OP Mortgage Bank's Report by the Board of Directors and Financial Statements 2022

OP

OP MORTGAGE BANK

Business ID 01614329-2

Contents

Report by the Board of Directors

OP Mortgage Bank (OP MB) is part of OP Financial Group. Together with OP Corporate Bank plc, its role is to raise funding for OP from money and capital markets. OP MB is responsible for the Group's funding with regard to covered bond issuance. OP MB has no independent customer business or service network, but OP cooperative banks manage customer relationships and loan management at local level.

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

In 2022, the intermediary loans and loan portfolio of OP MB increased to EUR 19,620 million (18,275)*. Bonds issued by OP MB totalled EUR 18,165 million (16,415) at the end of December 2022.

In April, OP MB issued a green covered bond in the international capital market. The fixed-rate one-billion-euro covered bond has a maturity of five and a half years. All proceeds of the bonds were intermediated to 98 OP cooperative banks in the form of intermediary loans.

In June, OP MB issued a one-billion-euro retained covered bond with a maturity of one year and three months, which was implemented as OP Financial Group's internal issue.

In November, a new extension of an intermediary loan model was performed on a bond issued in November 2020 that will mature in 2030. As part of this extension, OP MB provided one OP cooperative bank with intermediary loans at a total amount of EUR 2 million.

In November, OP MB issued the first covered bond under the new Act on Mortgage Credit Banks and Covered Bonds (Laki kiinnitysluottopankeista ja katetuista joukkolainoista 151/2022) in the international capital market. The bond forms part of the Euro Medium Term Covered Bond (Premium) Programme. The fixed-rate covered bond is worth EUR 1.25 billion and has a maturity of three years and seven months. All proceeds of the bond were intermediated to 77 OP cooperative banks in the form of intermediary loans.

At the end of December, 106 OP cooperative banks had a total of EUR 16,833 million (14,691) in intermediary loans from OP MB.

Collateralisation of bonds issued to the public

On 31 December 2022, loans as collateral in security of the covered bonds issued under the Euro Medium Term Covered Bond (Premium) Programme worth EUR 25 billion established on 11 October 2022 under the Act on Mortgage Credit Banks and Covered Bonds (Laki kiinnitysluottopankeista ja katetuista joukkolainoista 151/2022) totalled EUR 1,379 million.

On the same date, 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 16,185 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 3,484 million.

Joint and several liability

Under the Act on the Amalgamation of Deposit Banks, the amalgamation of cooperative banks comprises the organisation's central cooperative (OP Cooperative), the central cooperative's member credit institutions and the companies belonging to their consolidation groups as well as credit and financial institutions and service companies in which the above together hold more than half of the total votes. This amalgamation is supervised on a consolidated basis. On 31 December 2022, OP Cooperative's members comprised 108 cooperative banks as well as OP Corporate Bank plc, OP Mortgage Bank 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.

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

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

Each member bank's liability for the amount the central cooperative has paid to the creditor on behalf of a member bank is divided between the member banks in proportion to their last adopted balance sheets.

According to section 25 of the Act on Mortgage Credit Banks (688/2010), the creditors of covered bonds issued prior to 8 July 2022 have the right to receive payment, before other claims, for the entire term of the bond, in accordance with the terms and conditions of the bond, out of the funds entered as collateral for the bond, without this being prevented by OP MB's liquidation or bankruptcy. A similar and equal priority also applies to derivative contracts entered in the register of bonds, and to marginal lending facilities referred to in section 26, subsection 4 of the said Act. For mortgage-backed loans included in the total amount of collateral of covered bonds, the priority of payment right of the covered bond holders is limited to the amount of loan that, with respect to home loans, corresponds to 70% of the value of shares or property serving as security for the loan and entered in the bond register at the time of the issuer's liquidation or bankruptcy declaration.

Under section 20 of the Act on Mortgage Credit Banks and Covered Bonds (151/2022), the creditors of bonds and derivative contracts issued after 8 July 2022, including the related management and clearing costs, have the right to receive payment out of the collateral included in the cover pool, before other creditors of OP MB or the OP cooperative bank which is the debtor of an intermediary loan. Interest and yield accruing on the collateral, and any substitute assets fall within the scope of the said priority. Section 44, subsection 3 of the said Act contains provisions on the creditor's priority related to marginal lending facility of the cover pool.

*) The comparatives for 2021 are given in brackets. For income statement and other aggregated figures, January–December 2021 figures serve as comparatives.
For balance-sheet and other cross-sectional figures, figures at the end of the previous financial year (31 December 2021) serve as comparatives.

Profit performance

OP MB's key financial indicators in 2022 are shown below:

Thousand euros	Q1–4/2022	Q1–4/2021
Income		
Net interest income	38,526	42,075
Net commissions and fees	-21,041	-25,804
Net investment income	1	1
Other operating income	1	1
Total	17,487	16,274
Expenses		
Personnel costs	583	487
Other operating expenses	9,164	8,591
Total	9,746	9,079
Impairment loss on receivables	548	-491
Earnings before tax	8,289	6,704

Impairment loss on receivables related to loans in OP MB's balance sheet totalled EUR 0.5 million (–0.5).

The company's financial standing remained stable throughout the financial year. Full-year earnings before tax came to EUR 8,289 thousand (6,704).

Balance sheet

OP MB's balance sheet total was EUR 20,880 million (18,601) on 31 December 2022. The table below shows the development of key assets and liabilities.

Key assets and liabilities

€ million	31 Dec 2022	31 Dec 2021
Balance sheet	20,880	18,601
Receivables from customers	2,788	3,584
Receivables from credit institutions	17,996	14,814
Debt securities issued to the public	16,971	16,579
Liabilities to credit institutions	2,250	1,570
Equity capital	371	370

The bank's intermediary loans and loan portfolio increased to EUR 19,620 million (18,275) in January–December. On 31 December 2021, households accounted for 99.9% (99.5) of the loan portfolio and institutional customers for 0.1% (0.5). On 31 December 2022, OP MB's non-performing receivables totalled EUR 208 million (279).

The carrying amount of bonds issued to the public was EUR 16,971 million (16,579) 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 2,250 million (1,570).

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 17,117 million (17,019). 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's Common Equity Tier 1 (CET1) ratio stood at 32.5% (92.9) on 31 December 2022. The ratio was weakened by the adoption of the risk-weighted assets floor based on the Standardised Approach in OP Financial Group according to the decision made on 1 March 2022. 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%. OP MB covers the capital requirements in their entirety with CET1 capital, so the CET1 capital requirement is 10.5%. Earnings for the reporting period were not included in CET1 capital.

OP MB uses the Internal Ratings Based Approach (IRBA) to measure its capital adequacy requirement for credit risk. On 30 September 2022, OP Financial Group filed an application with the European Central Bank (ECB) on the use of the Standardised Approach in capital adequacy calculation, instead of the internal models (IRBA) and the currently applied risk-weighted assets floor based on the Standardised Approach. This is estimated to have no essential effect on OP MB's capital adequacy or risk exposure. According to OP Financial Group's assessment, the transfer will take place during the first quarter of 2023. OP MB uses the Standardised Approach to measure its capital requirement for operational risks. The capital adequacy requirement is increased by the RWA floor based on the Standardised Approach.

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 2022	31 Dec 2021
Equity capital	371,311	370,077
Excess funding of pension liability	-24	-57
Share of unaudited profits	-6,631	-5,364
Impairment loss – shortfall of expected losses	-1,822	-2,856
CET1 capital	**362,835**	**361,800**
Tier 1 capital (T1)	**362,835**	**361,800**
Total capital	**362,835**	**361,800**
Total risk exposure amount		
Credit and counterparty risk	241,732	359,126
Operational risk	26,908	30,130
Other risks *	848,865	
Total	**1,117,505**	**389,256**
Ratios, %		
CET1 ratio	32.5	92.9
Tier 1 capital ratio	32.5	92.9
Capital adequacy ratio	32.5	92.9
Capital requirement		
Capital base	362,835	361,800
Capital requirement	117,364	40,872
Buffer for capital requirements	245,471	320,928

* Floor of risk-weighted assets based on the Standardised Approach

Formulas for key figures and 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, %

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

Financial indicators

Ratio	2022	2021	2020
Return on equity (ROE), %	1.8	1.4	1.7
Return on assets (ROA), %	0.03	0.03	0.04
Equity ratio, %	1.78	1.99	2.32
Cost/income ratio, %	56	56	40

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), %

Operating profit (loss) - Income tax* x 100
Equity capital
(average at beginning and end of year)

Return on assets (ROA), %

Operating profit (loss) - Income tax* x 100
Average balance sheet total
(average at beginning and end of year)

Equity ratio, %

Equity capital x 100
Balance sheet total

Cost/income ratio, %

Personnel costs + Depreciation/amortisation and impairment loss
+ Other operating expenses x 100
Net interest income + Net commissions and fees +
Net investment income + Other operating income

* Includes tax effect from appropriations.

Risk management and capital adequacy management

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

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

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

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

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

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

Risk-bearing capacity

OP MB's risk-bearing capacity remained good. Its capital adequacy ratio stood at 32.5% (92.9). The return on equity was 1.8% (1.4).

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 2,788 million (3,584) at the end of the financial year. The quality of the loan portfolio is good. Doubtful receivables totalled EUR 208 million (279). Doubtful receivables refer to receivables that are more than 90 days past due, other receivables classified as risky and forborne receivables due to the customer's financial difficulties. Forbearance measures consist of concessions agreed at the customers' initiative to the original repayment plan to make it easier for them to manage through temporary payment difficulties. OP cooperative banks make every effort to identify ways of solving customers' temporary financial difficulties. Loan modifications due to reasons other than the customer's financial difficulties are not classified as doubtful receivables.

	Performing forborne exposures (gross)		Non-performing exposures (gross)		Doubtful receivables (gross)	
	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
More than 90 days past due			11,911	13,122	11,911	13,122
Unlikely to be paid			11,298	12,783	11,298	12,783
Forborne exposures	155,944	213,922	29,127	38,762	185,071	252,684
Total	**155,944**	**213,922**	**52,336**	**64,677**	**208,280**	**278,589**

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

Key ratios	31 Dec 2022	31 Dec 2021
Doubtful receivables, TEUR	208,280	278,589
Ratio of doubtful receivables to exposures, %	7.37	7.77
Ratio of non-performing receivables to exposures, %	1.85	1.80
Ratio of performing forborne exposures to exposures, %	5.52	5.97
Ratio of performing forborne exposures to doubtful receivables, %	74.87	76.79
Ratio of loss allowance to doubtful receivables, %	1.17	1.04

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 Risk Management Committee.

Interest rate risk means the effect of changing market interest rates on the company's earnings, profitability and capital adequacy. The interest rate risk arises mainly from the differences in the bases of interest rates for the loan portfolio available as collateral for bonds, and its funding, the differences in interest rate caps associated with loans and derivatives designated as their hedging instruments, as well as the company's equity capital. OP MB has used interest rate swaps to hedge against interest rate risk. Interest rate swaps are used to swap base rate cash flows of hedged home loans to Euribor cash flows. OP MB has also changed the fixed rates of the bonds it has issued to floating market rates. OP Corporate Bank plc is the counterparty to all derivative contracts.

