CREDIT OPINION
3 December 2024

Update

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RATINGS

Municipality Finance Plc

Domicile	Helsinki, Finland
Long Term Debt	Aa1
Type	Senior Unsecured - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Municipality Finance Plc

Update following ratings affirmation, outlook remains stable

Summary

The Aa1 issuer and senior debt ratings of Municipality Finance Plc (MuniFin), as assessed by our Government-Related Issuers (GRI) methodology, reflects the institution's close links to Finnish regional and local governments (RLGs) and, ultimately, the sovereign.

These close links are underpinned by (1) its role as the main provider of funding to the municipal sector, the wellbeing services counties,[1] and the central-government-subsidised housing sector; (2) its public-policy mandate to ensure access to affordable financing for its customers; and (3) the irrevocable and unconditional guarantee on MuniFin's funding by the Municipal Guarantee Board (MGB, Aa1 stable), in which all mainland municipalities in Finland (Aa1 stable) are members. The municipalities are jointly liable, in proportion to their population, for financial obligations arising from the guarantee.

MuniFin's ratings also reflect its dominant franchise in Finland with limited competition from commercial banks and prudent financial policies, which ensure the sustainability of its business model and viability.

Credit strengths

» MuniFin's importance to the Finnish RLG sector, reflected by its ownership and dominant franchise in its market

» A diverse funding profile, which is guaranteed by the MGB

» A robust sovereign and robust RLG sector, underpinning MuniFin's strong asset quality

» Strong capitalisation and low risk appetite, consistent with peers

Credit challenges

» Borrower concentration which is inherent in MuniFin's business model, mitigated by the strong asset quality

» Mismatches between assets and liabilities, mitigated by ample liquidity, diverse funding and the liquidity facility from the Finnish central bank (given its status as a central bank counterparty)

Outlook

The stable outlook is in line with the stable issuer outlook of the Government of Finland.

Factors that could lead to an upgrade

MuniFin's ratings could be upgraded as a result of an upgrade of the Government of Finland.

Factors that could lead to a downgrade

MuniFin's ratings could be downgraded if the Government of Finland is downgraded. The ratings could also be downgraded following a deterioration in the MGB guarantee, a diluted public policy mandate or a weakening of the institution's association with the central government.

Key indicators

Exhibit 1

Municipality Finance Plc (Consolidated Financials) [1]

	06-24[2]	12-23[2]	12-22[2]	12-21[2]	12-20[2]	CAGR/Avg.[3]
Total Assets (EUR Million)	48,493.8	47,153.2	44,300.6	43,736.1	41,302.8	4.7[4]
Total Assets (USD Million)	51,973.4	52,088.0	47,279.7	49,557.6	50,536.2	0.8[4]
Tangible Common Equity (EUR Million)	1,673.3	1,653.4	1,607.9	1,487.8	1,324.1	6.9[4]
Tangible Common Equity (USD Million)	1,793.4	1,826.4	1,716.1	1,685.9	1,620.1	2.9[4]
Problem Loans / Gross Loans (%)	0.4	0.4	0.0	0.4	0.5	0.4[5]
Tangible Common Equity / Risk Weighted Assets (%)	108.0	110.3	105.9	100.4	108.2	106.5[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	8.6	8.5	0.4	8.6	10.2	7.3[5]
Net Interest Margin (%)	0.5	0.6	0.5	0.6	0.6	0.6[5]
PPI / Average RWA (%)	13.7	9.3	13.2	17.0	13.8	13.4[6]
Net Income / Tangible Assets (%)	0.3	0.2	0.4	0.4	0.3	0.3[5]
Cost / Income Ratio (%)	23.7	32.2	23.3	19.1	22.6	24.2[5]
Market Funds / Tangible Banking Assets (%)	92.4	92.2	93.1	88.7	87.0	90.7[5]
Liquid Banking Assets / Tangible Banking Assets (%)	26.5	29.9	24.9	25.1	21.9	25.6[5]
Gross Loans / Due to Customers (%)	2838.9	2503.0	2401.9	876.5	720.4	1868.1[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.

Sources: Moody's Ratings and company filings

Profile

MuniFin is the only financial institution in Finland that specialises in providing financing to the Finnish municipal sector, the wellbeing services counties and the social housing sector. The institution provides loans to its customers for a wide range of investments, including environmental projects, local infrastructure, education, healthcare and central-government-subsidized housing. The total assets of MuniFin were at €48.5 billion at the end of June 2024 (Moody's-adjusted).

MuniFin has been growing its personnel in the last few years and increased the number of employees to 196 in June 2024 from 151 in 2018 because of business development and greater regulatory requirements.

MuniFin is jointly owned by the Finnish RLGs (53%), the Finnish public-sector pension institution Keva (31%) and the Government of Finland (16%).

