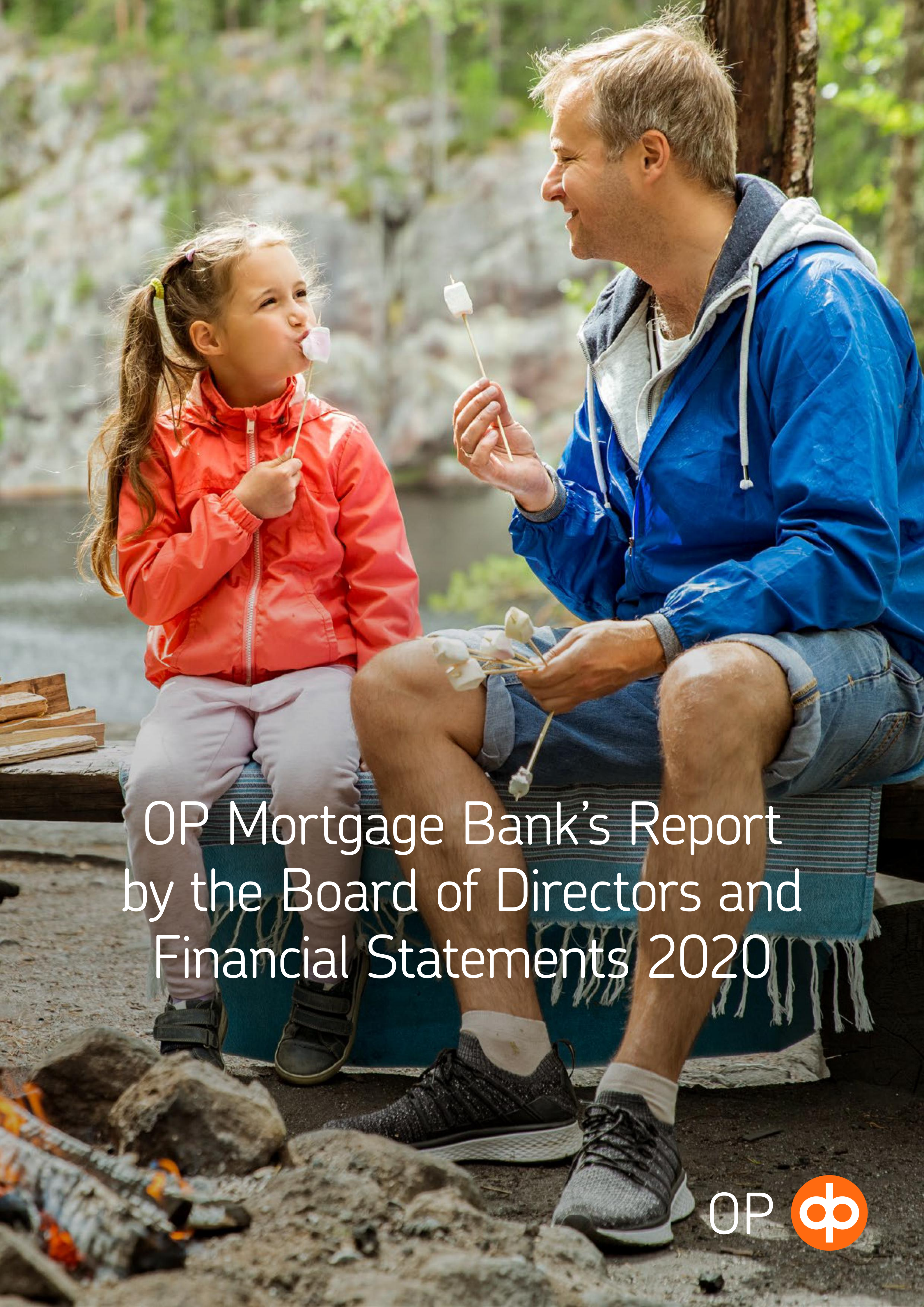

# OP Mortgage Bank's Report by the Board of Directors and Financial Statements 2020

## Contents

# REPORT BY THE BOARD OF DIRECTORS

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. OP MB has no independent customer business or service network, but OP cooperative banks manage customer relationships and loan management at local level.

OP MB either underwrites intermediary loans on OP Financial Group member cooperative banks' balance sheets or buys the home loans in security for bonds.

In 2020, the intermediary loans and loan portfolio of OP MB increased to EUR 15,326 million (14,335)*.

In January, OP MB issued a 1 billion-euro fixed-rate covered bond with a maturity of 8.25 years in international capital markets. Out of the proceeds of the bond, EUR 984 million were intermediated to 77 OP cooperative banks in the form of intermediary loans in April. In February, a new extension of an intermediary loan model was performed on a bond issued in February 2019 that will mature in 2029. As part of this extension, seven OP cooperative banks applied for an intermediary loan from OP MB at a total amount of EUR 185 million.

In April, OP MB issued a 500 million-euro retained covered bond with a maturity of two years. Out of the proceeds of the bond, EUR 100 million was intermediated to an OP cooperative bank in the form of an intermediary loan in June. In April, OP MB also issued a 300 million-euro retained covered bond with a maturity of eight years. The proceeds of the bond were intermediated in full to five OP cooperative banks in the form of intermediary loans. The bond issues in April were performed as internal issues within OP Financial Group.

In November, OP MB issued a 1.25 billion-euro fixed-rate covered bond with a maturity of 10 years in international capital markets. Out of the proceeds of the bond, EUR 1.25 billion were intermediated to 61 OP cooperative banks in the form of intermediary loans in November.

On 31 December 2020, 122 OP cooperative banks had a total of EUR 10,790 million (8,706) in intermediary loans from OP MB.

## Joint and several liability

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 31 December 2020, OP Cooperative's members comprised altogether 137 cooperative banks as well as OP Corporate Bank plc, OP Mortgage Bank and OP Card Company 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.

By law, companies belonging to the amalgamation are liable for each other's debts. OP Financial Group's insurance companies do not fall within the scope of joint and several liability. The amalgamation's central cooperative, OP Cooperative, is obliged, if necessary, to assist member banks as a support action with a sum that prevents them from going into liquidation. The central cooperative is also liable for the debts of a member bank which cannot be paid using the member bank'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.

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

*) The comparatives for 2019 are given in brackets. For income statement and other aggregated figures, January–December 2019 figures serve as comparatives. For balance-sheet and other cross-sectional figures, figures at the end of the previous financial year (31 December 2019) serve as comparatives.

## Profit performance

OP MB's key financial indicators in 2020 are shown below:

| Thousand euros | Q1–4/2020 | Q1–4/2019 |
|---|---|---|
| **Income** | | |
| Net interest income | 48,470 | 61,521 |
| Net commissions and fees | -32,411 | -40,055 |
| Net investment income | 1 | 1 |
| Other operating income | 1 | 1 |
| **Total** | **16,061** | **21,468** |
| | | |
| **Expenses** | | |
| Personnel costs | 467 | 399 |
| Depreciation/amortisation and impairment loss | 0 | 123 |
| Other operating expenses | 5,972 | 5,865 |
| **Total** | **6,439** | **6,387** |
| | | |
| **Impairment loss on receivables** | **-1,646** | **-217** |
| | | |
| **Earnings before tax** | **7,975** | **14,865** |

Impairment loss on receivables increased to EUR 1.6 million (0.2). As a result of the Covid-19 crisis, customers actively applied for repayment holidays on their loans. Combined with the changes in macroeconomic parameters applied in the calculation of expected credit losses, this increased the amount of expected credit losses. The new definition of default adopted in March also increased the amount of expected credit losses.

The company's financial standing remained stable throughout the reporting period. Full-year earnings before tax came to EUR 7,975 thousand (14,865).

## On-balance-sheet and off-balance-sheet commitments

OP MB's balance sheet total was EUR 16,006 million (15,097) on 31 December 2020. The table below shows the development of key assets and liabilities.

## Key assets and liabilities

| € million | 31 Dec 2020 | 31 Dec 2019 |
|---|---|---|
| Balance sheet | 16,006 | 15,097 |
| Receivables from customers | 4,536 | 5,629 |
| Receivables from credit institutions | 11,009 | 9,145 |
| Debt securities issued to the public | 14,095 | 12,136 |
| Liabilities to credit institutions | 1,500 | 2,516 |
| Equity capital | 371 | 377 |
| Off-balance-sheet commitments | 0 | 0 |

The bank's intermediary loans and loan portfolio increased to EUR 15,326 million (14,335) in January–December. On 31 December 2020, households accounted for 99.9% (99.9) of the loan portfolio and institutional customers for 0.1% (0.1). On 31 December 2020, OP MB's non-performing receivables totalled EUR 298 million (233).

The carrying amount of bonds issued to the public was EUR 14,095 million (12,136) at the end of the year. In addition to bonds, OP MB financed its operations through debt financing from OP Corporate Bank plc. At the end of the financial year, the amount of debt financing came to EUR 1,500 million (2,516).

OP MB has hedged its loan portfolio against interest rate risk by means of interest rate swaps. Interest rate swaps are used to swap base rate cash flows of hedged loans to Euribor cash flows. OP MB has also changed the fixed rates of the bonds it has issued to short-term market rates. OP MB's interest rate derivative portfolio totalled EUR 17,953 million (17,244). OP MB has concluded all derivative contracts for hedging purposes, with OP Corporate Bank plc being their counterparty.

## Capital base and capital adequacy

OP MB has calculated its capital base and capital adequacy in accordance with the EU capital requirements regulation (EU 575/2013). 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's Common Equity Tier 1 (CET1) ratio stood at 61.8% (69.8) on 31 December 2020. The statutory minimum for CET1 ratio is 4.5% and for the capital adequacy ratio 8%. The requirement for the capital conservation buffer of 2.5% under the Act on Credit Institutions increases in practice the CET1 ratio to 7% and the minimum capital adequacy ratio to 10.5%.

The Financial Supervisory Authority set a 15% minimum risk weight on home loans until 1 January 2021. According to the Authority, this floor was aimed at preparing for a systemic risk related to household indebtedness. The minimum risk weight applied to OP Financial Group level.

| Capital base and capital adequacy, TEUR | 31 Dec 2020 | 31 Dec 2019 |
|---|---|---|
| | | |
| Equity capital | 371,093 | 376,616 |
| **Common Equity Tier 1 (CET1) before deductions** | **371,093** | **377,616** |
| Excess funding of pension liability | -56 | -69 |
| Share of unaudited profits | -6,381 | -11,892 |
| Impairment loss – shortfall of expected losses | -3,448 | -5,589 |
| **CET1 capital** | **361,208** | **359,066** |
| **Tier 1 capital (T1)** | **361,208** | **359,066** |
| **Tier 2 capital (T2)** | | |
| **Total capital** | **361,208** | **359,066** |
| | | |
| **Total risk exposure amount** | | |
| Credit and counterparty risk | 550,145 | 476,138 |
| Operational risk | 34,748 | 38,237 |
| **Total** | **584,893** | **514,375** |
| | | |
| **Ratios, %** | | |
| CET1 ratio | 61.8 | 69.8 |
| Tier 1 capital ratio | 61.8 | 69.8 |
| Capital adequacy ratio | 61.8 | 69.8 |
| | | |
| **Capital requirement** | | |
| Capital base | 361,208 | 359,066 |
| Capital requirement | 61,414 | 54,012 |
| Buffer for capital requirements | 299,794 | 305,055 |

In March 2020, OP MB adopted a new definition of default, which increased the number of defaulted contracts. This weakened capital adequacy and increased expected credit losses (ECL) reported in financial statements.

**Formulas for key ratios:**

**CET1 ratio, %**

$$\frac{\text{CET1}}{\text{Total risk exposure amount}}$$

**Tier 1 capital (T1) capital adequacy ratio, %**

$$\frac{\text{Tier1}}{\text{Total risk exposure amount}}$$

**Capital adequacy ratio, %**

$$\frac{\text{Total capital}}{\text{Total risk exposure amount}}$$

## Financial indicators

| Ratio | 2020 | 2019 | 2018 |
|---|---|---|---|
| Return on equity (ROE), % | 1.7 | 3.2 | 3.4 |
| Return on assets (ROA), % | 0.04 | 0.08 | 0.09 |
| Equity ratio, % | 2.32 | 2.46 | 2.68 |
| Cost/income ratio, % | 40 | 30 | 27 |

## Formulas for Alternative Performance Measures

The Alternative Performance Measures Guidelines issued by the European Securities and Markets Authority (ESMA) came into force on 3 July 2016. The Alternative Performance Measures are presented to illustrate the financial performance of business operations and to improve comparability between reporting periods. They should not be considered to be replacements for the performance measures defined in IFRS governing financial reporting.

The formulas for the used Alternative Performance Measures are presented below and they correspond to the previously presented performance indicators in terms of content.

**Return on equity (ROE), %**

$$\frac{\text{Operating profit (loss) - Income tax}^{*}}{\text{Equity capital (average of the beginning and end of year)}} \times 100$$

**Return on assets (ROA), %**

$$\frac{\text{Operating profit (loss) - Income tax}^{*}}{\text{Average balance sheet total (average of the beginning and end of year)}} \times 100$$

**Equity ratio, %**

$$\frac{\text{Equity capital}}{\text{Balance sheet total}} \times 100$$

**Cost/income ratio, %**

$$\frac{\text{Personnel costs + Depreciation/amortisation and impairment loss + Other operating expenses}}{\text{Net interest income + Net commissions and fees + Net investment income + Other operating income}} \times 100$$

* Includes tax effect from appropriations.

## Risk management and capital adequacy management

OP Financial Group's core values, strategic goals and financial targets form the basis for OP MB’s risk management and capital adequacy management. In OP Financial Group’s risk policy, the central cooperative's Board of Directors confirms annually risk-management principles, actions, objectives and limits to be applied by the Group and its entities that are used to guide business to implement the policies confirmed in the Group's strategy and the principles of the risk tolerance system.

The central cooperative is in charge of the OP Financial Group level risk and capital adequacy management. OP MB is responsible for its own risk and capital adequacy management in accordance with the nature and extent of its operations.

OP MB's Board of Directors makes decisions on its risk and capital adequacy management in line with the principles adopted by the central cooperative's Board of Directors. In addition, OP MB's Board of Directors deals with, in terms of quality and extent, far-reaching and important matters in principle from the perspective of the company's operations, and any unusual matters. The Board of Directors decides on principles and procedures to ensure that the company operates in compliance with external regulation and OP Cooperative's guidelines.

The Managing Director is responsible for the implementation of risk and capital adequacy management according to the principles and guidelines that have been agreed on, and reports regularly on the company's business and financial standing.

OP MB's risk and capital adequacy management tasks are centralised within OP Financial Group's Risk Management. Risk and capital adequacy management falls under internal control. Its purpose is to ensure OP MB's risk capacity and liquidity and, thereby, ensure business continuity. Risk capacity is made up of effective risk management that is proportionate to the extent and complexity of operations and of adequate capital resources and liquidity based on profitable business operations.

Risk and capital adequacy management has been made an integral part of the company's business and management. OP MB focuses on carrying out its role according to its service capabilities and risk-bearing capacities in accordance with shared business models. OP MB has a moderate attitude towards risk-taking.

## Risk-bearing capacity

OP MB's risk-bearing capacity remained good. Its capital adequacy ratio stood at 61.8% (69.8). The return on equity was 1.7% (3.2).

OP MB does not seek to secure its capital base by retaining earnings. Rather, OP Cooperative guarantees OP MB's capital base.

## Credit risk exposure

OP MB's loan portfolio totalled EUR 4,536 million (5,629) at the end of the reporting period. The quality of the loan portfolio is good. Doubtful receivables totalled EUR 298 million (233). Doubtful receivables refer to receivables that are more than 90 days past due, other receivables classified as risky and forborne receivables due to the customer's financial difficulties. Forbearance measures consist of concessions agreed at the customers' initiative to the original repayment plan to make it easier for them to manage through temporary payment difficulties. OP cooperative banks make every effort to identify ways of solving customers' temporary financial difficulties. Loan modifications due to reasons other than the customer's financial difficulties are not classified as doubtful receivables.

| | Performing forborne exposures | | Non-performing receivables (net) | | Doubtful receivables (net) | |
|---|---|---|---|---|---|---|
| | 31 Dec 2020 | 31 Dec 2019 | 31 Dec 2020 | 31 Dec 2019 | 31 Dec 2020 | 31 Dec 2019 |
| More than 90 days past due | | | 12,216 | 10,969 | 12,216 | 10,969 |
| Unlikely to be paid | | | 10,837 | 2,806 | 10,837 | 2,806 |
| Forborne exposures | 241,864 | 214,460 | 33,251 | 4,729 | 275,114 | 219,189 |
| **Total** | **241,864** | **214,460** | **56,304** | **18,504** | **298,167** | **232,964** |

As receivables more than 90 days past due, OP MB reports the remaining principal of receivables whose interest or principal amount has been overdue and outstanding for over three months. Other receivables categorised as risky are reported as contracts unlikely to be paid. Forborne loans include receivables that have been modified due to the customer's financial difficulties by, for example, granting a repayment holiday of 6 to 12 months.

| Key ratios | 31 Dec 2020 | 31 Dec 2019 |
|---|---|---|
| Doubtful receivables, TEUR | 298,167 | 232,964 |
| Ratio of doubtful receivables to loan portfolio, % | 6.57 | 4.14 |
| Ratio of non-performing receivables to loan portfolio, % | 1.24 | 0.33 |
| Ratio of performing forborne exposures to loan portfolio, % | 5.33 | 3.81 |
| Ratio of performing forborne exposures to doubtful receivables, % | 81.12 | 92.06 |
| Ratio of loss allowance to doubtful receivables, % | 0.80 | 0.48 |

The company does not have any group of connected clients with the total amount of customer risk exceeding the limit set in the Act on Credit Institutions of 25% of the bank's capital base. Thanks to the loan portfolio's diversity and hard collateral, OP MB's credit risk exposure is highly stable.

## Market risks and liquidity risk

Market risks include the following risks both on and off the balance sheet: interest rate risk, price risks and market liquidity risk. The company’s products and market instruments, funding and investment principles and applied risk monitoring methods have been defined in the market risk management guidelines confirmed by the Board of Directors.

Interest rate risk means the effect of changing market interest rates on the company's earnings, profitability and capital adequacy. OP MB has used interest rate swaps to hedge against interest rate risk. Interest rate swaps are used to swap base rate cash flows of hedged home loans to Euribor cash flows. OP MB has also changed the fixed rates of the bonds it has issued to floating market rates. OP Corporate Bank plc is the counterparty to all derivative contracts.

