OP MORTGAGE BANK PLC

Report by the Board of Directors and Financial Statements 2012

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REPORT OF THE BOARD OF DIRECTORS

OP Mortgage Bank's (OPA) loan portfolio grew to EUR 8,678 million in the January-December period (EUR 7,535 million at the end of 2011). The bank increased its loan portfolio significantly in February, in March, in May and in October when it purchased housing loans from OP-Pohjola Group member cooperative banks. In May OPA launched covered bond issue at a nominal value of EUR 1.25 billion for five years. In August OPA carried out two covered Private Placements, one at a nominal value of EUR 25 million and one at a nominal value of EUR 75 million, both for five years. In November OPA carried out a covered Private Placement at a nominal value of EUR 115 million, for twelve years. In December OPA carried out two covered Private Placements, both at a nominal value of EUR 50 million and for six years.

OPA as part of the OP-Pohjola Group

OPA is part of the OP-Pohjola Group, a leading Finnish financial group. It comprises independent member cooperative banks and their central institution, OP-Pohjola Group Central Cooperative with its subsidiaries. The OP-Pohjola Group Central Cooperative operates as the entire OP-Pohjola Group's strategic owner institution and a central institution responsible for Group control and supervision.

OPA is a wholly-owned subsidiary and member credit institution of the OP-Pohjola Group Central Cooperative. The OP-Pohjola Group Central Cooperative and its member credit institutions, jointly with entities belonging to their consolidated groups, constitute a coalition of cooperative banks as defined in the Act on Cooperative Banks and Other Cooperative Credit Institutions and the Act on Amalgamations of Deposit Banks. According to the acts, the central institution and its member credit institutions are responsible for each others' liabilities and commitments, and their capital adequacy, liquidity and customer risks are supervised at the coalition level. The scope of joint responsibility does not include the insurance companies within the OP-Pohjola Group.

OPA is a mortgage bank specialised in housing financing. Its operating policy is to acquire inexpensive refinancing for the OP-Pohjola Group from the bond markets through the issuance of bonds. OPA has no independent customer business or service network of its own. OPA issues bonds with real estate collateral regulated under the Act on Mortgage Credit Banks.

The housing loans used by OPA as collateral for bonds are primarily purchased from the OP-Pohjola Group Central Cooperative's member banks. Member banks that have signed an agency agreement and Helsinki OP Bank plc may also grant loans directly to their customers on OPA's behalf within the limits set by OPA. Intermediary banks also manage the customer relationships and the administration of loans locally.

Operating environment

Global economic growth slowed down in 2012, showing a slower growth rate than the last decade's average. Economic development was characterised by great uncertainty and was uneven. The US economy grew at a moderate pace and employment improved, whereas the euro area headed for a mild recession.

The European sovereign debt crisis continued to weigh on financial markets. In the early summer, uncertainties mounted as a result of Greece's parliamentary elections. During the second half, the greatest worries about the crisis faded after the European Central Bank (ECB) announced its government bond-purchase programme.

The ECB cut its key interest rate to 0.75% and in the first half increased market liquidity significantly through its extraordinary long-term refinancing operations. Market interest rates fell to record low during 2012.

Economic growth in Finland remained weak in 2012. Following the favourable first quarter, economic growth faded towards the year end. Economic growth was supported by consumer

spending, whereas exports and capital spending were subdued. The slower economic growth made unemployment increase during the second half of the year. Home prices rose by a few per cent but home sales and residential building decreased slightly.

Loans to households continued their relatively steady growth in Finland as compared to the rest of the euro area. Growth in total loans subsided in the second half of a year as a result of the weaker economic outlook. The growth rate of deposits slowed down slightly towards the year end as a result of a decline in market interest rates. As a result of favourable developments in financial markets, mutual fund and insurance assets grew during the second half of 2012.

Earnings Development

OPA's major earnings items developed as follows in 2012

EUR thousand	**1-12/2012**	**1-12/2011**
Income		
Net interest income	29,884	24,147
Net commissions and fees	-11,992	-10,207
Net income from trading	0	0
Net income from investments	-186	487
Other operating income	0	5
Total	**17,707**	**14,432**
Expenses		
Personnel costs	400	278
Other administrative expenses	1,586	2,054
Other operating expenses	1,459	1,396
Total	**3,445**	**3,728**
Impairments of receivables	-53	-359
Earnings before tax	14,209	10,345

Earnings before tax for January-December amounted to EUR 14,209 thousand (10,345). Net interest income rose to EUR 29,884 thousand (24,147) due to the growth of the loan portfolio. Impairment loss on loans on a collective basis of EUR 53 thousand was recognised. The bank's expenses decreased to EUR 3,445 thousand (3,728).

Balance Sheet and Off-balance Sheet Commitments

OPA's balance sheet total amounted to EUR 9,128 million on 31 December (EUR 7,912 million)[2]. Changes in major assets, liabilities and off-balance sheet items are shown in the table below:

Change in Major Asset and Liability Items

EUR million	31 Dec 2012	31 Dec 2011	31 Dec 2010
Balance sheet	9,128	7,912	5,191
Receivables from customers	8,678	7,535	5,008
Receivables from financial institutions	53	82	62
Debt securities issued to the public	6,110	5,423	3,287
Liabilities to financial institutions	2,570	2,070	1,640
Shareholders' equity	325	256	159
Off-balance sheet commitments	8	4	10

The bank's loan portfolio grew to EUR 8,678 million (7,535). OPA increased its loan portfolio in the January-December period when it purchased housing loans from OP-Pohjola-Group member banks for EUR 2,445 million.

On December 2012, households accounted for 99.6 per cent (99.3) of the loan portfolio and housing corporations for 0.4 per cent (0.7). The bank's non-performing loans increased but remained at low levels totalling EUR 2.9 million (2.1) on December 2012. 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 the bonds issued to the public totalled EUR 6,110 million (5,423) on 31 December. OPA issued its seventh covered bond at a nominal value of EUR 1.25 billion on international capital markets in May. Moody's Investor Services and Standard & Poor's Rating Services have given the bond their highest credit ratings of Aaa and AAA.

In August OPA carried out two covered Private Placements, one at a nominal value of EUR 25 million and one at a nominal value of EUR 75 million. In November OPA carried out a covered Private Placement at a nominal value of EUR 115 million. In December OPA carried out two covered Private Placements, both at a nominal value of EUR 50 million.

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, OPA funded its operations through financing loans taken out with Pohjola Bank plc. On 31 December, financing loans totalled EUR 2,570 million (2,070).

Shareholders' equity increased to EUR 325 million (256). Shareholders' equity increased in March by EUR 30 million, in May by EUR 20 million and in December by EUR 10 after OP-Pohjola Group Central Cooperative made additional investments in the company. Retained earnings amounted to EUR 30 million (21) on 31 December.

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 15,862 million (14,409). All derivative contracts have been concluded for hedging purposes. Pohjola Bank plc is the counterparty to all derivative contracts.

Development of Capital Adequacy

OPA's capital adequacy ratio stood at 9.2 % on 31th of December. Capital ratio excluding transition rules stood at 41.9%. Shareholders' equity increased in March by EUR 30 million, in May by EUR 20 million and in December by EUR 10 million after OP-Pohjola Group Central Cooperative made additional investments 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.

OP Pohjola Group publishes the capital adequacy information in accordance with Pillar III in its financial statements. OP-Pohjola Group's financial statements are available for reading at www.op.fi.

OPA’s own funds and capital adequacy have changed as follows during the year:

OWN FUNDS, EUR thousand	**31 Dec 2012**	**31 Dec 2011**
Equity capital	324,964	256,475
Intangible assets	-1,101	-587
Excess funding of pension liability	-13	-248
Planned dividend distribution	-2,001	-2,001
Shortfall of impairments – expected losses	-3,705	-3,937
Shortfall of Tier 1 capital	-3,705	-
Core Tier 1 capital	**314,440**	**249,703**
Shortfall of Tier 2 capital	-3,705	-
Transfer to core Tier 1 capital	3,705	-
Tier 1 capital	**314 440**	**249 703**
Debenture loans	-	20 000
Impairments – shortfall of expected losses	-3 705	-3 937
Transfer to Tier 1 capital	3 705	-
Tier 2 capital	**-**	**16 063**
Total capital base	**314 440**	**265 765**
Capital ratio including transition rules		
Capital adequacy ratio, %	9,2	9,0
Tier 1 ratio to risk-weighted commitments	9,2	8,5
Core Tier 1 ratio	9,2	8,5
Capital ratio excluding transition rules		
Capital adequacy ratio, %	41,9	40,4
Tier 1 ratio to risk-weighted commitments	41,9	40,0
Core Tier 1 ratio	41,9	40,0

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 were also deducted from own funds. The Impairments – shortfall of expected losses total EUR 7.4 million.

Risk-weighted receivables, investments and off balance-sheet commitments, EUR thousand	31 Dec 2012	31 Dec 2011
Receivables and investments	731 655	644 703
Off-balance-sheet items	4 185	2 063
Market risk	-	-
Operational risks	14 043	10 490
Transitional provision (Basel I floor)	2 656 632	2 283 433
Risk-weighted receivables, investments and off balance-sheet commitments, total	**3 407 573**	**2 940 688**

The increase in the amount of risk-weighted receivables was due to an increased loan portfolio. About 80 per cent of risk weighted assets consist of IRBA transitional provision.

The statutory lower limit for the capital adequacy ratio is 8 per cent. The lower limit of the Tier I ratio is 4 per cent.

The increase in the amount of own funds was caused by an increased loan portfolio.

The increase in capital base results from increase in loan portfolio.

Calculation of key indicators:

Capital adequacy ratio, %

Total own funds / Total minimum requirement for own funds x 8%

Tier I ratio, %

Total Tier I own funds / Total minimum requirement for own funds x 8%

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 196 member banks as well as Pohjola Bank Plc, Helsinki OP Bank Plc, OP Mortgage Bank and OP-Kotipankki Plc. 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 Bank Operations, 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.

Key figures and ratios

Key figure and ratio	2012	2011	2010
Return on equity, %	3,7	3,7	2,4
Return on assets, %	0,13	0,12	0,07
Capital adequacy, %	3,56	3,2	3,1
Cost/income ratio, %	19	26	39

Formulas for key figures and ratios

Return on equity (ROE), %

Operating profit (loss) - Income taxes * x 100
Shareholders' equity (average total at the beginning and end of the year)

Return on assets (ROA), %

Operating profit (loss) - Income taxes * x 100
Average balance sheet total
(average total at the beginning and end of the year)

Capital adequacy, %

Shareholders' equity x 100
Balance sheet total

Cost/income ratio, %

Administrative costs + Depreciation and impairment on tangible and
Intangible assets + Other operating expenses x 100
Net interest income + Income from equity investments +
Net commission income + Net income from securities trading
and currency operations + Net income from financial assets available for sale +
Net income from hedging calculation + Net income from investment properties +
Other operating income + Share from affiliate income (net)

* The tax effect included in appropriations has been taken into account.

Risk management

The Board of Directors of OP Mortgage Bank has confirmed the capital adequacy management principles and instructions and set the risk limits for the most important risk indicators. The primary purpose of risk management is to secure the bank’s risk tolerance and ensure that the bank is not exposed to excessive risk that might endanger its profitability, capital adequacy or the continuity of its operations. Risk management is based on the professional expertise and caution of the people who make operational decisions, and on systematic measurement, assessment and limitation of risks. The OP-Pohjola Group Central Cooperative controls and monitors the risk management of all OP-Pohjola Group companies, including OPA.

In its operations, OPA is exposed to credit risks, liquidity risks, market risks and operational risks. The OP-Pohjola Group Central Cooperative has set control limits for OPA’s capital adequacy, credit risks and market risks. The bank’s Board of Directors has confirmed principles and guidelines applicable to risk management and has set limits for the most important risk indicators. The Board of Directors supervises risk management and regularly monitors the bank’s risk tolerance and risk situation. The bank’s management is responsible for the implementation of risk management following the instructions ratified by the Board of Directors, and reports to the Board of Directors and the OP-Pohjola Group Central Cooperative regularly regarding the bank’s

operations, risk tolerance and risk situation. The bank's overall attitude towards risk-taking is moderate.

Risk tolerance

Despite the strong growth, OPA's risk tolerance remained at a good level thanks to retained earnings and capital investments made by the OP-Pohjola Group Central Cooperative. The capital adequacy ratio was 9.2 per cent. The return on equity was 3.7 per cent (3.7).

OPA's capital adequacy is not secured through accrued earnings; instead, it is secured by the OP-Pohjola Group Central Cooperative. The level of profitability is affected by OPA's management commission policy. Being a service company, OPA does not aim to maximise its earnings. Instead, any profitability potential exceeding the minimum level set by the owner is allocated to management commissions paid to the member banks.

Credit risk exposure

OPA's loan portfolio at the end of the financial period was EUR 8,678 million. The quality of the loan portfolio was high. At the end of the reporting period, OPA had 53 non-performing loans with a total capital value of EUR 2.9 million. The bank has not recognised any significant impairments during this or any previous financial period.

Being a mortgage bank, OPA may only grant credit against collateral defined in law. On the other hand, OPA's credit-granting criteria also support the upkeep of a high-quality loan portfolio. The criteria are stricter than those generally applicable in the OP-Pohjola Group.

