OP Mortgage Bank's Report by the Board of Directors and Financial Statements 2019

OP

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 OP Financial 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 banks' balance sheets or buys home loans in security for bonds from OP financial Group member cooperative banks.

OP MB's intermediary loans and loan portfolio increased in 2019 to EUR 14,335 million (13,771)*.

OP MB issued a 1.25 billion-euro fixed-rate covered bond with a maturity of 10 years in international capital markets in February. Out of the proceeds of the bond, one billion euros were intermediated to OP cooperative banks in the form of intermediary loans. In addition, OP MB issued a 1 billion-euro fixed-rate covered bond with a maturity of seven years in international capital markets in November. Out of the proceeds of the bond, 929.7 million euros were intermediated to OP cooperative banks in the form of intermediary loans. On 31 December 2019, 122 OP cooperative banks had a total of EUR 8,706 million (6,776) in intermediary loans from OP MB.

Joint and several liability

Under the Act on the Amalgamation of Deposit Banks, the amalgamation of the 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 2019, OP Cooperative's members comprised altogether 147 cooperative banks as well as OP Corporate Bank plc, OP Mortgage Bank and OP Customer Services Ltd. 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 Covered Bond Act, 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 2018 are given in brackets. For income statement and other aggregated figures, January–December 2018 figures serve as comparatives.
For balance-sheet and other cross-sectional figures, figures at the end of the previous financial year (31 December 2018) serve as comparatives.

Profit performance

OP MB's key financial indicators in 2019 are shown below:

Thousand euros	Q1–4/2019	Q1–4/2018
Income		
Net interest income	61,521	71,893
Net commissions and fees	-40,055	-49,193
Net investment income	1	1
Other operating income	1	3
Total	**21,468**	**22,704**
Expenses		
Personnel costs	399	191
Depreciation/amortisation and impairment loss	123	783
Other operating expenses	5,865	5,099
Total	**6,387**	**6,073**
Impairment loss on receivables	**-217**	**-382**
Earnings before tax	**14,865**	**16,248**

The company's financial standing remained stable throughout the financial year. Full-year earnings before tax came to EUR 14,865 thousand (16,248).

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

OP MB's balance sheet total was EUR 15,097 million (14,077) on 31 December 2019. The table below shows the development of key assets and liabilities.

Key assets and liabilities

Million euros	31 Dec 2019	31 Dec 2018
Balance sheet	15,097	14,077
Receivables from customers	5,629	6,995
Receivables from credit institutions	9,145	6,910
Debt securities issued to the public	12,136	10,743
Liabilities to credit institutions	2,516	2,896
Equity capital	377	378
Off-balance-sheet items	0	0

The bank's intermediary loans and loan portfolio increased to EUR 14,335 million (13,771) in January–December.

On 31 December 2019, households accounted for 99.9% (99.9) of the loan portfolio and institutional customers for 0.1% (0.1). On 31 December 2019, OP MB's non-performing receivables totalled EUR 234 million (297).

The carrying amount of bonds issued to the public was EUR 12,136 million (10,743) 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 2,516 million (2,896).

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 17,244 million (17,393). 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 risk.

The Common Equity Tier 1 (CET1) ratio stood at 69.8% (136,4) on 31 December 2019. 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 has set a 15% minimum risk weight on housing loans from the beginning of 2018 for at least two years. According to the Authority, this floor is aimed at preparing for a systemic risk related to household indebtedness. The minimum risk weight floor applies to OP Financial Group level.

Capital base and capital adequacy, TEUR	**31 Dec 2019**	**31 Dec 2018**
Shareholders' equity	376,616	377,720
Common Equity Tier 1 (CET1) before deductions	**376,616**	**377,720**
Intangible assets		-120
Excess funding of pension liability	-69	-66
Share of unaudited profits	-11,892	-12,999
Shortfall of ECL minus expected losses	-5,589	-1,962
Common Equity Tier 1 (CET1)	**359,066**	**362,573**
Tier 1 capital (T1)	**359,066**	**362,573**
Excess of ECL minus expected losses		38
Tier 2 Capital (T2)		**38**
Total capital base	**359,066**	**362,611**
Total risk exposure amount		
Credit and counterparty risk	476,138	223,980
Operational risk	38,237	41,893
Total	**514,375**	**265,873**
Key ratios, %		
CET1 ratio	69,8	136.4
Tier 1 capital ratio	69,8	136.4
Capital adequacy ratio	69,8	136.4
Capital requirement		
Capital base	359,066	362,611
Capital requirement	54,012	27,924
Buffer for capital requirements	305,055	334,687

As part of OP Financial Group, OP MB will adopt a new definition of default. The process based on the new definition recognises defaulted customers earlier, for example, based on information in external credit registers, or in retail customers by extending the default to cover all exposures of an individual obligor. This new definition is expected to mean a larger number of default observations and to weaken credit risk parameters. When adopting the new definition, a so-called Two-Step Approach will be applied. The first step involves the change of the definition of default, which is planned to take place in March 2020. The second step to be taken later involves the calibration of credit risk parameters. The supervisory obligation related to the adoption of the new definition of default is expected to weaken OP MB's CET1 ratio by 16 percentage points in the first stage. Growth in the expected credit losses (ECL) caused by the change in the definition of default has been taken into account in the effect on capital adequacy. The growth is estimated to be less than 5% of the earnings for 2019.

Formulas for key ratios:

Common Equity Tier 1 (CET1) capital 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, %

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

Financial indicators

Ratio	2019	2018	2017
Return on equity (ROE), %	3.2	3.4	4.1
Return on assets (ROA), %	0.08	0.09	0.12
Equity ratio, %	2.46	2.68	2.69
Cost/income ratio, %	30	27	22

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 Executive Board 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 decision on its risk and capital adequacy management in line with the principles adopted by the central cooperative Executive Board. In addition, the 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 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 integrated as 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 owing to retained earnings. Its capital adequacy ratio stood at 69.8% (136.4). The return on equity was 3.2% (3.4).

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 5,628 million on 31 December 2019 (6.995). The quality of the loan portfolio is good. Doubtful receivables totalled EUR 234 million (237). 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 contractual payment terms towards the customer to make it easier for them to manage through temporary payment difficulties. OP cooperative banks make every effort to find solutions to overcome customers' temporary financial difficulties. Loan modifications due to reasons other than the customer's financial difficulties are not classified as doubtful receivables.

The company did not record any major impairment losses during 2019 or the previous years.

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 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 a part of 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 regulations 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 risk management tools include identifying and analysing risks 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, official 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.

Personnel and remuneration schemes

On 31 December 2019, OP MB had six employees. The company purchases all the most important support services from OP Cooperative and its Group companies, reducing the its need for its own personnel.

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.

Management

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	Director, Mortgages and Housing-related Services, OP Cooperative
	Lauri Iloniemi	Head of Treasury and Asset and Liability Management, OP Corporative Bank plc

OP MB's Managing Director was Lauri Iloniemi until 31 May 2019. On 1 June 2019, Sanna Eriksson became OP MB's Managing Director.

The deputy Managing Director was Sanna Eriksson until 31 May 2019. As of 1 June 2019, the deputy Managing Director is Pekka Moisio, Head of Funding and Liquidity Managementi.

On 28 February 2019, member of the Board Elina Ronkanen-Minogue resigned from OP Financial Group and, consequently, from membership of the Board of Directors of OP Mortgage Bank.

Kaisu Christie, Director of Mortgages and Housing -related Services, was appointed to member of the Board of Directors to replace Elina Ronkanen-Minogue as of 19 March 2019.

Board member Hanno Hirvinen resigned from OP MB's Board of Directors on 31 May 2019.

To replace Hirvinen on the Board, Lauri Iloniemi, Head of Treasury and Asset and Liability Management, was appointed Board member on 1 June 2019.

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 he/she reaches 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 13 meetings in 2019.

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 was Lauri Iloniemi until 31 May 2019. On 1 June 2019, Sanna Eriksson became OP MB's Managing Director.

The deputy Managing Director was Sanna Eriksson until 31 May 2019. As of 1 June 2019, the deputy Managing Director is Pekka Moisio, Head of Funding and Liquidity Managementi.

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

Audit

The Annual General Meeting of 19 March 2019 re-elected KMPG Oy Ab, an audit firm, to act as the auditor for the financial year 2019, with Tiia Kataja, APA, acting as the chief auditor, appointed by KPMG Oy Ab.

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

Events after the reporting period

In January 2020, OP MB issued a one-billion euro bond with a maturity of 8.25 years in international capital markets.

Future 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 2020 as well.

Executive Board's proposal on profit distribution

OP Mortgage Bank's equity capital on 31 December 2019

+ Share capital	60,000,000.00
+ Reserve for invested non-restricted equity	245,000,000.00
+ Profit for the financial year	11,891,635.35
+ Retained earnings	59,724,366.71
Total	**376,616,002.06**

Distributable funds totalled EUR 316,616,002.06.

As shown in the financial statements of 31 December 2019, the company's distributable funds, which include EUR 11,891,635.35 in profit for the financial year, totalled EUR 71,616,002.06. The company's distributable funds totalled EUR 316,616,002.06.

The Board of Directors proposes that a dividend of EUR 155.25 be distributed per share, totalling EUR 11,890,908.00, and that following dividend distribution, the remaining amount of EUR 727.35 be recognised in retained earnings. Following dividend distribution, the company's distributable earnings total EUR 59,725,094.06 and its distributable funds total EUR 304,725,094.06.

