



OP Financial Group's Interim Report for  
1 January–30 June 2016

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# OP Financial Group's Interim Report

# OP Financial Group's key figures and ratios

## Good half-year business performance

	H1/2016	H1/2015	Change, %	Q1-4/2015
Earnings before tax, EUR million	614	627	-2.1	1,101
Banking	295	356	-17.3	642
Non-life Insurance	117	144	-18.8	259
Wealth Management	141	128	10.4	213
New OP bonuses accrued to owner-customers	102	97	4.8	197
	30/06/2016	30/06/2015	Change, %	31/12/2015
Common Equity Tier 1 (CET1) ratio, %	19.4	18.1	1.3 *	19.5
Return on economic capital, % **	22.4	20.1	2.2 *	21.5
Ratio of capital base to minimum amount of capital base (under the Act on the Supervision of Financial and Insurance Conglomerates) % ***	163	158	4 *	191
Ratio of impairment loss on receivables to loan and guarantee portfolio, %	0.06	0.10	0.0 *	0.10
Joint banking and insurance customers (1,000)	1,695	1,618	4.8	1,656

\* Change in ratio

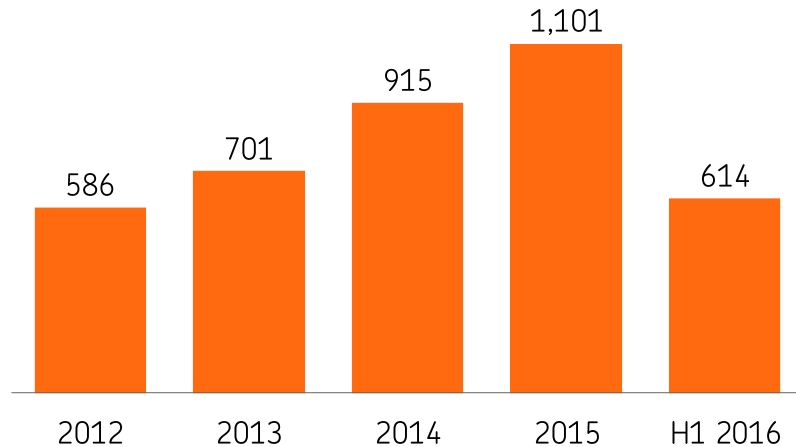
\*\* 12-month rolling, change in percentage

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

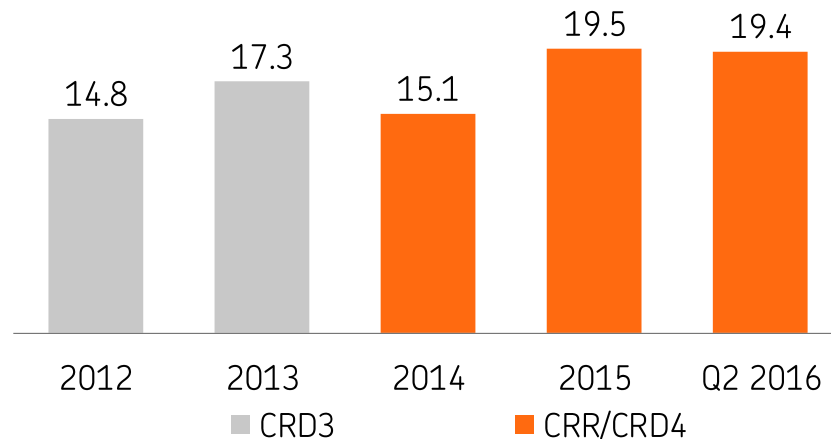
- Earnings before tax were EUR 614 million (627), or the second best half-year figure ever recorded.
- Net interest income and net insurance income increased but net commissions and fees decreased. Expenses were at the previous year's levels.
- Full-year earnings for 2016 are expected to be about the same as the record earnings reported in 2015.

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

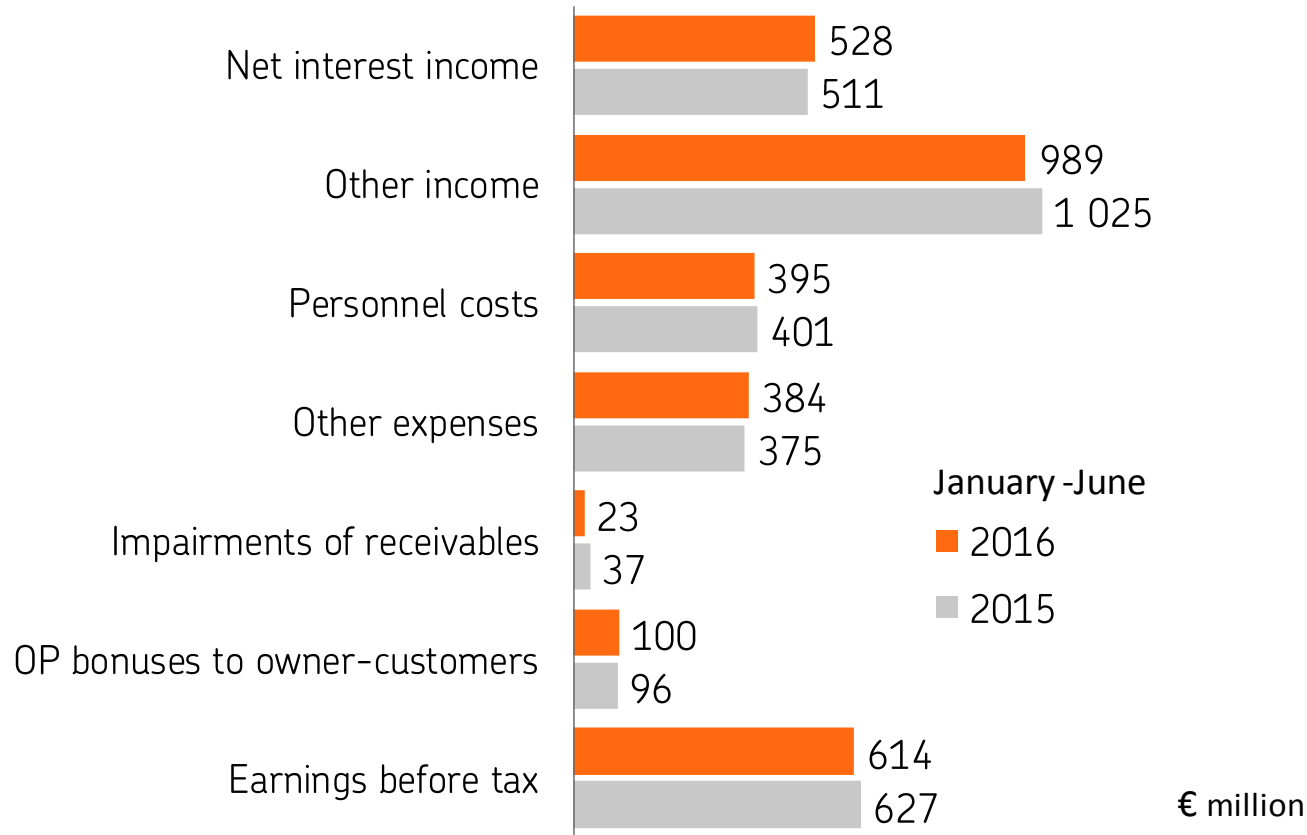
Earnings before tax, € million



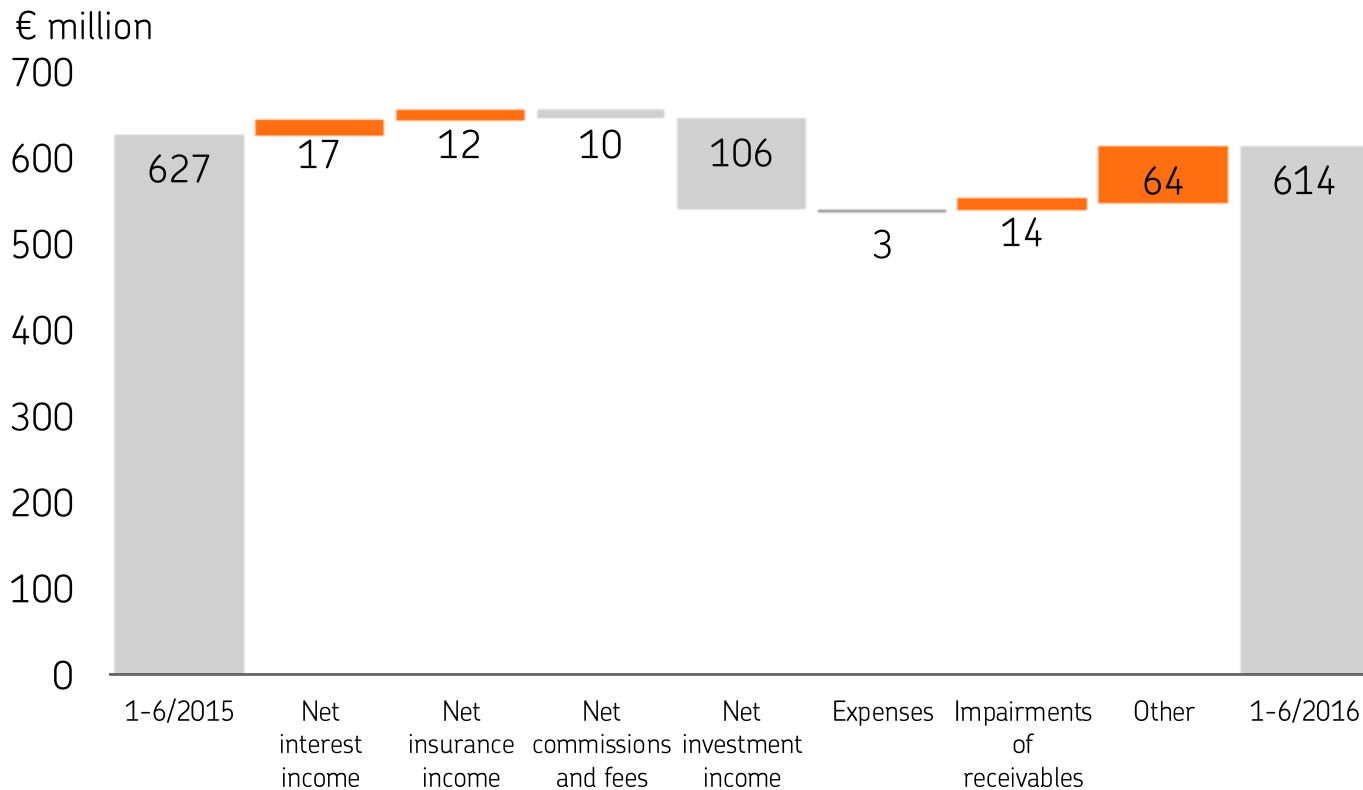
Common Equity Tier 1 ratio (CET1),  
Core tier 1 before transitional provisions, %



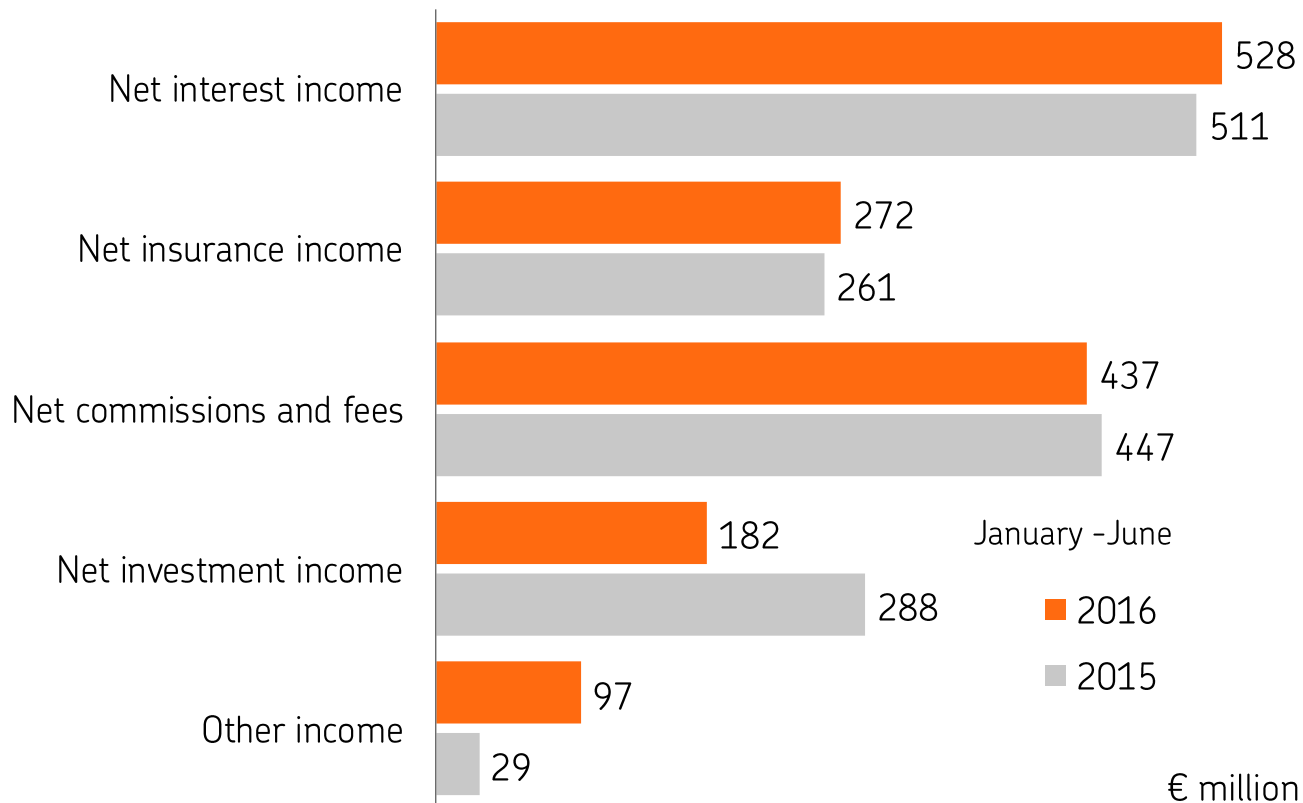
# OP Financial Group's income and expenses remained close to levels a year ago



