OP MORTGAGE BANK

Interim Report 1 January – 30 June 2012

OP Mortgage Bank's (OPA) loan portfolio grew to EUR 8,841 million in the January-June period (EUR 7,535 million at the end of 2011). The bank increased its loan portfolio in February, in March and 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 1.25 billion in May.

Earnings Development

EUR thousand	**Q1-Q2/2012**	**Q1-Q2/2011**	**Q2/2012**	**Q2/2011**	**2011**
Income					
Net interest income	14,339	11,870	7,571	6,670	24,147
Net commissions and fees	-5,423	-4,586	-2,676	-2,692	-10,207
Net income from trading	0	0	0	0	0
Net income from investments	-179	1	-180	0	487
Other operating income	0	4	0	4	5
Total	**8,737**	**7,289**	**4,715**	**3,982**	**14,432**
Expenses					
Personnel costs	202	150	106	63	278
Other administrative expenses	842	1,046	390	497	2,054
Other operating expenses	707	729	477	437	1,397
Total	**1,750**	**1,926**	**973**	**996**	**3,729**
Impairments of receivables	**-36**	**0**	**-35**	**0**	**-358**
Earnings before tax	**6,951**	**5,363**	**3,708**	**2,986**	**10,345**

The net interest income for January-June totalled EUR 14,339 thousand (11,870)[1]. Earnings before tax amounted to EUR 6,951 thousand (5,363). Increase in net interest income was due to the growth in the loan portfolio. Impairment loss on loans on a collective basis of EUR 36 thousand was recognised.

Net commissions and fees were negative with commission income increasing to EUR 2,451 thousand (1,712) and commission expenses to EUR 7,874 thousand (6,298). Commission expenses mainly comprise commissions paid to OP-Pohjola Group member banks for servicing housing loans. The bank's expenses amounted to EUR 1,750 thousand (1,926).

Net interest income for April-June grow to EUR 7,571 thousand (6,670) and earnings before taxes to EUR 3,708 thousand (2,986). The bank's expenses amounted to EUR 973 thousand (996). Net income from investments was negative and totalled EUR 180 thousand (0). In May OPA used as short term collateral German State bonds whose price risk was hedged by futures.

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1 For balance sheet and other cross-sectional figures, the point of comparison is the figure at the end of 2011. 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 9,263 million on 30 June (EUR 7,912 million) [2].

Change in Major Asset and Liability Items

EUR Million	30 June 2012	31 March 2012	31 Dec 2011	30 June 2011
Balance Sheet	9,263	8,427	7,912	6,820
Receivables from customers	8,841	8,000	7,535	6,643
Receivables from financial institutions	93	72	82	89
Debt securities issued to the public	5,716	5,440	5,423	4,246
Liabilities to financial institutions	3,100	2,490	2,070	2,245
Shareholders' equity	310	287	256	213
Off-balance sheet commitments	11	8	4	7

The loan portfolio increased from EUR 7,535 million on 31 December 2011 to EUR 8,841 million on 30 June 2012. OPA increased its loan portfolio in the review period when it purchased housing loans from OP-Pohjola-Group member banks for EUR 1,943 million.

On 30 June, households accounted for 99.6 % (99.3) of the loan portfolio and housing corporations for 0.4 % (0.7). The bank's non-performing loans amounted to EUR 2.3 million (2.1). The impaired amount for an impairment loss on an individual basis recognised in the review period was fully covered by collateral.

The carrying amount of bonds issued to the public totalled EUR 5,716 million (5,423) on 30 June. OPA issued its seventh covered bond at a nominal value of EUR 1.25 billion on international capital markets in April. 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 2007 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 3,100 million (2,070).

Shareholders' equity rose to EUR 310 million (256). Retained earnings amounted to EUR 24.5 million (21.3) 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 15,995 million (14,409). 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 2011. 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 8.7% on 30 June. Capital ratio excluding transition rules stood at 39.6%. Shareholder's equity increased by EUR 30 million in March and by EUR 20 million in May when OP-Pohjola Group Central Cooperative made an additional investment in OPA. In May OPA called in the Tier 2 debenture issued in 2007 at a nominal value of EUR 20 million.

OPA calculates its capital adequacy in compliance with Basel II. In its calculation of capital requirements for credit risk, OPA has adopted the Internal Ratings Based Approach (IRBA). With respect to the capital adequacy requirement for operational risks, OPA adopted the Standardised Approach in the report period. Before 31 December comparison for credit risk here below are presented according to the Standardised Approach.

