

OP Mortgage Bank's Financial Statements Bulletin for 1 January–31 December 2021

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

Financial standing

The intermediary loans and loan portfolio of OP MB totalled EUR 18,275 million (15,326)* on 31 December 2021. Bonds issued by OP MB totalled EUR 16,415 million (13,665) at the end of December 2021.

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

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

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

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

In November, OP MB carried out two new extensions of an intermediary loan model. The first one was performed on a bond issued in February 2019 that will mature in 2029. As part of this extension, OP MB provided eight OP cooperative banks with intermediary loans at a total amount of EUR 65 million. The second extension was performed on a bond issued in November 2019 that will mature in 2026. As part of this extension, OP MB provided 11 OP cooperative banks with intermediary loans at a total amount of EUR 70 million.

On 31 December 2021, 118 OP cooperative banks had a total of EUR 14,691 million (10,790) in intermediary loans from OP MB.

Earnings before tax totalled EUR 6.7 million (8.0). The company's financial standing remained stable throughout the reporting period.

Impairment loss on receivables totalled EUR 0.5 million (1.6). A year ago, customers actively applied for repayment holidays on their loans as a result of the Covid-19 crisis. Combined with the changes in macroeconomic parameters applied in the calculation of expected credit losses, this increased the amount of expected credit losses. A year ago, the adoption of the new definition of default also increased the amount of expected credit losses.

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

Collateralisation of bonds issued to the public

On 31 December 2021, loans as collateral in security of the covered bonds issued under the Euro Medium Term Covered Note programme worth EUR 20 billion established on 12 November 2010 under the Act on Mortgage Credit Banks (Laki kiinnitysluottopankkitoiminnasta 688/2010) totalled EUR 15,841 million. On the same date, loans as collateral in security of the covered bonds issued under the Euro Medium Term Retained Covered Note programme worth EUR 10 billion established on 15 June 2020 totalled EUR 3,587 million.

Capital adequacy

OP MB's Common Equity Tier 1 (CET1) ratio stood at 92.9% (61.8) on 31 December 2021. The decrease in exposures improved the CET1 ratio. The minimum CET1 capital requirement is 4.5% and the requirement for the capital conservation buffer is 2.5%, i.e. the total CET1 capital requirement is 7%. The minimum total capital requirement is 8% and 10.5% with increased capital conservation buffer. Earnings for the financial year were not included in CET1 capital.

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

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

Capital base and capital adequacy, TEUR	31 Dec 2021	31 Dec 2020
Shareholders' equity	370,077	371,093
Common Equity Tier 1 (CET1) before deductions	370,077	371,093
Excess funding of pension liability	-57	-56
Share of unaudited profits	-5,364	-6,381
Shortfall of ECL minus expected losses	-2,856	-3,448
Common Equity Tier 1 (CET1)	361,800	361,208
Tier 1 capital (T1)	361,800	361,208
Total capital base	361,800	361,208
Total risk exposure amount		
Credit and counterparty risk	359,126	550,145
Operational risk	30,130	34,748
Total	389,256	584,893
Key ratios, %		
CET1 capital ratio	92.9	61.8
Tier 1 capital ratio	92.9	61.8
Capital adequacy ratio	92.9	61.8
Capital requirement		
Capital base	361,800	361,208
Capital requirement	40,872	61,414
Buffer for capital requirements	320,928	299,794

Joint and several liability of amalgamation

Under the Act on the Amalgamation of Deposit Banks, the amalgamation of cooperative banks comprises the organisation's central cooperative (OP Cooperative), the central cooperative's member credit institutions and the companies belonging to their consolidation groups as well as credit and financial institutions and service companies in which the above together hold more than half of the total votes. This amalgamation is supervised on a consolidated basis. On 31 December 2021, OP Cooperative's member credit institutions comprised 121 OP cooperative banks as well as OP Corporate Bank plc, OP MB and OP Retail Customers plc.

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

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

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

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

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

Corporate responsibility

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

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

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

In December, OP Financial Group's climate actions scored, for the third time in a row, an A- in CDP's international climate impact assessment.

