OP Mortgage Bank: Interim Report 1 January–30 September 2024

OP Mortgage Bank (OP MB) is the covered bond issuing entity of OP Financial Group. Together with OP Corporate Bank plc, its role is to raise funding for OP Financial Group from money and capital markets.

Financial standing

The intermediary loans and loan portfolio of OP MB totalled EUR 16,628 million (16,988)* on 30 September 2024. Bonds issued by OP MB totalled EUR 14,915 million (14,915) at the end of September.

OP MB's covered bonds after 8 July 2022 are issued under the Euro Medium Term Covered Bond (Premium) programme (EMTCB), pursuant to the Finnish Act on Mortgage Credit Banks and Covered Bonds (151/2022). The collateral is added to the EMTCB cover pool from the member cooperative banks' balance sheets via the intermediary loan process on the issue date of a new covered bond.

In January, OP MB issued a covered bond in the international capital market. The fixed-rate covered bond worth EUR 1 billion has a maturity of seven years and six months. All proceeds of the bond were intermediated to 63 OP cooperative banks in the form of intermediary loans.

The terms of issue are available on the op.fi website, under Debt investors: www.op.fi/op-ryhma/velkasijoittajat/issuers/op-mortgage-bank/emtcb-debt-programme-documentation.

On 30 September 2024, 98 OP cooperative banks had a total of EUR 14,800 million (14,800) in intermediary loans from OP MB.

Impairment loss on receivables related to loans in OP MB’s balance sheet totalled EUR 0.1 million (-0.2). Loss allowance was EUR 2.4 million (2.6).

Operating profit was EUR 6.4 million (8.3). The company's financial standing remained stable throughout the reporting period.

* The comparatives for 2023 are given in brackets. For income statement and other aggregated figures, the January–September 2023 figures serve as comparatives. For balance-sheet and other cross-sectional figures, figures at the end of the previous financial year (31 December 2023) serve as comparatives.

Collateralisation of bonds issued to the public

The covered bonds issued under the EMTCB programme worth EUR 25 billion established on 11 October 2022, in accordance with the Act on Mortgage Credit Banks and Covered Bonds (151/2022), totalled EUR 5,250 million. The cover pool included a total of EUR 5,781 million in loans serving as collateral on 30 September 2024. Overcollateralisation exceeded the minimum requirement under the Act (151/2022).

The covered bonds issued under the Euro Medium Term Covered Note programme worth EUR 20 billion established on 12 November 2010, in accordance with the Act on Mortgage Credit Banks (Laki kiinnitysluottopankkitoiminnasta, 688/2010), totalled EUR 9,665 million. The cover pool included a total of EUR 11,900 million in loans serving as collateral on 30 September 2024. Overcollateralisation exceeded the minimum requirement under the Act (688/2010).

Capital adequacy

OP MB’s Common Equity Tier 1 (CET1) ratio stood at 49.3% (41.8) on 30 September 2024. The ratio was improved by the decrease in mortgages on OP MB's balance sheet and the resulting reduction in capital requirement for credit risk. The minimum CET1 capital requirement is 4.5% and the requirement for the capital conservation buffer is 2.5%. The minimum total capital requirement is 8% (or 10.5% with the increased capital conservation buffer). Because OP MB covers capital requirements in their entirety with CET1 capital, the CET1 capital requirement is 10.5%. Estimated profit distribution has been subtracted from earnings for the reporting period.

OP MB uses the Standardised Approach (SA) to measure its capital adequacy requirement for credit risk. The Standardised Approach is also used to measure the capital requirement for operational risks.

OP MB belongs to OP Financial Group. As part of the Group, OP MB is supervised by the European Central Bank. 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.

Own funds and capital adequacy, TEUR	30 Sep 2024	31 Dec 2023
Equity capital	369,686	372,160
Excess funding of pension liability	-13	-13
Share of unaudited profits		-7,490
Proposed profit distribution	-5,016	
Insufficient coverage for non-performing exposures	-4,632	-2,856
CET1 capital	360,024	361,800
Tier 1 capital (T1)	360,024	361,800
Total own funds	360,024	361,800
Total risk exposure amount		
Credit and counterparty risk	679,352	812,205
Operational risk	26,636	25,140
Other risks *	24,774	27,336
Total	730,762	864,682
Ratios, %		
CET1 ratio	49.3	41.8
Tier 1 capital ratio	49.3	41.8
Capital adequacy ratio	49.3	41.8
Capital requirement		
Own funds	360,024	361,800
Capital requirement	76,765	90,829
Buffer for capital requirements	283,259	270,971

* Risks not otherwise covered.