The company’s financial position has not undergone any material changes since the end of the financial year 2019. 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	2019	2018
Net interest income	3	**61,521,301.09**	71,893,437.25
Net commissions and fees	4	-40,055,264.68	-49,192,961.65
Net investment income		1,161.70	992.95
Other operating income		1,251.23	2,675.37
Total income		**21,468,449.34**	**22,704,143.92**
Personnel costs	5	398,967.96	190,940.12
Depreciation/amortisation and impairment loss	6	123,209.80	783,380.85
Other operating expenses	7	5,865,115.96	5,099,082.82
Total expenses		**6,387,293.72**	**6,073,403.79**
Impairment losses on receivables	8	-216,508.34	-382,338.59
Earnings before tax		**14,864,647.28**	**16,248,401.54**
Income tax	9	2,973,011.93	3,249,400.30
Profit for the financial year		**11,891,635.35**	**12,999,001.24**

Earning/share (EPS), EUR	**155.26**	**169.72**
Profit for the financial year / Average share-issue adjusted number of shares during the period		

STATEMENT OF COMPREHENSIVE INCOME

EUR	2019	2018
Profit for the financial year	**11,891,635.35**	**12,999,001.24**
Items that will not be reclassified to profit or loss		
Gains/(losses) arising from remeasurement of defined benefit plans	2,976.00	60,433.00
Income tax on gains/(losses) arising from remeasurement of defined benefit plans	-595.20	-12,086.60
Total comprehensive income for the financial year	**11,894,016.15**	**13,047,347.64**

BALANCE SHEET

EUR	Note	31 Dec 2019	31 Dec 2018
Receivables from credit institutions	10	9,144,571,284.81	6,909,629,586.47
Derivative contracts	11	291,145,623.05	139,667,675.47
Receivables from customers	12	5,628,716,031.15	6,994,872,834.91
Investments assets	13	40,000.00	40,000.00
Intangible assets	14	0.00	120,225.71
Other assets	15	31,605,316.69	32,525,405.54
Tax assets	16	907,531.62	0.00
Total assets		**15,096,985,787.32**	**14,076,855,728.10**
Liabilities to financial institutions	17	2,516,000,000.00	2,896,000,000.00
Derivative contracts	18	14,470,032.47	8,596,795.34
Debt securities issued to the public	19	12,135,974,026.54	10,742,840,373.21
Other liabilities	20	53,861,323.56	51,624,642.58
Tax liabilities	16	64,402.69	73,502.74
Total liabilities		**14,720,369,785.26**	**13,699,135,313.87**
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		71,616,002.06	72,720,414.23
Total equity	21	**376,616,002.06**	**377,720,414.23**
Total liabilities and shareholders' equity		**15,096,985,787.32**	**14,076,855,728.10**

CASH FLOW STATEMENT

TEUR	2019	2018
Cash flow from operating activities		
Profit for the financial year	11,892	12,999
Adjustments to profit for the financial year	11,999	12,327
Increase (-) or decrease (+) in operating assets	**-558,011**	**-171,108**
Receivables from credit institutions	-1,929,700	-2,000,000
Receivables from the public and public-sector entities	1,370,769	1,812,031
Other assets	920	16,861
Increase (+) or decrease (-) in operating liabilities	**-377,766**	**37,365**
Liabilities to credit institutions and central banks	-380,000	58,000
Other liabilities	2,234	-20,635
Income tax paid	-3,890	-2,505
Dividends received	1	1
A. Net cash from operating activities	**-915,775**	**-110,920**
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	2,233,893	995,413
Decreases in debt securities issued to the public	-1,000,000	-1,100,000
Dividends paid and interest on cooperative capital	-12,998	-15,424
C. Net cash used in financing activities	**1,220,894**	**-120,012**
D. Effect of foreign exchange rate changes on cash and cash equivalents	**0**	**0**
Net change in cash and cash equivalents (A+B+C+D)	**305,118**	**-230,932**
Cash and cash equivalents at year-start	**133,460**	**363,609**
Cash and cash equivalents at year-end	**438,702**	**133,460**
Change in cash and cash equivalents	**305,242**	**-230,148**
Interest received	34,089	68,928
Interest paid	-30,660	-478
Adjustments to profit for the financial year		
Impairment losses on receivables	224	396
Price difference recognised on debt securities issued to the public	8,804	8,683
Other	2,972	3,248
Total adjustments	**11,999**	**12,327**
Cash and cash equivalents		
Receivables from credit institutions payable on demand	438,702	133,460
Total cash and cash equivalents	**438,702**	**133,460**

STATEMENT OF CHANGES IN EQUITY

TEUR		Share capital	Other reserves	Retained earnings	Total
Shareholders' equity on 1 January 2018	21	60,000	245,000	75,147	380,147
Reserve for invested unrestricted equity					
Profit for the financial year				12,999	12,999
Other comprehensive income for the period				48	48
Other changes				-15,472	-15,472
Shareholders' equity on 31 December 2018		60,000	245,000	72,720	377,720

Shareholders' equity on 1 January 2019		60,000	245,000	72,720	377,720
Reserve for invested unrestricted equity					
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

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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 shall issue guidelines on the preparation of financial statements to its member credit institutions. According to the Act on Cooperative Banks and Other Cooperative Institutions, the Executive Board 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 3 February 2020 and the Board of Directors approved the financial statements on 5 February 2020.

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 2019. 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 2019, OP MB adopted the following standards and interpretations:

- IFRS 16 Leases as of 1 January 2019. OP MB applied a retrospective approach in the transition to a limited extent, in which case comparatives were not restated and any accrued transition effect were recognised in adjustments to retained earnings in equity on 1 January 2019. The effects of the transition to IFRS 16 are presented in the accounting policies.

- In September 2019, the IASB published a document entitled Interest Rate Benchmark Reform that amended IFRS9, IAS 39 and IFRS 7. The European Union adopted the amendments on 15 January 2020 and they are effective for accounting periods beginning on or after 1 January 2020. Earlier application is allowed. OP MB already applied amendments to IAS 39 during the financial year 2019. The interest rate benchmark reform has a significant effect on OP Financial Group’s processes, and the Group proceeds with the changes according to its business continuity plan related to reference rates. Following the reform, the EONIA rate is calculated on the €STR by adding a fixed rate of 8.5 basis points to it until the EONIA rate ceases to exist on 31 December 2021. The determination principles of the Euribor too changed during 2019. Changes in the determination methods of the EONIA and Euribors will not affect the continuity of contract terms. The adoption of €STR in OP Financial Group will involve system changes, process changes, changes in risk and valuation models and in accounting. When it comes to hedge accounting, the change means a relief, for example, in the way that OP MB can still continue with cash flow and fair value hedging despite the fact that the method of determination of the reference rate originally defined as the hedged one changes. In cash flow hedges, future cash flows can still be considered to be highly likely insofar as they depend on the reference interest rate.

- Annual improvements to IFRS for cycles 2015–2017 (applicable mainly to accounting periods beginning on or after 1 January 2019). Minor amendments are annually made to standards through the Annual Improvements process. The effects of the amendments vary by standard but they are not significant.

- Amendment to IFRS 9 Financial Instruments as of 1 January 2019: “Prepayment features with negative compensation”. This amendment enables entities to measure at amortised cost some prepayable financial assets with so-called negative compensation. The amendment did not have any significant effect on OP MB’s financial statements.

- A new IFRIC interpretation 23 that became effective on 1 January 2019. The amendment 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 and are accounted for in accordance with IFRS 15 include fees charged for servicing a loan, for example.

OP MB incorporates the impact of expected credit losses in the estimated future cash flows when calculating the credit-adjusted effective interest rate for financial assets that are considered to be purchased or originated credit-impaired at initial recognition (POCI).

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 Covered Bond Act (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 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. In such a case, a concession resulting from weaker repayment capacity has to be given to the loan terms – such as a repayment holiday – for a limited period. 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. Modifications in payment terms 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 at 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 its internal rating system based on payment behaviour. Default as definition for private customers is applied on a contract-by-contract basis. A customer is classified as a default customer when it is probable that the customer will not pay loan obligations in full without OP MB resorting to measures (e.g. realisation of collateral) or no later than when payment related to financial assets is more than 90 days past due.

The definition of default is based on Article 178 of Regulation No. 575/2013 (CRR) of the European Parliament and of the Council.

The customer's default ends when it no longer meets the criteria for the definition of default. After that, the payment behavioural category will be restored with a delay of 6 months.

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 are used to assess whether the credit risk has increased significantly. Forbearance is regarded as a qualitative criterion. Other qualitative factors consist of various credit risk indicators (e.g. breach of covenants) to be taken into account in credit rating models or in the assessment of the payment behavioural category.

OP MB has included relative and absolute thresholds for the determination of significant quantitative increases in credit risk considering all reasonable 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 on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due or forbearance has been granted on the loan.

In the assessment of a significant increase in credit risk, OP MB has not applied a transitional rule on the assumption of low credit risk permitted by IFRS 9 to contracts, for which it is not possible without undue cost or effort, to calculate the original lifetime PDs.

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 calculated 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 different components depend substantially on the product type, industry (companies) and the type of collateral. 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.

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. The Group primarily uses the averages of external credit rating and secondarily internal credit rating, 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 correspondence is based on, is comprehensive and on a long-term basis. The LGDs also correspond to the studied historical actuals by investment class/collateral type (seniority, covered bond status) 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. The Group 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 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.

An exchange between OP MB and original lenders of financial liabilities with substantially different terms must be accounted for as an extinguishment of the original financial liability. In such a case, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, the amortised cost of the modified financial liability will be recalculated by discounting the modified contractual cash flows using the original effective interest rate. Changes in the amortised cost of the financial liability is recognised through profit or loss. Costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability. OP MB has not made any exchanges of financial liabilities for the existing financial liabilities.

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. OTC interest rate derivatives for central counterparty clearing, which are cleared in the daily clearing process with London Clearing House, are offset in the balance sheet.

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, containing 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.

Changes in the fair value of derivative contracts that are documented as hedging the fair value and are highly effective hedges 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.

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.

LEASES

OP MB has applied IFRS 16 Leases since 1 January 2019.

The lease is treated under IFRS 16 if the following conditions are fulfilled in all respects:

- The contract is based on control over an identified asset in such a way that OP MB or its employees have the right to decide on the use of the asset throughout the lease period when OP MB is the lessee
- The contract includes rights and obligations and related payments
- The asset identified in the contract is used only by OP MB or its employees when OP MB is the lessee.

OP MB as lessee

Leased contracts have been recognised as a right-of-use asset and lease liability in the balance sheet. Leased contracts are mainly those related to premises. Leased right-of-use assets are presented in PPE assets and are mainly depreciated during the lease term. The corresponding lease liability is presented in other liabilities and the related interest expenses are presented in interest expenses.

For leased contracts, OP MB defines the lease term as follows:

- a fixed term that cannot be extended or terminated without any good reason or sanction or

- based on management judgement, for a maximum of three years when it is the question of a property lease until further notice to which a mutual notice period applies. If the lease is fixed at first and is renewed to be valid until further notice as described above, the lease term is a combination of these. When such a lease has been terminated, the notice period is defined as the lease term. When determining the lease term, OP MB assesses that it is reasonably certain that the lessee stays on the premises longer because the property based on the lease has a central location and no substitutive property is necessarily available.

- the lessor's notice period if it is the question of a lease other than a property lease until further notice to which a mutual notice period applies. The lease term will always be renewed with a new notice period after the notice period unless the lease has been terminated. When determining the lease term, OP MB assesses that it is reasonably certain that leases have been concluded for a longer time because terminating and renewing such leases would not be profitable.

- or the useful life of the leased property if it is shorter than the lease terms mentioned above.

In calculating lease liability, OP MB usually uses the incremental borrowing rate of the lessor. The interest rate quoted by the OP Financial Group Treasury is used as the incremental borrowing rate.

OP MB applies practical expedients allowed for lessors. Expenses of low-value and short-term leases for the financial year are recognised in other operating expenses. These leases include laptops, mobile phones and smaller devices and devices and machines leased on a one-time basis.

OP MB does not act as a lessor.

Leases in 2018

On the date of inception, leases are classified as finance leases or operating leases depending on the substance of the transaction. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incident to ownership to the lessee. All other leases are classified as operating leases.

Assets leased under finance lease are recognised as property, plant and equipment and the corresponding finance lease liability is included in other liabilities. At the inception of the lease term, these leased assets are recorded as assets and liabilities at the lower of the fair value of the asset and the present value of the minimum lease payments. PPA assets are depreciated over the shorter of the lease term or the life of the asset. Finance charges are recognised in interest expenses so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Lease payments for leased assets under operating lease are recognised as expenses on a straight-line basis over the lease term.

