OP Financial Group’s interim report 1 January–31 March 2017

OP Financial Group's Interim Report for 1 January–31 March 2017: Financial standing in good shape, transformation still underway

Earnings before tax improved, the loan portfolio and assets under management on the increase

- Earnings before tax increased by 4% to EUR 295 million (284).
- Total income rose by 7%: net commissions and fees were up by 6%, whereas net interest income decreased by 3% and net insurance income by 9%. Expenses rose by 11%, as expected.
- Impairment loss on receivables, amounting to EUR 8 million, continued to fall from their already low level.
- The CET1 ratio was 18.8% (20.1) on 31 March 2017. The 1.8 percentage point decrease in the ratio is explained by the decision of the European Central Bank (ECB) in February to raise the risk weights of OP Financial Group's retail exposures for a fixed period.
- The loan portfolio increased by 5% and deposits by almost 3%. New home loans drawn down were 6% and corporate loans 5% higher than a year ago. Banking net interest income increased by 5%.
- Insurance premiums from private customers increased by 3%, whereas those from corporate customers decreased almost by as much. Non-life Insurance earnings for the reporting period were eroded by large claims that were higher than usual.
- Assets managed by Wealth Management increased by 13% over the previous year. Wealth Management earnings were eroded by short-term interest rate provisions related to insurance liabilities.
- Full-year earnings for 2017 are expected to be about the same as or lower than those for 2016 due to increasing development costs and other expenses arising from strategy implementation.

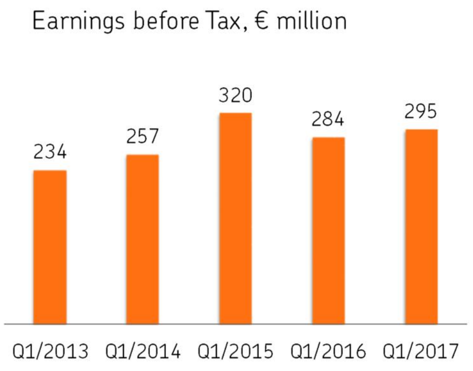
Strategy implementation in full swing

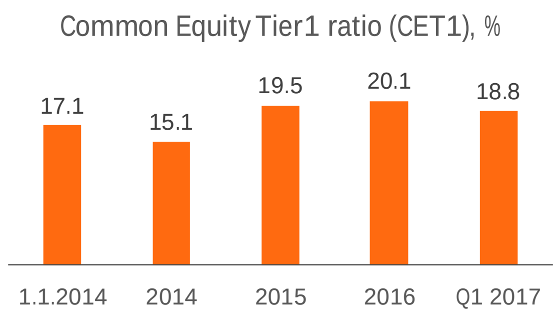
- OP Financial Group continues to implement its strategy through 15 strategic initiatives. Development expenditure will rise to EUR 400 million on an annualised basis.
- The number of OP cooperative banks' owner-customers increased by 19,000 to 1.8 million in the first quarter. Their number increased by almost fifth in the year to March.
- The number of joint banking and non-life insurance customers increased by 12,000 during the reporting period, totalling 1.8 million on 31 March 2017.
- New OP bonuses totalled over EUR 54 million, up by 6% year on year.
- In January, the Group signed with the European Investment Fund a new SME financing programme worth EUR 150 million.
- In March, OP Financial Group opened a new social customer media for its owner-customers and corporate customers (op.media). Op.media encourages its various communities to contribute to its content production.
- The transforming OP Financial Group has improved its employer brand.

OP Financial Group's key indicators

	Q1/2017	Q1/2016	Change, %	Q1–4/2016
Earnings before tax, € million	295	284	4.0	1,138
Banking	174	144	20.7	574
Non-life Insurance	49	61	-19.3	244
Wealth Management	34	73	-53.9	226
Other Operations	38	5		95
New OP bonuses accrued to owner-customers	54	50	6.4	208
	31 March 2017	31 March 2016	Change, %	31 Dec. 2016
CET1 ratio, %	18.8	19.5	-0.7*	20.1
Return on economic capital, % **	22.5	21.1	1.4 *	22.7
Ratio of capital base to minimum amount of capital base (under the Act on the Supervision of Financial and Insurance Conglomerates), % ***	142	160	-18*	170
Ratio of impairment loss on receivables to loan and guarantee portfolio, %	0.04	0.05	0.0*	0.09
Owner-customers (1,000)	1,766	1,507	17.1	1,747

Comparatives deriving from the income statement are based on figures reported for the corresponding period in 2016. Unless otherwise specified, balance sheet
and other cross-sectional figures on 31 December 2016 are used as comparatives.
* Change in ratio
** 12-month rolling
*** The FiCo ratio has been calculated under Solvency II transitional provisions.


Earnings before Tax, € million
234
257
320
284
295
Q1/2013
Q1/2014
Q1/2015
Q1/2016
Q1/2017


Common Equity Tier1 ratio (CET1), %
17.1
15.1
19.5
20.1
18.8
1.1.2014
2014
2015
2016
Q1 2017

Comments by Reijo Karhinen, President and Group Executive Chairman

Our first quarter was reflected by the implementation of the strategy boldly transforming OP Financial Group as well as the sustained strong financial performance. Our earnings improved year on year, being the second best ever recorded for the first quarter. Earnings were improved by higher capital gains from investment and net commissions and fees. Of the business segments, Banking showed clearly better earnings than a year ago. Earnings were eroded by not only weak first-quarter claims development but also higher expenses due to strategy implementation. Net interest income that lowered slightly at Group level resulted from a reduction in Group Treasury net interest income. However, Banking net interest income continued to rise. Comparable earnings by Wealth Management were almost at the same level as a year ago.

Good Banking performance was augmented by the loan portfolio growth rate that outpaced the market. Wealth Management too showed strong growth. However, Non-life Insurance did not reach the growth rate seen in previous years. New businesses continued to make progress. The health and wellbeing business is continuing to expand on a nationwide basis: three new hospitals are currently under construction. In mobility services, we focused on preparing for subsequent openings.

In addition to ensuring that daily customer business runs smoothly, the drastic change underway in customer behaviour is challenging us. For a traditional financial services provider, this means a considerable need for reinvention and thereby significant investments in product and service development. At the same time, continuously increasing regulation requires more and more investments in systems. The combined effect of these investments on our expenses will be significant. Our strong earnings power helps us in this respect.

As one of the Finnish pioneers in exploiting digitisation, we are at the forefront facing pressures for change in terms of employee competence profiles. Mobile technology, artificial intelligence, robotisation and automation will create new service and competence needs in the financial sector as well as business models that jettison conventional practices. New jobs are being created while old ones are disappearing faster than ever before.

This transformation with the customer at the core is proceeding apace. We must accept the fact that a number of structures, norms and operating models in our society no longer meet the needs of the changing employment landscape. Value-based choices too will play a pronounced role amid the fierce change. A responsible and successful company must now look for new operating models and solutions if it intends to withstand competition and safeguard its employees' competencies in the future. This will require a new way of thinking and attitude of employees, employers and our society as a whole.

OP Financial Group's Interim Report for 1 January–31 March 2017

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Operating environment

Confidence in the global economy improved and, based on preliminary information, world trade showed a clear recovery during the first few months of 2017. This favourable development was on a broad basis. Economic indicators also show a pick-up in economic growth in the euro area during the first few months.

The inflation rate accelerated in most countries as a result of higher energy prices. The US Federal Reserve raised its federal funds rate to 0.75-1.00% and expects to continue its rate hikes.

The European Central Bank (ECB) kept its main refinancing rate unchanged but announced in March that risks have abated and deflation threat has gone. Both short- and long-term interest rates remained at somewhat the same level as at the turn of the year.

The Finnish economy continued to recover in the first quarter. Consumer confidence was strong and unemployment went down further. Exports too started to recover. Inflation accelerated at a moderate rate due to higher crude oil prices. The housing market improved further but prices rose only slightly.

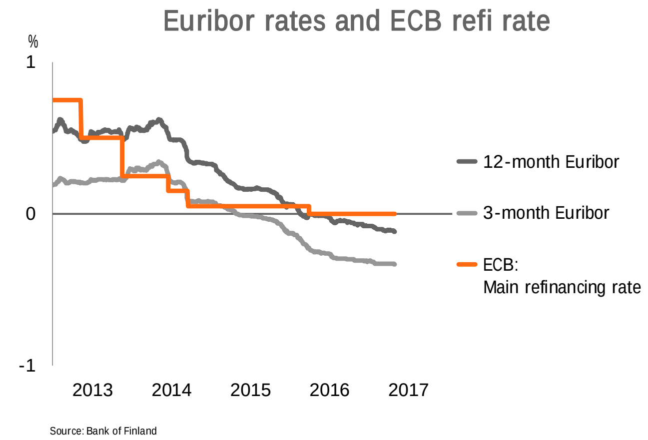
The world economy should improve slightly in the short run. The Finnish economy is expected to show reasonable growth. Euro-area interest rates should remain low. Political risks are still casting a shadow over the favourable near-term prospects.

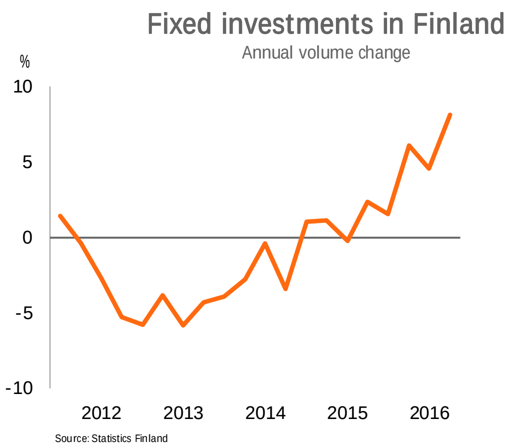
Growth in consumer loan volumes slowed down slightly in the first quarter to a rate of around 2.5%. Slower growth in total home loans lies behind this development, in particular. Based on the assessment of the Bank of Finland, the highly low interest rates have encouraged home loan repayments. Housing cooperative and corporate loan volume growth remained slower than a year ago. According to the most recent banking barometer, demand for loans, especially that for home loans, is expected to increase.

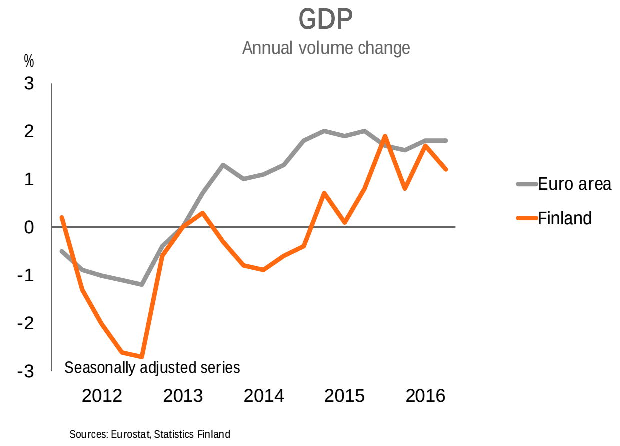
Growth in total deposits turned negative during the first few months of the year. Household deposits continued to grow more briskly than a year ago, aided mainly by the favourable development in current accounts. Then again, total deposits by public-sector entities and corporates shrank over the previous year. The growth rate of these deposits have varied considerably in the last few years.

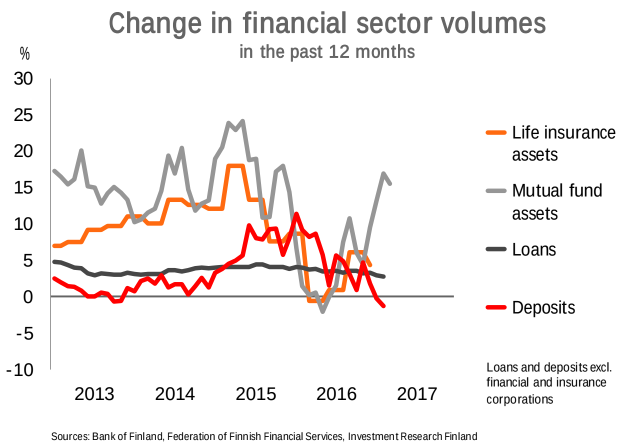
The value of the mutual funds registered in Finland increased by EUR 4 billion to EUR 110.5 billion during the first quarter, EUR 1.2 billion of this increase stemming from net asset inflows and the rest from positive value change.

In non-life insurance companies, the early 2017 has been characterised by price competition in motor vehicle insurance sparked by the amended Motor Liability Insurance Act. Although growth in insurance companies' premiums written has petered out, non-life insurers still show good business profitability and solvency.









Earnings analysis and balance sheet

Earnings analysis, € million	Q1/2017	Q1/2016	Change, %	Q4/2016	Change, %	Q1–4/2016
Earnings before tax	**295**	**284**	**4.0**	**218**	**35.5**	**1,138**
Banking	174	144	20.7	129	38.6	574
Non-life Insurance	49	61	-19.3	38	29.7	244
Wealth Management	34	73	-53.9	43	-21.7	226
Other Operations	38	5		11		95
Income						
Net interest income	258	267	-3.4	260	-0.4	1,058
Net insurance income	117	129	-9.4	140	-16.8	558
Net commissions and fees	237	224	5.7	222	7.0	859
Net investment income	122	86	41.4	108	12.6	390
Other operating income	34	10		18	91.5	122
Share of associates' profit/loss	2	2	-3.8	-4		1
Total income	**770**	**719**	**7.1**	**743**	**3.6**	**2,989**
Expenses						
Personnel costs	202	201	0.4	199	1.1	762
Depreciation/amortisation and impairment loss	42	37	15.2	44	-2.8	160
Other operating expenses	173	139	24.2	188	-8.2	646
Total expenses	**417**	**377**	**10.6**	**431**	**-3.4**	**1,567**
Impairment loss on receivables	**8**	**11**	**-25.4**	**41**	**-80.8**	**77**
New OP bonuses accrued to owner-customers	**54**	**50**	**6.4**	**53**	**0.1**	**208**

Key balance sheet figures, € million	31 March 2017	31 Dec. 2016	Change, %
Receivables from customers	79,509	78,604	1.2
Investment assets	23,918	25,105	-4.7
Liabilities to customers	60,975	60,077	1.5
Insurance liability	10,661	10,586	0.7
Debt securities issued to the public	28,529	28,287	0.9
Equity capital	10,378	10,237	1.4
Total assets	**136,032**	**133,747**	**1.7**

January–March

OP Financial Group’s earnings before tax amounted to EUR 295 million (284). The figure improved by EUR 11 million over the previous year. This earnings improvement was particularly due to higher net investment income and other operating income.

Net interest income decreased by 3.4% to EUR 258 million. Net interest income was reduced by lower net interest income from trading operations. Net insurance income declined by 9.4% to EUR 117, due to weak claims developments. Net commissions and fees were EUR 237 million, or EUR 13 million higher than the year before. Fees from payment services and securities brokerage fees increased by EUR 3 million, respectively, and commission expenses decreased by a total EUR 4 million.

Net investment income increased by 41.4% to EUR 122 million. Capital gains on equity instruments contributed to higher net income from available-for-sale assets. Positive value changes in Credit Valuation Adjustment (CVA) in derivatives owing to market changes improved net income from securities trading. Short-term supplementary interest rate provisions of Life Insurance reduced net investment income by EUR 32 million over the previous year, which to a large extent also explains lower Wealth Management earnings.

Other operating income rose by EUR 24 million year on year to EUR 34 million. Other operating income included EUR 20 million in non-recurring VAT refunds for prior years.

Total expenses increased by 10.6% to EUR 417 million. OP Financial Group’s significant investments in service development increased development costs by EUR 16 million. Development costs totalled EUR 41 million (25). New businesses accounted for EUR 6 million of the increase in total expenses. Depreciation/amortisation increased by EUR 5 million year on year to EUR 42 million. Personnel costs remained at the previous year’s level at EUR 202 million.

Impairment losses recognised under various income statement items that reduced earnings amounted to EUR 17 million (30), of which EUR 8 million (11) concerned loans and receivables. Net impairment loss on loans and receivables were very low, at 0.04% (0.05) of the loan and guarantee portfolio.

OP Financial Group’s current tax amounted to EUR 55 million (54). The effective tax rate was 18.8% (19.1).

OP Financial Group’s equity capital increased by 1.4% to EUR 10.4 billion. Equity capital was increased by the reporting period’s earnings. Equity capital included EUR 2.7 billion (2.7) in Profit Shares, terminated Profit Shares accounting for EUR 0.2 billion (0.3). The return target for Profit Shares for 2017 is 3.25%. Interest payable on the Profit Shares accrued during the reporting period is estimated to total EUR 22 million (20). The amount of interest to be paid for 2016 totals EUR 83 million. The fair value reserve decreased by EUR 27 million to EUR 292 million.