Liabilities under the Resolution Act

Under regulation applied to crisis resolution of credit institutions and investment firms, the resolution authority is authorised to intervene in the terms and conditions of investment products issued by a bank in a way that affects an investor's position. The EU's Single Resolution Board (SRB) based in Brussels is OP Financial Group's resolution authority. The SRB has confirmed a resolution strategy for OP Financial Group whereby the resolution measures would focus on the OP amalgamation and on the new OP Corporate Bank that would be formed in case of resolution. According to the resolution strategy, OP MB will continue its operations as the new OP Corporate Bank's subsidiary.

The SRB has set a Minimum Requirement for Own Funds and Eligible Liabilities (MREL) for OP MB. From May 2024, the MREL is 16% of the total risk exposure amount and 18.5% of the total risk exposure amount including a combined buffer requirement, and 6% of leverage ratio exposures. The requirement entered into force on 15 May 2024. The requirement includes a Combined Buffer Requirement (CBR) of 2.5%.

OP MB's buffer for the MREL requirement was EUR 215 million. The buffer consists of own funds only. OP MB clearly exceeds the MREL requirement. OP MB's MREL ratio was 46% of the total risk exposure amount.

Joint and several liability of amalgamation

Under the Act on the Amalgamation of Deposit Banks (599/2010), 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 September 2024, OP Cooperative’s member credit institutions comprised 99 OP cooperative banks, 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, and 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 the amount necessary to preventing 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 a support measure or to a creditor of such a member bank in payment of an overdue amount which the creditor has not received from the member bank. Furthermore, if the central cooperative defaults, 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 (688/2010), which was valid at that time, 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 said Act. For mortgage-backed loans issued prior to 8 July 2022 and included in the total amount of collateral of covered bonds, the priority of the covered bond holders' payment right 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), which entered into force on 8 July 2022, the creditors of bonds issued after 8 July 2022, including the related management and clearing costs, have the right to receive payment from 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. A similar priority also applies to creditors of derivative contracts related to covered bonds, including the related management and clearing costs. Interest and yield accruing on the collateral, and any substitute assets, fall within the scope of said priority. Section 44, subsection 3 of the Act on Mortgage Credit Banks and Covered Bonds includes provisions on the creditor's priority claim regarding cover pool liquidity support. According to said subsection, the creditor has the right to receive payment against the funds contained in the cover pool after claims based on the principal and interest of covered bonds secured by the cover assets included in the cover pool, obligations based on derivatives contracts associated with covered bonds, as well as administration and liquidation costs.

Sustainability and corporate responsibility

Responsible business is one of OP Financial Group's strategic priorities. OP Financial Group's sustainability programme guides the Group's actions and is built around three themes: Climate and the environment, People and communities, and Corporate governance. Read more about the sustainability programme at www.op.fi/en/op-financial-group/corporate-social-responsibility.

At OP Financial Group, sustainability and corporate responsibility are guided by a number of principles and policies. OP Financial Group is committed to complying not only with all applicable laws and regulations, but also with a number of international initiatives. The 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 a Founding Signatory of the Principles for Responsible Banking under the United Nations Environment Programme Finance Initiative (UNEP FI). Furthermore, OP Financial Group is committed to complying with the UN Principles for Responsible Investment and the UN Principles for Sustainable Insurance.

As of the reporting year 2024, OP Financial Group reports on its sustainability and corporate responsibility in accordance with the European Sustainability Reporting Standards (ESRS) under the EU's Corporate Sustainability Reporting Directive (CSRD).

OP Financial Group has drawn up a biodiversity road map that includes measures to promote biodiversity at OP Financial Group. The aim is to create a nature positive handprint by 2030. 'Nature positive' means that OP Financial Group's operations will have a net positive impact (NPI) on nature.

OP Financial Group has also drawn up a Human Rights Statement and Human Rights Policy. OP Financial Group respects all recognised human rights, and the Human Rights Statement includes the requirements and expectations that OP Financial Group has set for itself and actors in its value chains. OP Financial Group is committed to remediation actions if it causes adverse human rights impacts.

