



# OP Financial Group's Financial Statements Bulletin for 1 January–31 December 2017

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# OP Financial Group's Financial Statements Bulletin



# OP Financial Group's key figures and ratios

## Transformation underway

	Q1-4/2017	Q1-4/2016	Change, %
Earnings before tax, EUR million	1,077	1138	-5.4
Banking	666	574	16.0
Non-life Insurance	210	244	-13.9
Wealth Management	247	226	9.2
Other operations	-45	95	0.0
New OP bonuses accrued to owner-customers	220	208	5.7
	31-Dec-17	31-Dec-16	Change, %
Common Equity Tier 1 (CET1) ratio, %	20.1	20.1	0.0 *
Return on economic capital, % **	21.3	22.7	-1.4 *
Ratio of capital base to minimum amount of capital base (under the Act on the Supervision of Financial and Insurance Conglomerates) % ***	148	170	-22 *
Ratio of impairment loss on receivables to loan and guarantee portfolio, %	0.06	0.09	0.0 *
Owner customers (1,000)	1,833	1,747	4.9

\* Change in ratio

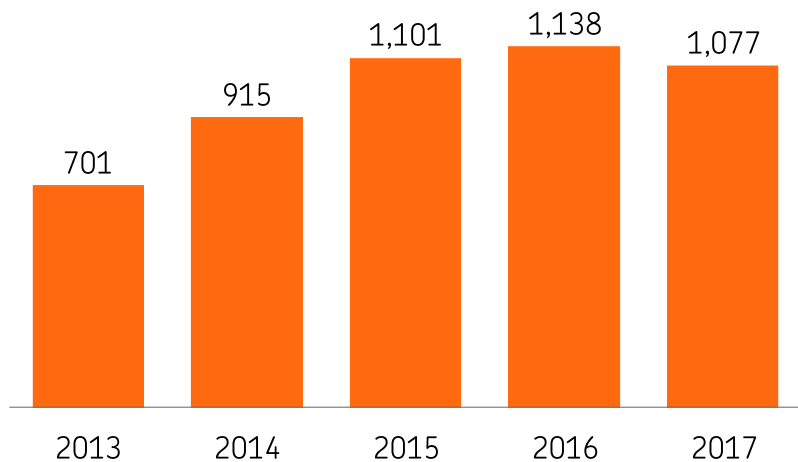
\*\* 12-month rolling

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

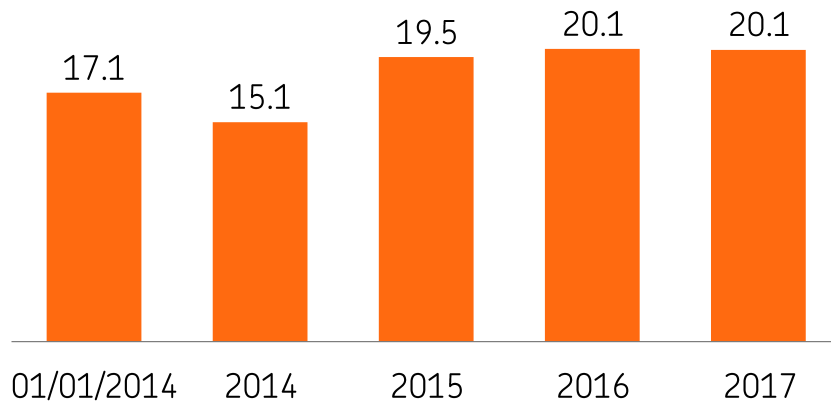
- Earnings before tax over one billion euros for the third year in a row, strong growth in business.
- Income and expenses increased by 4% and 13%, respectively.
- CET1 ratio was 20.1%, or at the previous year-end level.
- Earnings before tax for 2018 are expected to be at about the same level as or lower than in 2017.

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

Earnings before tax, € million

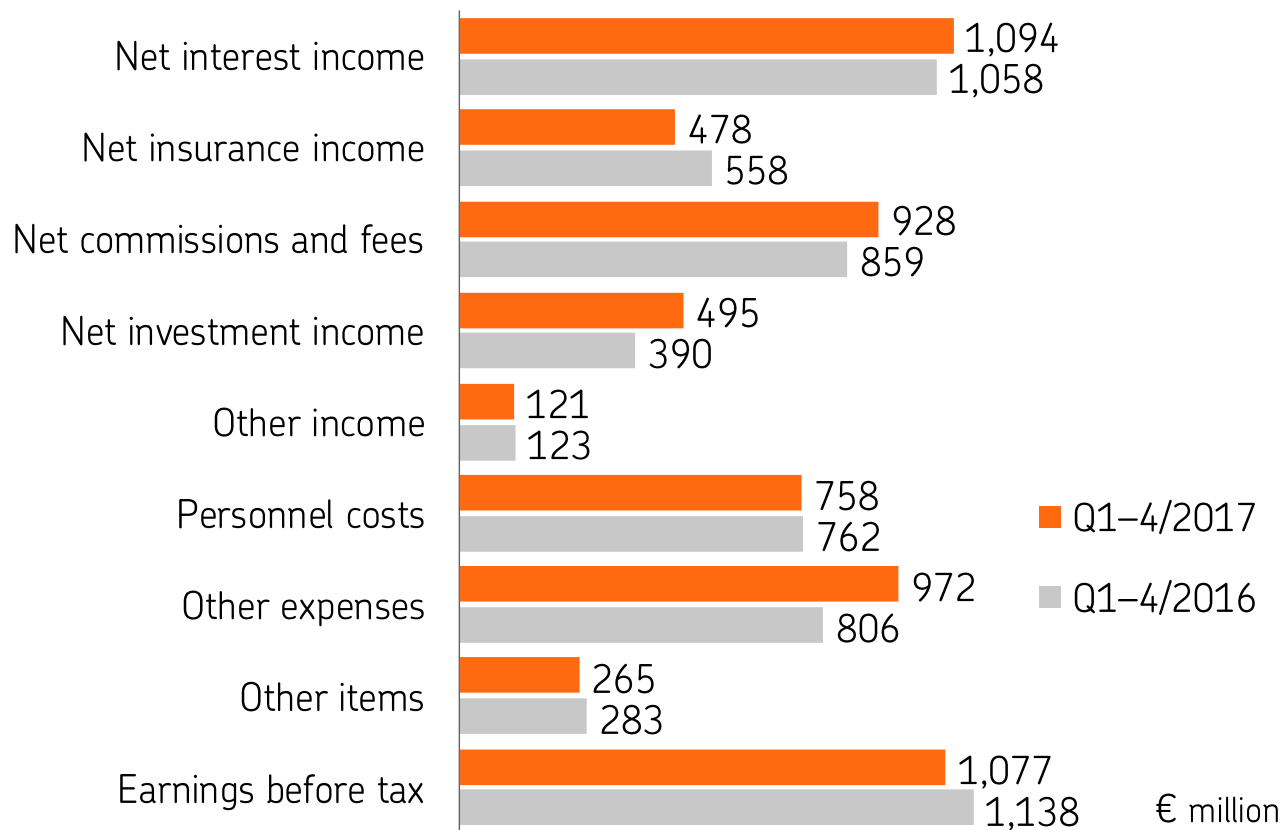


Common Equity Tier 1 ratio (CET1),%

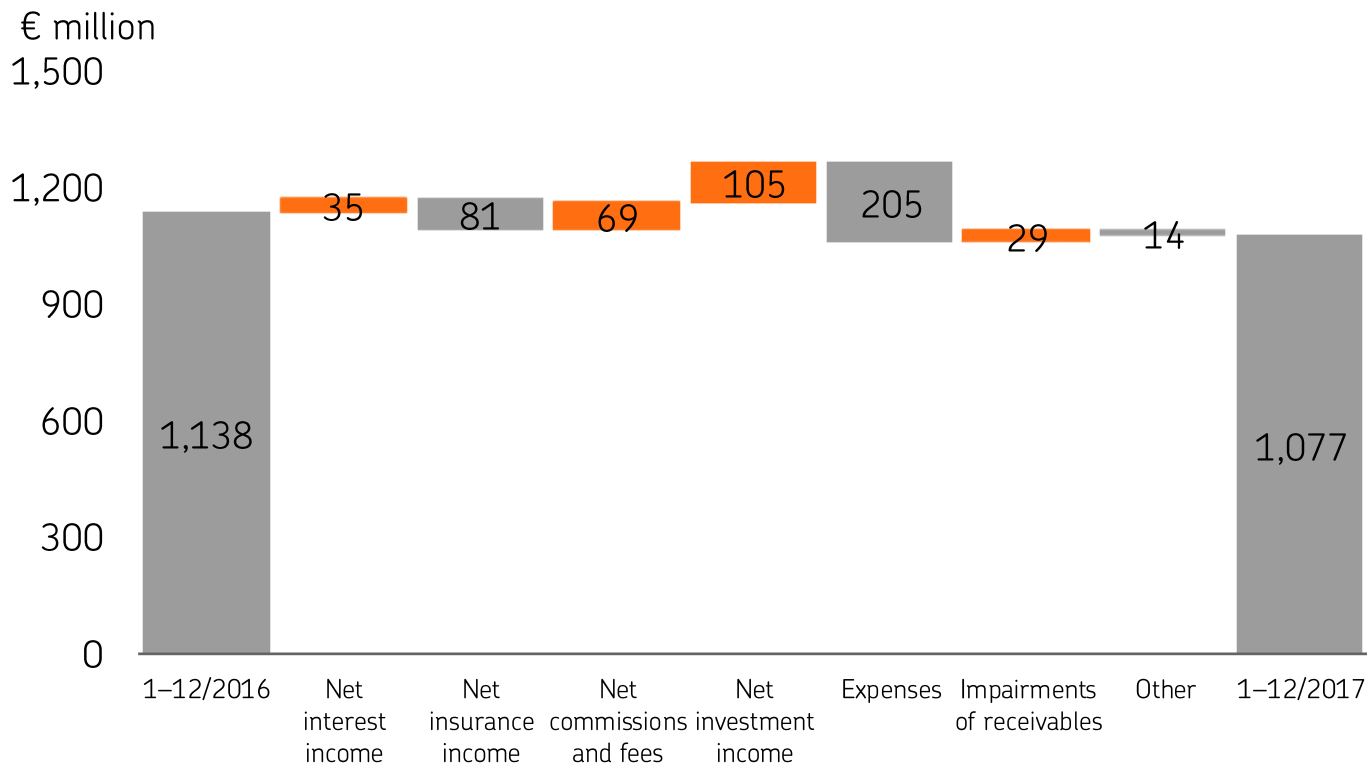


The risk weight floors set by the ECB decreased the CET1 ratio by 2.0 percentage points Q4 2017

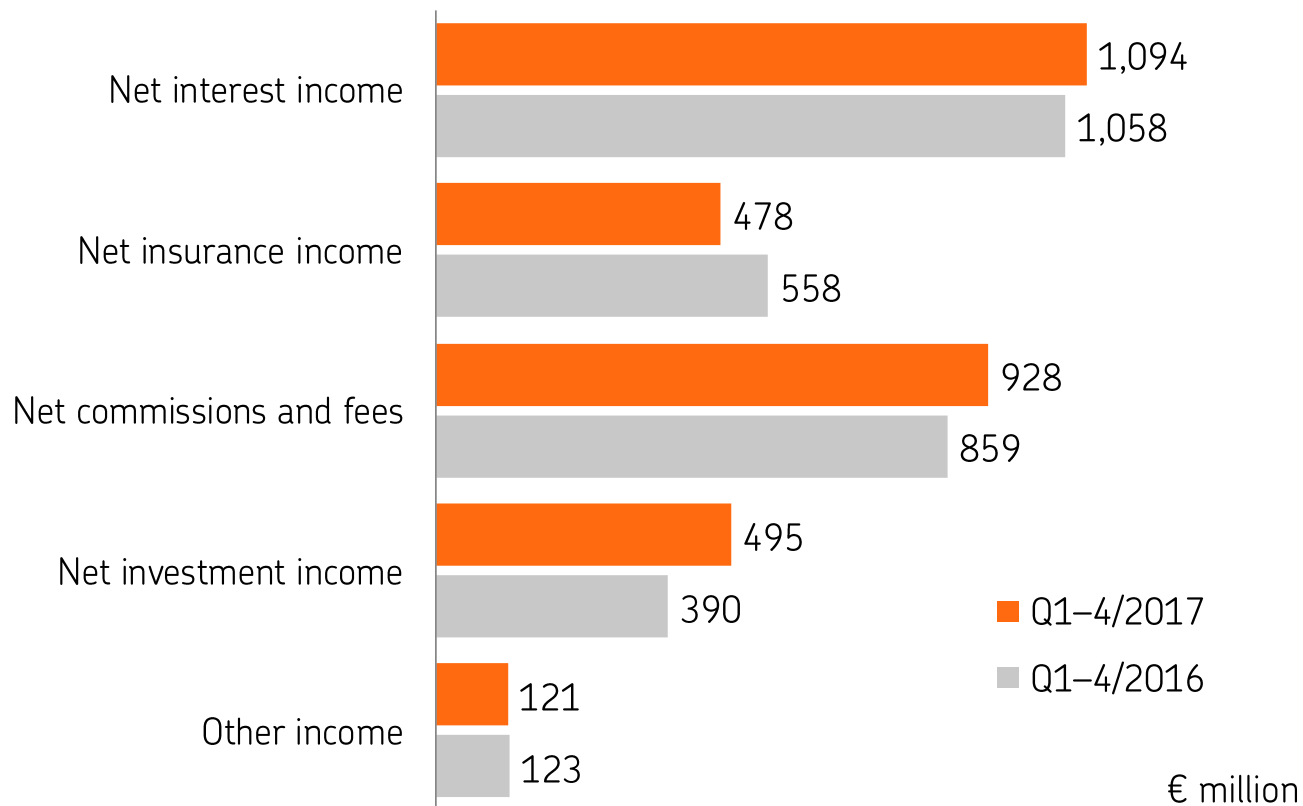
# OP Financial Group's main income statement items



