OP MORTGAGE BANK
Stock exchange release 31 July 2013
Interim Report 1 January -30 June 2013

Financial Standing

The loan portfolio of OP Mortgage Bank decreased from EUR 8,678 million on 31 December 2012 to EUR 8,535 million on 30 June 2013. The company's loan portfolio was increased in February and March by buying mortgage-backed loans from OP-Pohjola Group's member banks with a total of EUR 463 million. Low interest rates resulted in shorter loans, which were in turn reflected as a decrease in OP Mortgage Bank's loan portfolio. No new bonds were issued in the report period.

The company's financial standing remained stable throughout the review period. EUR 500 million of the funding for overcollateral concerning publicly issued bonds was converted in May to long-term funding to reduce the funding risk. Extending the term to maturity reduces profitability to a small extent in the future.

OPMB (OP Mortgage Bank) 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. OPMB 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 3,200 million at the end of June.

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 4,878 million at the end of June.

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 196 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 amalgamation’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 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 June, OPMB had six employees. It purchases all key support services from the 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	Executive Vice President, Pohjola Bank plc
	Jari Tirkkonen	Senior Vice President, OP-Pohjola Group Central Cooperative

OPMB’s Managing Director is Lauri Iloniemi.

Risk Exposure

The most significant types of risk related to OPMB are credit risk, structural funding risk, liquidity risk and interest-rate risk. The key indicators in use shows that OPMB'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 OPMB. OPMB 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 2013. 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.

This Interim Report 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.

Accounting Policies

The Interim Report for 1 January–30 June 2013 has been prepared in accordance with IAS 34 (Interim Financial Reporting), as approved by the EU. In the preparation of this Interim Report, OPMB substantially applied the same accounting policies as in the financial statements 2012, except a change in the recognition of actuarial gains and losses on the defined benefit pension plan.

Since 1 January 2013, OPMB 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.

OPMB voluntarily abandoned the corridor method as of the beginning of 2012. The change in the calculation of the net interest income did not have any substantial effects on the personnel costs year on year or the financial year 2012.

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
OPMB 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.

Related-party transactions
OPMB'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

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**	**H1/2013**	**H1/2012**	**Q2/2013**	**Q2/2012**	**2012**
Interest income	40,658	70,525	20,587	33,584	121,246
Interest expenses	23,983	56,186	12,241	26,013	91,362
Net interest income	**16,675**	**14,339**	**8,346**	**7,571**	**29,884**
Impairment loss on receivables	21	-36	11	-35	-53
Net commissions and fees	-7,743	-5,423	-4,074	-2,676	-11,992
Net trading income	0	0	0	0	0
Net investment income	1	-179	0	-180	-186
Other operating income	0	0	0	0	0
Personnel costs	232	202	111	106	400
Other administrative expenses	815	842	392	390	1,586
Other operating expenses	650	707	305	477	1,459
Earnings before tax	**7,257**	**6,951**	**3,476**	**3,708**	**14,209**
Income tax expense	1,777	1,701	851	907	3,478
Profit for the period	**5,480**	**5,250**	**2,625**	**2,801**	**10,731**

Statement of comprehensive income

TEUR	**H1/2013**	**H1/2012**	**Q2/2013**	**Q2/2012**	**2012**
Profit for the period	5,480	5,250	2,625	2,801	10,731
Actuarial gains/losses on post-employment benefit obligations	-	-	-	-	-50
Income tax on actuarial gains/losses on post-employment benefit obligations	-	-	-	-	12
Total comprehensive income	**5,480**	**5,250**	**2,625**	**2,801**	**10,693**

Earnings **TEUR**	**H1/2013**	**H1/2012**	**Q2/2013**	**Q2/2012**	**2012**
Income					
Net interest income	16,675	14,339	8,346	7,571	29,884
Net commissions and fees	-7,743	-5,423	-4,074	-2,676	-11,992
Net trading income	0	0	0	0	0
Net investment income	1	-179	0	-180	-186
Other operating income	0	0	0	0	0
Total	**8,932**	**8,737**	**4,273**	**4,715**	**17,707**
Expenses					
Personnel costs	232	202	111	106	400
Other administrative expenses	815	842	392	390	1,586
Other operating expenses	650	707	305	477	1,459
Total	**1,696**	**1,750**	**808**	**973**	**3,445**
Impairment loss on receivables	**21**	**-36**	**11**	**-35**	**-53**
Earnings before tax	**7,257**	**6,951**	**3,476**	**3,708**	**14,209**

