

OP Mortgage Bank Half-year Financial Report 1 January–30 June 2022

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.

Financial standing

The intermediary loans and loan portfolio of OP MB totalled EUR 18,758 million (18,275)* on 30 June 2022. Bonds issued by OP MB totalled EUR 17,915 million (16,415) at the end of June 2022.

In April, OP MB issued a green covered bond in the international capital market. The fixed-rate one-billion-euro covered bond had a maturity of five and a half year. The proceeds of the bonds were in full 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. The bond issue was performed as an internal issue within OP Financial Group.

On 30 June 2022, 115 OP cooperative banks had a total of EUR 15,591 million (14,691) in intermediary loans from OP MB.

Earnings before tax totalled EUR 3.7 million (2.6). The company's financial standing remained stable throughout the reporting period.

Impairment loss on receivables related to loans in OP MB's balance sheet totalled EUR 0.1 million (–0.7). Loss allowance was EUR 2.9 million (3.1).

* The comparatives for 2021 are given in brackets. For income statement and other aggregated figures, January–June 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.

Collateralisation of bonds issued to the public

On 30 June 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 16,480 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 3,543 million.

Capital adequacy

OP MB's Common Equity Tier 1 (CET1) ratio stood at 29.6% (92.9) on 30 June 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 minimum CET1 capital requirement is 4.5% and the requirement for the capital conservation buffer is 2.5%, i.e. the total CET1 capital requirement is 10.5%. OP MB covers the capital requirements in their entirety with CET1 capital, so the CET1 capital requirement is 10.5 per cent. 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. OP MB uses the Standardised Approach to measure its capital adequacy 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	30 Jun 2022	31 Dec 2021
Shareholders' equity	367,659	370,077
Common Equity Tier 1 (CET1) before deductions	367,659	370,077
Excess funding of pension liability	-57	-57
Share of unaudited profits	-2,945	-5,364
Shortfall of ECL minus expected losses	-2,090	-2,856
Common Equity Tier 2 (CET1)	362,567	361,800
Tier 1 capital (T1)	362,567	361,800
Excess of ECL minus expected losses	8	
Tier 2 capital (T2)	8	
Total capital base	362,575	361,800
Total risk exposure amount		
Credit and counterparty risk	288,745	359,126
Operational risk	26,908	30,130
Other risks *	910,672	
Total	1,226,324	389,256
*Addition of risk-weighted assets based on the Standardised Approach		
Key ratios, %		
CET1 capital ratio	29.6	92.9
Tier 1 capital ratio	29.6	92.9
Capital adequacy ratio	29.6	92.9
Capital requirement		
Capital base	362,575	361,800
Capital requirement	128,766	40,872
Buffer for capital requirements	233,809	320,928

Joint and several liability of amalgamation

Under the Act on the Amalgamation of Deposit Banks, the amalgamation of cooperative banks comprises the organisation's central cooperative (OP Cooperative), the central cooperative's member credit institutions and the companies belonging to their consolidation groups as well as credit and financial institutions and service companies in which the above together hold more than half of the total votes. This amalgamation is supervised on a consolidated basis. On 30 June 2022, OP Cooperative's member credit institutions comprised 117 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.

As a support measure referred to in the Act on the Amalgamation of Deposit Banks, the central cooperative is liable to pay any of its member credit institutions an amount that is necessary to prevent the credit institution from being placed in liquidation. The central

cooperative is also liable for the debts of a member credit institution which cannot be paid using the member credit institution's assets.

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

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

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

Corporate responsibility

OP Financial Group's core values and principles governing corporate responsibility also guide the operations of OP MB. Corporate responsibility is an integral part of OP Financial Group's business and strategy. Responsible business is one of OP Financial Group's strategic priorities. The Group's aim is to be a forerunner of corporate responsibility within its sector in Finland. OP Financial Group's Corporate Responsibility Programme is built around four themes: we improve financial literacy in Finland, we foster a sustainable economy, we support local vitality and community spirit, and we use our information capital responsibly.

OP Financial Group is committed to complying with the ten principles of the UN Global Compact initiative in the areas of human rights, labour rights, the environment and anti-corruption. OP has agreed to follow the UN Principles for Responsible Investment. OP Financial Group is a Founding Signatory of the Principles for Responsible Banking under the United Nations Environment Programme Finance Initiative (UNEP FI).

