



# OP Financial Group's Interim Report 1 January–30 September 2019

Background material

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- OP in a nutshell

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# OP Financial Group's Interim Report

# OP Financial Group's key figures and ratios – income increased by 3% and expenses decreased by 1%

	Q1-Q3/2019	Q1-Q3/2018	Change, %	Q1-Q4/2018
Earnings before tax, € million	706	687	2.8	1,017
Retail Banking	193	194	-0.5	421
Corporate Banking	232	299	-22.4	408
Insurance	278	240	16.0	260
Other Operations	3	-38	-	-64
New OP bonuses accrued to owner-customers	-191	-171	11.4	-230
Return on economic capital, % **	20.3	18.7	1.6 *	20.8
Return on equity (ROE), %	6.2	6.5	-0.3 *	6.9
Return on equity excluding OP bonuses, %	7.8	8.1	-0.3 *	8.5
Return on assets (ROA), %	0.53	0.53	0.0 *	0.57
Return on assets excluding OP bonuses, %	0.67	0.66	0.0 *	0.70
	30 September 2019	30 September 2018	Change, %	31 December 2018
CET1 ratio, %	19.6	20.0	-0.3 *	20.5
Ratio of capital base to minimum amount of capital base (under the Act on the Supervision of Financial and Insurance Conglomerates) % ***	137	149	-12 *	147
Loan portfolio, € bn	91.0	86.0	5.8	87.1
Deposits, € bn	62.6	61.6	1.6	61.3
Ratio of non-performing receivables to loan and guarantee portfolio, % ****	1.1	1.1	0.0 *	1.0
Owner customers (1,000)	1,979	1,888	4.8	1,911

\* Change in ratio

\*\* 12-month rolling

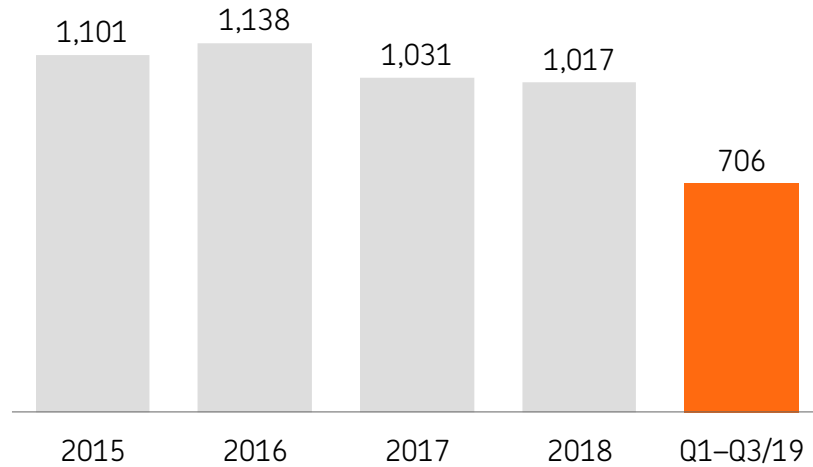
\*\*\* The FiCo ratio has been calculated for insurance companies using transition provisions included in solvency regulation.

\*\*\*\* Non-performing receivables refer to receivables that are more than 90 days past due, other receivables classified as risky and forborne receivables related to such receivables due to the customer's financial difficulties.

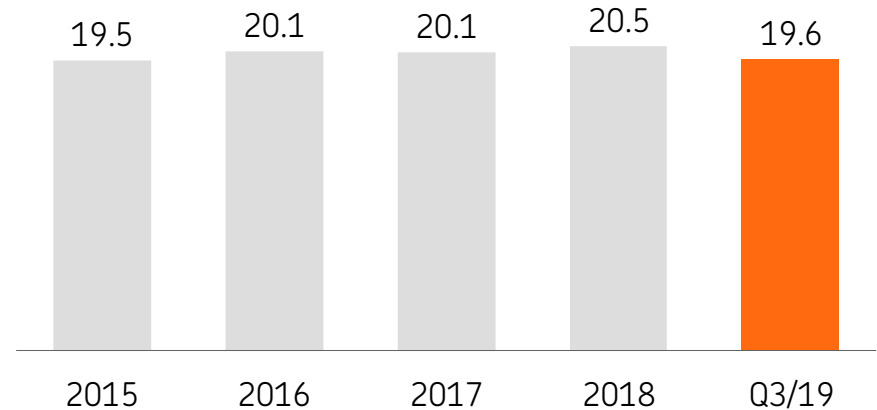
- Net interest income increased by 4% to EUR 901 million and net commissions and fees by 4% to EUR 679 million. Net insurance income decreased by 5% to EUR 412 million.
- Investment income of EUR 260 million was at the previous year's level.
- Expenses of EUR 1,365 million (1,378) decreased from the previous year.
- Impairment loss on receivables totalled EUR 36 million (24).
- The CET1 ratio was strong at 19.6% (20.5).

# OP Financial Group's steady financial performance supports the capital base

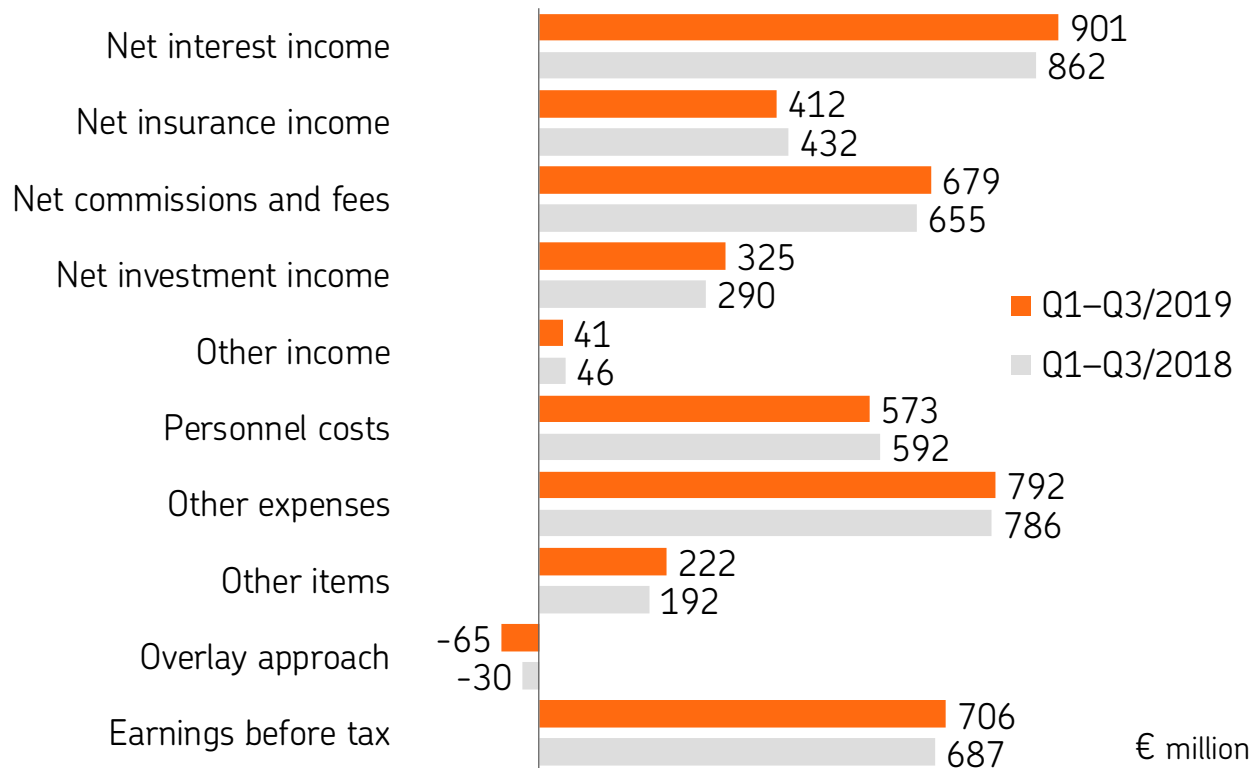
Earnings before tax, € million



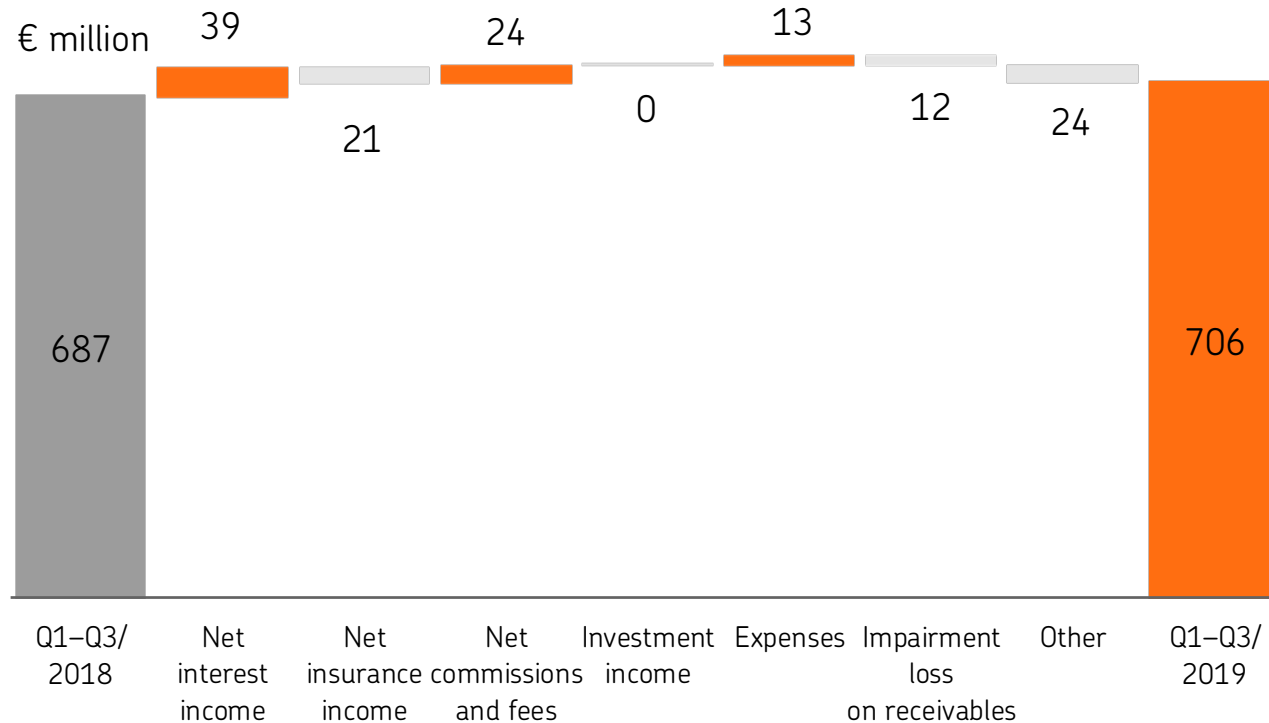
Common Equity Tier 1 ratio (CET1),%



# OP Financial Group's main income statement items

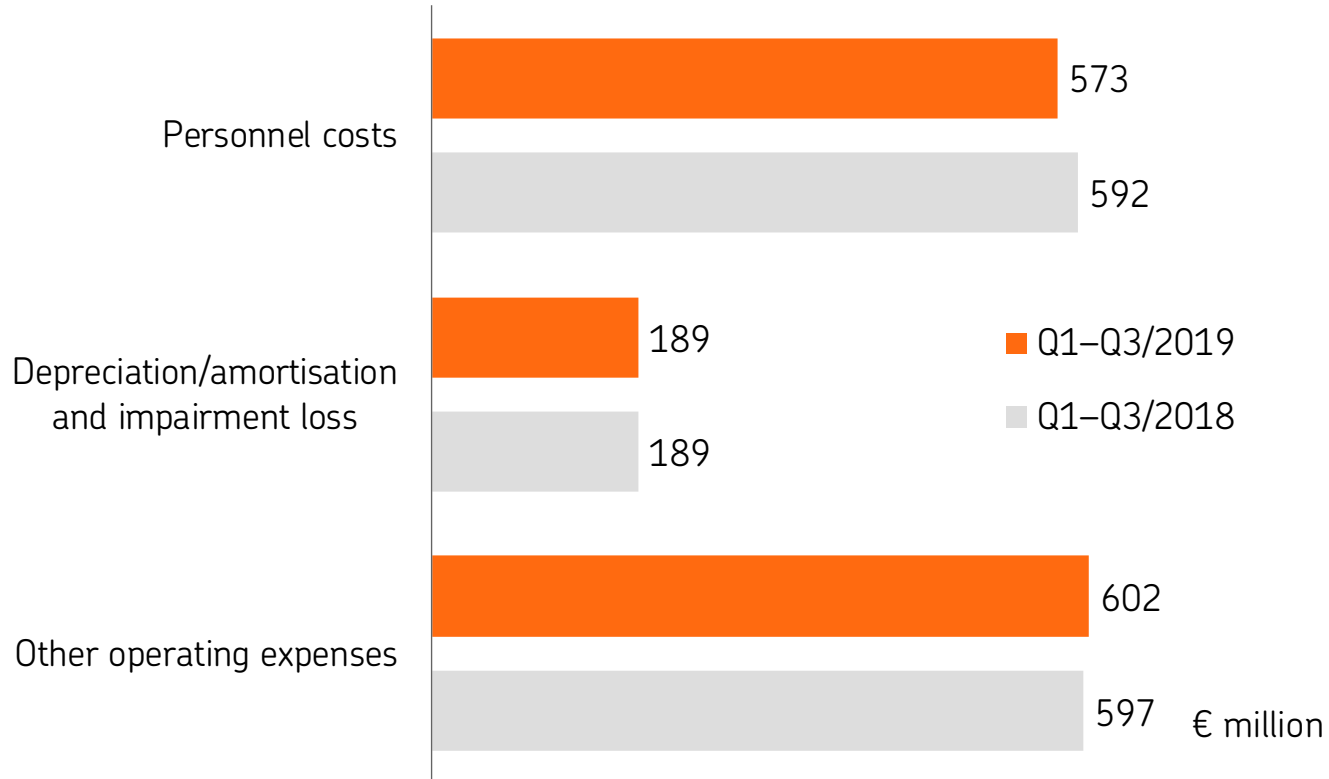


# OP Financial Group's financial performance



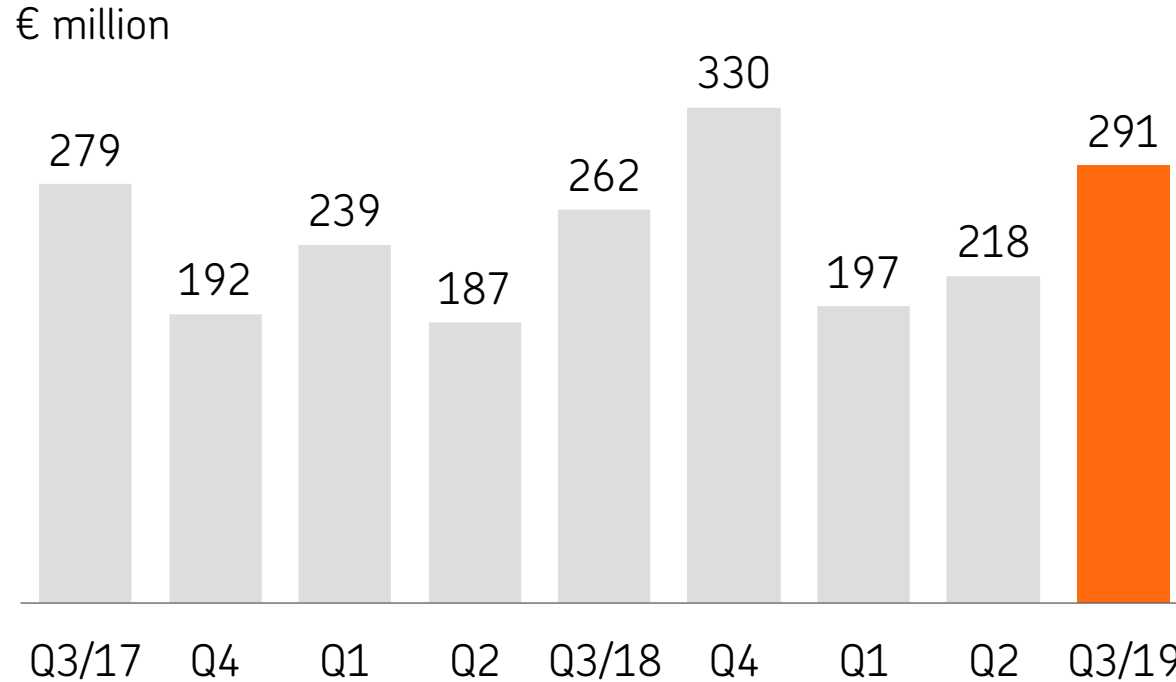
Investment operations are presented with Overlay Approach income

