



OP Financial Group's Interim Report ▶ 1 January – 30 September 2018

Contents

- OP Financial Group's Interim Report
- Banking
- Non-life Insurance
- Wealth Management
- Liquidity and funding
- Capital adequacy and capital base
- OP in a nutshell



OP Financial Group's Interim Report



OP Financial Group's key figures and ratios

Customer business showed favourable development but EBT decreased to EUR 687 million

| | Q1-3/2018 | Q1-3/2017 | Change, % | Q1-4/2017 |
|---|-------------------|-------------------|-----------|------------------|
| Earnings before tax, EUR million | 687 | 838 | -18.0 | 1,031 |
| Banking | 489 | 478 | 2.2 | 619 |
| Non-life Insurance | 131 | 137 | -4.5 | 210 |
| Wealth Management | 136 | 190 | -28.3 | 247 |
| Other operations | -69 | 32 | -315.4 | -45 |
| New OP bonuses accrued to owner-customers | -171 | -164 | 4.6 | -220 |
| | 30 September 2018 | 30 September 2017 | Change, % | 31 December 2017 |
| CET1 ratio, % | 20.0 | 19.2 | 0.8 * | 20.1 |
| Ratio of capital base to minimum amount of capital base (under the Act on the Supervision of Financial and Insurance Conglomerates) % *** | 149 | 146 | 3 * | 148 |
| Return on economic capital, % ** | 18.7 | 20.8 | -2.1 * | 20.4 |
| Return on equity (ROE), % | 6.5 | 8.5 | -2.0 * | 7.7 |
| Return on assets (ROA), % | 0.53 | 0.67 | -0.1 * | 0.6 |
| Ratio of non-performing receivables to loan and guarantee portfolio, % **** | 1.1 | 1.3 | -0.1 * | 1.2 |
| Owner customers (1,000) | 1,888 | 1,810 | 4.3 | 1,833 |

* Change in ratio

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

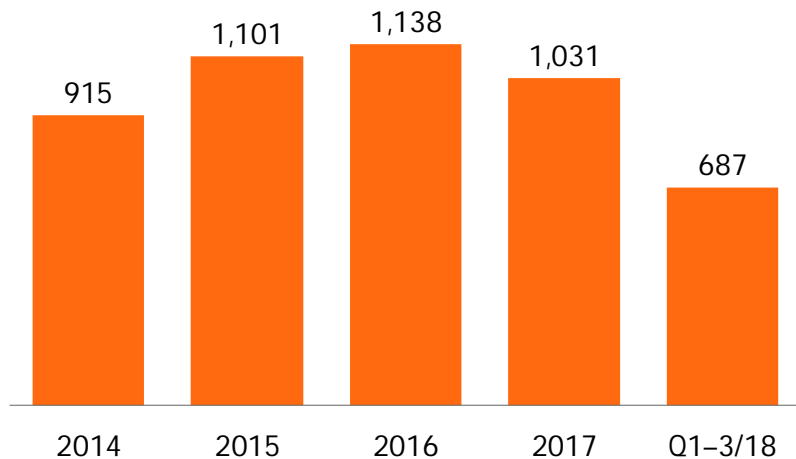
*** 12-month rolling

**** 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.

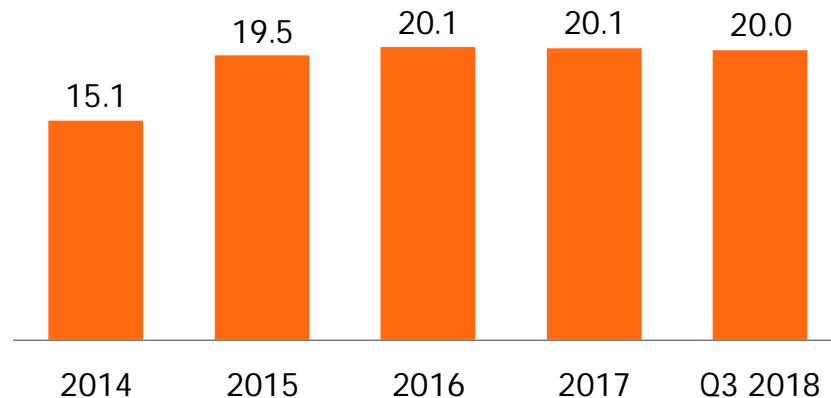
- Earnings before tax amounted to EUR 687 million (838).
- Income from customer business showed favourable development. Net interest income increased by 6% to EUR 867 million and net commissions and fees by 3% to EUR 655 million. Net insurance income rose by 27 % to EUR 432 million.
- Investment income fell by 39% to EUR 255 million and other operating income by 38% to EUR 46 million.
- Expenses rose by 9% to EUR 1,378 million, due mainly to higher development costs.
- Impairment losses on receivables were still low: EUR 24 million (28).
- CET1 ratio was 20.0%, or at the previous year-end level.

OP Financial Group's steady financial performance supports capital base

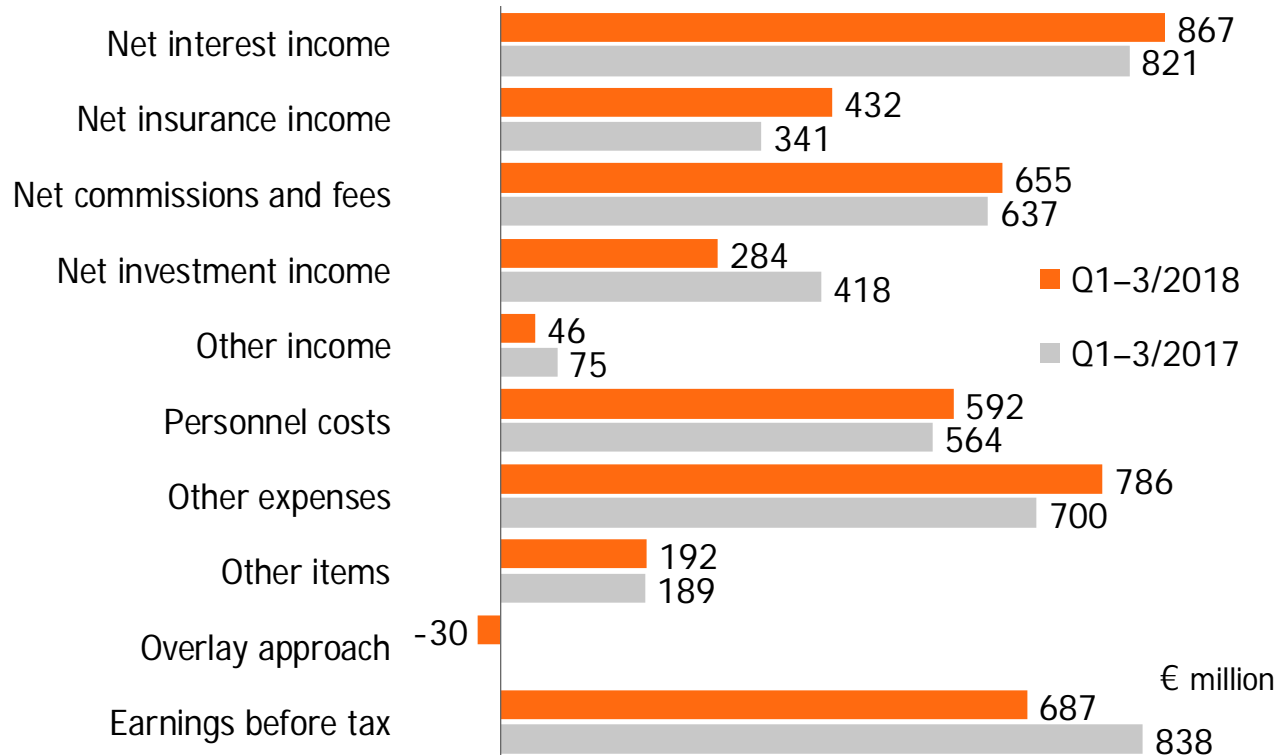
Earnings before tax, € million



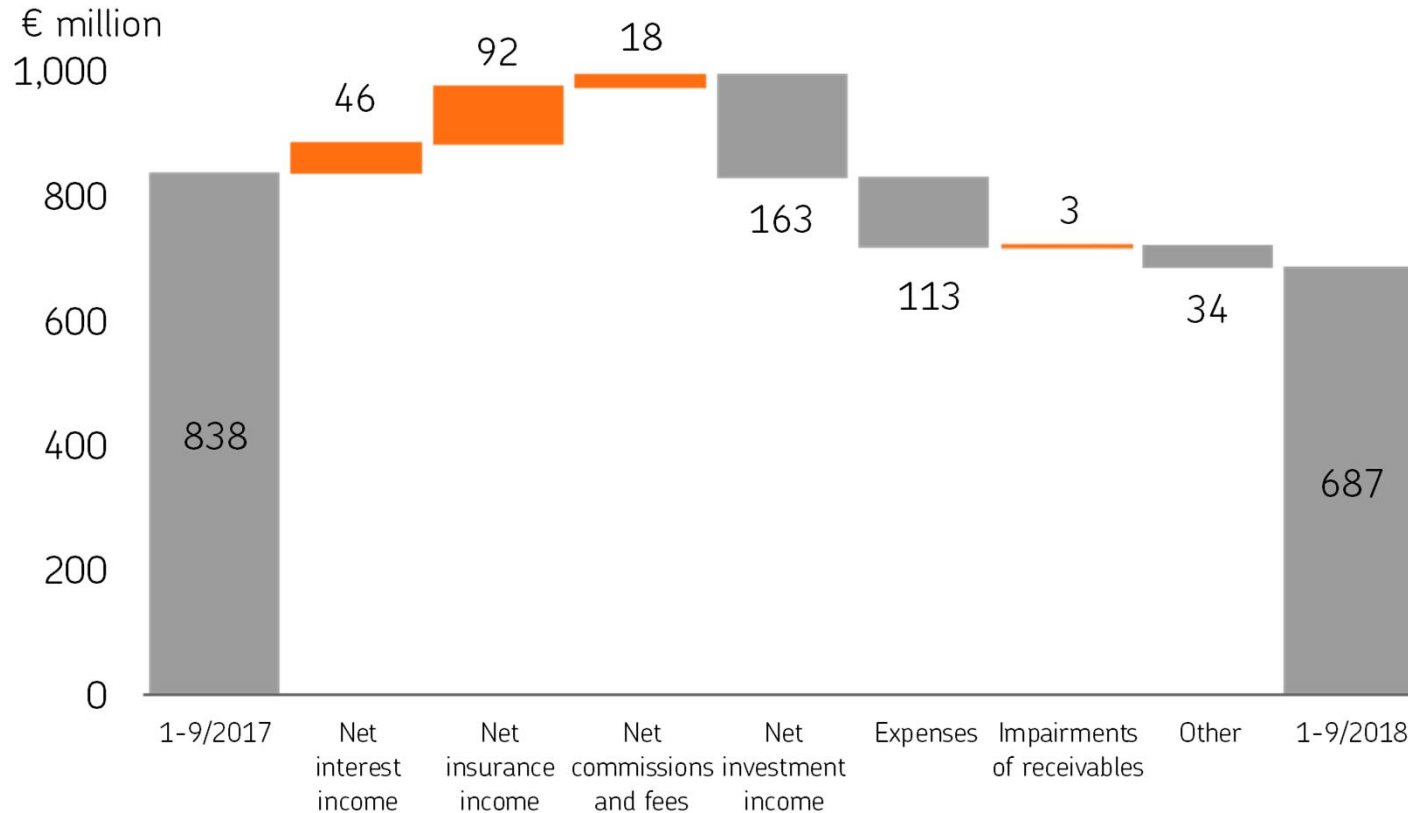
Common Equity Tier 1 ratio (CET1),%



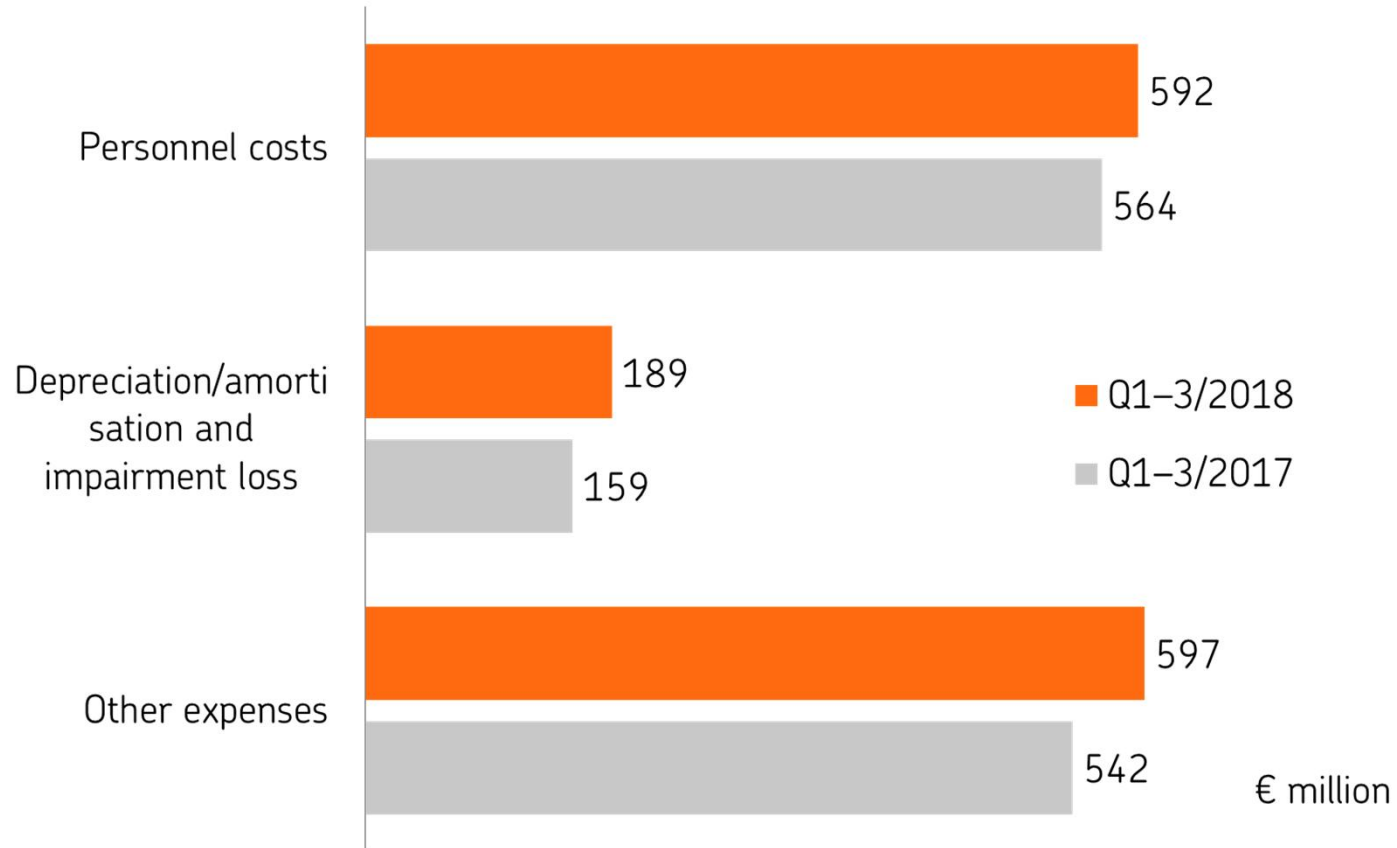
OP Financial Group's main income statement items



