

## **OP Mortgage Bank Interim Report for January–March 2016**

OP Mortgage Bank (OP MB) is part of OP Financial Group and its role is to raise, together with OP Corporate Bank plc (formerly Pohjola Bank plc), funding for the Group from money and capital markets. OP MB is responsible for the Group's funding for the part of covered bond issuance.

### **Financial standing**

The intermediate loans and loan portfolio of OP MB decreased to EUR 10,319 million (10,354)\* during the reporting period. The company increased its loan portfolio by buying mortgage-backed loans from OP Financial Group's member banks worth a total of EUR 413 million. OP MB did not issue any new bonds during the reporting period.

The company's financial standing remained stable throughout the reporting period. Operating profit for January–March amounted to EUR 5.4 (5.6) million.

OP MB has used interest rate swaps to hedge against its interest rate risk. Interest rate swaps have been used to swap housing loan interest and interest on issued bonds into the same basis rate. OP MB has entered into all derivative contracts for hedging purposes, with OP Corporate Bank plc being their counterparty.

\*The comparatives for 2015 are given in brackets. For income statement and other aggregated figures, January–March 2015 figures serve as comparatives. For balance-sheet and other cross-sectional figures, figures at the end of the previous financial year (31 December 2015) serve as comparatives.

### **Collateralisation of bonds issued to the public**

On 31 March 2016, loans as collateral in security of the covered bonds issued under the Euro Medium Term Covered Note programme worth EUR 15 billion established on 12 November 2010 under the Laki kiinnityspankkitoiminnasta (688/2010) (Covered Bond Act) totalled EUR 10,006 million.

### **Capital adequacy**

OP MB has presented its capital base and capital adequacy in accordance with the EU capital requirement regulation and directive (EU 575/2013). OP MB uses the Internal Ratings Based Approach (IRBA) to measure its capital adequacy requirement for credit risk. OP MB uses the Standardised Approach to measure its capital adequacy for operational risk.

The Common Equity Tier 1 (CET1) ratio stood at 135.0% (140.2) on 31 March. The CET1 capital requirement is 4.5% and the requirement for the capital conservation buffer is 2.5%, or a total of 7%.

OP MB's highest minimum capital requirement is determined by the Basel I floor. OP MB's capital base exceeded the Basel I floor by EUR 16.4 million in March. Information on the Basel I floor and capital surplus can be found in note "Capital base and capital adequacy".

### **Joint and several liability of amalgamation**

Under the Act on the Amalgamation of Deposit Banks, the amalgamation of the cooperative banks comprises the organisation's central cooperative (OP Cooperative), the central cooperative's member credit institutions and the companies belonging to their consolidation groups as well as credit and financial institutions and service companies in which the above together hold more than half of the total votes. This amalgamation is supervised on a consolidated basis. On 31 March 2016, OP Cooperative's members comprised 177 member cooperative banks as well as OP Corporate Bank plc, Helsinki Area Cooperative Bank (formerly Helsinki OP Bank Ltd), OP Mortgage Bank, OP Card Company Plc and OP Process Services Ltd. As a support measure referred to in the Act on the Amalgamation of Deposit Banks, the central cooperative is liable to pay any of its member credit institutions an amount that is necessary to prevent the credit institution from being placed in liquidation. The

central cooperative is also liable for the debts of a member credit institution which cannot be paid using the member credit institution's assets. Companies belonging to the amalgamation are legally liable for each other's debts. The amalgamation's central cooperative, OP Cooperative, is obliged, if necessary, to assist member banks as a support action with a sum that prevents them from going into liquidation. The central cooperative is liable for the debts of a member bank which cannot be paid using the member bank's capital.

Each member bank is liable to pay a proportion of the amount which the central cooperative has paid to either another member bank as part of support action or to a creditor of such member bank in payment of an amount overdue which the creditor has not received from the member bank. Furthermore, in the case of the central cooperative's default, a member bank has unlimited refinancing liability for the central cooperative's debts as referred to in the Co-operatives Act.

