OP Mortgage Bank Plc
Report by the Board of Directors and Financial Statements 2014

OP MORTGAGE BANK PLC

Report by the Board of Directors
and
Financial Statements 2014

Contents

REPORT OF THE BOARD OF DIRECTORS

OP Mortgage Bank (OPA) is part of OP Financial Group and its role is to raise, together with Pohjola Bank plc, funding for the Group from money and capital markets. OP Mortgage Bank is responsible for the Group's mortgage-backed funding by issuing covered bonds. OPA is not engaged in independent customer business nor does it have its own service network; instead, it buys the mortgages used as guarantee for the bonds mainly from OP Financial Group cooperative banks which also take care of the customer relationship and credit management locally. Group member banks that have signed a framework agreement and Helsinki OP Bank Plc may also, within the conditions set by OPA, grant loans directly to their customers on behalf of OPA.

OPA's loan portfolio increased to EUR 9,329 million (7,930)[1]. The total size of purchased loan portfolio was EUR 2,989 million in 2014.

Between January and December, OPA issued three mortgage-backed bonds on the international capital market. The bond issued in March had a maturity of 7 years, the one in June 5 years and the one in November 10 years. They had a fixed interest rate, and each one had a nominal value of EUR 1,000 million. The bonds got the highest credit ratings from credit rating agencies.

An OPA Manager application was adopted during the financial year to take care of loan selection and pooling, and the maintenance of a statutory bond register (OPA Register). In addition to this, an intermediary loan model was piloted during the financial year.

Joint liability

Under the Laki talletuspankkien yhteenliittymästä Act (the 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 December 2014, OP Cooperative's members comprised 181 cooperative banks as well as Pohjola Bank plc, Helsinki OP 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.

Companies belonging to the amalgamation 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 cooperative 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.

1) Comparatives for 2013 are given in brackets. For income-statement and other aggregated figures, January–December 2013 figures serve as comparatives. For balance-sheet and other cross-sectional figures, the figure at the end of the previous report (31 December 2013) serves as a comparative.

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 OPA's liquidation or bankruptcy.

Operating environment

The world economy continued to grow at a below-average rate in 2014. Some countries did better than others. In the euro area, the economy began to grow gradually after a two-year recession, but confidence in the recovery suffered setbacks during the year owing to the crisis in Ukraine, for example.

Inflation in the euro area slowed down during the year, and when the price of oil went down later in the year, so did the consumer prices. The European Central Bank reduced its main refinancing rate to as low as 0.05 per cent in September, bringing down Euribor rates even more. The ECB also carried out unusual monetary policy measures towards the year-end.

The Finnish economy was still developing sluggishly, with GDP failing to grow, employment increasing and investments decreasing even more. The fall in oil price reduced inflation in Finland, too. Business and consumer confidence was below average. However, it was a positive sign that the manufacturing industry's order books increased. Home prices fell by almost one per cent, and home sales decreased.

Banks' consumer loan volumes continued to grow slowly, at an annual rate of 2%. Corporate loan volumes increased slightly faster than consumer loans. Expectations on increased demand for loans were weakened towards the end of the year. Deposits remained almost at the same level as a year ago, as funds were transferred from fixed-term accounts to investment instruments with higher risk. Mutual fund assets and insurance savings increased well assisted by favourable financial markets, although the market's risk indicators increased a fraction in the second half of the year.

Earnings Development

OPA’s major earnings items developed as follows in 2014:

EUR thousand	**1-12/2014**	**1-12/2013**
Income		
Net interest income	55,011	31,192
Net commissions and fees	-32,394	-16,070
Net income from trading	-1	0
Net income from investments	1	1
Other operating income	1	0
Total	**22,618**	**15,123**
Expenses		
Personnel costs	385	449
Other administrative expenses	2,300	1,570
Other operating expenses	1,506	1,302
Total	**4,191**	**3,321**
Impairments of receivables	**-150**	**19**
Earnings before tax	**18,277**	**11,821**

The company's financial standing remained stable throughout the review period. Earnings before tax for January-December amounted to EUR 18,277 thousand (11,821).

Balance Sheet and Off-balance Sheet Commitments

OPA's balance sheet total amounted to EUR 9,803 million on 31 December (EUR 8,317 million). Changes in major assets, liabilities and off-balance sheet items are shown in the table below:

Change in Major Asset and Liability Items

EUR million	31 Dec 2014	31 Dec 2013
Balance sheet	9,803	8,317
Receivables from customers	9,329	7,930
Receivables from financial institutions	119	111
Debt securities issued to the public	7,811	5,992
Liabilities to financial institutions	1,505	1,885
Shareholders’ equity	356	332
Off-balance sheet commitments	3	5

The Bank's loan portfolio increased to EUR 9,329 million (7,930) in the January–December period. 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 2,989 million.

On December 2014, households accounted for 99.8 per cent (99.7) of the loan portfolio and housing corporations for 0.2 per cent (0.3). The bank's non-performing loans increased but remained at low levels totalling EUR 4.4 million (3.0) on December 2014.

The carrying amount of general issued bonds was EUR 7,811 million at the end of the year. In addition to bonds, OPA financed its activities with debt financing from Pohjola Bank plc. At the end of the report period, the amount of debt financing came to EUR 1,505 million (1,885).

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. OPA has also swapped the fixed interest rates of the bonds it has issued to short-term variable rates. OPA's interest-rate derivative portfolio totalled EUR 18,034 million (14,977). All derivative contracts have been concluded for hedging purposes. Pohjola Bank plc is the counterparty to all derivative contracts.

Development of Capital Adequacy

OPA's capital adequacy ratio stood at 133.0 % on 31th of December.

OPA has presented its capital base and capital adequacy of 31 December 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. In addition, an estimate of the figures a year ago under CRR is presented in column CRR 1 Jan. 2014. OPA uses the Internal Ratings Based Approach (IRBA) to measure its capital adequacy requirement for credit risk. OPA uses the Standardised Approach to measure its capital adequacy for operational risk.

Capital base and capital adequacy TEUR	CRD IV 31 Dec 2014	CRD IV 1 Jan 2014	CRD III 31 Dec 2013
Shareholders' equity	356,459	331,853	331,853
Common Equity Tier 1 (CET1) before deductions	**356,459**	**331,853**	**331,853**
Intangible assets	-2,610	-1,668	-1,668
Excess funding of pension liability, indirect holdings and deferred tax assets for losses	-55	0	0
Planned profit distribution / profit distribution as proposed by the Board	-5,000	0	0
Unrealised gains under transitional provisions	0	0	0
Impairment loss – shortfall of expected losse	-1,898	-2,155	-1,077
Shortfall of Additional Tier 1 (AT1)	0	0	-1,077
Common Equity Tier 1 (CET1)*)	**346,897**	**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)	**346,897**	**328,031**	**328,031**
Debenture loans	0	0	0
Unrealised gains under transitional provisions	0	0	0
Impairment loss – shortfall of expected losse	0	0	-1,077
Reclassification into AT1	0	0	1,077
Tier 2 Capital (T2)	**0**	**0**	**0**
Total Capital base	**346,897**	**328,031**	**328,031**
Risk-weighted assets			
Credit and counterparty risk	237,258	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	**260,785**	**283,827**	**3,191,845**
Key ratios	**346,897**	**328,031**	**328,031**
CET1 capital ratio	133	115.6	10.3
Tier 1 capital ratio	133	115.6	10.3
Capital adequacy ratio	133	115.6	10.3
Basel I floor			
Capital base	346,897	328,031	
Basel I capital requirements floor	304,995	255,348	
Capital buffer for Basel I floor	41,901	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 no longer applies to RWAs but has become a minimum capital requirement. The table above shows capital resources that exceed the Basel I floor.

The statutory minimum for the capital adequacy ratio is 8%. The lower limit of CET1's capital adequacy ratio is 4.5% and that of Additional Tier 1 capital (T1) is 6%.

Calculation of key indicators:

Common Equity Tier 1 (CET1) capital ratio, %

Common Equity Tier 1 / RWAs

Tier 1 capital (T1) capital adequacy ratio, %

Tier 1 capital (T1) / RWAs

Capital adequacy ratio, %

Total capital base / RWAs

Key figures and ratios

Key figure and ratio	2014	2013	2012
Return on equity (ROE), %	4.2	2.7	3.7
Return on assets (ROA), %	0.16	0.10	0.13
Capital adequacy, %	3.64	3.99	3.56
Cost/income ratio, %	19	22	19

Formulas for key figures and ratios

Return on equity (ROE), %

$$\frac{\text{Operating profit (loss) - Income taxes}^{*}}{\text{Shareholders' equity (average total at the beginning and end of the year)}} \times 100$$

Return on assets (ROA), %

$$\frac{\text{Operating profit (loss) - Income taxes}^{*}}{\text{Average balance sheet total (average total at the beginning and end of the year)}} \times 100$$

Capital adequacy, %

$$\frac{\text{Shareholders' equity}}{\text{Balance sheet total}} \times 100$$

Cost/income ratio, %

Administrative costs + Depreciation and impairment on tangible and
Intangible assets + Other operating expenses x 100
Net interest income + Income from equity investments +
Net commission income + Net income from securities trading
and currency operations + Net income from financial assets available for sale +
Net income from hedging calculation + Net income from investment properties +
Other operating income + Share from affiliate income (net)

* The tax effect included in appropriations has been taken into account.

Risk management

OPA's Board of Directors has confirmed the capital adequacy management principles and instructions to the Bank by OP Cooperative and set the risk limits for the most important risk indicators. The primary purpose of risk management is to secure the bank's risk tolerance and ensure that the bank is not exposed to excessive risk that might endanger its profitability, capital adequacy or the continuity of its operations. Risk management is based on the professional expertise and caution of the people who make operational decisions, and on systematic measurement, assessment and limitation of risks. OP Cooperative steers and monitors the risk management of all the companies that are part of OP Financial Group, such as OPA.

OPA's risks consist of credit, liquidity, market and operational risks. OP Cooperative has set risk limits for OPA's capital adequacy and credit and market risks. OPAs Board of Directors of the bank has confirmed the principles and guidelines governing risk management and set risk limits for the most important risk indicators. The Board of Directors supervises risk management and regularly monitors the bank's risk tolerance and risk situation. OPA's management is responsible for the implementation of risk management in accordance with the instructions confirmed by the Board of Directors and regularly reports on the business operations, risk-bearing capacity and risk exposure to the Board of Directors and OP Cooperative. OPA's overall attitude towards risk-taking is moderate.

Risk tolerance

OPA's risk-bearing capacity level continued to be good due to retained earnings. The capital adequacy ratio was 133.0% (10.3). Return on equity was 4.2% (2.7).

OPA's capital adequacy is not secured through accrued earnings; instead, it is secured by the OP Cooperative. The level of profitability is affected by OPA's management commission policy. Being a service company, OPA does not aim to maximise its earnings. Instead, any profitability potential exceeding the minimum level set by the owner is allocated to management commissions paid to the member banks.

Credit risk exposure

OPA's loan portfolio at the end of the financial period was EUR 9,329 million. The quality of the loan portfolio is high. At the end of the reporting period, OPA had 70 non-performing loans with a total capital value of EUR 4.4 million. The bank has not recognised any significant impairments during this or any previous financial period.

Being a mortgage bank, OPA may only grant credit against collateral defined in law. On the other hand, OPA's credit-granting criteria also support the upkeep of a high-quality loan portfolio. The criteria are stricter than those generally applicable in the OP Financial Group.

The bank's credit customers comprise private persons and housing corporations. The bank does not have any customer entities where the total number of customer risks exceeds the limit of 25 per cent of the bank's own funds set by the Act on Credit Institutions.

Thanks to the diversified loan portfolio and securing collateral, OPA's credit risk exposure is very stable.

Market Risks and Liquidity Risk

Market risks include interest rate risks, price risks and real estate risks on balance sheet items and off-balance sheet items, as well as the credit spread risk on investment activities and the market liquidity risk. OPA does not have any exchange rate, credit spread, share, commodity, real estate or volatility risks. The Board of Directors has confirmed a risk management principles which defines the products and market instruments used by the bank, the principles for funding and investment operations and the applicable risk monitoring methods.

Interest rate risk refers to the effect of changes in market rates on the bank's performance, profitability and capital adequacy. OPA has hedged against interest rate risk through interest rate swaps. By means of interest rate swaps, base rate cash flows from the hedged housing loans are swapped with Euribor cash flows. OPA has also swapped the fixed interest rates for the bonds issued by it with short-term market interest rates. Pohjola Bank is the counterparty in all derivative contracts.

The purpose of liquidity risk management is to secure the bank's ability to meet its payment obligations without endangering operational continuity, profitability or capital adequacy. OPA's cash flows are monitored daily to secure capital adequacy, and the structural funding risk exposure is monitored regularly as part of the company's capital adequacy management process.

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

The bank's interest rate and funding risk-taking are also restricted by the provisions of the Act on Mortgage Credit Banks. According to the legislation, the total amount of any interest received from loans pledged as collateral for covered bonds with real estate as collateral during any 12 months must exceed the total amount of interest payable on such covered bonds during the same period. In addition, the remaining average maturity of bonds with real estate as collateral must be shorter than the remaining average maturity of assets pledged as their collateral. OPA's operations have been in compliance with the Act for the entire financial period with respect to interest flows as well as maturities.

Operational risks

Operational risks refer to the risk of suffering financial loss or other damage through insufficient or failed processes, incorrect or imperfect procedures, systems or external factors. Operational risk may also be manifested as loss of or decrease in reputation or trust. Operational risks are controlled by identifying and assessing risks, and securing the functionality and sufficiency of control and management methods. Operational risks are assessed regularly and the entire risk situation is reported to the Board of Directors once a year.

Personnel and incentive schemes

On 31 December, OPA had six employees. It purchases all key support services from OP Cooperative and its Group companies, which reduces the need for more staff.

OPA belongs to the OP Personnel Fund of the OP Financial Group. The personnel fund is a long-term personnel incentive scheme. The bank makes profit-related payments to the personnel fund according to predefined principles. Fund members may withdraw fund units on the grounds specified in the fund rules.

Administration

Board of directors

The Board of Directors manages OPA's operations. According to the Articles of Association, the Board of Directors is responsible for attending to the bank's administration and the appropriate arrangement of its operations. The Board of Directors has general authority to decide on all issues related to the bank's administration and other matters that do not belong to the statutory duties of the Annual General Meeting or the Managing Director. The Board of Directors decides on the bank's strategy and crucial business objectives. The Board of Directors is responsible for ensuring that the bank's accounting and asset management is appropriately supervised.

