OP MORTGAGE BANK

Interim Report 1 January – 30 June 2010

OP Mortgage Bank's (OPA) loan portfolio grew to EUR 4,398 million in the January-June period (EUR 4,360 million at the end of 2009). The bank increased its loan portfolio in May when it purchased housing loans from OP-Pohjola Group member cooperative banks. OPA launched a covered bond issue at a nominal valued of EUR 1 billion in June.

Earnings Development

EUR thousand	Q1-Q2/2010	Q1-Q2/2009	Q2/2010	Q2/2009	2009
Income					
Net interest income	8,043	5,901	3,952	2,803	14,030
Net commissions and fees	-4,340	-3,950	-2,163	-1,993	-7,970
Net income from trading	-1	0	0	0	0
Net income from investments	1	1	-	-	1
Other operating income	8	3	8	3	26
Total	**3,711**	**1,954**	**1,797**	**813**	**6,086**
Expenses					
Personnel costs	161	129	79	62	297
Other administrative expenses	711	420	338	190	983
Other operating expenses	578	352	350	219	864
Total	**1,450**	**901**	**767**	**472**	**2,145**
Earnings before tax	**2,261**	**1,054**	**1,030**	**341**	**3,941**

The net interest income for January-June totalled EUR 8,043 thousand (5,901)[1]. Earnings before tax amounted to EUR 2,261 thousand (1,054). Increase in net interest income was due to the growth in the loan portfolio.

Net commissions and fees were negative with commission income increasing to EUR 1,357 thousand (841) and commission expenses to EUR 5,698 thousand (4,789). Commission expenses mainly comprise commissions paid to OP-Pohjola Group member banks for servicing housing loans. The bank's expenses amounted to EUR 1,450 thousand (901). Growth in expenses derived largely from the ICT-services and the professional services purchased in connection with the new covered bond issue. OPA did not recognise any loan losses for the first six months.

Net interest income for April-June grow to EUR 3,952 thousand (2,803) and earnings before taxes to EUR 1,030 thousand (341). The bank's expenses grow to EUR 767 thousand (472).

[1] For balance sheet and other cross-sectional figures, the point of comparison is the figure at the end of 2009. For income statement and other cumulative figures, the point of comparison is the figure for January-June period in the previous year.

Balance Sheet and Off-balance Sheet Commitments

OPA's balance sheet total amounted to EUR 4,624 million on 30 June (EUR 4,555 million) [2].

Change in Major Asset and Liability Items

EUR Million	30 June 2010	31 March 2010	31 Dec 2009	30 June 2009
Balance Sheet	4,624	4,450	4,555	2,942
Receivables from customers	4,398	4,203	4,360	2,799
Receivables from financial institutions	89	56	55	34
Debt securities issued to the public	3,332	3,336	3,311	2,091
Liabilities to financial institutions	1,070	840	1,000	720
Shareholders' equity	142	141	140	88
Off-balance sheet commitments	10	12	15	16

The loan portfolio increased from EUR 4,360 million on 31 December 2009 to EUR 4,398 million on 30 June 2010. OPA increased its loan portfolio in the review period when it purchased housing loans from OP-Pohjola-Group member banks for EUR 398 million.

On 30 June, households accounted for 99 % (99) of the loan portfolio and housing corporations for 1 % (1). The bank's non-performing loans amounted to EUR 0,4 million (0,8). No impairment losses on loans were recognised.

The carrying amount of bonds issued to the public totalled EUR 3,332 million (2,091) on 30 June. OPA issued its fourth covered bond at a nominal value of EUR 1 billion on international capital markets in June. Moody's Investor Services and Standard & Poor's Rating Services have given the bond their highest credit ratings of Aaa and AAA. The covered bond, issued in 2008 at a nominal value of EUR 1 billion, matured and were paid off in June. In addition to bonds, other funding was based on financing loans granted by Pohjola Bank plc (Pohjola). On 30 June, financing loans totalled EUR 1,070 million (1,000).

Shareholders' equity rose to EUR 141,9 million (140,2). Retained earnings amounted to EUR 11,9 million (10,2) at the end of the review period.

