



OP MORTGAGE BANK

FINANCIAL STATEMENTS BULLETIN FOR 2008

OP Mortgage Bank's (OPA) loan portfolio grew to EUR 2,980 million in the January-December period (EUR 1,531 million at the end of 2007)¹. The bank increased its loan portfolio significantly in April and in December when it purchased housing loans from OP-Pohjola Group member cooperative banks. OPA launched a covered bond issue at a nominal valued of EUR 1 billion in June.

Earnings Development

EUR thousand	Q4/2008	Q4/2007	2008	2007
Income				
Net interest income	3,628	2,217	13,497	8,274
Net commissions and fees	-1,862	-1,161	-6,686	-3,950
Net income from trading	0	0	7	87
Net income from investments	0	0	1	1
Other operating income	0	0	0	4
Total	1,767	1,056	6,819	4,416
Expenses				
Personnel costs	100	86	288	257
Other administrative expenses	205	114	737	337
Other operating expenses	165	203	877	781
Total	470	403	1,902	1,375
Earnings before tax	1,296	652	4,917	3,039

Earnings before tax for October-December increased to EUR 1,296 thousand (652). The net interest income amounted to EUR 3,628 thousand (2,217). Improvements in net interest income and earnings were due to the growth in the loan portfolio. Net commissions and fees were negative, as in the previous year, with commission income increasing to EUR 252 thousand (106) and commission expenses to EUR 2,114 thousand (1,266). Commission expenses stem mainly from commissions paid to OP-Pohjola Group member banks for servicing housing loans. The bank's expenses amounted to EUR 470 thousand (403).

Earnings before tax for January-December amounted to EUR 4,917 thousand (3,039). Net interest income rose to EUR 13,497 thousand (8,274) due to the growth of the loan portfolio. The bank's expenses increased to EUR 1,902 thousand (1,375). Growth in expenses derived largely from purchased professional services and ICT services. OPA did not recognise any loan losses in 2008.

¹ For balance sheet and other cross-sectional figures, the point of comparison is the figure at the end of 2007. Comparatives deriving from the income statement are based on figures reported for the corresponding period a year ago.

Balance Sheet and Off-balance Sheet Commitments

OPA's balance sheet total amounted to EUR 3,149 million on 31 December (EUR 1,704 million).

Change in Major Asset and Liability Items

EUR Million	31 Dec 2008	30 Sep 2008	30 June 2008	31 March 2008	31 Dec 2007
Balance Sheet	3,149	2,682	2,769	1,545	1,704
Receivables from customers	2,980	2,604	2,703	1,481	1,531
Receivables from financial institutions	32	37	47	8	138
Debt securities issued to the public	2,087	2,019	1,998	1,054	1,060
Liabilities to financial institutions	870	490	605	346	516
Shareholders' equity	87	86	86	64	64
Off-balance sheet commitments	19	16	19	20	17

The bank's loan portfolio grew to EUR 2,980 million (1,531)². OPA increased its loan portfolio in the January-December period when it purchased housing loans from OP-Pohjola-Group member banks for EUR 1,778 million.

On December 2008, households accounted for 98 per cent (95) of the loan portfolio and housing corporations for 2 per cent (5). The bank's non-performing loans increased but remained at low levels totalling EUR 0,2 million (0) on December 2008. No impairment losses on loans were recognised.

The carrying amount of the bonds issued to the public totalled EUR 2,087 million (1,060) on 31 December. OPA issued its second covered bond at a nominal value of EUR 1 billion on international capital markets in June. Moody's Investor Services and Standard & Poor's Rating Services have given the bond their highest credit ratings of Aaa and AAA. In addition to bonds, OPA funded its operations through financing loans taken out with Pohjola Bank plc. On 30 December, financing loans totalled EUR 870 million (516).

Shareholders' equity increased to EUR 87 million (64). Shareholders' equity increased by EUR 20 million after OP-Pohjola Group Central Cooperative made an additional investment in the company in April. Retained earnings amounted to EUR 7,3 million (3,7) on 31 December.

OPA has hedged against the interest-rate risk associated with its housing loan portfolio through interest-rate swaps, i.e. base rate cash flows from housing loans to be hedged are swapped to short-term Euribor cash flows. OPA has also swapped the fixed interest rates of the bonds it has issued to short-term variable rates. OPA's interest-rate derivative portfolio totalled EUR 4,997 million (2,661). All derivative contracts have been concluded for hedging purposes. Pohjola Bank plc is the counterparty to all derivative contracts.

