

# Debt Investor Presentation

## Q3/2012 & Q1–3/2012



OP-Pohjola Group  
and issuing entities  
Pohjola Bank plc and  
OP Mortgage Bank

[www.pohjola.com](http://www.pohjola.com)  
> Investor Relations  
> Debt Investors

# Contents

1.	OP-Pohjola Group in Brief	3
2.	Finnish Economy	4
3.	OP-Pohjola Group	13
4.	OP Mortgage Bank	30
5.	OPMB Cover Asset Pool A Characteristics	38
6.	OPMB Cover Asset Pool B Characteristics	45
7.	Debt Investor Contacts	52
8.	Appendix	54

# OP-Pohjola Group in Brief

## Issuing entities Pohjola Bank plc and OP Mortgage Bank

- Leading financial services provider in Finland
- Pohjola Bank plc is rated Aa3 by Moody's and AA- by S&P. OP Mortgage Bank's covered bonds are rated Aaa by Moody's and AAA by S&P.
- Strong capital position and deposit funding base
- Liquidity buffer and other items included in OP-Pohjola Group's Contingency Funding Plan to cover 24 months of maturing wholesale funding
- Finnish risk exposure



### Interim Reports of OP-Pohjola Group, Pohjola Bank plc and OP Mortgage Bank online

#### OP-Pohjola Group

<https://www.op.fi/op/op-pohjola-group/media/material-service/op-pohjola-group-publications?id=86002&kielikoodi=en>

#### Pohjola Bank plc

<https://www.pohjola.fi/pohjola/media/material-service?id=342000&kielikoodi=en>

#### OP Mortgage Bank

<https://www.op.fi/op/op-pohjola-group/media/material-service/subsidiaries'-publications?id=86004&kielikoodi=en>



## Finnish Economy

# Forecasts for the Finnish Economy

Published in August 2012

	2011 EUR bn	2010 Volume, % change on previous year	2011	2012f	2013f
GDP	189.4	3.3	2.7	0.7	1.4
Imports	78.3	6.9	5.7	-0.8	1.5
Exports	77.1	7.5	2.6	-0.8	2.2
Consumption	151.2	2.1	1.8	1.6	1.2
Private consumption	105.2	3.3	2.5	1.9	1.5
Public consumption	46.0	-0.3	0.4	0.9	0.4
Fixed investment	37.1	1.9	6.8	-2.4	1.4

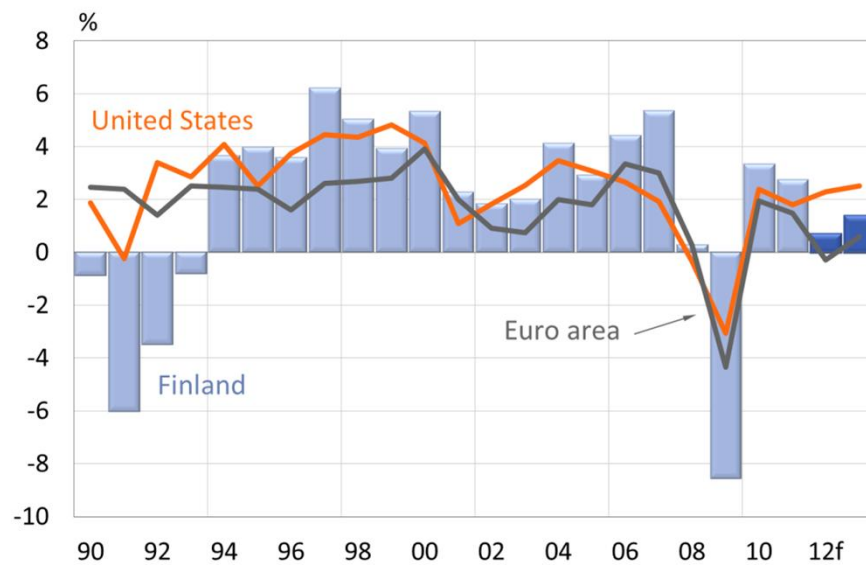
## Other key indicators

	2010	2011	2012f	2013f
Consumer price index, % change y/y	1.2	3.4	2.9	2.7
Unemployment rate, %	8.4	7.8	7.6	7.5
Current account balance, % of GDP	1.4	-1.2	-1.5	-1.3
General government debt, % of GDP	48.6	49.0	51.3	52.2
General government deficit, % of GDP	-2.5	-0.6	-0.9	-0.5

Sources: Statistics Finland and OP-Pohjola Group

# GDP and Demand Components

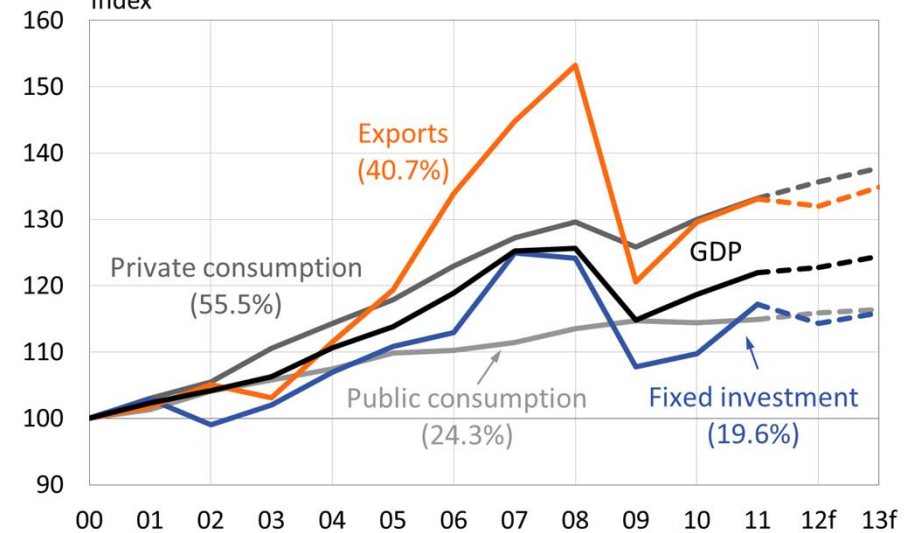
Change in GDP volume



Sources: Reuters EcoWin, forecasts OP-Pohjola Group (August 2012)

GDP and demand components

2011 GDP shares in brackets  
Index



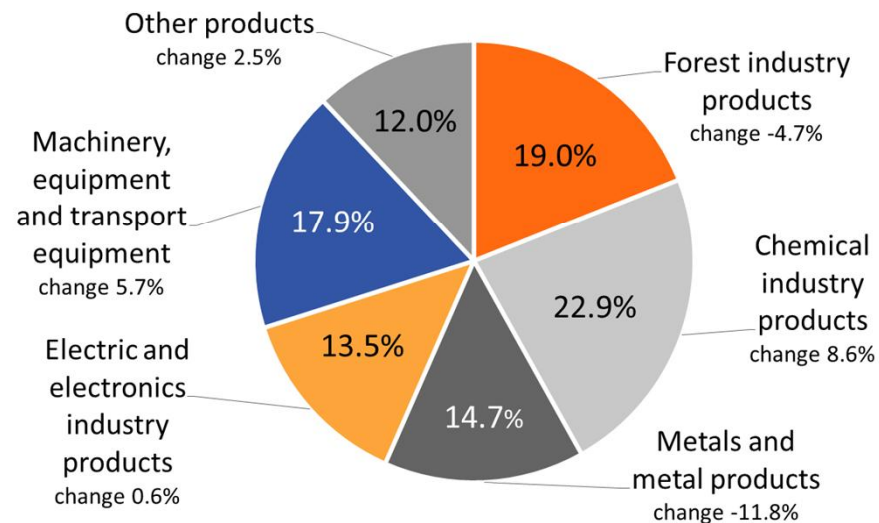
Sources: Statistics Finland, forecasts OP-Pohjola Group, August 2012



# Goods Exports by Product Group and by Country

## Goods exports by product group

Share of total exports and annual change  
1-7/2012

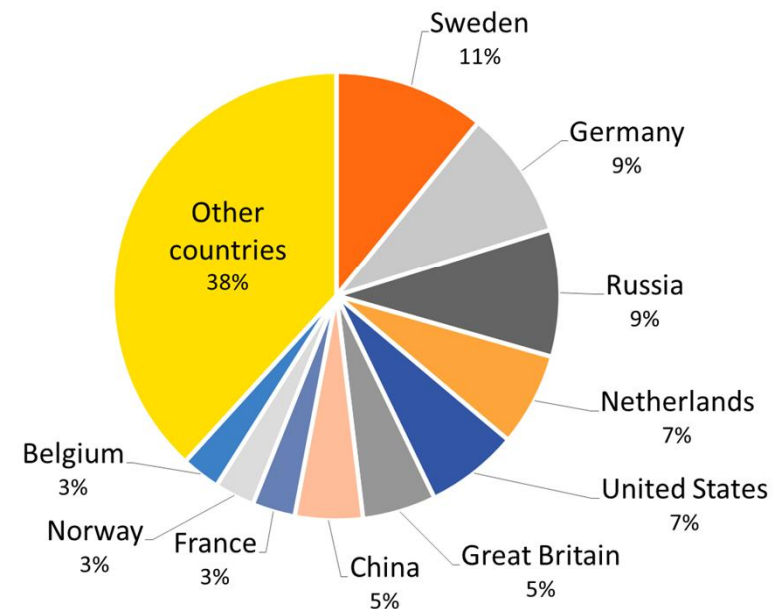


Source: National Board of Customs

Total exports 33.1 EUR Billion (change, 0.3%)

## Goods exports by country

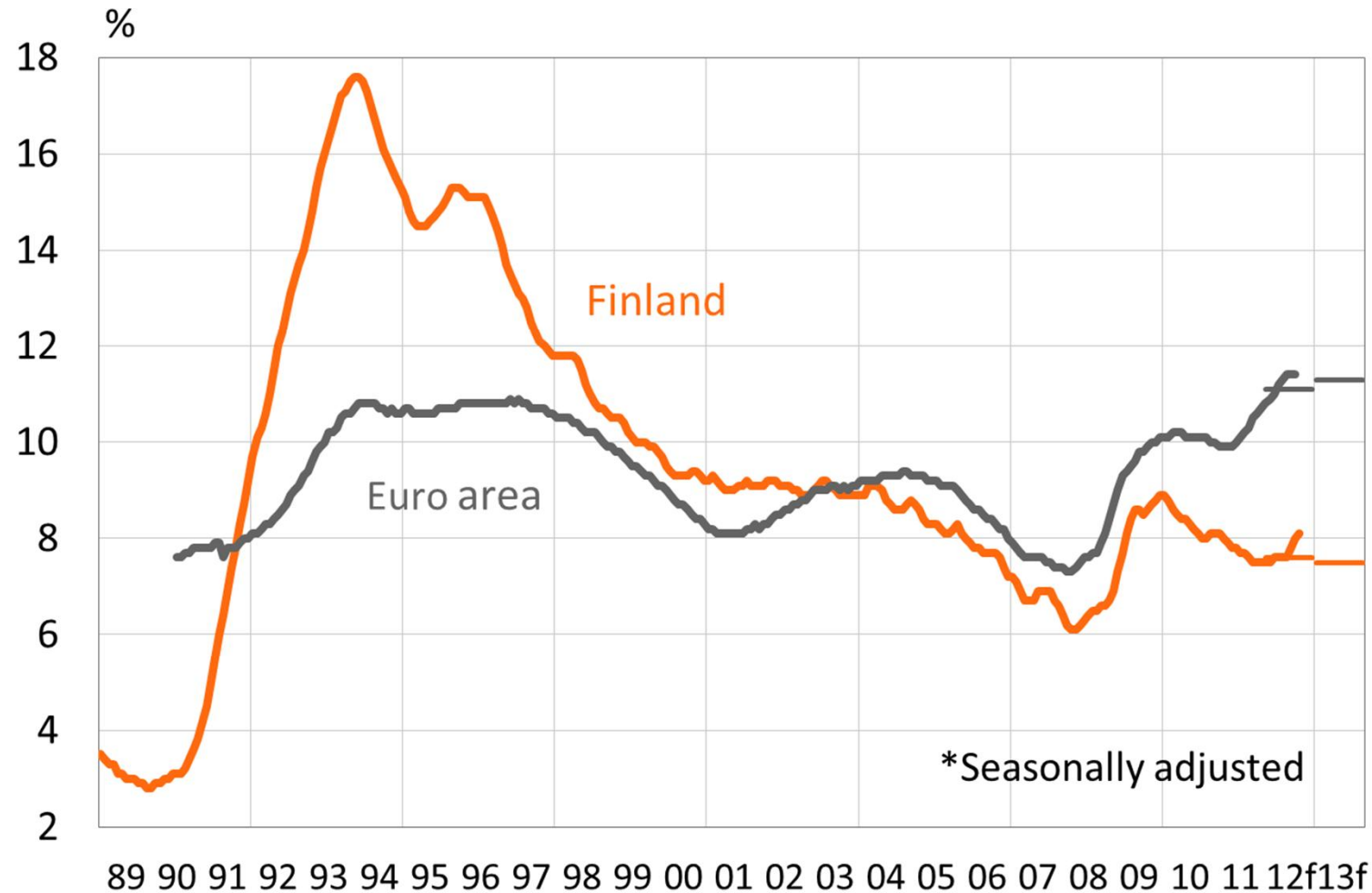
1-7/2012



Source: National Board of Customs

In January–July 2012, approx. 40 % of Finnish exports to growing economies (Sweden, Germany, Russia, USA, China)

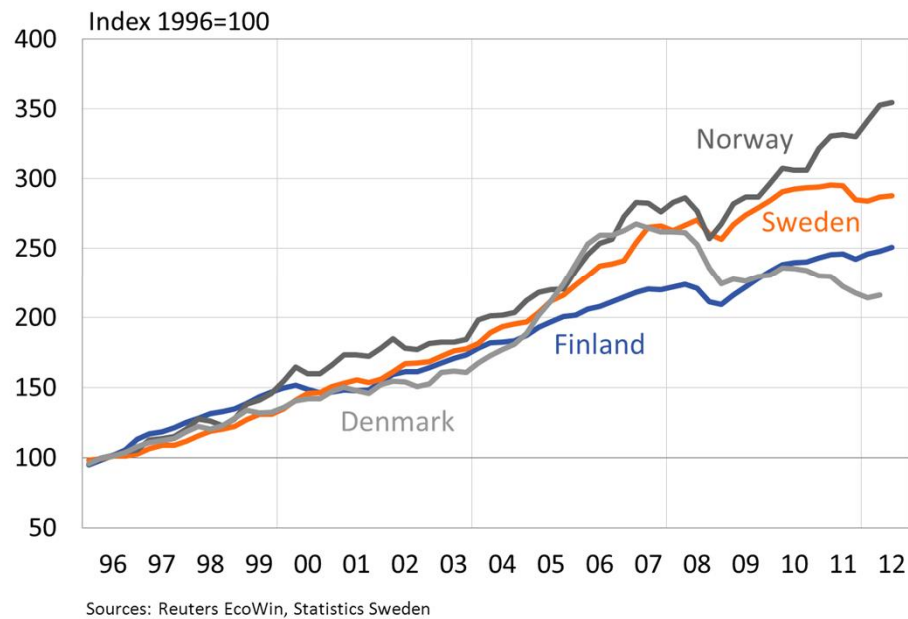
# Unemployment Rate\* in Finland and Euro Area



