



OP Financial Group's Interim Report 1 January–31 March 2020

Background material

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- OP Financial Group's Financial Statements Bulletin
- Retail Banking
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- OP in a nutshell

A person is sitting on a light-colored sofa, holding a smartphone in their right hand. The phone screen shows a mobile banking app interface with a circular logo at the top, a search bar, and a numeric keypad. The person is wearing a white cable-knit sweater and dark blue trousers. In the background, another person is partially visible, wearing a white t-shirt and red shorts. A book is lying on the floor to the left.

OP Financial Group's Interim Report

OP Financial Group's key figures – income from customer business increased, developments in investment income and impairment loss weakened earnings

	Q1/2020	Q1/2019	Change, %	Q1–Q4/2019
Earnings before tax, € million	129	194 *	-33.7	838
Retail Banking	8	49	-84.5	235
Corporate Banking	14	56	-75.5	311
Insurance	59	88	-32.8	373
Other Operations	57	5	963.0	-37
New OP bonuses accrued to owner-customers	-65	-69	-5.9	-254
Return on equity (ROE), %	3.1	5.3	-2.2 **	5.5
Return on equity excluding OP bonuses, %	4.7	7.0	-2.4 **	7.1
Return on assets (ROA), %	0.26	0.44	-0.17 **	0.47
Return on assets excluding OP bonuses, %	0.39	0.58	-0.19 **	0.60
	31 March 2020	31 March 2019	Change, %	31 December 2019
CET1 ratio, %	17.7	20.2	-2.5 **	19.5
Loan portfolio, € bn	93.0	88.0	5.7	91.5
Deposits, € bn	64.8	63.1	2.7	64.0
Ratio of non-performing receivables to loan and guarantee portfolio, %	1.5	1.1	0.4 **	1.1
Owner customers (1,000)	2,007	1,931	4.0	2,003

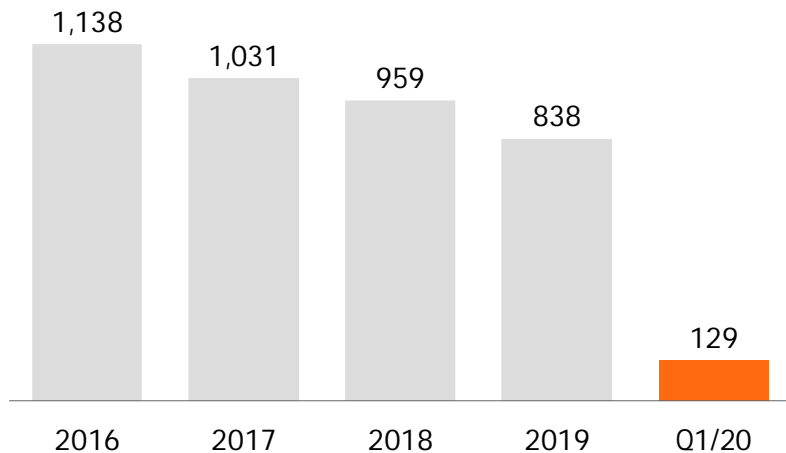
* In the fourth quarter of 2019, OP Financial Group adopted an amortisation-based revenue recognition method for the customer margin related to a derivative clause attached to loans with an interest rate cap or interest rate collar. The effect of this change was adjusted retrospectively in OP Financial 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

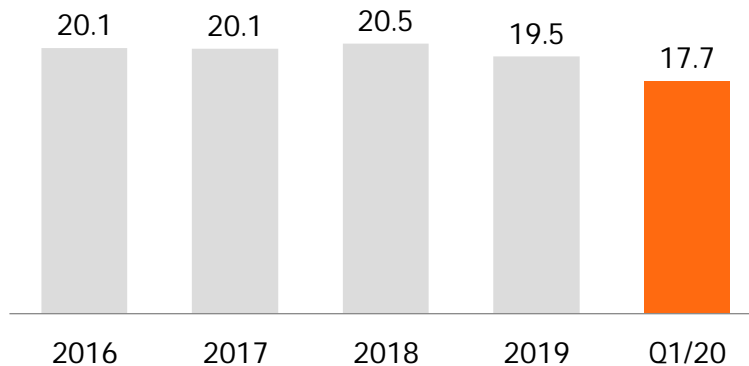
- Income from customer business increased: net interest income up by 9% to EUR 319 mill. (294), net insurance income up by 21% to EUR 131 mill. (109) and net commissions and fees up by 4% to EUR 244 mill. (234).
- Effects of the coronavirus pandemic on the capital market weakened investment income: down by 88% year on year, to EUR 11 million (90).
- Impairment loss on receivables totalled EUR 105 million (11), especially increased by the adoption of a new definition of default and the effects of the coronavirus pandemic on credit risk outlook.
- OP Financial Group sold the Vallila property on 31 Jan 2020, recognised a capital gain of EUR 96 million on the sale and continues operating in the property under a long-term lease agreement.

OP Financial Group's earnings and capital adequacy

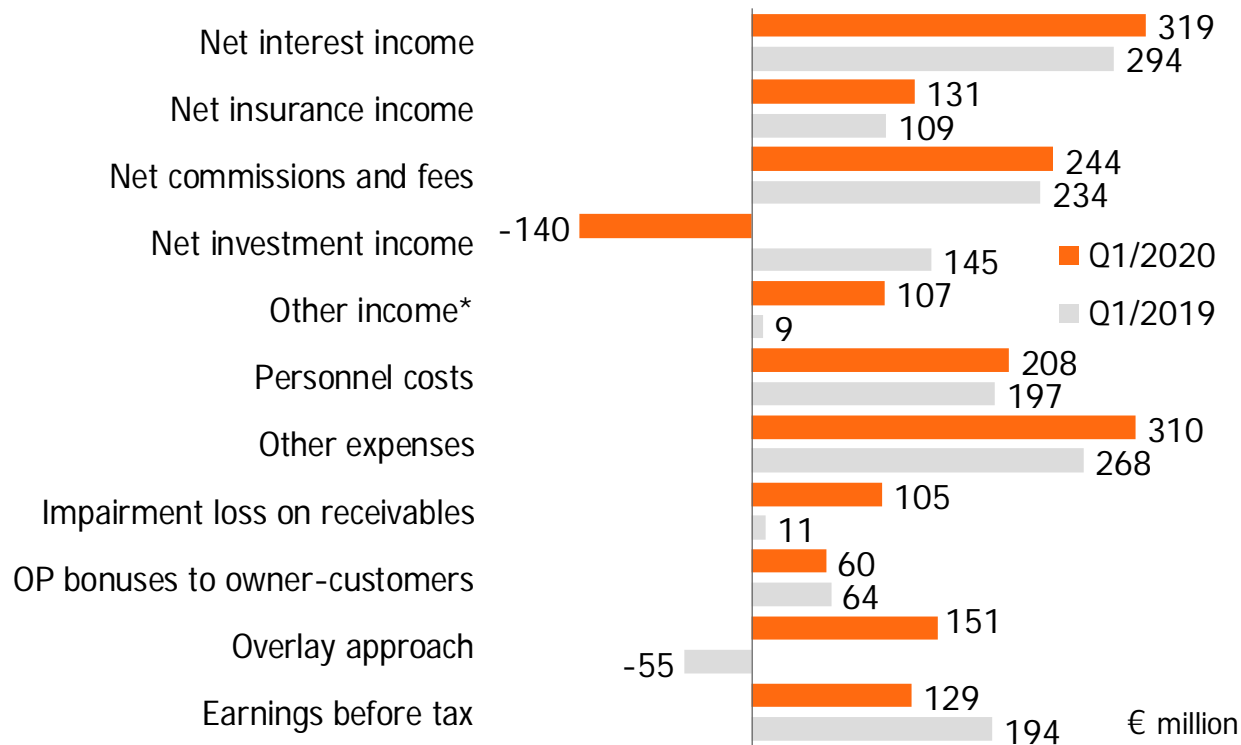
Earnings before tax, € million



Common Equity Tier 1 ratio (CET1),%

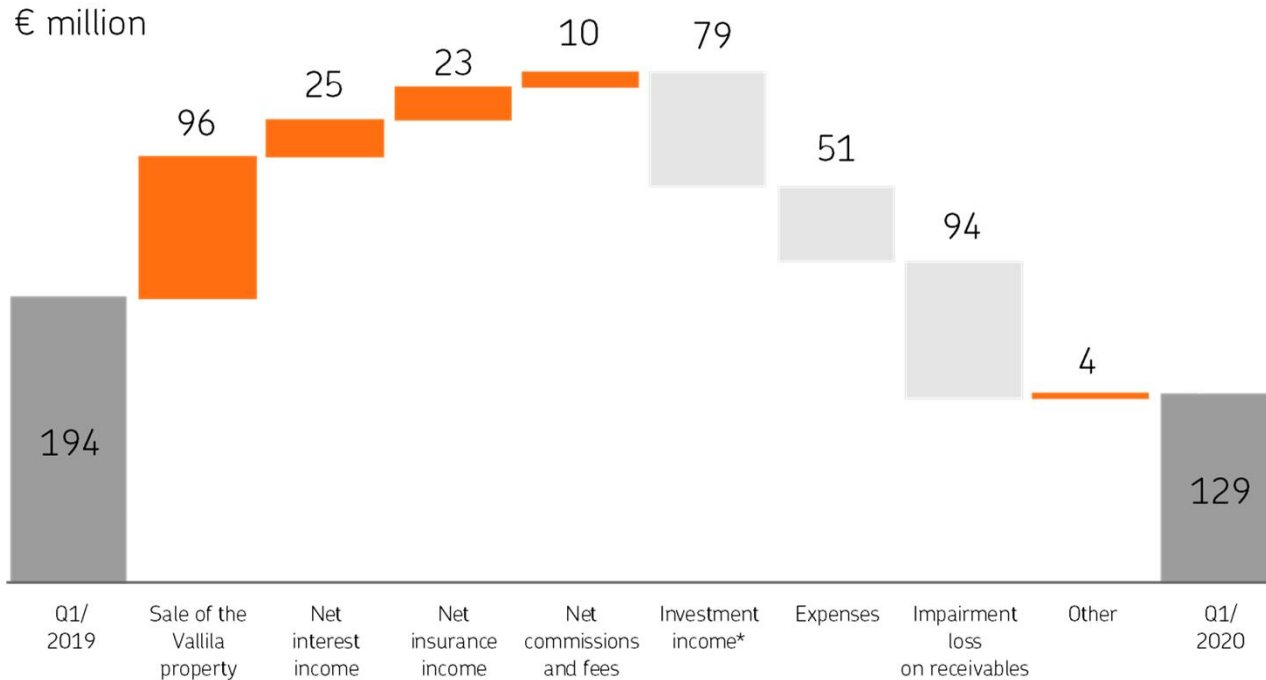


OP Financial Group's main income statement items



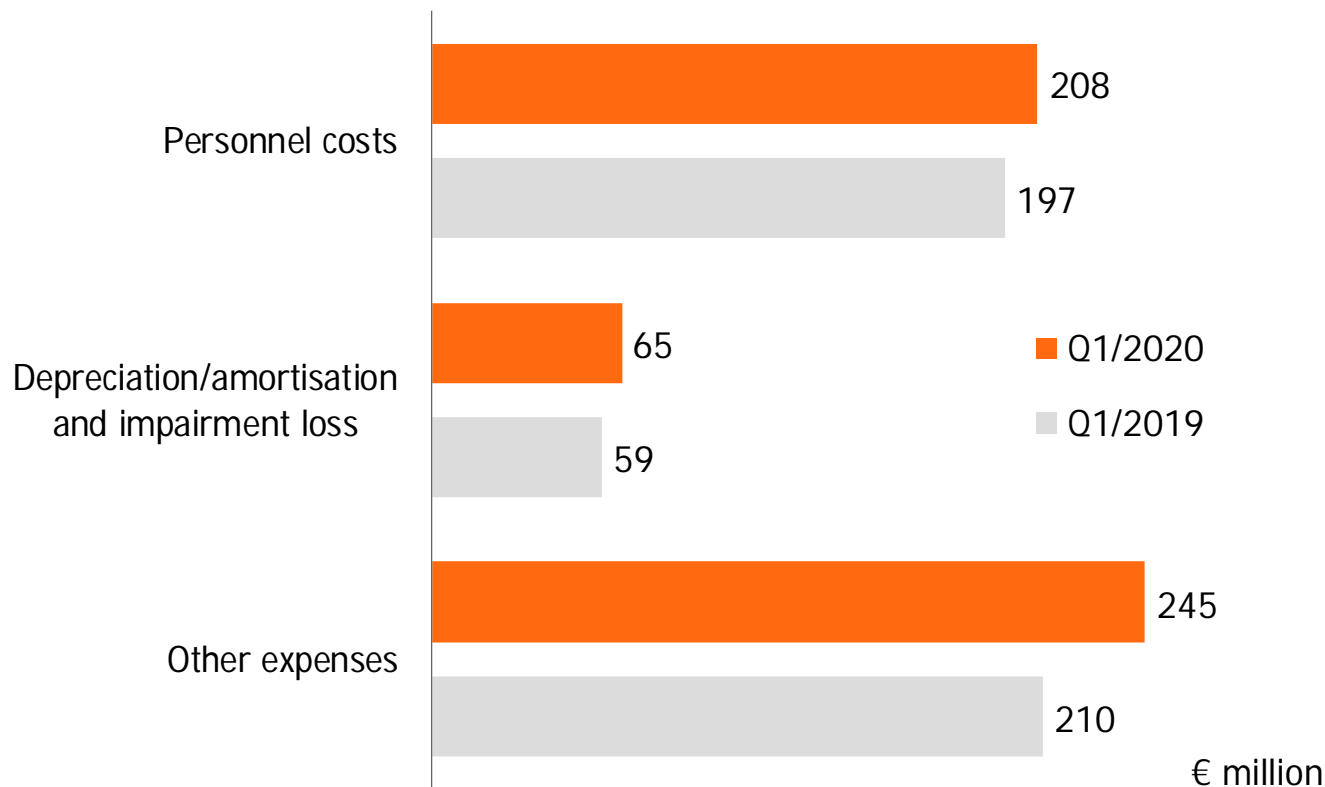
*Includes a capital gain on the sale of the Vallila property

