OP MORTGAGE BANK
Stock exchange release 24 October 2014, 10.00 am
Interim Report

OP Mortgage Bank Interim Report for January-September 2014

OP Mortgage Bank is part of OP-Pohjola Group. Its role in the Group is to raise, together with Pohjola Bank plc, funding for OP-Pohjola Group from money and capital markets. OP Mortgage Bank is responsible for the Group's funding for the part of covered bond issuance.

Financial standing

The loan portfolio of OP Mortgage Bank (OPA) increased to EUR 9,522 million (7,930)*. The company increased its loan portfolio by buying mortgage-backed loans from OP-Pohjola Group's member banks worth a total of EUR 2,768 million. Between January and September, OPA issued two covered bonds in the international capital market. The one issued in March had a maturity of 7 years, and the one in June 5 years. Both carry a fixed interest rate with a nominal value of EUR 1,000 million. Both bonds got the highest credit ratings from credit rating agencies.

The company's financial standing remained stable throughout the reporting period. Operating profit for January–September amounted to EUR 14.4 (9.8) million.

OPA has hedged against the interest-rate risk associated with its housing loan portfolio through interest-rate OPA 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. OPA has entered into all derivative contracts for hedging purposes, with Pohjola Bank plc being their counterparty.

*Comparatives for 2013 are given in brackets. For income-statement and other aggregated figures, January–September 2013 figures serve as comparatives. For balance-sheet and other cross-sectional figures, figures at the end of the previous reporting period (31 December 2013) serve as comparatives

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 2,700 million at the end of September.

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 6,464 million at the end of September.

Capital adequacy

OPA has presented its September-end capital base and capital adequacy in accordance with the EU capital requirement regulation and directive (EU 575/2013) (CRR/CRD IV) entered into force on 1 January 2014. Comparatives for 2013 are presented according to CRD III in force on 31 December 2013.

OPA's equity capital was increased in May with an additional investment of EUR 10 million by OP-Pohjola Group Central Cooperative.

OPA's Common Equity Tier 1 (CET1) ratio stood at 125.3% on 30 September.

Joint responsibility and joint security

Under the Act on Cooperative Banks and Other Cooperative Credit Institutions, the amalgamation of the cooperative banks comprises the organisation’s central institution (OP-Pohjola Group Central Cooperative), the Central Cooperative’s member credit institutions and the companies belonging to their consolidation groups. This amalgamation is monitored on a consolidated basis. The Central Cooperative and its member banks are ultimately responsible for each other's liabilities and commitments. The Central Cooperative's members at the end of the report period comprised OP-Pohjola Group's 181 member banks as well as Pohjola Bank plc, Helsinki OP Bank Plc, OP Mortgage Bank, OP Card Company Plc and OP Process Services Ltd. OP-Pohjola Group's insurance companies do not fall within the scope of joint responsibility.

The central institution is obligated to provide its member credit institutions with instructions on their internal control and risk management, their operations in securing liquidity and capital adequacy, and compliance with uniform accounting policies in preparing the amalgamation's consolidated financial statements.

The central institution and its member credit institutions are jointly responsible for the liabilities of the central institution or a member credit institution placed in liquidation or bankruptcy that cannot be paid from its assets. The liability is divided between the central institution and the member credit institutions in the ratios following the balance sheet total.

In spite of the joint responsibility and the joint security, pursuant to Section 25 of the Finnish Covered Bonds Act, the holder of a bond with mortgage collateral shall, notwithstanding the liquidation or bankruptcy of a mortgage credit bank, have the right to receive payment, before other claims, for the entire loan period of the bond, in accordance with the contract terms, from the funds entered as collateral for the bond.

Personnel

On 30 September, OPA had six employees. It purchases all key support services from OP-Pohjola Group Central Cooperative and its Group companies, which reduces the need for more staff.

Administration

The procedures for information and consultation of employees that were started on 12 August 2014 in the Central Cooperative relating to the reorganisation of the management system were brought to a conclusion on 23 September 2014. A total of 113 management positions, excluding operations abroad, were included. As a result 19 will be leaving either as a result of dismissal or other arrangements.

As part of the management system reorganisation, the composition of OPA's Board of Directors was changed by turning it into an intra-group board of directors. The practice is the same for all subsidiaries.

Board of Directors until 1 October 2014:

Chairman	Harri Luhtala	Chief Financial Officer, OP-Pohjola Group Central Cooperative
Vice Chairman	Elina Ronkanen-Minogue	Senior Vice President, OP-Pohjola Group Central Cooperative
Members	Lars Björklöf	Managing Director, Osuuspankki Raasepori
	Sakari Haapakoski	Bank Manager, Oulun Osuuspankki
	Mika Helin	Executive Vice President, Etelä-Hämeen Osuuspankki
	Hanno Hirvinen	Group Treasurer, Pohjola Bank plc
	Jari Tirkkonen	Senior Vice President, OP-Pohjola Group Central Cooperative

Board of Directors as of 1 October 2014:

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

OPA's Managing Director is Lauri Iloniemi.

