



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

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OP Financial Group's  
Interim Report





# OP Financial Group's key figures and ratios

## Earnings and growth in the number of new customers at record levels

	Q1-3/2016	Q1-3/2015	Change, %	Q1-4/2015
Earnings before tax, EUR million	921	926	-0.6	1,101
Banking	467	531	-12.0	642
Non-life Insurance	200	218	-8.5	259
Wealth Management	191	168	13.9	213
New OP bonuses accrued to owner-customers	154	147	4.8	197
	30-Sep-16	30-Sep-15	Change, %	31-Dec-15
Common Equity Tier 1 (CET1) ratio, %	19.7	18.6	1.0 *	19.5
Return on economic capital, % **	22.2	21.2	1.0 *	21.5
Ratio of capital base to minimum amount of capital base (under the Act on the Supervision of Financial and Insurance Conglomerates) % ***	164	180	-16 *	191
Ratio of impairment loss on receivables to loan and guarantee portfolio, %	0.06	0.08	0.0 *	0.10
Joint banking and insurance customers (1,000)	1,720	1,637	5.1	1,656

\* Change in ratio

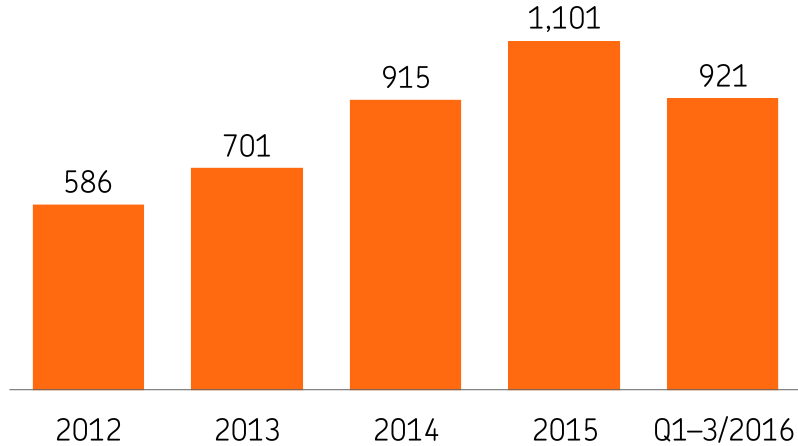
\*\* 12-month rolling, change in percentage

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

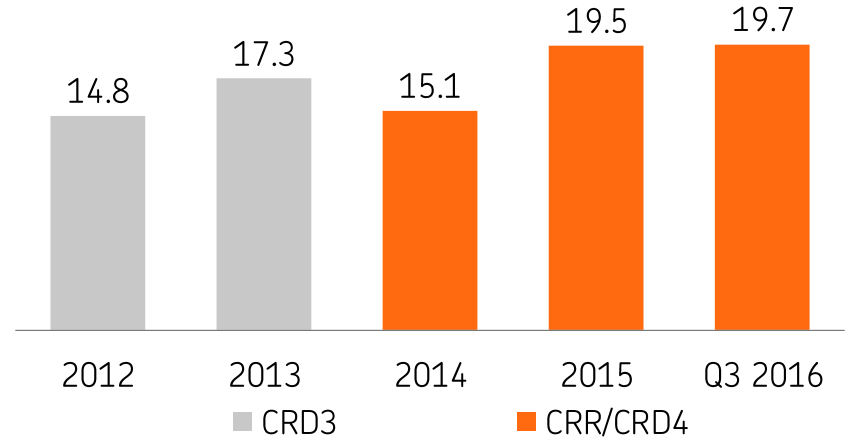
- January–September earnings were the second best ever recorded by the Group.
- Net interest income increased by 4% and net insurance income by 5% but net commissions and fees decreased by 2%.
- Expenses rose by 3% due mainly to higher development expenditure.
- Full-year earnings for 2016 are expected to be of about the same size as the record earnings reported in 2015.

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

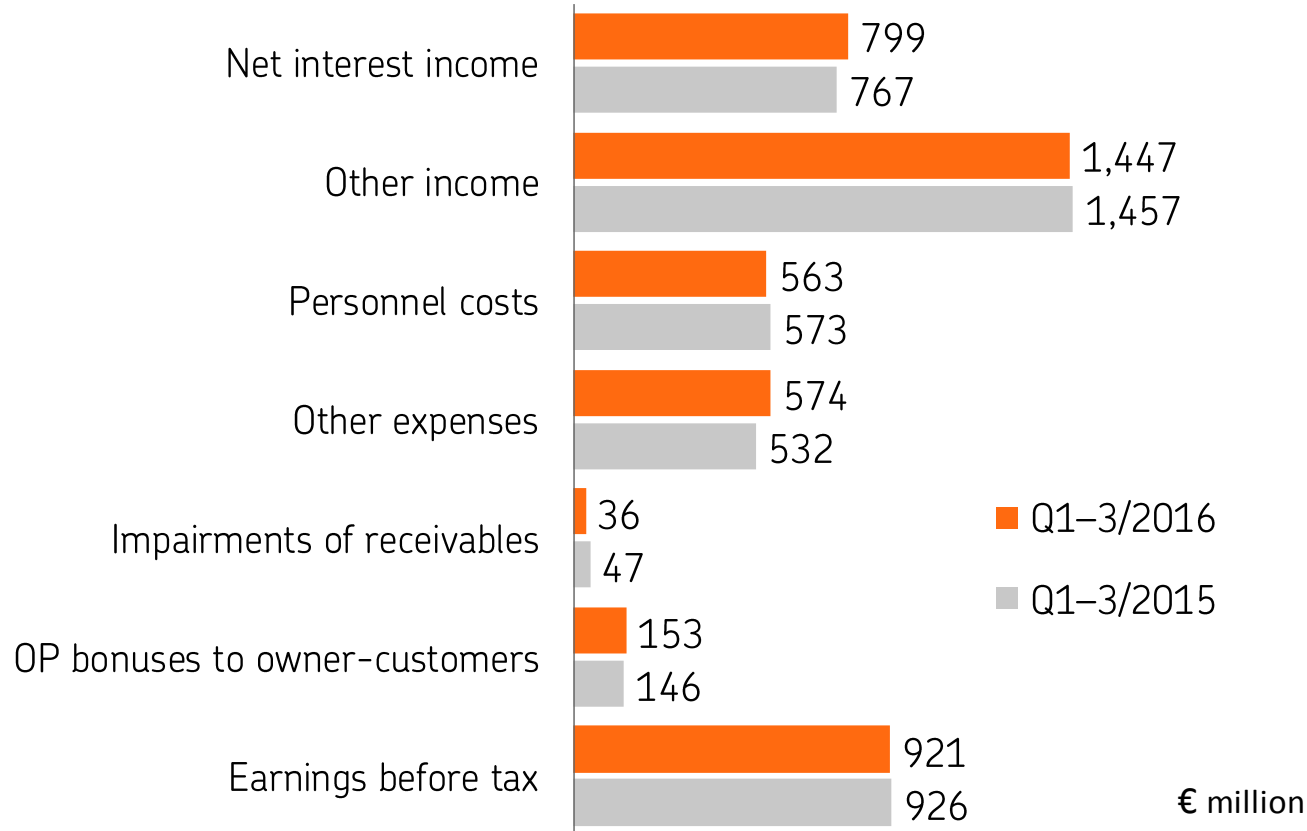
Earnings before tax, € million



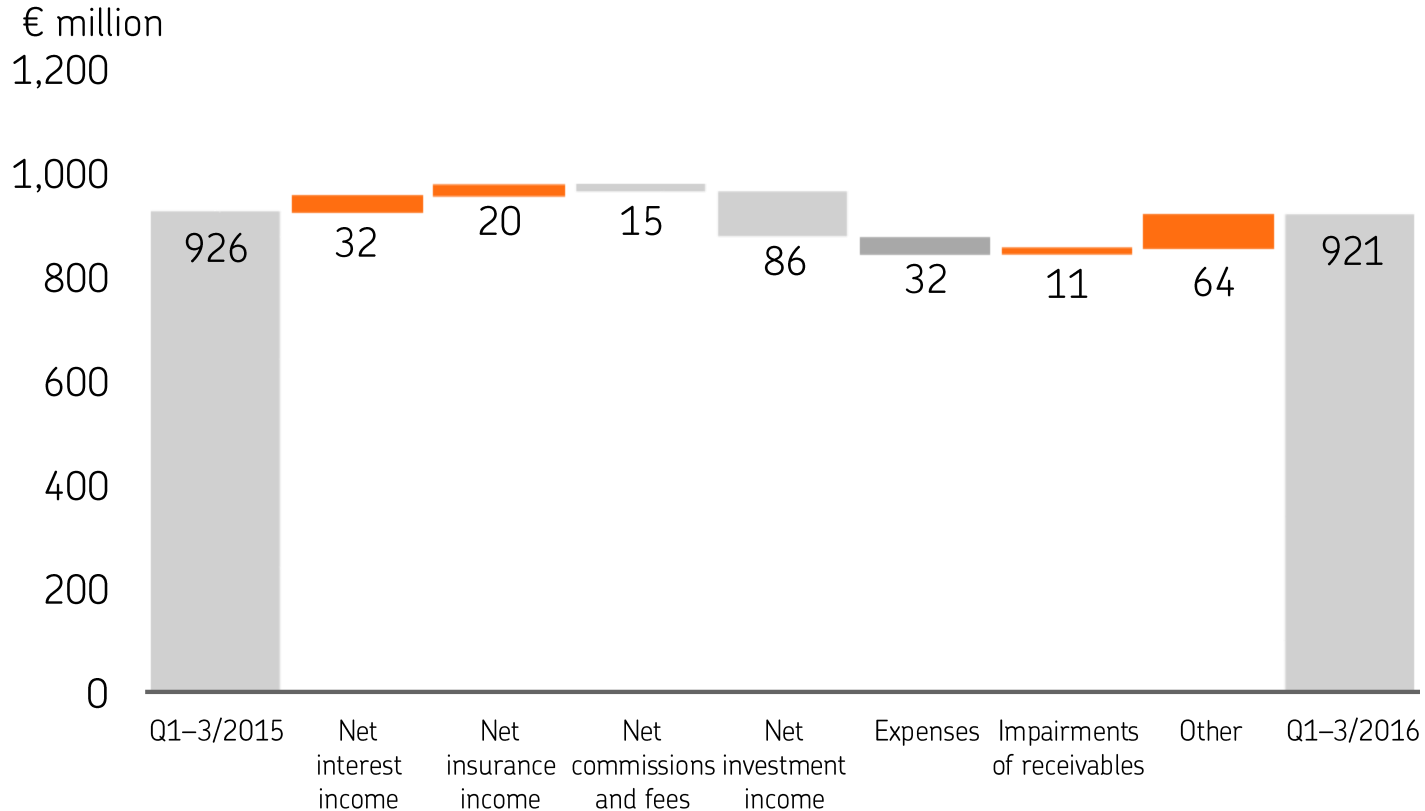
Common Equity Tier 1 ratio (CET1),  
Core tier 1 before transitional provisions, %



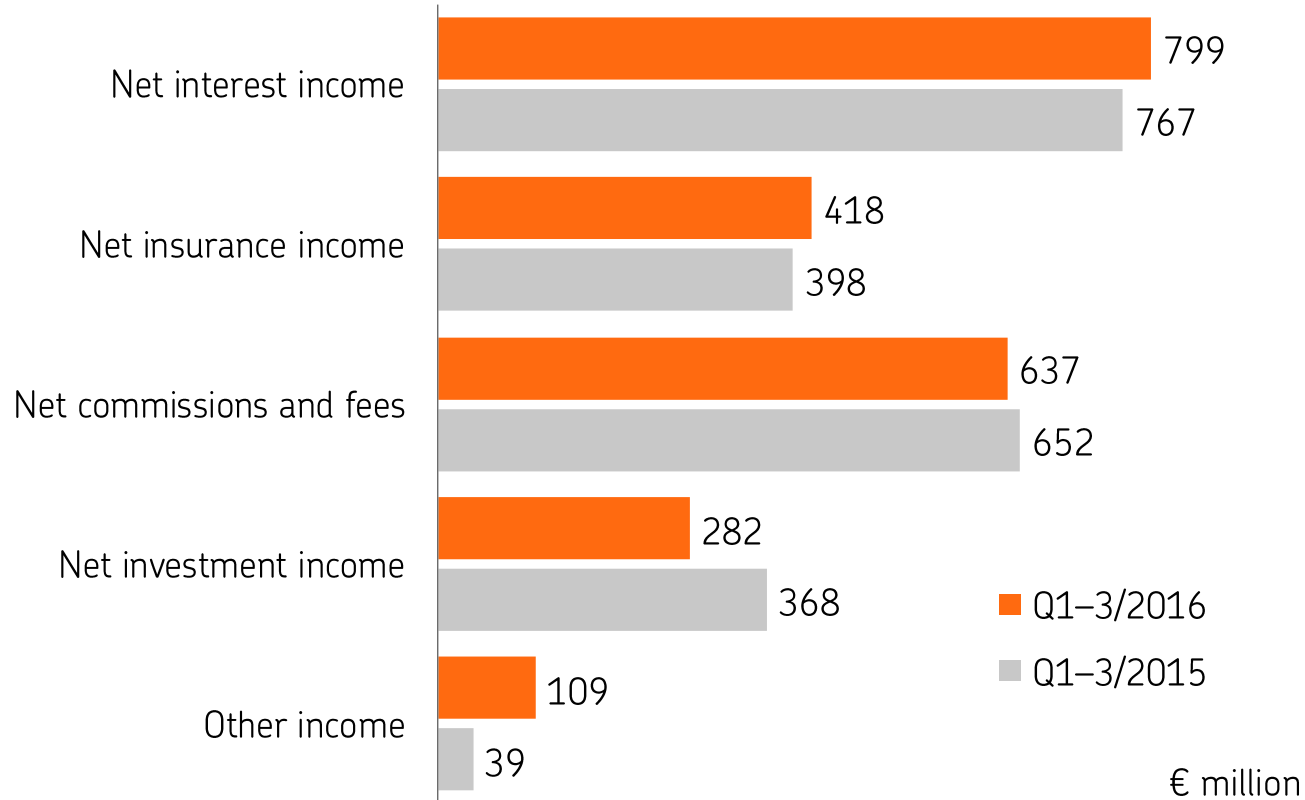
# OP Financial Group's income and expenses remained close to those a year ago