The bank's credit customers comprise private persons and housing corporations. The bank does not have any customer entities where the total number of customer risks exceeds the limit of 25 per cent of the bank's own funds set by the Act on Credit Institutions. The customer risks of the five largest customer entities comprised 2.0 per cent of the bank's own funds.

Thanks to the diversified loan portfolio and securing collateral, OPA's credit risk exposure is very stable.

Market Risks and Liquidity Risk

Market risks include interest rate risks, price risks and real estate risks on balance sheet items and off-balance sheet items, as well as the credit spread risk on investment activities and the market liquidity risk. OPA does not have any exchange rate, credit spread, share, commodity, real estate or volatility risks. The Board of Directors has confirmed a risk management principles which defines the products and market instruments used by the bank, the principles for funding and investment operations and the applicable risk monitoring methods.

Interest rate risk refers to the effect of changes in market rates on the bank's performance, profitability and capital adequacy. OPA has hedged against interest rate risk through interest rate swaps. By means of interest rate swaps, base rate cash flows from the hedged housing loans are swapped with Euribor cash flows. OPA has also swapped the fixed interest rates for the bonds issued by it with short-term market interest rates. Pohjola Bank is the counterparty in all derivative contracts.

The purpose of liquidity risk management is to secure the bank's ability to meet its payment obligations without endangering operational continuity, profitability or capital adequacy. OPA's cash flows are monitored daily to secure capital adequacy, and the structural funding risk exposure is monitored regularly as part of the company's capital adequacy management process.

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

The bank's interest rate and funding risk-taking are also restricted by the provisions of the Act on Mortgage Credit Banks. According to the legislation, the total amount of any interest received from loans pledged as collateral for bonds with real estate as collateral during any 12 months must exceed the total amount of interest payable on such bonds during the same period. In addition, the remaining average maturity of bonds with real estate as collateral must be shorter

than the remaining average maturity of assets pledged as their collateral. OPA's operations have been in compliance with the Act for the entire financial period with respect to interest flows as well as maturities.

Operational risks

Operational risks refer to the risk of suffering financial loss or other damage through insufficient or failed processes, incorrect or imperfect procedures, systems or external factors. Operational risk may also be manifested as loss of or decrease in reputation or trust. Operational risks are controlled by identifying and assessing risks, and securing the functionality and sufficiency of control and management methods. Operational risks are assessed regularly and the entire risk situation is reported to the Board of Directors once a year. The bank's losses due to operational risks were minor in 2012.

Personnel and incentive schemes

On 31 December, OPA had six employees. It purchases all key support services from Central Cooperative and its Group companies, which reduces the need for more staff.

OPA belongs to the OP Personnel Fund of the OP-Pohjola Group. The personnel fund is a long-term personnel incentive scheme. The bank makes profit-related payments to the personnel fund according to predefined principles. Fund members may withdraw fund units on the grounds specified in the fund rules.

Administration

OPA is a mortgage bank wholly-owned by the OP-Pohjola Group Central Cooperative.

Board of directors

The Board of Directors manages OPA's operations. According to the Articles of Association, the Board of Directors is responsible for attending to the bank's administration and the appropriate arrangement of its operations. The Board of Directors has general authority to decide on all issues related to the bank's administration and other matters that do not belong to the statutory duties of the Annual General Meeting or the Managing Director. The Board of Directors decides on the bank's strategy and crucial business objectives. The Board of Directors is responsible for ensuring that the bank's accounting and asset management is appropriately supervised.

According to OPA's Articles of Association, the Board of Directors comprises a minimum of three and a maximum of eight members. Currently, the Board of Directors has seven members. The members of the Board of Directors are elected for one year at a time so that their term of office commences at the closing of the General Meeting deciding on the election and ends at the closing of the General Meeting deciding to elect a new Board of Directors. Members of the Board of Directors are obliged to resign at 65 years of age at the latest. The Board of Directors constitutes a quorum when at least half of its members are present. The Board of Directors convened 11 times during the year.

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

OPA's Managing Director is obliged to diligently promote the bank's interests and attend to the day-to-day management of the bank in accordance with laws and the Board of Directors' instructions and orders. The Managing Director may only take actions which, considering the scope and quality of the operations of the bank, are unusual or far-reaching if the Board of Directors has authorised him or her to this effect or if it is impossible to wait for the Board of Directors' decision without causing fundamental harm to the operations of the bank. It is the statutory duty of the Managing Director to ensure that the bank's accounting is in compliance with the law and that the bank's asset management is arranged reliably.

Managing Director for OP Mortgage bank is Lauri Iloniemi.

A separate account of OPA's administrative and management system is available at www.op.fi.

Auditing

KPMG Oy Ab, Authorised Public Accountants, were elected auditors at the 2012 Annual General Meeting, with Juha-Pekka Mylen, Authorised Public Accountant, as principal auditor.

The bank's internal audit is the responsibility of the internal audit function of the OP-Pohjola Group Central Cooperative.

Outlook

The existing bond issuance programme will make it possible to issue new covered bonds in 2013. It is expected that the Company's capital adequacy will remain strong, risk exposure will be stable and the overall quality of the credit portfolio will remain strong.

OPA'S BOARD PROPOSAL FOR THE ALLOCATION OF DISTRIBUTABLE FUNDS

The shareholders' equity of OP Mortgage Bank on 31 December 2012

	€
Share capital	60,000,000.00
Reserve for invested unrestricted equity	235,000,000.00
Profit for 2012	10,730,624.19
Retained earnings	19,233,136.49
Total	324,963,760.68

Distributable funds were EUR 265,183,647.63.

The Board of Directors proposes to the Annual General Meeting that he Company's distributable funds be distributed as follows: EUR 26.12 per share totalling EUR 2,000,583.04. After dividend distribution the distributable funds would be EUR 263,183,064.59.

INCOME STATEMENT

EUR	Note	2012	2011
Interest income		121 246 296,89	133 180 210,08
Interest expenses		91 361 886,26	109 033 688,09
Net interest income	4	**29 884 410,63**	**24 146 521,99**
Impairment losses on receivables		-53 124,08	**-358 534,02**
Net commission income and expenses	5	-11 991 774,61	-10 206 743,40
Net income from trading	6	-274,49	-439,25
Net income from investments	7	-185 693,31	486 982,05
Other operating income	8	314,90	5 208,33
Personnel costs	9	399 875,71	278 306,49
Other administrative expenses	10	1 586 022,32	2 053 940,59
Other operating expenses	11	1 459 104,01	1 395 928,78
Earnings before taxes		**14 208 857,00**	**10 344 819,84**
Income taxes	12	3 478 232,81	2 686 857,15
Profit for the period		**10 730 624,19**	**7 657 962,69**

OPA's COMPREHENSIVE STATEMENT OF INCOME

		2012	2011
Profit for the period		**10 730 624,19**	**7 657 962,69**
Other comprehensive income		-37 674,49	-32 070,86
Total comprehensive profit for the period		**10 692 949,70**	**7 625 891,83**
Earnings/share (EPS), eur		**140,10**	**99,98**

BALANCE SHEET

EUR	Note	31.12.2012	31.12.2011	1.1.2011
Receivables from financial institutions	13	53 299 931,54	82 434 423,44	61 672 897,48
Derivative contracts	14	318 472 631,00	198 380 068,59	71 255 402,44
Receivables from customers	15	8 677 651 909,49	7 534 557 449,50	5 008 381 179,40
Investments assets	16	17 000,00	17 000,00	17 000,00
Intangible assets	17	1 100 702,26	586 890,21	913 546,18
Tangible assets	18	-	-	3 169,63
Other assets	19	77 854 034,15	96 059 543,31	48 583 058,53
Tax assets	24	34 848,56	12 756,22	-
Total assets		**9 128 431 057,00**	**7 912 048 131,27**	**5 190 826 253,66**
Liabilities to financial institutions	20	2 570 000 000,00	2 070 000 000,00	1 640 000 000,00
Derivative contracts	21	16 382 018,60	11 212 391,67	21 835 298,29
Debt securities issued to the public	22	6 109 687 119,95	5 423 084 664,10	3 286 746 721,13
Provisions and other liabilities	23	106 963 561,33	131 212 806,10	63 310 822,38
Tax liabilities	24	434 596,44	266 875,38	287 909,67
Subordinated liabilities	25	-	20 000 000,00	20 000 000,00
Total liabilities		**8 803 467 296,32**	**7 655 776 737,25**	**5 032 180 751,47**
Shareholders' equity				
Shareholders' interest				
Share capital		60 000 000,00	60 000 000,00	60 000 000,00
Invested unrestricted equity fund		235 000 000,00	175 000 000,00	85 000 000,00
Accumulated profits		29 963 760,68	21 271 394,02	13 645 502,19
Total equity	26	**324 963 760,68**	**256 271 394,02**	**158 645 502,19**
		9 128 431 057,00	**7 912 048 131,27**	**5 190 826 253,66**

CASH FLOW STATEMENT

EUR thousand	2012	2011
Cash flow from operating activities		
Comprehensive income	10 693	7 626
Adjustments to profit	3 390	3 146
Increase (+) or decrease (-) in operating assets	**-1 245 004**	**-2 700 801**
Receivables from financial institutions	-	-
Derivative contracts	-127 846	-127 125
Receivables from customers	-1 135 341	-2 526 176
Other assets	18 183	-47 500
Increase (+) or decrease (-) in operating liabilities	**600 673**	**629 908**
Liabilities to financial institutions	500 000	430 000
Derivative contracts	127 846	134 824
Provisions and other liabilities	-24 119	67 798
Income taxes paid	-3 054	-2 715
A. Total cash flow from operating activities	**-630 247**	**-2 060 121**
Cash flow from investing activities		
Investments in tangible and intangible assets	-813	-8
B. Total cash flow from investing activities	**-813**	**-8**
Cash flow from financing activities		
Increases in debt securities issued to the public	1 563 926	1 990 891
Decreases in debt securities issued to the public	-1 020 000	-
Increases in invested unrestricted capital funds	60 000	90 000
Dividends paid	-2 001	-
C. Total cash flow from financing activities	**601 925**	**2 080 891**
Net change in cash and cash equivalents (A+B+C)	**-29 134**	**20 762**
Cash and cash equivalents at the beginning of the period	**82 434**	**61 673**
Cash and cash equivalents at the end of the period	**53 300**	**82 434**
Adjustments to profit for the period		
Items not associated with payment and other adjustments		
Depreciation	299	338
Taxes	3 054	2 779
Other	38	29
Total adjustments	**3 390**	**3 146**

STATEMENT OF CHANGES IN EQUITY

	Note	Share capital	Other reserves	Accumulated profits	Total
Balance at 1 January 2011	26	**60 000**	**85 000**	**13 799**	**158 799**
Change in accounting policy under IAS 19				-153	-153
Balance at 1 January 2011, new accounting policy		**60 000**	**85 000**	**13 646**	**158 646**
Invested unrestricted equity fund		-	90 000	-	90 000
Comprehensive profit for the period		-	-	7 655	7 655
Effect of change in accounting policy on comprehensive income for the period		-	-	-29	-29
Other changes		-	-	-	-
Shareholders' equity on 31.12.2011		**60 000**	**175 000**	**21 271**	**256 271**

		Share capital	Other reserves	Accumulated profits	Total
Shareholders' equity on 1.1.2012	26	**60 000**	**175 000**	**21 271**	**256 271**
Invested unrestricted equity fund		-	60 000	-	60 000
Comprehensive profit for the period		-	-	10 693	10 693
Other changes		-	-	-2 001	-2 001
Shareholders' equity on 31 December 2012		**60 000**	**235 000**	**29 964**	**324 964**

NOTES TO THE FINANCIAL STATEMENTS

Table of contents for the notes to the financial statements

1. Accounting principles
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Note 1. Accounting policies

OP-Mortgage Bank Plc ("OPA") is a credit institution engaged in mortgage banking in Finland.

The bank is a part of a copalition of cooperative banks (OP-Pohjola Group) within which OP-Pohjola Group Central Cooperative and its member credit institutions are ultimately jointly and severally liable for each other's debts and commitments.

OP-Palvelut Oy, a service company wholly owned by the Pohjola Group Central Cooperative and independent of the central organisation, is responsible for the development and production of centralised services of the OP-Pohjola Group and its member banks. The OP-Pohjola Group Central Cooperative operates as the entire OP-Pohjola Group's strategic owner institution and a central institution responsible for Group control and supervision.

In order to ensure uniformity in the accounting principles of entities belonging to the OP-Pohjola Group, the OP-Pohjola Group Central Cooperative is obligated to issue guidelines on the preparation of financial statements to its member credit institutions. According to the Act on Cooperative Banks and Other Cooperative Credit Institutions, the Act on the Amalgamation of Deposit Banks the OP-Pohjola Group Central Cooperative's Executive Board must confirm any accounting principles for which no guidance is available in the International Financial Reporting Standards.

OP-Mortgage Bank is domiciled in Helsinki and the address of its registered office is Teollisuuskatu 1 b, 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 head office, visiting address Vääksyntie 4, P.O. Box 308, 00101 Helsinki.

The Board of Directors has approved these financial statements for issue on 6 February 2013.

BASIS OF PREPARATION

OP-Mortgage Bank's financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS), applying IASs, IFRSs and SIC and IFRIC interpretations effective on 31 December 2012. 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 adopted the following IFRSs, interpretations and options in 2012:

OP-Mortgage Bank 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 adopted recognition method under IAS 19, actuarial gains and losses are recognised in other comprehensive income in the period in 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.

