



# OP Financial Group's Interim Report for 1 January–31 March 2016

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# OP Financial Group's Interim Report



# OP Financial Group's key figures and ratios

## Good results in challenging circumstances

	Q1/2016	Q1/2015	Change, %
Earnings before tax, EUR million	284	320	-11.3
Banking	151	192	-21.1
Non-life Insurance	59	66	-11.3
Wealth Management	75	93	-19.4
New accrued customer bonuses	50	48	4.3
	31/03/2016	31/03/2015	Change, %
Common Equity Tier 1 (CET1) ratio, %	19.5	16.7	2.8 *
Ratio of capital base to minimum amount of capital base (under the Act on the Supervision of Financial and Insurance Conglomerates) % **	160	138	22 *
Ratio of impairment loss on receivables to loan and guarantee portfolio, %	0.05	0.12	-0.1 *
Joint banking and insurance customers (1,000)	1,668	1,604	4.0

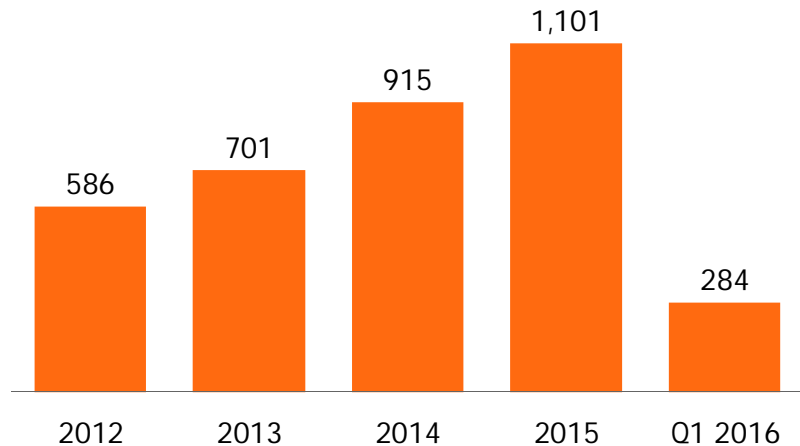
\* Change in ratio

\*\* The FiCo ratio has been calculated under Solvency II transitional provisions and the comparatives have been adjusted

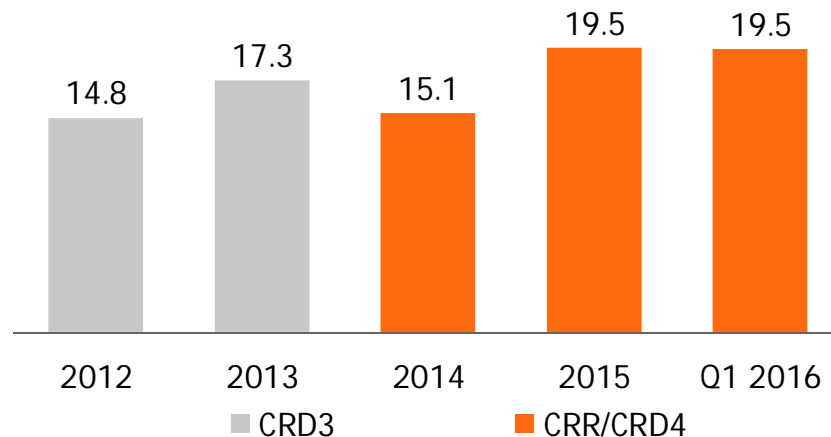
- Overall profitability remained solid. Earnings were mostly reduced by lower investment income and market valuations.
- Total income decreased by 8% and expenses by 6%, year on year.
- Full-year earnings for 2016 are expected to be about the same as in 2015.

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

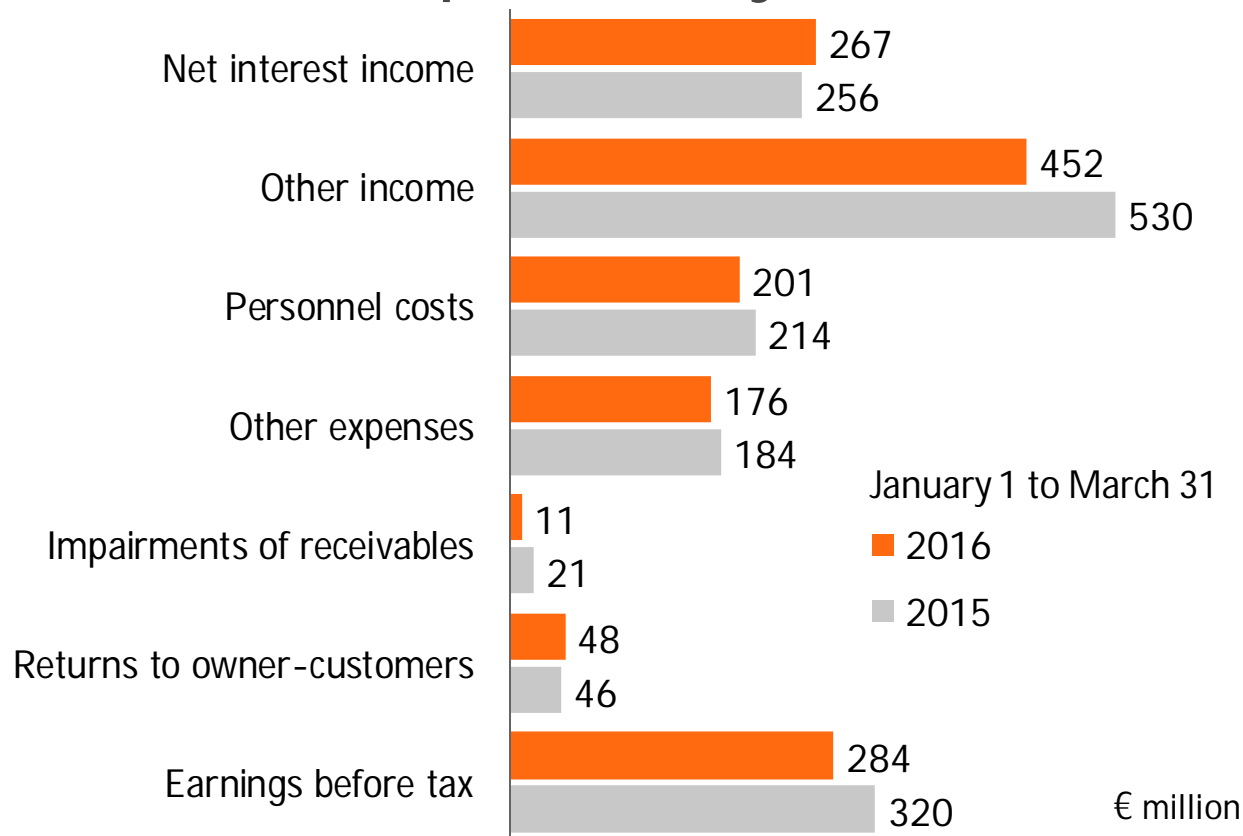
Earnings before tax, € million



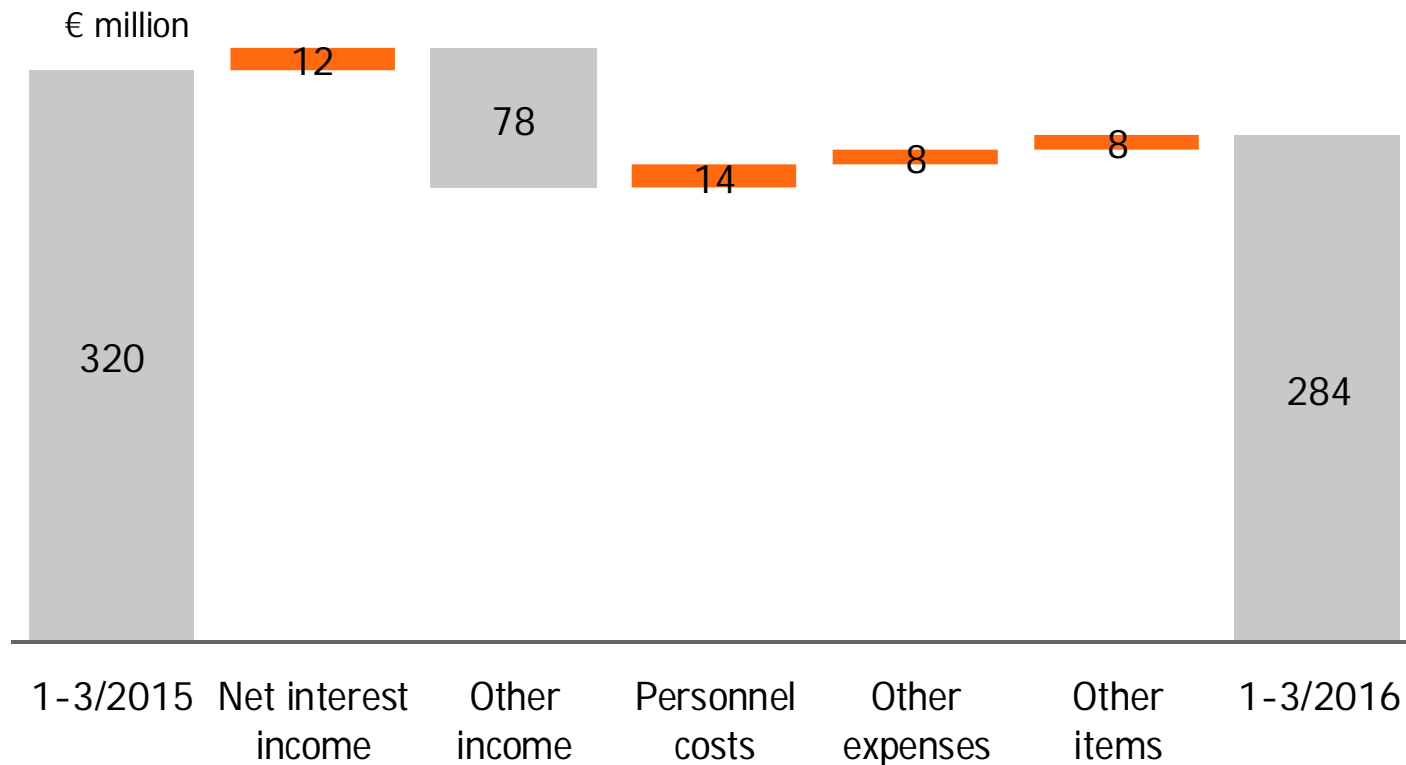
Common Equity Tier 1 ratio (CET1),  
Core tier 1 before transitional provisions, %



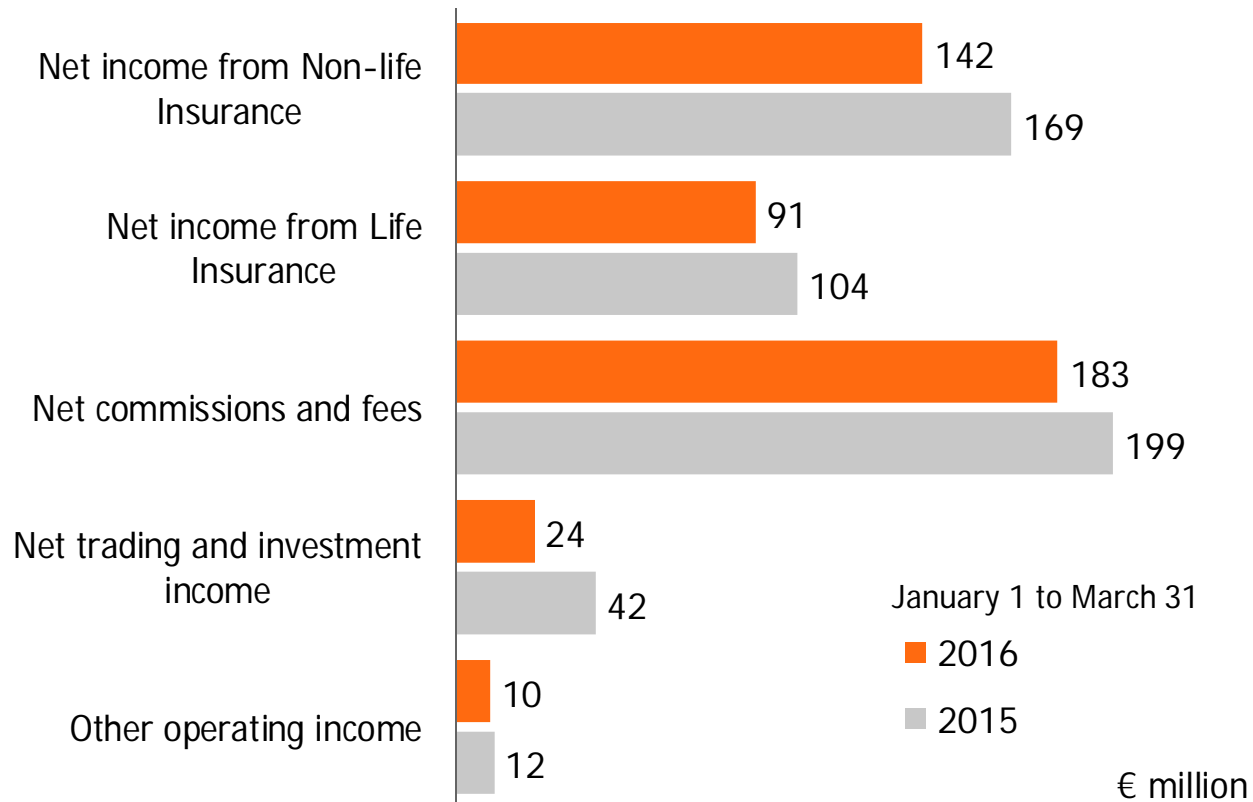
# OP Financial Group's income decreased by 8% and expenses by 6%



