OP MORTGAGE BANK

Interim Report 1 January – 30 June 2011

OP Mortgage Bank's (OPA) loan portfolio grew to EUR 6,643 million in the January-June period (EUR 5,008 million at the end of 2010). The bank increased its loan portfolio in March and in June when it purchased housing loans from OP-Pohjola Group member cooperative banks. OPA launched a covered bond issue at a nominal valued of EUR 1 billion in April.

Earnings Development

EUR thousand	Q1-Q2/2011	Q1-Q2/2010	Q2/2011	Q2/2010	2010
Income					
Net interest income	11,870	8,043	6,670	3,952	16,350
Net commissions and fees	-4,586	-4,340	-2,692	-2,163	-8,450
Net income from trading	0	-1	0	0	-1
Net income from investments	1	1	0	0	2
Other operating income	4	8	4	8	19
Total	**7,289**	**3,711**	**3,982**	**1,797**	**7,920**
Expenses					
Personnel costs	153	161	64	79	288
Other administrative expenses	1,046	711	497	338	1,396
Other operating expenses	729	578	437	350	1,398
Total	**1,928**	**1,450**	**997**	**767**	**3,082**
Earnings before tax	**5,361**	**2,261**	**2,985**	**1,030**	**4,839**

The net interest income for January-June totalled EUR 11,870 thousand (8,043)[1]. Earnings before tax amounted to EUR 5,361 thousand (2,261). 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 1,712 thousand (1,357) and commission expenses to EUR 6,298 thousand (5,698). Commission expenses mainly comprise commissions paid to OP-Pohjola Group member banks for servicing housing loans. The bank's expenses amounted to EUR 1,928 thousand (1,450). 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 six months.

Net interest income for April-June grow to EUR 6,670 thousand (3,952) and earnings before taxes to EUR 2,985 thousand (1,030). The bank's expenses grow to EUR 997 thousand (767).

[1] For balance sheet and other cross-sectional figures, the point of comparison is the figure at the end of 2010. For income statement and other cumulative figures, the point of comparison is the figure for January-June period in the previous year.

Balance Sheet and Off-balance Sheet Commitments

OPA's balance sheet total amounted to EUR 6,820 million on 30 June (EUR 5,191 million) [2].

Change in Major Asset and Liability Items

EUR Million	30 June 2011	31 March 2011	31 Dec 2010	30 June 2010
Balance Sheet	6,820	6,948	5,191	4,624
Receivables from customers	6,643	6,713	5,008	4,398
Receivables from financial institutions	89	119	62	89
Debt securities issued to the public	4,246	3,217	3,287	3,332
Liabilities to financial institutions	2,245	3,350	1,640	1,070
Shareholders' equity	213	211	159	142
Off-balance sheet commitments	7	8	7	10

The loan portfolio increased from EUR 5,008 million on 31 December 2010 to EUR 6,643 million on 30 June 2011. OPA increased its loan portfolio in the review period when it purchased housing loans from OP-Pohjola-Group member banks for EUR 2,184 million.

On 30 June, households accounted for 99 % (99) of the loan portfolio and housing corporations for 1 % (1). The bank's non-performing loans amounted to EUR 1.4 million (1.4). No impairment losses on loans were recognised.

The carrying amount of bonds issued to the public totalled EUR 4,246 million (3,287) on 30 June. OPA issued its fifth covered bond at a nominal value of EUR 1 billion on international capital markets in April. Moody's Investor Services and Standard & Poor's Rating Services have given the bond their highest credit ratings of Aaa and AAA. In addition to bonds, other funding was based on financing loans granted by Pohjola Bank plc (Pohjola). On 30 June, financing loans totalled EUR 2,245 million (1,640).

Shareholders' equity rose to EUR 213 million (159). Retained earnings amounted to EUR 17.8 million (13.8) 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 12,461 million (9,622). 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 2010. For income statement and other cumulative figures, the point of comparison is the figure for January-June period in the previous year.

Development of Capital Adequacy

OPA's capital adequacy ratio stood at 9.6% on 30 June. Shareholder's equity increased by EUR 50 million in March when OP-Pohjola Group Central Cooperative made an additional investment in OPA. OPA calculates its capital adequacy in compliance with Basel II. Credit risk and the capital requirement for operational risk are calculated according to the standardised approach.