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

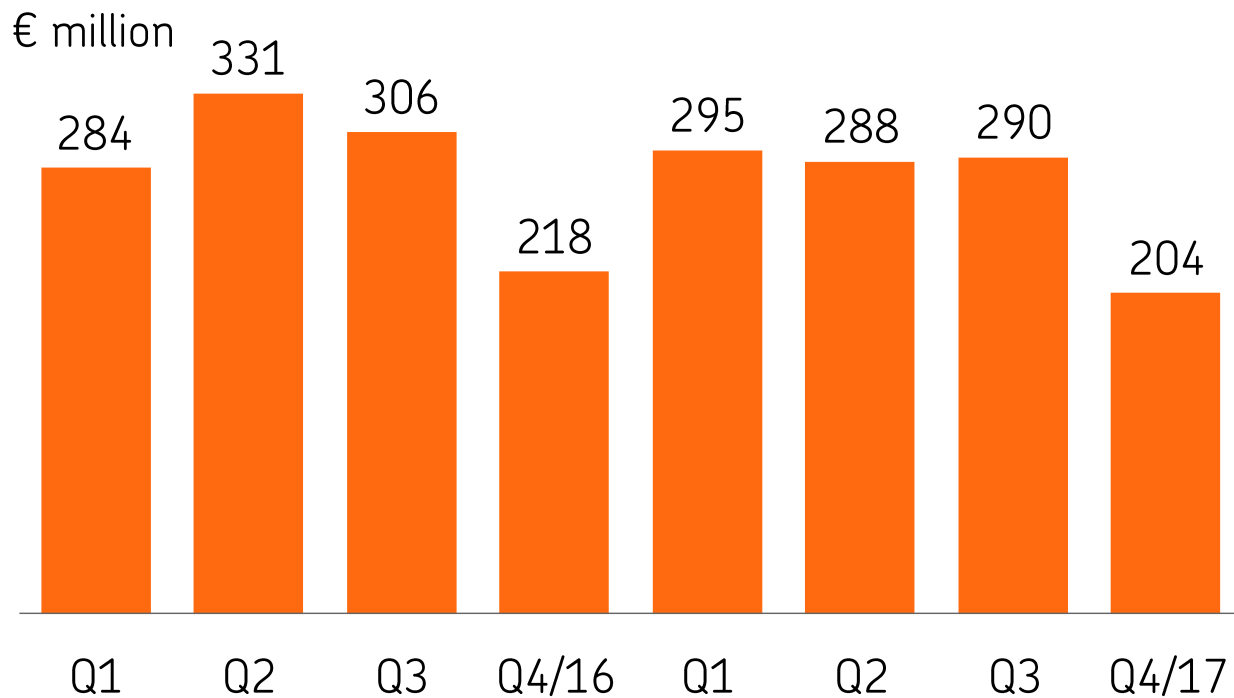


# OP Financial Group's income performance

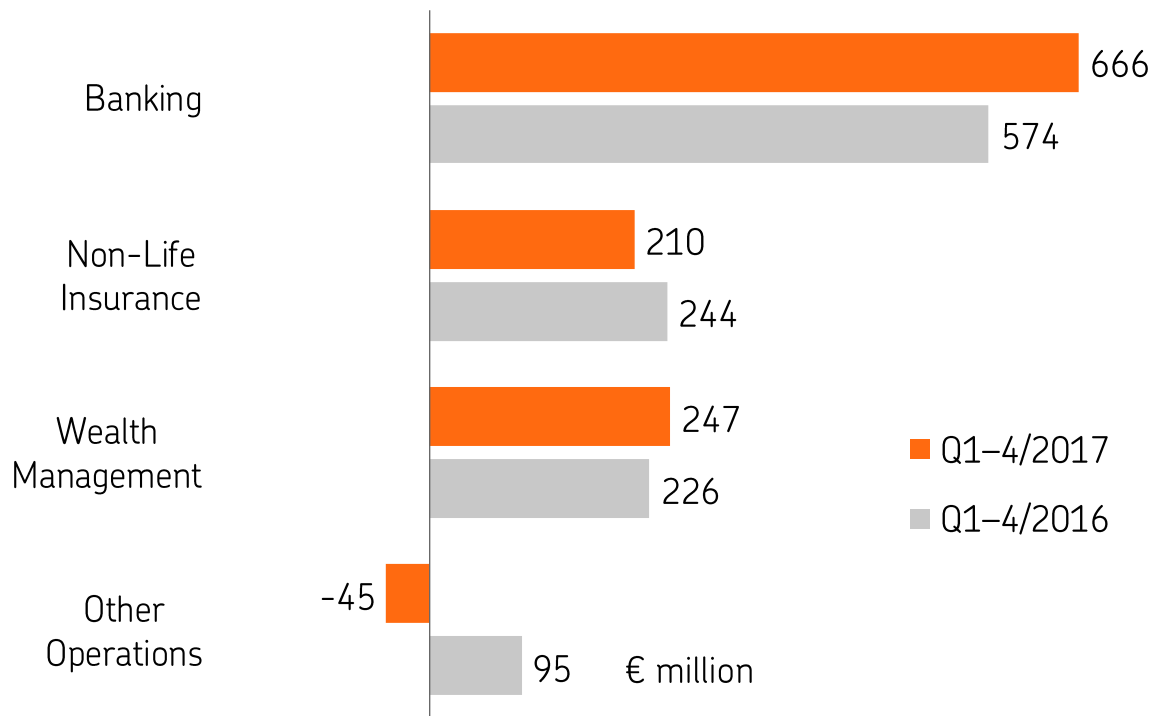




# OP Financial Group's EBT by quarter



# OP Financial Group's EBT by business segment



# OP Financial Group's income statement

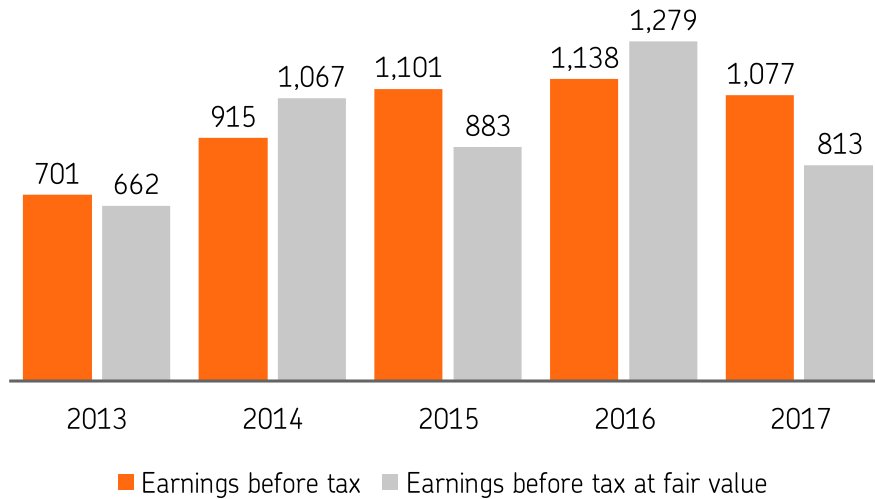
January 1 to December 31	2017	2016	Change, €million	%	Q4/17	Q4/16	Change, %
Net interest income	1,094	1,058	35	3.4	279	260	7.4
Net insurance income	478	558	-81	-14.4	137	140	-2.3
Net commissions and fees	928	859	69	8.0	254	222	14.4
Net investment income	495	390	105	26.9	90	108	-17.4
Other income	121	123	-3		25	14	83.8
<b>Total income</b>	<b>3,115</b>	<b>2,989</b>	<b>126</b>	<b>4.2</b>	<b>784</b>	<b>743</b>	<b>5.5</b>
Personnel costs	758	762	-4	-0.6	193	199	-3.0
Other expenses	1,015	806	209	26.0	310	232	33.9
<b>Total expenses</b>	<b>1,773</b>	<b>1,567</b>	<b>205</b>	<b>13.1</b>	<b>504</b>	<b>431</b>	<b>16.9</b>
Other	265	283	-18	-6.4	76	95	-19.7
<b>Earnings before tax</b>	<b>1,077</b>	<b>1,138</b>	<b>-61</b>	<b>-5.4</b>	<b>204</b>	<b>218</b>	<b>-6.2</b>

# OP Financial Group's quarterly performance

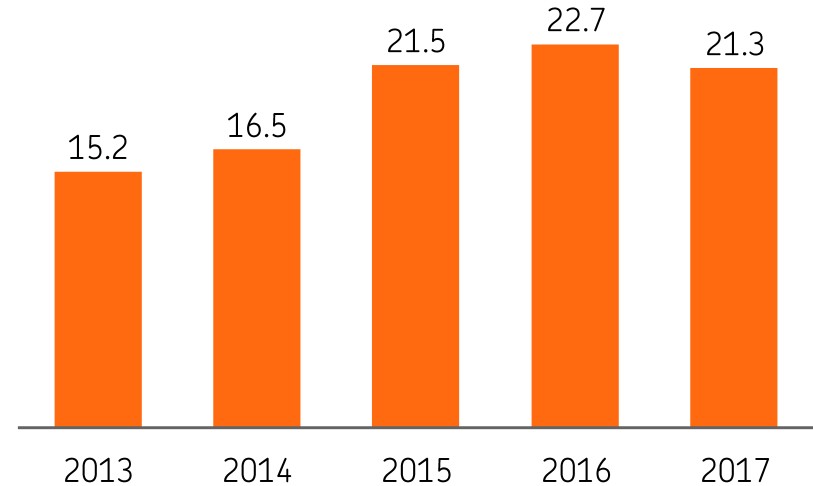
€ million	Q1	Q2	Q3	Q4/2016	Q1	Q2	Q3	Q4/2017
Net interest income	267	261	271	260	258	272	285	279
Net insurance income	129	140	149	140	117	145	80	137
Net commissions and fees	224	213	200	222	237	220	217	254
Net investment income	86	96	99	108	122	113	170	90
Other income	12	85	12	14	36	45	14	25
<b>Total income</b>	<b>719</b>	<b>795</b>	<b>732</b>	<b>743</b>	<b>770</b>	<b>795</b>	<b>765</b>	<b>784</b>
Personnel costs	201	195	167	199	202	191	171	193
Other expenses	176	204	193	232	215	246	244	310
<b>Total expenses</b>	<b>377</b>	<b>399</b>	<b>361</b>	<b>431</b>	<b>417</b>	<b>437</b>	<b>415</b>	<b>504</b>
Impairments of receivables	11	13	12	41	8	15	5	20
OP bonuses to owner-customers	48	52	53	53	51	55	55	56
<b>Earnings before tax</b>	<b>284</b>	<b>331</b>	<b>306</b>	<b>218</b>	<b>295</b>	<b>288</b>	<b>290</b>	<b>204</b>

# Long-term return target at 22%

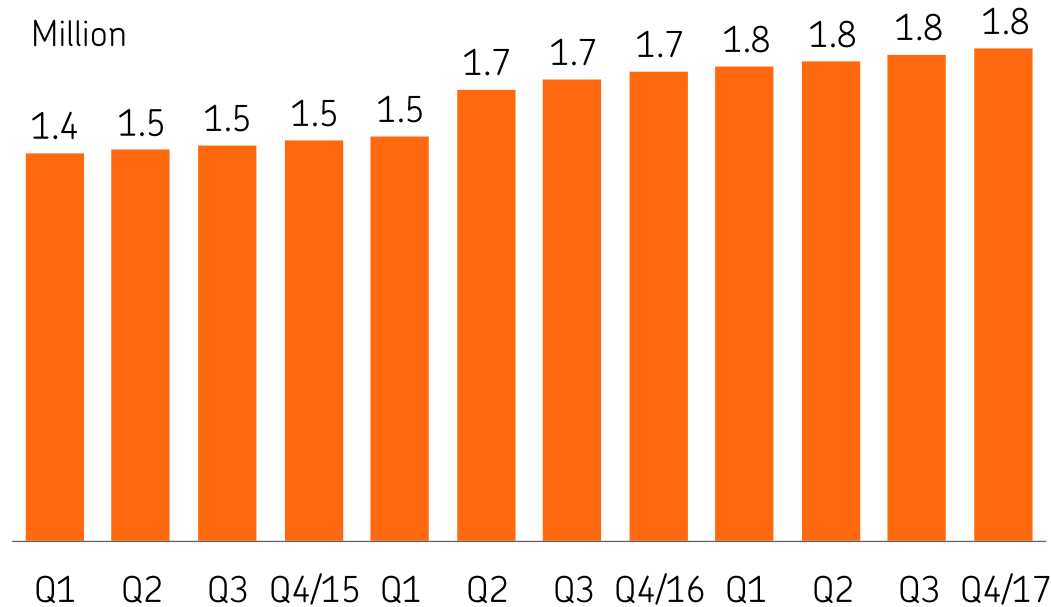
Earnings before tax, € million



Return on economic capital, %



# 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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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 2017

