



OP Financial Group's Interim Report 1 January–30 June 2017

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A close-up, low-angle shot of a welding process. A bright, intense light emanates from the point of contact between a welding torch and a metal structure, creating a dense spray of bright orange and yellow sparks that cascade downwards. The background is dark and industrial, with various metal components and structures visible. The overall color palette is dominated by the warm tones of the sparks and the cool blues of the industrial environment.

OP Financial Group's Interim Report

OP Financial Group's key figures and ratios

Earnings were strong as expected

	H1/2017	H1/2016	Change, %	Q1-4/2016
Earnings before tax, EUR million	583	614	-5.1	1,138
Banking	338	283	19.5	574
Non-life Insurance	107	120	-11.2	244
Wealth Management	93	135	-31.3	226
Other operations	45	76		95
New OP bonuses accrued to owner-customers	108	102	6.1	208
	30-Jun-17	30-Jun-16	Change, %	31-Dec-16
Common Equity Tier 1 (CET1) ratio, %	19.1	19.4	-0.3 *	20.1
Return on economic capital, % **	21.8	22.4	-0.6 *	22.7
Ratio of capital base to minimum amount of capital base (under the Act on the Supervision of Financial and Insurance Conglomerates) % ***	145	163	-17 *	170
Ratio of impairment loss on receivables to loan and guarantee portfolio, %	0.06	0.06	0.0 *	0.09
Owner customers (1,000)	1,786	1,682	6.2	1,747

* Change in ratio

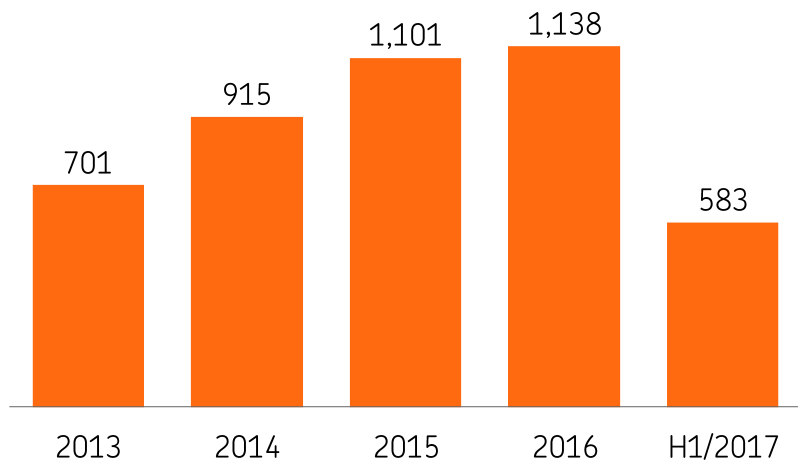
** 12-month rolling, change in percentage

*** The FiCo ratio has been calculated under Solvency II transitional provisions and the comparatives have been adjusted

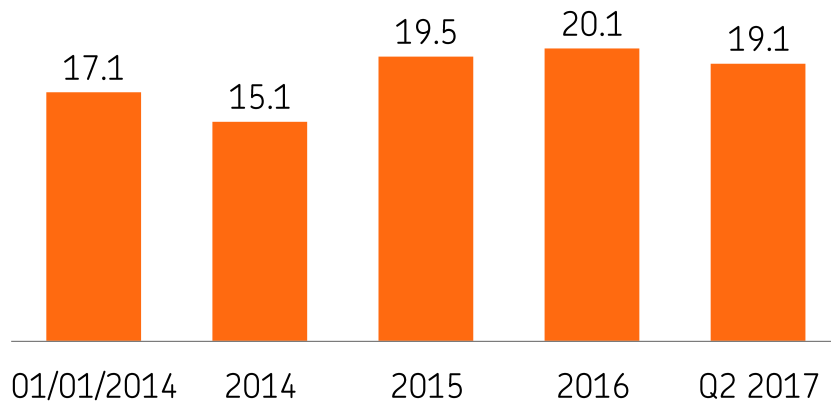
- Earnings before tax were EUR 583 million (614). Earnings adjusted for non-recurring items were at the previous year's level.
- Total income grew by over 3%.
- Expenses increased as expected, being 10% higher than a year ago, due mainly to an increase in investments related to operational reform.
- Full-year earnings for 2017 are expected to be about the same as or lower than those for 2016 due to increasing development costs and other expenses arising from strategy implementation.

OP Financial Group's steady earnings performance supports capital base

Earnings before tax, € million

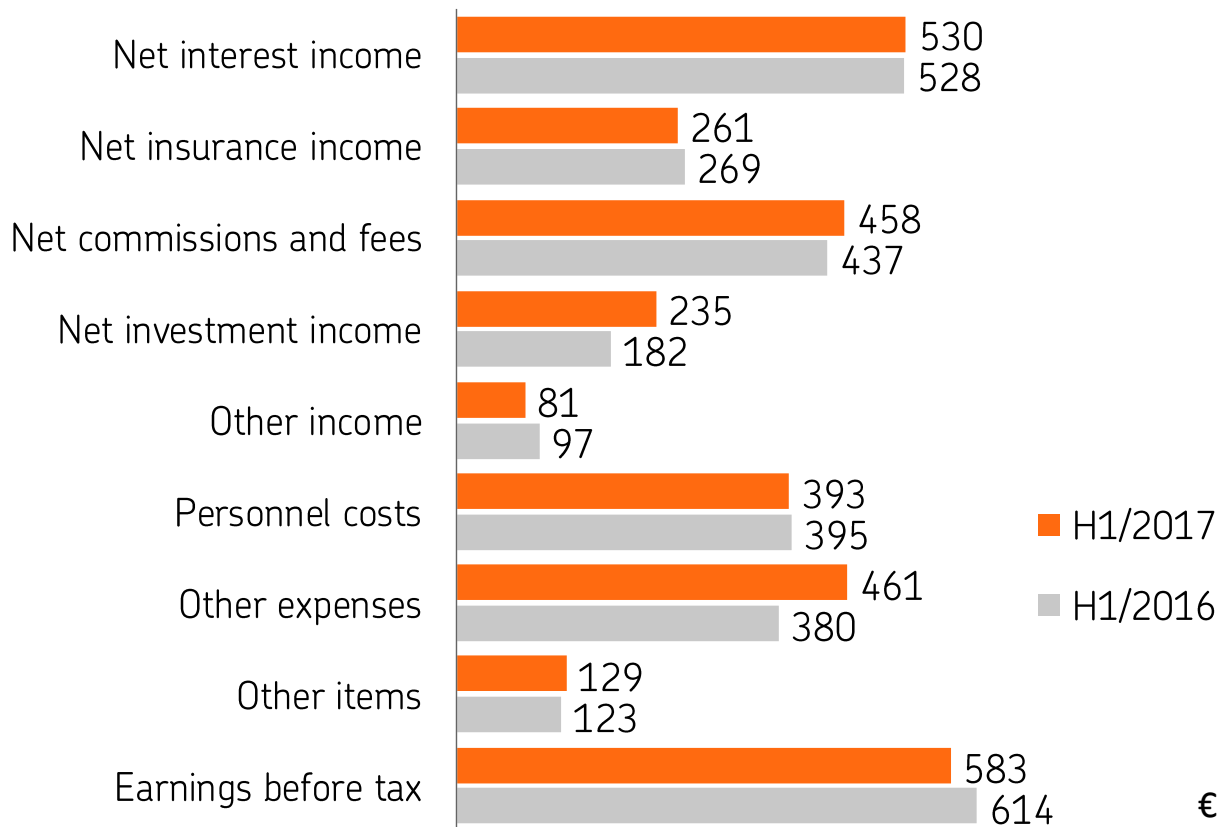


Common Equity Tier 1 ratio (CET1),%

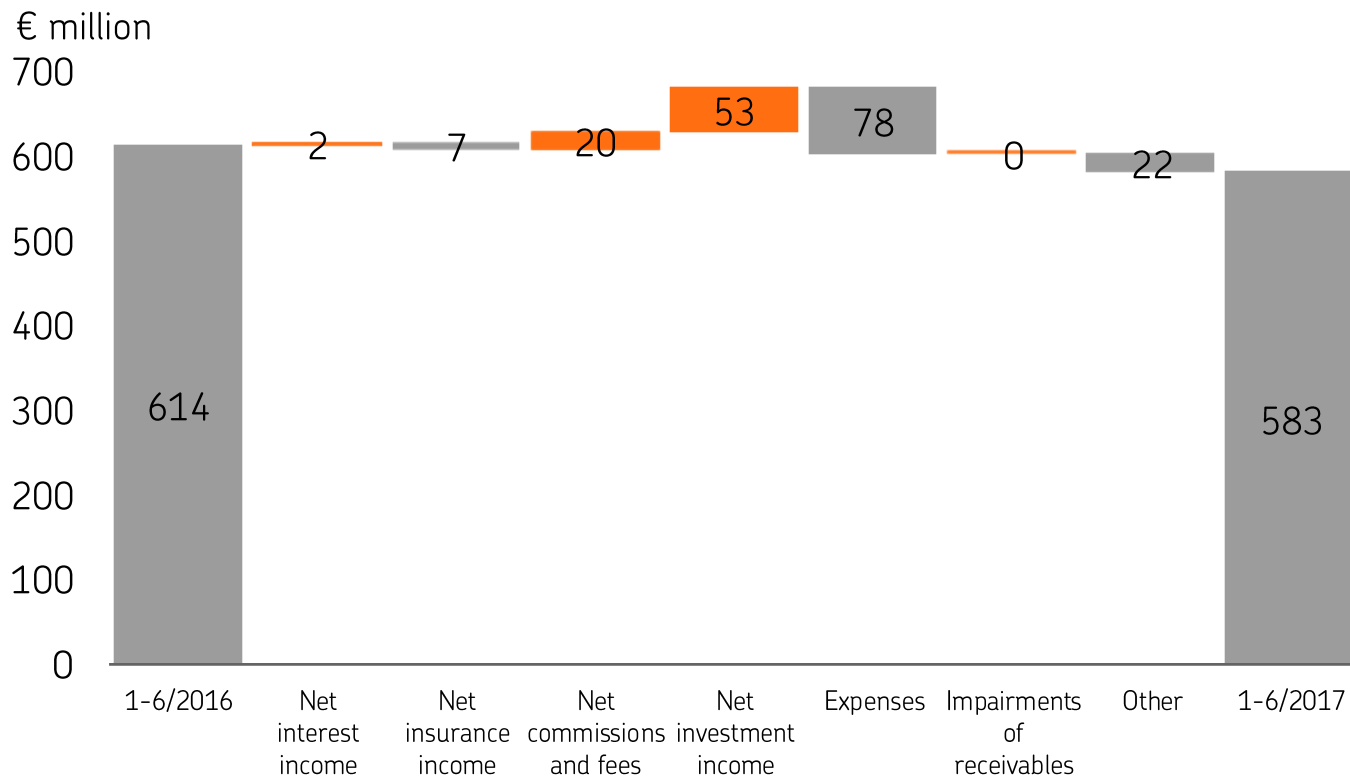


The risk weight floors set by the ECB decreased the CET1 ratio by 1.9 percentage points Q2 2017

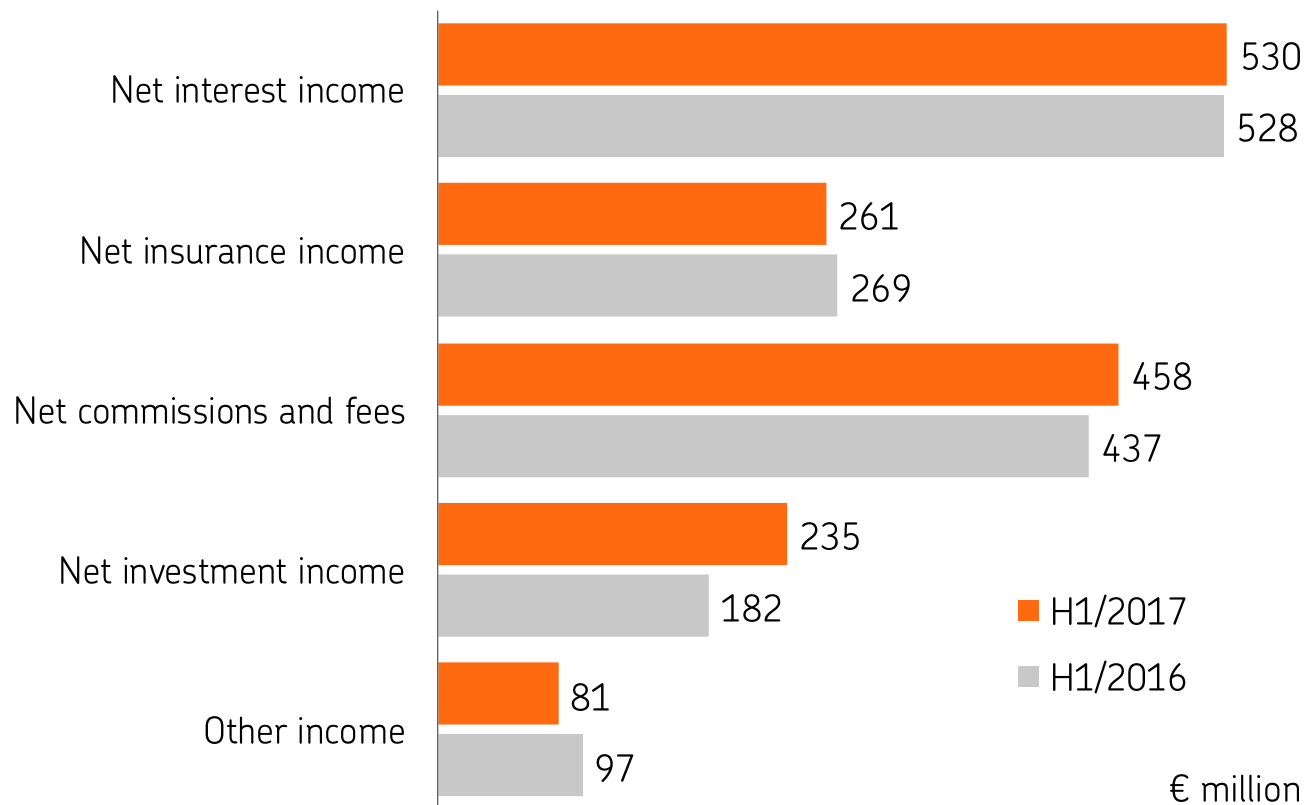
OP Financial Group's main income statement items