OWN FUNDS, EUR thousand	**30 June 2012**	**31 Dec 2011**	**30 June 2011**
Equity capital	309,538	256,475	212,765
Intangible assets	-809	-587	-745
Excess funding of pension liability and fair value measurement of investment property	-13	-248	-
Planned dividend distribution	-	-2,001	-246
Shortfall of impairments – expected losses	-3,586	-3 ,937	-
Shortfall of other Tier 1 capital	-3,586	-	-
Core Tier 1 capital	**301,543**	**249,703**	**211,774**
Shortfall of Tier 2 capital	- 3,586	-	-
Transfer to core Tier 1 capital	3,586	-	-
Tier 1 capital	**301,543**	**249,703**	**211,774**
Debenture loans	-	20,000	20,000
Shortfall of impairments – expected losses	-3,586	-3 ,937	-
Transfer to Tier 1 capital	3,586	-	-
Tier 2 capital	**-**	**16,063**	**20,000**
Total capital base	**301,543**	**265,765**	**231,774**
Capital ratio including transition rules			
Capital adequacy ratio, %	8.7	9.0	9.6
Tier 1 ratio to risk-weighted commitments	8.7	8.5	8.7
Core Tier 1 ratio	8.7	8.5	8.7
Capital ratio excluding transition rules			
Capital adequacy ratio, %	39.6	40.4	-
Tier 1 ratio to risk-weighted commitments	39.6	40.0	-
Core Tier 1 ratio	39.6	40.0	-

The increase in shareholders' equity arising from the additional investment and 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. The Impairments – shortfall of expected losses total EUR 7.2 million.

Risk-weighted receivables, investments and off balance-sheet commitments, EUR thousand	30 June 2012	31 Dec 2011	30 June 2011
Receivables and investments	740,174	644,703	2,411,096
Off-balance-sheet items	6,774	2,063	2,177
Market risk	-	-	-
Operational risks	14,043	10,490	10,490
Requirement for period of transition	2,714,917	2,283,433	-
Risk-weighted receivables, investments and off balance-sheet commitments, total	**3,475,908**	**2,940,688**	**2,423,763**

The increase in the amount of risk-weighted receivables was due to an increased loan portfolio. The amount of risk-weighted receivables is expected to decrease during the next quarter, in which case OPA's capital adequacy ratio will in September be over 9%, which is the target.

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 198 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.
The central institution is obligated to provide its member credit institutions with instructions on their internal supervision and risk management, their operations in securing liquidity and capital adequacy, and compliance with uniform accounting principles in preparing the coalition's consolidated financial statements.

The central institution and its member credit institutions are jointly responsible for the liabilities of the central institution or a member credit institution placed in liquidation or bankruptcy that cannot be paid from its assets. The liability is divided between the central institution and the member credit institutions in ratios following the balance sheet total.

In spite of the joint responsibility and the joint security, pursuant to Section 25 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 six 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. Lars Björklöf, Managing Director, Osuuspankki Raasepori was elected as a new member of the Board of Directors. Mr. Heikki Kananen, Managing Director, Mäntsälän Osuuspankki and Mr. Mikko Rosenlund, Managing Director, Tampereen Seudun Osuuspankki were left out of the Board of Directors. The Board composition is as follows:

Chairman	Harri Luhtala	Chief Financial Officer, OP-Pohjola Group Central Cooperative
Vice Chairman	Elina Ronkanen-Minogue	Senior Vice President, OP-Pohjola Group Central Cooperative
Members	Sakari Haapakoski	Bank Manager, Oulun Osuuspankki
	Mika Helin	Executive Vice President, Hämeenlinnan Seudun Osuuspankki
	Hanno Hirvinen	Executive Vice President, Pohjola Bank plc
	Mikko Hyttinen	Bank Manager, OP-Pohjola Group Central Cooperative
	Lars Björklöf	Managing Director, Osuuspankki Raasepori

Managing Director Lauri Iloniemi.

Risk exposure

The most significant types of risk related to OPA are credit risk, liquidity risk and interest-rate risk. The indicators in use shows that OPA's credit risk exposure is stable. The limit for liquidity risk set by the Board of Directors has not been exceeded. The liquidity buffer for OP-Pohjola Group, managed by Pohjola Bank plc, is exploitable by OPA. 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. The interest-rate risk may be considered to be low.

Prospects for the rest of the year

The existing issuance programme will make it possible to issue new covered bonds in 2012. It is expected that the Company's capital adequacy will remain strong, risk exposure will be favourable and the overall quality of the credit portfolio will remain strong.