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.

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 into 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

Since OP MB is engaged only in residential lending, segment reporting is not presented.

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 judgements 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.

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

- The expert judgement 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

IFRS 16 Leases

OP MB adopted IFRS 16 Leases as of 1 January 2019, according to which leased contracts have been recognised as a right-of-use asset and lease liability in the balance sheet. Almost all lessor contracts were recognised in the balance sheet, whereas previously they were presented as off-balance sheet exposures. OP MB applied a retrospective approach in the transition to a limited extent, which is why it did not restate comparatives for the prior year. In the adoption of 1 January 2019, OP MB recognised EUR 13,000 in right-of-use assets and EUR 13,000 in lease liability in its balance sheet. On 31 December 2019, the right-of-use asset was EUR 0. Accounting by lessors remained substantially similar to the previous standard.

NEW STANDARDS AND INTERPRETATIONS

The IASB (International Accounting Standards Board) has issued future IFRS amendments. Amendments to IFRS 3, IAS 1 and IAS 8 took effect on 1 January 2020. The amendments will not have any major effect on OP MB's financial statements.

NOTE 2. OP Mortgage Bank's risk management principles

1 OP MB's risk-taking principles

OP MB is responsible for OP Financial Group's funding for the part of covered bond issuance. OP MB's operations are based on OP Financial Group's core values, a strong capital base and capable risk management. OP MB'S risk-taking in guided by OP Financial Group's values – People First, Responsibility and Succeeding Together.

The Risk Appetite Statement confirmed by the central cooperative's Supervisory Board describes the bases and key principles of risk-taking.

In OP MB, we promote an approach based on diligence, which is manifested as a strong risk culture with a positive attitude towards internal control. Our remuneration principles encourage people to act carefully, provide high-quality customer service and maintain a balance between the financial result, risks and capital.

In order for us to be able to operate in accordance with our risk appetite, OP MB must have sufficient risk-bearing capacity, which comprises risk capacity and risk-taking capacity. We have organised our business reliably and in a way that secures business continuity, and we have the capability to quickly adapt our risk exposure when needed and have strategic flexibility to change risk-taking.

Risk-taking capacity comprises capital and liquidity. Strong risk-taking capacity enables us to serve our customers with a long-term approach and in difficult market conditions.

Together with the strategy, the Risk Appetite Statement provides the bases for the goal-setting of our business. Quantifiable risks are mitigated by means of limits set by the central cooperative's Executive Board for OP MB. Limits guide and control risk-taking and ensure that risk-taking complies with the Risk Appetite Statement. The limits set a maximum limit for risk-taking. If this maximum limit is exceeded or threatened to be exceeded, the escalation procedure will be initiated. Quantitative limits are supplemented by guidelines included in risk policies and other guidelines issued by Risk Management to ensure that also the risks that are more difficult to quantify are covered.

2 Risk management

2.1 Objective of risk management

Effective risk management is the basis of customer-driven business and a competitive advantage. It also supports the business profitability of OP Financial Group and its companies, and enhanced trust in relation to customers and other stakeholders.

The objective of risk management is to secure OP Financial Group's and its companies' sufficient risk-bearing capacity and to ensure that any business risks taken do not threaten profitability, capital adequacy, liquidity or the achievement of strategic targets and thereby to secure business continuity.

Risk management is aimed at ensuring that

- all significant risks are identified, measured and assessed and the quantitative risks defined as significant are limited
- earnings risks are managed and consequential risks are reduced efficiently
- significant risks are covered with sufficient capital and they have adequate management capital and liquidity buffers
- risk-taking capacity is allocated to revenue logics and business segments according to the strategy and risk appetite
- risk management processes are efficient, comprehensive and adequate
- internal processes and operating models are cost-effective and they generate up-to-date and high-quality information to the management to support its decision-making, for reporting and the needs of the supervisor
- management decision-making is based on sufficient, detailed and timely risk data
- business continuity has been secured in all situations and fast recovery in incidents
- the management has access to sufficient information and versatile scenarios to assess changes in the business environment, make strategic choices, assess risks and the adequacy of capital and liquidity, has the strategic flexibility to change risk-taking
- compliance with risk-taking and risk policies of business lines/divisions is supervised, the business determines prices for earnings risks in a sustainable manner over cycle

- the risk exposure is supervised so that it remains within the framework of the risk-taking principles, confirmed limits and that the exceeding of limits triggers the escalation procedures determined in advance and the corrective measures are monitored
- risk exposure is analysed and reported to the management.

2.2 Organisation of risk management

OP MB is part of OP Financial Group and the amalgamation of cooperative banks under the Act on the Amalgamation of Deposit Banks. It is a subsidiary of OP Cooperative (the central cooperative). The management of OP Financial Group and the central cooperative consolidated is based on the control and supervision by the central cooperative Supervisory Board. As the Board of Directors of the parent company of the central cooperative consolidated, the central cooperative Executive Board is responsible for managing the central cooperative consolidated.

In its activities and decisions, OP MB's Board of Directors must consider policy lines, confirmed principles and given instructions issued by the central cooperative Supervisory Board and Executive Board or those authorised by them.

OP MB complies with the risk-taking and risk management principles confirmed by the central cooperative Supervisory Board and with other instructions issued by the central cooperative Risk Management. Furthermore, the companies are obliged to comply with the instructions issued by the central cooperative by virtue of section 17 of the Act on the Amalgamation of Deposit Banks.

OP MB's Board of Directors is tasked with, for example, supervising and assessing the performance and adequacy of the company's internal control and with ensuring that the company's risk management systems are sufficient in view of the nature and extent of its business.

The Board of Directors annually approves the annual plan and targets and supervises their implementation. It also approves, for its part, the capital plan, funding plan and funding authorisation, and records guidelines under section 17 of the Act on the Amalgamation of Deposit Banks and approves or deals with other guidelines according to the instructions issued by the central cooperative.

OP MB's Managing Director manages the company's daily management in accordance with the Board of Directors' guidelines and decisions. The Managing Director is responsible for the implementation of risk management according to the principles and guidelines that have been agreed on, and reports regularly on the company's business to the Board of Directors.

2.3 Risk Management

The central cooperative's Risk Management independent of businesses is responsible for risk management at OP Financial Group level. OP MB's risk management duties have been centralised in the central cooperative Risk Management. Independent risk management is organised in such a way that it is in sufficient proportion to the nature, extent and diversity of the Group and each of its business segment and company.

Risk Management leads the intra-Group risk management process, owns the risk management framework and is responsible for maintaining and developing risk management systems and methods. It maintains, develops and prepares the Risk Appetite Framework for approval by the Executive Board and the Supervisory Board, and maintains other instructions related to risk management. Risk Management controls, supervises and supports the implementation of the Risk Appetite Statement and the Risk Appetite Framework at OP Financial Group and its companies while supervising risk decision processes and their quality. It also supports the efficient use of the Group's balance sheet by analysing the balance sheet against earnings risks.

Together with Finance and Group Treasury, Risk Management ensures the balance between profitability, risks and risk-taking capacity. Risk Management supports capital adequacy management by developing and supervising the principles, models and methods of the measurement of economic capital deriving from risks and the measurement based on regulatory requirements. Furthermore, Risk Management supervises business lines/divisions to ensure that their risk-taking complies with the strategy and the Risk Appetite Statement. It supervises the risk exposure of OP Financial Group and its companies and reports it to the central cooperative Supervisory Board and its Risk Management Committee, Executive Board and the senior management of the central cooperative and its segments and companies.

Risk Management is responsible for maintaining OP Financial Group's recovery plan and it coordinates the delivery of information to the resolution authorities.

OP Financial Group's Compliance independent of business lines/divisions is responsible for supervising compliance with provisions and for assessing compliance risks. Risk Management works in close cooperation with Compliance in managing compliance risks.

OP MB is responsible for planning its operations and for its internal control. OP MB supervises its risk exposure so that it remains within the confirmed limits.

Internal audit performed within OP Financial Group constitutes independent and objective assessment, verification and consulting activities with a view to generating added value to OP Financial Group and improving its operations. Internal Audit helps OP Financial Group to reach its objectives by bringing a systematic, disciplined approach to evaluating and improving the efficiency and impact of the organisation's governance, risk management, supervision and supervision processes.

Internal Audit is organised to correspond to business organisations and is responsible for the performance of Group-level, risk-based internal audit in all OP Financial Group entities. Internal Audit inspects the achievement of strategic and operational goals, the quality of internal control and risk management, the efficiency of internal controls, reporting reliability, compliance with laws, other regulation and similar criteria, compliance with internal policies and guidelines and the efficiency and expediency of operations.

3 OP Financial Group's risk management process

OP Financial Group's risk management process contains the following:

- The steering framework prepared and maintained by independent Risk Management
  - The Risk Appetite Statement and the Risk Appetite Framework that guide risk-taking and the risk policies that specify them and other risk management guidelines
  - The creation of methods to identity, assess, measure, price and limit risks
  - The determination of the need of risk-taking capacity and allocation to the business lines/division based on the strategy
- Daily risk management of operational business
  - The identification, pricing and ongoing monitoring of risks
  - The maintenance of risk position management and risk exposure within the set restrictions and objectives
- Internal control and reporting performed by independent Risk Management
  - Supervision of compliance with risk-taking, risk policies and pricing
  - Risk exposure analysis and reporting to the management

3.1 Risk management steering framework

3.1.1 Guidelines maintained by Risk Management

Risk Management prepares and maintains principles governing risk-taking and risk management that are specified by the risk policies and other risk management guidelines.

In the Risk Appetite Statement (RAS), the central cooperative's Supervisory Board confirms the bases and key principles of OP Financial Group's risk-taking and the Group's limits and risk tolerances. In the risk management principles (Risk Appetite Framework, or RAF), the Supervisory Board confirms how OP Financial Group's risk management process is organised in practice and how risks are identified, assessed, measured and managed. The Statement and Framework are binding on all OP Financial Group companies.

Furthermore, Risk Management maintains and issues risk management guidelines based on the Act on the Amalgamation of Deposit Banks as well as other more specified instructions and descriptions for the Group's companies. Risk Management is also responsible for organising training, guidance and other assistance that supports the set of guidelines.

3.1.2 Methods for identifying, assessing, measuring, pricing and limiting risks

Risk identification

OP Financial Group continuously identifies and assesses risks involved in its business and business environment. In an extensive risk identification process conducted at least once a year, Risk Management together with the representatives of the businesses concerned assesses risks that are or may be involved in OP Financial Group's business environment and in the operations and exposures of its companies. This also involves identifying and assessing concentration risks within individual types of risk and cumulative Group-level risks and risk concentrations.

Risk Management assesses the significance of the risk through a stress test and the inclusion of the risk in the regular stress test programme. It also assesses the existing risk measurement methodology and efficiency and decides on how a new risk is measured.

Before the Group launches new products, services, concepts or systems, the business line/division concerned assesses the associated risks in accordance with the practices approved by Risk Management. OP Financial Group only provides customer products and applies business models that have been approved at Group level.

