



OP MORTGAGE BANK

Interim Report 1 January–30 September 2010

OP Mortgage Bank's (OPA) loan portfolio decreased to EUR 4,213 million in the January–September period (EUR 4,360 million at the end of 2009). OPA launched a covered bond issue at a nominal valued of EUR 1 billion in June. The covered bond, issued in 2008 at a nominal value of EUR 1 billion, matured and were paid off in June.

Earnings Development

EUR thousand	Q1-Q3/2010	Q1-Q3/2009	Q3/2010	Q3/2009	2009
Income					
Net interest income	11,773	9,355	3,730	3,455	14,030
Net commissions and fees	-6,394	-5,843	-2,054	-1,893	-7,970
Net income from trading	-1	4	0	4	0
Net income from investments	1	1	0	0	1
Other operating income	8	26	0	23	26
Total	5,387	3,543	1,676	1,588	6,086
Expenses					
Personnel costs	222	145	62	16	297
Other administrative expenses	1,022	608	310	188	983
Other operating expenses	974	649	396	298	864
Total	2,218	1,402	768	502	2,145
Earnings before tax	3,169	2,140	908	1,086	3,941

The net interest income for January–September totalled EUR 11,773 thousand (9,355)¹. Earnings before tax amounted to EUR 3,169 thousand (2,140). Increase in net interest income was due to the growth in the loan portfolio.

Net commissions and fees were negative with commission income increasing to EUR 2,011 thousand (1,170) and commission expenses to EUR 8,405 thousand (7,013). Commission expenses mainly comprise commissions paid to OP-Pohjola Group member banks for servicing housing loans. The bank's expenses amounted to EUR 2,218 thousand (1,402). Growth in expenses derived largely from the ICT-services and the professional services purchased in connection with the new covered bond issue. OPA did not recognise any loan losses for the first nine months.

Net interest income for July–September grow to EUR 3,730 thousand (3,455) and earnings before taxes to EUR 908 thousand (1,086). The bank's expenses grow to EUR 768 thousand (502).

¹ For balance sheet and other cross-sectional figures, the point of comparison is the figure at the end of 2009. For income statement and other cumulative figures, the point of comparison is the figure for January–September period in the previous year.

Balance Sheet and Off-balance Sheet Commitments

OPA's balance sheet total amounted to EUR 4,418 million on 30 September (EUR 4,555 million)².

Change in Major Asset and Liability Items

EUR Million	30 Sep 2010	30 June 2010	31 March 2010	31 Dec 2009	30 Sep 2009
Balance Sheet	4,418	4,624	4,450	4,555	2,862
Receivables from customers	4,213	4,398	4,203	4,360	2,704
Receivables from financial institutions	48	89	56	55	33
Debt securities issued to the public	3,330	3,332	3,336	3,311	2,087
Liabilities to financial institutions	840	1,070	840	1,000	620
Shareholders' equity	143	142	141	140	89
Off-balance sheet commitments	9	10	12	15	19

The loan portfolio decreased from EUR 4,360 million on 31 December 2009 to EUR 4,213 million on 30 September 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. OPA increased its loan portfolio in the review period when it purchased housing loans from OP-Pohjola-Group member banks for EUR 398 million.

On 30 September, households accounted for 99 % (99) of the loan portfolio and housing corporations for 1 % (1). The bank's non-performing loans amounted to EUR 0,8 million (0,8). No impairment losses on loans were recognised.

The carrying amount of bonds issued to the public totalled EUR 3,330 million (2,091) on 30 September. OPA issued its fourth covered bond at a nominal value of EUR 1 billion on international capital markets in June. Moody's Investor Services and Standard & Poor's Rating Services have given the bond their highest credit ratings of Aaa and AAA. The covered bond, issued in 2008 at a nominal value of EUR 1 billion, matured and were paid off in June. In addition to bonds, other funding was based on financing loans granted by Pohjola Bank plc (Pohjola). On 30 September, financing loans totalled EUR 840 million (1,000).

Shareholders' equity rose to EUR 142,6 million (140,2). Retained earnings amounted to EUR 12,6 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 8,716 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 end of 2009. For income statement and other cumulative figures, the point of comparison is the figure for January-September period in the previous year.