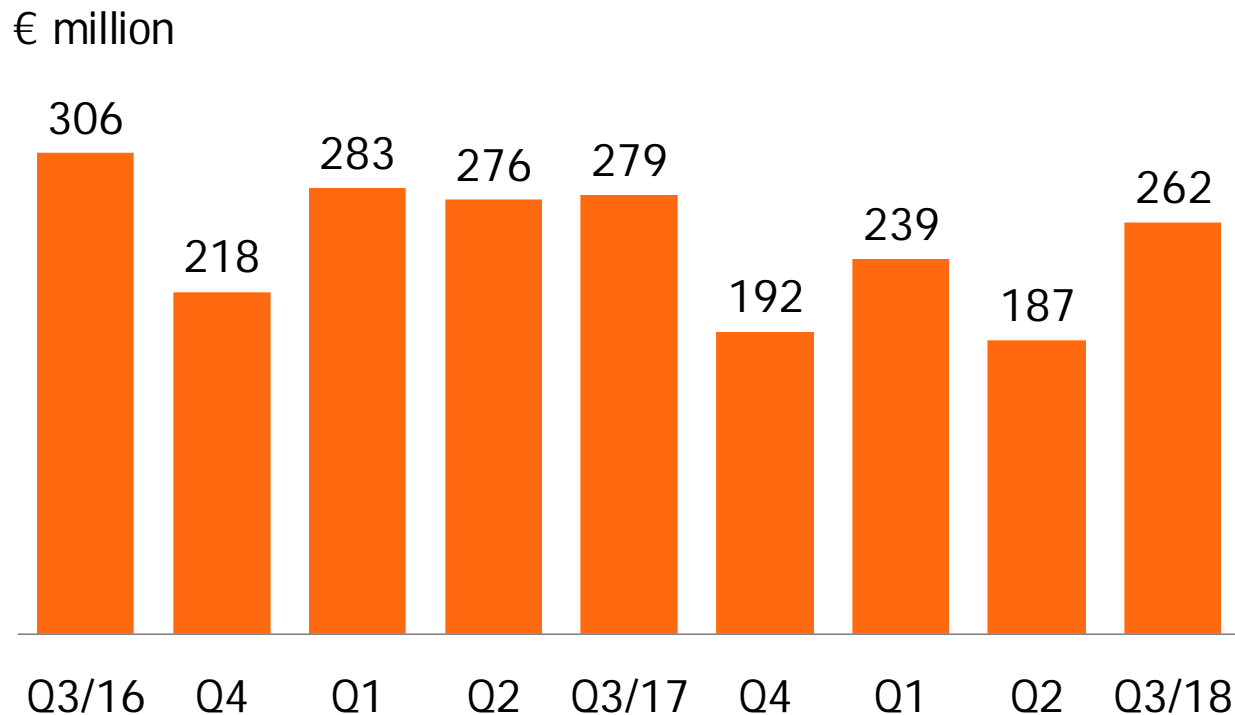
Lower investment income and growth in development costs shows in OP Financial Group's financial performance



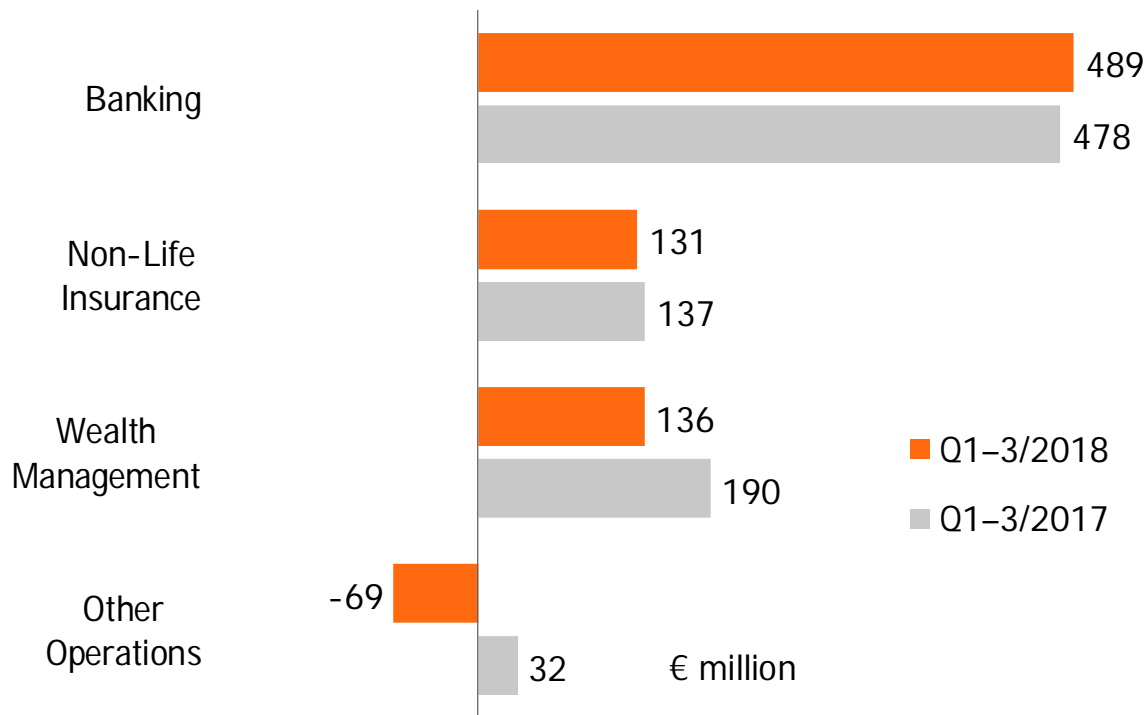
OP Financial Group's cost performance



OP Financial Group's EBT by quarter



OP Financial Group's EBT by business segment



OP Financial Group's income statement

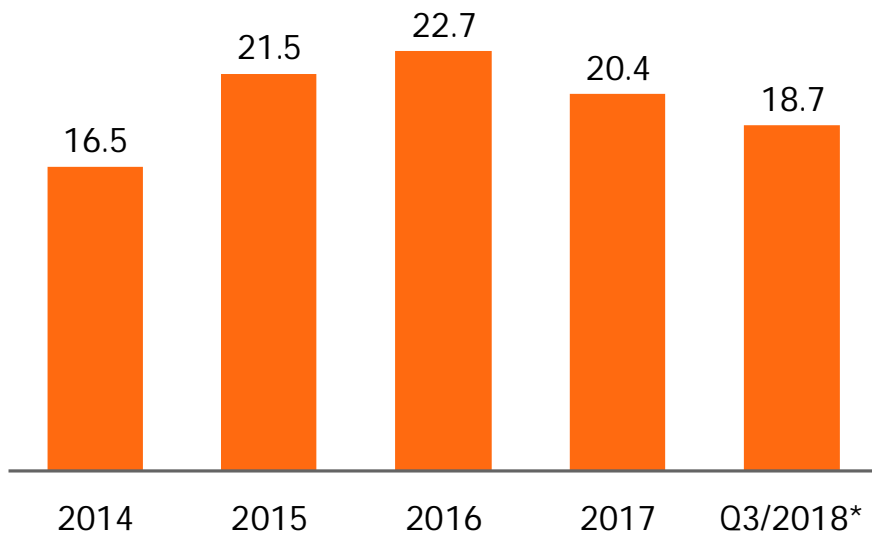
| January 1 to September 30 | 2018 | 2017 | Change, €million | % | Q3/18 | Q3/17 | Change, % |
|--------------------------------|--------------|--------------|---------------------|--------------|------------|------------|--------------|
| Net interest income | 867 | 821 | 46 | 5.7 | 297 | 287 | 3.5 |
| Net insurance income | 432 | 341 | 92 | 26.9 | 154 | 80 | 93.7 |
| Net commissions and fees | 655 | 637 | 18 | 2.9 | 212 | 203 | 4.4 |
| Net investment income | 284 | 418 | -134 | -32.0 | 79 | 171 | -54.1 |
| Other operating income | 46 | 75 | -28 | -37.8 | 25 | 12 | 104.3 |
| Total income | 2,286 | 2,292 | -5 | -0.2 | 766 | 753 | 1.9 |
| Personnel costs | 592 | 564 | 27 | 4.9 | 178 | 171 | 4.1 |
| Other expenses | 786 | 700 | 86 | 12.2 | 244 | 242 | 0.5 |
| Total expenses | 1,378 | 1,265 | 113 | 9.0 | 422 | 414 | 2.0 |
| Impairment loss on receivables | -24 | -28 | 3 | -12.2 | -17 | -5 | 285.6 |
| OP bonuses | -167 | -161 | -6 | 4.0 | -58 | -55 | 4.8 |
| Overlay approach | -30 | 0 | -30 | | -7 | 0 | |
| Earnings before tax | 687 | 838 | -151 | -18.0 | 262 | 279 | -6.1 |

OP Financial Group's quarterly performance

| € million | Q1 | Q2 | Q3 | Q4/2017 | Q1 | Q2 | Q3/2018 |
|-------------------------------|------------|------------|------------|------------|------------|------------|------------|
| Net interest income | 260 | 274 | 287 | 281 | 282 | 289 | 297 |
| Net insurance income | 117 | 145 | 80 | 137 | 127 | 151 | 154 |
| Net commissions and fees | 226 | 209 | 203 | 242 | 232 | 212 | 212 |
| Net investment income | 124 | 123 | 171 | 104 | 79 | 127 | 79 |
| Other operating income | 31 | 32 | 12 | 8 | 12 | 9 | 25 |
| Total income | 757 | 782 | 753 | 772 | 732 | 788 | 766 |
| Personnel costs | 202 | 191 | 171 | 193 | 204 | 209 | 178 |
| Other expenses | 213 | 244 | 242 | 310 | 252 | 290 | 244 |
| Total expenses | 415 | 436 | 414 | 503 | 456 | 500 | 422 |
| Impairments of receivables | -8 | -15 | -5 | -20 | -4 | -3 | -17 |
| OP bonuses to owner-customers | -51 | -55 | -55 | -56 | -52 | -57 | -58 |
| Overlay approach | | | | | 19 | -41 | -7 |
| Earnings before tax | 283 | 276 | 279 | 192 | 239 | 187 | 262 |

