OP MORTGAGE BANK

Financial Statements Bulletin for 2013

Financial Standing

The loan portfolio of OP Mortgage Bank decreased to EUR 7,930 million (8,678)[1]. The company increased its loan portfolio by buying mortgage-backed loans from OP-Pohjola Group's member banks with a total of EUR 483 million. No new bonds were issued in the report period.

The company's financial standing remained stable throughout the review period. Earnings before tax for the fourth quarter came to EUR 2.0 million (3.6) and those for the full year to EUR 11.8 million (14.2). A total of EUR 500 million funding for overcollateral concerning bonds issued to the public was converted in May into long-term funding and EUR 125 million in September to reduce the funding risk. Extending the term to maturity reduced profitability slightly.

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 the housing loans to be hedged are swapped to Euribor cash flows. OPA has also swapped the fixed interest rates of the bonds it has issued to short-term market rates. All derivative contracts have been concluded for hedging purposes. Pohjola Bank plc is the counterparty to all derivative contracts.

Collateralisation of bonds issued to the public

Mortgages collateralising covered bonds issued before 1 August 2010, under the Finnish Act on Mortgage Credit Banks (1240/1999), are included in Cover Asset Pool A. The balance of Pool A was EUR 3,000 million at the end of December.

Mortgages collateralising covered bonds issued after 1 August 2010, under the Finnish Covered Bonds Act (688/2010), are included in Cover Asset Pool B. The balance of Pool B was EUR 4,559 million at the end of December.

Capital adequacy

OPA's capital adequacy ratio stood at 10.3% on 31 December. Capital ratio excluding transition rules stood at 115.6%.

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 183 member banks as well as Pohjola Bank plc, Helsinki OP Bank Plc, OP Mortgage Bank, OP-Kotipankki Oyj and OP Process Services Ltd. 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 amalgamation's consolidated financial statements.

[1] Comparatives for 2012 are given in brackets. For income-statement and other aggregated figures, January–December 2012 figures serve as comparatives. For balance-sheet and other cross-sectional figures, figures at the end of the previous reporting period (31 December 2012) serve as comparatives.

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 the ratios following the balance sheet total.

In spite of the joint responsibility and the joint security, pursuant to Section 25 of the Finnish Covered Bonds Act, 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 December, OPA had six employees. It purchases all key support services from OP-Pohjola Group Central Cooperative and its Group companies, which reduces the need for more staff.

Administration

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	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-Pohjola Group Central Cooperative

OPA’s Managing Director is Lauri Iloniemi.

Risk Exposure

The most significant types of risk related to OPA are credit risk, structural funding risk, liquidity risk and interest-rate risk. The key indicators in use shows that OPA's credit risk exposure is stable and 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. The interest rate risk may be considered to be low.

Outlook

The existing issuance programme will make it possible to issue new covered bonds in 2014. It is expected that the Company's capital adequacy will remain strong, risk exposure will be favourable and the overall quality of the credit portfolio will remain strong.

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Accounting Policies

The Financial Statements Bulletin for 1 January–31 December 2013 has been prepared in accordance with IAS 34 (Interim Financial Reporting).

This Financial Statements Bulletin is based on unaudited figures. Given that all of the figures have been rounded off, the sum total of individual figures may deviate from the presented sums.

The Financial Statements 2013 contain a description of the accounting policies, which have been applied in the preparation of this Financial Statements Bulletin.

Since 1 January 2013, OPA has applied the amendments to IAS 19 Employee Benefits. The revised standard removes the option for entities to apply the so-called corridor method in the recognition of actual gains and losses and changes the calculation of net interest income on the net defined benefit liability.Under the revised standard, the expected return on plan assets used in the calculation of net interest income is calculated based on the discount rate of the plan liability.

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

Capital adequacy
OPA uses the Internal Ratings Based Approach (IRBA) to measure its capital adequacy requirement for credit risk and and uses the Standardised Approach to measure its capital adequacy for operational risk. The increase in shareholders' equity arising from the measurement of pension liabilities and the assets covering them, under IFRS, is not included in the capital base. Furthermore, intangible assets were deducted from the capital base.

