OP MORTGAGE BANK

Interim Report 1 January – 30 September 2011

OP Mortgage Bank's (OPA) loan portfolio increased to EUR 7,395 million in the January-September period (EUR 5,008 million at the end of 2010). The bank increased its loan portfolio in March, in June and in September 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 and a covered bond issue at a nominal valued of EUR 1 billion in July.

Earnings Development

EUR thousand	Q1-Q3/2011	Q1-Q3/2010	Q3/2011	Q3/2010	2010
Income					
Net interest income	18,587	11,773	6,716	3,730	16,350
Net commissions and fees	-7,342	-6,394	-2,756	-2,054	-8,450
Net income from trading	0	-1	0	0	-1
Net income from investments	487	1	486		2
Other operating income	5	8	1		19
Total	**11,737**	**5,387**	**4,447**	**1,676**	**7,920**
Expenses					
Personnel costs	211	222	59	62	288
Other administrative expenses	1,567	1,022	521	310	1,396
Other operating expenses	1,105	974	375	396	1,398
Total	**2,883**	**2,218**	**955**	**768**	**3,082**
Earnings before tax	**8,853**	**3,169**	**3,492**	**908**	**4,838**

The net interest income for January-September totalled EUR 18,587 thousand (11,773)[1]. Earnings before tax amounted to EUR 8,853 thousand (3,169). 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 2,623 thousand (2,011) and commission expenses to EUR 9,966 thousand (8,406). Commission expenses mainly comprise commissions paid to OP-Pohjola Group member banks for servicing housing loans. The bank's expenses amounted to EUR 2,883 thousand (2,218). 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 grew to EUR 6,716 thousand (3,730) and earnings before taxes to EUR 3,492 thousand (908). The bank's expenses grew to EUR 955 thousand (768).

[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-September period in the previous year.

Balance Sheet and Off-balance Sheet Commitments

OPA's balance sheet total amounted to EUR 7,743 million on 30 September (EUR 5,191 million) [2].

Change in Major Asset and Liability Items

EUR Million	30 Sep 2011	30 June 2011	31 March 2011	31 Dec 2010	30 Sep 2010
Balance Sheet	7,743	6,820	6,948	5,191	4,418
Receivables from customers	7,395	6,643	6,713	5,008	4,213
Receivables from financial institutions	93	89	119	62	48
Debt securities issued to the public	5,389	4,246	3,217	3,287	3,330
Liabilities to financial institutions	1,980	2,245	3,350	1,640	840
Shareholders' equity	215	213	211	159	143
Off-balance sheet commitments	5	7	8	7	9

The loan portfolio increased from EUR 5,008 million on 31 December 2010 to EUR 7,395 million on 30 September 2011. OPA increased its loan portfolio in the review period when it purchased housing loans from OP-Pohjola-Group member banks for EUR 3,254 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 1.6 million (1.4). No impairment losses on loans were recognised.

The carrying amount of bonds issued to the public totalled EUR 5,389 million (3,287) on 30 September. OPA issued its sixth 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. In addition to bonds, other funding was based on financing loans granted by Pohjola Bank plc (Pohjola). On 30 September, financing loans totalled EUR 1,980 million (1,640).

Shareholders' equity rose to EUR 215 million (159). Retained earnings amounted to EUR 20.3 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 14,284 million (9,622). All derivative contracts have been concluded for hedging purposes. Pohjola is the counterparty to all derivative contracts.

Development of Capital Adequacy

OPA's capital adequacy ratio stood at 8.7 % on 30 September. Shareholder's equity increased by EUR 50 million in March when OP-Pohjola Group Central Cooperative made an additional investment in OPA. OPA has calculated its capital adequacy in compliance with Basel II. Credit risk and the capital requirement for operational risk are calculated according to the standardised approach.

[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-September period in the previous year.

OWN FUNDS, EUR thousand	30 Sep 2011	31 Dec 2010	30 Sep 2010
Tier I	214,506	157,669	142,635
of which capital loans			
Tier II	20,000	20,000	20,000
Decreases			
Total	**234,506**	**177,669**	**162,635**
Risk-weighted receivables, investments and off-balance sheet commitments	2,699,561	1,836,279	1,556,949
Capital adequacy ratio, %	**8,7**	**9,7**	**10,4**
Tier I ratio to risk-weighted receivables, investments and off-balance sheet commitments	7,9	8,6	9,1

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	30 Sep 2011	31 Dec 2010	30 Sep 2010
Receivables and investments	2,687,418	1,824,798	1,543,476
Off-balance-sheet items	1,653	2,748	2,621
Market risk	-	-	-
Operational risks	10,490	8,733	10,852
Risk-weighted receivables, investments and off balance-sheet commitments, total	**2,699,561**	**1,836,279**	**1,556,949**

The increase in the amount of risk-weighted receivables was due to a 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 208 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 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 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 review period

Shareholders' equity increased in October by EUR 40 million after OP-Pohjola Group Central Cooperative made an additional investment in the company. This investment will strengthen the OPA's capital adequacy ratio.

OPA will calculate its capital adequacy in compliance with IRBA beginning the 31th of December 2011. IRBA relates a transition period during which the amount of own funds will have a minimum requirement based on Basel1 rules (80% capital floor). These rules decreases temporarily OPA's capital adequacy ratio. The implementation of IRBA will increase OPA's capital adequacy ratio after the transition period.