Each member bank's liability for the amount the central cooperative has paid to the creditor on behalf of a member bank is divided between the member banks in proportion to their last adopted balance sheets. OP Financial Group's insurance companies do not fall within the scope of joint and several liability.

According to Section 25 of the Covered Bond Act, the holder of a covered bond has the right to receive a payment for the entire term of the bond from the assets entered as collateral before other receivables without this being prevented by OP MB's liquidation or bankruptcy.

## **Personnel**

On 31 March, OP MB had five employees. The Bank purchases all the most important support services from OP Cooperative and its Group members, reducing the its need for its own personnel.

## **Administration**

The Board composition is as follows:

Chairman	Harri Luhtala	Chief Financial Officer, OP Cooperative
Members	Elina Ronkanen-Minogue	Head of Asset and Liability Management and Group Treasury, OP Cooperative
	Hanno Hirvinen	Group Treasurer, OP Corporate Bank plc

OP MB's Managing Director is Lauri Iloniemi and Hanno Hirvinen is his deputy.

## **Risk exposure**

The most typical types of risks related to OP MB are credit risk, structural funding risk, liquidity risk and interest rate risk. The key credit risk indicators in use show that OP MB's credit risk exposure is stable and the limit for liquidity risk set by the Board of Directors has not been exceeded. The liquidity buffer for OP Financial Group, managed by OP Corporate Bank plc, is exploitable by OP MB. OP MB has used interest rate swaps to hedge against its interest rate risk. Interest rate swaps have been used to swap housing loan interest and interest on issued bonds into the same basis rate. The interest rate risk may be considered to be low.

## **Outlook**

The existing issuance programme makes it possible to issue new covered bonds in 2016. It is expected that the Bank's capital adequacy will remain strong, risk exposure favourable and the overall quality of the loan portfolio good.

## **Accounting policies**

The Interim Report for 1 January–31 March 2016 has been prepared in accordance with IAS 34 (Interim Financial Reporting).

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.

OP MB's related parties include the parent company OP Cooperative and its subsidiaries, the OP Financial Group pension insurance companies OP Bank Group Pension Fund and OP Bank Group 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 interest rates. The financial year saw no major changes in related-party transactions.

### **Formulas for key ratios**

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

Cost/income ratio, % = (Personnel costs + Other administrative expenses + Other operating expenses) / (Net interest income + Net commissions and fees + Net trading income + Total net investment income + Other operating income) × 100

<b>Income statement, TEUR</b>	<b>Q1/2016</b>	<b>Q1/2015</b>	<b>2015</b>
Interest income	24,300	27,202	106,362
Interest expenses	5,434	10,476	33,007
<b>Net interest income</b>	<b>18,866</b>	<b>16,726</b>	<b>73,355</b>
Impairment loss on receivables	-67	-51	210
Net commissions and fees	-12,156	-9,907	-43,361
Net trading income	0	0	0
Net investment income	2	1	22
Other operating income	1	1	1
Personnel costs	89	114	382
Other administrative expenses	742	612	2,612
Other operating expenses	423	401	1,924
<b>Earnings before tax</b>	<b>5,392</b>	<b>5,644</b>	<b>25,308</b>
Income tax expense	1,078	1,128	5,020
<b>Profit for the period</b>	<b>4,313</b>	<b>4,515</b>	<b>20,288</b>

<b>Statement of comprehensive income, TEUR</b>	<b>Q1/2016</b>	<b>Q1/2015</b>	<b>2015</b>
Profit for the period	4,313	4,516	20,288
Items that will not be reclassified to profit or loss			
Gains/(losses) arising from remeasurement of defined benefit plans			231
Income tax on gains/(losses) on arising from remeasurement of defined benefit plans			-46
<b>Total comprehensive income</b>	<b>4,313</b>	<b>4,516</b>	<b>20,473</b>

<b>Key ratios</b>	<b>Q1/2016</b>	<b>Q1/2015</b>	<b>2015</b>
Return on equity (ROE), %	4.7	5.1	5.6
Cost/income ratio, %	19	17	16

