

OP Mortgage Bank: Half-year Financial Report 1 January–30 June 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 18,344 million (15,326)* on 30 June 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 retained covered bonds in the amount of 1 billion euros each and with a maturity of two years. The proceeds of the bonds were intermediated in full to 113 OP cooperative banks. The bond issues in May were performed as internal issues within OP Financial Group.

On 30 June 2021, 125 OP cooperative banks had a total of EUR 14,310 million (10,790) in intermediary loans from OP MB.

Earnings before tax totalled EUR 2.6 million (4.0). The company's financial standing remained stable throughout the reporting period.

Impairment loss on receivables totalled EUR 0.7 million (1.3). A year ago, customers actively applied for repayment holidays on their loans as a result of the Covid-19 crisis. Combined with the changes in macroeconomic parameters applied in the calculation of expected credit losses, this increased the amount of expected credit losses. A year ago, the adoption of the new definition of default also increased the amount of expected credit losses.

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

Collateralisation of bonds issued to the public

On 30 June 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 15,814 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 3,575 million.

Capital adequacy

OP MB's Common Equity Tier 1 (CET1) ratio stood at 76.2% (61.8) on 30 June 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% increased with capital conservation buffer. Earnings for the financial year were not included in CET1 capital.

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

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

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

Capital base and capital adequacy, TEUR	30 June 2021	31 Dec 2020
Shareholders' equity	366,777	371,093
Common Equity Tier 1 (CET1) before deductions	366,777	371,093
Excess funding of pension liability	-56	-56
Share of unaudited profits	-2,065	-6,381
Shortfall of ECL minus expected losses	-3,724	-3,448
Common Equity Tier 1 (CET1)	360,932	361,208
Tier 1 capital (T1)	360,932	361,208
Total capital base	360,932	361,208
Total risk exposure amount		
Credit and counterparty risk	443,228	550,145
Operational risk	30,130	34,748
Total	473,358	584,893
Key ratios, %		
CET1 capital ratio	76.2	61.8
Tier 1 capital ratio	76.2	61.8
Capital adequacy ratio	76.2	61.8
Capital requirement		
Capital base	360,932	361,208
Capital requirement	49,703	61,414
Buffer for capital requirements	311,230	299,794

Joint and several liability of amalgamation

Under the Act on the Amalgamation of Deposit Banks, the amalgamation of cooperative banks comprises the organisation's central cooperative (OP Cooperative), the central cooperative's member credit institutions and the companies belonging to their consolidation groups as well as credit and financial institutions and service companies in which the above together hold more than half of the total votes. This amalgamation is supervised on a consolidated basis. On 30 June 2021, OP Cooperative's member credit institutions comprised 132 OP cooperative banks as well as OP Corporate Bank plc, OP MB and OP Retail Customers plc.

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

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

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

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

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

Corporate responsibility

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

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

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

Personnel

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

Management

The Board composition is as follows:

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

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

Risk exposure

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

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

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

contracts for hedging purposes, with OP Corporate Bank plc being their counterparty. OP MB's interest risk exposure is under control, and it has been within the set limit.

Outlook for 2021

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

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

Alternative Performance Measures

Key ratios	H1/2021	H1/2020	Q2/2021	Q2/2020	Q1-4/2020
Return on equity (ROE), %	1.1	1.7	1.2	1.9	1.7
Cost/income ratio, %	58	36	58	35	40

