OP MORTGAGE BANK PLC

Financial Statements 2011

REPORT OF THE BOARD OF DIRECTORS

The loan portfolio of OP Mortgage Bank plc (OPA) increased to EUR 7,535 million (5,008)[1]. The company's loan portfolio increased substantially in March, June, September and December through the purchase of loans with housing as collateral from member banks of the OP-Pohjola Bank Group to OPA's balance sheet. OPA issued a bond with housing as collateral with a nominal value of EUR 1,000,000,000 in April and a similar bond with a nominal value of EUR 1,000,000,000 in July. Thanks to growth in volumes, the bank's earnings before tax increased to EUR 10.3 million (4.8). At year-end, OPA had non-performing receivables totalling EUR 2.1 million (1.4). No impairment losses on loans on an individual basis were recognised during the financial period.

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 (previously OP Bank Group Central Cooperative), with its subsidiaries. The operations of the OP Bank Group Central Cooperative were reorganised on 1 January 2011 so that OP-Palvelut Oy, a service company fully owned by the OP-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 name of OP Bank Group Central Cooperative was changed into OP-Pohjola Group Central Cooperative. 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.

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1) The comparative figure for 2010 is given in brackets. For the income statement and other aggregate figures, the point of comparison is the figure for January–December 2010. Balance sheet figures and other benchmarks are compared to the previous financial statements (31 December 2010).

Operating environment

The global economy grew steadily in 2011. However, economic development decelerated clearly during the year, being unbalanced and tinted by uncertainties. In Europe, economic growth slowed down towards the end of the year shadowed by the uncertainty caused by the debt crisis.

The Finnish economy improved reasonably well in 2011. After a good start to the year, the economy declined steeply due to the uncertainty caused by the debt crisis. However, this did not reflect strongly in consumption and investment decisions within households. On the contrary, exporting decelerated clearly at the end of the year.

On the financial market, 2011 was coloured by the debt crisis within the euro area. After the increase at the beginning of the year, Euribor rates fell in the summer, falling to an unusually low level.

Low interest rates and consumer confidence supported the increase in housing loans in Finland. As a whole, banks' loan and deposit portfolios continued their steady growth in 2011.

In the investment market, uncertainties caused by worry over state loans and economic growth increased at the end of the review period.

Major events during the financial period

During the financial period, the loan portfolio was increased by purchasing housing loans from member banks of the OP-Pohjola Group for a total of EUR 3,718 million. In April, OPA issued the fifth bond loan with real estate as collateral directed at the international market, and later the sixth bond loan in July. Both emissions amounted to a EUR 1,000 million. The bonds are covered by housing loans purchased from member banks. Standard & Poor's Rating Services and Moody's Investor Services awarded their best credit ratings (AAA and Aaa) to the issued covered bonds. The bonds were issued under the new Covered Bonds Act (688/2010) which entered into force on 1 August 2010.

In December 2011, a decision was made to launch a significant system development project supporting business operations in 2012. The project is estimated to be worth EUR 2 million.

In October, OPA recognised its first impairment loss on loans on a collective basis of EUR 358,000 in its income statement. No impairment losses on loans on an individual basis were recognised in 2011.

Earnings development

OPA's major earnings items developed as follows in 2011:

EUR million	1-12/2011	1-12/2010
Income		
Net interest income	24.1	16.4
Net commission income	- 10.2	- 8.5
Net income from investments	0.5	0
Total	**14.4**	**7.9**
Expenses		
Personnel costs	0.3	0.3
Other administrative expenses	2.1	1.4
Other operating expenses	1.4	1.4
Total	**3.7**	**3.1**
Impairment losses on receivables	**- 0.4**	**-**
Earnings before taxes	**10.3**	**4.8**

OPA's earnings before taxes increased to EUR 10.3 million (4.8). An increase in the loan portfolio improved OPA's net interest income and result.

Commissions paid to intermediary banks made net commissions and fees clearly negative. Commission income increased to EUR 3.6 million (2.7) while commission expenses were EUR 13.8 million (11.2). The commission expenses constituted mainly commissions paid to the OP-Pohjola Group's member banks for agency services concerning OPA's housing loans.

The bank's expenses increased to EUR 3.7 million (3.1). The increase in expenses was mainly caused by data system costs, and expert costs related to the establishment of the new bond loan programme.

OPA did not recognise any impairment losses on loans on an individual basis during the year.

Balance sheet and off-balance sheet commitments

The bank's balance sheet total was EUR 7,912 million (5,191) at the end of the year. The development of major asset and liability items is illustrated in the table below.

Major balance sheet and commitment items

EUR million	**31.12.2011**	**31.12.2010**	**31.12.2009**
Balance sheet	7,912	5,191	4,555
Receivables from customers	7,535	5,008	4,360
Receivables from financial institutions	82	62	55
Debt securities issued to the public	5,423	3,287	3,311
Liabilities to financial institutions	2,070	1,640	1,000
Shareholders' equity	256	159	140
Off-balance sheet commitments	4	10	15

Development of Loan Portfolio

According to the previous Act on Mortgage Credit Banks, the collateral for bonds must constitute loans with a principal of no more than 60 per cent of the fair value of collateral pledged for the loan (LTV 60%). However, part of the collateral (a maximum of 1/6) may constitute loans where LTV is higher than 60 per cent. According to the new Act on Mortgage Credit Banks, the collateral for bonds must constitute loans with a principal of no more than the fair value of the collateral (LTV 100%). A maximum of LTV 70% of the loan pledged as collateral can be included in the total amount of collateral for bond loans. Furthermore, the book value of loans used as collateral for bonds must always exceed the aggregate book value of bonds issued.

Receivables from customers, or the loan portfolio, increased to EUR 7,535 million (5,008) during the report year. The increase was attributable to loans purchased from OP-Pohjola Group member banks. At the end of the year, 99 (99) per cent of the loan portfolio was granted to households and 1 (1) per cent to housing corporations.

The loan portfolio consists of more than 140,000 loans with an average size of EUR 53,000. The collateral for the loans consists of residential properties and shares in housing corporations. All of the collateral is located in Finland.

Funding

The bank’s funding is based on bonds with real estate as collateral, where the assets pledged consist of housing loans. During the reporting year, the bank issued two covered bonds to the international market with a nominal value of EUR 1,000 million each.

The total number of bonds issued to the public was five and their book value stood at EUR 5,423 million (3,287) at the end of the financial period.

In addition to bonds, OPA funded its operations by financing loans taken out from Pohjola Bank plc (Pohjola). The balance sheet item ‘Liabilities to credit institutions’ of EUR 2,070 million (1,640) consisted of these financing loans. OPA also invests its short-term cash surplus in Pohjola. At the end of the year, short-term investments stood at EUR 82 million (62).

Shareholders’ equity

Shareholders’ equity increased to EUR 256 million (159). Shareholders’ equity increased by EUR 50 million in March and EUR 40 million in October after the OP-Pohjola Group Central Cooperative made additional investments in the company. Accrued earnings amounted to EUR 21 million (14) at the end of the year.

Own funds and capital adequacy

OPA’s capital adequacy ratio was 9.0 per cent at the end of the year (9.7).

OPA’s capital adequacy is calculated according to the Basel II regulations. The calculation of capital adequacy requirements for credit risks adopted the Internal Ratings Based Approach (IRBA) starting from the capital adequacy calculation at the end of 2011. The capital requirement for operational risks is calculated using the standard method. Reference figures before 31 December 2011 have been presented in accordance with the credit risk's standard method.

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 million	1.12.2011	31.12.2010
Tier I funds		
Shareholders' equity	256.5	158.8
Unrestricted Tier I funds before reductions	256.5	158.8
Intangible assets	-0.6	-0.9
Pension liability, over-margin	-0.2	-0.2
Planned distribution of profit/proposed by the Board of Directors	-2.0	-
Impairment – expected losses, deficit	-3.9	-
Tier I funds for capital adequacy calculation	**249.7**	**157.7**
Tier II funds		
Debenture loans	20.0	20.0
Impairment – expected losses, deficit	-3.9	-
Tier II funds for capital adequacy calculation	**16.1**	**20.0**
Total own funds	**265.8**	**177.7**

Deficit after impairment and expected losses totals EUR 7.9 million.

Requirement for own funds, EUR million	31.12.2011	31.12.2010
Credit risk		
Internal Ratings Based Approach (IRBA)		
Corporate exposure	2.1	-
Retail exposure	49.6	-
With real estate as collateral	49.6	-
Other	-	-
Standard method items	0	
Corporate exposure	0	2.9
Retail exposure	-	143.3
Equity investments	0	-
Total credit risk	51.7	146.2
Operational risk	0.8	0.7
Requirement for own funds during the transition period	182.7	
Total	235.3	146.9

Corporate exposure is subject to the FIRB method. Retail exposure is subject to the IRB method. The Internal Ratings Based Approach (IRBA) involves a transition period. According to transition rules, the minimum amount of a bank's own funds must be at least 80 per cent of the minimum amount of own funds calculated according to the Basel I rules. If the minimum amount of a bank's own funds falls below the limit, the minimum requirement for own funds will be increased by the difference. The transition rule is referred to as the Basel I transitional floor. Without the floor impact, the capital adequacy ratio would be 40.4%.

Capital adequacy, EUR million	31.12.2011	31.12.2010
Total own funds for capital adequacy calculation	265.8	177.7
Tier I funds for capital adequacy calculation	249.7	157.7
Requirement for own funds	235.3	146.9
Capital adequacy ratio, %	9.0	9.7
Tier I ratio, %	8.5	8.6
Capital adequacy of the coalition of cooperative banks, %	* 12.7	12.8

* In September 2011

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.