<b>Cash flow from operating activities, TEUR</b>	<b>Q1/2016</b>	<b>Q1/2015</b>
Profit for the financial year	4,313	4,516
Adjustments to profit for the financial year	2,305	589
<b>Increase (-) or decrease (+) in operating assets</b>	<b>16,088</b>	<b>-329,218</b>
Receivables from the public and public-sector entities	33,771	-307,574
Other assets	-17,683	-21,644
<b>Increase (+) or decrease (-) in operating liabilities</b>	<b>804,248</b>	<b>309,162</b>
Liabilities to credit institutions and central banks	790,000	290,000
Other liabilities	14,248	19,162
Income tax paid	-921	-590
Dividends received	2	1
<b>A. Net cash from operating activities</b>	<b>826,955</b>	<b>-14,951</b>
<b>Cash flow from investing activities</b>		
Purchase of PPE and intangible assets		-178
<b>B. Net cash used in investing activities</b>		<b>-178</b>
<b>Cash flow from financing activities</b>		
Increases in debt securities issued to the public		2,103
Dividends paid and interest on cooperative capital	-16,282	-4,996
<b>C. Net cash used in financing activities</b>	<b>-16,282</b>	<b>-2,893</b>
<b>D. Effect of foreign exchange rate changes on cash and cash equivalents</b>	<b>0</b>	<b>0</b>
<b>Net change in cash and cash equivalents (A+B+C+D)</b>	<b>810,673</b>	<b>-18,022</b>
<b>Cash and cash equivalents at year-start</b>	<b>245,120</b>	<b>109,046</b>
<b>Cash and cash equivalents at year-end</b>	<b>1,056,002</b>	<b>91,181</b>
<b>Change in cash and cash equivalents</b>	<b>810,882</b>	<b>-17,865</b>
Interest received	6,564	5,893
Interest paid	-8,966	-8,406
<b>Adjustments to profit for the financial year</b>		
Non-cash items		
Unrealised net gains on foreign exchange operations	0	0
Impairment losses on receivables	68	51
Other	2,237	538
<b>Total adjustments</b>	<b>2,305</b>	<b>589</b>
<b>Cash and cash equivalents</b>		
Receivables from credit institutions payable on demand	1,056,002	91,181
<b>Total cash and cash equivalents</b>	<b>1,056,002</b>	<b>91,181</b>

<b>Balance sheet, TEUR</b>	<b>31 Mar 2016</b>	<b>31 Mar 2015</b>	<b>31 Dec 2015</b>
Receivables from credit institutions	1,799,372	101,181	988,490
Derivative contracts	273,010	285,540	192,206
Receivables from customers	9,576,120	9,635,434	9,610,252
Investments assets	40	40	40
Intangible assets	2,366	2,630	2,575
Other assets	96,506	111,691	78,823
Tax assets		392	
<b>Total assets</b>	<b>11,747,413</b>	<b>10,136,908</b>	<b>10,872,386</b>
Liabilities to credit institutions	2,165,000	1,795,000	1,375,000
Derivative contracts	6,202	7,156	12,971
Debt securities issued to the public	9,092,027	7,836,945	9,002,669
Provisions and other liabilities	122,733	141,278	108,485
Tax liabilities	1,483	551	1,325
<b>Total liabilities</b>	<b>11,387,445</b>	<b>9,780,929</b>	<b>10,500,450</b>
Shareholders' equity			
Share capital	60,000	60,000	60,000
Reserve for invested unrestricted equity	245,000	245,000	245,000
Retained earnings	54,968	50,979	66,937
Total equity	359,968	355,979	371,937
<b>Total liabilities and shareholders' equity</b>	<b>11,747,413</b>	<b>10,136,908</b>	<b>10,872,386</b>

<b>Off-balance-sheet commitments, TEUR</b>	<b>31 Mar 2016</b>	<b>31 Mar 2015</b>	<b>31 Dec 2015</b>
Irrevocable commitments given on behalf of customers	205	3,305	858