OP Financial Group’s strategy and numerical targets

According to the strategy confirmed in June 2016, OP Financial Group aims to gradually change from a plain financial services provider to a diversified services company of the digital era with strong financial services expertise. The strategy highlights customer experience enhancement by digitising services and processes. In the years to come, OP Financial Group intends to make health and wellbeing services its fourth business line alongside Banking, Non-life Insurance and Wealth Management.

OP Financial Group has initiated a large-scale development programme to speed up the digitisation of its services. The strategy will be put into practice through 15 strategic initiatives. The Group’s development expenditure will be up to EUR 2 billion between 2016–2020. The investments required by upgrading and streamlining business will add to the Group's expenses and weaken Group profitability before the benefits from such investments are realised in terms of better financial indicators.

OP Financial Group's numerical targets	31 March 2017	31 Dec. 2016	Target
Customer experience, NPS (–100–+100)			
Brand	20.6	22.7	25
Service	57	53	70, over time 90
CET1 ratio, %	18.8	20.1	22
Return on economic capital, % (12-month rolling)	22.5	22.7	22
Expenses of present-day business (12-month rolling), € million	1,565	1,532	Expenses in 2019 lower than in 2015 (1,500)
Owner-customers, million	1.8	1.7	2.1 (2019)

Promotion of the prosperity and wellbeing of owner-customers and in the operating region

OP Financial Group’s operations are based on cooperative values, a strong capital base, capable risk management and customer respect. The Group’s core values are a People-first Approach, Responsibility, and Prospering Together. Based on its mission, OP Financial Group creates sustainable prosperity, security and wellbeing for its owner-customers and in its operating region by means of its strong capital base and efficiency.

As a cooperative business, OP Financial Group's operations are guided by a double role. In its business role, the Group provides its customers with competitive products and services while ensuring its profitability. Then again, in its social role OP Financial Group aims to promote its customers’ prosperity and security on a broader basis too and in its operating region on a longer-term basis. Succeeding in both roles is a measure of the Group's success.

January–March

During the reporting period, OP Financial Group continued with its #Suominousuun initiatives decided earlier. These initiatives are aimed at giving more leeway and economic activity among OP's broad customer base and in the entire Finland.

Financing for SME growth potential

OP Financial Group acts as an intermediary bank in two SME financing programmes guaranteed by the European Investment Fund (EIF). Out of the 150-million euro financing package enabled by the agreement signed in March 2016, loans worth up to roughly EUR 60 million have been granted to almost 70 companies. The financing is targeted at projects of growing and innovative companies with a staff of less than 500. As a result of the new agreement signed in January 2017, OP is to arrange more financing for SMEs guaranteed by the EIF worth EUR 150 million. The financing related to the latter agreement is targeted at projects of companies with a staff of less than 250. SMEs have shown interest in this financing programme as well. For both financing programmes, the EIF has given a 50% risk-sharing guarantee to the loans. By providing financing to SMEs with growth potential, OP Financial Group wants to be involved in supporting future economic growth and employment.

Support for families with children through the #Perheenlisä initiative

Based on its #Perheenlisä initiative for families with a baby, OP offers products and services that make the daily life of a new family easier. For example, OP has already granted health and living allowance insurance for an unborn child for one year free of charge to over 14,000 babies. The value of this benefit enjoyed by customers totals EUR 5.5 million. Moreover, the initiative also offers the opportunity for a maximum of 12-month home loan repayment holiday without service charges to families who have fulfilled their loan obligations as per agreement and whose baby will be born before the end of 2017. OP will offer free of charge a NewLife life insurance for one year to parents with children under the age of one until the end of 2017.

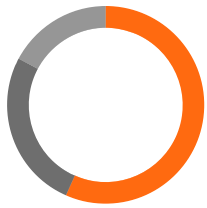
Volunteering in honour of the centenary of Finland's independence

OP's gift to the 100-year-old Finland is 100 person-years of volunteering. All 12,000 OP employees may do voluntary work for one day during their working hours. This equals about half of the targeted hundred person-years. The other half of the target will be achieved by inviting people in Finland to become involved in volunteering on a broad basis. Hiiop100.fi, a volunteer work exchange site launched by OP at the turn of the year, brings together those in need of help and volunteers. The volunteer workdays recorded by the date of the release of this interim report totalled six years and four months. It is possible to follow real time at hiiop100.fi the progress of the achievement of the target.

Allocation of earnings

OP Financial Group with a cooperative foundation aims not to maximise profits for its owners but to provide, as efficiently as possible, the services which the cooperative's owner-customers need. The shared success will be used for the benefit of owner-customers in the form of loyalty benefits and other financial benefits as well as the maintenance and further development of service capabilities.

OP Financial Group's estimated earnings allocation for the reporting period that is to be confirmed after the end of the financial year:



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

Implementing OP's mission successfully requires a strong capital base which the requirements set by the authorities also necessitate. OP Financial Group uses a significant part of its earnings to enhance its capital base. That will require efficiency and earnings power of the Group in the years to come too.

A considerable part of business earnings are returned to the owner-customers in the form of OP bonuses and various benefits and discounts. According to the fundamental cooperative business principle, benefits are allocated on the basis of the extent to which each member uses the cooperative's services. OP's loyalty benefit programme consists of OP bonuses – generated in proportion to almost all of a person's transactions with OP – as well as benefits and discounts related to OP's banking, non-life insurance and wealth management products and services. Furthermore, some service packages are only available to owner-customers. Owner-customers also have the opportunity to contribute capital to their own OP cooperative bank through Profit Shares. Interest will be annually paid on Profit Shares as the banks' profit distribution.

OP Financial Group is one the largest tax payers in Finland measured by tax on profits. By paying taxes in Finland, the Group is contributing to prosperity in the whole of Finland.

Other January–March highlights

The ECB is offering euro-area credit institutions four targeted longer-term refinancing operations with a maturity of four years (TLTRO-II) with the primary aim of fostering growth. Under TLTRO-II, the banks will be able to borrow up to 30% of their loan balance as at 31 January 2016 to non-financial corporations and households in the euro area, excluding loans to households for a home purchase. To contribute to strong growth, OP Financial Group participated in TLTRO-II operations in the reporting period with EUR 1 billion. OP Financial Group has participated in TLTRO-II with a total of EUR 4 billion.

On 2 February 2017, OP Financial Group received the European Central Bank's (ECB) decision to set OP Financial Group's risk weight floors for retail exposures for a fixed period of 18 months. The shortcomings observed by the ECB in the IRBA (Internal Ratings Based Approach) management and validation process applied by OP Financial Group in capital adequacy measurement, especially delayed validations, lie behind the decision. OP Financial Group has already remedied the shortcomings observed by the ECB to a substantial extent and will complete the corrective measures as soon as possible. The risk weight floors that increase the average retail exposure risk weights are 15.4% for private customer mortgage-backed exposures and 24.9% for SME mortgage-backed exposures. The risk weight floors decreased the CET1 ratio by 1.8 percentage points.

On 7 March 2017, the Finnish Financial Supervisory Authority issued a public warning to, and imposed a penalty payment of EUR 400,000 on, Helsinki Area Cooperative Bank due to shortcomings in investment advice related to the obligation to obtain information. OP Helsinki has already taken corrective measures and customers have not suffered any financial harm. The warning is based on the inspection conducted by the Financial Supervisory Authority at several companies in autumn 2015.

OP Financial Group has provided its replies to the request for clarification received from the Finnish Competition and Consumer Authority in 2015. The authorities are investigating OP Financial Group's market position in retail banking services and the pricing of non-life insurance products. The issue is still being investigated by the Authority.

Corporate social responsibility

Corporate social responsibility (CSR) is an integral part of OP Financial Group's business and strategy. CSR activities take economic, social and environmental responsibility into consideration. OP Financial Group's aim is to be a pioneer in CSR within its sector in Finland. OP Financial Group undertakes to comply with the ten principles of the UN Global Compact initiative in the areas of human rights, labour rights, the environment and anti-corruption. OP has followed the UN Principles for Responsible Investment since 2009. The Group is continuously developing its responsible investment practices while seeking to foster a more responsible investment sector.

OP Financial Group published its integrated annual report package 2016 on 28 February 2017, including the CSR report based on the GRI G4 framework. To increase its transparency, OP reported for the first time its tax footprint in its major tax categories as part of the report.

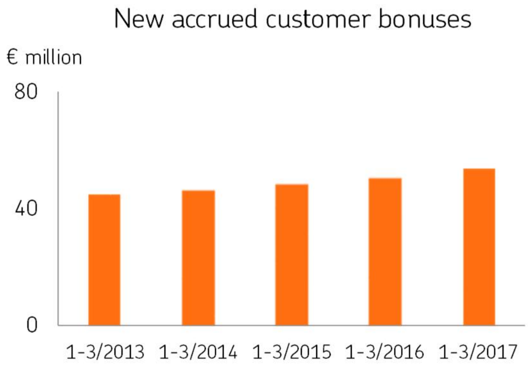
Customer relationships and customer benefits

In January–March, the number of OP Financial Group's owner-customers increased by 19,000 to almost 1.8 million.

Contributions made by OP cooperative banks' owner-customers to the banks' Profit Shares, cooperative shares and supplementary cooperative shares totalled EUR 2.9 billion (3.0) on 31 March 2017.

In January–March, the number of OP Financial Group's customers increased by 6,000 in net terms. The number of customers totalled 4,363,000 at the end of March.
The number of private customers totalled 3,922,000 and that of corporate customers 441,000. In January–March, the number of joint banking and non-life insurance customers increased by 12,000 to almost 1.8 million.

Owner-customers earn OP bonuses through banking, non-life insurance and wealth management transactions. The combined amount of new bonuses earned by OP bonus customers in the first quarter for using OP as their main bank and insurer was worth EUR 54 million (50). A total of EUR 30 million (28) of bonuses were used to pay for banking and wealth management services and EUR 27 million (25) to pay non-life insurance premiums. OP bonuses were used to pay 574,000 insurance bills (528,000), with 74,000 (68,000) of them paid in full using bonuses.



Non-life Insurance premier customer households were provided with EUR 22 million (20) in loyalty discounts during the reporting period.

Interest payable on Profit Shares accrued during the reporting period is estimated to total EUR 22 million (20). The return target for Profit Shares for 2017 is 3.25% (3.25). A total of around EUR 85 million (83) in interest are expected to be paid on Profit Shares, according to the profit target.

Multichannel services

The Group has a multichannel service network comprising branch, online, telephone and mobile services. The Group provides personal customer service both at branches and digitally. The Group seeks to provide the best multichannel customer experience in the sector by creating ongoing and relevant encounters in all channels.

In March, OP-mobile was the main channel for customers' daily banking, with visits totalling over 14.5 million during one month. The number of visits to online services amounted to almost 10 million.. The number of visits to OP-mobile launched in 2012 exceeded that of op.fi visits already in March 2016. The number of visits to the Pivo mobile application totalled around 2 million in March.

The reporting period saw the launch of new mobile payment methods: Pivo person-to-person payment and Pivo payment button. The Pivo person-to-person payment enables customers to send money to other people by using their mobile phone number. The Pivo payment button enables customers to pay their web purchases without a key code list or their card's PIN. It is already a payment method option at over 2,500 webshops. Both the person-to-person payment and the payment button are available to the customers of all banks.

OPs eServices at op.fi is being redesigned. The beta version of the new service is available to customers at uusi.op.fi. OP has developed the service together with its customers from the very beginning and has collected customer feedback on the beta version that guides further development. Private customers can already now manage their banking and insurance transactions on the new service. Services for corporate customers are undergoing redesign. The current site coexists with the new service until the latter's completion.

Despite the expansion of online and mobile services, OP Financial Group still has Finland's most extensive branch network with over 400 branches across the country. The Group's own branch network is further supported by a comprehensive agency and partnership network, which is particularly important in terms of the sale of non-life insurance policies.

OP Financial Group has extensive presence in the most common social media channels where it has more than 300,000 followers. In addition to the Group's national social media accounts, many member cooperative banks have their own Facebook pages where they share publications destined for local customers. March saw the launch of op.media, which is OP's new social customer media for owner-customers and corporate customers.It replaced OP's blog and content platform taloudessa.fi, which had an average of 100,000 monthly visitors.

New businesses

Pohjola Health has hospitals in Helsinki and Tampere. Pohjola Health Ltd is expanding into a national player and the Pohjola Hospital under construction in Oulu will open its doors in May. Pohjola Hospitals are also being built in Kuopio and Turku. The hospital in Kuopio will open its doors in early autumn 2017 and that in Turku in early 2018.

In November 2016, OP took its first step in the field of mobility services by launching the OP Kulku service in the Helsinki Metropolitan Area. The service is aimed at lowering the threshold to use electric cars by providing consumers and small firms with the opportunity to use an electric car with a monthly charge. OP Kulku established itself in Tampere and the neighbouring region in April. During 2017, the purpose is that the service will also be available in a few more major Finnish cities. In April, OP also announced that it would build with Fortum around hundred EV charging stations around Finland. The new stations will be built adjacent to OP cooperative bank branches. By increasing the charging station services, OP and Fortum seek to promote conditions for electric driving in Finland.

Solvency

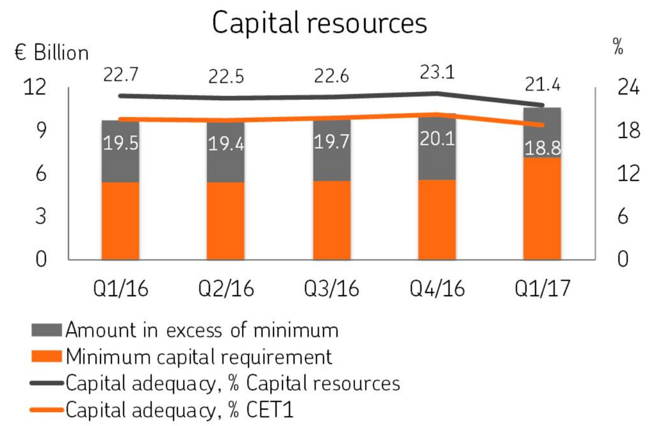
Capital adequacy under the Act on the Supervision of Financial and Insurance Conglomerates

On 31 March 2017, OP Financial Group's capital base, calculated according to the Act on the Supervision of Financial and Insurance Conglomerates (FiCo), exceeded the minimum amount specified in the Act by EUR 3.1 billion (4.3). The buffer was reduced by the Pillar II capital requirement (P2R) of 1.75% determined by the ECB, based on the supervisor's assessment, combined with a higher capital requirement caused by a growth in banking business as well as risk weight floors set by the ECB.

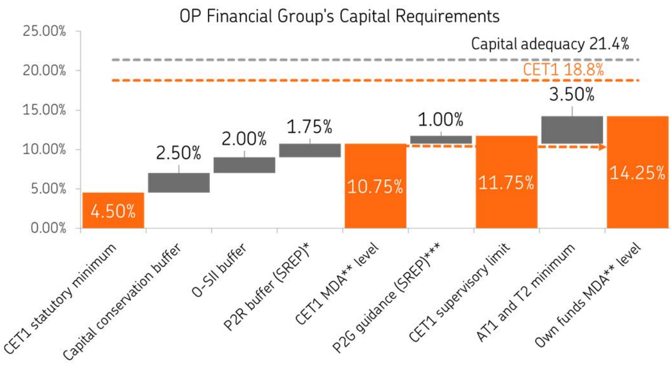
The P2R buffer requirement increased the consolidated capital adequacy requirement from 12.5% to 14.3%, calculated as percentage of risk-weighted assets. The ratio of the Group capital base to the minimum capital requirement was 142% (170), with the P2R requirement reducing the ratio by 16 percentage points. The ratio was 154% without the risk weight floors set by the ECB. As a result of the buffer requirements for banking and solvency requirement for insurance companies under Solvency II, the FiCo solvency does not reflect the minimum level of the capital base of the FiCo group but the level within which the group can operate without regulatory obligations resulting from buffers below the required level.

Capital adequacy for credit institutions

The Group's CET1 ratio was 18.8% (20.1) on 31 March 2017. The risk weight floors set by the ECB decreased the CET1 ratio by 1.8 percentage points. An increase in CET1 capital exceeded an increase in total risk exposure amount resulting from growth in the loan portfolio. The effect of the calculated adjustments of defined benefit pension plans (IAS 19) on the Group's CET1 ratio was about -1.1 percentage points, or roughly the same as at the end of 2016.



