



# OP Financial Group's Interim Report 1 January – 30 June 2018

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# OP Financial Group's Interim Report

# OP Financial Group's key figures and ratios

## Full-year earnings are expected to be at about the same level as in 2017

	Q1-2/2018	Q1-2/2017	Change, %	Q1-4/2017
Earnings before tax, EUR million	425	560	-24.0	1,031
Banking	333	314	5.9	619
Non-life Insurance	64	107	-40.1	210
Wealth Management	94	93	1.5	247
Other operations	-66	45		-45
New OP bonuses accrued to owner-customers	-113	-108	4.5	-220
	30 June 2018	30 June 2017	Change, %	31 December 2017
CET1 ratio, %	19.8	19.1	0.7 *	20.1
Ratio of capital base to minimum amount of capital base (under the Act on the Supervision of Financial and Insurance Conglomerates) % ***	146	145	1 *	148
Return on economic capital, % **	18.3	21.3	-3.0 *	20.4
Return on equity (ROE), %	6.0	8.8	-2.8 *	7.7
Return on assets (ROA), %	0.48	0.69	-0.2 *	0.6
Ratio of non-performing receivables to loan and guarantee portfolio, % ****	1.2	1.3	-0.1 *	1.2
Owner customers (1,000)	1,865	1,786	4.5	1,833

\* Change in ratio

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

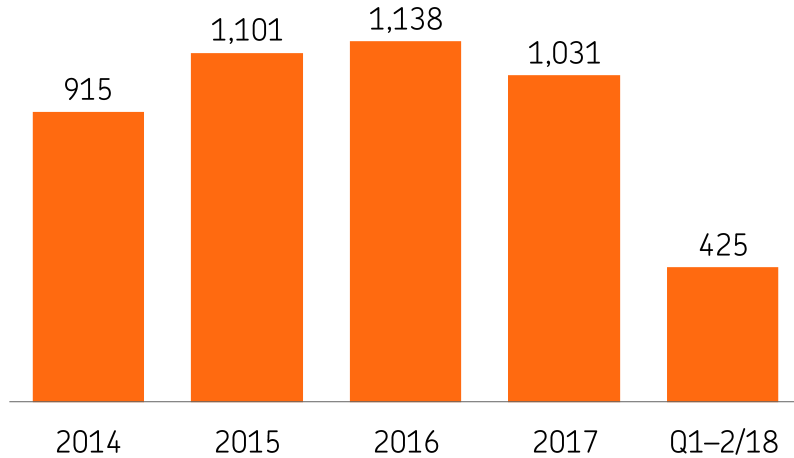
\*\*\* 12-month rolling

\*\*\*\* 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.

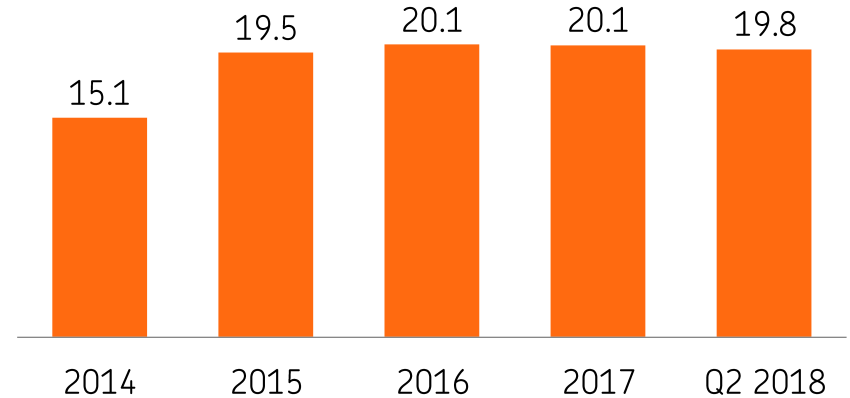
- Earnings before tax amounted to EUR 425 million (560).
- Income from customer business on the increase: net interest income and net insurance income were 7% and net commissions and fees 2% higher than the year before.
- CET1 ratio was 19.8%, or at the previous year-end level.
- Earnings before tax for 2018 are expected to be at about the same level as in 2017 (lower in the previous estimate).

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

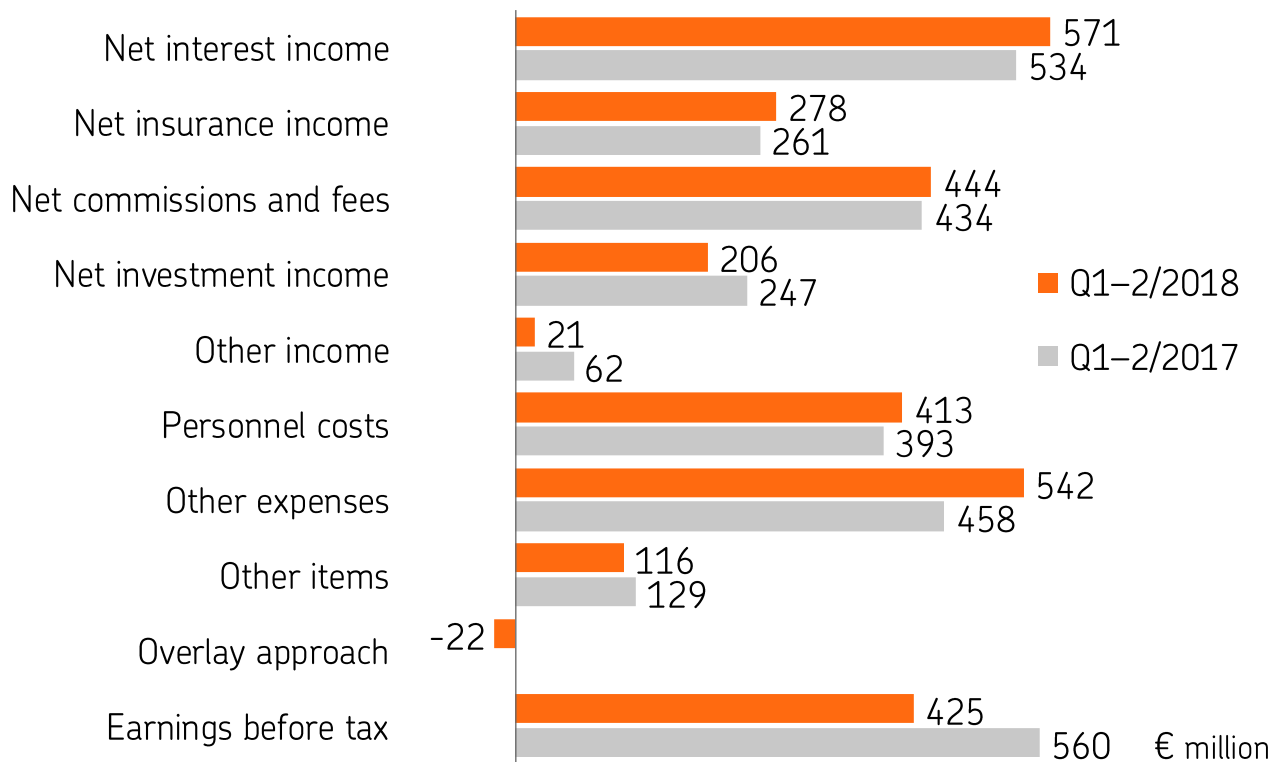
Earnings before tax, € million



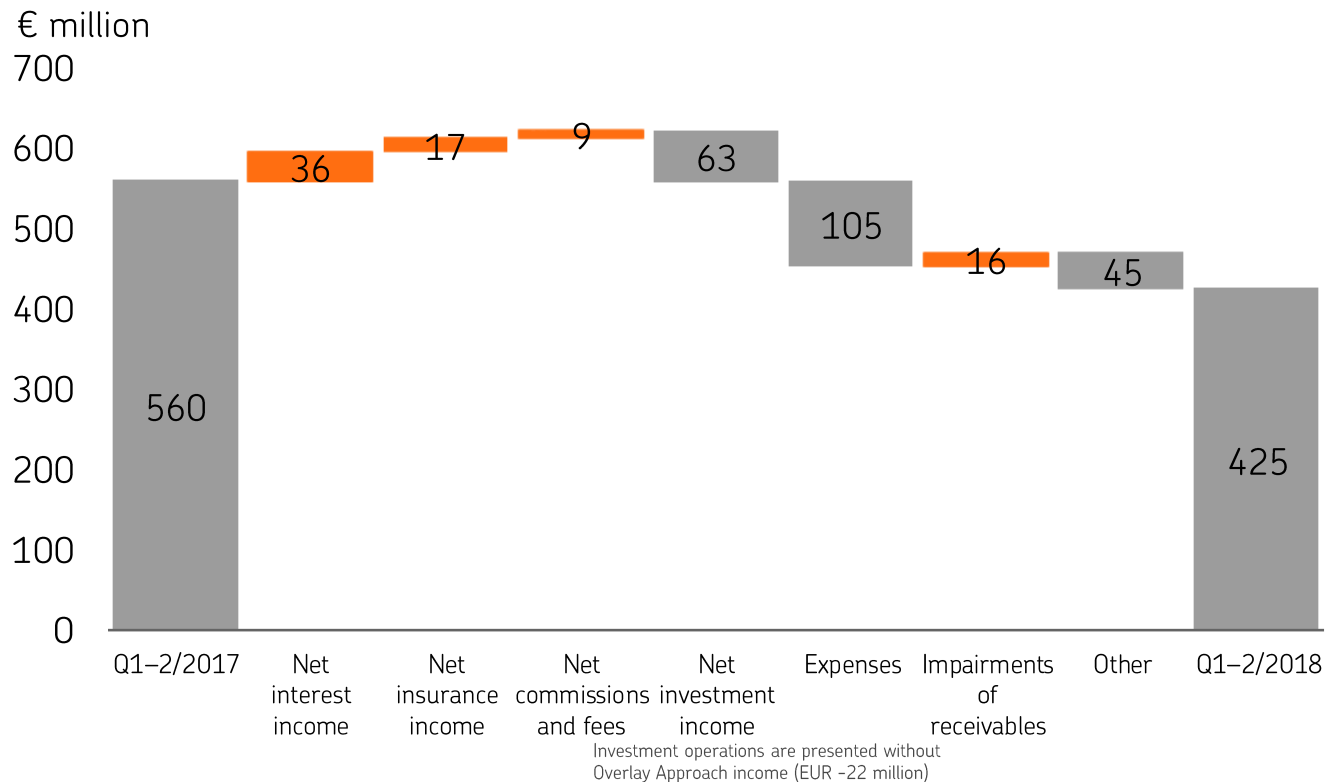
Common Equity Tier 1 ratio (CET1),%



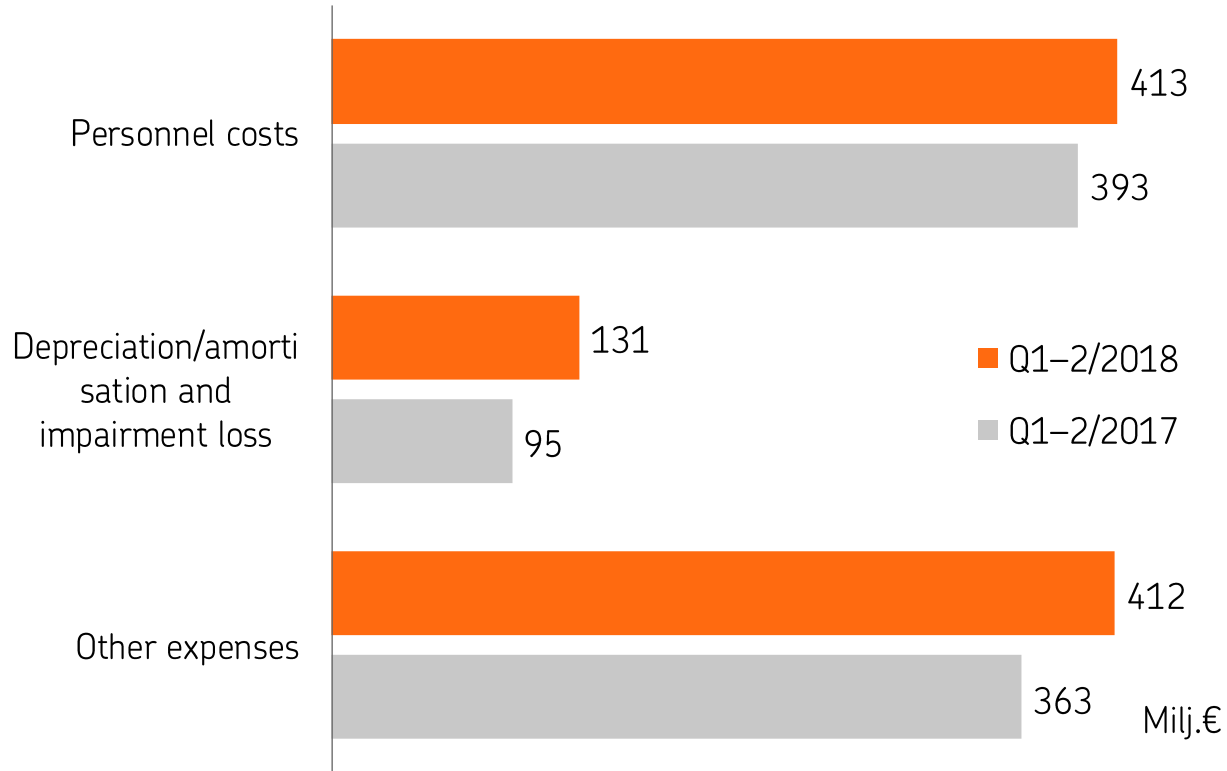
# OP Financial Group's main income statement items



