OP Mortgage Bank Plc

Report by the Board of Directors and Financial Statements 2015

Contents

REPORT BY THE BOARD OF DIRECTORS

OP Mortgage Bank (OP MB) is part of OP Financial Group and its role is to raise, together with Pohjola Bank plc, funding for OP from money and capital markets. OP MB is responsible for OP Financial Group's funding for the part of covered bond issuance. OP has no independent customer business or service network, but OP Financial Group member cooperative banks manage customer relationship and loan management at local level.

OP MB either buys home loans in security for bonds from OP Financial Group member cooperative banks or underwrites intermediary loan from the banks' balance sheets. Group member cooperative banks and Helsinki OP Bank Ltd that have signed a framework agreement may also, within the conditions set by OP MB, grant loans directly to their customers on behalf of OP MB.

OP MB's loan portfolio increased to EUR 9,610 million (9,329)[1]. The total size of the purchased loan portfolio was EUR 1,992 million in 2015.

During the financial year, OP MB issued two fixed-rate covered bonds in international capital markets that got the highest credit ratings from credit rating agencies. The bond with a nominal value of EUR 1,000 million issued in September has a maturity of seven years. Out of the bond with a nominal value of EUR 1,250 million and a maturity of five years issued in November, the company intermediated EUR 713 million in intermediate loans to OP Financial Group member cooperative banks.

Joint and several liability

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 December 2015, OP Cooperative's members comprised 178 cooperative banks as well as Pohjola Bank plc, Helsinki OP Bank Ltd, OP Mortgage Bank, OP Card Company Plc and OP Process Services Ltd. The central cooperative 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 liable for each other's debts. OP Financial Group's insurance companies do not fall within the scope of joint and several liability. 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 also liable for the debts of a member bank which cannot be paid using the member bank's assets.

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.

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1) The comparatives for 2014 are given in brackets. For income statement and other aggregated figures, January–December 2014 figures serve as comparatives. For balance-sheet and other cross-sectional figures, figures at the end of the previous financial year (31 December 2014) serve as comparatives.

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.

Profit performance

OP MB's key financial indicators in 2015 were as shown below:

Thousands of euros	**2015**	**2014**
Net interest income	**73 355**	**55 011**
Net commissions and fees	-43 361	-32 394
Net trading income	0	-1
Net investment income	22	1
Other operating income	1	1
Total	**30 017**	**22 618**
Expenses		
Personnel costs	382	385
Other administrative expenses	2 612	2 300
Other operating expenses	1 924	1 506
Total	**4 918**	**4 191**
Impairment loss on receivables	**210**	**-150**
Earnings before tax	**25 308**	**18 277**

The company's financial standing remained stable throughout the financial year. Earnings before tax for 2015 came to EUR 25,308 thousand (18,277).

On-balance-sheet and off-balance-sheet commitments

OP MB's balance sheet total stood at EUR 10,872 million (9,803) on 31 December. The table below shows the development of key asset and liability items.

Key asset and liability items

EUR million	**31 Dec. 2015**	**31 Dec. 2014**
Balance sheet total	10 872	9 803
Receivables from customers	9 610	9 329
Receivables from credit institutions	988	119
Debt securities issued to the public	9 003	7 811
Liabilities to credit institutions	1 375	1 505
Equity capital	372	356
Off-balance-sheet items	1	3

The bank's loan portfolio increased to EUR 9,610 million (9,329) in the January–December period. The company increased its loan portfolio during the financial year by buying mortgage-backed loans from OP Financial Group's member banks worth a total of EUR 1,992 million.

On 31 December, households accounted for 99.8% (99.8) of the loan portfolio and institutional customers for 0.2% (0.2). On 31 December, OP MB's receivables over 90 days past due totalled EUR 6.4 million (4.7).

The carrying amount of bonds issued to the public was EUR 9,003 million at the end of the year. In addition to bonds, OP MB financed its operations through debt financing from Pohjola Bank plc. At the end of the financial year, the amount of debt financing came to EUR 1,375 million (1,505).

OP MB has hedged its home loan portfolio against interest rate risk by means of interest rate swaps. Interest rate swaps are used to swap base rate cash flows of hedged home loans to Euribor cash flows. OP MB has also changed the fixed rates of the bonds it has issued to short-term market rates. OP MBs interest rate derivative portfolio totalled EUR 18,323 million (18,034). All derivative contracts have been signed for hedging purposes. Pohjola Bank plc is the counterparty to all derivative contracts.

Capital base and 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 140.2% (133.0) on 31 December. The statutory minimum for CET1 ratio is 4.5% and for the capital adequacy ratio 8%. The requirement for the capital conservation buffer of 2.5% under the Act on Credit Institutions increases in practice the minimum capital adequacy ratio to 10.5% and the CET1 ratio to 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 22.5 million in December.

Capital base and capital adequacy, TEUR	**31 Dec 2015**	**31 Dec 2014**
Shareholders' equity	371 937	356 459
Common Equity Tier 1 (CET1) before deductions	**371 937**	**356 459**
Intangible assets	-2 575	-2 610
Excess funding of pension liability, indirect holdings and deferred tax assets for losses	-74	-55
Planned profit distribution / profit distribution as proposed by the Board		-5 000
Share of unaudited profits	-20 288	
Impairment loss – shortfall of expected losses	-2 046	-1 898
Common Equity Tier 1 (CET1)	**346 954**	**346 897**
Tier 1 capital (T1)	**346 954**	**346 897**
Total capital base	**346 954**	**346 897**
Risk-weighted assets		
Credit and counterparty risk	219 560	237 258
Market risk		
Operational risk	27 846	23 527
Total	**247 407**	**260 785**
Key ratios, %		
CET1 capital ratio	140,2	133,0
Tier 1 capital ratio	140,2	133,0
Capital adequacy ratio	140,2	133,0
Basel I floor		
Capital base	346 954	346 897
Basel I capital requirements floor	324 461	304 995
Capital buffer for Basel I floor	22 493	41 901

Formulas for key ratios:

Common Equity Tier 1 (CET1) capital ratio, (%)

CET1 / RWAs

Tier 1 capital (T1) capital adequacy ratio, %

Tier 1 capital (T1) / RWAs

Capital adequacy ratio, %

Total capital base / RWAs

Financial indicators

Ratio	**2015**	**2014**	**2013**
Return on equity (ROE), %	5.6	4.2	2.7
Return on assets (ROA), %	0.18	0.16	0.10
Equity ratio, %	3.42	3.64	3.99
Cost/income ratio, %	16	19	22

Formulas for key indicators

Return on equity (ROE), %

$$\frac{\text{EBIT – Income tax}^{*}}{\text{Equity capital (average of the beginning and end of year)}} \times 100$$

Return on assets (ROA), %

$$\frac{\text{EBIT – Income tax}^{*}}{\text{Average balance sheet total (average of the beginning and end of year)}} \times 100$$

Equity ratio, %

$$\frac{\text{Equity capital}}{\text{Balance sheet total}} \times 100$$

Cost/income ratio, %

$$\frac{\text{Administrative expenses + Depreciation/amortisation and impairment losses on PPE and intangible assets + Other operating expenses}}{\text{Net interest income + Income from equity investments + Net commissions and fees + Net income from securities and foreign exchange trading + Net income from available-for-sale financial assets + Net income from hedge accounting + Net income from investment property + Other operating income + Share of associates' profits/losses (net)}} \times 100$$

* Includes tax effect from appropriations.

Risk management

OP MB's Board of Directors has confirmed the capital adequacy management principles and instructions for the bank issued by OP Cooperative and set the risk limits for the most important risk metrics. The primary objective of risk management is to secure the bank's risk-bearing capacity and ensure that it does not take excessive risk that may endanger profitability, capital adequacy or business continuity. Risk management is based on the expertise and caution of those who make business decisions, and on systematic risk measurement, assessment and mitigation. OP Cooperative controls and monitors the risk management of all OP Financial Group, such as OP MB.

OP MB's risks consist of credit, liquidity, market and operational risks. OP Cooperative has set risk limits for OP MB's capital adequacy and credit and market risks. OP MB's Board of Directors has confirmed the principles and guidelines governing risk management and set risk limits for the most important risk metrics. The Board of Directors oversees risk management and regularly monitors the bank's risk-bearing capacity and risk exposure. The bank's management is responsible for the implementation of risk management in accordance with the instructions confirmed by the Board of Directors and regularly reports on business operations, risk-bearing capacity and risk exposure to the Board of Directors and OP Cooperative. OP MB's overall attitude towards risk-taking is moderate.

Risk-bearing capacity

OP MB's risk-bearing capacity remained good owing to retained earnings. Its capital adequacy ratio stood at 140.2% (133.0) on 31 December 2015. Return on equity was 5.6% (4.2).

OP MB does not seek to secure its capital base by retaining earnings. Rather, OP Cooperative guarantees OP MB's capital base. OP MB's management fee policy affects its profitability level. As a service company, OP MB does not aim to maximise its profit, but it allocates its profitability potential exceeding the minimum level set by the owner to management fees paid to Group member cooperative banks.

Credit risk exposure

OP MB's loan portfolio totalled EUR 9,610 million on 31 December. The quality of the loan portfolio is good. On 31 December, OP MB had 201 loans over 90 days past due, with a total capital value of EUR 6.4 million. The bank did not record any major impairment losses during 2015 or the previous years.

As a mortgage bank, OP MB may grant loans against collateral only as defined by law. OPA MB's loan-granting criteria support the quality of the loan portfolio staying high. The used criteria are stricter than those generally used at OP Financial Group.

Private individuals and housing associations form the bank's borrowers. The bank does not have any group of connected clients with the total amount of customer risk exceeding the limit set in the Act on Credit Institutions of 25% of the bank's capital base. Thanks to the loan portfolio's diversity and hard collateral, OP MB's credit risk exposure is highly stable.

Market risks and liquidity risk

Market risks include the following risks both on and off the balance sheet: interest rate risk, price risks, real estate risks and credit spread risk associated with investment, and market liquidity risk. OP MB does not have currency risks, credit spread risks, equity risks, commodity risks, real estate risks or volatility risks. The bank's products and market instruments, funding and investment principles and applied risk monitoring methods have been defined in the market risk management guidelines confirmed by the Board of Directors.

Interest rate risk means the effect of changing market rates on the bank's result, profitability and capital adequacy. OP MB has used interest rate swaps to hedge against interest risk. Interest rate swaps are used to swap base rate cash flows of hedged home loans to Euribor cash flows. OP MB has also changed the fixed rates of the bonds it has issued to floating market rates. Pohjola Bank plc is the counterparty to all derivative contracts.

The purpose of liquidity risk management is to secure the bank's ability to fulfil its payment obligations without endangering business continuity, profitability or capital adequacy. OP MB monitors its cash flows on a daily basis to secure liquidity and its structural financial risk on a regular basis as a part of company's internal capital adequacy assessment process (ICAAP).

OP MB's Board of Directors monitors the bank's interest rate and funding risk exposure regularly within the limits it has set.

The provisions of the Act on Mortgage Credit Banks also set limits on the bank’s interest rate and funding risk-taking. According to the law, the total amount of interest received during any 12 months for loans forming the collateral for covered bonds must exceed the total amount of interest paid on covered bonds for the same period. Additionally, the average residual term to maturity of covered bonds must be shorter than the average residual term to maturity of the assets as their collateral. During the whole financial year, OP MB's operations have been in compliance with law, both regarding the interest flow assessment and maturity assessment.