The purpose of liquidity risk management is to secure the company's ability to fulfil its payment obligations without endangering business continuity, profitability or capital adequacy. OP MB monitors its cash flows on a daily basis to secure funding liquidity and its structural funding risk on a regular basis as part of the company's internal capital adequacy assessment process (ICAAP).

OP MB's Board of Directors monitors regularly that the company's interest rate and funding risk exposure remain within the limits it has set.

The provisions of the Act on Mortgage Credit Banks also set limits on the bank’s interest rate and funding risk-taking. According to the Act, the total amount of interest received during any 12 months for loans forming the collateral for covered bonds must exceed the total amount of interest paid on covered bonds for the same period. Additionally, the average residual term to maturity of covered bonds must be shorter than the average residual term to maturity of the assets as their collateral. During the entire financial year, OP MB's operations have been in compliance with law, both in respect of the interest flow assessment and maturity assessment.

## Operational risks

Operational risk refers to the risk of financial loss or other harmful consequences resulting from inadequate or failed processes, lack of skills, or incomplete or faulty procedures, systems or external events. Operational risk may also materialise in terms of loss or deterioration of reputation or trust. Operational risks are managed by identifying and analysing them and by ensuring that controls and management tools are appropriate and adequate. The bank assesses operational risks regularly and reports its risk status to the Board of Directors once a year.

Compliance risk forms part of operational risk. Compliance activities are aimed at ensuring that OP MB complies with laws, regulatory instructions and regulations, self-regulation of markets, and internal guidelines, policies and instructions of OP Financial Group and OP MB. Compliance also ensures that customer relationship management complies with appropriate and ethically sound principles and practices.

## 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. Corporate responsibility activities take economic, social and environmental responsibility into consideration. OP Financial 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 since 2009. In 2019, OP Financial Group became a Founding Signatory of the Principles for Responsible Banking under the United Nations Environment Programme Finance Initiative (UNEP FI).

In October 2020, OP Financial Group adopted a Green Covered Bond Framework. Under this framework, OP MB may issue green covered bonds. Based on the framework criteria, the sector to be financed is green buildings. The capital from these bonds will be targeted to finance investments that promote low-carbon infrastructure and the EU's environmental goal of mitigating climate change.

## Personnel and remuneration schemes

On 31 December 2020, OP MB had seven employees. The company purchases all the most important support services from OP Cooperative and its Group companies, reducing the need for its own personnel.

Variable remuneration applied by OP Financial Group in 2020 consists of the performance-based bonus scheme covering all personnel and the personnel fund. Company-specific targets based on the annual plan and the Group-level strategic targets are taken into account in the metrics used in the performance-based bonus scheme and the personnel fund. In drawing up the remuneration schemes, OP has taken account of the regulation regarding the financial sector's remuneration schemes. More detailed information on variable remuneration is available on OP Financial Group's website.

OP MB belongs to OP Financial Group's OP Personnel Fund which forms a long-term remuneration scheme for employees. The company pays the Personnel Fund profit-based bonuses in accordance with pre-agreed principles. Members of the Fund may withdraw fund units on the grounds specified in Fund Rules.

## Governance

### Board of Directors

The Board of Directors manages OP MB's business. According to the Articles of Association, the Board of Directors is responsible for the company's administration and appropriate organisation of operations. The Board of Directors has general authority to decide on all issues related to the governance and other matters that, by law, are not the responsibility of the Annual General Meeting or the Managing Director. The Board of Directors decides on the strategy and key business goals. The Board of Directors' duty is to ensure that accounting and financial management have been organised appropriately.

Board of Directors:

| | | |
|---|---|---|
| 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 Liability Management, OP Corporate Bank plc |

According to the Articles of Association, OP MB's Board of Directors comprises a minimum of three and a maximum of eight members. Currently, the Board has three members. Board members are elected for a period of one year. Their term begins upon closing of the Annual General Meeting that elected them and ends upon closing of the Annual General Meeting that elects the new Board. A Board member must resign after they reach the age of 65 at the latest. The Board of Directors has a quorum when more than half of its members are present. The Board of Directors held 12 meetings in 2020.

### Managing Director

OP MB's Managing Director must advance the company's interests carefully and manage the bank's daily operations according to laws and the guidelines and regulations issued by the Board of Directors. The Managing Director may take measures which, considering the extent and nature of the company's operations, are unusual or far-reaching in nature only if duly authorised by the Board of Directors, or if the Board of Director's decision cannot be awaited without causing material harm to the company's operations. It is the statutory duty of the Managing Director to ensure that the company's accounting is in compliance with the applicable law and that the bank's treasury is managed in a reliable manner.

OP MB's Managing Director is Sanna Eriksson. Until 30 June 2020, the deputy Managing Director was Pekka Moisio, Head of Funding and Liquidity Management. As of 1 July 2020, the deputy Managing Director is Tuomas Ruotsalainen, Senior Covered Bonds Manager at OP MB.

OP MB's Corporate Governance Statement is available at www.op.fi.

### Audit

OP MB's Annual General Meeting of 18 March 2020 elected KPMG Oy Ab, a firm of authorised public accountants, as the company's auditor with Tiia Kataja, Authorised Public Accountant, acting as the chief auditor.

OP Cooperative's Internal Audit is in charge of the company's internal audit.

### Outlook

It is expected that the bank's capital adequacy will remain strong, risk exposure favourable and the overall quality of the loan portfolio good. This will make it possible to issue new covered bonds in 2021 as well.

In October 2020, OP Financial Group adopted a Green Covered Bond Framework. Under this framework, OP MB may issued green covered bonds. Based on the framework criteria, the sector to be financed is green buildings.

### Proposal by the Board of Directors for profit distribution

OP Mortgage Bank's equity capital on 31 December 2020

| | |
|---|---|
| + Share capital | 60,000,000.00 |
| + Reserve for invested non-restricted equity | 245,000,000.00 |
| + Profit for the financial year | 6,381,166.11 |
| + Retained earnings | 59,711,637.26 |
| **Total** | **371,092,803.37** |

Distributable funds totalled EUR 311,092,803.37.

As shown in the financial statements of 31 December 2020, the company's distributable earnings, which include EUR 6,381,166.11 in profit for the financial year, totalled EUR 66,092,803.37.
The company's distributable funds totalled EUR 311,092,803.37.

The Board of Directors proposes that a dividend of EUR 83.31 per share be distributed, totalling EUR 6,380,879.52, and that following dividend distribution, the remaining amount of EUR 286.59 be recognised in retained earnings. Following dividend distribution, the company's distributable earnings total EUR 59,711,923.85 and its distributable funds total EUR 304,711,923.85.

The company’s financial position has not undergone any material changes since the end of the financial year 2020. The company’s liquidity is good and will not be jeopardised by the proposed profit distribution, in the Board of Directors’ view.

**INCOME STATEMENT**

| EUR | Note | 2020 | 2019 |
|---|---|---|---|
| Net interest income | 3 | 48,469,674.58 | 61,521,301.09 |
| Net commissions and fees | 4 | -32,410,957.49 | -40,055,264.68 |
| Net investment income | | 1,400.00 | 1,161.70 |
| Other operating income | | 829.74 | 1,251.23 |
| **Total income** | | **16,060,946.83** | **21,468,449.34** |
| Personnel costs | 5 | 467,485.53 | 398,967.96 |
| Depreciation/amortisation and impairment loss | 6 | 0.00 | 123,209.80 |
| Other operating expenses | 7 | 5,971,860.26 | 5,865,115.96 |
| **Total expenses** | | **6,439,345.79** | **6,387,293.72** |
| Impairment losses on receivables | 8 | -1,646,311.26 | -216,508.34 |
| **Earnings before tax** | | **7,975,289.78** | **14,864,647.28** |
| Income tax | 9 | 1,594,123.67 | 2,973,011.93 |
| **Profit for the financial year** | | **6,381,166.11** | **11,891,635.35** |

| | | |
|---|---|---|
| **Earning/share (EPS), EUR** | **83.31** | **155.26** |
| Profit for the financial year / Average share-issue adjusted number of shares during the period | | |

**STATEMENT OF COMPREHENSIVE INCOME**

| EUR | 2020 | 2019 |
|---|---|---|
| **Profit for the financial year** | **6,381,166.11** | **11,891,635.35** |
| Items that will not be reclassified to profit or loss | | |
| Gains/(losses) arising from remeasurement of defined benefit plans | -16,821.00 | 2,976.00 |
| Income tax on gains/(losses) arising from remeasurement of defined benefit plans | 3,364.20 | -595.20 |
| **Total comprehensive income for the financial year** | **6,367,709.31** | **11,894,016.15** |

**BALANCE SHEET**

| EUR | Note | 31 Dec 2020 | 31 Dec 2019 |
|---|---|---|---|
| Receivables from credit institutions | 10 | 11 008 826 679,52 | 9 144 571 284,81 |
| Derivative contracts | 11 | 431 801 099,80 | 291 145 623,05 |
| Receivables from customers | 12 | 4 536 258 872,98 | 5 628 716 031,15 |
| Investments assets | 13 | 40 000,00 | 40 000,00 |
| Other assets | 14 | 28 621 909,98 | 31 605 316,69 |
| Tax assets | 15 | 802 794,72 | 907 531,62 |
| **Total assets** | | **16 006 351 357,00** | **15 096 985 787,32** |
| | | | |
| Liabilities to financial institutions | 16 | 1 500 000 000,00 | 2 516 000 000,00 |
| Derivative contracts | 17 | 14 907 515,27 | 14 470 032,47 |
| Debt securities issued to the public | 18 | 14 095 016 636,02 | 12 135 974 026,54 |
| Other liabilities | 19 | 25 266 686,27 | 53 861 323,56 |
| Tax liabilities | 15 | 67 716,07 | 64 402,69 |
| **Total liabilities** | | **15 635 258 553,63** | **14 720 369 785,26** |
| | | | |
| **Shareholders' equity** | | | |
| **Shareholders' interest** | | | |
| Share capital | | 60 000 000,00 | 60 000 000,00 |
| Reserve for invested unrestricted equity | | 245 000 000,00 | 245 000 000,00 |
| Retained earnings | | 66 092 803,37 | 71 616 002,06 |
| **Total equity** | 20 | **371 092 803,37** | **376 616 002,06** |
| **Total liabilities and shareholders' equity** | | **16 006 351 357,00** | **15 096 985 787,32** |

## CASH FLOW STATEMENT

| TEUR | 2020 | 2019 |
|---|---|---|
| **Cash flow from operating activities** | | |
| Profit for the financial year | 6,381 | 11,892 |
| Adjustments to profit for the financial year | 9,302 | 11,999 |
| | | |
| **Increase (-) or decrease (+) in operating assets** | **-993,478** | **-558,011** |
| Receivables from credit institutions | -2,088,262 | -1,929,700 |
| Receivables from customers | 1,091,801 | 1,370,769 |
| Other assets | 2,983 | 920 |
| | | |
| **Increase (+) or decrease (-) in operating liabilities** | **-1,044,611** | **-377,766** |
| Liabilities to credit institutions | -1,016,000 | -380,000 |
| Derivative contracts | -29,541 | -6,603 |
| Provisions and other liabilities | 930 | 8,837 |
| | | |
| Income tax paid | -1,483 | -3,890 |
| Dividends received | 1 | 1 |
| **A. Net cash from operating activities** | **-2,023,888** | **-915,776** |
| | | |
| **Cash flow from investing activities** | | |
| **B. Net cash used in investing activities** | | |
| | | |
| **Cash flow from financing activities** | | |
| | | |
| Increases in debt securities issued to the public | 3,081,772 | 2,233,893 |
| Decreases in debt securities issued to the public | -1,270,000 | -1,000,000 |
| Dividends paid and interest on cooperative capital | -11,891 | -12,998 |
| **C. Net cash used in financing activities** | **1,799,881** | **1,220,894** |
| | | |
| **Net change in cash and cash equivalents (A+B+C)** | **-224,007** | **305,118** |
| | | |
| **Cash and cash equivalents at year-start** | **438,702** | **133,460** |
| **Cash and cash equivalents at year-end** | **214,695** | **438,702** |
| | | |
| **Interest received** | **17,884** | **34,089** |
| **Interest paid** | **6,318** | **30,660** |
| | | |
| **Adjustments to profit for the financial year** | | |
| Impairment loss on receivables | 1,649 | 224 |
| Income tax | 1,594 | 2,973 |
| Other | 12 | -1 |
| Price difference recognised | 6,046 | 8,804 |
| **Total adjustments** | **9,302** | **11,999** |
| | | |
| **Cash and cash equivalents** | | |
| Receivables from credit institutions payable on demand | 214,695 | 438,702 |
| **Total** | **214,695** | **438,702** |

STATEMENT OF CHANGES IN EQUITY

| TEUR | | Share capital | Other reserves | Retained earnings | Total |
|---|---|---|---|---|---|
| **Shareholders' equity on 1 January 2020** | 20 | 60 000 | 245 000 | 71 616 | 376 616 |
| Profit for the financial year | | | | 6 381 | 6 381 |
| Other comprehensive income for the period | | | | -13 | -13 |
| Other changes | | | | -11 891 | -11 891 |
| **Shareholders' equity on 31 December 2020** | | 60 000 | 245 000 | 66 093 | 371 093 |
| | | | | | |
| **Shareholders' equity on 1 January 2019** | 20 | 60 000 | 245 000 | 72 720 | 377 720 |
| Profit for the financial year | | | | 11 892 | 11 892 |
| Other comprehensive income for the period | | | | 2 | 2 |
| Other changes | | | | -12 998 | -12 998 |
| **Shareholders' equity on 31 December 2019** | | 60 000 | 245 000 | 71 616 | 376 616 |

## NOTES TO THE FINANCIAL STATEMENTS

**Table of contents for the notes to the financial statements**

## APPENDIX 1. Accounting policies

OP Mortgage Bank (OP MB) is a credit institution engaged in mortgage banking in Finland.

The company is part of an amalgamation of cooperative banks (OP Financial Group). Ultimately, OP Cooperative and its member credit institutions are liable for each other's debts and commitments. OP Cooperative acts as the entire OP Financial Group's strategic owner institution and as a central cooperative in charge of Group control and supervision.

In order to ensure uniformity in the accounting policies of entities within OP Financial Group, OP Cooperative is obliged to issue guidelines on the preparation of financial statements to its member credit institutions. According to the Act on Cooperative Banks and Other Cooperative Institutions and the Act on the Amalgamation of Deposit Banks, the Board of Directors of OP Cooperative must confirm any applicable accounting policies that have no directions from IFRS.

OP MB is domiciled in Helsinki and the address of its registered office is Gebhardinaukio 1, FI-00510 Helsinki.

A copy of OP MB's financial statements is available at www.op.fi or the company's office at Gebhardinaukio 1, FI-00510 Helsinki.

OP MB belongs to OP Financial Group, and OP MB's accounts are included in its consolidated financial statements. A copy of OP Financial Group's consolidated financial statements is available at www.op.fi or the Group's office at Gebhardinaukio 1, FI-00510 Helsinki.

The Board of Directors of OP MB approved the financial statements bulletin for issue on 10 February 2021 and the Board of Directors approved the financial statements on 10 February 2021.

### BASIS OF PREPARATION

OP MB's financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), applying IASs, IFRSs and SIC and IFRIC interpretations effective on 31 December 2020. The International Financial Reporting Standards refer to standards and their interpretations adopted in accordance with Regulation (EU) No. 1606/2002 of the European Parliament and of the Council. OP MB's notes also conform to the requirements of Finnish accounting and company legislation that complement IFRS regulations.

In 2020, OP MB adopted the following standards and interpretations:

- OP MB adopted the European Banking Authority's (EBA) guidelines on the application of the definition of default (Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013: EBA/GL/2016/07 and EBA/RTS/2016/06). The Guidelines harmonise the definition of default applied by European banks to their customers. The effects of the transition are presented in the accounting policies, under "Changes in accounting policies and presentation".

- Amendments to IFRS 3, IAS 1 and IAS 8 took effect on 1 January 2020. The amendments did not have any significant effect on OP MB's financial statements.

OP MB's financial statements were prepared at historical cost with the exception of derivative contracts and hedged items in fair value hedging.

The figures in the income statement and the balance sheet are presented in euros and cents; other figures in the financial statements are presented in thousands of euros.

### Use of estimates

The preparation of the financial statements in conformity with IFRS requires the management to make judgements, estimates and assumptions in the application of the accounting policies. Section "Critical accounting estimates and judgements" provides more detailed information on applying accounting policies requiring management assessment and judgement.

# FINANCIAL INSTRUMENTS

## Fair value determination

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date.

The fair value of financial instruments is determined using either prices quoted in an active market or the company's own valuation techniques where no active market exists. Markets are deemed to be active if price quotes are easily and regularly available and reflect real and regularly occurring market transactions on an arm's length basis. The current bid price is used as the quoted market price of financial assets.

If the market has a commonly used valuation technique applied to a financial instrument to which the fair value is not directly available, the fair value is based on a commonly used valuation technique and market quotations of the inputs used by the technique.

If the valuation technique is not a commonly used technique in the market, a valuation model created for the instrument in question will be used to determine the fair value. Valuation models are based on widely used measurement techniques, incorporating all factors that market participants would consider in setting a price, and are consistent with accepted economic methodologies for pricing financial instruments.

The valuation techniques used include prices of market transactions, the discounted cash flow method and reference to the current fair value of another instrument that is substantially the same. The valuation techniques take account of estimated credit risk, applicable discount rates, the possibility of early repayment and other factors affecting the reliable measurement of the fair value of financial instruments.

The fair values of financial instruments are categorised into three hierarchy levels, depending on the inputs used in valuation techniques:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1)
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2)
- Inputs for the asset or liability that are not based on observable market data (Level 3)

If the inputs used to measure fair value are categorised into different levels of the fair value hierarchy, the fair value measurement is categorised in its entirety at the same level as the lowest level input that is significant to the entire measurement. The significance of inputs has been assessed on the basis of the fair value measurement in its entirety.

## Financial assets and liabilities

### Amortised cost

Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest method uses the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortised cost of a financial liability. When calculating the effective interest rate, OP MB estimates the expected cash flows by considering all the contractual terms of the financial instrument excluding the expected credit losses (ECL). The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. Fees that are an integral part of the rate of a financial instrument include office and origination fees related to loan drawdown and they are amortised over the expected life of the financial instrument or a shorter period if that is appropriate. Fees that are not an integral part of the effective interest rate of a financial instrument are accounted for in accordance with IFRS 15. These include fees charged for servicing a loan, for example.