Personnel

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

Management

The Board composition is as follows:

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

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

Risk exposure

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

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

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

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

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

Proposal by the Board of Directors for profit distribution

OP Mortgage Bank's equity capital on 31 December 2021

+ Share capital	60,000,000.00
+ Reserve for invested non-restricted equity	245,000,000.00
+ Profit for the financial year	5,363,655.10
+ Retained earnings	59,713,331.85
Total	370,076,986.95

Distributable funds totalled EUR 310,076,986.95.

As shown in the financial statements of 31 December 2021, the company's distributable earnings, which include EUR 5,363,655.10 in profit for the financial year, totalled EUR 65,076,986.95. The company's distributable funds totalled EUR 310,076,986.95.

The Board of Directors proposes that a dividend of EUR 70.02 per share be distributed, totalling EUR 5,362,971.84, and that following dividend distribution, the remaining amount of EUR 683.26 be recognised in retained earnings. Following dividend distribution, the company's distributable earnings total EUR 59,714,015.11 and its distributable funds total EUR 304,714,015.11.

The company's financial position has not undergone any material changes since the end of the financial year 2021. The company's liquidity is good and will not be jeopardised by the proposed profit distribution, in the Board of Directors' view.

Outlook for 2022

Economic uncertainty is expected to remain elevated. The Covid-19 pandemic may continue to unexpectedly slow down economic growth or cause major bottlenecks in supply and production chains. Even if the economic development remained sluggish, the inflation period may prove to be longer than anticipated. This may tighten the financing conditions and increase uncertainty in the financial market.

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

Alternative Performance Measures

Key ratios	Q1–4/2021	Q1–4/2020	Q4/2021	Q4/2020
Return on equity (ROE), %	1.4	1.7	1.7	1.4
Cost/income ratio, %	56	40	54	46

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

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

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

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Primary statements

Income statement, TEUR	Q1–4/2021	Q1–4/2020	Q4/2021	Q4/2020
Net interest income	42,075	48,470	10,050	11,145
Interest income	-26,076	14,357	-9,366	903
Interest expenses	-68,151	-34,113	-19,416	-10,242
Net commissions and fees	-25,804	-32,411	-5,918	-7,457
Net investment income	1	1		
Other operating income	1	1	1	0
Total income	16,274	16,061	4,132	3,689
Personnel costs	487	467	118	125
Other operating expenses	8,591	5,972	2,107	1,568
Total expenses	9,079	6,439	2,225	1,693
Impairment loss on receivables	-491	-1,646	111	-340
Earnings before tax	6,704	7,975	2,018	1,656
Income tax expense	1,341	1,594	404	331
Profit for the period	5,364	6,381	1,614	1,326
Statement of comprehensive income, TEUR	Q1–4/2021	Q1–4/2020	Q4/2021	Q4/2020
Profit for the period	5,364	6,381	1,614	1,326
Gains/(losses) arising from remeasurement of defined benefit plans	2	-17	2	-17
Income tax on gains/(losses) on arising from remeasurement of defined benefit plans	0	3	0	3
Total comprehensive income	5,365	6,368	1,616	1,312

Balance sheet, TEUR	31 Dec 2021	31 Dec 2020
Receivables from credit institutions	14,814,635	11,008,827
Derivative contracts	170,200	431,801
Receivables from customers	3,584,445	4,536,259
Investments assets	40	40
Other assets	31,241	28,622
Tax assets		803
Total assets	18,600,560	16,006,351
Liabilities to credit institutions	1,570,000	1,500,000
Derivative contracts	52,966	14,908
Debt securities issued to the public	16,579,276	14,095,017
Provisions and other liabilities	27,893	25,267
Tax liabilities	349	68
Total liabilities	18,230,483	15,635,259
Shareholders' equity		
Share capital	60,000	60,000
Reserve for invested unrestricted equity	245,000	245,000
Retained earnings	65,077	66,093
Total equity	370,077	371,093
Total liabilities and shareholders' equity	18,600,560	16,006,351