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

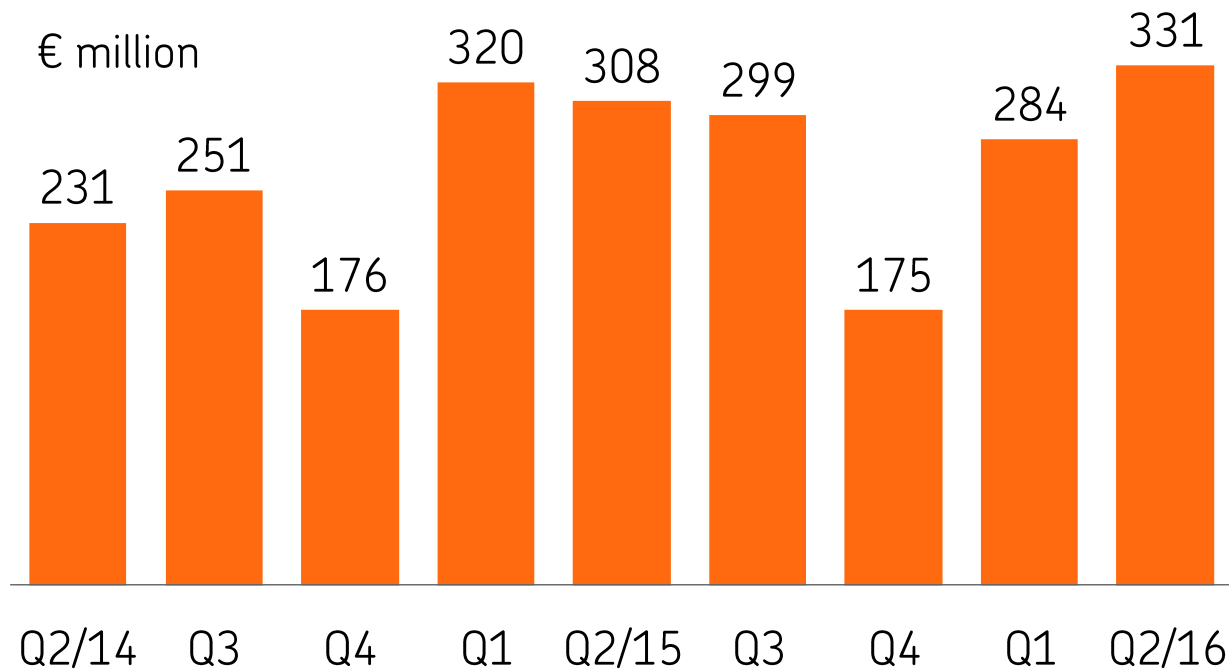


# OP Financial Group's income performance

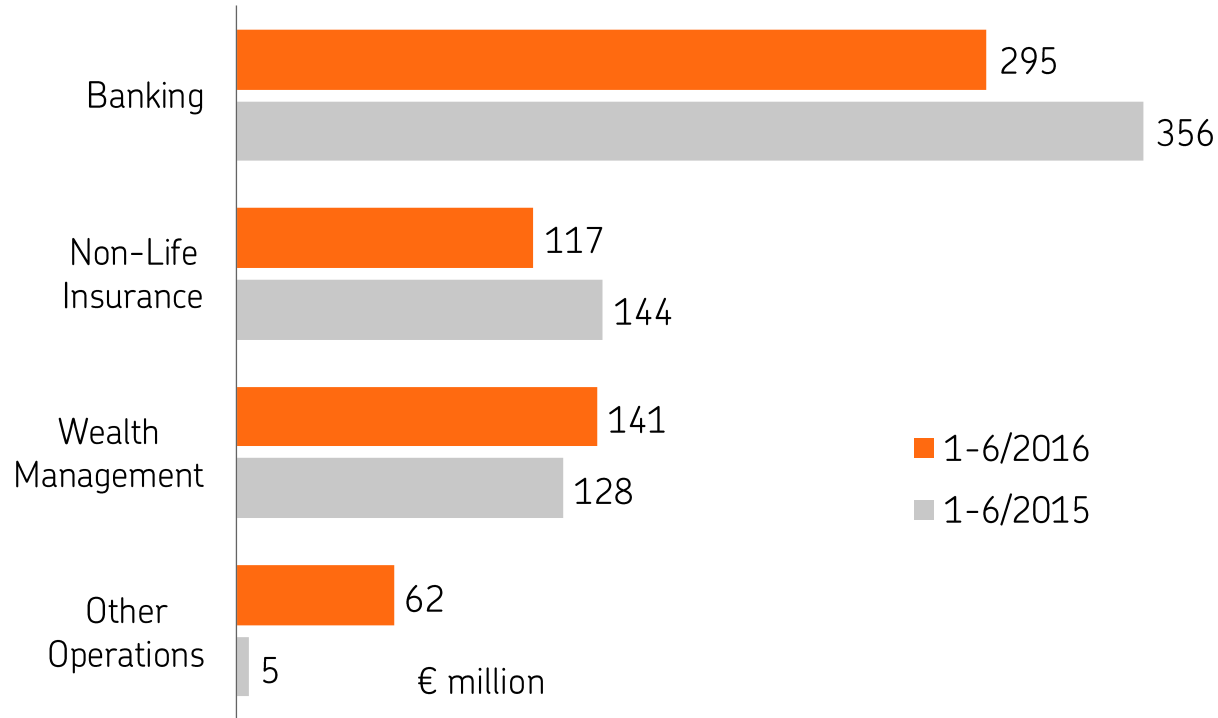




# OP Financial Group's EBT by quarter



# OP Financial Group's EBT by segment



# OP Financial Group's income statement

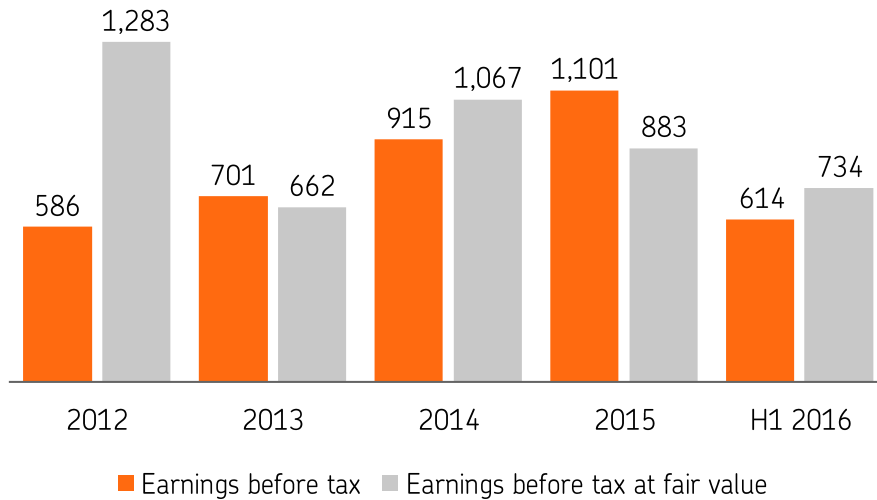
January 1 to June 30	2016	2015	Change, €million	%	Q2/16	Q2/15	Change, %
Net interest income	528	511	17	3.3	261	256	2.1
Net insurance income	272	261	12	4.4	142	130	9.0
Net commissions and fees	437	447	-10	-2.3	213	213	-0.2
Net investment income	182	288	-106	-36.8	96	138	-30.3
Other income	97	29	68		85	14	
<b>Total income</b>	<b>1,517</b>	<b>1,537</b>	<b>-19</b>	<b>-1.3</b>	<b>796</b>	<b>750</b>	<b>6.2</b>
Personnel costs	395	401	-6	-1.5	195	187	4.2
Other expenses	384	375	9	2.4	206	190	8.8
<b>Total expenses</b>	<b>779</b>	<b>776</b>	<b>3</b>	<b>0.4</b>	<b>401</b>	<b>376</b>	<b>6.5</b>
Other	123	133	-9	-7.0	65	66	-2.0
<b>Earnings before tax</b>	<b>614</b>	<b>627</b>	<b>-13</b>	<b>-2.1</b>	<b>331</b>	<b>308</b>	<b>7.5</b>

# OP Financial Group's quarterly performance

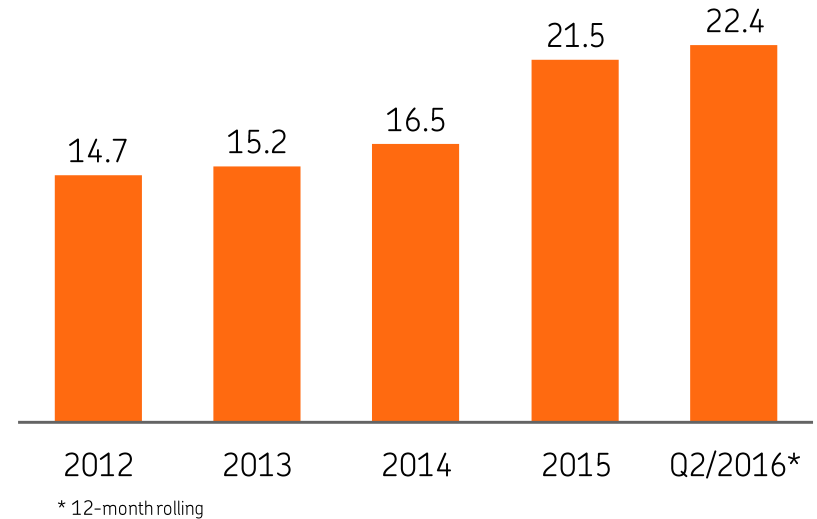
€ million	Q1	Q2	Q3	Q4/2015	Q1	Q2/2016
Net interest income	256	256	256	259	267	261
Net insurance income	131	130	140	130	131	142
Net commissions and fees	234	213	205	202	224	213
Net investment income	151	138	80	64	86	96
Other income	15	14	10	15	12	85
<b>Total income</b>	<b>786</b>	<b>750</b>	<b>691</b>	<b>671</b>	<b>721</b>	<b>796</b>
Personnel costs	214	187	172	208	201	195
Other expenses	185	190	160	209	178	206
<b>Total expenses</b>	<b>400</b>	<b>376</b>	<b>331</b>	<b>417</b>	<b>379</b>	<b>401</b>
Impairments of receivables	21	15	10	31	11	13
OP bonuses to owner-customers	46	51	50	48	48	52
<b>Earnings before tax</b>	<b>320</b>	<b>308</b>	<b>299</b>	<b>175</b>	<b>284</b>	<b>331</b>

# Return on economic capital rose to 22.4%

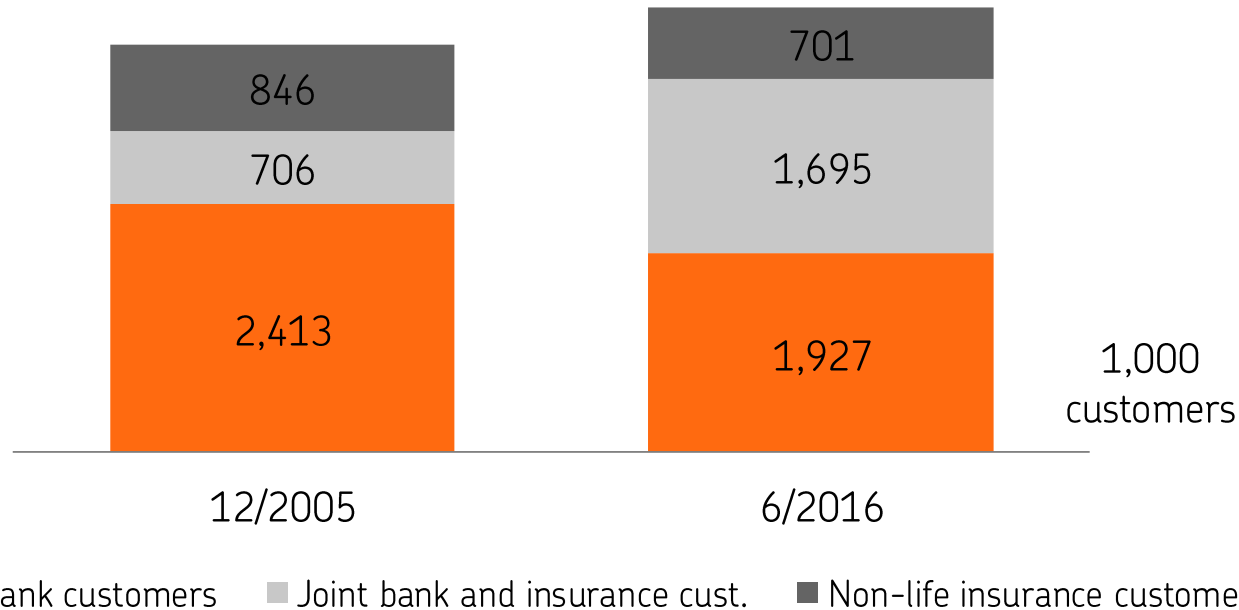
## Earnings before tax, € million



## Return on economic capital, %

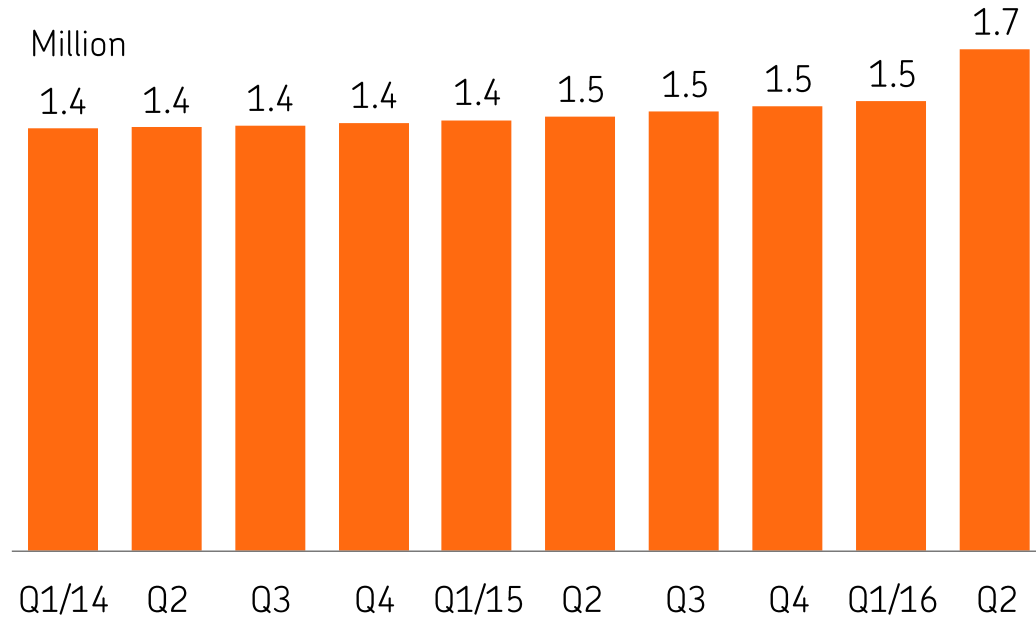


The number of customers using OP as their main bank and insurer has increased by 140% since 2005





# Number of owner-customers almost 1.7 million



Includes the owner-customers of Helsinki Area Cooperative bank established on 1 April 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. Banking is divided into the Private Customers, Corporate Customers, Markets and Baltics.

- For private customers, OP's Banking services and products for 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.

