



# OP Financial Group's Interim Report 1 January–30 September 2020

Background material

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# OP Financial Group's Interim Report



# Earnings before tax EUR 526 million – net interest income and net insurance income increased in an uncertain business environment

	Q3/2020	Q3/2019	Change, %	Q1–Q4/2019
Earnings before tax, € million	526	676 *	-22.2	838
Retail Banking	100	193	-47.9	235
Corporate Banking	221	232	-4.4	311
Insurance	195	278	-30.1	373
Other Operations	39	3	-	-37
New OP bonuses accrued to owner-customers	-194	-191	1.8	-254
Return on equity (ROE), %	4.4	6.0	-1.6 **	5.5
Return on equity excluding OP bonuses, %	6.0	7.6	-1.6 **	7.1
Return on assets (ROA), %	0.36	0.51	-0.14 **	0.47
Return on assets excluding OP bonuses, %	0.49	0.64	-0.15 **	0.60
	30 September 2020	30 September 2019	Change, %	31 December 2019
CET1 ratio, %	18.3	19.6	-1.3 **	19.5
Loan portfolio, € bn	94.2	91.0	3.5	91.5
Deposits, € bn	70.7	62.6	12.8	64.0
Ratio of non-performing receivables to loan and guarantee portfolio, %	1.7	1.1	0.6 **	1.1
Ratio of impairment loss on receivables to loan and guarantee portfolio, %	0.25	0.05	0.20 **	0.09
Owner customers (1,000)	2,021	1,979	2.1	2,003

\* In the fourth quarter of 2019, OP Financial Group adopted an amortisation-based revenue recognition method for the customer margin related to a derivative clause attached to loans with an interest rate cap or interest rate collar. The effect of this change was adjusted retrospectively in OP Financial Group's retained earnings (under equity). In addition, the income statements and balance sheets for the first three quarters of 2019 were restated to reflect the new revenue recognition practice. The change had no effect on segment reporting. Capital adequacy measurement was not adjusted retrospectively. For more information on this change, see the Financial Statements and the Financial Statements Bulletin for 2019.

\*\* Change in ratio

As regards income from customer business, net interest income increased by 4% to EUR 960 million (923) and net insurance income by 16% to EUR 476 million (412). Net commissions and fees, EUR 679 million, were at the previous year's level (679).

The effects of the COVID-19 pandemic on capital market developments weakened investment income particularly in the first quarter. Investment income fell by 64% year on year, to EUR 76 million (208).

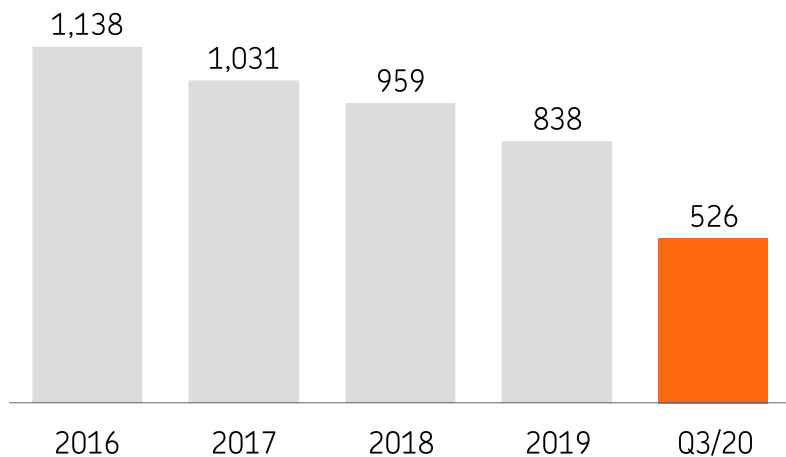
In the year to September, OP Financial Group's loan portfolio grew by 4% to EUR 94 billion (91) and deposits by 13% to EUR 71 billion (63).

Impairment loss on receivables, EUR 183 million (36), accounted for 0.25% (0.05) of loans and receivables. Impairment loss on receivables was increased by the effects of the COVID-19 pandemic on the loan portfolio quality and by the adoption of the new definition of default based on a regulatory change.

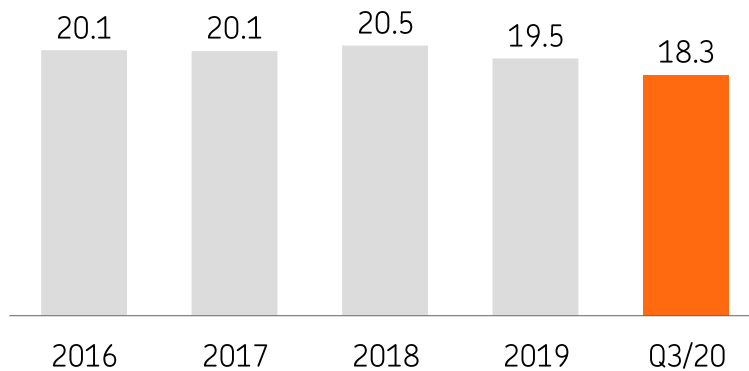
The CET1 ratio was 18.3% (19.5). The lower ratio was affected by the increase in the loan portfolio and the adoption of the new definition of default.

# OP Financial Group's earnings and capital adequacy

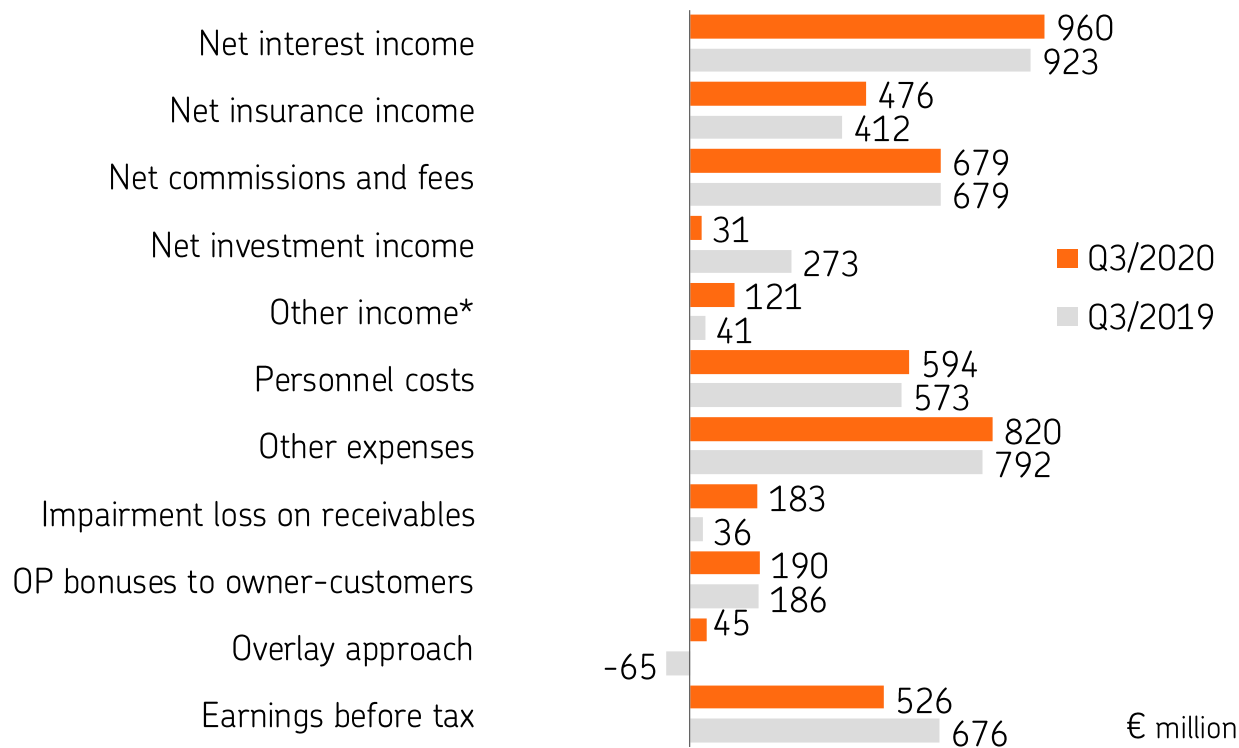
Earnings before tax, € million



Common Equity Tier 1 ratio (CET1),%

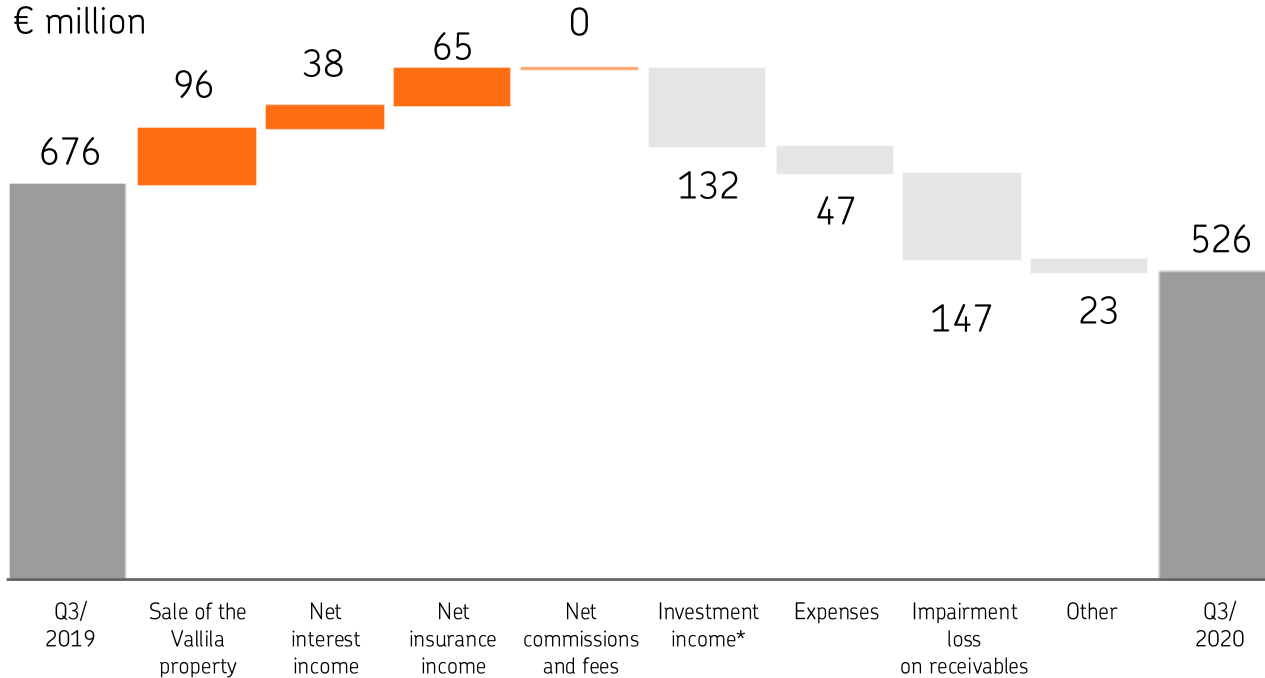


# OP Financial Group's main income statement items



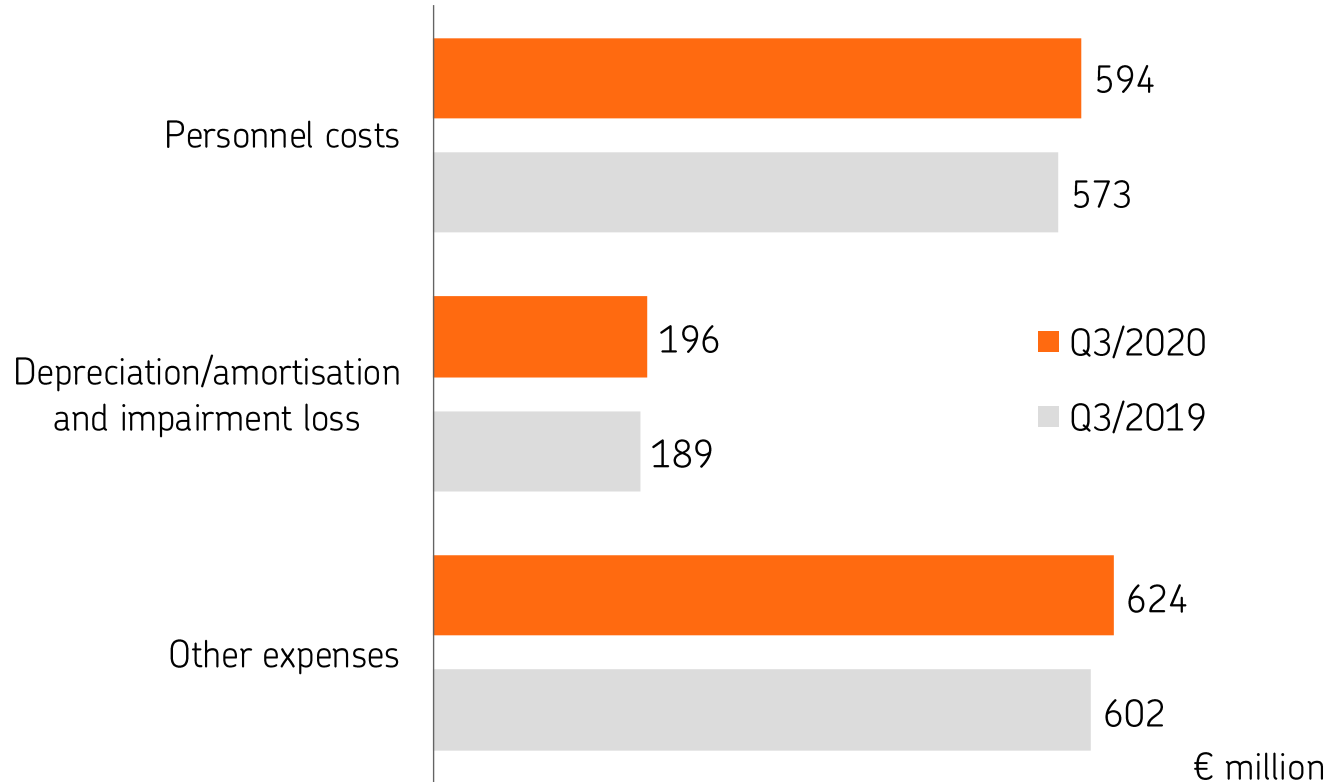
\*Includes a capital gain on the sale of the Vallila property

# OP Financial Group's financial performance



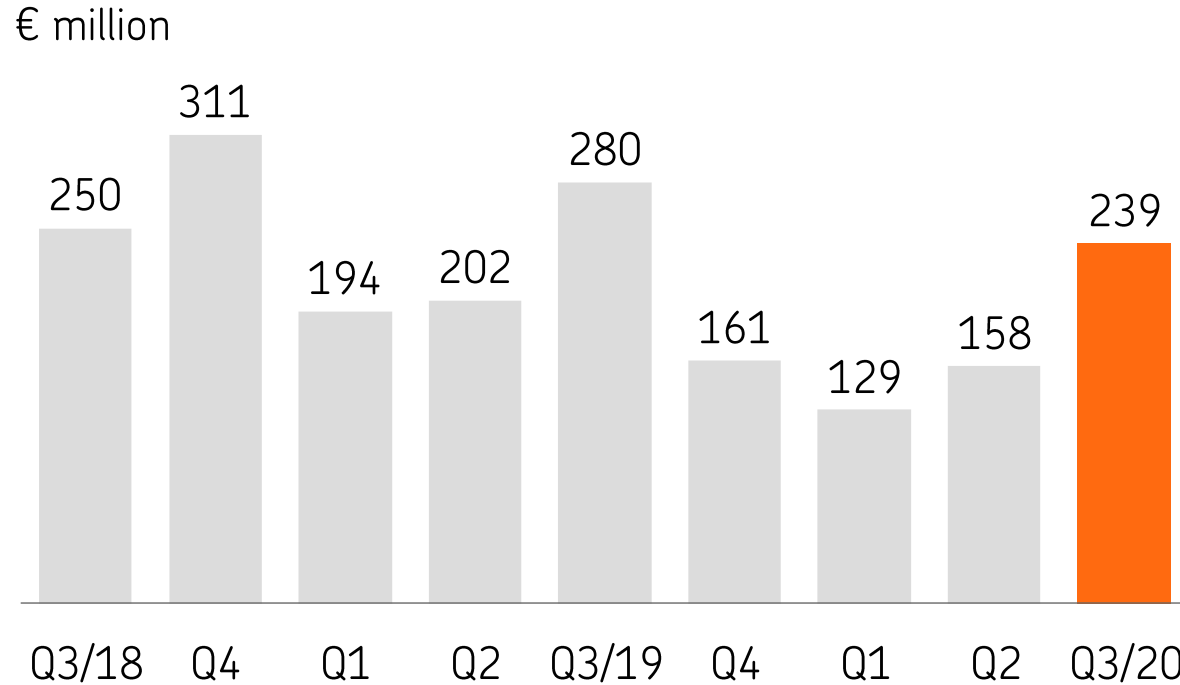
\*Including a temporary exemption (overlay approach)

