



OP Mortgage Bank

Interim Report for January 1–March 31 2010

OP Mortgage Bank's (OPA) loan portfolio decreased from EUR 4,360 million on 31 December to EUR 4,203 million on 31 March 2010. During the reporting period, OPA neither issued covered bonds nor purchased housing loans from OP-Pohjola Group member banks.

Earnings Performance

| EUR Thousand | Q1/2010 | Q1/2009 | Change, % | 2009 |
|-------------------------------|--------------|--------------|-----------|--------------|
| Income | | | | |
| Net interest income | 4,091 | 3,098 | 32 | 14,030 |
| Net commissions and fees | -2,177 | -1,957 | 11 | -7,970 |
| Net trading income | 0 | - | | 0 |
| Net investment income | 1 | - | - | 1 |
| Other operating income | 0 | - | | 26 |
| Total | 1,914 | 1,141 | 68 | 6,086 |
| Expenses | | | | |
| Personnel costs | 81 | 67 | 22 | 297 |
| Other administrative expenses | 373 | 229 | 63 | 983 |
| Other operating expenses | 228 | 132 | 72 | 864 |
| Total | 683 | 428 | 59 | 2,145 |
| Earnings before tax | 1,231 | 713 | 73 | 3,941 |

Net interest income increased to EUR 4,091 thousand (3,098). Improvements in net interest income and earnings were due to the growth in the loan portfolio during 2009. Earnings before tax for January-March increased to EUR 1,231 thousand (713)¹.

Net commissions and fees were negative with commission income increasing to EUR 651 thousand (502) and commission expenses to EUR 2,828 thousand (2,458). Commission expenses stem mainly from commissions paid to OP-Pohjola Group member banks for servicing housing loans.

In the review period, the bank's expenses rose to EUR 683 thousand (428). Growth in expenses derived largely from the development and operating services of the information systems.

¹ For balance sheet and other cross-sectional figures, the point of comparison is the figure at the previous balance sheet date (31 December 2009). For income statement and other cumulative figures, the point of comparison is the figure for the January–March period in the previous year.

Balance Sheet and Off-balance Sheet Commitments

OPA's balance sheet total amounted to EUR 4,450 million on 31 March (4,555)².

Change in major assets and liabilities

| EUR million | 31 March 2010 | 31 Dec 2009 | Change, % | 31 March 2009 |
|---|---------------|-------------|-----------|---------------|
| Balance sheet | 4,450 | 4,555 | -2 | 3,116 |
| Receivables from customers | 4,203 | 4,360 | -4 | 2,899 |
| Receivables from financial institutions | 56 | 55 | 2 | 27 |
| Debt securities issued to the public | 3,336 | 3,311 | 1 | 2,100 |
| Liabilities to financial institutions | 840 | 1,000 | -16 | 800 |
| Shareholders' equity | 141 | 140 | 1 | 88 |
| Off-balance-sheet commitments | 12 | 15 | -20 | 28 |

OPA did not purchase any new housing loans from member banks in January–March. The loan portfolio decreased from EUR 4,360 million on 31 December to EUR 4,203 million on 31 March 2010, since the amount of new housing loans granted directly from OPA's balance sheet to customers was lower than the total amount of repaid loans.

On 31 March, households accounted for 99 % (99) of the loan portfolio and housing corporations for 1 % (1). The bank's non-performing loans increased but remained at low levels totalling EUR 1 million (0,8) on March 2010. No impairment losses on loans were recognised.

The carrying amount of bonds issued to the public totalled EUR 3,336 million (3,311) on 31 March. In addition to bonds, other funding was based on financing loans granted by Pohjola Bank plc (Pohjola). On 31 March, financing loans totalled EUR 840 million (1,000).

Shareholders' equity rose to EUR 141 million (140). Retained earnings amounted to EUR 11,1 million (10.2) at the end of the review period.

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 7,663 million (7,832). All derivative contracts have been concluded for hedging purposes. Pohjola is the counterparty to all derivative contracts.

² For balance sheet and other cross-sectional figures, the point of comparison is the figure at the previous balance sheet date (31 December 2009). For income statement and other cumulative figures, the point of comparison is the figure for the January–March period in the previous year.

