

## OP Mortgage Bank Interim Report for January-June 2015

OP Mortgage Bank (OP MB) is part of OP Financial Group. Together with Pohjola Bank plc, it is in charge of OP's funding from the money and capital markets. OP MB is responsible for OP's funding for the part of covered bond issuance.

### Financial standing

The loan portfolio of OP Mortgage Bank (OP MB) increased to EUR 9,600 million (9,329)\*. The company increased its loan portfolio by buying mortgage-backed loans from OP Financial Group's member banks worth a total of EUR 1,119 million. The company did not issue any bonds in global capital markets in the reporting period.

The company's financial standing remained stable throughout the reporting period. Operating profit for January–June amounted to EUR 12.9 (10.5) 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 Pohjola Bank plc being their counterparty.

\* The comparatives for 2014 are given in brackets. For income statement and other aggregated figures, January–June 2015 figures serve as comparatives. For balance sheet and other cross-sectional figures, figures at the end of the previous reporting period (31 December 2014) serve as a comparative.

### Collateralisation of bonds issued to the public

The last covered bond issued under the Finnish Act on Mortgage Credit Banks (1240/1999) before 1 August 2010 matured on 15 June 2015 and the programme was consequently terminated and the free collaterals of Cover Asset Pool A were transferred to Cover Asset Pool B.

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 9,227 million at the end of June.

### 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.

OP MB's Common Equity Tier 1 (CET1) ratio stood at 133.3% (133.0%) on 30 June. The CET1 capital requirement is 4.5% and the fixed additional capital requirement 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 34.3 million in June. Information on the Basel I floor and capital surplus can be found in note "Capital base and capital adequacy".

### Joint liability of amalgamation

Under the Act on the Amalgamation of Deposit Banks (*Laki talletuspankkien yhteenliittymästä*), the amalgamation of the cooperative banks comprises the organisation's central institution (OP Cooperative), the central institution'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 30 June 2015, OP Cooperative's members comprised 186 cooperative banks as well as Pohjola Bank plc, Helsinki OP Bank Plc, OP Mortgage

Bank plc, OP Card Company Plc and OP Process Services Ltd. The central institution is responsible for issuing instructions to its member credit institutions concerning their internal control and risk management, their procedures for securing liquidity and capital adequacy as well as for compliance with harmonised accounting policies in the preparation of the amalgamation's consolidated financial statements.

Companies belonging to the amalgamation are legally responsible for each other's debts. OP Financial Group's insurance companies do not fall within the scope of joint liability. The amalgamation's central institution OP Cooperative is obliged, if necessary, to assist member banks 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 bank in proportion to their last adopted balance sheets.

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

## **Personnel**

On 30 June, OP MB had five employees. The Bank purchases all the most important support services from OP Cooperative and its Group members, reducing the Bank's need for its own personnel.

## **Administration**

The Board composition is as follows:

Chairman	Harri Luhtala	Chief Financial Officer, OP Cooperative, Financial Group
Members	Elina Ronkanen-Minogue	Senior Vice President, OP Cooperative, Financial Group
	Hanno Hirvinen	Group Treasurer, Pohjola Bank plc

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

## **Risk exposure**

The most significant types of risks related to OP MB are credit risk, structural funding risk, liquidity risk and interest rate risk. The key 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 Pohjola Bank Plc, is exploitable by OP MB. OP MB 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 2015. 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 good.

## **Accounting policies**

The Interim Report for 1 January–30 June 2015 has been prepared in accordance with IAS 34 (Interim Financial Reporting) and with the accounting policies presented in the financial statements 2014.

The 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.

OP MB's related parties include the parent company OP Cooperative and its subsidiaries, the OP Financial Group pension insurance organisation OP Bank Group Pension Fund and OP Bank Group Pension Foundation, and the company's administrative personnel. Standard loan terms and conditions apply to loans granted to the related parties. Loans are tied to generally used reference rates. Related-party transactions did not undergo any substantial changes during the reporting period.