OP Financial Group's financial performance

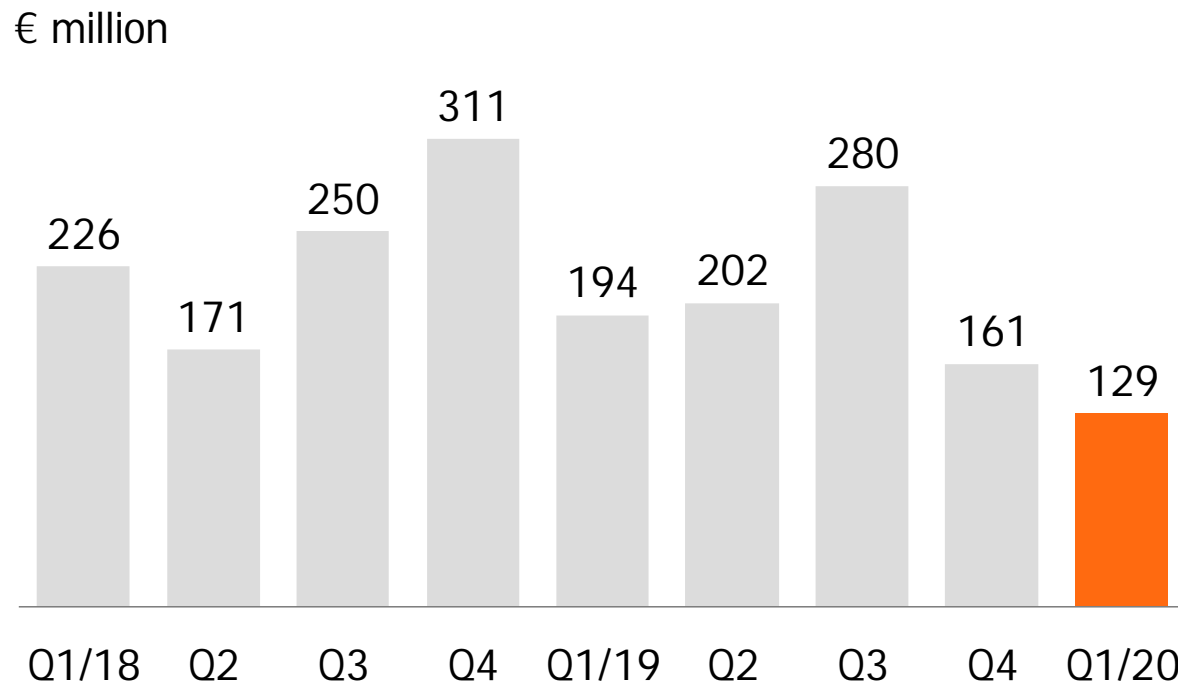


*Including a temporary exemption (overlay approach)

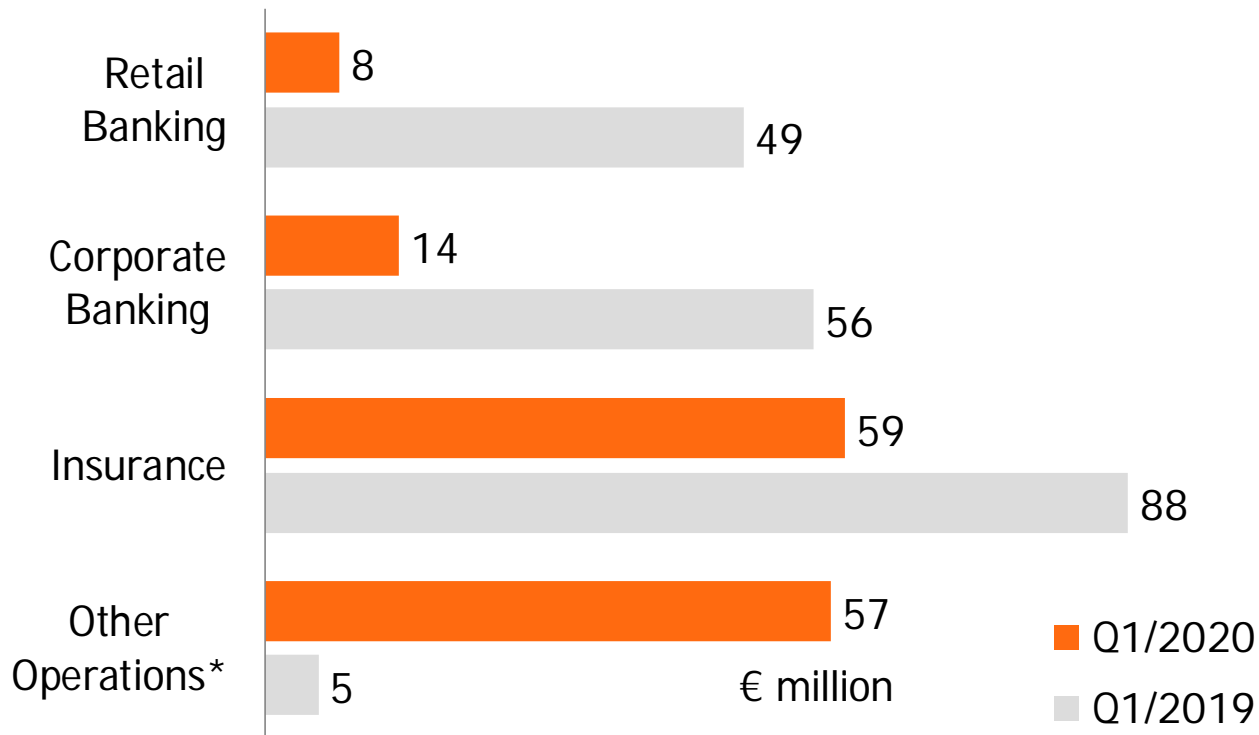
OP Financial Group's cost performance



OP Financial Group's EBT by quarter



OP Financial Group's EBT by business segment



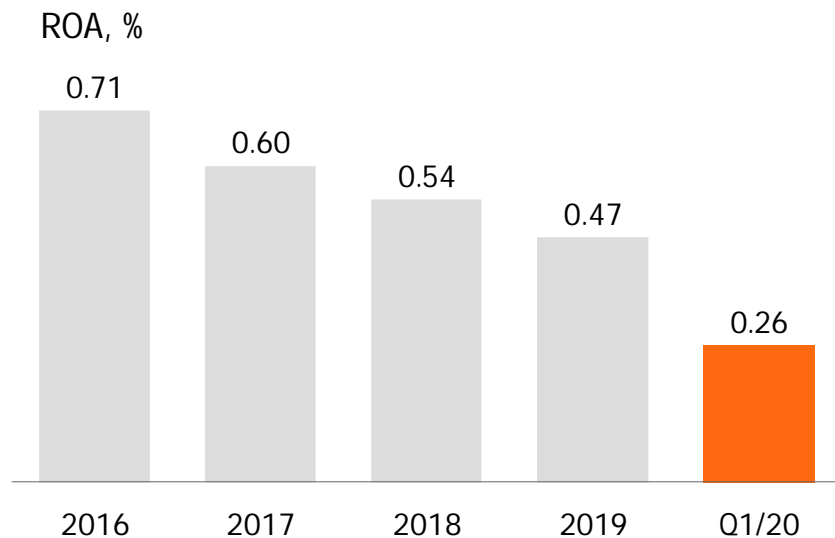
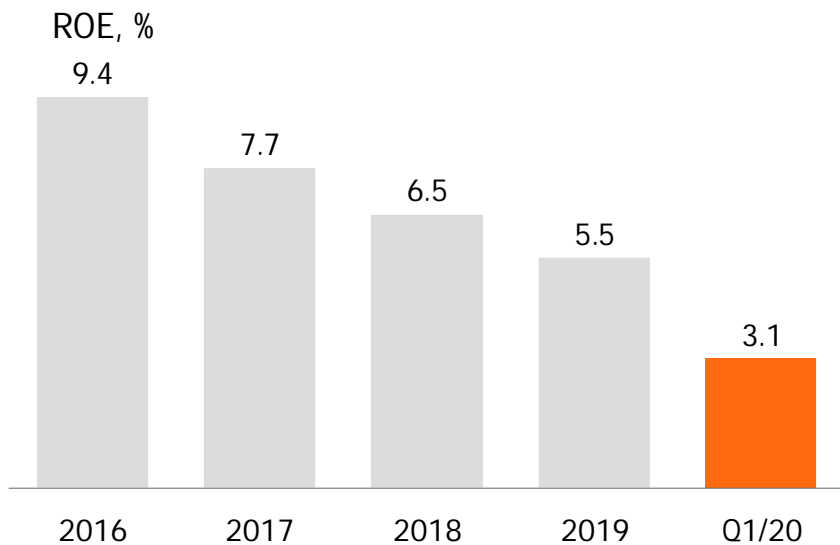
OP Financial Group's income statement

January 1 to March 31	2020	2019	Change, €million	%
Net interest income	319	294	25	8.6
Net insurance income	131	109	23	20.8
Net commissions and fees	244	234	10	4.5
Net investment income	-140	145	-285	-196.3
Other operating income	107	9	98	1,122.9
Total income	662	790	-128	-16.2
Personnel costs	208	197	11	5.8
Depreciation/amortisation and impairment loss	65	59	7	11.4
Other operating expenses	245	210	35	16.8
Total expenses	518	465	53	11.5
Impairment loss on receivables	-105	-11	-94	831.8
OP bonuses	-60	-64	4	-5.8
Overlay approach	151	-55	206	-372.7
Earnings before tax	129	194	-66	-33.7

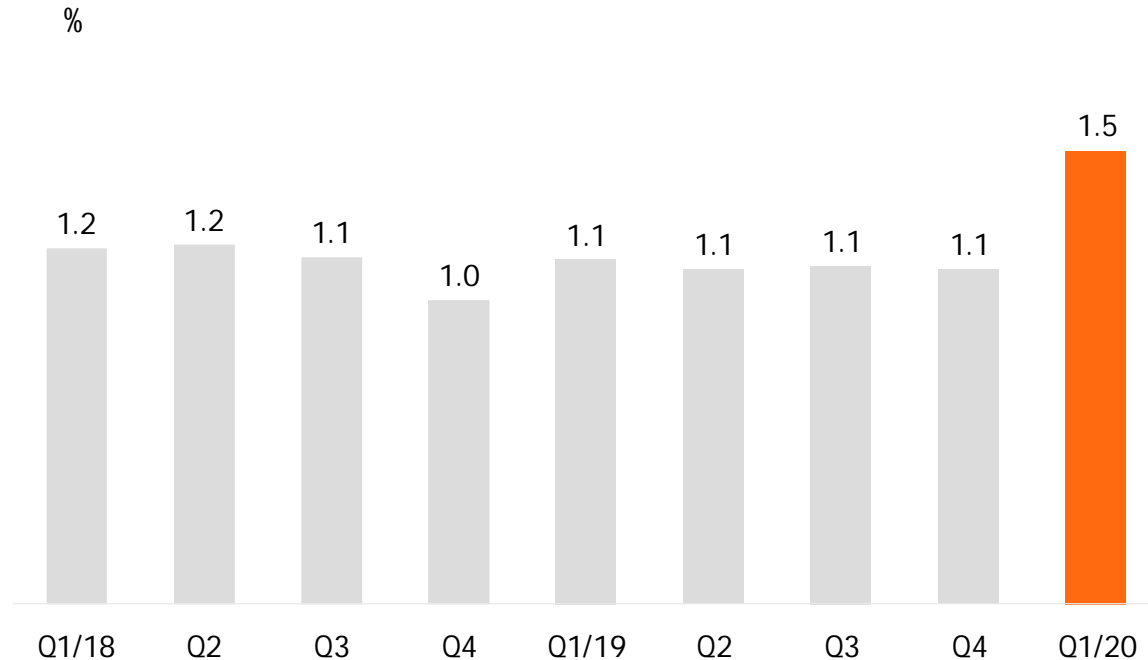
OP Financial Group's quarterly performance

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

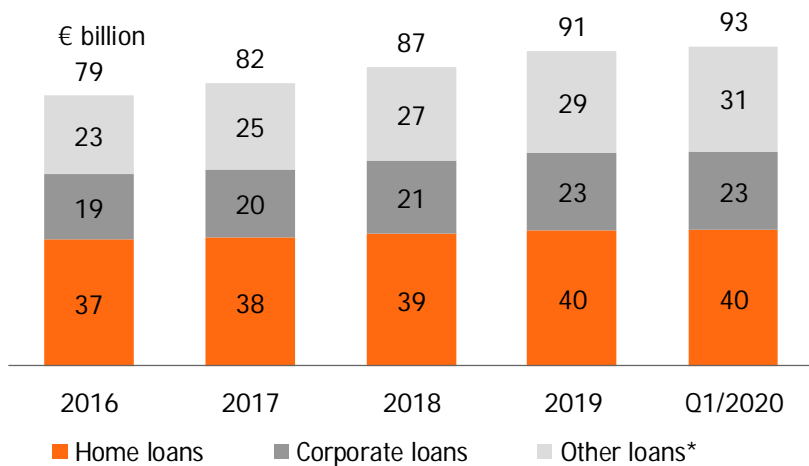
OP Financial Group's return on equity



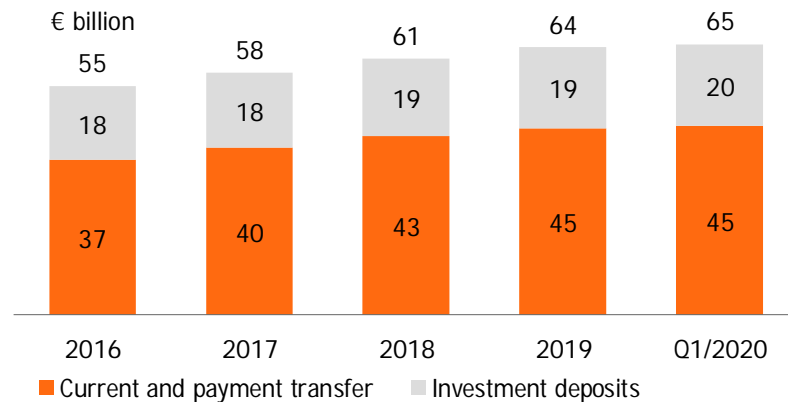
Ratio of non-performing receivables to loan and guarantee portfolio



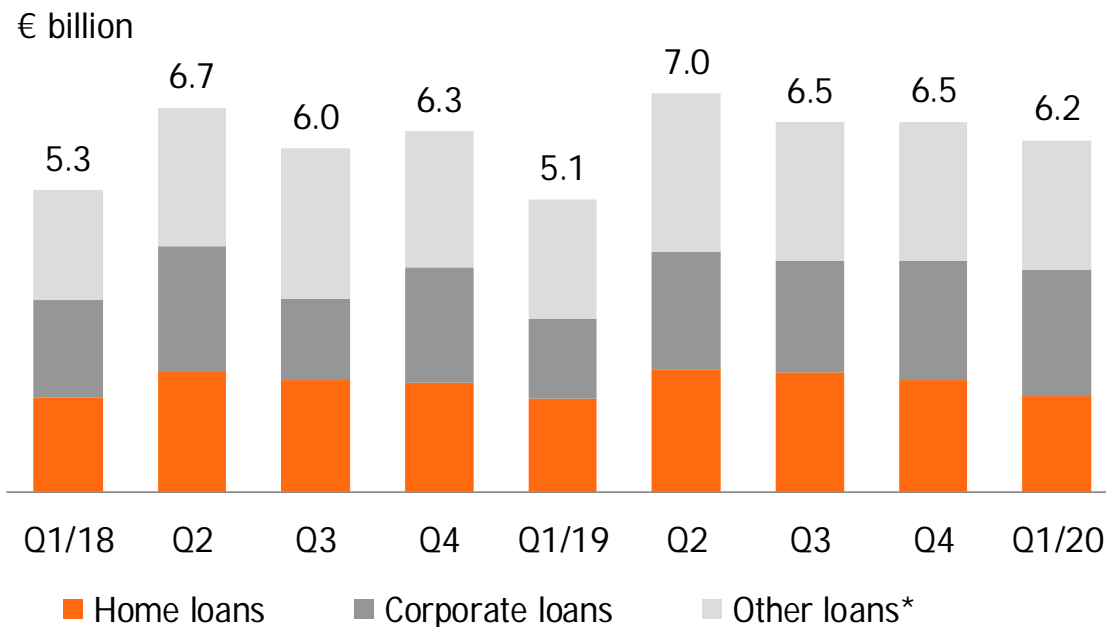
OP Financial Group's loan portfolio grew by 5.7% and the deposit portfolio by 2.7% year on year