As part of OP Financial Group's 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 Cooperative
Vice Chairman	Elina Ronkanen-Minogue	Senior Vice President, OP Cooperative
Members	Lars Björklöf	Managing Director, Osuuspankki Raasepori
	Sakari Haapakoski	Bank Manager, Oulun Osuuspankki
	Mika Helin	Executive Vice President, Hämeenlinnan Seudun Osuuspankki
	Hanno Hirvinen	Group Treasurer, Pohjola Bank plc
	Jari Tirkkonen	Senior Vice President, OP Cooperative

Board of Directors as of 1 October 2014:

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

According to OPA’s Articles of Association, the Board of Directors comprises a minimum of three and a maximum of eight members. Currently, the Board of Directors has three members. The members of the Board of Directors are elected for one year at a time so that their term of office commences at the closing of the General Meeting deciding on the election and ends at the closing of the General Meeting deciding to elect a new Board of Directors. Members of the Board of Directors are obliged to resign at 65 years of age at the latest. The Board of Directors constitutes a quorum when at least half of its members are present. The Board of Directors convened 16 times during the year.

Managing Director

OPA’s Managing Director is obliged to diligently promote the bank’s interests and attend to the day-to-day management of the bank in accordance with laws and the Board of Directors’ instructions and orders. The Managing Director may only take actions which, considering the scope and quality of the operations of the bank, are unusual or far-reaching if the Board of Directors has authorised him or her to this effect or if it is impossible to wait for the Board of Directors’ decision without causing fundamental harm to the operations of the bank. It is the statutory duty of the Managing Director to ensure that the bank’s accounting is in compliance with the law and that the bank’s asset management is arranged reliably.

Managing Director for OP Mortgage bank is Lauri Iloniemi and his deputy is Hanno Hirvinen.

A separate account of OPA’s administrative and management system is available at www.op.fi.

Auditing

KPMG Oy Ab, Authorised Public Accountants, were elected auditors at the 2014 Annual General Meeting, with Juha-Pekka Mylen, Authorised Public Accountant, as principal auditor.

The bank’s internal audit is the responsibility of the internal audit function of the OP Cooperative.

OP-Pohjola Group to renew brand: OP-Pohjola will become simply OP

On 6 October 2014, OP-Pohjola announced the renewal of its brand: OP-Pohjola will be shortened to OP. The change under way forms part of the creation of a new financial services group fully owned by its customers. In the future, the banking, non-life insurance and asset management businesses will all come under the OP brand. The Group recommends cooperative banks also adopt names beginning with OP.

OP Cooperative completed its public voluntary bid announced in February 2014 and gained ownership of all Pohjola Bank plc shares by decision of the Arbitral Tribunal in accordance with Chapter 18, Section 6 of the Finnish Limited Liability Companies Act. Following the realisation of a public voluntary bid by OP Financial Group Central Cooperative Consolidated, structural changes are in progress, meaning, for example, that the Non-life Insurance segment and the Asset Management segment would be transferred from Pohjola Group to be directly owned by OP Cooperative. As to asset management, the transfer has been scheduled to take place during 2015. In addition, some business operations of Helsinki OP Bank Plc and Pohjola Bank plc will be combined under joint management. The process of planning and examination of different options regarding the restructuring of OP Financial Group Central Cooperative and the implementation of legal structures of the organisation is still underway. In the context of further planning of the restructuring, the separation of OP Financial Group's central banking operations, being presently part of Pohjola Bank plc, as a detached subsidiary fully owned by OP Financial Group Central Cooperative, is also under consideration. OP Financial Group's banking operations in their entirety will continue to fall within the scope of joint liability as laid down in the applicable law. The specific manner to implement these changes or schedule have not yet been decided.

Furthermore, OP has decided to open four new private hospitals in Finland. It will also expand to new fields of specialised medicine and occupational health. The nationwide hospital network is built under the Pohjola brand. Omasairaala will change its name to Pohjola Health Ltd in the autumn of 2015.

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

Outlook

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

OPA'S BOARD PROPOSAL FOR THE ALLOCATION OF DISTRIBUTABLE FUNDS

The shareholders' equity of OP Mortgage Bank on 31 December 2014:

Share capital	60,000,000.00
Reserve for invested unrestricted equity	245,000,000.00
Profit for 2014	14,619,336.25
Retained earnings	36,840,079.27
Total	356,459,415.52

Distributable funds were EUR 296,459,415.52.

The Board is proposing to the Annual General Meeting that a dividend of EUR 65.28 be distributed per share, totalling EUR 4,995,813.12. Following dividend distribution, the distributable funds total EUR 291,463,602.40.

INCOME STATEMENT

EUR	Note	2014	2013
Interest income		117 549 714,68	81 047 309,57
Interest expenses		62 538 650,95	49 855 341,35
Net interest income	3	**55 011 063,73**	**31 191 968,22**
Impairment losses on receivables		-149 867,65	19 329,05
Net commission income and expenses	4	-32 393 898,77	-16 069 886,44
Net income from trading	5	-876,05	-400,18
Net income from investments	6	510,00	510,00
Other operating income	7	632,31	453,74
Personnel costs	8	385 334,34	448 791,54
Other administrative expenses	9	2 299 878,01	1 569 762,63
Other operating expenses	10	1 505 669,46	1 302 279,31
Earnings before taxes		**18 276 681,76**	**11 821 140,91**
Income taxes	11	3 657 345,51	2 887 155,03
Profit for the period		**14 619 336,25**	**8 933 985,88**

Earning/share (EPS), eur		**190,87**	**116,64**
Profit for the period / Average share-issue adjusted number of shares during the period			

OPA's COMPREHENSIVE STATEMENT OF INCOME

		2014	2013
Profit for the period		**14 619 336,25**	**8 933 985,88**
Items that will not be reclassified to profit or loss			
Gains/(losses) arising from remeasurement of defined benefit plans		-16 753,00	-38 400,00
Income tax on gains/(losses) on arising from remeasurement of defined benefit plans		3 314,60	-6 089,51
Total comprehensive profit for the period		**14 605 897,85**	**8 889 496,37**

BALANCE SHEET

EUR	Note	31 Dec 2014	31 Dec 2013
Receivables from financial institutions	12	119 045 875,97	110 549 772,37
Derivative contracts	13	261 345 875,59	198 086 290,74
Receivables from customers	14	9 329 077 483,51	7 929 629 916,78
Investments assets	15	40 000,00	17 000,00
Intangible assets	16	2 609 842,59	1 667 990,49
Other assets	17	90 046 935,05	76 362 425,13
Tax assets	18	379 784,17	630 340,21
Total assets		**9 802 545 796,88**	**8 316 943 735,72**
Liabilities to financial institutions	19	1 505 000 000,00	1 885 000 000,00
Derivative contracts	20	8 297 547,71	8 767 413,92
Debt securities issued to the public	21	7 810 673 333,42	5 991 694 554,93
Provisions and other liabilities	22	122 115 500,23	99 628 429,20
Tax liabilities	23	0,00	0,00
Total liabilities		**9 446 086 381,36**	**7 985 090 398,05**
Shareholders' equity			
Shareholders' interest			
Share capital		60 000 000,00	60 000 000,00
Invested unrestricted equity fund		245 000 000,00	235 000 000,00
Accumulated profits		51 459 415,52	36 853 337,67
Total equity	24	**356 459 415,52**	**331 853 337,67**
Total liabilities and shareholders' equity		**9 802 545 796,88**	**8 316 943 735,72**

CASH FLOW STATEMENT

EUR thousand	2014	2013
Cash flow from operating activities		
Comprehensive income	14 606	8 889
Adjustments to profit	3 819	3 141
Increase (+) or decrease (-) in operating assets	**-1 486 421**	**869 905**
Receivables from financial institutions	-10 000	-
Derivative contracts	-67 231	131 875
Receivables from customers	-1 395 476	736 533
Other assets	-13 714	1 497
Increase (+) or decrease (-) in operating liabilities	**-293 699**	**-828 177**
Liabilities to financial institutions	-380 000	-685 000
Derivative contracts	67 231	-131 875
Provisions and other liabilities	22 474	-7 380
Income taxes paid	-3 403	-3 923
A. Total cash flow from operating activities	**-1 761 695**	**53 759**
Cash flow from investing activities		
Investments in tangible and intangible assets	-1 087	-776
B. Total cash flow from investing activities	**-1 087**	**-776**
Cash flow from financing activities		
Increases in debt securities issued to the public	1 751 278	6 268
Decreases in debt securities issued to the public	-	-
Increases in invested unrestricted capital funds	10 000	-
Dividends paid	-	-2 001
C. Total cash flow from financing activities	**1 761 278**	**4 267**
Net change in cash and cash equivalents (A+B+C)	**-1 504**	**57 250**
Cash and cash equivalents at the beginning of the period	**110 550**	**53 300**
Cash and cash equivalents at the end of the period	**109 046**	**110 550**
Adjustments to profit for the period		
Items not associated with payment and other adjustments		
Depreciation	122	209
Taxes	3 684	2 887
Other	13	45
Total adjustments	**3 819**	**3 141**

STATEMENT OF CHANGES IN EQUITY

	Share capital	Other reserves	Accumulated profits	Total
Shareholders' equity on 1 January 2013	**60 000**	**235 000**	**29 964**	**324 964**
Invested unrestricted equity fund	-	-	-	-
Profit for the period			8 934	8 934
Total comprehensive income	-	-	-44	-44
Other changes	-	-	-2 001	-2 001
Shareholders' equity on 31 December 2013	**60 000**	**235 000**	**36 853**	**331 853**

		Share capital	Other reserves	Accumulated profits	Total
Shareholders' equity on 1 January 2014	24	**60 000**	**235 000**	**36 853**	**331 853**
Invested unrestricted equity fund		-	10 000	-	10 000
Profit for the period				14 619	14 619
Total comprehensive income		-	-	-13	-13
Other changes		-	-	-	-
Shareholders' equity on 31 December 2014		**60 000**	**245 000**	**51 459**	**356 459**

NOTES TO THE FINANCIAL STATEMENTS

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Annex 1 Accounting policies

OP Mortgage Bank plc (OPA) is a credit institution that practices mortgage banking in Finland.

The Bank is a part of an amalgamation of cooperative banks (OP Financial Group). Ultimately, OP Cooperative and its member credit institutions are responsible for each other's liabilities 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 Board of OP Cooperative must confirm any applicable accounting policies that have no directions from IFRS.

OP Mortgage Bank is domiciled in Helsinki and the address of its registered office is Teollisuuskatu 1b, P.O. Box 308, FI-00101 Helsinki.

A copy of OP Mortgage Bank's consolidated financial statements is available at or the company's office at Vääksyntie 4, P.O. Box 308, FI-00101 Helsinki.

The Bank's Board of Directors authorised these consolidated financial statements on 5 Feb 2015.

BASIS OF PREPARATION

OP Mortgage Bank's financial statement has been prepared in accordance with the International Financial Reporting Standards (IFRS), applying IASs, IFRSs and SIC and IFRIC interpretations effective on 31 December 2014. The International Financial Reporting Standards refer to standards and their interpretations adopted in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council. OP Mortgage Bank's notes also conform to the requirements of Finnish accounting and company legislation that complement IFRS regulations.

OP Mortgage Bank adopted the following IFRS standards, interpretations and options in 2014:

- IAS 32 – Financial Instruments: amendment to the presentation of Offsetting Financial Assets and Financial Liabilities. The amendment clarified the regulations on the net presentation of financial assets and liabilities and added application guidance concerning the subject. Standard change did not have a key impact on the financial statement of OP Mortgage Bank.

OP Mortgage Bank's financial statement has been prepared on the basis of original acquisition cost with the exception of hedged items in fair value hedging.

The numbers in the income statement and the balance are presented as euros and cents, other numbers in the financial statement 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.

FOREIGN CURRENCY TRANSLATION

OP Mortgage Bank’s financial statements are presented in euros, which is the functional and presentation currency of the parent. Non-euro transactions are recognised in euros at the exchange rate quoted on the transaction date or at the average exchange rate of the month of recognition. On the balance sheet date, non-euro monetary balance sheet items are translated into euros at the exchange rate quoted on the balance sheet date. Non-monetary balance sheet items measured at cost are presented at the exchange rate quoted on the transaction date.

The exchange rate differences arising from the translation of non-euro transactions and monetary balance-sheet items into euros are recognised as foreign exchange gains or losses under “Net trading income” in the income statement**.**

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 at the measurement date.

The fair value of financial instruments is determined using either prices quoted in an active market or the Group'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, willing parties, 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); and
- 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 Group 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:

- 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 bona fide bid for the same or similar investment from the market below acquisition value;
- events or circumstances that significantly weaken the issuer’s ability to operate on a going concern basis, such as negative cash flows resulting from operations, insufficient capital and shortage of working capital
- debtor's bankruptcy or other reorganisation becomes probable.
- debtor’s breach of contract;
- a concession granted to the debtor;
- impairment recognised earlier; and

- the disappearance of an active market for the financial asset.

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 impairments 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.

Credit is entered in OPA's balance sheet if it has been granted directly from OPA's balance sheet or if a cooperative bank has sold the credit to OPA at market price, with the credit risk, interest risk and funding risk having transferred to OPA with the sale. This credit is presented in balance-sheet item 'Receivables from customers'.

The credit is not transferred to OPA's balance sheet in the intermediate loan model referred to in the Covered Bond Act (688/2010), whereby OPA issues mortgage backed bonds and uses the funds obtained to make an intermediate loan to OP Financial Group member cooperative banks, entered under the balance-sheet item 'Receivables from customers'. In the intermediate loan model, the member cooperative bank's mortgage-backed credit's credit risk, interest risk or funding risk are not transferred to OPA but are entered as guarantee of the bond issued by OPA.

Loans and receivables, held-to-maturity investments and other financial liabilities are measured at amortised cost, using the effective interest method.

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. Loans and other receivables are recognised in the balance sheet on the date on which the customer raises the loan.

The financial assets and debts will be offset in the balance sheet in which OP Mortgage Bank, at the given time, has a legal right of setoff in the course of ordinary business operations and in cases of negligence, non-payment and bankruptcy, and plans to implement the payments in net terms.

