OP Mortgage Bank

Report by the Board of Directors and Financial Statements 2016

Contents

REPORT BY THE BOARD OF DIRECTORS

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

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

OP MB's intermediary loans and loan portfolio increased to EUR 10,892 million (10,354)*. The total size of the purchased loan portfolio was EUR 1,294 million in 2016.

During the financial year, OP MB issued one fixed-rate covered bond in international capital markets that got the highest credit ratings from credit rating agencies. Out of the bond with a nominal value of EUR 1,250 million and a maturity of seven years issued in May, the company intermediated EUR 1,119 million in intermediary loans to OP Financial Group member cooperative banks.

Joint and several liability

Under the Act on the Amalgamation of Deposit Banks, the amalgamation of the 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 2016, OP Cooperative's members comprised 173 cooperative banks as well as OP Corporate Bank plc, OP Mortgage Bank, OP Card Company Plc and OP Process Services Ltd. 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 Covered Bond Act, the holder of a covered bond has the right to receive a payment for the entire term of the bond from the assets entered as collateral before other receivables without this being prevented by OP MB's liquidation or bankruptcy.

* The comparatives for 2015 are given in brackets. For income statement and other aggregated figures, January–December 2015 figures serve as comparatives. For balance-sheet and other cross-sectional figures, figures at the end of the previous financial year (31 December 2015) serve as comparatives.

Profit performance

OP MB's key financial indicators in 2016 are shown below:

TEUR	Q1–4/2016	Q1–4/2015
Income		
Net interest income	76,171	73,355
Net commissions and fees	-47,757	-43 361
Net investment income	7	22
Other operating income	22	1
Total	**28,443**	**30,016**
Expenses		
Personnel costs	321	382
Depreciation/amortisation and impairment loss	836	716
Other operating expenses	4,243	3,821
Total	**5,400**	**4,918**
Impairment loss on receivables	**-400**	**210**
Earnings before tax	**22,643**	**25,308**

The company's financial standing remained stable throughout the financial year. Full-year earnings before tax came to EUR 22,643 thousand (25,308).

On-balance-sheet and off-balance-sheet commitments

OP MB's balance sheet total was EUR 11,623 million (10,872) on 31 December 2016. The table below shows the development of key assets and liabilities.

Key asset sand liabilities

EUR million	31 Dec. 2016	31 Dec. 2015
Balance sheet	11,623	10,872
Receivables from customers	9,040	9,610
Receivables from credit institutions	2,305	988
Debt securities issued to the public	9,278	9,003
Liabilities to credit institutions	1,888	1,375
Equity capital	374	372
Off-balance-sheet items	0	1

The bank's intermediary loans and loan portfolio increased to EUR 10,892 million (10,354) in January–December. The company increased its loan portfolio during the financial year by buying mortgage-backed loans from OP Financial Group's member banks worth a total of EUR 1,294 million.

On 31 December 2016, households accounted for 99.8% (99.8) of the loan portfolio and institutional customers for 0.2% (0.2). On 31 December 2016, OP MB's doubtful receivables totalled EUR 261 million (172).

The carrying amount of bonds issued to the public was EUR 9,278 million (9,003) 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 1,888 million (1,375).

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 17,815 million (18,323). 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 has presented its capital base and capital adequacy in accordance with the EU capital requirements regulation and directive (EU 575/2013). OP MB uses the Internal Ratings Based Approach (IRBA) to measure its capital adequacy requirement for credit risk. OP MB uses the Standardised Approach to measure its capital adequacy for operational risk.

The Common Equity Tier 1 (CET1) ratio stood at 109.5% (140.2) on 31 December 2016. The statutory minimum for the 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's highest minimum capital requirement is determined by the Basel I floor. OP MB's capital base exceeded the Basel I floor by EUR 29.1 million in December 2016.

Capital base and capital adequacy, TEUR.	**31 Dec. 2015**	**31 Dec. 2015**
Equity capital	373,622	371,937
Common Equity Tier 1 (CET1) before deductions	**373,622**	**371,937**
Intangible assets	-1,739	-2,575
Pension liability in excess of obligations	-67	-74
Share of unaudited profits	-18,077	-20,288
Impairment loss – shortfall of expected losses	-2,612	-2,046
Common Equity Tier 1 (CET1)	**351,126**	**346,954**
Tier 1 capital (T1)	**351,126**	**346,954**
Total capital	**351,126**	**346,954**
Total risk exposure amount		
Credit and counterparty risk	286,845	219,560
Operational risk	33,898	27,846
Total	**320,743**	**247,407**
Key ratios, %		
CET1 ratio	109.5	140.2
Tier 1 capital ratio	109.5	140.2
Capital adequacy ratio	109.5	140.2
Basel I floor		
Capital base	351,126	346,954
Basel I capital requirements floor	322,066	324,461
Buffer to Basel I floor	29,120	22,493

Formulas for key ratios:

Common Equity Tier 1 (CET1) capital ratio, %

$$\frac{\text{CET1}}{\text{Total risk exposure amount}}$$

Tier 1 capital (T1) capital adequacy ratio, %

$$\frac{\text{Tier 1}}{\text{Total risk exposure amount}}$$

Capital adequacy ratio, %

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

Financial indicators

Ratio	2016	2015	2014
Return on equity (ROE), %	4.8	5.6	4.2
Return on assets (ROA), %	0.16	0.18	0.16
Equity ratio, %	3.21	3.42	3.64
Cost/income ratio, %	19	16	19

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), %

$$\frac{\text{EBIT – Income tax}^{*}}{\text{Equity capital (average of the beginning and end of year)}} \times 100$$

Return on assets (ROA), %

$$\frac{\text{EBIT – Income tax}^{*}}{\text{Average balance sheet total (average of the beginning and end of year)}} \times 100$$

Equity ratio, %

$$\frac{\text{Equity capital}}{\text{Balance sheet total}} \times 100$$

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 risk and capital adequacy management of OP MB's. In OP Financial Group's risk policy, the central cooperative's Executive Board confirms annually risk-management principles, actions, objectives, limits to be applied by all Group business segments and 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 decision on its risk and capital adequacy management in line with the principles adopted by the central cooperative's Executive Board. In addition, the 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, risk-bearing capacity and risk exposure to the Board of Directors.

OP MB's risk and capital adequacy 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-bearing capacity and liquidity and, thereby, ensure business continuity. Risk-bearing 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 integrated as 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 owing to retained earnings. Its capital adequacy ratio stood at 109.5% (140.2) on 31 December 2016. The return on equity was 4.8% (5.6).

OP MB does not seek to secure its capital base by retaining earnings. Rather, OP Cooperative guarantees OP MB's capital base. OP MB's management fee policy affects its profitability level. As a service company, OP MB does not aim to maximise its profit, but it allocates its profitability potential exceeding the minimum level set by the owner to management fees paid to OP cooperative banks.

Credit risk exposure

OP MB's loan portfolio totalled EUR 9,046 million on 31 December 2016. The quality of the loan portfolio is good. Doubtful receivables totalled EUR 261 billion (172). 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 contractual payment terms towards the customer to make it easier for them to manage through temporary payment difficulties. This increase came from increased forborne receivables. OP cooperative banks make every effort to find solutions to overcome customers' temporary financial difficulties. Loan modifications due to reasons other than the customer's financial difficulties are not classified as doubtful receivables.

The company did not record any major impairment losses during 2016 or the previous years.

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, real estate risks and credit spread risk associated with investment, and market liquidity risk. OP MB does not have currency risks, credit spread risks, equity risks, commodity risks, real estate risks or volatility risks. 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 Board of Directors.

Interest rate risk means the effect of changing market interest rates on the company's earnings, profitability and capital adequacy. OP MB has used interest rate swaps to hedge against interest 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 a part of company's internal capital adequacy assessment process (ICAAP).

OP MB's Board of Directors monitors the company's interest rate and funding risk exposure regularly within the limits it has set.

The provisions of the Act on Mortgage Credit Banks also set limits on the company's interest rate and funding risk-taking. According to the Act, the total amount of interest received during any 12 months for loans forming the collateral for covered bonds must exceed the total amount of interest paid on covered bonds for the same period. Additionally, the average residual term to maturity of covered bonds must be shorter than the average residual term to maturity of the assets as their collateral. During the entire financial year, OP MB's operations have been in compliance with law, both in respect of the interest flow assessment and maturity assessment.

Operational risks

Operational risk refers to the risk of financial loss or other harmful consequences resulting from inadequate or failed processes, or incomplete or faulty procedures, systems or external events. Operational risk may also materialise in terms of loss or deterioration of reputation or trust. Operational risk management tools include identifying and analysing risks 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.

Compliance risk forms part of operational risk. Compliance activities are aimed at ensuring that OP MB complies with laws, official 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.

Personnel and remuneration schemes

On 31 December 2016, OP MB had five employees. The company purchases all the most important support services from OP Cooperative and its Group members, reducing the its need for its own personnel.

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.

Management

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:

Chairman	Harri Luhtala	Chief Financial Officer, OP Cooperative
Members	Elina Ronkanen-Minogue	Head of ALM and Group Treasury, OP Cooperative
	Hanno Hirvinen	Group Treasurer, OP Corporate Bank plc

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 he/she reaches 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 2016.

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.

Lauri Iloniemi is OP MB's Managing Director and Hanno Hirvinen is his deputy.

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

Audit

KPMG Oy Ab, a firm of authorised public accountants, was elected as the company's auditor in 2016 by the Annual General Meeting. Raija-Leena Hankonen, APA, has been acted as chief auditor.

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

Future outlook

It is expected that the bank'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 2017.

PROPOSAL BY THE BOARD OF DIRECTORS FOR THE ALLOCATION OF PROFIT

OP Mortgage Bank's equity capital on 31 December 2016:

+ Share capital	60,000,000.00
+ Reserve for invested non-restricted equity	245,000,000.00
+ Profit for the financial year	18,007,434.60
+ Retained earnings	50,544,554.25
Total	**373,621,988.85**

Distributable funds totalled 311,882,521.46 euros.

As shown in the financial statements of 31 December 2016, the company's distributable funds, which include EUR 18,007,434.60 in profit for the financial year, totalled EUR 66,882,521.46. The Board of Directors proposes to the Annual General Meeting that a dividend of 118.00 euros be distributed per share, totalling 9,037,856.00 euros. Following dividend distribution, 59,584,132.85 euros are entered in retained earnings. 302,844,665.46 euros remain in the company's distributable equity.