# OP Financial Group's cost performance

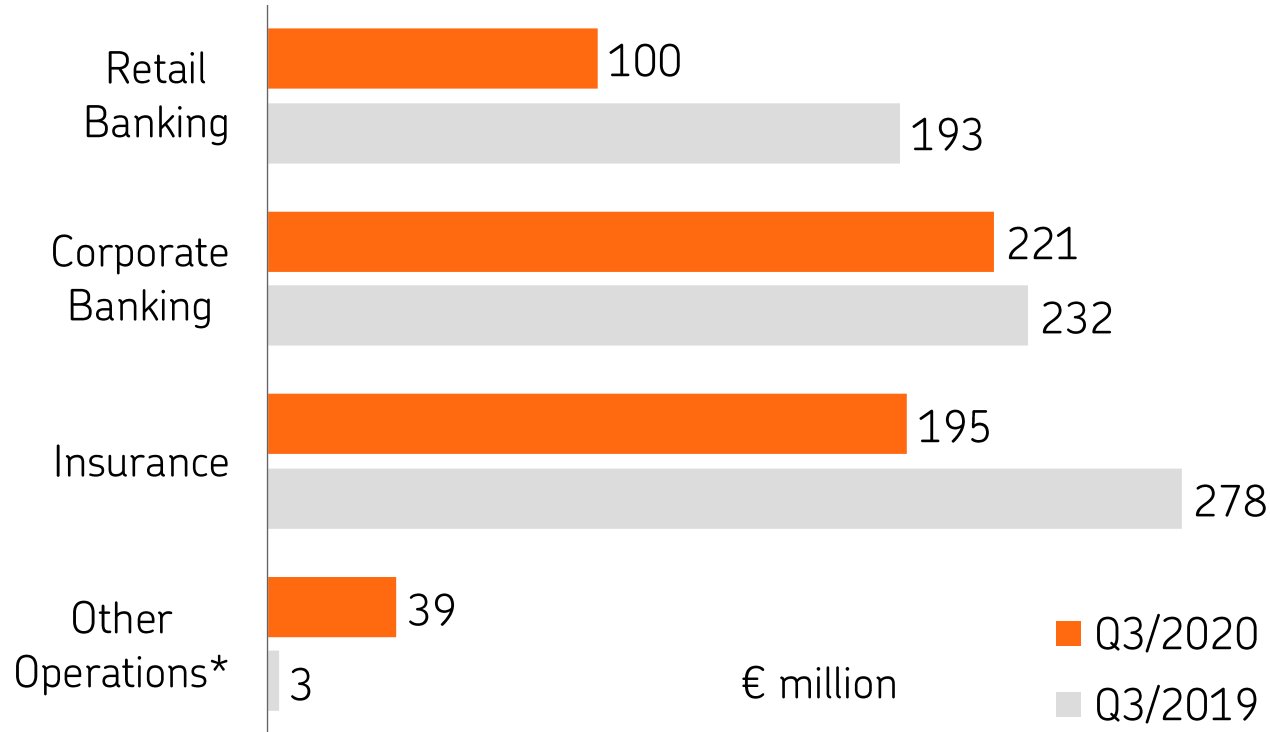




# OP Financial Group's EBT by quarter



# OP Financial Group's EBT by business segment



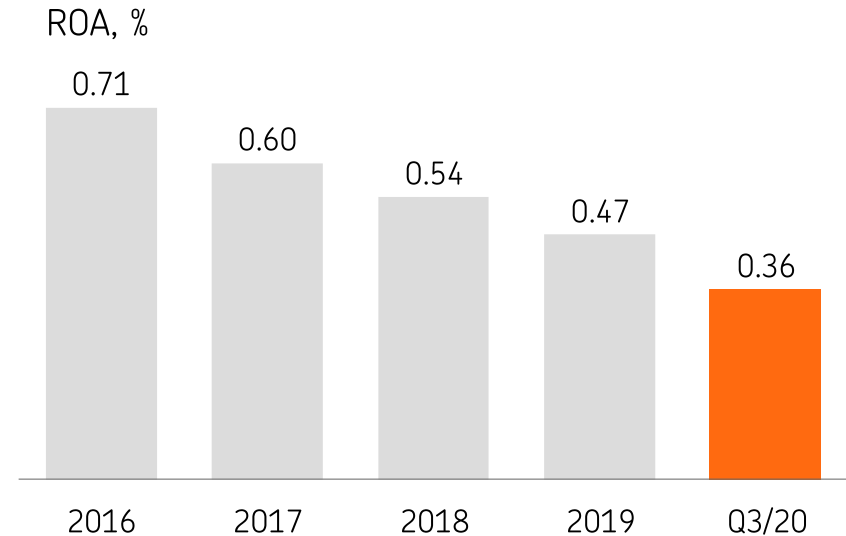
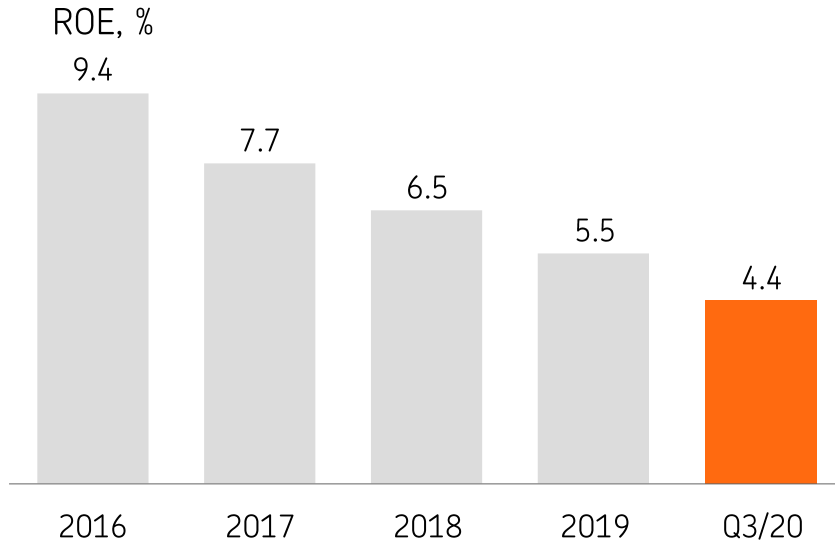
# OP Financial Group's income statement

January 1 to September 30	2020	2019	Change, € million	%	Q3/20	Q3/19	Change, %
Net interest income	960	923	38	4.1	315	321	-1.7
Net insurance income	476	412	65	15.7	181	138	31.6
Net commissions and fees	679	679	-0	-0.0	224	229	-2.5
Net investment income	31	273	-242	-88.7	59	54	8.4
Other operating income	121	41	80	193.6	8	6	31.5
<b>Total income</b>	<b>2,268</b>	<b>2,328</b>	<b>-60</b>	<b>-2.6</b>	<b>787</b>	<b>748</b>	<b>5.2</b>
Personnel costs	594	573	21	3.7	179	169	6.4
Depreciation/amortisation and impairment loss	196	189	7	3.6	67	62	9.1
Other operating expenses	624	602	21	3.5	174	181	-3.7
<b>Total expenses</b>	<b>1,414</b>	<b>1,365</b>	<b>49</b>	<b>3.6</b>	<b>421</b>	<b>411</b>	<b>2.3</b>
Impairment loss on receivables	-183	-36	-147	-	-17	3	-
OP bonuses	-190	-186	-4	-	-65	-62	-
Overlay approach	45	-65	110	-	-44	2	-
<b>Earnings before tax</b>	<b>526</b>	<b>676</b>	<b>-150</b>	<b>-22.2</b>	<b>239</b>	<b>280</b>	<b>-14.6</b>

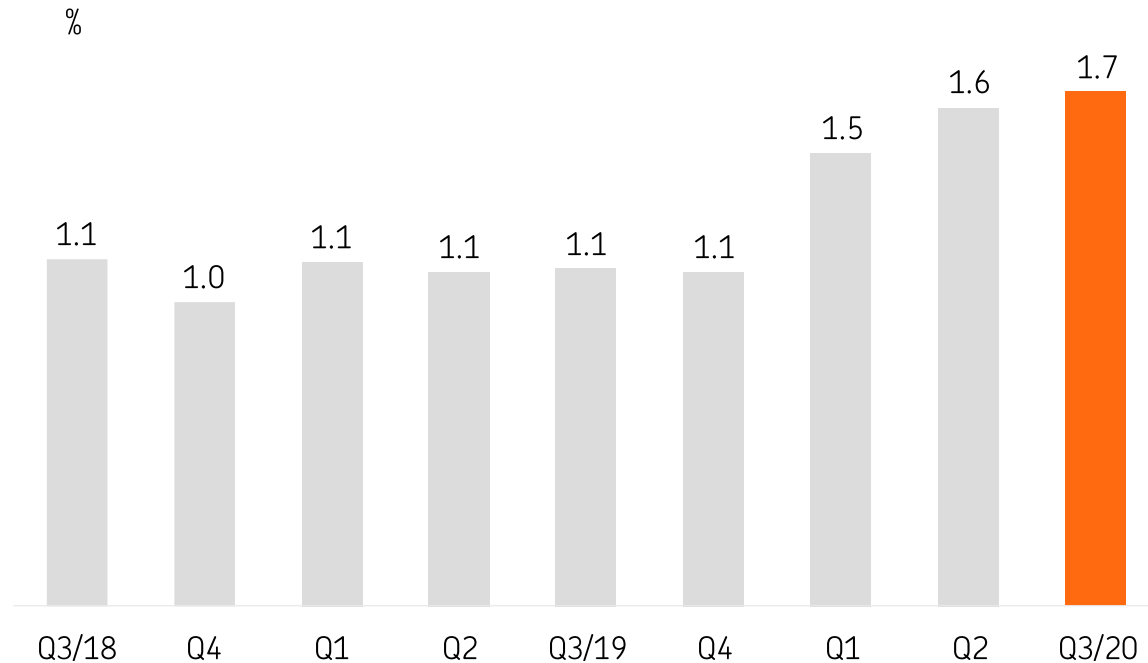
# OP Financial Group's quarterly performance

€ million	Q1/2019	Q2	Q3	Q4	Q1	Q2	Q3/2020
Net interest income	294	309	321	318	319	327	315
Net insurance income	109	165	138	9	131	164	181
Net commissions and fees	234	216	229	257	244	211	224
Net investment income	145	73	54	257	-140	112	59
Other operating income	9	26	6	12	107	5	8
<b>Total income</b>	<b>790</b>	<b>790</b>	<b>748</b>	<b>854</b>	<b>662</b>	<b>819</b>	<b>787</b>
Personnel costs	197	208	169	208	208	207	179
Depreciation/amortisation and impairment loss	59	69	62	88	65	64	67
Other operating expenses	210	212	181	242	245	204	174
<b>Total expenses</b>	<b>465</b>	<b>488</b>	<b>411</b>	<b>538</b>	<b>518</b>	<b>475</b>	<b>421</b>
Impairment loss on receivables	-11	-28	3	-51	-105	-60	-17
OP bonuses to owner-customers	-64	-60	-62	-63	-60	-64	-65
Overlay approach	-55	-12	2	-40	151	-62	-44
<b>Earnings before tax</b>	<b>194</b>	<b>202</b>	<b>280</b>	<b>161</b>	<b>129</b>	<b>158</b>	<b>239</b>

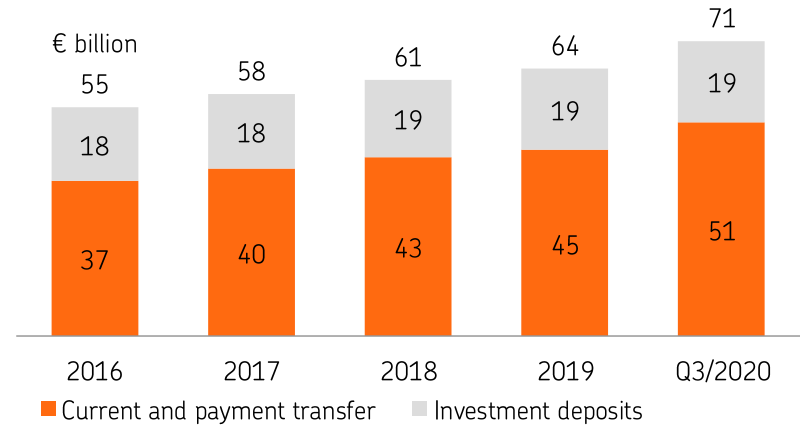
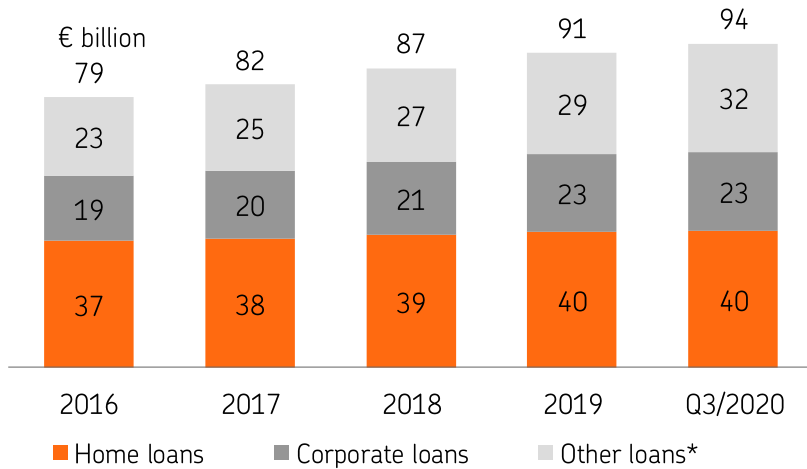
# OP Financial Group's return on equity