The Group 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 when impairment loss is incurred and there is objective evidence that the receivable cannot be collected 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 effective 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 loan carrying amount and the lower present value of future cash flows.

Impairment assessment is a two-phase process. Impairment is assessed individually for significant loans and receivables. If loans and receivables are not assessed individually, they will be assessed collectively for impairment. Collectively assessed impairment includes losses incurred but not yet reported, which cannot yet be allocated to a certain loan. Collectively assessed impairment provisions are based on a statistical model used in the measurement of economic capital requirement. The model is derived from the expected credit loss model used in capital adequacy measurement, adjusted to correspond to the requirements under IFRS. The largest adjustments relate to minimum limits set for capital adequacy and to the materialisation of a loss event. In the model, receivables are classified into groups with similar credit risk by rating category. Collectively assessed impairment is measured based on the expected loss by rating category, and the measurement also takes account of the discounted present values of collateral and the average past loss experience (Note 14).

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 assessment. In some cases, the Group 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 credit is 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. Modifications with the highest severity class are also forbearance measures that will have an effect on the loan being assessed for impairment on an individual basis. 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 troubled debt classification. Modifications in payment terms are subject to regular monitoring and reporting to the management as an indicator anticipating customer solvency.

Both individual and collective impairments are recorded in a separate allowance account to reduce the carrying amount of receivables in the balance sheet. Impairment losses on loans are presented in the income statement in a separate line item "Impairment losses on receivables". Recognition of interest on the reduced amount continues after the recognition of impairment.

The loan is derecognised after the completion of debt-collection measures, or otherwise based on the management's decision. Following the derecognition, payments received 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.

Available-for-sale financial assets

Available-for-sale financial assets include non-derivative assets which are not classified as above-mentioned financial assets but which may be sold before their maturity (Note 15). At the time of their acquisition, available-for-sale financial assets are recognised at cost, which equals the fair value of the consideration paid plus transaction costs directly attributable to their acquisition. Available-for-sale financial assets are recognised at fair value, or if the fair value cannot be reliably determined, at acquisition cost. Any changes in their fair value are recognised in the other comprehensive income, from where they are transferred to the income statement when the asset is derecognised or there is objective evidence that the asset is impaired.

In the case of available-for-sale financial assets, for example, a significant downgrade of the credit rating of the issuer of bonds and notes, or a significant or prolonged decline in the equity instrument's fair value below its cost, constitutes objective evidence. If a security's market value continues to fall following impairment recognition, the impairment loss will be recognised 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 (Note 21). 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. OPA only uses derivatives for hedging (Note 29). Derivatives are measured at fair value at all times.

OPA 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 Financial Group can hedge against interest rate risk, currency risk and price risk by applying fair value hedge or cash flow hedge. Fair value hedging refers to hedging against changes in the value of the hedged asset, and cash flow hedging to hedging against changes in the fair value of 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 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 (own issues), individual loan portfolios, as well as individual loans. OPA uses forward exchange contracts and interest-rate and currency swaps as hedging instruments. 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) and 'Net investment income' (bonds are included in available-for-sale financial assets).

INTANGIBLE ASSETS

Intangible assets are measured at cost less accumulated amortisation and any impairment losses (Note 16). Depreciation is recognised as expenses over the course of the estimated economic life, which is 2 to 6 years.

Impairment of intangible assets

On each balance sheet date, the Group assesses whether there is any indication of an asset’s impairment. If such indication exists, the amount recoverable from the asset will be estimated. Regardless of the existence of such indication, the recoverable amount is estimated for assets not yet available for use, goodwill and intangible assets with indefinite useful lives. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its future recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell (net selling price) or value in use. The recoverable amount is primarily determined on the basis of the asset's net selling price, but if this is not possible, the asset's value in use must be determined. The asset's value in use equals the present value of future cash flows expected to be recoverable from the asset. The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the asset's net selling price cannot be determined and the asset does not generate cash flows independent of other assets, the need for impairment will be determined through the cash-generating unit, or the business segment or its company, to which the asset belongs. In such a case, the carrying amounts of the unit's assets are compared with the entire unit's recoverable amounts.

An impairment loss is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The increased carrying amount of the asset may not exceed the carrying amount of the asset that would have been determined had no impairment loss been previously recognised. Impairment losses on goodwill may not be reversed under any circumstances.

LEASE AGREEMENTS

On the date of inception, leases are classified as finance leases or operating leases according to 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. Assets held under finance lease 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

The statutory pension cover for OPA employees is managed through payments to OP Bank Group Pension Fund or insurance companies. The supplementary pensions of the employees have been arranged through OP Bank Group Pension Foundation or an insurance company.

OPA has both defined benefit and defined contribution plans. 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 (Note 8)

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.

Plan curtailments are recognised when the curtailment occurs.

Personnel fund

OP Mortgage Bank 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 (Note 11). Taxes are recognised in the profit and loss except when they are directly linked to items entered into equity capital or other items in the comprehensive financial statements. In this case also the tax will be entered 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 the Group companies operate and generate taxable income.

Deferred tax liabilities are recognised for all temporary differences between the carrying amount and taxable value 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. At OP Mortgage Bank, the majority of temporary differences are caused by tax provisions (such as loan loss provisions).

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 on an accrual basis. Interest on receivables with non-settled, due payments is also recognised as revenue. Such an interest receivable is included in impairment testing. The difference between the receivable's acquisition cost and its nominal value is allocated to interest income and that between the amount received and nominal value of the liability to 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.

Dividends are primarily recognised when they are approved by the General Meeting of Shareholders by the distributing entity.

Income and expense items in the income statement are presented separately without offsetting them unless there is a justified reason for offsetting them in order to give a true and fair view.

Summary of presentation of income statement items:

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	Commissions and fees
Net trading income	Capital gains and losses, and dividends
Net investment income	The realised sales incomes and losses on available-for-sale financial assets, impairments and dividend.
Other operating income	Other operating income
Personnel costs	Wages and salaries, pension costs, social expenses
Other administrative expenses	Office expenses, ICT costs, other administrative expenses
Other operating expenses	Depreciation/amortisation, rents, other expenses

SEGMENT REPORTING

OPA only offers mortgage loans. For this reason, segment reporting is not presented here.

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 of receivables are performed on an individual or collective basis. An impairment test carried out for an individual receivable is based on the management's estimate of the future cash flows of the individual loan. The most critical factor in testing an individual loan for impairment is to determine the cash flow whose realisation is the most probable.

Collectively assessed impairment provisions are based on a statistical model used in the measurement of economic capital, in which expected future losses are adjusted for incurred losses based on historical data. In such a case, the management’s judgement is required to assess how estimates of expected future losses adjusted for historical data correspond to the incurred losses and whether any possible adjustments for these are needed.

The management must assess when markets for financial instruments are not active. The management must also assess whether an individual financial instrument is actively traded and whether the price obtained from the market is a reliable indication of the instrument's fair value. When the fair value of financial instruments is determined using a valuation technique, management judgement is required to select the applicable valuation technique. Whenever market observable input data is not available for outputs produced by valuation techniques, the management must evaluate how much other information will be used.

The present value of pension obligations depends on several factors determined based on actuarial calculations and using several assumptions. The discount rate, future increases in salaries and pension payments and the inflation rate are the assumptions used to determine net costs (or income) arising from pensions. Changes in actuarial assumptions affect the carrying amount of pension requirements.

NEW STANDARDS AND INTERPRETATIONS

In 2015, OP Mortgage Bank will adopt the following standards and interpretations:

- IAS 19, Change in employee benefits, Defined Benefit Plans: Employee Contributions (effective for accounting periods beginning on or after 1 July 2014). These changes have clarified accounting treatment when a defined benefit pension plan requires the employees or third parties to contribute. These standard changes have no effect on OP Financial Group's financial statements.

The IASB (International Accounting Standards Board) has also issued other significant future IFRS amendments.

- IFRS 9 Financial Instruments and amendments to it (effective for accounting periods beginning on or after 1 January 2018). The new standard replaces the current IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 changes the classification and measurement of financial assets and includes a new expected credit losses model for the assessment of financial asset impairments. The classification and valuation of financial liabilities correspond to a large extent with the existing IAS 39 requirements. The hedge accounting types remain unchanged. A larger number of risk positions can be included in hedge accounting, and the hedge accounting principles have been aligned with risk management. OP Mortgage Bank is currently assessing the consequences of the standard.
- IFRS 15 Revenue from Contracts with Customers (effective for accounting periods beginning on or after 1 January 2017). The new standard is not applied to the recognition of financial instruments or insurance policies, and mainly concerns various commissions and fees. The standard contains 5-stage guidelines for revenue recognition, and replaces the current IAS 18 standard. The revenue is recognised over a period or at a specific time, and the key criterion is transfer of control. The standard will also increase the number of notes to be disclosed. OP Mortgage Bank is currently evaluating any effects the standard may have.

These standard changes have not yet been adopted in the EU.

Annex 2. Risk and capital adequacy management principles of OP Mortgage Bank plc

1 General principles of risk and capital adequacy management

1.1 Risk management in OPA's strategy

OP Financial Group's core values, strategic goals and financial targets form the basis for risk and capital adequacy management of OP Mortgage Bank plc (later OPA). The strategy outlines the risk appetite and risk management priorities that help to ensure strategy implementation. Strategic indicators include capital adequacy and profitability targets and risk limits. Risk management helps to achieve the targets set in the strategy by ensuring that risks are proportional to risk-bearing capacity. OPA has a moderate attitude towards risk-taking.

1.2. Internal control

Internal control refers to procedures or practices within the organisation to ensure that the organisation achieves the targets sets in the strategy, uses resources economically and the information in support of management decisions is reliable. Internal control also ensures that risk management, custody of client assets and asset protection are adequately organised. Internal controls also ensure compliance with regulations and approved ethical principles.

Effective and reliable internal control forms the basis for compliance with sound and prudent business practices.

Internal controls cover all operations and the nature and extent of the operations are taken into consideration when specifying the controls. Internal control covers all organisational levels. Internal control in its most extensive form primarily takes place at the operational level, characterised by continuous processes and forming part of daily routines.

Internal control is complemented by the opportunity of anyone employed by OPA to report through an independent channel if they suspect that rules or regulations have been violated.

1.3 Risk and capital adequacy management

Risk and capital adequacy management falls under internal control. The purpose of risk and capital adequacy management is to secure OPA's and its institutions' risk bearing capacity and, thereby, ensure the continuity of operations . Risk-bearing capacity is made up of good risk management that is proportionate to the extent and complexity of operations and of adequate capital resources based on profitable business operations.

OP Financial Group’s risk and capital adequacy management has been integrated as an integral part of the Group’s business and its management. OPA 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 involves:

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

Liquidity management is discussed in connection with liquidity risks.

OP Financial Group’s risk and capital adequacy management principles provide a guideline on how the Group should organise its Group-level risk and capital-adequacy management process.

At Group level, risk management is carried out independent of business operations. Risk and capital adequacy assessment is carried out so that it is in sufficient proportion to the nature, extent and diversity of OPA's operations.

OP Financial Group's risk policy confirms annually the principles, actions, objectives and restrictions that the Group's business segments and companies must follow to implement the principles agreed on in the strategy.

OPA's incentive schemes do not encourage excessive risk-taking. The incentive scheme takes into account the Group's capital adequacy and profitability.

According to the Laki talletuspankkien yhteenliittymästä Act (Act on the amalgamation of deposit banks), OP Cooperative (the central cooperative) controls and supervises its member credit institutions. The entities that are part of the amalgamation of the cooperative banks are monitored on a consolidated basis for capital adequacy and liquidity. The central cooperative fulfils these obligations through Group-level instructions and a system that reaches each bank.

The main purpose of OP Financial Group's entity-specific control is to prevent an individual entity from having to resort to the Group's capital adequacy or support. Another objective is to help entities recover from problem situations that have threatened or jeopardised their operations.

1.3.1 Risk identification, assessment, measurement and restriction

The risk and ICAAP process consists of the continuous identification and assessment of business and operating environment risks. Before any new operating model or product is launched, their risks are assessed as laid down by the Central Cooperative’s Risk Management.

The measurable risks are controlled using limits and control limits at Group level and within OPA. The risk limit system ensures that the Group does not take excessive risks to endanger the Group's capital adequacy, profitability, liquidity and continued operations. The limits also define the boundaries for implementing the strategy with moderate risk appetite.

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

OPA's capital base is assessed 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.

1.3.2 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% level of confidence that may arise from risks associated with business and the operating environment. Economic capital 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 requirement is divided into quantitative and qualitative, or assessed, risks. Quantitative risks include credit risk; interest rate, equity, property and investment spread risk associated with Banking; and market and underwriting risks associated with insurance operations. The risks assessed are divided into operational risks and other risks. ‘Other risks’ include any major risks that have not been taken into consideration in any other risk-specific models related to economic capital requirement. These risks are typically caused by external factors, such as changes in competition or the market situation or official regulations. 90% of OPA's economic capital requirement consists of credit risks.

In the model for economic capital requirement, several risk types are assessed in more detail than required by the authorities. Such risk types include banking interest rate risk, insurance market risks and other risks. The key difference in the calculation of economic capital for credit risks is related to concentration risk. Moreover, the calculation of economic capital differs from capital adequacy measurement in that the property and equity risks associated with Banking are calculated separately in terms of economic capital, while in capital adequacy calculations they are included in the capital requirement.

Indicators based on economic capital requirements are used in OP Financial Group’s target, limit and control limit indicators, credit and insurance policy pricing and capital planning when defining the capital conservation buffer.

1.3.3 Stress tests

Stress tests are used to assess how various exceptionally serious situations may affect the liquidity, profitability or capital adequacy of the Group or its institution. Stress tests assess the effect of both individual stress factors and the joint effect of multiple variables acting simultaneously. Stress tests cover all major risk affecting the Group's financial position.

Sensitivity analyses are used as part of risk analysis for various risk types. Sensitivity analyses help to understand how certain assumptions affect the risk indicator values. Sensitivity analyses conducted at different shock levels give a concrete idea of the effects of different risks and the probability of losses of various sizes.

Scenario analyses are used, in particular for analysing the impact of risks in the operating environment. They are derived from the financial estimate following the valid strategy which is based on the prevailing levels of different market variables and the Group’s best estimates of future development. In scenario analyses, this basic estimate is strained using the impact of different risks.