# OP Financial Group's earnings were reduced by lower investment income and market valuations

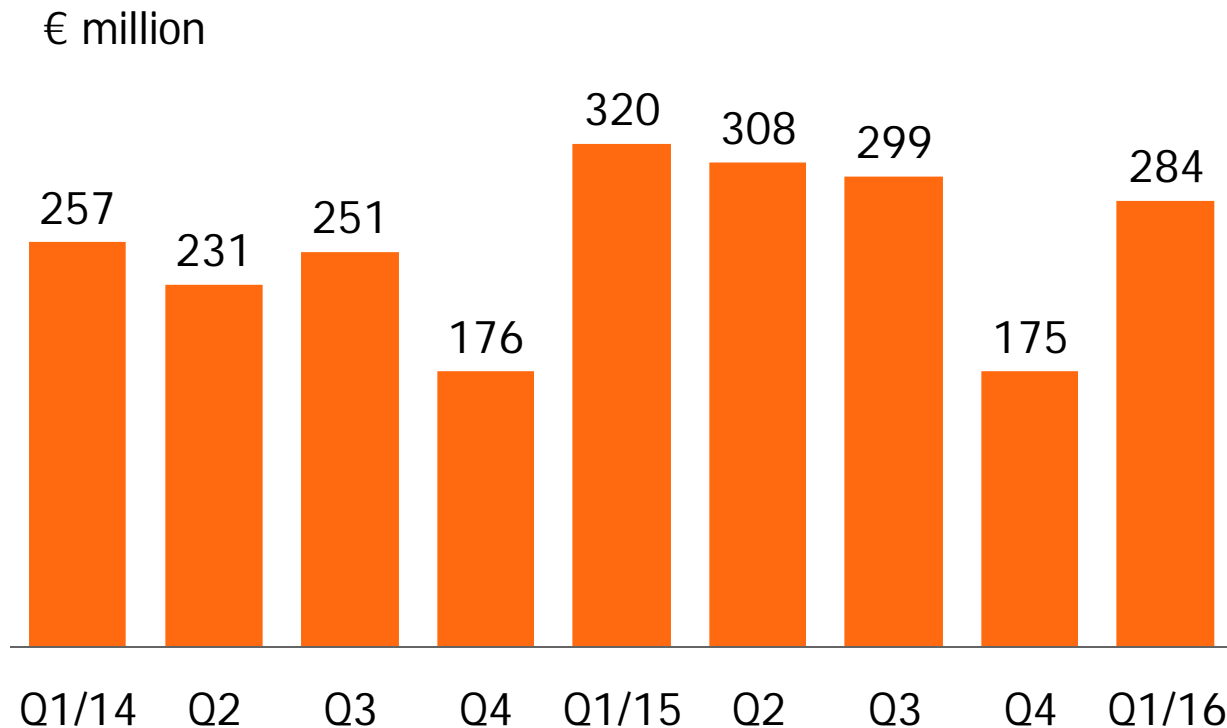


# OP Financial Group's other income was reduced by lower investment income and market valuations

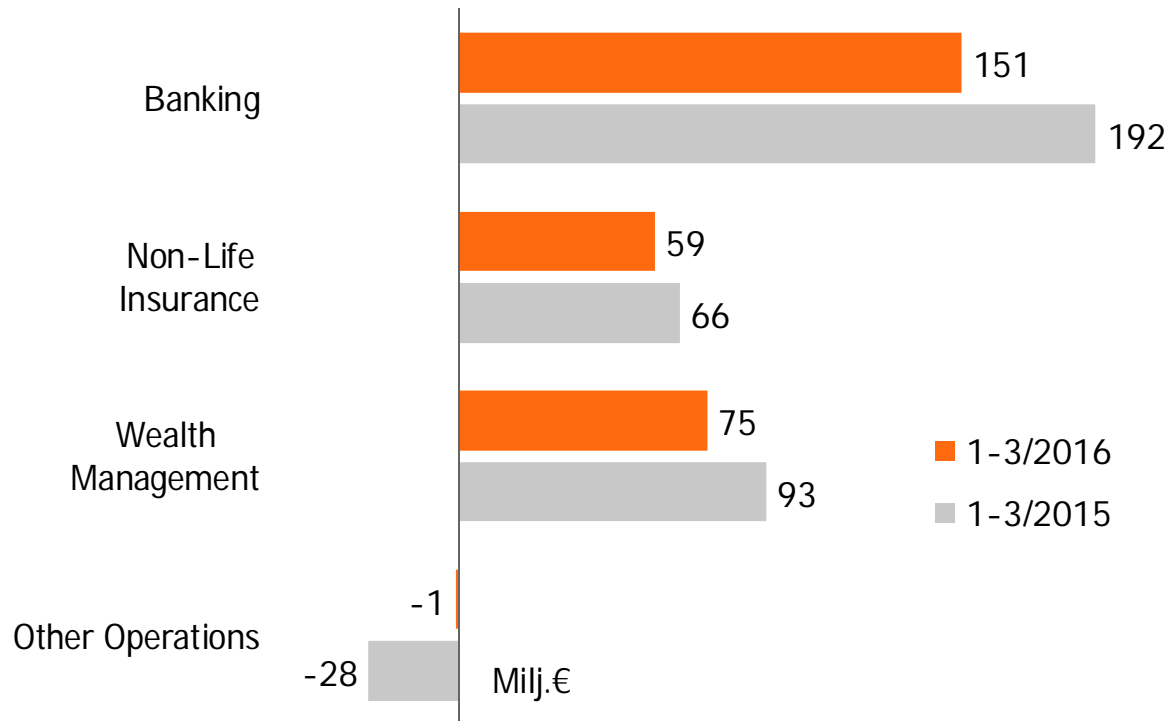




# OP Financial Group's EBT by quarter



# OP Financial Group's EBT by business segment



# OP Financial Group's income statement

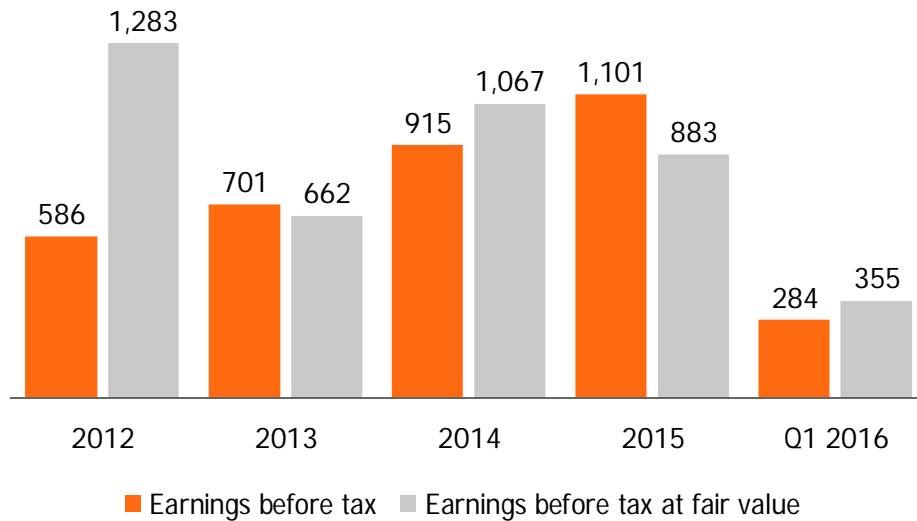
January 1 to March 31	2016	2015	Change, €million	%
Net interest income	267	256	12	4.6 %
Net income from non-life insurance	142	169	-27	-16.0 %
Net income from life insurance	91	104	-13	-12.2 %
Net commissions and fees	183	199	-17	-8.3 %
Net trading income	15	24	-9	-36.6 %
Net investment income	9	19	-10	-53.3 %
Other income	12	15	-3	-19.4 %
<b>Total income</b>	<b>719</b>	<b>785</b>	<b>-66</b>	<b>-8.4 %</b>
Personnel costs	201	214	-14	-6.4 %
Other expenses	176	184	-8	-4.5 %
<b>Total expenses</b>	<b>377</b>	<b>399</b>	<b>-22</b>	<b>-5.5 %</b>
Other	59	67	-8	-12.0 %
<b>Earnings before tax</b>	<b>284</b>	<b>320</b>	<b>-36</b>	<b>-11.3 %</b>
Gross change in fair value reserve	72	159	-87	
<b>Earnings before tax at fair value</b>	<b>355</b>	<b>479</b>	<b>-124</b>	<b>-25.8 %</b>

# OP Financial Group's quarterly performance

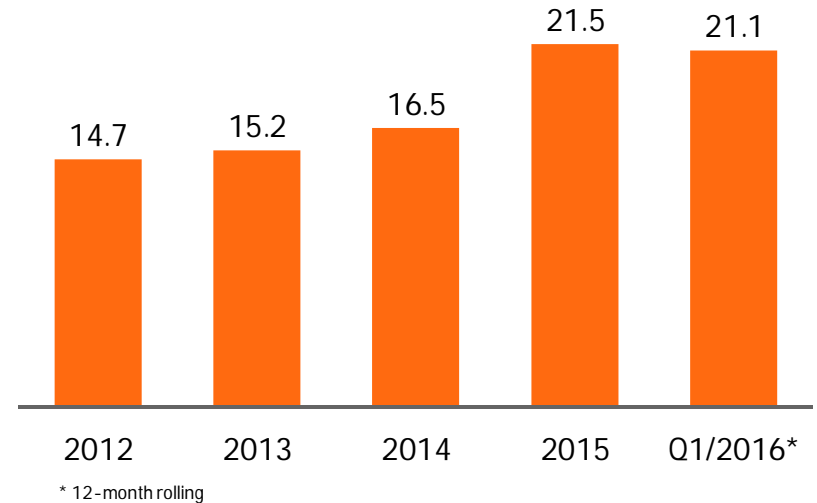
€ million	Q1	Q2	Q3	Q4/2015	Q1/2016
Net interest income	256	256	256	259	267
Net income from non-life insurance	169	174	154	142	142
Net income from life insurance	104	45	61	68	91
Net commissions and fees	199	175	169	161	183
Net income from trading and investments	42	87	40	24	24
Other income	15	14	10	15	12
<b>Total income</b>	<b>785</b>	<b>749</b>	<b>690</b>	<b>669</b>	<b>719</b>
Personnel costs	214	187	172	208	201
Other expenses	184	188	159	207	176
<b>Total expenses</b>	<b>399</b>	<b>375</b>	<b>331</b>	<b>415</b>	<b>377</b>
Impairments of receivables	21	15	10	31	11
Returns to owner-customers and OP bonus customers	46	51	50	48	48
<b>Earnings before tax</b>	<b>320</b>	<b>308</b>	<b>299</b>	<b>175</b>	<b>284</b>

# Long-term 20% return target achieved

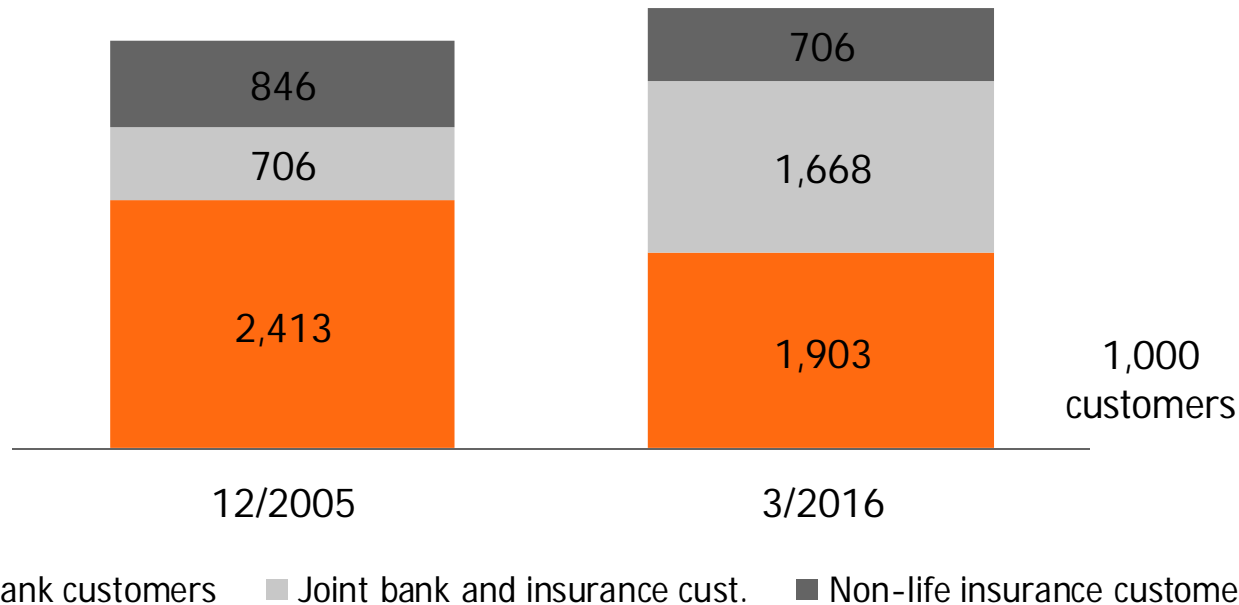
Earnings before tax, € million



Return on economic capital, %

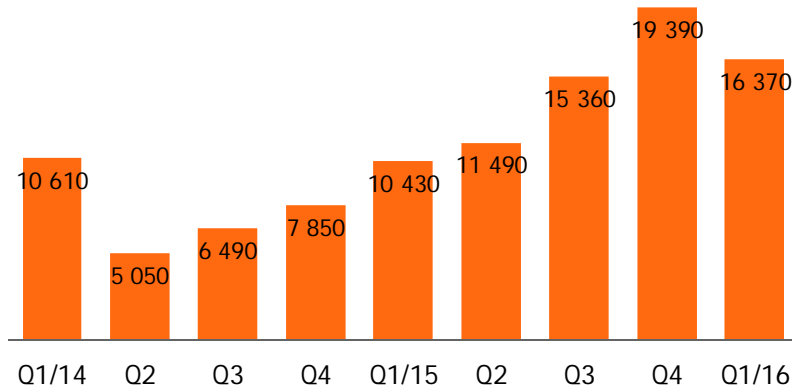


The number of customers using OP as their main bank and insurer has increased by 136% since 2005

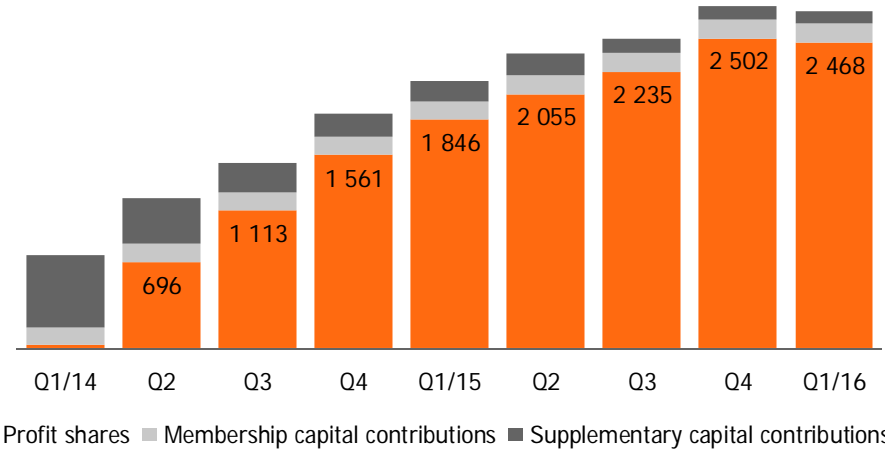


# Steady growth in the number of owner-customers

Net Increase in owner-customers\*



Profit shares, membership and supplementary capital contributions, € million



■ Profit shares ■ Membership capital contributions ■ Supplementary capital contributions

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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. Banking is divided into the Private Customers, Corporate Customers, Markets and Baltics.

1. For private customers, OP's Banking services and products for include daily banking, loans, savings and investments, and housing-related services.
2. With respect to corporate customers, OP provides services to SMEs, major corporations, and organisations and associations. We provide our customers with a wide range of services for financing, payment transactions and cash management, investment, risk management and the development of business. We always tailor our solutions to the needs of our corporate customers.

