Supplemental Offering Circular dated 16 September 2019

MuniFin

MUNICIPALITY FINANCE PLC

(Kuntarahoitus Oyj)

(Public limited liability company incorporated in the Republic of Finland)

€35,000,000,000
Programme for the Issuance of Debt Instruments

Guaranteed by

THE MUNICIPAL GUARANTEE BOARD
(Kuntien takauskeskus)

(Established as a public law institution under the laws of the Republic of Finland)

This supplement (the "**Supplement**") to the offering circular dated 13 May 2019 (the "**Offering Circular**") is prepared in connection with the €35,000,000,000 Programme for the Issuance of Debt Instruments established by Municipality Finance Plc (the "**Issuer**" or "**Municipality Finance**") and the Municipal Guarantee Board (the "**Guarantor**" or the "**MGB**"). Terms defined in the Offering Circular have the same meaning when used in this Supplement.

This Supplement is supplemental to, and should be read in conjunction with, the Offering Circular and any other supplements to the Offering Circular issued by the Issuer and the Guarantor from time to time and, in relation to any Tranche of Notes which is the subject of Final Terms, must be read and construed together with the relevant Final Terms.

The Offering Circular comprises neither a prospectus for the purposes of Part VI of the Financial Services and Markets Act 2000 (as amended) (the "**FSMA**"), a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC, as amended (the "**Prospectus Directive**"), nor listing particulars given in compliance with the listing rules (the "**Listing Rules**") made under Part VI of the FSMA by the United Kingdom Financial Conduct Authority in its capacity as competent authority under the FSMA (the "**FCA**"). Accordingly, this Supplement does not constitute a base prospectus supplement for the purposes of Article 16 of the Prospectus Directive or supplementary listing particulars for the purposes of Article 81 of the FSMA.

The Issuer and the Guarantor accept responsibility for the information contained in this Supplement. To the best of the knowledge and belief of the Issuer and the Guarantor (which have taken all reasonable care to ensure that such is the case), the information contained in this Supplement is in accordance with the facts and does not omit anything likely to affect the import of such information.

To the extent that there is any inconsistency between (a) any statements in or incorporated by reference into this Supplement and (b) any statement in or incorporated by reference into the Offering Circular, the statements in this Supplement will prevail.

Save as disclosed in this Supplement, no other significant new factor, material mistake or inaccuracy relating to information included in the Offering Circular has arisen or been noted since the publication of the Offering Circular.

AMENDMENTS TO THE OFFERING CIRCULAR

With effect from the date of this Supplement, the information appearing in the Offering Circular shall be supplemented in the manner described below.

Exchange Rates

The section headed "Exchange Rates" on page 7 of the Offering Circular shall be deemed to be supplemented by the addition of the following information.

	Low	High
	(U.S. dollars per euro)	
May 2019	1.1134	1.1245
June 2019	1.1185	1.1394
July 2019	1.1115	1.1349
August 2019	1.1036	1.1222
September 2019 (through to 12 September)	1.0937	1.1058

The euro versus the U.S. dollar European Central Bank exchange rate on 12 September 2019 was U.S.$1.0963 per Euro 1.00.

Risk Factors

The risk factor section starting on page 13 of the Offering Circular shall be deemed to be supplemented with the following.

The risk factor titled "The Group is exposed to the economic conditions in Finland and globally" on page 13 of the Offering Circular shall be deemed to be supplemented by replacing it with the following.

The Group is exposed to the economic conditions in Finland and globally

The Group conducts its lending operations exclusively in Finland and its lending growth is reliant on the prospects of Finnish municipalities and municipal federations, Finnish municipality-controlled entities and housing corporations providing housing on social grounds in Finland. Therefore, the macroeconomic factors relating to Finland, and more specifically its municipalities, such as GDP, the inflation rate, interest rates, currency exchange rates and tax rates as well as unemployment, personal income and the financial situation of companies, together with various other factors, have a material impact on customer demand and margins for Group's products and services, which materially affects the Group's business, financial condition and results of operations.

Macroeconomic factors such as the continued trade war between the U.S. and China and declines in market interest rates could impact the Finnish economy. Should Finland's GDP slow or decline or Finnish municipalities' relative indebtedness increase, the Group may be exposed to instability in the prospects of both its customers and its ultimate guarantors. Additionally, should any of these factors result in Finland having its credit rating downgraded, it may cause an increase in the cost of the Group's future funding transactions and thereby put further pressure on the price of any lending required by the Group's customers. As a result any of these factors relating to Finland or its municipal sector may have a material adverse effect on the Group's business, financial condition and results of operations.

On 23 June 2016 the United Kingdom voted to leave the European Union in a referendum (the "**Brexit Vote**") and on 29 March 2017 the United Kingdom gave formal notice (the "**Article 50 Notice**") under Article 50 of the Treaty on European Union ("**Article 50**") of its intention to leave the European Union. The timing of the UK's exit from the EU remains subject to uncertainty. Article 50 provides, subject to certain circumstances, that the EU treaties will cease to apply to the UK two years after the Article 50 Notice unless a withdrawal agreement enters into force earlier or the two-year period is extended by unanimous agreement of the UK and the European Council. The EU has extended the UK's deadline until October 2019 in order to allow for the approval of a withdrawal agreement (which has to date been rejected three times by Parliament) and related political declaration on the future relationship between the United Kingdom and the European Union, with the option to leave earlier if the withdrawal agreement and political declaration are approved prior to that date. On June 7, 2019, Theresa May resigned as leader of the Conservative Party, triggering a Conservative Party election, which resulted in Boris Johnson assuming the office of Prime Minister on July 24, 2019. There continues to be significant uncertainty as to potential outcomes, which could include departure without a deal, revocation of the Article 50 Notice or departure on a negotiated basis, and significant uncertainty as to next steps, including efforts to renegotiate the terms of withdrawal following the selection of Boris Johnson as the UK's new Prime Minister, a second referendum or a new election.