Loans are entered in OP MB's balance sheet if they have been granted directly from its balance sheet or if an OP cooperative bank has sold the loans to OP MB at market price, with the credit risk, interest rate risk and funding risk having transferred to OP MB with the sale. These loans are presented in the balance sheet under 'Receivables from customers'.

The loan is not transferred to OP MB's balance sheet in the intermediary loan model referred to in the Act on Mortgage Credit Banks (688/2010), whereby OP MB issues mortgage-backed bonds and uses the funds obtained to make an intermediary loan to OP cooperative banks, presented under 'Receivables from credit institutions' in the balance sheet. In the intermediary loan model, an OP cooperative bank's mortgage-backed loan's credit risk, interest rate risk or funding risk are not transferred to OP MB but are entered as collateral of the bond issued by OP MB.

Interest revenue

Interest revenue has been calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:

a) purchased or originated credit-impaired financial assets. For those financial assets, OP MB applies the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition
b) financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets (or that are in stage 3). For those financial assets, OP MB applies the effective interest rate to the amortised cost of the financial asset (i.e. to the net carrying amount after the deduction of the expected credit loss).

**Initial recognition and measurement**

At initial recognition, OP MB measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability. Immediately after initial recognition, an expected credit loss allowance of a financial asset will be recognised if the financial asset is measured at amortised cost or at fair value through other comprehensive income. This results in accounting loss recognition for newly originated or newly purchased financial assets in the income statement.

**Classification and subsequent measurement of financial assets**

OP MB classifies financial assets into the following categories:
- Fair value through profit or loss (FVTPL)
- Fair value through other comprehensive income (FVOCI)
- Amortised cost.

**Loans**

The classification of loans and notes and bonds depend on the following factors:
a) OP MB's business model for managing the financial assets
b) The contractual cash flow characteristics of the financial asset.

On the basis of these factors, OP MB classifies loans into the following three measurement categories:

1) Financial assets measured at amortised cost are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. The financial asset's carrying amount is adjusted by any allowance for expected credit losses and interest revenue is recognised in interest revenue using the effective interest method.

2) Financial assets recognised at fair value through other comprehensive income are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. In addition, the contractual terms of the financial asset specify cash flows occurring on specific dates which are solely payments of principal and interest on the principal amount outstanding. Changes in the fair value are recognised in the fair value reserve. Impairment gains or losses and foreign exchange gains or losses are recognised in profit or loss. When a financial asset is derecognised, the cumulative profit or loss in the fair

value reserve is reclassified from equity to profit or loss in net investment income as a reclassification adjustment. Interest calculated using the effective interest method is recognised in interest income.

3) Financial assets measured at fair value through profit or loss are held for trading or if the financial asset does not meet the criteria for amortised cost or FVOCI. Gains and losses are recognised in net investment income.

Business model

A business model refers to how OP MB manages its financial assets in order to generate cash flows. OP MB's business model determines whether cash flows will result solely from collecting contractual cash flows or from collecting contractual cash flows and cash flows and by selling a financial asset, or whether the purpose is held for trading. Financial assets within the trading business model are measured through profit or loss. When assessing the business model, OP MB takes account of future measures to achieve the objective of the business model. The assessment includes previous experience in collecting cash flows, how the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel, how risks are managed and how managers of the business are compensated. For example, OP MB holds home loans and intermediary loans it has granted to collect contractual cash flows.

Cash flow characteristics

When OP MB's business model is other than trading, OP MB assesses whether contractual cash flows are consistent with a basic lending arrangement. In the basic lending arrangement, contractual cash flows are solely payments or principal and interest on the principal amount outstanding (SPPI) where consideration for the time value of money, credit risk, lending risks and profit margin are typically the most significant elements of interest. The majority of OP MB's financial assets correspond to basic lending arrangements.

All loans to private customers granted by OP MB contain the option for early repayment. The terms and conditions are, however, consistent with the basic lending arrangement because the prepayment amount substantially represents the contractual par amount and accrued (but unpaid) contractual interest, which may include reasonable additional compensation for the early termination of the contract.

When contractual cash flows are exposed, for example, to change in stock prices or a borrower's financial result, this is no basic lending arrangement and such financial assets are measured at fair value through profit or loss. These are typically various mutual fund investments which do not fulfil the definition of equity in the issuer's financial statements under IAS 32.

Embedded derivatives included in financial assets are not separated from the host contract but they are considered in the overall assessment of contractual cash flows.

If OP MB has to change its business model for managing financial assets, it may have to reclassify financial assets. The reclassification must be applied prospectively from the reclassification date. Such changes are expected to be very infrequent.

**Equity instruments**

Equity instruments are instruments that evidence a residual interest in the assets of a company after deducting all of its liabilities. These are typically stock investments.

Equity instruments are subsequently measured at fair value through profit or loss, except when OP MB has made an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income. These investments comprise OP MB's strategic investments in OP Cooperative's cooperative capital, the nominal value of which corresponds to their fair value. No capital gains or losses are realised from these investments. The interest on cooperative capital is recognised in net investment income. OP Cooperative's Cooperative Meeting confirms the amount of interest payable on an annual basis.

**Modification of contractual cash flows**

Modifications in the contractual payment terms are made as a normal measure related to the management of customer relationship but also in situations where the customer's repayment capacity has deteriorated. The modification to the loan due to the customer's deteriorated repayment capacity is recognised as forbearance which typically means a moratorium for a limited time. Generally in these cases, the contractual cash flows of a loan are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that loan. In such a case, OP MB recalculates the gross carrying amount of the loan and recognises a profit or loss on the modification in net interest income in the income statement. Payment modifications are subject to regular monitoring and reporting to the management as an indicator anticipating customers' solvency.

If modifications to the loan terms are significant or the loan is renegotiated, OP MB derecognises the original loan and recognises the modified new loan in the balance sheet. The date of renegotiation is consequently considered to be the date of initial recognition for the impairment calculation purposes. This typically means measuring the loss allowance at an amount equal to 12-month expected credit losses. OP MB uses internal rating to classify reasons for modifications and severity classes to monitor whether there has been evidence that the new loan recognised has deemed to be credit-impaired at initial recognition. Accordingly, it is recognised as an originated credit-impaired financial asset. This might occur, for example, in a situation in which there was a substantial modification of a distressed asset.

Otherwise, OP MB derecognises financial assets when the contractual rights to the cash flows from the financial asset expire or it transfers the financial asset to another party and the transfer qualifies for derecognition.

**Impairment**

Expected credit losses are calculated on all balance sheet items amortised at cost and those recognised at fair value through other comprehensive income (FVOCI) (instruments other than equity instruments) and on off-balance-sheet loan commitments and financial guarantee contracts. Expected credit losses are recognised at each reporting date, reflecting:

a) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes
b) the time value of money and
c) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

**Classification of contracts into three impairment stages**

Contracts are classified into three stages. The different stages reflect credit deterioration since initial recognition.

- Stage 1: contracts whose credit risk has not increased significantly since initial recognition and for which a 12-month ECL is calculated.
- Stage 2: contracts whose credit risk has increased significantly since initial recognition and for which a lifetime ECL is calculated.
- Stage 3: defaulted contracts for which a lifetime ECL is also calculated.

In addition, originated credit-impaired contracts are always within the scope of the lifetime expected credit loss (POCI).

Definition of default

In the IFRS 9 based calculation, OP MB applies the same definition of default as in internal credit risk models (IRB). OP MB assesses default using OP Financial Group's internal rating system based on payment behaviour. For private customers, the definition of default is applied on a contract-by-contract basis whereas corporate customers are reviewed in terms of a group of connected clients. The customer is classified as a customer in default when the customer's repayment is considered unlikely, for example when the customer has registered payment default or it has been granted a forbearance in which the present value of the loan decreases by more than 1 per cent. Default extends to all credit obligations of an obligor in default among private customers when a significant proportion (20%) of private customer exposures are defaulted. In addition, the contract is defaulted when a payment related to a financial asset is over 90 days past due, at the latest.

The customer's default ends when it no longer meets the criteria for the definition of default and the subsequent probation period of 6–12 months has ended.

The definition of default is based on Article 178 of Regulation (EU) No 575/2013 (CRR) of the European Parliament and of the Council and on the European Banking Authority's (EBA) guidelines on the application of the definition of default (EBA/GL/2016/07 and EBA/RTS/2016/06).

OP MB has applied a so-called two-step approach of the EBA Guidelines. The first step involved the change of the definition of default during the first quarter of 2020. The second step taken in the fourth quarter involved the calibration of credit risk parameters.

Significant increase in credit risk

The expected credit losses are calculated for each contract for 12 months or lifetime, depending on whether the instrument's credit risk on the reporting date has increased significantly since initial recognition. Both qualitative and quantitative criteria will be used to assess whether the credit risk has increased significantly. Forbearance will be regarded as a qualitative criterion. Other qualitative factors will consist of various credit risk indicators (e.g. breach of covenants) that will be taken into account in credit rating models or in the assessment of the payment behaviour class.

OP MB has included relative and absolute thresholds for the determination of significant quantitative increases in credit risk considering all relevant and supportable information.

A quantitative change is assessed based on the relative change in lifetime PD figures (PD curve). The original lifetime PD curve is calculated on the origination date of the loan taking account of macroeconomic factors. Next, the acceptable natural range of variation is determined for the limits within which the credit risk is not considered to increase significantly during the remaining maturity of the loan. This yields a so-called threshold value curve. On each reporting date, the current lifetime PD curve is compared to the threshold value curve. If the threshold value is exceeded, the credit risk has increased significantly and a credit loss (calculated for the entire remaining maturity of the loan) is recognised. In addition to this limit of the relative change, a further requirement is that a borrower grade has deteriorated since initial recognition so that shifting to the lifetime ECL calculation does not occur only on the basis of the passage of time. In addition, an absolute threshold is used for the weakest borrower grades.

In addition to the aforementioned criteria, credit risk of a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due or forbearance has been on the loan.

OP MB monitors regularly how effectively the abovementioned criteria perceive a significant increase in credit risk before contractual payments have been over 30 days past due and that the contracts do not generally move from impairment stage 1 directly to impairment stage 3, and performs the required calibrations to the calculation method of the relative change.

**Measurement methods**

Expected credit losses are mainly measured on a system basis using the PD/LGD method on a contract-specific basis for all private customer exposures.

**PD/LGD method**

Expected credit losses are measured using modelled risk parameters with the formula probability of default (PD) x loss given default (LGD) x exposure at default (EAD) for majority of portfolios per contract and they reflect expectations of future credit losses at the reporting date. PD describes probability of default according to the definition of default. The probability of default applied to OP Financial Group's internal loans is zero due to the joint and several liability. LGD describes the share of an asset if a borrower defaults. It is affected, for example, by the quantity and type of collateral securities and various financial guarantees. EAD describes the exposure amount at default, including exposure in the balance sheet (capital and accrued interest) and expected use of off-balance-sheet items at default.

The ECL calculation is based on three different scenarios. Risk parameters PD, LGD and EAD are calculated for yearly time buckets in each scenario. Yearly ECL figures are discounted to the reporting date and a probability-weighted ECL is calculated from the figures of different scenarios. The contract's effective interest or its estimate is used as the discount factor. The contract's maximum residual term to maturity is limited to 30 years in the calculation.

The lifetime probability of default (lifetime PD) models for a contract have been prepared for private customers. The PD models are substantially affected by the contract's credit rating, loan age (private customers) as well as the model's sub-segment, which is determined for private customers on the basis of the product type. In addition, PD estimates are dependent on macroeconomic factors and their forecasts in each scenario.

The lifetime LGD consists of the following three components: 1) cure rate, 2) collateral return and 3) non-collateral return. The values of the components depend fundamentally on a product type, industry (companies), collateral type and the time how long the contract has been in default. The macroeconomic factors and their forecasts affect the first two components.

The lifetime exposure at default (lifetime EAD) for a contract is based on contractual cash flows, utilisation rate, prepayment rate and maturity model, depending on the product type.

In November, OP MB updated its estimates of two LGD model parameters: the non-collateral return and the cure rate. The cure rate for impairment stages 1 and 2 was updated based on data complying with the new definition of default adopted in Q1/2020. The estimates for the non-collateral return and the cure rate for impairment stage 3 were made time-dependent so that they will decrease if the period of default or debt collection increases.

In December, OP MB updated its lifetime PD model for corporate exposures based on data complying with the new definition of default adopted in Q1/2020, among other things. In addition, the company further specified model segmentation and revised the explaining macroeconomic factors so as to include GDP and real interest rate (previously, GDP and 12-month Euribor).
In addition, the effect of the calibration of the private customer credit rating model has been taken into account in December based on the data according to the new definition of default adopted in Q1/2020.

Determining the period of a contract

The period of a contract for promissory notes is a contractual maturity that takes account of repayments under the payment terms. The prepayment model applies to secured promissory notes (excl. default). It does not reduce the contractual maturity but is taken into account as part of the contract's EAD.

Revolving credit facilities (such as credit cards) are contracts valid until further notice and an expected maturity has been modelled for them. The modelled maturity depends on the product type and borrower grade, averaging some 15 years.

Forward-looking information

The calculation model includes forward-looking information and macroeconomic scenarios. OP Financial Group's economists update macroeconomic scenarios on a quarterly basis and the scenarios are the same that OP MB uses otherwise in its financial annual planning. Macroeconomic forecasts span five years and have been extrapolated for up to 30 years ahead using a production function. The macroeconomic factors used are: GDP growth, unemployment rate, investment growth rate, inflation rate, change in income level and 12-month Euribor rate. In addition, the house price index is used in LGD models. Three scenarios are used: baseline, upside and downside. Scenarios also include probability weights.

Preparing macroeconomic forecasts and projecting them into the future up to 30 years involves a large amount of uncertainty, which is why actual results may differ significantly from the forecasts. OP MB has analysed that the relationship of the change in the components of risk parameters and macroeconomic factors used in the ECL calculation is not linear. Accordingly, the macroeconomic forecasts represent OP MB's best view of potential scenarios and outcomes.

**Model based on credit rating information**

In the model, credit ratings are sought for purchase lots on the purchase date and the reporting date, and they are converted into PD figures. OP MB primarily uses the averages of external credit ratings and secondarily internal credit ratings, in case no external credit ratings exist.

The PDs correspond to the actual historical default rates by credit rating for each period from the date of issuing the credit rating. The historical data, for which the determined equivalence is based on, is comprehensive and on a long-term basis. The LGDs also correspond to the studied historical actuals by investment class/insurance line and these are not separately assessed by issuer or investment. Because external credit ratings measure total credit risk (ECL), not PD, the LDG in these cases affect only the division of the ECL between PD and LGD components.

**Impairment of off-balance-sheet items**

Products offered by OP MB may include an off-balance-sheet loan commitment. For loan commitments, the date that OP MB becomes a party to the irrevocable commitment shall be considered to be the date of initial recognition for the purposes of applying the impairment requirements.

The expected credit loss is calculated for these items using the same principles as for loans. Likewise, increases in significant credit risk are assessed on the same grounds. OP MB models EAD for such products that forecasts exposure at default. It includes both the utilisation rate and credit conversion factor. In addition, a maturity model is applied to contracts valid until further notice. The model takes account of cases where OP MB has a contractual ability to demand repayment and cancel the undrawn commitment but it does not limit OP MB's exposure to credit losses during the contractual notice period.

**Recognition of expected credit losses**

OP MB mainly recognises a loss allowance for expected credit losses on a loan at carrying amount in a separate account. For loan commitments and financial guarantee contracts, the loss allowance is recognised as a provision. For products that include both a loan (i.e. financial asset) and an undrawn commitment (i.e. loan commitment) component and OP MB cannot separately identify the expected credit losses on the loan commitment component from those on the financial asset component, the expected credit losses on the loan commitment are recognised together with the loss allowance for the financial asset.

**Write-off**

A write-off constitutes a derecognition event. When OP MB has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof, it directly reduces the gross carrying amount of the financial asset.

A loan is derecognised when collateral securities have been realised or debt rescheduling has come to an end or when collection measures have ended. Payments received after the derecognition are recognised as an adjustment to impairment losses on receivables.

**Cash and cash equivalents**

Cash and cash equivalents consist of cash and receivables from credit institutions repayable on demand.

**Classification and subsequent measurement of financial liabilities**

Financial liabilities include liabilities to credit institutions, debt securities issued to the public and other financial liabilities.

Financial liabilities are classified at amortised cost using the effective interest method, except for derivative liabilities measured at fair value through profit or loss.

Upon initial recognition, OP MB has not designated financial liabilities as measured at fair value through profit or loss.

OP MB derecognises a financial liability (or a part of a financial liability) when it is extinguished – i.e. when the obligation specified in the contract is discharged or cancelled or expires.

**Netting**

Financial assets and liabilities are offset in the balance sheet if OP MB currently has a legally enforceable right of set-off in the normal course of business and in the event of default, insolvency or bankruptcy, and intends to settle the asset and liability on a net basis.

### Derivative contracts

Derivative contracts are classified as hedging contracts and derivative contracts held for trading. OP MB uses derivatives only for hedging purposes. Derivatives are measured at fair value at all times. OP MB has prepared methods and internal principles used for hedge accounting, whereby a financial instrument can be defined as a hedging instrument.

In accordance with the hedging principles, OP MB can hedge against interest rate risk by applying fair value hedge or cash flow hedge. Fair value hedging refers to hedging against changes in the fair value of the hedged asset, and cash flow hedging to hedging against changes in future cash flows.

### Hedge accounting

Hedge accounting is used to verify that changes in the fair value of a hedging instrument or cash flows fully or partially offset the corresponding changes of a hedged item.

The relationship between hedging and hedged instruments is formally documented. The documentation contains information on risk management principles, hedging strategy and the methods used to demonstrate hedge effectiveness. Hedge effectiveness is tested at the inception of the hedge and in subsequent periods by comparing respective changes in the fair value or cash flows of the hedging and hedged instrument. The hedge is considered effective if the change in the fair value of the hedging instrument or in cash flows offsets the change in the fair value of the hedged contract or portfolio or in cash flows within a range of 80–125%.

Fair value hedges

Fair value hedging against interest rate risk involves long-term fixed-rate debt instruments (OP MB's own issues), individual loan portfolios, as well as individual loans. Interest rate swaps are used as a hedging instrument.

For derivative contracts which are documented as fair value hedges and which provide effective hedges, the changes in the fair value are recognised in the income statement. Hedged assets and liabilities are also measured at fair value during the period for which the hedge is designated, and any fair value changes are recognised through profit or loss.