# OP Financial Group's cost performance

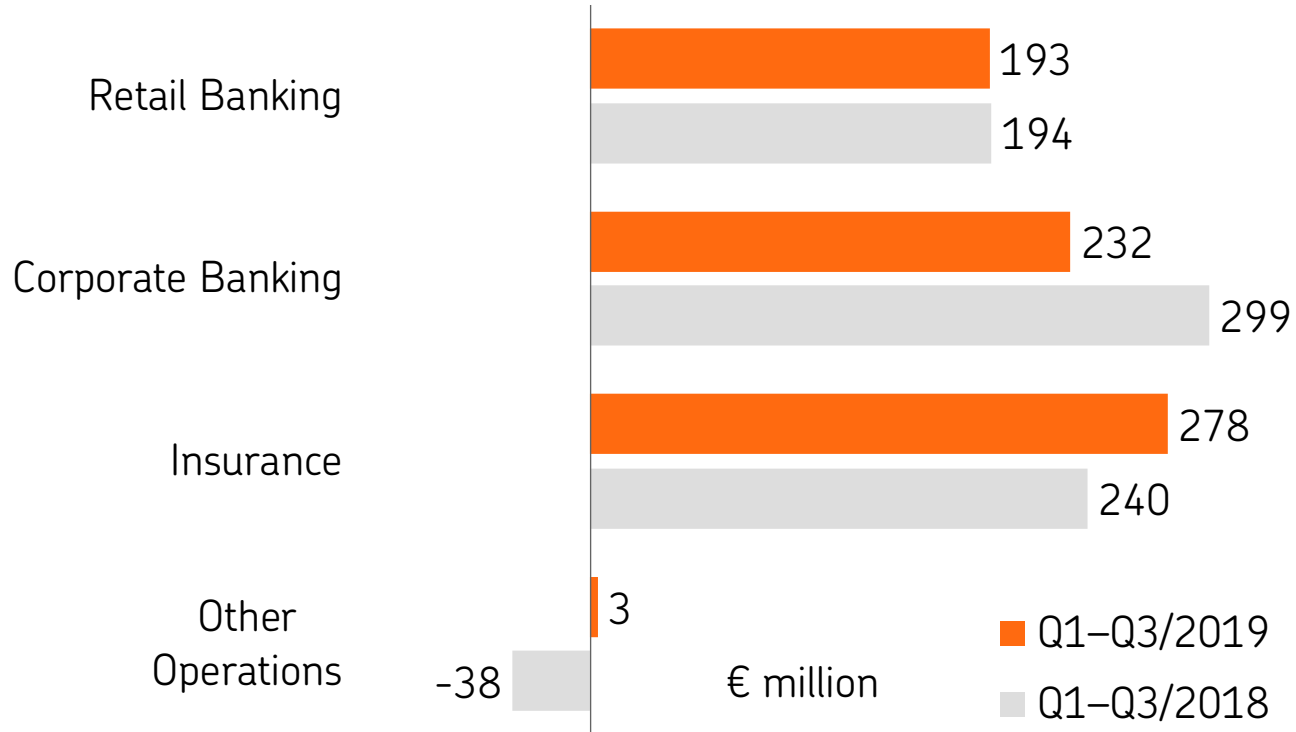




# OP Financial Group's EBT by quarter



# OP Financial Group's EBT by business segment



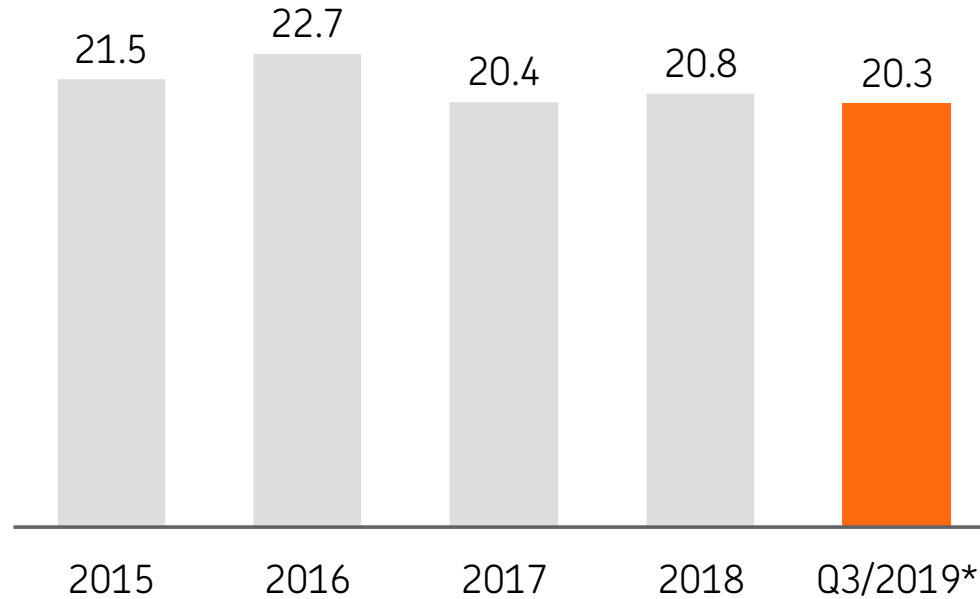
# OP Financial Group's income statement

January 1 to September 30	2019	2018	Change, €million	%	Q3/19	Q3/18	Change, %
Net interest income	901	862	39	4.5	314	293	7.0
Net insurance income	412	432	-21	-4.8	138	154	-10.6
Net commissions and fees	679	655	24	3.7	229	212	8.4
Net investment income	325	290	35	12.1	72	82	-11.8
Other operating income	41	46	-5	-11.5	6	25	-75.3
<b>Total income</b>	<b>2,358</b>	<b>2,286</b>	<b>72</b>	<b>3.1</b>	<b>760</b>	<b>766</b>	<b>-0.9</b>
Personnel costs	573	592	-19	-3.1	169	178	-5.5
Depreciation/amortisation and impairment loss	189	189	0	0.0	62	58	5.6
Other operating expenses	602	597	6	0.9	181	185	-2.2
<b>Total expenses</b>	<b>1,365</b>	<b>1,378</b>	<b>-13</b>	<b>-0.9</b>	<b>411</b>	<b>422</b>	<b>-2.5</b>
Impairment loss on receivables	-36	-24	-12	48.0	3	-17	-118.1
OP bonuses	-186	-167	-18	11.0	-62	-58	6.9
Overlay approach	-65	-30	-35	119.2	2	-7	-128.1
<b>Earnings before tax</b>	<b>706</b>	<b>687</b>	<b>19</b>	<b>2.8</b>	<b>291</b>	<b>262</b>	<b>11.4</b>

# OP Financial Group's quarterly performance

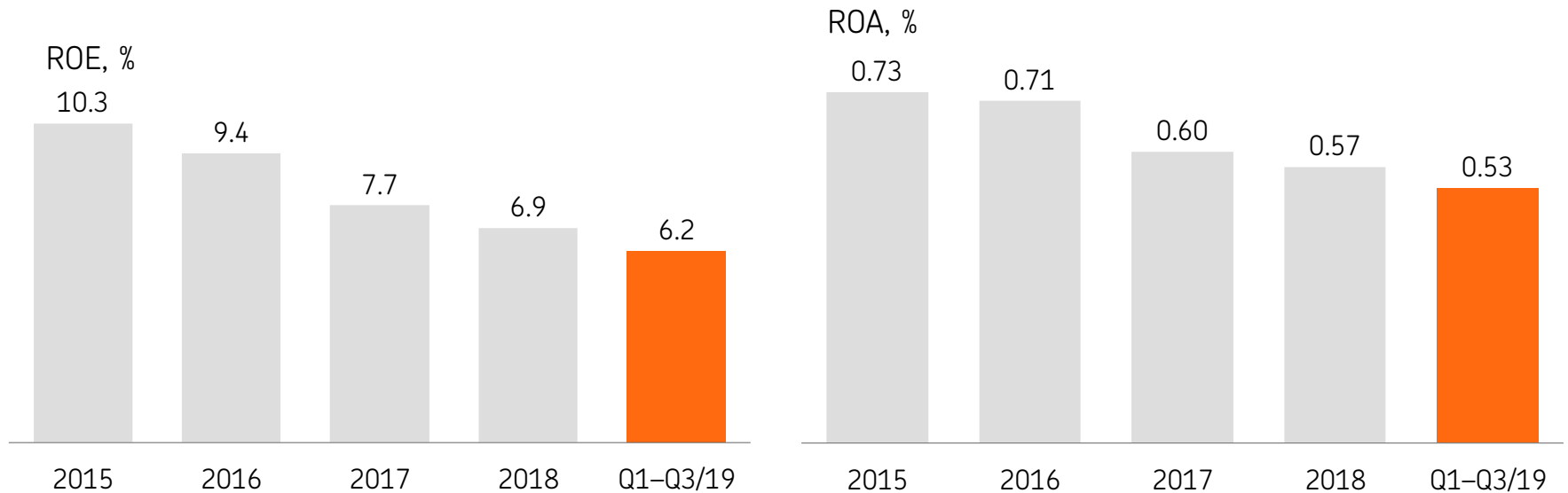
€ million	Q1/2018	Q2	Q3	Q4	Q1	Q2	Q3/2019
Net interest income	281	288	293	304	285	302	314
Net insurance income	127	151	154	134	109	165	138
Net commissions and fees	232	212	212	232	234	216	229
Net investment income	80	128	82	-27	156	96	72
Other operating income	12	9	25	15	9	26	6
<b>Total income</b>	<b>732</b>	<b>788</b>	<b>766</b>	<b>657</b>	<b>793</b>	<b>805</b>	<b>760</b>
Personnel costs	204	209	178	-75	197	208	169
Depreciation/amortisation and impairment loss	66	65	58	136	59	69	
Other operating expenses	187	225	185	242	210	212	181
<b>Total expenses</b>	<b>456</b>	<b>500</b>	<b>422</b>	<b>303</b>	<b>465</b>	<b>488</b>	<b>411</b>
Impairment loss on receivables	-4	-3	-17	-22	-11	-28	3
OP bonuses to owner-customers	-52	-57	-58	-58	-64	-60	-62
Overlay approach	19	-41	-7	56	-55	-12	2
<b>Earnings before tax</b>	<b>239</b>	<b>187</b>	<b>262</b>	<b>330</b>	<b>197</b>	<b>218</b>	<b>291</b>

# OP Financial Group's return on economic capital

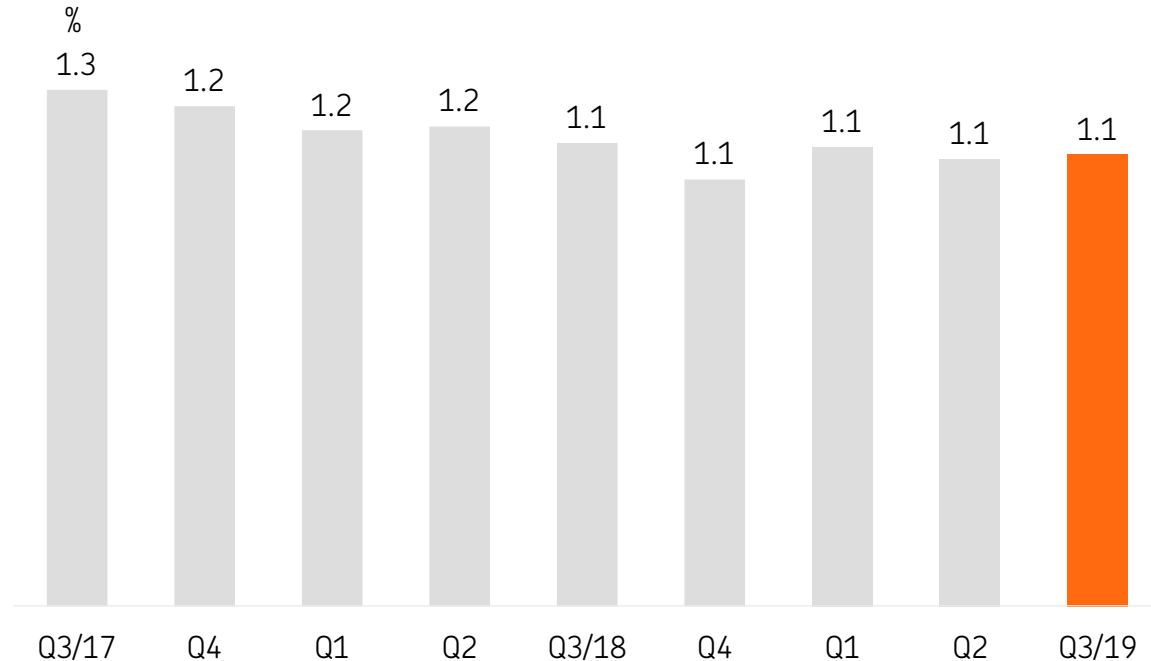


\* 12-month rolling

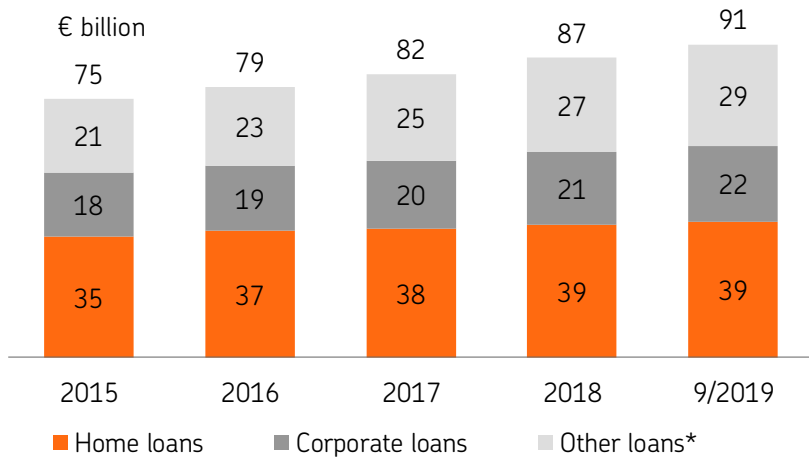
# OP Financial Group's return on equity



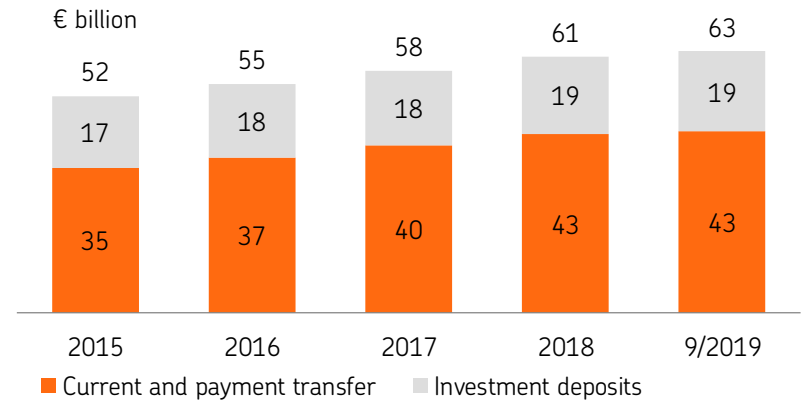
# Ratio of non-performing receivables to loan and guarantee portfolio



