OP MORTGAGE BANK

Interim Report 1 January–31 March 2013

OP Mortgage Bank's (OPA) loan portfolio grew from EUR 8,678 million on 31 December 2012 to EUR 8,848 million on 31 March 2013. The bank increased its loan portfolio in February and March when it purchased housing loans from OP-Pohjola Group member cooperative banks. No new bonds were issued during the review period.

Earnings Development

EUR thousand	Q1/2013	Q1/2012	Change, %	2012
Income				
Net interest income	8,329	6,768	23	29,884
Net commissions and fees	-3,669	-2,747	34	-11,992
Net income from trading	0	0		0
Net income from investments	1	1	-	-186
Other operating income	-	-		0
Total	**4,660**	**4,022**	16	**17,707**
Expenses				
Personnel costs	120	96	25	400
Other administrative expenses	423	452	-6	1,586
Other operating expenses	345	230	50	1,459
Total	**888**	**778**	14	**3,445**
Impairments of receivables	**10**	**-1**		**-53**
Earnings before tax	**3,782**	**3,243**	17	**14,209**

OPA's net interest income January–March increased to EUR 8,329 thousand (6,768)*. The increase was due to the growth of the loan portfolio. Earnings before tax January–March amounted to EUR 3,782 thousand (3,243). Net commissions and fees were negative. Commission income increased to EUR 1,492 thousand (1,106) and commission expenses to EUR 5,162 thousand (3,853). Commission expenses consisted mainly of commissions paid to OP-Pohjola Group member banks for servicing housing loans.

The bank's expenses increased to EUR 888 thousand (778).

*) For balance sheet and other cross-sectional figures, the point of comparison is the figure at the previous balance sheet date (31 December 2012). Comparatives deriving from the income statement are based on figures reported for the corresponding period a year ago.

Balance Sheet and Off-balance Sheet Commitments

OPA's balance sheet total amounted to EUR 9,295 million (9,128)* on 31 March.

Change in Major Asset and Liability Items

EUR million	31 Mar 2013	31 Dec 2012	30 Sept 2012	30 June 2012	31 Mar 2012
Balance sheet	9,296	9,128	8,976	9,263	8,427
Receivables from customers	8,848	8,678	8,511	8,841	8,000
Receivables from financial institutions	53	53	77	93	72
Debt securities issued to the public	6,069	6,110	5,879	5,716	5,440
Liabilities to financial institutions	2,747	2,570	2,650	3,100	2,490
Shareholders' equity	326	325	312	310	287
Off-balance sheet commitments	11	8	9	11	8

The bank's loan portfolio grew to EUR 8,848 million (8,678) on 31 December 2012. OPA increased its loan portfolio in the review period when it purchased housing loans from OP-Pohjola Group member banks for EUR 463 million.

On 31 March, households accounted for 99.6 per cent (99.6) of the loan portfolio and housing corporations for 0.4 per cent (0.4). At period end, OPA's non-performing receivables totalled EUR 3.4 million (2.9).

The carrying amount of the bonds issued to the public totalled EUR 6,069 million (6,110) on 31 March. In addition to bonds, OPA funded its operations through financing loans taken out with Pohjola Bank plc (Pohjola). On 31 March, financing loans totalled EUR 2,747 million (2,570).

Retained earnings amounted to EUR 31 million (30) at the end of the review period.

OPA has hedged against the interest-rate risk associated with its housing loan portfolio through interest-rate swaps, i.e. base rate cash flows from the housing loans to be hedged are swapped to Euribor cash flows. OPA has also swapped the fixed interest rates of the bonds it has issued to short-term market rates. OPA's interest-rate derivative portfolio totalled EUR 16,024 million (15,862). All derivative contracts have been concluded for hedging purposes. Pohjola Bank plc is the counterparty to all derivative contracts.

Collateralisation of bonds issued to the public

Mortgages collateralising covered bonds issued before 1 August 2010, under the Finnish Act on Mortgage Credit Banks (1240/1999), are included in Cover Asset Pool A. The balance of Pool A was EUR 3,200 million at the end of March.
Mortgages collateralising covered bonds issued after 1 August 2010, under the Finnish Covered Bonds Act (688/2010), are included in Cover Asset Pool B. The balance of Pool B was EUR 5,169 million at the end of March.

*) For balance sheet and other cross-sectional figures, the point of comparison is the figure at the previous balance sheet date (31 December 2012). Comparatives deriving from the income statement are based on figures reported for the corresponding period a year ago.

