**OP MORTGAGE BANK PLC**

# Report by the Board of Directors
# and
# Financial Statements 2013

**Contents**

# REPORT OF THE BOARD OF DIRECTORS

OP Mortgage Bank's (hereinafter OPA) loan portfolio decreased to EUR 7,930 million (8,678)[1].

The total size of purchased loan portfolio was EUR 483 million in 2013.

During the reviewed period, OPA did not launch any new covered bonds. Short-term funding from Pohjola Bank was replaced with long-term funding from Pohjola Bank by EUR 500 million in May and EUR 125 million in August. This financial arrangement reduces OPA's refinancing risk.

During this period, the bank prepared for adopting an intermediary loan model by replacing its loan management application and testing the OPA Manager application.

## OPA as part of the OP-Pohjola Group

OPA is part of the OP-Pohjola Group, a leading Finnish financial group. It comprises independent member cooperative banks and their central institution, OP-Pohjola Group Central Cooperative with its subsidiaries. The OP-Pohjola Group Central Cooperative operates as the entire OP-Pohjola Group's strategic owner institution and a central institution responsible for Group control and supervision.

OPA is a wholly-owned subsidiary and member credit institution of the OP-Pohjola Group Central Cooperative. The OP-Pohjola Group Central Cooperative and its member credit institutions, jointly with entities belonging to their consolidated groups, constitute a coalition of cooperative banks as defined in the Act on Cooperative Banks and Other Cooperative Credit Institutions and the Act on Amalgamations of Deposit Banks. According to the acts, the central institution and its member credit institutions are responsible for each others' liabilities and commitments, and their capital adequacy, liquidity and customer risks are supervised at the coalition level. The scope of joint responsibility does not include the insurance companies within the OP-Pohjola Group.

OPA is a mortgage bank specialised in housing financing. Its operating policy is to acquire inexpensive refinancing for the OP-Pohjola Group from the bond markets through the issuance of bonds. OPA has no independent customer business or service network of its own. OPA issues bonds with real estate collateral regulated under the Act on Mortgage Credit Banks.

The housing loans used by OPA as collateral for bonds are primarily purchased from the OP-Pohjola Group Central Cooperative's member banks. Member banks that have signed an agency agreement and Helsinki OP Bank plc may also grant loans directly to their customers on OPA's behalf within the limits set by OPA. Intermediary banks also manage the customer relationships and the administration of loans locally.

## Operating environment

Global economic growth was sluggish in 2013. Economic growth was slower than during the previous year, both in traditional industrialised countries and the developing markets. The economy of the euro area contracted year on year, but production began to recover in 2013. Some of the crisis countries began seeing growth. Financial insecurity was reduced and confidence improved towards the end of the year.

The ECB cut its benchmark interest rate to 0.25 per cent from 0.75 per cent at the start of the year. Euribor interest rates stayed at a very low level for the whole year. As the markets calmed, euro area government bond markets saw their interest rate differences reducing.

Finland showed weak economic development during 2013, as GDP contracted and unemployment rose. Inflation faded markedly, and towards the end of the year, confidence in Finland also began to improve and there were signs of an export recovery. Home prices rose by a few per cent, but home sales and residential construction decreased.

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[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.

Global economy will improve in 2014, but growth will still be slower than average. In the United States, growth will improve, and the economy of the euro area will start growing. Recovering exports will improve the Finnish economy, but economic growth will continue to be sluggish. The European Central Bank will continue its expansionary monetary policy.

Last year, the annual growth of total consumer loan volumes of banks in Finland decreased to 2 percent. This slowdown is explained by the uncertain economical outlook, a reduced volume of sold and bought homes and stricter loan approval criteria by banks. The growth of corporate loan portfolio continued to be relatively stable, with annual growth of 5 per cent. The demand for loans is expected to stay weaker than average for the duration of the current year.

**Earnings Development**

OPA's major earnings items developed as follows in 2013

| EUR thousand | **1-12/2013** | **1-12/2012** |
|---|---|---|
| | | |
| **Income** | | |
| Net interest income | 31,192 | 29,884 |
| Net commissions and fees | -16,070 | -11,992 |
| Net income from trading | 0 | 0 |
| Net income from investments | 1 | -186 |
| Other operating income | 0 | 0 |
| **Total** | **15,123** | **17,707** |
| | | |
| **Expenses** | | |
| Personnel costs | 449 | 400 |
| Other administrative expenses | 1,570 | 1,586 |
| Other operating expenses | 1,302 | 1,459 |
| **Total** | **3,321** | **3,445** |
| **Impairments of receivables** | 19 | -53 |
| | | |
| **Earnings before tax** | 11,821 | 14,209 |

Earnings before tax for January-December amounted to EUR 11,821 thousand (14,209). The earnings were reduced by financial arrangements made with Pohjola Bank plc, which improved OP Mortgage Bank's funding risk position.

## Balance Sheet and Off-balance Sheet Commitments

OPA's balance sheet total amounted to EUR 8,317 million on 31 December (EUR 9,128 million). Changes in major assets, liabilities and off-balance sheet items are shown in the table below:

### Change in Major Asset and Liability Items

| EUR million | 31 Dec 2013 | 31 Dec 2012 |
|---|---|---|
| Balance sheet | 8,317 | 9,128 |
| Receivables from customers | 7,930 | 8,678 |
| Receivables from financial institutions | 111 | 53 |
| Debt securities issued to the public | 5,992 | 6,110 |
| Liabilities to financial institutions | 1,885 | 2,570 |
| Shareholders’ equity | 332 | 325 |
| Off-balance sheet commitments | 5 | 8 |

Bank's loan portfolio decreased to EUR 7,930 million (8,678). OPA increased its loan portfolio in the January-December period when it purchased housing loans from OP-Pohjola-Group member banks for EUR 483 million.

On December 2013, households accounted for 99.7 per cent (99.6) of the loan portfolio and housing corporations for 0.3 per cent (0.4). The bank's non-performing loans increased but remained at low levels totalling EUR 3.0 million (2.9) on December 2013.

The carrying amount of general issued bonds was EUR 5,992 million at the end of the year. In addition to bonds, OPA financed its activities with debt financing from Pohjola Bank plc. At the end of the report period, the amount of debt financing came to EUR 1,885 million (2,570).

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 14,977 million (15,862). All derivative contracts have been concluded for hedging purposes. Pohjola Bank plc is the counterparty to all derivative contracts.

**Development of Capital Adequacy**

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

OPA calculates its capital adequacy in compliance with Basel II. In its calculation of capital requirements for credit risk, OPA has adopted the Internal Ratings Based Approach (IRBA). The update of retail exposure internal classification models, approved by the Financial Supervisory Authority, reduced the minimum capital requirement and raised the capital adequacy ratio without any transition provisions. With respect to the capital adequacy requirement for operational risks, OPA has adopted the Standardised Approach.

OPA’s own funds and capital adequacy have changed as follows during the year:

| **OWN FUNDS, EUR thousand** | **31 Dec 2013** | **31 Dec 2012** |
|---|---:|---:|
| | | |
| Equity capital | 331,853 | 324,964 |
| Intangible assets | -1,668 | -1,101 |
| Excess funding of pension liability | 0 | -13 |
| Planned dividend distribution | 0 | -2,001 |
| Shortfall of impairments – expected losses | -1,077 | -3,705 |
| Shortfall of Tier 1 capital | -1,077 | -3,705 |
| **Core Tier 1 capital** | **328,031** | **314,440** |
| Shortfall of Tier 2 capital | -1,077 | -3,705 |
| Transfer to core Tier 1 capital | 1,077 | 3,705 |
| **Tier 1 capital** | **328,031** | **314,440** |
| Debenture loans | - | - |
| Shortfall of impairments – expected losses | -1,077 | -3,705 |
| Transfer to Tier 1 capital | 1,077 | 3,705 |
| **Tier 2 capital** | **-** | **-** |
| **Total capital base** | **328,031** | **314,440** |
| Capital adequacy ratio, % | 10.3 | 9.2 |
| Tier 1 ratio | 10.3 | 9.2 |
| Core Tier 1 ratio | 10.3 | 9.2 |
| **Capital ratio excluding transition rules** | | |
| Capital adequacy ratio, % | 115.6 | 41.9 |
| Tier 1 ratio | 115.6 | 41.9 |
| Core Tier 1 ratio | 115.6 | 41.9 |

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 were also deducted from own funds. The Impairments – shortfall of expected losses total EUR 2.2 million.

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

Risk-weighted credit risk assets decreased significantly during the financial year. This decrease was caused by changes to IRBA models, which were approved for OP-Pohjola Group by the Financial Supervisory Authority in December. The decrease of risk-weighted assets increased the capital adequacy ratio before the transition regulations.

Harmonised EU-level credit institution regulations entered into force on 1 January 2014. The single most important change to regulations affecting OPA is that the risk-weighted asset requirement for the transition period became the floor that defines the minimum capital requirement. From now on, the capital adequacy ratio that was calculated before the transition period requirement will be followed.

The statutory lower limit for the capital adequacy ratio is 8 per cent. The lower limit of the Tier I ratio is 4 per cent.

**Calculation of key indicators:**

**Capital adequacy ratio, %**

Total own funds / Total minimum requirement for own funds x 8%

**Tier I ratio, %**

Total Tier I own funds / Total minimum requirement for own funds x 8%

## 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 Ban, OP-Kotipankki Plc 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 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 Bank Operations, 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.

## Key figures and ratios

| Key figure and ratio | **2013** | **2012** | **2011** |
|---|---|---|---|
| Return on equity, % | 2.7 | 3.7 | 3.7 |
| Return on assets, % | 0.10 | 0.13 | 0.12 |
| Capital adequacy, % | 3.99 | 3.56 | 3.24 |
| Cost/income ratio, % | 22 | 19 | 26 |

**Formulas for key figures and ratios**

**Return on equity (ROE), %**

Operating profit (loss) - Income taxes * x 100
Shareholders' equity (average total at the beginning and end of the year)

**Return on assets (ROA), %**

Operating profit (loss) - Income taxes * x 100
Average balance sheet total
(average total at the beginning and end of the year)

**Capital adequacy, %**

Shareholders' equity x 100
Balance sheet total

**Cost/income ratio, %**

Administrative costs + Depreciation and impairment on tangible and
Intangible assets + Other operating expenses x 100
Net interest income + Income from equity investments +
Net commission income + Net income from securities trading
and currency operations + Net income from financial assets available for sale +
Net income from hedging calculation + Net income from investment properties +
Other operating income + Share from affiliate income (net)

* The tax effect included in appropriations has been taken into account.

**Risk management**

The Board of Directors of OP Mortgage Bank has confirmed the capital adequacy management principles and instructions and set the risk limits for the most important risk indicators. The primary purpose of risk management is to secure the bank's risk tolerance and ensure that the bank is not exposed to excessive risk that might endanger its profitability, capital adequacy or the continuity of its operations. Risk management is based on the professional expertise and caution of the people who make operational decisions, and on systematic measurement, assessment and limitation of risks. The OP-Pohjola Group Central Cooperative controls and monitors the risk management of all OP-Pohjola Group companies, including OPA.

In its operations, OPA is exposed to credit risks, liquidity risks, market risks and operational risks. The OP-Pohjola Group Central Cooperative has set control limits for OPA's capital adequacy, credit risks and market risks. The bank's Board of Directors has confirmed principles and guidelines applicable to risk management and has set limits for the most important risk indicators. The Board of Directors supervises risk management and regularly monitors the bank's risk tolerance and risk situation. The bank's management is responsible for the implementation of risk management following the instructions ratified by the Board of Directors, and reports to the Board of Directors and the OP-Pohjola Group Central Cooperative regularly regarding the bank's operations, risk tolerance and risk situation. The bank's overall attitude towards risk-taking is moderate.

**Risk tolerance**

OPA's risk-bearing capacity level continued to be good due to retained earnings. The capital adequacy ratio was 10.3%. Return on equity was 2.7% (3.7).

OPA's capital adequacy is not secured through accrued earnings; instead, it is secured by the OP-Pohjola Group Central Cooperative. The level of profitability is affected by OPA's management commission policy. Being a service company, OPA does not aim to maximise its earnings. Instead, any profitability potential exceeding the minimum level set by the owner is allocated to management commissions paid to the member banks.

**Credit risk exposure**

OPA’s loan portfolio at the end of the financial period was EUR 7,930 million. The quality of the loan portfolio was high. At the end of the reporting period, OPA had 52 non-performing loans with a total capital value of EUR 3.0 million. The bank has not recognised any significant impairments during this or any previous financial period.

Being a mortgage bank, OPA may only grant credit against collateral defined in law. On the other hand, OPA’s credit-granting criteria also support the upkeep of a high-quality loan portfolio. The criteria are stricter than those generally applicable in the OP-Pohjola Group.

The bank's credit customers comprise private persons and housing corporations. The bank does not have any customer entities where the total number of customer risks exceeds the limit of 25 per cent of the bank’s own funds set by the Act on Credit Institutions.

Thanks to the diversified loan portfolio and securing collateral, OPA’s credit risk exposure is very stable.

**Market Risks and Liquidity Risk**

Market risks include interest rate risks, price risks and real estate risks on balance sheet items and off-balance sheet items, as well as the credit spread risk on investment activities and the market liquidity risk. OPA does not have any exchange rate, credit spread, share, commodity, real estate or volatility risks. The Board of Directors has confirmed a risk management principles which defines the products and market instruments used by the bank, the principles for funding and investment operations and the applicable risk monitoring methods.

Interest rate risk refers to the effect of changes in market rates on the bank’s performance, profitability and capital adequacy. OPA has hedged against interest rate risk through interest rate swaps. By means of interest rate swaps, base rate cash flows from the hedged housing loans are swapped with Euribor cash flows. OPA has also swapped the fixed interest rates for the bonds issued by it with short-term market interest rates. Pohjola Bank is the counterparty in all derivative contracts.

The purpose of liquidity risk management is to secure the bank’s ability to meet its payment obligations without endangering operational continuity, profitability or capital adequacy. OPA’s cash flows are monitored daily to secure capital adequacy, and the structural funding risk exposure is monitored regularly as part of the company’s capital adequacy management process.

OPA’s Board of Directors regularly monitors the bank’s interest rate and funding risk exposure within the limits it has set.

The bank’s interest rate and funding risk-taking are also restricted by the provisions of the Act on Mortgage Credit Banks. According to the legislation, the total amount of any interest received from loans pledged as collateral for bonds with real estate as collateral during any 12 months must exceed the total amount of interest payable on such bonds during the same period. In addition, the remaining average maturity of bonds with real estate as collateral must be shorter than the remaining average maturity of assets pledged as their collateral. OPA’s operations have been in compliance with the Act for the entire financial period with respect to interest flows as well as maturities.

### Operational risks

Operational risks refer to the risk of suffering financial loss or other damage through insufficient or failed processes, incorrect or imperfect procedures, systems or external factors. Operational risk may also be manifested as loss of or decrease in reputation or trust. Operational risks are controlled by identifying and assessing risks, and securing the functionality and sufficiency of control and management methods. Operational risks are assessed regularly and the entire risk situation is reported to the Board of Directors once a year.

## Personnel and incentive schemes

On 31 December, OPA had six employees. It purchases all key support services from Central Cooperative and its Group companies, which reduces the need for more staff.

OPA belongs to the OP Personnel Fund of the OP-Pohjola Group. The personnel fund is a long-term personnel incentive scheme. The bank makes profit-related payments to the personnel fund according to predefined principles. Fund members may withdraw fund units on the grounds specified in the fund rules.

## Administration

OPA is a mortgage bank wholly-owned by the OP-Pohjola Group Central Cooperative.

### Board of directors

The Board of Directors manages OPA’s operations. According to the Articles of Association, the Board of Directors is responsible for attending to the bank’s administration and the appropriate arrangement of its operations. The Board of Directors has general authority to decide on all issues related to the bank’s administration and other matters that do not belong to the statutory duties of the Annual General Meeting or the Managing Director. The Board of Directors decides on the bank’s strategy and crucial business objectives. The Board of Directors is responsible for ensuring that the bank’s accounting and asset management is appropriately supervised.

According to OPA’s Articles of Association, the Board of Directors comprises a minimum of three and a maximum of eight members. Currently, the Board of Directors has seven members. The members of the Board of Directors are elected for one year at a time so that their term of office commences at the closing of the General Meeting deciding on the election and ends at the closing of the General Meeting deciding to elect a new Board of Directors. Members of the Board of Directors are obliged to resign at 65 years of age at the latest. The Board of Directors constitutes a quorum when at least half of its members are present. The Board of Directors convened 13 times during the year.

The meeting of the Board in March confirmed the new Board's members. Bank manager Mikko Hyttinen resigned from the Board and expert manager Jari Tirkkonen was selected as a new Board member. The Board of Directors consists of the following members:

| | | |
|---|---|---|
| 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 |

### Managing Director

OPA's Managing Director is obliged to diligently promote the bank's interests and attend to the day-to-day management of the bank in accordance with laws and the Board of Directors' instructions and orders. The Managing Director may only take actions which, considering the scope and quality of the operations of the bank, are unusual or far-reaching if the Board of Directors has authorised him or her to this effect or if it is impossible to wait for the Board of Directors' decision without causing fundamental harm to the operations of the bank. It is the statutory duty of the Managing Director to ensure that the bank's accounting is in compliance with the law and that the bank's asset management is arranged reliably.

Managing Director for OP Mortgage bank is Lauri Iloniemi.

A separate account of OPA's administrative and management system is available at www.op.fi.

## Auditing

KPMG Oy Ab, Authorised Public Accountants, were elected auditors at the 2013 Annual General Meeting, with Juha-Pekka Mylen, Authorised Public Accountant, as principal auditor.

The bank's internal audit is the responsibility of the internal audit function of the OP-Pohjola Group Central Cooperative.

## Outlook

The existing bond 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 stable and the overall quality of the credit portfolio will remain strong.

## OPA'S BOARD PROPOSAL FOR THE ALLOCATION OF DISTRIBUTABLE FUNDS

The shareholders' equity of OP Mortgage Bank on 31 December 2013

| | € |
|---|---:|
| Share capital | 60,000,000.00 |
| Reserve for invested unrestricted equity | 235,000,000.00 |
| Profit for 2013 | 8,933,985.88 |
| Retained earnings | 27,919,351.79 |
| Total | 331,853,337.67 |

Distributable funds were EUR 271,853,337.67.