Operational risks

Operational risk refers to the risk of financial loss or other harmful consequences resulting from inadequate or failed processes, or incomplete or faulty procedures, systems or external events. Operational risk may also materialise in terms of loss or deterioration of reputation or trust. Operational risk management tools include identifying and analysing risks and by ensuring that controls and management tools are appropriate and adequate. The bank assesses operational risks regularly and reports its risk status annually to the Board of Directors.

Personnel and remuneration schemes

On 31 December, 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.

OP MB belongs to OP Financial Group’s OP Personnel Fund, which forms a long-term remuneration scheme for employees. The bank pays the Personnel Fund profit-based bonuses in accordance with pre-agreed principles. Members of the Fund may withdraw fund units on the grounds specified in Fund Rules.

Management

Board of Directors

The Board of Directors manages OP MB's business. According to the Articles of Association, the Board of Directors is responsible for the bank's administration and appropriate organisation of operations. The Board of Directors has general authority to decide on all issues related to the bank’s governance and other matters that, by law, are not the responsibility of the Annual General Meeting or the Managing Director. The Board of Directors decides on the bank's strategy and key business goals. The Board of Directors' duty is to ensure that the bank's accounting and financial management have been organised appropriately.

Board of Directors:

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

According to OP MB's Articles of Association, the Board of Directors comprises a minimum of 3 and a maximum of 8 members. Currently, the Board has 3 members. Board members are elected for a period of one year. Their term begins upon closing of the Annual General Meeting that elected them and ends upon closing of the Annual General Meeting that elects the new Board. A Board member must resign after his/her 65th birthday at the latest. The Board of Directors has a quorum when more than half of its members are present. The Board of Directors held 10 meetings in 2015.

Managing Director

OP MB's Managing Director must advance the bank's interests carefully and manage the bank's daily operations according to the law and the guidelines and regulations issued by the Board of Directors. The Managing Director may take measures which, considering the extent and nature of the bank’s operations, are unusual or far-reaching in nature only if duly authorised by the Board of Directors, or if the Board of Director’s decision cannot be awaited without causing material harm to the bank’s operations. It is the statutory duty of the Managing Director to ensure that the bank’s accounting is in compliance with the applicable law and that the bank’s treasury is managed in a reliable manner.

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

OP MB's Corporate Governance Statement is available at op.fi.

Audit

KPMG Oy Ab, a firm of authorised public accountants, was selected as the company's auditor in 2015 by the Annual General Meeting. Juha-Pekka Mylén, APA, has been acted as chief auditor.

OP Cooperative's Internal Audit is in charge of the bank's internal audit.

Future outlook

The existing bond 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.

PROPOSAL BY THE BOARD OF DIRECTORS FOR THE ALLOCATION OF PROFIT

OP Mortgage Bank's equity capital on 31 December 2015:

+ Share capital	60,000,000.00
+ Reserve for invested non-restricted equity	245,000,000.00
+ Profit for the financial year	20 ,287,861.61
+ Retained earnings	46,648,756.00
Total	371,936,617.61

Distributable funds totalled 311,936,617.61 euros.

The Board of Directors proposes to the Annual General Meeting that a dividend of 212.58 be distributed per share, totalling 16,281,927.36 euros. Following dividend distribution, the distributable funds total 295,654,690.25 euros.

INCOME STATEMENT

EUR	Note	2015	2014
Interest income		106 361 890,43	117 549 714,68
Interest expenses		33 007 173,42	62 538 650,95
Net interest income	3	**73 354 717,01**	**55 011 063,73**
Impairment losses on receivables		210 083,03	-149 867,65
Net commission income and expenses	4	-43 361 368,58	-32 393 898,77
Net trading income	5	-403,69	-876,05
Net investment income	6	22 457,13	510,00
Other operating income	7	958,95	632,31
Personnel costs	8	381 848,37	385 334,34
Other administrative expenses	9	2 612 448,83	2 299 878,01
Other operating expenses	10	1 923 893,58	1 505 669,46
Earnings before tax		**25 308 253,07**	**18 276 681,76**
Income tax	11	5 020 391,46	3 657 345,51
Profit for the financial year		**20 287 861,61**	**14 619 336,25**

Earning/share (EPS), EUR	**264,88**	**190,87**
Profit for the financial year / Average share-issue adjusted number of shares during the period		

COMPREHENSIVE STATEMENT OF INCOME

Profit for the period	**20 287 861,61**	**14 619 336,25**
Items that will not be reclassified to profit or loss		
Gains/(losses) arising from remeasurement of defined benefit plans	231 442,00	-16 753,00
Income tax on gains/(losses) arising from remeasurement of defined benefit plans	-46 288,40	3 314,60
Total comprehensive profit for the financial year	**20 473 015,21**	**14 605 897,85**

BALANCE SHEET

EUR	Note	31 Dec 2015	31 Dec 2014
Receivables from credit institutions	12	988 489 543,67	119 045 875,97
Derivative contracts	13	192 206 226,75	261 345 875,59
Receivables from customers	14	9 610 251 915,81	9 329 077 483,51
Investments assets	15	40 000,00	40 000,00
Intangible assets	16	2 575 328,22	2 609 842,59
Other assets	17	78 823 185,74	90 046 935,05
Tax assets	18	0,00	379 784,17
Total assets		**10 872 386 200,19**	**9 802 545 796,88**
Liabilities to financial institutions	19	1 375 000 000,00	1 505 000 000,00
Derivative contracts	20	12 970 534,93	8 297 547,71
Debt securities issued to the public	21	9 002 668 803,49	7 810 673 333,42
Provisions and other liabilities	22	108 484 908,50	122 115 500,23
Tax liabilities	23	1 325 335,66	0,00
Total liabilities		**10 500 449 582,58**	**9 446 086 381,36**
Shareholders' equity			
Shareholders' interest			
Share capital		60 000 000,00	60 000 000,00
Reserve for invested non-restricted equity		245 000 000,00	245 000 000,00
Accumulated profits		66 936 617,61	51 459 415,52
Total equity	24	**371 936 617,61**	**356 459 415,52**
Total liabilities and shareholders' equity		**10 872 386 200,19**	**9 802 545 796,88**

CASH FLOW STATEMENT

TEUR	2015	2014
Cash flow from operating activities		
Profit for the financial year	20 287 862	14 614 947
Adjustments to profit for the financial year	9 371 979	-59 525 824
Increase (-) or decrease (+) in operating assets	**-1 005 090 399**	**-1 419 283 682**
Receivables from credit institutions	-733 369 200	-10 000 000
Receivables from the public and public-sector entities	-282 944 949	-1 395 644 412
Shares and participations		-23 000
Other assets	11 223 749	-13 616 270
Increase (+) or decrease (-) in operating liabilities	**-143 399 150**	**-357 523 615**
Liabilities to credit institutions and central banks	-130 000 000	-380 000 000
Other liabilities	-13 399 150	22 476 385
Income tax paid	-3 361 560	-3 403 475
Dividends received	22 457	510
A. Net cash from operating activities	**-1 118 829 709**	**-1 821 718 174**
Cash flow from investing activities		
Purchase of PPE and intangible assets	-681 121	-1 064 069
B. Net cash used in investing activities	**-681 121**	**-1 064 069**
Cash flow from financing activities		
Increases in debt securities issued to the public	1 260 581 514	1 811 278 347
Dividends paid and interest on cooperative capital	-4 995 813	
Other monetary increases in equity items		10 000 000
C. Net cash used in financing activities	**1 255 585 701**	**1 821 278 347**
D. Effect of foreign exchange rate changes on cash and cash equivalents	**-404**	
Net change in cash and cash equivalents (A+B+C+D)	**136 074 468**	**-1 503 896**
Cash and cash equivalents at year-start	**109 045 876**	**110 549 772**
Cash and cash equivalents at year-end	**245 120 344**	**109 045 876**
Change in cash and cash equivalents	**136 074 468**	**-1 503 896**
Interest received	117 954 020	103 959 415
Interest paid	46 723 641	110 156 591
Adjustments to profit for the financial year		
Non-cash items		
Unrealised net gains on foreign exchange operations	404	
Impairment losses on receivables	-206 902	168 241
Other	8 862 842	-59 746 545
Total adjustments	**8 656 344**	**-59 578 304**
Cash and cash equivalents		
Receivables from credit institutions payable on demand	245 120 344	109 045 876
Total cash and cash equivalents	**245 120 344**	**109 045 876**

STATEMENT OF CHANGES IN EQUITY

		Share capital	Other reserves	Accumulated profits	Total
Shareholders' equity on 1 January 2014		**60 000**	**235 000**	**36 853**	**331 853**
Reserve for invested non-restricted equity			10 000		10 000
Profit for the financial year				14 619	14 619
Total comprehensive income				-13	-13
Other changes					
Shareholders' equity on 31 December 2014		**60 000**	**245 000**	**51 459**	**356 459**

		Share capital	Other reserves	Accumulated profits	Total
Shareholders' equity on 1 January 2015	24	**60 000**	**245 000**	**51 459**	**356 459**
Reserve for invested non-restricted equity					
Profit for the financial year				20 288	20 288
Total comprehensive income				185	185
Other changes				-4 996	-4 996
Shareholders' equity on 31 December 2015		**60 000**	**245 000**	**66 936**	**371 936**

NOTES TO THE FINANCIAL STATEMENTS

Table of contents for the notes to the financial statements

Note 1 Accounting policies

OP Mortgage Bank (OP MB) is a credit institution engaged in mortgage banking in Finland.

The bank is part of an amalgamation of cooperative banks (OP Financial Group). Ultimately, OP Cooperative and its member credit institutions are liable for each other's debts and commitments.

A separate service company, OP-Services Ltd, which is wholly owned by OP Financial Group, is tasked with the development and provision of centralised services for OP Cooperative and its member banks. OP Cooperative acts as the entire OP Financial Group's strategic owner institution and as a central cooperative in charge of Group control and supervision.

In order to ensure uniformity in the accounting policies of entities within OP Financial Group, OP Cooperative shall issue guidelines on the preparation of financial statements to its member credit institutions. According to the Act on Cooperative Banks and Other Cooperative Institutions, the Executive Board of OP Cooperative must confirm any applicable accounting policies that have no directions from IFRS.

OP Mortgage Bank is domiciled in Helsinki and the address of its registered office is Teollisuuskatu 1, P.O. Box 308, FI-00101 Helsinki.

A copy of OP Mortgage Bank's financial statements is available at www.op.fi or the company's office at Teollisuuskatu 1, P.O. Box 308, FI-00101 Helsinki.

OP Mortgage Bank belongs to OP Financial Group into whose consolidated financial statements its accounts are consolidated. A copy of OP Financial Group’s consolidated financial statements is available at www.op.fi or the Group’s office at Teollisuuskatu 1, P.O. Box 308, FI-00101 Helsinki.

The bank's Board of Directors adopted the financial statements on 4 February 2016.

BASIS OF PREPARATION

OP Mortgage Bank's financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), applying IASs, IFRSs and SIC and IFRIC interpretations effective on 31 December 2015. The International Financial Reporting Standards refer to standards and their interpretations adopted in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council. OP Mortgage Bank's notes also conform to the requirements of Finnish accounting and company legislation that complement IFRS regulations.

OP Mortgage Bank's financial statements were prepared at historical cost with the exception of derivative contracts and hedged items in fair value hedging.

The figures in the income statement and the balance are presented in euros and cents; other figures in the financial statements are presented in thousands of euros.

Use of estimates

The preparation of the financial statements in conformity with IFRS requires the Group's management to make judgements, estimates and assumptions in the application of the accounting policies. The section “Critical accounting estimates and judgements” provides more detailed information on applying accounting policies requiring management assessment and judgement.

FINANCIAL INSTRUMENTS

Fair value determination

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date.

