



OP Financial Group's  
Financial Statements Bulletin  
1 January–31 December 2018

# Contents

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



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# OP Financial Group's Financial Statements Bulletin

# OP Financial Group's key figures and ratios

Customer business developed favourably and full-year earnings before tax were €1,017 million

	Q1–4/2018	Q1–4/2017	Change, %
Earnings before tax, EUR million	1,017	1,031	-1.3
Banking	795	619	28.3
Non-life Insurance	133	210	-36.7
Wealth Management	213	247	-13.7
Other operations	-123	-45	172.9
New OP bonuses accrued to owner-customers	-230	-220	4.4
	31 December 2018	31 December 2017	Change, %
CET1 ratio, %	20.5	20.1	0.4 *
Ratio of capital base to minimum amount of capital base (under the Act on the Supervision of Financial and Insurance Conglomerates) % ***	147	148	0 *
Return on economic capital, % **	20.8	20.4	0.4 *
Return on equity (ROE), %	6.9	7.7	0.0 *
Return on assets (ROA), %	0.57	0.60	-0.2 *
Ratio of non-performing receivables to loan and guarantee portfolio, % ****	1.0	1.2	-0.8 *
Owner customers (1,000)	1,911	1,833	4.2

\* Change in ratio

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

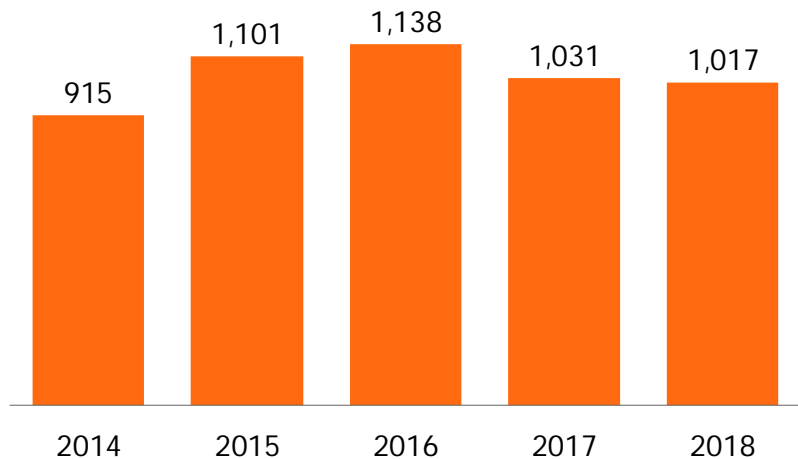
\*\*\* 12-month rolling

\*\*\*\* 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.

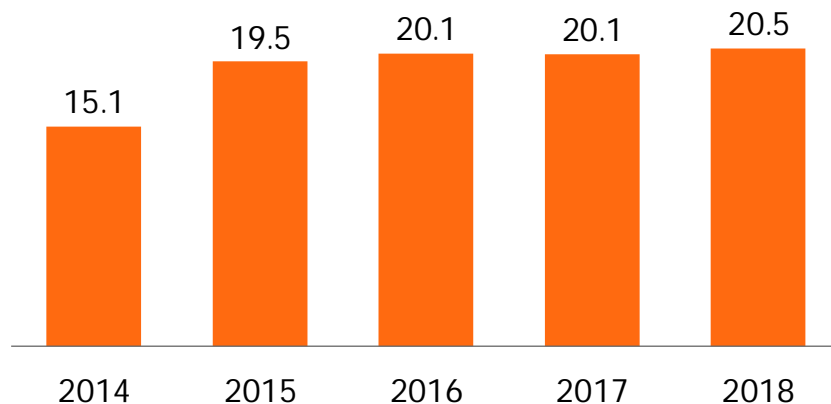
- Income from customer business showed favourable development. Net interest income increased by 7% to €1,175 million and net commissions and fees by 1% to €887 million. Net insurance income increased by 19% to €566 million – comparable change was -2%.
- Investment income fell by 46% to €280 million and other operating income by 26% to €61 million. Investment income was affected by a year-on-year decrease of €227 million in capital gains.
- Expenses decreased by 5% to €1,681 million.
- Transfer of the management of the statutory earnings-related pension insurance portfolio to Ilmarinen reduced OP Financial Group's pension costs and improved EBT by €286 million while improving the Group's capital adequacy ratio by 0.4 pp.
- CET1 ratio was 20.5%, or at the previous year-end level.