# OP Financial Group's earnings were reduced by lower investment income and higher expenses

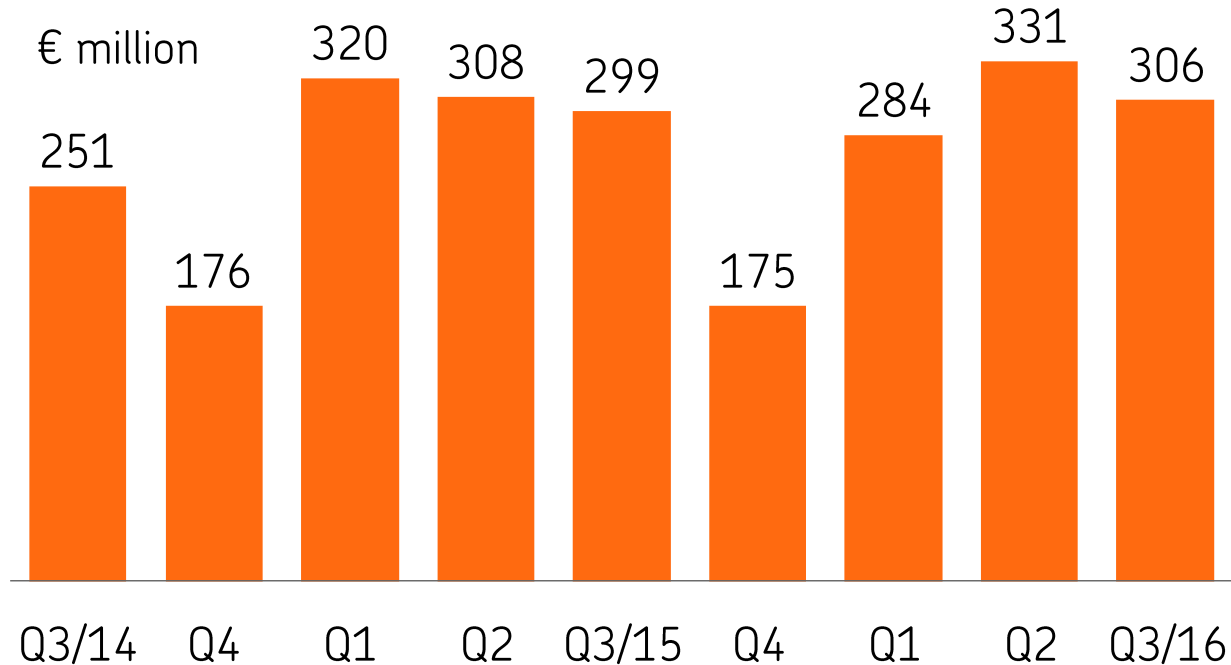


# OP Financial Group's net interest income and net insurance income increased

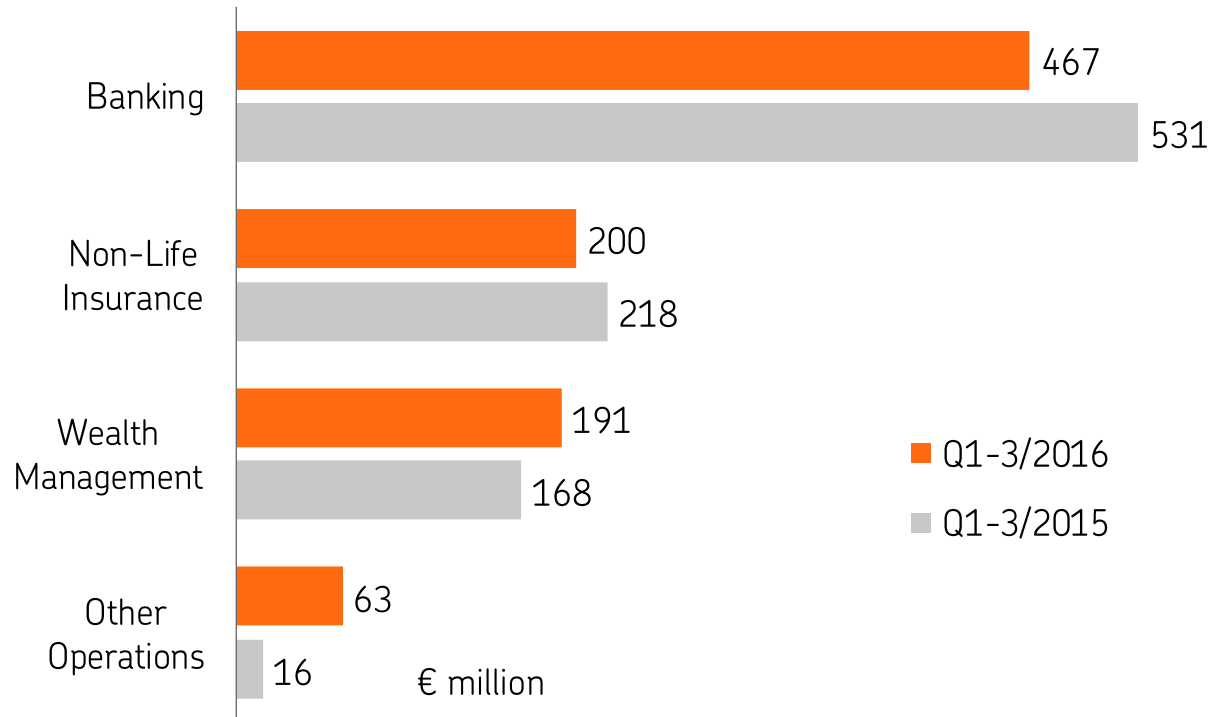




# OP Financial Group's EBT by quarter



# OP Financial Group's EBT by business segment



# OP Financial Group's income statement

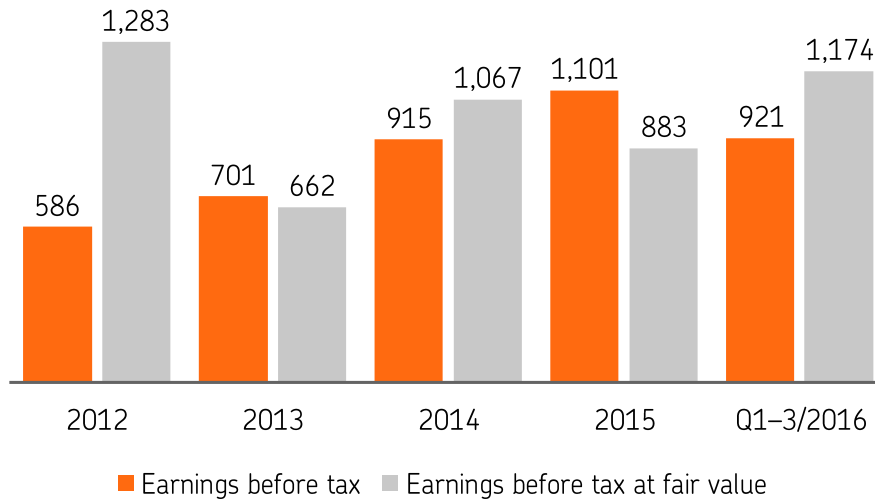
January 1 to September 30	2016	2015	Change, €million	%	Q3/16	Q3/15	Change, %
Net interest income	799	767	32	4.2	271	256	5.9
Net insurance income	418	398	20	5.1	149	140	6.8
Net commissions and fees	637	652	-15	-2.3	200	205	-2.3
Net investment income	282	368	-86	-23.5	99	79	25.2
Other income	109	39	70		12	10	
<b>Total income</b>	<b>2,245</b>	<b>2,224</b>	<b>21</b>	<b>1.0</b>	<b>732</b>	<b>690</b>	<b>6.0</b>
Personnel costs	563	573	-10	-1.8	167	172	-2.6
Other expenses	574	532	42	7.9	193	159	21.7
<b>Total expenses</b>	<b>1,136</b>	<b>1,105</b>	<b>32</b>	<b>2.9</b>	<b>361</b>	<b>331</b>	<b>9.1</b>
Other	188	193	-5	-2.4	65	60	7.8
<b>Earnings before tax</b>	<b>921</b>	<b>926</b>	<b>-6</b>	<b>-0.6</b>	<b>306</b>	<b>299</b>	<b>2.4</b>

# OP Financial Group's quarterly performance

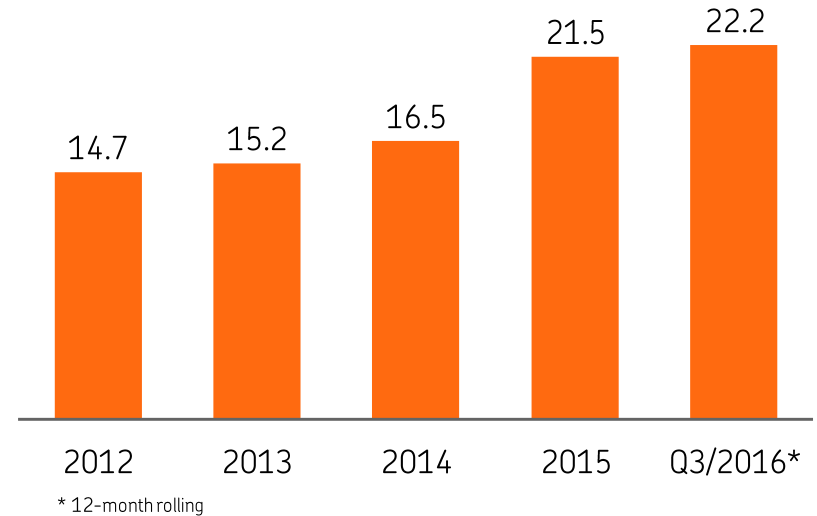
€ million	Q1	Q2	Q3	Q4/2015	Q1	Q2	Q3/2016
Net interest income	256	256	256	259	267	261	271
Net insurance income	129	129	140	129	129	140	149
Net commissions and fees	234	213	205	202	224	213	200
Net investment income	151	138	79	64	86	96	99
Other income	15	14	10	15	12	85	12
<b>Total income</b>	<b>785</b>	<b>749</b>	<b>690</b>	<b>669</b>	<b>719</b>	<b>795</b>	<b>732</b>
Personnel costs	214	187	172	208	201	195	167
Other expenses	184	188	159	207	176	204	193
<b>Total expenses</b>	<b>399</b>	<b>375</b>	<b>331</b>	<b>415</b>	<b>377</b>	<b>399</b>	<b>361</b>
Impairments of receivables	21	15	10	31	11	13	12
OP bonuses to owner-customers	46	51	50	48	48	52	53
<b>Earnings before tax</b>	<b>320</b>	<b>308</b>	<b>299</b>	<b>175</b>	<b>284</b>	<b>331</b>	<b>306</b>

# Long-term 22% return target achieved

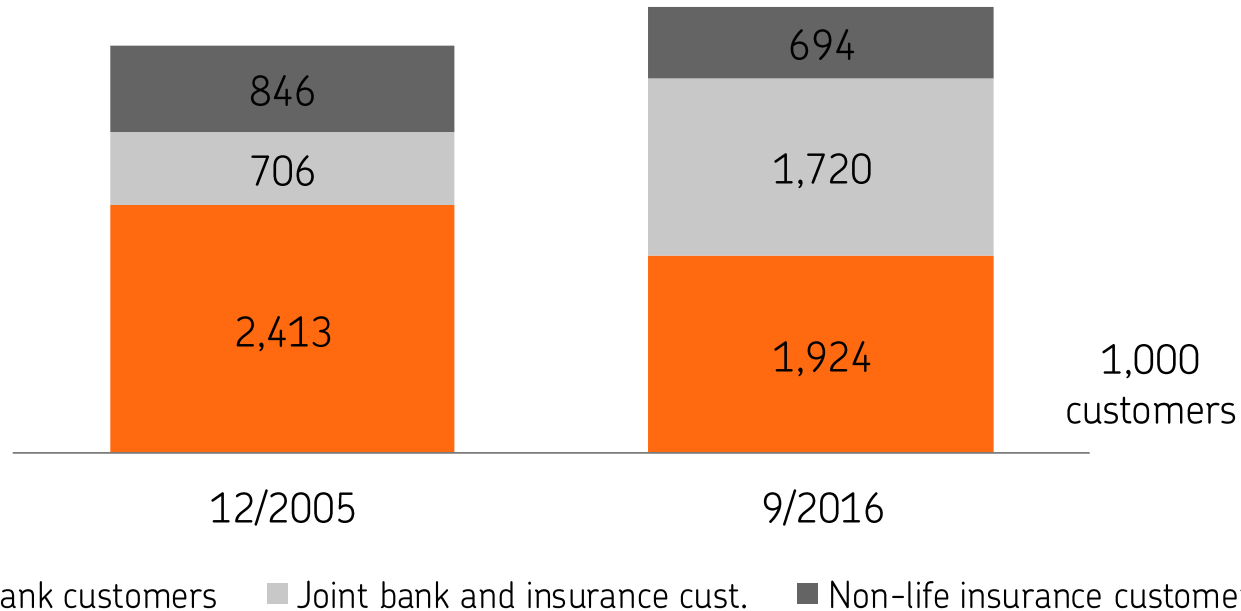
Earnings before tax, € million



Return on economic capital, %

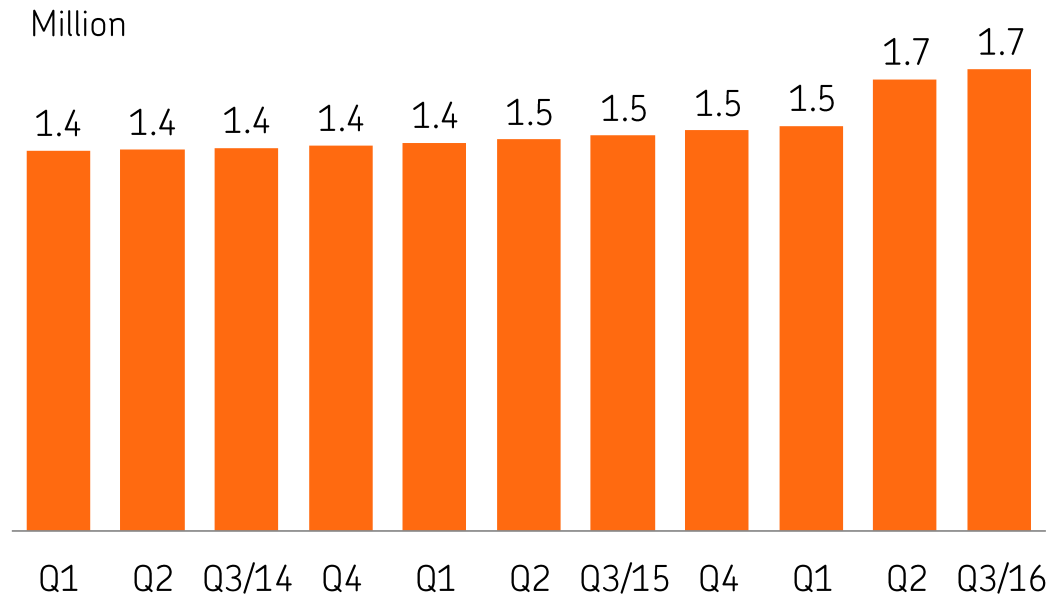


# The number of customers using OP as their main bank and insurer has increased by 144% since 2005





# Steady growth in the number of owner-customers



The figures include the owner-customers of Helsinki Area Cooperative Bank established on 1 April 2016 and the owner-customers of POP Group banks that transferred to OP's customer systems in September 2016

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Banking



# Banking

OP is Finland's leading provider of home and corporate loans. OP's Banking is the Group's largest business segment providing customers with an extensive and comprehensive range of products and services. 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 Q1-3/2016