<b>Statement of changes in equity, TEUR</b>	<b>Share capital</b>	<b>Other reserves</b>	<b>Retained earnings</b>	<b>Total equity</b>
<b>Shareholders' equity 1 Jan 2015</b>	<b>60,000</b>	<b>245,000</b>	<b>51,459</b>	<b>356,459</b>
Reserve for invested unrestricted equity				
Profit for the period			4,516	4,516
Total comprehensive income				
Other changes			-4,996	-4,996
<b>Shareholders' equity 31 Mar 2015</b>	<b>60,000</b>	<b>245,000</b>	<b>50,979</b>	<b>355,979</b>
<b>Shareholders' equity 1 Jan 2016</b>	<b>60,000</b>	<b>245,000</b>	<b>66,937</b>	<b>371,937</b>
Reserve for invested unrestricted equity				
Profit for the period			4,313	4,313
Total comprehensive income				
Other changes			-16,282	-16,282
<b>Shareholders' equity 31 Mar 2016</b>	<b>60,000</b>	<b>245,000</b>	<b>54,968</b>	<b>359,968</b>

OP MB has presented its capital base and capital adequacy in accordance with the EU capital requirement regulation and directive (EU 575/2013).

<b>Capital base and capital adequacy, TEUR</b>	<b>31 Mar 2016</b>	<b>31 Dec 2015</b>
Shareholders' equity	359,968	371,937
<b>Common Equity Tier 1 (CET1) before deductions</b>	<b>359,968</b>	<b>371,937</b>
Intangible assets	-2,366	-2,575
Excess funding of pension liability, indirect holdings and deferred tax assets for losses	-74	-74
Share of unaudited profits	-4,313	-20,288
Impairment loss – shortfall of expected losses	-2,279	-2,046
<b>Common Equity Tier 1 (CET1)</b>	<b>350,935</b>	<b>346,954</b>
<b>Tier 1 capital (T1)</b>	<b>350,935</b>	<b>346,954</b>
<b>Total capital base</b>	<b>350,935</b>	<b>346,954</b>
<b>Risk-weighted assets</b>		
Credit and counterparty risk	225,990	219,560
Operational risk	33,898	27,846
<b>Total</b>	<b>259,888</b>	<b>247,407</b>
<b>Key ratios, %</b>		
CET1 capital ratio	135.0	140.2
Tier 1 capital ratio	135.0	140.2
Capital adequacy ratio	135.0	140.2
<b>Basel I floor</b>		
Capital base	350,935	346,954
Basel I capital requirements floor	334,573	324,461
Capital buffer for Basel I floor	16,362	22,493

<b>Classification of financial assets liabilities 31 March 2016, TEUR</b>		<b>Recognised at fair value through profit or loss</b>		
<b>Financial assets</b>	<b>Loans and other receivables</b>		<b>Available for sale</b>	<b>Total</b>
Receivables from credit institutions	1,799,372			1,799,372
Derivative contracts		273,010		273,010
Receivables from customers	9,576,120			9,576,120
Shares and participations			40	40
Other receivables	96,506			96,506
Other assets	2,366			2,366
<b>Total</b>	<b>11,474,363</b>	<b>273,010</b>	<b>40</b>	<b>11,747,413</b>
<b>Financial liabilities</b>		<b>Recognised at fair value through profit or loss</b>	<b>Other liabilities</b>	<b>Total</b>
Liabilities to credit institutions			2,165,000	2,165,000
Derivative contracts		6,202		6,202
Debt securities issued to the public			9,092,027	9,092,027
Other liabilities			124,216	124,216
<b>Total</b>		<b>6,202</b>	<b>11,381,243</b>	<b>11,387,445</b>
Valuation difference of debt securities issued to the public (difference between fair value and carrying amount) 31 March 2016			309,499	<b>309,499</b>