Development of Capital Adequacy

OPA's capital adequacy ratio stood at 9,7 % on 31 December. Since the beginning of 2008, OPA has calculated its capital adequacy in compliance with Basel II. In 2008 credit risk is calculated according to the standardised approach and the capital requirement for operational risk is calculated using the basic approach. Shareholder's equity increased by EUR 20 million in April when OP-Pohjola Group Central Cooperative made an additional investment in OPA.

² For balance sheet and other cross-sectional figures, the point of comparison is the figure at the end of 2007. Comparatives deriving from the income statement are based on figures reported for the corresponding period a year ago.

OWN FUNDS, EUR thousand	Basel II	Basel II	Basel II	Basel II	Basel I
	31 Dec 2008	30 Sep 2008	30 June 2008	31 March 2008	31 Dec 2007
Tier I	86,394	85,586	84,758	64,211	62,932
of which capital loans	-	-	-	-	-
Tier II	20,000	20,000	20,000	20,000	20,000
Decreases				-	-
Total	106,394	105,586	104,758	84,211	82,932
Risk-weighted receivables, investments and off-balance sheet commitments	1,094,191	955,739	1,027,388	659,926	789,555
Capital adequacy ratio, %	9,7	11,0	10,2	12,8	10,5
Tier I ratio to risk-weighted receivables, investments and off-balance sheet commitments	7,9	9,0	8,2	9,7	8,0

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

	Basel II	Basel II	Basel II	Basel II	Basel I
Risk-weighted receivables, investments and off balance-sheet commitments, EUR thousand	31 Dec 2008	30 Sep 2008	30 June 2008	31 March 2008	31 Dec 2007
Receivables and investments	1,082,926	946,033	1,016,463	648,522	777,312
Off-balance-sheet items	6,704	5,145	6,364	6,843	12,243
Market risk	-	-	-	-	-
Operational risks	4,561	4,561	4,561	4,561	-
Risk-weighted receivables, investments and off balance-sheet commitments, total	1,094,191	955,739	1,027,388	659,926	789,555

The increase in the amount of risk-weighted receivables was due to an increased loan portfolio. The new capital adequacy regulations reduced OPA's minimum capital requirements. This is primarily because the home mortgage capital requirement was reduced by 30 % as standardised approach (Basel II) was adopted in 2008.

Joint Responsibility and Joint Security

OPA is a member of OP-Pohjola Group Central Cooperative, which is the central institution of the amalgamation of OP-Pohjola Group. Within the amalgamation, the resources of OP-Pohjola Group secure the operations of all member banks since, according to Chapter 2, Section 3 of the Act on Cooperative Banks and Other Cooperative Credit Institutions, the Central Cooperative and its member credit institutions are jointly and severally responsible for each other's liabilities and commitments that cannot be paid from the funds of the Central Cooperative or the member credit institution in question. In addition to OPA, Central Cooperative members at the end of December 2008 included 227 cooperative banks, Pohjola Bank plc, Helsinki OP Bank plc, and OP-Kotipankki plc.

Central Cooperative provides its member banks with instructions governing operations to secure liquidity, capital adequacy and risk management, as well as shared accounting policies.

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

Personnel

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

Administration

The Annual General Meeting held in March confirmed the composition of the new Board of Directors. Mr. Matti Nykänen, was elected as a new member of the Board of Directors, after which the composition of the Board of Directors is as follows:

Chairman	Harri Nummela	Executive Vice President, OP-Pohjola Group Central Cooperative
Vice Chairman	Mikko Hyttinen	Senior Vice President, OP-Pohjola Group Central Cooperative
Members	Sakari Haapakoski	Bank Manager, Oulun Osuuspankki
	Hanno Hirvinen	Executive Vice President, Pohjola Bank plc
	Heikki Kananen	Managing Director, Mäntsälän Osuuspankki
	Risto Korpela	Managing Director, Turun Seudun Osuuspankki
	Matti Nykänen	Senior Vice President, OP-Pohjola Group Central Cooperative
	Jarmo Viitanen	Managing Director, Länsi-Uudenmaan Osuuspankki
Managing Director	Lauri Iloniemi.	

Outlook

The existing issuance programme will make it possible to issue new covered bonds in 2009. The overall quality of the credit portfolio is expected to remain strong in spite of the deteriorating economic outlook.

Increased volume is expected to improve the efficiency of the bank's operations but due to the more expensive funding costs the earnings before taxes for 2009 are forecasted to fall below the earnings of 2008. The decline in market rates will decrease the bank's net interest income and profit only to the extent that the loan portfolio is financed with the shareholders' equity.