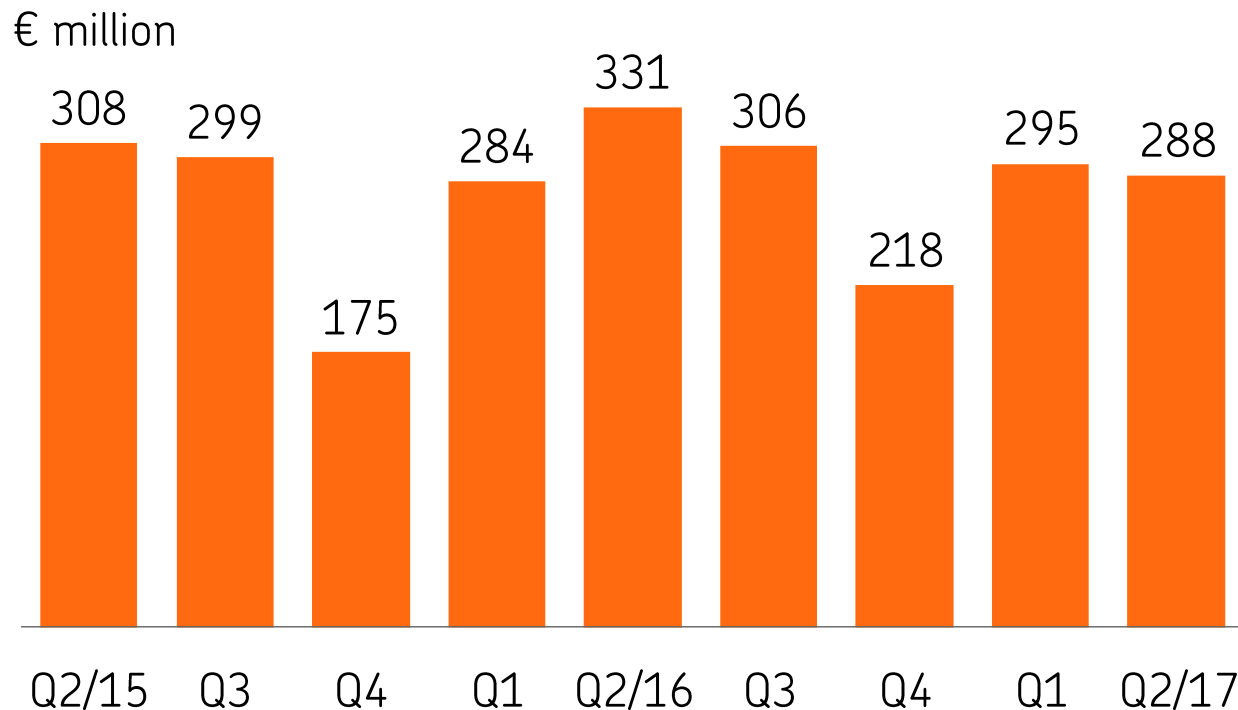
Growth in development costs shows in OP Financial Group's earnings performance



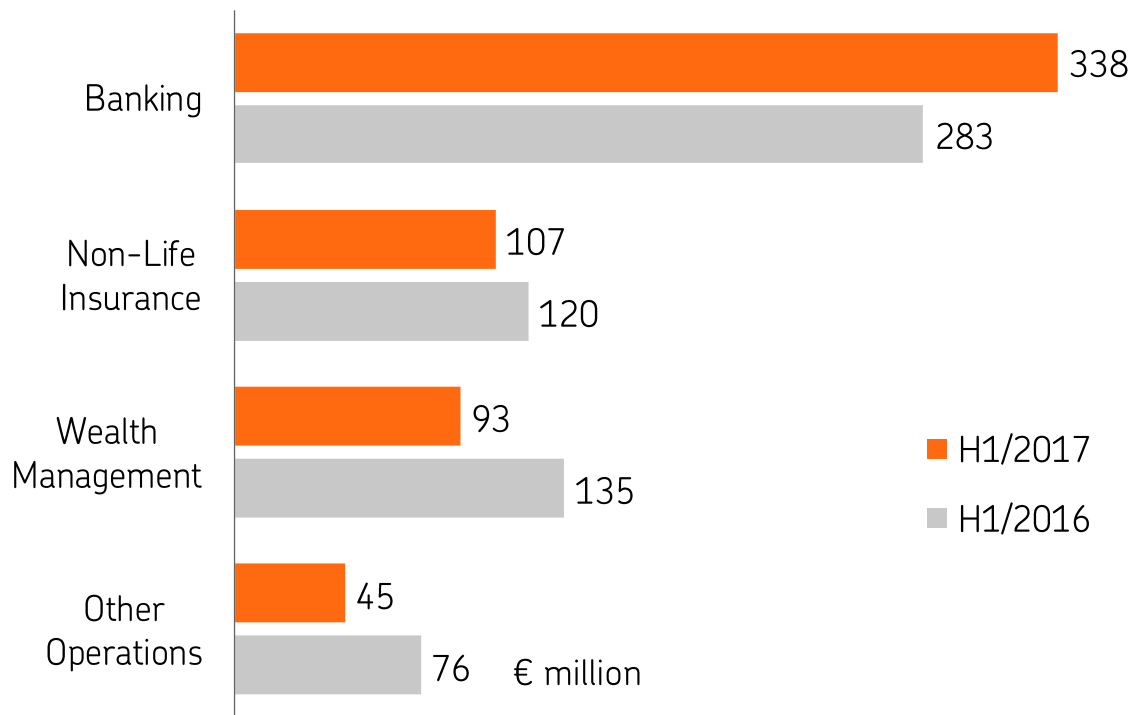
OP Financial Group's income performance



OP Financial Group's EBT by quarter



OP Financial Group's EBT by business segment



OP Financial Group's income statement

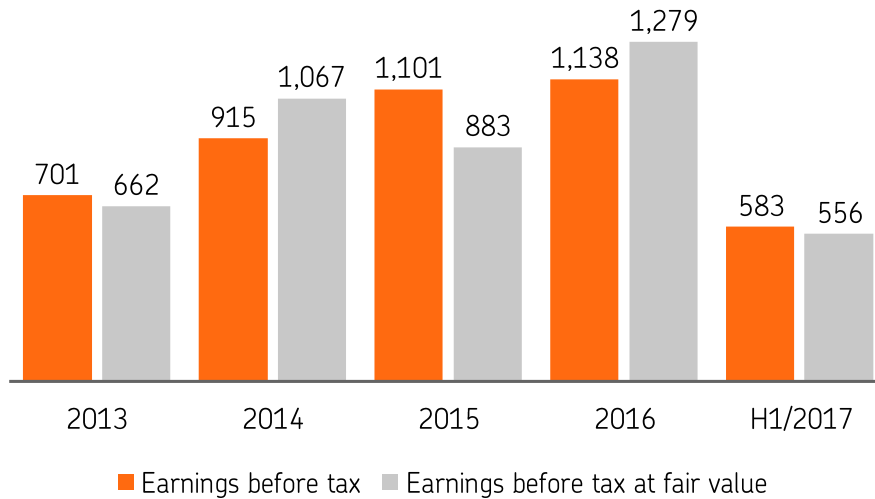
January 1 to June 30	2017	2016	Change, €million	%	Q2/17	Q2/16	Change, %
Net interest income	530	528	2	0.4	272	261	4.3
Net insurance income	261	269	-7	-2.8	145	140	3.3
Net commissions and fees	458	437	20	4.6	220	213	3.5
Net investment income	235	182	53	29.0	113	96	17.8
Other income	81	97	-16		45	85	-47.0
Total income	1,565	1,514	52	3.4	795	795	0.1
Personnel costs	393	395	-3	-0.7	191	195	-1.8
Other expenses	461	380	81	21.2	246	204	20.3
Total expenses	854	776	78	10.1	437	399	9.5
Other	129	123	5	4.4	70	65	8.6
Earnings before tax	583	614	-32	-5.1	288	331	-13.0

OP Financial Group's quarterly performance

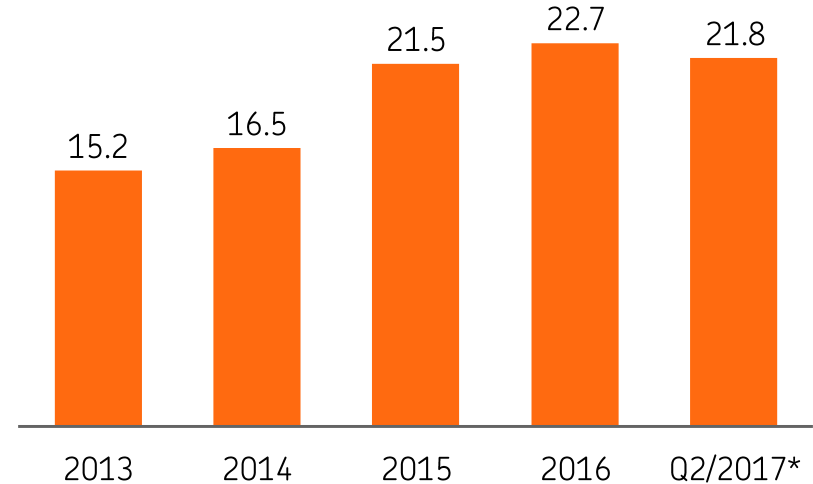
€ million	Q1	Q2	Q3	Q4/2016	Q1	Q2/2017
Net interest income	267	261	271	260	258	272
Net insurance income	129	140	149	140	117	145
Net commissions and fees	224	213	200	222	237	220
Net investment income	86	96	99	108	122	113
Other income	12	85	12	14	36	45
Total income	719	795	732	743	770	795
Personnel costs	201	195	167	199	202	191
Other expenses	176	204	193	232	215	246
Total expenses	377	399	361	431	417	437
Impairments of receivables	11	13	12	41	8	15
OP bonuses to owner-customers	48	52	53	53	51	55
Earnings before tax	284	331	306	218	295	288

Long-term return target at 22%

Earnings before tax, € million

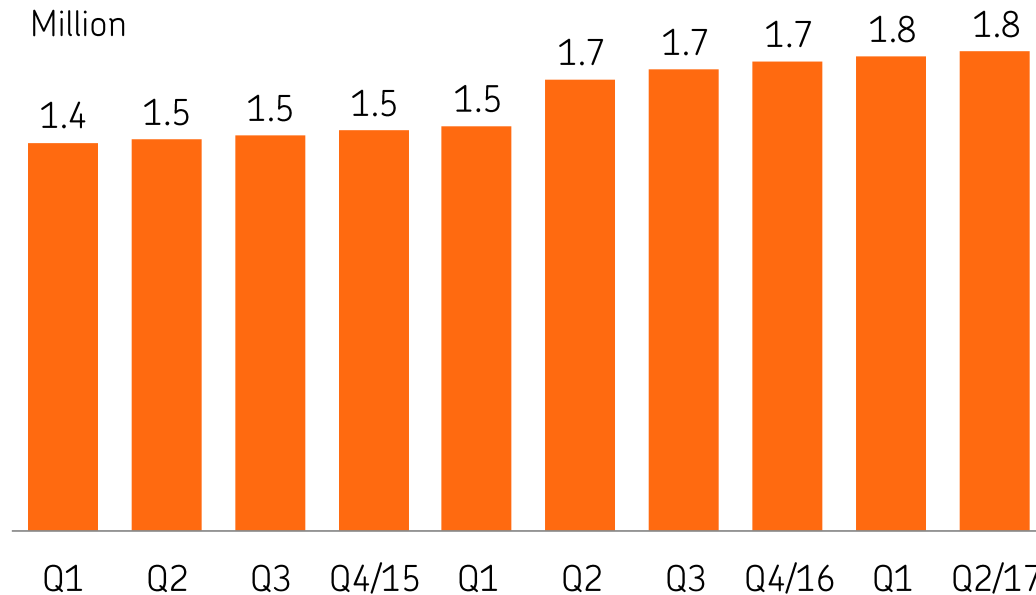


Return on economic capital, %



* 12-month rolling

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



Banking

Banking

OP is Finland's leading provider of home and corporate loans. OP's Banking is the Group's largest business segment providing customers with an extensive and comprehensive range of products and services.

- For private customers, OP's Banking services and products for include daily banking, loans, savings and investments, and housing-related services.
- With respect to corporate customers, OP provides services to SMEs, major corporations, 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.