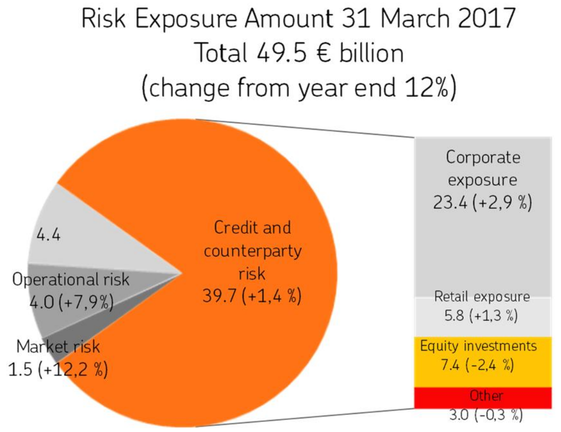
As a credit institution, OP Financial Group's capital adequacy is on a solid basis compared to the statutory requirements and those set by the authorities. The statutory minimum for the capital adequacy ratio is 8% and for the CET1 ratio 4.5%. The requirement for the capital conservation buffer of 2.5% under the Act on Credit Institutions, the O-SII buffer of 2% and the P2R requirement increase in practice the minimum capital adequacy ratio to 14.3% and the CET1 ratio to 10.8%.



* P2R supervisory Pillar II requirement ** Maximum distributable amount
*** P2G supervisory guidance, breach results enhanced supervisory measures

The Group's CET1 capital was EUR 9.3 billion (8.9) on 31 March 2017. CET1 capital was increased by Banking performance, Profit Share issues and dividends from the Group's insurance institutions. Given that the IAS 19 adjustments were at their 2016-end level, they had not substantial effect on the change in CET1 capital. The amount of Profit Shares in CET1 capital was EUR 2.7 billion.

On 31 March 2017, the risk exposure amount (REA) totalled EUR 49.5 billion (44.1), or 12.2% higher than on 31 December 2016. The average risk weights of corporate exposure rose slightly. The average risk weights of retail exposures remained unchanged. The minimum risk weight for retail exposures set by the ECB was EUR 4.4 billion, without which total risk was EUR 45.1 billion.



OP Financial Group treats insurance holdings within the financial and insurance conglomerate as risk-weighted assets, based on permission from the ECB. Equity investments include EUR 6.5 billion in risk-weighted assets of the Group's internal insurance holdings with a risk weight of around 280%

The Financial Supervisory Authority makes a macroprudential policy decision on a quarterly basis. In March 2017, the Financial Supervisory Authority reiterated its decision not to impose a countercyclical capital buffer requirement on banks and decided to begin preparing to set a 15% minimum risk weight on housing loans, replacing the 10% minimum risk weight it had previously prepared. According to the Authority, the risk weight floor is aimed at preparing for an increased systemic risk. The Authority seeks to adopt the minimum risk weight at the beginning of 2018. This 15% minimum would decrease the CET1 ratio by an estimated 1.6 percentage points. The minimum risk weight will have no effect on OP Financial Group's total risk exposure in view of the risk weight floors for retail exposures set by the ECB.

The upcoming regulations include a ratio of the degree of indebtedness, the leverage ratio. The leverage ratio of OP Financial Group's Banking is estimated at about 7.6% based on the existing interpretations, calculated using the March-end figures, with the minimum level in the draft regulations being 3%.

The Ministry of Finance is drafting the inclusion of the systemic risk buffer in the Act on Credit Institutions. Accordingly, the Financial Supervisory Authority could set the systemic risk buffer ranging from 0 to 5% The buffer would affect OP Financial Group only if it exceeded OP Financial Group's O-SII buffer which currently is 2%.

Non-life and Life Insurance

The solvency position of Non-life Insurance remained strong at the end of March, being slightly higher than at the end of December 2016. Life Insurance solvency position was slightly weaker than at the end of December 2016, due to extra dividend payment.

Solvency II	Non-life Insurance*		Life Insurance	
	31 March 2017	31 Dec. 2016	31 March 2017	31 Dec. 2016
Capital base, € million **	1,055	992	1,353	1,455
Solvency capital requirement (SCR), € million**	686	693	719	742
Solvency ratio, % **	154	143	188	196
Solvency ratio, % (excluding transitional provision)	138	127	145	149

* Non-life Insurance includes OVY Insurance Ltd
** including transitional provisions

ECB banking supervision

OP Financial Group is supervised by the European Central Bank (ECB). The ECB has set a capital requirement for OP Financial Group based on the supervisory review and evaluation process (SREP). The new capital buffer requirement (P2R) set by the ECB and effective as of 1 January 2017 is 1.75%. When taking account of the P2R, the minimum for OP Financial Group's CET1 ratio is 10.75% and for its capital adequacy ratio 14.25%. In addition, the ECB has set on OP Financial Group a capital adequacy guidance (P2G) of 1.0%. Failure to meet this guidance would not affect e.g. profit distribution. The P2G included, the CET1 requirement is 11.75%. OP Financial Group's capital adequacy clearly exceeds the new minimum ratios set.

Liabilities under the Resolution Act

Regulation in force since early 2015 applies to crisis resolution of credit institutions and investment firms. In addition, more specified guidelines on the application of these provisions were issued by authorities in summer 2016. According to the regulation, the resolution authority is authorised to intervene in the terms and conditions of investment products issued by a bank in a way that affects an investor's position. The EU's Single Resolution Board (SRB) based in Brussels is OP Financial Group's resolution authority. The SRB is determining the minimum level of liabilities, under the Resolution Act, at the OP Financial Group level.

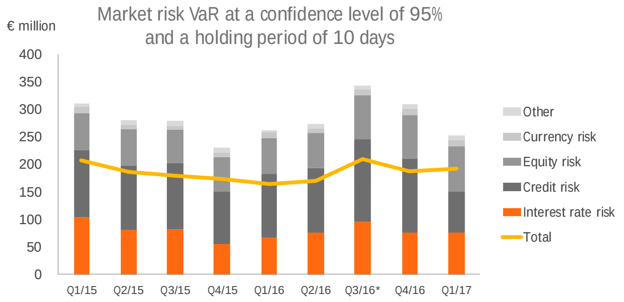
Risk exposure

OP Financial Group's risk exposure has remained stable. The Group has a strong risk capacity that secures business continuity.

The strong risk capacity and moderate target risk exposure level maintained the Group's credit risk exposure stable.

OP Financial Group's funding and liquidity position is good. The availability of funding has remained good. During the reporting year, the Group issued long-term bonds worth EUR 1.0 billion. In addition, OP Financial Group participated in the second series of the ECB's targeted longer-term refinancing operations (TLTRO-II) with one billion euros. The loan-to-deposit ratio remained stable during the reporting period.

OP Financial Group's market risk exposure was stable during the reporting period. The Group's VaR, a measure of market risk, was EUR 192 million (188) on 31 March 2017. It includes the balance sheet total of the insurance institutions, trading, liquidity buffer and the Group Treasury's interest rate risk exposure.



* The separated balance sheet (pension insurance portfolio) transferred from Suomi Mutual Life Assurance Company has been included in figures since Q3/16

The Group expects its operational risks to be moderate as targeted. The development speed of operations and services, however, will pose additional challenges to risk management in the upcoming years.

Risks associated with defined benefit pension plans relate to interest rate and market risk, future increases in pension benefits and longer life expectancy. A change in the discount rate for pension liabilities has a substantial effect on the amount of pension liabilities. The decrease in net liabilities related to defined benefit pension plans recognised in other comprehensive income during the reporting period improved comprehensive income before tax by EUR 16 million. Net liabilities were increased by a one-off increase in the paid-up policy liability, performed on the Finnish Insurance Complaints Board's recommendation, and decreased by an increase in interest rates. A year ago, an increase in net liabilities related to defined benefit pension plans decreased other comprehensive income before tax by EUR 193 million.

Banking

Within Banking, major risks are associated with credit risk arising from customer business, and market risk.

Credit risk exposure by Banking remained stable and credit risk remained moderate. Doubtful receivables totalled EUR 2.8 billion (2.6). Higher doubtful receivables were caused by the greater use of forbearance measures and also partly by weaker borrower grades arising from the updated credit rating scale. Doubtful receivables refer to receivables that are more than 90 days past due, other receivables classified as risky and forborne receivables due to the customer's financial difficulties. Forbearance measures consist of concessions agreed at the customers' initiative to contractual payment terms towards the customer to make it easier for them to manage through temporary payment difficulties. Member cooperative banks make every effort to find solutions to overcome customers' temporary financial difficulties. Loan modifications due to reasons other than the customer's financial difficulties are not classified as doubtful receivables. Impairment losses remained low, accounting for 0.04% (0.05) of the loan and guarantee portfolio.

During the reporting period, the loan and guarantee portfolio increased by EUR 0.8 billion to EUR 82.1 billion (81.3). Private customers accounted for 60% (60) of the loan and guarantee portfolio. Of the six main categories for private customer exposure, 84% (84) of the exposures belonged to the top two categories, and 4% (4) to the lowest two. Corporate exposures (incl. housing corporations) represented 38% (38) of the loan and guarantee portfolio. Of corporate exposure, the highest borrower grade 1–5.5 exposure represented 55% (55) and the exposure of the two lowest borrower grades amounted to EUR 524 million (464), accounting for 1.2% (1.2) of the total corporate exposure.

No single customer's exposure exceeded 10% of the capital base after allowances and other recognition of credit risk mitigation. The Banking capital base covering customer exposure amounted to EUR 10.7 billion (10.4).

In the Companies and Housing Corporations exposures, the most significant industries measured by exposure were Renting and Operating of Residential Real Estate representing 17.6% (17.7), Renting and Operating of Other Real Estate representing 10.1% (10.2) and Trade representing 8.9% (9.1). A total of 91% of exposures within Renting and Operating of Residential Real Estate were those by housing corporations and 15% were those guaranteed by general government. In monitoring Banking exposures, the Group started to use exposure classes instead of the sectors presented previously. Comparatives have been restated to correspond to the new monitoring method.

Banking's interest rate risk measured as the effect of a one-percentage point decrease on 12-month net interest income was EUR 106 million at the end of March. The measurement method has changed in 2017 in such a way that it includes changes in the zero floors for home loans written into the Consumer Protection Act.

Non-life Insurance

Major risks within Non-life Insurance include underwriting risks associated with claims developments, market risks associated with investments covering insurance liabilities, a faster-than-expected increase in life expectancy of the beneficiaries related to insurance liability for annuities, interest rates used in insurance liability valuation and the difference between the discount rate applied to insurance liabilities and market interest rates.

A one-year increase in life expectancy would increase insurance liability for annuities by EUR 43 million. A 0.1 percentage point decrease in interest rates used in insurance liability valuation would increase insurance liabilities by EUR 25 million.

No significant changes took place in Non-life Insurance's underwriting risks. Non-life Insurance's most significant market risk is associated with increasing insurance liability value and capital requirement resulting from lower market interest rates.

The investment risk level (VaR with 95% confidence, 1-month time period) remained stable during the review period. No major changes took place in the investment portfolio's asset class allocation. The Group has used both interest rate derivatives and bonds to hedge against interest rate risk associated with insurance liability. The portfolio's interest rate and credit risk has remained stable. The hedge ratio of interest rate risk associated with insurance liabilities was kept stable.

Wealth Management

The key risks associated with Wealth Management are the market risks of Life Insurance's investment assets, the interest rate used for the valuation of insurance liabilities and a faster-than-expected life expectancy increase.

A one-year increase in life expectancy would increase insurance liability by EUR 25 million. A 0.1 percentage point decrease in interest rates used in insurance liability valuation would increase insurance liabilities by EUR 33 million. Investment and customer behaviour risks associated with the separated life insurance portfolios transferred from Suomi Mutual have been buffered. The buffer is sufficient to cover a significant negative return on the investment assets included in the separate portfolios, after which OP Financial Group will bear the risks associated with the portfolios.

In life insurance underwriting risks, the Group has hedged against customer behaviour risk through a reinsurance contract, as a result of which the customer behaviour risk is lower than last year.

The investment risk level (VaR with 95% confidence, 1-month time period) remained stable during the review period. No major changes took place in the investment portfolio's asset class allocation. The Group has used both interest rate derivatives and bonds to hedge against interest rate risk associated with insurance liability. The portfolio's interest rate and credit risk has remained stable. The Group has increased the hedge ratio of interest rate risk associated with insurance liabilities.

Other Operations

Major risks related to Other Operations include credit and market risks associated with the liquidity buffer, and liquidity risks. The market risk is highest in notes and bonds included in the liquidity buffer.

The market risk in proportion to the size of the liquidity buffer position size (VaR with 95% confidence) remained stable during the reporting period, while the volume of investments declined slightly. No major changes occurred in the asset class allocation.

OP Financial Group secures its liquidity through a liquidity buffer which consists mainly of deposits with central banks and receivables eligible as collateral for central bank refinancing. The liquidity buffer and other sources of additional funding based on the contingency funding plan are sufficient to cover funding for at least 24 months in the event wholesale funding becomes unavailable and total deposits decrease at a moderate rate.

A decrease in the amount of notes and bonds eligible as collateral was due, for example, by their use as collateral in TLTRO-II.

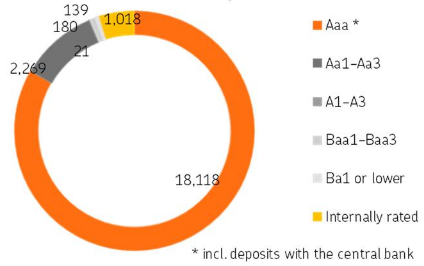
OP Financial Group monitors its liquidity and the adequacy of its liquidity buffer using, for example, the LCR (Liquidity Coverage Ratio). According to the transitional provisions, the LCR must be at least 80% in 2017 and at least 100% from the beginning of 2018. OP Financial Group's LCR was 132% on 31 March 2017.

Liquidity buffer

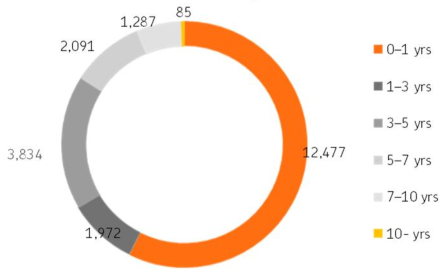
€ billion	31 March 2017	31 Dec. 2016	Change, %
Deposits with central banks	11.8	9.3	26.9
Notes and bonds eligible as collateral	8.4	11.2	-24.9
Corporate loans eligible as collateral	0.0	0.1	-89.4
Total	**20.3**	**20.6**	**-1.7**
Receivables ineligible as collateral	1.5	1.4	8.6
Liquidity buffer at market value	**21.7**	**22.0**	**-1.1**
Collateral haircut	-0.7	-0.7	4.6
Liquidity buffer at collateral value	**21.1**	**21.3**	**-1.2**

The liquidity buffer comprises notes and bonds issued by governments, municipalities, financial institutions and companies all showing good credit ratings, securitised assets and loans eligible as collateral. The notes and bonds included in the liquidity buffer are based on mark-to-market valuations.

Financial assets included in the liquidity buffer by credit rating on 31 March 2017, € million



Financial assets included in the liquidity buffer by maturity on 31 March 2017, € million



Credit ratings

Rating agency	Short-term debt	Outlook	Long-term debt	Outlook
Standard & Poor's	A-1+	Stable	AA-	Stable
Moody's	P-1	Stable	Aa3	Stable

OP Corporate Bank plc has credit ratings affirmed by Standard & Poor's Credit Market Services Europe Limited and Moody's Investors Service Ltd. When assessing OP Corporate Bank's credit rating, credit rating agencies take account of the entire OP Financial Group's financial position.

The credit ratings did not change in the reporting period.

Financial performance by segment

OP Financial Group's business segments are Banking, Non-life Insurance, and Wealth Management. The health and wellbeing business is included in the Non-life Insurance segment. Non-business segment operations are presented under the Other Operations segment. OP Financial Group prepares its segment reporting in compliance with its accounting policies.

Banking

- Earnings before tax amounted to EUR 174 million (144).
- Total income increased by 10.6%. Higher net interest income and net investment income added to total income. Expenses increased by 7.2% due to development expenditure and higher volumes.
- The loan portfolio increased by 4.9% and the deposit portfolio by 2.5% in the year to March. Year on year, the volume of new home loans drawn down increased by 5.6% and that of corporate loans by 5.1%.
- Impairment losses of EUR 8 million (10) accounted for 0.04% (0.05) of the loan and guarantee portfolio.