The Board proposes to the Annual General Meeting that no dividend be distributed.

# INCOME STATEMENT

| EUR | Note | 2013 | 2012 |
|---|---|---|---|
| Interest income | | 81,047,309.57 | 121,246,296.89 |
| Interest expenses | | 49,855,341.35 | 91,361,886.26 |
| **Net interest income** | 3 | **31,191,968.22** | **29,884,410.63** |
| Impairment losses on receivables | | 19,329.05 | -53,124.08 |
| Net commission income and expenses | 4 | -16,069,886.44 | -11,991,774.61 |
| Net income from trading | 5 | -400.18 | -274.49 |
| Net income from investments | 6 | 510.00 | -185,693.31 |
| Other operating income | 7 | 453.74 | 314.90 |
| Personnel costs | 8 | 448,791.54 | 399,875.71 |
| Other administrative expenses | 9 | 1,569,762.63 | 1,586,022.32 |
| Other operating expenses | 10 | 1,302,279.31 | 1,459,104.01 |
| **Earnings before taxes** | | **11,821,140.91** | **14,208,857.00** |
| Income taxes | 11 | 2,887,155.03 | 3,478,232.81 |
| **Profit for the period** | | **8,933,985.88** | **10,730,624.19** |

| | | |
|---|---|---|
| **Earning/share (EPS), eur** | **116.64** | **140.10** |
| Profit for the period / Average share-issue adjusted number of shares during the period | | |

**OPA's COMPREHENSIVE STATEMENT OF INCOME**

| | | |
|---|---|---|
| **Profit for the period** | **8,933,985.88** | **10,730,624.19** |
| Items that will not be reclassified to profit or loss | | |
| Gains/(losses) arising from remeasurement of defined benefit plans | -38,400.00 | -49,900.00 |
| Income tax on gains/(losses) on arising from remeasurement of defined benefit plans | -6,089.51 | 12,225.51 |
| **Total comprehensive profit for the period** | **8,889,496.37** | **10,692,949.70** |

# BALANCE SHEET

| EUR | Note | 31 Dec 2013 | 31 Dec 2012 |
|---|---|---|---|
| Receivables from financial institutions | 12 | 110,549,772.37 | 53,299,931.54 |
| Derivative contracts | 13 | 198,086,290.74 | 318,472,631.00 |
| Receivables from customers | 14 | 7,929,629,916.78 | 8,677,651,909.49 |
| Investments assets | 15 | 17,000.00 | 17,000.00 |
| Intangible assets | 16 | 1,667,990.49 | 1,100,702.26 |
| Other assets | 17 | 76,362,425.13 | 77,854,034.15 |
| Tax assets | 18 | 630,340.21 | 34,848.56 |
| **Total assets** | | **8,316,943,735.72** | **9,128,431,057.00** |
| | | | |
| Liabilities to financial institutions | 19 | 1,885,000,000.00 | 2,570,000,000.00 |
| Derivative contracts | 20 | 8,767,413.92 | 16,382,018.60 |
| Debt securities issued to the public | 21 | 5,991,694,554.93 | 6,109,687,119.95 |
| Provisions and other liabilities | 22 | 99,628,429.20 | 106,963,561.33 |
| Tax liabilities | 23 | 0.00 | 434,596.44 |
| **Total liabilities** | | **7,985,090,398.05** | **8,803,467,296.32** |
| | | | |
| **Shareholders' equity** | | | |
| **Shareholders' interest** | | | |
| Share capital | | 60,000,000.00 | 60,000,000.00 |
| Invested unrestricted equity fund | | 235,000,000.00 | 235,000,000.00 |
| Accumulated profits | | 36,853,337.67 | 29,963,760.68 |
| **Total equity** | **24** | **331,853,337.67** | **324,963,760.68** |
| **Total liabilities and shareholders' equity** | | **8,316,943,735.72** | **9,128,431,057.00** |

## CASH FLOW STATEMENT

| EUR thousand | 2013 | 2012 |
|---|---|---|
| **Cash flow from operating activities** | | |
| Comprehensive income | 8,889 | 10,693 |
| Adjustments to profit | 3,141 | 3,390 |
| **Increase (+) or decrease (-) in operating assets** | **869,905** | **-1,245,004** |
| Receivables from financial institutions | - | - |
| Derivative contracts | 131,875 | -127,846 |
| Receivables from customers | 736,533 | -1,135,341 |
| Other assets | 1,497 | 18,183 |
| **Increase (+) or decrease (-) in operating liabilities** | **-828,177** | **600,673** |
| Liabilities to financial institutions | -685,000 | 500,000 |
| Derivative contracts | -131,875 | 127,846 |
| Provisions and other liabilities | -7,380 | -24,119 |
| Income taxes paid | -3,923 | -3,054 |
| **A. Total cash flow from operating activities** | **53,759** | **-630,247** |
| **Cash flow from investing activities** | | |
| Investments in tangible and intangible assets | -776 | -813 |
| **B. Total cash flow from investing activities** | **-776** | **-813** |
| **Cash flow from financing activities** | | |
| 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 |
| Increases in invested unrestricted capital funds | 0 | 60,000 |
| Dividends paid | -2,001 | -2,001 |
| **C. Total cash flow from financing activities** | **4,267** | **601,925** |
| **Net change in cash and cash equivalents (A+B+C)** | **57,250** | **-29,134** |
| | | |
| **Cash and cash equivalents at the beginning of the period** | **53,300** | **82,434** |
| **Cash and cash equivalents at the end of the period** | **110,550** | **53,300** |
| | | |
| **Adjustments to profit for the period** | | |
| **Items not associated with payment and other adjustments** | | |
| Depreciation | 209 | 299 |
| Taxes | 2,887 | 3,054 |
| Other | 45 | 38 |
| **Total adjustments** | **3,141** | **3,390** |

## STATEMENT OF CHANGES IN EQUITY

| | Share capital | Other reserves | Accumulated profits | Total |
|---|---|---|---|---|
| **Shareholders' equity on 1 January 2012** | **60,000** | **175,000** | **21,271** | **256,271** |
| Invested unrestricted equity fund | - | 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 on 31 December 2012** | **60,000** | **235,000** | **29,964** | **324,964** |

| | | Share capital | Other reserves | Accumulated profits | Total |
|---|---|---|---|---|---|
| **Shareholders' equity on 1 January 2013** | 24 | **60,000** | **235,000** | **29,964** | **324,964** |
| Invested unrestricted equity fund | | - | - | - | 0 |
| Profit for the period | | - | - | 8,934 | 8,934 |
| Total comprehensive income | | - | - | -44 | -44 |
| Other changes | | - | - | -2,001 | -2,001 |
| **Shareholders' equity on 31 December 2013** | | **60,000** | **235,000** | **36,853** | **331,853** |

# NOTES TO THE FINANCIAL STATEMENTS

**Table of contents for the notes to the financial statements**

## Note 1. Accounting policies

OP-Mortgage Bank Plc ("OPA") is a credit institution engaged in mortgage banking in Finland.

The bank is a part of a copalition of cooperative banks (OP-Pohjola Group) within which OP-Pohjola Group Central Cooperative and its member credit institutions are ultimately jointly and severally liable for each other's debts and commitments.

OP-Palvelut Oy, a service company wholly owned by the Pohjola Group Central Cooperative and independent of the central organisation, is responsible for the development and production of centralised services of the OP-Pohjola Group and its member banks. The OP-Pohjola Group Central Cooperative operates as the entire OP-Pohjola Group's strategic owner institution and a central institution responsible for Group control and supervision.

In order to ensure uniformity in the accounting principles of entities belonging to the OP-Pohjola Group, the OP-Pohjola Group Central Cooperative is obligated to issue guidelines on the preparation of financial statements to its member credit institutions. According to the Act on Cooperative Banks and Other Cooperative Credit Institutions, the Act on the Amalgamation of Deposit Banks the OP-Pohjola Group Central Cooperative's Executive Board must confirm any accounting principles for which no guidance is available in the International Financial Reporting Standards.

OP-Mortgage Bank is domiciled in Helsinki and the address of its registered office is Teollisuuskatu 1 b, P.O. Box 308, FI-00101 Helsinki.

A copy of OP-Mortgage Bank's financial statements is available at www.op.fi or the company's head office, visiting address Vääksyntie 4, P.O. Box 308, 00101 Helsinki.

The Board of Directors has approved these financial statements for issue on 6 February 2014.

**BASIS OF PREPARATION**

OP-Mortgage Bank's financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS), applying IASs, IFRSs and SIC and IFRIC interpretations effective on 31 December 2013. The International Financial Reporting Standards refer to standards and their interpretations adopted in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council.

OP-Mortgage Bank adopted the following IFRSs, interpretations and options in 2013:

- IFRS 13 – Fair Value Measurement. This Standard aims to increase consistency in fair value measurements. It does not extend the use of fair value accounting in the financial statements but provides guidance on how fair value is determined where its use is required or permitted by some other IFRSs. The new standard expanded note disclosure requirements applying to assets measured at fair value, or mostly financial instruments and investment property.
- Amended IAS 19 – Employee benefit. As a result of the amendments, the expected return on plan assets recognised in the income statement is determined based on the discount rate applicable to the defined benefit obligation. OP Mortgage Bank voluntarily abandoned as of the beginning of 2012 the so-called corridor method in the recognition of actuarial gains and losses on defined benefit pension plans.
- Amended IAS 1 – Presentation of Financial Statements. As a result of the amendments, items in other comprehensive income (OCI) which may be reclassified subsequently to profit or loss will be presented separately from other items in OCI that may not be reclassified subsequently to profit or loss. The amendment affected the presentation of the items in OP Mortgage Bank’s OCI.

The annual improvements of IFRS standard (2009–2011) have not had any essential effect on OP Mortgage Bank's financial statement.

The financial statement of OP Mortgage Bank was prepared using historical cost, with the exception of financial assets and liabilities at fair value through profit or loss, available-for-sale financial assets, hedged contracts (fair value hedging) and share-based payments classified as liabilities.

The numbers in the income statement and the balance are presented as euros and cents, other numbers in the financial statement are presented in thousands of euros.

### Use of estimates

The preparation of the financial statements in conformity with IFRS requires the Group's management to make judgements, estimates and assumptions in the application of the accounting policies. The section 'Critical accounting estimates and judgements' provides more detailed information on applying accounting policies requiring management assessment and judgement.

## FOREIGN CURRENCY TRANSLATION

OP-Mortgage Bank's financial statements are presented in euros, which is the functional and presentation currency of the company. Non-euro transactions are recognised in euros at the exchange rate quoted on the transaction date or at the average exchange rate of the month of recognition. On the balance sheet date, non-euro monetary balance sheet items are translated into euros at the exchange rate quoted on the balance sheet date. Non-monetary balance sheet items measured at cost are presented at the exchange rate quoted on the transaction date.

The exchange rate differences arising from the translation of non-euro transactions and monetary balance-sheet items into euros are recognised as foreign exchange gains or losses under "Net trading income" in the income statement.

## FINANCIAL INSTRUMENTS

### Fair value determination

Fair value is the price that would be received for the sale of the asset or would be paid for transferring the debt between market parties during regular business operations that happen on the valuation date.

The fair value of financial instruments is determined using either prices quoted in an active market or the Group's own valuation techniques where no active market exists. Markets are deemed to be active if price quotes are easily and regularly available and reflect real and regularly occurring market transactions on an arm's length basis. The current bid price is used as the quoted market price of financial assets.

If the market has a commonly used valuation technique applied to a financial instrument to which the fair value is not directly available, the fair value is based on a commonly used valuation technique and market quotations of the inputs used by the technique.

If the valuation technique is not a commonly used technique in the market, a valuation model created for the instrument in question will be used to determine the fair value. Valuation models are based on widely used measurement techniques, incorporating all factors that market participants would consider in setting a price, and are consistent with accepted economic methodologies for pricing financial instruments.

The valuation techniques used include prices of market transactions, the discounted cash flow method and reference to the current fair value of another instrument that is substantially the same. The valuation techniques take account of estimated credit risk, applicable discount rates, the possibility of early repayment and other factors affecting the reliable measurement of the fair value of financial instruments.

The fair value of financial instruments is divided into the following three levels of hierarchy of valuation techniques:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and
- Inputs for the asset or liability that are not based on observable market data (Level 3).

The fair value level of hierarchy where a certain asset that has been valued at a fair value has been classified as a whole has been defined on the basis of the lowest-level information entered that is meaningful for the asset valued at fair-value in question. The significance of the entered information has been assessed for the asset valued at-fair value in question, as a whole.

### Impairment of financial assets

At the end of each reporting period, Pohjola assesses whether there is objective evidence that a financial asset other than that recognised through profit or loss is impaired.

A financial asset is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that the loss event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

The criteria which the Group uses to determine that there is objective evidence of an impairment loss include:

- significant decline in the issuer's financial results, credit rating, balance sheet, payment status or business plans, and unfavourable changes in the issuer's economic and operating environment;
- bona fide bid for the same or similar investment from the market below acquisition value;
- events or circumstances that significantly weaken the issuer's ability to operate on a going concern basis, such as negative cash flows resulting from operations, insufficient capital and shortage of working capital;
- debtor's bankruptcy or other reorganisation becomes probable;
- obligor's breach of contract;
- a concession granted to the obligor;
- impairment recognised earlier; and
- the disappearance of an active market for the financial asset

Additionally, a significant or prolonged decline in the equity instrument’s fair value, below its acquisition cost, constitutes objective evidence of impairment.

A more detailed description of recognition of impairments can be found under the various financial instruments below.

### Classification and recognition of financial istruments in the balance sheet

Upon initial recognition, financial assets and liabilities are classified as follows: financial assets and liabilities at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets and other financial liabilities. The classification depends on the purpose for which the financial assets and liabilities were acquired.

Loans and other receivables, held-to-maturity investments and other financial debts will be valued to the amortised acquisition cost, using the effective interest method.

The purchase and sale of financial assets and liabilities at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets are recognised in the balance sheet on the transaction date, or the date on which the Group agrees to buy or sell the asset or liability in question. Loans granted are recognised as financial assets on the date on which the customer draws down the loan.

Financial assets and debts will be offset in the balance sheet if OP Mortgage Bank, at the given time, has a legal right of setoff in the course of ordinary business operations and in cases of negligence, non-payment and bankruptcy, and plans to implement the payments in net terms.

The company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Financial liabilities are derecognised when they are extinguished, i.e. when the obligation is discharged, cancels or expires.

### Financial assets and liabilities at fair value through profit or loss

Financial instruments at fair value through profit or loss include financial assets and liabilities held for trading, derivative contracts held for trading, financial assets at fair value through profit or loss at inception. The company does not hold any such assets.

### Financial assets and liabilities held for trading and derivative contracts held for trading

Assets held for trading include notes and bonds, and shares and participations acquired with a view to generating profits from short-term fluctuations in market prices. Derivatives are also treated as held for trading unless they are designated as derivatives for effective hedging.

Financial assets and liabilities held for trading and derivative contracts are measured at fair value and any change in the fair value is recognised in the income statement.

OPA only uses derivatives for hedging (note 29).

### Loans and receivables

Financial assets classified as loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans and receivables are initially recognised at cost, which is the fair value of consideration given plus directly attributable transaction costs. Loans and receivables are carried at amortised cost after their initial recognition.

Impairment losses on loans and receivables are recognised on an individual or collective basis. Impairments will be assessed on an individual basis if the debtor's total exposure is significant. In other respects, impairments are assessed on a collective basis.

Impairment is recorded when there is objective evidence of an inability to collect the receivable in full. A receivable is impaired if the present value of estimated future cash flows – including collateral – is lower than the aggregate carrying amount of the loan and the related unpaid interest. Estimated future cash flows are discounted at the loan's original effective interest rate. If the loan carries a variable interest rate, the discount rate for measuring any impairment is the current effective interest rate determined under the agreement. The size of the impairment loss that is recognised in profit and loss is the difference between the carrying amount of the loan and the lower present value of future cash flow.

The impairment evaluation process has two phases. Impairment will be assessed on an individual basis for significant loans and receivables. If loans and other receivables are not observed on an individual basis, they are covered by group impairment calculation. Collectively assessed impairment records the created but not-yet-reported losses, which cannot yet be attributed to a certain customer loan. Collectively assessed impairment is based on the statistical model used in calculating the economic capital requirement. The model has been derived from the expected loss model used in solvency measurement, with corrections made to match the IFRS requirements. The largest corrections are connected to the official capital adequacy limits and the actualisation of a loss-causing event. Receivables are arranged in this model in groups with similar credit risk features on the basis of their rating categories. Collectively assessed impairment is calculated by rating category on the basis of expected loss. Additionally, the calculation factors in the discounted current collateral values and the former average loss development (note 14).

If the contractual payment terms of a loan are modified, the reason for such modification and the severity class are documented using an internally defined scale. Loans may also be modified for reasons related to the management of customer relationships, not to the financial difficulties of the customer. Such modifications do not affect loan impairment assessment. In some cases, due to the customer's weakened payment ability, a concession is granted to the loan conditions, such as a limited grace period or some other form of credit restructuring, aiming at securing the customer's payment ability and limiting credit risk for exposure. Such renegotiated credit is reported as doubtful receivables. Modifications in the contractual payment terms that are due to the customer’s financial difficulties are forbearance measures and together with other criteria reduce the customer’s credit rating and thereby increase collective impairment allowance. Modifications with the highest severity class are also forbearance measures that will have an effect on the loan being assessed for impairment on an individual basis. If the customer has kept to the new payment scheme and no receivable-specific impairment loss has been recorded for the customer exposures, it is removed from the group of doubtful receivables. Modifications in payment terms are subject to regular monitoring and reporting to the management as an indicator anticipating customer solvency.

Impairment losses on loans are presented as an allowance of loans in the balance sheet and under “Impairment losses on receivables” in the income statement. Recognition of interest on the impaired amount continues after the recognition of impairment.

The loan is derecognised after the completion of debt-collection measures, or otherwise based on the management's decision. Following the derecognition, payments received are recognised as an adjustment to impairment losses on receivables. If there is subsequent objective evidence of the debtor's improved solvency, the amount of the impairment loss recognised earlier will be reassessed and any change in the recoverable amount will be recorded in the income statement.