Detailed credit considerations

Ownership and market share reflect MuniFin's importance to the Finnish RLG sector and to the central-government-subsidised housing sector

MuniFin is closely associated with the Finnish RLG sector and effectively acts as the debt management office for Finnish RLGs, and lends exclusively to Finnish public-sector customers or entities guaranteed by the Finnish public sector. The institution is owned by the Finnish municipal sector (53%), the Finnish public-sector pension institution Keva (31%) and the Government of Finland (16%).

MuniFin's importance to the Finnish RLG and affordable social housing sectors is also reflected by its leading market share. The institution's dominant position is likely to persist since its public-policy mandate is to lend at cost-effective rates rather than maximising profit. MuniFin's regional peers in other Nordic countries also report high market shares, underpinned by their not-for-profit mandates.

MuniFin's funding is guaranteed by the Aa1 rated Municipality Guarantee Board

MuniFin's funding is guaranteed by the MGB, a public body established by law for the sole purpose of safeguarding the funding of Finnish municipalities. The MGB's strong credit strength (Aa1 stable) reflects that all municipalities in Finland (except for the Åland Islands) are permanent MGB members, and these municipalities are closely linked to the Finnish sovereign. In the unlikely event that the guarantee would have to be called upon, MGB would in the first instance use its own available assets to meet its guarantee obligation, and thereafter would collect contributions from its members without the need for any court judgment.

Strong sovereign and robust RLG sector result in good asset quality, despite the difficult economic environment

MuniFin's strong creditworthiness reflects the supportive framework that underpins the RLG sector, which is composed of the following factors:

1. Finnish municipalities have the full authority to levy income and property tax on their inhabitants;
2. municipalities' other revenue sources include grants from the central government;
3. Wellbeing services counties' activities are largely covered by central government funding;
4. Finnish RLGs benefit from an equalisation principle to ensure the provision of public services across the country;
5. RLGs are required by law to balance their finances over a four-year horizon;
6. lending for the purpose of public housing construction is deficiency guaranteed by the Aa1 rated Finnish government, with the government having strong authority to steer the affordable social housing production system in Finland; and
7. the Ministry of Finance is responsible for the oversight of the RLG sector, and moreover, Finnish law does not allow for an RLG to be declared bankrupt, consistent with other Nordic countries.

These characteristics ensure that RLGs remain creditworthy in the long term, and are able to deliver key public services, such as education and healthcare, as mandated by the central government.

Although MuniFin's asset quality is very strong, the effects of a more difficult operating environment and higher interest rates will put pressure on households and companies, which will strain the collection of locally generated tax because of weaker economic growth. Nevertheless, we do not expect any significant changes in MuniFin's asset risk, given the support mechanisms that underpin the RLG sector. MuniFin has never recorded any final credit losses.

Similar to peers, MuniFin's lending book is somewhat concentrated because of its small customer base.

High capitalisation levels will mitigate strain from economic slowdown

MuniFin is currently well capitalised relative to its risks. As of June 2024, the institution reported a Common Equity Tier 1 (CET1) ratio of 102.4%. We recognise that the very high CET1 ratio is a result of the zero risk weights applicable on MuniFin's lending. This ratio nonetheless represents 10.8x the minimum CET1 ratio of 9.5% required by the ECB. As of June 2024, the minimum capital requirements included a capital conservation buffer of 2.5%, an other systemically important credit institutions (O-SII) requirement of 0.5% and an institution-specific countercyclical buffer based on geographical distribution of exposures of 1.0%. MuniFin's minimum Tier 1 capital and Total Own Funds requirements as of June 2024 were 11.0% and 13.0%, respectively.

The adoption of CRR II and CRD V in June 2021 requires MuniFin to maintain a minimum Tier 1 leverage ratio of 3%. MuniFin's leverage ratio was 12.0% as of June 2024 (12.0% as at year-end 2023). As a public development credit institution under CRR II, MuniFin is able to exclude all credit receivables from municipalities and social housing loans, that is, the bulk of its portfolio, from the leverage ratio exposure. This allowed the institution to maintain its ratio steady in H1 2024.

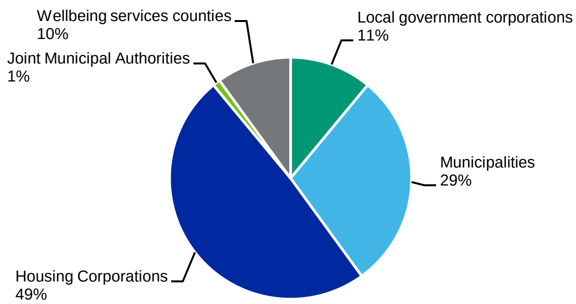
Predictable financial performance because of public-policy mandate

Like its peers, MuniFin has a not-for-profit mandate consisting of providing cost-effective lending to its customers across the municipal sector, wellbeing services counties and affordable social housing sector. The institution has a good track record of fulfilling its mandate even during times when the debt capital markets were under severe pressure. Net income/tangible assets slightly increased to 0.35%

in H1 2024 from 0.27% in H1 2023 (Moody's adjusted). This development follows a 3.4% rise in net interest income and a decrease of 8.7% in total operating expenses when comparing H1 2024 against H1 2023.