The fair value of financial instruments is determined using either prices quoted in an active market or the company's own valuation techniques where no active market exists. Markets are deemed to be active if price quotes are easily and regularly available and reflect real and regularly occurring market transactions on an arm's length basis. The current bid price is used as the quoted market price of financial assets.

If the market has a commonly used valuation technique applied to a financial instrument to which the fair value is not directly available, the fair value is based on a commonly used valuation technique and market quotations of the inputs used by the technique.

If the valuation technique is not a commonly used technique in the market, a valuation model created for the instrument in question will be used to determine the fair value. Valuation models are based on widely used measurement techniques, incorporating all factors that market participants would consider in setting a price, and are consistent with accepted economic methodologies for pricing financial instruments.

The valuation techniques used include prices of market transactions, the discounted cash flow method and reference to the current fair value of another instrument that is substantially the same. The valuation techniques take account of estimated credit risk, applicable discount rates, the possibility of early repayment and other factors affecting the reliable measurement of the fair value of financial instruments.

The fair values of financial instruments are categorised into three hierarchy levels, depending on the inputs used in valuation techniques:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1)
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2)
- Inputs for the asset or liability that are not based on observable market data (Level 3).

If the inputs used to measure fair value are categorised into different levels of the fair value hierarchy, the fair value measurement is categorised in its entirety at the same level as the lowest level input that is significant to the entire measurement. The significance of inputs has been assessed on the basis of the fair value measurement in its entirety.

Impairment of financial assets

At the end of each reporting period, the company assesses whether there is objective evidence that a financial asset other than that carried at fair value through profit or loss is impaired.

A financial asset is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that the loss event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

The criteria used to determine whether there is objective evidence of an impairment loss include:

- a significant decline in the issuer’s financial results, credit rating, balance sheet, payment status or business plans, and unfavourable changes in the issuer’s economic and operating environment;
- a debtor's bankruptcy or other reorganisation becomes probable;
- a debtor’s breach of contract;
- a concession granted to the debtor;
- impairment recognised earlier;
- the disappearance of an active market for a financial instrument

In addition, a significant or prolonged decline in the equity instrument’s fair value below its cost constitutes objective evidence of impairment.

A more detailed description of recognition of impairment losses can be found under the various financial instruments below.

Classification and recognition of financial instruments

Upon initial recognition, financial assets and liabilities are classified as follows: financial assets and liabilities at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets and other financial liabilities. The classification depends on the purpose for which the financial assets and liabilities were acquired.

Loans are entered in OP MB's balance sheet if they have been granted directly from its balance sheet or if a member cooperative bank has sold the loans to OP MB at market price, with the credit risk, interest rate risk and funding risk having transferred to OP MB with the sale. These loans are presented in the balance sheet under 'Receivables from customers'.

The loan is not transferred to OP MB's balance sheet in the intermediate loan model referred to in the Covered Bond Act (688/2010), whereby OP MB issues mortgage-backed bonds and uses the funds obtained to make an intermediate loan to OP Financial Group member cooperative banks, presented under 'Receivables from credit institutions' in the balance sheet. In the intermediate loan model, the member cooperative bank's mortgage-backed loan's credit risk, interest rate risk or funding risk are not transferred to OP MB but are entered as collateral of the bond issued by OP MB.

Loans and receivables, held-to-maturity investments and other financial liabilities are measured at amortised cost, using the effective interest method.

The purchase and sale of financial assets and liabilities at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets are recognised in the balance sheet on the transaction date, or the date on which the Group agrees to buy or sell the asset or liability in question.

Financial assets and liabilities are offset in the balance sheet if OP MB currently has a legally enforceable right of set-off in the normal course of business and in the event of default, insolvency or bankruptcy, and intends to settle the asset and liability on a net basis.

The company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Financial liabilities are derecognised when they are extinguished, i.e. when the obligation is discharged, cancelled or expires.

Loans and receivables

Financial assets classified as loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans and receivables are initially recognised at cost, which is the fair value of consideration given plus directly attributable transaction costs. Loans and receivables are carried at amortised cost after their initial recognition.

Impairment losses on loans and receivables are recognised on an individual or collective basis. Impairment will be assessed and recognised on an individual basis if the debtor’s total exposure is significant. In other respects, impairment is assessed and recognised on a collective basis.

Impairment is recognised and impairment losses incurred if there is objective evidence that the receivable cannot be recovered in full. The receivable has impaired if its present value of the estimated future cash flows – collateral included – is lower than the aggregate carrying amount of the loan and the related unpaid interest. Estimated future cash flows are discounted at the loan's original effective interest rate. If the loan carries a variable interest rate, the discount rate for measuring any impairment is the current effective interest rate determined under the agreement.

Impairment loss recognised in profit or loss equals the difference between the carrying amount of the loan and the lower present value of future cash flows.

Impairment assessment is a two-phase process. Impairment is assessed individually for loans and receivables. If it is not necessary to assess impairment for financial assets included in loans and receivables on an individual basis, they will be assessed collectively for impairment. Losses incurred but not yet reported, which cannot yet be allocated to a certain loan, are recognised as collectively assessed impairment. Collectively assessed impairment provisions are based on a statistical model used in the measurement of economic capital. The model is derived from the expected credit loss model used in capital adequacy measurement, adjusted to correspond to the requirements under IFRS. Through-the-cycle component and the official minimum capital adequacy requirements have been eliminated from the PD and LGD estimates used in the economic capital requirement model so that they better reflect the point in time approach and the current economic cycle. In the model, the so-called emergence period is used to measure the identification of a loss event. The emergence period is based on OP MB's impairment assessment process by customer segment from the loss event to testing a loan for impairment on an individual basis. In addition, the receivables in the model are grouped into customer segments on the basis of similar credit risk characteristics. Collectively assessed impairment is measured by customer segment on the basis of the expected loss and the measurement also takes account of the emergence period and the discounted present values of collateral.

If the contractual payment terms of a loan are modified, the reason for such modification and the severity class are documented using an internally defined scale. Loans may also be modified for reasons related to the management of customer relationships, not to the financial difficulties of the customer. Such modifications do not affect loan impairment recognition. In some cases, the company may, due to the customer's financial difficulties, modify the loan terms and conditions, such as in terms of repayment holiday for a limited period or another loan modification, which are aimed at securing the customer's repayment capacity and limiting credit risk associated with liabilities. Such renegotiated loans are reported as doubtful receivables. Modifications in the contractual payment terms that are due to the customer's financial difficulties are forbearance measures and together with other criteria reduce the customer's credit rating and thereby increase collective impairment allowance. In addition, they will also have an effect on the loan being assessed on an individual basis for impairment. If the customer has adhered to the new payment terms and no impairment allowance has been recognised for the customer's exposure, it will be removed from doubtful debt classification after two years. Modifications in payment terms are subject to regular monitoring and reporting to the management as an indicator anticipating customers' payment capacity.

Both individual and collective impairment loss is recorded in a separate allowance account to reduce the carrying amount of receivables in the balance sheet. Impairment losses are presented in the income statement under "Impairment losses on receivables". Recognition of interest on the impaired amount continues after the recognition of impairment.

The loan is derecognised after the completion of all debt-collection measures if the loan terms are substantially modified (such as refinancing). Payments received after the derecognition are recognised as an adjustment to impairment losses on receivables. If there is subsequent objective evidence of the debtor's improved solvency, the amount of the impairment loss recognised earlier will be reassessed and any change in the recoverable amount will be recorded in the income statement.

Cash and cash equivalents

Cash and cash equivalents consist of cash and receivables from credit institutions repayable on demand.

Other financial liabilities

Other financial liabilities include financial liabilities other than those at fair value through profit or loss, Other financial liabilities include other liabilities to credit institutions and customers, debt securities issued to the public and other financial liabilities. Other financial liabilities are recognised in the balance sheet on the settlement date and carried at amortised cost after initial recognition.

The difference between the nominal value and the acquisition cost of fixed-rate bonds is recognised in interest expenses over the estimated residual term to maturity.

Derivative contracts

Derivative contracts are classified as hedging contracts and derivative contracts held for trading. OP MB uses derivatives only for hedging purposes. Derivatives are measured at fair value at all times. OP MB has prepared methods and internal principles used for hedge accounting, whereby a financial instrument can be defined as a hedging instrument.

In accordance with the hedging principles, OP MB can hedge against interest rate risk by applying fair value hedge or cash flow hedge. Fair value hedging refers to hedging against changes in the fair value of the hedged asset, and cash flow hedging to hedging against changes in future cash flows.

Hedge accounting

Hedge accounting is used to verify that changes in the fair value of a hedging instrument or cash flows fully or partially offset the corresponding changes of a hedged item.

The relationship between hedging and hedged instruments is formally documented, containing information on risk management principles, hedging strategy and the methods used to demonstrate hedge effectiveness. Hedge effectiveness is tested at the inception of the hedge and in subsequent periods by comparing respective changes in the fair value or cash flows of the hedging and hedged instrument. The hedge is considered highly effective if the change in the fair value of the hedging instrument or in cash flows offsets the change in the fair value of the hedged contract or portfolio or in cash flows within a range of 80–125%.

Fair value hedges

Fair value hedging against interest rate risk involves long-term fixed-rate debt instruments (OP MB's own issues), individual loan portfolios, as well as individual loans. Interest rate swaps are used as a hedging instrument.

Changes in the fair value of derivative contracts that are documented as hedging the fair value and are highly effective hedges are recognised in the income statement. Hedged assets and liabilities are also measured at fair value during the period for which the hedge is designated, and any fair value changes are recognised through profit or loss.

In fair value hedge accounting, changes in the fair value of the hedged item and hedging instrument are recorded in the income statement under "Net interest income" (loans and own issues).

INTANGIBLE ASSETS

Intangible assets are measured at cost less amortisation and any impairment losses. These assets are amortised over their estimated useful lives, which is 2–6 years for computer software and licences.

LEASES

On the date of inception, leases are classified as finance leases or operating leases depending on the substance of the transaction. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incident to ownership to the lessee. All other leases are classified as operating leases.

Assets leased under finance lease are recognised as property, plant and equipment and the corresponding finance lease liability is included in other liabilities. At the inception of the lease term, these leased assets are recorded as assets and liabilities at the lower of the fair value of the asset and the present value of the minimum lease payments. PPA assets are depreciated over the shorter of the lease term or the life of the asset. Finance charges are recognised in interest expenses so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Lease payments for leased assets under operating lease are recognised as expenses on a straight-line basis over the lease term.

EMPLOYEE BENEFITS

Pension benefits

Statutory pension cover for OP MB’s employees is arranged through pension insurance taken out with OP Bank Group Pension Fund. The supplementary pension plan has been arranged through OP Bank Group Pension Foundation.

With respect to funded disability and old-age pensions, pensions managed by OP Bank Group Pension Fund are defined benefit plans. All of the plans managed by OP Bank Group Pension Foundation are defined benefit plans.

Expenses arising from pension plans are recognised under "Personnel costs" in the income statement. Contributions under defined contribution plans are charged to expenses for the financial year to which they relate. No other payment obligations are included in defined contribution plans. Changing or curtailing defined benefit pension plans is recognised through profit or loss at the time of occurrence.

Defined benefit plans managed by OP Bank Group Pension Fund and OP Bank Group Pension Foundation are funded through payments based on actuarial calculations.

The liability recognised in the balance sheet in respect of the defined benefit plan is the present value of the defined benefit obligation on the balance sheet date less the fair value of plan assets.

Defined benefit obligations are calculated separately for each plan using the projected unit credit method. Pension costs are charged to expenses over the employees' expected working lives on the basis of calculations performed by authorised actuaries. The discount rate for the present value of the defined benefit obligation is determined on the basis of the market return on high-grade corporate bonds on the closing date of the reporting period.