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

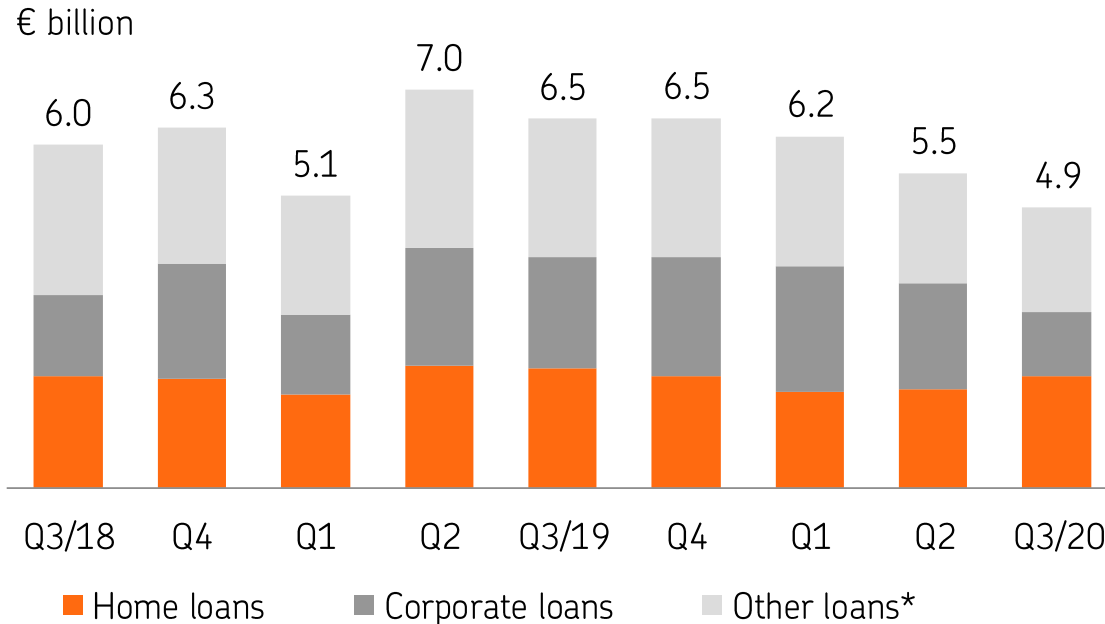


# OP Financial Group's loan portfolio grew by 3.5% and deposit portfolio by 12.8% year on year



\* incl. housing companies and public-sector entities

# OP Financial Group's new loans drawn down

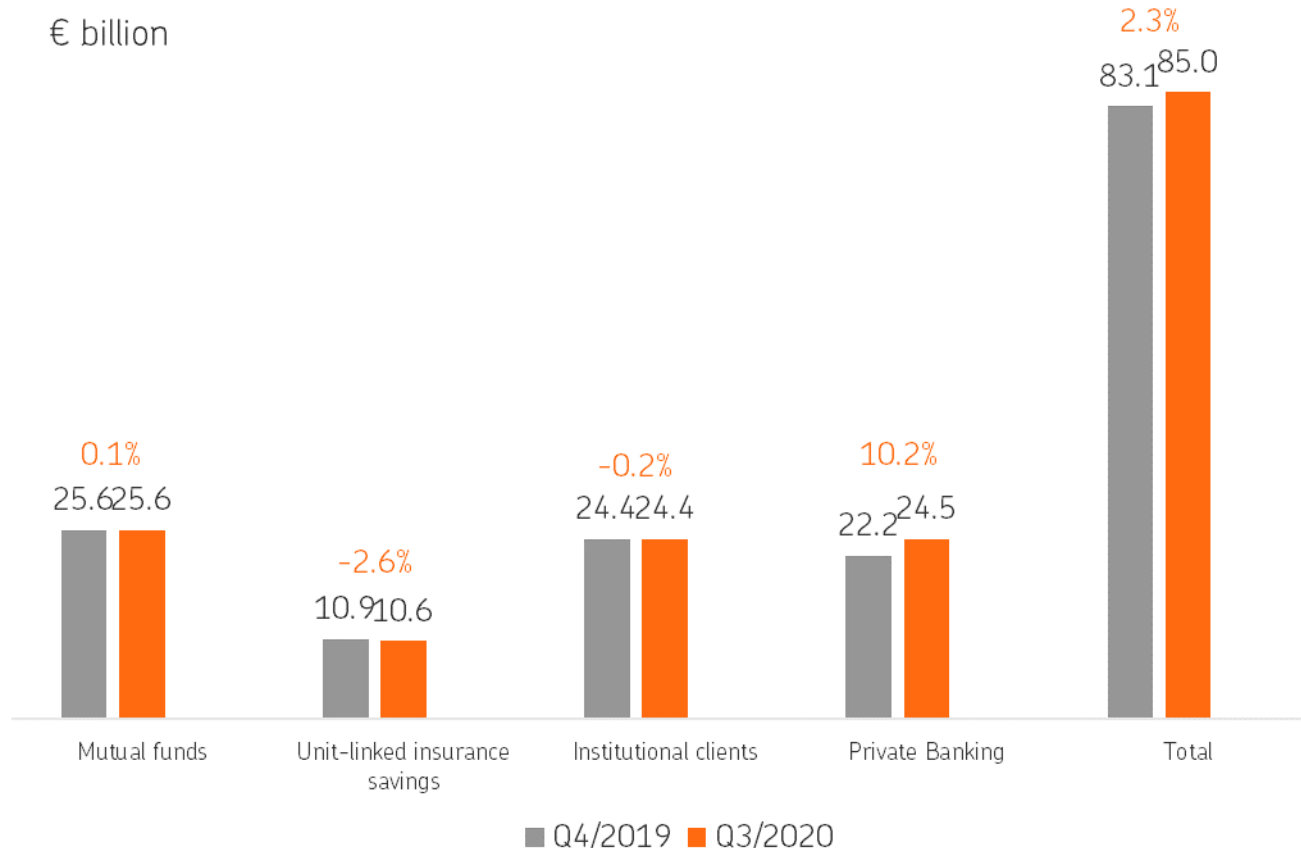


\*incl. housing companies and public-sector entities

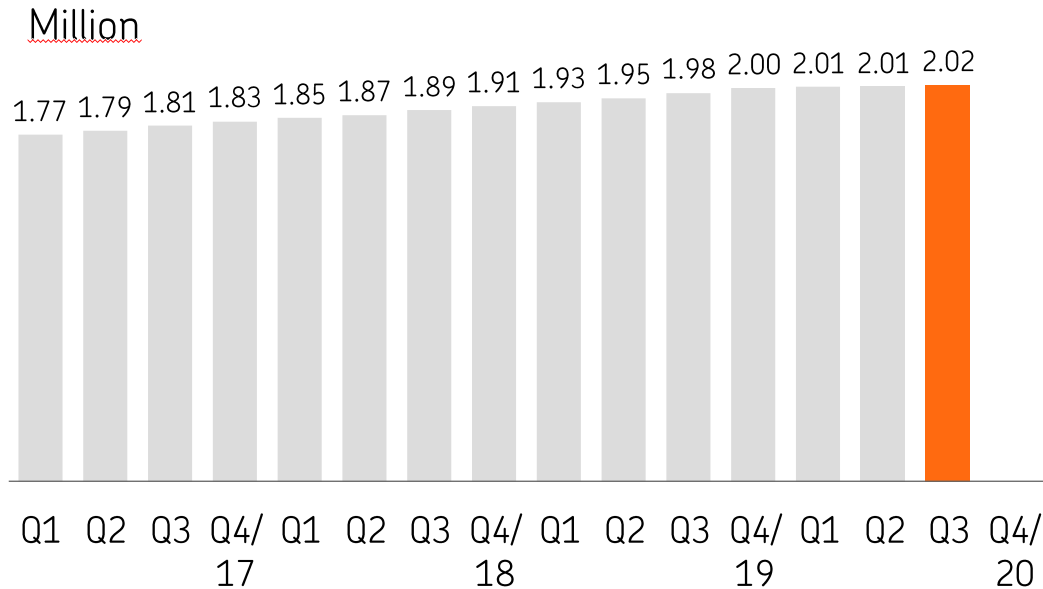


# OP Financial Group's assets under management

€ billion



# More than 2 million owner-customers



© OP 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 private and 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.

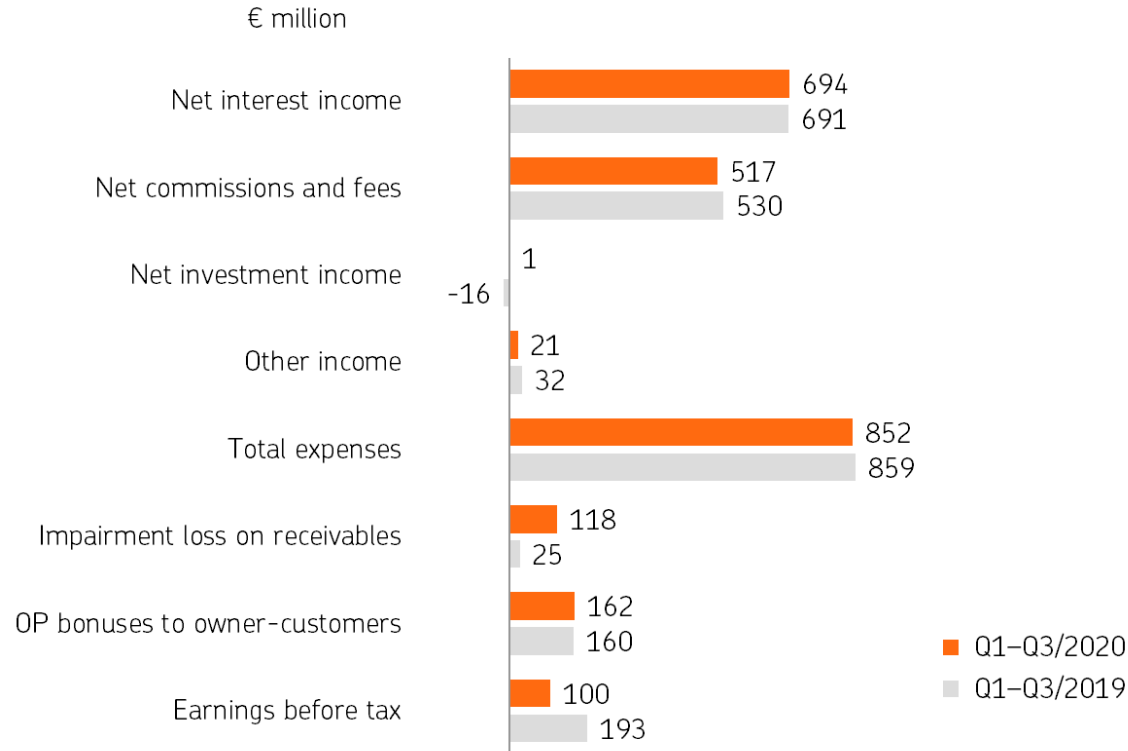
## Key figures for Q1–Q3/2020

Earnings before tax  
**€100** million

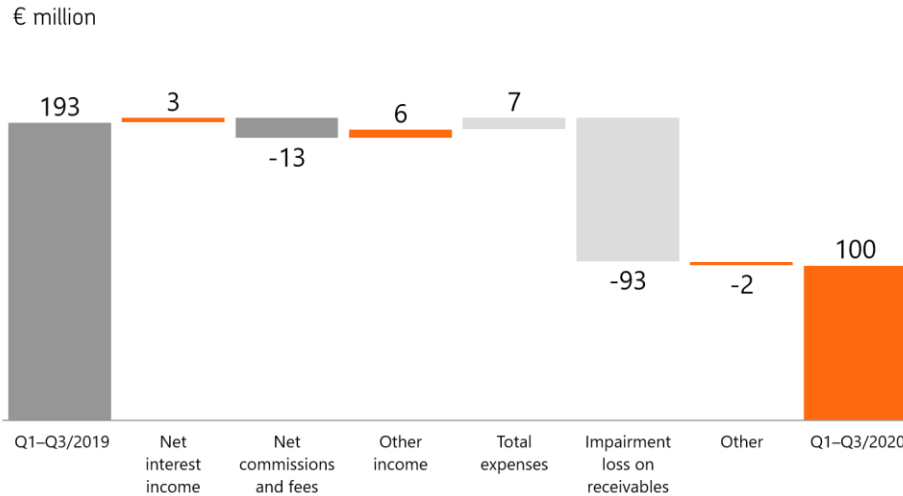
Loan portfolio  
**€69.3** billion

Deposit portfolio  
**€58.3** billion

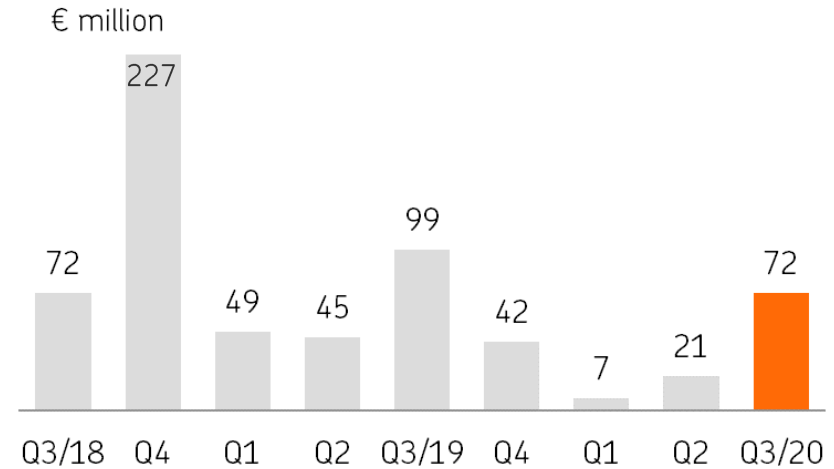
# Retail Banking earnings before tax decreased to EUR 100 million



# Total income and total expenses decreased and impairment loss on receivables increased year on year

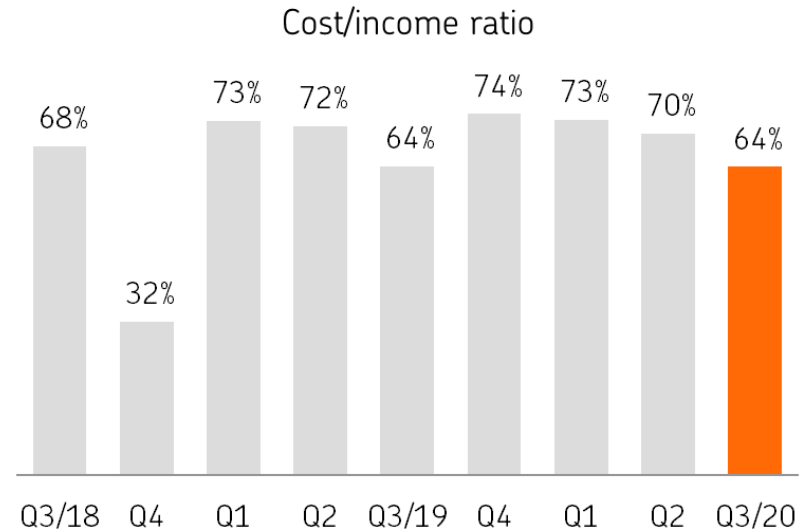
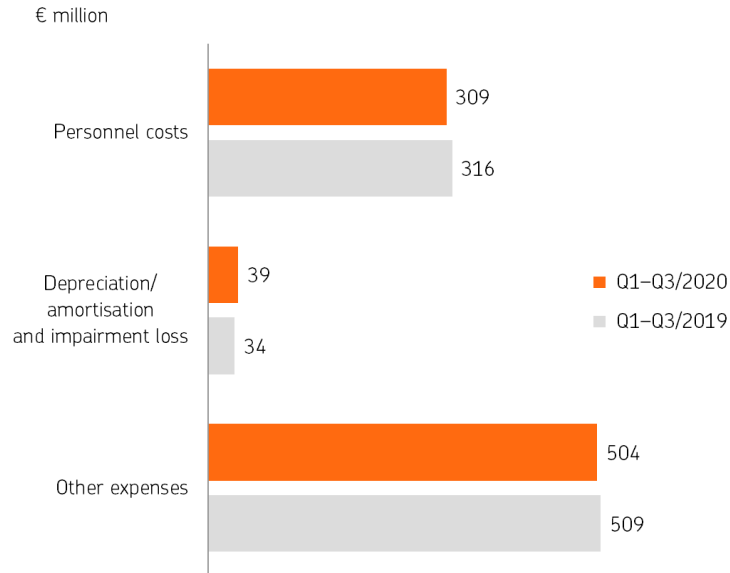


Total income fell by 0.3% and total expenses by 0.9%. Impairment loss on receivables increased mainly due to the adoption of the new definition of default and the effects of the COVID-19 pandemic.