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

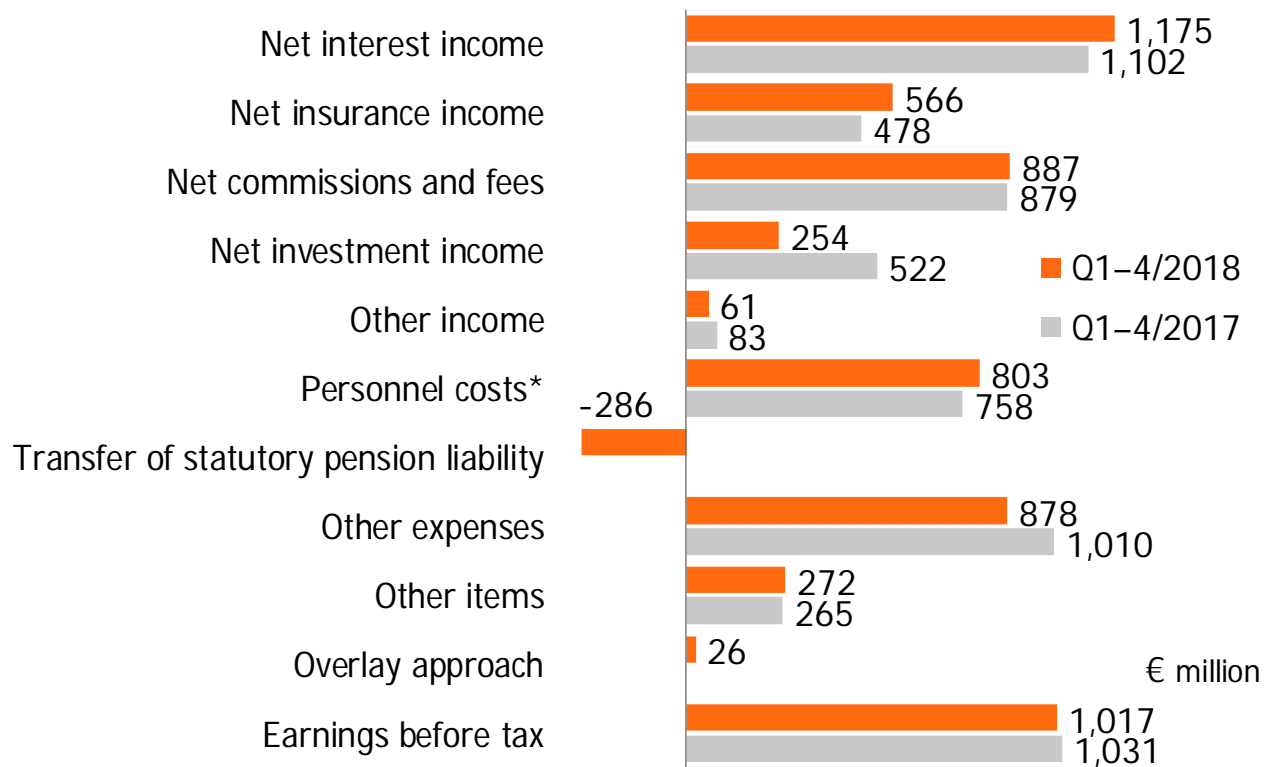
Earnings before tax, € million



Common Equity Tier 1 ratio (CET1),%

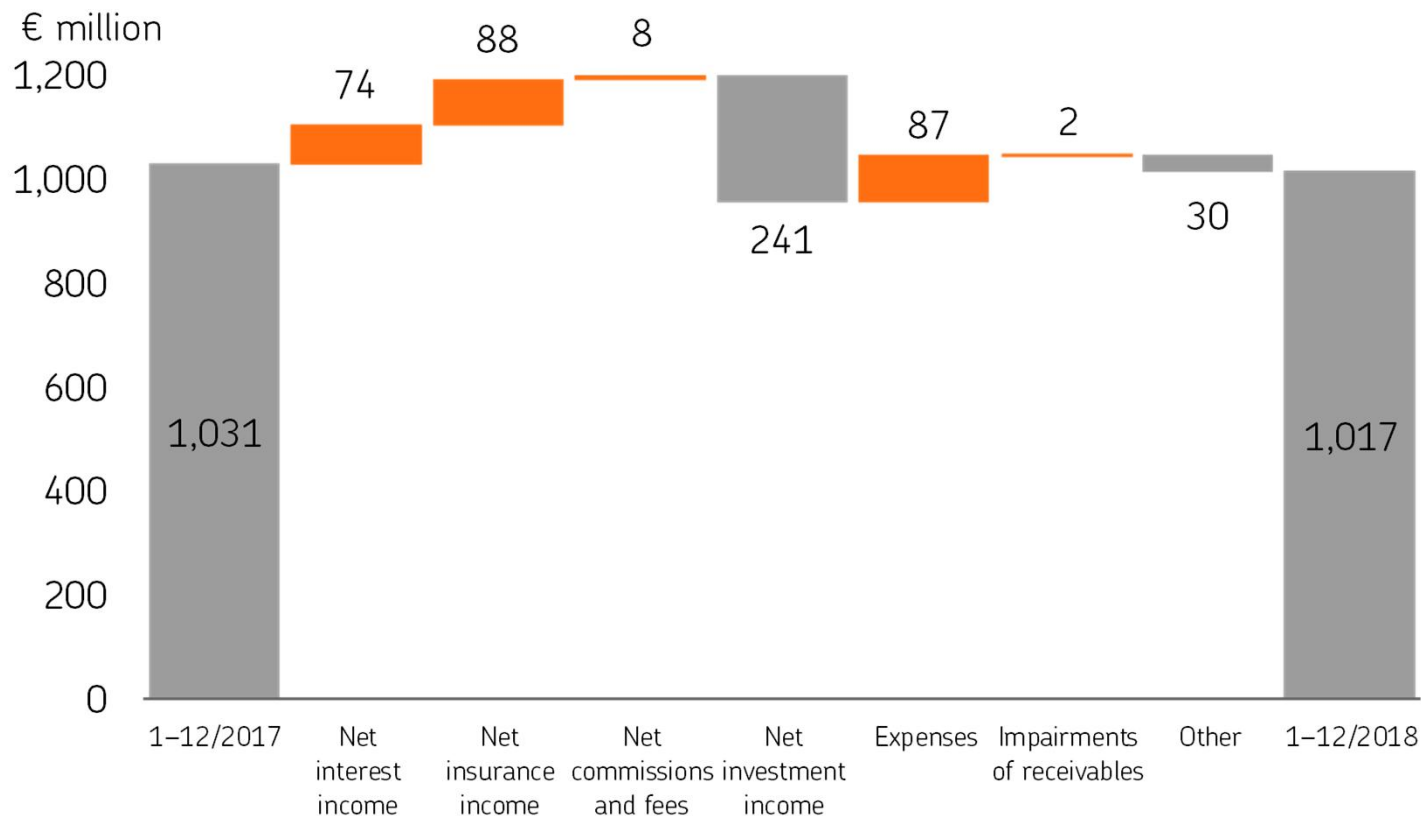


# OP Financial Group's main income statement items

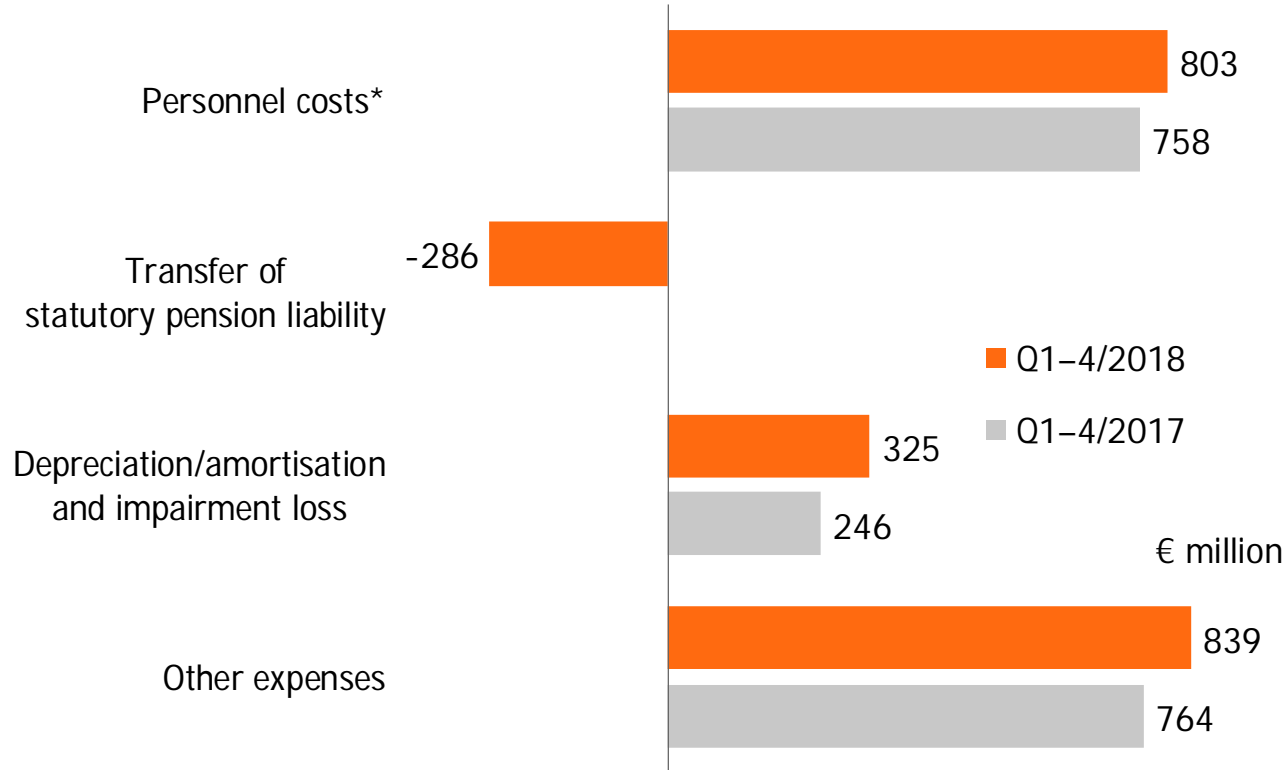


\* without transfer of pension liability

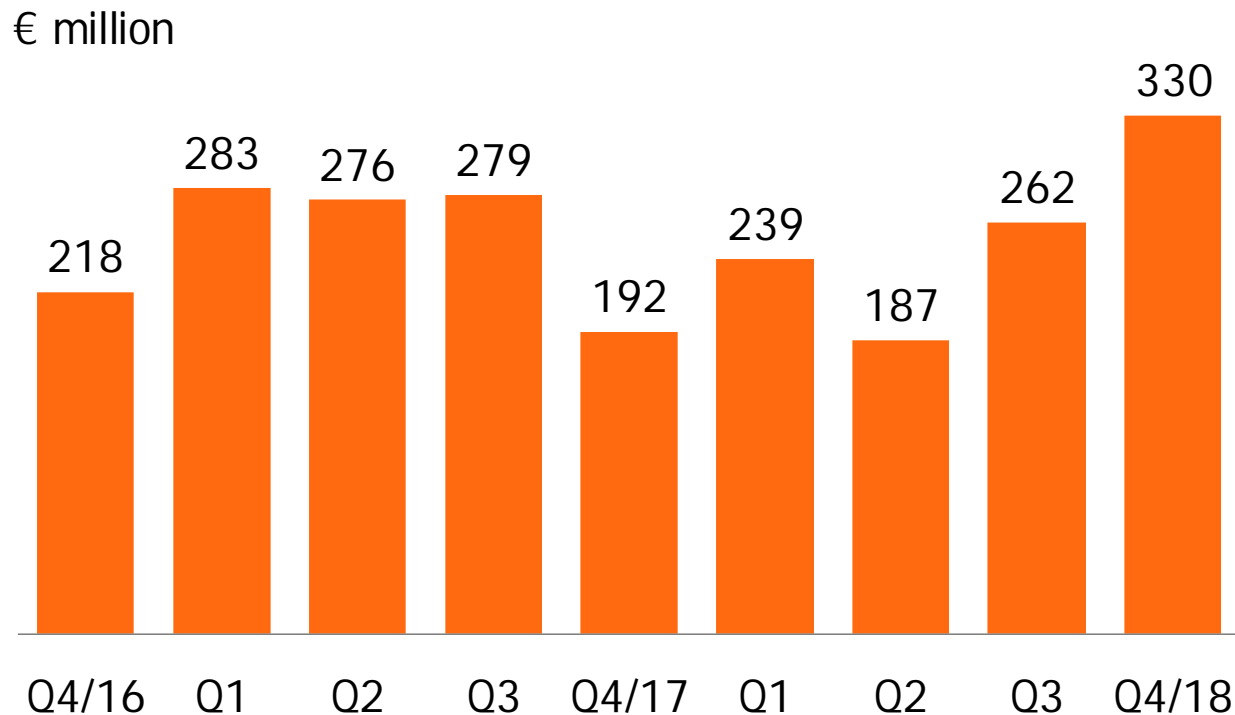
# Lower investment income shows in OP Financial Group's financial performance



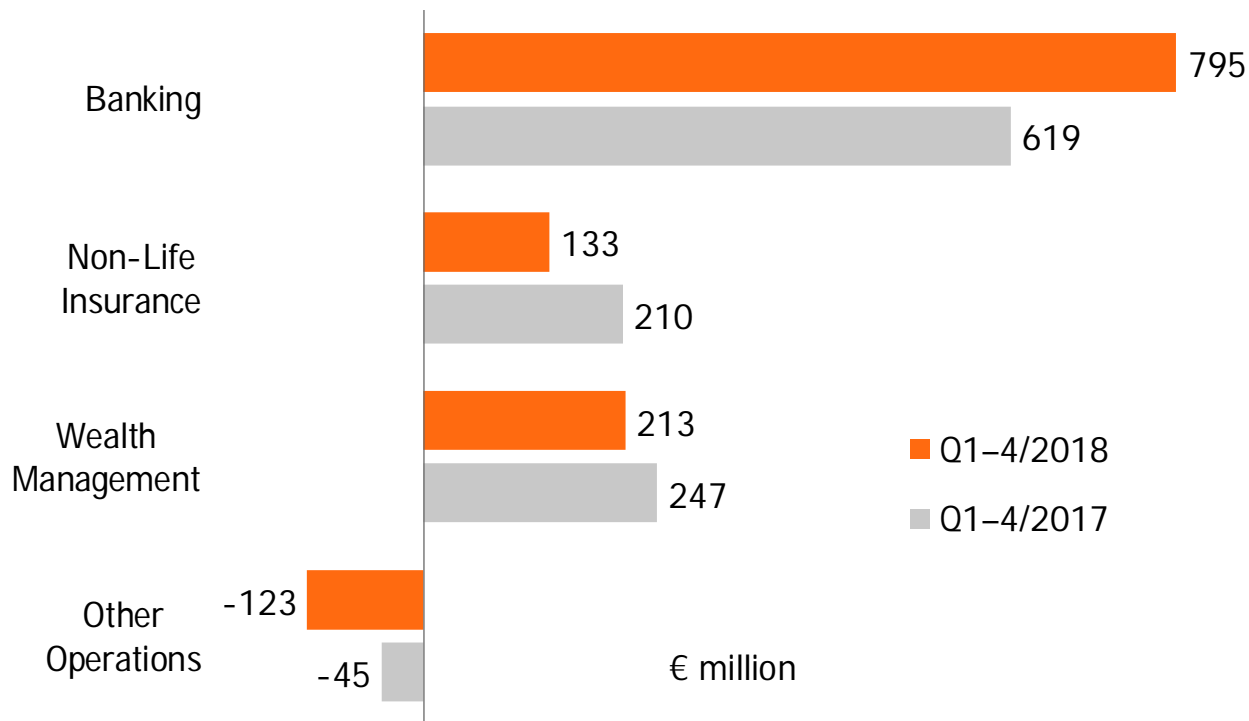
# OP Financial Group's cost performance



# OP Financial Group's EBT by quarter



# OP Financial Group's EBT by business segment



# OP Financial Group's income statement

January 1 to December 31	2018	2017	Change, €million	%	Q4/18	Q4/17	Change, %
Net interest income	1,175	1,102	74	6.7	308	281	9.7
Net insurance income	566	478	88	18.5	134	137	-2.5
Net commissions and fees	887	879	8	0.9	232	242	-4.4
Net investment income	254	522	-268	-51.3	-31	104	-129.5
Other operating income	61	83	-22	-26.2	15	8	77.6
<b>Total income</b>	<b>2,943</b>	<b>3,063</b>	<b>-120</b>	<b>-3.9</b>	<b>657</b>	<b>772</b>	<b>-14.8</b>
Personnel costs*	803	758	45	6.0	211	193	9.1
Transfer of statutory pension liability	-286				-286		
Other expenses	878	1,010	-132	-13.1	92	310	-70.3
<b>Total expenses</b>	<b>1,681</b>	<b>1,768</b>	<b>-87</b>	<b>-4.9</b>	<b>303</b>	<b>503</b>	<b>-39.7</b>
Impairment loss on receivables	-46	-48	2	-3.6	-22	-20	8.3
OP bonuses	-226	-217	-9	4.0	-58	-56	4.1
Overlay approach	26		26		56		
<b>Earnings before tax</b>	<b>1,017</b>	<b>1,031</b>	<b>-14</b>	<b>-1.3</b>	<b>330</b>	<b>192</b>	<b>71.5</b>

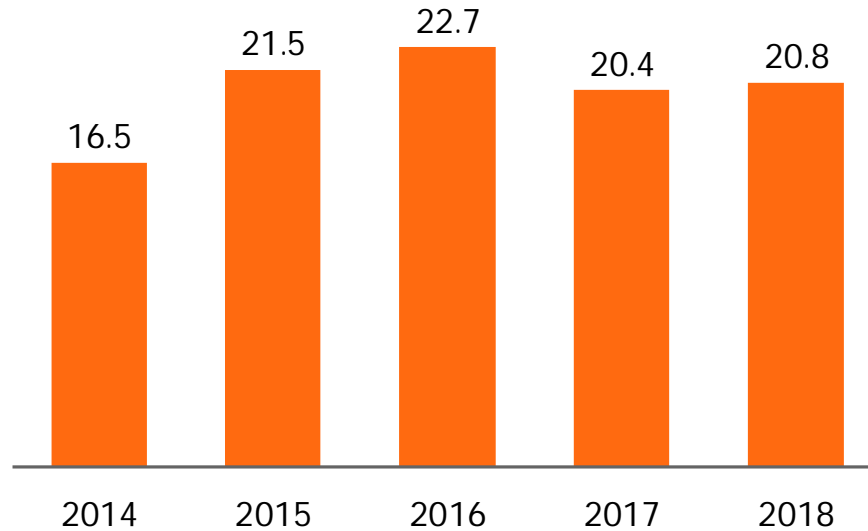
\* without transfer of pension liability

# OP Financial Group's quarterly performance

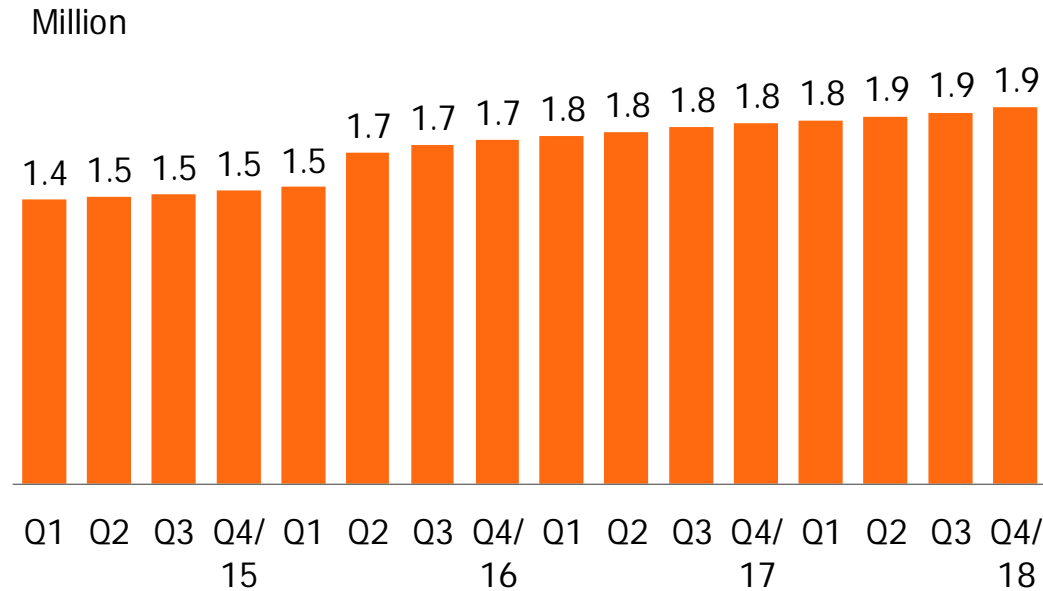
€ million	Q1	Q2	Q3	Q4/2017	Q1	Q2	Q3	Q4/2018
Net interest income	260	274	287	281	282	289	297	308
Net insurance income	117	145	80	137	127	151	154	134
Net commissions and fees	226	209	203	242	232	212	212	232
Net investment income	124	123	171	104	79	127	79	-31
Other operating income	31	32	12	8	12	9	25	15
<b>Total income</b>	<b>757</b>	<b>782</b>	<b>753</b>	<b>772</b>	<b>732</b>	<b>788</b>	<b>766</b>	<b>657</b>
Personnel costs*	202	191	171	193	204	209	178	211
Transfer of statutory pension liability								-286
Other expenses	213	244	242	310	252	290	244	378
<b>Total expenses</b>	<b>415</b>	<b>436</b>	<b>414</b>	<b>503</b>	<b>456</b>	<b>500</b>	<b>422</b>	<b>303</b>
Impairments of receivables	-8	-15	-5	-20	-4	-3	-17	-22
OP bonuses to owner-customers	-51	-55	-55	-56	-52	-57	-58	-58
Overlay approach					19	-41	-7	56
<b>Earnings before tax</b>	<b>283</b>	<b>276</b>	<b>279</b>	<b>192</b>	<b>239</b>	<b>187</b>	<b>262</b>	<b>330</b>

# Long-term return target at 22%

Return on economic capital, %



# Steady growth in the number of 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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# 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 2018