Development of Capital Adequacy

OPA's capital adequacy ratio stood at 8.9% on 31 March. Capital ratio excluding transition rules stood at 42.4%.

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). With respect to the capital adequacy requirement for operational risks, OPA has adopted the Standardised Approach.

OWN FUNDS, EUR thousand	31 Mar 2013	31 Dec 2012	31 Mar 2012
Equity capital	325,819	324,964	286,720
Intangible assets	-1,128	-1,101	-739
Excess funding of pension liability and fair value of measurement of investment property	-12	-13	-16
Planned dividend distribution	-500	-2,001	0
Shortfall of impairments – expected losses	-3,662	-3,705	-3,300
Shortfall of other Tier 1 capital	-3,662	-3,705	-
Core Tier 1 capital	**316,855**	**314,440**	**282,665**
Shortfall of Tier 2 capital	-3,662	-3,705	-
Transfer to core tier 1 capital	3,662	3,705	-
Tier 1 capital	**316,855**	**314,440**	**282,665**
Debenture loans	-	-	16,000
Shortfall of impairments – expected losses	-3,662	-3,705	-3,300
Transfer to Tier 1 capital	3,662	3,705	-
Tier 2 capital	**-**	**-**	**12,700**
Total capital base	**316,855**	**314,440**	**295,365**
Capital adequacy ratio, %	8.9	9.2	9.4
Tier 1 ratio to risk-weighted commitments	8.9	9.2	9.0
Core Tier 1 ratio	8.9	9.2	9.0
Capital ratio excluding transition rules			
Capital adequacy ratio, %	42.4	41.9	42.5
Tier 1 ratio to risk-weighted commitments	42.4	41.9	40.7
Core Tier 1 ratio	42.4	41.9	40.7

The increase in shareholders' equity arising from the measurement of pension liabilities and the assets covering them, under IFRS, is not considered own funds. Furthermore, intangible assets were also deducted from own funds. The Impairments – shortfall of expected losses total EUR 7.3 million.

Risk-weighted receivables, investments and off-balance sheet commitments, EUR thousand	31 Mar 2013	31 Dec 2012	31 Mar 2012
Credit risk	726,956	732,713	673,761
Market risk	-	-	-
Operational risk	19,941	14,043	14,043
Requirement for period of transition	2,796,638	2,656,632	2,457,506
Risk-weighted receivables, investments and off-balance sheet commitments, total	3,543,534	3,407,573	3,152,668

The increase in the amount of risk-weighted commitments was due to an increased loan portfolio.

Joint Responsibility and Joint Security

Under the Act on Cooperative Banks and Other Cooperative Credit Institutions, the amalgamation of the cooperative banks comprises the organisation’s central institution (OP-Pohjola Group Central Cooperative), the Central Cooperative’s member credit institutions and the companies belonging to their consolidation groups. This amalgamation is monitored on a consolidated basis. The Central Cooperative and its member banks are ultimately responsible for each other's liabilities and commitments. The Central Cooperative's members at the end of the report period comprised OP-Pohjola Group's 196 member banks as well as Pohjola Bank plc, Helsinki OP Bank plc, OP Mortgage Bank and OP-Kotipankki Plc. OP-Pohjola Group's insurance companies do not fall within the scope of joint responsibility.

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

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

In spite of the joint responsibility and the joint security, pursuant to Section 25 of the Finnish Covered Bonds Act, the holder of a bond with mortgage collateral shall, notwithstanding the liquidation or bankruptcy of a mortgage credit bank, have the right to receive payment, before other claims, for the entire loan period of the bond, in accordance with the contract terms, from the funds entered as collateral for the bond.

Personnel

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

Administration

The Annual General Meeting held in March confirmed the composition of the new Board of Directors. Mr Jari Tirkkonen, Senior Vice President, OP-Pohjola Group Central Cooperative, was elected as a new member of the Board of Directors. Mr Mikko Hyttinen, Bank Manager, OP-Pohjola Group Central Cooperative, retired from the Board of Directors. The Board composition is as follows:

Chairman	Harri Luhtala	Chief Financial Officer, OP-Pohjola Group Central Cooperative
Vice Chairman	Elina Ronkanen-Minogue	Senior Vice President, OP-Pohjola Group Central Cooperative
Members	Lars Björklöf	Managing Director, Osuuspankki Raasepori
	Sakari Haapakoski	Bank Manager, Oulun Osuuspankki
	Mika Helin	Executive Vice President, Hämeenlinnan Seudun Osuuspankki
	Hanno Hirvinen	Executive Vice President, Pohjola Bank plc
	Jari Tirkkonen	Senior Vice President, OP-Pohjola Group Central Cooperative

OPA’s Managing Director is Lauri Iloniemi.