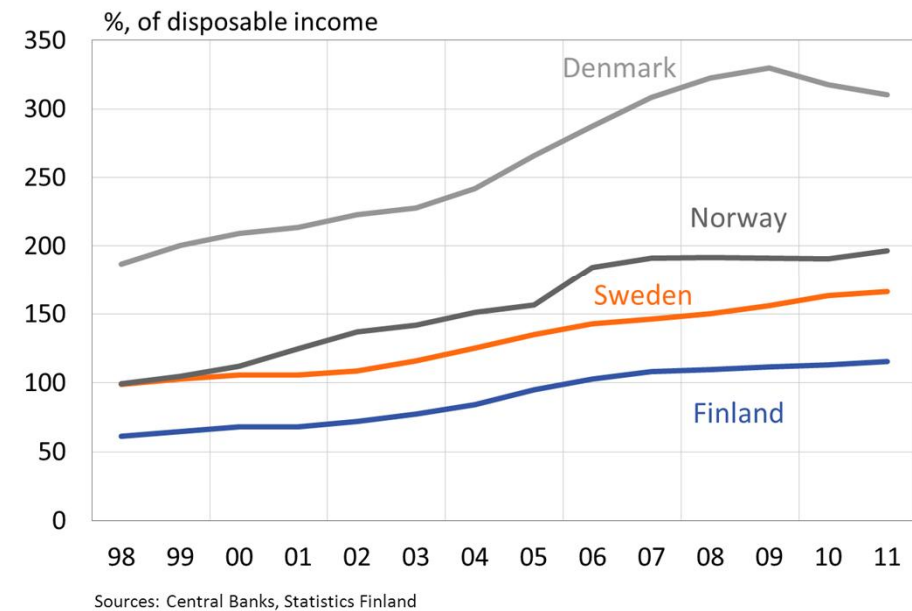


# Average House Prices and Households' Debt

## Average house prices



## Households' debt ratio

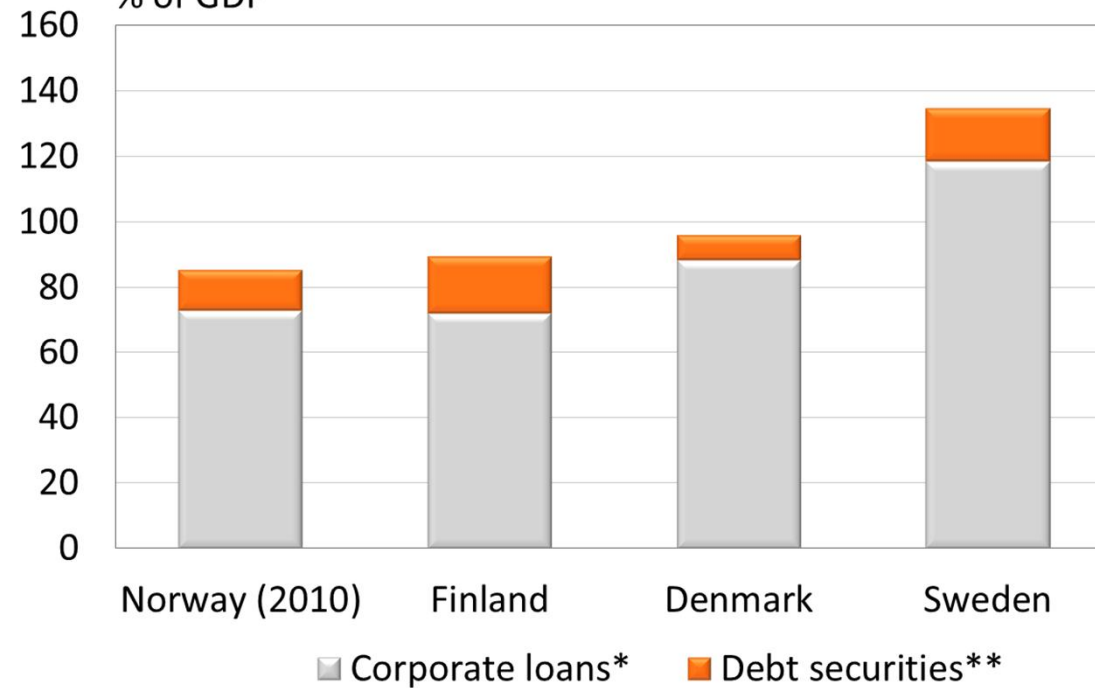


# Corporate Debt 2011

## Corporate debt

Year 2011

% of GDP



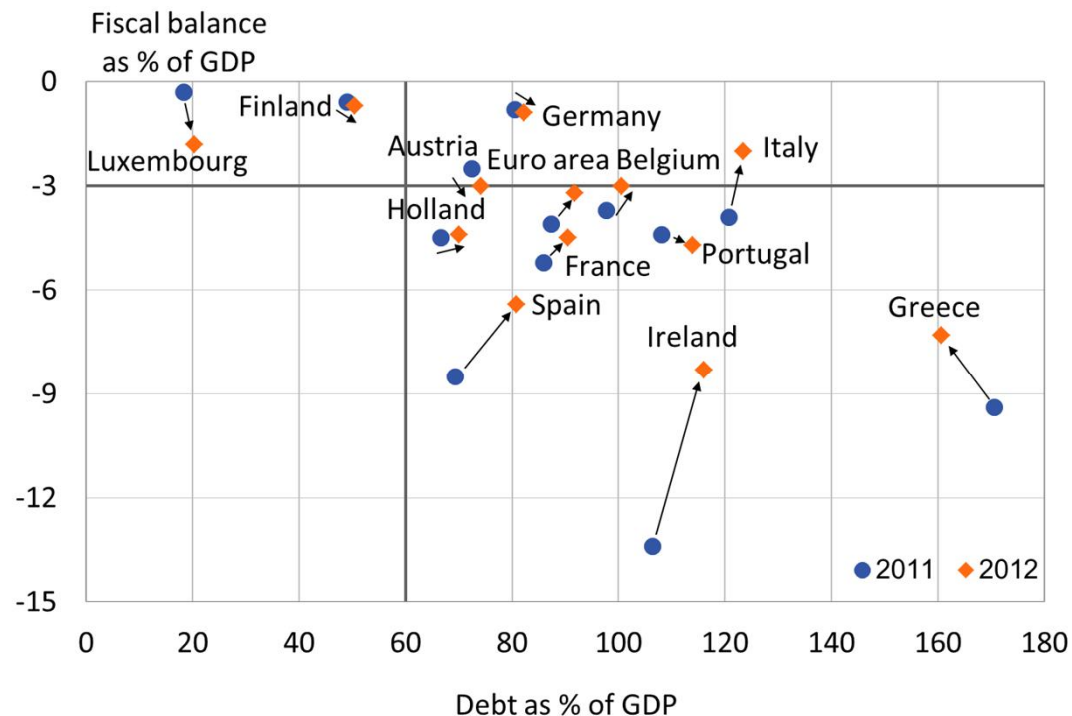
\* Excl. loans between companies

\*\* Commercial papers, corporate bonds and financial derivatives

Source: Eurostat, Consolidated Financial Accounts

# Fiscal Balance and Sovereign Ratings for Euro Area

23 October 2012



Sources: Eurostat, forecasts European Commission, May 2012

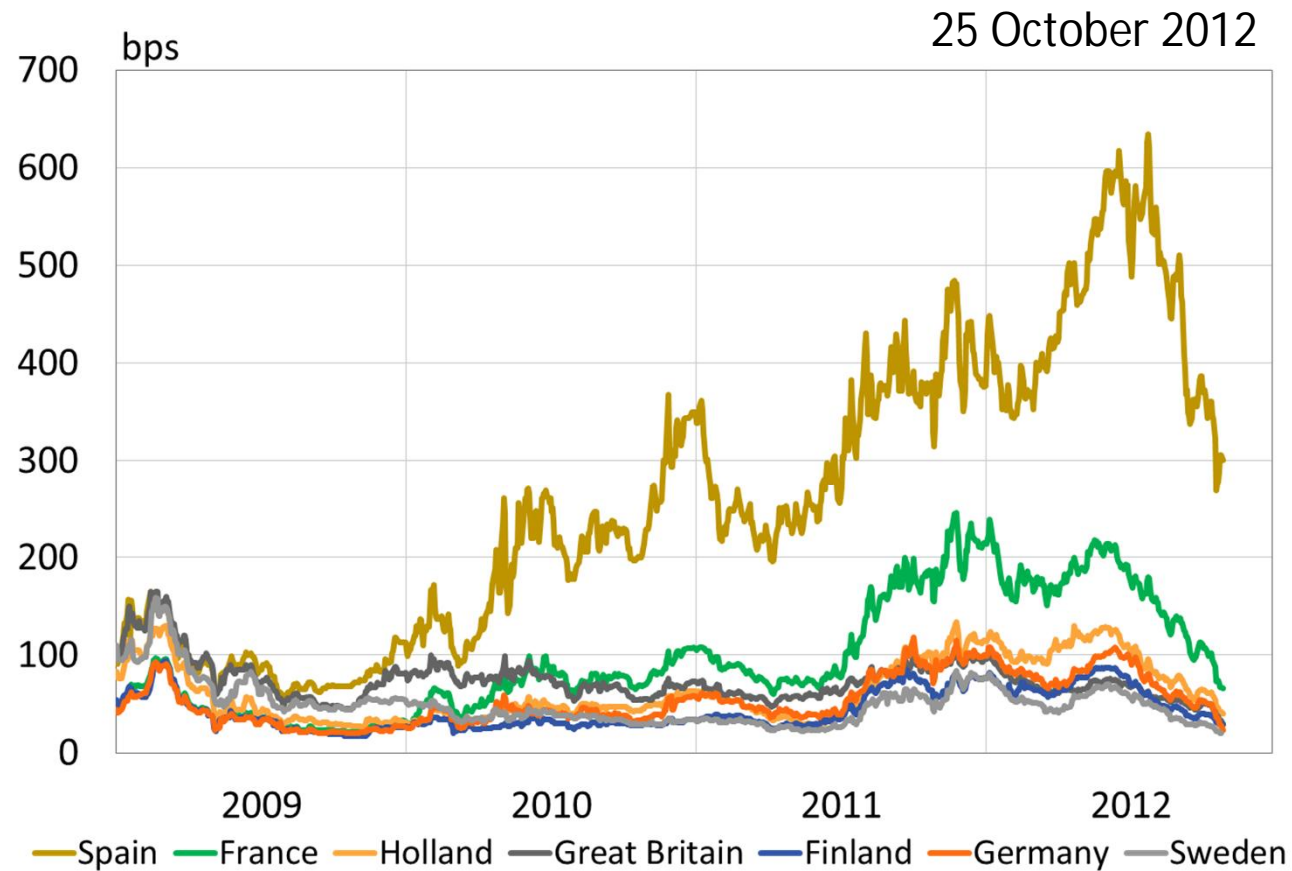
Country	Moody's rating	S&P rating
Finland	Aaa	AAA*
Germany	Aaa*	AAA
Luxembourg	Aaa*	AAA*
Netherlands	Aaa*	AAA*
Austria	Aaa*	AA+*
France	Aaa*	AA+*
Belgium	Aa3*	AA*
Estonia	A1	AA-
Slovakia	A2*	A
Malta	A3*	A-*
Slovenia	Baa2*	A*
Italy	Baa2*	BBB+*
Spain	Baa3*	BBB-*
Ireland	Ba1*	BBB+*
Portugal	Ba3*	BB*
Cyprus	B3*	BB**
Greece	C (No outlook)	CCC*

\* Negative outlook

\*\* Rating under review for a possible downgrade

Sources: moodys.com and standardandpoors.com

# 5-year CDS 2009–12 by Country



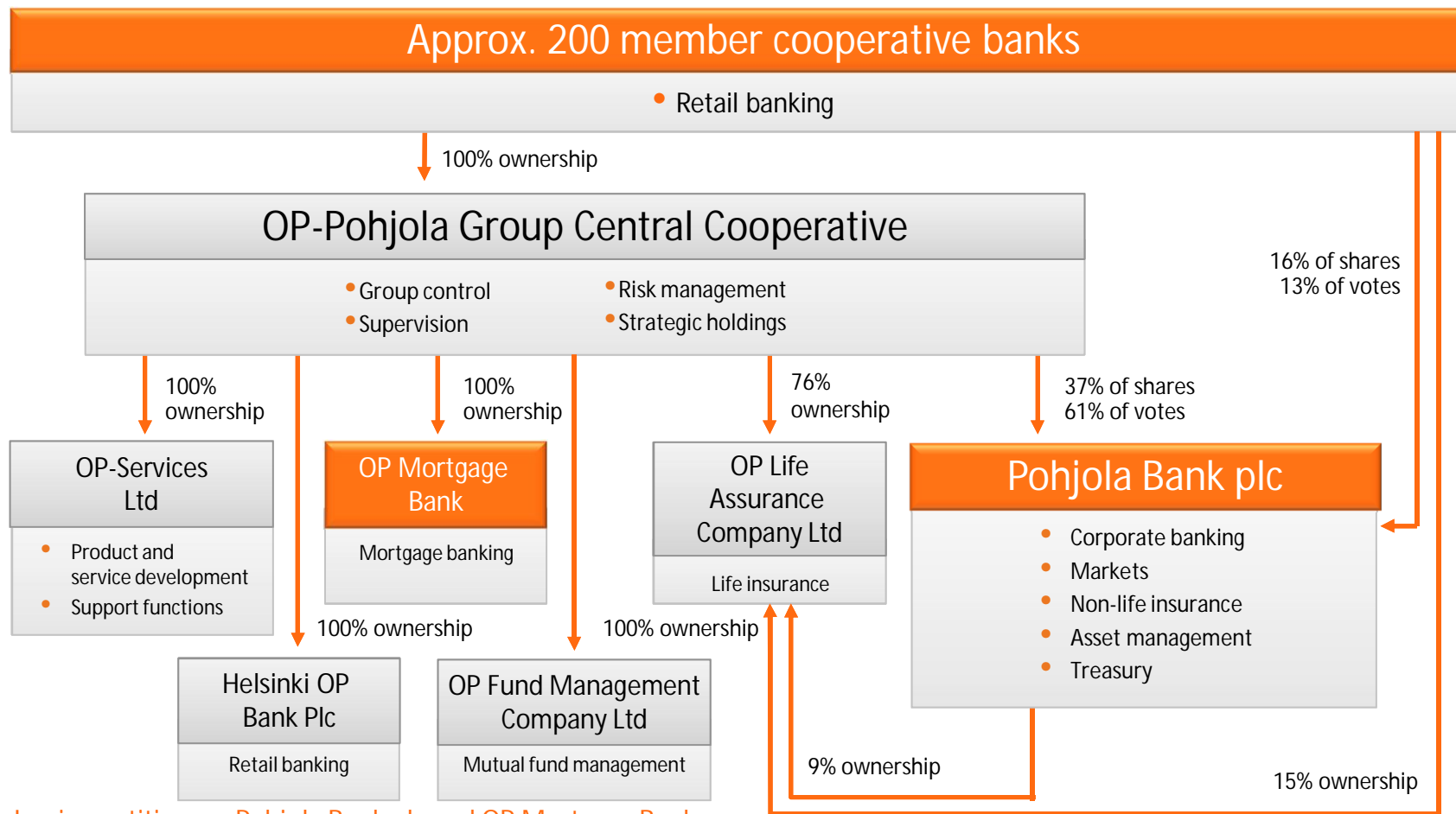
Source: Reuters EcoWin



## OP-Pohjola Group

# OP-Pohjola Group's Ownership Structure and the Roles of Group Entities

OP-Pohjola Group Central Cooperative and the member banks are liable for each other's debts and commitments. Insurance companies do not fall within the scope of joint liability. OP-Pohjola Group is monitored on a consolidated basis by Finnish FSA.





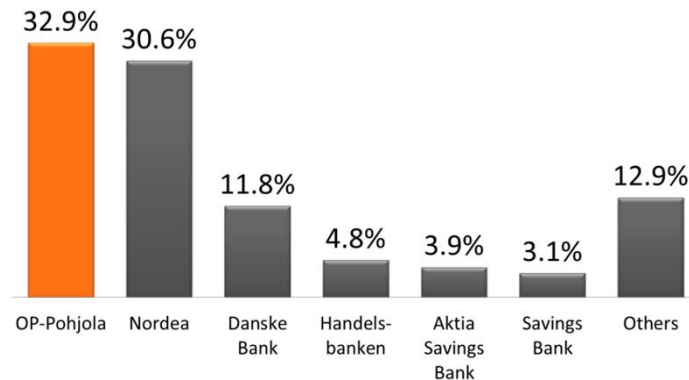
# Joint Liability

- Under the Act on the Amalgamation of Deposit Banks (*Laki talletuspankkien yhteenliittymästä 599/2010*), OP-Pohjola Group Central Cooperative and the member credit institutions are jointly liable for each others' debts
- If a creditor has not received payment from a member credit institution on a due debt, the creditor may demand payment from the Central Cooperative
- The member credit institutions must pay proportionate shares of the amount the Central Cooperative has paid, and upon insolvency of the Central Cooperative they have an unlimited liability to pay the debts of the Central Cooperative
- The Central Cooperative and the member credit institutions are under an obligation to take support actions to prevent a member credit institution's liquidation
- The member credit institutions include Pohjola Bank plc, Helsinki OP Bank plc, OP-Kotipankki Oyj, OP Mortgage Bank and the member cooperative banks
- Further information on the joint liability is available in the EMTN Base Prospectus.