Banking: key figures and ratios

€ million	Q1/2017	Q1/2016	Change, %	Q1–4/2016
Net interest income	291	278	4.9	1,134
Net commissions and fees	166	164	1.2	605
Net investment income	10	-20		-15
Other income	5	5	-10.0	27
Total income	**472**	**427**	**10.6**	**1,751**
Personnel costs	96	100	-3.2	378
Depreciation/amortisation and impairment loss	10	9	15.3	44
Other operating expenses	140	122	15.2	499
Total expenses	**247**	**230**	**7.2**	**921**
Impairment loss on receivables	8	10	-25.7	76
OP bonuses to owner-customers	44	42	3.2	180
Earnings before tax	**174**	**144**	**20.7**	**574**
Cost/income ratio, %	**52.3**	**53.9**	**-1.6**	**52.6**
€ million				
Home loans drawn down	1,572	1,488	5.6	7,125
Corporate loans drawn down	1,740	1,655	5.1	7,275
No. of brokered property transactions	3,062	2,622	16.8	12,664
€ billion				
Loan portfolio	31 March 2017	31 March 2016	Change, %	31 Dec. 2016
Home loans	36.9	35.5	3.9	36.8
Corporate loans	19.3	18.5	4.3	19.0
Housing corporation and other loans	23.3	21.8	6.9	22.8
Total	**79.5**	**75.8**	**4.9**	**78.6**
Guarantee portfolio	2.6	2.5	5.8	2.8
Deposits				
Current and payment transfer	37.1	36.2	2.6	37.1
Investment deposits	17.8	17.4	2.2	17.7
Total	**54.9**	**53.6**	**2.5**	**54.8**

The loan portfolio continued to grow. The loan portfolio increased in the year to March by 4.9% to EUR 79.5 billion. Year on year, the volume of new home loans drawn down increased by 5.6% and that of corporate loans by 5.1%.

The deposit portfolio increased in the year to March by 2.5% to EUR 54.9 billion. Investment deposits increased by 2.2%. The volume of deposits in current and payment transaction accounts increased by 2.6% in the year to March.

The volume of homes sold and bought through the OP Kiinteistökeskus real estate agents increased by 16.8% over the previous year.

In January-March, OP Financial Group received 37,000 new banking customers, or 7% more than a year ago, their number totallin 3.7 million at the end of March.

Earnings

Earnings before tax were EUR 174 million (144), or 20.7% higher than a year ago. Total income rose by 10.6% and total expenses by 7.2%. As a result of the rise in income, the cost/income ratio improved to 52% (54). Impairment losses were very low, EUR 8 million (10), accounting for 0.04% (0.05) of the loan and guarantee portfolio.

Net interest income rose to EUR 291 million (278) as a result of an increase in the loan portfolio, a higher average loan portfolio margin and lower funding costs.

Net commissions and fees increased by EUR 2 million to EUR 166 million (164). Commission income related to payment services rose by EUR 2 million.

Net investment income increased by a total of EUR 30 million. The net investment income was increased by positive CVA valuation arising from interest rate changes and other market movements. CVA valuation was EUR 11 million as against EUR -20 million a year ago.

Expenses increased by 7.2% to EUR 247 million (230). Other operating expenses rose by 15.2%. ICT costs increased by EUR 18 million. Higher ICT costs were explained by heavy investments in online and mobile transaction development and growth in volumes.

Personnel costs decreased by EUR 4 million to EUR 96 million (100).

Non-life Insurance

- Earnings before tax amounted to EUR 49 million (61). Net investment income totalled EUR 39 million (30). Earnings before tax at fair value were EUR 40 million (78).
- Insurance premium revenue increased by 0.8% (3.2). Net return on investments at fair value totalled EUR 50 million (-40).
- The operating combined ratio was 95.5% (88.6) and operating expense ratio 19.7% (18.1). The combined ratio was 97.0% (90.2). Unfavourable developments in large claims in the first quarter weakened the operating ratios.

Non-life Insurance: key figures and ratios

€ million	Q1/2017	Q1/2016	Change, %	Q1–4/2016
Insurance premium revenue	350	347	0.8	1,420
Claims incurred	238	222	6.9	883
Other expenses	1	2	-33.9	3
Net insurance income	**111**	**123**	**-9.8**	**534**
Net investment income	39	30	30.2	97
Other net income	-2	-8	-72.3	-33
Total income	**148**	**145**	**2.0**	**598**
Personnel costs	31	30	1.7	115
Depreciation/amortisation and impairment loss	11	10	11.7	41
Other operating expenses	57	44	29.3	196
Total expenses	**98**	**84**	**17.3**	**352**
OP bonuses to owner-customers	0	0	5.3	2
Earnings before tax	**49**	**61**	**-19.3**	**244**
Combined ratio, %	97.0	90.2		89.1
Operating combined ratio, %	95.5	88.6		87.6
Operating loss ratio, %	75.8	70.5		69.1
Operating expense ratio, %	19.7	18.1		18.5
Operating risk ratio, %	69.9	65.0		63.3
Operating cost ratio, %	25.6	23.6		24.3
Solvency ratio (Solvency II), %*	154	160		143
Large claims incurred retained for own account	20	15		61
Changes in claims for provisions of previous years (run-off result)	3	20		60

* including transitional provisions.

Insurance premium revenue from Private Customers and Baltics increased. Insurance premium revenue from Corporate Customers was lower than a year ago. Increased price competition particularly with respect to motor liability insurance eroded income generation in both Private and Corporate Customers. Claims development was markedly weaker than the year before.

Measured by the market share of premiums written, OP Financial Group is clearly Finland's largest non-life insurer.

Developing online and mobile services in both insurance and claims ranks among key Non-life Insurance priorities. The new vahinkoapu.op.fi site (Claim Help) and the new loss report service on OP-mobile have been in frequent use. Up to almost 70% of loss reports of private customers are filed through electronic channels.

Earnings

Earnings before tax amounted to EUR 49 million (61). Net insurance income decreased by 9.8% to EUR 111 million. Net investment income recognised in the income statement increased by EUR 9 million. Earnings before tax at fair value were EUR 40 million (78).

The operating combined ratio was 95.5% (88.6). The operating ratios exclude amortisation on intangible assets arising from the corporate acquisitions.

Insurance premium revenue

€ million	Q1/2017	Q1/2016	Change, %
Private Customers	191	186	2.6
Corporate Customers	144	147	-2.1
Baltics	15	14	7.0
Total	**350**	**347**	**0.8**

Claims incurred increased by 6.9%. Claims incurred arising from new large claims were higher than a year ago. The reported number of large claims under property and business liability insurance (in excess of EUR 0.3 million) amounted to 19 (24) in January–March, with their claims incurred retained for own account totalling EUR 20 million (15). The change in provisions for unpaid claims under statutory pension decreased year on year, being EUR -4.5 million (4.7) between January and March. On 31 March 2017, the average discount rate was 1.88%. On 31 December 2016, the average discount rate was 1.97%. The reduced discount rate increased claims incurred by EUR 12.7 million (13.5), weakening the operating combined ratio by 3.6 percentage points (3.9).

Changes in claims for previous years, excluding the effect of changes on the discount rate, improved the balance on technical account by EUR 3 million (20). The operating loss ratio was 75.8% (70.5). The operating risk ratio excluding indirect loss adjustment expenses was 69.9% (65.0).

Expenses grew by 17.3%, being EUR 15 million higher than a year ago, due to higher ICT costs and the expansion of the health and wellbeing business. The operating expense ratio was 19.7% (18.1). The operating cost ratio (including indirect loss adjustment expenses) was 25.6% (23.6).

Operating balance on technical account and combined ratio (CR)

	Q1/2017		Q1/2016	
	Balance € million	CR, %	Balance € million	CR, %
Private Customers	26	86.3	29	84.4
Corporate Customers	-11	107.5	11	92.3
Baltics	0	98.3	-1	106.0
Total	**16**	**95.5**	**40**	**88.6**

The balance on technical account declined particularly in major customers where the claims development was weaker than the year before.

Investment

Net return on Non-life Insurance investments at fair value totalled EUR 50 million (-40). 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.

Investment portfolio by asset class

%	31 March 2017	31 Dec. 2016
Bonds and bond funds	74.1	76.6
Alternative investments	0.9	0.8
Equities	8.0	8.1
Private equity	2.7	2.9
Real property	9.9	9.8
Money markets	4.4	1.9
Total	**100**	**100**

Non-life Insurance's investment portfolio totalled to EUR 3,880 million (3,876) on 31 March 2017. Investments within the investment-grade category accounted for 92% (91), and 63% (62) of the investments were rated at least A–. On 31 March 2017, the portfolio's modified duration was 5.4 (5.4).

The running yield for direct bond investments averaged 1.8% (1.8) on 31 March 2017.

Wealth Management

- Earnings before tax amounted to EUR 34 million (73). Earnings before tax at fair value were EUR 23 million (97). Short-term supplementary interest rate provision of EUR 30 million related to insurance liabilities lowered earnings and net investment income.
- Net commissions and fees remained at the level reported a year ago. Net investment income from Life Insurance decreased by 91% year on year. Net return on investments at fair value totalled EUR 48 million (-12).
- The gross amount of assets under management increased in the year to March by over 13% to EUR 75.6 billion.

Wealth Management: key figures and ratios

€ million	Q1/2017	Q1/2016	Change, %	Q1–4/2016
Net commissions and fees				
Funds and asset management	63	64	-1.3	252
Life Insurance	66	62	6.2	218
Expenses	44	41	7.5	139
Total net commissions and fees	**85**	**85**	**0.0**	**330**
Life Insurance’s net risk results	5	6	-7.9	24
Net investment income from Life Insurance	5	42	-91.2	117
Other income	7	5		7
Total income	**102**	**138**	**-25.9**	**478**
Personnel costs	22	24	-7.5	89
Depreciation/amortisation and impairment loss	6	7	-18.7	25
Other operating expenses	34	28	19.2	119
Total expenses	**61**	**59**	**3.9**	**233**
OP bonuses to owner-customers	7	6	13.2	25
Earnings before tax	**34**	**73**	**-53.9**	**226**
€ billion	31 March 2017	31 March 2016	Change, %	31 Dec. 2016
Assets under management (gross)				
Mutual funds	23.7	20.7	14.2	23.5
Institutional clients	24.8	23.2	7.0	24.6
Private Banking	17.6	15.0	17.3	17.3
Unit-linked insurance savings	9.5	8.3	15.1	9.2
Total assets under management (gross)	**75.6**	**67.2**	**12.5**	**74.5**
€ million	Q1/2017	Q1/2016	Change, %	Q1–4/2016
Net inflows				
Investor and saver customers	166	-81		327
Private Banking clients	151	39		437
Institutional clients	160	-115		434
Total net inflows	**477**	**-157**		**1,198**

Positive capital market mood enhanced demand for Wealth Management products while increasing the value of assets under management. Total net inflows were EUR 477 million (-157) and the gross amount of assets under management increased in the year to March by 13% to EUR 75.6 billion (67.2). This amount included about EUR 14 billion in assets of the companies belonging to OP Financial Group.

OP Financial Group has stopped permanently charging its owner-customers transaction costs related to OP mutual funds. These benefits have aroused interest among customers, considering that the number of unitholders increased by almost 20,000 during the reporting period. The aggregate number of investor and saver customers grew by around 9,000 in the reporting period, totalling 775,000 on 31 March 2017.

The risk-adjusted return of OP Mutual Funds remained good in the reporting period. The Morningstar rating for OP Mutual Funds was 3.0 (3.1). In March, Morningstar selected OP-Finland Small Cap as Finland’s best equity fund at its annual Morningstar Awards.

During the reporting period, the Group continued to further develop electronic sales and transactions for Wealth Management. Electronic channels accounted for 51% (39) of mutual fund subscriptions.

Earnings

Earnings before tax decreased to EUR 34 million (73). The reduced earnings were due to lower Life Insurance net investment income that included a new 30-million euro short-term supplementary interest rate provision recognised in the reporting period. Earnings before tax at fair value were EUR 23 million (97).

Net commissions and fees remained at the same level as a year ago, totalling EUR 85 million. Net commissions and fees accounted for 0.46% of the gross amount of the assets under management.

Net return on Life Insurance investments at fair value totalled EUR 48 million (-12). 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 investments exclude the so-called separated balance sheets that were transferred from Suomi Mutual.

Expenses rose by 4% year on year, due to higher development costs included in other operating expenses. Personnel costs and depreciation/amortisation and impairment loss were down. Expenses accounted for 0.31% of the gross amount of the assets under management.

Interest rate risk associated with insurance liability has been hedged through supplementary interest rate provisions and interest rate derivatives. In the reporting period, short-term supplementary interest rate provisions increased by EUR 19 million (-13) in net terms. Accrued supplementary interest rate provisions related to insurance liabilities (excluding the separated balance sheets) totalled EUR 421 million (432) on 31 March 2017. Short-term supplementary interest rate provisions made for less than 12 months accounted for EUR 55 million (36) of these provisions.

Life Insurance's investment assets, excluding assets covering unit-linked insurance, interest rate derivatives hedging insurance liability and the separated balance sheets, amounted to EUR 3,853 million (4,100). Investments within the investment-grade category accounted for 94% (93) of the fixed-income portfolio. On 31 March 2017, the portfolio's modified duration was 5.1 (4.9). The running yield for direct bond investments (excluding the separated balance sheets) averaged 1.6% (1.5) on 31 March 2017.

Investment portfolio by asset class

%	31 March 2017	31 Dec. 2016
Bonds and bond funds	74.3	76.2
Alternative investments	9.3	7.4
Equities and equity funds	6.2	6.3
Real property	7.8	7.2
Money markets	2.4	3.2
Total	100	100

Return on investments on the separated Life Insurance balance sheets

Suomi Mutual's individual life insurance portfolio and individual pension insurance portfolio were consolidated into Life Insurance on 31 December 2015 and 30 September 2016, respectively. In connection with the portfolios' transfer, separated balance sheets were created out of the portfolios with a profit distribution policy differing from other life insurance operations.

On 31 March 2017, investment assets in the life insurance portfolio in the separated balance sheet, excluding interest rate derivatives hedging insurance liability, amounted to EUR 1,000 million (1,066). Net return on investments at fair value was EUR 6 million. Net return on investments at fair value is calculated by deducting the value change in market-consistent insurance liability from income from investment assets.

Investment portfolio by asset class: separated balance sheet of individual life insurance portfolio

%	31 March 2017	31 Dec. 2016
Bonds and bond funds	77.7	81.1
Alternative investments	7.9	7.7
Equities and equity funds	2.2	2.9
Real property	7.1	6.7
Money markets	5.1	1.6
Total	100	100

On 31 March 2017, investment assets in the individual pension insurance portfolio in the separated balance sheet, excluding interest rate derivatives hedging insurance liability, amounted to EUR 2,944 million (3,049). Net return on investments at fair value was EUR 13 million. Net return on investments at fair value is calculated by deducting the value change in market-consistent insurance liability from income from investment assets.

Investment portfolio by asset class: separated balance sheet of individual pension insurance portfolio

%	31 March 2017	31 Dec. 2016
Bonds and bond funds	73.1	71.4
Alternative investments	10.5	1.4
Equities and equity funds	2.0	2.4
Real property	6.4	6.1
Money markets	8.0	18.7
Total	100	100

Other Operations

Other Operations: key figure and ratios

€ million	Q1/2017	Q1/2016	Change, %	Q1–4/2016
Net interest income	-25	-7		-61
Net commissions and fees	-10	-21	-49	-59
Net investment income	64	36	79	199
Other operating income	166	118	40	567
Total income	**194**	**126**	**53**	**646**
Personnel costs	52	47	11	180
Depreciation/amortisation and impairment loss	16	11	39	50
Other operating expenses	88	63	40	321
Total expenses	**156**	**121**	**29**	**552**
Impairment loss on receivables	0	0		0
Earnings before tax	**38**	**5**		**95**

Earnings

Earnings before tax amounted to EUR 38 million (5). This earnings improvement came from higher net investment income, net commissions and fees and other operating income. Total income increased by 53% to EUR 194 million.

Net interest income was EUR –25 million (–7). Net interest income was reduced by lower net interest income from trading operations. In March 2017, the average margin of OP Financial Group's senior wholesale funding, TLTRO-II funding and covered bonds was 29 basis points (31). Use of the TLTRO-II funding lowers the cost of wholesale funding. Covered bonds are reported as part of the Banking segment.

Other operating income rose by EUR 49 million to EUR 166 million due to higher intra-Group charges Other operating income also included EUR 20 million in non-recurring VAT refunds for prior years. Expenses increased by EUR 35 million to EUR 156 million due to higher development expenditure.

Changes in OP Financial Group's structure

OP Financial Group's consolidated financial statements at the end of the reporting period include the accounts of 172 member cooperative banks (173) including Group companies, OP Cooperative Consolidated and OVY Insurance Ltd.