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

The coalition of cooperative banks consists of the OP-Pohjola Group Central Cooperative, Pohjola Bank plc, which acts as the central financial institution, its other member credit institutions, organisations belonging to consolidation groups of the central institution and member credit institutions, and credit institutions, financial institutions and service companies of which the aforementioned organisations, on their own or jointly, hold more than half. At the end of the year, members of the OP-Pohjola Group Central Cooperative included 205 cooperative banks, Pohjola Bank plc, Helsinki OP Bank plc, OP Mortgage Bank plc and OP-Kotipankki Oyj. According to law, the coalition of cooperative banks is monitored in a consolidated manner, and the central institution and its member credit institutions are ultimately responsible for each other's liabilities and commitments.

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 most recently confirmed balance sheet totals.

If a member credit institution's own funds are, because of losses, so low that the requirements for liquidation, as prescribed in the Act on the Amalgamation of Deposit Banks, are met, the central institution will have the right to collect extra charges from its member credit institutions to a maximum of five-thousandths of the member credit institutions' most recently confirmed balance sheet total for the actions required for preventing the liquidation of the member credit institution on the basis of the criteria stated in the central institution's regulations.

However, pursuant to section 25 of the Act on Mortgage Credit Banks (section 17 in the previous act), holders of bonds with real estate collateral have the right to receive payment for the entire loan period of the bond in accordance with the agreement terms and conditions from the funds lodged as collateral for the bond before other claims, notwithstanding OPA's liquidation or bankruptcy.

Financial indicators

Indicator	2011	2010	2009
Return on equity, %	3.7	2.4	2.6
Return on assets, %	0.12	0.07	0.16
Capital adequacy, %	3.2	3.1	3.1
Cost/income ratio, %	26	39	35

Calculation of indicators

Return on equity, %

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

Return on assets, %

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 continuity of 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, market risks and operational risks. The OP-Pohjola Group Central Cooperative has set control limits for OPA's risk tolerance and credit 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 9.0 per cent. Return on equity was 3.7 per cent (2.4).

OPA's capital adequacy is not secured through accrued earnings; instead, it is secured by the OP-Pohjola Group Central Cooperative. The profitability level is determined by the 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 increasing sales commissions.

Credit risk exposure

OPA’s loan portfolio at the end of the financial period was EUR 7,535 million. The quality of the loan portfolio was high. At the end of the reporting period, OPA had 36 non-performing loans with a total capital value of EUR 2.1 million. The bank has not booked any 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 25 per cent limit 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

Market risks include the liquidity and interest rate risks on all balance sheet items and off-balance sheet items, as well as any exchange rate risks, equity price risks and real estate risks. OPA has not been exposed to foreign exchange, equity market or real estate risks during the financial period. The Board of Directors has confirmed a balance management system, which defines the products and market instruments used by the bank, the principles for funding and investment operations and the applicable risk monitoring methods.

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 for securing capital adequacy, and the long-term refinancing structure (refinancing risk) is monitored and forecast regularly as part of the capital adequacy management process.

Interest rate risk refers to the effect of changes in the market rates on the bank’s performance and capital adequacy. OPA has hedged the interest rate risk of its housing loan portfolio with interest rate swaps. By means of the interest rate swaps, base rate cash flows from the housing loans to be hedged 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.

OPA’s Board of Directors has set risk limits for the bank’s interest rate and funding risk.

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 for 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 loss due to defective internal processes, personnel, systems or external events. The objective of operational risk management is to identify and assess potential and realised operational risks, as well as to develop measures and corporate culture that prevent risks in advance. 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 2011.

Personnel and incentive schemes

OPA had 5 employees (5) at the end of the financial period. The number of the bank’s own personnel is reduced by the fact that all crucial support functions are acquired from other organisations of the OP-Pohjola Group Central Cooperative.

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.

The bank has adopted a management incentive scheme, under which the Managing Director may receive a reward partially settled in Pohjola Bank plc's A-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.

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 eight 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 15 times during the year.

The Annual General Meeting held in March 2011 confirmed the composition of the new Board of Directors. New Board members were Mika Helin, Deputy Managing Director, Hämeenlinnan Seudun Osuuspankki, and Elina Ronkanen-Minogue, OP-Pohjola Group Central Cooperative. Jari Himanen, Managing Director, Etelä-Karjalan Osuuspankki, and Matti Nykänen, OP-Pohjola Group Central Cooperative, stepped down from the Board of Directors.

Members of the Board of Directors are:

Chairperson	Harri Luhtala	CFO, OP-Pohjola Group Central Cooperative
Deputy chairperson	Elina Ronkanen-Minogue	Head of Asset and Liability Management, OP-Pohjola Group Central Cooperative
Members	Sakari Haapakoski	Managing Director, Oulun Osuuspankki
	Hanno Hirvinen	Senior Vice President, Pohjola Bank
	Heikki Kananen	Managing Director, Mäntsälän Osuuspankki
	Mikko Hyttinen	Senior Vice President, OP Bank Group Central Cooperative
	Mikko Rosenlund	Managing Director, Tampereen Seudun Osuuspankki
	Mika Helin	Deputy Managing Director, Hämeenlinnan Seudun Osuuspankki

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.

OPA’s Managing Director 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 2011 Annual General Meeting, with Eija Kauppi-Hakkarainen, 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 valid bond loan programme enables the issuance of new bond loans with real estate collateral in 2012. The bank's capital adequacy is estimated to remain strong, the risk position stable and the loan portfolio quality strong.

BOARD OF DIRECTORS' PROPOSAL FOR THE DISTRIBUTION OF PROFIT

The equity capital of OP Bank Group Mortgage Bank on 31 December 2011 stood at EUR 256,453,606.48, with distributable equity made up as follows:

+ Profit for the period on the income statement	7,654,673.43
+ Retained earnings	13,798,933.05
Total	21,453,606.48

The Board of Directors proposes that the distributable equity be disposed of as follows:

A dividend of EUR 26.12/share shall be paid, totalling EUR 2,000,583.04.

EUR 19,453,023.44 shall be retained in distributable equity.

INCOME STATEMENT

EUR	Note	2011	2010
Interest income		133,180,210.08	63,313,822.52
Interest expenses		109,033,688.09	46,963,417.92
Net interest income	3	**24,146,521.99**	**16,350,404.60**
Impairment losses on receivables		-358,272.25	-
Net commission income and expenses	4	-10,206,743.40	-8,449,713.45
Net income from trading	5	-439.25	-1,036.11
Net income from investments	6	486,982.05	1,700.00
Other operating income	7	5,208.33	18,847.96
Personnel costs	8	282,452.49	287,908.38
Other administrative expenses	9	2,053,940.59	1,396,090.42
Other operating expenses	10	1,396,190.55	1,397,621.79
Earnings before taxes		**10,340,673.84**	**4,838,582.41**
Income taxes	11	2,686,000.41	1,264,140.60
Profit for the period		**7,654,673.43**	**3,574,441.81**
OPA's COMPREHENSIVE STATEMENT OF INCOME			
Profit for the period		**7,654,673.43**	**3,574,441.81**
Other comprehensive income		-	-
Total comprehensive profit for the period		**7,654,673.43**	**3,574,441.81**

BALANCE SHEET

EUR	Note	31.12.2011	31.12.2010
Receivables from financial institutions	12	82,434,423.44	61,672,897.48
Derivative contracts	13	198,380,068.59	71,255,402.44
Receivables from customers	14	7,534,557,449.50	5,008,381,179.40
Investments assets	15	17,000.00	17,000.00
Intangible assets	16	586,890.21	913,546.18
Tangible assets	17	-	3,169.63
Other assets	18	96,300,884.31	48,790,397.53
Total assets		**7,912,276,716.05**	**5,191,033,592.66**
Liabilities to financial institutions	19	2,070,000,000.00	1,640,000,000.00
Derivative contracts	20	11,212,391.67	21,835,298.29
Debt securities issued to the public	21	5,423,084,664.10	3,286,746,721.13
Provisions and other liabilities	22	131,212,806.10	63,310,822.38
Tax liabilities	23	313,247.70	341,817.81
Subordinated liabilities	24	20,000,000.00	20,000,000.00
Total liabilities		**7,655,823,109.57**	**5,032,234,659.61**
Shareholders’ equity			
Shareholders' interest			
Share capital		60,000,000.00	60,000,000.00
Invested unrestricted equity fund		175,000,000.00	85,000,000.00
Accumulated profits		21,453,606.48	13,798,933.05
Total equity	25	**256,453,606.48**	**158,798,933.05**
Total liabilities and shareholders’ equity		**7,912,276,716.05**	**5,191,033,592.66**

CASH FLOW STATEMENT

EUR thousand €	2011	2010
Cash flow from operating activities		
Comprehensive income	7,655	3,574
Adjustments to profit	3,117	1,538
Increase (+) or decrease (-) in operating assets		
Receivables from financial institutions	-	13,888
Derivative contracts	-127,125	4,679
Receivables from customers	-2,526,176	-648,345
Other assets	-47,500	14,394
Increase (+) or decrease (-) in operating liabilities		
Liabilities to financial institutions	430,000	640,000
Derivative contracts	134,824	-9,393
Provisions and other liabilities	67,798	-8,421
Income taxes paid	-2,715	-1,317
A. Total cash flow from operating activities	**-2,060,121**	**10,597**
Cash flow from investing activities		
Investments in tangible and intangible assets	-8	-246
B. Total cash flow from investing activities	**-8**	**-246**
Cash flow from financing activities		
Increases in debt securities issued to the public	1,990,891	-4,807
Decreases in debt securities issued to the public	-	-
Increases in invested unrestricted capital funds	90,000	15,000
Dividends paid	-	-
C. Total cash flow from financing activities	**2,080,891**	**10,193**
Net change in cash and cash equivalents (A+B+C)	**20,762**	**20,544**
Cash and cash equivalents at the beginning of the period	**61,673**	**41,129**
Cash and cash equivalents at the end of the period	**82,434**	**61,673**
Adjustments to profit for the period		
Items not associated with payment and other adjustments		
Depreciation	338	277
Taxes	2,779	1,262
Other	-	-
Total adjustments	**3,117**	**1,538**

CHANGE CALCULATION ON SHAREHOLDERS' EQUITY

		Share capital	Other reserves	Accumulated profits	Total
Shareholders' equity on 1.1.2011	25	**60,000**	**85,000**	**13,799**	**158,799**
Invested unrestricted equity fund		-	90,000	-	90,000
Comprehensive profit for the period		-	-	7,655	7,655
Other changes		-	-	-	-
Shareholders' equity on 31.12.2011		**60,000**	**175,000**	**21,454**	**256,454**

		Share capital	Other reserves	Accumulated profits	Total
Shareholders' equity on 1.1.2010	25	**60,000**	**70,000**	**10,224**	**140,224**
Invested unrestricted equity fund		-	15,000	-	15,000
Comprehensive profit for the period		-	-	3,574	3,574
Other changes		-	-	-	0
Shareholders' equity on 31 December 2010		**60,000**	**85,000**	**13,799**	**158,799**

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Appendix 1. Accounting Policies

GENERAL

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

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

OP-Palvelut Oy, a service company wholly owned by the OP-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 and the IAS 8 standard on accounting policies, 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 its registered address is Teollisuuskatu 1b, P.O. Box 308, FIN-00101 Helsinki.