Items resulting from remeasurements of the net defined benefit liability are recognised in other comprehensive income in the period they occur. Remeasurements of the net defined benefit liability recognised in other comprehensive income will not be reclassified to income statement in later financial periods.

Personnel fund

OP Mortgage Bank belongs to OP Financial Group's OP Personnel Fund, into which bonuses are paid on the basis of pre-agreed principles, depending on the achievement of OP Financial Group's targets. Bonuses transferred to the Fund are recognised under "Wages and salaries" in the income statement and the counterpart as "Deferred expenses" in the balance sheet until they are disbursed to their beneficiaries.

INCOME TAX AND DEFERRED TAX

Income tax expense shown in the income statement includes current tax, based on the taxable income of the financial year and income tax for prior financial years and deferred tax expense or income. Taxes are recognised in the profit and loss except when they are directly linked to items entered into equity or other items in other comprehensive income. In such a case, the tax is recognised in the items in question. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where companies operate and generate taxable income.

Deferred tax liabilities are recognised for all temporary differences between the carrying amount and tax base of assets and liabilities. Deferred tax assets are calculated on tax-deductible temporary differences between the carrying amount and taxable value included in the financial statements, and on losses confirmed for tax purposes. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The company offsets deferred tax assets and liabilities. Deferred tax assets and liabilities are measured at the tax rate that is expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted by the balance sheet date.

REVENUE RECOGNITION

Interest income and expenses for interest-bearing assets and liabilities are recognised using the effective interest method. Interest on receivables with non-settled, due payments is also recognised as revenue. Such interest receivable is included in impairment testing. The difference between the receivable's acquisition cost and its nominal value is recognised as interest income and that between the amount received and nominal value of the liability in interest expenses. The difference between the nominal value and the acquisition cost of fixed-rate bonds is recognised as interest income or expenses over the residual term to maturity.

Commission income and expenses for services are recognised when the service is rendered. One-off commissions covering several years and including a possible subsequent refund obligation are recognised only to the amount related to the period.

Income and expense items in the income statement are presented separately without offsetting them unless there is a justified reason for offsetting them in order to give a true and fair view.

Net interest income	Received and paid interest on fixed-income instruments, the recognised difference between the nominal value and acquisition value, interest on interest-rate derivatives and fair value change in fair value hedging
Net commissions and fees	Commission income and expenses
Personnel costs	Wages and salaries, pension costs, share-based payments, social expenses
Other administrative expenses	Office expenses, ICT costs, other administrative expenses
Other operating expenses	Financial authority contributions and fees, depreciation/amortisation, rents and other expenses

SEGMENT REPORTING

Since OP MB is engaged only in residential lending, segment reporting is not presented.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires making estimates and assumptions about the future and the actual results may differ from these estimates and assumptions. It also requires the management to exercise its judgement in the process of applying the accounting policies.

Impairment tests for receivables are carried out on an individual or collective basis. An impairment test carried out on an individual basis is based on the management's estimate of the expected future cash flows of the individual loan. Collectively assessed impairment provisions are based on a statistical model used in the measurement of economic capital, in which expected future losses are adjusted by means of the emergence period so that the Group can assess the amount of losses incurred on the balance sheet date but not yet reported. In such a case, the management's judgement is required to determine the length of the emergence period.

NEW STANDARDS AND INTERPRETATIONS

The IASB (International Accounting Standards Board) has issued the following significant future IFRS amendments.

- IFRS 9 Financial Instruments and amendments to it (effective for accounting periods beginning on or after 1 January 2018). The new standard replaces the current IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 changes the classification and measurement of financial assets and includes a new expected loan losses model for the assessment of financial asset impairments, which increases the current impairment loss based on incurred losses. The classification and measurement of financial liabilities correspond to a large extent to the existing IAS 39 requirements. The hedge accounting types remain unchanged. A larger number of risk positions can be included in hedge accounting, and the hedge accounting principles have been aligned with risk management. OP Financial Group is currently evaluating the effects of the standard.
- IFRS 15 Revenue from Contracts with Customers (effective for accounting periods beginning on or after 1 January 2019). The new standard has no effect on the recognition of financial instruments or insurance policies, and mainly concerns various commissions and fees. The standard contains 5-stage guidelines for revenue recognition, and replaces the current IAS 18. The revenue is recognised over a period or at a specific time, and the key criterion is transfer of control. The standard will also increase the number of notes to be disclosed. OP Financial Group is currently evaluating any effects the standard may have.

These amendments to standards have not yet been adopted by the EU.

Note 2. OP Mortgage Bank's risk and capital adequacy management principles

1 General principles of risk and capital adequacy management

OP Financial Group's core values, strategic goals and financial targets form the basis for risk and capital adequacy management of OP Mortgage Bank (hereinafter OP MB). The purpose of risk management is to identify threats and opportunities affecting strategy implementation. The objective is to help achieve the targets set in the strategy by controlling that risks taken are proportional to risk-bearing capacity. OP MB has a moderate attitude towards risk-taking.

In OP Financial Group's risk policy, the central cooperative's Executive Board confirms annually risk-management principles, actions, objectives and restrictions that the Group's business segments and entities must follow to implement the principles agreed on in the strategy.

1.1 Risk and capital adequacy management

Risk and capital adequacy management forms part of internal control. Its purpose is to ensure OP MB's risk-bearing capacity and liquidity and, thereby, ensure business continuity. Risk-bearing capacity is made up of effective risk management that is proportionate to the extent and complexity of operations and of adequate capital resources based on profitable business operations.

Risk and capital adequacy management has been integrated as an integral part of the company's business and management. OP MB focuses on carrying out its role according to its service capabilities and risk-bearing capacities in accordance with shared business models.

OP MB adheres to the risk and capital adequacy management principles adopted by OP Cooperative's Supervisory Board. The principles provide guidelines on how OP Financial Group and its entities organise their risk management and internal capital adequacy assessment (ICAAP) process.

Risk and capital adequacy management involves

- identifying, measuring, assessing and mitigating risks;
- determining reliably and independently how much capital is required for various risk types and business operations;
- allocating capital systematically in line with current and planned risk-taking; and
- managing liquidity.

The section Liquidity risks below deals with liquidity management.

OP MB's remuneration scheme does not encourage excessive risk-taking. The remuneration scheme takes into account the Group's capital adequacy and profitability.

1.2 Risk identification, assessment, measurement and mitigation

The risk management and ICAAP process consists of the continuous identification and assessment of risk associated with business and the operating environment. Before the company launches any products or services or adopts new operating models or systems, it assesses their risks using procedures as laid down by the central cooperative’s Risk Management.

Quantifiable risks are mitigated by means of limits set by the central cooperative's Executive Board. The Executive Board has set a capital adequacy limit for OP MB.

OP MB assesses its capital base in relation to the economic capital requirement and the existing and predictable regulatory minimum capital requirements. Such assessment also makes use of the results of stress tests.

The central cooperative's independent Risk Management monitors the development of OP MB's risk exposure and risk-bearing capacity. It provides regular reports on its observations and assessments to OP MB's Board of Directors, the central cooperative's Executive Board and the Risk Management Committee of the central cooperative's Supervisory Board.

1.3 Economic capital requirement

The economic capital requirement is OP Financial Group's own estimate of the amount of capital sufficient to cover any annual losses with a 99.97% probability that may arise from risks associated with business and the operating environment. Economic capital is calculated using models for each risk type, the results of which are combined taking account of correlations between the risk types and the resulting diversification benefits.

Economic capital is divided into quantitative and qualitative, or assessable, risks. OP MB's quantitative risks include credit risk and banking interest rate and equity risks. The assessable risks include operational risks. Credit risks account for around 75% of OP MB's economic capital requirement.

1.4 Capital planning

The purpose of capital planning is to proactively ensure that OP MB has an adequate capital base even in exceptional circumstances, and business continuity. A capital plan consists, for example, of quantitative and qualitative targets set for capital adequacy, a contingency plan, and capital adequacy monitoring and control procedures per threshold level.

OP MB is responsible for its own capital adequacy and must set its capital adequacy targets and limits according to guidelines set by the central cooperative.

2 Organisation of risk and capital adequacy management

OP MB applies risk and capital adequacy management principles adopted by the central cooperative's Supervisory Board. The central cooperative is in charge of the OP Financial Group level risk and capital adequacy management. OP MB is responsible for its own risk and capital adequacy management in accordance with the nature and extent of its operations.

OP MB's Board of Directors makes decision on its risk and capital adequacy management in line with the principles adopted by the central cooperative's Executive Board. In addition, the Board of Directors deals with, in terms of quality and extent, far-reaching and important matters in principle from the perspective of the company's operations, and any unusual matters. The Board of Directors adopts principles and procedures to ensure that the company operates in compliance with external regulation and OP Cooperative's guidelines.

The Managing Director is responsible for the implementation of risk and capital adequacy management according to the principles and guidelines that have been agreed on, and reports regularly on the company's business, risk-bearing capacity and risk exposure to the Board of Directors.

OP MB's risk and capital adequacy tasks have been centralised within OP Financial Group's Risk Management. OP Financial Group's Risk Management is a function independent of business that provides guidelines for, controls and supervises the overall risk management of the Group and its entities, and analyses their risk exposure. Risk management focuses on preventive work, preparation and proactive analysis of risk exposure. The objective is to secure the Group's and its entities' sufficient risk-bearing capacity and to ensure that any business risks taken do not threaten profitability, capital adequacy, liquidity, business continuity and the achievement of strategic targets. It is also responsible for maintaining and developing risk management systems and methods.

The fact that reports on measureable risks are produced for OP MB on a centralised basis and separate from any business operations also ensures the independence of risk reporting.

OP Financial Group's internal audit assists OP MB's Board of Directors and management by performing audits to assess the achievement of the strategic and operational goals, the quality of risk management, the reliability of reporting, compliance with laws and instructions and the efficiency and appropriateness of operations.

3 OP MB's risks

The table below presents OP MB's most significant risks. The paragraphs below the table describe the nature of the risks and how they can be managed.

STRATEGIC RISKS	Risk caused by changes in the competitive environment, slow reaction to changes, poor choice of strategy or poor strategy implementation.
OPERATIONAL RISKS	Risk of financial loss or other detrimental consequences caused by inadequate or failed processes, inadequate or flawed procedures or systems or some external factor.
COMPLIANCE RISK	Risks caused by non-compliance with external regulations, internal policies and appropriate procedures and ethical principles governing customer relationships.
REPUTATIONAL RISK	Risk of deterioration of reputation or trust caused by negative publicity or realisation of some risk.
CREDIT RISK	Credit risk refers to a risk of the counterparty not being able to fulfil its obligations.
MARKET RISK	Market risk consist of interest rate risk, investment risk and real estate risk.
LIQUIDITY RISK	Liquidity risk consist of liquidity risk and structural funding risk.

4 Strategic risks

Strategic risk management tools include analysing the risks when drawing up the strategy and continuously monitoring and analysing changes in the operating environment and the implementation of the strategy. Strategic risk is reduced by regular planning, based on analyses and forecasts of customer future needs, developments in market areas, and of competition. OP MB's reports its strategic risks on a regular basis.

5 Operational risks

Operational risk management ensures that operations have been organised appropriately and that risks do not result in unforeseeable financial losses or other negative consequences, such as loss of reputation. OP MB is continually maintaining and enhancing a corporate culture that takes a positive approach to operational risk management and internal control.