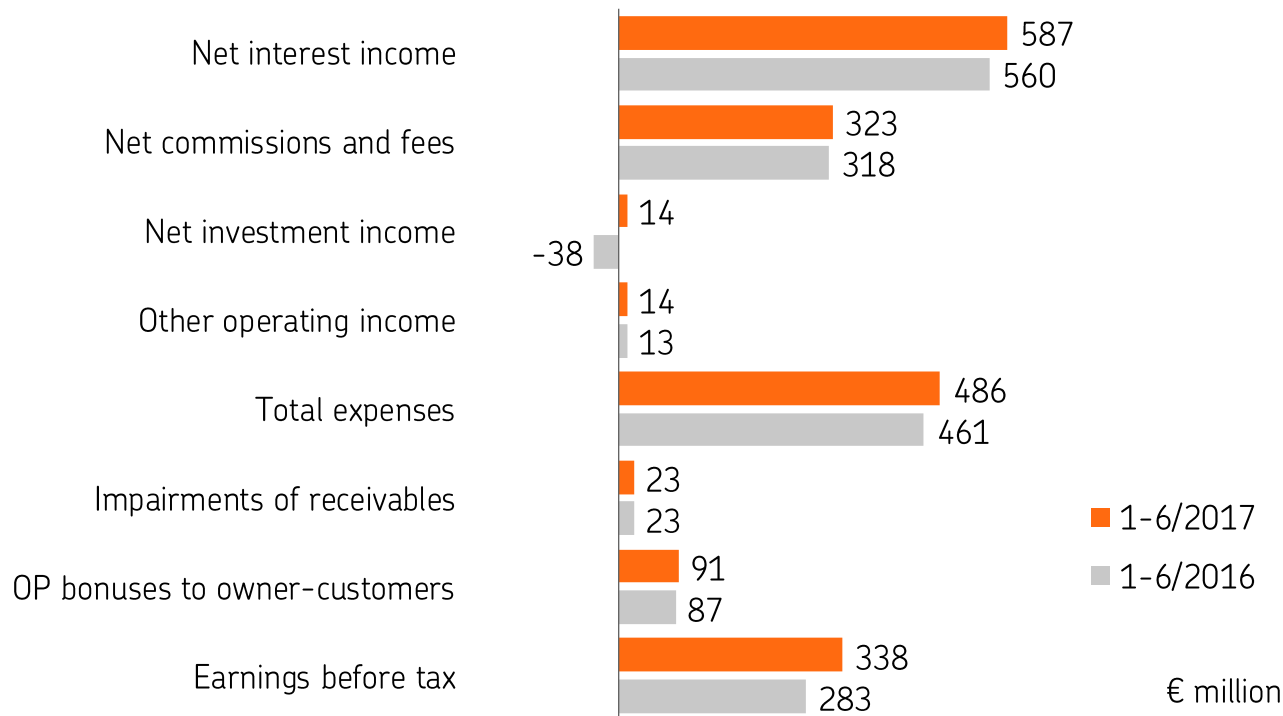
Key figures H1 2017

EBT
EUR 338 million

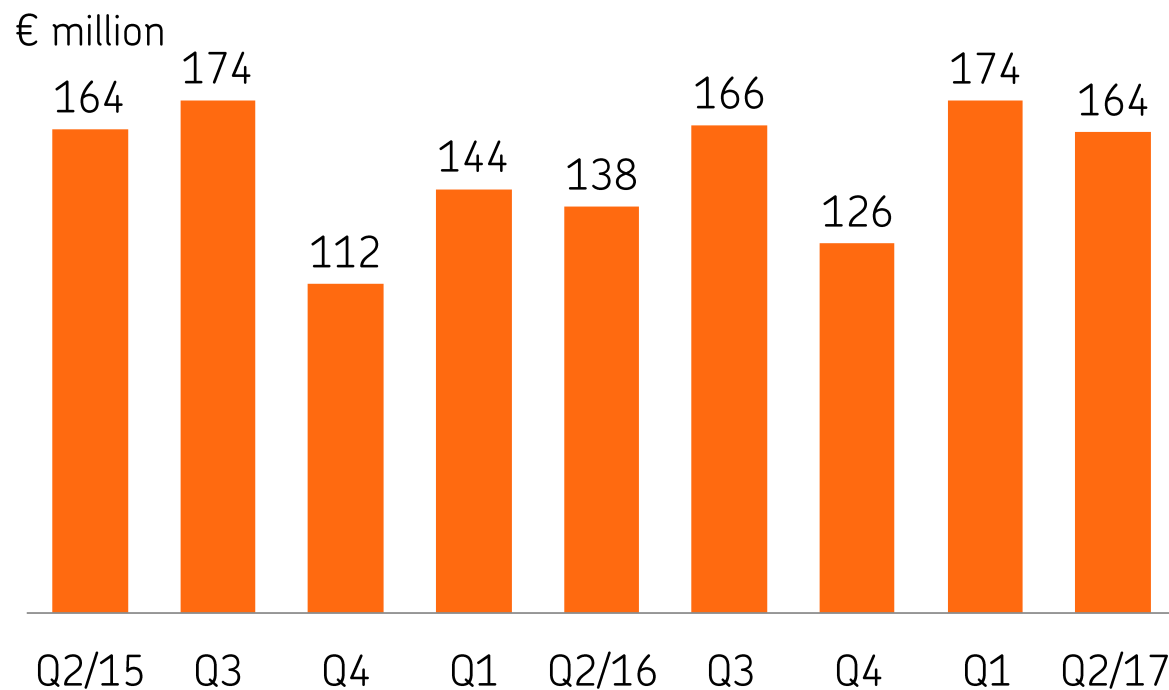
Loan portfolio
EUR 80.2 billion

Total deposits
EUR 57.2 billion

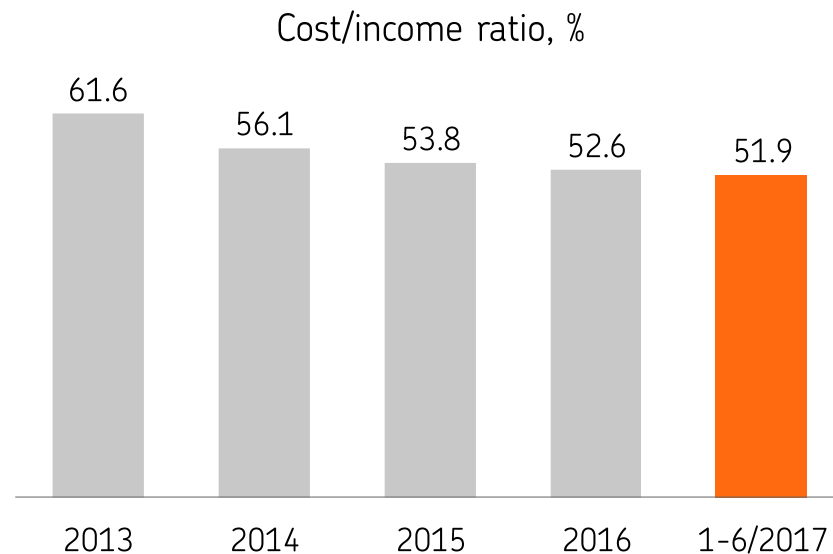
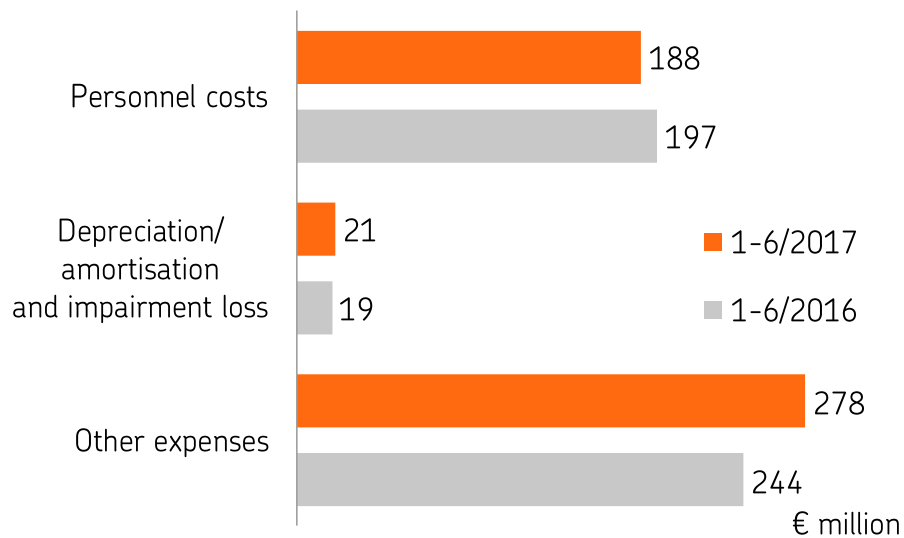
Banking income statement



Banking EBT by quarter

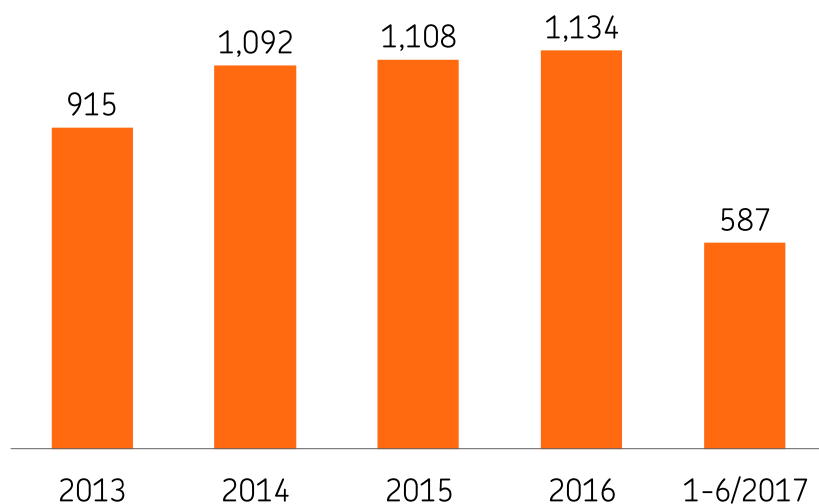


Cost/income ratio improved

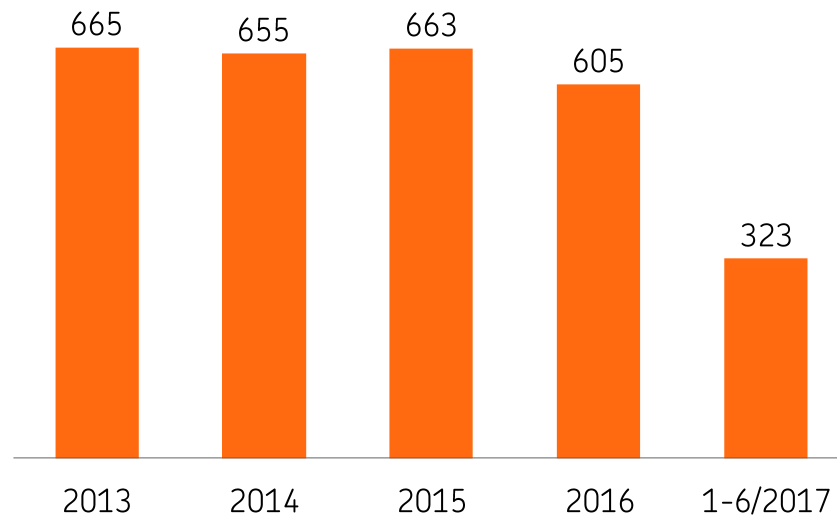


Banking income performance

Net interest income, € million

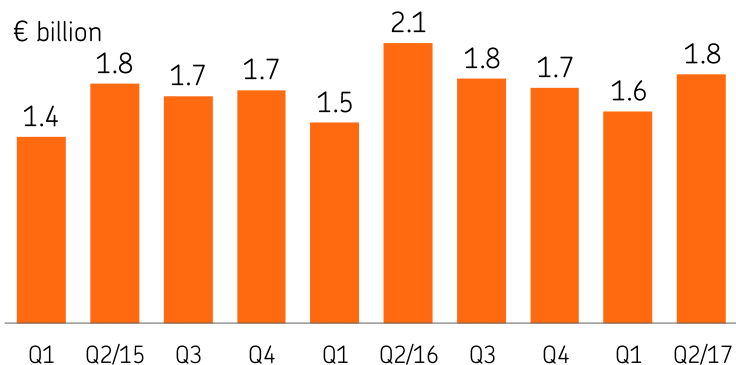


Net commissions and fees, € million

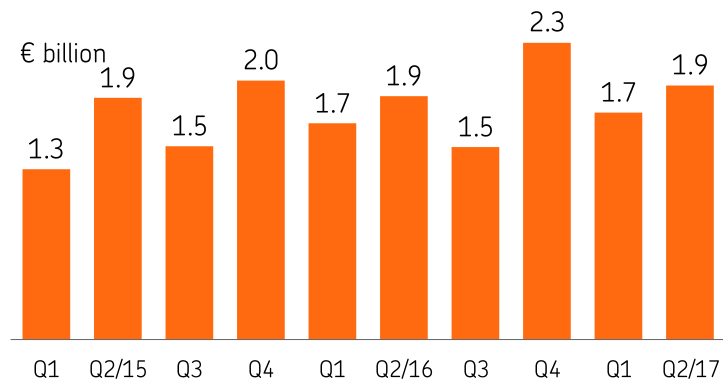


Volume of corporate loans drawn down increased

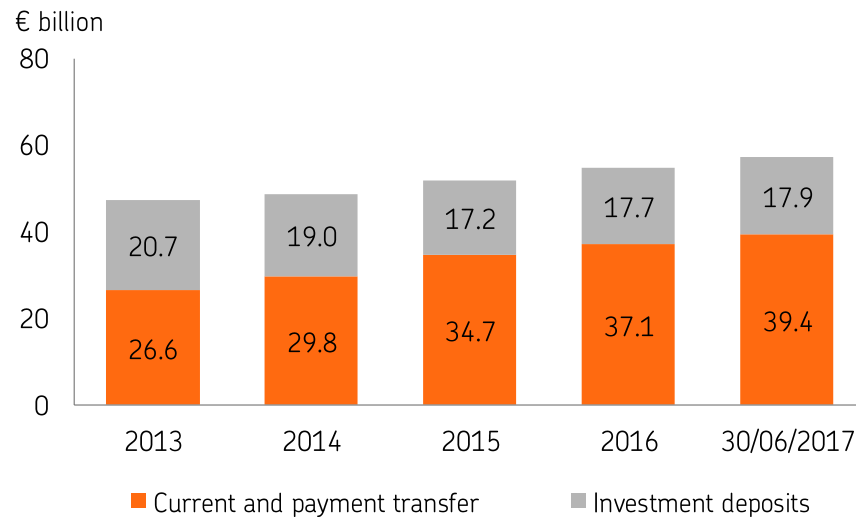
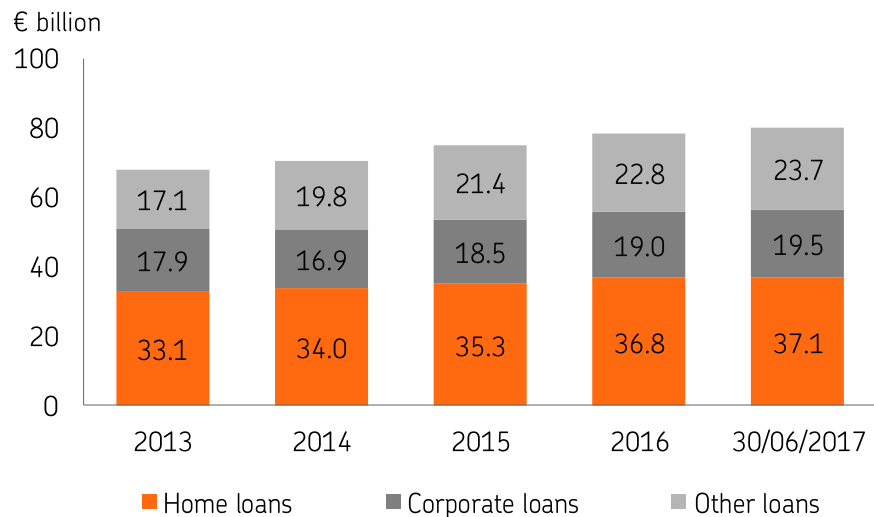
Home loans drawn down



Corporate loans



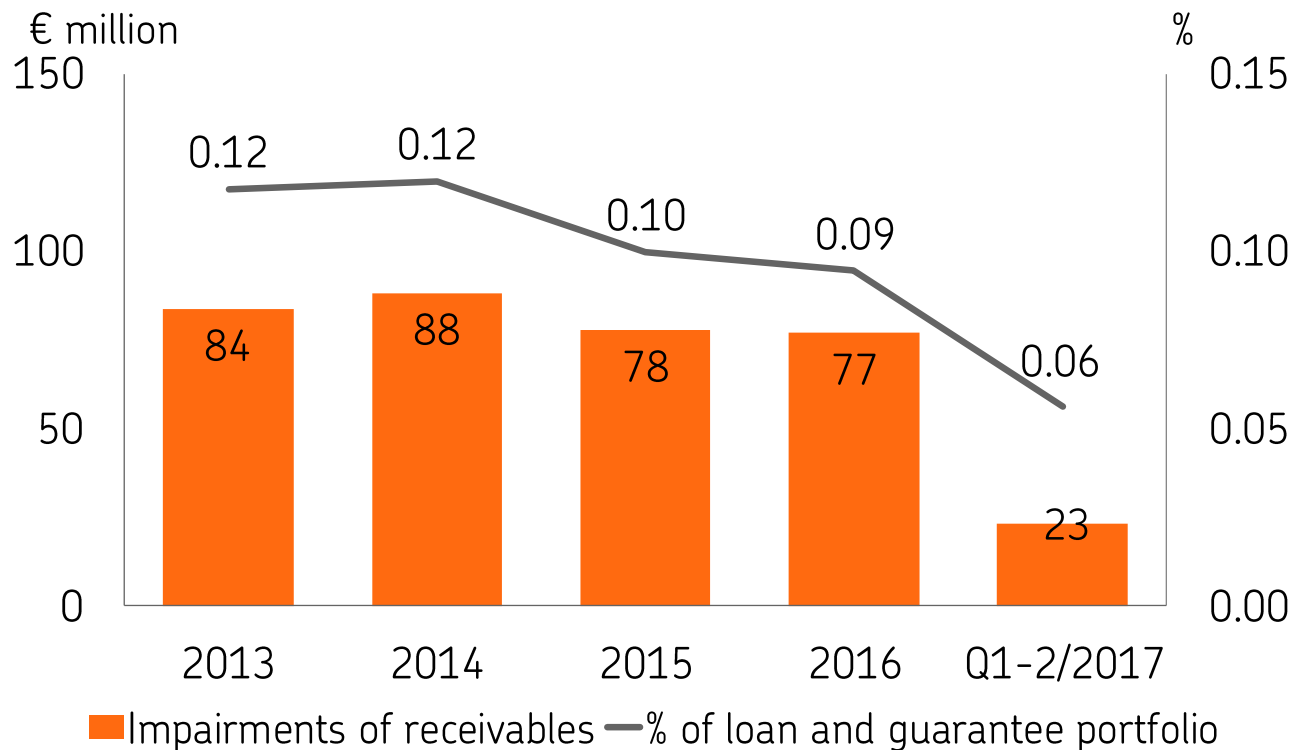
Steady growth in loan and deposit portfolio



OP Financial Group's loan and guarantee portfolio

€ million	30 June 2017	30 June 2016	Change	
			€ million	%
Enterprises and housing associations	31,129	29,102	2,027	7.0
Renting and operating of residential real estate	6,346	6,210	135	2.2
Renting and operating of other real estate	4,200	4,099	102	2.5
Wholesale and retail trade	3,192	3,024	168	5.6
Energy	2,583	2,048	534	26.1
Construction	2,444	1,848	596	32.3
Services	2,194	1,886	308	16.3
Manufacture of machinery and equipment (incl. services)	1,687	1,417	270	19.0
Transportation and storage	1,639	1,480	159	10.8
Agriculture, forestry and fishing	1,210	1,053	156	14.8
Financial and insurance services	1,013	1,148	-135	-11.8
Metal Industry	751	666	84	12.7
Forest Industry	747	836	-89	-10.6
Food Industry	628	645	-17	-2.7
Real estate investments	593	565	28	5.0
Other manufacturing	365	184	181	98.2
Chemical Industry	393	411	-18	-4.4
Other industries	1,144	1,580	-435	-27.6
Public corporations and non-profit organisations	1,718	1,414	304	21.5
Households	49,397	47,820	1,577	3.3
Adjustments	602	1,189	-587	0.0
Total	82,848	79,526	3,322	4.2

Impairment loss on receivables at low level



A close-up, low-angle shot of a welding process. A bright, intense light emanates from the point of contact between a welding torch and a metal structure, creating a dense spray of bright orange and yellow sparks that cascade downwards. The background is dark and industrial, with various metal components and structures visible. The overall color palette is dominated by the warm tones of the sparks and the cool blues and greys of the industrial environment.