# OP Financial Group's loan portfolio grew by 5.8% and the deposit portfolio by 1.6% year on year

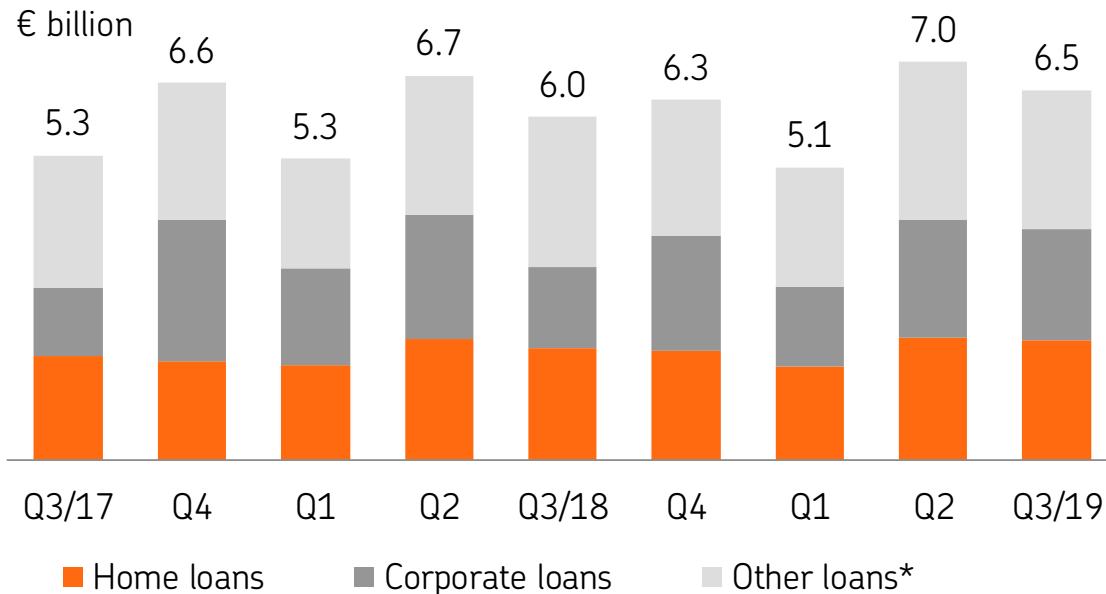


\* incl. housing companies and public-sector entities





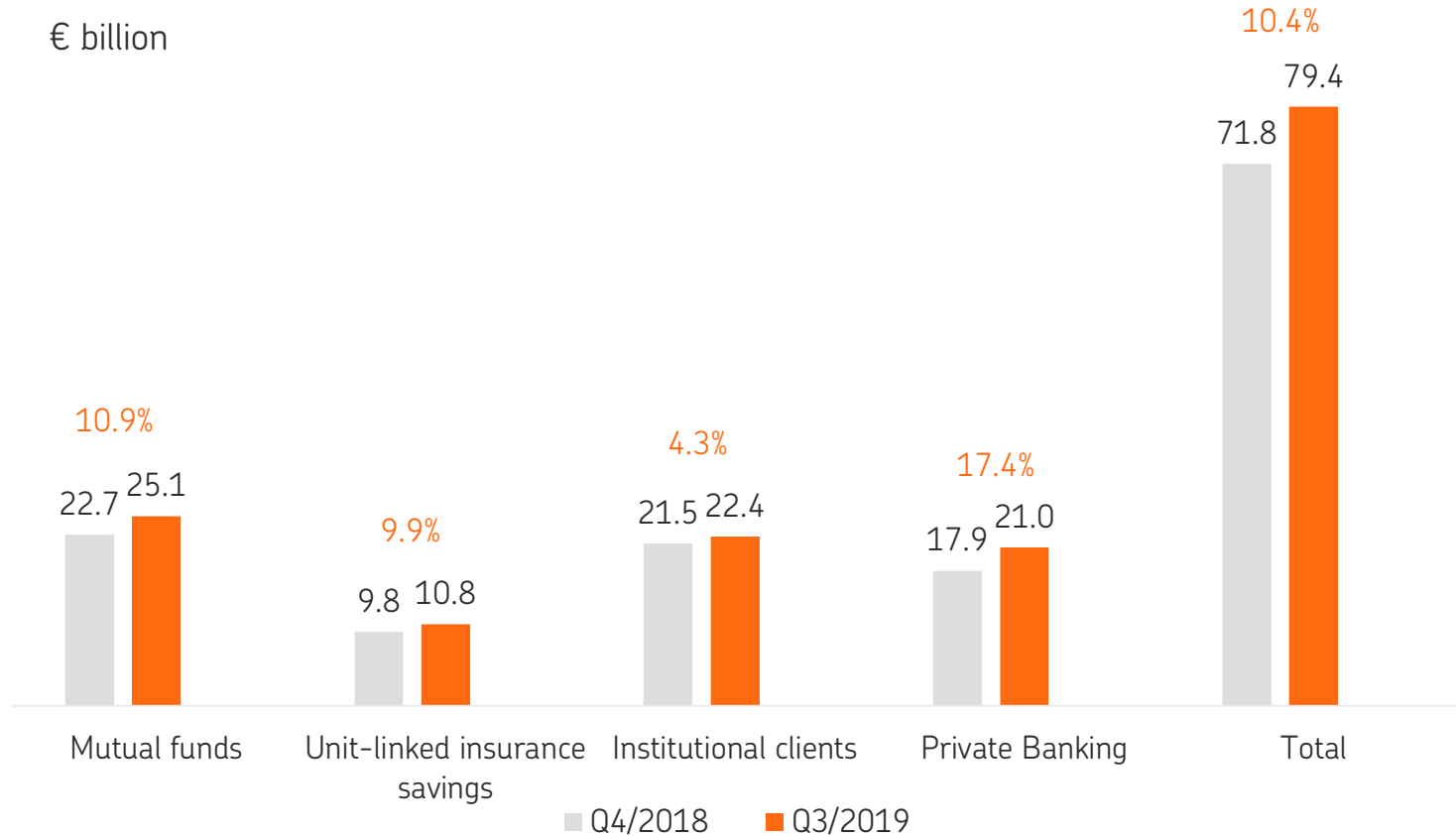
# OP Financial Group's new loans drawn down



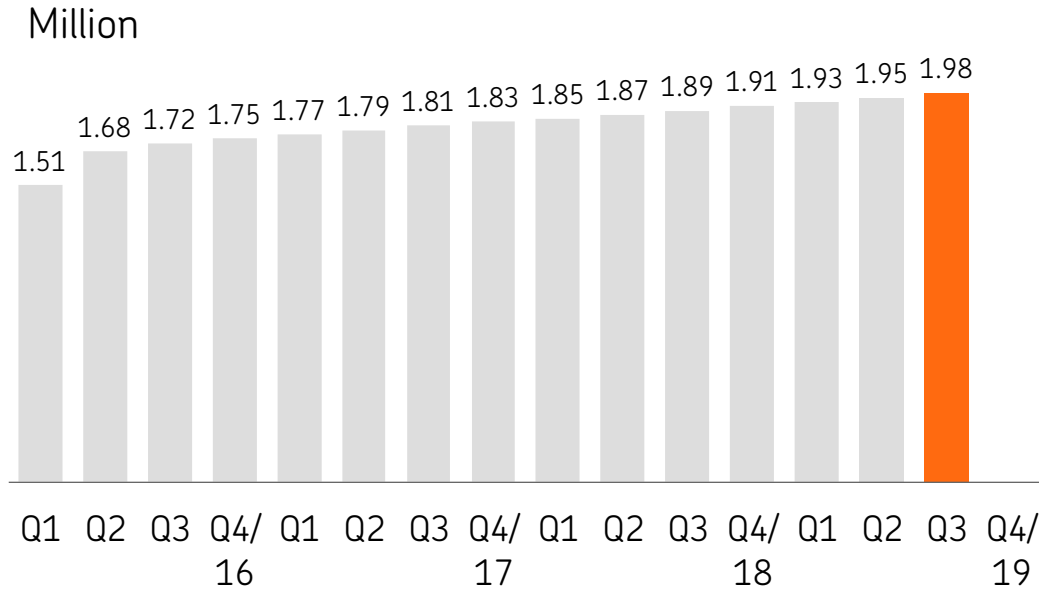
\*incl. housing companies and public-sector entities

# OP Financial Group's assets under management

€ billion



# Steady growth in the number of owner- customers



The figures include the owner-customers of Helsinki Area Cooperative Bank established on 1 April 2016 and the owner-customers of POP Group banks that transferred to OP's customer systems in September 2016

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# Retail Banking

# Retail Banking

OP Financial Group's Retail Banking is the Group's largest business segment by volume, providing private and SME customers with an extensive and comprehensive range of products and services.

- Services and products for private customers include daily banking, loans, savings and investments, and housing-related services. OP is Finland's leading provider of home loans.
- OP provides SME customers with a wide range of services for financing, payment transactions and cash management, investment, risk management and the development of business. We always tailor our solutions to the needs of our corporate customers.

Retail Banking consists of banking for private and SME customers at OP cooperative banks and at the central cooperative.

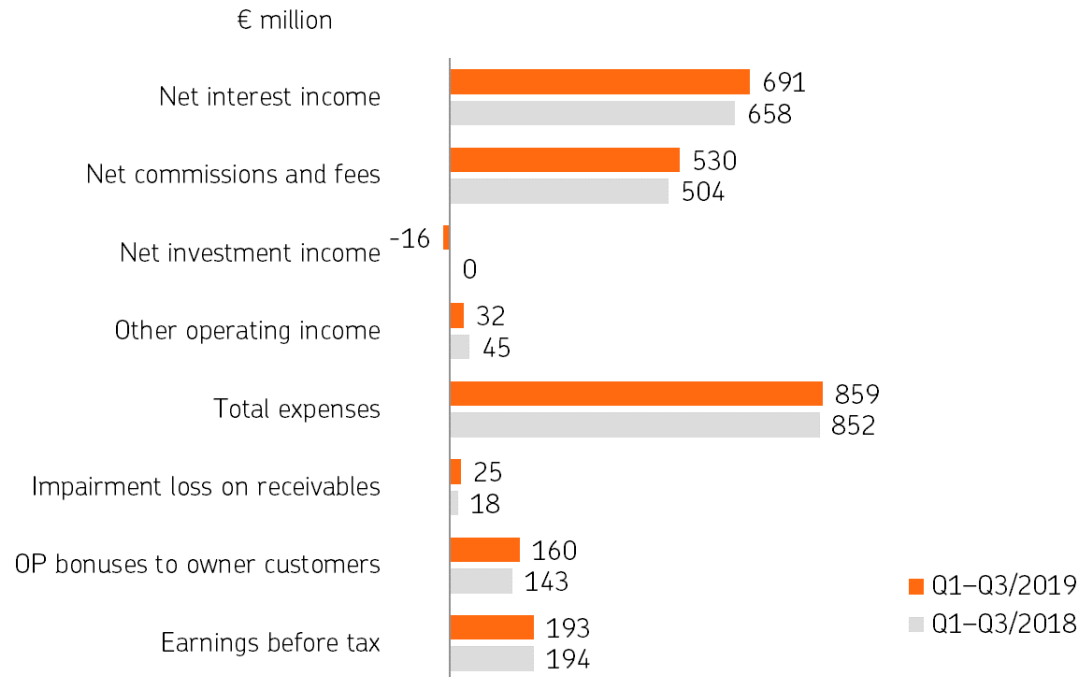
## Key figures for Q1–Q3/2019

Earnings before tax  
**€193** million

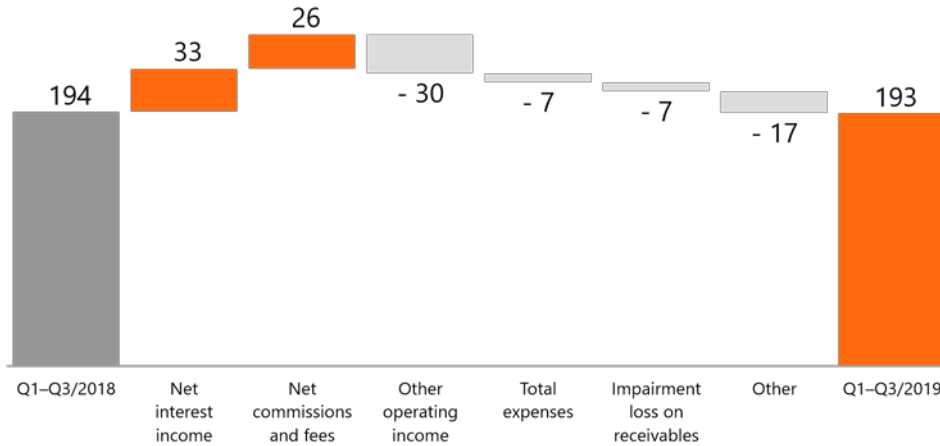
Loan portfolio  
**€67.6** billion

Deposit portfolio  
**€53.8** billion

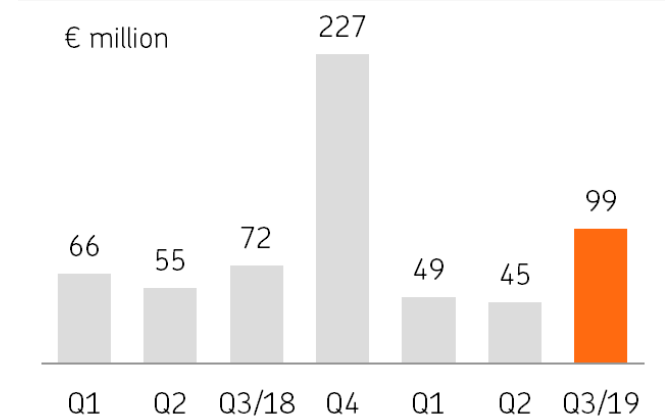
# Retail Banking earnings before tax of EUR 193 million was at the previous year's level



# Net interest income and net commissions and fees grew year on year

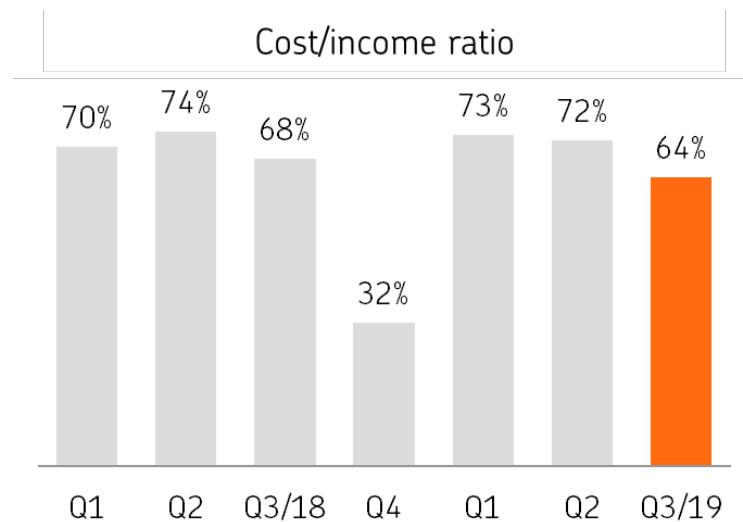
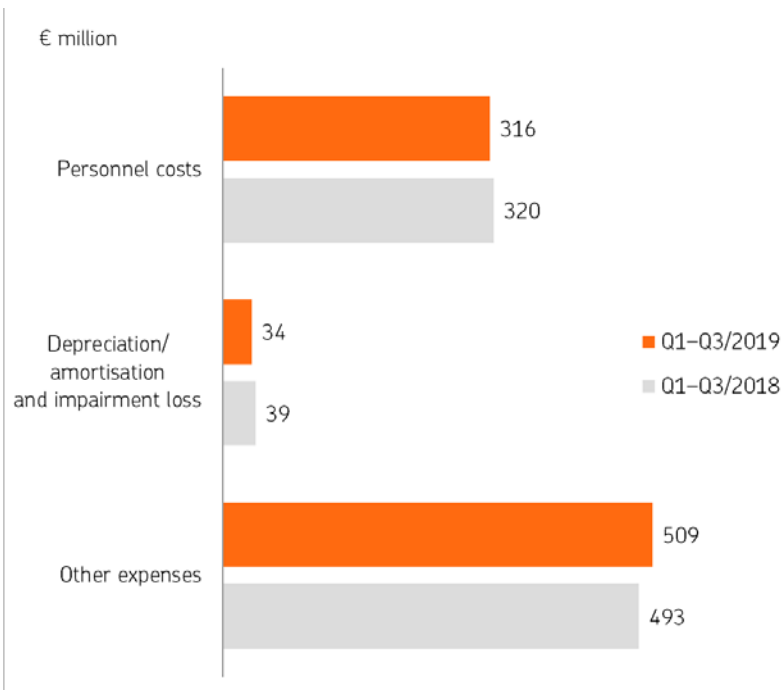


Income increased by 2.4% and expenses by 0.8%.