Capital Adequacy

OPA's capital adequacy ratio stood at 10,2 % on 31 March. Since the beginning of 2008, OPA has calculated its capital adequacy in compliance with Basel II. Credit risk is calculated according to the standardised approach and the capital requirement for operational risk is calculated using the basic approach.

| OWN FUNDS, EUR thousand | 31 March 2010 | 31 Dec 2009 | 31 March 2009 |
|--|--------------------------|------------------------|--------------------------|
| Tier I | 140,057 | 139,067 | 86,824 |
| of which capital loans | - | - | - |
| Tier II | 20,000 | 20,000 | 20,000 |
| Decreases | | | |
| Total | 160,057 | 159,067 | 106,824 |
| Risk-weighted receivables, investments and off-balance sheet commitments | 1,562,989 | 1,622,243 | 1,074,236 |
| Capital adequacy ratio, % | 10,2 | 9,8 | 9,9 |
| Tier I ratio to risk-weighted receivables, investments and off-balance sheet commitments | 9,0 | 8,6 | 8,1 |

The increase in shareholders' equity arising from the measurement of pension liabilities and the assets covering them, under IFRS, is not considered own funds. Furthermore, intangible assets was also deducted from own funds.

| Risk-weighted receivables, investments and off balance-sheet commitments, EUR thousand | 31 March 2010 | 31 Dec 2009 | 31 March 2009 |
|---|--------------------------|------------------------|--------------------------|
| Receivables and investments | 1,548,950 | 1,610,079 | 1,056,923 |
| Off-balance-sheet items | 3,187 | 4,039 | 9,188 |
| Market risk | - | - | - |
| Operational risks | 10,852 | 8,125 | 8,125 |
| Risk-weighted receivables, investments and off balance-sheet commitments, total | 1,562,989 | 1,622,243 | 1,074,236 |

The decrease in the amount of risk-weighted receivables was due to an decreased loan portfolio.

Joint Responsibility and Joint Security

Under the Act on Cooperative Banks and Other Cooperative Credit Institutions, the amalgamation of the cooperative banks comprises the organisation's central institution (OP-Pohjola Group Central Cooperative), the Central Cooperative's member credit institutions and the companies belonging to their consolidation groups. This amalgamation is monitored on a consolidated basis. The Central Cooperative and its member banks are ultimately responsible for each other's liabilities and commitments. The Central Cooperative's members at the end of the report period comprised OP-Pohjola Group's 220 member banks as well as Pohjola Bank plc, Helsinki OP Bank Plc, OP Mortgage Bank and OP-Kotipankki Oyj. OP-Pohjola Group's insurance companies do not fall within the scope of joint responsibility.

In spite of the joint responsibility and the joint security, pursuant to Section 17 of the Act on Mortgage Credit Banks, the holder of a bond with mortgage collateral shall, notwithstanding the liquidation or bankruptcy of a mortgage credit bank, have the right to receive payment, before other claims, for the entire loan period of the bond, in accordance with the contract terms, from the funds entered as collateral for the bond.

Personnel

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

Administration

The Annual General Meeting held in March confirmed the composition of the new Board of Directors. Mr. Mikko Rosenlund, Executive Vice President, Tampereen Seudun Osuuspankki was elected as a new member of the Board of Directors and Mr. Risto Korpela, Managing Director, Turun Seudun Osuuspankki was left out of the Board of Directors. The Board composition is as follows:

| | | |
|---------------|-------------------|--|
| Chairman | Harri Nummela | Executive Vice President, OP-Pohjola Group Central Cooperative |
| Vice Chairman | Mikko Hyttinen | Senior Vice President, OP-Pohjola Group Central Cooperative |
| Members | Sakari Haapakoski | Bank Manager, Oulun Osuuspankki |
| | Jari Himanen | Senior Vice President, OP-Pohjola Group Central Cooperative |
| | Hanno Hirvinen | Executive Vice President, Pohjola Bank plc |
| | Heikki Kananen | Managing Director, Mäntsälän Osuuspankki |
| | Matti Nykänen | Senior Vice President, OP-Pohjola Group Central Cooperative |
| | Mikko Rosenlund | Executive Vice President, Tampereen Seudun Osuuspankki |

Managing Director Lauri Iloniemi.

Prospects for the rest of the year

The existing issuance programme will make it possible to issue new covered bonds in 2010. The overall quality of the credit portfolio is expected to remain strong in spite of the uncertainty about overall economic outlook.