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

The bank's Board of Directors approved the financial statements on 2 February 2012.

ACCOUNTING PRINCIPLES

The financial statements of OP Mortgage Bank have been prepared in accordance with the International Financial Reporting Standards (IFRS). The preparation of financial statements is subject to the IAS and IFRS standards and SIC and IFRIC interpretations valid on 31 December 2011. International Financial Reporting Standards refer to the standards and interpretations approved in accordance with European Parliament and Council Regulation (EC) No 1606/2002. In addition to the IFRS standards, the preparation of the financial statements of OP Mortgage Bank is subject to Chapter 9, Section 146(6) of the Credit Institutions Act.

The accounting policies and principles are ultimately the same as in the 2010 financial statements.

The following standards and interpretations do not have any effect on OP Mortgage Bank's financial statements:

- Amendment in IAS 32, Classification of Financial Instruments Issued (valid from 1 February 2010)
- IAS 24 (revised), Related Party Disclosures (valid from 1 January 2011).
- IFRIC 14, IAS 19 (amended), The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (valid from 1 January 2011)

The financial statements of OP Mortgage Bank have been prepared on the basis of the original acquisition costs with the exception of financial assets and liabilities recognised through profit or loss, financial assets available for sale, hedged items in fair value hedging, and equity commissions classified as liabilities.

The income statement and balance sheet figures are presented in euro and cents, while other financial statement figures are presented in thousands of euro.

Use of estimates

The preparation of financial statements in accordance with IFRS requires management to make estimates and exercise discretion in the application of accounting policies. Accounting policies requiring management to make estimates and exercise discretion are addressed in more detail in the section “Accounting policies requiring discretion by management and crucial factors of uncertainty associated with estimates”.

ITEMS DENOMINATED IN A FOREIGN CURRENCY

OP Mortgage Bank’s financial statements are denominated in euro, which is the company’s operating and presentation currency. Transactions denominated in a foreign currency are recognised in euro following the rates on the transaction date or the average rate in the recognition month. Monetary balance sheet items denominated in a foreign currency on the reporting date are converted into euro following the rate valid on the reporting date. Non-monetary balance sheet items that are measured at the original acquisition cost are presented following the rate valid on the transaction date.

Any exchange rate differences created by the conversion of transactions and monetary balance sheet items denominated in a foreign currency into euro are recognised as translation gains or losses on the income statement item ‘Net trading income’.

FINANCIAL INSTRUMENTS

Determination of fair value

Fair value refers to the amount with which a property item could be exchanged or with which a debt could be paid between parties that are aware of the matter, willing to engage in business operations and independent of each other.

The fair value of a financial instrument is determined using either price quotations from an active market or, if there is no active market, using the company’s own valuation methods. Market is deemed functional if price quotations are easily and regularly available, and reflect real and regular market transactions between parties independent of each other. The quoted market price of financial assets used is the current purchase rate.

If the market has standard valuation practices for financial instruments for which the market price cannot be obtained directly, the fair value will be based on the market’s generally used model for calculating the market price and the market quotations of the input information used by the model.

If there is no established valuation practice in the market, the market value is determined by using a separate valuation model prepared for the product in question. The valuation models are based on generally used calculation methods, covering all factors that market parties would take into account when setting a price, and are uniform with the accepted financial methods used in pricing financial instruments.

The valuation methods used include the prices of recent market transactions between parties that are aware of the matter and willing to engage in business operations, the discounted cash flow method, and the fair value of a substantially similar instrument on the closing date. The valuation methods account for estimated credit risk, the applicable discount rates of interest, the possibility of premature repayment and other factors that affect the reliable determination of the fair value of a financial instrument.

The fair values of financial instruments are divided into three categories according to the determination of their fair value:

- fair values quoted for fully similar assets or liabilities on the active market (Level 1)
- fair values determined using input information other than Level 1 quoted prices that are verifiable for assets or liabilities either directly (e.g. through prices) or indirectly (e.g. derived from prices) (Level 2)
- fair values determined using input information for assets or liabilities that is not based on verifiable market prices (Level 3)

Impairment of financial assets

At the end of each reporting period, it is assessed whether there is objective evidence that the value of an item other than a financial asset item measured at fair value through profit or loss has decreased.

The value of an item not belonging to financial assets has decreased if there is objective evidence of impairment as a consequence of one or more events realised after the original recognition and it has a reliably estimated impact on the future cash flows estimated for the financial assets.

The following can be regarded as objective evidence of impairment:

- a significant decrease in the issuer's result, credit rating, balance sheet, payment behaviour or business plans, and unfavourable changes in the issuer's financial or operating environment
- a bona fide offer for buying the same or a similar investment from the market under its purchase value
- events or conditions that significantly decrease the issuer's operating capacity and continuity (going concern), such as negative cash flow caused by operations, and insufficient capital or working capital
- the debtor's breach of contract
- an easement granted to the debtor
- a previously recognised impairment
- the discontinuity of the financial instrument's active market

For equity instruments, significant or long-term impairment below their acquisition cost comprises objective evidence of impairment.

The recognition of impairment is discussed in more detail in different financial instrument groups.

Categorisation and recognition of financial instruments on the balance sheet

Financial assets and liabilities are categorised into the following groups during their original recognition: financial assets and liabilities recognised at fair value through profit or loss, loans and other receivables, investments held until their maturity, financial assets available for sale, and other financial liabilities. The classification depends on the purpose for which the financial assets and liabilities were acquired.

Purchases and sales of financial assets and liabilities recognised at fair value through profit or loss, investments held until maturity, and financial assets available for sale, are recognised on the balance sheet on the transaction date – that is, the date of commitment to purchase or sell the financial asset or liability item. Loans and other receivables are recognised on the day the customer withdraws the loan.

Financial assets and liabilities are not set off unless a statutory right of set-off exists and the intention is to exercise such a right.

Financial assets are derecognised when the contractual right to cash flows from a financial asset ceases or when the rights have been transferred to another party so that the risks and benefits associated with ownership have been transferred to a significant extent. Financial liabilities are derecognised when the associated obligations have been fulfilled and the liabilities have ceased to exist.

Financial assets and liabilities recognised at fair value through profit or loss

Balance sheet items recognised at fair value through profit or loss include financial assets and liabilities, derivative contracts held for trading, and financial assets defined to be recognised at fair value through profit or loss at initial recognition. The company does not hold any of the last mentioned items.

Financial assets and liabilities and derivative contracts held for trading

Assets held for trading include certificates of claim, shares and interests that have been acquired with the purpose of benefiting from short-term changes in market prices. Items held for trading also include all derivative contracts other than those constituting an efficient hedge relationship.

Financial assets and liabilities and derivative contracts held for trading are recognised at fair value on the balance sheet, and changes in fair value are recognised in the income statement.

Loans and other receivables

Financial assets categorised as loans and receivables are non-derivative financial assets with fixed or determinable cash flows that are not quoted on the active market.

Loans and other receivables are recognised at acquisition cost during original recognition. It is the fair value of the given consideration plus directly allocated transaction costs. After the original recognition, loans and other receivables are measured at matched acquisition cost.

Write-downs on loans and other receivables are recognised by receivable items and groups of receivables. Write-downs are assessed and recognised by receivable item if the customer’s total exposure is significant. Other write-downs are assessed and recognised by groups of receivables.

A write-down will only be recognised when there is objective proof of the customer’s impaired solvency after the initial recognition of the receivable on the balance sheet. The value of a receivable item is impaired if the future cash flows recoverable from it – including the fair value of the collateral – are less than the book value of the loan and unpaid interest. Future cash flows are discounted at the loan’s original interest rate. In the case of a variable interest rate loan, the discount rate is the rate in accordance with the contract at the time of assessment. The difference between the book value of the loan and a lower recoverable value of cash flow is recognised as an impairment loss. The difference between the debt instrument's book value and a lower estimated available cash flow is recognised as an impairment loss on debt instruments classified in loans and receivables.

For the purpose of assessing impairment losses on loans on a collective basis, receivables are divided into credit groups according to credit risk. An impairment loss on loans on a collective basis is recognised for each credit group on the basis of an average empirical assessment of future losses and their probability (Note 14).

Impairment losses are recognised as a decrease in the balance sheet item of loans and in the income statement under “Impairment losses on receivables”. Recognition of interest on the reduced amount continues after write-down.

Once all collection actions have been completed or management has otherwise made a decision to this effect, the loan is removed from the balance sheet. Any payments received after removal from the balance sheet are recognised as adjustments to write-downs on receivables. If objective evidence has been received that the capital adequacy of a customer has improved, the amount of previously recognised write-downs shall be reassessed and any change due to improved capital adequacy shall be recognised on the income statement.

Financial assets available for sale

Financial assets available for sale are non-derivative financial assets not included in the above categories of financial assets but may be sold before the due date (Note 6). Financial assets available for sale are recognised on the balance sheet at acquisition cost at the moment of purchase. It is the fair value of the paid consideration plus transaction costs allocated directly to the acquisition. Financial assets available for sale are recognised at fair value in the balance sheet. Changes in value are recognised as other comprehensive income and transferred to the income statement when the asset is derecognised from the balance sheet or there is objective proof that its value has been impaired.