# Lower investment income and growth in development costs shows in OP Financial Group's financial performance

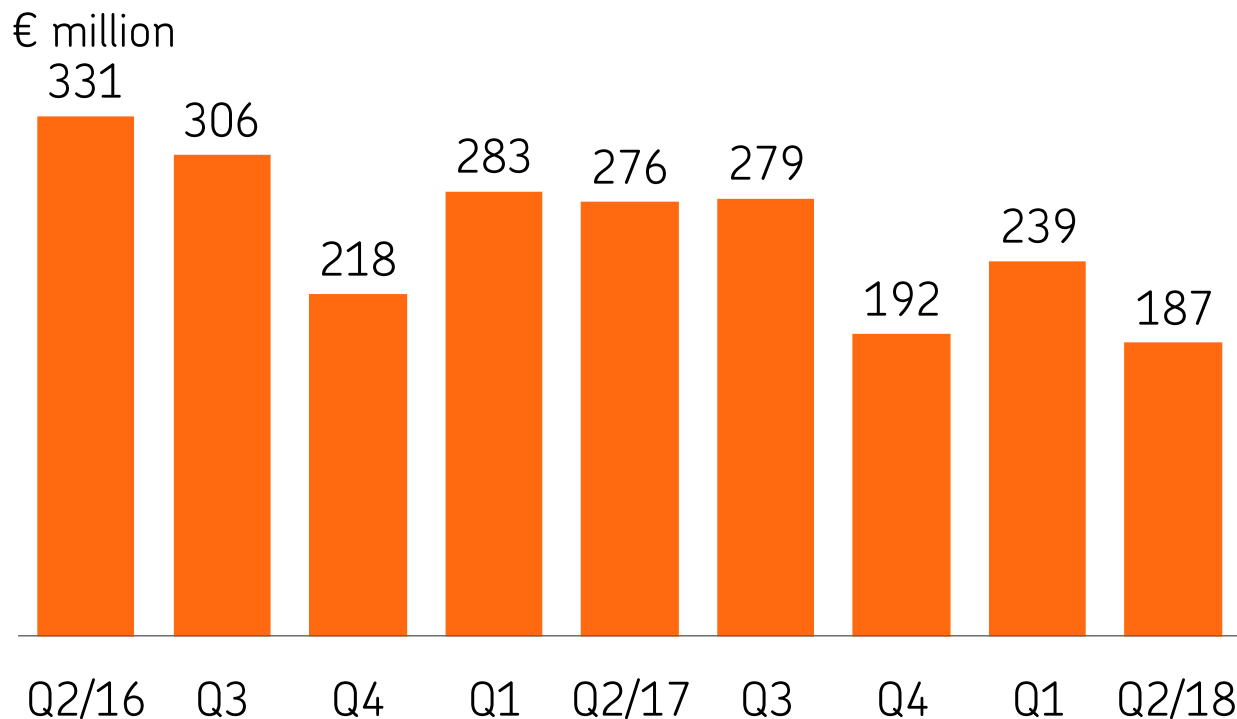


# OP Financial Group's cost performance

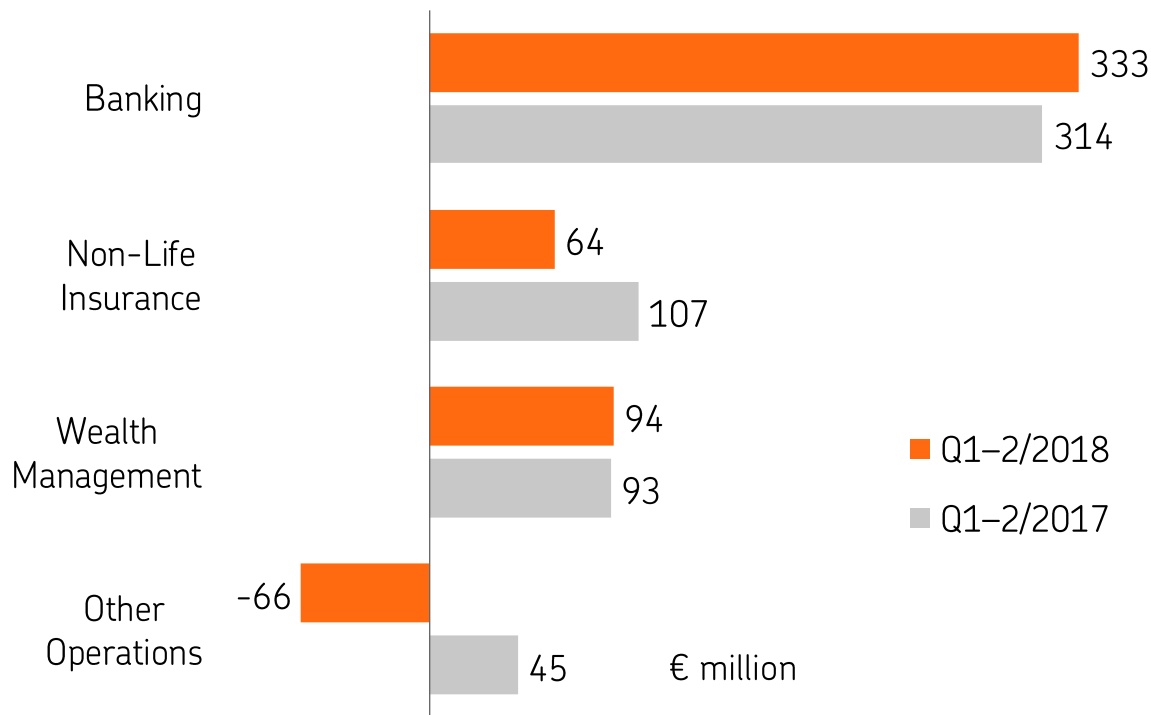




# OP Financial Group's EBT by quarter



# OP Financial Group's EBT by business segment



# OP Financial Group's income statement

January 1 to June 30	2018	2017	Change, €million	%
Net interest income	571	534	36	6.8
Net insurance income	278	261	17	6.6
Net commissions and fees	444	434	9	2.1
Net investment income	206	247	-41	-16.7
Other operating income	21	62	-41	-66.1
<b>Total income</b>	<b>1,520</b>	<b>1,539</b>	<b>-19</b>	<b>-1.3</b>
Personnel costs	413	393	20	5.2
Other expenses	542	458	85	18.5
<b>Total expenses</b>	<b>956</b>	<b>851</b>	<b>105</b>	<b>12.4</b>
Impairment loss on receivables	-7	-23	16	-70.4
OP bonuses	-109	-106	-4	3.5
Overlay approach	-22	0	-22	
<b>Earnings before tax</b>	<b>425</b>	<b>560</b>	<b>-134</b>	<b>-24.0</b>

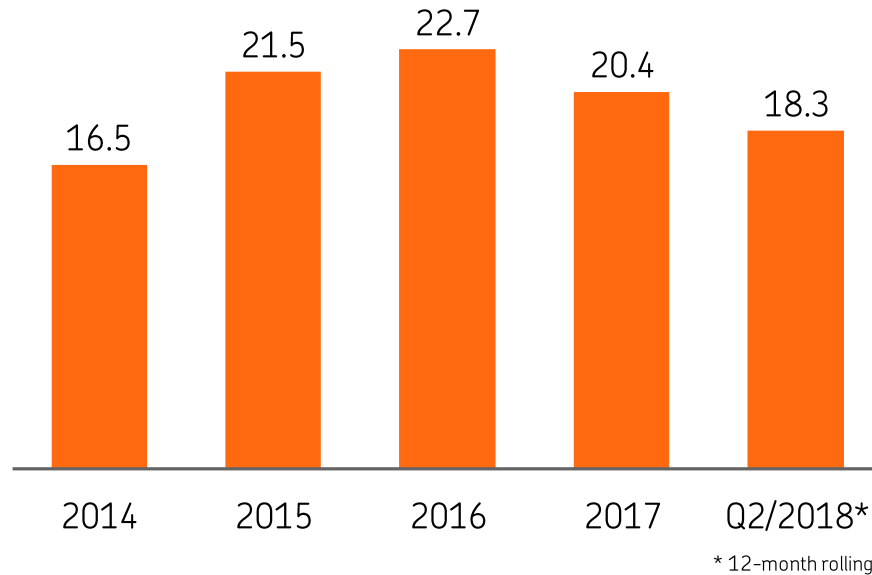
# OP Financial Group's quarterly performance

€ million	Q1	Q2	Q3	Q4/2017	Q1	Q2/2018
Net interest income	260	274	287	281	282	289
Net insurance income	117	145	80	137	127	151
Net commissions and fees	226	209	203	242	232	212
Net investment income	124	123	171	104	79	127
Other operating income	31	32	12	8	12	9
<b>Total income</b>	<b>757</b>	<b>782</b>	<b>753</b>	<b>772</b>	<b>732</b>	<b>788</b>
Personnel costs	202	191	171	193	204	209
Other expenses	213	244	242	310	252	290
<b>Total expenses</b>	<b>415</b>	<b>436</b>	<b>414</b>	<b>503</b>	<b>456</b>	<b>500</b>
Impairments of receivables	-8	-15	-5	-20	-4	3
OP bonuses to owner-customers	-51	-55	-55	-56	-52	57
Overlay approach					19	-41
<b>Earnings before tax</b>	<b>283</b>	<b>276</b>	<b>279</b>	<b>192</b>	<b>239</b>	<b>187</b>

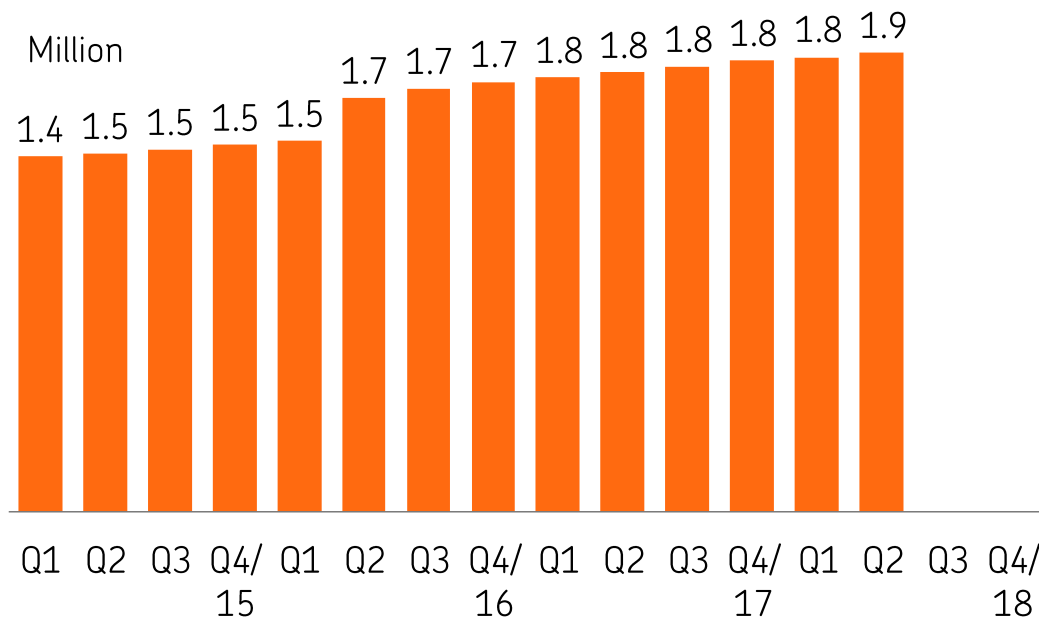


# Long-term return target at 22%

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.

A close-up photograph of an orange quilted bag with a blue zipper. A smartphone is partially visible inside the bag. The word "Banking" is written in white text on the left side of the image.