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

OP MB's Board of Directors monitors regularly that the company's interest rate and funding risk exposure remain within the limits set in internal risk policies and applicable legislation.

Operational risks

Operational risk means a risk of an adverse consequence caused by all business operations that may result from insufficient or incorrect practices, processes, systems or external factors. Operational risk includes ICT and security risks. Operational risk may materialise in the form of financial losses or other harmful consequences, such as deterioration or loss of reputation or trust. Operational risks are managed by identifying and analysing them and by ensuring that controls and management tools are appropriate and adequate. The bank assesses operational risks regularly and reports its risk status to the Board of Directors once a year. Operational risk management is aimed at ensuring that no unforeseeable operational risks materialise in operations.

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.

Sustainability and corporate responsibility

Sustainability and corporate responsibility form an integral part of OP Financial Group's business and strategy and responsible business is one of OP Financial Group's strategic priorities. OP Financial Group published its new sustainability programme in August 2022. The new sustainability programme and its policy priorities implement OP Financial Group's strategy, guiding the sustainability actions taken by the business units and OP cooperative banks. OP Financial Group's sustainability programme is built around three themes: Climate and the environment, People and communities and Corporate governance.

At OP Financial Group, sustainability and responsibility are guided by a number of principles and policies. In addition to complying with all applicable laws and regulations, we are committed to international initiatives and standards. 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 Financial Group is committed to complying with the UN Principles for Responsible Banking Investment and is a Founding Signatory of the Principles for Responsible Banking under the United Nations Environment Programme Finance Initiative (UNEP FI).

Green bonds issued by OP MB are part of the responsible offerings of OP Financial Group. In March 2022, OP MB published a Green Covered Bond Report on Finland's first green covered bond issued in March 2021. According to OP MB's Green Covered Bond Framework, funds raised through the bond have been allocated to mortgages with energy-efficient residential buildings as collateral. In 2021, the environmental impacts allocated to the green covered bond include annual avoided energy use of 26,000 MWh and annual avoided CO2-equivalent emissions of 4,100 tonnes.

In April 2022, OP MB issued a one-billion-euro green covered bond with a maturity of 5,5 years. According to OP MB's Green Covered Bond Framework, funds raised through the bond have been allocated to mortgages recognised as energy efficient by OP Financial Group. The sector to be financed is energy-efficient residential buildings (green buildings).

Personnel and remuneration schemes

On 31 December 2022, OP MB had six employees. The company purchases all the most important support services from OP Cooperative and its Group companies, reducing the need for its own personnel.

Variable remuneration applied by OP Financial Group in 2022 consists of the performance-based bonus scheme covering all personnel, and the personnel fund. Company-specific targets based on the annual plan and the Group-level strategic targets are taken into account in the metrics used in the performance-based bonus scheme and in the personnel fund. In drawing up the remuneration schemes, OP has taken account of the regulation regarding the financial sector's remuneration schemes. More detailed information on variable remuneration is available on OP Financial Group's website.

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

Governance

Board of Directors

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

Board of Directors:

Chair	Mikko Timonen	Chief Financial Officer, OP Cooperative
Members	Satu Nurmi	Head of Retail Customer Financing and Housing-related Services OP Retail Customers plc
	Mari Heikkilä	Head of Group Treasury and Asset and Liability Management, OP Corporate Bank plc

The Board was chaired by Vesa Aho until 28 February 2022. Mikko Timonen has chaired the Board since 1 March 2022. Lauri Iloniemi was a Board member until 8 May 2022 and Mari Heikkilä has been a Board member since 23 May 2022. Kaisu Christie was a Board member until 23 May 2022 and Satu Nurmi has been a Board member since 23 May 2022.

According to the Articles of Association, OP MB's Board of Directors comprises a minimum of three and a maximum of eight members. Currently, the Board has three members. Board members are elected for a period of one year. Their term begins upon closing of the Annual General Meeting that elected them and ends upon closing of the Annual General Meeting that elects the new Board. A Board member must resign after they reach the age of 65 at the latest. The Board of Directors has a quorum when more than half of its members are present. The Board of Directors held 13 meetings in the financial year.

Managing Director

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

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

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

Audit

Based on the shareholder's written decision of 2 March 2022, KPMG Oy Ab, a firm of authorised public accountants, was elected as the company's auditor with Tiia Kataja, Authorised Public Accountant, acting as the chief auditor.

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

Events after the balance sheet date

In January, OP MB issued a covered bond in the international capital market. The fixed-rate one-billion-euro covered bond has a maturity of seven years. All proceeds of the bond were intermediated to 55 OP cooperative banks in the form of intermediary loans.

Outlook

Economic growth slowed down in the course of 2022 and economic surveys suggest that economic development is still likely to deteriorate. Last year, business profitability remained good and the employment situation was strong. High inflation eroded the purchasing power among households and higher interest rates and greater uncertainty cut down on home sales.

The economy is expected to sink into a moderate recession, inflation to decrease slowly while short-term interest rates are predicted to rise further. The economic outlook remains surrounded by an exceptional degree of uncertainty. In addition to economic factors, the price and availability of energy and developments in global markets together with the geopolitical situation may abruptly affect the economic outlook.

It is expected that OP MB'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 2023 as well.

Proposal by the Board of Directors for profit distribution

OP Mortgage Bank's equity capital on 31 December 2022

+ Share capital	60,000,000.00
+ Reserve for invested non-restricted equity	245,000,000.00
+ Profit for the financial year	6,631,214.20
+ Retained earnings	59,679,866.31
Total	**371,311,080.51**

Distributable funds totalled EUR 311,311,080.51.

As shown in the financial statements of 31 December 2022, the company's distributable funds, which include EUR 6,631,214.20 in profit for the financial year, totalled EUR 66,311,080.51. The company's distributable funds totalled EUR 311,311,080.51.

The Board of Directors proposes that a dividend of EUR 86.57 per share be distributed, totalling EUR 6,630,569.44, and that following dividend distribution, the remaining amount of EUR 644.76 be recognised in retained earnings. Following dividend distribution, the company's distributable earnings total EUR 59,680,511.07 and its distributable funds total EUR 304,680,511.07.

The company's financial position has not undergone any material changes since the end of the financial year 2022. 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	2022	2021
Net interest income	3	38,526,149.30	42,075,223.01
Net commissions and fees	4	-21,041,033.00	-25,803,527.38
Net investment income		1,300.00	1,138.44
Other operating income		801.85	848.17
Total income		**17,487,218.15**	**16,273,682.24**
Personnel costs	5	582,671.55	487,232.30
Other operating expenses	6	9,163,697.09	8,591,380.11
Total expenses		**9,746,368.64**	**9,078,612.41**
Impairment loss on receivables	7	547,843.24	-490,832.71
Earnings before tax		**8,288,692.75**	**6,704,237.12**
Income tax	8	1,657,478.55	1,340,582.02
Profit for the financial year		**6,631,214.20**	**5,363,655.10**

STATEMENT OF COMPREHENSIVE INCOME

EUR		2022	2021
Profit for the financial year		**6,631,214.20**	**5,363,655.10**
Items that will not be reclassified to profit or loss			
Gains/(losses) arising from remeasurement of defined benefit plans	17	-42,686.00	1,760.00
Income tax on gains/(losses) arising from remeasurement of defined benefit plans	14	8,537.20	-352.00
Total comprehensive income for the financial year		**6,597,065.40**	**5,365,063.10**

BALANCE SHEET

EUR	Note	31 Dec 2022	31 Dec 2021
Receivables from credit institutions	9	17,996,363,789.04	14,814,634,687.68
Derivative contracts	10	7,481,809.27	170,199,655.59
Receivables from customers	11	2,787,526,065.22	3,584,444,587.19
Investment assets	12	40,000.00	40,000.00
Other assets	13	88,025,238.73	31,241,430.01
Tax assets	14	98,086.91	
Total assets		**20,879,534,989.17**	**18,600,560,360.47**
Liabilities to credit institutions	15	2,250,000,000.00	1,570,000,000.00
Derivative contracts	10	1,201,138,426.24	52,965,536.44
Debt securities issued to the public	16	16,970,556,963.47	16,579,276,014.86
Provisions and other liabilities	17	86,294,632.59	27,893,172.13
Tax liabilities	14	233,886.36	348,650.09
Total liabilities		**20,508,223,908.66**	**18,230,483,373.52**
Shareholders' equity			
Shareholders' interest			
Share capital		60,000,000.00	60,000,000.00
Reserve for invested non-restricted equity		245,000,000.00	245,000,000.00
Retained earnings		66,311,080.51	65,076,986.95
Total equity	18	**371,311,080.51**	**370,076,986.95**
Total liabilities and shareholders' equity		**20,879,534,989.17**	**18,600,560,360.47**

CASH FLOW STATEMENT

TEUR	2022	2021
Cash flow from operating activities		
Profit for the financial year	6,631	5,364
Adjustments to profit for the financial year	-30,736	-14,640
Increase (-) or decrease (+) in operating assets	**-2,423,082**	**-2,976,898**
Receivables from credit institutions	-3,146,141	-3,918,101
Receivables from customers	779,843	943,822
Other assets	-56,784	-2,620
Increase (+) or decrease (-) in operating liabilities	**738,359**	**72,628**
Liabilities to credit institutions	680,000	70,000
Derivative contracts	41,641	12,913
Provisions and other liabilities	16,718	-10,285
Income tax paid	-1,862	-257
Dividends received	1	1
A. Net cash from operating activities	**-1,710,689**	**-2,913,803**
Cash flow from financing activities		
Increases in debt securities issued to the public	3,251,640	3,807,890
Decreases in debt securities issued to the public	-1,500,000	-1,000,000
Dividends paid and interest on cooperative capital	-5,363	-6,381
B. Net cash used in financing activities	**1,746,277**	**2,801,509**
Net change in cash and cash equivalents (A+B)	**35,588**	**-112,293**
Cash and cash equivalents at year-start	**102,402**	**214,695**
Cash and cash equivalents at year-end	**137,989**	**102,402**

Notes to cash flows are presented in Note 21.