Non-life Insurance

Non-life Insurance

OP is Finland's leading non-life insurer, providing its private customers and corporate and institutional customers with a diverse range of comprehensive insurance solutions. OP's Non-life Insurance divisions consist of Private Customers, Corporate Customers, Baltics and Health and Wellbeing.

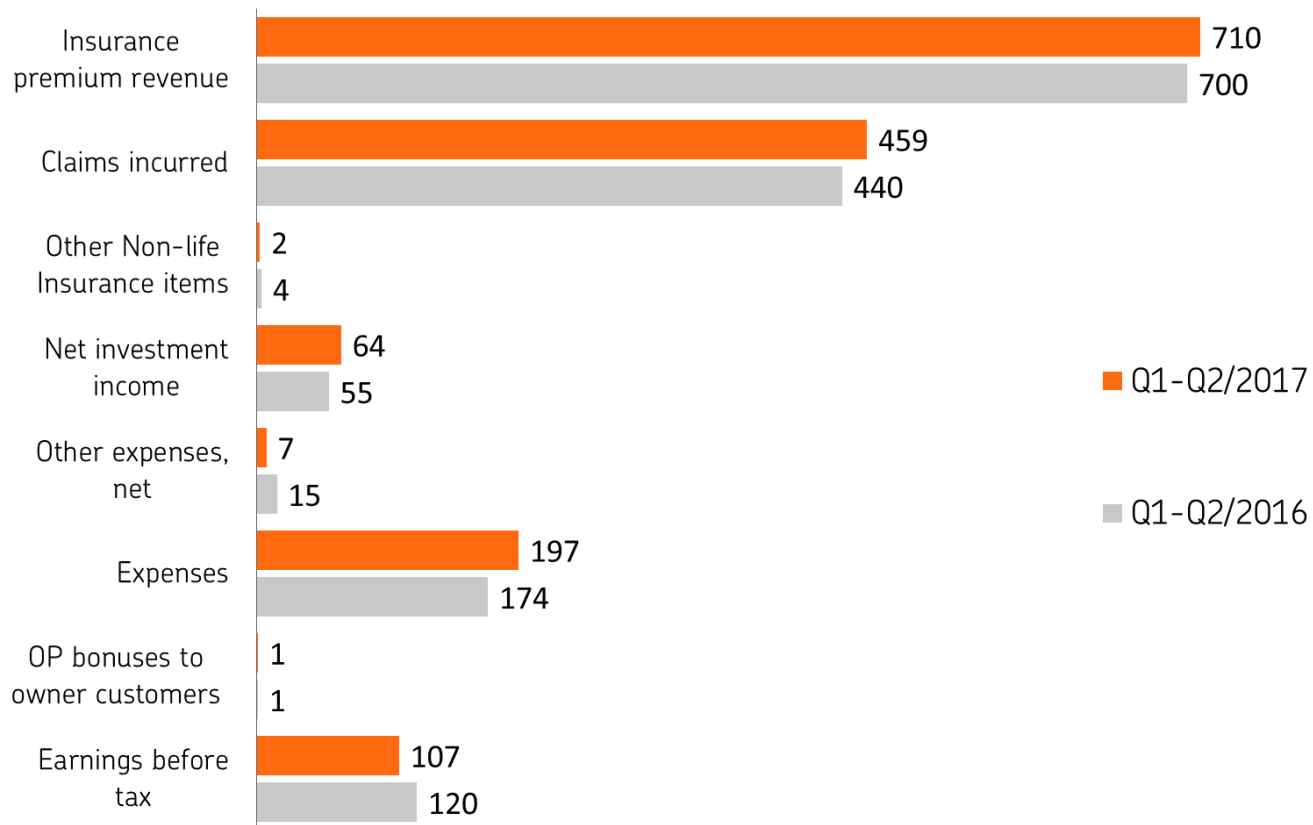
- A household, its family members, home and other property related to it as well as motor vehicles are at the core of insurance for private customers.
- Extensive and diversified risk management services form the key corporate customer services.
- The strengths of our claims settlement service lie in its promptness and efficiency. OP's extensive partner network enables efficient claims settlement services.
- OP will develop health and wellbeing services into a major new business alongside its traditional business areas.

Key figures H1 2017

EBT
EUR **107** million

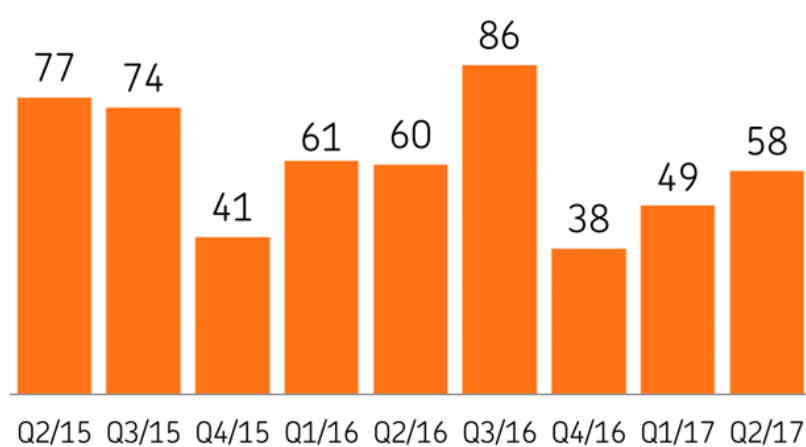
Insurance premium
revenue
EUR **710** million

Non-life Insurance EBT, € million

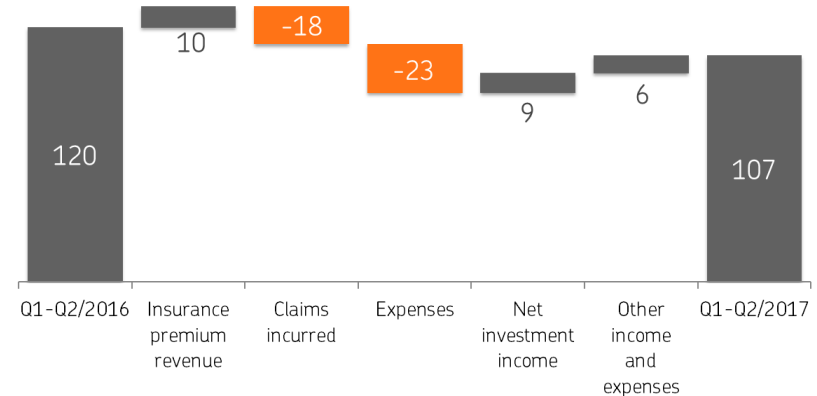


Higher claims incurred and development costs reduced EBT

Earnings before tax by quarter, € mn

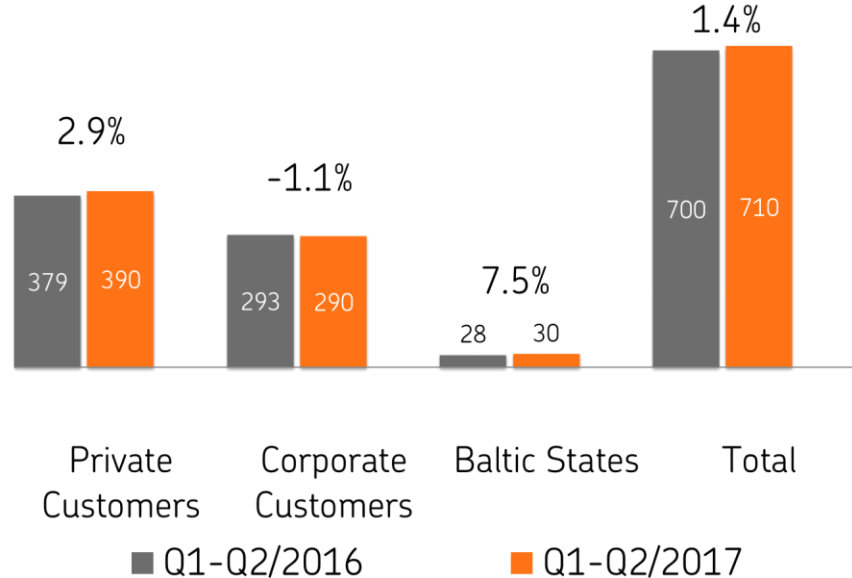


Earnings before tax, € mn
change Q1-Q2/17 vs. Q1-Q2/16



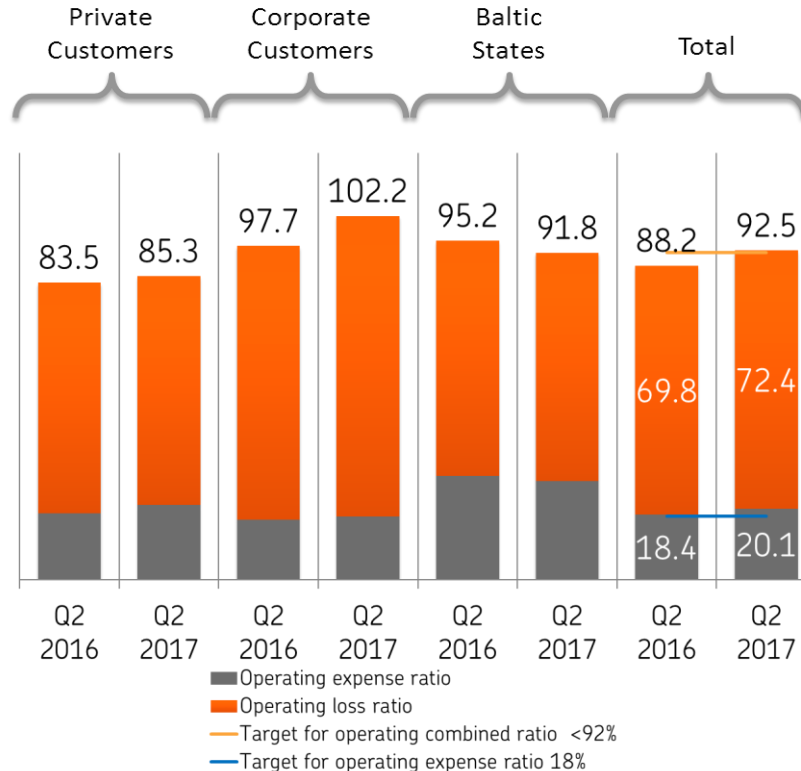
Growth in insurance premium revenue stemmed from Private Customers

Insurance premium revenue, € mn and change by division
Q1-Q2/2017 vs. Q1-Q2/2016



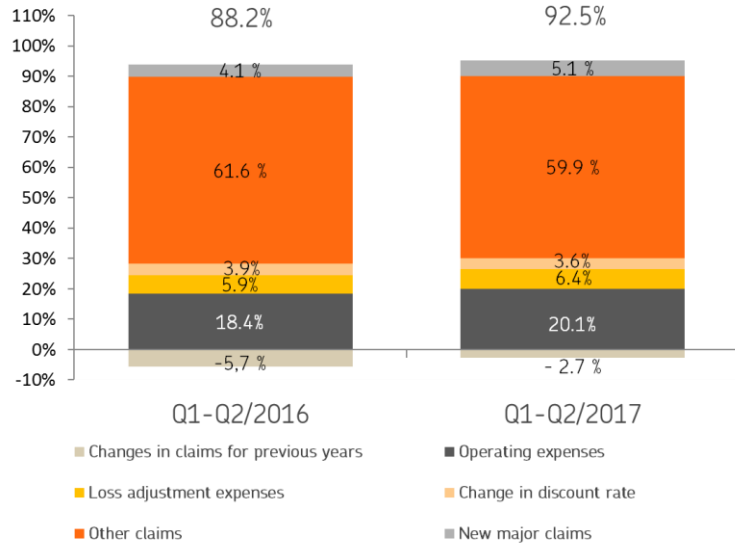
Balance on technical account

Operating combined ratio by division Q1-Q2/2017 vs. Q1-Q2/2016, %

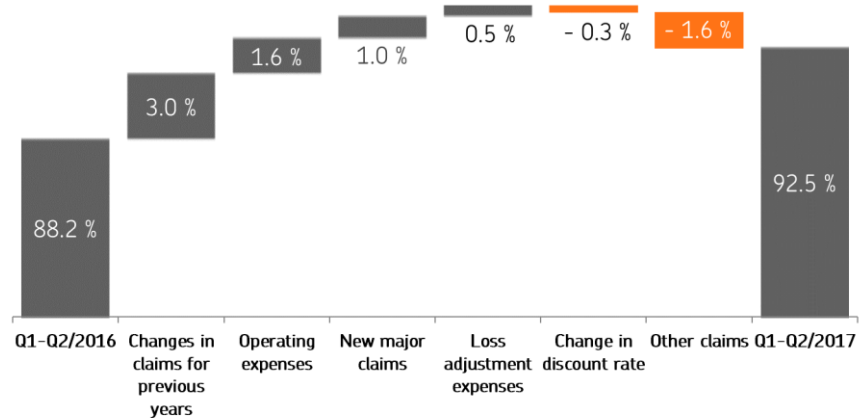


Balance on technical account

Operating combined ratio
by component, %

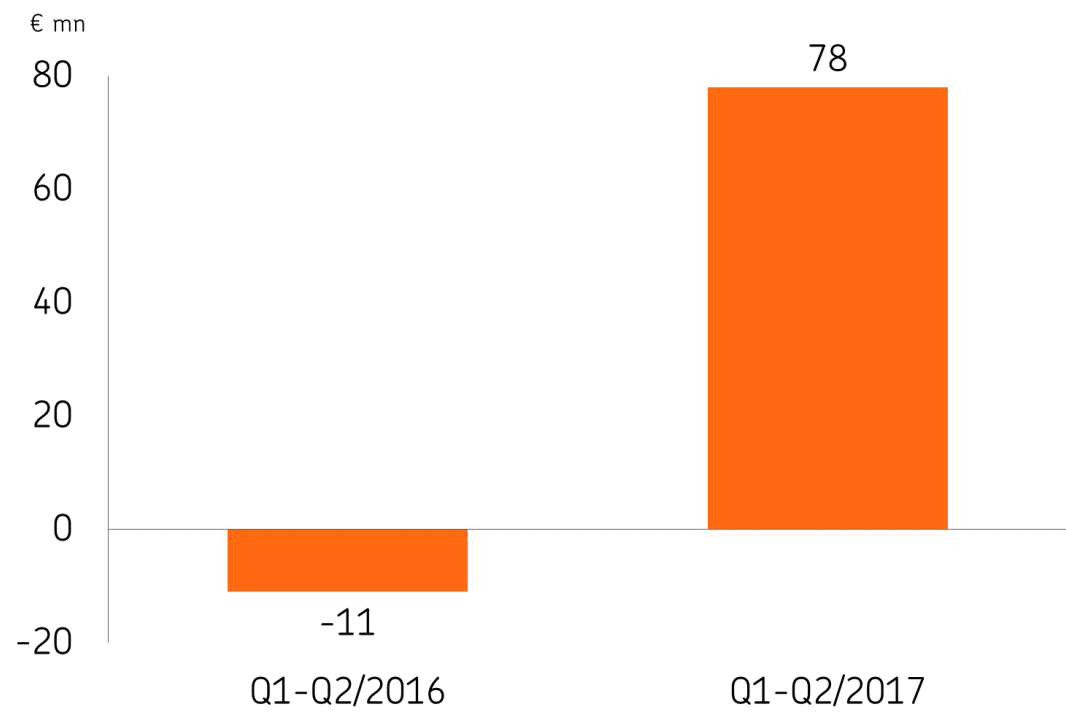


Change in operating combined ratio, %



Changes in claims for previous years (run off result), excl. the effect of the reduction in the discount rate, improved the balance on technical account by € 19 million (40) in January-June 2017.