* incl. housing companies and public-sector entities

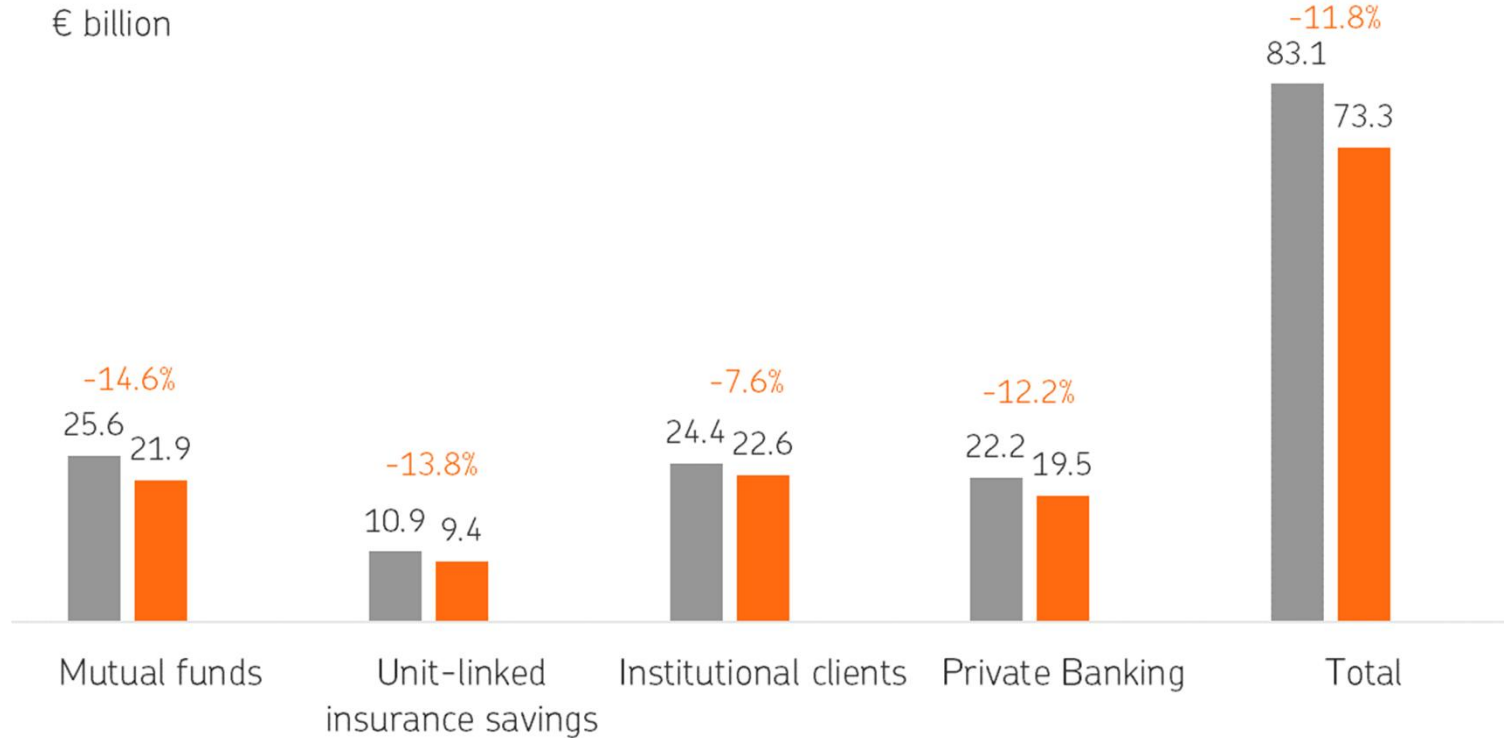


OP Financial Group's new loans drawn down

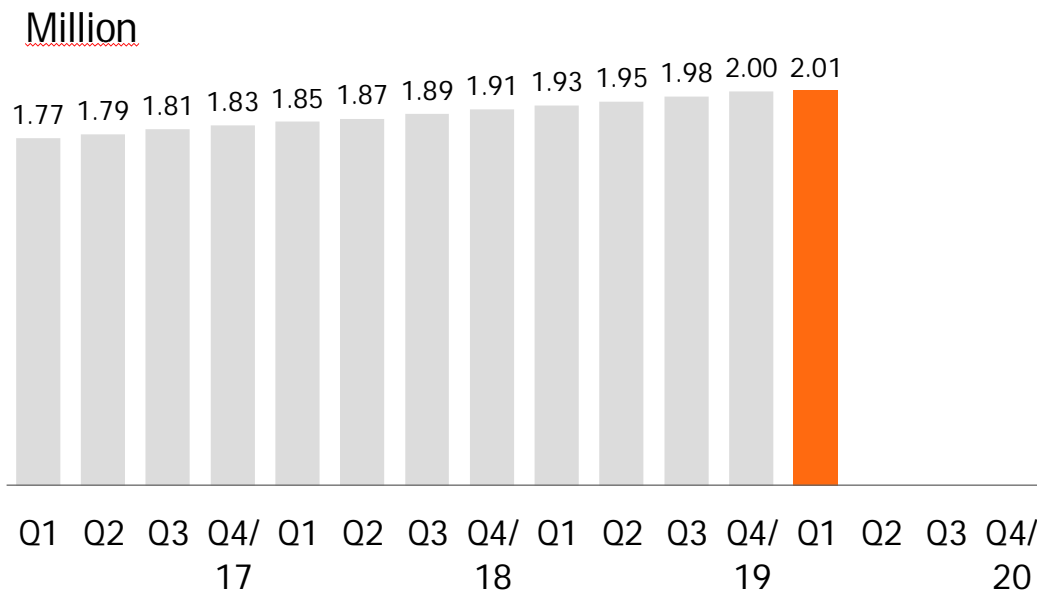



*incl. housing companies and public-sector entities

OP Financial Group's assets under management



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 OP 

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 Q1/2020

Earnings before tax

€8 million

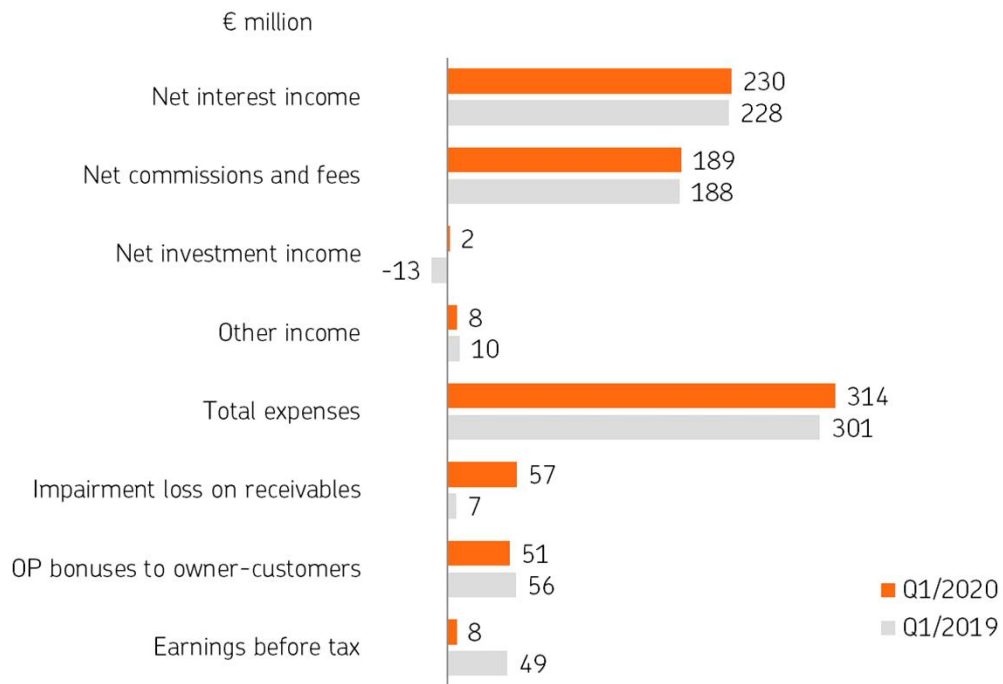
Loan portfolio

€68.7 billion

Deposit portfolio

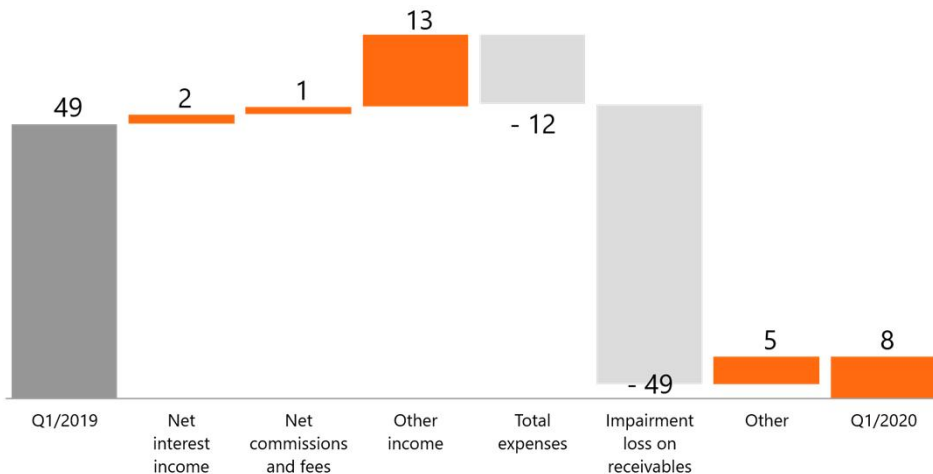
€55.7 billion

Retail Banking earnings before tax decreased to EUR 8 million

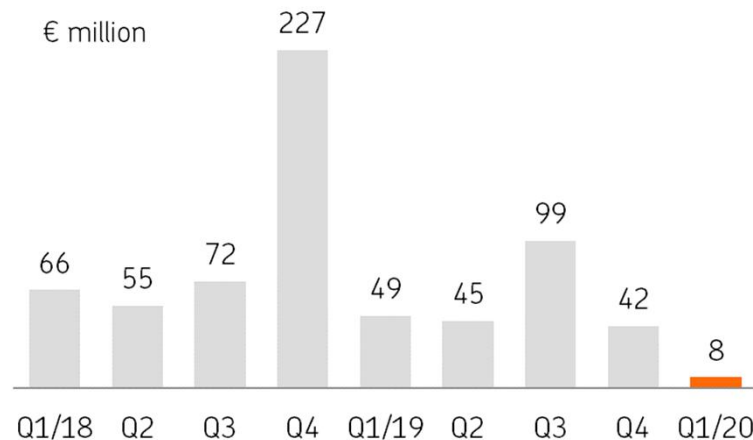


Total income and impairment loss on receivables increased year on year

€ million



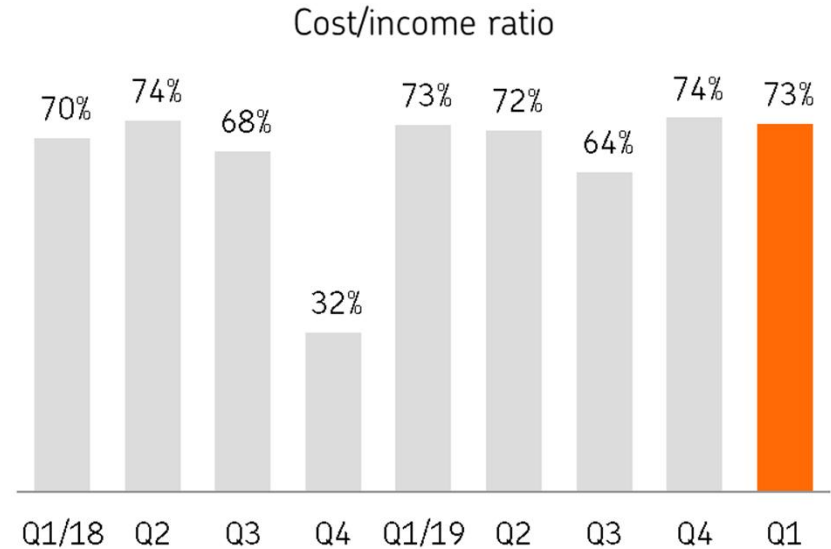
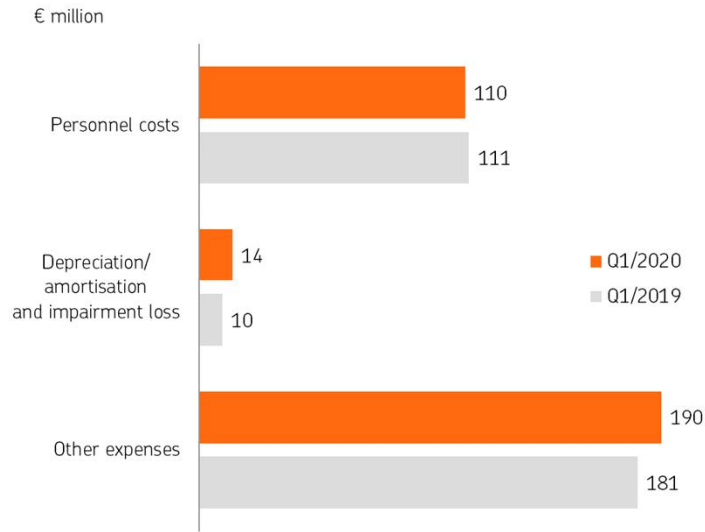
€ million



Total income rose by 0.7% and total expenses by 4.1%. Impairment loss on receivables increased mainly due to the adoption of the new definition of default and the effects of the coronavirus pandemic.

