

# OP Mortgage Bank: Interim Report 1 January–31 March 2021

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

The intermediary loans and loan portfolio of OP MB totalled EUR 15,597 million (15,326)\* on 31 March 2021. In March, OP MB issued Finland's first green covered bond in the international capital market. The fixed-rate EUR 750 million covered bond has a maturity of 10 years. Out of the proceeds of the bond, EUR 520 million was intermediated to 42 OP cooperative banks in the form of intermediary loans.

On 31 March 2021, 122 OP cooperative banks had a total of EUR 11,310 million (10,790) in intermediary loans from OP MB.

Earnings before tax totalled EUR 1.2 million (1.8). The company's financial standing remained stable throughout the reporting period.

Impairment loss on receivables totalled EUR 0.4 million (0.7). A year ago, customers actively applied for repayment holidays on their loans as a result of the Covid-19 crisis. Combined with the changes in macroeconomic parameters applied in the calculation of expected credit losses, this increased the amount of expected credit losses. A year ago, the adoption of the new definition of default also increased the amount of expected credit losses.

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

## Collateralisation of bonds issued to the public

On 31 March 2021, loans as collateral in security of the covered bonds issued under the EUR 20 billion Euro Medium Term Covered Note programme established on 12 November 2010 under the Act on Mortgage Credit Banks (Laki kiinnitysluottopankkitoiminnasta (688/2010)) totalled EUR 15,984 million.

## Capital adequacy

OP MB's Common Equity Tier 1 (CET1) ratio stood at 68.5% (61.8) on 31 March 2021. The decrease in exposures improved the CET1 ratio. The minimum CET1 capital requirement is 4.5% and the requirement for the capital conservation buffer is 2.5%, i.e. the total CET1 capital requirement is 7%. The minimum total capital requirement is 8% and 10.5% with increased capital conservation buffer. Earnings for the financial year were not included in CET1 capital.

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

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

Capital base and capital adequacy, TEUR	31 Mar. 2021	31 Dec. 2020
Shareholders' equity	365 710	371 093
<b>Common Equity Tier 1 (CET1) before deductions</b>	<b>365 710</b>	<b>371 093</b>
Excess funding of pension liability	-56	-56
Share of unaudited profits	-998	-6 381
Shortfall of ECL minus expected losses	-4 603	-3 448
<b>Common Equity Tier 1 (CET1)</b>	<b>360 053</b>	<b>361 208</b>
<b>Tier 1 capital (T1)</b>	<b>360 053</b>	<b>361 208</b>
<b>Tier 2 Capital (T2)</b>	<b>0</b>	<b>0</b>
<b>Total capital base</b>	<b>360 053</b>	<b>361 208</b>
<b>Total risk exposure amount</b>		
Credit and counterparty risk	495 739	550 145
Operational risk	30 130	34 748
<b>Total</b>	<b>525 869</b>	<b>584 893</b>
<b>Key ratios, %</b>		
CET1 capital ratio	68,5	61,8
Tier 1 capital ratio	68,5	61,8
Capital adequacy ratio	68,5	61,8
<b>Capital requirement</b>		
Capital base	360 053	361 208
Capital requirement	55 217	61 414
Buffer for capital requirements	304 835	299 794

## Joint and several liability of amalgamation

Under the Act on the Amalgamation of Deposit Banks, the amalgamation of cooperative banks comprises the organisation's central cooperative (OP Cooperative), the central cooperative's member credit institutions and the companies belonging to their consolidation groups as well as credit and financial institutions and service companies in which the above together hold more than half of the total votes. This amalgamation is supervised on a consolidated basis. On 31 March 2021, OP Cooperative's member credit institutions comprised 133 OP cooperative banks as well as OP Corporate Bank plc, OP MB 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.

As a support measure referred to in the Act on the Amalgamation of Deposit Banks, the central cooperative is liable to pay any of its member credit institutions an amount that is necessary to prevent the credit institution from being placed in liquidation. The central cooperative is also liable for the debts of a member credit institution which cannot be paid using the member credit institution's assets.

Each member bank is liable to pay a proportion of the amount which the central cooperative has paid to either another member bank as part of support action or to a creditor of such member bank in payment of an amount overdue which the creditor has not

received from the member bank. Furthermore, in the case of the central cooperative's default, a member bank has unlimited refinancing liability for the central cooperative's debts as referred to in the Co-operatives Act.

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

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

## Corporate responsibility

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

Corporate responsibility is an integral part of OP Financial Group's business and strategy. The Group's aim is to be a forerunner of corporate responsibility within its sector in Finland. OP Financial Group is committed to complying with the ten principles of the UN Global Compact initiative in the areas of human rights, labour rights, the environment and anti-corruption. OP has agreed to follow the UN Principles for Responsible Investment 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 March, OP Mortgage Bank issued the first green covered bond in Finland. The EUR 750 million bond has a maturity of 10 years. The bond is targeted at responsible international institutional investors, and proceeds raised with the bond will be allocated to OP Financial Group's home loans recognised as green ones according to the Green Covered Bond Framework of OP MB. The sector to be financed is energy-efficient residential buildings (green buildings).

