OP Mortgage Bank

Interim Report for January 1 – March 31 2012

OP Mortgage Bank's (OPA) loan portfolio increased from EUR 7,535 million on 31 December to EUR 8,000 million on 31 March 2012. The bank increased its loan portfolio in February and in March when it purchased housing loans from OP-Pohjola Group member cooperative banks. During the reporting period, OPA did not issue any covered bonds.

Earnings Performance

EUR thousand	Q1/2012	Q1/2011	Change, %	2011
Income				
Net interest income	6,768	5,200	30	24,147
Net commissions and fees	-2,747	-1,894	45	-10,207
Net income from trading	0	0		0
Net income from investments	1	1	-	487
Other operating income	-	-		5
Total	**4,022**	**3,307**	22	**14,432**
Expenses				
Personnel costs	96	88	10	278
Other administrative expenses	452	550	-18	2,054
Other operating expenses	230	293	-22	1,396
Total	**778**	**930**	-16	**3,728**
Impairments of receivables	**-1**	**0**		**-358**
Earnings before tax	**3,243**	**2,377**	36	**10,345**

Net interest income increased to EUR 6,768 thousand (5,200). Improvements in net interest income and earnings were due to the growth in the loan portfolio. Earnings before tax for January-March increased to EUR 3,243 thousand (2,377)[1].

Net commissions and fees were negative with commission income increasing to EUR 1,106 thousand (768) and commission expenses increasing to EUR 3,854 thousand (2,661). Commission expenses stem mainly from commissions paid to OP-Pohjola Group member banks for servicing housing loans.

In the review period, the bank's expenses decreased to EUR 778 thousand (930).

[1] For balance sheet and other cross-sectional figures, the point of comparison is the figure at the previous balance sheet date (31 December 2011). For income statement and other cumulative figures, the point of comparison is the figure for the January–March period in the previous year.

Balance Sheet and Off-balance Sheet Commitments

OPA's balance sheet total amounted to EUR 8,427 million on 31 March (7,912) [2].

Change in major assets and liabilities

EUR million	31 March 2012	31 Dec 2011	30 Sep 2011	30 Jun 2011	31 March 2011
Balance sheet	8,427	7,912	7,743	6,820	6,948
Receivables from customers	8,000	7,535	7,395	6,643	6,713
Receivables from financial institutions	72	82	93	89	119
Debt securities issued to the public	5,440	5,423	5,389	4,246	3,217
Liabilities to financial institutions	2,490	2,070	1,980	2,245	3,350
Shareholders' equity	287	256	215	213	211
Off-balance-sheet commitments	8	4	5	7	8

The loan portfolio increased from EUR 7,535 million on 31 December 2011 to EUR 8,000 million on 31 March 2012. OPA increased its loan portfolio in the review period when it purchased housing loans from OP-Pohjola-Group member banks for EUR 768 million.

On 31 March, households accounted for 99.5% (99) of the loan portfolio and housing corporations for 0.5% (1). The bank's non-performing loans remained at low levels totalling EUR 2.1 million (2.1) on March 2012. The impaired amount for an impairment loss on an individual basis recognised in the review period was fully covered by the collateral.

The carrying amount of bonds issued to the public totalled EUR 5,440 million (5,423) on 31 March. In addition to bonds, other funding was based on financing loans granted by Pohjola Bank plc (Pohjola). On 31 March, financing loans totalled EUR 2,490 million (2,070).

Shareholders' equity rose to EUR 287 million (256). Retained earnings amounted to EUR 21.7 million (21.3) at the end of the review period.

OPA has hedged against the interest-rate risk associated with its housing loan portfolio through interest-rate swaps, i.e. base rate cash flows from housing loans to be hedged are swapped to short-term Euribor cash flows. OPA has also swapped the fixed interest rates of the bonds it has issued to short-term variable rates. OPA's interest-rate derivative portfolio totalled EUR 14,885 million (14,409). All derivative contracts have been concluded for hedging purposes. Pohjola is the counterparty to all derivative contracts.