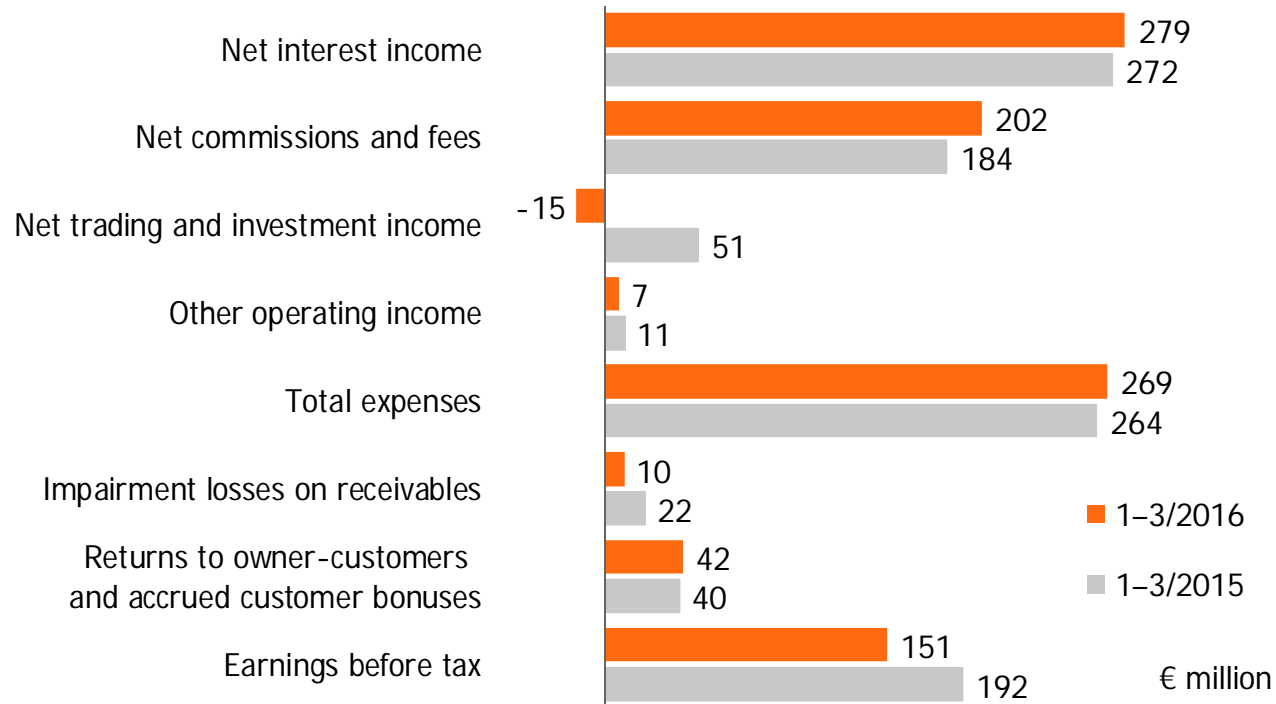
## Key figures Q1/2016

EBT  
EUR **151** million

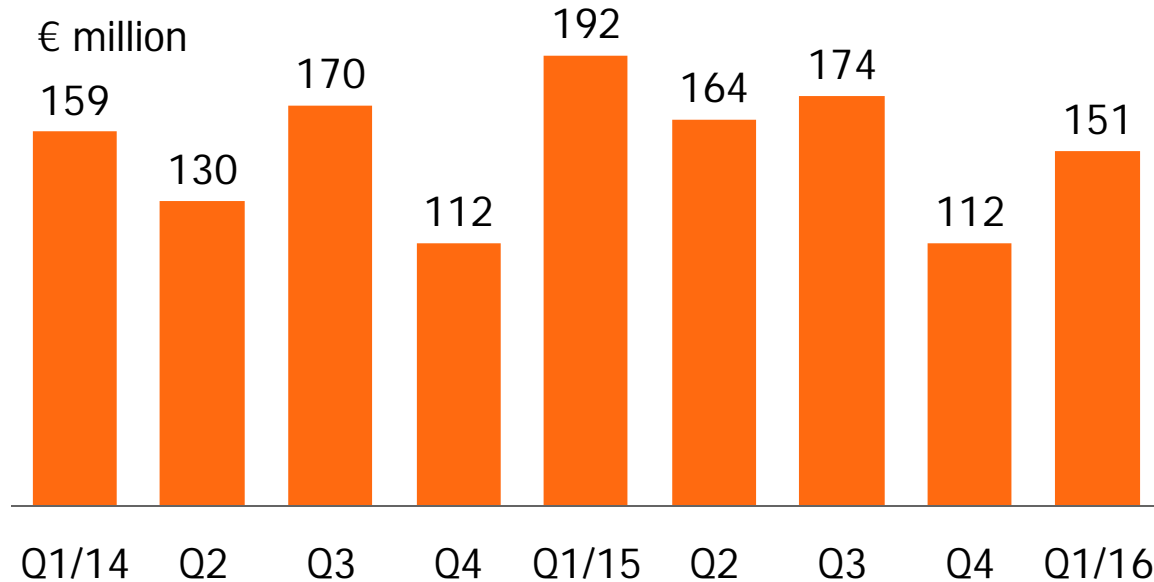
Loan portfolio  
EUR **75.8** billion

Total deposits  
EUR **53.6** billion

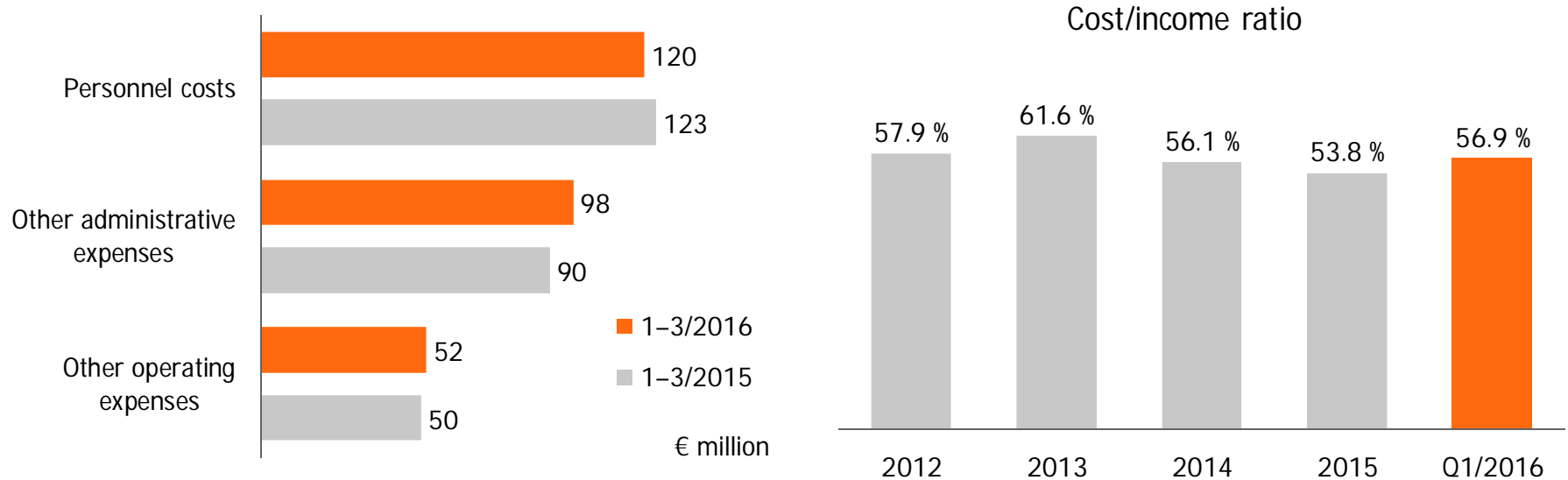
# Banking income statement



# Banking EBT by quarter

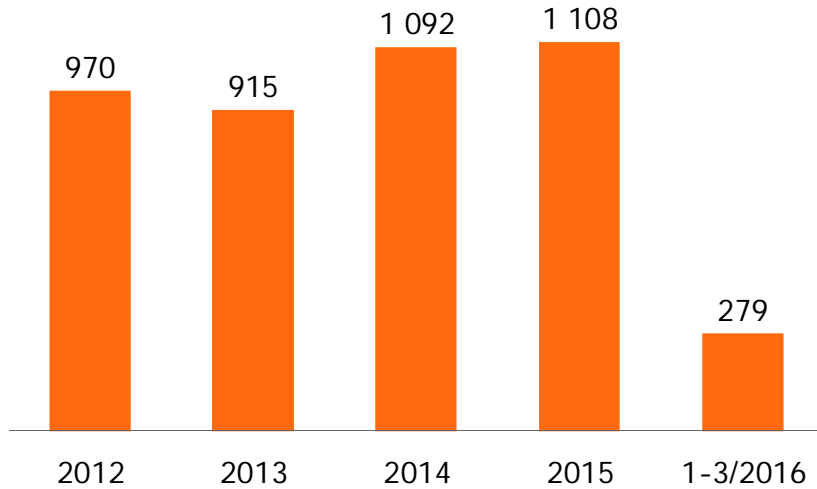


# Higher expenses were explained by investments in development and growth in volumes

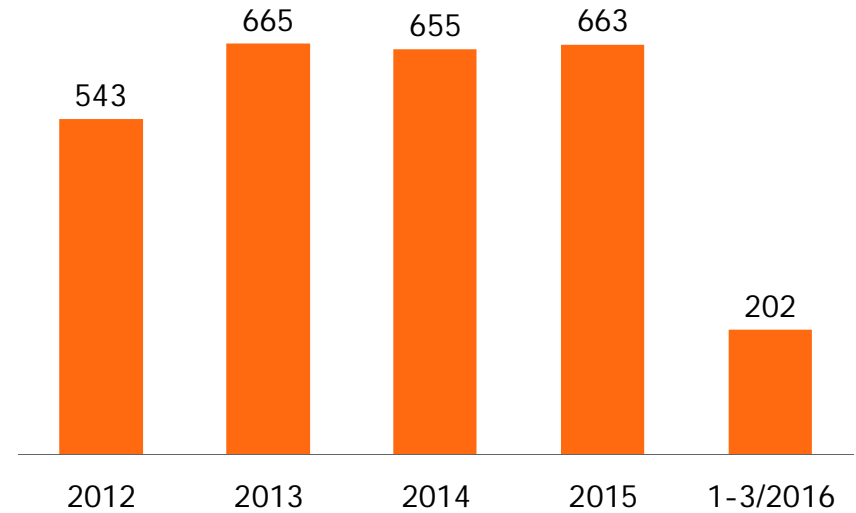


# Banking income performance

Net interest income, € million

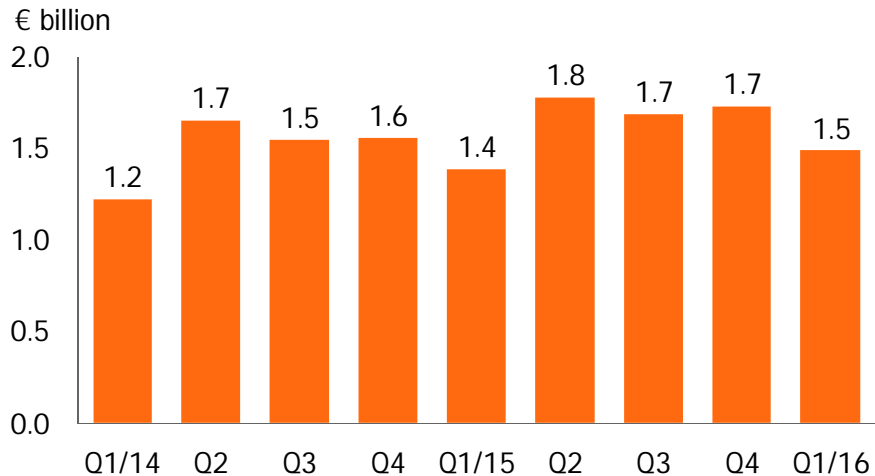


Net commissions and fees, € million

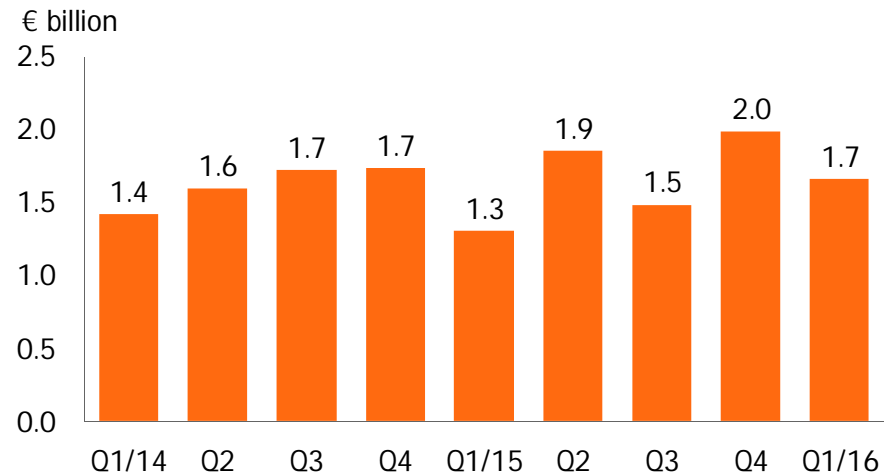


# Our customers draw down new loans at a steady pace

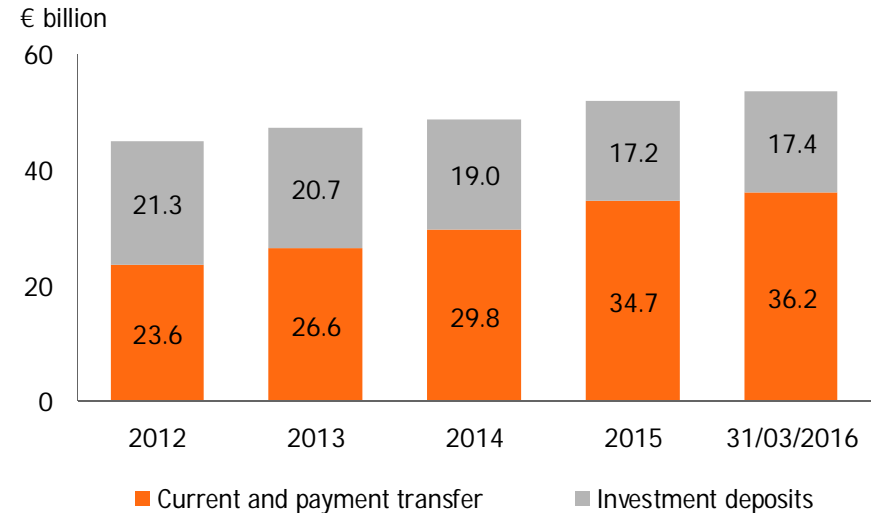
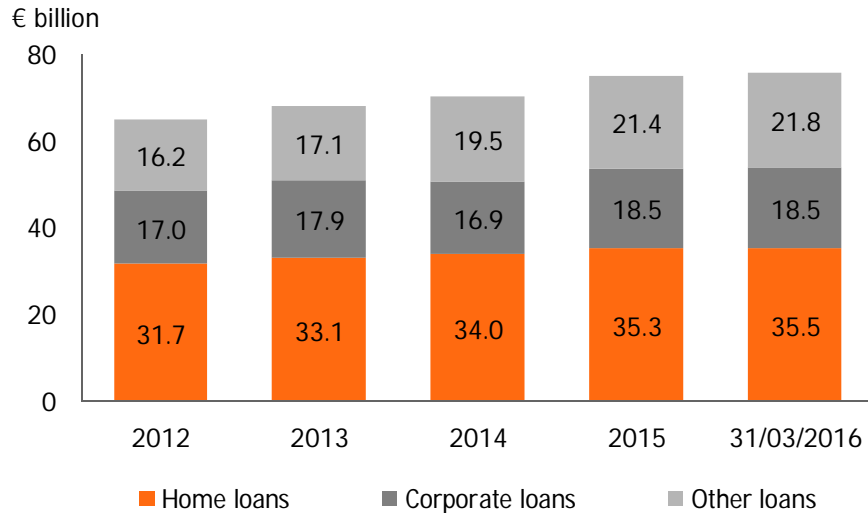
## Home loans drawn down