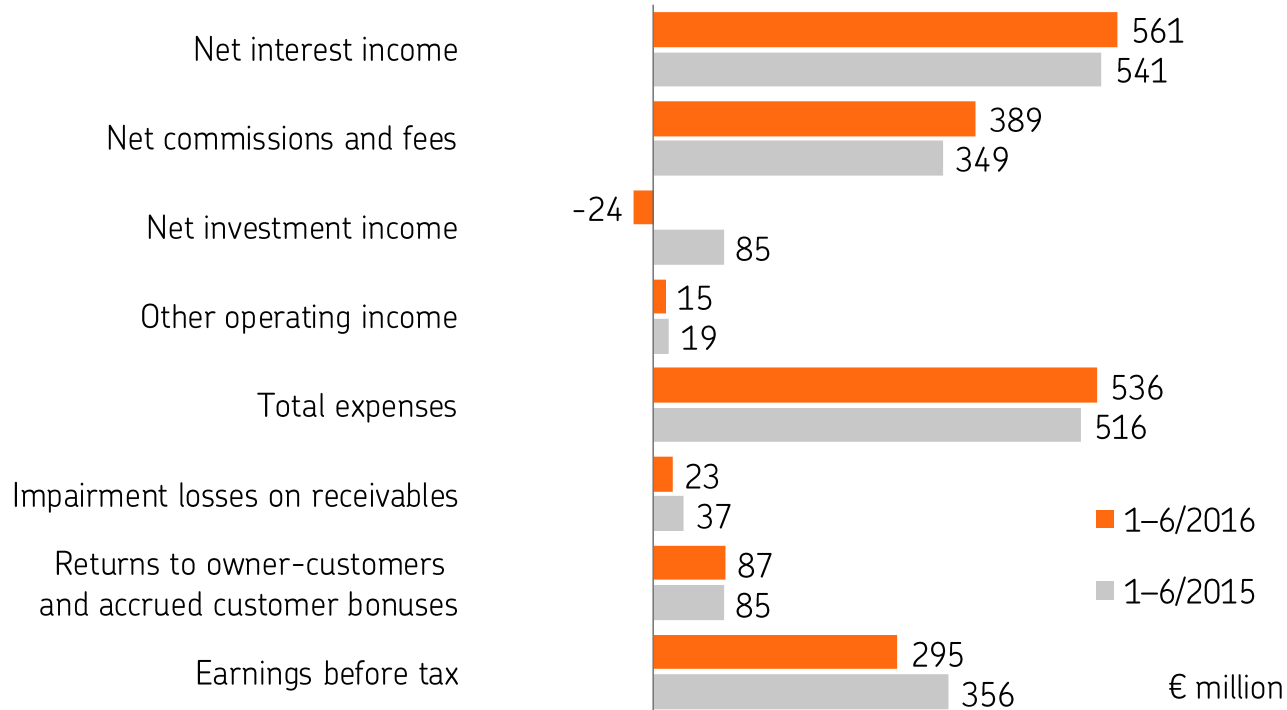
## Key figures H1/2016

EBT  
EUR 295 million

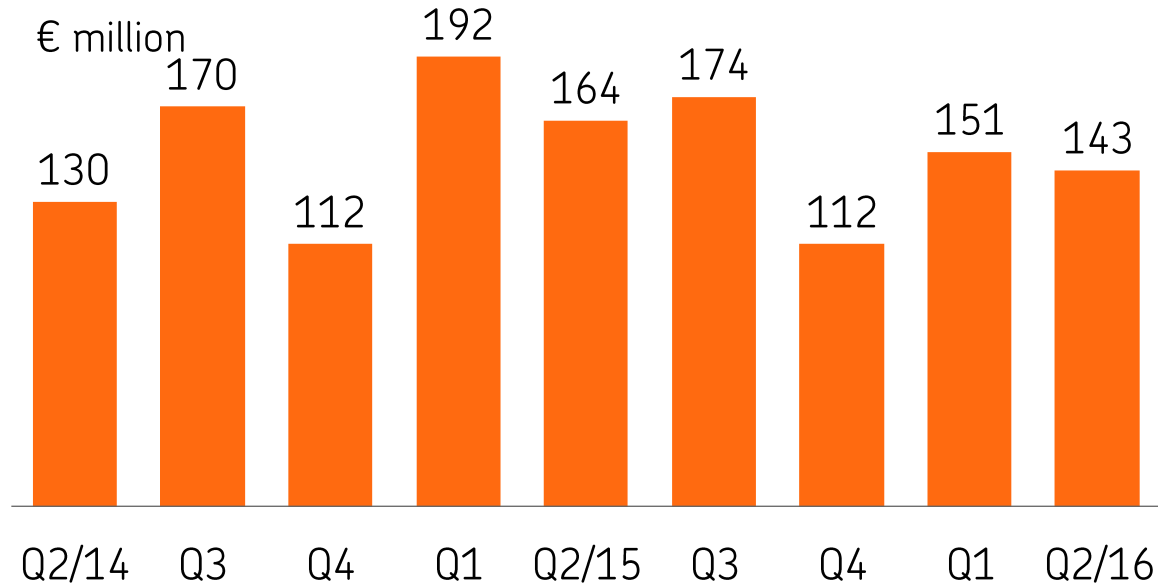
Loan portfolio  
EUR 77.0 billion

Deposit portfolio  
EUR 53.8 billion

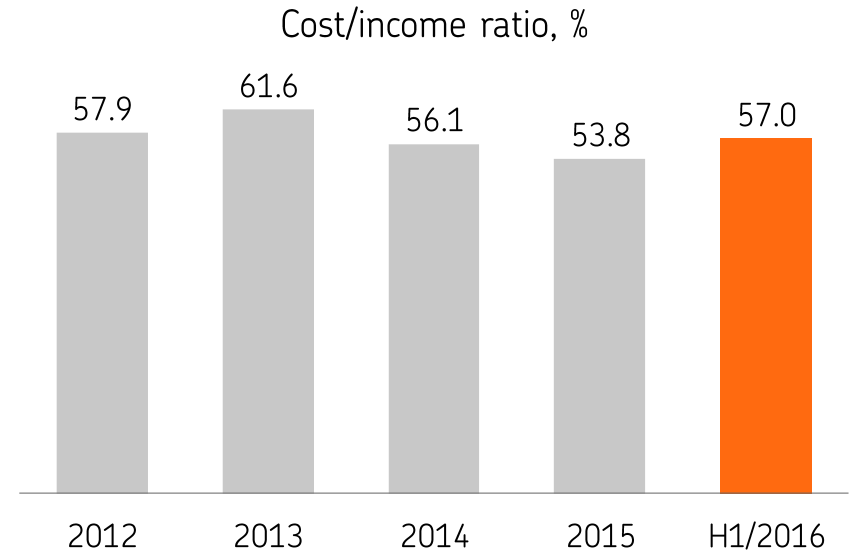
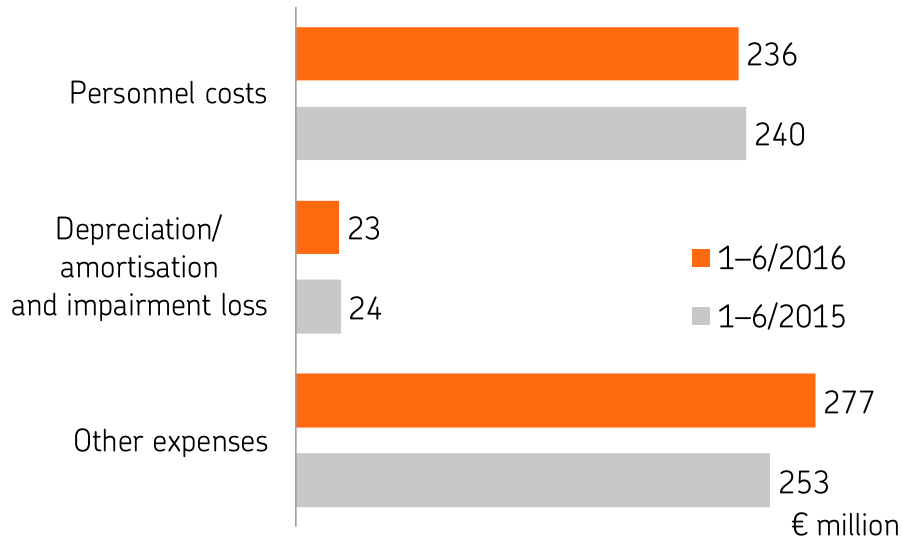
# Banking income statement



# Banking EBT by quarter



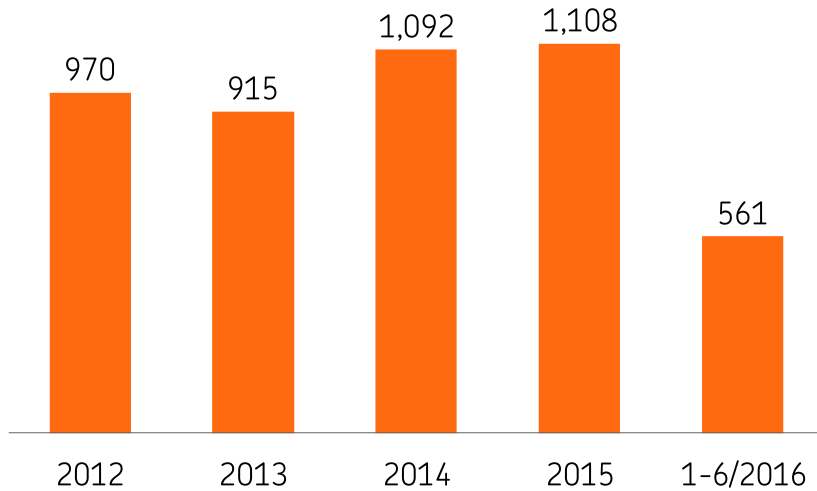
# Higher ICT costs were explained by investments in development and growth in volumes



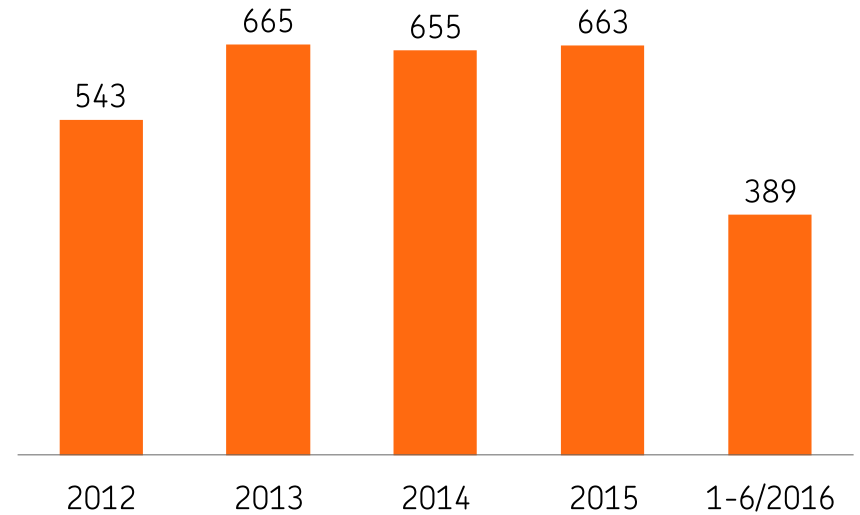


# Banking income performance

Net interest income, € million

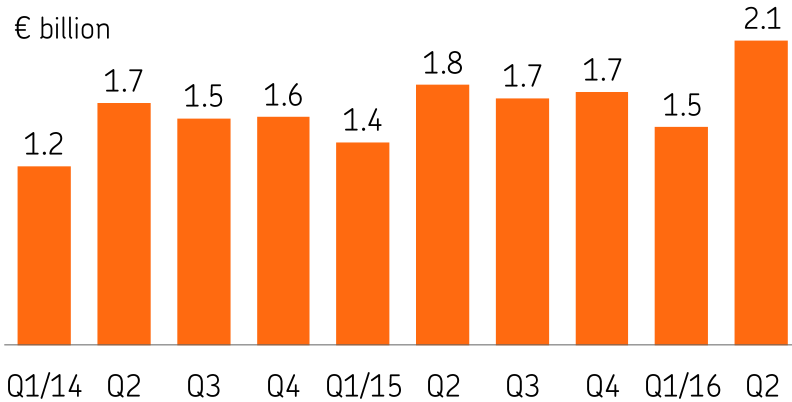


Net commissions and fees, € million

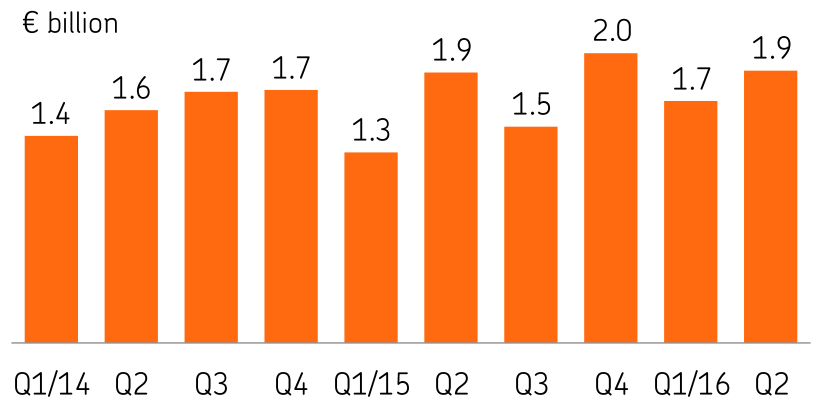


# New loans drawn down increased

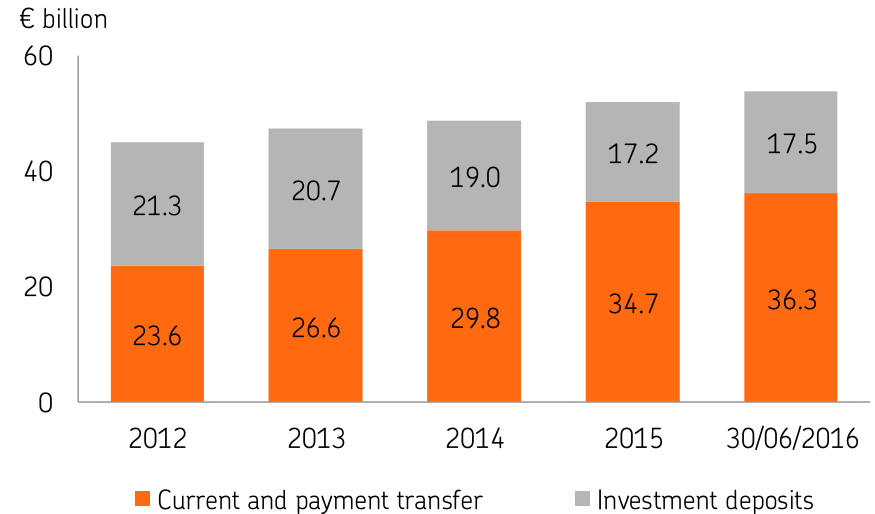
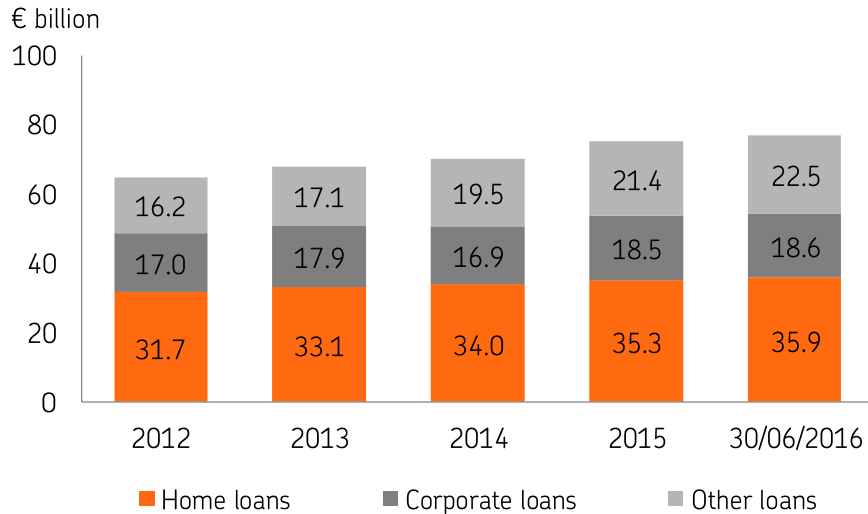
## Home loans drawn down



## Corporate loans



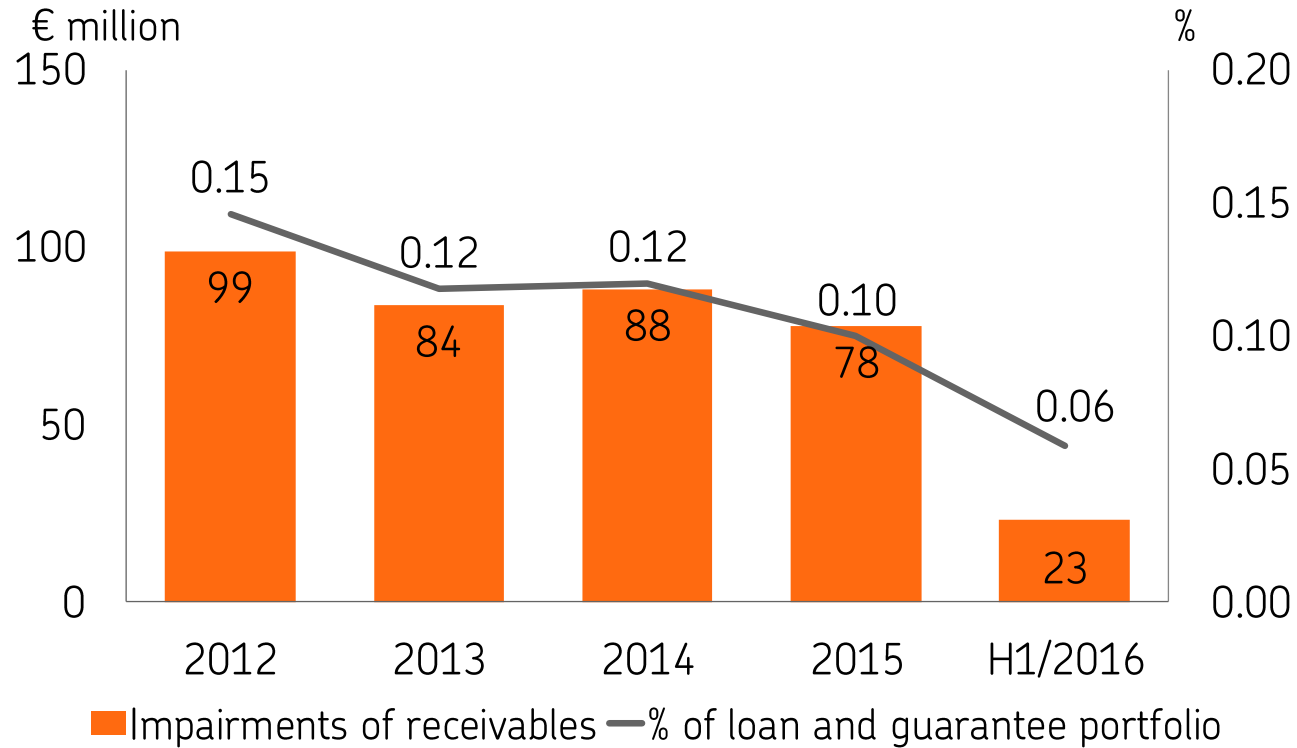
# Loan and deposit portfolio continued to grow