The company’s financial position has not undergone any material changes since the end of the financial year 2016. 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	2016	2015
Net interest income	3	**76,171,487.53**	**73,354,717.01**
Net commissions and fees	4	-47,757,007.95	-43,361,368.58
Net investment income	5	6,965.96	22,053.44
Other operating income		21,877.65	958.95
Total income		**28,443,323.19**	**30,016,360.82**
Personnel costs	6	321,457.91	381,848.37
Depreciation/amortisation and impairment loss	7	835,860.83	715,635.12
Other operating expenses	8	4,243,078.08	3,820,707.29
Total expenses		**5,400,396.82**	**4,918,190.78**
Impairment losses on receivables	9	-399,773.42	210,083.03
Earnings before tax		**22,643,152.95**	**25,308,253.07**
Income tax	10	4,565,718.35	5,020,391.46
Profit for the financial year		**18,077,434.60**	**20,287,861.61**
Earning/share (EPS), EUR		**236.02**	**264.88**
Profit for the financial year / Average share-issue adjusted number of shares during the period			

COMPREHENSIVE STATEMENT OF INCOME

EUR	2016	2015
Profit for the financial year	**18,077,434.60**	**20,287,861.61**
Items that will not be reclassified to profit or loss		
Gains/(losses) arising from remeasurement of defined benefit plans	-137,670.00	231,442.00
Income tax on gains/(losses) arising from remeasurement of defined benefit plans	27,534.00	-46,288.40
Total comprehensive profit for the financial year	**17,967,298.60**	**20,473,015.21**

BALANCE SHEET

EUR	Note	31 Dec 2016	31 Dec 2015
Receivables from credit institutions	11	2,304,556,342.67	988,489,543.67
Derivative contracts	12	220,461,197.50	192,206,226.75
Receivables from customers	13	9,039,563,206.58	9,610,251,915.81
Investments assets	14	40,000.00	40,000.00
Intangible assets	15	1,739,467.39	2,575,328.22
Other assets	16	56,211,732.60	78,823,185.74
Tax assets	17	459,537.36	0.00
Total assets		**11,623,031,484.10**	**10,872,386,200.19**
Liabilities to financial institutions	18	1,888,000,000.00	1,375,000,000.00
Derivative contracts	19	6,233,124.96	12,970,534.93
Debt securities issued to the public	20	9,277,800,982.69	9,002,668,803.49
Other liabilities	21	77,375,387.60	108,484,908.50
Tax liabilities	17	0.00	1,325,335.66
Total liabilities		**11,249,409,495.25**	**10,500,449,582.58**
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
Accumulated profits		68,621,988.85	66,936,617.61
Total equity	22	**373,621,988.85**	**371,936,617.61**
Total liabilities and shareholders' equity		**11,623,031,484.10**	**10,872,386,200.19**

CASH FLOW STATEMENT

TEUR	2016	2015
Cash flow from operating activities		
Profit for the financial year	18,077,435	20,287,862
Adjustments to profit for the financial year	12,649,383	9,371,979
Increase (-) or decrease (+) in operating assets	**-517,537,798**	**-1,005,090,399**
Receivables from credit institutions	-1,109,400,000	-733,369,200
Receivables from the public and public-sector entities	569,250,748	-282,944,949
Other assets	22,611,453	11,223,749
Increase (+) or decrease (-) in operating liabilities	**481,862,945**	**-143,399,150**
Liabilities to credit institutions and central banks	513,000,000	-130,000,000
Other liabilities	-31,137,055	-13,399,150
Income tax paid	-6,323,057	-3,361,560
Dividends received	6,682	22,457
A. Net cash from operating activities	**-11,264,411**	**-1,118,829,709**
Cash flow from investing activities		
Purchase of PPE and intangible assets	0	-681,121
B. Net cash used in investing activities	**0**	**-681,121**
Cash flow from financing activities		
Increases in debt securities issued to the public	1,243,487,500	1,260,581,514
Decreases in debt securities issued to the public	-1,010,000,000	
Dividends paid and interest on cooperative capital	-16,392,063	-4,995,813
C. Net cash used in financing activities	**217,095,437**	**1,255,585,701**
D. Effect of foreign exchange rate changes on cash and cash equivalents	**-88**	**-404**
Net change in cash and cash equivalents (A+B+C+D)	**205,830,938**	**136,074,468**
Cash and cash equivalents at year-start	**245,120,344**	**109,045,876**
Cash and cash equivalents at year-end	**451,787,143**	**245,120,344**
Change in cash and cash equivalents	**206,666,799**	**136,074,468**
Interest received	107,476,300	117,954,020
Interest paid	39,918,659	46,723,641
Adjustments to profit for the financial year		
Non-cash items		
Unrealised net gains on foreign exchange operations	88	404
Impairment losses on receivables	404,770	-206,902
Other	12,244,498	8,862,842
Total adjustments	**12,649,383**	**8,656,344**
Cash and cash equivalents		
Receivables from credit institutions payable on demand	451,787,143	245,120,344
Total cash and cash equivalents	**451,787,143**	**245,120,344**

STATEMENT OF CHANGES IN EQUITY

TEUR		Share capital	Other reserves	Accumulated profits	Total
Shareholders' equity on 1 January 2015		**60 000**	**245 000**	**51 459**	**356 459**
Reserve for invested non-restricted equity					
Profit for the financial year				20 288	20 288
Total comprehensive income				185	185
Other changes				-4 996	-4 996
Shareholders' equity on 31 December 2015		**60 000**	**245 000**	**66 937**	**371 937**

		Share capital	Other reserves	Accumulated profits	Total
Shareholders' equity on 1 January 2016	22	**60 000**	**245 000**	**66 937**	**371 937**
Reserve for invested non-restricted equity					
Profit for the financial year				18 077	18 077
Total comprehensive income				-110	-110
Other changes				-16 282	-16 282
Shareholders' equity on 31 December 2016		**60 000**	**245 000**	**68 622**	**373 622**

NOTES TO THE FINANCIAL STATEMENTS

Table of contents for the notes to the financial statements

NOTE. 1 Accounting policies

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

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.

A separate service company, OP-Services Ltd, which is wholly owned by OP Financial Group, is tasked with the development and provision of centralised services for OP Cooperative and its member banks. 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.

In order to ensure uniformity in the accounting policies of entities within OP Financial Group, OP Cooperative shall issue guidelines on the preparation of financial statements to its member credit institutions. According to the Act on Cooperative Banks and Other Cooperative Institutions, the Executive Board of OP Cooperative must confirm any applicable accounting policies that have no directions from IFRS.

OP MB's 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 into whose consolidated financial statements its accounts are consolidated. 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-00501 Helsinki.

The OP MB's Board of Directors adopted the financial statements on 2 February 2017.

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 2016. 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.

The grouping of the income statement formats has been revised in the financial statements. Comparatives have been restated to correspond to the new grouping.
This has no effect on profit for the financial year. Changes caused by the new grouping are as follows:

- Net interest income after impairment loss is not presented separately.
- Impairment loss on receivables is presented in its own line after expenses.
- "Net trading income" previously presented in its own line has been incorporated into "Net investment income".
- Expenses have been divided into personnel costs, amortisation/depreciation and other operating expenses. Expenses were previously divided into personnel costs, other administrative expenses and other operating expenses.

In 2016, OP MB adopted the following standards and interpretations:

- Amendment to IAS 1 was aimed at enhancing the understandability of financial statements by focusing on presenting relevant items. The adopted new income statement format better reflects operations than the previous one.
- Annual improvements to IFRS for cycles 2012–2014 (applicable mainly to accounting periods beginning on or after 1 January 2016). Minor amendments are annually made to standards through the Annual Improvements process. The effects of the amendments vary by standard but they are not significant.
- In addition, amendments have been made to IAS and IAS 38, effective since 1 January 2016. The amendments did not have any major 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 are presented in euros and cents; other figures in the financial statements are presented in thousands of euros.

Use of estimates

The preparation of the financial statements in conformity with IFRS requires the Group's management to make judgements, estimates and assumptions in the application of the accounting policies. The section “Critical accounting estimates and judgements” provides more detailed information on applying accounting policies requiring management assessment and judgement.

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.

Impairment of financial assets

At the end of each reporting period, the company assesses whether there is objective evidence that a financial asset other than that carried at fair value through profit or loss is impaired.

A financial asset is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that the loss event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

The criteria used to determine whether there is objective evidence of an impairment loss include:

- a significant decline in the issuer’s financial results, credit rating, balance sheet, payment status or business plans, and unfavourable changes in the issuer’s economic and operating environment;
- a debtor's bankruptcy or other reorganisation becomes probable;
- a debtor’s breach of contract;
- a concession granted to the debtor;
- impairment recognised earlier;
- the disappearance of an active market for a financial instrument

In addition, a significant or prolonged decline in the equity instrument’s fair value below its cost constitutes objective evidence of impairment.

A more detailed description of recognition of impairment losses can be found under the various financial instruments below.

Classification and recognition of financial instruments

Upon initial recognition, financial assets and liabilities are classified as follows: financial assets and liabilities at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets and other financial liabilities. The classification depends on the purpose for which the financial assets and liabilities were acquired.

Loans are entered in OP MB's balance sheet if they have been granted directly from its balance sheet or if a member 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'.

The loan is not transferred to OP MB's balance sheet in the intermediate loan model referred to in the Covered Bond Act (688/2010), whereby OP MB issues mortgage-backed bonds and uses the funds obtained to make an intermediate loan to OP Financial Group member cooperative banks, presented under 'Receivables from credit institutions' in the balance sheet. In the intermediate loan model, the member 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.

Loans and receivables, held-to-maturity investments and other financial liabilities are measured at amortised cost.

The purchase and sale of financial assets and liabilities at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets are recognised in the balance sheet on the transaction date, or the date on which the Group agrees to buy or sell the asset or liability in question.

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.

The company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Financial liabilities are derecognised when they are extinguished, i.e. when the obligation is discharged, cancelled or expires.

Loans and receivables

Financial assets classified as loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans and receivables are initially recognised at cost, which is the fair value of consideration given plus directly attributable transaction costs. Loans and receivables are carried at amortised cost after their initial recognition.

Impairment losses on loans and receivables are recognised on an individual or collective basis. Impairment will be assessed and recognised on an individual basis if the debtor's total exposure is significant. In other respects, impairment is assessed and recognised on a collective basis.

Impairment is recognised and impairment losses incurred if there is objective evidence that the receivable cannot be recovered in full. The receivable has impaired if its present value of the estimated future cash flows – collateral included – is lower than the aggregate carrying amount of the loan and the related unpaid interest. Estimated future cash flows are discounted at the loan's original interest rate. If the loan carries a variable interest rate, the discount rate for measuring any impairment is the current effective interest rate determined under the agreement.

Impairment loss recognised in profit or loss equals the difference between the carrying amount of the loan and the lower present value of future cash flows.

Impairment assessment is a two-phase process. Impairment is assessed individually for loans and receivables. If it is not necessary to assess impairment for financial assets included in loans and receivables on an individual basis, they will be assessed collectively for impairment. Losses incurred but not yet reported, which cannot yet be allocated to a certain loan, are recognised as collectively assessed impairment. Collectively assessed impairment provisions are based on a statistical model used in the measurement of economic capital. The model is derived from the expected credit loss model used in capital adequacy measurement, adjusted to correspond to the requirements under IFRS. Through-the-cycle component and the official minimum capital adequacy requirements have been eliminated from the PD and LGD estimates used in the economic capital requirement model so that they better reflect the point in time approach and the current economic cycle. In the model, the so-called emergence period is used to measure the identification of a loss event. The emergence period is based on OP MB's impairment assessment process by customer segment from the loss event to testing a loan for impairment on an individual basis. In addition, the receivables in the model are grouped into customer segments on the basis of similar credit risk characteristics. Collectively assessed impairment is measured by customer segment on the basis of the expected loss and the measurement also takes account of the emergence period and the discounted present values of collateral.