Statement of changes in equity, TEUR	Share capital	Other reserves	Retained earnings	Total equity
Shareholders' equity 1 Jan 2021	60,000	245,000	66,093	371,093
Profit for the period			5,364	5,364
Other comprehensive income for the period			1	1
Other changes			-6,381	-6,381
Shareholders' equity 31 Dec 2021	60,000	245,000	65,077	370,077
Shareholders' equity 1 Jan 2020	60,000	245,000	71,616	376,616
Profit for the period			6,381	6,381
Other comprehensive income for the period			-13	-13
Other changes			-11,891	-11,891
Shareholders' equity 31 Dec 2020	60,000	245,000	66,093	371,093

Cash flow statement, TEUR	Q1-4/2021	Q1-4/2020
Cash flow from operating activities		
Profit for the financial year	5,364	6,381
Adjustments to profit for the financial year	-14,640	9,302
Increase (-) or decrease (+) in operating assets	-2,976,898	-993,478
Receivables from credit institutions	-3,918,101	-2,088,262
Receivables from customers	943,822	1,091,801
Other assets	-2,620	2,983
Increase (+) or decrease (-) in operating liabilities	72,628	-1,044,611
Liabilities to credit institutions	70,000	-1,016,000
Derivative contracts	12,913	-29,541
Provisions and other liabilities	-10,285	930
Income tax paid	-257	-1,483
Dividends received	1	1
A. Net cash from operating activities	-2,913,803	-2,023,888
Cash flow from financing activities		
Increases in debt securities issued to the public	3,807,890	3,081,772
Decreases in debt securities issued to the public	-1,000,000	-1,270,000
Dividends paid and interest on cooperative capital	-6,381	-11,891
B. Net cash used in financing activities	2,801,509	1,799,881
Net change in cash and cash equivalents (A+B)	-112,293	-224,007
Cash and cash equivalents at year-start	214,695	438,702
Cash and cash equivalents at year-end	102,402	214,695
Interest received	-28,063	17,884
Interest paid	71,122	6,318
Adjustments to profit for the financial year		
Non-cash items and other adjustments		
Impairment loss on receivables	509	1,649
Income tax	1,341	1,594
Price difference recognised	-16,471	6,046
Other	-19	12
Total adjustments	-14,640	9,302
Cash and cash equivalents		
Receivables from credit institutions payable on demand	102,402	214,695
Total	102,402	214,695

Accounting policies

The Financial Statements Bulletin for 1 January–31 December 2021 has been prepared in accordance with IAS 34 (Interim Financial Reporting).

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

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

OP MB's related parties comprise companies consolidated into OP Cooperative Consolidated, associates, key management personnel and their close family members, and other related-party entities. The company's key management personnel comprises the Managing Director, Deputy Managing Director and members of the Board of Directors. Related parties also include companies over which key management persons or their close family member, either alone or together with another person, exercises significant influence. Other entities regarded as related parties include OP Bank Group Pension Fund and OP Financial Group Personnel Fund. Related parties have been defined in accordance with IAS 24. Related party transactions consist of paid salaries and fees as well as ordinary business transactions. Standard loan terms and conditions are applied to loans granted to related parties. Loans are tied to generally used reference interest rates.

Notes

Net commissions and fees, TEUR	Q1–4/2021	Q1–4/2020	Q4/2021	Q4/2020
Commission income				
Lending	3,435	3,946	773	963
Total	3,435	3,946	773	963
Commission expenses				
From lending to OP cooperative banks	3,283	3,777	741	925
Loan management fee to OP cooperative banks	25,860	32,418	5,923	7,471
Issue of bonds	87	154	25	21
Other	8	7	2	2
Total	29,238	36,357	6,691	8,419
Net commissions and fees	-25,804	-32,411	-5,918	-7,457

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

Impairment losses on receivables, TEUR	Q1–4/2021	Q1–4/2020	Q4/2021	Q4/2020
Receivables written down as loan and guarantee losses	143	121	65	49
Recoveries of receivables written down	-18	-3	-4	-1
Expected credit losses (ECL) on receivables from customers and off-balance-sheet items	366	1,528	-172	292
Total	491	1,646	-111	340

Impairment loss on receivables related to loans in OP MB's balance sheet totalled EUR 0.5 million (1.6). A year ago, customers actively applied for repayment holidays on their loans as a result of the Covid-19 crisis. Combined with the changes in macroeconomic parameters applied in the calculation of expected credit losses, this increased the amount of expected credit losses. A year ago, the adoption of the new definition of default also increased the amount of expected credit losses.

