

OP Mortgage Bank: Financial Statements Bulletin for 1 January–31 December 2015

OP Mortgage Bank (OP MB) is part of OP Financial Group and its role is to raise, together with Pohjola Bank plc, funding for the Group from money and capital markets. OP MB is responsible for the Group's funding for the part of covered bond issuance.

Financial standing

The loan portfolio of OP MB increased to EUR 9,610 million (9,329)* during January–December. The company increased its loan portfolio by buying mortgage-backed loans from OP Financial Group's member banks worth a total of EUR 1,992 million. During the financial year, OP MB issued two fixed-rate covered bonds in international capital markets that got the highest credit ratings from credit rating agencies. The bond with a nominal value of EUR 1,000 million issued in September has a maturity of seven years. Out of the bond with a nominal value of EUR 1,250 million and a maturity of five years issued in November, the company intermediated EUR 713 million in intermediate loans to OP Financial Group member cooperative banks.

The company's financial standing remained stable throughout the financial year. Operating profit came to EUR 25.3 (18.3) million.

OP MB has used interest rate swaps to hedge against its interest rate risk. Interest rate swaps have been used to swap housing loan interest and interest on issued bonds into the same basis rate. OP MB has entered into all derivative contracts for hedging purposes, with Pohjola Bank plc being their counterparty.

*The comparatives for 2014 are given in brackets. For income statement and other aggregated figures, January–December 2014 figures serve as comparatives. For balance-sheet and other cross-sectional figures, figures at the end of the previous financial year (31 December 2014) serve as comparatives.

Collateralisation of bonds issued to the public

The programme amount of the Euro Medium Term Covered Note programme established on 12 November 2010 under the Laki kiinnityspankkitoiminnasta (688/2010) (Covered Bond Act) was increased from EUR 10,000 million to EUR 15,000 million in November and collateral in security of the covered bonds issued under the programme totalled EUR 10 million on 31 December.

Capital adequacy

OP MB has presented its capital base and capital adequacy in accordance with the EU capital requirement regulation and directive (EU 575/2013). OP MB uses the Internal Ratings Based Approach (IRBA) to measure its capital adequacy requirement for credit risk. OP MB uses the Standardised Approach to measure its capital adequacy for operational risk.

The Common Equity Tier 1 (CET1) ratio stood at 140.2% (133.0) on 31 December. The CET1 capital requirement is 4.5% and the requirement for the capital conservation buffer is 2.5%, or a total of 7%.

OP MB's highest minimum capital requirement is determined by the Basel I floor. OP MB's capital base exceeded the Basel I floor by EUR 22.5 million in December. Information on the Basel I floor and capital surplus can be found in note "Capital base and capital adequacy".

Joint and several liability of amalgamation

Under the Act on the Amalgamation of Deposit Banks, the amalgamation of the cooperative banks comprises the organisation's central cooperative (OP Cooperative), the central cooperative's member credit institutions and the companies belonging to their consolidation groups as well as credit and financial institutions and service companies in which the above together hold more than half of the total votes. This amalgamation is supervised on a consolidated basis. On 31 December 2015, OP Cooperative's members comprised 178 member cooperative banks as well as Pohjola Bank plc, Helsinki OP Bank Ltd, OP Mortgage Bank, OP Card Company

Plc and OP Process Services Ltd. The central cooperative is responsible for issuing instructions to its member credit institutions concerning their internal control and risk management, their procedures for securing liquidity and capital adequacy as well as for compliance with harmonised accounting policies in the preparation of the amalgamation's consolidated financial statements. Companies belonging to the amalgamation are legally liable for each other's debts. OP Financial Group's insurance companies do not fall within the scope of joint and several liability. The amalgamation's central cooperative, OP Cooperative, is obliged, if necessary, to assist member banks as a support action with a sum that prevents them from going into liquidation. The central cooperative is liable for the debts of a member bank which cannot be paid using the member bank's capital.

Each member bank is liable to pay a proportion of the amount which the central cooperative has paid to either another member bank as part of support action or to a creditor of such member bank in payment of an amount overdue which the creditor has not received from the member bank. Furthermore, in the case of the central cooperative's default, a member bank has unlimited refinancing liability for the central cooperative's debts as referred to in the Co-operatives Act.

Each member bank's liability for the amount the central cooperative has paid to the creditor on behalf of a member bank is divided between the member banks in proportion to their last adopted balance sheets.