The transfer of pension liability improved segment earnings in Q4/2018 (EUR 199 million)

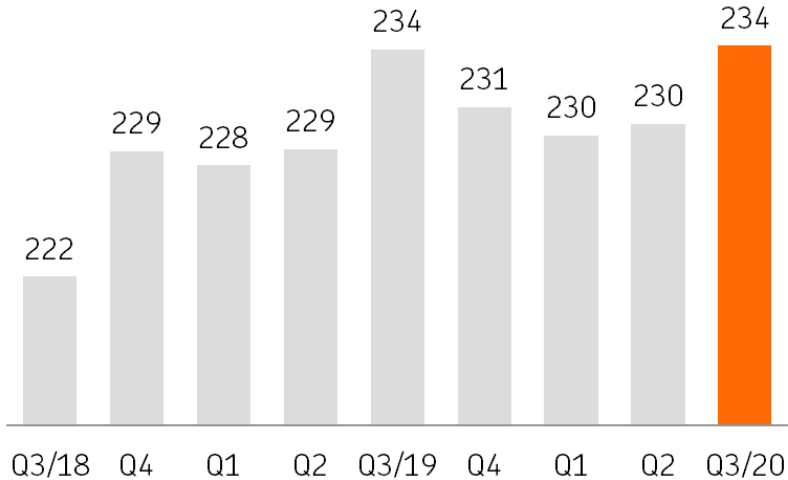
# Other operating expenses and personnel costs decreased year on year



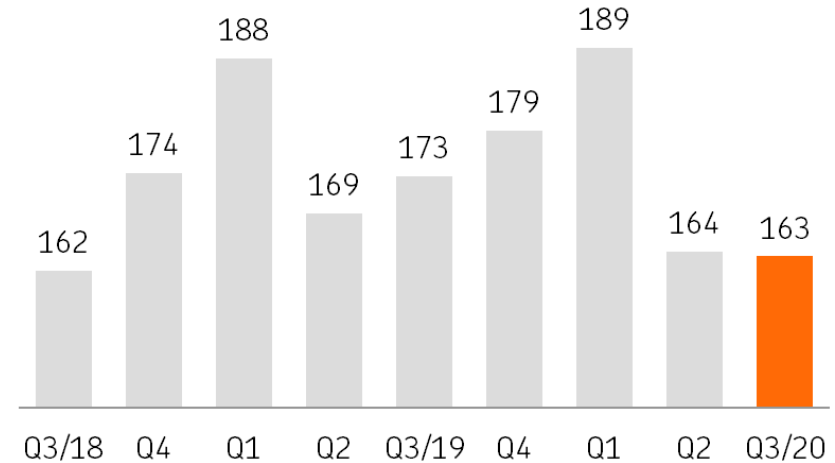
Q4/2018 personnel costs include the transfer of pension liability of EUR 199 million

# Net interest income increased and net commissions and fees decreased year on year

Net interest income, € million



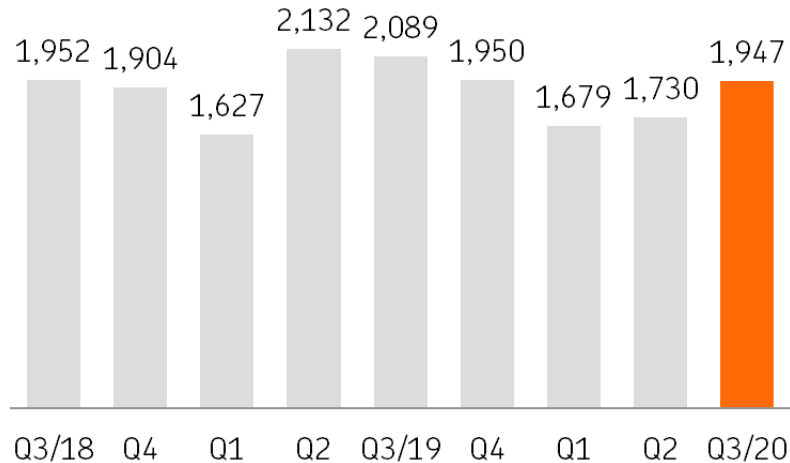
Net commissions and fees, € million



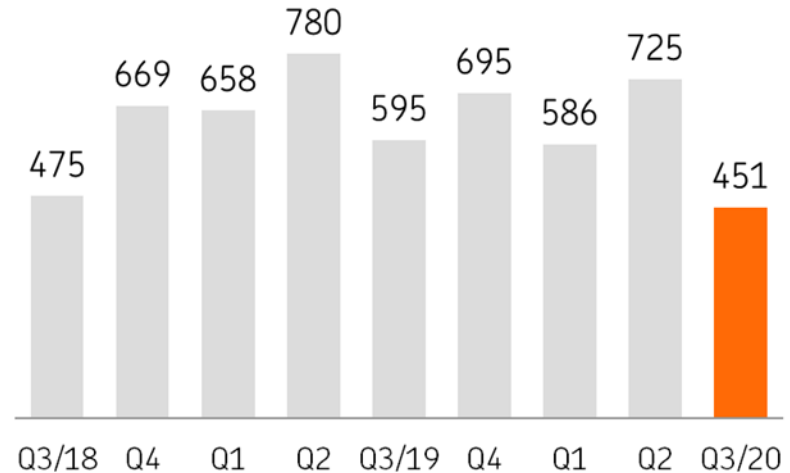


# Home loan drawdowns and corporate loan drawdowns by SMEs decreased year on year

Home loans drawn down, € million

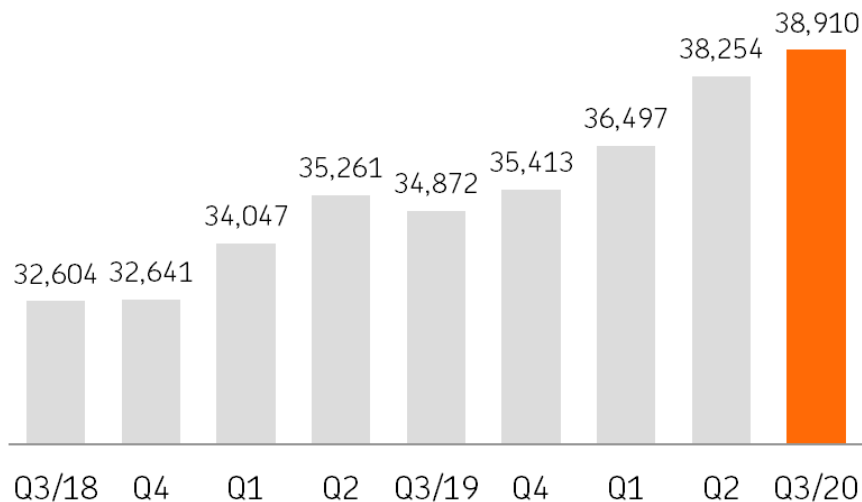


SME corporate loans drawn down, € million

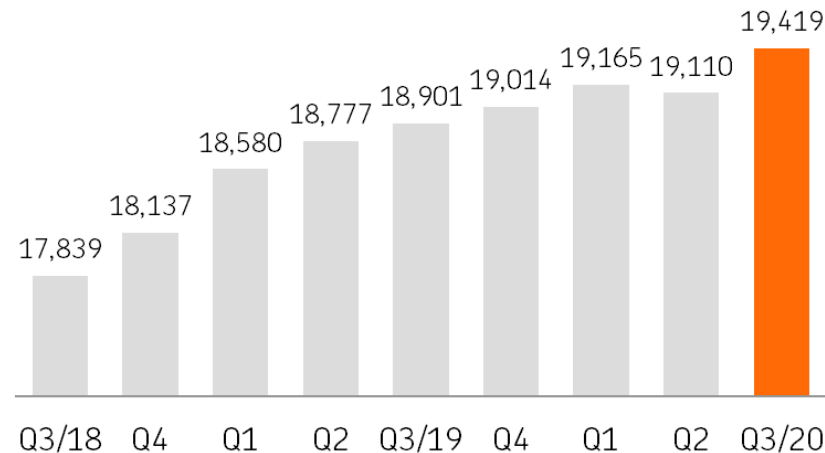


# Deposit portfolio increased, particularly in current and payment transfer accounts

Current and payment transfer, € million

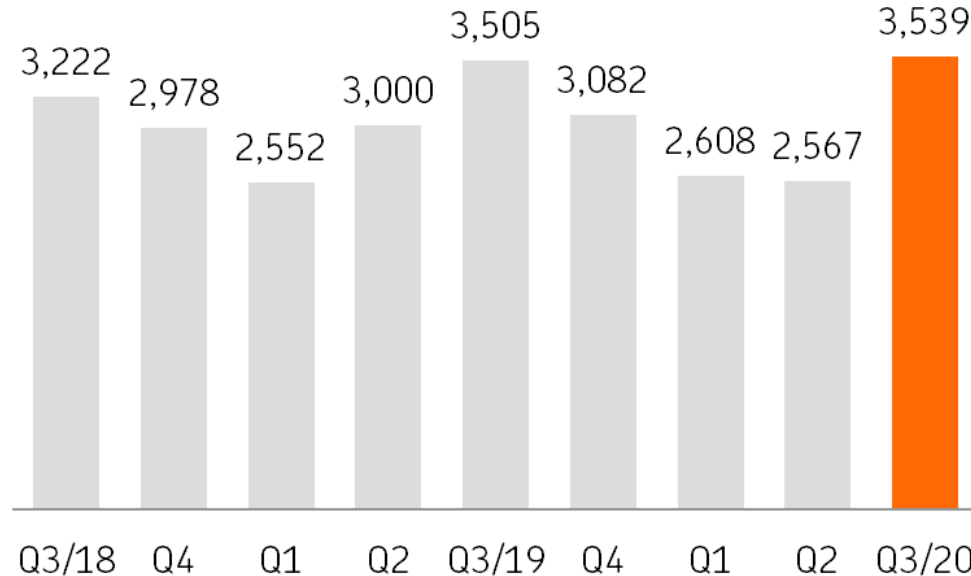


Investment deposits, € million



# Brokerage of homes and other real property picked up in the summer but accumulated sales volumes decreased 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, 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-Q3/2020

