



OP Financial Group's Half-year Financial Report for 1 January–30 June 2019

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- Retail Banking
- Corporate Banking
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OP Financial Group's Half-year Financial Report

OP Financial Group's key figures and ratios

Income increased year on year

	H1/2019	H1/2018	Change, %	Q1-4/2018
Earnings before tax, € million	415	425	-2.5	1,017
Retail Banking	94	121	-22.8	421
Corporate Banking	139	211	-34.0	408
Insurance	192	140	37.5	260
Other Operations	-10	-40	-	-64
New OP bonuses accrued to owner-customers	-129	-113	13.8	-230
Return on economic capital, % **	20.4	18.4	2.0 *	20.8
Return on equity (ROE), %	5.6	6.0	-0.5 *	6.9
Return on equity excluding OP bonuses, %	7.2	7.6	-0.4 *	8.5
Return on assets (ROA), %	0.47	0.48	0.0 *	0.57
Return on assets excluding OP bonuses, %	0.61	0.61	0.0 *	0.70
	30 June 2019	30 June 2018	Change, %	31 December 2018
CET1 ratio, %	19.5	19.8	-0.3 *	20.5
Ratio of capital base to minimum amount of capital base (under the Act on the Supervision of Financial and Insurance Conglomerates) % ***	137	146	-9 *	147
Loan portfolio, € bn	89.7	84.4	6.2	87.1
Deposits, € bn	63.3	61.4	3.0	61.3
Ratio of non-performing receivables to loan and guarantee portfolio, % ****	1.1	1.2	-0.1 *	1.0
Owner customers (1,000)	1,953	1,865	4.7	1,911

* Change in ratio

** 12-month rolling

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

**** 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.

Y Earnings before tax amounted to EUR 415 million (425).

Y Net interest income increased by 3% to EUR 587 million and net commissions and fees by 1% to EUR 450 million. Net insurance income decreased by 2% to EUR 274 million.

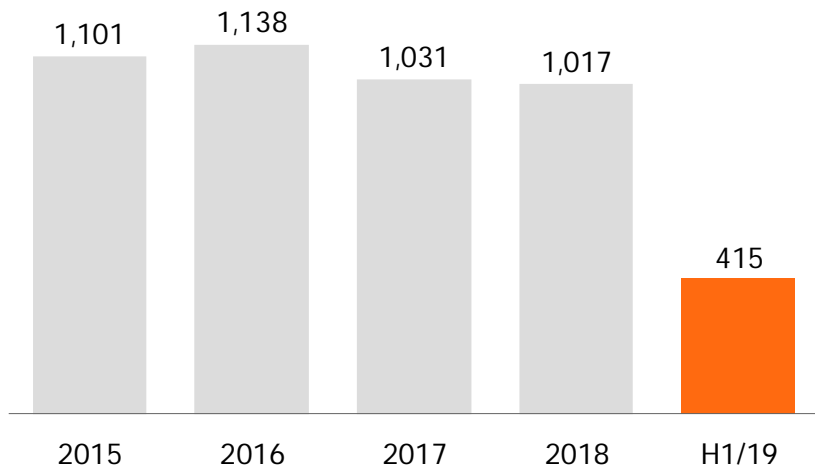
Y Investment income of EUR 185 million was at the previous year's level

Y Expenses of EUR 953 million (956) decreased from the previous year

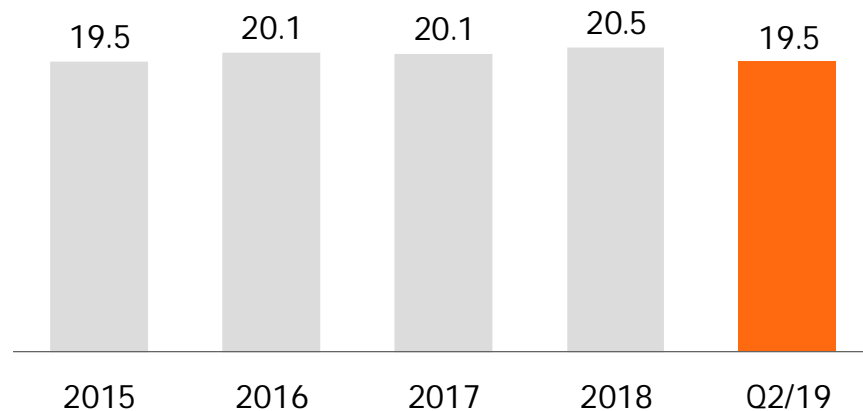
Y The CET1 ratio was still strong at 19.5% (20.5).

OP Financial Group's steady financial performance supports capital base

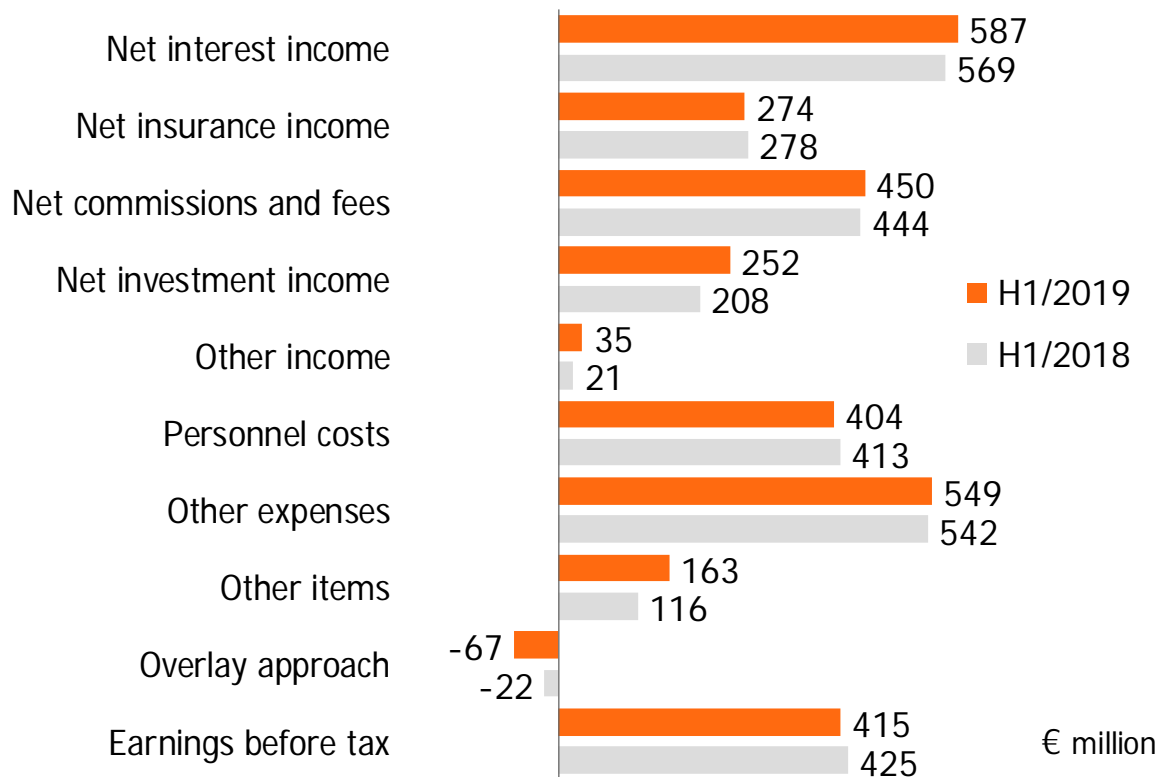
Earnings before tax, € million



Common Equity Tier 1 ratio (CET1),%



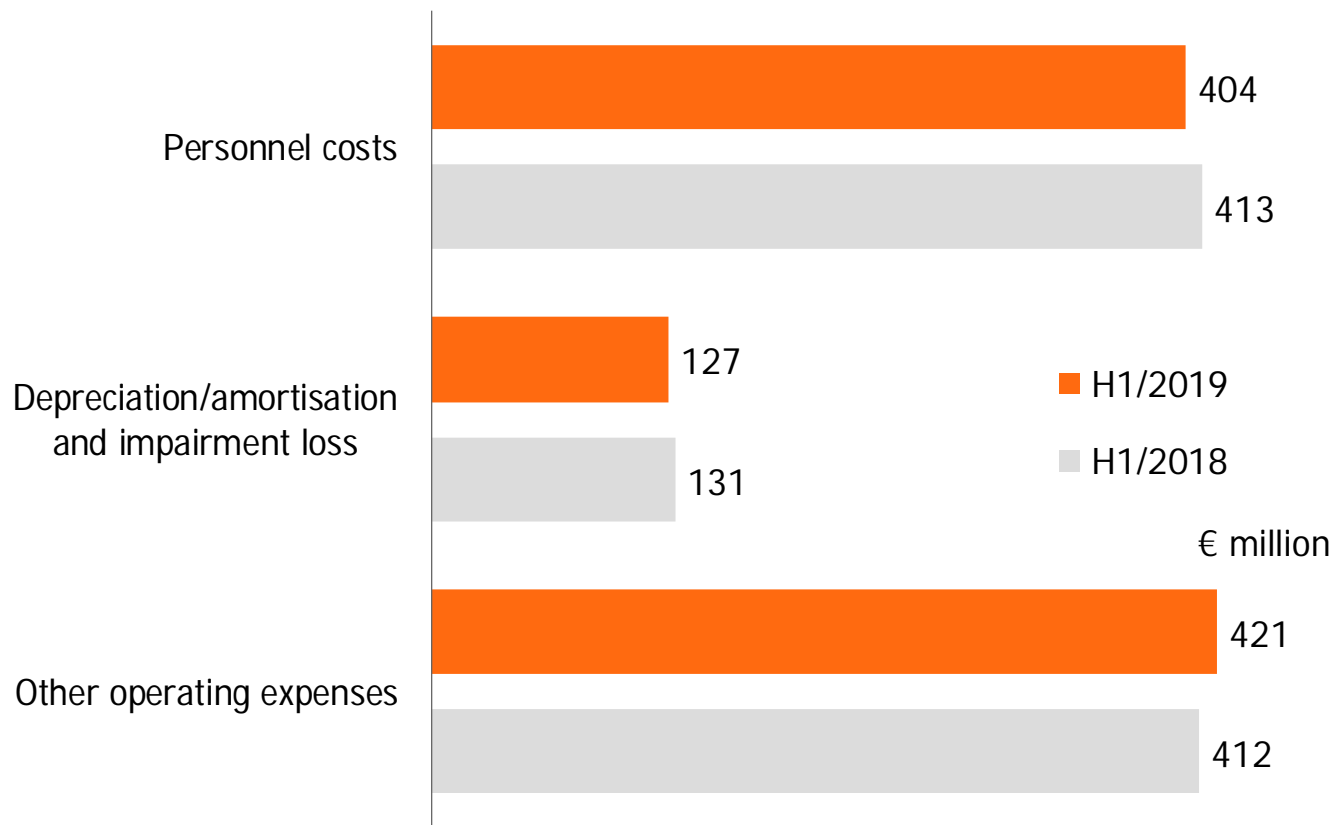
OP Financial Group's main income statement items



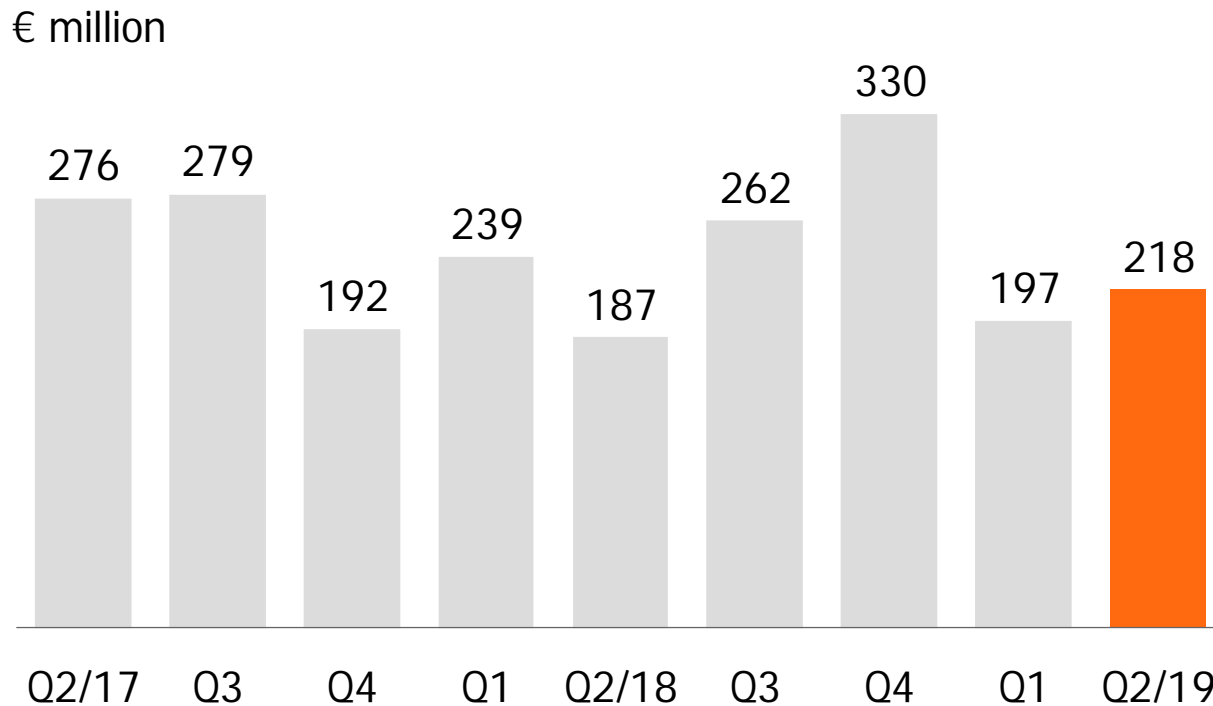
OP Financial Group's financial performance