Risk assessment and measurement

OP Financial Group uses risk management measurement models (internal models) it has developed for risk measurement, capital requirement assessment, business price determination and the determination of values used in accounting. The models take account of their compatibility with OP Financial Group's business model, risk appetite and risk profile. All models applied are Group-specific. The Group and its companies share the related key parameters and assumptions. The models in use are approved by the supervisor, if so required by Risk Management or regulation.

In OP Financial Group, internal models used in credit risk capital adequacy measurement play a key role because regulation sets plenty of requirements for the use of internal methods. For the measurement of credit risk for capital adequacy, OP Financial Group has permission from the supervisory authority to use the Internal Ratings-based Approach (IRB) for corporate and credit institution exposures, retail exposures and equity investments.

Economic capital

In addition to the measurement of the regulatory capital requirement and own funds based on capital adequacy measurement, OP Financial Group uses a measurement model for its own economic capital and internal capital. They help to assess the capital required to bear risks (economic capital requirement) and OP Financial Group's view of how much it has items that can be used to cover any losses (internal capital). The economic capital measurement takes account of risks on a more extensive basis than in capital adequacy measurement. There are also differences in the way how parameters, estimates and risk concentrations are considered.

The economic capital requirement is OP Financial Group's own estimate of the amount of capital sufficient to cover any losses with a 99.97% probability that may arise from risks associated with business and the business environment for the next 12 months.

The economic capital requirement is a risk-taking indicator where business risks, irrespective of risk type, are as inter-comparable as possible. Using models specific to each risk type, each risk is measured to a euro loss amount. The company must reserve at least the loss amount to cover internal capital. In the measurement, the Group uses thought-out risk metrics, stress scenarios and expert assessment. OP MB's economic capital requirement is calculated by combining capital requirements for each type of risk and by taking into account diversification benefits between the types of risk.

Economic capital is divided into quantitative and qualitative, or assessable, risks. OP MB's quantitative risks include credit risk and banking interest rate and equity risks. The assessable risks include operational risks. Credit risks account for around 85% of OP MB's economic capital requirement.

Stress tests

OP Financial Group uses stress tests to assess how various serious, albeit potential, situations and those differing from the assumptions of risk models may affect the liquidity, risk exposure, profitability and capital adequacy of the Group and/or its companies. Stress tests assess the effect of both individual stress factors and the joint effect of multiple variables acting simultaneously. In stress testing, the Group utilises reverse stress tests, in addition to various sensitivity and scenario analyses. Stress tests support and supplement the whole picture given by other risk measurement methods of risk exposure.

Stress testing helps to identify key risks and assess their significance and to convert and scale OP Financial Group's risk appetite into risk tolerances and limits as well as to lines of risk policies. Stress tests are aimed covering all risk types identified as significant in the Risk Appetite Statement.

Setting limits and escalation procedures

Quantifiable significant risks are mitigated by means of limits set by the central cooperative's Executive Board for significant central cooperative consolidated companies. Limits are aimed at limiting and controlling risk-taking in the direction of the Risk Appetite Statement and prevailing strategies. Risk limits are used to ensure that the company does not take excessive risks to endanger the company's capital adequacy, profitability, liquidity and business continuity. Quantitative limits are supplemented by guidelines included in risk policies and other guidelines issued by Risk Management to ensure that also the risks that are more difficult to quantify are covered.

The central cooperative Risk Management supervises the Group companies to ensure that they remain within the limits set for them. Risk Management regularly reports its observations and the actual limit metrics to OP MB's Board of Directors and the parties that have set the limits.

The limits and control limits set a maximum limit for risk-taking. If this maximum limit is exceeded or threatened to be exceeded, the escalation procedure defined in the Risk Appetite Framework will be applied.

3.1.3 Capital management

Capital management aims in all circumstances to proactively control and ensure that OP MB's capital adequacy meets the set targets and regulatory requirements and thus ensure business continuity. A capital plan is made to assess the adequacy of OP MB's capital and proactively ensure an adequate capital base even in exceptional conditions.

In respect of the quality of capital, its permanence and availability to cover losses is essential. Therefore, the capital adequacy targets are based on a strong CET1 ratio. The capital plan consists, for example, of quantitative and qualitative targets set for capital adequacy, predicted changes in the capital base and capital requirements, a contingency plan, and capital adequacy monitoring and control procedures per threshold level.

Each OP Financial Group company is primarily responsible for their own capital adequacy. In any potential crises, capital allocation within OP Financial Group is primarily performed on a market consistency basis through voluntary arrangements. The central cooperative is in charge of capitalising OP Financial Group companies in cases where the company's own resources are insufficient to secure its operational capacity. Ultimately, capital allocation within the amalgamation of cooperative banks is based on the provisions of the Act on the Amalgamation of Deposit Banks.

3.2 Control and internal control performed by Risk Management

Control

In accordance with the Act on the Amalgamation of Deposit Banks, the central cooperative is under an obligation to control and supervise its member credit institutions, issue instructions to them on risk management, good corporate governance and internal control to secure liquidity and capital adequacy.

Once the criteria of the Act on the Amalgamation of Deposit Banks have been met, the supervisor has given the central cooperative permission to grant exceptions to the member credit institutions in cases specified in the Act. The most important exceptions relate to regulation governing capital adequacy and large customer risks under the Act on Credit Institutions and to regulation related to liquidity under the Capital Requirements Regulation.

Supervision and reporting

The central cooperative's Risk Management supervises OP Financial Group's and its companies' risk management and liquidity management, risk-taking, pricing of business lines/divisions and risk management processes and their quality. Risk Management analyses the risk exposure of the Group and its companies and its developments, the maintenance of risk-taking within the set tolerances, limits and control limits and compliance with the risk policy. In addition, Risk

Management secures business continuity by supervising the annual maintenance and testing of business continuity plans within the Group companies and the central cooperative consolidated.

Risk Management reports regularly its observations and assessments to the central cooperative management, companies' Board of Directors and segment management teams.

In addition, Risk Management supervises the amalgamation's member credit institutions to ensure that they follow the guidelines issued by Risk Management and reports any violation of the guidelines to the central cooperative Compliance.

The fact that reports on measurable risks are produced for Group companies on a centralised basis and separate from any business operations ensures the independence of operational risk reporting in OP Financial Group.

4 OP MB's risks

OP MB is OP Financial Group's mortgage bank responsible for funding based on covered bonds. 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.

The table below presents OP MB's most significant risks. The paragraphs below the table describe the nature of the risks and how they can be managed.

Credit risks	Credit risk refers to a 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 comprises funding liquidity risk, structural funding risk, funding concentration risk and asset encumbrance.
Market risks	Market risks consist of interest rate risk and market risks associated with investment operations.
Operational risks	Operational risk means a risk of an adverse consequence that may result from insufficient or incorrect practices, processes, systems or external factors. Operational risk also includes legal risk, security risks and information security risks.
Model risk	Risk of loss or of loss of reputation caused by such decisions made on the basis of the results of the models, in which the errors in the development, implementation or use are the reason.
Compliance risk	Risks caused by non-compliance with external regulation, internal policies, appropriate procedures or ethical principles governing customer relationships.
Reputational risk	Risk of deterioration of reputation or trust caused by negative publicity or materialisation of a risk.
Risks associated with future business	Risk associated with on what conditions and with what volumes new agreements, as they stand now or whether they are completely new ones, are concluded.
Risks associated with strategic choices and the implementation of the strategy	Risk that arises from inadequate internal reaction and inflexibility in the business and competitive environment or changes in the values of customers or in technology.

5 Credit risks

OP Financial Group's risk policy and Group-level guidelines and principles are used to control credit risk exposure. The risk policy defines, for example, the target risk exposure level, risk-taking principles and restrictions as well as the principles governing customer selection and collateral.

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.

OP MB engages in funding by issuing bonds and lends funds thus acquired to OP Financial Group credit institutions in the form of intermediary loans referred to in the Covered Bond Act. OP MB uses mortgage loans from the loan portfolio of the OP cooperative bank receiving the intermediary loan as collateral for these bonds.

Framework agreements between OP MB and the 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 are in charge of loan decisions, loan management and customer relationship management in accordance with the guidelines issued by OP Financial Group and OP MB. The day-to-day credit approval process and its effectiveness play a key role in the management of credit risks. A customer's sufficient repayment capacity is the prerequisite for all lending. Lending decisions must be careful, deliberate and be based on decision-making guidelines and updated internal rating. The repayment capacity of customers against higher interest rates is ensured. Customers can protect their loans against higher interest rates by choosing an interest rate cap or corridor. Customers are also offered loan protection insurance in case of illness or unemployment. In lending, OP MB avoids high financing percentages.

Regularly updated, sufficiently conservative and well documented collateral management ensures good credit risk management. Collateral evaluation is based on the principle of independent evaluation and a prudent approach to fair value. Collateral values are changed where necessary and their development is monitored on a regular basis. OP MB Group follows and monitors the values of home collateral using index data produced by Statistics Finland. In case a customer gets into difficulties or the collateral's value changes significantly, OP MB checks whether there is need for collateral re-evaluation.

OP MB monitors a borrower’s creditworthiness and repayment capacity and reacts to any repayment problems as early as possible. To ensure uniform practices, OP Financial Group uses operating models for potential default and default customers.

Internal rating controls customer selection, consequences of insufficient collateral and exposure pricing. Target values by rating grade have been set for the Group's and its banks’ new lending and loan portfolio to maintain good loan portfolio quality.

OP MB's credit risks are monitored and reported regularly. Internal rating, the loan portfolio quality, past due receivables and doubtful receivables number among monitoring tools.

The credit risk is assessed using credit risk models. OP Financial Group uses credit risk models for Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD).

The Group makes extensive use of credit risk models in measuring and managing credit risk, such as in

- lending and pricing;
- specifying financing decision-making powers;
- setting and monitoring the loan portfolio’s qualitative targets;
- credit risk reporting;
- capital adequacy measurement using the Internal Ratings Based Approach (IRBA);

- measuring economic capital and expected loss; and
- measuring expected credit loss.

Credit risk models are used in internal rating models, in which agreements are grouped into rating grades based on probability of default. For OP MB, the rating model for private customers is the most important.

6 Liquidity risk

Liquidity risk comprises funding liquidity risk, structural funding risk and concentration risk associated with funding. Funding liquidity risk refers to the risk that OP Financial Group will not be able to meet its current and future cash flows and collateral needs, both expected and unexpected, without affecting daily operations or the bank's overall financial position. Structural funding risk refers to uncertainty related to long-term lending, arising from the refinancing risk due to the structure of funding. Funding concentration risk refers to the risk that the bank's funding becomes more difficult due, for example, to a transaction related to an individual counterparty, currency, instrument or maturity band.

Liquidity risk management is based on OP Financial Group's principles of the risk tolerance system and the Risk Policy lines and set risk limits. The Asset and Liability Management (ALM) Committee of the central cooperative's Executive Board has approved the qualitative targets set for the liquidity buffer, a funding plan, and a business continuity and contingency funding plan in the case of threat scenarios. The contingency plan contains a control model for liquidity for various threshold levels, funding sources and a contingency funding plan for liquidity management at operational level.