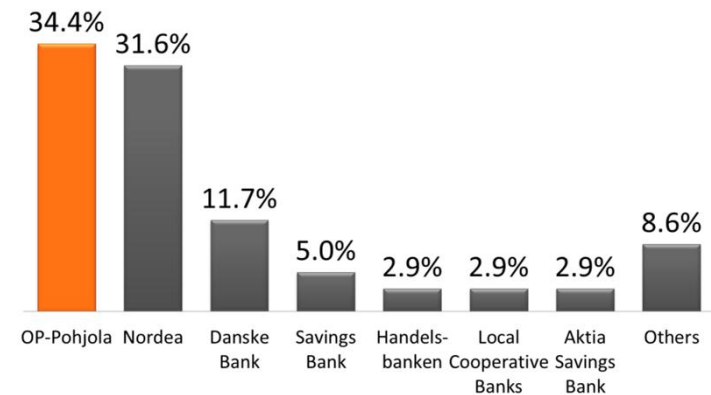
# OP-Pohjola Group – Market Leader in Finland

## Market shares

### Loans 2011

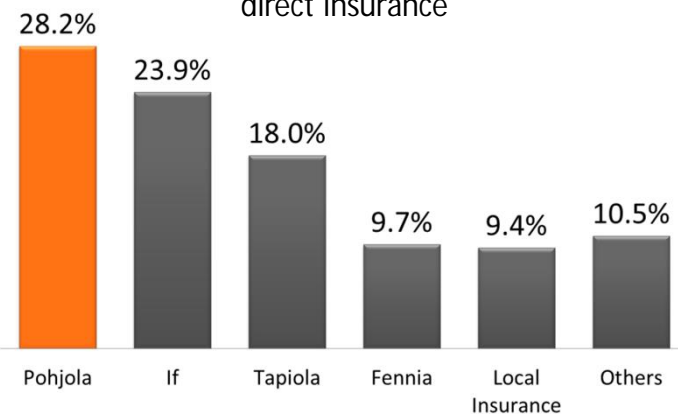


### Deposits 2011



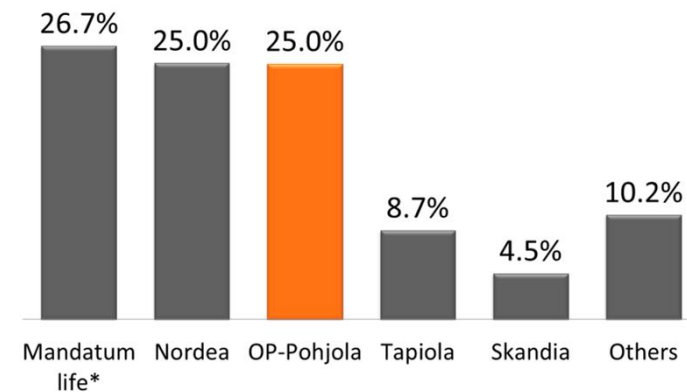
### Non-life Insurance 2011

Market share of premiums written under Finnish direct insurance



### Life Insurance 2011

Market share of gross premiums written

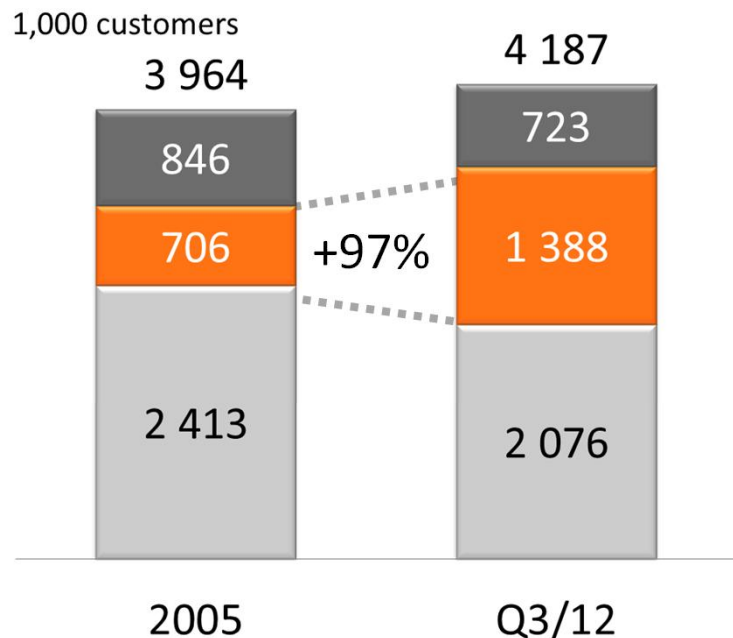


\* Mandatum Life + Kaleva

# OP-Pohjola Group's Huge Customer Potential

Cross-selling between OP-Pohjola Group member cooperative banks and Pohjola Insurance works well

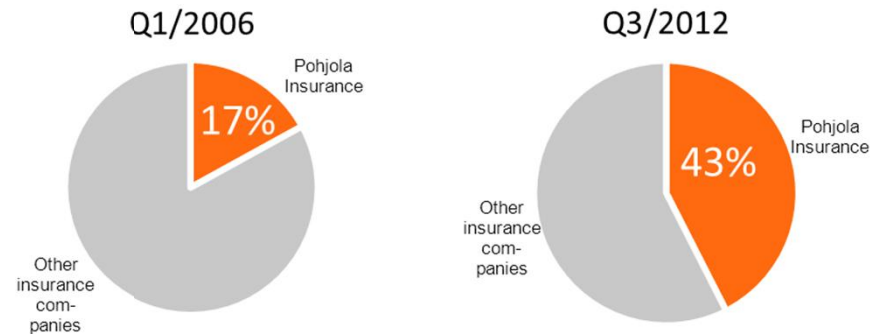
The number of customers shared by Banking and Non-life Insurance increased by 89,000 from the year-end 2011.



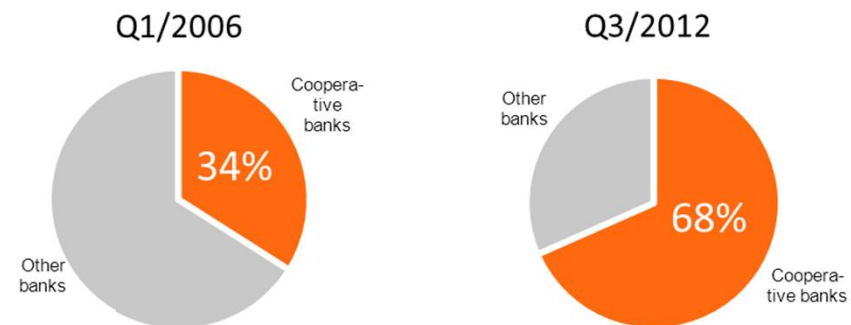
- Non-life insurance customers
- Banking and non-life insurance customers
- Banking customers

© OP-Pohjola

## OP-Pohjola Group member bank customers and their main insurer



## Pohjola Insurance customers and their main bank



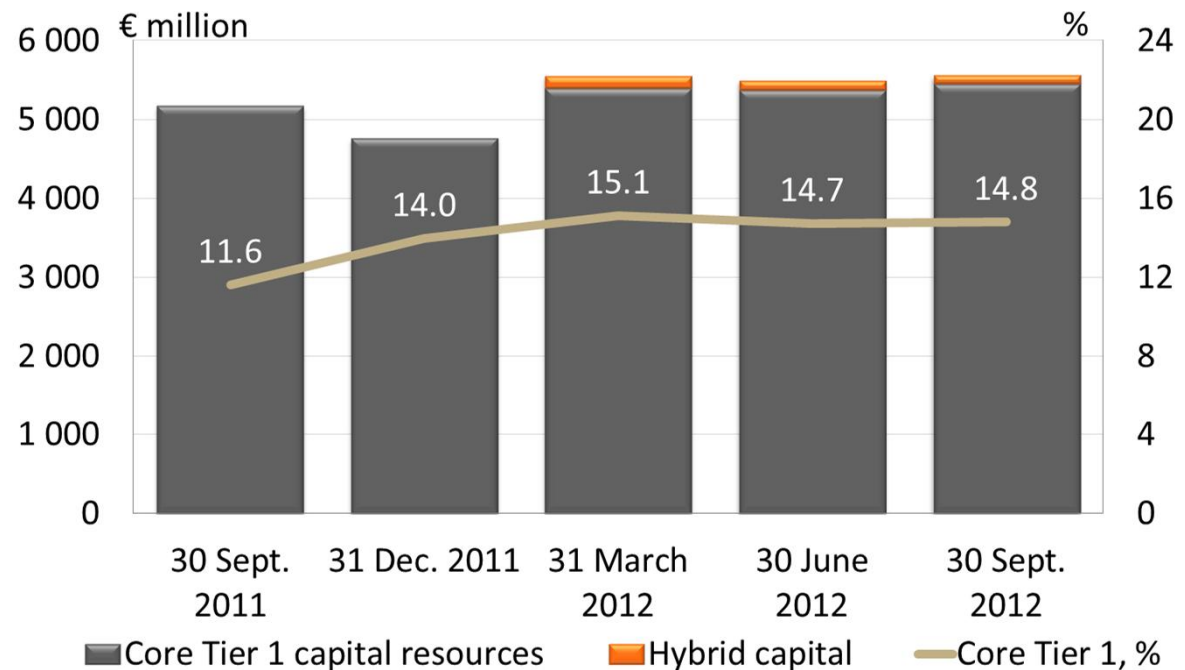
Source: Consumer survey on bank and insurance company switch by TNS Gallup; main customer relationship

Pohjola



# OP-Pohjola Group

Capital resources, € mn and Core Tier 1 ratio, %



Dec. 2011: Effect of IRBA adoption around 2.6 percentage points

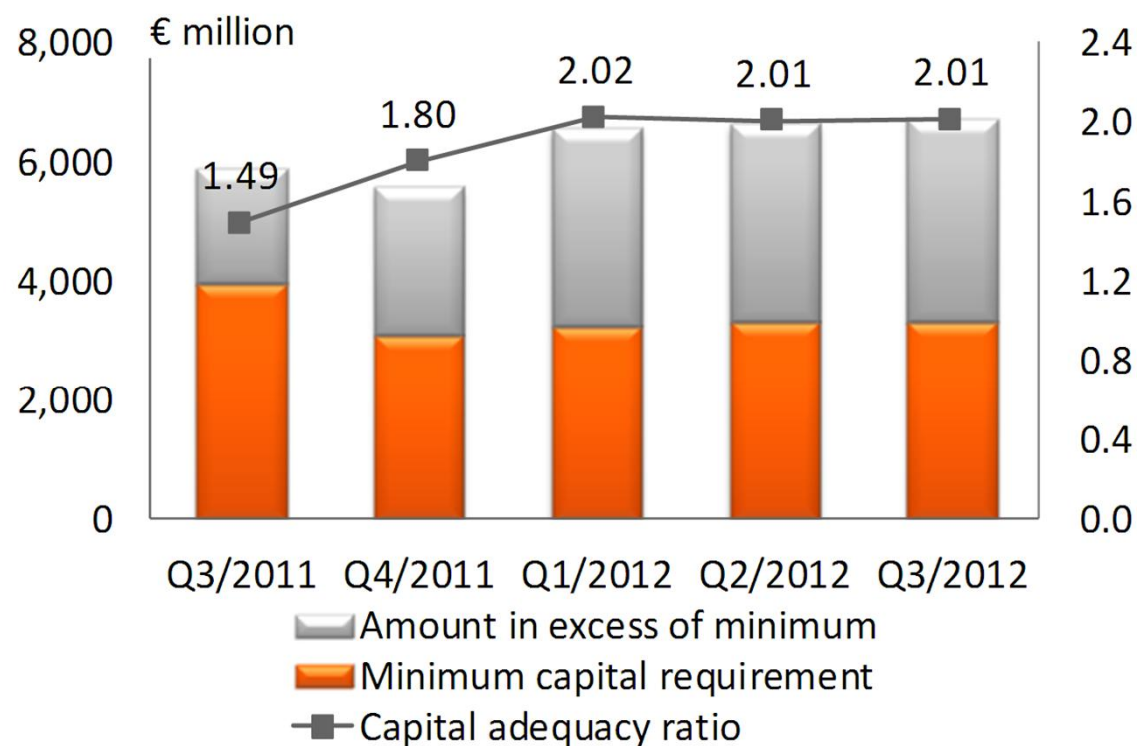
OP-Pohjola Group's target for Core Tier 1 ratio is 15%

In Q4/2012, redemption of Pohjola Bank plc's Upper Tier 2 perpetual subordinated notes of EUR 150 mn and GBP 100 mn will reduce Core Tier 1 ratio (pro forma, 30 Sept. 2012) by 0.5 pps

IRBA (Internal Ratings-based Approach to credit risk in capital adequacy measurement) for retail and banking exposures adopted as of 31 December 2011 .

# OP-Pohjola Group

## Capital adequacy under the Act on the Supervision of Financial and Insurance Conglomerates



Statutory minimum requirement is 1.0

In Q4/2012, redemption of Pohjola Bank plc's Upper Tier 2 perpetual subordinated notes of EUR 150 mn and GBP 100 mn will reduce the capital adequacy ratio under the Act on the Supervision of Financial and Insurance Conglomerates (pro forma, 30 Sept. 2012) by 0.08

IRBA (Internal Ratings-based Approach to credit risk in capital adequacy measurement) for retail and banking exposures adopted as of 31 December 2011 .