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

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

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	H1/2021	H1/2020	Q2/2021	Q2/2020	Q1-4/2020
Net interest income	21,433	25,355	10,585	12,569	48,470
Interest income	-7,691	8,452	-5,777	4,784	14,357
Interest expenses	-29,124	-16,903	-16,362	-7,785	-34,113
Net commissions and fees	-13,621	-17,076	-6,716	-8,408	-32,411
Net investment income	1	1	1	0	1
Other operating income	0	0	0	0	1
Total income	7,813	8,281	3,871	4,161	16,061
Personnel costs	245	232	143	122	467
Other operating expenses	4,319	2,740	2,115	1,320	5,972
Total expenses	4,563	2,972	2,257	1,442	6,439
Impairment loss on receivables	-669	-1,328	-280	-583	-1,646
Earnings before tax	2,581	3,981	1,334	2,135	7,975
Income tax expense	516	796	266	427	1,594
Profit for the period	2,065	3,185	1,067	1,708	6,381
Statement of comprehensive income, TEUR					
Profit for the period	2,065	3,185	1,067	1,708	6,381
Gains/(losses) arising from remeasurement of defined benefit plans					-17
Income tax on gains/(losses) on arising from remeasurement of defined benefit plans					3
Total comprehensive income	2,065	3,185	1,067	1,708	6,368

Balance sheet, TEUR	30 June 2021	30 June 2020	31 Dec 2020
Receivables from credit institutions	15,011,254	10,886,307	11,008,827
Derivative contracts	271,386	403,192	431,801
Receivables from customers	4,033,886	5,059,254	4,536,259
Investments assets	40	40	40
Other assets	37,179	26,489	28,622
Tax assets	547	1,589	803
Total assets	19,354,292	16,376,871	16,006,351
Liabilities to credit institutions	2,200,000	1,900,000	1,500,000
Derivative contracts	17,633	13,678	14,908
Debt securities issued to the public	16,733,312	14,042,809	14,095,017
Provisions and other liabilities	36,503	52,410	25,267
Tax liabilities	68	64	68
Total liabilities	18,987,516	16,008,961	15,635,259
Shareholders' equity			
Share capital	60,000	60,000	60,000
Reserve for invested unrestricted equity	245,000	245,000	245,000
Retained earnings	61,777	62,910	66,093
Total equity	366,777	367,910	371,093
Total liabilities and shareholders' equity	19,354,292	16,376,871	16,006,351

Off-balance-sheet commitments, TEUR	30 June 2021	30 June 2020	31 Dec 2020
Irrevocable commitments given on behalf of customers	0	2	0

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			2,065	2,065
Other changes			-6,381	-6,381
Shareholders' equity 30 June 2021	60,000	245,000	61,777	366,777
Shareholders' equity 1 Jan. 2020	60,000	245,000	71,616	376,616
Profit for the period			3,185	3,185
Other changes			-11,891	-11,891
Shareholders' equity 30 June 2020	60,000	245,000	62,910	367,910

Cash flow statement, TEUR	H1/2021	H1/2020
Cash flow from operating activities		
Profit for the financial year	2,065	3,185
Adjustments to profit for the financial year	-701	5,865
Increase (-) or decrease (+) in operating assets	-3,031,712	-1,480,890
Receivables from credit institutions	-3,520,289	-2,053,673
Receivables from customers	497,134	567,663
Other assets	-8,557	5,120
Increase (+) or decrease (-) in operating liabilities	711,237	-617,452
Liabilities to credit institutions	700,000	-616,000
Derivative contracts	20,689	933
Provisions and other liabilities	-9,452	-2,385
Income tax paid	-260	-1,477
Dividends received	1	1
A. Net cash from operating activities	-2,319,371	-2,090,768
Cash flow from investing activities		
B. Net cash used in investing activities		
Cash flow from financing activities		
Increases in debt securities issued to the public	3,807,890	1,810,722
Decreases in debt securities issued to the public	-1,000,000	-20,000
Dividends paid and interest on cooperative capital	-6,381	-11,891
C. Net cash used in financing activities	2,801,509	1,778,831
Net change in cash and cash equivalents (A+B+C)	482,138	-311,937
Cash and cash equivalents at year-start	214,695	438,702
Cash and cash equivalents at year-end	696,833	126,765
Interest received	16,093	13,731
Interest paid	-40,443	-15,804
Adjustments to profit for the financial year		
Non-cash items and other adjustments		
Impairment loss on receivables	672	1,330
Income tax	516	796
Price difference recognised	-1,873	3,743
Other	-16	-4
Total adjustments	-701	5,865
Cash and cash equivalents		
Receivables from credit institutions payable on demand	696,833	126,765
Total	696,833	126,765