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

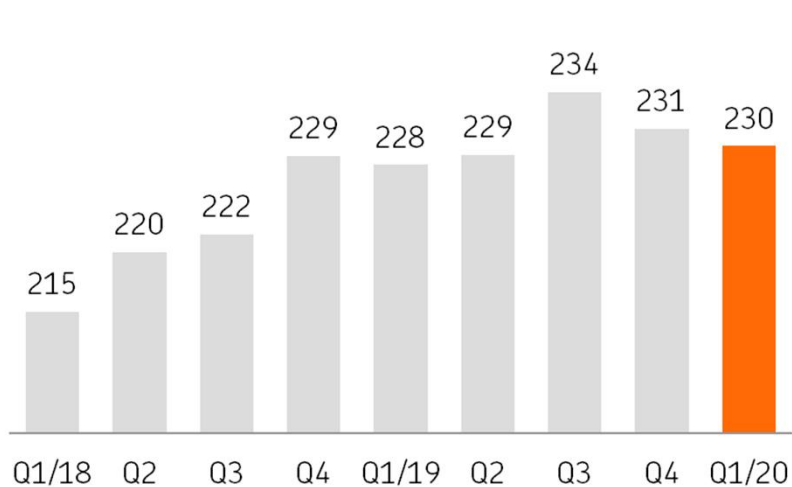
Other operating expenses increased due to higher ICT costs and higher volumes



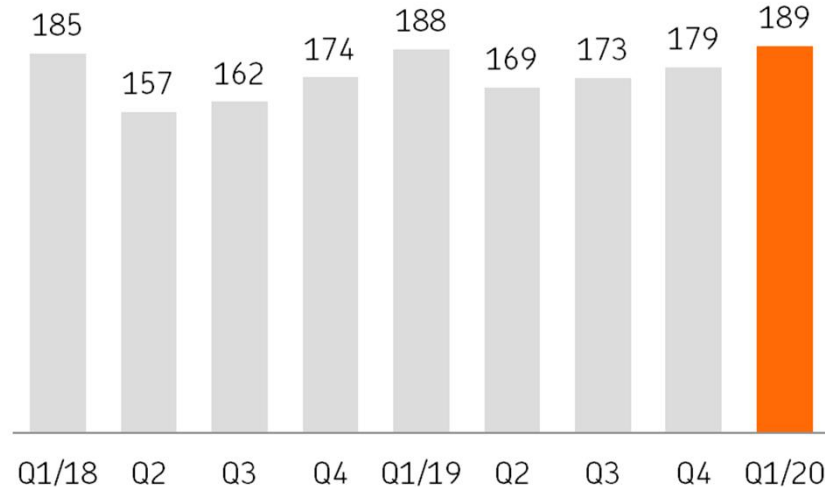
Q4/2018 personnel costs include the transfer of pension liability EUR 199 million

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

Net interest income, € million

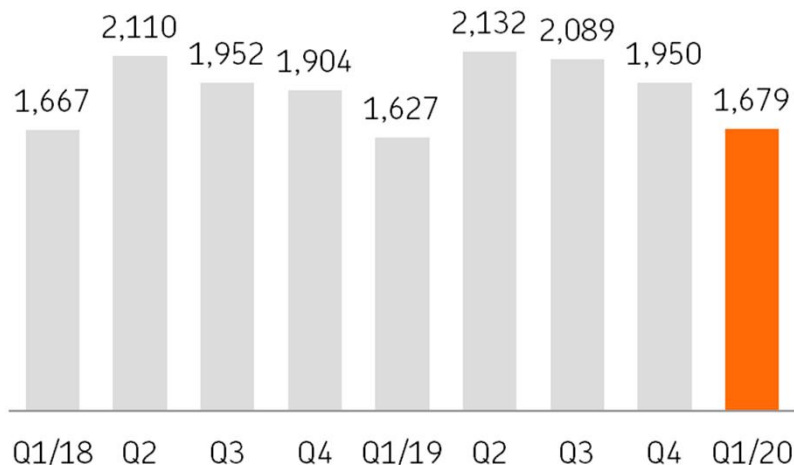


Net commissions and fees, € million

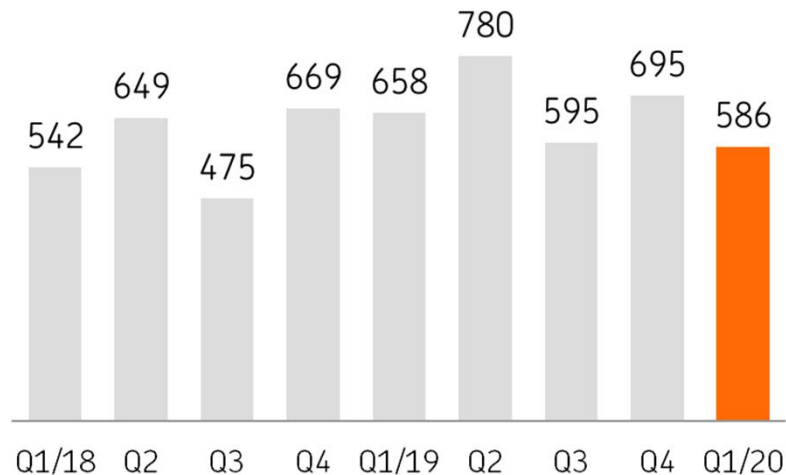


Home loan drawdowns increased and corporate loan drawdowns by SMEs decreased

Home loans drawn down, € million

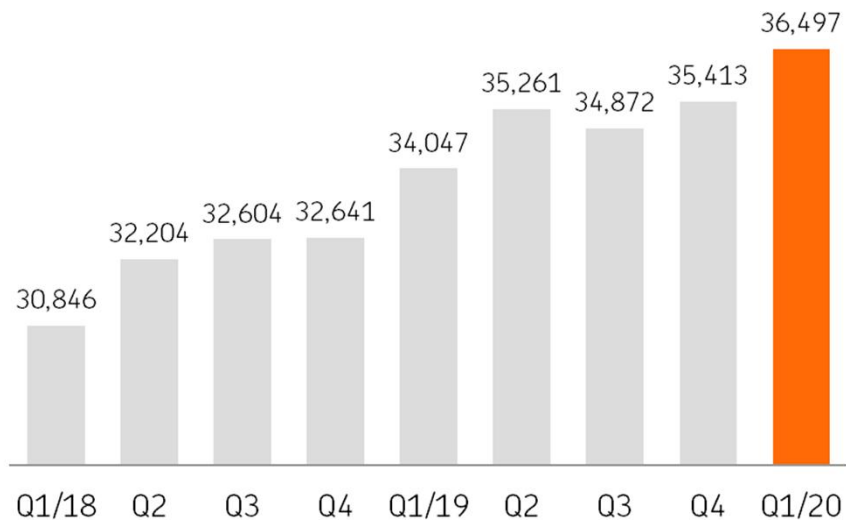


SME Corporate loans drawn down, € million

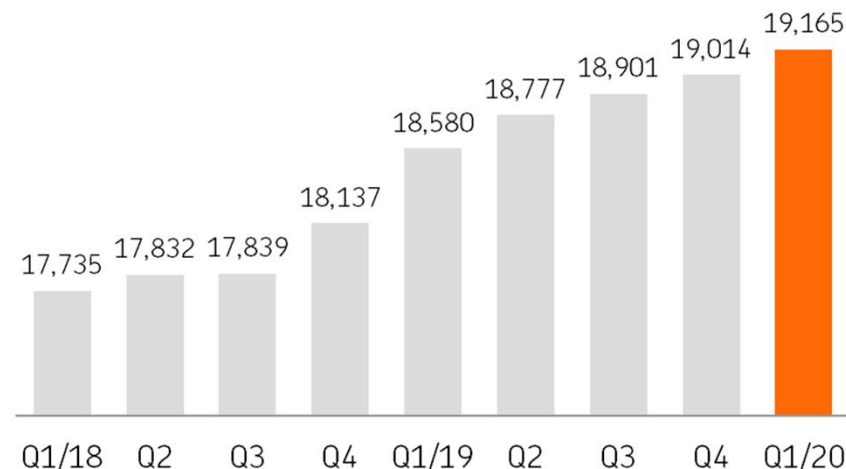


Growth in current and payment transfer account deposits and in investment deposits

Current and payment transfer, € million

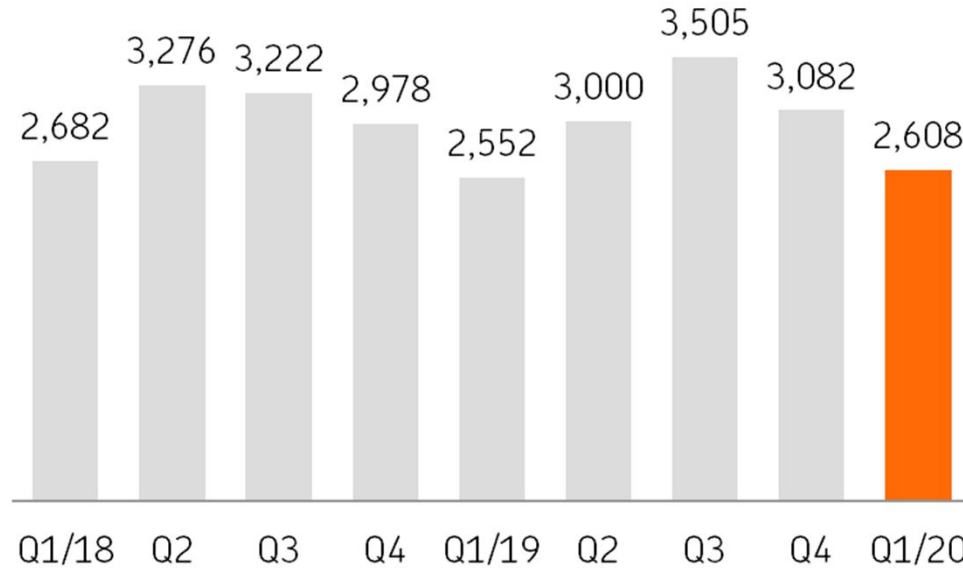


Investment deposits, € million



Volume of brokered homes and real property transactions increased year on year

No. of brokered homes and real property transactions



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 Real Estate Asset 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 Q1/2020