With regard to notes or bonds, objective evidence of financial assets available for sale include a significant negative change in the issuer's credit rating or, with regard to an equity instrument, a significant or long-term decrease in fair value below the acquisition cost.
If a security's market value decreases after an impairment recognition, the impairment will be recognised on the income statement.

Should the fair value of an impaired note or bond categorised as financial assets available for sale subsequently increase, and if the increase can be objectively attributed to an event subsequent to the impairment loss recognition, the impairment loss shall be reversed and recognised on the income statement. If the fair value of an impaired equity instrument increases, the increase in value will be recognised at the fair value reserve.

Cash and cash equivalents

Liquid assets comprise funds in cash and receivables from credit institutions repayable upon demand.

Other financial liabilities

Other financial liabilities include financial liabilities other than those recognised at fair value through profit or loss (Note 43). Other financial liabilities include other liabilities to financial institutions and customers, and issued bonds and other financial liabilities. Other financial liabilities are recognised in the balance sheet on the clearing date and, after initial recognition, treated in accounting at matched acquisition cost.

Derivative contracts

Derivative contracts are categorised into hedging contracts and those held for trading. OPA only uses derivatives for hedging purposes (Note 30). Derivatives are always measured at fair value.

The risk management of the OP-Pohjola Group has drawn up methods and internal principles used in hedge accounting according to which a financial instrument can be defined as hedging.

According to hedging principles, the OP-Pohjola Group can hedge against interest risk, exchange rate risk and price risk by applying fair value or cash flow hedging. Fair value hedging protects against changes in fair value, and cash flow hedging protects against fluctuation in future cash flows.

Contracts cannot be treated according to the rules of hedge accounting in accounting if the hedging relationship between the hedging instrument and the related hedged object required by IAS 39 does not meet the criteria of the standard. The OP-Pohjola Group also makes derivative contracts that provide hedging against financial risks but do not meet these criteria.

Hedge accounting

Hedge accounting is used to verify that changes in the fair value of a hedging instrument fully or partially cancel any similar changes in the hedged item or in cash flow.

The connection between hedging and hedged instruments is documented in a specified form. The documentation includes information on risk management principles, the hedging strategy and the methods used for proving the effectiveness of hedging. The effectiveness of hedging is proven at the time of entering into a hedge and during the hedging period by mutually comparing the changes in the fair values or cash flows of the hedging and hedged instruments. Hedging is deemed to be efficient when the change in the hedging instrument's fair value or cash flow eliminates 80–125 percent of the change in the fair value or cash flow of the hedged contract or portfolio.

Hedge accounting for fair value

Interest risk hedging following the fair value method is associated with long-term fixed-rate liabilities (own issues), individual loan portfolios, and individual loans. The hedging instruments used include interest swap contracts, and currency swap contracts. Derivative hedging aims at locking the interest rate margin of variable- or fixed-rate market-based receivables and liabilities.

In the context of hedge accounting for fair value, changes in the values of the hedging and hedged instrument are recognised on the income statement under “Net income from investments” (bonds included in assets available for sale) and “Net interest income” (loans and own issues).

INTANGIBLE ASSETS

Intangible assets are valued at acquisition cost deducted by depreciation and impairment (Note 16). Depreciation is recognised as expenses over the course of the estimated economic life, which is two to six years for computer software and licences. The economic life of assets is reviewed at each time of closing the accounts, and their value is tested for impairment as necessary.

TANGIBLE ASSETS

Tangible fixed assets are valued at acquisition cost deducted by depreciation and impairment (Note 17). Assets are depreciated by straight-line depreciation over the estimated economic life. Planned depreciation is not applicable to land areas. Expenses arising from an asset item after the original acquisition are only capitalised in the book value of the asset if it is probable that it will produce greater economic benefit than originally estimated.

The estimated economic lives are mostly as follows:

Machinery and equipment	3 to 10 years
IT equipment	3 to 5 years
Other tangible assets	3 to 10 years

The residual value and economic life of assets are reviewed at each time of closing the accounts and adjusted if necessary to reflect any changes in the expected economic benefit.

Write-downs on tangible and intangible assets

In connection with each financial statements, it shall be assessed whether there are any indications of impairment of asset values. If such indications exist, the amount recoverable from the asset is estimated. Regardless of the existence of such indications, the recoverable amount is estimated annually for unfinished assets, goodwill and any intangible assets with an unlimited economic life. If the book value of an asset exceeds the estimated amount recoverable in the future, the excess is recognised as an expense.

The recoverable amount is the asset's fair value less the cost of sales (net sales price) or a higher value in use. The starting point is to determine the recoverable amount through the net sales price of the asset. If the net sales price cannot be determined, the value of the asset in use is determined. The value in use refers to the present value of the future cash flows expected to be recoverable from the asset. The discount rate used is the interest rate determined before tax, representing the market view of monetary time value and the special risks associated with the asset item.

If no net sales price can be determined for an asset and it does not accumulate any cash flow independent of other items, the need for impairment is determined through its cash flow producing unit, i.e. business segment, or through the company where the asset belongs. In this case, the book values of the assets included in the unit are compared to the amount recoverable from the entire cash generating unit.

An impairment loss is reversed if there is a change in the circumstances and the amount recoverable from the asset item has changed since the time the impairment loss was recognised. The reversal of impairment loss shall not exceed the amount that would be the book value of the asset if the impairment loss were not recognised. Impairment loss recognised on goodwill will not be reversed under any circumstances.

LEASE CONTRACTS

Lease contracts are categorised at the time they come into existence as finance lease contracts or other lease contracts in accordance with the actual substance of the transaction. A lease contract is a finance lease contract if an essential part of the risks and benefits characteristic of ownership are transferred to the leaseholder. Otherwise the contract is categorised into other lease contracts.

Assets leased on finance lease contracts are presented in tangible assets, and the corresponding financial leasing liability is presented in other liabilities. At the commencement of the contract, leased assets are recognised on the balance sheet as assets and liabilities to an amount equal to the fair value of the leased asset or a lower present value of minimum rents. Depreciation on assets booked in tangible assets is applied over the economic life or a shorter lease period. Financing costs are booked in interest expenses so that the interest rate on the remaining debt is equal for each financial period. Sales gains in situations of sale and subsequent lease are allocated over the period of lease.

Rents paid on assets leased under other lease contracts are recognised as expenses on the income statement in equal instalments over the period of lease.

EMPLOYEE BENEFITS

Pension benefits

Statutory pension cover for OPA's employees is arranged either through the OP-Pohjola Group Pension Fund or through insurance policies with insurance companies. Supplementary pension cover for employees is arranged through the OP-Pohjola Group Pension Foundation or an insurance company.

OPA has both defined benefit and defined contribution pension plans. The pension plans arranged through the OP-Pohjola Group Pension Fund, insofar as the funded parts of disability and old age pensions are concerned, are regarded as defined benefit plans. The plans arranged through the OP-Pohjola Group Pension Foundation are defined benefit plans in their entirety.

The expenses arising from pension plans are recognised under “Personnel expenses” on the income statement. In defined contribution plans, the insurance contributions are recognised as expenses for the period to which the charge applies. There are no other payment obligations under defined contribution plans (Note 8).

Defined benefit plans in the OP-Pohjola Group Pension Fund and the OP-Pohjola Group Pension Foundation are financed by payments based on actuarial calculations.

In defined benefit plans, the present value of the obligations arising from the plan on the balance sheet date deducted by the fair value of the funds included in the plan is presented as an asset. Actuarial gains and losses and past service costs are also taken into account.

The obligations from defined benefit pension plans are calculated separately for each plan. The calculation is performed using the project unit credit method. Pension costs are recognised as expenses over the appropriate person's period of service on the basis of calculations made by authorised actuaries. The discount rate used in calculating the present value of a pension obligation is defined on the basis of the market revenue of high-quality bonds issued by companies on the closing day of the reporting period.

Actuarial gains and losses will be recognised on the income statement over the average remaining period of service to the extent that they exceed the greater of the following: ten per cent of the pension obligation or ten per cent of the fair value of the assets.

Share-based employee benefits

OPA uses a short- and long-term management incentive scheme on the basis of which a person included in the scheme can receive a reward partially settled in Pohjola Bank plc's A-shares and partially in cash for services rendered during the "earning and commitment period". These incentive schemes are recognised as equity or share-based operations paid as liquid assets, depending on the payment method.

Share-based employee benefits paid as equity are recognised at fair value on their date of issuance. The amount recognised as expenses is allocated to personnel expenses and an increase in equity during the benefit's generation period. Share-based benefits settled in cash and the corresponding liability are measured at fair value at the end of each period. The amount recognised as expenses is allocated to personnel expenses and accrued expenses during the benefit's generation period.

The estimated number of implemented shares is reviewed quarterly. Any impact of the reviews on the original estimates are recognised on the income statement as personnel expenses, and a corresponding adjustment is made to equity and accrued expenses.

INCOME TAXES

The income taxes on the income statement include taxes based on the taxable income for the fiscal period, taxes for previous fiscal periods and deferred tax expenses or income (Note 11).

Deferred tax liabilities are calculated for all taxable temporary differences between accounting and taxation. Deferred tax receivables are calculated for all tax-deductible temporary differences between accounting and taxation, as well as all losses confirmed in taxation. If the accumulation of taxable income makes it probable that a receivable can be utilised, it will be recognised.

Deferred tax liabilities and receivables are netted. Deferred tax liabilities and receivables are calculated in accordance with the enacted tax rate that is anticipated to be valid when the temporary difference is dissolved. If a deferred tax item arises from balance sheet items whose changes have no effect on the income statement, the change in deferred tax is not recognised on the income statement but in other items on the comprehensive income statement.