STATEMENT OF CHANGES IN EQUITY

TEUR	Note	Share capital	Reserve for invested non-restricted equity	Retained earnings	Total
Shareholders' equity 1 Jan 2022	18	60,000	245,000	65,077	370,077
Profit for the financial year				6,631	6,631
Other comprehensive income for the period				-34	-34
Profit distribution				-5,363	-5,363
Shareholders' equity 31 Dec 2022		60,000	245,000	66,311	371,311

Shareholders' equity 1 Jan 2021	18	60,000	245,000	66,093	371,093
Profit for the financial year				5,364	5,364
Other comprehensive income for the period				1	1
Profit distribution				-6,381	-6,381
Shareholders' equity 31 Dec 2021		60,000	245,000	65,077	370,077

NOTES TO THE FINANCIAL STATEMENTS

Table of contents for the notes to the financial statements

APPENDIX 1. Accounting policies

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

A new Act on Mortgage Credit Banks and Covered Bonds (Laki kiinnitysluottopankeista ja katetuista joukkolainoista 151/2022) entered into force on 8 July 2022. The new law implemented a directive concerning covered bonds and it revoked the Act on Mortgage Credit Banks (Laki kiinnitysluottopankkitoiminnasta 688/2010). On 30 June 2022, the Finnish Financial Supervisory Authority granted OP MB a licence to engage in mortgage credit bank operations in accordance with section 8 of the Act on Mortgage Credit Banks and Covered Bonds (Laki kiinnitysluottopankeista ja katetuista joukkolainoista).

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.

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 8 February 2023, and the Board of Directors approved the financial statements on 8 February 2023.

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 2022. 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 2022, OP MB adopted the following standards and interpretations:

- Amendments to IAS 37 and IFRS 9 took effect on 1 January 2022. The amendments had no 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.

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

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.

Sustainability and corporate responsibility

Sustainability and corporate responsibility form an integral part of OP Financial Group's business and strategy and responsible business is one of OP Financial Group's strategic priorities. OP Financial Group published its new sustainability programme in August 2022. The new sustainability programme and its policy priorities implement OP Financial Group's strategy, guiding the sustainability actions taken by the business units and OP cooperative banks. OP Financial Group's sustainability programme is built around three themes: Climate and the environment, People and communities and Corporate governance.

The management has assessed that the sustainability themes affect the following sub-areas in OP MB's financial statements:

- Expected credit losses (Note 11)
- OP Mortgage Bank Green Covered Bond (Note 16)

Expected credit losses

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

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

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

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

The actual measurement of ECL figures is performed using the ECL models, except if it is mainly the question of a large corporate exposure in stage 2 or 3 and on the watch list, in which case the ECL is calculated using the cash flow based ECL method based on expert judgement. Management judgement is involved in expert judgements.

Extra provisions based on management overlay directly to the ECL figures (post-model adjustments) are intended only for temporary use until an unpredictable event caused by the overlay provision or circumstance could have been taken into account in the ECL models. In the macro scenario, the existing ECL models take account of Environmental, Social and Governance (ESG) risks of sustainable development, whose measurement includes an assessment of economic impacts where the use of fossil energy is reduced, so that carbon neutrality will be achieved by 2035.

Calculations of loss allowance and the related key uncertainties are presented in Note 11. Receivables from customers.

Russia's aggressive war in Ukraine

The management has assessed that Russia's aggressive war in Ukraine may have an indirect effect on OP MB's income and risks as a result of customers' changed business conditions, and a direct effect due to the general situation in the market and obstruction of the technical infrastructure. The impacts may be realised, for example, in the following ways:

- higher impairment loss on receivables
- effects of extensive sanctions and counter sanctions on OP MB or its customers' activities
- higher price of wholesale funding
- problems in business continuity as a result of cyber attacks on OP MB or its customers.

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. Note 3.
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. Note 4.
Personnel costs	Wages and salaries, pension costs, social expenses. Note 5.
Other operating expenses	Office expenses, ICT costs, other administrative expenses, charges of financial authorities and auditors, rents and other expenses. Note 6.
Impairment loss on receivables	Expected credit losses from customers and final credit losses and their reversals. Note 7.

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 a share of the return (as agreed in the fee model) to the OP cooperative bank that granted the loan to the customer. 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.

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. (Note 20. Financial instruments classification, grouped by valuation technique)

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 Financial Group estimates the expected cash flows by considering all the contractual terms of the financial instrument excluding the expected credit losses (ECL). The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. Fees that are an integral part of the rate of a financial instrument include office and origination fees related to loan drawdown and they are amortised over the expected life of the financial instrument or a shorter period if that is appropriate. Fees that are not an integral part of the effective interest rate of a financial instrument are accounted for in accordance with IFRS 15. These include fees charged for servicing a loan, for example.

Loans are entered in OP MB's balance sheet if they have been granted directly from its balance sheet or if an OP cooperative bank has sold the loans to OP MB at market price, with the credit risk, interest rate risk and funding risk having transferred to OP MB with the sale. These loans are presented in the balance sheet under 'Receivables from customers'. (Note 11. Receivables from customers)

In its operations, OP MB applies an intermediary loan model, which means that OP MB grants an intermediary loan to an OP cooperative bank, against which the OP cooperative bank provides mortgages as collateral for covered bonds issued by OP MB. These intermediary loans are 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 Financial Group 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, the central cooperative consolidated applies the effective interest rate to the amortised cost of the financial asset (i.e. to the net carrying amount after the deduction of the expected credit loss).

Initial recognition and measurement

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

Classification and subsequent measurement of financial assets

OP MB classifies financial assets into the following categories:

- Fair value through profit or loss (FVTPL)
- Fair value through other comprehensive income (FVOCI)
- Amortised cost.

Loans

The classification of loans and notes and bonds depend on the following factors:

a) OP MB's business model for managing the financial assets
b) The contractual cash flow characteristics of the financial asset.

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

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

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

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

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

Business model

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

Cash flow characteristics

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

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

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

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

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

Equity instruments

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

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

Modification of contractual cash flows

Modifications in the contractual payment terms are made as a normal measure related to the management of customer relationship but also in situations where the customer's repayment capacity has deteriorated. The modification to the loan due to the customer's deteriorated repayment capacity is recognised as forbearance which typically, for example, means a moratorium for a limited time. Generally, in these cases, the contractual cash flows of a loan are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that loan. In such a case, OP Corporate Bank recalculates the gross carrying amount of the loan and recognises a profit or loss on the modification in net interest income in the income statement. In addition, the loan's categorisation as forbearance transfers the loan to at least impairment stage 2 and falls within expected credit loss calculated for the entire period of validity for at least two years until the customer's repayment capacity has recovered.

Another precondition for the recovery is that after a probation period of at least two years:

- The customer has made regular and timely payments during at least half of the probation period, leading to the payment of a substantial aggregate amount of the principal or interest.
- None of the customer's exposures has been more than 30 days past due during the previous three months.

Payment modifications are subject to regular monitoring and reporting to the management as an indicator anticipating customers' solvency.

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

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

Impairment

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

1. an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes
2. the time value of money and
3. 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: Non-performing contracts for which a lifetime ECL is also calculated.

Definition of default
In the IFRS 9 based calculation, OP MB applies the same definition of default as in internal credit risk models (IRB). The central cooperative consolidated assesses default using OP Financial Group's internal rating system based on payment behaviour. For personal customers, the definition of default is applied on a contract-by-contract basis whereas corporate customers are reviewed in terms of a group of connected clients. The customer is classified as a customer in

default when the customer's repayment is considered unlikely, for example when the customer has registered payment default or it has been granted a forbearance in which the present value of the loan decreases by more than 1 per cent. Default extends to all credit obligations of an obligor in default among personal customers when a significant proportion (20 per cent) of personal customer exposures are defaulted. In addition, the contract is defaulted when a payment related to a financial asset is over 90 days past due, at the latest.

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

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

Definition of non-performing exposure

The definition of non-performing exposure includes the probation periods of non-performing forborne exposures, in addition to the exposures based on the definition of default used previously before they can be reclassified as performing. Non-performing exposure is defined in accordance with Article 47a of the Capital Requirements Regulation (EU) No. 575/2013. OP MB uses non-performing exposures as the classification criterion for impairment stage 3.

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

Significant increase in credit risk

The expected credit losses will be 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 for each contract whether the credit risk has increased significantly. Forbearance and a comparable breach of covenant are regarded as a qualitative criterion for a significant increase in credit risk and thereby give rise to transfers to impairment stage 2.

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

Measurement methods

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

PD/LGD method

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

The ECL calculation is based on three different scenarios.

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.

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 rate, unemployment rate, investment growth rate, inflation rate, change in the income level, 12-month Euribor rate and real 3-month Euribor. 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.

Recognition of expected credit losses

OP MB recognises a loss allowance for expected credit losses on a loan at carrying amount in a separate account.

Extra impairment provisions based on management judgement (management overlay)

In unusual situations (for example, rapidly escalated global crises, such as a pandemic or war), OP MB may make an ECL provision based on management judgement. The provision is temporary and remains valid as long as risk parameters used in ECL calculation have been updated to describe the changed situation. Strict monitoring criteria are applied to the extra impairment provisions made based on management judgement and they are quarterly reported to Group Executive Management.

Write-off

A write-off constitutes a derecognition event. When OP Financial Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof, the final credit loss is recognised to directly reduces the gross carrying amount of the financial asset.

A loan is derecognised when collateral securities have been realised or when the final meeting of the bankruptcy estate has been held, debt rescheduling or financial restructuring has come to an end or when collection measures have ended. Since 2022, OP MB has partially written off the amount not received already when the payment plan of the debt rescheduling or financial restructuring has been confirmed and the loan has no other parties or realisable assets. Payments received after the derecognition are recognised as an adjustment to impairment losses on receivables.

Cash and cash equivalents

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

Classification and subsequent measurement of financial liabilities

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

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

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

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

Netting

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

Derivative contracts

Derivative contracts are classified as hedging contracts and derivative contracts held for trading. OP MB uses derivatives only for hedging purposes. Derivatives are measured at fair value at all times. OP MB has prepared methods and internal principles used for hedge accounting, whereby a financial instrument can be defined as a hedging instrument. (Note 10. Derivative contracts)

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

Hedge accounting

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

The relationship between hedging and hedged instruments is formally documented. The documentation contains information on risk management principles, hedging strategy and the methods used to demonstrate hedge effectiveness. Hedge effectiveness is tested at the inception of the hedge and in subsequent periods by comparing respective changes in the fair value or cash flows of the hedging and hedged instrument. The hedge is considered effective if the change in the fair value of the hedging instrument or in cash flows offsets the change in the fair value of the hedged contract or portfolio or in cash flows within a range of 80–125%. OP MB applies hedge accounting under IAS 39 and the fair value portfolio hedging model under the EU carve-out version to hedging certain debt and loan portfolios, in which the risk of hedges is adapted if needed.

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. Items hedged through portfolio hedging comprise asset and liability items included in OP MB's balance sheet. The portfolios to be hedged are formed by putting them into issue-specific groups. The hedged items included in these groups have similar characteristics. These hedging relationships may cause ineffectiveness if there are even minor differences between the hedged item and the terms of the hedging instrument. Interest rate swaps are used as a hedging instrument.