Earnings before tax

€221 million

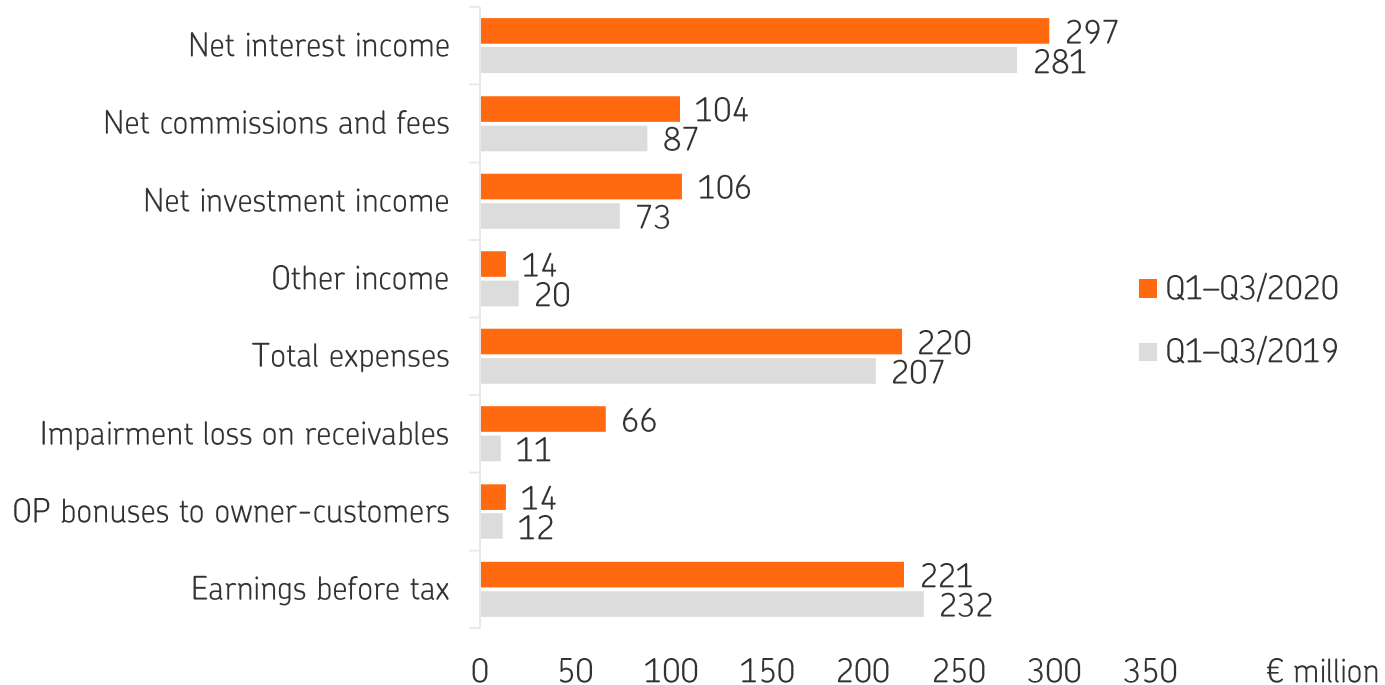
Loan portfolio

€24.6 billion

Assets under  
management

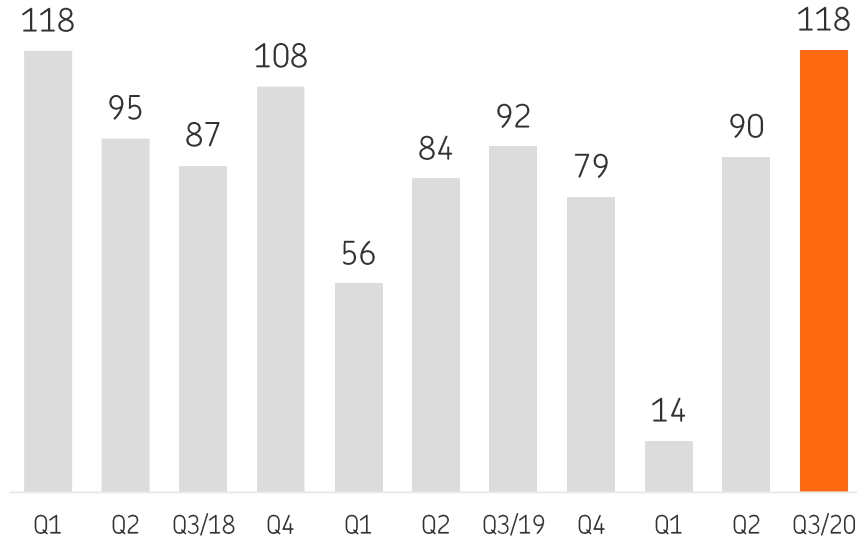
€62.0 billion

# Corporate Banking earnings before tax EUR 221 million

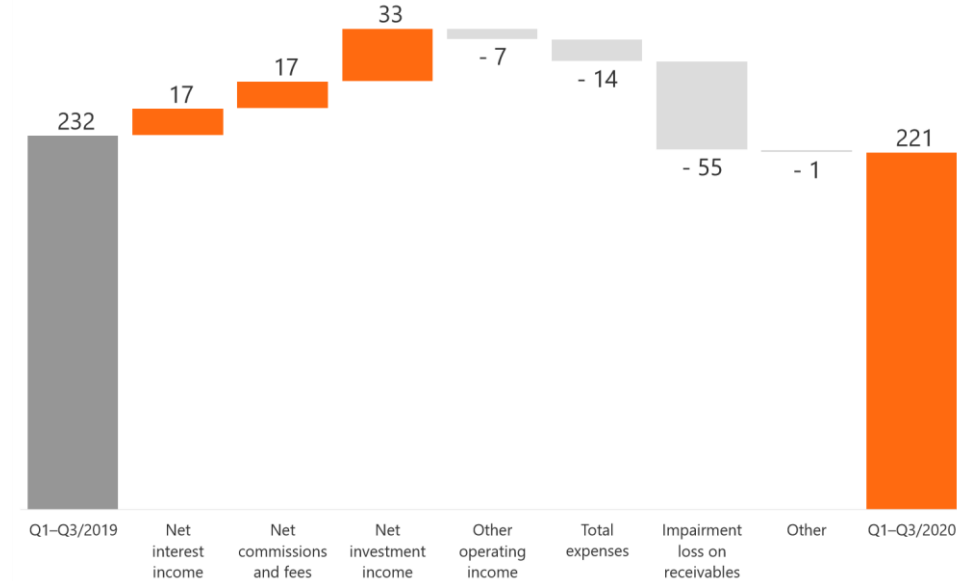


# Earnings decreased by EUR 10 million, income increased by 13% year on year

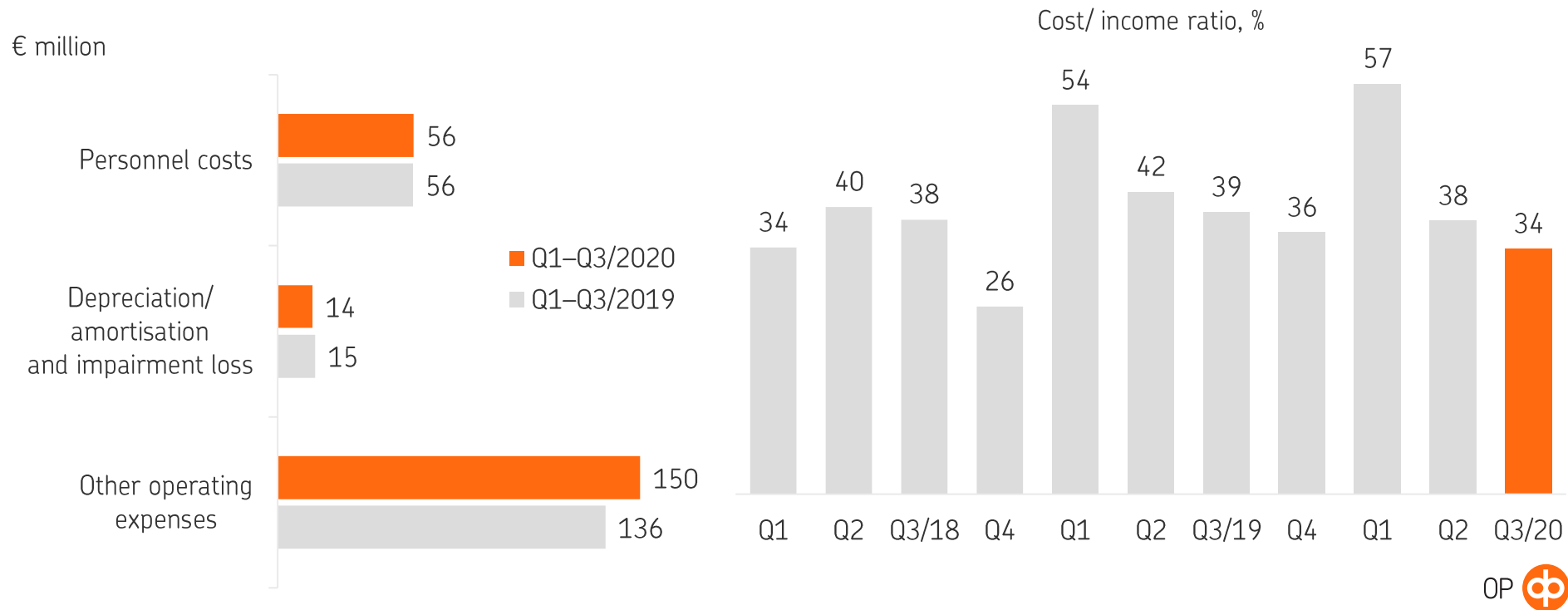
€ million



€ million

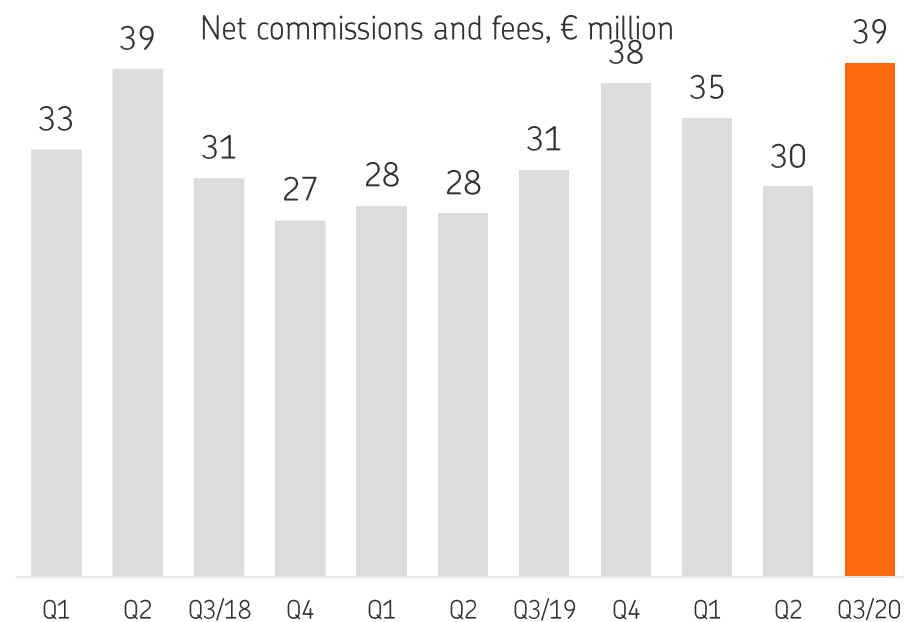
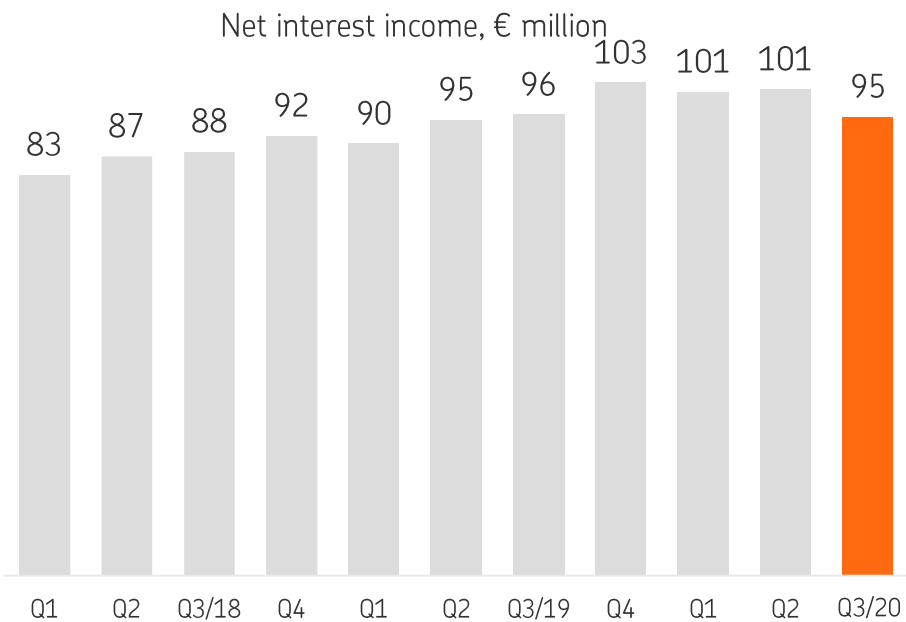


# ICT costs and the EU stability contribution increased other operating expenses

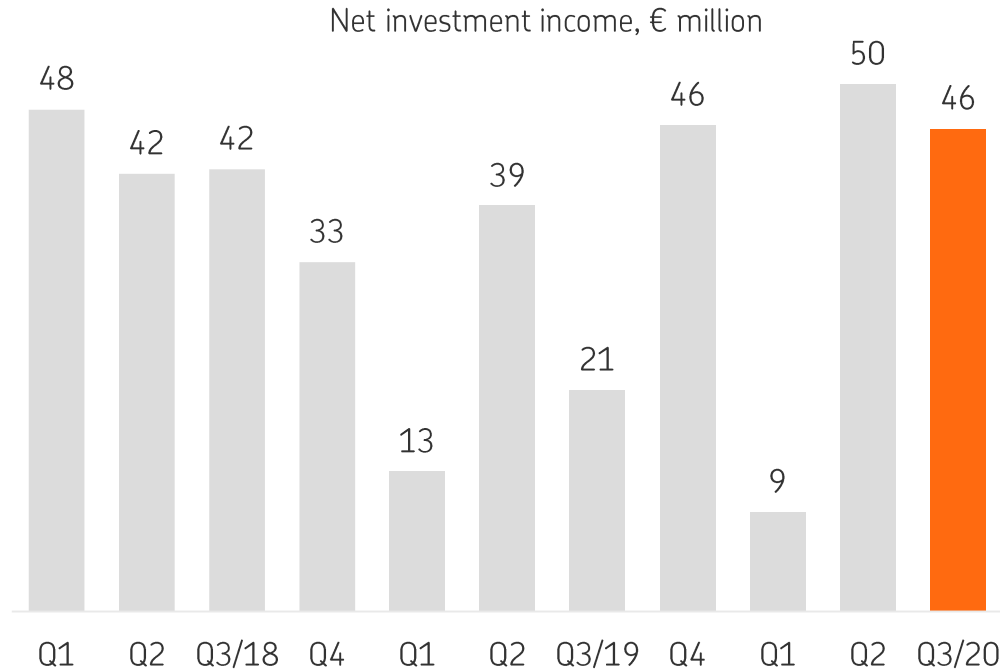




# Net commissions and fees increased by 19% year on year



# Net investment income increased markedly after the first quarter



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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, 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 2020