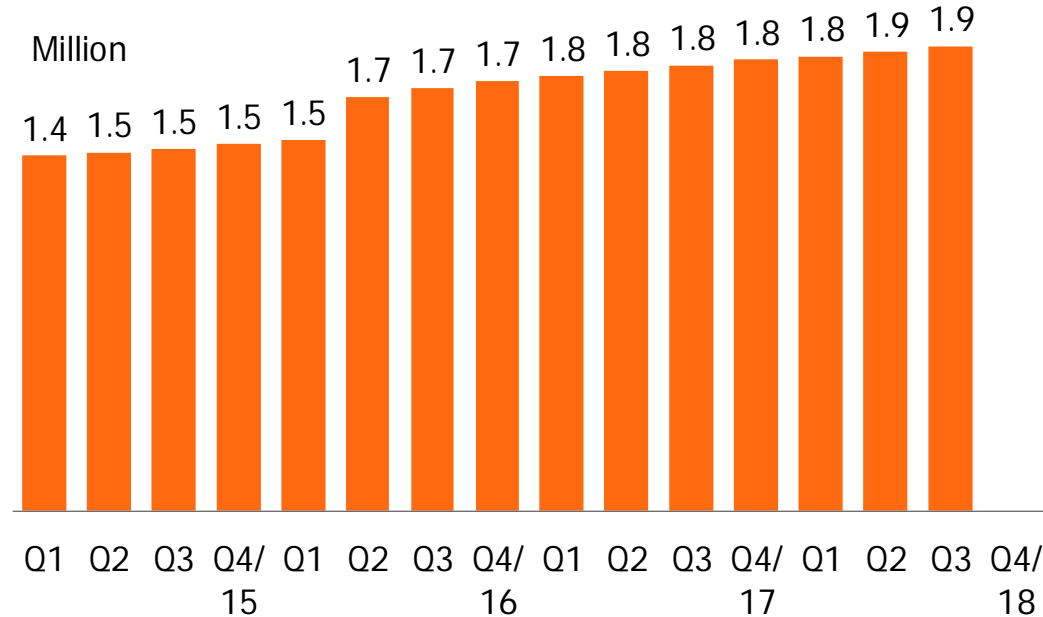
Long-term return target at 22%

Return on economic capital, %



* 12-month rolling

Steady growth in the number of owner-customers



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 Q1-Q3/2018

EBT

EUR **489** million

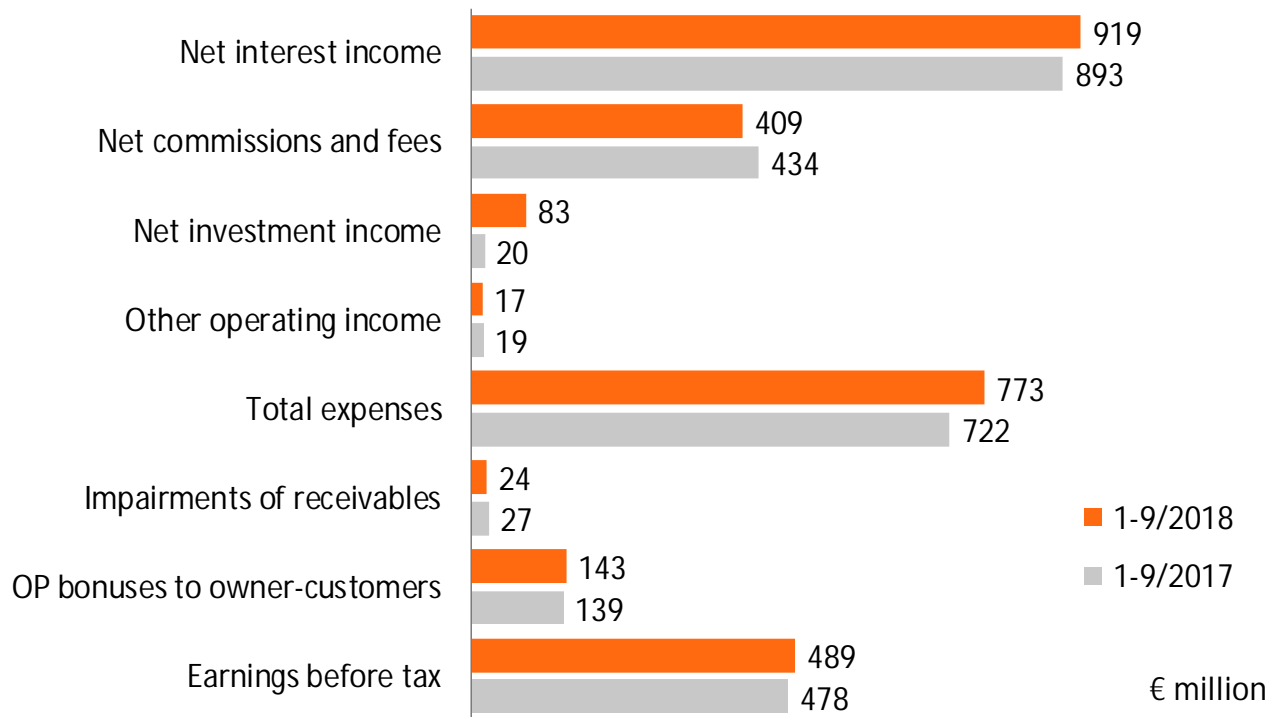
Loan portfolio

EUR **86.0** billion

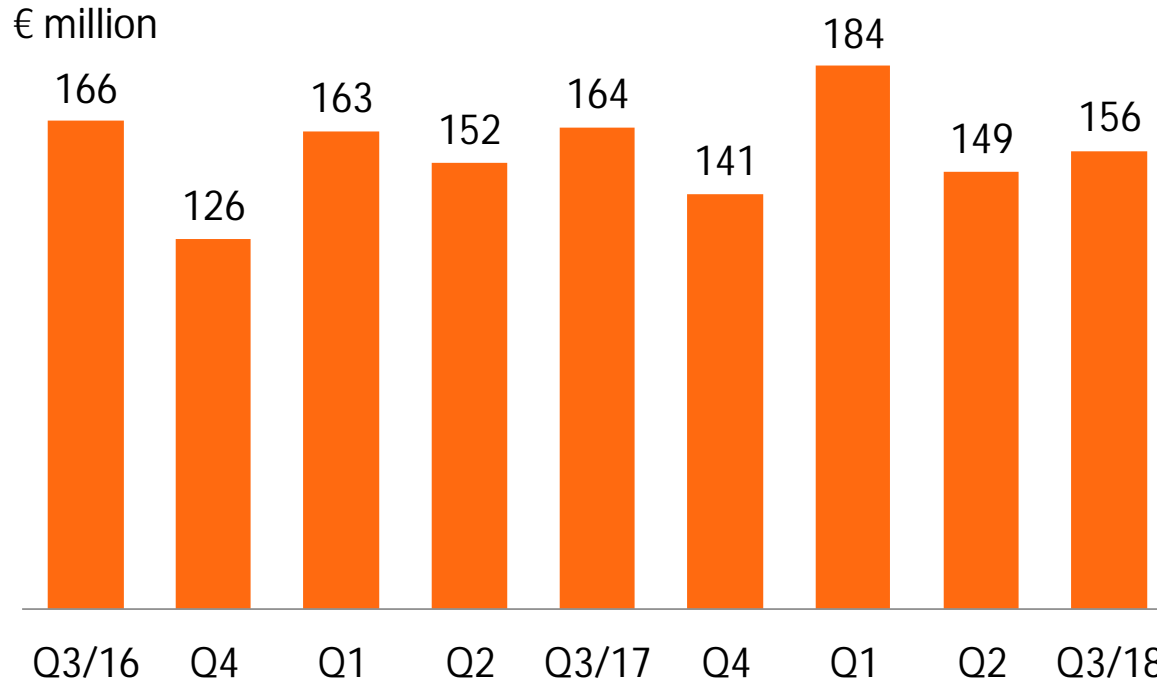
Total deposits

EUR **61.6** billion

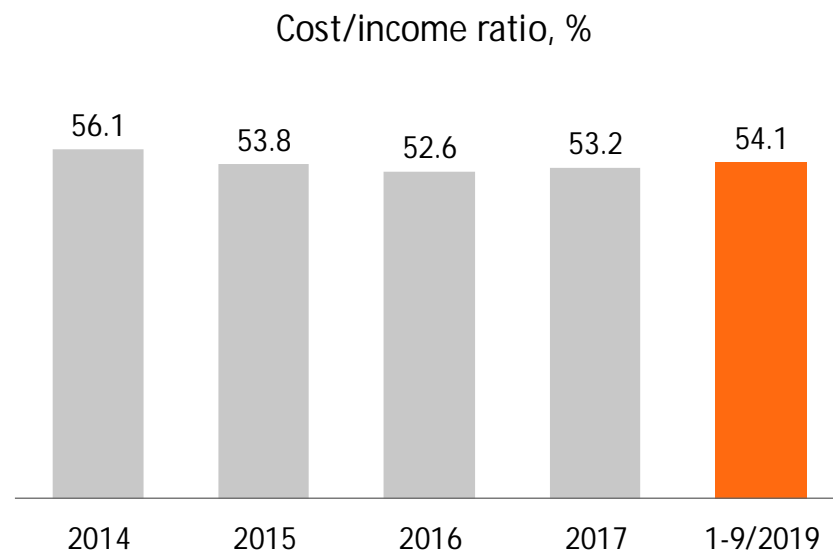
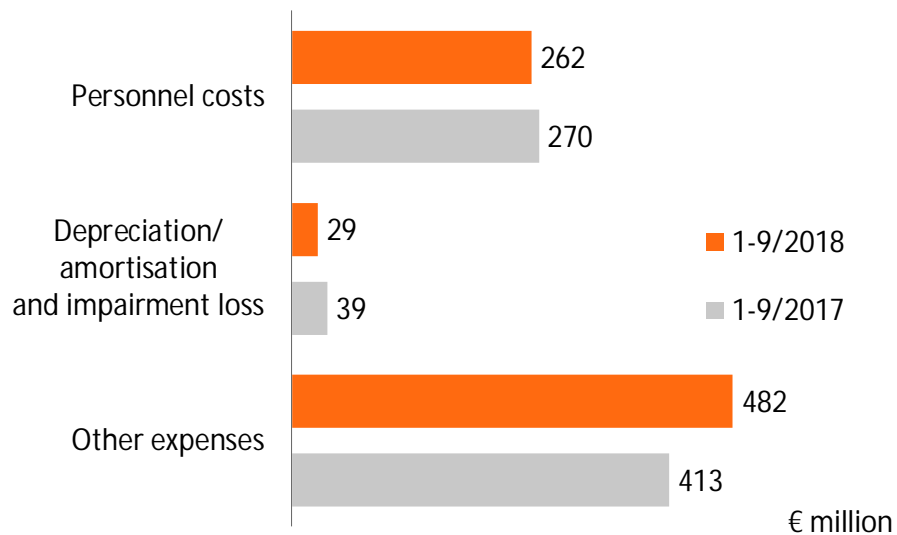
January–September EBT increased by 2% to EUR 489 million



Quarterly EBT dropped by 5% year on year

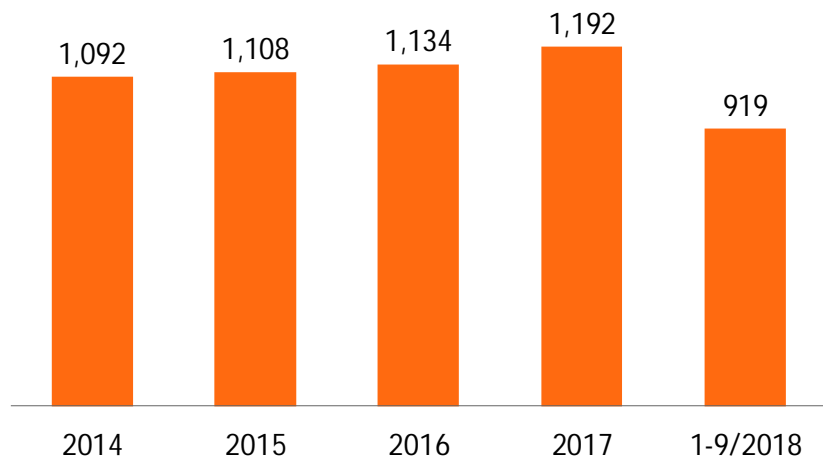


Banking's personnel costs decreased by 3%

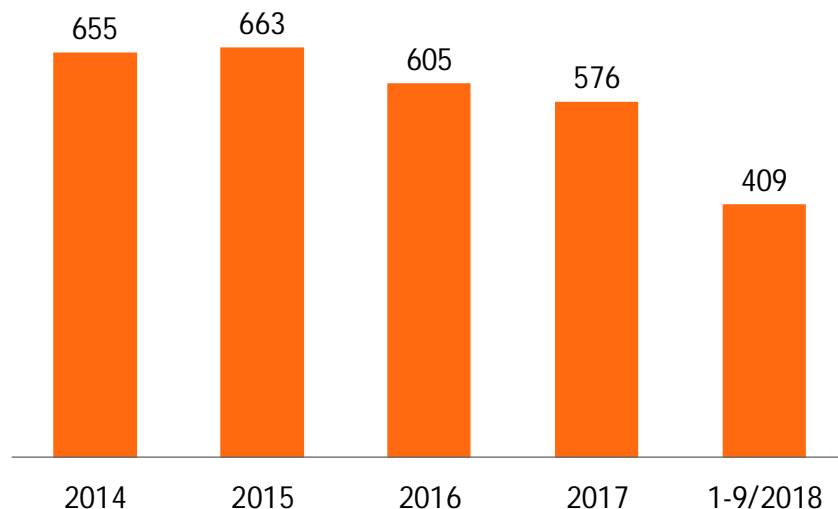


Net interest income up by 3% year on year

Net interest income, € million

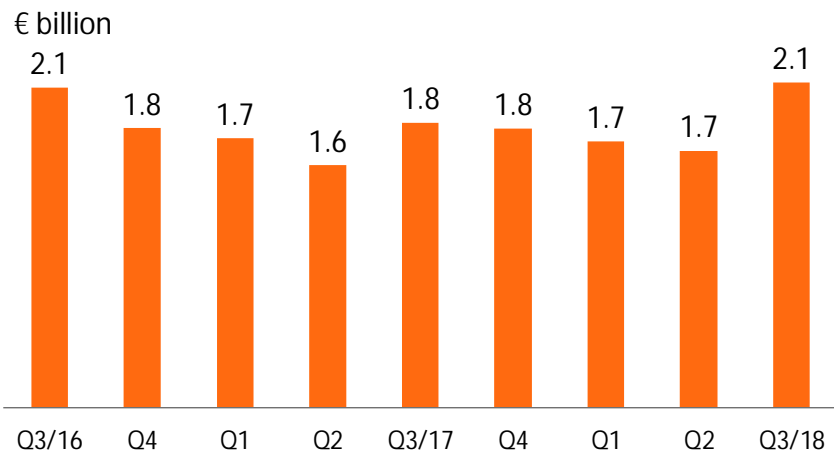


Net commissions and fees, € million

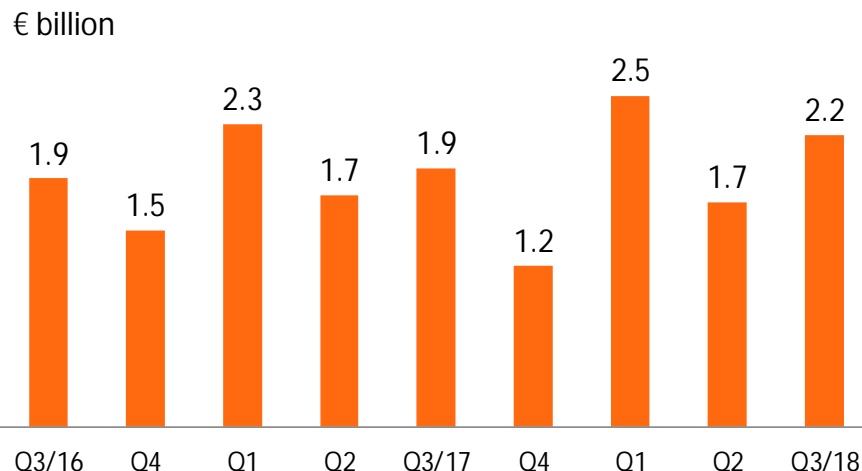


More home loans for the reporting period were drawn down 9.6% more than a year ago

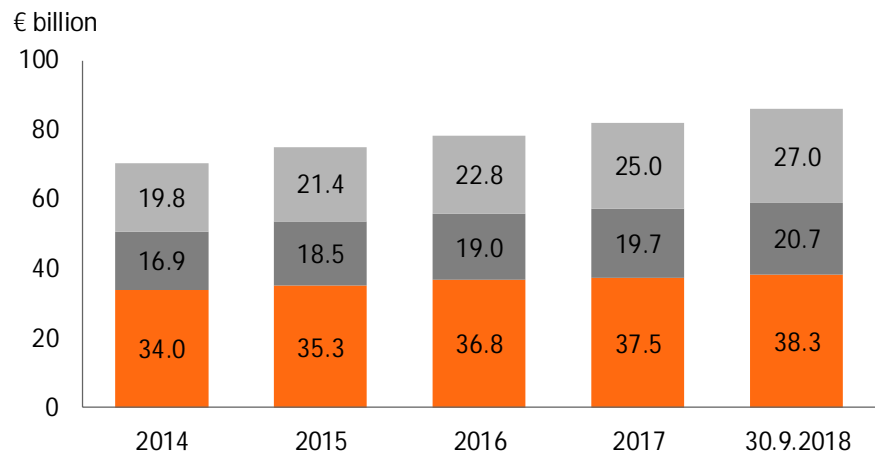
Home loans drawn down



Corporate loans



The Banking loan portfolio was up by 6.0% and the deposit portfolio by 4.1%

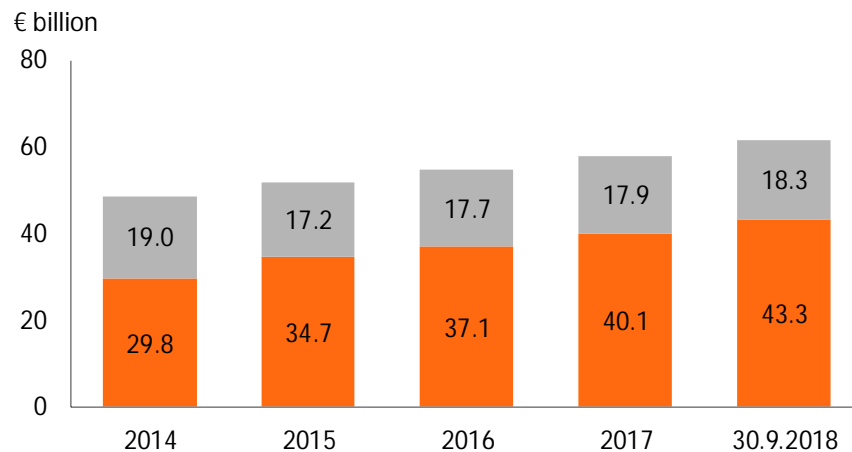


Home loans

Corporate loans

Other loans*

* incl. also housing companies and public corporations



Current and payment transfer

Investment deposits

OP Financial Group's loan and guarantee portfolio grew by 6.0%

| € million | 30 September 2018 | 30 September 2017 | Change | |
|---|-------------------|-------------------|--------------|-------------|
| | | | € million | % |
| Enterprises and housing companies | 33,692 | 31,478 | 2,213 | 7.0 |
| Renting and operating of residential real estate | 7,175 | 6,663 | 512 | 7.7 |
| Renting and operating of other real estate | 3,999 | 4,154 | -155 | -3.7 |
| Wholesale and retail trade | 3,391 | 3,177 | 214 | 6.7 |
| Energy | 3,011 | 2,696 | 315 | 11.7 |
| Services | 2,861 | 2,493 | 368 | 14.8 |
| Construction | 2,815 | 2,524 | 290 | 11.5 |
| Transportation and storage | 1,828 | 1,735 | 93 | 5.3 |
| Manufacture of machinery and equipment (incl. services) | 1,598 | 1,532 | 66 | 4.3 |
| Agriculture, forestry and fishing | 1,438 | 1,301 | 137 | 10.5 |
| Financial and insurance services | 1,269 | 981 | 288 | 29.3 |
| Forest Industry | 864 | 736 | 129 | 17.5 |
| Metal Industry | 783 | 664 | 118 | 17.8 |
| Food Industry | 684 | 634 | 50 | 7.9 |
| Real estate investments | 498 | 772 | -274 | -35.4 |
| Chemical Industry | 493 | 400 | 93 | 23.2 |
| Other industries | 987 | 1,017 | -30 | -3.0 |
| Public corporations and non-profit organisations | 2,855 | 1,762 | 1,093 | 62.0 |
| Households | 51,297 | 49,888 | 1,408 | 2.8 |
| Adjustments | 889 | 571 | 318 | 0.0 |
| Total | 88,732 | 83,701 | 5,032 | 6.0 |

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 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.
- The sold Baltic non-life insurance business is included in the figures from January to August.