# OP Financial Group's loan and guarantee portfolio

€ million	30 June 2016	30 June 2015	Change	
			€ million	%
<b>Enterprises and housing associations</b>	<b>29,102</b>	<b>27,495</b>	<b>1,606</b>	<b>5.8</b>
Renting and operating of residential real estate	6,195	5,963	232	3.9
Renting and operating of other real estate	4,111	3,748	363	9.7
Wholesale and retail trade	3,054	2,839	215	7.6
Energy	2,221	1,983	237	12.0
Construction	2,027	1,971	55	2.8
Services	1,982	1,992	-10	-0.5
Transportation and storage	1,532	1,420	112	7.9
Manufacture of machinery and equipment (incl. services)	1,503	1,364	139	10.2
Agriculture, forestry and fishing	1,069	972	97	10.0
Financial and insurance services	861	678	183	27.1
Forest Industry	761	837	-76	-9.1
Metal Industry	687	547	141	25.8
Food Industry	624	685	-61	-8.8
Real estate investments	600	617	-16	-2.7
Chemical Industry	405	394	11	2.9
Other manufacturing	159	259	-100	-38.6
Other industries	1,312	1,229	83	6.7
<b>Public corporations and non-profit organisations</b>	<b>1,414</b>	<b>1,362</b>	<b>52</b>	<b>3.9</b>
<b>Households</b>	<b>47,820</b>	<b>46,005</b>	<b>1,815</b>	<b>3.9</b>
<b>Adjustments</b>	<b>1,189</b>	<b>1,230</b>	<b>-41</b>	<b>0.0</b>
<b>Total</b>	<b>79,526</b>	<b>76,093</b>	<b>3,433</b>	<b>4.5</b>

# Low impairment loss on receivable



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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.

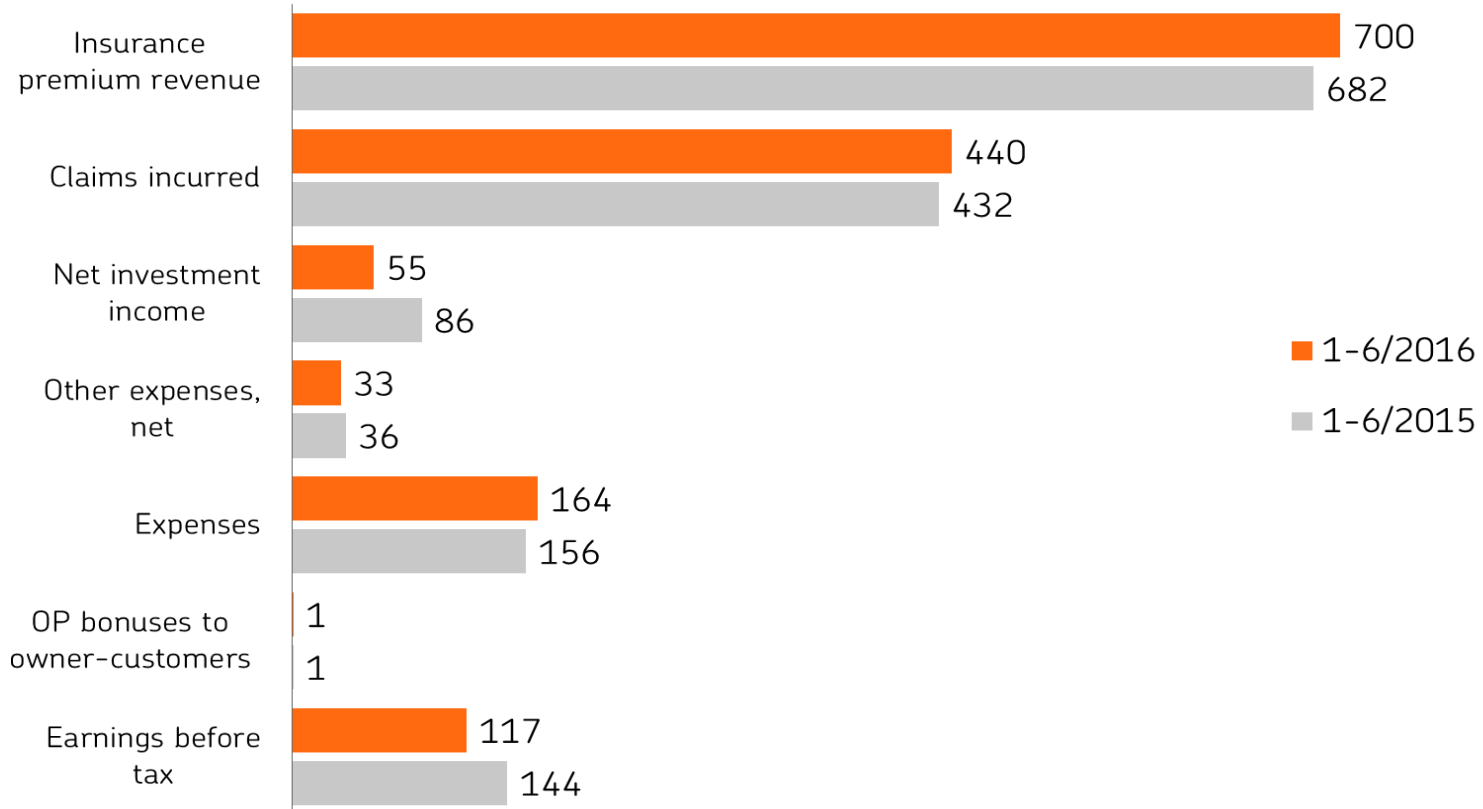
- A household, its family members, home and other property related to it as well as motor vehicles are at the core of insurance for private customers.
- Extensive and diversified risk management services form the key corporate customer services.
- The strengths of our claims settlement service lie in its promptness and efficiency. OP's extensive partner network enables efficient claims settlement services.
- OP will develop health and wellbeing services into a major new business alongside its traditional business areas.

## Key figures H1/2016

EBT  
EUR **117** million

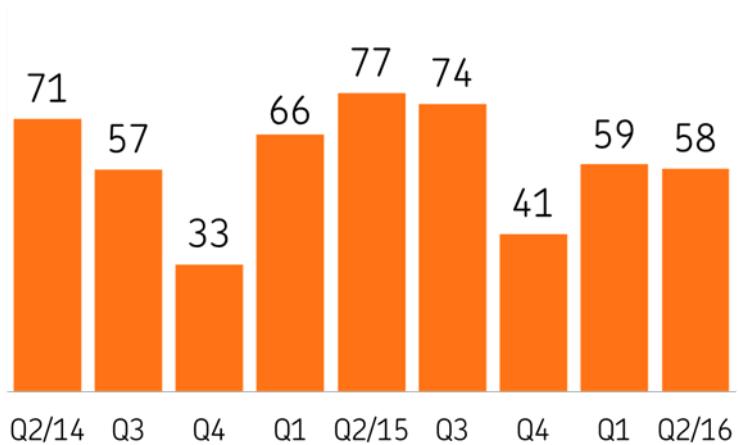
Insurance premium  
revenue  
EUR **700** million

# Non-life Insurance EBT

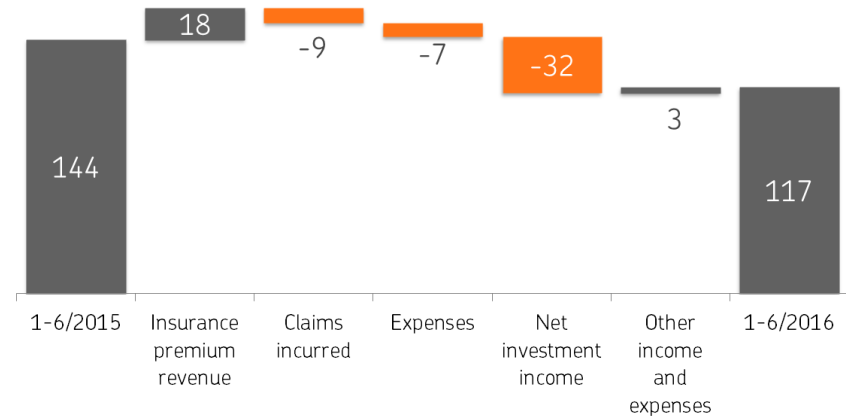


# Lower investment income reduced EBT

Earnings before tax by quarter, € mn

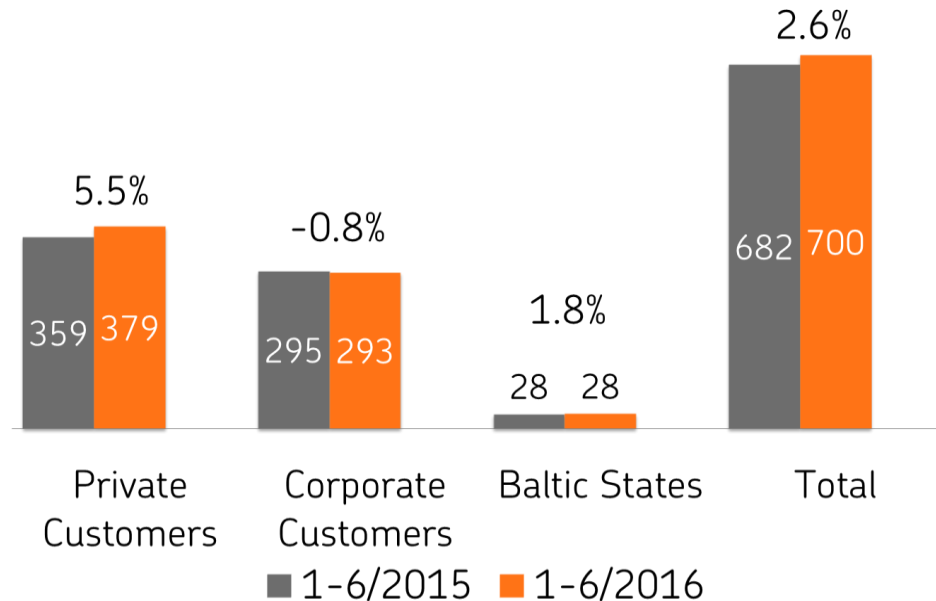


Earnings before tax, € mn  
change Q1–2/16 vs. Q1–2/15



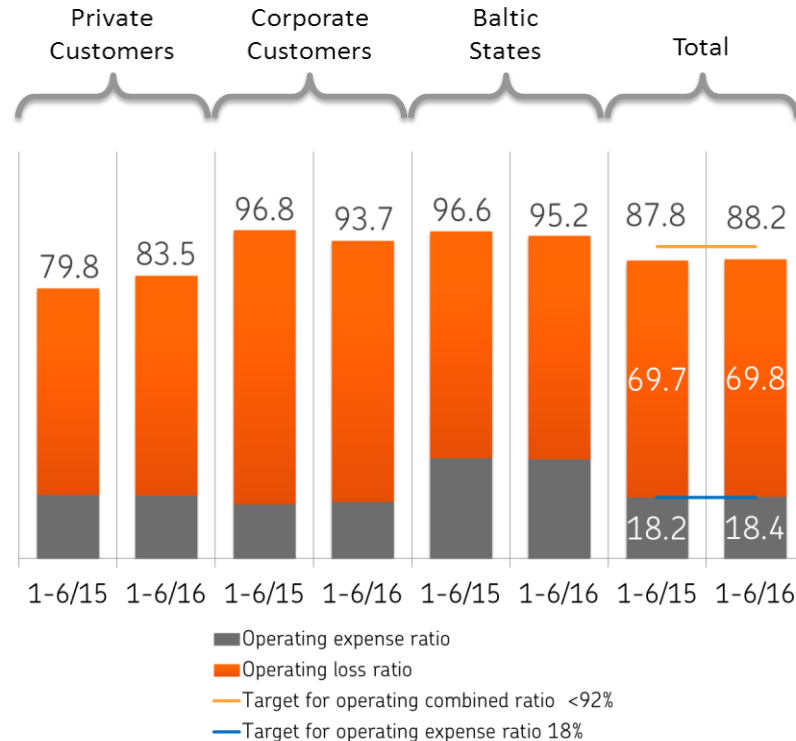
# Insurance premium revenue growth from private customers