OWN FUNDS, EUR thousand	**30 June 2011**	**31 Dec 2010**	**30 June 2010**
Tier I	211,818	157,669	140,764
of which capital loans			
Tier II	20,000	20,000	20,000
Decreases			
Total	**231,818**	**177,669**	**160,764**
Risk-weighted receivables, investments and off-balance sheet commitments	2,423,763	1,836,279	1,627,208
Capital adequacy ratio, %	**9,6**	**9,7**	**9,9**
Tier I ratio to risk-weighted receivables, investments and off-balance sheet commitments	8,7	8,6	8,7

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 June 2011**	**31 Dec 2010**	**30 June 2010**
Receivables and investments	2,411,096	1,824,798	1,613,851
Off-balance-sheet items	2,177	2,748	2,505
Market risk	-	-	-
Operational risks	10,490	8,733	10,852
Risk-weighted receivables, investments and off balance-sheet commitments, total	**2,423,763**	**1,836,279**	**1,627,208**

The increase in the amount of risk-weighted receivables was due to an increased 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 209 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.

The central institution is obligated to provide its member credit institutions with instructions on their internal supervision and risk management, their operations in securing liquidity and capital adequacy, and compliance with uniform accounting principles in preparing the coalition's consolidated financial statements.

The central institution and its member credit institutions are jointly responsible for the liabilities of the central institution or a member credit institution placed in liquidation or bankruptcy that cannot be paid from its assets. The liability is divided between the central institution and the member credit institutions in ratios following the balance sheet total.

In spite of the joint responsibility and the joint security, pursuant to Section 25 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 June, 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. Mika Helin, Executive Vice President, Hämeenlinnan Seudun Osuuspankki and Ms. Elina Ronkanen-Minogue, Senior Vice President, OP-Pohjola Group Central Cooperative were elected as new members of the Board of Directors. Mr. Jari Himanen, Senior Vice President, OP-Pohjola Group Central Cooperative and Matti Nykänen, Senior Vice President, OP-Pohjola Group Central Cooperative were 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	Elina Ronkanen-Minogue	Senior Vice President, OP-Pohjola Group Central Cooperative
Members	Sakari Haapakoski	Bank Manager, Oulun Osuuspankki
	Mika Helin	Executive Vice President, Hämeenlinnan Seudun Osuuspankki
	Hanno Hirvinen	Executive Vice President, Pohjola Bank plc
	Heikki Kananen	Managing Director, Mäntsälän Osuuspankki
	Mikko Hyttinen	Bank Manager, OP-Pohjola Group Central Cooperative
	Mikko Rosenlund	Managing Director, Tampereen Seudun Osuuspankki

Managing Director Lauri Iloniemi.

Events after the balance sheet date

OPA launched a covered bond issue at a nominal valued of EUR 1,000 million 11 Julyl 2011. Moody's Investor Services and Standard & Poor's Rating Services have given the bond their highest credit ratings of Aaa and AAA.

Prospects for the rest of the year

The overall quality of OPA's credit portfolio is expected to remain strong. The existing issuance programme will make it possible to issue new covered bonds in the end of 2011. The earnings before tax in 2011 are expected to higher than in 2010.

Income Statement

EUR thousand	Q1-Q2/2011	Q1-Q2/2010	Q2/2011	Q2/2010	2010
Interest income	53,753	28,171	31,633	14,177	63,314
Interest expenses	41,883	20,128	24,963	10,224	46,963
Net interest income	**11,870**	**8,043**	**6,670**	**3,952**	**16,350**
Net commissions and fees	-4,586	-4,340	-2,692	-2,163	-8,450
Net income from trading	0	-1	0	0	-1
Net income from investments	1	1	0	0	2
Other operating income	4	8	4	8	19
Personnel costs	153	161	64	79	288
Other administrative expenses	1,046	711	497	338	1,396
Other operative expenses	729	578	437	350	1,398
Earnings before tax	**5,361**	**2,261**	**2,985**	**1,030**	**4,839**
Income taxes	1,394	589	776	269	1,264
Profit for the period	**3,966**	**1,672**	**2,209**	**761**	**3,574**

Key Ratios

	Q1-Q2/2011	Q1-Q2/2010	Q2/2011	Q2/2010	2010
Return on equity (ROE), %	4,3	2,4	4,2	2,2	2,4
Cost/income ratio, %	26	39	25	43	39

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

Risk exposure

The most significant types of risk related to OPA are credit risk, liquidity risk and interest-rate risk. The indicators in use shows that OPA's credit risk exposure is stable. The limit for liquidity risk set by the Board of Directors has not been exceeded. The liquidity buffer for OP-Pohjola Group, managed by Pohjola Bank plc, is exploitable by OPA. OPA has hedged against the interest-rate risk associated with its housing loan portfolio through interest-rate swaps, i.e. base rate cash flows from housing loans to be hedged are swapped to short-term Euribor cash flows. OPA has also swapped the fixed interest rates of the bonds it has issued to short-term variable rates. The interest-rate risk may be considered to be low.