EBT

EUR **666** million

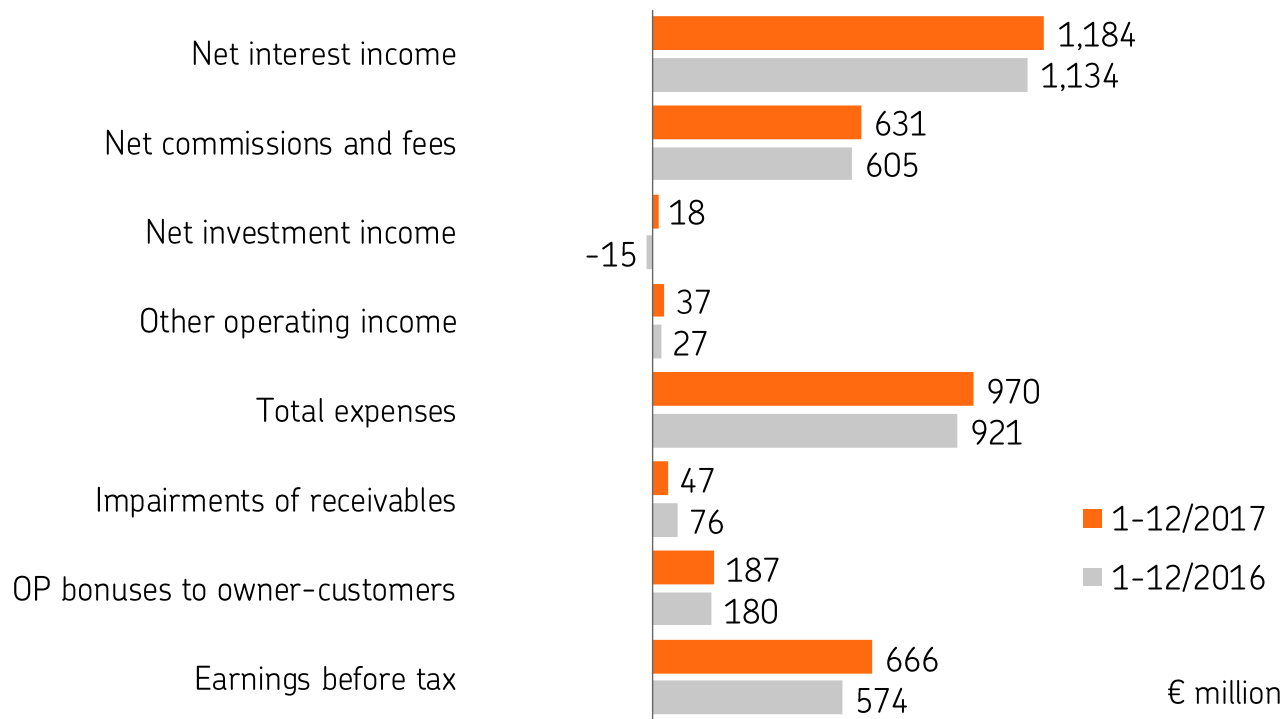
Loan portfolio

EUR **82.2** billion

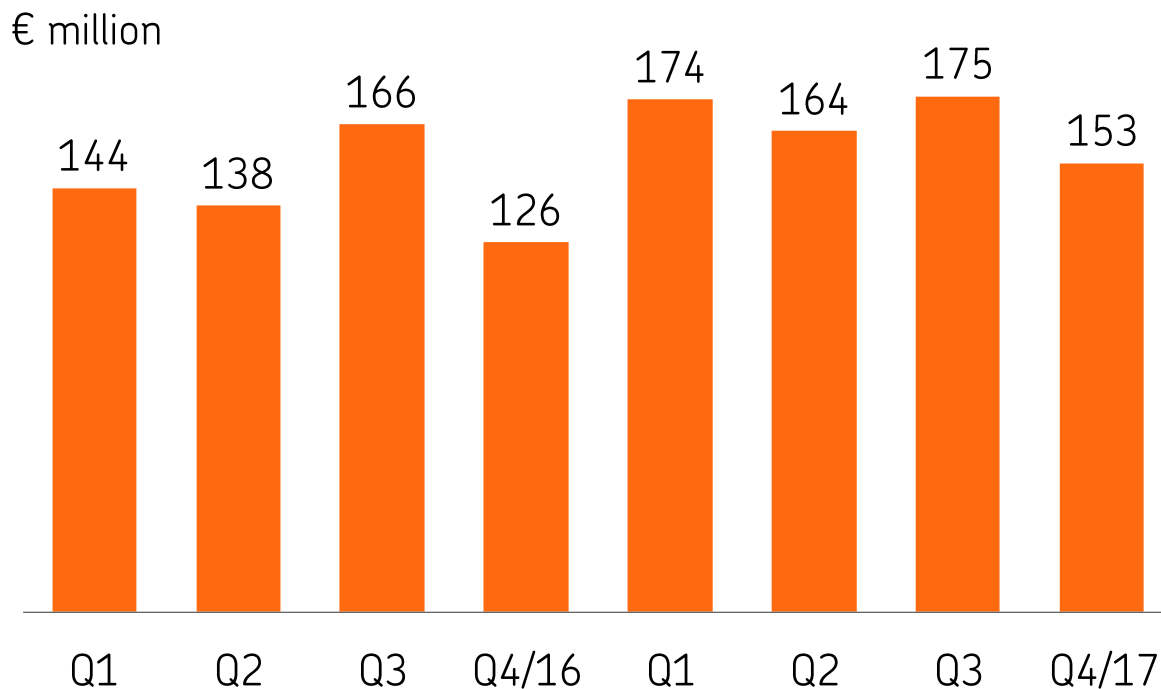
Total deposits

EUR **58.0** billion

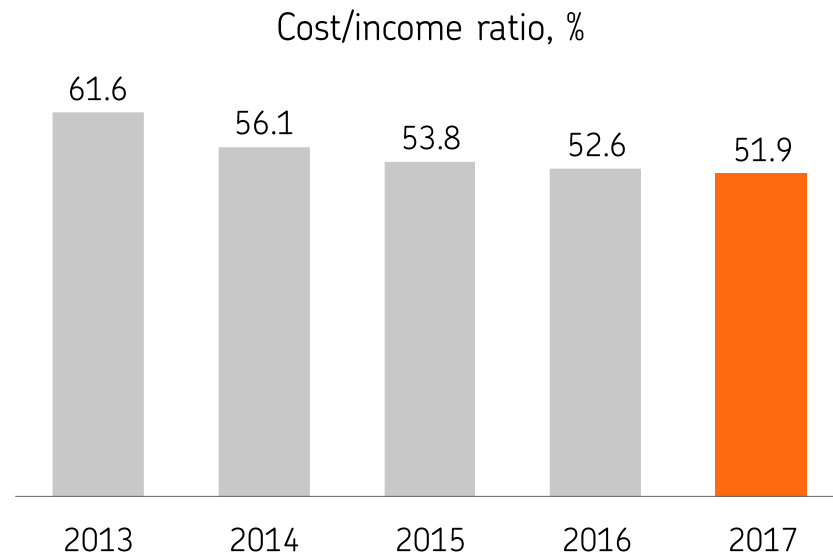
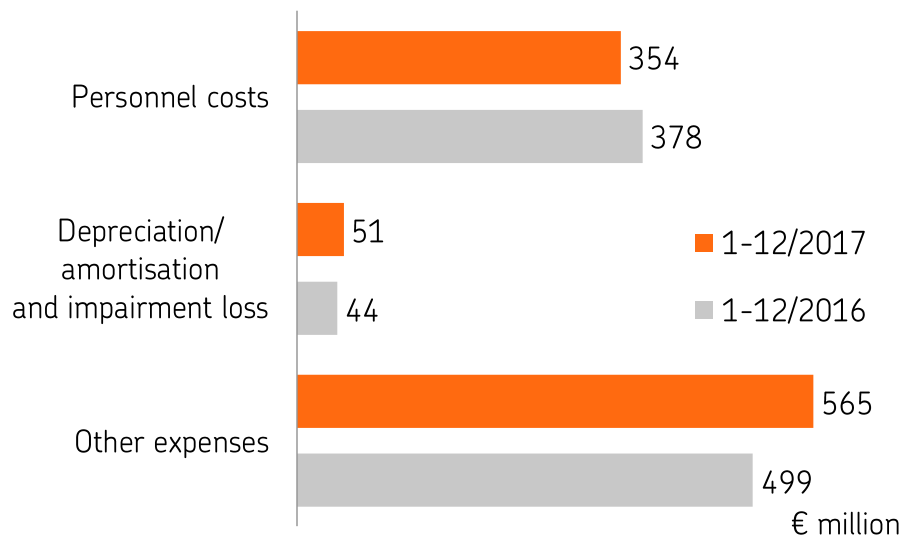
# EBT of €666 million up 16%



# All quarters showed earnings improvement

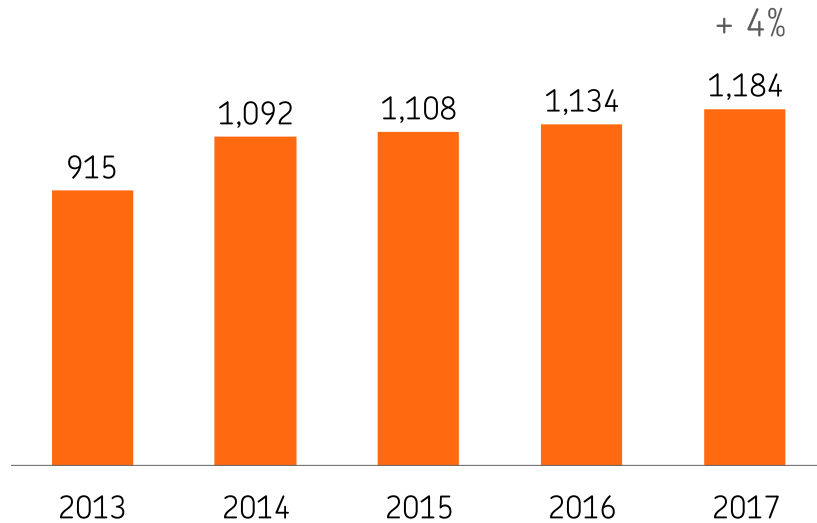


# Banking efficiency improved

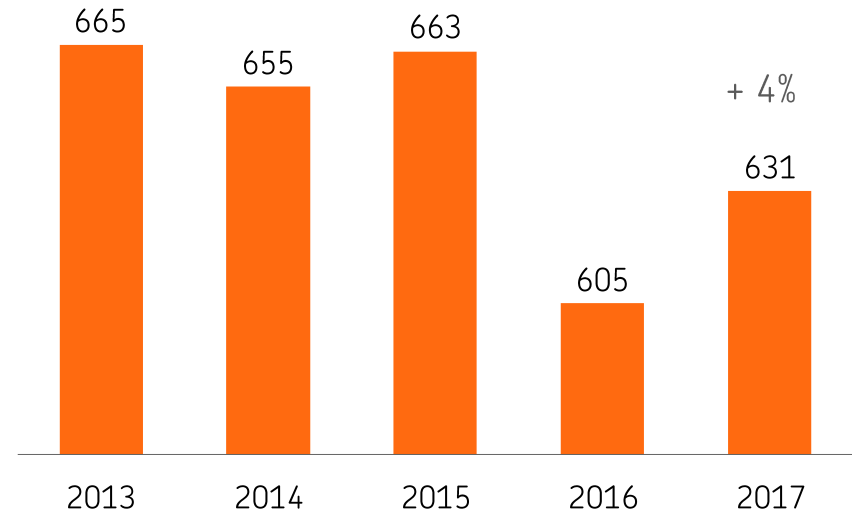


# Net interest income increased by 4% and so did net commissions and fees

Net interest income, € million



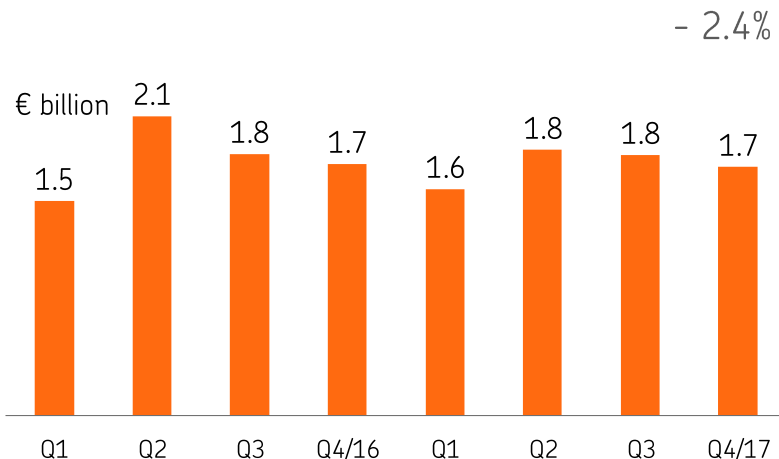
Net commissions and fees, € million



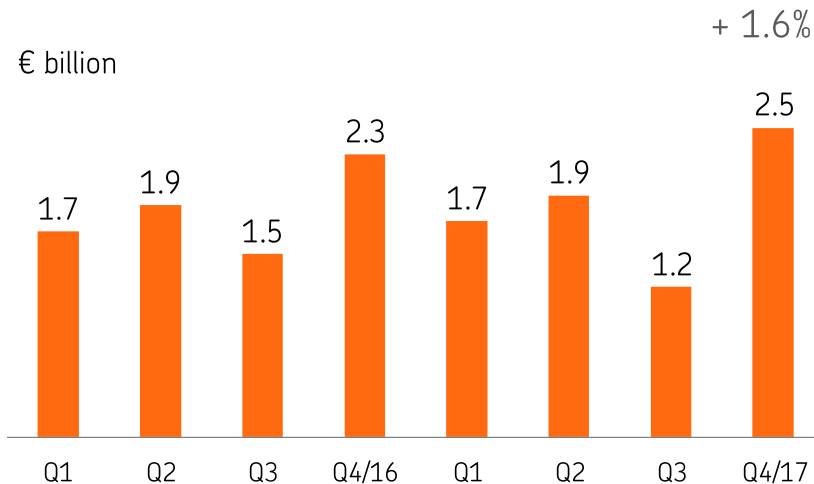


Home loans drawn down decreased annually by 2.4%  
whereas corporate loans drawn down increased by 1.6%

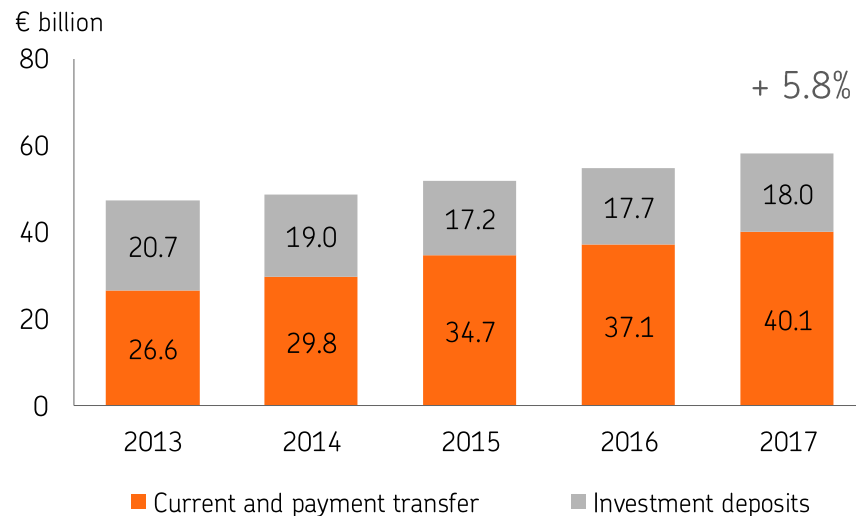
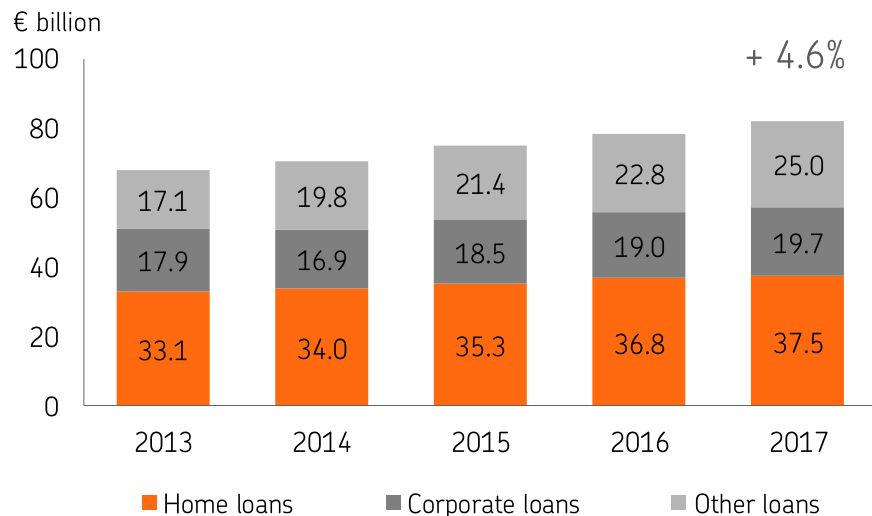
Home loans drawn down