# 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 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 2018

EBT

EUR 333 million

Loan portfolio

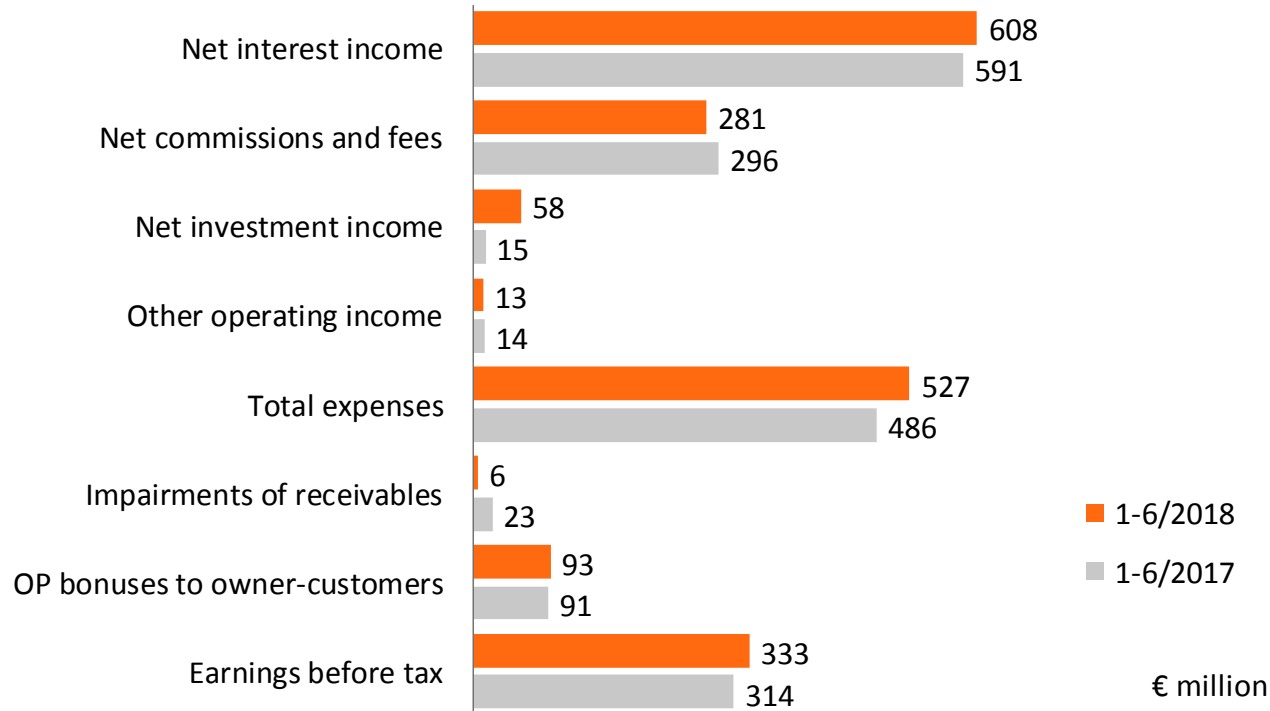
EUR 84.4 billion

Total deposits

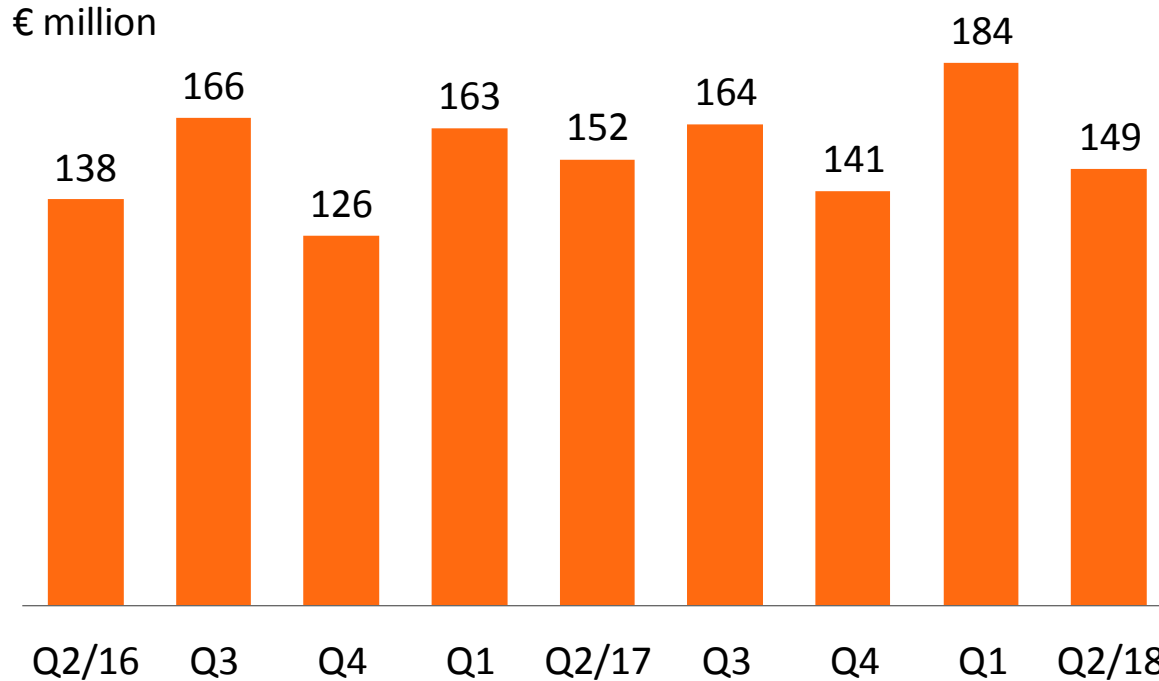
EUR 61.4 billion



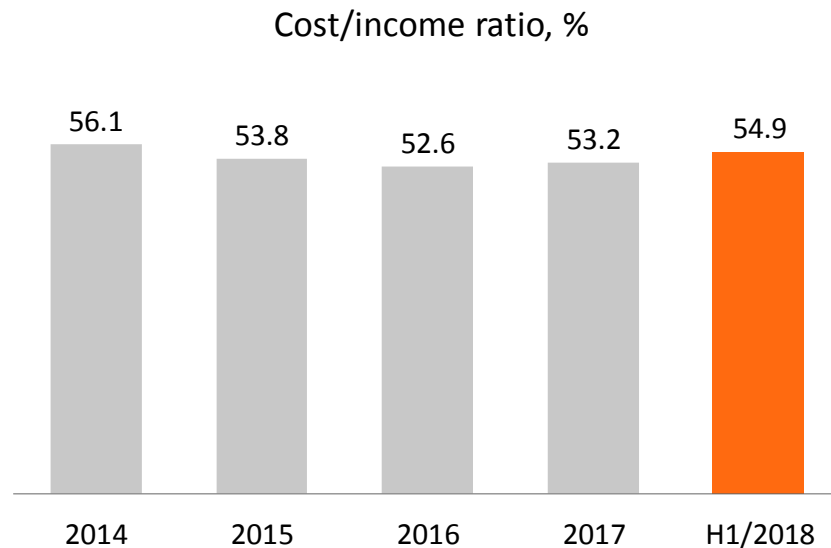
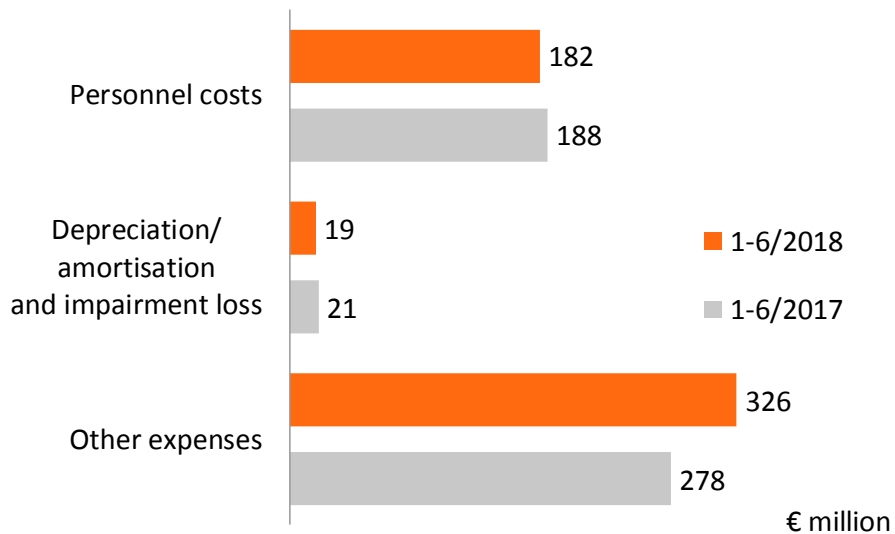
# EBT of €333 million, up 6%



# Earnings before tax were almost at the level of Q2 last year

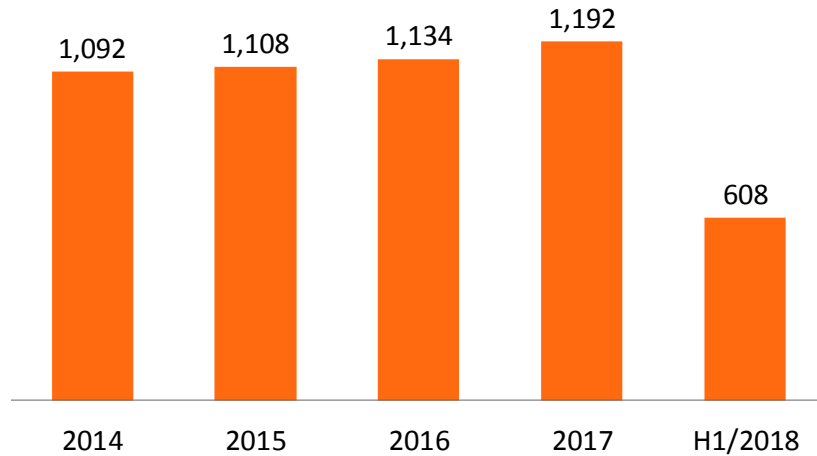


# Banking's personnel costs decreased

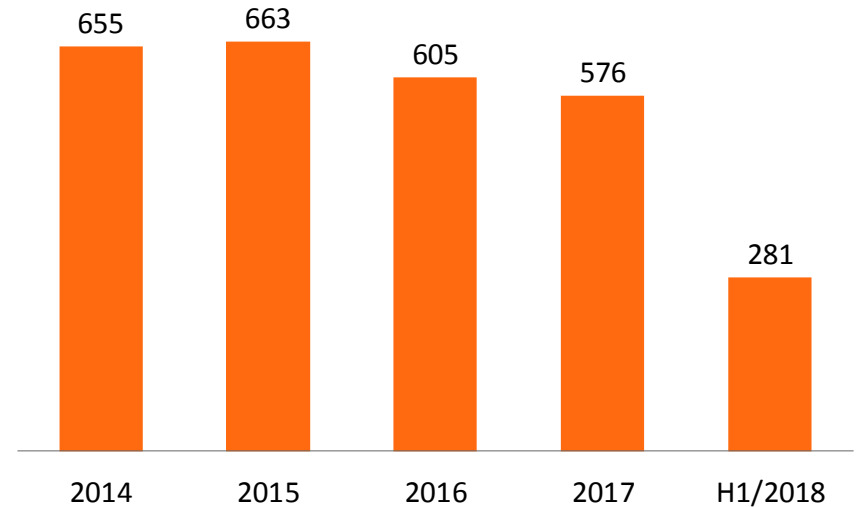


# Net interest income grew by 3% in the first half

Net interest income, € million



Net commissions and fees, € million

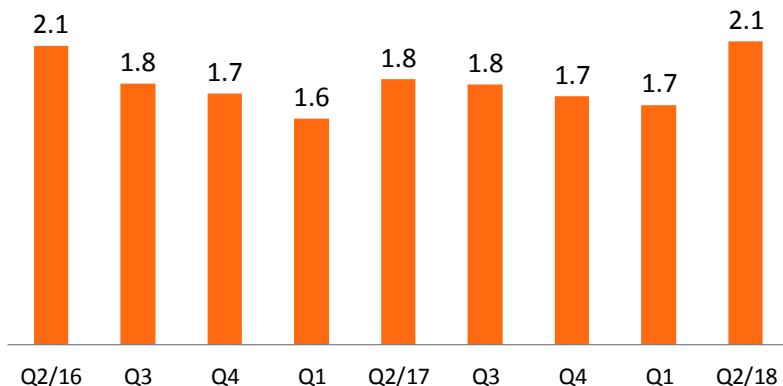




# More home loans were drawn than during the same period last year

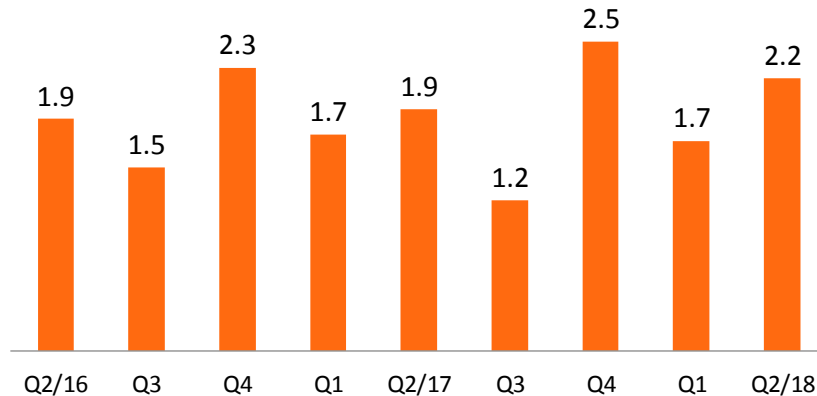
## Home loans drawn down

€ billion

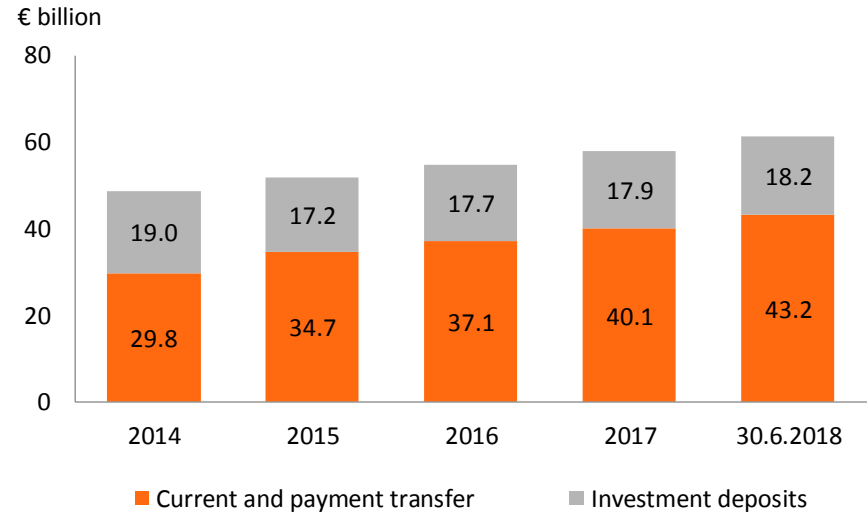
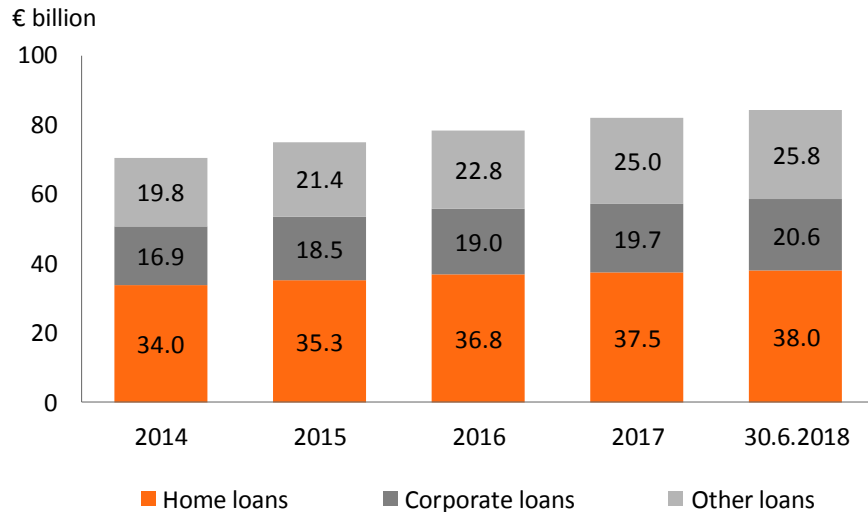


## Corporate loans

€ billion



# The Banking loan portfolio grew by 5.3% and the deposit portfolio by 7.3%



# OP Financial Group's loan and guarantee portfolio grew by 5.2%

€ million	30 June 2018	30 June 2017	Change	
			€ million	%
<b>Enterprises and housing associations</b>	<b>33,350</b>	<b>31,212</b>	<b>2,138</b>	<b>6.9</b>
Renting and operating of residential real estate	7,034	6,398	636	9.9
Renting and operating of other real estate	4,349	4,163	186	4.5
Wholesale and retail trade	3,331	3,274	57	1.7
Energy	3,041	2,643	398	15.1
Services	2,810	2,324	487	20.9
Construction	2,680	2,486	194	7.8
Transportation and storage	1,784	1,718	66	3.8
Manufacture of machinery and equipment (incl. services)	1,598	1,618	-21	-1.3
Agriculture, forestry and fishing	1,387	1,244	143	11.5
Financial and insurance services	1,217	1,018	199	19.6
Metal Industry	762	726	36	4.9
Forest Industry	708	761	-52	-6.9
Food Industry	657	614	43	7.0
Real estate investments	510	766	-256	-33.4
Chemical Industry	493	421	72	17.1
Other industries	988	1,038	-50	-4.8
<b>Public corporations and non-profit organisations</b>	<b>2,248</b>	<b>1,718</b>	<b>530</b>	<b>30.8</b>
<b>Households</b>	<b>50,734</b>	<b>49,409</b>	<b>1,325</b>	<b>2.7</b>
Adjustments	764	485	279	0.0
<b>Total</b>	<b>87,096</b>	<b>82,824</b>	<b>4,272</b>	<b>5.2</b>