**Available-for-sale financial assets**

Available-for-sale financial assets include non-derivative assets which are not classified as the abovementioned financial assets but which may be sold before their maturity (note 15). At the time of their acquisition, available-for-sale financial assets are recognised at cost, which equals the fair value of the consideration paid plus transaction costs directly attributable to their acquisition. Available-for-sale financial assets are subsequently measured at fair value. Any changes in their fair value are recognised in other comprehensive income, from where they are transferred to the income statement when the asset is derecognised or there is objective evidence that the asset is impaired.

In the case of available-for-sale financial assets, for example, a significant downgrade of the credit rating of the issuer of bonds and notes, or a significant or prolonged decline in the equity instrument's fair value below its cost, constitutes objective evidence.If a security's market value continues to fall following impairment recognition, the impairment loss will be recognised in the income statement.

If the fair value of impaired notes and bonds classified as available-for-sale financial assets increases subsequently and this increase can be objectively regarded as being related to an event after their impairment loss recognition, the impairment loss will be reversed and recorded in the income statement. If the fair value of an impaired equity instrument increases subsequently, this increase will be recognised in other items in the statement of comprehensive income.

**Cash and cash equivalents**

Cash and cash equivalents consist of cash and receivables from credit institutions repayable on demand.

**Other financial liabilities**

Other financial liabilities include financial liabilities other than those at fair value through profit or loss, comprising deposits and other liabilities to credit institutions and customers, debt securities issued to the public and other financial liabilities (note 40). Other financial liabilities are recognised in the balance sheet on the settlement date and carried at amortised cost after initial recognition.

**Derivative contracts**

Derivative contracts are classified as hedging derivative contracts and derivative contracts held for trading. OPA uses derivatives only for hedging purposes (note 29). Derivatives  are, measured at fair value at all times.

OP-Pohjola Group has prepared methods and internal principles used for hedge accounting, whereby a financial instrument can be defined as a hedging instrument.

In accordance with the hedging principles, OP-Pohjola Group can hedge against interest rate risk, currency risk and price risk by applying fair value hedge or cash flow hedge. Fair value hedging refers to hedging against changes in the value of the hedged asset, and cash flow hedging to hedging against changes in the fair value of future cash flows.

Contracts may not be accounted for according to the rules of hedge accounting if the hedging relationship between the hedging instrument and the related hedged item, as required by IAS 39, does not meet the criteria of the standard. OP-Pohjola Group also concludes derivative contracts which are in fact used to hedge against financial risks but which do not fulfil these criteria.

**Hedge accounting**

Hedge accounting is used to verify that changes in the fair value of a hedging instrument or cash flows fully or partially offset the corresponding changes of a hedged item.

The relationship between hedging and hedged instruments is formally documented, containing information on risk management principles, hedging strategy and the methods used to demonstrate hedge effectiveness. Hedge effectiveness is tested at the inception of the hedge and in subsequent periods by comparing respective changes in the fair value or cash flows of the hedging and hedged instrument. The hedge is considered effective if the change in the fair value of the hedging instrument or in cash flows offsets the change in the fair value of the hedged contract or portfolio or in cash flows within a range of 80-125%.

Fair value hedges

Fair value hedging against interest rate risk involves long-term fixed-rate debt instruments (Pohjola’s own issues), individual loan portfolios, as well as individual loans. As a hedging instrument, interest rate swaps are used.

In fair value hedge accounting, changes in the fair value of the hedging and hedged instrument are recorded under “Net interest income” (loans and own issuing).

## INTANGIBLE ASSETS

Intangible assets are measured at cost less accumulated amortisation and any impairment losses (note 16). Depreciation is charged to income statement over the estimated useful life, which is 2-6 years for computer software and licences.

**Impairment of intangible assets**

On each balance sheet date, the Group assesses whether there is any indication of an asset's impairment. If such indication exists, the amount recoverable from the asset will be estimated. Regardless of the existence of such indication, the recoverable amount is estimated for assets not yet available for use, goodwill and intangible assets with indefinite useful lives (brands). An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its future recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell (net selling price) or value in use. The recoverable amount is primarily determined on the basis of the asset's net selling price, but if this is not possible, the asset's value in use must be determined. The asset's value in use equals the present value of future cash flows expected to be recoverable from the asset. The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset. The need for impairment of the annually tested assets stated above is always determined on the basis of value-in-use calculations.

If the asset's net selling price cannot be determined and the asset does not generate cash flows independent of other assets, the need for impairment will be determined through the cash-generating unit, or the business segment or its company, to which the asset belongs. In such a case, the carrying amounts of the unit's assets are compared with the entire unit's recoverable amounts.

An impairment loss is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The increased carrying amount of the asset may not exceed the carrying amount of the asset that would have been determined had no impairment loss been previously recognised. Impairment losses on goodwill may not be reversed under any circumstances.

## LEASES

On the date of inception, leases are classified as finance leases or operating leases depending on the substance of the transaction. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incident to ownership to the lessee. All other leases are classified as operating leases.

Assets leased under finance lease are recognised as property, plant and equipment and the corresponding finance lease liability is included in other liabilities. At the inception of the lease term, these leased assets are recorded as assets and liabilities at the lower of the fair value of the asset and the present value of the minimum lease payments. Assets held under finance lease are depreciated over the shorter of the lease term or the life of the asset. Finance charges are recognised in interest expenses so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Lease payments of assets leased under operating lease are expensed to income statement in equal instalments over the lease term.

## EMPLOYEE BENEFITS

### Pension benefits

Statutory pension cover for OPA's employees is arranged through pension insurance taken out with OP Bank Group Pension Fund or pension insurance companies. The supplementary pension cover for employees is arranged through OP Bank Group Pension Foundation or an insurance company.

OPA has both defined benefit and defined contribution plans. With respect to funded disability and old-age pensions, pensions managed by OP Bank Group Pension Fund are defined benefit arrangements. The arrangements managed at OP Bank Group Pension Foundation are wholly defined.

Expenses arising from pension plans are recognised under "Personnel costs" in the income statement. Contributions under defined contribution plans are paid to the insurance company and charged to expenses for the financial year to which they relate. No other payment obligations are included in defined contribution plans (note 8).

Defined benefit plans managed by insurance companies, OP Bank Group Pension Fund and OP Bank Group Pension Foundation are funded through payments based on actuarial calculations.

The liability recognised in the balance sheet in respect of the defined benefit plan is the present value of the defined benefit obligation on the balance sheet date less the fair value of plan assets.

Defined benefit obligations are calculated separately for each plan using the projected unit credit method. Pension costs are charged to expenses over the employees' expected working lives on the basis of calculations performed by authorised actuaries. The discount rate for the present value of the defined benefit obligation is determined on the basis of the market return on high-grade corporate bonds on the closing date of the reporting period.

Actuarial gains and losses are recognised in other comprehensive income in the period in which they occur. When recognising actuarial gains and losses in other comprehensive income, these gains and losses cannot be reclassified through profit or loss in subsequent periods.

Plan curtailments are recognised when the curtailment occurs.

### Personnel fund

OP-Mortgage Bank is a member of OP-Pohjola Group's Personnel Fund. Payments to OP Personnel fund are based on the achievement of OP-Pohjola Group's pre-dominated targets. The bonus payments are recognised as personnel costs and the equivalent liability is recognised under deferred expenses until it is paid.

## INCOME TAX

Income tax expense shown in the income statement includes current tax, based on the taxable income for the financial year, income tax for prior financial years and deferred tax expense or income (note 11).

Deferred tax liabilities are recognised for temporary taxable differences between the carrying amount of assets and liabilities and their tax base. Deferred tax assets are calculated on tax-deductible temporary differences between the carrying amount and taxable value included in the financial statements, and on losses confirmed for tax purposes. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The Group offsets deferred tax assets and liabilities by company. Deferred tax assets and liabilities resulting from consolidation are not offset. Deferred tax assets and liabilities are measured at the tax rate that is expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted by the balance sheet date. If deferred tax originates from balance sheet items whose changes have no effect on the income statement, any change in deferred tax is recognised in other items in the statement of comprehensive income, not in the income statement.

## REVENUE RECOGNITION

Interest income and expenses for interest-bearing assets and liabilities are recognised on an accrual basis. Interest on receivables with non-settled, due payments is also recognised as revenue and this interest receivable is tested for impairment. The difference between the receivable's acquisition cost and its nominal value is allocated to interest income and that between the amount received and nominal value of the liability to interest expenses.

Commission income and expenses for services are recognised when the service is rendered. For one-off commissions covering several years that may have to be refunded at a later date, only the portion of their revenue related to the period is recognised.

Dividends are primarily recognised when they are approved by the General Meeting of Shareholders.

Income and expense items in the income statement are presented separately without offsetting them unless there is a justified reason for offsetting them in order to give a true and fair view.

Summary of presentation of income statement items:

| | |
|---|---|
| Net interest income | Received and paid interest on fixed-income instruments, the recognised difference between the nominal value and acquisition value, interest on interest-rate derivatives and fair value change in fair value hedging |
| Net commissions and fees | Commissions and fees |
| Net trading income | Fair value changes in financial instruments at fair value through profit or loss, excluding accrued interest, and capital gains and losses, as well as dividends |
| Net investment income | Realised capital gains and losses on available-for-sale financial assets, impairment losses as well as dividends |
| Other operating income | Other operating income |
| Personnel costs | Wages and salaries, pension costs, social expenses |
| Other administrative expenses | Office expenses, IT costs, other administrative expenses |
| Other operating expenses | Depreciation/amortisation, rents, other expenses |

## SEGMENT REPORTING

As OPA engages only in housing finance, segment reporting is therefore not presented.

## CRITICAL ACCOUNTING ESTIMATES AND JUDDGEMENTS

The preparation of financial statements requires making estimates and assumptions about the future and the actual results may differ from these estimates and assumptions. It also requires the management to exercise its judgement in the process of applying the accounting policies.

Impairment tests of receivables are performed on an individual or collective basis. An impairment test carried out for an individual receivable is based on the management's estimate of the future cash flows of the individual loan. The most critical factor in testing an individual loan for impairment is to determine the cash flow whose realisation is the most probable.

Group impairment is based on a statistical model used in economic capital requirement calculation, where the future probable losses are corrected using actual losses based on historical information. In such a case, the management's judgement is required to assess how estimates of future losses corrected using historical data correspond to realised losses and whether any adjustments are needed.

Available-for-sale financial assets, notes and bonds included in loans and receivables, and investments held to maturity must be tested for impairment on each balance sheet date. If there is objective evidence of an impaired asset, the impairment will be recognised in the income statement. Verifying objective evidence involves management judgement. Impairment of an equity instrument must also be recognised if such impairment is significant or long-term in nature. Determining significant and long-term impairment forms part of the normal management judgement, Objective evidence is defined in two stages, first by listing the instruments that regularly surpass certain alarm limits for special analysis. Instruments undergoing special analysis are continually evaluated for impairment. Impairment is recorded at the latest when maximum limits defined per instrument for longevity criteria (on average, 18 months) or meaningfulness criteria (on average, 40%) are exceeded.

The management must assess when markets for financial instruments are not active. The management must also assess whether an individual financial instrument is actively traded and whether the price obtained from the market is a reliable indication of the instrument's fair value. Otherwise, the fair value of financial instruments is determined using a valuation technique. In such a case, management judgement is required to select the applicable valuation technique. Whenever market observable input data is not available for outputs produced by valuation techniques, the management must evaluate how much other information will be used.

The present value of pension obligations is dependent on several factors which are defined on an actuarial basis, using several definitions. Discount rate, raises in future wages and pensions and inflation are default states, which are used in defining the net losses (or incomes) that are caused by pensions. Changes in actuarial assumptions affect the carrying amount of pension requirements.

**NEW STANDARDS AND INTERPRETATIONS**

In 2014, OP-Mortgage Bank will adopt the following standards and interpretations:

- IAS 32 – Financial Instruments: Presentation change, reduction of Financial Instruments and Debts from each other. The change specifies the regulations concerning the presentation of financial assets and liabilities and adds application guidelines concerning the subject. Standard change will not have a key impact on the financial statement of OP Mortgage Bank.
- IAS 36 Asset impairment change Recoverable Amount Disclosures for Non-Financial Assets. The change clarified attachment requirements that are valid for cash-flow-producing units that have been subject to a large amount of impairment losses. Standard changes have not yet been approved to be applied in the EU.

The IASB (International Accounting Standards Board) has also issued other future amendments to IFRSs.Other significant amendments to IFRSs that will take effect a later date apply to the classification and measurement of financial instruments, assessment of impairment, hedge accounting, insurance contracts and leases. In addition, the IASB is also expected to issue other changes to financial statements information. OP-Mortgage Bank is actively monitoring the progress of these changes.

# Note 2. Risk and capital adequacy management principles of OP Mortgage Bank plc

## 1 General principles of risk and capital adequacy management

OP Mortgage Bank plc (hereinafter OPA) is OP-Pohjola Group's real estate financing bank. OP-Pohjola Group is a financial and insurance conglomerate pursuant to the Act on the Supervision of Financial and Insurance Conglomerates and the Act on the Amalgamation of Deposit Banks. It is supervised by the Financial Supervisory Authority. OP-Pohjola Group is scheduled to be transferred to the supervision of the European Central Bank, starting from November 2014.

Good corporate governance, internal control, and the risk and capital adequacy management process are regulated by the Act on Credit Institutions, Act on Cooperative Banks and Other Cooperative Credit Institutions, Insurance Companies Act, Act on the Amalgamation of Deposit Banks, and standards, regulations and guidelines issued by the Financial Supervisory Authority. The Act on the Amalgamation of Deposit Banks prescribes that entities that are part of the amalgamation of the cooperative banks are monitored on a consolidated basis for capital adequacy, liquidity and customer risks.

OP-Pohjola Group Central Cooperative (hereinafter the Central Institution) is responsible for OP-Pohjola Group's risk and capital adequacy management at Group level and ensuring that any related systems are adequate and appropriate. OPA is responsible for its own risk and capital adequacy management. Owing to the joint responsibility prescribed by law, OP-Pohjola Group entities must be able to rely on all the entities to operate under the Group's principles of risk and capital adequacy management, other guidelines issued by the Central Institution, and regulations and guidelines issued by the authorities.

Risk management is carried out at Group level in all business areas. The application of the independence principle is determined separately in the entities' own guidelines, taking into consideration the extent and nature of their business.

### 1.1 Good corporate governance

Good corporate governance encompasses OP-Pohjola Group’s senior and executive management, the relationships between its owners and other stakeholders, the setting of targets and deciding on ways of achieving them, and monitoring that the targets are achieved. Good corporate governance is ensured by means of a clear frame of reference, systematically and comprehensively documented instructions and clearly defined decision-making processes.

The principles of good corporate governance are adhered to in OPA, as is the case with all Group companies and entities, all bodies and all operations. Good corporate governance principles also include the recommendation of the Central Institution's Board on corporate governance.

Conformance with good corporate governance principles ensures that OPA is managed professionally and under sound and prudent business principles and that the entities in all business divisions operate reliably and with sufficient transparency.

### 1.2. Internal control

Internal control is aimed at ensuring systematic and successful strategy implementation, appropriate management of risks, efficient and reliable operations and related reporting, and regulatory compliance throughout the Group’s operations. OP-Pohjola Group’s internal control principles are approved by the Central Institution’s Supervisory Board.

The Central Institution’s Supervisory Board makes regular updates to OP-Pohjola Group's strategy, guiding business planning and the setting of targets in all parts of the Group. When preparing OPA's strategy, objectives are set by OPA's Board for long-term performance indicators and annual success indicators. The success indicators, together with the limits and control limits, form an entity that is regularly reported to OPA's Board.

### 1.3 Risk and capital adequacy management

Risk and capital adequacy management falls under internal control. The purpose of risk and capital adequacy management is to secure OPA's risk-bearing capacity and, thereby, ensure the continuity of operations. Risk-bearing capacity is made up of good risk management that is proportionate to the extent and complexity of operations and of sufficient capital adequacy based on profitable business operations.

OP-Pohjola Group's risk and capital adequacy management principles are approved by OP-Pohjola Group Central Cooperative's Supervisory Board. We decide the principles on how the Group-level risk and capital adequacy management process is organised.

#### 1.3.1 Recognizing, evaluating and measuring risks

The risk and ICAAP process consists of the continuous identification and assessment of business and operating environment risks. The Central Institution's independent risk management follows the Group's risk exposure and risk-bearing capacity and reports regularly to the Board of its observations and assessments.

The measurable risks are controlled using limits and control limits, which guide OPA's operations. The Executive Board of the Central Institution has set risk limits for OPA's capital adequacy and credit, liquidity and market risks for the year 2013.

Group member banks are guided on the basis of a system of risk categories. A bank's risk category will be determined in the system by financial factors, qualitative factors and by a statement from the Central Institution. When estimating qualitative factors, special emphasis is placed on any failure to adhere to instructions. A Group member bank in any other than a minor breach of instructions issued pursuant to Section 17 the Act on the Amalgamation of Deposit Banks is always placed in the second-worst risk category in the five-tier system. Such Group member banks will not be granted any such permission that is referred to in Sections 21 or 23.

**Economic capital requirement**

The economic capital requirement is OP-Pohjola Group's own estimate of the amount of capital sufficient to cover any annual losses with a 99.97% level of confidence that may arise from risks associated with business and the operating environment. The economic capital requirement is calculated using models for each risk type, the results of which are combined taking account of correlations between the risk types and the resulting diversification benefits.

The Central Institution's Risk Management will analyse the model's feasibility at least once a year and will present necessary changes to the model's structure or its variables. The Central Institution's Executive Board will approve any risks included in the economic capital requirement and the general rules related to the calculation of the economic capital requirement.

Economic capital requirement is divided into quantitative and qualitative risks. Quantitative risks include credit risk, interest rate and equity risk for Banking, real estate risk, insurance market risks, and Non-life and Life Insurance insurance risks. The risks assessed are divided into operational risks and other risks. 'Other risks' include any major risks that have not been taken into consideration in any other risk-specific models related to economic capital requirement. These risks are typically caused by external factors, such as changes in competition or the market situation or official regulations.

In OP-Pohjola Group's own model for economic capital requirement, several risk types are assessed in more detail than required by the authorities. Such risk types include banking interest rate risk, insurance market risks and operational risks and other risks. The key differences in the calculation of capital requirement for credit risks are related to concentration risk, collateral, guarantees and economic cycles. The above factors are taken into consideration more comprehensively in the calculation of economic capital requirement than in capital adequacy calculations. Moreover, the calculation of economic capital requirement differs significantly from capital adequacy calculations in that several risk types are calculated separately in economic capital requirement, while in capital adequacy calculations they are included in credit risk capital requirement.