Corporate loans



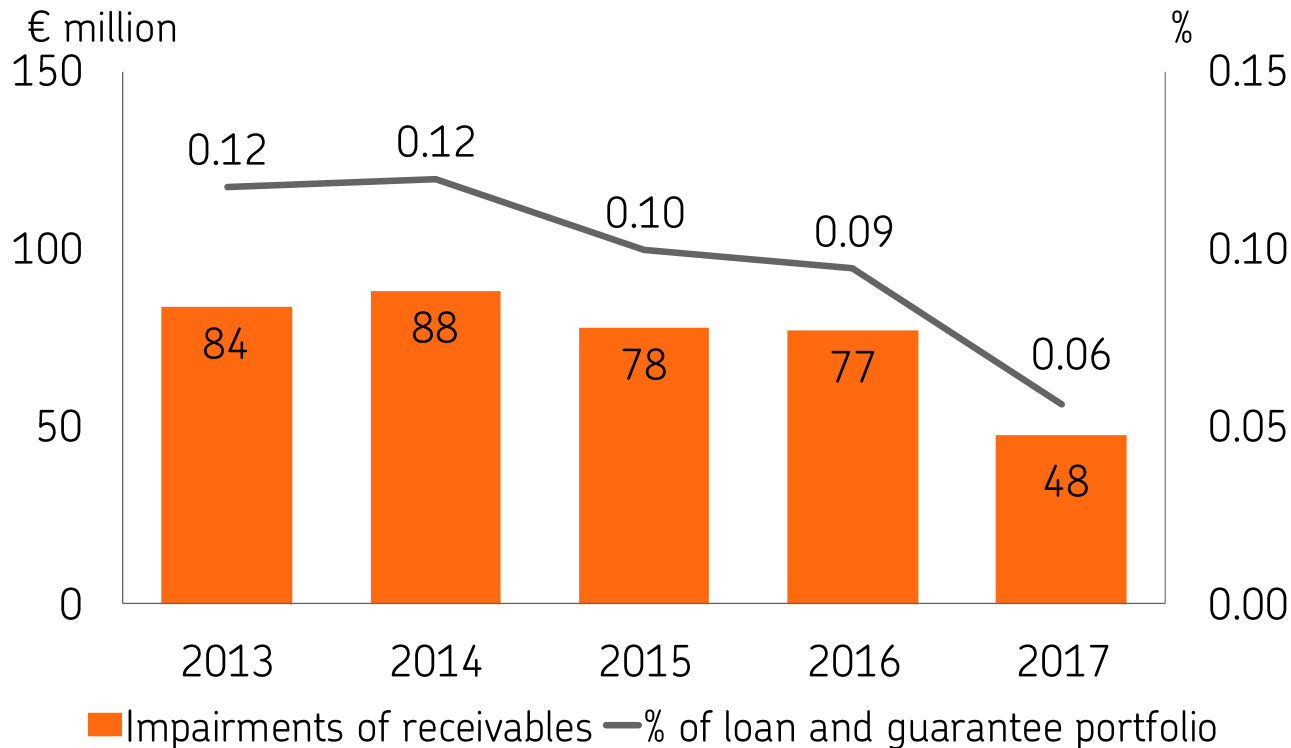
# The Banking loan portfolio was up by 4.6% and the deposit portfolio by 5.8%



# OP Financial Group's loan and guarantee portfolio grew by 4.3%

€ million	31 December 2017	31 December 2016	Change	
			€ million	%
Enterprises and housing associations	32,639	30,306	2,333	7.7
Renting and operating of residential real estate	6,737	6,310	428	6.8
Renting and operating of other real estate	4,063	4,174	-111	-2.7
Wholesale and retail trade	3,399	3,276	123	3.7
Energy	2,957	2,576	380	14.8
Services	2,586	2,083	503	24.2
Construction	2,505	2,330	175	7.5
Transportation and storage	1,657	1,602	55	3.4
Manufacture of machinery and equipment (incl. services)	1,626	1,558	68	4.4
Financial and insurance services	1,349	986	363	36.8
Agriculture, forestry and fishing	1,302	1,139	163	14.4
Metal Industry	734	694	39	5.7
Forest Industry	723	731	-9	-1.2
Food Industry	613	640	-26	-4.1
Real estate investments	545	590	-45	-7.7
Chemical Industry	461	413	48	11.7
Other manufacturing	299	61	238	391.8
Other industries	1,084	1,144	-59	-5.2
Public corporations and non-profit organisations	1,836	1,639	198	12.1
Households	49,967	48,969	998	2.0
Adjustments	375	435	-60	0.0
<b>Total</b>	<b>84,818</b>	<b>81,350</b>	<b>3,468</b>	<b>4.3</b>

Impairment loss on receivables was very low, accounting for 0.06% of the loan and guarantee portfolio





# 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.

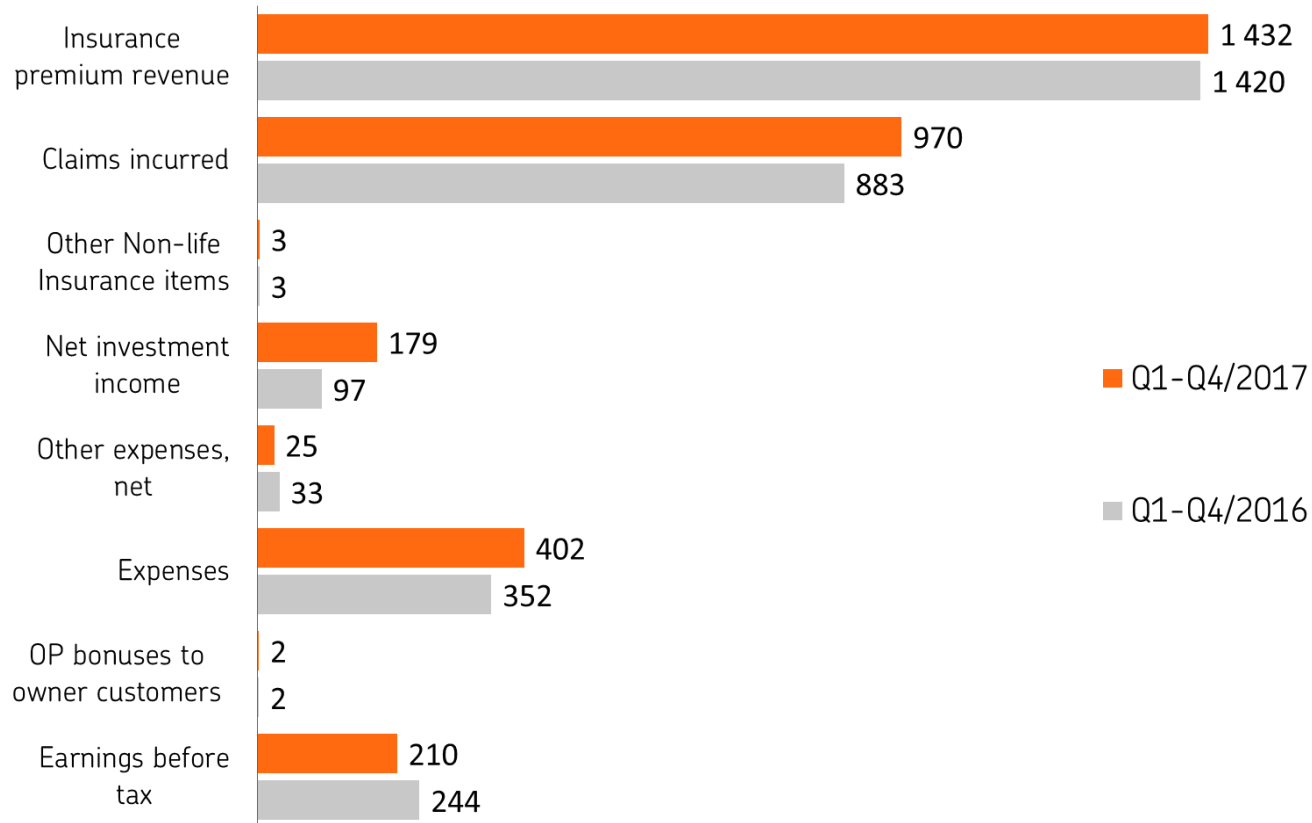
## Key figures 2017

EBT  
EUR **210** million

Insurance premium  
revenue  
EUR **1,432** million

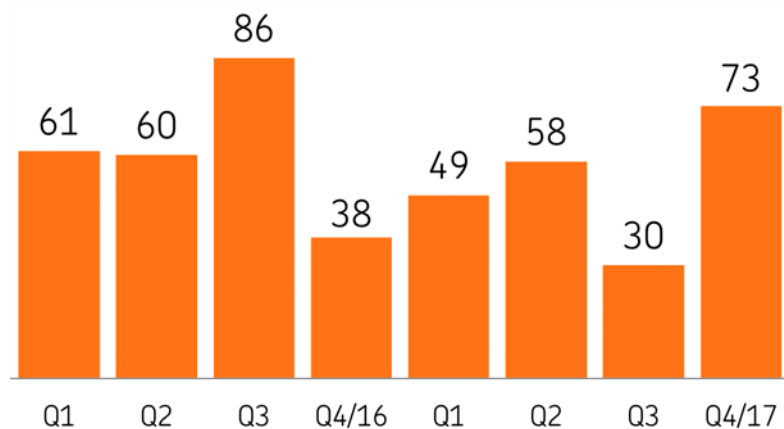


# Non-life Insurance EBT, € million

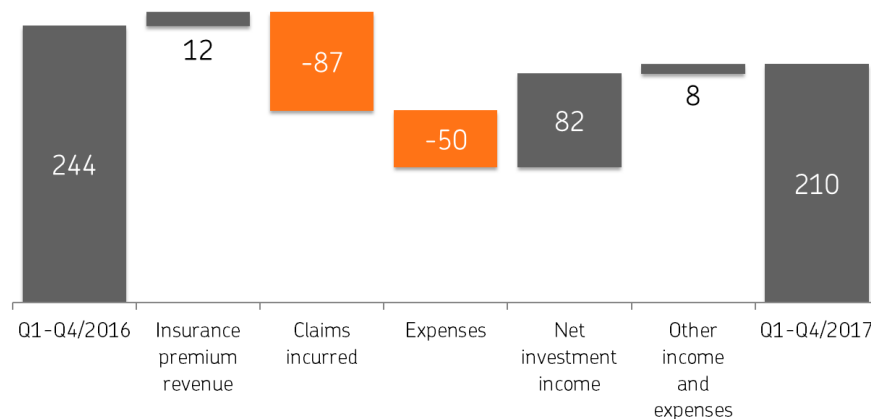


# Higher claims incurred and development costs reduced EBT

Earnings before tax by quarter, € mn

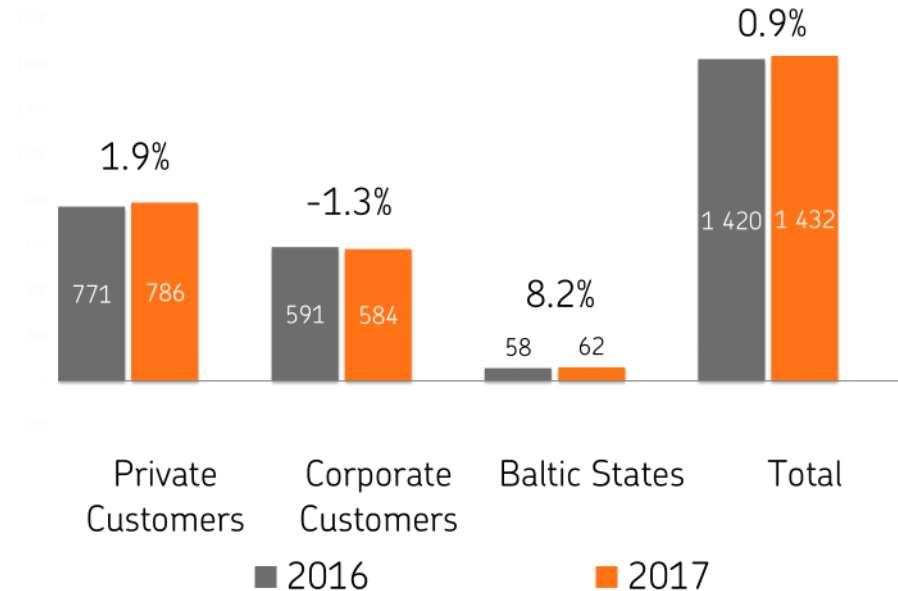


Earnings before tax, € mn  
change Q1-Q4/17 vs. Q1-Q4/16



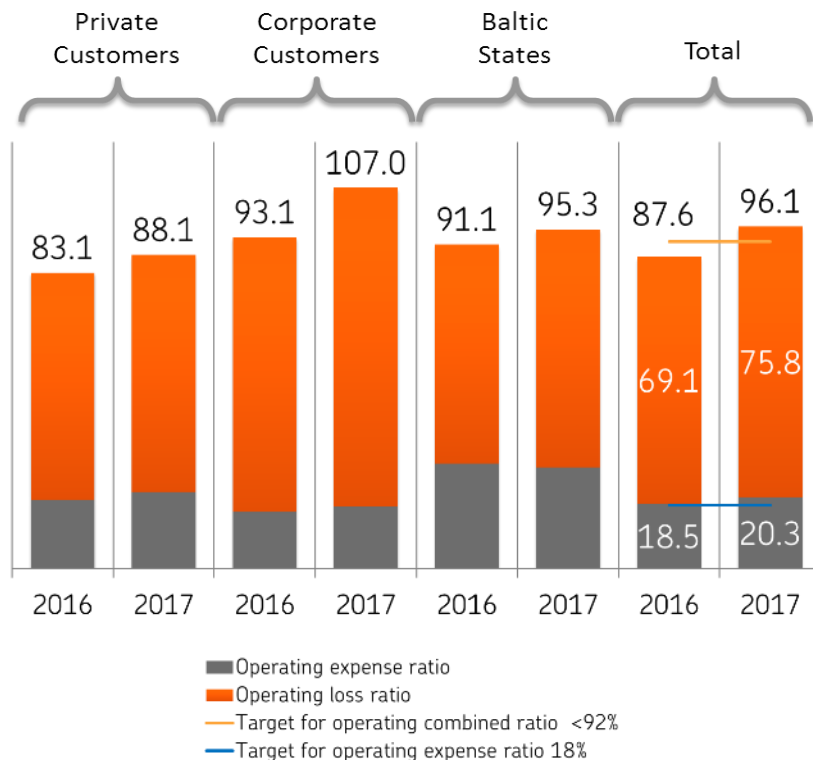
# Growth in insurance premium revenue stemmed from Private Customers

Insurance premium revenue, € mn and change by division  
Q1-Q4/2017 vs. Q1-Q4/2016