[2] For balance sheet and other cross-sectional figures, the point of comparison is the figure at the previous balance sheet date (31 December 2011). For income statement and other cumulative figures, the point of comparison is the figure for the January–March period in the previous year.

Capital Adequacy

OPA's capital adequacy ratio stood at 9.4% on 31 March. Shareholder's equity increased by EUR 30 million in March when OP-Pohjola Group Central Cooperative made an additional investment in the company. OPA has calculated 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 adopted the Standardised Approach in the report period. Before 31 December comparison for credit risk here below are presented according to the Standardised Approach.

OWN FUNDS, EUR thousand	**31 March 2012**	**31 Dec 2011**	**31 March 2011**
Tier I	285,966	253,640	209,533
- Impairments – shortfall of expected losses	-3,300	-3, 937	-
Tier I total	282,665	249,704	209,533
Tier II	16,000	20,000	20,000
- Impairments – shortfall of expected losses	-3,300	-3,937	-
Tier II total	12,700	16,063	20,000
Total	**295,365**	**265,765**	**229,533**
Risk-weighted receivables, investments and off-balance sheet commitments	3,152,668	2,940,688	2,448,034
Capital ratio including transition rules			
Capital adequacy ratio, %	9.4	9.0	9.4
Tier I ratio to risk-weighted commitments	9.0	8.5	8.6
Core Tier I ratio	9.0	8.5	8.6
Capital ratio excluding transition rules			
Capital adequacy ratio, %	42.5	40.4	-
Tier I ratio to risk-weighted commitments	40.7	40.0	-
Core Tier I ratio	40.7	40.0	-

The increase in shareholders' equity arising from the additional investment and from the measurement of pension liabilities and the assets covering them, under IFRS, is not considered own funds. Furthermore, intangible assets was also deducted from own funds. The Impairments – shortfall of expected losses total EUR 6.6 million.

Risk-weighted receivables, investments and off balance-sheet commitments, EUR thousand	**31 March 2012**	**31 Dec 2011**	**31 March 2011**
Receivables and investments	673,761	644,703	2,434,204
Off-balance-sheet items	7,358	2,063	3,340
Market risk	-	-	-
Operational risks	14,043	10,490	10,490
Requirement for period of transition	2,457,506	2,283,433	-
Risk-weighted receivables, investments and off balance-sheet commitments, total	**3,152,668**	**2,940,688**	**2,448,034**

The increase in the amount of risk-weighted receivables 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 203 member banks as well as Pohjola Bank plc, Helsinki OP Bank Plc, OP Mortgage Bank and OP-Kotipankki Oyj. OP-Pohjola Group's insurance companies do not fall within the scope of joint responsibility.

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

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

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

Personnel

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

Administration

The Annual General Meeting held in March confirmed the composition of the new Board of Directors. Mr. Lars Björklöf, Managing Director, Osuuspankki Raasepori was elected as a new member of the Board of Directors. Mr. Heikki Kananen, Managing Director, Mäntsälän Osuuspankki and Mr. Mikko Rosenlund, Managing Director, Tampereen Seudun Osuuspankki were left out of the Board of Directors. The Board composition is as follows:

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

Managing Director 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. OPA has also swapped the fixed interest rates of the bonds it has issued to short-term variable rates. The interest-rate risk may be considered to be low.

Prospects for the rest of the year

The existing issuance programme will make it possible to issue new covered bonds in 2012. 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	**Q1/2012**	**Q1/2011**	**Change, %**	**2011**
Interest income	36,941	22,120	67	133,180
Interest expenses	30,172	16,920	78	109,034
Net interest income	**6,768**	**5,200**	30	**24,147**
Impairments of receivables	-1	0		-358
Net commissions and fees	-2,747	-1,894	45	-10,207
Net income from trading	0	0		0
Net income from investments	1	1	0	487
Other operating income	0	0		5
Personnel costs	96	88	10	278
Other administrative expenses	452	550	-18	2,054
Other operative expenses	230	293	-22	1,396
Earnings before tax	**3,243**	**2,377**	36	**10,345**
Income taxes	794	618	28	2,687
Profit for the period	**2,449**	**1,758**	39	**7,658**