Indicators based on economic capital requirements are used in OP-Pohjola Group's performance, limit and control limit indicators, rewarding, credit and insurance policy pricing and capital planning when defining the capital conservation buffer.

### Stress tests

Stress tests are used to assess how various exceptionally serious situations may affect the liquidity, profitability or capital adequacy of the Group or its institution. Stress tests assess the effect of both individual stress factors and the joint effect of multiple variables acting simultaneously. Stress tests cover all major risk affecting the Group's financial position.

The Central Institution’s Risk Management assesses the needs for changing the stress testing framework annually or whenever the Group’s business or risk profile changes significantly. Sensitivity analyses are used as part of risk analysis for various risk types and the results are used to assess how, for example, changes in the basic assumptions and parameters in the economic capital requirement model would affect the risk model outcome and the risk position. Sensitivity analyses help to understand how certain assumptions affect the risk indicator values. Sensitivity analyses conducted at different shock levels give a concrete idea of the effects of different risks and the probability of losses of various sizes.

Scenario analyses are used especially to analyse the effects of risks caused by the operating environment. They are derived from the financial estimate following the valid strategy which is based on the prevailing levels of different market variables and the Group’s best estimates of future development. In scenario analyses, this basic estimate is strained using the impact of different risks. The analysis results are utilised in OP-Pohjola Group's capital planning, capital adequacy assessment and liquidity management.

### 1.3.2 Capital planning

OPA draws up a capital plan to ensure sufficient capital adequacy even in exceptional conditions. OPA's capital plan contains the following parts:

- Current capital adequacy
- Quantitative and qualitative targets concerning capital adequacy
- Scenario calculations (stress testing) to assess the capital adequacy
- Predictable changes in capital base and capital adequacy
- Regulatory changes
- Allocation of capital within the Group
- Contingency plan

OPA is responsible for its own capital adequacy and must set its capital adequacy targets and limits according to guidelines set by the Central Institution.

## 2 Organisation of risk and capital adequacy management

### 2.1 In OPA

The Board of Directors of OPA has confirmed the principles and guidelines governing the Bank's risk and capital adequacy management and set risk limits for the most important risk indicators. The Managing Director is responsible for the implementation of risk and capital adequacy management according to the principles and guidelines that have been agreed on, and reports regularly on the entity's business, risk-bearing capacity and risk status to the Board.

The most important types of risk within OPA are credit risks, liquidity risks and interest rate risks. Other business-related risks include operational risks and strategic risks.

Credit risk management between OPA and Group member banks has been laid down in an agency agreement between the intermediary banks and OPA. Credit decisions are made in the intermediary bank offering the loan. In order to ensure the repayment of commitments, OPA's customer's exposure must have hard collateral. Collateral for the loans forming the collateral for a bond is accepted as eligible collateral according to the Act on Mortgage Credit Banks. Mortgage market value development is evaluated on a quarterly basis, and the fair values of the mortgages are updated if the set limit for their value reduction is broken.

Liquidity risk management in OPA is divided into liquidity and refinancing risk management. To secure liquidity, OPA monitors cash flows on a daily basis. The long-period refinancing structure (refinancing risk) is monitored and anticipated regularly as a part of the capital adequacy management process.

OPA has protected its interest risk using interest rate swaps, where home mortgage interest rates and interest rates for issued bonds have been swapped to have the same interest rate basis. Management of the interest risk for home mortgages that have been taken as collateral for bonds using intermediary loans is left for the Group member bank in question. The provisions of the Act on Mortgage Credit Banks also set limits on the interest rate and funding risk-taking. According to the law, the combined amount of interest for the loans forming the collateral for any 12 months must exceed the combined amount of interest to be paid for mortgage-backed bonds during the same period. Additionally, the remaining average maturity of mortgage-backed bonds is shorter than the remaining average maturity of assets that have been placed as their collateral.

**2.2 In OP-Pohjola Group**

The Central Institution is responsible for Group-level risk and capital adequacy management and for ensuring that the Group's risk management system is sufficient and kept up to date. The Central Institution issues Group institutions with guidelines for ensuring risk management and ensures, through supervision, that the institutions operate in accordance with official regulations, their own rules, guidelines issued by the Central Insitution, OP-Pohjola Group's internal procedures and procedures that are appropriate and ethically sound for customer relationships. Institutions belonging to OP-Pohjola Group are responsible for their own risk and capital adequacy management in accordance with the nature and extent of their operations.

OP-Pohjola Group Central Cooperative's Supervisory Board adopts the Group's strategy, which contains the main risk management policies. The Board also confirms OP-Pohjola Group's principles as well as internal control, risk and capital adequacy management principles, business objectives, capital plan principles and Group-level risk limits concerning capital adequacy and risk types. The Board regularly follows the business, risk-bearing capacity and risk status of OP-Pohjola Group and OP-Pohjola Group Central Cooperative Consolidated.

At least once a year, the Central Institution's Executive Board ensures that OP-Pohjola Group's strategy, risk limits, capital plan and proactive contingency plan for capital resources are up to date. The Executive Board also ensures that the systems and procedures for risk and capital adequacy management are sufficient and up to date and that any instructions concerning these are issued to OP-Pohjola Group institutions. The Executive Board confirms OP-Pohjola Group's risk policy which contains the risk management guidelines, actions, objectives and limitations that are used to control business in order to implement the principles confirmed in the Group strategy. The Executive Board reports to the Supervisory Board on changes in the business, risk-bearing capacity and risk status of OP-Pohjola Group, the Central Institution and its institutions.

OP-Pohjola Group's risk management control is a function independent of business that defines, steers and supervises the overall risk management of the Group and its institutions, and analyses their risk exposure, and is responsible for maintaining and developing risk management systems and methods at Group level and for the institutions. It also maintains, develops and prepares risk management principles for approval by OP-Pohjola Group's Central Cooperative's Executive Board and Supervisory Board. Risk Management reports regularly on OP-Pohjola Group's risk and capital adequacy management, containing its assessment of the risk management quality of OP-Pohjola Group and its companies, and the sufficiency of capital base and liquidity in terms of strategic long-term performance indicators, risk limits and existing and future capital requirements set by the relevant authorities.

The OP-Pohjola Group Central Cooperative Executive Board Balance and Risk Management Committee supports the Executive Board in steering and managing the Group's risk-bearing capacity and risk appetite according to confirmed operating principles and decisions. The Committee is also tasked with assisting the Executive Board in ensuring that the Central Institution and its consolidated group have adequate capital adequacy management and risk management systems in place covering operations.

The Risk Management Committee, reporting to OP-Pohjola Group Board, is responsible for OP-Pohjola Group's long-term operating ability by ensuring that the Group's risk and capital adequacy management system principles, methods, models and indicators match the best evaluations represented by independent risk management and adhere to the risk modelling and stress testing guidelines set by the Board.

The Credit Risk Committee set by the OP-Pohjola Group's Executive Board defines, steers and supervises the Group's and its institutions' credit process and credit risk exposure. It ensures that the credit portfolio corresponds to the chosen risk policy and that the exposures of a group of connected clients fall within the set limits at Group level and in member institutions. OP-Pohjola Group member cooperative banks must have valid permission from the Credit Risk Committee if the risk of a group of connected clients already exceeds or is about to exceed 20% of the funds of the credit institution or its consolidation group. A decision is required from the Credit Risk Committee when the exposures of a group of connected clients of a cooperative bank or Helsinki OP Bank Plc in OP-Pohjola Group exceed EUR 5 million, or when the bank wants to participate in a property project where the capital invested by OP-Pohjola Group is over EUR 5 million. In certain cyclical sectors, an exposure limit must be set to a bank by the Credit Risk Committee if the exposure of a group of connected clients exceeds EUR 3.5 million.

OP Bank Group Mutual Insurance Company (OVY) grants credit insurance to Group member banks. OVY analyses the sufficiency of the customer's debt-servicing ability, the solidity of collateral and the quality of the member bank's financing process for customer entities that exceed a specific amount of liability. The insurance decisions of OVY also guide bank-specific credit risk-taking. Credit insurance operations play a key role in OP-Pohjola Group's internal credit risk management and loss-balancing procedure, accounting for about 90% of OVY's written insurance liabilities and premiums. OVY also offers OP-Pohjola Group’s entities liability and crime insurance.

OP-Pohjola Group’s Audit function supports capital adequacy management by checking that OP-Pohjola Group institutions operate in a profitable and secure manner, in accordance with official regulations, the Central Institution’s guidelines and their rules and Articles of Association. It also audits risk management and whether the risk monitoring systems correspond to operational requirements.

The member banks and entities belonging to OP-Pohjola Group Central Cooperative Consolidated apply the Central Institution's risk and capital adequacy management principles as required by the nature and extent of their business. The Supervisory Board approves Group member banks’ risk and capital adequacy management principles and supervises their implementation. In entities of the Central Institution, this is the responsibility of the Board of Directors or Executive Board acting as the Board.

In Group member banks, the Board approves the procedures and operating instructions, business objectives, capital plan and risk limits. It is also responsible for risk management adequacy and supervises business, risk exposure and risk-bearing capacity. In guiding the banks' operations, the Board adheres to the Group's guidelines. In entities of the Central Institution, this is the responsibility of the Board of Directors or Executive Board acting as the Board.

The management of the member banks and the Central Institution's entities are responsible for the implementation of capital adequacy management according to the principles and operating policies that have been agreed on, and report regularly on the entity's business, risk-bearing capacity and risk exposure to the Board.

Risk management is organised in each entity depending on its risk exposure, size and type and extent of operations. The largest OP-Pohjola Group member banks have a risk management function that is independent of operational decision making. In small and medium-sized member banks, the Managing Director is responsible for risk management. In member banks, the independence of the assessment of risk management from business operations is generally realised so that the assessment of risk management is based on the reports produced by the Central Institution’s risk management function, the bank risk categorisation carried out by the Central Institution as well as the assessments by the Central Institution’s Audit function concerning the adequacy of the bank’s risk and capital adequacy management.

The subsidiaries’ risk and capital adequacy management responsibilities were centralised in the parent institution as part of the reorganisation of OP-Pohjola Group Central Cooperative Consolidated in early 2013. The reorganisation creates a more uniform risk and capital adequacy assessment process for OP-Pohjola Group Central Cooperative Consolidated.

Within Pohjola Group, Pohjola Bank plc’s Board of Directors is the highest decision-making body in matters associated with risk management. The Board has elected among its members a Risk Management Committee that monitors the company’s risk exposure and helps the Board to ensure that the company and the Group have the sufficient risk and capital adequacy management systems in place to cover all operations. The Risk Management Committee reports to the Board of Directors. Pohjola Chief Risk Officer's task is developing and executing comprehensive risk and capital adequacy management in Pohjola Group together with other Executive Committee members and Central Institution's risk management. Chief Risk Officer and the Central Institution risk management aid the Board, Risk Management Committee and Audit Committee in creating and developing the risk and capital adequacy management principles and drawing up the Group's risk policy.  The principles of risk and capital adequacy management within Pohjola are described in more detail in Pohjola’s financial statements.

## 5 Operational risks

Operational risk refers to the risk of financial loss or other harmful consequences resulting from inadequate or failed processes, or incomplete or faulty procedures, systems or external events. Operational risk also includes compliance risk but not strategic risk. Operational risk may also materialise in terms of loss or deterioration of reputation or trust.

Forming part of operational risk, compliance risks refer to risks resulting from non-compliance with external regulations, internal policies and appropriate procedures and ethical principles governing customer relationships. Realisation of such a risk may result not only in financial loss but also other sanctions. Such sanctions may include a corporate fine and separate administrative fines for violation of obligations, and public warnings and reprimands. Compliance risk may also materialise in terms of loss or deterioration of reputation or trust

and the aim is to ensure that OPA complies with applicable legislation, official instructions and regulations, guidelines related to market self-regulation and OP-Pohjola Group's and its institutions' internal principles and guidelines. Compliance also ensures that customer relationships are conducted with appropriate and ethically sound principles and practices.

### 5.1 Management tools

Operational risk management tools include identifying and analysing risks and by ensuring that controls and management tools are appropriate and sufficient. Reputational risk is managed proactively and in the long term by following regulations, good practices of the financial sector and the Group’s Code of Business Ethics and by emphasising openness of operations and communications. Operational risk management does not always aim to remove the risk altogether but to bring it down to an acceptable level.

In its operational risk management, OPA adheres to a uniform OP-Pohjola Group level, system-supported operating model. In this model, OP-Pohjola Group institutions assess operational risks, that is, identify and analyse business risks and define and monitor measures designed to reduce them. We also monitor risk events and close calls and losses that have occurred to other financial sector players, and analyse them to ensure that we have sufficient readiness to prevent similar losses.

Situations that may disrupt business operations have been prepared by means of contingency planning in key business divisions. Contingency planning also forms the basis for preparation against emergency conditions referred to in the Emergency Powers Act. Contingency plans are tested according to testing plans that have been made.

According to OP-Pohjola Group’s internal division of responsibilities, OP-Services Ltd is in charge of providing services to Group companies on a centralised basis and of their reliability and continuity. The Central Institution guides and supervises the operations of OP-Services Ltd and ensures that it has sufficient systems and procedures in place to serve the entire OP-Pohjola Group. OP-Pohjola Group entities are responsible for the management of their own operational risks as required by the nature and extent of their business (including outsourced operations).

Compliance risk is managed by monitoring legislative amendments and by providing the organisation with guidelines, training and consultation. The Compliance function also supervises that the procedures chosen conform to the regulations. Compliance risks are identified, assessed and reported regularly according to the operational risk management model described above. Before any new operating model or product is launched, their risks are assessed as laid down by the Central Institution’s Risk management function. All products offered or business models applied to OP-Pohjola Group’s customers are approved at Group level.

The Central Cooperative institutions have concentrated their compliance operations to the Central Institution's risk management, where OPA has its own designated Compliance Officer.

### 5.2 Monitoring and reporting

Operational risks associated to major products, services, functions, processes and systems, and outsourcing are identified. Risk identification also involves paying attention to the illegal use of banking systems, such as money laundering and financing of terrorism as well as risks related to non-compliance. The Group assesses the significance of identified risks on the basis of their financial effect and probability. The assessment also evaluates the risk to reputation.

Risk evaluations are used to create development plans. Operational risks are reported regularly to the management of the Central Institution and the entities. Any threat to imminent reputational risk will be reported immediately. The information obtained is used to support planning, decision-making and management.

## 6 Credit risks

Credit risk refers to a counterparty risk, or risk of losses arising from the failure of the contracting parties to meet their obligations, and from the collateral not being able to secure the receivables. Credit risk management aims to restrict losses due to credit risks arising from customer exposure to an acceptable level.

Credit risk also includes country risks and settlement risks: the former represents a counterparty risk associated with foreign receivables by country while settlement risk refers to risk related to execution of trade which fails because the counterparty cannot deliver the security being traded or pay the required selling price.

Counterparty risk is reduced by the use of central counterparty clearing, collateral and netting agreements and exchange-traded products. Country risk is restricted by limiting the amount of exposures of destination countries and contracting parties within them. In settlement risk management, it is vital to ensure the reliability of counterparties. The Group mitigates risks by concluding standard agreements and using only reliable clearing centres.

OP-Pohjola Group’s credit risk is primarily related to banking operations. Counterparty risk is also included in insurance premiums, investments and reinsurance. In non-life insurance operations, credit risk management is based not only on customer selection but also on credit control and investment plans. Reinsurance credit risk is managed by using companies that have a sufficient credit rating.

The majority of credit and country risks related to credit institutions arise from liquidity management by banking and insurance operations by insurance institutions. Counterparty and country risks affecting credit institutions may also be the result of interest rate trading and management of the notes and bonds portfolio and trade financing.

### 6.1 Credit risk management in bank operations

Credit risk exposure is guided by applying the Group’s risk policy. Credit risk policy defines the target exposure level, risk-taking guidelines, customer selection in respect of total exposure as well as the use of collateral and covenants, ensuring, for example, a sufficiently diversified loan portfolio in order to avoid excessive risk concentrations by customer group or sector. Targets have been set for the Group and its member banks per credit rating category concerning new credit and credit portfolio in order to retain the credit portfolio as high as possible. The credit rating controls customer choice, consequences of insufficient collateral, and pricing of liabilities.

Lending will primarily be carried out on the basis of the customer’s sufficient and verified debt servicing ability. A controlled and uniform financing process, guided by credit risk policies, decision-making financing authorisations and operating instructions, plays a key role in credit risk management. The starting point and the biggest strength of OP-Pohjola Group’s member banks is their local and thorough understanding of their customers.

The solvency of private customers is tested in the case of an interest rate rise, and customers are offered payment protection insurance in the case of illness or unemployment. OP-Pohjola Group Central Cooperative Consolidated avoids high financing percentages.

The assessment of corporate customers' debt servicing ability and credit risk is made by means of not only credit ratings but also payment behaviour data; financial statements analyses and forecasts; corporate analyses, statements and sector reviews; and customer needs analyses, credit rating assessments and other documents produced by the banks’ customer care representatives. The corporate customer business is based on service models into which risk management has been closely integrated while ensuring that risk management remains independent.

Any foreseeable problems will be reacted to as early as possible. The operating models of weak and problem customers have been described separately to ensure uniform treatment of private, corporate and agricultural customers. Customers whose financial status performance, credit risk and payment behaviour justify a more detailed examination are subject to special observation. In this context, the Group also analyses the need to change the customer's credit rating, the probability of a credit loss and the need to recognise an impairment loss. This often means that changes must be made to credit decision levels.

Country limits determine a country's maximum exposure and maturity. Country limits are primarily based on the country's external credit rating, but other information about the country is also utilised. In addition to imposing country limits, companies set limits on certain products based on the country's external rating.