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

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

Interest Rate Benchmark Reform

The calculation principles of the Euribor changed during 2019. In July 2019, the Financial Services and Markets Authority (FSMA) of Belgium granted authorisation related to the Euribor by virtue of the European Union Benchmark Regulation. This made it possible for the market participants to continue using the Euribor after 1 January 2020, covering both the existing and new contracts. OP Financial Group expects that the Euribor will remain the reference interest rate in the future too because the Euribor panel could have been reinforced. OP MB does not consider that the reference rate change would directly affect fair value hedges where the Euribor is the reference rate. The European Money Market Institute (EMMI), the administrator of the Euribor rate, began to publish the forward-looking €STR derivative market EFTERM rate (Euro Forward-looking term rate) during Q4/2022 for use as a replacement rate. The

EONIA rate (Euro Over Night Index Average) ceased to exist on 3 January 2022 and was replaced by the €STR published by the ECB.

OP Financial Group has a Reference Interest Rate Committee tasked with monitoring the progress of the Interest Rate Benchmark Reform and its effects on OP Financial Group and reporting the progress to the management on a regular basis. OP Financial Group has made a business continuity plan required by the Benchmarks Regulation that determines a substitute rate for contracts if the reference rates now used were no longer available and where the existing contract terms by product are identified and the effects on different parts of business are assessed. OP Financial Group will adopt reformed reference rates in new contracts, based on market practice. When it comes to the old portfolio of contracts, the changes will be implemented by adopting practices applied in the market to replace IBORs.

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-Eläkesäätiö 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-Eläkesäätiö 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-Eläkesäätiö 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-Eläkesäätiö and acceptable insurance.

Defined benefit pension plan 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. (Note 17. Other liabilities)

Short-term employee benefits

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

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

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. (Note 5. Personnel costs)

INCOME TAX

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

Deferred tax liabilities are recognised for temporary taxable differences between the carrying amount of assets and liabilities and their tax base. 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 (Note 14. Tax assets and tax liabilities).

SEGMENT REPORTING

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

NEW STANDARDS AND INTERPRETATIONS

Amendments to IAS 1, IAS 8 and IAS 12 will take effect on 1 January 2023. The amendments will not have any major effect on OP MB's financial statements.

OP Mortgage Bank's risk management principles

1 Overview of OP Mortgage Bank's (OP MB's) significant risks

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

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

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

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

For consideration by OP Financial Group's management, the second line of defence prepares a risk management framework within the limits of which the first line of defence implements risk-taking and risk management related to its daily business. The second line of defence supports the first line of defence by consulting it and constructively challenging especially in matters that are part of its own expertise. The second line of defence also oversees compliance with regulation and OP Financial Group's guidance framework; independently analyses the balance between earnings, risks and capital and liquidity acting as buffers; and ensures business continuity during incidents.

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

2 OP MB' significant risks: sources and management

2.1 Definitions and sources of significant risks

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

Credit risks	Credit risk refers to the risk of a contracting party to a financial instrument being unable to fulfil its contractual repayment obligations, and thereby causing a financial loss to the other party.
Liquidity risks	A liquidity risk is the risk of liquidity or capital availability being insufficient to realise business goals as laid down in the strategy. It is caused by the timing of inflowing or outgoing cashflows (payments) and/or imbalances between them. Liquidity risks include concentration risk, market liquidity risk and refinancing risk. Concentration risk is caused by the concentration of financing across time, or between certain counterparties or instruments. Market liquidity risk is the risk of failure to execute market transactions within a desired time and/or at an estimated price, or of a contraction in the liquid assets owned by a bank. Refinancing risk involves the risk that a debt cannot be refinanced on the market.
Market risks	Market risk refers to an unfavourable change related to the value of a contract or contract revenue due to price changes observed in the financial market. Market risks include interest rate, currency, volatility, credit spread, equity and property risks associated with on- and off-balance sheet items as well as other potential price risks.

Counterparty risks	Counterparty risk refers to the risk that a party to a derivative contract, repurchase agreement (Repo), trade or reinsurance contract will fail to fulfil its financial obligations, accompanied by a risk of growing costs due to the obtaining of a corresponding, replacement contract. A special feature of counterparty risk is a change in the risk level alongside the agreement's market value, due to which contractual risk can grow after an agreement is made.
Operational risks	Operational risk is caused by all business operations and may result from insufficient or incorrect practices, processes, systems or external factors. OP Financial Group's operational risks also include ICT and security risks. Operational risk related to data capital means potential losses, loss of reputation or deterioration of operations caused by uncertainty in decision-making, management and reporting related to data and the information derived from it.
Compliance risks	Risks caused by non-compliance with external regulation, internal policies, appropriate procedures or ethical principles governing customer relationships.
Model risks	Model risk refers to potential losses or loss of reputation caused by decisions made on the basis of the results of models, due to errors made in the development, implementation or use of such models. In this context, a model is a method used to translate source data based on mathematics, statistics and expert assessments into data guiding business decisions or quantitative data related to financial position or risk exposure.
Reputational risks	This is the risk of a weakening in reputation or trust, primarily due to the simultaneous realisation of an individual risk or several risks, or to some other kind of negative publicity.
Concentration risks	Risks that may arise due to a business having an excess concentration of risk in individual customers, products, lines of business, maturity periods or geographical areas. Concentration risk can also arise due to a concentration of service providers or processes.
Risks associated with future business	Risk associated with the conditions and volumes on which similar or entirely new agreements are based. This also includes a 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.

2.2 Banking risks

2.2.1 Credit risks

OP MB has no independent customer business or a service network of its own. Its 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. Framework agreements between OP MB and the OP cooperative banks specify obligations and rights related to the utilisation of OP MB's financing, and credit risk management. OP cooperative banks take care of credit decisions, customer relationships and loan management at local level in accordance with instructions issued by OP Financial Group and OP MB.

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

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

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

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

Collateral management is based on an independent collateral assessment, the validity of pledges and the fact that the collateral can be realised so that we can continuously maintain a realistic view of the hard collateral securities that secure receivables. The values of assets pledged in security of receivables must give a true and real-time picture of the collateral position related to the entire loan portfolio as well as individual customers. The financial standing of the collateral asset owner must be considered when valuing collateral securities. The weaker is the asset owner's financial standing, the bigger should be the weight of the realisation value in estimating the collateral asset.

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

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

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

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

Measuring credit risk

OP Financial Group measures credit risk using the ratio of economic capital requirement for credit risk to exposures at default (EAD), the ratio of non-performing receivables to exposures, and the ratio of expected credit losses (ECL) to exposures at default EAD. The risk policy sets limits for these metrics. In addition, loan portfolio concentrations are monitored by customer, industry and country. The Group also measures the growth differential of the loan portfolio and credit risk economic capital to ensure balance between growth and risk-taking. Limits deriving from Group-level limits have been set for the business segments engaged in banking.

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

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

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

OP Financial Group’s internal credit rating system

‘Rating’ refers to the use of models, methods, processes, supervision, data collection and IT systems that support credit risk management, credit risk assessment, the assignment of exposures to rating grades or pools, and the quantification of default and loss estimates developed for certain types of exposures. OP Financial Group’s rating system applies to all Group entities. The Board of Directors of OP Cooperative considers and approves the credit rating principles as part of the Risk Appetite Framework document. From the viewpoint of OP, the most significant part of the credit rating system is the rating model for the personal customer portfolio.

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

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

2.2.2 Liquidity risks

Liquidity regulation as such is not applied to the amalgamation’s companies. However, with the ECB’s permission, the central cooperative may give member banks special permission to deviate from the liquidity regulation. As the central institution of the amalgamation of cooperative banks, OP Cooperative has granted its member credit institutions special permission, under the Act on the Amalgamation of Deposit Banks. Pursuant to the Act, the liquidity requirements set for credit institutions mentioned in Part VI of the EU Capital Requirements Regulation are not applied to OP Cooperative’s member credit institutions. Liquidity based on the regulation is subject to supervision and reporting at the level of the cooperative banks’ amalgamation. To fulfil the prerequisite for granting special permission, the central cooperative gives the amalgamation’s companies instructions on the risk management needed to secure liquidity and meet other qualitative requirements, and supervises compliance with these instructions.

The central cooperative senior management is responsible for organising OP Financial Group's centralised liquidity risk management according to liquidity strategy policy lines. It must ensure that management and supervision of the amalgamation's liquidity accord with the scope and quality of business, and fulfil regulatory requirements, at all times. In sales control of borrowing and lending, the management pays attention not only to growth and profitability targets but also to liquidity features.

As OP Financial Group's treasury, OP Corporate Bank plc is tasked with securing the liquidity of the entire Group and each OP cooperative bank or Group company. The Group places its entities' liquidity in its Treasury's cheque account with the Bank of Finland. This means that the Group always manages its overall liquidity position through the central bank cheque account.

OP Financial Group's Treasury is in charge of the Group's wholesale funding, manages the Group's short-term liquidity, maintains the liquidity buffer, manages the Group's minimum reserve on a centralised basis, and is responsible for managing intraday liquidity risk. In addition, OP Financial Group's Group Treasury ensures that liquidity and maintenance of the minimum reserve are managed in accordance with each country's regulatory requirements. On a centralised basis, OP Corporate Bank manages the Group's wholesale funding in the form of debt capital and equity capital, while OP MB manages wholesale funding based on covered bonds. Companies that fall within the scope of joint liability of market-based financing seek financing from Group Treasury and other companies from OP Corporate Bank's banking operation.

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

OP MB is OP Financial Group's mortgage credit bank. The Act on Mortgage Credit Banks (688/2010) is applied to bonds issued by OP MB before 8 July 2022 and to commitments related to them. The Act on Mortgage Credit Banks and Covered Bonds (151/2022) is applied to bonds issued by OP MB on or after 8 July 2022 and to commitments related to them. The Board of Directors of OP MB sets a quantitative target for the proportion of the mortgage bank to the entire OP Financial Group's credit institution business.

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

In its annual planning, OP MB assesses the sufficiency of available collateral in the banks' balance sheets in order to implement planned issues. OP cooperative banks' mortgages are used as collateral for covered bonds issued by OP MB. OP MB is responsible for managing the sufficiency of collateral in accordance with applicable legislation and regulations.

OP MB ensures the management of its daily liquidity and, as part of its annual planning, makes an assessment of the sufficiency of liquidity. OP MB's Board of Directors monitors regularly that the company's interest rate and funding risk exposure remain within the limits set in internal risk policies and applicable legislation.

2.2.3 Market risks

The interest rate risk arises mainly from the differences in the bases of interest rates for the loan portfolio available as collateral for bonds, and its funding, the differences in interest rate caps associated with loans and derivatives designated as their hedging instruments, as well as the company's equity capital.

In the mortgage bank business, derivate contracts may be entered into only to hedge against risks. OP MB hedges the interest rate risk associated with the loans in its balance sheet through asset swaps and, in other respects, through derivative contracts with OP Corporate Bank plc. The Banking risk policy sets a limit for OP MB's interest rate risk. OP MB prepares an interest rate risk management plan on an annual basis.

The independent central cooperative Risk Management produces a monthly interest rate risk report to OP MB and a quarterly report to OP MB's Board of Directors that includes information on the amount of the interest rate risk and the limit utilisation rate. OP MB's management, Group Treasury and Asset and Liability Management monitor the amount of the interest rate risk on a monthly basis.