In fair value hedge accounting, changes in the fair value of the hedged item and hedging instrument are recorded in the income statement under net interest income.

The calculation principles of the Euribor changed during 2019. In July 2019, the Financial Services and Markets Authority (FSMA) of Belgium granted authorisation related to the Euribor by virtue of the European Union Benchmark Regulation. This made it possible for the market participants to continue using the Euribor after 1 January 2020, covering both the existing and new contracts. OP MB expects that the Euribor will remain a reference interest rate in the future too and does not expect to change the risk to be hedged to a second reference rate. For these reasons, OP MB does not consider that the reference rate change would directly affect fair value hedges where the Euribor is the reference rate.

## INTANGIBLE ASSETS

Intangible assets are stated at cost less amortisation and any write-downs. These assets are amortised over their estimated useful lives, which is 2–6 years for computer software and licences.

## EMPLOYEE BENEFITS

### Pension benefits

Statutory pension cover for OP MB employees is arranged by Ilmarinen Mutual Pension Insurance Company. The supplementary pension plan has been arranged through OP Bank Group Pension Foundation.

Pension plans managed by Ilmarinen Mutual Pension Insurance Company are defined contribution plans in respect of funded disability and old-age pension benefits. All of the plans managed by OP Bank Group Pension Foundation are defined benefit plans.

Expenses arising from pension plans are recognised under “Personnel costs” in the income statement. Contributions under defined contribution plans are charged to expenses for the financial year to which they relate. No other payment obligations are included in defined contribution plans. Curtailing the defined benefit pension plan or fulfilling or changing the related obligation is recognised through profit or loss at the time of occurrence.

Defined benefit plans in OP Bank Group Pension Foundation are funded through payments based on actuarial calculations.

The liability recognised in the balance sheet in respect of the defined benefit plan is the present value of the defined benefit obligation on the balance sheet date less the fair value of the plan assets of OP Bank Group Pension Foundation and acceptable insurance.

Defined benefit obligations are calculated separately for each plan using the projected unit credit method. Pension costs are charged to expenses over the employees’ expected working lives on the basis of calculations performed by authorised actuaries. The discount rate for the present value of the defined benefit obligation is determined on the basis of the market return on high-grade corporate bonds on the closing date of the reporting period.

Items resulting from remeasurements of the net defined benefit liability are recognised in other comprehensive income in the period they occur. Remeasurements of the net defined benefit liability recognised in other comprehensive income will not be reclassified to income statement in later financial periods.

### Remuneration scheme

OP MB has a short-term and long-term remuneration scheme in place. Those included in the scheme may receive bonuses either in cash only or as a combination of cash and a reference instrument decided by OP Cooperative’s Board of Directors. Bonuses will be paid for work performed during the performance year. The maximum amount of the remuneration scheme is calculated on the grant date and the amount charged to expenses is recognised in personnel costs and deferred expenses over the vesting period.

The amount of compensation corresponding to the objectives reached is reviewed quarterly. Any effects resulting from reviewing the original estimates are recognised in personnel costs in the income statement and the corresponding adjustment is made in accrued expenses and deferred income.

### Personnel fund

OP MB belongs to OP Financial Group’s OP Personnel Fund into which bonuses are paid on the basis of pre-agreed principles, depending on the achievement of OP Financial Group’s targets. Bonuses transferred to the Fund are recognised under “Wages and salaries” in the income statement. The counterpart is recognised under “Deferred expenses” in the balance sheet until disbursed to beneficiaries.

## INCOME TAX AND DEFERRED TAX

Income tax expense shown in the income statement includes current tax, based on the taxable income of the financial year and income tax for prior financial years and deferred tax expense or income. Taxes are recognised in the profit and loss except when they are directly linked to items entered in equity or other items in other comprehensive income. In such a case, the tax is recognised in the items in question. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date.

Deferred tax liabilities are recognised for all temporary differences between the carrying amount and tax base of assets and liabilities. Deferred tax assets are calculated on tax-deductible temporary differences between the carrying amount and taxable value included in the financial statements, and on losses confirmed for tax purposes. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

OP MB offsets deferred tax assets and liabilities. Deferred tax assets and liabilities are measured at the tax rate that is expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted by the balance sheet date.

## REVENUE RECOGNITION

### Interest income and expenses

Interest income and expenses for interest-bearing assets and liabilities are recognised using the effective interest method. More detailed information on the effective interest method can be found in these accounting policies under Amortised cost. Interest on receivables with non-settled, due payments is also recognised as revenue. The difference between the receivable's acquisition cost and its nominal value is recognised as interest income and that between the amount received and nominal value of the liability in interest expenses. The difference between the nominal value and the acquisition cost of fixed-rate bonds is recognised as interest income or expenses over the residual term to maturity.

### Net commissions and fees

Fees that are not an integral part of the effective interest rate of a financial instrument are accounted for in accordance with IFRS 15 Revenue from Contracts with Customers. Fees and commissions under IFRS 15 are recognised as revenue when a service's agreed performance obligations are transferred to the customer and the key criterion is transfer of control. Commissions and fees are recognised to the amount to which an entity expects to be entitled in exchange of transferring promised services to a customer. Commission expenses are recognised in net commissions and fees on an accrual basis.

Commissions and fees consist of commissions from lending to private customers. Their performance obligations are fulfilled over time. The amount of consideration for the services is the list price or a contractually stated price. OP MB charges its customers the fees on a monthly basis according to the contract terms.

OP MB refunds OP cooperative banks the amount of the returns of loans managed by OP MB agreed in the fee model. Commission expenses consist mainly of the payment to OP cooperative banks of commissions charged from lending and fees for loan management, and of commission expenses relating to the issuance of bonds.

## SUMMARY OF PRESENTATION OF INCOME STATEMENT ITEMS

| | |
|---|---|
| Net interest income | Received and paid interest on fixed-income instruments, the recognised difference between the nominal value and acquisition value, interest on interest-rate derivatives and fair value change in fair value hedging, interest expense on issued debt securities |
| Net commissions and fees | Commission income from lending, commission expenses from lending and loan management fees to OP cooperative banks, and commission expenses from issued debt certificates |
| Personnel costs | Wages and salaries, pension costs, social expenses |
| Other operating expenses | Office expenses, ICT costs, other administrative expenses, charges of financial authorities and auditors, rents and other expenses |
| Impairment loss on receivables | Expected credit losses from customers and final credit losses and their reversals. |

## SEGMENT REPORTING

OP MB is responsible for OP Financial Group's funding for the part of covered bond issuance. OP MB either underwrites intermediary loans on OP Financial Group member cooperative banks' balance sheets or buys the home loans in security for bonds. Since all operations of OP MB are in one segment, the company does not prepare segment reporting.

## CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires making estimates and assumptions about the future and the actual results may differ from these estimates and assumptions. It also requires the management to exercise its judgement in the process of applying the accounting policies.

The determination of the measurement models for expected credit losses (ECL) involves several factors requiring management judgement, such as:

- Selection of appropriate ECL models so that they describe the expected credit losses on the contract portfolio as well as possible
- Different assumptions and expert assessments made in the models
- Selection of the estimation methods of the parameters for the ECL models
- Determination of model risk associated with the quality of the available modelling data and other data
- Proper grouping of contracts into different segments so that their ECL can be calculated using the appropriate model
- Selection of macroeconomic factors in such a way that their changes correlate with the contracts' probability of default
- Forecasting future macroeconomic scenarios and their probabilities.
- Extra provisions based on management judgement related to a certain industry due to COVID-19, for example
- Reductions in collateral value made on the basis of the geographical location of collateral based on management judgement

Management judgement has also been used in the assessment of a significant increase in credit risk, such as in:

- The expert assessment used in the assessment of change in relative credit risk associated with private customers to ensure a true number of contracts that move to stage 2 before moving to stage 3 (so-called default capture rate)
- The selection of the absolute threshold that is based on historical default behaviour and OP MB's credit risk process
- The determination of the length of a period during which the customer must prove proper payment behaviour so that the impairment stage 3 can improve to stage 2 or 1.

## CHANGES IN ACCOUNTING POLICIES AND PRESENTATION

In the first quarter of 2020, OP MB adopted the European Banking Authority's (EBA) guidelines on the application of the definition of default (Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013: EBA/GL/2016/07 and EBA/RTS/2016/06). The Guidelines harmonise the definition of default applied by European banks to their customers. The process in accordance with the Guidelines recognises default earlier, for example, based on the unlikeliness to pay criteria that include, for example, payment defaults registered in external credit registers or granted forbearance where the present value of the loan decreases by more than 1 per cent. The Guidelines also extend default among private customers to all credit obligations of an obligor when a significant proportion (20%) of private customer exposures are defaulted. In addition, the materiality threshold for exposures of over 90 days past due has been lowered to 100 euros and 1 per cent of the contract's or the customer's balance sheet exposures in retail exposures and to 500 euros and 1 per cent of the contract's or the customer's balance sheet exposures in exposures other than retail exposures. The customer's default ends when it no longer meets the criteria for the definition of default and the subsequent probation period of 6–12 months has ended. OP MB applies a so-called two-step approach of the EBA Guidelines. The first step involved the change of the definition of default during the first quarter of 2020. The second step to be taken later involves the calibration of credit risk parameters. The adoption of the first step increased the number of defaulted exposures and, thereby, the number of transfers to impairment stage 3. OP MB applied the new definition of default to expected credit losses as a change in the accounting estimate. Consequently, impairment loss on receivables in the income statement increased by TEUR 637 in the first quarter of 2020.

## NEW STANDARDS AND INTERPRETATIONS

On 27 August 2020, the IASB published a document entitled Interest Rate Benchmark Reform (Phase 2) that will amend IFRS 9, IAS 39 and IFRS 7, IFRS 4 and IFRS 16. The amendments must be applied for accounting periods beginning on or after 1 January 2021. Earlier application is allowed. The European Union adopted the amendments on 13 January 2021. These amendments constitute a continuation of the Interest Rate Benchmark Reform document, involving the following reliefs.

- A practical relief for financial instruments carried at amortised cost so that changing contractual cash flows due to the Interest Rate Benchmark Reform is treated by updating the effective interest rate, in which case the change does not cause a direct profit or loss.

- Further, hedge accounting is not discontinued although the reference interest rate changes during the hedging relationship but the risk to be hedged and related cash flows can be redetermined when the reference rate changes.

On the reporting date of 31 December 2020, the majority of OP MB's receivables and liabilities are linked to the Euribor and the Euribor will also remain the reference rate in the future and the contractual cash flows or the hedged risk are not expected to be changed to another reference rate. OP MB does not expect this change to have any significant effect on the financial statements.

## COVID-19 PANDEMIC

To prevent the significant economic effects caused by the coronavirus pandemic (COVID-19), the EU member states have implemented a variety of financial support measures. On 2 April 2020, the European Banking Authority (EBA) published guidelines on relief in processing payment moratoria due to the COVID-19 pandemic in the capital requirements regulation for applying, for example, to forborne exposures and default (EBA/GL/2020/02 "Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis"). On 7 July 2020, the EBA also published a report on the implementation of selected COVID-19 policies (EBA/REP/2020/19). However, the relief applies to legislative payment moratorium or payment moratorium jointly agreed within the banking sector that have not been carried out in Finland. In Finland, the financial support measures related to lending concern raising Finnvera's financing authorisation to EUR 12 billion.
Consequently, businesses can apply for working capital backed up by a guarantee from Finnvera to get through the coronavirus crisis. Finnvera's guarantees affect the LDG component in ECL measurement, thus reducing the ECL amount.

OP MB has independently provided its private customers with the opportunity to get a 12-month repayment holiday on their home loans. With respect to corporate customers, changes in repayment schedules will always be evaluated on a case-by-case basis. In addition, guarantees provided by Finnvera will be used extensively. In loan modifications, forborne loans and customers in default are identified according to the normal set of instructions. During the Covid-19 crisis, most of the repayment holidays have been granted to private customers and to SME customers.

In 2020, the Covid-19 crisis was taken into account in the ECL measurement by updating macroeconomic factors on a quarterly basis. When the crisis began in spring 2020, a larger weight was given to the downside scenario; downside 40%, baseline 50% and upside 10%. The situation stabilised in summer, after which the scenario weights have been normal; downside 20%, baseline 60% and upside 20%. GDP growth for 2021 is predicted to be from 0.5% to 5.4% and that for 2022 is predicted to be from 0.5% to 3.4% in different scenarios. The unemployment rate for 2021 is predicted to be from 7.7% to 8.7% in different scenarios, and that for 2022 is predicted to be from 6.9% to 8.3% in different scenarios.

The effect of the Covid-19 crisis on growth in expected credit loss was reflected in the transfer of contracts from impairment stages 1 and 2 to impairment stages 2 and 3, and in growth in risk parameters, especially in PD. Uncertainty still exists related to the economic development caused by the Covid-19 crisis.

**OP Mortgage Bank's risk management principles**

1 Overview of OP MB's significant risks

OP Mortgage Bank's (OP MB's) independent Risk Management function forms part of OP Financial Group's centralised Risk Management in organisational terms.

Because of the characteristics of OP Financial Group's business and industry, risks have two fundamental principles differing from each other: OP Financial Group may earn revenue through risks (earnings risks) or risks may be a consequence of something (consequential risks).

OP Financial Group's risk management and compliance are based on the principle of three lines of defence. The first line of defence comprises business lines, the second line of defence comprises risk management and compliance functions independent of the business lines/divisions and the third line of defence comprises Internal Audit. Each line of defence has its own role in performing the risk management process efficiently.

At OP Financial Group, the first line and the second line of defence in risk management cooperate on an ongoing basis. This is to ensure that all expertise needed to develop and manage operations is in use. The lines of defence build the risk management process together where the special features of OP Financial Group's business are taken into consideration. Responsibilities of the first and second lines of defence have been clearly divided.

- The business units fulfil OP Financial Group's strategy, are responsible for planning their own operations and their efficient and effective implementation and for their internal control. Only the unit concerned makes business decisions and is responsible for the quality of its customer service, its business continuity as well as its earnings and risks.

- The second line of defence prepares a risk management framework within the limits of which the first line of defence implements risk-taking and risk management related to daily business. The second line of defence supports the first line of defence by consulting them especially in matters that are part of their own expertise. The second line of defence also oversees compliance with the risk management framework and carries out an independent analysis related to the balance between earnings, risks and capital and liquidity acting as buffers as well as ensuring business continuity during incidents too.

- Internal Audit that is independent of other lines of defence acts as the third line of defence.

2 OP MB's significant risks – sources and management

2.1 Definitions and sources of significant risks

Below is a summarised description of the definitions and sources of OP MB's significant risks.

| | |
|---|---|
| Credit risks | Credit risk refers to the risk that a contracting party to a financial instrument is unable to fulfil their contractual repayment obligations and thereby causes a financial loss to the other party. |
| Liquidity risks | Liquidity risk arises from the imbalance between the timing and amounts of granting and obtaining financing, insufficient collateral needed to obtain financing and the temporal and counterparty- and instrument-specific concentration. This may lead to OP MB's weaker liquidity if it has not sufficiently prepared for liquidity.<br><br>Liquidity risk also involves market liquidity risk, which means a risk of failing to execute market transactions within a desired time and/or at an estimated price. |
| Market risks | Market risk refers to an unfavourable change related to the value of a contract or contract revenue due to price changes observed in the financial market. |
| Counterparty risks | Counterparty risk refers to the risk of the contracting party not fulfilling its financial obligations. |
| Operational risks | Operational risk is caused by all business operations and it may result from insufficient or incorrect practices, processes, systems or external factors. OP Financial Group's operational risks also include ICT and security risks. |

| | |
|---|---|
| Compliance risks | Risks caused by non-compliance with external regulation, internal policies, appropriate procedures or ethical principles governing customer relationships. |
| Data capital risk | Data capital risk means potential losses, loss of reputation or deterioration of operations caused by uncertainty in decision-making, management and reporting related to data and information. |
| Model risks | Model risk refers to potential losses or loss of reputation caused by decisions made on the basis of the results of models due to errors made in the development, implementation or use of models. The model means a method used to translate the source data based on mathematics, statistics and expert assessments into data guiding business decisions or quantitative data related to financial position or risk exposure. |
| Reputational risks | Risk of the loss of reputation or trust caused by negative publicity or materialisation of a risk. |
| Concentration risks | Risks that may arise due to a business having an excess concentration of risk in individual customers, products, lines of business, maturity periods or geographical areas. |
| Risks associated with future business | Risk associated with the conditions and volumes on which similar or entirely new agreements are based. |

Counterparty risks and risks associated with future business are not dealt with as a specific whole because risks associated with future business may emerge in the form of various significant risks and counterparty risks emerge as part of various risk types.

**Customer behaviour risk** may materialise in several risk types (the impact of a change in customer behaviour affecting matters such as the value of insurance contracts, volume of deposits or early repayments of contracts).

**Residual risk** is the risk which cannot be eliminated or which the entity is unwilling to eliminate. Residual risk is synonymous with risk. As such, residual risk is not an equivalent concept to the significant risks described above. Instead, residual risk can be considered to apply to any of the significant risks described above.

## 2.2 Banking risks

### 2.2.1 Credit risks

OP MB has no independent customer business or a service network of its own. OP MB's loan portfolio consists of mortgage loans placed as collateral for bonds, which OP MB has bought from OP Financial Group member cooperative banks, and of loans they granted to their customers on behalf of OP MB before 1 March 2016. OP MB ceased to buy loans from OP cooperative banks after IFRS 9 entered into force, and such purchases are now possible only sporadically and in cases of crisis. Framework agreements between OP MB and OP cooperative banks specify obligations and rights related to the utilisation of OP MB's financing as well as credit risk management. OP cooperative banks take care of credit decisions, customer relationships and loan management at local level in accordance with instructions issued by OP Financial Group and OP MB.

OP Financial Group manages its credit risk through the Group-level guidelines and principles and quantitative risk limits. These are specified in Banking risk-taking policy lines, limits and control limits, qualitative and quantitative targets as well principles governing customer selection, collateral and covenants. Quantitative and qualitative target levels balance out the business targets and moderate risk appetite. Limits and control limits set a maximum for risk-taking. These help to ensure the sufficient diversification of the loan portfolio while avoiding the emergence of too large risk concentrations.