The following adopted standards have had no major effect on OP-Mortgage Bank's financial statements:

- Amendment to IAS 12 Income Taxes (effective as of 1 January 2012)
- Amendment to IFRS 7 Financial Instruments: Disclosures – Transfers of Financial Assets (effective as of 1 January 2012)

OP-Mortgage Bank's financial statements were prepared at historical cost, with the exception of financial assets and liabilities at fair value through profit or loss, available-for-sale financial assets, hedged contracts (fair value hedging) and investment property and share-based payments classified as liabilities (measured at fair value).

The Income Statement and Balance Sheet are prensented in euros and cents and other financial statement information is presented in thousands of euro.

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.

FOREIGN CURRENCY TRANSLATION

OP-Mortgage Bank's financial statements are presented in euros, which is the functional and presentation currency of the company. Non-euro transactions are recognised in euros at the exchange rate quoted on the transaction date or at the average exchange rate of the month of recognition. On the balance sheet date, non-euro monetary balance sheet items are translated into euros at the exchange rate quoted on the balance sheet date. Non-monetary balance sheet items measured at cost are presented at the exchange rate quoted on the transaction date.

The exchange rate differences arising from the translation of non-euro transactions and monetary balance-sheet items into euros are recognised as foreign exchange gains or losses under "Net trading income" in the income statement.

FINANCIAL INSTRUMENTS

Fair value determination

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The fair value of financial instruments is determined using either prices quoted in an active market or the Group'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 value of financial instruments is divided into the following three levels of hierarchy of 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); and
- Inputs for the asset or liability that are not based on observable market data (Level 3).

Impairment of financial assets

At the end of each reporting period, Pohjola assesses whether there is objective evidence that a financial asset other than that recognised 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 which the Group uses to determine that there is objective evidence of an impairment loss include:

- 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;
- bona fide bid for the same or similar investment from the market below acquisition value;
- events or circumstances that significantly weaken the issuer's ability to operate on a going concern basis, such as negative cash flows resulting from operations, insufficient capital and shortage of working capital;
- obligor's breach of contract;
- a concession granted to the obligor;
- impairment recognised earlier; and
- the disappearance of an active market for the financial asset

A significant impairment of an equity instrument, or its impairment over a long period, below its acquisition cost represents objective evidence of impairment.

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

Classification and recognition of financial istruments in the balance sheet

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.

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. Loans granted are recognised as financial assets on the date on which the customer draws down the loan.

Financial assets and liabilities are offset and the net amount reported in the balance sheet only if there is a legally enforceable right to offset the recognised amounts and there is an intention to settle 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, cancels or expires.

Financial assets and liabilities at fair value through profit or loss

Financial instruments at fair value through profit or loss include financial assets and liabilities held for trading, derivative contracts held for trading, financial assets at fair value through profit or loss at inception. The company does not hold any of the last mentioned items.

Financial assets and liabilities held for trading and derivative contracts held for trading

Assets held for trading include notes and bonds, and shares and participations acquired with a view to generating profits from short-term fluctuations in market prices. Derivatives are also treated as held for trading unless they are designated as derivatives for effective hedging.

Financial assets and liabilities held for trading and derivative contracts are measured at fair value and any change in the fair value is recognised in the income statement.

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. Impairments will be assessed on an individual basis if the debtor's total exposure is significant. In other respects, impairments are assessed on a collective basis.

Impairment will be recognised and impairment losses incurred if there is objective evidence of a debtor's reduced solvency after the initial recognition of the receivable. A receivable is impaired if the present value of estimated future cash flows – including the fair value of collateral – 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 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. The difference between the carrying amount of the loan and a lower recoverable amount is recognised as an impairment loss in the income statement. For notes and bonds classified as loans and receivables, the difference between the carrying amount of the note/bond and a lower recoverable amount is recognised as an impairment loss in the income statement.

For the purpose of a collective assessment of impairment, receivables are grouped into credit grades on the basis of credit risk. The amount recognised collectively as an impairment loss for each grade is determined by average estimated future losses based on historical loss experience and the probability of default (note 14).

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 assessment. 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. Modifications with the highest severity class are also forbearance measures that will have an effect on the loan being assessed for impairment on an individual basis. Modifications in payment terms are subject to regular monitoring and reporting to the management as an indicator anticipating customer solvency.

Impairment losses on loans are presented as an allowance of loans in the balance sheet and under "Impairment losses on receivables" in the income statement. Recognition of interest on the impaired amount continues after the recognition of impairment.

The loan is derecognised after the completion of debt-collection measures, or otherwise based on the management's decision. Following the derecognition, payments received 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.

Available-for-sale financial assets

Available-for-sale financial assets include non-derivative assets which are not classified as the abovementioned financial assets but which may be sold before their maturity (note 6).

At the time of their acquisition, available-for-sale financial assets are recognised at cost, which equals the fair value of the consideration paid plus transaction costs directly attributable to their acquisition. Available-for-sale financial assets are subsequently measured at fair value. Any changes in their fair value are recognised in other comprehensive income, from where they are transferred to the income statement when the asset is derecognised or there is objective evidence that the asset is impaired.

In the case of available-for-sale financial assets, for example, a significant downgrade of the credit rating of the issuer of bonds and notes, or a significant or prolonged decline in the equity instrument's fair value below its cost, constitutes objective evidence.

If a security's market value continues to fall following impairment recognition, the impairment loss will be recognised in the income statement.

If the fair value of impaired notes and bonds classified as available-for-sale financial assets increases subsequently and this increase can be objectively regarded as being related to an event after their impairment loss recognition, the impairment loss will be reversed and recorded in the income statement. If the fair value of an impaired equity instrument increases subsequently, this increase will be recognised in other items in the statement of comprehensive income.

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, comprising deposits and other liabilities to credit institutions and customers, debt securities issued to the public and other financial liabilities (note 43). 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 derivative contracts and derivative contracts held for trading. OPA uses derivatives only for hedging purposes (note 30). Derivatives are, measured at fair value at all times.

OP-Pohjola Group's Risk Management 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-Pohjola Group can hedge against interest rate risk, currency risk and price risk by applying fair value hedge or cash flow hedge. Fair value hedging refers to hedging against changes in the value of the hedged asset, and cash flow hedging to hedging against changes in the fair value of future cash flows.

Contracts may not be accounted for according to the rules of hedge accounting if the hedging relationship between the hedging instrument and the related hedged item, as required by IAS 39, does not meet the criteria of the standard. OP-Pohjola Group also concludes derivative contracts which are in fact used to hedge against financial risks but which do not fulfil these criteria.

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 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 (such as own issues), individual bond and loan portfolios, as well as individual loans. The Group uses forward exchange contracts and interest-rate and currency swaps (OTC swaps) as hedging instruments.

In fair value hedge accounting, changes in the fair value of the hedged item and hedging instrument are recorded under "Net investment income" (bonds included in available-for-sale financial assets) in the income statement or "Net interest income (loans and own issues).

INTANGIBLE ASSETS

Intangible assets are measured at cost less accumulated amortisation and any impairment losses (note 16). Depreciation is charged to income statement over the estimated useful life, which is 2-6 years for computer software and licences. The useful lives of assets are reviewed on each balance sheet date and, if necessary, their value is tested for impairment.

PROPERTY PLANT AND EQUIPMENT

Property, plant and equipment (PPE) are stated at historical cost less depreciation and any impairment losses (note 17). These assets are depreciated on a straight-line basis over their estimated useful lives. Land is not subject to depreciation. Subsequent expenditures are capitalised at the asset’s carrying amount only if it is probable that the asset will generate greater economic benefits than initially estimated.

The estimated useful lives are mainly as follows:

Machinery and equipment	3-10 years
IT equipment	3-5 years
Other PPE assets	3–10 years

The assets' residual value and useful lives are reviewed on each balance sheet date and adjusted as appropriate if expectations differ from previous estimates with respect to economic benefits.

Impairment of PPE and intangible assets

On each balance sheet date, the Group assesses whether there is any indication of an asset's impairment. If such indication exists, the amount recoverable from the asset will be estimated. Regardless of the existence of such indication, the recoverable amount is estimated for assets not yet available for use, goodwill and intangible assets with indefinite useful lives (brands). An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its future recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell (net selling price) or value in use. The recoverable amount is primarily determined on the basis of the asset's net selling price, but if this is not possible, the asset's value in use must be determined. The asset's value in use equals the present value of future cash flows expected to be recoverable from the asset. The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset. The need for impairment of the annually tested assets stated above is always determined on the basis of value-in-use calculations.

If the asset's net selling price cannot be determined and the asset does not generate cash flows independent of other assets, the need for impairment will be determined through the cash-generating unit, or the business segment or its company, to which the asset belongs. In such a case, the carrying amounts of the unit's assets are compared with the entire unit's recoverable amounts.

An impairment loss is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The increased carrying amount of the asset may not exceed the carrying amount of the asset that would have been determined had no impairment loss been previously recognised. Impairment losses on goodwill may not be reversed under any circumstances.

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. Assets held under finance lease 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 of assets leased under operating lease are expensed to income statement in equal instalments over the lease term.

EMPLOYEE BENEFITS

Pension benefits

Statutory pension cover for OPA's employees is arranged through pension insurance taken out with OP Bank Group Pension Fund or pension insurance companies. The supplementary pension cover for employees is arranged through OP Bank Group Pension Foundation or an insurance company.

OPA has both defined benefit and defined contribution plans. With respect to funded disability and old-age pensions, pensions managed by OP Bank Group Pension Fund are classified as defined benefit plans. Pension plans managed by insurance companies may be either defined benefit or defined contribution 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 paid to the insurance company and charged to expenses for the financial year to which they relate. No other payment obligations are included in defined contribution plans (note 8).

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

The asset 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.

Actuarial gains and losses are recognised in other comprehensive income in the period in 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.

Plan curtailments are recognised when the curtailment occurs.

Personnel fund

OP-Mortgage Bank is a member of OP-Pohjola Group's Personnel Fund. Payments to OP Personnel fund are based on the achievement of OP-Pohjola Group's pre-dominated targets. The bonus payments are recognised as personnel costs and the equivalent liability is recognised under deferred expenses until it is paid.

INCOME TAX

Income tax expense shown in the income statement includes current tax, based on the taxable income for the financial year, income tax for prior financial years and deferred tax expense or income (note 11).

Deferred tax liabilities are recognised for temporary taxable differences between the carrying amount of assets and liabilities and their tax base. 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 Group offsets deferred tax assets and liabilities by company. Deferred tax assets and liabilities resulting from consolidation are not offset. 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. If deferred tax originates from balance sheet items whose changes have no effect on the income statement, any change in deferred tax is recognised in other items in the statement of comprehensive income, not in the income statement.

REVENUE RECOGNITION

Interest income and expenses for interest-bearing assets and liabilities are recognised on an accrual basis. Interest on receivables with non-settled, due payments is also recognised as revenue and this interest receivable is tested for impairment. The difference between the receivable's acquisition cost and its nominal value is allocated to interest income and that between the amount received and nominal value of the liability to interest expenses.

Commission income and expenses for services are recognised when the service is rendered. For one-off commissions covering several years that may have to be refunded at a later date, only the portion of their revenue related to the period is recognised.

Dividends are primarily recognised when they are approved by the General Meeting of Shareholders.

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.

Summary of presentation of income statement items:

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, and the recognition of Day 1 profit related to illiquid derivatives
Net trading income	Fair value changes in financial instruments at fair value through profit or loss, excluding accrued interest, and capital gains and losses, as well as dividends
Net investment income	Realised capital gains and losses on available-for-sale financial assets, impairment losses as well as dividends
Other operating income	Other operating income
Personnel costs	Wages and salaries, pension costs, social expenses
Other administrative expenses	Office expenses, IT costs, other administrative expenses
Other operating expenses	Depreciation/amortisation, rents, other expenses

SEGMENT REPORTING

As OPA engages only in housing finance, segment reporting is therefore not presented.

CRITICAL ACCOUNTING ESTIMATES AND JUDDGEMENTS

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 of receivables are performed on an individual or collective basis. An impairment test carried out for an individual receivable is based on the management's estimate of the future cash flows of the individual loan. The most critical factor in testing an individual loan for impairment is to determine the cash flow whose realisation is the most probable.

For the purpose of a collective assessment of impairment on receivables, receivables are grouped on the basis of similar credit risk characteristics. Impairment losses on receivables recognised collectively are based on estimates of future losses based on historical data. In such a case, the management's judgement is required to assess how estimates of future losses based on historical data correspond to realised losses and whether any adjustments for these estimates are needed.

Available-for-sale financial assets, notes and bonds included in loans and receivables, and investments held to maturity must be tested for impairment on each balance sheet date. If there is objective evidence of an impaired asset, the impairment will be recognised in the income statement. Verifying objective evidence involves management judgement. Impairment of an equity instrument must also be recognised if there is a significant or

prolonged decline in the fair value. Determining significant or prolonged decline in the fair value is part of the normal management judgement, performed for each instrument taking account of general accounting policies and the criteria of standards.

The management must assess when markets for financial instruments are not active. The management must also assess whether an individual financial instrument is actively traded and whether the price obtained from the market is a reliable indication of the instrument's fair value. Otherwise, the fair value of financial instruments is determined using a valuation technique. In such a case, management judgement is required to select the applicable valuation technique. Whenever market observable input data is not available for outputs produced by valuation techniques, the management must evaluate how much other information will be used. .