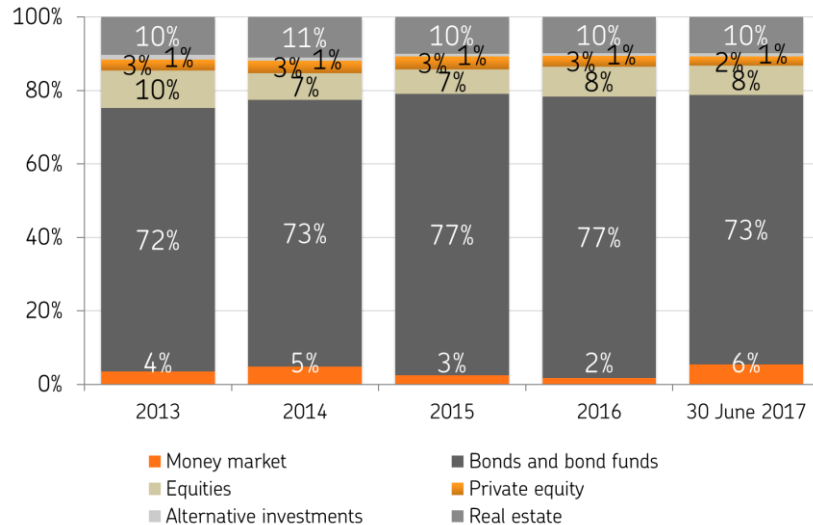
Net return on Non-life Insurance investments at fair value*, € million



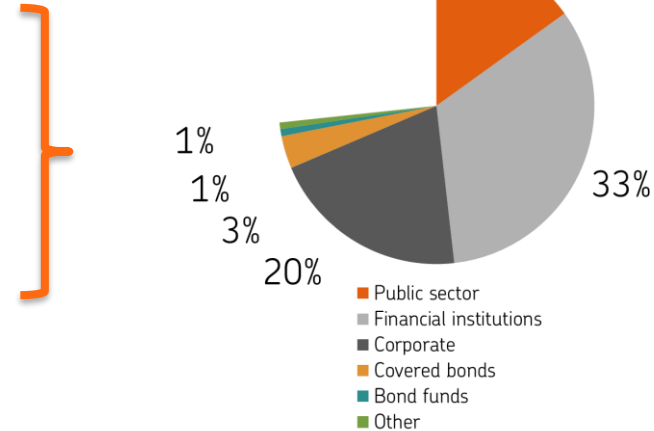
*Net return on investments at fair value is calculated by deducting the value change in market-consistent insurance liability from income from total investment assets.

Investment portfolio allocation

Investment portfolio (€3.9 bn) by asset class as of 30 June 2017



Bonds and bond funds (73 %)



The duration of the fixed-income portfolio 5.3 years (5.4).

The running yield for direct bond investments averaged 1.77 % (1.71) at end-June 2017.

A close-up, low-angle shot of a grinding wheel in motion, creating a dense spray of bright orange sparks against a dark blue background. The sparks are captured in mid-air, creating a sense of dynamic movement and industrial power. The grinding wheel is partially visible, showing its metallic texture and the point of contact with the workpiece.

Wealth Management

Wealth Management

OP seeks to meet its private and corporate customers' savings and investment needs in a customer-focused and comprehensive way, with the best digital wealth management services and a unique Private Banking experience.

- For private customers, we provide an extensive range of savings and investment solutions. The mutual funds in our range invest in various asset classes and market areas, and are managed partly by OP's own investment organisation and partly by our international partners.
- The range of services for corporate customers consists of various investment solutions for not only cash management but also longer-term investment.
- OP boasts Finland's most extensive Private Banking network. The OP Private service models include discretionary investment management and advisory investment management.
- We provide our institutional clients with a full range of asset management services from investment decisions to modern risk reporting and portfolio analysis.
- In addition, OP provides both private and corporate/institutional clients with an extensive range of securities brokerage, custody and analysis services.