EBT

EUR 467 million

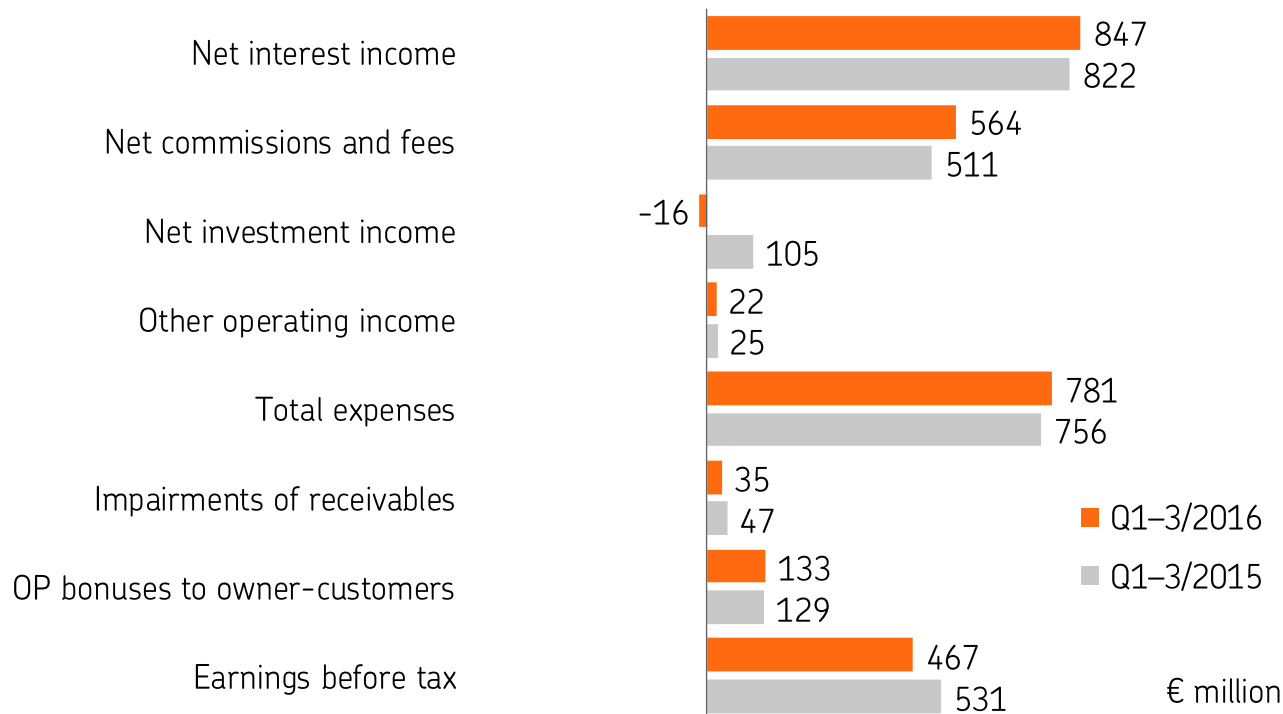
Loan portfolio

EUR 77.8 billion

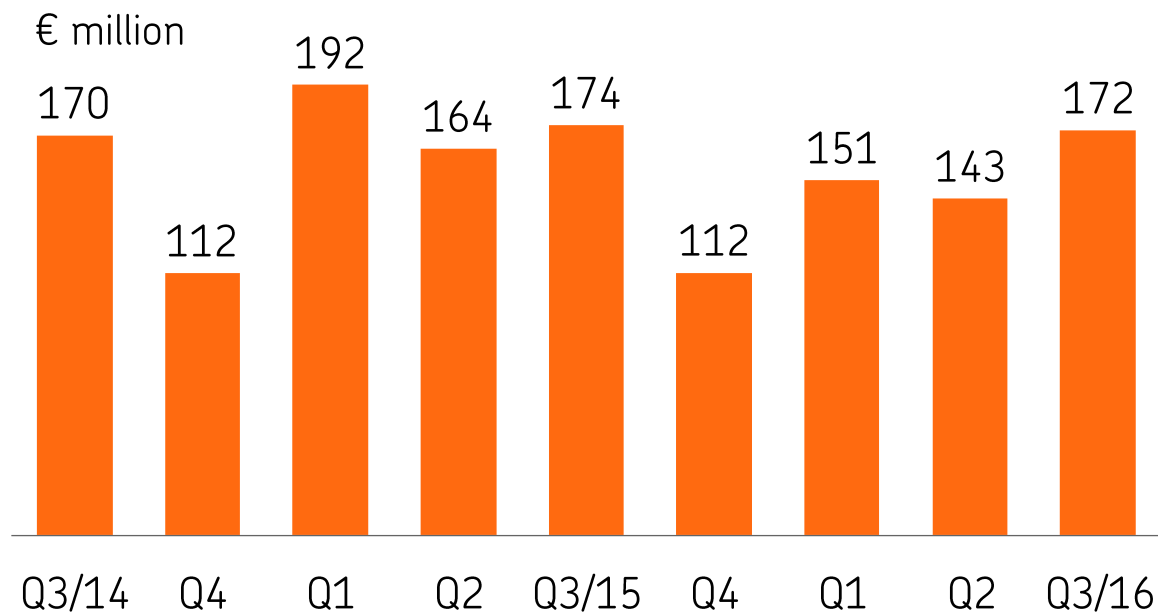
Total deposits

EUR 54.3 billion

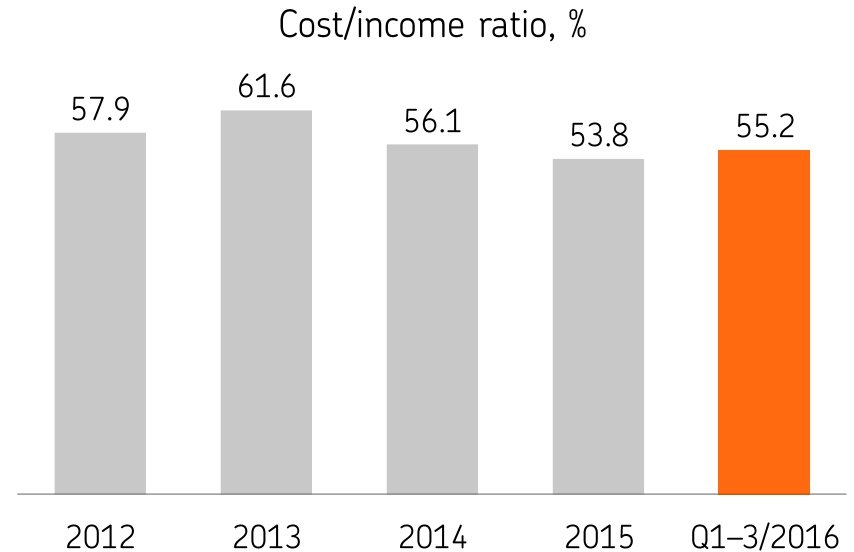
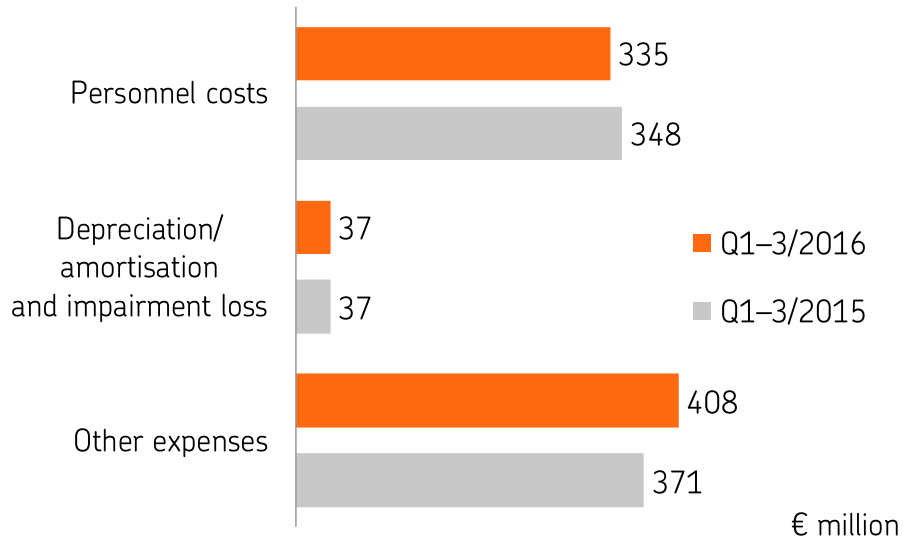
# Banking income statement



# Banking EBT by quarter



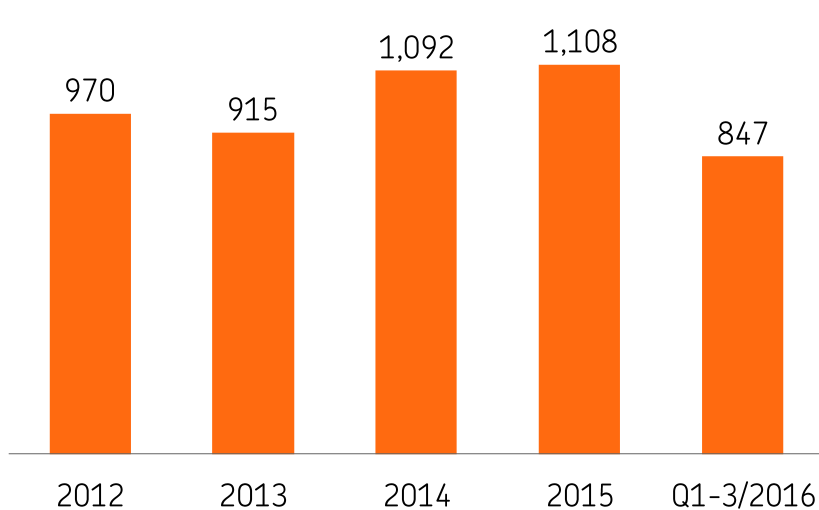
# Higher expenses were explained by investments in development and growth in volumes



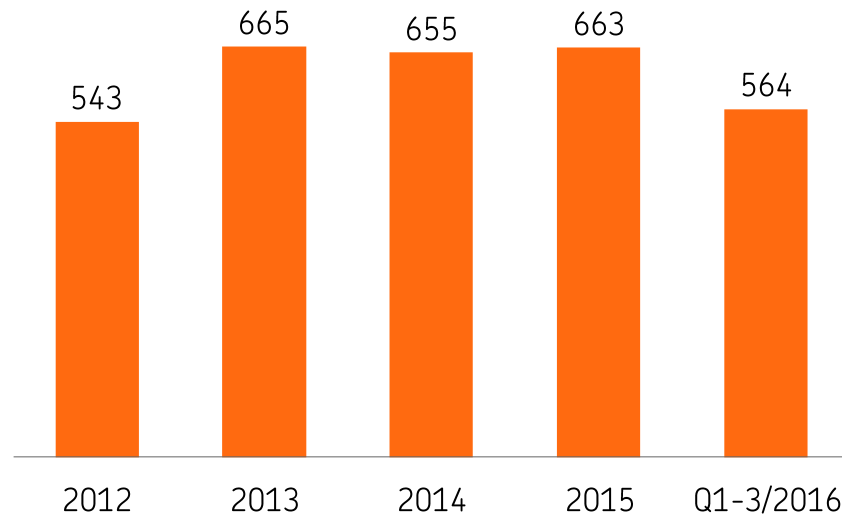


# Banking income performance

Net interest income, € million

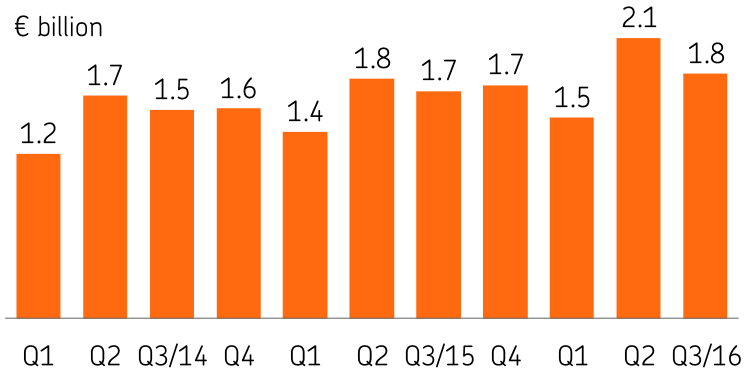


Net commissions and fees, € million

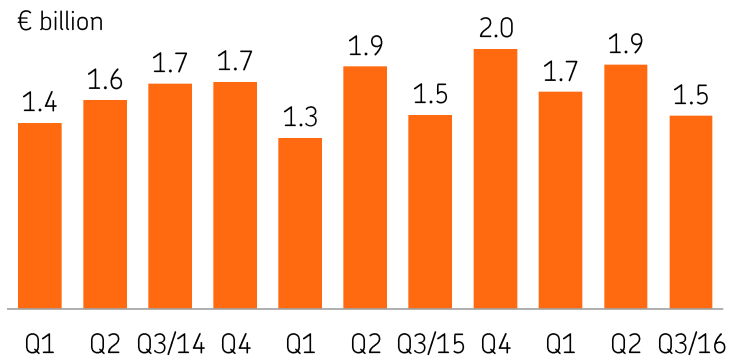


# Our customers draw down new loans at a steady pace

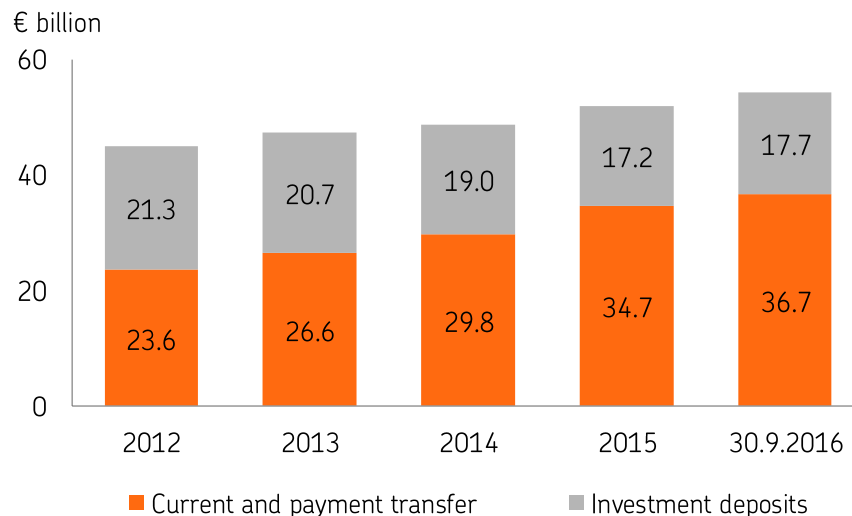
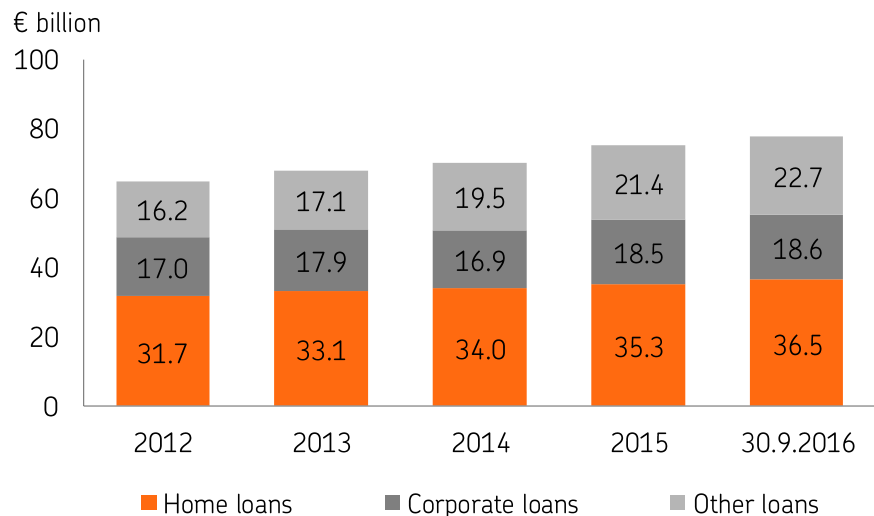
## Home loans drawn down