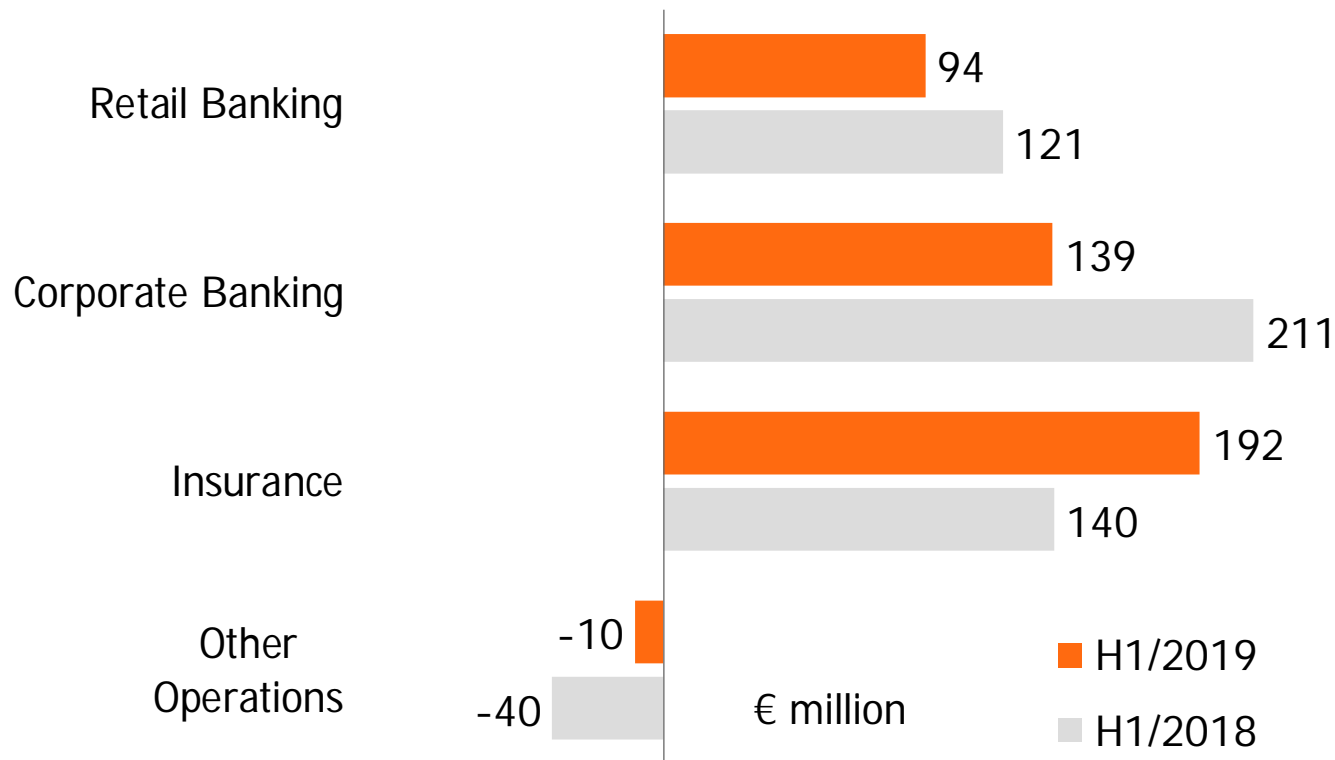
OP Financial Group's cost performance



OP Financial Group's EBT by quarter



OP Financial Group's EBT by business segment



OP Financial Group's income statement

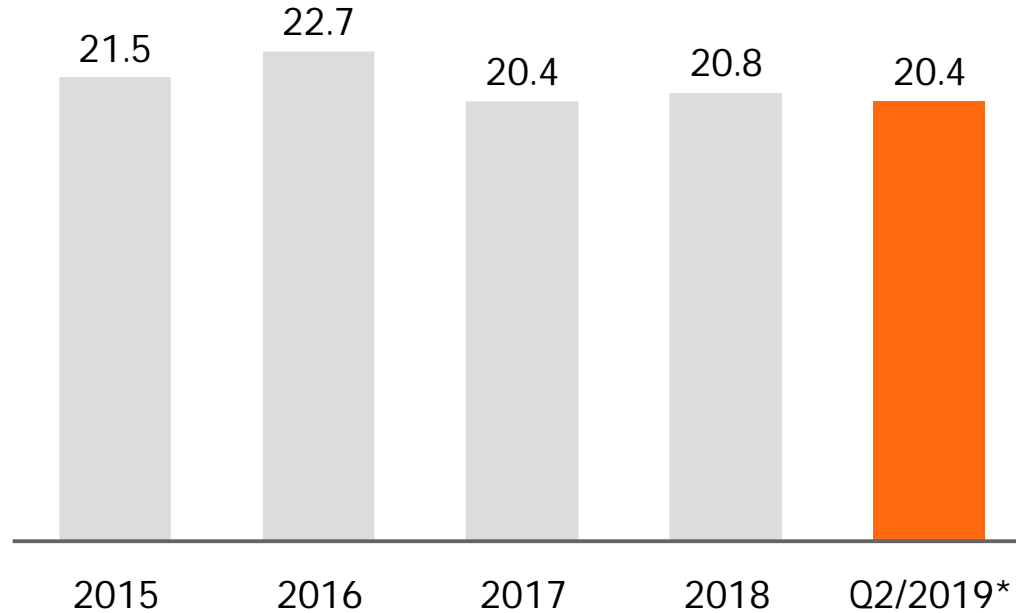
January 1 to June 30	2019	2018	Change, €million	%	Q2/19	Q2/18	Change, %
Net interest income	587	569	18	3.2	302	288	4.9
Net insurance income	274	278	-4	-1.6	165	151	9.3
Net commissions and fees	450	444	6	1.4	216	212	2.1
Net investment income	252	208	45	21.5	96	128	-24.9
Other operating income	35	21	14	65.3	26	9	188.9
Total income	1,598	1,520	78	5.2	805	788	2.3
Personnel costs	404	413	-9	-2.1	208	209	-0.8
Depreciation/amortisation and impairment loss	127	131	-3	-2.5	69	65	5.9
Other operating expenses	421	412	10	2.3	212	225	-6.0
Total expenses	953	956	-2	-0.2	488	500	-2.3
Impairment loss on receivables	-39	-7	-32	470.1	-28	-3	829.3
OP bonuses	-124	-109	-14	13.2	-60	-57	5.3
Overlay approach	-67	-22	-45	200.2	-12	-41	-71.9
Earnings before tax	415	425	-10	-2.5	218	187	16.6

OP Financial Group's quarterly performance

€ million	Q1/2018	Q2	Q3	Q4	Q1	Q2/2019
Net interest income	281	288	293	304	285	302
Net insurance income	127	151	154	134	109	165
Net commissions and fees	232	212	212	232	234	216
Net investment income	80	128	82	-27	156	96
Other operating income	12	9	25	15	9	26
Total income	732	788	766	657	793	805
Personnel costs	204	209	178	-75	197	208
Depreciation/amortisation and impairment loss	66	65	58	136	59	69
Other operating expenses	187	225	185	242	210	212
Total expenses	456	500	422	303	465	488
Impairments of receivables	-4	-3	-17	-22	-11	-28
OP bonuses to owner-customers	-52	-57	-58	-58	-64	-60
Overlay approach	19	-41	-7	56	-55	-12
Earnings before tax	239	187	262	330	197	218

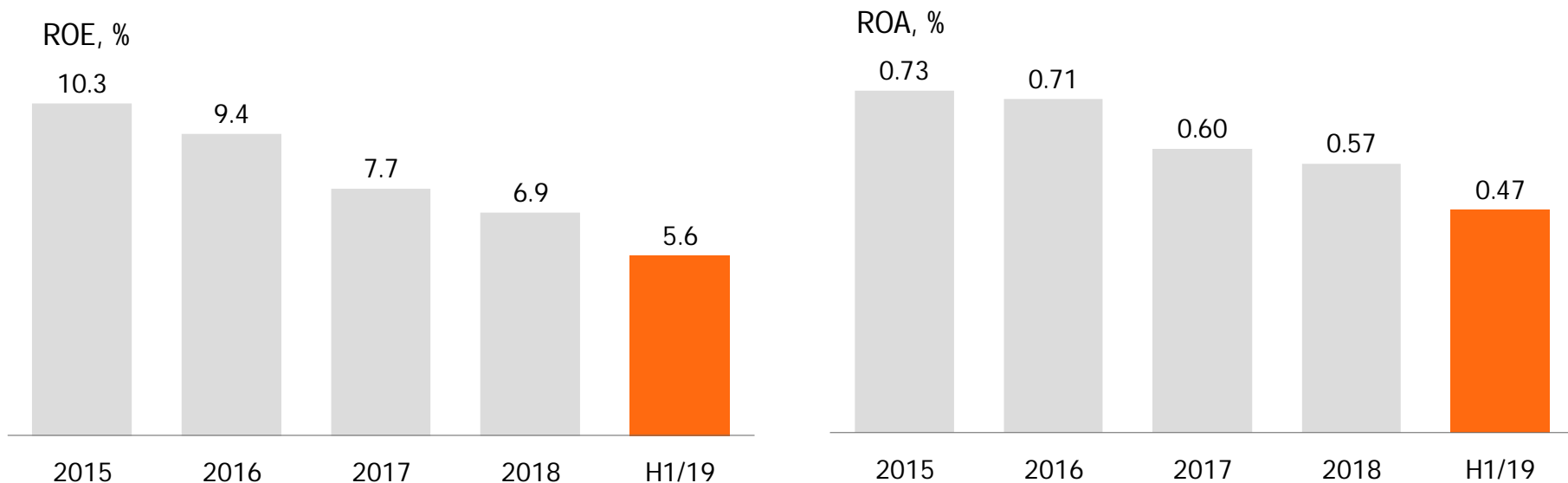
Long-term return target at 22%

Return on economic capital, %

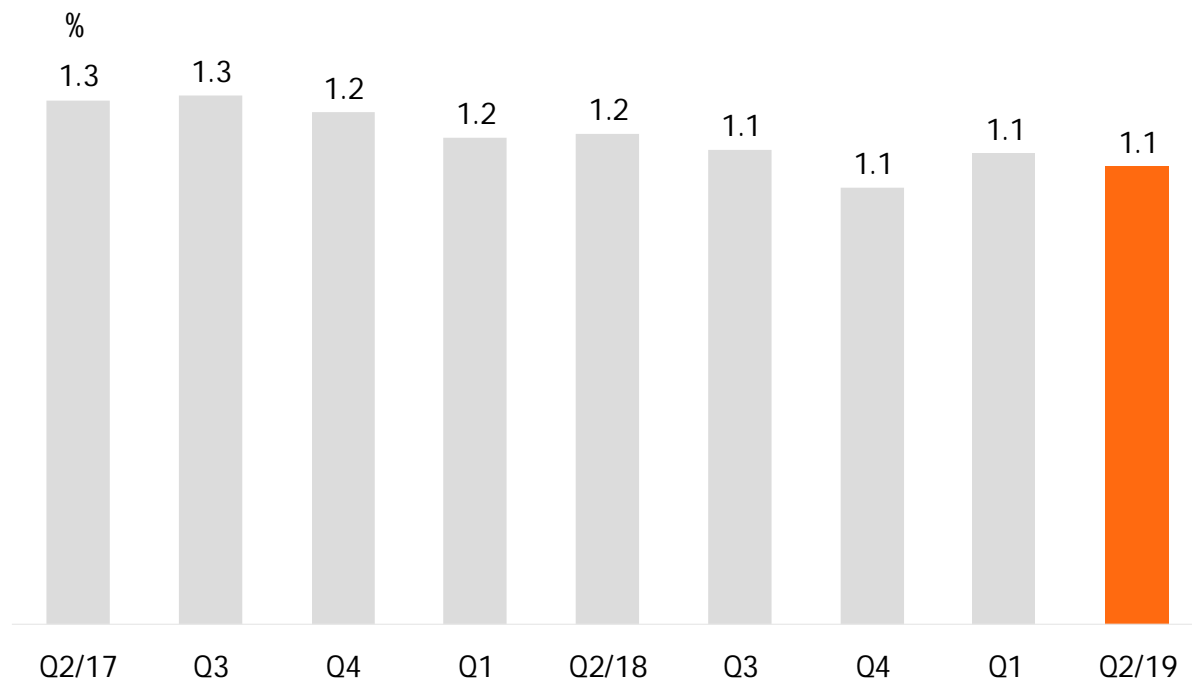


* 12-month rolling

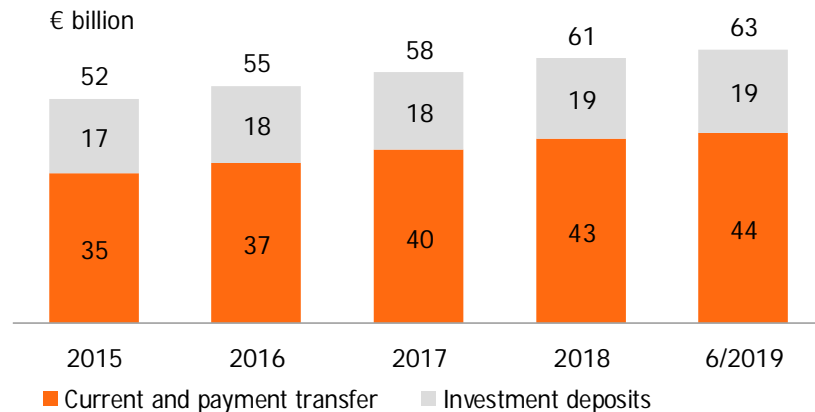
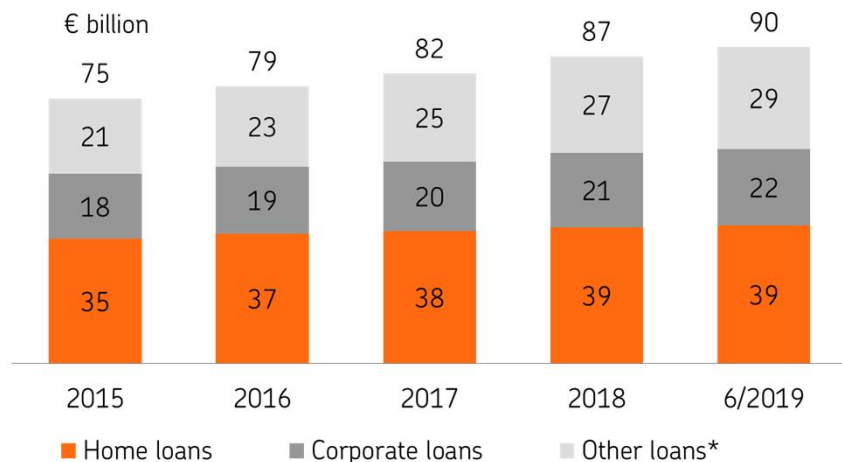
OP Financial Group's return on equity