Earnings before tax

€195 million

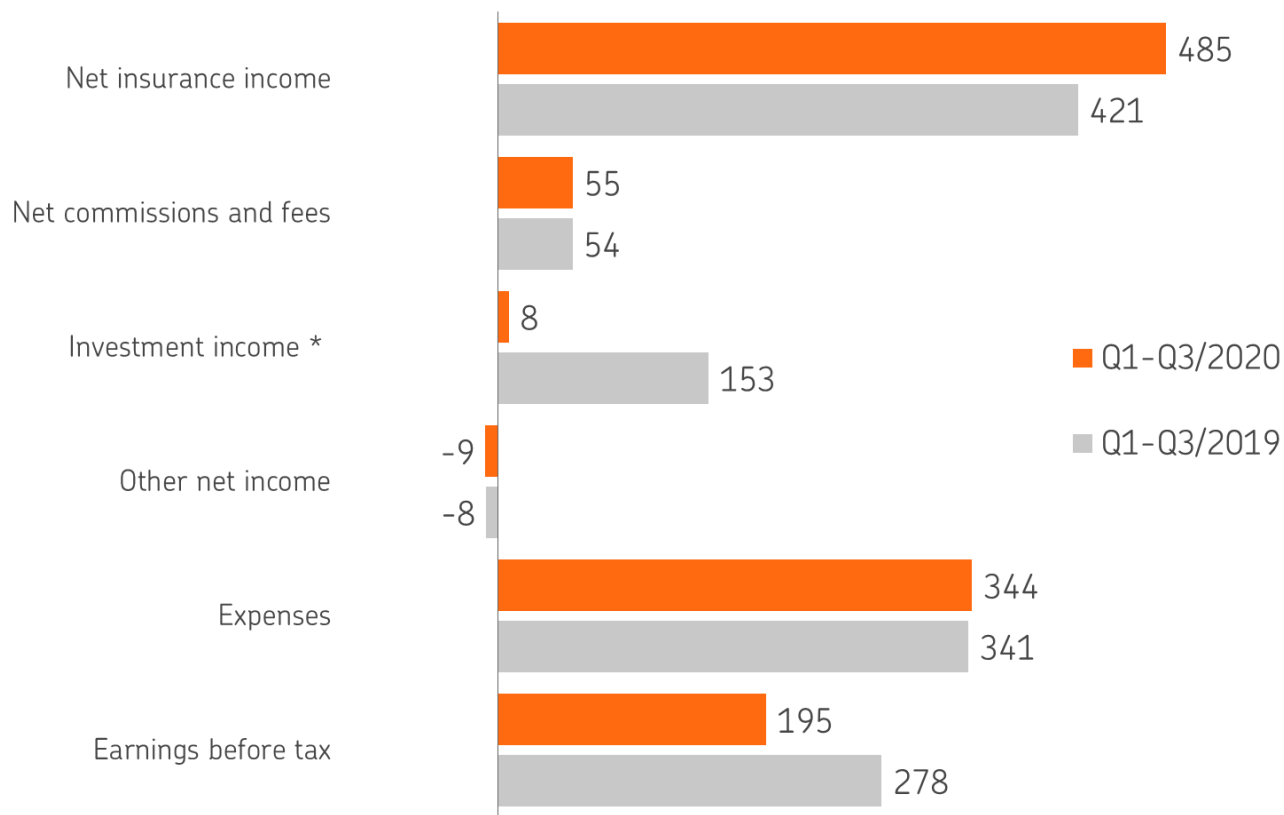
Insurance premium revenue

€1,127 million

Unit-linked insurance assets

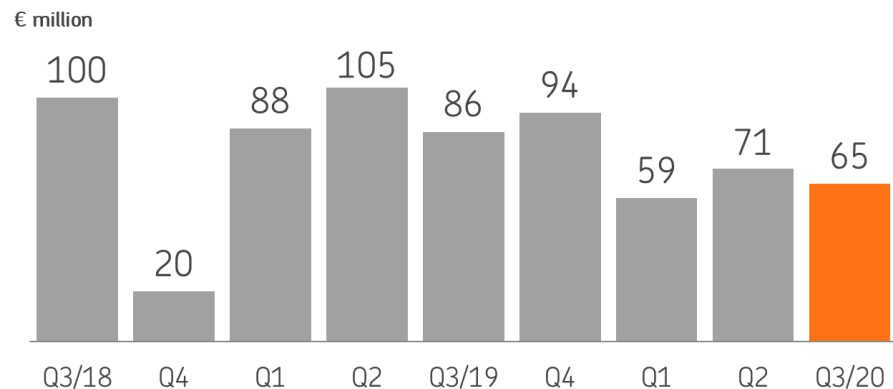
€10.6 billion

# Insurance EBT, € million

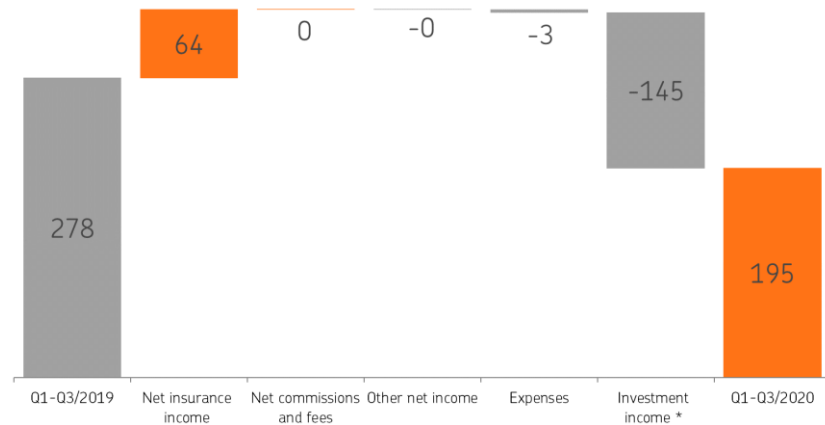


# Effects of the coronavirus pandemic on capital market developments weakened investment income

Earnings before tax  
by quarter, € million

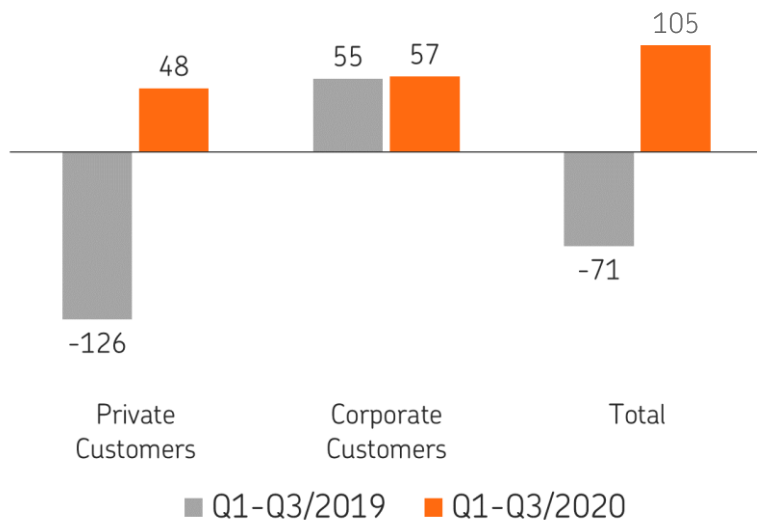


Earnings before tax, € million  
Q1-Q3/2020 change vs. Q1-Q3/2019

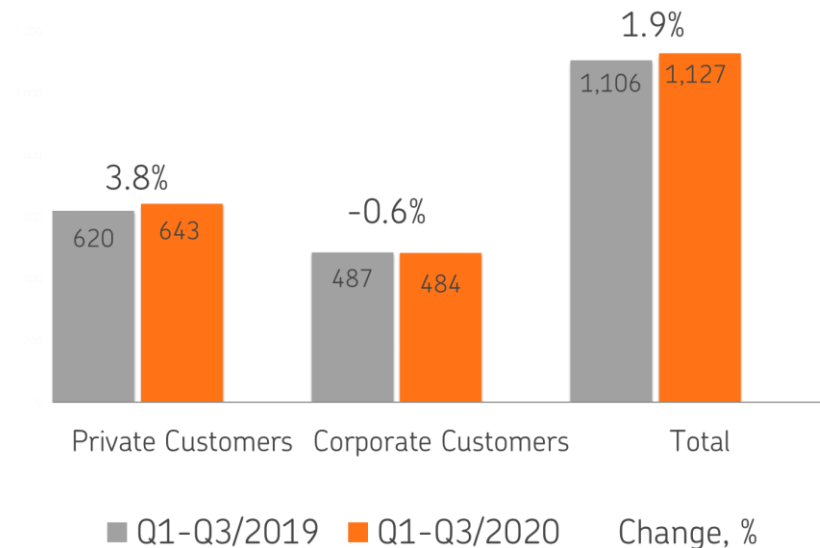


# Net sales and insurance premium revenue

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

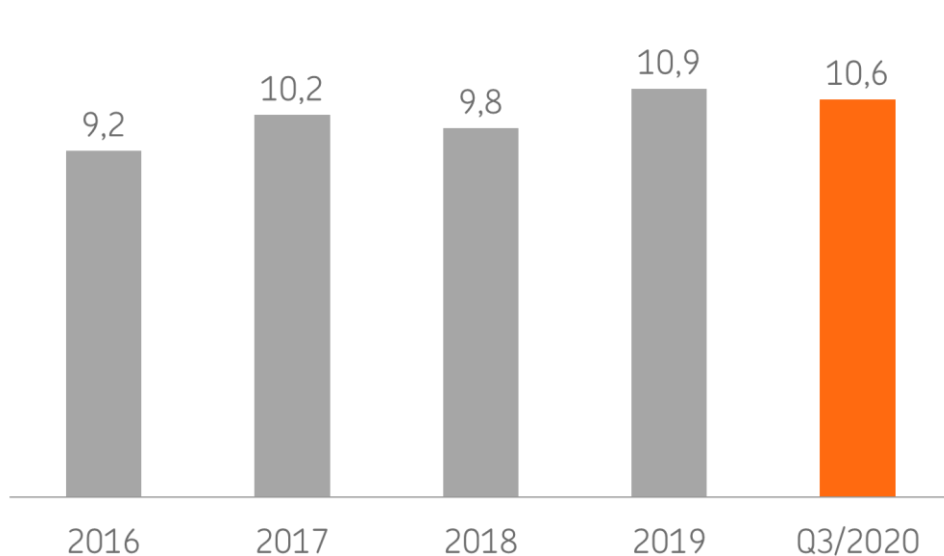


Non-life Insurance premiums written, € million

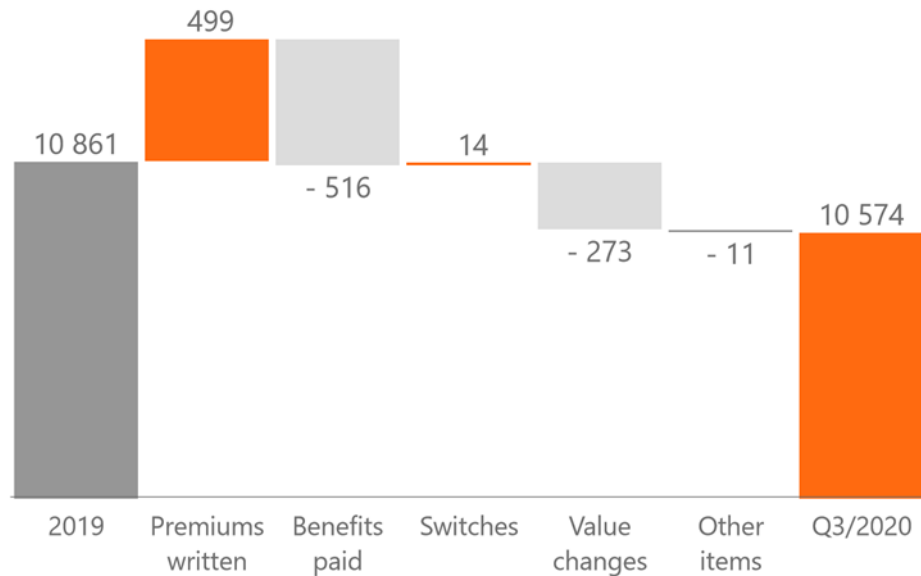


# Unit-linked insurance assets decreased by 2.6% as a result of a weak value performance caused by the coronavirus pandemic

Unit-linked insurance assets, € billion



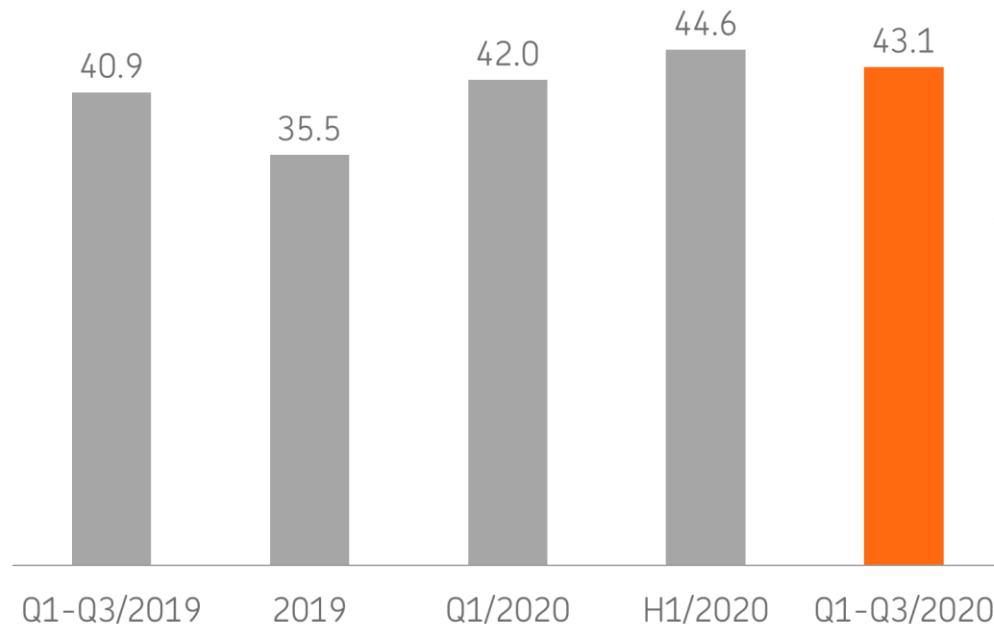
Change in unit-linked insurance assets, € million



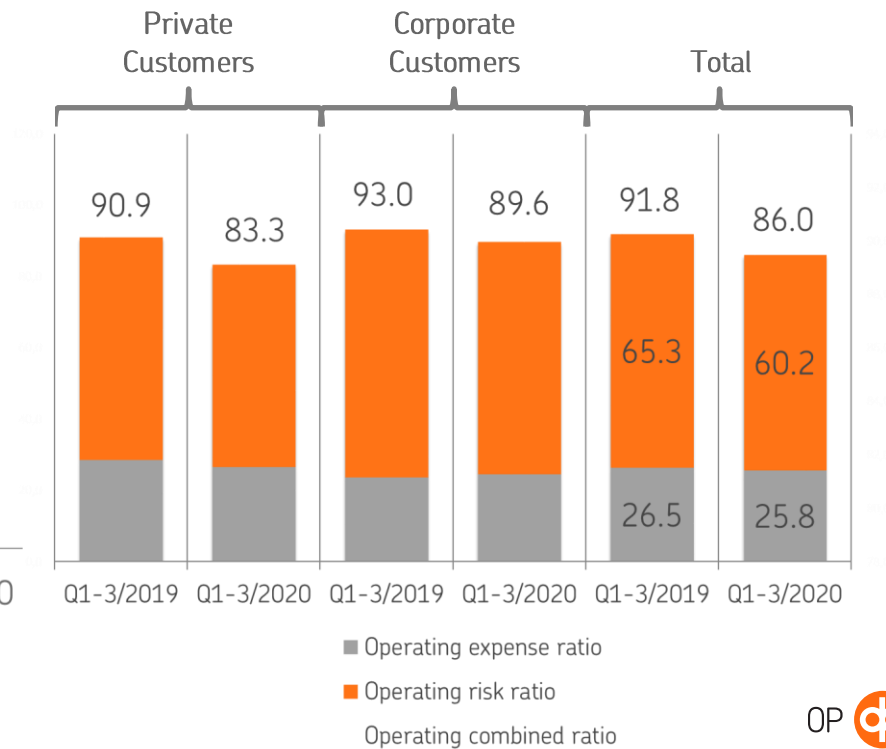


# Insurance profitability

Life Insurance, operating ratio %

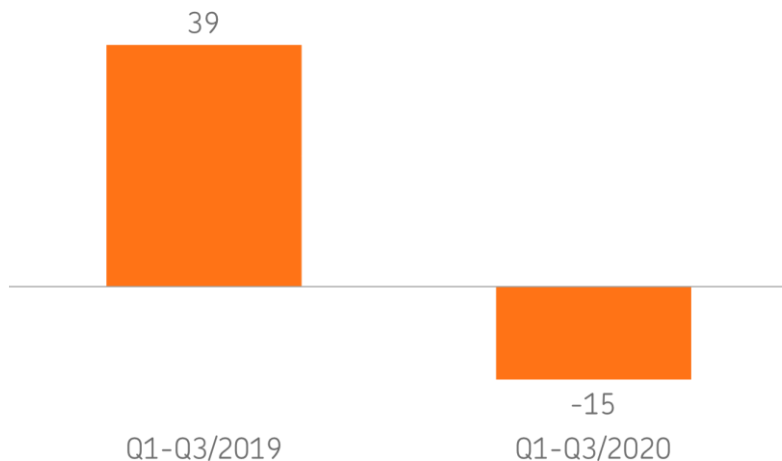


Non-life Insurance, operating combined ratio %

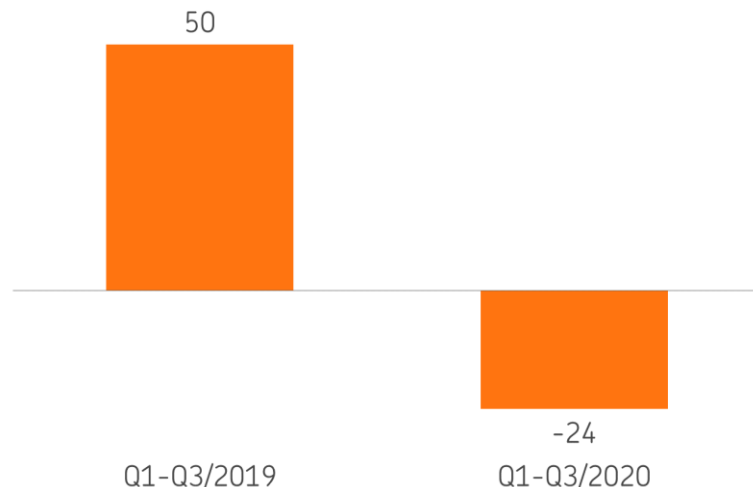


# Net return on insurance investments at fair value, € million

Life Insurance \*



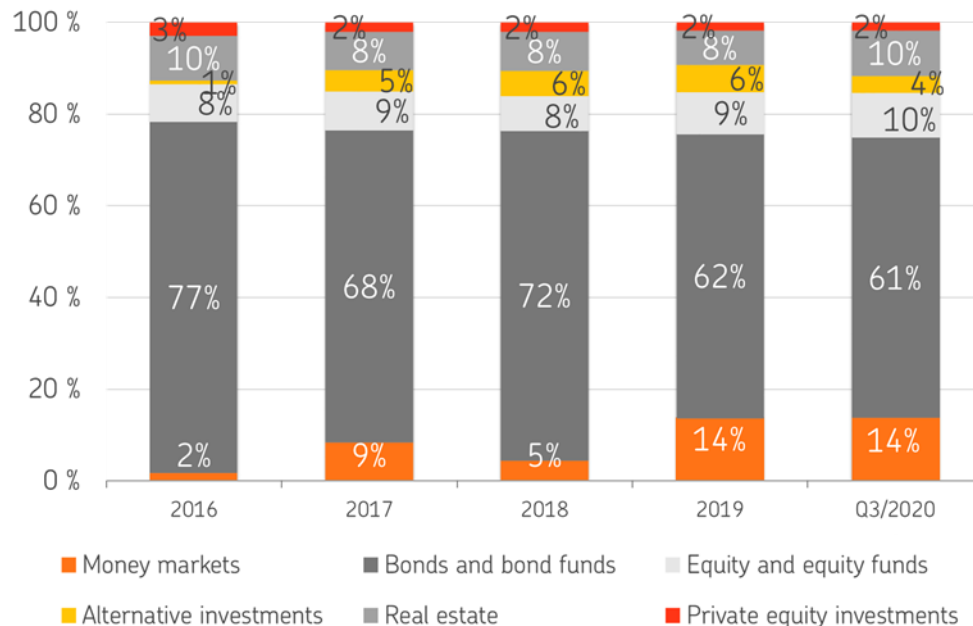
Non-life Insurance \*



\*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 Life Insurance investments exclude the so-called separated balance sheets that were transferred from Suomi Mutual.

# Non-life insurance investment portfolio allocation

Investment portfolio (€4.0 bn) by asset class as at  
30 September 2020

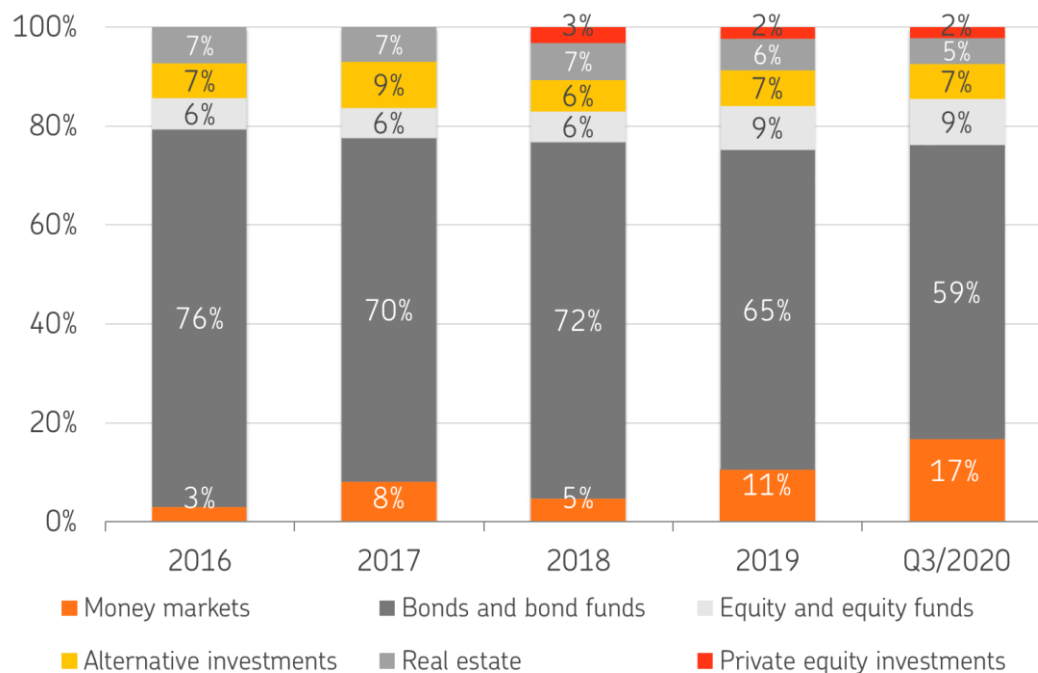


The duration of the fixed-income portfolio was 3.3 (4.0) years.

The running yield for direct bond investments averaged 1.2% (1.4) at end-September 2020.

# Life Insurance investment portfolio allocation

Investment portfolio (€3.5 bn) by asset class as of 30<sup>th</sup> September 2020



The duration of the fixed-income portfolio was 2.9 (2.9) years.

The running yield for direct bond investments averaged 1.1 (1.3) at end-September 2020.