It is possible that the UK will leave the EU with no withdrawal agreement in place if no agreement can be reached and approved by all relevant parties within the allotted time. In such circumstances, it is likely that a high degree of political, legal, economic and other uncertainty will result. The Brexit Vote, delivery of the Article 50 Notice and subsequent delays have resulted in political (including UK constitutional), legal, regulatory, economic and market uncertainty. Brexit itself and the length of time the United Kingdom and the European Union engage in discussions, which has been over a protracted period of time, could adversely affect European and worldwide economic and market conditions and could contribute to instability in global financial and foreign exchange markets, including volatility in the value of the Sterling and Euro that could persist until some clarity emerges around the United Kingdom's exit process from the European Union and the impact of the leave on the economies of the other European countries. The aforementioned factors could have a material adverse effect on the Group's business, financial condition and results of operations.

The risk factor titled "The proposed Finnish social and healthcare system reform may adversely affect the Group" on page 14 of the Offering Circular shall be deemed supplemented by replacing the second paragraph with the following.

Preparations for the implementation of the reform were discontinued and the Finnish government resigned on 8 March 2019. A new government was formed in Finland in June 2019 and it has announced that it will continue the preparation of these health and social services reforms. At this stage, the Group is not in a position to assess the contents of the potential reform or to evaluate the reform's potential impact on its operations. While the outcome of the potential reform might have an effect on the Group's volumes and financial results in the future, the Group does not expect its results of operations or financial condition in 2019 to be materially impacted by the reform. The Group is actively following the development of the potential reform.

The risk factor titled "Increased capital requirements and standards" on page 14 of the Offering Circular shall be deemed supplemented by adding the following before the penultimate paragraph.

In April 2019, the European Parliament adopted the CRR II and CRD V capital adequacy regulations which will be applicable in June 2021. These regulations include a leverage ratio requirement whereby a credit institution's leverage ratio must be at least 3 per cent. The changes to the capital adequacy regulations are not expected to substantially alter MuniFin's capital adequacy position.

Information Incorporated by Reference

The section headed "Information Incorporated by Reference" starting on page 27 of the Offering Circular shall be deemed to be supplemented by the addition of the following information after the heading.

The following information shall be deemed to be incorporated in, and to form part of, this Offering Circular:

(1) The unaudited consolidated IAS34 financial statements (including the auditors' report thereon and notes thereto) of the Issuer in respect of the six months ending June 2019 (set out on pages 32 to 81 (and the auditors' report on page 83)) (collectively the "**Interim Report 2019**");

The section headed "Information Incorporated by Reference" shall be deemed to be further supplemented by the addition of the following words on page 27 after the sentence beginning "Copies of the documents specified above."

Copies of the Issuer's unaudited consolidated IAS34 financial statements (including the auditors' report thereon and notes thereto) in respect of the six months ending June 2019 (which are included in the Issuer's half year report for 2019) is available on the Issuer's website (www.munifin.fi).

Capitalisation and Indebtedness

The section headed "Capitalisation and Indebtedness" starting on page 82 of the Offering Circular shall be deemed to be supplemented by the addition of the following information.

The following table sets forth consolidated cash and balances with central banks and capitalisation (including short-term debt, long-term debt and shareholders' equity) of the Issuer as at 30 June 2019.

The information in this table should be read in conjunction with "*Management's Discussion and Analysis of Financial Position and Results of Operations of the Group*", the Group Consolidated Financial Statements and the notes to those statements included elsewhere in the Offering Circular and the Interim Report 2019 and the notes to that statement included elsewhere in this Supplement.

	As at 30 June 2019
	(Euro '000)
Cash and balances with central banks	3,470,308
Indebtedness:	
Liabilities to credit institutions	1,070,751
Liabilities to the public and public sector entities	3,948,995
Debt securities issued	27,806,579
Total indebtedness	32,826,325
Shareholders' equity	
Share capital	42,583
Reserve fund	277
Fair value reserve of investments	1,264
Own credit revaluation reserve	15,840
Cost-of-hedging reserve	13,959
Reserve for invested non-restricted equity	40,366
Retained earnings	1,043,803
Total equity attributable to parent company equity holders	1,158,092
Other equity instruments issued	347,454
Total equity	1,505,545
Total Capitalisation	34,331,870

Selected Financial Information Relating to the Group

The section headed "Selected Financial Information Relating to the Group" starting on page 83 of the Offering Circular shall be deemed to be supplemented by the addition of the following information.

The following tables set out, in summary form, selected consolidated financial information for the Group for the six months ended 30 June 2019 as derived from the Interim Report 2019 are prepared in accordance with IAS 34. This information should be read in conjunction with, and is qualified in its entirety by reference to, the Interim Report 2019 and the section entitled *"Management's Discussion and Analysis of Financial Position and Results of Operations of the Group*" appearing elsewhere in this Supplement.

IFRS 16 Leases was applied from 1 January 2019. IFRS 16 replaces IAS 17 and amends the accounting requirements for lessees. The accounting requirements for lessors remain mostly unchanged. The application of IFRS 16 impacted the treatment of leases where MuniFin is the lessee. Items such as office space, parking facilities and cars were previously classified as operating leases according to IAS 17. Under IFRS 16, these lease liabilities have been measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application. Right-of-use assets are measured at an amount equal to lease liability at the date of initial application and are presented in the consolidated balance sheet as part of Tangible assets. Lease liabilities are presented under Other liabilities. The Group has elected to use, under IFRS 16.C10(a), a single discount rate applied to all lease liabilities. The Group retrospectively applied IFRS 16 with cumulative effect recognized on initial application in accordance with IFRS 16.C5(b). The comparative information for the six months ended 30 June 2018 in the Interim Report 2019 has not been restated in accordance with IFRS 16.C7. For more information on IFRS 16 see "*Management's Discussion and Analysis of Financial Position and Results of Operations of the Group—Significant Factors Affecting Operating and Financial Results—IFRS 16*" and Note 1 "*Basis of preparation of the Half Year Report*" to the Interim Report 2019.