Ratio of non-performing receivables to loan and guarantee portfolio

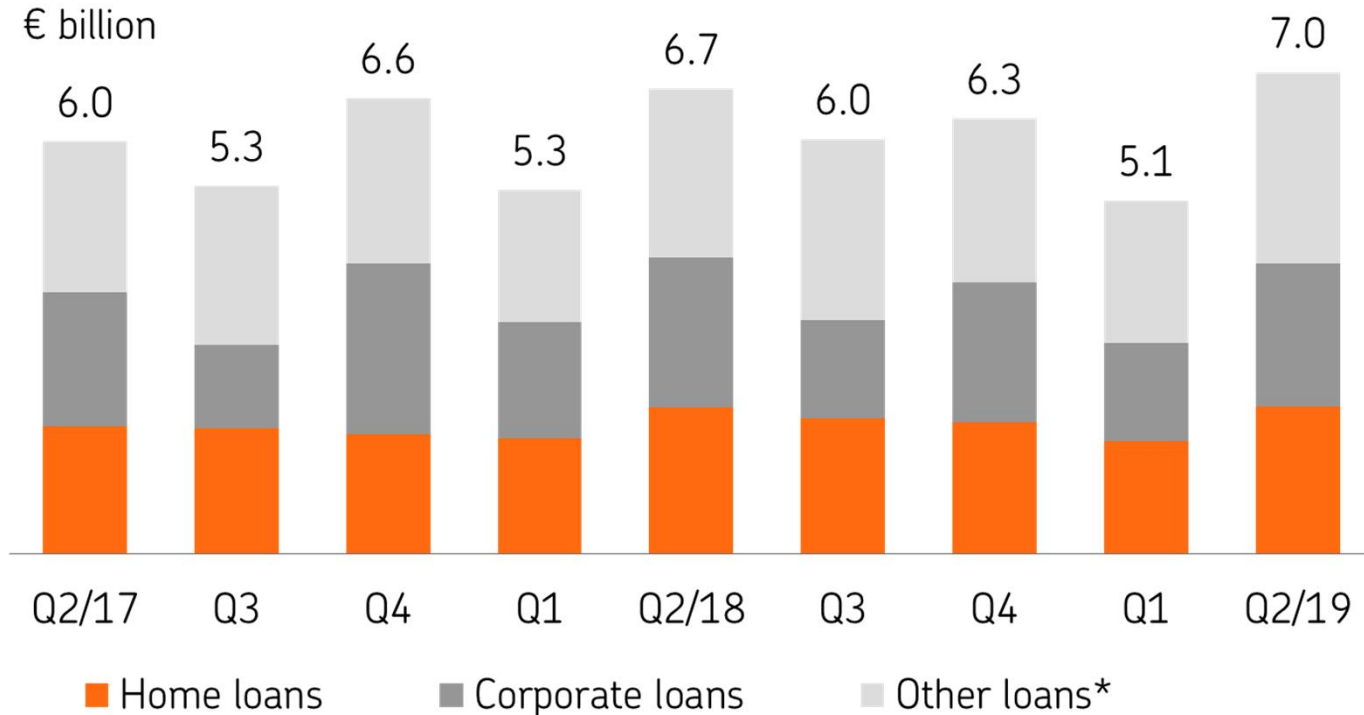


OP Financial Group's loan portfolio was up by 6.2% and the deposit portfolio by 3.0%

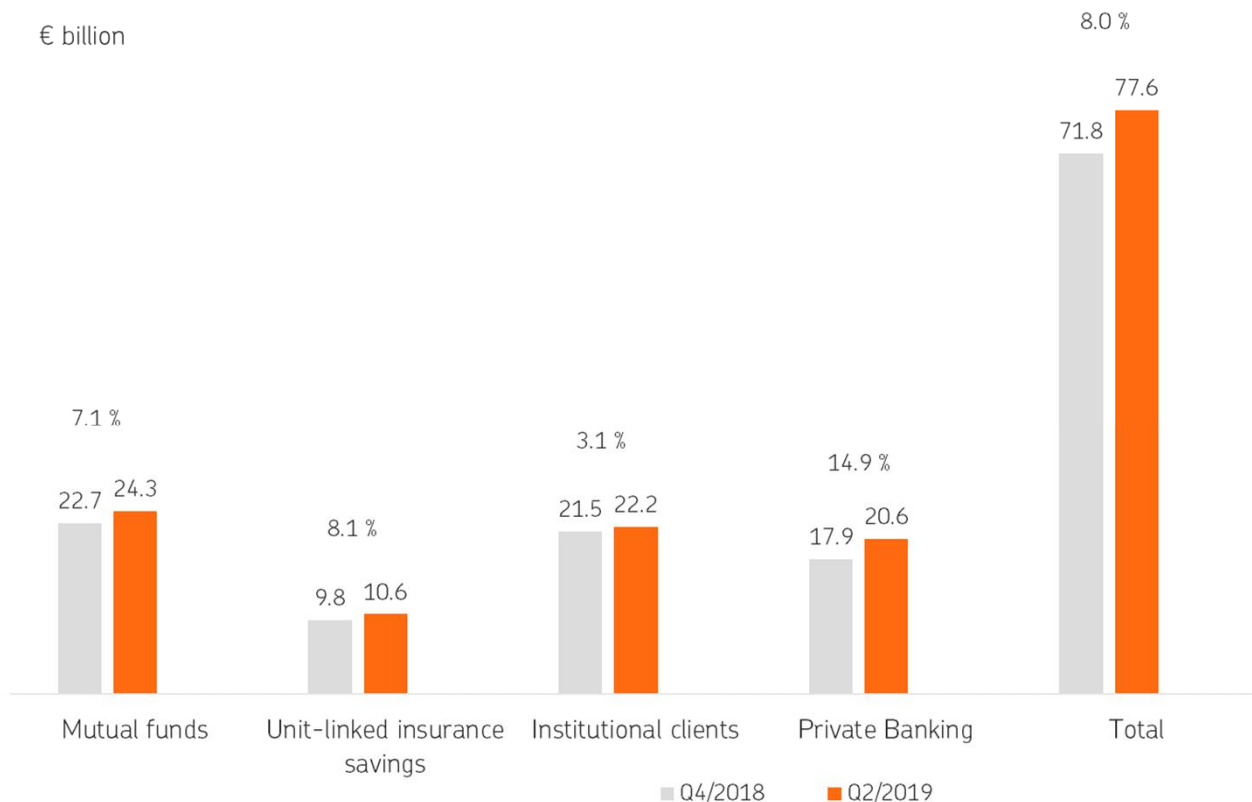


* incl. also housing companies and public-sector entities

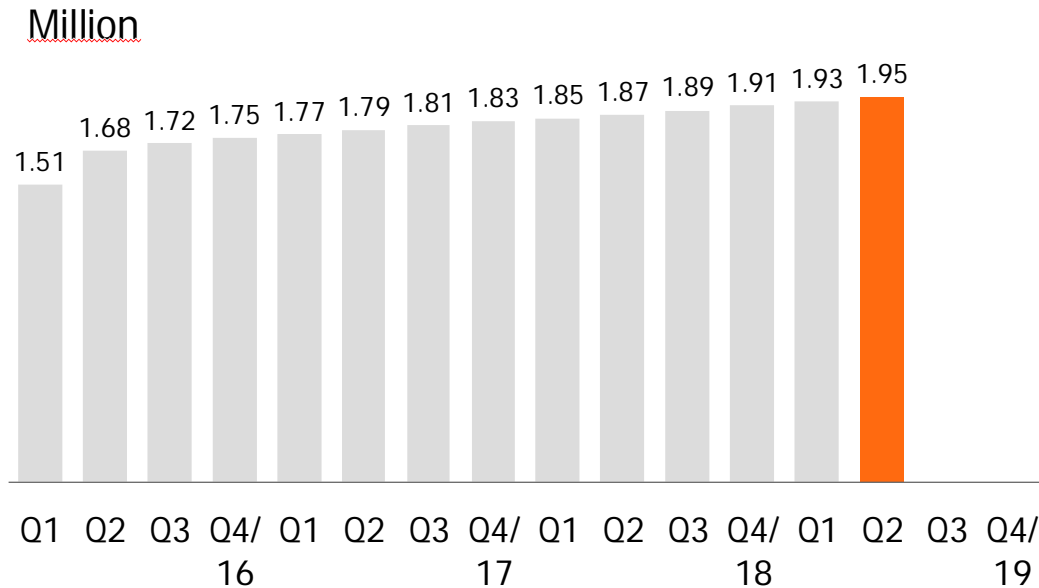
OP Financial Group's new loans drawn down



OP Financial Group's assets under management



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

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 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 H1/2019

Earnings before tax

€94 million

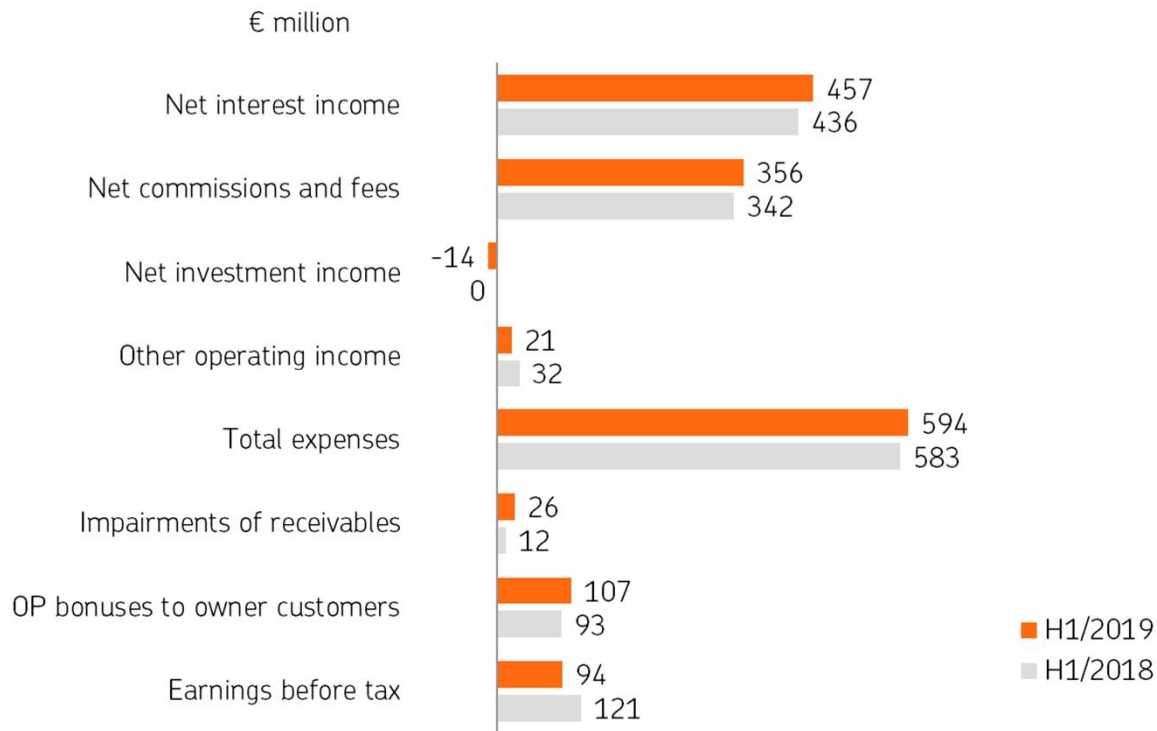
Loan portfolio

€66.8 billion

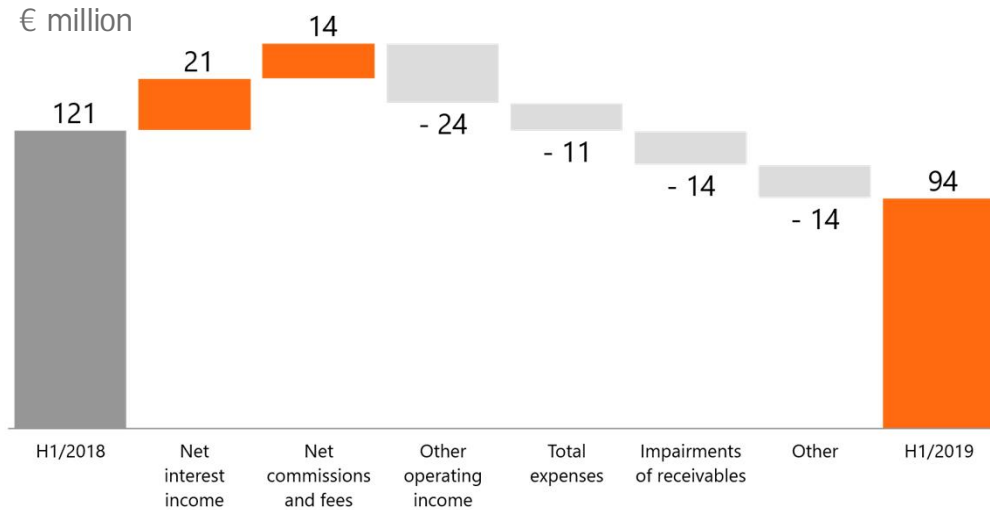
Deposit portfolio

€54.0 billion

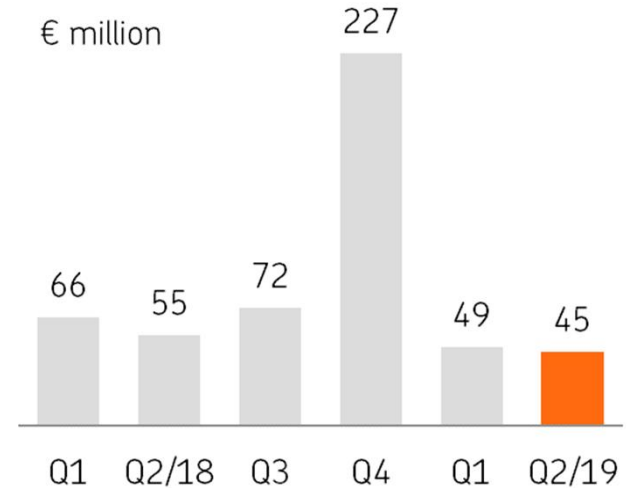
Retail Banking earnings before tax decreased to EUR 94 million



Net interest income and net commissions and fees grew year on year

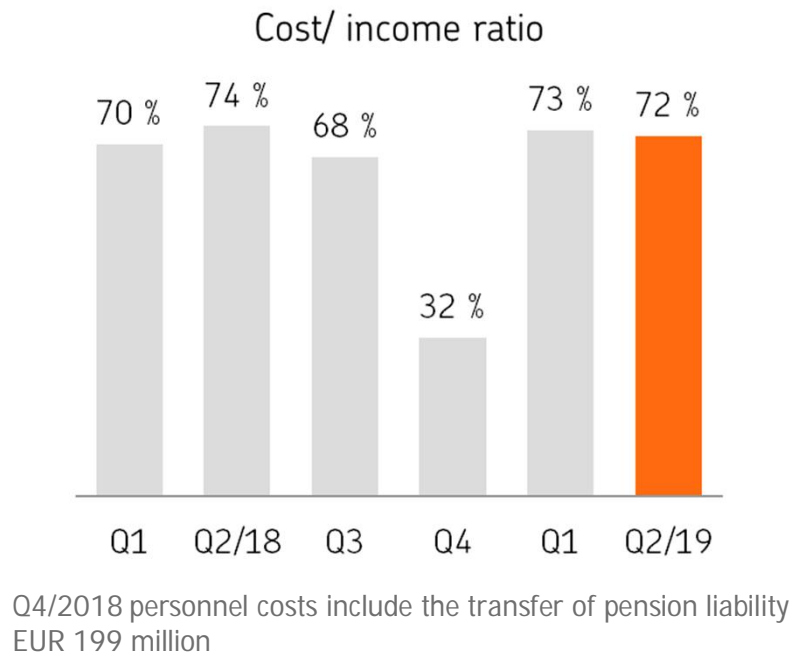
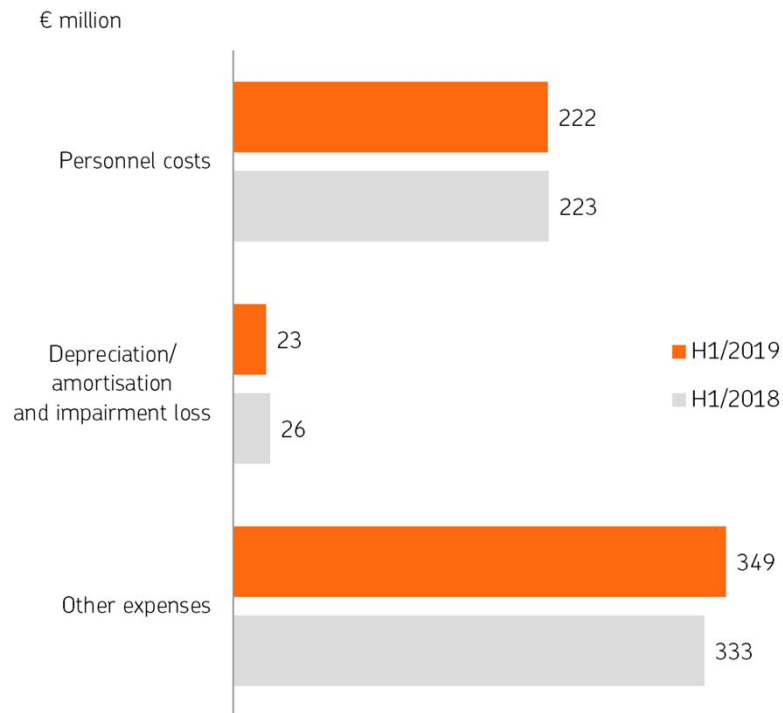


Income increased by 1.4% expenses by 2.0%.