Related-party transactions
OPA's related parties include OP-Pohjola Group Central Cooperative and its subsidiaries, the OP Bank Group pension insurance organisation OP Bank Group Pension Fund and OP Bank Group Pension Foundation, and the company's administrative personnel. Standard loan terms and conditions apply to loans granted to the related parties. Loans are tied to generally used reference rates. Related-party transactions did not undergo any substantial changes during the reporting period.

Debt securities issued to the public are carried at amortised cost. The fair value of these debt instruments has been measured using information available in markets and employing commonly used valuation techniques. The difference between the fair value and carrying amount is presented as valuation difference in the Classification of financial assets and liabilities table. The carrying amounts of other balance-sheet items substantially correspond to their fair values.

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

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 commissions and fees + Net trading income + Total net investment income+ Other operating income) × 100

Income statement TEUR	**Q4/2013**	**Q4/2012**	**2013**	**2012**
Interest income	20,244	23,603	81,047	121,246
Interest expenses	13,229	15,705	49,855	91,362
Net interest income	**7,014**	**7,897**	**31,192**	**29,884**
Impairment loss on receivables	-29	-17	19	-53
Net commissions and fees	-4,115	-3,426	-16,070	-11,992
Net trading income	0	0	0	0
Net investment income	0	0	1	-186
Other operating income	0	0	0	0
Personnel costs	124	121	449	400
Other administrative expenses	380	390	1,570	1,586
Other operating expenses	371	300	1,302	1,459
Earnings before tax	**1,996**	**3,644**	**11,821**	**14,209**
Income tax expense	482	893	2,887	3,478
Profit for the period	**1,514**	**2,752**	**8,934**	**10,731**

Statement of comprehensive income TEUR	**Q4/2013**	**Q4/2012**	**2013**	**2012**
Profit for the period	1,514	2,752	8,934	10,731
Items that will not be reclassified to profit or loss				
Gains/(losses) arising from remeasurement of defined benefit plans	-38	-50	-38	-50
Income tax on gains/(losses) on arising from remeasurement of defined benefit plans	-6	12	-6	12
Total comprehensive income	**1,469**	**2,714**	**8,889**	**10,693**

Key ratios	**Q4/2013**	**Q4/2012**	**2013**	**2012**
Return on equity (ROE), %	1.8	3.5	2.7	3.7
Cost/income ratio, %	30	18	22	19

Cash flow statement TEUR	**Q1-Q4/2013**	**Q1-Q4/2012**
Cash and cash equivalents 1 Jan.	**53,300**	**82,434**
Total comprehensive income for the period	8,889	10,693
Adjustments to profit for the period	3,141	3,390
Increase (-) or decrease (+) in operating assets	869,905	-1,245,004
Increase (+) or decrease (-) in operating liabilities	-828,177	600,673
A. Cash flow from operating activities	**53,759**	**-630,247**
Purchase of intangible assets	-776	-813
B. Cash flow from investing activities	**-776**	**-813**
Increases in debt securities issued to the public	6,268	1,563,926
Decreases in debt securities issued to the public	0	-1,020,000
Reserve for invested unrestricted equity	0	60,000
Dividends paid	-2,001	-2,001
C. Cash flow from financing activities	**4,267**	**601,925**
Net increase/decrease in cash and cash equivalents (A+B+C)	**57,250**	**-29,134**
Cash and cash equivalents 31 Dec.	**110,550**	**53,300**