Key figures Q1-Q3/2018

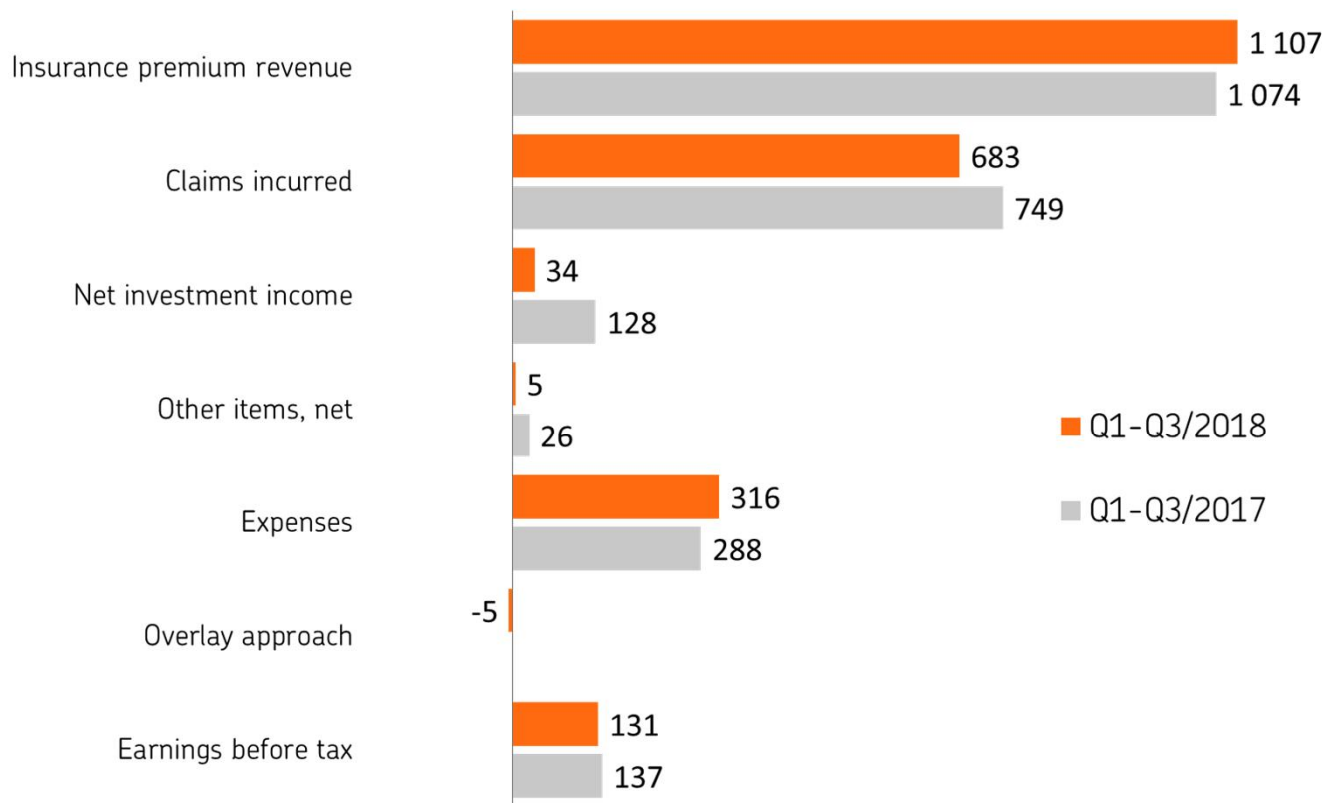
EBT

EUR **131** million

Insurance premium
revenue

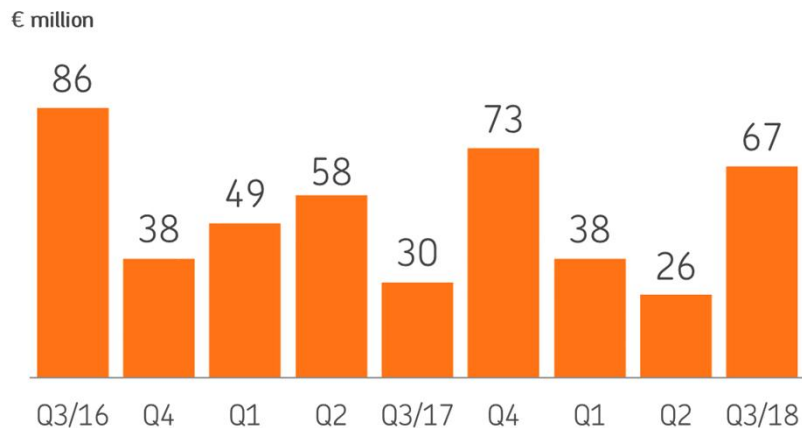
EUR **1 107** million

Non-life Insurance EBT, € million

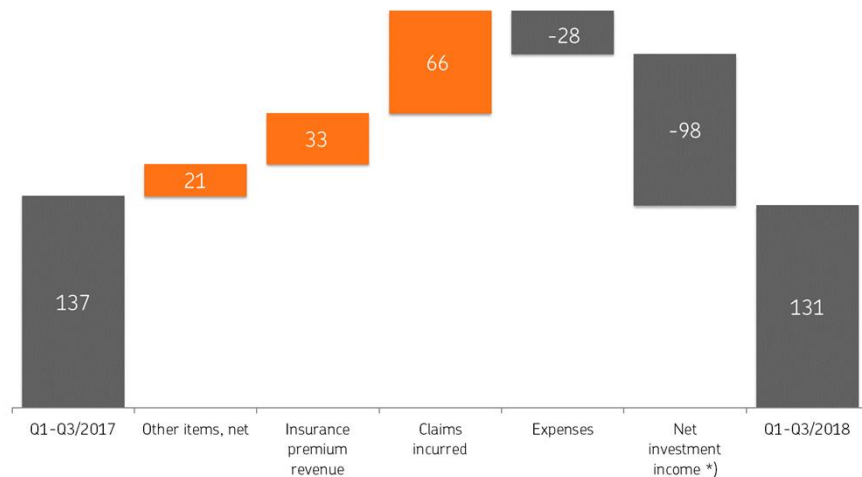


Lower investment income reduced earnings

Earnings before tax by quarter, € million

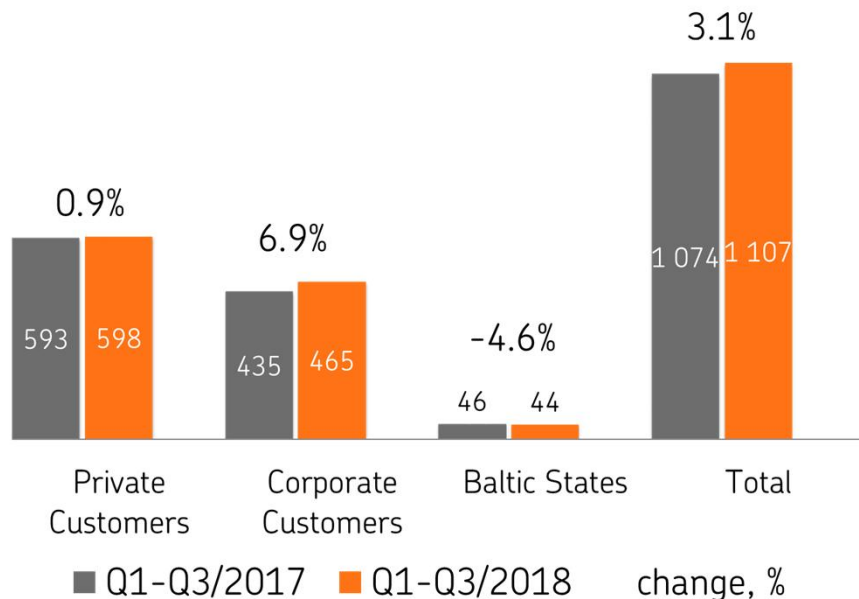


Earnings before tax, € million
change Q1-Q3/18 vs. Q1-Q3/17



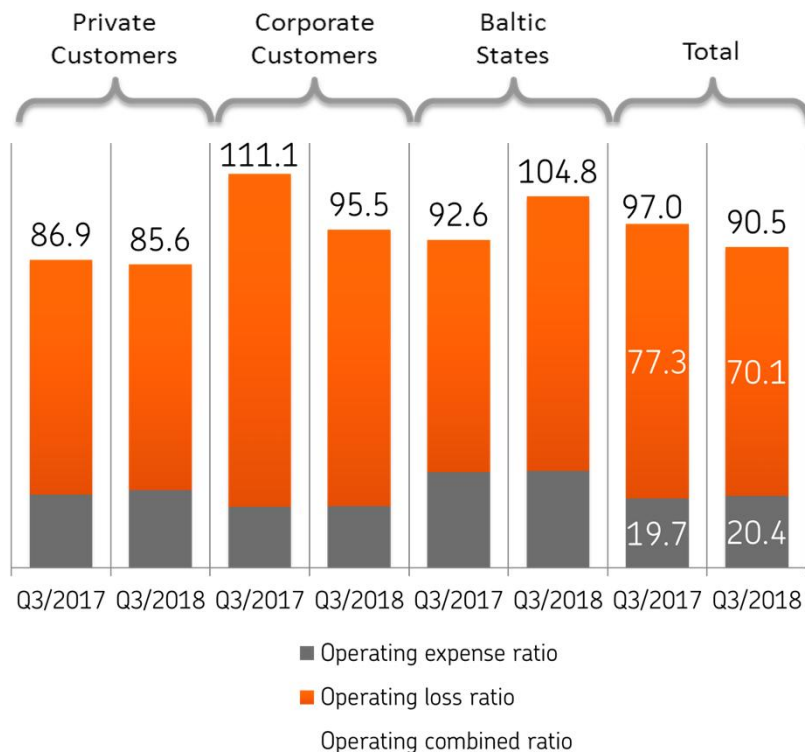
Growth in insurance premium revenue stemmed from Corporate Customers

Insurance premium revenue, € million and change by division
Q1-Q3/2018 vs. Q1-Q3/2017



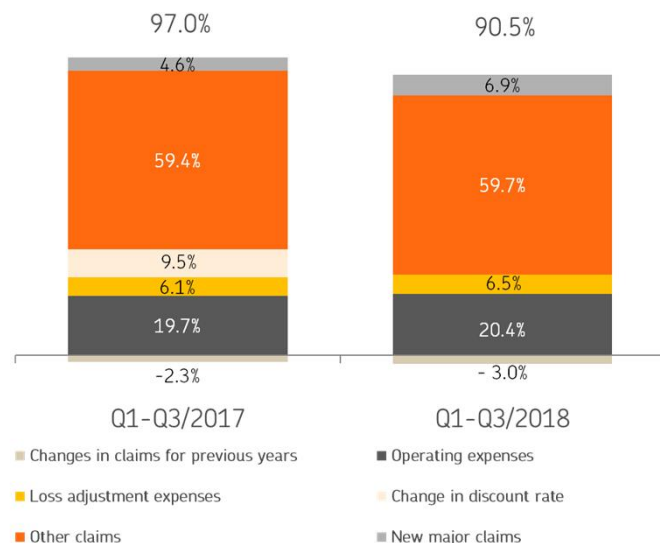
Balance on technical account

Operating combined ratio by division Q1-Q3/2018 vs. Q1-Q3/2017, %

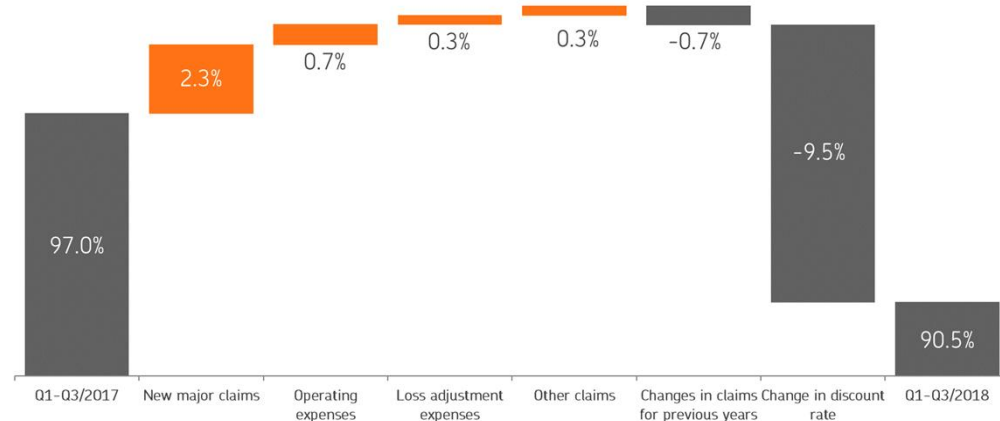


Balance on technical account

Operating combined ratio by component, %

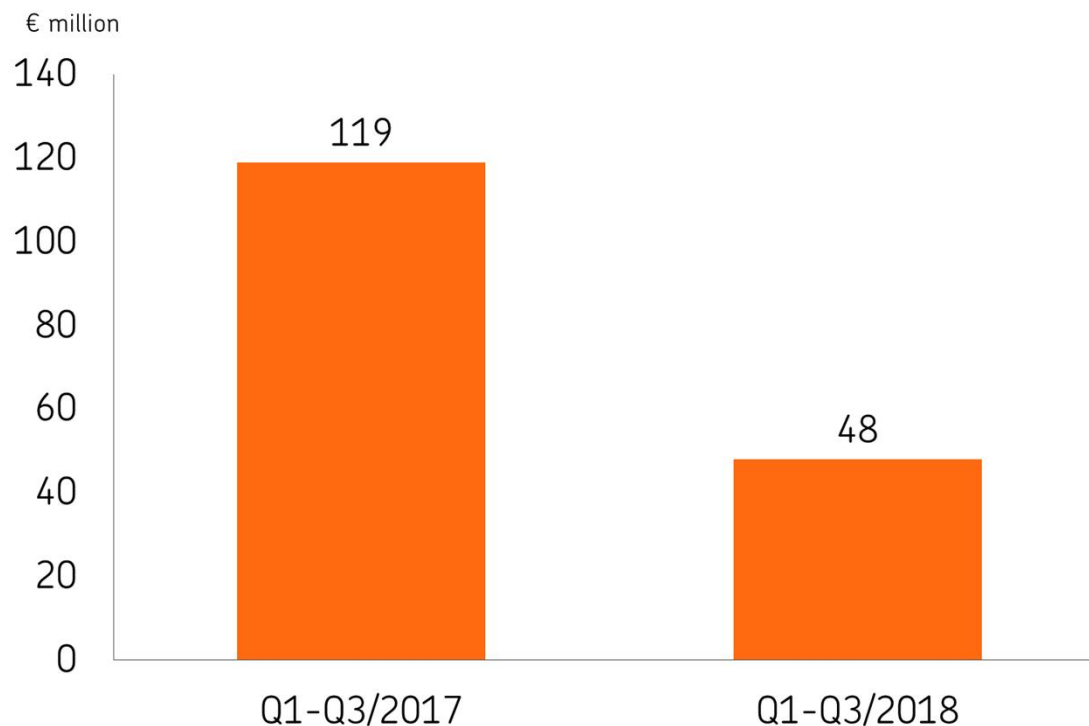


Change in operating combined ratio, %



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 €33 million (25) in January-September 2018.