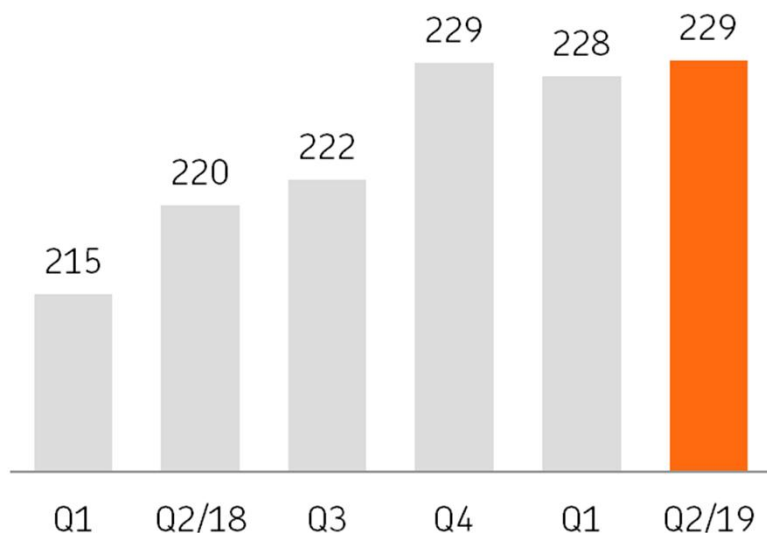
Transfer of the pension liability improved segment earnings Q4/2018 (EUR 199 million)

Other operating expenses increased due to the stability contribution, development expenditure and higher volumes

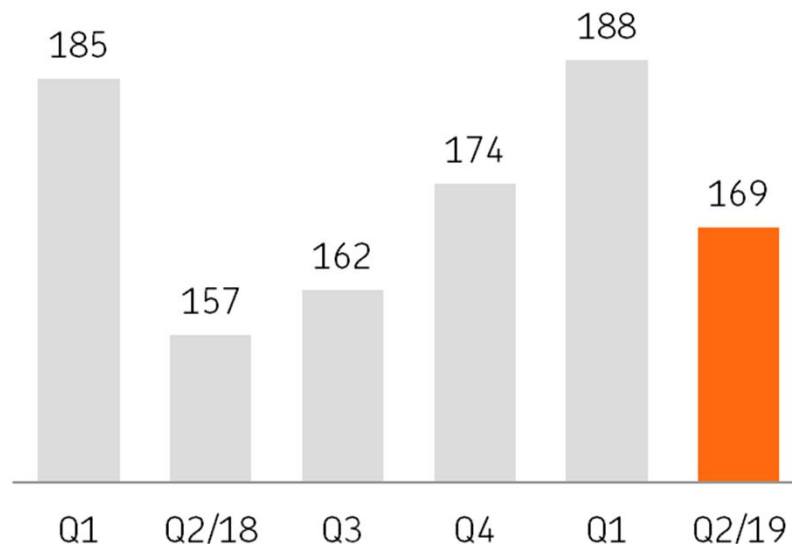


Net interest income and net commissions and fees on the increase

Net interest income, € million



Net commissions and fees, € million

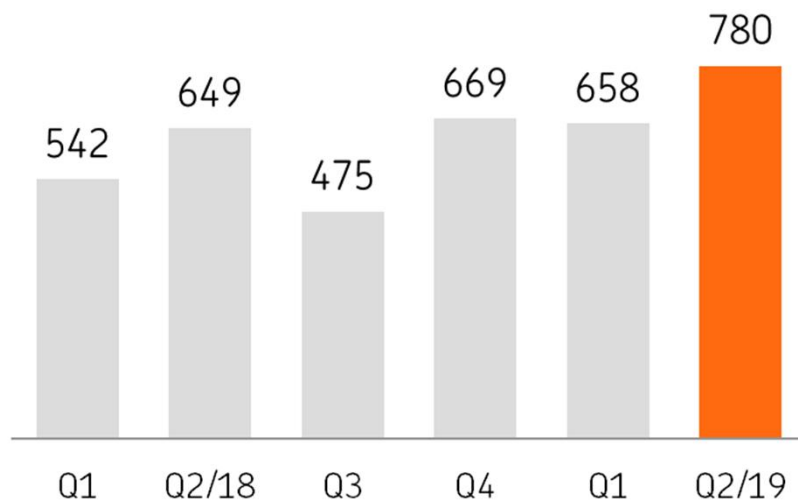


More home and SME corporate loans were drawn than during the same period a year ago

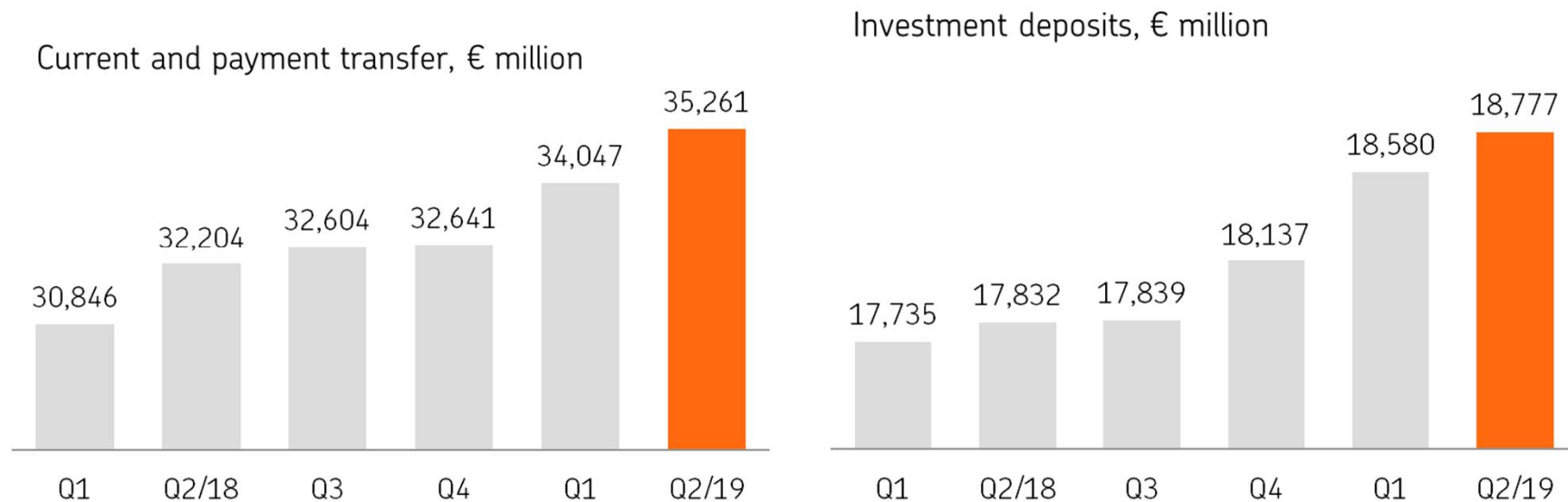
Home loans drawn down, € million



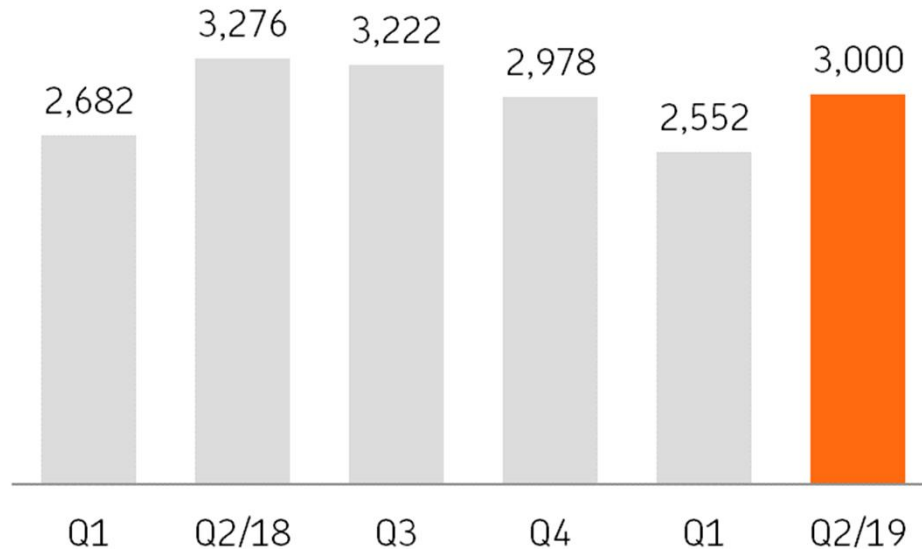
SME Corporate loans drawn down, € million



Growth in current and payment transfer account deposits as well as in investment deposits



Volume of brokered homes and real property decreased year on year



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 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.
- 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 H1/2019

