OP MORTGAGE BANK
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Interim Report

OP Mortgage Bank Interim Report for January-June 2014

Financial standing

The loan portfolio of OP Mortgage Bank (OPA) increased to EUR 9,929 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 June, 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. Earnings before tax for the first half came to EUR 10.5 million (7.3).

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–June 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 June.

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 6,886 million at the end of June.

Capital adequacy

OPA has presented its June-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 122.6% on 30 June.

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 June, 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–30 June 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	H1/2014	H1/2013	Q2/2014	Q2/2013	2013
Interest income	58,215	40,658	31,859	20,587	81,047
Interest expenses	33,190	23,983	17,189	12,241	49,855
Net interest income	**25,025**	**16,675**	**14,669**	**8,346**	**31,192**
Impairment loss on receivables	-165	21	-100	11	19
Net commissions and fees	-12,291	-7,743	-8,328	-4,074	-16,070
Net trading income	-1	0	-1	0	0
Net investment income	1	1	0	0	1
Other operating income	1	0	0	0	0
Personnel costs	190	232	71	111	449
Other administrative expenses	1,135	815	571	392	1,570
Other operating expenses	788	650	483	305	1,302
Earnings before tax	**10,456**	**7,257**	**5,116**	**3,476**	**11,821**
Income tax expense	2,091	1,777	1,023	851	2,887
Profit for the period	**8,365**	**5,480**	**4,093**	**2,625**	**8,934**

Statement of comprehensive income	H1/2014	H1/2013	Q2/2014	Q2/2013	2013
TEUR					
Profit for the period	8,365	5,480	4,093	2,625	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	**8,365**	**5,480**	**4,093**	**2,625**	**8,889**

Key ratios	H1/2014	H1/2013	Q2/2014	Q2/2013	2013
Return on equity (ROE), %	4.9	3.4	4.8	3.2	2.7
Cost/income ratio, %	17	19	18	19	22

Cash flow statement TEUR	**H1/2014**	**H1/2013**
Cash and cash equivalents 1 Jan.	**110,550**	**53,300**
Total comprehensive income for the period	8,365	5,480
Adjustments to profit for the period	1,493	1,422
Increase (-) or decrease (+) in operating assets	-2,037,415	241,408
Increase (+) or decrease (-) in operating liabilities	568,891	-263,930
A. Cash flow from operating activities	**-1,458,666**	**-15,620**
Purchase of intangible assets	-490	-315
B. Cash flow from investing activities	**-490**	**-315**
Increases in debt securities issued to the public	1,991,577	3,225
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	**2,001,577**	**1,224**
Net increase/decrease in cash and cash equivalents (A+B+C)	**542,421**	**-14,711**
Cash and cash equivalents 30 June	**652,971**	**38,589**

Balance sheet TEUR	**30 June 2014**	**30 June 2013**	**31 Dec 2013**
Receivables from credit institutions	652,971	38,589	110,550
Derivative contracts	230,912	219,616	198,086
Receivables from customers	9,929,237	8,535,321	7,929,630
Investments assets	40	17	17
Intangible assets	2,096	1,303	1,668
Other assets	82,515	77,636	76,362
Tax assets	60	32	630
Total assets	**10,897,832**	**8,872,515**	**8,316,944**
Liabilities to credit institutions	2,400,892	2,420,000	1,885,000
Derivative contracts	7,761	10,448	8,767
Debt securities issued to the public	8,019,417	6,010,497	5,991,695
Provisions and other liabilities	118,876	102,227	99,628
Tax liabilities	667	899	0
Total liabilities	**10,547,613**	**8,544,071**	**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	45,218	33,444	36,853

Total equity	350,218	328,444	331,853
Total liabilities and shareholders' equity	**10,897,832**	**8,872,515**	**8,316,944**

Off-balance-sheet commitments TEUR	**30 June 2014**	**30 June 2013**	**31 Dec 2013**
Irrevocable commitments given on behalf of customers	3,924	9,854	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	**-**	-	5,480	5,480
Total comprehensive income	**-**			
Other changes	**-**	-	-2,001	-2,001
Shareholders' equity 30 June 2013	**60,000**	**235,000**	**33,444**	**328,444**
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	-	-	8,365	8,365
Total comprehensive income				
Other changes	-	-	-	0
Shareholders' equity 30 June 2014	**60,000**	**245,000**	**45,218**	**350,218**

OPA has presented its capital base and capital adequacy of 30 June 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 June 2014**	**CRD IV 1 Jan 2014**	**CRD III 31 Dec 2013**
Shareholders' equity	350,218	331,853	331,853
Common Equity Tier 1 (CET1) before deductions	**350,218**	**331,853**	**331,853**
Intangible assets	-2,096	-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	-1,500	0	0
Unrealised gains under transitional provisions	0	0	0
Impairment loss – shortfall of expected losses	-1,931	-2,155	-1,077

Shortfall of Additional Tier 1 (AT1)	0	0	-1,077
Common Equity Tier 1 (CET1)*)	**344,691**	**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)	**344,691**	**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	**344,691**	**328,031**	**328,031**
Risk-weighted assets			
Credit and counterparty risk	257,579	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	**281,106**	**283,827**	**3,191,845**
Key ratios	**344,691**	**328,031**	**328,031**
CET1 capital ratio	122.6	115.6	10.3
Tier 1 capital ratio	122.6	115.6	10.3
Capital adequacy ratio	122.6	115.6	10.3
Basel I floor			
Capital base	344,691	328,031	
Basel I capital requirements floor	330,135	255,348	
Capital buffer for Basel I floor	14,556	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	652,971	-	-	652,971
Derivative contracts	-	230,912	-	230,912
Receivables from customers	9,929,237	-	-	9,929,237
Shares and participations	-	-	40	40
Other receivables	82,515	-	-	82,515
Other assets	2,156	0	0	2,156
Balance at 30 June 2014	**10,666,879**	**230,912**	**40**	**10,897,832**
Balance at 30 June 2013	**8,651,578**	**219,616**	**17**	**8,871,212**

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	-	-	2,400,892	2,400,892
Derivative contracts	-	7,761	-	7,761
Debt securities issued to the public	-	0	8,019,417	8,019,417
Subordinated liabilities	-	-	-	-
Other liabilities	-	-	119,543	119,543
Balance at 30 June 2014	-	**7,761**	**10,539,852**	**10,547,613**
Balance at 30 June 2013	**-**	**10,448**	**8,533,623**	**8,544,071**
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 June 2014			297,423	**297,423**

Derivative contracts 30 June 2014 TEUR	Nominal values/residual term to maturity			
	Less than 1 year	1–5 years	More than 5 years	Total
Interest rate derivatives				
Hedging	6,397,305	10,651,062	2,396,000	19,444,367
Trading	0	0	0	0
Total	**6,397,305**	**10,651,062**	**2,396,000**	**19,444,367**

	Fair values		Credit
	Assets	Liabilities	equivalent
Interest rate derivatives			

Hedging	230,912	7,761	385,459
Trading	-	-	-
Total	**230,912**	**7,761**	**385,459**

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 June 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	230,912	-	230,912	**-**
Total	**230,912**	**-**	**230,912**	**-**
Liabilities recognised at fair value				
Derivate contracts	7,761	-	7,761	**-**
Total	**7,761**	**-**	**7,761**	**-**
Financial liabilities not recognised at fair value				
Debt securities issued to the public	8,019,417	8,192,116	124,724	-
Total	**8,019,417**	**8,192,116**	**124,724**	**-**
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, 6 August 2014

OP Mortgage Bank
Board of Directors

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