INCOME RECOGNITION PRINCIPLES

Interest income and expenses on interest-bearing asset and liability items are booked on an accrual basis. Interest on receivables with non-serviced due payments are also recognised as income. Such an interest receivable is included in impairment testing. The difference between the acquisition cost and the nominal value of a receivable is allocated in interest income, and the difference between the amount received and nominal value of a liability is allocated in interest expenses.

Commission income and expenses on services are recognised when the service is rendered. In the case of non-recurring commissions related to several years that may possibly have to be returned later, only the share applicable to the financial period is recognised.

Dividends are generally recognised once the General Meeting of the company distributing the dividend has decided upon the distribution of dividend.

The income statement presents income and expense items separately from one another without any deductions, unless the combination of income and expenses into a single item is justified in order to present the correct and sufficient situation.

A summary of the presentation of income statement items in the financial statements:

Net interest income	Received and paid interest on interest instruments, the allocated difference between the nominal value and purchase value, interest on interest derivatives, and the change in value in fair value hedging
Net commission income and expenses	Commission income and expenses, and the allocation of the Day 1 profit related to illiquid derivatives
Net income from trading	Changes in the fair value of financial instruments recognised at fair value through profit or loss without accrued interest, sales gains and losses, and dividends
Net income from investments	Realised sales gains and losses of financial assets available for sale, impairment, dividends and changes in the fair value of investment real estate, sales gains and losses, leases and other real estate expenses
Other operating income	Other operating income
Personnel costs	Salaries, fees, share-based employee benefits, pension expenses, social expenses
Other administrative expenses	Office, IT and other administrative expenses
Other operating expenses	Depreciation, leases and other expenses

SEGMENT REPORTING

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

ACCOUNTING POLICIES REQUIRING DISCRETION BY MANAGEMENT AND CRUCIAL FACTORS OF UNCERTAINTY ASSOCIATED WITH ESTIMATES

Estimates and assumptions regarding the future are made during the preparation of financial statements, and the outcome may differ from the realised situation. Furthermore, the application of accounting policies requires discretion.

The impairment testing of receivables is prepared on the basis of a receivable item or group. Receivable-specific impairment testing is based on the management's estimate on future loan-specific cash flows. The most critical factor in loan-specific impairment testing is to determine the cash flow that is the most likely to be realised.

For the purpose of assessing impairment by groups of receivables, receivables are divided into groups with similar credit risk. Impairment recognised for groups of receivables is based on an estimate of future losses based on historical information. In this case, the management’s discretion is required for assessing how well the estimates based on historical information on future losses correspond with the realised losses, and whether any adjustments are needed in the estimates on future losses based on historical information.

Impairment testing of financial assets available for sale, certificates of claim included in loans and receivables, and investments held until the due date must be performed on each closing date. If there is objective evidence of impairment, impairment is recognised in the income statement. With regard to equity instruments, impairment must also be recognised if it is significant or long-term. The determination of significant or long-term impairment comprises part of the management’s normal discretion. The determination is performed separately for each instrument, taking into account the general accounting principles and the requirements of standards.

The management must estimate when the financial instrument market is not functional. In addition, the management must assess whether a single financial instrument is subjected to active trading and whether the price information available on the market comprises a reliable indication of the instrument's fair value. Otherwise, the fair value of financial instruments is determined following the valuation method. The management's discretion is required for selecting the applicable valuation method. Where input data is not available on the market for the results produced by the models, the management must assess the extent of using other data. Furthermore, the functionality of the valuation methods is inspected regularly.

In defined benefit pension plans, the property item presented is the current value of the obligations arising from the plan less the fair values of the assets belonging to the plan, unrecognised actuarial gains and losses, and costs based on a retroactive work performance. The calculation includes actuarial assumptions pertaining to the future, including the discount rate, the expected return on the assets, future increases in wages, salaries and pensions, the turnover rate and inflation.

NEW STANDARDS AND INTERPRETATIONS

OPA will adopt the following standards and interpretations in 2012:

- Amendment to IFRS 7 (Financial Instruments: Disclosures; transfers of financial assets) requires additional notes on risk positions arising from transferred financial assets. The amendment expands detailed note requirements to concern such transfers of financial assets which have been derecognised from the balance sheet in full but in which the transferring party has retained a continuous interest. The amendment may increase the number of notes to be reported in future financial statements. The amendment is valid for financial periods starting on 1 July 2011 or later, but has not been approved to be applicable within the EU.
- Revised IAS 12 Deferred Tax: Recovery of Underlying Asset (valid over financial periods starting on 1 January 2012 or later). The amendment does not have any impact on OPA's financial statements.

The more detailed project programme of the IASB (International Accounting Standards Board) extends to the end of 2012. The amendments will cover the presentation and valuation of financial instruments, the recognition of impairment, hedge accounting, and the netting of assets and liabilities. Other significant amendments are related to the presentation of financial statements, employee benefits, lease contracts, insurance agreements, the determination of fair value, consolidated financial statements, and joint arrangements. Furthermore, the IASB has estimated the publication of other amendments to information concerning financial statements. OPA is actively monitoring the progress of the amendments.

Appendix 2. Principles of risk management and capital adequacy management

General principles of risk management and capital adequacy management

The objective of capital adequacy management is to ensure OPA's risk tolerance and subsequently the continuity of operations. Capital adequacy management has been integrated as part of OPA's business control and management. OPA's capital adequacy management is arranged in accordance with instructions issued by the central institution.

The organisation of reliable administration, internal auditing and the capital adequacy management process are regulated by the Act on Credit Institutions, and the standards, regulations and guidelines of the Financial Supervisory Authority. Furthermore, 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 guides the operations of the amalgamation as its central institution. OP Pohjola Group's capital adequacy management principles are approved by OP-Pohjola Group Central Cooperative's Supervisory Board. The principles define the general framework for meeting the statutory and regulated obligations related to the management of capital adequacy, and the general application of the Financial Supervisory Authority's standards at the OP Pohjola Group level and in organisations belonging to the OP Pohjola Group.

Internal supervision

Internal supervision is a comprehensive process which covers the supervision of financial and all other operations. Internal supervision is part of everyday operations and implemented at all organisational levels.

Monitoring the realisation of business objectives and targets is an essential part of internal supervision within the OP-Pohjola Group. 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. Performance indicators, together with credit and supervision limits, forms 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.

Reliable administration

Compliance with the principles of reliable administration 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 reliable administration principles as part of its capital adequacy management principles.

Risk and capital adequacy management

Risk and capital adequacy management comprises part of the control and supervisory framework in internal supervision. The objective of risk and capital adequacy management is to secure OPA's risk tolerance, which 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 define the general framework for meeting the statutory and regulated obligations related to the management of risks and capital adequacy, and the general application of the Financial Supervisory Authority’s standards at the OP-Pohjola Group level and in organisations belonging to the OP-Pohjola Group.

Risk management

The primary objective of risk management is to secure OPA’s risk tolerance and to ensure that the company is not exposed to excessive risk that might endanger the profitability, solvency or continuity of the OPA’s operations or those of the entire OP Pohjola Group.

The risk management process includes the recognition, measurement and evaluation of risks, and their limitation, reporting and supervision. 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 supervisory limits set for risk tolerance and central types of risk. The coverage and development needs of the indicators are reviewed annually. Before the risk indicators and risk limits are confirmed, a statement is requested from risk management control. The OP-Pohjola Group Central Cooperative’s Executive Board has set monitoring limits for OPA’s capital adequacy and credit risks that OPA should not exceed in its operations.

Capital adequacy management

The objective of capital adequacy management is to secure OPA's risk tolerance and ensure that the company's operating conditions are not endangered in the long term. Capital adequacy management consists of the comparison of the estimated risk position and its expected development with available funds. The requirement for own funds is estimated following the financial capital requirement model. The development of profitability and capital planning also play central parts in capital adequacy management.

Financial capital requirement and stress tests

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 the unexpected losses arising from risks embedded in business operations.

On the basis of the Group's internal risk models, the financial capital requirement model calculates the financial capital required for covering the risks using a timeline of one year and a confidence interval of 99.97 per cent.

The financial capital requirement is calculated for credit risks, interest, share and real estate risks associated with banking operations, and operational risks. OP-Pohjola Group's performance and risk limit indicators utilise indicators based on the financial capital requirement.

Stress tests are used to assess how various exceptionally serious but potential situations may impact OPA. Stress tests can be used to identify the most essential risks for the company and assess the vulnerability of the company's financial standing according to these risks.

Organisation of risk management 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. 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 risk and capital adequacy management policies, business objectives, capital plan principles and 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 the up-to-datedness of the OP-Pohjola Group's strategy and risk limits and the proactive contingency plan for its own funds, at least annually. 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 OP-Pohjola Group's risk policy and general risk and capital adequacy management principles. 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, its member institutions and member banks.

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 in relation to long-term strategic performance indicators, risk limits, and current and future official capital requirements.

OP-Pohjola Group's Risk Management Committee, which reports to the Executive Board of the OP-Pohjola Group Central Cooperative, contributes to supervising the OP-Pohjola Group's long-term operating preconditions. It 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 makes proposals to the Executive Board of the OP-Pohjola Group Central Cooperative concerning general principles related to risk management and capital adequacy management. 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 capital adequacy management by verifying that the OP-Pohjola Group's organisations operate profitably and safely in compliance with the 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.

Credit granting authorisations are confirmed in the agency agreement between the intermediary banks and OPA. Credit approval decisions are primarily made by the intermediary bank. However, with regard to construction-time financing for housing corporations, decisions must be submitted to OPA, where credit approval decisions are made by the Credit Committee.

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. 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 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 stress tests associated with the unfavourable development of OPA's own 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 at maximising its profitability, but instead aims at paying incentive sales commissions to the member banks of the OP-Pohjola Group, which act as its agents in the capacity of loan intermediaries. However, profitability is maintained at a sufficient level with regard to risk tolerance.

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. A controlled (disciplined) funding process plays a central part in credit risk management as guided by credit risk policies, decision-making authorisations and operating instructions. In banking operations, credit risks are basically controlled through customer selections, securities, covenant terms and the avoidance of risk groups. OPA only grants new loans with housing as collateral to private customers, which prevents individual customer exposure from increasing significantly in relation to the bank's own funds.