Stress test methods are utilised not only for the calculation of economic capital requirement but also as complementary methods for the purposes of, for example, the Group's capital planning, liquidity management and contingency and recovery planning.

1.3.4 Capital planning

The purpose of capital planning is to ensure that the Group and its entities have sufficient capital adequacy even under exceptional conditions so that operations can continue without interruption. Capital planning consists of, for example, quantitative and qualitative targets concerning capital adequacy, a contingency plan, and capital adequacy monitoring and control procedures per threshold level.

The central cooperative updates the Group-level capital plan at least annually, submitting it to the central cooperative's Executive Board for approval. The main conclusions of the capital plan are communicated to the central cooperative's Supervisory Board. The latter will instruct OPA on how to conduct its capital planning.

OPA is responsible for its own capital adequacy and must set its capital adequacy targets and limits according to guidelines set by the central cooperative.

1.4 Supervision and reporting

Risk Management within the central cooperative controls the OPA's risk and capital adequacy management and analyses its risk exposure. Risk Management reports regularly to the Executive Board and the Supervisory Board and its Risk Management Committee. The fact that reports on measureable risks are produced for OPA on a centralised basis and separate from any business operations also ensures the independence of risk reporting.

2 Organisation of risk and capital adequacy management

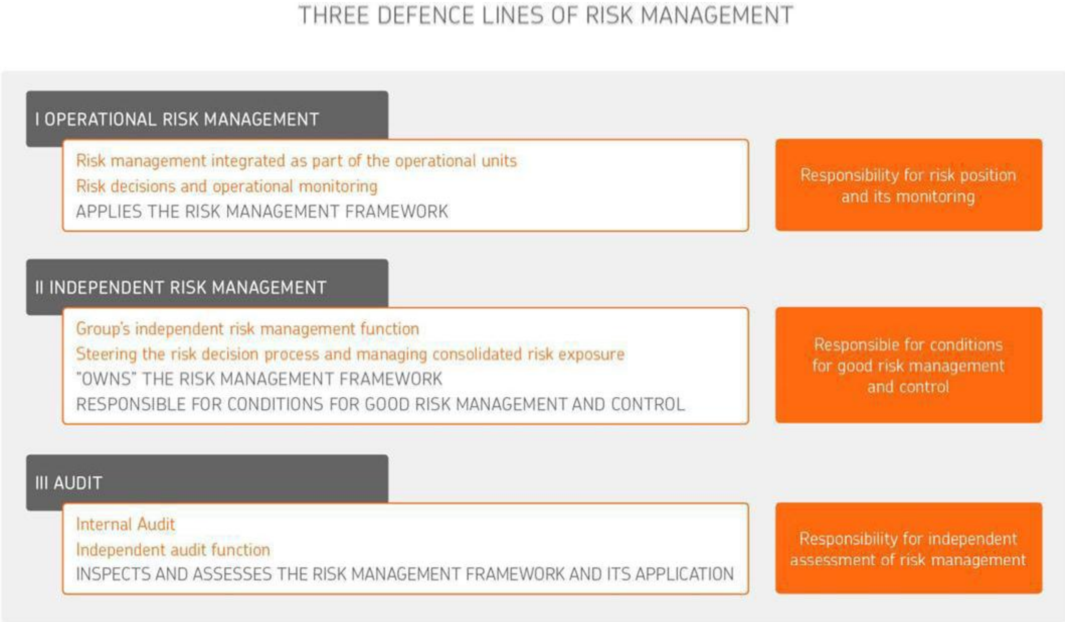
The central cooperative is responsible for Group-level risk and capital adequacy management and for ensuring that the Group’s risk management system is sufficient and kept up to date.

OPA is responsible for its own risk and capital adequacy management in accordance with the nature and extent of its operations.

The central cooperative provides OPA with instructions on how to ensure their liquidity and capital adequacy through capital adequacy and risk management, good corporate governance and internal control. The central cooperative supervises that OPA operates in accordance with the laws and decrees governing their financial position, regulations issued by the relevant authorities, their own bylaws, articles of association, instructions issued by the central cooperative, OP Financial Group's internal procedures, and procedures that are appropriate and ethically sound for customer relationships.

2.1 Risk and capital adequacy management's three lines of defence

OP Financial Group's risk and capital adequacy management organisation are based on three lines of defence.



The first line consists of risk management applied within business and other operations. It supervises risk decisions and ensures that risk exposure and risk-bearing capacity are under sufficient Group-level control. Risk management is included in business models and processes.

The second line of defence consists of risk management centralised to the central cooperative which is independent of operative business organisations. It is in charge of the Group's risk management framework, controls the risk exposure process and is responsible for the Group's consolidated risk exposure management and risk-bearing capacity monitoring.

The third line of defence is centralised internal audit. It audits and evaluates both the Group's risk management framework and its application in the central cooperative and other Group entities.

2.2 OP Financial Group's risk management

OP Financial Group's risk management is a function independent of business that defines policy, and steers and supervises the overall risk management of the Group and its institutions, and analyses their risk exposure. Risk management focuses on preventive work, preparation and predictive 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, continued operations and the reaching of strategic targets.

Risk management is in charge of the Group's risk management process and risk transfer, and supports OPA in the risk management implementation. It is also responsible for maintaining and developing risk management systems and methods. Moreover, risk management maintains, develops and prepares risk management principles for approval by the Executive Board and Supervisory Board.

Risk Management reports regularly to the Executive Board, the Supervisory Board and its Risk Management Committee.

The risk management organisation structure supports on the one hand an approach per risk type and on the other consolidated risk exposure monitoring at Group and entity level. Risk Management is divided into five areas of responsibility:

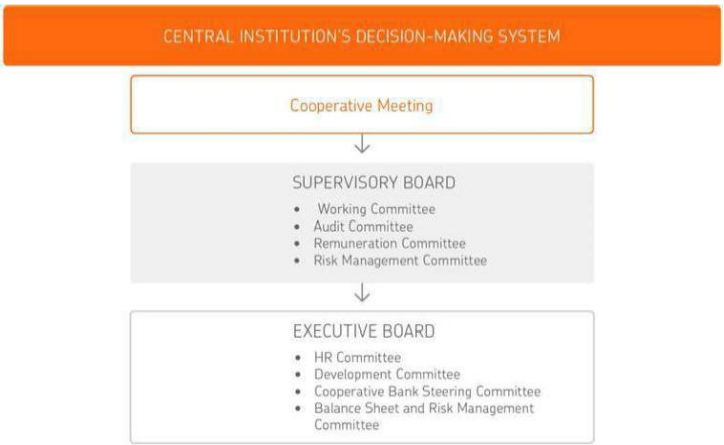
- Capital adequacy management
- Lending Support and Control
- Credit Risk Process Control and Management

- Operational Risk Management and Compliance
- Market and Underwriting Risk Management.

Risk Management is complemented by the Risk Management Committee and Credit Risk Committee appointed by the Executive Board.

The Risk Management Committee is responsible for OP Financial Group's long-term operating ability by ensuring that the Group's risk and capital adequacy management system principles, methods, models and indicators correspond to the best estimates of the independent risk management comply with the principles based on the risk modelling and stress test guidelines issued by the Executive Board.

The Credit Risk Committee controls the Group's counterparty risk limiting system, using it to make credit and exposure limit decisions, monitor utilisation rates and follow credit portfolio development in terms of quantity, quality and structure. The Credit Risk Committee's observations and assessments are included in the Group's regular risk reviews and analyses.



2.3 Supervisory Board

OP Cooperative's Supervisory Board adopts, among other things, OP Financial Group's strategy, containing the main risk management policies and other joint objectives and operating principles. It confirms the Group's principles of both internal control and risk and capital adequacy management; the control system principles required by joint liability; capital planning principles; the Group's annual plan; and Group-level risk limits concerning capital adequacy and risk types. It also approves the principles and policies concerning OP Financial Group's remuneration development and decides about the Group's long-term incentive schemes. The Supervisory Board follows regularly the business, risk-bearing capacity and risk exposure development of the Group and OP Financial Group Central Cooperative.

2.3.1 Supervisory Board committees

To support its work, OP Cooperative's Supervisory board has established a Working Committee, Audit Committee, Remuneration Committee and Risk Management Committee. The most important committees in terms of risk and capital adequacy management are the Risk Management Committee and the Audit Committee. The committees are not as a rule authorised to make decisions independently.

The new **Risk Management Committee** established in spring 2014 assists the Supervisory Board in matters related to OP Financial Group Central Cooperative's and the Group's risk-taking and risk management and risk-based supervision to ensure that the executive management complies with the risk-taking policy in accordance with the Group strategy and the risk limits issued by the Supervisory Board. The Risk Management Committee assists the Supervisory Board to ensure that a sufficient risk management system is in place and that no exposure is so large that it can jeopardise continued operations, capital adequacy, liquidity and strategy implementation.

The **Audit Committee** assists the Supervisory Board to ensure that the OP Financial Group Central Cooperative and OP Financial Group have in place a sufficient and well-functioning control system to cover all operations and that the Central Cooperative's and OP Financial Group's accounting and asset management control is organised appropriately. The Committee is also responsible for ensuring that OP Financial Group

Central Cooperative and OP Financial Group's operations and internal control are organised in accordance with laws, regulations and the principles of good corporate governance, and for supervising the performance of internal audit.

2.4 Executive Board

The duties of OP Cooperative's Executive Board Central include controlling the amalgamation's operations and providing its credit institutions guidelines on risk management, good corporate governance and internal control in order to ensure their liquidity and capital adequacy. It also supervises that the companies within the amalgamation operate in accordance with the laws and decrees governing their financial position, regulations issued by the relevant authorities, their own bylaws or articles of association, and instructions issued by the central cooperative.

At least once a year, the Executive Board ensures that OP Financial Group’s strategy, risk limits, capital plan and proactive contingency plan for capital resources are up to date. The Executive Board annually approves OP Financial Group's risk policy and OP Financial Group Central Cooperative's entities' risk limits and cooperative banks' control limits. It also approves the exposures included in the economic capital requirements and the general guidelines for capital requirement calculation, and the stress testing framework. It is also responsible for ensuring that the systems and procedures concerning risk and capital adequacy management are sufficient and up to date.

The Executive Board approves the control methods of monitoring system for each bank in accordance with the joint liability. The Board also decides about banks belonging into lower risk categories and related control methods.

The Executive Board reports to the Supervisory Board and its Risk Management Committee on changes in the business, risk-bearing capacity and risk exposure of the Group, the central cooperative and its institutions.

2.4.1 Executive Board committees

OP Cooperative's Executive Board has established, in support of its duties, an HR Committee, Development Committee, Cooperative Bank Steering Committee and Balance Sheet and Risk Management Committee. The most important ones in terms of risk management are the Balance Sheet and Risk Management Committee and Cooperative Bank Steering Committee. The committees have no independent decision-making powers but the Executive Board makes decisions based on preparations by the committees.

The **Balance Sheet and Risk Management Committee** supports the Executive Board in steering and managing the Group's risk-bearing capacity and risk appetite according to confirmed operating principles and decisions. The Committee also assists the Executive Board in ensuring that the central cooperative and its consolidated group have adequate capital adequacy management and risk management systems in place covering all operations.

Cooperative Bank Steering Committee's primary duty is to support the Executive Board in the central cooperative's implementation of control over cooperative banks under the guidelines of the central cooperative's Supervisory Board. The Committee is engaged in general control on all cooperative banks and in bank-specific control.

2.5 Internal Audit

Internal Audit is responsible for Group-level internal auditing within OP Financial Group. Internal audit is aimed at assisting senior and operational 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.

Internal Audit audits and evaluates both the Group's risk management framework and its application in the central cooperative and other Group entities. The Chief Audit Executive shall regularly report audits and any resulting observations to the Supervisory Board’s Audit Committee and the central cooperative’s Executive Board.

2.6 OP Mortgage Bank (OPA)

OPA applies risk and capital adequacy management principles adopted by the central cooperative's Supervisory Board.

The Board takes into account decisions made by OP Cooperative's Executive Board with regard to Group-level guidelines. The Board adopts annually the central cooperative's joint operating principles, describing in more detail, for example, the guidelines for risk management, asset-liability management, capital adequacy management, funding, accounting principles and the Group's strategy, which OPA must comply with as the Group's internal operating principles.

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 will adopt principles and procedures to ensure that the company will operate in accordance with external supervision 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 entity's business, risk-bearing capacity and risk status to the Board.

OPA's (second line of defence) duties related to risk and capital adequacy management have been centralised in the parent institution.

3 OPA's risks

The table below presents OPA's major risks. The paragraphs after 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.
COMPLIANCE RISK	Risks caused by non-compliance with external regulations, internal policies and appropriate procedures and ethical principles governing customer relationships.
REPUTATIONAL RISK	Risk of deterioration of reputation or trust caused by negative publicity or realisation of some risk.
CREDIT RISK	Credit risk refers to a risk of the counterparty not being able to fulfil its obligations.
MARKET RISK	Market risk consist of interest rate risk, investment risk and real estate risk.
LIQUIDITY RISK	Liquidity risk consist of liquidity risk and structural funding risk.

4 Strategic risks

Strategic risks are managed by analysing the risks when drawing up the strategy and by continuously monitoring and analysing changes in the operating environment and the realisation of the strategy. Strategic risk is reduced by regular planning, based on analyses and forecasts of customer future needs, developments in different sectors and market areas, and of competition. OPA’s strategic risks are reported on a regular basis.

5 Operational risks

Operational risk management ensures 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 Financial Group is continually maintaining and enhancing a corporate culture that takes a positive approach to operational risk management and internal control.

No risk limit in terms of risk-taking has been set for operational risks, but the target level for risk management is moderate. The main thing in operational risk management is to identify and assess risks and to assess the effectiveness and adequacy of risk control and management tools. Before any new operating 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 only offers to customers products and applies business models that have been approved at Group level. Risks that may disrupt business operations continuity are prepared against by means of contingency planning. Contingency planning also forms the basis for preparation against emergency conditions referred to in the Emergency Powers Act. Contingency plans are tested according to testing plans that have been made.

Any effect of a realised operational risk may be transferred outside OPA through insurance.

OPA adheres to OP Financial Group's uniform, system-supported operating model in its operational risk management. In this model, OPA assesses operational risks, that is, identifies and analyses business risks and defines and monitors measures designed to reduce them. It also monitors risk events and close calls and losses that have occurred to other financial sector players, and analyse them to ensure that we have sufficient readiness to prevent similar losses.