Earnings before tax

€139 million

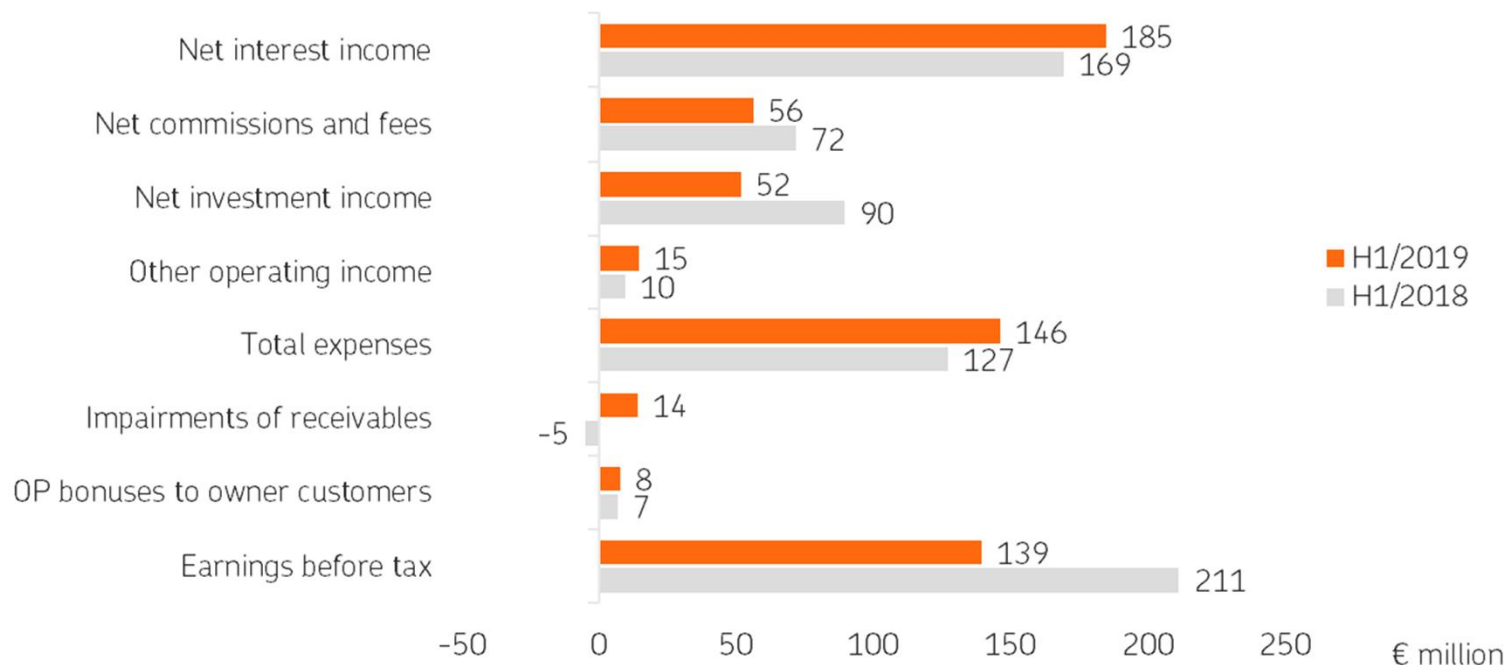
Loan portfolio

€23.2 billion

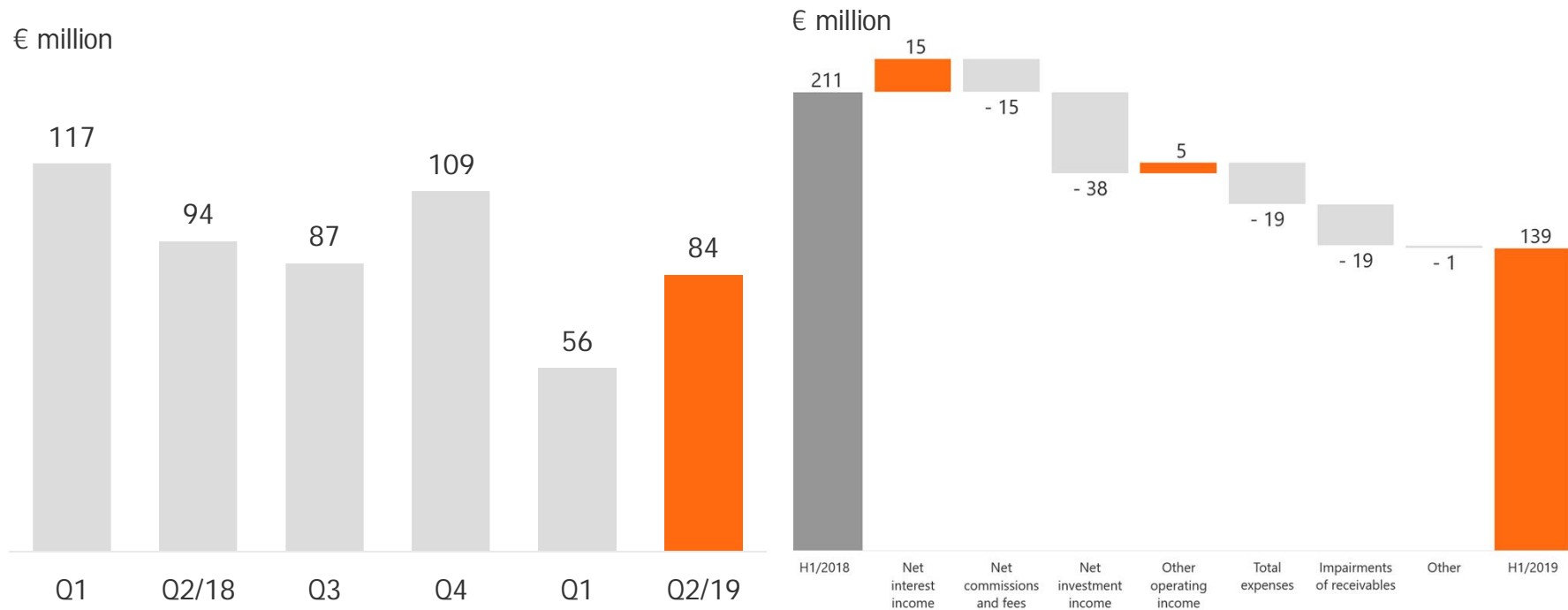
Assets under management

€55.6 billion

Corporate Banking earnings before tax weakened to EUR 139 million

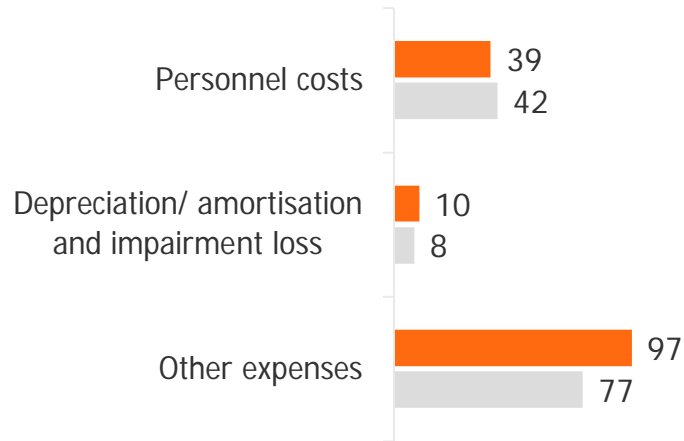


EBT weakened due to a reduction in NII and an increase in expenses

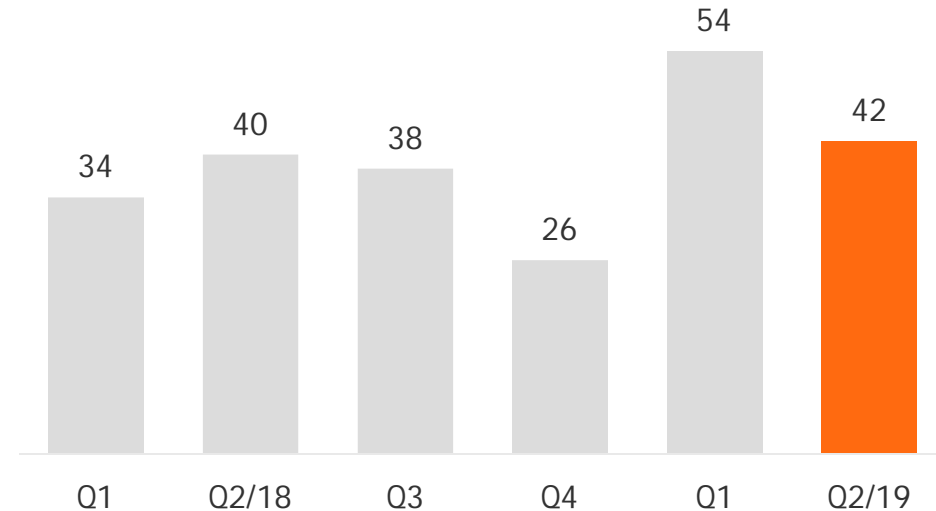


Stability contribution and ICT costs increased other operating expenses

€ million



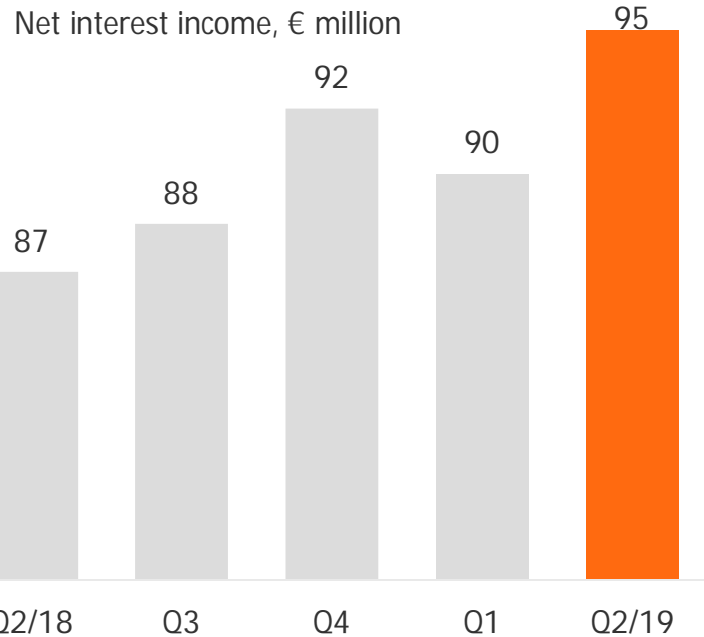
Cost/ income ratio, %



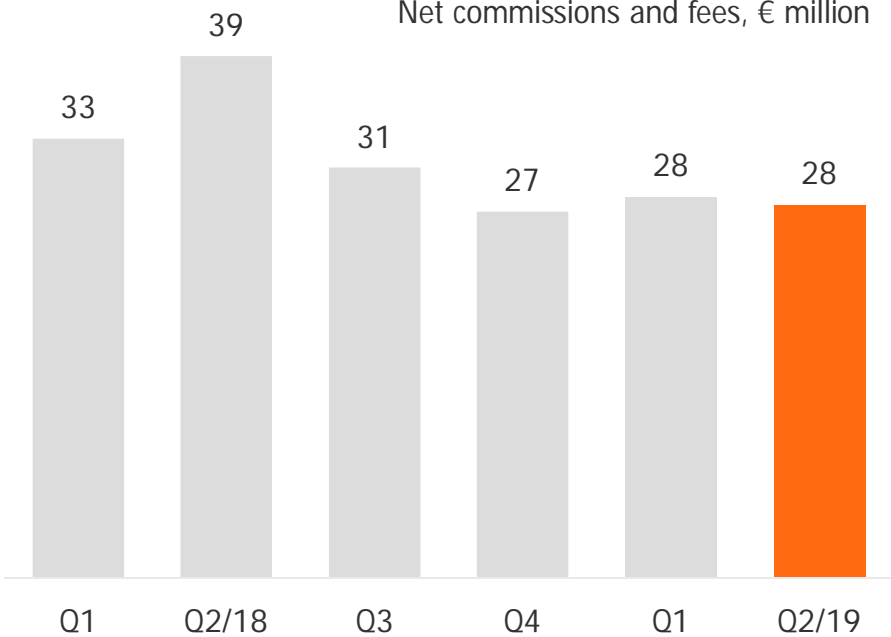
Q4/18 personnel costs include the transfer of pension liability
EUR 32 million

Net interest income up by 9.1% year on year

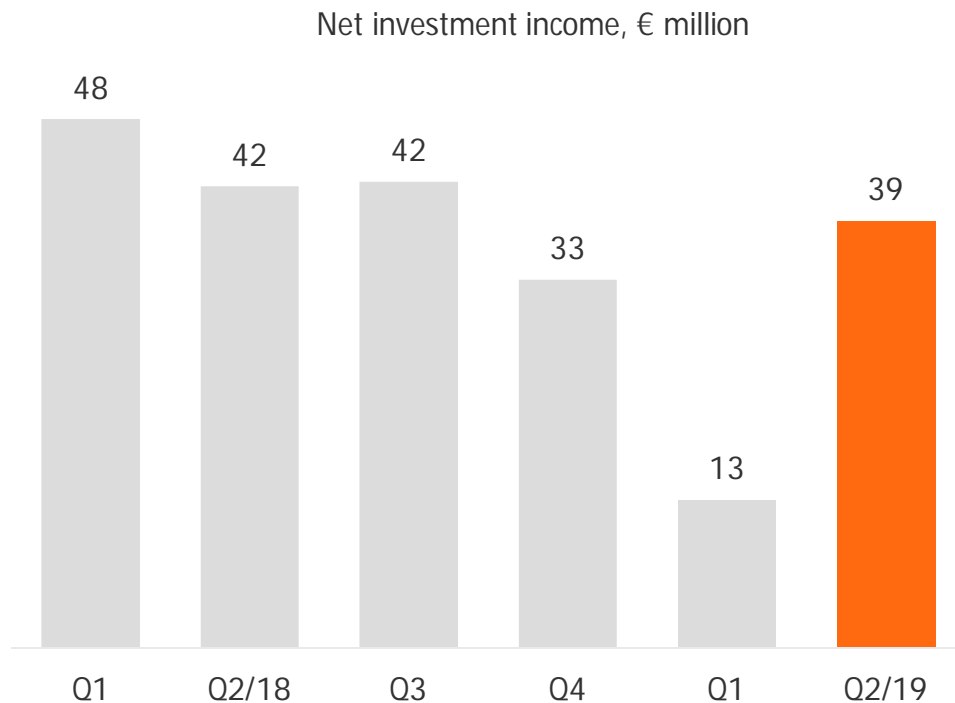
Net interest income, € million



Net commissions and fees, € million



Changes made in the valuation models of derivatives reduced net investment income



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, A-Insurance, Eurooppalainen, 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 the needs of a company's 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, claims services that are cost-efficient, of consistent quality and closely available to our customers

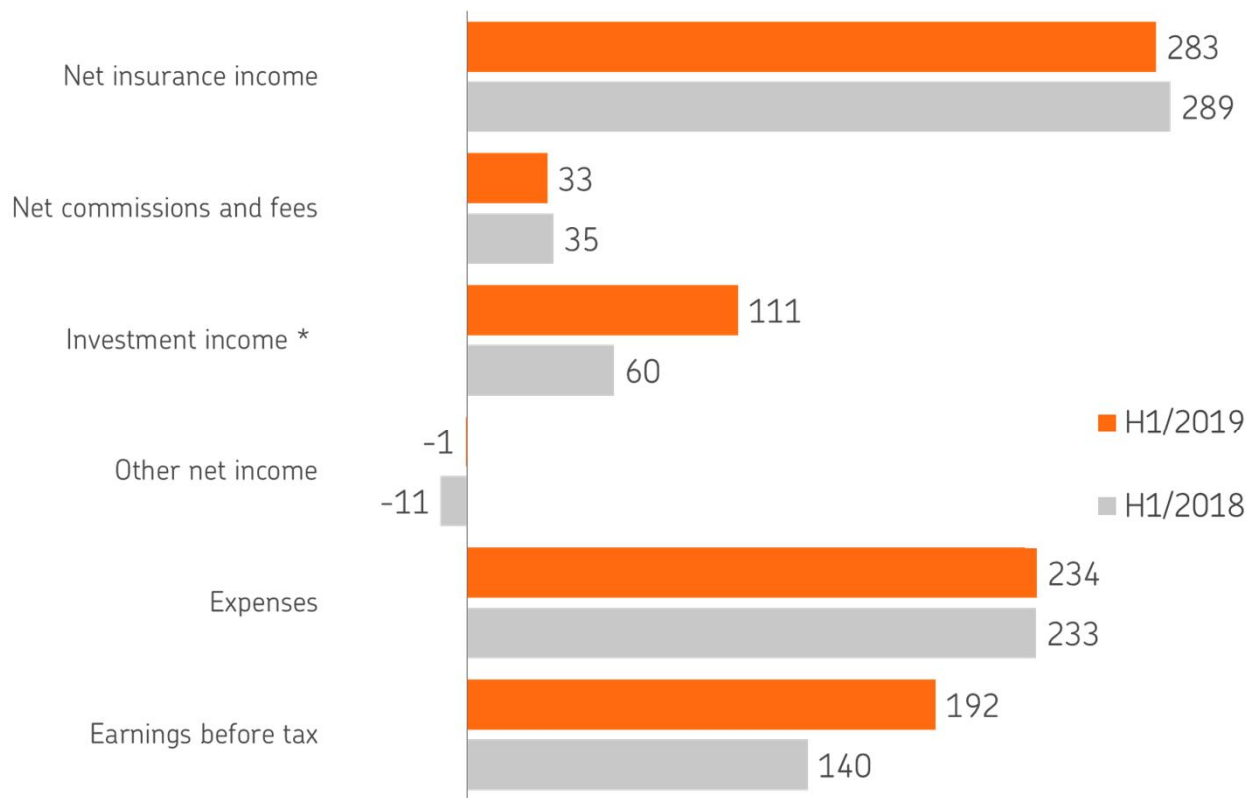
Key figures for H1/2019

Earnings before tax
€192 million

Insurance premium revenue
€726 million

Unit-linked insurance savings
€11 billion

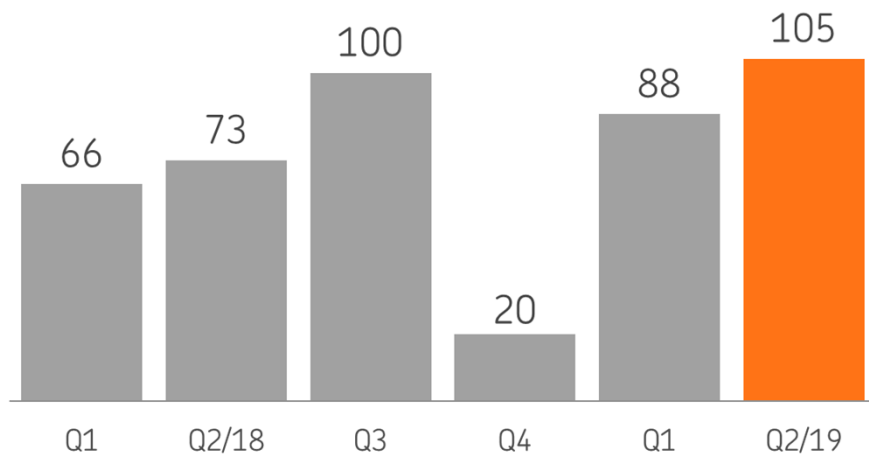
Insurance EBT, € million



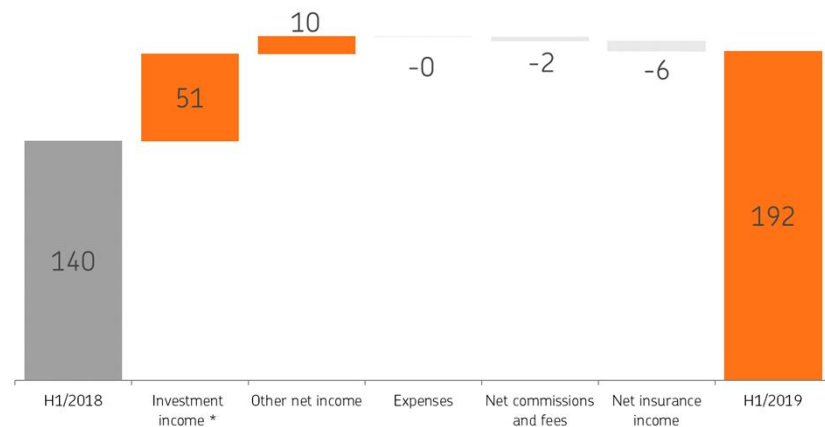
*Includes net investment income and overlay approach