The asset recognised in the balance sheet in respect of the defined benefit pension plan is the present value of the defined benefit obligation less the fair value of plan assets. This calculation uses actuarial assumptions for the future, involving the discount rate, the expected return on assets, future increases in pay and pension, the employee turnover rate and the inflation rate.

NEW STANDARDS AND INTERPRETATIONS

In 2013, OP-Mortgage Bank will adopt the following standards and interpretations:

- IFRS 13 – Fair Value Measurement. This Standard seeks to increase consistency in fair value measurements. It does not extend the use of fair value accounting in the financial statements but provides guidance on how fair value is determined in case some other IFRS require or permit fair value measurements. The adoption of this standard will mainly affect disclosures in notes to the financial statements.
- Amended IAS 19 – Employee Benefits. As a result of the amendments, the expected return on plan assets recognised in the income statement is determined based on the discount rate applicable to the defined benefit obligation. OP-Mortgage Bank voluntarily abandoned as of the beginning of 2012 the so-called corridor method in the recognition of actuarial gains and losses on defined benefit pension plans.
- Amendments to IFRS 7 – Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities. The amendments add certain new disclosures which apply to financial instruments presented on a net basis in the balance sheet as well as financial instruments subject to master netting arrangements and similar agreements. At the same time, the application guidance was also specified in IAS 32 – Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities – which will take effect on 1 January 2014
- Annual improvements to IFRSs 2009–2011 cycle. These changes may have a minor effect on OP-Mortgage Bank’s consolidated financial statements.
- Amended IAS 1– Presentation of Financial Statements. As a result of the amendments, items in the statement of comprehensive income which may be reclassified subsequently to profit or loss will be presented separately from other items in the statement of comprehensive income that may not be classified subsequently to profit or loss.

The IASB (International Accounting Standards Board) has also issued other future amendments to IFRSs. The year 2014 will see the adoption within the EU of new standards related to consolidated financial statements and joint arrangements. . Other significant amendments to IFRSs that will take effect a later date apply to the classification and measurement of financial instruments, assessment of impairment, hedge accounting, insurance contracts and leases. In addition, the IASB is also expected to issue other changes to financial statements information. OP-Mortgage Bank is actively monitoring the progress of these changes.

Note 2. Principles of risk management and capital adequacy management

General principles of risk management and capital adequacy management

Risk and capital adequacy management comprise part of internal control. The objective of risk and capital adequacy management is to ensure the risk tolerance and subsequently the continuity of operations. Risk tolerance consists of high-quality risk management in relation to operational scope and criticality, and sufficient capital adequacy based on profitable business operations. OPA's capital adequacy management is arranged in accordance with instructions issued by the central institution.

The organisation of corporate governance, internal control and the risk and capital adequacy management process are regulated by the Act on Credit Institutions and the standards, regulations and guidelines of the Financial Supervisory Authority. The Act on the Amalgamation of Deposit Banks prescribes that the capital adequacy, liquidity and customer risks of organisations included in the coalition of cooperative banks are supervised in a consolidated manner at the coalition level. The OP-Pohjola Group forms a financial and insurance conglomerate as referred to in the Act on the Supervision of Financial and Insurance Conglomerates and the Act on the Amalgamation of Deposit Banks. OP-Pohjola Group is supervised by the Financial Supervisory Authority.

OP-Pohjola Group Central Cooperative operates as the central institution of a group of cooperative banks and carries out the tasks belonging to the undertaking at the head of the financial and insurance conglomerate formed by the group, as well as operating as the strategic owner institution of the group.

Corporate governance

Corporate governance covers OP-Pohjola Group's senior and line management, shareholder relations and other stakeholder relations, target-setting, deciding on the methods for the achievement of targets and monitoring target achievement. OP Pohjola Group's corporate governance principles are confirmed by the Supervisory Board of OP-Pohjola Group Central Cooperative. The Executive Board is responsible for ensuring that operations are organised in compliance with these principles. The implementation of corporate governance is ensured by means of a clear framework, consistently and comprehensively documented guidelines and clearly defined decision-making levels.

Compliance with the principles of corporate governance ensures professional management in accordance with sound and careful business principles, as well as reliable and sufficiently transparent operations. OPA's Board of Directors has confirmed corporate governance principles as part of its capital adequacy management principles.

Internal control

Internal control refers to an organisation's internal procedures and practices designed to ensure that strategic objectives are met and resources are used economically and that the information used to support management and leadership is reliable. Internal control also ensures that the organisation of risk management, custody of client funds and protection of assets is sufficient. Compliance with regulations and the confirmed ethical principles is also ensured through internal control. OP Pohjola Group's internal control principles are confirmed by OP-Pohjola Group Central Cooperative's Supervisory Board. Internal control is implemented in all OP-Pohjola Group entities and at all organisational levels.

The Supervisory Board of the OP-Pohjola Group Central Cooperative regularly confirms OP-Pohjola Group's strategy, which guides the planning of business and setting of targets in all OP-Pohjola Group entities. In connection with preparing OPA's strategy, the Board of Directors has set targets for the bank's long-term and annual performance indicators. The performance indicators, together with risk and control limits, form an entity on which the setting of OPA's targets, monitoring and rewards are significantly based.

OPA also regularly prepares an earnings estimate and capital plan, the objective of which is to draw attention to the effect of business decisions on capital adequacy, earnings development and performance indicators well in advance.

Risk and capital adequacy management

Risk and capital adequacy management comprises part of internal control. The objective of risk and capital adequacy management is to ensure OPA's risk tolerance and subsequently the continuity of operations. Risk

tolerance consists of high-quality risk management in relation to operational scope and criticality, and sufficient capital adequacy based on profitable business operations.

OP Pohjola Group's risk and capital adequacy management principles are ratified by the OP-Pohjola Group Central Cooperative's Supervisory Board. The principles outline the organisation of the group-level risk and capital adequacy management process.

Risk and capital adequacy management includes the identification, measurement, assessment and limitation of risks. OPA's qualitative and other non-measurable risks are controlled by ensuring that OPA's capital adequacy management process as a whole is arranged in accordance with instructions and that compliance with instructions is supervised and deviations are regularly reported. The Board of Directors has confirmed risk management guidelines and procedures for OPA specifically for each type of risk on the basis of guidelines from the OP-Pohjola Group Central Cooperative.

The independence of risk management from business operations is generally realised so that, in addition to OPA's senior management, risk-taking is supervised by the OP-Pohjola Group Central Cooperative's risk management control unit, which is independent of OPA's business. Its task is to assess OPA's risk management systems, risks and risk levels. Furthermore, the OP-Pohjola Group Central Cooperative's risk management control provides guidance to OPA for the development and maintenance of risk management systems. The OP-Pohjola Group Central Cooperative's internal auditing regularly assesses the adequacy of OPA's risk management.

Measurable risks within the OP-Pohjola Group are limited using risk and control limits set for capital adequacy and central types of risk. The coverage and development needs of the indicators are reviewed annually. The OP-Pohjola Group Central Cooperative's Executive Board has set risk limits for OPA's capital adequacy and credit and market risks that OPA should not exceed in its operations.

OPA complies with the OP-Pohjola Group Central Cooperative's guidelines concerning the financial capital requirement and stress tests. The financial capital requirement refers to OP-Pohjola Group's own estimate of the amount of capital sufficient to cover potential annual losses arising from risks embedded in business operations and the operating environment with a certainty of 99.97 per cent. The financial capital requirement is calculated using risk type-specific models, and the results are combined, taking account of the correlations between risk types and the resulting decentralisation benefits. Stress tests are used to assess how various exceptionally serious but possible situations may impact OPA. The tests are used to assess the impact of both individual risk factors and the impact of simultaneous changes in several variables.

Organisation of risk and capital adequacy management

The OP-Pohjola Group Central Cooperative is responsible for capital adequacy management at the OP-Pohjola Group level, as well as for the adequacy and up-to-datedness of the OP-Pohjola Group risk management system. The Central Cooperative issues Group entities with guidelines for ensuring risk management and ensures, through supervision, that the entities operate in accordance with official regulations, their own rules, guidelines issued by the Central Cooperative, the OP-Pohjola Group's internal procedures, and procedures appropriate and ethically acceptable for customer relationships. In connection with the reorganisation of the OP-Pohjola Group Central Cooperative at the beginning of 2013, risk and capital adequacy tasks were centralised from the subsidiary organisations to the parent company. OPA is responsible for its risk and capital adequacy management according to the scope and nature of its operations. The Managing Director and the Board of Directors are responsible for the risk management of OPA.

The Supervisory Board of the Central Cooperative confirms the OP-Pohjola Group's strategy, which includes crucial risk management policies. Furthermore, the Supervisory Board of the OP-Pohjola Group Central Cooperative confirms the OP-Pohjola Group's corporate governance, internal control and risk and capital adequacy management principles, business objectives, capital plan principles and group-level risk limits for capital adequacy and different types of risk. The Supervisory Board regularly monitors the development of business operations, risk tolerance and the risk situation of the OP-Pohjola Group and the OP-Pohjola Group Central Cooperative.

The Executive Board of the OP-Pohjola Group Central Cooperative assesses at least annually the up-to-datedness of the OP-Pohjola Group's strategy and risk limits and the proactive contingency plan for its own funds. The Executive Board is also responsible for the adequacy and up-to-datedness of systems and procedures associated with risk and capital adequacy management, as well as the issuance of general guidelines related to risk and capital adequacy management for OP-Pohjola Group entities. The Executive Board confirms the risk policy of OP-Pohjola Group, which includes the risk management policies, objectives and limits used to steer the business in order to meet the objectives confirmed in the Group's strategy. The

Executive Board reports to the Supervisory Board on the development of the business, risk tolerance and risk situation of the OP-Pohjola Group, the OP-Pohjola Group Central Cooperative and its member institutions.

Risk management control within the OP-Pohjola Group comprises an area of responsibility independent of business operations. It prescribes, guides and controls the comprehensive risk management of the Group and its organisations, and analyses the risk position. Risk management control is also responsible for maintaining and developing Group-level risk management systems and methods, as well as systems and methods provided for organisations. Risk management prepares a risk and capital adequacy management report for the OP-Pohjola Group on a regular basis, consisting of the risk management unit's estimate of the quality and sufficiency of risk management within the OP-Pohjola Group and its organisations, and the sufficiency of capital adequacy and liquidity in relation to long-term strategic performance indicators, risk limits, and current and future official capital requirements.

The OP-Pohjola Group’s Risk Management Committee, which reports to the Executive Board of the Central Cooperative, guides and controls the Group's risk and capital adequacy management, and controls the fulfilment of associated guidelines within different Group organisations. The Risk Management Committee approves the recommendations for measures arising from the validation of risk models and decides on the introduction of the models. The Committee also approves the uniform business models adopted by the Group. It also ensures that risk management aspects receive sufficient attention in business and their development.

The Credit Risk Committee, appointed by the Executive Board of the OP-Pohjola Group Central Cooperative, prescribes, guides and controls the credit process and credit risk position of the Group and its organisations. It ensures that the loan portfolio corresponds with the valid risk policy and that customer liabilities within the Group and its member organisations are in compliance with the liability limits set. The member banks must have valid permission granted by the Credit Risk Committee if the customer risk of a customer entity rises above 20 per cent of the funds of the credit institution or consolidation group.

The OP-Pohjola Group Central Cooperative's Audit unit supports risk and capital adequacy management by verifying that the OP-Pohjola Group's organisations operate profitably and safely in compliance with legislation, official regulations, the OP-Pohjola Group Central Cooperative's guidelines, as well as their individual regulations and Articles of Association. The OP-Pohjola Group Central Cooperative’s Audit unit also secures risk management and ensures that risk monitoring systems correspond with the requirements set by operations.

Risk management of OP Mortgage Bank

The Board of Directors of OP Mortgage Bank has confirmed the capital adequacy management principles and instructions, and set the risk limits for the most important risk indicators. The Managing Director is responsible for the implementation of risk and capital adequacy management in accordance with the confirmed principles and instructions, and regularly reports to the Board of Directors on the business, risk tolerance and risk situation.

The independence of risk management from business operations is generally realised so that the assessment of risk management is based on reports produced by the OP-Pohjola Group Central Cooperative’s risk management, as well as assessments of the adequacy of OPA’s risk management made by the Central Cooperative’s Audit function. The OP-Pohjola Group Central Cooperative’s Audit function also audits OPA’s risk management.

The roles of OPA and the banks in credit management are confirmed in the agency agreement between the intermediary banks and OPA. Credit approval decisions are made by the intermediary bank.

OPA’s most substantial individual types of risk are credit risk, liquidity risk and interest risk. Other risks related to OPA’s business are operational risks and strategic risk.

Risk tolerance and profitability

Risk tolerance is maintained at a sufficient level by ensuring sufficient capital adequacy and high-quality risk management. OPA’s own funds are maintained at a sufficient level in relation to estimated business risks. The starting points for assessing the required amount of own funds are the capital requirements set by the authorities and OPA’s financial capital requirement based on the OP-Pohjola Group Central Cooperative’s calculation model. Risks not included in the calculation of financial capital, as well as factors of uncertainty associated with the calculation, are accounted for by maintaining a sufficient buffer of own funds in excess of financial capital. The sufficiency of own funds is ensured through the OP-Pohjola Group Central Cooperative’s general stress tests and, in special situations, also through OPA’s own stress tests associated with the

unfavourable development of the operating environment. The owner makes capital investments in the company to the extent required by the growth of the loan portfolio.