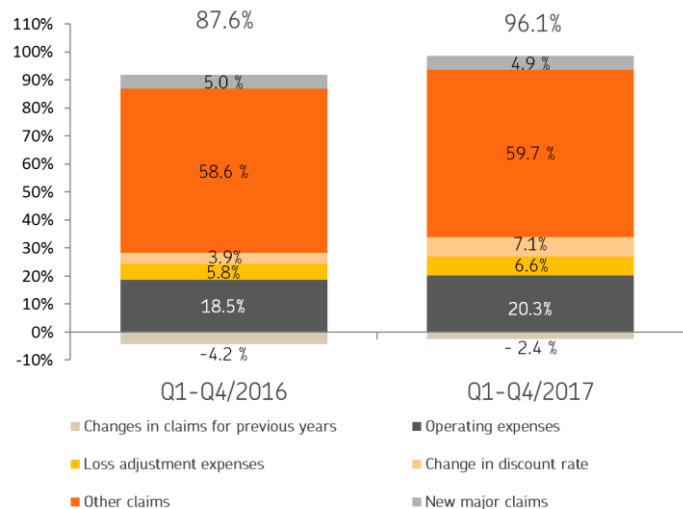
# Balance on technical account

Operating combined ratio by division Q1-Q4/2017 vs. Q1-Q4/2016, %

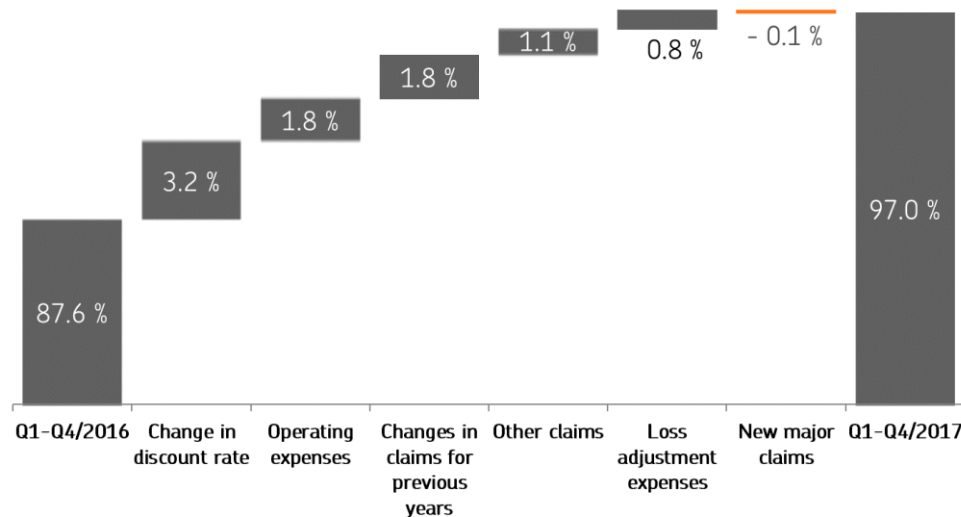


# Balance on technical account

Operating combined ratio  
by component, %

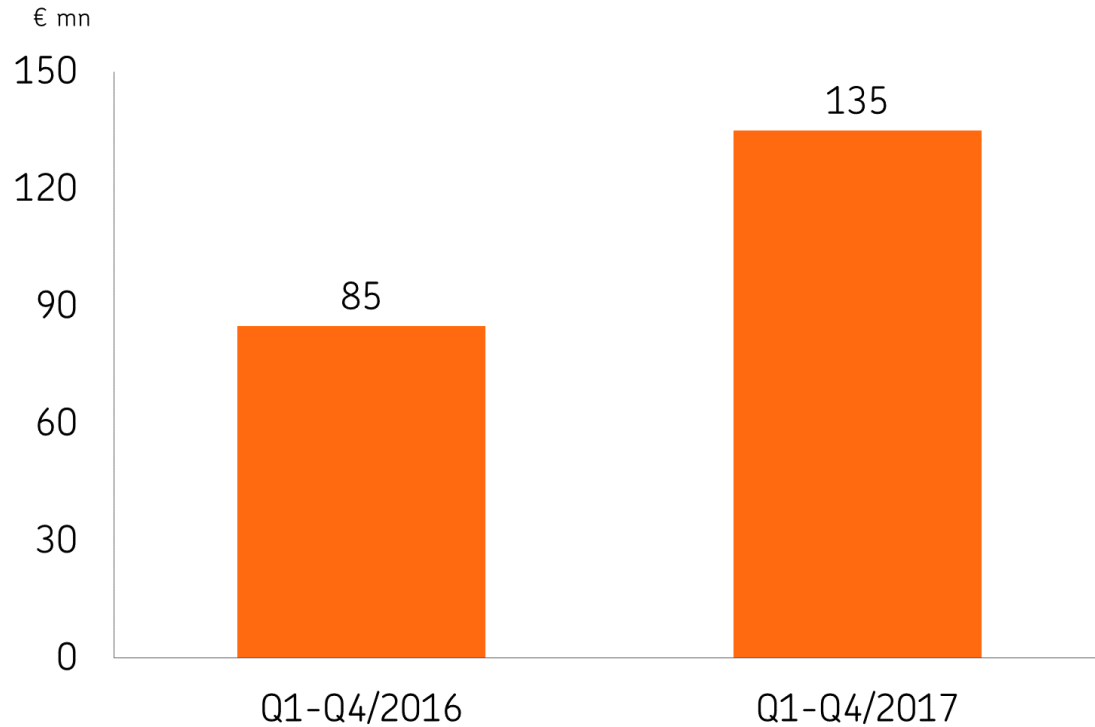


Change in operating combined ratio, %



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 € 35 million (60) in January-December 2017.

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



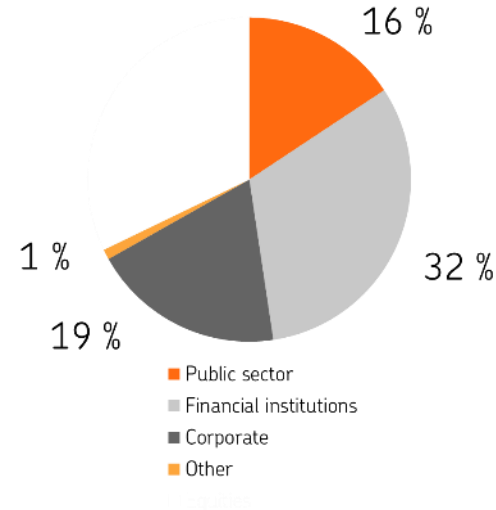
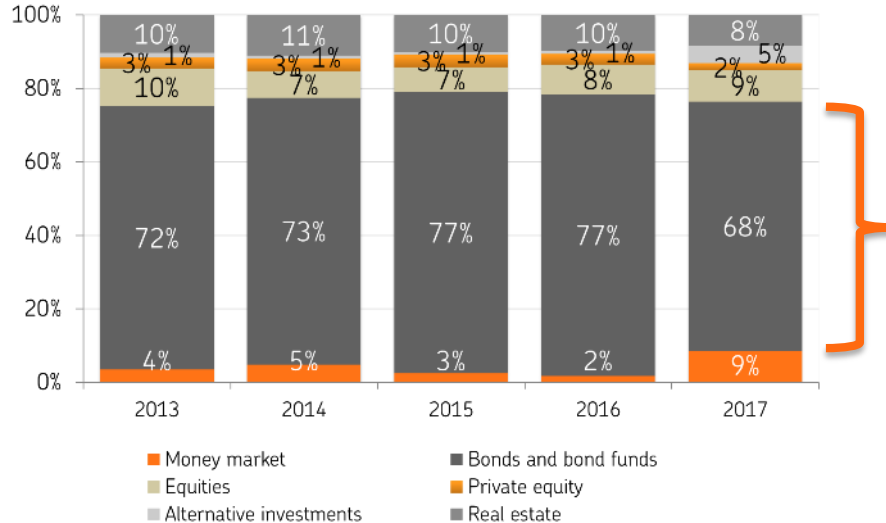
\*Net return on investments at fair value is calculated by deducting the value change in market-consistent insurance liability from income from total investment assets.



# Investment portfolio allocation

Investment portfolio (€ 3.9 bn) by asset class as of 31st December 2017

Bonds and bond funds (68 %)



The duration of the fixed-income portfolio 5.1 years (5.4).

The running yield for direct bond investments averaged 1.78 % (1.72) at end-December 2017.



# 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.

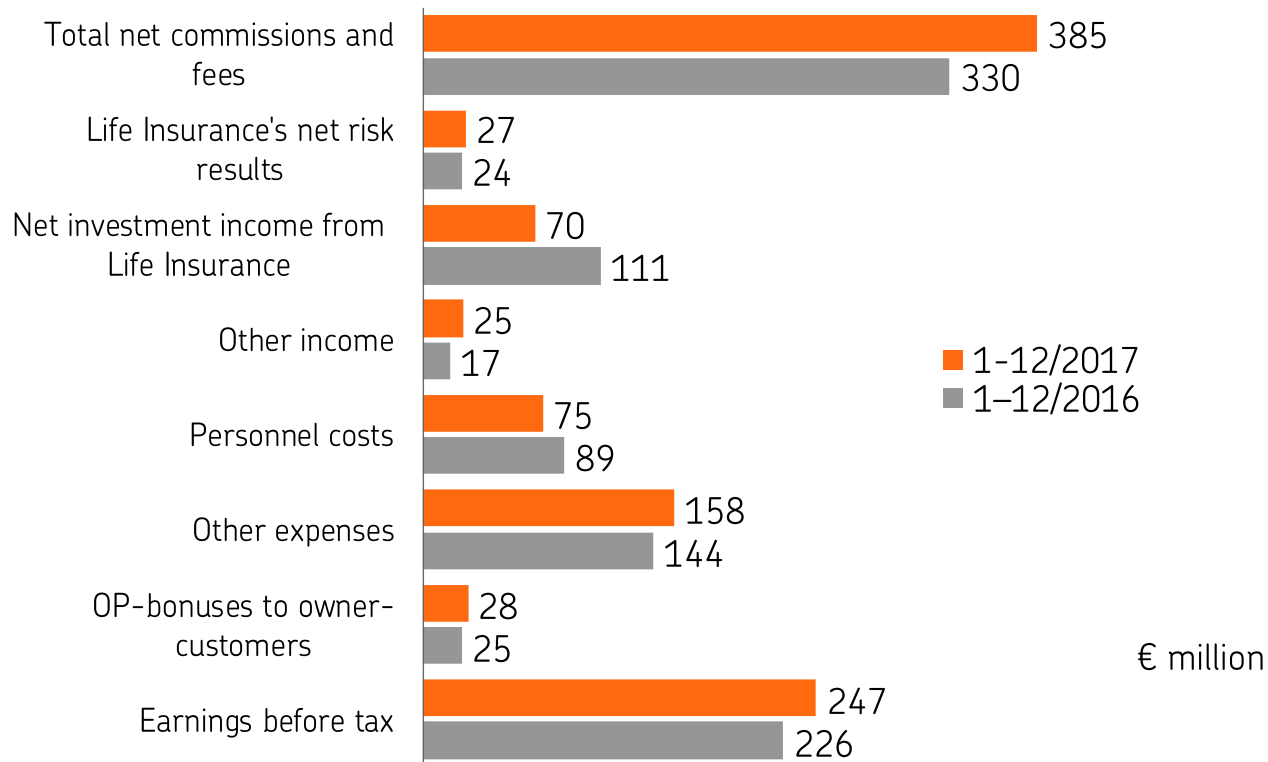
- For private customers, we provide an extensive range of savings and investment solutions. The mutual funds in our range invest in various asset classes and market areas, and are managed partly by OP's own investment organisation and partly by our international partners.
- The range of services for 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 2017