# 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 2018

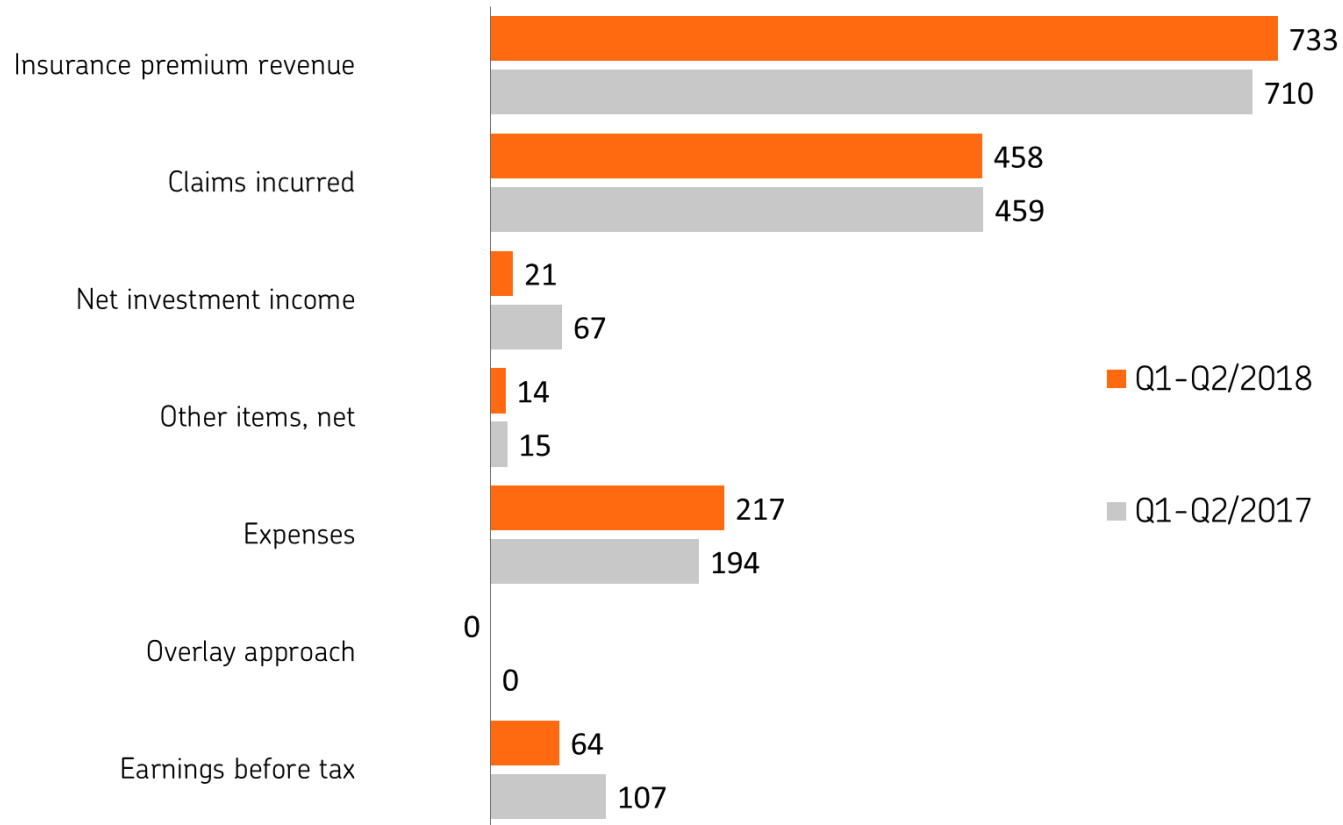
EBT

EUR **64** million

Insurance premium  
revenue

EUR **733** million

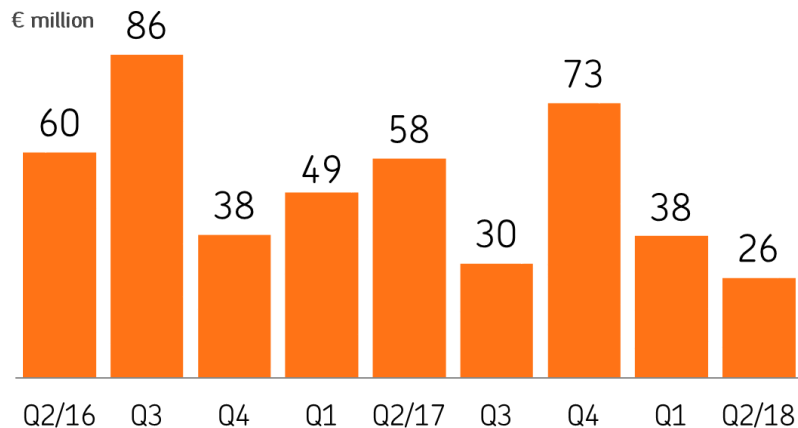
# Non-life Insurance EBT, € million



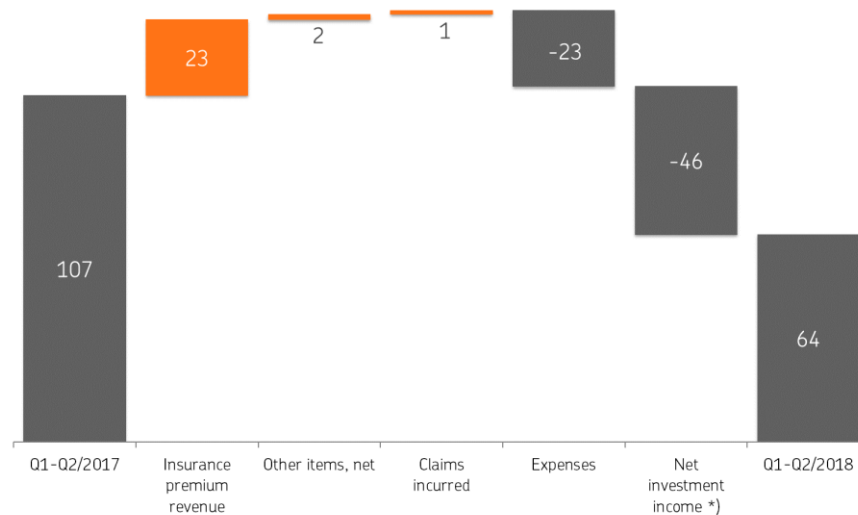


# Lower investment income reduced earnings

Earnings before tax by quarter, € million

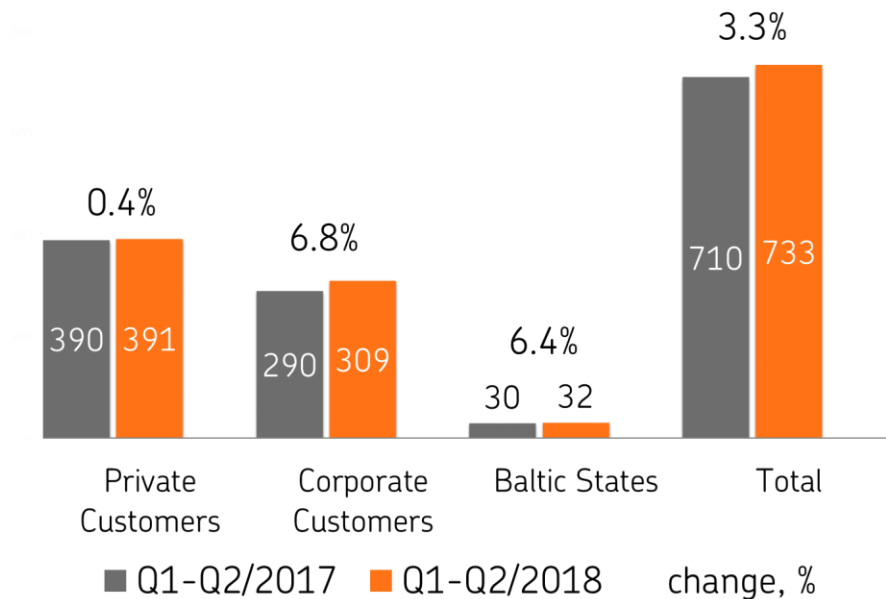


Earnings before tax, € million  
change Q1-Q2/18 vs. Q1-Q2/17



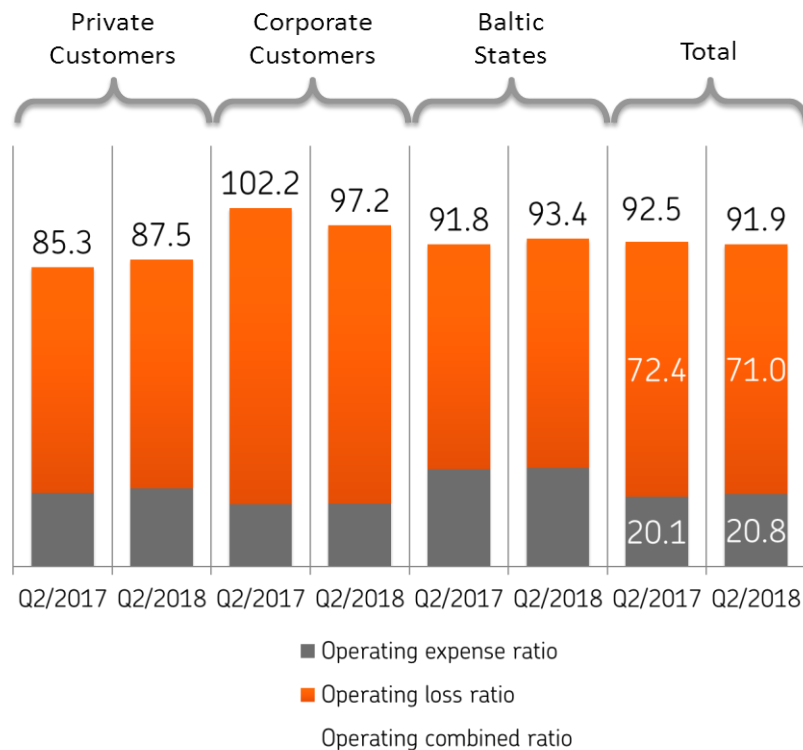
# Growth in insurance premium revenue stemmed from Corporate Customers

Insurance premium revenue, € million and change by division  
Q1-Q2/2018 vs. Q1-Q2/2017



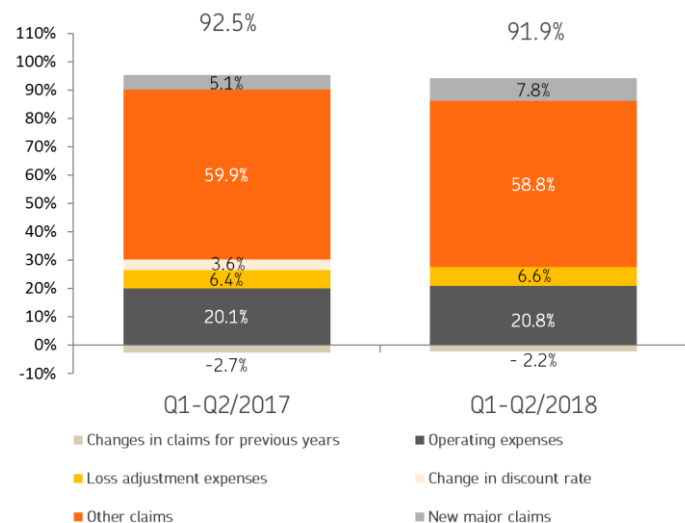
# Balance on technical account

Operating combined ratio by division Q1-Q2/2018 vs. Q1-Q2/2017, %

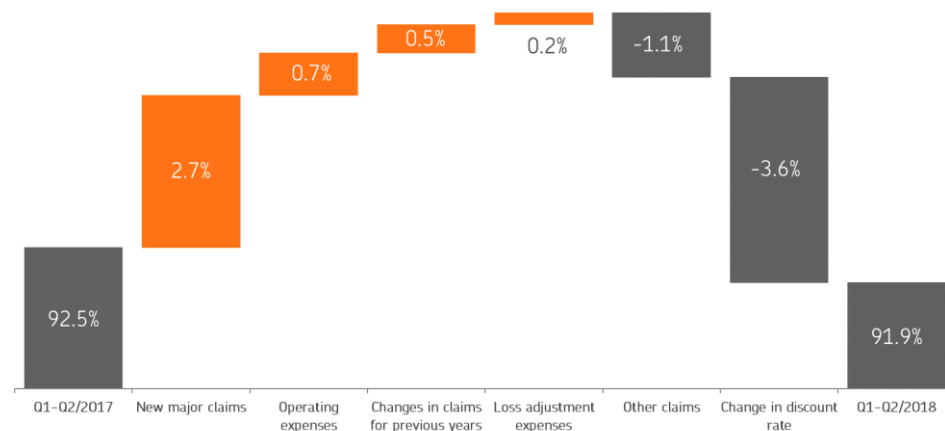


# Balance on technical account

Operating combined ratio  
by component, %

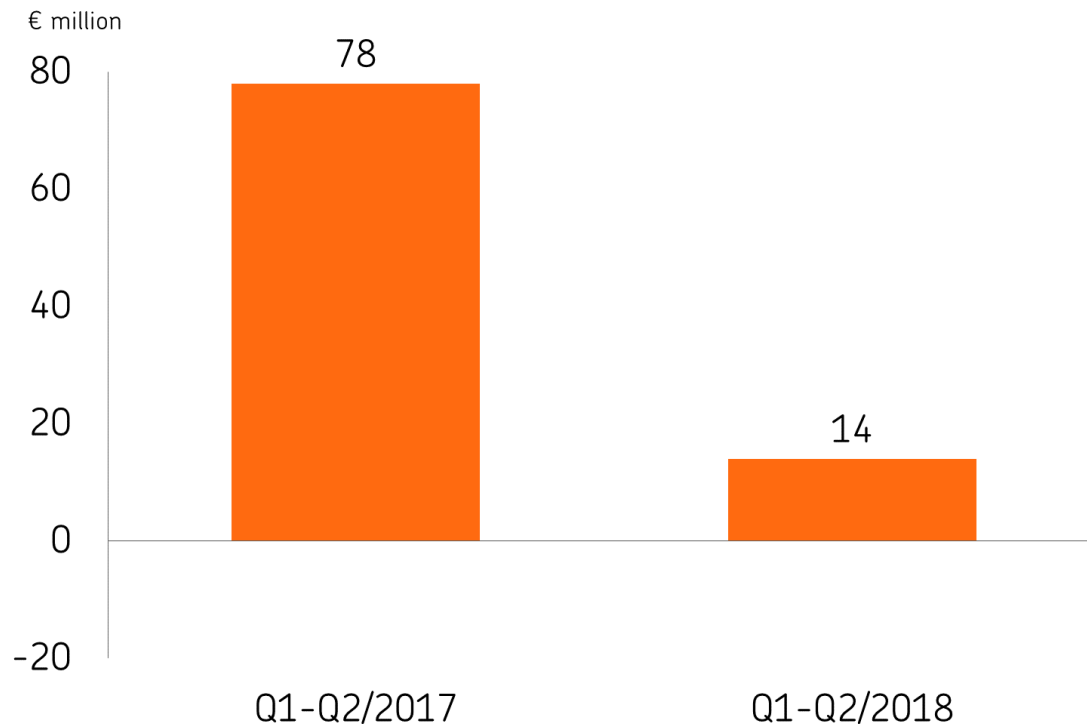


Change in operating combined ratio, %



Changes in provisions for claims for previous years (run off result), excl. the effect of the reduction in the discount rate, improved the balance on technical account by €16 million (19) in January-June 2018.