### **Calculation of 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</b>	<b>TEUR</b>	<b>H1/2015</b>	<b>H1/2014</b>	<b>Q2/2015</b>	<b>Q2/2014</b>	<b>2014</b>
Interest income		54,746	58,215	27,544	31,859	117,550
Interest expenses		19,916	33,190	9,440	17,189	62,539
<b>Net interest income</b>		<b>34,830</b>	<b>25,025</b>	<b>18,104</b>	<b>14,669</b>	<b>55,011</b>
Impairment loss on receivables		293	-165	343	-100	-150
Net commissions and fees		-20,133	-12,291	-10,226	-8,328	-32,394
Net trading income		0	-1	0	-1	-1
Net investment income		1	1	0	0	1
Other operating income		1	1	0	0	1
Personnel costs		204	190	90	71	385
Other administrative expenses		1,181	1,135	569	571	2,300
Other operating expenses		754	788	353	483	1,506
<b>Earnings before tax</b>		<b>12,854</b>	<b>10,456</b>	<b>7,210</b>	<b>5,116</b>	<b>18,277</b>
Income tax expense		2,570	2,091	1,442	1,023	3,657
<b>Profit for the period</b>		<b>10,283</b>	<b>8,365</b>	<b>5,768</b>	<b>4,093</b>	<b>14,619</b>

<b>Statement of comprehensive income</b>	<b>TEUR</b>	<b>H1/2015</b>	<b>H1/2014</b>	<b>Q2/2015</b>	<b>Q2/2014</b>	<b>2014</b>
Profit for the period		10,283	8,365	5,768	4,093	14,619
Items that will not be reclassified to profit or loss						
Gains/(losses) arising from remeasurement of defined benefit plans						-17
Income tax on gains/(losses) on arising from remeasurement of defined benefit plans						3
<b>Total comprehensive income</b>		<b>10,283</b>	<b>8,365</b>	<b>5,768</b>	<b>4,093</b>	<b>14,606</b>

<b>Key ratios</b>	<b>H1/2015</b>	<b>H1/2014</b>	<b>Q2/2015</b>	<b>Q2/2014</b>	<b>2014</b>
Return on equity (ROE), %	5.7	4.9	6.4	4.8	4.2
Cost/income ratio, %	15	17	13	18	19

<b>Cash flow statement</b>	<b>TEUR</b>	<b>H1/2015</b>	<b>H1/2014</b>
<b>Cash and cash equivalents 1 Jan.</b>		<b>109,046</b>	<b>110,550</b>
Total comprehensive income for the period		10,283	8,365
Adjustments to profit for the period		1,495	1,493
Increase (-) or decrease (+) in operating assets		-193,337	-2,037,415
Increase (+) or decrease (-) in operating liabilities		1,180,516	568,891
<b>A. Cash flow from operating activities</b>		<b>998,958</b>	<b>-1,458,666</b>
Shares and participations			
Purchase of intangible assets		-540	-490
<b>B. Cash flow from investing activities</b>		<b>-540</b>	<b>-490</b>
Increases in debt securities issued to the public		-976,025	1,991,577
Decreases in debt securities issued to the public			
Reserve for invested unrestricted equity			10,000
Dividends paid		-4,996	
<b>C. Cash flow from financing activities</b>		<b>-981,020</b>	<b>2,001,577</b>
<b>Net increase/decrease in cash and cash equivalents (A+B+C)</b>		<b>17,397</b>	<b>542,421</b>
<b>Cash and cash equivalents 30 June</b>		<b>126,443</b>	<b>652,971</b>