EBT

EUR **795** million

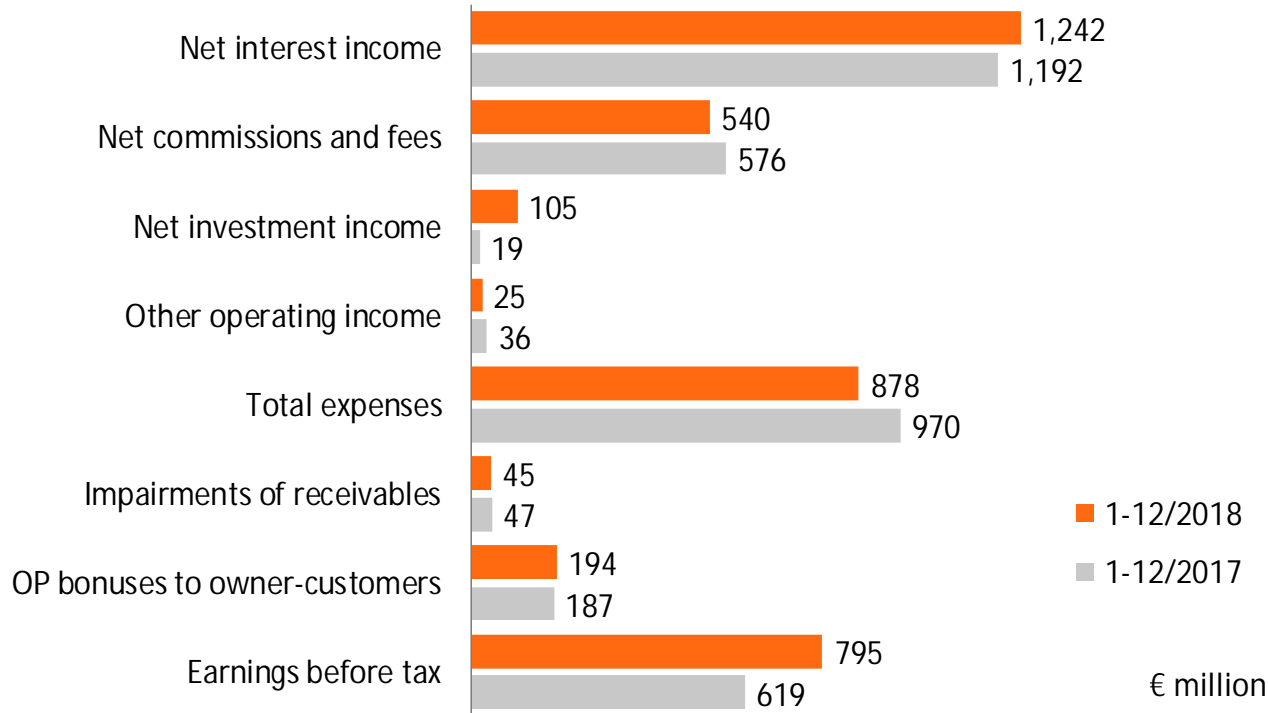
Loan portfolio

EUR **87.1** billion

Total deposits

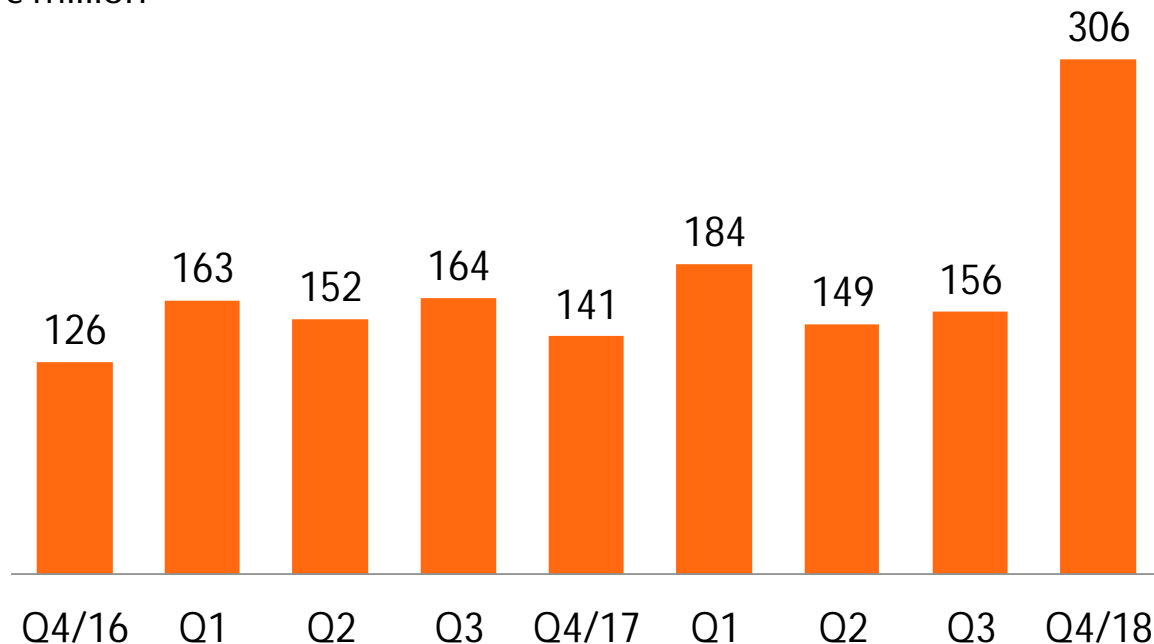
EUR **61.3** billion

# Banking EBT increased by 28% to EUR 795 million

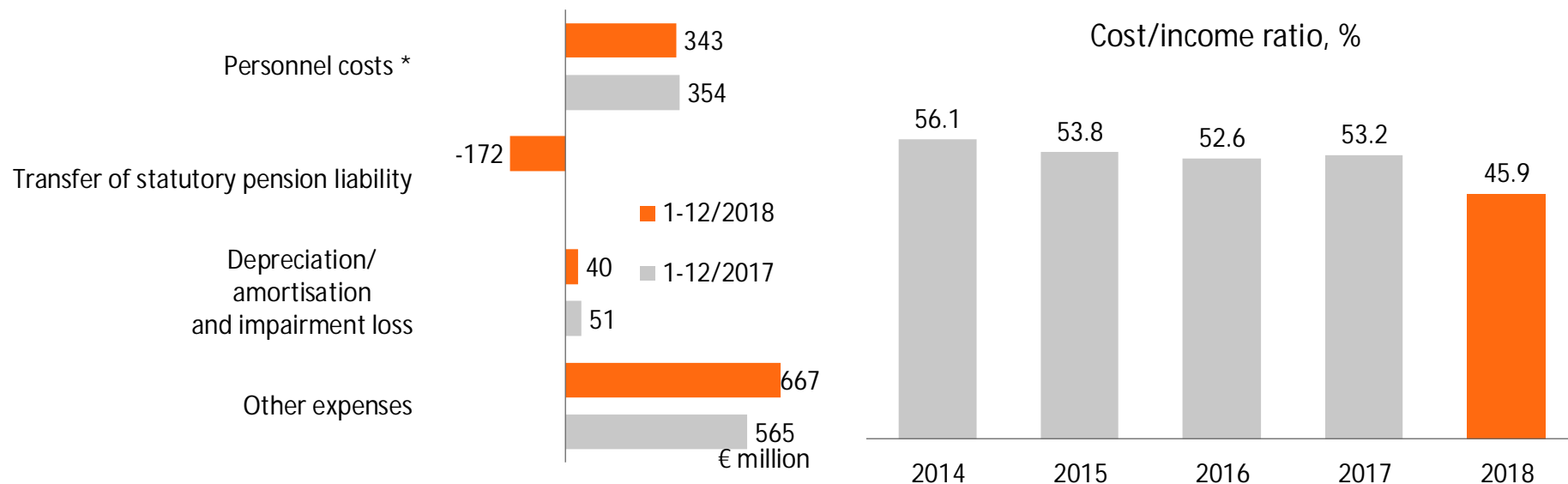


# Transfer of pension liability improved the segment's earnings in Q4

€ million



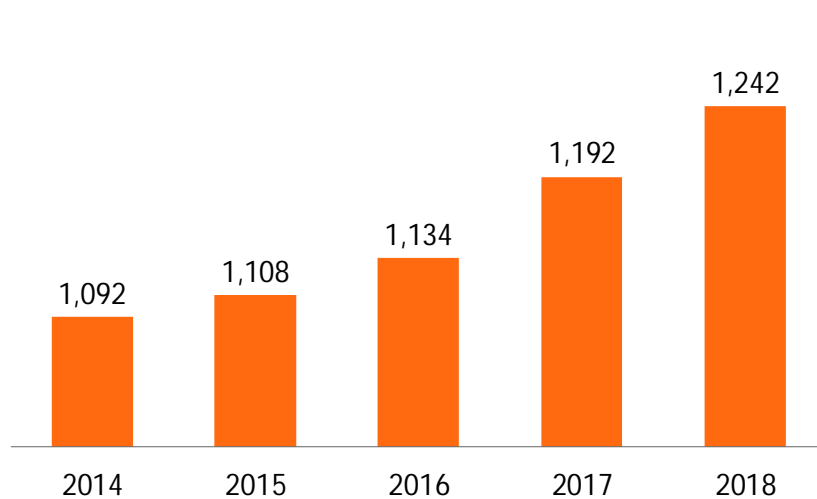
# Banking's personnel costs decreased by 3%



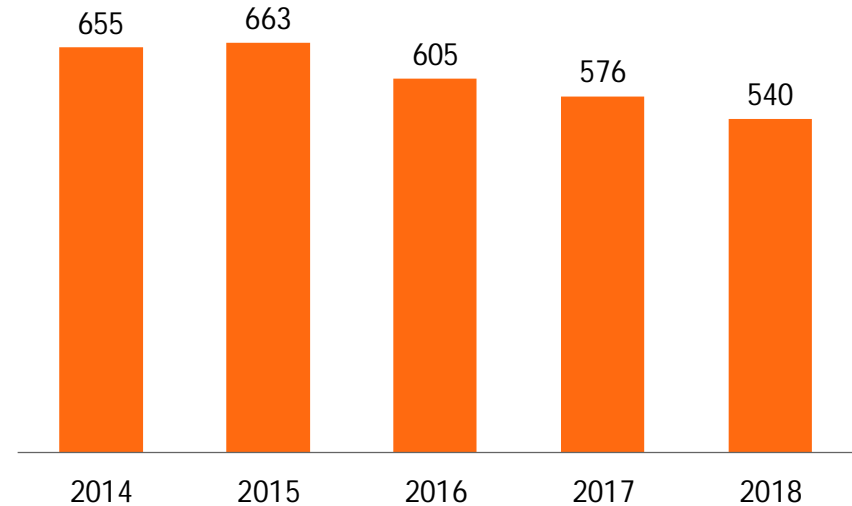
\*without transfer of pension liability

# Net interest income up by 4.2% year on year

Net interest income, € million



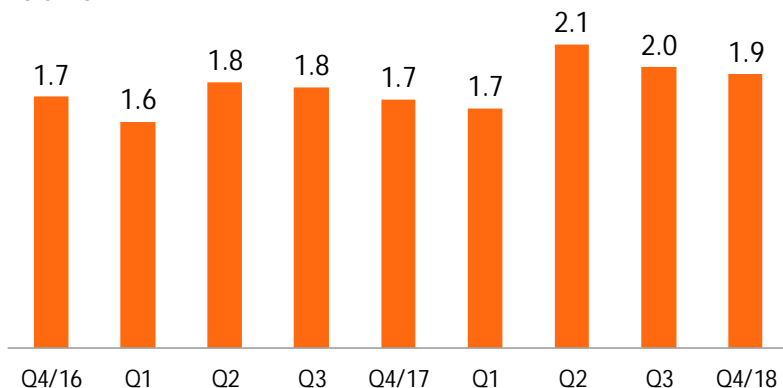
Net commissions and fees, € million



# Drawdowns of home loans increased by 9.6% year on year in January-December

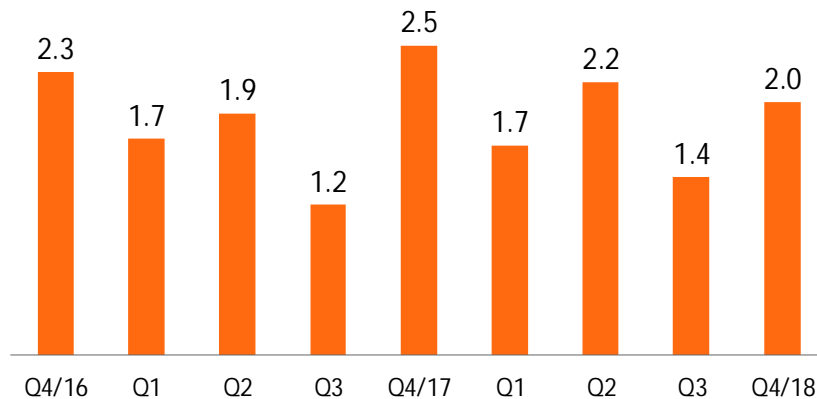
Home loans drawn down

€ billion

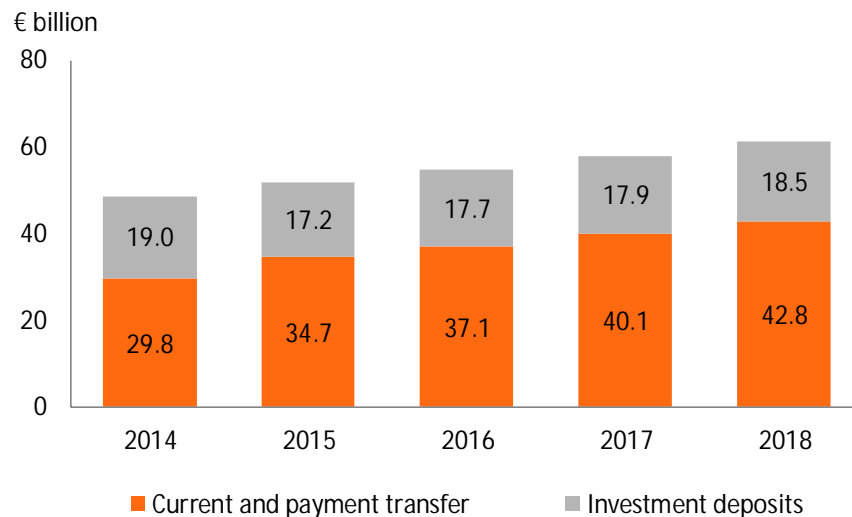
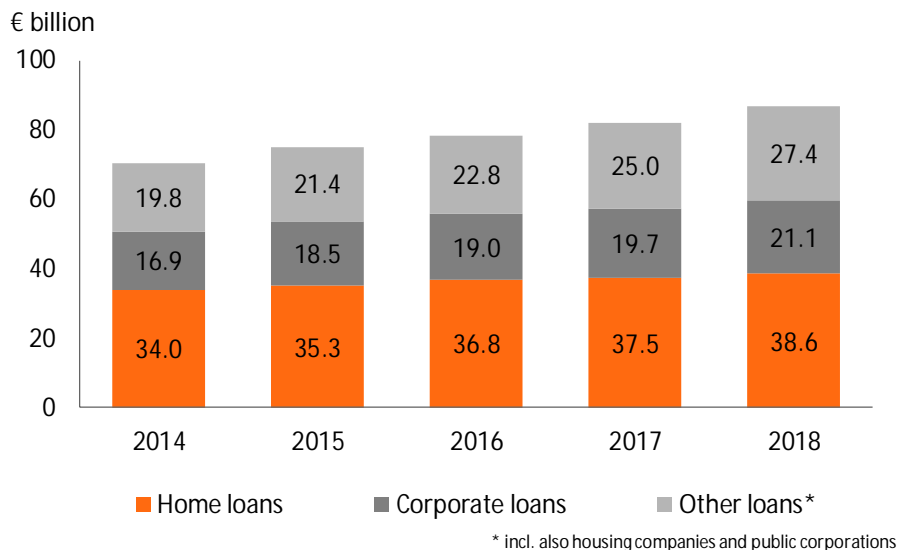