OPA has hedged against the interest-rate risk associated with its housing loan portfolio through interest-rate swaps, i.e. base rate cash flows from housing loans to be hedged are swapped to short-term Euribor cash flows. OPA has also swapped the fixed interest rates of the bonds it has issued to short-term variable rates. OPA's interest-rate derivative portfolio totalled EUR 8,916 million (7,832). All derivative contracts have been concluded for hedging purposes. Pohjola is the counterparty to all derivative contracts.

[2] For balance sheet and other cross-sectional figures, the point of comparison is the figure at the end of 2009. For income statement and other cumulative figures, the point of comparison is the figure for January-June period in the previous year.

Development of Capital Adequacy

OPA's capital adequacy ratio stood at 9,9 % on 30 June. Since the beginning of 2008, OPA has calculated its capital adequacy in compliance with Basel II. Credit risk is calculated according to the standardised approach and the capital requirement for operational risk is calculated using the basic approach.

OWN FUNDS, EUR thousand	**30 June 2010**	**31 March 2010**	**31 Dec 2009**	**30 June 2009**
Tier I	140,764	140,057	139,067	86,890
of which capital loans				
Tier II	20,000	20,000	20,000	20,000
Decreases				
Total	**160,764**	**160,057**	**159,067**	**106,890**
Risk-weighted receivables, investments and off-balance sheet commitments	1,627,208	1,562,989	1,622,243	1,032,313
Capital adequacy ratio, %	**9.9**	**10.2**	**9.8**	**10.4,**
Tier I ratio to risk-weighted receivables, investments and off-balance sheet commitments	8.7	9.0	8.6	8.4

The increase in shareholders' equity arising from the measurement of pension liabilities and the assets covering them, under IFRS, is not considered own funds. Furthermore, intangible assets was also deducted from own funds.

Risk-weighted receivables, investments and off balance-sheet commitments, EUR thousand	**30 June 2010**	**31 March 2010**	**31 Dec 2009**	**30 June 2009**
Receivables and investments	1,613,851	1,548,950	1,610,079	1,019,096
Off-balance-sheet items	2,505	3,187	4,039	,5,092
Market risk	-	-	-	-
Operational risks	10,852	10,852	8,125	8,125
Risk-weighted receivables, investments and off balance-sheet commitments, total	**1,627,208**	**1,562,989**	**1,622,243**	**1,032,313**

The increase in the amount of risk-weighted receivables was due to an increased loan portfolio.

Joint Responsibility and Joint Security

Under the Act on Cooperative Banks and Other Cooperative Credit Institutions, the amalgamation of the cooperative banks comprises the organisation’s central institution (OP-Pohjola Group Central Cooperative), the Central Cooperative’s member credit institutions and the companies belonging to their consolidation groups. This amalgamation is monitored on a consolidated basis. The Central Cooperative and its member banks are ultimately responsible for each other's liabilities and commitments.

The Central Cooperative's members at the end of the report period comprised OP-

Pohjola Group's 218 member banks as well as Pohjola Bank plc, Helsinki OP Bank Plc, OP Mortgage Bank and OP-Kotipankki Oyj. OP-Pohjola Group's insurance companies do not fall within the scope of joint responsibility.

Inspite of the joint responsibility and the joint security, pursuant to Section 17 of the Act on Mortgage Credit Banks, the holder of a bond with mortgage collateral shall, notwithstanding the liquidation or bankruptcy of a mortgage credit bank, have the right to receive payment, before other claims, for the entire loan period of the bond, in accordance with the contract terms, from the funds entered as collateral for the bond.

Personnel

On 30 June, OPA had five employees. It purchases all key support services from Central Cooperative and its Group companies, which reduces the need for more staff.

Administration

The Annual General Meeting held in March confirmed the composition of the new Board of Directors. Mr. Mikko Rosenlund, Executive Vice President, Tampereen Seudun Osuuspankki was elected as a new member of the Board of Directors and Mr. Risto Korpela, Managing Director, Turun Seudun Osuuspankki was left out of the Board of Directors. The Board composition is as follows:

Chairman	Harri Nummela	Executive Vice President, OP-Pohjola Group Central Cooperative
Vice Chairman	Mikko Hyttinen	Senior Vice President, OP-Pohjola Group Central Cooperative
Members	Sakari Haapakoski	Bank Manager, Oulun Osuuspankki
	Jari Himanen	Senior Vice President, OP-Pohjola Group Central Cooperative
	Hanno Hirvinen	Executive Vice President, Pohjola Bank plc
	Heikki Kananen	Managing Director, Mäntsälän Osuuspankki
	Matti Nykänen	Senior Vice President, OP-Pohjola Group Central Cooperative
	Mikko Rosenlund	Executive Vice President, Tampereen Seudun Osuuspankki

Managing Director Lauri Iloniemi.