In March 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. According to the Report, the environmental impacts for 2021 allocated to the green covered bond include: annual avoided energy use of 26,000 MWh, annual avoided CO₂-equivalent emissions of 4,100 tonnes.

In April, OP MB issued a one-billion-euro green covered bond with a maturity of 5.5 years. This fixed-rate covered bond is targeted at international institutional investors, and proceeds raised with the bond will be allocated to OP Financial Group's home loans recognised as green ones according to the Green Covered Bond Framework of OP Mortgage Bank. The sector to be financed is energy-efficient residential buildings (green buildings).

Personnel

On 30 June 2022, OP MB had eight employees. OP MB has been digitising its operations and purchases all the most important support services from OP Cooperative and its Group members, reducing the need for its own personnel.

Management

The Board composition is as follows:

Chair	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 and 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.

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

On 11 March 2022, the Finnish Parliament ratified a new Act on Mortgage Credit Banks and Covered Bonds (151/2022) that will enter into force in July. 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 151/2022). The Act entered into force on 8 July 2022.

Risk exposure

When entering 2022, OP MB had a strong capital base, capital buffers and risk-bearing capacity.

The Covid-19 pandemic, Russia's aggressive war in Ukraine and a strong rise in raw material prices constitute a situation where their combined effects are very hard to predict. The risk factors may affect lending, liquidity maintenance and business processes. OP MB's capital base is sufficient to secure business continuity.

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

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

For example, climate and environmental changes and other factors in the business environment are considered thoroughly so that their effects on the customers' future success are understood. Through advice and business decisions, OP Financial Group encourages its customers in bolstering their sustainable and successful business in the future. At the same time, OP Financial Group ensures that its operations are profitable and in compliance with its values in the long term.

Events after the reporting period

On 26 July 2022, OP Cooperative's Board of Directors decided to file a pre-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. A possible transfer to the Standardised Approach will not affect OP MB's capital adequacy or risk exposure. These decisions were based on increased regulatory requirements and discussions with the banking supervisor (ECB) on the application of the IRBA.

Outlook towards the year end

Several exceptional factors affect the economic outlook. The Covid-19 pandemic, Russia's aggressive war in Ukraine, high inflation, increasing uncertainty in the financial market and the tightening monetary policy are undermining the economic outlook. In the wake of the pandemic, there is, however, a lot of pent-up demand and the economic situation is still strong.

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

Alternative Performance Measures

Key ratios	H1/2022	H1/2021	Q2/2022	Q2/2021	Q1–4/2021
Return on equity (ROE), %	1.6	1.1	1.6	1.2	1.4
Cost/income ratio, %	55	58	56	58	56

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

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

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

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Primary statements

Income statement, TEUR	H1/2022	H1/2021	Q2/2022	Q2/2021	Q1–4/2021
Net interest income	18,914	21,433	9,332	10,585	42,075
Net commissions and fees	-11,000	-13,621	-5,464	-6,716	-25,804
Net investment income	1	1	1	1	1
Other operating income		0		0	1
Total income	7,916	7,813	3,870	3,871	16,274
Personnel costs	280	245	152	143	487
Other operating expenses	4,085	4,319	2,020	2,115	8,591
Total expenses	4,366	4,563	2,172	2,257	9,079
Impairment loss on receivables	130	-669	99	-280	-491
Earnings before tax	3,681	2,581	1,797	1,334	6,704
Income tax expense	736	516	359	266	1,341
Profit for the period	2,945	2,065	1,438	1,067	5,364
Statement of comprehensive income, TEUR	H1/2022	H1/2021	Q2/2022	Q2/2021	Q1–4/2021
Profit for the period	2,945	2,065	1,438	1,067	5,364
Gains/(losses) arising from remeasurement of defined benefit plans					2
Total comprehensive income	2,945	2,065	1,438	1,067	5,365