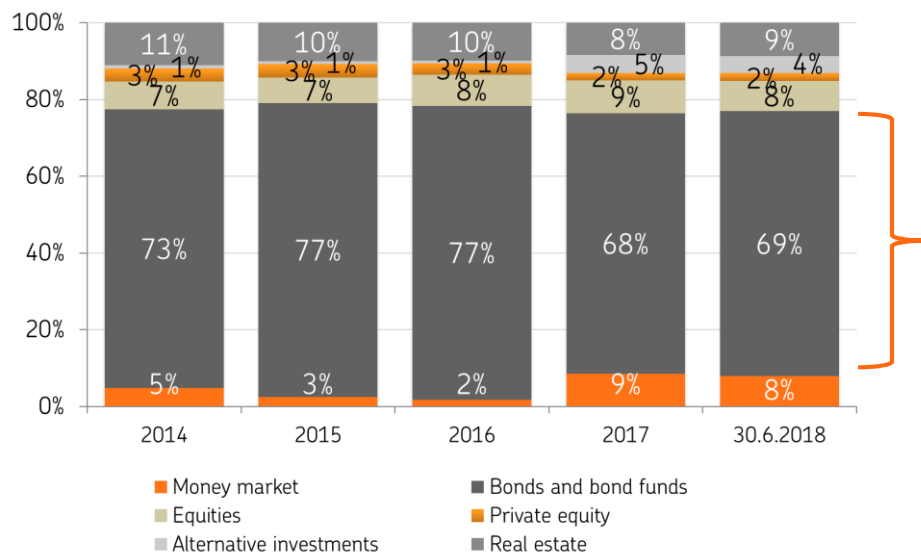
# Net return on investments at fair value\*, € million



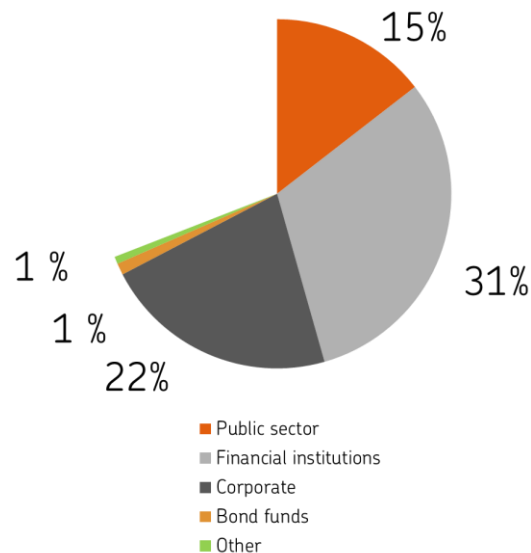
\*Net return on investments at fair value is calculated by deducting the value change in market-consistent insurance liability from income from total investment assets.

# Investment portfolio allocation

Investment portfolio (€3.8 bn) by asset class as of 30 June 2018



Bonds and bond funds (69%)



The duration of the fixed-income portfolio was 4.4 (5.3) years.

The running yield on direct bond investments was 1.5% (1.7) at the end of June 2018.



# 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.

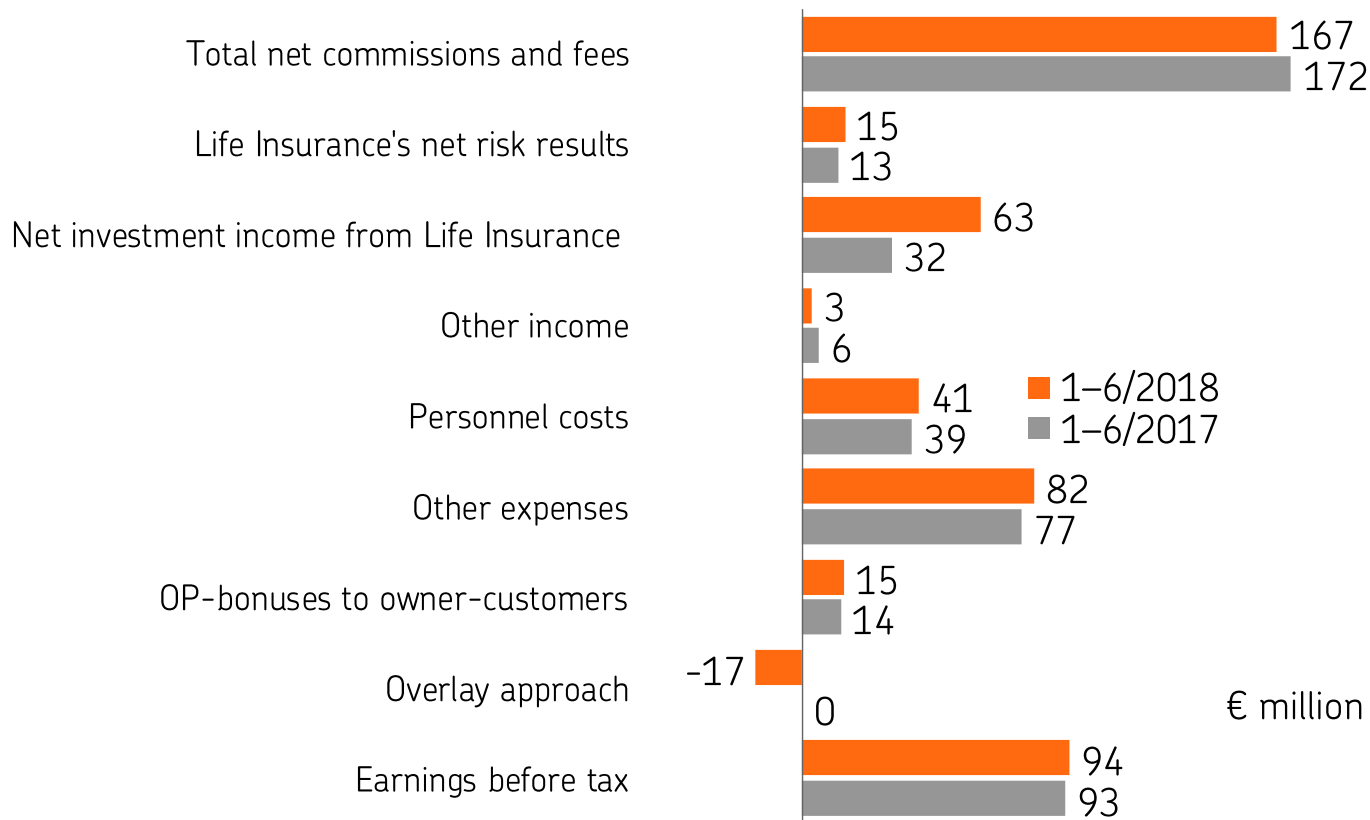
## Key figures H1 2018

EBT  
EUR 94 million

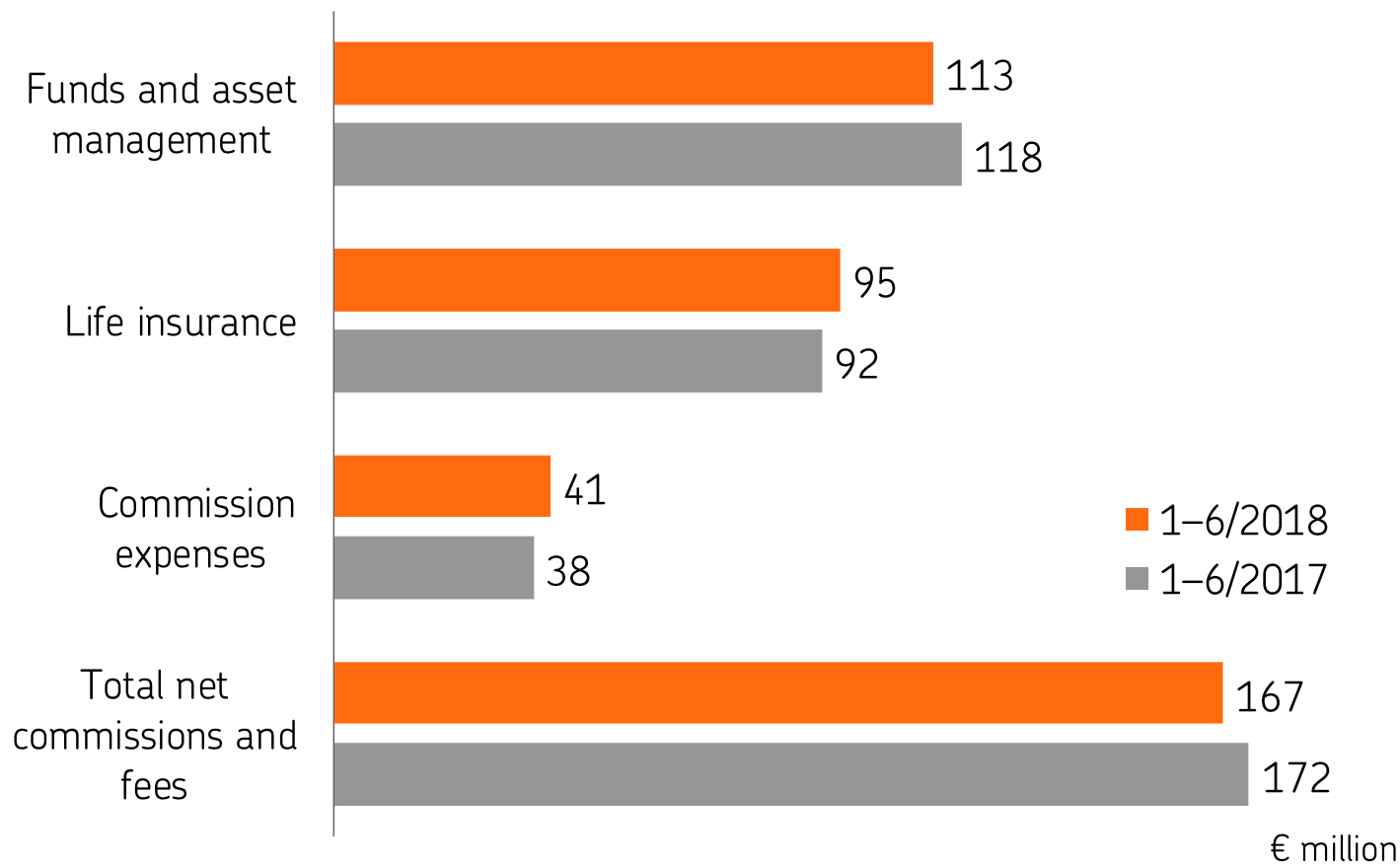
Assets under  
management  
EUR 77.7 billion