Key ratios	H1/2013	H1/2012	Q2/2013	Q2/2012	2012
Return on equity (ROE), %	3.4	3.7	3.2	3.8	3.7
Cost/income ratio, %	19	20	19	21	19

Cash flow statement TEUR	H1/2013	H1/2012
Cash and cash equivalents 1 January	**53,300**	**82,434**
Cash flow from operating activities	-15,620	-263,621
Cash flow from investing activities	-315	-390
Cash flow from financing activities	1,224	274,400
Cash and cash equivalents 30 June	**38,589**	**92,823**

Balance sheet TEUR	30 June 2013	31 March 2013	31 Dec 2012	30 June 2012
Receivables from credit institutions	38,589	52,881	53,300	92,823
Derivative contracts	219,616	276,403	318,473	247,456
Receivables from customers	8,535,321	8,847,903	8,677,652	8,841,128
Investments assets	17	17	17	17
Intangible assets	1,303	1,128	1,101	809
Property, plant and equipment (PPE)	-	-	-	-
Other assets	77,636	117,146	77,854	80,854
Tax assets	32	33	35	19
Total assets	**8,872,515**	**9,295,512**	**9,128,431**	**9,263,106**
Liabilities to credit institutions	2,420,000	2,747,000	2,570,000	3,100,000
Derivative contracts	10,448	10,867	16,382	21,545
Debt securities issued to the public	6,010,497	6,068,986	6,109,687	5,716,100
Provisions and other liabilities	102,227	142,136	106,964	114,829
Tax liabilities	899	704	435	1,112
Subordinated liabilities	-	-	-	-
Total liabilities	8,544,071	8,969,693	8,803,467	8,953,585
Shareholders' equity				
Share capital	60,000	60,000	60,000	60,000
Reserve for invested unrestricted . equity	235,000	235,000	235,000	225,000
Retained earnings	33,444	30,819	29,964	24,521
Total equity	328,444	325,819	324,964	309,521
Total liabilities and shareholders' equity	**8,872,515**	**9,295,512**	**9,128,431**	**9,263,106**

Off-balance-sheet commitments TEUR	30 June 2013	31 March 2013	31 Dec 2012	30 June 2012
Irrevocable commitments given on behalf of customers	9,854	11,352	7,976	10,883

Change in key balance-sheet items and commitments

EUR Million	30 June 2013	31 March 2013	31 Dec 2012	31 Sep 2012	30 June 2012
Balance sheet total	8,873	9,296	9,128	8,976	9,263
Receivables from customers	8,535	8,848	8,678	8,511	8,841
Receivables from credit institutions	39	53	53	77	93
Debt securities issued to the public	6,010	6,069	6,110	5,879	5,716
Liabilities to credit institutions	2,420	2,747	2,570	2,650	3,100
Shareholders' equity	328	326	325	312	310
Off-balance-sheet commitments	10	11	8	9	11

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	-	50,000	-	50,000
Profit for the period	-	-	5,250	5,250
Other changes	-	-	-2,001	-2,001
Shareholders' equity 30 June 2012	**60,000**	**225,000**	**24,521**	**309,521**
TEUR	**Share capital**	**Other reserves**	**Retained earnings**	**Total equity**
Shareholders' equity 1 Jan 2013	**60,000**	**235,000**	**29,964**	**324,964**
Reserve for invested unrestricted equity	-	-	-	-
Profit for the period	-	-	5,480	5,480
Other changes	-	-	-2,001	-2,001
Shareholders' equity 30 June 2013	**60,000**	**235,000**	**33,444**	**328,444**

Capital adequacy

OPMB's capital adequacy ratio stood at 9.4% on 30 June. Capital ratio excluding transition rules stood at 44.5%.