INCOME STATEMENT DATA

Consolidated income statement

	For the six months ended 30 June	
	2019	**2018**
	(Euro '000)	
Interest and similar income	**401,302**	**358,990**
Interest and similar expense	**(284,107)**	**(240,989)**
NET INTEREST INCOME	**117,195**	**118,001**
Commission income	2,093	1,169
Commission expense	(1,988)	(1,969)
Net income from securities and foreign exchange transactions	(28,780)	(6,541)
Net income on financial assets at fair value through fair value reserve	112	7
Net income from hedge accounting	(26,501)	37,821
Other operating income	77	45
Administrative expenses	(15,654)	(13,138)
Depreciation and impairment on tangible and intangible assets	(2,058)	(1,158)
Other operating expenses	(10,850)	(9,741)
Credit loss on financial assets at amortised cost	33	(173)
Credit loss and impairments on other financial assets	46	44
NET OPERATING PROFIT	**33,724**	**124,368**
Income tax expense	(6,763)	(24,907)
PROFIT FOR THE PERIOD	**26,961**	**99,461**
Profit attributable to:		
Equity holders of the parent company	26,961	99,461

CONSOLIDATED FINANCIAL POSITION DATA

	As at 30 June	As at 31 December
	2019	**2018**
	(Euro '000)	
ASSETS		
Cash and balances with central banks	3,470,308	3,522,200
Loans and advances to credit institutions	1,201,906	1,380,544
Loans and advances to the public and public sector entities	23,719,133	22,968,118
Debt securities	5,949,146	5,862,591
Shares and participations	9,855	9,521
Derivative contracts	2,200,434	1,538,610
Intangible assets	17,100	14,850
Tangible assets	10,044	2,427
Other assets	170,578	174,818
Accrued income and prepayments	207,070	203,061
TOTAL ASSETS	**36,955,574**	**35,676,739**

	As at 30 June	As at 31 December
	2019	2018
	(Euro '000)	
LIABILITIES AND EQUITY		
LIABILITIES		
Liabilities to credit institutions	1,070,751	822,504
Liabilities to the public and public sector entities	3,948,995	3,870,918
Debt securities issued	27,806,579	26,901,998
Derivative contracts	2,121,762	2,205,427
Other liabilities	109,830	6,149
Accrued expenses and deferred income	160,353	148,377
Deferred tax liabilities	231,758	235,307
TOTAL LIABILITIES	**35,450,029**	**34,190,680**
EQUITY		
Share capital	42,583	42,583
Reserve fund	277	277
Fair value reserve of investments	1,264	726
Own credit risk revaluation reserve	15,840	4,726
Cost-of-hedging reserve	13,959	14,235
Reserve for invested non-restricted equity	40,366	40,366
Retained earnings	1,043,803	1,035,692
Total equity attributable to parent company equity holders	**1,158,092**	**1,138,605**
Other equity instruments issued	**347,454**	**347,454**
TOTAL EQUITY	**1,505,545**	**1,486,059**
TOTAL LIABILITIES AND EQUITY	**36,955,574**	**35,676,739**

CONSOLIDATED CASH FLOW DATA

	For the six months ended 30 June	
	2019	2018
	(Euro '000)	
Cash flow from operating activities	25,391	494,848
Cash flow from investing activities	(3,156)	(3,073)
Cash flow from financing activities	(22,000)	(22,000)
Change in cash and cash equivalents	235	469,775
Cash and cash equivalents at 1 January	3,573,206	3,562,733
Cash and cash equivalents at 30 June	3,573,441	4,032,508

KEY PERFORMANCE INDICATORS

	As at and for the six months ended 30 June	
	2019	2018
Turnover[(1)] (mEUR)	348.3	391.5
Net interest income (mEUR)	117.2	118.0
% of turnover	33.6	30.1
Net operating profit (mEUR)	33.7	124.4
% of turnover	9.7	31.8
Cost-to-income ratio[(2)]	0.46	0.16
Lending portfolio[(3)] (mEUR)	23,019	21,508
Total funding acquired[(4)] (mEUR)	31,822	30,633
Total assets (mEUR)	36,956	35,521
Return on equity (%) (ROE)[(5)]	3.60	14.56
Return on assets (%) (ROA)[(6)]	0.15	0.57
Equity ratio (%)[(7)]	4.07	3.92
Common Equity Tier 1 (CET1) (mEUR)	1,076	1,016
Tier 1 capital (mEUR)	1,423	1,363
Total own funds (mEUR)	1,423	1,363

	As at and for the six months ended 30 June	
	2019	2018
Ratio of Common Equity Tier 1 to risk exposure amount (%)[8]	69.1	61.0
Ratio of Tier 1 capital to risk exposure amount (%)[9]	91.4	81.9
Ratio of total own funds to risk exposure amount (%)[10]	91.4	81.9
Leverage ratio, %[11]	3.99	3.97
Personnel	163	147

(1) Turnover is calculated as the sum of interest and similar income, commission income, net income from securities and foreign exchange transactions, net income on financial assets at fair value through fair value reserve, net income from hedge accounting and other operating income.

(2) Cost-to-income ratio is calculated as the sum of administrative expenses, depreciation and impairment on tangible and intangible assets and other operating expenses divided by the sum of net interest income, net commission income, net income from securities and foreign exchange transactions, net income on financial assets at fair value through fair value reserve, net income from hedge accounting and other operating income.

(3) Lending portfolio is calculated as loans and advances to the public and public sector entities less leasing receivables.

(4) Total funding acquired is calculated as the sum of liabilities to credit institutions, liabilities to the public and public sector entities and debt securities issued less CSA collateral received.

(5) Return on equity (per cent.) (ROE) is calculated as net operating profit less income tax expense divided by average total equity and non-controlling interest (average of the beginning of the year and the end of the reporting period).

(6) Return on assets (per cent.) (ROA) is calculated as net operating profit less income tax expense divided by average total assets (average of the beginning of the year and the end of the reporting period).

(7) Equity ratio (per cent.) is calculated as the sum of total equity and non-controlling interest divided by total assets.

(8) Ratio of Common Equity Tier 1 to risk-weighted assets (per cent.) equals total Common Equity Tier 1 capital divided by risk exposure amount.