5.1 Monitoring and reporting

OPA's operational risks associated to major products, services, functions, processes and systems, and outsourcing are identified. The significance of identified risks are assessed on the basis of their financial effect and probability. The information obtained is used to support planning, decision-making and management.

Operational risks are reported regularly to the management of the central cooperative and to OPA.

6 Compliance risks

Forming part of operational risk, the objective of compliance operations is to ensure that OPA complies with laws, official instructions and orders, self-regulation of the markets, and internal guidelines, policies and instructions of OP Financial Group and OPA. Compliance also ensures that customer relationships are conducted with appropriate and ethically sound principles and practices.

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

Responsibility for regulatory compliance and its controls within OPA rests with the senior and line management. Everyone employed by OPA is responsible for their own part for compliance with regulations.

The central cooperative's independent risk management function is in charge of guidelines, advice and support concerning compliance within OP Financial Group. OPA has centralised compliance functions with Risk Management.

6.1 Management tools

Managing compliance risks forms part of sound corporate governance practices and internal control and, as such, an integral part of business management duties and the corporate culture. Compliance risk is managed by monitoring legislative amendments and by providing the organisation with guidelines, training and consultation. The Compliance function also supervises that the procedures chosen conform to the regulations.

6.2 Monitoring and reporting

Compliance risks are identified, assessed and reported regularly according to the operational risk management model. Any observations made within compliance are reported regularly to the business line, the central cooperative's Executive Board and the Supervisory Board's Risk Management and Audit Committees.

7 Reputational risk

Reputational risk is managed proactively and in the long term by following regulations, 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 the central cooperative and OPA. Any threat to imminent reputational risk will be reported immediately.

8 Credit risks

OP Financial Group's credit risk exposure is guided by applying the Group's risk policy. Credit risk policy defines the target exposure level, risk-taking polices, the principles governing customer selection and the use of collateral and covenants, with a view to ensuring, a sufficiently diversified loan portfolio in order to avoid excessive risk concentrations by customer group or sector. Targets have been set for the Group and its member banks per credit rating category concerning new credit and credit portfolio in order to retain the credit portfolio as high as possible. The credit rating controls customer choice, consequences of insufficient collateral, and pricing of liabilities. Credit decisions must always be based on valid and up-to-date credit ratings.

Credit risk management between OPA and Group member banks has been laid down in a framework agreement between the intermediary banks and OPA. Credit decisions are made in the intermediary bank offering the loan.

Lending will primarily be carried out on the basis of the customer's sufficient and verified debt servicing ability. A controlled and uniform financing process, guided by credit risk policies, decision-making financing authorisations and operating instructions, plays a key role in credit risk management. The starting point and biggest strength is our local and thorough understanding of our customers.

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. High financing percentages are avoided.

Collateral for the loans forming the collateral for bonds is accepted as eligible collateral according to the Act on Mortgage Credit Banks.

According to the framework agreement made by OPA member cooperative banks, the banks will react to foreseeable problems as early as possible, applying the same operating procedure as for weak and problem customers. Customers whose financial status performance, credit risk and payment behaviour justify a more detailed examination are subject to special observation. In this context, OPA also analyses the need to change the customer's credit rating, the probability of a credit loss and the need to recognise an impairment loss. This often means that changes must be made to credit decision levels.

8.1 Monitoring and reporting

Credit risk developments are monitored at OPA at least monthly in relation to the limits set and control limits. Credit rating reports number among other monitoring tools. Monitoring also covers major customer exposure, reports on credit portfolio quality and structure, adequacy of collateral, late payments and non performing receivables.

Credit risks are restricted at Group level through limits. A limit for an individual customer exposure measures the amount of exposure of a group of connected clients in relation to OP Financial Group's capital base specified under the Act on the Supervision of Financial and Insurance Conglomerates (RAVA). The limit for the total amount of major customer exposure encompasses all customer exposure that is at least 5% of the Group's capital base. OPA's credit risks have limits that restrict the ratio of non-performing receivables to the loan and guarantee portfolio, and the ratio of expected losses to liabilities.

8.2 Mitigating credit risks

In order to ensure the repayment of commitments, collateral must be provided for exposure, and any retail banking must primarily have collateral security. However, the customer's cash flows form the basis of all lending. Collateral is assessed by an independent appraiser and using a conservative approach to fair value. Developments in collateral values are monitored on a regular basis. Whenever a financing decision is made, we will check whether the collateral must be reassessed. A similar reassessment is made when the value of collateral has changed significantly or the client's financial standing has weakened substantially. The fair value housing used as collateral is monitored quarterly. The fair values of collateral is updated once a year based in indeces derived from official sales price statistics, and at the other three quarters, price development is checked and fair values updated is threshold values are exceeded.

8.3 Credit rating

At OP Financial Group, credit risk models are used to control credit risk taking and assess the amount of risk involved. Credit rating covers models for risk parameters involving Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD).

CREDIT RISK INDICATORS WITHIN INTERNAL CREDIT RATINGS		
Probability of loan defaults within 12 months	=	PROBABILITY OF DEFAULT (PD), %
Estimate of the loss caused by a loan default	=	LOSS GIVEN DEFAULT (LGD), %
Estimate of the sum the customer would owe the bank in case of insolvency	=	EXPOSURE AT DEFAULT (EAD), €

In practice, credit risk models are utilised, for example, in

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

8.3.1 Credit rating and probability of default

The purpose of credit rating is to divide customers into different groups according to the risk involved. A customer’s credit rating is an estimate of the risk of some of the customer’s exposures becoming non-performing receivables to OP Financial Group within 12 months, or of the customer having more serious payment defaults. The size of this risk for OP Financial Group is explained by probability of default, or PD, estimated for each credit rating category, which is the average probability within one year over the economic cycle. In other words, when the economy is thriving, the actual proportion of defaulted customers in a given credit rating category is lower than the estimated PD, and when economic trends are poor, higher than the estimated PD.

OP Financial Group uses several methods to evaluate customers’ probability of default. Private customers’ loans included in retail exposures in capital adequacy measurement are categorised using specific models in the application stage and as part of the bank’s loan portfolio. Small business exposures included in retail exposures in capital adequacy measurement are categorised using an ‘A’ rating or a rating model for low exposures. Mid-size and large companies’ exposures included in corporate exposures are categorised using an ‘R’ rating. Small business exposures included in corporate exposures are categorised using an ‘A’ rating. An internal credit rating model is used for credit institution counterparties.

8.3.2 Assessing private customer’s probability of default

In the assessment of probability of default of private customers, exposures are divided into 16 rating categories from A to F, the latter representing exposures of defaulted customers. In this assessment, the Group uses a credit rating model of the customer's loan portfolio and the rating of the application stage. The rating of private customers is based on information available from the loan application, the customer’s payment behaviour and other transaction history data. The scores calculated on the basis of this data determine the exposure's credit rating. Average PD has been calculated for each category for a period of 12 months.

When a loan is granted, Group member cooperative banks use the home mortgage and secured consumer credit application stage rating model. The Group's finance company product and unsecured consumer credit have their own application stage models. Updated versions of application stage models were commissioned in spring 2014.

The rating based on the application stage supports the credit approval process, credit risk assessment and the pricing of new loans. This rating takes place as part of OP Financial Group’s credit process.

The rating model for private customers' loan portfolio is used to categorise the exposures of private customers. The loan portfolio’s rating categories are updated once a month. This model was adopted in 2006 and its current version dates back to 2013. The loan portfolio rating model is used for credit risk evaluation and capital requirement calculation.

OP Financial Group applied separate rating models for corporate customers and credit institutions.

8.3.5 Loss given default (LGD) and exposure at default (EAD)

In addition to the models used for assessing the probability of default, Pohjola uses models for predicting loss given default (LGD) and exposure at default (EAD) to measure credit risk. In OP Financial Group’s credit risk models, LGD is an estimate of a financial loss (as a share of customer exposures at default) which the bank would incur if the customer would default within one year. EAD refers to the estimated amount of the bank’s receivable from the customer at default. Off-balance-sheet exposures are assessed by means of a Conversion Factor (CF), which describes how much of off-balance-sheet exposures have been assessed to be utilised at the time of default.

8.3.6 Use of credit risk models in capital adequacy measurement

The Foundations Internal Ratings Based Approach (FIRBA) is applied to measure capital adequacy requirement for credit risk on corporate and credit institution exposures. In FIRBA, an estimate of probability of default (PD) generated by OP Financial Group’s credit risk models affects the capital adequacy requirement for credit risk associated with the customer. The Group uses the so-called standard estimates supplied by the authorities on loss given default (LGD) and exposure at default (EAD). When FIRBA is used to measure the capital requirement for credit risk on retail exposures, PD, LDG and EAD values based on OP Financial Group’s internal models are used to calculate the risk weight. Pohjola uses the Standardised Approach (SA) for government and central bank exposures and for some exposures within other exposure categories. As a rule, a simple model applies to equity investments. The PD/LGD method applies to OP Financial Group’s strategic investments, where the PD values are based on internal models and LGD values on standard estimates.

8.3.7 Decision-making and assessment related to credit risk models

OP Financial Group’s Risk Management Committee decides on the adoption of any significant changes in the credit risk models. These decisions are based on the general principles governing credit ratings and the validation of credit risk models approved by the Central Cooperative’s Executive Board. The models are developed and maintained by the Central Cooperative’s Risk Management, independent of business lines/divisions.

The effectiveness of the credit rating process and credit risk models is subject to regular monitoring and supervision. The Central Cooperative’s Risk Management function collects continuous feedback from the business lines/divisions on the effectiveness of the credit rating process and credit risk models. On a monthly basis, it monitors the models that automatically create a credit rating category with a view to following changes in the credit portfolio and lending that may, for example, indicate errors in IT implementation.

In addition, the quality of the models is assured at least once a year in accordance with the validation instructions approved by OP Financial Group's Risk Management Committee. The set of the validation instructions contains requirements for quality assurance that must be carried out when adopting a model. Validation uses statistical methods to test, for example, the model's sensitivity and the validity of risk parameter estimates (PD, LGD and EAD). Validation also involves qualitative assessment, such as an analysis of user feedback, and a peer group analysis. The results of validation and any recommendations for required measures are reported to the Risk Management Committee, which decides on any improvements on the basis of the validation.

The central cooperative's Internal Audit ensures that validation is performed independent of businesses. It also reviews the credit risk models and their use in the Central Cooperative's companies and member banks as a part of their regular audit.

9 Liquidity risk

Liquidity risk comprises structural funding risk and funding liquidity risk. Liquidity risk refers to a situation in which OPA cannot meet its payment obligations without difficulty. Structural funding risk refers to refinancing risk that is the result of a maturity difference between lending and long-term funding.

Liquidity risk management is based on the Group's risk policy and approved risk limits. 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 concerning liquidity for various threshold levels, funding sources and a contingency funding plan at operational level.

OP Financial Group's liquidity is controlled by means of proactive planning of funding structures; the Group's risk limits; and limits, control limits and target levels derived for OPA. OP Financial Group's liquidity management tools also include the monitoring of the liquidity status and well-balanced liquidity buffer, planning and management of daily liquidity, as well as effective control of the Group's liquidity status. Funding liquidity management is governed by the regulations concerning the minimum reserve and marginal lending facility systems by the European Central Bank.

OP Financial Group ensures its liquidity by means of long-term funding planning, a liquidity buffer and funding sources under the contingency plan for twelve months in the event that both money and capital markets were to close and deposit funding was to decrease moderately. 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 by selling notes and bonds in the liquidity buffer or using them as collateral. The liquidity buffer is mainly formed by deposits to the Central Bank and receivables that are valid as collateral for Central Bank refinancing.

As the financial services group's central bank, Pohjola Bank plc is tasked with securing the liquidity of the entire Group as well as OPA. The Group's daily liquidity management refers to managing liquidity of the Group's companies engaged in banking. The liquidity reserve of Banking within the entire OP Financial Group is managed at the Group's central bank.

The Group's funding planning is based on the proactive planning of the funding structure and on the risk limit set for the asset/liability structure. Deposits from the general public and wholesale funding form the basis of the Group's funding. Wholesale funding is planned on the basis of deposit funding and increase in lending. In order to secure access to funding, we utilise a diverse range of financial instruments while diversifying the sources of funding by maturity, geographic location, market and investor. Any surplus deposits to member banks are mainly channelled to OP Cooperative Consolidated accounts or instruments it has issued in order not to increase the Group's wholesale funding unnecessarily. Pohjola manages on a centralised basis the Group's wholesale funding in the form of senior bonds and equity capital, while OP Mortgage Bank manages funding based on covered bonds.

OP Cooperative's Executive Board is responsible for OP Cooperative'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. OPA manages its liquidity within the limits set by the central cooperative, any guidelines, and the bond and credit terms and conditions.

9.1 Monitoring and reporting

Monthly liquidity monitoring and reporting is based on risk limits and target values. Reporting practices may vary from daily cash flow monitoring (funding liquidity) to the monitoring and forecasting of long-term funding structure (refinancing risk).

For each of those liquidity levels, the Group has specified control and monitoring practices which become more rigorous when moving up to the next level. The Group reports liquidity risks to the Central Cooperative's Executive Board on a regular basis and, with a heightened threshold level of liquidity status, will adopt weekly or daily progress reporting practices whenever necessary. OPA reports on liquidity risk to the Board regularly, applying at least the level which has been set for control limit indicators and limits.

The effect of threats and future scenarios related to structural funding risk and funding liquidity risk on the Group's liquidity, financial performance and capital adequacy is stress-tested as part of its risk and capital adequacy assessment.

OP Financial Group's risk limits for liquidity risk have been set for net cash flows under time category which guide the structural funding risk and for the indicator concerning liquidity risk. The risk indicator for the structural funding risk indicates the maximum portion of the net cash flows in the Group's balance sheet that may have a maturity within different time periods. Agreements with a maturity date are included in the analysis of structural financing risk according to the maturity date or any earlier repayment date. The maturities of accounts with no maturity date and premature repayments have been modelled.

The funding liquidity risk indicator shows for how long the primary liquidity buffer will cover the known and predictable net cash flows payable daily outside the Group and any unexpected liquidity stress scenario.

10 Market risks

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

The greatest market risk relates to the effect of a change in interest rates on net interest income, i.e., interest income risk in the banking book. Market interest is also composed of investments. OPA policy is, through continuous financing and liquidity planning, to maintain a situation in which it does not have significant financing surplus to invest. Investments in notes and bonds issued by governments and banks may also be used as supplementary collateral as specified in the Act on Mortgage Credit Banks.