CAPITAL BASE, TEUR	**30 June 2013**	**31 Dec 2012**	**30 June 2012**
Equity capital	328,444	324,964	309,538
Intangible assets	-1,303	-1,101	-809
Excess funding of pension liability and fair value measurement of investment property and deferred tax assets on previous losses	-12	-13	-13
Planned dividend distribution	-1,000	-2,001	0
Impairments – shortfall of expected losses	-3,502	-3,705	-3,586
Shortfall of other Tier 1 capital	-3,502	-3,705	-3,586
Core Tier 1 capital	**319,124**	**314,440**	**301,543**
Shortfall of Tier 2 capital	-3,502	-3,705	-3,586
Transfer to Core Tier 1 capital	3,502	3,705	3,586
Tier 1 capital	**319,124**	**314,440**	**301,543**
Debenture loans	-	-	-
Impairments – shortfall of expected losses	-3,502	-3,705	-3,586
Transfer to Tier 1 capital	3,502	3,705	3,586
Tier 2 capital	**0**	**-**	**-**
Total capital base	**319,124**	**314,440**	**301,543**
Capital adequacy ratio, %	9.4	9.2	8.7
Tier 1 ratio	9.4	9.2	8.7
Core Tier 1 ratio	9.4	9.2	8.7
Capital ratio excluding IRBA transition rules			
Capital adequacy ratio, %	44.5	41.9	39.6
Tier 1 ratio	44.5	41.9	39.6
Core Tier 1 ratio	44.5	41.9	39.6

The increase in shareholders' equity arising from the additional investment and 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. The Impairments – shortfall of expected losses total EUR 7 million.

Risk-weighted assets investments and off-balance-sheet commitments, TEUR	**30 June 2013**	**31 Dec 2012**	**30 June 2012**
Credit risk	697,577	735,840	746,948
Market risk	0	0	0
Operational risks	19,941	14,043	14,043
Requirement for period of transition	2,664,897	2,656,632	2,714,917
Risk-weighted assets, investments and off-balance-sheet commitments, total	3,382,415	3,407,573	3,475,908

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	38,589	-	-	38,589
Derivative contracts	-	219,616	-	219,616
Receivables from customers	8,535,321	-	-	8,535,321
Shares and participations	-	-	17	17
Other receivables	77,668	-	-	77,668
Balance at 30 June 2013	**8,651,578**	**219,616**	**17**	**8,871,212**
Balance at 30 June 2012	**9,014,824**	**247,456**	**17**	**9,262,297**
Balance at 31 December 2012	**8,808,806**	**318,473**	**17**	**9,127,296**

Financial liabilities		Recognised at fair value through profit or loss	Other liabilities	Total
Liabilities to credit institutions	-	-	2,420,000	2,420,000
Derivative contracts	-	10,448	-	10,448
Debt securities issued to the public	-	0	6,010,497	6,010,497
Subordinated liabilities	-	-	-	-
Other liabilities	-	-	103,126	103,126
Balance at 30 June 2013	-	**10,448**	**8,533,623**	**8,544,071**
Balance at 30 June 2012	**-**	**21,545**	**8,932,040**	**8,953,585**
Balance at 31 December 2012	**-**	**16,382**	**8,787,085**	**8,803,467**

Debt securities issued to the public are carried at amortised cost. On 30 June 2013, the fair value of these debt instruments was approximately EUR 291,736 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 2013

TEUR	Nominal values/residual term to maturity			
	Less than 1 year	1−5 years	More than 5 years	Total
Interest rate derivatives				
Hedging	519,664	12,648,557	2,496,000	15,664,220
Trading	-	-	-	-
Total	**519,664**	**12,648,557**	**2,496,000**	**15,664,220**

TEUR	Fair values		Credit equivalent
	Assets	Liabilities	
Interest rate derivatives			
Hedging	219,616	10,448	381,489
Trading	-	-	-
Total	**219,616**	**10,448**	**381,489**

Derivative contracts 31 December 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**

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

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

Helsinki, 31 July 2013

For more information, please contact Managing Director Lauri Iloniemi, tel. +358 (0)10 252 3541

OP Mortgage Bank
Board of Directors

DISTRIBUTION
LSE London Stock Exchange
OAM, Officially Appointed Mechanism
Major media
op.fi