During the reporting period, the merger of Pielisen Osuuspankki into Pohjois-Karjalan Osuupankki reduced the number of OP cooperative banks. The merger was registered on 31 March 2017.

Karjalan Osuuspankki and Mynämäen-Nousiaisten Osuuspankki accepted a merger plan on 15 December 2016, according to which the former will merge into the latter. The planned date for registration of the merger is 30 April 2017.

Vetelin Osuuspankki and Kaustisen Osuuspankki accepted a merger plan on 21 November 2016, according to which the former will merge into latter. At the same time, Kaustisen Osuuspankki will be renamed Perhonjokilaakson Osuuspankki. The planned date for registration of the merger is 31 May 2017.

Vetelin Ylipään Osuuspankki and Halsuan Osuuspankki accepted a merger plan on 28 November and 29 November 2016, according to which the former will merge into the latter. At the same time, Halsuan Osuuspankki will be renamed Halsua-Ylipään Osuuspankki. The planned date for registration of the merger is 30 June 2017.

Oriveden Seudun Osuuspankki and Mäntän Seudun Osuuspankki accepted a merger plan on 29 December 2016, according to which the former will merge into latter. At the same time, Mäntän Seudun Osuuspankki will be renamed Pohjois-Hämeen Osuuspankki. The planned date for registration of the merger is 30 June 2017.

Kuhmoisten Osuuspankki and Järvi-Hämeen Osuuspankki accepted a merger plan on 16 March 2017 and 15 March 2017, according to which the former will merge into the latter. The planned date for registration of the merger is 31 July 2017.

Personnel and remuneration

On 31 March 2017, OP Financial Group had 12,079 employees (12,227). The number of employees averaged 12,088 (12,271). The number of OP cooperative bank employees decreased during the reporting period.

During the reporting period, 77 OP Financial Group employees (66) retired, at an average age of 62.1 years (61.8).

OP Financial Group's scheme for variable remuneration comprises short-term company-specific incentives and long-term Group-wide incentives. The long-term scheme for the entire OP Financial Group consists of a management incentive scheme and a personnel fund for other staff.

A new long-term management remuneration scheme has been confirmed for 2017–2019. OP Financial Group's personnel fund remuneration scheme will also be extended by one-year performance periods.

In drawing up the Group's incentive schemes, OP has taken account of the regulation regarding the financial sector's remuneration schemes. As a rule, the remuneration scheme for 2017–2019 follows the principles observed during the previous three-year performance period.

OP Cooperative's Supervisory Board has set the following long-term target performance metrics: OP Financial Group's EBT, customer experience and the use of digital services.

The Group-level targets are the same in the management incentive scheme and in OP Financial Group's Personnel Fund.

Governance of OP Cooperative

OP Financial Group's central cooperative (OP Cooperative) held its Annual Cooperative Meeting on 21 March 2017.

The Meeting re-elected for the term of three years ending in 2020 the following members to the Supervisory Board who were due to resign: Health Centre Physician Terttu Hällfors, Managing Director Timo Laine and professor Jaakko Pehkonen.

New members elected to the Supervisory Board for a three-year term ending in 2020 were Coordinator Mervi Hinkkanen and Managing Director Juha Luomala.

The Meeting elected the following Supervisory Board members for a term ending in 2018 replacing those resigning from the Supervisory Board during their mid-term: Managing Director Olli Koivula and Senior Manager Anssi Mäkelä.

In addition, the Meeting elected the following members to the Supervisory Board outside of OP Financial Group for a term ending in 2020: Senior Lawyer Tiina Bäckman, CFO Riitta Palomäki and Chief Executive Officer Arto Ylimartimo. The Supervisory Board comprises 36 members.

At its reorganising meeting, the Supervisory Board elected the presiding officers of the Supervisory Board. Professor of Economics Jaakko Lehtonen was re-elected the Chair and Senior Lecturer in Marketing Mervi Väisänen and Managing Director Olli Tarkkanen Vice Chairs.

The Annual Cooperative Meeting decided to alter the cooperative Bylaws in such a way that Executive Board deputy membership is removed from the Bylaws. This decision has no effect on the current composition of the Executive Board.

The Annual Cooperative Meeting re-elected KPMG Oy Ab, an audit firm, to act as the auditor for the financial year 2017, with Raija-Leena Hankonen, APA, acting as the Auditor-in-charge, appointed by KPMG Oy Ab.

Capital expenditure and service development

OP Cooperative with its subsidiaries is responsible for OP Financial Group's service development. ICT investments and related specifications make up a significant portion of the costs of developing these services.

OP Financial Group's development expenditure for January March totalled EUR 89 million (62). These include licence fees, purchased services, other external costs related to projects and in-house work. The capitalised development expenditure totalled EUR 49 million (37).

Events after the reporting period

OP Financial Group and Nets signed on 5 April 2017 an agreement whereby OP will sell its portfolio of agreements and POS terminals of acquiring and POS terminal services to Nets specialising in providing digital card payments. Acquiring and POS terminal services enable merchants to accept card payments as a payment method for purchases. As a result of the transaction, OP will transfer acquiring and payment terminal service agreements of some 15,000 merchants to Nets. OP and Nets have been in cooperation in the services to be sold since 2011. The transaction will take effect during 2017.

Outlook towards the year end

The world economy and world trade showed a marked recovery in the first quarter. Economic growth in the euro area too picked up. Recovery in the export market made a strong contribution to Finnish exports. On the whole, the Finnish economic outlook has brightened in the first quarter and is now more optimistic than for many years. Consumer confidence has improved and the housing market has perked up. Political uncertainty both in export markets and Finland is still, however, casting a shadow over economic recovery.

The financial sector has had to adjust to a new type of low interest rate environment. Low interest rates retard growth in banks' net interest income and erode insurance institutions' income from fixed income investments. Impairment losses have remained low despite the slow growth that has lasted for several years now. The most significant strategic risks in the financial sector are currently associated with changing customer behaviour and operating environment digitisation. Industry disruption is threatening to slow down growth and erode income generation in the years to come. In the next few years, the financial sector will be faced with a strong need to reinvent itself. Changes in the operating environment will emphasise the role of the management of operational reinvention, profitability and capital adequacy with a long-term approach.

OP Financial Group expects its full-year earnings before tax for 2017 to be about the same as or lower than those for 2016 due to increasing development costs and other expenses arising from strategy implementation. Uncertainty that is still related to the operating environment may cause short-term earnings volatility, which will have an effect on the predictability of OP Financial Group's earnings performance. The most significant uncertainties in respect of the financial performance towards the year end relate to changes in the interest rate and investment environment, impairment loss developments and the rate of business growth.

All forward-looking statements in this interim report expressing the management's expectations, beliefs, estimates, forecasts, projections and assumptions are based on the current view of developments in the economy, and actual results may differ materially from those expressed in the forward-looking statements.

Consolidated income statement

EUR million	Note	Q1/ 2017	Q1/ 2016
Net interest income	3	258	267
Net insurance income	4	117	129
Net commissions and fees	5	237	224
Net investment income	6	122	86
Other operating income		34	10
Share of associates' profits		2	2
Total income		**770**	**719**
Personnel costs		202	201
Depreciation/amortisation		42	37
Other expenses		173	139
Total expenses		**417**	**377**
Impairments of receivables	7	8	11
OP bonuses to owner-customers		51	49
Earnings before tax		**295**	**284**
Income tax expense		55	54
Profit for the period		**240**	**229**
Attributable to:			
Owners		239	229
Non-controlling interests		1	0
Profit for the period		**240**	**229**
Statement of comprehensive income			
Profit for the period		**240**	**229**
Items that will not be reclassified to profit or loss			
Gains(/losses) arising from remeasurement of defined benefit plans		16	-193
Items that may be reclassified to profit or loss			
Change in fair value reserve			
Measurement at fair value		-7	55
Cash flow hedge		-10	16
Translation differences		0	0
Income tax on other comprehensive income			
Items that will not be reclassified to profit or loss			
Gains(/losses) arising from remeasurement of defined benefit plans		-3	39
Items that may be reclassified to profit or loss			
Measurement at fair value		1	-11
Cash flow hedge		2	-3
Total comprehensive income for the period		**238**	**132**
Attributable to:			
Owners		225	115
Non-controlling interests		13	17
Total comprehensive income for the period		**238**	**132**

Balance sheet

EUR million	Note	31 March 2017	31 December 2016
Cash and cash equivalents		11,960	9,471
Receivables from credit institutions		331	337
Financial assets held for trading		660	692
Derivative contracts	10	4,284	4,732
Receivables from customers	12	79,509	78,604
Investment assets		23,918	25,105
Assets covering unit-linked contracts		9,496	9,168
Investments in associates		143	91
Intangible assets		1,494	1,474
Property, plant and equipment (PPE)		873	871
Other assets		3,143	2,992
Tax assets		222	210
Total assets		**136,032**	**133,747**
Liabilities to credit institutions		5,634	4,669
Derivative contracts		3,656	4,044
Liabilities to customers		60,975	60,077
Insurance liabilities	13	10,661	10,586
Liabilities from unit-linked insurance and investment contracts	13	9,535	9,205
Debt securities issued to the public	14	28,529	28,287
Provisions and other liabilities		4,246	4,226
Tax liabilities		903	894
Supplementary cooperative share		73	77
Subordinated liabilities		1,442	1,445
Total liabilities		**125,654**	**123,509**
Equity capital			
Share of OP Financial Group's owners			
Cooperative capital			
Cooperative share		166	166
Profit shares		2,687	2,719
Fair value reserve	15	292	318
Other reserves		2,111	2,108
Retained earnings		5,009	4,824
Non-controlling interests		115	102
Total equity capital		**10,378**	**10,237**
Total liabilities and equity capital		**136,032**	**133,747**

Statement of changes in equity

	Attributable to owners						
EUR million	Cooperative capital	Fair value reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2016	**2,656**	**242**	**2,085**	**4,271**	**9,254**	**70**	**9,324**
Total comprehensive income for the period		40		75	115	17	132
Profit for the period				229	229	0	229
Other comprehensive income		40		-154	-114	17	-97
Profit distribution				-38	-38		-38
Change in cooperative capital	-35				-35		-35
Transfer of reserves			23	-23			
Other				-2	-2	-1	-3
Balance at 31 March 2016	**2,621**	**282**	**2,107**	**4,284**	**9,295**	**86**	**9,381**

	Attributable to owners						
EUR million	Cooperative capital	Fair value reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2017	**2,885**	**318**	**2,108**	**4,824**	**10,135**	**102**	**10,237**
Total comprehensive income for the period		-27		251	225	12	237
Profit for the period				239	239	1	240
Other comprehensive income		-27		12	-14	11	-3
Profit distribution				-55	-55		-55
Change in cooperative capital	-32				-32		-32
Transfer of reserves			3	-3			
Other				-9	-9	1	-8
Balance at 31 March 2017	**2,853**	**292**	**2,111**	**5,009**	**10,264**	**115**	**10,378**

Cash flow statement

EUR million	Q1/ 2017	Q1/ 2016
Cash flow from operating activities		
Profit for the period	240	229
Adjustments to profit for the period	1,251	1,349
Increase (-) or decrease (+) in operating assets	**-55**	**-2,560**
Receivables from credit institutions	-11	89
Financial assets held for trading	39	-278
Derivative contracts	-10	13
Receivables from customers	-920	-630
Assets covering unit-linked contracts	-121	149
Investment assets	1,043	-1,750
Other assets	-76	-153
Increase (+) or decrease (-) in operating liabilities	**876**	**-1,564**
Liabilities to credit institutions	972	-374
Financial liabilities at fair value through profit or loss	0	1
Derivative contracts	-3	-14
Liabilities to customers	898	216
Insurance liabilities	19	-790
Liabilities from unit-linked insurance and investments contracts	-928	-379
Provisions and other liabilities	-82	-223
Income tax paid	-59	-48
Dividends received	42	29
A. Net cash from operating activities	**2,295**	**-2,563**
Cash flow from investing activities		
Increases in held-to-maturity financial assets		-1
Decreases in held-to-maturity financial assets	38	3
Acquisition of subsidiaries and associates, net of cash acquired	-56	
Disposal of subsidiaries and associates, net of cash disposed	5	0
Purchase of PPE and intangible assets	-67	-57
Proceeds from sale of PPE and intangible assets	3	10
B. Net cash used in investing activities	**-77**	**-45**
Cash flow from financing activities		
Decreases in subordinated liabilities	0	-57
Increases in debt securities issued to the public	9,649	6,295
Decreases in debt securities issued to the public	-9,359	-7,153
Increases in cooperative and share capital	325	403
Decreases in cooperative and share capital	-361	-440
Dividends paid and interest on cooperative capital	-1	0
C. Net cash used in financing activities	**254**	**-951**
Net increase/decrease in cash and cash equivalents (A+B+C)	**2,473**	**-3,559**
Cash and cash equivalents at period-start	**9,571**	**8,708**
Cash and cash equivalents at period-end	**12,044**	**5,148**
Interest received	**501**	**608**
Interest paid	**-325**	**-463**
Cash and cash equivalents		
Liquid assets	11,960	5,051
Receivables from credit institutions payable on demand	84	97
Total	**12,044**	**5,148**

Segment information

Segment capitalisation is based on OP Financial Group's capital adequacy measurement in accordance with the Act on Credit Institutions. Capital requirements according to this measurement are allocated among the operating segments. Capital has been allocated to Banking in such a way that the CET1 ratio is 20% (19%). Capital has been allocated to Non-life Insurance in such a way that the Solvency ratio (SII) is 120% and 130% in life insurance. Capital allocation has an effect on the Group's internal interest amounts paid by the segment concerned.

	Banking	Non-life Insurance	Wealth Management	Other operations	Eliminations	Group total
Q1 earnings 2017, EUR million						
Net interest income	291	-4	1	-25	-5	258
-of which internal net income before tax	-5	-4	1	8		
Net insurance income		111	5			117
Net commissions and fees	166	-4	85	-10	0	237
Net investment income	10	39	5	64	4	122
Other operating income	5	5	4	166	-145	34
Share of associates' profits	0	0	1	0	0	2
Total income	**472**	**148**	**102**	**194**	**-146**	**770**
Personnel costs	96	31	22	52	0	202
Depreciation/amortisation and impairment losses	10	11	6	16	0	42
Other operating expenses	140	57	34	88	-146	173
Total expenses	**247**	**98**	**61**	**156**	**-146**	**417**
Impairments of receivables	8	0		0	0	8
OP bonuses to owner-customers	44	0	7		0	51
Earnings before tax	**174**	**49**	**34**	**38**	**0**	**295**

	Banking	Non-life Insurance	Wealth Management	Other operations	Eliminations	Group total
Q1 earnings 2016, EUR million						
Net interest income	278	-5	1	-7	0	267
-of which internal net income before tax	-6	-4	1	9		
Net insurance incomes		123	6			129
Net commissions and fees	164	-6	85	-21	1	224
Net investment income	-20	30	42	36	-1	86
Other operating income	5	3	4	117	-118	10
Share of associates' profits	0	0	0	1	0	2
Total income	**427**	**145**	**138**	**126**	**-117**	**719**
Personnel costs	100	30	24	47	0	201
Depreciation/amortisation and impairment losses	9	10	7	11	0	37
Other operating expenses	122	44	28	63	-118	139
Total expenses	**230**	**84**	**59**	**121**	**-118**	**377**
Impairments of receivables	10	0		0	0	11
OP bonuses to owner-customers	42	0	6		0	49
Earnings before tax	**144**	**61**	**73**	**5**	**0**	**284**

Balance sheet 31 March 2017, EUR million	Banking	Non-life Insurance	Wealth Management	Other operations	Eliminations	Group total
Cash and cash equivalents	99	216	387	11,831	-573	11,960
Receivables from credit institutions	6,558	6	44	9,032	-15,310	331
Financial assets held for trading	-4			664	-1	660
Derivative contracts	413	10	114	4,148	-402	4,284
Receivables from customers	80,477	0	2	324	-1,293	79,509
Investment assets	582	3,669	7,667	16,973	-4,973	23,918
Assets covering unit-linked contracts			9,501		-5	9,496
Investments in associates	8	1	28	22	83	143
Intangible assets	65	686	370	376	-3	1,494
Property, plant and equipment (PPE)	317	44	25	500	-12	873
Other assets	389	859	318	1,802	-225	3,143
Tax assets	111	15	18	60	19	222
Total assets	**89,016**	**5,507**	**18,474**	**45,732**	**-22,696**	**136,032**
Liabilities to credit institutions	8,266			11,642	-14,274	5,634
Derivative contracts	165	16	28	3,850	-402	3,656
Liabilities to customers	56,015		1	6,751	-1,791	60,975
Insurance liabilities		3,288	7,373		0	10,661
Liabilities from unit-linked insurance and investments contracts			9,535			9,535
Debt securities issued to the public	11,405			18,147	-1,022	28,529
Provisions and other liabilities	1,945	417	238	1,961	-315	4,246
Tax liabilities	360	93	87	346	17	903
Supplementary cooperative share	251				-178	73
Subordinated liabilities	82	135	245	1,433	-452	1,442
Total liabilities	**78,489**	**3,948**	**17,507**	**44,129**	**-18,418**	**125,654**
Equity capital						**10,378**