Credit risk management methods

Within the OP-Pohjola Group, credit risk taking 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.

The starting point for credit risk management, and a specific strength of banks within the OP-Pohjola Group, is local, comprehensive knowledge of our customers. Lending will primarily be carried out on the basis of the customer’s sufficient and verified credit servicing ability. In order to ensure the repayment of commitments, customer exposure must have securing collateral.

The credit servicing ability and credit risk associated with private customers is assessed on the basis of credit ratings for financing projects, solvency calculations and payment behaviour data. Payment capacity calculations ensure that a private customer can fulfil its obligations. Granting a loan is also affected by the reference calculation prepared in financing negotiations in the event of an increase in interest rates and the financing rate calculated for the customer. For securing the repayment of a loan, insurance policies linked with the loan are offered in the event of illnesses and unemployment.

In order to stabilise credit servicing costs upon a possible rise in the interest rate level, the OP-Pohjola Group offers interest hedging products and fixed-rate agreements for housing loans granted to households and for corporate loans.

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. In addition to models that estimate customers' payment capacities, credit rating covers models related to credit risk parameters for the probability of default (PD), loss given default (LGD) and exposure at default (EAD). In OPA, the credit risk models have an impact on the following:

- granting and pricing of credit
- determining decision-making authorisations for financing
- setting and monitoring the loan portfolio's qualitative objectives
- credit risk reporting
- calculating the financial capital requirement
- the classification of housing loans eligible as collateral for bond loans

Credit rating and the probability of default

The purpose of 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 capital adequacy of its customers. Loans of private customers included in minority exposures are rated using separate rating models at the application stage and as part of the bank's loan portfolio.

In evaluating the capital adequacy 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 capital adequacy 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 over the past 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 customers' capital adequacy, 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 amount of exposure during insolvency in the balance of an insolvent customer's agreement. 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.

Use of credit risk models in capital adequacy calculation

In September 2008, the Financial Supervisory Authority provided the OP-Pohjola Group Central Cooperative with permission to exercise the Internal Ratings Based Approach (IRBA) in consolidated capital adequacy calculation for equity investments and Pohjola Bank plc's corporate exposure. In October 2011, the OP-Pohjola Group Central Cooperative and member institutions within the amalgamation of cooperative banks (including OP-Kotipankki Oyj) and companies within their consolidated groups obtained permission to adopt an internal credit rating method for retail and credit institution exposure, and other corporate exposure.

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 September 2008, the calculation was started for equity investments and Pohjola Bank's corporate liabilities at the group level following the basic internal credit rating method. 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 that are used for loss given default (LGD) and exposure at default (EAD) are calculated using models set by authorities.

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 models related to credit risk parameters. 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. In addition to the fair value principle of the Act on Mortgage Credit Banks, the collateral of the granted credit has also been 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, it is verified whether the collateral should be reassessed. 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 housing collateral is revised once a year on the basis of indices derived from official purchase price statistics.

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 with housing collateral. 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 monitoring 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 monitoring and control indicators 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 monitoring limits. The central institution approves the qualitative objectives for the liquidity reserve, a funding plan, a continuity plan for capital adequacy management, and operating methods for liquidity management. The continuity plan for capital adequacy management consists of a preparedness-based control model, a contingency plan including funding sources, and a continuity plan for operational capital adequacy 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 a 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 for securing 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 when the market price or its volatility changes towards an unfavourable position.

In the International Financial Reporting Standards (IFRS 7, *Financial Instruments: Disclosures),* the market risk for financial instruments includes currency risk, interest risk and other price risk. The other price risk mainly covers stock and commodity 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.

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. Deviating interest tying in OPA's lending and funding represents the most significant source of interest rate risk.

When determining the interest rate risk, items sensitive to changes in interest rates are divided into cash flow inspection according to interest adjustment dates. The interest adjustment date of fixed-rate items is the due date. The future interest cash flows of variable-rate items are calculated according to the review date's interest curve using the forward forward procedure on the basis of the contract's interest information. The review takes the repricing delays of administrative interest into account. Preliminary repayments of loans have not been modelled.

OPA has hedged the interest rate risk of its entire housing loan portfolio through interest rate swaps. By means of interest rate swaps, base rate cash flows from the housing loans to be hedged are swapped with Euribor cash flows. OPA has also swapped the fixed interest rates for all of the bonds issued by it with short-term market interest rates. 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 the net interest income over the next 12 months. OPA's interest risk is monitored and reported daily.

Real estate risk

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 into 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. 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 to control the risk at an acceptable risk level.

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.

In the management of operational risks, the OP-Pohjola Group follows a uniform, system-supported operating model. According to the new 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 accidents occurring to other financial operators, analyses them, and secures sufficient methods in order to prevent similar accidents.

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.

Compliance risks

Compliance risks comprise parts of operational risks. Compliance risk refers to risks arising from the 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.

The compliance risk is controlled by instructing, training and consulting the organisation, and by monitoring the compliance of procedures with regulations. Furthermore, compliance risks are identified, assessed and reported regularly according to the operational risk management model described above. The compliance of new products and business models with regulations is assessed as part of the approval process of the specific product or model.

Compliance operations comprise an essential part of reliable administration. The objective of OPA’s compliance operations is to ensure that business operations comply with laws, official instructions and orders, self-regulation of the markets, and OPA’s internal operating principles and guidelines, as well as appropriate and ethically acceptable principles and procedures in customer relationships.

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.

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.

NOTES TO THE INCOME STATEMENT

NOTE 3. Interest income and expenses	2011	2010
Interest income		
From receivables from financial institutions	532	189
From receivables from customers	154,270	81,405
From debt instruments available for sale	659	-
From derivative contracts		
From hedge accounting	-22,363	-18,423
Other interest income	81	144
Total	**133,180**	**63,314**
Interest expenses		
From liabilities to financial institutions	24,102	7,769
From derivative contracts		
Held for trading	-	-
From hedge accounting	-213,619	-62,484
From debt securities issued to the public	298,147	101,386
Interest expenses on subordinated liabilities	372	261
Other interest expenses	32	32
Total	**109,034**	**46,963**
Net interest income	**24,147**	**16,350**

Net income from hedge accounting

Net income from hedging instruments is 137,748 (-14,543) and net income from hedged items is -137,748 (14,543) .
Figures from 2010 are shown in brackets.

NOTE 4. Net commission income and expenses	2011	2010
Commission income		
From lending	3,569	2,731
Total	**3,569**	**2,731**
Commission expenses		
From securities	16	18
Other	13,760	11,162
Total	**13,776**	**11,180**
Net commission income and expenses	**-10,207**	**-8,450**

Other commission expenses constitute mainly commissions paid to intermediary banks.

NOTE 5. Net income from trading	2011	2010
From financial assets and liabilities held for trading		
Valuation gains and losses		
From derivatives	-	-
Net income from foreign exchange operations	0	-1
Total	0	-1
Total net income from trading	**0**	**-1**

NOTE 6. Net income from investments	2011	2010
Net income from financial assets available for sale		
Income from shares and holdings	487	2
Total net income from investments	**487**	**2**

NOTE 7. Other operating income	2011	2010
Other operating income	5	19
Total other operating income	**5**	**19**

NOTE 8. Personnel costs	2011	2010
Salaries and remuneration	242	254
Pension costs	32	23
Defined contribution plans	34	21
Defined benefit plans	-2	2
Other indirect personnel costs	8	10
Total personnel costs	**282**	**288**

NOTE 9. Other administrative expenses	2011	2010
Office expenses	133	173
IT expenses	1,788	1,125
Telecommunications	116	73
Marketing	2	1
Other administrative expenses	15	24
Total other administrative expenses	**2,054**	**1,396**

NOTE 10. Other operating expenses	2011	2010
Rental expenses	37	32
Depreciation		
On machinery and equipment	1	2
On intangible assets	337	274
Total	338	277
Other	1,022	1,089
Total other operating expenses	**1,396**	**1,398**

Fees paid to auditors by assignment group	2011	2010
Auditing	9	10
Assignments referred to in section 1, paragraph 1, subparagraph 2, of the Auditing Act	-	-
Tax counselling	-	-
Other services	33	35
Total	**42**	**45**

NOTE 11. Income taxes	2011	2010
Tax based on taxable income for the financial period	2,779	1,262
Taxes from previous periods	-	-
Deferred taxes	-93	2
Taxes on the income statement	**2,686**	**1,264**
Corporate income tax rate	26%	26%

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

	2011	2010
Earnings before taxes	10,341	4,839
Share of the profit according to the tax rate	2,689	1,258
Taxes from previous periods	-	-
Change in tax rates	-3	-
Other	-	6
Taxes on the income statement	**2,686**	**1,264**

NOTES TO THE BALANCE SHEET

NOTE 12. Receivables from financial institutions	2011/12/31	2010/12/31
Receivables from financial institutions		
Deposits		
Repayable on demand	82,434	61,673
Other than deposits repayable on demand	-	-
Total receivables from financial institutions	**82,434**	**61,673**

NOTE 13. Derivative contracts	2011/12/31	2010/12/31
Hedging derivative contracts – fair value hedging		
Interest rate derivatives	198,380	71,255
Total derivative contracts	**198,380**	**71,255**

NOTE 14. Receivables from customers	2011/12/31	2010/12/31
Loans to the public and public sector entities	610,712	581,358
Loans acquired and other receivables	6,924,204	4,427,024
Impairment losses on loans on a collective basis	-358	-
Total	7,534,557	5,008,381
Total receivables from customers	**7,534,557**	**5,008,381**

NOTE 15. Invested capital	2011/12/31	2010/12/31
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 2011.