## Corporate loans drawn down



# Loan and deposit portfolio continued to grow

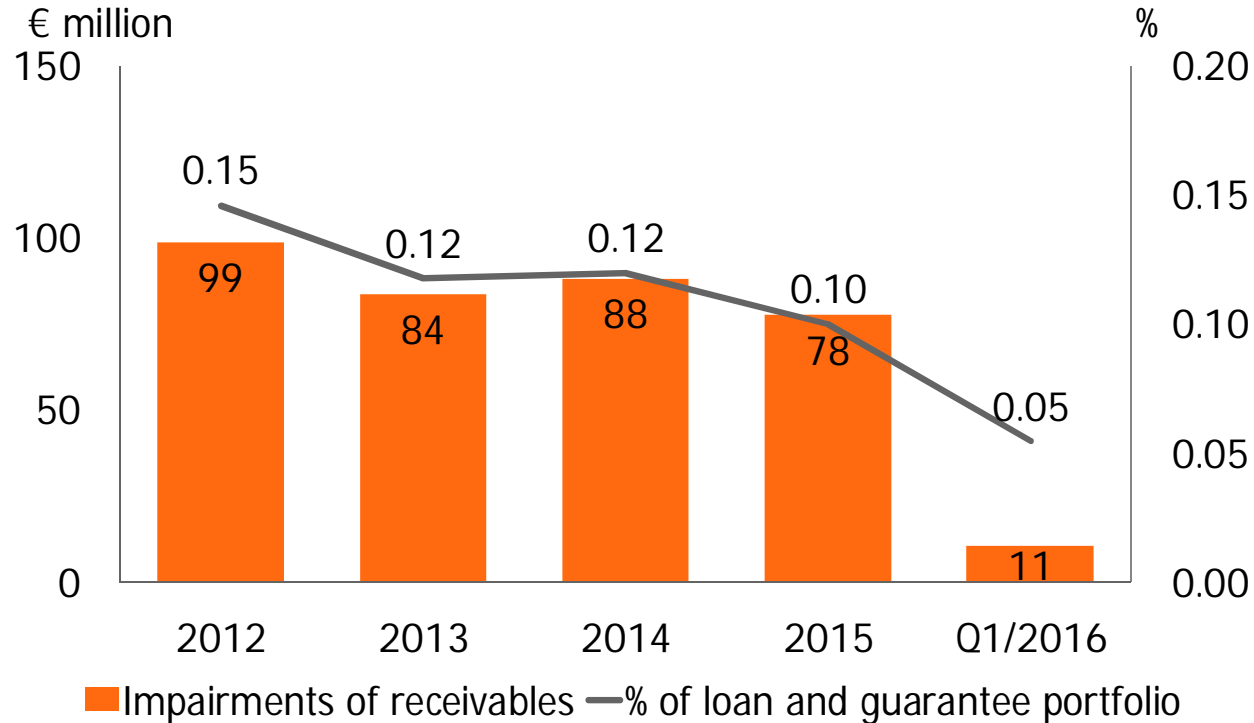


# OP Financial Group's loan and guarantee portfolio

€ million	31 March 2016	31 March 2015	Change	
			€ million	%
Enterprises and housing associations	28,846	26,596	2,250	8.5
Renting and operating of residential real estate	6,210	5,849	361	6.2
Renting and operating of other real estate	4,099	3,515	584	16.6
Wholesale and retail trade	3,024	2,858	166	5.8
Energy	2,048	1,884	165	8.8
Services	1,886	1,942	-56	-2.9
Construction	1,848	1,904	-56	-3.0
Transportation and storage	1,480	1,409	71	5.0
Manufacture of machinery and equipment (incl. services)	1,417	1,410	6	0.5
Financial and insurance services	1,148	644	504	78.3
Agriculture, forestry and fishing	1,053	961	92	9.6
Forest Industry	836	824	12	1.5
Metal Industry	666	509	157	30.8
Food Industry	645	645	1	0.1
Real estate investments	565	589	-24	-4.2
Chemical Industry	411	334	77	23.0
Other manufacturing	184	174	11	6.2
Other industries	1,324	1,143	181	15.8
Public corporations and non-profit organisations	1,381	1,355	26	1.9
Households	47,177	45,560	1,617	3.5
Adjustments	890	662	229	0.0
<b>Total</b>	<b>78,295</b>	<b>74,172</b>	<b>4,123</b>	<b>5.6</b>



# Impairments of receivables at low level



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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, Baltics and Health and Wellbeing.

1. 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.
2. Extensive and diversified risk management services form the key corporate customer services.
3. The strengths of our claims settlement service lie in its promptness and efficiency. OP's extensive partner network enables efficient claims settlement services.
4. OP will develop health and wellbeing services into a major new business alongside its traditional business areas.

## Key figures Q1/2016

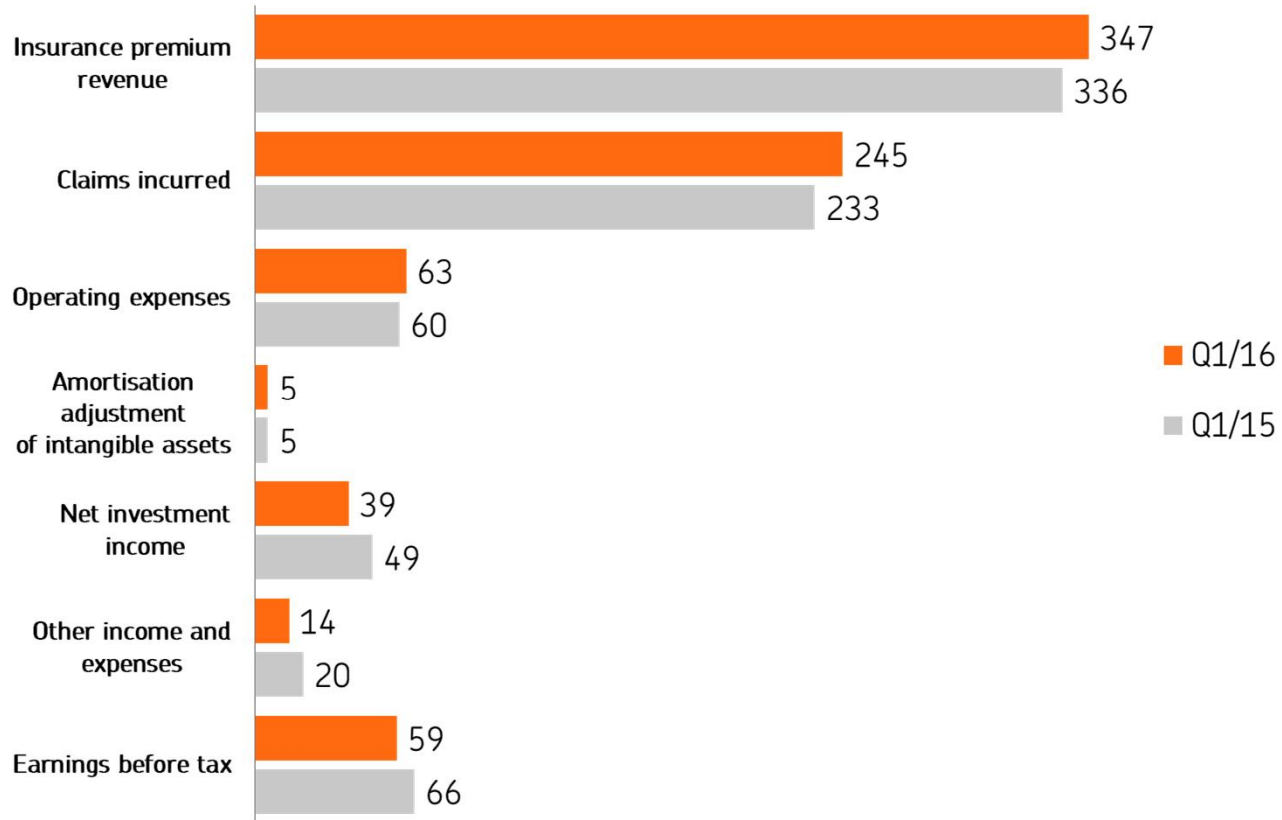
EBT

EUR **59** million

Insurance premium  
revenue

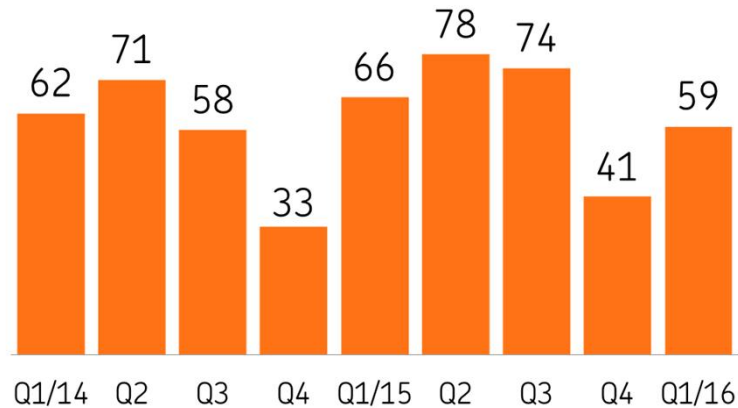
EUR **347** million

# Non-life Insurance EBT

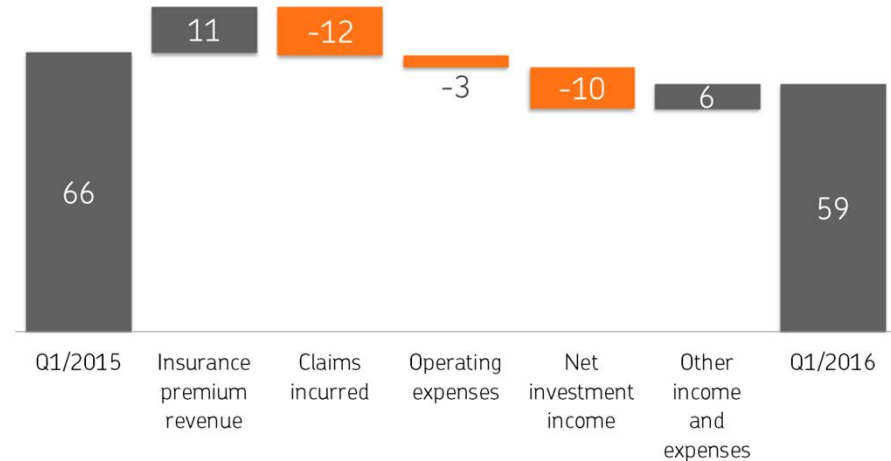


# EBT € 59 mn (66). Lower investment income reduced EBT

Earnings before tax by quarter, € mn

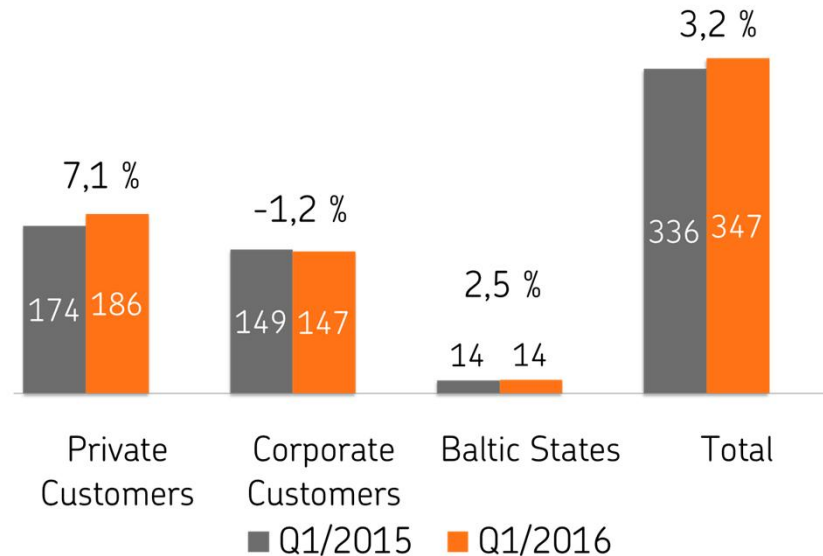


Earnings before tax, € mn  
change Q1/2016 vs. Q1/2015



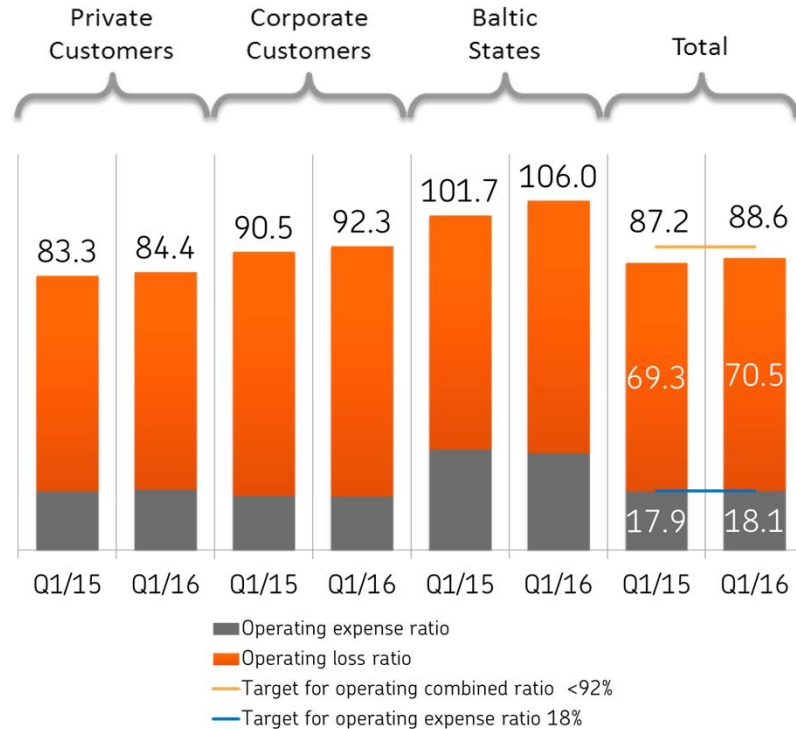
Insurance premium revenue from private customers continued to increase. The economic situation is reflected in revenue from corporate customers.