OP-Pohjola Group to renew brand: OP-Pohjola becomes simply OP

Financial services provider OP-Pohjola Group is continuing its revamp – this time the focus is on its brand. The changes under way form part of the creation of a new financial services group fully owned by its customers. The group will soon go by the new name of OP Financial Group.

In the future, the banking, Non-life insurance and asset management businesses will all come under the OP brand. There are no plans to dispose the Pohjola brand, and a separate announcement will be made later on its future use.

In addition, Pohjola Bank Plc and Helsinki OP Bank will come together to form a new bank for the Helsinki region: OP Bank Plc. Pohjola Insurance will become OP Insurance. At this moment there will be no changes in the name of OP Mortgage Bank.

The new name of the OP-Pohjola Group, OP Financial Group, will be adopted on 1 January 2015.

Risk exposure

The most significant types of risk related to OPA are credit risk, structural funding risk, liquidity risk and interest-rate risk. The key indicators in use shows that OPA'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-Pohjola Group, managed by Pohjola Bank Plc, is exploitable by OPA. OPA 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 end of the year 2014. 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 strong.

Accounting Policies

The Interim Report for 1 January–30 September 2014 has been prepared in accordance with IAS 34 (Interim Financial Reporting). In the preparation of the Interim Report, OPA applied the same accounting policies as in the Financial Statements for 2013.

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.

The cash flow statement presents the cash flows for the period on a cash basis, divided into cash flows from operating activities, investing activities and financing activities. Cash flows from operating activities include the cash flows generated from day-to-day operations. Cash flow from investing activities includes payments related to PPE and intangible assets, investments held to maturity and shares that are not considered as belonging to cash flow from operating activities. Cash flow from financing activities includes cash flows originating in the financing of operations either on equity or liability terms from the money or capital market. Cash and cash equivalents include liquid assets and receivables from credit institutions payable on demand. The statement has been prepared using the indirect method.

OPA's related parties include OP-Pohjola Group Central Cooperative and its subsidiaries, the OP Bank 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.

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. The carrying amounts of other balance-sheet items substantially correspond to their fair values.

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-Q3/2014	Q1-Q3/2013	Q3/2014	Q3/2013	2013
Interest income	89,464	60,804	31,248	20,146	81,047
Interest expenses	49,377	36,626	16,187	12,643	49,855
Net interest income	**40,086**	**24,178**	**15,061**	**7,503**	**31,192**
Impairment loss on receivables	-148	48	17	27	19
Net commissions and fees	-22,404	-11,955	-10,114	-4,212	-16,070
Net trading income	-1	0	0	0	0
Net investment income	1	1	0	0	1
Other operating income	1	0	0	0	0
Personnel costs	283	325	92	93	449
Other administrative expenses	1,736	1,190	600	375	1,570
Other operating expenses	1,100	932	312	282	1,302
Earnings before tax	**14,416**	**9,825**	**3,960**	**2,568**	**11,821**
Income tax expense	2,882	2,405	791	628	2,887
Profit for the period	**11,534**	**7,420**	**3,169**	**1,940**	**8,934**

Statement of comprehensive income	Q1-Q3/2014	Q1-Q3/2013	Q3/2014	Q3/2013	2013
TEUR					
Profit for the period	11,534	7,420	3,169	1,940	8,934
Items that will not be reclassified to profit or loss	0	0	0	0	0
Gains/(losses) arising from remeasurement of defined benefit plans	0	0	0	0	-38
Income tax on gains/(losses) on arising from remeasurement of defined benefit plans	0	0	0	0	-6
Total comprehensive income	**11,534**	**7,420**	**3,169**	**1,940**	**8,889**

Key ratios	Q1-Q3/2014	Q1-Q3/2013	Q3/2014	Q3/2013	2013
Return on equity (ROE), %	4.5	3.0	3.7	2.4	2.7
Cost/income ratio, %	18	20	20	23	22

Cash flow statement TEUR	Q1-Q3/2014	Q1-Q3/2013
Cash and cash equivalents 1 Jan.	**110,550**	**53,300**
Total comprehensive income for the period	11,534	7,420
Adjustments to profit for the period	2,207	2,350
Increase (-) or decrease (+) in operating assets	-1,661,091	581,207
Increase (+) or decrease (-) in operating liabilities	133,220	-586,348
A. Cash flow from operating activities	**-1,514,130**	**4,629**
Purchase of intangible assets	-675	-647
B. Cash flow from investing activities	**-675**	**-647**
Increases in debt securities issued to the public	1,993,580	4,690
Decreases in debt securities issued to the public	0	0
Reserve for invested unrestricted equity	10,000	0
Dividends paid	0	-2,001
C. Cash flow from financing activities	**2,003,580**	**2,689**
Net increase/decrease in cash and cash equivalents (A+B+C)	**488,775**	**6,671**
Cash and cash equivalents 30 September	**599,325**	**59,971**