2.2.4 Operational risks

Management of operational risks at OP MB

Operational risk management at OP MB aims to ensure the efficiency and quality of key business processes and functions, as well as their continuity in abnormal circumstances. Operational risk management is based on continuous risk identification and analyses. Risk identification also takes account of forthcoming and emerging business risks, climate and environmental impacts, security threats and external requirements, and the required risk mitigation is planned in a risk-based manner. The purpose of business continuity management is to minimise the financial impact of possible incidents, the duration of an outage and any adverse reputational impacts.

Operational risk management is aimed at ensuring that no unforeseeable financial losses or other harmful consequences occur. Due to the qualitative nature of operational risks, it's not possible to ever fully protect against them, nor to prevent their adverse effects in all cases. Operational risk management does not aim to eliminate risk in every case, but to mitigate risks, holding them at an acceptable level.

OP MB's management of security risks and security work seeks to foster a culture of security throughout the organisation, and to develop and maintain the desired security level by focusing on preventive measures and the effective management of threats and incidents. When a threat occurs, the primary goal is to ensure personal security and the second priority is to protect property and data.

The management of ICT risks aims at ensuring the security, availability and quick recovery of data communications and systems that support them during an incident. It is the responsibility of every system owner to see to it that the abovementioned goals are also achieved by external ICT service providers.

The key elements of OP MB's operational risk management include:

- A clear organisational structure and defined responsibilities
- Designation of process owners responsible for the efficiency and quality of processes, and for regulatorily compliance in line with their duties and responsibilities
- Personnel who must have the required competences and qualifications, and the responsibilities and targets that are set and described clearly and communicated appropriately.
- Permissions and authorisations to access data and ICT systems that are based on work duties and that are limited to the data and ICT systems that the employee needs in performing their duties. The company's management is responsible for access rights management and control. This includes defining how to avoid inadequate segregation of duties.
- Ensuring that information and cyber security are adequate and up to date. This is implemented through monitoring, systematic technical arrangements, daily monitoring measures and targeted information security audits.
- Verifying the accuracy of all data. The company's management and process owners are responsible for the usability, integrity, confidentiality and availability of data with the aid of technical and administrative measures as well as for protecting data from unauthorised access and illegal or accidental information processing.
- Identification and categorisation of data repositories according their criticality, in view of confidentiality, integrity and availability. Responsibility for categorisation and the measures required to protect the data rests with the data repository owner. A data repository is a set of data created for a certain purpose, such as an application with

databases or a data set or table created for analytical purposes.

The management and process owners within companies are responsible for identifying and evaluating the risks associated with business processes, services and products and the ICT systems they involve, and for implementing the controls required to achieve an acceptable risk level and ensure process functionality and efficiency. Opt to automate or partially automate controls when possible.

OP MB enforces the framework and procedures for operational risk management in OP Financial Group. OP Financial Group's operational risk management framework is divided into backward-looking (e.g. operational risk events), current situation based and proactive procedures (risk and control self-assessment, business continuity management, and RCSA regarding new products). The central cooperative's Risk Management is responsible for OP Financial Group's operational risk management framework, its maintenance and development, and issues more detailed instructions on operational risk management procedures followed in OP Financial Group. Risk Management maintains a shared risk library system for identifying operational risks at OP Financial Group – which includes cause, impact, standard risk and control libraries – and which it reviews regularly to ensure that the system is comprehensive and up to date.

OP Financial Group manages the control, responsibilities, supervision and development of security by means of the Corporate Security Principles, which are approved by the Board of Directors of OP Cooperative and which enable coherent Group-wide security work. The principles and derived guidelines constitute the corporate security governance model.

OP Financial Group uses a centralised cyber security governance model to manage, supervise and report on cyber security. The Cyber Security organisation provides more detailed procedures and operating instructions on implementing and ensuring information security within the Group and managing any information security violations detected. The cyber security operating instructions are policies which guide our activities and must be complied with when developing or procuring new systems and solutions. OP Financial Group's Cyber Security is in charge of processes and guidelines on managing deviations from the instructions.

NOTES TO THE INCOME STATEMENT

NOTE 3. Net interest income, TEUR	2022	2021
Interest income		
From receivables from credit institutions		
Interest	22,546	-47,997
From receivables from customers	15,394	18,420
From available-for-sale notes and bonds		
From derivative contracts		
From hedge accounting	16,801	2,801
From liabilities to credit institutions		
Negative interest	2,356	699
Other interest income		1
Total interest income (2021: expense)	**57,097**	**-26,076**
Interest expenses		
From liabilities to credit institutions	8,430	-3,599
From derivative contracts		
Held for trading		
From hedge accounting	1,272,175	197,882
From debt securities issued to the public	-1,262,034	-262,435
Other interest expenses		0
Total interest expenses (2021: income)	**18,571**	**-68,151**
Net interest income	**38,526**	**42,075**

Net income calculated using the effective interest method totalled TEUR 37,940 (-29,577).
The negative figures shown in the table are negative interest income/expenses.

NOTE 4. Net commissions and fees, TEUR	2022	2021
Commission income		
From lending	2,812	3,435
Total	**2,812**	**3,435**
Commission expenses		
From lending to OP cooperative banks	2,705	3,283
Loan management fee to OP cooperative banks	21,089	25,860
Issue of bonds	49	87
Other	8	8
Total	**23,852**	**29,238**
Net commissions and fees	**-21,041**	**-25,804**

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

NOTE 5. Personnel costs, TEUR	2022	2021
Wages and salaries	487	408
Pension costs		
Defined contribution plans	84	66
Defined benefit plans	-1	0
Total	83	66
Other indirect personnel costs	12	13
Total personnel costs	**583**	**487**

The average number of employees was seven (7) in 2022.

Remuneration schemes

OP Financial Group's variable remuneration comprises a performance-based bonus scheme and the personnel fund.

Personnel fund

OP Mortgage Bank belongs to OP Ryhmän henkilöstörahasto personnel fund. Payment of profit-based bonuses to the personnel fund in 2022 was based on the achievement of the following targets: growth differential between OP Financial Group's income and expenses with a weight of 50% and net growth in customers using OP as their main bank and insurer with a weight of 50%. Profit-based bonuses for 2022 transferred to the personnel fund account for some 1.5% (2.8%) of the combined salaries and wages earned by the Fund's members.
Bonuses recognised in 2022 totalled 6 thousand euros (11).

Performance-based bonus scheme

The performance-based bonus scheme's performance period is one calendar year, and the bonus is paid in cash. Performance-based bonuses are based on targets set for each company, team and person derived from the annual plan, covering all personnel of OP Financial Group. The bonus is determined by the job grade and the maximum bonuses correspond to a 1–12-month annual salary.

Performance metrics of the performance-based bonus scheme in 2022:
A factor applies to the bonus created through the achievement of the targets achieved in the central cooperative consolidated companies that is based on the central cooperative consolidated's EBT. Targets shown in the balanced scorecards and derived from annual planning are decided by the business lines/functions. The Group-level metrics common to all OP Financial Group's executives were 'Growth differential between OP Financial Group's income and expenses' with a 20% weight and 'Net growth in customers using OP as their main bank and insurer' with a 20% weight.
In addition to the achievement of the performance metrics related to the performance-based bonus, qualitative assessment affects bonus payout, where the supervisor assesses a person's performance in view of compliance with regulation and instructions. The assessment also takes account of sustainability risks regarding the roles of persons for whom consideration of sustainability risks is an integral part of their duties. The performance-based bonus will be cut on the basis of the severity and number of offences using a factor of 0–1.

Conditions for payment of variable remuneration in 2022:

Bonuses will be paid provided that OP Financial Group's CET1 ratio exceeds the level at which, if exceeded, no restrictions apply to profit distribution +2%, and the LCR exceeds 110% in the financial statements of the year preceding the bonus payout date. Another condition is that the person has not resigned from OP Financial Group before the payout date and that the OP Financial Group company shows a profit.

If it is noted in retrospect that an employee has been paid a bonus in violation of the performance-based bonus scheme, the company's Board of Directors has the right to decide on the non-payment of all or part of the variable remuneration, or on the clawback of paid bonuses, if the bonus payout is in violation of regulation or OP Financial Group's internal guidelines.

Expenses for the scheme are recognised from the beginning of the performance period up to the date of payout (vesting period) as personnel costs, and the equivalent liability is recognised under deferred expenses.

OP Cooperative's Board of Directors decides on the terms and conditions of OP Financial Group's performance-based bonus scheme, maximum bonuses based on job grades and a structural framework within which companies belonging to the Group can select the scheme metrics and set related targets.

A liability recognised under the scheme amounted to 48 thousand euros (43) on 31 December 2022.

Monitoring of OP Financial Group's remuneration

OP Financial Group monitors the market consistency of its total remuneration on a regular basis using various salary surveys.

The Nomination and Remuneration Committee of OP Cooperative annually monitors the proportion of paid bonuses to the success of OP Financial Group vis-à-vis benchmark companies and refunds paid to customers. OP Financial Group also makes internal, Group-level comparisons of remuneration and structures on a regular basis.

NOTE 6. Other operating expenses, TEUR	**2022**	**2021**
Rental expenses	6	6
Government charges and audit fees	658	596
Membership fees	244	584
Office expenses	1,102	813
ICT costs		
Production	4,063	3,605
Development	1,041	1,220
Telecommunications	2	2
Marketing	1	1
Other administrative expenses	45	156
Insurance and security costs	629	247
Experts' costs	1,321	1,301
Other	52	60
Total	**9,164**	**8,591**

Fees paid to auditors by assignment

Auditing	53	50
Other audit opinions	2	0
Other services	55	32
Total	**110**	**82**

Non-audit services provided by KPMG Oy Ab totalled TEUR 55 (32) (excl. VAT). The corresponding figures for 2021 are shown in brackets.

NOTE 7. Impairment loss on receivables, TEUR	**2022**	**2021**
Receivables written down as loan and guarantee losses	144	143
Recoveries of receivables written down	-7	-18
Expected credit losses (ECL) on receivables from customers and off-balance-sheet items	-686	366
Total	**-548**	**491**

Impairment loss on receivables related to loans in OP MB's balance sheet totalled EUR 0.5 million (–0.5). Loss allowance was EUR 2.4 million (3.1).

Loss allowance is itemised in Note 11.