Income Statement

EUR thousand	Q1-Q2/2012	Q1-Q2/2011	Q2/2012	Q2/2011	2011
Interest income	70,525	53,753	33,584	31,633	133,180
Interest expenses	56,186	41,883	26,013	24,963	109,034
Net interest income	**14,339**	**11,870**	**7,571**	**6,670**	**24,147**
Impairments of receivables	-36		-35		-358
Net commissions and fees	-5,423	-4,586	-2,676	-2,692	-10,207
Net income from trading	0	0		0	0
Net income from investments	-179	1	-180	0	487
Other operating income	0	4	0	4	5
Personnel costs	202	150	106	63	278
Other administrative expenses	842	1,046	390	497	2,054
Other operative expenses	707	729	477	437	1,397
Earnings before tax	**6,951**	**5,363**	**3,708**	**2,986**	**10,345**
Income taxes	1,701	1,395	907	777	2,687
Profit for the period	**5,250**	**3,968**	**2,801**	**2,209**	**7,658**

Statement of comprehensive income

EUR thousand	Q1-Q2/2012	Q1-Q2/2011	Q2/2012	Q2/2011	2011
Profit for the period	**5,250**	**3,968**	**2,801**	**2,209**	**7,658**
Actuarial gains/losses on post-employment benefit obligations	-	-19	-	-	-38
Income tax on actuarial gains/losses on post-employment benefit obligations	-	5	-	-	6
Other Statement of comprehensive income items	-	-	-	-	-
Total comprehensive income	**5,250**	**3,954**	**2,801**	**2,202**	**7,626**

Key Ratios

	Q1-Q2/2012	Q1-Q2/2011	Q2/2012	Q2/2011	2011
Return on equity (ROE), %	3.7	4.3	3.8	4.2	3.7
Cost/income ratio, %	20	26	21	25	26

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 2012	31 March 2012	31 Dec 2011	30 June 2011
Receivables from financial institutions	92,823	72,060	82,434	88,525
Derivative contracts	247,456	215,138	198,380	43,341
Receivables from customers	8,841,128	7,999,754	7,534,557	6,643,067
Investments assets	17	17	17	17
Intangible assets	809	739	587	745
Tangible assets	-	-	-	2
Other assets	80,854	139,590	96,060	43,625
Tax receivables	19	8	13	-
Total assets	**9,263,106**	**8,427,306**	**7,912,048**	**6,819,323**
Liabilities to financial institutions	3,100,000	2,490,000	2,070,000	2,245,000
Derivative contracts	21,545	15,716	11,212	28,770
Debt securities issued to the public	5,716,100	5,439,837	5,423,085	4,246,175
Reserves and other liabilities	114,829	175,032	131,213	65,824
Tax liabilities	1,112	-	267	954
Subordinated debt securities	-	20,000	20,000	20,000
Total liabilities	8,953,585	8,140,586	7,655,777	6,606,723
Shareholders' equity				
Share capital	60,000	60,000	60,000	60,000
Reserve for invested unrestricted . equity	225,000	205,000	175,000	135,000
Retained earnings	24,521	21,720	21,271	17,599
Total equity	309,521	286,720	256,271	212,599
Total liabilities and shareholders' equity	**9,263,106**	**8,427,306**	**7,912,048**	**6,819,323**

Off-balance Sheet Commitments

EUR thousand	30 June 2012	31 March 2012	31 Dec 2011	30 June 2011
Binding credit commitments	10,883	7,869	3,692	6,700

Change Calculation on Shareholders' Equity

EUR thousand	Share capital	Other reserves	Retained earnings	Total equity
Shareholders' equity 1 Jan 2011	**60,000**	**85,000**	**13,646**	**158,646**
Reserve for invested unrestricted equity	-	50,000	-	50,000
Profit for the period	-	-	3,954	3,954
Other changes	-	-	-	-
Shareholders' equity 30 June 2011	**60,000**	**135,000**	**17,559**	**212,599**
EUR thousand	Share capital	Other reserves	Retained earnings	Total equity
Shareholders' equity 1 Jan 2012	**60,000**	**175,000**	**21,271**	**256,271**
Reserve for invested unrestricted equity	-	50,000	-	50,000
Profit for the period	-	-	5,250	5,250
Other changes	-	-	-2,001	-2,001
Shareholders' equity 30 June 2012	**60,000**	**225,000**	**24,521**	**309,521**

Cash Flow Statement

EUR thousand	Q1-Q2/2012	Q1-Q2/2011
Liquid assets 1 January	**82,434**	**61,673**
Cash flow from operations	-263,621	-1,020,132
Cash flow from investments	-390	0
Cash flow from financing	274,400	1,046,984
Liquid assets 30 June	**92,823**	**88,525**

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 include 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	92,823	-	-	92,823
Derivative contracts	-	247,456	-	247,456
Receivables from customers	8,841,128	-	-	8,841,128
Equities	-	-	17	17
Other receivables	80,873	-	-	80,873
Balance at 30 June 2012	**9,014,824**	**247,456**	**17**	**9,262,297**
Balance at 30 June 2011	**6,775,217**	**43,341**	**17**	**6,818,575**
Balance at 31 December 2011	**7,713,064**	**198,380**	**17**	**7,911,461**

