OP MORTGAGE BANK

FINANCIAL STATEMENTS BULLETIN FOR 2012

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)[1]. 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. OPA launched a covered bond issue at a nominal value of EUR 1.25 billion in May. 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.

Earnings Development

EUR thousand	**Q4/2012**	**Q4/2011**	**2012**	**2011**
Income				
Net interest income	7,897	5,560	29,884	24,147
Net commissions and fees	-3,426	-2,865	-11,992	-10,207
Net income from trading	0	0	0	0
Net income from investments	-	-	-186	487
Other operating income	0	0	0	5
Total	**4,472**	**2,695**	**17,707**	**14,432**
Expenses				
Personnel costs	121	70	400	278
Other administrative expenses	390	486	1,586	2,054
Other operating expenses	300	291	1,459	1,396
Total	**811**	**848**	**3,445**	**3,728**
Impairments of receivables	**-17**	**-358**	**-53**	**-359**
Earnings before tax	**3,644**	**1,489**	**14,209**	**10,345**

Earnings before tax for October-December amounted to EUR 3,644 thousand (1,489). The net interest income increased to EUR 7,897 thousand (5,560). Net commissions and fees were negative, as in the previous year, with commission income increasing to EUR 1,530 thousand (945) and commission expenses to EUR 4,955 thousand (3,810). Commission expenses consisted mainly from commissions paid to OP-Pohjola Group member banks for servicing housing loans. The bank's expenses amounted to EUR 811 thousand (848).

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).

[1] For balance sheet and other cross-sectional figures, the point of comparison is the figure at the end of 2011. Comparatives deriving from the income statement are based on figures reported for the corresponding period a year ago.

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].

Change in Major Asset and Liability Items

EUR Million	31 Dec 2012	30 Sep 2012	30 June 2012	31 March 2012	31 Dec 2011
Balance Sheet	9,128	8,976	9,263	8,427	7,912
Receivables from customers	8,678	8,511	8,841	8,000	7,535
Receivables from financial institutions	53	77	93	72	82
Debt securities issued to the public	6,110	5,879	5,716	5,440	5,423
Liabilities to financial institutions	2,570	2,650	3,100	2,490	2,070
Shareholders' equity	325	312	310	287	256
Off-balance sheet commitments	8	9	11	8	4

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.

Collateralisation of bonds issued to the public

Mortgages collateralising covered bonds issued before 1 August, 2010, under the Finnish Act on Mortgage Credit Banks 1240/1999, are included in Cover Asset Pool A. The balance of Pool A was EUR 3,200 million in the end of December.

Mortgages collateralising covered bonds issued after 1 August, 2010, under the Finnish Covered Bond Act 680/2010, are included in Cover Asset Pool B. The balance of Pool B was EUR 4,935 million in the end of December.

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.

OWN FUNDS, EUR thousand	**31 Dec 2012**	**30 Sep 2012**	**31 Dec 2011**
Equity capital	324,964	312,250	256,475
Intangible assets	-1,101	-547	-587
Excess funding of pension liability and fair value measurement of investment property	-13	-17	-248
Planned dividend distribution	-2,001	-	-2,001
Shortfall of impairments – expected losses	-3,705	-3,634	-3,937
Shortfall of other Tier 1 capital	-3,705	-3,634	-
Core Tier 1 capital	**314,440**	**304,418**	**249,703**
Shortfall of Tier 2 capital	-3,705	-3,634	-
Transfer to core Tier 1 capital	3,705	3,634	-
Tier 1 capital	**314,440**	**304,418**	**249,703**
Debenture loans	-	-	20,000
Shortfall of impairments – expected losses	-3,705	-3,634	-3,937
Transfer to Tier 1 capital	3,705	3,634	-
Tier 2 capital	**-**	**-**	**16,063**
Total capital base	**314,440**	**304,418**	**265,765**
Capital ratio including transition rules			
Capital adequacy ratio, %	9.2	9.1	9.0
Tier 1 ratio to risk-weighted commitments	9.2	9.1	8.5
Core Tier 1 ratio	9.2	9.1	8.5
Capital ratio excluding transition rules			
Capital adequacy ratio, %	41.9	40.8	40.4
Tier 1 ratio to risk-weighted commitments	41.9	40.8	40.0
Core Tier 1 ratio	41.9	40.8	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 was 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**	**30 Sep 2012**	**31 Dec 2011**
Receivables and investments	732,713	721,260	644,703
Off-balance-sheet items	4,185	10,161	2,063
Market risk	-	-	-
Operational risks	14,043	14,043	10,490
Requirement for period of transition	2,656,632	2,600,586	2,283,433
Risk-weighted receivables, investments and off balance-sheet commitments, total	**3,407,573**	**3,346,051**	**2,940,688**

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

Joint Responsibility and Joint Security

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

Personnel

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.