Corporate loans

€ billion




# The Banking loan portfolio was up by 5.9% and the deposit portfolio by 5.8%



# OP Financial Group's loan and guarantee portfolio grew by 6.2%

€ million			Change	
	31 December 2018	31 December 2017	€ million	%
<b>Enterprises and housing companies</b>	<b>34,584</b>	<b>32,639</b>	<b>1,945</b>	<b>6.0</b>
Renting and operating of residential real estate	7,391	6,737	654	9.7
Renting and operating of other real estate	3,980	4,063	-83	-2.0
Wholesale and retail trade	3,518	3,399	119	3.5
Energy	3,120	2,957	164	5.5
Services	3,010	2,586	424	16.4
Construction	2,809	2,505	304	12.1
Transportation and storage	1,834	1,657	177	10.7
Manufacture of machinery and equipment (incl. services)	1,702	1,626	76	4.7
Agriculture, forestry and fishing	1,455	1,302	153	11.7
Financial and insurance services	1,227	1,349	-121	-9.0
Forest Industry	932	723	210	29.0
Metal Industry	716	734	-17	-2.3
Food Industry	633	613	20	3.2
Real estate investments	610	545	65	12.0
Chemical Industry	486	461	24	5.3
Other industries	1,160	1,383	-223	-16.1
<b>Public corporations and non-profit organisations</b>	<b>3,014</b>	<b>1,836</b>	<b>1,178</b>	<b>64.1</b>
<b>Households</b>	<b>51,441</b>	<b>49,967</b>	<b>1,474</b>	<b>3.0</b>
Adjustments	979	329	650	0.0
<b>Total</b>	<b>90,019</b>	<b>84,772</b>	<b>5,247</b>	<b>6.2</b>



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

## Key figures 2018

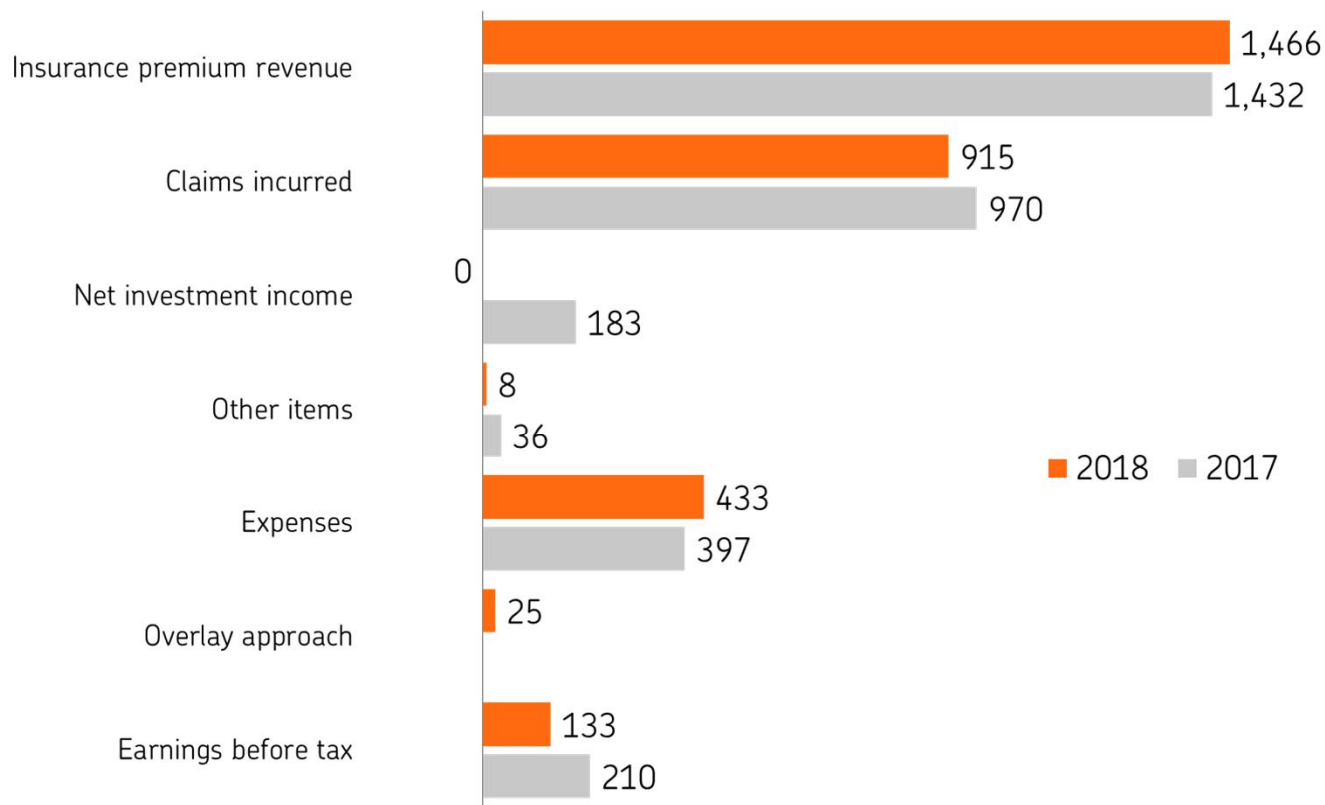
EBT

EUR **133** million

Insurance premium  
revenue

EUR **1,466** million

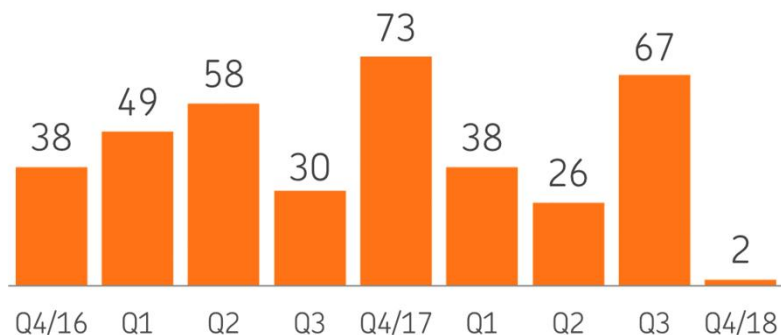
# Non-life Insurance EBT, € million



# Lower investment income reduced earnings – capital gains fell significantly

Earnings before tax by quarter, € mn

€ million



Earnings before tax, € mn  
change 2018 vs. 2017

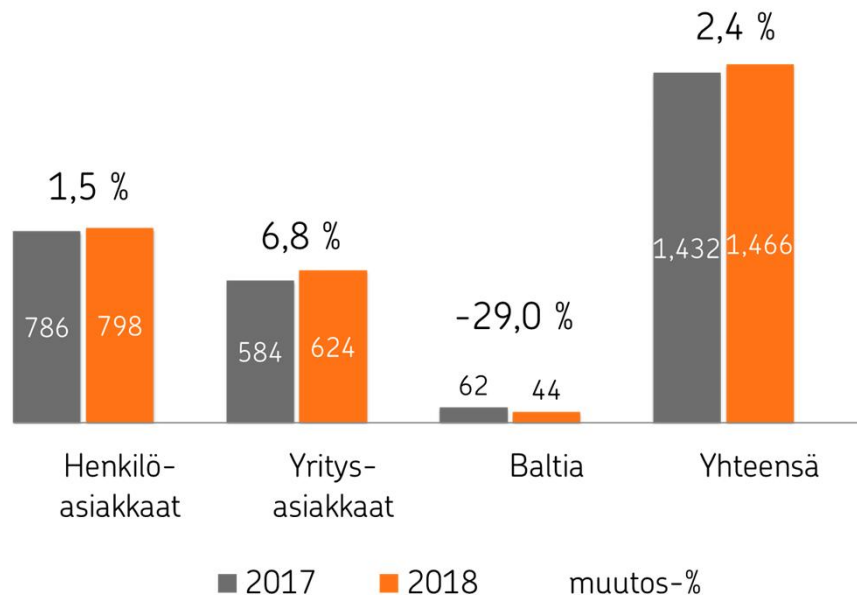


\*) Lower discount rate reduced claims incurred by EUR 102 million in 2017.

\*\*) Investment income and expenses include Overlay Approach income and charges.

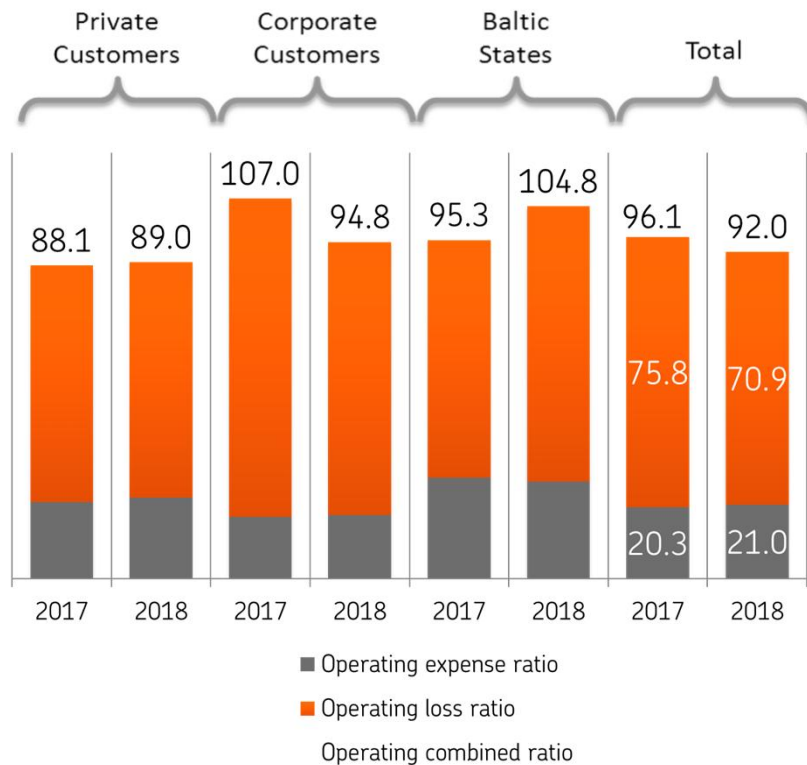
# Growth in insurance premium revenue stemmed from Corporate Customers