Key figures H1 2017

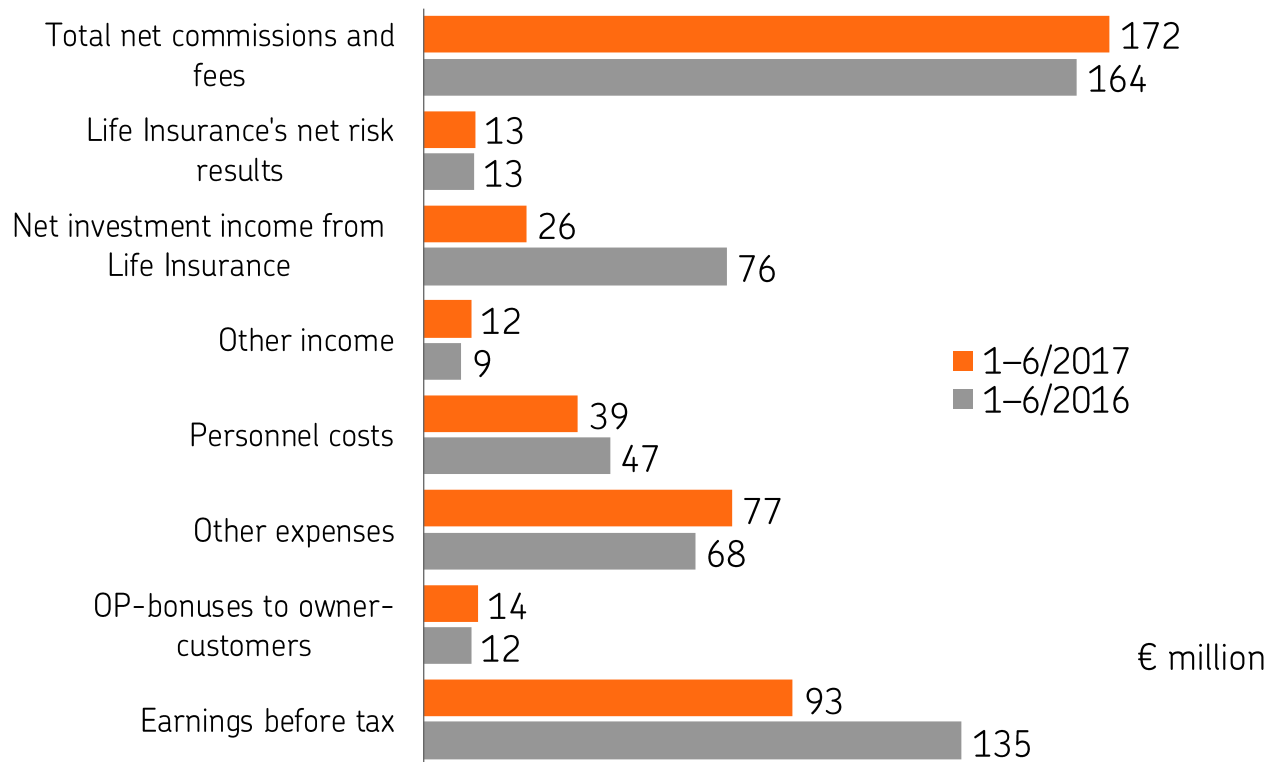
EBT

EUR 93 million

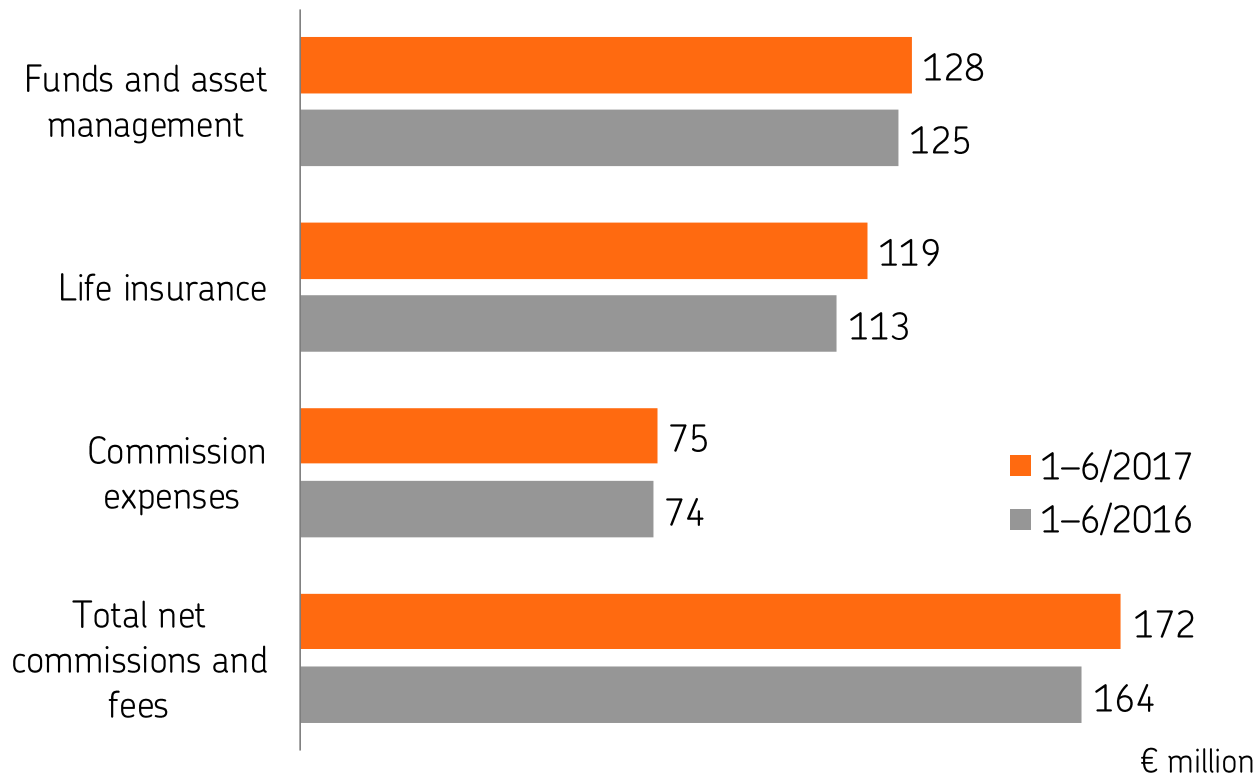
Assets under
management

EUR 76.4 billion

Wealth Management income statement

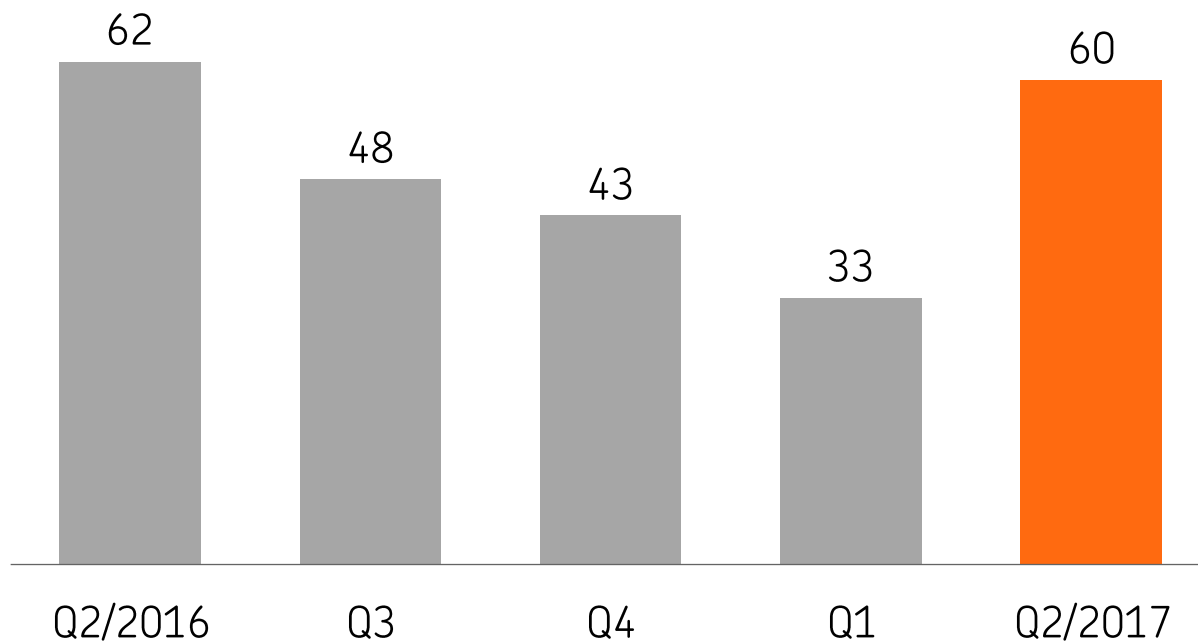


Wealth Management net commissions and fees



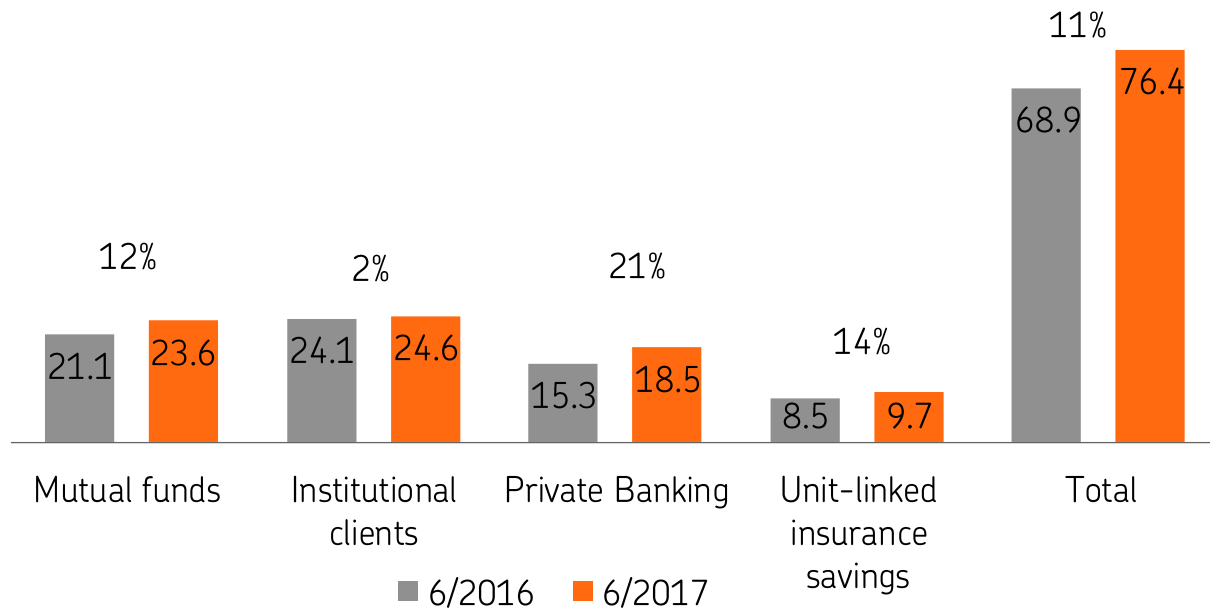
Wealth Management EBT by quarter

€ million



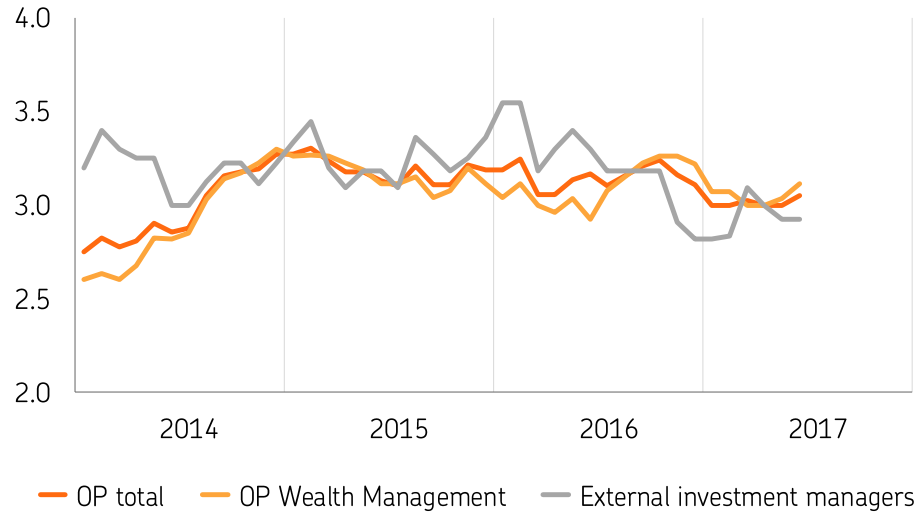
Growth in assets under management

Assets under management (gross) €billion

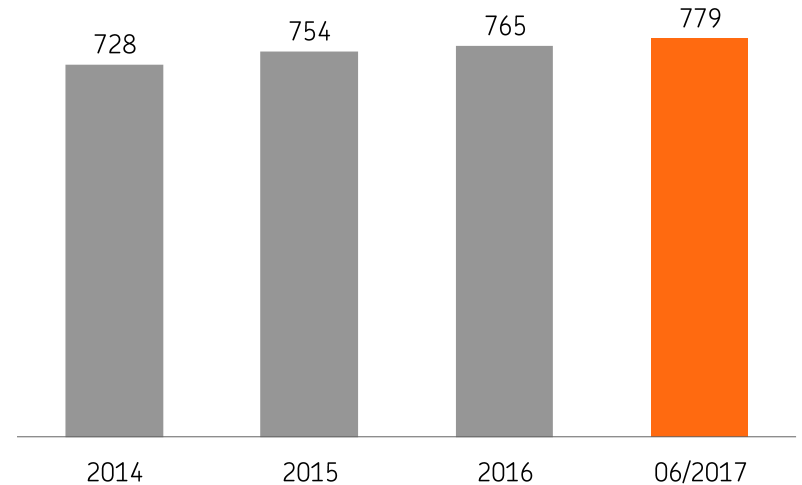


Number of clients and performance of mutual funds have remained at good level

Performance of Morningstar stars

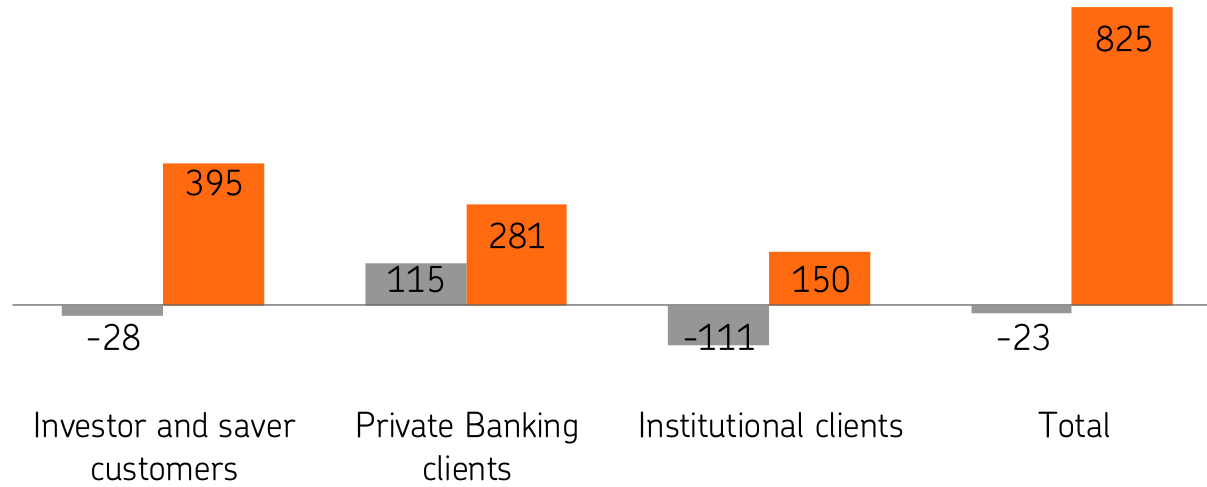


Investor and saver customers, 1000 pers.



Net inflows supported by improved capital markets

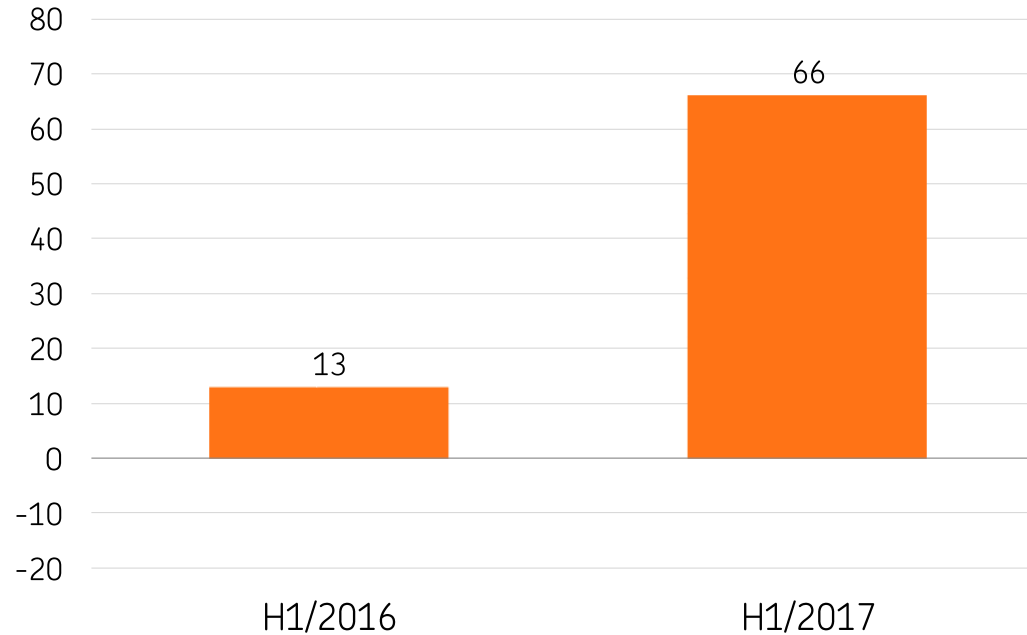
Net inflows € million



■ 1-6/2016

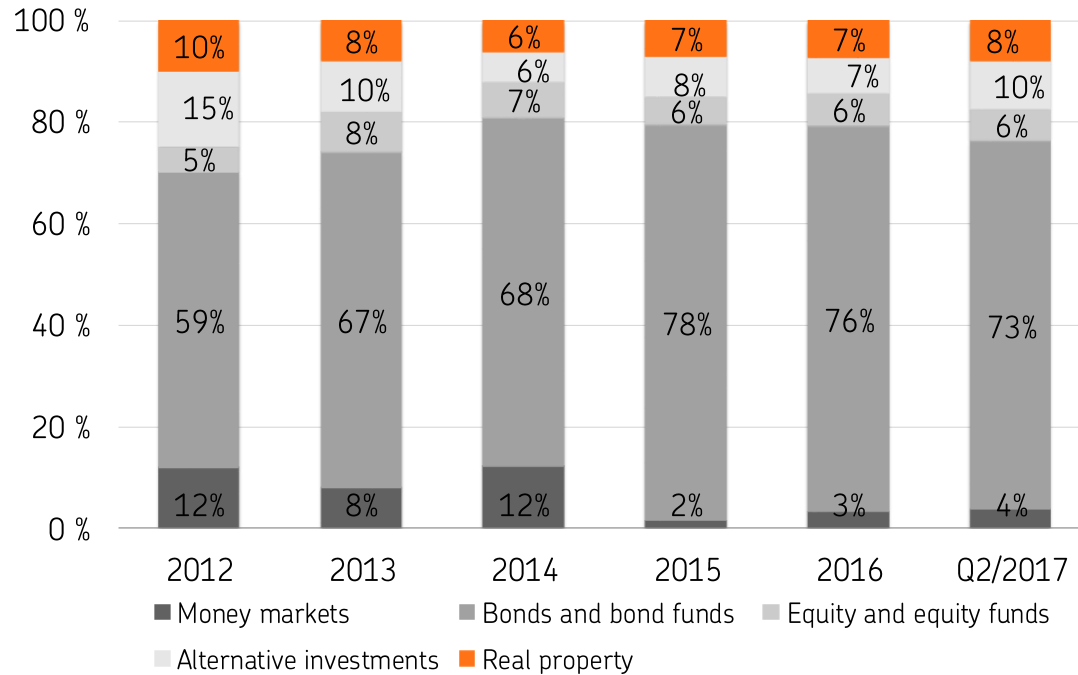
■ 1-6/2017

Net return on Life Insurance investments at fair value*, € 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. These investments exclude the so-called separated balance sheets that transferred from Suomi Mutual.

The risk level of Life Insurance investment assets* (EUR 3.9 billion) has been lowered with determination



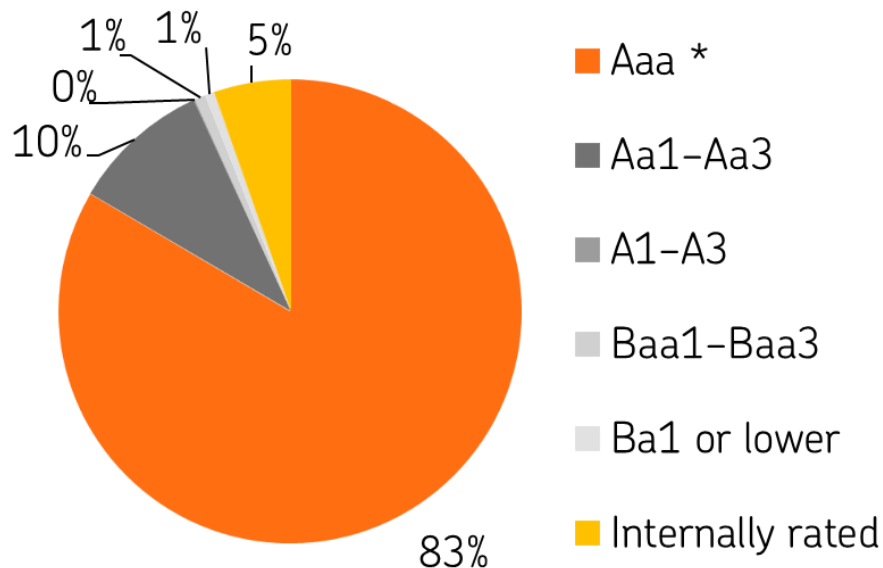
* Excluding assets covering unit-linked insurance, interest rate derivatives hedging insurance liability and the separated balance sheets.

A close-up, low-angle shot of a large industrial grinding wheel in motion. The wheel is dark and metallic, with a complex internal structure visible. It is grinding against a metal surface, creating a massive spray of bright orange and yellow sparks that erupt from the point of contact. The background is dark and out of focus, with some blue light reflecting off the metal surfaces. The overall scene conveys a sense of intense industrial activity and power.