Development of Capital Adequacy

OPA's capital adequacy ratio stood at 10,4 % on 30 September. 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	30 Sep 2010	30 June 2010	31 March 2010	31 Dec 2009	30 Sep 2009
Tier I	141,513	140,764	140,057	139,067	87,644
of which capital loans					
Tier II	20,000	20,000	20,000	20,000	20,000
Decreases					
Total	161,513	160,764	160,057	159,067	107,644
Risk-weighted receivables, investments and off-balance sheet commitments	1,556,949	1,627,208	1,562,989	1,622,243	996,072
Capital adequacy ratio, %	10.4	9.9	10.2	9.8	10,8
Tier I ratio to risk-weighted receivables, investments and off-balance sheet commitments	9.1	8.7	9.0	8.6	8,8

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	30 Sep 2010	30 June 2010	31 March 2010	31 Dec 2009	30 Sep 2009
Receivables and investments	1,543,476	1,613,851	1,548,950	1,610,079	982,338
Off-balance-sheet items	2,621	2,505	3,187	4,039	5,609
Market risk	-	-	-	-	-
Operational risks	10,852	10,852	10,852	8,125	8,125
Risk-weighted receivables, investments and off balance-sheet commitments, total	1,556,949	1,627,208	1,562,989	1,622,243	996,072

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 218 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 30 September, 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 General Meeting held in August confirmed the composition of the new Board of Directors. Mr. Harri Luhtala, Chief Financial Officer, OP-Pohjola Group Central Cooperative was elected as a new member of the Board of Directors and Mr. Harri Nummela was left out of the Board of Directors. The Board composition is as follows:

Chairman	Harri Luhtala	Chief Financial Officer, 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	Managing Director, Etelä-Karjalan Osuuspankki
	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	Managing Director, Tampereen Seudun Osuuspankki
Managing Director	Lauri Iloniemi.	

Events after the review period

Shareholders' equity increased by EUR 15 million after OP-Pohjola Group Central Cooperative made an additional investment in the company.

OPA increased its loan portfolio after the review period when it purchased housing loans from OP-Pohjola Group member banks for EUR 1,015 million.

Prospects for the rest of the year

The overall quality of OPA's credit portfolio is expected to remain strong. Earnings before tax in 2010 are expected to equal or exceed the 2009 figure.

Income Statement

EUR thousand	Q1-Q3/2010	Q1-Q3/2009	Q3/2010	Q3/2009	2009
Interest income	43,907	54,924	15,736	11,332	68,928
Interest expenses	32,134	45,568	12,006	7,877	54,899
Net interest income	11,773	9,355	3,730	3,455	14,030
Net commissions and fees	-6,394	-5,843	-2,054	-1,893	-7,970
Net income from trading	-1	4	0	4	0
Net income from investments	1	1	0	0	1
Other operating income	8	26	0	23	26
Personnel costs	222	145	62	16	297
Other administrative expenses	1,022	608	310	188	983
Other operative expenses	974	650	396	298	864
Earnings before tax	3,169	2,140	908	1,086	3,941
Income taxes	759	549	170	284	1,017
Profit for the period	2,410	1,591	739	802	2,924

Key Ratios

	Q1-Q3/2010	Q1-Q3/2009	Q3/2010	Q3/2009	2009
Return on equity (ROE), %	2.3	2.4	2.1	3.7	2.6
Cost/income ratio, %	41	40	46	32	35

Calculation of key ratios

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

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

Balance Sheet

EUR thousand	30 Sep 2010	30 June 2010	31 March 2010	31 Dec 2009	30 Sep 2009
Receivables from financial institutions	48,373	88,815	56,093	55,017	33,000
Derivative contracts	95,897	103,945	94,378	75,934	89,753
Receivables from customers	4,212,596	4,398,089	4,202,733	4,360,036	2,703,595
Investments assets	17	17	17	17	17
Intangible assets	954	942	886	942	975
Tangible assets	4	4	5	5	1
Other assets	59,985	32,441	95,524	63,177	34,144
Tax receivables					33
Total assets	4,417,826	4,624,252	4,449,634	4,555,128	2,861,519
Liabilities to financial institutions	840,000	1,070,000	840,000	1,000,000	620,000
Derivative contracts	5,417	12,012	5,756	11,971	5,843
Debt securities issued to the public	3,329,640	3,331,736	3,336,060	3,310,811	2,087,102
Reserves and other liabilities	80,000	48,390	106,233	71,727	39,526
Tax liabilities	135	219	450	395	156
Subordinated debt securities	20,000	20,000	20,000	20,000	20,000
Total liabilities	4,275,192	4,482,356	4,308,500	4,414,904	2,772,627
Shareholders' equity					
Share capital	60,000	60,000	60,000	60,000	60,000
Reserve for invested unrestricted equity	70,000	70,000	70,000	70,000	20,000
Retained earnings	12,635	11,896	11,135	10,224	8,892
Total equity	142,635	141,896	141,135	140,224	88,892
Total liabilities and shareholders' equity	4,417,826	4,624,252	4,449,634	4,555,128	2,861,519