Insurance premium revenue, € mn, and change by business division  
2018 vs. 2017



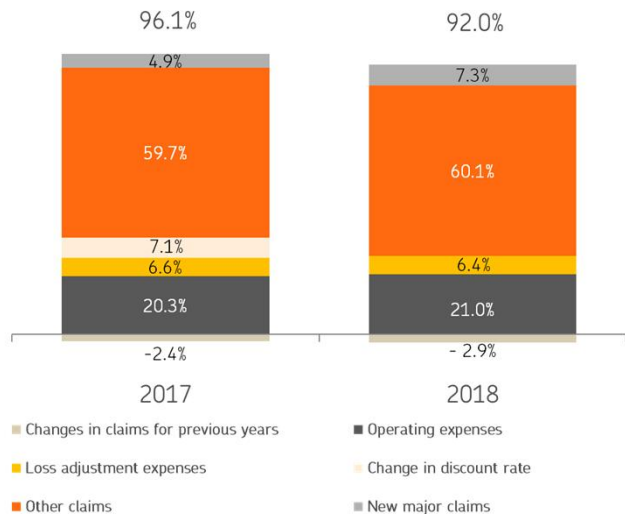
# Balance on technical account

Operating combined ratio by division 2018 vs. 2017, %

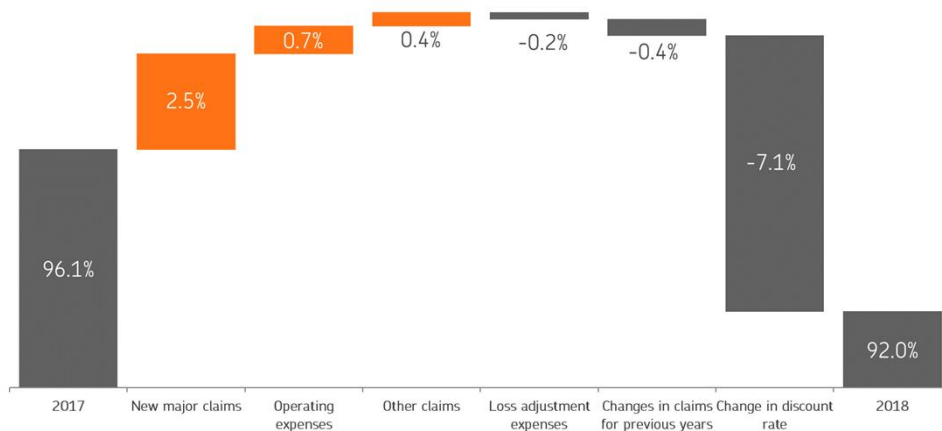


# Development in large claims burdened balance on technical account

Operating combined ratio  
by component, %

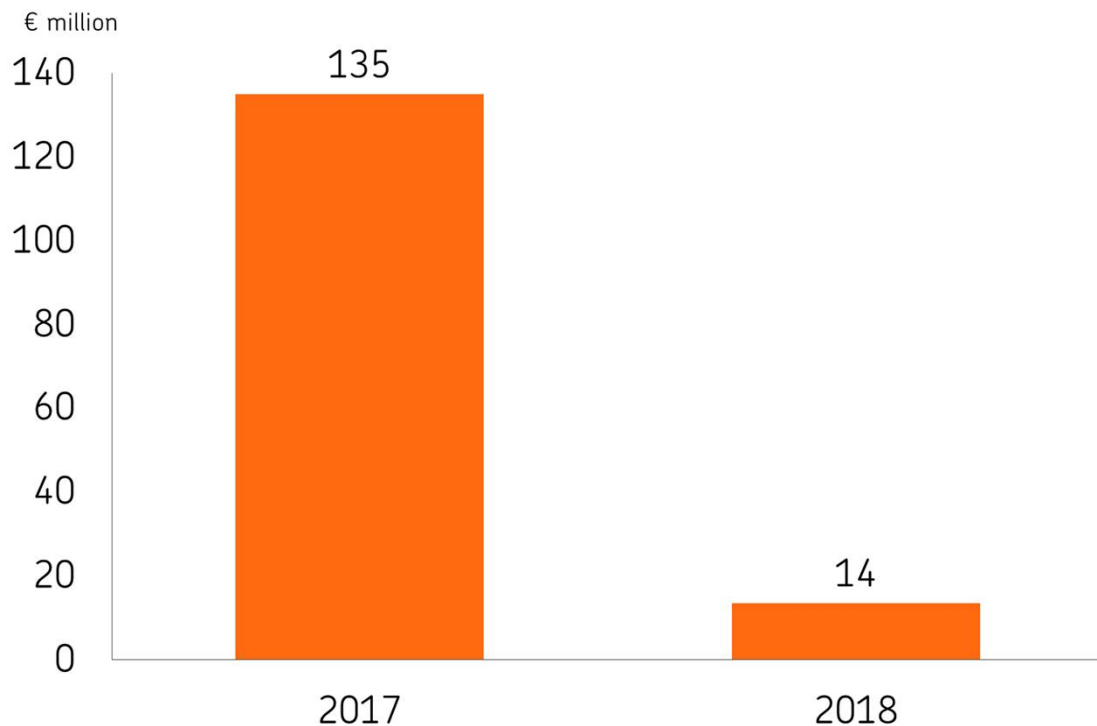


Change in operating combined ratio, %



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 €42 million (35) in January-December 2018.

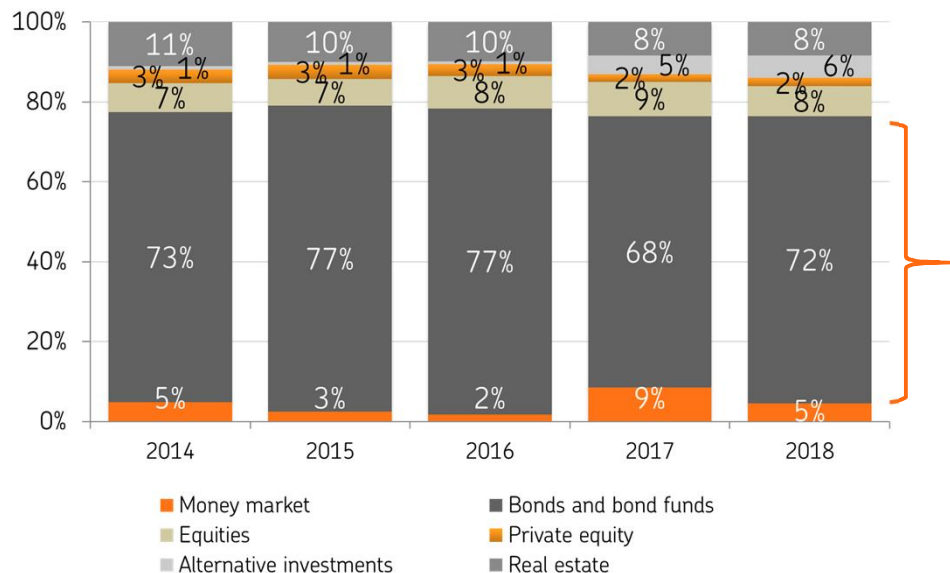
# Net return on investments at fair value, € million



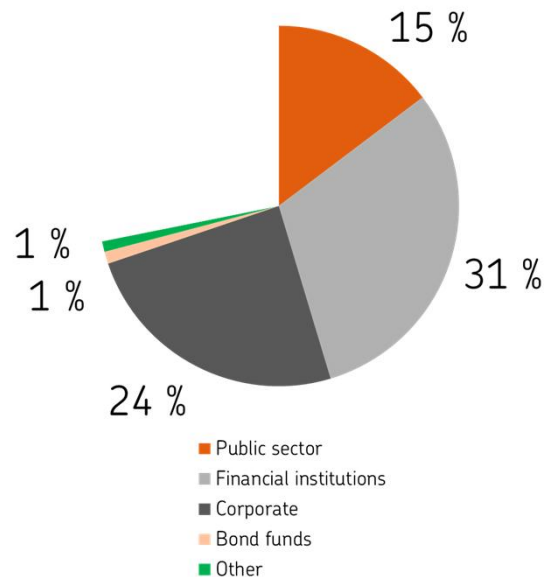
\*Net return on investments at fair value is calculated by deducting the value change in market-consistent insurance liability from income from total investment assets.

# Investment portfolio allocation

Investment portfolio (€3.7 bn) by asset class as of 31 December 2018



Bonds and bond funds (72%)



The duration of the fixed-income portfolio 4.3 years (5.1).

The running yield for direct bond investments averaged 1.5% (1.7) at end-December 2018.



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# 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.

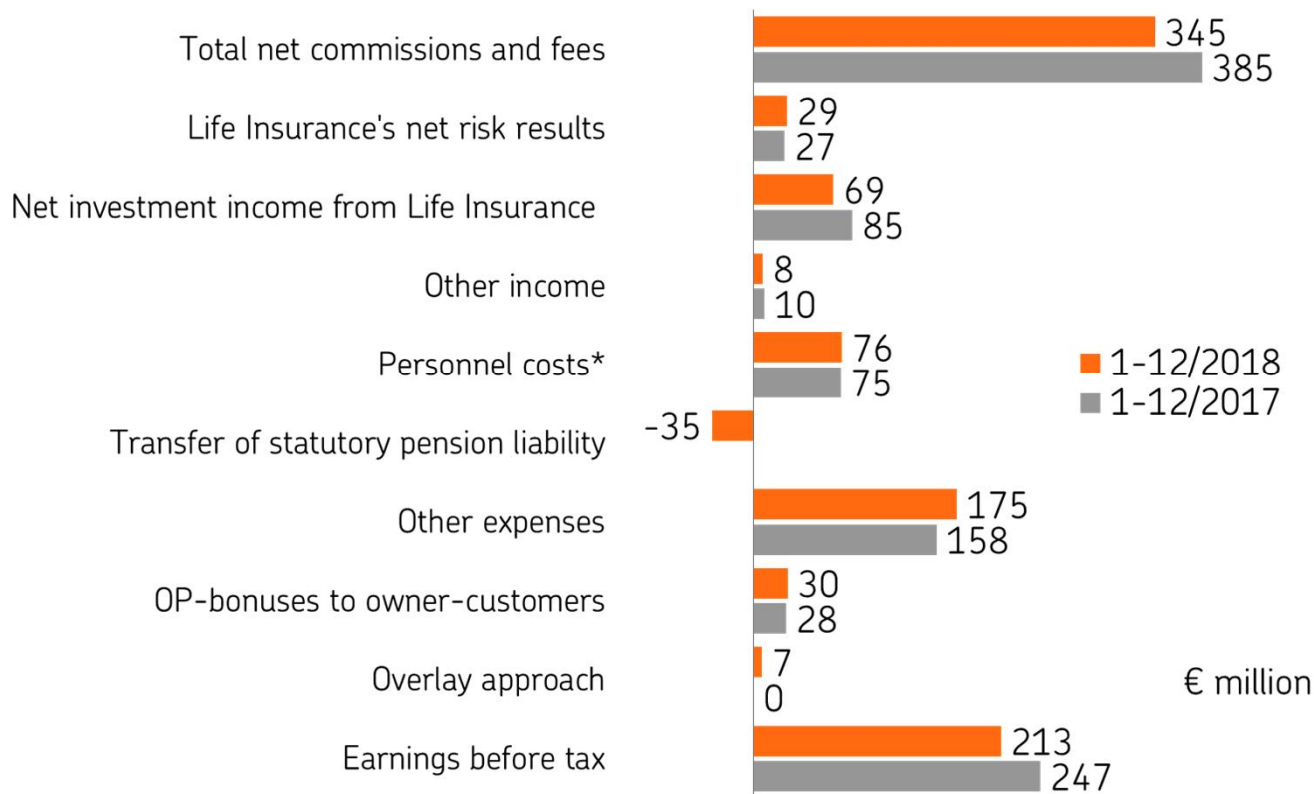
- For private customers, we provide an extensive range of savings and investment solutions. The mutual funds in our range invest in various asset classes and market areas, and are managed partly by OP's own investment organisation and partly by our international partners.
- The range of services for 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 2018

EBT  
EUR **213** million

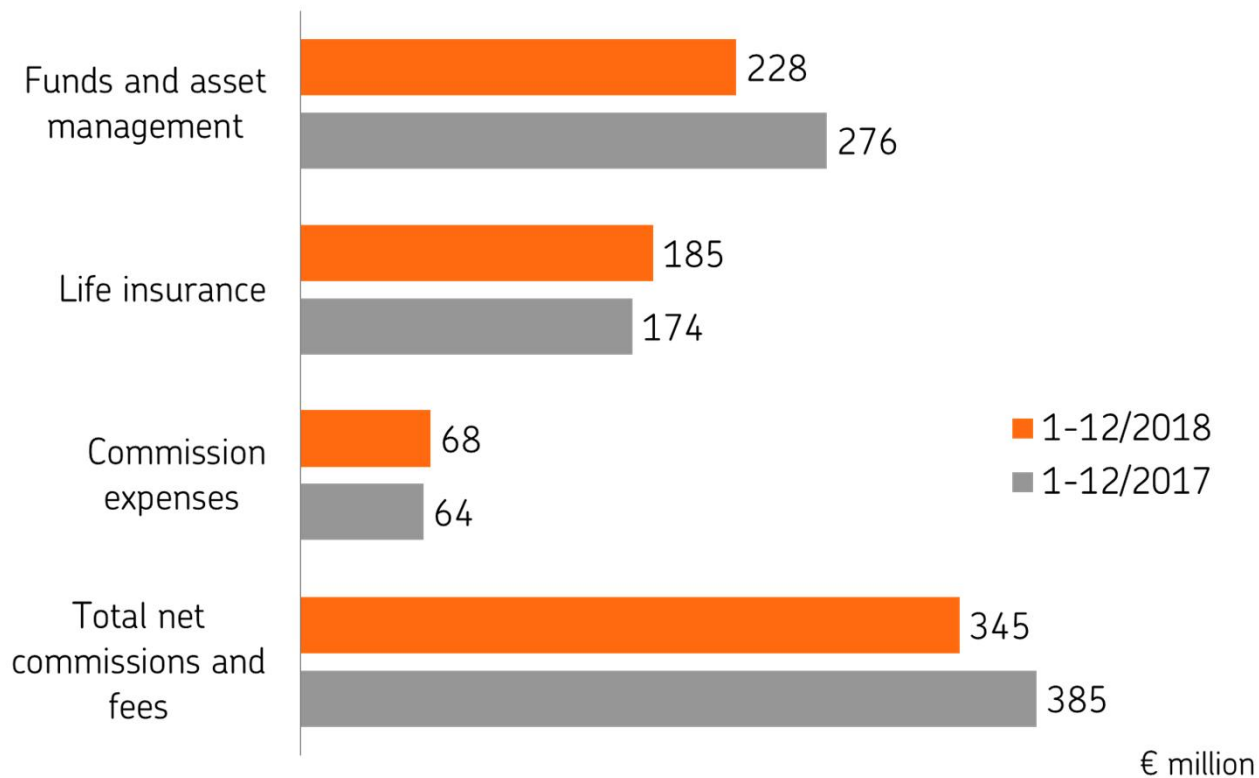
Assets under  
management  
EUR **71.8** billion