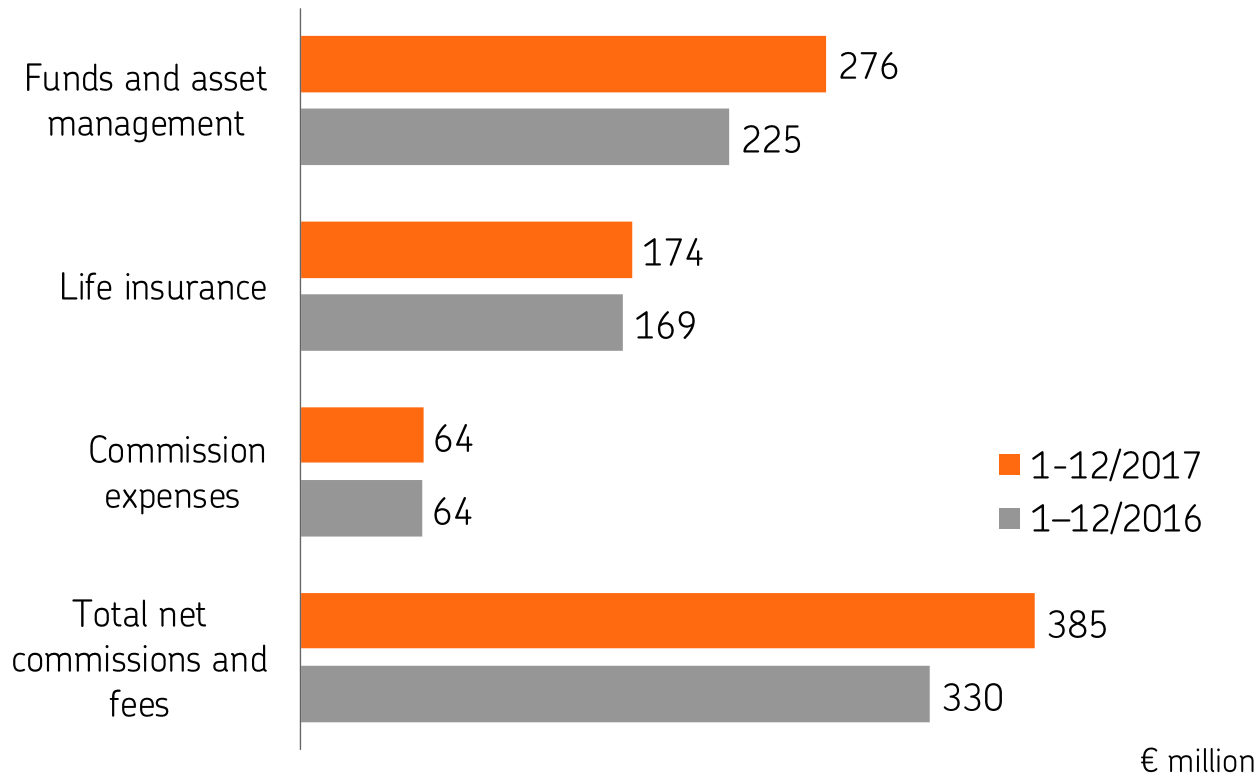
EBT  
EUR 247 million

Assets under  
management  
EUR 78.0 billion

# Wealth Management income statement

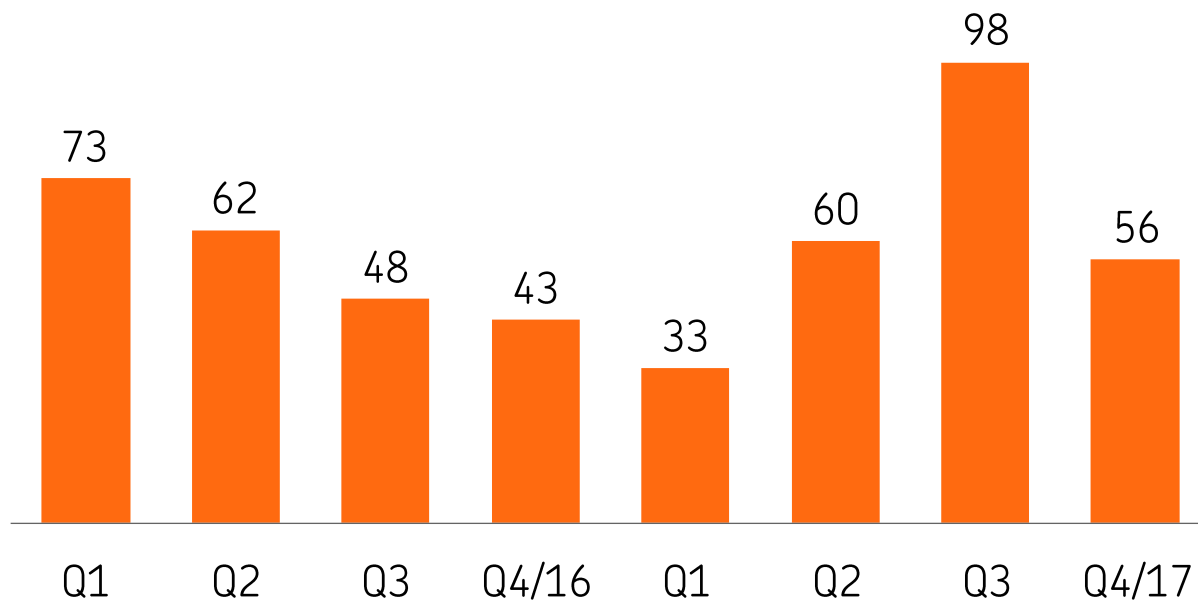


# Wealth Management net commissions and fees



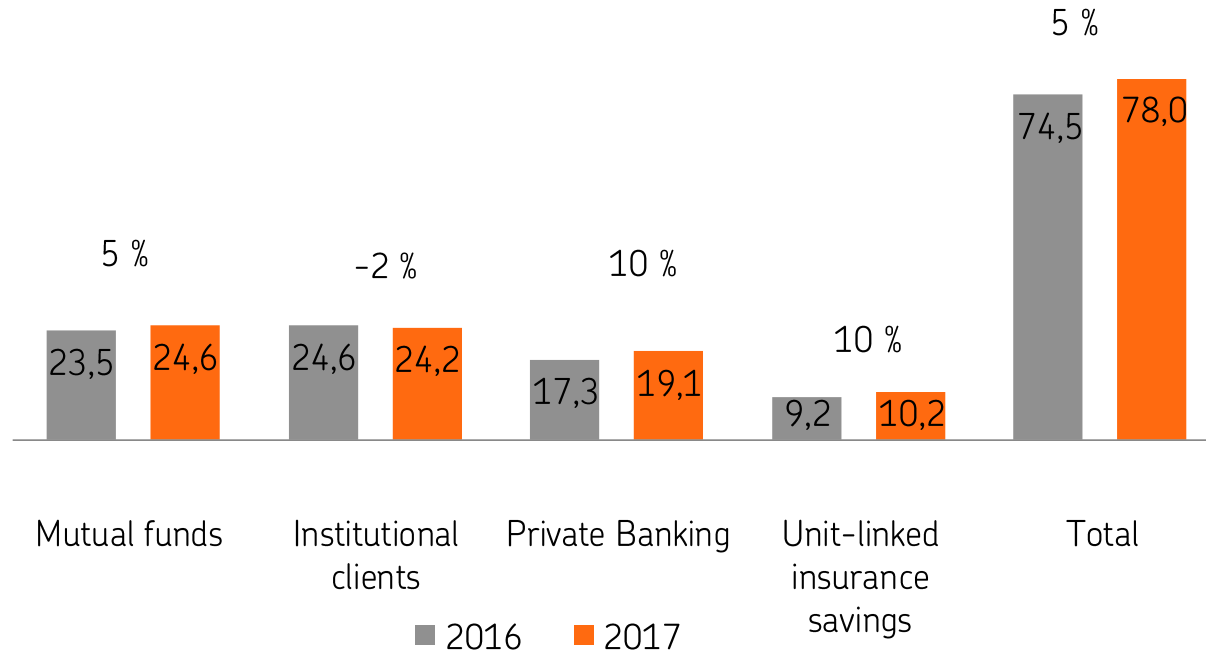
# Wealth Management EBT by quarter

€ million

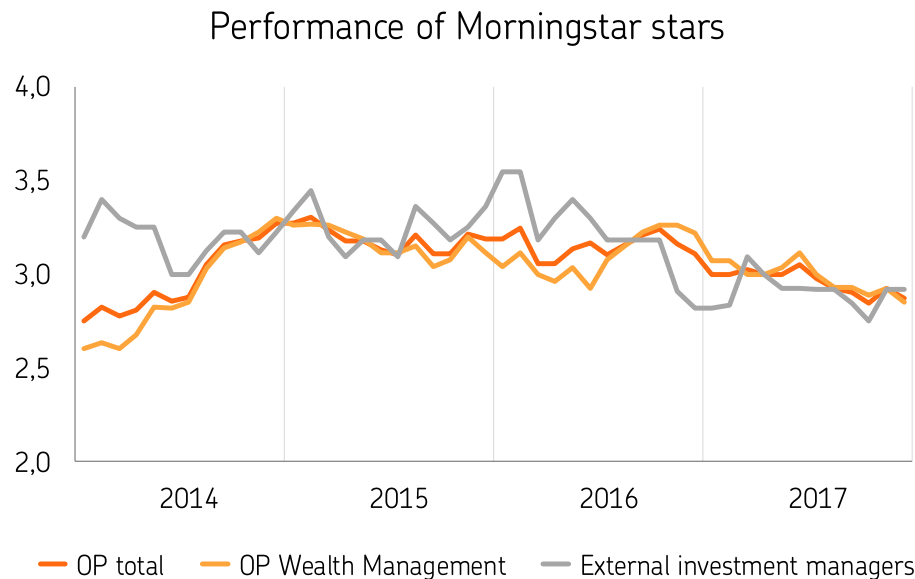


# Assets under management on the increase

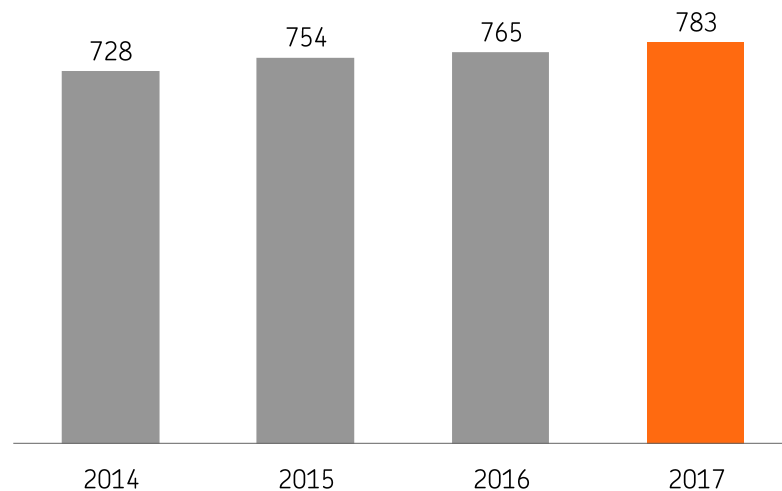
Assets under management (gross) €billion



# The number of clients has grown steadily, fund performance has remained at the same level



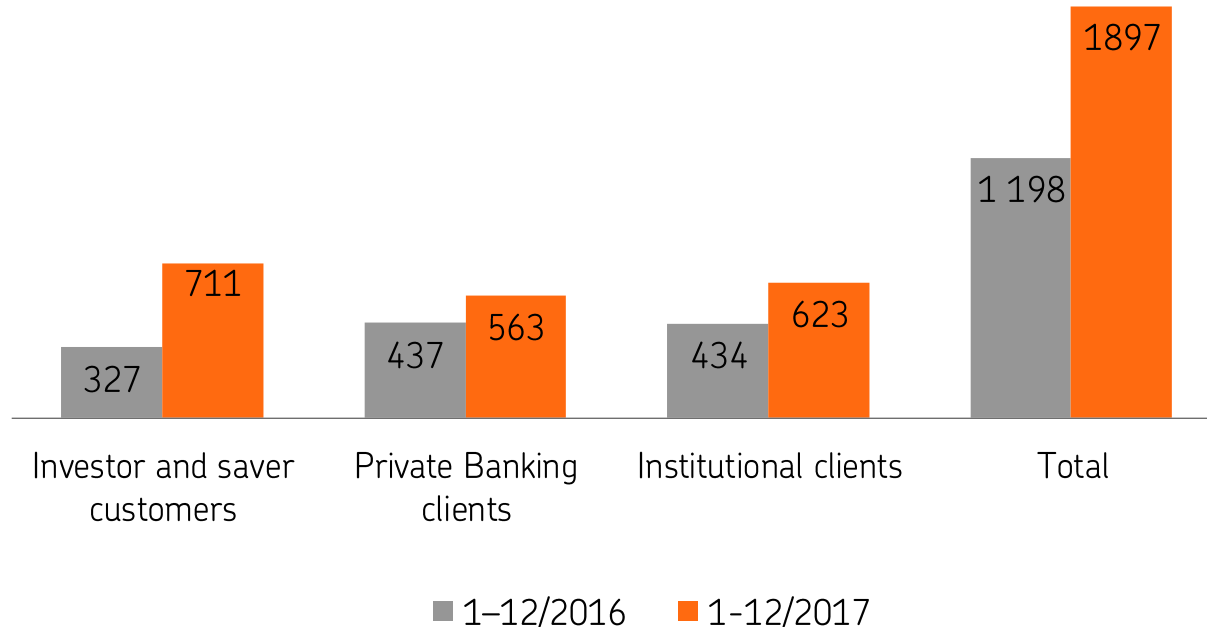
Investor and saver customers, 1000 pers.



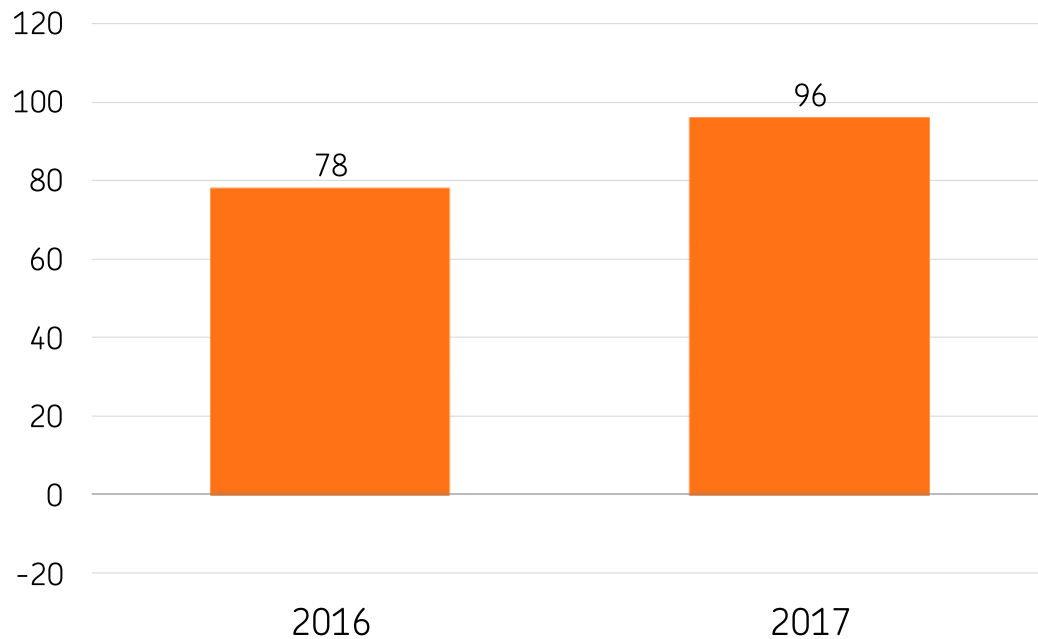


# Improved capital markets supported net assets inflow

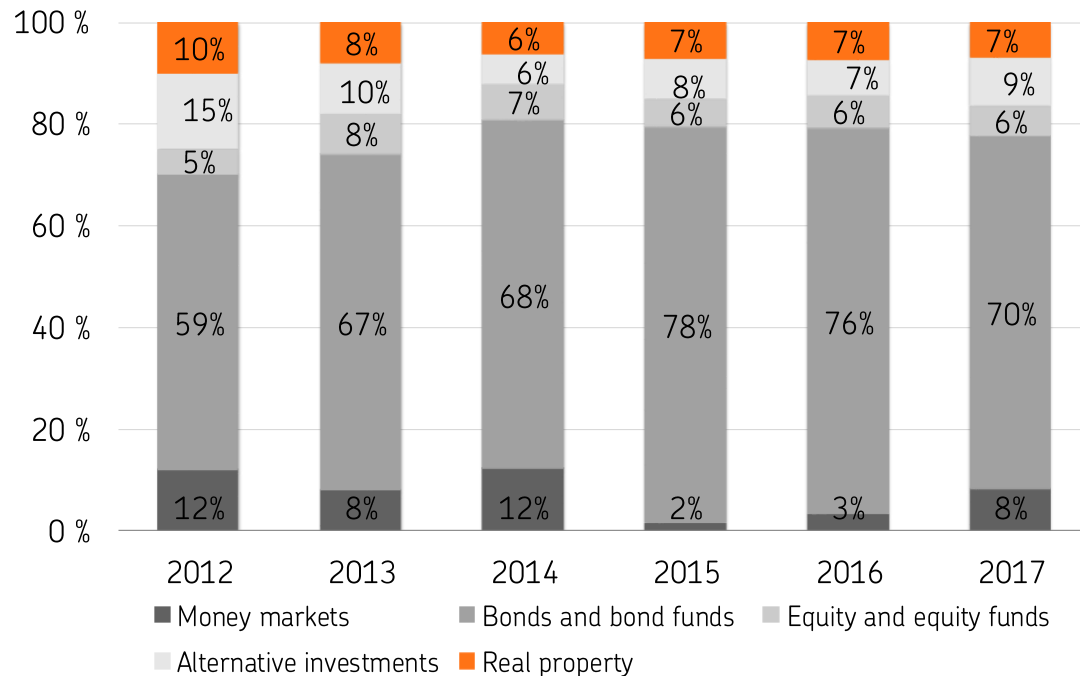
Net inflows € million



# Net return on Life Insurance investments at fair value\*, € million



# The risk level of Life Insurance investment assets\* (€3.8 billion) has been lowered with determination



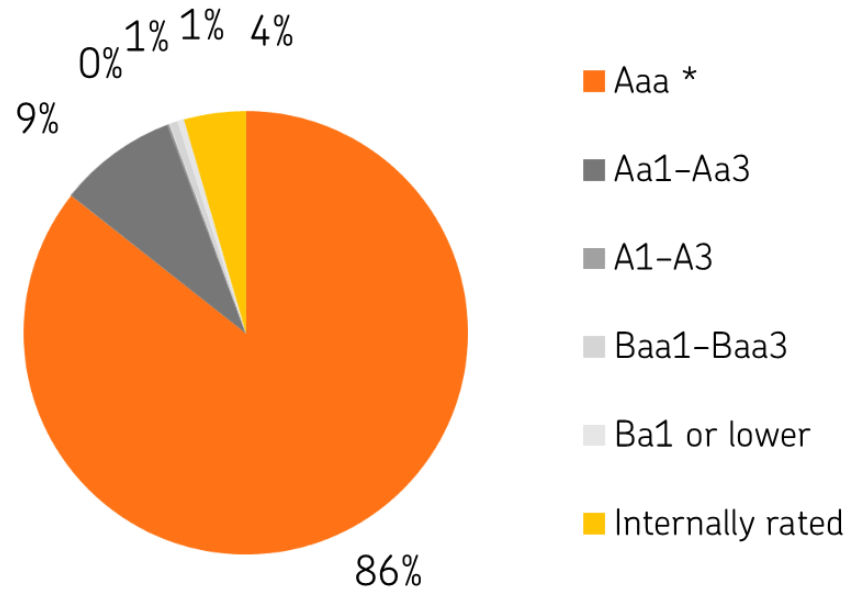
\* Excluding assets covering unit-linked insurance, interest rate derivatives hedging insurance liability and the separated balance sheets.