## Personnel

On 31 March 2021, OP MB had seven employees. OP MB has been digitising its operations and purchases all the most important support services from OP Cooperative and its Group members, reducing the need for its own personnel.

## Management

The Board composition is as follows:

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

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

## Risk exposure

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

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

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

## Outlook for 2021

Economic recovery will continue as the pandemic will continue to subside. In financial markets, expectations are positive. Policy actions by central banks continue to calm down markets, and interest rates are expected to remain low. However, the Covid-19 pandemic will continue to cause uncertainty over the economic outlook.

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

## Alternative Performance Measures

Key ratios	Q1/2021	Q1/2020	Q1-4/2020
Return on equity (ROE), %	1.1	1.6	1.7
Cost/income ratio, %	58	37	40

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

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

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

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

## Interim Report 1 January–31 March 2021

### Primary statements

<b>Income statement, TEUR</b>	<b>Q1/2021</b>	<b>Q1/2020</b>	<b>Q1-4/2020</b>
Net interest income	10,848	12,787	48,470
Interest income	-1,914	3,668	14,357
Interest expenses	-12,762	-9,119	-34,113
Net commissions and fees	-6,905	-8,668	-32,411
Net investment income		1	1
Other operating income	0	0	1
<b>Total income</b>	<b>3,943</b>	<b>4,120</b>	<b>16,061</b>
Personnel costs	102	110	467
Other operating expenses	2,204	1,420	5,972
<b>Total expenses</b>	<b>2,306</b>	<b>1,530</b>	<b>6,439</b>
Impairment loss on receivables	-390	-745	-1,646
<b>Earnings before tax</b>	<b>1,247</b>	<b>1,845</b>	<b>7,975</b>
Income tax expense	249	369	1,594
<b>Profit for the period</b>	<b>998</b>	<b>1,477</b>	<b>6,381</b>

<b>Statement of comprehensive income, TEUR</b>	<b>Q1/2021</b>	<b>Q1/2020</b>	<b>Q1-4/2020</b>
<b>Profit for the period</b>	<b>998</b>	<b>1,477</b>	<b>6,381</b>
Gains/(losses) arising from remeasurement of defined benefit plans			-17
Income tax on gains/(losses) on arising from remeasurement of defined benefit plans			3
<b>Total comprehensive income</b>	<b>998</b>	<b>1,477</b>	<b>6,368</b>

<b>Balance sheet, TEUR</b>	<b>31 Mar. 2021</b>	<b>31 Mar. 2020</b>	<b>31 Dec. 2020</b>
Receivables from credit institutions	11,695,113	10,018,842	11,008,827
Derivative contracts	310,992	357,197	431,801
Receivables from customers	4,287,247	5,326,462	4,536,259
Investments assets	40	40	40
Other assets	42,298	20,901	28,622
Tax assets	620	1,346	803
<b>Total assets</b>	<b>16,336,311</b>	<b>15,724,788</b>	<b>16,006,351</b>
Liabilities to credit institutions	2,200,000	2,100,000	1,500,000
Derivative contracts	12,948	12,946	14,908
Debt securities issued to the public	13,718,982	13,198,593	14,095,017
Provisions and other liabilities	38,604	46,984	25,267
Tax liabilities	68	64	68
<b>Total liabilities</b>	<b>15,970,602</b>	<b>15,358,586</b>	<b>15,635,259</b>
<b>Shareholders' equity</b>			
Share capital	60,000	60,000	60,000
Reserve for invested unrestricted equity	245,000	245,000	245,000
Retained earnings	60,710	61,202	66,093
<b>Total equity</b>	<b>365,710</b>	<b>366,202</b>	<b>371,093</b>
<b>Total liabilities and shareholders' equity</b>	<b>16,336,311</b>	<b>15,724,788</b>	<b>16,006,351</b>

<b>Off-balance-sheet commitments, TEUR</b>	<b>31 Mar. 2021</b>	<b>31 Mar. 2020</b>	<b>31 Dec. 2020</b>
Irrevocable commitments given on behalf of customers	0	2	0