# Wealth Management income statement



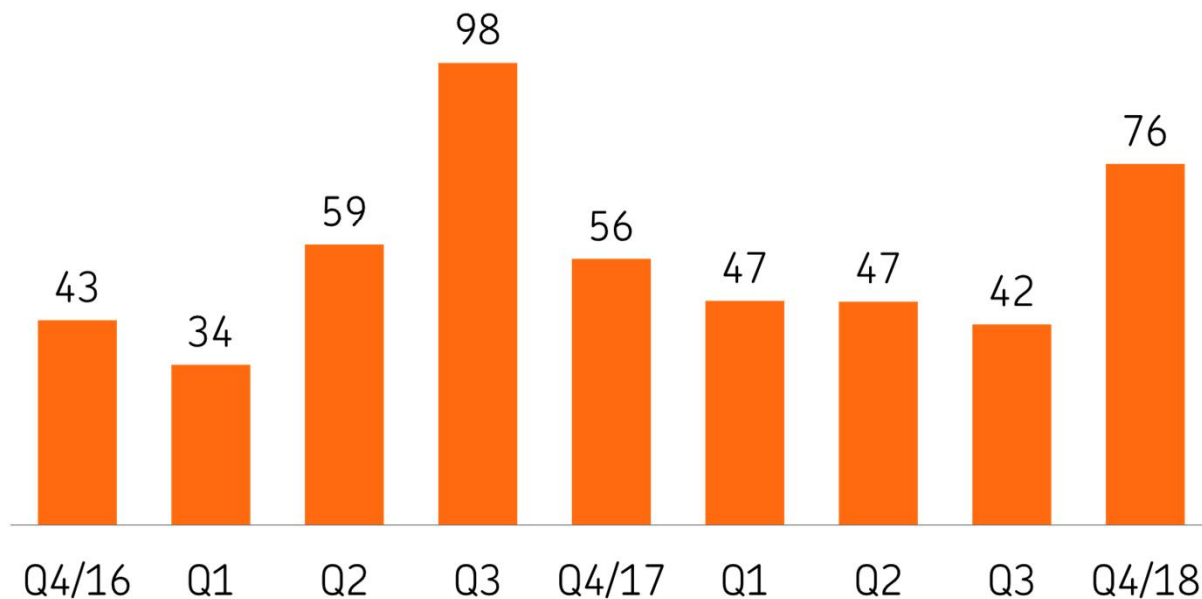
\*without transfer of pension liability

# Wealth Management net commissions and fees



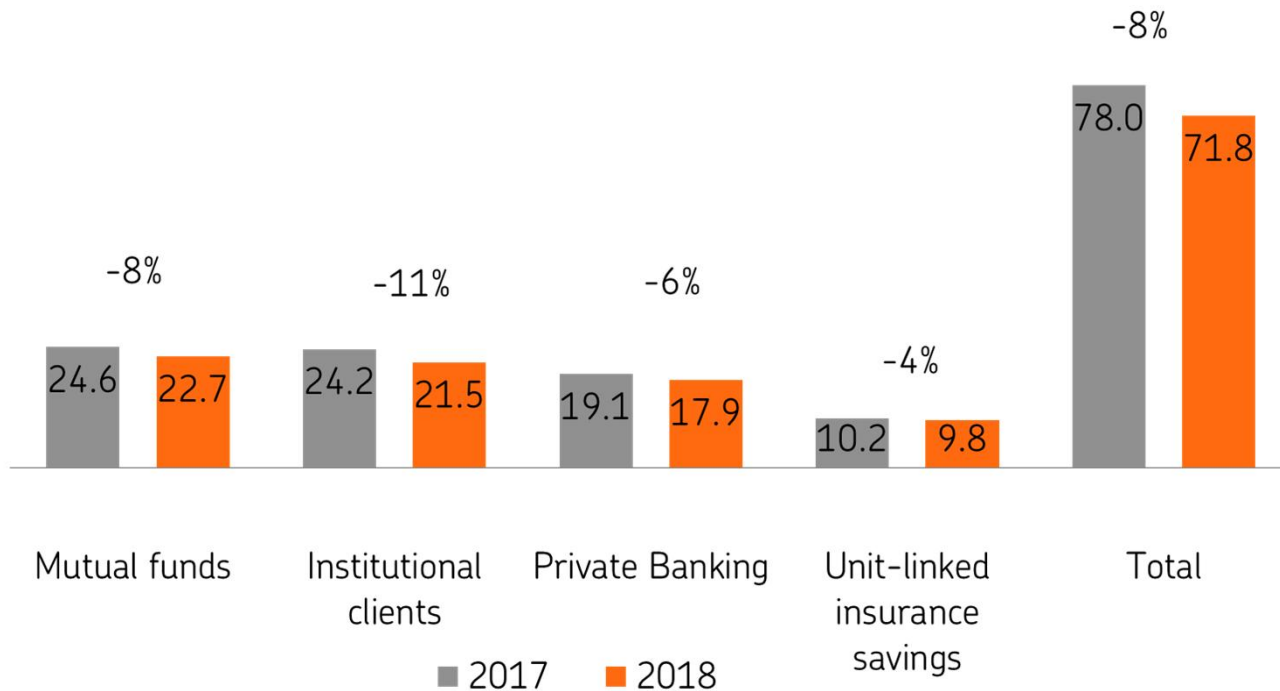
# Wealth Management EBT by quarter

€ million

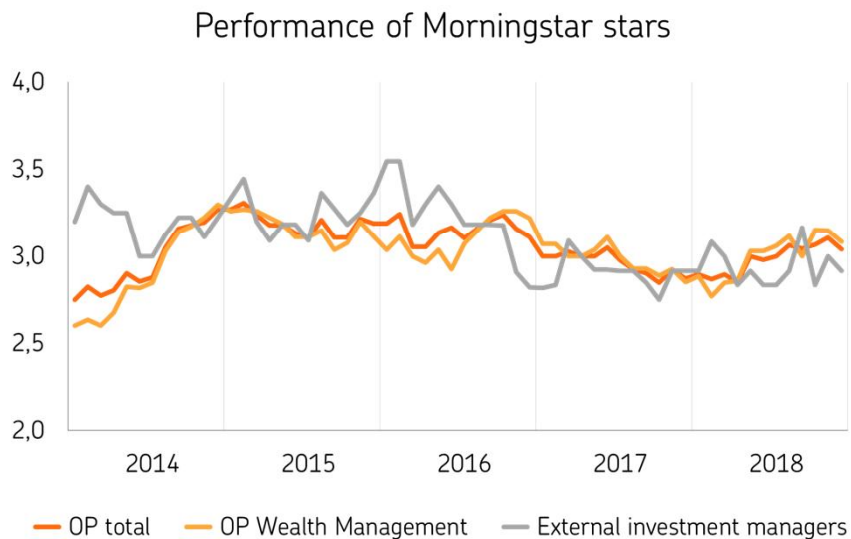


# AUM decreased year-on-year

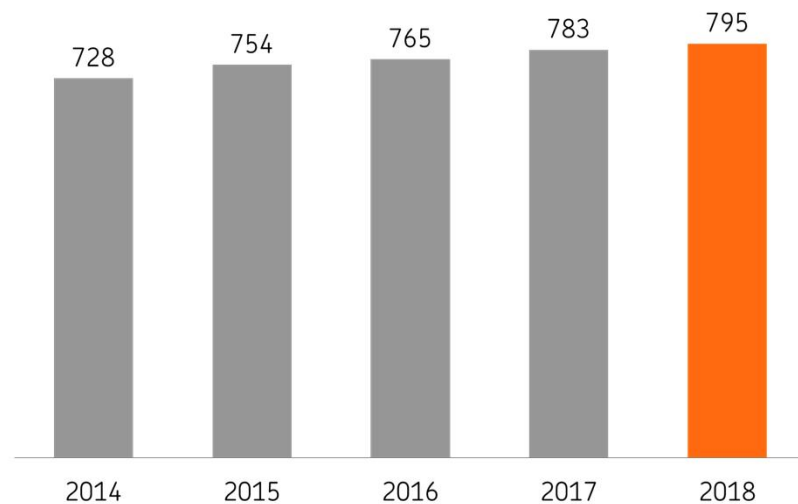
Assets under management (gross) €billion



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



Investor and saver customers, 1000 pers.

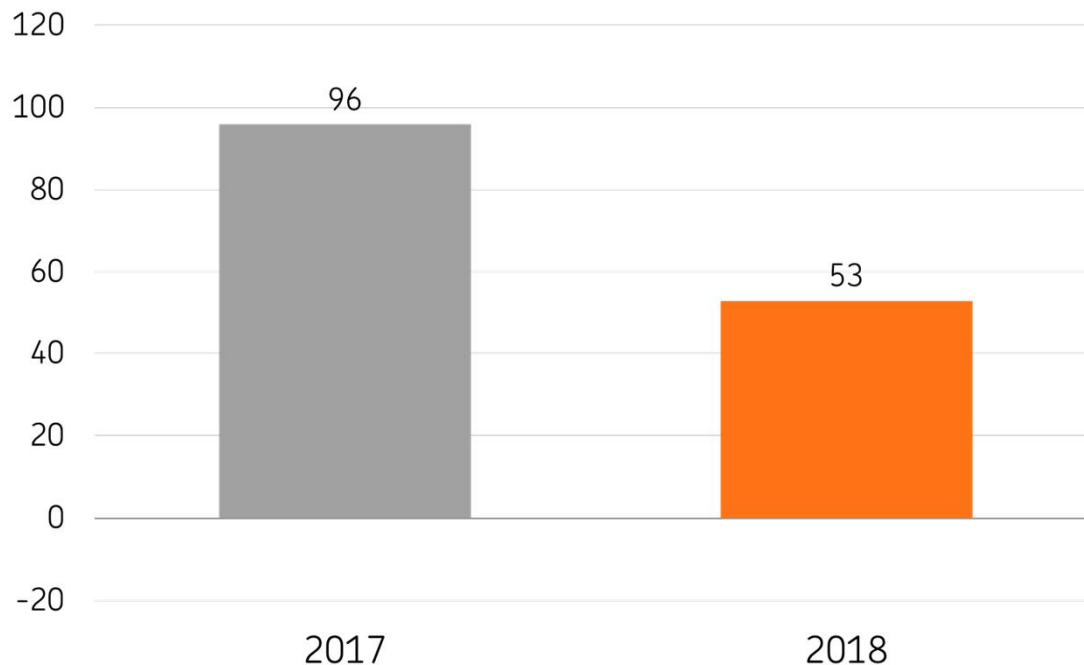


# Capital market uncertainty was reflected in net inflows

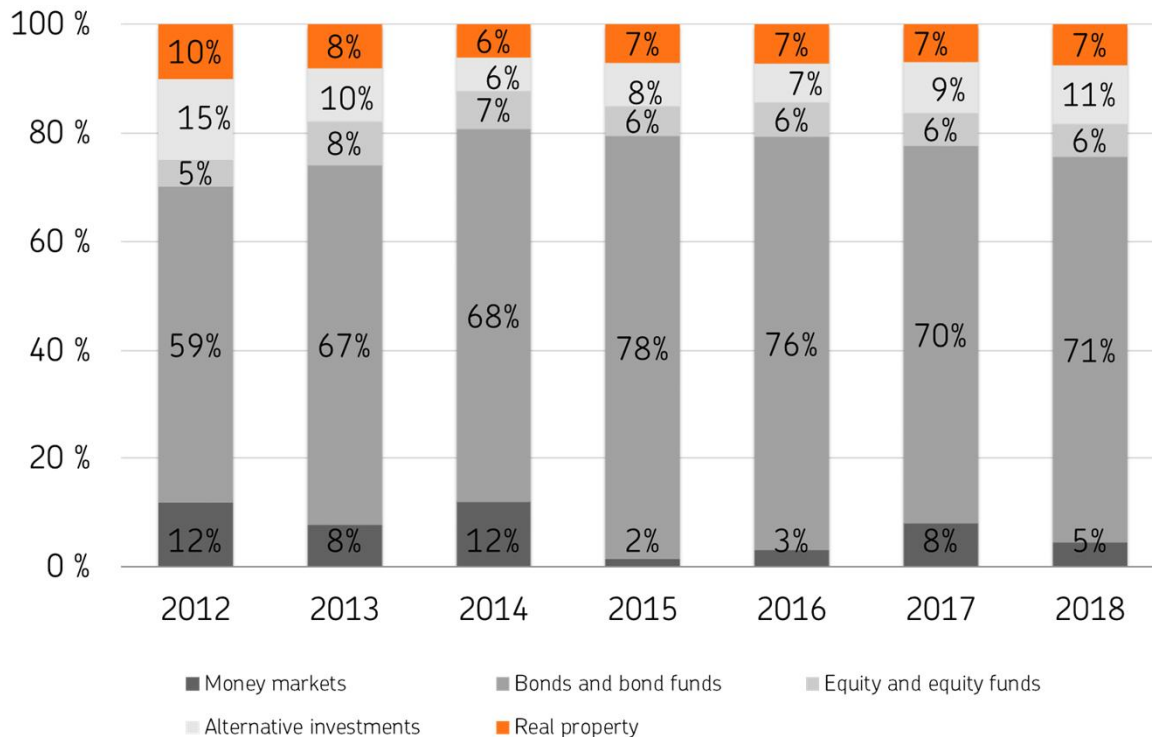
Net inflows € million



# Income from Life Insurance investments\*, € million



# The risk level of Life Insurance investment assets\* (€3.6 bn) has been lowered with determination



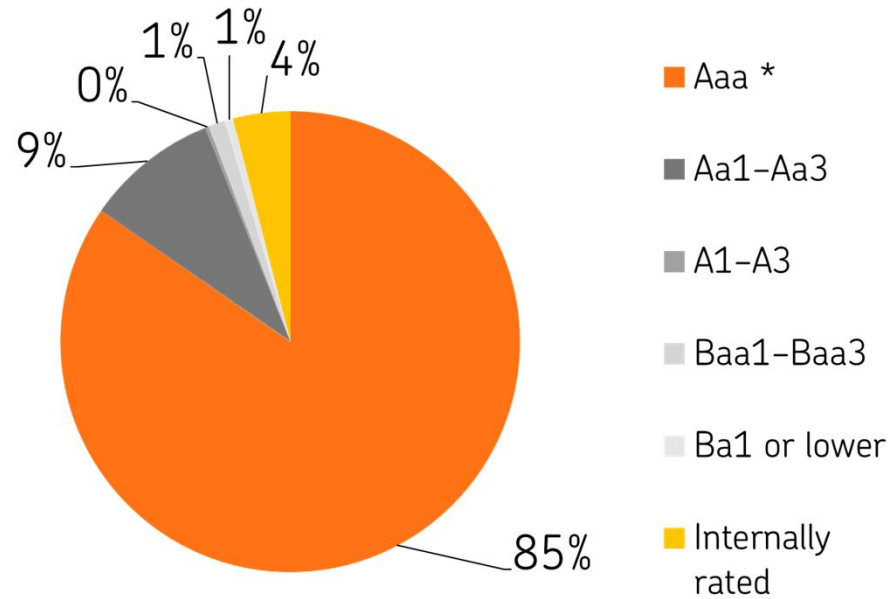


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# Liquidity and funding

# Liquidity buffer includes highly-rated assets

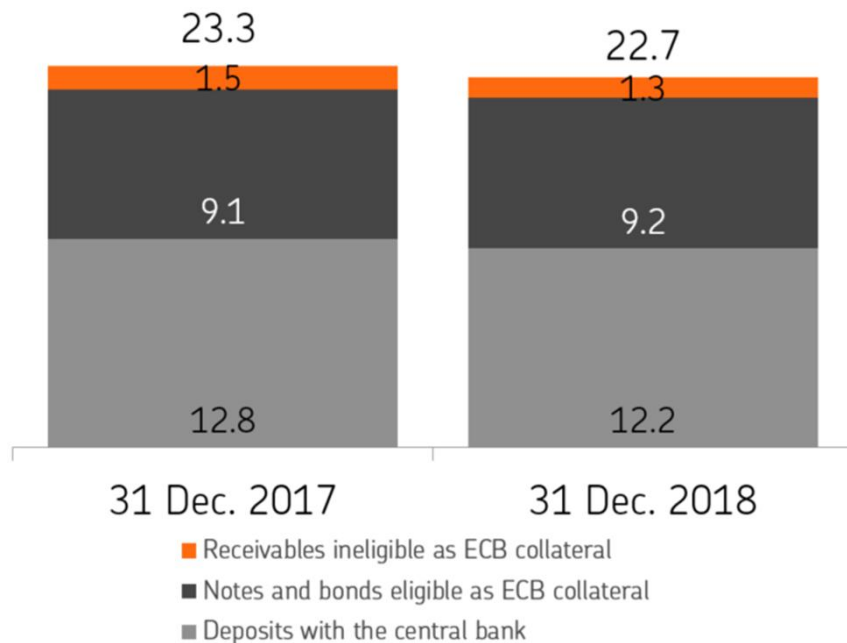
Liquidity buffer by credit rating as at 31 December 2018