According to Section 25 of the Covered Bond Act, the holder of a covered bond has the right to receive a payment for the entire term of the bond from the assets entered as collateral before other receivables without this being prevented by OP MB's liquidation or bankruptcy.

Personnel

On 31 December, OP MB had five employees. The Bank purchases all the most important support services from OP Cooperative and its Group members, reducing the its need for its own personnel.

Administration

The Board composition is as follows:

Chairman	Harri Luhtala	Chief Financial Officer, OP Cooperative, Financial Group
Members	Elina Ronkanen-Minogue	Head of Asset and Liability Management and Group Treasury, OP Cooperative
	Hanno Hirvinen	Group Treasurer, Pohjola Bank plc

OP MB's Managing Director is Lauri Iloniemi and Hanno Hirvinen is his deputy.

Risk exposure

The most typical types of risks related to OP MB are credit risk, structural funding risk, liquidity risk and interest rate risk. The key credit risk indicators in use show that OP MB's credit risk exposure is stable and the limit for liquidity risk set by the Board of Directors has not been exceeded. The liquidity buffer for OP Financial Group, managed by Pohjola Bank plc, is exploitable by OP MB. OP MB has used interest rate swaps to hedge against its interest rate risk. Interest rate swaps have been used to swap housing loan interest and interest on issued bonds into the same basis rate. The interest rate risk may be considered to be low.

Outlook

The existing issuance programme makes it possible to issue new covered bonds in 2016. It is expected that the Bank's capital adequacy will remain strong, risk exposure favourable and the overall quality of the loan portfolio good.

Accounting policies

The Financial Statements Bulletin for 2015 has been prepared in accordance with IAS 34 (Interim Financial Reporting).

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

OP MB's related parties include the parent company OP Cooperative and its subsidiaries, the OP Financial Group pension insurance companies OP Bank Group Pension Fund and OP Bank Group Pension Foundation, and the company's administrative personnel. Standard loan terms and conditions are applied to loans granted to the related parties. Loans are tied to generally used reference interest rates. The financial year saw no major changes in related-party transactions.

Formulas for key ratios

Return on equity (ROE), % = 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 commissions and fees + Net trading income + Total net investment income + Other operating income) × 100

Income statement, TEUR	Q4/2015	Q4/2014	2015	2014
Interest income	26,317	28,086	106,362	117,550
Interest expenses	6,444	13,161	33,007	62,539
Net interest income	19,873	14,925	73,355	55,011
Impairment loss on receivables	-35	-2	210	-150
Net commissions and fees	-11,329	-9,989	-43,361	-32,394
Net trading income	0	0	0	-1
Net investment income	0	0	22	1
Other operating income	0	0	1	1
Personnel costs	94	103	382	385
Other administrative expenses	812	564	2,612	2,300
Other operating expenses	865	406	1,924	1,506
Earnings before tax	6,737	3,861	25,308	18,277
Income tax expense	1,311	775	5,020	3,657
Profit for the period	5,426	3,086	20,288	14,619

Statement of comprehensive income, TEUR	Q4/2015	Q4/2014	2015	2014
Profit for the period	5,426	3,086	20,288	14,619
Items that will not be reclassified to profit or loss				
Gains/(losses) arising from remeasurement of defined benefit plans	231	-17	231	-17
Income tax on gains/(losses) on arising from remeasurement of defined benefit plans	-46	3	-46	3
Total comprehensive income	5,611	3,073	20,473	14,606

Key ratios	Q4/2015	Q4/2014	2015	2014
Return on equity (ROE), %	5.9	3.5	5.6	4.2
Cost/income ratio, %	21	22	16	19

Cash flow from operating activities, TEUR	2015	2014
Profit for the financial year	20,288	14,615
Adjustments to profit for the financial year	9,372	-59,526
Increase (-) or decrease (+) in operating assets	-1,005,090	-1,419,284
Receivables from credit institutions	-733,369	-10,000
Receivables from the public and public-sector entities	-282,945	-1,395,644
Shares and participations		-23
Other assets	11,224	-13,616
Increase (+) or decrease (-) in operating liabilities	-143,399	-357,524
Liabilities to credit institutions and central banks	-130,000	-380,000
Other liabilities	-13,399	22,476
Income tax paid	-3,362	-3,403
Dividends received	22	1
A. Net cash from operating activities	-1,118,830	-1,821,718
Cash flow from investing activities		
Purchase of PPE and intangible assets	-681	-1,064
B. Net cash used in investing activities	-681	-1,064
Cash flow from financing activities		
Increases in debt securities issued to the public	1,260,582	1,811,278
Dividends paid and interest on cooperative capital	-4,996	
Other monetary increases in equity items		10,000
C. Net cash used in financing activities	1,255,586	1,821,278
D. Effect of foreign exchange rate changes on cash and cash equivalents	0	
Net change in cash and cash equivalents (A+B+C+D)	136,074	-1,504
Cash and cash equivalents at year-start	109,046	110,550
Cash and cash equivalents at year-end	245,120	109,046
Change in cash and cash equivalents	136,074	-1,504
Interest received	117,954	103,959
Interest paid	46,724	110,157
Adjustments to profit for the financial year		
Non-cash items		
Unrealised net gains on foreign exchange operations	0	
Impairment losses on receivables	-207	168
Other	8,863	-59,747
Total adjustments	8,656	-59,578
Cash and cash equivalents		
Receivables from credit institutions payable on demand	245,120	109,046
Total cash and cash equivalents	245,120	109,046