Earnings before tax

€14 million

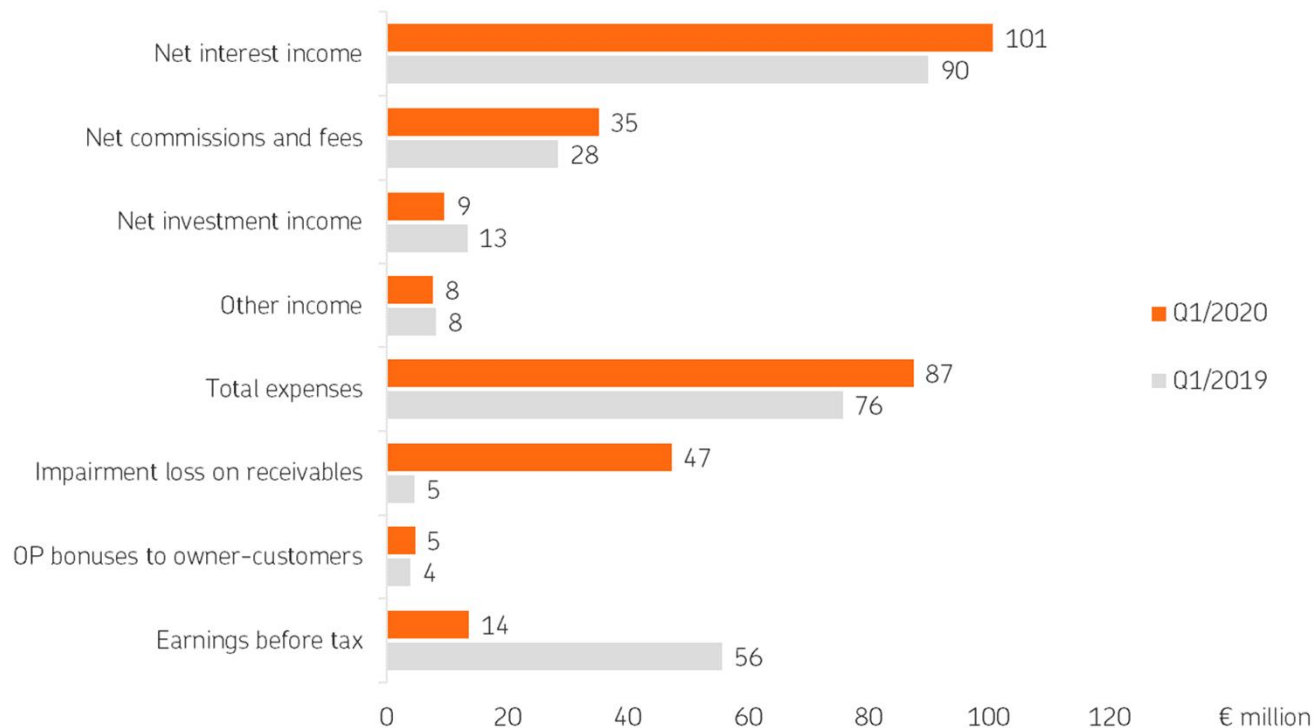
Loan portfolio

€24.3 billion

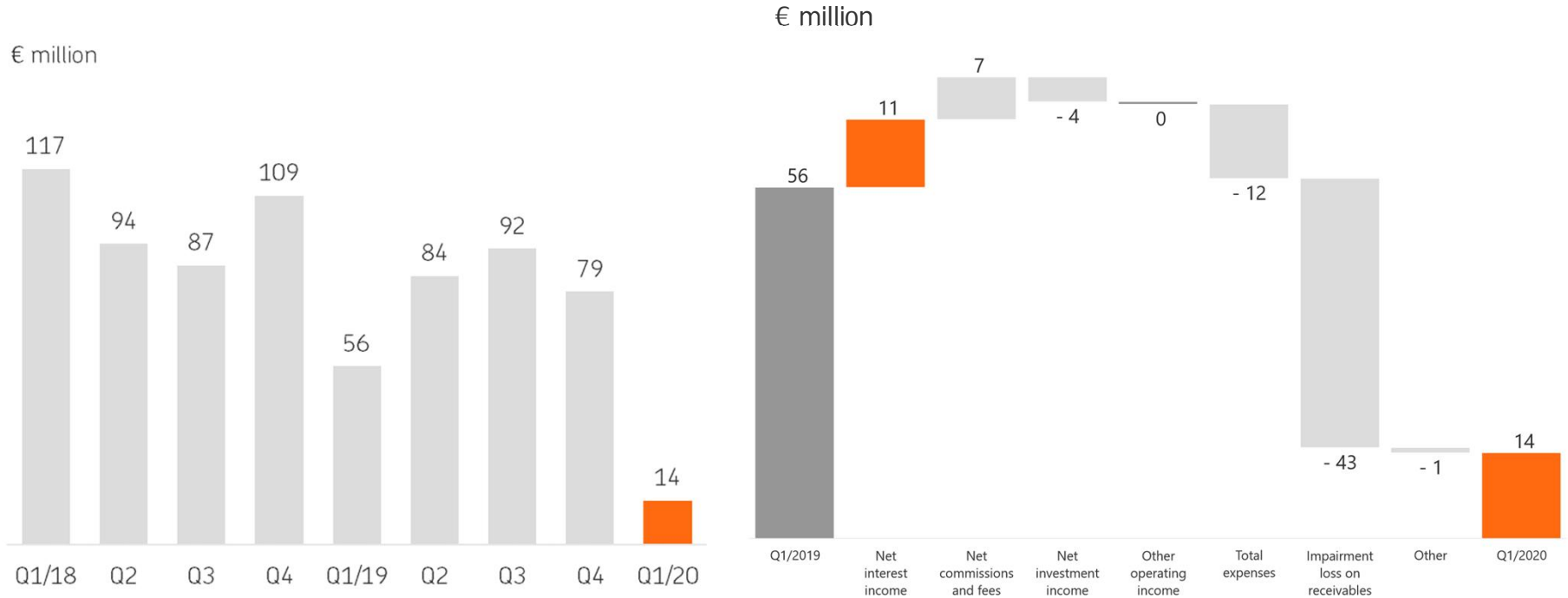
Assets under
management

€53.2 billion

Corporate Banking earnings before tax EUR 14 million

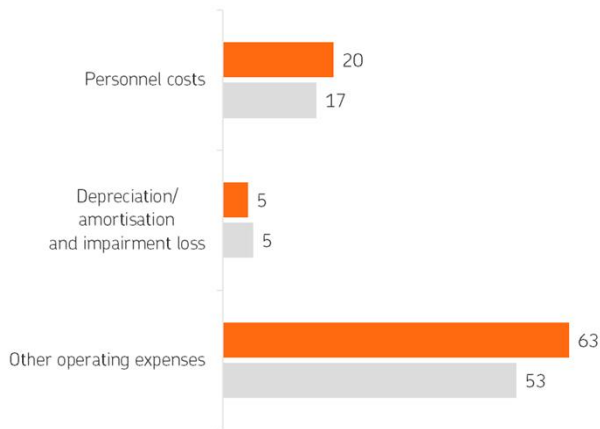


EBT weakened due to higher impairment loss on receivables and total expenses

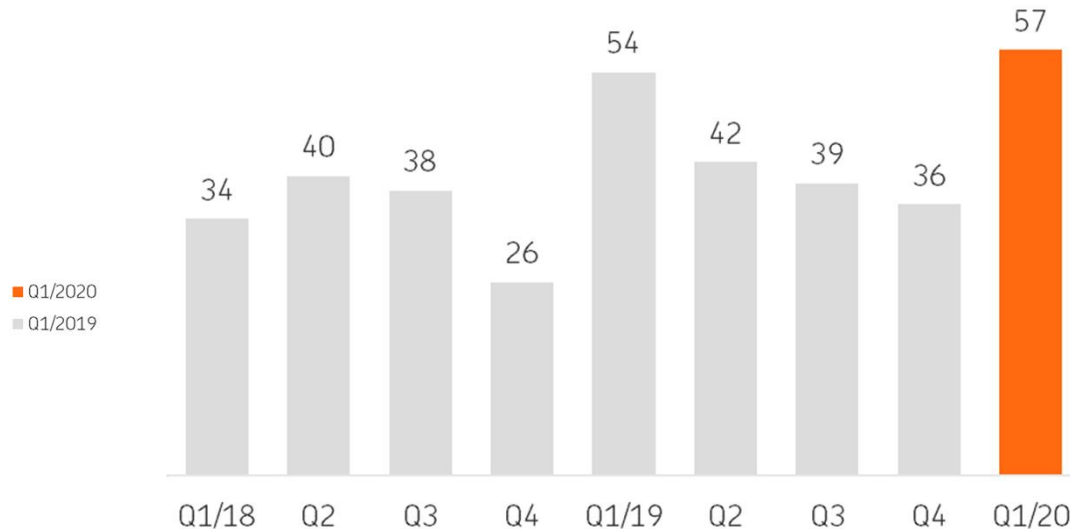


ICT costs and the EU stability contribution increased other operating expenses

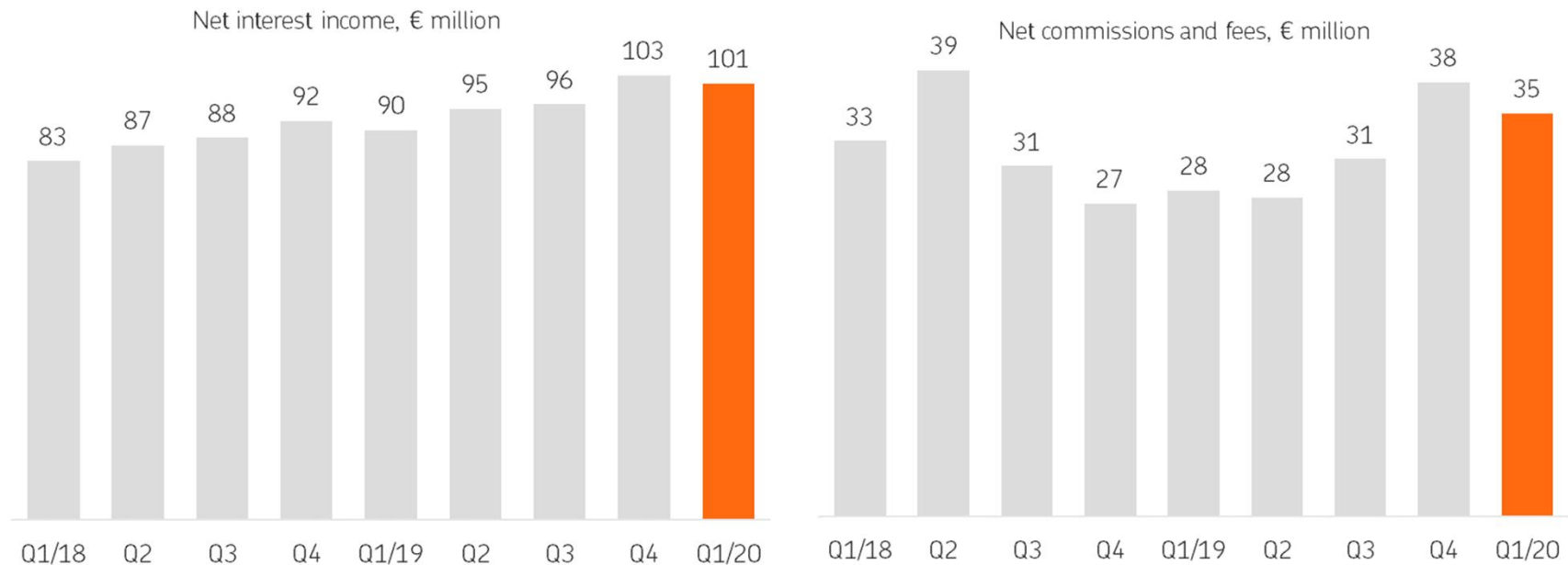
€ million



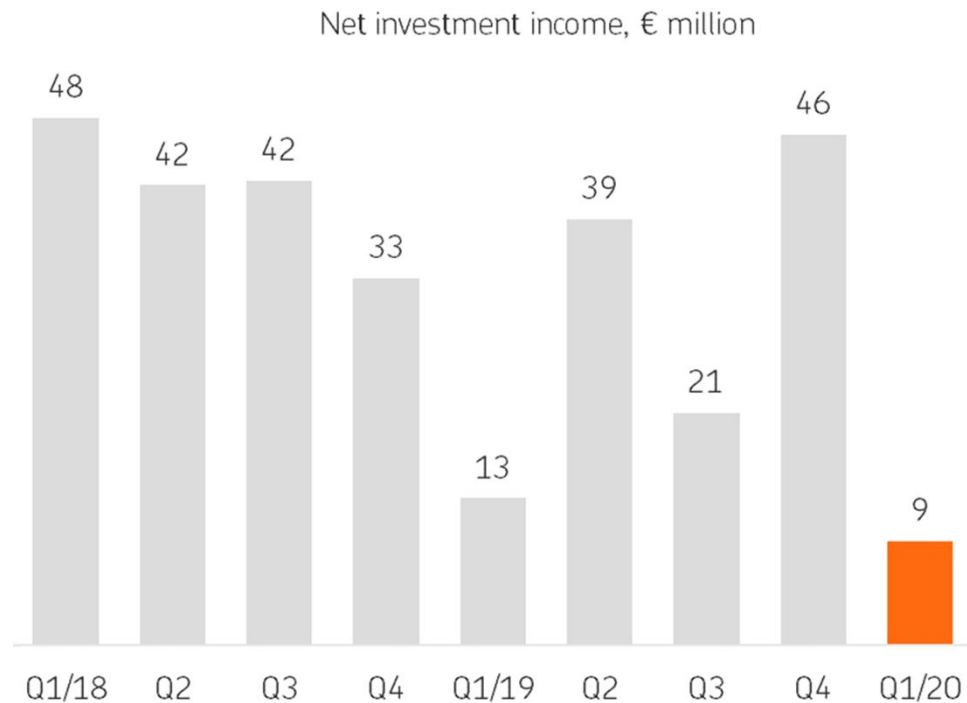
Cost/ income ratio, %



Net interest income up by 12% year on year



Net investment income down by 29%



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

€59 million

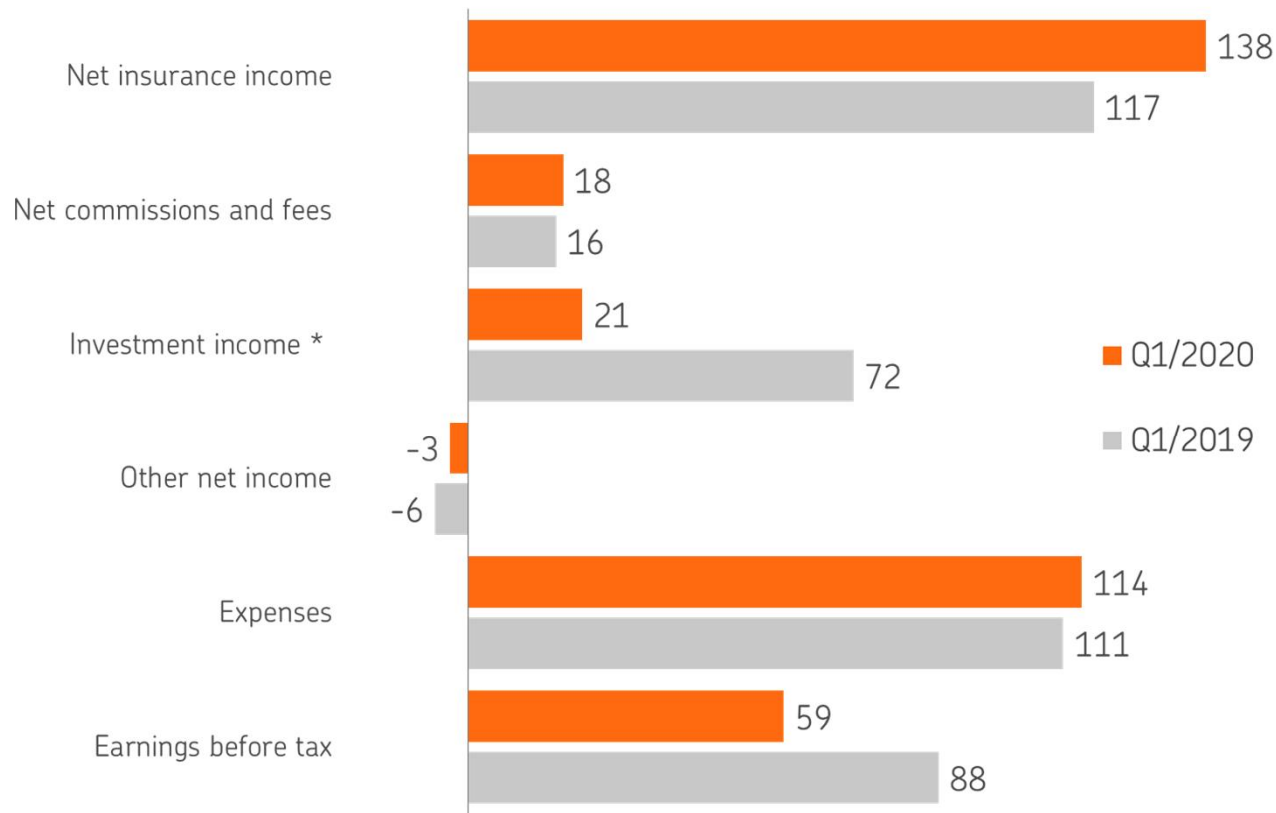
Insurance premium revenue

€367 million

Unit-linked insurance assets

€9.4 billion

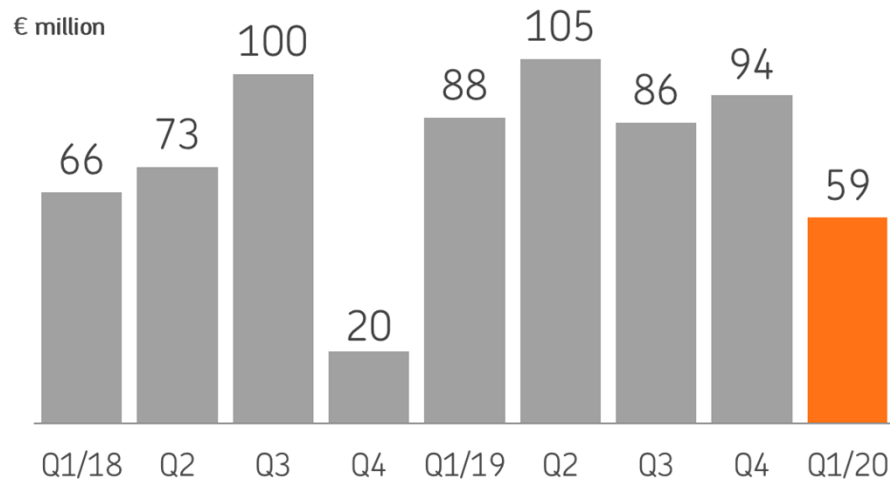
Insurance EBT, € million



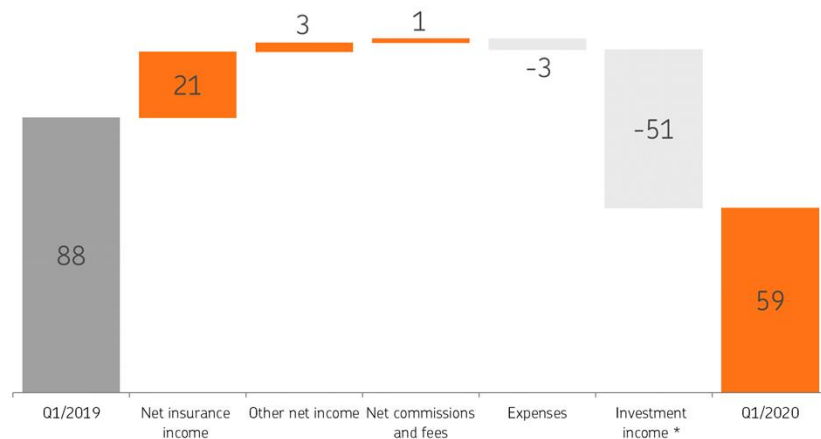
*Includes net investment income and overlay approach

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

Earnings before tax
€ million by quarter



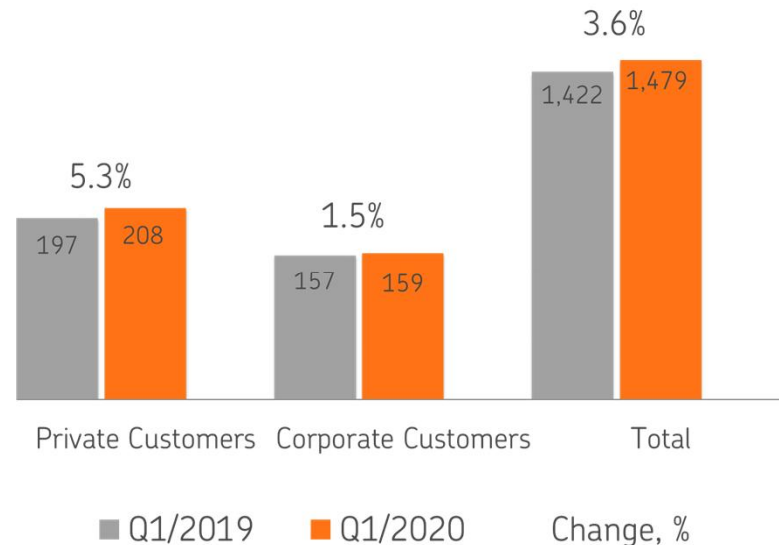
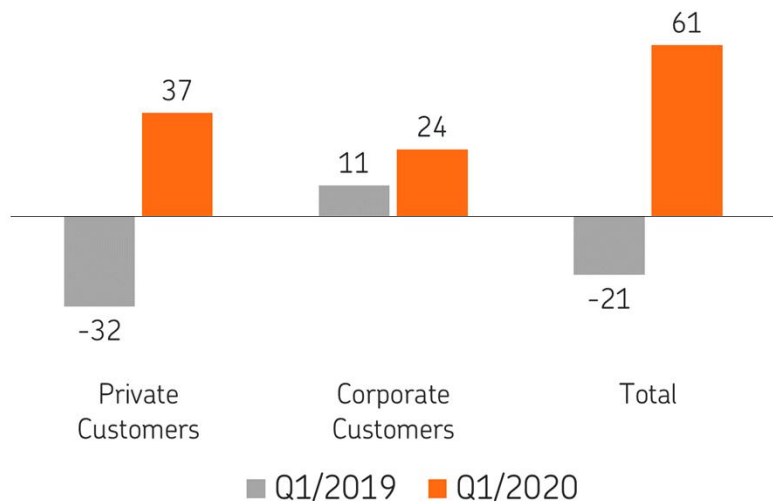
Earnings before tax, € million
Q1/2020 change vs. Q1/2019