Transfer of the pension liability improved segment earnings in Q4/2018 (EUR 199 million)

# Other operating expenses increased due to the stability contribution, development expenditure and higher volumes

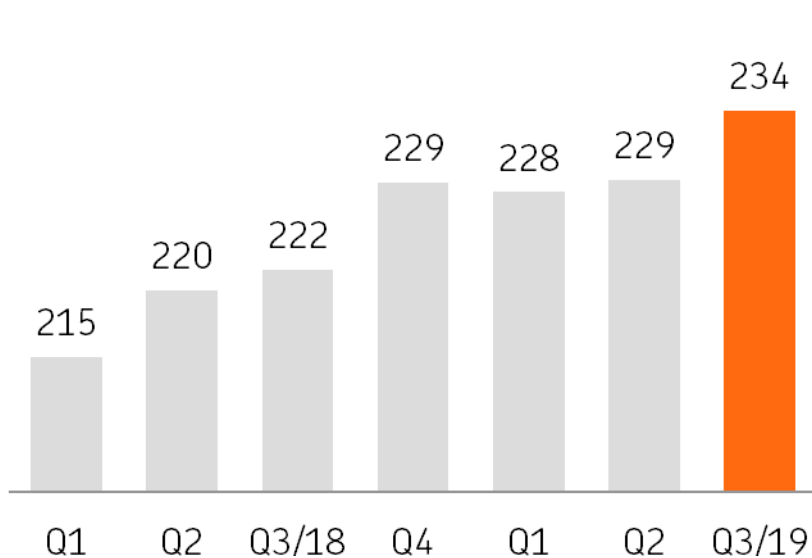


Q4/2018 personnel costs include the transfer of pension liability of EUR 199 million

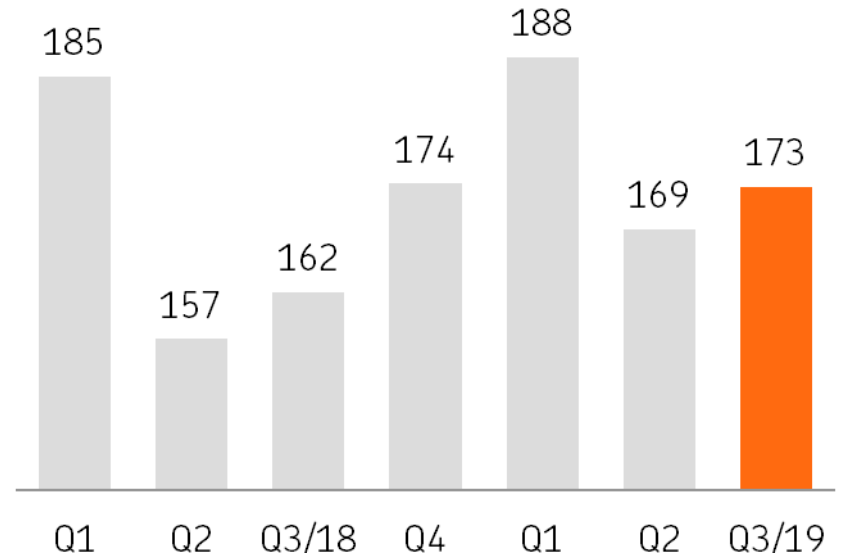


# Net interest income and net commissions and fees increased

Net interest income, € million

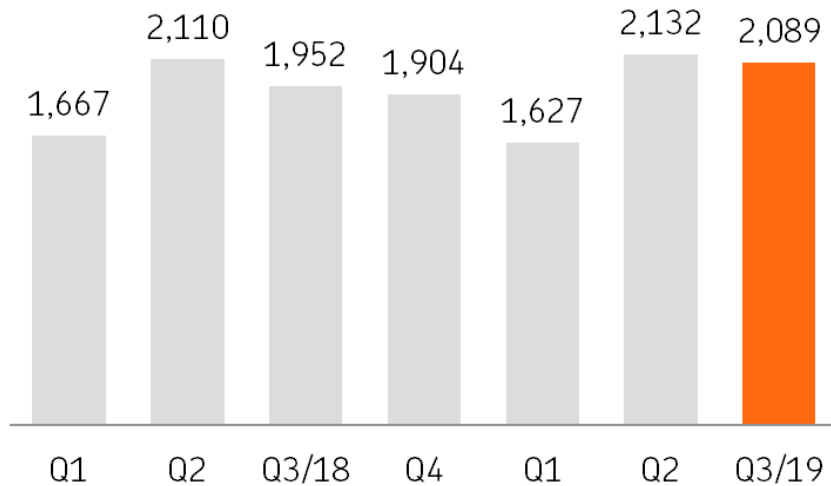


Net commissions and fees, € million

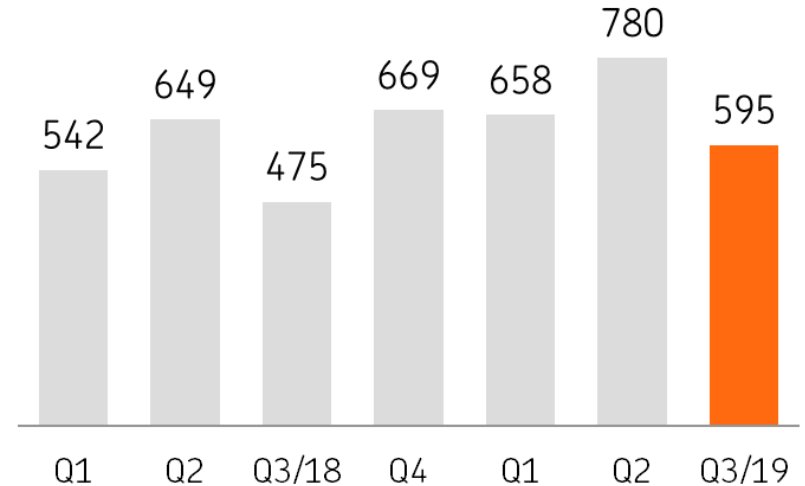


# More home loans and SME corporate loans were drawn down than a year ago

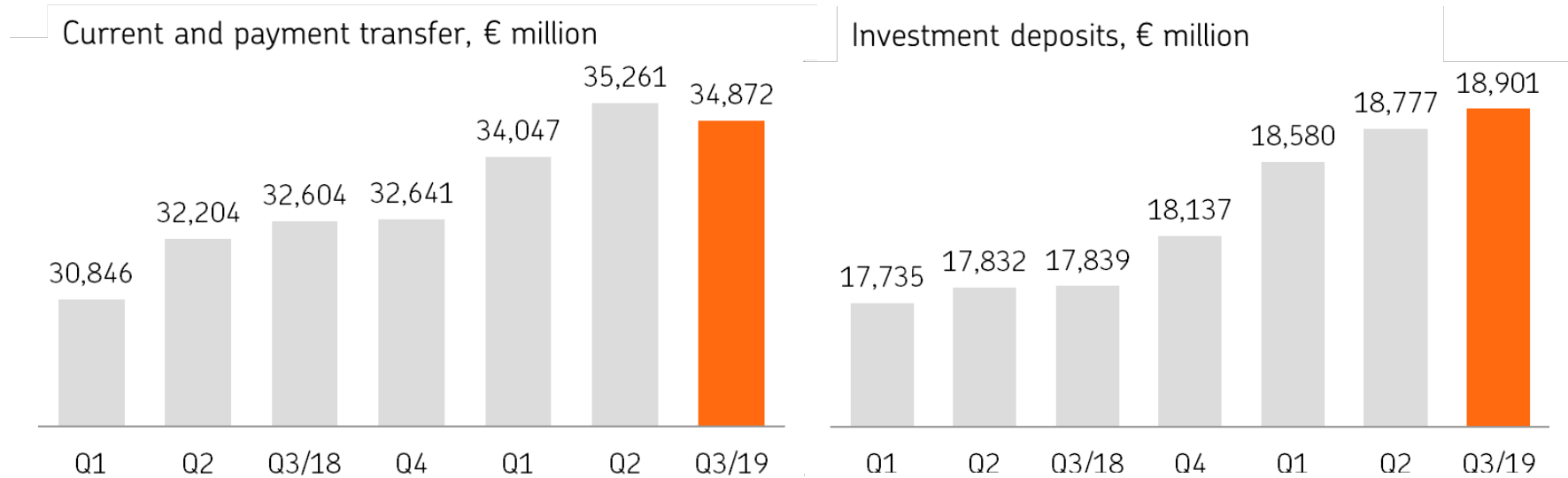
Home loans drawn down, € million



SME Corporate loans drawn down, € million

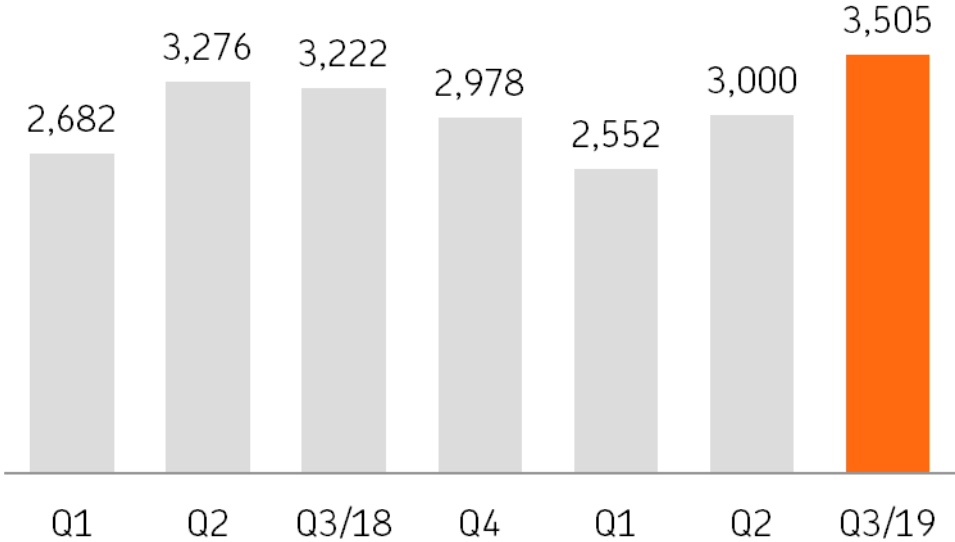


# Growth in current and payment transfer account deposits as well as in investment deposits



# Volume of brokered homes and real property transactions increased year on year

No. of brokered homes and real property transactions



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# Corporate Banking

# Corporate Banking

OP is Finland's leading provider of corporate loans.

OP Financial Group's Corporate Banking segment comprises banking for corporate and institutional customers as well as asset management business, including OP Corporate Bank plc's banking, OP Asset Management Ltd, OP Fund Management Company Ltd and OP Property Management Ltd.

- OP provides banking services to companies and organisations and associations. We provide our customers with a wide range of services for financing, payment transactions and cash management, investment, risk management and the development of business. We always tailor our solutions to the needs of our corporate customers.
- OP also seeks to meet its Private and corporate customers' savings and investment needs in a customer-focused and comprehensive way and to provide the best digital asset management services.

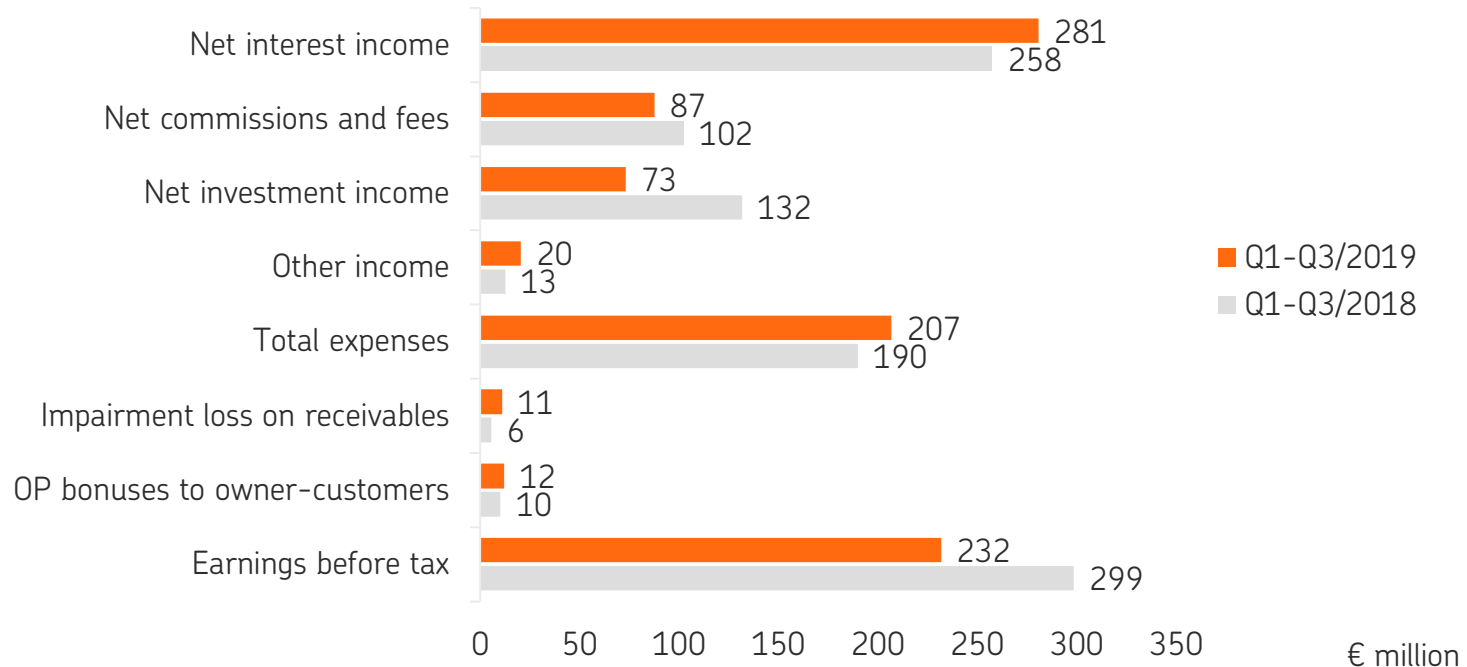
## Key figures for Q1–Q3/2019

Earnings before tax  
**€232** million

Loan portfolio  
**€23.7** billion

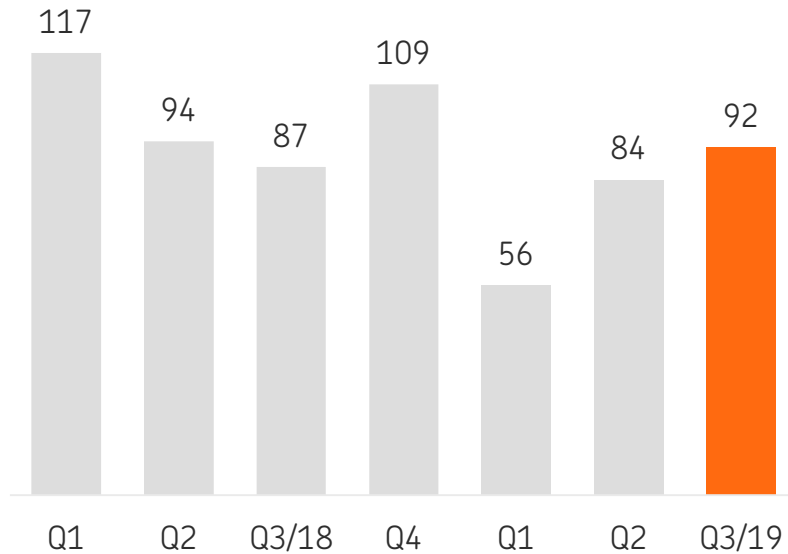
Assets under  
management  
**€56.7** billion