Accounting policies

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

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

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

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

Notes

Net commissions and fees, TEUR	H1/2021	H1/2020	Q2/2021	Q2/2020	Q1-4/2020
Commission income					
Lending	1,859	2,090	907	969	3,946
Total	1,859	2,090	907	969	3,946
Commission expenses					
From lending to OP cooperative banks	1,775	2,001	864	929	3,777
Loan management fee to OP cooperative banks	13,650	17,051	6,723	8,398	32,418
Issue of bonds	51	111	32	49	154
Other	4	3	2	2	7
Total	15,480	19,166	7,622	9,378	36,357
Net commissions and fees	-13,621	-17,076	-6,716	-8,408	-32,411

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

Impairment losses on receivables, TEUR	H1/2021	H1/2020	Q2/2021	Q2/2020	Q1-4/2020
Receivables written down as loan and guarantee losses	48	33		33	121
Recoveries of receivables written down	-3	-2	-2	-1	-3
Expected credit losses (ECL) on receivables from customers and off-balance-sheet items	624	1,297	282	551	1,528
Total	669	1,328	280	583	1,646

Impairment loss on receivables totalled EUR 0.7 million (1.3). A year ago, customers actively applied for repayment holidays on their loans as a result of the Covid-19 crisis. Combined with the changes in macroeconomic parameters applied in the calculation of expected credit losses, this increased the amount of expected credit losses. A year ago, the adoption of the new definition of default also increased the amount of expected credit losses.

Classification of financial assets and liabilities 30 June 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	15,011,254			15,011,254
Derivative contracts		271,386		271,386
Receivables from customers	4,033,886			4,033,886
Investment assets			40	40
Other receivables	37,107			37,107
Financial assets	19,082,247	271,386	40	19,353,673
Other than financial assets				619
Total	19,082,247	271,386	40	19,354,292

	Recognised at fair value through profit or loss	Amortised cost	Total
Financial liabilities			
Liabilities to credit institutions		2,200,000	2,200,000
Derivative contracts	17,633		17,633
Debt securities issued to the public		16,733,312	16,733,312
Other liabilities		33,797	33,797
Financial liabilities	17,633	18,967,108	18,984,741
Other than financial liabilities			2,774
Total	17,633	18,967,108	18,987,516
Valuation difference of debt securities issued to the public (difference between fair value and carrying amount) 30 June 2021		388,644	388,644

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

Classification of financial assets and liabilities 31 Dec 2020, TEUR

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

Derivative contracts 30 June 2021, TEUR	Nominal values/residual term to maturity			Total
	Less than 1 year	1–5 years	More than 5 years	
Interest rate derivatives				
Hedging	432,165	9,513,365	7,160,750	17,106,280
Total	432,165	9,513,365	7,160,750	17,106,280

	Fair values		Credit equivalent
	Assets	Liabilities	
Interest rate derivatives			
Hedging	271,386	17,633	460,307
Total	271,386	17,633	460,307

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

30 June 2021	Balance sheet value	Fair value measurement at year end		
		Level 1	Level 2	Level 3
Recurring fair value measurements of assets				
Derivate contracts	271,386		271,386	
Total	271,386		271,386	
Recurring fair value measurements of liabilities				
Derivate contracts	17,633		17,633	
Total	17,633		17,633	
Financial liabilities not measured at fair value				
Debt securities issued to the public	16,733,312	13,045,106		4,076,874
Total	16,733,312	13,045,106		4,076,874

31 Dec 2020	Balance sheet value	Fair value measurement at year end		
		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

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

Valuation techniques whose input parameters involve uncertainty (Level 3)

Opening balance 1 January 2021	962,395
Transfers to level 3	
Transfers from level 3	
Other change	3,114,478
Closing balance 30 June 2021	4,076,874

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

Schedule for Interim Reports in 2021

Interim Report 1 January–30 September 2021

27 October 2021

Helsinki, 28 July 2021

OP Mortgage Bank
Board of Directors

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