## Corporate loans drawn down



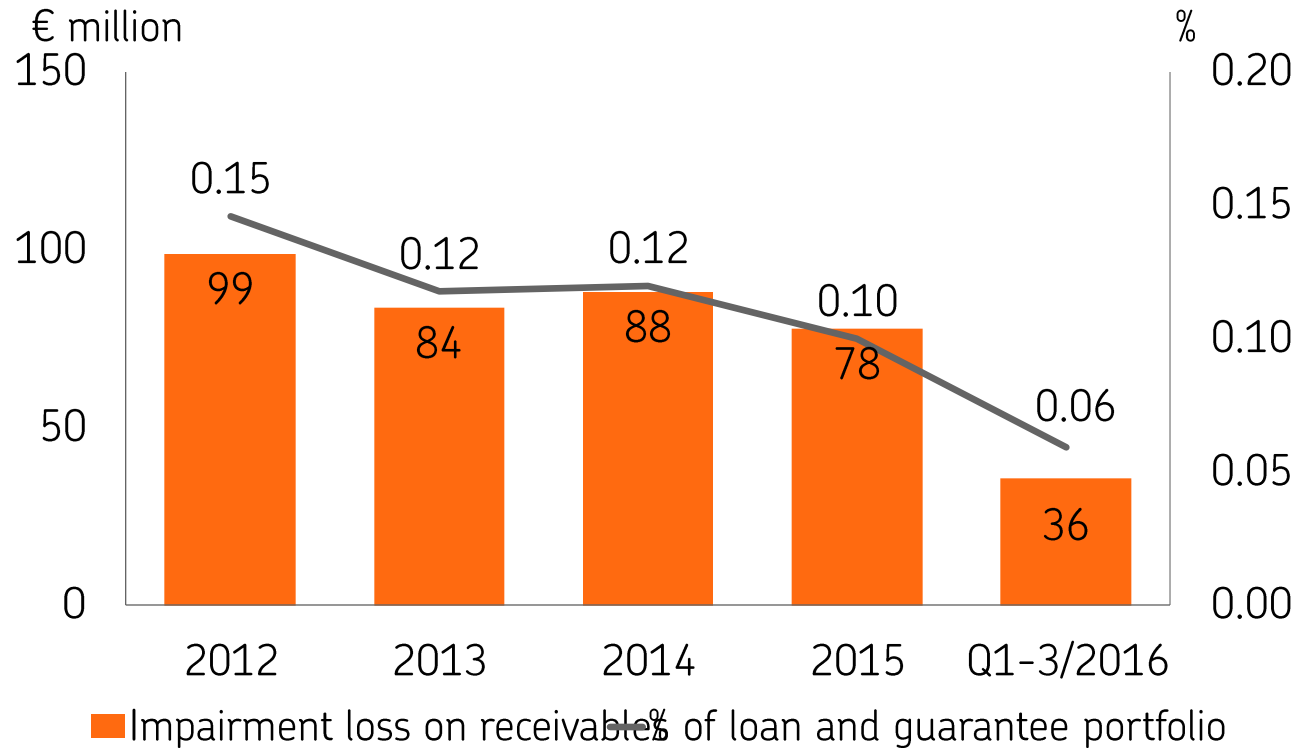
# Loan and deposit portfolio continued to grow



# OP Financial Group's loan and guarantee portfolio

€ million	30 September 2016	30 September 2015	Change	
			€ million	%
<b>Enterprises and housing associations</b>	<b>29,564</b>	<b>27,845</b>	<b>1,719</b>	<b>6.2</b>
Renting and operating of residential real estate	6,304	6,069	235	3.9
Renting and operating of other real estate	4,098	4,016	82	2.0
Wholesale and retail trade	3,035	2,792	243	8.7
Energy	2,355	1,991	364	18.3
Construction	2,204	1,896	308	16.2
Services	2,065	1,978	87	4.4
Transportation and storage	1,564	1,436	128	8.9
Manufacture of machinery and equipment (incl. services)	1,475	1,376	98	7.1
Agriculture, forestry and fishing	1,133	992	141	14.3
Financial and insurance services	934	665	269	40.4
Forest Industry	694	799	-105	-13.2
Metal Industry	678	583	96	16.4
Food Industry	650	696	-45	-6.5
Real estate investments	591	608	-17	-2.8
Chemical Industry	418	377	41	11.0
Other manufacturing	152	299	-147	-49.1
Other industries	1,214	1,273	-59	-4.7
<b>Public corporations and non-profit organisations</b>	<b>1,451</b>	<b>1,351</b>	<b>100</b>	<b>7.4</b>
<b>Households</b>	<b>48,720</b>	<b>46,619</b>	<b>2,101</b>	<b>4.5</b>
<b>Adjustments</b>	<b>726</b>	<b>1,092</b>	<b>-366</b>	<b>0.0</b>
<b>Total</b>	<b>80,461</b>	<b>76,907</b>	<b>3,554</b>	<b>4.6</b>

# Impairment loss on 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.

- 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 Q1-3/2016

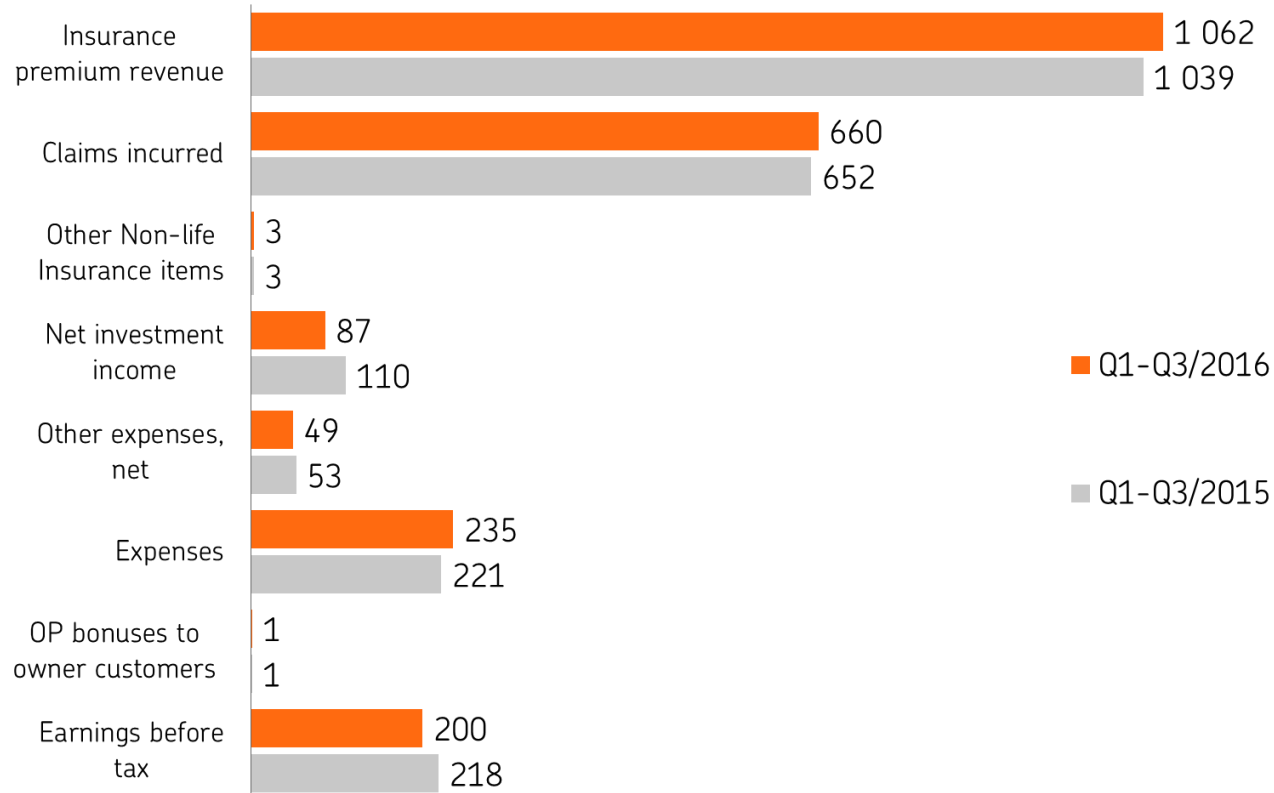
EBT

EUR **200** million

Insurance premium  
revenue

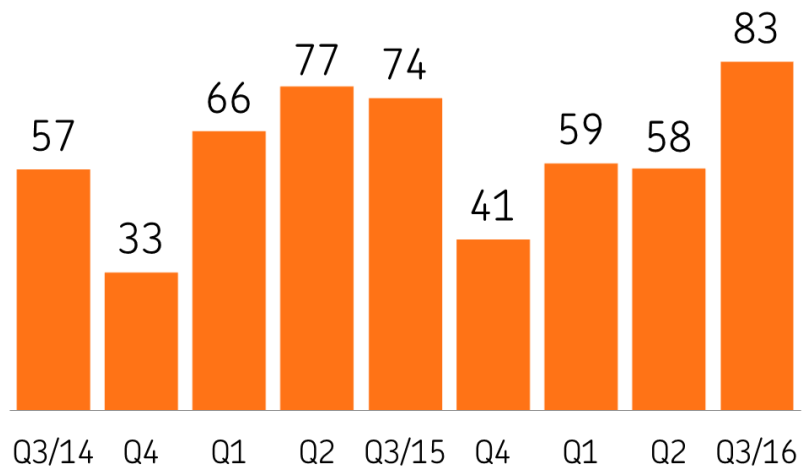
EUR **1,062** million

# Non-life Insurance EBT

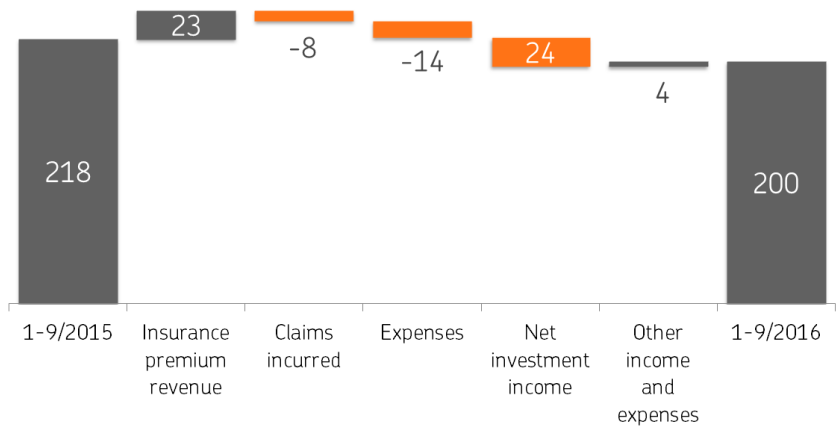


# Lower investment income reduced EBT

Earnings before tax by quarter, € mn

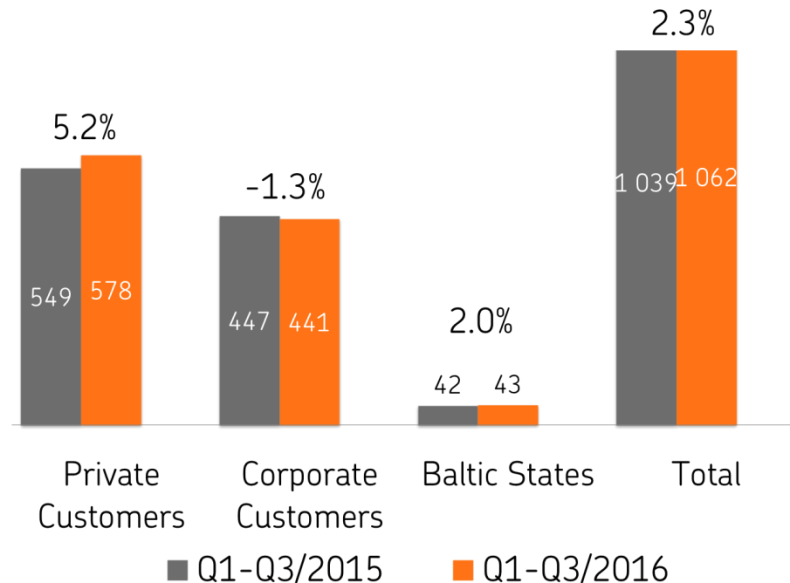


Earnings before tax, € mn  
change Q1-Q3/16 vs. Q1-Q3/15



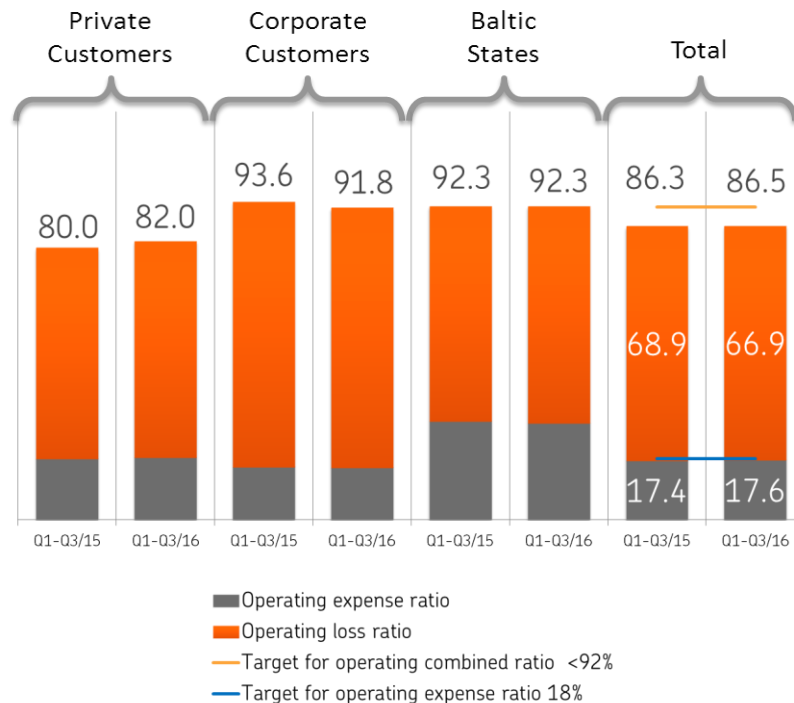
# Growth in insurance premium revenue stemmed from Private Customers