OP Financial Group manages its liquidity position through the proactive planning of the funding structure; the Group's risk limits and the limits, control limits and target levels derived from them for Group entities; the monitoring of the liquidity status and a well-balanced liquidity buffer; planning and management of daily liquidity; the business continuity and contingency plan based on emergency preparedness; and the effective and ongoing control of the Group's liquidity status.

Funding liquidity management is governed by the regulations governing the minimum reserve and marginal lending facility systems by the European Central Bank.

OP Financial Group safeguards its liquidity with long-term funding planning, the liquidity buffer and the sources of finance referred to in the contingency plan. The liquidity buffer has the size required for the time to implement the contingency plan in a liquidity crisis. Liquidity may be made available for use by the Group by selling notes and bonds in the liquidity buffer or using them as collateral. The liquidity buffer consists mainly of deposits with the central bank and receivables eligible as collateral for central bank refinancing.

As OP Financial Group's central bank, OP Corporate Bank plc is tasked with securing the liquidity of the entire Group and each Group entity (incl. OP MB). OP Financial Group's daily liquidity management refers to managing liquidity of the companies engaged in banking. Any changes in OP MB's liquidity position will change OP Corporate Bank's liquidity position. The liquidity buffer of banking within the entire OP Financial Group is managed by the Group's Treasury.

OP Financial Group's funding planning is based on the proactive planning of the funding structure and on the risk limits set for the liquidity risk. Deposits from the general public and wholesale funding form the basis of OP Financial Group's funding. Wholesale funding is aimed at actively and proactively covering funding needs arising from the growth differentials between the receivables and the deposit portfolio in the balance sheet, funding maturity and other internal objectives. A solid funding structure requires that the loan portfolio and OP Financial Group's liquidity buffer be funded not only through deposit funding and short-term funding but also through long-term wholesale funding. Diversifying funding sources will reduce OP Financial Group's dependence on an individual source and decrease price risk associated with funding. Funding is diversified by time, maturity, instrument and customer segment. Any surplus deposits with member banks are mainly channelled to the central cooperative consolidated accounts or instruments it has issued in order not to increase OP Financial Group's wholesale funding unnecessarily. OP Corporate Bank manages on a centralised basis OP Financial Group's wholesale funding in the form of senior bonds and equity capital, while OP MB manages its wholesale funding based on covered bonds.

The central cooperative's Executive Board is responsible for OP Financial Group's liquidity risk management and controls funding liquidity management using various threshold levels. In cases of market disruption, liquidity management relies on the liquidity contingency plan. Each entity within OP Financial Group controls its liquidity management within the framework of control limits issued by the central cooperative and guidelines and of account, deposit and loan terms and conditions.

As the central institution of the amalgamation of cooperative banks, OP Cooperative has given its member credit institutions special permission, under the Act on the Amalgamation of Deposit Banks, whereby the liquidity requirements set for credit institutions mentioned in Part VI of the EU Capital Requirements Regulation are not applied to the member credit institutions. Liquidity based on the regulation is subject to supervision and reporting at the level of the cooperative banks' amalgamation.

7 Measuring, monitoring and reporting liquidity risks

OP Financial Group has set its liquidity risk tolerances for the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR).

In addition, a Group-level limit has been set for net cash flows by maturity which guide the structural funding risk. The risk indicator for the structural funding risk indicates the maximum portion of the net cash flows in the balance sheet that may have a maturity within different time periods. Refinancing risk is associated with covered bonds issued by OP MB. OP MB monitors long-term funding maturity using a maturity distribution, for which it has set limits. OP Financial Group's and OP MB's structural risk is subject to monthly monitoring.

Furthermore, OP Financial Group also monitors Group-level liquidity risk in scenarios based on liquidity stress testing. The funding liquidity risk indicators show for how long the liquidity buffer will cover the known and predictable net cash flows payable daily outside the Group and any unexpected liquidity stress scenario. Liquidity risk is subject to monitoring on a daily basis.

8 Market risks

Market risks are the result of price, volatility and market liquidity changes in the financial market.

The most significant market risk relates to the effect of a change in interest rates on net interest income, i.e. interest income risk associated with the banking book. Market risk may also come from investment. Through its continuous funding and liquidity planning, OP MB aims to maintain a situation in which it does not have significant financing surplus to invest. Investments in notes and bonds issued by governments and other banks may also be used as supplementary collateral as specified in the Act on Mortgage Credit Banks.

When making investment decisions, OP MB assesses the investment's effect on the interest rate risk and funding risk.

The task of market risk management is to identify and assess market risks associated with business operations, mitigate them to an acceptable level, and report them regularly and efficiently. This ensures that changes in market prices or other external market factors will not excessively deteriorate the long-term profitability or capital adequacy within OP MB.

Guidelines that control and mitigate market risks include the principles of OP Financial Group’s risk tolerance system and the Group’s risk policy that supplement them, and the central cooperative's risk management guidelines and limits.

8.1 Interest rate risk

OP MB's interest rate risk relates to the differences in the bases of interest rates concerning lending and funding. OP MB primarily manages interest rate risk by using derivatives, by regulating the range of products and terms and conditions related to lending and by regulating interest rate reset dates and the bases of interest rates. OP MB enters into derivative contracts only for hedging purposes, with OP Corporate Bank plc being always the counterparty.

8.2 Monitoring and reporting

OP MB reports on market risks on a monthly basis. The central cooperative's Risk Management provides market risk reports for OP MB and regularly reports the development of the entire OP Financial Group's balance sheet structure and market risks to the central cooperative's management. OP MB monitors risks associated with derivatives as part of the exposure using the same benchmarks as for balance sheet exposure.

9 Operational risks

Operational risk is a consequential risk involved in OP MB's all business operations. Operational risk is a form of qualitative risk that is prevented through careful and high-quality operations. All OP Financial Group companies and business lines/divisions are primarily responsible for their own operational risk management. OP MB is responsible for organising its operations in a way that minimises the negative consequences of operational risk. Operational risk management is controlled by Group-level instructions that OP MB, too, applies in its operations.

OP MB measures and assesses operational risk in several ways and at several levels to ensure the extensive identification and control of operational risk. For the identified risks, OP MB specifies well-functioning and sufficient management tools, for example through relevant controls, supervision and, if needed, by carrying out sufficient development measures to reduce the risk. Operational risk management does not always aim to eliminate the risk altogether, but it does aim to bring risks down to an acceptable level. Operational risk management ensures that operations have been organised appropriately and that risks do not result in unforeseeable financial losses or other negative consequences, such as loss of reputation. The key in operational risk management is diligence and assigning clear responsibilities.

OP Financial Group has a system-supported operating model for managing operational risks. In this model, OP MB records operational risks and regularly makes risk assessments which includes identifying and assessing business risks and defining and monitoring measures designed to reduce them. Before launching or starting to use any new products, services or operating models, OP MB assesses and accepts the risks associated with them. Business continuity planning is an integral part of managing operational risks. OP MB prepares for risks threatening its business continuity by means of thorough business continuity planning. It also forms the basis for preparation against emergency conditions referred to in the Emergency Powers Act. Business continuity plans are tested according to defined testing plans.

Due to the qualitative nature of operational risks, it is not possible to ever fully hedge against them and their adverse effects cannot be prevented in all cases. In addition to the standard procedures and tools to manage individual risks, the central cooperative may consider using insurance to transfer any effect of a materialised operational risk outside the Group.

Operational risks are regularly reported to OP MB’s Board of Directors.

10 Model risk

Here, 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.

The sources of model risk can be divided into the following three categories: shortcomings in the development stages of the models, shortcomings in the implementation of the models and shortcomings in the use of the models. All these share sources of risk, such as shortcomings in data, weak knowledge of interdependencies between mathematical methods and models and shortcomings in the knowledge of business, risk measurement and regulation. Furthermore, inadequate or unclear responsibilities of the management of the models as well as incomplete documentation in all stages of the model lifecycle lead to a higher risk of misunderstanding the models’ function.

The models are used in the measurement of risks, measurement of regulatory capital adequacy, internal determination of capital need, assessment of liquidity sufficiency, measurement of balance sheet and income statement items and in price determination and decision-making in business. The models are grouped based on the purpose of use to implement model risk management.

All models applied in OP Financial Group are Group-specific. OP Financial Group and its companies share the related key parameters and assumptions. The independent validation unit within Risk Management maintains a register of all approved and adopted models.

Risks associated with models are managed and restricted using practices included in the model risk management framework. OP Financial Group’s model risk management framework specifies responsibilities related to the ownership and decision-making of the models as well as policies applying to the development, adoption, validation and other quality assurance of the models. The management model ensures effective and appropriate models, well-defined roles and responsibilities as well as the implementation of decisions in accordance with good governance, and supervision.

The Group manages model risk through well-defined roles and responsibilities as well as by ensuring adequate knowledge of quantitative methods and resource allocation. The development of models is segregated from their validation while the approval of models is segregated from the decisions of their implementation. Each model has its owner. The model owner is responsible for the development of the model, the arrangement of its monitoring as well as for ensuring the data required by validations and its quality and the execution of development measures based on the validations.

Standardised and regular monitoring is used in the assessment of use of the models. The performance of the models is subject to a quantitative and qualitative review, or validation, carried out on a regular basis.

11 Compliance risks

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.

Materialisation of compliance risk may result not only in financial loss but also other adverse consequences, such as sanctions. Compliance risk may materialise in terms of loss or deterioration of reputation or trust.

Responsibility for regulatory compliance and its control within OP MB rests with its Managing Director. Everyone employed by OP MB is responsible for their own part for regulatory compliance.

Guidelines, advice and support concerning compliance within OP Financial Group are the responsibility of the Compliance organisation that is independent of the central cooperative. OP MB has concentrated its compliance function to this organisation.

Managing compliance risks forms part of internal control and good corporate governance practices and, as such, an integral part of business management duties and the corporate culture. Compliance risk management tools include monitoring legislative developments, providing the organisation with guidelines, training and consultation related to observing practices based on regulation as well as supervising regulatory compliance with procedures applied within the organisation.

Compliance risks are identified, assessed and reported regularly according to the operational risk management model as part of the assessment of operational risks. Any observations made by Compliance are reported on a regular basis.

12 Reputational risk

All OP Financial Group’s operations involve reputational risks. These and any possible expected crises are assessed and identified systematically. Reputational risks may also arise for reasons not attributable to OP, such as negative associations or operations related to the sector in general.

OP Financial Group constantly monitors the publicity of the Group and its companies, and developments in the amount and tone of publicity and in media exposure.

The management is regularly informed of reputational risks and any threat to imminent significant reputational risk is reported immediately.

Reputational risk is managed proactively and in the long term by complying with regulation, good practices of the financial sector and OP Financial Group's Code of Business Ethics and by emphasising transparency of operations and communications. In addition, the business line/division concerned plays an important role in identifying and preventing reputational risks. OP Financial Group adheres to international financial, social and environmental responsibility principles and international commitments.