Risk Exposure

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

Outlook

The existing issuance programme will make it possible to issue new covered bonds in 2013. It is expected that the Company's capital adequacy will remain strong, risk exposure will be favourable and the overall quality of the credit portfolio will remain strong.

Income Statement

EUR thousand	Q1/2013	Q1/2012	Change, %	2012
Interest income	20,070	36,941	-46	121,246
Interest expenses	11,742	30,172	-61	91,362
Net interest income	**8,329**	**6,768**	23	**29,884**
Impairments of receivables	10	-1		-53
Net commissions and fees	-3,669	-2,747	34	-11,992
Net income from trading	0	0		0
Net income from investments	1	1		-186
Other operating income	-	-		0
Personnel costs	120	96	25	400
Other administrative expenses	423	452	-6	1,586
Other operating expenses	345	230	50	1,459
Earnings before tax	**3,782**	**3,243**	17	**14,209**
Income taxes	926	794	17	3,478
Profit for the period	**2,856**	**2,449**	17	**10,731**

Statement of comprehensive income

Profit for the period	2,856	2,449	17	10,731
Actuarial gains/losses on post-employment benefit obligations	-	-		-50
Income tax on actuarial gains/losses on post-employment benefit obligations	-	-		12
Total comprehensive income	**2,856**	**2,449**	17	**10,693**

Key Ratios

	Q1/2013	**Q1/2012**	**2012**
Return on equity (ROE), %	3.5	3.6	3.7
Cost/income ratio, %	19	19	19

Calculation of key ratios

Return on equity, % = Annualised profit for the period / Equity capital (average equity capital at the beginning and end of the period) × 100

Cost / income ratio, % = (Personnel costs + Other administrative expenses + Other operating expenses) / (Net interest income + Net commission income + Net income from trading + Net income from investments + Other operating income) × 100

Balance Sheet

EUR thousand	31 Mar 2013	31 Mar 2012	Change, %	31 Dec 2012
Receivables from financial institutions	52,881	72,060		53,300
Derivative contracts	276,403	215,138	28	318,473
Receivables from customers	8,847,903	7,999,754	11	8,677,652
Investments assets	17	17		17
Intangible assets	1,128	739	53	1,101
Tangible assets	-	-		-
Other assets	117,146	139,590	-16	77,854
Tax receivables	33	8		35
Total assets	**9,295,512**	**8,427,306**	**10**	**9,128,431**
Liabilities to financial institutions	2,747,000	2,490,000		2,570,000
Derivative contracts	10,867	15,716		16,382
Debt securities issued to the public	6,068,986	5,439,837	12	6,109,687
Reserves and other liabilities	142,136	174,277	-18	106,964
Tax liabilities	704	755		435
Subordinated debt securities	-	20,000		-
Total liabilities	8,969,693	8,140,586	10	8,803,467
Shareholders' equity				
Share capital	60,000	60,000	0	60,000
Reserve for invested unrestricted equity	235,000	205,000	15	235,000
Retained earnings	30,819	21,720	42	29,964
Total equity	325,819	286,720	14	324,964
Total liabilities and shareholders’ equity	**9,295,512**	**8,427,306**	**10**	**9,128,431**

Off-balance Sheet Commitments

EUR thousand	**31 Mar 2013**	**31 Mar 2012**	**31 Mar 2011**	**31 Dec 2011**
Binding credit commitments	11,352	7,869	7,676	7,456

Change Calculation on Shareholders' Equity

EUR thousand	Share capital	Other reserves	Retained earnings	Total equity
Shareholders' equity 1 Jan 2012	**60,000**	**175,000**	**21,271**	**256,271**
Reserve for invested unrestricted equity		30,000		30,000
Profit for the period			2,449	2,449
Other changes			-2,001	-2,001
Shareholders' equity 31 March 2012	**60,000**	**205,000**	**27,720**	**286,720**