The company has not set a risk limit for operational risks in terms of risk-taking, but the target level for risk management is moderate. The key area of operational risk management involves identifying and assessing risks and assessing the effectiveness and adequacy of risk control and management tools. Before any new business models (including outsourcing) are carried out or products or services are launched, their risks are assessed as laid down by the central cooperative's Risk Management. OP Financial Group offers customers only products and applies business models that have been approved at Group level. Risks that may disrupt business continuity are prepared against by means of business continuity planning. Business continuity planning also forms the basis for preparation against emergency conditions referred to in the Emergency Powers Act. Business continuity plans are tested according to testing plans that have been made.

Any effect of a materialised operational risk may be transferred outside OP MB through insurance.

OP MB adheres to OP Financial Group's uniform, system-supported operating model in its operational risk management. In this model, Op MB assesses operational risks, involving identifying and assessing business risks and defining and monitoring measures designed to reduce them.

5.1 Monitoring and reporting operational risks

OP MB identifies operational risks associated with major products, services, functions, processes and systems, and outsourced services/functions. The company assesses the significance of identified risks on the basis of their financial effect and probability. The information obtained is used to support planning, decision-making and management.

OP MB regularly reports operational risks to its Board of Directors and Operational Risk Management and Compliance.

6 Compliance risks

Compliance risk forms part of operational risk. Compliance activities are aimed at ensuring that OP MB complies with laws, official instructions and regulations, self-regulation of markets, and internal guidelines, policies and instructions of OP Financial Group and OP MB. Compliance also ensures that customer relationship management complies with appropriate and ethically sound principles and practices.

Materialisation of compliance risk may result not only in financial loss but also other adverse consequences, such as sanctions. Such sanctions may include a corporate fine and separate administrative fines for violation of obligations, and public warnings and reprimands. Compliance risk may also materialise in terms of loss or deterioration of reputation or trust.

Responsibility for regulatory compliance and its controls within OP MB rests with the senior and line management. Everyone employed by OP MB is responsible for his/her own part for regulatory compliance.

Guidelines, advice and support concerning compliance within OP Financial Group are the responsibility of Risk Management that is independent of the central cooperative. OP MB has centralised compliance functions within the central cooperative's Risk Management.

6.1 Compliance risk management tools

Managing compliance risks forms part of internal control and good corporate governance practices and, as such, an integral part of business management duties and the corporate culture. Compliance risk management tools include monitoring legislative developments, providing the organisation concerned with guidelines, training and consultation in respect of observing practices based on regulation as well as supervising the regulatory compliance with procedures applied within the organisation.

6.2 Compliance risk monitoring and reporting

Compliance risks are identified, assessed and reported regularly according to the operational risk management model as part of the assessment of operational risks. Any observations made by Compliance are reported on a regular basis.

7 Reputational risk

Reputational risk is managed proactively and in the long term by complying with regulation, good practices of the financial sector and the Group’s Code of Business Ethics and by emphasising transparency of operations and communications. The Group adheres to international financial, social and environmental responsibility principles and international commitments.

Reputational risks are reported regularly to the management of OP MB and the central cooperative. Any threat to imminent reputational risk will be reported immediately.

8 Credit risks

OP MB's loan portfolio consists of home loans placed as collateral for bonds, which OP MB buys from OP Financial Group member cooperative banks, and of loans they grant to their customers on behalf of OP MB. A framework agreement between OP MB and a member cooperative bank stipulates practices applied to the intermediation and selling of loans and the related rights, obligations and liabilities.

Member cooperative banks make loan decisions according to OP Financial Group's and OP MB's guidelines. OPA MB's loan-granting criteria support the quality of the loan portfolio staying high. Banks also take care of customer relationships and loan management at local level. The biggest strength is the local and thorough understanding of customers.

OP Financial Group's risk policy is used to control credit risk exposure. The credit risk policy defines, for example, the target risk exposure level, risk-taking principles and restrictions as well as the principles governing customer selection, collateral and financial covenants, with a view to ensuring a sufficiently diversified loan portfolio in order to avoid excessive risk concentrations by customer group or sector.

The day-to-day credit approval process and its effectiveness play a key role in the management of credit risks. A customer's sufficient debt-servicing capacity is the prerequisite for all lending. Credit approval decisions are based on the up-to-date credit rating in force. The repayment capacity of private customers is tested in the case of an interest rate increase, and customers are offered payment protection insurance in the case of illness or unemployment. In lending, the company avoids high financing percentages.

According to the framework agreement made by OP MB and member cooperative banks, each bank supervises and reacts to foreseeable problems as early as possible, applying the same operating model as for potential default and default customers. Customers whose financial status performance, credit risk and payment behaviour justify a more detailed review are subject to special control. In this context, OP MB also analyses the probability of a loan loss and the need to recognise an impairment loss. This often means changes in loan decision levels.

Credit rating controls customer selection, consequences of insufficient collateral and exposure pricing. Target values by credit rating have been set for the Group's and its banks new lending and loan portfolio to maintain good loan portfolio quality. OP Financial Group uses credit risk models for Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD). For OP MB, the rating model for private customers' agreements is the most important, in which customers are grouped by borrower grade based on probability of default.

OP MB makes extensive use of credit risk models in measuring and managing credit risk, such as in

- lending and pricing;
- specifying financing decision-making powers;
- setting and monitoring the loan portfolio’s qualitative targets;
- credit risk reporting;
- capital adequacy measurement using the Internal Ratings Based Approach (IRBA);
- measuring economic capital and expected loss; and
- the measurement of impairment losses on a collective basis.

8.1 Mitigating credit risks

In order to ensure the repayment of commitments, collateral must be provided for exposure, and any retail banking exposure must primarily be secured by hard collateral. As a mortgage bank, OP MB may grant loans against collateral only as defined by law. OP MB's loan portfolio comprises mortgage-backed loans. Collateral is evaluated by an independent party and using a conservative approach to fair value. The company monitors developments in collateral values on a regular basis. The fair values of housing used as collateral is updated once a year on the basis of indices derived from official sales price statistics. Whenever a financing decision is made, the company checks whether the collateral must be reassessed. Similar reassessment is made when the value of collateral has changed significantly or the customer's financial standing has weakened substantially.

8.2 Monitoring and reporting

OP MB monitors and reports on credit risks on a regular basis. Credit rating reports, the loan portfolio quality, past due and non-performing receivable number among monitoring tools.

9 Liquidity risk

Liquidity risk comprises funding liquidity risk and structural funding risk. Liquidity risk refers to a situation in which an OP Financial Group entity cannot meet its payment obligations without difficulty. Structural funding risk refers to refinancing risk resulting from a maturity difference between long-term lending and short-term borrowing.

Liquidity risk management is based on OP Financial Group's risk policy and approved risk limits. The central cooperative's Executive Board approves the qualitative targets set for the liquidity buffer, a funding plan, a business continuity and contingency funding plan in the case of threat scenarios. The business continuity and contingency plan contains a control model for liquidity for various threshold levels, funding sources and a contingency funding plan for liquidity management at operational level.

OP Financial Group manages liquidity by means of proactive planning of funding structures, the Group's risk limits and limits, control limits and target levels derived for Group entities. The Group's liquidity management tools also include the monitoring of the liquidity status and well-balanced liquidity buffer, planning and management of daily liquidity, as well as effective control of the Group's liquidity status. Funding liquidity management is governed by the regulations governing the minimum reserve and marginal lending facility systems by the European Central Bank.

OP Financial Group ensures its liquidity by means of long-term funding planning, a liquidity buffer and funding sources under the contingency plan for twelve months in the event that both money and capital markets were to close and deposit funding was to decrease moderately. The liquidity buffer has the size required for the time to implement the contingency plan in a liquidity crisis. Liquid funding may be made available by selling notes and bonds in the liquidity buffer or using them as collateral. The liquidity buffer consists mainly of deposits with the central bank and receivables eligible as collateral for central bank refinancing.

As the financial services group's central bank, Pohjola Bank plc is tasked with securing the liquidity of the entire Group and each Group entity (incl. OP MB). OP MB’s daily liquidity management refers to managing liquidity of the companies engaged in banking. Any changes in OP MB's liquidity position will change Pohjola's liquidity position. The liquidity buffer of banking within the entire OP Financial Group is managed by OP's central bank.

The Group's funding planning is based on the proactive planning of the funding structure and on the risk limits set for the liquidity risk. Deposits from the general public and wholesale funding form the basis of OP Financial Group's funding. Wholesale funding is planned on the basis of deposit funding and an increase in lending. In order to secure access to funding, the Group uses a diverse range of financial instruments while diversifying the sources of funding by maturity, geography, market and investor. Any surplus deposits with member banks are mainly channelled, as specified in the investment instructions, to the central cooperative consolidated accounts or instruments it has issued in order not to increase OP Financial Group’s wholesale funding unnecessarily. Pohjola manages on a centralised basis the Group’s wholesale funding in the form of senior bonds and equity capital and OP MB's funding based on covered bonds.

OP Cooperative’s Executive Board is responsible for OP Financial Group’s liquidity risk management, and controls liquidity management using various threshold levels. In cases of market disruption, liquidity management relies on the business continuity and contingency plan. Each entity within OP Financial Group controls its liquidity management within the framework of control limits issued by the central cooperative and guidelines and of account, deposit and loan terms and conditions.

9.1 Measuring, monitoring and reporting liquidity risks

OP Financial Group's risk limits for liquidity risk have been set for net cash flows by maturity which guide the structural funding risk. The risk indicator for the structural funding risk indicates the maximum portion of the net cash flows in the balance sheet that may have a maturity within different time periods. Refinancing risk is associated with covered bonds issued by OP MB. The company monitors long-term funding maturity using a maturity distribution, for which it has set limits. OP Financial Group's and OP MB's structural risk is subject to monthly monitoring.

In addition, OP Financial Group applies a risk limit for the Liquidity Coverage Ratio (LCR) based on CRD IV/CRR and the EU Commission Delegated Act on Liquidity Coverage Ratio Requirement. Furthermore, the Group also monitors Group-level liquidity risk in scenarios based on liquidity stress testing. The funding liquidity risk indicators show for how long the liquidity buffer will cover the known and predictable net cash flows payable daily outside the Group and any unexpected liquidity stress scenario. The Group monitors liquidity risk on a daily basis.

10 Market risks

Market risks are the result of price, volatility and market liquidity changes in the financial market.

The most significant market risk relates to the effect of a change in interest rates on net interest income, i.e., interest income risk associated with the banking book. Market interest may also come from investment. Through its continuous funding and liquidity planning, OP MB aims to maintain a situation in which it does not have significant financing surplus to invest. Investments in notes and bonds issued by governments and other banks may also be used as supplementary collateral as specified in the Act on Mortgage Credit Banks.

When making investment decisions, OP MB assesses the investment's effect on the interest rate risk and funding risk.

The task of market risk management is to identify and assess market risks associated with business operations, mitigate them to an acceptable level, and report them regularly and efficiently. This ensures that changes in market prices or other external market factors will not deteriorate the long-term profitability or capital adequacy within OP MB.

Guidelines that control and mitigate market risks include OP Financial Group's risk and capital adequacy management principles and the Group's risk policy that supplement them, and the central cooperative's risk management guidelines and limits and control limit indicators.

10.1 Interest rate risk

OP MB's interest rate risk relates to the differences in the bases of interest rates concerning lending and funding. OP MB primarily manages interest rate risk by using derivatives and regulating the range of products and terms and conditions related to lending and regulating interest rate reset dates and the bases of interest rates. OP MB enters into derivatives contracts only for hedging purposes, with Pohjola Bank plc being always as the counterparty.