# Corporate Banking earnings before tax were EUR 232 million

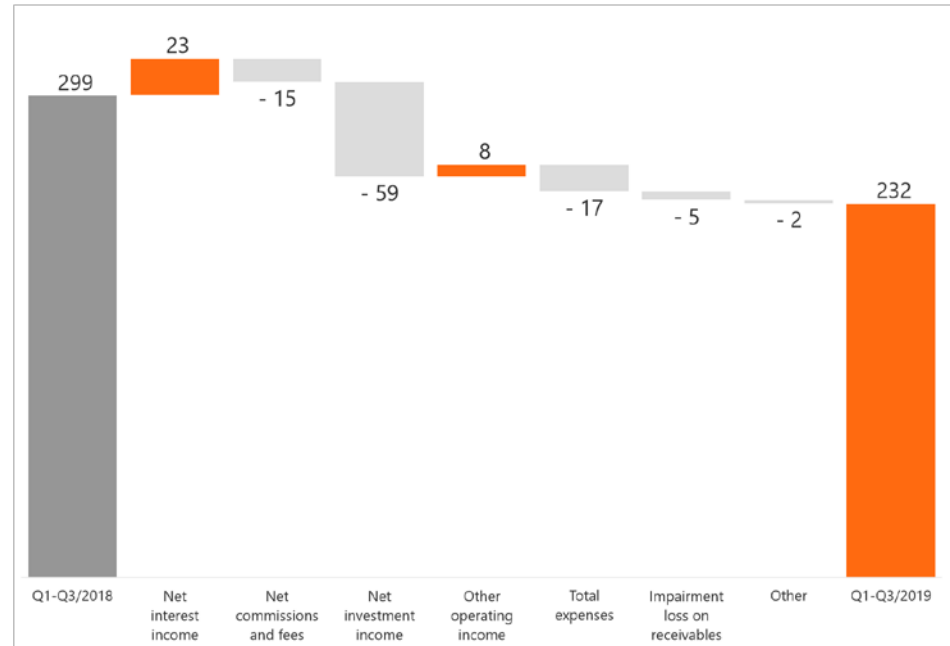


# EBT weakened due to lower NII and higher expenses and impairment loss on receivables

€ million



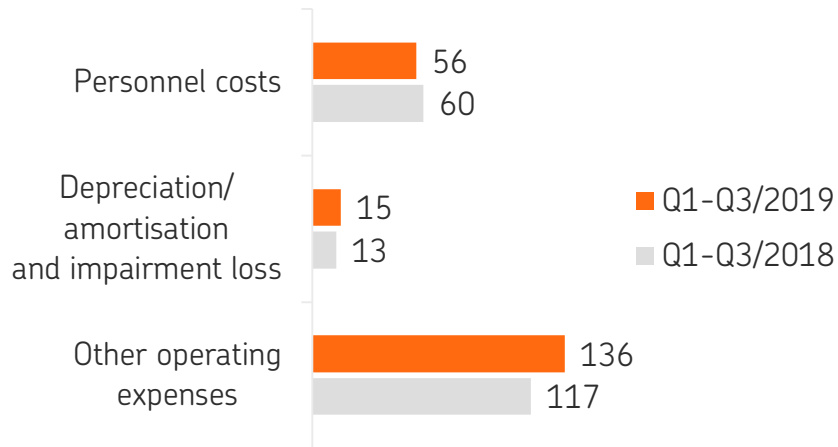
€ million



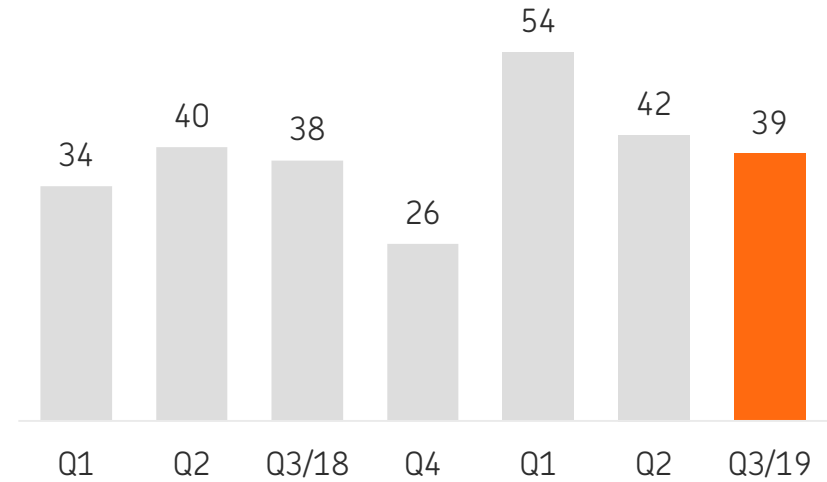


# Stability contribution and ICT costs increased other operating expenses

€ million

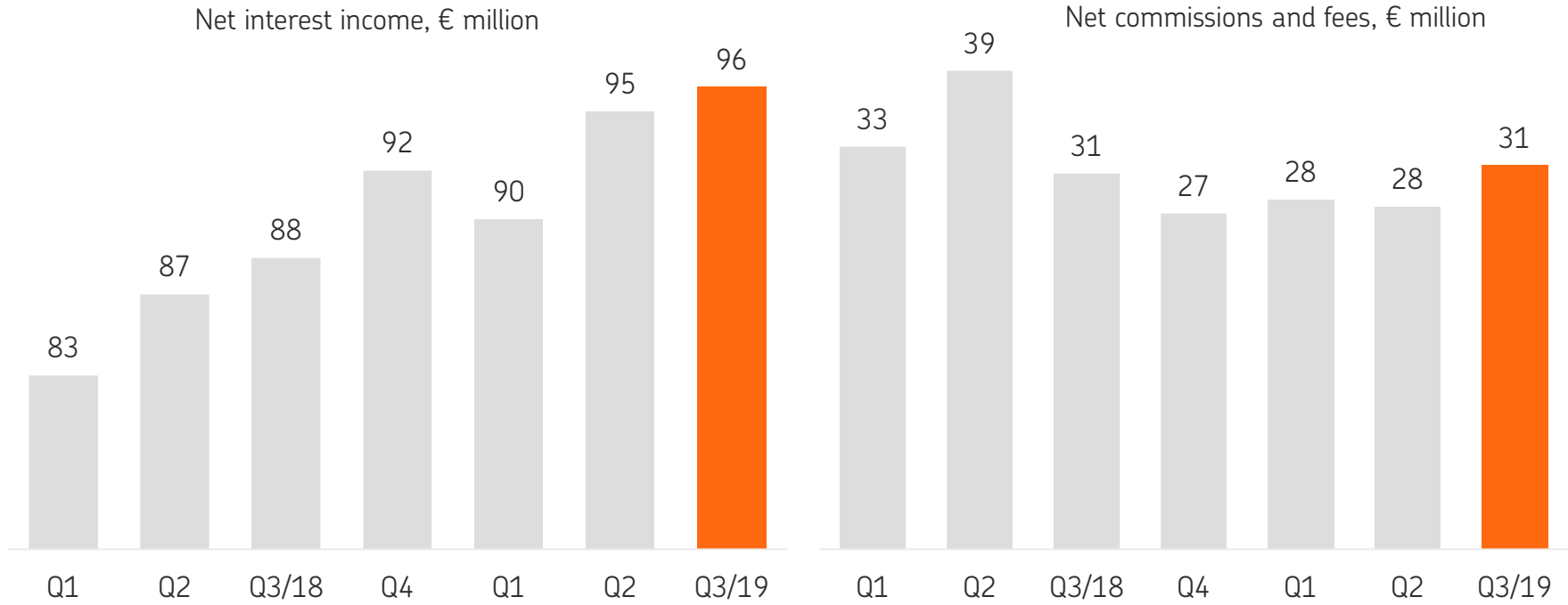


Cost/income ratio, %

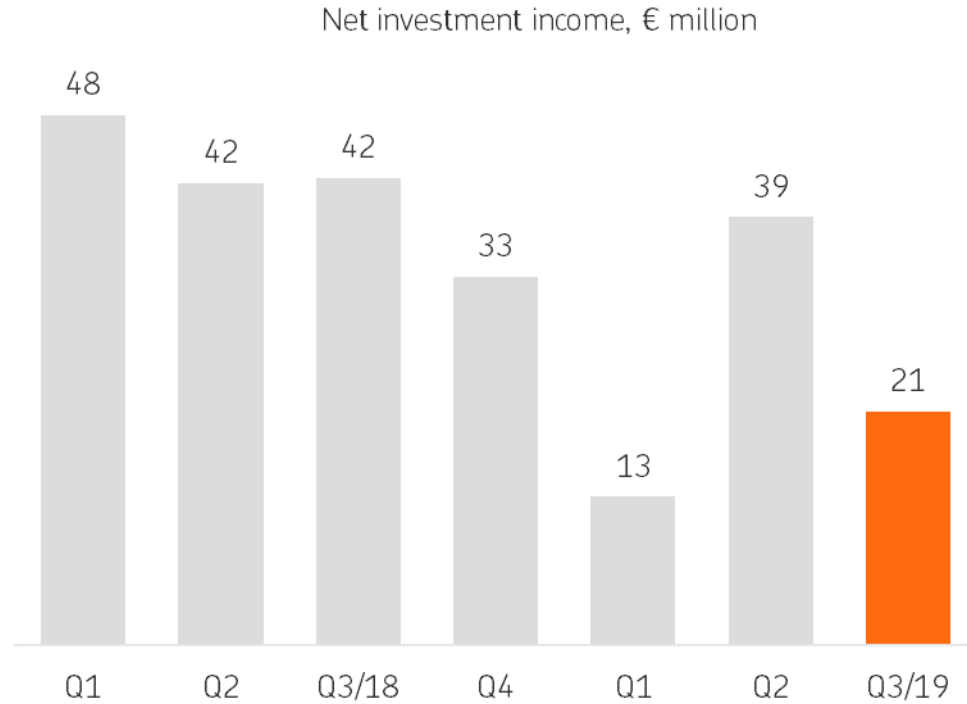


Q4/18 personnel costs include the transfer of pension liability of EUR 32 million

# Net interest income up by 9% year on year



# Changes made in the valuation models of derivatives in Q1 reduced net investment income



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# Insurance

# Insurance

OP provides an extensive range of non-life and life insurance services to private, corporate and institutional customers. The Insurance business segment comprises Pohjola Insurance, A-Insurance, Eurooppalainen, OP Life Assurance Company and Pohjola Hospital.

- The key insurance lines for private customers include home, motor vehicle and other property policies and personal insurance, such as accident and health policies, as well as comprehensive services for saving through insurance.
- We provide our corporate customers with diversified risk management services, which enable them to better ensure trouble-free and secure business operations in the case of problems. For employee remuneration and companies' investment needs, we offer a diverse range of supplementary pension and investment solutions.
- With our claims service partners, we can ensure high-quality customer experience, and claims services that are cost-efficient, of consistent quality and closely available to our customers

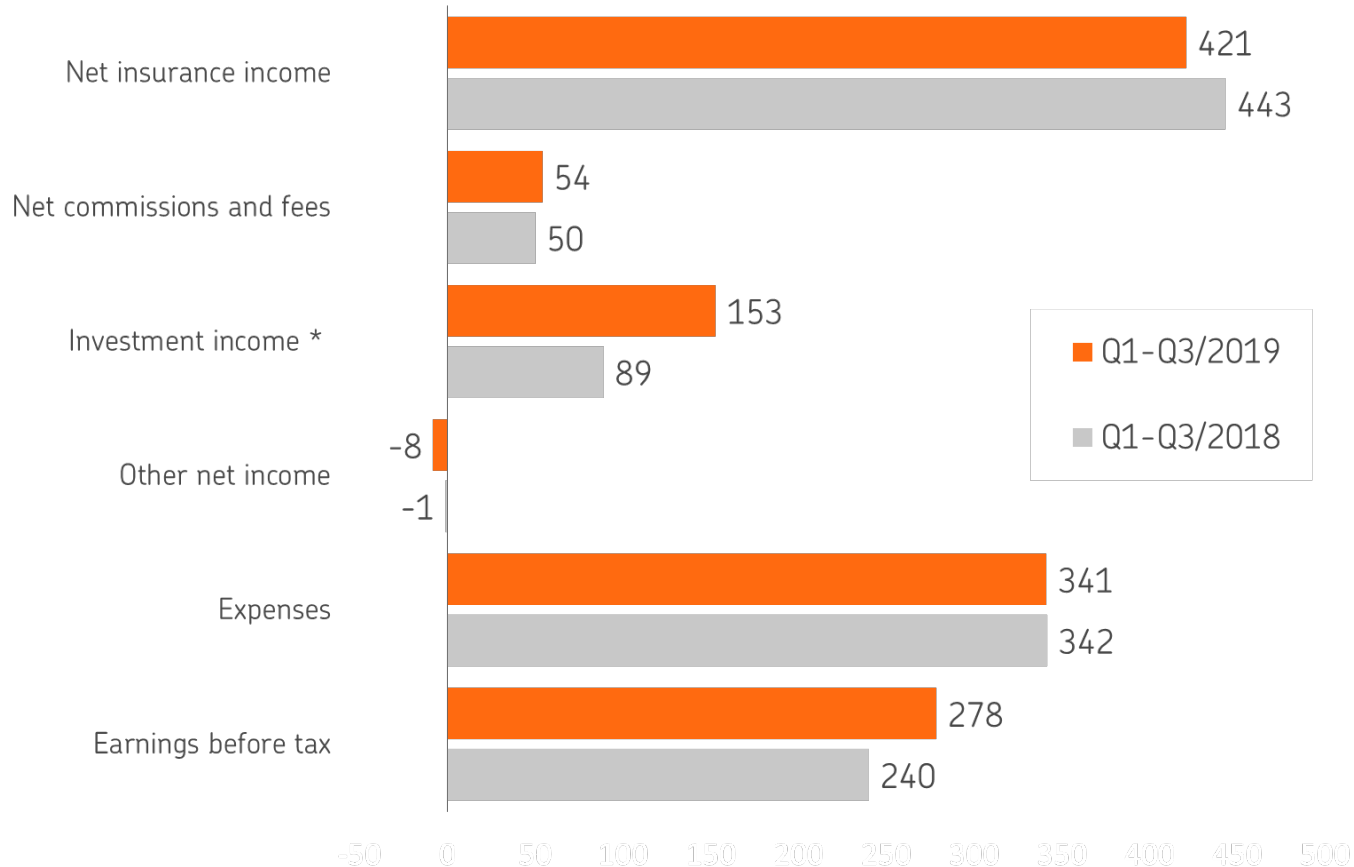
## Key figures for Q1–Q3/2019

Earnings before tax  
**€278** million

Insurance premium  
revenue  
**€1,106** million

Unit-linked insurance  
assets  
**€11** billion

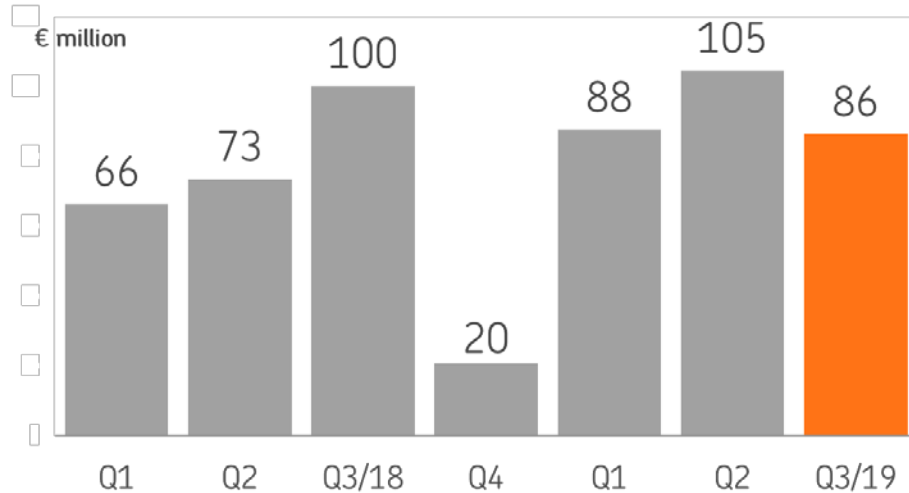
# Insurance EBT, € million



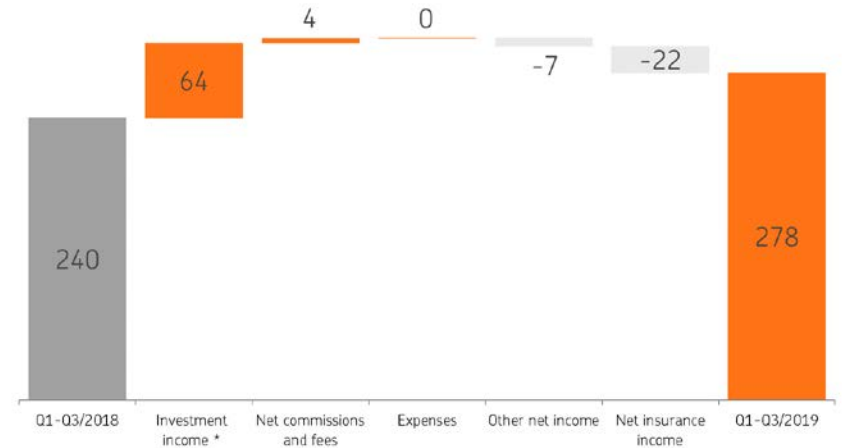
\*Includes net investment income and overlay approach

# Higher investment income increased earnings – capital gains soared

Earnings before tax  
by quarter, € million



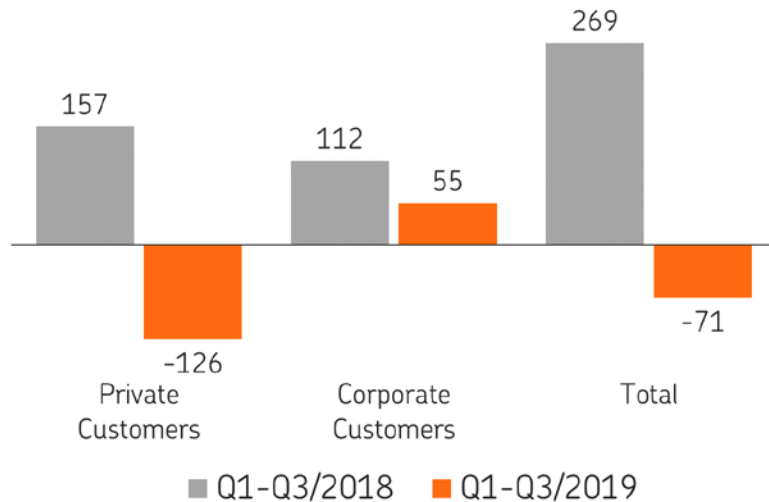
Earnings before tax, € million  
Change Q1-Q3/2019 vs. Q1-Q3/2018



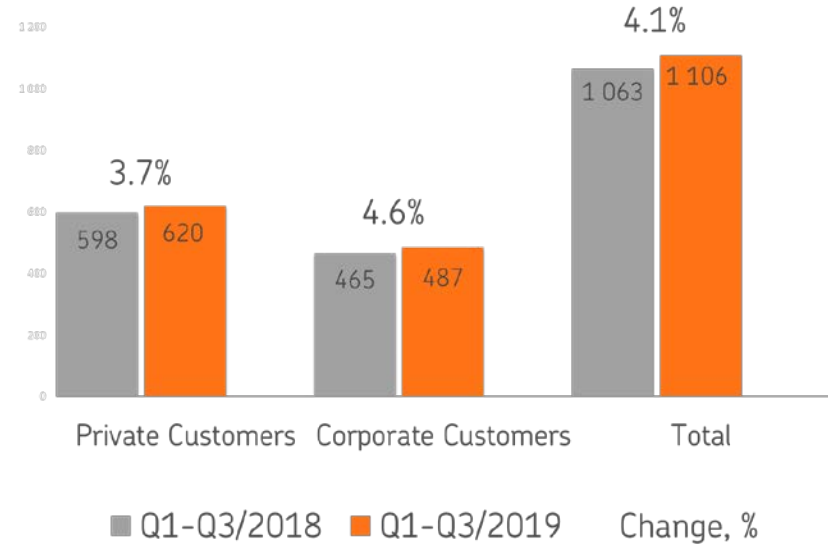
\*) Includes net investment income and overlay approach

# Net sales and insurance premium revenue

Life Insurance, Net assets inflow of unit-linked insurance contracts, € million



Non-life Insurance premium revenue, € million

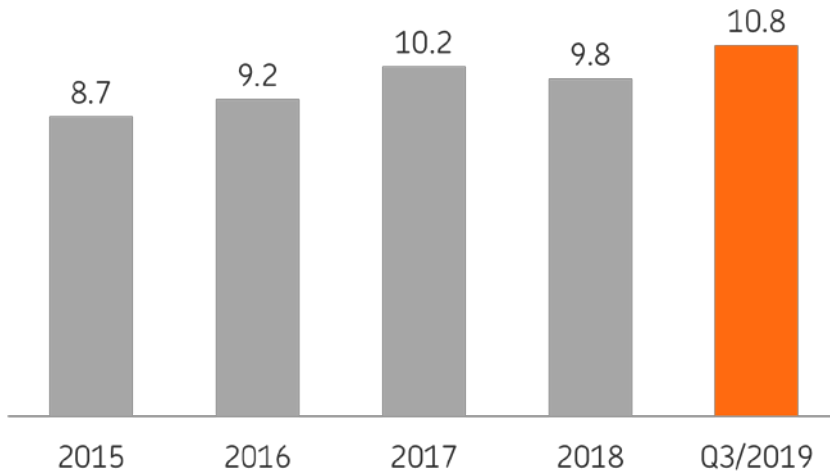


Insurance premium revenue excludes the Baltic business that was sold in August 2018.