(9) Ratio of Tier 1 capital to risk-weighted assets (per cent.) equals total Tier 1 capital divided by risk exposure amount.

(10) Ratio of total own funds to risk-weighted assets (per cent.) equals total own funds divided by risk exposure amount.

(11) Leverage ratio is calculated by dividing Tier 1 capital by total exposure.

Other Alternative Performance Measures (Non-IFRS)

	As at and for the six months ended 30 June	
	2019	2018
Net interest income including AT1 capital loan interest[1] (mEUR)	109.2	109.9
Unrealised fair value changes (mEUR)[2]	(56.3)	31.7
Cost-to-income ratio excluding unrealised fair value changes[3]	0.24	0.21
Net operating profit excluding unrealised fair value changes[4] (mEUR)	90.0	92.7

(1) See below for a reconciliation of net interest income with interest expenses on AT1 capital loan:

	For the six months ended 30 June	
	2019	**2018**
Reconciliation of net interest income with interest expenses on AT1 capital loan		
Interest and similar income (incl. leasing)	401.3	359.0
Interest and similar expenses	(284.1)	(241.0)
AT1 capital loan interest in the parent company	(8.0)	(8.1)
Net interest income with interest expenses on AT1 capital loan	**109.2**	**109.9**

(2) See below for a reconciliation of unrealised fair value changes:

	For the six months ended 30 June	
	2019	**2018**
Reconciliation of unrealised fair value changes		
Net income from securities and foreign exchange transactions, fair value changes	(29.8)	(6.1)
Net income from hedge accounting	(26.5)	37.8
Unrealised fair value changes	**(56.3)**	**31.7**

(3) Cost-to-income ratio excluding unrealised fair value changes comprises the sum of the Group's administrative expenses, depreciation and impairment on tangible and intangible assets and other operating expenses divided by the sum of net interest income, net commission income, net income from securities and foreign exchange transactions, net income on financial assets at fair value through fair value reserve, net income from hedge accounting and other operating income (excluding unrealised fair value changes).

(4) See below for a reconciliation of net operating profit excluding unrealised fair value:

	For the six months ended 30 June	
	2019	**2018**
Reconciliation of net operating profit excluding unrealised fair value changes		
Net operating profit	33.7	124.4
Net income from securities and foreign exchange transactions, fair value changes	(29.8)	(6.1)
Net income from hedge accounting	(26.5)	37.8
Net operating profit excluding unrealised fair value changes	**90.0**	**92.7**

Management's Discussion and Analysis of Financial Position and Results of Operations of the Group

The section headed "Management's Discussion and Analysis of Financial Position and Results of Operations of the Group" starting on page 87 of the Offering Circular shall be deemed to be supplemented by the addition of the following information.

Significant Factors Affecting Financial Position and Results of Operations of the Group for the Six Months Ended 30 June 2019

The volume of the Group's lending and its market share

The total amount of new loans made in the six months ended 30 June 2019 was higher than in the same period last year at Euro 1,386 million (Euro 1,239 million in the six months ended 30 June 2018). As of 30 June 2019, the Group's lending portfolio stood at Euro 23,019 million (31 December 2018: Euro 22,354 million).

Fluctuations in interest rates, currency exchange rates and the valuation of derivatives

The Group's total funding acquired as at 30 June 2019 was Euro 31,822 million. The Group hedges against all currency risks by using derivative contracts to translate foreign currency denominated funding into euros.

Also, while the Group's lending and funding is in both floating and fixed interest rates, the Group also hedges all of its fixed rate interest exposure (both borrowings and loans to customers) to floating rate.

As a result of these activities, the Group had derivative contracts with a nominal value of Euro 60,704.2 million as at 30 June 2019.

The following table sets forth, as of the date indicated, information on the derivative contracts of the Group:

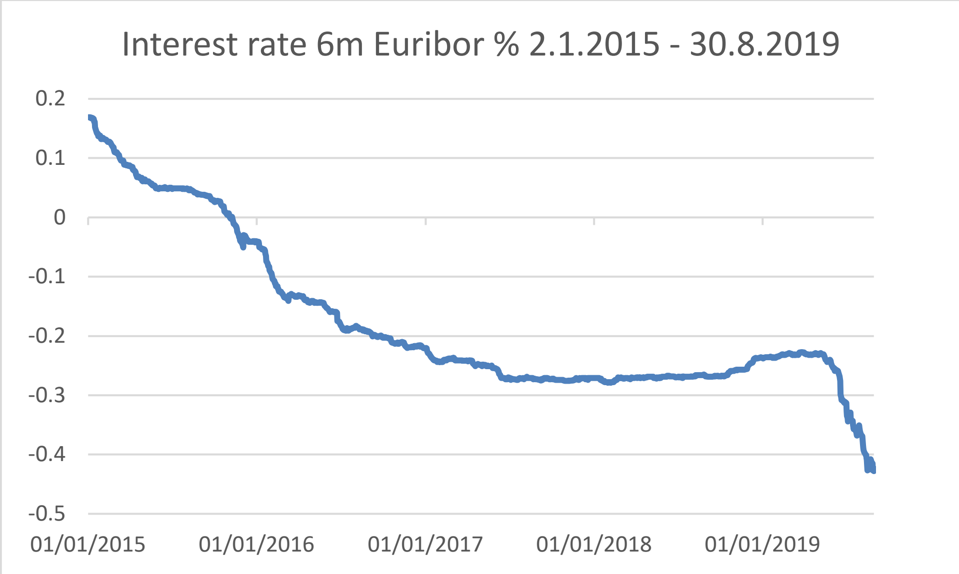
	As at 30 June 2019		
	Nominal value	Fair Value	
	Total	Positive	Negative
		Euro ('000)	
Contracts in hedge accounting			
Interest rate derivatives			
Interest rate swaps	20,290,205	813,254	(370,026)
of which are cleared by the central counterparty	13,798,448	343,043	(199,125)
Currency derivatives			
Cross currency interest rate swaps	11,408,966	537,075	(638,712)
Total contracts in hedge accounting	**31,699,171**	**1,350,329**	**(1,008,739)**
Contracts at fair value through profit or loss[(1)]			
Interest rate derivatives			
Interest rate swaps	18,662,886	620,558	(379,339)
of which cleared by the central counterparty	9,185,905	780	(118,612)
Interest rate options	100,070	176	(176)
Currency derivatives			
Cross currency interest rate swaps	6,987,257	192,072	(626,996)
Forward exchange contracts	1,601,564	(584)	(13,689)
Equity derivatives	1,653,223	37,883	(92,824)
Other derivatives	-	-	-
Total contracts at fair value through profit or loss	**29,004,999**	**850,105**	**(1,113,024)**
Total derivative contracts	**60,704,170**	**2,200,434**	**(2,121,762)**