OPA serves as the housing finance instrument of the OP-Pohjola Group. As a consequence of this role, the bank does not aim to maximise its profitability; instead it pays a credit management fee to encourage banks to sell loans to OPA and apply good loan servicing practices. However, profitability is maintained at a sufficient level with regard to capital adequacy.

Credit risks

Objectives and general principles of credit risk management

Credit risk refers to a counterparty risk, i.e. risk of losses, arising from the inability of the bank's contracting parties to meet their obligations in cases where the collateral does not protect the bank's receivables. The objective of credit risk management is to limit the negative effects of credit risks arising from customer exposure to an acceptable level.

Credit Risk management methods

Within the OP-Pohjola Group, taking credit risks is primarily guided through the Group's risk policy. In addition, separate credit risk policies revised regularly have been prepared for different customer groups. Credit risk policies define the targeted risk level, risk-taking guidelines, customer selection, as well as the use of collateral and covenants. OPA only grants new loans to private customers with housing as collateral, which prevents individual customer exposure from increasing significantly in relation to the bank's own funds.

Lending will primarily be carried out on the basis of the customer's sufficient and verified credit servicing ability. A controlled, uniform funding process plays a central part in credit risk management as guided by credit risk policies, decision-making authorisations and operating instructions. The starting point is local, in-depth knowledge of our customers.

The solvency of private customers is tested in the event of an increase in interest rates, and customers are offered insurance policies for securing the repayment of the loan in the event of illness or unemployment. High rates of financing are avoided.

Credit risks are continuously monitored. The objects monitored include the development and distribution of the loan portfolio by credit rating, the development of non-performing receivables and past due payments, as well as other reports describing the quality and structure of loan portfolios. Expired payments include loan amortisation and interest not paid by the due date.

Credit rating

Credit risks are guided and the amount of risk is estimated within the OP-Pohjola Group utilising credit risk models. The credit rating covers models related to credit risk parameters for the probability of default (PD), loss given default (LGD) and exposure at default (EAD).

When granting credit intended as collateral for OPA's bonds, the credit risk models have an impact on the following:

- granting and pricing of credit
- determining decision-making authorisations for financing

Within OPA, the credit risk models are used in the following:

- credit risk reporting
- calculating the financial capital requirement
- determining the housing loans eligible as collateral for bond loans
- applying the Internal Ratings-Based Approach (IRBA) in capital adequacy calculation

Credit rating and the probability of default

The purpose of the credit rating is to categorise customers according to risks. The customer's credit rating represents the risk of the customer's exposure becoming an unorganised receivable item or a more serious disruption in payment within one year. The magnitude of this risk is indicated by the probability of default (PD) estimated for each credit category. It comprises the average probability of default during a year over the

economic cycle. In a good financial situation, the share of insolvent customers with a specific credit rating falls below the level of PD used in the model, and exceeds it in a poor financial situation.

The OP-Pohjola Group uses a number of different rating models for estimating the probability of default of its customers. Loans to private customers included in minority exposures according to capital adequacy calculation are rated using separate rating models at the application stage and as part of the bank's loan portfolio.

In evaluating the probability of default of private customers, exposures are grouped into 16 categories from A+ to F. Exposures of a customer without any capital adequacy are classified into category F. The evaluation of default follows the loan portfolio classification or, if it does not exist, classification at the application stage. Classification is based on information compiled from the loan application, the customer's payment behaviour and other historical data to be rated. On the basis of the total score, the credit rating is determined. Furthermore, the average probability of default is calculated over a period of one year.

The rating model for the loan portfolio of private customers is used to rate private customers' exposure where a debtor has been a customer of the OP-Pohjola Group for the previous six months. The loan portfolio categories are updated once a month. This model was adopted in 2006 and revised in 2011.

Loss given default and the amount of liability

In addition to the evaluation of the probability of default, the models of loss given default and the amount of liability are used in measuring credit risk. In OP-Pohjola Group's credit risk models, loss given default (LGD) comprises financial losses (as a share of the customer's liabilities during default) which would be allocated to the bank if the customer became insolvent within a year. Exposure at default (EAD) refers to the bank's assessment of the customer receivable on the balance sheet at the beginning of default. The evaluation of the amount of off-balance sheet exposure is associated with the conversion factor (CF). It represents the share withdrawn from an off-balance sheet exposure at default. As a rule, the basic indicator approach is used with equity investments. OP-Pohjola Group's strategic investments are assessed using the PD/LGD approach for equity investments, where the PD values are based on internal models and the LGD on standard estimates.

Use of credit risk models in capital adequacy calculation

In the calculation of the credit risk's capital adequacy requirement, the basic internal credit rating method is used for corporate and credit institution exposure. In this method, the credit risk's capital adequacy requirement for each customer depends on the probability of default (PD) calculated using the OP-Pohjola Group's credit risk models. The standard estimates issued by the authorities are used for loss given default (LGD) and exposure at default (EAD). In the internal credit rating method used in the calculation of the capital adequacy requirement for retail exposure, PD, LGD and EAD values based on the OP-Pohjola Group's internal models are used when calculating the risk weight of each customer's exposure.

Decision-making and assessment related to credit risk models

The OP-Pohjola Group's Risk Management Committee decides upon the adoption of credit risk models and any significant changes. Its decisions are based on the general credit rating and credit risk principles approved by the OP-Pohjola Group Central Cooperative's Executive Board. The Central Cooperative's Risk Management function is responsible for the development and maintenance of the models. The function is independent of business operations.

The functionality of credit rating and credit risk models are monitored and controlled regularly. The central institution's risk management unit compiles continuous feedback from operations on the functionality of credit rating and the credit risk models. Models that generate an automatic credit rating are monitored on a monthly basis. The purpose of monitoring is to follow any changes in the loan portfolio and lending that could be indications of errors in IT implementation.

The quality of these models is verified at least once a month in accordance with the validation guidelines approved by the OP-Pohjola Group's Risk Management Committee. The validation guidelines include requirements for the quality assurance performed during the adoption of each model. Validations use statistical tests to test a model's separating capability and the correctness of risk estimates (PD, LGD and EAD). In addition, the validation includes qualitative assessment, such as the analysis of user feedback and peer group analysis. Validation results and any recommendations for measures are reported to the risk management committee which, on the basis of the validation, decides upon the development measures.

The central institution's internal supervision audits the independence of validations. In addition, it audits the credit risk models, and their application and use within the Central Cooperative's organisations and member cooperative banks, as part of its normal audit operations.

Reducing credit risk

In order to ensure the repayment of commitments, OPA's customer exposure must have securing collateral. Collateral held by OPA as security for loans used as collateral for bonds are accepted as collateral in accordance with the Act on Mortgage Credit Banks. When granting the loan, the collateral was valued according to the principles of securing collateral used within the OP-Pohjola Group. The OP-Pohjola Group Central Cooperative's Executive Board ratifies guidelines for accepting real estate, various shares, deposits and securities, as well as any other objects and guarantees, as collateral. Compliance with these guidelines ensures that the collateral has been pledged in a valid manner, the collateral is comprehensive and sufficient, and the collateral can be realised.

The development of collateral values is monitored regularly within the OP-Pohjola Group. When making each financing decision, whether the collateral should be reassessed is verified. A similar reassessment is made when the collateral value has changed significantly or the customer's financial situation has deteriorated substantially. The fair value of OP-Pohjola Group's housing collateral is revised once a year on the basis of indices derived from official purchase price statistics. In addition, the development of the market values of housing collateral given for loans used as collateral for OPA's bonds is reviewed by quarter and the fair values are updated if the limit set for the decrease in collateral value is exceeded.

Liquidity risk

Liquidity risk consists of the structural funding risk and capital adequacy risk. A structural funding risk refers to uncertainty associated with long-term lending caused by the refinancing risk resulting from the structure of funding. OPA's structural funding risk consists mainly of the difference between housing loans with long maturity and the maturity structure of funding. A capital adequacy risk refers to the bank not being able to pay the expected and unexpected, existing and future cash flows or insurance needs without any impact on daily operations or the bank's financial status. The objective of capital adequacy management is to secure the availability of funding in a cost-efficient manner in all situations.

The sources of liquidity risks include risks arising from the balance sheet structure, and risks related to changes in customer behaviour and the functionality of wholesale market funding. In addition, changes in the regulation of business, reputation or liquidity risk management may be realised as a liquidity risk.

The Executive Board of the OP-Pohjola Group Central Cooperative is responsible for OP-Pohjola Group's liquidity risk management. Every year, the Executive Board confirms the OP-Pohjola Group's risk policy for the group, which guides liquidity risk management, liquidity management guidelines, and the control limits of member banks and limits of other organisations derived from the Group-level risk limits set by the Supervisory Board that limit the taking of structural funding risks and capital adequacy risks. The OP-Pohjola Group Central Cooperative's Executive Board regularly monitors the liquidity risk and capital adequacy of the OP-Pohjola Group, its member banks and other organisations. If required, the Executive Board will take corrective action and decide on changes in the levels of capital adequacy management.

OP-Pohjola Group's capital adequacy is controlled through preventive financial structure planning, the Group's risk limits and the limits and control limits derived from them for the Group's organisations, monitoring indicators, the supervision of the capital adequacy situation, correctly dimensioned liquidity reserves, daily capital adequacy planning and execution, and efficient control of the Group's liquidity situation.

Liquidity risk management is based on the Group's risk policy guidelines, and accepted risk and control limits. The central institution approves the qualitative objectives for the liquidity reserve, a funding plan and a contingency and continuity plan for capital adequacy management. The contingency and continuity plan includes a preparedness-based model for controlling the capital adequacy situation, funding sources and an operational continuity plan for liquidity management. The liquidity reserve's quantitative and qualitative objectives, the contingency plan and the preparedness-based control model have been assessed on the basis of stress tests following specific threat scenarios. In the event of market disruption, the continuity plan for capital adequacy management will be followed. The intra-group central banking services offered by Pohjola Bank support the Group's capital adequacy management.

OPA's funding from the money market using bonds with housing collateral is part of the Group's wholesale funding that is based on predictive planning of the refinancing structure.

As the central bank of the financial group, Pohjola Bank secures the capital adequacy of the entire group and its organisations, such as OPA. The group's daily capital adequacy management comprises the capital adequacy management of the companies engaged in banking operations. All changes in the capital adequacy position of the Group's organisations will also be realised as changes in Pohjola Bank's liquidity position.

Pohjola is responsible for the Group's wholesale funding under senior terms and individual capital terms in a centralised manner, whereas OPA is responsible for wholesale funding with housing as collateral.

OPA's cash flows are monitored daily to secure capital adequacy, and the long-term refinancing structure (refinancing risk) is monitored and forecast regularly as part of the capital adequacy management process.

Market risks

General principles in market risk management

Market risk refers to a risk of losses or loss of profit when the market price or volatility changes towards an unfavourable position. OPA's market risks include interest-rate risks, price risks and real estate risks on balance sheet items and off-balance sheet items, as well as the credit spread risk on investment activities and the market liquidity risk. OPA does not have any exchange rate, credit spread, share, commodity, real estate or volatility risks.

The crucial task of market risk management is to identify and evaluate the market risks involved in the bank's business operations, limit them to an acceptable level, and report on them regularly and efficiently. This ensures that changes in market prices or other external market factors will not hamper long-term profitability or capital adequacy.

OPA's Board of Directors has confirmed written guidelines for the management of market risks. The guidelines define the applicable products and market instruments, the principles for funding and investment operations, the applicable market risk indicators and limits, and the organisation of the bank's market risk management and reporting procedure.

Interest-rate and funding risk-taking are also restricted by the provisions of the Act on Mortgage Credit Banks. According to the act, the total amount of any interest received from loans pledged as collateral during 12 months must exceed the total amount of interest paid for bonds with real estate as collateral during the same period. In addition, the remaining average maturity of bonds with real estate as collateral must be shorter than the remaining average maturity of assets pledged as their collateral.

As the central bank of the OP-Pohjola Group, Pohjola is responsible for the banking group's capital adequacy, payment transfers, exchange rate risks, long-term funding and international banking relationships. OPA carries out its money market and derivative trading with Pohjola.

At OPA, market risks are reported to the management monthly, but monitoring is carried out on a daily basis. Pohjola provides OPA with daily reports on the development of the market value of credit risk exposure, and the OP-Pohjola Group Central Cooperative's independent risk management provides monthly market risk reports.

Interest-rate risk

Interest-rate risk refers to the variation in the bank's earnings, profitability and capital adequacy imposed by changes in interest rates. OPA's interest-rate risk comprises the funding balance's repricing risk caused by deviating interest tying or rate adjustment periods between receivables and liabilities. Deviating interest rate tying in OPA's lending and funding represents the most significant source of interest-rate risk.

The determination of interest-rate risk includes all balance sheet items and any interest-bearing off-balance sheet items. The determination does not make assumptions about business growth.

When determining the interest-rate risk, items sensitive to changes in interest-rates are divided according to interest adjustment date in the interest margin and cash flow calculation. The interest adjustment date of fixed-rate items is the due date. For variable-rate items, the effect of changes in the interest rate on the interest margin is calculated according to the review date's interest level using the forward forward procedure on the basis of the contract's interest information. The review takes the repricing delays in administrative interest into account.