Prospects for the rest of the year

The overall quality of OPA's credit portfolio is expected to remain strong. The earnings before taxes for 2010 are forecasted to fall below the earnings of 2009 due to the more expensive funding costs.

Income Statement

EUR thousand	Q1-Q2/2010	Q1-Q2/2009	Q2/2010	Q2/2009	2009
Interest income	28,171	43,592	14,177	17,730	68,928
Interest expenses	20,128	37,691	10,224	14,927	54,899
Net interest income	**8,043**	**5,901**	**3,952**	**2,803**	**14,030**
Net commissions and fees	-4,340	-3,950	-2,163	-1,993	-7,970
Net income from trading	-1	0	0	0	0
Net income from investments	1	1	0	0	1
Other operating income	8	3	8	3	26
Personnel costs	161	129	79	62	297
Other administrative expenses	711	420	338	190	983
Other operative expenses	578	352	350	219	864
Earnings before tax	**2,261**	**1,054**	**1,030**	**341**	**3,941**
Income taxes	589	274	269	87	1,017
Profit for the period	**1,672**	**779**	**761**	**254**	**2,924**

Key Ratios

	Q1-Q2/2010	Q1-Q2/2009	Q2/2010	Q2/2009	2009
Return on equity (ROE), %	2.4	1.8	2.2	1.2	2.6
Cost/income ratio, %	39	46	43	58	35

Calculation of key ratios

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

Cost/income ratio, % = Personnel costs + Other administrative expenses + Other operating expenses / Net interest income + Net commission income + Net income from trading + Total net income from investments + Other operating income × 100

Balance Sheet

EUR thousand	30 June 2010	31 March 2010	31 Dec 2009	30 June 2009
Receivables from financial institutions	88,815	56,093	55,017	34,431
Derivative contracts	103,945	94,378	75,934	94,114
Receivables from customers	4,398,089	4,202,733	4,360,036	2,799,055
Investments assets	17	17	17	17
Intangible assets	942	886	942	923
Tangible assets	4	5	5	2
Other assets	32,441	95,524	63,177	13,517
Tax receivables				121
Total assets	**4,624,252**	**4,449,634**	**4,555,128**	**2,942,179**
Liabilities to financial institutions	1,070,000	840,000	1,000,000	720,000
Derivative contracts	12,012	5,756	11,971	8,538
Debt securities issued to the public	3,331,736	3,336,060	3,310,811	2,091,479
Reserves and other liabilities	48,390	106,233	71,727	13,894
Tax liabilities	219	450	395	171
Subordinated debt securities	20,000	20,000	20,000	20,000
Total liabilities	4,482,356	4,308,500	4,414,904	2,854,083
Shareholders' equity				
Share capital	60,000	60,000	60,000	60,000
Reserve for invested unrestricted . equity	70,000	70,000	70,000	20,000
Retained earnings	11,896	11,135	10,224	8,096
Total equity	141,896	141,135	140,224	88,096
Total liabilities and shareholders' equity	**4,624,252**	**4,449,634**	**4,555,128**	**2,942,179**

Off-balance Sheet Commitments

EUR thousand	**30 June 2010**	**31 March 2010**	**31 Dec 2009**	**30 June 2009**
Binding credit commitments	9,939	12,245	15,108	16,346

Change Calculation on Shareholders' Equity

EUR thousand	Share capital	Other reserves	Retained earnings	Total equity
Shareholders' equity 1 Jan 2009	**60,000**	**20,000**	**7,317**	**87,317**
Reserve for invested unrestricted equity	-	-	-	-
Profit for the period	-	-	779	779
Other changes	-	-	-	-
Shareholders' equity 30 June 2009	**60,000**	**20,000**	**8,096**	**88,096**
EUR thousand	Share capital	Other reserves	Retained earnings	Total equity
Shareholders' equity 1 Jan 2010	**60,000**	**70,000**	**10,224**	**140,224**
Reserve for invested unrestricted equity	-	-	-	-
Profit for the period	-	-	1,672	1,672
Other changes	-	-	-	-
Shareholders' equity 30 June 2010	**60,000**	**70,000**	**11,896**	**141,896**