(1) Contracts that are measured at fair value through profit or loss contain all derivatives of the Group which are not included in hedge accounting, even if they are entered into for risk management purposes. The category contains derivatives used for hedging financial assets and liabilities which are designated at fair value through profit or loss, all derivatives with municipalities and all derivatives hedging derivatives with municipalities. In addition to these, the category contains derivatives used for hedging interest rate risk of the balance sheet, for which no hedged item has been specified.

While the Group uses derivatives only for hedging purposes, certain derivatives entered into by the Group do not qualify for hedge accounting and create volatility in the Group's income statement. This volatility is a function of the volatility of market interest rates and currency exchange rates and the related fair value changes of those derivatives which the Group must recognise on its income statement. The total nominal value of derivative contracts not included in hedge accounting under EU IFRS was Euro 29,005.0 million as at 30 June 2019. Changes in the fair value of such derivatives are recognised on the income statement during the period in which they occur as one component of the net result for the line item "Net income from securities and foreign exchange transactions".

Interest rate movements

The chart below shows the Euribor 6-month interest rate for 2015, 2016, 2017, 2018 and the first eight months of 2019. In particular, beginning in June 2019 the Euribor interest rate declined significantly.



IFRS 16

IFRS 16 Leases was adopted at the beginning of 2019 and replaces the existing principles in IAS 17. The new standard amends the accounting requirements for lessees while the accounting requirements for lessors remains largely unchanged.

The IFRS 16 standard impacted the treatment of leases where the Group is the lessee mainly in items such as office space, parking facilities and cars. Previously, these items were classified as operating leases under IAS 17. Under IFRS 16 these lease liabilities have been measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application. Right-of-use assets are measured at an amount equal to lease liability at the date of initial application. Right-of-use assets are presented in the consolidated balance sheet as part of Tangible assets and lease liabilities are presented under Other liabilities. Lease payments are allocated between interest expense and the deduction of the lease liability. The Group elected to use the expedient provided by IFRS 16.C10(a) which applies a single discount rate to all lease liabilities. The Group retrospectively applied IFRS 16 with cumulative effect recognized on initial application in accordance with IFRS 16.C5(b). The comparative information for the six months ended 30 June 2018 in the Interim Report 2019 has not been restated in accordance with IFRS 16.C7.

The impact of IFRS 16 can be seen in the below table.

	(EUR 1,000)
31 December 2018	
Lease liabilities disclosed as operating leases under IAS 17	8,384
1 January 2019	
Lease liabilities recognized based on initial application of IFRS 16 due to different treatment of extension options	693
Impact of discounting at incremental borrowing rate	(340)
Total lease liabilities recognised based on initial application of IFRS 16	**8,737**

The weighted average incremental borrowing rate utilised in the initial recognition of lease liabilities on 1 January 2019 was 1.35%.

At the end of the reporting period, IFRS 16 right-of-use assets totalled EUR 7,929 thousand and the lease liabilities presented within Other liabilities totalled EUR 7,955 thousand. The initial application of IFRS 16 did not impact equity.

For more information on IFRS 16 see Note 1 "*Basis of preparation of the Half Year Report*" to the Interim Report 2019.

Results of Operations for the six months ended 30 June 2019 versus the six months ended 30 June 2018

The following tables set forth, as of the dates indicated, certain summary financial information about the results of the Group's operations for the six months ended 30 June 2019 versus the six months ended 30 June 2018:

	For the six months ended 30 June		**Change 2018 to 2019**
	2019	**2018**	
	(Euro '000)		*(%)*
Interest and similar income	**401,302**	**358,990**	**11.8**
Interest and similar expense	**(284,107)**	**(240,989)**	**17.9**
NET INTEREST INCOME	**117,195**	**118,001**	**(0.7)**
Commission income	2,093	1,169	79.1
Commission expense	(1,988)	(1,969)	0.9
Net income from securities and foreign exchange transactions	(28,780)	(6,541)	340.0
Net income on financial assets at fair value through fair value reserve	112	7	1,414.7
Net income from hedge accounting	(26,501)	37,821	(170.1)
Other operating income	77	45	72.3
Administrative expenses	(15,654)	(13,138)	19.2
Depreciation and impairment on tangible and intangible assets	(2,058)	(1,158)	77.8
Other operating expenses	(10,850)	(9,741)	11.4
Credit loss on financial assets at amortised cost	33	(173)	(119.2)
Credit loss and impairments on other financial assets	46	44	3.1
NET OPERATING PROFIT	**33,724**	**124,368**	**(72.9)**
Income tax expense	(6,763)	(24,907)	(72.8)
PROFIT FOR THE FINANCIAL PERIOD	**26,961**	**99,461**	**(72.9)**
Profit attributable to:			
Equity holders of the parent company	26,961	99,461	(72.9)

Net Interest Income

Net interest income decreased by Euro 0.8 million, or 0.7 per cent., to Euro 117.2 million for the six months ended 30 June 2019, compared to Euro 118.0 million for the six months ended 30 June 2018 primarily due to the reasons set out below.

Interest income and expenses on assets

Net interest income from assets increased by Euro 0.3 million, or 0.6 per cent., to Euro 46.6 million for the six months ended 30 June 2019, compared to Euro 46.4 million for the six months ended 30 June 2018 primarily due to an increase in net interest income on derivative contracts partially offset by a decrease in net interest expense payable on cash and balances with central banks.