In March 2024, OP MB published a Green Covered Bond Report on the allocation and impacts of Finland's first green covered bonds issued in March 2021 and April 2022. Under OP MB's Green Covered Bond Framework, the proceeds from the bonds have been allocated to mortgages with energy-efficient residential buildings as collateral.

The environmental impacts allocated to the green covered bonds in 2023 were 59,000 MWh of energy use avoided per year and 8,800 tonnes of CO_2-equivalent emissions avoided per year.

Personnel

On 30 September 2024, OP MB had six employees. OP MB has been digitising its operations and purchases all key 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 Personal Finance and Real Estate Services, OP Retail Customers plc
	Mari Heikkilä	Head of Group Treasury & ALM, OP Corporate Bank plc

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

Risk profile

OP MB has a strong capital base, capital buffers and risk-bearing capacity, and they are expected to remain strong throughout the rest of the year.

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 Banking Risk Policy. The key credit risk indicators in use show that OP MB's credit risk exposure is stable. 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 onto the same basis rate. OP MB has concluded all derivative contracts for hedging purposes, applying fair value hedges which have OP Corporate Bank plc as their counterparty. OP MB's interest risk exposure is under control and has been within the set limit.

The liquidity buffer for OP Financial Group is centrally managed by OP Corporate Bank and therefore exploitable by OP MB. At the end of the reporting period, OP Financial Group's Liquidity Coverage Ratio (LCR) was 214% and the Net Stable Funding Ratio (NSFR) was 130%. 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).

An analysis of OP MB's risk exposure should always take account of OP Financial Group's risk exposure, which is based on the joint and several liability of all its member credit institutions. The member credit institutions are jointly liable for each other's debts. All member banks must participate in support measures, as referred to in the Act on the Amalgamation of Deposit Banks, to support each other's capital adequacy.

OP Financial Group analyses the business environment as part of the ongoing risk assessment activities and strategy process. Megatrends and worldviews behind OP Financial Group's strategy reflect driving forces that affect the daily activities, conditions and future of the Group and its customers. Factors currently shaping the business environment include climate, biodiversity loss, scientific and technological innovations, polarisation, demography and geopolitics. External business environment factors are considered thoroughly, so that their effects on customers' future success are understood. OP Financial Group provides advice and makes business decisions that promote the sustainable financial success, security and wellbeing of its owner-customers and operating region while managing the Group's risk profile on a longer-term basis. Advice for customers, risk-based service sizing, contract lifecycle management, decision-making, management and reporting are based on correct and comprehensive information.

Events after the reporting period

In October, OP MB issued a covered bond in the international capital market. The fixed-rate covered bond worth EUR 1 billion has a maturity of five years. All proceeds of the bond were intermediated to 48 OP cooperative banks in the form of intermediary loans.

The terms of issue are available at the op.fi website, under Debt investors: www.op.fi/op-ryhma/velkasijoittajat/issuers/op-mortgage-bank/emtcb-debt-programme-documentation.

In October, OP MB's Board of Directors decided to sell OP MB's on-balance sheet loan portfolio of EUR 1,825 million to 85 OP cooperative banks later this year.

Outlook for 2024

The Finnish economy was sluggish in the first half. GDP contracted over the previous year and unemployment increased. Forecast data suggests that the Finnish economy began to grow in the third quarter of 2024. Falling inflation and interest rates provide a basis for the recovery to continue. Risks associated with the economic outlook are still higher than usual. The escalation of geopolitical crises may abruptly affect capital markets and the economic environment.

OP MB’s capital adequacy is expected to remain strong and risk exposure favourable. This will enable the issuance of new covered bonds also in the future.

Alternative Performance Measures

Figures and ratios	Q1–3/2024	Q1–3/2023	Q1–4/2023
Return on equity (ROE), %	1.8	2.4	2.0
Cost/income ratio, %	50	42	51

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

Formulas for the Alternative Performance Measures used are presented below.