Balance sheet, TEUR	30 Jun 2022	30 Jun 2021	31 Dec 2021
Receivables from credit institutions	16,704,940	15,011,254	14,814,635
Derivative contracts	16,593	271,386	170,200
Receivables from customers	3,166,991	4,033,886	3,584,445
Investment assets	40	40	40
Other assets	39,887	37,179	31,241
Tax assets	59	547	
Total assets	19,928,510	19,354,292	18,600,560
Liabilities to credit institutions	1,570,000	2,200,000	1,570,000
Derivative contracts	755,855	17,633	52,966
Debt securities issued to the public	17,198,073	16,733,312	16,579,276
Provisions and other liabilities	36,849	36,503	27,893
Tax liabilities	74	68	349
Total liabilities	19,560,851	18,987,516	18,230,483
Shareholders' equity			
Share capital	60,000	60,000	60,000
Reserve for invested non-restricted equity	245,000	245,000	245,000
Retained earnings	62,659	61,777	65,077
Total equity	367,659	366,777	370,077
Total liabilities and shareholders' equity	19,928,510	19,354,292	18,600,560

Statement of changes in equity, TEUR	Share capital	Other reserves	Retained earnings	Total equity
Shareholders' equity 1 Jan 2022	60,000	245,000	65,077	370,077
Profit for the period			2,945	2,945
Dividends			-5,363	-5,363
Shareholders' equity 30 Jun 2022	60,000	245,000	62,659	367,659
Shareholders' equity 1 Jan 2021	60,000	245,000	66,093	371,093
Profit for the period			2,065	2,065
Dividends			-6,381	-6,381
Shareholders' equity 30 Jun 2021	60,000	245,000	61,777	366,777

Cash flow statement, TEUR	H1/2022	H1/2021
Cash flow from operating activities		
Profit for the period	2,945	2,065
Adjustments to profit for the period	-13,571	-701
Increase (-) or decrease (+) in operating assets	-1,505,387	-3,031,712
Receivables from credit institutions	-1,895,654	-3,520,289
Receivables from customers	398,912	497,134
Other assets	-8,646	-8,557
Increase (+) or decrease (-) in operating liabilities	8,956	711,237
Liabilities to credit institutions		700,000
Derivative contracts	4,888	20,689
Provisions and other liabilities	4,068	-9,452
Income tax paid	-1,070	-260
Dividends received	1	1
A. Net cash from operating activities	-1,508,126	-2,319,371
Cash flow from financing activities		
Increases in debt securities issued to the public	2,008,140	3,807,890
Decreases in debt securities issued to the public	-500,000	-1,000,000
Dividends paid and interest on cooperative capital	-5,363	-6,381
B. Net cash used in financing activities	1,502,777	2,801,509
Net change in cash and cash equivalents (A+B)	-5,349	482,138
Cash and cash equivalents at period start	102,402	214,695
Cash and cash equivalents at period end	97,053	696,833
Interest received	-22,510	-16,093
Interest paid	41,918	40,443
Adjustments to profit for the period		
Non-cash items and other adjustments		
Impairment loss on receivables	-130	672
Income tax	736	516
Price difference recognised	-14,137	-1,873
Other	-40	-16
Total adjustments	-13,571	-701
Cash and cash equivalents		
Receivables from credit institutions payable on demand	97,053	696,833
Total	97,053	696,833

Accounting policies

The Half-year Financial Report 1 January–30 June 2022 has been prepared in accordance with IAS 34 (Interim Financial Reporting).

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

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

OP MB's related parties 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 Bank Group Pension Foundation and OP Financial Group Personnel Fund. Related parties have been defined in accordance with IAS 24. Related party transactions consist of paid salaries and fees as well as ordinary business transactions. Standard loan terms and conditions are applied to loans granted to related parties. Loans are tied to generally used reference interest rates.

Notes

Net commissions and fees, TEUR	H1/2022	H1/2021	Q2/2022	Q2/2021	Q1–4/2021
Commission income					
Lending	1,463	1,859	708	907	3,435
Total	1,463	1,859	708	907	3,435
Commission expenses					
From lending to OP cooperative banks	1,410	1,775	682	864	3,283
Loan management fee to OP cooperative banks	11,018	13,650	5,474	6,723	25,860
Issue of bonds	32	51	14	32	87
Other	4	4	2	2	8
Total	12,463	15,480	6,172	7,622	29,238
Net commissions and fees	-11,000	-13,621	-5,464	-6,716	-25,804

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

Impairment loss on receivables, TEUR	H1/2022	H1/2021	Q2/2022	Q2/2021	Q1–4/2021
Receivables written down as loan and guarantee losses	56	48	0	0	143
Recoveries of receivables written down	-1	-3	-1	-2	-18
Expected credit losses (ECL) on receivables from customers	-186	624	-99	282	366
Total	-130	669	-99	280	491

Impairment loss on receivables related to loans in OP MB's balance sheet totalled EUR 0.1 million (-0.7). Loss allowance was EUR 2.9 million (3.1).

