

OP MORTGAGE BANK

Stock exchange release 29 April 2014, 9.30 am

Interim Report

OP Mortgage Bank Interim Report for January-March 2014

Financial standing

The loan portfolio of OP Mortgage Bank (OPA) increased to EUR 9,749 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 2,172 million. In March, OP issued its eighth covered bond in global markets with a nominal value of EUR 1,000 million. The bond carries a fixed interest rate and has a maturity of seven years. Moody's Investor Services and Standard & Poor's Rating Services affirmed their best ratings, Aaa and AAA, respectively, for the issued bond.

The company's financial standing remained stable throughout the reporting period. Earnings before tax for the first quarter came to EUR 5.3 million (3.8).

OPA has hedged against the interest-rate risk associated with its housing loan portfolio through interest-rate swaps. 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–March 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 3,000 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 6,362 million at the end of March.

Capital adequacy

OPA has presented its March-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 Common Equity Tier 1 (CET1) ratio stood at 122.1% on 31 March.

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 31 March, 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 Board composition is as follows:

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

OPA's Managing Director is Lauri Iloniemi.

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 in 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–31 March 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.

Related-party transactions

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.

All derivative contracts have been entered into for hedging purposes, regardless of their classification in accounting.

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	Q1/2014	Q1/2013	2013
Interest income		26,357	20,070	81,047
Interest expenses		16,001	11,742	49,855
Net interest income		10,356	8,329	31,192
Impairment loss on receivables		-64	10	19
Net commissions and fees		-3,963	-3,669	-16,070
Net trading income		0	0	0
Net investment income		1	1	1
Other operating income		0	0	0
Personnel costs		119	120	449
Other administrative expenses		564	423	1,570
Other operating expenses		305	345	1,302
Earnings before tax		5,340	3,782	11,821
Income tax expense		1,068	926	2,887
Profit for the period		4,272	2,856	8,934

Statement of comprehensive income	TEUR	Q1/2014	Q1/2013	2013
Profit for the period		4,272	2,856	8,934
Items that will not be reclassified to profit or loss				
Gains/(losses) arising from remeasurement of defined benefit plans		0	0	-38
Income tax on gains/(losses) on arising from remeasurement of defined benefit plans		0	0	-6
Total comprehensive income		4,272	2,856	8,889

Key ratios	Q1/2014	Q1/2013	2013
Return on equity (ROE), %	5.1	3.5	2.7
Cost/income ratio, %	15	19	22

Cash flow statement	TEUR	Q1/2014	Q1/2013
Cash and cash equivalents 1 Jan.		110,550	53,300
Total comprehensive income for the period		4,272	2,856
Adjustments to profit for the period		780	711
Increase (-) or decrease (+) in operating assets		-1,861,519	-167,473
Increase (+) or decrease (-) in operating liabilities		1,296,680	163,952
A. Cash flow from operating activities		-559,787	46
Shares and participations		-23	-
Purchase of intangible assets		-174	-83
B. Cash flow from investing activities		-197	-83
Increases in debt securities issued to the public		995,839	1,619
Decreases in debt securities issued to the public		0	0
Reserve for invested unrestricted equity		0	0
Dividends paid		0	-2,001
C. Cash flow from financing activities		995,839	-381
Net increase/decrease in cash and cash equivalents (A+B+C)		435,855	-419
Cash and cash equivalents 31 Dec.		546,404	52,881

Balance sheet	TEUR	31 Mar 2014	31 Mar 2013	31 Dec 2013
Receivables from credit institutions		546,404	52,881	110,550
Derivative contracts		199,126	276,403	198,086
Receivables from customers		9,749,343	8,847,903	7,929,630
Investments assets		40	17	17
Intangible assets		1,819	1,128	1,668
Other assets		117,719	117,146	76,362
Tax assets		39	33	630
Total assets		10,614,491	9,295,512	8,316,944
Liabilities to credit institutions		3,136,149	2,747,000	1,885,000
Derivative contracts		7,778	10,867	8,767
Debt securities issued to the public		6,988,802	6,068,986	5,991,695
Provisions and other liabilities		145,316	142,136	99,628
Tax liabilities		321	704	0
Total liabilities		10,278,366	8,969,693	7,985,090
Shareholders' equity				
Share capital		60,000	60,000	60,000
Reserve for invested unrestricted equity		235,000	235,000	235,000
Retained earnings		41,125	30,819	36,853
Total equity		336,125	325,819	331,853
Total liabilities and shareholders' equity		10,614,491	9,295,512	8,316,944