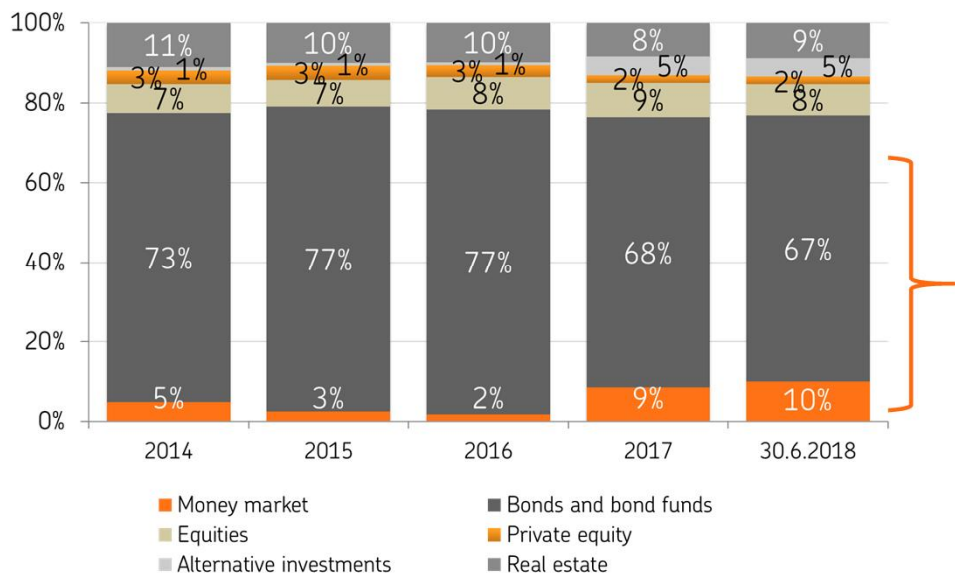
Net return on investments at fair value, € million



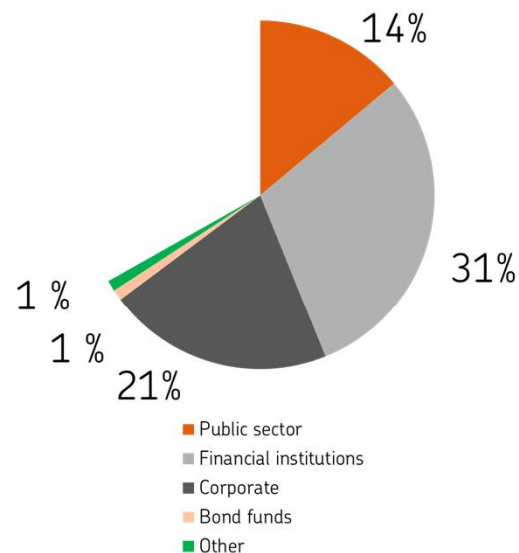
*Net return on investments at fair value is calculated by deducting the value change in market-consistent insurance liability from income from total investment assets.

Investment portfolio allocation

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



Bonds and bond funds (67%)



The duration of the fixed-income portfolio 4.2 years (5.1).

The running yield for direct bond investments averaged 1.5% (1.8) at end-September 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 Q1-Q3/2018