Credit risk management is based on careful customer selection, active customer relationship management, good knowledge of customers, strong professional skills and comprehensive documentation. The day-to-day credit process and its effectiveness play a key role in the management of credit risks. The Group also manages credit risk through the selection of the range of products and product terms and conditions. Risk associated with new lending is managed through well thought-out customer selections and the avoidance of risk concentrations. In addition, OP MB makes use of techniques for reducing credit risks (collateral and guarantees). It also makes active use of covenants. Managing risk associated with the loan portfolio is based on good customer relationship management and the proactive and consistent management of problem situations.

The customer's sufficient repayment capacity is a prerequisite for all lending. Creating a group of connected clients properly provide a foundation for credit risk management. Without a clear picture of which parties constitute the group, what the structure of the group is like and what its repayment capacity comprises, it is not possible to get a true picture of the group and understand the risk what lending to the group involves. Each business unit identifies the group of connected clients and their interdependencies, and describes them correctly / realistically in OP Financial Group's systems.

It is necessary to collect sufficient up-to-date information on customers that cause credit risk to assess their creditworthiness. Creditworthiness comes from the customer's willingness to pay and repayment capacity. They both affect the customer's borrower grade. Sufficient and correct basic information is used to ensure that the customer can be rated with a correct credit rating model and that the borrower grade gives a true picture of the customer's creditworthiness risk. Each business unit ensures that its customers' borrower grades are constantly valid and up to date and, if necessary, updates the grade if the customer's situation changes. This is how the loan portfolio of the bank concerned and the entire OP Financial Group can be monitored on a real-time basis.

Collateral management is based on an independent collateral assessment, the validity of pledges and the fact that the collateral can be realised so that we can maintain a realistic view of the hard collateral securities that secure receivables. The values of assets pledged in security of receivables must give a true and real-time picture of the collateral position related not only to an individual customer but also the entire loan portfolio. When valuing illiquid collateral securities, it is necessary to consider the financial standing of the collateral asset owner. The weaker is the asset owner's financial standing, the bigger should be the weight of the realisation value in estimating the collateral asset.

Financing decision-making is based on the principle of segregation under which the person preparing financing may not make the financing decision alone. Considering that financing decisions are about risk-taking decisions, those making the decisions must be aware of all information relevant to decision-making. All credit risk decisions are made on a business-specific basis. Decision-making is guided by OP Financial Group's Risk Appetite Statement (RAS) and the target risk exposure specified in the risk policy. Decisions that deviate from the target risk status specified in the risk policy must be explained on a broader basis. The central cooperative's Risk Management assesses compliance of the most significant financing projects with the risk policy and reports to the management of OP Financial Group and the management of Group banking entities a situational picture of compliance with the risk policy.

The bank's senior management and management body monitor closely the bank's credit risk exposure. The bank's management is responsible for keeping the members of the management body informed in the event that the bank's operational risk-taking deviates from the risk policy approved by the management body, in order for the Board of Directors, as its role requires, to monitor the trend in the bank's risk exposure and, if necessary, issue instructions to the management at operational level concerning risk-taking.

From the bank's perspective, credit risk materialises in a situation where the customer becomes insolvent and cannot fulfil their credit obligations without the bank taking measures, such as realising collateral. It is therefore important that customers whose repayment capacity has weakened or a significant threat is posed to their repayment capacity are promptly identified in both the financing process and the customer relationship management process.

Customers that are most significant to the bank and whose risk of default has increased clearly or another significant threat is related to their repayment capacity must be placed under special control. For these customers, the bank must prepare an action plan on what measures should be taken to resolve the customer' situation from the bank's perspective and to minimise the risk the bank may be exposed if materialised. Monitoring and documenting potential customers in default or actual customer in default are more intensive and extensive than among less risky customers, so that the bank is actively aware of changes in the customer's situation and can immediately react to the changed situation.

Measuring credit risk

OP Financial Group measures credit risk using the ratio of economic capital requirement for credit risk to exposures at default, the ratio of non-performing receivables to the loan and guarantee portfolio and the ratio of expected credit losses to the loan and guarantee portfolio. What is also measured is the proportion of corporate exposures in different borrower grade baskets, and the average rating of corporate exposure. The risk policy sets limits for these metrics. In addition, loan portfolio concentrations are monitored by customer, industry and country. The Group also measures the growth differential of the loan portfolio and credit risk economic capital to ensure balance between growth and risk-taking. Limits deriving from Group-level limits have been set for the business segments engaged in banking.

Limits set in the risk policy can be supplemented with qualitative targets set in the operating instructions of each segment that may be segment- or entity-specific. Targets may be set for the entire loan portfolio or separately to personal or corporate customer financing. Furthermore, it is possible set targets measuring the quality of the credit risk process.

In order to ensure sufficient diversification of the loan portfolio and efficient capital allocation, customer segmentation is used to manage the loan portfolio. Customer segments have been defined to ensure that receivables in each individual segment are homogenous in terms of credit risk to enable a coordinated risk policy. By utilising segmentation and the breakdown by borrower grade, the Group presents the loan portfolio target status in the risk policy, which is not binding on the business unit concerned but the business unit should control credit risk-taking in such a way that the target state will be achieved.

OP Financial Group utilises internal credit risk models in risk assessment. In addition to the models used for assessing probability of default (PD), the Group uses models for predicting loss given default (LGD) and exposure at default (EAD) to measure credit risk. Exposure at Default (EAD) refers to the estimated amount of the bank's receivable from the customer at default. Off-balance-sheet exposures at default are determined on the basis of the conversion factor (CF). Loss Given Default (LGD) is an estimate of a financial loss incurred by the bank, as a share of EAD, if the customer defaults. Procedures based on model risk management are applied to the models used in credit risk assessment.

OP Financial Group's internal credit rating system

The credit rating system means all of the methods, processes, controls, data collection and IT systems that support the assessment of credit risk, the assignment of exposures to rating grades or pools, and the quantification of default and loss estimates that have been developed for certain types of exposures. From the viewpoint of OP MB, the most significant part of the credit rating system is the rating model for the private customer portfolio.

OP MB uses an internal 16-level scale of A–F to assess the probability of default for its private customer agreements, with F representing borrowers in default. OP MB assesses monthly all private customer agreements' PD using a loan portfolio rating model. The loan portfolio rating is based on a customer's basic data, payment behaviour and other transaction history data. Average PDs have been calculated for each borrower grade for a period of 12 months.

Risk Management maintains a more detailed description of the internal credit rating system and reports regularly on its effectiveness as part of OP Financial Group's risk analysis and separately to the Risk Management Committee.

### 2.2.2 Liquidity risks

OP MB as OP Financial Group's mortgage bank operates in accordance with the Act on Mortgage Credit Banks. The Board of Directors of OP MB sets a quantitative target for the proportion of the mortgage bank to the entire OP Financial Group's credit institution business.

The Banking risk policy defines a funding risk limit for OP Mortgage Bank. OP MB's funding risk consists of loans bought from OP cooperative banks, issued bonds and intermediary loans granted to OP cooperative banks. Furthermore, OP MB finances excess collateral from Group Treasury.

In its annual planning, OP MB assesses the sufficiency of available collateral in the banks' balance sheets to implement planned issues. OP cooperative banks' mortgages are used as collateral for covered bonds issued by OP MB. OP MB is responsible for managing the sufficiency of collateral according to the Act on Mortgage Credit Banks and other regulations.

OP MB ensures the management of its daily liquidity and, as part of its annual planning, makes an assessment of the sufficiency of liquidity.

Liquidity management and control within the amalgamation

Liquidity regulation[1] as such is not applied to the amalgamation's companies but, with the ECB's permission, the central cooperative may give special permission to its member banks to deviate from the liquidity regulation. The prerequisite for the special permission is that the central cooperative gives the amalgamation's companies instructions on risk management needed to secure liquidity and other qualitative requirements, and supervises compliance with these instructions.[2]

The central cooperative senior management is responsible for organising OP Financial Group's centralised liquidity risk management according to the liquidity strategy policy lines. It must ensure that the management and supervision of the amalgamation's liquidity management is at all times in accordance with the extent and quality of business and fulfils regulatory requirements. In the sales control of borrowing and lending, the management pays attention not only to growth and profitability targets but also to liquidity features. Product development related to customer service must also aim to reduce risks associated with the liquidity and funding structure in the balance sheet.

[1] Part 6 of the Capital Requirements Regulation (CRR) and liquidity provisions of chapter 9 of the Act on Credit Institutions.
[2] TYL §21 a, §20 and §23.

OP Corporate Bank's Board of Directors and OP Mortgage Bank's Board of Directors approve OP Financial Group's funding plan. The central cooperative's senior management[3] approves the Liquidity Contingency Plan which contains the control and supervision procedures of the liquidity status based on various threshold levels as well as funding sources.

As OP Financial Group's treasury, OP Corporate Bank plc is tasked with securing the liquidity of the entire Group and each OP cooperative bank or Group company. The Group puts its entities' liquidity into its Treasury's cheque account with the Bank of Finland. This means that the Group always manages its overall liquidity position through the account on a centralised basis. OP Financial Group's Treasury is in charge of the Group's wholesale funding, manages the Group's short-term liquidity, maintains the liquidity buffer, manages the Group's minimum reserve on a centralised basis and is responsible for managing intraday liquidity risk. OP Corporate Bank manages on a centralised basis the Group's wholesale funding in the form of debt capital and equity capital, while OP Mortgage Bank manages wholesale funding based on covered bonds.

Based on the decision by the Board of Directors or a body it has authorised, Group Treasury may use the collateral securities in the entire OP Financial Group in a normal circumstance. In a severe liquidity crisis caused by money and capital market disruptions or by other reasons or in preparing for it [4] the central cooperative's Board of Directors, or a body it has authorised, obliges the amalgamation's member banks to either sell loans to OP Mortgage Bank or to place part of their loan portfolio as collateral for the covered bond issued by OP Mortgage Bank through an intermediary loan. The amounts of the loans to be needed are based on the Group-level need and are determined for each bank. The decision may be put into practice based on a decision made by the central cooperative's Board of Directors or a body it has authorised. Member banks are committed to immediately executing the measures related to the decision.

Identifying liquidity risks

OP Financial Group's Treasury and other business units plus Risk Management continuously identify and assess risks associated with funding and business and other business environment. In the risk assessment of new products, services, business models, processes and systems, every business unit must take account of liquidity risks, too. At least once a year, Risk Management together with business representatives make a comprehensive liquidity risk assessment to ensure that the capital adequacy assessment process (ILAAP) is appropriate and adequate in relation to the Group's liquidity risks.

OP MB's key source of liquidity risk is banking where inflows and outflows of financing does not take place at the same time. In such a case, the bank is exposed to refinancing risk due mainly to lending with a long maturity and the differences between the maturity of deposit funding dependent on customer behaviour and the illiquidity of receivables. At the same time, the bank is exposed to funding concentration risk as regards the counterparties of deposit and wholesale funding, availability and maturity of finance. Lack of market liquidity may reduce liquid assets held by the bank.

Assessment and measurement

The Group assesses the future cash flows of receivables, liabilities and off-balance-sheet commitments based on the contract maturity date or repayment programme, expert assessments or statistical models based on customer behaviour history.

Structural funding risk is measured on the difference between cash inflows and cash outflows in different maturities. In addition, the Group calculates the regulatory Net Stable Funding Ratio (NSFR[5]) which determine the amount of stable funding sources expected to span over one year in proportion to assets requiring stable funding.

From the perspective of the relevant authority, funding liquidity risk is measured using the Liquidity Coverage Ratio (LCR[6]). The sufficiency of the liquidity requirement in terms of time is assessed though the maturing items on the balance sheet. Based on a financial perspective, the Group measures the sufficiency of the primary liquidity buffer, based on stress testing, and of the liquidity buffer.

The Group measures funding concentration risk by calculating the amount of bond funding with a maturity of rolling 12 months and 3 months. In the time horizon of less than 12 months, the Group measures the total wholesale funding amount, comprising short- and long-term wholesale funding, for 3 months. When it comes to deposit funding, the Group monitors the concentration of the largest deposit volumes. Concentrations by counterparty and instrument are also subject to monitoring.

OP MB measures its asset encumbrance by proportioning encumbered assets to the aggregate amount of balance sheet assets and collateral securities.

Risk assessment and measurement methods related to liquidity buffer investments are described as part of market risks.

[3] At present, the Executive Management Team has authorised the ALM Committee to approve the Liquidity Contingency Plan.

[4] A liquidity crisis and preparing for it involve OP Financial Group's two highest funding liquidity management preparedness levels.

[5] Stable funding requirement = Net Stable Funding Ratio (NSFR)

[6] Liquidity requirement = Liquidity Coverage Ratio (LCR)

Liquidity stress testing

The adequacy of OP Financial Group's liquidity buffer and buffer items is assessed through various scenarios. OP Financial Group-specific and market-specific scenarios as well as their combination are used as stress scenarios. The scenarios must cover both short- and long-term stress conditions. When measuring member bank-specific structural funding risk, the liquidity requirement based on the regulatory stress scenario is taken into account for each bank[7]. A reverse stress test is used in connection with the Group's Recovery Plan. Senior management confirms the scenarios to be used, use and reporting of stress test results.

Funding plan

In its funding plan, OP Financial Group must take account of its member banks' estimate of the funding need for years to come. The funding plan defines guidelines for wholesale funding for the next few years. The Group updates the plan in the course of the year, if needed. Deposit funding is primarily based on the business strategy and plan. The funding plan specifies the sources of wholesale funding and presents how the Group covers its need for the most important wholesale funding sources in view of the depth of the market and sufficient diversification, as well as defines decision-making powers. The funding plan must also take account of unfavourable scenarios lasting several years and of abrupt changes in key funding items.

Non-euro liquidity management

OP Financial Group carries out non-euro funding due to the diversification of funding sources. Since almost all of the Group's receivables are in euros, the Group mainly converts its non-euro funding into euros through derivative transactions in connection with an issue.

According to liquidity regulation, a non-euro currency is significant if non-euro liabilities account for over 5% of the amalgamation's balance sheet total. The Group monitors significant currencies every month when it produces its liquidity report to the supervisor. Although the Group hedges wholesale funding items, non-euro reserves may be needed for the most commonly used currencies in case of customers' use of currency credit limits.

Management of intraday liquidity

OP Financial Group's Treasury monitors intraday funding sources and anticipates and monitors the execution of intraday payments. The Group holds intraday funding sources to the amount that it can make payments due on the banking day.

Based on the liquidity contingency plan, the Group can raise its level of preparedness even if intraday liquidity is disturbed. in order to ensure efficient operations in the case of an increased threat of a crisis.

Liquidity buffer

From the financial perspective, OP's liquidity buffer is divided into the primary and secondary liquidity buffer. The definition of the primary liquidity buffer is based on eligible collateral for central bank refinancing that is actively managed by Group Treasury from the basis of liquidity management. The primary liquidity buffer consists of a cheque account with the Bank of Finland and notes and bonds eligible as collateral for central bank refinancing held by Group Treasury. The secondary liquidity buffer consists of other notes and bonds held by Group Treasury that have not been primarily acquired for liquidity management, and of OP Corporate Bank's notes and bonds and corporate loans eligible as collateral for central bank refinancing. Notes and bonds included in the liquidity buffer must be unencumbered and available for sale or use as collateral at any time.

From the regulatory perspective, OP Financial Group's liquidity buffer consists of the liquidity buffer that fulfils the criteria for liquidity buffer requirement provisions (=LCR buffer).

Group Treasury draws up an investment plan at least once a year that includes liquidity buffer investments held by Group Treasury. The investment plan applies the restrictions and objectives set in OP Financial Group's Risk Appetite Statement (RAS) and Risk Policy for market risk, credit risk and funding liquidity risk. The investment plan establishes, to the appropriate extent, a framework for testing the liquidity of notes and bonds.

The Group diversifies investments, for example, by product, counterparty and country, in view of both internal risk appetite and external regulatory requirements.

---

[7] The liquidity requirement is counted as a liquidity deposit in Treasury.

Collateral management and asset encumbrance

Collateral securities in this context mean OP Financial Group's assets that are used as collateral to fulfil liquidity needs either in normal conditions or in stress conditions. On a centralised basis, Group Treasury monitors collateral and is responsible for its use and transfer.

Home loans serving as collateral for covered bonds issued by OP Mortgage Bank constitute the largest source of asset encumbrance in the balance sheet. In addition, central bank operations and derivatives business are mainly other sources of asset encumbrance. From the perspective of preparing for liquidity needs, the Group restricts asset encumbrance through quantitative limits specified in its Risk Policy.

To increase liquidity potential, it is necessary to identify the eligibility of the balance sheet receivables as collateral and create readiness to use receivables as collateral.

Securing liquidity in stress conditions

OP Financial Group's liquidity contingency plan establishes a framework that safeguards the Group's ability to meet its payment obligations during a liquidity crisis as well. The plan provides well-defined operational guidelines and operating models for identifying an increased liquidity risk while directing OP Financial Group to timely and appropriate actions to reduce liquidity risk by ensuring efficient organisation and activities in case a threat of crisis is imminent. The contingency plan specifies control and monitoring practices for each liquidity level, which become more rigorous when moving up to the next level.

Furthermore, OP Financial Group's Recovery Plan includes liquidity management recovery measures.

Liquidity risk reporting

The Group reports liquidity risks to the central cooperative's management on a regular basis and, with a heightened threshold level of the liquidity status, will adopt weekly or daily progress reporting practices whenever necessary. OP Financial Group companies report liquidity risks to their boards of directors regularly, applying at least the level which has been set for control limits and limits.

As part of OP Financial Group's risk analysis, Risk Management reports quarterly to the Risk Committee, which operates under the central cooperative's Board of Directors, on the implementation of the liquidity strategy and the Banking risk policy lines. The report involves primarily assessing funding changes at amalgamation level relative to the customer business funding need and changes in deposits and wholesale funding and related customer behaviour. Through stress tests, reporting also assesses the short-term and long-term sufficiency of internal liquidity buffers, the funding structure of banking and changes in regulatory requirements.

The functionality of the models utilised in liquidity risk management is ensured as specified in the principles of model risk management described as part of model risks.

Allocation of liquidity risk costs within the amalgamation

The costs of external wholesale funding must be reflected in the pricing of customer business.

The costs of wholesale funding and liquidity buffer maintenance are allocated among member banks based on the matching principle adopted by the central cooperative senior management. The costs of liquidity maintenance are allocated through liquidity deposits and the costs of wholesale funding are allocated through the margin added to the base rate of OP Financial Group's loans or by using another practice[8].