If the contractual payment terms of a loan are modified, the reason for such modification and the severity class are documented using an internally defined scale. Loans may also be modified for reasons related to the management of customer relationships, not to the financial difficulties of the customer. Such modifications do not affect loan impairment recognition. In some cases, the company may, due to the customer's financial difficulties, modify the loan terms and conditions, such as in terms of repayment holiday for a limited period or another loan modification, which are aimed at securing the customer's repayment capacity and limiting credit risk associated with liabilities. Such renegotiated loans are reported as doubtful receivables. Modifications in the contractual payment terms that are due to the customer's financial difficulties are forbearance measures and together with other criteria reduce the customer's credit rating and thereby increase collective impairment allowance. In addition, they will also have an effect on the loan being assessed on an individual basis for impairment. If the customer has adhered to the new payment terms and no impairment allowance has been recognised for the customer's exposure, it will be removed from doubtful debt classification after two years. Modifications in payment terms are subject to regular monitoring and reporting to the management as an indicator anticipating customers' payment capacity.

Both individual and collective impairment loss is recorded in a separate allowance account to reduce the carrying amount of receivables in the balance sheet. Impairment losses are presented in the income statement under "Impairment losses on receivables". Recognition of interest on the impaired amount continues after the recognition of impairment.

The loan is derecognised after the completion of all debt-collection measures if the loan terms are substantially modified (such as refinancing). Payments received after the derecognition are recognised as an adjustment to impairment losses on receivables. If there is subsequent objective evidence of the debtor's improved solvency, the amount of the impairment loss recognised earlier will be reassessed and any change in the recoverable amount will be recorded in the income statement.

Cash and cash equivalents

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

Other financial liabilities

Other financial liabilities include financial liabilities other than those at fair value through profit or loss, Other financial liabilities include other liabilities to credit institutions and customers, debt securities issued to the public and other financial liabilities. Other financial liabilities are recognised in the balance sheet on the settlement date and carried at amortised cost after initial recognition.

The difference between the nominal value and the acquisition cost of fixed-rate bonds is recognised in interest expenses over the estimated residual term to maturity.

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.

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, containing 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 highly 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%.

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. Interest rate swaps are used as a hedging instrument.

Changes in the fair value of derivative contracts that are documented as hedging the fair value and are highly effective hedges 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" (loans and own issues).

INTANGIBLE ASSETS

Intangible assets are measured at cost less amortisation and any impairment losses. These assets are amortised over their estimated useful lives, which is 2–6 years for computer software and licences.

LEASES

On the date of inception, leases are classified as finance leases or operating leases depending on the substance of the transaction. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incident to ownership to the lessee. All other leases are classified as operating leases.

Assets leased under finance lease are recognised as property, plant and equipment and the corresponding finance lease liability is included in other liabilities. At the inception of the lease term, these leased assets are recorded as assets and liabilities at the lower of the fair value of the asset and the present value of the minimum lease payments. PPA assets are depreciated over the shorter of the lease term or the life of the asset. Finance charges are recognised in interest expenses so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Lease payments for leased assets under operating lease are recognised as expenses on a straight-line basis over the lease term.

EMPLOYEE BENEFITS

Pension benefits

Statutory pension cover for OP MB’s employees is arranged through pension insurance taken out with OP Bank Group Pension Fund. The supplementary pension plan has been arranged through OP Bank Group Pension Foundation.

With respect to funded disability and old-age pensions, pensions managed by OP Bank Group Pension Fund are defined benefit plans. All of the plans managed by OP Bank Group Pension Foundation 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. Changing or curtailing defined benefit pension plans is recognised through profit or loss at the time of occurrence.

Defined benefit plans managed by OP Bank Group Pension Fund and OP Bank Group Pension Foundation 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 plan assets.

Defined benefit 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.

Personnel fund

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 and the counterpart as “Deferred expenses” in the balance sheet until they are disbursed to their beneficiaries.

INCOME TAX AND DEFERRED 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 into 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 in the countries where companies operate and generate taxable income.

Deferred tax liabilities are recognised for all temporary differences between the carrying amount and tax base of assets and liabilities. 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.

The company offsets deferred tax assets and liabilities. Deferred tax assets and liabilities are measured at the tax rate that is expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted by the balance sheet date.

REVENUE RECOGNITION

Interest income and expenses for interest-bearing assets and liabilities are recognised using the effective interest method. Interest on receivables with non-settled, due payments is also recognised as revenue. Such interest receivable is included in impairment testing. 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.

Commission income and expenses for services are recognised when the service is rendered. One-off commissions covering several years and including a possible subsequent refund obligation are recognised only to the amount related to the period.

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
Net commissions and fees	Commission income and expenses
Personnel costs	Wages and salaries, pension costs, share-based payments, social expenses
Other operating expenses	Office expenses, ICT costs, other administrative expenses, financial authority contributions and fees, rents and other expenses

SEGMENT REPORTING

Since OP MB is engaged only in residential lending, segment reporting is not presented.

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.

Impairment tests for receivables are carried out on an individual or collective basis. An impairment test carried out on an individual basis is based on the management's estimate of the expected future cash flows of the individual loan. Collectively assessed impairment provisions are based on a statistical model used in the measurement of economic capital, in which expected future losses are adjusted by means of the emergence period so that the Group can assess the amount of losses incurred on the balance sheet date but not yet reported. In such a case, the management's judgement is required to determine the length of the emergence period.

NEW STANDARDS AND INTERPRETATIONS

The IASB (International Accounting Standards Board) has issued the following significant future IFRS amendments:

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments and amendments to it (effective for accounting periods beginning on or after 1 January 2018). OP MB will for the first time apply IFRS 9 as of 1 January 2018.

The quantitative effect of the application of the standard on the 2018 financial statements cannot yet be assessed reliably since it will depend on the amount of the financial instruments held at that time, the financial position at that time and the choice of the calculation principles and management judgement. The new standard requires that OP MB analyse the calculation and monitoring processes for financial instruments, with the related changes being made are not yet completed. OP MB has made a preliminary assessment of the effects of the adoption of IFRS 9, as follows:

Classification and measurement

The classification of financial instruments under IFRS 9 is based on both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

In case the objective of the debt instrument held within the portfolio business model is to hold assets in order to collect contractual cash flows or the objective is achieved by collecting contractual cash flows and selling financial assets, the classification is based on the contractual cash flow characteristics. In such a case, contractual cash flows that are solely payments of principal and interest on the principal amount outstanding are in line with a basic lending arrangement. Under IFRS 9, these financial assets are measured at amortised cost at fair value through other comprehensive income (FVOCI). The majority of OP MB’s financial assests under debt instruments are included in the abovementioned portfolios.

Other business models, for example when the objective is to realise cash flows by selling financial asset under debt instruments, leads to recognising them at fair value through profit or loss.

Equity instruments are, as a rule, recognised at fair value through profit or loss.

IFRS 9 eliminates assets classified as held to maturity, loans and receivables and available-for-sale applied under IAS 39.

Impairment

IFRS 9 replaces the current incurred loss model with a forward-looking expected credit loss model for impairment. The model contains a substantial number of assessments of how changes in macroeconomic factors affect the amount of expected credit loss weighted by the probability that the loss will occur.

The expected credit loss is calculated on all balance sheet items amortised at cost and those recognised at fair value through other comprehensive income (FVOCI)

The expected credit loss is calculated:

- on the amount equalling the 12-month expected credit losses or
- on the amount of lifetime expected credit losses

The expected credit losses are calculated for a lifetime if financial assets have had a significant increase in credit risk on the reporting date since initial recognition. In other cases, the 12-month expected losses are calculated.

In the expected credit loss modelling, OP MB is planning to exploit as much as possible the existing IRBA models applied in capital adequacy and economic capital measurement. It will edit the models to conform to IFRS 9, for example, by removing from them the floors set by the authorities. 12-month risk parameters and lifetime risk parameters will be derived from the models. The expected credit loss is planned to be calculated using risk parameters and formula PDxLGDxEAD for the majority of the portfolios. In the definition of default, the plan is to use a uniform definition in capital adequacy measurement. In addition, OP Mortgage Bank will include forward-looking information and macroeconomic scenarios in the model.

OP Mortgage Bank reviews a significant credit risk change by portfolio, taking account of both qualitative and quantitative criteria. A significant change in credit risk is assessed on the basis of, for example, a proportionate PD change. Credit risk is considered to have increased significantly when payments are more than 30 days past due. OP Mortgage Bank has not yet decided on the final criteria for a significant increase in credit risk.

Expected credit loss provisions under IFRS 9 are assessed to increase significantly from its current level and it varies by portfolio. The provisions will reduce equity capital on the date of transition. The increase in provisions arises from an increase in the 12-month expected credit losses, inclusion of macroeconomic factors in the model and new on- and off-balance-sheet items included in the provisions, such as notes and bonds and loan commitments. In subsequent financial years, the provisions are expected to be sensitive to changes in economic conditions and to increase OP MB’s earnings volatility. However, the increase in expected credit loss provisions is not expected to have any significant effect on OP MB’s capital adequacy because the IFRS 9 compliant expected credit loss provisions are not expected to exceed the expected loss calculated in capital adequacy and the effect of used floors.

Hedge accounting

In transition to IFRS 9, OP Mortgage Bank may decide whether it will continue with hedge accounting under IAS 39 or adopt hedge accounting under IFRS 9. OP MB has not yet made the decision to adopt IFRS 9 compliant hedge accounting.

Transitional provisions

OP MB will utilise the opportunity permitted by IFRS 9 not to restate comparative periods in classification and recognition (incl. impairment) in respect of the amendments. Retained earnings will be restated through the amendments.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 Revenue from Contracts with Customers (effective for accounting periods beginning on or after 1 January 2018). The new standard has no effect on the recognition of financial instruments but mainly applies to various commissions and fees. The standard contains 5-step model for revenue recognition, and replaces the current IAS 18. The revenue is recognised over a period or at a specific time, and the key criterion is transfer of control. Incremental costs arising from contracts with customers obtained under IFRS 15 and costs arising from the fulfilment of the contracts are capitalised when the criteria under the standard are fulfilled. The standard will also increase the number of notes to be disclosed. Based on the current assessment, OP MB will adopt IFRS 15 applying the cumulative effect method and will not restate comparative periods but will restate equity capital on 1 January 2018. In addition, OP Mortgage Bank will present the amounts affecting each financial statement item when applying IFRS 15. In OP MB, IFRS 15 mainly applies to fees no included in the calculation of the effective interest rate. The adoption of IFRS 15 is not expected to have any significant financial effect.