13 Risks associated with future business and strategy

General changes in the operating environment (megatrends, root causes), such as climate change, demographic development and civil peace, affect the needs and preferences of customers. Changes in the business environment together with scientific and technological innovation affect financial-sector demand and supply in the longer term.

For business, it is essential on what conditions and with what volumes new agreements, as they stand now or whether they are completely new ones, are concluded. The volumes and margins of new agreements made in customer business as well as the margins of new market transactions have a significant impact on the financial result. These constitute risks associated with future business.

OP Financial Group manages risks associated with future business by means of strategic choices and their effective implementation.

OP Financial Group implements shared Group-level strategy, from where the central cooperative's business lines/divisions and OP cooperative banks derive their own strategy implementation plans. The strategy specifies OP Financial Group's core values, mission vision and strategic priorities as well as measures to achieve the selected strategic goals. Strategy statements are discussed extensively within OP Financial Group before being confirmed and implemented.

OP Financial Group is adopting a strategy process in which it assesses, reshapes and implements its strategy on an ongoing basis. It constantly updates strategic assumptions, priorities and measures in the face of the changing business environment.

Strategic Planning together with Risk Management analyses the business environment while producing diverse scenarios to support strategic choices. To assess strategic flexibility, they also identify factors that could put OP Financial Group and its companies in an unfavourable position compared to competitors in the implementation of the strategy.

Changes in the business environment and the strategic risks are subject to regular reporting and the central cooperative's Group Executive Management discusses and monitors related actions. The representatives of management body members, Group Executive Management and business lines are involved in assessing the significance and probability of change drivers. Based on the assessment, the Supervisory Board confirms significant strategic risks and their management tools.

NOTES TO THE INCOME STATEMENT

NOTE 3. Net interest income, TEUR	2019	2018
Interest income		
From receivables from credit institutions		
Interest	-12,146	-7,877
Negative interest	-207	-288
From receivables from customers	57,146	70,910
From derivative contracts		
From hedge accounting	-10,796	-10,177
Other interest income	0	19
Total	**33,996**	**52,587**
Interest expenses		
From liabilities to credit institutions	-7,241	-3,151
From derivative contracts		
From hedge accounting	-246,404	-147,571
From debt securities issued to the public	226,119	131,416
Other interest expenses	1	0
Total	**-27,525**	**-19,306**
Net interest income	**61,521**	**71,893**

Net income from hedge accounting

Net income from hedging instruments is -145,605 (-39,286) and net income from hedged items is 145,605 (39,286).

Interest income calculated using the effective interest method totalled TEUR 44,792 (62,745).

NOTE 4. Net commissions and fees, TEUR	2019	2018
Commission income		
From lending	4,891	5,972
Total	**4,891**	**5,972**
Commission expenses		
From lending to OP cooperative banks	4,703	5,783
Loan management fee to OP cooperative banks	40,018	49,297
Issue of bonds	220	72
Other	6	13
Total	**44,946**	**55,165**
Net commissions and fees	**-40,055**	**-49,193**

NOTE 5. Personnel costs, TEUR	2019	2018
Wages and salaries	342	264
Pension costs		
Defined contribution plans	48	34
Defined benefit plans	-1	-110
Total	47	-76
Other indirect personnel costs	9	3
Total personnel costs	**399**	**191**

NOTE 6. Depreciation/amortisation and impairment loss, TEUR	2019	2018
Depreciation/amortisation		
Depreciation on right-of-use assets	3	
On intangible assets	120	783
Total	**123**	**783**

NOTE 7. Other operating expenses, TEUR	2019	2018
Rental expenses	6	8
Government charges and audit fees	539	504
Membership fees	111	121
Office expenses	216	211
ICT costs	3,972	3,385
Telecommunications	29	32
Marketing	1	1
Other administrative expenses	172	132
Insurance and security costs	131	94
Experts' costs	655	556
Other	33	54
Total	**5,865**	**5,099**

Fees paid to auditors by assignment

Auditing	20	12
Other services	63	69
Total	**83**	**81**

Non-audit services provided by KPMG Oy Ab totalled TEUR 63

NOTE 8. Impairment losses on receivables, TEUR	2019	2018
Receivables written down as loan and guarantee losses	42	127
Recoveries of receivables written down	-7	-14
Expected credit losses (ECL) on receivables form customers and off-balance-sheet items	182	269
Total	**217**	**382**

NOTE 9. Income tax, TEUR	2019	2018
Current tax	2,955	3,227
Deferred tax	18	22
Income tax expense on the income statement	**2,973**	**3,249**
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	14,865	16,248
Share of the profit according to the tax rate	2,973	3,250
Income tax expense on the income statement	**2,973**	**3,249**

NOTES TO ASSETS

NOTE 10. Receivables from credit institutions, TEUR

	31 Dec 2019	31 Dec 2018
Receivables from credit institutions		
Deposits		
Repayable on demand	438,702	133,460
Other		
Other than repayable on demand from OP Financial Group entities	8,705,869	6,776,169
Total receivables from credit institutions	**9,144,571**	**6,909,630**

NOTE 11. Derivative contracts, TEUR

	31 Dec 2019	31 Dec 2018
Derivative contracts		
Hedging derivative contracts		
Fair value hedging		
Interest rate derivatives	291,146	139,668
Total derivative contracts	**291,146**	**139,668**

More detailed information on derivative contracts can be found in Note 27.

NOTE 12. Receivables from customers, TEUR

	31 Dec 2019	31 Dec 2018
Loans to the public and public sector entities	5,629,954	6,995,929
Loss allowance	-1,238	-1,056
Total receivables from customers	**5,628,716**	**6,994,873**

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 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	-96
Decreases due to derecognition	-2	-53	-226	-282
Changes in risk parameters	-2	5	303	305
Allowances due to recognised write-offs	0	0	-15	-15
Total net result effect	**-6**	**-48**	**236**	**182**
Loss allowance on 31 Dec. 2019	**16**	**176**	**1,046**	**1,238**

	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 2018	**17**	**97**	**673**	**786**
Transfers from Stage 1 to Stage 2	-4	57	0	53
Transfers from Stage 1 to Stage 3	0	0	124	124
Transfers from Stage 2 to Stage 1	2	-11	0	-9
Transfers from Stage 2 to Stage 3	0	-9	167	158
Transfers from Stage 3 to Stage 2	0	4	-64	-60
Transfers from Stage 3 to Stage 1	0	0	-23	-23
Decreases due to derecognition	-1	-12	-86	-99
Changes in risk parameters	9	98	70	177
Allowances due to recognised write-offs	0	0	-52	-52
Total net result effect	**6**	**127**	**137**	**269**
Loss allowance on 31 Dec. 2018	**22**	**224**	**810**	**1,056**
			0	120225.71

NOTE 13. Investment assets, TEUR

	31 Dec 2019	31 Dec 2018
Financial assets recognised at fair value through other comprehensive income		
Shares and participations, unquoted	40	40
Total investment assets	**40**	**40**

NOTE 14. Intangible assets, TEUR

	31 Dec 2019	31 Dec 2018
Software, licences and user rights	0	120
Total intangible assets	**0**	**120**

Changes in intangible assets

31 Dec 2019

	Software	Total
Acquisition cost on 1 January	3,343	3,343
Increases	0	0
Decreases	0	0
Acquisition cost on 31 December	3,343	3,343
Accumulated amortisation and impairment losses on 1 January	3,223	3,223
Amortisation for the period	120	120
Decreases	0	0
Accumulated amortisation and impairment losses on 31 December	3,343	3,343
Carrying amount on 31 December	0	0
of which construction in progress	-	-

31 Dec 2018

	Software	Total
Acquisition cost on 1 January	3,343	3,343
Increases	0	0
Decreases	0	0
Acquisition cost on 31 December	3,343	3,343
Accumulated amortisation and impairment losses on 1 January	2,440	2,440
Amortisation for the period	783	783
Decreases	0	0
Accumulated amortisation and impairment losses on 31 December	3,223	3,223
Carrying amount on 31 December	120	120
of which construction in progress	-	-

Amortisation, impairment losses and their reversals have been recognised under Depreciation/amortisation and impairment losses in the income statement.
The company had no impairment losses.

NOTE 15. Other assets, TEUR	31 Dec 2019	31 Dec 2018
Pension plan assets	87	83
Deferred income		
Interest	31,303	31,396
Other	215	1,047
Total	**31,605**	**32,525**

Note 21 Other liabilities describes the calculation of plan assets in greater detail.

NOTE 16. Tax assets, TEUR	31 Dec 2019	31 Dec 2018
Income tax asset	908	0
Total tax assets	**908**	**0**
Income tax liabilities	0	-27
Deferred tax liabilities	64	-46
Total tax liabilities	**64**	**-74**
Specification of tax assets and liabilities		
Deferred tax assets		
Due to other items	13	30
Set-off against deferred tax liabilities	-13	-30
Total	**0**	**0**
Deferred tax liabilities		
From defined benefit pension plans	77	77
Set-off against deferred tax assets	-13	-30
Total	**64**	**46**
Changes in deferred taxes		
Deferred tax assets/liabilities on 1 January	-46	10
Effect of IFRS 9 transition	0	-22
Recognised in the income statement		
Defined benefit pension obligations	-18	-22
Recognised in statement of comprehensive income		
Items arising from remeasurement of defined benefit plans	-1	-12
Total deferred tax assets/liabilities on 31 December	**-64**	**-46**
Income tax assets	**908**	**-27**
Total tax assets and liabilities	**843**	**-74**

NOTES TO LIABILITIES AND EQUITY CAPITAL

NOTE 17. Liabilities to credit institutions, TEUR	31 Dec 2019	31 Dec 2018
Other than those repayable on demand		
Other liabilities	2,516,000	2,896,000
Liabilities to credit institutions	**2,516,000**	**2,896,000**

NOTE 18. Derivative contracts, TEUR	31 Dec 2019	31 Dec 2018
Derivative contracts		
Hedging derivative contracts		
Fair value hedging		
Interest rate derivatives	14,470	8,597
Total derivative contracts	**14,470**	**8,597**

More detailed information on derivative contracts can be found in Note 27.

