are not compromised.

MuniFin has a Risk Management Framework in place, which has been built on the premise that risk culture, business and risk strategy, risk appetite, risk governance, people and processes are aligned and are working efficiently. The Framework is supported by a comprehensive set of risk policies and underlying guidelines and instructions. Risk limits and targets are in place and embedded throughout the organization to ensure that MuniFin remains within its risk appetite at any given time.

Risk management within MuniFin is organised according to the three lines of defence governance model. The three lines of defence model has been adopted to ensure that responsibility is allocated to all the relevant parties, and risk events are reported and escalated. Clear responsibilities for risk management are allocated across MuniFin.

MuniFin regularly surveys risks related to its operations and continuously develops methods for recognizing and managing risks. Risks are evaluated with regular risk analyses. The aim of the analyses is to recognize the new challenges and risks created by changes in the operating environment and prioritize the risks and their management on the basis of the results. Identified risks are mitigated with collateral, guarantees, derivatives, insurance and active risk management.

MuniFin's Risk Appetite Framework ("**RAF**"), enables MuniFin to:

1. Effectively identify, assess and manage the risks inherent in its strategy as well as its internal risks;
2. Understand and decide on the amount of risk it is willing and able to take in executing its business strategy, and to actively communicate it;
3. Promote sound discussion about the risk appetite of MuniFin and an effective and credible discussion and challenge of business and risk taking decisions.

The Risk Appetite Framework is linked to both short-term and long-term strategic plans, capital and financial plans, the recovery plan and the remuneration policy. It is fully aligned with the Internal Capital Adequacy Process ("**ICAAP**") and the Internal Liquidity Adequacy Process ("**ILAAP**"). The RAF is reviewed and recalibrated at least annually.

8. Anti-corruption measures

In all its operations, MuniFin complies with legislation and regulations issued by authorities, adheres to widely accepted procedures and the agreements it enters into, and keeps its promises. MuniFin's commitment to doing business with integrity means avoiding corruption in any form, including bribery, and complying with the anti-corruption laws and regulations.

8.1 Conflicts of interest

The business operations of MuniFin must be in the interest of MuniFin, its shareholders, its customers and may not be based on anyone's personal interest. The management is responsible for establishing, approving and overseeing the implementation and maintenance of effective policies and processes to identify, assess, manage and mitigate or prevent actual and potential conflicts of interest. However, MuniFin strives, in all situations to avoid conflicts of interest, and where conflicts do arise, to act in such a way as to avoid compromising the interest of the customer or any party acting in a relationship with MuniFin.

The employees of MuniFin shall avoid situations that are in conflict or may be perceived as being in conflict with the employee's personal interests or the interests related to MuniFin's business operations. The employees of MuniFin shall not exploit their position, information received as a result of their position, or the funds belonging to MuniFin for their personal interest.

MuniFin takes, within their organisational and administrative arrangements, adequate measures to prevent conflicts of interest from adversely affecting the interests of its clients. In order to manage or where appropriate mitigate conflicts of interest by:

- an appropriate segregation of duties and clear policies for signing rights;
- establishing information barriers, e.g. through the physical separation of certain business lines or units; and
- establishing adequate procedures for transactions with related parties, e.g. requiring transactions to be conducted at an arm's length.

Additionally, MuniFin's management is responsible for establishing, approving and overseeing the implementation and maintenance of policies and procedures to identify, assess, manage, mitigate or prevent actual and potential conflicts between the interests of MuniFin and the private interests of employees, including the interests of their closest family members and members of the management body, which could adversely influence the performance of their duties and responsibilities. It is noted that conflicts of interest may arise not only from present but also from past personal or professional relationships.

8.2 Gifts and hospitality

MuniFin or its employees may not offer or receive any direct or indirect gifts or other benefits that can be considered as bribes, corruption or any activity that would influence the business operations.