IFRS 16 Leases

IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019) replace IAS 17 Leases. The adoption of IFRS 16 will have no significant effect on OP MB’s financial statements.

Other standards

Amendments to IAS 7 and IAS 12 will took effect on 1 January 2017. The amendments will have no significant effect on OP MB’s financial statements.

NOTE 2. OP Mortgage Bank's risk and capital adequacy management principles

1 General principles of risk and capital adequacy management

OP Financial Group's core values, strategic goals and financial targets form the basis for risk and capital adequacy management of OP MB. The purpose of risk management is to identify threats and opportunities affecting strategy implementation. Risk management aims to achieve the targets set in the strategy by controlling that risks are proportional to risk-bearing capacity. OP MB has a moderate attitude towards risk-taking.

In OP Financial Group’s risk policy, the central cooperative's Executive Board confirms annually risk-management principles, actions, objectives, limits to be applied by all Group business segments and 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.

1.1 Risk and capital adequacy management

Risk and capital adequacy management falls under internal control. Its purpose is to ensure OP MB's risk-bearing capacity and liquidity and, thereby, ensure business continuity. Risk-bearing 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 integrated as 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.
Risk and capital adequacy management consists of

- identifying, measuring, assessing and mitigating risks;
- determining reliably and independently how much capital and liquidity is required for various risk types and business operations; and
- allocating capital and liquidity systematically by business segment in line with current and planned risk-taking

OP MB's remuneration scheme does not encourage excessive risk-taking. The remuneration scheme takes into account the OP Financial Group's capital adequacy and profitability.

1.2 Risk identification, assessment, measurement and mitigation

The risk management and ICAAP process consists of the continuous identification and assessment of risk associated with business and the operating environment. Before the company launches any products or services or adopts new operating models or systems, it assesses their risks using procedures as laid down by the central cooperative’s Risk Management.

Quantifiable risks are mitigated by means of limits set by the central cooperative's Executive Board. The Executive Board has set a capital adequacy limit for OP MB.

OP MB assesses its capital base in relation to the economic capital requirement and the existing and predictable regulatory minimum capital requirements. Such assessment also makes use of the results of stress tests.

The central cooperative's independent Risk Management monitors the development of OP MB's risk exposure and risk-bearing capacity. It provides regular reports on its observations and assessments to OP MB's Board of Directors, the central cooperative's Executive Board and the Risk Management Committee of the central cooperative's Supervisory Board.

1.3 Economic capital requirement

The economic capital requirement is OP Financial Group's own estimate of the amount of capital sufficient to cover any annual losses with a 99.97% probability that may arise from risks associated with business and the operating environment. The economic capital requirement is calculated using models for each risk type, the results of which are combined taking account of correlations between the risk types and the resulting diversification benefits.

Economic capital is divided into quantitative and qualitative, or assessable, risks. OP MB's quantitative risks include credit risk and banking interest rate and equity risks. The assessable risks include operational risks. Credit risks account for over 80% of OP MB's economic capital requirement.

1.4 Capital management

Capital management aims in all circumstances to proactively control and ensure that OP MB’s capital adequacy meets the set targets and official requirements and thus ensure OP Financial Group’s business continuity. A capital plan is made to assess the adequacy of OP MB’s capital and proactively ensure an adequate capital base even in exceptional conditions. The capital plan consists, for example, of quantitative and qualitative targets set for capital adequacy, predicted changes in the capital base and capital requirements, a contingency plan, and capital adequacy monitoring and control procedures per threshold level.

OP MB is responsible for its own capital adequacy and sets its capital adequacy targets and limits according to guidelines set by the central cooperative.

2 Organisation of risk and capital adequacy management

OP MB follows the principles of OP Financial Group’s risk-taking and risk tolerance system adopted by OP Cooperative's Supervisory Board. The principles specify how the Group’s risk-taking is controlled, limited and supervised and how the risk management and internal capital adequacy assessment process (ICAAP) is organised.

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 decision on its risk and capital adequacy management in line with the principles adopted by the central cooperative's Executive Board. In addition, the 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, risk-bearing capacity and risk exposure to the Board of Directors.

OP MB's risk and capital adequacy tasks are centralised within OP Financial Group's Risk Management. OP Financial Group's Risk Management is a function independent of business that provides guidelines for, controls and supervises the overall risk management of the Group and its entities, and analyses their risk exposure. Risk management focuses on preventive work, preparation and proactive analysis of risk exposure. The objective is to secure the Group's and its entities' sufficient risk-bearing capacity and to ensure that any business risks taken do not threaten profitability, capital adequacy, liquidity, business continuity and the achievement of strategic targets. It is also responsible for maintaining and developing risk management systems and methods.

The fact that reports on measurable risks are produced for OP MB on a centralised basis and separate from any business operations also ensures the independence of risk reporting.

OP Financial Group's internal audit assists OP MB's Board of Directors and management by performing audits to assess the achievement of the strategic and operational goals, the quality of risk management, the reliability of reporting, compliance with laws and instructions and the efficiency and appropriateness of operations.

3 OP MB's risks

The table below presents OP MB's most significant risks. The paragraphs below the table describe the nature of the risks and how they can be managed.

Strategic risks	Risk caused by changes in the competitive environment, slow reaction to changes, poor choice of strategy or poor strategy implementation.
Operational risks	Risk of financial loss or other detrimental consequences caused by inadequate or failed processes, inadequate or flawed procedures or systems or some external factor. Operational risks also include ICT, security, data security, procedural and model risks.
Compliance risk	Risks caused by non-compliance with external regulation, internal policies, appropriate procedures or ethical principles governing customer relationships.
Reputational risk	Risk of deterioration of reputation or trust caused by negative publicity or realisation of some risk.
Credit risks	Credit risk means that a counterparty fails to fulfil its obligations arising from debt relationship. Non-fulfilment of other obligations of a counterparty is also known as counterparty risk.
Market risks	Market risks consist of interest rate risk and market risks associated with investment operations.
Liquidity risks	Liquidity risk comprises funding liquidity risk, structural funding risk and funding concentration risk.

4 Strategic risks

Strategic risk management tools include analysing the risks when drawing up the strategy and continuously monitoring and analysing changes in the operating environment and the implementation of the strategy. Strategic risk is reduced by regular planning, based on analyses and forecasts of customer future needs, developments in market areas, and of competition. OP MB's reports its strategic risks on a regular basis.

5 Operational risks

The aim of operational risk management is to ensure that operations have been organised appropriately and that risks do not result in unforeseeable financial losses or other negative consequences, such as loss of reputation. OP MB is continually maintaining and enhancing a corporate culture that takes a positive approach to operational risk management and internal control.

The target level set for operational risks is moderate. The key area of operational risk management involves identifying and assessing risks and assessing the effectiveness and adequacy of risk control and management tools. Before any new business models (including outsourcing) are carried out or products or services are launched, their risks are assessed as laid down by the central cooperative's Risk Management. OP Financial Group offers customers only products and applies business models that have been approved at Group level. Risks that may disrupt business continuity are prepared against by means of business continuity planning. Business continuity planning also forms the basis for preparation against emergency conditions referred to in the Emergency Powers Act. Business continuity plans are tested according to testing plans that have been made.

Any effect of a materialised operational risk may be transferred outside OP MB through insurance.

OP MB adheres to OP Financial Group's uniform, system-supported operating model in its operational risk management. In this model, OP MB assesses operational risks, involving identifying and assessing business risks and defining and monitoring measures designed to reduce them.

5.1 Monitoring and reporting operational risks

OP MB identifies operational risks associated with major products, services, functions, processes and systems, and outsourced services/functions. The company assesses the significance of identified risks on the basis of their financial effect and probability. The information obtained is used to support planning, decision-making and management.

OP MB regularly reports operational risks to its Board of Directors and Operational Risk Management and Compliance.

6 Compliance risks

Compliance risk forms part of operational risk. Compliance activities are aimed at ensuring that OP MB complies with laws, official 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.

Materialisation of compliance risk may result not only in financial loss but also other adverse consequences, such as sanctions. Such sanctions may include a corporate fine and separate administrative fines for violation of obligations, and public warnings and reprimands. Compliance risk may materialise in terms of loss or deterioration of reputation or trust.

Responsibility for regulatory compliance and its control within OP MB rests with the senior and executive management. Everyone employed by OP MB is responsible for his/her own part for regulatory compliance.

Guidelines, advice and support concerning compliance within OP Financial Group are the responsibility of Risk Management that is independent of the central cooperative. OP MB has centralised compliance functions within the central cooperative's Risk Management.

6.1 Compliance risk management

Managing compliance risks forms part of internal control and good corporate governance practices and, as such, an integral part of business management duties and the corporate culture. Compliance risk management tools include monitoring legislative developments, providing the organisation concerned with guidelines, training and consultation in respect of observing practices based on regulation as well as supervising the regulatory compliance with procedures applied within the organisation.

6.2 Compliance risk monitoring and reporting

Compliance risks are identified, assessed and reported regularly according to the operational risk management model as part of the assessment of operational risks. Any observations made by Compliance are reported on a regular basis.

7 Reputational risk

Reputational risk is managed proactively and in the long term by complying with regulation, good practices of the financial sector and the Group’s Code of Business Ethics and by emphasising transparency of operations and communications. The Group adheres to international financial, social and environmental responsibility principles and international commitments.

Reputational risks are reported regularly to the management of OP MB and the central cooperative. Any threat to imminent reputational risk will be reported immediately.

8 Credit risks

Credit risk means that a counterparty fails to fulfil its obligations arising from debt relationship. OP Financial Group's risk policy is used to control credit risk exposure. The credit risk policy defines, for example, the target risk exposure level, risk-taking principles and restrictions as well as the principles governing customer selection and collateral.

OP MB's loan portfolio consists of mortgage loans placed as collateral for bonds, which OP MB buys 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 engages in funding by issuing bonds and lends funds thus acquired to OP Financial Group credit institutions in the form of intermediary loans referred to in the Covered Bond Act. OP corporate banks' mortgage loans serve as collateral for the intermediary loans.

Framework agreements between OP MB and the OP cooperative banks specify obligations and rights related to the utilisation of OP MB's financing as well as credit risk management.

OP cooperative banks are in charge of loan decisions, loan management and customer relationship management in accordance with the guidelines issued by OP Financial Group and OP MB. The day-to-day credit approval process and its effectiveness play a key role in the management of credit risks. A customer's sufficient debt-servicing capacity is the prerequisite for all lending. Credit approval decisions are based on the up-to-date credit rating in force. Collateral evaluation is based on the principle of independent evaluation and a prudent approach to fair value. The repayment capacity of private customers is tested in the case of an interest rate increase, and customers are offered payment protection insurance in the case of illness or unemployment. In lending, OP MB avoids high financing percentages. OP MB monitors a borrower's creditworthiness and repayment capacity and reacts to any repayment problems as early as possible.

OP MB monitors and reports on credit risks on a regular basis. Credit rating reports, the loan portfolio quality, past due and doubtful receivables number among monitoring tools.