# Direct Exposures to Sovereign Debt in GIIPS Countries

OP-Pohjola Group's direct exposures to sovereign debt in GIIPS countries  
as of 30 September 2012  
at market value

€ million	Life Insurance	Non-life Insurance	Banking and other operations	Total
Greece	0	3	0	3
Ireland	-	-	0	0
Italy	9	15	0	24
Portugal	-	7	-	7
Spain	-	-	-	0
Total	9	25	0	34



# Access to funding supported by strong ratings

Rating target: Rating AA affirmed by at least 2 credit rating agencies

Moody's and S&P affirmed AA-level ratings and stable outlook for Pohjola during Q2/2012,

Fitch affirmed the A+ rating and stable outlook during Q3/2012

	Moody's	S&P	Fitch
Handelsbanken	Aa3	AA-	AA-
Nordea	Aa3	AA-	AA-
Pohjola Bank plc	Aa3	AA-	A+
DNB NOR	A1	A+	A+
SEB	A1	A+	A+
Swedbank	A2	A+	A+
Danske Bank	Baa1	A-	A*
OP Mortgage Bank**	Aaa	AAA	-
Pohjola Insurance Ltd	A3	AA-	-
If	A2	A	-
Finnish government	Aaa	AAA*	AAA

\* Rating outlook is negative

\*\* Covered bond rating

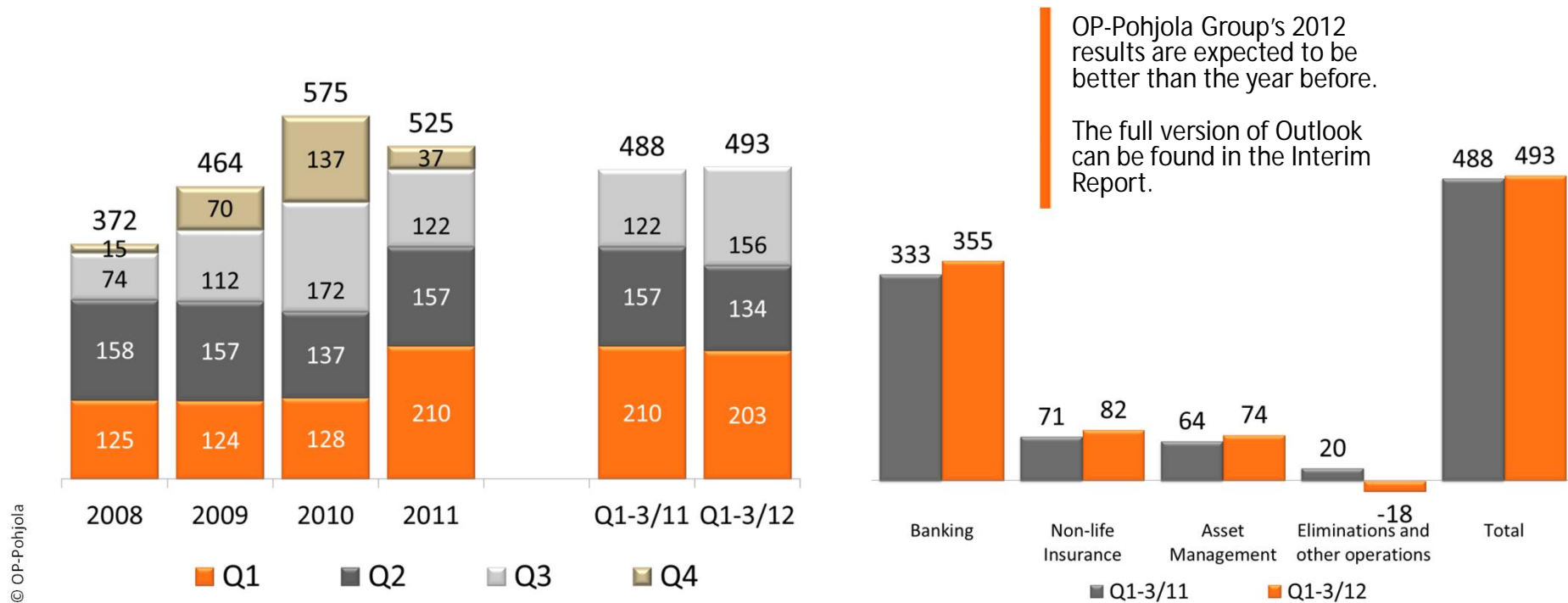
22 October 2012

# OP-Pohjola Group

Earnings before tax for Q1-3/12 €493 million (488)

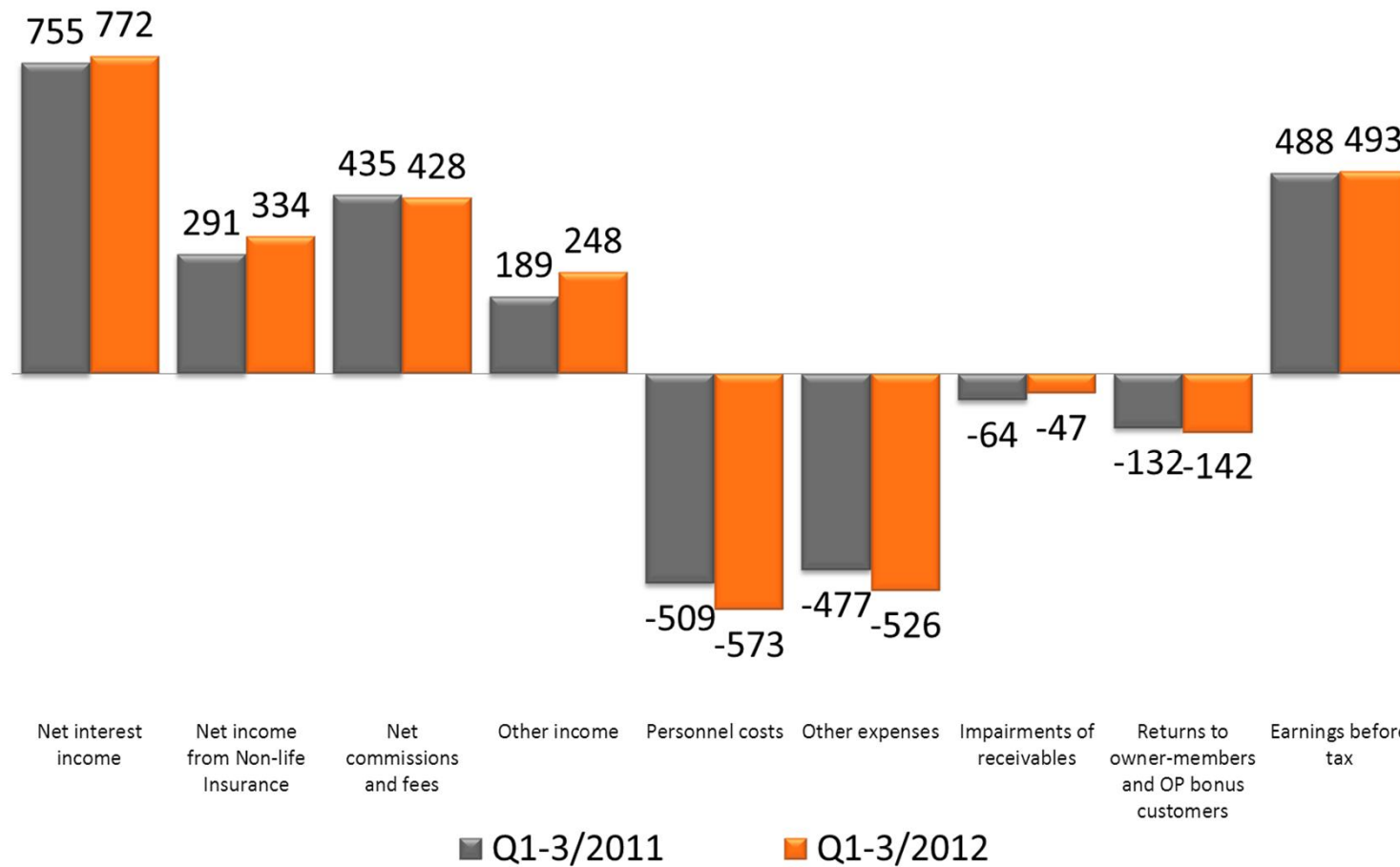
Earnings before tax by quarter,  
between 2008 and Q1-3/2012, € mn

Earnings before tax by business segment,  
year-on-year Q1-3, € mn



# OP-Pohjola Group

Income statement items, year-on-year Q1-3, € mn

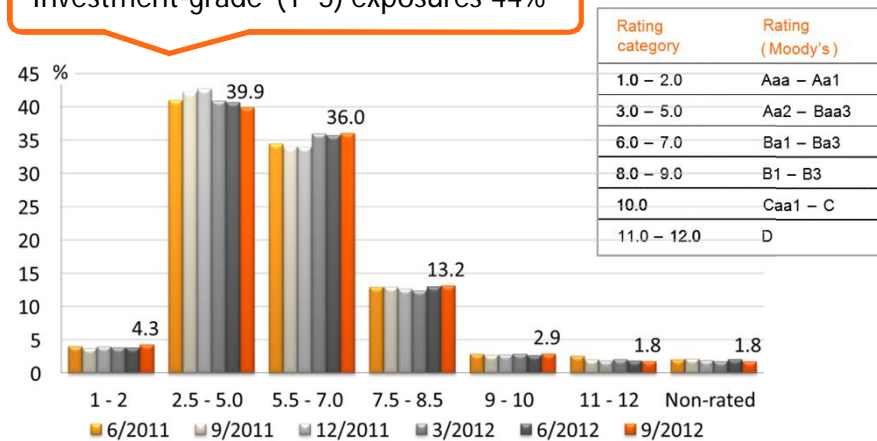


# OP-Pohjola Group

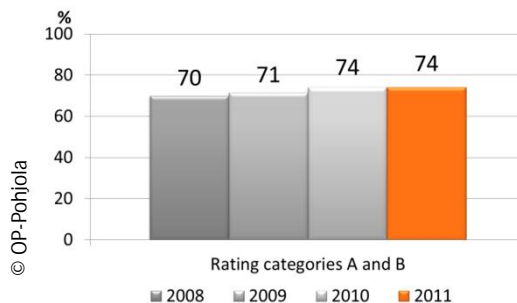
## Asset quality

Exposures from the Non-financial Corporations and Housing Corporations Sector by credit rating category, %

Investment-grade (1-5) exposures 44%



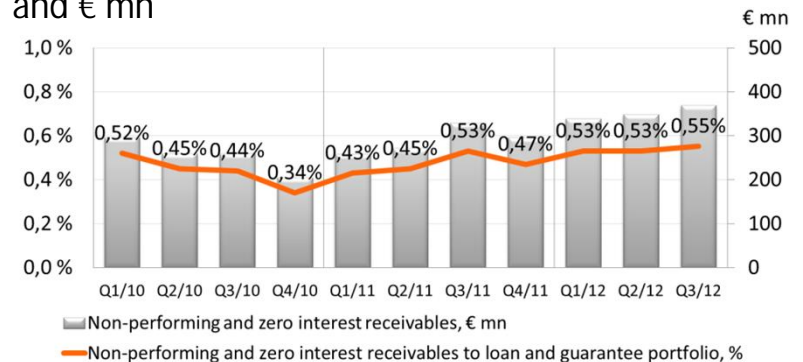
Private Customer exposures of credit rating categories A and B, %



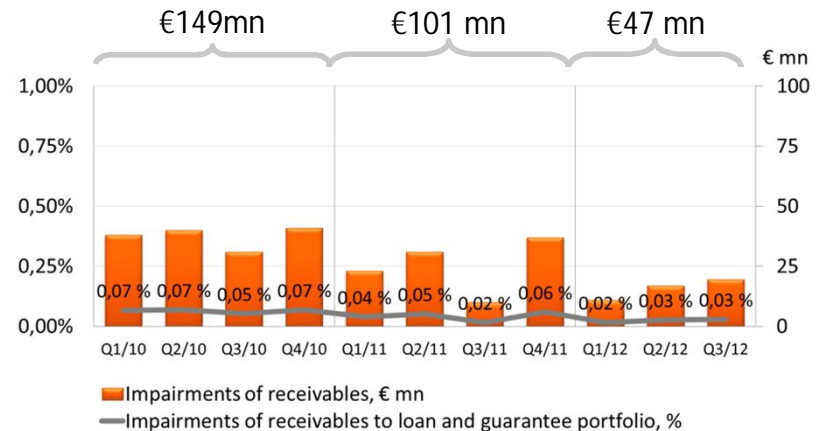
Largest single counterparty-related customer risk to Group's capital resources at year-end 2011

7.1% (6.5)

Ratio of non-performing and zero-interest receivables to loan and guarantee portfolio (%) and € mn



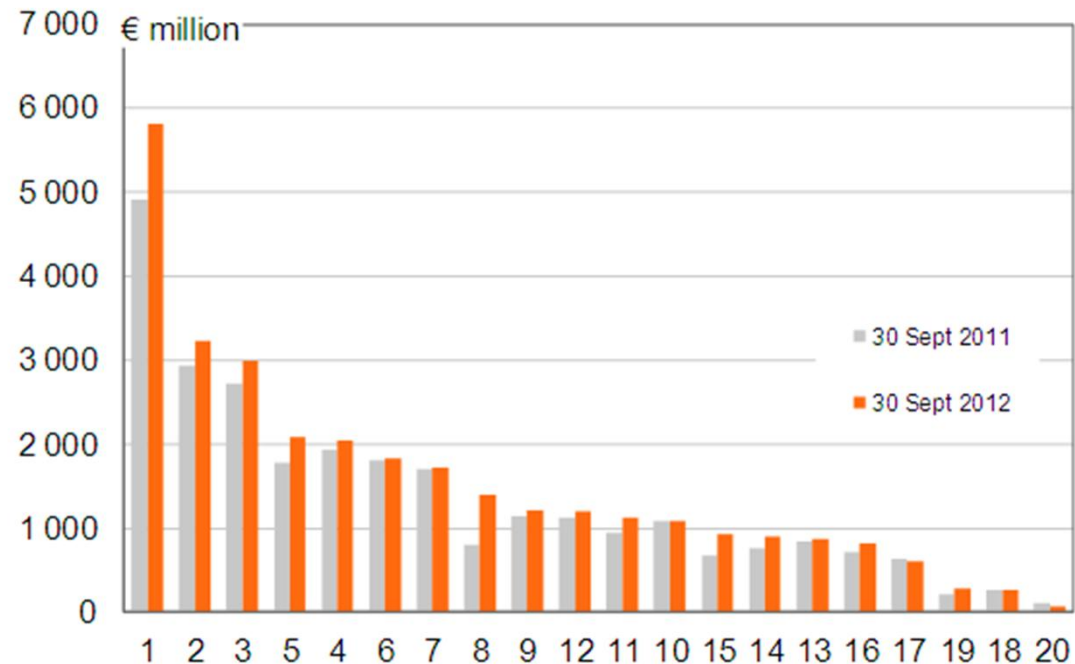
Ratio of impairment loss on receivables to loan and guarantee portfolio (%) and € mn



# OP-Pohjola Group

Exposures from the Non-financial Corporations and Housing Corporations Sector by industry totaled €30.5 billion as of 30 September 2012

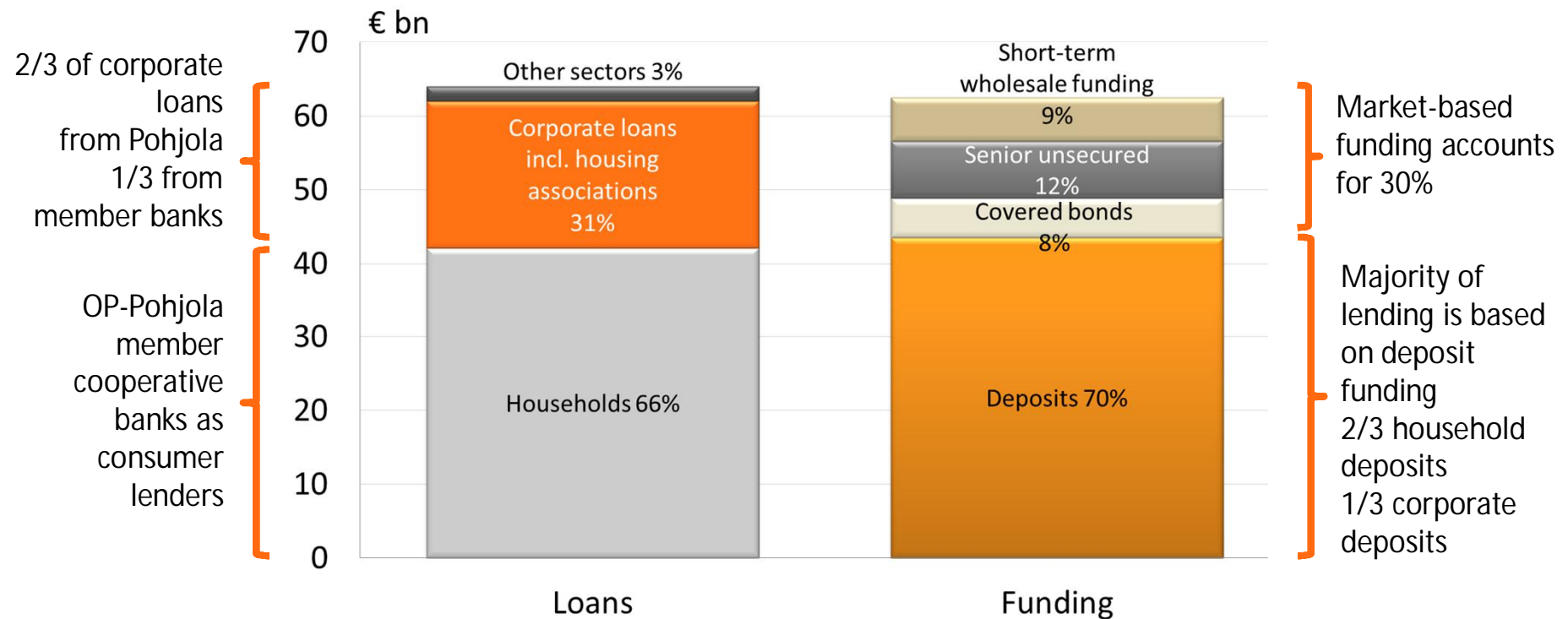
1	Renting and operating of residential real estate	19,1 %
2	Renting and operating of other real estate	10,6 %
3	Wholesale and retail trade	9,8 %
4	Services	6,9 %
5	Construction	6,7 %
6	Manufacture of machinery and equipment (incl. services)	6,0 %
7	Transportation and storage	5,6 %
8	Financial and insurance activities	4,6 %
9	Buying and selling of own real estate	4,0 %
10	Forest Industry	4,0 %
11	Energy	3,7 %
12	Metal Industry	3,5 %
13	Information and communication	3,0 %
14	Agriculture, forestry and fishing	2,9 %
15	Food Industry	2,9 %
16	Chemical Industry	2,7 %
17	Other manufacturing	2,0 %
18	Water supply, sewerage and waste management	0,9 %
19	Mining and quarrying	0,9 %
20	Other industries	0,2 %