Balance Sheet

EUR thousand	30 June 2011	31 March 2011	31 Dec 2010	30 June 2010
Receivables from financial institutions	88,525	119,032	61,673	88,815
Derivative contracts	43,341	37,975	71,255	103,945
Receivables from customers	6,643,067	6,712,586	5,008,381	4,398,089
Investments assets	17	17	17	17
Intangible assets	745	829	914	942
Tangible assets	2	3	3	4
Other assets	43,850	77,383	48,790	32,441
Tax receivables				
Total assets	**6,819,547**	**6,947,825**	**5,191,034**	**4,624,252**
Liabilities to financial institutions	2,245,000	3,350,000	1,640,000	1,070,000
Derivative contracts	28,770	53,286	21,835	12,012
Debt securities issued to the public	4,246,175	3,216,903	3,286,747	3,331,736
Reserves and other liabilities	65,824	96,381	63,311	48,390
Tax liabilities	1,013	699	342	219
Subordinated debt securities	20,000	20,000	20,000	20,000
Total liabilities	6,606,782	6,737,269	5,032,235	4,482,356
Shareholders' equity				
Share capital	60,000	60,000	60,000	60,000
Reserve for invested unrestricted . equity	135,000	135,000	85,000	70,000
Retained earnings	17,765	15,557	13,799	11,896
Total equity	212,765	210,557	158,799	141,896
Total liabilities and shareholders' equity	**6,819,547**	**6,947,825**	**5,191,034**	**4,624,252**

Off-balance Sheet Commitments

EUR thousand	**30 June 2011**	**31 March 2011**	**31 Dec 2010**	**30 June 2010**
Binding credit commitments	6,700	7,676	7,456	9,939

Change Calculation on Shareholders' Equity

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	-	-	1,672	1,672
Other changes	-	-	-	-
Shareholders' equity 30 June 2010	**60,000**	**70,000**	**11,896**	**141,896**
EUR thousand	Share capital	Other reserves	Retained earnings	Total equity
Shareholders' equity 1 Jan 2011	**60,000**	**85,000**	**13,799**	**158,799**
Reserve for invested unrestricted equity	-	50,000	-	50,000
Profit for the period	-	-	3,966	3,966
Other changes	-	-	-	-
Shareholders' equity 30 June 2011	**60,000**	**135,000**	**17,765**	**212,765**

Cash Flow Statement

EUR thousand	Q1-Q2/2011	Q1-Q2/2010
Liquid assets 1 January	**61,673**	**41,129**
Cash flow from operations	-1,020,132	40,147
Cash flow from investments	0	-133
Cash flow from financing	1,046,984	-6,226
Liquid assets 30 June	**88,525**	**74,918**

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	88,525	-	-	88,525
Derivative contracts	-	43,341	-	43,341
Receivables from customers	6,643,067			6,643,067
Equities	-	-	17	17
Other receivables	43,850	-	-	43,850
Balance at 30 June 2011	**6,775,442**	**43,341**	**17**	**6,818,800**
Balance at 30 June 2010	**4,519,345**	**103,945**	**17**	**4,623,306**
Balance at 31 December 2010	**5,118,844**	**71,255**	**17**	**5,190,117**
EUR 1,000		Recognised at fair value through profit or loss	Other liabilities	Total
Liabilities to financial institutions	-	-	2,245,000	2,245,000
Derivative contracts	-	28,770	-	28,770
Debt securities issued to the public	-	-	4,246,175	4,246,175
Subordinated liabilities	-	-	20,000	20,000
Other liabilities	-	-	66,837	66,837
Balance at 30 June 2011	-	**28,770**	**6,578,012**	**6,606,782**
Balance at 30 June 2010	-	**12,012**	**4,470,345**	**4,482,356**
Balance at 31 December 2010	-	**21,835**	**5,010,399**	**5,032,235**

Debt securities issued to the public are carried at amortised cost. On 30 June 2011, the fair value of these debt instruments was approximately EUR 24,362 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 June 2011

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	1,565,270	10,895,513	-	12,460,782	43,341	28,770	124,178
Trading	-	-	-	-	-	-	-
Total	**1,565,270**	**10,895,513**	**-**	**12,460,782**	**43,341**	**28,770**	**124,178**

Derivative Contracts 30 June 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	272,456	8,643,932	-	8,916,388	103,945	12,012	171,492
Trading	-	-	-	-	-	-	-
Total	**272,456**	**8,643,932**	**-**	**8,916,388**	**103,945**	**12,012**	**171,492**

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 2010.

The Interim Report for 1 January–30 June 2011 has been prepared in accordance with IAS 34 (Interim Financial Reporting), as approved by the EU. The Financial Statements 2010 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 August 2011

OP Mortgage Bank
Board of Directors