Insurance premium revenue, € mn and change by division 1-6/16 vs. 1-6/15



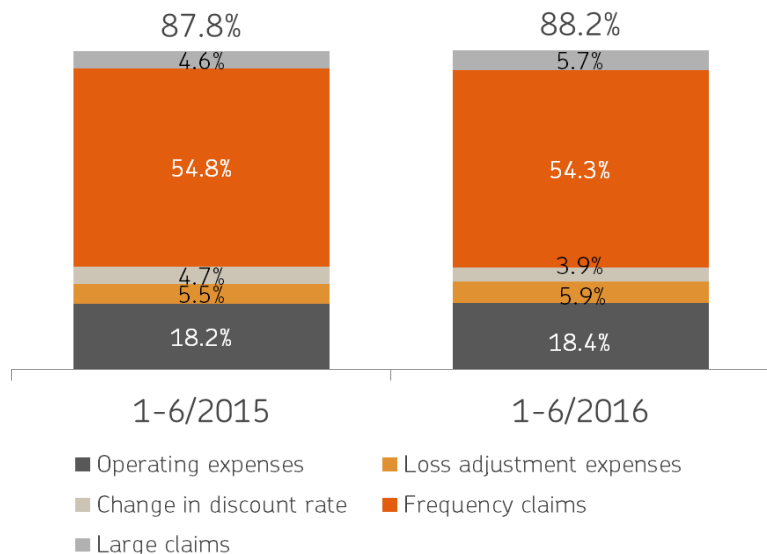
# Balance on technical account

Operating combined ratio by division Q1–2/16 vs. Q1–2/15, %

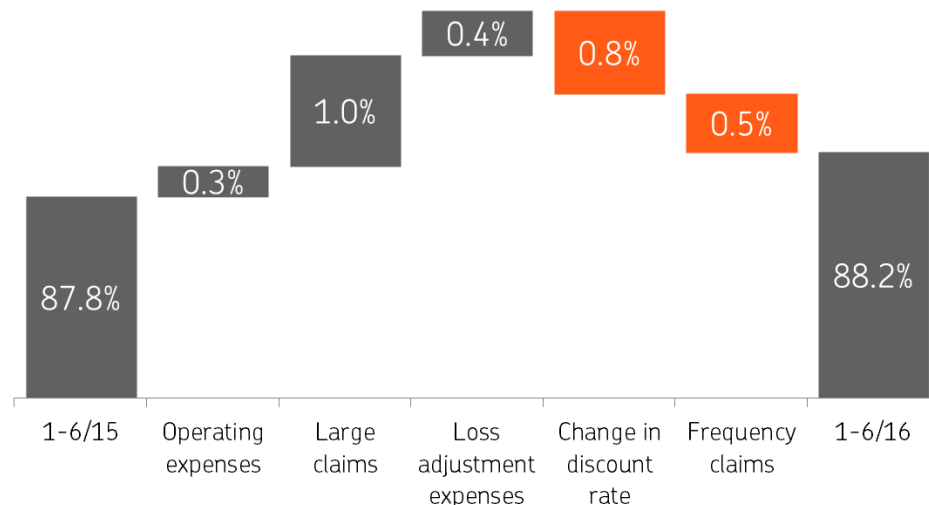


# Balance on technical account

Operating combined ratio  
by component, %

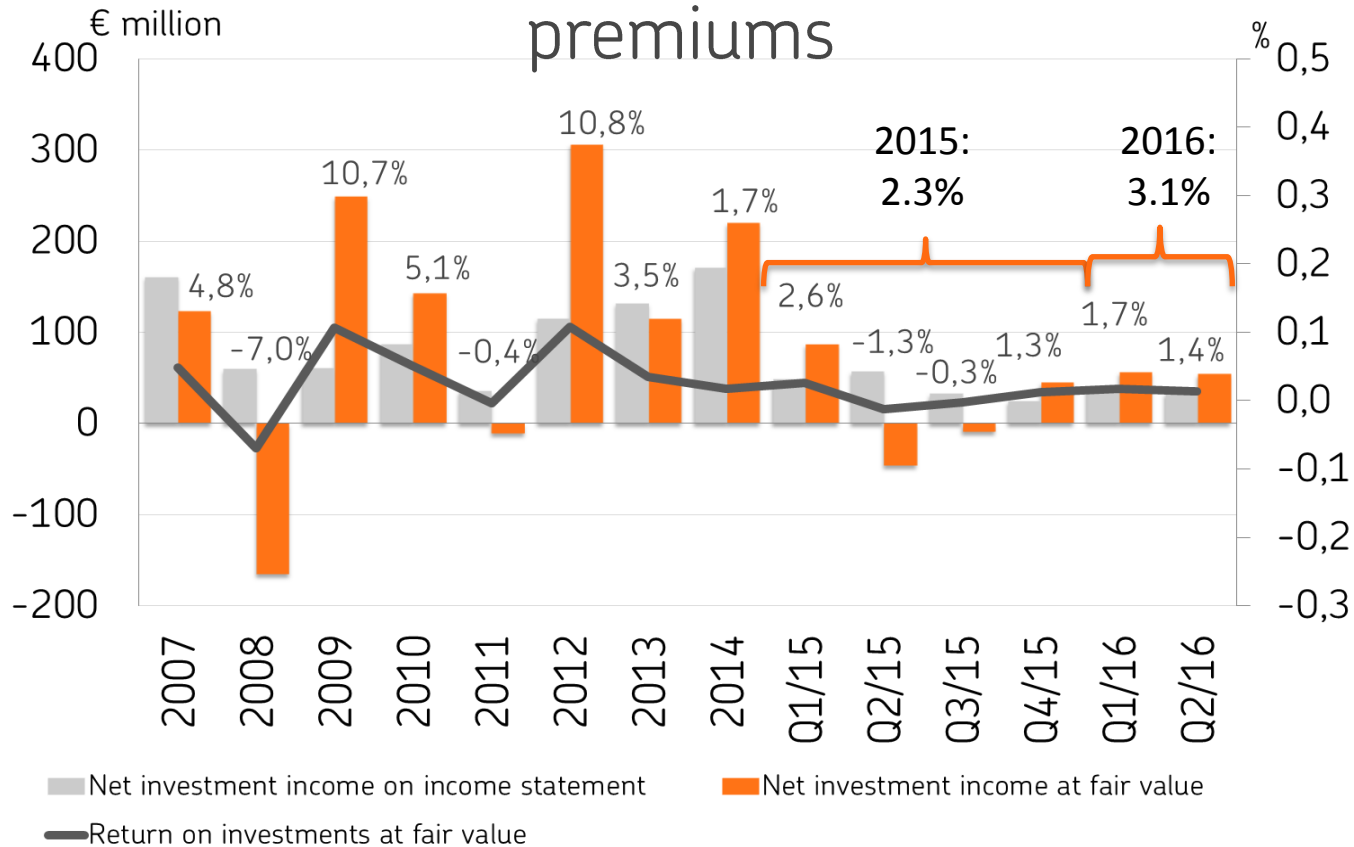


Change in operating combined ratio, %



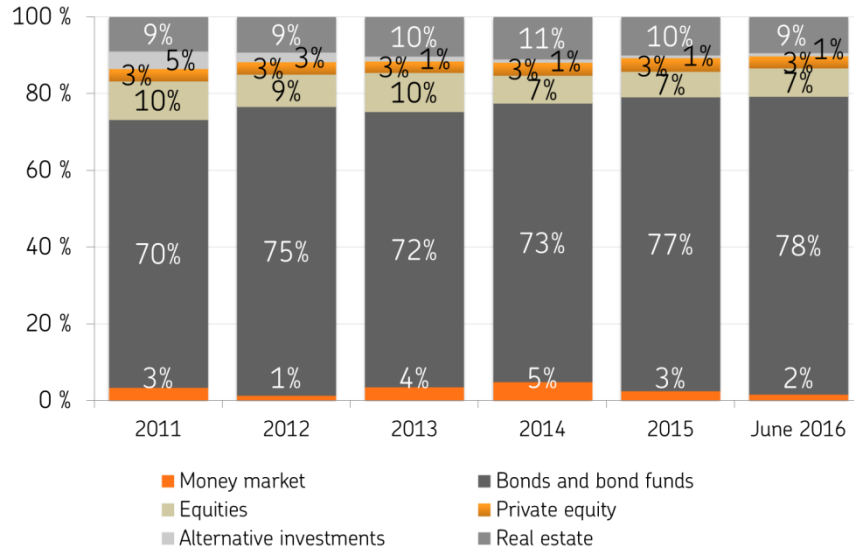
Changes in claims for previous years (run off result), excl. the effect of the reduction in the discount rate, improved the balance on technical account by €40 million (13) in January–June 2016.

# Positive net investment income due to lower interest rates and corporate loan risk premiums

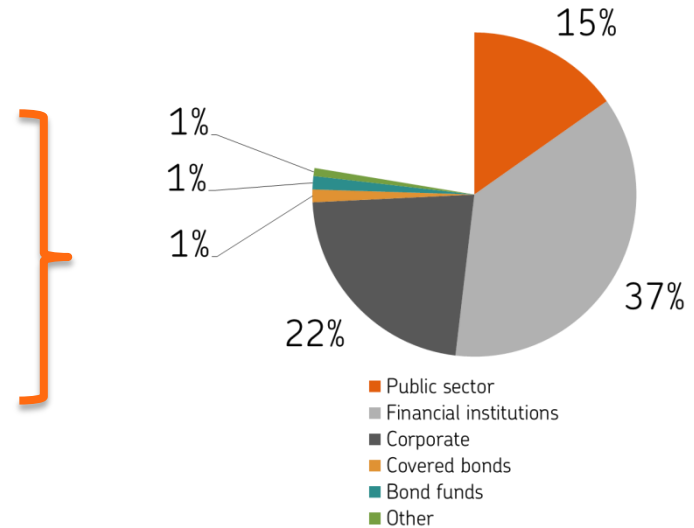


# Investment portfolio allocation unchanged

Investment portfolio (€3.8 bn) by asset class as of 30 June 2016



Bonds and bond funds (78%)



The average residual term to maturity of the fixed-income portfolio was 5.7 years (5.7) and the duration 5.1 years (5.2).

The running yield for direct bond investments averaged 1.71% (1.71) at end-June 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.