# Wealth Management income statement

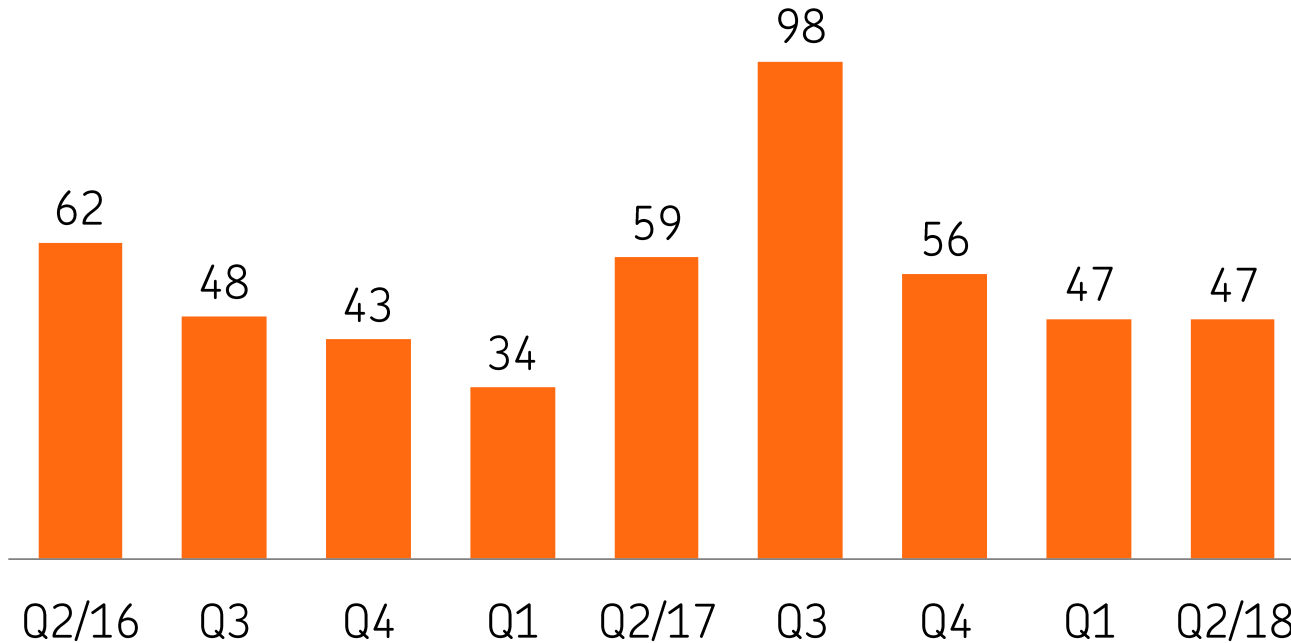


# Wealth Management net commissions and fees



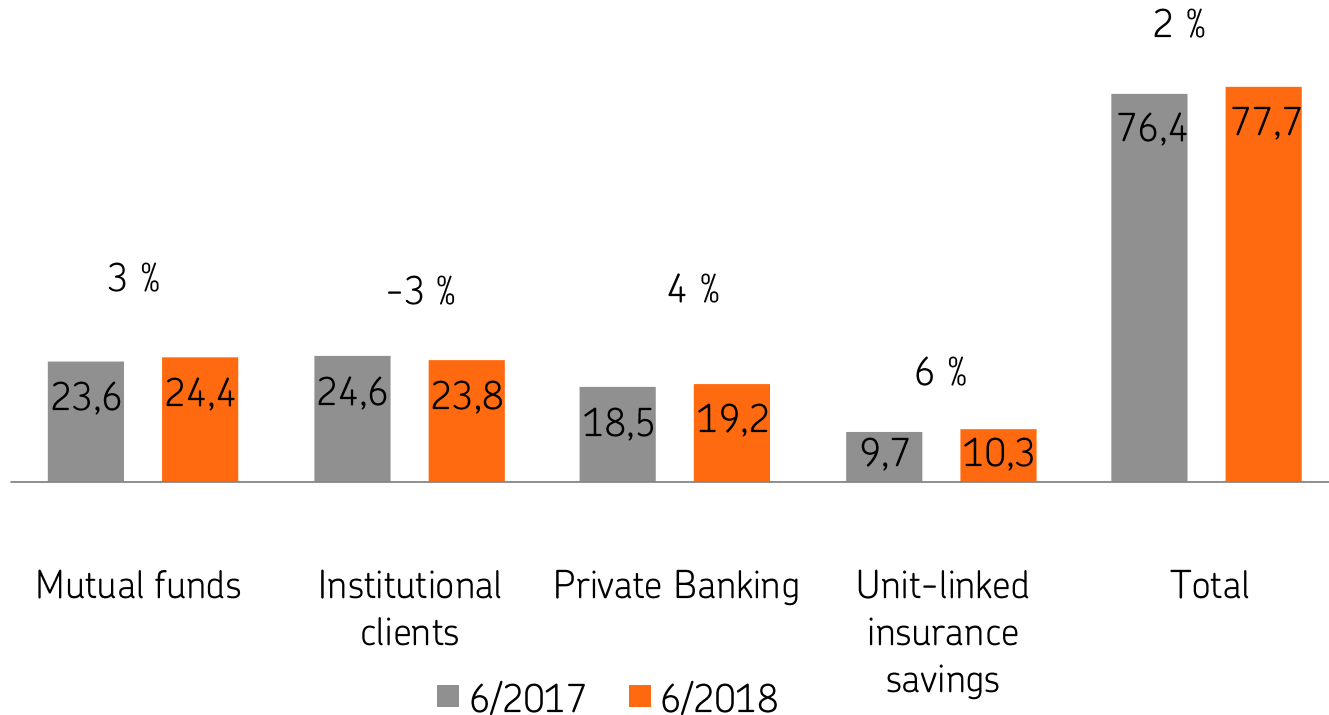
# Wealth Management EBT by quarter

€ million



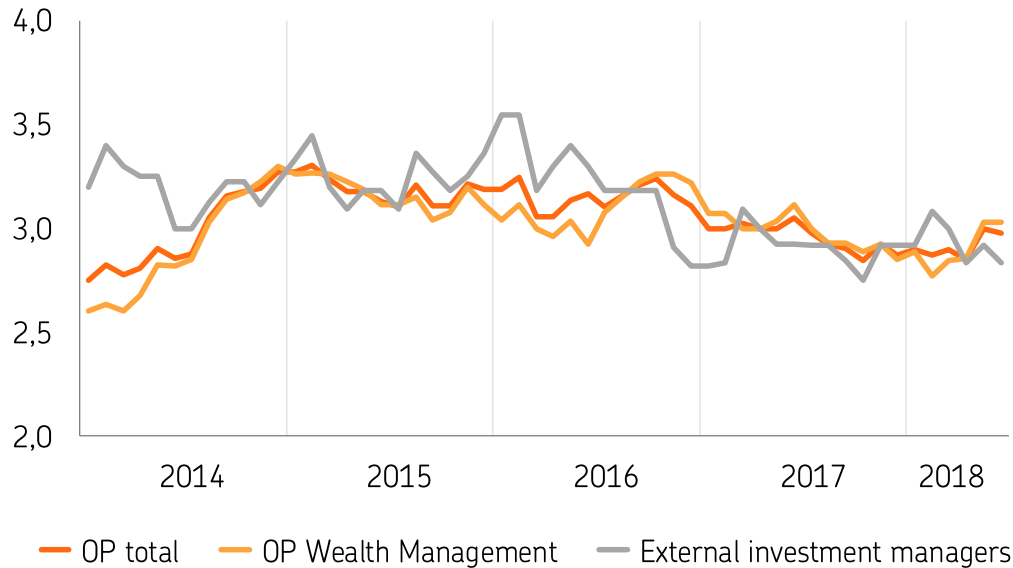
# Growth in assets under management YoY

Assets under management (gross) €billion

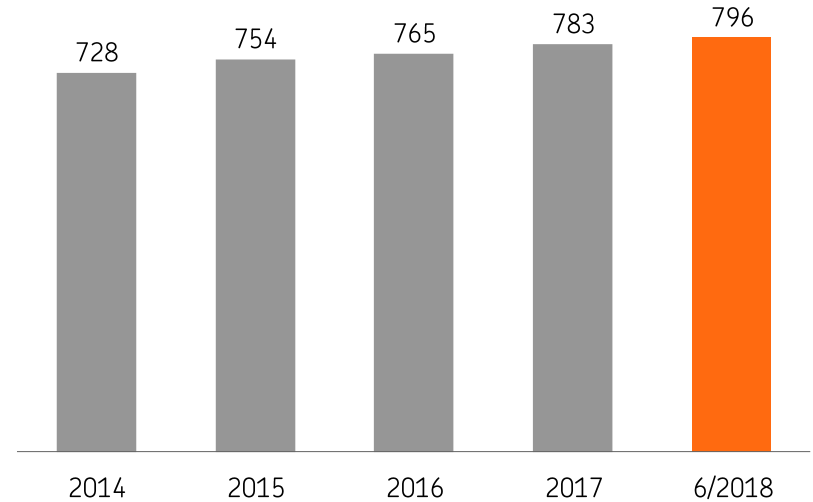


# Number of clients has grown steadily, fund performance has remained at the same level

Performance of Morningstar stars



Investor and saver customers, 1000 pers.

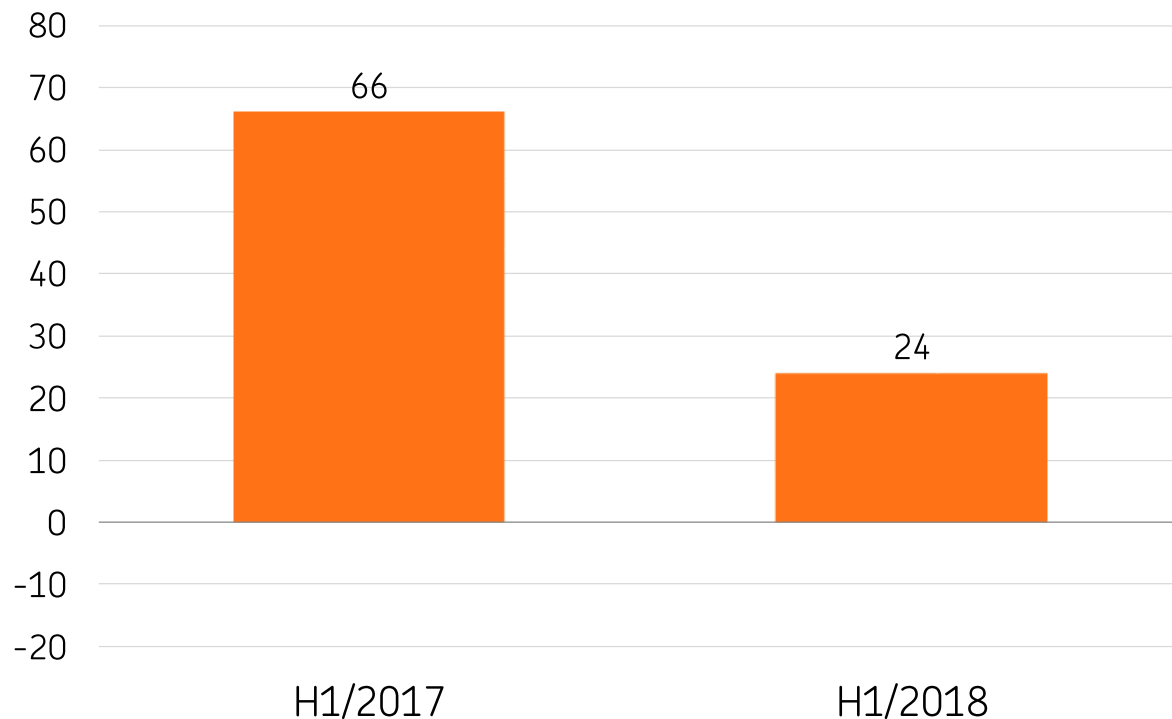


# Capital market uncertainty was reflected in net inflows

Net inflows € million

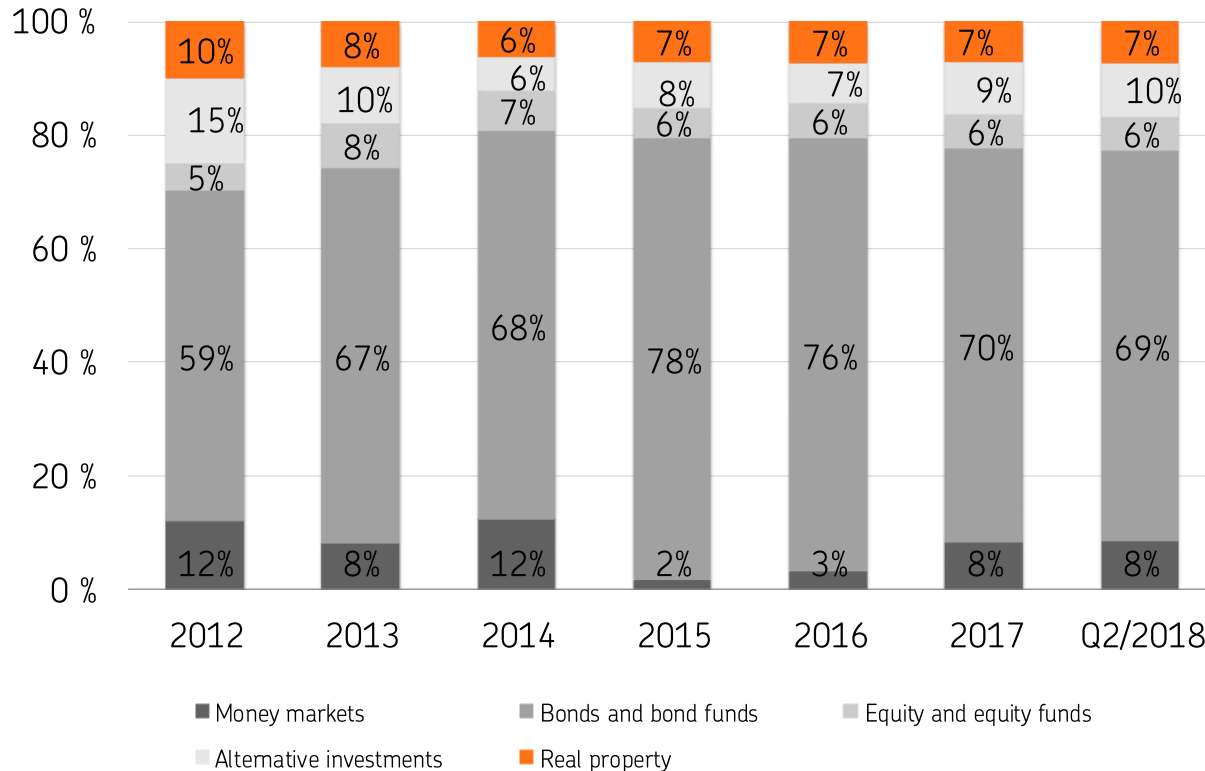


# Net return on Life Insurance income at fair value\*, € million



© OP\* 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 were transferred from Suomi Mutual.

# The risk level of Life Insurance investment assets\* (EUR 3.7 billion) has been lowered with determination



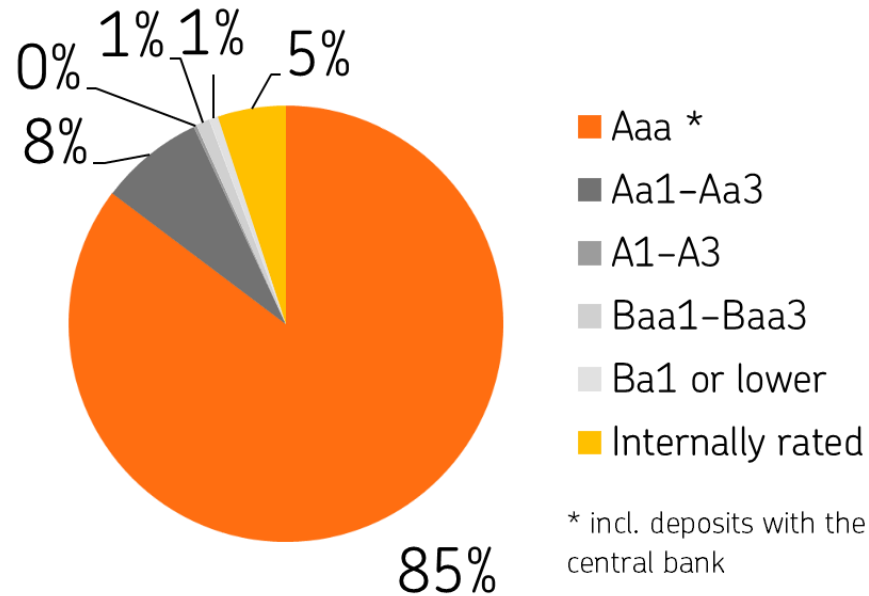




# Liquidity and Funding

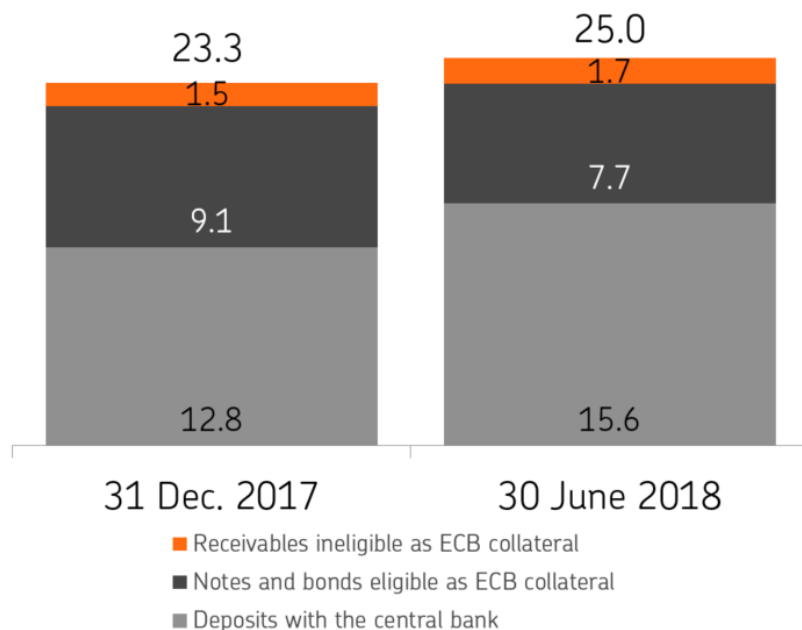
# Liquidity buffer includes highly-rated assets