21% of the exposure in the renting and operating of residential real estate sector is guaranteed by government, cities or municipalities (Sept./2012)

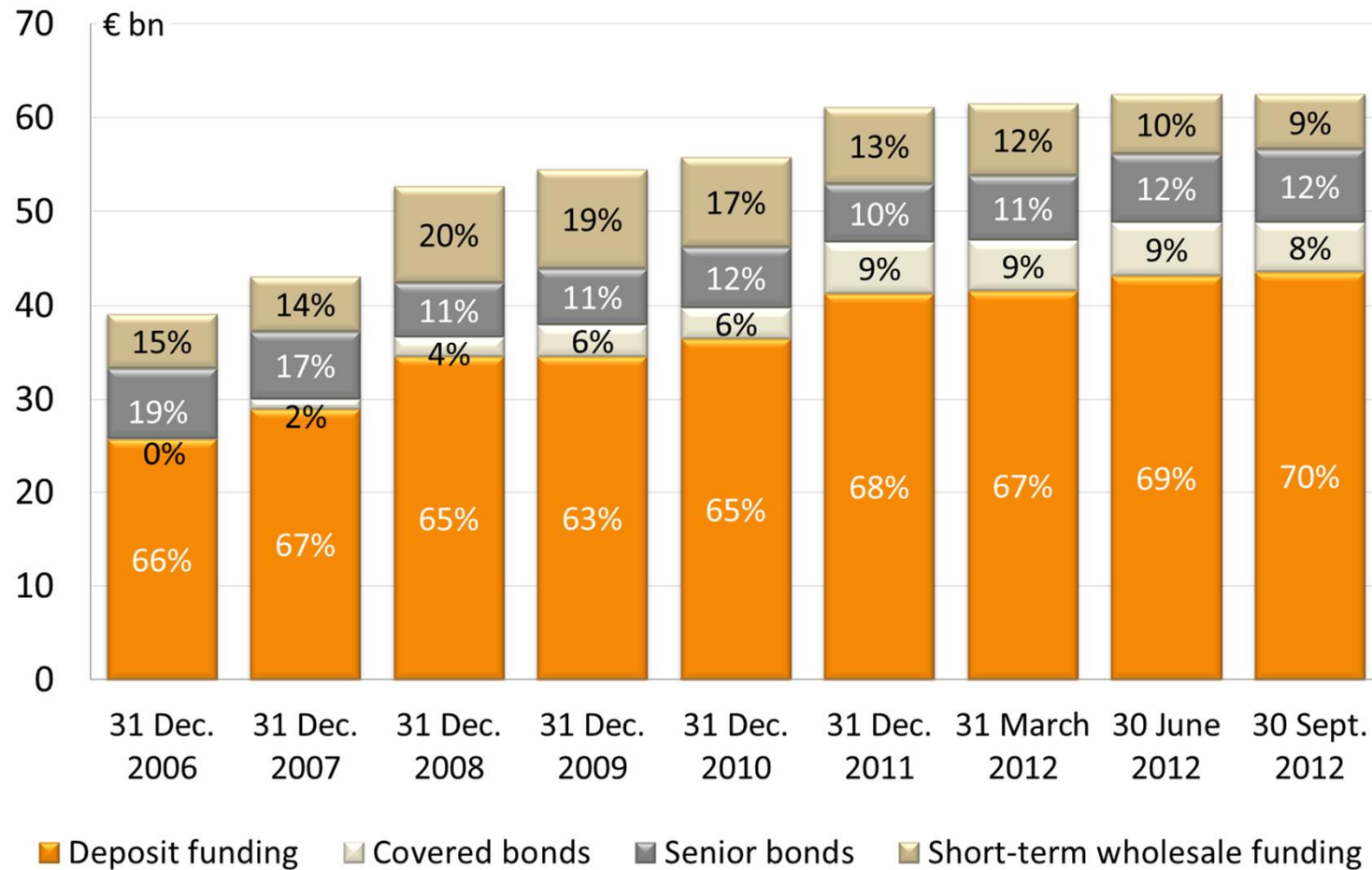
# OP-Pohjola Group

Loans and funding structure  
30 September 2012



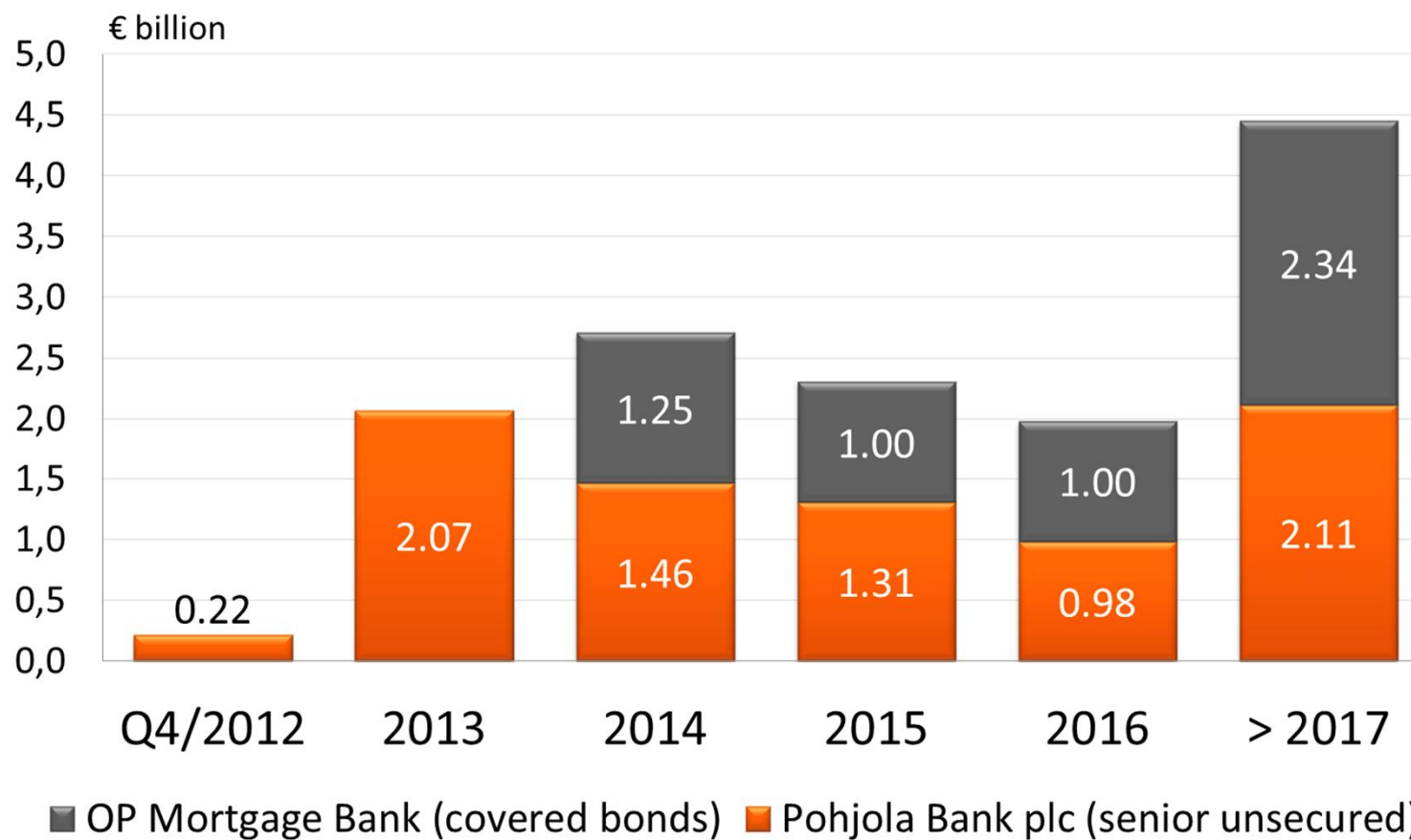


# OP-Pohjola Group's Funding Structure Development 2006–12



# OP-Pohjola Group

Issued senior debt and covered bonds by maturity, € billion  
30 September 2012



# OP-Pohjola Group

## Issued senior debt and covered bonds in 2010–12

### Pohjola Bank plc Senior issues

Year	Month	Amount	Maturity	Interest rate
2012	March	€750 mn	5 yrs	m/s+118bp
2011	January	€500 mn	5 yrs	m/s+80bp
2010	September	€750 mn	7 yrs	m/s+88bp
2010	March	€750 mn	5 yrs	m/s+78bp
2010	February	€750 mn	3 yrs	3mEuribor +53bp

### OP Mortgage Bank Covered bond issues

Year	Month	Amount	Maturity	Interest rate
2012	May	€1.25 bn	5 yrs	m/s+32bp
2011	July	€1 bn	7 yrs	m/s+48bp
2011	April	€1 bn	5 yrs	m/s+35bp
2010	June	€1 bn	5 yrs	m/s+40bp



## OP Mortgage Bank

# Overview: Finnish Housing Market

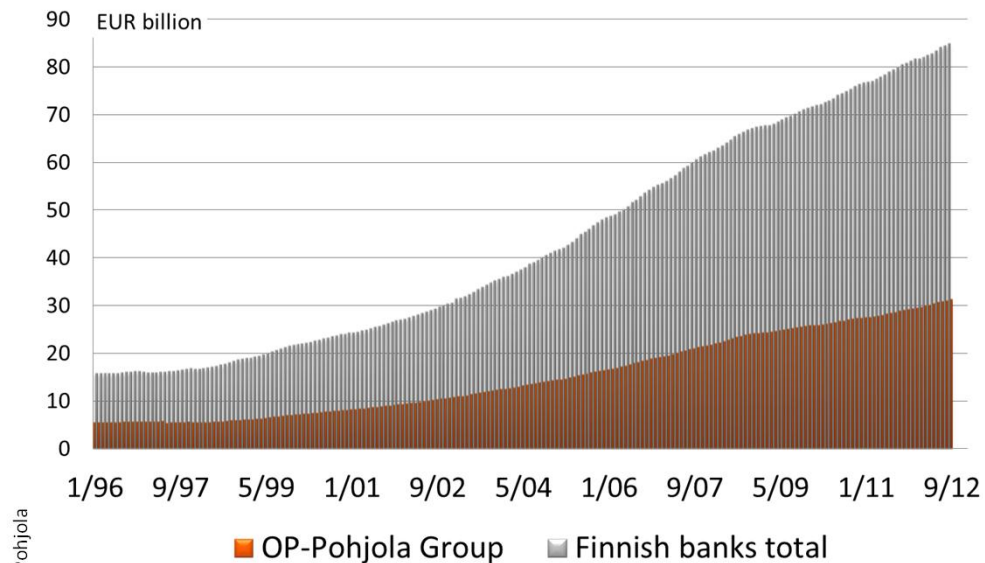
- Ownership ratio of households around 70%
- Average size of homes 79.8 m<sup>2</sup>
- Floor space per occupant 39.4 m<sup>2</sup>
- Typical maturity of new loans 20 years
- Variable interest rates: over 90% of all loans
- Average annual housing starts around 31,000
- Interest relief in taxation (max. €3,600 / household)
- Capital gains tax-exempt after 2 years

Updated: October 2012

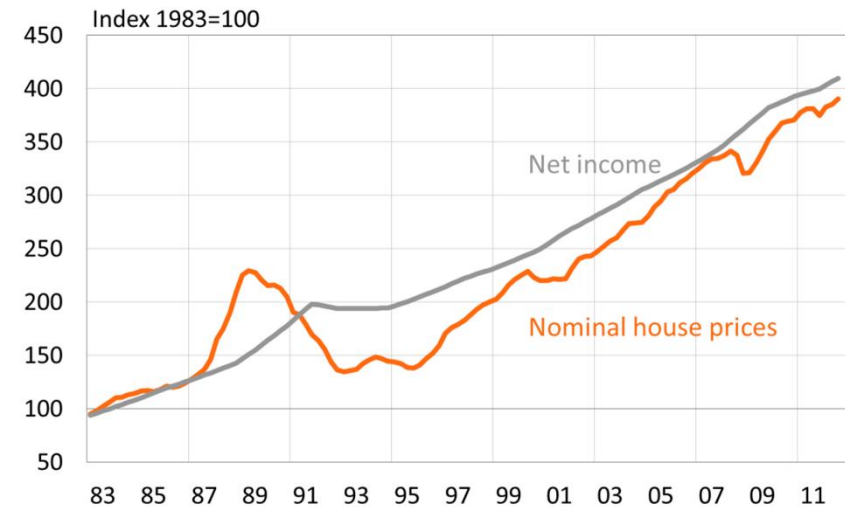
# Mortgage Market and House Price Growth

- The lending volume in the Finnish mortgage market has increased over the past few years, which has driven up nominal house prices.
- In real terms, house prices have risen more gently and as per the average net income the increase in house prices has been very stable over a long period of time.