Insurance premium revenue, € mn and change by division Q1-Q3/16 vs. Q1-Q3/15



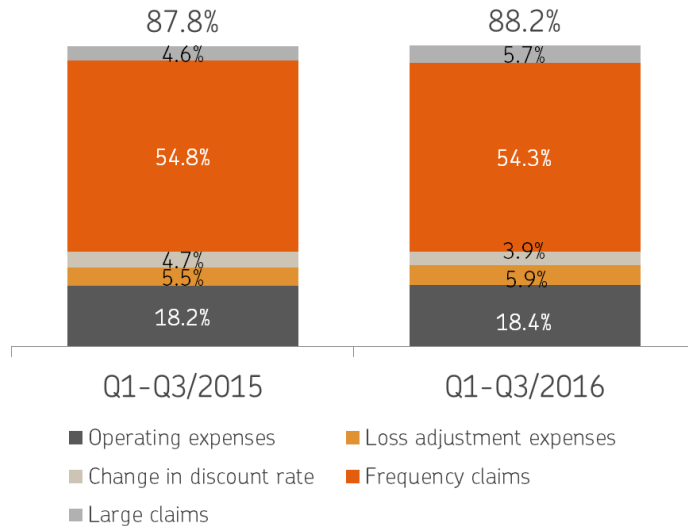
# Balance on technical account

Operating combined ratio by division Q1-3/16 vs. Q1-3/15, %

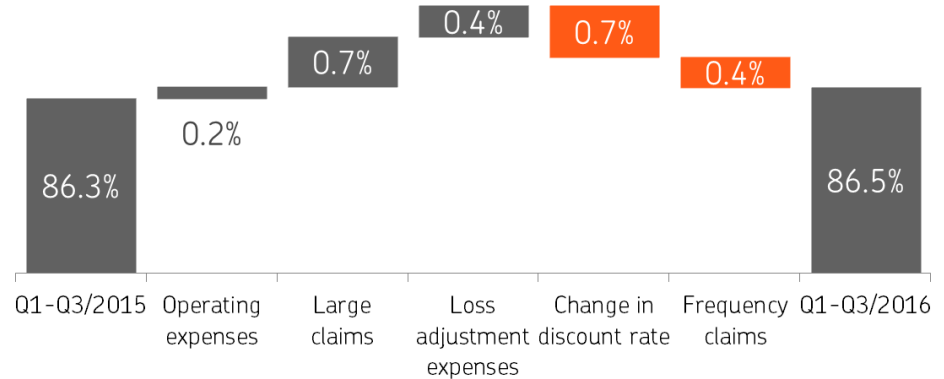


# Balance on technical account

Operating combined ratio by component, %

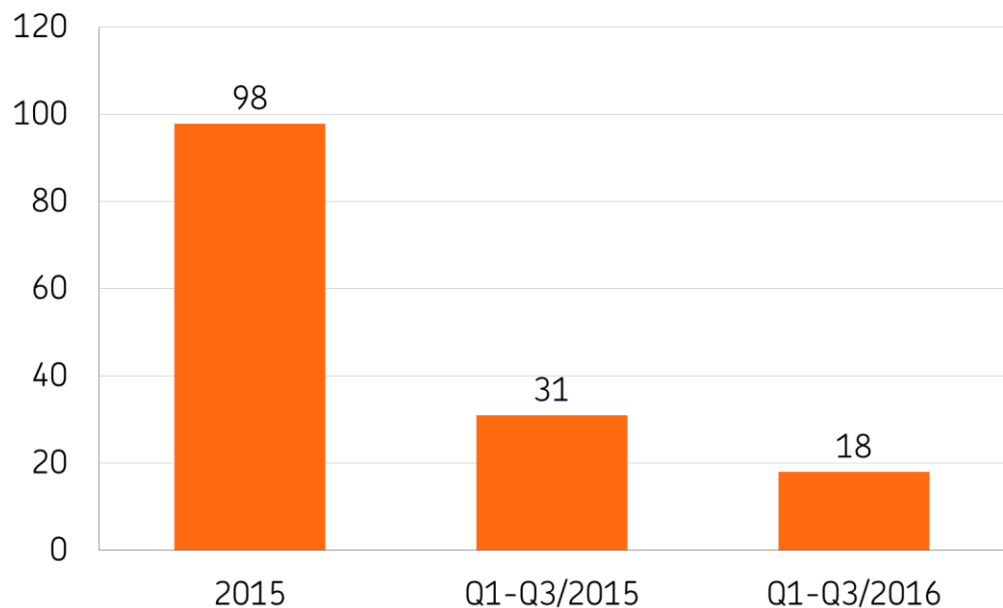


Change in operating combined ratio, %



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 €41 million (15) in January–September 2016.

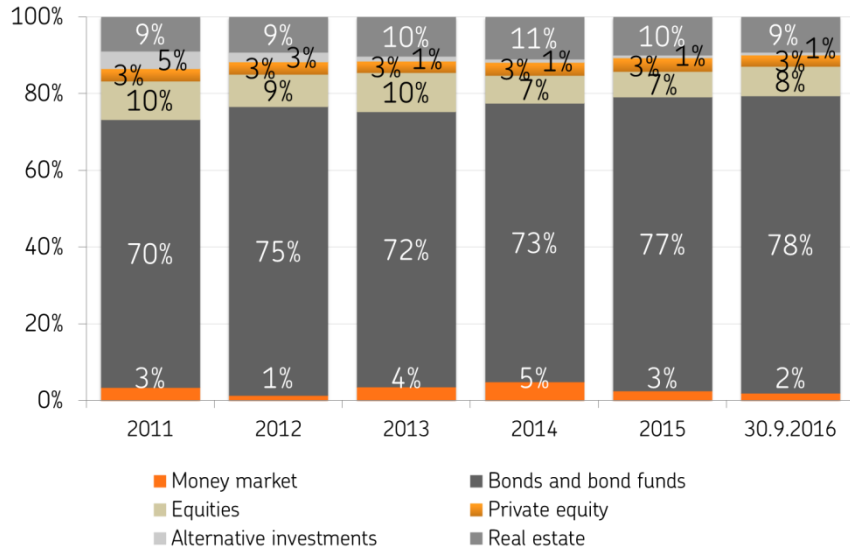
# Income from Non-life Insurance investment, million €



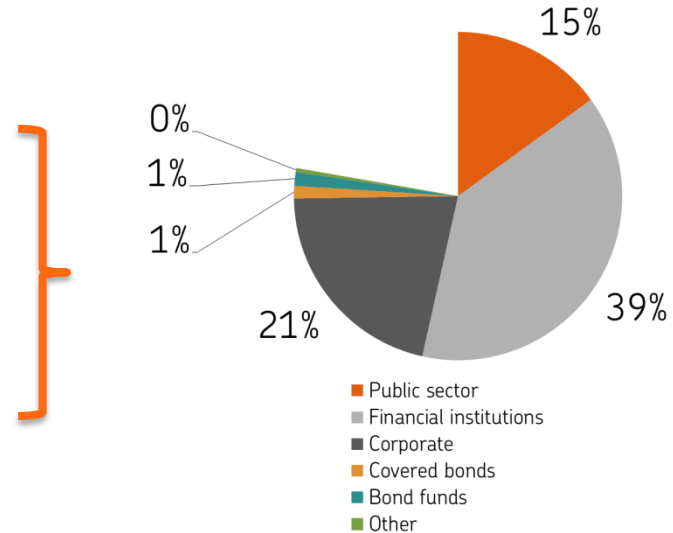
\*Income from investments is calculated by deducting the value change in market-consistent insurance liability from income from total investment assets.

# Investment portfolio allocation unchanged

Investment portfolio (€3.8 bn) by asset class as of 30 September 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 5.4 years (5.2).



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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.

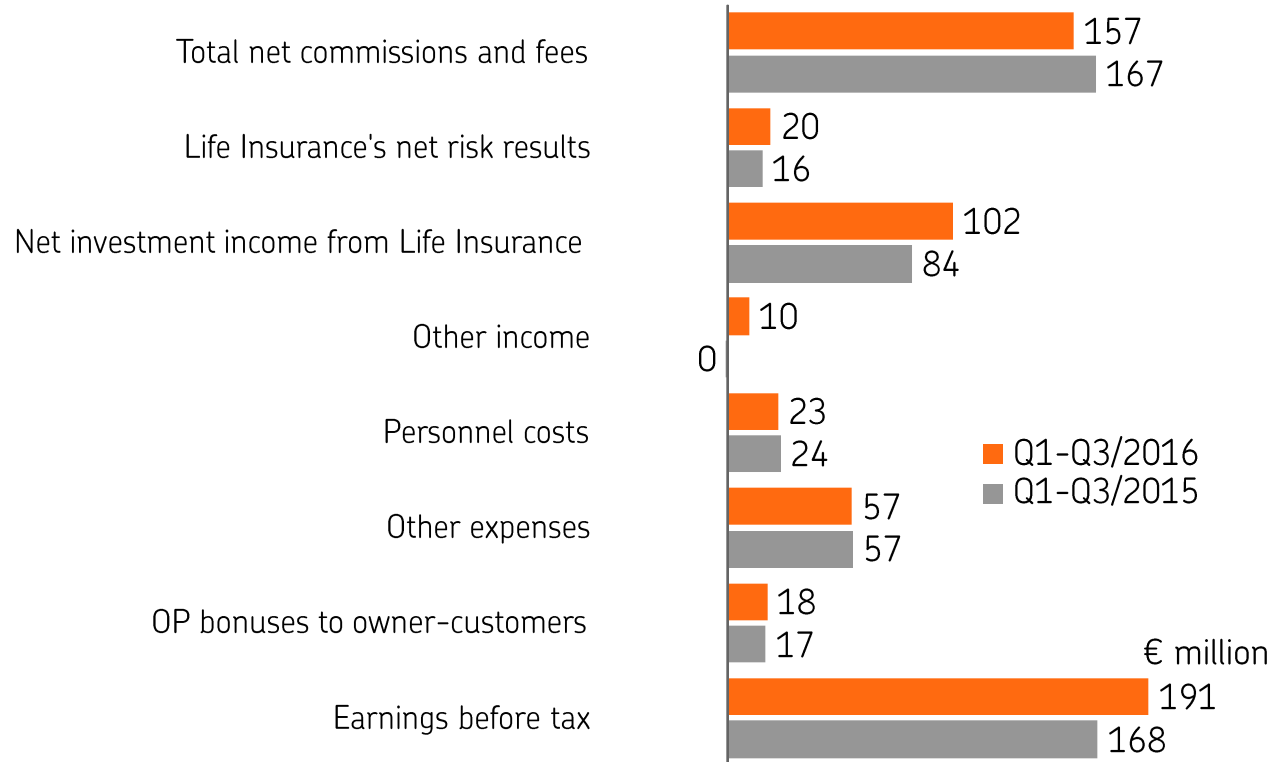
- For private customers, we provide an extensive range of savings and investment solutions. The mutual funds in our range invest in various asset classes and market areas, and are managed partly by OP's own investment organisation and partly by our international partners.
- The range of services for 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 Q1-3/2016