When investment decisions are made, as assessment is made on the investment's effect on the interest rate risk and funding risk.

The purpose of market risk management is to identify and assess market risks included in 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 deteriorate the long-term profitability or capital adequacy of any individual entity within OPA.

Guidelines that control and mitigate market risks include OP Financial Group’s risk and capital adequacy management principles and the Group’s risk management guidelines that supplement them, and the Central Cooperative's risk management policy and limits and control limit indicators.

10.1 Interest rate risk

The most significant sources of the interest rate risk of OP Financial Group are associated with the retail banking's banking book and its insurance operations. The Banking interest rate risk is derived from the banking book and Pohjola Bank plc's trading portfolio. The interest rate risk of items not in the trading book is by nature related to structural interest income from financing.

OPA's interest rate risk concerns the differences in the bases of interest rates concerning lending and funding. Interest rate risk is primarily managed with derivatives and by the regulation of products and terms and conditions related to lending, and the regulation of interest-rate bases adjustment dates related to funding. OPA enters into derivatives contracts only for hedging purposes, with Pohjola Bank plc always as the counterparty.

10.2 Monitoring and reporting

The extent and frequency of market risk reporting in OPA vary from real-time to monthly monitoring. Reports are made monthly but daily monitoring may take place if necessary. The Central Cooperative's Risk Management provides market risk reports for OPA and regularly reports the development of the entire OP Financial Group's balance sheet structure and market risks to the Central Cooperative's management.

Some of OPA's market risks are assessed by means of sensitivity analyses and stress tests. Derivative risks are monitored as part of the exposure using the same benchmarks as for balance sheet exposure.

NOTES TO THE INCOME STATEMENT

NOTE 3. Interest income and expenses	2014	2013
Interest income		
From receivables from financial institutions	93	16
From receivables from customers	138 427	101 660
From debt instruments available for sale	-	-
From derivative contracts		
From hedge accounting	-20 985	-20 671
Other interest income	15	42
Total	**117 550**	**81 047**
Interest expenses		
From liabilities to financial institutions	11 641	5 972
From derivative contracts		
Held for trading	-	-
From hedge accounting	-190 992	7 805
From debt securities issued to the public	241 887	36 063
Interest expenses on subordinated liabilities	-	-
Other interest expenses	2	16
Total	**62 539**	**49 855**
Net interest income	**55 011**	**31 192**

Net income from hedge accounting

Net income from hedging instruments is -63,729 (112,772) and net income from hedged items is 63,729 (-112,772).

NOTE 4. Net commission income and expenses	2014	2013
Commission income		
From lending	7 696	6 654
Total	**7 696**	**6 654**
Commission expenses		
From securities	31	17
Other	40 058	22 707
Total	**40 090**	**22 724**
Net commission income and expenses	**-32 394**	**-16 070**

Other commission expenses constitute mainly commissions paid to intermediary banks.

NOTE 5. Net income from trading	2014	2013
From financial assets and liabilities held for trading		
Valuation gains and losses		
Net income from foreign exchange operations	-1	0
Total net income from trading	**-1**	**0**

NOTE 6. Net income from investments	2014	2013
Net income from financial assets available for sale		
Income from shares and holdings	1	1
Total net income from investments	**1**	**1**

NOTE 7. Other operating income	2014	2013
Other operating income	1	0
Total other operating income	**1**	**0**

NOTE 8. Personnel costs	2014	2013
Salaries and remuneration	316	364
Pension costs		
Defined contribution plans	51	54
Defined benefit plans	13	20
Total	65	75
Other indirect personnel costs	5	10
Total personnel costs	**385**	**449**

NOTE 9. Other administrative expenses	2014	2013
Office expenses	159	169
IT expenses	2 049	1 182
Telecommunications	37	23
Marketing	4	2
Other administrative expenses	51	194
Total other administrative expenses	**2 300**	**1 570**

NOTE 10. Other operating expenses	2014	2013
Rental expenses	62	53
Depreciation		
On machinery and equipment	-	-
On intangible assets	122	209
Total	122	209
Other	1 322	1 041
Total other operating expenses	**1 506**	**1 302**

Fees paid to auditors by assignment group

Auditing	13	7
Assignments referred to in section 1, paragraph 1, subparagraph 2, of the Auditing Act	-	-
Tax counselling	-	-
Other services	68	-
Total	**82**	**7**

NOTE 11. Income taxes	2014	2013
Tax based on taxable income for the financial period	3 681	2 887
Taxes from previous periods	3	0
Deferred taxes	-26	0
Taxes on the income statement	**3 657**	**2 887**
Corporate income tax rate	20,0 %	24,5 %

Reconciliation of taxes calculated according to the valid tax rate with the taxes presented in the income statement

Earnings before taxes	18 277	11 821
Share of the profit according to the tax rate	3 655	2 896
Taxes from previous periods	3	0
Change in tax rates	-	-6
Other	-1	-4
Taxes on the income statement	**3 657**	**2 887**

NOTES TO THE BALANCE SHEET

NOTE 12. Receivables from financial institutions	31 Dec 2014	31 Dec 2013
Receivables from financial institutions		
Deposits		
Repayable on demand	109 046	110 550
Other		
Other than those repayable on demand	10 000	-
Total receivables from financial institutions	**119 046**	**110 550**

NOTE 13. Derivative contracts	31 Dec 2014	31 Dec 2013
Hedging derivative contracts – fair value hedging		
Interest rate derivatives	261 346	198 086
Total derivative contracts	**261 346**	**198 086**

NOTE 14. Receivables from customers	31 Dec 2014	31 Dec 2013
Loans to the public and public sector entities	819 835	861 459
Loans acquired and other receivables	8 509 766	7 068 566
Collectively assessed impairments	-480	-361
Individually assessed impairments	-43	-33
Total receivables from customers	**9 329 077**	**7 929 630**

NOTE 15. Invested capital	31 Dec 2014	31 Dec 2013
Financial assets available for sale		
Shares and holdings, unquoted	40	17
Total investment assets	**40**	**17**

Shares and holdings other than those quoted publicly have been valued at acquisition cost.

Changes in securities available for sale

Change in securities available for sale consists of an investment in OP Cooperative, Financial Group's actual capital.

NOTE 16. Intangible assets	31 Dec 2014	31 Dec 2013
Software, licences and user rights	2 610	1 668
Total intangible assets	**2 610**	**1 668**

Changes in intangible assets

31 Dec 2014	Software	Software / financial leasing	Total intangible assets
Acquisition cost on 1 January	1 778	1 454	3 231
Increases	1 064		1 064
Decreases			
Transfers between items			
Acquisition cost on 31 December	2 842	1 454	4 295
Accumulated amortisation and impairment losses on 1 January	179	1 384	1 563
Amortisation for the period	52	70	122
Accumulated amortisation and impairment losses for deductions and transfer 1 January			
Accumulated amortisation and impairment losses on 31 December	232	1 454	1 686
Book value on 31 December	2 610		2 610
of which construction in progress	143		143

31 Dec 2013	Software	Software / financial leasing	Total intangible assets
Acquisition cost on 1 January	1 002	1 454	2 455
Increases	776		776
Decreases			
Transfers between items			
Acquisition cost on 31 December	1 778	1 454	3 231
Accumulated amortisation and impairment losses on 1 January	179	1 175	1 354
Amortisation for the period		209	209
Accumulated amortisation and impairment losses for deductions and transfer 1 January			
Accumulated amortisation and impairment losses on 31 December	179	1 384	1 563
Book value on 31 December	1 598	70	1 668
of which construction in progress	1 598		1 598

Amortisation, impairment losses and their revaluation have been recognised in the income statement under Other operating expenses. The company did not have any impairment.

Intangible assets include the software acquired through a financial leasing agreement. The lease period agreed upon is four years.

NOTE 17. Other assets	31 Dec 2014	31 Dec 2013
Pension assets	68	-
Deferred income		
Interest	89 840	76 249
Other	139	113
Total	**90 047**	**76 362**

NOTE 18. Tax assets	31 Dec 2014	31 Dec 2013
Income tax asset	321	601
Deferred tax assets	59	30
Total tax assets	**380**	**630**
Specification of tax assets and liabilities		
Deferred tax assets		
Due to defined-benefit pension plans	37	17
Due to other items	96	72
Set-off against deferred tax liabilities	-74	-60
Total	**59**	**30**
Deferred tax liabilities		
From defined benefit pension plans	14	-
From other items	60	60
Set-off against deferred tax assets	-74	-60
Total	**0**	**0**
Changes in deferred taxes		
Deferred tax receivables/liabilities on 1 January	30	35
Recognised in the income statement		
Pension liabilities	3	-5
Change in tax rates/deferred tax recognised through profit or loss	-	5
Other	24	0
Recognised in the balance sheet		
Other	-	-
Recognised in shareholders' equity	-	-
Recognised in statement of comprehensive income		
Actuarial gains/losses on post-employment benefit obligations	3	9
Change in tax rate	-	-15
Other	-	1
Total deferred tax receivables/liabilities on 31 December	**59**	**30**
Income tax receivables	**321**	**601**
Total tax receivables and liabilities	**380**	**630**

NOTE 19. Liabilities to financial institutions	31 Dec 2014	31 Dec 2013
Other than those repayable on demand		
Other liabilities	1 505 000	1 885 000
Liabilities to financial institutions	**1 505 000**	**1 885 000**

NOTE 20. Derivative contracts	31 Dec 2014	31 Dec 2013
Hedging derivative contracts – fair value hedging		
Interest rate derivatives	8 298	8 767
Total derivative contracts	**8 298**	**8 767**

NOTE 21. Debt securities issued to the public	Average rate, %	31 Dec 2014	Average rate, %	31 Dec 2013
Bonds	1,97	7 810 673	2,65	5 991 695
Total debt securities issued to the public		**7 810 673**		**5 991 695**

Non-current loans issued by OP Mortgage Bank

Loan	Book value	Interest rate tying	Nominal interest %	Maturity
OP Mortgage Bank Covered Bond 2010	999 169	Fixed	2,375	15.6.2015
OP Mortgage Bank Covered Bond 2011	998 603	Fixed	3,250	1.4.2016
OP Mortgage Bank Covered Bond 2011	995 372	Fixed	3,500	11.7.2018
OP Mortgage Bank Covered Bond 2012	1 246 694	Fixed	1,625	23.5.2017
OP Mortgage Bank Private Placement 2012	99 967	Floating	3 Month Euribor	24.8.2017
OP Mortage Bank rekisteröity Covered Bond (NSV)	114 704	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	994 760	Fixed	1,500	17.3.2021
OP Mortgage Bank Covered Bond 2014	994 513	Fixed	0,750	11.6.2019
OP Mortgage Bank Covered Bond 2014	995 673	Fixed	1,000	28.11.2024
OP Mortgage Bank Covered Bond 2014	10 000	Fixed	0,097	27.11.2016
	7 549 455			
Valuation	261 219			
Total	**7 810 673**			

NOTE 22. Provisions and other liabilities	31 Dec 2014	31 Dec 2013
Other liabilities		
Payment transfer liabilities	87	18
Deferred expenses	184	86
Accrued expenses		
Interest liabilities	117 229	97 147
Other	4 617	2 377
Total provisions and other liabilities	**122 116**	**99 628**

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 as well as 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.

OP Bank Group Pension Fund

OP Bank Group Pension Fund manages statutory pension insurance for the employees of OP Mortgage Bank as the Fund's member.

The statutory pension scheme under TyEL (Employees' Pensions Act) provides pension benefits based on the years of employment and earnings as prescribed in the Act. Benefits under the employees' pension scheme comprise 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.

The TyEL pension scheme is based on a system that is partly a funded system and partly a pay-as-you go system. A pension insurance institution, which has insured each employment, manages funding for each employee. The funded portion of the pension benefits disbursed annually by the Pension Fund accounts for an average of a quarter.

The Pension Fund aims to manage statutory pension insurance in such a way that the level of contributions will remain steady year after year and be below the average contribution level of the employees' pension scheme. The most significant associated risk relates to the possibility of the actual return on investment assets being lower than the actual average investment return under the pension scheme. If such a risk materialises in several consecutive years, this would result in increasing the level of insurance contributions.

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

Under the Employee Benefit Funds Act, the Pension Fund shall invest its assets securely and profitably and in view of its liquidity. The Pension Fund must cover the insurance liability arising from pension obligations. When covering the insurance liability, the Pension Fund must consider what type of insurance business it conducts and, accordingly, must ensure the security of, return on and cashability of its assets and that they are appropriately versatile and properly diversified. The Employee Benefit Funds Act specifies in greater detail the assets and commitments with which the insurance liability must cover. As prescribed by law, the Pension Fund has a specific solvency limit which it must cover through its solvency capital.

Responsible for investment, the Board of Trustees of the Pension Fund approves the Pension Fund's investment plan related to its assets. A pension institution's chief actuary prepares annually a forecast for developments in insurance liabilities and pension costs. On this basis, investment asset allocation takes account of the requirements set by the nature of insurance liabilities for investment operations with respect to the level of security, productivity and liquidity, as well as the Pension Fund's risk-bearing capacity.

OP Bank Group Pension Foundation

OP-Bank Group Pension Foundation manages supplementary pension cover provided by OP Mortgage Bank for its employees. The purpose of the Pension Foundation is to grant old-age and disability pension benefits and sickness benefits to employees covered by the Pension Foundation activities, and survivors' pension benefits to their beneficiaries, and burial grant. In addition, the Pension Foundation may grant said employees benefits related to rehabilitation. Given that providing supplementary pension is voluntary, not all employers belonging to the Pension Fund belong automatically to the Pension Foundation. Supplementary pension cover provided by the Pension Foundation is fully funded.

The Pension Foundation covers every employee who has reached the age of 20 years and who has been employed, as specified by TyEL, for two consecutive years by the employer within the Pension Foundation and whose employment has begun before 1 July 1991. The employment term entitling to pension begins from the day the employee turned 23 years in the employment of the employer. The salary/wage serving as the basis for the calculation of pension refers to pensionable pay based on one and the same employment and calculated under the Finnish Employees' Pensions Act, TEL, in force until 31 December 2006. The retirement age of those covered by the Pension Foundation varies from 60 to 65 years, depending on the personnel group to which the employee belongs under the Pension Foundation rules.