Balance sheet TEUR	31 Dec 2013	30 Sep 2013	30 June 2013	31 March 2013	31 Dec 2012
Receivables from credit institutions	110,550	59,971	38,589	52,881	53,300
Derivative contracts	198,086	211,255	219,616	276,403	318,473
Receivables from customers	7,929,630	8,202,201	8,535,321	8,847,903	8,677,652
Investments assets	17	17	17	17	17
Intangible assets	1,668	1,579	1,303	1,128	1,101
Other assets	76,362	79,324	77,636	117,146	77,854
Tax assets	630	26	32	33	35
Total assets	**8,316,944**	**8,554,373**	**8,872,515**	**9,295,512**	**9,128,431**
Liabilities to credit institutions	1,885,000	2,107,000	2,420,000	2,747,000	2,570,000
Derivative contracts	8,767	8,522	10,448	10,867	16,382
Debt securities issued to the public	5,991,695	6,003,280	6,010,497	6,068,986	6,109,687
Provisions and other liabilities	99,628	104,538	102,227	142,136	106,964
Tax liabilities	0	649	899	704	435
Total liabilities	**7,985,090**	**8,223,990**	**8,544,071**	**8,969,693**	**8,803,467**
Shareholders’ equity					
Share capital	60,000	60,000	60,000	60,000	60,000
Reserve for invested unrestricted . equity	235,000	235,000	235,000	235,000	235,000
Retained earnings	36,853	35,383	33,444	30,819	29,964
Total equity	331,853	330,383	328,444	325,819	324,964
Total liabilities and shareholders’ equity	**8,316,944**	**8,554,373**	**8,872,515**	**9,295,512**	**9,128,431**

Off-balance-sheet commitments TEUR	31 Dec 2013	30 Sep 2013	30 June 2013	31 March 2013	31 Dec 2012
Irrevocable commitments given on behalf of customers	4,568	6,437	9,854	11,352	7,976

Statement of changes in equity TEUR	Share capital	Other reserves	Retained earnings	Total equity
Shareholders’ equity 1 Jan 2012	**60,000**	**175,000**	**21,271**	**256,271**
Reserve for invested unrestricted equity	-	60,000	-	60,000
Profit for the period	-	-	10,731	10,731
Total comprehensive income			-38	-38
Other changes	-	-	-2,001	-2,001
Shareholders’ equity 31 Dec 2012	**60,000**	**235,000**	**29,964**	**324,964**
Shareholders’ equity 1 Jan 2013	**60,000**	**235,000**	**29,964**	**324,964**
Reserve for invested unrestricted equity	-	-	-	-
Profit for the period	-	-	8,934	8,934
Total comprehensive income			-44	-44
Other changes	-	-	-2,001	-2,001
Shareholders’ equity 31 Dec 2013	**60,000**	**235,000**	**36,853**	**331,853**

Capital base TEUR	31 Dec 2013	30 Sep 2013	31 Dec 2012
Equity capital	331,853	330,383	324,964
Intangible assets	-1,668	-1,579	-1,101
Excess funding of pension liability and fair value measurement of investment property and deferred tax assets on previous losses	0	-12	-13
Planned dividend distribution	0	-1,500	-2,001
Impairments – shortfall of expected losses	-1,077	-3,470	-3,705
Shortfall of other Tier 1 capital	-1,077	-3,470	-3,705
Core Tier 1 capital	**328,031**	**320,351**	**314,440**
Shortfall of Tier 2 capital	-1,077	-3,470	-3,705
Transfer to Core Tier 1 capital	1,077	3,470	3,705
Tier 1 capital	**328,031**	**320,351**	**314,440**
Debenture loans	-	-	-
Impairments – shortfall of expected losses	-1,077	-3,470	-3,705
Transfer to Tier 1 capital	1,077	3,470	3,705
Tier 2 capital	**0**	**0**	**0**
Total capital base	**328,031**	**320,351**	**314,440**
Capital adequacy ratio, %	10.3	9.9	9.2
Tier 1 ratio	10.3	9.9	9.2
Core Tier 1 ratio	10.3	9.9	9.2
Capital ratio excluding IRBA transition rules			
Capital adequacy ratio, %	115.6	46.3	41.9
Tier 1 ratio	115.6	46.3	41.9
Core Tier 1 ratio	115.6	46.3	41.9

Shortfall of difference between impairment losses and expected losses totals EUR 2 million.