NOTE 19. Debt securities issued to the public, TEUR	Average rate, %	31 Dec 2019	Average rate, %	31 Dec 2018
Bonds	0.54	12,135,974	0.63	10,742,840
Total debt securities issued to the public		**12,135,974**		**10,742,840**

Long-term bonds issued by OP Mortgage Bank

Bond	Book value	Interest rate base	Nominal interest %	Maturity
OP Mortage Bank rekisteröity Covered Bond (NSV)	114,845	Fixed	2.157	12.11.2024
OP Mortgage Bank Covered Bond 2014	998,922	Fixed	1.500	17.3.2021
OP Mortgage Bank Covered Bond 2014	997,798	Fixed	1.000	28.11.2024
OP Mortgage Bank Covered Bond 2015	19,997	Fixed	0.250	27.5.2020
OP Mortgage Bank Covered Bond 2015	1,249,192	Fixed	0.250	23.11.2020
OP Mortgage Bank Covered Bond 2015	998,077	Fixed	0.625	4.9.2022
OP Mortgage Bank Covered Bond 2016	1,246,854	Fixed	0.250	11.5.2023
OP Mortgage Bank Covered Bond 2017	995,334	Fixed	0.250	13.3.2024
OP Mortgage Bank Covered Bond 2017	995,774	Fixed	0.750	7.6.2027
OP Mortgage Bank Covered Bond 2017	997,639	Fixed	0.050	22.2.2023
OP Mortgage Bank Covered Bond 2018	996,395	Fixed	0.625	1.9.2025
OP Morgage Bank Covered Bond 2019	1,235,221	Fixed	0.625	15.2.2029
OP Morgage Bank Covered Bond 2019	1,000,030	Fixed	0.010	19.11.2026
	11,846,078			
Valuation	289,896			
Total	**12,135,974**			

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

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**

Balance sheet value 1 Jan. 2018	**10,796,102**
Changes in cash flows from financing activities	
Increases in bonds	995,413
Increases total	**995,413**
Decreases in bonds	1,100,000
Decreases total	**1,100,000**
Total changes in cash flows from financing activities	**-104,588**
Valuations and foreign exchange changes	-51,326
Balance sheet value 31 Dec. 2018	**10,742,840**

NOTE 20. Other liabilities, TEUR	31 Dec 2019	31 Dec 2018
Other liabilities		
Payment transfer liabilities	7	276
Deferred expenses		
Accrued expenses		
Interest liabilities	49,884	46,749
Other accrued expenses	3,540	4,217
Payables based on purchase invoices	397	398
Other	33	12
Total	**53,861**	**51,652**

Defined benefit pension plans

OP Bank Group Pension Fund has managed statutory pension insurance for the employees of OP Mortgage Bank until 2018. On 31 December 2018, OP Mortgage Bank's pension portfolio was transferred to Ilmarinen Mutual Pension Insurance Company. Contributions to earnings-related pension insurance TyEL are treated as defined contribution plans. Schemes related to supplementary pensions in OP Bank Group Pension Foundation have been treated as defined benefit plans. The amount of the company's pension liabilities is not substantial.

The most significant actuarial risks of OP Bank Group Pension Foundation are associated with interest rate and market risks, future increases in pension benefits, 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.

	Defined benefit obligations		Fair value of plan assets		Net liabilities (assets)	
Balance sheet value of defined benefit plans, TEUR	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Opening balance 1 Jan.	186	689	-268	-601	-83	88
Defined benefit pension costs recognised in income statement						
Current service cost	0	32			32	32
Interest expense (income)	3	11	-5	-10	-1	2
Post service cost and settlements						
Administrative expenses			1	1	1	1
Total	**3**	**-435**	**-4**	**319**	**-1**	**-116**
Losses (gains) recognised in other comprehensive income arising from remeasurement						
Actuarial losses (gains) arising from changes in economic expectations	3	-43			3	-43
Actuarial losses (gains) arising from changes in demographic expectations						
Return on TyEL interest rate difference and growth in old-age pension liabilities (net)	0	8	0	-8		
Experience adjustments	0	-11			0	-11
Return on plan assets, excluding amount (–) of net defined benefit liability (asset)			-6	-7	-6	-7
Total	**3**	**-46**	**-6**	**-14**	**-3**	**-60**
Other						
Employer contributions			0	6	0	6
Benefits paid	-35	-22	35	22		
Total	**-35**	**-22**	**34**	**28**	**0**	**6**
Closing balance 31 Dec.	**157**	**186**	**-243**	**-268**	**-87**	**-83**

Liabilities and assets recognised in the balance sheet, TEUR	**31 Dec 2019**	**31 Dec 2018**
Net liabilities/assets (Pension Foundation)	-87	-83
Total net liabilities		**0**
Total net assets	**-87**	**-83**

Pension Foundation assets, grouped by valuation technique, 31 Dec. 2019, TEUR	**Total**
Shares and participations	47
Notes and bonds	89
Real property	4
Mutual funds	82
Other assets	21
Total	**243**

Pension Fund and Pension Foundation assets, grouped by valuation technique, 31 Dec. 2018, TEUR	**Total**
Shares and participations	47
Notes and bonds	99
Real property	9
Mutual funds	93
Other assets	21
Total	**268**

Contributions payable under the defined benefit pension plan in 2020 are estimated at TEUR 0 thousand.

The duration of the defined benefit pension obligation in the Pension Foundation on 31 December 2019 was 2.3 years (2.8).

Key actuarial assumptions used, 31 December 2018	**Pension Foundation**
Discount rate, %	0.7
Future pay increase assumption, %	2.0
Future pension increases, %	1.3

Key actuarial assumptions used, 31 December 2017	**Pension Foundation**
Discount rate, %	1.8
Future pay increase assumption, %	2.4
Future pension increases, %	1.8

NOTE 21. Shareholders' equity, TEUR	31 Dec 2019	31 Dec 2018
Share capital	60,000	60,000
Unrestricted reserves	245,000	245,000
Retained earnings		
Profits for previous years	59,724	59,721
Profit for the financial year	11,892	12,999
Total equity	**376,616**	**377,720**
Development costs (non-distributable item)	**0**	**-120**
Distributable reserves	**316,616**	**317,600**
Distributable profits	**71,616**	**72,600**

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 22. 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 and central banks	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 filancial liabilities			3,631	3,631
Total on 31 Dec 2019	**14,470**	**14,702,269**	**14,720,370**	**15,017,708**

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 and central banks	6,909,630			6,909,630	6,909,630
Derivative contracts		139,668		139,668	139,668
Receivables from customers	6,994,873			6,994,873	6,994,873
Shares and participations			40	40	40
Other receivables	32,291			32,291	32,291
Finacial Assets	**13,936,794**	**139,668**	**40**	**14,076,502**	**14,076,502**
Other than financial assets				354	354
Total on 31 Dec 2018	**13,936,794**	**139,668**	**40**	**14,076,856**	**14,076,856**

Liabilities	Recognised at fair value through profit or loss	Amortised cost	Carrying amount total	Fair value total
Liabilities to credit institutions		2,896,000	2,896,000	2,896,000
Derivative contracts	8,597		8,597	8,597
Debt securities issued to the public		10,742,840	10,742,840	10,883,185
Other liabilities		47,427	47,427	47,427
Finacial liabilities	**8,597**	**13,686,267**	**13,694,864**	**13,835,209**
Other than filancial liabilities			4,271	4,271
Total on 31 Dec 2018	**8,597**	**13,686,267**	**13,699,135**	**13,839,480**

Debt securities issued to the public are carried at amortised cost. On 31 December, the fair value of these debt instruments was approximately EUR 297,338 thousand (140,345) higher than their carrying amount, based on information available in markets and employing commonly used valuation techniques.

NOTE 23. Financial instruments classification, grouped by valuation technique, TEUR

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 assets	31 Dec 2018 Balance sheet value	Fair value measurement at year end Level 1*	Level 2**
Derivative contracts	139,668		139,668
Total	**139,668**		**139,668**

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**

Recurring fair value measurements of liabilities	31 Dec 2018 Balance sheet value	Fair value measurement at year end Level 1*	Level 2**
Derivative contracts	8,597		8,597
Total	**8,597**		**8,597**

Financial liabilities not measured at fair value	31 Dec 2019 Balance sheet value	Fair value measurement at year end Level 1*	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**

Financial liabilities not measured at fair value	31 Dec 2018 Balance sheet value	Fair value measurement at year end Level 1*	Level 2**	Level 3***
Debt securities issued to the public	10,742,840	10,738,908	144,280	0
Total	**10,742,840**	**10,738,908**	**144,280**	**0**

Valueation techniques whose input parameters involve uncertainty (Level 3)

Opening balance 1 January 2019	0
Transfers to level 3	140,290
Transfers from level 3	
Other changes	
Closing balance 31 December 2019	140,290

*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 not 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 24. Off-balance-sheet commitments, TEUR	31 Dec 2019	31 Dec 2018
Binding loan commitments	2	2
Total off-balance-sheet commitments	**2**	**2**

NOTE 25. Leases, TEUR	31 Dec 2019	31 Dec 2018

OP Mortgage Bank plc as the lessor

OP Mortgage Bank has leased office premises.

Leases of facilities	1	4

OP Financial Group's internal service charges have been transferred to other expenses.

NOTE 26. Derivative contracts, TEUR

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**

Derivative contracts held for hedging – fair value hedging on 31 Dec 2018

	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	2,450,856	8,092,527	6,849,439	17,392,822	139,668	8,597	319,910
Total interest rate derivatives	**2,450,856**	**8,092,527**	**6,849,439**	**17,392,822**	**139,668**	**8,597**	**319,910**

OTHER NOTES

NOTE 27. Personnel and related party

The average number of employees was six (6) in 2019.

OP Mortgage Bank's related parties include OP Cooperative and its subsidiaries, the OP Financial Group pension insurance companies OP Bank Group Pension Fund and OP Bank Group Pension Foundation, and the company's administrative personnel. OP Mortgage Bank's administrative personnel comprise the company's Managing Director, Board members and their close family members. Related parties also include companies over which a person among administrative personnel or his/her close family member exercises significant influence.

Business transactions with related parties, TEUR

	2019		2018	
	OP Cooperative	Other	OP Cooperative	Other
Loans		2,275,582		1,416,440
Other receivables		323,613		170,876
Deposits		2,560,217		2,994,894
Other liabilities	11	44,217	79	98,894
Interest income		10,241		12,583
Interest expenses		157,346		146,158
Net commission income and expenses		-5,745		-8,948
Operating costs	366	2,632	357	2,715

Shares held by related parties

The parent company holds all of the 76,592 shares.

NOTE 28. Variable remuneration

OP Personnel Fund

OP Mortgage Bank belongs to OP Financial Group's OP Personnel Fund.

Payment of profit-based bonuses to OP Financial Group's Personnel Fund in 2019 was based on the achievement of the following targets: OP Financial Group's EBT with a weight of 60%, use of digital services with a weight of 20%, service encounter NPS with a weight of 15% and brand NPS with a weight of 5%. Profit-based bonuses for 2019 transferred to the Fund account for some 2.3% (1.8) of the combined salaries and wages earned by the Fund's members.

Bonuses recognised in 2019 totalled EUR 7 thousand (4).

Remuneration schemes

OP Financial Group's short-term and long-term remuneration schemes are in compliance with regulation in the financial sector and are based on OP Financial Group's strategic targets and targets based on the annual plan. OP Financial Group's remuneration principles take account of the Group's risk exposure and risk management methods. The performance metrics targets have been set at a level that does not encourage excessive risk-taking. The maximum amount of bonuses is limited in all schemes. Bonus payment involves conditions related to OP Financial Group's capital adequacy and liquidity requirement as well as a company's profitability and an employee's employment or executive contract.

