

OP Mortgage Bank Interim Report for January-March 2015

OP Mortgage Bank (OP MB) is part of OP Financial Group. Together with Pohjola Bank plc, it is in charge of OP's funding from the money and capital markets. OP MB is responsible for the Group's funding for the part of covered bond issuance.

Financial standing

The loan portfolio of OP Mortgage Bank (OP MB) increased to EUR 9,635 million (9,329)*. The company increased its loan portfolio by buying mortgage-backed loans from OP Financial Group's member banks worth a total of EUR 721 million. The company did not issue any bonds in the reporting period.

The company's financial standing remained stable throughout the reporting period. Operating profit for January–March amounted to EUR 5.6 (5.3) million.

OP MB has used interest rate swaps to hedge against its interest rate risk. Interest rate swaps have been used to swap housing loan interest and interest on issued bonds into the same basis rate. OP MB has entered into all derivative contracts for hedging purposes, with Pohjola Bank plc being their counterparty.

* The comparatives for 2014 are given in brackets. For income-statement and other aggregated figures, January–March 2014 figures serve as comparatives. For balance-sheet and other cross-sectional figures, figures at the end of the previous reporting period (31 December 2014) serve as a comparative.

Collateralisation of bonds issued to the public

Mortgages collateralising covered bonds issued before 1 August 2010, under the Finnish Act on Mortgage Credit Banks (1240/1999), are included in Cover Asset Pool A. The balance of Pool A was EUR 1,200 million at the end of March.

Mortgages collateralising covered bonds issued after 1 August 2010, under the Finnish Covered Bonds Act (688/2010), are included in Cover Asset Pool B. The balance of Pool B was EUR 8,058 million at the end of March.

Capital adequacy

OP MB has presented its capital base and capital adequacy of 31 March 2015 in accordance with the EU capital requirement 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.

OP MB's Common Equity Tier 1 (CET1) ratio stood at 133.2% on 31 March. The CET1 capital requirement is 4.5% and the fixed additional capital requirement is 2.5%, or a total of 7%.

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 32.3 million in March. Information on the Basel I floor and capital surplus can be found in note "Capital base and capital adequacy".

Joint liability of amalgamation

Under the *Laki talletuspankkien yhteenliittymästä Act* (Act on the Amalgamation of Deposit Banks), the amalgamation of the cooperative banks comprises the organisation's central institution (OP Cooperative), the central institution'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 March 2015, OP Cooperative's members comprised 181 cooperative banks as well as Pohjola Bank plc, Helsinki OP Bank Plc, OP Mortgage Bank plc, OP Card Company Plc and OP Process Services Ltd. The central institution 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.

Companies belonging to the amalgamation are legally responsible for each other's debts. OP Financial Group's insurance companies do not fall within the scope of joint liability. The amalgamation's central institution OP Cooperative is obliged, if necessary, to assist member banks with a sum that prevents them from going into liquidation. The central cooperative is liable for the debts of a member bank which cannot be paid using the member bank's capital.

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 bank in proportion to their last adopted balance sheets. According to the Covered Bonds Act, section 25, the holder of a covered bond has the right to receive a payment for the entire loan term of the bond from the assets entered as collateral without other receivables without this being prevented by OP Mortgage Bank's liquidation or bankruptcy.

Personnel

On 31 March, OP MB had six employees. The Bank purchases all the most important support services from OP Cooperative and its Group members, reducing the Bank's need for its own personnel.

Administration

The Board composition is as follows:

Chairman	Harri Luhtala	Chief Financial Officer, OP Cooperative, Financial Group
Members	Elina Ronkanen-Minogue	Senior Vice President, OP Cooperative, Financial Group
	Hanno Hirvinen	Group Treasurer, Pohjola Bank plc

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

Risk exposure

The most significant types of risk related to OP MB are credit risk, structural funding risk, liquidity risk and interest-rate risk. The key indicators in use shows that OP MB's credit risk exposure is stable and the limit for liquidity risk set by the Board of Directors has not been exceeded. The liquidity buffer for OP Financial Group, managed by Pohjola Bank Plc, is exploitable by OP MB. OP MB has hedged against the interest-rate risk associated with its housing loan portfolio through interest-rate swaps, i.e. base rate cash flows from housing loans to be hedged are swapped to short-term Euribor cash flows. The interest rate risk may be considered to be low.

Outlook

The existing issuance programme will make it possible to issue new covered bonds in 2015. It is expected that the Company's capital adequacy will remain strong, risk exposure will be favourable and the overall quality of the credit portfolio will remain good.

Accounting policies

The Interim Report for 1 January–31 March 2015 has been prepared in accordance with IAS 34 (Interim Financial Reporting) and with the accounting policies presented in the financial statements 2014.

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

OP MB's related parties include the parent company OP Cooperative and its subsidiaries, the OP Financial Group pension insurance organisation OP Bank Group Pension Fund and OP Bank Group Pension Foundation, and the company's administrative personnel. Standard loan terms and conditions apply to loans granted to the related parties. Loans are tied to generally used reference rates. Related-party transactions did not undergo any substantial changes during the reporting period.