### 2.2.3 Market risks

OP MB's interest rate risk arises from the differences in the bases of interest rates concerning lending and funding. In accordance with legislation governing mortgage banks, OP MB hedges against interest rate risk through derivative contracts entered into with OP Corporate Bank plc. OP MB prepares an interest rate risk management plan on an annual basis. The central cooperative's independent Risk Management produces a monthly risk report for OP MB.

[8] Allocation of liquidity costs and benefits in OP Financial Group's Banking

Interest Rate Risk in the Banking Book (IRRBB) management strategy

Around a third of OP Financial Group's income is based on net interest income. Consequently, the strategy of the management of the interest rate risk in the banking book forms a key component in ensuring the Group's earnings stability. As part of market risk, the interest rate risk in the banking book has been defined as one of OP Financial Group's significant risks.

The banking book comprises on- and off-balance sheet items of OP Financial Group's banking that have not been determined to be included in items within the trading book. Interest rate risk in the banking book is a structural interest rate risk that is not taken but it emerges because of the nature of business.

The principles governing the management of the interest rate risk in the banking book establish the conditions for the fulfilment of the new regulatory requirements applying to IRRBB. Accordingly:

- The senior management is responsible for arranging the management of interest rate risks in the banking book in OP Financial Group's banking in accordance with the principles of the IRRBB strategy.
- The interest rate risk management practices are justified, solid and documented.
- Each member bank in the amalgamation bears the interest rate risk in its banking book and is responsible for managing it.
- Optionalities included in assets and liabilities are taken into account in the models used to measure interest rate risk. The functionality of the models is ensured as specified in the principles of the model risk management described as part of model risks.
- Interest rate risk is measured against changes in the level of the yield curve and in stress tests against changes in the yield curve shape. The aim is to develop the measurement of interest rate risk in such a way that the measurement of risk associated with changes occurring between relations of different market interest rates is added to it (Basis risk).
- The interest income risk metric is used to measure interest income risk, and the present value risk metric to measure interest risk of the on- and off-balance sheet items over their entire term to maturity.
- Economic capital is allocated for interest rate risk in the banking book in relation to interest rate risk. To ensure the sufficiency of the allocated amount, an assessment model based on stress tests is developed.
- OP MB carries out stress tests on the interest rate risk on a regular basis.
- There are not many fixed-rate loans in customer business. The bank's earnings should not, therefore, be based on exploiting the interest rate differential between short- and long-term rates to any significant extent.

Each member bank manages interest rate risk in the banking book within the scope of the risk policy and limits, other guidelines[9] and targets issued by the central cooperative, and the terms and conditions of accounts, deposits and loans. As part of their annual planning, member banks prepare an ALM plan that includes a management plan for their interest rate risk in the banking book. The interest rate risk in the banking book is hedged using instruments offered by Group Treasury. Each member bank must demonstrate adequate knowledge of using derivatives for hedging purposes.

Using the risk assessment procedure applied to OP Financial Group's new products, services, operating models, processes and systems ensures that the characteristics of interest rate risk management have been understood and described appropriately.

Based on the loan terms and conditions, the minimum reference rate of zero is applied to a considerable number of loans. In technical terms, zero floors are assessed to remain with high probability because there has not been any discussion on abandoning it within the sector and in public. Implementing the removal of zero floors of the total interest rate requires a legislative amendment which defines how customers are compensated for the negative reference interest rate and how it is treated in taxation. Stress tests are used to assess the effects of the removal of zero floors.

Equity capital is considered an item that finances business. Interest on Profit Shares are taken into account in risk calculation, according to customer promise and the contract rate of subordinate loans. Share capital, cooperative capital and earnings all are free of interest.

[9] The Executive Management Team's Risk Management Committee approves the interest rate risk management guidelines, which are issued by the central cooperative in accordance with section 17 of the Act on the Amalgamation of Deposit Banks, and which provide further detail on the implementation of OP Financial Group's strategy of the management of interest rate risk in the banking book in member banks.

The central cooperative ensures that the interest rate risk transfer reflects in the financial statements of the Group and its major companies in accordance with the nature of business through centralised hedge accounting.

As part of OP Financial Group's risk analysis, Risk Management reports quarterly to the Risk Committee, which operates under the central cooperative's Board of Directors, on the implementation of the strategy of the management of interest rate risk in the banking book and the Banking risk policy.

## NOTES TO THE INCOME STATEMENT

| NOTE 3. Net interest income, TEUR | 2020 | 2019 |
|---|---|---|
| **Interest income** | | |
| From receivables from credit institutions | | |
| Interest | -19,723 | -12,146 |
| Negative interest | -53 | -207 |
| From receivables from customers | 39,570 | 57,146 |
| From derivative contracts | | |
| From hedge accounting | -5,443 | -10,796 |
| Other interest income | 7 | 0 |
| **Total** | **14,357** | **33,996** |
| | | |
| **Interest expenses** | | |
| From liabilities to credit institutions | -2,702 | -7,241 |
| From derivative contracts | | |
| From hedge accounting | -246,300 | -246,404 |
| From debt securities issued to the public | 214,888 | 226,119 |
| Other interest expenses | 0 | 1 |
| **Total** | **-34,113** | **-27,525** |
| | | |
| **Net interest income** | **48,470** | **61,521** |

**Net income from hedge accounting**

Net income from hedging instruments is TEUR -140.218 (-145,605) and net income from hedged items is TEUR 140.218 (145,605).

**Net income calculated using the effective interest method totalled TEUR 19.793 (44,792)**

| NOTE 4. Net commissions and fees, TEUR | 2020 | 2019 |
|---|---|---|
| **Commission income** | | |
| From lending | 3,946 | 4,891 |
| **Total** | **3,946** | **4,891** |
| | | |
| **Commission expenses** | | |
| From lending to OP cooperative banks | 3,777 | 4,703 |
| Loan management fee to OP cooperative banks | 32,418 | 40,018 |
| Issue of bonds | 154 | 220 |
| Other | 7 | 6 |
| **Total** | **36,357** | **44,946** |
| | | |
| **Net commissions and fees** | **-32,411** | **-40,055** |

**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.**

| NOTE 5. Personnel costs, TEUR | 2020 | 2019 |
|---|---|---|
| Wages and salaries | 398 | 342 |
| Pension costs | | |
| Defined contribution plans | 61 | 48 |
| Defined benefit plans | 0 | -1 |
| Total | 60 | 47 |
| Other indirect personnel costs | 9 | 9 |
| **Total personnel costs** | **467** | **399** |

| NOTE 6. Depreciation/amortisation and impairment loss, TEUR | 2020 | 2019 |
|---|---|---|
| Depreciation/amortisation | | |
| Depreciation on right-of-use assets | 0 | 3 |
| On intangible assets | 0 | 120 |
| **Total** | **0** | **123** |

| NOTE 7. Other operating expenses, TEUR | 2020 | 2019 |
|---|---|---|
| Rental expenses | 4 | 6 |
| Government charges | 455 | 436 |
| Audit fees | 105 | 103 |
| Membership fees | 414 | 111 |
| Office expenses | 192 | 216 |
| ICT costs | | |
| Production | 2,327 | 2,874 |
| Development | 1,393 | 1,098 |
| Telecommunications | 24 | 29 |
| Marketing | 1 | 1 |
| Other administrative expenses | 118 | 172 |
| Insurance and security costs | 169 | 131 |
| Experts' costs | 677 | 655 |
| Other | 93 | 33 |
| **Total** | **5,972** | **5,865** |

**Fees paid to auditors by assignment**

| | | |
|---|---|---|
| Auditing | 40 | 20 |
| Other services | 64 | 83 |
| **Total** | **105** | **103** |

Non-audit services provided by KPMG Oy Ab totalled TEUR 63 (63). The corresponding figures for 2019 are shown in brackets.

| NOTE 8. Impairment losses on receivables, TEUR | 2020 | 2019 |
|---|---|---|
| Receivables written down as loan and guarantee losses | 121 | 42 |
| Recoveries of receivables written down | -3 | -7 |
| Increase in impairment losses on individually assessed receivables | 1,528 | 182 |
| **Total** | **1,646** | **217** |

Impairment loss on receivables increased to 1.6 million euros (0.2). As a result of the Covid-19 crisis, customers have actively applied for repayment holidays on their loans. Combined with the changes in macroeconomic parameters applied in the calculation of expected credit losses, this increased the amount of expected credit losses. The amount of expected credit losses was also increased by the new definition of default which OP MB adopted in March. The new definition was applied to expected credit losses as a change in the accounting estimate. Consequently, impairment loss on receivables in the income statement increased by 637 thousand euros in the first quarter of 2020. In addition, the changes in ECL parameters increased expected credit losses in the fourth quarter by 285 thousand euros.
Loss allowance is itemised in Note 12.

| NOTE 9. Income tax, TEUR | 2020 | 2019 |
|---|---|---|
| Current tax | 1,587 | 2,955 |
| Deferred tax | 7 | 18 |
| **Income tax expense on the income statement** | **1,594** | **2,973** |
| | | |
| Corporate income tax rate | 20.0 % | 20.0 % |

**Reconciliation between tax expense in the income statement and tax expense calculated by the applicable tax rate**

| | | |
|---|---|---|
| Earnings before tax | 7,975 | 14,865 |
| Share of the profit according to the tax rate | 1,595 | 2,973 |
| Other | -1 | |
| **Income tax expense on the income statement** | **1,594** | **2,973** |

NOTES TO ASSETS

| NOTE 10. Receivables from credit institutions, TEUR | 31 Dec 2020 | 31 Dec 2019 |
|---|---|---|
| **Receivables from credit institutions** | | |
| Deposits | | |
| Repayable on demand | 214,695 | 438,702 |
| Other | | |
| Other than those repayable on demand | 10,794,132 | 8,705,869 |
| **Total receivables from credit institutions** | **11,008,827** | **9,144,571** |

| NOTE 11. Derivative contracts, TEUR | 31 Dec 2020 | 31 Dec 2019 |
|---|---|---|
| **Derivative contracts** | | |
| Hedging derivative contracts | | |
| Fair value hedging | | |
| Interest rate derivatives | 431,801 | 291,146 |
| **Total derivative contracts** | **431,801** | **291,146** |

More detailed information on derivative contracts can be found in Note 22.

| NOTE 12. Receivables from customers, TEUR | 31 Dec 2020 | 31 Dec 2019 |
|---|---|---|
| Loans to the public and public sector entities | 4,539,024 | 5,629,954 |
| Loss allowance | -2,766 | -1,238 |
| **Total receivables from customers** | **4,536,259** | **5,628,716** |

**Credit risk exposures and related loss allowance**

**Exposures within the scope of accounting for expected credit losses by impairment stage on 31 December 2020**

| Exposures 31 December 2020 | Stage 1 | Stage 2 | | | Stage 3 | |
|---|---|---|---|---|---|---|
| TEUR | | Not more than 30 DPD | More than 30 DPD | Total | | Total exposure |
| **Receivables from customers (gross)** | | | | | | |
| Mortgage-backed loans | 3,948,515 | 524,072 | 1,937 | 526,009 | 54,528 | **4,529,052** |
| **Receivables from customers** | **3,948,515** | **524,072** | **1,937** | **526,009** | **54,528** | **4,529,052** |
| | | | | | | |
| **Off-balance-sheet limits** | | | | | | |
| Mortgage-backed loans | | | | | | |
| **Total limits** | | | | | | |
| | | | | | | |
| **Total exposures within the scope of accounting for expected credit losses** | **3,948,515** | **524,072** | **1,937** | **526,009** | **54,528** | **4,529,052** |

**Loss allowance by impairment stage 31 December 2020**

**On-balance-sheet exposures and related off-balance-sheet limits***

| | Stage 1 | Stage 2 | | | Stage 3 | |
|---|---|---|---|---|---|---|
| TEUR | | Not more than 30 DPD | More than 30 DPD | Total | | Total exposure |
| **Receivables from customers** | | | | | | |
| Mortgage-backed loans | -61 | -423 | -6 | -430 | -2,275 | -2,766 |
| **Total receivables from customers** | **-61** | **-423** | **-6** | **-430** | **-2,275** | **-2,766** |
| | | | | | | |
| **Total** | **-61** | **-423** | **-6** | **-430** | **-2,275** | **-2,766** |

*Loss allowance is entered as one component to deduct the balance sheet item.

The table below shows a summary of loss allowance relative to the exposure amount by impairment stage.
The coverage ratio describes the ratio of loss allowance to exposure amount.

**Summary and key indicators 31 December 2020**

| | Stage 1 | Stage 2 | | | Stage 3 | |
|---|---|---|---|---|---|---|
| TEUR | | Not more than 30 DPD | More than 30 DPD | Total | | Total exposure |
| **Receivables from customers: on-balance-sheet and off-balance-sheet items** | | | | | | |
| Mortgage-backed loans | 3,948,515 | 524,072 | 1,937 | 526,009 | 54,528 | 4,529,052 |
| **Loss allowance** | | | | | | |
| Mortgage-backed loans | -61 | -423 | -6 | -430 | -2,275 | -2,766 |
| **Coverage ratio, %** | | | | | | |
| Mortgage-backed loans | 0.0 % | -0.1 % | -0.3 % | -0.1 % | -4.2 % | -0.1 % |
| **Receivables from customers: on-balance-sheet and off-balance-sheet items total** | **3,948,515** | **524,072** | **1,937** | **526,009** | **54,528** | **4,529,052** |
| **Total loss allowance** | **-61** | **-423** | **-6** | **-430** | **-2,275** | **-2,766** |
| **Total coverage ratio, %** | **0.0 %** | **-0.1 %** | **-0.3 %** | **-0.1 %** | **-4.2 %** | **-0.1 %** |

**Exposures within the scope of accounting for expected credit losses by impairment stage 31 December 2019**

| Exposures 31 December 2019 | Stage 1 | Stage 2 | | | Stage 3 | |
|---|---|---|---|---|---|---|
| TEUR | | Not more than 30 DPD | More than 30 DPD | Total | | Total exposure |
| **Receivables from customers (gross)** | | | | | | |
| Mortgage-backed loans | 4,957,101 | 643,409 | 6,185 | 649,594 | 16,632 | 5,623,327 |
| **Receivables from customers** | **4,957,101** | **643,409** | **6,185** | **649,594** | **16,632** | **5,623,327** |
| **Off-balance-sheet limits** | | | | | | |
| Mortgage-backed loans | 2 | | | | | 2 |
| **Total limits** | 2 | | | | | **2** |
| **Total exposures within the scope of accounting for expected credit losses** | **4,957,103** | **643,409** | **6,185** | **649,594** | **16,632** | **5,623,329** |

**Loss allowance by impairment stage 31 December 2019**

**On-balance-sheet exposures and related off-balance-sheet limits***

| | Stage 1 | Stage 2 | | | Stage 3 | |
|---|---|---|---|---|---|---|
| TEUR | | Not more than 30 DPD | More than 30 DPD | Total | | Total exposure |
| **Receivables from customers** | | | | | | |
| Mortgage-backed loans | -16 | -162 | -14 | -176 | -1,046 | -1,238 |
| **Total receivables from customers** | **-16** | **-162** | **-14** | **-176** | **-1,046** | **-1,238** |
| **Total** | **-16** | **-162** | **-14** | **-176** | **-1,046** | **-1,238** |

The table below shows a summary of loss allowance relative to the exposure amount by impairment stage.
The coverage ratio describes the ratio of loss allowance to exposure amount.

**Summary and key indicators 31 December 2019**

| | Stage 1 | Stage 2 | | | Stage 3 | |
|---|---|---|---|---|---|---|
| TEUR | | Not more than 30 DPD | More than 30 DPD | Total | | Total exposure |
| **Receivables from customers: on-balance-sheet and off-balance-sheet items** | | | | | | |
| Mortgage-backed loans | 4,957,101 | 643,409 | 6,185 | 649,594 | 16,632 | 5,623,327 |
| **Loss allowance** | | | | | | |
| Mortgage-backed loans | -16 | -162 | -14 | -176 | -1,046 | -1,238 |
| **Coverage ratio, %** | | | | | | |
| Mortgage-backed loans | 0.0 % | 0.0 % | -0.2 % | 0.0 % | -6.3 % | 0.0 % |
| **Receivables from customers: on-balance-sheet and off-balance-sheet items total** | **4,957,101** | **643,409** | **6,185** | **649,594** | **16,632** | **5,623,327** |
| **Total loss allowance** | **-16** | **-162** | **-14** | **-176** | **-1,046** | **-1,238** |
| **Total coverage ratio, %** | **0.0 %** | **0.0 %** | **-0.2 %** | **0.0 %** | **-6.3 %** | **0.0 %** |

| Loss allowance | Receivables from customer and off-balance-sheet commitments | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| TEUR | 12 mths | Lifetime | Lifetime | |
| **Loss allowance on 1 January 2020** | **16** | **176** | **1,046** | **1,238** |
| Transfers from Stage 1 to Stage 2 | -3 | 46 | 0 | 44 |
| Transfers from Stage 1 to Stage 3 | -1 | 0 | 169 | 169 |
| Transfers from Stage 2 to Stage 1 | 2 | -15 | 0 | -13 |
| Transfers from Stage 2 to Stage 3 | 0 | -53 | 1,019 | 966 |
| Transfers from Stage 3 to Stage 2 | 0 | 2 | -23 | -21 |
| Transfers from Stage 3 to Stage 1 | 0 | | -7 | -7 |
| Decreases due to derecognition | -2 | -23 | -255 | -280 |
| Changes in risk parameters | 48 | 301 | 361 | 710 |
| Changes due to update in the methodology for estimation | 0 | -4 | 0 | -4 |
| Allowances due to recognised write-offs | 0 | 0 | -35 | -35 |
| **Total net result effect** | **45** | **254** | **1,229** | **1,528** |
| **Loss allowance on 31 Dec. 2020** | **61** | **430** | **2,275** | **2,766** |

**Loss allowance**

| TEUR | Receivables from customer and off-balance-sheet commitments 12 mths | Lifetime | Lifetime | |
|---|---|---|---|---|
| **Loss allowance on 1 January 2019** | **22** | **224** | **810** | **1,056** |
| Transfers from Stage 1 to Stage 2 | -3 | 34 | 0 | 31 |
| Transfers from Stage 1 to Stage 3 | 0 | 0 | 8 | 8 |
| Transfers from Stage 2 to Stage 1 | 2 | -20 | 0 | -18 |
| Transfers from Stage 2 to Stage 3 | 0 | -18 | 265 | 247 |
| Transfers from Stage 3 to Stage 2 | 0 | 4 | -99 | -95 |
| Transfers from Stage 3 to Stage 1 | 0 | 0 | 0 | 0 |
| Decreases due to derecognition | -2 | -53 | -226 | -282 |
| Changes in risk parameters | -2 | 5 | 303 | 305 |
| Allowances due to recognised write-off | 0 | 0 | -15 | -15 |
| **Total net result effect** | **-6** | **-48** | **236** | **182** |
| **Loss allowance on 31 Dec. 2019** | **16** | **176** | **1,046** | **1,238** |

The table below presents gross exposures of on-balance-sheet and off-balance-sheet receivables by rating as well as loss allowance. Internal grades 1–12 are used in the internal rating of corporations and public-sector entities and grades A–F in the internal rating of households. Internal grades have been combined into the table in such a way that corporate customer grade 1 comprises grades 1 and 1.5 etc. Internal grade A in private customers includes A+, A and A- etc. Next exposure is shown as zero because the value of collateral exceeds the value of exposures and no overcollateralisation is taken into account.