EUR thousand	Share capital	Other reserves	Retained earnings	Total equity
Shareholders' equity 1 Jan 2013	**60,000**	**235,000**	**29,964**	**324,964**
Reserve for invested unrestricted equity		-		-
Profit for the period			2,856	2,856
Other changes			-2,001	-2,001
Shareholders' equity 31 March 2013	**60,000**	**235,000**	**30,819**	**325,819**

Cash Flow Statement

EUR thousand	Q1/2013	Q1/2012
Liquid assets 1 January	**53,300**	**82,434**
Cash flow from operations	46	-39,618
Cash flow from investments	-83	-236
Cash flow from financing	-381	29,479
Liquid assets 31 March	**52,881**	**72,060**

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

Fair values of financial assets and liabilities

EUR thousand	Loans and receivables	Recognised at fair value through profit or loss*	Available for sale	Total
Financial assets				
Receivables from financial institutions	52,881			52,881
Derivative contracts		276,403		276,403
Receivables from customers	8,847,903			8,847,903
Equities			17	17
Other receivables	117,180			117,180
Balance at 31 March 2013	**9,017,964**	**276,403**	**17**	**9,294,384**
Balance at 31 March 2012	**8,211,412**	**215,138**	**17**	**8,426,567**
Balance at 31 December 2012	**8,808,806**	**318,473**	**17**	**9,127,296**

EUR thousand		Recognised at fair value through profit or loss*	Other liabilities	Total
Liabilities				
Liabilities to financial institutions	-		2,747,000	2,747,000
Derivative contracts	-	10,867		10,867
Debt securities issued to the public	-		6,068,986	6,068,986
Subordinated liabilities	-		-	-
Other liabilities	-		142,840	142,840
Balance at 31 March 2013	-	**10,867**	**8,958,826**	**8,969,693**
Balance at 31 March 2012	-	**15,716**	**8,124,870**	**8,140,586**
Balance at 31 December 2012	-	**16,382**	**8,787,085**	**8,803,467**

*) Debt securities issued to the public are carried at amortised cost.
On 31 March 2013, the fair value of these debt instruments was approximately EUR 346,211 thousand higher than their carrying amount, based on information available in markets and employing commonly used valuation techniques. Subordinated liabilities are carried at amortised cost. Their fair values are substantially lower than their carrying amount, but determining fair values reliably is difficult in the current market situation. With regard to other balance sheet items, the carrying amounts correspond substantially with fair values.

Derivative Contracts 31 March 2013

EUR thousand	Nominal values/the remaining maturity				Fair values		Credit counter-value
	Less than 1 year	1–5 years	More than 5 years	Total	Assets	Liabilities	
Interest rate derivatives							
Hedging	570,740	13,123,423	2,330,000	16,024,163	276,403	10,867	476,948
Trading							
Total	**570,740**	**13,123,423**	**2,330,000**	**16,024,163**	**276,403**	**10,867**	**476,948**

Derivative Contracts 31 March 2012

EUR thousand	Nominal values/the remaining maturity				Fair values		Credit counter-value
	Less than 1 year	1–5 years	More than 5 years	Total	Assets	Liabilities	
Interest rate derivatives							
Hedging	5,385,376	7,500,000	2,000,000	14,885,376	215,138	15,716	392,264
Trading							
Total	**5,385,376**	**7,500,000**	**2,000,000**	**14,885,376**	**215,138**	**15,716**	**392,264**

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

Related-party Transactions

OPA's related parties include OP-Pohjola Group Central Cooperative and its subsidiaries, the OP Bank Group pension insurance organisation OP Pension Fund and OP Pension Foundation, and the company's administrative personnel. Standard loan terms and conditions are applied to loans granted to the related parties. Loans are tied to generally used reference rates. Related-party transactions have not undergone any substantial changes since 31 December 2012.

Accounting Policies

The Interim Report for 1 January–31 March 2013 has been prepared in accordance with IAS 34 (Interim Financial Reporting), as approved by the EU. In the preparation of this Interim Report, OPA substantially applied the same accounting policies as in the financial statements 2012, except a change in the calculation of the net interest income on defined benefit pension costs.

Change in accounting policies

As of 1 January 2013, OPA applies the amended IAS 19 Employee Benefits standard. The amended standard eliminates the option of using the so-called corridor method in the recognition of actuarial gains and losses, and changes the calculation of the net interest income on defined benefit pension costs. Under the amended standard, the expected rate of return on pension assets used in the calculation of the net interest income is calculated at the discount rate for pension liability.

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

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

Helsinki, 29 April 2013

OP Mortgage Bank
Board of Directors