# Liquidity and Funding

# Liquidity buffer includes highly-rated assets

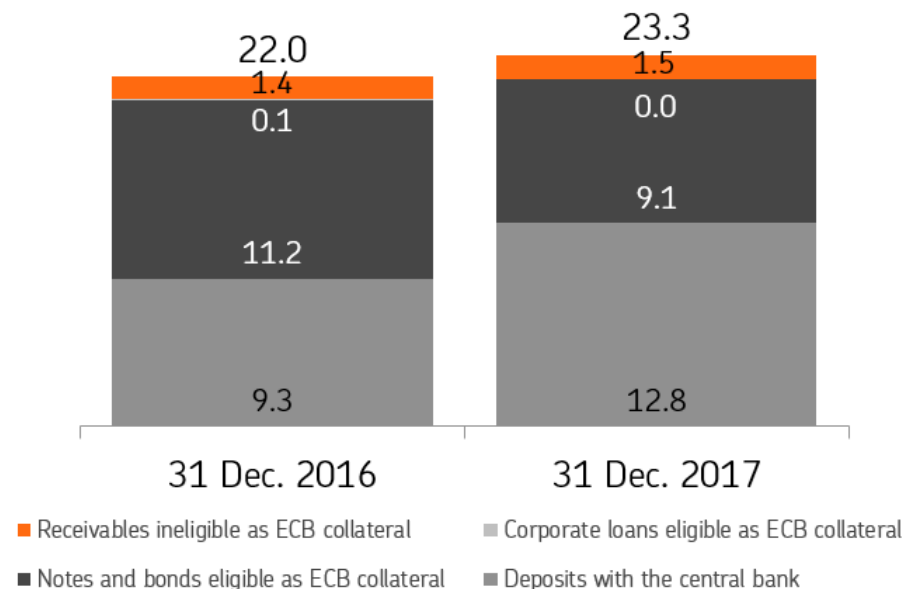
Liquidity buffer by credit rating as of 31 December 2017



\*incl. deposits with central banks

# Liquidity buffer €23.3 billion at year-end

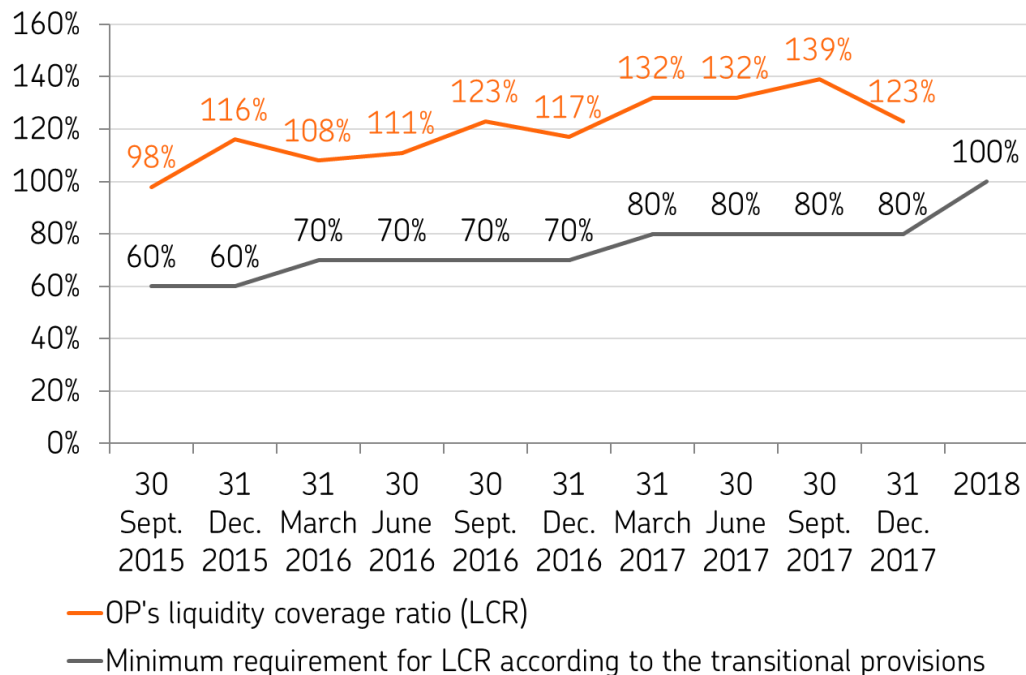
Liquidity buffer breakdown, € billion



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 123% at year-end



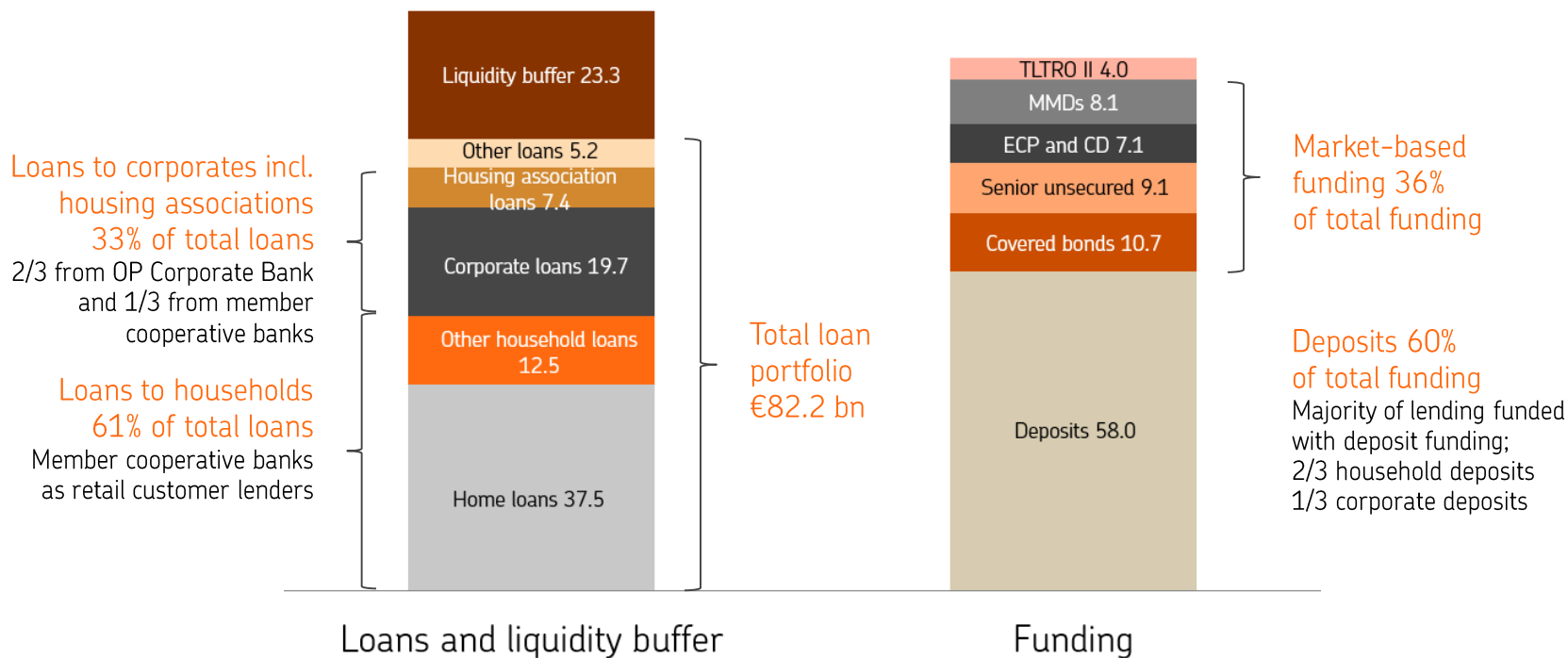
OP monitors its liquidity and the adequacy of its liquidity buffer using LCR.

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

31 December 2017

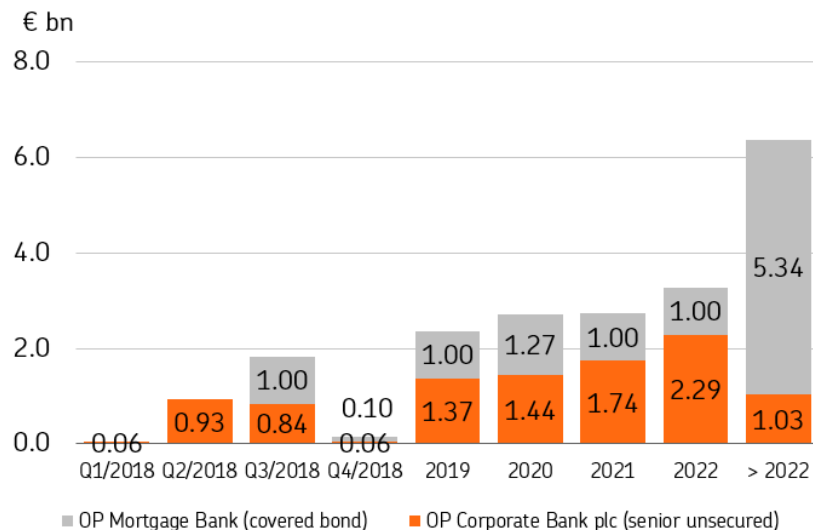
€ billion





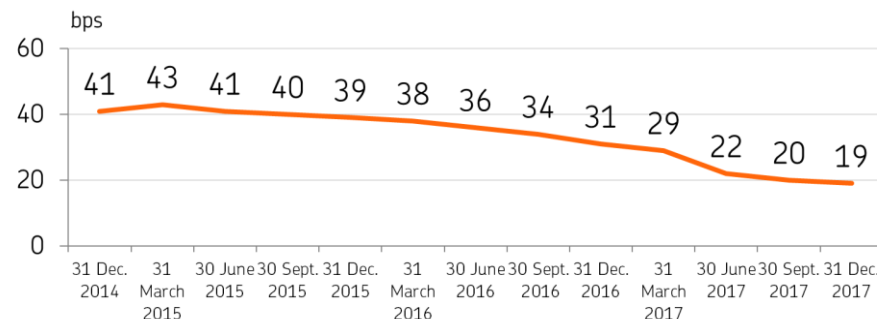
# Maturity breakdown and average margin of long-term wholesale funding

Issued senior unsecured and covered bonds by maturity, 31 December 2017



OP issued long-term bonds worth €4.0 billion during 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 long-term 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	November	€1 bn	5.25 years	m/s -13 bps
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



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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

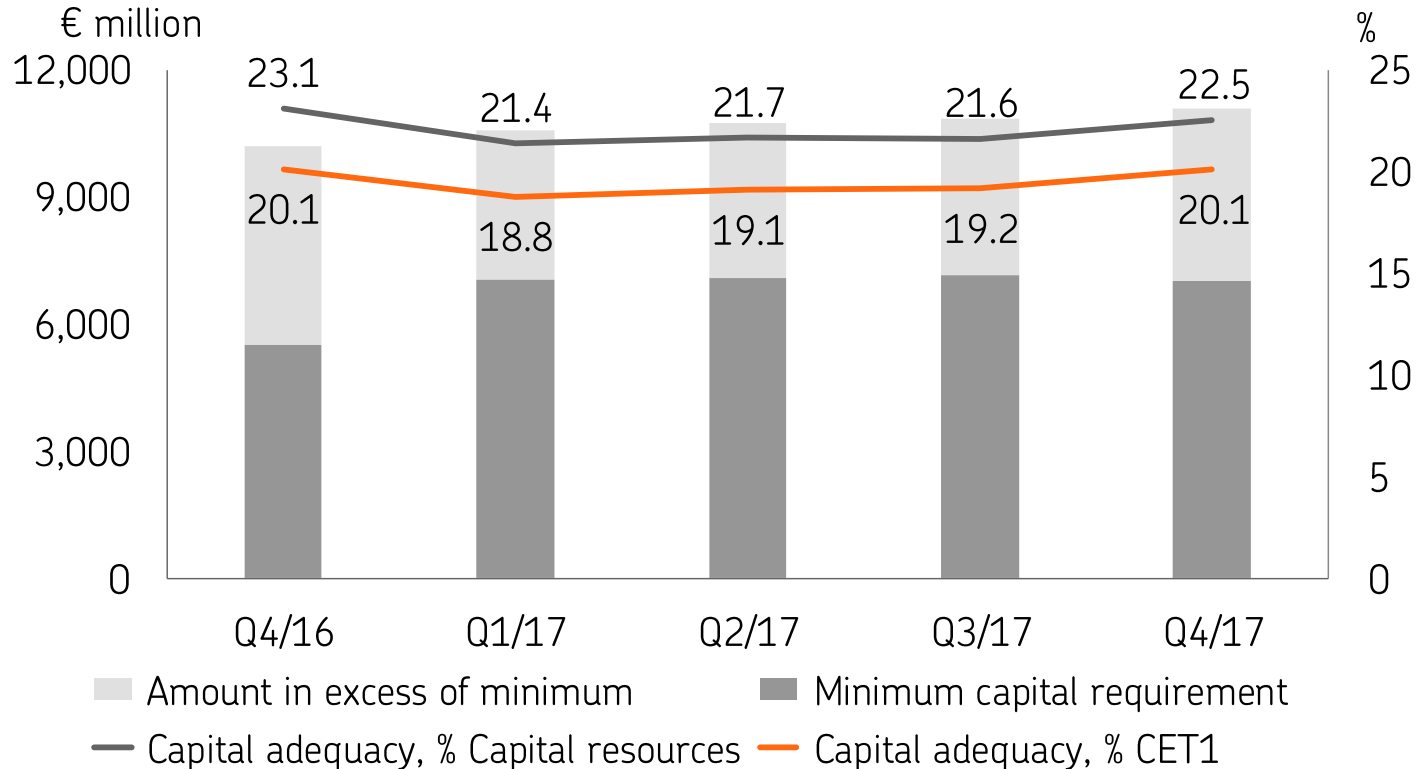
- The operations and solvency requirements for insurance companies are based on the Insurance Companies Act and EU regulation.
- The solvency capital requirement (SCR) is calculated for individual insurance companies. The companies are required to cover SCR using the Group's sufficient buffer specified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