Return on equity (ROE), %

$$\frac{\text{Financial performance for the reporting period x (days of financial year/days of the reporting period)}}{\text{Equity capital (average at beginning and end of period)}} \times 100$$

Cost/income ratio, %

$$\frac{\text{Personnel costs + Other operating expenses}}{\text{Net interest income + Net commissions and fees + Other operating income}} \times 100$$

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Tables

Primary statements

Income statement, TEUR	Note	Q1–3/2024	Adjusted Q1–3/2023	Q3/2024	Adjusted Q3/2023
Net interest income	1	22,649	27,368	7,213	8,144
Interest income		526,269	425,244	168,553	158,579
Interest expenses		-503,620	-397,876	-161,341	-150,435
Impairment loss on receivables	2	110	-170	18	-192
Net commissions and fees	3	-10,126	-12,655	-3,196	-3,970
Commission income		65	76	20	23
Commission expenses		-10,191	-12,732	-3,216	-3,994
Other operating income		5	2	0	0
Personnel costs		-521	-505	-162	-153
Other operating expenses		-5,742	-5,724	-1,941	-1,643
Operating profit		6,374	8,316	1,932	2,185
Income tax		-1,358	-1,752	-386	-437
Profit for the period		5,016	6,563	1,546	1,748

Statement of comprehensive income, TEUR	Note	Q1–3/2024	Q1–3/2023	Q3/2024	Q3/2023
Profit for the period		5,016	6,563	1,546	1,748
Items that will not be reclassified to profit or loss					
Gains/(losses) arising from remeasurement of defined benefit plans					
Income tax on gains/(losses) arising from remeasurement of defined benefit plans					
Total comprehensive income for financial year		5,016	6,563	1,546	1,748

Balance sheet

TEUR	Note	30 Sep 2024	Adjusted 31 Dec 2023	Adjusted 1 Jan 2023
Assets				
Cash and cash equivalents		256,416	291,681	137,989
Non-current assets held for sale		1,824,531		
Receivables from member credit institutions	4	14,988,271	15,016,633	17,940,673
Receivables from customers			2,113,114	2,690,039
Derivative contracts	5	111,610	72,680	31,189
Other assets		5,569	1,081	877
Deferred tax assets		2,028	2,430	98
Total assets		17,188,424	17,497,619	20,800,866

TEUR	Note	30 Sep 2024	Adjusted 31 Dec 2023	Adjusted 1 Jan 2023
Liabilities				
Liabilities to member credit institutions		1,608,167	2,012,380	2,253,869
Derivative contracts	5	673,071	854,869	1,220,509
Debt securities issued to the public		14,535,259	14,256,146	16,952,566
Provisions and other liabilities		2,178	2,000	2,377
Deferred tax liabilities		63	63	234
Total liabilities		16,818,738	17,125,459	20,429,555
Equity capital				
Share capital		60,000	60,000	60,000
Reserve for invested unrestricted equity		245,000	245,000	245,000
Retained earnings		64,686	67,160	66,311
Total equity		369,686	372,160	371,311
Total liabilities and equity		17,188,424	17,497,619	20,800,866

OP MB changed the official income statement and balance sheet format of the financial statements at the beginning of 2024. The changes are described in Note 10 to the Half-year Financial Report 1 January–30 June 2024 (Change to presentation of balance sheet and income statement format).

Statement of changes in equity, TEUR	Share capital	Other reserves	Retained earnings	Total equity
Equity capital 1 Jan 2024	60,000	245,000	67,160	372,160
Profit for the period			5,016	5,016
Dividends			-7,490	-7,490
Equity capital 30 Sep 2024	60,000	245,000	64,686	369,686
Equity capital 1 Jan 2023	60,000	245,000	66,311	371,311
Profit for the period			6,563	6,563
Dividends			-6,631	-6,631
Equity capital 30 Sep 2023	60,000	245,000	66,244	371,244

Cash flow statement, TEUR	Q1–3/2024	Q1–3/2023
Cash flow from operating activities		
Profit for the period	5,016	6,563
Adjustments to profit for the period		
Expected credit losses	-105	175
Accruals of derivatives and hedge accounting	-2,284	-2,699
Income tax expense	1,358	1,752
Amortisation of effective interest rate	5,781	-15,349
Other	-88	70
Total adjustments	4,663	-16,050
Increase (+) or decrease (-) in operating assets	280,372	4,384,864
Receivables from member credit institutions, increases	-1,192,080	-2,000,000
Receivables from member credit institutions, decreases	1,000,000	6,049,964
Receivables from customers	511,026	383,982
Derivative contracts	-34,086	-49,081
Other assets	-4,488	0
Increase (+) or decrease (-) in operating liabilities	-313,742	-7,698
Liabilities to member credit institutions	-404,213	-171,510
Derivative contracts	50,615	125,685
Provisions and other liabilities	39,856	38,127
Income tax paid	-956	-4,193
Dividends received	2	2
A. Net cash from operating activities	-24,645	4,363,489
Cash flow from financing activities		
Increases in debt securities issued to the public	996,870	1,991,120
Decreases in debt securities issued to the public	-1,000,000	-6,250,000
Dividends	-7,490	-6,631
B. Net cash used in financing activities	-10,620	-4,265,511
Net change in cash and cash equivalents (A+B)	-35,265	97,978
Cash and cash equivalents at period start	291,681	137,989
Cash and cash equivalents at period end	256,416	235,968