Risk-weighted assets investments and off-balance-sheet commitments, TEUR	31 Dec 2013	30 Sep 2013	31 Dec 2012
Credit risk	263,881	671,977	735,840
Market risk	0	0	0
Operational risks	19,941	19,941	14,043
Requirement for period of transition	2,908,024	2,549,775	2,656,632
Risk-weighted assets, investments and off-balance-sheet commitments, total	**3,191,845**	**3,241,693**	**3,407,573**

Classification of financial assets and liabilities TEUR				
Financial assets	**Loans and other receivables**	**Recognised at fair value through profit or loss**	**Available for sale**	**Total**
Receivables from credit institutions	110,550	-	-	110,550
Derivative contracts	-	198,086	-	198,086
Receivables from customers	7,929,630	-	-	7,929,630
Shares and participations	-	-	17	17
Other receivables	76,362	-	-	76,362
Other assets	2,298	-	-	2,298
Balance at 31 December 2013	**8,118,840**	**198,086**	**17**	**8,316,944**
Balance at 31 December 2012	**8,809,941**	**318,473**	**17**	**9,128,431**
Financial liabilities		**Recognised at fair value through profit or loss**	**Other liabilities**	**Total**
Liabilities to credit institutions	-	-	1,885,000	1,885,000
Derivative contracts	-	8,767	-	8,767
Debt securities issued to the public	-	-	5,991,695	5,991,695
Other liabilities	-	-	99,628	99,628
Balance at 31 December 2013	-	**8,767**	**7,976,323**	**7,985,090**
Balance at 31 December 2012	**-**	**16,382**	**8,787,085**	**8,803,467**
Valuation difference of debt securities issued to the public (difference between fair value and carrying amount) 31 December 2013			255,852	**255,852**

Derivative contracts 31 Dec 2013 TEUR	Nominal values/residual term to maturity			
	Less than 1 year	1–5 years	More than 5 years	Total
Interest rate derivatives				
Hedging	2,936,007	11,644,865	396,000	14,976,872
Trading	0	0	0	0
Total	**2,936,007**	**11,644,865**	**396,000**	**14,976,872**

	Fair values		Credit equivalent
	Assets	Liabilities	
Interest rate derivatives			
Hedging	198,086	8,767	325,316
Trading	-	-	-
Total	**198,086**	**8,767**	**325,316**

Derivative contracts 31 Dec 2012 TEUR	Nominal values/residual term to maturity			
	Less than 1 year	1–5 years	More than 5 years	Total
Interest rate derivatives				
Hedging	585,259	12,947,452	2,330,000	15,862,711
Trading	-	-	-	-
Total	**585,259**	**12,947,452**	**2,330,000**	**15,862,711**

	Fair values		Credit equivalent
	Assets	Liabilities	
Interest rate derivatives			
Hedging	318,473	16,382	328,295
Trading	-	-	-
Total	**318,473**	**16,382**	**328,295**

Grouping of the balance sheet according to the valuation method, TEUR

31 Dec 2013	**Valuation of fair value at the end of the period**			
	Balance sheet value	**Level 1**	**Level 2**	**Level 3**
Assets recognised at fair value				
Derivate contracts	198,086	-	198,086	**-**
Total	**198,086**	**-**	**198,086**	**-**
Liabilities recognised at fair value				
Derivate contracts	8,767	-	8,767	**-**
Total	**8,767**		**8,767**	
Financial liabilities not recognised at fair value				
Debt securities issued to the public	5,991,695	6,139,724	107,822	
Total	**5,991,695**	**6,139,724**	**107,822**	**-**

31 Dec 2012	**Valuation of fair value at the end of the period**			
	Balance sheet value	**Level 1**	**Level 2**	**Level 3**
Assets recognised at fair value				
Derivate contracts	318,473	-	318,473	**-**
Total	**318,473**	**-**	**318,473**	**-**
Liabilities recognised at fair value				
Derivate contracts	16,382	-	16,382	**-**
Yhteensä	**16,382**		**16,382**	
Financial liabilities not recognised at fair value				
Debt securities issued to the public	6,109,687	6,107,110	389,875	
Total	**6,109,687**	**6,107,110**	**389,875**	**-**

OPA does not hold any transfers between the levels of fair value valuation.

Helsinki, 6 February 2014

OP Mortgage Bank
Board of Directors

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