Statement of comprehensive income

EUR thousand	**Q1/2012**	**Q1/2011**	**Muutos, %**	**2011**
Profit for the period	**2,449**	**1,758**	39	**7,658**
Actuarial gains/losses on post-employment benefit obligations	-	-10		-38
Income tax on actuarial gains/losses on post-employment benefit obligations	-	2		6
Total comprehensive income	**2,449**	**1,751**	40	**7,626**

Key Ratios

	Q1/2012	Q1/2011	2011
Return on equity (ROE), %	3.6	3.8	3.7
Cost/income ratio, %	19	28	26

Formulae for key ratios

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

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

Balance Sheet

EUR thousand	31 March 2012	31 March 2011	Change, %	31 Dec 2011
Receivables from financial institutions	72,060	119,032		82,434
Derivative contracts	215,138	37,975	467	198,380
Receivables from customers	7,999,754	6,712,586	19	7,534,557
Investment assets	17	17	0	17
Intangible assets	739	829	-11	587
Property, plant and equipment	-	3		-
Other assets	139,590	77,167	81	96,060
Tax assets	8	-		13
Total assets	**8,427,306**	**6,947,610**	21	**7,912,048**
Liabilities to financial institutions	2,490,000	3,350,000		2,070,000
Derivative contracts	15,716	53,286		11,212
Debt securities issued to the public	5,439,837	3,216,903	69	5,423,085
Provisions and other liabilities	175,032	96,381	81	131,213
Tax liabilities	-	643		267
Subordinated debt securities	20,000	20,000	0	20,000
Total liabilities	8,140,586	6,737,213	21	7,655,777
Shareholders' equity				
Share capital	60,000	60,000	0	60,000
Reserve for invested unrestricted . equity	205,000	135,000		175,000
Retained earnings	21,720	15,397	41	21,271
Total equity	286,720	210,397	36	256,271
Total liabilities and shareholders' equity	**8,427,306**	**6,947,610**	21	**7,912,048**

Off-balance-sheet Commitments

EUR thousand	31 March 2012	31 March 2011	31 March 2010
Irrevocable credit commitments	7,869	7,676	12,245

Change Calculation on Shareholders' Equity

EUR thousand	Share capital	Other reserves	Retained earnings	Total equity
Shareholders' equity 1 Jan 2011	**60,000**	**85,000**	**13,646**	**158,646**
Reserve for invested unrestricted equity		50,000		50,000
Profit for the period			1,751	1,751
Other changes				
Shareholders' equity 31 Mar 2011	**60,000**	**135,000**	**15,397**	**210,397**
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 Mar 2012	**60,000**	**205,000**	**21,720**	**286,720**

Cash Flow Statement

EUR thousand	Q1/2012	Q1/2011
Cash and cash equivalents 1 January	**82,434**	**61,673**
Cash flow from operating activities	-39,618	6,538
Cash flow used in investing activities	-236	0
Cash flow used in financing activities	29,479	50,822
Cash and cash equivalents 31 March	**72,060**	**119,032**

The cash flow statement presents cash flows for the period on a cash basis, divided into cash flow from operating activities and cash flow used in investment activities and financing activities. Cash flow from operating activities includes that generated by daily operations. Cash flow used in investing activities includes payments related to property, plant and equipment and intangible assets, investments held to maturity and shares not regarded as belonging to cash flow from operating activities. Cash flow used in financing activities includes cash flows based on the financing of operations either on equity or liability terms in the money or capital market. Cash and cash equivalents include cash in hand and callable receivables from financial institutions. The statement is 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	72,060			72,060
Derivative contracts		215,138		215,138
Receivables from customers	7,999,754			7,999,754
Equities				
Other receivables	139,598		17	139,615
Balance at 31 March 2012	**8,211,412**	**215,138**	**17**	**8,426,567**
Balance at 31 March 2011	**6,909,002**	**37,975**	**17**	**6,946,994**
Balance at 31 December 2011	**7,713,293**	**198,380**	**17**	**7,911,690**