<b>Balance sheet</b>	<b>TEUR</b>	<b>30 June 2015</b>	<b>30 June 2014</b>	<b>31 Dec 2014</b>
Receivables from credit institutions		156,412	652,971	119,046
Derivative contracts		191,919	230,912	261,346
Receivables from customers		9,600,216	9,929,237	9,329,077
Investments assets		40	40	40
Intangible assets		2,835	2,096	2,610
Other assets		62,080	82,515	90,047
Tax assets		2	60	380
<b>Total assets</b>		<b>10,013,505</b>	<b>10,897,832</b>	<b>9,802,546</b>
Liabilities to credit institutions		2,790,000	2,400,892	1,505,000
Derivative contracts		22,769	7,761	8,298
Debt securities issued to the public		6,748,760	8,019,417	7,810,673
Provisions and other liabilities		88,896	118,876	122,116
Tax liabilities		1,333	667	
<b>Total liabilities</b>		<b>9,651,758</b>	<b>10,547,613</b>	<b>9,446,086</b>
Shareholders' equity				
Share capital		60,000	60,000	60,000
Reserve for invested unrestricted equity		245,000	245,000	245,000
Retained earnings		56,747	45,218	51,459
Total equity		361,747	350,218	356,459
<b>Total liabilities and shareholders' equity</b>		<b>10,013,505</b>	<b>10,897,832</b>	<b>9,802,546</b>

<b>Off-balance-sheet commitments TEUR</b>	<b>30 June 2015</b>	<b>30 June 2014</b>	<b>31 Dec 2014</b>
Irrevocable commitments given on behalf of customers	1,822	3,924	3,252

<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 2014</b>	<b>60,000</b>	<b>235,000</b>	<b>36,853</b>	<b>331,853</b>
Reserve for invested unrestricted equity		10,000		10,000
Profit for the period			8,365	8,365
Total comprehensive income				
Other changes				
<b>Shareholders' equity 30 June 2014</b>	<b>60,000</b>	<b>245,000</b>	<b>45,218</b>	<b>350,218</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			10,283	10,283
Total comprehensive income				
Other changes			-4,996	-4,996
<b>Shareholders' equity 30 June 2015</b>	<b>60,000</b>	<b>245,000</b>	<b>56,747</b>	<b>361,747</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>30 June 2015</b>	<b>31 Dec 2014</b>	<b>30 June 2014</b>
Shareholders' equity	361,747	356,459	350,218
<b>Common Equity Tier 1 (CET1) before deductions</b>	<b>361,747</b>	<b>356,459</b>	<b>350,218</b>
Intangible assets	-2,835	-2,610	-2,096
Excess funding of pension liability, indirect holdings and deferred tax assets for losses	-54	-55	
Planned profit distribution / profit distribution as proposed by the Board		-5,000	-1,500
Share of unaudited profits	-10,283		
Unrealised gains under transitional provisions			
Impairment loss – shortfall of expected losses	-2,211	-1,898	-1,931
<b>Common Equity Tier 1 (CET1)</b>	<b>346,363</b>	<b>346,897</b>	<b>344,691</b>
Instruments included in other Tier 1 capital			
<b>Additional Tier 1 capital (AT1)</b>			
<b>Tier 1 capital (T1)</b>	<b>346,363</b>	<b>346,897</b>	<b>344,691</b>
Debt loans			
Unrealised gains under transitional provisions			
<b>Tier 2 Capital (T2)</b>			
<b>Total Capital base</b>	<b>346,363</b>	<b>346,897</b>	<b>344,691</b>
<b>Risk-weighted assets</b>			
Credit and counterparty risk	231,980	237,258	257,579
Market risk			
Operational risk	27,846	23,527	23,527
<b>Total</b>	<b>259,826</b>	<b>260,785</b>	<b>281,106</b>
<b>Key ratios, %</b>			
CET1 capital ratio	133.3	133.0	122.6
Tier 1 capital ratio	133.3	133.0	122.6
Capital adequacy ratio	133.3	133.0	122.6
<b>Basel I floor</b>			
Capital base	346,363	346,897	344,691
Basel I capital requirements floor	312,099	304,995	330,135
Capital buffer for Basel I floor	34,264	41,901	14,556