Accounting policies

The Interim Report 1 January–30 September 2024 has been prepared in accordance with IAS 34 (Interim Financial Reporting). This Interim Report applies IAS 34 Interim Financial Reporting and the accounting policies presented in the 2023 financial statements. The Interim Report should be read with the audited 2023 financial statements.

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

The Interim 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.

Classification of OP MB loans as non-current assets held for sale

Prior to the intermediary loan model, until 2017 the operating model was such that OP MB purchased loans from OP cooperative banks as collateral for the bonds and recorded them on OP MB's balance sheet or OP cooperative banks granted loans directly on OP MB's balance sheet (OP MB loans).

Receivables from member credit institutions include the loans transferred to OP MB before 1 October 2009. Receivables from customers include the loans transferred after 1 October 2009 and loans granted directly on OP MB's balance sheet. OP cooperative banks have operationally managed the loans on OP MB's balance sheet. In October, OP MB's Board of Directors decided to sell OP MB's on-balance sheet loan portfolio to OP cooperative banks later this year. Based on decisions made, OP MB classified the OP MB loans for the Interim Report as non-current assets held for sale.

Itemised non-current assets held for sale:

Non-current assets held for sale, TEUR	30 Sep 2024
Receivables from member credit institutions	52,854
Receivables from customers	1,771,677
Total	1,824,531

Receivables from customers are carried at amortised cost. They include a negative valuation of EUR 8,420 thousand (7,609 thousand) caused by risk to be hedged. It relates to fair value hedge accounting applied by OP MB, which results in the recognition of gains or losses of the transaction. Receivables from customers are floating-rate loans and their carrying amount was reasonably close to their fair value at the end of September.

January–September highlights

In January, OP MB issued a covered bond in the international capital market. The fixed-rate covered bond worth EUR 1 billion has a maturity of seven years and six months. All proceeds of the bond were intermediated to 63 OP cooperative banks in the form of intermediary loans totalling EUR 1 billion. A fixed-rate covered bond worth EUR 1 billion issued by OP MB in March 2017 arrived at maturity in March. At the same time, OP cooperative bank's intermediary loans worth EUR 1 billion related to the bond in question arrived at maturity.

Events after the reporting period

In October, OP MB issued a covered bond in the international capital market. The fixed-rate covered bond worth EUR 1 billion has a maturity of five years. All proceeds of the bond were intermediated to 48 OP cooperative banks in the form of intermediary loans. The terms of issue are available at the op.fi website, under Debt investors: www.op.fi/op-ryhma/velkasijoittajat/issuers/op-mortgage-bank/emtcb-debt-programme-documentation.

In October, OP MB's Board of Directors decided to sell OP MB's on-balance sheet loan portfolio of EUR 1,825 million to 85 OP cooperative banks later this year.

Changes and supplements to the accounting policies

OP MB changed the official balance sheet format of the financial statements at the beginning of 2024. OP MB's new balance sheet format describes the company's operations better, and the balance sheet has new rows. The changes have been made retrospectively also for 2023 and the first quarter of 2024. The changes are presented retrospectively for 2023 and the first quarter of 2024 in Note 10 to the Half-year Financial Report 1 January–30 June 2024 (Change to presentation of the balance sheet and income statement format).

At the beginning of 2024, OP MB made the following supplements to its accounting policies:

Fair value hedging against interest rate risk involves long-term fixed-rate debt instruments (OP MB’s own issues), to which portfolio hedging under IAS 39 is applied. The item hedged is part of fixed-rate liabilities in OP MB's balance sheet, and the hedged risk is the fair value risk of the benchmark- rate. Hedged portfolios have been grouped by issue, and no changes take place in them during hedging. These hedging relationships may cause ineffectiveness if there are even minor differences between the hedged item and the terms of the hedging instrument. Any ineffectiveness is included in interest expenses under net interest income and itemised in the notes to the financial statements. Interest rate swaps are used as a hedging instrument: interest rate risk fair value hedge accounting is also applied to individual loan portfolios in the balance sheet. The hedged risk in these is fair value risk between the benchmark rates, and the risk of hedges is adjusted whenever required. For these hedging relationships, the prepayment option related to the hedged item causes ineffectiveness only rarely. Interest rate swaps are used as hedging instruments.