## Mortgage lending volume



## Changes in house prices and net income

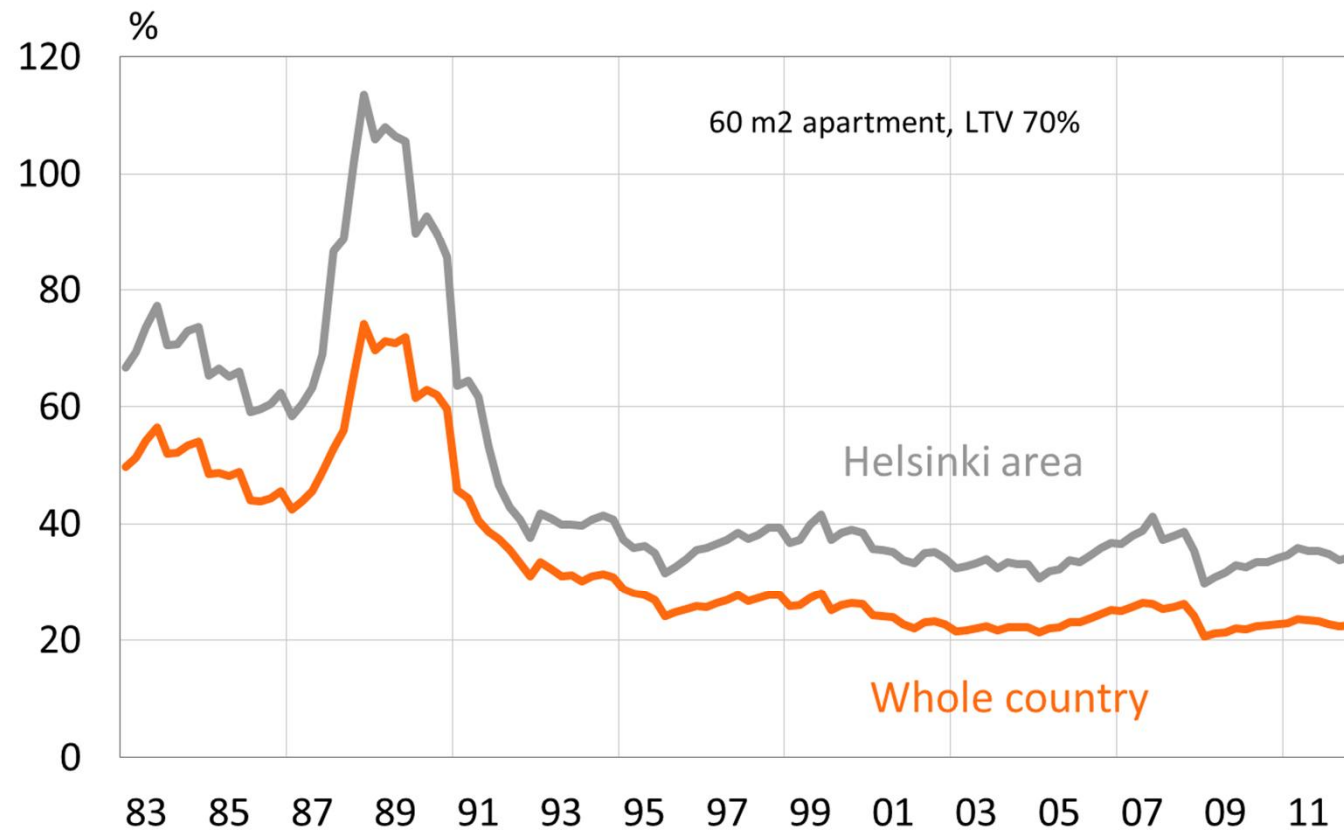


Source: Statistics Finland



# Loan Servicing Costs in Relation to Net Income

Annuity payment during the first year



Sources: Statistics Finland, Taxpayers' Association of Finland

# Highlights of the Act on Mortgage Credit Bank Operations

- Segregation of assets in Covered Register
- Tight LTV restrictions on eligible assets (70% LTV on housing loans)
- Over collateralisation requirement of 2%
- Continuity of Cover Pool and Covered Bonds in the event of liquidation and bankruptcy of the issuer
- Regulated by Finnish FSA

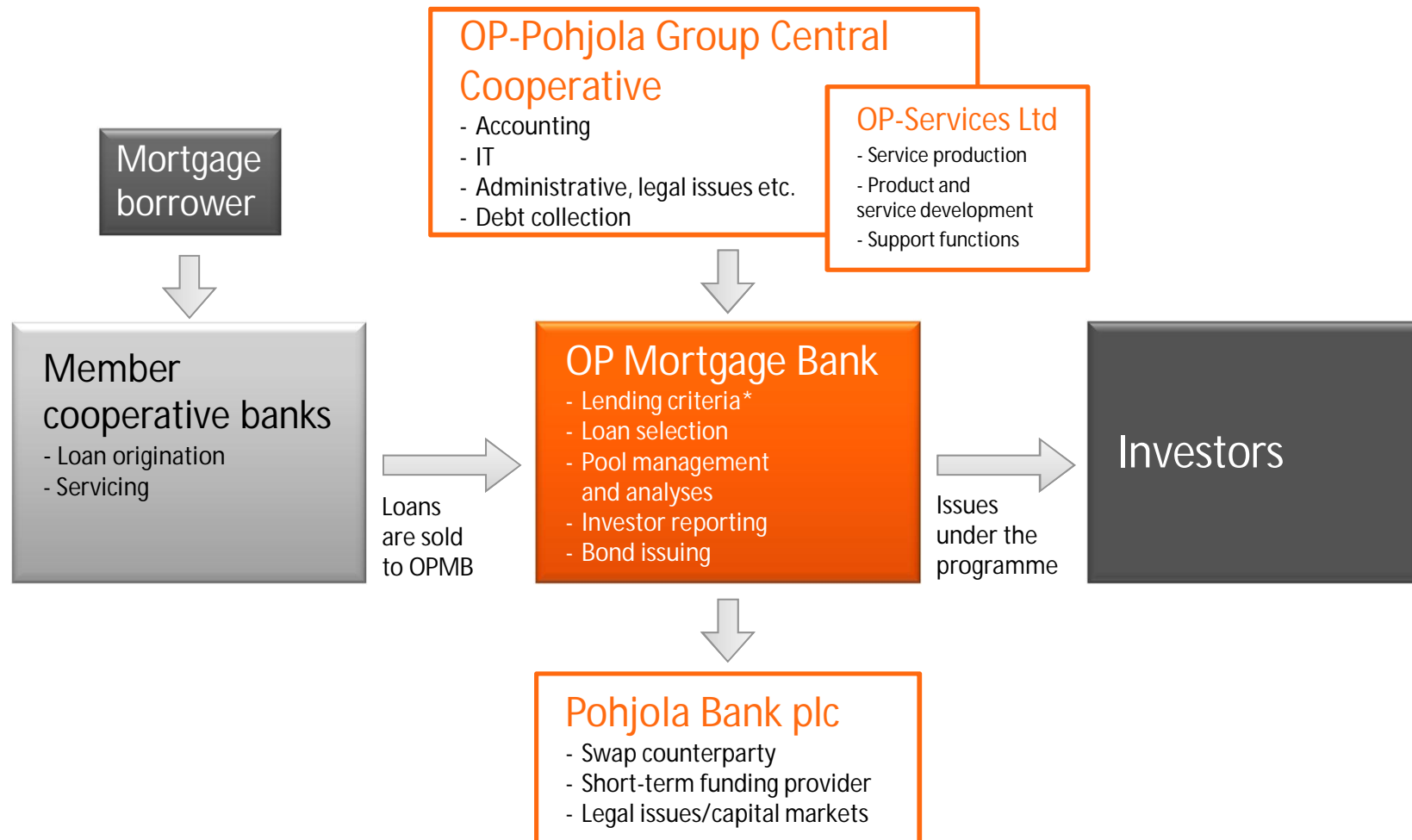
# OP Mortgage Bank (OPMB) in Brief

- OP Mortgage Bank is a special-purpose bank operating under the Act on Mortgage Credit Bank Operations.
- Its sole purpose is to raise funds for OP-Pohjola Group member banks by issuing covered bonds with mortgage collateral.
- The outstanding covered bonds of OP Mortgage Bank are rated AAA by S&P and Aaa by Moody's.
- OP Mortgage Bank is a wholly-owned subsidiary of OP-Pohjola Group Central Cooperative.
- OP Mortgage Bank fully benefits from the joint liability based on the Act on the Amalgamation of Deposit Banks. However, since assets in its Cover Asset Pool are ring-fenced, the noteholders have the right to receive what is due to them before all other creditors.

# OPMB Operating Model

- OPMB is a funding vehicle for the member banks:
  - Subject to strict eligibility criteria:
    - Existing loans may be transferred from member banks to OPMB.
    - Origination can be performed directly into OPMB where the member cooperative bank will act as a broker agent.
- OPMB utilises the current structure of the cooperative and outsource, for example:
  - origination and servicing of assets to member cooperative banks
  - risk management, IT services, accounting etc. to the Central Cooperative
  - interest rate risk management in cooperation with Pohjola Bank plc

# Operating Model and Roles



\*Basic lending criteria for the Group are set by the Central Cooperative. OP Mortgage Bank can set additional limits.



## OPMB Asset Pool Characteristics; Pool A

Covered bonds issued before 1 Aug. 2010,  
under the Finnish Act on Mortgage Credit Banks 1240/1999

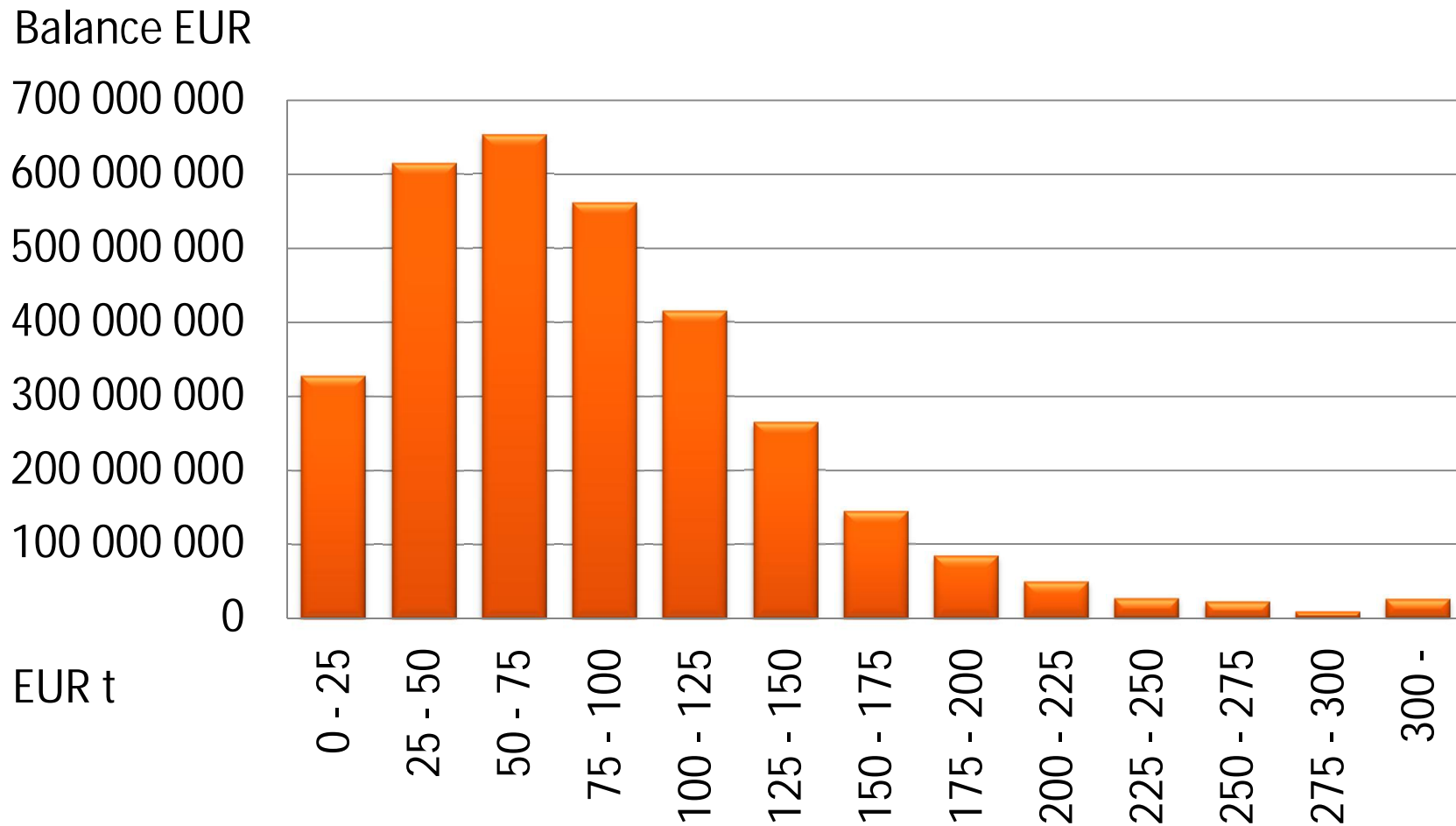
# Main Features of OP Mortgage Bank Cover Asset Pool A as of September 2012

- Collateralised by Finnish mortgages.
- Current balance EUR 3.2 billion.
- Weighted Average indexed LTV of 44.0%
- Average loan size of approximately EUR 46,000
- No loans over 90 days in arrears ongoing
- Variable interest rates: over 95% of all loans
- Hedging agreements in place in order to mitigate interest rate risk.
- Total amount of covered bonds issued EUR 2.25 billion.