Net interest income from loans and advances to the public and public sector entities decreased by Euro 1.1 million, or 1.1 per cent., to Euro 96.6 million for the six months ended 30 June 2019, compared to Euro 97.8 million for the six months ended 30 June 2018 primarily due to a minor decrease in the average interest rate of the lending portfolio.

Net interest income from debt securities (i.e., the Group's liquidity portfolio) was Euro 9.9 million for the six months ended 30 June 2019 compared to net interest income from debt securities of Euro 10.7 million for the six months ended 30 June 2018 primarily due to a decrease in the amount of debt securities invested in the Group's liquidity portfolio and a slightly lower average interest rate on the liquidity portfolio.

Net interest expense payable on derivative contracts decreased by Euro 2.6 million, or 4.7 per cent., to Euro 52.4 million for the six months ended 30 June 2019, compared to Euro 54.9 million for the six months ended 30 June 2018 primarily due to changes in interest rates.

Interest income and expenses on liabilities

Net interest income on liabilities decreased by Euro 1.1 million, or 1.5 per cent., to Euro 70.5 million for the six months ended 30 June 2019, compared to Euro 71.6 million for the six months ended 30 June 2018, primarily due to a decrease in net interest income on derivative contracts.

Net interest income on liabilities on derivative contracts decreased by Euro 49.8 million, or 11.9 per cent., to Euro 368.5 million for the six months ended 30 June 2019, compared to Euro 418.3 million for the six months ended 30 June 2018. This decrease was primarily due to changes in interest rates.

Net interest expense on liabilities from debt securities issued decreased by Euro 46.4 million, or 15.7 per cent., to Euro 248.4 million for the six months ended 30 June 2019, compared to Euro 294.8 million for the six months ended 30 June 2018. This decrease was primarily due to a favourable interest rate environment.

Net income from securities and foreign exchange transactions

Net income from securities and foreign exchange transactions was a loss of Euro 28.8 million for the six months ended 30 June 2019, compared to a loss of Euro 6.5 million for the six months ended 30 June 2018. The change in net income from securities was primarily due to IFRS 9 related changes in valuation principles that have significantly increased volatility of unrealised fair value changes. The unrealised fair value changes were influenced in particular by changes in interest rate expectations in the Company's main funding markets in 2019.

Net income from hedge accounting

Net income from hedge accounting decreased to a loss of Euro 26.5 million for the six months ended 30 June 2019, compared to income of Euro 37.8 million for the six months ended 30 June 2018. Net income from hedge accounting was also affected by the increased volatility after the IFRS 9 implementation. Unrealised fair value changes were influenced by changes in interest rate expectations as well as due to the use of generally accepted valuation methods where changes in fair value differ between the financial liability and the respective hedging derivative.

For a breakdown of the Group's derivative contracts during the periods under review see "*—Significant Factors Affecting Operating and Financial Results—Fluctuations in interest rates, currency exchange rates and the valuation of derivatives*".

Administrative expenses

The Group had 163 total personnel as at 30 June 2019 compared to 147 total personnel as at 30 June 2018.

Administrative expenses increased by Euro 2.5 million, or 19.2 per cent., to Euro 15.7 million for the six months ended 30 June 2019, compared to Euro 13.1 million for the six months ended 30 June 2018 primarily due to growth in the number of employees at the Group's parent company.

Other operating expenses

Other operating expenses increased by Euro 1.1 million, or 11.4 per cent., to Euro 10.9 million for the six months ended 30 June 2019, compared to Euro 9.7 million for the six months ended 30 June 2018 mainly due to costs related to system and process development.

Income taxes

Income taxes decreased by Euro 18.1 million, or 72.8 per cent., to Euro 6.8 million for the six months ended 30 June 2019, compared to Euro 24.9 million for the six months ended 30 June 2018 due to a decrease in net operating profit in the first six months of 2019 compared with the first six months of 2018.

Financial Position

Assets as at 30 June 2019 compared to 31 December 2018

The following table sets forth, as of the dates indicated, certain summary financial information about the assets of the Group:

	As at 30 June	As at 31 December
	2019	**2018**
	(Euro '000)	
Assets		
Cash and balances with central banks	3,470,308	3,522,200
Loans and advances to credit institutions	1,201,906	1,380,544
Loans and advances to the public and public sector entities	23,719,133	22,968,118
Debt securities	5,949,146	5,862,591
Shares and participations	9,855	9,521
Derivative contracts	2,200,434	1,538,610
Intangible assets	17,100	14,850
Tangible assets	10,044	2,427
Other assets	170,578	174,818
Accrued income and prepayments	207,070	203,061
Total assets	**36,955,574**	**35,676,739**

As of 30 June 2019, the main components of the total assets of the Group were loans and advances to the public and public sector entities, debt securities and cash and balances with central banks, representing 64.2 per cent., 16.1 per cent. and 9.4 per cent., respectively, of total assets. As of 30 June 2019, total assets had increased by Euro 1,278.8 million, or by 3.6 per cent., to Euro 36,955.6 million, compared to Euro 35,676.7 million as of 31 December 2018, which was mainly attributable to an increase in loans and advances to the public and public sector entities and derivative contacts.

Loans and advances to the public and public sector entities

Loans and advances to the public and public sector entities increased by Euro 751.0 million, or 3.3 per cent., to Euro 23,719.1 million as at 30 June 2019, compared to Euro 22,968.1 million as at 31 December 2018 due to an increase in the volume of long-term customer financing by the Group.

Debt securities

Debt securities increased by Euro 86.6 million, or 1.5 per cent., to Euro 5,949.1 million as at 30 June 2019, compared to Euro 5,862.6 million as at 31 December 2018 due to an increase in the amount of short-term customer finance.

Derivative contracts

For a breakdown of the Group's derivative contracts during the periods under review see "—*Significant Factors Affecting Operating and Financial Results—Fluctuations in interest rates, currency exchange rates and the valuation of derivatives*".