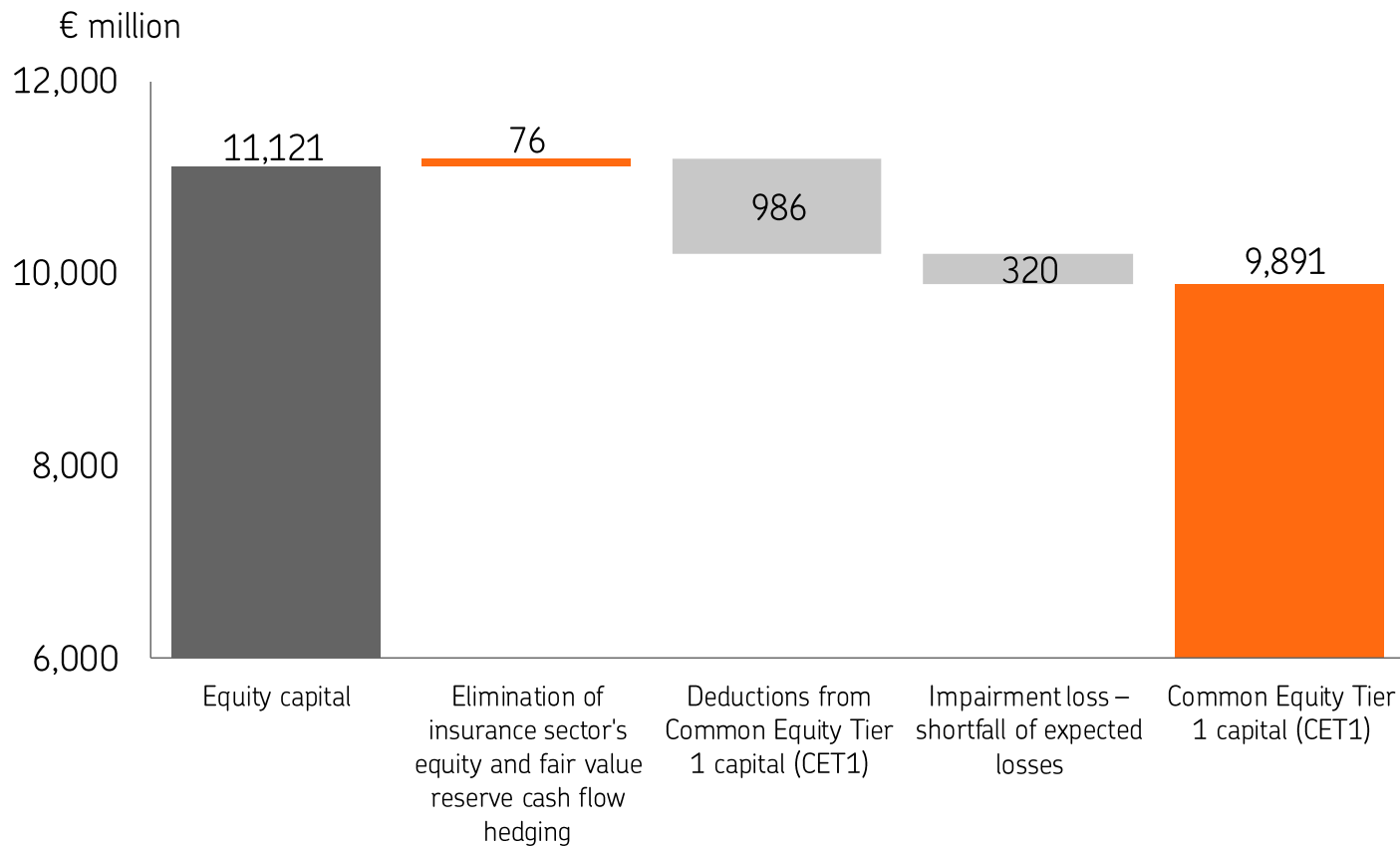
# Amalgamation of cooperative banks

## Capital base and capital adequacy

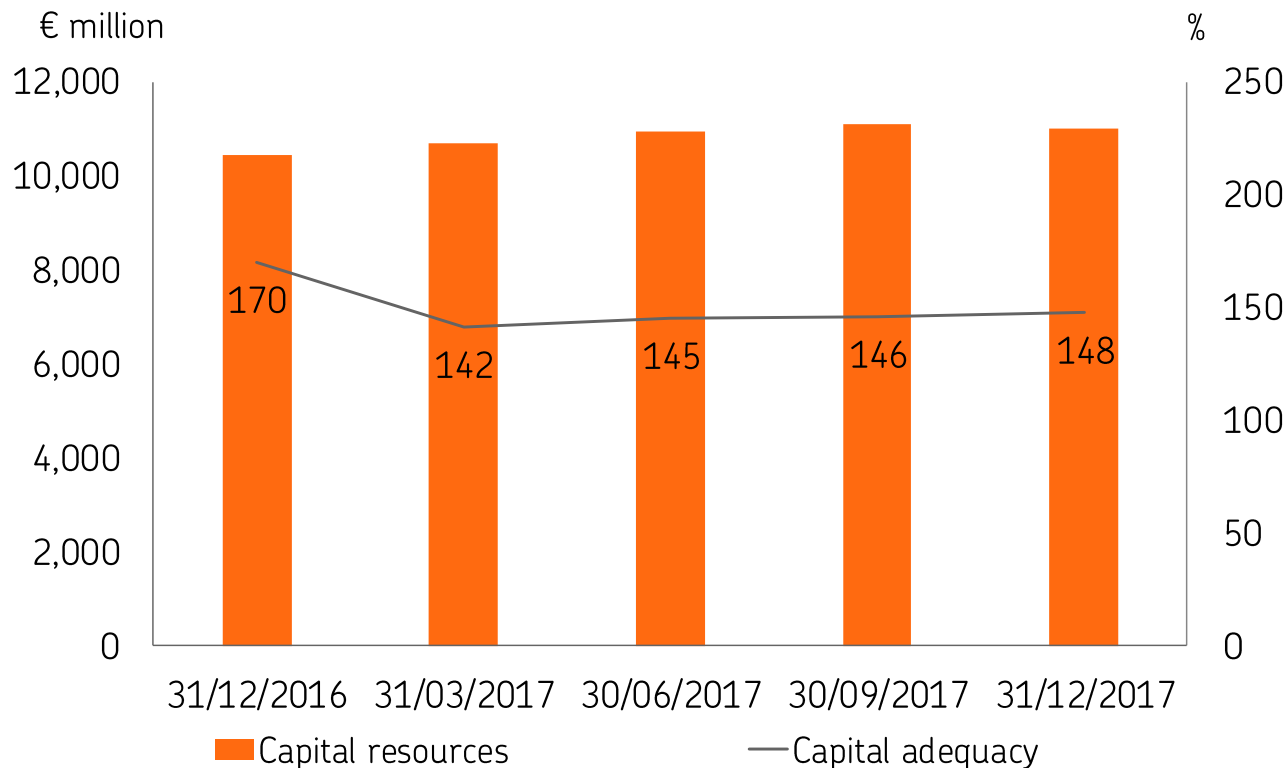


# Common Equity Tier 1 (CET1)

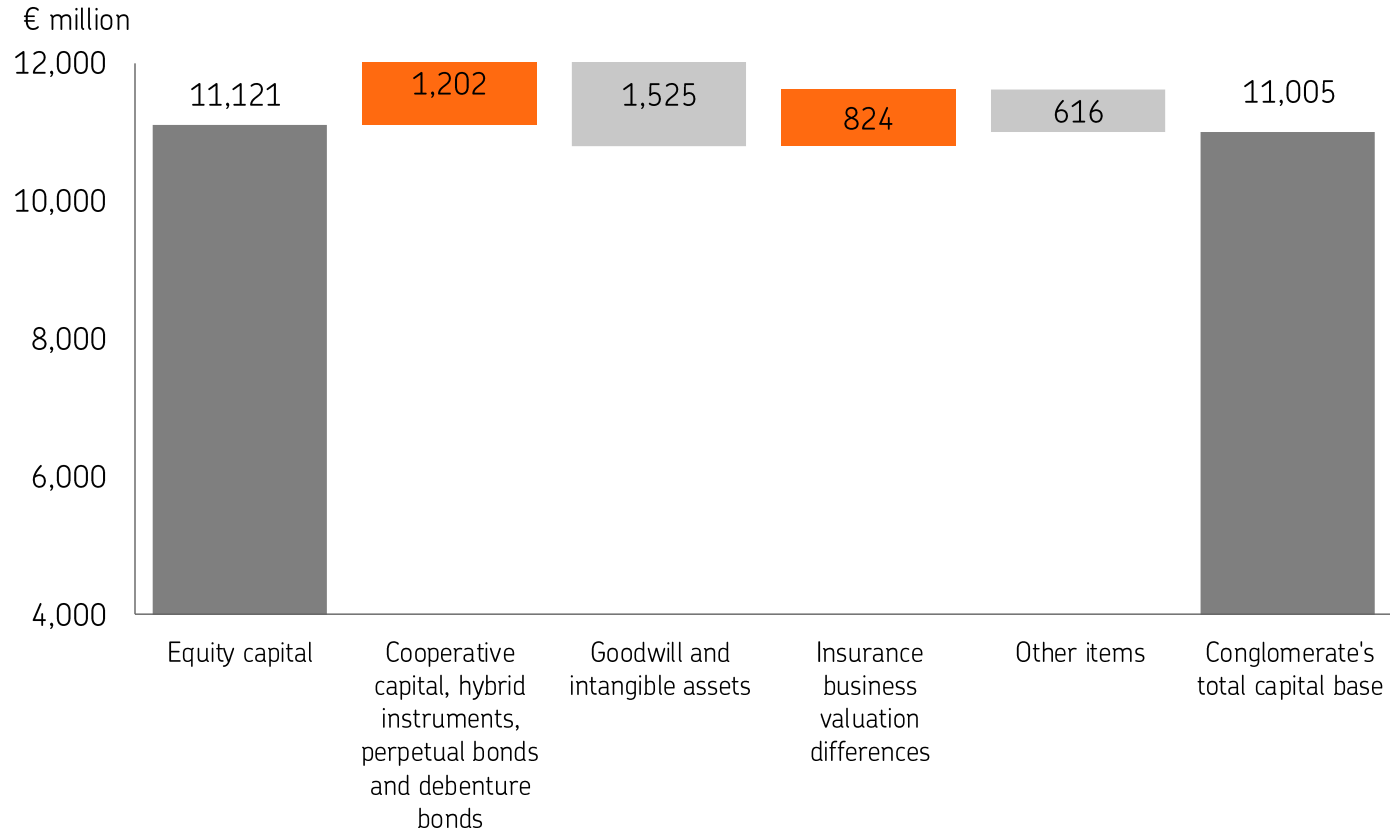
## 31 December 2017




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



# FiCo capital 31 December 2017





A top-down view of several pairs of snow-covered boots arranged in a circle on a snowy surface. The boots are of various colors, including brown, tan, and dark brown, and are all covered in a layer of white snow. The background is a bright, snowy surface. The text "OP in a nutshell" is overlaid on the left side of the image, with a white horizontal line above it.

OP in a nutshell

OP is a financial services group owned by its customers.

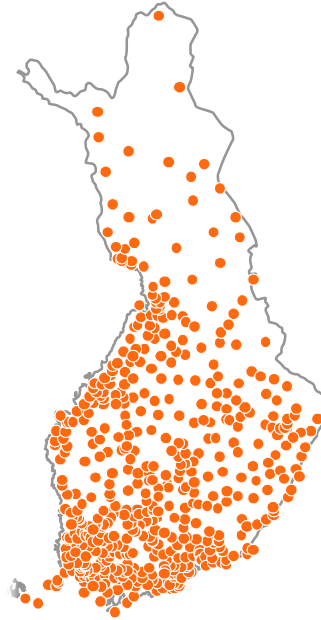
We promote our owner-customers' and operating environment's sustainable financial prosperity, safety and wellbeing. Finnish roots, Finland's most extensive service network and true customer focus make us a unique play in many ways.

We aim to gradually change from a plain financial services provider to a diversified services company of the digital era.

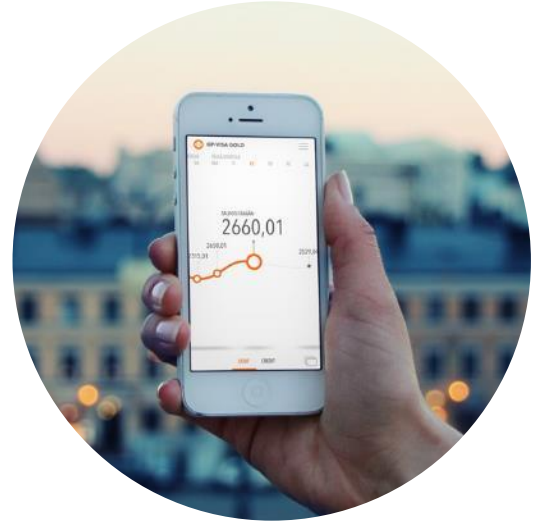
# OP in a nutshell



Approximately 1.8 million  
owner-customers



About 170  
Group member cooperative banks

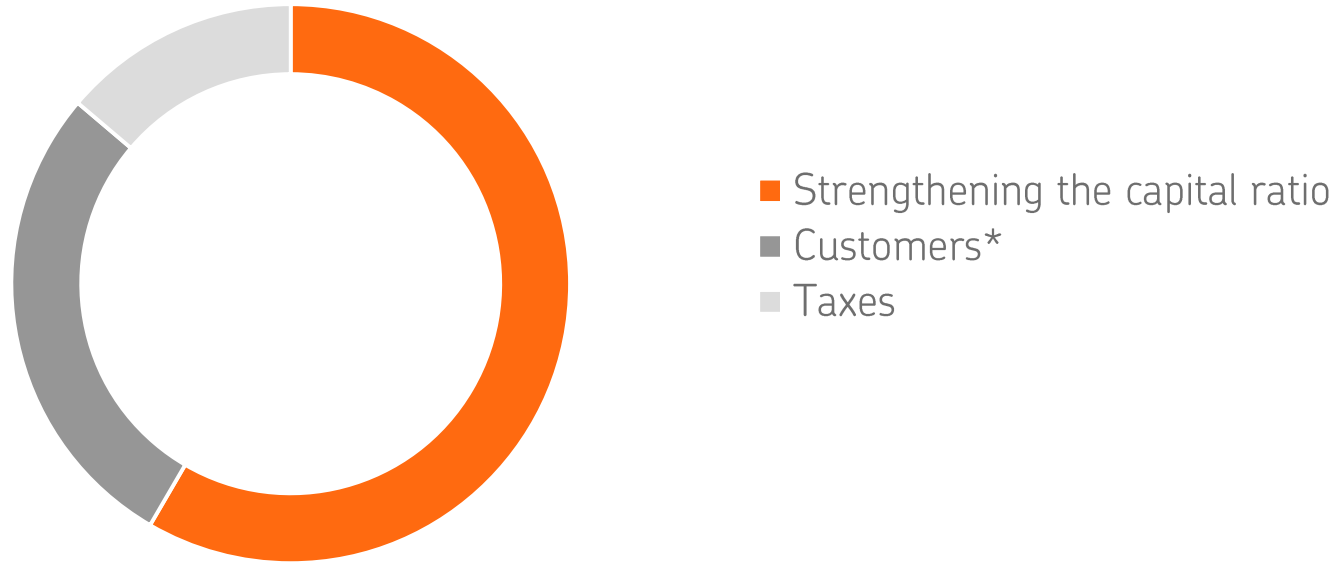


Hyperlocal digital  
financial services group

Our cooperative company form gives us a dual role which is also the foundation for our unique identity



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



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

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

# OP Financial Group's numerical targets

	31 Dec. 2017	Target 2019
Customer experience, NPS (-100–+100)		
Brand	21.5	25
Service	58	70, over time 90
CET1 ratio, %	20.1	22
Return on economic capital, % (12-month rolling)	21.3	22
Expenses of present-day business (12-month rolling), € million	1 661	Expenses for 2020 at 2015 level (1,500)
Owner-customers, million	1.8	2.1 (2019)

# OP Financial Group's service channels

	1–31 Dec. 2017	31 Dec. 2017	12-month change
Online and mobile services			
Op.fi visits	9,232,221		-5%
OP-mobile visits (private customers)	17,369,654		+33%
OP Business mobile visits	360,358		+787%
Pivo mobile application visits	2,400,192		+38%
eServices Agreements (private customers)		1,809,432	+73,565
Branches and telephone services			
Bank branches		407	-35
Providing both non-life insurance and banking services		333	-6
Private Banking branches		42	+3
Customer contacts in telephone service	267,584		-35,966
Social media			
Followers on Facebook (OP Financial Group and member cooperative banks)		313,387	+59,061
Followers on Twitter		26,870	+2,916
Followers on LinkedIn		19,184	+7,345
Followers on Instagram		6,581	+ 2,228



# 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 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 Customer 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.





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Let's take care of ourselves.