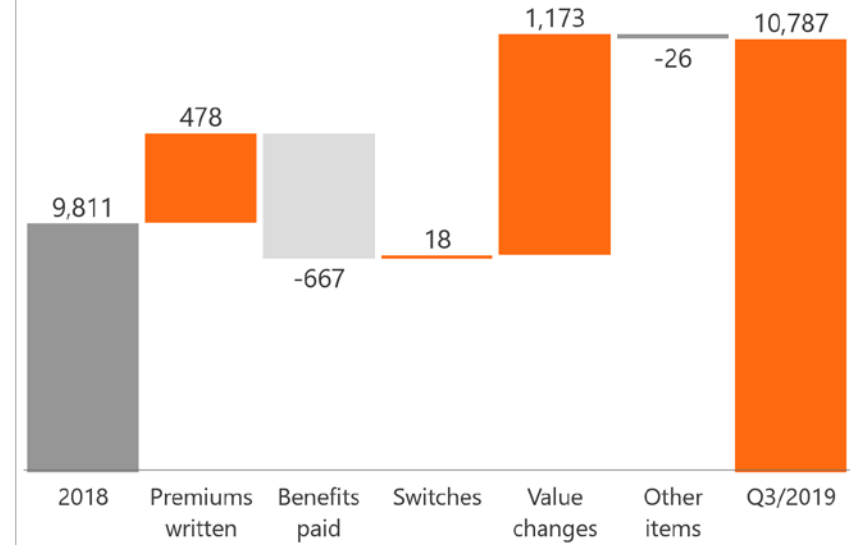


# Unit-linked insurance assets increased by 10% as a result of good value performance

Unit-linked insurance savings, € billion

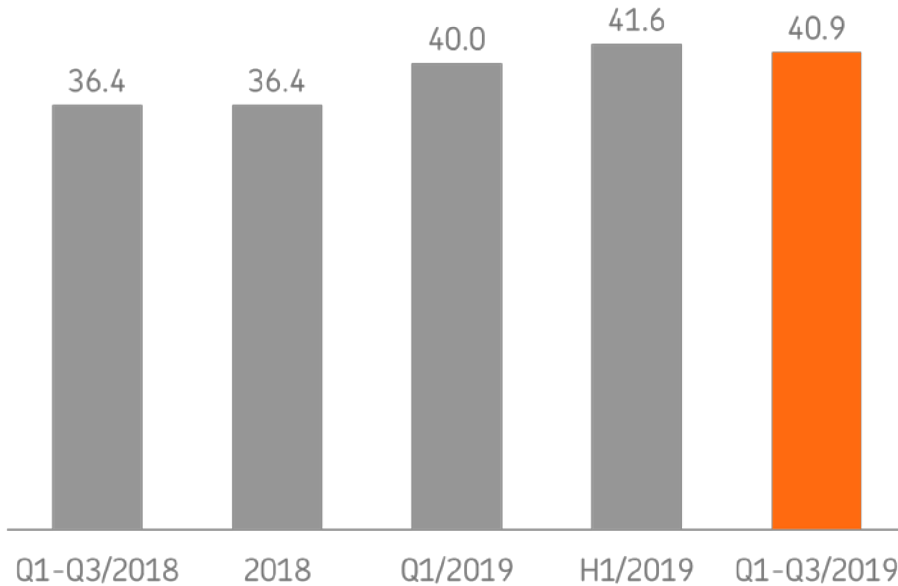


Change in unit-linked insurance savings, € million

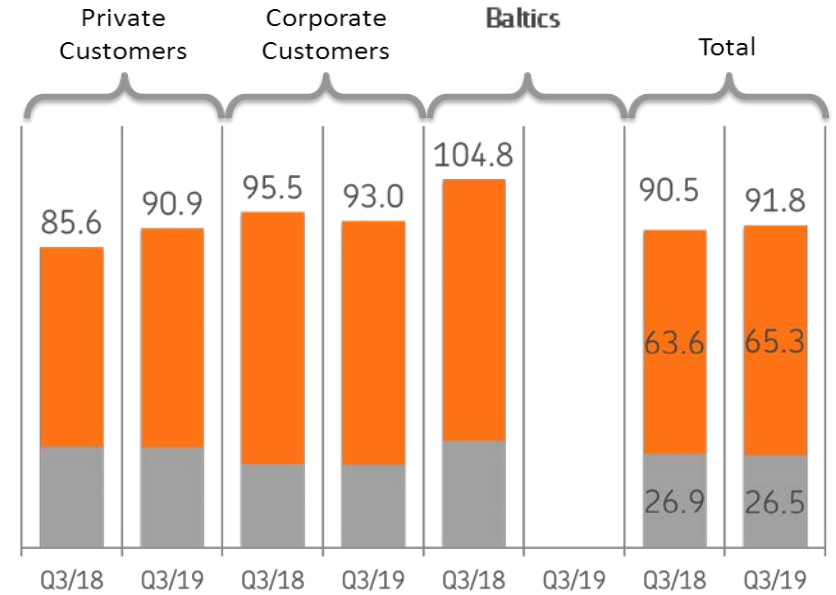


# Insurance profitability

## Life Insurance, operating ratio %



## Non-life Insurance, operating combined ratio %



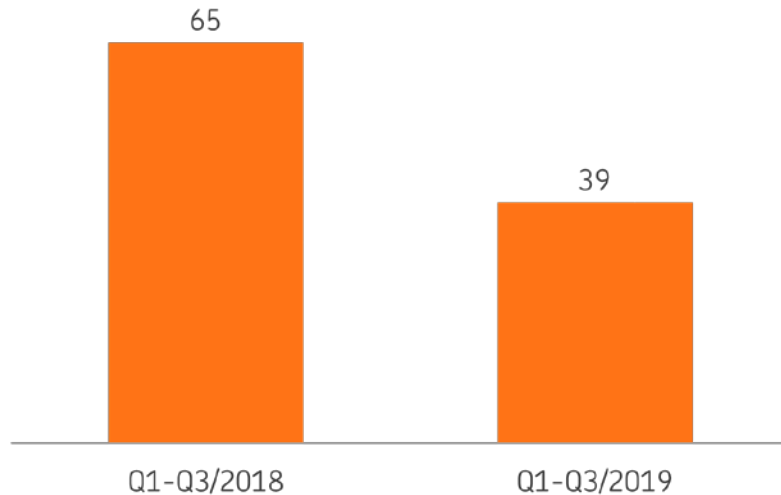
■ Operating cost ratio

■ Operating risk ratio

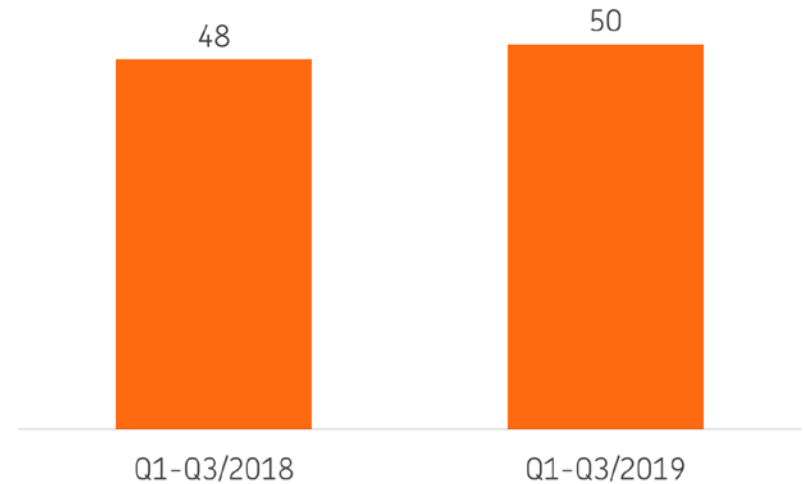
Operating combined ratio

# Net return on insurance investments at fair value, € million

Life Insurance, € million \*



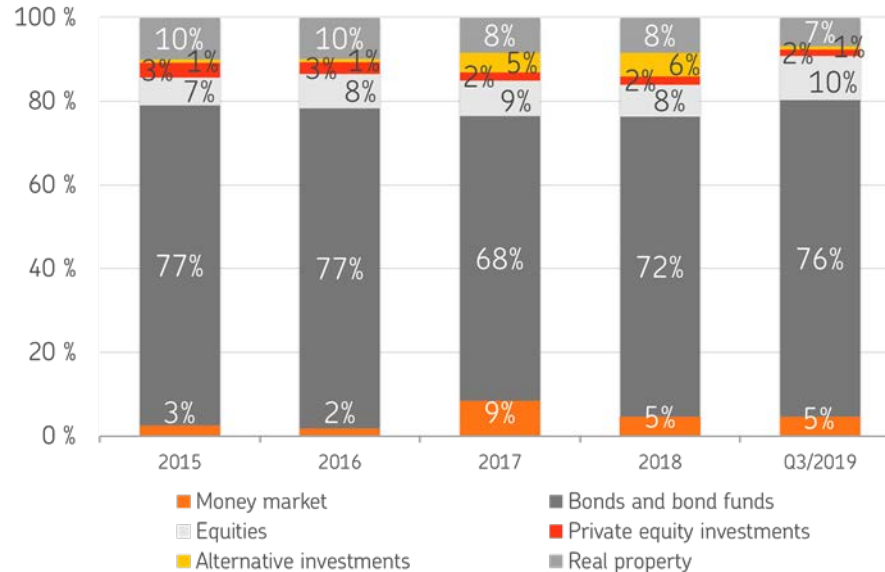
Non-life Insurance, € million \*



\*Net return on investments at fair value is calculated by deducting the value change in market-consistent insurance liability from income from total investment assets. Net return on life insurance investments excludes the so-called separated balance sheets that were transferred from Suomi Mutual.

# Non-life insurance investment portfolio allocation

Investment portfolio (€3.9 bn) by asset class  
as at 30 September 2019

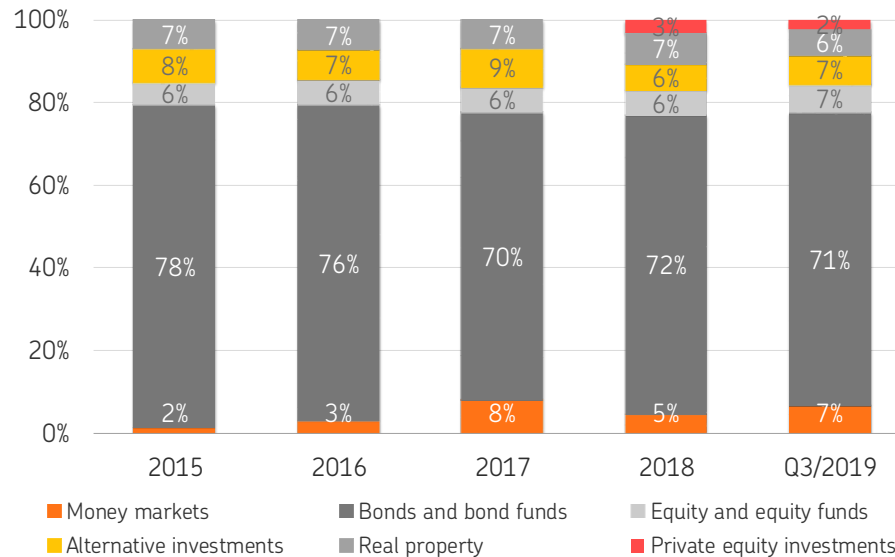


The duration of the fixed-income portfolio was 4.5 (4.3) years.

The running yield for direct bond investments averaged 1.4% (1.5) at end-September 2019.

# Life Insurance investment portfolio allocation

Investment portfolio (€3.7 bn) by asset class  
as at 30 September 2019



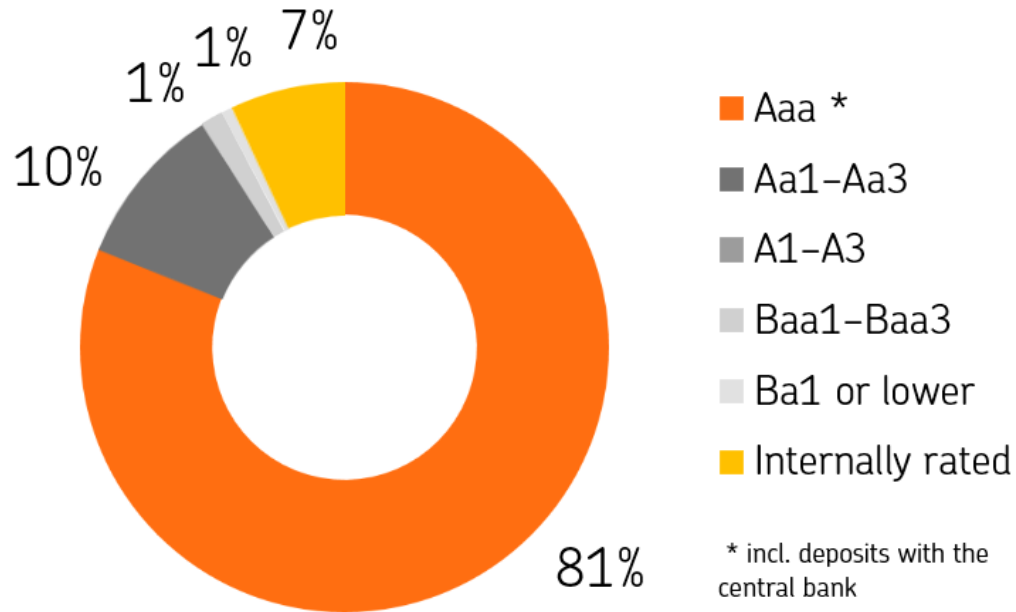
The duration of the fixed-income portfolio was 4.2 (4.1) years.  
The running yield for direct bond investments averaged 1.4% (1.4) at end-September 2019.