- 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 H1/2016

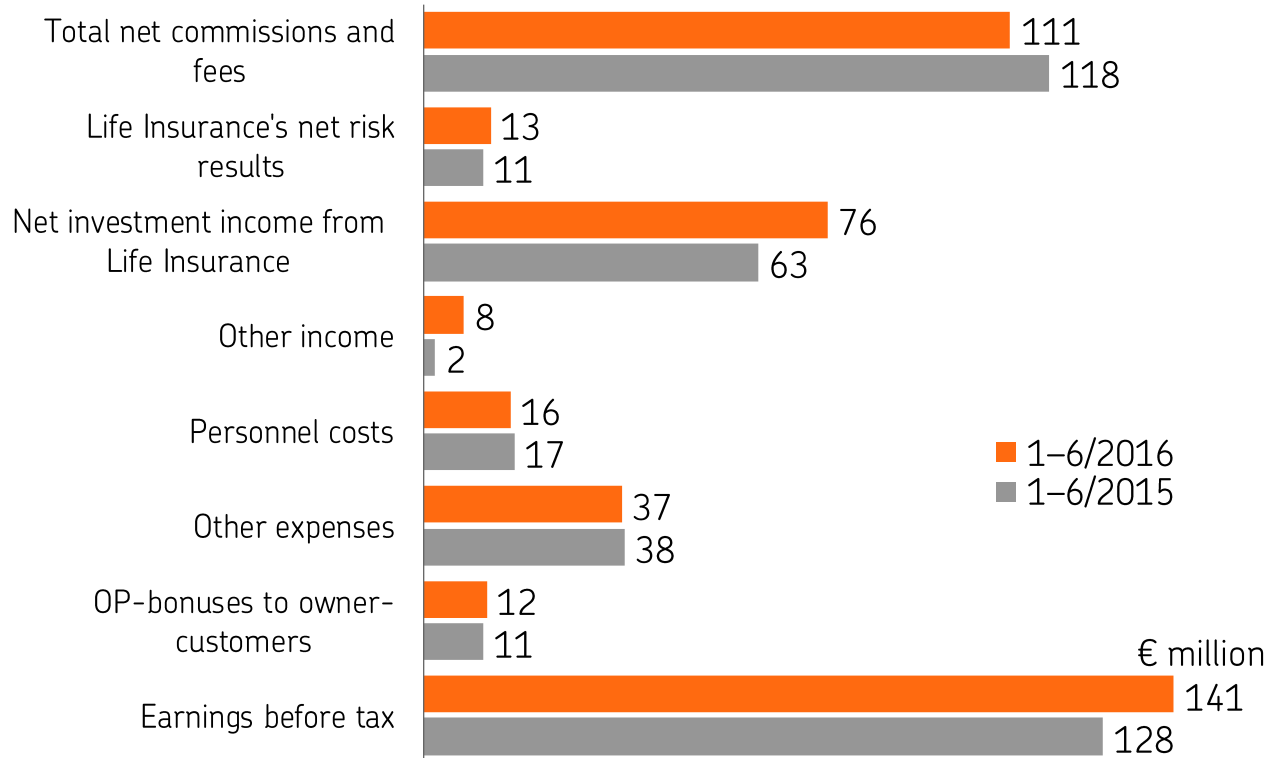
EBT

EUR 141 million

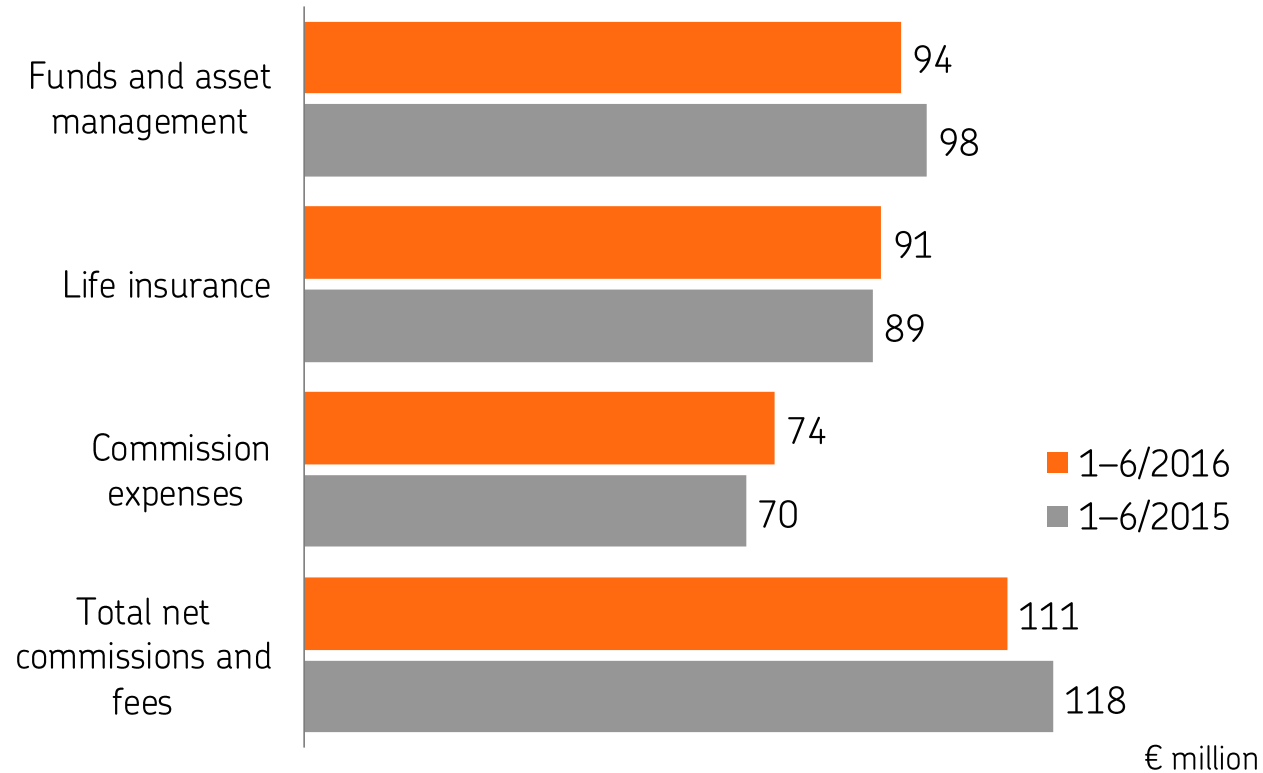
Assets under management

EUR 68.8 billion

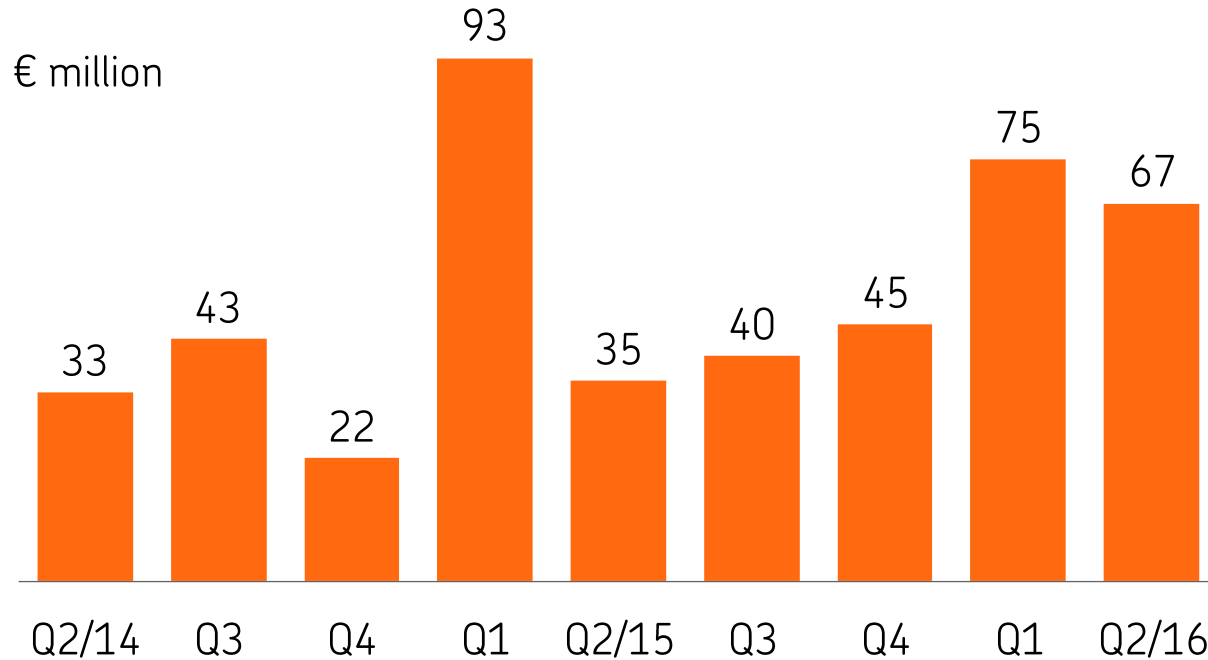
# Wealth Management income statement



# Wealth Management net commissions and fees

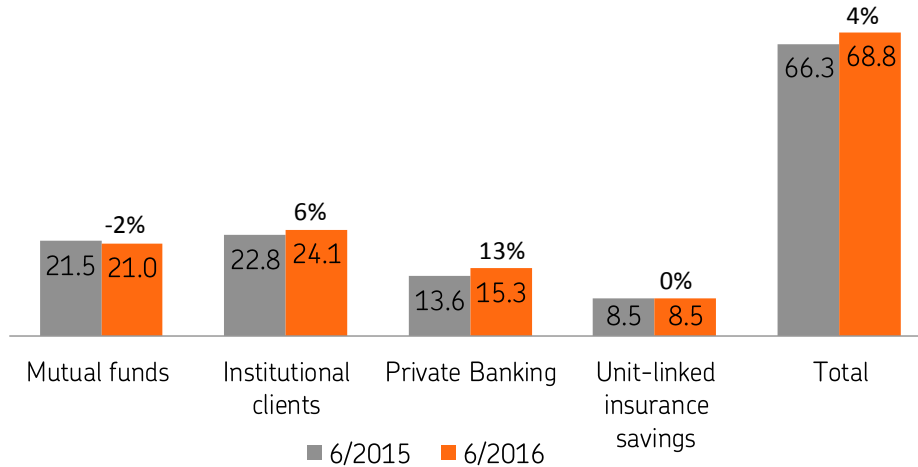


# Wealth Management EBT by quarter

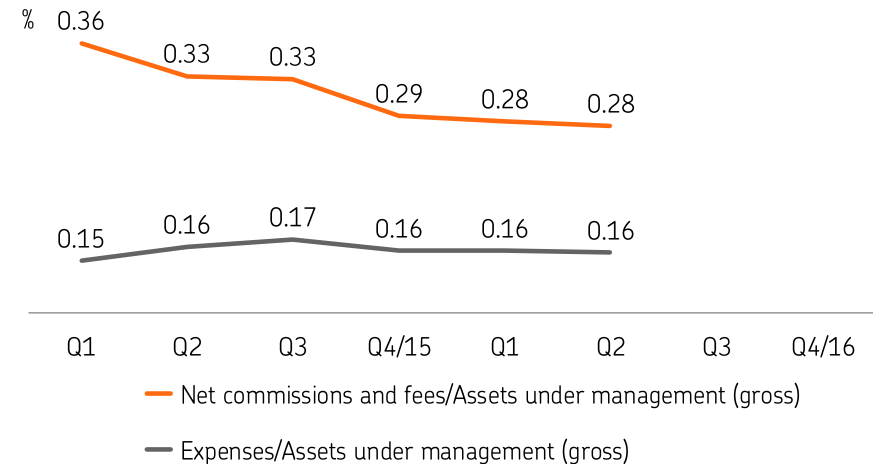


# Moderate growth in assets under management despite capital market uncertainty

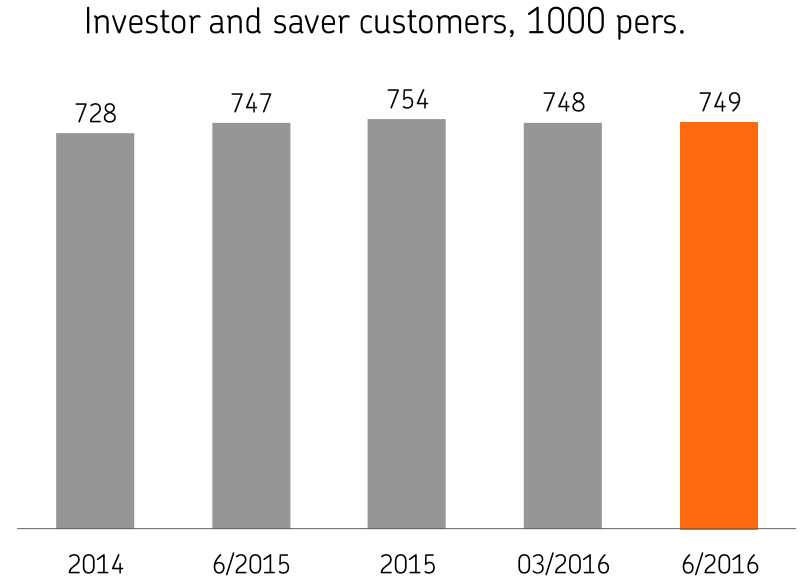
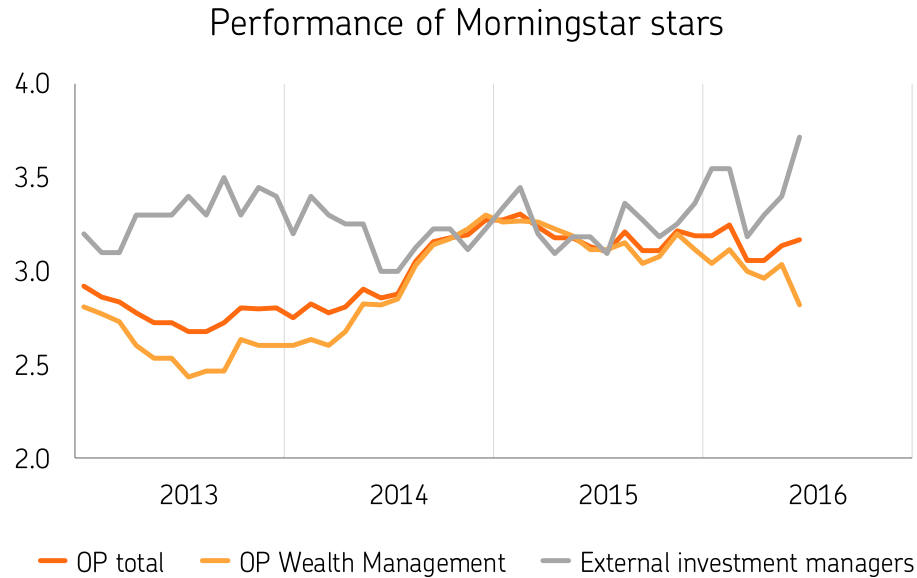
Assets under management (gross) €billion



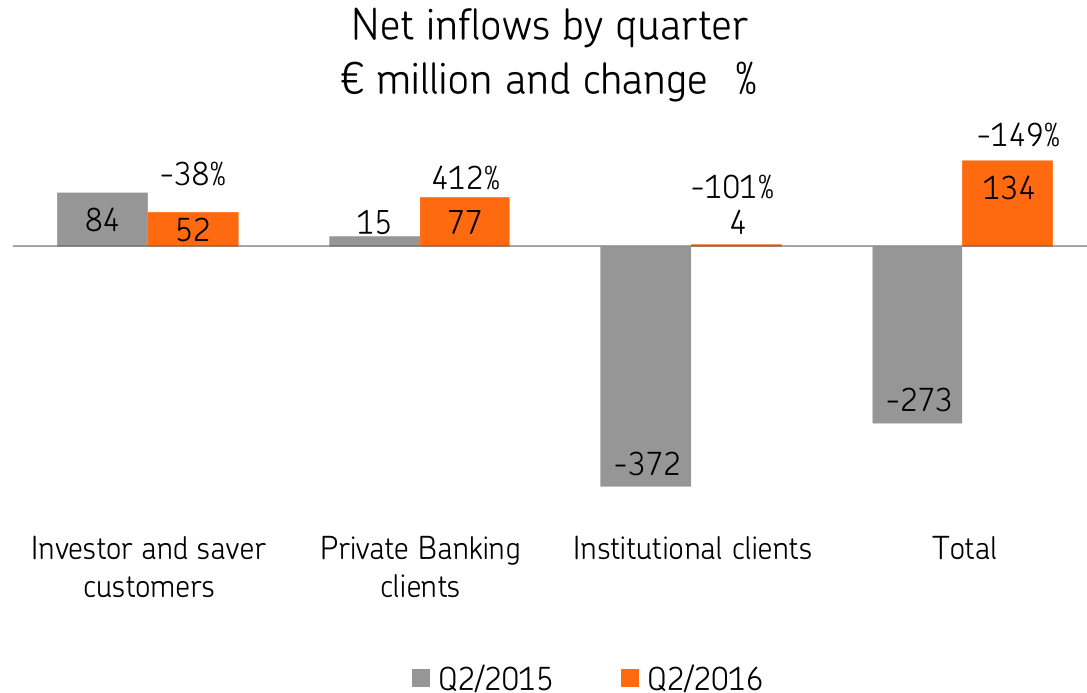
Income and expenses/Assets under management



# Number of clients and performance of mutual funds at good level

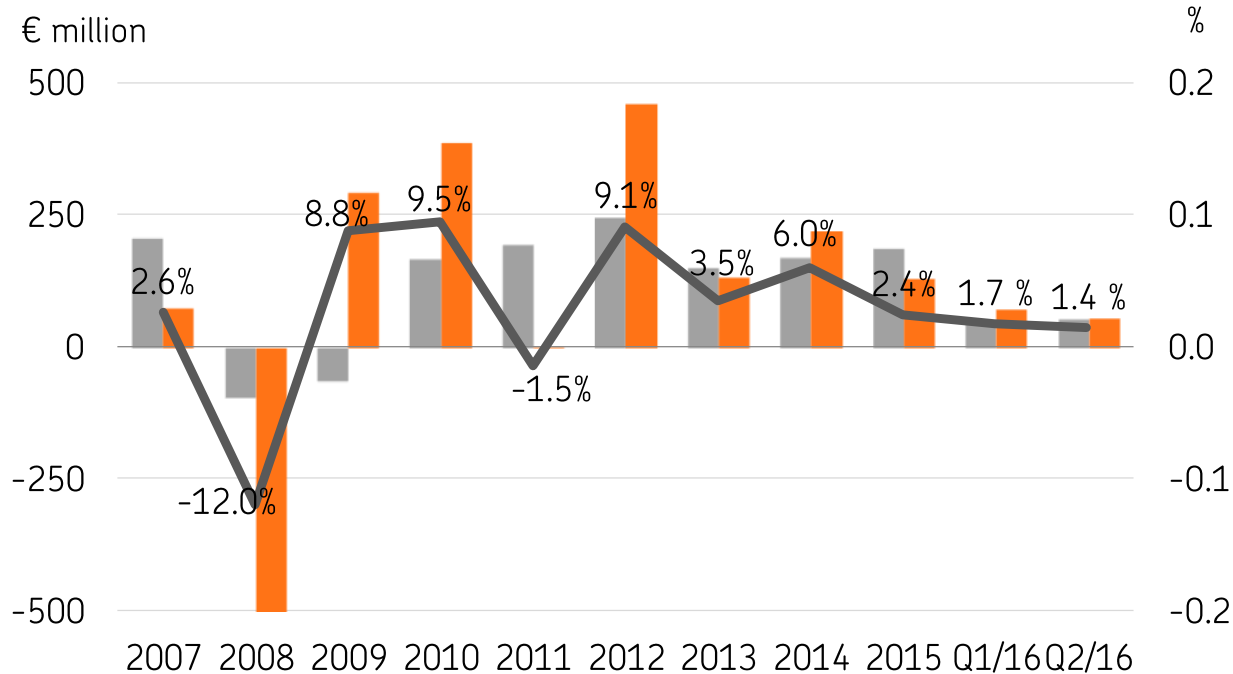


# Net inflows at low level due to capital market uncertainty



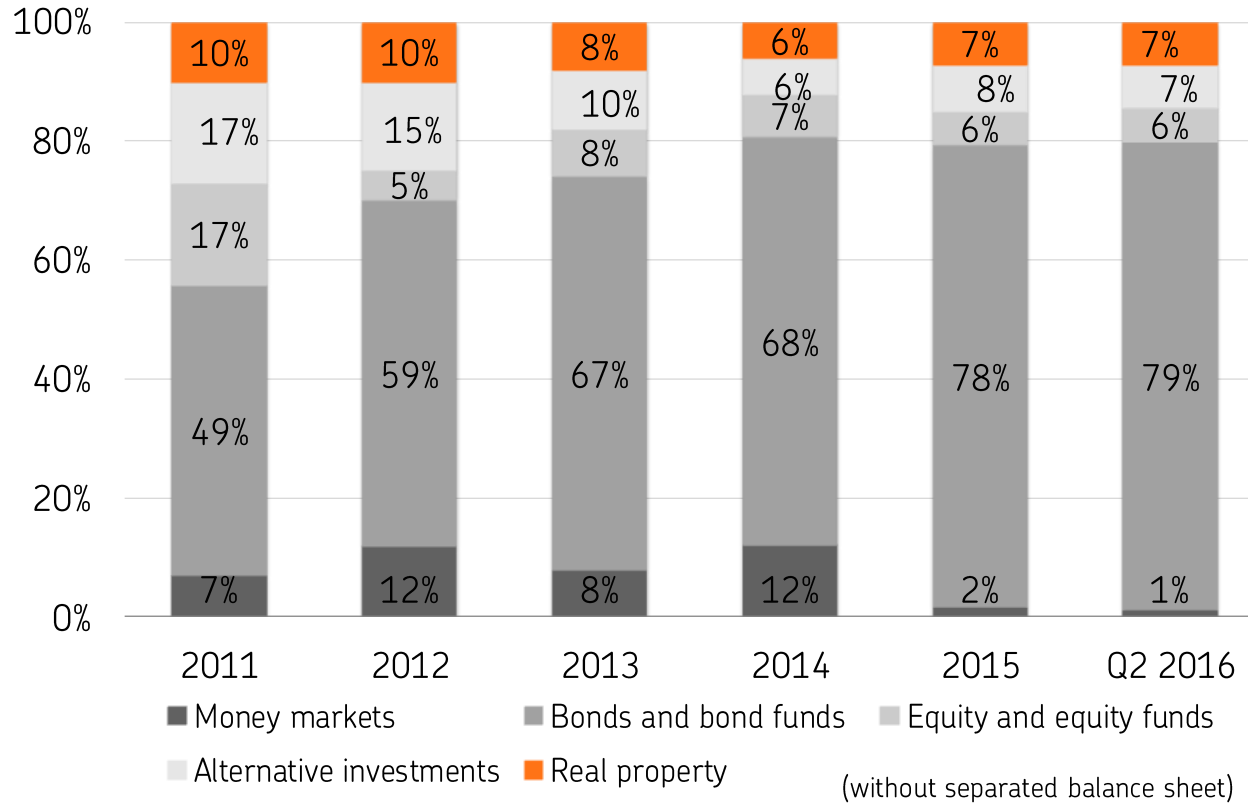


# Life Insurance cumulative investment return, year-to-date 3.1%



Net investment income on income statement  
 Net investment income at fair value  
 Return on investments at fair value (without separated balance sheet)