Net sales and insurance premium revenue

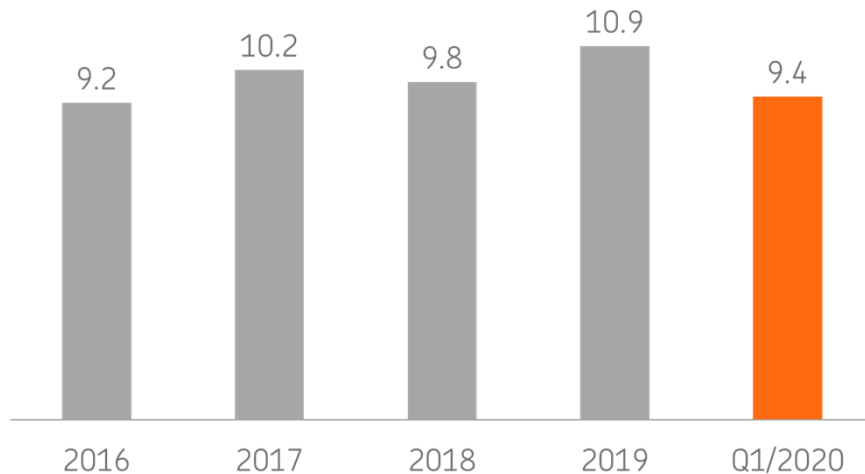
Life Insurance, Net assets inflow of unit-linked insurance contracts, € million

Non-life Insurance premiums written, € million

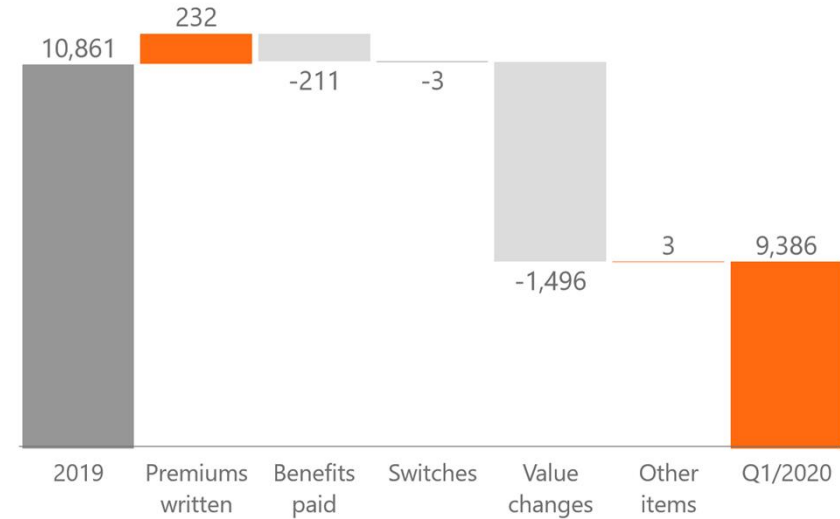


Unit-linked insurance assets decreased by 13.5% as a result of a weak value performance caused by the coronavirus pandemic

Unit-linked insurance savings, € billion

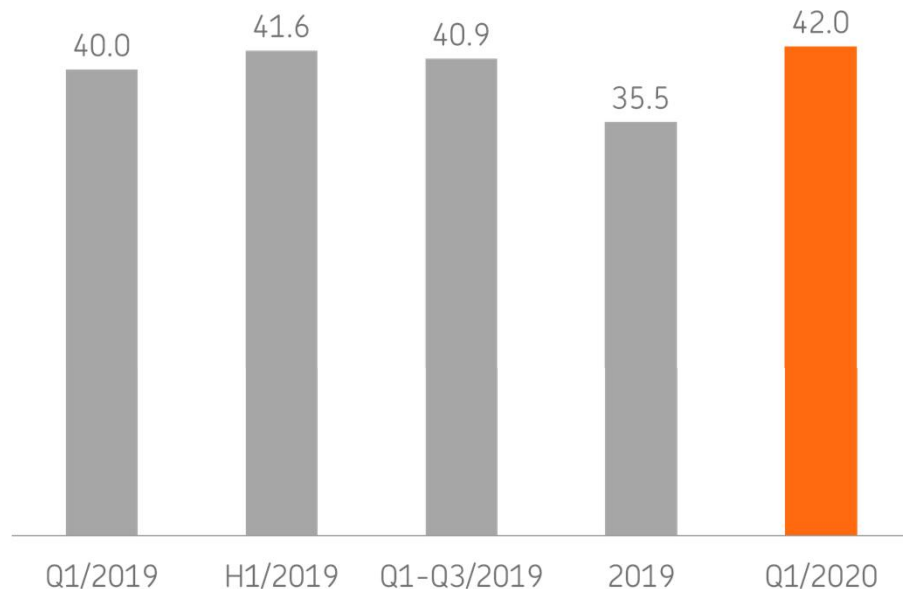


Change in unit-linked insurance savings, € million

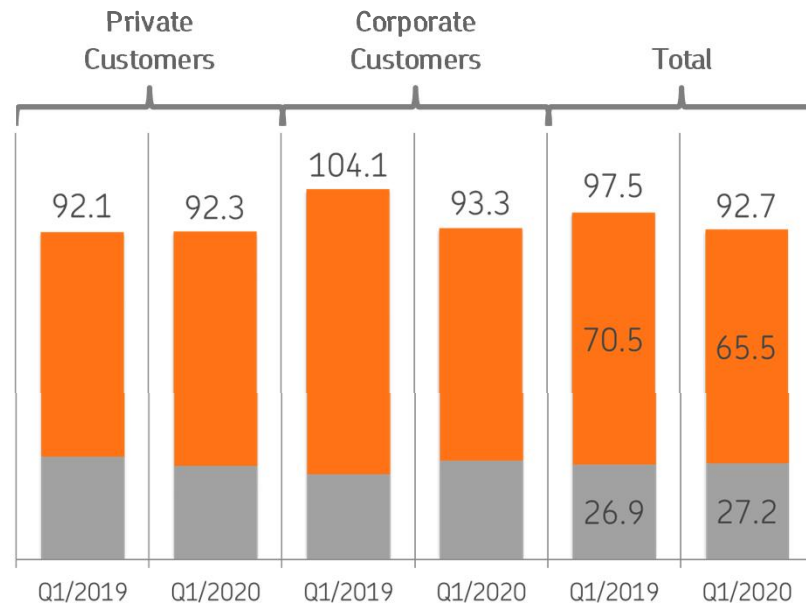


Insurance profitability

Life Insurance, operating ratio %



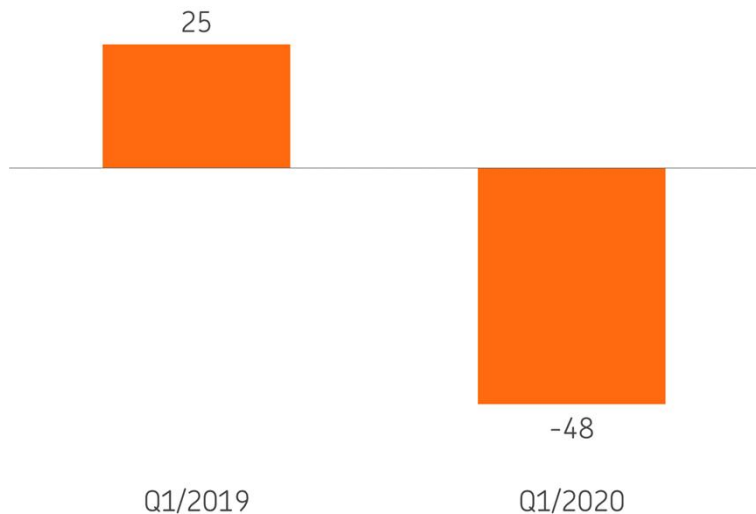
Non-life Insurance, operating combined ratio %



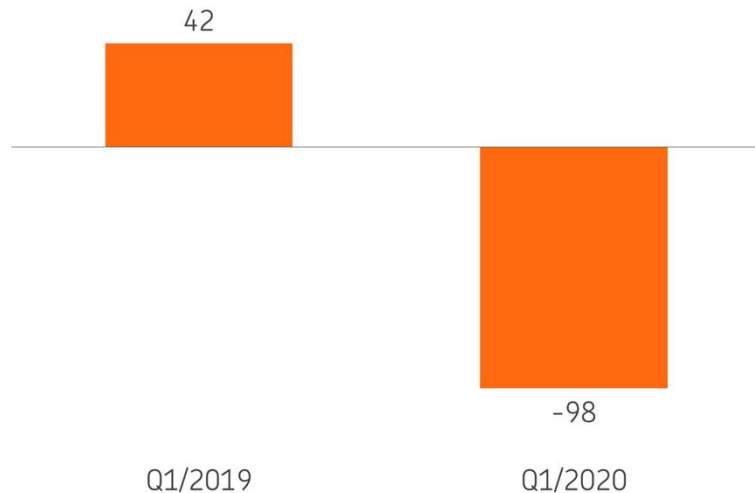
■ Operating expense ratio
■ Operating risk ratio
Operating combined ratio

Net return on insurance investments at fair value, € million

Life Insurance *



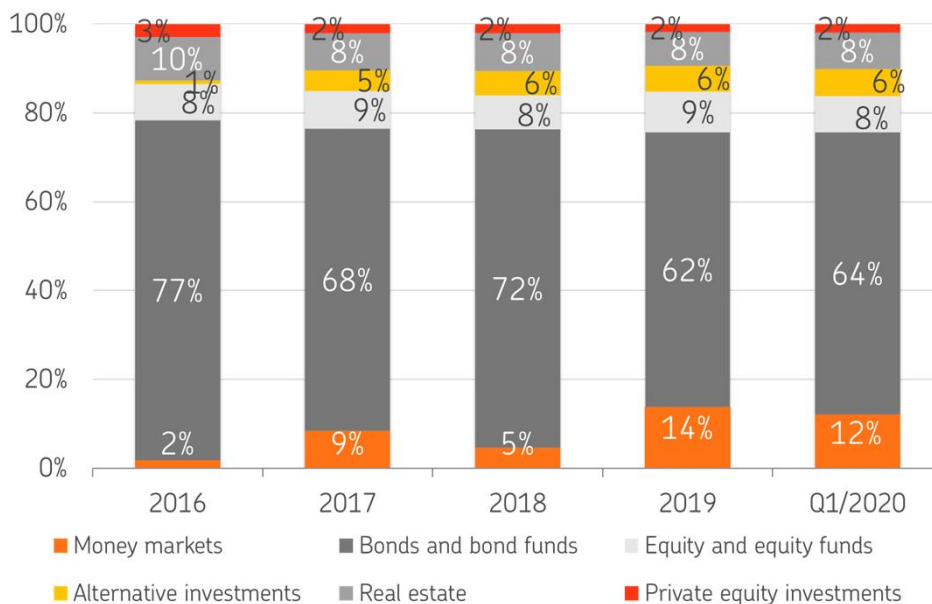
Non-life Insurance *



*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 (€3.8 bn) by asset class as of 31st March 2020

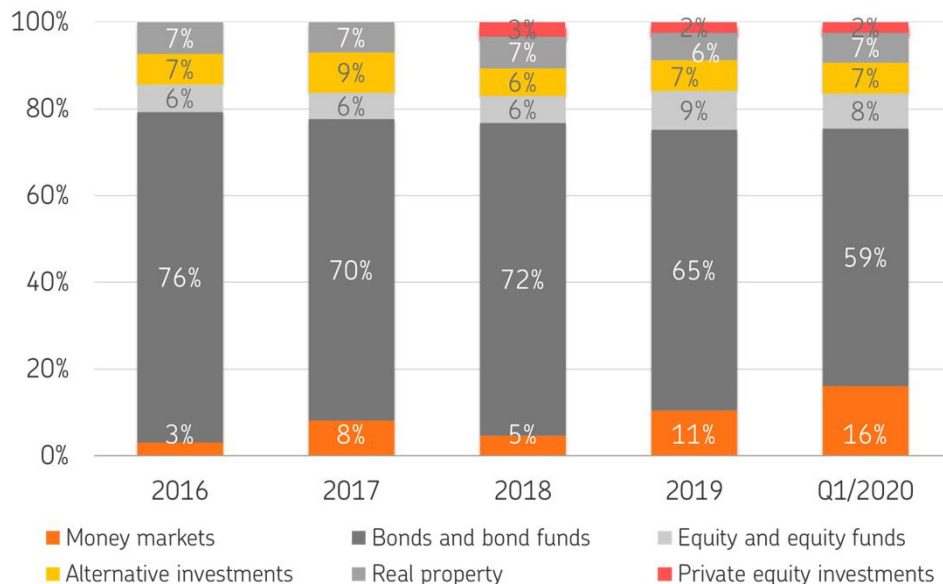


The duration of the fixed-income portfolio was 4.2 (4.0) years.

The running yield for direct bond investments averaged 1.4% (1.5) at end-March 2020.

Life Insurance investment portfolio allocation

Investment portfolio (€3.5 bn) by asset class as of 31st March 2020

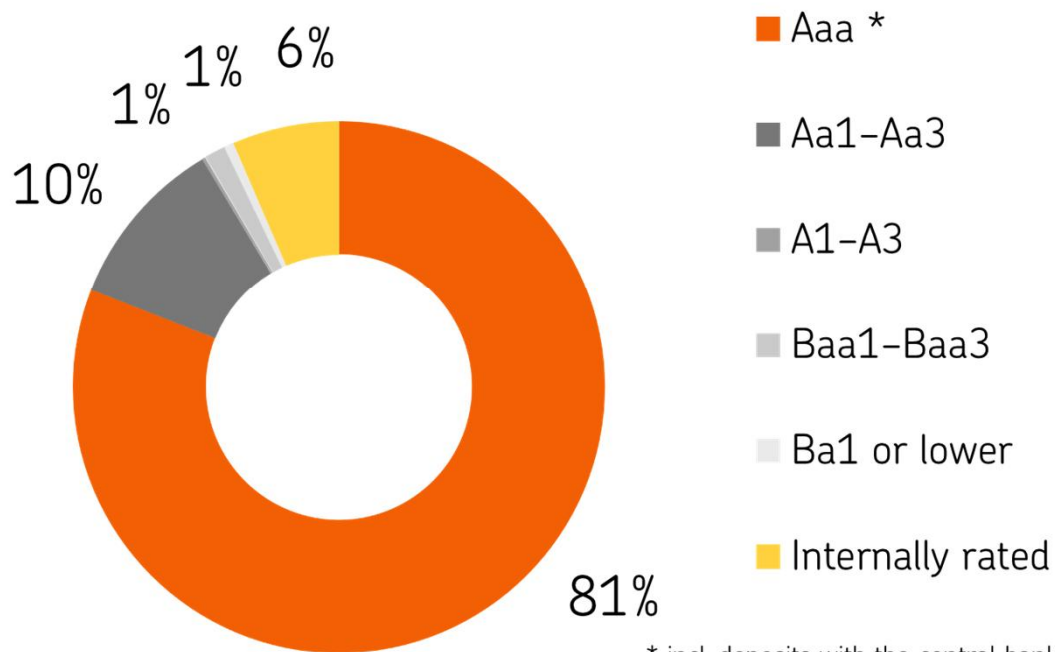


The duration of the fixed-income portfolio was 2.8 (2.9) years.
The running yield for direct bond investments averaged 1.1% (1.4) at end-March 2020.