**31 December 2020**

| TEUR | Balance sheet exposures | | | Loss allowance | | |
|---|---|---|---|---|---|---|
| **Rating grade** | **Stage 1** | **Stage 2** | **Stage 3** | **Stage 1** | **Stage 2** | **Stage 3** |
| 4 | 258 | | | | | |
| 5 | 4,127 | | | 0 | | |
| 6 | 556 | | | 0 | | |
| 7 | 629 | 125 | | 0 | 0 | |
| 8 | | 126 | | | 0 | |
| 10 | | 5 | | | | |
| A | 3,551,343 | 33,063 | | -17 | 0 | |
| B | 318,546 | 235,496 | | -15 | -75 | |
| C | 55,834 | 125,642 | | -14 | -82 | |
| D | 17,222 | 104,897 | | -15 | -121 | |
| E | | 26,655 | | | -151 | |
| F | | | 54,528 | | | -2,275 |
| **Total** | **3,948,515** | **526,009** | **54,528** | **-61** | **-430** | **-2,275** |

**31 December 2019**

| TEUR | Balance sheet exposures | | | Loss allowance | | |
|---|---|---|---|---|---|---|
| **Rating grade** | **Stage 1** | **Stage 2** | **Stage 3** | **Stage 1** | **Stage 2** | **Stage 3** |
| 4 | 375 | | | | | |
| 5 | 5,039 | | | 0 | | |
| 6 | 829 | 895 | | 0 | 0 | |
| 7 | | 76 | | | | |
| 8 | | 9 | | | | |
| 10 | | 7 | | | 0 | |
| A | 4,409,695 | 60,028 | | -5 | 0 | |
| B | 422,410 | 300,934 | | -3 | -11 | |
| C | 86,207 | 136,515 | | -3 | -17 | |
| D | 32,546 | 103,948 | | -5 | -43 | |
| E | | 47,182 | | | -104 | |
| F | | | 16,632 | | | -1,046 |
| **Total** | **4,957,101** | **649,594** | **16,632** | **-16** | **-176** | **-1,046** |

| NOTE 13. Investment assets, TEUR | 31 Dec 2020 | 31 Dec 2019 |
|---|---|---|
| Financial assets available for sale | | |
| Shares and participations, unquoted | 40 | 40 |
| **Total investment assets** | **40** | **40** |

| NOTE 14. Other assets, TEUR | 31 Dec 2020 | 31 Dec 2019 |
|---|---|---|
| Pension plan assets | 70 | 87 |
| Deferred income | | |
| Interest | 28,189 | 31,303 |
| Other | 363 | 215 |
| **Total** | **28,622** | **31,605** |

Note 19 Other liabilities describes the calculation of plan assets in greater detail.

| NOTE 15. Tax assets, TEUR | 31 Dec 2020 | 31 Dec 2019 |
|---|---|---|
| Income tax asset | 803 | 908 |
| Deferred tax assets | 0 | 0 |
| **Total tax assets** | **803** | **908** |
| Income tax liabilities | 0 | 0 |
| Deferred tax liabilities | 68 | 64 |
| **Total tax liabilities** | **68** | **64** |
| **Specification of tax assets and liabilities** | | |
| **Deferred tax assets** | | |
| Due to other items | 6 | 13 |
| Set-off against deferred tax liabilities | -6 | -13 |
| **Total** | **0** | **0** |
| **Deferred tax liabilities** | | |
| From defined benefit pension plans | 74 | 77 |
| Set-off against deferred tax assets | -6 | -13 |
| **Total** | **68** | **64** |
| **Changes in deferred taxes** | | |
| Deferred tax assets/liabilities on 1 January | -64 | -46 |
| Recognised in the income statement | | |
| Defined benefit pension obligations | -7 | -18 |
| Recognised in statement of comprehensive income | | |
| Items arising from remeasurement of defined benefit plans | 3 | -1 |
| **Total deferred tax assets/liabilities on 31 December** | **-68** | **-64** |
| **Income tax assets** | **803** | **908** |
| **Total tax assets and liabilities** | **735** | **843** |

NOTES TO LIABILITIES AND EQUITY CAPITAL

| NOTE 16. Liabilities to credit institutions, TEUR | 31 Dec 2020 | 31 Dec 2019 |
|---|---|---|
| Other than those repayable on demand | | |
| Liabilities to OP Corporate Bank | 1,500,000 | 2,516,000 |
| **Liabilities to credit institutions** | **1,500,000** | **2,516,000** |

| NOTE 17. Derivative contracts, TEUR | 31 Dec 2020 | 31 Dec 2019 |
|---|---|---|
| **Derivative contracts** | | |
| Hedging derivative contracts | | |
| Fair value hedging | | |
| Interest rate derivatives | 14,908 | 14,470 |
| **Total derivative contracts** | **14,908** | **14,470** |

More detailed information on derivative contracts can be found in Note 24.

| NOTE 18. Debt securities issued to the public, TEUR | 31 Dec 2020 | 31 Dec 2019 |
|---|---|---|
| Bonds | 14,095,017 | 12,135,974 |
| **Total debt securities issued to the public** | **14,095,017** | **12,135,974** |

Long-term bonds issued by OP Mortgage Bank

| Bond | Book value | Interest rate base | Nominal interest % | Maturity |
|---|---|---|---|---|
| OP Mortgage Bank registered Covered Bond (NSV) | 114,875 | Fixed | 2.157 | 12.11.2024 |
| OP Mortgage Bank Covered Bond 2014 | 999,797 | Fixed | 1.500 | 17.3.2021 |
| OP Mortgage Bank Covered Bond 2014 | 998,237 | Fixes | 1.000 | 28.11.2024 |
| OP Mortgage Bank Covered Bond 2015 | 998,790 | Fixed | 0.625 | 4.9.2022 |
| OP Mortgage Bank Covered Bond 2016 | 1,247,788 | Fixed | 0.250 | 11.5.2023 |
| OP Mortgage Bank Covered Bond 2017 | 996,441 | Fixed | 0.250 | 13.3.2024 |
| OP Mortgage Bank Covered Bond 2017 | 996,327 | Fixed | 0.750 | 7.6.2027 |
| OP Mortgage Bank Covered Bond 2017 | 998,389 | Fixed | 0.050 | 22.2.2023 |
| OP Mortgage Bank Covered Bond 2018 | 997,020 | Fixed | 0.625 | 1.9.2025 |
| OP Mortgage Bank Covered Bond 2019 | 1,236,792 | Fixed | 0.625 | 15.2.2029 |
| OP Mortgage Bank Covered Bond 2019 | 1,000,025 | Fixed | 0.010 | 19.11.2026 |
| OP Mortgage Bank Covered Bond 2020 | 994,303 | Fixed | 0.050 | 21.4.2028 |
| OP Mortgage Bank Covered Bond 2020 | 503,285 | Floating | 0.357 | 18.4.2022 |
| OP Mortgage Bank Covered Bond 2020 | 311,023 | Floating | 0.441 | 21.4.2028 |
| OP Mortgage Bank Covered Bond 2020 | 1,270,806 | Fixed | 0.010 | 19.11.2030 |
| | 13,663,897 | | | |
| Valuation | 431,120 | | | |
| **Total** | **14,095,017** | | | |

Reconciliation of changes in liabilities in cash flows from financing activities against balance sheet items

| | |
|---|---|
| **Balance sheet value 1 Jan. 2020** | **12,135,974** |
| **Changes in cash flows from financing activities** | |
| Increases in bonds | 3,081,772 |
| **Increases total** | **3,081,772** |
| Decreases in bonds | 1,270,000 |
| **Decreases total** | **1,270,000** |
| **Total changes in cash flows from financing activities** | **1,811,772** |
| Valuations and foreign exchange changes | 147,271 |
| **Balance sheet value 31 Dec. 2020** | **14,095,017** |

| | |
|---|---|
| **Balance sheet value 1 Jan. 2019** | **10,742,840** |
| **Changes in cash flows from financing activities** | |
| Increases in bonds | 2,233,893 |
| **Increases total** | **2,233,893** |
| Decreases in bonds | 1,000,000 |
| **Decreases total** | **1,000,000** |
| **Total changes in cash flows from financing activities** | **1,233,893** |
| Valuations and foreign exchange changes | -159,241 |
| **Balance sheet value 31 Dec. 2019** | **12,135,974** |

| NOTE 19. Other liabilities, TEUR | 31 Dec 2020 | 31 Dec 2019 |
|---|---|---|
| Other liabilities | | |
| Payment transfer liabilities | 110 | 7 |
| Accrued expenses | | |
| Interest liabilities | 22,088 | 49,884 |
| Other accrued expenses | 2,895 | 3,540 |
| Payables based on purchase invoices | 159 | 397 |
| Other | 14 | 33 |
| **Total** | **25,267** | **53,861** |

**Defined benefit pension plans**

Schemes related to OP MB's supplementary pensions in OP Bank Group Pension Foundation have been treated as defined benefit plans. Supplementary pension schemes supplement statutory pension cover under the Employees Pensions Act (TyEL). Supplementary pension cover provided by the Pension Foundation is fully funded.

OP Bank Group Pension Foundation covers every employee who has reached the age of 20 years and who has been employed, as specified by TyEL, for two consecutive years by an employer within the Pension Foundation and whose employment has begun before 1 July 1991. The employment term entitling to pension begins from the day the employee turned 23 years in the employment of the employer. The salary/wage serving as the basis for the calculation of pension refers to pensionable pay based on one and the same employment and calculated under the Finnish Employees Pensions Act (TEL), in force until 31 December 2006.The retirement age of those covered by the Pension Foundation varies from 60 to 65 years, depending on the personnel group to which the employee belongs under the Pension Foundation rules.

The most significant associated risk relates to the possibility of the actual return on investment assets being lower than the target set for the minimum return. If such a risk materialised in several consecutive years, this would result in the charging of contributions.

The most significant actuarial risks of OP Bank Group Pension Foundation are associated with interest rate and market risks, systematically increasing life expectancy and inflation risk. A change in the discount rate for pension liabilities has a substantial effect on the amount of pension liabilities.

Responsible for investment, the Board of Trustees of the Pension Foundation approves the pension institution's investment plan related to its assets.
A pension institution's chief actuary prepares annually a forecast for developments in technical provisions and pension costs. On this basis, investment asset allocation takes account of the requirements set by the nature of technical provisions for investment operations with respect to the level of security, productivity and liquidity, as well as the Pension Fund's risk-bearing capacity.

The amount of defined benefit pension obligations was TEUR 123 (157), the fair value of pension assets TEUR 192 (243) and net pension assets TEUR 70 (87).
Defined benefit pension returns recognised in the income statement totalled TEUR 0 (1), and a loss recognised in other comprehensive income arising from remeasurement totalled 17 thousand euros (2019: a gain of 3 thousand euros).

| NOTE 20. Shareholders' equity, TEUR | 31 Dec 2020 | 31 Dec 2019 |
|---|---|---|
| Share capital | 60,000 | 60,000 |
| Unrestricted reserves | 245,000 | 245,000 |
| Retained earnings | | |
| Profits for previous years | 59,712 | 59,724 |
| Profit for the financial year | 6,381 | 11,892 |
| **Total equity** | **371,093** | **376,616** |
| | | |
| Development costs (non-distributable item) | | |
| | | |
| **Distributable reserves** | **311,093** | **316,616** |
| **Distributable profits** | **66,093** | **71,616** |

The Board of Directors proposes that a dividend of 83.31 euros be distributed per share (155.25), totalling 6,381 thousand euros (11,891).

Reserve for invested non-restricted equity consists of OP Cooperative's capital investment of EUR 245,000,000.

**Share capital and number of shares**

| | Total |
|---|---|
| Share capital, EUR thousand | 60,000 |
| Number of shares | 76,592 |
| Proportion of share capital, % | 100 |

OP Cooperative holds 100% of OP Mortgage Bank.
The minimum share capital of the Company is EUR 8,500,000 and the maximum share capital is EUR 150,000,000, within which limits the share capital may be increased or reduced without altering the Articles of Association. The minimum number of shares is 34,000 and the maximum number is 136,000. Permission from the Company is required for the acquisition of shares through transfer. The shares have no nominal value.

**OTHER NOTES TO THE BALANCE SHEET**

**NOTE 21. Classification of financial assets and liabilities, TEUR**

| Assets | Amortised cost | Recognised at fair value through profit or loss | Recognised at fair value through other comprehensive income | Carrying amount total | Fair value total |
|---|---|---|---|---|---|
| Receivables from credit institutions | 11,008,827 | | | 11,008,827 | 11,008,827 |
| Derivative contracts | | 431,801 | | 431,801 | 431,801 |
| Receivables from customers | 4,536,259 | | | 4,536,259 | 4,536,259 |
| Shares and participations | | | 40 | 40 | 40 |
| Other receivables | 28,369 | | | 28,369 | 28,369 |
| **Financial assets** | **15,573,454** | **431,801** | **40** | **16,005,296** | **16,005,296** |
| Other than Financial assets | | | | **1,056** | **1,056** |
| **Total on 31 Dec 2020** | **15,573,454** | **431,801** | **40** | **16,006,351** | **16,006,351** |

| Liabilities | Recognised at fair value through profit or loss | Amortised cost | Carrying amount total | Fair value total |
|---|---|---|---|---|
| Liabilities to credit institutions | | 1,500,000 | 1,500,000 | 1,500,000 |
| Derivative contracts | 14,908 | | 14,908 | 14,908 |
| Debt securities issued to the public | | 14,095,017 | 14,095,017 | 14,601,633 |
| Other liabilities | | 22,359 | 22,359 | 22,359 |
| **Financial liabilities** | **14,908** | **15,617,376** | **15,632,283** | **16,138,900** |
| Other than financial liabilities | | | 2,975 | 2,975 |
| **Total on 31 Dec 2020** | **14,908** | **15,617,376** | **15,635,259** | **16,141,875** |

| Assets | Amortised cost | Recognised at fair value through profit or loss | Recognised at fair value through other comprehensive income | Carrying amount total | Fair value total |
|---|---|---|---|---|---|
| Receivables from credit institutions | 9,144,571 | | | 9,144,571 | 9,144,571 |
| Derivative contracts | | 291,146 | | 291,146 | 291,146 |
| Receivables from customers | 5,628,716 | | | 5,628,716 | 5,628,716 |
| Shares and participations | | | 40 | 40 | 40 |
| Other receivables | 31,340 | | | 31,340 | 31,340 |
| **Financial Assets** | **14,804,627** | **291,146** | **40** | **15,095,813** | **15,095,813** |
| Other than Financial assets | | | | 1,173 | 1,173 |
| **Total on 31 Dec 2019** | **14,804,627** | **291,146** | **40** | **15,096,986** | **15,096,986** |

| Liabilities | Recognised at fair value through profit or loss | Amortised cost | Carrying amount total | Fair value total |
|---|---|---|---|---|
| Liabilities to credit institutions | | 2,516,000 | 2,516,000 | 2,516,000 |
| Derivative contracts | 14,470 | | 14,470 | 14,470 |
| Debt securities issued to the public | | 12,135,974 | 12,135,974 | 12,433,312 |
| Other liabilities | | 50,295 | 50,295 | 50,295 |
| **Financial liabilities** | **14,470** | **14,702,269** | **14,716,739** | **15,014,077** |
| Other than financial liabilities | | | 3,631 | 3,631 |
| **Total on 31 Dec 2019** | **14,470** | **14,702,269** | **14,720,370** | **15,017,708** |

Debt securities issued to the public are carried at amortised cost. On 31 December, the fair value of these debt instruments was approximately EUR 506.617 thousand (297.338) higher than their carrying amount, based on information available in markets and employing commonly used valuation techniques.

**NOTE 22. Financial instruments classification, grouped by valuation technique, TEUR**

| Recurring fair value measurements of assets | 31 Dec 2020 Balance sheet value | Fair value measurement at year end Level 1* | Level 2** |
|---|---|---|---|
| Derivative contracts | 431,801 | | 431,801 |
| **Total** | **431,801** | | **431,801** |

| Recurring fair value measurements of assets | 31 Dec 2019 Balance sheet value | Fair value measurement at year end Level 1* | Level 2** |
|---|---|---|---|
| Derivative contracts | 291,146 | | 291,146 |
| **Total** | **291,146** | | **291,146** |

| Recurring fair value measurements of liabilities | 31 Dec 2020 Balance sheet value | Fair value measurement at year end Level 1* | Level 2** |
|---|---|---|---|
| Derivative contracts | 14,908 | | 14,908 |
| **Total** | **14,908** | | **14,908** |

| Recurring fair value measurements of liabilities | 31 Dec 2019 Balance sheet value | Fair value measurement at year end Level 1* | Level 2** |
|---|---|---|---|
| Derivative contracts | 14,470 | | 14,470 |
| **Total** | **14,470** | | **14,470** |

| Financial liabilities not measured at fair value | 31 Dec 2020 Balance sheet value | Level 1* | Fair value measurement at year end Level 2** | Level 3*** |
|---|---|---|---|---|
| Debt securities issued to the public | 14,095,017 | 13,639,467 | | 962,395 |
| **Total** | **14,095,017** | **13,639,467** | | **962,395** |

| Financial liabilities not measured at fair value | 31 Dec 2019 Balance sheet value | Level 1* | Fair value measurement at year end Level 2** | Level 3*** |
|---|---|---|---|---|
| Debt securities issued to the public | 12,135,974 | 9,744,711 | 2,548,311 | 140,290 |
| **Total** | **12,135,974** | **9,744,711** | **2,548,311** | **140,290** |

Valuation techniques whose input parameters involve uncertainty (Level 3)

| | |
|---|---|
| Opening balance 1 January 2020 | 140,290 |
| Transfers to level 3 | |
| Transfers from level 3 | |
| Other changes | 822,105 |
| Closing balance 31 December 2020 | 962,395 |

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

*Level 1 includes equities listed on major stock exchanges, quoted debt instruments issued by companies, governments and financial institutions as well as exchange-traded derivatives. The fair value of these instruments is determined on the basis of market quotes.