<b>Statement of changes in equity, TEUR</b>	<b>Share capital</b>	<b>Other reserves</b>	<b>Retained earnings</b>	<b>Total equity</b>
<b>Shareholders' equity 1 Jan. 2021</b>	<b>60,000</b>	<b>245,000</b>	<b>66,093</b>	<b>371,093</b>
Profit for the period			998	998
Other changes			-6,381	-6,381
<b>Shareholders' equity 31 Mar. 2021</b>	<b>60,000</b>	<b>245,000</b>	<b>60,710</b>	<b>365,710</b>
<b>Shareholders' equity 1 Jan. 2020</b>	<b>60,000</b>	<b>245,000</b>	<b>71,616</b>	<b>376,616</b>
Profit for the period			1,477	1,477
Other changes			-11,891	-11,891
<b>Shareholders' equity 31 Mar. 2020</b>	<b>60,000</b>	<b>245,000</b>	<b>61,202</b>	<b>366,202</b>

<b>Cash flow statement, TEUR</b>	<b>Q1/2021</b>	<b>Q1/2020</b>
<b>Cash flow from operating activities</b>		
Profit for the financial year	998	1,477
Adjustments to profit for the financial year	1,173	3,376
<b>Increase (-) or decrease (+) in operating assets</b>	<b>-289,588</b>	<b>-623,577</b>
Receivables from credit institutions	-520,295	-935,000
Receivables from customers	244,382	300,719
Other assets	-13,676	10,704
<b>Increase (+) or decrease (-) in operating liabilities</b>	<b>713,338</b>	<b>-422,878</b>
Liabilities to credit institutions	700,000	-416,000
Derivative contracts	24,768	2,393
Provisions and other liabilities	-11,430	-9,271
Income tax paid	-67	-808
Dividends received		1
<b>A. Net cash from operating activities</b>	<b>425,853</b>	<b>-1,042,409</b>
<b>Cash flow from investing activities</b>		
<b>B. Net cash used in investing activities</b>		
<b>Cash flow from financing activities</b>		
Increases in debt securities issued to the public	746,520	993,570
Decreases in debt securities issued to the public	-1,000,000	
Dividends paid and interest on cooperative capital	-6,381	-11,891
<b>C. Net cash used in financing activities</b>	<b>-259,861</b>	<b>981,679</b>
<b>Net change in cash and cash equivalents (A+B+C)</b>	<b>165,992</b>	<b>-60,730</b>
<b>Cash and cash equivalents at year-start</b>	<b>214,695</b>	<b>438,702</b>
<b>Cash and cash equivalents at year-end</b>	<b>380,687</b>	<b>377,972</b>
<b>Interest received</b>	<b>15,819</b>	<b>14,941</b>
<b>Interest paid</b>	<b>-26,236</b>	<b>-2,583</b>
<b>Adjustments to profit for the financial year</b>		
<b>Non-cash items and other adjustments</b>		
Impairment loss on receivables	391	746
Income tax	249	369
Price difference recognised	531	2,262
Other	1	-1
<b>Total adjustments</b>	<b>1,173</b>	<b>3,376</b>
<b>Cash and cash equivalents</b>		
Receivables from credit institutions payable on demand	380,697	377,972
<b>Total</b>	<b>380,697</b>	<b>377,972</b>

## Accounting policies

The Interim Report 1 January–31 March 2021 has been prepared in accordance with IAS 34 (Interim Financial Reporting).

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

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

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

## Notes

<b>Net commissions and fees, TEUR</b>	<b>Q1/2021</b>	<b>Q1/2020</b>	<b>Q1-4/2020</b>
<b>Commission income</b>			
Lending	953	1,121	3,946
<b>Total</b>	<b>953</b>	<b>1,121</b>	<b>3,946</b>
<b>Commission expenses</b>			
From lending to OP cooperative banks	911	1,072	3,777
Loan management fee to OP cooperative banks	6,926	8,653	32,418
Issue of bonds	18	62	154
Other	2	1	7
<b>Total</b>	<b>7,858</b>	<b>9,788</b>	<b>36,357</b>
<b>Net commissions and fees</b>	<b>-6,905</b>	<b>-8,668</b>	<b>-32,411</b>

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.

<b>Impairment losses on receivables, TEUR</b>	<b>Q1/2021</b>	<b>Q1/2020</b>	<b>Q1-4/2020</b>
Receivables written down as loan and guarantee losses	48		121
Recoveries of receivables written down	-1	-1	-3
Expected credit losses (ECL) on receivables from customers and off-balance-sheet items	343	746	1,528
<b>Total</b>	<b>390</b>	<b>745</b>	<b>1,646</b>

Impairment loss on receivables totalled EUR 0.4 million (0.7). A year ago, customers actively applied for repayment holidays on their loans as a result of the Covid-19 crisis. Combined with the changes in macroeconomic parameters applied in the calculation of expected credit losses, this increased the amount of expected credit losses. A year ago, the adoption of the new definition of default also increased the amount of expected credit losses.