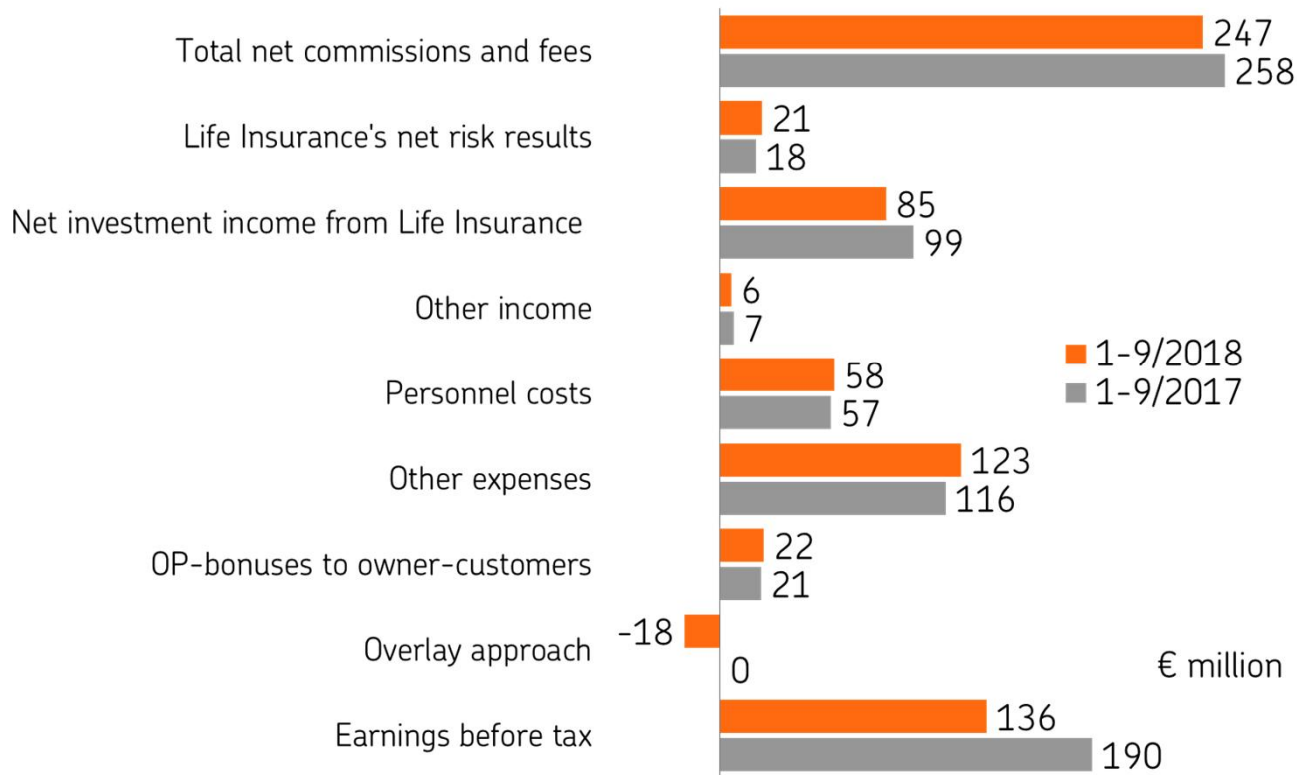
EBT

EUR **136** million

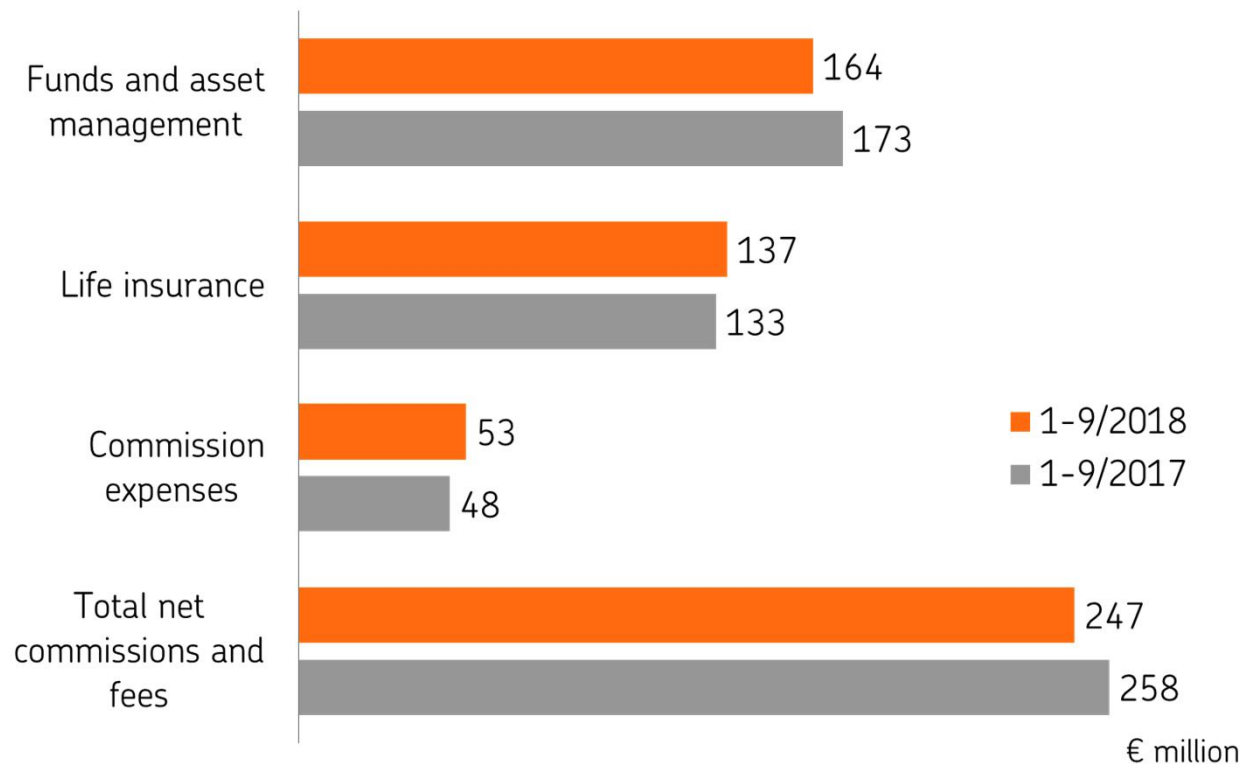
Assets under
management

EUR **77.8** billion

Wealth Management income statement

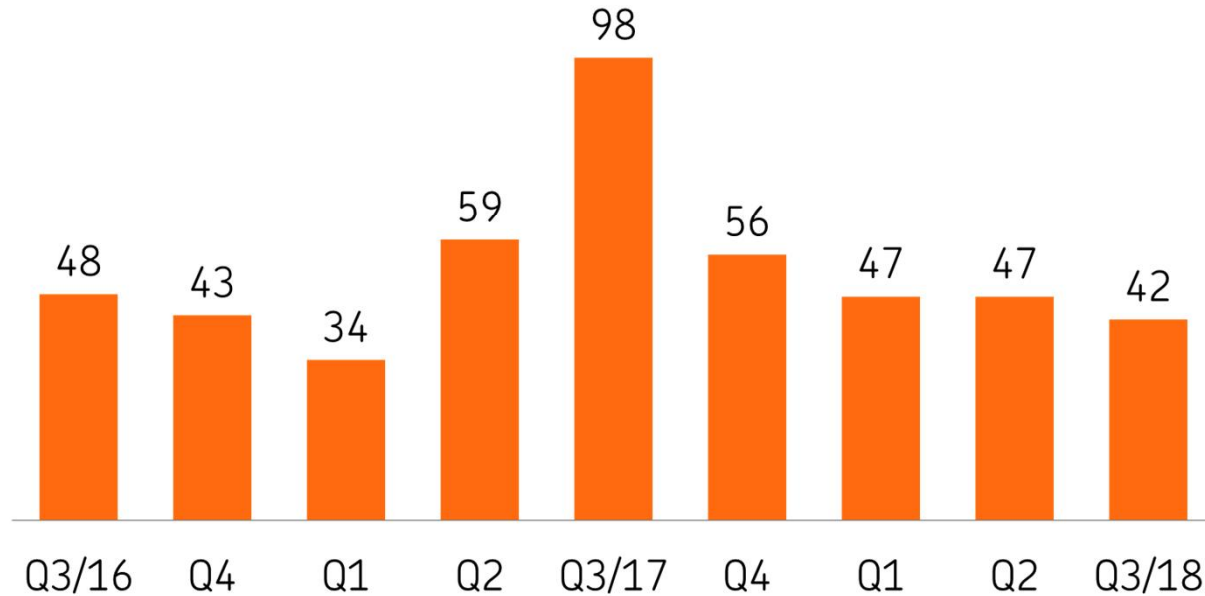


Wealth Management net commissions and fees



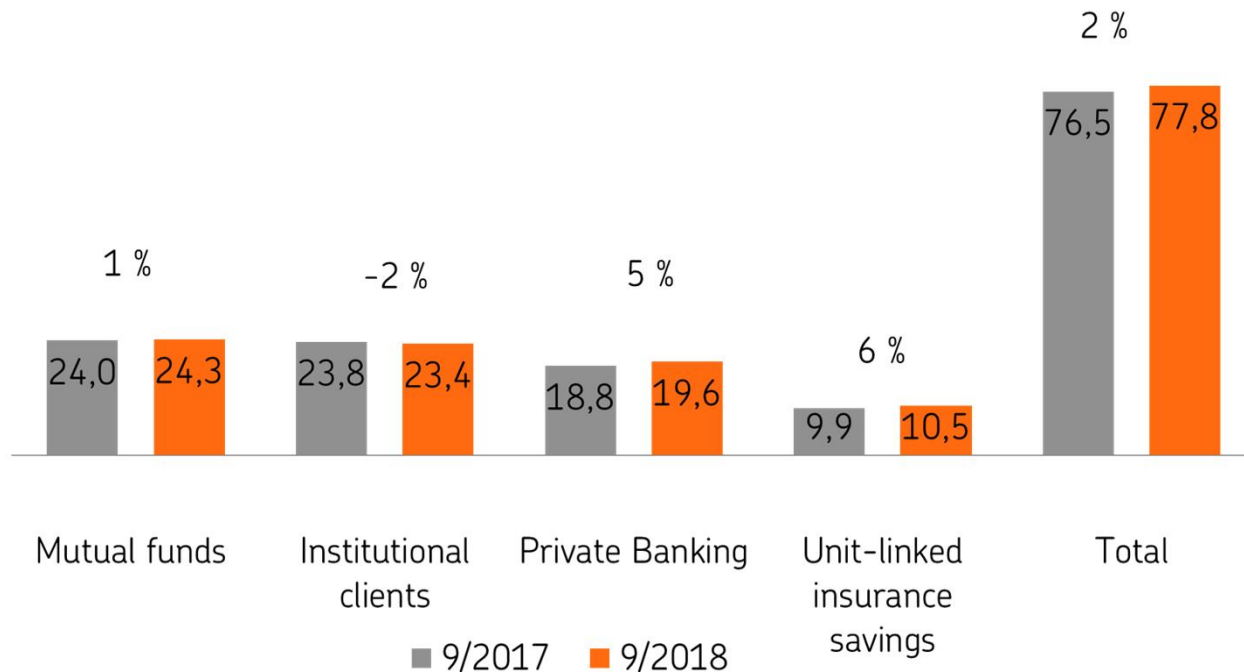
Wealth Management EBT by quarter

€ million

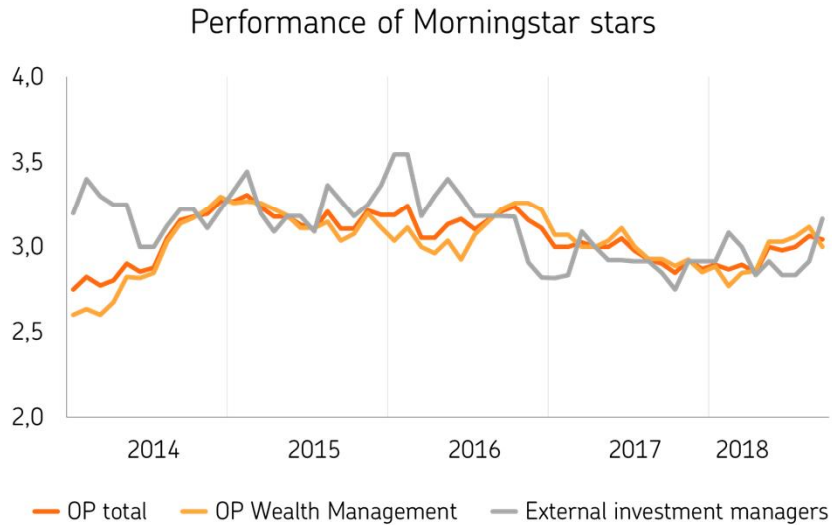


Growth in assets under management

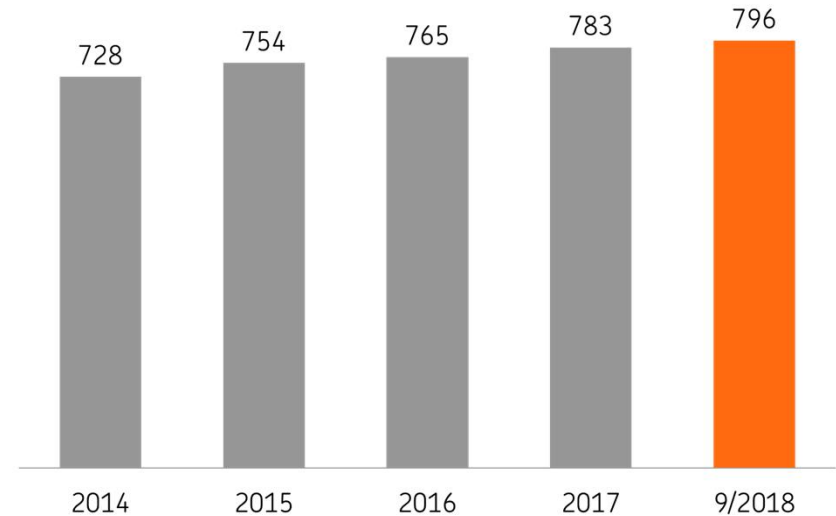
Assets under management (gross) €billion



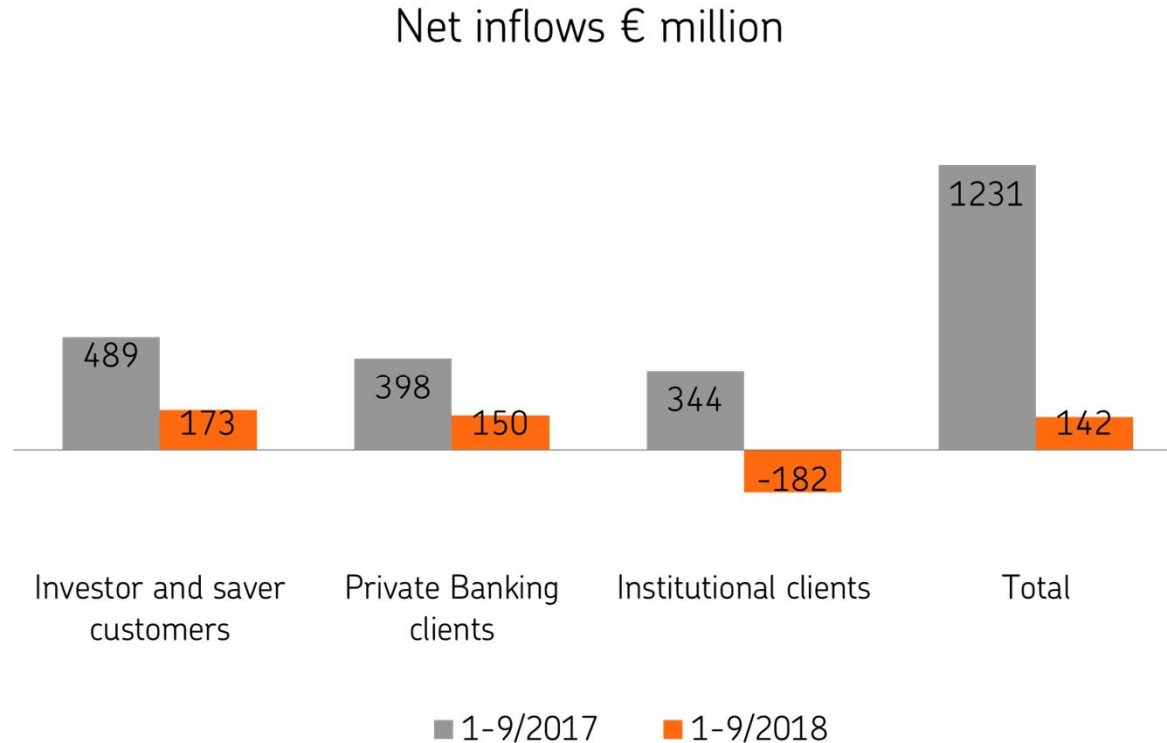
Number of clients growing, performance of mutual funds at the same level



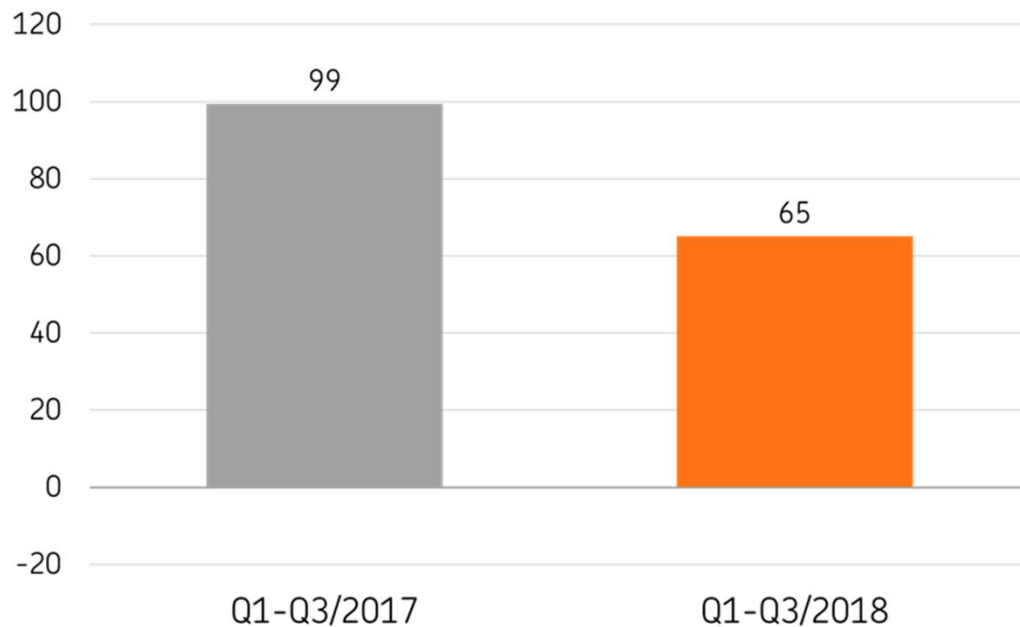
Investor and saver customers, 1000 pers.



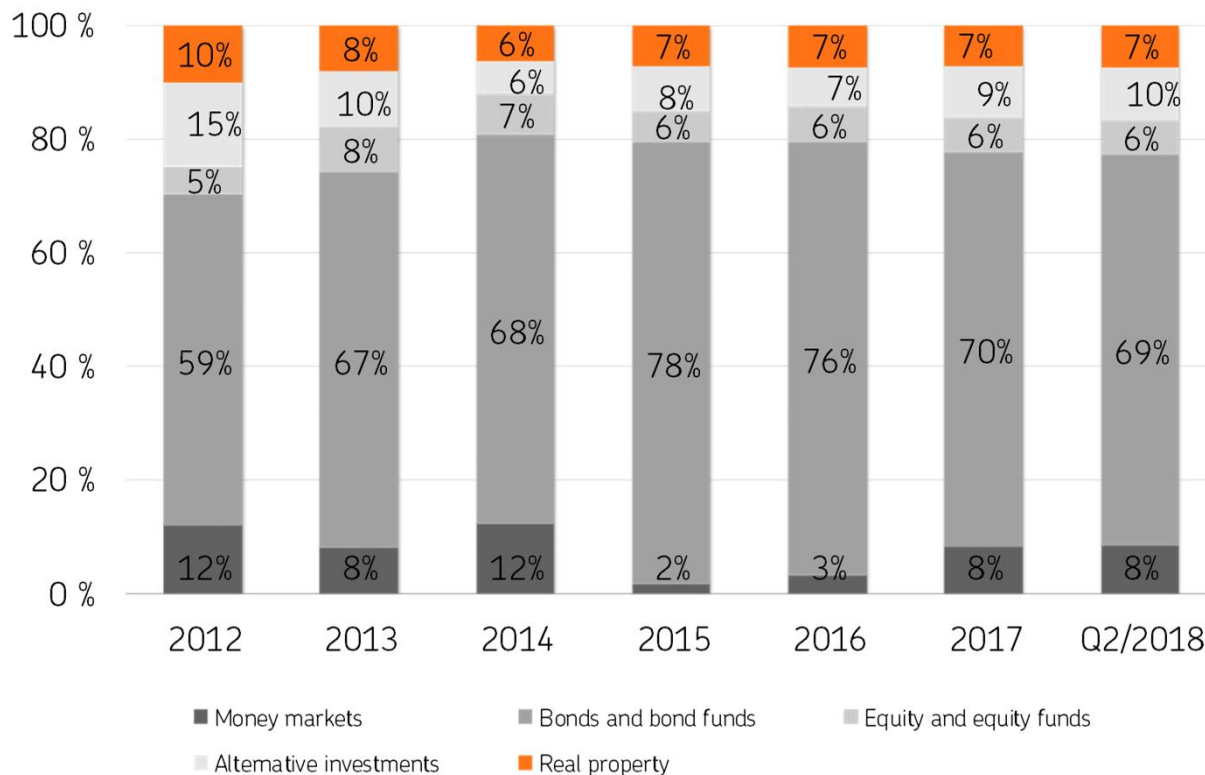
Capital market uncertainty was reflected in net inflows



Income from Life Insurance investments*, € million



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

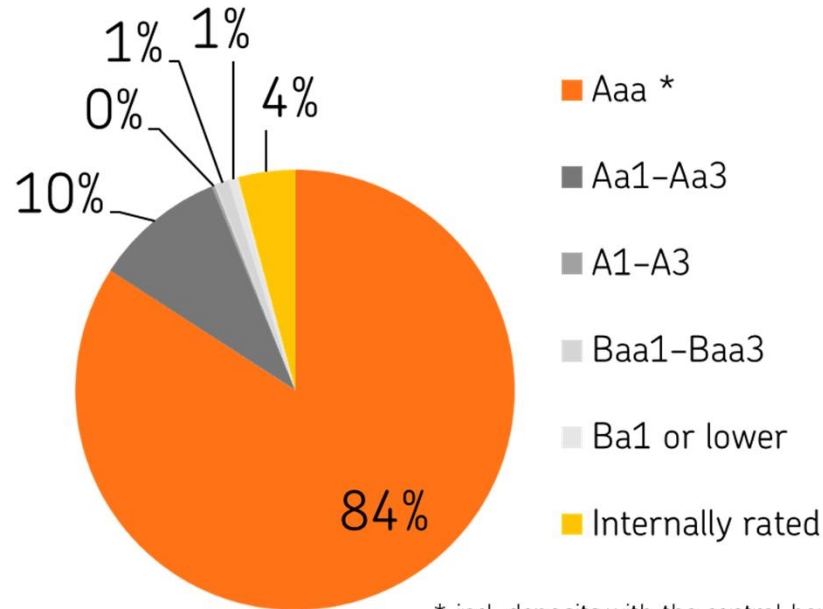


Liquidity and funding



Liquidity buffer includes highly-rated assets

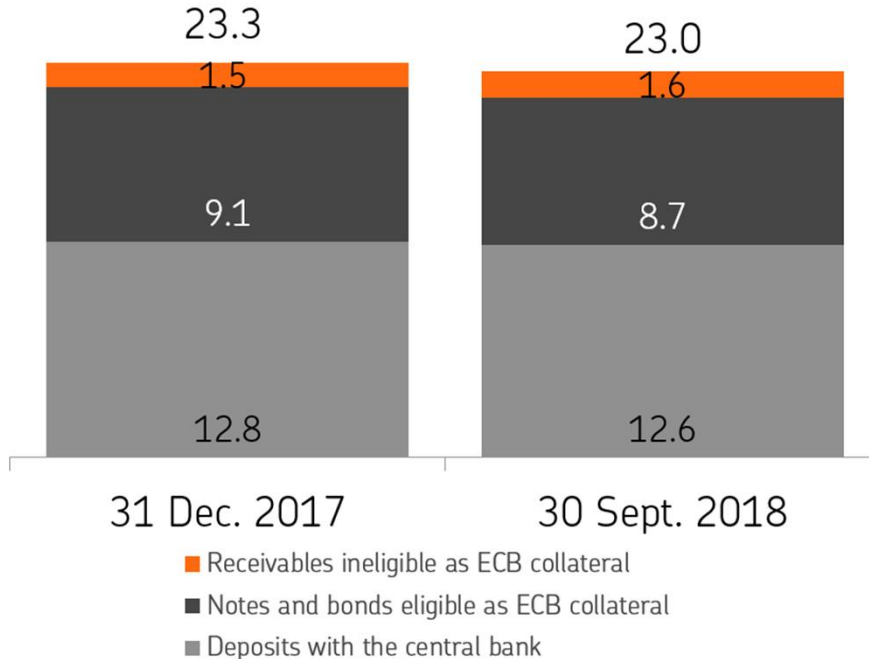
Liquidity buffer by credit rating as of 30 September 2018