Liquidity buffer by credit rating as of 30 June 2018



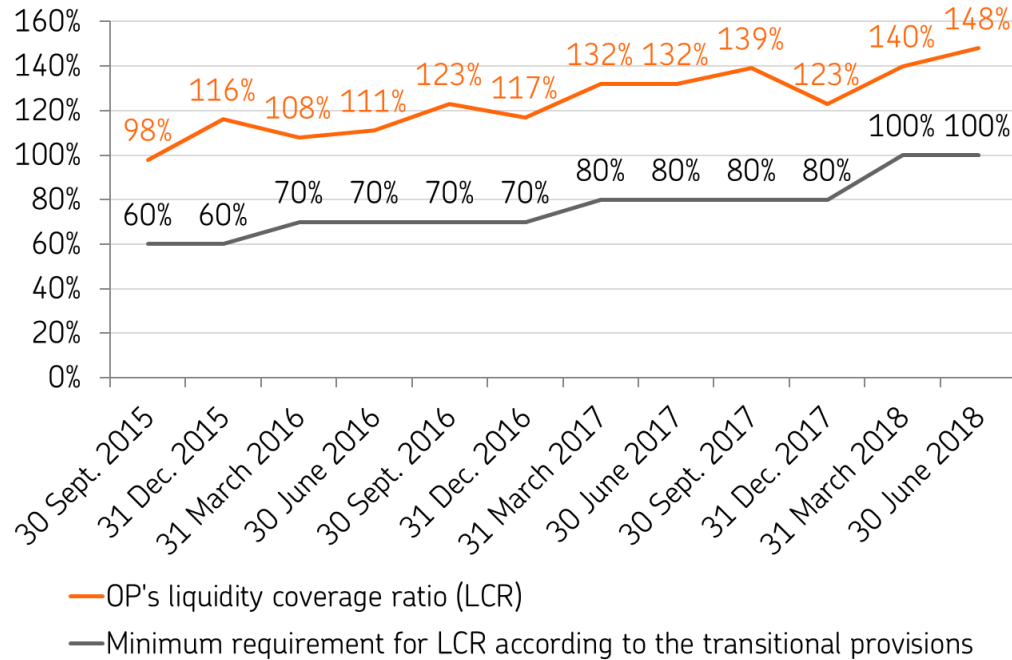
# Liquidity buffer €25.0 bn at end-June

Liquidity buffer breakdown, € bn



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 148% at end-June



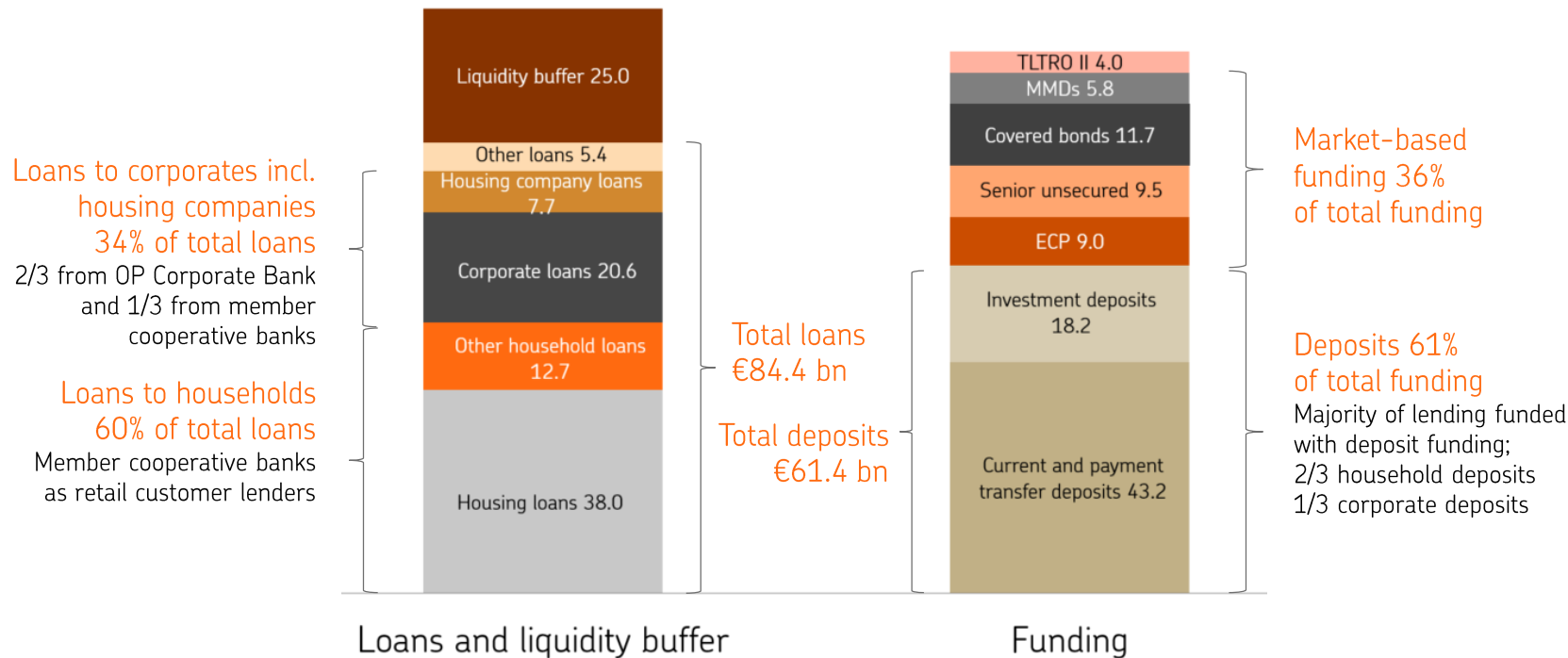
OP monitors its liquidity and the adequacy of its liquidity buffer using LCR.

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

# Loans, liquidity buffer and funding

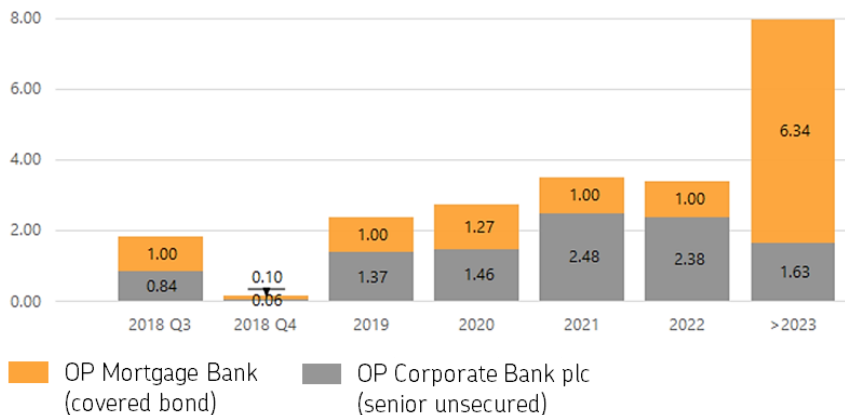
30 June 2018

€ bn

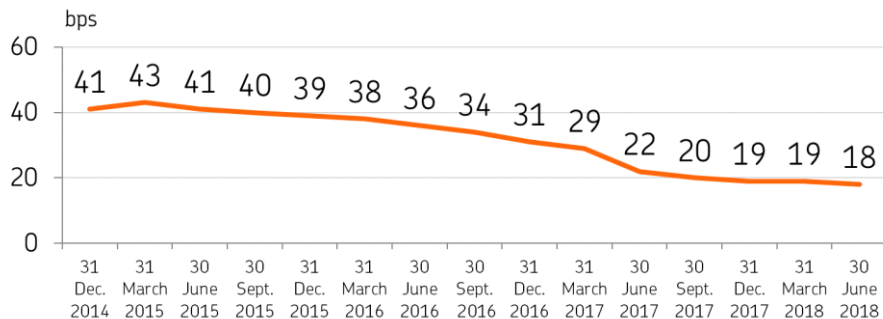


# Maturity breakdown and average margin of long-term wholesale funding

Maturing long-term wholesale funding, 30 June 2018 (€ bn)



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



OP issued long-term bonds worth €2.4 billion during H1/2018.



# Issued long-term bonds

## OP Corporate Bank plc's benchmark senior unsecured bonds 2015–18

Year	Month	Amount	Maturity	Interest rate
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
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 2015–18

Year	Month	Amount	Maturity	Interest rate
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
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 bps





# 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

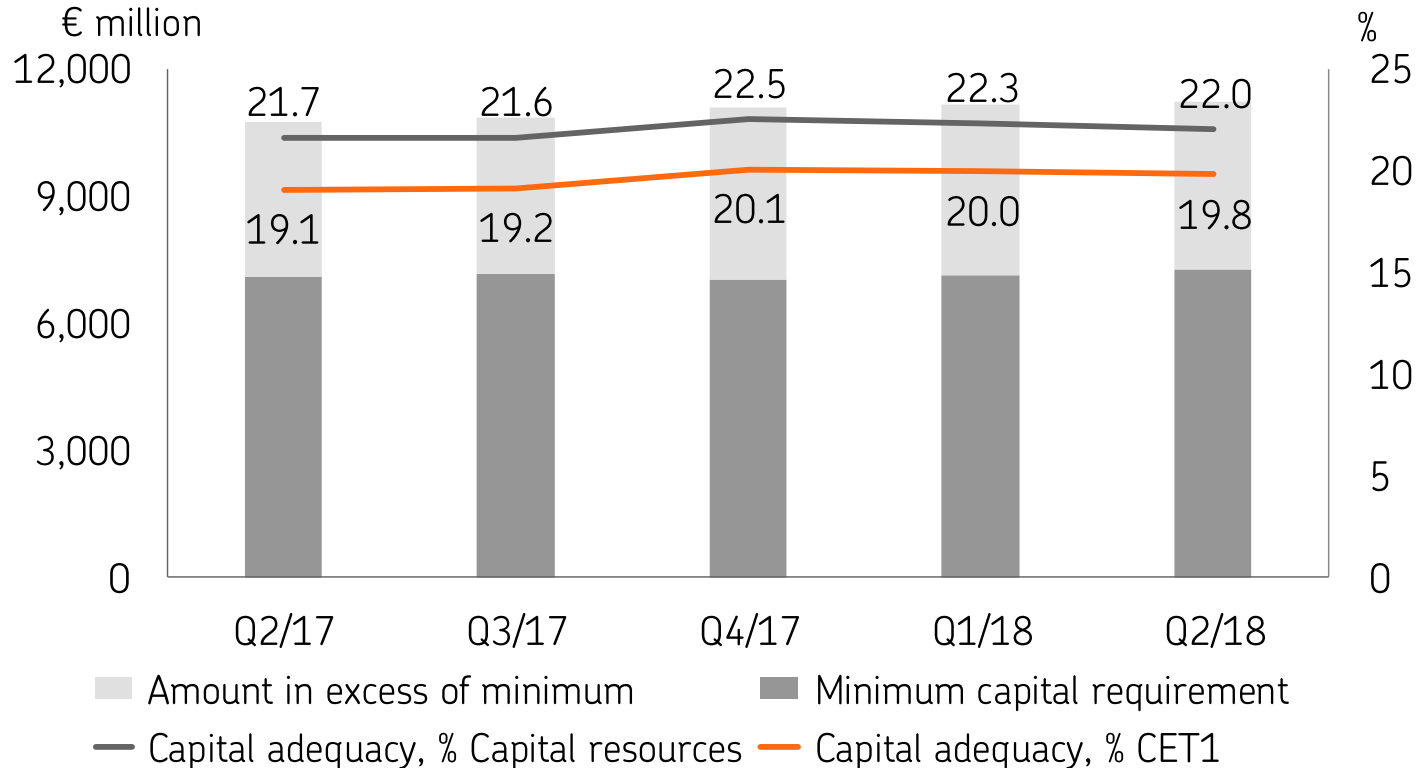
- The operations and solvency requirements for insurance companies are based on the Insurance Companies Act and EU regulation.
- The solvency capital requirement (SCR) is calculated for individual insurance companies. The companies are required to cover SCR using the Group's sufficient buffer specified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