\*incl. deposits with the central bank

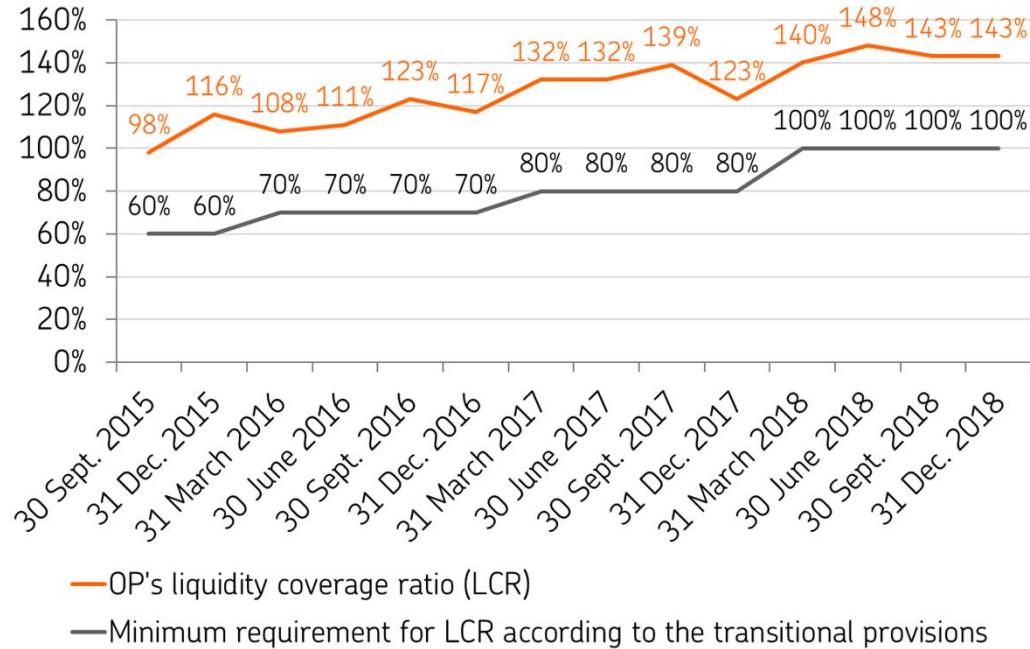
# Liquidity buffer €22.7 bn at year end 2018

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.

# Liquidity coverage ratio 143% at year end 2018



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

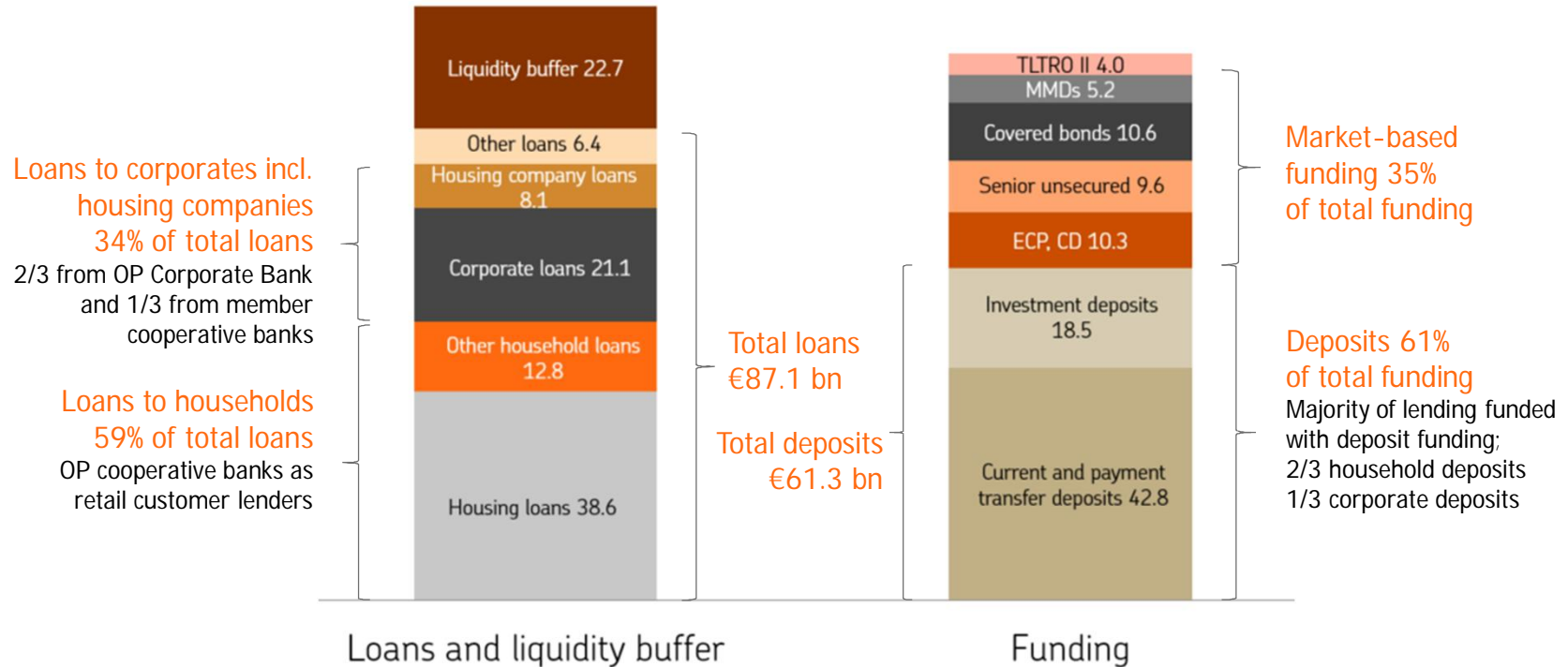
According to the transitional provisions, LCR must be at least at least 100% from the beginning of 2018.

NSFR (Net Stable Funding Ratio) was 111% at YE2018 (116% at YE2017).

# Loans, liquidity buffer and funding

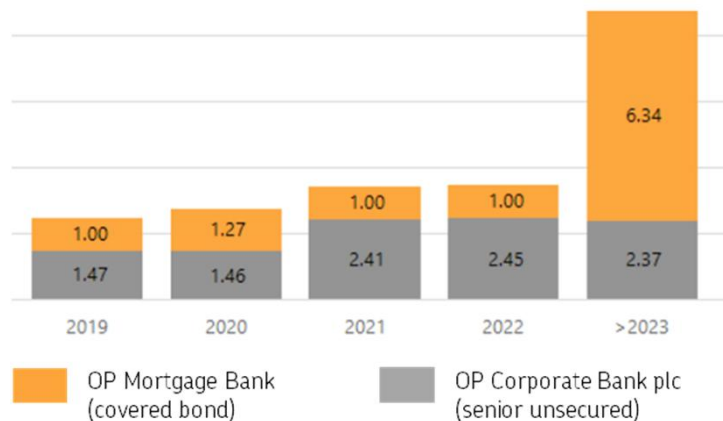
31 December 2018

€ bn

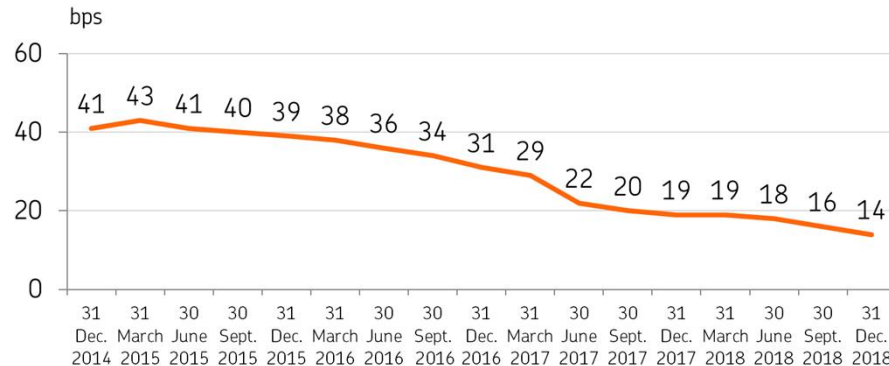


# Maturity breakdown and average margin of long-term wholesale funding

Issued senior unsecured and covered bonds by maturity, 31 December 2018 (€ bn)



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 (Single Resolution Board) 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	GBP 200 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	GBP 300 mn	3 yrs	Eb3 +16 bps
2015	May	GBP 400 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 €3.3 billion during 2018.



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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

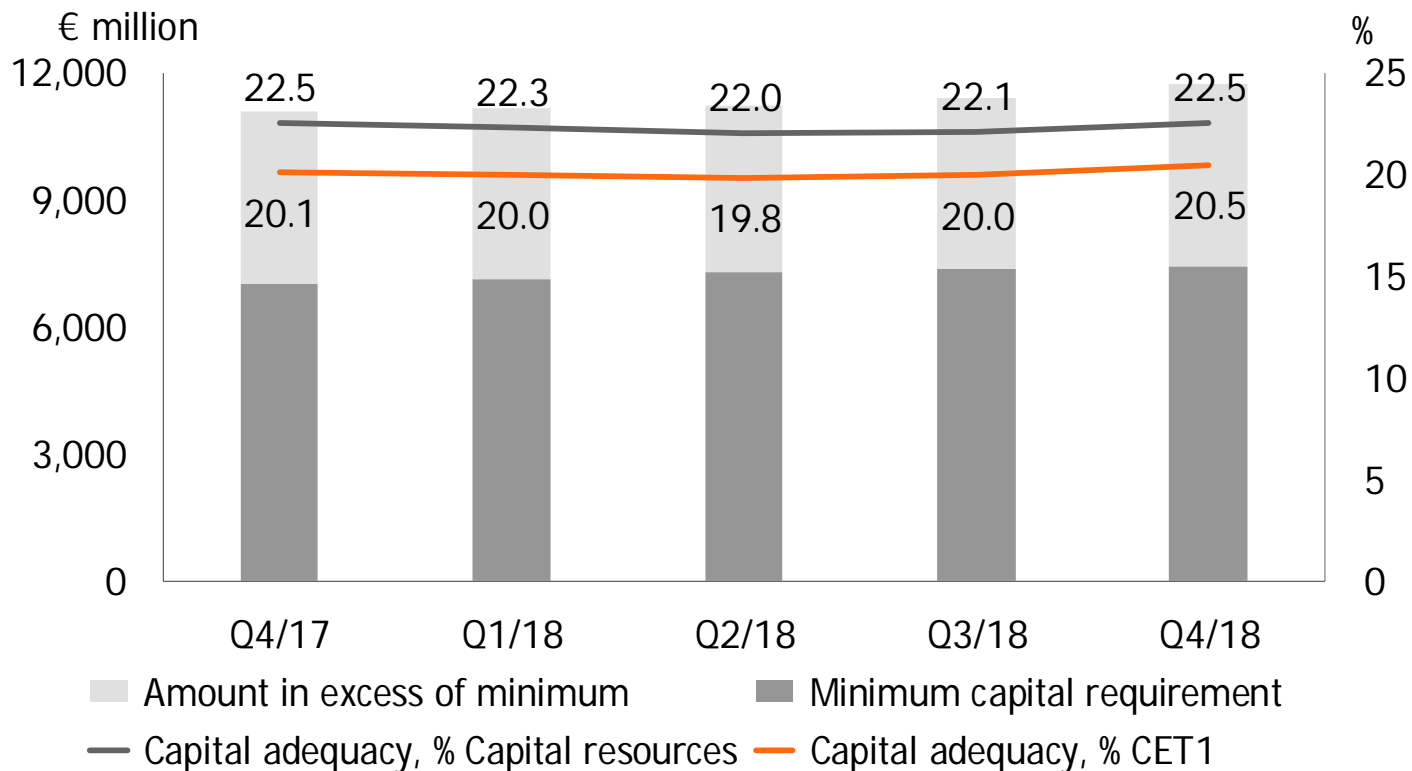
- The operations and solvency requirements for insurance companies are based on the Insurance Companies Act and EU regulation.
- The solvency capital requirement (SCR) is calculated for individual insurance companies and the insurance conglomerate. The companies are required to cover SCR using the Group's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