Notes

Note 1. Net interest income

TEUR	Q1–3/2024	Adjusted Q1–3/2023	Q3/2024	Adjusted Q3/2023
Interest income calculated using the effective interest method				
From receivables from member credit institutions	453,488	350,379	146,263	131,023
From receivables from customers	67,864	64,066	20,944	24,741
Interest from derivatives hedging financial assets	2,558	8,599	528	2,083
Change in hedge accounting adjustment				
Change in the fair value of hedged risk	-6,893	-27,795	20,472	-33,531
Other adjustments	2,273	2,273	758	758
Change in the fair value of hedging derivatives	6,893	27,795	-20,472	33,531
Other interest income	86	-72	61	-25
Total	526,269	425,244	168,553	158,579
Interest expenses				
From liabilities to member credit institutions	-54,607	-50,197	-16,192	-19,924
From debt securities issued to the public				
Interest amounts	-166,865	-158,140	-56,250	-47,609
Change in the fair value of hedged risk	-230,354	-20,315	-350,828	4,122
From derivatives subject to hedge accounting				
Change in fair value	230,364	20,741	350,829	-4,136
Interest amounts	-282,158	-189,965	-88,900	-82,887
Other interest expenses	-1			
Total	-503,620	-397,876	-161,341	-150,435
Net interest income	22,649	27,368	7 213	8 144

Net interest income was EUR 22.6 million (27.4). The decrease in net interest income resulted from a decrease in OP MB's loan portfolio in the balance sheet and a decrease in the intermediary loan portfolio. 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 onto the same basis rate. As a result of interest rate hedging, any changes in market rates have a minor impact on OP MB's net interest income on home loans, intermediary loans and issued bonds.

Note 2. Impairment loss on receivables

Impairment loss on receivables, TEUR	Q1–3/2024	Q1–3/2023	Q3/2024	Q3/2023
Receivables written down as loan losses	-67	-137	-27	-3
Recoveries of receivables written down	5	5	0	1
Expected credit losses (ECL) on receivables from customers	172	-38	45	-191
Total impairment loss on receivables	110	-170	18	-192

Impairment loss on receivables related to loans in OP MB's balance sheet totalled EUR 0.1 million (-0.2). Loss allowance was EUR 2.4 million (2.6). Expected credit losses are calculated on "Receivables from customers" in the balance sheet. Expected credit losses were positive, and loss allowance decreased as a result of the decrease in OP MB's loan portfolio in the balance sheet. Expected credit losses are not recognised on intermediary loans.

Expected credit losses from receivables from member credit institutions

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 the amount necessary to preventing 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 a support measure or to a creditor of such a member bank in payment of an overdue amount which the creditor has not received from the member bank. Furthermore, if the central cooperative defaults, 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.

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 end of September. PD describes the probability of default according to the definition of default.

Since OP Financial Group is assessed as a whole based on the principle of joint and several liability under the Act on the Amalgamation of Deposit Banks, expected credit loss cannot be separately calculated for an individual member credit institution. The probability of default applied to OP Financial Group's internal loans, including intermediary 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. The amalgamation's joint and several liability guarantees all expected losses of the member credit institution, so the LGD component too in OP Financial Group's internal loans is zero. This is affected by OP Financial Group's current strong financial standing, which is expected to remain so in the foreseeable future too. 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.

Note 3. Net commissions and fees

Net commissions and fees, TEUR	Q1–3/2024	Adjusted Q1–3/2023	Q3/2024	Adjusted Q3/2023
Commission income				
Lending	65	76	20	23
Total	65	76	20	23
Commission expenses, TEUR				
Loan management fee to OP cooperative banks	-10,181	-12,715	-3,212	-3,992
Issue of bonds		-9		
Other	-10	-8	-4	-2
Total	-10,191	-12,732	-3,216	-3,994
Net commissions and fees	-10,126	-12,655	-3,196	-3,970

OP MB's balance sheet includes receivables from customers; customer relationships related to these are managed by OP cooperative banks. OP MB refunds OP cooperative banks the amount of the returns paid by customers on loans managed by the banks, as management fees agreed in the fee model. Management fees paid to OP cooperative banks are shown as commission expenses under net commissions and fees. Interest paid by customers was recognised in interest income using the effective interest method. Note 10 to the Half-year Financial Report 1 January–30 June 2024 (Change to presentation of balance sheet and income statement format) describes the adjustment of presentation of commission income made retrospectively for 2023.

