

OP Mortgage Bank: Interim Report 1 January–30 September 2021

OP Mortgage Bank (OP MB) is part of OP Financial Group and its role is to raise, together with OP Corporate Bank plc, funding for OP from money and capital markets. OP MB is responsible for the Group's funding for the part of covered bond issuance.

Financial standing

The intermediary loans and loan portfolio of OP MB totalled EUR 18,342 million (15,326)* on 30 September 2021.

In March, OP MB issued Finland's first green covered bond in the international capital market. The fixed-rate EUR 750-million covered bond had a maturity of 10 years. Out of the proceeds of the bond, EUR 520 million was intermediated to 42 OP cooperative banks in the form of intermediary loans.

In May, OP MB issued three floating-rate covered bonds in the amount of one billion euros each and with a maturity of two years. The proceeds of the bond were intermediated in their entirety to 113 OP cooperative banks in the form of intermediary loans. The bond issues in May were performed as internal issues within OP Financial Group.

In September, a new extension of an intermediary loan model was performed on a bond issued in March 2021 that will mature in 2031. As part of this extension, OP MB provided 15 OP cooperative banks with intermediary loans at a total amount of EUR 230 million.

On 30 September 2021, 121 OP cooperative banks had a total of EUR 14,540 million (10,790) in intermediate loans from OP MB.

Earnings before tax totalled EUR 4.7 million (6.3). The company's financial standing remained stable throughout the reporting period.

Impairment loss on receivables totalled EUR 0.6 million (1.3). A year ago, customers actively applied for repayment holidays on their loans as a result of the Covid-19 crisis. Combined with the changes in macroeconomic parameters applied in the calculation of expected credit losses, this increased the amount of expected credit losses. A year ago, the adoption of the new definition of default also increased the amount of expected credit losses.

*The comparatives for 2020 are given in brackets. For income statement and other aggregated figures, January–September 2020 figures serve as comparatives. For balance-sheet and other cross-sectional figures, figures at the end of the previous financial year (31 December 2020) serve as comparatives.

Collateralisation of bonds issued to the public

On 30 September 2021, loans as collateral in security of the covered bonds issued under the Euro Medium Term Covered Note programme worth EUR 20 billion established on 12 November 2010 under the Act on Mortgage Credit Banks (Laki kiinnitysluottopankkitoiminnasta 688/2010) totalled EUR 15,840 million. On the same date, loans as collateral in security of the covered bonds issued under the Euro Medium Term Retained Covered Note programme worth EUR 10 billion established on 15 June 2020 totalled EUR 3,550 million.

Capital adequacy

OP MB's Common Equity Tier 1 (CET1) ratio stood at 86.2% (61.8) on 30 September 2021. The decrease in exposures improved the CET1 ratio. The minimum CET1 capital requirement is 4.5% and the requirement for the capital conservation buffer is 2.5%, i.e. the total CET1 capital requirement is 7%. The minimum total capital requirement is 8% and 10.5% with increased capital conservation buffer. Earnings for the financial year were not included in CET1 capital.

OP MB uses the Internal Ratings Based Approach (IRBA) to measure its capital adequacy requirement for credit risk. OP MB uses the Standardised Approach to measure its capital adequacy for operational risks.

OP MB belongs to OP Financial Group. As part of the Group, OP MB is supervised by the ECB. OP Financial Group presents capital adequacy information in its financial statements bulletins and interim and half-year financial reports in accordance with the Act on the Amalgamation of Deposit Banks. OP Financial Group also publishes Pillar III disclosures.

OP MB has presented its capital base and capital adequacy in accordance with the EU Capital Requirements Regulation (EU 575/2013).