### 6.2 Monitoring and reporting in banking

Credit risk developments are monitored at least monthly in relation to the set limits set and control indicators. Other monitoring targets include, among other things, credit classification reports. Additionally, large customer risks, credit portfolio quality and structure reports, collateral coverage, undone work and non-performing receivables are monitored. At Group level, credit risks are limited using limits. A limit for an individual customer exposure measures the amount of exposure of a group of connected clients in relation to OP-Pohjola Group's capital base specified under the Act on the Supervision of Financial and Insurance Conglomerates (RAVA). The limit for the total amount of major customer exposure encompasses all customer exposure that is at least 5% of the Group's capital base. The limit for industry risk limits the percentage of an individual industry of all of Group's Banking's corporate sector receivables and commitments and Non-life and Life Insurance's direct equity and bond investments. In addition to concentration risks, credit risks have limits that restrict the ratio of non-performing receivables to the loan and guarantee portfolio, and the ratio of expected losses to liabilities.

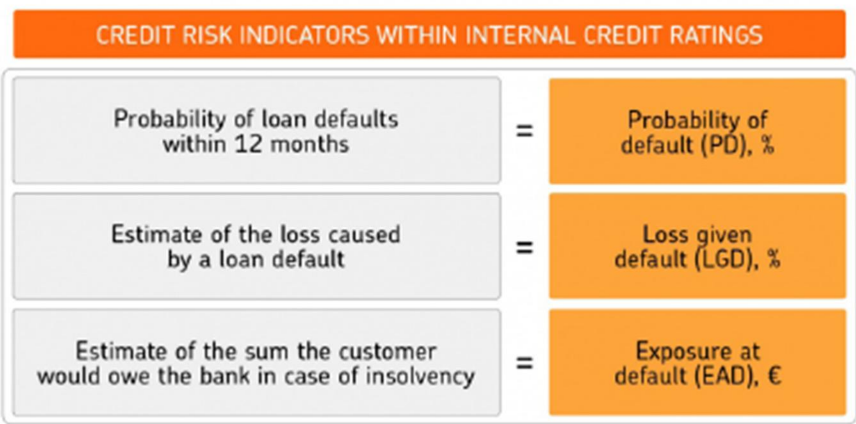
### 6.3 Credit risk reduction

In order to ensure the repayment of commitments, collateral must be provided for exposure, and any retail banking must primarily have collateral security. The customer's cash flow is the basis of all credit extension, however. Collateral is evaluated by an independent party and using a conservative approach to fair value. The Group exercises special care in assessing the value of collateral deemed as cyclical in nature. Developments in collateral values are monitored on a regular basis. Whenever a financing decision is made, we will check whether the collateral must be reassessed. A similar check is also made when the value of collateral has changed significantly or the client's financial standing has weakened substantially. The fair values of housing used as collateral is updated once a year on the basis of indexes derived from official sales price statistics.

Especially in the case of the largest corporate customers, covenants in loan agreements are used in addition to collateral. By monitoring these, we ensure that we receive an accurate picture of the company's situation and are in a position to re-assess their loan conditions, collateral requirements or pricing if the risk situation changes.

### 6.4 Credit rating

At OP-Pohjola Group, credit risk models are used to control credit risk taking and assess the amount of risk involved. Credit rating covers models for risk parameters involving Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD).



In practice, credit risk models are utilised, for example, in

- credit approval and pricing;
- specifying financing decision-making authorisations;
- setting and monitoring the loan portfolio's qualitative objectives;
- the amount of loan portfolio premium charged by OVY from the banks
- credit risk reporting;
- in capital adequacy measurement using the Internal Ratings Based Approach (IRBA)
- measuring the economic capital requirement and expected loss.

### 6.4.1 Credit rating and probability of insolvency

The purpose of credit rating is to divide customers into different groups according to the risk involved. A customer's credit rating is an estimate of the risk of some of the customer's exposures becoming non-performing receivables to OP-Pohjola Group within 12 months, or of the customer having more serious payment defaults. The size of this risk is explained by probability of default, or PD, estimated for each credit rating category, which is the average probability within one year over the economic cycle. In other words, when the economy is thriving, the actual proportion of defaulted customers in a given credit rating category is lower than the estimated PD, and when economic trends are poor, higher than the estimated PD.

OP-Pohjola Group uses several methods to evaluate customers' probability of default. Private customers' loans included in retail exposures in capital adequacy measurement are categorised using specific models in the application stage and as part of the bank's loan portfolio. Small business exposures included in retail exposures in capital adequacy measurement are categorised using an 'A' rating or a rating model for low exposures. Mid-size and large companies' exposures included in corporate exposures are categorised using an 'R' rating. Small business exposures included in corporate exposures are categorised using an 'A' rating. An internal credit rating model is used for credit institution counterparties.

**Assessing the probability of a private customer's solvency**

In the assessment of probability of default of private customers, exposures are divided into 16 rating categories from A+ to F, the latter representing exposures of defaulted customers. In this assessment, Pohjola uses a credit rating model of the customer's loan portfolio, as well as application stage ratings. Personal customer ratings are based on information available from the loan application, the customer's payment behaviour and other transaction history data. The score that is calculated using this information determines the exposure's credit rating. Rating categories and average PD have been calculated for each category for a period of 12 months.

The rating model for private customers' loan portfolios is used to categorise the exposures of private customers, some of whose debtors have had loans with OP-Pohjola Group for the last six months. The loan portfolio's rating categories are updated once a month. This model was adopted in 2006 and its current version dates back to 2013. The loan portfolio rating model is used for credit risk evaluation and capital requirement calculation.

When a loan is granted, Group member banks use the home mortgage and secured consumer credit application stage rating model. The Group's finance company product and unsecured consumer credit have their own application stage models. Updated versions of application stage models will be commissioned in spring 2014.

The rating based on the application stage supports the credit approval process, credit risk assessment and the pricing of new loans. This rating takes place as part of OP-Pohjola Group's credit process.

### 6.4.2 Loss given default (LGD) and exposure at default (EAD)

In addition to the models used for assessing the probability of default, Pohjola uses models for predicting loss given default (LGD) and exposure at default (EAD) to measure credit risk. In OP-Pohjola Group's credit risk models, LGD is an estimate of a financial loss (as a share of customer exposures at default) which the bank would incur if the customer became insolvent within one year. EAD refers to the estimated amount of receivable from the customer on the bank's balance sheet at default. Off-balance-sheet exposures are assessed by means of a Conversion Factor (CF), which describes how much of off-balance-sheet exposures have been assessed to be utilised at the time of default.

### 6.4.3 Use of credit risk models in capital adequacy measurement

OP-Pohjola Group Central Cooperative Consolidated uses the Foundations Internal Ratings Based Approach (FIRBA) to measure its capital adequacy requirement for credit risk on corporate and credit institution exposures. In FIRBA, an estimate of probability of default (PD) generated by OP-Pohjola's credit risk models affects the capital adequacy requirement for credit risk associated with the customer. OP-Pohjola uses the so-called standard estimates supplied by the authorities on loss given default (LGD) and exposure at default (EAD). When FIRBA is used to measure the capital requirement for credit risk on retail exposures, PD, LDG and EAD values based on OP-Pohjola Group's internal models are used to calculate the risk weight. As a rule, a simple model applies to equity investments. The PD/LGD method applies to OP-Pohjola Group's strategic investments, where the PD values are based on internal models and LGD values on standard estimates.

### 6.4.4 Decision-making and assessment related to credit risk models

OP-Pohjola Group's Risk Management Committee decides on the adoption of any significant changes in the credit risk models. These decisions are based on the general principles governing credit ratings and the validation of credit risk models approved by the Central Institution's Executive Board. The models are developed and maintained by the Central Institution's Risk Management, independent of business lines/divisions.

The effectiveness of the credit rating process and credit risk models is subject to regular monitoring and supervision. The Central Institution's Risk Management function collects continuous feedback from the business lines/divisions on the effectiveness of the credit rating process and credit risk models. On a monthly basis, it monitors the models that automatically create a credit rating category. The purpose of this monitoring is to follow changes in the credit portfolio and granting of loans that may, for example, indicate errors in IT implementation.

In addition, the quality of the models is assured at least once a year in accordance with the validation instructions approved by OP-Pohjola Group's Risk Management Committee. The set of the validation instructions contains requirements for quality assurance that must be carried out when adopting a model. Validation uses statistical methods to test, for example, the model's sensitivity and the validity of risk parameter estimates (PD, LGD and EAD). Validation also involves qualitative assessment, such as an analysis of user feedback, and a peer group analysis. The results of validation and any recommendations for required measures are reported to the Risk Management Committee, which decides on any improvements on the basis of the validation.

OP-Pohjola Group Central Cooperative's Internal Audit is responsible for ensuring that validation is performed independent of businesses. It also inspects the credit risk models and their use in the Central Institution's companies and member banks as a matter of regular auditing.

## 7 Liquidity risk

Banking's liquidity risk comprises structural funding risk and funding liquidity risk. The sources of liquidity risks include those arising from short-term balance-sheet items' maturity becoming out of balance, from the balance sheet structure, changes in customer behaviour, and risks associated with wholesale funding performance. Moreover, liquidity risk may arise from changes in regulation governing the management of business risks, reputational risk or liquidity.

Structural funding risk refers to uncertainty related to long-term lending, arising from the refinancing risk due to the structure of financing. OP-Pohjola Group's structural funding risk mainly arises from the differences of the maturity structures between lending characterised by long maturity plus deposit funding dependent on customer behaviour within retail banking.

Liquidity risk may arise when the Group or its institution cannot cope with expected and unexpected, existing or future cash flows or collateral needs without this affecting business continuity, profitability or capital adequacy. Liquidity risks may arise, for instance, from a thinning out or inactivity of markets or a bank’s weaker creditworthiness.

**7.1 Management tools**

Liquidity risk management is based on the Group's risk policy and approved risk limits. Central Institution Executive Board approves the qualitative targets set for the liquidity buffer, a funding plan and a contingency and business continuity plan in case of threat scenarios. The contingency and business continuity plan contains a control model concerning liquidity for various threshold levels, funding sources and a contingency funding plan at operational level.

OP-Pohjola Group manages its liquidity through proactive funding structure planning, the Group's risk limits and limits and control limits for Group institution deriving from such risk limits, and goal levels. OP-Pohjola Group's liquidity management tools also include the monitoring of the liquidity status and well-balanced liquidity buffer, planning and management of daily liquidity, as well as effective control of the Group's liquidity status. Funding liquidity management is governed by the regulations concerning the minimum reserve and marginal lending facility systems by the European Central Bank.

OP-Pohjola Group ensures its liquidity by means of long-term funding planning, a liquidity buffer and funding sources under the contingency plan for twelve months in the event that both money and capital markets were to close and deposit funding was to decrease moderately. The liquidity buffer has the size required for the time to implement the contingency plan in a liquidity crisis. Liquid funding may be made available by selling notes and bonds in the liquidity buffer or using them as collateral. The liquidity buffer is mainly formed by deposits to the Central Bank and receivables that are valid as collateral for Central Bank refinancing.

As the financial services group's central bank, Pohjola Bank plc is tasked with securing the liquidity of the entire Group and each Group member cooperative bank or Group institution. The Group's daily liquidity management refers to managing liquidity of the Group's companies engaged in banking operations. The liquidity of OP-Pohjola Group’s insurance and pension institutions is transferred through bank accounts to the Group’s overall liquidity. Any changes in their liquidity position will change Pohjola's liquidity position. The liquidity buffer of the entire OP-Pohjola Group’s banking operations is managed at Pohjola.

The Group's funding planning is based on the proactive planning of the funding structure and on the risk limit set for the asset/liability structure. Deposits from the general public and wholesale funding form the basis of the Group's funding. Wholesale funding is planned on the basis of deposit funding and increase in lending. In order to secure access to funding, the Group utilises a diverse range of financial instruments while diversifying the sources of funding by maturity, geographic location, market and investor. Any surplus deposits to member banks are mainly channelled to OP-Pohjola Group Central Cooperative Consolidated accounts or instruments it has issued in order not to increase the Group’s wholesale funding unnecessarily. Pohjola centrally manages the wholesale financing in the form of senior bonds and equity capital, while OPA handles funding based on mortgage-backed securities.

OP-Pohjola Group’s Executive Board is responsible for OP-Pohjola Group’s liquidity risk management and controls liquidity management using various threshold levels. In market disruption cases, liquidity management is carried out according to the contingency and business continuity plan. Each OP-Pohjola Group institution manages its liquidity within the framework of control limits issued by the Central Institution, and of the account, deposit and loan terms and conditions and limits and regulations.

Institutions engaged in insurance operations are primarily responsible for managing their liquidity. The institutions' liquidity requirements are taken into account in the allocation of the investment portfolio.

### 7.2 Monitoring and reporting

Monitoring and reporting of liquidity risks varies from real-time to quarterly practices, depending on the nature and extent of their business. Monitoring and reporting are based on the Group’s risk limits and target figures. Depending on the entity and reporting level, reporting practices may vary from daily cash flow monitoring (funding liquidity) to the monitoring and forecasting of long-term funding structure (refinancing risk).

For each of those liquidity levels, the Group has specified control and monitoring practices which become more rigorous when moving up to the next level. The Group reports liquidity risks to the Central Institution's Executive Board on a regular basis and, with a heightened threshold level of liquidity status, will adopt weekly or daily progress reporting practices whenever necessary. Group entities report liquidity risks to their boards of directors regularly, applying at least the level which has been set for control limit indicators and limits.

The effect of threats and future scenarios related to structural funding risk and funding liquidity risk on the Group's liquidity, financial performance and capital adequacy is stress-tested as part of its capital adequacy assessment.

OP-Pohjola Group's risk limits for liquidity risk have been set for net cash flows under time category which guide the structural funding risk and for the indicator concerning liquidity risk. The risk indicator for the structural funding risk indicates the maximum portion of the net cash flows in the Group's balance sheet that may have a maturity within different time periods. Agreements with a maturity date are included in the analysis of structural financing risk according to the maturity date or any earlier repayment date. The maturities of accounts with no maturity date and premature repayments have been modelled.

A liquidity risk indicator shows for how long the primary liquidity buffer will cover the Group's daily payable net cash flows that are known or forecast, and an unexpected but moderate decline in deposits. At an operational level, tighter control levels than the limit are set for indicators with a view to serving as an operational buffer. In addition, the Group uses risk indicators describing various aspects of liquidity risk.

## 8 Market risks

Market risk refers to a risk of loss or of lost income when the market price or implicit volatility changes unfavourably. At OP-Pohjola Group, market risks include the following risks both on and off the balance sheet: interest rate risk, price risks, real estate risks, credit spread risks associated with investment operations, and market liquidity risk. Market risk is materialised as an effect on earnings, a change in the fair value reserve, or the solvency of an insurance company and pension institution.

The greatest market risk for banking relates to the effect of a change in interest rates on net interest income, i.e., interest income risk. The biggest market risks related to non-life and life insurance operations concern those associated with investments and insurance liabilities, primarily interest rate risk.

In accordance with the division of tasks within the banking operations, the member banks and Helsinki OP Bank Plc focus on retail banking. As the central bank of OP-Pohjola Group, Pohjola Bank plc manages the Group's payment transactions and Banking's currency risk, obtains wholesale funding, maintains international banking relationships, and is responsible for Banking's liquidity and centralised liquidity buffer maintenance. Member banks carry out their money market and derivatives operations with Pohjola Bank plc.

### 8.1 Management tools

The task of market risk management is to identify and assess market risks included in business operations, limit them to an acceptable level, and report them regularly and efficiently. This ensures that changes in market prices or other external market factors will not excessively deteriorate the long-term profitability or capital adequacy of any individual entity within the Group or of OP-Pohjola Group as a whole.

Guidelines that control and limit market risks include OP-Pohjola Group’s risk and capital adequacy management principles and the Group’s risk management guidelines that supplement them, and the Central Institution's risk management guidelines and limits and control limit indicators. The board of directors of each institution has defined the objectives of market risk management, the principles of risk-taking and the organisation of market risk management.

### 8.2 Monitoring and reporting

The extent and frequency of market risk reporting in OP-Pohjola Group entities vary by the nature and extent of their business from real-time to quarterly monitoring. Such monitoring and reporting are based on the analysis of the developments in limits and control limit indicators, as specified in the confirmed business strategy and risk policy. Pohjola monitors and reports market risks on a daily basis and, to some extent, on a real-time basis. Other entities provide monthly reports to management but perform monitoring on a daily basis whenever necessary. The Central Institution's Risk Management provides market risk reports for the member banks and regularly reports the development of the entire OP-Pohjola Group's balance sheet structure and market risks to the Central Institution's management.

Market risks are evaluated by means of sensitivity analyses, statistical volatility and correlation analyses, VaR (Value-at-Risk) analyses, and stress tests. The Group monitors derivative risks as part of the exposure using the same benchmarks as for balance sheet exposure. The specifics of monitoring and reporting for each risk type have been described in the parts dealing with each individual risk type.

We use three limits to restrict market risks at Group level. Interest rate, credit spread, currency, equity and commodity risk related to trading, and the price risk related to structured products, are limited by means of a VaR limit. The market risk limit for insurance operations has been set on the basis of the ratio between the economic capital requirement and the Group’s capital resources concerning the risk in question. Within insurance operations, the economic capital requirement for interest rate, exchange rate, credit spread, equity and commodity risks are calculated using the historical simulation VaR model. The third of the Group-level market risk limits has been set for interest rate risk related to funding. The limit is explained in detail later, along with interest risk monitoring and reporting descriptions.

### 8.3 Interest rate risk

Interest rate risk refers to changes in earnings, profitability and capital adequacy caused by interest rate fluctuations. Interest rate risk is manifested as the price risk of marketable securities portfolios, risk of a change in the present value of an insurance company's insurance liability cash flows, and the banking book's repricing risk. The price risk of securities portfolios materialises when market rates change and cause market values to change. Risk of a change in the present value of insurance liabilities materialises when the insurance liabilities' present value changes as a result of changes in market rates. Repricing risk arises from interest-rate bases and interest rate adjustment times differing between investment and acquisition.

The most significant sources of the interest rate risk of OP-Pohjola Group are associated with the retail banking's banking book and its insurance operations. In Non-life Insurance and Life Insurance, interest rate risk arises when changes in the interest rate affect the value of and income from investment assets and the cash flows of insurance liabilities. The Banking interest rate risk is derived from the banking book and Pohjola Bank plc's trading portfolio. The interest rate risk of items not in the trading book is by nature related to structural interest income from financing.