NOTE 16. Intangible assets	2011/12/31	2010/12/31
Software, licences and user rights	587	914
Total intangible assets	**587**	**914**

Changes in intangible assets	2011/12/31			2010/12/31		
	Software	Software / financial	Intangible assets	Software	Software / financial leasing	Total intangible
Acquisition cost on 1.1 December	425	1,207	1,633	569	818	1,387
Increases	-237	246	10	-143	389	246
Acquisition cost on 31 December	189	1,454	1,643	425	1,207	1,633
Accumulated depreciation and impairment losses on 1 Ja	179	541	719	170	274	445
Depreciation for the period	1	336	337	8	266	274
Accumulated depreciation and impairment losses on 31 D	179	876	1,056	179	541	719
Book value on 31 December	9	577	587	247	667	914

Depreciation, 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 17. Tangible assets	2011/12/31	2010/12/31
Machinery and equipment	-	3
Total tangible assets	**-**	**3**

Changes in tangible assets

	2011/12/31	2010/12/31
Changes in tangible assets	Machinery and equipment	Machinery and equipment
Acquisition cost on 1.1 December	20	20
Increases	-3	-
Acquisition cost on 31 December	17	20
Accumulated depreciation and write-downs and revaluations on 1.1 December	17	15
Depreciation for the period	0	2
Accumulated depreciation and write-downs and revaluations on 31 December	17	17
Book value on 31 December	0	3

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 18. Other assets	2011/12/31	2010/12/31
Pension assets	248	237
Deferred income		
Interest	95,957	48,474
Other	89	79
Total	**96,294**	**48,790**

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

Balance sheet values of defined benefit pension plans	**2011/12/31**	**2010/12/31**
Fair value of assets	439	724
Present value of funded obligations	-433	-695
	6	30
Unrecognised actuarial gains (+) and losses (–)	241	207
Net receivable	**248**	**237**

The pension plan assets include	**2011/12/31**	**2010/12/31**
Shares of Pohjola Bank plc	14	26
Securities issued by companies included in the OP-Pohjola Group	5	22
Other receivables from companies included in the OP-Pohjola Group	42	0
Properties used by the OP-Pohjola Group	10	5
Total	**71**	**53**

Defined benefit pension costs on the income statement	**2011/12/31**	**2010/12/31**
Expenses based on the period's work performance	13	12
Interest expenses	29	28
Expected return on assets	-48	-43
Actuarial gains and losses	4	5
Total defined benefit pension costs on the income statement	**-2**	**2**
Actual return on assets	-296	68

Description of the criterion used for specifying the total income on assets, including the impact of the most important asset groups within the scheme

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

	2011/12/31	2010/12/31
Present value of the obligation on 1.1 December	695	639
Expenses based on the period's work performance	13	12
Interest expenses	29	28
Actuarial gains and losses	-237	93
Benefits paid	-16	-22
Expenses based on retroactive work performance	-	-
Gain on TyEL interest rate difference, payment to balancing	-	-
Increase in old-age pension liability, receivable from balancing	2	3
Change in distribution ratio	-52	-59
Present value of the obligation on 31 December	**433**	**695**

Changes in fair values of assets

	2011/12/31	2010/12/31
Fair value of assets on 1.1 December	724	659
Expected return on plan assets	48	43
Actuarial gains and losses	-345	22
Contributions paid by the employer	8	10
Contributions paid by plan members	-	-
Benefits paid	-16	-22
Gain on TyEL interest rate difference, payment to balancing	-	-
Increase in old-age pension liability, receivable from balancing	2	3
Change in distribution ratio	18	10
Fair value of assets on 31 December	**439**	**724**

Contributions payable to the defined benefit pension plan in 2012 are estimated to be EUR 7,000.

Share of the most significant asset groups from the total fair value of plan assets, %

	2011/12/31	2010/12/31
Shares and holdings	17	32
Notes and bonds	39	42
Properties	13	19
Other assets	31	7
Total	**100**	**100**

Central actuarial assumptions used	**2011**	**2010**
Discount rate, %	4.50	4.00
Expected long-term return on assets, %	6,20 - 6,60	6,20 - 6,60
Future pay rise assumption, %	3.00	3.00
Future pension increases, %	2,00 - 2,40	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	10 - 19	9 - 16

Excess margin on defined benefit pension plans and empirical adjustments

	2011/12/31	2010/12/31
Present value of the obligation	433	695
Fair value of assets	-439	-724
Excess or deficit margin	**-6**	**-30**
Empirical adjustments to liabilities	-237	-6
Empirical adjustments to assets	-345	22

NOTE 19. Liabilities to financial institutions	**2011/12/31**	**2010/12/31**
Other than those repayable on demand		
Other liabilities	2,070,000	1,640,000
Total	2,070,000	1,640,000
Liabilities to financial institutions	**2,070,000**	**1,640,000**

NOTE 20. Derivative contracts	2011/12/31	2010/12/31
Hedging derivative contracts – fair value hedging		
Interest rate derivatives	11,212	21,835
Total derivative contracts	**11,212**	**21,835**

NOTE 21. Debt securities issued to the public	Average rate,	2011/12/31	Average rate, %	2010/12/31
Bonds	3.38	5,423,085	3.34	3,286,747
Total debt securities issued to the public		5,423,085		3,286,747

Non-current loans issued by OP Mortgage Bank

Loan	Book value	Interest rate tying	Nominal interest %	Maturity
OP Mortgage Bank Covered Bond 2007	999,516	Fixed	4.500	2012/6/6
OP Mortgage Bank Covered Bond 2009	1,246,374	Fixed	3.125	2014/11/19
OP Mortgage Bank Covered Bond 2010	994,381	Fixed	2.375	2015/6/15
OP Mortgage Bank Covered Bond 2011	995,699	Fixed	3.250	2016/4/1
OP Mortgage Bank Covered Bond 2011	991,985	Fixed	3.500	2018/7/11
	5,227,956			
Valuation	195,129			
Total	**5,423,085**			

NOTE 22. Reserves and other liabilities	2011/12/31	2010/12/31
Other liabilities		
Payment transfer liabilities	517	83
Deferred expenses		
Interest liabilities	128,564	61,304
Other	2,132	1,925
Total	131,213	63,311
Total provisions and other liabilities	**131,213**	**63,311**

NOTE 23. Tax liabilities	2011/12/31	2010/12/31
Income tax liabilities	267	202
Deferred tax liabilities	46	140
Total tax liabilities	**313**	**342**
Deferred tax liabilities		
From defined benefit pension plans	61	62
From other items	74	78
Total	**134**	**140**
Net deferred tax receivables/liabilities	**-134**	**-140**

Changes in deferred taxes	2011/12/31	2010/12/31
Deferred tax receivables/liabilities on 1 January	-140	-137
Recognised in the income statement		
Pension liabilities	-3	-2
Change in tax rates/deferred tax recognised through profit or loss	3	-
Other	-	0
Recognised in the balance sheet		
Other	93	-
Total deferred tax receivables/liabilities on 31 December	**-46**	**-140**
Income tax receivables	**-**	**-**
Total tax receivables and liabilities	**-46**	**-140**

NOTE 24. Subordinated liabilities		2011/12/31	2010/12/31
	Average	1.96	1.55
OPA 1/2007 variable rate debenture, 12 February 2017		20,000	20,000
Total subordinated liabilities		**20,000**	**20,000**

The debenture loan is fully subscribed by the parent company and will be repaid on 12 February 2017.

NOTE 25. Shareholders’ equity	2011/12/31	2010/12/31
Share capital	60,000	60,000
Unrestricted reserves	175,000	85,000
Accumulated profits		
Profit from previous periods	13,799	10,224
Profit for the period	7,655	3,574
Total equity	**256,454**	**158,799**

The SVOP fund consists of OP-Pohjola Group Central Cooperative's capital investment of EUR 175,000,000.

Share capital and number of shares

	Number of shares	Share capital	Total
2010/1/1	76,592	60,000	60,000
2010/12/31	**76,592**	**60,000**	**60,000**

	Number of shares	Share capital	Total
2011/1/1	76,592	60,000	60,000
2011/12/31	**76,592**	**60,000**	**60,000**

All issued shares have been paid in full.
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 26. Classification of the balance sheet

	Loans and receivables	Recognised at fair value	Available for sale	Total
Assets				
Receivables from financial institutions	82,434			82,434
Derivative contracts		198,380		198,380
Receivables from customers	7,534,557			7,534,557
Shares and holdings			17	17
Other receivables	96,301			96,301
Total on 31 Dec. 2011	**7,713,293**	**198,380**	**17**	**7,911,690**
Total on 31 Dec. 2010	**5,118,844**	**71,255**	**17**	**5,190,117**

Liabilities		Recognised at fair value	Other liabilities	Total
Liabilities to financial institutions	-		2,070,000	2,070,000
Derivative contracts	-	11,212		11,212
Debt securities issued to the public	-		5,423,085	5,423,085
Subordinated liabilities	-		20,000	20,000
Other liabilities	-		131,526	131,526
Total on 31 Dec. 2011	-	**11,212**	**7,644,611**	**7,655,823**
Total on 31 Dec. 2010	-	**21,835**	**5,010,399**	**5,032,235**

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 183,983.5 million 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 27. Grouping of the balance sheet according to the valuation method

	2011/12/31	Valuation of fair value at the end of the period		
Assets recognised at fair value	**Balance sheet value**	**Level 1***	**Level 2****	**Level 3*****
Derivative contracts	198,380	-	198,380	-
Total	**198,380**	**-**	**198,380**	**-**

	2010/12/31	Valuation of fair value at the end of the period		
Liabilities recognised at fair value	**Balance sheet value**	**Level 1***	**Level 2****	**Level 3*****
Derivative contracts	71,255	-	71,255	-
Total	**71,255**	**-**	**71,255**	**-**

* 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 28. Off-balance sheet commitments	2011/12/31	2010/12/31
Credit commitments	3,692	7,456
Total off-balance sheet commitments	**3,692**	**7,456**

NOTE 29. Leases

OP Mortgage Bank plc as the lessor

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

Leases of facilities	2011/12/31	2010/12/31
	33	31
Total	**33**	**31**

NOTE 30. Derivative contracts

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	re than 5 years	Total	Assets	Liabilities	counter-value
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**

Derivative contracts held for hedging – fair value hedging on 31 Dec. 2010

	Nominal values/remaining maturity				Fair values		Credit
	Less than 1 year	1 to 5 years	re than 5 years	Total	Assets	Liabilities	counter-value
Interest rate derivatives							
Interest rate swaps	364,261	9,258,120	-	9,622,381	71,255	21,835	144,451
Total interest rate derivatives	**364,261**	**9,258,120**	**-**	**9,622,381**	**71,255**	**21,835**	**144,451**

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	re than 5 years	Total	Assets	Liabilities	counter-value
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**

Total derivatives held for trading and hedging on 31 Dec. 2010

	Nominal values/remaining maturity				Fair values		Credit
	Less than 1 year	1 to 5 years	re than 5 years	Total	Assets	Liabilities	counter-value
Interest rate derivatives							
Interest rate swaps	364,261	9,258,120	-	9,622,381	71,255	21,835	144,451
Total derivatives	**364,261**	**9,258,120**	**-**	**9,622,381**	**71,255**	**21,835**	**144,451**

OTHER NOTES

NOTE 31. Personnel and related party

The average number of personnel was five (5) people in 2011.