Capital base and capital adequacy, TEUR	30 Sep 2021	31 Dec 2020
Shareholders' equity	368,461	371,093
Common Equity Tier 1 (CET1) before deductions	368,461	371,093
Excess funding of pension liability	-56	-56
Share of unaudited profits	-3,749	-6,381
Shortfall of ECL minus expected losses	-3,082	-3,448
Common Equity Tier 1 (CET1)	361,574	361,208
Tier 1 capital (T1)	361,574	361,208
Excess of ECL minus expected losses		
Tier 2 Capital (T2)		
Total capital base	361,574	361,208
Total risk exposure amount		
Credit and counterparty risk	389,395	550,145
Operational risk	30,130	34,748
Total	419,525	584,893
Key ratios, %		
CET1 capital ratio	86.2	61.8
Tier 1 capital ratio	86.2	61.8
Capital adequacy ratio	86.2	61.8
Capital requirement		
Capital base	361,574	361,208
Capital requirement	44,051	61,414
Buffer for capital requirements	317,523	299,794

Joint and several liability of amalgamation

Under the Act on the Amalgamation of Deposit Banks, the amalgamation of cooperative banks comprises the organisation's central cooperative (OP Cooperative), the central cooperative's member credit institutions and the companies belonging to their consolidation groups as well as credit and financial institutions and service companies in which the above together hold more than half of the total votes. This amalgamation is supervised on a consolidated basis. On 30 September 2021, OP Cooperative's member credit institutions comprised 125 OP cooperative banks as well as OP Corporate Bank plc, OP MB and OP Retail Customers plc.

The central cooperative is responsible for issuing instructions to its member credit institutions concerning their internal control and risk management, their procedures for securing liquidity and capital adequacy as well as for compliance with harmonised accounting policies in the preparation of the amalgamation's consolidated financial statements.

As a support measure referred to in the Act on the Amalgamation of Deposit Banks, the central cooperative is liable to pay any of its member credit institutions an amount that is necessary to prevent the credit institution from being placed in liquidation. The central

cooperative is also liable for the debts of a member credit institution which cannot be paid using the member credit institution's assets.

Each member bank is liable to pay a proportion of the amount which the central cooperative has paid to either another member bank as part of support action or to a creditor of such member bank in payment of an amount overdue which the creditor has not received from the member bank. Furthermore, in the case of the central cooperative's default, a member bank has unlimited refinancing liability for the central cooperative's debts as referred to in the Co-operatives Act.

Each member bank's liability for the amount the central cooperative has paid to the creditor on behalf of a member bank is divided between the member banks in proportion to their last adopted balance sheets. OP Financial Group's insurance companies do not fall within the scope of joint and several liability.

According to section 25 of the Act on Mortgage Credit Banks, the holder of a covered bond has the right to receive payment, before other claims, for the entire term of the bond in accordance with the contract terms, from the assets entered as collateral, without this being prevented by OP MB's liquidation or bankruptcy.

Corporate responsibility

OP Financial Group's core values and principles governing corporate responsibility also guide the operations of OP MB.

Corporate responsibility is an integral part of OP Financial Group's business and strategy. The Group's aim is to be a forerunner of corporate responsibility within its sector in Finland. OP Financial Group is committed to complying with the ten principles of the UN Global Compact initiative in the areas of human rights, labour rights, the environment and anti-corruption. OP has agreed to follow the UN Principles for Responsible Investment. OP Financial Group is a Founding Signatory of the Principles for Responsible Banking under the United Nations Environment Programme Finance Initiative (UNEP FI).

In March, OP Mortgage Bank issued the first green covered bond in Finland. The EUR 750 million bond has a maturity of 10 years. The bond is targeted at responsible international institutional investors, and proceeds raised with the bond will be allocated to OP Financial Group's home loans recognised as green ones according to the Green Covered Bond Framework of OP Mortgage Bank. The sector to be financed is energy-efficient residential buildings (green buildings).

Personnel

On 30 September 2021, OP MB had seven employees. OP MB has been digitising its operations and purchases all the most important support services from OP Cooperative and its Group members, reducing the need for its own personnel.

Management

The Board composition is as follows:

Chair	Vesa Aho	Chief Financial Officer, OP Cooperative
Members	Kaisu Christie	Head of Retail Customer Financing and Housing related Services, OP Cooperative
	Lauri Iloniemi	Head of Group Treasury and Asset and Liabilities Management, OP Corporate Bank plc

OP MB's Managing Director is Sanna Eriksson. The deputy Managing Director is Tuomas Ruotsalainen, Senior Covered Bonds Manager at OP MB.