Administration

The Annual General Meeting held in March confirmed the composition of the new Board of Directors. Mr Lars Björklöf, Managing Director, Osuuspankki Raasepori was elected as a new member of the Board of Directors. Mr Heikki Kananen, Managing Director, Mäntsälän Osuuspankki and Mr Mikko Rosenlund, Managing Director, Tampereen Seudun Osuuspankki were left out of the Board of Directors. The Board composition is as follows:

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

Managing Director Lauri Iloniemi.

Risk exposure

The most significant types of risk related to OPA are credit risk, liquidity risk and interest-rate risk. The indicators in use shows that OPA's credit risk exposure is stable. The limit for liquidity risk set by the Board of Directors has not been exceeded. The liquidity buffer for OP-Pohjola Group, managed by Pohjola Bank Plc, is exploitable by OPA. OPA has hedged against the interest-rate risk associated with its housing loan portfolio through interest-rate swaps, i.e. base rate cash flows from housing loans to be hedged are swapped to short-term Euribor cash flows. OPA has also swapped the fixed interest rates of the bonds it has issued to corresponding short-term variable rates. The interest-rate risk may be considered to be low.

Outlook

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

OPA's board proposal for the allocation of distributable funds

The shareholders' equity of OPA 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

EUR 265,183,647.63 of which represented distributable equity.

The Board of Directors proposes that he Company's distributable funds be distributed as follows: EUR 26.12 per share totaling EUR 2,000,583.04.
Accordingly, EUR 263,183,064.59 remains in the Company's distributable equity.

Income Statement

EUR thousand	**Q4/2012**	**Q4/2011**	**2012**	**2011**
Interest income	23,603	39,871	121,246	133,180
Interest expenses	15,705	34,311	91,362	109,034
Net interest income	**7,897**	**5,560**	**29,884**	**24,147**
Impairments of receivables	-17	-358	-53	-359
Net commissions and fees	-3,426	-2,865	-11,992	-10,207
Net income from trading	0	0	0	0
Net income from investments	-	-	-186	487
Other operating income	0	0	0	5
Personnel costs	121	70	400	278
Other administrative expenses	390	486	1,586	2,054
Other operative expenses	300	291	1,459	1,396
Earnings before tax	**3,644**	**1,489**	**14,209**	**10,344**
Income taxes	893	383	3,478	2,687
Profit for the period	**2,752**	**1,106**	**10,731**	**7,658**

Statement of comprehensive income

EUR thousand	**Q4/2012**	**Q4/2011**	**2012**	**2011**
Profit for the period	**2,752**	**1,106**	**10,731**	**7,658**
Actuarial gains/losses on post-employment benefit obligations	-50	-10	-50	-38
Income tax on actuarial gains/losses on post-employment benefit obligations	12	-1	12	6
Other Statement of comprehensive income items	-	-	-	-
Total comprehensive income	**2,714**	**1,095**	**10,693**	**7,625**

Key Ratios

	Q4/2012	Q4/2011	2012	2011
Return on equity (ROE), %	3.5	1.9	3.7	3.7
Cost/income ratio, %	18	31	19	26

Calculation of key ratios

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

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

Balance Sheet

EUR thousand	31 Dec 2012	30 Sep 2012	30 June 2012	31 March 2012	31 Dec 2011
Receivables from financial institutions	53,300	76,595	92,823	72,060	82,434
Derivative contracts	318,473	304,833	247,456	215,138	198,380
Receivables from customers	8,677,652	8,511,443	8,841,128	7,999,754	7,534,557
Investments assets	17	17	17	17	17
Intangible assets	1,101	881	809	739	587
Tangible assets	-	-	-	-	-
Other assets	77,854	81,765	80,854	139,590	96,060
Tax receivables	35	20	19	8	13
Total assets	**9,128,431**	**8,975,555**	**9,263,106**	**8,427,306**	**7,912,048**
Liabilities to financial institutions	2,570,000	2,650,000	3,100,000	2,490,000	2,070,000
Derivative contracts	16,382	18,383	21,545	15,716	11,212
Debt securities issued to the public	6,109,687	5,878,746	5,716,100	5,439,837	5,423,085
Reserves and other liabilities	106,964	114,473	114,829	174,277	131,213
Tax liabilities	435	1,703	1,112	755	267
Subordinated debt securities	-	-	-	20,000	20,000
Total liabilities	8,803,467	8,663,305	8,953,585	8,140,586	7,655,777
Shareholders’ equity					
Share capital	60,000	60,000	60,000	60,000	60,000
Reserve for invested unrestricted . equity	235,000	225,000	225,000	205,000	175,000
Retained earnings	29,964	27,250	24,521	21,720	21,271
Total equity	324,964	312,250	309,521	286,720	256,271
Total liabilities and shareholders’ equity	**9,128,431**	**8,975,555**	**9,263,106**	**8,427,306**	**7,912,048**