Income Statement

| EUR 1,000 | Q1/2010 | Q1/2009 | Change, % | 2009 |
|-------------------------------|--------------|--------------|-----------|---------------|
| Interest income | 13,994 | 25,862 | -46 | 68,928 |
| Interest expenses | 9,903 | 22,764 | -56 | 54,899 |
| Net interest income | 4,091 | 3,098 | 32 | 14,030 |
| Net commissions and fees | -2,177 | - 1,957 | 11 | -7,970 |
| Net trading income | 0 | - | | 0 |
| Net investment income | 1 | - | -9 | 1 |
| Other operating income | 0 | - | | 26 |
| Personnel costs | 81 | 67 | 22 | 297 |
| Other administrative expenses | 373 | 229 | 63 | 983 |
| Other operating expenses | 228 | 132 | 73 | 864 |
| Earnings before tax | 1,231 | 713 | 72 | 3,941 |
| Income tax expense | 320 | 187 | 71 | 1,017 |
| Profit for the period | 910 | 526 | 73 | 2,924 |

Key Ratios

| | Q1/2010 | Q1/2009 | 2009 |
|---------------------------|---------|---------|------|
| Return on equity (ROE), % | 2.6 | 2.8 | 2.6 |
| Cost/income ratio, % | 36 | 38 | 35 |

Formulae for key ratios

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

Cost/income ratio, % = Personnel costs + Other administrative expenses + Other operating expenses / Net interest income + Net commission income + Net trading income + Net investment income + Other operating income × 100

Balance Sheet

| EUR 1,000 | 31 March 2010 | 31 March 2009 | Change, % | 31 Dec 2009 |
|---|------------------|------------------|-----------|------------------|
| Receivables from financial institutions | 56,093 | 27,347 | 105 | 55,017 |
| Derivative contracts | 94,378 | 103,233 | -9 | 75,934 |
| Receivables from customers | 4,202,733 | 2,898,547 | 45 | 4,360,036 |
| Investment assets | 17 | 17 | 0 | 17 |
| Intangible assets | 886 | 750 | 18 | 942 |
| Property, plant and equipment | 5 | 1 | | 5 |
| Other assets | 95,524 | 85,827 | 11 | 63,177 |
| Tax assets | | 2 | -100 | |
| Total assets | 4,449,634 | 3,115,722 | 43 | 4,555,128 |
| Liabilities to financial institutions | 840,000 | 800,000 | 5 | 1,000,000 |
| Derivative contracts | 5,756 | 10,595 | -46 | 11,971 |
| Debt securities issued to the public | 3,336,060 | 2,100,153 | 59 | 3,310,811 |
| Provisions and other liabilities | 106,233 | 96,963 | 10 | 71,727 |
| Tax liabilities | 450 | 168 | -32 | 395 |
| Subordinated debt securities | 20,000 | 20,000 | 0 | 20,000 |
| Total liabilities | 4,308,500 | 3,027,879 | 42 | 4,414,904 |
| Shareholders' equity | | | | |
| Share capital | 60,000 | 60,000 | 0 | 60,000 |
| Reserve for invested unrestricted equity | 70,000 | 20,000 | | 70,000 |
| Retained earnings | 11,135 | 7,843 | 42 | 10,224 |
| Total equity | 141,135 | 87,843 | 61 | 140,224 |
| Total liabilities and shareholders' equity | 4,449,634 | 3,115,722 | 43 | 4,555,128 |

Off-balance-sheet Commitments

| EUR 1,000 | 31 March 2010 | 31 March 2009 | 31 Dec 2009 |
|--------------------------------|---------------|---------------|-------------|
| Irrevocable credit commitments | 12,245 | 27,973 | 15,108 |

Change Calculation on Shareholders' Equity

| | | | | |
|--|---------------|----------------|-------------------|----------------|
| EUR thousand | Share capital | Other reserves | Retained earnings | Total equity |
| Shareholders' equity 1 Jan 2009 | 60,000 | 20,000 | 7,317 | 87,317 |
| Reserve for invested unrestricted equity | | | | |
| Profit for the period | | | 526 | 526 |
| Other changes | | | | |
| Shareholders' equity 31 Mar 2009 | 60,000 | 20,000 | 7,843 | 87,843 |
| | | | | |
| EUR thousand | Share capital | Other reserves | Retained earnings | Total equity |
| Shareholders' equity 1 Jan 2010 | 60,000 | 70,000 | 10,224 | 140,224 |
| Reserve for invested unrestricted equity | | | | |
| Profit for the period | | | 910 | 910 |
| Other changes | | | | |
| Shareholders' equity 31 Dec 2010 | 60,000 | 70,000 | 11,135 | 141,135 |