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# Liquidity and funding

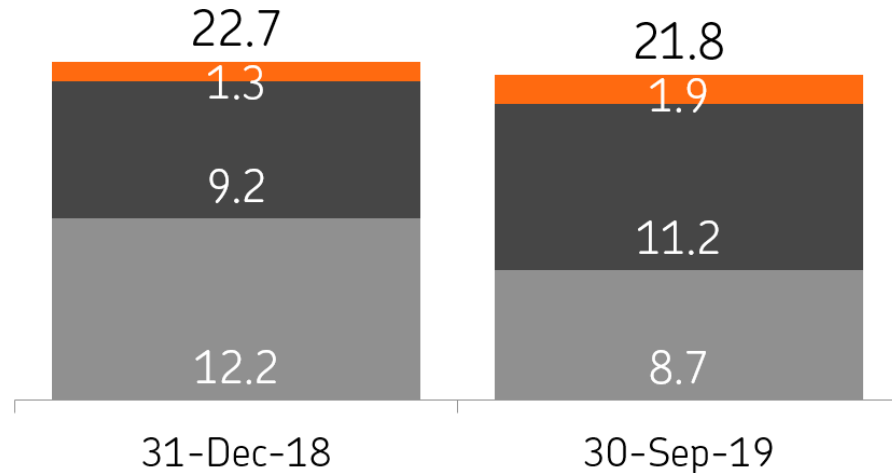
# Liquidity buffer includes highly-rated assets

Liquidity buffer by credit rating as at 30 September 2019



# Liquidity buffer €21.8 bn at end-Sep 2019

Liquidity buffer breakdown, € bn

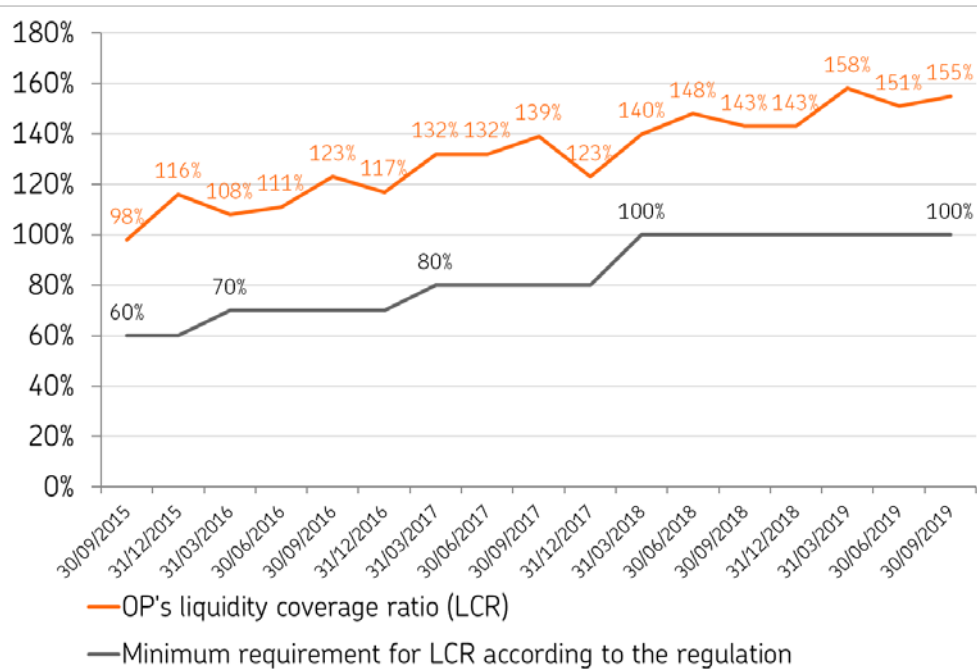


The liquidity buffer is sufficient to cover the need for short-term funding for known and predictable payment flows and in a liquidity stress scenario.

- Receivables ineligible as ECB collateral
- Notes and bonds eligible as ECB collateral
- Deposits with the central bank



# Liquidity coverage ratio 155% at end-Sep 2019



OP monitors its liquidity and the adequacy of its liquidity buffer using LCR.

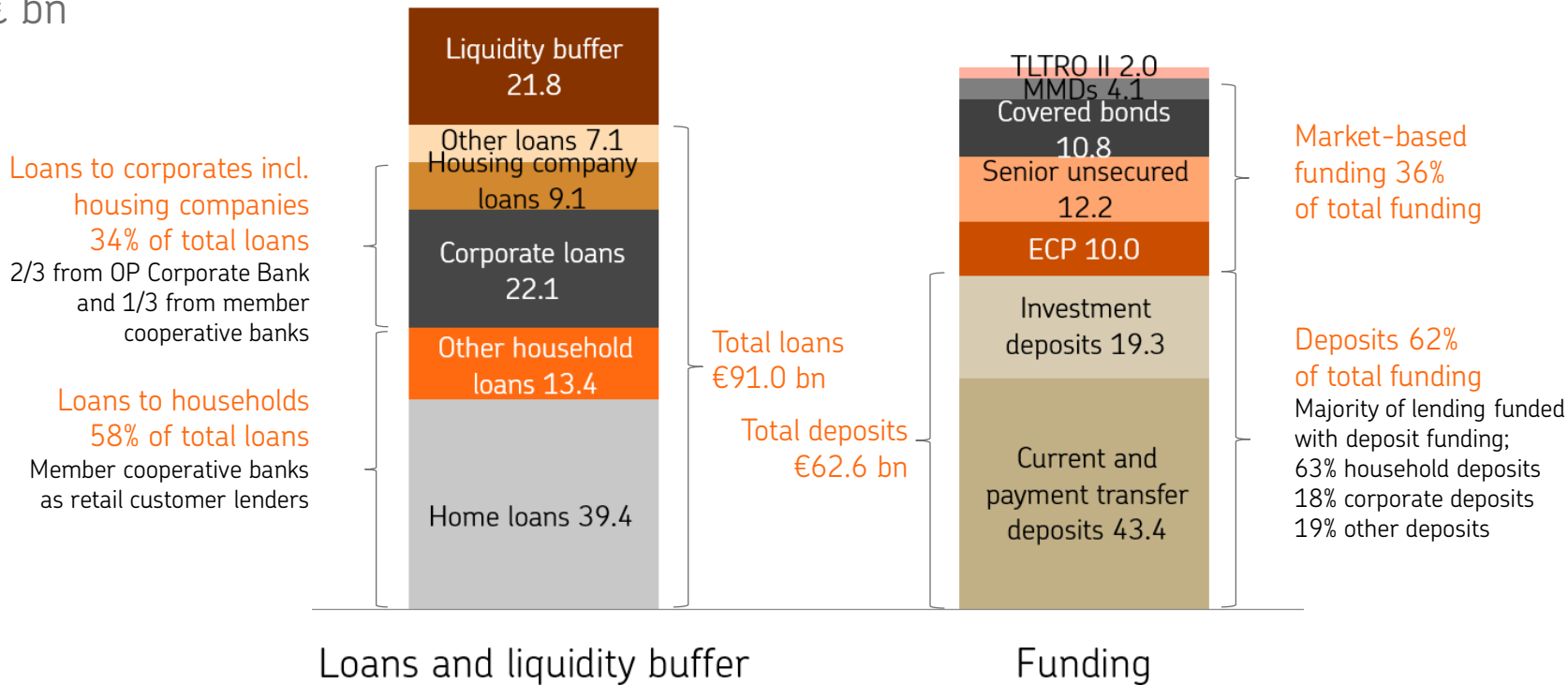
According to the regulation, LCR must be at least 100%.

NSFR (Net Stable Funding Ratio), which measures long-term funding sufficiency and structural funding risk, was 110% at end-September 2019 (111% at YE2018)

# Loans, liquidity buffer and funding

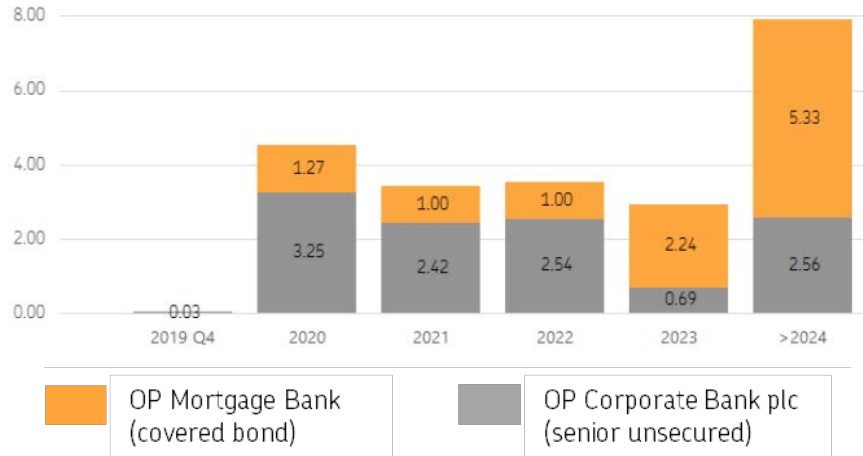
30 Sep 2019

€ bn

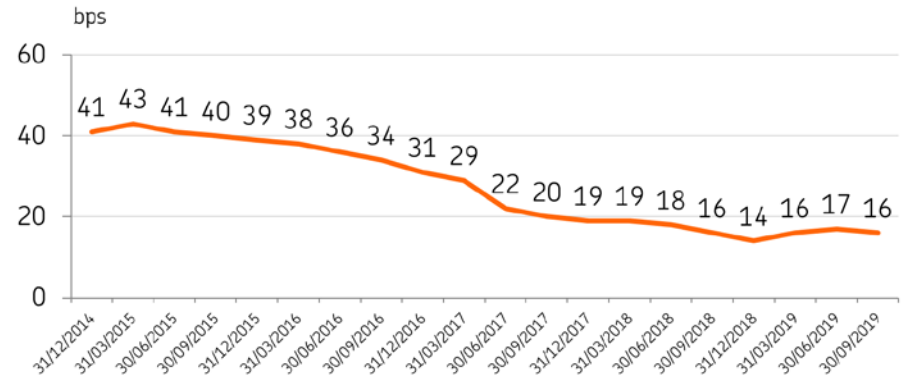


# Maturity breakdown and average margin of long-term wholesale funding

Issued senior unsecured and covered bonds by maturity, 30 Sep 2019 (€ bn)



Average margin of senior wholesale funding, TLTRO II funding and covered bonds



OP Financial Group's Minimum Requirement for own funds and Eligible Liabilities (MREL) has been set at 13.4 billion euros, or 27.3% of the risk-weighted assets (RWA) at YE2017. OP Financial Group seeks to meet the requirements under the MREL with its capital base and other subordinated debt. OP Financial Group's MREL ratio was approx. 42% at end-September 2019. The SRB has confirmed a resolution strategy for OP Financial Group whereby the resolution measures would apply to OP Corporate Bank acting as a Single Point of Entry. In June 2019, OP issued its first senior non-preferred bond amounting to €500 million with a maturity of 5 years. Senior non-preferred bonds cover the MREL set for OP Financial Group by the SRB.

# Issued senior unsecured and covered bonds

## OP Corporate Bank plc's benchmark senior unsecured bonds 2017–19

Year	Month	Amount	Maturity	Interest rate
2019	June	€500 mn (Senior Non-Preferred)	5 yrs	m/s +60 bps
2019	February	€500 mn (Green Senior)	5 yrs	m/s +35 bps
2018	August	€500 mn	5 yrs	m/s +22 bps
2018	May	GBP200 mn	3 yrs	Eb3 +17 bps
2018	May	Total €1 bn dual-tranche, €500 mn each	7 yrs (fixed) 3 yrs (floating)	m/s +30 bps Eb3 +20 bps
2017	April	€500 mn	5.5 yrs	m/s +27 bps

## OP Mortgage Bank's benchmark covered bonds 2017–19

Year	Month	Amount	Maturity	Interest rate
2019	February	€1.25 bn	10 yrs	m/s +10 bps
2018	June	€1 bn	7.25 yrs	m/s -2 bps
2017	November	€1 bn	5.25 yrs	m/s -13 bps
2017	June	€1 bn	10 yrs	m/s +1 bps
2017	March	€1 bn	7 yrs	m/s -4 bps

OP issued long-term bonds worth €2.8 bn in Q1-3/19 (€3.3 bn in 2018)

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# Capital adequacy and capital base

# Three capital requirements

Consolidated capital adequacy = capital adequacy of the amalgamation of cooperative banks

- The Group's operations are based on the Act on the Amalgamation of Deposit Banks.
- The Act on the Amalgamation of Deposit Banks sets the minimum capital for the amalgamation of cooperative banks, which is calculated according to the CRR rules and the Act on Credit Institutions.
- The amalgamation of cooperative banks consists of the amalgamation's central institution (OP Cooperative), its member credit institutions and the companies belonging to their consolidation groups. Although OP Financial Group's insurance companies do not belong to the amalgamation of the cooperative banks, investments made in them have a major impact on capital adequacy calculated in accordance with the capital adequacy regulations for credit institutions.

Solvency II for insurance companies

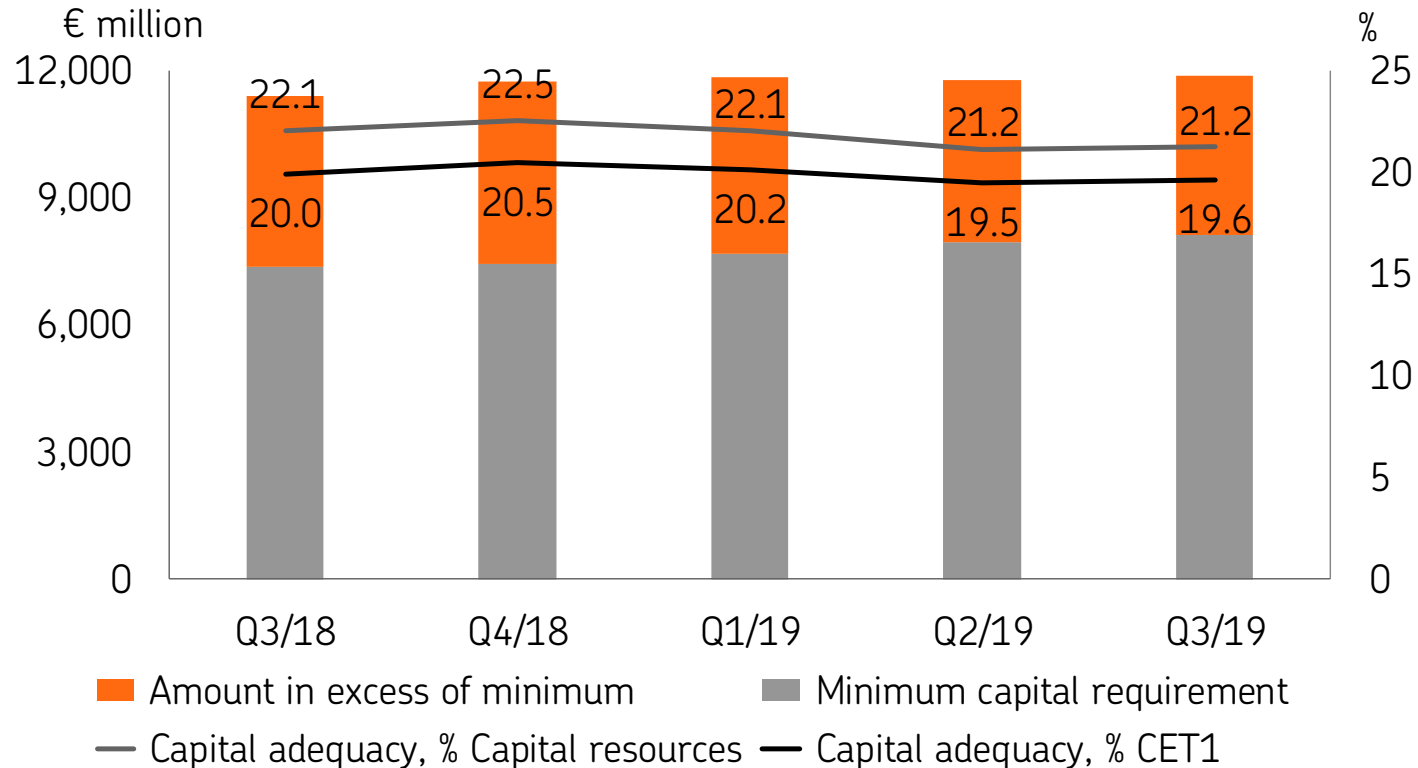
- The operations and solvency requirements for insurance companies are based on the Insurance Companies Act and EU regulation.
- The solvency capital requirement (SCR) is calculated for individual insurance companies and the insurance conglomerate. The companies are required to cover SCR using the Group's sufficient buffer specified internally.
- Eligible capital covers solvency requirements.
- The scope of an insurance conglomerate is the same as the scope of the financial and insurance conglomerate referred to in the Act on the Supervision of Financial and Insurance Conglomerates. .

Capital adequacy ratio (under the Act on the Supervision of Financial and Insurance Conglomerates) = OP Financial Group's capital adequacy

- OP Financial Group is a financial and insurance conglomerate referred to in the Act on the Supervision of Financial and Insurance Conglomerates. Such conglomerates are governed by specific provisions of the capital adequacy requirement.
- Capital adequacy under the Act is calculated using the consolidation method, whereby items not included in the capital base, under the regulations for the banking or insurance industry, are added to the equity capital in the conglomerate's balance sheet.
- The capital base may not include items not available for covering the losses of other companies belonging to the conglomerate.
- The financial and insurance conglomerate's minimum capital requirement consists of the credit institutions' consolidated minimum capital requirement, buffers included, and the insurance companies' combined solvency capital requirements (SCR).