* incl. deposits with the central bank

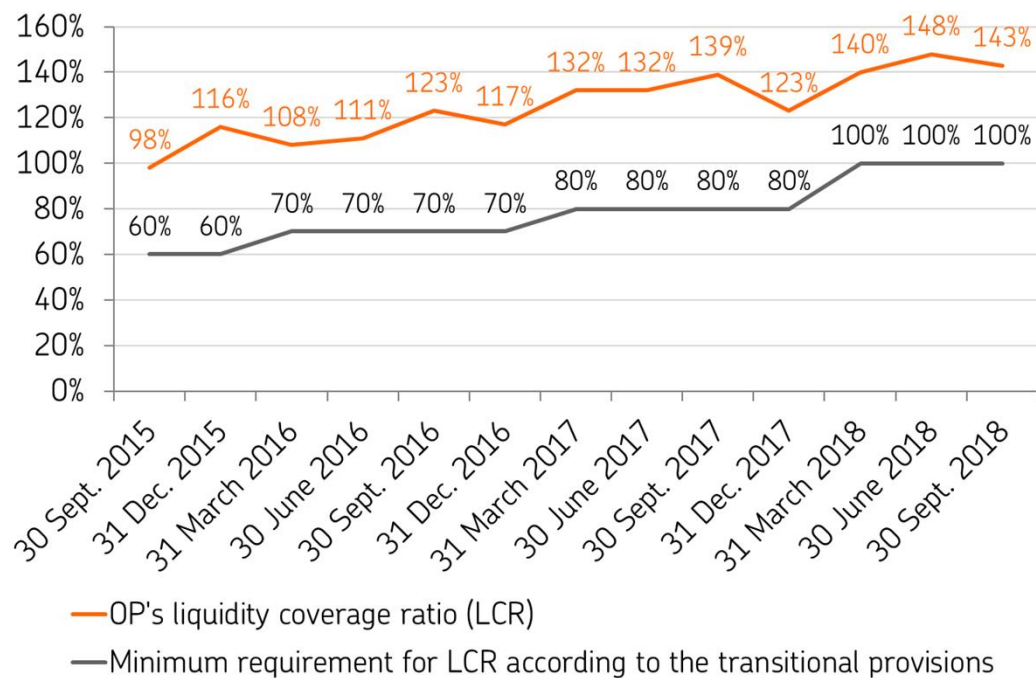
Liquidity buffer €23.0 billion at end-September

Liquidity buffer breakdown, € billion



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 143% at end-September



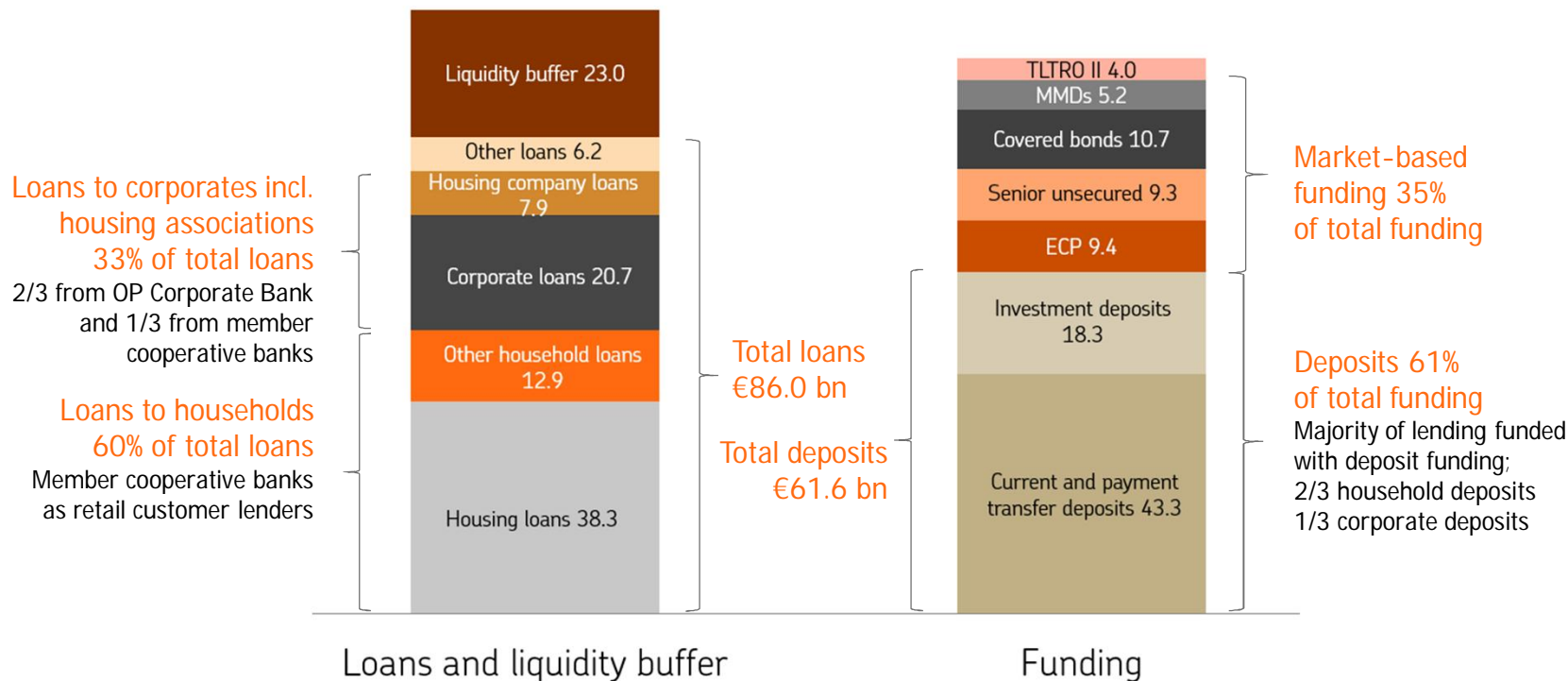
OP monitors its liquidity and the adequacy of its liquidity buffer using LCR.

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

Loans, liquidity buffer and funding

30 September 2018

€ billion

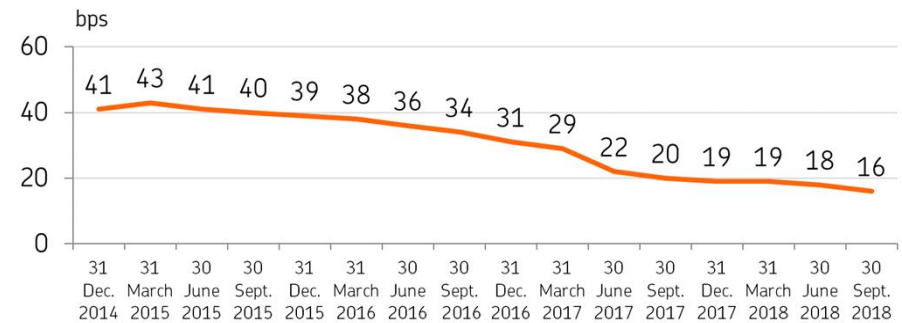


Maturity breakdown and average margin of long-term wholesale funding

Issued senior unsecured and covered bonds by maturity, 30 September 2018 (€ billion)



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



The SRB has set OP Financial Group's Minimum Requirement for own funds and Eligible Liabilities (MREL) at EUR 12.2 billion, accounting for 27.6% of the total risk exposure amount at the end of 2016. OP Financial Group seeks to meet the requirements under the MREL with its capital base and other subordinated debt. OP Financial Group's MREL ratio stood at 35% at the turn of 2017. In the same connection, the SRB confirmed a resolution strategy for OP Financial Group whereby the resolution measures would apply to OP Corporate Bank acting as a Single Point of Entry.

Issued senior unsecured and covered bonds

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

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

OP issued long-term bonds worth €3.1 billion during Q1-3/2018.

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

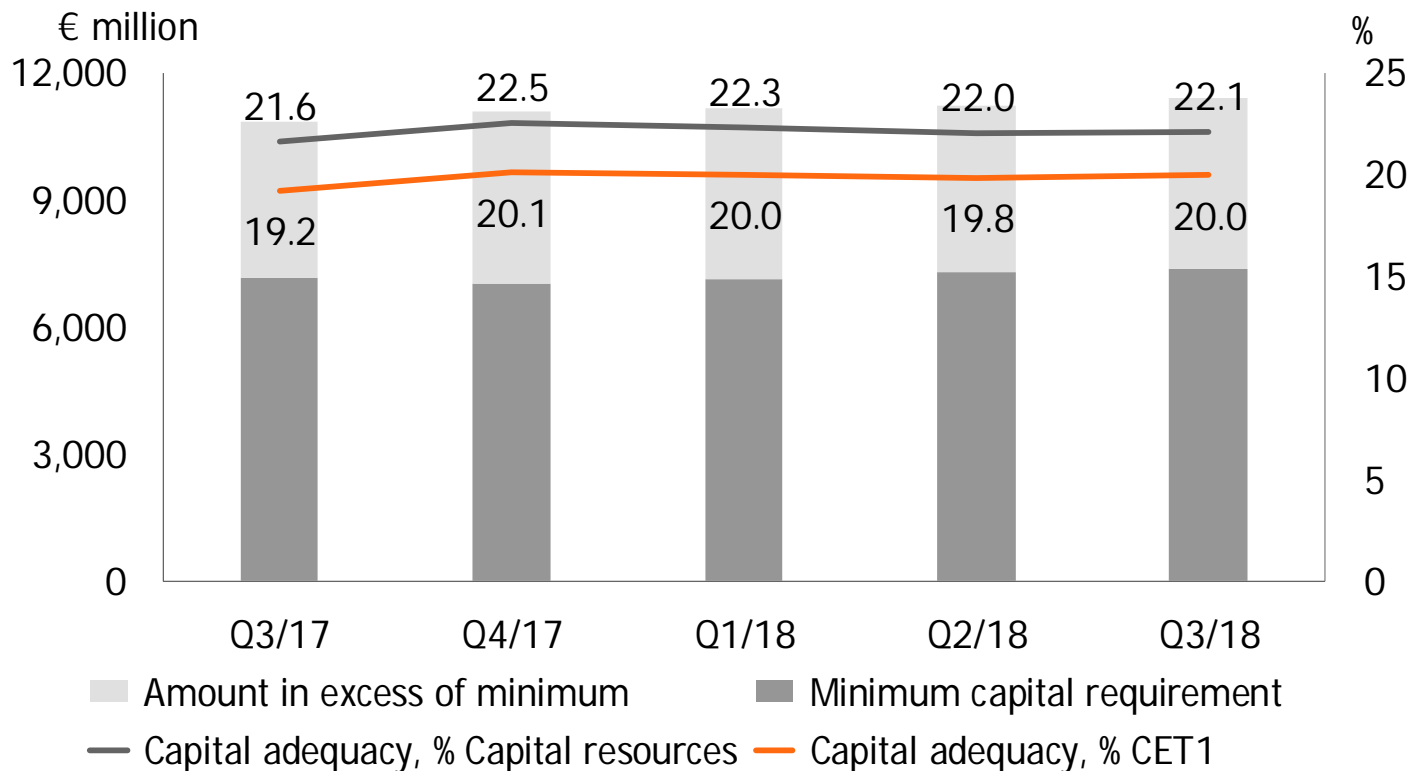
- The operations and solvency requirements for insurance companies are based on the Insurance Companies Act and EU regulation.
- The solvency capital requirement (SCR) is calculated for individual insurance companies and the insurance conglomerate. The companies are required to cover SCR using the Group's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