Credit rating controls customer selection, consequences of insufficient collateral and exposure pricing. Target values by borrower grade have been set for the Group's and its banks' new lending and loan portfolio to maintain good loan portfolio quality. OP Financial Group uses credit risk models for Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD). For OP MB, the rating model for private customers is the most important, in which agreements are grouped into borrower grades based on probability of default.

OP MB makes extensive use of credit risk models in measuring and managing credit risk, such as in

- lending and pricing;
- specifying financing decision-making powers;
- setting and monitoring the loan portfolio's qualitative targets;
- credit risk reporting;
- capital adequacy measurement using the Internal Ratings Based Approach (IRBA);
- measuring economic capital and expected loss; and
- the measurement of impairment losses on a collective basis.

9 Liquidity risk

Liquidity risk comprises funding liquidity risk and structural funding risk as well as concentration risk associated with funding. Funding liquidity risk refers to the risk that OP Financial Group will not be able to meet its current and future cash flows and collateral needs, both expected and unexpected, without affecting daily operations or the bank's overall financial position. Structural funding risk refers to uncertainty related to long-term lending, arising from the refinancing risk due to the structure of funding. Funding concentration risk refers to the risk that the bank's funding becomes more difficult due, for example, to a transaction related to an individual counterparty, currency, instrument or maturity band.

Liquidity risk management is based on OP Financial Group's principles of the risk tolerance system and the Risk Policy lines and set risk limits. The ALM and Risk Management Committee of the central cooperative's Executive Board approves the qualitative targets set for the liquidity buffer, a funding plan, a business continuity and contingency funding plan in the case of threat scenarios. The business continuity and contingency plan contains a control model for liquidity for various threshold levels, funding sources and a contingency funding plan for liquidity management at operational level.

OP Financial Group manages its liquidity position through the proactive planning of the funding structure, the Group's risk limits and limits and control limits derived from them as well as target levels, the monitoring of the liquidity status and a well-balanced liquidity buffer, planning and management of daily liquidity, the business continuity and contingency plan based on emergency preparedness, as well as the effective and ongoing control of the Group's liquidity status.

Funding liquidity management is governed by the regulations governing the minimum reserve and marginal lending facility systems by the European Central Bank.

OP Financial Group safeguards its liquidity with long-term funding planning, the liquidity buffer and the sources of finance referred to in the contingency plan. The liquidity buffer has the size required for the time to implement the contingency plan in a liquidity crisis. Liquid funding may be made available for use by the Group by selling notes and bonds in the liquidity buffer or using them as collateral. The liquidity buffer consists mainly of deposits with the central bank and receivables eligible as collateral for central bank refinancing.

As OP Financial Group's central bank, OP Corporate Bank plc is tasked with securing the liquidity of the entire Group and each Group entity (incl. OP MB). The Group’s daily liquidity management refers to managing liquidity of the Group’s companies engaged in banking. Any changes in OP MB's liquidity position will change OP Corporate Bank’s liquidity position. The liquidity reserve of Banking within the entire OP Financial Group is managed by the Group's Treasury.

OP Financial Group's funding planning is based on the proactive planning of the funding structure and on the risk limits set for the liquidity risk. Deposits from the general public and wholesale funding form the basis of OP Financial Group's funding. Wholesale funding is aimed at actively and proactively covering funding needs arising from the growth differentials between the receivables and the deposit portfolio in the balance sheet, funding maturity and other internal objectives. A solid funding structure requires that the loan portfolio and the Group’s liquidity buffer be funded not only through deposit funding and short-term funding but also through long-term funding. Diversifying funding sources will reduce the Group’s dependence on an individual source and decrease price risk associated with funding. OP MB diversifies its funding by time, maturity, instrument and customer segment. Any surplus deposits with member banks are mainly channelled to the central cooperative consolidated accounts or instruments it has issued in order not to increase the Group’s wholesale funding unnecessarily. OP Corporate Bank manages on a centralised basis the Group’s wholesale funding in the form of senior bonds and equity capital and OP MB's funding based on covered bonds.

The central cooperative's Executive Board is responsible for OP Financial Group’s liquidity risk management and controls liquidity management using various threshold levels. In cases of market disruption, liquidity management relies on the business continuity and contingency plan. Each entity within OP Financial Group controls its liquidity management within the framework of control limits issued by the central cooperative and guidelines and of account, deposit and loan terms and conditions.

As the central institution of the amalgamation of cooperative banks, OP Cooperative has given its member credit institution special permission, under the Act on the Amalgamation of Deposit Banks, whereby the liquidity requirements set for credit institutions mentioned in Part VI of the EU Capital Requirements Regulation are not applied to the member credit institutions. Liquidity based on the regulation is subject to supervision and reporting at the level of the cooperative banks’ amalgamation.

9.1 Measuring, monitoring and reporting liquidity risks

OP Financial Group's risk limits for liquidity risk have been set for net cash flows by maturity which guide the structural funding risk and for the Liquidity Coverage Ratio (LCR). The risk indicator for the structural funding risk indicates the maximum portion of the net cash flows in the balance sheet that may have a maturity within different time periods. Refinancing risk is associated with covered bonds issued by OP MB. OP MB monitors long-term funding maturity using a maturity distribution, for which it has set limits. OP Financial Group's and OP MB's structural risk is subject to monthly monitoring.

Furthermore, OP Financial Group also monitors Group-level liquidity risk in scenarios based on liquidity stress testing. The funding liquidity risk indicators show for how long the liquidity buffer will cover the known and predictable net cash flows payable daily outside the Group and any unexpected liquidity stress scenario. Liquidity risk is subject to monitoring on a daily basis.

10 Market risks

Market risks are the result of price, volatility and market liquidity changes in the financial market.

The most significant market risk relates to the effect of a change in interest rates on net interest income, i.e. interest income risk associated with the banking book. Market risk may also come from investment. Through its continuous funding and liquidity planning, OP MB aims to maintain a situation in which it does not have significant financing surplus to invest. Investments in notes and bonds issued by governments and other banks may also be used as supplementary collateral as specified in the Act on Mortgage Credit Banks.

When making investment decisions, OP MB assesses the investment's effect on the interest rate risk and funding risk.

The task of market risk management is to identify and assess market risks associated with business operations, mitigate them to an acceptable level, and report them regularly and efficiently. This ensures that changes in market prices or other external market factors will not excessively deteriorate the long-term profitability or capital adequacy within OP MB.

Guidelines that control and mitigate market risks include the principles of OP Financial Group’s risk tolerance system and the Group’s risk policy that supplement them, and the central cooperative's risk management guidelines and limits and control limit indicators.

10.1 Interest rate risk

OP MB's interest rate risk relates to the differences in the bases of interest rates concerning lending and funding. OP MB primarily manages interest rate risk by using derivatives and regulating the range of products and terms and conditions related to lending and regulating interest rate reset dates and the bases of interest rates. OP MB enters into derivatives contracts only for hedging purposes, with OP Corporate Bank plc being always as the counterparty.

10.2 Monitoring and reporting

OP MB reports on market risks on a monthly basis. The central cooperative's Risk Management provides market risk reports for OP MB and regularly reports the development of the entire OP Financial Group's balance sheet structure and market risks to the central cooperative's management.

OP MB monitors risks associated with derivatives as part of the exposure using the same benchmarks as for balance sheet exposure.

NOTES TO THE INCOME STATEMENT

NOTE 3. Net interest income, TEUR	2016	2015
Interest income		
From receivables from credit institutions		
Interest	506	134
Negative interest	-141	
From receivables from customers	95,613	119,571
From derivative contracts		
From hedge accounting	-11,020	-13,351
Other interest income	20	8
Total	**84,978**	**106,362**
Interest expenses		
From liabilities to credit institutions	768	4,501
From derivative contracts		
From hedge accounting	-143,710	-39,252
From debt securities issued to the public	151,748	67,757
Other interest expenses	0	2
Total	**8,807**	**33,007**
Net interest income	**76,171**	**73,355**

Net income from hedge accounting

Net income from hedging instruments is -34,992 (73,813) and net income from hedged items is 34,992 (-73,813).

NOTE 4. Net commissions and fees, TEUR	2016	2015
Commission income		
From lending	7,119	6,460
Total	**7,119**	**6,460**
Commission expenses		
Lending	6,977	6,368
Service charges to banks	47,783	43,363
Securities	111	85
Other	6	5
Total	**54,876**	**49,821**
Net commissions and fees	**-47,757**	**-43,361**

NOTE 5. Net investment income, TEUR	2016	2015
Net income from available-for-sale assets		
Dividend income	7	22
Total	**7**	**22**
Net income recognised at fair value through profit or loss		
Valuation gains and losses		
Net income from hedge accounting	0	
Net income from foreign exchange trading	0	0
Total	**0**	**0**
Net investment income	**7**	**22**

NOTE 6. Personnel costs, TEUR	2016	2015
Wages and salaries	261	293
Pension costs		
Defined contribution plans	42	47
Defined benefit plans	11	32
Total	53	79
Other indirect personnel costs	8	10
Total personnel costs	**321**	**382**

NOTE 7. Depreciation/amortisation and impairment loss, TEUR	2016	2015
Depreciation/amortisation		
On intangible assets	836	716
Total	**836**	**716**

NOTE 8. Other operating expenses, TEUR	2016	2015
Rental expenses	53	59
Government charges and audit fees	285	362
Membership fees	74	105
Office expenses	182	157
ICT costs	2,661	2,349
Telecommunications	31	44
Marketing	5	5
Other administrative expenses	149	57
Insurance and security costs	82	49
Other	721	633
Total	**4,243**	**3,821**

Fees paid to auditors by assignment

Auditing	6	11
Other audit opinions		
Tax counselling		
Other services	15	46
Total	**21**	**57**

Note 9. Impairment losses on receivables, TEUR	2016	2015
Receivables written down as loan and guarantee losses	-28	-35
Recoveries of receivables written down	5	3
Increase in impairment losses on individually assessed receivables	-239	-82
Decrease in impairment losses on individually assessed receivables	3	14
Collectively assessed impairment losses	-141	310
Total	**-400**	**210**

NOTE 10. Income tax, TEUR	2016	2015
Current tax	4,558	4,965
Income tax paid for previous periods	38	0
Deferred tax	-30	56
Income tax expense on the income statement	**4,566**	**5,020**
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	22,643	25,308
Share of the profit according to the tax rate	4,529	5,062
Income tax paid for previous periods	38	0
Other	-1	-41
Income tax expense on the income statement	**4,566**	**5,020**

NOTES TO ASSETS

NOTE 11. Receivables from credit institutions, TEUR

	31 Dec 2016	31 Dec 2015
Receivables from credit institutions		
Deposits		
Repayable on demand	451,787	245,120
Other		
Other than those repayable on demand	1,852,769	743,369
Total receivables from credit institutions	**2,304,556**	**988,490**

NOTE 12. Derivative contracts, TEUR

	31 Dec 2016	31 Dec 2015
Derivative contracts		
Hedging derivative contracts		
Fair value hedging		
Interest rate derivatives	220,461	192,206
Total derivative contracts	**220,461**	**192,206**

More detailed information on derivative contracts can be found in Note 27.