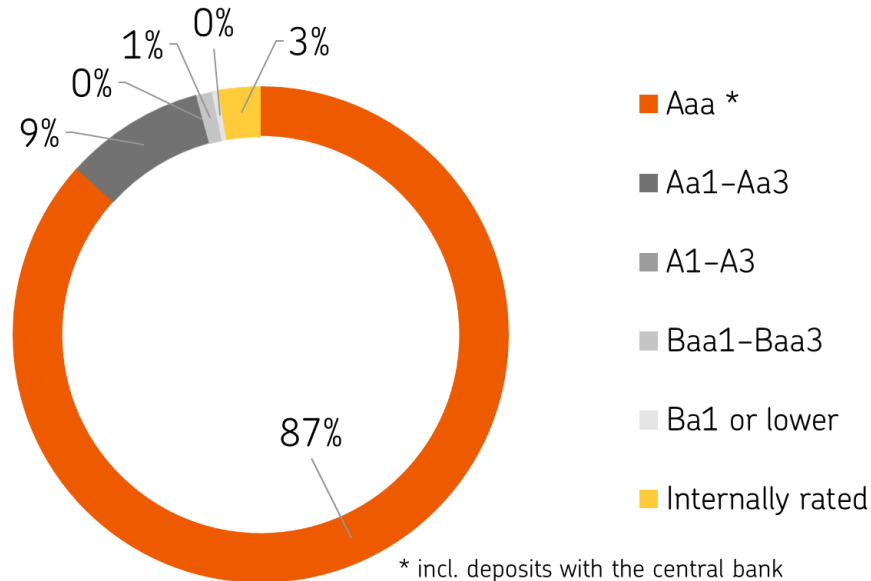
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# Liquidity and funding



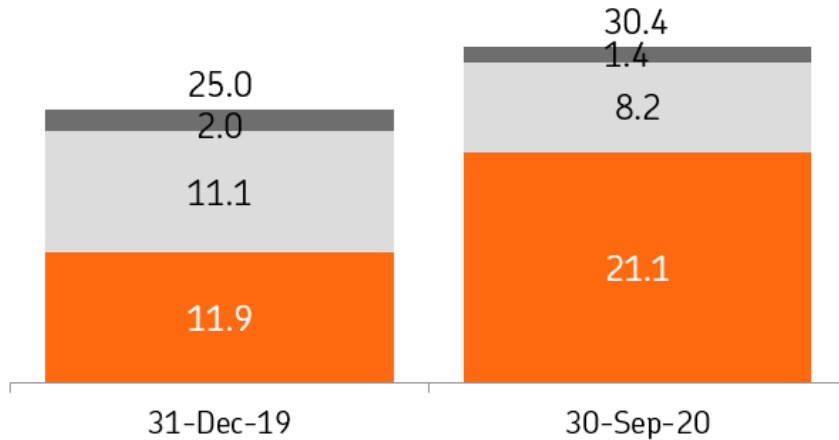
# Liquidity buffer includes highly-rated assets

Liquidity buffer by credit rating as at 30 September 2020



# Liquidity buffer €30.4 bn at end-Sep 2020

Liquidity buffer breakdown, € bn

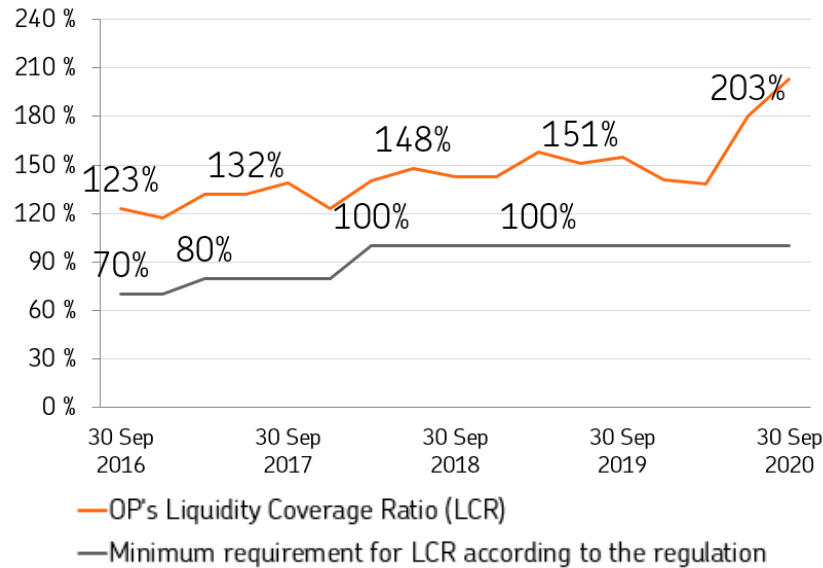


The liquidity buffer is sufficient to cover the need for short-term funding for known and predictable payment flows and in a liquidity stress scenario.

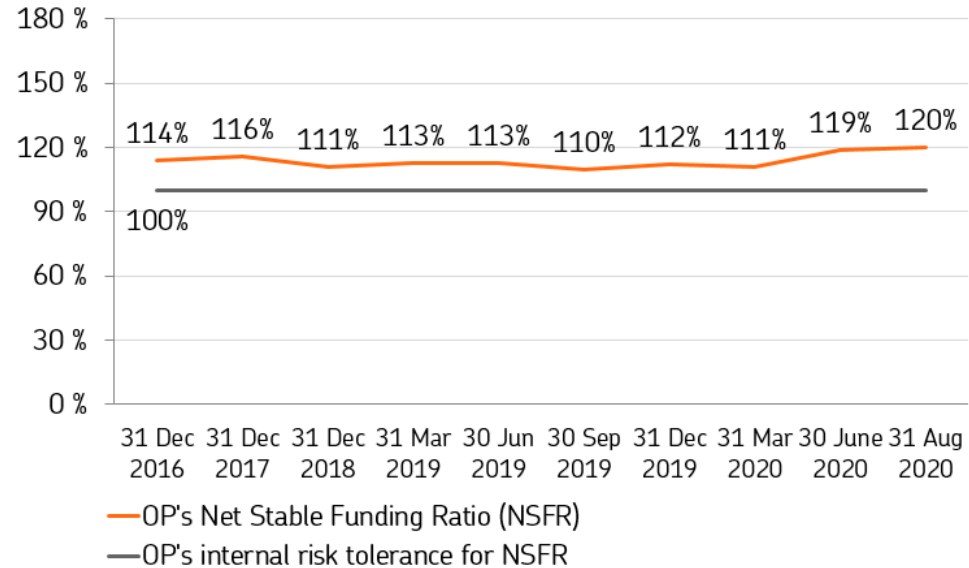
■ Deposits with the central bank      ■ Notes and bonds eligible as ECB collateral  
■ Receivables ineligible as ECB collateral

# Despite the effects of coronavirus pandemic OP's liquidity and funding position have remained good

## LCR vs. minimum requirement



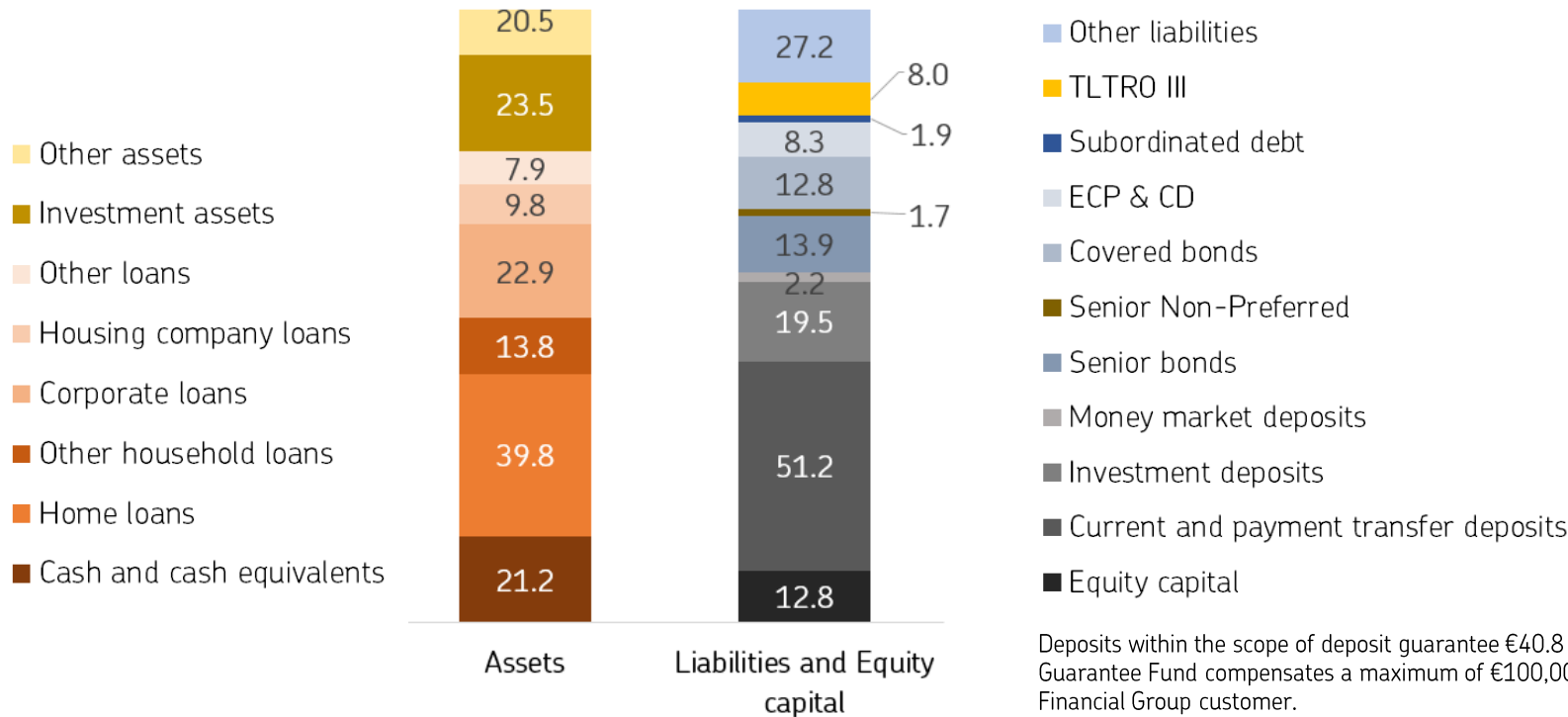
## NSFR vs. internal risk tolerance





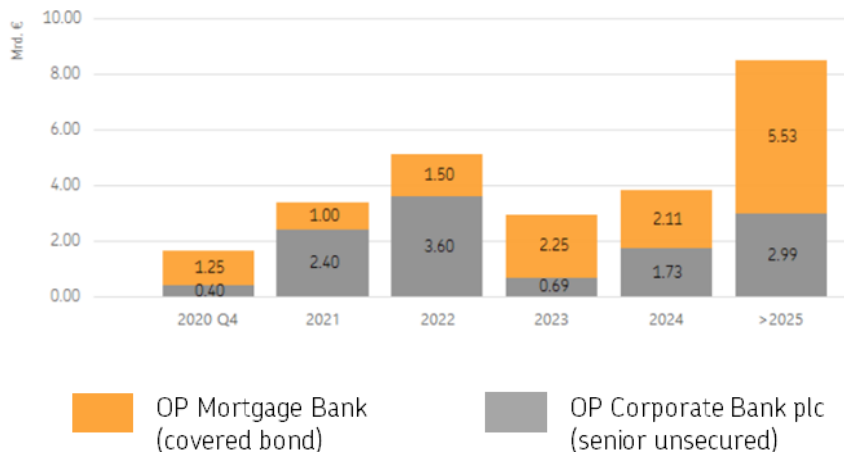
# Balance sheet totalled €159 bn at end-Sep 2020

Loans 59%, deposits 44% and market-based funding 26% of the balance sheet

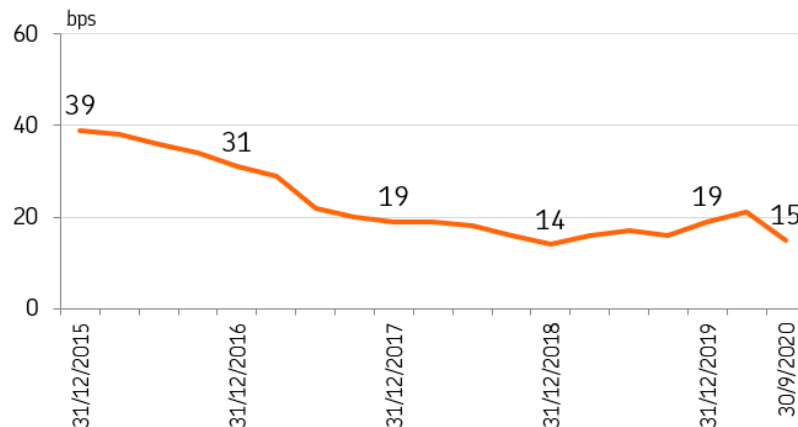


# Maturity breakdown and average margin of long-term wholesale funding

Issued senior unsecured and covered bonds by maturity, 30 Sep 2020 (€ bn)



Average margin of senior & SNP wholesale funding, TLTRO funding and covered bonds



The Single Resolution Board (SRB) has set OP Financial Group's Minimum Requirement for own funds and Eligible Liabilities (MREL) at 12% of liabilities and own funds or accounting for 27% of the total risk exposure amount at the end of 2018. OP Financial Group aims to meet the requirements under the MREL with its capital base and other subordinated debt. OP Financial Group has specified the MREL ratio calculation, and the MREL ratio was an estimated 36% on 30 September 2020. The SRB has confirmed a resolution strategy for OP OP Financial Group whereby the resolution measures would apply to OP Corporate Bank acting as a Single Point of Entry.

# Issued long-term bonds €6.6 bn in Q1-3/20

## OP Corporate Bank plc's benchmark bonds 2019–20

Year	Month	Amount	Maturity	Cost
2020	June-July	€1 bn	4 yrs	m/s +50 bps
2020	June	€1 bn (T2)	10 yrs (10 non-call 5)	m/s +200 bps
2020	June	SEK3.25 bn (T2)	10 yrs (10 non-call 5)	m/s +230 bps
2020	May	€1 bn	5.25 yrs	m/s +85 bps
2020	January	€500 m (SNP)	7 yrs	m/s +65 bps
2019	November	€500 m (SNP)	10 yrs	m/s +68 bps
2019	June	€500 m (SNP)	5 yrs	m/s +60 bps
2019	February	€500 m (Green)	5 yrs	m/s +35 bps

## OP Mortgage Bank's benchmark covered bonds 2019–20

Year	Month	Amount	Maturity	Cost
2020	April	€300 m (Private Placement)	8 yrs	Eb3 +45 bps
2020	April	€500 m (Private Placement)	2 yrs	Eb3 +30 bps
2020	January	€1 bn	8.25 yrs	m/s +3 bps
2019	November	€1 bn	7 yrs	m/s +3 bps
2019	February	€1.25 bn	10 yrs	m/s +10 bps

In March 2020, OP took ECB's USD-denominated financing worth \$500 m with a maturity of less than a year. Additionally, OP participated in ECB's TLTRO III financing operation by €6 bn (maturity 3 yrs) in June 2020.

# 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

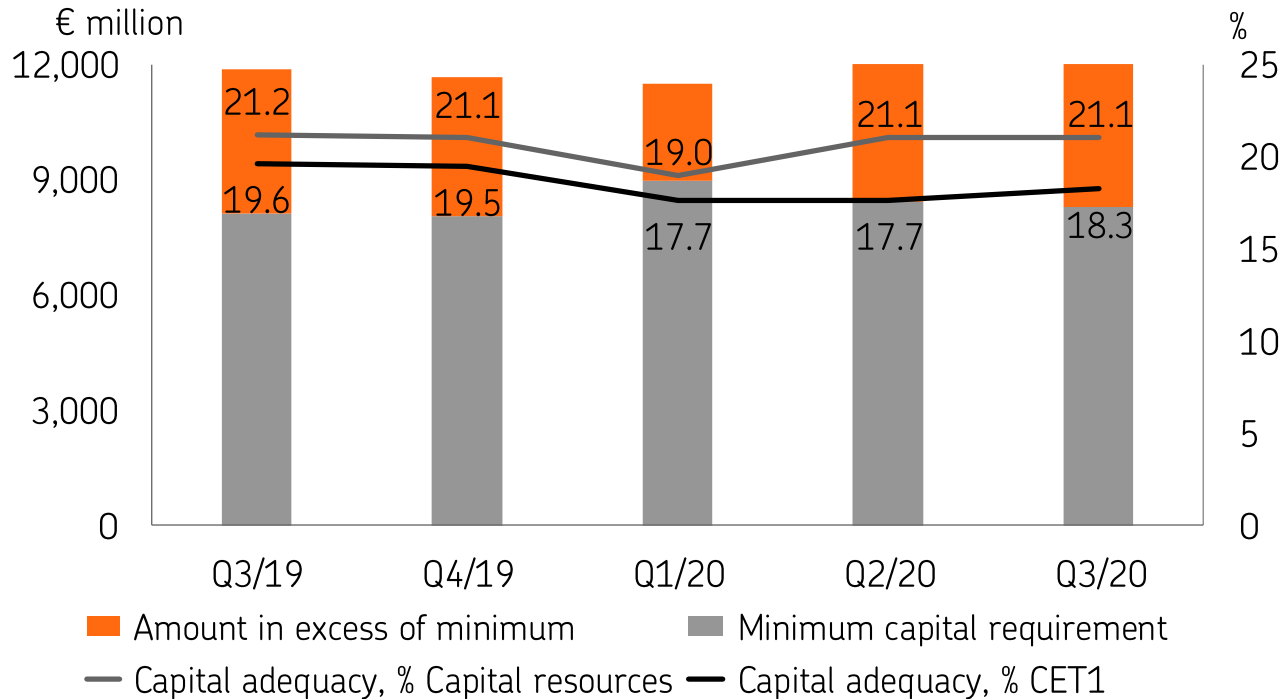
- The operations and solvency requirements for insurance companies are based on the Insurance Companies Act and EU regulation.
- The solvency capital requirement (SCR) is calculated for individual insurance companies and the insurance conglomerate. The companies are required to cover SCR using the Group's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