EUR 1,000		Recognised at fair value through profit or loss	Other liabilities	Total
Liabilities to financial institutions	-	-	3,100,000	3,100,000
Derivative contracts	-	21,545	-	21,545
Debt securities issued to the public	-	-	5,716,100	5,716,100
Subordinated liabilities	-	-	-	
Other liabilities	-	-	115,941	115,941
Balance at 30 June 2012	-	**21,545**	**8,932,040**	**8,953,585**
Balance at 30 June 2011	-	**28,770**	**6,577,954**	**6,606,723**
Balance at 31 December 2011	-	**11,212**	**7,644,564**	**7,655,777**

Debt securities issued to the public are carried at amortised cost. On 30 June 2012, the fair value of these debt instruments was approximately EUR 242,330 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 reliably is difficult in the current market situation.

Derivative Contracts 30 June 2012

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	3,994,532	10,000,000	2,000,000	15,994,532	247,456	21,545	379,793
Trading	-	-	-	-	-	-	-
Total	**3,994,532**	**10,000,000**	**2,000,000**	**15,994,532**	**247,456**	**21,545**	**379,793**

Derivative Contracts 30 June 2011

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	1,565,270	10,895,513	-	12,460,782	43,341	28,770	124,178
Trading	-	-	-	-	-	-	-
Total	**1,565,270**	**10,895,513**	**-**	**12,460,782**	**43,341**	**28,770**	**124,178**

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

Related-party transactions

OPA's related parties include OP-Pohjola Group Central Cooperative and its subsidiaries, the OP-Pohjola Group pension insurance organisations OP-Pension Fund and OP-Pension Foundation, and the company's administrative personnel. Standard terms and conditions for credit are applied to loans granted to the related parties. Loans are tied to generally used reference rates. Related-party transactions have not undergone any substantial changes since 31 December 2011.

Accounting policies

The Interim Report for 1 January–30 June 2012 has been prepared in accordance with IAS 34 (Interim Financial Reporting), as approved by the EU. In the preparation of this Interim Report, OPA substantially applied the same accounting policies as in the financial statements 2011, except a change in the recognition of actuarial gains and losses on defined benefit pension plan.

Change in accounting policies

OPA has decided to voluntarily abandon as of the beginning of 2012 the so-called corridor method in the recognition of actuarial gains and losses on defined benefit pension plans. In accordance with the revised recognition method under IAS 19, actuarial gains and losses are recognised outside profit or loss in comprehensive income as a debit item or credit item in equity for the period during which they occur. When recognising actuarial gains and losses in other comprehensive income, these gains and losses cannot be reclassified through profit or loss in subsequent periods. OPA has applied the change in the accounting policy retrospectively. The effects of the changed accounting policy on the comparatives of the consolidated balance sheet, income statement and statement of comprehensive income shown in this Interim Report are as follows:

EUR thousand	**Previous accounting policy**	**New accounting policy**	**Effect of change in accounting policy**
Balance sheet 1 Jan 2011			
Assets			
Other assets	48,790	48,583	-207
Liabilities			
Tax liabilities	342	288	-54
Shareholders' equity			
Retained earnings	13,799	13,646	-153

EUR thousand	**Previous accounting policy**	**New accounting policy**	**Effect of change in accounting policy**
Balance sheet 31 Dec 2011			
Assets			
Other assets	96,301	96,060	-241
Tax assets	-	13	13
Liabilities			
Tax liabilities	313	267	-46
Shareholders' equity			
Retained earnings	21,454	21,271	-183

Income statement 2011			
Personnel costs	282	278	-4
Income tax expense	2,686	2,687	1
Statement of comprehensive income 2011			
Actuarial gains/losses on post-employment benefit obligations	-	-38	-38
Income tax on actuarial gains/losses on post-employment benefit obligations	-	6	6

EUR thousand	**Previous accounting policy**	**New accounting policy**	**Effect of change in accounting policy**
Balance sheet 30 June 2011			
Assets			
Other assets	43,850	43,625	-224
Liabilities			
Tax liabilities	1,013	954	-58
Shareholders' equity			
Retained earnings	17,765	17,599	-166

EUR thousand	Previous accounting policy	New accounting policy	Effect of change in accounting policy
Income statment Q1-Q2/2011			
Personnel costs	153	150	-2
Income tax expense	1,394	1,395	1
Statement of comprehensive income Q1-Q2/2011			
Actuarial gains/losses on post-employment benefit obligations	-	-19	-19
Income tax on actuarial gains/losses on post-employment benefit obligations	-	5	5

This Interim Report is based on unaudited figures. Given that all figures have been rounded off, the sum total of individual figures may deviate from the presented sums.

Helsinki, 1 August 2012

OP Mortgage Bank
Board of Directors