Classification of financial assets and liabilities
30 Jun 2022, TEUR

Assets	Amortised cost	Recognised at fair value through profit or loss	Recognised at fair value through other comprehensive income	Total
Receivables from credit institutions	16,704,940			16,704,940
Derivative contracts		16,593		16,593
Receivables from customers	3,166,991			3,166,991
Investment assets			40	40
Other financial assets	39,774			39,774
Financial assets	19,911,705	16,593	40	19,928,338
Other than financial assets				172
Total	19,911,705	16,593	40	19,928,510

Liabilities	Recognised at fair value through profit or loss	Amortised cost	Total
Liabilities to credit institutions		1,570,000	1,570,000
Derivative contracts	755,855		755,855
Debt securities issued to the public		17,198,073	17,198,073
Other liabilities		36,751	36,751
Financial liabilities	755,855	18,804,824	19,560,679
Other than financial liabilities			172
Total	755,855	18,804,824	19 560,851
Valuation difference of debt securities issued to the public (difference between fair value and carrying amount) 30 Jun 2022		-739,810	-739,810

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

Classification of financial assets and liabilities
31 Dec 2021, TEUR

Assets	Amortised cost	Recognised at fair value through profit or loss	Recognised at fair value through other comprehensive income	Total
Receivables from credit institutions	14,814,635			14,814,635
Derivative contracts		170,200		170,200
Receivables from customers	3,584,445			3,584,445
Investment assets			40	40
Other receivables	30,931			30,931
Financial assets	18,430,010	170,200	40	18,600,250
Other than financial assets				310
Total	18,430,010	170,200	40	18,600,560
Liabilities		Recognised at fair value through profit or loss	Amortised cost	Total
Liabilities to credit institutions			1,570,000	1,570,000
Derivative contracts		52,966		52,966
Debt securities issued to the public			16 579,276	16,579,276
Other liabilities			27,931	27,931
Financial liabilities		52,966	18,177,208	18,230,173
Other than financial liabilities				310
Total		52,966	18,177,208	18 230,483
Valuation difference of debt securities issued to the public (difference between fair value and carrying amount) 31 Dec 2021.			63,766	63,766

Derivative contracts 30 Jun 2022, TEUR	Nominal values / residual term to maturity			Total
	Less than 1 year	1–5 years	More than 5 years	
Interest rate derivatives				
Hedging	4,647,037	6,754,094	6,122,770	17,523,902
Total	4,647,037	6,754,094	6,122,770	17,523,902

	Fair values		Credit equivalent
	Assets	Liabilities	
Interest rate derivatives			
Hedging	16,593	755,855	153,457
Total	16,593	755,855	153,457

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

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

Financial instruments classification, grouped by valuation technique, TEUR

30 Jun 2022	Balance sheet value	Fair value measurement at period end		
		Level 1	Level 2	Level 3
Recurring fair value measurements of assets				
Derivative contracts	16,593		16,593	
Total	16,593		16,593	
Recurring fair value measurements of liabilities				
Derivative contracts	755,855		755,855	
Total	755,855		755,855	
Financial liabilities not measured at fair value				
Debt securities issued to the public	17,198,073	11,787,230	1,968,790	3,453,489
Total	17,198,073	11,787,230	1,968,790	3,453,489

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

Valuation techniques whose input parameters involve uncertainty (Level 3)

Opening balance 1 Jan 2022	4,036,388
Transfers to level 3	
Transfers from level 3	
Other change	-582,899
Closing balance 30 Jun 2022	3,453,489

The Other change row includes changes in bonds issued by OP MB at level 3.

Schedule for Interim Reports in 2022

Interim Report 1 January–30 September 2022

26 October 2022

Helsinki, 27 July 2022

OP Mortgage Bank
Board of Directors

For more information, please contact:
Sanna Eriksson, Managing Director, tel. +358 10 252 2517

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