Derivative contract assets increased by Euro 661.8 million, or 43.0 per cent., to Euro 2,200.4 million as at 30 June 2019, compared to Euro 1,538.6 million as at 31 December 2018 primarily due to changes in interest rates and currency exchange rates.

Liabilities as at 30 June 2019 compared to 31 December 2018

The following table sets forth, as of the dates indicated, certain summary financial information about the liabilities of the Group:

	As at 30 June	As at 31 December
	2019	**2018**
	(Euro '000)	
Liabilities		
Liabilities to credit institutions	1,070,751	822,504
Liabilities to the public and public sector entities	3,948,995	3,870,918
Debt securities issued	27,806,579	26,901,998
Derivative contracts	2,121,762	2,205,427
Other liabilities	109,830	6,149
Accrued expenses and deferred income	160,353	148,377
Deferred tax liabilities	231,758	235,307
Total liabilities	**35,450,029**	**34,190,680**

As of 30 June 2019, the main components of the total liabilities of the Group were debt securities issued, liabilities to the public and public sector entities, derivative contracts and liabilities to credit institutions, representing per cent., 78.4 per cent., 11.1 per cent., 6.0 per cent. and 3.0, respectively, of total liabilities. As of 30 June 2019, total liabilities had increased by Euro 1,259.3 million, or by 3.7 per cent., to Euro 35,450.0 million, compared to Euro 34,190.7 million as of 31 December 2018, which was mainly attributable to an increase in debt securities issued of Euro 904.6 million compared to the balance as of 31 December 2018.

Debt securities issued

Debt securities issued by the Group increased by Euro 904.6 million, or 3.4 per cent., to Euro 27,806.6 million as at 30 June 2019, compared to Euro 26,902.0 million as at 31 December 2018 primarily due to an increase in new funding that was issued compared to maturing funding.

Liabilities to credit institutions

Liabilities to credit institutions increased by Euro 248.2 million, or 30.2 per cent., to Euro 1,070.8 million as at 30 June 2019, compared to Euro 822.5 million as at 31 December 2018 mainly due to an increase in received collaterals.

Liabilities to the public and public sector entities

Liabilities to the public and public sector entities consists primarily of bilateral loans. Liabilities to the public and public sector entities increased by Euro 78.1 million, or 2.0 per cent., to Euro 3,949.0 million as at 30 June 2019, compared to Euro 3,870.9 million as at 31 December 2018 primarily due to an increase in funding acquired compared to maturing funding.

Derivative contracts

For a breakdown of the Group's derivative contracts during the period see "—*Significant Factors Affecting Operating and Financial Results—Fluctuations in interest rates, currency exchange rates and the valuation of derivatives*".

Derivative contracts liabilities for the Group decreased by Euro 83.7 million, or 3.8 per cent., to Euro 2,121.8 million as at 30 June 2019, compared to Euro 2,205.4 million as at 31 December 2018 primarily due to changes in interest rates and currency exchange rates.

Capital Adequacy

The table below shows the Group's own funds for the periods indicated.

Consolidated own funds

	As at 30 June	**As at 31 December**
	2019	**2018**
	(Euro '000)	
Common Equity Tier 1 before adjustments	1,136,028	1,118,171
Adjustments to Common Equity Tier 1	(60,234)	(52,715)
Common Equity Tier 1	**1,075,794**	**1,065,455**
Additional Tier 1 capital before adjustments	347,454	347,454
Adjustments to Additional Tier 1 capital	-	-
Additional Tier 1 Capital	**347,454**	**347,454**
Tier 1 Capital	**1,423,248**	**1,412,909**
Tier 2 Capital	-	-
Total own funds	**1,423,248**	**1,412,909**

Minimum requirement for own funds, Group

	30 June 2019		31 December 2018	
	Capital requirement	Risk-exposure amount	Capital requirement	Risk-exposure amount
	(Euro '000)			
Credit and counterparty risk, standardised approach	**69,307**	**866,340**	**78,128**	**976,596**
Exposure to regional governments or local authorities	150	1,878	353	4,413
Exposures to public sector entities	1,729	21,608	4,807	60,086
Exposure to multilateral development banks	526	6,580	951	11,884
Exposures to institutions	44,675	558,440	52,470	655,875
Exposures in the form of covered bonds	19,315	241,436	18,986	237,323
Items representing securitisation positions	763	9,543	13	165
Exposures in the form of shares in CIUs	81	1,009	88	1,103
Other items	2,068	25,846	460	5,746
Market risk	**3,341**	**41,762**	**-**	**-**
Credit valuation adjustment risk (CVA VaR), standard method	**18,090**	**226,121**	**19,722**	**246,528**
Operational risk, basic indicator approach	**33,841**	**423,016**	**30,644**	**383,048**
Total	**124,579**	**1,557,240**	**128,494**	**1,606,172**

Consolidated key figures for capital adequacy

	As at 30 June	As at 31 December
	2019	2018
Ratio of Common Equity Tier 1 (CET1) to risk exposure amount, %	69.1	66.3
Ratio of Tier 1 capital (T1) to risk exposure amount, %	91.4	88.0
Ratio of total own funds to risk exposure amount, %	91.4	88.0

In addition to the above, the table below shows the own funds for the Issuer only for the periods indicated.