Balance sheet 31 December 2016, EUR million	Banking	Non-life Insurance	Wealth Management	Other operations	Eliminations	Group total
Cash and cash equivalents	113	90	459	9,329	-520	9,471
Receivables from credit institutions	6,351	6	53	10,180	-16,253	337
Financial assets held for trading	-4		0	698	-2	692
Derivative contracts	458	26	125	4,582	-459	4,732
Receivables from customers	79,144	0		683	-1,223	78,604
Investment assets	580	3,755	7,909	17,705	-4,843	25,105
Assets covering unit-linked contracts			9,168		0	9,168
Investments in associates	10	2	28	27	25	91
Intangible assets	62	689	374	353	-3	1,474
Property, plant and equipment (PPE)	480	46	25	332	-12	871
Other assets	292	708	336	2,104	-448	2,992
Tax assets	103	12	12	62	21	210
Total assets	**87,588**	**5,334**	**18,490**	**46,053**	**-23,718**	**133,747**
Liabilities to credit institutions	9,565			10,533	-15,428	4,669
Derivative contracts	168	17	21	4,297	-460	4,044
Liabilities to customers	54,693		3	6,815	-1,434	60,077
Insurance liabilities		3,008	7,578			10,586
Liabilities from unit-linked insurance and investment contracts			9,205			9,205
Debt securities issued to the public	10,522			18,790	-1,026	28,287
Provisions and other liabilities	1,856	553	285	2,094	-562	4,226
Tax liabilities	355	95	87	338	19	894
Supplementary cooperative share	253				-177	77
Subordinated liabilities	82	135	245	1,435	-452	1,445
Total liabilities	**77,494**	**3,809**	**17,424**	**44,303**	**-19,520**	**123,509**
Equity capital						**10,237**

Notes

Note 1	Accounting policies
Note 2	Formulas for key figures and ratios
Note 3	Net interest income
Note 4	Net insurance income
Note 5	Net commissions and fees
Note 6	Net investment income
Note 7	Impairments of receivables
Note 8	Classification of financial assets and liabilities
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Note 22	Related-party transactions

Note 1 Accounting policies

The Interim Report has been prepared in accordance with IAS 34 (Interim Financial Reporting) and with the accounting policies presented in the financial statements 2016.

The Interim Report is based on unaudited data. Given that all figures in the Interim Report have been rounded off, the sum total of individual figures may deviate from the presented sums.

The Interim Report is available in Finnish, English and Swedish. The Finnish version is official that will apply if there is any discrepancy between the language versions.

The grouping of the income statement and balance sheet formats was revised in the Interim Report for 1 January–30 June 2016. Comparatives in the Interim Report for 1 January-31 March 2017 have been restated to correspond to the new grouping.

Allocation of OP cooperative banks' income and expenses to the segments

OP cooperative banks' income and expenses were previously presented under the Banking segment. Since the beginning of 2017, OP cooperative banks' income items have been allocated to different segments. Expenses have been allocated to the segments based on the matching principle or allocation rules. More income and expenses than before are assigned to the Wealth Management segment in particular. OP cooperative banks' investments in OP Cooperative's membership shares and supplementary shares previously presented in the Banking segment have been eliminated in the Other Operations segment. The comparatives in the interim report have been restated to be compliant with new presentation. The tables below show changes made to the comparatives of the key income statement and balance sheet items.

Banking

Consolidated income statement	As presented previously 1 Jan.–31 March 2016	Change	New 1 Jan.–31 March 2016
Income	473	-45	427
Expenses	269	-39	230
Earnings before tax	151	-7	144

Balance sheet	As presented previously 31 Dec. 2016	Change	New 31 Dec. 2016
Assets	93,312	-5,723	87,588
Liabilities	77,361	133	77,494

Non-life Insurance

Consolidated income statement	As presented previously 1 Jan.–31 March 2016	Change	New 1 Jan.–31 March 2016
Income	136	9	145
Expenses	77	7	84
Earnings before tax	59	2	61

Balance sheet	As presented previously 31 Dec. 2016	Change	New 31 Dec. 2016
Assets	5,331	2	5,334
Liabilities	3,798	10	3,809

Wealth Management

Consolidated income statement	As presented previously 1 Jan.–31 March 2016	Change	New 1 Jan.–31 March 2016
Income	108	30	138
Expenses	28	32	59
Earnings before tax	75	-2	73

Balance sheet	As presented previously 31 Dec. 2016	Change	New 31 Dec. 2016
Assets	18,483	7	18,490
Liabilities	17,400	24	17,424

Other Operations

Consolidated income statement	As presented previously 1 Jan.–31 March 2016	Change	New 1 Jan.–31 March 2016
Income	120	7	126
Expenses	121	0	121
Earnings before tax	-1	7	5

Balance sheet	As presented previously 31 Dec. 2016	Change	New 31 Dec. 2016
Assets	46,333	-280	46,053
Liabilities	45,440	-1,137	44,303

Eliminations

Consolidated income statement	As presented previously 1 Jan.–31 March 2016	Change	New 1 Jan.–31 March 2016
Income	-117	0	-117
Expenses	-118	0	-118
Earnings before tax	0	0	0

Balance sheet	As presented previously 31 Dec. 2016	Change	New 31 Dec. 2016
Assets	-29,712	5,994	-23,718
Liabilities	-20,490	970	-19,520

New standards and interpretations

IFRS 9 Financial Instruments:

OP Financial Group will for the first time apply IFRS 9 as of 1 January 2018. The comparatives will not be restated.

The quantitative effect of the application of the standard on the 2018 financial statements cannot yet be assessed reliably since it will depend on the amount of the financial instruments held at that time, the financial position at that time and the choice of the calculation principles and management judgement. The new standard requires that OP Financial Group analyse the calculation and monitoring processes for financial instruments, with the related changes being made are not yet completed. OP Financial Group will update the effects of the IFRS 9 transition presented in the financial statements for 2016, as follows:

Classification and measurement

The majority of OP Financial Group's loans and notes and bonds will remain within the existing measurement categories recognised at amortised cost or fair value through other comprehensive income. Consequently, the changes in the classification will be small and will have no significant effect on OP Financial Group's CET1 ratio.

The biggest classification changes will apply especially to investment by OP Financial Group's Non-life and Life Insurance, equity instruments and mutual fund investments, which will mainly be reclassified as those recognised at fair value through profit or loss. OP Financial Group is planning to apply the so-called overlay approach to some of these instruments, which will restore the profit/loss impact of these instruments to be aligned with the current IAS 39.

Impairment

The expected credit loss is calculated on all balance sheet items amortised at cost and those recognised at fair value through other comprehensive income (FVOCI) and on off-balance-sheet loan commitments.

OP Financial Group's credit risk models and the development of related systems are still underway. The expected credit loss is calculated using modelled risk parameters and formula PDxLGDxEAD for the majority of the portfolios. The expected credit loss is calculated for 12 months or lifetime, depending on whether the instrument's credit risk on the reporting day has increased significantly from the original one. OP Financial Group is planning to assess an increase in credit risk for lifetime through PD change. In addition, credit risk has increased significantly if payment is over 30 days past due. In the definition of default, the Group uses a uniform definition in capital adequacy measurement.

OP Financial Group will include forward-looking information and macroeconomic scenarios in the model. The macroeconomic scenarios are the same that OP Financial Group uses otherwise in its financial annual planning.

Expected credit loss provisions under IFRS 9 are assessed to increase significantly from its current level based on IAS 39 and it varies by portfolio. The provisions will reduce equity capital on the date of transition. Based on preliminary assessments, the increase in expected credit loss provisions is not expected to have any significant effect on OP Financial Group's CET1 ratio because the IFRS 9 compliant expected credit loss provisions are not expected to exceed the expected loss calculated in capital adequacy and the effect of used floors. Furthermore, the amendment to the Capital Requirements Regulation (CRR), proposed by the European Commission in November 2016, involves the possibility to gradually phase in the effects of impairment loss measurement under IFRS 9 in the calculation of the CET1 ratio.

Hedge accounting

For portfolio hedges, OP Financial Group will continue to apply hedge accounting under IAS 39. OP Financial Group has not yet made the decision to adopt IFRS 9 compliant hedge accounting.

Note 2 Key figures and ratios and their formulas

	Q1/ 2017	Q1/ 2016
Return on equity (ROE), %	9.4	9.9
Return on equity (ROE) at fair value, %	9.4	5.7
Return on assets (ROA), %	0.72	0.74
Cost/income ratio, %	54	52
Average personnel	12,088	12,150

ALTERNATIVE PERFORMANCE MEASURES

The Alternative Performance Measures Guidelines issued by the European Securities and Markets Authority (ESMA) came into force on 3 July 2016. The Alternative Performance Measures are presented to illustrate the financial performance of business operations and to improve comparability between reporting periods. They should not be considered to be replacements for the performance measures defined in IFRS governing financial reporting.

The formulas for the used Alternative Performance Measures are presented below and they correspond to the previously presented performance indicators in terms of content.

Return on equity (ROE), %

$$\frac{\text{Profit for the period}}{\text{Equity capital (average of the beginning and end of the period)}} \times 100$$

Return on equity (ROE) at fair value, %

$$\frac{\text{Total comprehensive income for the period}}{\text{Equity capital (average of the beginning and end of the period)}} \times 100$$

Return on assets (ROA), %

$$\frac{\text{Profit for the period}}{\text{Average balance sheet total (average of the beginning and end of the period)}} \times 100$$

Cost/income ratio, %

$$\frac{\text{Total expenses}}{\text{Total income}} \times 100$$

Ratio of impairment loss on receivables to loan and guarantee portfolio, %

$$\frac{\text{Impairment loss on receivables x (days of financial year/days of reporting period)}}{\text{Loan and guarantee portfolio at period end}} \times 100$$

Non-life Insurance indicators

Loss ratio (excl. unwinding of discount), %

$$\frac{\text{Claims and loss adjustment expenses}}{\text{Net insurance premium revenue}} \times 100$$

Expense ratio, %

$$\frac{\text{Operating expenses + Amortisation/adjustment of intangible assets related to company acquisition}}{\text{Net insurance premium revenue}} \times 100$$

Risk ratio (excl. unwinding of discount), %

$$\frac{\text{Claims excl. loss adjustment expenses}}{\text{Net insurance premium revenue}} \times 100$$

Combined ratio (excl. unwinding of discount), %

Loss ratio + expense ratio

Risk ratio + cost ratio

Cost ratio, %

$$\frac{\text{Operating expenses and loss adjustment expenses}}{\text{Net insurance premium revenue}} \times 100$$

Operating loss ratio, %

$$\frac{\text{Claims incurred, excl. changes in reserving bases}}{\text{Insurance premium revenue, excl. net changes in reserving bases}} \times 100$$

Operating expense ratio, %

$$\frac{\text{Operating expenses}}{\text{Insurance premium revenue, excl. net changes in reserving bases}} \times 100$$

Operating combined ratio, %

Operating loss ratio + Operating expense ratio

Operating risk ratio + Operating cost ratio

Operating risk ratio (excl. unwinding of discount), %

$$\frac{\text{Claims excl. loss adjustment expenses and changes in reserving bases}}{\text{Net insurance premium revenue excl. changes in reserving bases}} \times 100$$

Operating cost ratio, %

$$\frac{\text{Operating expenses and loss adjustment expenses}}{\text{Net insurance premium revenue excl. changes in reserving bases}} \times 100$$

INDICATORS BASED ON CAPITAL ADEQUACY MEASUREMENT

Capital adequacy ratio, %

$$\frac{\text{Total capital}}{\text{Total risk exposure amount}} \times 100$$

Tier 1 ratio, %

$$\frac{\text{Total Tier 1 capital}}{\text{Total risk exposure amount}} \times 100$$

CET1 ratio, %

$$\frac{\text{CET1 capital}}{\text{Total risk exposure amount}} \times 100$$

Solvency ratio, %

$$\frac{\text{Capital base}}{\text{Capital requirement (SCR)}} \times 100$$

Leverage ratio, %

$$\frac{\text{Tier 1 capital (T1)}}{\text{Exposure amount}} \times 100$$

Liquidity coverage requirement (LCR), %

$$\frac{\text{Liquid assets}}{\text{Liquidity outflows - liquidity inflows under stressed conditions}} \times 100$$

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

$$\frac{\text{Conglomerate's total capital}}{\text{Conglomerate's total minimum capital requirement}} \times 100$$

Return on economic capital, %

$$\frac{\text{Earnings + customer bonuses after tax (value rolling 12 month)}}{\text{Average economic capital}} \times 100$$

NON-LIFE INSURANCE OPERATING RESULTS

EUR million	Q1 2017	Q1 2016	Change %	Q1–4/ 2016
Insurance premium revenue	350	347	0.8	1,418
Claims incurred	-265	-245	8.3	-979
Operating expenses	-69	-63	9.6	-263
Amortisation adjustment of intangible assets	-5	-5	0.0	-21
Balance on technical account	**10**	**34**	**-69.8**	**154**
Net investment income	39	30	30.2	97
Other income and expenses	0	-3	-95.3	-8
Earnings before tax	**49**	**61**	**-19.3**	**244**
Gross change in fair value reserve	-9	17	-151.0	68
Earnings before tax at fair value	**40**	**78**	**-48.6**	**311**

The rations of Non-life Insurance are calculated using expenses by function applied by non-life insurance companies, which are not presented on the same principle as in the Consolidated Income Statement.

Note 3 Net interest income

EUR million	Q1/ 2017	Q1/ 2016
Interest income		
Receivables from credit institutions	6	1
Receivables from customers		
Loans	289	299
Finance lease receivables	4	4
Impaired loans and other commitments	1	1
Notes and bonds		
Held for trading	2	3
Available for sale	27	33
Held to maturity	0	1
Loans and receivables	0	0
Derivative contracts		
Held for trading	187	265
Fair value hedge	-30	-31
Cash flow hedge	9	9
Ineffective portion of cash flow hedge	1	1
Other	1	1
Total	**497**	**587**
Interest expenses		
Liabilities to credit institutions	13	6
Financial liabilities at fair value through profit or loss	0	0
Liabilities to customers	19	28
Debt securities issued to the public	75	77
Subordinated liabilities		
Subordinated loans	1	2
Other	11	11
Derivative contracts		
Held for trading	167	233
Cash flow hedge	-34	-39
Other	-17	
Other	3	1
Total	**238**	**320**
Net interest income before fair value adjustment under hedge accounting	**259**	**267**
Hedging derivatives	-11	-8
Value changes of hedged items	10	8
Total net interest income	**258**	**267**

Note 4 Net insurance income

EUR million	Q1/ 2017	Q1/ 2016
Net insurance premium revenue		
Premiums written	615	616
Insurance premiums ceded to reinsurers	-10	-9
Change in provision for unearned premiums	-266	-269
Reinsurers' share	11	9
Total	**350**	**347**
Net Non-life Insurance claims		
Claims paid	-233	-214
Insurance claims recovered from reinsurers	2	3
Change in provision for unpaid claims	-15	-16
Reinsurers' share	8	5
Total	**-238**	**-222**
Other Non-life Insurance items	-1	-2
Life Insurance risk premiums collected	5	6
Total net insurance income	**117**	**129**

Note 5 Net commissions and fees

EUR million	Q1/ 2017	Q1/ 2016
Comission income		
Lending	52	52
Deposits	1	1
Payment transfers	65	62
Securities brokerage	6	3
Securities issuance	1	2
Mutual funds	36	35
Asset management and legal services	19	21
Guarantees	5	5
Housing service	17	16
Insurance brokerage	29	27
Life insurance total expense loadings	24	26
Refund of unit-linked management fees	17	15
Other	6	4
Total	**277**	**269**
Comission expenses		
Payment transfers	14	17
Securities brokerage	4	5
Securities issuance	1	1
Asset management and legal services	4	4
Insurance operations	10	10
Other	8	8
Total	**40**	**44**
Total net commissions and fees	**237**	**224**