Risk exposure

When entering 2021, OP MB had a strong capital base, capital buffers and risk-bearing capacity.

The Covid-19 pandemic may continue to affect risks, especially those associated with lending, liquidity maintenance and business processes. OP MB's capital base is sufficient to secure business continuity.

OP MB's most significant risks are related to the quality of collateral and to the structural liquidity and interest rate risks on the balance sheet for which limits have been set in the Risk Policy of Banking. The key credit risk indicators in use show that OP MB's credit risk exposure is stable. The liquidity buffer for OP Financial Group, managed by OP Corporate Bank, is exploitable by OP MB. OP MB has used interest rate swaps to hedge against its interest rate risk. Interest rate swaps have been used to swap home loan interest, intermediary loan interest and interest on issued bonds into the same basis rate. OP MB has concluded all derivative contracts for hedging purposes, with OP Corporate Bank plc being their counterparty. OP MB's interest risk exposure is under control, and it has been within the set limit.

OP Financial Group analyses the business environment as part of the ongoing strategy process. Megatrends and future visions behind the strategy reflect driving forces that affect the daily activities, conditions and future of OP Financial Group and its customers. Such factors shaping the business environment include sustainable development and responsibility (ESG), demographic change in the population and fast technological progress.

For example, climate and environmental changes are considered thoroughly so that their effects on the customer's future success are understood. By means of advice and business decisions, OP Financial Group wants to support its customers in bolstering their sustainable and successful business. At the same time, OP Financial Group ensures that its operations are profitable and in compliance with its core values in the long term.

Events after the reporting period

In October, a new extension of an intermediary loan model was performed on a bond issued in January 2020 that will mature in 2028. As part of this extension, OP MB provided six OP cooperative banks with intermediary loans at a total amount of nearly EUR 16 million.

Outlook towards the year end

Economic recovery is expected to continue in the near term. Household and corporate finances in Finland are healthy and the mood on the housing market should remain favourable. The outlook for short-term market rates is stable. However, several factors are expected to increase uncertainty about the future. Restrictions due to the Covid-19 pandemic may still be resumed, slowing the recovery. Higher energy prices may weaken spending power, and production chain problems could lead to interruptions in manufacturing. Uncertainty may also be registered in the financial market.

It is expected that OP MB's capital adequacy will remain extremely strong and the overall quality of the loan portfolio good. This will make it possible to issue new covered bonds in the future as well.

Alternative Performance Measures

Key ratios	Q1-3/2021	Q1-3/2020	Q3/2021	Q3/2020	Q1-4/2020
Return on equity (ROE), %	1.4	1.8	1.8	2.0	1.7
Cost/income ratio, %	56	38	53	43	40

The Alternative Performance Measures are presented to illustrate the financial performance of business operations and to improve comparability between reporting periods.

The formulas for the used Alternative Performance Measures are presented below.

$$\text{Return on equity (ROE), \%} = \frac{\text{Financial performance for the reporting period} \times (\text{days of financial year} / \text{days of reporting period})}{\text{Equity capital (average at beginning and end of period)}} \times 100$$

$$\text{Cost/income ratio, \%} = \frac{\text{Total expenses}}{\text{Total income}} \times 100$$