Note 4. Receivables from member credit institutions

TEUR	30 Sep 2024	Adjusted 31 Dec 2023
Intermediary loans	14,987,679	14,946,671
Other	592	69,963
Total	14,988,271	15,016,633

Intermediary loans

OP MB is responsible for secured wholesale funding for OP Financial Group. In its operations, OP MB applies an intermediary loan model complying with the Act on Mortgage Credit Banks and Covered Bonds (151/2022, chapter 7). OP MB issues covered bonds for which mortgage-backed loan receivables are tagged as collateral from the balance sheets of OP cooperative banks to the cover pool. The future cash flows related to said mortgage-backed loan receivables serve as collateral for the covered bonds. In the intermediary loan model, loan receivables, or risks related to them, are not transferred to OP MB. OP MB provides funding to OP cooperative banks by transmitting proceeds from bonds to OP cooperative banks as intermediary loans. Receivables from intermediary loans are presented in OP MB's balance sheet under item Receivables from member credit institutions, and they will mature at the same time as the issued bonds.

Other

Based on decisions made, OP MB classified the OP MB loans for the Interim Report as non-current assets held for sale. More details are provided under 'Accounting policies'.

Note 5. Derivative contracts

	Fair values	
Derivative contracts 30 Sep 2024	Assets	Liabilities
Interest rate derivatives		
Hedging	111,610	673,071
Total	111,610	673,071

	Fair values	
Adjusted Derivative contracts 31 Dec 2023, TEUR	Assets	Liabilities
Interest rate derivatives		
Hedging	72,680	854,869
Total	72,680	854,869

Note 6. Classification of financial assets and liabilities

Assets 30 Sep 2024, TEUR	Amortised cost	Recognised at fair value through profit or loss	Recognised at fair value through other comprehensive income	Total
Cash and cash equivalents	256,416			256,416
Non-current assets held for sale	1,824,531			1,824,531
Receivables from member credit institutions	14,988,271			14,988,271
Derivative contracts		111,610		111,610
Other financial assets	5,510		40	5,550
Total financial assets	17,074,727	111,610	40	17,186,377

Liabilities 30 Sep 2024, TEUR	Recognised at fair value through profit or loss	Amortised cost	Total
Liabilities to member credit institutions		1,608,167	1,608,167
Derivative contracts	673,071		673,071
Debt securities issued to the public		14,535,259	14,535,259
Other financial liabilities		608	608
Total financial liabilities	673,071	16,144,034	16,817,105

Adjusted Assets 31 Dec 2023, TEUR	Amortised cost	Recognised at fair value through profit or loss	Recognised at fair value through other comprehensive income	Total
Cash and cash equivalents	291,681			291,681
Receivables from member credit institutions	15,016,633			15,016,633
Receivables from customers	2,113,114			2,113,114
Derivative contracts		72,680		72,680
Other financial assets	1,024		40	1,064
Total financial assets	17,422,452	72,680	40	17,495,172

Adjusted Liabilities 31 Dec 2023, TEUR	Recognised at fair value through profit or loss	Amortised cost	Total
Liabilities to member credit institutions		2 012,380	2,012,380
Derivative contracts	854,869		854,869
Debt securities issued to the public		14,256,146	14,256,146
Other financial liabilities		318	318
Total	854,869	16,268,844	17,123,713

Debt securities issued to the public are carried at amortised cost, including a negative valuation of EUR 480,237 thousand (717,020 thousand) caused by risk to be hedged. The fair value of these debt instruments was assessed based on price quote information available in markets and employing commonly used valuation techniques, amounting to EUR 14,378,114 thousand (14,100,873 thousand) at the end of September.

Receivables from member credit institutions are carried at amortised cost, including a negative valuation of EUR 3,809 thousand (6,429 thousand) caused by risk to be hedged. The largest item carried at amortised cost is receivables from member credit institutions, which consists of intermediary loans granted to OP cooperative banks. These are mainly tied to the floating interest rate, and their credit risk is zero due to joint and several liability (for a description of the joint and several liability, see Note 2 (Impairment loss on receivables)). The carrying amount of these loans is reasonably close to their fair value at the end of September.