NOTE 8. Income tax, TEUR	**2022**	**2021**
Current tax	1,747	1,334
Deferred tax	-89	6
Income tax expense on the income statement	**1,657**	**1,341**
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	8,289	6,704
Share of profit according to the tax rate	1,658	1,341
Other	0	0
Income tax expense on the income statement	**1,657**	**1,341**

NOTES TO ASSETS

NOTE 9. Receivables from credit institutions, TEUR	31 Dec 2022	31 Dec 2021
Receivables from credit institutions		
Deposits		
Repayable on demand	137,989	102,402
Other		
Other than repayable on demand from OP Financial Group entities	17,858,374	14,712,233
Total receivables from credit institutions	**17,996,364**	**14,814,635**

NOTE 10. Derivative contracts, TEUR	31 Dec 2022	31 Dec 2021
Derivative contracts		
Hedging derivative contracts		
Fair value hedges		
Interest rate derivatives	7,482	170,200
Total derivative contracts, balance sheet assets	**7,482**	**170,200**
Derivative contracts under hedge accounting		
Hedging derivative contracts		
Fair value hedges		
Interest rate derivatives	1,201,138	52,966
Total derivative contracts under hedge accounting, balance sheet liabilities	**1,201,138**	**52,966**

Derivative contracts held for hedging – fair value hedging 31 Dec 2022

	Nominal values/residual term to maturity				Fair values		
	Less than 1 year	1–5yrs	>5 yrs	Total	Assets	Liabilities	Credit equivalent
Interest rate derivatives							
Interest rate swaps	2,267,550	9,609,357	5,240,450	17,117,357	7,482	1,201,138	145,147
Total interest rate derivatives	**2,267,550**	**9,609,357**	**5,240,450**	**17,117,357**	**7,482**	**1,201,138**	**145,147**

Derivative contracts held for hedging – fair value hedging 31 Dec 2021

	Nominal values/residual term to maturity				Fair values		
	Less than 1 year	1–5yrs	>5 yrs	Total	Assets	Liabilities	Credit equivalent
Interest rate derivatives							
Interest rate swaps	2,397,318	8,481,885	6,139,450	17,018,653	170,200	52,966	339,563
Total interest rate derivatives	**2,397,318**	**8,481,885**	**6,139,450**	**17,018,653**	**170,200**	**52,966**	**339,563**

Effects of hedge accounting on financial position and result, TEUR

	Interest rate risk hedge	
Fair value hedges	31 Dec 2022	31 Dec 2021
Carrying amount of hedged receivables *	2,787,526	3,584,445
of which the accrued amount of hedge adjustments	-26,096	6,726
Carrying amount of hedged liabilities **	11,827,245	12,109,246
of which the accrued amount of hedge adjustments	-1,204,152	123,960

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

	Interest rate risk hedge	
Fair value hedges	31 Dec 2022	31 Dec 2021
Changes in fair value of hedging derivatives	-1,310,891	-299,659
Change in value of hedged item that is used as basis for recognition of ineffective hedge during period	1,310,443	299,659
Hedge ineffectiveness presented in income statement	-448	

NOTE 11. Receivables from customers, TEUR	31 Dec 2022	31 Dec 2021
Loans to the public and public sector entities	2,789,972	3,587,576
Loss allowance	-2,446	-3,132
Total receivables from customers	**2,787,526**	**3,584,445**

Credit risk exposures and related loss allowance

Exposures within the scope of accounting for expected credit losses by impairment stage

Exposures 31 December 2022	Stage 1	Stage 2			Stage 3	
TEUR		Not more than 30 DPD	More than 30 DPD	Total		Total exposure
Receivables from customers (gross)						
Mortgage-backed loans	2,484,349	281,727	1,545	283,271	51,967	2,819,588
Receivables from customers	**2,484,349**	**281,727**	**1,545**	**283,271**	**51,967**	**2,819,588**

Loss allowance by impairment stage 31 December 2022

TEUR	Stage 1	Stage 2			Stage 3	Total exposure
		Not more than 30 DPD	More than 30 DPD	Total		
Receivables from customers						
Mortgage-backed loans	-38	-156	-5	-161	-2,247	-2,446
Total receivables from customers	**-38**	**-156**	**-5**	**-161**	**-2,247**	**-2,446**

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

Summary and key indicators 31 December 2022

TEUR	Stage 1	Stage 2			Stage 3	Total exposure
		Not more than 30 DPD	More than 30 DPD	Total		
Receivables from customers						
Mortgage-backed loans	2,484,349	281,727	1,545	283,271	51,967	2,819,588
Loss allowance						
Mortgage-backed loans	-38	-156	-5	-161	-2,247	-2,446
Coverage ratio, %						
Mortgage-backed loans	0.0 %	-0.1 %	-0.3 %	-0.1 %	-4.3 %	-0.1 %
Receivables from customers	**2,484,349**	**281,727**	**1,545**	**283,271**	**51,967**	**2,819,588**
Total loss allowance	**-38**	**-156**	**-5**	**-161**	**-2,247**	**-2,446**
Total coverage ratio, %	**0.0 %**	**-0.1 %**	**-0.3 %**	**-0.1 %**	**-4.3 %**	**-0.1 %**

Exposures within the scope of accounting for expected credit losses by impairment stage

Exposures 31 December 2021	Stage 1	Stage 2			Stage 3	
TEUR		Not more than 30 DPD	More than 30 DPD	Total		Total exposure
Receivables from customers (gross)						
Mortgage-backed loans	3,134,901	383,754	967	384,721	63,270	3,582,892
Receivables from customers	**3,134,901**	**383,754**	**967**	**384,721**	**63,270**	**3,582,892**

Loss allowance by impairment stage 31 December 2021

TEUR	Stage 1	Stage 2			Stage 3	Total exposure
		Not more than 30 DPD	More than 30 DPD	Total		
Receivables from customers						
Mortgage-backed loans	-60	-259	-5	-263	-2,809	-3,132
Total receivables from customers	**-60**	**-259**	**-5**	**-263**	**-2,809**	**-3,132**

Summary and key indicators 31 December 2021

TEUR	Stage 1	Stage 2			Stage 3	Total exposure
		Not more than 30 DPD	More than 30 DPD	Total		
Receivables from customers						
Mortgage-backed loans	3,134,901	383,754	967	384,721	63,270	3,582,892
Loss allowance						
Mortgage-backed loans	-60	-259	-5	-263	-2,809	-3,132
Coverage ratio, %						
Mortgage-backed loans	0.0 %	-0.1 %	-0.3 %	-0.1 %	-4.4 %	-0.1 %
Receivables from customers	**3,134,901**	**383,754**	**967**	**384,721**	**63,270**	**3,582,892**
Total loss allowance	**-60**	**-259**	**-5**	**-263**	**-2,809**	**-3,132**
Total coverage ratio, %	**0.0 %**	**-0.1 %**	**-0.3 %**	**-0.1 %**	**-4.4 %**	**-0.1 %**

Loss allowance	Receivables from customers			
TEUR	Stage 1 12 months	Stage 2 Lifetime	Stage 3 Lifetime	Total
Loss allowance on 1 January 2022	**60**	**263**	**2,809**	**3,132**
Transfers from Stage 1 to Stage 2	-8	53	0	45
Transfers from Stage 1 to Stage 3	-1	0	121	120
Transfers from Stage 2 to Stage 1	9	-64	0	-55
Transfers from Stage 2 to Stage 3		-34	369	335
Transfers from Stage 3 to Stage 2		23	-353	-330
Transfers from Stage 3 to Stage 1	0		-28	-28
Decreases due to derecognition	-4	-16	-282	-302
Changes in risk parameters	-18	-64	-292	-374
Changes in model assumptions and methodology	0	0	1	1
Allowances due to recognised write-off		0	-98	-98
Total net result effect	**-21**	**-102**	**-562**	**-686**
Loss allowance on 31 December 2022	**38**	**161**	**2,247**	**2,446**

Loss allowance	**Receivables from customers**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
TEUR	**12 months**	**Lifetime**	**Lifetime**	
Loss allowance on 1 January 2021	**61**	**430**	**2,275**	**2,766**
Transfers from Stage 1 to Stage 2	-3	66		63
Transfers from Stage 1 to Stage 3	0		178	178
Transfers from Stage 2 to Stage 1	16	-26		-10
Transfers from Stage 2 to Stage 3		-45	909	865
Transfers from Stage 3 to Stage 2		24	-201	-178
Transfers from Stage 3 to Stage 1	0		-17	-17
Increases due to origination and acquisition				0
Decreases due to derecognition	-1	-19	-203	-224
Changes in risk parameters	-32	-200	18	-214
Changes in model assumptions and methodology	19	34		53
Allowances due to recognised write-off			-150	-150
Other adjustments				0
Total net result effect	**-1**	**-166**	**534**	**366**
Loss allowance on 31 December 2021	**60**	**263**	**2,809**	**3,132**

The table below presents gross exposures of receivables by rating as well as loss allowance. Internal grades 1–12 are used in the internal rating of corporations and public-sector entities, and grades A–F in the internal rating of households. Internal grades have been combined into the table in such a way that the corporate customer grade 2 comprises grades 2 and 2.5 etc. Internal grade A for personal customers includes A+, A and A- etc.

31 December 2022

TEUR	**Balance sheet exposures**			**Loss allowance**		
Rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
4	935			0		
5	1,712			0		
6	152	571		0		
7	106					
8		23				
A	1,790,644	26,131		-4	0	
B	459,771	67,274		-7	-3	
C	155,633	77,691		-10	-13	
D	75,396	69,031		-18	-38	
E		42,552			-107	
F			51,967			-2,247
Total	**2,484,349**	**283,271**	**51,967**	**-38**	**-161**	**-2,247**

31 December 2021

TEUR	**Balance sheet exposures**			**Loss allowance**		
Rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
4	1,009			0		
5	2,898			0		
6	562	60		0	0	
7	3	62		0		
8	13	151				
9		58				
A	2,244,718	37,329		-6	-1	
B	566,041	85,686		-10	-9	
C	221,628	93,612		-17	-15	
D	98,029	110,478		-27	-77	
E		57,286			-161	
F			63,270			-2,809
Total	**3,134,901**	**384,721**	**63,270**	**-60**	**-263**	**-2,809**

NOTE 12. Investment assets, TEUR	**31 Dec 2022**	**31 Dec 2021**
Financial assets at fair value through other comprehensive income		
Shares and participations, unquoted	40	40
Total investment assets	**40**	**40**

NOTE 13. Other assets, TEUR	**31 Dec 2022**	**31 Dec 2021**
Pension plan assets	29	72
Deferred income		
Interest	87,349	30,548
Other	647	622
Total	**88,025**	**31,241**

Note 17. Other liabilities describes the calculation of pension plan assets in greater detail.