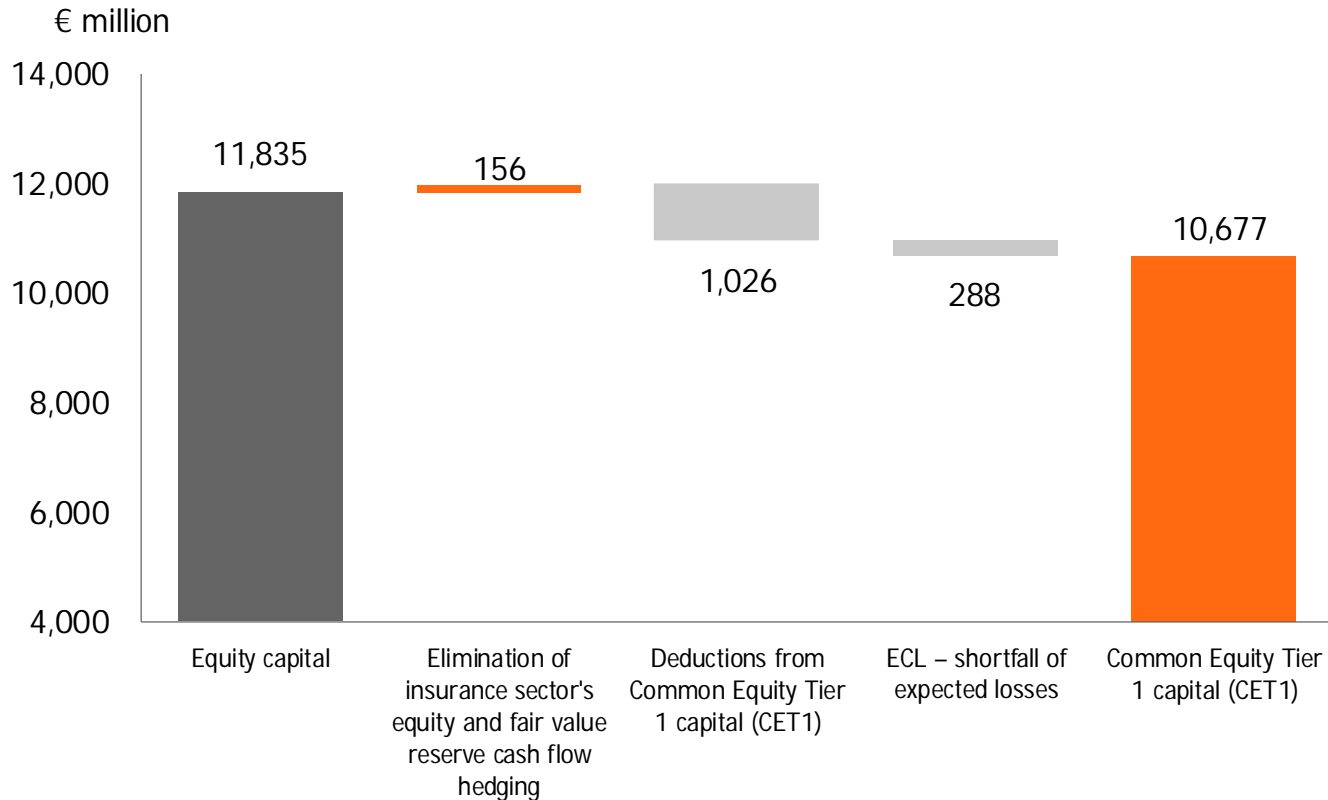
# Amalgamation of cooperative banks

## Capital base and capital adequacy

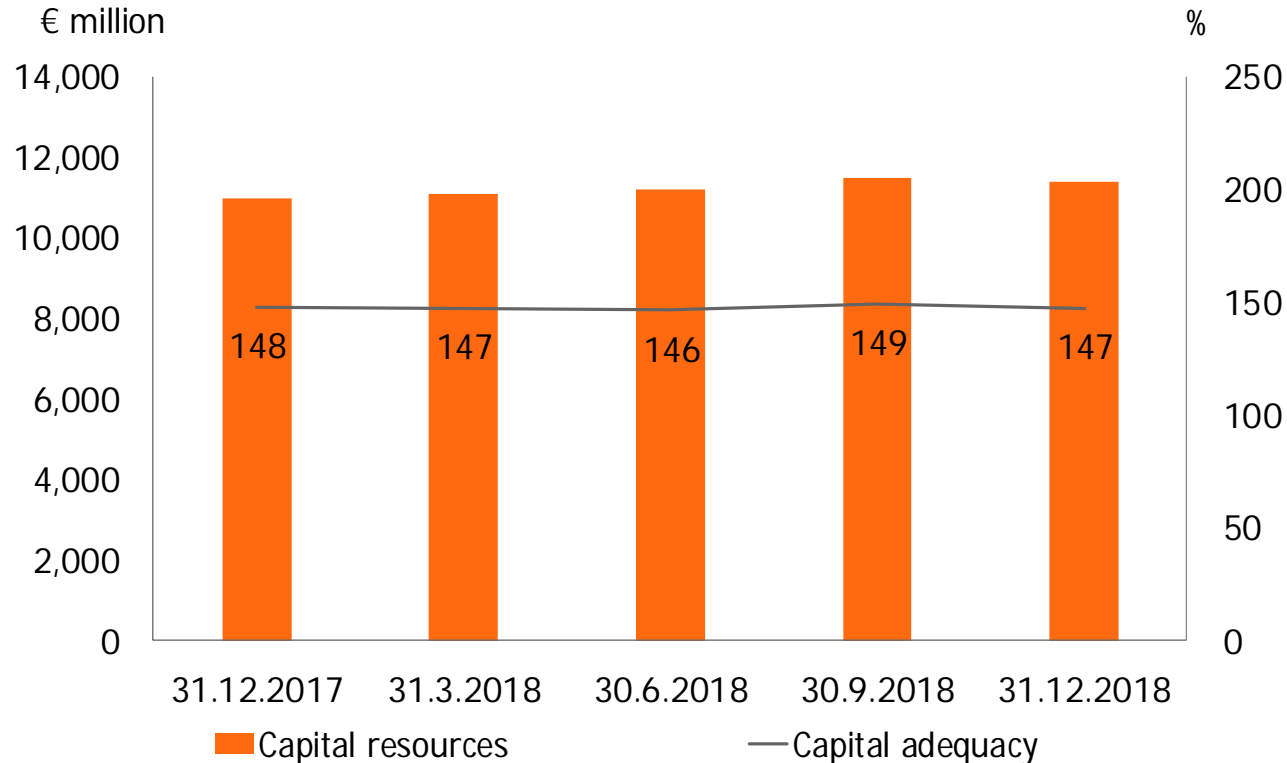


# Common Equity Tier 1 (CET1)

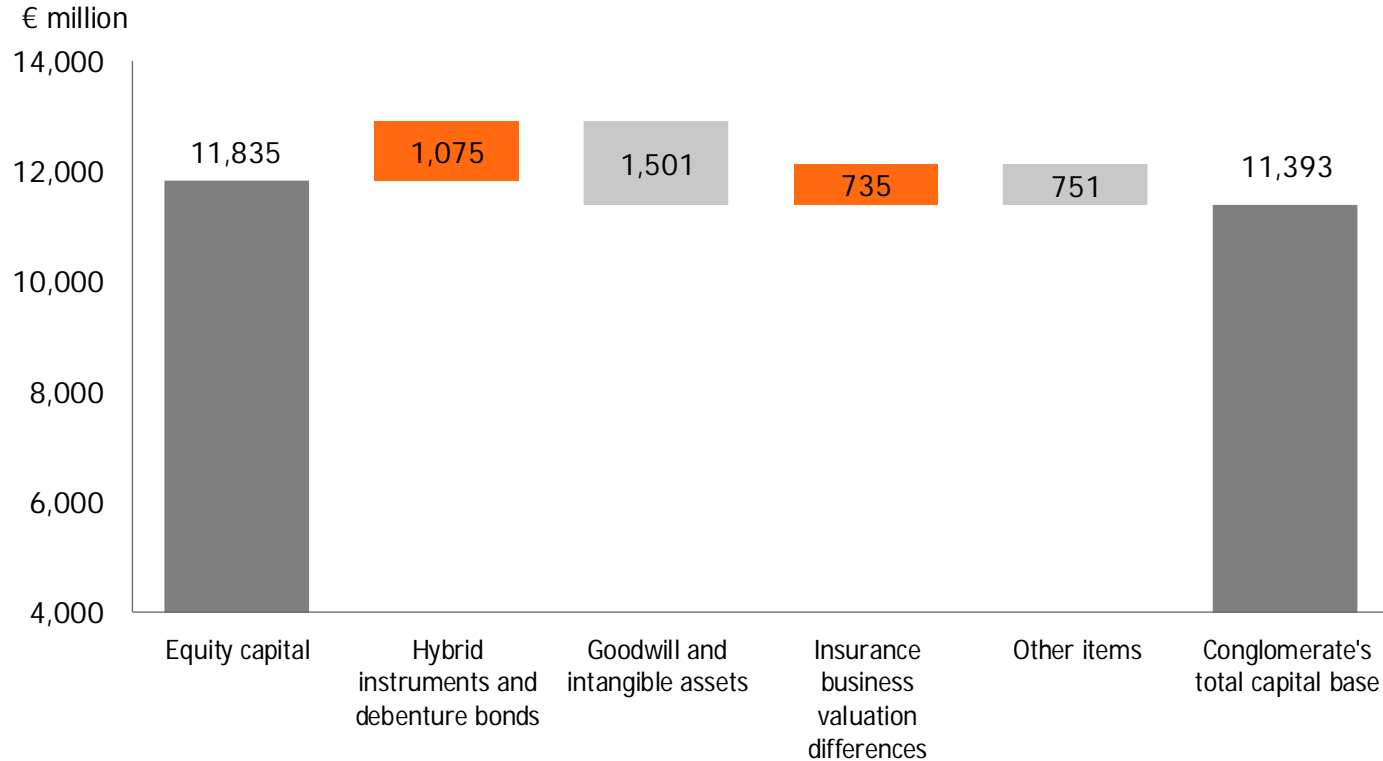
## 31 December 2018




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



# FiCo capital 31 December 2018





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OP in a nutshell

# OP is a financial services group owned by its customers

## OP's mission

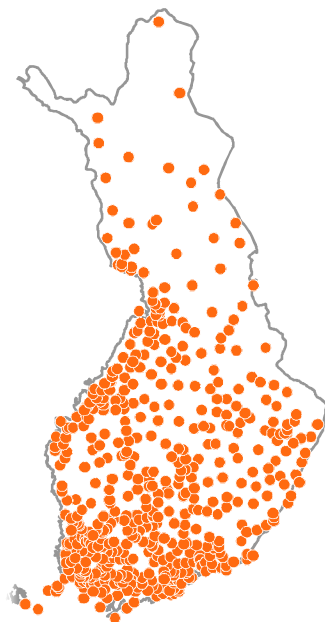
By means of our strong capital base and efficiency, we create sustainable financial prosperity, safety and wellbeing for our owner-customers and in our operating environment.



# OP in a nutshell



1.9 million  
owner-customers

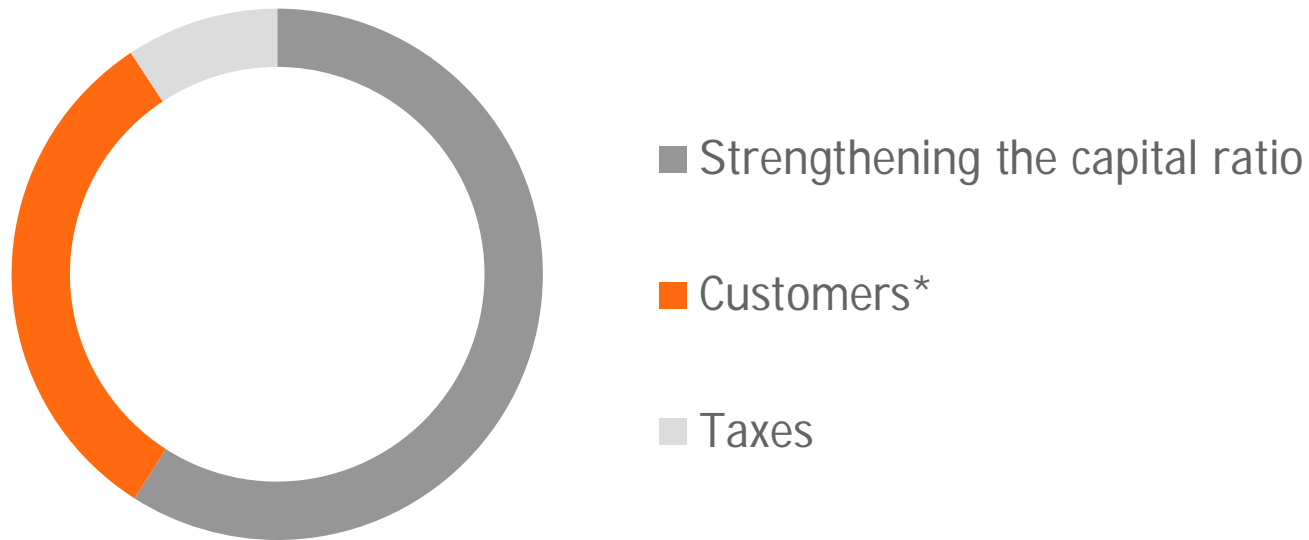


156 OP  
cooperative banks



Hyperlocal digital  
financial services group

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



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 targets

	31 Dec. 2018	Target 2019
Customer experience, NPS (-100–+100)		
Brand	23	25
Service	61	70, over time 90
CET1 ratio, %	20.5	22
Return on economic capital, % (12-month rolling)	20.8	22
Expenses of present-day business (12-month rolling), € million	1 833	Expenses for 2020 at 2015 level (1,500)
Owner-customers, million	1.9	2.1 (2019)

# OP Financial Group's service channels

	1–31 Dec. 2018	31 Dec. 2018	12-month change
Online and mobile services			
Op.fi visits	8,668,002		-6%
OP-mobile visits	22,178,868		+25%
OP Business mobile visits	620,537		+72%
Pivo mobile application visits	4,013,499		+67%
eServices Agreements (private customers)		1,880,686	+71,254
Branches and telephone services			
Bank branches		365	-42
Providing both non-life insurance and banking services		323	-10
Private Banking branches		42	+/-0
Customer contacts in telephone service	340,180		+9%
Social media			
Followers on Facebook (OP Financial Group and OP cooperative banks)		345,248	+31,861
Followers on Twitter		38,665	+11,795
Followers on LinkedIn		30,816	+11,632
Followers on Instagram		9,903	+3,322

# 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 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 , OP Card Company Plc and OP Customer Services Ltd.
- 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 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 each  
other