Note 6 Net investment income

EUR million	Q1/ 2017	Q1/ 2016
Net income from available-for-sale assets		
Notes and bonds	33	34
Equity instruments	37	7
Dividend income and share of profits	39	27
Impairment losses and their reversals	-7	-13
Total	**103**	**55**
Net income recognised at fair value through profit or loss		
Insurance		
Notes and bonds	-14	26
Equity instruments	5	-1
Derivatives	-24	148
Banking and Other operations		
Securities trading	45	6
Foreign exchange trading	11	9
Investment property	5	3
Other	1	1
Total	**29**	**191**
Net income carried at amortised cost		
Loans and other receivables	3	2
Impairment losses and their reversals	0	-1
Total	**3**	**1**
Life Insurance		
Interest credited on customers' insurance savings	-23	-24
Change in supplementary interest rate provisions	10	-60
Other technical items	9	-69
Total	**-4**	**-152**
Non-life Insurance		
Unwinding of discount	-8	-9
Total	**-8**	**-9**
Total net investment income	**122**	**86**

Note 7 Impairments of receivables

EUR million	Q1/ 2017	Q1/ 2016
Receivables written off as loan or guarantee losses	9	11
Recoveries of receivables written off	-3	-3
Increase in impairment losses on individually assessed receivables	13	19
Decrease in impairment losses on individually assessed receivables	-12	-13
Collectively assessed impairment losses	0	-3
Total impairments of receivables	**8**	**11**

Note 8 Classification of financial assets and liabilities

Assets, EUR million	Loans and other receivables	Invest-ments held to maturity	Financial assets at fair value through profit or loss*	Available-for-sale financial assets	Hedging derivatives	Total
Cash and cash equivalents	11,960					11,960
Receivables from credit institutions	331					331
Derivative contracts			3,745		538	4,284
Receivables from customers	79,509					79,509
Assets covering unit-linked contracts			9,496			9,496
Notes and bonds		54	4,197	16,823		21,073
Equity instruments			452	1,979		2,431
Other financial assets	3,248					3,248
Financial assets	**95,049**	**54**	**17,889**	**18,802**	**538**	**132,332**
Other than financial instruments						3,701
Total 31 March 2017	**95,049**	**54**	**17,889**	**18,802**	**538**	**136,032**

Assets, EUR million	Loans and other receivables	Invest-ments held to maturity	Financial assets at fair value through profit or loss*	Available-for-sale financial assets	Hedging derivatives	Total
Cash and cash equivalents	9,471					9,471
Receivables from credit institutions	337					337
Derivative contracts			4,112		620	4,732
Receivables from customers	78,604					78,604
Assets covering unit-linked contracts			9,168			9,168
Notes and bonds		92	4,318	17,541		21,951
Equity instruments			550	2,245		2,794
Other financial assets	3,093					3,093
Financial assets	**91,505**	**92**	**18,147**	**19,786**	**620**	**130,150**
Other than financial instruments						3,597
Total 31 December 2016	**91,505**	**92**	**18,147**	**19,786**	**620**	**133,747**

* Investment assets in the balance sheet include Non-life and Life Insurance notes and bonds recognised through profit or loss, and equity instruments.

Liabilities, EUR million	Financial liabilities at fair value through profit or loss	Other liabilities	Hedging derivatives	Total
Liabilities to credit institutions		5,634		5,634
Financial liabilities held for trading (excl. derivatives)	0			1
Derivative contracts	3,383		273	3,656
Liabilities to customers		60,975		60,975
Insurance liabilities		10,661		10,661
Liabilities from unit-linked insurance and investment contracts	9,535			9,535
Debt securities issued to the public		28,529		28,529
Subordinated loans		1,442		1,442
Other financial liabilities		3,212		3,212
Financial liabilities	**12,919**	**110,453**	**273**	**123,645**
Other than financial liabilities				2,009
Total 31 March 2017	**12,919**	**110,453**	**273**	**125,654**

Liabilities, EUR million	Financial liabilities at fair value through profit or loss	Other liabilities	Hedging derivatives	Total
Liabilities to credit institutions		4,669		4,669
Financial liabilities held for trading (excl. derivatives)	0			0
Derivative contracts	3,691		353	4,044
Liabilities to customers		60,077		60,077
Insurance liabilities		10,586		10,586
Liabilities from unit-linked insurance and investment contracts	9,205			9,205
Debt securities issued to the public		28,287		28,287
Subordinated loans		1,445		1,445
Other financial liabilities		3,324		3,324
Financial liabilities	**12,896**	**108,388**	**353**	**121,637**
Other than financial liabilities				1,872
Total 31 December 2016	**12,896**	**108,388**	**353**	**123,509**

Bonds included in debt securities issued to the public are carried at amortised cost. On 31 March, the fair value of these debt instruments was EUR 523 million (545) higher than their carrying amount, based on information available in markets and employing commonly used valuation techniques. Subordinated liabilities are carried at amortised cost. Their fair values are higher than their amortised costs, but determining reliable fair values involves uncertainty.

Note 9 Recurring fair value measurements by valuation technique

Fair value of assets on 31 March 2017, EUR million	Level 1	Level 2	Level 3	Total
Recognised at fair value through profit or loss				
Equity instruments	352	73	27	452
Debt instruments	3,432	270	495	4,197
Unit-linked contracts	6,761	2,735		9,496
Derivative financial instruments	1	4,131	152	4,284
Available-for-sale				
Equity instruments	702	595	683	1,979
Debt instruments	14,154	2,293	376	16,823
Total	**25,402**	**10,096**	**1,732**	**37,230**

Fair value of assets on 31 Dec. 2016, EUR million	Level 1	Level 2	Level 3	Total
Recognised at fair value through profit or loss				
Equity instruments	442	82	26	550
Debt instruments	3,489	712	117	4,318
Unit-linked contracts	6,591	2,577		9,168
Derivative financial instruments	6	4,566	160	4,732
Available-for-sale				
Equity instruments	900	564	780	2,245
Debt instruments	13,130	4,042	369	17,541
Total	**24,559**	**12,543**	**1,452**	**38,553**

Fair value of liabilities on 31 March 2017, EUR million	Level 1	Level 2	Level 3	Total
Recognised at fair value through profit or loss				
Unit-linked contracts	6,789	2,746		9,535
Other		0		1
Derivative financial instruments	7	3,553	97	3,656
Total	**6,796**	**6,299**	**97**	**13,192**

Fair value of liabilities on 31 Dec. 2016, EUR million	Level 1	Level 2	Level 3	Total
Recognised at fair value through profit or loss				
Unit-linked contracts	6,618	2,587		9,205
Other		0		0
Derivative financial instruments	10	3,926	107	4,044
Total	**6,628**	**6,514**	**107**	**13,249**

Level 1: Quoted prices in active markets

This level includes equities listed on stock exchanges, quoted debt instruments issued by companies, governments and financial institutions as well as exchange-traded derivatives. The fair value of these instruments is determined on the basis of quotes in active markets.

Level 2: Valuation techniques using observable inputs

Valuation techniques based on observable input parameters. The fair value of the instruments included within this level means value derived from the market price of a financial instrument's components or similar financial instruments; or value which can be determined using commonly used valuation models and techniques if the inputs significant to the fair value measurement are based on observable market data. This hierarchy level includes the majority of OP Corporate Bank Group's OTC derivatives and quoted debt instruments issued by companies, governments and financial institutions which have not been included in Level 1.

Level 3: Valuation techniques using unobservable inputs

Valuation techniques whose input parameters involve uncertainty. The fair value determination of the instruments included within this level contains inputs not based on observable market data (unobservable inputs). Level 3 also includes bonds for which there is little, if any, market activity on the valuation date. This level includes the most complex OTC derivatives and derivatives with a long maturity for which the Group had to extrapolate the market data used in their value measurement, as well as certain private equity investments, and illiquid bonds, structured bonds, including securitised bonds and structured debt securities, and hedge funds. Level 3 fair value is based on pricing information from a third party.

Transfers between levels of the fair value hierarchy

Transfers between the levels of the fair value hierarchy are considered to take place on the date when an event causes such transfer or when circumstances change.

Reconciliation of Level 3 items that involve uncertainty

Specification of financial assets and liabilities	Financial assets at fair value through profit or loss	Derivative contracts	Available-for-sale financial assets	Total assets
Financial assets, EUR million				
Opening balance 1 January 2017	142	160	1,149	1,452
Total gains/losses in profit or loss	3	-8	15	10
Total gains/losses in other comprehensive income			-29	-29
Purchases	22		51	73
Sales	0		-44	-45
Settlements	-47		-7	-54
Transfers into Level 3	400		52	452
Transfers out of Level 3			-128	-128
Closing balance 31 March 2017	**521**	**152**	**1,059**	**1,732**

	Derivative contracts	Total liabilities
Financial liabilities, EUR million		
Opening balance 1 January 2017	107	107
Total gains/losses in profit or loss	-10	-10
Closing balance 31 March 2017	**97**	**97**

Total gains/losses included in profit or loss by item on 31 March 2017	Net interest income	Net investment income	Statement of comprehen-sive income/ Change in fair value reserve	Net gains/losses on assets and liabilities held on 31 March
EUR million				
Realised net gains (losses)	3			3
Unrealised net gains (losses)	2	15	-29	-12
Total net gains (losses)	**5**	**15**	**-29**	**-9**

Derivatives included in Level 3 comprise structured derivatives for customer needs, whose market risk is covered by a corresponding derivatives contract. The uncovered market risk does not have any effect on earnings. Level 3 derivatives relate to structured bonds issued by OP Corporate Bank, whose return is determined by the value performance of an embedded derivative instrument. The fair value change of these embedded derivatives is not presented in the above table. In addition, long-maturity derivatives have been included in Level 3 for which the Group had to extrapolate the market data used in their value measurement.

Changes in the levels of hierarchy
No major changes occurred in valuation techniques in 2017.

Note 10 Derivative contracts

	Nominal values / remaining term to maturity				Fair values*	
	<1 year	1–5 years	>5 years	Total	Assets	Liabilities
31 March 2017, EUR million						
Interest rate derivatives	34,527	82,028	60,838	177,393	3,700	3,256
Cleared by the central counterparty	6,102	38,582	30,599	75,283	1,040	1,260
Currency derivatives	36,027	11,469	3,604	51,100	1,539	1,570
Equity and index derivatives	5	1		6	1	
Credit derivatives	16	216	9	241	11	7
Other derivatives	364	408	2	774	63	19
Total derivatives	**70,939**	**94,123**	**64,453**	**229,515**	**5,314**	**4,853**

	Nominal values / remaining term to maturity				Fair values*	
	<1 year	1–5 years	>5 years	Total	Assets	Liabilities
31 December 2016, EUR million						
Interest rate derivatives	38,219	77,514	60,823	176,557	4,129	3,632
Cleared by the central counterparty	7,919	33,999	30,761	72,679	1,186	1,335
Currency derivatives	29,515	11,606	3,644	44,765	1,688	1,676
Equity and index derivatives	15	6		21	1	0
Credit derivatives	19	397	13	429	11	8
Other derivatives	275	552	2	829	64	23
Total derivatives	**68,043**	**90,075**	**64,482**	**222,601**	**5,892**	**5,340**

* Fair values include accrued interest which is shown under other assets or provisions and other liabilities in the balance sheet. In addition, the fair value of derivatives for central counterparty clearing is offset in the balance sheet.

Note 11 Financial assets and liabilities offset in the balance sheet or subject to enforceable master netting arrangements or similar agreements

Financial assets

31 March 2017, EUR million	Gross amount of financial assets	Gross amount of financial liabilities deducted from financial assets*	Net amount presented in the balance sheet**	Financial assets not set off in the balance sheet		Net amount
				Derivative contracts***	Collateral received	
Derivatives	5,314	-1,030	4,284	-2,093	-1,045	1,145

31 December 2016, EUR million	Gross amount of financial assets	Gross amount of financial liabilities deducted from financial assets*	Net amount presented in the balance sheet**	Financial assets not set off in the balance sheet		Net amount
				Derivative contracts***	Collateral received	
Derivatives	5,883	-1,151	4,732	-2,418	-1,177	1,138

Financial liabilities

31 March 2017, EUR million	Gross amount of financial liabilities	Gross amount of financial assets deducted from financial liabilities*	Net amount presented in the balance sheet**	Financial liabilities not set off in the balance sheet		Net amount
				Derivative contracts***	Collateral given	
Derivatives	4,905	-1,249	3,656	-2,093	-1,079	484

31 December 2016, EUR million	Gross amount of financial liabilities	Gross amount of financial assets deducted from financial liabilities*	Net amount presented in the balance sheet**	Financial liabilities not set off in the balance sheet		Net amount
				Derivative contracts***	Collateral given	
Derivatives	5,350	-1,307	4,044	-2,418	-1,139	486

* Incl. daily cleared derivatives on a net basis included in cash and cash equivalents, totalling -221 (-147) million euros.
** Fair values excluding accrued interest.
*** It is the practice to enter into master agreements for derivative transactions with all derivative counterparties.

Central counterparty clearing for OTC derivatives

February 2013 saw the adoption of central counterparty clearing in accordance with EMIR (Regulation (EU) No 648/2012). Standardised OTC derivative transactions entered into with financial counterparties are cleared in London Clearing House. Based on this model, the central counterparty will become the derivatives counterparty at the end of the daily clearing process, with whom daily payments for derivatives are netted. In addition, collateral is paid or received daily, which corresponds to the change in the fair value of open positions (variation margin). Interest rate derivatives cleared by the central counterparty are presented on a net basis in the balance sheet.

Other bilaterally cleared OTC derivative contracts

The ISDA Master Agreement or the Master Agreement of the Federation of Finnish Financial Services or the Group will apply to derivative transactions between the Group and other clients and to derivative transactions to which central counterparty clearing in accordance with the Regulation does not pertain. On the basis of these agreements, derivative payments may be netted per transaction on each payment date and in the event of counterparty default and bankruptcy. It is also possible to agree on collateral on a counterparty-specific basis in the terms and conditions of the agreement. Such derivatives are presented on a gross basis in the balance sheet.

Note 12 Receivables from credit institutions and customers, and doubtful receivables

31 March 2017, EUR million	Not impaired (gross)	Impaired (gross)	Total	Individual assessment of impairment	Collective assessment of impairment	Balance sheet value
Receivables from credit institutions and customers						
Receivables from credit institutions	333		333		2	331
Receivables from customers, of which	78,104	643	78,747	447	62	78,238
Bank guarantee receivables	2	9	11	9	1	2
Finance leases	1,272		1,272			1,272
Total	**79,709**	**643**	**80,352**	**447**	**64**	**79,841**
Receivables from credit institutions and customers by sector						
Non-banking corporate sector	28,032	461	28,493	352	34	28,106
Financial institutions and insurance companies	1,046	0	1,046	0	3	1,043
Households	49,018	176	49,194	92	27	49,076
Non-profit organisations	782	6	788	4	1	784
Public sector entities	831		831		0	831
Total	**79,709**	**643**	**80,352**	**447**	**64**	**79,841**

31 December 2016, EUR million	Not impaired (gross)	Impaired (gross)	Total	Individual assessment of impairment	Collective assessment of impairment	Balance sheet value
Receivables from credit institutions and customers						
Receivables from credit institutions	339		339		2	337
Receivables from customers, of which	77,204	640	77,844	445	63	77,337
Bank guarantee receivables	2	9	11	9	1	2
Finance leases	1,268		1,268			1,268
Total	**78,810**	**640**	**79,450**	**445**	**64**	**78,941**
Receivables from credit institutions and customers by sector						
Non-banking corporate sector	27,280	461	27,741	349	32	27,360
Financial institutions and insurance companies	1,035	0	1,035	0	3	1,032
Households	48,921	173	49,094	92	29	48,973
Non-profit organisations	758	6	765	4	1	760
Public sector entities	816		816		0	816
Total	**78,810**	**640**	**79,450**	**445**	**64**	**78,941**

Doubtful receivables 31 March 2017, EUR million	Performing receivables from credit institutions and customers (gross)	Non-performing receivables from credit institutions and customers (gross)	Receivables from credit institutions and customers, total (gross)	Individually assessed impairment	Receivables from credit institutions and customers (net)
More than 90 days past due		598	598	232	366
Unlikely to be paid		560	560	164	395
Forborne receivables	1,751	305	2,056	51	2,005
Total	**1,751**	**1,463**	**3,214**	**447**	**2,767**

Doubtful receivables 31 December 2016, EUR million	Performing receivables from credit institutions and customers (gross)	Non-performing receivables from credit institutions and customers (gross)	Receivables from credit institutions and customers, total (gross)	Individually assessed impairment	Receivables from credit institutions and customers (net)
More than 90 days past due		578	578	222	356
Unlikely to be paid		508	508	173	335
Forborne receivables	1,711	279	1,990	50	1,940
Total	**1,711**	**1,364**	**3,076**	**445**	**2,631**

Key ratio, %	31 March 2017	31 Dec. 2016
Exposures individually assessed for impairment, % of doubtful receivables	13.9 %	14.5 %

The Group reports as the amount of a receivable that is more than 90 days past due whose interest or principal amount has been past due and outstanding for more than three months. Contracts with the lowest credit ratings (F for private customers and 11-12 for others) are reported as unlikely to be paid. Forborne receivables include receivables that have been renegotiated due to the customer's financial difficulties. The loan terms and conditions of renegotiated receivables have been eased due to the customer's financial difficulties for example by transferring to interest only terms for a period of 6-12 months.