Classification of financial assets and liabilities 31 Dec 2021, TEUR

	Amortised cost	Recognised at fair value through profit or loss	Recognised at fair value through other comprehensive income	Total
Financial assets				
Receivables from credit institutions	14,814,635			14,814,635
Derivative contracts		170,200		170,200
Receivables from customers	3,584,445			3,584,445
Investment assets			40	40
Other receivables	30,931			30,931
Financial assets	18,430,010	170,200	40	18,600,250
Other than financial assets				310
Total	18,430,010	170,200	40	18,600,560
		Recognised at fair value through profit or loss	Amortised cost	Total
Financial liabilities				
Liabilities to credit institutions			1,570,000	1,570,000
Derivative contracts		52,966		52,966
Debt securities issued to the public			16,579,276	16,579,276
Other liabilities			25,548	25,548
Financial liabilities		52,966	18,174,824	18,227,790
Other than financial liabilities				2,694
Total		52,966	18,174,824	18,230,483
Valuation difference of debt securities issued to the public (difference between fair value and carrying amount) 31 Dec 2021			63,766	63,766

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

Classification of financial assets and liabilities 31 Dec 2020, TEUR

	Amortised cost	Recognised at fair value through profit or loss	Recognised at fair value through other comprehensive income	Total
Financial assets				
Receivables from credit institutions	11,008,827			11,008,827
Derivative contracts		431,801		431,801
Receivables from customers	4,536,259			4,536,259
Investment assets			40	40
Other receivables	28,369			28,369
Financial assets	15,573,454	431,801	40	16,005,296
Other than financial assets				1,056
Total	15,573,454	431,801	40	16,006,351
		Recognised at fair value through profit or loss	Amortised cost	Total
Financial liabilities				
Liabilities to credit institutions			1,500,000	1,500,000
Derivative contracts		14,908		14,908
Debt securities issued to the public			14,095,017	14,095,017
Other liabilities			22,359	22,359
Financial liabilities		14,908	15,617,376	15,632,283
Other than financial liabilities				2,975
Total		14,908	15,617,376	15,635,259
Valuation difference of debt securities issued to the public (difference between fair value and carrying amount) 31 Dec 2020			76,600	76,600

Derivative contracts 31 Dec 2021, TEUR	Nominal values/residual term to maturity			Total
	Less than 1 year	1–5 years	More than 5 years	
Interest rate derivatives				
Hedging	2,397,318	8,481,885	6,139,450	17,018,653
Total	2,397,318	8,481,885	6,139,450	17,018,653

	Fair values		Credit equivalent
	Assets	Liabilities	
Interest rate derivatives			
Hedging	170,200	52,966	339,563
Total	170,200	52,966	339,563

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

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

Financial instruments classification, grouped by valuation technique, TEUR

31 Dec 2021	Fair value measurement at year end			
	Balance sheet value	Level 1	Level 2	Level 3
Recurring fair value measurements of assets				
Derivate contracts	170,200		170,200	
Total	170,200		170,200	
Recurring fair value measurements of liabilities				
Derivate contracts	52,966		52,966	
Total	52,966		52,966	
Financial liabilities not measured at fair value				
Debt securities issued to the public	16,579,276	11,498,066	1,272,815	4,036,388
Total	16,579,276	11,498,066	1,272,815	4,036,388

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

Valuation techniques whose input parameters involve uncertainty (Level 3)

Opening balance 1 January 2021	962,395
Transfers to level 3	0
Transfers from level 3	0
Other change	3,073,993
Closing balance 31 Dec 2021	4,036,388

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

Time of publication of 2021 reports

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

Week 10, 2022
Week 10, 2022

Schedule for Interim Reports in 2022

Interim Report 1 January–31 March 2022
Half-year Financial Report 1 January–30 June 2022
Interim Report 1 January–30 September 2022

4 May 2022
27 July 2022
26 October 2022

Helsinki, 9 February 2022

OP Mortgage Bank
Board of Directors

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