Insurance premium revenue, € mn and change by division Q1/16 vs. Q1/15



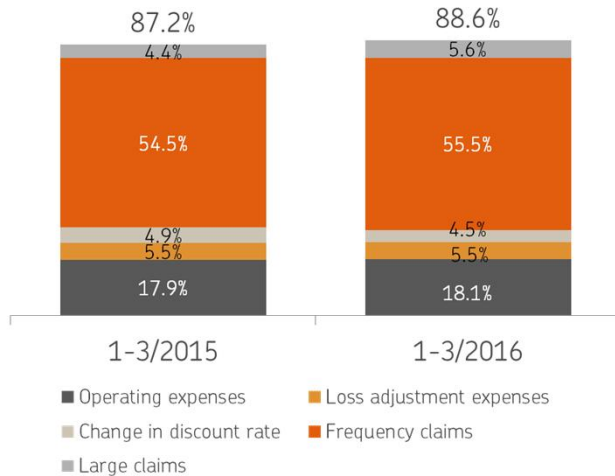
# Balance on technical account

Operating combined ratio by division Q1/16 vs. Q1/15, %

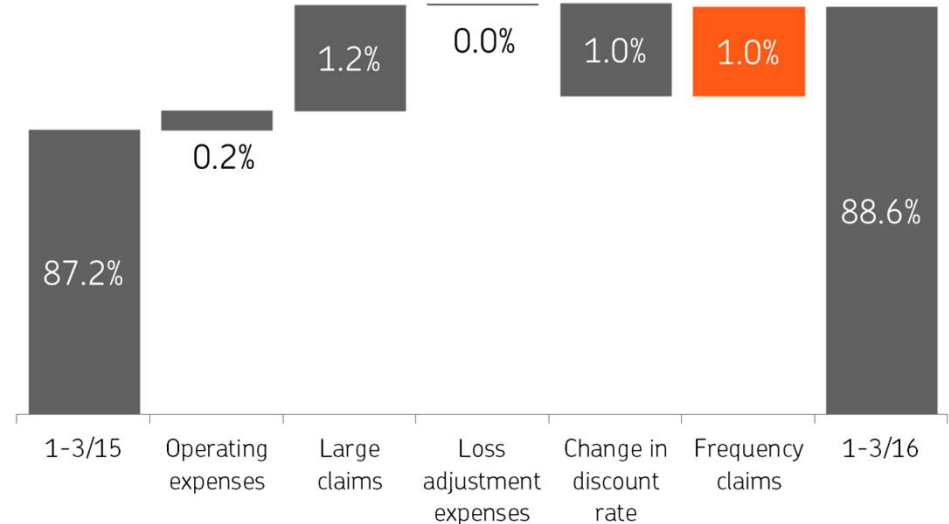


# Higher claims incurred reduced profitability

Operating combined ratio  
by component, %



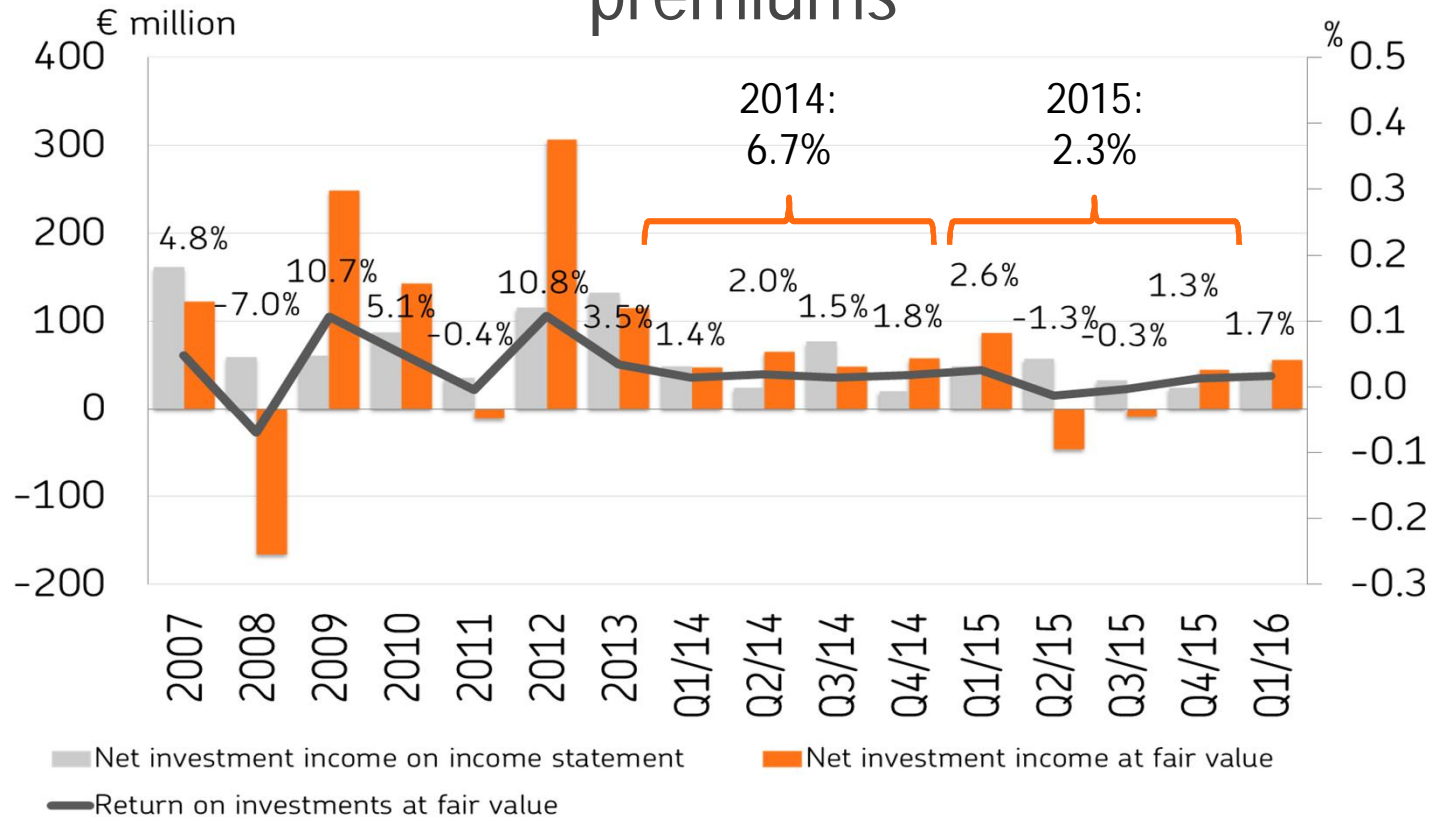
Change in operating combined ratio, %



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 €20 million (18) in March 2016.

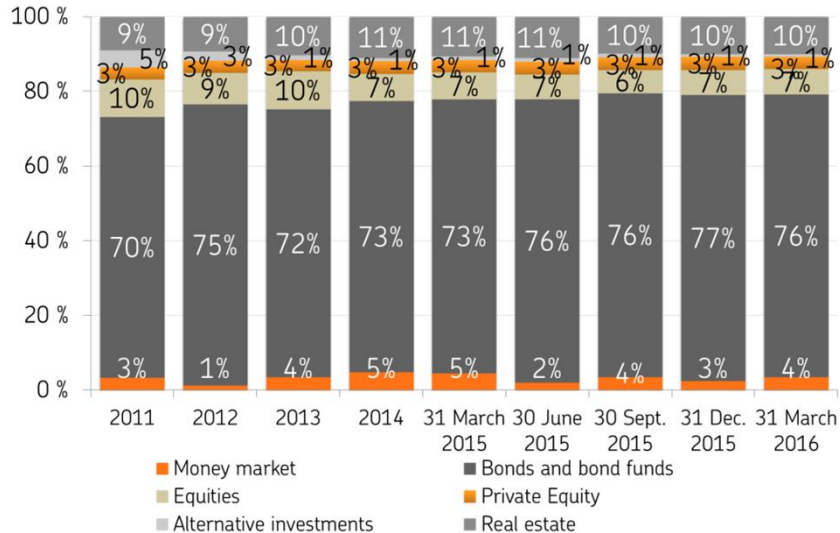


# Net investment income positive in Q1/16 due to lower interest rates and corporate loan risk premiums

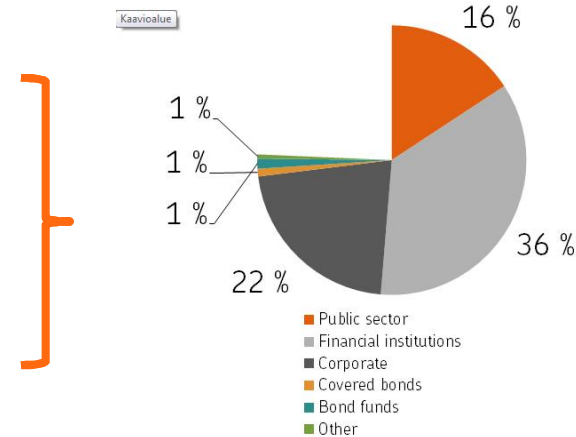


# Investment portfolio allocation unchanged

Investment portfolio (€3.8 bn) by asset class as of 31 March 2016



Bonds and bond funds (76%)



The average residual term to maturity of the fixed-income portfolio was 5.9 years (5.7) and the duration 5.5 years (4.8).

The running yield for direct bond investments averaged 1.3% (1.76) at end-March 2016.

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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.

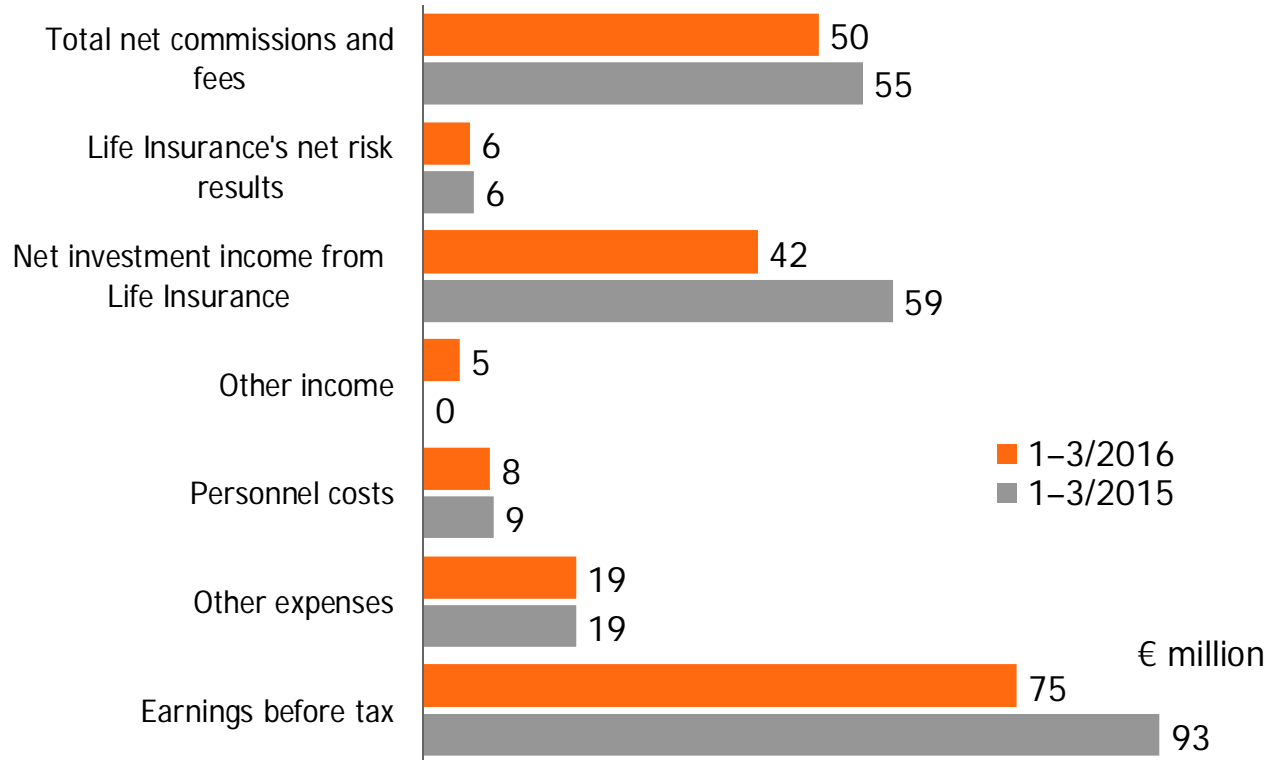
1. For private customers, we provide an extensive range of savings and investment solutions. The mutual funds in our range invest in various asset classes and market areas, and are managed partly by OP's own investment organisation and partly by our international partners.
2. The range of services for corporate customers consists of various investment solutions for not only cash management but also longer-term investment.
3. OP boasts Finland's most extensive Private Banking network. The OP Private service models include discretionary investment management and advisory investment management.
4. We provide our institutional clients with a full range of asset management services from investment decisions to modern risk reporting and portfolio analysis.
5. In addition, OP provides both private and corporate/institutional clients with an extensive range of securities brokerage, custody and analysis services.