OPA has hedged its interest-rate risk through interest-rate swaps, which have been used to transfer the interest on housing loans and bonds issued to the same interest base. Pohjola Bank is the counterparty in all derivative contracts.

OPA's risk limit indicator for interest-rate risk is the effect of a 1.0 percentage point change in market rates on the current value of the risk exposure of the bank. The interest income risk is monitored by assessing the impact of a change in interest rates on net interest income over the next 12 months. OPA's interest-rate risk is monitored and reported daily.

Real estate risk

Real estate risk refers to the risk on market-rate income arising from market changes in real estate and other similar instruments and from the real estate occupancy rate. The objective of real estate risk management is to recognise, evaluate, limit and monitor the impairment risk, earnings risk and the risk of damage associated with real estate holdings. As a mortgage bank, OPA may only hold real estate or shares and interests in housing and real estate companies if they have come to the mortgage bank's possession as collateral for an unpaid receivable. During the financial period, OPA did not own any real estate.

Operational risks

Operational risks refer to the risk of suffering financial losses or other damage through insufficient or failed processes, incorrect or imperfect procedures, systems or external factors. Operational risk also contains compliance risk but not strategic risk. Operational risk may also be manifested as loss of or decrease in reputation or trust.

Compliance risks comprise parts of operational risks. Compliance risk refers to risks arising from non-compliance with external regulations, internal practices, appropriate practices for customer relationships, and ethical principles. The realisation of the risk may cause financial losses and other sanctions, such as an organisational fine, penalties for the breach of different obligations, and warnings and notices issued by the authorities. In addition, the compliance risk may also result in a loss of or decrease in reputation or trust.

OPA's operational risks are controlled by identifying and assessing risks, and securing the functionality and sufficiency of control and management methods. Operational risk management is not always aimed at eliminating the risk in full but at controlling the risk at an acceptable risk level.

In the management of operational risks, the OP-Pohjola Group follows a uniform, system-supported operating model. According to its operating model, OPA has analysed its operational risks. The analysis covered the identification and assessment of business-related risks, and the definition and monitoring of development measures that reduce those risks. In addition, the company monitors realised risk incidents, near-miss incidents and other incidents occurring to other financial operators, analyses them, and secures sufficient methods in order to prevent similar incidents.

According to an internal division of tasks within the OP-Pohjola Group, OP-Palvelut Oy is responsible for the production of centralised services for the Group's organisations, and their reliability and continuity. The central institution guides and supervises OP-Palvelut Oy's operations and ensures that OP-Palvelut Oy has access to sufficient systems and operating methods considering the entire OP-Pohjola Group. The OP-Pohjola Group's organisations are responsible for the management of operational risks associated with their operations as required by the scope and character of their operations.

OPA's objective is to identify operational risks from products, services, functions, processes and systems (including outsourcing). The identification covers risks associated with the illegal use of financial systems (money laundering and funding terrorism) and non-compliance with regulations. The significance of any risks identified is assessed on the basis of their financial impact and probability. The assessment also covers reputation risk. OPA's Board of Directors has confirmed operational risk guidelines for the bank. Operational risks are reported to OPA's Board of Directors at least once a year.

The compliance risk is controlled by instructing, training and consulting the organisation, and by monitoring the compliance of procedures with regulations. Compliance risks are identified, assessed and reported regularly according to the operational risk management model described above. OPA's Board of Directors has confirmed the principles of compliance operations for the bank. The Managing Director is responsible for OPA's compliance operations.

Strategic risk

A strategic risk is generated by selecting an incorrect strategy or not reaching the set objectives through the selected strategy. It may also result from the failure to execute the selected strategy. The execution of a strategy may fail due to changes in the operating environment or poor management.

The strategic risk associated with the crucial policies of OPA's business operations is reduced by continuous planning, based on analyses and forecasts of the future needs of customers and investors and the development of the financial market. OPA's strategic definitions of policy are processed within the OP-Pohjola Group before being confirmed.

Note 3. Change in accounting policies

OP-Pohjola Group decided to voluntarily abadon as of the beginning of 2012 the so-called corridor method in the recognition of actuarial gains and losses on defined pension plans. In accordance with the revised recognition method under IAS 19, actuarial gains and losses are recognised in other comprehensive income in the period in 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. The change in the accounting policy has been applied retrospectively. The effects of the changed accounting policy on the comparatives of the balance sheet, income statement and statement of comprehensive income are shown below:

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
Tax assets	-	-	-
Liabilities			
Tax liabilities	342	288	-54
Shareholder's 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
Shareholder's equity			
Retained earnings	21 454	21 271	-182
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

NOTES TO THE INCOME STATEMENT

NOTE 4. Interest income and expenses	2012	2011
Interest income		
From receivables from financial institutions	83	532
From receivables from customers	178 048	154 270
From debt instruments available for sale	30	659
From derivative contracts		
From hedge accounting	-57 140	-22 363
Other interest income	225	81
Total	**121 246**	**133 180**
Interest expenses		
From liabilities to financial institutions	9 957	24 102
From derivative contracts		
Held for trading	-	-
From hedge accounting	-210 216	-213 619
From debt securities issued to the public	291 475	298 147
Interest expenses on subordinated liabilities	127	372
Other interest expenses	18	32
Total	**91 362**	**109 034**
Net interest income	**29 884**	**24 147**

Net income from hedge accounting

Net income from hedging instruments is 114,923 (137,748) and net income from hedged items is -114,923 (-137,748) .
Figures from 2011 are shown in brackets.

NOTE 5. Net commission income and expenses	2012	2011
Commission income		
From lending	5 384	3 569
Total	**5 384**	**3 569**
Commission expenses		
From securities	51	16
Other	17 325	13 760
Total	**17 376**	**13 776**
Net commission income and expenses	**-11 992**	**-10 207**

Other commission expenses constitute mainly commissions paid to intermediary banks.

NOTE 6. Net income from trading	2012	2011
From financial assets and liabilities held for trading		
Valuation gains and losses		
From derivatives	-	-
Net income from foreign exchange operations	0	0
Total net income from trading	**0**	**0**

NOTE 7. Net income from investments	2012	2011
Net income from financial assets available for sale		
Income from shares and holdings	-186	487
Total net income from investments	**-186**	**487**

NOTE 8. Other operating income	2012	2011
Other operating income	0	5
Total other operating income	**0**	**5**

NOTE 9. Personnel costs	2012	2011
Salaries and remuneration	352	242
Pension costs		
Defined contribution plans	51	34
Defined benefit plans	-17	-6
Total	34	28
Other indirect personnel costs	14	8
Total personnel costs	**400**	**278**

NOTE 10. Other administrative expenses	2012	2011
Office expenses	145	133
IT expenses	1 292	1 788
Telecommunications	128	116
Marketing	0	2
Other administrative expenses	22	15
Total other administrative expenses	**1 586**	**2 054**

NOTE 11. Other operating expenses	2012	2011
Rental expenses	60	37
Depreciation		
On machinery and equipment	-	1
On intangible assets	299	337
Total	299	338
Other	1 100	1 022
Total other operating expenses	**1 459**	**1 396**

Fees paid to auditors by assignment group	2012	2011
Auditing	17	9
Assignments referred to in section 1, paragraph 1, subparagraph 2, of the Auditing Act	-	-
Tax counselling	-	-
Other services	26	33
Total	**43**	**42**

NOTE 12. Income taxes	2012	2011
Tax based on taxable income for the financial period	3 488	2 779
Taxes from previous periods	0	-
Deferred taxes	-10	-92
Taxes on the income statement	**3 478**	**2 687**
Corporate income tax rate	25 %	26 %

Reconciliation of taxes calculated according to the valid tax rate with the taxes presented in the income statement

	2012	**2011**
Earnings before taxes	14 209	10 345
Share of the profit according to the tax rate	3 481	2 690
Taxes from previous periods	0	-
Change in tax rates	-	-3
Other	-3	-
Taxes on the income statement	**3 478**	**2 687**

NOTES TO THE BALANCE SHEET

NOTE 13. Receivables from financial institutions	31.12.2012	31.12.2011
Receivables from financial institutions		
Deposits		
Repayable on demand	53 300	82 434
Total receivables from financial institutions	**53 300**	**82 434**

NOTE 14. Derivative contracts	31.12.2012	31.12.2011
Hedging derivative contracts – fair value hedging		
Interest rate derivatives	318 473	198 380
Total derivative contracts	**318 473**	**198 380**

NOTE 15. Receivables from customers	31.12.2012	31.12.2011
Loans to the public and public sector entities	761 552	610 712
Loans acquired and other receivables	7 916 514	6 924 204
Impairment losses on loans on a collective basis	-414	-358
Total receivables from customers	**8 677 652**	**7 534 557**

NOTE 16. Invested capital	31.12.2012	31.12.2011
Financial assets available for sale		
Shares and holdings, unquoted	17	17
Total investment assets	**17**	**17**

Shares and holdings other than those quoted publicly have been valued at acquisition cost.

Changes in securities available for sale

There were no changes in securities available for sale in 2012.

NOTE 17. Intangible assets	31.12.2012	31.12.2011
Software, licences and user rights	1 101	587
Total intangible assets	**1 101**	**587**

Changes in intangible assets

		31.12.2012	
	Software	Software / financial leasing	Total intangible assets
Acquisition cost on 1.1	189	1 454	1 643
Increases	813	-	813
Decreases	-	-	0
Transfers between items	-	-	0
Acquisition cost on 31 December	1 002	1 454	2 455
Accumulated amortisation and impairment losses on 1 January	179	876	1 056
Amortisation for the period	-	299	299
Accumulated amortisation and impairment losses for deductions and transfer 1 January	-		
Accumulated amortisation and impairment losses on 31 December	179	1 175	1 355
Book value on 31 December	822	278	1 101
of which construction in progress	822	-	822

		31.12.2011	
	Software	Software / financial leasing	Total intangible assets
Acquisition cost on 1.1	425	1 207	1 633
Increases	9	0	10
Decreases	-	-	-
Transfers between items	-246	246	-
Acquisition cost on 31 December	189	1 454	1 643
Accumulated amortisation and impairment losses on 1 January	179	541	719
Amortisation for the period	1	336	337
Accumulated amortisation and impairment losses for deductions and transfer 1 January	-		
Accumulated amortisation and impairment losses on 31 December	179	876	1 056
Book value on 31 December	9	577	587
of which construction in progress	9	-	9

Amortisation, impairment losses and their revaluation have been recognised in the income statement under Other operating expenses. The company did not have any impairment.

Intangible assets include the software acquired through a financial leasing agreement. The lease period agreed upon is four years.

NOTE 18. Property, plant and equipment	31.12.2012	31.12.2011
Machinery and equipment	-	-
Total	**-**	**-**

Changes in tangible assets
Machinery and equipment

Acquisition cost on 1.1	-	20
Increases	-	-
Decreases	-	20
Acquisition cost on 31 December	-	-
Accumulated depreciation and write-downs and revaluations on 1 January	-	17
Depreciation for the period	-	1
Accumulated depreciation and impairment losses for deductions and transfer 1 January	-	18
Accumulated depreciation and write-downs and revaluations on 31 December	-	-
Book value on 31 December	-	-

Depreciation, impairment losses and their reversals on tangible assets have been recognised under other operating expenses.
The company has not recognised any impairment during the period or previous periods.

NOTE 19. Other assets	31.12.2012	31.12.2011	01.01.2011
Pension assets	13	6	30
Deferred income			
Interest	77 756	95 964	48 474
Other	85	89	79
Total	**77 854**	**96 060**	**48 583**

Defined benefit pension plans

OP-Pohjola Group Mortgage Bank's pension plans have been arranged through OP Bank Group Pension Fund and OP Bank Group Pension Foundation. The schemes related to supplementary pensions, as well as the TEL (Employees' Pensions Act) funded old age and disability pension schemes dealt with by the Pension Fund, have been handled as defined benefit schemes. The contributions to the TEL distribution system have been handled as defined contribution schemes.

Balance sheet values of defined benefit pension plans	**31.12.2012**	**31.12.2011**	**01.01.2011**
Fair value of assets	470	439	724
Present value of funded obligations	-497	-433	-695
Present value of unfunded obligations	-		
Net receivable (+) / liability (–) on the balance sheet	**-27**	**6**	**30**
Assets and liabilities recognised on the balance sheet			
Assets	13	6	30
Liabilities	40	-	-
Net assets	**-27**	**6**	**30**
The pension plan assets include			
Shares of Pohjola Bank plc	21	14	26
Securities issued by companies included in the OP-Pohjola Group	10	5	22
Other receivables from companies included in the OP-Pohjola Group	22	42	-
Properties used by the OP-Pohjola Group	11	10	5
Total	**64**	**71**	**53**
Defined benefit pension costs on the income statement			
Expenses based on the period's work performance	14	13	
Interest expenses	19	29	
Expected return on assets	-25	-48	
Total income (–)/expenses (+) included in personnel costs	**8**	**-6**	
Actuarial gains (+)/losses (–) recognised in other comprehensive income during financial year	**-50**	**-38**	
Cumulative actuarial gains (+)/losses (–) recognised in other comprehensive income	**-306**	**-256**	**-218**
Actual return on plan assets	**35**	**-296**	

The long-term return on the assets included in the pension schemes is based on long historical time series and studies on the risk premiums of various property categories. Expected return is defined in a uniform manner, taking into account historical returns, the current state of the market and the strategic distribution of the assets.