10.2 Monitoring and reporting

OP MB reports on market risks on a monthly basis. The central cooperative's Risk Management provides market risk reports for OP MB and regularly reports the development of the entire OP Financial Group's balance sheet structure and market risks to the central cooperative's management.

Derivative risks are monitored as part of the exposure using the same benchmarks as for balance sheet exposure.

NOTES TO THE INCOME STATEMENT

NOTE 3. Interest income and expenses	2015	2014
Interest income		
From receivables from credit institutions	134	93
From receivables from customers	119 571	138 427
From derivative contracts		
From hedge accounting	-13 351	-20 985
Other interest income	8	15
Total	**106 362**	**117 550**
Interest expenses		
From liabilities to credit institutions	4 501	11 641
From derivative contracts		
From hedge accounting	-39 252	-190 992
From debt securities issued to the public	67 757	241 887
Other interest expenses	2	2
Total	**33 007**	**62 539**
Net interest income	**73 355**	**55 011**

Net income from hedge accounting

Net income from hedging instruments is 73,813 (-63,729) and net income from hedged items is -73,813 (63,729).

NOTE 4. Net commission income and expenses	2015	2014
Commission income		
From lending	6 460	7 696
Total	**6 460**	**7 696**
Commission expenses		
From securities	85	31
Other	49 736	40 058
Total	**49 821**	**40 090**
Net commission income and expenses	**-43 361**	**-32 394**

Other commission expenses constitute mainly commissions paid to intermediary banks.

NOTE 5. Net trading income	2015	2014
From financial assets and liabilities held for trading		
Valuation gains and losses		
Net income from foreign exchange trading	0	-1
Total net income from trading	**0**	**-1**

NOTE 6. Net investment income	2015	2014
Net income from financial assets available for sale		
Income from shares and participations	22	1
Total net investment income	**22**	**1**

NOTE 7. Other operating income	2015	2014
Other operating income	1	1
Total other operating income	**1**	**1**

NOTE 8. Personnel costs	2015	2014
Wages and salaries	293	316
Pension costs		
Defined contribution plans	47	51
Defined benefit plans	32	13
Total	79	65
Other indirect personnel costs	10	5
Total personnel costs	**382**	**385**

NOTE 9. Other administrative expenses	2015	2014
Office expenses	157	159
IT expenses	2 349	2 049
Telecommunications	44	37
Marketing	5	4
Other administrative expenses	57	51
Total other administrative expenses	**2 612**	**2 300**

NOTE 10. Other operating expenses	2015	2014
Rental expenses	59	62
Depreciation/amortisation		
On machinery and equipment		
On intangible assets	716	122
Total	716	122
Other	1 149	1 322
Total other operating expenses	**1 924**	**1 506**

Fees paid to auditors by assignment

Auditing	11	13
Assignments referred to in section 1, paragraph 1, subparagraph 2, of the Auditing Act		
Tax counselling		
Other services	46	68
Total	**57**	**82**

NOTE 11. Income tax	2015	2014
Current tax	4 965	3 681
Income tax paid for previous periods	0	3
Deferred tax	56	-26
Income tax expense on the income statement	**5 020**	**3 657**
Corporate income tax rate	20,0 %	20,0 %

Reconciliation between tax expense in the income statement and tax expense calculated by the applicable tax rate

Earnings before tax	25 308	18 277
Share of the profit according to the tax rate	5 062	3 655
Income tax paid for previous periods	0	3
Other	-41	-1
Income tax expense on the income statement	**5 020**	**3 658**

NOTES TO ASSETS

NOTE 12. Receivables from credit institutions	31 Dec 2015	31 Dec 2014
Receivables from credit institutions		
Deposits		
Repayable on demand	245 120	109 046
Other		
Other than those repayable on demand	743 369	10 000
Total receivables from credit institutions	**988 490**	**119 046**

NOTE 13. Derivative contracts	31 Dec 2015	31 Dec 2014
Derivative contracts		
Hedging derivative contracts		
Fair value hedging		
Interest rate derivatives	192 206	261 346
Total derivative contracts	**192 206**	**261 346**

More detailed information on derivative contracts can be found in Note 29.

NOTE 14. Receivables from customers	31 Dec 2015	31 Dec 2014
Loans to the public and public sector entities	9 610 533	9 329 601
Collectively assessed impairments	-170	-480
Individually assessed impairments	-111	-43
Total receivables from customers	**9 610 252**	**9 329 077**

NOTE 15. Investment assets	31 Dec 2015	31 Dec 2014
Financial assets available for sale		
Shares and participations, unquoted	40	40
Total investment assets	**40**	**40**

Shares and participations other than those quoted publicly have been measured at cost.

NOTE 16. Intangible assets	31 Dec 2015	31 Dec 2014
Software, licences and user rights	2 575	2 610
Total intangible assets	**2 575**	**2 610**

Changes in intangible assets		**31 Dec 2015**	
	Software	Software / financial lease	Total intangible assets
Acquisition cost on 1 January	2 842	1 454	4 295
Increases	681		681
Decreases			
Transfers between items			
Acquisition cost on 31 December	3 523	1 454	4 977
Accumulated amortisation and impairment losses on 1 January	232	1 454	1 686
Amortisation for the period	716		716
Accumulated amortisation and impairment losses for deductions and transfer 1 January			
Accumulated amortisation and impairment losses on 31 December	948	1 454	2 402
Carrying amount on 31 December	2 575		2 575
of which construction in progress	-		-

	31 Dec 2014		
	Software	Software / financial lease	Total intangible assets
Acquisition cost on 1 January	1 778	1 454	3 231
Increases	1 064		1 064
Decreases			
Transfers between items			
Acquisition cost on 31 December	2 842	1 454	4 295
Accumulated amortisation and impairment losses on 1 January	179	1 384	1 563
Amortisation for the period	52	70	122
Accumulated amortisation and impairment losses for deductions and transfer 1 January			
Accumulated amortisation and impairment losses on 31 December	232	1 454	1 686
Carrying amount on 31 December	2 610		2 610
of which construction in progress	143		143

Amortisation, impairment losses and their reversals have been recognised under Other operating expenses in the income statement.
The company had no impairment losses.

NOTE 17. Other assets	31 Dec 2015	31 Dec 2014
Pension plan assets	92	68
Deferred income		
Interest	78 248	89 840
Other	483	139
Total	**78 823**	**90 047**

Note 22 Provisions and other liabilities describes the calculation of plan assets in greater detail.

NOTE 18. Tax assets	31 Dec 2015	31 Dec 2014
Income tax asset		321
Deferred tax assets		59
Total tax assets		**380**
Specification of tax assets and liabilities		
Deferred tax assets		
Due to defined-benefit pension plans	2	37
Due to other items	34	96
Set-off against deferred tax liabilities	-36	-74
Total	**0**	**59**
Deferred tax liabilities		
From defined benefit pension plans	18	14
From other items	60	60
Set-off against deferred tax assets	-35	-74
Total	**43**	**0**
Changes in deferred taxes		
Deferred tax assets/liabilities on 1 January	59	30
Recognised in the income statement		
Defined benefit pension obligations	6	3
Other	-62	24
Recognised in statement of comprehensive income		
Items arising from remeasurement of defined benefit plans	-46	3
Total deferred tax assets/liabilities on 31 December	**-43**	**59**
Income tax assets	**1 283**	**321**
Total tax assets and liabilities	**1 325**	**380**

NOTES TO LIABILITIES AND EQUITY CAPITAL

NOTE 19. Liabilities to credit institutions	31 Dec 2015	31 Dec 2014
Other than those repayable on demand		
Other liabilities	1 375 000	1 505 000
Liabilities to credit institutions	**1 375 000**	**1 505 000**

NOTE 20. Derivative contracts	31 Dec 2015	31 Dec 2014
Derivative contracts		
Hedging derivative contracts		
Fair value hedging		
Interest rate derivatives	12 971	8 298
Total derivative contracts	**12 971**	**8 298**

More detailed information on derivative contracts can be found in Note 29.

NOTE 21. Debt securities issued to the public	Average rate, %	31 Dec 2015	Average rate, %	31 Dec 2014
Bonds	1,52	9 002 669	1,97	7 810 673
Total debt securities issued to the public		**9 002 669**		**7 810 673**

Long-term bonds issued by OP Mortgage Bank

Bond	Book value	Interest rate base	Nominal interest %	Maturity
OP Mortgage Bank Covered Bond 2011	999 634	Fixed	3,250	1.4.2016
OP Mortgage Bank Covered Bond 2011	996 582	Fixed	3,500	11.7.2018
OP Mortgage Bank Covered Bond 2012	1 248 040	Fixed	1,625	23.5.2017
OP Mortgage Bank Private Placement 2012	99 979	Floating	3-month Euribor	24.8.2017
OP Mortage Bank rekisteröity Covered Bond (NSV)	114 731	Fixed	2,157	12.11.2024
OP Mortgage Bank Private Placement 2012	100 000	Floating	3-month Euribor	18.12.2018
OP Mortgage Bank Covered Bond 2014	995 565	Fixed	1,500	17.3.2021
OP Mortgage Bank Covered Bond 2014	995 725	Fixed	0,750	11.6.2019
OP Mortgage Bank Covered Bond 2014	996 089	Fixed	1,000	28.11.2024
OP Mortgage Bank Covered Bond 2014	10 000	Fixed	0,097	27.11.2016
OP Mortgage Bank Covered Bond 2015	19 973	Fixed	0,250	18.12.2018
OP Mortgage Bank Covered Bond 2015	1 245 617	Fixed	0,250	23.11.2020
OP Mortgage Bank Covered Bond 2015	995 278	Fixed	0,625	4.9.2022
	8 817 213			
Valuation	185 456			
Total	**9 002 669**			

NOTE 22. Provisions and other liabilities	31 Dec 2015	31 Dec 2014
Other liabilities		
Payment transfer liabilities	92	87
Deferred expenses	8	184
Accrued expenses		
Interest liabilities	103 512	117 229
Other	4 872	4 617
Total provisions and other liabilities	**108 485**	**122 116**

Defined benefit pension plans

OP Mortgage Bank has funded assets of its pension schemes through OP Bank Group Pension Fund and OP Bank Group Pension Foundation. Schemes related to supplementary pensions in the Pension Foundation and the TyEL (Employees' Pensions Act) funded old-age and disability pension schemes managed by the Pension Fund are treated as defined benefit plans. Contributions to the TyEL pay-as-you-go system are treated as defined contribution plans. The amount of the company's pension liabilities is not substantial.

Benefits under the employees pension scheme until the end of 2016 comprise old-age pension, part-time pension, disability pension, survivor's pension and rehabilitation benefits. The retirement age of the old-age pension under TyEL is 63–68 years. In 2015, the Finnish parliament passes an amended TyEL law that will enter into force at the beginning of 2017. The law will change benefits, replace part-time pension with partial early-age pension and includes a new benefit for the years-of-service pension. This legislative amendment has been included as change to OP Bank Group Pension Fund, and its effect, –2,000 euros, has been recognised in the income statement.

The most significant actuarial risks of OP Bank Group Pension Fund/OP Bank Group Pension Foundation are associated with interest rate and market risks, systematically increasing life expectancy and inflation risk. A change in the discount rate for pension liabilities has a substantial effect on the amount of pension liabilities.