Balance sheet TEUR	30 Sep 2014	30 Sep 2013	31 Dec 2013
Receivables from credit institutions	599,325	59,971	110,550
Derivative contracts	252,120	211,255	198,086
Receivables from customers	9,521,936	8,202,201	7,929,630
Investments assets	40	17	17
Intangible assets	2,266	1,579	1,668
Other assets	92,283	79,324	76,362
Tax assets	61	26	630
Total assets	**10,468,031**	**8,554,373**	**8,316,944**
Liabilities to credit institutions	1,935,372	2,107,000	1,885,000
Derivative contracts	9,295	8,522	8,767
Debt securities issued to the public	8,043,326	6,003,280	5,991,695
Provisions and other liabilities	125,890	104,538	99,628
Tax liabilities	762	649	0
Total liabilities	**10,114,644**	**8,223,990**	**7,985,090**
Shareholders' equity			
Share capital	60,000	60,000	60,000
Reserve for invested unrestricted . equity	245,000	235,000	235,000
Retained earnings	48,387	35,383	36,853
Total equity	353,387	330,383	331,853
Total liabilities and shareholders' equity	**10,468,031**	**8,554,373**	**8,316,944**

Off-balance-sheet commitments TEUR	30 Sep 2014	30 Sep 2013	31 Dec 2013
Irrevocable commitments given on behalf of customers	3,467	6,437	4,568

Statement of changes in equity TEUR	Share capital	Other reserves	Retained earnings	Total equity
Shareholders' equity 1 Jan 2013	**60,000**	**235,000**	**29,964**	**324,964**
Reserve for invested unrestricted equity	-	-	-	0
Profit for the period	-	-	7,420	7,420
Total comprehensive income	-	-	-	-
Other changes	-	-	-2,001	-2,001
Shareholders' equity 30 Sep 2013	**60,000**	**235,000**	**35,383**	**330,383**
Shareholders' equity 1 Jan 2014	**60,000**	**235,000**	**36,853**	**331,853**
Reserve for invested unrestricted equity	-	10,000	-	10,000
Profit for the period	-	-	11,534	11,534
Total comprehensive income	-	-	-	-
Other changes	-	-	-	-
Shareholders' equity 30 Sep 2014	**60,000**	**245,000**	**48,387**	**353,387**

OPA has presented its capital base and capital adequacy of 30 September 2014 in accordance with the EU capital requirement regulation and directive (EU 575/2013) (CRR/CRD IV) entered into force on 1 January 2014. Comparatives for 2013 are presented according to CRD III in force on 31 December 2013.

Capital base and capital adequacy **TEUR**	**CRD IV 30 Sep 2014**	**CRD IV 1 Jan 2014**	**CRD III 31 Dec 2013**
Shareholders' equity	353,387	331,853	331,853
Common Equity Tier 1 (CET1) before deductions	**353,387**	**331,853**	**331,853**
Intangible assets	-2,266	-1,668	-1,668
Excess funding of pension liability, indirect holdings and deferred tax assets for losses	0	0	0
Planned profit distribution / profit distribution as proposed by the Board	-2,250	0	0
Unrealised gains under transitional provisions	0	0	0
Impairment loss – shortfall of expected losses	-2,026	-2,155	-1,077
Shortfall of Additional Tier 1 (AT1)	0	0	-1,077
Common Equity Tier 1 (CET1)*)	**346,845**	**328,031**	**328,031**
Instruments included in other Tier 1 capital	0	0	0
Shortfall of Tier 2 capital	0	0	-1,077
Reclassification into CET1	0	0	1,077
Additional Tier 1 capital (AT1)	**0**	**0**	**0**
Tier 1 capital (T1)	**346,845**	**328,031**	**328,031**
Debenture loans	0	0	0
Unrealised gains under transitional provisions	0	0	0
Impairment loss – shortfall of expected losses	0	0	-1,077
Reclassification into AT1	0	0	1,077
Tier 2 Capital (T2)	**0**	**0**	**0**
Total Capital base	**346,845**	**328,031**	**328,031**
Risk-weighted assets			
Credit and counterparty risk	253,331	263,887	263,881
Market risk	0	0	0
Operational risk	23,527	19,941	19,941
Basel I floor	0	0	2,908,024
Total	**276,858**	**283,827**	**3,191,845**
Key ratios	**346,845**	**328,031**	**328,031**
CET1 capital ratio	125.3	115.6	10.3
Tier 1 capital ratio	125.3	115.6	10.3
Capital adequacy ratio	125.3	115.6	10.3
Basel I floor			
Capital base	346,845	328,031	
Basel I capital requirements floor	315,857	255,348	
Capital buffer for Basel I floor	30,989	72,683	

*) The row of CET1 based on CRD III figures shows Core Tier as defined by the EBA
Under CRR, the Basel I floor does not apply to RWAs and becomes a minimum capital requirement.
The table above shows capital resources that exceed the Basel I floor.
Shortfall of difference between impairment losses and expected losses totals EUR 2 million.