NOTE 14. Tax assets and tax liabilities, TEUR	31 Dec 2022	31 Dec 2021
Deferred tax assets	98	
Total tax assets	**98**	
Income tax liabilities	159	274
Deferred tax liabilities	74	74
Total tax liabilities	**234**	**349**
Specification of tax assets and liabilities		
Deferred tax assets		
Due to defined benefit pension plans	9	
Due to other items	90	0
Set-off against deferred tax liabilities		0
Total	**98**	**0**
Deferred tax liabilities		
Due to defined benefit pension plans	74	74
Set-off against deferred tax assets		0
Total	**74**	**74**
Changes in deferred taxes		
Deferred tax assets/liabilities on 1 January	-74	-68
Recognised in the income statement		
Defined benefit pension obligations	89	-6
Recognised in statement of comprehensive income		
Gains/(losses) arising from remeasurement of defined benefit plans	9	0
Total deferred tax assets/liabilities on 31 December	**24**	**-74**
Income tax assets/liabilities	**159**	**274**
Total tax assets and liabilities	**136**	**200**

NOTES TO LIABILITIES AND EQUITY CAPITAL

NOTE 15. Liabilities to credit institutions, TEUR	31 Dec 2022	31 Dec 2021
Other than those repayable on demand		
Liabilities to OP Corporate Bank	2,250,000	1,570,000
Liabilities to credit institutions	**2,250,000**	**1,570,000**

NOTE 16. Debt securities issued to the public, TEUR	31 Dec 2022	31 Dec 2021
Bonds	16,970,557	16,579,276
Total debt securities issued to the public	**16,970,557**	**16,579,276**

Bonds issued by OP Mortgage Bank

Bonds issued under programmes established under the Act on Mortgage Credit Banks (688/2010)	Carrying amount	Fair value	Interest rate base	Nominal interest %	Maturity
OP Mortage Bank registered Covered Bond (NSV)	114,937	115,000	Fixed	2.157	12.11.2024
OP Mortgage Bank Covered Bond 2014	999,128	958,000	Fixed	1.000	28.11.2024
OP Mortgage Bank Covered Bond 2016	1,249,661	1,240,650	Fixed	0.250	11.5.2023
OP Mortgage Bank Covered Bond 2017	998,662	965,380	Fixed	0.250	13.3.2024
OP Mortgage Bank Covered Bond 2017	997,447	898,650	Fixed	0.750	7.6.2027
OP Mortgage Bank Covered Bond 2017	999,891	997,490	Fixed	0.050	22.2.2023
OP Mortgage Bank Covered Bond 2018	998,283	932,490	Fixed	0.625	1.9.2025
OP Mortgage Bank Covered Bond 2019	1,239,966	1,069,050	Fixed	0.625	15.2.2029
OP Mortgage Bank Covered Bond 2019	1,000,017	882,970	Fixed	0.010	19.11.2026
OP Mortgage Bank Covered Bond 2020	995,857	847,000	Fixed	0.050	21.4.2028
OP Mortgage Bank Covered Bond 2020	308,007	314,064	Floating	2.412	21.4.2028
OP Mortgage Bank Covered Bond 2020	1,266,570	969,450	Fixed	0.010	19.11.2030
OP Mortgage Bank Green Covered Bond 2021	747,136	576,885	Fixed	0.050	25.3.2031
OP Mortgage Bank Retained Covered Bond 2021	1,004,032	1,002,880	Floating	2.863	24.5.2023
OP Mortgage Bank Retained Covered Bond 2021	1,004,126	1,003,050	Floating	2.908	29.5.2023
OP Mortgage Bank Retained Covered Bond 2021	1,004,228	1,003,350	Floating	2.954	31.5.2023
OP Mortgage Bank Green Covered Bond 2022	995,990	901,290	Fixed	1.000	5.10.2027
OP Mortgage Bank Retained Covered Bond 2022	1,007,131	1,005,970	Floating	3.005	13.9.2023
Bonds issued under the programme established under the Act on Mortgage Credit Banks and Covered Bonds (151/2022)	Carrying amount	Fair value	Interest rate base	Nominal interest %	Maturity
OP Mortgage Bank Covered Bond (Premium) 2022	1,243,641	1,225,588	Fixed	2.750	22.6.2026
Total	**18,174,709**	**16,909,207**			

Collateralisation of bonds issued to the public

On 31 December 2022, loans as collateral in security of the covered bonds issued under the Euro Medium Term Covered Bond (Premium) Programme worth EUR 25 billion established on 11 October 2022 under the Act on Mortgage Credit Banks and Covered Bonds (Laki kiinnitysluottopankeista ja katetuista joukkolainoista 151/2022) totalled EUR 1,379 million.

On 31 December 2022, 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 16,185 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 3,484 million.

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

Balance sheet value 1 Jan 2022	**16,579,276**
Changes in cash flows from financing activities	
Increases in bonds	3,251,640
Increases total	**3,251,640**
Decreases in bonds	1,500,000
Decreases total	**1,500,000**
Total changes in cash flows from financing activities	**1,751,640**
Valuations and foreign exchange changes	-1,360,359
Balance sheet value 31 Dec 2022	**16,970,557**

Balance sheet value 1 Jan 2021	**14,095,017**
Changes in cash flows from financing activities	
Increases in bonds	3,807,890
Increases total	**3,807,890**
Decreases in bonds	1,000,000
Decreases total	**1,000,000**
Total changes in cash flows from financing activities	**2,807,890**
Valuations and foreign exchange changes	-323,631
Balance sheet value 31 Dec 2021	**16,579,276**

NOTE 17. Other liabilities, TEUR	31 Dec 2022	31 Dec 2021
Other liabilities		
Payment transfer liabilities	3	98
Accrued expenses		
Interest liabilities	83,928	25,059
Other accrued expenses	2,179	2,605
Payables based on purchase invoices	284	391
Other	60	14
Total	**86,454**	**28,167**

Defined benefit pension plans

Schemes related to OP MB's supplementary pensions in OP-Eläkesäätiö pension foundation have been treated as defined benefit plans. Supplementary pension schemes
Supplementary pension cover provided by OP-Eläkesäätiö is fully funded.
OP-Eläkesäätiö pension foundation covers every employee who has reached the age of 20 years and who has been employed, as specified by TyEL, for two consecutive years by an employer within the pension foundation and whose employment has begun before 1 July 1991. The employment term entitling to pension begins from the day the employee turned 23 years in the employment of the employer. The salary/wage serving as the basis for the calculation of pension refers to pensionable pay based on one and the same employment and calculated under the Finnish Employees Pensions Act (TEL), in force until 31 December 2006. The retirement age of those covered by OP-Eläkesäätiö pension foundation varies from 60 to 65 years, depending on the personnel group to which the employee belongs under the pension foundation rules.
The most significant associated risk relates to the possibility of the actual return on investment assets being lower than the target set for the minimum return.
If such a risk materialised in several consecutive years, this would result in the charging of contributions.
The most significant actuarial risks of OP-Eläkesäätiö pension foundation are associated with interest rate and market risks, systematically increasing life expectancy and inflation
A change in the discount rate for pension liabilities has a substantial effect on the amount of pension liabilities.
Responsible for investment, the Board of Trustees of the pension foundation approves the pension institution's investment plan related to its assets.
A pension institution's chief actuary prepares annually a forecast for developments in technical provisions and pension costs. On this basis, investment asset allocation takes account of the requirements set by the nature of technical provisions for investment operations with respect to the level of security, productivity and liquidity, as well as the pension fund's risk-bearing capacity.
The amount of defined benefit pension obligations was 43 thousand euros (88), the fair value of pension assets 72 thousand euros (160) and net pension assets 27 thousand
Defined benefit pension returns recognised in the income statement totalled 1 thousand euro (2021: 0), and a loss recognised in other comprehensive income arising from remeasurement totalled 43 thousand euros (2021: gains of 2 thousand euros).

NOTE 18. Shareholders' equity, TEUR	**31 Dec 2022**	**31 Dec 2022**
Share capital	60,000	60,000
Unrestricted reserves	245,000	245,000
Retained earnings		
Retained earnings	59,680	59,713
Profit for the financial year	6,631	5,364
Total equity	**371,311**	**370,077**
Distributable reserves	**311,311**	**310,077**
Distributable profits	**66,311**	**65,077**

The Board of Directors proposes that a dividend of 86.57 euros be distributed per share (70.02), totalling 6,631 thousand euros (5,363).

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 19. Classification of financial assets and liabilities, TEUR

Assets	Amortised cost	Recognised at fair value through profit or loss	At fair value through other comprehensive income	Carrying amount total	Fair value total
Receivables from credit institutions *	17,996,364			17,996,364	17,996,364
Derivative contracts		7,482		7,482	7,482
Receivables from customers	2,787,526			2,787,526	2,787,526
Investment assets			40	40	40
Other financial assets	87,770			87,770	87,770
Financial assets	**20,871,660**	**7,482**	**40**	**20,879,182**	**20,879,182**
Other than financial assets				354	354
Total on 31 Dec 2022	**20,871,660**	**7,482**	**40**	**20,879,535**	**20,879,535**

Liabilities	Recognised at fair value through profit or loss	Amortised cost	Carrying amount total	Fair value total
Liabilities to credit institutions		2,250,000	2,250,000	2,250,000
Derivative contracts	1,201,138		1,201,138	1,201,138
Debt securities issued to the public		16,970,557	16,970,557	16,909,207
Other liabilities		84,216	84,216	84,216
Financial liabilities	**1,201,138**	**19,304,773**	**20,505,911**	**20,444,561**
Other than financial liabilities			2,313	2,313
Total on 31 Dec 2022	**1,201,138**	**19,304,773**	**20,508,224**	**20,446,873**

* Receivables from credit institutions include EUR 16,832,800 thousand in intermediary loans.

	Amortised cost	Recognised at fair value through profit or loss	At fair value through other comprehensive income	Carrying amount total	Fair value total
Receivables from credit institutions *	14,814,635			14,814,635	14,814,635
Derivative contracts		170,200		170,200	170,200
Receivables from customers	3,584,445			3,584,445	3,584,445
Investment assets			40	40	40
Other financial assets	30,931			30,931	30,931
Financial assets	**18,430,010**	**170,200**	**40**	**18,600,250**	**18,600,250**
Other than financial assets				310	310
Total on 31 Dec 2021	**18,430,010**	**170,200**	**40**	**18,600,560**	**18,600,560**

Liabilities	Recognised at fair value through profit or loss	Amortised cost	Carrying amount total	Fair value total
Liabilities to credit institutions		1,570,000	1,570,000	1,570,000
Derivative contracts	52,966		52,966	52,966
Debt securities issued to the public		16,579,276	16,579,276	16,643,043
Other liabilities		25,267	25,267	25,267
Financial liabilities	**52,966**	**18,174,543**	**18,227,509**	**18,291,275**
Other than financial liabilities			2,694	2,694
Total on 31 Dec 2021	**52,966**	**18,174,543**	**18,230,202**	**18,293,969**

* Receivables from credit institutions include EUR 14,690,800 thousand in intermediary loans.

Debt securities issued to the public are carried at amortised cost. On 31 December, the fair value of these debt instruments was approximately EUR 60,903 thousand (63,766) lower than their carrying amount, based on information available in markets and employing commonly used valuation techniques.