Income Statement

EUR thousand	Q4/2008	Q4/2007	2008	2007
Interest income	34,341	18,739	121,827	62,594
Interest expenses	30,712	16,522	108,330	54,320
Net interest income	3,628	2,217	13,497	8,274
Net commissions and fees	-1,862	-1,161	-6,686	-3,950
Net income from trading	0	0	7	87
Net income from investments	0	0	1	1
Other operating income	0	0	0	4
Personnel costs	100	86	288	257
Other administrative expenses	205	114	737	337
Other operative expenses	165	205	877	781
Earnings before tax	1,296	651	4,917	3,040
Income taxes	344	170	1,282	798
Profit for the period	953	481	3,635	2,242

Key Ratios

	Q4/2008	Q4/2007	2008	2007
Return on equity (ROE), %	4,4	3,0	4,8	5,3
Cost/income ratio, %	27	38	28	31

Calculation of key ratios

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

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

Balance Sheet

EUR thousand	30 Dec 2008	30 Sep 2008	30 June 2008	31 March 2008	31 Dec 2007
Receivables from financial institutions	32,255	36,875	46,829	7,664	138,266
Derivative contracts	74,075	649	3,019	13,494	883
Receivables from customers	2,979,704	2,604,195	2,702,650	1,481,030	1,531,475
Investments assets	17	17	17	17	17
Intangible assets	643	547	482	512	542
Tangible assets	1	1	1	0	0
Other assets	62,397	39,524	15,732	42,628	32,956
Tax receivables	-	0	-3	0	0
Total assets	3,149,091	2,681,809	2,768,728	1,545,345	1,704,140
Liabilities to financial institutions	870,000	490,000	605,000	346,200	516,200
Derivative contracts	14,893	6,206	34,911	1,118	3,165
Debt securities issued to the public	2,086,535	2,019,228	1,998,403	1,053,873	1,059,989
Reserves and other liabilities	69,682	59,162	24,312	59,566	40,493
Tax liabilities	663	852	578	157	611
Subordinated debt securities	20,000	20,000	20,000	20,000	20,000
Total liabilities	3,061,774	2,595,448	2,683,204	1,480,914	1,640,458
Shareholders' equity					
Share capital	60,000	60,000	60,000	60,000	60,000
Reserve for invested unrestricted equity	20,000	20,000	20,000	-	-
Retained earnings	7,317	6,362	5,524	4,431	3,681
Total equity	87,317	86,362	85,524	64,431	63,681
Total liabilities and shareholders' equity	3,149,091	2,681,809	2,768,728	1,545,345	1,704,140

Off-balance Sheet Commitments

EUR thousand	30 Dec 2008	30 Sep 2008	30 June 2008	31 March 2008	31 Dec 2007
Binding credit commitments	19.145	15.983	19.452	20.104	17.272

Change Calculation on Shareholders' Equity

EUR thousand	Share capital	Retained earnings	Total equity
Shareholders' equity 1 January 2007	19,148	1,440	20,588
Distribution of profit	-		0
Profit for the period		2,241	2,241
Other	40,852		40,852
Shareholders' equity 31 Dec 2007	60,000	3,681	63,681
EUR thousand	Share capital	Retained earnings	Total equity
Shareholders' equity 1 January 2008	60,000	3,681	63,681
Distribution of profit	-		-
Profit for the period		3,634	3,634
Reserve for invested unrestricted equity			20,000
Other	20,000	2	2
Shareholders' equity 31 Dec 2008	80,000	7,317	87,317

Cash Flow Statement

EUR thousand	2008	2007
Liquid assets 1 January	15,266	11,196
Cash flow from operations	-965,984	-972,040
Cash flow from investments	-222	-557
Cash flow from financing	969,319	976,668
Liquid assets 31 December	18,379	15,266

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

Derivative Contracts 31 December 2008

EUR thousand	Nominal values/the remaining maturity				Fair values		Credit counter-value
	Less than 1 year	1-5 years	More than 5 years	Total	Assets	Liabilities	
Interest rate derivatives							
Hedging	32,000	4,964,821	-	4,996,821	74,075	14,893	147,396
Trading				-			
Total	32,000	4,964,821	-	4,996,821	74,075	14,893	147,396

Derivative Contracts 31 December 2007

EUR thousand	Nominal values/the remaining maturity				Fair values		Credit counter-value
	Less than 1 year	1-5 years	More than 5 years	Total	Assets	Liabilities	
Interest rate derivatives							
Hedging	112,800	2,548,300	-	2,661,100	883	3,165	33,512
Trading	-	-	-	-	-	-	-
Total	112,800	2,548,300		2,661,100	883	3,165	33,512

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

The interim report is unaudited.

Helsinki, 12 February 2009

**OP Mortgage Bank
Board of Directors**