Classification of financial assets and liabilities TEUR				
Financial assets	**Loans and other receivables**	**Recognised at fair value through profit or loss**	**Available for sale**	**Total**
Receivables from credit institutions	599,325	-	-	599,325
Derivative contracts	-	252,120	-	252,120
Receivables from customers	9,521,936	-	-	9,521,936
Shares and participations	-	-	40	40
Other receivables	92,283	-	-	92,283
Other assets	2,327	-	-	2,327
Balance at 30 Sep 2014	**10,215,871**	**252,120**	**40**	**10,468,031**
Balance at 30 Sep 2013	**8,343,101**	**211,255**	**17**	**8,554,373**
Balance at 31 December 2013	**8,118,840**	**198,086**	**17**	**8,316,944**
Financial liabilities		**Recognised at fair value through profit or loss**	**Other liabilities**	**Total**
Liabilities to credit institutions	-	-	1,935,372	1,935,372
Derivative contracts	-	9,295	-	9,295
Debt securities issued to the public	-	-	8,043,326	8,043,326
Subordinated liabilities	-	-	-	-
Other liabilities	-	-	126,651	126,651
Balance at 30 Sep 2014	**-**	**9,295**	**10,105,349**	**10,114,644**
Balance at 30 Sep 2013	**-**	**8,522**	**8,215,468**	**8,223,990**
Balance at 31 December 2013	**-**	**8,767**	**7,976,323**	**7,985,090**
Valuation difference of debt securities issued to the public (difference between fair value and carrying amount) 30 Sept. 2014			327,911	327,911

Derivative contracts 30 Sep 2014 TEUR	Nominal values/residual term to maturity			
	Less than 1 year	1–5 years	More than 5 years	Total
Interest rate derivatives				
Hedging	7,466,830	9,134,000	2,396,000	18,996,830
Trading	-	-	-	-
Total	**7,466,830**	**9,134,000**	**2,396,000**	**18,996,830**

	Fair values		Credit
	Assets	Liabilities	equivalent
Interest rate derivatives			
Hedging	252,120	9,295	409,244
Trading	-	-	-
Total	**252,120**	**9,295**	**409,244**

Derivative contracts 31 Dec 2013 TEUR	Nominal values/residual term to maturity			
	Less than 1 year	1–5 years	More than 5 years	Total
Interest rate derivatives				
Hedging	2,936,007	11,644,865	396,000	14,976,872
Trading	-	-	-	-
Total	**2,936,007**	**11,644,865**	**396,000**	**14,976,872**

	Fair values		Credit
	Assets	Liabilities	equivalent
Interest rate derivatives			
Hedging	198,086	8,767	325,316
Trading	-	-	-
Total	**198,086**	**8,767**	**325,316**

Grouping of the balance sheet according to the valuation method, TEUR

30 Sep 2014	**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	252,120	-	252,120	-
Total	**252,120**	**-**	**252,120**	**-**
Liabilities recognised at fair value				
Derivate contracts	9,295	-	9,295	-
Total	**9,295**	**-**	**9,295**	**-**
Financial liabilities not recognised at fair value				
Debt securities issued to the public	8,043,326	8,237,901	133,336	-
Total	**8,043,326**	**8,237,901**	**133,336**	**-**

31 Dec 2013	**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	198,086	-	198,086	-
Total	**198,086**	**-**	**198,086**	**-**
Liabilities recognised at fair value				
Derivate contracts	8,767	-	8,767	-
Total	**8,767**	**-**	**8,767**	**-**
Financial liabilities not recognised at fair value				
Debt securities issued to the public	**5,991,695**	**6,139,724**	**107,822**	**-**
Total	**5,991,695**	**6,139,724**	**107,822**	**-**

OPA does not hold any transfers between the levels of fair value valuation.

Helsinki, 24 October 2014

OP Mortgage Bank
Board of Directors

For more information, please contact Managing Director Lauri Iloniemi, tel. +358 (0)10 252 3541

DISTRIBUTION
LSE London Stock Exchange
OAM, Officially Appointed Mechanism
Major media
op.fi