#### 8.3.1 Management tools

The interest rate risk associated with the banking book of Group member banks is mainly managed by the choice of borrowing and lending products and the terms and conditions offered. Group member banks may also protect against interest rate risk in their banking book by means of interest-rate derivatives as approved within the Group. In retail banking, interest rate derivatives are also used in customer business (interest rate caps, interest rate corridors and index-linked deposits).

In addition to the interest rate monitoring standardised throughout the Group, Pohjola Bank plc interest rate risk is reduced by means of interest rate risk limits specific to responsibility areas. Interest rate risk related to trading and the banking book are limited using the same principles and indicators.

In Life Insurance, interest rate risk is high in liabilities to policyholders that are included in insurance liabilities. These liabilities consist of promises of fixed profits and any customer benefits. The purpose of Life Insurance's asset/liability management is to measure and control the company's entire net interest risk exposure. Interest rate risk for insurance liabilities is hedged fully or partly using interest rate derivatives in order to bring the overall risk exposure to the target level.

### 8.3.2 Monitoring and reporting

The calculation of interest rate risk for Banking includes all interest-bearing balance sheet items and off-balance-sheet items. This calculation does not make any assumptions of business growth. When assessing interest rate risks, items that are sensitive to interest rate changes are divided in net interest income and cash flow calculations on the basis of interest rate review dates. The interest-rate adjustment date for fixed-rate items is the same as their date of maturity. As to floating-rate items, we calculate, on the basis of the contract's interest rate information, the effect of interest rate changes on the net interest income from the current interest rate level. The estimated re-pricing delays in administrative interest rates are considered in this analysis.

When determining the interest rate risk of banking operations, the impact of customer behaviour is also observed by modelling, on the basis of historical development of the deposit portfolio, the Group member banks' deposit maturity structures and by assessing the deposits' average re-pricing delay. The delay in reviewing administrative interest rates has been modelled on the basis of interest rate history. The effect of premature repayment of credit is noted in interest risk evaluation on the basis of statistically modelled historical behaviour. The limit of the financial operation interest risk has been set for an interest income risk, which measures the effect of interest rate changes on net interest income for the next 12 months. As part of regular interest rate risk measurements and reporting, the Group carries out stress tests to analyse the effects of various interest rate changes on the present value of the interest rate risk position.

In non-life and life insurance operations, an interest rate risk is created when changes in the interest rate affect the present value of investment assets and the insurance liabilities. Interest rate risk arising from insurance companies' investments and insurance liabilities are managed by means of the economic capital requirement method as part of market risk by insurance operations. Interest rate risk is also monitored by the effect of a change of one percentage point or basis point on the value of investments and the insurance liabilities.

### 8.4 Price risks

Price risks are the effects of market price changes on the value of income from investments or the entire balance sheet. Price risks also include equity, commodity, currency and volatility risks. OPA is not exposed to the above-mentioned price risks.

# NOTES TO THE INCOME STATEMENT

| NOTE 3. Interest income and expenses | 2013 | 2012 |
|---|---|---|
| **Interest income** | | |
| From receivables from financial institutions | 16 | 83 |
| From receivables from customers | 101,660 | 178,048 |
| From debt instruments available for sale | 0 | 30 |
| From derivative contracts | | |
| From hedge accounting | -20,671 | -57,140 |
| Other interest income | 42 | 225 |
| **Total** | **81,047** | **121,246** |
| | | |
| **Interest expenses** | | |
| From liabilities to financial institutions | 5,972 | 9,957 |
| From derivative contracts | | |
| Held for trading | - | - |
| From hedge accounting | 7,805 | -210,216 |
| From debt securities issued to the public | 36,063 | 291,475 |
| Interest expenses on subordinated liabilities | 0 | 127 |
| Other interest expenses | 16 | 18 |
| **Total** | **49,855** | **91,362** |
| | | |
| **Net interest income** | **31,192** | **29,884** |

**Net income from hedge accounting**

Net income from hedging instruments is 112,772 (114,923) and net income from hedged items is -112,772 (-114,923).

| NOTE 4. Net commission income and expenses | 2013 | 2012 |
|---|---|---|
| **Commission income** | | |
| From lending | 6,654 | 5,384 |
| **Total** | **6,654** | **5,384** |
| | | |
| **Commission expenses** | | |
| From securities | 17 | 51 |
| Other | 22,707 | 17,325 |
| **Total** | **22,724** | **17,376** |
| | | |
| **Net commission income and expenses** | **-16,070** | **-11,992** |

Other commission expenses constitute mainly commissions paid to intermediary banks.

| NOTE 5. Net income from trading | 2013 | 2012 |
|---|---|---|
| **From financial assets and liabilities held for trading** | | |
| Valuation gains and losses | | |
| Net income from foreign exchange operations | 0 | 0 |
| **Total net income from trading** | **0** | **0** |

| NOTE 6. Net income from investments | 2013 | 2012 |
|---|---|---|
| **Net income from financial assets available for sale** | | |
| Income from shares and holdings | 1 | -186 |
| **Total net income from investments** | **1** | **-186** |

| NOTE 7. Other operating income | 2013 | 2012 |
|---|---|---|
| Other operating income | 0 | 0 |
| **Total other operating income** | **0** | **0** |

| NOTE 8. Personnel costs | 2013 | 2012 |
|---|---|---|
| Salaries and remuneration | 364 | 352 |
| Pension costs | | |
| Defined contribution plans | 54 | 51 |
| Defined benefit plans | 20 | -17 |
| Total | 75 | 34 |
| Other indirect personnel costs | 10 | 14 |
| **Total personnel costs** | **449** | **400** |

| NOTE 9. Other administrative expenses | 2013 | 2012 |
|---|---|---|
| Office expenses | 169 | 145 |
| IT expenses | 1,182 | 1,292 |
| Telecommunications | 23 | 128 |
| Marketing | 2 | 0 |
| Other administrative expenses | 194 | 22 |
| **Total other administrative expenses** | **1,570** | **1,586** |

| NOTE 10. Other operating expenses | 2013 | 2012 |
|---|---|---|
| Rental expenses | 53 | 60 |
| Depreciation | | |
| On machinery and equipment | - | - |
| On intangible assets | 209 | 299 |
| Total | 209 | 299 |
| Other | 1,041 | 1,100 |
| **Total other operating expenses** | **1,302** | **1,459** |

**Fees paid to auditors by assignment group**

| | | |
|---|---|---|
| Auditing | 7 | 17 |
| Assignments referred to in section 1, paragraph 1, subparagraph 2, of the Auditing Act | - | - |
| Tax counselling | - | - |
| Other services | 0 | 26 |
| **Total** | **7** | **43** |

| NOTE 11. Income taxes | 2013 | 2012 |
|---|---|---|
| Tax based on taxable income for the financial period | 2,887 | 3,488 |
| Taxes from previous periods | 0 | 0 |
| Deferred taxes | 0 | -10 |
| **Taxes on the income statement** | **2,887** | **3,478** |
| Corporate income tax rate | 24.5 % | 24.5 % |

**Reconciliation of taxes calculated according to the valid tax rate with the taxes presented in the income statement**

| | | |
|---|---|---|
| Earnings before taxes | 11,821 | 14,209 |
| Share of the profit according to the tax rate | 2,896 | 3,481 |
| Taxes from previous periods | 0 | 0 |
| Change in tax rates | -6 | - |
| Other | -4 | -3 |
| **Taxes on the income statement** | **2,887** | **3,478** |

## NOTES TO THE BALANCE SHEET

| NOTE 12. Receivables from financial institutions | 31 Dec 2013 | 31 Dec 2012 |
|---|---|---|
| **Receivables from financial institutions** | | |
| Deposits | | |
| Repayable on demand | 110,550 | 53,300 |
| **Total receivables from financial institutions** | **110,550** | **53,300** |

| NOTE 13. Derivative contracts | 31 Dec 2013 | 31 Dec 2012 |
|---|---|---|
| Hedging derivative contracts – fair value hedging | | |
| Interest rate derivatives | 198,086 | 318,473 |
| **Total derivative contracts** | **198,086** | **318,473** |

| NOTE 14. Receivables from customers | 31 Dec 2013 | 31 Dec 2012 |
|---|---|---|
| Loans to the public and public sector entities | 861,459 | 761,552 |
| Loans acquired and other receivables | 7,068,566 | 7,916,514 |
| Collectively assessed impairments | -361 | -414 |
| Individually assessed impairments | -33 | - |
| **Total receivables from customers** | **7,929,630** | **8,677,652** |

| NOTE 15. Invested capital | 31 Dec 2013 | 31 Dec 2012 |
|---|---|---|
| Financial assets available for sale | | |
| Shares and holdings, unquoted | 17 | 17 |
| **Total investment assets** | **17** | **17** |

Shares and holdings other than those quoted publicly have been valued at acquisition cost.

**Changes in securities available for sale**

There were no changes in securities available for sale in 2013.

| NOTE 16. Intangible assets | 31 Dec 2013 | 31 Dec 2012 |
|---|---|---|
| Software, licences and user rights | 1,668 | 1,101 |
| **Total intangible assets** | **1,668** | **1,101** |

**Changes in intangible assets**

| | | **31 Dec 2013** | |
|---|---|---|---|
| | Software | Software / financial leasing | Total intangible assets |
| Acquisition cost on 1 January | 1,002 | 1,454 | 2,455 |
| Increases | 776 | | 776 |
| Decreases | | | |
| Transfers between items | | | |
| Acquisition cost on 31 December | 1,778 | 1,454 | 3,231 |
| Accumulated amortisation and impairment losses on 1 January | 179 | 1,175 | 1,354 |
| Amortisation for the period | | 209 | 209 |
| Accumulated amortisation and impairment losses for deductions and transfer 1 January | | | |
| Accumulated amortisation and impairment losses on 31 December | 179 | 1,384 | 1,563 |
| Book value on 31 December | 1,598 | 70 | 1,668 |
| of which construction in progress | 1,598 | 0 | 1,598 |

| | | **31 Dec 2012** | |
|---|---|---|---|
| | Software | Software / financial leasing | Total intangible assets |
| Acquisition cost on 1 January | 189 | 1,454 | 1,643 |
| Increases | 813 | | 813 |
| Decreases | | | |
| Transfers between items | | | |
| Acquisition cost on 31 December | 1,002 | 1,454 | 2,455 |
| Accumulated amortisation and impairment losses on 1 January | 179 | 876 | 1,056 |
| Amortisation for the period | | 299 | 299 |
| Accumulated amortisation and impairment losses for deductions and transfer 1 January | | | |
| Accumulated amortisation and impairment losses on 31 December | 179 | 1,175 | 1,355 |
| Book value on 31 December | 822 | 278 | 1,101 |
| of which construction in progress | 822 | | 822 |

Amortisation, impairment losses and their revaluation have been recognised in the income statement under Other operating expenses. The company did not have any impairment.

Intangible assets include the software acquired through a financial leasing agreement. The lease period agreed upon is four years.

| NOTE 17. Other assets | 31 Dec 2013 | 31 Dec 2012 |
|---|---|---|
| Pension assets | - | 13 |
| Deferred income | | |
| Interest | 76,249 | 77,756 |
| Other | 113 | 85 |
| **Total** | **76,362** | **77,854** |

| NOTE 18. Tax assets | 31 Dec 2013 | 31 Dec 2012 |
|---|---|---|
| Income tax asset | 601 | - |
| Deferred tax assets | 30 | 35 |
| **Total tax assets** | **630** | **35** |
| **Specification of tax assets and liabilities** | | |
| **Deferred tax assets** | | |
| Due to defined-benefit pension plans | 17 | 10 |
| Due to other items | 72 | 102 |
| Set-off against deferred tax liabilities | -60 | -77 |
| **Total** | **30** | **35** |
| **Deferred tax liabilities** | | |
| From defined benefit pension plans | 0 | 3 |
| From other items | 60 | 74 |
| Set-off against deferred tax assets | -60 | -77 |
| **Total** | **0** | **0** |
| **Changes in deferred taxes** | | |
| Deferred tax receivables/liabilities on 1 January | 35 | 13 |
| Recognised in the income statement | | |
| Pension liabilities | -5 | -4 |
| Change in tax rates/deferred tax recognised through profit or loss | 5 | - |
| Other | 0 | 14 |
| Recognised in the balance sheet | | |
| Other | - | - |
| Recognised in shareholders' equity | - | - |
| Recognised in statement of comprehensive income | | |
| Actuarial gains/losses on post-employment benefit obligations | 9 | 12 |
| Change in tax rate 1 Jan. 2012 | -15 | - |
| Other | 1 | 0 |
| **Total deferred tax receivables/liabilities on 31 December** | **30** | 35 |
| **Income tax receivables** | **601** | - |
| **Total tax receivables and liabilities** | **630** | **-400** |

| NOTE 19. Liabilities to financial institutions | 31 Dec 2013 | 31 Dec 2012 |
|---|---|---|
| Other than those repayable on demand | | |
| Other liabilities | 1,885,000 | 2,570,000 |
| **Liabilities to financial institutions** | **1,885,000** | **2,570,000** |

| NOTE 20. Derivative contracts | 31 Dec 2013 | 31 Dec 2012 |
|---|---|---|
| Hedging derivative contracts – fair value hedging | | |
| Interest rate derivatives | 8,767 | 16,382 |
| **Total derivative contracts** | **8,767** | **16,382** |

| NOTE 21. Debt securities issued to the public | Average rate, % | 31 Dec 2013 | Average rate, % | 31 Dec 2012 |
|---|---|---|---|---|
| Bonds | 2.65 | 5,991,695 | 2.74 | 6,109,687 |
| **Total debt securities issued to the public** | | 5,991,695 | | 6,109,687 |

**Non-current loans issued by OP Mortgage Bank**

| Loan | Book value | Interest rate tying | Nominal interest % | Maturity |
|---|---|---|---|---|
| OP Mortgage Bank Covered Bond 2009 | 1,248,809 | Fixed | 3.125 | 19.11.2014 |
| OP Mortgage Bank Covered Bond 2010 | 997,533 | Fixed | 2.375 | 15.06.2015 |
| OP Mortgage Bank Covered Bond 2011 | 997,604 | Fixed | 3.250 | 01.04.2016 |
| OP Mortgage Bank Covered Bond 2011 | 994,203 | Fixed | 3.500 | 11.07.2018 |
| OP Mortgage Bank Covered Bond 2012 | 1,245,368 | Fixed | 1.625 | 23.05.2017 |
| OP Mortgage Bank Private Placement 2012 | 99,954 | Floating | 3 Month Euribor | 24.08.2017 |
| OP Mortage Bank rekisteröity Covered Bond (NSV) | 114,678 | Fixed | 2.157 | 12.11.2024 |
| OP Mortgage Bank Private Placement 2012 | 100,000 | Floating | 3 Month Euribor | 18.12.2018 |
| | 5,798,150 | | | |
| Valuation | 193,545 | | | |
| **Total** | **5,991,695** | | | |

| NOTE 22. Provisions and other liabilities | 31 Dec 2013 | 31 Dec 2012 |
|---|---|---|
| Other liabilities | | |
| Payment transfer liabilities | 18 | 194 |
| Deferred expenses | 86 | 40 |
| Accrued expenses | | |
| Interest liabilities | 97,147 | 104,486 |
| Other | 2,377 | 2,244 |
| **Total provisions and other liabilities** | **99,628** | **106,964** |

**Defined benefit pension plans**

OP Mortgage Bank has funded assets of its pension schemes through OP Bank Group Pension Fund and OP Bank Group Pension Foundation. Schemes related to supplementary pensions in the Pension Foundation and insurance company, as well as the TyEL (Employees' Pensions Act) funded old-age and disability pension schemes managed by the Pension Fund are treated as defined benefit plans. Contributions to the TyEL pay-as-you-go system are treated as defined contribution plans. The amount of the company's pension liabilities is not substantial.

**OP Bank Group Pension Fund**

OP Bank Group Pension Fund manages statutory pension insurance for the employees of OP Mortgage Bank as the Fund's member.

The statutory pension scheme under TyEL (Employees' Pensions Act) provides pension benefits based on the years of employment and earnings as prescribed in the Act. Benefits under the employees' pension scheme comprise old-age pension, part-time pension, disability pension, survivor's pension and rehabilitation benefits. The retirement age of the old-age pension under TyEL is 63–68 years.

The TyEL pension scheme is based on a system that is partly a funded system and partly a pay-as-you go system. A pension insurance institution, which has insured each employment, manages funding for each employee. The funded portion of the pension benefits disbursed annually by the Pension Fund accounts for an average of a quarter.

The Pension Fund aims to manage statutory pension insurance in such a way that the level of contributions will remain steady year after year and be below the average contribution level of the employees' pension scheme. The most significant associated risk relates to the possibility of the actual return on investment assets being lower than the actual average investment return under the pension scheme. If such a risk materialises in several consecutive years, this would result in increasing the level of insurance contributions.

The most significant actuarial risks of OP Bank Group Pension Fund are associated with interest rate and market risks, future increases in pension benefits and systematically increasing life expectancy. A change in the discount rate for pension liabilities has a substantial effect on the amount of pension liabilities.

Under the Employee Benefit Funds Act, the Pension Fund shall invest its assets securely and profitably and in view of its liquidity. The Pension Fund must cover the insurance liability arising from pension obligations. When covering the insurance liability, the Pension Fund must consider what type of insurance business it conducts and, accordingly, must ensure the security of, return on and cashability of its assets and that they are appropriately versatile and properly diversified. The Employee Benefit Funds Act specifies in greater detail the assets and commitments with which the insurance liability must cover. As prescribed by law, the Pension Fund has a specific solvency limit which it must cover through its solvency capital.

Responsible for investment, the Board of Trustees of the Pension Fund approves the Pension Fund's investment plan related to its assets. A pension institution's chief actuary prepares annually a forecast for developments in insurance liabilities and pension costs. On this basis, investment asset allocation takes account of the requirements set by the nature of insurance liabilities for investment operations with respect to the level of security, productivity and liquidity, as well as the Pension Fund's risk-bearing capacity.

**OP Bank Group Pension Foundation**

OP-Bank Group Pension Foundation manages supplementary pension cover provided by OP Mortgage Bank for its employees. The purpose of the Pension Foundation is to grant old-age and disability pension benefits and sickness benefits to employees covered by the Pension Foundation activities, and survivors' pension benefits to their beneficiaries, and burial grant. In addition, the Pension Foundation may grant said employees benefits related to rehabilitation. Given that providing supplementary pension is voluntary, not all employers belonging to the Pension Fund belong automatically to the Pension Foundation. Supplementary pension cover provided by the Pension Foundation is fully funded.