Balance sheet value of defined benefit plans, EUR thousand	**Defined benefit obligations**		**Fair value of plan assets**		**Net liabilities (assets)**	
	2015	**2014**	**2015**	**2014**	**2015**	**2014**
Opening balance 1 Jan.	643	322	-527	-236	115	86
Defined benefit pension costs recognised in income statement						
Current service cost	35	20			35	20
Interest expense (income)	13	11	-10	-8	2	3
Effect of plan curtailment, fulfilment of obligation or previous service cost	2				2	
Administrative expenses			1	0	1	0
Total	**49**	**31**	**-10**	**-8**	**40**	**23**
Losses (gains) recognised in other comprehensive income arising from remeasurement						
Actuarial losses (gains) arising from changes in economic expectations	-208	165			-208	165
Actuarial losses (gains) arising from changes in demographic expectations						
Return on TyEL interest rate difference and growth in old-age pension liabilities (net)	1	1	-1	-1		
Experience adjustments	4	124			4	124
Return on plan assets, excluding amount (–) of net defined benefit liability (asset)			-27	-272	-27	-272
Total	**-203**	**290**	**-29**	**-273**	**-231**	**17**
Other						
Employer contributions			-7	-10	-7	-10
Benefits paid						
Total			**-7**	**-10**	**-7**	**-10**
Closing balance 31 Dec.	**489**	**643**	**-573**	**-527**	**-83**	**115**

Liabilities and assets recognised in the balance sheet, EUR thousand	**31 Dec 2014**	**31 Dec 2013**
Net liabilities/assets (Pension Foundation)	-92	-68
Net liabilities/assets (Pension Fund)	8	184
Total net liabilities/assets	**-84**	**115**

Pension Fund and Pension Foundation assets, grouped by valuation technique, 31 Dec. 2015, EUR thousand	**Total**
Shares and participations	31
Notes and bonds	108
Real property	43
Mutual funds	343
Structured investment vehicles	2
Derivatives	0
Other assets	48
Total	**573**

Pension Fund and Pension Foundation assets, grouped by valuation technique, 31 Dec. 2014, EUR thousand	**Total**
Shares and participations	31
Notes and bonds	139
Real property	43
Mutual funds	275
Structured investment vehicles	3
Derivatives	0
Other assets	36
Total	**527**

Key actuarial assumptions used, 31 December 2015	Pension Fund	Pension Foundation
Discount rate, %	2,3	2,1
Future pay increase assumption, %	1,6	1,6
Future pension increases, %	1,0	1,2

Key actuarial assumptions used, 31 December 2014	Pension Fund	Pension Foundation
Discount rate, %	2,0	1,9
Future pay increase assumption, %	2,5	2,5
Future pension increases, %	2,1	2,0

NOTE 23. Tax liabilities	31 Dec 2015	31 Dec 2014
Income tax liabilities	1 283	
Deferred tax liabilities	43	
Total tax liabilities	**1 325**	

NOTE 24. Shareholders' equity	31 Dec 2015	31 Dec 2014
Share capital	60 000	60 000
Unrestricted reserves	245 000	245 000
Accumulated profits		
Retained earnings	46 649	36 840
Profit for the financial year	20 288	14 619
Total equity	**371 937**	**356 459**
Distributable reserves	**311 937**	**296 459**
Distributable profits	**66 937**	**51 459**

Reserve for invested non-restricted equity consists of OP Cooperative's capital investment of EUR 245,000,000.

Share capital and number of shares

	Total
Share capital, EUR thousand	60 000
Number of shares	76 592
Proportion of share capital, %	100

OP Cooperative holds 100% of OP Mortgage Bank.

The minimum share capital of the Company is EUR 8,500,000 and the maximum share capital is EUR 150,000,000, within which limits the share capital may be increased or reduced without altering the Articles of Association. The minimum number of shares is 34,000 and the maximum number is 136,000. Permission from the Company is required for the acquisition of shares through transfer. The shares have no nominal value.

OTHER NOTES TO THE BALANCE SHEET

NOTE 25. Classification of financial assets and liabilities

Assets	Loans and receivables	Recognised at fair value through profit or loss	Available for sale	Carrying amount total	Fair value total
Receivables from credit institutions and central banks	988 490			988 490	988 490
Derivative contracts		192 206		192 206	192 206
Receivables from customers	9 610 252			9 610 252	9 610 252
Shares and participations			40	40	40
Other receivables	78 823			78 823	78 823
Other assets	2 575			2 575	2 575
Total on 31 Dec 2015	**10 680 140**	**192 206**	**40**	**10 872 386**	**10 872 386**

Liabilities	Recognised at fair value through profit or loss*	Other liabilities	Carrying amount total	Fair value total
Liabilities to credit institutions		1 375 000	1 375 000	1 375 000
Derivative contracts	12 971		12 971	12 971
Debt securities issued to the public		9 002 669	9 002 669	9 222 310
Other liabilities		109 810	109 810	109 810
Total on 31 Dec 2015	**12 971**	**10 487 479**	**10 500 450**	**10 720 091**

Assets	Loans and receivables	Recognised at fair value through profit or loss	Available for sale	Carrying amount total	Fair value total
Receivables from credit institutions and central banks	119 046			119 046	119 046
Derivative contracts		261 346		261 346	261 346
Receivables from customers	9 329 077			9 329 077	9 329 077
Shares and participations			40	40	40
Other receivables	90 047			90 047	90 047
Other assets	2 990			2 990	2 990
Total on 31 Dec 2014	**9 541 160**	**261 346**	**40**	**9 802 546**	**9 802 546**

Liabilities	Recognised at fair value through profit or loss*	Other liabilities	Carrying amount total	Fair value total
Liabilities to credit institutions		1 505 000	1 505 000	1 505 000
Derivative contracts	8 298		8 298	8 298
Debt securities issued to the public		7 810 673	7 810 673	8 138 062
Other liabilities		122 116	122 116	122 116
Total on 31 Dec 2014	**8 298**	**9 437 789**	**9 446 087**	**9 773 476**

Debt securities issued to the public are carried at amortised cost. On 31 December, the fair value of these debt instruments was approximately EUR 219,642 thousand (327,389) higher than their carrying amount, based on information available in markets and employing commonly used valuation techniques.

NOTE 26. Financial instruments classification, grouped by valuation technique

Recurring fair value measurements of assets	31 Dec 2015 Balance sheet value	Fair value measurement at year end Level 1*	Level 2**
Derivative contracts	192 206		192 206
Total	**192 206**		**192 206**

Recurring fair value measurements of assets	31 Dec 2014 Balance sheet value	Fair value measurement at year end Level 1*	Level 2**
Derivative contracts	261 346		261 346
Total	**261 346**		**261 346**

Recurring fair value measurements of liabilities	31 Dec 2015 Balance sheet value	Fair value measurement at year end Level 1*	Level 2**
Derivative contracts	12 971		12 971
Total	**12 971**		**12 971**

Recurring fair value measurements of liabilities	31 Dec 2014 Balance sheet value	Fair value measurement at year end Level 1*	Level 2**
Derivative contracts	8 298		8 298
Total	**8 298**		**8 298**

Financial liabilities not measured at fair value	31 Dec 2015 Balance sheet value	Fair value measurement at year end Level 1*	Level 2**
Debt securities issued to the public	9 002 669	8 872 880	349 430
Total	**9 002 669**	**8 872 880**	**349 430**

Financial liabilities not measured at fair value	31 Dec 2014 Balance sheet value	Fair value measurement at year end Level 1*	Level 2**
Debt securities issued to the public	7 810 673	7 995 455	142 607
Total	**7 810 673**	**7 995 455**	**142 607**

*Level 1 includes equities listed on major stock exchanges, quoted debt instruments issued by companies, governments and financial institutions as well as exchange-traded derivatives. The fair value of these instruments is is determined on the basis of market quotes.

** Valuation techniques based on observable input parameters. The fair value of the instruments included within Level 2 means value derived from the market price of a financial instrument's components or similar financial instruments; or value which can be determined using commonly used valuation models and techniques if the inputs significant to the fair value measurement are based on observable market data. The fair value hierarchy level at OP includes OTC derivatives, quoted debt instruments issued by companies, governments and financial institutions which have not been included in Level 1, and repo agreements as well as securities lent or borrowed.

Transfers between hierarchy levels of recurring fair value measurements

OP Mortgage Bank plc does not hold any transfers between the levels of fair value measurement.

NOTES CONCERNING CONTINGENT LIABILITIES AND DERIVATIVES

NOTE 27. Off-balance-sheet commitments	31 Dec 2015	31 Dec 2014
Binding loan commitments	858	3 252
Total off-balance-sheet commitments	**858**	**3 252**

NOTE 28. Leases	31 Dec 2015	31 Dec 2014

OP Mortgage Bank plc as the lessor

OP Mortgage Bank plc has leased facilities from OP Services Ltd.

	31 Dec 2015	31 Dec 2014
Leases of facilities	54	56

NOTE 29. Derivative contracts

Derivative contracts held for hedging – fair value hedging on 31 Dec 2015

	Nominal values/residual term to maturity				Fair values		
	Less than 1 year	1 to 5 years	More than 5 years	Total	Assets	Liabilities	Credit equivalent
Interest rate derivatives							
Interest rate swaps	2 387 456	8 816 977	7 118 958	18 323 391	192 206	12 971	411 985
Total interest rate derivatives	**2 387 456**	**8 816 977**	**7 118 958**	**18 323 391**	**192 206**	**12 971**	**411 985**

Derivative contracts held for hedging – fair value hedging on 31 Dec 2014

	Nominal values/residual term to maturity				Fair values		
	Less than 1 year	1 to 5 years	More than 5 years	Total	Assets	Liabilities	Credit equivalent
Interest rate derivatives							
Interest rate swaps	4 496 752	9 141 000	4 396 000	18 033 752	261 346	8 298	449 799
Total interest rate derivatives	**4 496 752**	**9 141 000**	**4 396 000**	**18 033 752**	**261 346**	**8 298**	**449 799**

OTHER NOTES

NOTE 30. Personnel and related party

The average number of employees was five (5) in 2015.

OP Mortgage Bank's related parties include the OP Cooperative and its subsidiaries, OP Financial Group´s pension insurance companies, OP Bank Group Pension Fund and OP Bank Group Pension Foundation, as well as the company's management personnel.

Subsidiaries of OP Cooperative	
Pohjola Group (with Pohjola Bank plc as the parent company)	Helsinki
Helsinki OP Bank Ltd	Helsinki
OP Card Company Plc	Helsinki
OP Fund Management Company Ltd	Helsinki
OP Life Assurance Company Ltd	Helsinki
Helsingin Seudun OP-Kiinteistökeskus Oy	Helsinki
OP Services Ltd	Helsinki
OP Process Services Ltd	Helsinki
Aurum Investment Insurance Ltd	Helsinki
Pivo Wallet Oy	Helsinki
Suomi Välirahoitusrahasto I Ky	Helsinki
Checkout Finland Oy	Helsinki
OP-Vallila Rahasto VYM Oy	Helsinki
OP-Vallila Rahasto Ky	Helsinki

Business transactions with related parties

	2015		2014	
	Parent company	Other	Parent company	Other
Other receivables		424 691		455 231
Other liabilities		1 562 291		1 638 278
Interest income		8 578		17 824
Interest expenses		20 488		166 626
Dividend income				
Net commission income and expenses		6 029		5 123
Other operating income				
Operating costs	94	2 420	119	3 367
Insider holdings				
Number of shares	76 592		76 592	

NOTE 31. Variable remuneration

OP Personnel Fund

OP Mortgage Bank joined OP Personnel Fund in 2005.

Payment of profit-based bonuses to OP Personnel Fund in 2015 was based on the achievement of the following targets:
OP Financial Group's pre-tax earnings and OP Financial Group's Common Equity Tier (CET 1), both weighted at 30% and the change in the number of loyal customers weighted at 40%. Profit-based bonuses for 2015 transferred to the Fund account for some 5.3% of the combined salaries and wages earned by its members.