Calculation of key ratios

Return on equity, % = Annualised profit for the period / Equity capital (average equity capital at the beginning and end of the period) × 100

Cost/income ratio, % = (Personnel costs + Other administrative expenses + Other operating expenses) / (Net interest income + Net commissions and fees + Net trading income + Total net investment income+ Other operating income) × 100

Income statement	TEUR	Q1/2015	Q1/2014	2014
Interest income		27,202	26,357	117,550
Interest expenses		10,476	16,001	62,539
Net interest income		16,726	10,356	55,011
Impairment loss on receivables		-51	-64	-150
Net commissions and fees		-9,907	-3,963	-32,394
Net trading income		0	0	-1
Net investment income		1	1	1
Other operating income		1	0	1
Personnel costs		114	119	385
Other administrative expenses		612	564	2,300
Other operating expenses		401	305	1,506
Earnings before tax		5,644	5,340	18,277
Income tax expense		1,128	1,068	3,657
Profit for the period		4,516	4,272	14,619

Statement of comprehensive income TEUR	Q1/2015	Q1/2014	2014
Profit for the period	4,516	4,272	14,619
Items that will not be reclassified to profit or loss			
Gains/(losses) arising from remeasurement of defined benefit plans			-17
Income tax on gains/(losses) on arising from remeasurement of defined benefit plans			3
Total comprehensive income	4,516	4,272	14,606

Key ratios	Q1/2015	Q1/2014	2014
Return on equity (ROE), %	5.1	5.1	4.2
Cost/income ratio, %	17	15	19

Cash flow statement	TEUR	Q1/2015	Q1/2014
Cash and cash equivalents 1 Jan.		109,046	110,550
Total comprehensive income for the period		4,516	4,272
Adjustments to profit for the period		747	780
Increase (-) or decrease (+) in operating assets		-352,207	-1,861,519
Increase (+) or decrease (-) in operating liabilities		332,150	1,296,680
A. Cash flow from operating activities		-14,794	-559,787
Shares and participations		0	-23
Purchase of intangible assets		-178	-174
B. Cash flow from investing activities		-178	-197
Increases in debt securities issued to the public		2,103	995,839
Decreases in debt securities issued to the public		0	0
Reserve for invested unrestricted equity		0	0
Dividends paid		-4,996	0
C. Cash flow from financing activities		-2,893	995,839
Net increase/decrease in cash and cash equivalents (A+B+C)		-17,865	435,855
Cash and cash equivalents 31 March		91,181	546,404

Balance sheet	TEUR	31 Mar 2015	31 Mar 2014	31 Dec 2014
Receivables from credit institutions		101,181	546,404	119,046
Derivative contracts		285,540	199,126	261,346
Receivables from customers		9,635,434	9,749,343	9,329,077
Investments assets		40	40	40
Intangible assets		2,630	1,819	2,610
Other assets		111,691	117,719	90,047
Tax assets		392	39	380
Total assets		10,136,908	10,614,491	9,802,546
Liabilities to credit institutions		1,795,000	3,136,149	1,505,000
Derivative contracts		7,156	7,778	8,298
Debt securities issued to the public		7,836,945	6,988,802	7,810,673
Provisions and other liabilities		141,278	145,316	122,116
Tax liabilities		551	321	0
Total liabilities		9,780,929	10,278,366	9,446,086
Shareholders' equity				
Share capital		60,000	60,000	60,000
Reserve for invested unrestricted equity		245,000	235,000	245,000
Retained earnings		50,979	41,125	51,459
Total equity		355,979	336,125	356,459
Total liabilities and shareholders' equity		10,136,908	10,614,491	9,802,546

Off-balance-sheet commitments	TEUR	31 Mar 2015	31 Mar 2014	31 Dec 2014
Irrevocable commitments given on behalf of customers		3,305	5,463	3,252

Statement of changes in equity	TEUR	Share capital	Other reserves	Retained earnings	Total equity
Shareholders' equity 1 Jan 2014		60,000	235,000	36,853	331,853
Reserve for invested unrestricted equity					
Profit for the period				4,272	4,272
Total comprehensive income					
Other changes					
Shareholders' equity 31 Mar 2014		60,000	235,000	41,125	336,125
Shareholders' equity 1 Jan 2015		60,000	245,000	51,459	356,459
Reserve for invested unrestricted equity					
Profit for the period				4,516	4,516
Total comprehensive income					
Other changes				-4,996	-4,996
Shareholders' equity 31 Mar 2015		60,000	245,000	50,979	355,979

OP MB has presented its capital base and capital adequacy in accordance with the EU capital requirement regulation and directive (EU 575/2013).