Balance sheet, TEUR	31 Dec 2015	30 Sep 2015	30 Jun 2015	31 March 2015	31 Dec 2014
Receivables from credit institutions	988,490	200,823	156,412	101,181	119,046
Derivative contracts	192,206	200,981	191,919	285,540	261,346
Receivables from customers	9,610,252	9,194,581	9,600,216	9,635,434	9,329,077
Investments assets	40	40	40	40	40
Intangible assets	2,575	2,784	2,835	2,630	2,610
Other assets	78,823	58,208	62,080	111,691	90,047
Tax assets		3	2	392	380
Total assets	10,872,386	9,657,420	10,013,505	10,136,908	9,802,546
Liabilities to credit institutions	1,375,000	1,425,000	2,790,000	1,795,000	1,505,000
Derivative contracts	12,971	5,639	22,769	7,156	8,298
Debt securities issued to the public	9,002,669	7,770,710	6,748,760	7,836,945	7,810,673
Provisions and other liabilities	108,485	87,863	88,896	141,278	122,116
Tax liabilities	1,325	1,883	1,333	551	0
Total liabilities	10,500,450	9,291,095	9,651,758	9,780,929	9,446,086
Shareholders' equity					
Share capital	60,000	60,000	60,000	60,000	60,000
Reserve for invested unrestricted equity	245,000	245,000	245,000	245,000	245,000
Retained earnings	66,937	61,325	56,747	50,979	51,459
Total equity	371,937	366,325	361,747	355,979	356,459
Total liabilities and shareholders' equity	10,872,386	9,657,420	10,013,505	10,136,908	9,802,546

Off-balance-sheet commitments, TEUR	31 Dec 2015	30 Sep 2015	30 June 2015	31 March 2015	31 Dec 2014
Irrevocable commitments given on behalf of customers	858	1,583	1,822	3,305	3,252

Statement of changes in equity, TEUR	Share capital	Other reserves	Retained earnings	Total equity
Shareholders' equity 1 Jan 2014	60,000	235,000	36,853	331,853
Reserve for invested unrestricted equity		10,000		10,000
Profit for the period			14,619	14,619
Total comprehensive income			-13	-13
Other changes				
Shareholders' equity 31 Dec 2014	60,000	245,000	51,459	356,459
Shareholders' equity 1 Jan 2015	60,000	245,000	51,459	356,459
Reserve for invested unrestricted equity				
Profit for the period			20,288	20,288
Total comprehensive income			185	185
Other changes			-4,996	-4,996
Shareholders' equity 31 Dec 2015	60,000	245,000	66,937	371,937

OP MB has presented its capital base and capital adequacy in accordance with the EU capital requirement regulation and directive (EU 575/2013).

Capital base and capital adequacy, TEUR	31 Dec 2015	31 Dec 2014
Shareholders' equity	371,937	356,459
Common Equity Tier 1 (CET1) before deductions	371,937	356,459
Intangible assets	-2,575	-2,610
Excess funding of pension liability, indirect holdings and deferred tax assets for losses	-74	-55
Planned profit distribution / profit distribution as proposed by the Board		-5,000
Share of unaudited profits	-20,288	
Impairment loss – shortfall of expected losses	-2,046	-1,898
Common Equity Tier 1 (CET1)	346,954	346,897
Tier 1 capital (T1)	346,954	346,897
Total capital base	346,954	346,897
Risk-weighted assets		
Credit and counterparty risk	219,560	237,258
Market risk		
Operational risk	27,846	23,527
Total	247,407	260,785
Key ratios, %		
CET1 capital ratio	140.2	133.0
Tier 1 capital ratio	140.2	133.0
Capital adequacy ratio	140.2	133.0
Basel I floor		
Capital base	346,954	346,897
Basel I capital requirements floor	324,461	304,995
Capital buffer for Basel I floor	22,493	41,901