Remuneration schemes

In the short-term incentive scheme, the performance period is one calendar year and the bonus is primarily paid in cash.
This short-term scheme covers all personnel. The maximum bonuses have been limited.

NOTE 32. Events after the balance sheet date

No significant post-fiscal events.

NOTES CONCERNING RISK MANAGEMENT

NOTE 33. Capital base and capital adequacy

Information about own funds and capital adequacy has been presented in the report of the board of directors.

NOTE 34. Financial assets and impairment losses recognised on them for the financial year

OP Mortgage Bank's financial assets comprise the items disclosed under Notes 12–15. Impairment losses on loans on a collective basis of EUR -310,000 (119,000) have been recognised as financial assets.

NOTE 35. Liabilities

	31 Dec 2015 Finland			**31 Dec 2014 Finland**		
	Carrying amount	**Impairment losses**	**Interest carried forward**	**Carrying amount**	**Impairment losses**	**Interest carried forward**
Assets						
Receivables from credit institutions	988 490		109	119 046		2
Receivables from customers	9 610 252	278	5 018	9 329 077	523	5 699
Derivative contracts	192 206			261 346		
Other						
Total	**10 790 948**	**278**	**5 126**	**9 709 469**	**523**	**5 701**
Off-balance-sheet commitments						
Unused standby credit facilities and limits	858			3 252		
Derivative contracts				449 799		
Total	**858**			**453 051**		
Total liabilities	**10 791 806**	**278**	**5 126**	**10 162 520**	**523**	**5 701**

NOTE 36. Liabilities by sector

	31 Dec 2015			31 Dec 2014		
	Net balance sheet exposure	Off-balance -sheet		Net balance sheet exposure	Off-balance -sheet	
	Domestic	Domestic	Total	Domestic	Domestic	Total
Companies	16 760		16 760	20 596		20 596
Financial and insurance institutions	1 180 804		1 180 804	380 394	449 799	830 193
Households	9 598 510	858	9 599 368	9 314 180	3 252	9 317 432
Non-profit organisations						
Total	**10 796 074**	**858**	**10 796 932**	**9 715 170**	**453 051**	**10 168 222**

NOTE 37. Credit risks

The Bank's key credit risk indicators show that the credit risk position is stable. On 31 December 2015, receivables over 90 days past due totalled EUR 6,428 thousand (4,676). EUR 79 thousand (29) of impairment loss has been recognised on receivables. The loan portfolio was diversified. OP Mortgage Bank has not any groups of connected clients whose exposures exceed 10% of the capital base.

OP Mortgage Bank had matured receivables of EUR 6,813 thousand (9,571) on 31 December 2015. Matured receivables include repayments and interest that have been overdue for more than 30 days but less than 90 days, as well as the full remaining capital of these loans. OP Mortgage Bank has no significant forborne loans.

NOTE 38. Exposure by credit rating

Personal exposure by credit rating	**31 Dec 2015**	**31 Dec 2014**
Personal exposure on the balance sheet, category A	7 743 054	7 117 552
Personal exposure on the balance sheet, category B	1 353 968	1 574 831
Personal exposure on the balance sheet, category C	334 168	440 218
Personal exposure on the balance sheet, category D	114 482	124 876
Personal exposure on the balance sheet, category E	48 624	52 125
Personal exposure on the balance sheet, category F	4 214	4 579
Personal exposure on the balance sheet, not classified		
Off-balance-sheet personal exposure A	695	2 084
Off-balance-sheet personal exposure B	12	425
Off-balance-sheet personal exposure C	0	0
Off-balance-sheet personal exposure D		
Off-balance-sheet personal exposure, non-rated	151	743
Total personal exposure	**9 599 368**	**9 317 432**

Corporate exposure by credit rating	**31 Dec 2015**	**31 Dec 2014**
Corporate exposure on the balance sheet, category 2.0	132	142
Corporate exposure on the balance sheet, category 4.0		
Corporate exposure on the balance sheet, category 4.5	4 926	5 959
Corporate exposure on the balance sheet, category 5.0	6 731	9 114
Corporate exposure on the balance sheet, category 5.5	2 250	2 878
Corporate exposure on the balance sheet, category 6.0	2 079	1 369
Corporate exposure on the balance sheet, category 6.5	131	540
Corporate exposure on the balance sheet, category 7.0	326	
Corporate exposure on the balance sheet, category 7.5		73
Corporate exposure on the balance sheet, category 8.0	17	18
Corporate exposure on the balance sheet, category 9.0		
Corporate exposure on the balance sheet, category 10.0	169	502
Corporate exposure on the balance sheet, non-rated	0	
Off-balance-sheet corporate exposure, non-rated		
Off-balance-sheet corporate exposure, class 5,0		
Off-balance-sheet corporate exposure, class 5,5		
Off-balance-sheet corporate exposure, class 6,0		
Off-balance-sheet corporate exposure, class 10,0		
Total corporate exposure	**16 760**	**20 596**

NOTE 39. Structure of funding, EUR thousand

	31 Dec 2015	Share, %	31 Dec 2014	Share, %
Liabilities to credit institutions	1 375 000	12,7	1 505 000	15,4
Debt securities issued to the public	9 002 669	82,9	7 810 673	79,7
Other liabilities	108 485	1,0	122 116	1,2
Shareholders' equity	371 937	3,4	356 459	3,6
Total	**10 858 091**	**100,0**	**9 794 248**	**100,0**

NOTE 40. Maturity distribution of financial assets and liabilities by residual term to maturity, EUR thousand

31 Dec 2015	Less than 3 months	3–12 months	1–5 years	5–10 years	More than 10 years	Total
Financial assets						
Receivables from credit institutions	245 120	10 000	733 369			988 490
Receivables from customers	220 602	730 801	3 457 116	2 947 242	2 254 491	9 610 252
Total financial assets	**465 723**	**740 801**	**4 190 485**	**2 947 242**	**2 254 491**	**10 598 741**
Financial liabilities						
Liabilities to credit institutions	750 000	167 000	458 000			1 375 000
Debt securities issued to the public		1 009 634	4 705 916	3 287 119		9 002 669
Total financial liabilities	**750 000**	**1 176 634**	5 163 916	**3 287 119**		**10 377 669**

31 Dec 2015	Less than 1 year	More than 1 year	Total
Off-balance-sheet commitments*		858	858
Total off-balance-sheet commitments			**858**

31 Dec 2014	Less than 3 months	3–12 months	1–5 years	5–10 years	More than 10 year	Total
Financial assets						
Receivables from credit institutions	109 046		10 000			119 046
Receivables from customers	233 168	705 504	3 318 659	2 839 004	2 232 743	9 329 077
Total financial assets	**342 214**	**705 504**	**3 328 659**	**2 839 004**	**2 232 743**	**9 448 123**
Financial liabilities						
Liabilities to credit institutions	880 000		459 000	166 000		1 505 000
Debt securities issued to the public		999 169	4 445 149	2 366 356		7 810 673
Total financial liabilities	**880 000**	**999 169**	**4 904 149**	**2 532 356**		**9 315 673**

31 Dec 2014	Less than 1 year	More than 1 year	Total
Off-balance-sheet commitments*	3 252		3 252
Total off-balance-sheet commitments	**3 252**		**3 252**

* Binding loan commitments

NOTE 41. Funding risk

Centralised funding forms OP Mortgage Bank's most significant source of funding risk. OP's liquidity management has been centralised within Pohjola Bank which is OP Mortgage Bank can also exploit OP's liquidity buffer.

NOTE 42. Maturity of financial assets and liabilities by due date or repricing, EUR thousand

Contractual repricing dates or earlier due dates on 31 December 2015.

31 Dec 2015	1 month or less	> 1–3 months	> 3–12 months	> 1–2 years	> 2–5 years	More than 5 years	Total
Financial assets							
Receivables from credit institutions	245 120	58 538	537 239		147 592		988 490
Receivables from customers	2 429 625	2 521 588	4 610 126	14 411	18 370	16 132	9 610 252
Total financial assets	**2 674 745**	**2 580 126**	**5 147 366**	**14 411**	**165 962**	**16 132**	**10 598 741**
Financial liabilities							
Liabilities to credit institutions	750 000	625 000					1 375 000
Debt securities issued to the public		199 979	1 195 090	1 248 040	3 257 897	3 101 663	9 002 669
Total financial liabilities	**750 000**	**824 979**	**1 195 090**	**1 248 040**	**3 257 897**	**3 101 663**	**10 377 669**
Subordinated liabilities							
Total subordinated liabilities							

31 Dec 2014	1 month or less	> 1–3 months	> 3–12 months	> 1–2 years	> 2–5 years	More than 5 years	Total
Financial assets							
Receivables from credit institutions	109 046		10 000				119 046
Receivables from customers	2 545 736	2 449 857	4 272 896	9 164	29 992	21 433	9 329 077
Total financial assets	**2 654 782**	**2 449 857**	**4 282 896**	**9 164**	**29 992**	**21 433**	**9 448 123**
Financial liabilities							
Liabilities to credit institutions	800 000	705 000					1 505 000
Debt securities issued to the public		199 967	1 260 387	1 008 603	3 236 578	2 105 137	7 810 673
Total financial liabilities	**800 000**	**904 967**	**1 260 387**	**1 008 603**	**3 236 578**	**2 105 137**	**9 315 673**
Subordinated liabilities							
Total subordinated liabilities							

NOTE 43. Interest rate risk

OP Mortgage Bank's interest rate risk metric analyses the effect of a one-percentage point increase in the interest rate on present value of the interest rate exposure without comparing the customer margin with the Bank's capital base. On 31 December, the indicator stood at 0.16%. The interest rate risk may be considered to be low.

Sensitivity analysis for interest rate risk

			Impact on equity	
EUR thousand	**Risk parameter**	**Change**	**31 Dec 2015**	**31 Dec 2014**
Interest rate risk	Interest rate	1 pp	602,4	239,9

NOTE 44. Real estate risk

OP Mortgage Bank does not possess any properties, or shares or interests in housing or real estate companies as a result of unpaid receivables.

SIGNATURES TO THE FINANCIAL STATEMENTS AND ANNUAL REPORT

Helsinki, 4 February 2016

Harri Luhtala
Chairman

Elina Ronkanen-Minogue

Hanno Hirvinen

Lauri Iloniemi

Managing Director

AUDITOR'S NOTE

We have today issued an auditors' report on the performed audit.

Helsinki, 10 February 2016

KPMG Oy Ab
Authorised Public Accountants

Juha-Pekka Mylén
Authorised Public Accountant

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This document is an English translation of the Finnish auditor's report. Only the Finnish version of the report is legally binding.

AUDITOR'S REPORT

To the Annual General Meeting of OP-Asuntoluottopankki Oyj

We have audited the accounting records, the financial statements, the report of the Board of Directors and the administration of OP-Asuntoluottopankki Oyj for the year ended 31 December, 2015. The financial statements comprise the balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flow and notes to the financial statements.

Responsibility of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the preparation of financial statements and the report of the Board of Directors that give a true and fair view in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the Managing Director shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements and on the report of the Board of Directors based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the report of the Board of Directors are free from material misstatement, and whether the members of the Board of Directors and the Managing Director are guilty of an act or negligence which may result in liability in damages towards the company or have violated the Finnish Credit Institutions Act, Limited Liability Companies Act or the articles of association of the company.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and report of the Board of Directors that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the financial statements and the report of the Board of Directors

In our opinion, the financial statements give a true and fair view of the financial position, financial performance, and cash flows of the bank in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of the bank's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

Helsinki, 10 February 2016

KPMG OY AB

[*signed*]
Juha-Pekka Mylén
Authorized Public Accountant in Finland