Short-term remuneration schemes

The short-term remuneration performance period is 6 or 12 months. Short-term remuneration schemes are based on targets set for each company, function, team and person derived from annual planning, covering all personnel of OP Financial Group. In the central cooperative, a factor based on OP Financial Group's EBT is applied to the bonus earned by an employee based on achievement of the targets. The bonuses will be paid in cash unless deferral procedures under regulation are applied to the person.

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. A liability recognised under the scheme amounted to EUR 24 thousand (24) on 31 December 2019.

NOTE 29. Events after the balance sheet date

In January 2020, OP MB issued a one-billion euro bond with a maturity of 8.25 years in international capital markets.

NOTES CONCERNING RISK MANAGEMENT

NOTE 30. Capital base and capital adequacy

Information about own funds and capital adequacy has been presented in the Report of the Board of Directors.

NOTE 31. Financial assets and impairment losses recognised on them for the financial year

OP Mortgage Bank's financial assets consist of the items presented in Notes 10–13. Of the financial assets, TEUR 182 (269) was recognised in the income statement as expected credit losses. Loss allowance is itemised in Note 12.

NOTE 32. Liabilities, TEUR

	31 Dec 2019 Finland			31 Dec 2018 Finland		
	Carrying amount	Loss allowance	Interest carried forward	Carrying amount	Loss allowance	Interest carried forward
Assets						
Receivables from credit institutions	9,144,571		-2,751	6,909,630		-2,312
Receivables from customers	5,628,716	1,238	2,080	6,994,873	1,056	2,741
Derivative contracts	291,146			139,668		
Total	**15,064,433**	**1,238**	**-671**	**14,044,170**	**1,056**	**429**
Off-balance-sheet commitments						
Unused standby credit facilities and limits	2			2		
Total	**2**			**2**		
Total liabilities	**15,064,435**	**1,238**	**-671**	**14,044,172**	**1,056**	**429**

NOTE 33. Liabilities by sector, TEUR

	31 Dec 2019			31 Dec 2018		
	Net balance sheet exposure	Off-balance -sheet		Net balance sheet exposure	Off-balance -sheet	
	Domestic	Domestic	Total	Domestic	Domestic	Total
Companies	6,931		6,931	8,984		8,984
Financial and insurance institutions	9,432,966		9,432,966	7,046,985		7,046,985
Households	5,623,866	2	5,623,867	6,985,145	2	6,985,147
Non-profit organisations						
Total	**15,063,762**	**2**	**15,063,764**	**14,041,114**	**2**	**14,041,116**

NOTE 34. Receivables from credit institutions and customers, and doubtful receivables, TEUR

31 Dec 2019	Not impaired (gross)	Loss allowance	Accounting balance (total)
Receivables from credit institutions and customers			
Receivables from credit institutions	9,144,571		9,144,571
Receivables from customers	5,629,954	1,238	5,628,716
Total	**14,774,525**	**1,238**	**14,773,287**
Receivables from credit institutions and customers by sector			
Non-banking corporate sector	6,930	0	6,930
Financial institutions and insurance companies	9,144,571		9,144,571
Households	5,623,023	1,237	5,621,786
Total	**14,774,525**	**1,238**	**14,773,287**

31 Dec 2018	Not impaired (gross)	Loss allowance	Accounting balance (total)
Receivables from credit institutions and customers			
Receivables from credit institutions	6,909,630		6,909,630
Receivables from customers	6,995,929	1,056	6,994,873
Total	**13,905,558**	**1,056**	**13,904,502**
Receivables from credit institutions and customers by sector			
Non-banking corporate sector	8,984	0	8,983
Financial institutions and insurance companies	6,909,630		6,909,630
Households	6,986,945	1,055	6,985,890
Total	**13,905,558**	**1,056**	**13,904,502**

31 Dec 2019	Not impaired (gross)	Capital arrears	Interest in arrears	Loss allowance
Doubtful receivables				
Receivables from credit institutions				
Receivables from customers	234,089	5,238	74	1,125
Total	**234,089**	**5,238**	**74**	**1,125**
Doubtful receivables by sector				
Non-banking corporate sector				
Households	234,089	5,238	74	1,125
Total	**234,089**	**5,238**	**74**	**1,125**

31 Dec 2018	Not impaired (gross)	Capital arrears	Interest in arrears	Loss allowance
Doubtful receivables				
Receivables from credit institutions				
Receivables from customers	297,169	4,076	72	910
Total	**297,169**	**4,076**	**72**	**910**
Doubtful receivables by sector				
Non-banking corporate sector				
Households	297,169	4,076	72	910
Total	**297,169**	**4,076**	**72**	**910**

31 Dec 2019	Performing	Non-performing	Total portfolio	Loss allowance	Accounting balance (total)
Doubtful receivables					
Over 90 days past due		11,843	11,843	874	10,969
Classified as default		2,864	2,864	58	2,806
Forborne loans					
Renogitiated	214,460	4,922	219,382	192	219,189
Total	**214,460**	**19,629**	**234,089**	**1,125**	**232,964**

31 Dec 2018	Performing	Non-performing	Total portfolio	Total impairment loss	Accounting balance (total)
Doubtful receivables					
Over 90 days past due		11,277	11,277	637	10,640
Classified as default		2,668	2,668	29	2,639
Forborne loans					
Renogitiated	279,017	4,207	283,224	245	282,979
Total	**279,017**	**18,152**	**297,169**	**910**	**296,258**

The loan portfolio is diversified. OP Mortgage Bank has not any groups of connected clients whose exposures exceed 10% of the capital base.

The bank reports as the amount of a receivable that is more than 90 days past due whose interest or principal amount has been overdue and outstanding for over three months. Agreements with the lowest two borrower grades (F for private customers and 11–12 for other) are reported as potential default. Forborne loans include receivables that have been modified due to the customer's financial difficulties. The loan terms and conditions of other renegotiated receivables have been eased due to the customer's financial difficulties by means of such as granting a home repayment holiday of 6–12 months.

NOTE 35. Exposure by credit rating, TEUR

Personal exposure by credit rating	31 Dec 2019	31 Dec 2018
Personal exposure on the balance sheet, category A	4,469,737	5,502,472
Personal exposure on the balance sheet, category B	723,332	1,071,327
Personal exposure on the balance sheet, category C	222,701	237,980
Personal exposure on the balance sheet, category D	136,451	109,519
Personal exposure on the balance sheet, category E	50,782	52,607
Personal exposure on the balance sheet, category F	11,880	12,449
Personal exposure on the balance sheet, not classified	8,983	-1,210
Off-balance-sheet personal exposure A	2	2
Total personal exposure	**5,623,867**	**6,985,147**

Corporate exposure by credit rating	31 Dec 2019	31 Dec 2018
Corporate exposure on the balance sheet, category 4.5	366	610
Corporate exposure on the balance sheet, category 5.0	3,242	4,878
Corporate exposure on the balance sheet, category 5.5	1,802	2,394
Corporate exposure on the balance sheet, category 6.0	240	545
Corporate exposure on the balance sheet, category 6.5	1,197	457
Corporate exposure on the balance sheet, category 7.0	21	47
Corporate exposure on the balance sheet, category 7.5	55	48
Corporate exposure on the balance sheet, category 10.0	7	7
Total corporate exposure	**6,931**	**8,984**

NOTE 36. Structure of funding, TEUR

	31 Dec 2019	Share, %	31 Dec 2018	Share, %
Liabilities to credit institutions	2,516,000	16.7	2,896,000	20.6
Debt securities issued to the public	12,135,974	80.5	10,742,840	76.4
Other liabilities	53,861	0.4	51,625	0.4
Shareholders' equity	376,616	2.5	377,720	2.7
Total	**15,082,451**	**100.0**	**14,086,419**	**100.0**

NOTE 37. Maturity distribution of financial assets and liabilities by residual term to maturity, TEUR

31 Dec 2019	Less than 3 months	3–12 months	1–5 years	5–10 years	More than 10 years	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	0			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	More than 1 year	Total
Off-balance-sheet commitments*	2		2
Total off-balance-sheet commitments	**2**		**2**

31 Dec 2018	Less than 3 months	3–12 months	1–5 years	5–10 years	More than 10 year	Total
Financial assets						
Receivables from credit institutions	133,460		2,776,169	4,000,000		6,909,630
Receivables from customers	189,097	573,430	2,647,263	2,158,457	1,426,625	6,994,873
Total financial assets	**322,558**	**573,430**	**5,423,432**	**6,158,457**	**1,426,625**	**13,904,502**
Financial liabilities						
Liabilities to credit institutions	1,700,000	530,000	666,000			2,896,000
Debt securities issued to the public		1,138,893	5,506,538	4,097,409		10,742,840
Total financial liabilities	**1,700,000**	**1,668,893**	**6,172,538**	**4,097,409**		**13,638,840**

31 Dec 2018	Less than 1 year	More than 1 year	Total
Off-balance-sheet commitments*	2		2
Total off-balance-sheet commitments	**2**		**2**

* Binding loan commitments

NOTE 38. 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 39. Maturity of financial assets and liabilities by due date or repricing, TEUR

Contractual repricing dates or earlier due dates on 31 December 2019.

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		0	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**

31 Dec 2018	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	133,460	4,127,088	1,945,639	147,592	199,650	356,200	6,909,630
Receivables from customers	1,495,301	1,753,545	3,727,604	3,884	7,395	7,143	6,994,873
Total financial assets	**1,628,762**	**5,880,633**	**5,673,243**	**151,476**	**207,045**	**363,343**	**13,904,502**
Financial liabilities							
Liabilities to credit institutions	1,730,000	1,166,000					2,896,000
Debt securities issued to the public		0	1,138,893	1,268,286	4,238,252	4,097,409	10,742,840
Total financial liabilities	**1,730,000**	**1,166,000**	**1,138,893**	**1,268,286**	**4,238,252**	**4,097,409**	**13,638,840**

NOTE 40. 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 0.19%. The interest rate risk may be considered low.

Sensitivity analysis for interest rate risk

			Impact on equity	
TEUR	**Risk parameter**	**Change**	**31 Dec 2019**	**31 Dec 2018**
Interest rate risk	Interest rate	1 pp	716.9	-505.6

NOTE 41. Real estate risk

OP Mortgage Bank does not possess any properties, or shares or interests in housing or real estate companies as a result of unpaid receivables.

SIGNATURES TO THE FINANCIAL STATEMENTS AND ANNUAL REPORT

Helsinki, 5 February 2020

Vesa Aho 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, 12 February 2020

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Authorised Public Accountants

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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 2019. 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 10, 12, 22, 31 and 34 to financial statements)	
— Receivables from customers, € 5.6 billion, and receivables from credit institutions, € 9.1 billion, are significant items on the OP Mortgage Bank's balance sheet comprising 98 % 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. — OP Mortgage Bank Plc has applied IFRS 9 *Financial Instruments* to accounting for impairment of receivables as from 1 January 2018. — The calculation of expected credit losses is based on the models used by OP Financial Group. This involves assumptions, estimates and management judgments, especially in respect of valuation of collaterals and probability of expected credit losses. — 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. — 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. — 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 of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland 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 18 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 12 February 2020

KPMG OY AB

TIIA KATAJA
Authorised Public Accountant, KHT