## Key figures Q1/2016

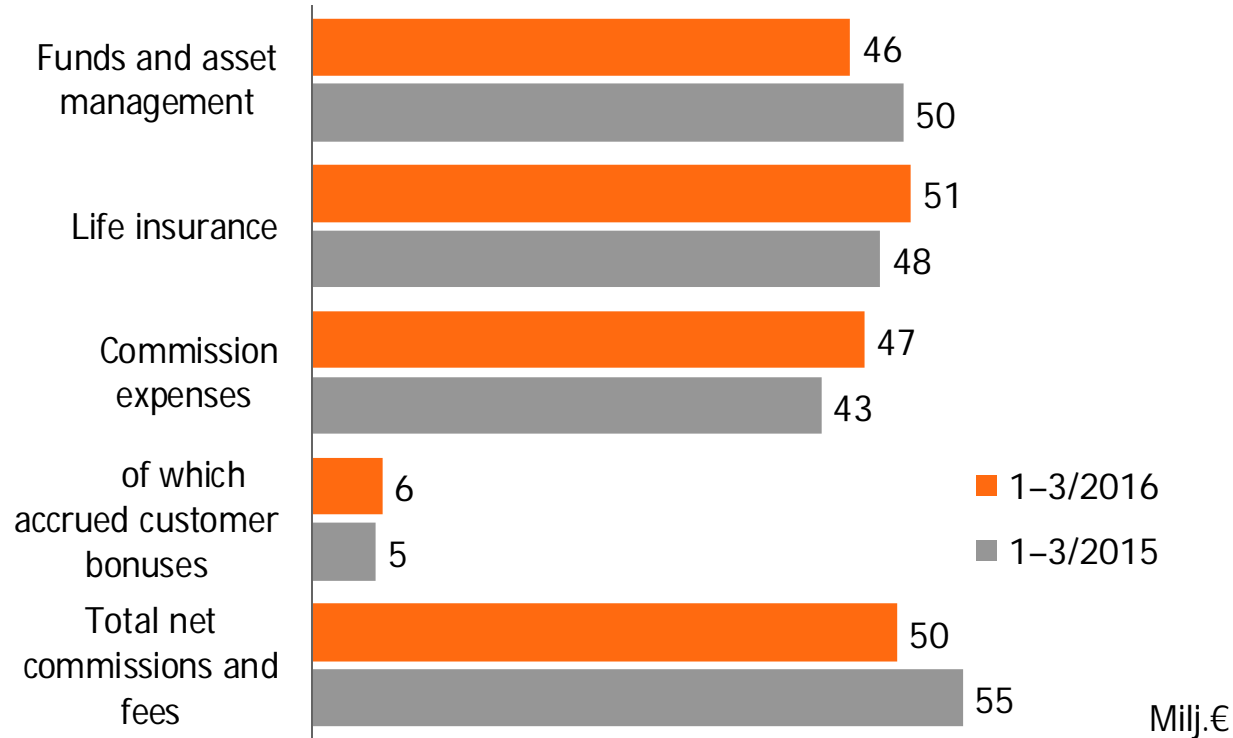
EBT  
EUR **75** million

Assets under  
management  
EUR **67.2** billion

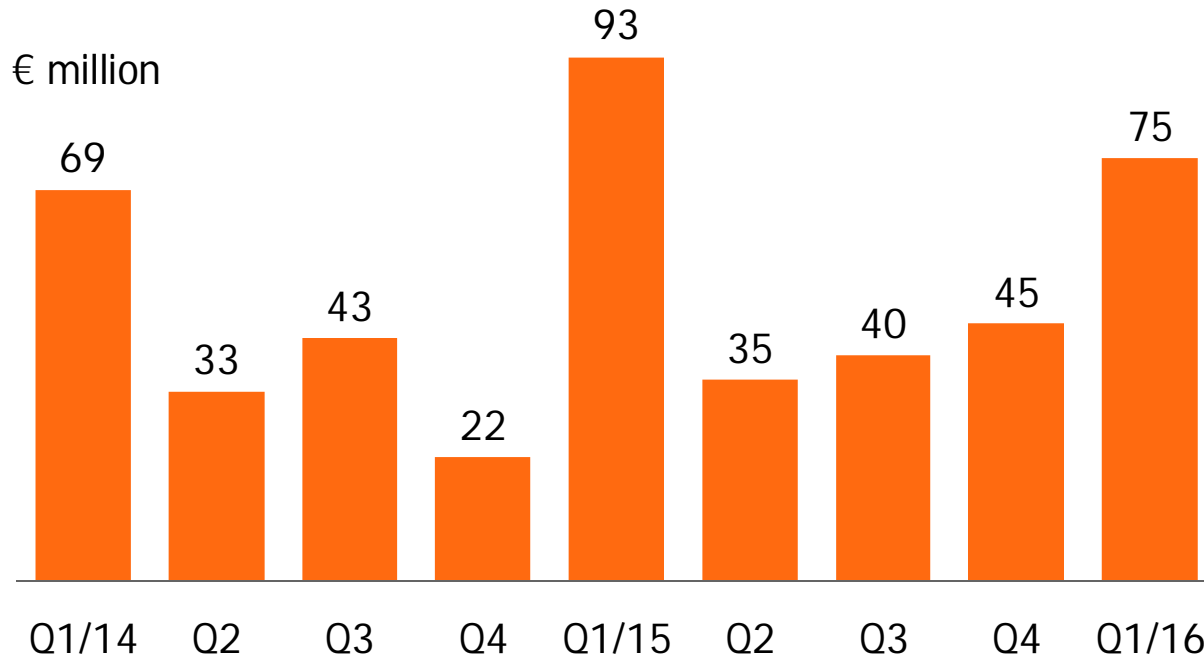
# Wealth Management: income statement



# Wealth Management: net commissions and fees

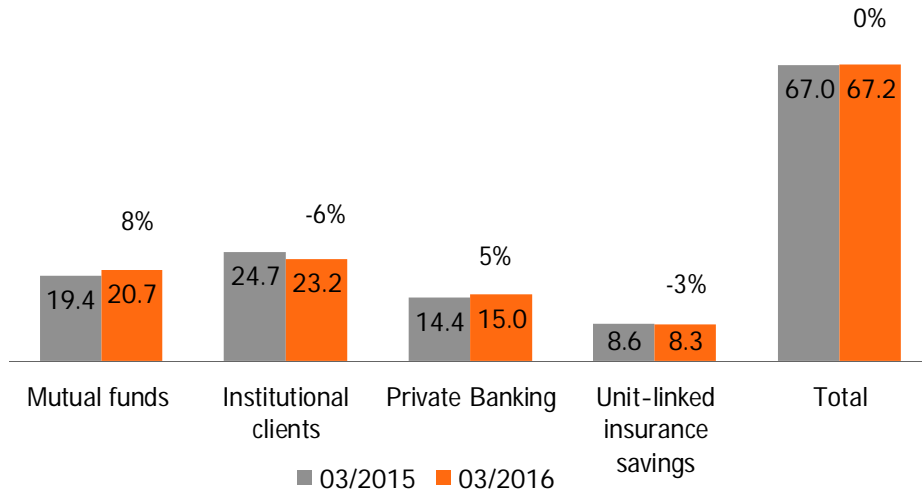


# Investment income and net commissions and fees were lower than a year ago in the difficult market environment

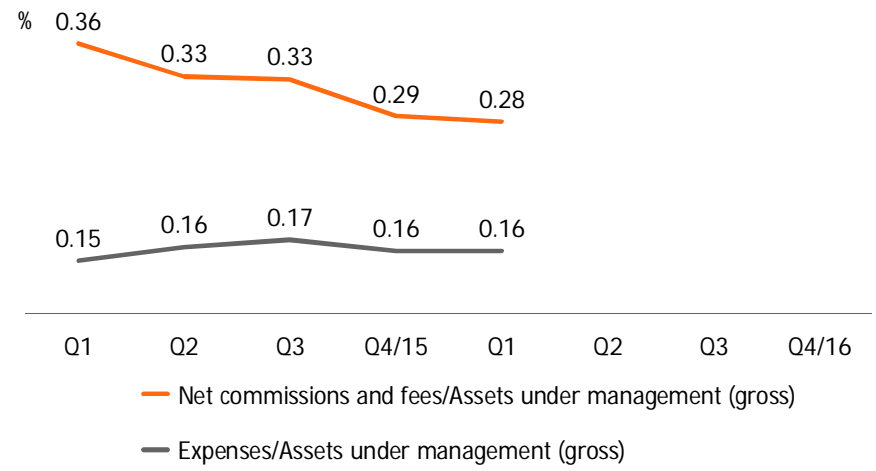


# Negative performance in stock market in Q1: only modest growth in assets under management

Assets under management (gross) €billion



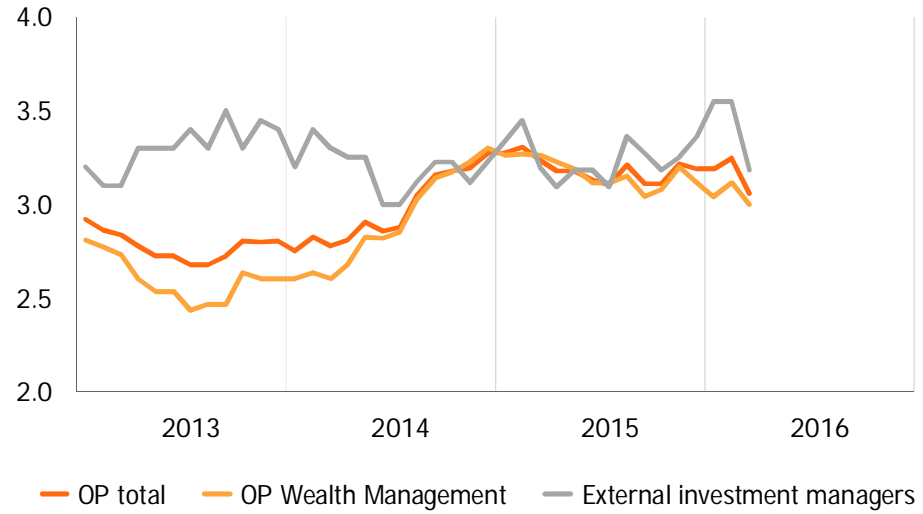
Income and expenses/Assets under management



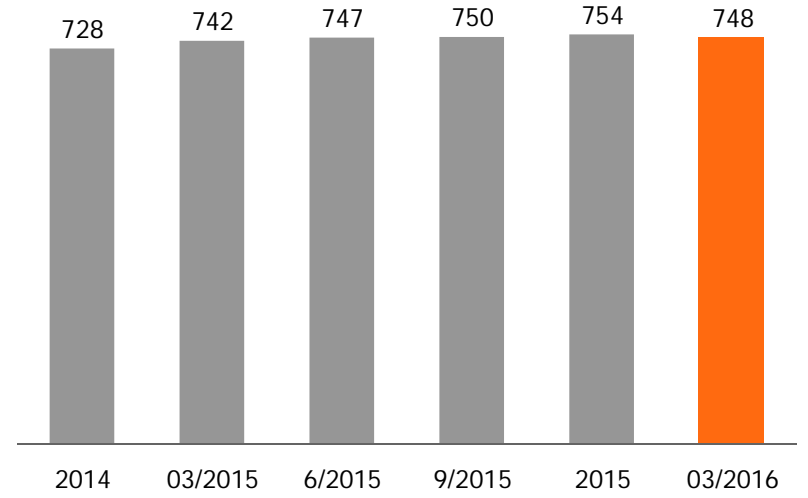


# Good performance in mutual funds supports growth in the number of clients; market uncertainty is reflected in Q1

Performance of Morningstar stars

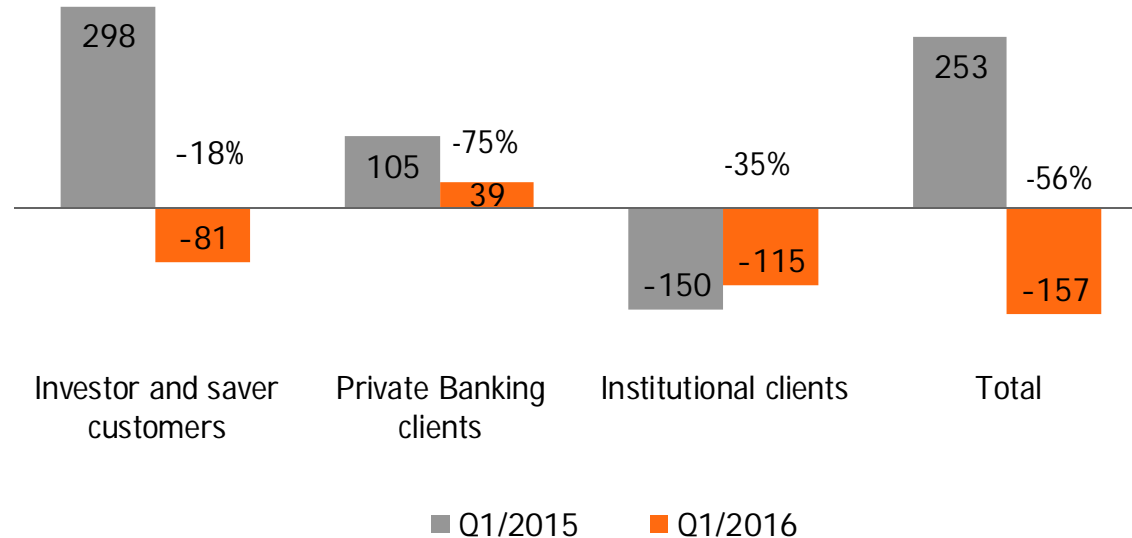


Investor and saver customers, 1000 pers.

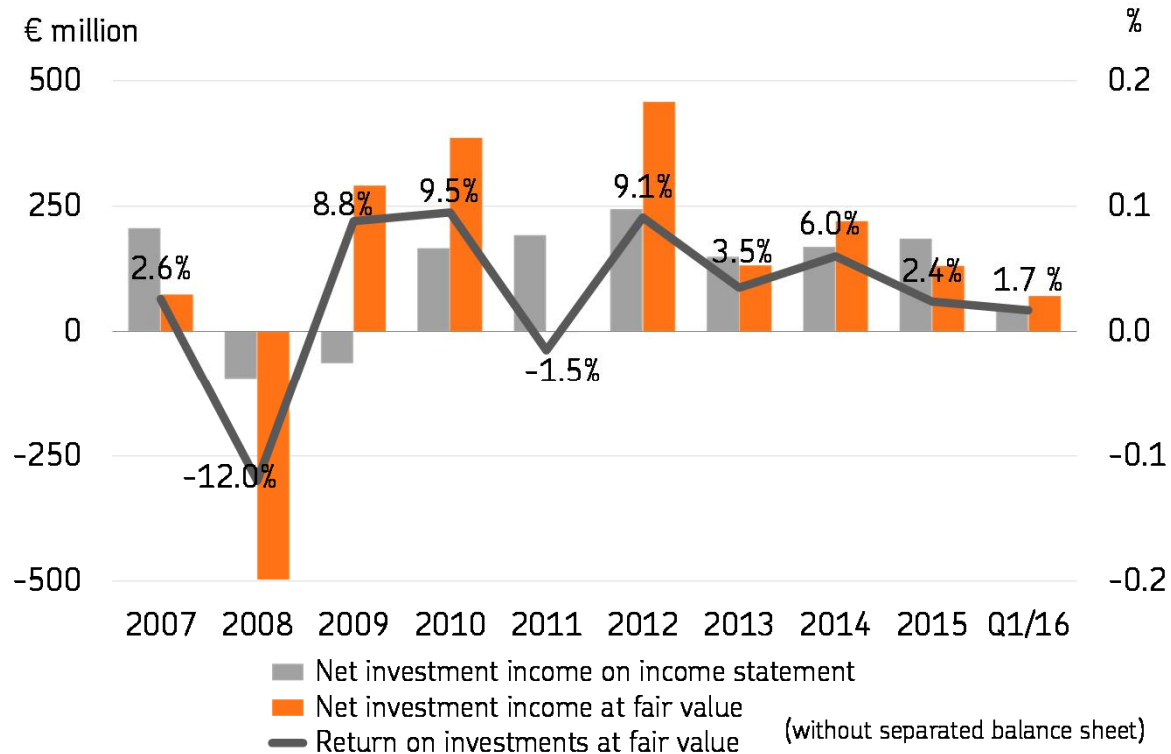


# Uncertain operating environment is reflected in caution among customers

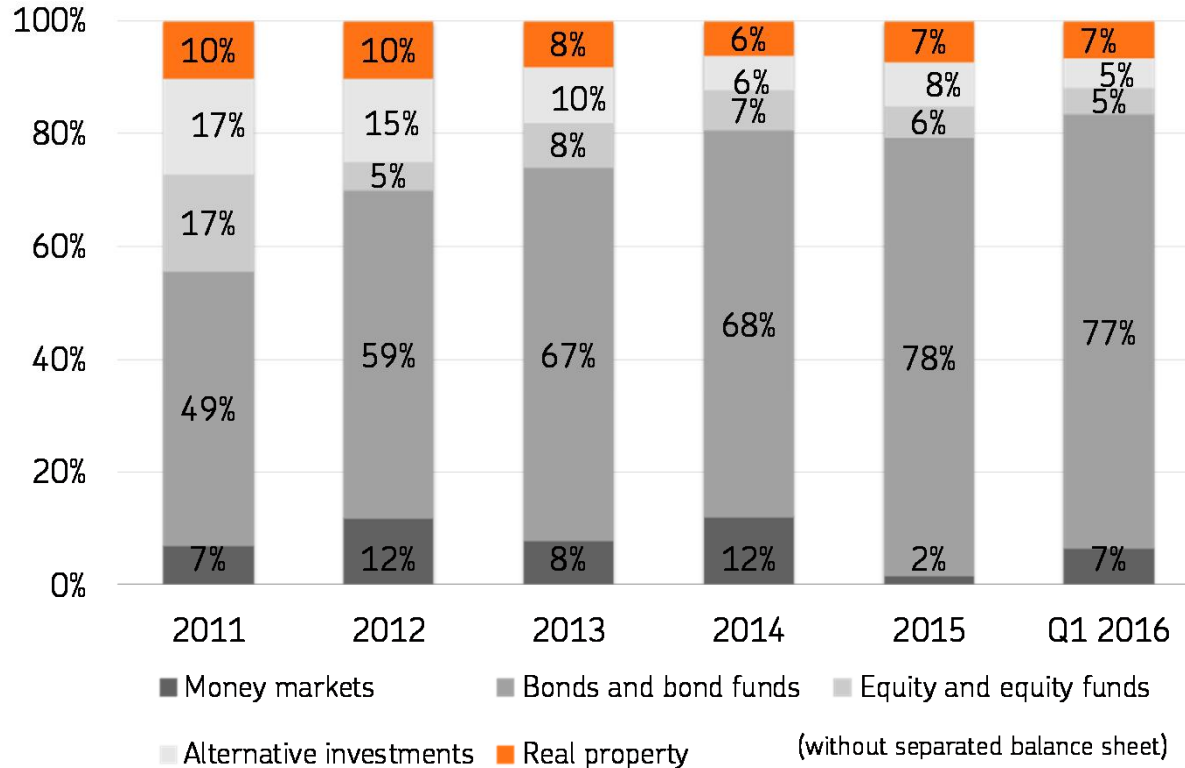
Net inflows by Quarter  
€ million and change %



# Life Insurance cumulative investment return, year-to-date 1.7%



# The risk level of Life Insurance investment assets (EUR 4.1 billion) has been lowered steadily



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# Liquidity and Funding



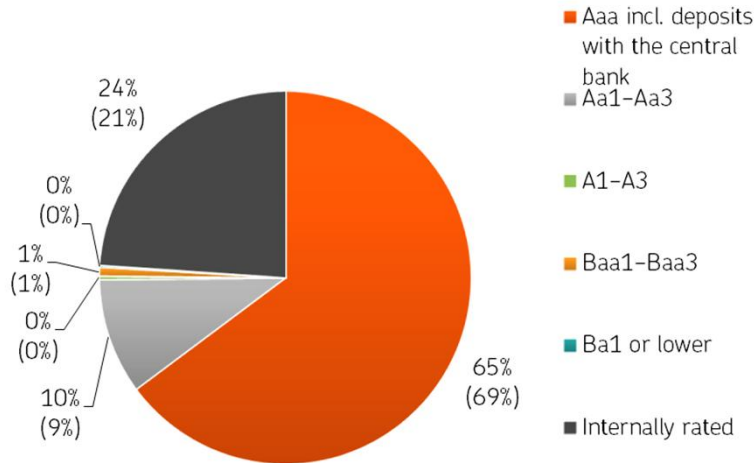
# Liquidity buffer €22.8 billion

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

According to the transitional provisions, LCR must be at least 70% in 2016 and at least 100% from the beginning of 2018.