The Pension Foundation covers every employee who has reached the age of 20 years and who has been employed, as specified by TyEL, for two consecutive years by the employer within the Pension Foundation and whose employment has begun before 1 July 1991. The salary/wage serving as the basis for the calculation of pension refers to pensionable pay based on one and the same employment and calculated under the Finnish Employees' Pensions Act, TEL, in force until 31 December 2006. The retirement age of those covered by the Pension Foundation varies from 60 to 65 years, depending on the personnel group to which the employee belongs under the Pension Foundation rules.

The most significant associated risk relates to the possibility of the actual return on investment assets being lower than the target set for the minimum return.

The most significant actuarial risks of OP Bank Group Pension Foundation are associated with interest rate and market risks, systematically increasing life expectancy and inflation risk. A change in the discount rate for pension liabilities has a substantial effect on the amount of pension liabilities.

Responsible for investment, the Board of Trustees of the Pension Foundation approves the Foundation's investment plan related to its assets. A pension institution's chief actuary prepares annually a forecast for developments in insurance liabilities and pension costs. On this basis, investment asset allocation takes account of the requirements set by the nature of insurance liabilities for investment operations with respect to the level of security, productivity and liquidity, as well as the Pension Fund's risk-bearing capacity.

| Balance sheet value of defined benefit plans, EUR thousand | Defined benefit obligations 2013 | 2012 | Fair value of pension assets 2013 | 2012 | Net liabilities (assets 2013 | 2012 |
|---|---|---|---|---|---|---|
| **Opening balance 1 Jan.** | 497 | 433 | -470 | -454 | 27 | -21 |
| | | | | | | |
| **Defined benefit pension costs recognised in income statement** | | | | | | |
| Current service cost | 21 | 14 | | | 21 | 14 |
| Interest expense (income) | 17 | 19 | -17 | -20 | 1 | -1 |
| Effect of plan curtailment or fulfilment of obligation | | | | | | |
| Administrative expenses | | | 0 | | 0 | |
| **Total** | **38** | **33** | **-16** | **-20** | **22** | **13** |
| | | | | | | |
| **Losses (gains) recognised in other comprehensive income arising from remeasurement** | | | | | | |
| Actuarial losses (gains) arising from changes in economic expectations | 10 | 492 | | | 10 | 492 |
| Actuarial losses (gains) arising from changes in demographic expectations | | | | | | |
| Return on TyEL interest rate difference and growth in old-age pension liabilities (net) | 1 | 2 | -1 | -2 | 0 | 0 |
| Experience adjustments | -224 | -449 | | | -224 | -449 |
| Return on plan assets, excluding amount (–) of net defined benefit liability (asset) | | | 258 | 1 | 258 | 1 |
| **Total** | **-213** | **45** | **257** | **-1** | **44** | **45** |
| | | | | | | |
| **Other** | | | | | | |
| Employer contributions | | | -6 | -9 | -6 | -9 |
| Benefits paid | | -15 | | 15 | 0 | 0 |
| **Total** | | **-15** | **-6** | **5** | **-6** | **-9** |
| **Closing balance 31 Dec.** | **322** | **497** | **-236** | **-470** | **86** | **27** |

| Liabilities and assets recognised in the balance sheet, EUR thousand | 31 Dec 2013 | 31 Dec 2012 |
|---|---|---|
| Net liabilities/assets (Pension Foundation) | 12 | -13 |
| Net liabilities/assets (Pension Fund) | 73 | 40 |
| **Total net liabilities/assets** | **86** | **27** |

| Pension Fund and Pension Foundation assets, grouped by valuation technique, 31 Dec. 2013, EUR thousand | Level 1* | Level 2** | Level 3*** | Total |
|---|---|---|---|---|
| Shares and participations | 14 | 0 | 8 | 22 |
| Notes and bonds | 26 | 37 | 1 | 64 |
| Real property | 0 | 0 | 23 | 23 |
| Mutual funds | 69 | 5 | 41 | 115 |
| Structured investment vehicles | 0 | 0 | 2 | 2 |
| Derivatives | 0 | 0 | 0 | 0 |
| Other assets | 9 | 1 | 0 | 10 |
| **Total** | **117** | **43** | **76** | **236** |

| Pension Fund and Pension Foundation assets, grouped by valuation technique, 31 Dec. 2012, EUR thousand | Level 1* | Level 2** | Level 3*** | Total |
|---|---|---|---|---|
| Shares and participations | 21 | 0 | 21 | 42 |
| Notes and bonds | 65 | 74 | 3 | 142 |
| Real property | | | 36 | 36 |
| Mutual funds | 154 | 2 | 70 | 226 |
| Structured investment vehicles | | 0 | 7 | 8 |
| Derivatives | | 0 | | 0 |
| Other assets | 14 | | 2 | 16 |
| **Total** | **254** | **77** | **139** | **470** |

* The fair value of Level 1 assets is determined on the basis of the quotes in markets.
** The fair value of Level 2 assets means value derived from the market price of a financial instrument's components or similar financial instruments; or value which can be determined using commonly used valuation models and techniques if the inputs significant to the fair value measurement are based on observable market data.
*** The fair value Level 3 assets is determined using a pricing model whose input parameters involve uncertainty.

| Proportion of the most significant assets of total fair value of plan assets, % | 31 Dec 2013 | 31 Dec 2012 |
|---|---|---|
| Shares and participations | 10 | 9 |
| Financial sector | 5 | 4 |
| Forest | 3 | 4 |
| Real estate | 1 | 1 |
| Other | 1 | 1 |
| Notes and bonds | 27 | 30 |
| Government bonds | 6 | 10 |
| Other | 21 | 21 |
| Real property | 10 | 8 |
| Mutual funds | 48 | 48 |
| Equity funds | 27 | 18 |
| bond funds | 11 | 21 |
| Real estate funds | 6 | 5 |
| Hedge funds | 5 | 5 |
| Derivatives | 0 | 0 |
| Interest rate derivatives | 0 | |
| Currency derivatives | 0 | 0 |
| Other | 0 | |
| Structured investment vehicles | 1 | 2 |
| Other | 4 | 3 |
| **Total** | **100** | **100** |

| Pension plan assets include, EUR thousand | 31 Dec 2013 | 31 Dec 2012 |
|---|---|---|
| Pohjola Bank plc shares | 12 | 21 |
| Securities issued by OP-Pohjola Group companies | 0 | 10 |
| Other receivables from OP-Pohjola Group companies | 7 | 22 |
| Real property in Pohjola Group's use | 2 | 11 |
| **Total** | **21** | **64** |

Contributions payable under the defined benefit pension plan in 2014 are estimated at EUR 7 thousand.

The duration of the defined benefit pension obligation in the Pension Fund on 31 December 2013 was 29.7 years.

| Key actuarial assumptions used, 31 December 2013 | Pension Fund | Pension Foundation |
|---|---|---|
| Discount rate, % | 3.4 | 3.3 |
| Future pay increase assumption, % | 3.0 | 3.0 |
| Future pension increases, % | 2.1 | 2.0 |
| Turnover rate, % | 3.0 | 0.5 |
| Inflation rate, % | 2.0 | 2.0 |
| Life expectancy for 65-year old people | | |
| Men | 19.0 | 19.0 |
| Women | 24.7 | 24.7 |
| Life expectancy for 45-year old people after 20 years | | |
| Men | 20.6 | 20.6 |
| Women | 26.4 | 26.4 |

| Key actuarial assumptions used, 31 December 2012 | Pension Fund | Pension Foundation |
|---|---|---|
| Discount rate, % | 3.5 | 3.5 |
| Future pay increase assumption, % | 3.0 | 3.0 |
| Future pension increases, % | 2.1 | 2.1 |
| Turnover rate, % | 3.0 | 0.5 |
| Inflation rate, % | 2.0 | 2.0 |
| Life expectancy for 65-year old people | | |
| Men | 19.0 | 19.0 |
| Women | 24.7 | 24.7 |
| Life expectancy for 45-year old people after 20 years | | |
| Men | 20.6 | 20.6 |
| Women | 26.4 | 26.4 |

| | Change in defined benefit pension obligation | | | |
|---|---|---|---|---|
| | Pension Fund | | Pension Foundation | |
| **Sensitivity analysis of key actuarial assumptions, 31 December 2013** | **EUR thousand** | **%** | **EUR thousand** | **%** |
| Discount rate | | | | |
| 0.5 pp increase | -33 | -12.5 | -7 | -12.7 |
| 0.5 pp decrease | 30 | 11.1 | 6 | 11.2 |
| Pension increases | | | | |
| 0.5 pp increase | 36 | 13.7 | 5 | 8.6 |
| 0.5 pp decrease | -32 | -12.0 | -4 | -7.9 |
| Mortality | | | | |
| 1-year increase in life expectancy | 8 | 2.8 | 1 | 2.4 |
| 1-year decrease in life expectancy | -7 | -2.7 | -1 | -2.4 |

| NOTE 23. Tax liabilities | 31 Dec 2013 | 31 Dec 2012 |
|---|---|---|
| Income tax liabilities | - | 435 |
| Deferred tax liabilities | - | - |
| **Total tax liabilities** | **0** | **435** |

| NOTE 24. Shareholders’ equity | 31 Dec 2013 | 31 Dec 2012 |
|---|---|---|
| Share capital | 60,000 | 60,000 |
| Unrestricted reserves | 235,000 | 235,000 |
| Accumulated profits | | |
| Profit from previous periods | 27,919 | 19,233 |
| Profit for the period | 8,934 | 10,731 |
| **Total equity** | **331,853** | **324,964** |
| | | |
| **Distributable reserves** | **271,853** | **264,964** |
| **Distributable profits** | **36,853** | **29,964** |

The unrestricted reserves fund consist of OP-Pohjola Group Central Cooperative's capital investment of EUR 235,000,000.

**Share capital and number of shares**

| | Total |
|---|---|
| Share capital | 60,000 |
| Number of shares | 76,592 |
| Proportion of share capital, % | 100 |

OP-Pohjola Group Central Cooperative holds 100% of OP Mortgage Bank.

The minimum share capital of the Company is EUR 8,500,000 and the maximum share capital is EUR 150,000,000, within which limits the share capital may be increased or reduced without altering the Articles of Association. The minimum number of shares is 34,000 and the maximum number is 136,000. Permission from the Company is required for the acquisition of shares through transfer. The shares have no nominal value.

**NOTE 25. Classification of the balance sheet**

| Assets | Loans and receivables | Recognised at fair value through profit or loss | Available for sale | Carrying amount total | Fair value total |
|---|---|---|---|---|---|
| Receivables from financial institutions | 110,550 | | | 110,550 | 110,550 |
| Derivative contracts | | 198,086 | | 198,086 | 198,086 |
| Receivables from customers | 7,929,630 | | | 7,929,630 | 7,929,630 |
| Shares and holdings | | | 17 | 17 | 17 |
| Other receivables | 76,362 | | | 76,362 | 76,362 |
| Other Assets | 2,298 | | | 2,298 | 2,298 |
| **Total on 31 Dec 2013** | **8,118,840** | **198,086** | **17** | **8,316,944** | **8,316,944** |
| **Total on 31 Dec 2012** | **8,809,941** | **318,473** | **17** | **9,128,431** | **9,128,431** |

| Liabilities | Recognised at fair value through profit or loss* | Other liabilities | Carrying amount total | Fair value total |
|---|---|---|---|---|
| Liabilities to financial institutions | | 1,885,000 | 1,885,000 | 1,885,000 |
| Derivative contracts | 8,767 | | 8,767 | 8,767 |
| Debt securities issued to the public | | 5,991,695 | 5,991,695 | 6,247,546 |
| Subordinated liabilities | | 0 | 0 | 0 |
| Other liabilities | | 99,628 | 99,628 | 99,628 |
| **Total on 31 Dec 2013** | **8,767** | **7,976,323** | **7,985,090** | **8,240,942** |
| **Total on 31 Dec 2012** | **16,382** | **8,787,085** | **8,803,467** | **9,190,765** |

Debt securities issued to the public have been valued at allocated acquisition cost in accounting. The value obtained for these debt securities through information available on the market and established valuation methods was about EUR 255,851 thousand higher than the book value at the end of December.

## NOTE 26. Grouping of the balance sheet according to the valuation method

| Assets recognised at fair value | 31 Dec 2013 Balance sheet value | Valuation of fair value at the end of the period Level 1* | Level 2** | Level 3*** |
|---|---|---|---|---|
| Derivative contracts | 198,086 | - | 198,086 | - |
| **Total** | **198,086** | **-** | **198,086** | **-** |

| Assets recognised at fair value | 31 Dec 2012 Balance sheet value | Valuation of fair value at the end of the period Level 1* | Level 2** | Level 3*** |
|---|---|---|---|---|
| Derivative contracts | 318,473 | - | 318,473 | - |
| **Total** | **318,473** | **-** | **318,473** | **-** |

| Liabilities recognised at fair value | 31 Dec 2013 Balance sheet value | Valuation of fair value at the end of the period Level 1* | Level 2** | Level 3*** |
|---|---|---|---|---|
| Derivative contracts | 8,767 | - | 8,767 | - |
| **Total** | **8,767** | **-** | **8,767** | **-** |

| Liabilities recognised at fair value | 31 Dec 2012 Balance sheet value | Valuation of fair value at the end of the period Level 1* | Level 2** | Level 3*** |
|---|---|---|---|---|
| Derivative contracts | 16,382 | - | 16,382 | - |
| **Total** | **16,382** | **-** | **16,382** | **-** |

| Financial liabilities not recognised at fair value | 31 Dec 2013 Balance sheet value | Valuation of fair value at the end of the period Level 1* | Level 2** | Level 3*** |
|---|---|---|---|---|
| Debt securities issued to the public | 5,991,695 | 6,139,724 | 107,822 | 0 |
| **Total** | **5,991,695** | **6,139,724** | **107,822** | **-** |

| Financial liabilities not recognised at fair value | 31 Dec 2012 Balance sheet value | Valuation of fair value at the end of the period Level 1* | Level 2** | Level 3*** |
|---|---|---|---|---|
| Debt securities issued to the public | 6,109,687 | 6,107,110 | 389,875 | 0 |
| **Total** | **6,109,687** | **6,107,110** | **389,875** | **-** |

* Items grouped in hierarchy level 1 are made up of shares quoted on the largest stock exchanges, companies' quoted debt securities, debt securities of states and financial institutions with a credit rating of at least A and stock exchange derivatives. The fair value of these instruments is determined by quotations from the market.

** Valuation methods based on reliable calculation parameters. The fair value of instruments classified in hierarchy level 2 refers to the value that can be derived from the market value of the financial instrument's parts or equivalent financial instruments or a value that can be calculated using valuation models and methods generally accepted in the financial market if the market value can be reliably assessed by means of them.

In OP Pohjola Group, OTC derivatives, treasury bills, debt securities of companies and financial institutions, purchase and resale agreements (repo) and securities given or received as a loan.

*** Valuation methods whose calculation parameters involve special uncertainty. Instruments classified in group 3 are valued using pricing models whose calculation parameters involve special uncertainty. This balance sheet group includes more complex OTC derivatives, certain private equity investments, illiquid loans, structured loans including securitised loans and structured debt securities, as well as hedge funds.

**Transfers between the levels of fair value valuation**

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

## NOTES CONCERNING CONTINGENT LIABILITIES AND DERIVATIVES

| NOTE 27. Off-balance-sheet commitments | 31 Dec 2013 | 31 Dec 2012 |
|---|---|---|
| Credit commitments | 4,568 | 7,976 |
| **Total off-balance-sheet commitments** | **4,568** | **7,976** |

| NOTE 28. Leases | 31 Dec 2013 | 31 Dec 2012 |
|---|---|---|

**OP Mortgage Bank plc as the lessor**

OP Mortgage Bank plc has leased facilities from OP-Pohjola Group Central Cooperative.

| | | |
|---|---|---|
| Leases of facilities | 48 | 43 |

### NOTE 29. Derivative contracts

**Derivative contracts held for hedging – fair value hedging on 31 Dec 2013**

| | Nominal values/remaining maturity | | | | Fair values | | Credit |
|---|---|---|---|---|---|---|---|
| | Less than 1 year | 1 to 5 years | than 5 years | Total | Assets | Liabilities | counter-value |
| **Interest rate derivatives** | | | | | | | |
| Interest rate swaps | 2,936,007 | 11,644,865 | 396,000 | 14,976,872 | 198,086 | 8,767 | 325,316 |
| **Total interest rate derivatives** | **2,936,007** | **11,644,865** | **396,000** | **14,976,872** | **198,086** | **8,767** | **325,316** |

**Derivative contracts held for hedging – fair value hedging on 31 Dec 2012**

| | Nominal values/remaining maturity | | | | Fair values | | Credit |
|---|---|---|---|---|---|---|---|
| | Less than 1 year | 1 to 5 years | than 5 years | Total | Assets | Liabilities | counter-value |
| **Interest rate derivatives** | | | | | | | |
| Interest rate swaps | 585,259 | 12,947,452 | 2,330,000 | 15,862,711 | 318,473 | 16,382 | 328,295 |
| **Total interest rate derivatives** | **585,259** | **12,947,452** | **2,330,000** | **15,862,711** | **318,473** | **16,382** | **328,295** |

**Total derivatives held for trading and hedging on 31 Dec 2013**

| | Nominal values/remaining maturity | | | | Fair values | | Credit |
|---|---|---|---|---|---|---|---|
| | Less than 1 year | 1 to 5 years | than 5 years | Total | Assets | Liabilities | counter-value |
| **Interest rate derivatives** | | | | | | | |
| Interest rate swaps | 2,936,007 | 11,644,865 | 396,000 | 14,976,872 | 198,086 | 8,767 | 325,316 |
| **Total derivatives** | **2,936,007** | **11,644,865** | **396,000** | **14,976,872** | **198,086** | **8,767** | **325,316** |

**Total derivatives held for trading and hedging on 31 Dec 2012**

| | Nominal values/remaining maturity | | | | Fair values | | Credit |
|---|---|---|---|---|---|---|---|
| | Less than 1 year | 1 to 5 years | than 5 years | Total | Assets | Liabilities | counter-value |
| **Interest rate derivatives** | | | | | | | |
| Interest rate swaps | 585,259 | 12,947,452 | 2,330,000 | 15,862,711 | 318,473 | 16,382 | 328,295 |
| **Total derivatives** | **585,259** | **12,947,452** | **2,330,000** | **15,862,711** | **318,473** | **16,382** | **328,295** |

# OTHER NOTES

## NOTE 30. Personnel and related party

The average number of personnel was six (6) people in 2013.