# Risk level of Life Insurance investment assets (EUR 4.1 billion) has been lowered with determination

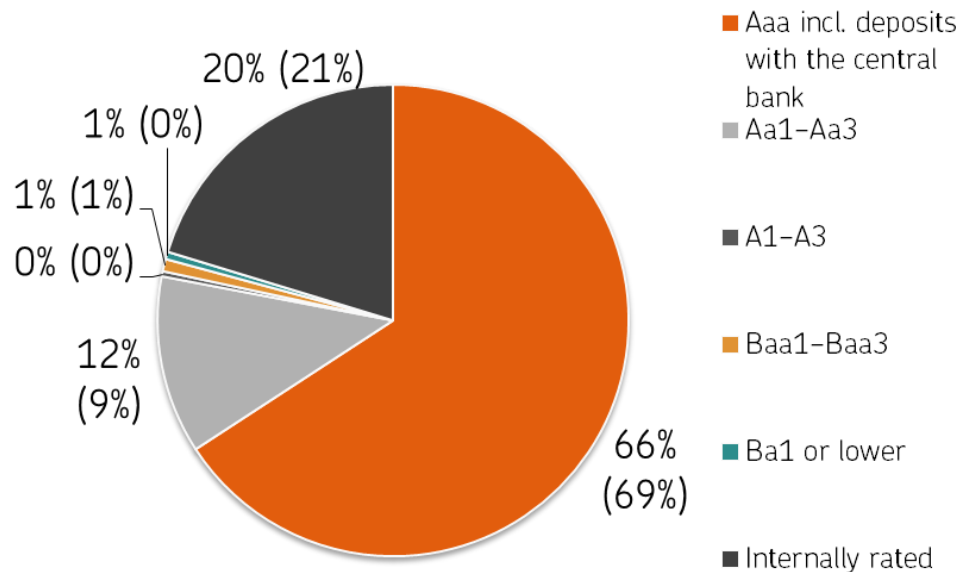


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# Liquidity and funding

# Liquidity buffer €22.0 bn at end-June

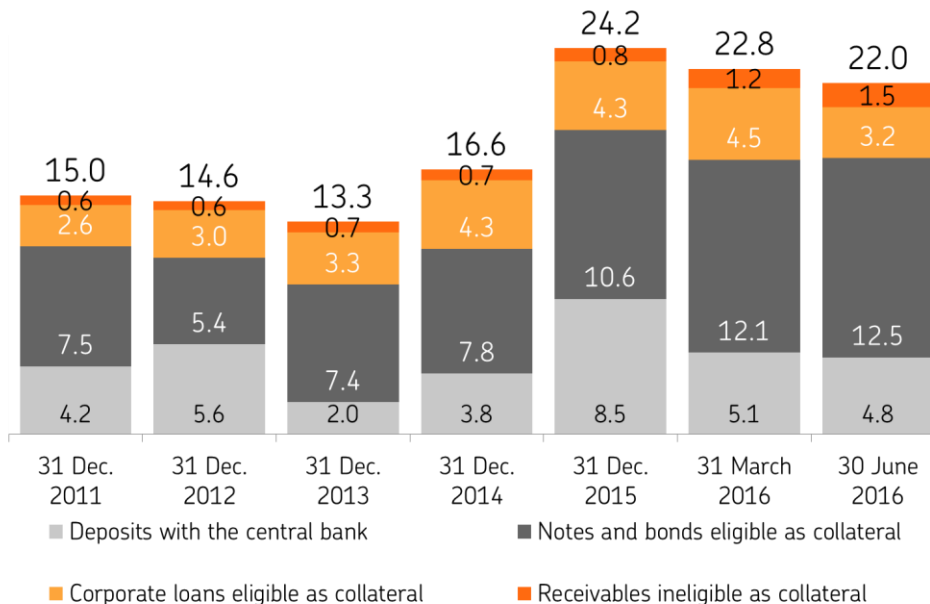
Liquidity buffer by credit rating\* as of 30 June 2016 (31 Dec. 2015)



OP \*) Internally rated: corporate loans 71% and the remainder externally non-rated notes and bonds issued by public-sector entities and companies, both eligible as ECB collateral.

# Majority of liquidity buffer eligible as ECB collateral

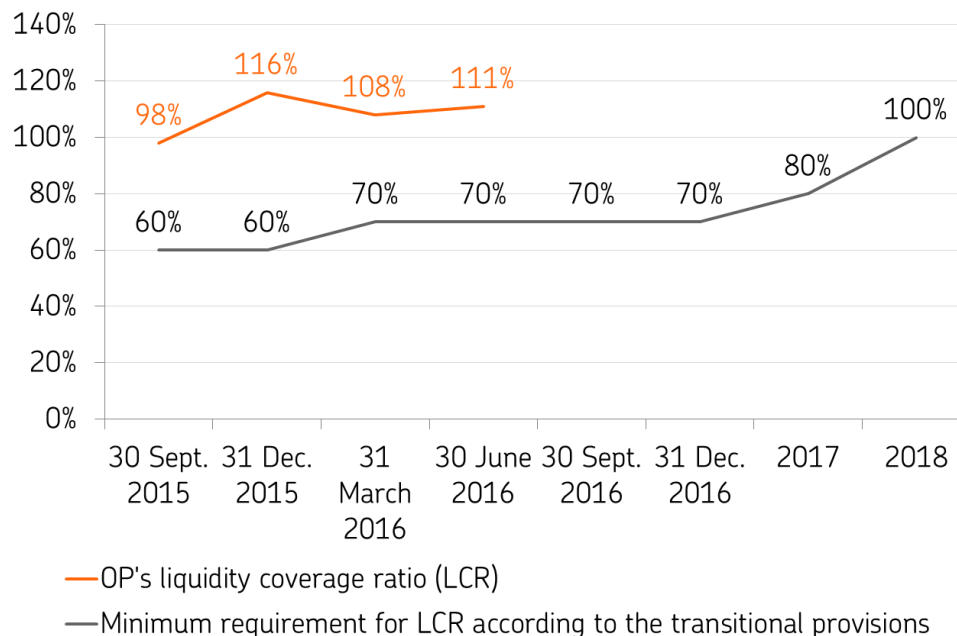
Liquidity buffer breakdown\*, € bn



OP \*) 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.

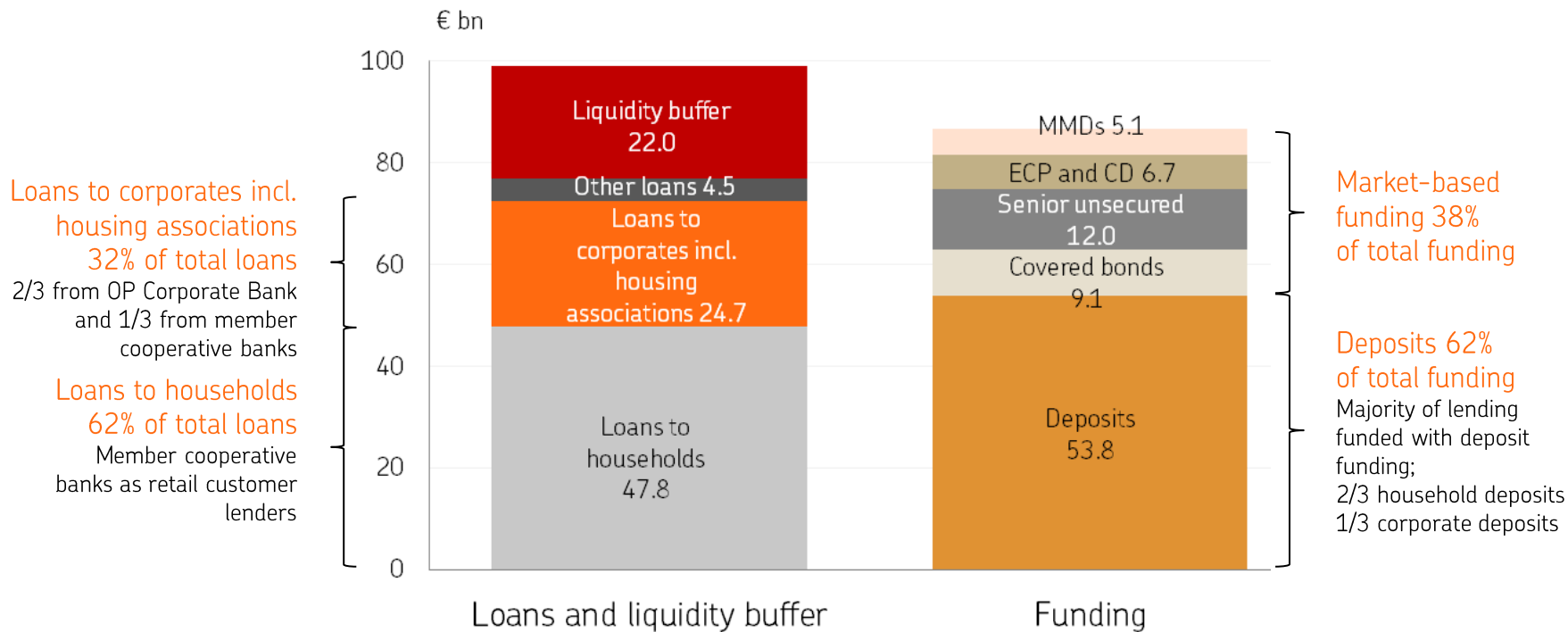
# Liquidity coverage ratio improved to 111%

OP 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.



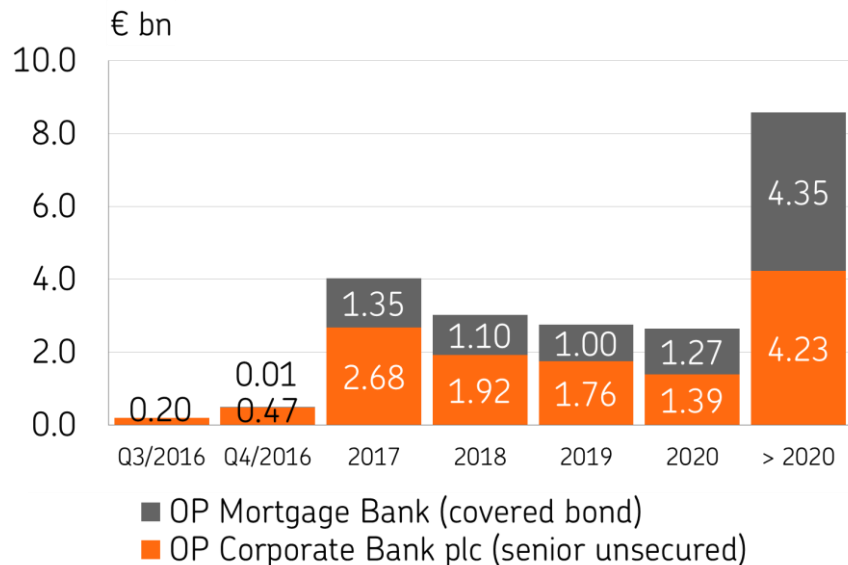
# Loans, liquidity buffer and funding

30 June 2016

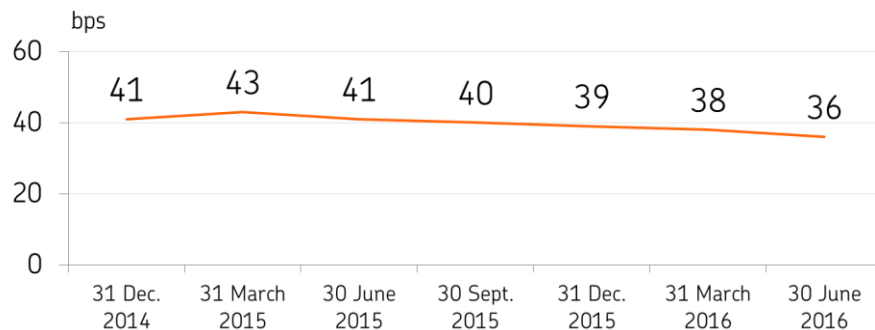


# Maturity breakdown and average margin of senior wholesale funding

Issued senior unsecured and covered bonds by maturity, 30 June 2016



Average margin of senior wholesale funding, bps



OP issued long-term bonds worth €2.1 billion during H1/2016. Additionally, OP participated in ECB's June 2016 TLTRO II financing operation by €1 billion.



# Issued senior unsecured and covered bonds

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

Year	Month	Amount	Maturity	Interest rate
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
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

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# Capital Adequacy

# Two capital adequacy ratios

Capital adequacy for credit institutions = capital adequacy of the amalgamation of cooperative banks

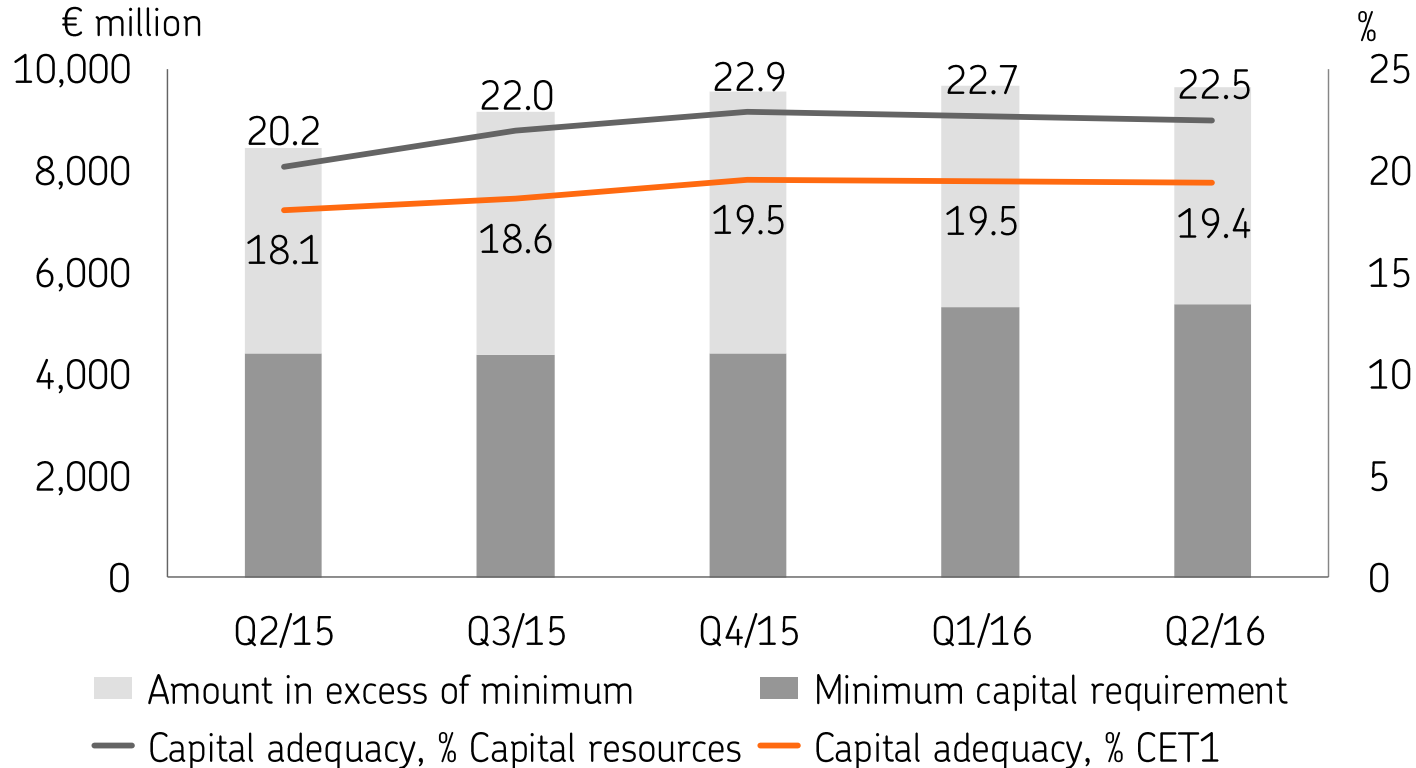
- The Group's operations are based on the Act on the Amalgamation of Deposit Banks
- The Act on the Amalgamation of Deposit Banks sets the minimum capital for the amalgamation of cooperative banks, which is calculated according to the CRR rules and the Act on Credit Institutions.
- The amalgamation of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