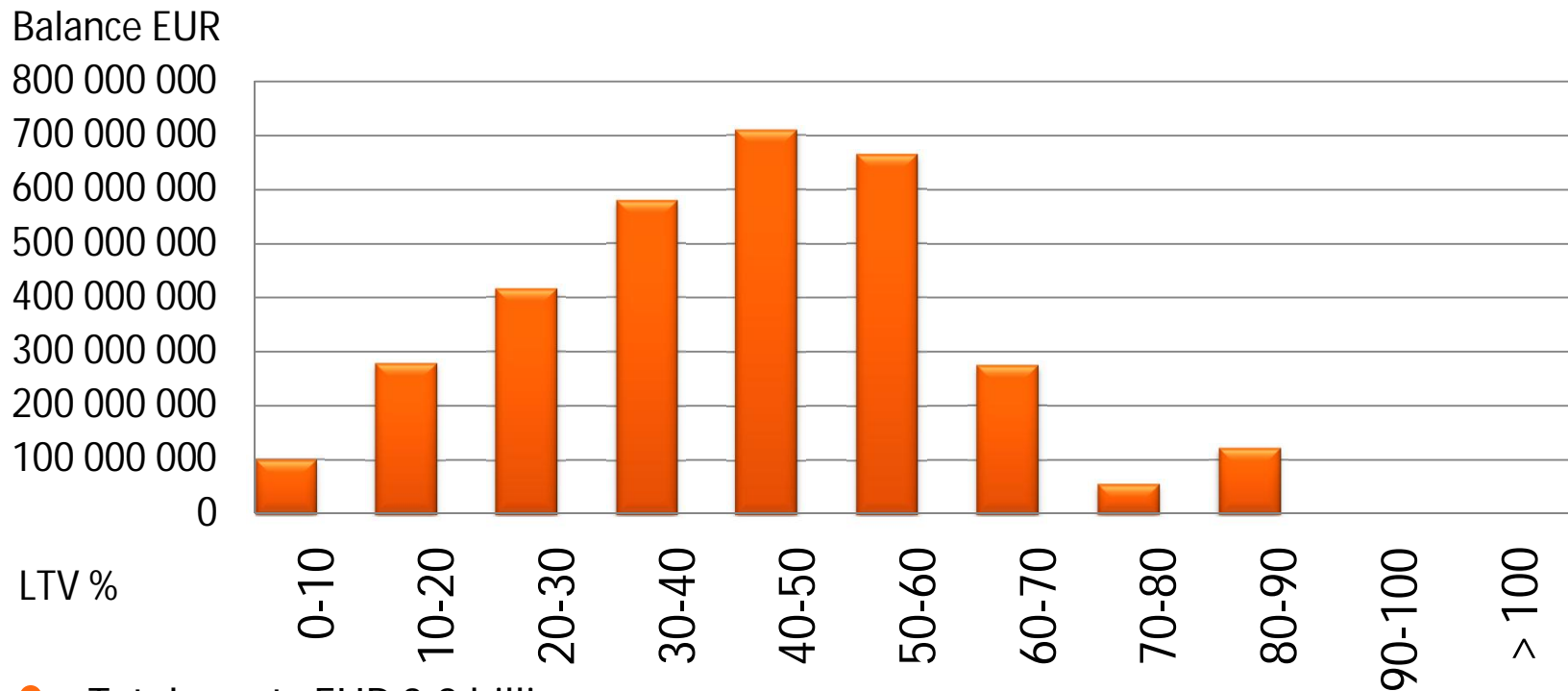
# OPMB Asset Pool A Characteristics

Loans by size



# OPMB Asset Pool A Characteristics

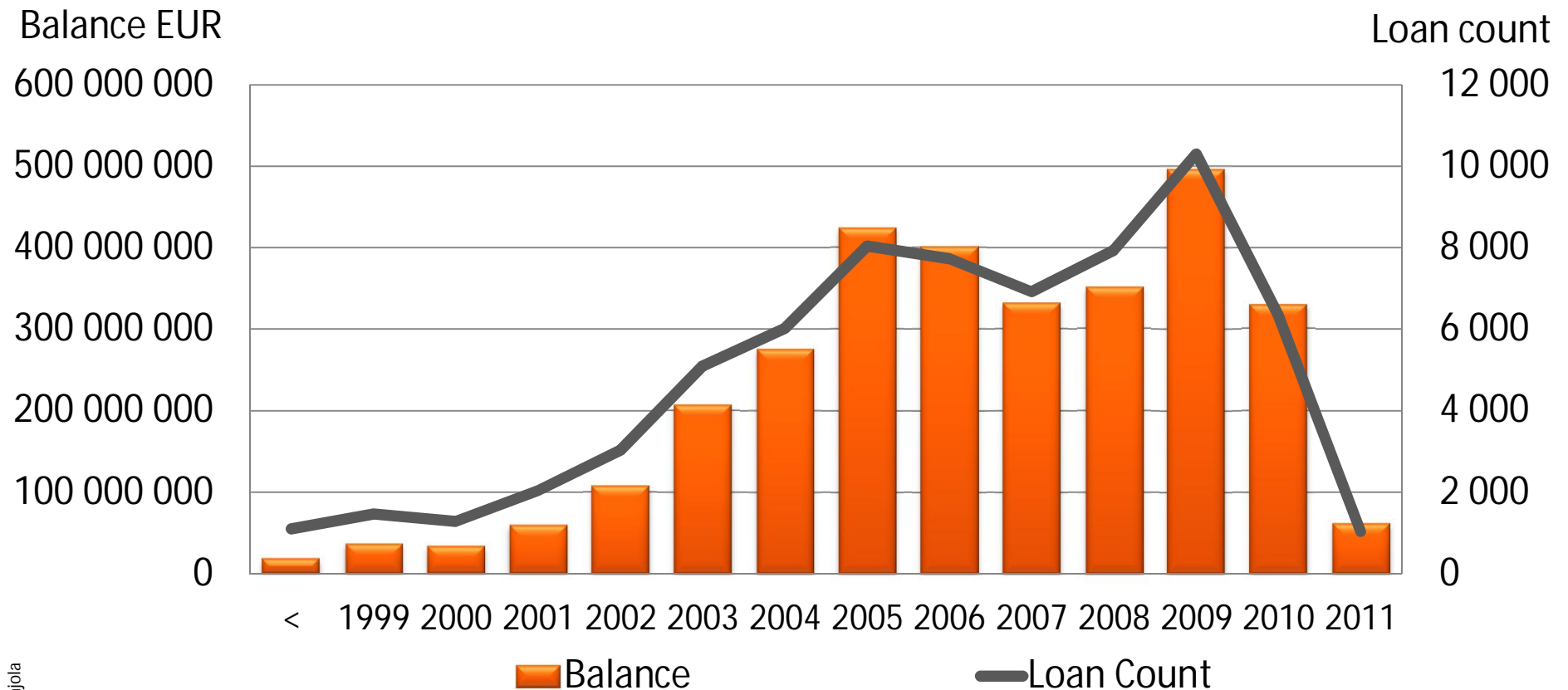
## Loans by LTV



- Total assets EUR 3.2 billion
- Eligible Cover Pool assets EUR 3.2 billion
- Weighted Average indexed LTV of 44.0%
- Over collateralization 42.2%

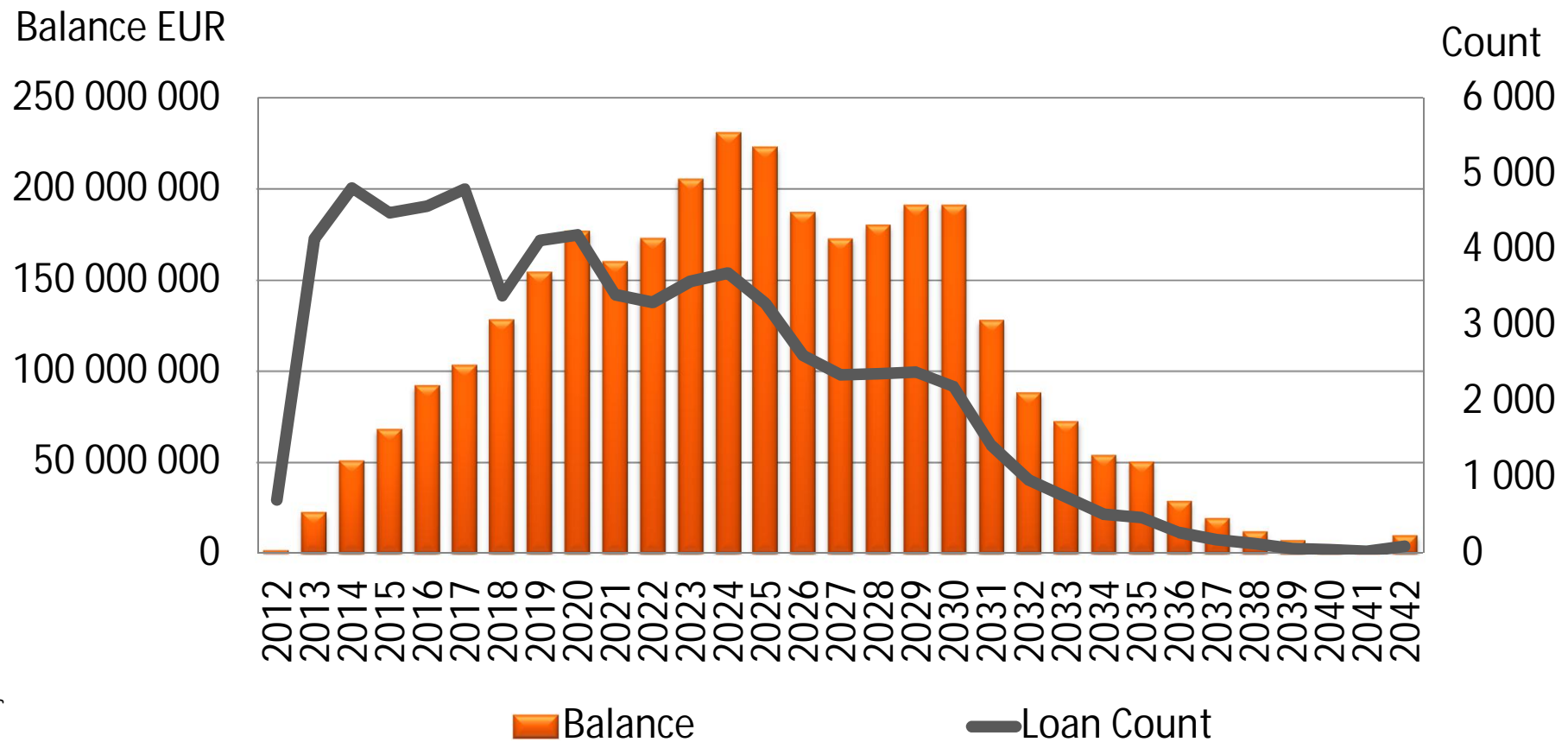
# OPMB Asset Pool A Characteristics

## Loans by origination year



# OPMB Asset Pool A Characteristics

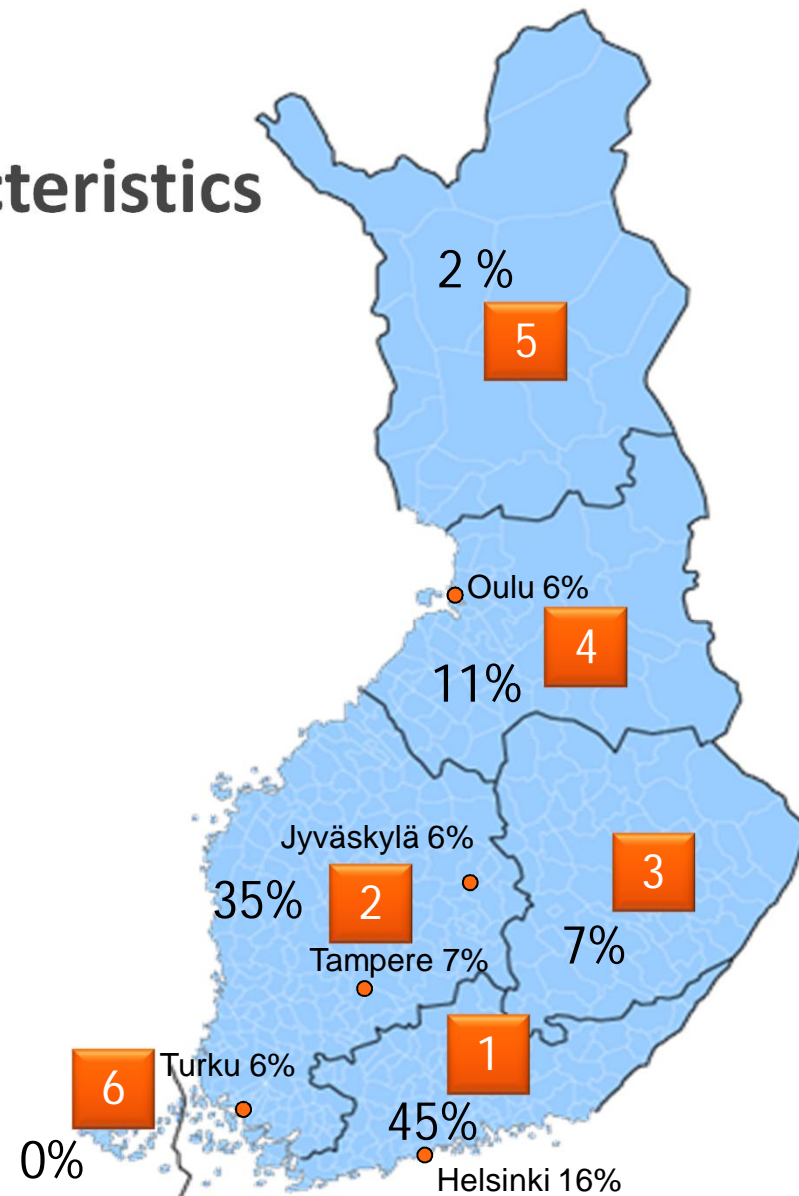
## Loans by maturity



# OPMB Asset Pool A Characteristics

## Geographical distributions

1	Southern Finland
2	Western Finland
3	Eastern Finland
4	Oulu region
5	Lapland
6	Åland





## OPMB Asset Pool Characteristics; Pool B

Covered bonds issued after 1 Aug. 2010,  
under the Finnish Act on Mortgage Credit Banks 680/2010

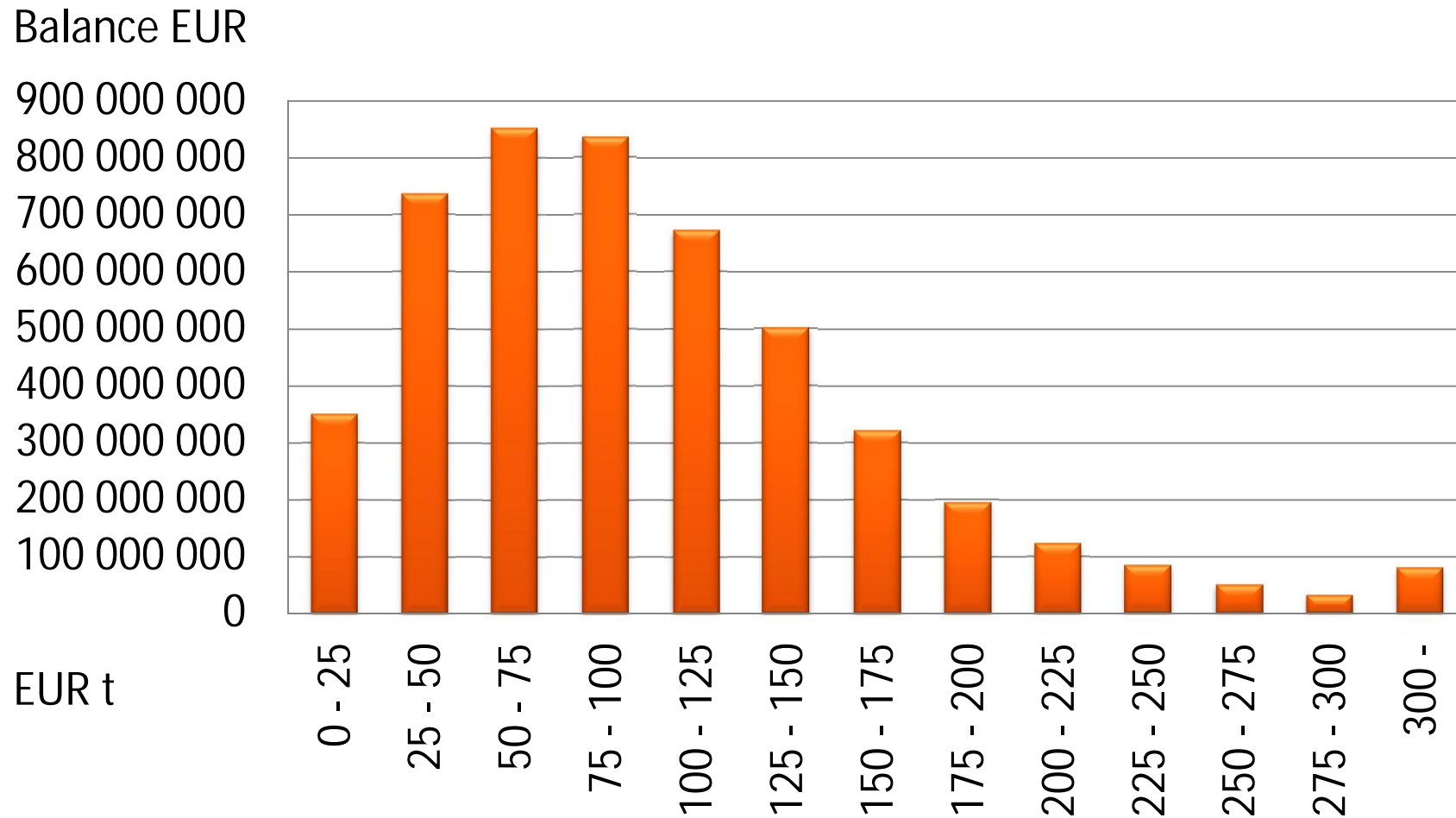
# Main Features of OP Mortgage Bank Cover Asset Pool B as of September 2012

- Collateralised by Finnish mortgages
- Current balance EUR 4.8 billion
- Weighted Average indexed LTV of 52%
- Average loan size of approximately EUR 59,000
- No loans over 90 days in arrears ongoing
- Variable interest rates: over 95% of all loans
- Hedging agreements in place in order to mitigate interest rate risk
- Total amount of covered bonds issued EUR 3.35 billion