OP Mortgage Bank's related parties include the OP-Pohjola Group Central Cooperative and its subsidiaries, the OP Bank Group pension insurance companies, the OP Pension Fund and the OP Pension Foundation, as well as the company's management personnel.

**Subsidiaries of the OP-Pohjola Group Central Cooperative**

| | |
|---|---|
| Pohjola Group (with Pohjola Bank plc as the parent company) | Helsinki |
| Helsinki OP Bank Plc | Helsinki |
| OP-Kotipankki Oyj | Helsinki |
| OP Fund Management Company Ltd | Helsinki |
| OP Life Assurance Company Ltd | Helsinki |
| Helsingin Seudun OP-Kiinteistökeskus Oy | Helsinki |
| OP-Services Ltd | Helsinki |
| OP Process Services Ltd | Helsinki |
| Aurum Investment Insurance Ltd | Helsinki |

**Business transactions with related parties**

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | Parent | Management | Other | Parent company | Management | Other |
| **Other receivables** | | | 380,375 | | | 443,458 |
| **Other liabilities** | | | 2,002,444 | 0 | | 2,706,522 |
| Interest income | | | 20,136 | | | -55,386 |
| Interest expenses | | | -22,223 | 127 | | -189,919 |
| Dividend income | | | | | | |
| Net commission income and expenses | | | 1,963 | | | 2,106 |
| Other operating income | | | - | | | -886 |
| Operating costs | 251 | | | 136 | | 2,270 |
| **Salaries and remuneration, and performance-related pay** | | | | | | |
| Salaries and remuneration | | 8 | | | 13 | |
| Performance-related pay | | | | | | |
| **Insider holdings** | | | | | | |
| **Number of shares** | **76,592** | | | **76,592** | | |

Starting from 1 August 2009, the Managing Director's services have been purchased from Pohjola Bank plc. The costs have been recognised in administrative expenses in the income statement. Members of the Board of Directors not employed by the OP-Pohjola Group Central Cooperative or its subsidiaries are entitled to a meeting fee of EUR 550. The Managing Director does not have a separate pension

## NOTE 31. Long-term incentive schemes

**Long-term management incentive scheme**

OPA has adopted a management incentive scheme, under which the Managing Director within the scheme may receive a reward partially settled in Pohjola Bank plc shares and partially in cash. The amount of the reward depends on the set objectives. Rewards are paid after the entitlement earning and commitment period. The value of the fee paid as shares and cash is allocated as personnel cost over the earning and commitment period.

**Short-term incentive scheme**

The short-term incentive scheme complies with the EU variable remuneration regulations in the financial sector that came into force on 1 January 2011. The scheme is based on OP Mortgage Bank’s company-specific targets. The performance indicator targets have been set at a level that does not encourage excessive risk-taking.

The short-term scheme covers all personnel and its performance period is one calendar year and the related bonus will be paid in cash. Expenses for the scheme are recognised until the date of payment under other deferred expenses.
The liability is measured at fair value on each balance sheet date.
Bonuses under the short-term scheme accounts for only a small share of the company's personnel costs,

**Personnel Fund**

OP Bank Group Mortgage Bank's employees are members of the OP Bank Group personnel fund. The share of profit rewards from OP Mortgage Bank's personnel costs is low.

## NOTE 32. Post-fiscal events

No significant post-fiscal events.

# NOTES CONCERNING RISK MANAGEMENT

## NOTE 33. Own funds and capital adequacy

Information about own funds and capital adequacy has been presented in the report of the board of directors.

## NOTE 34. Financial assets and associated impairment losses during the period

OP Mortgage Bank's financial assets comprise the items disclosed under Notes 12–15. Impairment losses on loans on a collective basis of EUR -53,000 have been recognised as financial assets.

## NOTE 35. Liabilities

| | 31 Dec 2013 Finland | | | 31 Dec 2012 Finland | | |
|---|---|---|---|---|---|---|
| | Accounting balance | Impairment losses | Interest carried | Accounting balance | Impairment losses | Interest carried forward |
| **Assets** | | | | | | |
| Receivables from financial institutions | 110,550 | | | 53,300 | | |
| Receivables from customers | 7,929,630 | 395 | 4,468 | 8,677,652 | 414 | 6,068 |
| Derivative contracts | | | | | | |
| Other | | | | | | |
| **Total** | 8,040,180 | 395 | 4,468 | 8,730,952 | 414 | 6,068 |
| **Off-balance sheet commitments** | | | | | | |
| Unclaimed loans and limits | 4,568 | | | 7,976 | | |
| Derivative contracts | 325,316 | | | 477,896 | | |
| **Total** | 329,883 | | | 485,872 | | |
| **Total liabilities** | **8,370,063** | **395** | **4,468** | **9,216,824** | **414** | **6,068** |

Derivative contracts are disclosed at positive market value recognised in accounting.

## NOTE 36. Liabilities by sector

| | 31 Dec 2013 | | | 31 Dec 2012 | | |
|---|---|---|---|---|---|---|
| | Net balance sheet liabilities | Off-balance sheet | | Net balance sheet liabilities | Off-balance sheet | |
| | Finnish | Finnish | Total | Finnish | Finnish | Total |
| Companies | 25,180 | 0 | 25,180 | 31,099 | 14 | 31,112 |
| Financial and insurance institutions | 110,550 | 325,316 | 435,865 | 53,300 | 477,896 | 531,196 |
| Households | 7,908,918 | 4,568 | 7,913,486 | 8,652,622 | 7,962 | 8,660,584 |
| Non-profit organisations | | | | | | |
| **Total** | **8,044,648** | **329,883** | **8,374,531** | **8,737,020** | **485,872** | **9,222,892** |

## NOTE 37. Credit risks

The Bank's key credit risk indicators show that the credit risk position is stable. On 31 December 2013, non-performing receivables totalled EUR 2,947,000. Impairments have not been recognised on receivables. The loan portfolio was diversified. OP Mortgage Bank does not have any group of connected clients with liabilities in excess of 10% of the company's own funds.

OP Mortgage Bank had matured receivables of EUR 10,101,000 on 31 December 2013. Matured receivables include repayments and interest that have been overdue for more than 30 days but less than 90 days, as well as the full remaining capital of these loans.

## NOTE 38. Liabilities by credit rating

| **Personal liabilities by credit rating** | **31 Dec 2013** | **31 Dec 2012** |
|---|---|---|
| Personal liabilities on the balance sheet, class A | 5,425,192 | 5,726,517 |
| Personal liabilities on the balance sheet, class B | 1,640,312 | 1,851,769 |
| Personal liabilities on the balance sheet, class C | 572,699 | 715,786 |
| Personal liabilities on the balance sheet, class D | 213,504 | 277,587 |
| Personal liabilities on the balance sheet, class E | 35,388 | 39,157 |
| Personal liabilities on the balance sheet, class F | 18,714 | 17,040 |
| Personal liabilities on the balance sheet, not classified | 3,107 | 24,765 |
| Off-balance sheet personal liabilities A | 3,141 | 4,399 |
| Off-balance sheet personal liabilities B | 322 | 508 |
| Off-balance sheet personal liabilities C | 16 | 116 |
| Off-balance sheet personal liabilities D | 0 | 7 |
| Off balance sheet personal liabilities, not classified | 1,088 | 2,933 |
| **Total personal liabilities** | **7,913,486** | **8,660,584** |

| **Corporate liabilities by credit rating** | **31 Dec 2013** | **31 Dec 2012** |
|---|---|---|
| Corporate liabilities on the balance sheet, class 2,0 | 153 | 164 |
| Corporate liabilities on the balance sheet, class 4,0 | 37 | 63 |
| Corporate liabilities on the balance sheet, class 4,5 | - | 2 |
| Corporate liabilities on the balance sheet, class 5,0 | 17,452 | 8,917 |
| Corporate liabilities on the balance sheet, class 5,5 | 3,431 | 18,380 |
| Corporate liabilities on the balance sheet, class 6,0 | 2,282 | 1,471 |
| Corporate liabilities on the balance sheet, class 6,5 | 661 | 1,235 |
| Corporate liabilities on the balance sheet, class 7,0 | 549 | 342 |
| Corporate liabilities on the balance sheet, class 7,5 | - | 55 |
| Corporate liabilities on the balance sheet, class 8,0 | 191 | 263 |
| Corporate liabilities on the balance sheet, class 9,0 | - | 152 |
| Corporate liabilities on the balance sheet, class 10.0 | 424 | 40 |
| Corporate liabilities on the balance sheet, not classified | - | 15 |
| Off balance sheet corporate liabilities, not classified | - | - |
| Off-balance sheet corporate liabilities, class 5,0 | - | - |
| Off-balance sheet corporate liabilities, class 5,5 | - | 5 |
| Off-balance sheet corporate liabilities, class 6,0 | - | - |
| Off-balance sheet corporate liabilities, class 10,0 | - | 9 |
| **Total corporate liabilities** | **25,180** | **31,112** |

## NOTE 39. Structure of funding

| | **31 Dec 2013** | **Share, %** | **31 Dec 2012** | **Share, %** |
|---|---|---|---|---|
| Liabilities to financial institutions | 1,885,000 | 22.7 | 2,570,000 | 28.2 |
| Debt securities issued to the public | 5,991,695 | 72.1 | 6,109,687 | 67.1 |
| Other liabilities | 99,628 | 1.2 | 107,398 | 1.2 |
| Total subordinated liabilities | - | - | - | - |
| Shareholders' equity | 331,853 | 4.0 | 324,964 | 3.6 |
| **Total** | **8,308,176** | **100.0** | **9,112,049** | 100.0 |

## NOTE 40. Maturity distribution of financial assets and liabilities by remaining time of maturity

| 31 Dec 2013 | Less than 3 months | 3 to 12 months | 1 to 5 years | 5 to 10 years | More than 10 year | Total |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Receivables from financial institutions | 110,550 | - | - | - | - | 110,550 |
| Receivables from customers | 205,078 | 624,140 | 2,928,071 | 2,485,505 | 1,686,836 | 7,929,630 |
| **Total financial assets** | **315,628** | **624,140** | **2,928,071** | **2,485,505** | **1,686,836** | **8,040,180** |
| | | | | | | |
| **Financial liabilities** | | | | | | |
| Liabilities to financial institutions | 1,260,000 | 0 | 459,000 | 166,000 | - | 1,885,000 |
| Debt securities issued to the public | 0 | 1,248,809 | 4,628,208 | - | 114,678 | 5,991,695 |
| **Total financial liabilities** | **1,260,000** | **1,248,809** | **4,628,208** | **166,000** | **114,678** | **7,417,695** |

| 31 Dec 2013 | Less than 1 year | More than 1 year | Total |
|---|---|---|---|
| **Off-balance sheet commitments** | 4,568 | - | 4,568 |
| **Total off-balance sheet commitments** | **4,568** | **-** | **4,568** |

| 31 Dec 2012 | Less than 3 months | 3 to 12 months | 1 to 5 years | 5 to 10 years | More than 10 year | Total |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Receivables from financial institutions | 53,300 | - | - | - | - | 53,300 |
| Receivables from customers | 211,377 | 647,162 | 3,094,853 | 2,705,191 | 2,019,069 | 8,677,652 |
| **Total financial assets** | **264,677** | **647,162** | **3,094,853** | **2,705,191** | **2,019,069** | **8,730,952** |
| | | | | | | |
| **Financial liabilities** | | | | | | |
| Liabilities to financial institutions | 2,570,000 | - | - | - | - | 2,570,000 |
| Debt securities issued to the public | - | 317,805 | 4,584,155 | 1,093,075 | 114,652 | 6,109,687 |
| **Total financial liabilities** | **2,570,000** | **317,805** | **4,584,155** | **1,093,075** | **114,652** | **8,679,687** |

| 31 Dec 2012 | Less than 1 year | More than 1 year | Total |
|---|---|---|---|
| **Off-balance sheet commitments** | 7,976 | - | 7,976 |
| **Total off-balance sheet commitments** | **7,976** | **-** | **7,976** |

## NOTE 41. Funding risk

The most significant source of funding risks for OP Mortgage Bank is centralised funding. The management of OP-Pohjola Group's capital adequacy is centralised with Pohjola Bank and, as a result, OPA can utilise OP-Pohjola Group's liquidity reserves. OPA's Board of Directors has set a risk limit for funding risks, specifying that the nominal value of bonds with real estate security maturing during the period cannot exceed EUR 1.5 billion. The limit was not exceeded in 2013.

## NOTE 42. Maturity of financial assets and liabilities by due date or repricing

Contractual repricing dates or earlier due dates on 31 December 2013.

| 31 Dec 2013 | 1 month or less | > 1 to 3 months | > 3 to 12 months | > 1 to 2 years | > 2 to 5 years | More than 5 years | Total |
|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | |
| Receivables from financial institutions | 110,550 | | | | | | **110,550** |
| Receivables from customers | 2,522,150 | 2,031,917 | 3,297,487 | 14,552 | 35,924 | 27,600 | **7,929,630** |
| | **2,632,700** | **2,031,917** | **3,297,487** | **14,552** | **35,924** | **27,600** | **8,040,180** |
| | | | | | | | |
| **Financial liabilities** | | | | | | | |
| Liabilities to financial institutions | 1,260,000 | 625,000 | - | - | - | - | **1,885,000** |
| Debt securities issued to the public | | 199,954 | 1,442,354 | 997,533 | 3,237,175 | 114,678 | **5,991,695** |
| **Total financial liabilities** | **1,260,000** | **824,954** | **1,442,354** | **997,533** | **3,237,175** | **114,678** | **7,876,695** |
| | | | | | | | |
| **Subordinated liabilities** | - | - | - | - | - | - | **-** |
| **Total subordinated liabilities** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |

| 31 Dec 2012 | 1 month or less | > 1 to 3 months | > 3 to 12 months | > 1 to 2 years | > 2 to 5 years | More than 5 years | Total |
|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | |
| Receivables from financial institutions | 53,300 | | | | | | **53,300** |
| Receivables from customers | 2,872,901 | 2,232,328 | 3,488,731 | 11,269 | 47,108 | 25,314 | **8,677,652** |
| | **2,926,201** | **2,232,328** | **3,488,731** | **11,269** | **47,108** | **25,314** | **8,730,952** |
| | | | | | | | |
| **Financial liabilities** | | | | | | | |
| Liabilities to financial institutions | 2,570,000 | - | - | - | - | - | **2,570,000** |
| Debt securities issued to the public | - | 199,942 | 317,805 | 1,247,572 | 3,236,641 | 1,107,727 | **6,109,687** |
| **Total financial liabilities** | **2,570,000** | **199,942** | **317,805** | **1,247,572** | **3,236,641** | **1,107,727** | **8,679,687** |
| | | | | | | | |
| **Subordinated liabilities** | - | - | - | - | - | - | **0** |
| **Total subordinated liabilities** | **-** | **-** | **-** | **-** | - | **-** | **0** |

## NOTE 43. Interest rate risk

OP Mortgage Bank's interest rate indicator examines the impact of an increase of one percentage point in interest rates on the present value of the interest position without comparing the customer margin with the Bank's assets. The indicator stood at 0.05% at year-end. The risk limits set for the indicator following the amount of own funds at year-end were +/-1.0%. The Bank's interest rate risk can be regarded as minor.

**Sensitivity analysis for interest rate risk**

| | | | Impact on earnings | | Impact on equity | |
|---|---|---|---|---|---|---|
| **EUR thousand** | **Risk parameter** | **Change** | **31 Dec 2013** | **31 Dec 2012** | **31 Dec 2013** | **31 Dec 2012** |
| Interest rate risk (1) | interest | 1% points | -177.0 | -423.1 | 0.0 | -319.4 |

## NOTE 44. Real estate risk

OP Mortgage Bank does not possess any properties, or shares or interests in housing or real estate companies as a result of unpaid receivables.

# OP MORTGAGE BANK PLC

## SIGNATURES TO THE FINANCIAL STATEMENTS AND ANNUAL REPORT

Helsinki, 6 February 2014

Harri Luhtala

Elina Ronkanen-Minogue

Hanno Hirvinen

Mika Helin

Jari Tirkkonen

Sakari Haapakoski

Lars Björklöf

Lauri Iloniemi
Managing Director

## AUDITOR'S NOTE

We have today issued an auditors' report on the performed audit

Helsinki, 10 February 2014

KPMG Oy Ab
Authorised Public Accountants

Juha-Pekka Mylén
Authorised Public Accountant

**KPMG Oy Ab**
PO Box 1037
00101 Helsinki
FINLAND

Mannerheimintie 20 B
00100 Helsinki
FINLAND
Telephone +358 20 760 3000
Telefax +358 20 760 3897
www.kpmg.fi

*This document is an English translation of the Finnish auditor's report. Only the Finnish version of the report is legally binding.*

## AUDITOR'S REPORT

### *To the Annual General Meeting of OP-Asuntoluottopankki Oyj*

We have audited the accounting records, the financial statements, the report of the Board of Directors and the administration of OP-Asuntoluottopankki Oyj for the year ended 31 December, 2013. The financial statements comprise the balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flow and notes to the financial statements.

*Responsibility of the Board of Directors and the Managing Director*

The Board of Directors and the Managing Director are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the preparation of financial statements and the report of the Board of Directors that give a true and fair view in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the Managing Director shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

*Auditor's Responsibility*

Our responsibility is to express an opinion on the financial statements and on the report of the Board of Directors based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the report of the Board of Directors are free from material misstatement, and whether the members of the Board of Directors and the Managing Director are guilty of an act or negligence which may result in liability in damages towards the company or have violated the Finnish Credit Institutions Act, Limited Liability Companies Act or the articles of association of the company.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and report of the Board of Directors that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion on the financial statements and the report of the Board of Directors*

In our opinion, the financial statements give a true and fair view of the financial position, financial performance, and cash flows of the bank in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

In our opinion, the report of the Board of Directors give a true and fair view of the bank's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

Helsinki, 10 February 2014

KPMG OY AB

[*signed*]
Juha-Pekka Mylén
*Authorized Public Accountant in Finland*