Higher investment income increased earnings – capital gains soared

Earnings before tax
€ million by quarter



Earnings before tax, € million
H1/2019 change vs. H1/2018

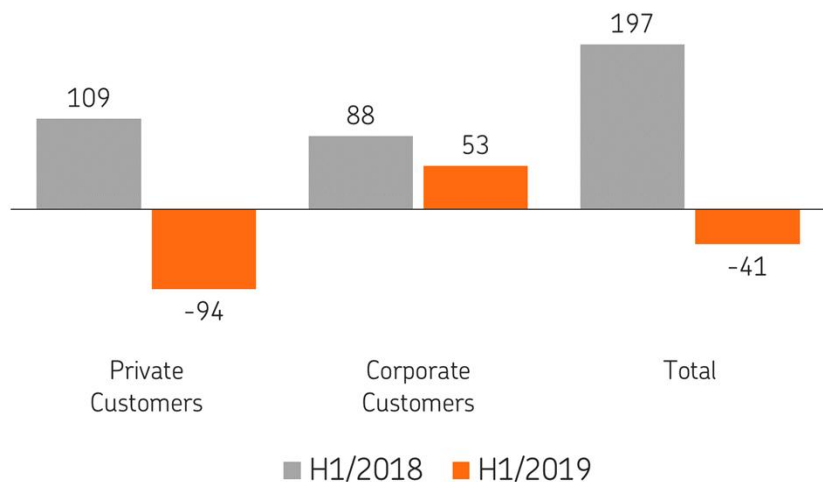


*) Includes net investment income and overlay approach

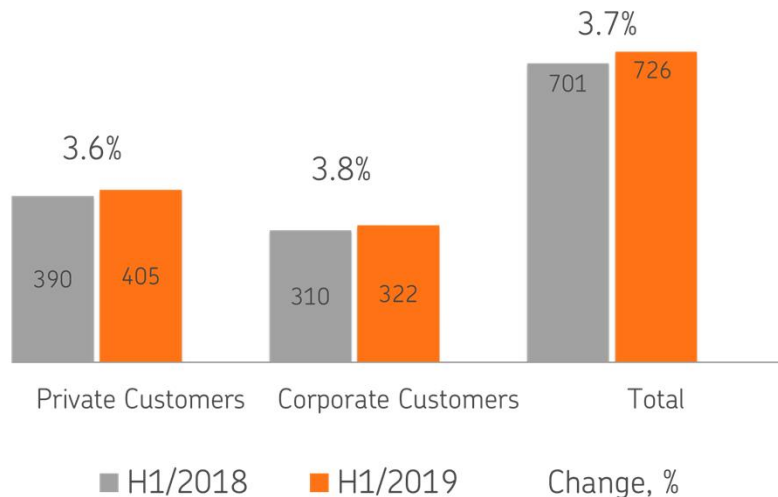
Net assets inflow and insurance premium revenue

Life insurance, net sales, € million

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

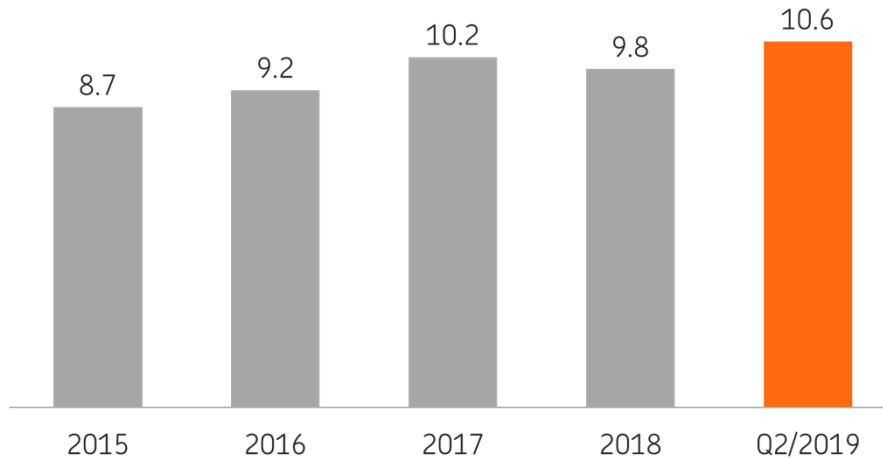


Non-life insurance premium revenue, € million



Unit-linked insurance savings increased by 8% as a result of good value performance

Unit-linked insurance savings, € billion

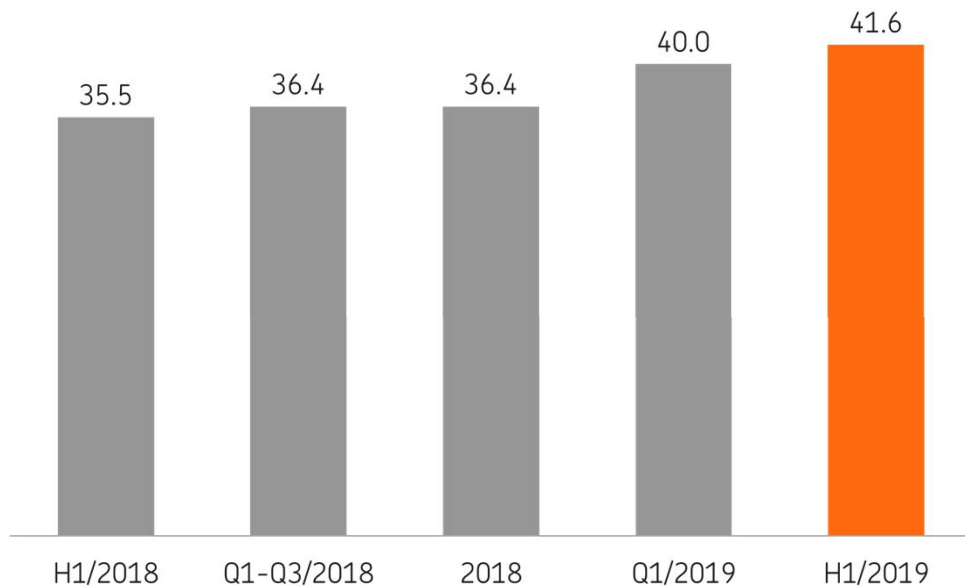


Change in unit-linked insurance savings, € billion

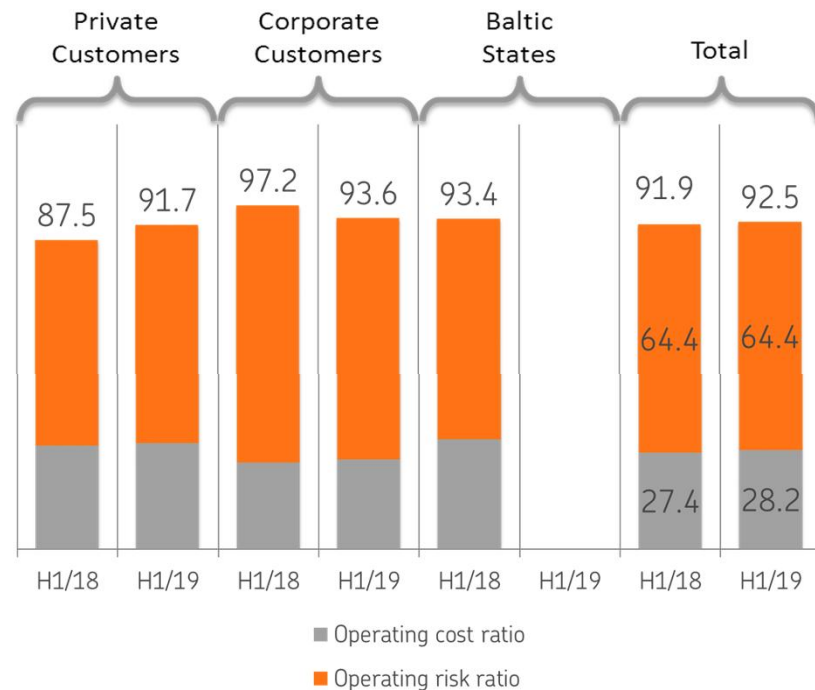


Insurance profitability

Life insurance, operating ratio %



Non-life Insurance, operating combined ratio



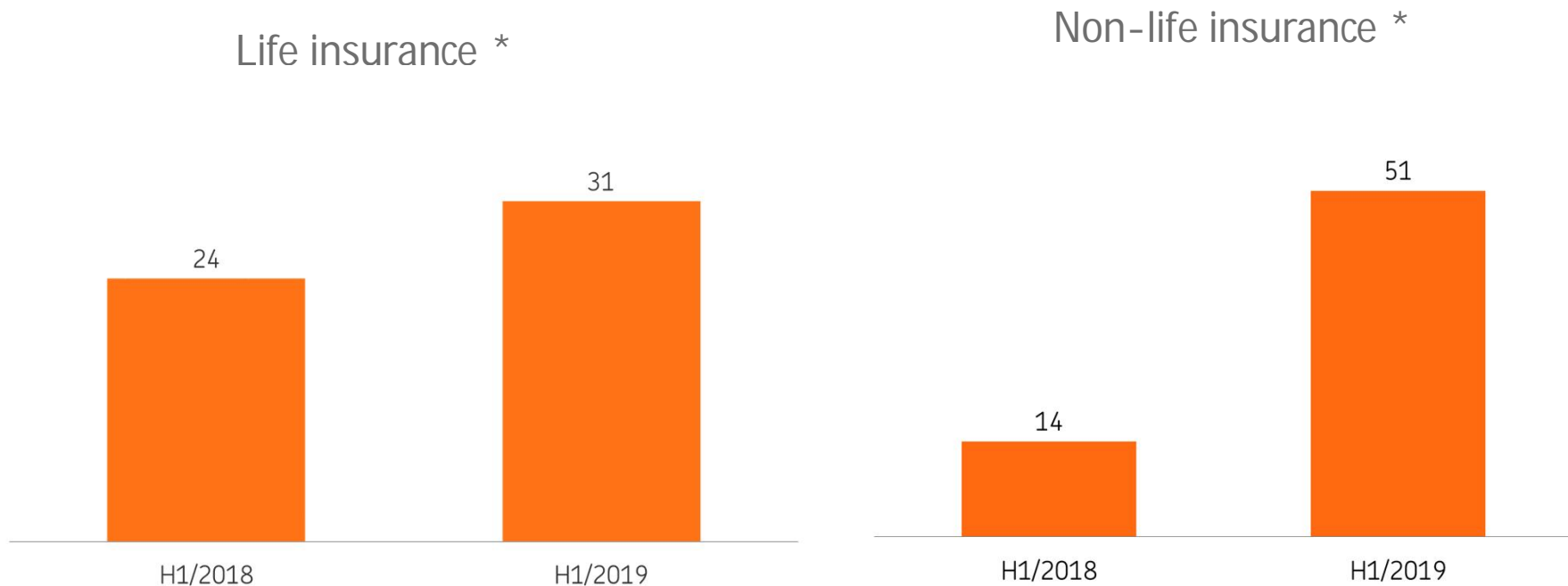
■ Operating cost ratio

■ Operating risk ratio

Operating combined ratio

The Baltic business that was sold in August 2018.

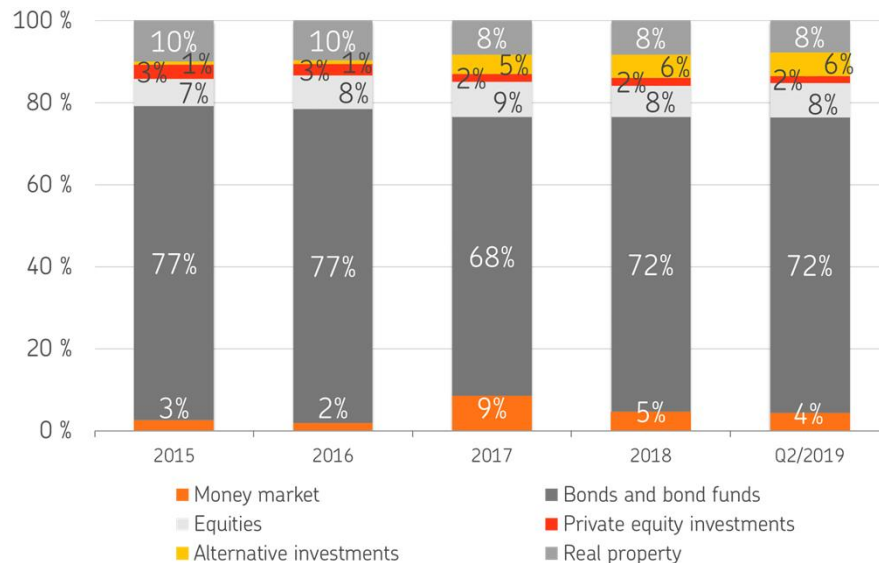
Net return on insurance investments at fair value, € million



*Net return on investments at fair value is calculated by deducting the value change in market-consistent insurance liability from income from total investment assets. 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 (€3.9 bn) by asset class as of 30 June 2019

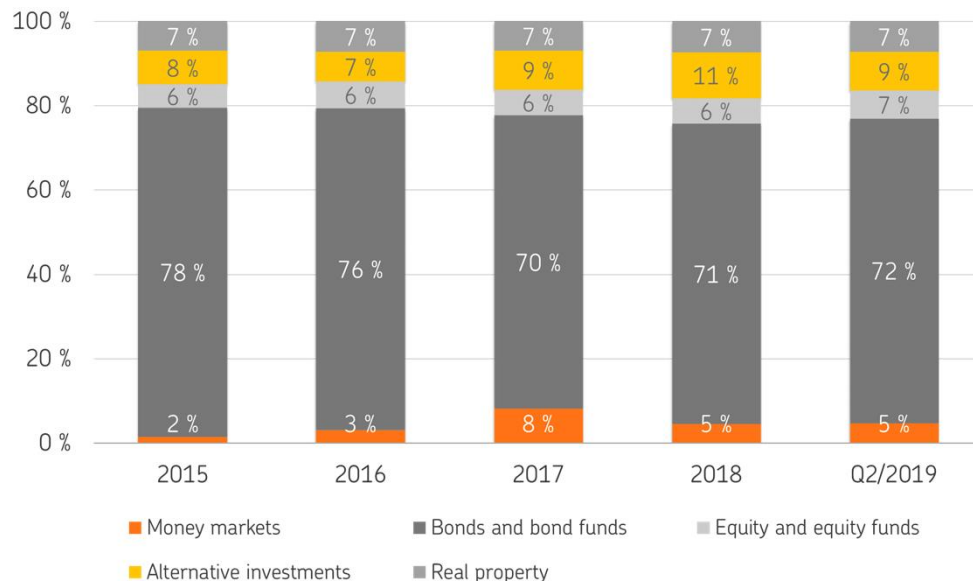


The duration of the fixed-income portfolio was 4.5 (4.3) years.