Liquidity and Funding

Liquidity buffer includes highly-rated assets

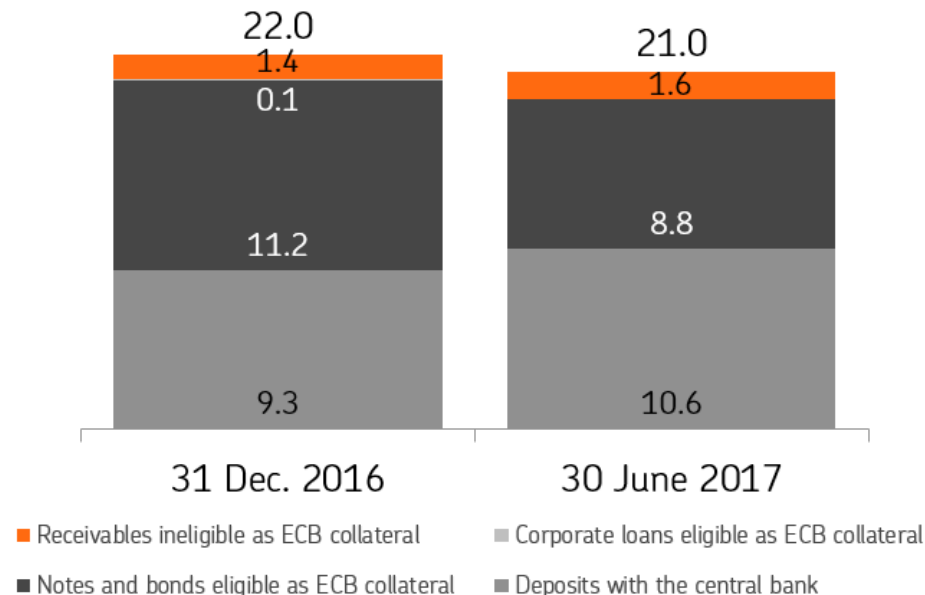
Liquidity buffer by credit rating as of 30 June 2017



* incl. deposits with the central bank

Liquidity buffer €21.0 bn at end-June

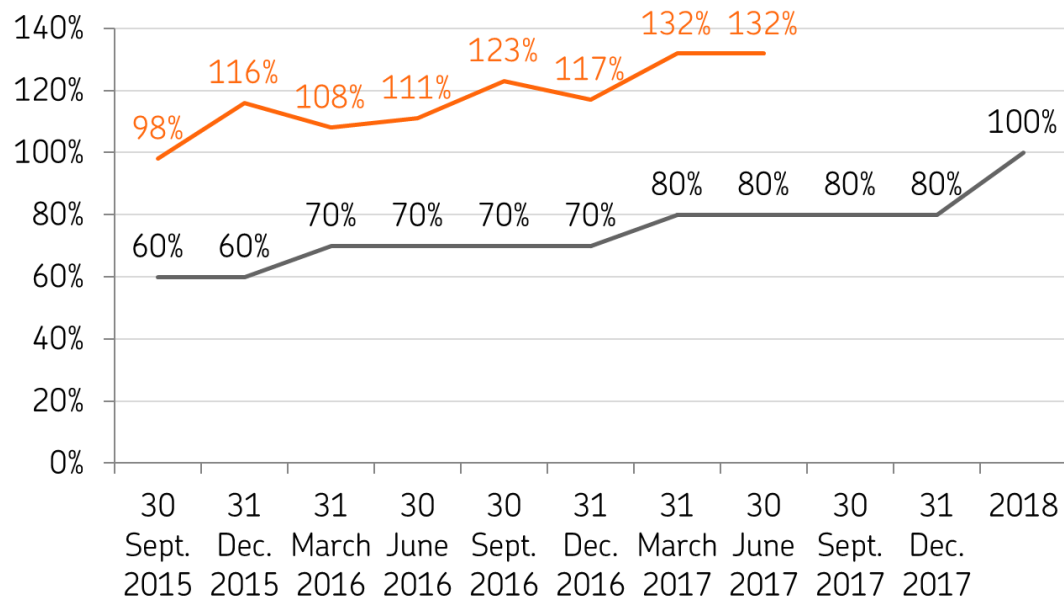
Liquidity buffer breakdown, € bn



Decrease in the amount of notes and bonds eligible as collateral was due, for example, by their use as collateral in TLTRO-II.

The liquidity buffer and other sources of additional funding based on the contingency funding plan are sufficient to cover funding for at least 24 months in the event wholesale funding becomes unavailable and total deposits decrease at a moderate rate.

Liquidity coverage ratio 132% at end-June



— OP's liquidity coverage ratio (LCR)

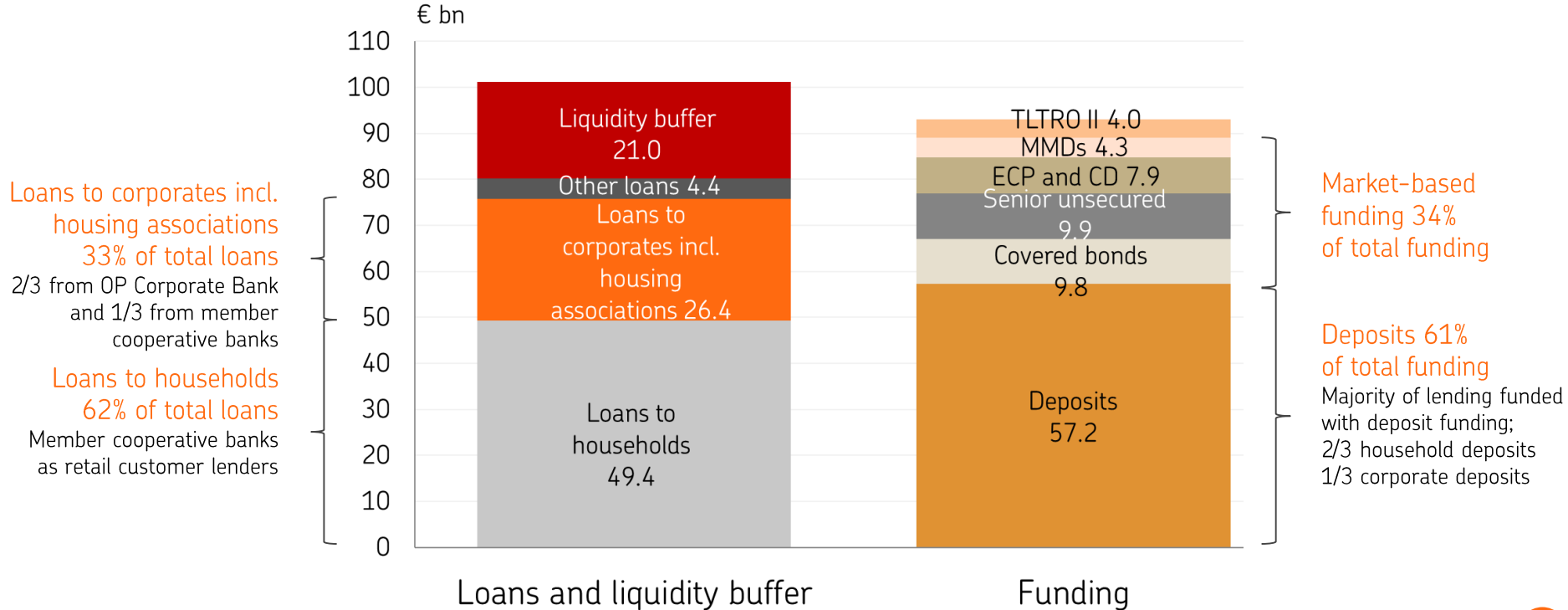
— Minimum requirement for LCR according to the transitional provisions

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

According to the transitional provisions, LCR must be at least 80% in 2017 and at least 100% from the beginning of 2018.

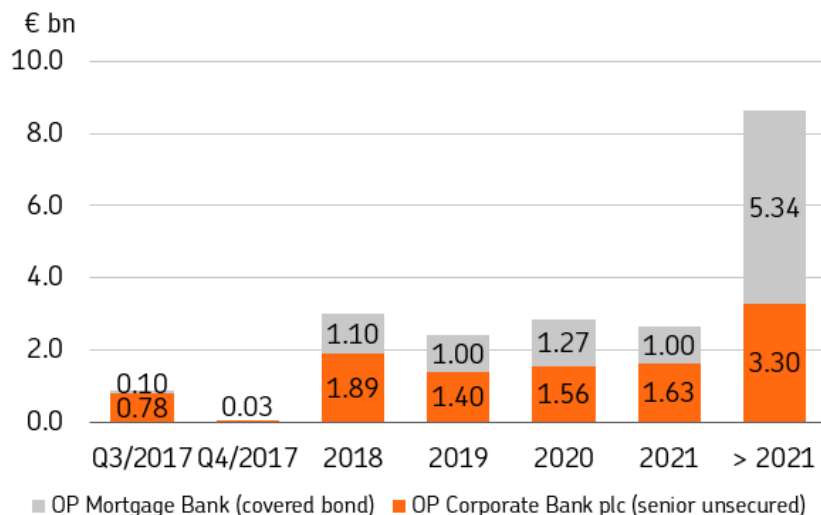
Loans, liquidity buffer and funding

30 June 2017



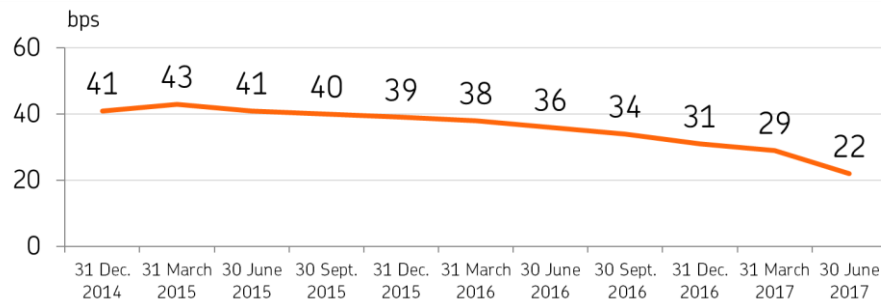
Maturity breakdown and average margin of long-term wholesale funding

Issued senior unsecured and covered bonds by maturity, 30 June 2017



OP issued long-term bonds worth €2.8 billion during H1/2017. Additionally, OP participated in the ECB's TLTRO II refinancing operation with €1 billion in March 2017.

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



Issued senior unsecured and covered bonds

OP Corporate Bank plc's benchmark senior unsecured bonds 2015–17

Year	Month	Amount	Maturity	Interest rate
2017	April	€500 mn	5.5 yrs	m/s +27 bps
2016	January	€500 mn	5 yrs	m/s +65 bps
2015	November	Total¥ 30 bn € 228 mn), 2 issues	5 yrs (floating) & 5 yrs (fixed)	m/s +59.9 bps & m/s +66.1 bps
2015	May	GBP300 mn	3 yrs	Eb3 +16 bps
2015	May	GBP400 mn	7 yrs	Eb3 +58 bps
2015	March	€1 bn	7 yrs	m/s +33 bps

OP Mortgage Bank's benchmark covered bonds 2015–17

Year	Month	Amount	Maturity	Interest rate
2017	June	€1 bn	10 yrs	m/s +1 bp
2017	March	€1 bn	7 yrs	m/s -4 bps
2016	May	€1.25 bn	7 yrs	m/s +4 bps
2015	November	€1.25 bn	5 yrs	m/s +5 bps
2015	September	€1 bn	7 yrs	m/s -1 bp

A close-up, low-angle shot of a grinding wheel in operation. The wheel is rotating, and a large volume of bright orange sparks is being ejected from the point of contact with a workpiece. The scene is dimly lit, with the primary light source being the intense heat of the grinding process. The sparks are captured in motion, creating a sense of dynamic energy. The background is dark and out of focus, emphasizing the industrial action in the foreground.

Capital Adequacy

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

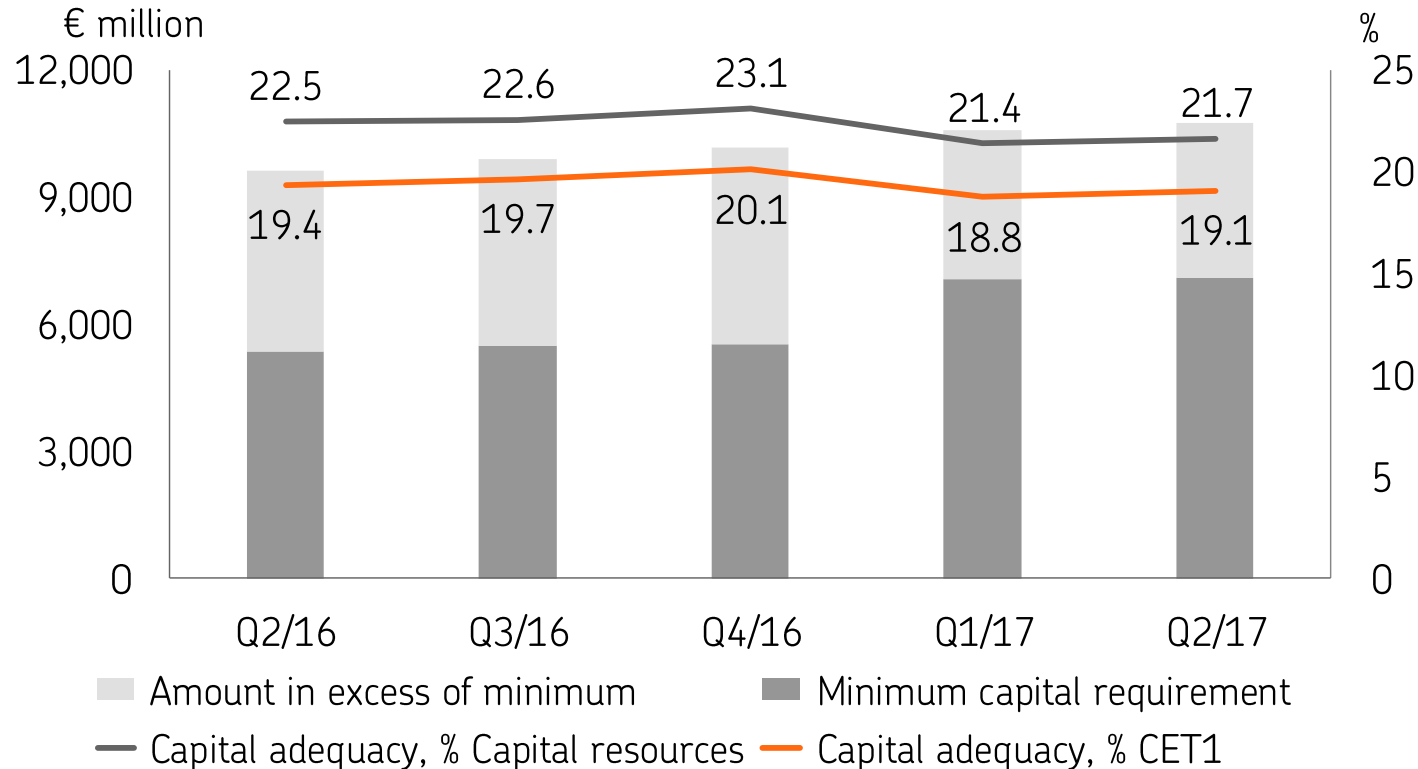
- The operations and solvency requirements for insurance companies are based on the Insurance Companies Act and EU regulation.
- The solvency capital requirement (SCR) is calculated for individual insurance companies. The companies are required to cover SCR using the Group's sufficient buffer specified internally.
- Eligible capital covers solvency requirements.

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).