Interim Report 1 January–30 September 2021

Primary statements

Income statement, TEUR	Q1-3/2021	Q1-3/2020	Q3/2021	Q3/2020	Q1-4/2020
Net interest income	32,026	37,324	10,593	11,969	48,470
Interest income	-16,710	13,453	-9,019	5,001	14,357
Interest expenses	-48,735	-23,871	-19,612	-6,968	-34,113
Net commissions and fees	-19,886	-24,954	-6,265	-7,878	-32,411
Net investment income	1	1		0	1
Other operating income	0	0		0	1
Total income	12,141	12,372	4,328	4,091	16,061
Personnel costs	369	343	125	111	467
Other operating expenses	6,484	4,404	2,165	1,664	5,972
Total expenses	6,853	4,747	2,290	1,774	6,439
Impairment loss on receivables	-602	-1,306	68	22	-1,646
Earnings before tax	4,686	6,319	2,106	2,338	7,975
Income tax expense	937	1,264	421	468	1,594
Profit for the period	3,749	5,055	1,685	1,871	6,381
Statement of comprehensive income, TEUR	Q1-3/2021	Q1-3/2020	Q3/2021	Q3/2020	Q1-4/2020
Profit for the period	3,749	5,055	1,685	1,871	6,381
Gains/(losses) arising from remeasurement of defined benefit plans					-17
Income tax on gains/(losses) on arising from remeasurement of defined benefit plans					3
Total comprehensive income	3,749	5,055	1,685	1,871	6,368

Balance sheet, TEUR	30 Sep 2021	30 Sep 2020	31 Dec 2020
Receivables from credit institutions	14,835,729	10,647,667	11,008,827
Derivative contracts	235,152	401,934	431,801
Receivables from customers	3,802,070	4,801,069	4,536,259
Investments assets	40	40	40
Other assets	33,141	29,022	28,622
Tax assets	126	1,514	803
Total assets	18,906,259	15,881,246	16,006,351
Liabilities to credit institutions	1,800,000	1,400,000	1,500,000
Derivative contracts	27,194	15,621	14,908
Debt securities issued to the public	16,679,439	14,042,773	14,095,017
Provisions and other liabilities	31,097	53,008	25,267
Tax liabilities	68	64	68
Total liabilities	18,537,797	15,511,466	15,635,259
Shareholders' equity			
Share capital	60,000	60,000	60,000
Reserve for invested unrestricted equity	245,000	245,000	245,000
Retained earnings	63,461	64,781	66,093
Total equity	368,461	369,781	371,093
Total liabilities and shareholders' equity	18,906,259	15,881,246	16,006,351

Statement of changes in equity, TEUR	Share capital	Other reserves	Retained earnings	Total equity
Shareholders' equity 1 Jan 2021	60,000	245,000	66,093	371,093
Profit for the period			3,749	3,749
Other changes			-6,381	-6,381
Shareholders' equity 30 Sep 2021	60,000	245,000	63,461	368,461
Shareholders' equity 1 Jan 2020	60,000	245,000	71,616	376,616
Profit for the period			5,055	5,055
Other changes			-11,891	-11,891
Shareholders' equity 30 Sep 2020	60,000	245,000	64,781	369,781

Cash flow statement, TEUR	Q1-3/2021	Q1-3/2020
Cash flow from operating activities		
Profit for the financial year	3,749	5,055
Adjustments to profit for the financial year	-7,636	7,622
Increase (-) or decrease (+) in operating assets	-3,043,590	-723,358
Receivables from credit institutions	-3,767,301	-1,553,668
Receivables from customers	728,230	827,727
Other assets	-4,519	2,583
Increase (+) or decrease (-) in operating liabilities	305,828	-1,116,854
Liabilities to credit institutions	300,000	-1,116,000
Derivative contracts	15,871	-1,643
Provisions and other liabilities	-10,043	789
Income tax paid	-260	-1,870
Dividends received	1	1
A. Net cash from operating activities	-2,741,907	-1,829,403
Cash flow from financing activities		
Increases in debt securities issued to the public	3,807,890	1,810,722
Decreases in debt securities issued to the public	-1,000,000	-20,000
Dividends paid and interest on cooperative capital	-6,381	-11,891
B. Net cash used in financing activities	2,801,509	1,778,831
Net change in cash and cash equivalents (A+B)	59,602	-50,572
Cash and cash equivalents at year-start	214,695	438,702
Cash and cash equivalents at year-end	274,297	388,130
Interest received	-20,839	16,433
Interest paid	54,953	23,841
Adjustments to profit for the financial year		
Non-cash items and other adjustments		
Impairment loss on receivables	616	1,308
Income tax	937	1,264
Price difference recognised	-9,170	5,058
Other	-19	-8
Total adjustments	-7,636	7,622
Cash and cash equivalents		
Receivables from credit institutions payable on demand	274,297	388,130
Total	274,297	388,130

Accounting policies

The Interim Report 1 January–30 September 2021 has been prepared in accordance with IAS 34 (Interim Financial Reporting).