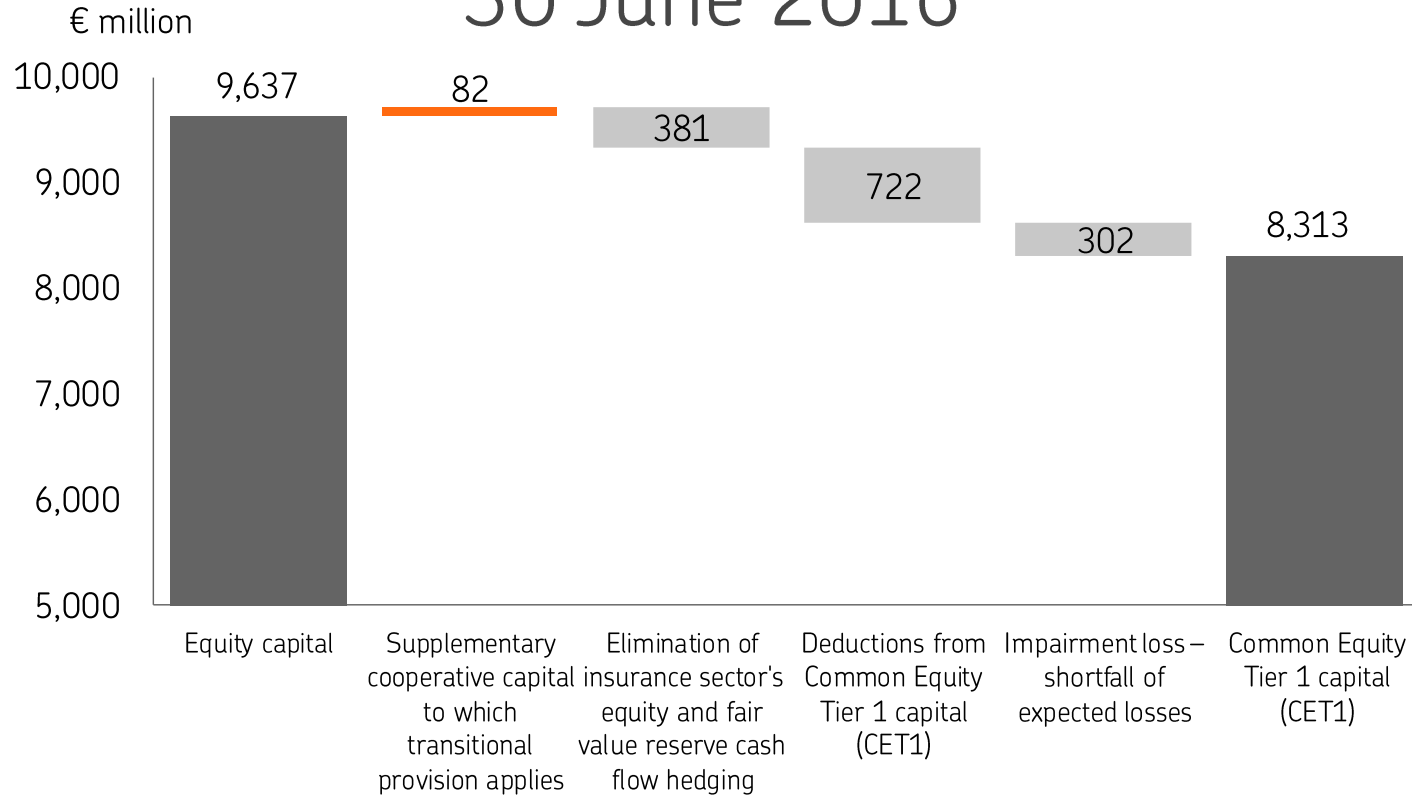
# Amalgamation of the cooperative banks

## Capital resources and capital adequacy

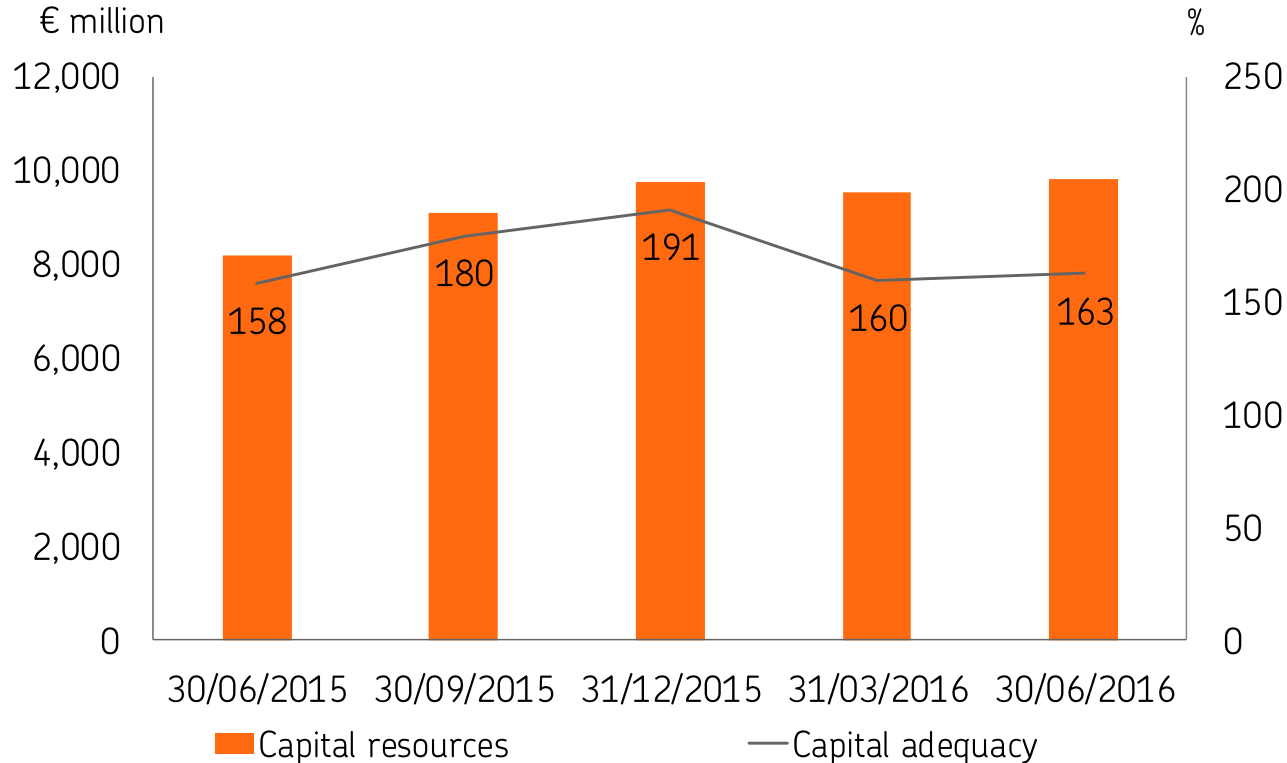


# Common Equity Tier 1 (CET1)

## 30 June 2016

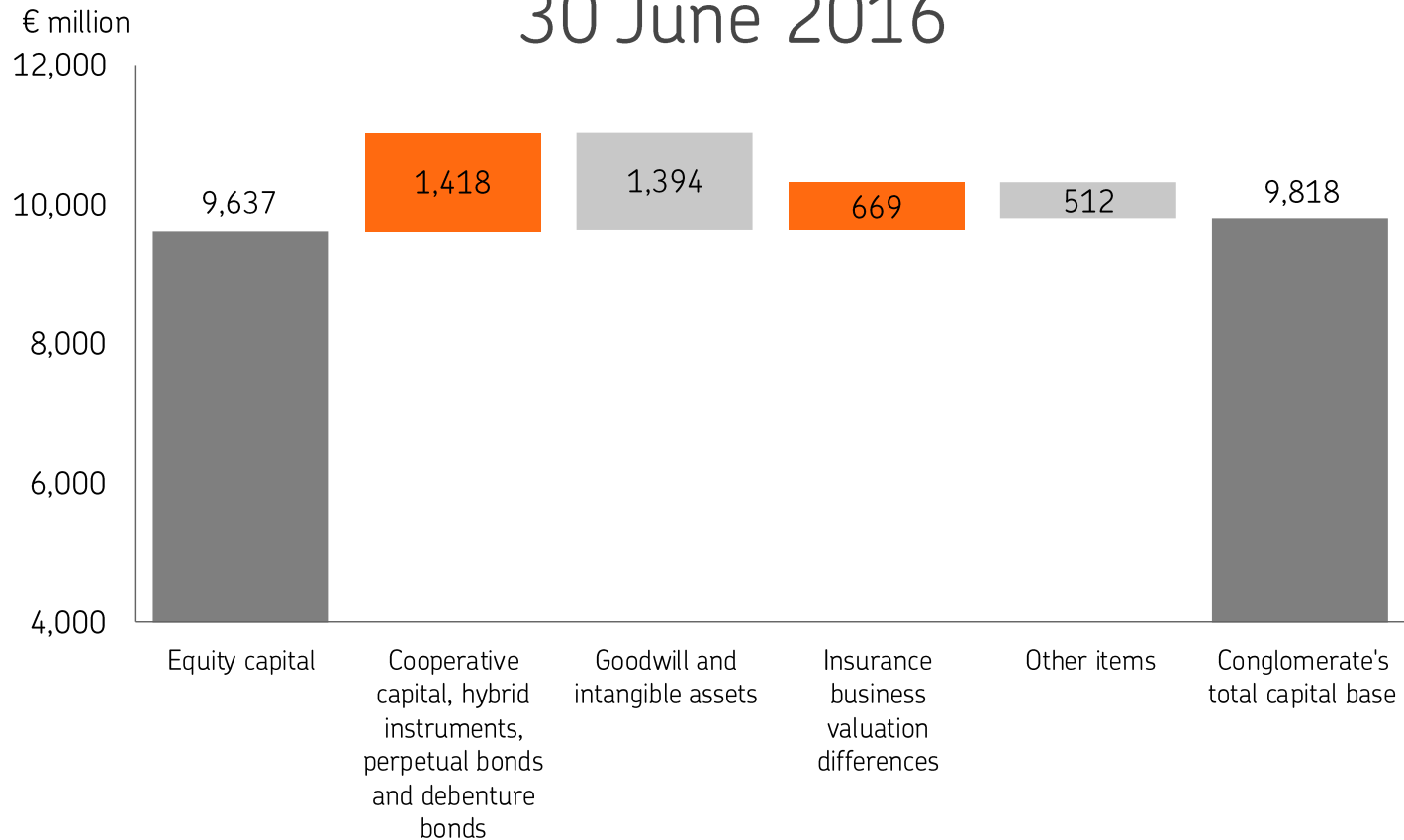


# OP Financial Group Conglomerate's capital adequacy (FiCo)



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

## 30 June 2016





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# OP in a Nutshell

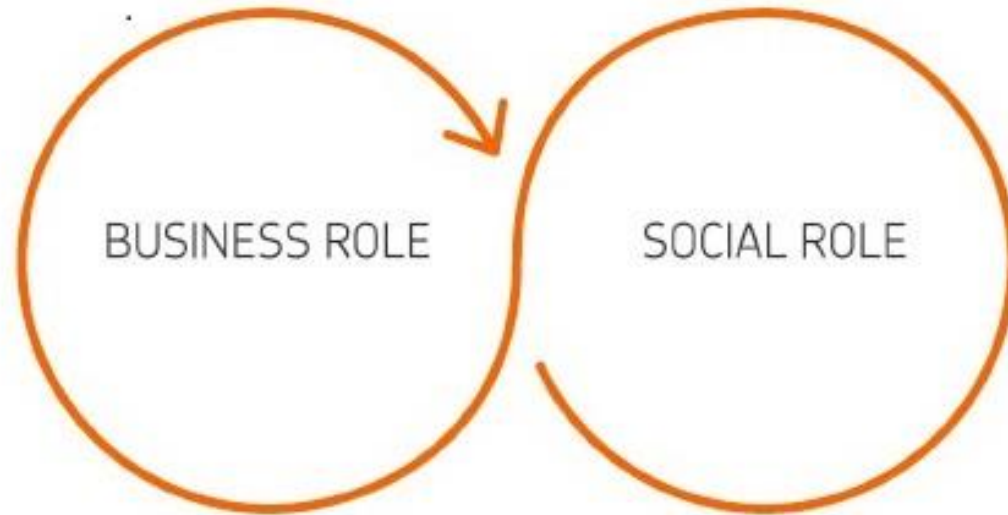


# Key changes

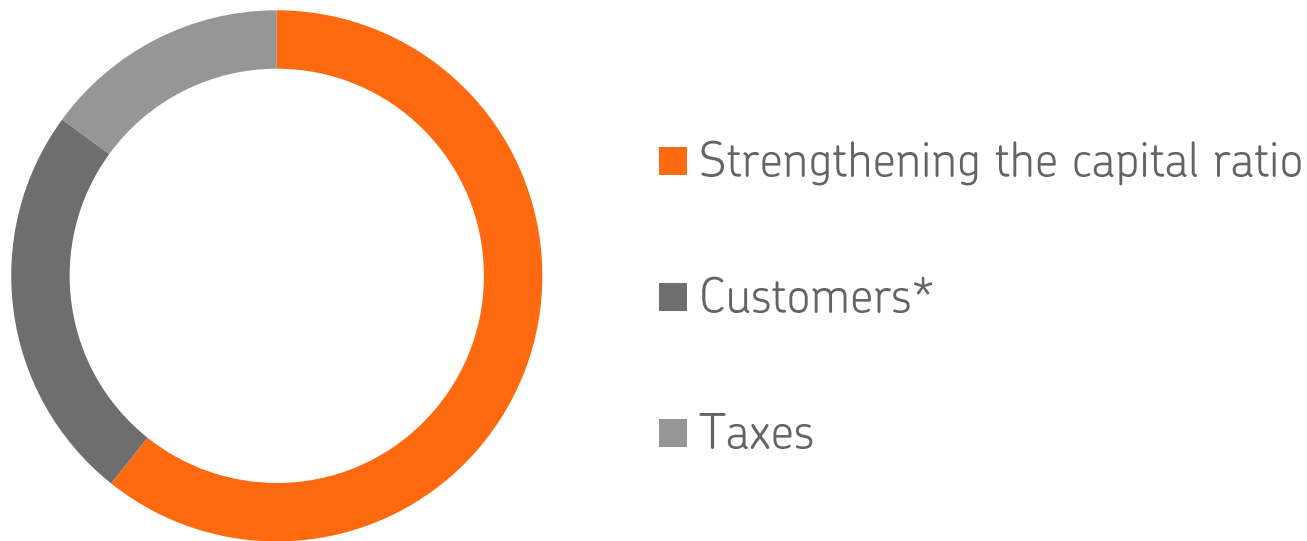
- On 4 April 2016, business names beginning with Pohjola changed to those beginning with OP. As a result, Pohjola Bank plc became OP Corporate Bank plc, for example. Banking, Non-life Insurance and Wealth Management are all now operating under the single OP brand.
- Helsinki OP Bank Ltd became a customer-owned bank on 1 April 2016 and was renamed Helsinki Area Cooperative Bank, or OP Helsinki.
- OP is building a new hospital network in Finland under the Pohjola Health brand. OP has decided to open four new private hospitals in Finland. It is also branching out into specialised medicine.



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



Estimate of the allocation of period earnings, which is confirmed after the end of the reporting period

\*) Customers = customer bonuses, discounts on insurance policies and interest on contributions made by owner-customers

# OP Financial Group's targets

## Long-term financial targets

CET1 ratio, %	22
Return on economic capital, % (12-month rolling)	22
Expenses of present-day business, (12-month rolling), € million	Expenses in 2019 lower than in 2015
Owner-customers, million	2.1 (2019)

## 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

	1-30 June 2016	30 June 2016	12-month change
<b>Online and mobile services</b>			
Op.fi visits (private customers )	9,905,374	-	- 3,7%
OP-mobile visits, (private customers )	11,564,684	-	+ 52,9%
Pivo mobile wallet application visits	1,594,239	-	-5,3%
eServices Agreements (private customers)	-	1,677,644	+ 59,785
<b>Branches and telephone services</b>			
Bank branches	-	448	+ 3
Providing both non-life insurance and banking services	-	341	- 6
Private Banking branches	-	39	- 1
OP-Kiinteistökeskus real estate agencies	-	158	- 4
Customer contacts in telephone service	362,434	-	+ 64,553
<b>Social media</b>			
Followers on Facebook (OP Financial Group and member cooperative banks)	-	219,235	+ 47,339
Followers on Twitter	-	21,241	+ 5,046
Followers on LinkedIn	-	10,312	+ 1,933
Followers on Instagram	-	3178	-

# 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.