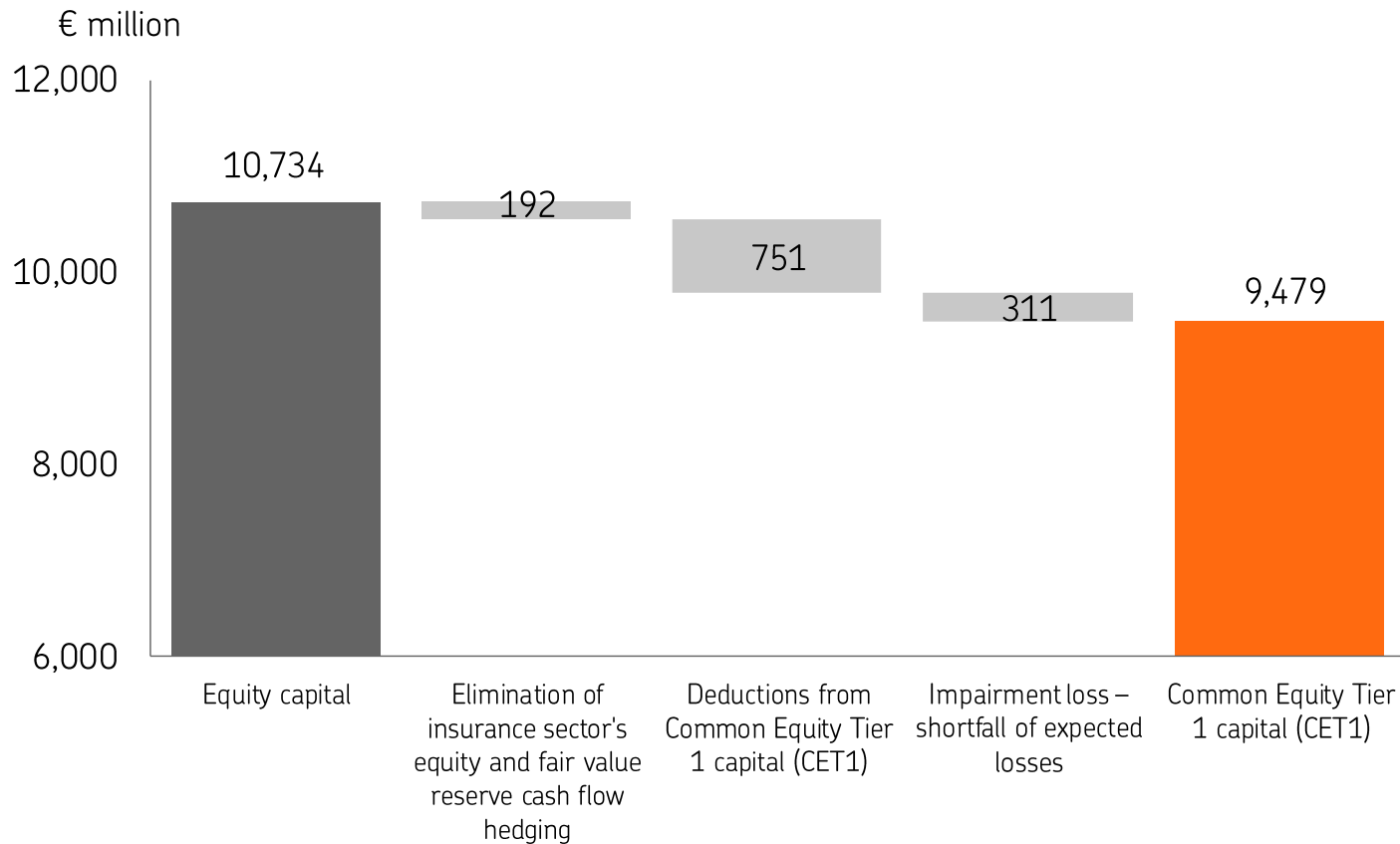
The amalgamation of the cooperative banks

Capital base and capital adequacy



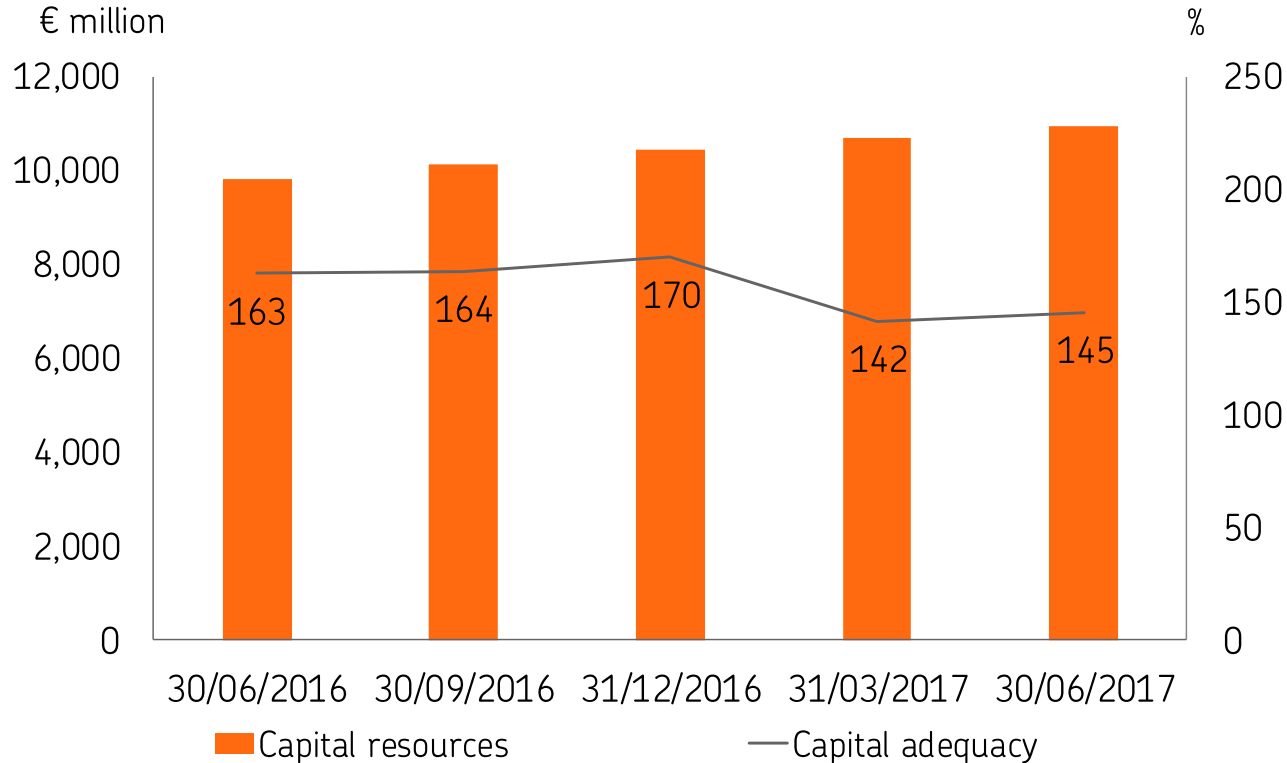
Common Equity Tier 1 (CET1)

30 June 2017



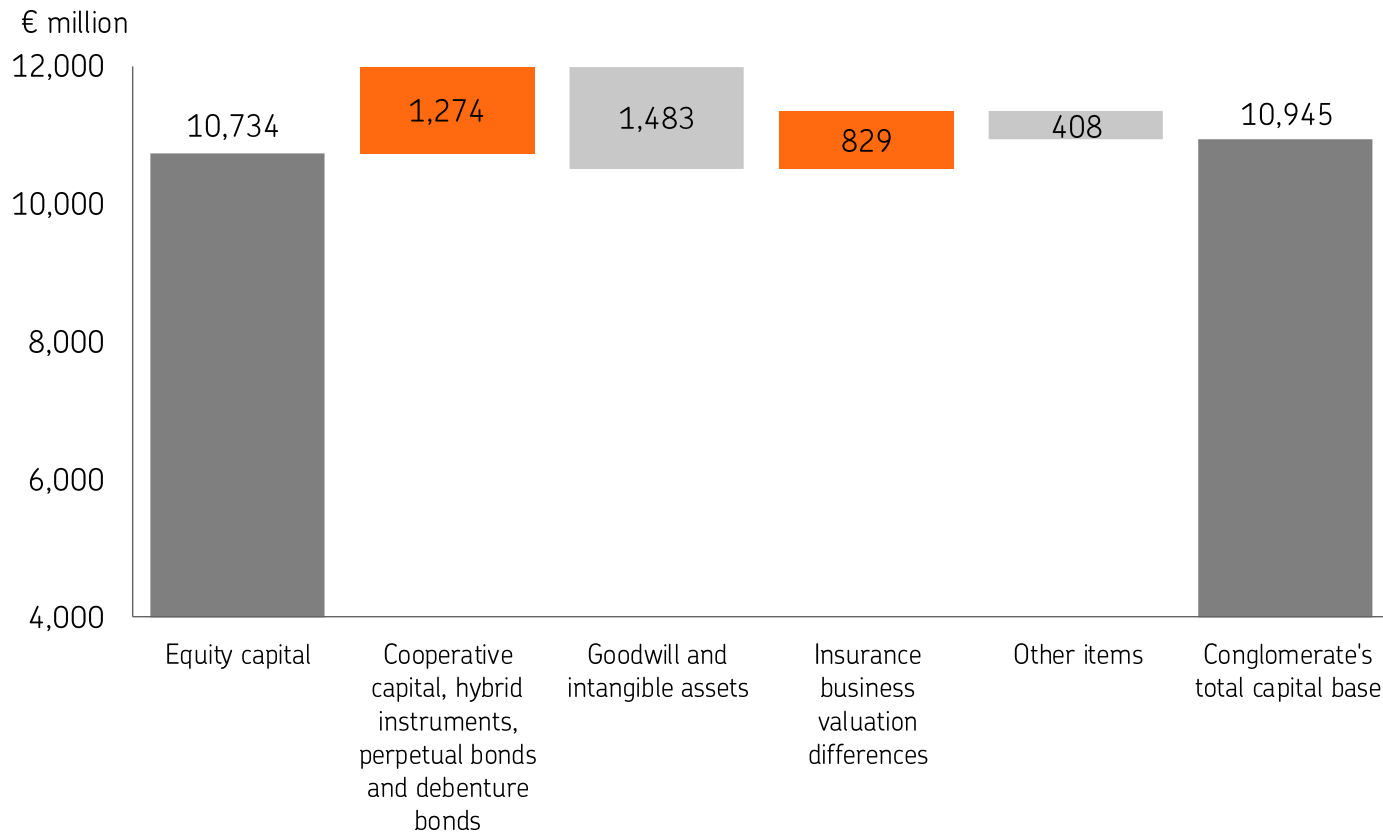
OP Financial Group

FiCo solvency



Total capital base under the Act on the Supervision of Financial and Insurance Conglomerates

30 June 2017





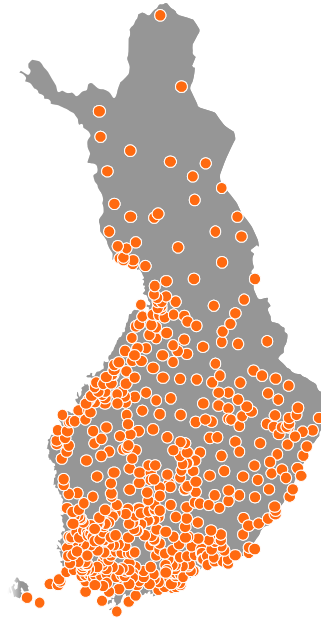
OP in a nutshell

OP is a financial services group owned by its customers. We promote our owner-customers' and operating environment's sustainable financial prosperity, safety and wellbeing. Finnish roots, Finland's most extensive service network and true customer focus make us a unique play in many ways.

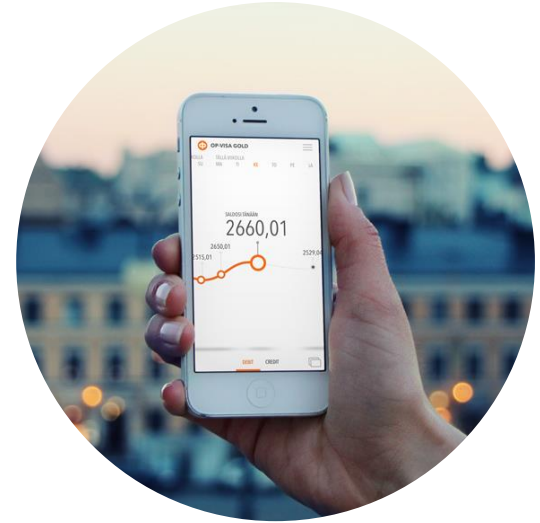
OP in a nutshell



Approximately 1.8 million
owner-customers



About 170
Group member cooperative banks



Hyperlocal digital
financial services group

Our cooperative company form enables our **dual role**, which is also the foundation for our unique identity



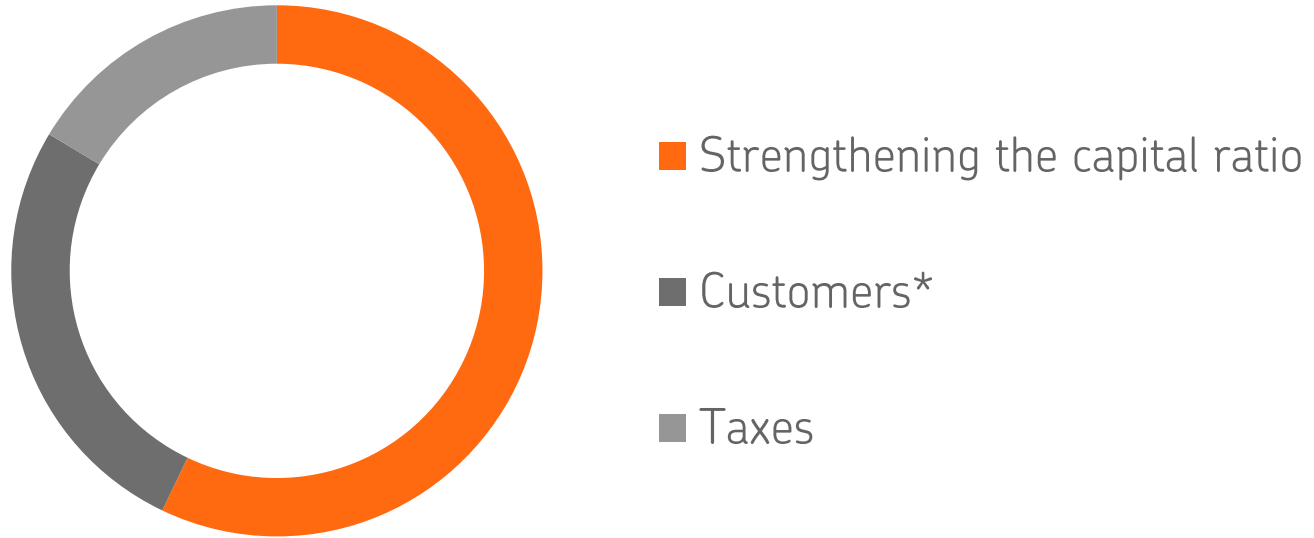
Business role

+



Social role

OP Financial Group allocates a substantial amount of its earnings to fulfilling its social role



OP Financial Group's numerical targets

	30 June 2017	Target
Customer experience, NPS (–100–+100)		
Brand	18.9	25
Service	56	70, over time 90
CET1 ratio, %	19.1	22
Return on economic capital, % (12-month rolling)	21.8	22
Expenses of present-day business (12-month rolling), € million	1,596	Expenses in 2019 lower than in 2015 (1,520)
Owner-customers, million	1.8	2.1 (2019)

OP Financial Group's service channels

	1-30 June 2017	30 June 2017	12-month change
Online and mobile services			
Op.fi visits (private customers)	6,524,368	-	-34.1%
OP-mobile visits, (private customers)	15,545,027	-	+ 34.4%
Pivo mobile wallet application visits	2,035,506	-	+ 15.4%
eServices Agreements (private customers)	-	1,773,699	+ 96,055
Branches and telephone services			
Bank branches	-	428	- 20
Providing both non-life insurance and banking services	-	336	- 5
Private Banking branches	-	39	+ /- 0
Customer contacts in telephone service	342,511	-	- 19,923
Social media			
Followers on Facebook (OP Financial Group and member cooperative banks)	-	284,343	+ 16,840
Followers on Twitter	-	26,146	+ 4,905
Followers on LinkedIn	-	13,337	+ 3,025
Followers on Instagram	-	5,594	+ 2,416

Joint Liability, Deposit Insurance 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 institution (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 institution's members 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 Process Services Ltd.
- By virtue of the Act on the Amalgamation of Deposit Banks, the central institution 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 insurance. Under legislation governing the Investors' Compensation Fund, OP Financial Group is also considered a single entity in respect of investors ' compensation.



Let's take care of ourselves.