NOTE 20. Financial instruments classification, grouped by valuation technique, TEUR

Recurring fair value measurements of assets	31 Dec 2022 Balance sheet value	Fair value measurement at year end Level 1*	Level 2**
Derivative contracts	7,482		7,482
Total	**7,482**		**7,482**

Recurring fair value measurements of assets	31 Dec 2021 Balance sheet value	Fair value measurement at year end Level 1*	Level 2**
Derivative contracts	170,200		170,200
Total	**170,200**		**170,200**

Recurring fair value measurements of liabilities	31 Dec 2022 Balance sheet value	Fair value measurement at year end Level 1*	Level 2**
Derivative contracts	1,201,138		1,201,138
Total	**1,201,138**		**1,201,138**

Recurring fair value measurements of liabilities	31 Dec 2021 Balance sheet value	Fair value measurement at year end Level 1*	Level 2**
Derivative contracts	52,966		52,966
Total	**52,966**		**52,966**

	31 Dec 2022	Fair value measurement at year end		
Financial liabilities not measured at fair value	**Balance sheet value**	**Level 1***	**Level 2****	**Level 3*****
Debt securities issued to the public	16,970,557	9,128,322	2,114,409	4,471,904
Total	**16,970,557**	**9,128,322**	**2,114,409**	**4,471,904**

	31 Dec 2021	Fair value measurement at year end		
Financial liabilities not measured at fair value	**Balance sheet value**	**Level 1***	**Level 2****	**Level 3*****
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**

Valuation techniques whose input parameters involve uncertainty (Level 3)

Opening balance 1 January 2022	4,036,388
Transfers to level 3	
Transfers from level 3	
Other changes	435,516
Closing balance 31 December 2022	4,471,904

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

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

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

*** Valuation techniques whose input parameters involve uncertainty. The fair value determination of the instruments included in Level 3 contains inputs 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.

OTHER NOTES

NOTE 21. Notes to the cash flow statement

	2022	2021
Interest received	**-950**	**-28,063**
Interest paid	**40,746**	**71,122**
Adjustments to profit for the financial year		
Impairment loss on receivables	-541	509
Changes in value of financial instruments	448	
Income tax	1,657	1,341
Price difference recognised	-32,247	-16,471
Other	-54	-19
Total adjustments	**-30,736**	**-14,640**
Cash and cash equivalents		
Receivables from credit institutions payable on demand	137,989	102,402
Total cash and cash equivalents	**137,989**	**102,402**

NOTE 22. Related party transactions

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 a key management person or their close family member, either alone or together with another person, exercises control. Other entities regarded as related parties include OP-Eläkesäätiö pension foundation and OP Ryhmän Henkilöstörahasto 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.

Related party transactions, TEUR

	2022		2021	
	OP Cooperative	Other	OP Cooperative	Other
Loans		1,163,564		2,863,769
Other receivables		36,671		188,693
Deposits		2,250,000		1,570,000
Other liabilities	74	5,582,024	75	3,890,959
Interest income		7,223		12,392
Interest expenses		11,708		15,205
Dividend income				
Net commissions and fees		-2,571		-5,516
Other income			1	
Operating expenses	2,651	2,571	1,632	3,134

All OP MB's derivative contracts have been entered into with OP Corporate Bank plc. Data on derivative contracts is presented in Note 3 Net interest income and in Note 10 Derivative contracts.

Shares held by related parties

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

Executives' benefits

Wages and salaries were paid to the Managing Director and Deputy Managing Director during the financial year. No salary or remuneration was paid to members of the Board of Directors. No loans, guarantees or collateral were granted to persons in key executive positions. Persons in key executive positions do not own shares in OP Mortgage Bank or stock options. Persons in key executive positions are not covered by supplementary pension plans.

Wages and salaries and fringe benefits paid to the Managing Director were as fo	2022	2021
wages and salaries	215	196
fringe benefits	1	1
Total	**216**	**197**
Pension costs of persons in key executive positions		
Pension costs of defined contribution plans under TyEL	56	49

Pension costs of defined contribution plans under TyEL include employee and employer shares

NOTE 23. Events after the balance sheet date

In January, OP MB issued a covered bond in the international capital market. The fixed-rate one-billion-euro covered bond has a maturity of seven years. All proceeds of the bond were intermediated to 55 OP cooperative banks in the form of intermediary loans.

NOTE 24. Structure of funding, TEUR

	31 December 2022	Share, %	31 Dec 2021	Share, %
Liabilities to credit institutions	2,250,000	11.4 %	1,570,000	8.5 %
Debt securities issued to the public	16,970,557	86.2 %	16,579,276	89.4 %
Other liabilities	86,295	0.4 %	27,893	0.2 %
Shareholders' equity	371,311	1.9 %	370,077	2.0 %
Total	**19,678,163**	100.0 %	**18,547,246**	**100.0 %**

NOTE 25. Maturity distribution of financial assets and liabilities by residual term to maturity, TEUR

31 Dec 2022	Less than 3 months	3–12 months	1–5 years	5–10 years	More than 10 years	Total
Financial assets						
Receivables from credit institutions	1,076,964	5,119,400	7,250,000	4,550,000		17,996,364
Receivables from customers	89,890	270,980	1,183,397	854,134	396,434	2,794,836
Total financial assets	1,166,854	5,390,380	8,433,397	5,404,134	396,434	20,791,199
Financial liabilities						
Liabilities to credit institutions	1,250,000		1,000,000			2,250,000
Debt securities issued to the public	933,644	4,920,073	6,861,261	4,255,580		16,970,557
Total financial liabilities	2,183,644	4,920,073	7,861,261	4,255,580		19,220,557

31 Dec 2021	Less than 3 months	3–12 months	1–5 years	5–10 years	More than 10 years	Total
Financial assets						
Receivables from credit institutions	123,835	110,000	9,032,800	5,548,000		14,814,635
Receivables from customers	117,859	353,590	1,542,672	1,075,924	492,983	3,583,028
Total financial assets	241,693	463,590	10,575,472	6,623,924	492,983	18,397,663
Financial liabilities						
Liabilities to credit institutions		570,000	1,000,000			1,570,000
Debt securities issued to the public		1,500,252	9,399,739	5,555,326	123,960	16,579,276
Total financial liabilities		2,070,252	10,399,739	5,555,326	123,960	18,149,276

The presented cash flows have not been discounted.

NOTE 26. Funding risk

OP MB's funding risk arises from the imbalance between the timing and amounts of cash flows related to granting and obtaining financing and from insufficient collateral needed to obtain financing. The liquidity buffer for OP Financial Group, managed by OP Corporate Bank, is exploitable by OP Mortgage Bank.

NOTE 27. Maturity of financial assets and liabilities by due date or repricing, TEUR

Contractual repricing dates or earlier due dates on 31 December 2022

31 Dec 2022	1 month or less	> 1–3 months	> 3–12 months	> 1–2 years	> 2–5 years	> 5 years	Total
Financial assets							
Receivables from credit institutions	913,039	11,602,589	4,863,155	248,700	310,680	58,200	17,996,364
Receivables from customers	518,840	700,074	1,571,399	508	2,290	1,724	2,794,836
Total financial assets	1,431,880	12,302,663	6,434,554	249,208	312,970	59,924	20,791,199
Financial liabilities							
Liabilities to credit institutions	950,000	1,300,000	0				2,250,000
Debt securities issued to the public	287,600	4,686,851	1,166,866	1,972,749	4,888,511	3,967,980	16,970,557
Total financial liabilities	1,237,600	5,986,851	1,166,866	1,972,749	4,888,511	3,967,980	19,220,557

31 Dec 2021	1 month or less	> 1–3 months	> 3–12 months	> 1–2 years	> 2–5 years	> 5 years	Total
Financial assets							
Receivables from credit institutions	977,452	10,345,983	2,830,150	199,650	334,200	127,200	14,814,635
Receivables from customers	711,558	895,070	1,970,749	923	1,990	2,737	3,583,028
Total financial assets	1,689,010	11,241,053	4,800,899	200,573	336,190	129,937	18,397,663
Financial liabilities							
Liabilities to credit institutions	400,000	1,000,000	170,000				1,570,000
Debt securities issued to the public	934,219	3,043,071	999,507	2,247,862	4,108,805	5,245,811	16,579,276
Total financial liabilities	1,334,219	4,043,071	1,169,507	2,247,862	4,108,805	5,245,811	18,149,276

NOTE 28. Interest rate risk

At OP Mortgage Bank, the interest rate risk indicator applied is a key figure in which the effect of a parallel 1 percentage point change in the interest rate on the present value of the banking book excluding customer margin is proportioned to the Bank's capital base. The present value is calculated and reported every month. At the end of the year, the value of the key figure was –1.76%. The Bank's interest rate risk can be considered low.

The interest rate risk arises mainly from the differences in the bases of interest rates for the loan portfolio available as collateral for bonds, and its funding, the differences in interest rate caps associated with loans and derivatives designated as their hedging instruments, as well as the company's equity.

Sensitivity analysis of interest rate risk

			Impact on equity	
TEUR	Risk parameter	Change	31 Dec 2022	31 Dec 2021
Interest rate risk	Interest rate	1 pp	-6,395.7	-1,672.8

SIGNATURES TO THE FINANCIAL STATEMENTS AND ANNUAL REPORT

Helsinki, 8 February 2023

Mikko Timonen
Chair of the Board of Directors

Satu Nurmi

Mari Heikkilä

Sanna Eriksson
Managing Director

AUDITOR'S NOTE

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

Helsinki, 15 February 2023

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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 2022. 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 6 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 credit institutions, Debt securities issued to the public (accounting policies, notes 9 and 16 to financial statements)

— Receivables from credit institutions, EUR 2.8 billion, and Debt securities issued to the public, EUR 17 billion, are significant items on the OP Mortgage Bank's balance sheet. Receivables from credit institutions mainly include intermediary loans issued to OP Financial Group's member banks, and Debt securities issued to the public comprise covered bonds.

— In the intermediary loan model, OP Mortgage Bank issues covered bonds and provides OP cooperative banks with intermediary loans against property mortgages. The mortgage-backed loans included in the cover pool constituting the collateral for the covered bonds are recorded on the balance sheets of OP cooperative banks.

— OP Mortgage Bank manages the bond register, which includes not only bonds but also collaterals given and received, as well as intermediary loans. The company is responsible for ensuring that the collaterals comply with the regulatory requirements at all times.

— Due to the significance of the carrying amounts of Receivables from credit institutions and Debt securities issued to the public, the regulatory requirements for the intermediary loan process, Receivables from credit institutions and Debt securities issued to the public are addressed as a key audit matter.

— We evaluated the intermediary loan process of OP Mortgage Bank, including provision of loans to OP cooperative banks, collateral management for intermediary loans (cover pool) and bond register management.

— We gained an understanding of OP Cooperative's control environment for the centralised lending process regarding OP cooperative banks by performing centralised audit procedures.

— The main areas of the audit were the assessment of the monitoring process of collateral valuations for covered bonds using data analyses, and inspection of intermediary loan contracts on a sample basis.

— Furthermore, we considered the appropriateness of the notes provided by OP Mortgage Bank in respect of Receivables from credit institutions and Debt securities issued to the public.

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.

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

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

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

Other Reporting Requirements

Information on our audit engagement

We were first appointed as auditors by the Annual General Meeting in 2002 and our appointment represents a total period of uninterrupted engagement of 21 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, 15 February 2023

KPMG OY AB

TIIA KATAJA
Authorised Public Accountant, KHT