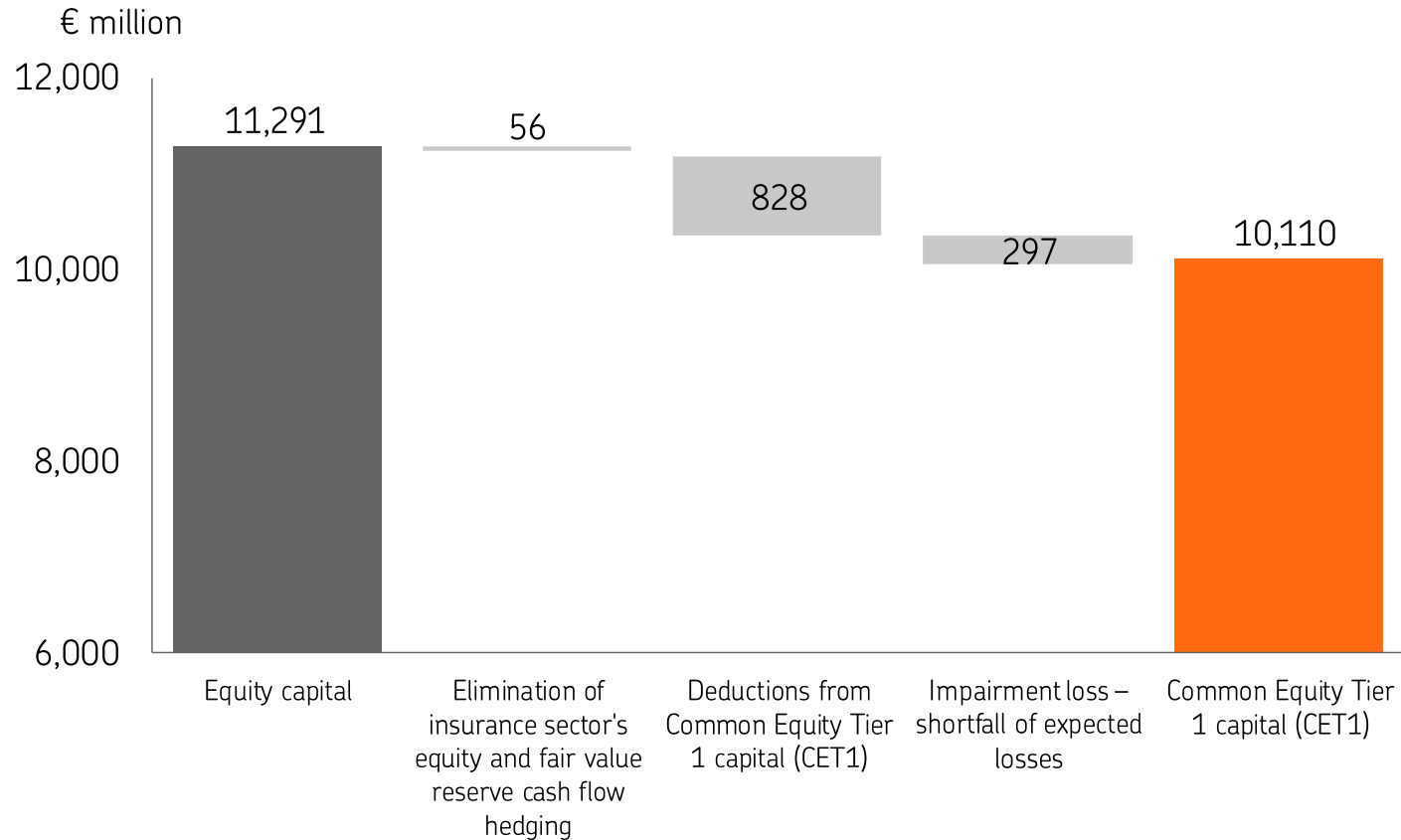
# Amalgamation of cooperative banks

## Capital base and capital adequacy

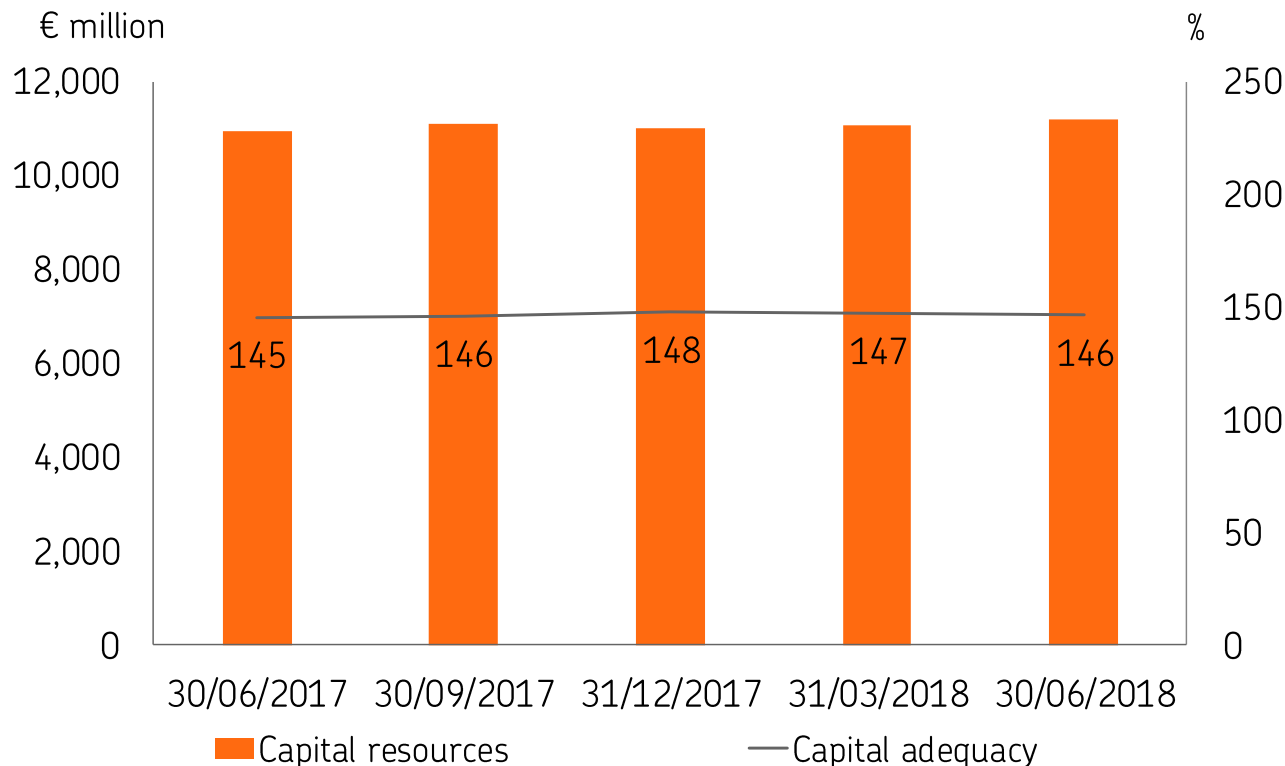


# Common Equity Tier 1 (CET1)

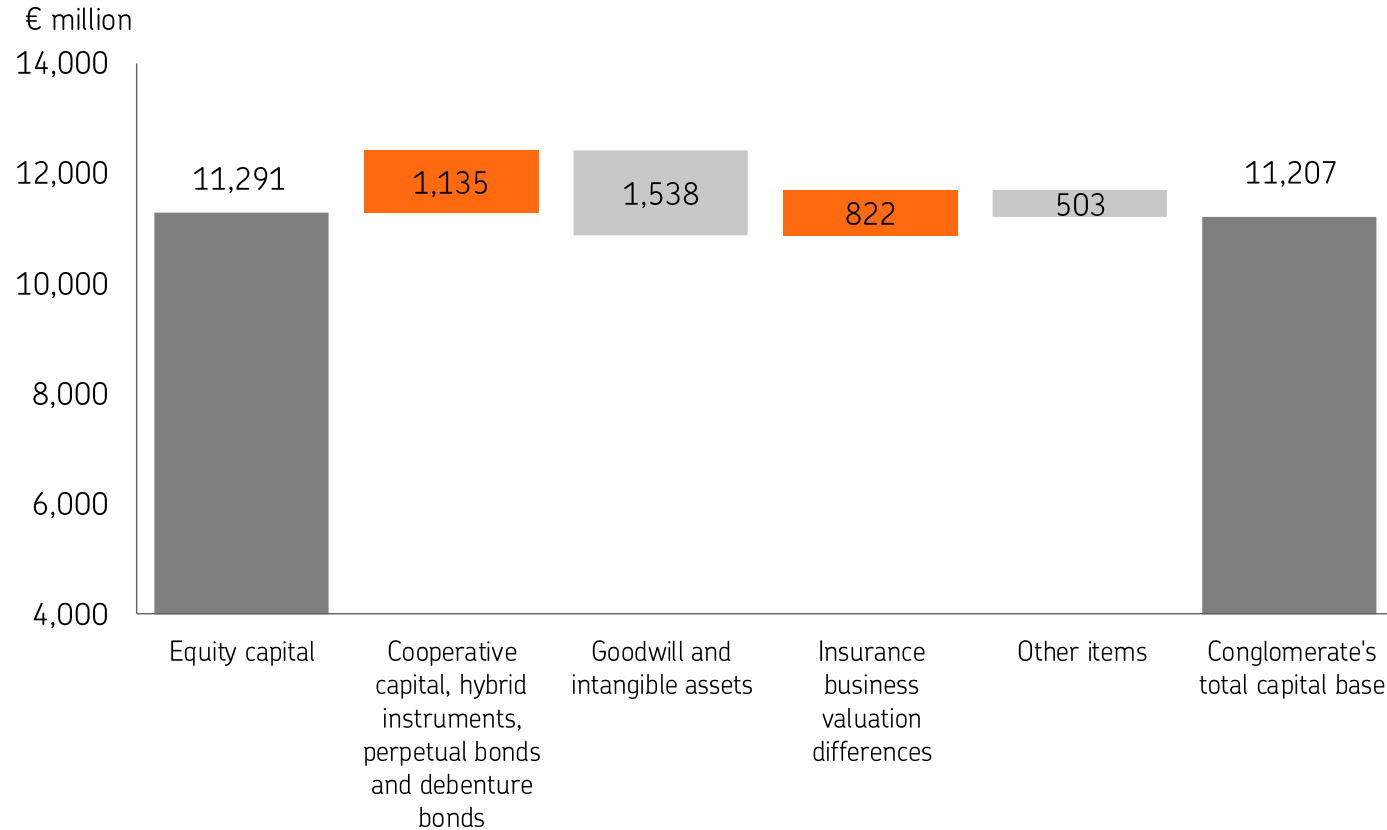
## 30 June 2018



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



# FiCo capital 30 June 2018







OP in a nutshell

OP is a financial services group owned by its customers.

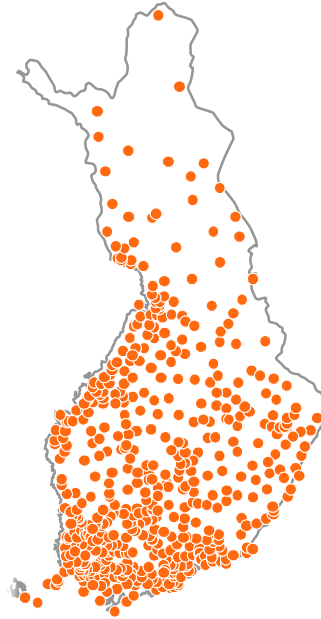
We promote our owner-customers' and operating environment's sustainable financial prosperity, safety and wellbeing. Finnish roots, Finland's most extensive service network and true customer focus make us a unique play in many ways.



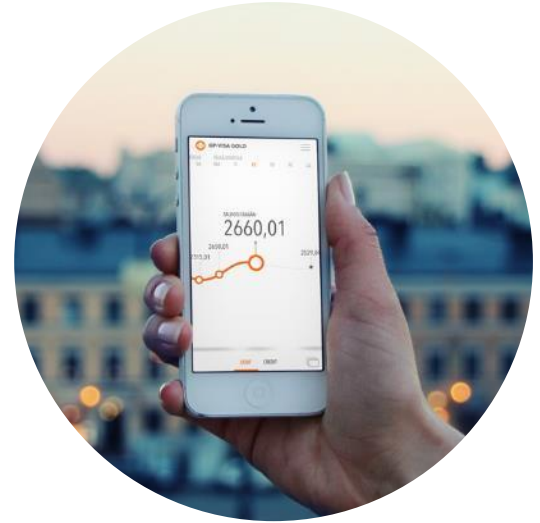
# OP in a nutshell



Approximately 1.9 million  
owner-customers

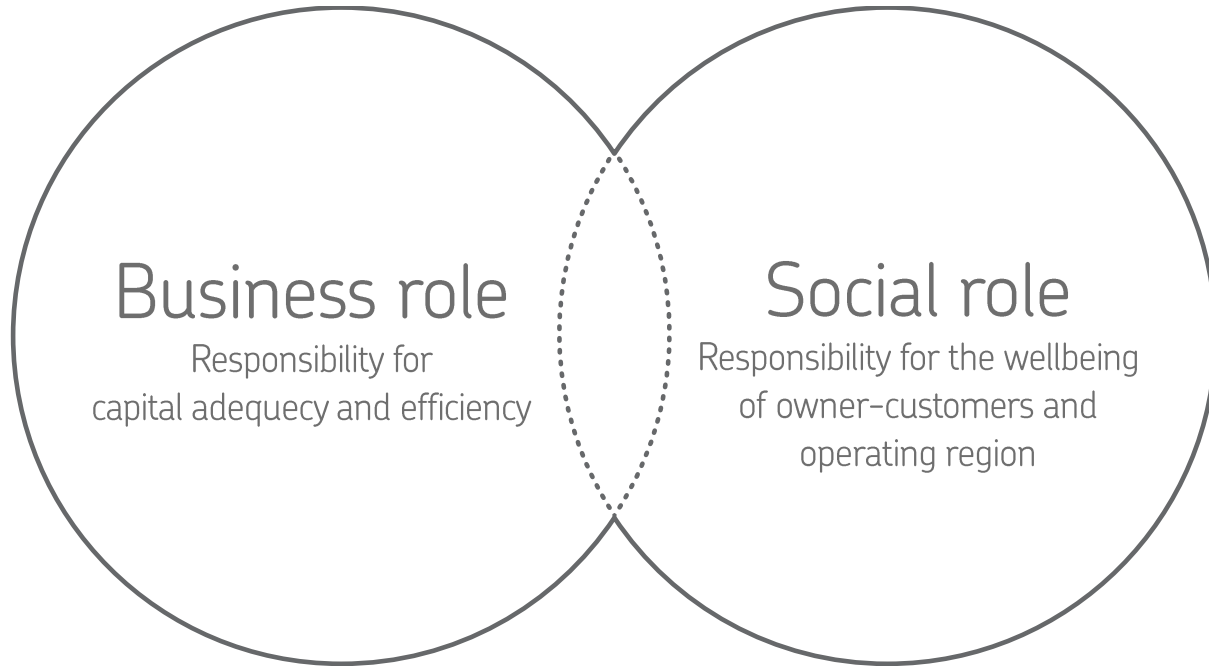


About 160  
Group member cooperative banks

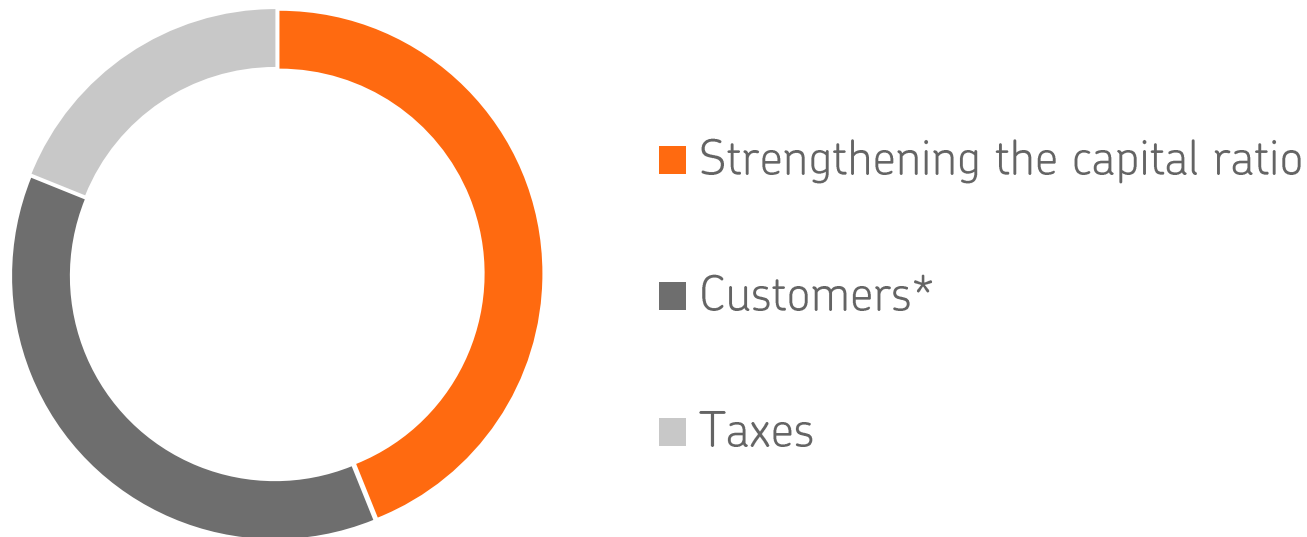


Hyperlocal digital  
financial services group

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



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



Estimated earnings allocation for the reporting period that is to be confirmed after the end of the financial year

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

# OP Financial Group's strategic targets

	30 June 2018	Target 2019
Customer experience, NPS (-100–+100)		
Brand	22	25
Service	59	70, over time 90
CET1 ratio, %	19.8	22
Return on economic capital, % (12-month rolling)	18.3	22
Expenses of present-day business (12-month rolling), € million	1 754	Expenses for 2020 at 2015 level (1,500)
Owner-customers, million	1.9	2.1 (2019)

# OP Financial Group's service channels

	1–30 June 2018	30 June 2018	12-month change
Online and mobile services			
Op.fi visits	8,884,146		-9%
OP-mobile visits (private customers)	19,306,985		+24%
OP Business mobile visits	484,645		+402%
Pivo mobile application visits	3,127,624		+54%
eServices Agreements (private customers)		1,845,561	+71,682
Branches and telephone services			
Bank branches		377	-70
Providing both non-life insurance and banking services		329	-12
Private Banking branches		42	+3
Customer contacts in telephone service	393,261		-30,292
Social media			
Followers on Facebook (OP Financial Group and member cooperative banks)		332,154	+47,811
Followers on Twitter		36,231	+10,085
Followers on LinkedIn		25,220	+11,883
Followers on Instagram		7,179	+1,585

# 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.





Let's take care of  
ourselves.