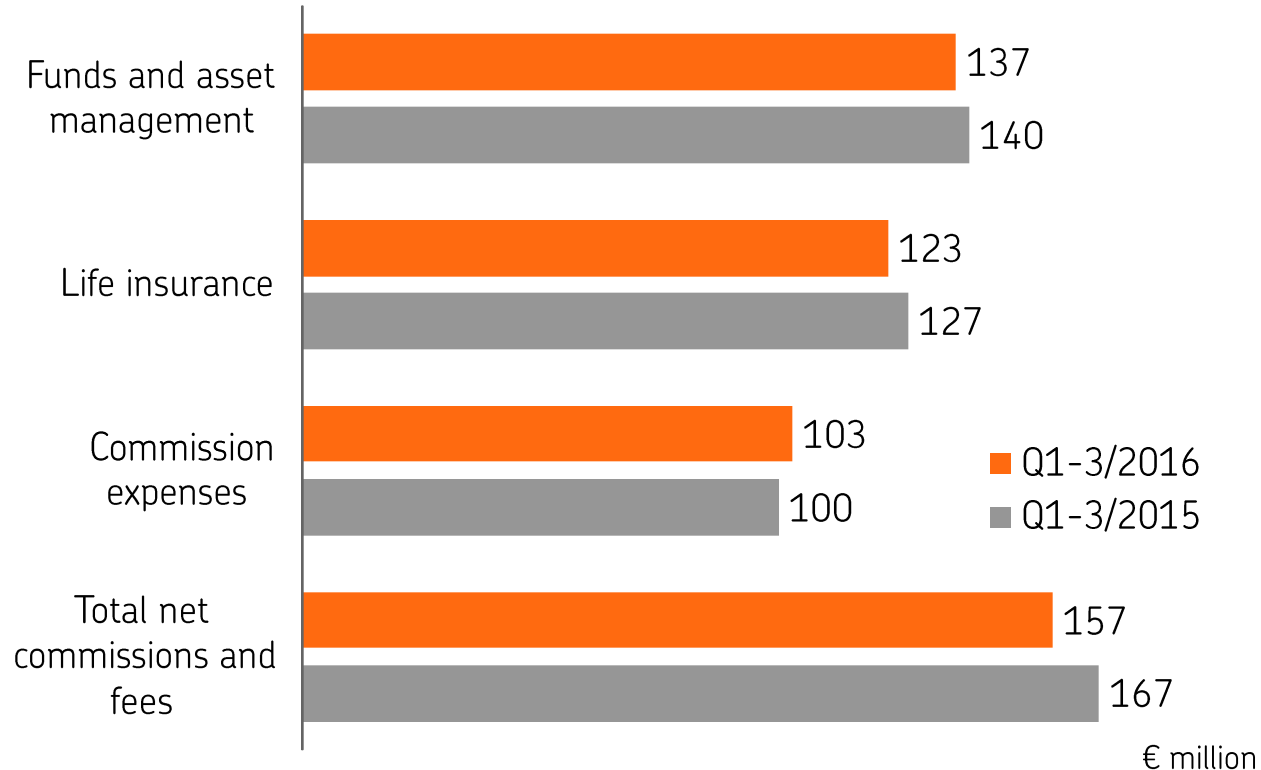
EBT  
EUR 191 million

Assets under  
management  
EUR 72.0 billion

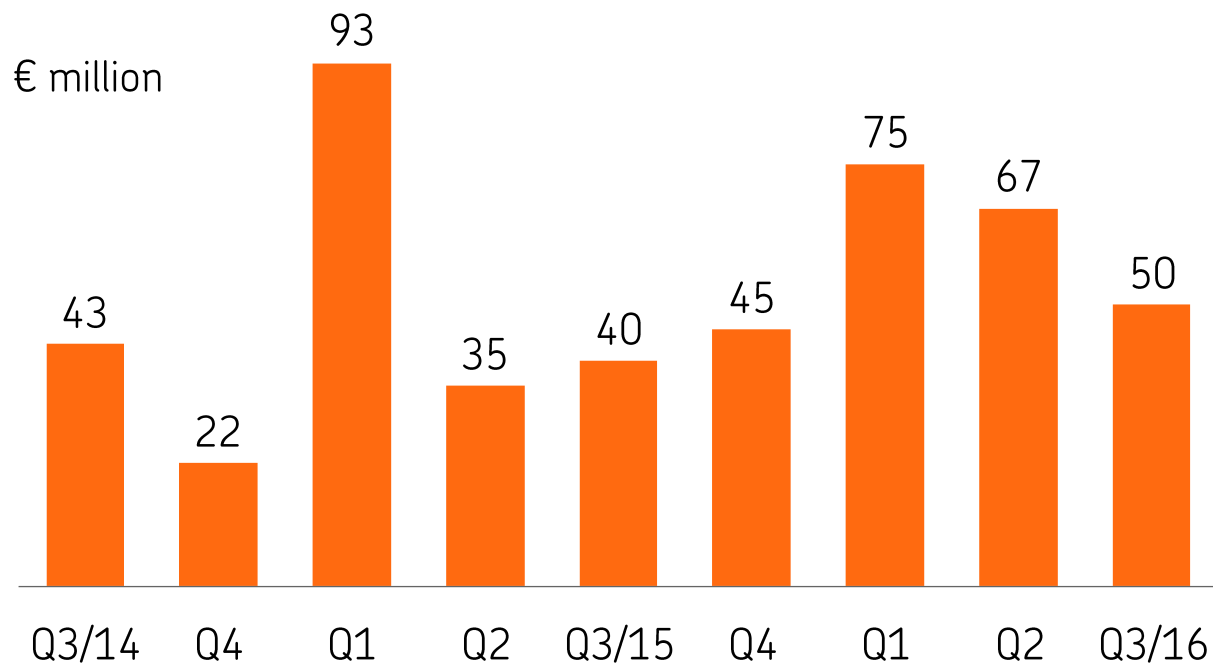
# Wealth Management income statement



# Wealth Management net commissions and fees

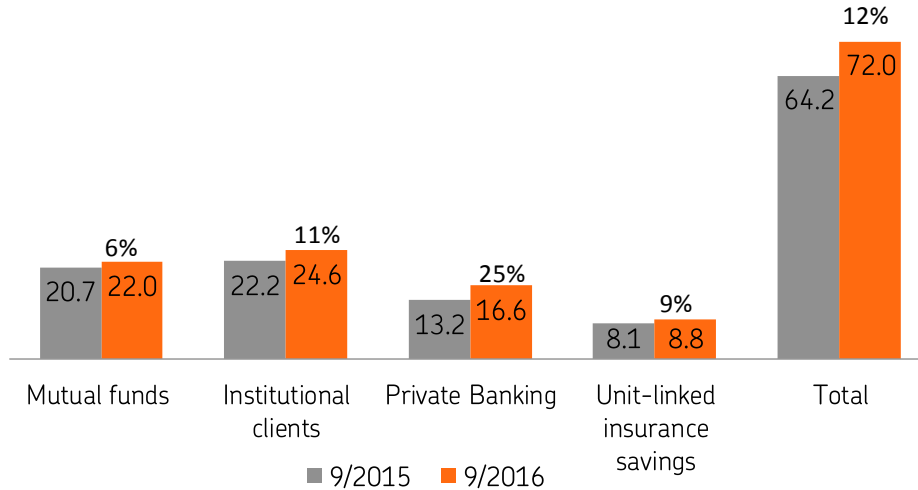


# Wealth Management EBT by quarter

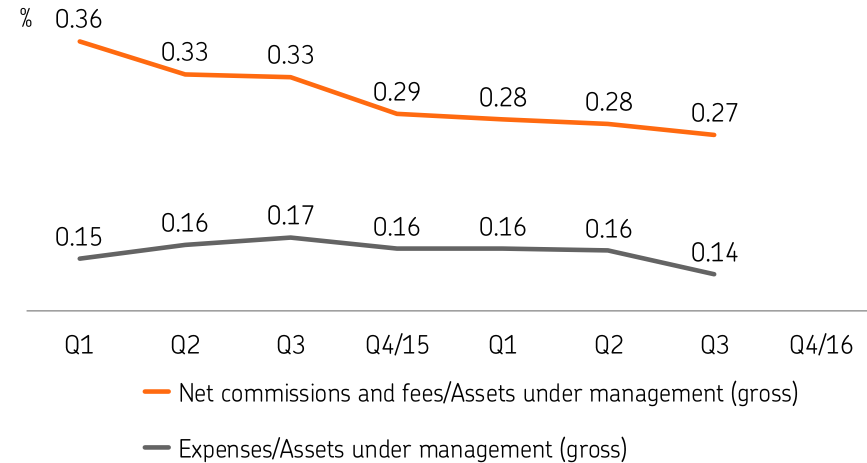


# Growth in assets under management

Assets under management (gross) €billion

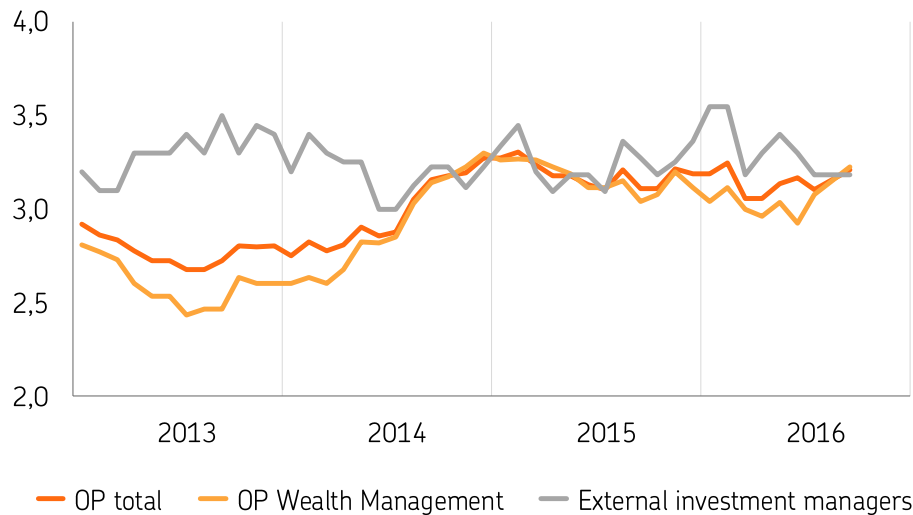


Income and expenses/Assets under management

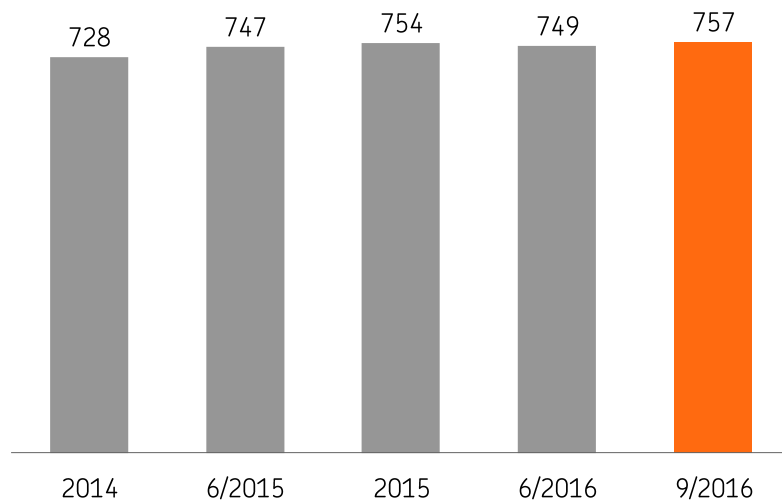


# Number of clients and performance of mutual funds at good level

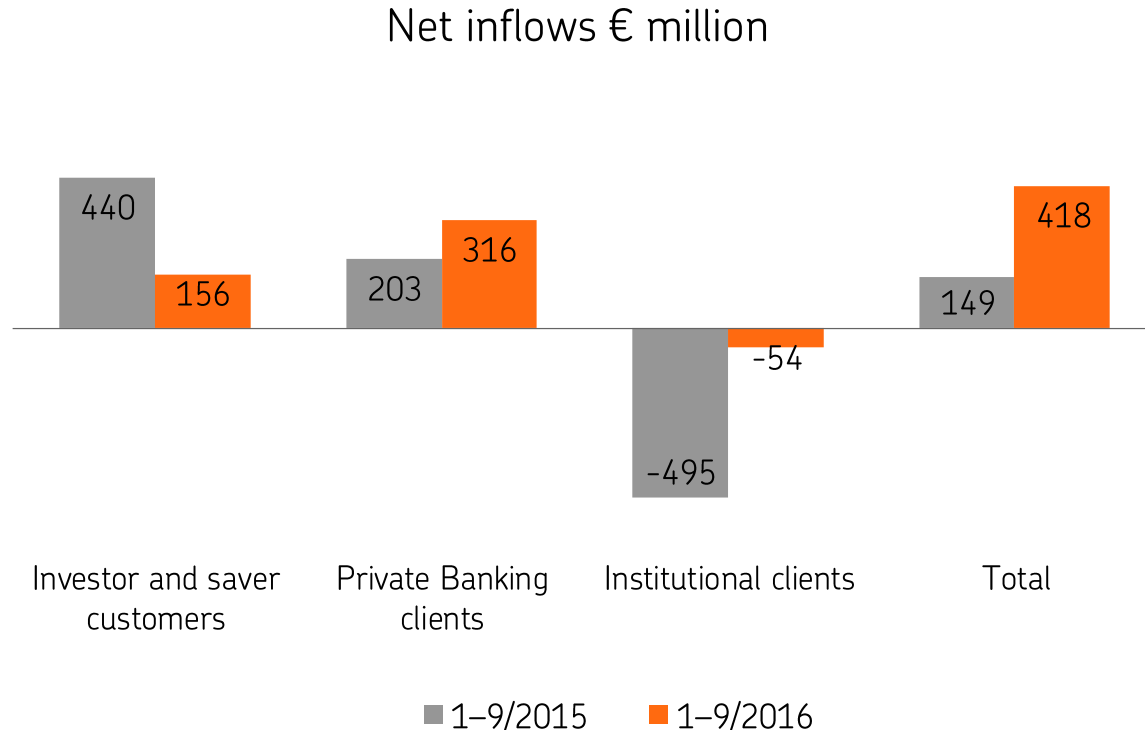
Performance of Morningstar stars



Investor and saver customers, 1000 pers.

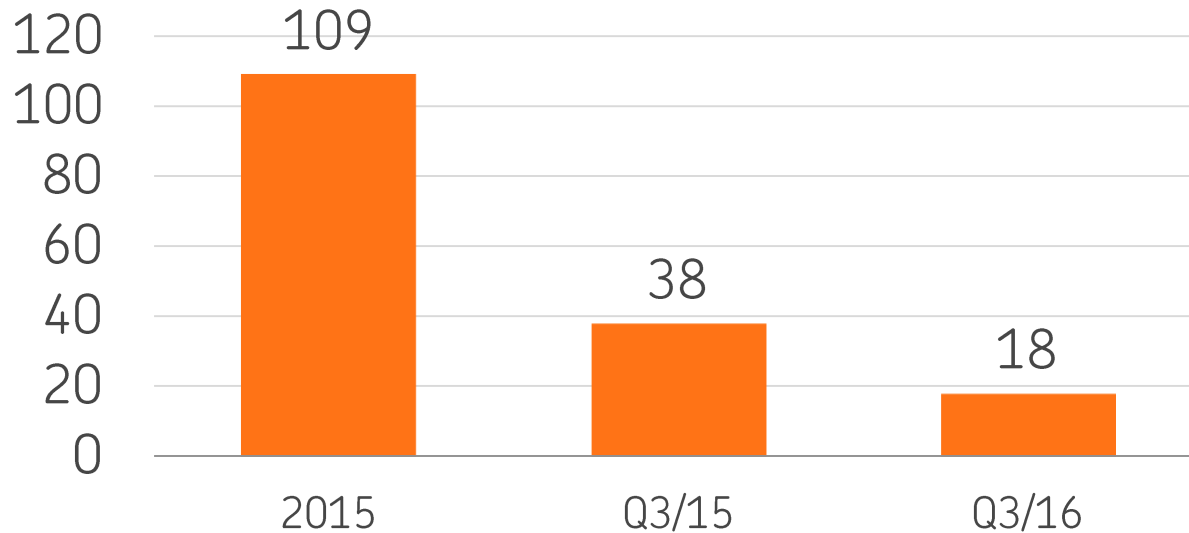


# Net inflows supported by improving capital markets



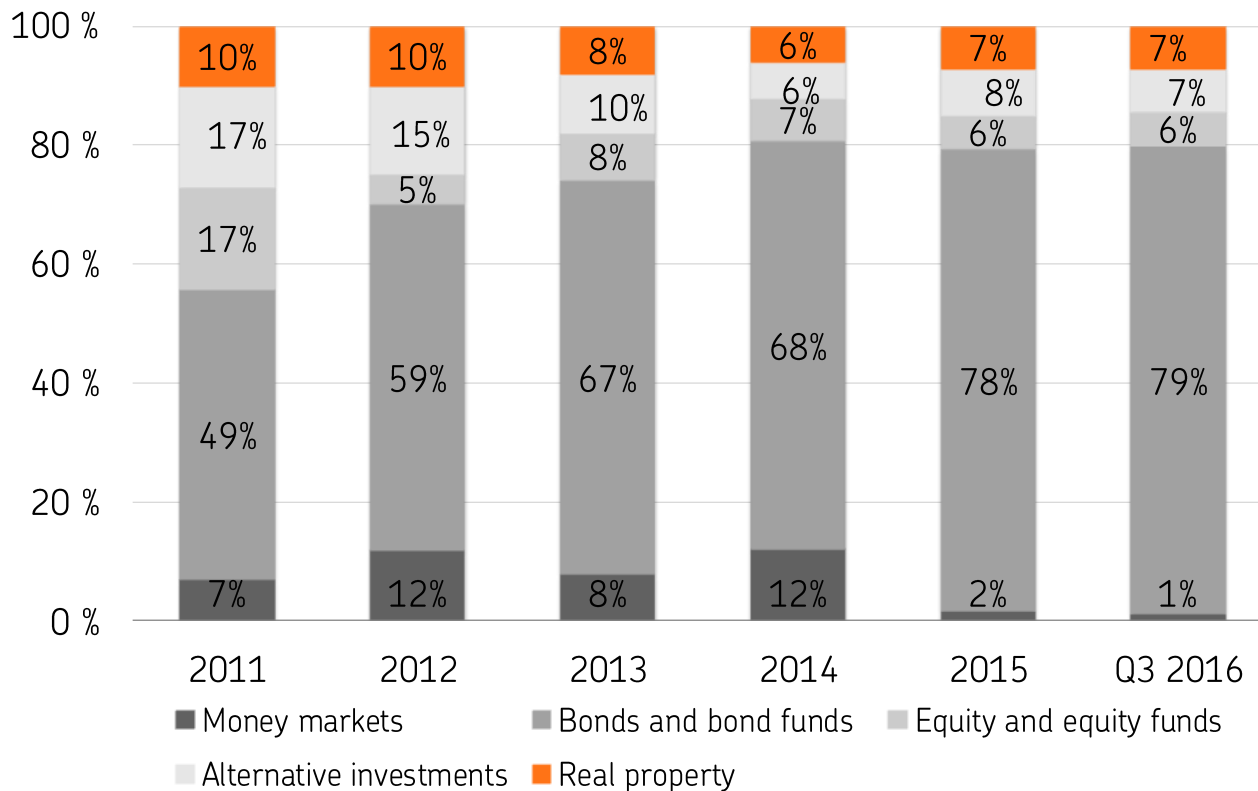


# Income from Life Insurance investments\*, € million



\* Income from investments is calculated by deducting the value change in market-consistent insurance liability from income from total investment assets. These investments exclude the so-called separated balance sheets that transferred from Suomi Mutual.

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



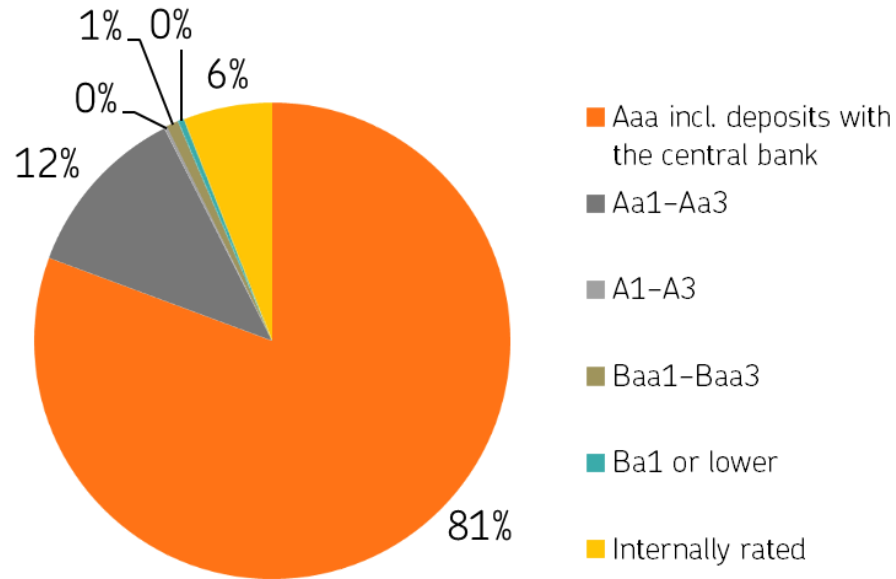
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Liquidity and funding