Capital base and capital adequacy TEUR	31 Mar 2015	31 Dec 2014	31 March 2014
Shareholders' equity	355,979	356,459	336,125
Common Equity Tier 1 (CET1) before deductions	355,979	356,459	336,125
Intangible assets	-2,630	-2,610	-1,819
Excess funding of pension liability, indirect holdings and deferred tax assets for losses	-54	-55	0
Planned profit distribution / profit distribution as proposed by the Board	0	-5,000	-750
Share of unaudited profits	-4,516	0	0
Unrealised gains under transitional provisions	0	0	0
Impairment loss – shortfall of expected losses	-1,924	-1,898	-2,010
Common Equity Tier 1 (CET1)	346,855	346,897	331,546
Instruments included in other Tier 1 capital	0	0	0
Additional Tier 1 capital (AT1)	0	0	0
Tier 1 capital (T1)	346,855	346,897	331,546
Debenture loans	0	0	0
Unrealised gains under transitional provisions	0	0	0
Tier 2 Capital (T2)	0	0	0
Total Capital base	346,855	346,897	331,546
Risk-weighted assets			
Credit and counterparty risk	232,578	237,258	247,947
Market risk	0	0	0
Operational risk	27,846	23,527	23,527
Total	260,424	260,785	271,474
Key ratios, %	346,855	346,897	331,546
CET1 capital ratio	133.2	133.0	122.1
Tier 1 capital ratio	133.2	133.0	122.1
Capital adequacy ratio	133.2	133.0	122.1
Basel I floor			
Capital base	346,855	346,897	331,546
Basel I capital requirements floor	314,573	304,995	322,569
Capital buffer for Basel I floor	32,282	41,901	8,977

Classification of financial assets and liabilities TEUR				
		Recognised at fair value through profit or loss		
Financial assets	Loans and other receivables		Available for sale	Total
Receivables from credit institutions	101,181			101,181
Derivative contracts		285,540		285,540
Receivables from customers	9,635,434			9,635,434
Shares and participations			40	40
Other receivables	111,691			111,691
Other assets	3,022			3,022
Balance at 31 March 2015	9,851,328	285,540	40	10,136,908
Balance at 31 March 2014	10,415,325	199,126	40	10,614,491
Balance at 31 December 2014	9,541,160	261,346	40	9,802,546

		Recognised at fair value through profit or loss		
Financial liabilities			Other liabilities	Total
Liabilities to credit institutions			1,795,000	1,795,000
Derivative contracts		7,156		7,156
Debt securities issued to the public			7,836,945	7,836,945
Subordinated liabilities				
Other liabilities			141,828	141,828
Balance at 31 March 2015		7,156	9,773,773	9,780,929
Balance at 31 March 2014		7,778	10,270,588	10,278,366
Balance at 31 December 2014		8,298	9,437,789	9,446,086
Valuation difference of debt securities issued to the public (difference between fair value and carrying amount) 31 March 2015			370,624	370,624

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

Derivative contracts 31 Mar 2015 TEUR	Nominal values/residual term to maturity			
	Less than 1 year	1-5 years	More than 5 years	Total
Interest rate derivatives				
Hedging	4,798,382	9,141,000	4,396,000	18,335,382
Trading				
Total	4,798,382	9,141,000	4,396,000	18,335,382

	Fair values		Credit equivalent
	Assets	Liabilities	
Interest rate derivatives			
Hedging	285,540	7,156	495,007
Trading			
Total	285,540	7,156	495,007

Derivative contracts 31 Dec 2014 TEUR	Nominal values/residual term to maturity			
	Less than 1 year	1-5 years	More than 5 years	Total
Interest rate derivatives				
Hedging	4,496,752	9,141,000	4,396,000	18,033,752
Trading				
Total	4,496,752	9,141,000	4,396,000	18,033,752

	Fair values		Credit equivalent
	Assets	Liabilities	
Interest rate derivatives			
Hedging	261,346	8,298	449,799
Trading			
Total	261,346	8,298	449,799

Grouping of the balance sheet according to the valuation method, TEUR				
31 Mar 2015 TEUR	Valuation of fair value at the end of the period			
	Balance sheet value	Level 1	Level 2	Level 3
Assets recognised at fair value				
Derivate contracts	285,540		285,540	
Total	285,540		285,540	
Liabilities recognised at fair value				
Derivate contracts	7,156		7,156	
Total	7,156		7,156	
Financial liabilities not recognised at fair value				
Debt securities issued to the public	7,836,945	8,058,163	149,406	
Total	7,836,945	8,058,163	149,406	
31 Dec 2014 TEUR	Valuation of fair value at the end of the period			
	Balance sheet value	Level 1	Level 2	Level 3
Assets recognised at fair value				
Derivate contracts	261,346		261,346	
Total	261,346		261,346	
Liabilities recognised at fair value				
Derivate contracts	8,298		8,298	
Total	8,298		8,298	
Financial liabilities not recognised at fair value				
Debt securities issued to the public	7,810,673	7,995,455	142,607	
Total	7,810,673	7,995,455	142,607	
OP MB does not hold any transfers between the levels of fair value valuation.				

Helsinki, 29 April 2015

**OP Mortgage Bank
Board of Directors**

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