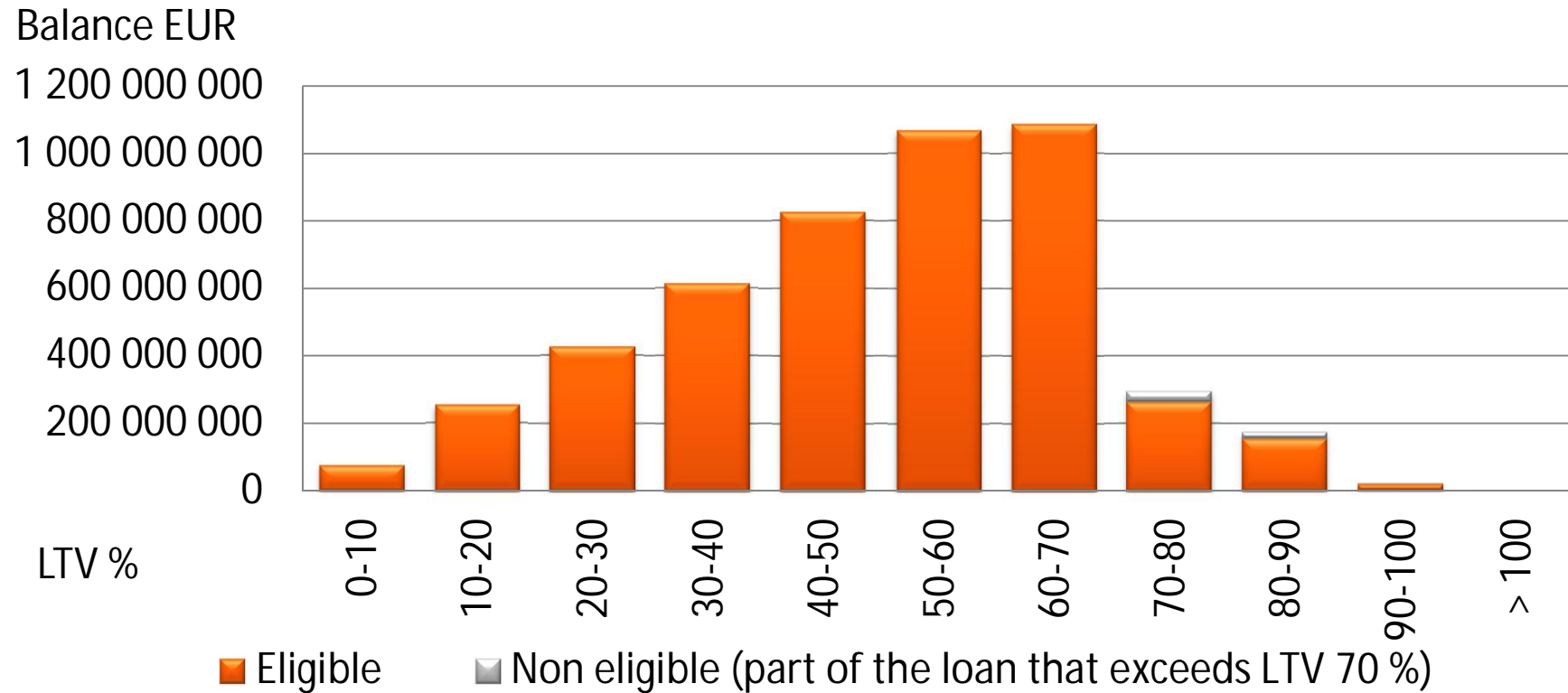
# OPMB Asset Pool B Characteristics

Loans by size



# OPMB Asset Pool B Characteristics

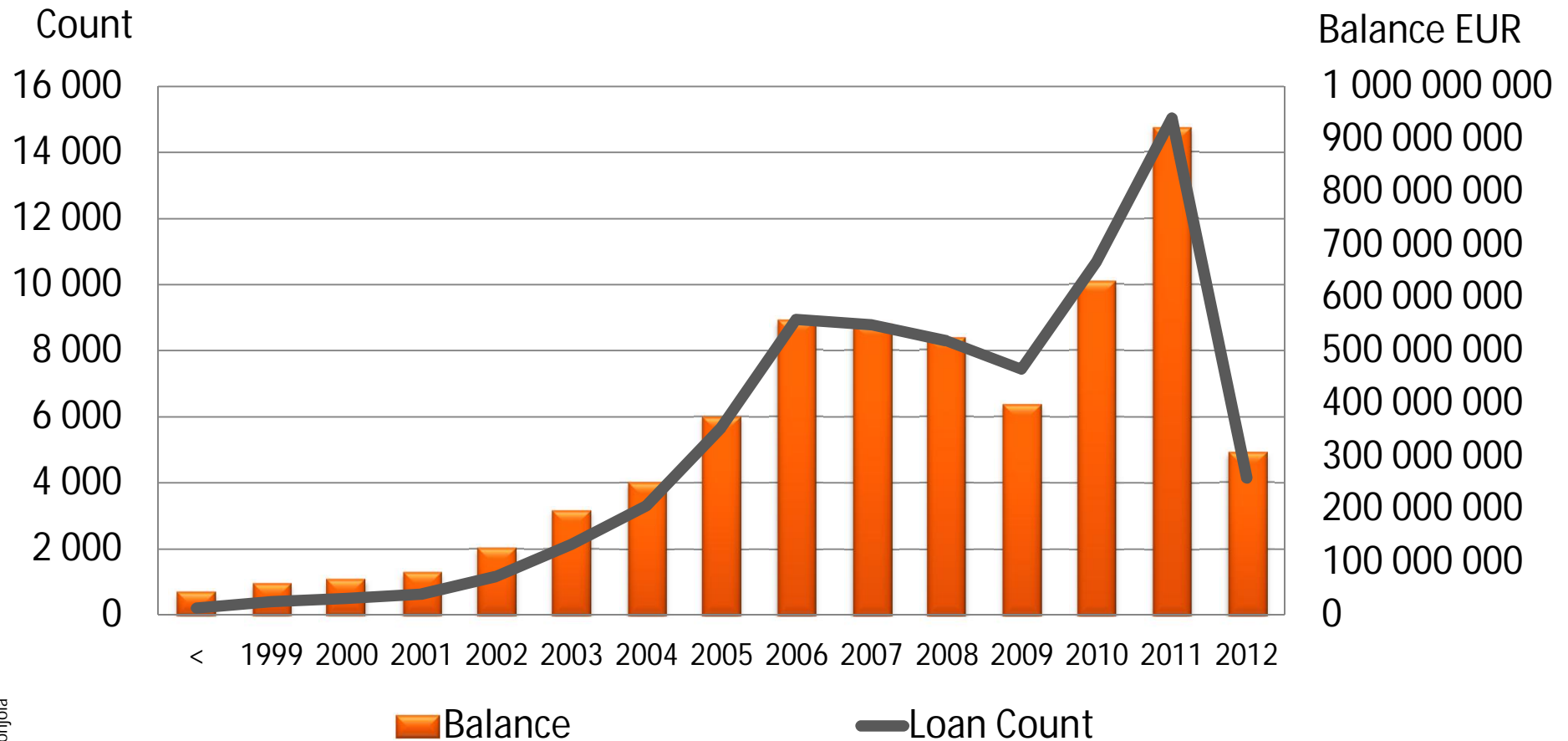
## Loans by LTV



- Total assets EUR 4.8 billion
- Eligible Cover Pool assets EUR 4.8 billion
- Weighted Average indexed LTV of 52%
- Over collateralisation 47.0%

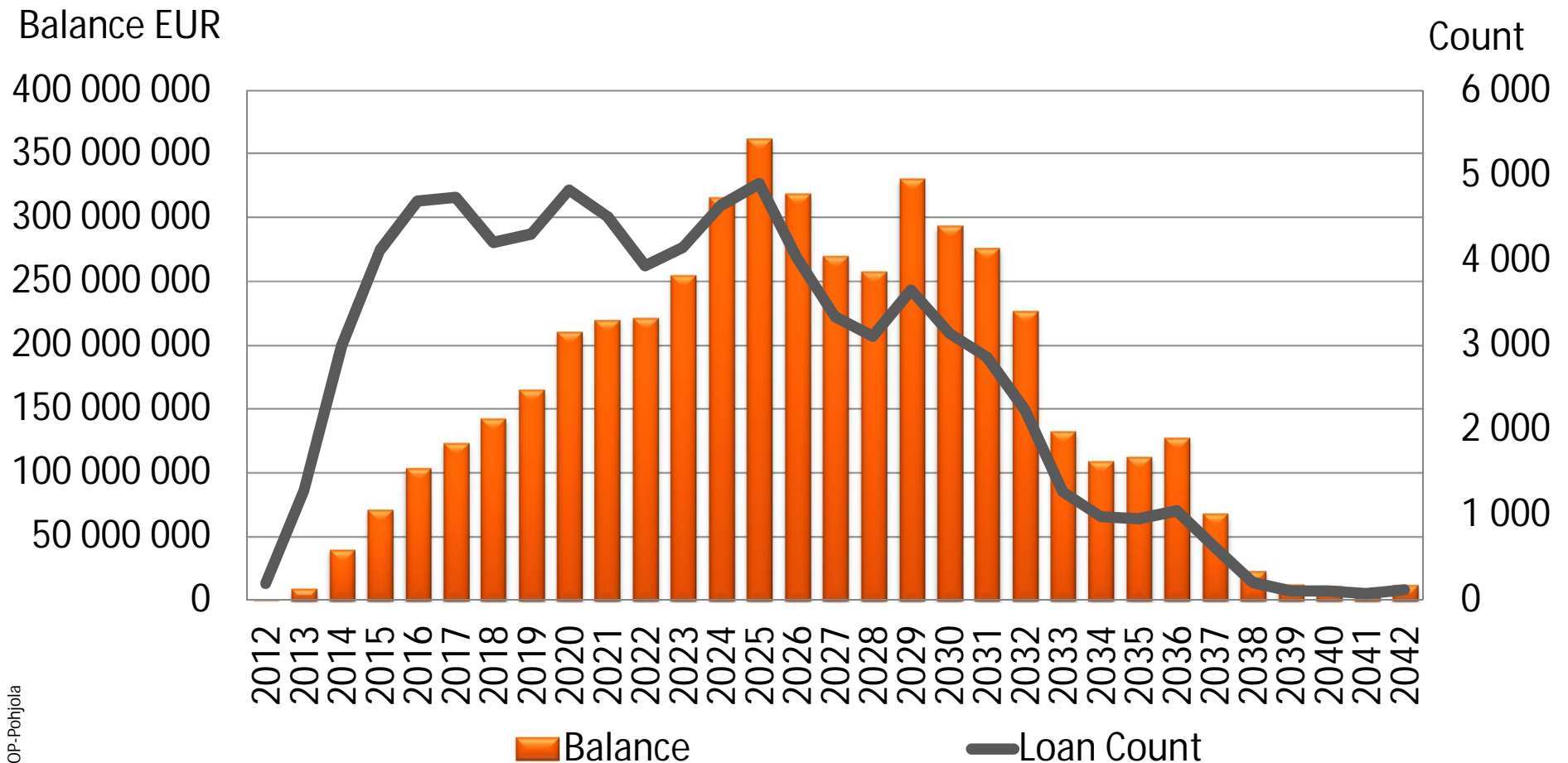
# OPMB Asset Pool B Characteristics

## Loans by origination year



# OPMB Asset Pool B Characteristics

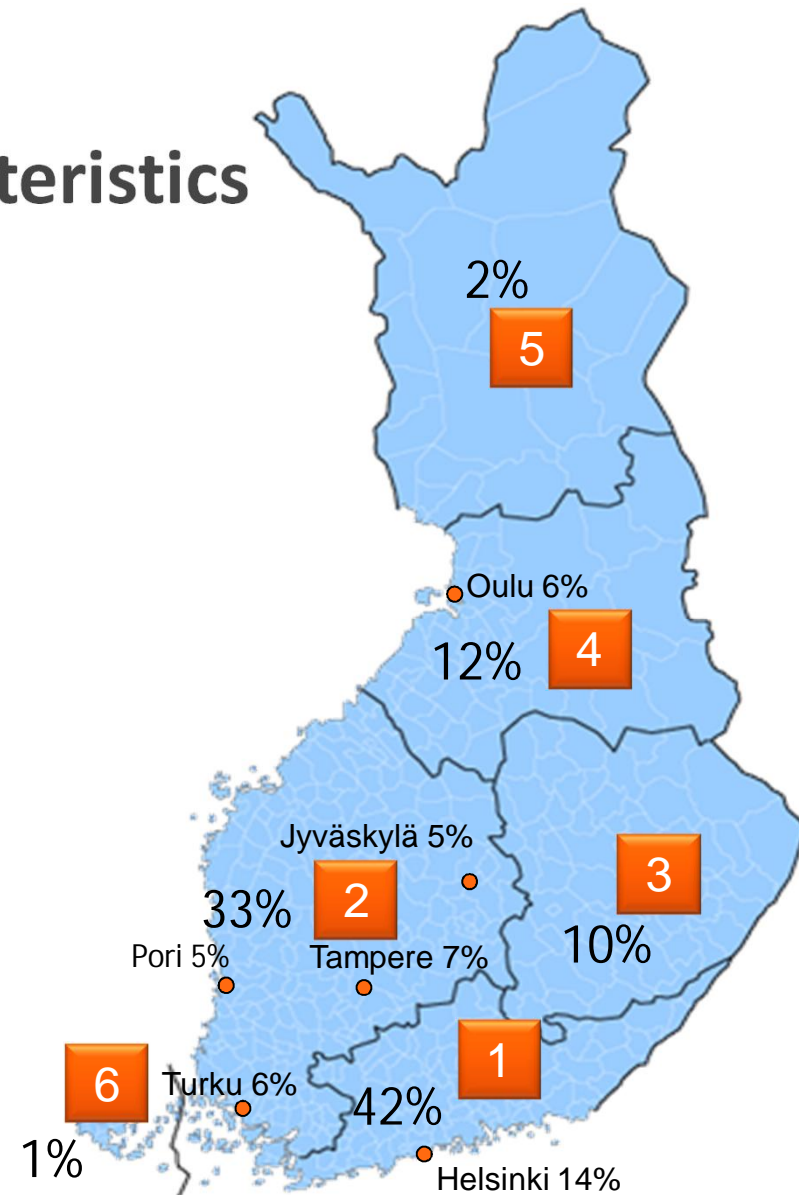
## Loans by maturity



# OPMB Asset Pool B Characteristics

## Geographical distribution

1	Southern Finland
2	Western Finland
3	Eastern Finland
4	Oulu region
5	Lapland
6	Åland





## Debt Investor Relations Contacts

# Debt Investor Relations Contacts



Head of Group Treasury

**Mr Hanno Hirvinen**

Tel. +358 10 252 2221

hanno.hirvinen@pohjola.com



Head of Group Funding

**Mr Lauri Iloniemi**

Tel. +358 10 252 3541

lauri.iloniemi@pohjola.com



Head of IR

**Ms Niina Pullinen**

Tel. +358 10 252 4494

niina.pullinen@pohjola.fi



IR Controller

**Ms Jaana Mauro**

Tel. +358 10 252 8426

jaana.mauro@pohjola.fi





## Appendix

# OP-Pohjola Group and Pohjola Bank plc

## Earnings analysis, € million

	OP-Pohjola Group Q1-3/2012	Pohjola Bank plc Q1-3/2012	OP-Pohjola Group 2011	Pohjola Bank plc 2011
Net interest income	772	201	1 030	276
Net income from Non-Life insurance	334	338	312	318
Net income from Life Insurance	75		72	
Net commissions and fees	428	116	574	161
Other income	173	88	173	89
Total income	1 782	743	2 160	843
Total expenses	1 099	425	1 358	527
Returns to owner-members and OP-bonus customers	142		176	
Earnings before impairment loss on receivables	541	317	626	316
Impairment loss on receivables	47	36	101	60
Earnings before tax	493	282	525	258
Change in fair value reserve	560	324	-400	-180
Earnings before tax at fair value	1 053	606	125	78

# OP-Pohjola Group and Pohjola Bank plc

## Key figures and ratios

	OP-Pohjola Group Q1-3/2012	Pohjola Bank plc Q1-3/2012	OP-Pohjola Group 2011	Pohjola Bank plc 2011
Total assets, € million	99 725	45 408	91 905	41 111
Receivables from customers, € million	64 174	13 702	60 331	12 701
Deposits, € million	43 565	10 049	41 304	8 025
Equity capital, € million	7 019	2 641	6 242	2 306
Tier 1 ratio, %	15.1	12.5	14.0	10.6
Core Tier 1 ratio, %	14.8	10.7	14.0	10.3
Doubtful receivables, € million	369	43	296	62
Ratio of doubtful receivables and zero-interest bearing receivables to loans and guarantees, %	0.55	0.26	0.47	0.41
Loan and guarantee portfolio, € billion	66.8	16.4	62.8	15.0
Impairment loss on receivables, € million	47	36	101	60
Impairment loss on receivables / loan and guarantee portfolio, %	0.09	0.22	0.16	0.40
Personnel	13 386	3 425	13 229	3 380

# OP-Pohjola Group and Pohjola Bank plc

## Key figures

	OP-Pohjola Group Q1-3/2012	Pohjola Bank plc Q1-3/2012	OP-Pohjola Group 2011	Pohjola Bank plc 2011
Net interest margin, %	1.1*	1.48**	1.2*	1.34**
Cost/Income ratio, %	62	35***	63	35***
Return on equity (ROE) at fair value, %	16.6	25.0	0.4	3.1
Return on assets, (ROA) at fair value, %	1.1		0.0	
Non-Life Insurance, solvency ratio, %		85		77
Life Insurance, solvency ratio, %	17.2****		12.9****	
Operating combined ratio, %		89.0		89.8

\* Net interest income as a percentage of average total assets

\*\* Average margin for corporate lending

\*\*\* Cost / Income ratio in Banking

\*\*\*\* Solvency capital / (net technical provisions for own account - equalisation provision - 0.75 \* technical provisions on unit-linked insurance) \* 100