<b>Classification of financial assets liabilities 31 Dec 2015, TEUR</b>		<b>Recognised at fair value through profit or loss</b>		
<b>Financial assets</b>	<b>Loans and other receivables</b>		<b>Available for sale</b>	<b>Total</b>
Receivables from credit institutions	988,490			988,490
Derivative contracts		192,206		192,206
Receivables from customers	9,610,252			9,610,252
Shares and participations			40	40
Other receivables	78,823			78,823
Other assets	2,575			2,575
<b>Total</b>	<b>10,680,140</b>	<b>192,206</b>	<b>40</b>	<b>10,872,386</b>
<b>Financial liabilities</b>		<b>Recognised at fair value through profit or loss</b>	<b>Other liabilities</b>	<b>Total</b>
Liabilities to credit institutions			1,375,000	1,375,000
Derivative contracts		12,971		12,971
Debt securities issued to the public			9,002,669	9,002,669
Other liabilities			109,810	109,810
<b>Total</b>		<b>12,971</b>	<b>10,487,479</b>	<b>10,500,450</b>
Valuation difference of debt securities issued to the public (difference between fair value and carrying amount) 31 Dec 2015			219,641	<b>219,641</b>



Debt securities issued to the public are carried at amortised cost. The fair value of these debt instruments has been measured using information available in markets and employing commonly used valuation techniques. The difference between the fair value and carrying amount is presented as valuation difference in the Classification of financial assets and liabilities table.

Derivative contracts 31 Mar 2016, TEUR	Nominal values/residual term to maturity			
	Less than 1 year	1–5 years	More than 5 years	Total
Interest rate derivatives				
Hedging	2,406,976	10,816,977	5,084,754	18,308,707
<b>Total</b>	<b>2,406,976</b>	<b>10,816,977</b>	<b>5,084,754</b>	<b>18,308,707</b>

	Fair values		Credit equivalent
	Assets	Liabilities	
Interest rate derivatives			
Hedging	273,010	6,202	491,247
<b>Total</b>	<b>273,010</b>	<b>6,202</b>	<b>491,247</b>

Derivative contracts 31 Dec 2015, TEUR	Nominal values/residual term to maturity			
	Less than 1 year	1–5 years	More than 5 years	Total
Interest rate derivatives				
Hedging	2,387,456	8,816,977	7,118,958	18,323,391
<b>Total</b>	<b>2,387,456</b>	<b>8,816,977</b>	<b>7,118,958</b>	<b>18,323,391</b>

	Fair values		Credit equivalent
	Assets	Liabilities	
Interest rate derivatives			
Hedging	192,206	12,971	411,985
<b>Total</b>	<b>192,206</b>	<b>12,971</b>	<b>411,985</b>

Financial instruments classification, grouped by valuation technique, TEUR 31 Mar 2016	Fair value measurement at year end		
	Balance sheet value	Level 1	Level 2
<b>Recurring fair value measurements of assets</b>			
Derivate contracts	273,010		273,010
<b>Total</b>	<b>273,010</b>		<b>273,010</b>
<b>Recurring fair value measurements of liabilities</b>			
Derivate contracts	6,202		6,202
<b>Total</b>	<b>6,202</b>		<b>6,202</b>
<b>Financial liabilities not measured at fair value</b>			
Debt securities issued to the public	9,092,027	9,023,791	377,736
<b>Total</b>	<b>9,092,027</b>	<b>9,023,791</b>	<b>377,736</b>

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

31 Dec 2015	Fair value measurement at year end		
	Balance sheet value	Level 1	Level 2
<b>Recurring fair value measurements of assets</b>			
Derivate contracts	192,206		192,206
<b>Total</b>	<b>192,206</b>		<b>192,206</b>
<b>Recurring fair value measurements of liabilities</b>			
Derivate contracts	12,971		12,971
<b>Total</b>	<b>12,971</b>		<b>12,971</b>
<b>Financial liabilities not recognised at fair value</b>			
Debt securities issued to the public	9,002,669	8,872,880	349,430
<b>Total</b>	<b>9,002,669</b>	<b>8,872,880</b>	<b>349,430</b>

Helsinki, 27 April 2016

**OP Mortgage Bank**  
**Board of Directors**

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