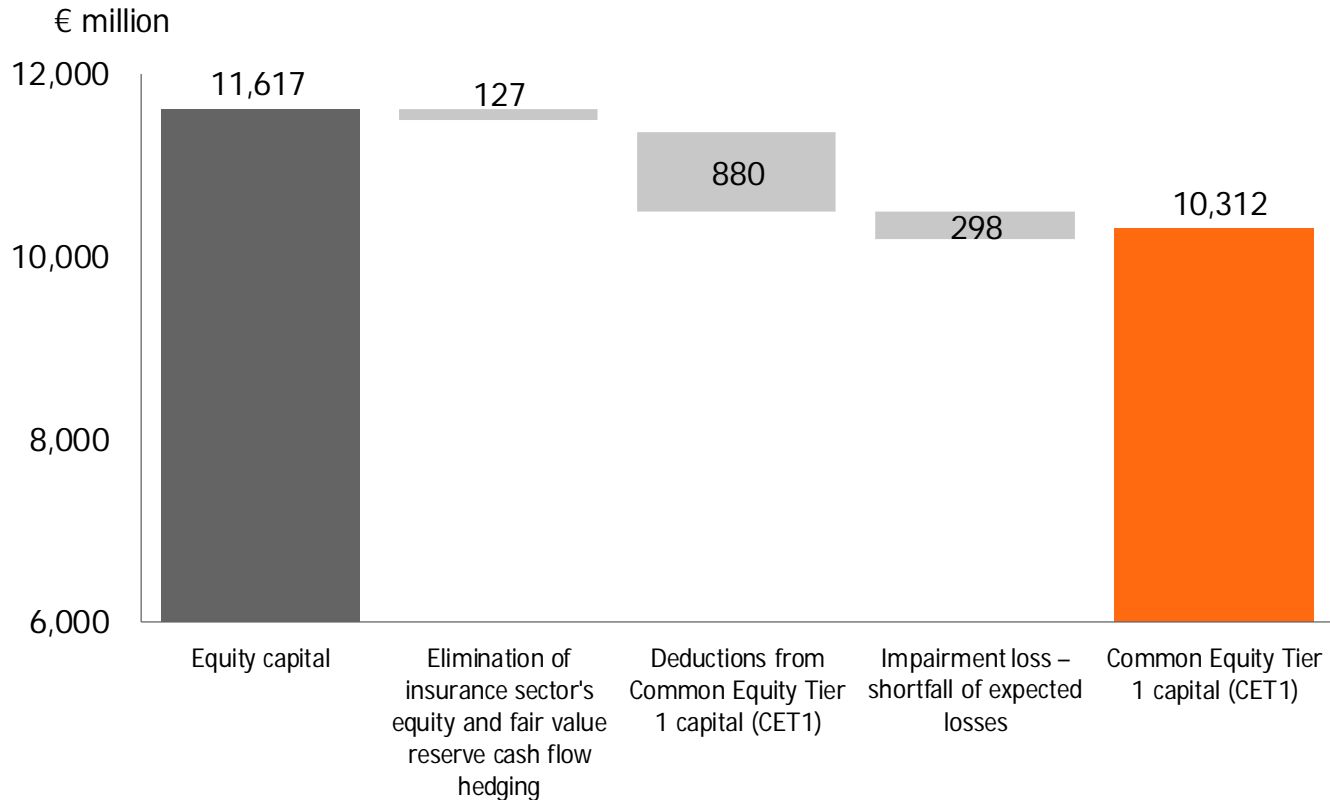
Amalgamation of cooperative banks

Capital base and capital adequacy

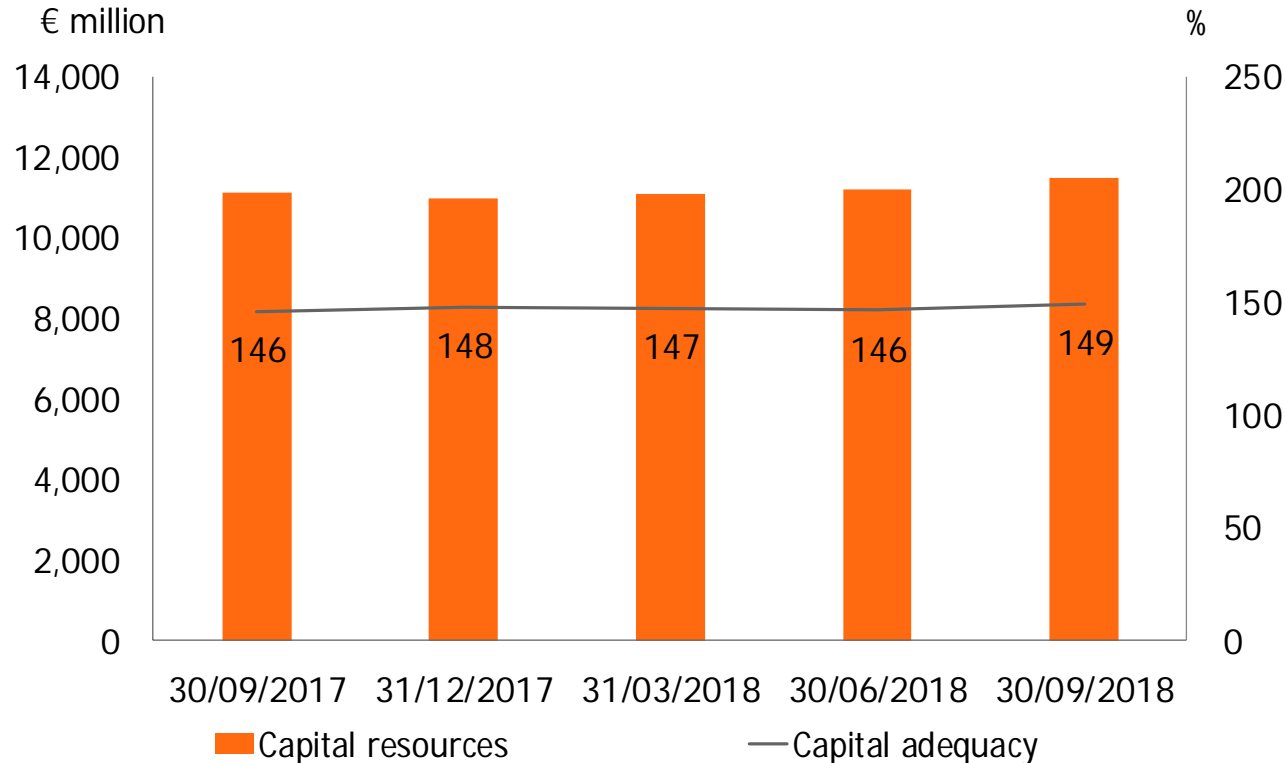


Common Equity Tier 1 (CET1)

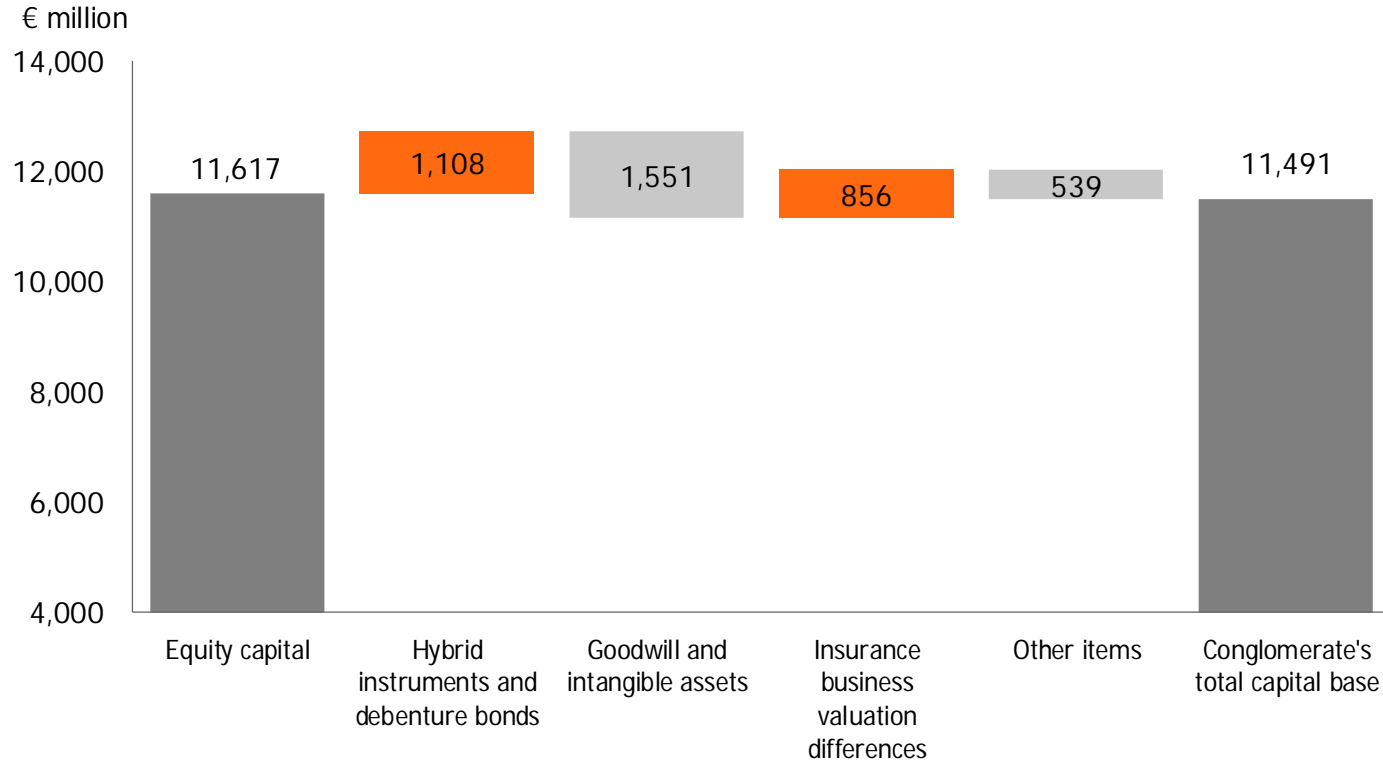
30 September 2018



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



FiCo capital 30 September 2018



OP in a nutshell



OP is a financial services group owned by its customers

OP's mission

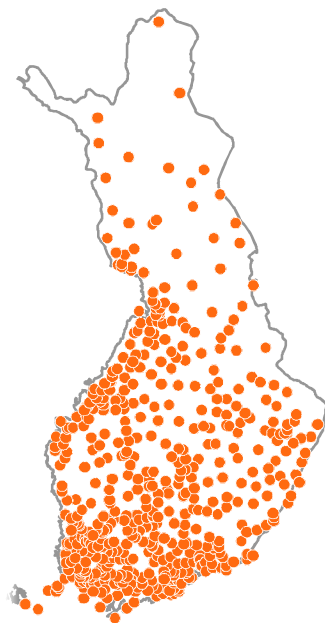
By means of our strong capital base and efficiency, we create sustainable financial prosperity, safety and wellbeing for our owner-customers and in our operating environment.



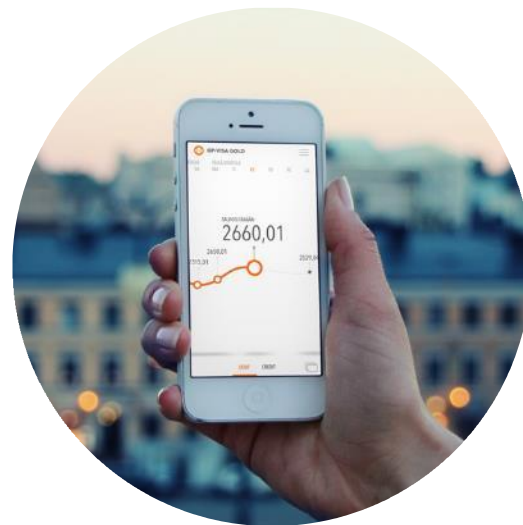
OP in a nutshell



Approximately 1.9 million
owner-customers

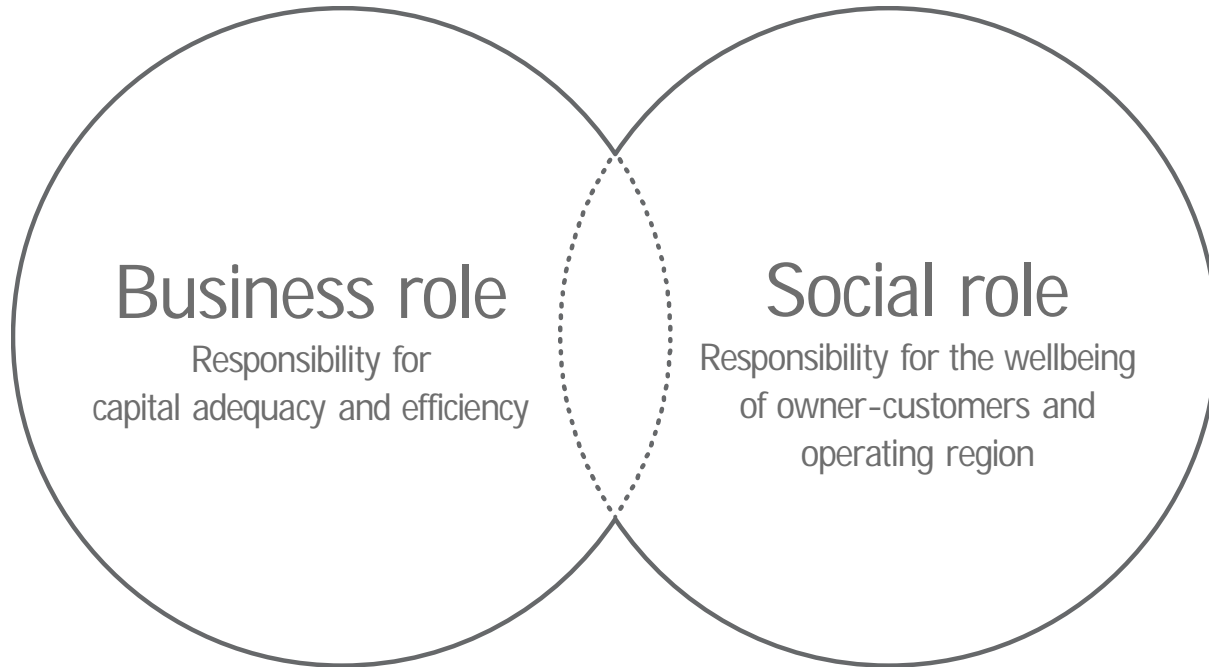


156 group member
cooperative banks

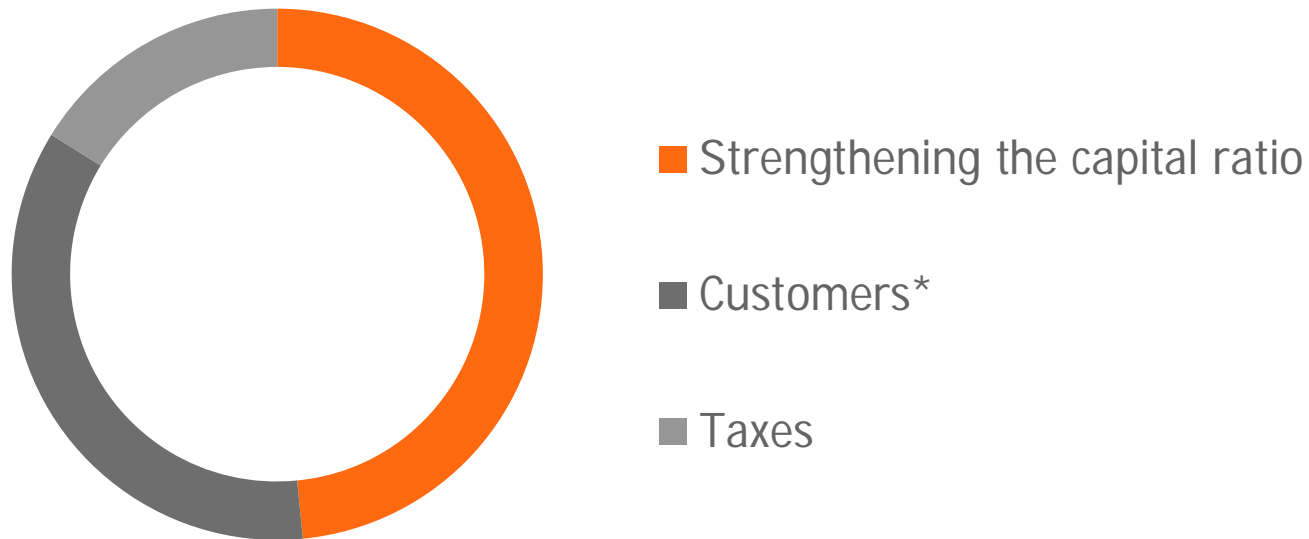


Hyperlocal digital
financial services group

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 Sep. 2018 | Target 2019 |
|--|--------------|---|
| Customer experience, NPS (-100–+100) | | |
| Brand | 23 | 25 |
| Service | 60 | 70, over time 90 |
| CET1 ratio, % | 20.0 | 22 |
| Return on economic capital, % (12-month rolling) | 18.7 | 22 |
| Expenses of present-day business (12-month rolling), € million | 1 760 | Expenses for 2020 at 2015 level (1,500) |
| Owner-customers, million | 1.9 | 2.1 (2019) |

OP Financial Group's service channels

| | 1–30 Sep. 2018 | 30 Sep. 2018 | 12-month change |
|--|----------------|--------------|-----------------|
| Online and mobile services | | | |
| Op.fi visits | 8,756,581 | | -7% |
| OP-mobile visits (private customers) | 19,431,964 | | +22% |
| OP Business mobile visits | 505,432 | | +155% |
| Pivo mobile application visits | 3,715,102 | | +80% |
| eServices Agreements (private customers) | | 1,866,725 | +72,966 |
| Branches and telephone services | | | |
| Bank branches | | 371 | -47 |
| Providing both non-life insurance and banking services | | 329 | -5 |
| Private Banking branches | | 42 | +3 |
| Customer contacts in telephone service | 357,202 | | -68 |
| Social media | | | |
| Followers on Facebook (OP Financial Group and member cooperative banks) | | 340,825 | +44,417 |
| Followers on Twitter | | 37,102 | +9,957 |
| Followers on LinkedIn | | 28,628 | +12,060 |
| Followers on Instagram | | 8,074 | +2,197 |

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.