Own funds, parent company

	As at 30 June	As at 31 December
	2019	2018
	(Euro '000)	
Common Equity Tier 1 before adjustments	1,134,534	1,117,133
Adjustments to Common Equity Tier 1	(60,264)	(52,769)
Common Equity Tier 1	**1,074,270**	**1,064,363**
Additional Tier 1 capital before adjustments	348,649	348,406
Adjustments to Additional Tier 1 capital	-	-
Additional Tier 1 Capital	**348,649**	**348,406**
Tier 1 Capital	**1,422,919**	**1,412,770**
Tier 2 Capital	-	-
Total own funds	**1,422,919**	**1,412,770**

Minimum requirement for own funds, parent company

	30 June 2019		31 December 2018	
	Capital requirement	**Risk exposure amount**	**Capital requirement**	**Risk exposure amount**
	(Euro ´000)			
Credit and counterparty risk, standardised approach	**69,337**	**866,713**	**78,249**	**978,115**
Exposure to regional governments or local authorities	150	1,878	353	4,413
Exposures to public sector entities	1,729	21,608	4,807	60,086
Exposure to multilateral development banks	526	6,580	951	11,884
Exposures to institutions	44,664	558,297	52,466	655,825
Exposures in form of covered bonds	19,315	241,436	18,986	237,323
Items representing securitisation positions	763	9,543	13	165
Exposures in form of shares in CIUs	81	1,009	88	1,103
Equity exposure	131	1,639	131	1,639
Other items	1,978	24,722	454	5,676
Market risk	**3,341**	**41,762**	**-**	**-**
Credit valuation adjustment risk (CVA VaR), standard method	**18,090**	**226,121**	**19,722**	**246,528**
Operational risk, basic indicator approach	**31,081**	**388,508**	**28,487**	**356,092**
Total	**121,848**	**1,523,105**	**126,459**	**1,580,735**

Key figures for capital adequacy, parent company

	As at 30 June	**As at 31 December**
	2019	**2018**
Ratio of Common Equity Tier 1 (CET1) to risk exposure amount, %	70.5	67.3
Ratio of Tier 1 capital (T1) to risk exposure amount, %	93.4	89.4
Ratio of total own funds to risk exposure amount, %	93.4	89.4

Contingent Liabilities

In the ordinary course of business, the Group enters into transactions which, upon being concluded, are not disclosed in the Group's statement of financial position as assets or liabilities, but result in contingent liabilities. The main item of these off-financial position liabilities of the Group is financial commitments, mainly binding loan commitments granted.

Breakdown of off-balance sheet unmatured commitments and contingent liabilities	As at 30 June 2019
	(Euro '000)
Credit commitments	2,480,229
AT1 accrued interest	3,098

Commitments

Part of the loans to the municipal sector by the Issuer have been pledged to the Guarantor as collateral.

On 30 June 2019, the Issuer had given collateral to the Guarantor as follows:

Bonds	As at 30 June 2019
	(Euro '000)
Loans pledged to the central bank	2,770,326
Loans pledged to the Guarantor	10,737,861
Total	**13,508,187**

Cash Flows

The Six Months Ended 30 June 2019 Compared to the Six Months Ended 30 June 2018

The table below sets out, for the period indicated, information on the Group's net consolidated cash flows on operating, investing and financing activities as well as cash and cash equivalents at the beginning and end of the period.

	For the six months ended 30 June	
	2019	2018
	(Euro '000)	
Cash flow from operating activities	25,391	494,848
Cash flow from investing activities	(3,156)	(3,073)
Cash flow from financing activities	(22,000)	(22,000)
Change in cash and cash equivalents	235	469,775
Cash and cash equivalents at 1 January	3,573,206	3,562,733
Cash and cash equivalents at period end	3,573,441	4,032,508

Operating Activities

The operating activities of the Group for the six months ended 30 June 2019 generated net cash inflows of Euro 25.4 million compared to net cash inflows of Euro 494.8 million for the six months ended 30 June 2018. The main driver for this change was the change in long- and short-term funding. The Group's change in long-term funding was a cash inflow of Euro 568.7 million in the six months ended 30 June 2019 compared to an inflow of Euro 125.2 million in the six months ended 30 June 2018. The Group's change in short-term funding was a cash outflow of Euro 592.3 million in the six months ended 30 June 2019 compared to an inflow of Euro 449.1 million in the six months ended 30 June 2018. The Group's change in collateral was an increase of Euro 597.0 million in the six months ended 30 June 2019 and a decrease of Euro 82.5 million in the six months ended 30 June 2018, respectively.

Investing Activities

The investing activities of the Group generated net cash outflows of Euro 3.2 million and Euro 3.1 million for the six months ended 30 June 2019 and 30 June 2018, respectively, from the acquisition of tangible and intangible assets.

Financing Activities

Net cash outflow from financing activities was Euro 22.0 million for the six months ended 30 June 2019 primarily reflecting a full year of interest from 2018 paid on the AT1 capital loan in April 2019 and dividends paid. Net cash outflow from financing activities was Euro 22.0 million for the six months ended 30 June 2018 primarily reflecting a full year of interest from 2017 paid on the AT1 capital loan in April 2018 and dividends paid.

Management and Shareholders of Municipality Finance Plc

The section headed "Management and Shareholders of Municipality Finance Plc" starting on page 112 of the Offering Circular shall be deemed to be supplemented by the addition of the following information.

The subsection headed "Administration of the Issuer" shall be deemed to be supplemented by replacing the footnote on page 112 with the following information.

Raija-Leena Hankonen's term as a board member formally began on 18 June 2019, that being the date on which the amendments to the Issuer's Articles of Association were registered to the Finnish Trade Register.

The subsection headed "Administration of the Issuer" shall be deemed to be supplemented by adding the following sentences to the end of paragraph 7 beginning "The Issuer's President and CEO".

Aku Dunderfelt was appointed as the Executive Vice President of Customer Finance and a member of the Issuer's Executive Management Team. He began his new role in August 2019. Mr. Dunderfelt was appointed after Jukka Helminen resigned.

Management's Discussion and Analysis of Financial Position and Results of Operations of the Guarantor

The section headed "Management's Discussion and Analysis of Financial Position and Results of Operations of the Guarantor" starting on page 116 of the Offering Circular shall be deemed to be supplemented by the addition of the following information.

The subsection headed "Guarantee fee and expenses" on page 116 shall be deemed to be supplemented by replacing the second sentence of the second paragraph beginning "To secure its liquidity" with the following.

MGB also has a back-up facility agreement of Euro 200 million with an independent third party.

No Significant Change

Paragraph 5 under the section headed "General Information" on page 139 of the Offering Circular shall be deemed to be replaced by the following statement.

Since 30 June 2019 there has been no significant change in the financial or trading position of the Issuer or the Municipality Finance Group.