NOTE 13. Receivables from customers, TEUR

	31 Dec 2016	31 Dec 2015
Loans to the public and public sector entities	9,040,221	9,610,533
Collectively assessed impairments	-311	-170
Individually assessed impairments	-347	-111
Total receivables from customers	**9,039,563**	**9,610,252**

NOTE 14. Investment assets, TEUR

	31 Dec 2016	31 Dec 2015
Financial assets available for sale		
Shares and participations, unquoted	40	40
Total investment assets	**40**	**40**

Shares and participations other than those quoted publicly have been measured at cost.

NOTE 15. Intangible assets, TEUR

	31 Dec 2016	31 Dec 2015
Software, licences and user rights	1,739	2,575
Total intangible assets	**1,739**	**2,575**

Changes in intangible assets

31 Dec 2016	Software	Software / financial lease	Total intangible assets
Acquisition cost on 1 January	3,523	1,454	4,977
Increases			
Decreases			
Transfers between items			
Acquisition cost on 31 December	3,523	1,454	4,977
Accumulated amortisation and impairment losses on 1 January	948	1,454	2,402
Amortisation for the period	836		836
Accumulated amortisation and impairment losses for deductions and transfer 1 January			
Accumulated amortisation and impairment losses on 31 December	1,784	1,454	3,238
Carrying amount on 31 December	1,739		1,739
of which construction in progress	-		-

31 Dec 2015	Software	Software / financial lease	Total intangible assets
Acquisition cost on 1 January	2,842	1,454	4,295
Increases	681		681
Decreases			
Transfers between items			
Acquisition cost on 31 December	3,523	1,454	4,977
Accumulated amortisation and impairment losses on 1 January	232	1,454	1,686
Amortisation for the period	716		716
Accumulated amortisation and impairment losses for deductions and transfer 1 January			
Accumulated amortisation and impairment losses on 31 December	948	1,454	2,402
Carrying amount on 31 December	2,575		2,575
of which construction in progress	-		-

Amortisation, impairment losses and their reversals have been recognised under Depreciation/amortisation and impairment losses in the income statement.
The company had no impairment losses.

NOTE 16. Other assets, TEUR	31 Dec 2016	31 Dec 2015
Pension plan assets	84	92
Deferred income		
Interest	55,750	78,248
Other	379	483
Total	**56,212**	**78,823**

Note 21 Other liabilities describes the calculation of plan assets in greater detail.

NOTE 17. Tax assets, TEUR	31 Dec 2016	31 Dec 2015
Income tax asset	444	
Deferred tax assets	15	
Total tax assets	**460**	
Income tax liabilities		1,283
Deferred tax liabilities		43
Total tax liabilities		**1,325**
Specification of tax assets and liabilities		
Deferred tax assets		
Due to defined-benefit pension plans	30	2
Due to other items	62	34
Set-off against deferred tax liabilities	-77	-36
Total	**15**	**0**
Deferred tax liabilities		
From defined benefit pension plans	17	18
From other items	60	60
Set-off against deferred tax assets	-77	-35
Total	**0**	**43**
Changes in deferred taxes		
Deferred tax assets/liabilities on 1 January	-43	59
Recognised in the income statement		
Defined benefit pension obligations	2	6
Other	28	-62
Recognised in statement of comprehensive income		
Items arising from remeasurement of defined benefit plans	28	-46
Total deferred tax assets/liabilities on 31 December	**15**	**-43**
Income tax assets	**444**	**-1,283**
Total tax assets and liabilities	**460**	**-1,325**

NOTES TO LIABILITIES AND EQUITY CAPITAL

NOTE 18. Liabilities to credit institutions, TEUR	31 Dec 2016	31 Dec 2015
Other than those repayable on demand		
Other liabilities	1,888,000	1,375,000
Liabilities to credit institutions	**1,888,000**	**1,375,000**

NOTE 19. Derivative contracts, TEUR	31 Dec 2016	31 Dec 2015
Derivative contracts		
Hedging derivative contracts		
Fair value hedging		
Interest rate derivatives	6,233	12,971
Total derivative contracts	**6,233**	**12,971**

More detailed information on derivative contracts can be found in Note 27.

NOTE 20. Debt securities issued to the public, TEUR	Average rate, %	31 Dec 2016	Average rate, %	31 Dec 2015
Bonds	1.17	9,277,801	1.52	9,002,669
Total debt securities issued to the public		**9,277,801**		**9,002,669**

Long-term bonds issued by OP Mortgage Bank

Bond	Book value	Interest rate base	Nominal interest %	Maturity
OP Mortgage Bank Covered Bond 2011	997,839	Fixed	3.500	11.7.2018
OP Mortgage Bank Covered Bond 2012	1,249,414	Fixed	1.625	23.5.2017
OP Mortgage Bank Private Placement 2012	99,992	Floating	3-month Euribor	24.8.2017
OP Mortage Bank rekisteröity Covered Bond (NSV)	114,758	Fixed	2.157	12.11.2024
OP Mortgage Bank Private Placement 2012	100,000	Floating	3-month Euribor	18.12.2018
OP Mortgage Bank Covered Bond 2014	996,387	Fixed	1.500	17.3.2021
OP Mortgage Bank Covered Bond 2014	996,952	Fixed	0.750	11.6.2019
OP Mortgage Bank Covered Bond 2014	996,510	Fixed	1.000	28.11.2024
OP Mortgage Bank Covered Bond 2015	19,979	Fixed	0.250	27.5.2020
OP Mortgage Bank Covered Bond 2015	1,246,507	Fixed	0.250	23.11.2020
OP Mortgage Bank Covered Bond 2015	995,971	Fixed	0.625	4.9.2022
OP Mortgage Bank Covered Bond 2016	1,244,077	Fixed	0.250	11.5.2023
	9,058,386			
Valuation	219,415			
Total	**9,277,801**			

NOTE 21. Other liabilities, TEUR	31 Dec 2016	31 Dec 2015
Other liabilities		
Payment transfer liabilities	0	92
Deferred expenses	149	8
Accrued expenses		
Interest liabilities	72,292	103,512
Other accrued expenses	4,603	4,277
Payables based on purchase invoices	216	273
Other	116	322
Total	**77,375**	**108,485**

Defined benefit pension plans

OP Mortgage Bank has funded assets of its pension schemes through OP Bank Group Pension Fund and OP Bank Group Pension Foundation. Schemes related to supplementary pensions in the Pension Foundation and the TyEL (Employees' Pensions Act) funded old-age and disability pension schemes managed by the Pension Fund are treated as defined benefit plans. Contributions to the TyEL pay-as-you-go system are treated as defined contribution plans. The amount of the company's pension liabilities is not substantial.

Benefits under the employees pension scheme until the end of 2016 comprised old-age pension, part-time pension, disability pension, survivor's pension and rehabilitation benefits. The retirement age of the old-age pension under TyEL is 63–68 years. In 2015, the Finnish parliament passed an amended TyEL law that will enter into force at the beginning of 2017. The law will change benefits, replace part-time pension with partial early-age pension and includes a new benefit for the years-of-service pension. The changes in benefits caused by the amended law were recognised in the income statement in the OP Pension Fund financial statements for 2015. Change in mortality was made on 31 December 2016, increasing obligations by EUR 9 thousand which was recognised in comprehensive income.

The most significant actuarial risks of OP Bank Group Pension Fund/OP Bank Group Pension Foundation are associated with interest rate and market risks, systematically increasing life expectancy and inflation risk. A change in the discount rate for pension liabilities has a substantial effect on the amount of pension liabilities.

Balance sheet value of defined benefit plans, EUR thousand	Defined benefit obligations 2016	2015	Fair value of plan assets 2016	2015	Net liabilities (assets) 2016	2015
Opening balance 1 Jan.	489	643	-573	-527	-84	115
Defined benefit pension costs recognised in income statement						
Current service cost	19	35			19	35
Interest expense (income)	11	13	-13	-10	-2	2
Effect of plan curtailment, fulfilment of obligation or previous service cost		2				2
Administrative expenses			0	1	0	1
Total	**30**	**49**	**-12**	**-10**	**17**	**40**
Losses (gains) recognised in other comprehensive income arising from remeasurement						
Actuarial losses (gains) arising from changes in economic expectations	106	-208			106	-208
Actuarial losses (gains) arising from changes in demographic expectations	9				9	
Return on TyEL interest rate difference and growth in old-age pension liabilities (net)	-2	1	2	-1		
Experience adjustments	17	4			17	4
Return on plan assets, excluding amount (–) of net defined benefit liability (asset)			6	-27	6	-27
Total	**130**	**-203**	**8**	**-29**	**138**	**-231**
Other						
Employer contributions			-6	-7	-6	-7
Benefits paid	-15		15			
Total	**-15**		**9**	**-7**	**-6**	**-7**
Closing balance 31 Dec.	**634**	**489**	**-569**	**-573**	**65**	**-84**

Liabilities and assets recognised in the balance sheet, EUR thousand	31 Dec 2016	31 Dec 2015
Net liabilities/assets (Pension Foundation)	-84	-92
Net liabilities/assets (Pension Fund)	149	8
Total net liabilities/assets	**65**	**-84**

Pension Fund and Pension Foundation assets, grouped by valuation technique, 31 Dec. 2016, EUR thousand	Total
Shares and participations	54
Notes and bonds	139
Real property	42
Mutual funds	316
Structured investment vehicles	2
Derivatives	0
Other assets	17
Total	**569**

Pension Fund and Pension Foundation assets, grouped by valuation technique, 31 Dec. 2015, EUR thousand	Total
Shares and participations	31
Notes and bonds	108
Real property	43
Mutual funds	343
Structured investment vehicles	2
Derivatives	0
Other assets	48
Total	**573**

Key actuarial assumptions used, 31 December 2016	Pension Fund	Pension Foundation
Discount rate, %	1.8	1.6
Future pay increase assumption, %	2.5	2.3
Future pension increases, %	1.3	1.7

Key actuarial assumptions used, 31 December 2015	Pension Fund	Pension Foundation
Discount rate, %	2.3	2.1
Future pay increase assumption, %	1.6	1.6
Future pension increases, %	1.0	1.2

NOTE 22. Shareholders' equity, TEUR	31 Dec 2016	31 Dec 2015
Share capital	60,000	60,000
Unrestricted reserves	245,000	245,000
Accumulated profits		
Retained earnings	50,545	46,649
Profit for the financial year	18,077	20,288
Total equity	**373,622**	**371,937**
Development costs (non-distributable item)	**-1,739**	
Distributable reserves	**311,883**	**311,937**
Distributable profits	**66,883**	**66,937**

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 23. Classification of financial assets and liabilities, TEUR