The most significant associated risk relates to the possibility of the actual return on investment assets being lower than the target set for the minimum return. If such a risk materialises in several consecutive years, this would result in charging contributions.

The most significant actuarial risks of 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.

Responsible for investment, the Board of Trustees of the Pension Foundation approves the Foundation's investment plan related to its assets. A pension institution's chief actuary prepares annually a forecast for developments in insurance liabilities and pension costs. On this basis, investment asset allocation takes account of the requirements set by the nature of insurance liabilities for investment operations with respect to the level of security, productivity and liquidity, as well as the Pension Fund's risk-bearing capacity.

Balance sheet value of defined benefit plans, EUR thousand	Defined benefit obligations		Fair value of pension assets		Net liabilities (assets)	
	2014	2013	2014	2013	2014	2013
Opening balance 1 Jan.	322	497	-236	-470	86	27
Defined benefit pension costs recognised in income statement						
Current service cost	20	21	-	-	20	21
Interest expense (income)	11	17	-8	-17	3	1
Effect of plan curtailment or fulfilment of obligation	-	-	-	-	-	-
Administrative expenses	-	-	0	0	0	0
Total	**31**	**38**	**-8**	**-16**	**23**	**22**
Losses (gains) recognised in other comprehensive income arising from remeasurement						
Actuarial losses (gains) arising from changes in economic expectations	165	10	-	-	165	10
Actuarial losses (gains) arising from changes in demographic expectations	-	-	-	-	-	-
Return on TyEL interest rate difference and growth in old-age pension liabilities (net)	1	1	-1	-1	-	-
Experience adjustments	124	-224	-	-	124	-224
Return on plan assets, excluding amount (–) of net defined benefit liability (asset)			-272	258	-272	258
Total	**290**	**-213**	**-273**	**257**	**17**	**44**

Other						
Employer contributions	-	-	-10	-6	-10	-6
Benefits paid	-	-	-	-	-	-
Total	**-**	**-**	**-10**	**-6**	**-10**	**-6**
Closing balance 31 Dec.	**643**	**322**	**-527**	**-236**	**115**	**86**

Liabilities and assets recognised in the balance sheet, EUR thousand	31 Dec 2014	31 Dec 2013
Net liabilities/assets (Pension Foundation)	-68	12
Net liabilities/assets (Pension Fund)	184	73
Total net liabilities/assets	**115**	**86**

Pension Fund and Pension Foundation assets, grouped by valuation technique, 31 Dec. 2014, EUR thousand	Level 1*	Level 2**	Level 3***	Total
Shares and participations	13	7	12	31
Notes and bonds	51	85	3	139
Real property	-	-	43	43
Mutual funds	179	-	96	275
Structured investment vehicles	-	-	3	3
Derivatives	0	-	-	0
Other assets	34	2	-	36
Total	**277**	**93**	**157**	**527**

Pension Fund and Pension Foundation assets, grouped by valuation technique, 31 Dec. 2013, EUR thousand	Level 1*	Level 2**	Level 3***	Total
Shares and participations	14	0	8	22
Notes and bonds	26	37	1	64
Real property	-	-	23	23
Mutual funds	69	5	41	115
Structured investment vehicles	-	-	2	2
Derivatives	0	0	-	0
Other assets	9	1	-	10
Total	**117**	**43**	**76**	**236**

* The fair value of Level 1 assets is determined on the basis of the quotes in markets.
** The fair value of Level 2 assets 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 Level 3 assets is determined using a pricing model whose input parameters involve uncertainty.

Proportion of the most significant assets of total fair value of plan assets, %	31 Dec 2014	31 Dec 2013
Shares and participations	6	10
Financial sector	-	5
Forest	3	3
Real estate	1	1
Other	2	1
Notes and bonds	26	27
Government bonds	1	6
Other	25	21
Real property	8	10
Mutual funds	52	48
Equity funds	33	27
bond funds	8	11
Real estate funds	5	6
Hedge funds	6	5
Derivatives	-	-
Interest rate derivatives	-	-
Currency derivatives	-	-
Other	-	-
Structured investment vehicles	1	1
Other	7	4
Total	**100**	**100**

Pension plan assets include, EUR thousand	31.12.2014	31.12.2013
Pohjola Bank plc shares	-	12
Securities issued by OP Financial Group companies	2	0
Other receivables from OP Financial Group companies	21	7
Real property in OP Financial Group's use	3	2
Total	**26**	**21**

Contributions payable under the defined benefit pension plan in 2015 are estimated at EUR 7 thousand.

The duration of the defined benefit pension obligation in the Pension Fund on 31 December 2014 was 32.9 years and in the Pension Foundation 12.9 years.

Key actuarial assumptions used, 31 December 2014	Pension Fund	Pension Foundation
Discount rate, %	2,0	1,9
Future pay increase assumption, %	2,5	2,5
Future pension increases, %	2,1	2,0
Turnover rate, %	3,0	0,5
Inflation rate, %	2,0	2,0
Life expectancy for 65-year old people		
Men	19,0	19,0
Women	24,7	24,7
Life expectancy for 45-year old people after 20 years		
Men	20,6	20,6
Women	26,4	26,4

Key actuarial assumptions used, 31 December 2013	Pension Fund	Pension Foundation
Discount rate, %	3,4	3,3
Future pay increase assumption, %	3,0	3,0
Future pension increases, %	2,1	2,0
Turnover rate, %	3,0	0,5
Inflation rate, %	2,0	2,0
Life expectancy for 65-year old people		
Men	19,0	19,0
Women	24,7	24,7
Life expectancy for 45-year old people after 20 years		
Men	20,6	20,6
Women	26,4	26,4

	Change in defined benefit pension obligation			
	Pension Fund		Pension Foundation	
Sensitivity analysis of key actuarial assumptions, 31 December 2014	EUR thousand	%	EUR thousand	%
Discount rate				
0.5 pp increase	-58	-13,7	-13	-5,7
0.5 pp decrease	69	16,5	14	6,5
Pension increases				
0.5 pp increase	64	15,1	10	4,5
0.5 pp decrease	-55	-13,1	-9	-4,3
Mortality				
1-year increase in life expectancy	15	3,4	2	1,1
1-year decrease in life expectancy	-14	-3,3	-2	-1,0

	Change in defined benefit pension obligation			
	Pension Fund		Pension Foundation	
Sensitivity analysis of key actuarial assumptions, 31 December 2013	EUR thousand	%	EUR thousand	%
Discount rate				
0.5 pp increase	-33	-12,5	-7	-12,7
0.5 pp decrease	40	14,9	8	14,8
Pension increases				
0.5 pp increase	36	13,7	5	8,6
0.5 pp decrease	-32	-12,0	-4	-7,9
Mortality				
1-year increase in life expectancy	8	2,8	1	2,4
1-year decrease in life expectancy	-7	-2,7	-1	-2,4

NOTE 23. Tax liabilities	31 Dec 2014	31 Dec 2013
Income tax liabilities	-	-
Deferred tax liabilities	-	-
Total tax liabilities	**-**	**-**

NOTE 24. Shareholders' equity

	31 Dec 2014	31 Dec 2013
Share capital	60 000	60 000
Unrestricted reserves	245 000	235 000
Accumulated profits		
Profit from previous periods	36 840	27 919
Profit for the period	14 619	8 934
Total equity	**356 459**	**331 853**
Distributable reserves	**296 459**	**271 853**
Distributable profits	**51 459**	**36 853**

The unrestricted reserves fund consist of OP Cooperative, Financial Group´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, Financial Group 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.

NOTE 25. Classification of the balance sheet

Assets	Loans and receivables	Recognised at fair value through profit or loss	Available for sale	Carrying amount total	Fair value total
Receivables from financial institutions	119 046	-	-	119 046	119 046
Derivative contracts	-	261 346	-	261 346	261 346
Receivables from customers	9 329 077	-	-	9 329 077	9 329 077
Shares and holdings	-	-	40	40	40
Other receivables	90 047	-	-	90 047	90 047
Other Assets	2 990	-	-	2 990	2 990
Total on 31 Dec 2014	**9 541 160**	**261 346**	**40**	**9 802 546**	**9 802 546**
Total on 31 Dec 2013	**8 118 840**	**198 086**	**17**	**8 316 943**	**8 316 944**

Liabilities	Recognised at fair value through profit or loss*	Other liabilities	Carrying amount total	Fair value total
Liabilities to financial institutions	-	1 505 000	1 505 000	1 505 000
Derivative contracts	8 298	-	8 298	8 298
Debt securities issued to the public	-	7 810 673	7 810 673	8 138 062
Subordinated liabilities	-	-	-	-
Other liabilities	-	122 116	122 116	122 116
Total on 31 Dec 2014	**8 298**	**9 437 789**	**9 446 087**	**9 773 476**
Total on 31 Dec 2013	**8 767**	**7 976 323**	**7 985 090**	**8 240 942**

Debt securities issued to the public have been valued at allocated acquisition cost in accounting. The value obtained for these debt securities through information available on the market and established valuation methods was about EUR 327,389 thousand higher than the book value at the end of December.

NOTE 26. Grouping of the balance sheet according to the valuation method, EUR thousand

Assets recognised at fair value	31 Dec 2014 Balance sheet value	Valuation of fair value at the end of the period Level 1*	Level 2**	Level 3***
Derivative contracts	261 346	-	261 346	-
Total	**261 346**	**-**	**261 346**	**-**

Assets recognised at fair value	31 Dec 2013 Balance sheet value	Valuation of fair value at the end of the period Level 1*	Level 2**	Level 3***
Derivative contracts	198 086	-	198 086	-
Total	**198 086**	**-**	**198 086**	**-**

Liabilities recognised at fair value	31 Dec 2014 Balance sheet value	Valuation of fair value at the end of the period Level 1*	Level 2**	Level 3***
Derivative contracts	8 298	-	8 298	-
Total	**8 298**	**-**	**8 298**	**-**

Liabilities recognised at fair value	31 Dec 2013 Balance sheet value	Valuation of fair value at the end of the period Level 1*	Level 2**	Level 3***
Derivative contracts	8 767	-	8 767	-
Total	**8 767**	**-**	**8 767**	**-**

Financial liabilities not recognised at fair value	31 Dec 2014 Balance sheet value	Valuation of fair value at the end of the period Level 1*	Level 2**	Level 3***
Debt securities issued to the public	7 810 673	7 995 455	142 607	-
Total	**7 810 673**	**7 995 455**	**142 607**	**-**

Financial liabilities not recognised at fair value	31 Dec 2013 Balance sheet value	Valuation of fair value at the end of the period Level 1*	Level 2**	Level 3***
Debt securities issued to the public	5 991 695	6 139 724	107 822	-
Total	**5 991 695**	**6 139 724**	**107 822**	**-**

* Items grouped in hierarchy level 1 are made up of shares quoted on the largest stock exchanges, companies' quoted debt securities, debt securities of states and financial institutions with a credit rating of at least A and stock exchange derivatives. The fair value of these instruments is determined by quotations from the market.

** Valuation methods based on reliable calculation parameters. The fair value of instruments classified in hierarchy level 2 refers to the value that can be derived from the market value of the financial instrument's parts or equivalent financial instruments or a value that can be calculated using valuation models and methods generally accepted in the financial market if the market value can be reliably assessed by means of them. In OP, OTC derivatives, treasury bills, debt securities of companies and financial institutions, purchase and resale agreements (repo) and securities given or received as a loan.

*** Valuation methods whose calculation parameters involve special uncertainty. Instruments classified in group 3 are valued using pricing models whose calculation parameters involve special uncertainty. This balance sheet group includes more complex OTC derivatives, certain private equity investments, illiquid loans, structured loans including securitised loans and structured debt securities, as well as hedge funds.

Transfers between the levels of fair value valuation

OP Mortage Bank plc does not hold any transfers between the levels of fair value valuation.

NOTES CONCERNING CONTINGENT LIABILITIES AND DERIVATIVES

NOTE 27. Off-balance-sheet commitments	31 Dec 2014	31 Dec 2013
Credit commitments	3 252	4 568
Total off-balance-sheet commitments	**3 252**	**4 568**

NOTE 28. Leases	31 Dec 2014	31 Dec 2013

OP Mortgage Bank plc as the lessor

OP Mortgage Bank plc has leased facilities from OP Services Ltd.

Leases of facilities	56	48

NOTE 29. Derivative contracts

Derivative contracts held for hedging – fair value hedging on 31 Dec 2014

	Nominal values/remaining maturity				Fair values		Credit counter-
	Less than 1 year	1 to 5 years	than 5 years	Total	Assets	Liabilities	value
Interest rate derivatives							
Interest rate swaps	4 496 752	9 141 000	4 396 000	18 033 752	261 346	8 298	449 799
Total interest rate derivatives	**4 496 752**	**9 141 000**	**4 396 000**	**18 033 752**	**261 346**	**8 298**	**449 799**

Derivative contracts held for hedging – fair value hedging on 31 Dec 2013

	Nominal values/remaining maturity				Fair values		Credit counter-
	Less than 1 year	1 to 5 years	than 5 years	Total	Assets	Liabilities	value
Interest rate derivatives							
Interest rate swaps	2 936 007	11 644 865	396 000	14 976 872	198 086	8 767	325 316
Total interest rate derivatives	**2 936 007**	**11 644 865**	**396 000**	**14 976 872**	**198 086**	**8 767**	**325 316**

NOTE 30. Personnel and related party

The average number of personnel was six (6) people in 2014.

OP Mortgage Bank's related parties include the OP Cooperative, Financial Group and its subsidiaries, the OP Financial Group´s pension insurance companies, the OP Pension Fund and the OP Pension Foundation, as well as the company's management personnel.