Off-balance Sheet Commitments

EUR thousand	30 Sep 2010	30 June 2010	31 March 2010	31 Dec 2009	30 Sep 2009
Binding credit commitments	8,820	9,939	12,245	15,108	17,949

Statement of Changes in 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	-	-	1,591	1,591
Other changes	-	-	-16	-16
Shareholders' equity 30 Sep 2009	60,000	20,000	8,892	88,892
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	-	-	2,410	2,410
Other changes	-	-	-	-
Shareholders' equity 30 Sep 2010	60,000	70,000	12,635	142,635

Cash Flow Statement

EUR thousand	Q1-3/2010	Q1-3/2009
Liquid assets 1 January	41,129	18,380
Cash flow from operations	13,030	16,147
Cash flow from investments	-216	-423
Cash flow from financing	-5,570	-14,991
Liquid assets 30 September	48,373	19,113

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

Fair values of financial assets and liabilities				
EUR 1,000	Loans and receivables	Recognised at fair value through profit or loss	Available for sale	Total
Financial assets				
Receivables from financial institutions	48,373	-	-	48,373
Derivative contracts	-	95,897	-	95,897
Receivables from customers	4,212,596			4,212,596
Equities	-	-	17	17
Other receivables	59,985	-	-	59,985
Balance at 30 September 2010	4,320,954	95,897	17	4,416,868
Balance at 30 September 2009	2,771,749	89,753	17	2,861,519
Balance at 31 December 2009	4,478,235	75,934	17	4,554,186
EUR 1,000		Recognised at fair value through profit or loss	Other liabilities	Total
Liabilities to financial institutions	-	-	840,000	840,000
Derivative contracts	-	5,417	-	5,417
Debt securities issued to the public	-	-	3,329,640	3,329,640
Subordinated liabilities	-	-	20,000	20,000
Other liabilities	-	-	80,135	80,135
Balance at 30 September 2010	-	5,417	4,269,775	4,275,192
Balance at 30 September 2009	-	5,843	2,766,784	2,772,627
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 30 September 2010, the fair value of these debt instruments was approximately EUR 97,784 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 30.9.2010

EUR thousand	Nominal values/the 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	256,249	8,459,739	0	8,715,988	95,897	5,417	184,338
Trading				-			
Total	256,249	8,459,739	0	8,715,988	95,897	5,417	184,338

Derivative Contracts 30.9.2009

EUR thousand	Nominal values/the 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	2,005,720	2,697,887	0	4,703,607	89,753	5,843	128,138
Trading				-			
Total	2,005,720	2,697,887	0	4,703,607	89,753	5,843	128,138

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

Related-party transactions

OPA's related parties include OP-Pohjola Group Central Cooperative and its subsidiaries, the OP-Pohjola Group pension insurance organisations OP-Pension Fund and OP-Pension Foundation, and the company's administrative personnel. Standard terms and conditions for credit are applied to loans granted to the related parties. Loans are tied to generally used reference rates. Related-party transactions have not undergone any substantial changes since 31 December 2009.

The Interim Report for 1 January - 30 September 2010 has been prepared in accordance with IAS 34 (Interim Financial Reporting), as approved by the EU. The Financial Statements 2009 contain a description of the accounting policies applied. This Interim Report is based on unaudited figures. Given that all figures have been rounded off, the sum total of individual figures may deviate from the presented sums.

Helsinki, 3 November 2010

OP Mortgage Bank
Board of Directors