Note 13 Insurance liabilities

EUR million	31 March 2017	31 Dec. 2016
Provision for unpaid claims		
Provision for unpaid claims for annuities	1,439	1,434
Other provision for unpaid claims	1,014	988
Reserve for decreased discount rate (value of hedges of insurance liability)	-9	8
Total	2,444	2,430
Provisions for unearned premiums	845	578
Liabilities from unit-linked insurance and investment contracts		
Liabilities from unit-linked insurance	8,179	7,918
Investment contracts	1,356	1,287
Total	9,535	9,205
Life insurance insurance liabilities	7,373	7,578
Total	**20,196**	**19,791**

Note 14 Debt securities issued to the public

EUR million	31 March 2017	31 Dec. 2016
Bonds	9,392	10,922
Covered bonds	10,221	9,277
Certificates of deposit, commercial papers and ECPs	8,916	8,088
Total	**28,529**	**28,287**

Note 15 Fair value reserve after income tax

EUR million	Available-for-sale financial assets: Notes and bonds	Available-for-sale financial assets: Equity instruments	Cash flow hedging	Total
Opening balance 1 January 2017	**105**	**172**	**41**	**318**
Fair value changes	2	12	-1	**13**
Capital gains transferred to income statement	-9	-31		**-40**
Impairment loss transferred to income statement		3		**3**
Transfers to net interest income			-10	**-10**
Deferred tax	1	3	2	**7**
Closing balance 31 March 2017	**100**	**159**	**33**	**292**

EUR million	Available-for-sale financial assets: Notes and bonds	Available-for-sale financial assets: Equity instruments	Cash flow hedging	Total
Opening balance 1 January 2016	**31**	**142**	**69**	**242**
Fair value changes	83	-27	26	**82**
Capital gains transferred to income statement	-13	-16		**-29**
Impairment loss transferred to income statement		8		**8**
Transfers to net interest income			-10	**-10**
Deferred tax	-14	7	-3	**-10**
Closing balance 31 March 2016	**87**	**114**	**82**	**282**

The fair value reserve before tax amounted to EUR 364 million (353) and the related deferred tax liability amounted to EUR 73 million (70). On 31 March 2017, positive mark-to-market valuations of equity instruments in the fair value reserve totalled EUR 274 million (237) and negative mark-to-market valuations EUR 22 million (46).

A negative fair value reserve may recover by means of asset appreciation and recognised impairments.

Note 16 Collateral given

EUR million	31 March 2017	31 Dec. 2016
Collateral given on behalf of own liabilities and commitments		
Pledges	1	1
Loans (as collateral for covered bonds)	10,991	10,407
Other	5,739	4,973
Total*	**16,731**	**15,381**
Secured derivative liabilities	1,269	1,351
Other secured liabilities	4,071	3,443
Covered bonds	10,221	9,277
Total	**15,561**	**14,071**

* In addition, bonds with a book value of EUR 6.1 billion have been pledged in the central bank, of wich EUR 1.5 billion in intrady settlement collateral. Given that the bonds are available for withdrawal without the central bank's advance premission, they are not presented in the table above.

Note 17 Off-balance-sheet items

EUR million	31 March 2017	31 Dec. 2016
Guarantees	667	836
Other guarantee liabilities	1,960	1,921
Loan commitments	11,379	11,049
Commitments related to short-term trade transactions	402	358
Other*	1,010	966
Total off-balance-sheet items	**15,418**	**15,129**

* Of which Non-life Insurance commitments to private equity funds amount to EUR 182 million (156).

Note 18 Capital adequacy for credit institutions

OP Financial Group presents the amalgamation's capital adequacy for credit institutions in accordance with the EU capital requirement regulation and directive (EU 575/2013) (CRR).

Capital base, EUR million	31 March 2017	31 Dec. 2016
OP Financial Group's equity capital	10,378	10,237
The effect of insurance companies on the Group's shareholders' equity is excluded	-76	-168
Fair value reserve, cash flow hedging	-33	-41
Supplementary cooperative capital to which transition provision applies	73	77
Common Equity Tier 1 (CET1) before deductions	**10,343**	**10,105**
Intangible assets	-643	-620
Excess funding of pension liability and valuation adjustments	-47	-64
Repayable cooperative capital		-156
Planned profit distribution and profit distribution for previous period not deducted from equity capital	-49	-83
Shortfall of impairments – expected losses	-315	-309
Common Equity Tier 1 (CET1)	**9,288**	**8,872**
Subordinated loans to which transitional provision applies	81	81
Additional Tier 1 capital (AT1)	**81**	**81**
Tier 1 capital (T1)	**9,370**	**8,954**
Debenture loans	1,221	1,239
Tier 2 Capital (T2)	**1,221**	**1,239**
Total capital base	**10,591**	**10,192**

A prudent valuation adjustment of EUR 28 (36) million has been deducted from CET1 capital.

OP Financial Group has applied transitional provisions regarding old capital instruments to supplementary cooperative shares and subordinated loans. A year ago, EUR 156 million were deducted from CET1 capital, based on the supervisor's permission to refund cooperative capital.

Risk exposure amount, EUR million	31 March 2017	31 Dec. 2016
Credit and counterparty risk	**39,359**	**38,853**
Standardised Approach (SA)	**3,290**	**3,233**
Central government and central banks exposure	39	39
Credit institution exposure	40	36
Corporate exposure	1,883	1,812
Retail exposure	1,026	1,039
Other*	302	307
Internal Ratings-based Approach (IRB)	**36,070**	**35,620**
Credit institution exposure	1,166	1,143
Corporate exposure	21,502	20,913
Retail exposure	4,786	4,698
Equity investments**	7,426	7,605
Other	1,190	1,261
Market and settlement risk (Standardised Approach)	**1,491**	**1,329**
Operational risk (Standardised Approach)	**3,958**	**3,666**
Valuation adjustment (CVA)	**293**	**253**
Total risk exposure amount	**45,101**	**44,101**
Risk weight floors based on ECB's decision	**4,396**	
Total risk exposure amount including risk weight floors	**49,498**	**44,101**

* EUR 260 million (253) of Other exposures represent deferred tax assets that are treated with a risk weight of 250% instead of a deduction from common equity tier 1 capital.

** The risk weight of equity investments includes EUR 6.5 billion in insurance holdings within OP Financial Group.

Ratios, %	31 March 2017	31 Dec. 2016
CET1 capital ratio	18.8	20.1
Tier 1 ratio	18.9	20.3
Capital adequacy ratio	21.4	23.1

Ratios, fully loaded, %	31 March 2017	31 Dec. 2016
CET1 capital ratio	18.6	19.9
Tier 1 ratio	18.6	19.9
Capital adequacy ratio	21.1	22.8

Ratios excluding the risk weight floors, %	31 March 2017	31 Dec. 2016
CET1 capital ratio	20.6	20.1
Tier 1 ratio	20.8	20.3
Capital adequacy ratio	23.5	23.1

The effect of risk weight floors on the CET 1 ratio was -1.8 percentage points.

Capital requirement, EUR million	31 March 2017	31 Dec. 2016
Capital base	10,591	10,192
Capital requirement	7,067	5,520
Buffer for capital requirements	3,524	4,673

The capital requirement of 14.3% comprises the minimum requirement of 8%, the capital conservation buffer of 2.5%, the O-SII buffer of 2.0%, the minimum requirement of 1.75% set by the ECB (P2R) and the changing capital conservation buffer by country for foreign exposures. A year ago, the capital requirement was 12.5%. The ECB's P2R took effect on 1 January 2017.

Leverage ratio, EUR million	31 March 2017	31 Dec. 2016
Tier 1 capital (T1)	9,370	8,954
Total exposure	123,259	120,257
Leverage ratio, %	7.6	7.4

The leverage ratio that describes a company's minimum leverage ratio is presented in accordance with Commission Delegated Regulation. According to these rules, the minimum ratio is three per cent.

Note 19 Exposures by rating category

Retail exposures by rating category (AIRB)

All retail exposures 31 March 2017

Rating category	Exposure value (EAD), EUR million	Average CF, %	Average PD, %	Average LGD, %	RWA, EUR million	Average risk weight, %	Expected losses, EUR million
Personal customers, total	**48,892**	**51.5**	**0.7**	**16.9**	**4,003**	**7.4**	**149**
A	30,599	52.3	0.0	16.0	537	1.8	2
B	10,618	49.5	0.1	16.3	514	4.8	2
C	3,885	48.1	0.5	21.7	648	16.7	4
D	2,097	42.4	2.3	20.9	765	36.5	10
E	1,293	30.7	20.7	21.2	1,113	86.1	55
F	400		100.0	24.5	426	106.5	76
Corporate customers, total	**1,557**	**68.4**	**3.2**	**37.4**	**783**	**41.4**	**40**
2.5–5.5	500	67.6	0.4	22.4	60	12.0	0
6.0–7.0	615	67.4	1.4	41.8	253	41.1	4
7.5–8.5	294	69.7	5.0	46.7	203	69.2	7
9.0–10.0	99	75.3	23.1	45.4	108	108.5	10
11.0–12.0	49		100.0	63.3	159	326.2	19
Total	**50,449**	**52.6**	**0.8**	**17.6**	**4,786**	**8.4**	**189**

All retail exposures 31 December 2016

Rating category	Exposure value (EAD), EUR million	Average CF, %	Average PD, %	Average LGD, %	RWA, EUR million	Average risk weight, %	Expected losses, EUR million
Personal customers, total	**48,607**	**52.5**	**0.7**	**16.9**	**3,919**	**7.3**	**147**
A	30,426	52.5	0.0	16.0	533	1.8	2
B	10,757	52.8	0.1	16.3	521	4.8	2
C	3,759	54.6	0.5	21.4	621	16.5	4
D	1,965	43.9	2.3	21.0	712	36.2	9
E	1,323	24.9	20.6	21.1	1,127	85.2	56
F	378		100.0	24.9	405	107.2	74
Corporate customers, total	**1,552**	**68.2**	**3.3**	**37.0**	**779**	**41.3**	**39**
2.5–5.5	493	67.1	0.4	21.9	58	11.8	0
6.0–7.0	606	67.4	1.3	41.1	244	40.3	3
7.5–8.5	294	69.6	4.9	46.5	201	68.4	7
9.0–10.0	111	74.0	22.9	45.4	118	106.5	11
11.0–12.0	47		100.0	63.1	157	332.2	18
Total	**50,159**	**53.7**	**0.8**	**17.5**	**4,698**	**8.3**	**186**

The defaults, or borrower grades 11.0 and 12.0, as well as F are not included in the average PD and risk weight. The figures exclude the risk weight floors.

Corporate exposures (FIRB) by rating category

Rating category	Exposure value (EAD), EUR million	Average CF, %	Average PD, %	Average LGD, %	RWA, EUR million	Average risk weight, %	Expected losses, EUR million
	31 March 2017						
1.0–2.0	850	92.2	0.0	44.6	126	14.8	0
2.5–5.5	17,546	74.1	0.2	44.3	7,075	40.3	17
6.0–7.0	7,999	71.8	1.3	44.2	7,073	88.4	45
7.5–8.5	4,869	70.5	4.5	44.2	6,077	124.8	96
9.0–10.0	627	59.1	21.5	43.8	1,152	183.6	59
11.0–12.0	739	53.7	100.0	45.2			334
Total	**32,630**	**73.3**	**1.6**	**44.3**	**21,502**	**67.4**	**552**

Rating category	Exposure value (EAD), EUR million	Average CF, %	Average PD, %	Average LGD, %	RWA, EUR million	Average risk weight, %	Expected losses, EUR million
	31 December 2016						
1.0–2.0	933	92.2	0.0	44.7	137	14.7	0
2.5–5.5	17,374	74.5	0.2	44.4	7,044	40.5	17
6.0–7.0	7,717	71.6	1.3	44.2	6,786	87.9	43
7.5–8.5	4,638	70.7	4.6	44.2	5,825	125.6	94
9.0–10.0	616	55.1	22.1	44.0	1,120	181.9	60
11.0–12.0	747	54.9	100.0	45.2			338
Total	**32,024**	**73.5**	**1.6**	**44.3**	**20,913**	**66.9**	**552**

The defaults, or borrower grades 11.0 and 12.0, as well as F are not included in the average PD and risk weight.

Note 20 Insurance company solvency

EUR million	31 March 2017		31 December 2016	
	Life Insurance	Non-life Insurance	Life Insurance	Non-life Insurance
Eligible capital	**1,353**	**1,055**	**1,455**	**992**
Solvency capital requirement (SCR)				
Market risk	946	487	996	484
Insurance risk	386	299	405	298
Counterparty risk	27	32	27	32
Operational risk	37	43	25	43
Diversification benefits and loss absorbency	-677	-175	-712	-164
Total	719	686	742	693
Buffer for SCR	**634**	**368**	**713**	**299**
Solvency ratio (SCR), %	**188**	**154**	**196**	**143**
Solvency ratio (SCR), % (excluding transitional provision)	**145**	**138**	**149**	**127**

Transitional provisions have been taken into account in figures under Solvency II and they are according to OP Financial Group's estimate. Non-life Insurance figures also include those of OVY Insurance.

Note 21 Capital adequacy under the Act on the Supervision of Financial and Insurance Conglomerates

EUR million	31 March 2017	31 Dec. 2016
OP Financial Group's equity capital	10,378	10,237
Other cooperative capital, hybrid instruments, perpetual bonds and debenture bonds	1,376	1,397
Other sector-specific items excluded from capital base	-130	-139
Goodwill and intangible assets	-1,459	-1,438
Insurance business valuation differences*	828	743
Proposed profit distribution	-49	-83
Items under IFRS deducted from capital base**	32	16
Shortfall of impairments – expected losses	-289	-283
Conglomerate's capital base, total	**10,687**	**10,449**
Regulatory capital requirement for credit institutions***	6,147	4,713
Regulatory capital requirement for insurance operations*	1,405	1,434
Conglomerate's total minimum capital requirement	7,552	6,147
Conglomerate's capital adequacy	3,135	4,302
Conglomerate's capital adequacy ratio (capital base/minimum of capital base) (%)	142	170

* Estimate of SCR under Solvency II.

** Excess funding of pension liability, fair value measurement of investment property, portion of cash flow hedge of fair value reserve.

*** Total risk exposure amount x 14.3 %, total risk exposure amount x 12.5 % a year ago.

Transitional provisions and the risk weight floors have been taken into account in figures. The P2R set for OP Financial Group on 1 January 2017 decreased the capital ratio by approximately 16 percentage points. The effect of risk weight floors on the ratio is approximately -13 percentage points.

Note 22 Related-party transactions

The related parties of OP Financial Group include companies consolidated into OP Financial Group's financial statements, associates, administrative personnel, their close family members included, and other related party companies. The administrative personnel comprise OP Financial Group's President and Group Executive Chairman (Chairman of the Executive Board of OP Cooperative), President of OP Cooperative, members and deputy members of the Executive Board and Supervisory Board members. Related parties also include companies over which a person among administrative personnel or his close family member exercises significant influence. Other entities regarded as related parties include OP Bank Group Pension Fund and OP Bank Group Pension Foundation.

Normal loan terms and conditions apply to loans granted to related parties. These loans are tied to generally used reference rates.

Related-party transactions have not undergone any substantial changes since 31 December 2016.

Financial reporting in 2017

Schedule for Interim Reports in 2017:

Interim Report H1/2017	2 August 2017
Interim Report Q1–3/2017	1 November 2017

Helsinki, 27 April 2017

OP Cooperative
Executive Board

Additional information:
Reijo Karhinen, President and Group Executive Chairman, tel. +358 (0)10 252 4500
Harri Luhtala, CFO, tel. +358 (0)10 252 2433
Carina Geber-Teir, Executive Vice President, Corporate Communications, tel. +358 (0)10 252 8394

op.fi and pohjola.fi