This Interim Report is based on unaudited figures. Given that all figures have been rounded off, the sum total of individual figures may deviate from the presented sums.

The Interim Report is available in Finnish and English. The Finnish version is official and will be used if there is any discrepancy between the language versions.

OP MB's related parties include the parent company OP Cooperative and its subsidiaries, the OP Financial Group pension insurance companies OP Bank Group Pension Fund and OP Bank Group Pension Foundation, and key management personnel and their close family members. Standard loan terms and conditions are applied to loans granted to related parties. Loans are tied to generally used reference interest rates. The reporting period saw no major changes in related-party transactions.

Notes

Net commissions and fees, TEUR	Q1-3/2021	Q1-3/2020	Q3/2021	Q3/2020	Q1-4/2020
Commission income					
Lending	2,662	2,983	802	893	3,946
Total	2,662	2,983	802	893	3,946
Commission expenses					
From lending to OP cooperative banks	2,542	2,853	767	852	3,777
Loan management fee to OP cooperative banks	19,937	24,947	6,287	7,896	32,418
Issue of bonds	62	133	11	22	154
Other	6	5	2	2	7
Total	22,547	27,937	7,067	8,771	36,357
Net commissions and fees	-19,886	-24,954	-6,265	-7,878	-32,411

OP MB refunded OP cooperative banks the amount of the returns of loans managed by OP MB agreed in the fee model. As a result of this, net commissions and fees were negative.

Impairment losses on receivables, TEUR	Q1-3/2021	Q1-3/2020	Q3/2021	Q3/2020	Q1-4/2020
Receivables written down as loan and guarantee losses	77	72	29	39	121
Recoveries of receivables written down	-14	-2	-11	0	-3
Expected credit losses (ECL) on receivables from customers and off-balance-sheet items	538	1,236	-86	-60	1,528
Total	602	1,306	-68	-22	1,646

Impairment loss on receivables totalled EUR 0.6 million (1.3). A year ago, customers actively applied for repayment holidays on their loans as a result of the Covid-19 crisis. Combined with the changes in macroeconomic parameters applied in the calculation of expected credit losses, this increased the amount of expected credit losses. A year ago, the adoption of the new definition of default also increased the amount of expected credit losses.

Classification of financial assets and liabilities 30 Sep 2021, TEUR

	Amortised cost	Recognised at fair value through profit or loss	Recognised at fair value through other comprehensive income	Total
Financial assets				
Receivables from credit institutions	14,835,729			14,835,729
Derivative contracts		235,152		235,152
Receivables from customers	3,802,070			3,802,070
Investment assets			40	40
Other receivables	32,852			32,852
Financial assets	18,670,651	235,152	40	18,905,844
Other than financial assets				415
Total	18,670,651	235,152	40	18,906,259
		Recognised at fair value through profit or loss	Amortised cost	Total
Financial liabilities				
Liabilities to credit institutions			1,800,000	1,800,000
Derivative contracts		27,194		27,194
Debt securities issued to the public			16,679,439	16,679,439
Other liabilities			28,651	28,651
Financial liabilities		27,194	18,508,090	18,535,284
Other than financial liabilities				2,514
Total		27,194	18,508,090	18,537,797
Valuation difference of debt securities issued to the public (difference between fair value and carrying amount) 30 Sep 2021			337,184	337,184

Debt securities issued to the public are carried at amortised cost. The fair value of these debt instruments has been measured using information available in markets and employing commonly used valuation techniques. The difference between the fair value and carrying amount is presented as valuation difference in the "Classification of financial assets and liabilities" note.