Off-balance-sheet commitments	TEUR	31 Mar 2014	31 Mar 2013	31 Dec 2013
Irrevocable commitments given on behalf of customers		5,463	11,352	4,568

Statement of changes in equity	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	-	-	2,856	2,856
Total comprehensive income			0	0
Other changes	-	-	-2,001	-2,001
Shareholders' equity 31 Mar 2013	60,000	235,000	30,819	325,819
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			-	0
Other changes	-	-	-	0
Shareholders' equity 31 Mar 2014	60,000	235,000	41,125	336,125

OPA has presented its capital base and capital adequacy of 31 March 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	CRD IV	CRD IV	CRD III
TEUR	31 Mar 2014	1 Jan 2014	31 Dec 2013
Shareholders' equity	336,125	331,853	331,853
Common Equity Tier 1 (CET1) before deductions	336,125	331,853	331,853
Intangible assets	-1,819	-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	-750	0	0
Unrealised gains under transitional provisions	0	0	0
Impairment loss – shortfall of expected losses	-2,010	-2,155	-1,077
Shortfall of Additional Tier 1 (AT1)	0	0	-1,077
Common Equity Tier 1 (CET1)*	331,546	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)	331,546	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	331,546	328,031	328,031
Risk-weighted assets			
Credit and counterparty risk	247,947	263,887	263,881
Market risk	0	0	0
Operational risk	23,527	19,941	19,941
Basel I floor			2,908,024
Total	271,474	283,827	3,191,845
Key ratios	331,546	328,031	328,031
CET1 capital ratio	122.1	115.6	10.3
Tier 1 capital ratio	122.1	115.6	10.3
Capital adequacy ratio	122.1	115.6	10.3
Basel I floor			
Capital base	331,546	328,031	
Basel I capital requirements floor	322,569	255,348	
Capital buffer for Basel I floor	8,977	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				
	Loans and other receivables	Recognised at fair value through profit or loss	Available for sale	Total
Financial assets				
Receivables from credit institutions	546,404	-	-	546,404
Derivative contracts	-	199,126	-	199,126
Receivables from customers	9,749,343	-	-	9,749,343
Shares and participations	-	-	40	40
Other receivables	117,719	-	-	117,719
Other assets	1,858	0	0	1,858
Balance at 31 March 2014	10,415,325	199,126	40	10,614,491
Balance at 31 March 2013	9,019,091	276,403	17	9,295,512
Balance at 31 December 2013	8,118,840	198,086	17	8,316,944
		Recognised at fair value through profit or loss	Other liabilities	Total
Financial liabilities				
Liabilities to credit institutions	-	-	3,136,149	3,136,149
Derivative contracts	-	7,778	-	7,778
Debt securities issued to the public	-	-	6,988,802	6,988,802
Other liabilities	-	-	145,637	145,637
Balance at 31 March 2014	-	7,778	10,270,588	10,278,366
Balance at 31 March 2013	0	10,867	8,958,826	8,969,693
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) 31 March 2013			254,529	254,529

Derivative contracts 31 Mar 2014	Nominal values/residual term to maturity			
	Less than 1 year	1–5 years	More than 5 years	Total
TEUR				
Interest rate derivatives				
Hedging	3,436,567	12,470,542	2,396,000	18,303,109
Trading	-	-	-	-
Total	3,436,567	12,470,542	2,396,000	18,303,109

	Fair values		Credit equivalent
	Assets	Liabilities	
Interest rate derivatives			
Hedging	199,126	7,778	397,695
Trading	-	-	-
Total	199,126	7,778	397,695

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 equivalent
	Assets	Liabilities	
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

31 Mar 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	199,126	-	199,126	-
Total	199,126	-	199,126	-
Liabilities recognised at fair value				
Derivate contracts	7,778	-	7,778	-
Total	7,778		7,778	
Financial liabilities not recognised at fair value				
Debt securities issued to the public	6,988,802	7,127,613	115,719	
Total	6,988,802	7,127,613	115,719	-

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	-
Yhteensä	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, 29 April 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