Liquidity and funding

Liquidity buffer includes highly-rated assets

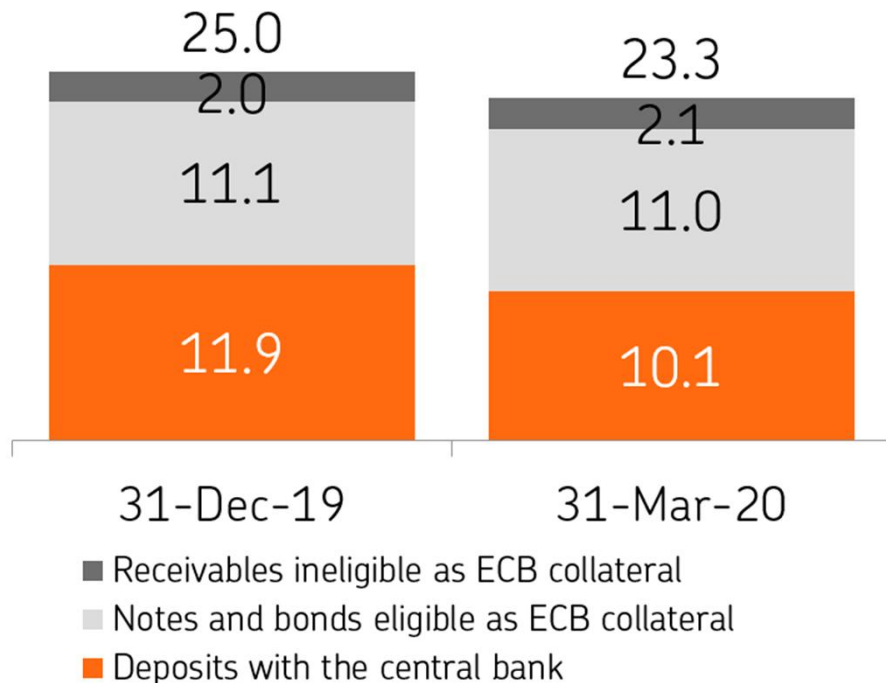
Liquidity buffer by credit rating as at 31 March 2020



* incl. deposits with the central bank

Liquidity buffer €23.3 bn at end-March 2020

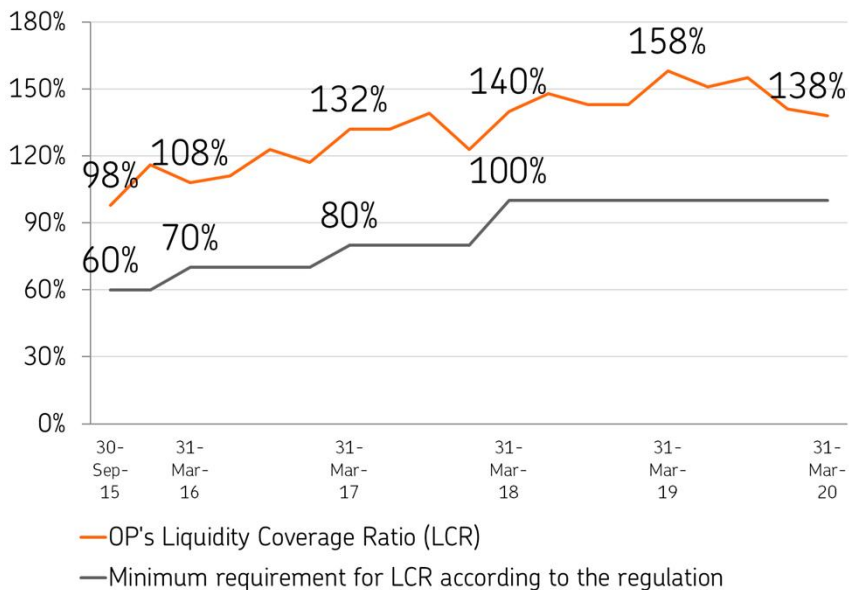
Liquidity buffer breakdown, € bn



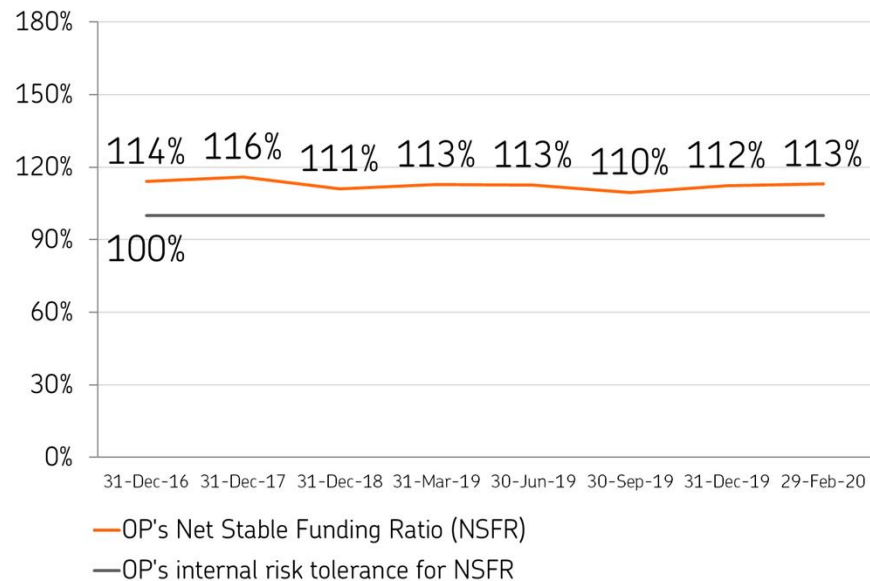
The liquidity buffer is sufficient to cover the need for short-term funding for known and predictable payment flows and in a liquidity stress scenario.

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

LCR vs. minimum requirement

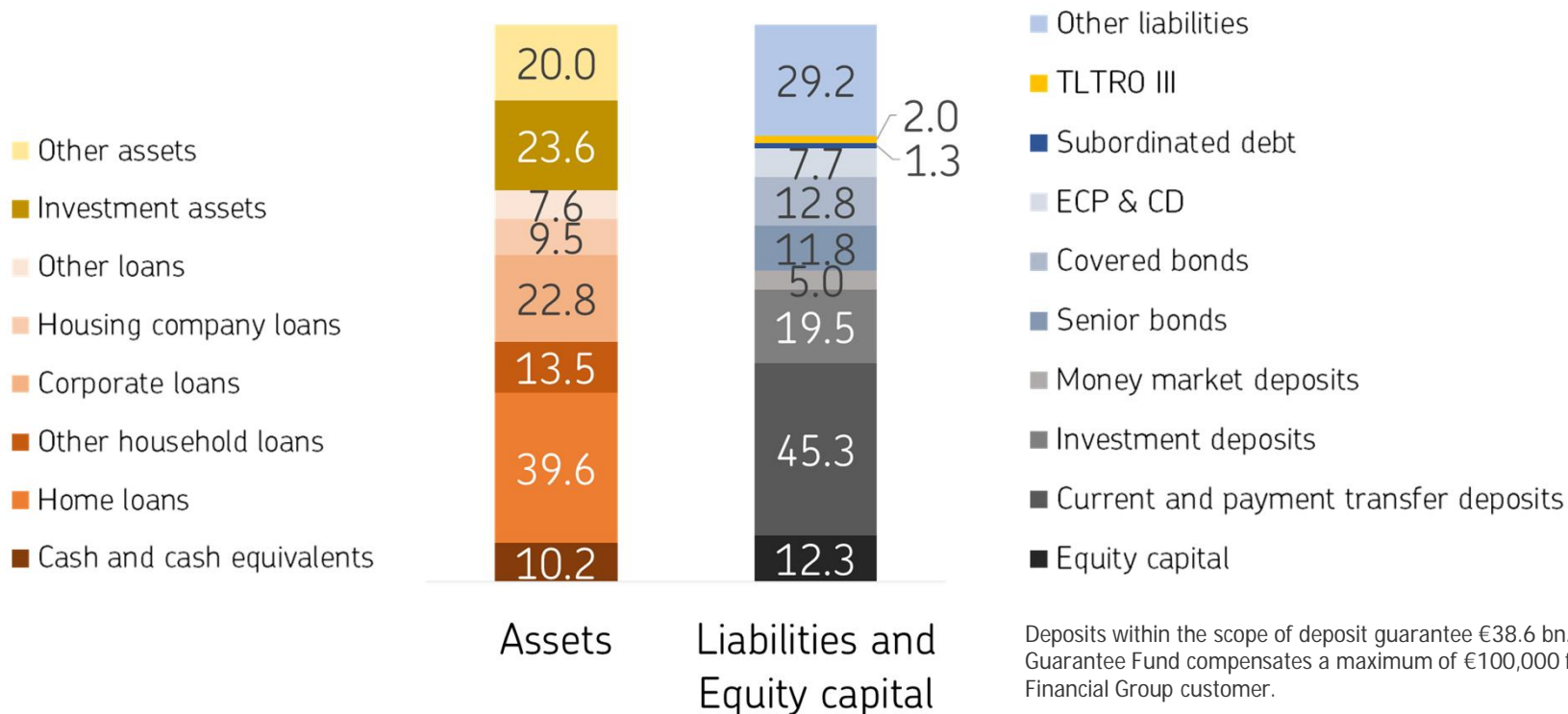


NSFR vs. internal risk tolerance



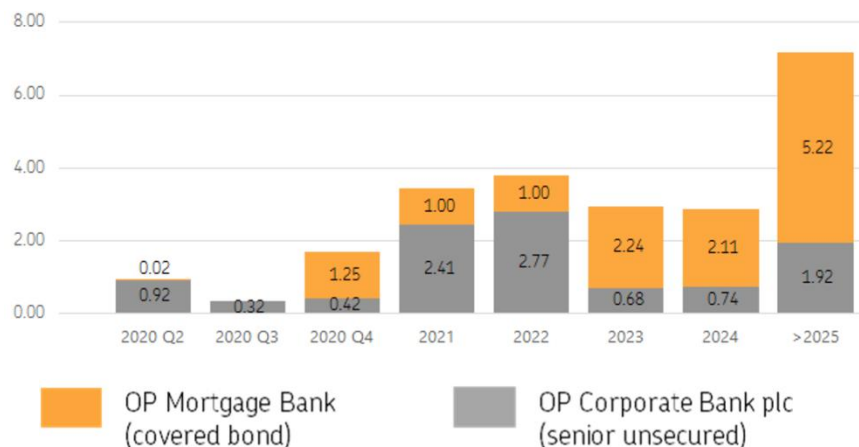
Balance sheet totaled €147 bn at end-Mar 2020

Loans 63%, deposits 44% and market-based funding 26% of the balance sheet

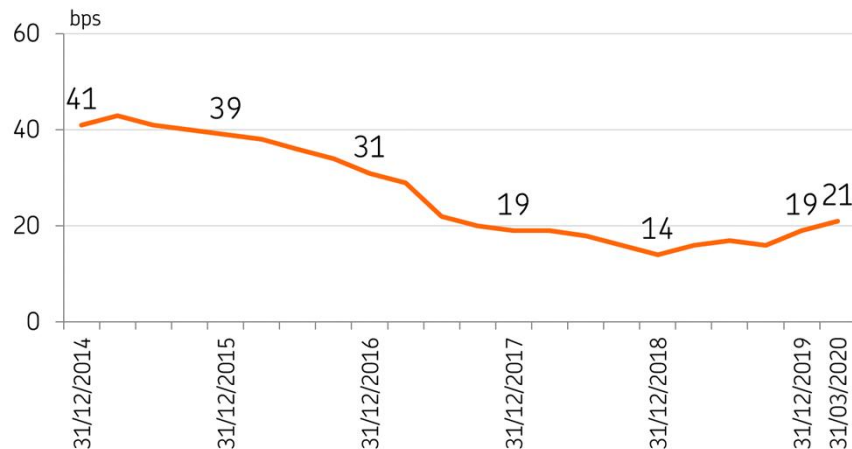


Maturity breakdown and average margin of long-term wholesale funding

Issued senior unsecured and covered bonds by maturity, 31 Mar 2020 (€ bn)



Average margin of senior & SNP wholesale funding, TLTRO 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 YE2017. 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. 43% at YE2019. 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. Senior Non-Preferred instruments (SNP) issued by OP Corporate Bank cover the MREL set for OP Financial Group by the SRB.

Issued long-term bonds €1.6 bn in Q1/20 (1.9)


OP Corporate Bank plc's benchmark senior unsecured bonds 2017–20

Year	Month	Amount	Maturity	Cost
2020	January	€500 mn (SNP)	7 yrs	m/s +65 bps
2019	November	€500 mn (SNP)	10 yrs	m/s +68 bps
2019	June	€500 mn (SNP)	5 yrs	m/s +60 bps
2019	February	€500 mn (Green)	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

In March 2020, OP Corporate Bank took ECB's USD-denominated financing worth \$500 mn with a maturity of less than a year.

OP Mortgage Bank's benchmark covered bonds 2017–20

Year	Month	Amount	Maturity	Cost
2020	April	€300 mn (Private Placement)	8 yrs	Eb3 +45 bps
2020	April	€500 mn (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
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



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

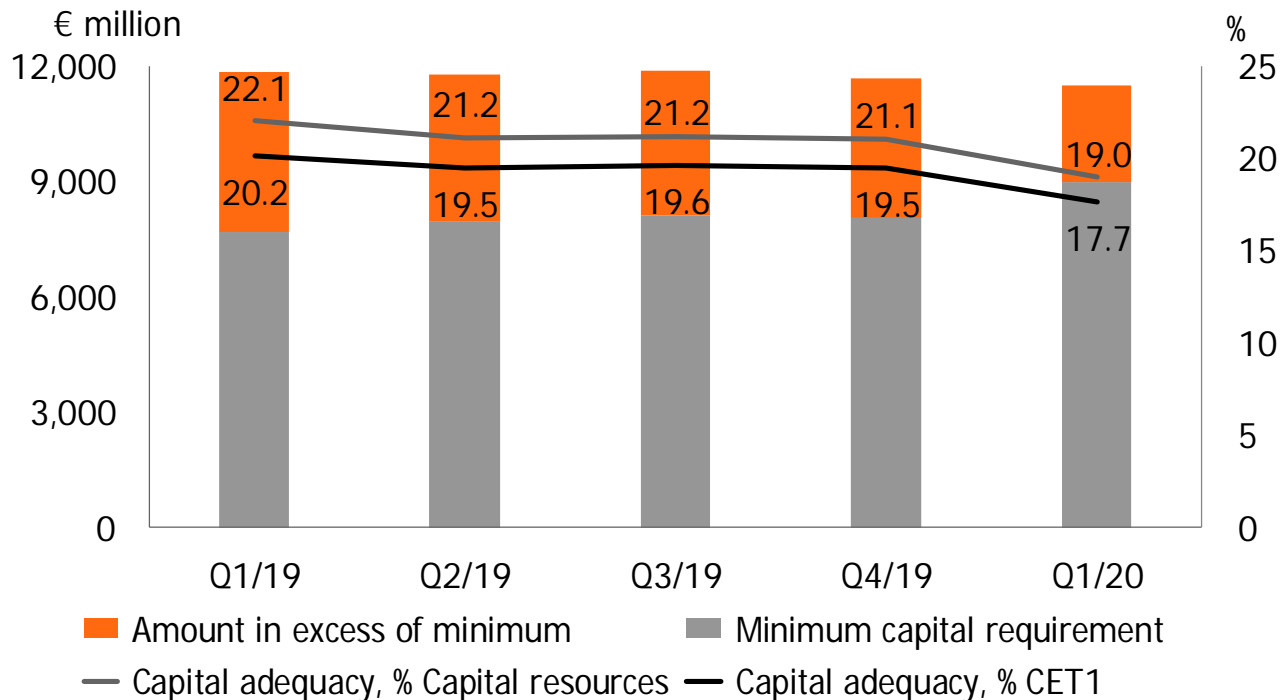
- The operations and solvency requirements for insurance companies are based on the Insurance Companies Act and EU regulation.
- The solvency capital requirement (SCR) is calculated for individual insurance companies and the insurance conglomerate. The companies are required to cover SCR using the Group's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