MuniFin's profitability is predictable given (1) the institution lends exclusively to the Finnish municipal sector, the wellbeing services counties, and the central-government-subsidised housing sector, as shown in Exhibit 2; (2) the financial stability of the Finnish RLG sector for the reasons outlined above; (3) and MuniFin's dominant market position.

Exhibit 2
MuniFin's lending broken down by type in H1 2024
MuniFin's lending is diversified within the RLG sector



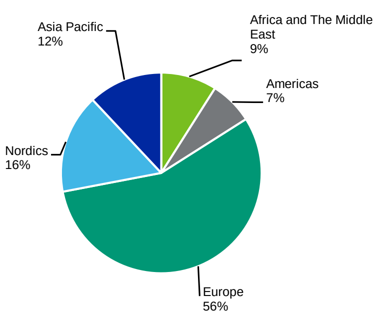
Source: Company's disclosures

Diverse funding and good liquidity, but some mismatches between assets and liabilities

Like its peers, MuniFin issues various types of debt in different geographies, currencies and product segments to a diverse investor base in the international capital markets (see Exhibits 3-5). This diversification is positive because MuniFin is not dependent on a single source for funding.

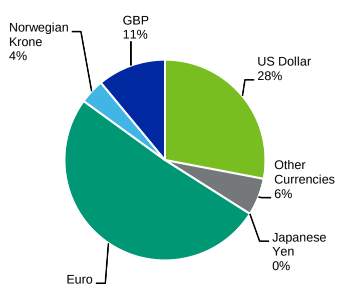
MuniFin was the first credit institution to launch green finance on the Finnish market and the first Finnish green bond issuer, with 10 green bonds outstanding amounting to €4.7 billion (as of November 2024). In February 2020, MuniFin published a social bonds framework, with 3 social bonds outstanding amounting to €1.4 billion (as of November 2024).

Exhibit 3
Funding by region as of H1 2024



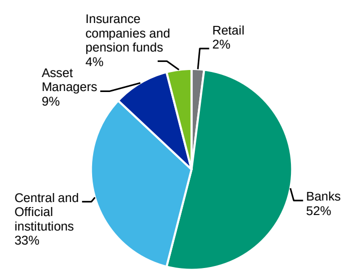
Source: Company reports

Exhibit 4
Funding by currency as of H1 2024



Source: Company reports

Exhibit 5
Funding by investor type in H1 2024



Source: Company reports

MuniFin is not match-funded, as the average maturity of its liabilities are shorter than the maturity of its assets. MuniFin manages this risk by maintaining a large liquidity reserve, having good access to funding in various markets and maintaining a liquidity facility at the Bank of Finland.

MuniFin reported total liquid assets of €11.9 billion as of June 2024 compared with €11.6 billion as of year-end 2023. Furthermore, as of June 2024, 80% of the liquid assets were high-quality liquid assets (HQLA) Level 1 (77% at year-end 2023) and 8% were HQLA Level 2 (8% at year-end 2023). The debt securities in the portfolio are very highly rated, which is also the case for MuniFin's Nordic peers. MuniFin also has access to a central bank liquidity facility, whereby it can pledge eligible loans as collateral for access to additional liquidity in case of need.

ESG considerations

We consider MuniFin to have a low exposure to Environmental risks in line with how we view the banking sector. See our Environmental risks' Environmental heat map for further information.

Because of MuniFin's role as one of Finland's largest credit institution specialising in the financing of Finnish municipalities and the affordable social housing sector, it is susceptible to politically and socially motivated decisions that could affect its financial profile. Its borrowers are exposed to the challenges of providing services to an aging population leading to increasing dependency ratios.

The framework includes municipalities constitutional right to set local level tax rates independently, an equalisation mechanism supporting financially weaker municipalities and the joint guarantee where member organisations are responsible for each others commitments in proportion to their population figures.

See our Social risks' Social heat map for further information.

Governance is highly relevant to MuniFin's creditworthiness. Corporate governance weaknesses can lead to a deterioration in a company's credit quality, while governance strengths can benefit its credit profile. Governance risks are largely internal rather than externally driven. We do not have any particular concern around MuniFin's corporate governance, which is regulated by law and influenced by its public ownership structure.

Ratings

Exhibit 6

Category	Moody's Rating
MUNICIPALITY FINANCE PLC	
Outlook	Stable
Issuer Rating	Aa1
Bkd Senior Unsecured	Aa1
Bkd Commercial Paper -Dom Curr	P-1
Bkd Other Short Term -Dom Curr	(P)P-1
MUNICIPAL GUARANTEE BOARD	
Outlook	Stable
Issuer Rating -Dom Curr	Aa1

Source: Moody's Ratings

Endnotes

1 "Wellbeing services counties" in Finland are governing bodies that are separate from municipalities. They are not counties in the traditional sense. Instead, they are a new administrative division created for the purpose of organising and providing healthcare, social services and emergency services more efficiently across the country.

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CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454