# Liquidity buffer €22.1 bn at end-September

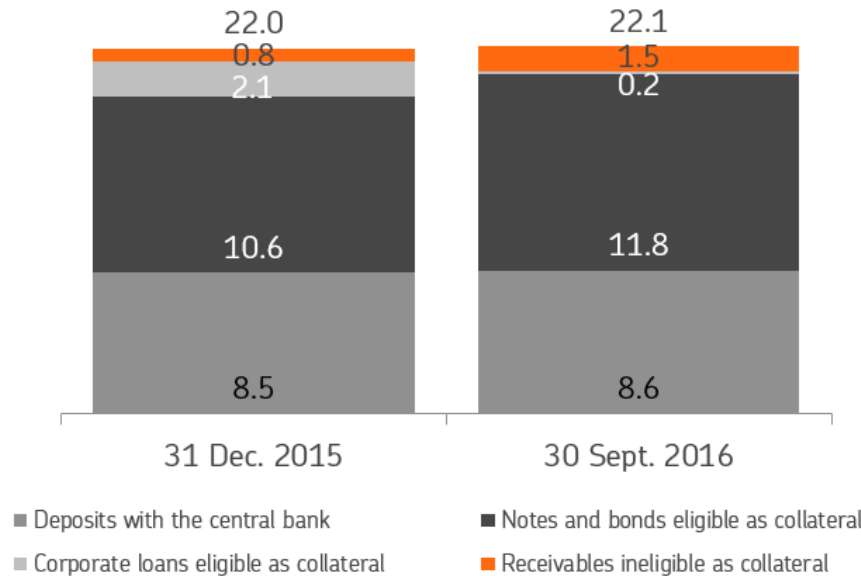
Liquidity buffer by credit rating\* as of 30 September 2016



© OP \*) Internally rated: corporate loans 15% 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

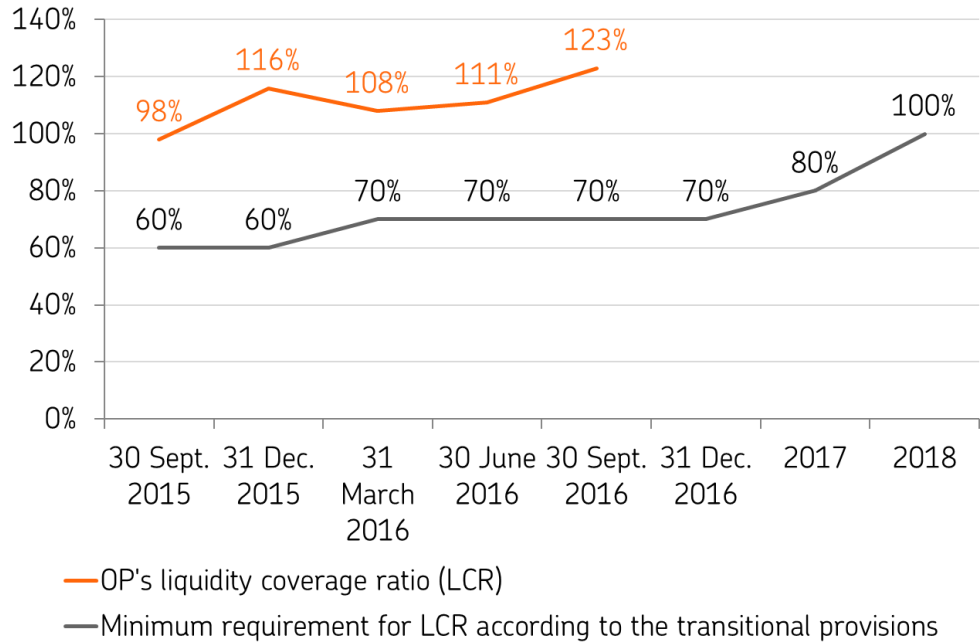


The liquidity buffer plus other items based on OP Financial Group's contingency funding plan can be used to cover maturing wholesale funding for at least 24 months

As a result of an analysis carried out in the third quarter, the Group has reassessed the application of the collateral eligibility criteria for corporate loans eligible as collateral included in the liquidity buffer, on the basis of which the comparative data amount was reduced by EUR 2.2 billion. The amount of corporate loans eligible as collateral decreased during the reporting period because they were used as collateral in TLTRO-II.

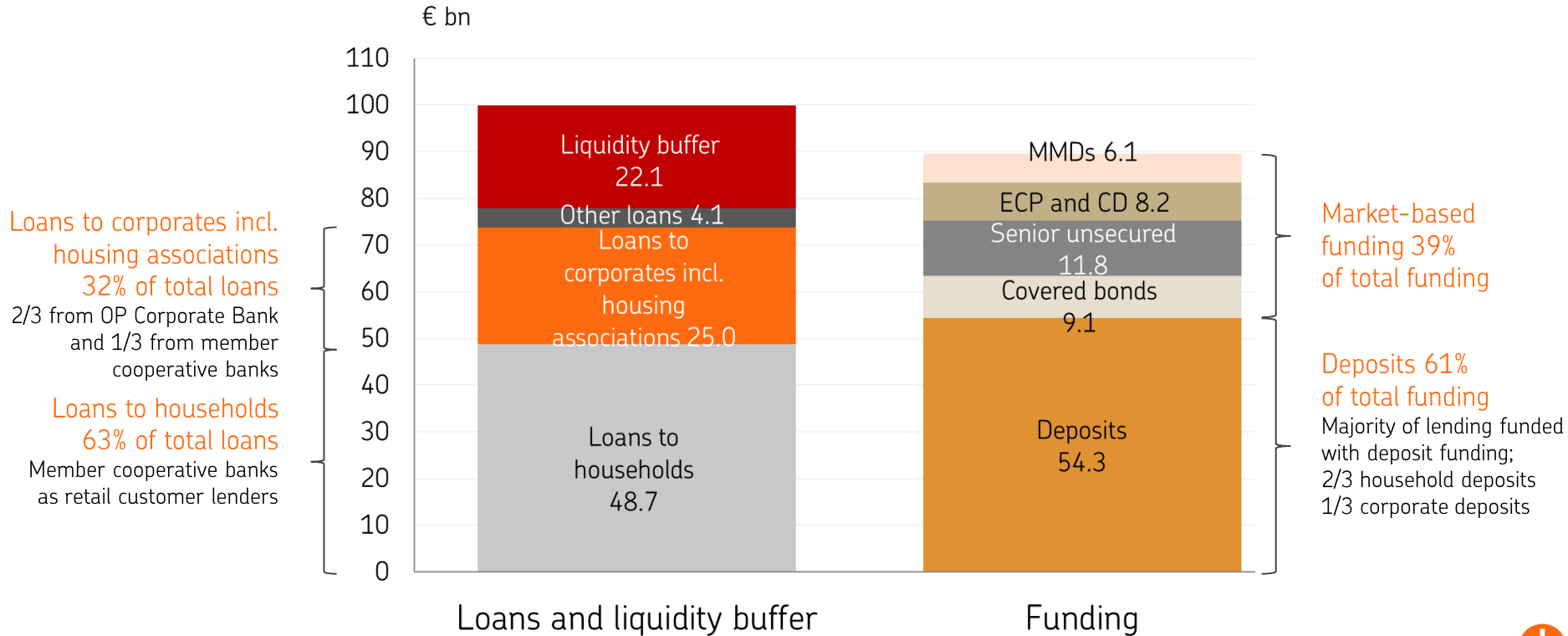
# Liquidity coverage ratio improved to 123%

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.



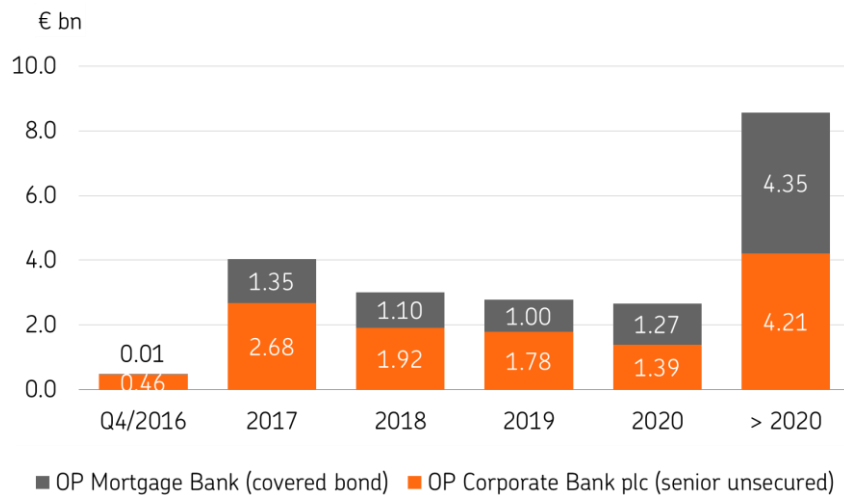
# Loans, liquidity buffer and funding

## 30 September 2016



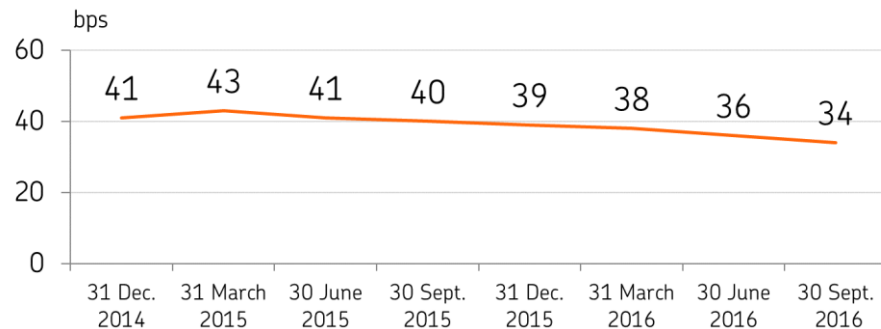
# Maturity breakdown and average margin of long-term wholesale funding

Issued senior unsecured and covered bonds by maturity, 30 Sept. 2016



OP issued long-term bonds worth €2.2 billion during Q1-3/2016 (5.0). Additionally, OP participated in ECB's TLTRO II refinancing operation with a total of €2 billion in June and September 2016.

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





# 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

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

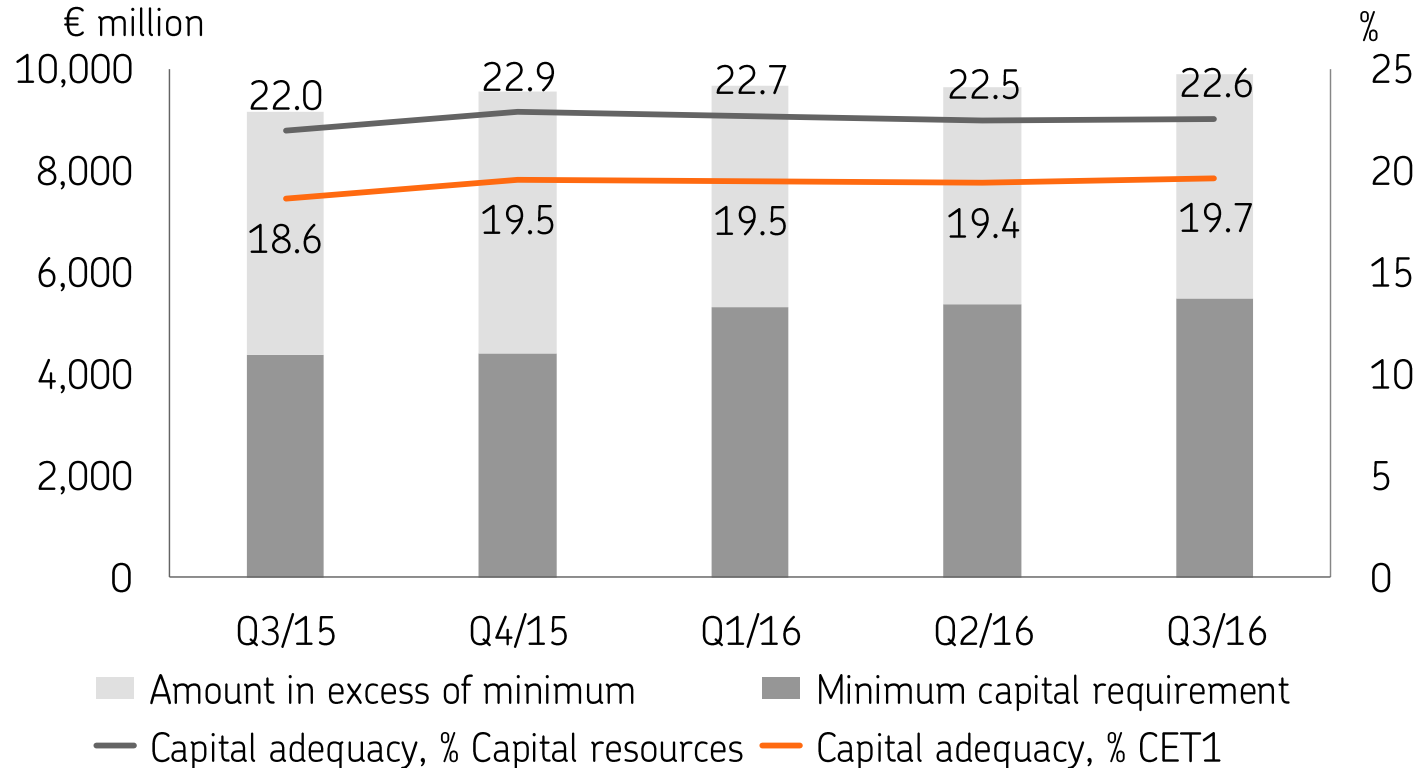
- The Group's operations are based on the Act on the Amalgamation of Deposit Banks
- The Act on the Amalgamation of Deposit Banks sets the minimum capital for the amalgamation of cooperative banks, which is calculated according to the CRR rules and the Act on Credit Institutions.
- The amalgamation of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

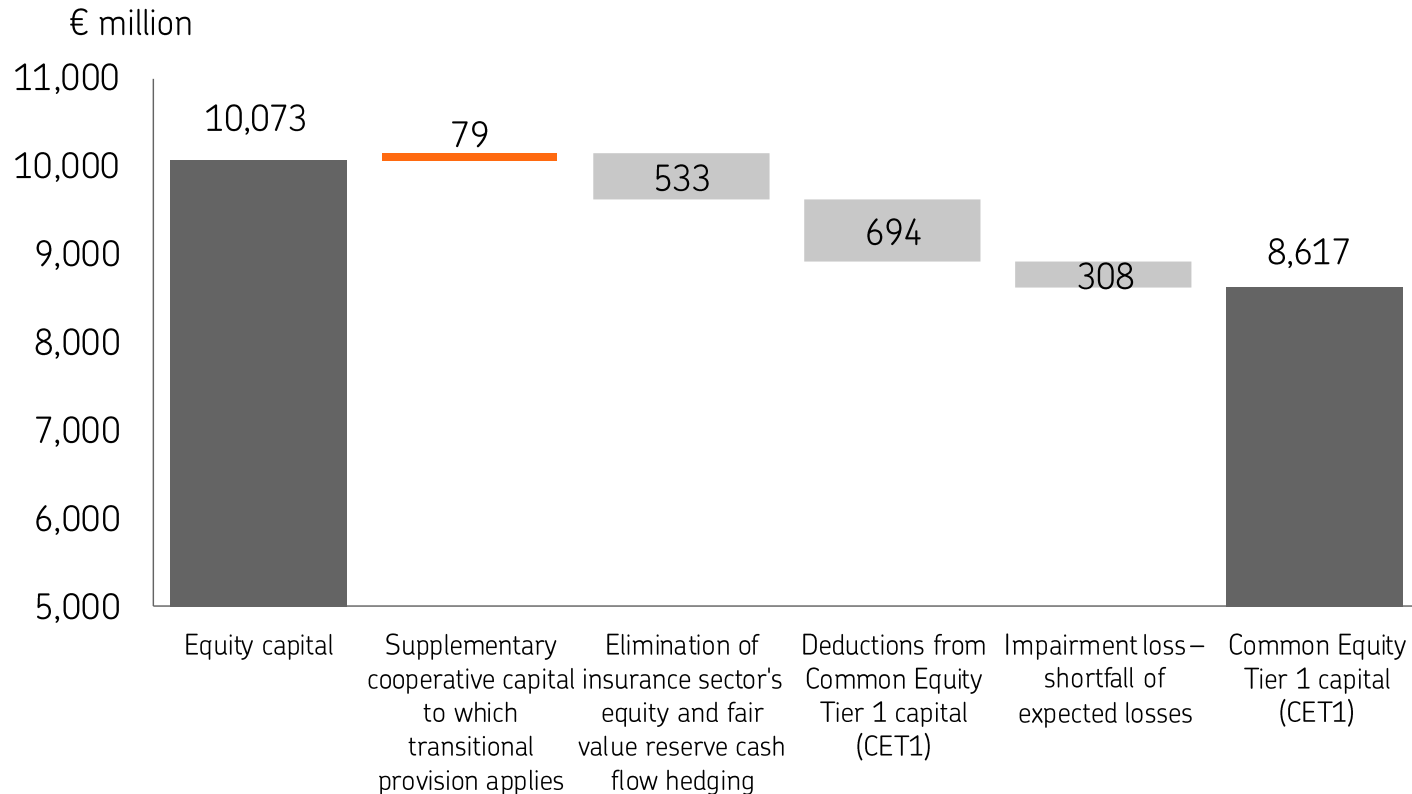
# The amalgamation of the cooperative banks