Cash Flow Statement

EUR thousand	Q1-2/2010	Q1-2/2009
Liquid assets 1 January	**41,129**	**18,380**
Cash flow from operations	40,147	17,522
Cash flow from investments	-133	-341
Cash flow from financing	-6,226	-15,015
Liquid assets 30 June	**74,918**	**20,546**

The cash flow statement presents the cash flows for the period on the cash basis, divided into cash flows from operations, investments and financing. Cash flows from operations includes the cash flows generated from day-to-day operations. Cash flow from investments includes payments related to tangible and intangible assets, investments held to maturity and shares that are not considered as belonging to cash flow from operations. Cash flow from financing includes cash flows originating in the financing of operations either on equity or liability terms from money or capital market. Liquid assets include cash in hand and receivables from financial institutions payable on demand. The statement has been prepared using the indirect method.

Fair values of financial assets and liabilities				
EUR 1,000	Loans and receivables	Recognised at fair value through profit or loss	Available for sale	Total
Financial assets				
Receivables from financial institutions	88,815	-	-	88,815
Derivative contracts	-	103,945	-	103,945
Receivables from customers	4,398,089			4,398,089
Equities	-	-	17	17
Other receivables	32,441	-	-	32,441
Balance at 30 June 2010	**4,519,345**	**103,945**	**17**	**4,623,306**
Balance at 30 June 2009	**2,848,048**	**94,114**	**17**	**2,942,179**
Balance at 31 December 2009	**4,478,235**	**75,934**	**17**	**4,554,186**
EUR 1,000		Recognised at fair value through profit or loss	Other liabilities	Total
Liabilities to financial institutions	-	-	1,070,000	1,070,000
Derivative contracts	-	12,012	-	12,012
Debt securities issued to the public	-	-	3,331,736	3,331,736
Subordinated liabilities	-	-	20,000	20,000
Other liabilities	-	-	48,609	48,609
Balance at 30 June 2010	-	**12,012**	**4,470,345**	**4,482,356**
Balance at 30 June 2009	-	**8,538**	**2,845,545**	**2,854,083**
Balance at 31 December 2009	-	**11,971**	**4,402,933**	**4,414,904**

Debt securities issued to the public are carried at amortised cost. On 30 June 2010, the fair value of these debt instruments was approximately EUR 98,083 thousand higher than their carrying amount, based on information available in markets and employing commonly used valuation techniques. Subordinated liabilities are carried at amortised cost. Their fair value are substantially lower than their carrying amount, but determining fair values realiably is difficult in the current market situation.

Derivative Contracts 30.6.2010

EUR thousand	Nominal values/the remaining maturity				Fair values		Credit counter-value
	Less than 1 year	1-5 years	More than 5 years	Total	Assets	Liabilities	
Interest rate derivatives							
Hedging	272,456	8,643,932	-	8,916,388	103,945	12,012	171,492
Trading	-	-	-	-	-	-	-
Total	**272,456**	**8,643,932**	**-**	**8,916,388**	**103,945**	**12,012**	**171,492**

Derivative Contracts 30.6.2009

EUR thousand	Nominal values/the remaining maturity				Fair values		Credit counter-value
	Less than 1 year	1-5 years	More than 5 years	Total	Assets	Liabilities	
Interest rate derivatives							
Hedging	2,003,284	2,790,607	-	4,793,891	94,114	8,538	112,675
Trading	-	-	-	-	-	-	-
Total	**2,003,284**	**2,790,607**	**-**	**4,793,891**	**94,114**	**8,538**	**112,675**

All derivative contracts have been entered into for hedging purposes, regardless of their classification in accounting.

The Interim Report for 1 January–30 June 2010 has been prepared in accordance with IAS 34 (Interim Financial Reporting), as approved by the EU. The Financial Statements 2009 contain a description of the accounting policies applied.

The interim report is unaudited.

Helsinki, 4 August 2010

OP Mortgage Bank
Board of Directors