Off-balance Sheet Commitments

EUR thousand	31 Dec 2012	30 Sep 2012	30 June 2012	31 March 2012	31 Dec 2011
Binding credit commitments	7,976	8,973	10,883	7,869	3,692

Change Calculation on Shareholders' Equity

EUR thousand	Share capital	Other reserves	Retained earnings	Total equity
Shareholders' equity 1 Jan 2011	**60,000**	**85,000**	**13,646**	**158,646**
Reserve for invested unrestricted equity		90,000		90,000
Profit for the period			7,626	7,626
Other changes				
Shareholders' equity 31 Dec 2011	**60,000**	**175,000**	**21,271**	**256,271**
EUR thousand	Share capital	Other reserves	Retained earnings	Total equity
Shareholders' equity 1 Jan 2012	**60,000**	**175,000**	**21,271**	**256,271**
Reserve for invested unrestricted equity		60,000		60,000
Profit for the period			10,693	10,693
Other changes			-2,001	-2,001
Shareholders' equity 31 Dec 2012	**60,000**	**235,000**	**29,964**	**342,964**

Cash Flow Statement

EUR thousand	2012	2011
Liquid assets 1 January	**82,434**	**61,672**
Cash flow from operations	-630,247	-2,060,121
Cash flow from investments	-813	-8
Cash flow from financing	601,925	2,080,891
Liquid assets 31 December	**53,300**	**82,434**

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

Fair values of financial assets and liabilities

EUR Thousand	Loans and receivables	Recognised at fair value through profit or loss	Available for sale	Total
Financial assets				
Receivables from financial institutions	53,300			53,300
Derivative contracts		318,473		318,473
Receivables from customers	8,677,652			8,677,652
Equities			17	17
Other receivables	77,854			77,854
Balance at 31 December 2012	**8,808,806**	**318,473**	**17**	**9,127,296**
Balance at 31 December 2011	**7,713,051**	**198,380**	**17**	**7,911,448**
EUR Thousand		Recognised at fair value through profit or loss *	Other liabilities	Total
Liabilities to financial institutions	**-**		2,570,000	2,570,000
Derivative contracts	**-**	16,382		16,382
Debt securities issued to the public	**-**		6,109,687	6,109,687
Subordinated liabilities	**-**		-	-
Other liabilities	**-**		107,398	107,398
Balance at 31 December 2012	**-**	**16,382**	**8,787,085**	**8,803,467**
Balance at 31 December 2011	-	**11,212**	**7,644,564**	**7,655,777**

*) Debt securities issued to the public are carried at amortised cost. On 31 December 2012, the fair value of these debt instruments was approximately EUR 387,298 thousand higher than their carrying amount, based on information available in markets and employing commonly used valuation techniques. Subordinated liabilities are carried at amortised cost. Their fair value are substantially lower than their carrying amount, but determining fair values reliably is difficult in the current market situation.

Derivative Contracts 31 December 2012

EUR thousand	Nominal values/the remaining maturity				Fair values		
	Less than 1 year	1-5 years	More than 5 years	Total	Assets	Liabili-ties	Credit counter-value
Interest rate derivatives							
Hedging	585,259	12,947,452	2,330,000	15,862,711	318,473	16,382	477,896
Trading							
Total	**585,259**	**12,947,452**	**2,330,000**	**15,862,711**	**318,473**	**16,382**	**477,896**

Derivative Contracts 31 December 2011

EUR thousand	Nominal values/the remaining maturity				Fair values		
	Less than 1 year	1-5 years	More than 5 years	Total	Assets	Liabili-ties	Credit counter-value
Interest rate derivatives							
Hedging	4,909,134	7,500,000	2,000,000	14,409,134	198,380	11,212	328,295
Trading							
Total	**4,909,134**	**7,500,000**	**2,000,000**	**14,409,134**	**198,380**	**11,212**	**328,295**

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

Related-party transactions

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

Accounting policies

The Financial Statements Bulletin for 1 January - 31 December 2012 has been prepared in accordance with IAS 34 (Interim Financial Reporting), as approved by the EU. In the preparation of this Interim Report, OPA substantially applied the same accounting policies as in the financial statements 2011, except a change in the recognition of actuarial gains and losses on defined benefit pension plan.

Change in accounting policies

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

The effects of the changed accounting policy on the comparatives of the consolidated balance sheet, income statement and statement of comprehensive income shown in this Interim Report are as follows:

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

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

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

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

Helsinki, 6 February 2012

OP Mortgage Bank
Board of Directors