<b>Classification of financial assets and liabilities</b>	<b>TEUR</b>			
	<b>Loans and other receivables</b>	<b>Recognised at fair value through profit or loss</b>	<b>Available for sale</b>	<b>Total</b>
<b>Financial assets</b>				
Receivables from credit institutions	156,412			156,412
Derivative contracts		191,919		191,919
Receivables from customers	9,600,216			9,600,216
Shares and participations			40	40
Other receivables	62,080			62,080
Other assets	2,837			2,837
<b>Balance at 30 June 2015</b>	<b>9,821,546</b>	<b>191,919</b>	<b>40</b>	<b>10,013,505</b>
<b>Balance at 30 June 2014</b>	<b>10,666,879</b>	<b>230,912</b>	<b>40</b>	<b>10,897,832</b>
<b>Balance at 31 December 2014</b>	<b>9,541,160</b>	<b>261,346</b>	<b>40</b>	<b>9,802,546</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			2,790,000	2,790,000
Derivative contracts		22,769		22,769
Debt securities issued to the public			6,748,760	6,748,760
Subordinated liabilities				
Other liabilities			90,229	90,229
<b>Balance at 30 June 2015</b>		<b>22,769</b>	<b>9,628,989</b>	<b>9,651,758</b>
<b>Balance at 30 June 2014</b>		<b>7,761</b>	<b>10,539,852</b>	<b>10,547,613</b>
<b>Balance at 31 December 2014</b>		<b>8,298</b>	<b>9,437,789</b>	<b>9,446,086</b>
Valuation difference of debt securities issued to the public (difference between fair value and carrying amount) 30 June 2015			247,140	<b>247,140</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 30 June 2015 TEUR	Nominal values/residual term to maturity			
	Less than 1 year	1-5 years	More than 5 years	Total
Interest rate derivatives				
Hedging	4 877 819	7 154 977	4 230 000	16 262 796
Trading				
<b>Total</b>	<b>4 877 819</b>	<b>7 154 977</b>	<b>4 230 000</b>	<b>16 262 796</b>

	Fair values		Credit equivalent
	Assets	Liabilities	
Interest rate derivatives			
Hedging	191 919	22 769	335 679
Trading			
<b>Total</b>	<b>191 919</b>	<b>22 769</b>	<b>335 679</b>

Derivative contracts 31 Dec 2014 TEUR	Nominal values/residual term to maturity			
	Less than 1 year	1-5 years	More than 5 years	Total
Interest rate derivatives				
Hedging	4 496 752	9 141 000	4 396 000	18 033 752
Trading				
<b>Total</b>	<b>4 496 752</b>	<b>9 141 000</b>	<b>4 396 000</b>	<b>18 033 752</b>

	Fair values		Credit equivalent
	Assets	Liabilities	
Interest rate derivatives			
Hedging	261 346	8 298	449 799
Trading			
<b>Total</b>	<b>261 346</b>	<b>8 298</b>	<b>449 799</b>

to the valuation method	TEUR			
<b>30 June 2015</b>	<b>Valuation of fair value at the end of the period</b>			
	<b>Balance sheet value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Assets recognised at fair value</b>				
Derivate contracts	191,919		191,919	
<b>Total</b>	<b>191,919</b>		<b>191,919</b>	
<b>Liabilities recognised at fair value</b>				
Derivate contracts	22,769		22,769	
<b>Total</b>	<b>22,769</b>		<b>22,769</b>	
<b>Financial liabilities not recognised at fair value</b>				
Debt securities issued to the public	6,748,760	6,859,761	136,139	
<b>Total</b>	<b>6,748,760</b>	<b>6,859,761</b>	<b>136,139</b>	
<b>31 Dec 2014</b>	<b>Valuation of fair value at the end of the period</b>			
	<b>Balance sheet value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Assets recognised at fair value</b>				
Derivate contracts	261,346		261,346	
<b>Total</b>	<b>261,346</b>		<b>261,346</b>	
<b>Liabilities recognised at fair value</b>				
Derivate contracts	8,298		8,298	
<b>Total</b>	<b>8,298</b>		<b>8,298</b>	
<b>Financial liabilities not recognised at fair value</b>				
Debt securities issued to the public	7,810,673	7,995,455	142,607	
<b>Total</b>	<b>7,810,673</b>	<b>7,995,455</b>	<b>142,607</b>	
OP MB does not hold any transfers between the levels of fair value valuation.				

Helsinki, 5 August 2015

**OP Mortgage Bank  
Board of Directors**

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