Assets	Loans and receivables	Recognised at fair value through profit or loss	Available for sale	Carrying amount total	Fair value total
Receivables from credit institutions and central banks	2,304,556			2,304,556	2,304,556
Derivative contracts		220,461		220,461	220,461
Receivables from customers	9,039,563			9,039,563	9,039,563
Shares and participations			40	40	40
Other receivables	56,212			56,212	56,212
Other assets	2,199			2,199	2,199
Total on 31 Dec 2016	**11,402,530**	**220,461**	**40**	**11,623,031**	**11,623,031**

Liabilities	Recognised at fair value through profit or loss	Other liabilities	Carrying amount total	Fair value total
Liabilities to credit institutions		1,888,000	1,888,000	1,888,000
Derivative contracts	6,233		6,233	6,233
Debt securities issued to the public		9,277,801	9,277,801	9,278,078
Other liabilities		77,375	77,375	77,375
Total on 31 Dec 2016	**6,233**	**11,243,176**	**11,249,409**	**11,249,687**

Assets	Loans and receivables	Recognised at fair value through profit or loss	Available for sale	Carrying amount total	Fair value total
Receivables from credit institutions and central banks	988,490			988,490	988,490
Derivative contracts		192,206		192,206	192,206
Receivables from customers	9,610,252			9,610,252	9,610,252
Shares and participations			40	40	40
Other receivables	78,823			78,823	78,823
Other assets	2,575			2,575	2,575
Total on 31 Dec 2015	**10,680,140**	**192,206**	**40**	**10,872,386**	**10,872,386**

Liabilities	Recognised at fair value through profit or loss	Other liabilities	Carrying amount total	Fair value total
Liabilities to credit institutions		1,375,000	1,375,000	1,375,000
Derivative contracts	12,971		12,971	12,971
Debt securities issued to the public		9,002,669	9,002,669	9,222,310
Other liabilities		109,810	109,810	109,810
Total on 31 Dec 2015	**12,971**	**10,487,479**	**10,500,450**	**10,720,091**

Debt securities issued to the public are carried at amortised cost. On 31 December, the fair value of these debt instruments was approximately EUR 277,485 thousand (219,642) higher than their carrying amount, based on information available in markets and employing commonly used valuation techniques.

NOTE 24. Financial instruments classification, grouped by valuation technique, TEUR

Recurring fair value measurements of assets	31 Dec 2016 Balance sheet value	Fair value measurement at year end Level 1*	Level 2**
Derivative contracts	220,461		220,461
Total	**220,461**		**220,461**

Recurring fair value measurements of assets	31 Dec 2015 Balance sheet value	Fair value measurement at year end Level 1*	Level 2**
Derivative contracts	192,206		192,206
Total	**192,206**		**192,206**

Recurring fair value measurements of liabilities	31 Dec 2016 Balance sheet value	Fair value measurement at year end Level 1*	Level 2**
Derivative contracts	6,233		6,233
Total	**6,233**		**6,233**

Recurring fair value measurements of liabilities	31 Dec 2015 Balance sheet value	Fair value measurement at year end Level 1*	Level 2**
Derivative contracts	12,971		12,971
Total	**12,971**		**12,971**

Financial liabilities not measured at fair value	31 Dec 2016 Balance sheet value	Fair value measurement at year end Level 1*	Level 2**
Debt securities issued to the public	9,277,801	9,189,185	366,101
Total	**9,277,801**	**9,189,185**	**366,101**

Financial liabilities not measured at fair value	31 Dec 2015 Balance sheet value	Fair value measurement at year end Level 1*	Level 2**
Debt securities issued to the public	9,002,669	8,872,880	349,430
Total	**9,002,669**	**8,872,880**	**349,430**

*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.

Transfers between hierarchy levels of recurring fair value measurements

OP Mortgage Bank plc does not hold any transfers between the levels of fair value measurement.

NOTES CONCERNING CONTINGENT LIABILITIES AND DERIVATIVES

NOTE 25. Off-balance-sheet commitments, TEUR	31 Dec 2016	31 Dec 2015
Binding loan commitments	8	858
Total off-balance-sheet commitments	**8**	**858**

NOTE 26. Leases, TEUR	31 Dec 2016	31 Dec 2015

OP Mortgage Bank plc as the lessor

OP Mortgage Bank plc has leased facilities from OP Services Ltd ja Tornion OP

Leases of facilities	49	54

NOTE 27. Derivative contracts, TEUR

Derivative contracts held for hedging – fair value hedging on 31 Dec 2016

	Nominal values/residual term to maturity				Fair values		
	Less than 1 year	1 to 5 years	More than 5 years	Total	Assets	Liabilities	Credit equivalent
Interest rate derivatives							
Interest rate swaps	2,759,875	8,216,977	6,838,247	17,815,099	220,461	6,233	414,976
Total interest rate derivatives	**2,759,875**	**8,216,977**	**6,838,247**	**17,815,099**	**220,461**	**6,233**	**414,976**

Derivative contracts held for hedging – fair value hedging on 31 Dec 2015

	Nominal values/residual term to maturity				Fair values		
	Less than 1 year	1 to 5 years	More than 5 years	Total	Assets	Liabilities	Credit equivalent
Interest rate derivatives							
Interest rate swaps	2,387,456	8,816,977	7,118,958	18,323,391	192,206	12,971	411,985
Total interest rate derivatives	**2,387,456**	**8,816,977**	**7,118,958**	**18,323,391**	**192,206**	**12,971**	**411,985**

OTHER NOTES

NOTE 28. Personnel and related party

The average number of employees was five (5) in 2016.

OP Mortgage Bank's related parties include OP Cooperative and its subsidiaries, the OP Financial Group pension insurance companies OP Bank Group Pension Fund and OP Bank Group Pension Foundation, and the company's administrative personnel. OP Mortgage Bank's administrative personnel comprise the company's Managing Director, Board members and their close family members. Related parties also include companies over which a person among administrative personnel or his/her close family member exercises significant influence.

Business transactions with related parties, TEUR

	2016		2015	
	Parent company	Other	Parent company	Other
Other receivables		722,884		424,691
Other liabilities	6	2,015,554	0	1,562,291
Interest income		10,123		8,578
Interest expenses		138,504		20,488
Net commission income and expenses		-9,620		-6,029
Operating costs	548	2,011	94	2,420

Shares held by related parties
The parent company holds all of the 76,592 shares.

NOTE 29. Variable remuneration

OP Personnel Fund

OP Mortgage Bank joined OP Personnel Fund in 2005.

Payment of profit-based bonuses to OP Personnel Fund in 2016 was based on the achievement of the following targets:
OP Financial Group's pre-tax earnings and OP Financial Group's Common Equity Tier (CET 1), both weighted at 30% and the change
in the number of loyal customers weighted at 40%. Profit-based bonuses for 2016 transferred to the Fund account for some 5.7% of the combined
salaries and wages earned by its members.
Bonuses recognised in 2016 totalled EUR 13 thousand (13).

Remuneration schemes

In the short-term incentive scheme, the performance period is one calendar year and the bonus is primarily paid in cash.
This short-term scheme covers all personnel. The maximum bonuses have been limited.

NOTE 30. Events after the balance sheet date

No significant post-fiscal events.

NOTES CONCERNING RISK MANAGEMENT

NOTE 31. Capital base and capital adequacy

Information about own funds and capital adequacy has been presented in the report of the board of directors.

NOTE 32. Financial assets and impairment losses recognised on them for the financial year

OP Mortgage Bank's financial assets comprise the items disclosed under Notes 11–14. Impairment losses on loans on a collective basis of EUR 141,000 (-310,000) have been recognised as financial assets.

NOTE 33. Liabilities, TEUR

	31 Dec 2016 Finland			31 Dec 2015 Finland		
	Carrying amount	Impairment losses	Interest carried forward	Carrying amount	Impairment losses	Interest carried forward
Assets						
Receivables from credit institutions	2,304,556		124	988,490		109
Receivables from customers	9,039,563	658	5,238	9,610,252	278	5,018
Derivative contracts	220,461			192,206		
Total	**11,564,581**	**658**	**5,362**	**10,790,948**	**278**	**5,126**
Off-balance-sheet commitments						
Unused standby credit facilities and limits	8			858		
Total	**8**			**858**		
Total liabilities	**11,564,589**	**658**	**5,362**	**10,791,806**	**278**	**5,126**

NOTE 34. Liabilities by sector, TEUR

	31 Dec 2016			31 Dec 2015		
	Net balance sheet exposure	Off-balance -sheet		Net balance sheet exposure	Off-balance -sheet	
	Domestic	Domestic	Total	Domestic	Domestic	Total
Companies	13,705		13,705	16,760		16,760
Financial and insurance institutions	2,524,894		2,524,894	1,180,804		1,180,804
Households	9,031,096	8	9,031,104	9,598,510	858	9,599,368
Non-profit organisations						
Total	**11,569,695**	**8**	**11,569,703**	**10,796,074**	**858**	**10,796,932**

NOTE 35. Receivables from credit institutions and customers, and doubtful receivables, TEUR

31 Dec 2016	Not impaired (gross)	Impaired (gross)	Total	Impairment loss	Accounting balance (total)
Receivables from credit institutions and customers					
Receivables from credit institutions	2,304,556		2,304,556		2,304,556
Receivables from customers	9,039,609	612	9,040,221	658	9,039,563
Total	**11,344,165**	**612**	**11,344,777**	**658**	**11,344,120**
Receivables from credit institutions and customers by sector					
Non-banking corporate sector	13,702		13,702	2	13,700
Financial institutions and insurance companies	2,304,556		2,304,556		2,304,556
Households	9,025,907	612	9,026,519	656	9,025,863
Total	**11,344,165**	**612**	**11,344,777**	**658**	**11,344,120**

31 Dec 2015	Not impaired (gross)	Impaired (gross)	Total	Impairment loss	Accounting balance (total)
Receivables from credit institutions and customers					
Receivables from credit institutions	988,490		988,490		988,490
Receivables from customers	9,603,924	386	9,604,310	278	9,604,032
Total	**10,592,413**	**386**	**10,592,800**	**278**	**10,592,521**
Receivables from credit institutions and customers by sector					
Non-banking corporate sector	16,755		16,755	2	16,753
Financial institutions and insurance companies	988,490		988,490		988,490
Households	9,587,169	386	9,587,555	276	9,587,279
Total	**10,592,413**	**386**	**10,592,800**	**278**	**10,592,521**

31 Dec 2016	Not impaired (gross)	Impaired (gross)	Total	Capital arrears	Interest in arrears	Collectively assessed impairment	Individually assessed impairment
Doubtful receivables							
Receivables from credit institutions							
Receivables from customers	260,263	612	260,876	2,385	65	311	347
Total	**260,263**	**612**	**260,876**	**2,385**	**65**	**311**	**347**
Doubtful receivables by sector							
Non-banking corporate sector						2	
Households	260,263	612	260,876	2,385	65	309	347
Total	**260,263**	**612**	**260,876**	**2,385**	**65**	**311**	**347**

31 Dec 2015	Not impaired (gross)	Impaired (gross)	Total	Capital arrears	Interest in arrears	Collectively assessed impairment	Individually assessed impairment
Doubtful receivables							
Receivables from credit institutions							
Receivables from customers	171,566	386	171,953	2,192	53	170	108
Total	**171,566**	**386**	**171,953**	**2,192**	**53**	**170**	**108**
Doubtful receivables by sector							
Non-banking corporate sector						2	
Households	171,566	386	171,953	2,192	53	168	108
Total	**171,566**	**386**	**171,953**	**2,192**	**53**	**170**	**108**

31 Dec 2016	Performing	Non-performing	Total portfolio	Total impairment loss	Accounting balance (total)
Doubtful receivables					
Over 90 days past due		11,922	11,922	287	11,636
Classified as default		1,740	1,740	7	1,733
Forborne loans					
Renogitiated	242,852	4,362	247,213	54	247,160
Total	**242,852**	**18,024**	**260,876**	**347**	**260,529**

31 Dec 2015	Performing	Non-performing	Total portfolio	Total impairment loss	Accounting balance (total)
Doubtful receivables					
Over 90 days past due		6,389	6,389	66	6,322
Classified as default		501	501		501
Forborne loans					
Renogitiated	163,942	1,120	165,062	42	165,021
Total	**163,942**	**8,010**	**171,953**	**108**	**171,844**

The loan portfolio is diversified. OP Mortgage Bank has not any groups of connected clients whose exposures exceed 10% of the capital base.