## Capital resources and capital adequacy

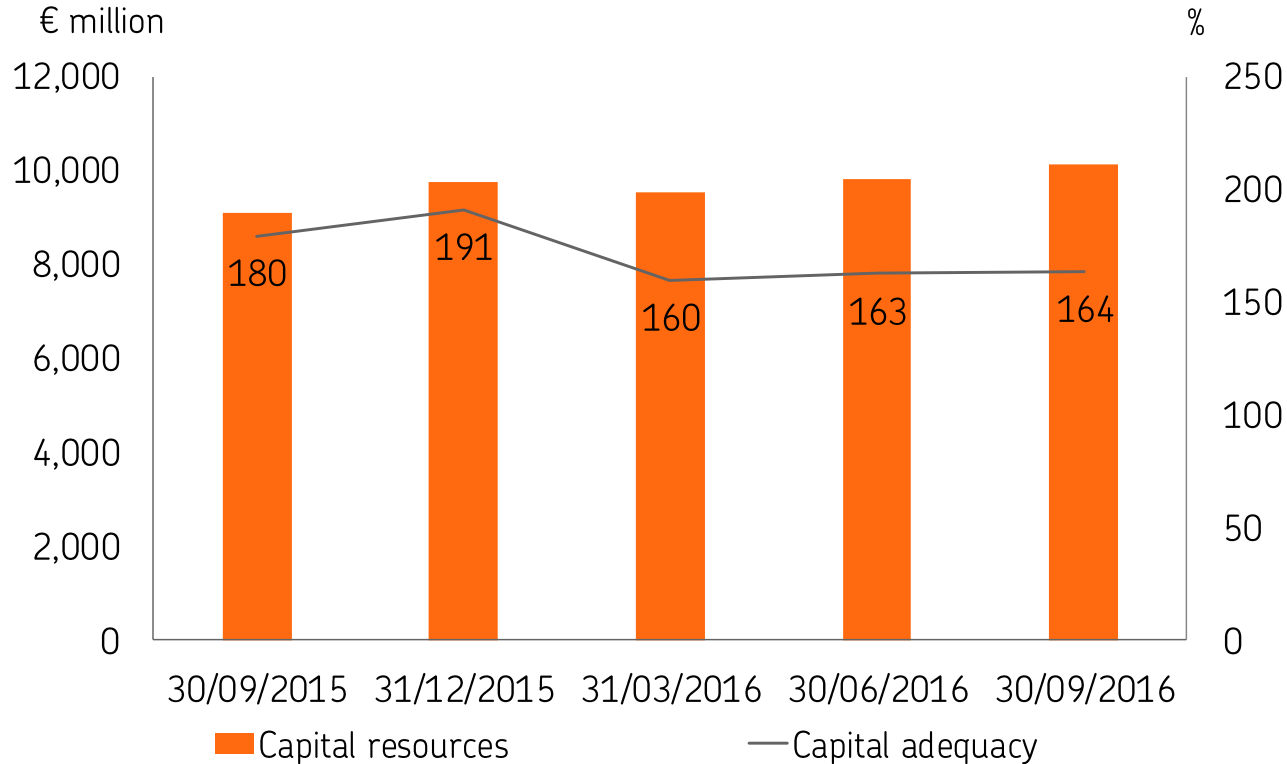


# Common Equity Tier 1 (CET1)

## 30 September 2016

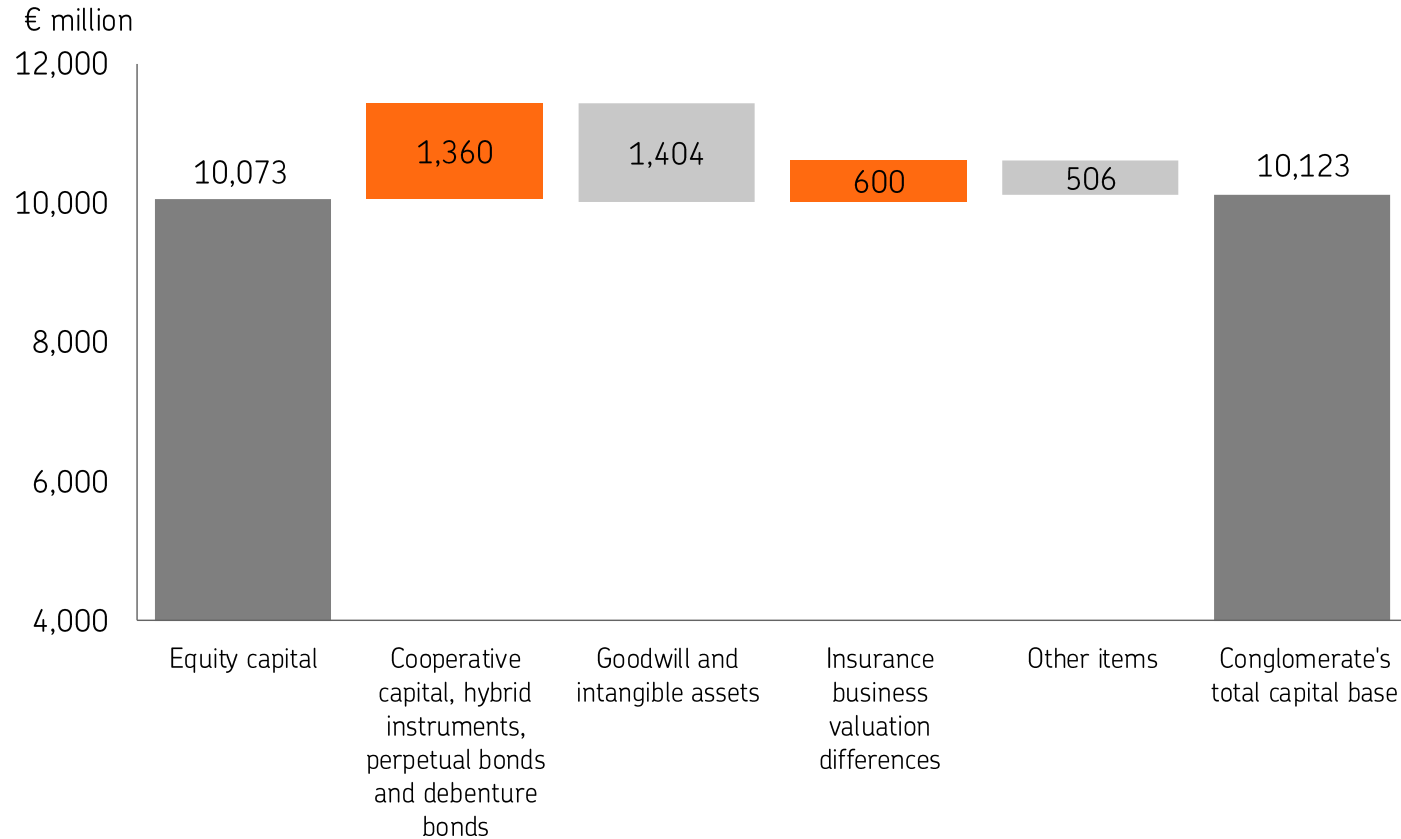


# OP Financial Group FiCo capital adequacy



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

## 30 September 2016





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OP in a Nutshell



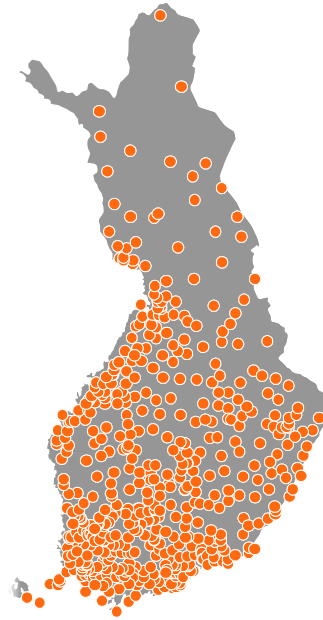


OP is a financial services group owned by its customers. We promote our owner-customers' and operating environment's sustainable financial prosperity, safety and wellbeing. Finnish roots, Finland's most extensive service network and true customer focus make us a unique play in many ways.

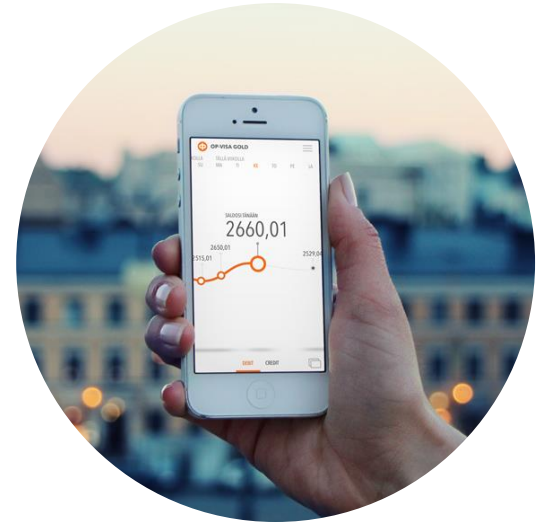
# OP in a nutshell



Approximately 1.7 million  
owner-customers

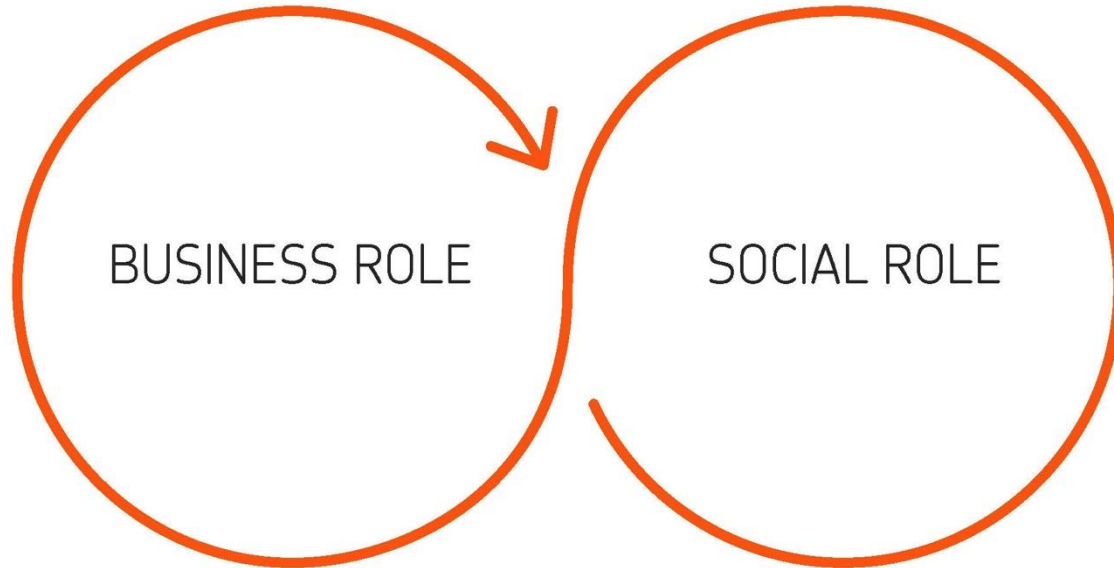


About 180  
Group member cooperative banks

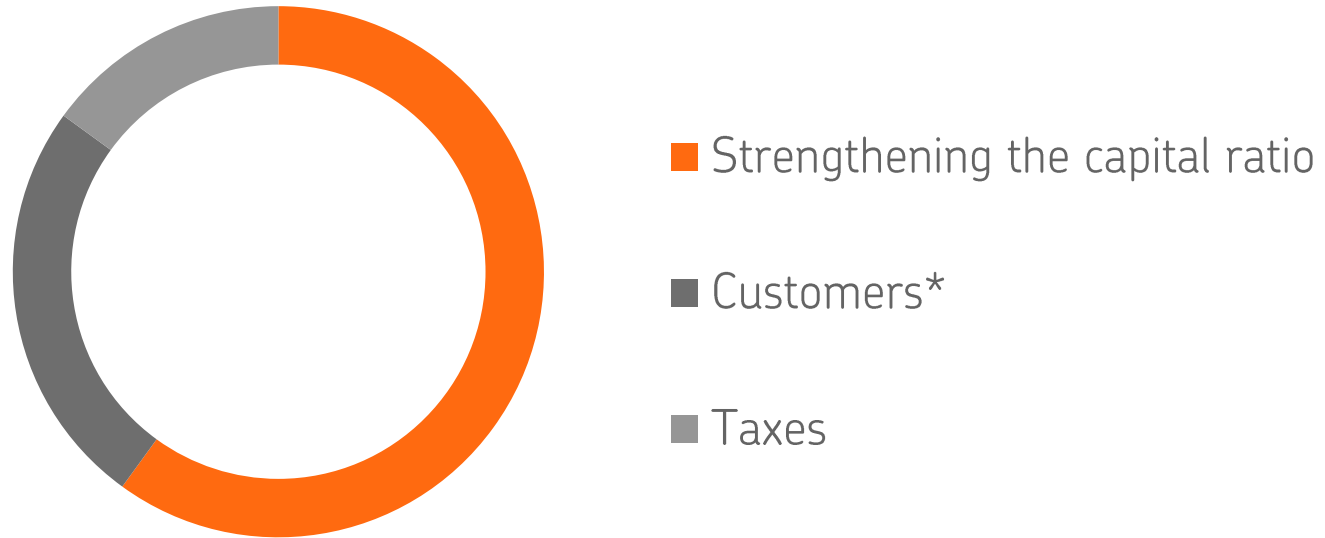


Hyperlocal digital  
financial services group

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)
Customer experience, NPS (-100+100)	
Brand	25
Service	70, over time 90

## 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

# OP Financial Group's service channels

	1-30 Sept. 2016	30 Sept. 2016	12-month change
<b>Online and mobile services</b>			
Op.fi visits (private customers )	9,842,394	-	-1.9%
OP-mobile visits, (private customers )	11,998,127	-	+48 %
Pivo mobile wallet application visits	1,812,681	-	+15%
eServices Agreements (private customers)	-	1,713,712	+81,801
<b>Branches and telephone services</b>			
Bank branches	-	447	+2
Providing both non-life insurance and banking services	-	340	-7
Private Banking branches	-	39	-1
OP-Kiinteistökeskus real estate agencies	-	151	-11
Customer contacts in telephone service	340,412	-	+54,127
<b>Social media</b>			
Followers on Facebook (OP Financial Group and member cooperative banks)	-	242,748	+62,739
Followers on Twitter	-	23,091	+6,093
Followers on LinkedIn	-	11,087	+1,744
Followers on Instagram	-	3,398	-

# 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.