Offering or accepting gifts and providing or receiving hospitality must be related to MuniFin's business operations so that they cannot be interpreted as an attempt to support anyone's personal interest. Gifts and hospitality must always be moderate, but taking into account the situation and position of the person receiving and giving them. This particularly concerns cooperation with public officials and supervisors, as their employment is based on the requirement of equal treatment and neutrality. Public officials' liability for acts in office sets special limits for hospitality that can be considered acceptable.

The maximum amount for direct gift is EUR 150 and MuniFin applies an escalation process for any higher gifts for specific reasons ensuring that the independency and objectivity of the employee and/or MuniFin is not compromised. Offering or receiving hospitality is based on reasonability, depending on circumstances.

MuniFin does not provide contributions to political parties or groups.

9. Transparency, confidentiality and data protection

MuniFin shall disclose financial information related to its situation and activities as required by legislation and other regulations in an open and transparent manner. MuniFin values continuous interaction with investors, customers, the authorities charged with supervising its operations and other stakeholder groups.

Handling confidential information pertaining to MuniFin, its clients, employees and other business partners is part of MuniFin's operations as a credit institution, consultancy service provider, issuer of bonds and as an employer. MuniFin shall handle such information with due care and in compliance with legislation, terms of contracts as well as internal policies, adhering to the required security arrangements to protect the confidentiality of information. Confidential information shall never be disclosed to any party, except where disclosure is justified (e.g. orders by the authorities or power of attorney). Confidential information shall also not be disclosed to any party within MuniFin's organisation other than those who require it to undertake their work duties.

MuniFin's book-keeping and documents pertaining to business operations shall be accurate and describe all business transactions in a comprehensive and appropriate manner.

Due to its operations, MuniFin has large amounts of data about its customers and other stakeholders. MuniFin takes adequate measures ensuring data protection and privacy. Processes are in place so that collecting, storing and disclosing data follows the current legislation.

10. Working at MuniFin

MuniFin considers important to have professional, competent and motivated staff in its service. In order to accomplish this goal, MuniFin ensures that it offers competitive remuneration and incentives that are in proportion to healthy business principles and risk appetite. Depending on the position, efforts are made to offer further training and development opportunities. MuniFin supports a wide range of measures to maintain working ability through appropriate supervision, recreational activities and high-quality occupational health services. MuniFin encourages its employees to find an appropriate balance between work and free time.

At MuniFin, all employees are treated equally. MuniFin offers a safe working environment and is committed to providing a work place characterised by equality, where no-one is discriminated based on gender, age, religion, nationality, ethnicity, race, disability or any other factor. MuniFin respects freedom of association and the right of employees to form or join labour unions.

All MuniFin employees are expected to perform their duties with due care and in compliance with good professional conduct and to acquire the required knowledge for decision-making. Good professional conduct requires the use of good judgment in daily work. Mere formal compliance with this Policy is not enough. Employees must also be able to identify situations where compliance with ethical principles is critical in the successful handling of a situation or for decision-making. Anything that is not expressly prohibited is not necessarily appropriate or allowed.

11. Ask for advice, report problems

Market conditions change on a daily basis and the operating environment of MuniFin may also change rapidly. In any situation where an employee is uncertain of how to act, they must seek advice from either their supervisor, any representative of MuniFin's management, the Legal or Compliance Department or the HR Department. Supervisors must make reasonable efforts to ensure that anyone subject to their supervision or authority complies with applicable laws, rules, and regulations.

Any acts that are contrary to this Policy shall be rectified immediately and result in disciplinary action, which in the most serious case can result in the termination of the employment contract.

MuniFin is responsible for ensuring that any employee reporting a problem concerning a breach of these ethical operating principles does not suffer negative work-related consequences as a result of reporting the matter, if the employee in question has not been party to the breach. Breaches must be reported to either the employee's immediate supervisor, any representative of MuniFin's management, the Legal or Compliance Department or the HR Department.

MuniFin has established whistleblowing processes for reporting potential internal or external misconduct. The whistleblowing channel makes it easy for employees and other stakeholders to report any wrongdoings by MuniFin. External stakeholders may utilize MuniFin's website for anonymously sending notifications.