Changes in the present value of the obligation	**31.12.2012**	**31.12.2011**
Present value of the obligation on 1.1	433	695
Expenses based on the period's work performance	14	13
Interest expenses	19	29
Actuarial gains and losses	44	-237
Benefits paid	-15	-16
Expenses based on retroactive work performance	-	-
Gain on TyEL interest rate difference, payment to balancing	-	-
Increase in old-age pension liability, receivable from balancing	-	-52
Change in distribution ratio	2	2
Present value of the obligation on 31 December	**497**	**433**

Changes in fair values of assets	31.12.2012	31.12.2011
Fair value of assets on 1.1	439	724
Expected return on plan assets	25	48
Actuarial gains and losses	-6	-345
Contributions paid by the employer	9	8
Contributions paid by plan members	-	-
Benefits paid	-15	-16
Gain on TyEL interest rate difference, payment to balancing	-	-
	15	18
Increase in old-age pension liability, receivable from balancing	-	-
Change in distribution ratio	2	2
Fair value of assets on 31 December	**470**	**439**

Contributions payable to the defined benefit pension plan in 2013 are estimated to be EUR 6,000.

Share of the most significant asset groups from the total fair value of plan assets, %	31.12.2012	31.12.2011	1.1.2011
Shares and holdings	18	17	32
Notes and bonds	44	39	42
Properties	13	13	19
Other assets	25	31	7
Total	**100**	**100**	**100**

Central actuarial assumptions used	2012	2011
Discount rate, %	3,50	4,50
Expected long-term return on assets, %	4,90 - 5,10	6,20 - 6,60
Future pay rise assumption, %	3,00	3,00
Future pension increases, %	2,00 - 2,10	2,00 - 2,40
Turnover, %	0,50 - 3,00	0,50 - 3,00
Inflation, %	2,00	2,00
Estimated remaining time of employment in years	11 - 21	10 - 16

Excess margin on defined benefit pension plans and empirical adjustments

	31.12.2012	31.12.2011	1.1.2011	31.12.2010*	31.12.2009*	31.12.2008*
Present value of the obligation	497	433	695	695	639	703
Fair value of assets	-470	-439	-724	-724	-659	-828
Excess or deficit margin	**27**	**-6**	**-30**	**-30**	**-20**	**-125**
Empirical adjustments to liabilities	-24	-237	-7	-7	-17	-31
Empirical adjustments to assets	-6	-345	22	22	20	-208

* Change in IAS 19 has not been adjusted for 2008–2010.

NOTE 20. Liabilities to financial institutions	31.12.2012	31.12.2011
Other than those repayable on demand		
Other liabilities	2 570 000	2 070 000
Liabilities to financial institutions	**2 570 000**	**2 070 000**

NOTE 21. Derivative contracts	31.12.2012	31.12.2011
Hedging derivative contracts – fair value hedging		
Interest rate derivatives	16 382	11 212
Total derivative contracts	**16 382**	**11 212**

NOTE 22. Debt securities issued to the public	Average rate, %	31.12.2012	Average rate, %	31.12.2011
Bonds	2,74	6 109 687	3,38	5 423 084 664
Total debt securities issued to the public		6 109 687		5 423 084 664

Non-current loans issued by OP Mortgage Bank

Loan	Book value	Interest rate tying	Nominal interest %	Maturity
OP Mortgage Bank Covered Bond 2009	1 247 572	Fixed	3,125	19.11.2014
OP Mortgage Bank Covered Bond 2010	995 939	Fixed	2,375	15.06.2015
OP Mortgage Bank Covered Bond 2011	996 637	Fixed	3,250	01.04.2016
OP Mortgage Bank Covered Bond 2011	993 075	Fixed	3,500	11.07.2018
OP Mortgage Bank Covered Bond 2012	1 244 065	Fixed	1,625	23.05.2017
OP Mortgage Bank Private Placement 2012	99 942	Floating	Euribor 3M	24.08.2017
OP Mortage Bank rekisteröity Covered Bond (NSV)	114 652	Fixed	2,157	12.11.2024
OP Mortgage Bank Private Placement 2012	100 000	Floating	Euribor 3M	18.12.2018
	5 791 882			
Valuation	317 805			
Total	**6 109 687**			

NOTE 23. Reserves and other liabilities	31.12.2012	31.12.2011
Other liabilities		
Payment transfer liabilities	194	517
Deferred expenses	40	-
Accrued expenses		
Interest liabilities	104 486	128 564
Other	2 244	2 132
Total provisions and other liabilities	**106 964**	**131 213**

NOTE 24. Tax liabilities	31.12.2012	31.12.2011	01.01.2011
Income tax liabilities	435	267	202
Deferred tax liabilities	-	-	86
Total tax liabilities	**435**	**267**	**288**
Specification of tax assets and liabilities			
Deferred tax assets			
Due to defined-benefit pension plans	10	-	-
Due to other items	102	88	-
Set-off against deferred tax liabilities	-77	-75	-
Total	**35**	**13**	**-**
Deferred tax liabilities			
From defined benefit pension plans	3	2	8
From other items	74	74	78
Set-off against deferred tax assets	-77	-75	-
Total	**-**	**-**	**86**
Changes in deferred taxes			
Deferred tax receivables/liabilities on 1 January	-13	86	
Recognised in the income statement			
Pension liabilities	4	1	
Change in tax rates/deferred tax recognised through profit or loss	-	-3	
Other	-14	-90	
Recognised in the balance sheet			
Other	-	-	
Recognised in shareholders' equity	-	-	
Recognised in statement of comprehensive income			
Actuarial gains/losses on post-employment benefit obligations	-12	-10	
Change in tax rate 1 Jan. 2012	-	4	
Total deferred tax receivables/liabilities on 31 December	**-35**	**-13**	
Income tax receivables	**-**	**-**	
Total tax receivables and liabilities	**400**	**254**	

NOTE 25. Subordinated liabilities		31.12.2012	31.12.2011
	Average rate, %	-	1,96
OPA 1/2007 variable rate debenture, 12 February 2017		-	20 000
Total subordinated liabilities		**-**	**20 000**

The debenture loan was called in early on 14 May 2012. Its original maturity date was 12 February 2017

NOTE 26. Shareholders' equity	31.12.2012	31.12.2011	01.01.2011
Share capital	60 000	60 000	60 000
Unrestricted reserves	235 000	175 000	85 000
Accumulated profits			
Profit from previous periods	19 233	13 613	13 646
Profit for the period	10 731	7 658	-
Total equity	**324 964**	**256 271**	**158 646**

The SVOP fund consists of OP-Pohjola Group Central Cooperative's capital investment of EUR 235,000,000.

Share capital and number of shares

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

OP-Pohjola Group Central 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 decreased without amending the Articles of Association. The minimum number of shares is 34,000 and the maximum number is 136,000. The agreement of the company is required for the acquisition of shares by means of transfer.

NOTE 27. Classification of the balance sheet

Assets	Loans and receivables	Recognised at fair	Available for sale	Carrying amount total	Fair value total
Receivables from financial institutions	53 300			53 300	53 300
Derivative contracts		318 473		318 473	318 473
Receivables from customers	8 677 652			8 677 652	8 677 652
Shares and holdings			17	17	17
Other receivables	77 854			77 854	77 854
Total on 31 Dec. 2012	**8 808 806**	**318 473**	**17**	**9 127 296**	**9 127 296**
Total on 31 Dec. 2011	**7 713 051**	**198 380**	**17**	**7 911 448**	**7 911 448**

Liabilities		Recognised at fair	Other liabilities	Carrying amount total	Fair value total
Liabilities to financial institutions	-		2 570 000	2 570 000	2 570 000
Derivative contracts	-	16 382		16 382	16 382
Debt securities issued to the public	-		6 109 687	6 109 687	6 496 985
Subordinated liabilities	-		-	-	-
Other liabilities	-		106 964	106 964	107 398
Total on 31 Dec. 2012	-	**16 382**	**8 786 651**	**8 803 033**	**9 190 765**
Total on 31 Dec. 2011	-	**11 212**	**7 644 564**	**7 655 777**	**7 819 760**

Debt securities issued to the public have been valued at allocated acquisition cost in accounting. The value obtained for these debt securities through information available on the market and established valuation methods was about EUR 387,298 thousand higher than the book value at the end of December. Subordinated loans have been valued at allocated acquisition cost. Their fair values are materially lower than the book values, but determining reliable fair values is difficult in the current market situation. With regard to other balance sheet items, the book values correspond substantially with fair values.

NOTE 28. Grouping of the balance sheet according to the valuation method

Assets recognised at fair value	31.12.2012 Balance sheet value	Valuation of fair value at the end of the period Level 1*	Level 2**	Level 3***
Derivative contracts	318 473	-	318 473	-
Total	**318 473**	**-**	**318 473**	**-**

Assets recognised at fair value	31.12.2011 Balance sheet value	Valuation of fair value at the end of the period Level 1*	Level 2**	Level 3***
Derivative contracts	198 380	-	198 380	-
Total	**198 380**	**-**	**198 380**	**-**

Liabilities recognised at fair value	31.12.2012 Balance sheet value	Valuation of fair value at the end of the period Level 1*	Level 2**	Level 3***
Derivative contracts	16 382	-	16 382	-
Total	**16 382**	**-**	**16 382**	**-**

Liabilities recognised at fair value	31.12.2011 Balance sheet value	Valuation of fair value at the end of the period Level 1*	Level 2**	Level 3***
Derivative contracts	11 212	-	11 212	-
Total	**11 212**	**-**	**11 212**	**-**

* Items grouped in hierarchy level 1 are made up of shares quoted on the largest stock exchanges, companies' quoted debt securities, debt securities of states and financial institutions with a credit rating of at least A and stock exchange derivatives. The fair value of these instruments is determined by quotations from the market.

** Valuation methods based on reliable calculation parameters. The fair value of instruments classified in hierarchy level 2 refers to the value that can be derived from the market value of the financial instrument's parts or equivalent financial instruments or a value that can be calculated using valuation models and methods generally accepted in the financial market if the market value can be reliably assessed by means of them.

In OP Pohjola Group, OTC derivatives, treasury bills, debt securities of companies and financial institutions, purchase and resale agreements (repo) and securities given or received as a loan.

*** Valuation methods whose calculation parameters involve special uncertainty. Instruments classified in group 3 are valued using pricing models whose calculation parameters involve special uncertainty. This balance sheet group includes more complex OTC derivatives, certain private equity investments, illiquid loans, structured loans including securitised loans and structured debt securities, as well as hedge funds.

Transfers between the levels of fair value valuation

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

NOTES CONCERNING CONTINGENT LIABILITIES AND DERIVATIVES

NOTE 29. Off-balance-sheet commitments	31.12.2012	31.12.2011
Credit commitments	7 976	3 692
Total off-balance-sheet commitments	**7 976**	**3 692**

NOTE 30. Leases	31.12.2012	31.12.2011

OP Mortgage Bank plc as the lessor

OP Mortgage Bank plc has leased facilities from OP-Pohjola Group Central Cooperative.

Leases of facilities	43	33

NOTE 31. Derivative contracts

Derivative contracts held for hedging – fair value hedging on 31 Dec. 2012

	Nominal values/remaining maturity				Fair values		Credit
	Less than 1 year	1 to 5 years	than 5 years	Total	Assets	Liabilities	counter-
Interest rate derivatives							
Interest rate swaps	585 259	12 947 452	2 330 000	15 862 711	318 473	16 382	328 295
Total interest rate derivatives	**585 259**	**12 947 452**	**2 330 000**	**15 862 711**	**318 473**	**16 382**	**328 295**

Derivative contracts held for hedging – fair value hedging on 31 Dec. 2011

	Nominal values/remaining maturity				Fair values		Credit
	Less than 1 year	1 to 5 years	than 5 years	Total	Assets	Liabilities	counter-
Interest rate derivatives							
Interest rate swaps	4 909 134	7 500 000	2 000 000	14 409 134	198 380	11 212	328 295
Total interest rate derivatives	**4 909 134**	**7 500 000**	**2 000 000**	**14 409 134**	**198 380**	**11 212**	**328 295**

Total derivatives held for trading and hedging on 31 Dec. 2012

	Nominal values/remaining maturity				Fair values		Credit
	Less than 1 year	1 to 5 years	than 5 years	Total	Assets	Liabilities	counter-
Interest rate derivatives							
Interest rate swaps	585 259	12 947 452	2 330 000	15 862 711	318 473	16 382	328 295
Total derivatives	**585 259**	**12 947 452**	**2 330 000**	**15 862 711**	**318 473**	**16 382**	**328 295**

Total derivatives held for trading and hedging on 31 Dec. 2011

	Nominal values/remaining maturity				Fair values		Credit
	Less than 1 year	1 to 5 years	than 5 years	Total	Assets	Liabilities	counter-
Interest rate derivatives							
Interest rate swaps	4 909 134	7 500 000	2 000 000	14 409 134	198 380	11 212	328 295
Total derivatives	**4 909 134**	**7 500 000**	**2 000 000**	**14 409 134**	**198 380**	**11 212**	**328 295**

OTHER NOTES

NOTE 32. Personnel and related party

The average number of personnel was six (6) people in 2012.