Classification of financial assets liabilities 31 Dec 2015, TEUR				
	Loans and other receivables	Recognised at fair value through profit or loss	Available for sale	Total
Financial assets				
Receivables from credit institutions	988,490			988,490
Derivative contracts		192,206		192,206
Receivables from customers	9,610,252			9,610,252
Shares and participations			40	40
Other receivables	78,823			78,823
Other assets	2,575			2,575
Total	10,680,140	192,206	40	10,872,386
Financial liabilities				
		Recognised at fair value through profit or loss	Other liabilities	Total
Liabilities to credit institutions			1,375,000	1,375,000
Derivative contracts		12,971		12,971
Debt securities issued to the public			9,002,669	9,002,669
Other liabilities			109,810	109,810
Total		12,971	10,487,479	10,500,450
Valuation difference of debt securities issued to the public (difference between fair value and carrying amount) 31 Dec 2015			219,641	219,641

Classification of financial assets liabilities 31 Dec 2014, TEUR				
Financial assets	Loans and other receivables	Recognised at fair value through profit or loss	Available for sale	Total
Receivables from credit institutions	119,046			119,046
Derivative contracts		261,346		261,346
Receivables from customers	9,329,077			9,329,077
Shares and participations			40	40
Other receivables	90,047			90,047
Other assets	2,990			2,990
Total	9,541,160	261,346	40	9,802,546
Financial liabilities		Recognised at fair value through profit or loss	Other liabilities	Total
Liabilities to credit institutions			1,505,000	1,505,000
Derivative contracts		8,298		8,298
Debt securities issued to the public			7,810,673	7,810,673
Other liabilities			122,116	122,116
Total		8,298	9,437,789	9,446,087
Valuation difference of debt securities issued to the public (difference between fair value and carrying amount) 31 Dec 2014			327,389	327,389

Debt securities issued to the public are carried at amortised cost. The fair value of these debt instruments has been measured using information available in markets and employing commonly used valuation techniques. The difference between the fair value and carrying amount is presented as valuation difference in the Classification of financial assets and liabilities table.

Derivative contracts 31 Dec 2015, TEUR	Nominal values/residual term to maturity			
	Less than 1 year	1–5 years	More than 5 years	Total
Interest rate derivatives				
Hedging	2,387,456	8,816,977	7,118,958	18,323,391
Total	2,387,456	8,816,977	7,118,958	18,323,391

	Fair values		Credit equivalent
	Assets	Liabilities	
Interest rate derivatives			
Hedging	192,206	12,971	411,985
Total	192,206	12,971	411,985

Derivative contracts 31 Dec 2014, TEUR	Nominal values/residual term to maturity			
	Less than 1 year	1–5 years	More than 5 years	Total
Interest rate derivatives				
Hedging	4,496,752	9,141,000	4,396,000	18,033,752
Total	4,496,752	9,141,000	4,396,000	18,033,752

	Fair values		Credit equivalent
	Assets	Liabilities	
Interest rate derivatives			
Hedging	261,346	8,298	449,799
Total	261,346	8,298	449,799

Financial instruments classification, grouped by valuation technique, TEUR 31 Dec 2015	Fair value measurement at year end		
	Balance sheet value	Level 1	Level 2
Recurring fair value measurements of assets			
Derivate contracts	192,206		192,206
Total	192,206		192,206
Recurring fair value measurements of liabilities			
Derivate contracts	12,971		12,971
Total	12,971		12,971
Financial liabilities not measured at fair value			
Debt securities issued to the public	9,002,669	8,872,880	349,430
Total	9,002,669	8,872,880	349,430

31 Dec 2014	Fair value measurement at year end		
	Balance sheet value	Level 1	Level 2
Recurring fair value measurements of assets			
Derivate contracts	261,346		261,346
Total	261,346		261,346
Recurring fair value measurements of liabilities			
Derivate contracts	8,298		8,298
Total	8,298		8,298
Financial liabilities not measured at fair value			
Debt securities issued to the public	7,810,673	7,995,455	142,607
Total	7,810,673	7,995,455	142,607
OP MB does not hold any transfers between the levels of fair value valuation.			

Helsinki, 4 February 2016

**OP Mortgage Bank
Board of Directors**

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