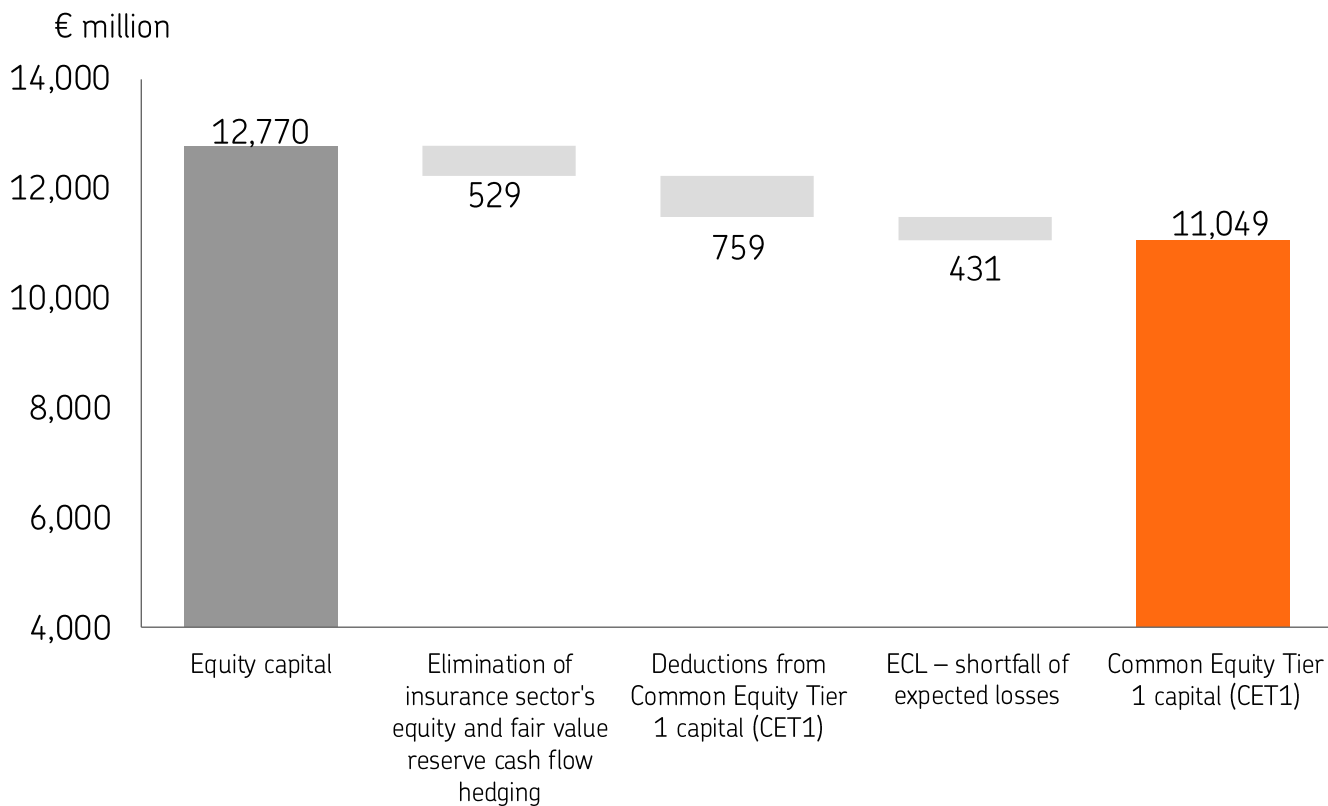
# Amalgamation of cooperative banks

## Capital base and capital adequacy

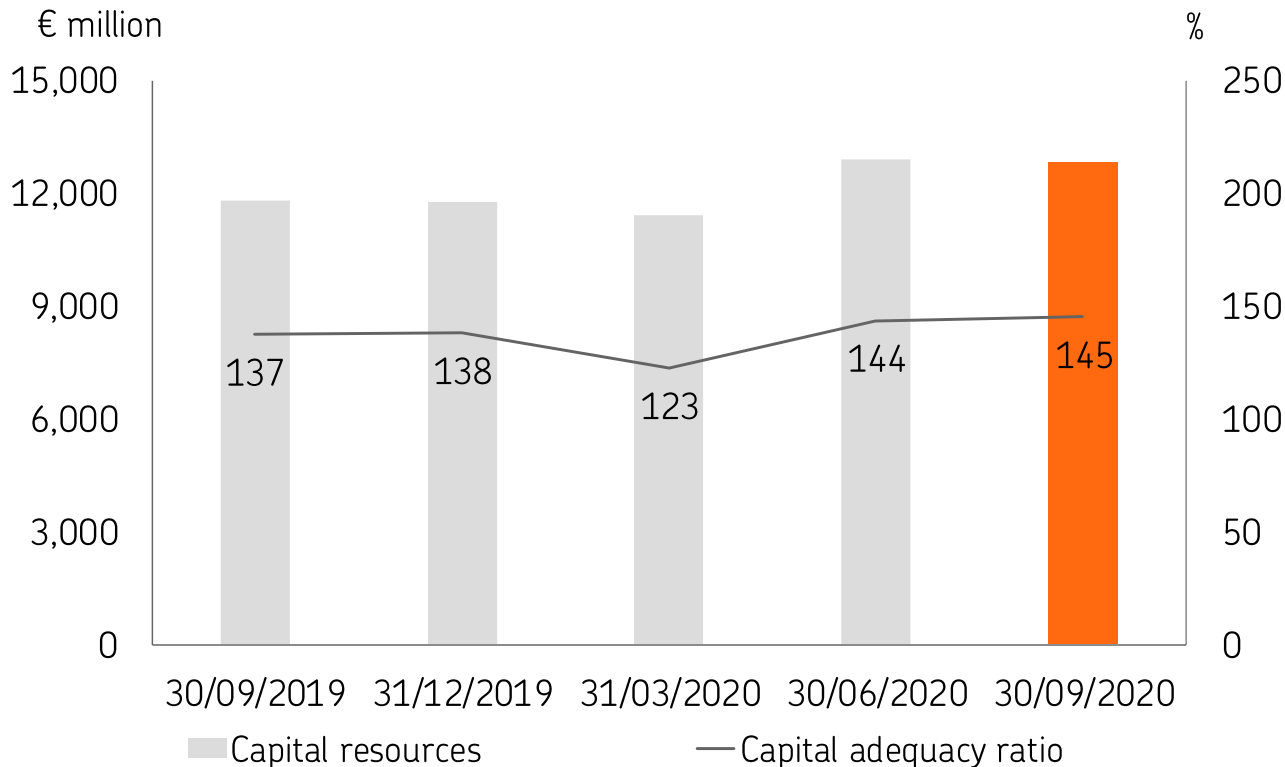


# Common Equity Tier 1 (CET1)

## 30 September 2020

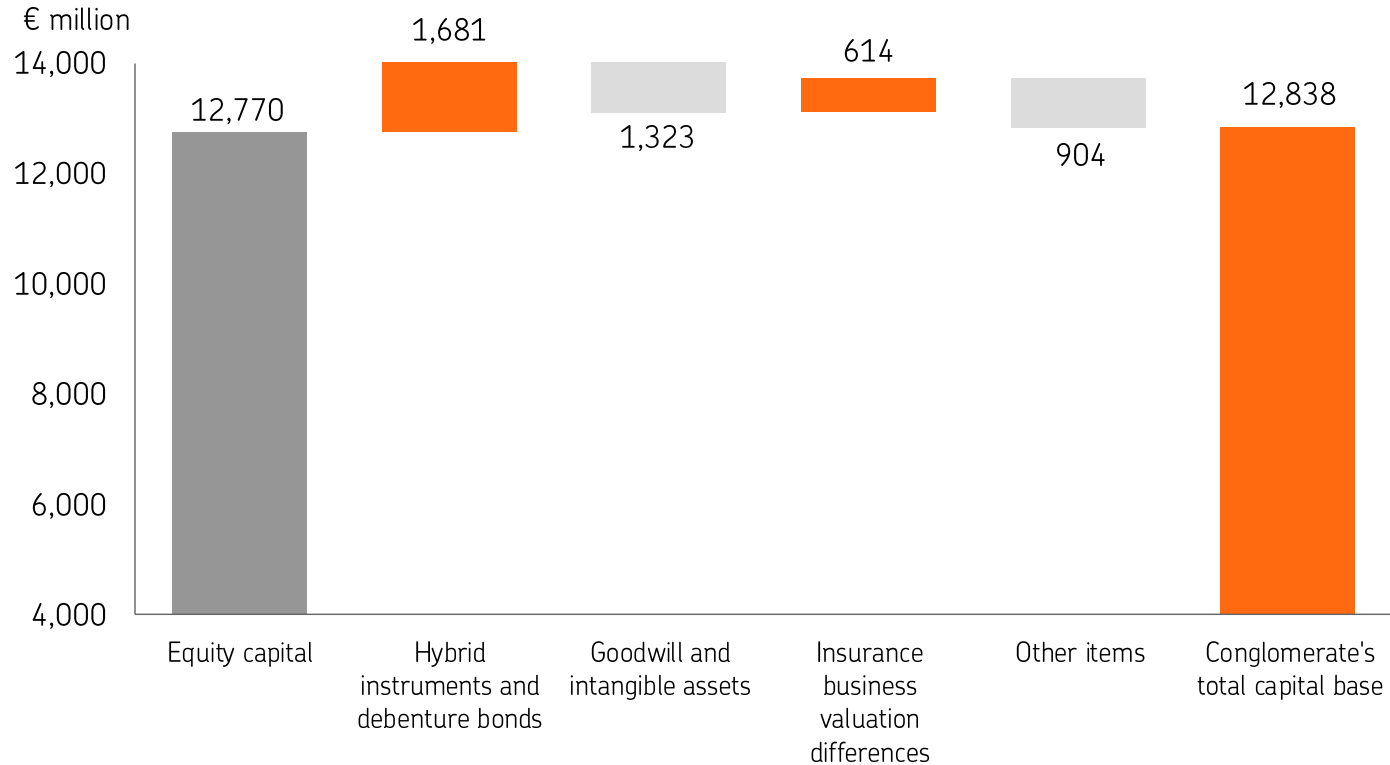


# OP Financial Group's capital adequacy ratio under the Act on the Supervision of Financial and Insurance Conglomerates (FiCo)





# FiCo capital 30 September 2020



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# OP in a nutshell



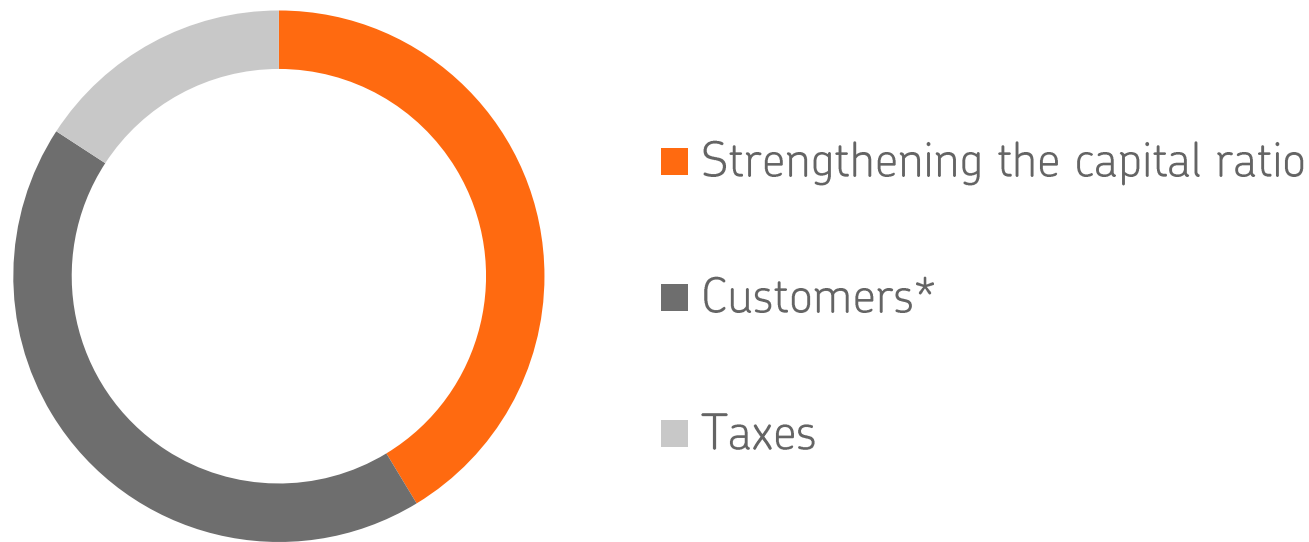
A close-up photograph of a smiling family. A woman on the left is laughing with her mouth open. A man on the right is smiling and waving his hand. A baby is in the center, looking up. The background is slightly blurred, showing some colorful patterns.

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 operating region.

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



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

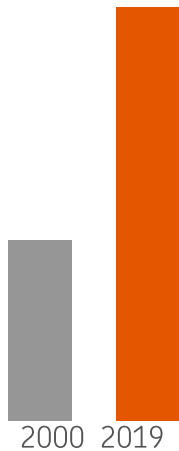
\*) Customers = customer bonuses, discounts and interest on contributions made by owner-customers

# OP Financial Group's strategic long-term targets

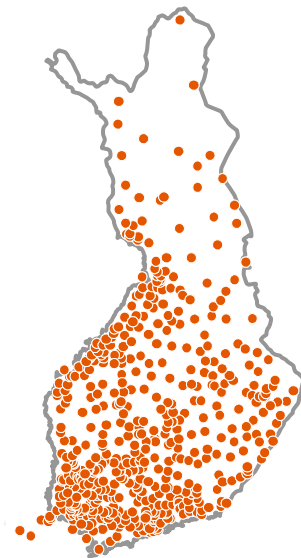
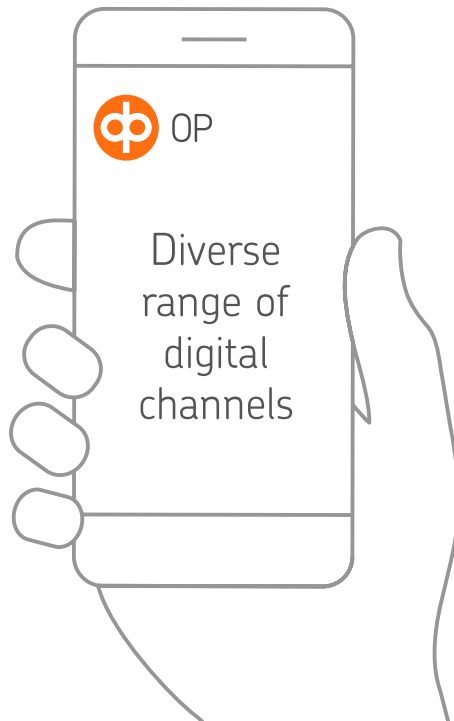
	30 Sep 2020	31 Dec 2019	Target 2025
Return on equity (ROE) excluding OP bonuses, %	6.0	7.1	8.0
CET1 ratio, %	18.3	19.5	At least CET1 ratio requirement + 4 pps
Brand recommendations, NPS (Net Promoter Score, private and corporate customers)	22	26	30
Credit rating	AA-/Aa3	AA-/Aa3	At least at the level of AA-/Aa3



# Finland's most extensive and diverse service network



Already 2 million  
owner-customers



138 OP cooperative banks

# OP Financial Group's service channels

	Q1–3/2020	30 Sep 2020	12-month change
Online and mobile services			
Op.fi logins	54,074,061		-32%
OP-mobile logins	295,725,726		34%
OP Business mobile logins	10,949,091		51%
Pivo mobile application visits	33,211,864		-15%
eServices Agreements (private customers)		1,971,879	2%
Branches and telephone services			
Bank branches		344	-3%
Private Banking branches		48	-
Customer contacts in telephone service (Q1–3/2019)	3,660,398		+2%
Social media			
Followers on Facebook (OP Financial Group, Pohjola Insurance, OP Koti and OP cooperative banks)		435,070	19%
Followers on Twitter		45,524	9%
Followers on LinkedIn		56,904	35%
Followers on Instagram		17,524	48%

# Joint Liability, Deposit Guarantee and Investors' Compensation

- Under the Act on the Amalgamation of Deposit Banks (Laki talletuspankkien yhteenliittymästä Act), 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 and OP Card Company Plc.
- 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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Together we'll make it  
through hard times.