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

Subsidiaries of the OP-Pohjola Group Central Cooperative

Pohjola Group (with Pohjola Bank plc as the parent company)	Helsinki
Helsinki OP Bank Plc	Helsinki
OP-Kotipankki Oyj	Helsinki
OP Fund Management Company Ltd	Helsinki
OP Life Assurance Company Ltd	Helsinki
Helsingin Seudun OP-Kiinteistökeskus Oy	Helsinki
OP IT Procurement Ltd	Helsinki

Business transactions with related parties

	2012			2011		
	Parent	Management	Other	Parent company	Management	Other
Other receivables	-	-	443 458	-	-	365 920
Other liabilities	0	-	2 706 522	20 052	-	2 279 828
Interest income			-55 386			-21 614
Interest expenses	127		-189 919	372		-179 891
Dividend income						
Net commission income and expenses			2 106			1 388
Other operating income			-886			-
Operating costs	136		2 270	83		2 485
Salaries and remuneration, and performance-related pay						
Salaries and remuneration		13			10	
Performance-related pay	-	-	-	-	-	-
Insider holdings						
Number of shares	**76 592**	**-**	**-**	**76 592**	-	**-**

Starting from 1 August 2009, the Managing Director's services have been purchased from Pohjola Bank plc. The costs have been recognised in administrative expenses in the income statement. Members of the Board of Directors not employed by the OP-Pohjola Group Central Cooperative or its subsidiaries are entitled to a meeting fee of EUR 550. The Managing Director does not have a separate pension agreement.

NOTE 33. Long-term incentive schemes

Long-term management incentive scheme

OPA has adopted a management incentive scheme, under which the Managing Director within the scheme may receive a reward partially settled in Pohjola Bank plc shares and partially in cash. The amount of the reward depends on the set objectives. Rewards are paid after the entitlement earning and commitment period. The value of the fee paid as shares and cash is allocated as personnel cost over the earning and commitment period.

Short-term incentive scheme

The short-term incentive scheme complies with the EU variable remuneration regulations in the financial sector that came into force on 1 January 2011. The scheme is based on OP Mortgage Bank’s company-specific targets. The performance indicator targets have been set at a level that does not encourage excessive risk-taking.

The short-term scheme covers all personnel and its performance period is one calendar year and the related bonus will be paid in cash. Expenses for the scheme are recognised until the date of payment under other deferred expenses. The liability is measured at fair value on each balance sheet date.
Bonuses under the short-term scheme accounts for only a small share of the company’s personnel costs,

Personnel Fund

OP Bank Group Mortgage Bank's employees are members of the OP Bank Group personnel fund. The share of profit rewards from OP Mortgage Bank's personnel costs is low.

NOTE 34. Post-financial events

No significant post-fiscal events.

NOTES CONCERNING RISK MANAGEMENT

NOTE 35. Own funds and capital adequacy

Information about own funds and capital adequacy has been presented in the annual report.

NOTE 36. Financial assets and associated impairment losses during the period

OP Mortgage Bank's financial assets comprise the items disclosed under Notes 12–15. Impairment losses on loans on a collective basis of EUR 56,000 have been recognised as financial assets.

NOTE 37. Liabilities

	31.12.2012 Finland			31.12.2011 Finland		
	Accounting balance	Impairment losses	Interest carried	Accounting balance	Impairment losses	Interest carried forward
Assets						
Receivables from financial institutions	53 300	-	-	82 434	-	18
Receivables from customers	8 677 652	414	6 068	7 534 557	358	10 865
Derivative contracts		-			-	
Other		-			-	
Total	8 730 952	414	6 068	7 616 992	358	10 883
Off-balance sheet commitments						
Unclaimed loans and limits	7 976	-		3 692	-	
Derivative contracts	477 896	-		328 295	-	
Total	485 872	-		331 987	-	
Total liabilities	**9 216 824**	**414**	**6 068**	**7 948 979**	**358**	**10 883**

Derivative contracts are disclosed at positive market value recognised in accounting.

NOTE 38. Liabilities by sector

	31.12.2012			31.12.2011		
	Net balance sheet liabilities	Off-balance sheet		Net balance sheet liabilities	Off-balance sheet	
	Finnish	Finnish	Total	Finnish	Finnish	Total
Companies	31 099	14	31 112	38 989	18	39 007
Financial and insurance institutions	53 300	477 896	531 196	82 452	328 295	410 747
Households	8 652 622	7 962	8 660 584	7 506 434	3 674	7 510 108
Non-profit organisations						
Total	**8 737 020**	**485 872**	**9 222 892**	**7 627 875**	**331 987**	**7 959 862**

NOTE 39. Credit risks

The Bank's central credit risk indicators show that the credit risk situation is stable. There were EUR 2,879,000 of non-performing receivables on 31 December 2012. Impairments have not been recognised on receivables. The loan portfolio was diversified. OP Mortgage Bank does not have any customer entities with liabilities in excess of 10% of the company's own funds.

OP Mortgage Bank had matured receivables of EUR 10,915,000 on 31 December 2012. 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.

NOTE 40. Liabilities by credit rating

Personal liabilities by credit rating	**31.12.2012**	**31.12.2011**
Personal liabilities on the balance sheet, class A	5 726 517	5 061 783
Personal liabilities on the balance sheet, class B	1 851 769	1 540 114
Personal liabilities on the balance sheet, class C	715 786	568 447
Personal liabilities on the balance sheet, class D	277 587	216 790
Personal liabilities on the balance sheet, class E	39 157	27 075
Personal liabilities on the balance sheet, class F	17 040	12 430
Personal liabilities on the balance sheet, not classified	24 765	79 794
Off-balance sheet personal liabilities A	4 399	2 183
Off-balance sheet personal liabilities B	508	565
Off-balance sheet personal liabilities C	116	61
Off-balance sheet personal liabilities D	7	0
Off balance sheet personal liabilities, not classified	2 933	864
Total personal liabilities	**8 660 584**	**7 510 108**

Corporate liabilities by credit rating	**31.12.2012**	**31.12.2011**
Corporate liabilities on the balance sheet, class 2,0	164	175
Corporate liabilities on the balance sheet, class 4,0	63	-
Corporate liabilities on the balance sheet, class 4,5	2	7
Corporate liabilities on the balance sheet, class 5,0	8 917	10 834
Corporate liabilities on the balance sheet, class 5,5	18 380	22 378
Corporate liabilities on the balance sheet, class 6,0	1 471	3 047
Corporate liabilities on the balance sheet, class 6,5	1 235	346
Corporate liabilities on the balance sheet, class 7,0	342	1 045
Corporate liabilities on the balance sheet, class 7,5	55	-
Corporate liabilities on the balance sheet, class 8,0	263	336
Corporate liabilities on the balance sheet, class 8,5	-	565
Corporate liabilities on the balance sheet, class 9,5	152	-
Corporate liabilities on the balance sheet, class 10.0	40	225
Corporate liabilities on the balance sheet, not classified	15	30
Off balance sheet corporate liabilities, not classified	-	-
Off-balance sheet corporate liabilities, class 5,0	-	9
Off-balance sheet corporate liabilities, class 5,5	5	5
Off-balance sheet corporate liabilities, class 6,0	-	5
Off-balance sheet corporate liabilities, class 10,0	9	-
Total corporate liabilities	**31 112**	**39 007**

NOTE 41. Structure of funding

	31.12.2012	**Share, %**	**31.12.2011**	**Share, %**
Liabilities to financial institutions	2 570 000	28,2	2 070 000	26,2
Debt securities issued to the public	6 109 687	67,1	5 423 085	68,6
Other liabilities	107 398	1,2	131 480	1,7
Total subordinated liabilities	-	-	20 000	0,3
Shareholders’ equity	324 964	3,6	256 271	3,2
Total	**9 112 049**	**100,0**	**7 900 836**	100,0

NOTE 42. Maturity distribution of financial assets and liabilities by remaining time of maturity

31.12.2012	Less than 3 months	3 to 12 months	1 to 5 years	5 to 10 years	More than 10 year	Total
Financial assets						
Receivables from financial institutions	53 300	-	-	-	-	53 300
Receivables from customers	211 377	647 162	3 094 853	2 705 191	2 019 069	8 677 652
Total financial assets	**264 677**	**647 162**	**3 094 853**	**2 705 191**	**2 019 069**	**8 730 952**
Financial liabilities						
Liabilities to financial institutions	2 570 000	-	-	-	-	2 570 000
Debt securities issued to the public	-	317 805	4 584 155	1 093 075	114 652	6 109 687
Total financial liabilities	**2 570 000**	**317 805**	**4 584 155**	**1 093 075**	**114 652**	**8 679 687**

31.12.2012	Less than 1 year	More than 1 year	Total
Off-balance sheet commitments	7 976	-	7 976
Total off-balance sheet commitments	**7 976**	**-**	**7 976**

31.12.2011	Less than 3 months	3 to 12 months	1 to 5 years	5 to 10 years	More than 10 year	Total
Financial assets						
Receivables from financial institutions	82 434	-	-	-	-	82 434
Receivables from customers	185 338	517 404	2 506 787	2 262 029	2 062 999	7 534 557
Total financial assets	**267 772**	**517 404**	**2 506 787**	**2 262 029**	**2 062 999**	**7 616 992**
Financial liabilities						
Liabilities to financial institutions	2 070 000	-	-	-	-	2 070 000
Debt securities issued to the public	-	999 516	3 431 583	991 985	-	5 423 085
Total financial liabilities	**2 070 000**	**999 516**	**3 431 583**	**991 985**	**-**	**7 493 085**

31.12.2011	Less than 1 year	More than 1 year	Total
Off-balance sheet commitments	3 692	-	3 692
Total off-balance sheet commitments	**3 692**	**-**	**3 692**

NOTE 43. Funding risk

The most significant source of funding risks for OP Mortgage Bank is centralised funding. The management of OP-Pohjola Group's capital adequacy is centralised with Pohjola Bank and, as a result, OPA can utilise OP-Pohjola Group's liquidity reserves. OPA's Board of Directors has set a risk limit for funding risks, specifying that the nominal value of bonds with real estate security maturing during the period cannot exceed EUR 1.5 billion. The limit was not exceeded in 2012.

NOTE 44. Maturity of financial assets and liabilities by due date or repricing

Contractual repricing dates or earlier due dates on 31 December 2012.

31.12.2012	1 month or less	> 1 to 3 months	> 3 to 12 months	> 1 to 2 years	> 2 to 5 years	More than 5 years	Total
Financial assets							
Receivables from financial institutions	53 300						**53 300**
Receivables from customers	2 872 901	2 232 328	3 488 731	11 269	47 108	25 314	**8 677 652**
	2 926 201	**2 232 328**	**3 488 731**	**11 269**	**47 108**	**25 314**	**8 730 952**
Financial liabilities							
Liabilities to financial institutions	2 570 000	-	-	-	-	-	**2 570 000**
Debt securities issued to the public		199 942	317 805	1 247 572	3 236 641	1 107 727	**6 109 687**
Total financial liabilities	**2 570 000**	**199 942**	**317 805**	**1 247 572**	**3 236 641**	**1 107 727**	**8 679 687**
Subordinated liabilities	-	-	-	-	-	-	**-**
Total subordinated liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**

31.12.2011	1 month or less	> 1 to 3 months	> 3 to 12 months	> 1 to 2 years	> 2 to 5 years	More than 5 years	Total
Financial assets							
Receivables from financial institutions	82 434						**82 434**
Receivables from customers	2 618 430	1 816 426	3 032 521	9 827	35 041	22 313	**7 534 557**
	2 700 864	**1 816 426**	**3 032 521**	**9 827**	**35 041**	**22 313**	**7 616 992**
Financial liabilities							
Liabilities to financial institutions	2 070 000	-	-	-	-	-	**2 070 000**
Debt securities issued to the public	-	-	1 194 645	-	3 236 454	991 985	**5 423 085**
Total financial liabilities	**2 070 000**	**-**	**1 194 645**	**-**	**3 236 454**	**991 985**	**7 493 085**
Subordinated liabilities	-	20 000	-	-	-	-	**20 000**
Total subordinated liabilities	**-**	**20 000**	**-**	**-**	**-**	**-**	**20 000**

NOTE 45. Interest rate risk

OP Mortgage Bank's interest rate indicator examines the impact of an increase of one percentage point in interest rates on the present value of the interest position without comparing the customer margin with the Bank's assets. The indicator stood at 0.13% at year-end. The risk limits set for the indicator following the amount of own funds at year-end were +/-1.0%. The Bank's interest rate risk can be regarded as minor.

Sensitivity analysis for interest rate risk

			Impact on earnings		Impact on equity	
EUR thousand	**Risk parameter**	**Change**	**31.12.2012**	**31.12.2011**	**31.12.2012**	**31.12.2011**
Interest rate risk (1)	interest	1% points	-423,1	149,7	-319,4	110,8

(1) Net sensitivity to a simultaneous change in all interest rates at the corresponding period was -423.1.

NOTE 46. 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, 6. February 2013

Harri Luhtala

Elina Ronkanen-Minogue

Hanno Hirvinen

Mika Helin

Mikko Hyttinen

Sakari Haapakoski

Lars Björklöf

Lauri Iloniemi
Managing Director

AUDITOR'S NOTE

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

Helsinki, 18 February 2013

KPMG Oy Ab
Authorised Public Accountants

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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, 2012. 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 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, 18 February 2013

KPMG OY AB

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