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

	2011			2010		
	Parent	Management	Other	Parent	Management	Other
Other receivables	-	-	365,920	-	-	176,884
Other liabilities	20,052	-	2,279,828	105,131	-	1,788,673
Interest income			-21,614	-	-	-18,228
Interest expenses	372		-179,891	261	-	-44,791
Dividend income				-	-	
Net commission income and expenses			1,388	-	-	1,935
Operating costs	83		2,485	1,592		470
Salaries and remuneration, and performance-related pay						
Salaries and remuneration		10		-	7	-
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

NOTE 32. 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.

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 33. Post-financial events

No significant post-fiscal events.

NOTES CONCERNING RISK MANAGEMENT

NOTE 34. Own funds and capital adequacy

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

NOTE 35. 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 358,000 have been recognised as financial assets.

NOTE 36. Liabilities

	31.12.2011 Finland			31.12.2010 Finland		
	Accounting balance	Impairment losses	Interest carried	Accounting balance	Impairment losses	Interest carried forward
Assets						
Receivables from financial institutions	82,434	-	18	61,673	-	4
Receivables from customers	7,534,557	358	10,865	5,008,381	-	4,519
Derivative contracts		-		-	-	-
Other		-		-	-	-
Total	7,616,992	358	10,883	5,070,054		4,523
Off-balance sheet commitments						
Unclaimed loans and limits	3,692	-		7,456	-	-
Derivative contracts	328,295	-		144,451	-	-
Total	331,987	-		151,907	-	**-**
Total liabilities	**7,948,979**	**358**	**10,883**	**5,221,961**	-	**4,523**

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

NOTE 37. Liabilities by sector

	2011/12/31			2010/12/31		
	Net balance sheet liabilities	Off-balance sheet		Net balance sheet liabilities	Off-balance sheet	
	Finnish	Finnish	Total	Finnish	Finnish	Total
Companies	38,989	18	39,007	47,614	164	47,777
Financial and insurance institutions	82,452	328,295	410,747	61,673	144,451	206,124
Households	7,506,434	3,674	7,510,108	4,965,290	7,292	4,972,582
Non-profit organisations						
Total	**7,627,875**	**331,987**	**7,959,862**	**5,074,577**	**151,907**	**5,226,483**

NOTE 38. Credit risks

The Bank's central credit risk indicators show that the credit risk situation is stable. Järjestämättömiä saamisia oli 2.095 tuhatta euroa 31.12.2011. Saamisista ei ole kirjattu arvonalentumisia. The loan portfolio was diversified. OP Bank Group Mortgage Bank does not have any customer entities with liabilities in excess of 10% of own funds.

OP Mortgage Bank has matured receivables of EUR 1,228,068,000 on 31 December 2011. 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 39. Liabilities by credit rating

Personal liabilities by credit rating	**31.12.2011**	**31.12.2010**
Personal liabilities on the balance sheet, class A	5,061,783	3,001,482
Personal liabilities on the balance sheet, class B	1,540,114	1,589,637
Personal liabilities on the balance sheet, class B	568,447	258,694
Personal liabilities on the balance sheet, class D	216,790	76,646
Personal liabilities on the balance sheet, class E	27,075	18,613
Personal liabilities on the balance sheet, class F	12,430	10,481
Personal liabilities on the balance sheet, not classified	79,794	9,736
Off-balance sheet personal liabilities A	2,183	4,409
Off-balance sheet personal liabilities B	565	1,067
Off-balance sheet personal liabilities C	61	23
Off-balance sheet personal liabilities D	0	9
Off balance sheet personal liabilities, not classified	864	1,785
Total personal liabilities	**7,510,108**	**4,972,582**

Corporate liabilities by credit rating	31.12.2011	31.12.2010
Corporate liabilities on the balance sheet, class 2,0	175	810
Corporate liabilities on the balance sheet, class 4,5	7	12,347
Corporate liabilities on the balance sheet, class 5,0	10,834	31,394
Corporate liabilities on the balance sheet, class 5,5	22,378	1,807
Corporate liabilities on the balance sheet, class 6,0	3,047	268
Corporate liabilities on the balance sheet, class 6,5	346	315
Corporate liabilities on the balance sheet, class 7,0	1,045	172
Corporate liabilities on the balance sheet, class 7,5	-	258
Corporate liabilities on the balance sheet, class 8,0	336	123
Corporate liabilities on the balance sheet, class 8,5	565	-
Corporate liabilities on the balance sheet, class 9,5	-	24
Corporate liabilities on the balance sheet, class 10.0	225	-
Corporate liabilities on the balance sheet, not classified	-	94
Off balance sheet corporate liabilities, not classified	30	10
Off-balance sheet corporate liabilities, class 4,5	-	110
Off-balance sheet corporate liabilities, class 5,0	9	40
Off-balance sheet corporate liabilities, class 5,5	5	5
Off-balance sheet corporate liabilities, class 6.0	5	-
Total corporate liabilities	**39,007**	**47,777**

NOTE 40. Structure of funding

	2011/12/31	Share, %	2010/12/31	Share, %
Liabilities to financial institutions	2,070,000	26.2	1,640,000	31.7
Debt securities issued to the public	5,423,085	68.6	3,286,747	63.6
Other liabilities	131,526	1.7	63,653	1.2
Total subordinated liabilities	20,000	0.3	20,000	0.4
Shareholders' equity	256,454	3.2	158,799	3.1
Total	**7,901,064**	**100.0**	**5,169,198**	100.0

NOTE 41. Maturity distribution of financial assets and liabilities by remaining time of maturity

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**

31.12.2010	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	61,673	-	-	-	-	61,673
Receivables from customers	125,351	382,450	1,803,660	1,526,960	1,169,961	5,008,381
Total financial assets	**187,024**	**382,450**	**1,803,660**	**1,526,960**	**1,169,961**	**5,070,054**
Financial liabilities						
Liabilities to financial institutions	1,640,000	-	-	-	-	1,640,000
Debt securities issued to the public	-	-	3,286,747	-	-	3,286,747
Total financial liabilities	**1,640,000**	**-**	**3,286,747**	-	**-**	**4,926,747**

31.12.2010	Less than 1 year	More than 1 year	Total
Off-balance sheet commitments	7,456	-	7,456
Total off-balance sheet commitments	**7,456**	**-**	**7,456**

NOTE 42. 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 2011.

NOTE 43. Maturity of financial assets and liabilities by due date or repricing

Contractual repricing dates or earlier due dates on 31 December 2011.

31.12.2011	**1 month or les**	**1 to 3 month**	**3 to 12 month**	**> 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**

31.12.2010	**1 month or les**	**1 to 3 month**	**3 to 12 month**	**> 1 to 2 years**	**> 2 to 5 years**	**More than 5 years**	**Total**
Financial assets							
Receivables from financial institutions	61,673	-	-	-	-	-	**61,673**
Receivables from customers	1,790,927	1,174,779	1,976,031	10,267	33,454	22,923	**5,008,381**
	1,852,600	**1,174,779**	**1,976,031**	**10,267**	**33,454**	**22,923**	**5,070,054**
Financial liabilities							
Liabilities to financial institutions	1,640,000	-	-	-	-	-	**1,640,000**
Debt securities issued to the public	-	-	-	1,042,586	2,244,161	-	**3,286,747**
Total financial liabilities	**1,640,000**	**-**	**-**	**1,042,586**	**2,244,161**	**-**	**4,926,747**
Subordinated liabilities	-	20,000	-	-	-	-	**20,000**
Total subordinated liabilities		**20,000**	**-**	**-**	**-**	**-**	**20,000**

NOTE 44. 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 0.06% at year-end. The risk limits set for the indicator following the amount of own funds at year-end were +/-0.4%. The Bank's interest rate risk can be regarded as

Sensitivity analysis for interest rate risk

			Impact on earnings		**Impact on equity**	
EUR thousand	**Risk parameter**	**Change**	**2011/12/31**	**2010/12/31**	**2011/12/31**	**2010/12/31**
Interest rate risk (1)	interest	1% points	149.7	-152.0	110.8	-112.5

(1) Net sensitivity to a simultaneous change in all interest rates at the corresponding period was 149.7.

NOTE 45. 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, 8 February 2012

Harri Luhtala

Sakari Haapakoski

Hanno Hirvinen

Mika Helin

Mikko Hyttinen

Heikki Kananen

Elina Ronkanen-Minogue

Mikko Rosenlund

Lauri Iloniemi
Managing Director

AUDITORS' NOTE

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

Helsinki, 9 February 2012

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, 2011. 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.

KPMG Oy Ab, a Finnish limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Business ID 1805485-9
Domicile Helsinki

OP-Asuntoluottopankki Oyj
Auditor's Report for financial year
1.1. – 31.12.2011

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, 9 February 2012

KPMG OY AB

[*signed*]
Eija Kauppi-Hakkarainen
Authorized Public Accountant in Finland