Cash Flow Statement

| | | |
|--|---------------|---------------|
| EUR 1,000 | Q1/2010 | Q1/2009 |
| | | |
| Cash and cash equivalents 1 January | 41,129 | 18,380 |
| Cash flow from operating activities | 315 | 10,771 |
| Cash flow used in investing activities | -6 | -137 |
| Cash flow used in financing activities | 764 | -15,546 |
| Cash and cash equivalents 31 March | 42,201 | 13,468 |

The cash flow statement presents cash flows for the period on a cash basis, divided into cash flow from operating activities and cash flow used in investment activities and financing activities. Cash flow from operating activities includes that generated by daily operations. Cash flow used in investing activities includes payments related to property, plant and equipment and intangible assets, investments held to maturity and shares not regarded as belonging to cash flow from operating activities. Cash flow used in financing activities includes cash flows based on the financing of operations either on equity or liability terms in the money or capital market. Cash and cash equivalents include cash in hand and callable receivables from financial institutions. The statement is prepared using the indirect method.

| Fair values of financial assets and liabilities | | | | |
|--|-----------------------|---|--------------------|------------------|
| EUR Thousand | Loans and receivables | Recognised at fair value through profit or loss | Available for sale | Total |
| Financial assets | | | | |
| Receivables from financial institutions | 56,093 | | | 56,093 |
| Derivative contracts | | 94,378 | | 94,378 |
| Receivables from customers | 4,202,733 | | | 4,202,733 |
| Equities | | | 17 | 17 |
| Other receivables | 95,524 | | | 95,524 |
| Balance at 31 March 2010 | 4,354,349 | 94,378 | 17 | 4,448,744 |
| Balance at 31 March 2009 | 3,012,473 | 103,233 | 17 | 3,115,722 |
| Balance at 31 December 2009 | 4,478,235 | 75,934 | 17 | 4,554,186 |
| EUR Thousand | | Recognised at fair value through profit or loss | Other liabilities | Total |
| Liabilities to financial institutions | - | | 840,000 | 840,000 |
| Derivative contracts | - | 5,756 | | 5,756 |
| Debt securities issued to the public | - | | 3,336,060 | 3,336,060 |
| Subordinated liabilities | - | | 20,000 | 20,000 |
| Other liabilities | - | | 106,682 | 106,682 |
| Balance at 31 March 2010 | - | 5,756 | 4,302,743 | 4,308,499 |
| Balance at 31 March 2009 | - | 10,595 | 3,017,284 | 3,027,879 |
| Balance at 31 December 2009 | - | 11,971 | 4,402,933 | 4,414,904 |

Debt securities issued to the public are carried at amortised cost. On 31 March 2010, the fair value of these debt instruments was approximately EUR 87 612 thousand higher than their carrying amount, based on information available in markets and employing commonly used valuation techniques. Subordinated liabilities are carried at amortised cost. Their fair value are substantially lower than their carrying amount, but determining fair values reliably is difficult in the current market situation.

Derivative Contracts 31 March 2010

| EUR 1,000 | Nominal values/remaining maturity | | | | Fair values | | Credit counter-value |
|---------------------------|-----------------------------------|------------------|-------------------|------------------|---------------|--------------|----------------------|
| | Less than 1 year | 1–5 years | More than 5 years | Total | Assets | Liabilities | |
| Interest-rate derivatives | | | | | | | |
| Hedging | 2,215,491 | 5,447,930 | - | 7,663,421 | 94,378 | 5,756 | 207,227 |
| Trading | | | | | | | |
| Total | 2,215,491 | 5,447,930 | - | 7,663,421 | 94,378 | 5,756 | 207,227 |

Derivative Contracts 31 March 2009

| EUR 1,000 | Nominal values/remaining maturity | | | | Fair values | | Credit counter-value |
|---------------------------|-----------------------------------|------------------|-------------------|------------------|----------------|---------------|----------------------|
| | Less than 1 year | 1–5 years | More than 5 years | Total | Assets | Liabilities | |
| Interest-rate derivatives | | | | | | | |
| Hedging | 171 | 4,887,957 | - | 4,888,127 | 103,233 | 10,595 | 191,474 |
| Trading | | | | | | | |
| Total | 171 | 4,887,957 | - | 4,888,127 | 103,233 | 10,595 | 191,474 |

All derivative contracts have been concluded for hedging purposes, regardless of their classification in accounting

This interim report is based on unaudited figures.

Helsinki, 5 May 2010

OP Mortgage Bank
Board of Directors