Prospects for the rest of the year

The overall quality of OPA's credit portfolio is expected to remain strong.
Earnings before tax in 2011 are expected to exceed the 2010 figure.

Income Statement

EUR thousand	Q1-Q3/2011	Q1-Q3/2010	Q3/2011	Q3/2010	2010
Interest income	93,309	43,907	39,555	15,736	63,314
Interest expenses	74,722	32,134	32,839	12,006	46,963
Net interest income	**18,587**	**11,773**	**6,716**	**3,730**	**16,350**
Net commissions and fees	-7,342	-6,394	-2,756	-2,054	-8,450
Net income from trading	0	-1	0	0	-1
Net income from investments	487	1	486	-	2
Other operating income	5	8	1	-	19
Personnel costs	211	222	59	62	288
Other administrative expenses	1,567	1,022	521	310	1,396
Other operative expenses	1,105	974	375	396	1,398
Earnings before tax	**8,853**	**3,169**	**3,492**	**908**	**4,839**
Income taxes	2,303	759	909	170	1,264
Profit for the period	**6,550**	**2,410**	**2,583**	**739**	**3,574**

Key Ratios

	Q1-Q3/2011	Q1-Q3/2010	Q3/2011	Q3/2010	2010
Return on equity (ROE), %	4.7	2.3	4.8	2.1	2.4
Cost/income ratio, %	25	41	21	46	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 Sep 2011	30 June 2011	31 March 2011	31 Dec 2010	30 Sep 2010
Receivables from financial institutions	93,075	88,525	119,032	61,673	48,373
Derivative contracts	165,305	43,341	37,975	71,255	95,897
Receivables from customers	7,394,937	6,643,067	6,712,586	5,008,381	4,212,596
Investments assets	17	17	17	17	17
Intangible assets	661	745	829	914	954
Tangible assets	-	2	3	3	4
Other assets	88,788	43,850	77,383	48,790	59,985
Tax receivables					
Total assets	**7,742,783**	**6,819,547**	**6,947,825**	**5,191,034**	**4,417,826**
Liabilities to financial institutions	1,980,000	2,245,000	3,350,000	1,640,000	840,000
Derivative contracts	6,233	28,770	53,286	21,835	5,417
Debt securities issued to the public	5,388,949	4,246,175	3,216,903	3,286,747	3,329,640
Reserves and other liabilities	130,591	65,824	96,381	63,311	80,000
Tax liabilities	1,661	1,013	699	342	135
Subordinated debt securities	20,000	20,000	20,000	20,000	20,000
Total liabilities	7,527,435	6,606,782	6,737,269	5,032,235	4,275,192
Shareholders’ equity					
Share capital	60,000	60,000	60,000	60,000	60,000
Reserve for invested unrestricted . equity	135,000	135,000	135,000	85,000	70,000
Retained earnings	20,349	17,765	15,557	13,799	12,635
Total equity	215,349	212,765	210,557	158,799	142,635
Total liabilities and shareholders’ equity	**7,742,783**	**6,819,547**	**6,947,825**	**5,191,034**	**4,417,826**

Off-balance Sheet Commitments

EUR thousand	30 Sep 2011	30 June 2011	31 March 2011	31 Dec 2010	30 Sep 2010
Binding credit commitments	4,597	6,700	7,676	7,456	8,820

Statement of Changes in 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	-	-	2,410	2,410
Other changes	-	-	-	-
Shareholders’ equity 30 Sep 2010	**60,000**	**70,000**	**12,635**	**142,635**
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	-	-	6,550	6,550
Other changes	-	-	-	-
Shareholders’ equity 30 Sep 2011	**60,000**	**135,000**	**20,349**	**215,349**

Cash Flow Statement

EUR thousand	Q1-3/2011	Q1-3/2010
Liquid assets 1 January	**61,673**	**41,129**
Cash flow from operations	2,008,222	13,030
Cash flow from investments	2	-216
Cash flow from financing	2,039,623	-5,570
Liquid assets 30 September	**93,075**	**48,373**

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	93,075	-	-	93,075
Derivative contracts	-	165,305	-	165,305
Receivables from customers	7,394,937			7,394,937
Equities	-	-	17	17
Other receivables	88,788	-	-	88,788
Balance at 30 September 2011	**7,576,800**	**165,305**	**17**	**7,742,122**
Balance at 30 September 2010	**4,320,954**	**95,897**	**17**	**4,416,868**
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	-	-	1,980,000	1,980,000
Derivative contracts	-	6,233	-	6,233
Debt securities issued to the public	-	-	5,388,949	5,388,949
Subordinated liabilities	-	-	20,000	20,000
Other liabilities	-	-	132,252	132,252
Balance at 30 September 2011	-	**6,233**	**7,521,202**	**7,527,435**
Balance at 30 September 2010	-	**5,417**	**4,269,775**	**4,275,192**
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 September 2011, the fair value of these debt instruments was approximately EUR 162,788 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 realiably is difficult in the current market situation.

Derivative Contracts 30.9.2011

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	4,784,286	7,500,000	2,000,000	14,284,286	165,305	6,233	291,731
Trading							
Total	**4,784,286**	**7,500,000**	**2,000,000**	**14,284,286**	**165,305**	**6,233**	**291,731**

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		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**

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 September 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, 1 November 2011

OP Mortgage Bank
Board of Directors