EUR Thousand		Recognised at fair value through profit or loss	Other liabilities	Total
Financial liabilities				
Liabilities to financial institutions	-		2,490,000	2,490,000
Derivative contracts	-	15,716		15,716
Debt securities issued to the public	-		5,439,837	5,439,837
Subordinated liabilities	-		20,000	20,000
Other liabilities	-		175,032	175,032
Balance at 31 March 2012	-	**15,716**	**8,124,870**	**8,140,586**
Balance at 31 March 2011	-	**53,286**	**6,683,983**	**6,737,269**
Balance at 31 December 2011	-	**11,212**	**7,644,611**	**7,655,823**

Debt securities issued to the public are carried at amortised cost. On 31 March 2012, the fair value of these debt instruments was approximately EUR 150,309 thousand higher than their carrying amount, based on information available in markets and employing commonly used valuation techniques. Subordinated liabilities are carried at amortised cost. Their fair value are substantially lower than their carrying amount, but determining fair values reliably is difficult in the current market situation.

Derivative Contracts 31 March 2012

EUR thousand	Nominal values/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**

Derivative Contracts 31 March 2011

EUR thousand	Nominal values/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	582,889	10,968,259	1,000,000	12,551,148	37,975	53,286	145,132
Trading							
Total	**582,889**	**10,968,259**	**1,000,000**	**12,551,148**	**37,975**	**53,286**	**145,132**

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-Pohjola Group pension insurance organisations OP-Pension Fund and OP-Pension Foundation, and the Company's administrative personnel. Standard terms and conditions for credit are applied to loans granted to the related parties. Loans are tied to generally used reference rates. Related-party transactions have not undergone any substantial changes since 31 December 2011.

Accounting policies

The Interim Report for 1 January - 31 March 2012 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 2011, except a change in the recognition of actuarial gains and losses on defined benefit pension plan.

Change in accounting policies

OPA has decided to voluntarily abandon as of the beginning of 2012 the so-called corridor method in the recognition of actuarial gains and losses on defined benefit pension plans. In accordance with the revised recognition method under IAS 19, actuarial gains and losses are recognised outside profit or loss in comprehensive income as a debit item or credit item in equity for the period during 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. OPA has applied the change in the accounting policy retrospectively. The effects of the changed accounting policy on the comparatives of the consolidated balance sheet, income statement and statement of comprehensive income shown in this Interim Report are as follows:

EUR thousand	Previous accounting policy	New accounting policy	Effect of change in accounting policy
Balance sheet 1 Jan 2011			
Assets			
Other assets	48,790	48,583	-207
Liabilities			
Tax liabilities	342	288	-54
Shareholders' equity			
Retained earnings	13,799	13,646	-153

EUR thousand	Previous accounting policy	New accounting policy	Effect of change in accounting policy
Balance sheet 31 Dec 2011			
Assets			
Other assets	96,301	96,060	-241
Tax assets	-	13	13
Liabilities			
Tax liabilities	313	267	-313
Shareholders' equity			
Retained earnings	21,454	21,271	-183

Income statement 2011			
Personnel costs	282	278	-4
Income tax expense	2,686	2,687	1
Statement of comprehensive income 2011			
Actuarial gains/losses on post-employment benefit obligations	-	-38	-38
Income tax on actuarial gains/losses on post-employment benefit obligations	-	6	6

EUR thousand	Previous accounting policy	New accounting policy	Effect of change in accounting policy
Balance sheet 31 March 2011			
Assets			
Other assets	77,383	77,167	-216
Liabilities			
Tax liabilities	699	643	-56
Shareholders' equity			
Retained earnings	15,557	15,397	-160

EUR thousand	Previous accounting policy	New accounting policy	Effect of change in accounting policy
Income statment Q1/2011			
Personnel costs	89	88	-1
Statement of comprehensive income Q1/2011			
Actuarial gains/losses on post-employment benefit obligations		-10	-10
Income tax on actuarial gains/losses on post-employment benefit obligations		2	2

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

Helsinki, 3 May 2012

OP Mortgage Bank
Board of Directors