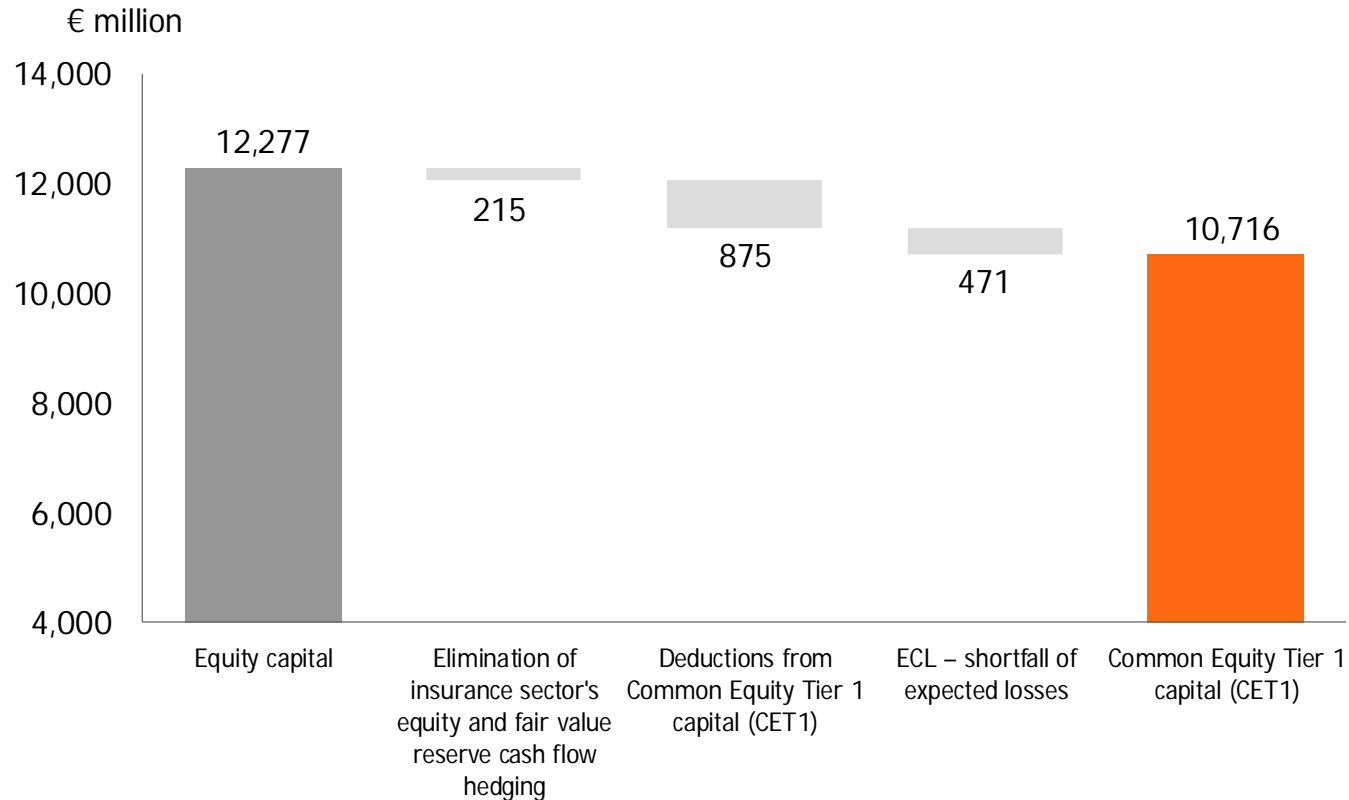
Amalgamation of cooperative banks

Capital base and capital adequacy

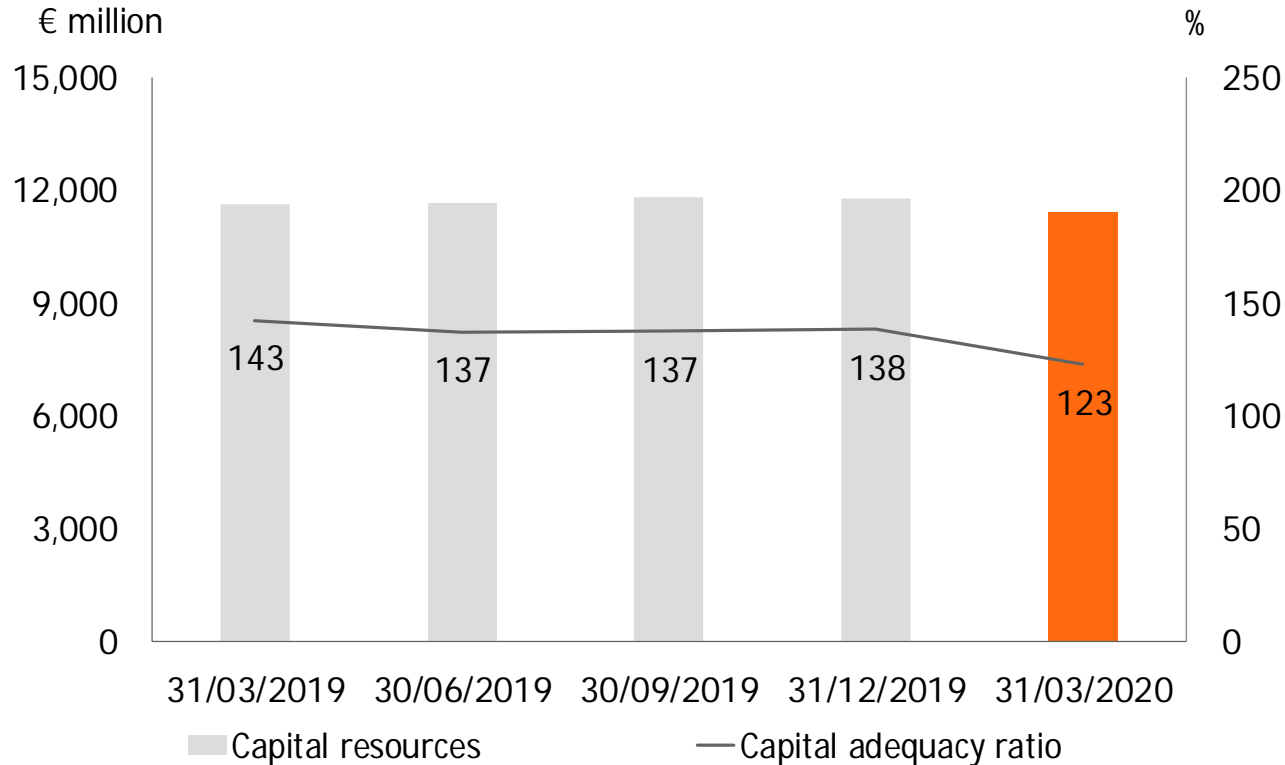


Common Equity Tier 1 (CET1)

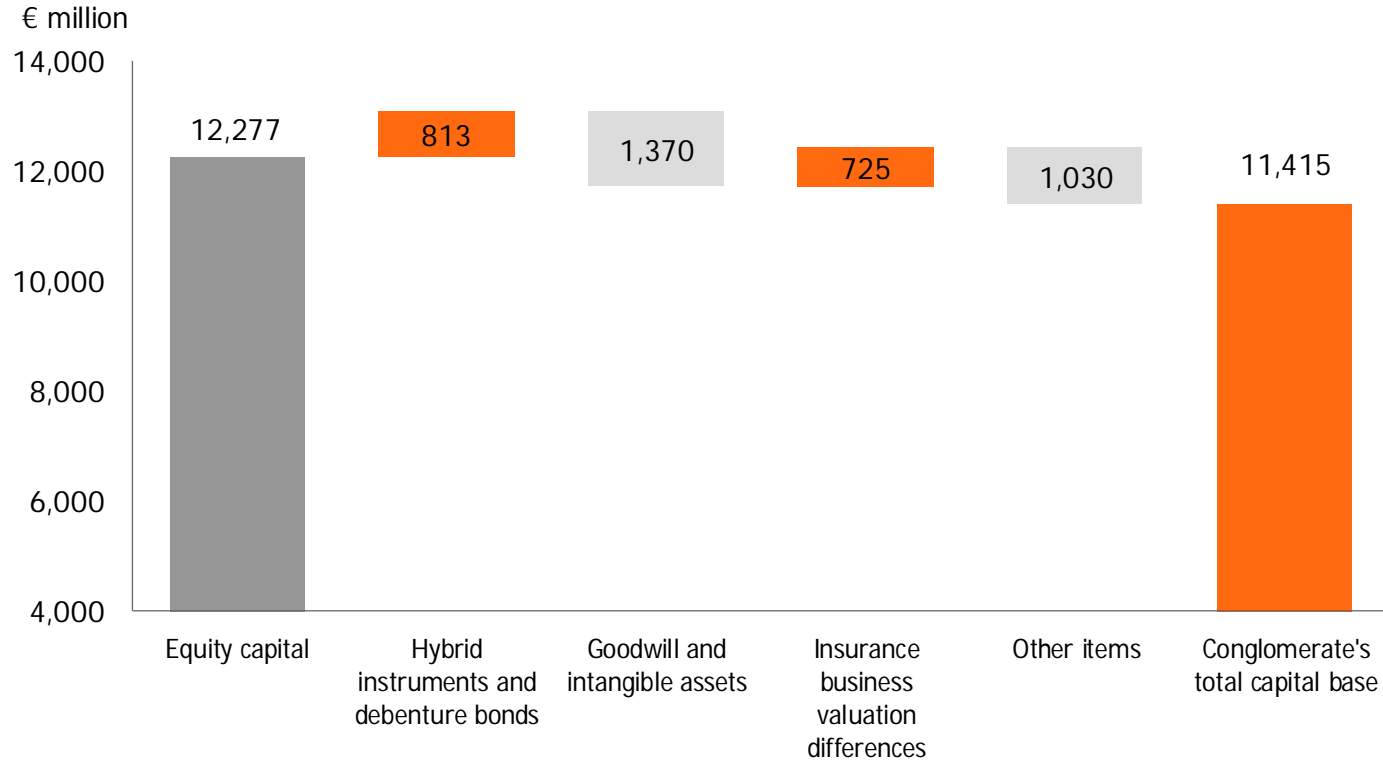
31 March 2020



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



FiCo capital 31 March 2020



OP in a nutshell

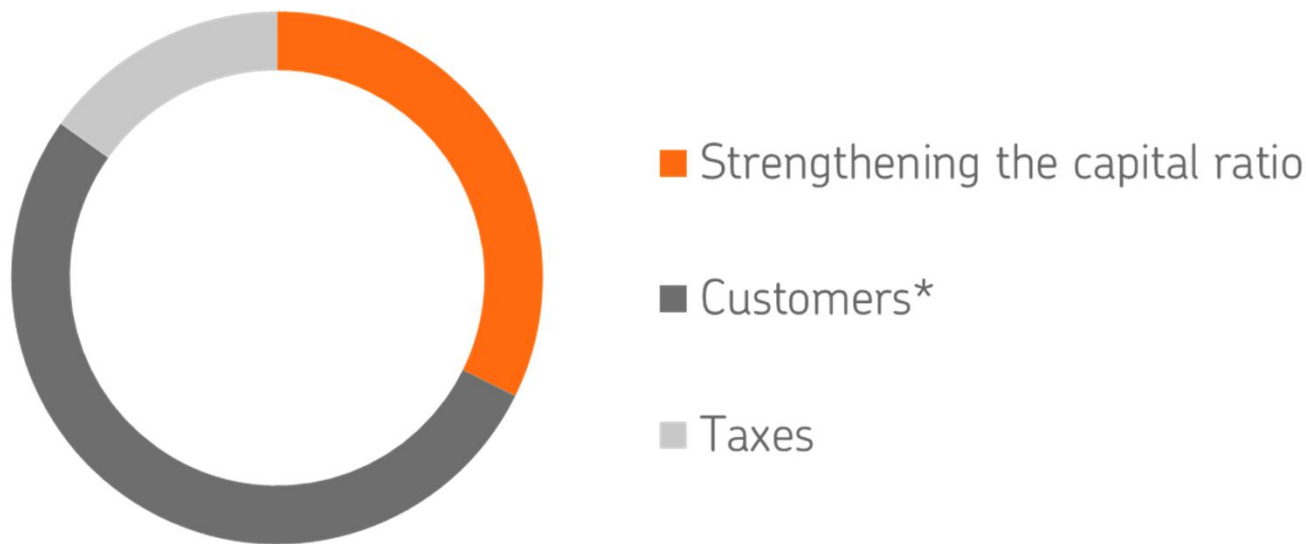


OP is a financial services group owned by its customers

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 the surrounding society



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

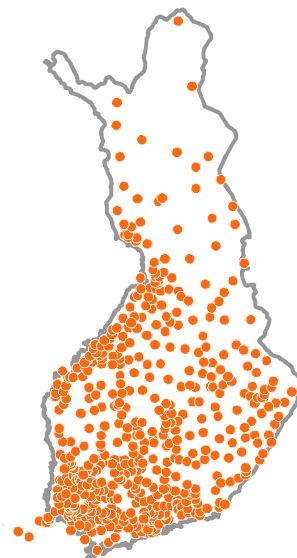
OP Financial Group's strategic long-term targets

	31 March 2020	31 Dec 2019	Target 2025
Return on equity (ROE) excluding OP bonuses, %	4.7	7.1	8.0
CET1 ratio, %	17.7	19.5	At least CET1 ratio requirement + 4 pps
Brand recommendations, NPS (Net Promoter Score, private and corporate customers)	23	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




142 OP cooperative banks

OP Financial Group's service channels

	Q1/2020	31 March 2020	12-month change
Online and mobile services			
Op.fi logins	21 851 400		-17%
OP-mobile logins	95,019,149		43%
OP Business mobile logins	3,568,506		65%
Pivo mobile application visits	11,200,486		5%
eServices Agreements (private customers)		1,947,011	3%
Branches and telephone services			
Bank branches		351	-3%
Providing both non-life insurance and banking services		320	-1%
Private Banking branches		42	0%
Customer contacts in telephone service (Q1-3/2019)	1,290,187		3%
Social media			
Followers on Facebook (OP Financial Group and OP cooperative banks)		379,189	8%
Followers on Twitter		43,843	12%
Followers on LinkedIn		48,938	44%
Followers on Instagram		15,807	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.

A group of people are sitting on a light-colored wooden floor. In the foreground, a person wearing a white cable-knit sweater and dark blue pants is holding a black smartphone. The phone screen shows a dial pad with numbers 1-9, 0, and a search icon. To the left, another person is holding an open book with a black and white photograph on its page. In the background, a person in a yellow long-sleeved shirt and red pants is visible. The scene is brightly lit, suggesting an indoor setting with large windows or skylights.

Let's take care of each
other