The bank reports as the amount of a receivable that is more than 90 days past due whose interest or principal amount has been overdue and outstanding for over three months. Agreements with the lowest two borrower grades (F for private customers and 11–12 for other) are reported as potential default. Forborne loans include receivables that have been modified due to the customer's financial difficulties. The loan terms and conditions of other renegotiated receivables have been eased due to the customer's financial difficulties by means of such as granting a home repayment holiday of 6–12 months.

NOTE 36. Exposure by credit rating, TEUR

Personal exposure by credit rating	31 Dec 2016	31 Dec 2015
Personal exposure on the balance sheet, category A	7,104,462	7,743,054
Personal exposure on the balance sheet, category B	1,441,250	1,353,968
Personal exposure on the balance sheet, category C	309,257	334,168
Personal exposure on the balance sheet, category D	117,657	114,482
Personal exposure on the balance sheet, category E	51,639	48,624
Personal exposure on the balance sheet, category F	10,967	4,214
Personal exposure on the balance sheet, not classified	-4,137	
Off-balance-sheet personal exposure A	8	695
Off-balance-sheet personal exposure B	0	12
Off-balance-sheet personal exposure C		0
Off-balance-sheet personal exposure, non-rated		151
Total personal exposure	**9,031,104**	**9,599,368**

Corporate exposure by credit rating	31 Dec 2016	31 Dec 2015
Corporate exposure on the balance sheet, category 2.0		132
Corporate exposure on the balance sheet, category 4.5	1,271	4,926
Corporate exposure on the balance sheet, category 5.0	5,457	6,731
Corporate exposure on the balance sheet, category 5.5	4,369	2,250
Corporate exposure on the balance sheet, category 6.0	769	2,079
Corporate exposure on the balance sheet, category 6.5	663	131
Corporate exposure on the balance sheet, category 7.0	1,095	326
Corporate exposure on the balance sheet, category 7.5	66	
Corporate exposure on the balance sheet, category 8.0	14	17
Corporate exposure on the balance sheet, category 10.0	0	169
Corporate exposure on the balance sheet, non-rated		0
Total corporate exposure	**13,705**	**16,760**

NOTE 37. Structure of funding, TEUR

	31 Dec 2016	Share, %	31 Dec 2015	Share, %
Liabilities to credit institutions	1,888,000	16.3	1,375,000	12.7
Debt securities issued to the public	9,277,801	79.9	9,002,669	82.9
Other liabilities	77,375	0.7	108,485	1.0
Shareholders' equity	373,622	3.2	371,937	3.4
Total	**11,616,798**	**100.0**	**10,858,091**	**100.0**

NOTE 38. Maturity distribution of financial assets and liabilities by residual term to maturity, TEUR

31 Dec 2016	Less than 3 months	3–12 months	1–5 years	5–10 years	More than 10 years	Total
Financial assets						
Receivables from credit institutions	451,787		733,369	1,119,400		2,304,556
Receivables from customers	240,756	698,874	3,273,820	2,766,111	2,060,003	9,039,563
Total financial assets	**692,543**	**698,874**	**4,007,189**	**3,885,511**	**2,060,003**	**11,344,120**
Financial liabilities						
Liabilities to credit institutions	1,430,000		458,000			1,888,000
Debt securities issued to the public		1,356,613	4,491,469	3,429,719		9,277,801
Total financial liabilities	**1,430,000**	**1,356,613**	4,949,469	**3,429,719**		**11,165,801**

31 Dec 2016	Less than 1 year	More than 1 year	Total
Off-balance-sheet commitments*	8		8
Total off-balance-sheet commitments	**8**		**8**

31 Dec 2015	Less than 3 months	3–12 months	1–5 years	5–10 years	More than 10 year	Total
Financial assets						
Receivables from credit institutions	245,120	10,000	733,369			988,490
Receivables from customers	220,602	730,801	3,457,116	2,947,242	2,254,491	9,610,252
Total financial assets	**465,723**	**740,801**	**4,190,485**	**2,947,242**	**2,254,491**	**10,598,741**
Financial liabilities						
Liabilities to credit institutions	750,000	167,000	458,000			1,375,000
Debt securities issued to the public		1,009,634	4,705,916	3,287,119		9,002,669
Total financial liabilities	**750,000**	**1,176,634**	**5,163,916**	**3,287,119**		**10,377,669**

31 Dec 2015	Less than 1 year	More than 1 year	Total
Off-balance-sheet commitments*	858		858
Total off-balance-sheet commitments	**858**		**858**

* Binding loan commitments

NOTE 39. Funding risk

Centralised funding forms OP Mortgage Bank's most significant source of funding risk. OP Financial Group's liquidity management has been centralised within OP Corporate Bank which is OP Mortgage Bank can also exploit OP Financial Group's liquidity buffer.

NOTE 40. Maturity of financial assets and liabilities by due date or repricing, TEUR

Contractual repricing dates or earlier due dates on 31 December 2016.

31 Dec 2016	1 month or less	> 1–3 months	> 3–12 months	> 1–2 years	> 2–5 years	More than 5 years	Total
Financial assets							
Receivables from credit institutions	451,787	92,388	1,485,139		147,592	127,650	2,304,556
Receivables from customers	2,152,679	2,375,771	4,478,807	6,899	11,922	13,484	9,039,563
Total financial assets	**2,604,466**	**2,468,159**	**5,963,947**	**6,899**	**159,514**	**141,134**	**11,344,120**
Financial liabilities							
Liabilities to credit institutions	1,330,000	558,000					1,888,000
Debt securities issued to the public		199,992	1,468,829	997,839	3,259,825	3,351,316	9,277,801
Total financial liabilities	**1,330,000**	**757,992**	**1,468,829**	**997,839**	**3,259,825**	**3,351,316**	**11,165,801**

31 Dec 2015	1 month or less	> 1–3 months	> 3–12 months	> 1–2 years	> 2–5 years	More than 5 years	Total
Financial assets							
Receivables from credit institutions	245,120	58,538	537,239		147,592		988,490
Receivables from customers	2,429,625	2,521,588	4,610,126	14,411	18,370	16,132	9,610,252
Total financial assets	**2,674,745**	**2,580,126**	**5,147,366**	**14,411**	**165,962**	**16,132**	**10,598,741**
Financial liabilities							
Liabilities to credit institutions	750,000	625,000					1,375,000
Debt securities issued to the public		199,979	1,195,090	1,248,040	3,257,897	3,101,663	9,002,669
Total financial liabilities	**750,000**	**824,979**	**1,195,090**	**1,248,040**	**3,257,897**	**3,101,663**	**10,377,669**

NOTE 41. Interest rate risk

OP Mortgage Bank's interest rate risk metric analyses the effect of a one-percentage point increase in the interest rate on present value of the interest rate exposure without comparing the customer margin with the Bank's capital base. On 31 December, the indicator stood at -0.05%. The interest rate risk may be considered to be low.

Sensitivity analysis for interest rate risk

			Impact on equity	
EUR thousand	**Risk parameter**	**Change**	**31 Dec 2016**	**31 Dec 2015**
Interest rate risk	Interest rate	1 pp	-182.6	602.4

NOTE 42. Real estate risk

OP Mortgage Bank does not possess any properties, or shares or interests in housing or real estate companies as a result of unpaid receivables.

SIGNATURES TO THE FINANCIAL STATEMENTS AND ANNUAL REPORT

Helsinki, 2 February 2017

Harri Luhtala Chairman	Elina Ronkanen-Minogue	Hanno Hirvinen

Lauri Iloniemi
Managing Director

AUDITOR'S NOTE

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

Helsinki, 8 February 2017

KPMG Oy Ab
Authorised Public Accountants

Raija-Leena Hankonen
Authorised Public Accountant

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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, 2016. The financial statements comprise the balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows 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 in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and comply with statutory requirements.

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.

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.

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 customers (notes 9 and 13 to financial statements)	
Receivables from customers is a significant item on the OP Mortgage Bank's balance sheet comprising 78 % of the total assets. Receivables from customers are mortgage-backed loans purchased from OP Financial Group's member banks. Valuation of receivables involves management judgement, especially in respect of the amount and timing of impairment losses. Impairment losses on loans and receivables are recognized on an individual or collective basis. Impairments are assessed on an individual basis if the debtor's total exposure is significant. An impairment assessed on individual basis is recognized when there is objective evidence that the receivable cannot be recovered in full. Collectively assessed impairment is calculated on a modelled basis. OP Mortgage Bank evaluates and validates the basis of the model regularly. Due to the significance of the carrying amount involved, and the high level of judgment involved relating to impairment review, receivables are addressed as a key audit matter.	We evaluated the compliance with the internal instructions in respect of purchased loans from OP Financial Group's member banks. Furthermore, we assessed and tested the internal controls over recognition and monitoring of loan receivables. We also considered the impairment principles applied. Our audit procedures included testing of internal controls over valuation of collaterals and impairment losses on loans. We evaluated the appropriateness of collective impairment provisions by assessing the collective impairment model in use and the validation process of the model. Furthermore, we considered the appropriateness of the notes provided by OP Mortgage Bank in respect of receivables and impairment losses.

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 the 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 on 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 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.

— Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities to express an opinion on the financial statements. We remain solely responsible for our audit opinion.

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

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises information included in 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 information included in the report of the Board of Directors and, in doing so, consider whether the information included in the report of the Board of Directors 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 in the information included in the report of the Board of Directors, we are required to report this fact. We have nothing to report in this regard.

Helsinki February 8, 2017

KPMG OY AB

Raija-Leena Hankonen
Authorised Public Accountant, KHT