The running yield for direct bond investments averaged 1.5% (1.6) at end-June 2019.

Life insurance investment portfolio allocation

Investment portfolio (€3.7 bn) by asset class as of 30 June 2019



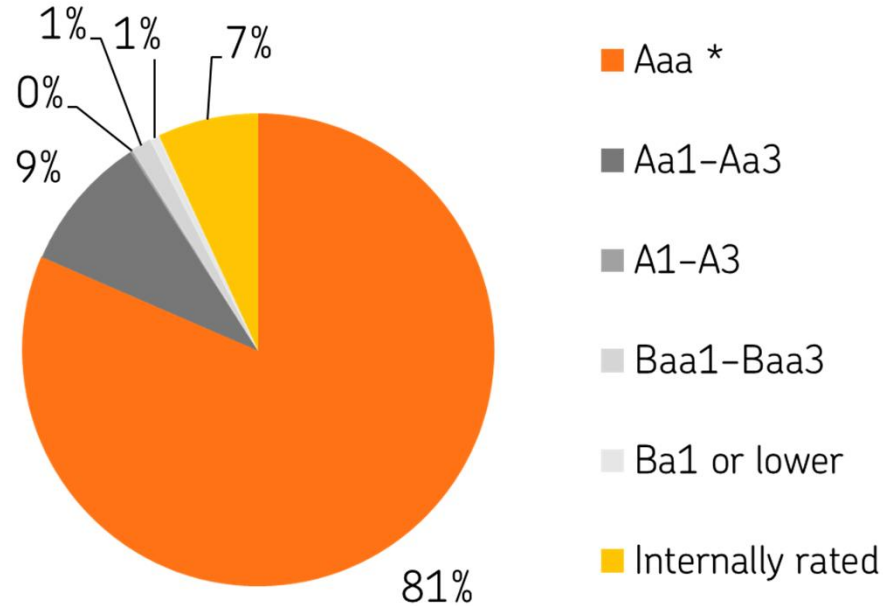
The duration of the fixed-income portfolio was 4.2 (4.1) years.
The running yield for direct bond investments averaged 1.4% (1.4) at end-June 2019.

Liquidity and funding



Liquidity buffer includes highly-rated assets

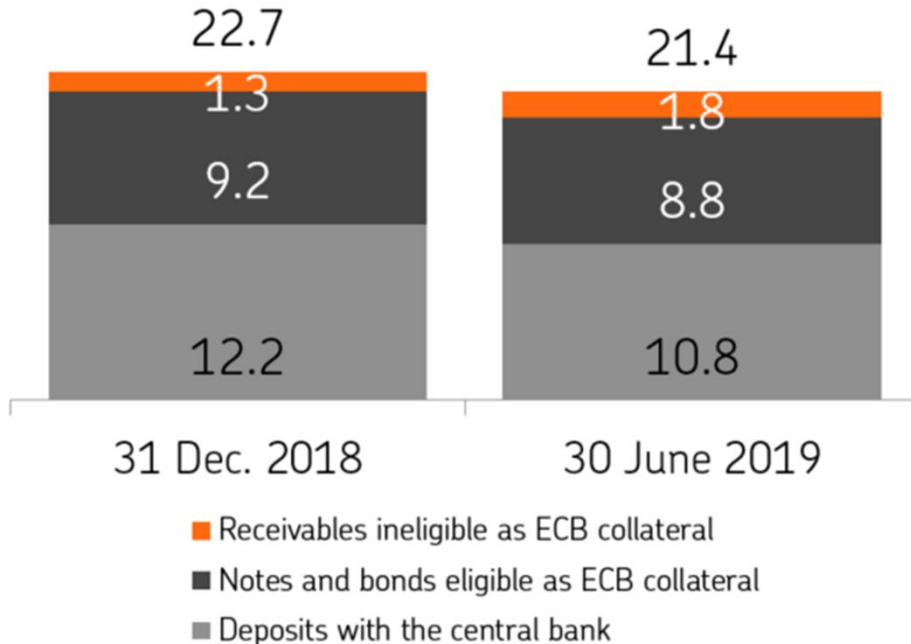
Liquidity buffer by credit rating as of 30 June 2019



* incl. deposits with the central bank

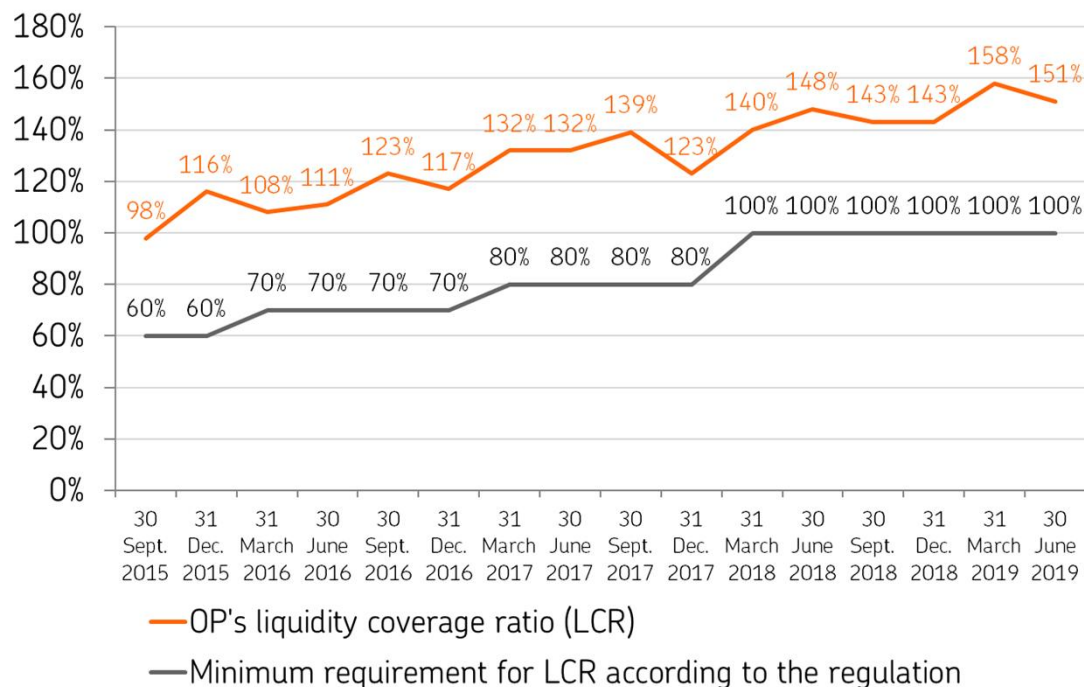
Liquidity buffer €21.4 bn at end-June 2019

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 151% at end-June 2019



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

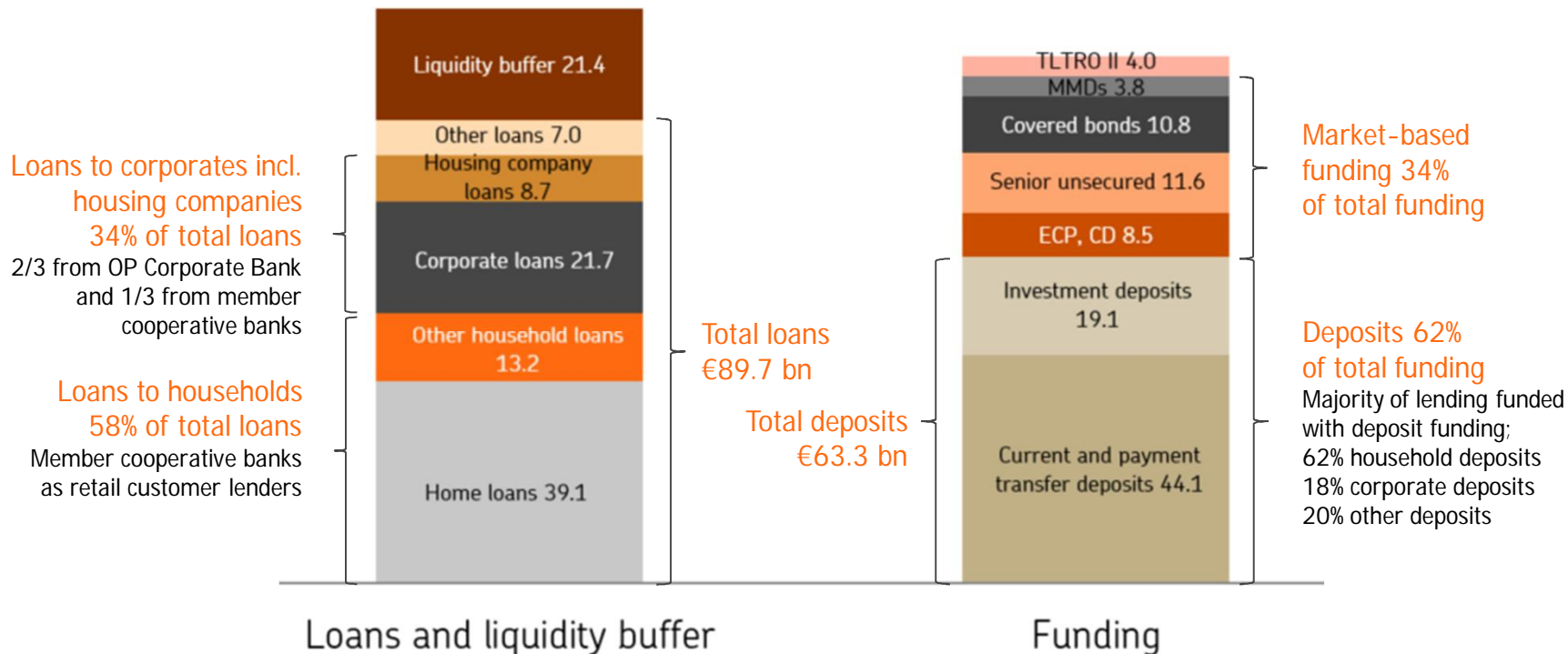
According to regulation, LCR must be at least 100%.

NSFR (Net Stable Funding Ratio), measuring long-term funding sufficiency and structural funding risk, at 112% at end-May 2019 (111% on 31 Dec. 2018)

Loans, liquidity buffer and funding

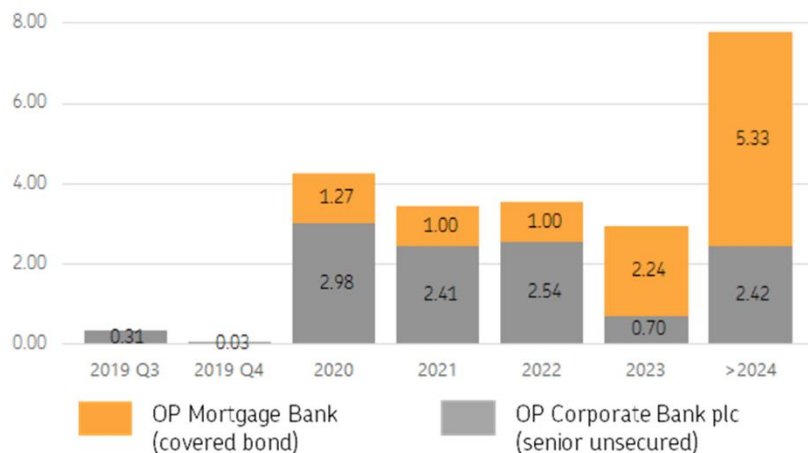
30 June 2019

€ bn

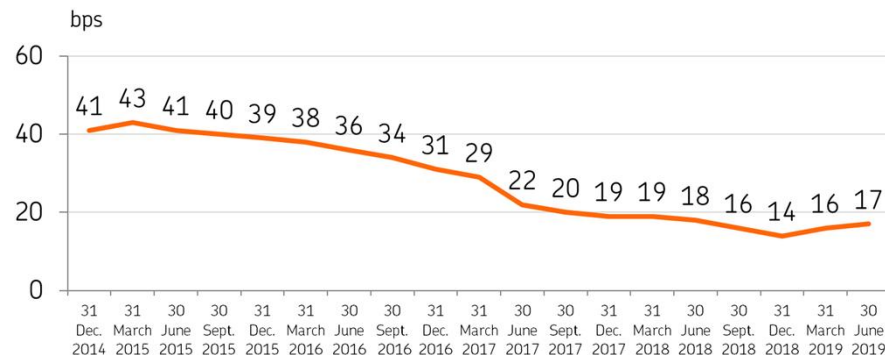


Maturity breakdown and average margin of long-term wholesale funding

Issued senior unsecured and covered bonds by maturity, 30 June 2019 (€ bn)



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



OP Financial Group's Minimum Requirement for own funds and Eligible Liabilities (MREL) has been set at 13.4 billion euros, or 27.3% of the risk-weighted assets (RWA) at the end of 2017. 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 was approx. 42% at end-June 2019. The SRB has 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. In June, OP issued its first senior non-preferred bond amounting to €500 mn with a maturity of 5 years. Senior non-preferred bonds cover the MREL set for OP Financial Group by the SRB.