** Valuation techniques based on observable input parameters. The fair value of the instruments included within Level 2 means value derived from the market price of a financial instrument's components or similar financial instruments; or value which can be determined using commonly used valuation models and techniques if the inputs significant to the fair value measurement are based on observable market data. The fair value hierarchy level at OP Financial Group's includes OTC derivatives, quoted debt instruments issued by companies, governments and financial institutions which have not been included in Level 1, and repo agreements as well as securities lent or borrowed.

*** Valuation techniques whose input parameters involve uncertainty. The fair value determination of the instruments included in Level 3 contains inputs no based on observable market data. Level 3 also includes bonds for which there is little, if any, market activity on the valuation date. Level 3 fair value is based on pricing information from a third party.

**Transfers between hierarchy levels of recurring fair value measurements**

Transfers between the levels of the fair value hierarchy are considered to take place on the date when an event causes such transfer or when circumstances change. Transfers between the levels are mainly due to the number of available market quotes.

## NOTES CONCERNING CONTINGENT LIABILITIES AND DERIVATIVES

### NOTE 23. Off-balance-sheet commitments, TEUR

| | 31 Dec 2020 | 31 Dec 2019 |
|---|---|---|
| Binding loan commitments | 0 | 2 |
| **Total off-balance-sheet commitments** | **0** | **2** |

### NOTE 24. Derivative contracts, TEUR

**Derivative contracts held for hedging – fair value hedging on 31 Dec 2020**

| | Nominal values/residual term to maturity | | | | Fair values | | |
|---|---|---|---|---|---|---|---|
| | Less than 1 year | 1 to 5 years | More than 5 years | Total | Assets | Liabilities | Credit equivalent |
| **Interest rate derivatives** | | | | | | | |
| Interest rate swaps | 2,463,289 | 9,272,218 | 6,217,250 | 17,952,757 | 431,801 | 14,908 | 615,219 |
| **Total interest rate derivatives** | **2,463,289** | **9,272,218** | **6,217,250** | **17,952,757** | **431,801** | **14,908** | **615,219** |

**Derivative contracts held for hedging – fair value hedging on 31 Dec 2019**

| | Nominal values/residual term to maturity | | | | Fair values | | |
|---|---|---|---|---|---|---|---|
| | Less than 1 year | 1 to 5 years | More than 5 years | Total | Assets | Liabilities | Credit equivalent |
| **Interest rate derivatives** | | | | | | | |
| Interest rate swaps | 2,314,788 | 10,518,873 | 4,410,800 | 17,244,461 | 291,146 | 14,470 | 449,628 |
| **Total interest rate derivatives** | **2,314,788** | **10,518,873** | **4,410,800** | **17,244,461** | **291,146** | **14,470** | **449,628** |

**Effects of hedge accounting on financial position and result**

| | Interest rate risk hedge | |
|---|---|---|
| | 31 Dec 2020 | 31 Dec 2019 |
| **Fair value hedges** | | |
| Carrying amount of hedged receivables * | 4,536,259 | 5,628,716 |
| of which the accrued amount of hedge adjustments | 14,226 | 13,220 |
| Carrying amount of hedged liabilities ** | 12,657 | 11,378 |
| of which the accrued amount of hedge adjustments | 431,120 | 289,896 |

* Presented under Receivables from customers in the balance sheet.

** Presented under Debt securities issued to the public in the balance sheet.

| | Interest rate risk hedge | |
|---|---|---|
| | 31 Dec 2020 | 31 Dec 2019 |
| **Fair value hedges** | | |
| Changes in fair value of hedging derivatives | 140,218 | 145,605 |
| Change in value of hedged item that is used as basis for recognition of ineffective hedge during period | -140,218 | -145,605 |

**OTHER NOTES**

**NOTE 25. Personnel and related party**

The average number of employees was seven (7) in 2020.

OP MB's related parties comprise subsidiaries consolidated into OP Cooperative Consolidated, associates, key management personnel and their close family members, and other related-party entities. OP MB's key management personnel comprises the Managing Director, Deputy Managing Director and other members of senior management as well as members of the Board of Directors. Related parties also include companies over which key management persons or their close family member, either alone or together with another person, exercises significant influence. Other entities regarded as related parties include OP Bank Group Pension Fund and OP Bank Group Pension Foundation. Related parties have been defined in accordance with IAS 24. Related party transactions consist of paid salaries and fees as well as ordinary business transactions.

**Business transactions with related parties, TEUR**

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | OP Cooperative | Other | OP Cooperative | Other |
| Loans | | 2,375,757 | | 2,275,582 |
| Other receivables | | 462,432 | | 323,613 |
| Deposits | | 1,500,000 | | 2,560,217 |
| Other liabilities | 14 | 844,975 | 11 | 44,217 |
| | | | | |
| Interest income | | 12,155 | | 10,241 |
| Interest expenses | | 144,201 | | 157,346 |
| Net commission income and expenses | | -4,060 | | -5,745 |
| Operating costs | 798 | 2,005 | 366 | 2,632 |

**Shares held by related parties**
The parent company holds all of the 76,592 shares.

**NOTE 26. Variable remuneration**

**Remuneration schemes**

In future, OP Financial Group's variable remuneration will comprise a performance-based bonus scheme and the personnel fund. Group-level strategic goals and targets will be taken into account in the metrics of short-term remuneration and the personnel fund.

**Personnel fund**

OP Mortgage Bank belongs to OP Financial Group Personnel Fund. Payment of profit-based bonuses to OP Financial Group's Personnel Fund in 2020 was based on the achievement of the following targets: growth differential between OP Financial Group's income and expenses with a weight of 50% and the number of active mobile customers with a weight of 50%. Profit-based bonuses for 2020 transferred to the Fund account for some 2.0% (2.3%) of the combined salaries and wages earned by the Fund's members.
Bonuses recognised in 2020 totalled 7 thousand euros (7).

**Performance-based bonus scheme in 2020**

The performance-based bonus scheme's performance period is one calendar year, and the bonus is paid in cash. Performance-based bonuses are based on targets set by each company and entity, covering all personnel of OP Financial Group. The bonus is determined by the job grade and the maximum bonuses correspond to a Performance metrics of the performance-based bonus scheme in 2020:

A factor applies to the bonus created through the achievement of the targets achieved in the entity that is based on OP Financial Group's EBT. Targets shown in the balanced scorecards and derived from annual planning are decided by the business lines/functions.

Determination and payout of performance-based bonuses in 2020:

Bonuses will be paid to their beneficiaries provided that OP Financial Group's CET1 ratio exceeds 14.5% and the LCR exceeds 110% in the financial statements preceding the year of the bonus payout date, and that the person within the scheme is employed by OP Financial Group up to the payout date. Bonus payout in OP cooperative banks requires that the bank's customer business shows profit.
Bonuses earned based on the balanced scorecard will be reduced before bonus payout if binding internal guidelines within the Group or task or regulatory requirements have been ignored and risk management elements have materialised. If an offence or negligence becomes apparent only after the bonus payout, bonus reduction or clawback can also be applied retrospectively.
Expenses for the scheme are recognised from the beginning of the performance period up to the date of payout (vesting period) as personnel costs, and the equivalent liability is recognised under deferred expenses.

OP Cooperative's Board of Directors decides on the terms and conditions of OP Financial Group's performance-based bonus scheme, maximum bonuses based on job grades and a structural framework within which OP Cooperative's Executive Management Team and OP cooperative banks' boards of directors can select the scheme metrics and set related targets.

A liability recognised under the scheme amounted to 18 thousand euros (24) on 31 December 2020.

NOTES CONCERNING RISK MANAGEMENT

**NOTE 27. Structure of funding, TEUR**

| | 31 Dec 2020 | Share, % | 31 Dec 2019 | Share, % |
|---|---|---|---|---|
| Liabilities to credit institutions | 1,500,000 | 9.4 | 2,516,000 | 16.7 |
| Debt securities issued to the public | 14,095,017 | 88.1 | 12,135,974 | 80.5 |
| Other liabilities | 25,267 | 0.2 | 53,861 | 0.4 |
| Shareholders' equity | 371,093 | 2.3 | 376,616 | 2.5 |
| **Total** | **15,991,376** | **100.0** | **15,082,451** | **100.0** |

**NOTE 28. Maturity distribution of financial assets and liabilities by residual term to maturity, TEUR**

| 31 Dec 2020 | Less than 3 months | 3–12 months | 1–5 years | 5–10 years | More than 10 years | Total |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Receivables from credit institutions | 218,877 | | 5,142,800 | 5,647,150 | | 11,008,827 |
| Receivables from customers | 132,153 | 416,600 | 1,861,859 | 1,381,331 | 739,180 | 4,531,123 |
| **Total financial assets** | **351,029** | **416,600** | **7,004,659** | **7,028,481** | **739,180** | **15,539,949** |
| | | | | | | |
| **Financial liabilities** | | | | | | |
| Liabilities to credit institutions | 100,000 | 1,400,000 | | | | 1,500,000 |
| Debt securities issued to the public | | | 7,285,944 | 5,809,276 | | 14,095,017 |
| **Total financial liabilities** | **1,099,797** | **1,400,000** | 7,285,944 | **5,809,276** | | **15,595,017** |

| 31 Dec 2020 | Less than 1 year | Total |
|---|---|---|
| **Off-balance-sheet commitments*** | 0 | 0 |
| **Total off-balance-sheet commitments** | **0** | **0** |

| 31 Dec 2019 | Less than 3 months | 3–12 months | 1–5 years | 5–10 years | More than 10 year | Total |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Receivables from credit institutions | 438,702 | 733,369 | 4,042,800 | 3,929,700 | | 9,144,571 |
| Receivables from customers | 164,127 | 485,962 | 2,217,344 | 1,723,997 | 1,033,379 | 5,624,809 |
| **Total financial assets** | **602,829** | **1,219,331** | **6,260,144** | **5,653,697** | **1,033,379** | **14,769,380** |
| | | | | | | |
| **Financial liabilities** | | | | | | |
| Liabilities to credit institutions | 1,850,000 | 666,000 | | | | 2,516,000 |
| Debt securities issued to the public | | 1,269,190 | 6,639,365 | 4,227,419 | | 12,135,974 |
| **Total financial liabilities** | **1,850,000** | **1,935,190** | **6,639,365** | **4,227,419** | | **14,651,974** |

| 31 Dec 2019 | Less than 1 year | Total |
|---|---|---|
| **Off-balance-sheet commitments*** | 2 | 2 |
| **Total off-balance-sheet commitments** | **2** | **2** |

* Binding loan commitments

**NOTE 29. Funding risk**

Centralised funding forms OP Mortgage Bank's most significant source of funding risk. OP Financial Group's liquidity management has been centralised within OP Corporate Bank which is OP Mortgage Bank can also exploit OP Financial Group's liquidity buffer.

**NOTE 30. Maturity of financial assets and liabilities by due date or repricing, TEUR**

Contractual repricing dates or earlier due dates on 31 December 2020.

| 31 Dec 2020 | 1 month or less | > 1–3 months | > 3–12 months | > 1–2 years | > 2–5 years | More than 5 years | Total |
|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | |
| Receivables from credit institutions | 1,074,195 | 6,479,632 | 2,830,150 | | 484,850 | 140,000 | 11,008,827 |
| Receivables from customers | 925,395 | 1,128,267 | 2,468,099 | 3,121 | 2,750 | 3,491 | 4,531,123 |
| **Total financial assets** | **1,999,590** | **7,607,898** | **5,298,249** | **3,121** | **487,600** | **143,491** | **15,539,949** |
| | | | | | | | |
| **Financial liabilities** | | | | | | | |
| Liabilities to credit institutions | 400,000 | 1,100,000 | | | | | 1,500,000 |
| Debt securities issued to the public | 1,245,427 | 999,797 | | 998,790 | 5,352,750 | 5,498,253 | 14,095,017 |
| **Total financial liabilities** | **1,645,427** | **2,099,797** | | **998,790** | **5,352,750** | **5,498,253** | **15,595,017** |

| 31 Dec 2019 | 1 month or less | > 1–3 months | > 3–12 months | > 1–2 years | > 2–5 years | More than 5 years | Total |
|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | |
| Receivables from credit institutions | 438,702 | 5,431,488 | 2,656,532 | | 448,350 | 169,500 | 9,144,571 |
| Receivables from customers | 1,170,588 | 1,407,140 | 3,034,640 | 1,614 | 5,615 | 5,212 | 5,624,809 |
| **Total financial assets** | **1,609,290** | **6,838,628** | **5,691,171** | **1,614** | **453,965** | **174,712** | **14,769,380** |
| | | | | | | | |
| **Financial liabilities** | | | | | | | |
| Liabilities to credit institutions | 1,350,000 | 1,166,000 | | | | | 2,516,000 |
| Debt securities issued to the public | | | 1,559,085 | 998,922 | 5,350,547 | 4,227,419 | 12,135,974 |
| **Total financial liabilities** | **1,350,000** | **1,166,000** | **1,559,085** | **998,922** | **5,350,547** | **4,227,419** | **14,651,974** |

**NOTE 31. Interest rate risk**

At OP Mortgage Bank, the interest rate risk indicator applied is a key figure in which the effect of a 1 pp increase in the interest rate on the present value of interest rate exposure excluding customer margin is compared with the Bank's capital base. At the end of the year, the value of the key figure was -1.07%. The interest rate may be considered low.
OP MB's shareholders' equity poses a minor interest rate risk.

**Sensitivity analysis for interest rate risk**

| TEUR | Risk parameter | Change | Impact on equity 31 Dec 2020 | Impact on equity 31 Dec 2019 |
|---|---|---|---|---|
| Interest rate risk | Interest rate | 1 pp | -3839.6 | 716.9 |

**NOTE 32. Events after the balance sheet date**

No significant events after the reporting period.

OP Mortgage Bank Plc

## SIGNATURES TO THE FINANCIAL STATEMENTS AND ANNUAL REPORT

Helsinki, 10 February 2021

| | | |
|---|---|---|
| Vesa Aho<br>Chair of the Board of Directors | Kaisu Christie | Lauri Iloniemi |

Sanna Eriksson
Managing Director

## AUDITOR'S NOTE

We have today issued an auditors' report on the performed audit.

Helsinki, 18 February 2021

KPMG Oy Ab
Authorised Public Accountants

Tiia Kataja
Authorised Public Accountant

KPMG Oy Ab
Töölönlahdenkatu 3 A
PO Box 1037
00101 Helsinki, FINLAND

Telephone +358 20 760 3000
www.kpmg.fi

*This document is an English translation of the Finnish auditor's report. Only the Finnish version of the report is legally binding.*

# Auditor's Report

To the Annual General Meeting of OP Mortgage Bank Plc

## *Report on the Audit of the Financial Statements*

### Opinion

We have audited the financial statements of OP Mortgage Bank Plc (business identity code 1614329-2) for the year ended 31 December 2020. The financial statements comprise balance sheet, income statement, statement of comprehensive income, statement of changes in equity, cash flow statement and notes, including a summary of significant accounting policies.

In our opinion the financial statements give a true and fair view of the bank's financial performance and financial position and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and comply with statutory requirements.

Our opinion is consistent with the additional report submitted to the Board of Directors.

### Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the company in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

In our best knowledge and understanding, the non-audit services that we have provided to the company are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note 7 to the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Materiality

The scope of our audit was influenced by our application of materiality. The materiality is determined based on our professional judgement and is used to determine the nature, timing and extent of our audit procedures and to evaluate the effect of identified misstatements on the financial statements as a whole. The level of materiality we set is based on our assessment of the magnitude of misstatements that, individually or in aggregate, could reasonably be expected to have influence on the economic decisions of the users of the financial statements. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The significant risks of material misstatement referred to in the EU Regulation No 537/2014 point (c) of Article 10(2) are included in the description of key audit matters below.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

| THE KEY AUDIT MATTER | HOW THE MATTER WAS ADDRESSED IN THE AUDIT |
|---|---|
| **Receivables from customers and receivables from credit institutions (accounting policies, notes 8, 10, 12, 21, 28 and 30 to financial statements)** | |
| — Receivables from customers, € 4.5 billion, and receivables from credit institutions, € 11.0 billion, are significant items on the OP Mortgage Bank's balance sheet comprising 97 % of the total assets. Receivables from customers are mortgage-backed loans purchased from OP Financial Group's member banks and receivables from credit institutions are intermediary loans issued to OP Financial Group's member banks.<br>— In 2020 the coronavirus pandemic (COVID-19) has affected OP Mortgage Bank's business environment and elements of accounting for expected credit losses in accordance with IFRS 9 *Financial Instruments*.<br>— The elements of accounting for expected credit losses are updated and defined, based on materialised credit risk developments, validation and improvement of the accounting process as well as on regulations and changes therein. In 2020 OP Mortgage Bank Plc adopted the new definition of default.<br>— Due to the significance of the carrying amount involved, complexity of the accounting methods and management judgement involved, valuation of receivables is addressed as a key audit matter. | — We evaluated the compliance with the internal instructions in respect of purchased loans from OP Financial Group's member banks and intermediary loans issued to OP Financial Group's member banks. We assessed the key controls and IT systems relevant to loan receivables as part of assurance-related procedures focused at the processes of the financial administration of OP Financial Group.<br>— We utilised the assurance obtained from testing of controls over the centralised calculation process for expected credit losses in OP Financial Group. We also assessed the valuation of collaterals and expected credit losses of most significant receivables by performing substantive procedures, among others.<br>— Furthermore, we considered the appropriateness of the notes provided by OP Mortgage Bank in respect of receivables and expected credit losses. |

## Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the company or cease operations, or there is no realistic alternative but to do so.

## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

— Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

— Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## *Other Reporting Requirements*

### Information on our audit engagement

We were first appointed as auditors by the Annual General Meeting in 2002 and our appointment represents a total period of uninterrupted engagement of 19 years.

### Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. Our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed, we conclude that there is a material misstatement of the report of the Board of Directors, we are required to report that fact. We have nothing to report in this regard.

Helsinki 18 February 2021

KPMG OY AB

TIIA KATAJA
*Authorised Public Accountant, KHT*