Classification of financial assets and liabilities 31 Dec 2020, TEUR

	Amortised cost	Recognised at fair value through profit or loss	Recognised at fair value through other comprehensive income	Total
Financial assets				
Receivables from credit institutions	11,008,827			11,008,827
Derivative contracts		431,801		431,801
Receivables from customers	4,536,259			4,536,259
Investment assets			40	40
Other receivables	28,369			28,369
Financial assets	15,573,454	431,801	40	16,005,296
Other than financial assets				1,056
Total	15,573,454	431,801	40	16,006,351
		Recognised at fair value through profit or loss	Amortised cost	Total
Financial liabilities				
Liabilities to credit institutions			1,500,000	1,500,000
Derivative contracts		14,908		14,908
Debt securities issued to the public			14,095,017	14,095,017
Other liabilities			22,359	22,359
Financial liabilities		14,908	15,617,376	15,632,283
Other than financial liabilities				2,975
Total		14,908	15,617,376	15,635,259
Valuation difference of debt securities issued to the public (difference between fair value and carrying amount) 31 Dec 2020			506,617	506,617

Derivative contracts 30 Sep 2021, TEUR	Nominal values/residual term to maturity			Total
	Less than 1 year	1–5 years	More than 5 years	
Interest rate derivatives				
Hedging	2,412,143	7,515,407	7,160,750	17,088,300
Total	2,412,143	7,515,407	7,160,750	17,088,300

	Fair values		Credit equiva- lent
	Assets	Liabilities	
Interest rate derivatives			
Hedging	235,152	27,194	415,695
Total	235,152	27,194	415,695

Derivative contracts 31 Dec 2020, TEUR	Nominal values/residual term to maturity			Total
	Less than 1 year	1–5 years	More than 5 years	
Interest rate derivatives				
Hedging	2,463,289	9,272,218	6,217,250	17,952,757
Total	2,463,289	9,272,218	6,217,250	17,952,757

	Fair values		Credit equiva- lent
	Assets	Liabilities	
Interest rate derivatives			
Hedging	431,801	14,908	615,219
Total	431,801	14,908	615,219

Financial instruments classification, grouped by valuation technique, TEUR

30 Sep 2021	Fair value measurement at year end			
	Balance sheet value	Level 1	Level 2	Level 3
Recurring fair value measurements of assets				
Derivate contracts	235,152		235,152	
Total	235,152		235,152	
Recurring fair value measurements of liabilities				
Derivate contracts	27,194		27,194	
Total	27,194		27,194	
Financial liabilities not measured at fair value				
Debt securities issued to the public	16,679,439	13,045,106		4,076,874
Total	16,679,439	13,045,106		4,076,874

31 Dec 2020	Fair value measurement at year end			
	Balance sheet value	Level 1	Level 2	Level 3
Recurring fair value measurements of assets				
Derivate contracts	431,801		431,801	
Total	431,801		431,801	
Recurring fair value measurements of liabilities				
Derivate contracts	14,908		14,908	
Total	14,908		14,908	
Financial liabilities not measured at fair value				
Debt securities issued to the public	14,095,017	13,639,467		962,395
Total	14,095,017	13,639,467		962,395

Valuation techniques whose input parameters involve uncertainty (Level 3)

Opening balance 1 January 2021	962,395
Transfers to level 3	
Transfers from level 3	
Other change	3,094,711
Closing balance 30 Sep 2021	4,057,106

The row Other change includes bonds on hierarchy level 3 issued by OP MB during the reporting period.

Time of publication of 2021 reports

Report by the Board of Directors and Financial Statements 2021
Corporate Governance Statement 2021

Week 10
Week 10

Schedule for Financial Statements Bulletin 2021 and Interim Reports in 2022

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9 February 2022
4 May 2022
27 July 2022
26 October 2022

Helsinki, 27 October 2021

OP Mortgage Bank
Board of Directors

For more information, please contact:
Sanna Eriksson, Managing Director, tel. +358 10 252 2517

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