Classification of financial assets and liabilities 31 Mar. 2021, TEUR

	Amortised cost	Recognised at fair value through profit or loss	Recognised at fair value through other comprehensive income	Total
<b>Financial assets</b>				
Receivables from credit institutions	11,695,113			11,695,113
Derivative contracts		310,992		310,992
Receivables from customers	4,287,247			4,287,247
Investment assets			40	40
Other receivables	42,227			42,227
<b>Financial assets</b>	<b>16,024,588</b>	<b>310,992</b>	<b>40</b>	<b>16,335,620</b>
Other than financial assets				691
<b>Total</b>	<b>16,024,588</b>	<b>310,992</b>	<b>40</b>	<b>16,336,311</b>

	Recognised at fair value through profit or loss	Amortised cost	Total
<b>Financial liabilities</b>			
Liabilities to credit institutions		2,200,000	2,200,000
Derivative contracts	12,948		12,948
Debt securities issued to the public		13,718,982	13,718,982
Other liabilities		35,917	35,917
<b>Financial liabilities</b>	<b>12,948</b>	<b>15,954,899</b>	<b>15,967,846</b>
Other than financial liabilities			2,756
<b>Total</b>	<b>12,948</b>	<b>15,954,899</b>	<b>15,970,602</b>
Valuation difference of debt securities issued to the public (difference between fair value and carrying amount) 31 Mar. 2021		383,017	383,017

Classification of financial assets and liabilities 31 Dec. 2020, TEUR

	Amortised cost	Recognised at fair value through profit or loss	Recognised at fair value through other comprehensive income	Total
<b>Financial assets</b>				
Receivables from credit institutions	11,008,827			11,008,827
Derivative contracts		431,801		431,801
Receivables from customers	4,536,259			4,536,259
Investment assets			40	40
Other receivables	28,369			28,369
<b>Financial assets</b>	<b>15,573,454</b>	<b>431,801</b>	<b>40</b>	<b>16,005,296</b>
Other than financial assets				1,056
<b>Total</b>	<b>15,573,454</b>	<b>431,801</b>	<b>40</b>	<b>16,006,351</b>

	Recognised at fair value through profit or loss	Amortised cost	Total
<b>Financial liabilities</b>			
Liabilities to credit institutions		1,500,000	1,500,000
Derivative contracts	14,908		14,908
Debt securities issued to the public		14,095,017	14,095,017
Other liabilities		22,359	22,359
<b>Financial liabilities</b>	<b>14,908</b>	<b>15,617,376</b>	<b>15,632,283</b>
Other than financial liabilities			2,975
<b>Total</b>	<b>14,908</b>	<b>15,617,376</b>	<b>15,635,259</b>
Valuation difference of debt securities issued to the public (difference between fair value and carrying amount) 31 Dec. 2020		506,617	506,617

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

Derivative contracts 31 Mar. 2021, TEUR	Nominal values/residual term to maturity			Total
	Less than 1 year	1–5 years	More than 5 years	
Interest rate derivatives				
Hedging	448,890	9,767,768	7,160,750	17,377,408
<b>Total</b>	<b>448,890</b>	<b>9,767,768</b>	<b>7,160,750</b>	<b>17,377,408</b>

	Fair values		Credit equivalent
	Assets	Liabilities	
Interest rate derivatives			
Hedging	310,992	12,948	498,488
<b>Total</b>	<b>310,992</b>	<b>12,948</b>	<b>498,488</b>

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

	Fair values		Credit equivalent
	Assets	Liabilities	
Interest rate derivatives			
Hedging	431,801	14,908	615,219
<b>Total</b>	<b>431,801</b>	<b>14,908</b>	<b>615,219</b>

Financial instruments classification, grouped by valuation technique, TEUR

31 Mar. 2021	Fair value measurement at year end			
	Balance sheet value	Level 1	Level 2	Level 3
<b>Recurring fair value measurements of assets</b>				
Derivate contracts	310,992		310,992	
<b>Total</b>	<b>310,992</b>		<b>310,992</b>	
<b>Recurring fair value measurements of liabilities</b>				
Derivate contracts	12,948		12,948	
<b>Total</b>	<b>12,948</b>		<b>12,948</b>	
<b>Financial liabilities not measured at fair value</b>				
Debt securities issued to the public	13,718,982	13,143,515		958,514
<b>Total</b>	<b>13,718,982</b>	<b>13,143,515</b>		<b>958,514</b>

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

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.

Valuation techniques whose input parameters involve uncertainty (Level 3)

Opening balance 1 January 2021	962,395
Transfers to level 3	
Transfers from level 3	
Other change	-3,881
<b>Closing balance 31 March 2021</b>	<b>958,514</b>

## Schedule for Interim Reports in 2021

Half-year Financial Report 1 January–30 June 2021  
Interim Report 1 January–30 September 2021

28 July 2021  
27 October 2021

Helsinki, 28 April 2021

OP Mortgage Bank  
Board of Directors

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