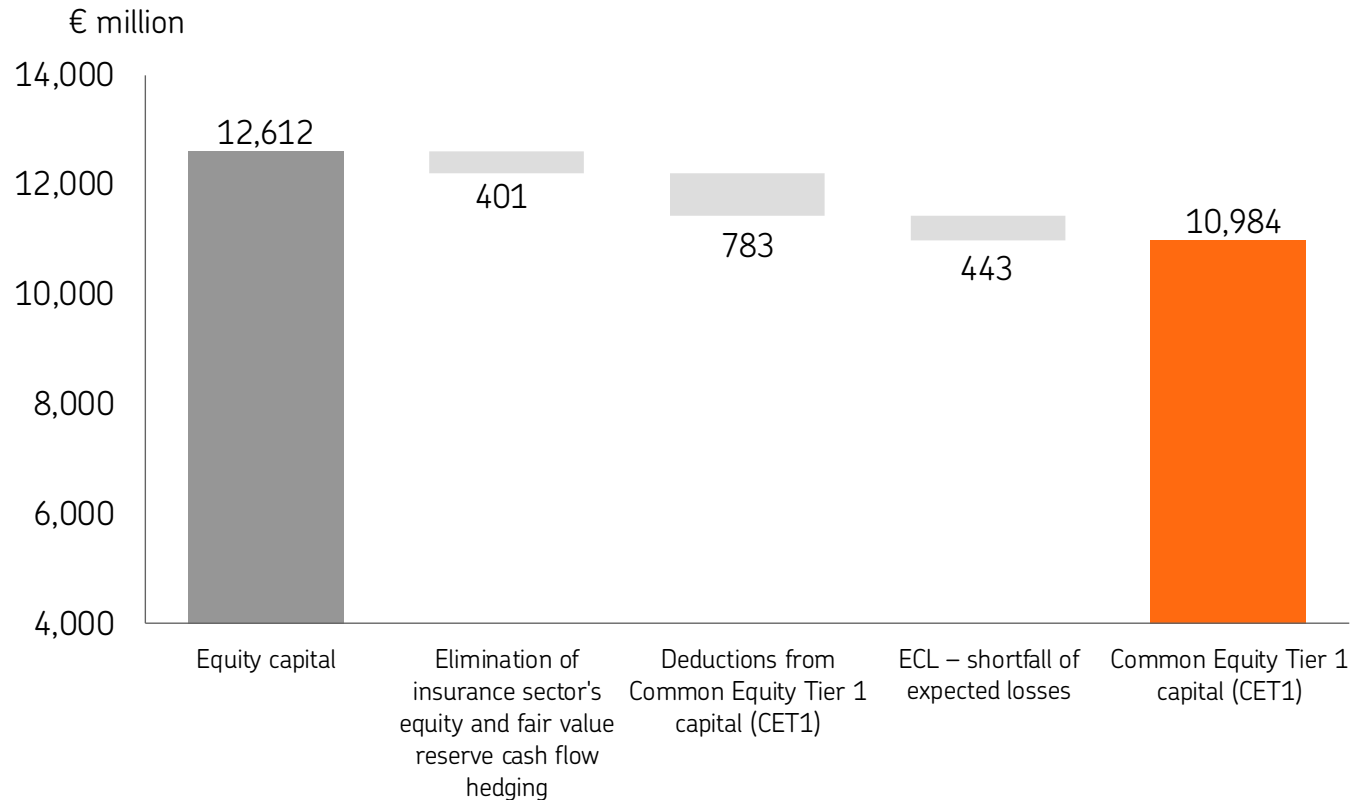
# Amalgamation of cooperative banks

## Capital base and capital adequacy



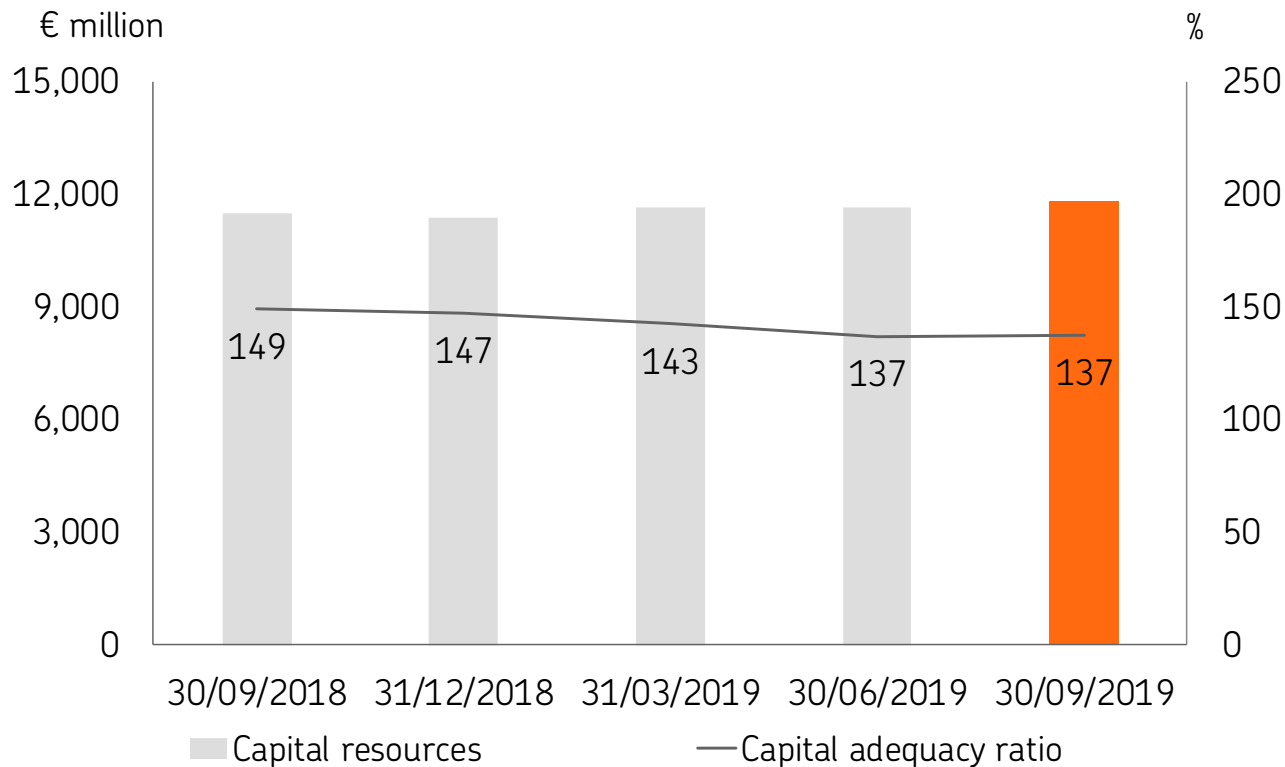
# Common Equity Tier 1 (CET1)

30 September 2019

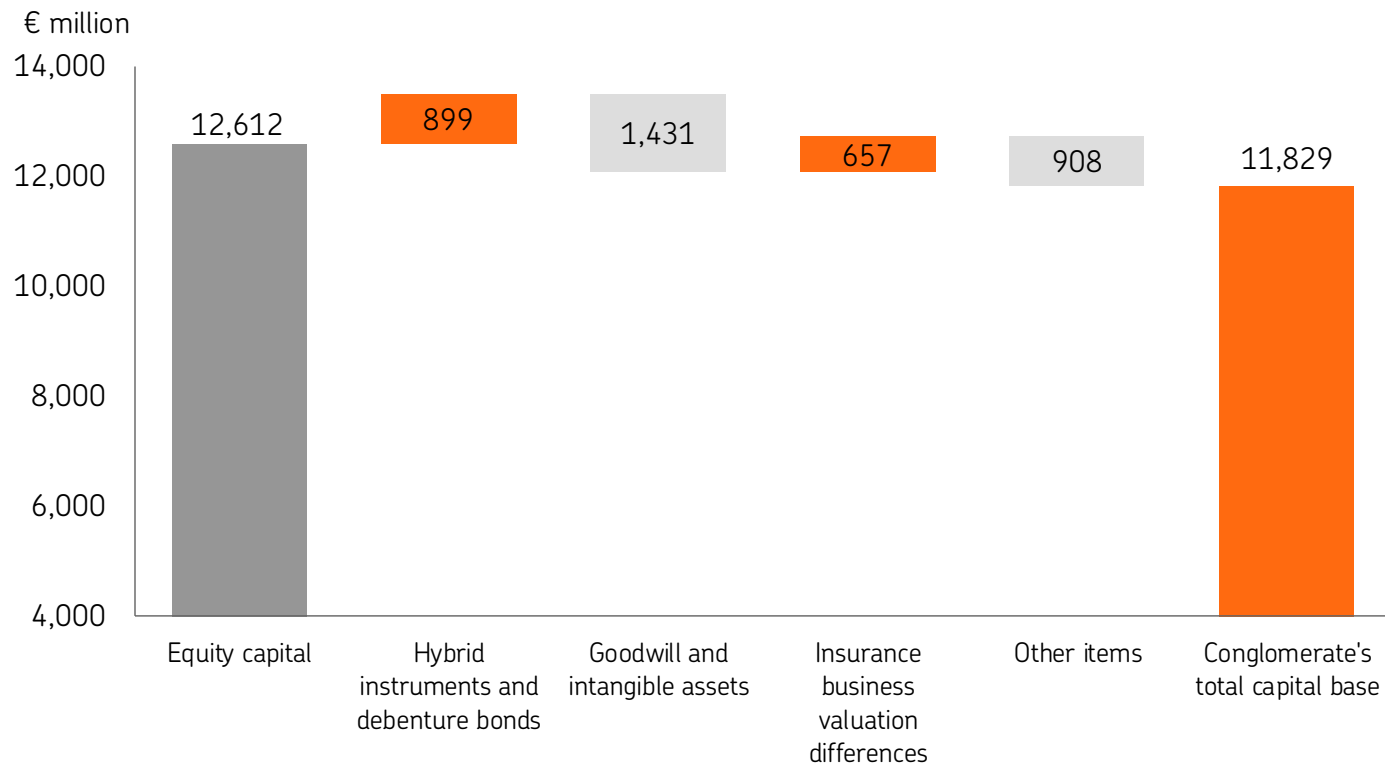




# OP Financial Group's capital adequacy ratio under the Act on the Supervision of Financial and Insurance Conglomerates (FiCo)



# FiCo capital 30 September 2019



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# OP in a nutshell

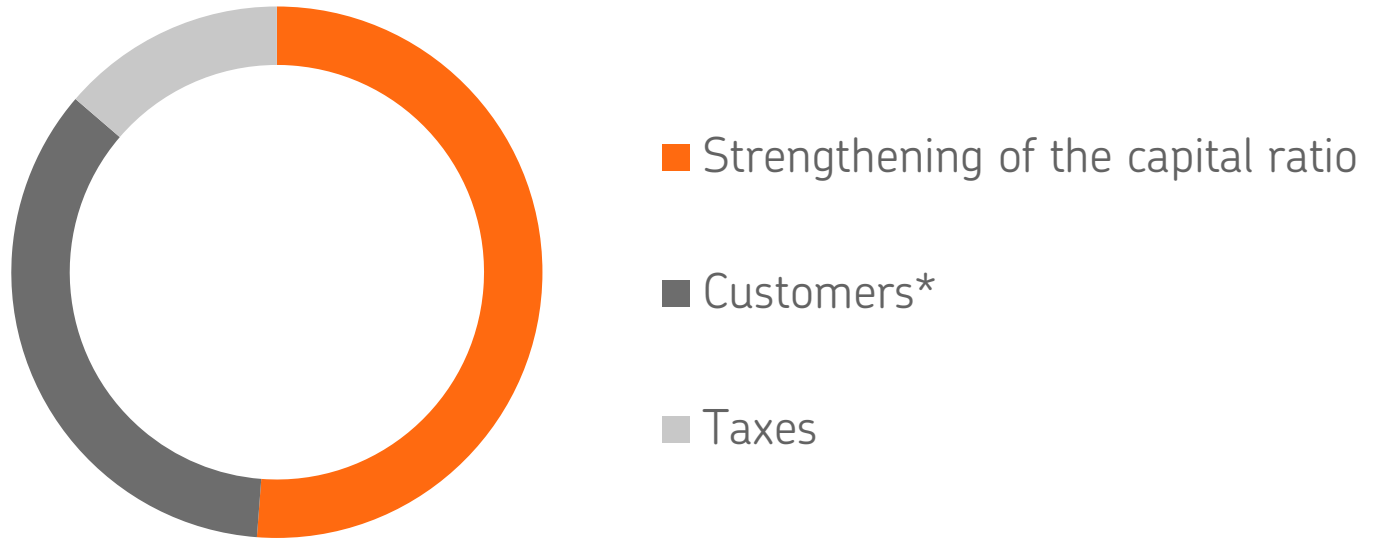


OP is a financial services group owned by its customers

OP Financial Group's mission

We promote the sustainable prosperity, security and wellbeing of our owner-customers and business environment.

# OP Financial Group allocates a substantial amount of its earnings to the benefit of its customers and the surrounding society



Estimate of the allocation of period earnings, which is confirmed after the end of the reporting period.

\*Customers = customer bonuses, discounts and interest on contributions made by owner-customers

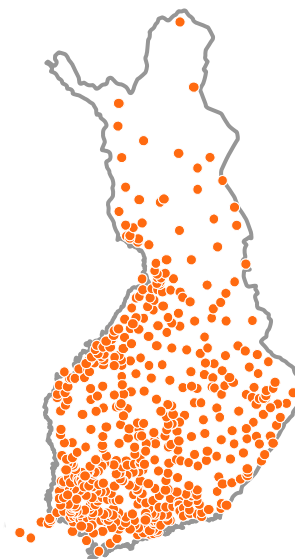
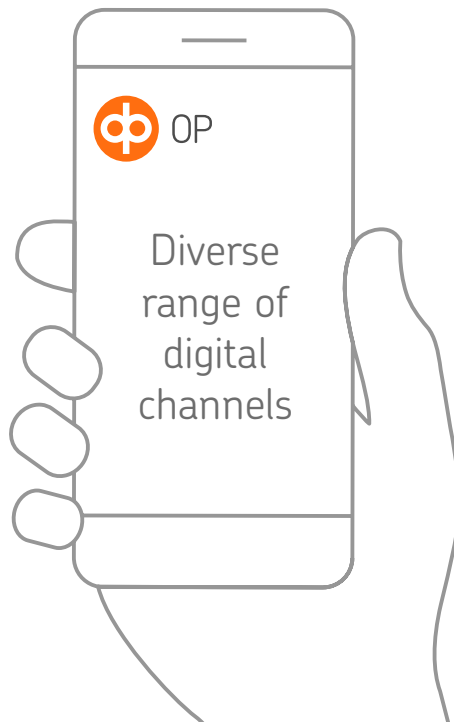
# OP Financial Group's strategic targets

	30 Sep 2019	Target 2019
Customer experience, NPS (Net Promoter Score, -100+100)		
Brand	24	25
Service	61	70, over time 90
CET1 ratio, %	19.6	22
Return on economic capital, % (12-month rolling)	20.3	22
Expenses of present-day business (12-month rolling), € million	1,835	Expenses for 2020 at 2015 level (1,500)
Owner-customers, million	1.98	2.0 (2019)

# Finland's most extensive and diverse service network



Already 1.98 million  
owner-customers



149 OP cooperative banks

# OP Financial Group's service channels

	Q1-Q3/2019	30 Sep 2019	12-month change
Online and mobile services			
Op.fi logins	79,117,026		-2%
OP-mobile logins	220,486,990		29%
OP Business mobile logins	7,248,025		74%
Pivo mobile application visits	39,132,215		97%
eServices Agreements (private customers)		1,925,654	3%
Branches and telephone services			
Bank branches		354	-4%
Providing both non-life insurance and banking services		321	-2%
Private Banking branches		42	0%
Customer contacts in telephone service	4,213,229		9%
Social media			
Followers on Facebook (OP Financial Group and OP cooperative banks)		365,384	7%
Followers on Twitter		41,700	12%
Followers on LinkedIn		42,000	47%
Followers on Instagram		11,820	46%



# Joint Liability, Deposit Guarantee and Investors' Compensation

- Under the Laki talletuspankkien yhteenliittymästä Act (the Act on the Amalgamation of Deposit Banks), the amalgamation of the cooperative banks comprises the organisation's central cooperative (OP Cooperative), its 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-mentioned entities together hold more than half of the total votes.
- The central cooperative's member credit institutions at the end of the report period comprised OP Financial Group's member cooperative banks as well as OP Corporate Bank plc, Helsinki Area Cooperative Bank , OP Mortgage Bank , OP Card Company Plc and OP Customer Services Ltd.
- By virtue of the Act on the Amalgamation of Deposit Banks, the central cooperative has both the right to control its credit institutions and the obligation to supervise their operations. The amalgamation of deposit banks is supervised on a consolidated basis. As laid down in applicable law, the member credit institutions and OP Cooperative are ultimately jointly and severally liable for each other's debts and commitments. OP Financial Group's insurance companies, for example, do not therefore fall within the scope of joint liability.
- Deposit banks belonging to OP Financial Group, i.e. its member cooperative banks, OP Corporate Bank plc and Helsinki Area Cooperative Bank, are regarded as a single bank with respect to deposit guarantee. Under legislation governing the Investors' Compensation Fund, OP Financial Group is also considered a single entity in respect of investors' compensation.

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Let's take care of each other