Issued long-term bonds

OP Corporate Bank plc's benchmark senior unsecured bonds 2017–19

Year	Month	Amount	Maturity	Interest rate
2019	June	€500 mn (Senior Non-Preferred)	5 yrs	m/s +60 bps
2019	February	€500 mn (Green Senior)	5 yrs	m/s +35 bps
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

OP Mortgage Bank's benchmark covered bonds 2017–19

Year	Month	Amount	Maturity	Interest rate
2019	February	€1.25 bn	10 yrs	m/s +10 bps
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

OP issued long-term bonds worth €2.5 bn in H1/19 (€3.3 bn in 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

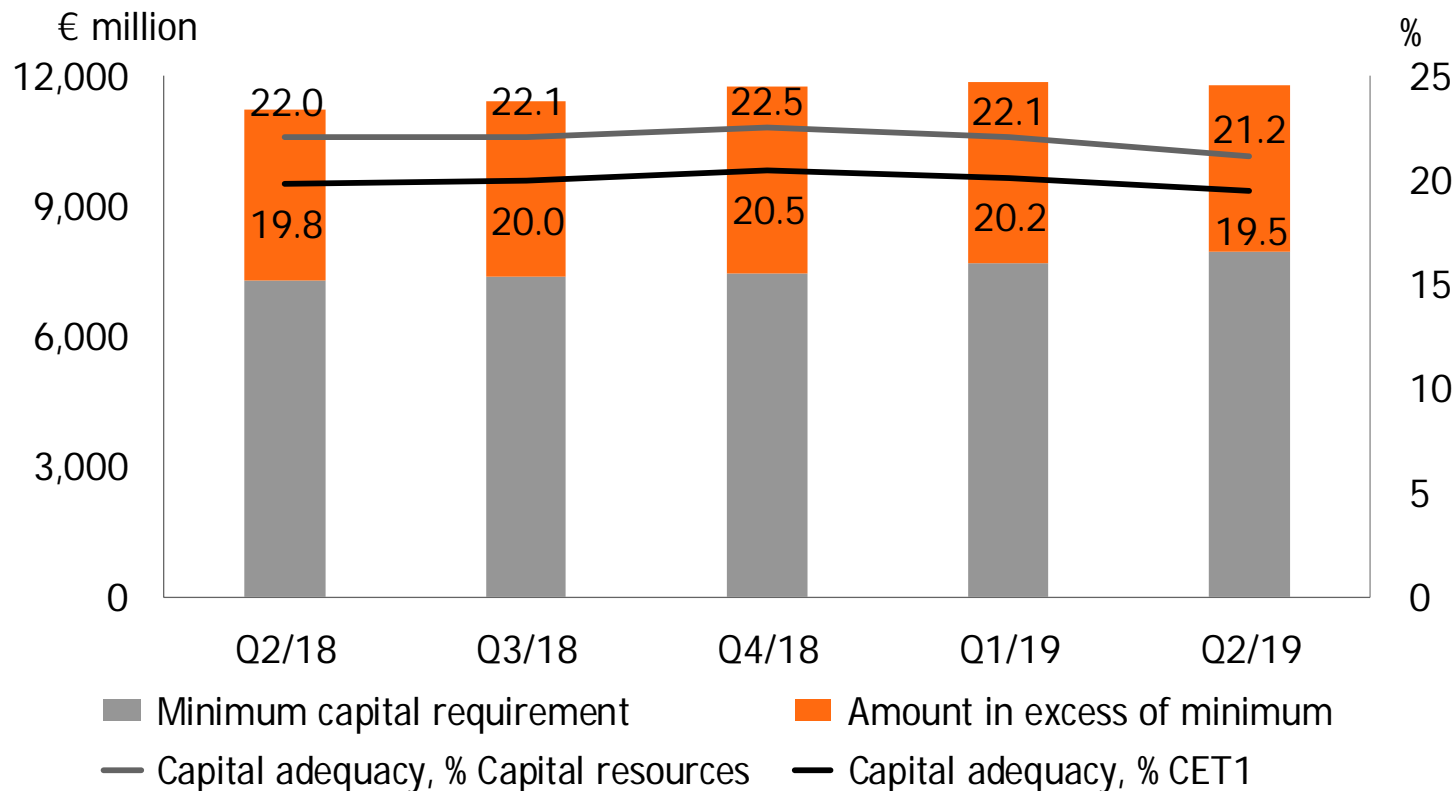
- The operations and solvency requirements for insurance companies are based on the Insurance Companies Act and EU regulation.
- The solvency capital requirement (SCR) is calculated for individual insurance companies and the insurance conglomerate. The companies are required to cover SCR using the Group's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

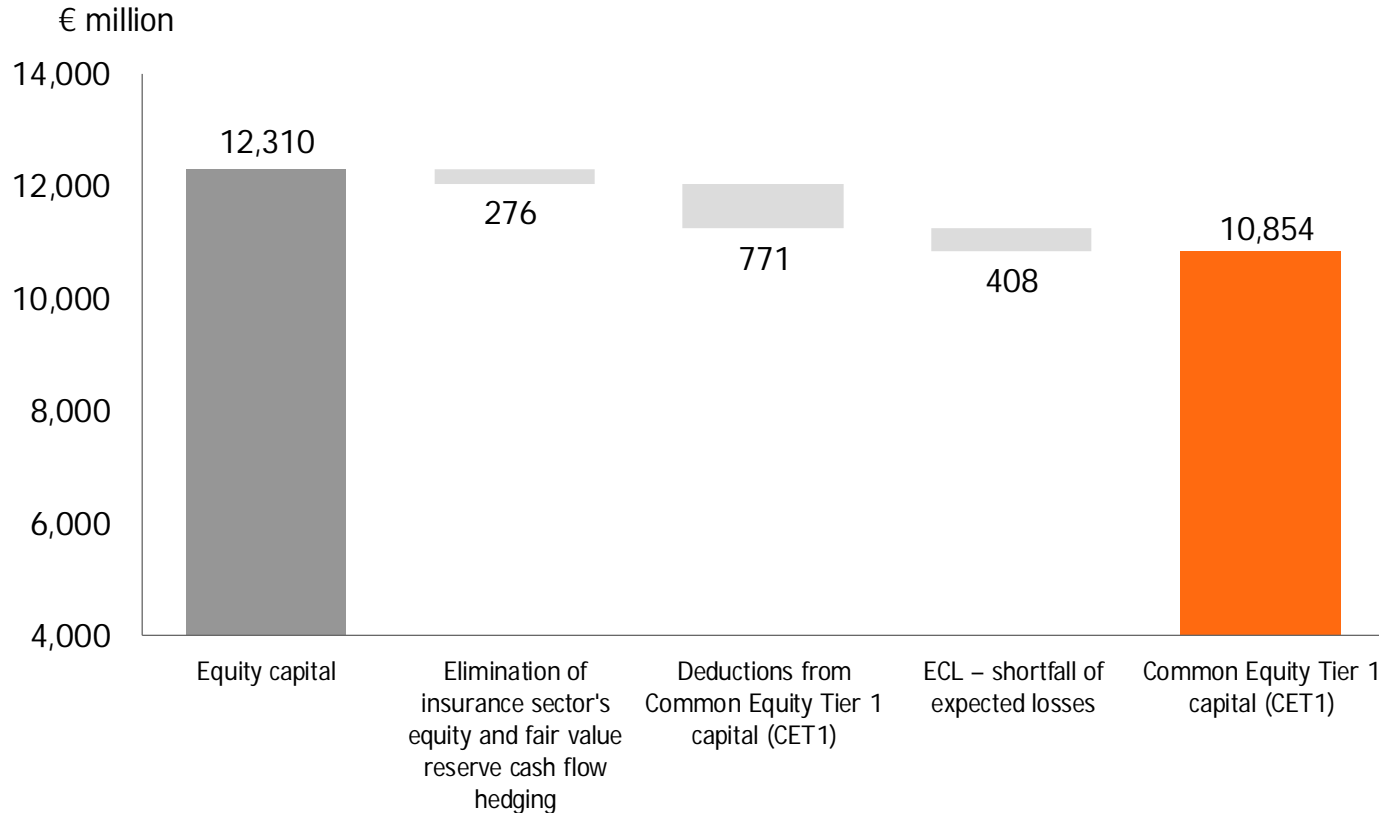
Amalgamation of cooperative banks

Capital base and capital adequacy

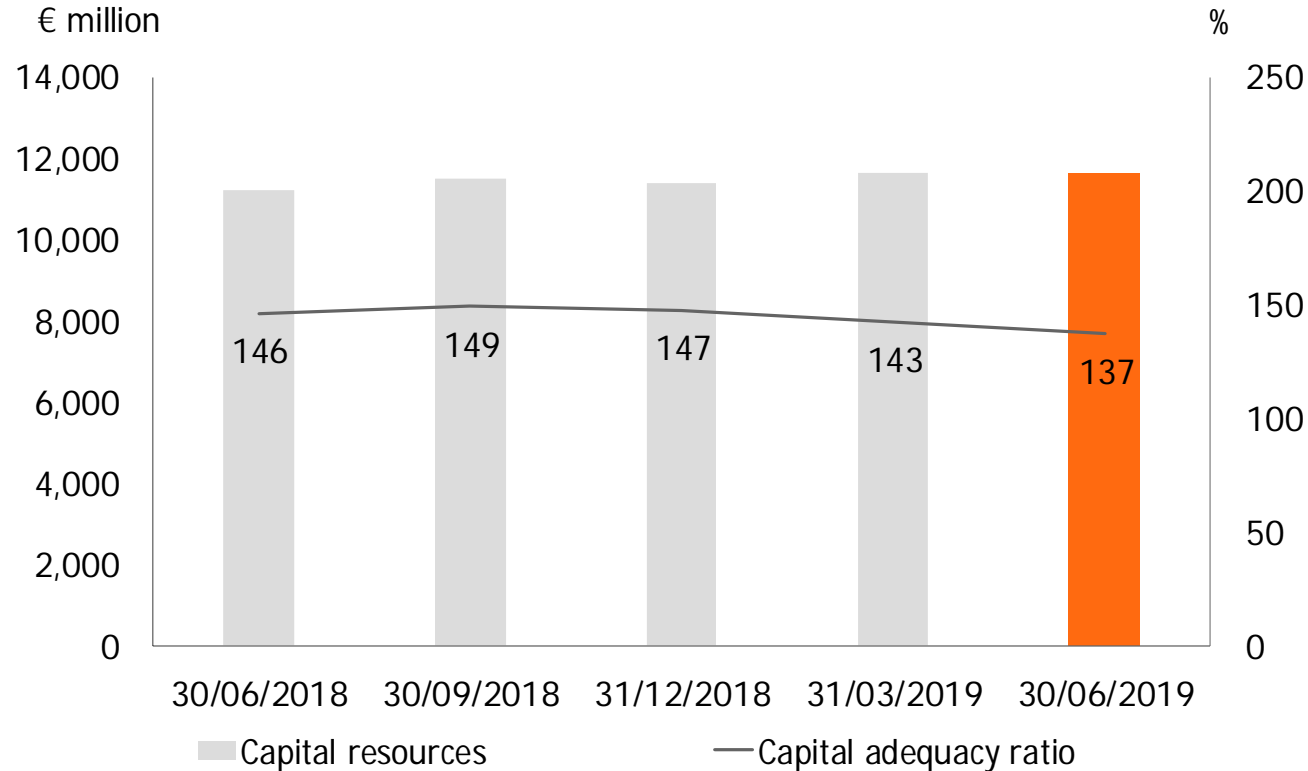


Common Equity Tier 1 (CET1)

30 June 2019



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



FiCo capital 30 June 2019



OP in a nutshell



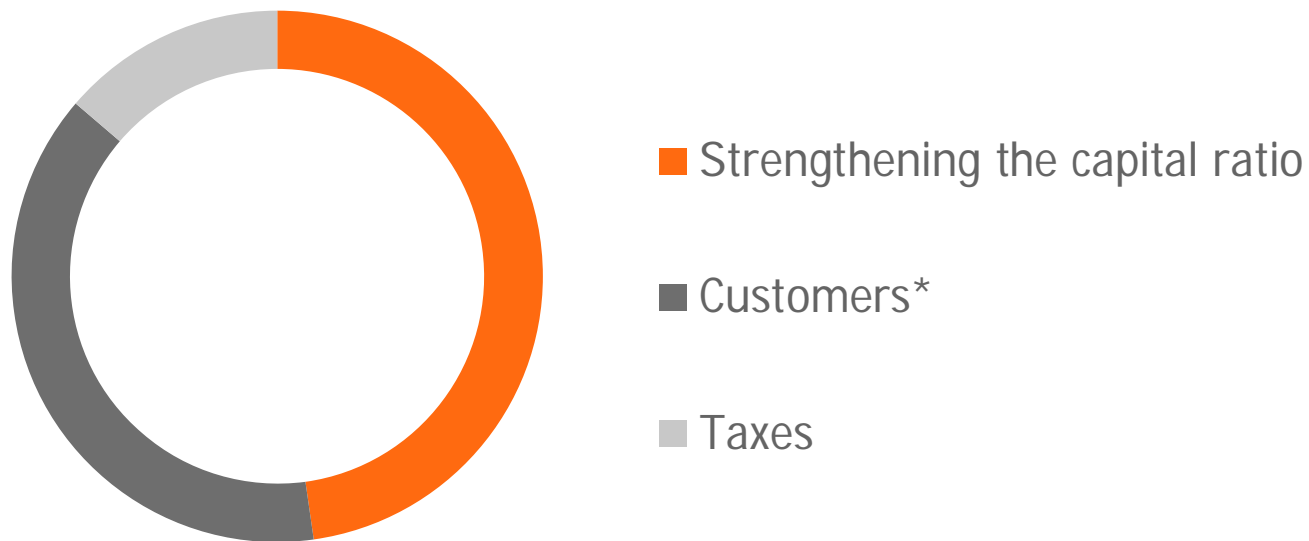


OP is a financial services group owned by its customers

OP Financial Group's mission

We promote the sustainable prosperity, wellbeing and security of our owner-customers and operating environment.

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



OP Financial Group's strategic targets

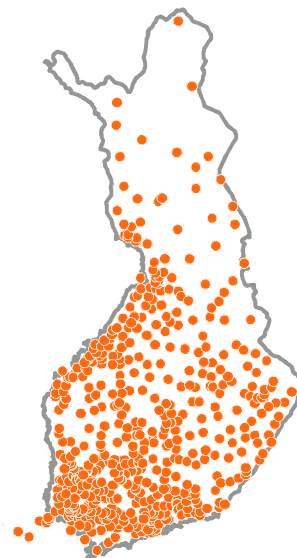
	30 June 2019	Target 2019
Customer experience, NPS (Net Promoter Score, -100+100)		
Brand	30	25
Service	61	70, over time 90
CET1 ratio, %	19.5	22
Return on economic capital, % (12-month rolling)	20.4	22
Expenses of present-day business (12-month rolling), € million	1,839	Expenses for 2020 at 2015 level (1,500)
Owner-customers, million	1.95	2.0 (2019)

Finland's most extensive and diverse service network



2000 2018

Already 1.95 million
owner-customers



153 OP cooperative banks

OP Financial Group's service channels

	H1/2019	30 June 2019	12-month change
Online and mobile services			
Op.fi logins	54,533,273		-2%
OP-mobile logins	141,069,932		26%
OP Business mobile logins	4,546,339		72%
Pivo mobile application visits	24,283,279		65%
eServices Agreements (private customers)		1,908,449	3%
Branches and telephone services			
Bank branches		355	-5%
Providing both non-life insurance and banking services		322	-2%
Private Banking branches		42	0%
Customer contacts in telephone service	2,731,246		9%
Social media			
Followers on Facebook (OP Financial Group and OP cooperative banks)		355,517	7%
Followers on Twitter		40,761	11%
Followers on LinkedIn		37,061	32%
Followers on Instagram		11,427	37%

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.

Let's take care of each
other