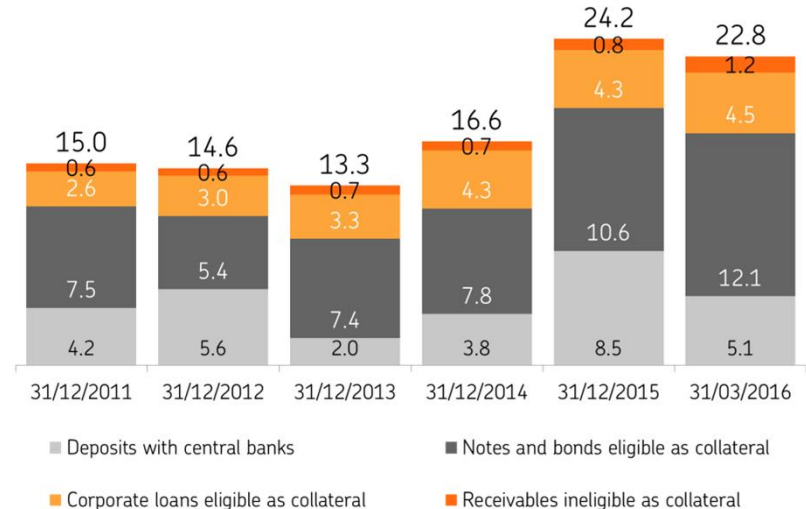
OP Financial Group's LCR was 108% at end-March 2016.

## Liquidity buffer by credit rating\* as of 31 March 2016 (31 Dec. 2015)



\*) Internally rated: corporate loans (83%) and the remainder externally non-rated notes and bonds issued by public-sector entities and companies, both eligible as ECB collateral.

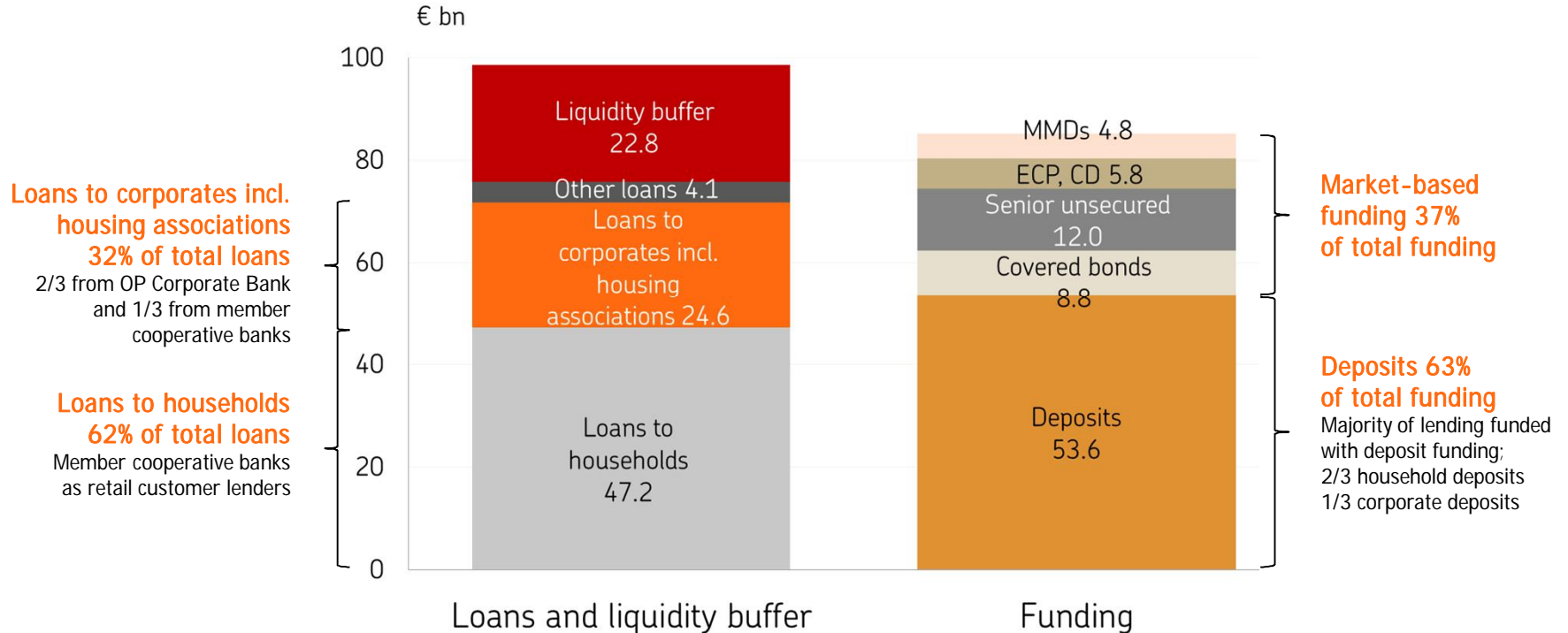
## Liquidity buffer breakdown\*\*, € bn



\*\*) The liquidity buffer plus other items based on OP Financial Group's contingency funding plan can be used to cover maturing wholesale funding for at least 24 months.

# Loans, liquidity buffer and funding

## 31 March 2016



# Issued long-term senior unsecured and covered bonds

## OP Corporate Bank plc's senior unsecured benchmark bonds 2014–16

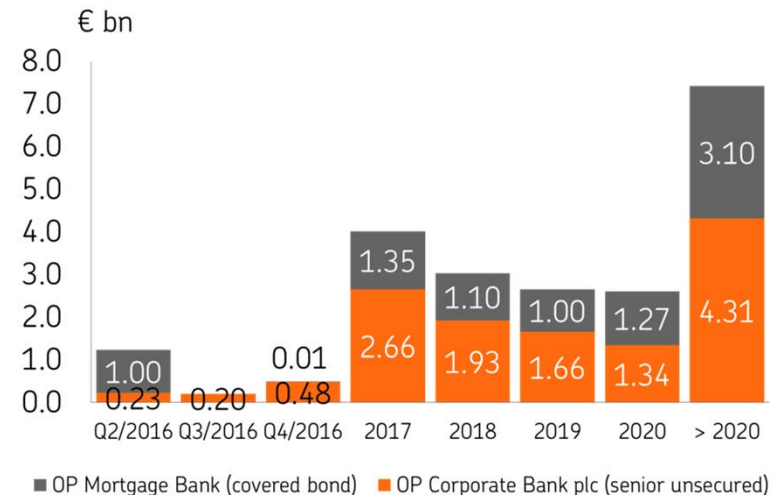
Year	Month	Amount	Maturity	Interest rate
2016	January	€500 mn	5 yrs	m/s + 65 bps
2015	November	Total ¥30 bn (€228 mn), 2 issues	5 yrs (floating) & 5 yrs (fixed)	m/s + 59.9 bps & m/s + 66.1 bps
2015	May	GBP300 mn	3 yrs	Eb3 + 16 bps
2015	May	GBP400 mn	7 yrs	Eb3 + 58 bps
2015	March	€1 bn	7 yrs	m/s + 33 bps
2014	June	CHF300 mn	7 yrs	CHFm/s + 30 bps
2014	June	Total ¥60 bn (€432 mn), 2 issues	3 yrs (fixed) & 5 yrs (fixed)	m/s + 28.6 bps & m/s + 48.4 bps
2014	June	€750 mn	5 yrs	m/s + 48 bps
2014	March	€750 mn	7 yrs	m/s + 67 bps
2014	March	€750 mn	3 yrs	Eb3 + 36 bps

## OP Mortgage Bank's covered bonds 2014–16

Year	Month	Amount	Maturity	Interest rate
2015	November	€1.25 bn	5 yrs	m/s + 5 bps
2015	September	€1 bn	7 yrs	m/s - 1 bps
2014	November	€1 bn	10 yrs	m/s + 4 bps
2014	June	€1 bn	5 yrs	m/s + 5 bps
2014	March	€1 bn	7 yrs	m/s + 14 bps

- OP Financial Group issued long-term bonds worth €0.9 billion during Q1/2016
- At end-March, the average margin of OP Financial Group's senior wholesale funding was 38 basis points (39)

## Issued senior unsecured and covered bonds by maturity, 31 March 2016





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# Capital Adequacy



# Two capital adequacy ratios

## Consolidated capital adequacy = capital adequacy of the amalgamation of cooperative banks

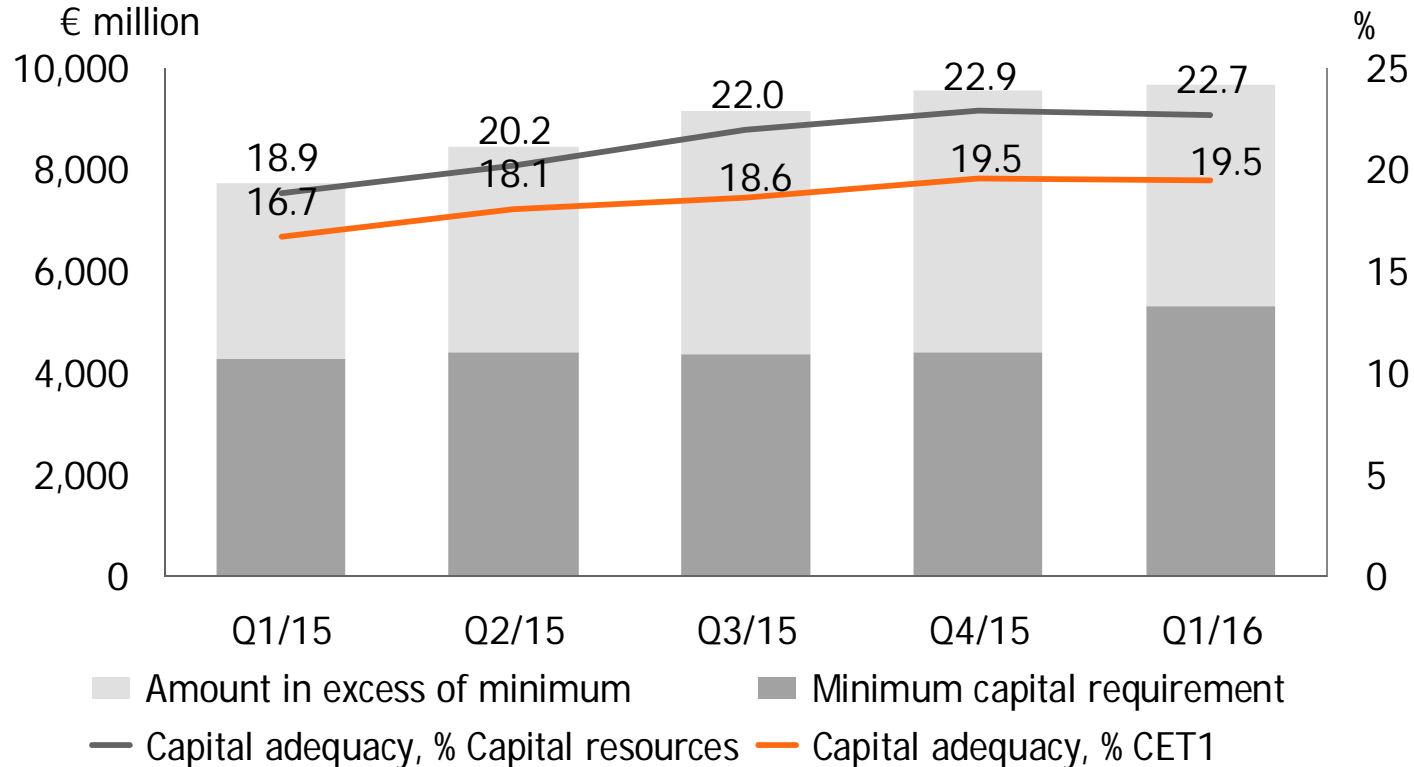
- The Group's operations are based on the Act on the Amalgamation of Deposit Banks
- The Act on the Amalgamation of Deposit Banks sets the minimum capital for the amalgamation of cooperative banks, which is calculated according to the CRR rules and the Act on Credit Institutions.
- The amalgamation of 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.

## 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 conglomerate, pursuant to the Act on the Supervision of Financial and Insurance Conglomerates. The conglomerate is governed by specific provisions of the capital adequacy requirement.
- OP Financial Group's capital adequacy pursuant to the Act on the Supervision of Financial and Insurance Conglomerates is calculated using the consolidation method, whereby assets included in capital resources but not included in equity capital, under the regulations for the banking or insurance industry, are added to the equity capital in the conglomerate's balance sheet.
  - Capital resources may not include items not available for covering the losses of other companies belonging to the conglomerate.
- The financial conglomerate's minimum capital requirement consists of the credit institutions' consolidated minimum capital requirement including buffers and the insurance companies' joint solvency capital requirement (SCR).

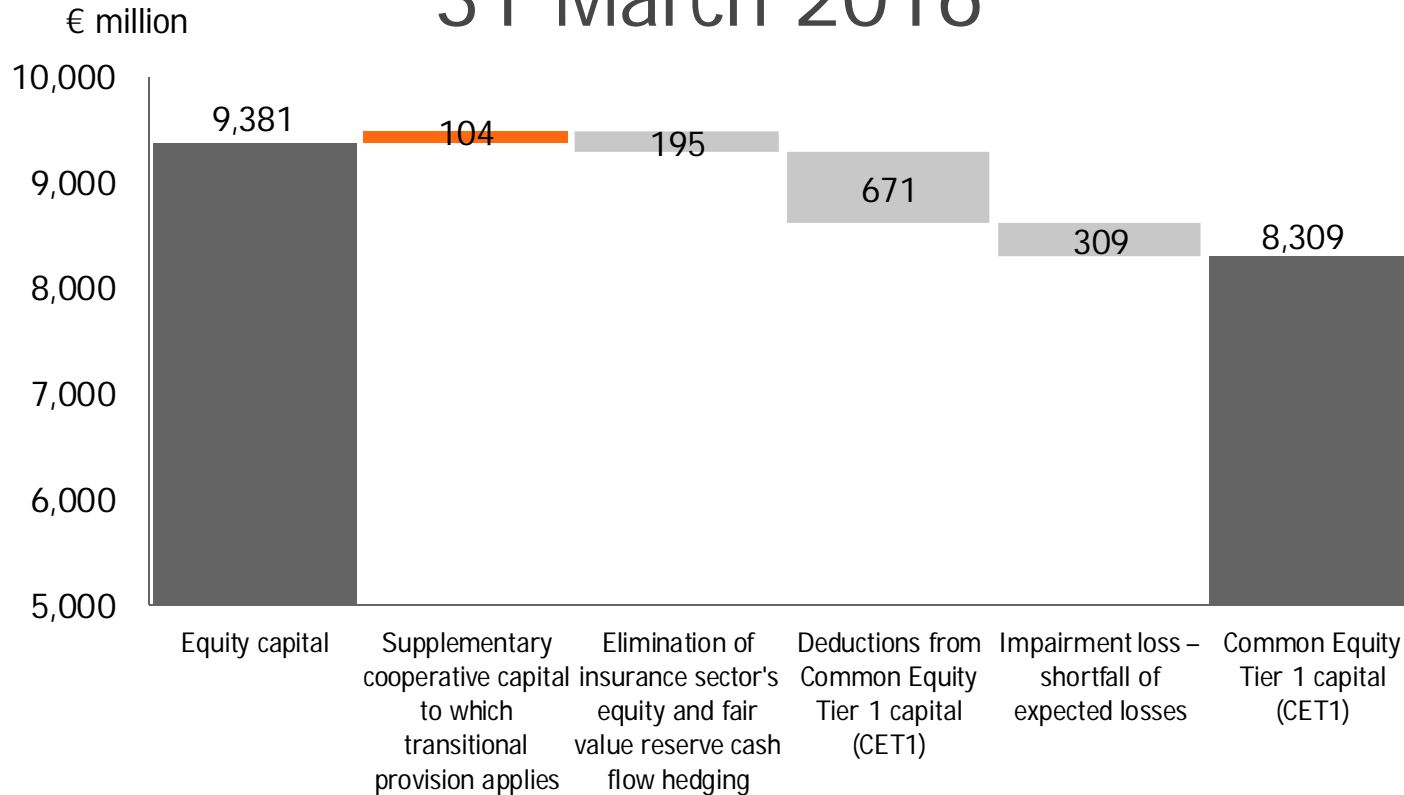
# The amalgamation of the cooperative banks