Subsidiaries of the OP Cooperative, Financial Group	
Pohjola Group (with Pohjola Bank plc as the parent company)	Helsinki
Helsinki OP Bank Plc	Helsinki
OP Card Company Plc	Helsinki
OP Fund Management Company Ltd	Helsinki
OP Life Assurance Company Ltd	Helsinki
Helsingin Seudun OP-Kiinteistökeskus Oy	Helsinki
OP Services Ltd	Helsinki
OP Process Services Ltd	Helsinki
Aurum Investment Insurance Ltd	Helsinki
Pivo Wallet Oy	Helsinki
Suomi Välirahoitusrahasto I Ky	Helsinki
Checkout Finland Oy	Helsinki
OP-Vallila Rahasto VYM Oy	Helsinki
OP-Vallila Rahasto Ky	Helsinki

Business transactions with related parties

	2014			2013		
	Parent company	Management	Other	Parent company	Management	Other
Other receivables			455 231			380 375
Other liabilities			1 638 278			2 002 444
Interest income			17 824			20 136
Interest expenses			166 626			-22 223
Dividend income						
Net commission income and expenses			5 123			1 963
Other operating income						
Operating costs	119		3 367	251		2 366
Salaries and remuneration						
Salaries and remuneration		14			8	
Insider holdings						
Number of shares	76 592			76 592		

Starting from 1 August 2009, the Managing Director's services have been purchased from Pohjola Bank plc. The costs have been recognised in administrative expenses in the income statement. Until 1 October 2014, the members of the Board of Directors not employed by OP Cooperative, Financial Group or its subsidiaries were paid a meeting fee of EUR 550m per meeting. From 1 October 2014, the Board of Directors will be internal and no meeting fees will be paid. The Managing Director does not have a separate pension agreement.

NOTE 31. Variable remuneration

OP Personnel Fund

OP Mortgage Bank joined OP Personnel Fund in 2005.

Payment of profit-based bonuses to OP Personnel Fund in 2014 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 2014 transferred to the Fund account for some 4.2% of the combined salaries and wages earned by the Fund’s members. The bonuses recognised in 2014 totalled EUR 13,000.

Remuneration schemes

OP Financial Group's remuneration comprises short-term company-specific remuneration and long-term Group-wide remuneration. The maximum amount of remuneration is limited in all 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.

Separately defined executives and key employees, appointed by the Executive Board, are included in the long-term management incentive scheme. OP Cooperative's Supervisory Board shall determine OP's Group-level performance metrics for the scheme and targets set for them separately for each performance period.

The long-term scheme consists of consecutive three-year performance periods. The amount of remuneration depends on how well the targets have been reached at the end of the performance period. The bonus for the first performance period from 2011 to 2013 will be paid after a deferment period in three equal instalments by the end of each June in 2015–2017. Owing to the tender offer made by OP Cooperative for Pohjola shares, the entire target bonus is paid in cash under the terms of the remuneration system.

Bonuses that may be paid under the remuneration scheme for performance period 2014–2016 will be paid as debentures issued by OP in 2017. The earned euro bonus will be converted into the number of debentures once the outcome of the scheme is known. An amount will be deducted from the bonus to cover related taxes and fiscal charges. The bonus will be paid in three equal instalments between 2018 and 2020.

The value of the bonus will be allocated over the performance period. The bonus amount is recognised under "Wages and salaries" in the income statement and the counterpart as "Deferred expenses" until its payment.

NOTE 32. Post-fiscal events

No significant post-fiscal events.

NOTES CONCERNING RISK MANAGEMENT

NOTE 33. Own funds and capital adequacy

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

NOTE 34. Financial assets and associated impairment losses during the period

OP Mortgage Bank's financial assets comprise the items disclosed under Notes 12–15. Impairment losses on loans on a collective basis of EUR 119,000 have been recognised as financial assets.

NOTE 35. Liabilities

	31 Dec 2014 Finland			31 Dec 2013 Finland		
	Accounting balance	**Impairment losses**	**Interest carried forward**	**Accounting balance**	**Impairment losses**	**Interest carried forward**
Assets						
Receivables from financial institutions	119 046		2	110 550		
Receivables from customers	9 329 077	523	5 699	7 929 630	395	4 468
Derivative contracts	261 346			198 086		
Other						
Total	**9 709 469**	**523**	**5 701**	**8 238 266**	**395**	**4 468**
Off-balance sheet commitments						
Unclaimed loans and limits	3 252			4 568		
Total	**3 252**			**4 568**		
Total liabilities	**9 712 721**	**523**	**5 701**	**8 242 834**	**395**	**4 468**

NOTE 36. Liabilities by sector

	31 Dec 2014			31 Dec 2013		
	Net balance sheet liabilities	**Off-balance sheet**		**Net balance sheet liabilities**	**Off-balance sheet**	
	Domestic	**Domestic**	**Total**	**Domestic**	**Domestic**	**Total**
Companies	20 596		20 596	25 180		25 180
Financial and insurance institutions	119 048	449 799	568 847	110 550	325 316	435 865
Households	9 314 180	3 252	9 317 432	7 908 918	4 568	7 913 486
Non-profit organisations						
Total	**9 453 824**	**453 051**	**9 906 876**	**8 044 648**	**329 883**	**8 374 531**

NOTE 37. Credit risks

The Bank's key credit risk indicators show that the credit risk position is stable. On 31 December 2014, non-performing receivables totalled EUR 4,676,000 (2,947,000). EUR 29,000 (33,000) of impairments have been recognised on the receivables. The loan portfolio was diversified. OP Mortgage Bank does not have any group of connected clients with liabilities in excess of 10% of the company's own funds.

OP Mortgage Bank had matured receivables of EUR 9,571,000 (10,101,000) on 31 December 2014. Matured receivables include repayments and interest that have been overdue for more than 30 days but less than 90 days, as well as the full remaining capital of these loans.

NOTE 38. Liabilities by credit rating

Personal liabilities by credit rating	31 Dec 2014	31 Dec 2013
Personal liabilities on the balance sheet, class A	7 117 552	5 425 192
Personal liabilities on the balance sheet, class B	1 574 831	1 640 312
Personal liabilities on the balance sheet, class C	440 218	572 699
Personal liabilities on the balance sheet, class D	124 876	213 504
Personal liabilities on the balance sheet, class E	52 125	35 388
Personal liabilities on the balance sheet, class F	4 579	18 714
Personal liabilities on the balance sheet, not classified	-	3 107
Off-balance sheet personal liabilities A	2 084	3 141
Off-balance sheet personal liabilities B	425	322
Off-balance sheet personal liabilities C	0	16
Off-balance sheet personal liabilities D	-	0
Off balance sheet personal liabilities, not classified	743	1 088
Total personal liabilities	**9 317 432**	**7 913 486**

Corporate liabilities by credit rating	31 Dec 2014	31 Dec 2013
Corporate liabilities on the balance sheet, class 2,0	142	153
Corporate liabilities on the balance sheet, class 4,0	-	37
Corporate liabilities on the balance sheet, class 4,5	5 959	-
Corporate liabilities on the balance sheet, class 5,0	9 114	17 452
Corporate liabilities on the balance sheet, class 5,5	2 878	3 431
Corporate liabilities on the balance sheet, class 6,0	1 369	2 282
Corporate liabilities on the balance sheet, class 6,5	540	661
Corporate liabilities on the balance sheet, class 7,0	-	549
Corporate liabilities on the balance sheet, class 7,5	73	-
Corporate liabilities on the balance sheet, class 8,0	18	191
Corporate liabilities on the balance sheet, class 9,0	-	-
Corporate liabilities on the balance sheet, class 10.0	502	424
Corporate liabilities on the balance sheet, not classified	-	-
Off balance sheet corporate liabilities, not classified	-	-
Off-balance sheet corporate liabilities, class 5,0	-	-
Off-balance sheet corporate liabilities, class 5,5	-	-
Off-balance sheet corporate liabilities, class 6,0	-	-
Off-balance sheet corporate liabilities, class 10,0	-	-
Total corporate liabilities	**20 596**	**25 180**

NOTE 39. Structure of funding

	31 Dec 2014	Share, %	31 Dec 2013	Share, %
Liabilities to financial institutions	1 505 000	15,4	1 885 000	22,7
Debt securities issued to the public	7 810 673	79,7	5 991 695	72,1
Other liabilities	122 116	1,2	99 628	1,2
Shareholders' equity	356 459	3,6	331 853	4,0
Total	**9 794 248**	**100,0**	**8 308 176**	**100,0**

NOTE 40. Maturity distribution of financial assets and liabilities by remaining time of maturity, EUR thousand

31 Dec 2014	Less than 3 months	3 to 12 months	1 to 5 years	5 to 10 years	More than 10 year	Total
Financial assets						
Receivables from financial institutions	109 046	-	10 000	-	-	119 046
Receivables from customers	233 168	705 504	3 318 659	2 839 004	2 232 743	9 329 077
Total financial assets	**342 214**	**705 504**	**3 328 659**	**2 839 004**	**2 232 743**	**9 448 123**
Financial liabilities						
Liabilities to financial institutions	880 000	-	459 000	166 000	-	1 505 000
Debt securities issued to the public	-	999 169	4 445 149	2 366 356	-	7 810 673
Total financial liabilities	**880 000**	**999 169**	4 904 149	**2 532 356**	**-**	**9 315 673**

31 Dec 2014	Less than 1 year	More than 1 year	Total
Off-balance sheet commitments*	3 252	-	3 252
Total off-balance sheet commitments	**3 252**	**-**	**3 252**

31 Dec 2013	Less than 3 months	3 to 12 months	1 to 5 years	5 to 10 years	More than 10 year	Total
Financial assets						
Receivables from financial institutions	110 550	-	-	-	-	110 550
Receivables from customers	205 078	624 140	2 928 071	2 485 505	1 686 836	7 929 630
Total financial assets	**315 628**	**624 140**	**2 928 071**	**2 485 505**	**1 686 836**	**8 040 180**
Financial liabilities						
Liabilities to financial institutions	1 260 000	-	459 000	166 000	-	1 885 000
Debt securities issued to the public	-	1 248 809	4 628 208	-	114 678	5 991 695
Total financial liabilities	**1 260 000**	**1 248 809**	**5 087 208**	**166 000**	**114 678**	**7 876 695**

31 Dec 2013	Less than 1 year	More than 1 year	Total
Off-balance sheet commitments*	4 568	-	4 568
Total off-balance sheet commitments	**4 568**	**-**	**4 568**

*Binding loan commitments

NOTE 41. Funding risk

The most significant source of funding risks for OP Mortgage Bank is centralised funding. The management of OP's capital adequacy is centralised with Pohjola Bank and, as a result, OPA can utilise OP's liquidity reserves.

NOTE 42. Maturity of financial assets and liabilities by due date or repricing, EUR thousand

Contractual repricing dates or earlier due dates on 31 December 2014.

31 Dec 2014	1 month or less	> 1 to 3 months	> 3 to 12 months	> 1 to 2 years	> 2 to 5 years	More than 5 years	Total
Financial assets							
Receivables from financial institutions	109 046	-	10 000	-	-	-	119 046
Receivables from customers	2 545 736	2 449 857	4 272 896	9 164	29 992	21 433	9 329 077
Total financial assets	**2 654 782**	**2 449 857**	**4 282 896**	**9 164**	**29 992**	**21 433**	**9 448 123**
Financial liabilities							
Liabilities to financial institutions	800 000	705 000	-	-	-	-	1 505 000
Debt securities issued to the public	-	199 967	1 260 387	1 008 603	3 236 578	2 105 137	7 810 673
Total financial liabilities	**800 000**	**904 967**	**1 260 387**	**1 008 603**	**3 236 578**	**2 105 137**	**9 315 673**
Subordinated liabilities	-	-	-	-	-	-	-
Total subordinated liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**

31 Dec 2013	1 month or less	> 1 to 3 months	> 3 to 12 months	> 1 to 2 years	> 2 to 5 years	More than 5 years	Total
Financial assets							
Receivables from financial institutions	110 550	-	-	-	-	-	110 550
Receivables from customers	2 522 150	2 031 917	3 297 487	14 552	35 924	27 600	7 929 630
Total financial assets	**2 632 700**	**2 031 917**	**3 297 487**	**14 552**	**35 924**	**27 600**	**8 040 180**
Financial liabilities							
Liabilities to financial institutions	1 260 000	625 000	-	-	-	-	1 885 000
Debt securities issued to the public	-	199 954	1 442 354	997 533	3 237 175	114 678	5 991 695
Total financial liabilities	**1 260 000**	**824 954**	**1 442 354**	**997 533**	**3 237 175**	**114 678**	**7 876 695**
Subordinated liabilities	-	-	-	-	-	-	-
Total subordinated liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**

NOTE 43. Interest rate risk

OP Mortgage Bank's interest rate indicator examines the impact of an increase of one percentage point in interest rates on the present value of the interest position without comparing the customer margin with the Bank's assets. The indicator stood at 0.05% at year-end. The risk limits set for the indicator following the amount of own funds at year-end were +/-1.0%. The Bank's interest rate risk can be regarded as minor.

Sensitivity analysis for interest rate risk

			Impact on earnings		Impact on equity	
EUR thousand	**Risk parameter**	**Change**	**31 Dec 2014**	**31 Dec 2013**	**31 Dec 2014**	**31 Dec 2013**
Interest rate risk	interest	1% points	239,9	-177,0	239,9	-177,0

NOTE 44. 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.

OP MORTGAGE BANK PLC

SIGNATURES TO THE FINANCIAL STATEMENTS AND ANNUAL REPORT

Helsinki, 5 February 2015

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, 10 February 2015

KPMG Oy Ab
Authorised Public Accountants

Juha-Pekka Mylén
Authorised Public Accountant

KPMG

KPMG Oy Ab
PO Box 1037
00101 Helsinki
FINLAND

Töölönlahdenkatu 3 A
00100 Helsinki
FINLAND
Telephone +358 20 760 3000
Telefax +358 20 760 3399
www.kpmg.fi

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-Asuntoluottopankki Oyj

We have audited the accounting records, the financial statements, the report of the Board of Directors and the administration of OP-Asuntoluottopankki Oyj for the year ended 31 December, 2014. The financial statements comprise the balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flow and notes to the financial statements.

Responsibility of the Board of Directors and the Managing Director

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, as well as for the preparation of financial statements and the report of the Board of Directors that give a true and fair view in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the Managing Director shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements and on the report of the Board of Directors based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the report of the Board of Directors are free from material misstatement, and whether the members of the Board of Directors and the Managing Director are guilty of an act or negligence which may result in liability in damages towards the company or have violated the Finnish Credit Institutions Act, Limited Liability Companies Act or the articles of association of the company.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and report of the Board of Directors that give a true and fair view 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the financial statements and the report of the Board of Directors

In our opinion, the financial statements give a true and fair view of the financial position, financial performance, and cash flows of the bank in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

In our opinion, the report of the Board of Directors give a true and fair view of the bank's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

Helsinki, 10 February 2015

KPMG OY AB

[*signed*]
Juha-Pekka Mylén
Authorized Public Accountant in Finland