Note 7. Financial instruments classification, grouped by valuation technique

Financial instruments classification, grouped by valuation technique, TEUR

		Fair value measurement at period end		
30 Sep 2024	Balance sheet value	Level 1	Level 2	Level 3
Recurring fair value measurements of assets				
Derivative contracts	111,610		111,610	
Total	111,610		111,610	
Recurring fair value measurements of liabilities				
Derivative contracts	673,071		673,071	
Total	673,071		673,071	

Adjusted		Fair value measurement at period end		
31 Dec 2023, TEUR	Balance sheet value	Level 1	Level 2	Level 3
Recurring fair value measurements of assets				
Derivative contracts	72,680		72,680	
Total	72,680		72,680	
Recurring fair value measurements of liabilities				
Derivative contracts	854,869		854,869	
Total	854,869		854,869	

Fair value hierarchy

Level 2: 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. Level 2 input data includes, for example: quoted prices of similar items in active markets, quoted prices of similar items in inactive markets, market interest rates, implied volatilities and credit spreads. OP MB's OTC derivatives and the quoted corporate, government and financial institution debt securities not classified into Level 1 are classified into this hierarchical level. Products subject to recurring fair value measurement during the reporting period only include derivatives.

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. No transfers between the levels took place during the reporting period.

Note 8. Related party transactions

OP MB's related parties comprise OP Cooperative (parent company) and 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. No substantial changes have taken place in related-party transactions since 31 December 2023.

		30 Sep 2024	
Related party transactions, TEUR	OP Cooperative	OP Corporate Bank	Other
Assets			
Cash and cash equivalents		256,416	
Derivative contracts		111,610	
Other assets	40	653	17

		30 Sep 2024	
TEUR	OP Cooperative	OP Corporate Bank	Other
Liabilities			
Liabilities to member credit institutions		1,608,167	
Derivative contracts		673,071	
Debt securities issued to the public		328,402	
Provisions and other liabilities	58		

		Q1–3/2024	
TEUR	OP Cooperative	OP Corporate Bank	Other
Interest income		11,328	
Interest expenses		-64,808	
Dividend income	2		
Commission expenses		-10	
Operating expenses	-1,794	-24	-14

		31 Dec 2023	
TEUR	OP Cooperative	OP Corporate Bank	Other
Assets			
Cash and cash equivalents		291,681	
Derivative contracts		72,680	
Other assets	40	808	17

TEUR	OP Cooperative	OP Corporate Bank	Other
Liabilities			
Liabilities to member credit institutions		2,012,380	
Derivative contracts		854,869	
Debt securities issued to the public		310,641	

		Q1–3/2023	
TEUR	OP Cooperative	OP Corporate Bank	Other
Interest income		22,530	
Interest expenses		-107,609	
Dividend income	2		
Commission expenses		-10	
Operating expenses	-2,087	-4	-6

OP MB paid EUR 7,490 thousand (6,631) in dividends to OP Cooperative on 3 April 2024.

Note 9. Transactions with OP cooperative banks

The accounts of OP MB and the member cooperative banks are consolidated into OP Financial Group's financial statements. Transactions between OP MB and member cooperative banks are mainly related to the intermediary loan model, which is explained in greater detail in Note 4 (Receivables from member credit institutions). OP cooperative banks paid EUR 447,464 thousand (327,481) in interest income to OP MB. OP MB paid EUR 11,643 thousand (14,765) in commission expenses to OP cooperative banks. Intermediary loans in OP MB balance sheet totalled EUR 14,987,679 thousand (14,946,671). Other receivables from OP cooperative banks totalled EUR 53,446 thousand (69,963) at the end of the reporting period.

Time of publication of 2024 reports

Report by the Board of Directors and Financial Statements 2024	Week 11, 2025
Corporate Governance Statement 2024	Week 11, 2025

Schedule for Financial Statements Bulletin 2024 and Interim Reports in 2025

Financial Statements Bulletin 1 January–31 December 2024	6 February 2025
Interim Report 1 January–31 March 2025	7 May 2025
Half-year Financial Report 1 January–30 June 2025	30 July 2025
Interim Report 1 January–30 September 2025	28 October 2025

Helsinki, 31 October 2024

OP Mortgage Bank

Board of Directors

Additional information:

Managing Director Sanna Eriksson, phone +358 10 252 2517

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