## Capital resources and capital adequacy



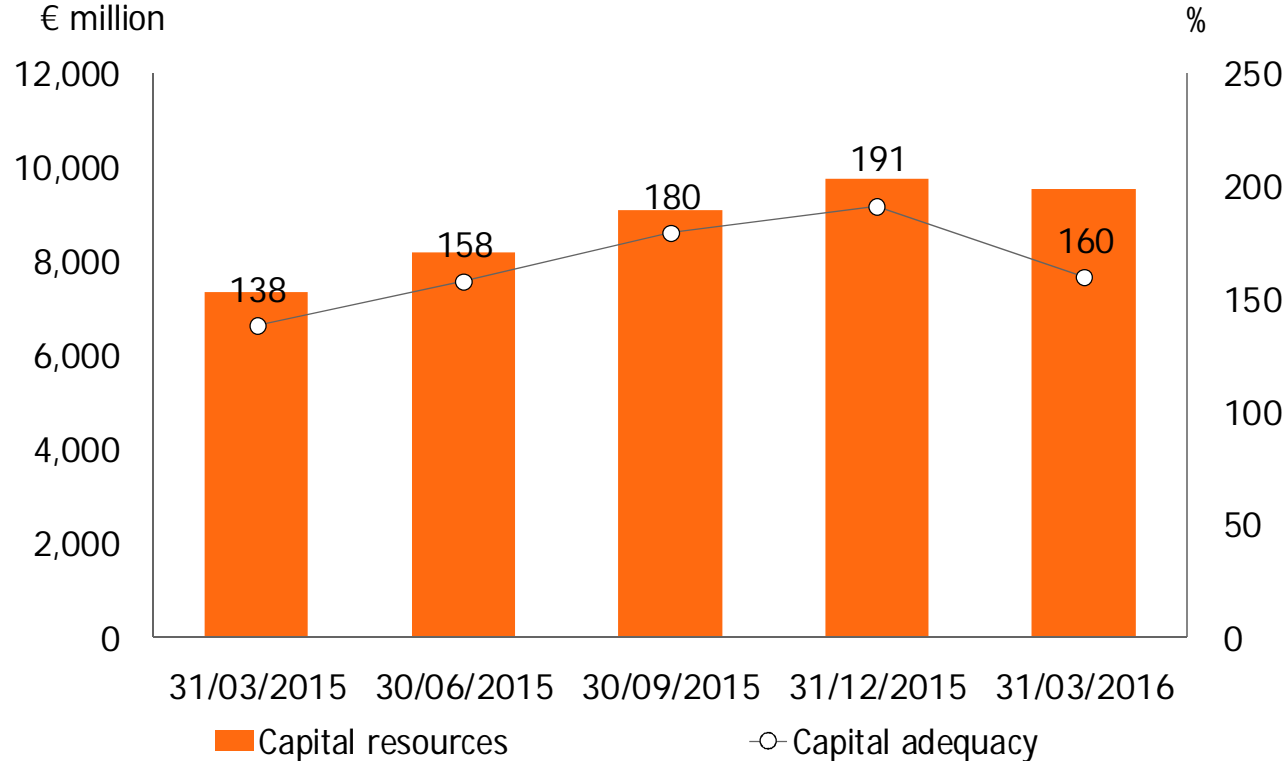
# Common Equity Tier 1 (CET1)

## 31 March 2016



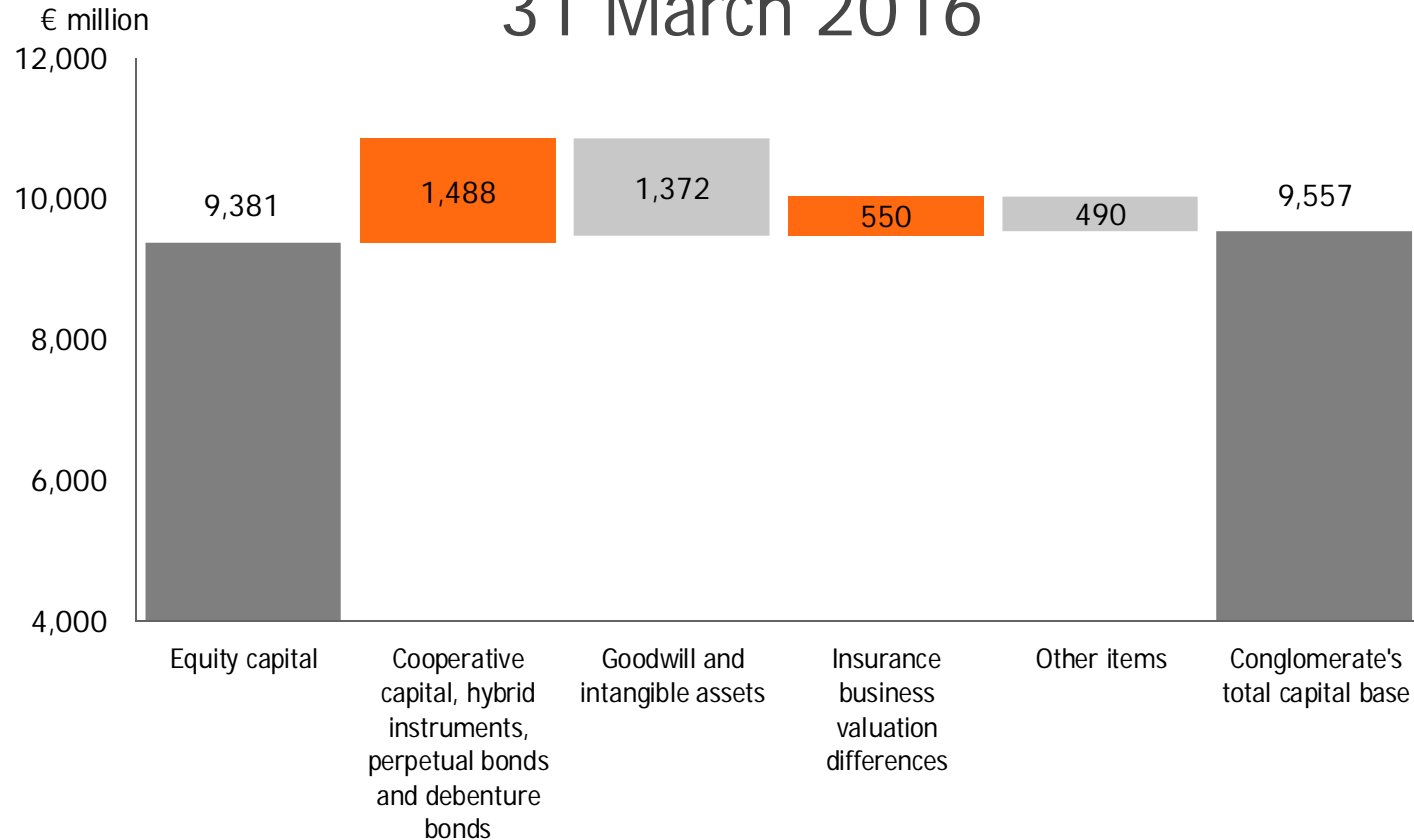
# OP Financial Group: Conglomerate's capital adequacy

Capital adequacy ratio has decreased as a result of new buffer requirements



# Total capital base under the Act on the Supervision of Financial and Insurance Conglomerates

## 31 March 2016



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# OP in a Nutshell



# Changes in company names in April 2016



## Before

Pohjola Bank plc

Pohjola Insurance Ltd

Pohjola Asset Management Ltd

Helsinki OP Bank Ltd



## Now

OP Corporate Bank plc

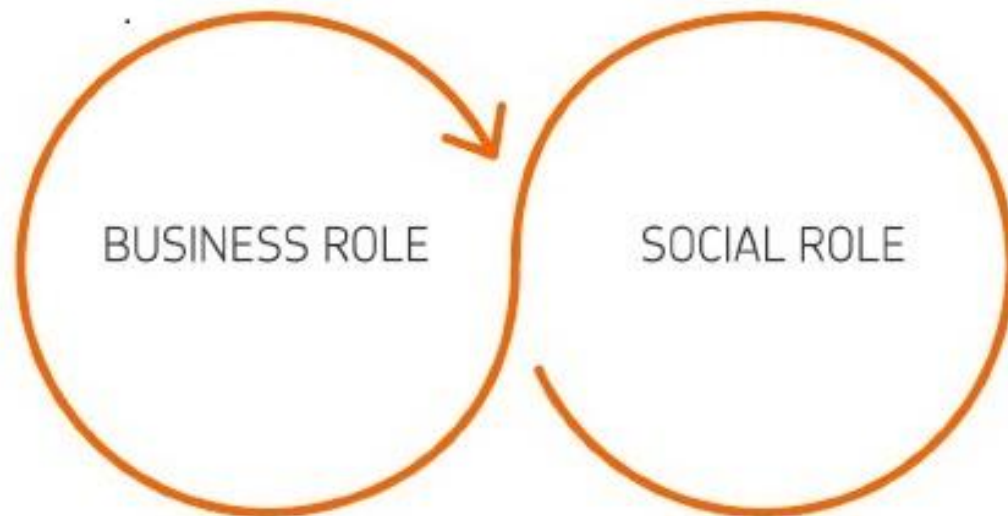
OP Insurance Ltd

OP Asset Management Ltd

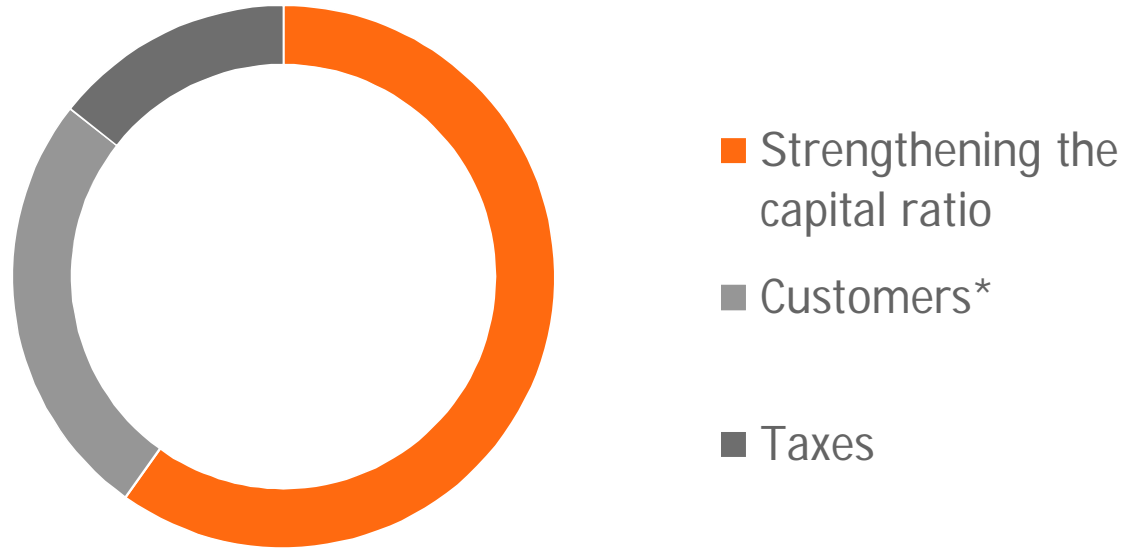
Helsinki Area Cooperative Bank  
(OP Helsinki)



Our cooperative company form gives us a **dual role**, which is also the foundation for our unique identity



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



# OP Financial Group's targets

## Long-term financial targets

Capital adequacy ratio under the Act on the Supervision of Financial and Insurance

Conglomerates, Group level **160%**

CET1 ratio, Banking

**18.0%\***

Return on economic capital, Group level

**20.0%**

Operating combined ratio, Non-Life Insurance

**< 92%**

Growth differential between income and expenses, Group level/ Banking/Wealth Management

**> 0% pps**

## Long-term growth and market position targets

- Growth rate above the market average
- Market leadership in all business segments
- Market leaderships in private customers and small, mid-size and large companies.

## Long-term qualitative targets

- Efficiency at a level that secures competitiveness
- Most comprehensive range of financial services and best owner-customer benefits
- Better customer experience
- In the Finnish financial sector
  - forerunner of corporate social responsibility
  - most attractive employer
  - most active and innovative industry player

\*By end of 2016

# OP Financial Group's service channels

	1-31 March 2016	31 March 2016	12-month change
<b>Online and mobile services</b>			
Op.fi visits (private customers )	10,269,226	-	-7%
OP-mobile visits, (private customers )	10,410,234	-	+58%
Pivo mobile wallet application visits *	1,548,273	-	-3%
eServices Agreements (private customers)	-	1,659,374	+ 37,983
<b>Branches and telephone services</b>			
Bank branches	-	454	+/- 0
Providing both non-life insurance and banking services	-	344	-4
Private Banking branches	-	39	- 1
OP-Kiinteistökeskus real estate agencies	-	158	-4
Customer contacts in telephone service **	306,224	-	+ 21,591
<b>Social media</b>			
Followers on Facebook (OP Financial Group and member cooperative banks)	-	205,592	+38,281
Followers on Twitter	-	19,731	+ 4,061
Followers on LinkedIn	-	9,330	+1,641

\* Indicator changed Q3/2015 (previously no. of downloads).

\*\* Calculation basis changed in 2015.

# Joint Liability, Deposit Insurance and Investors' Compensation

- Under the Laki talletuspankkien yhteenliittymästä Act (the Act on the Amalgamation of Deposit Banks), the amalgamation of the cooperative banks comprises the organisation's central institution (OP Cooperative), its member credit institutions and the companies belonging to their consolidation groups as well as credit and financial institutions and service companies in which the above-mentioned entities together hold more than half of the total votes.
- The central institution's members at the end of the report period comprised OP Financial Group's member cooperative banks as well as OP Corporate Bank plc, Helsinki Area Cooperative Bank , OP Mortgage Bank , OP Card Company Plc and OP Process Services Ltd.
- By virtue of the Act on the Amalgamation of Deposit Banks, the central institution has both the right to control its credit institutions and the obligation to supervise their operations. The amalgamation of deposit banks is supervised on a consolidated basis. As laid down in applicable law, the member credit institutions and OP Cooperative are ultimately jointly and severally liable for each other's debts and commitments. OP Financial Group's insurance companies, for example, do not therefore fall within the scope of joint liability.
- Deposit banks belonging to OP Financial Group, i.e. its member cooperative banks, OP Corporate Bank plc and Helsinki Area Cooperative Bank , are regarded as a single bank with respect to deposit insurance. Under legislation governing the Investors' Compensation Fund, OP Financial Group is also considered a single entity in respect of investors' compensation.

Born to be owned by customers.

