OP Financial Group's Financial Statements Bulletin for 1 January–31 December 2017

OP Financial Group's Financial Statements Bulletin for 1 January–31 December 2017: Transformation still underway, earnings almost at record level

Earnings before tax over one billion euros for the third year in a row, strong growth in business

- Earnings before tax amounted to EUR 1,077 million (1,138), being 5% lower than the record earnings a year ago.
- Income increased by a total of 4%. Net interest income increased by 3%, net commissions and fees by 8% and net investment income by 27%. Net insurance income decreased by 14%.
- Expenses rose by 13%. The rise in expenses stemmed mainly from higher development investments related to the modernisation of the present-day business and from an increase in other expenses related to strategy implementation.
- Impairment loss on receivables, EUR 48 million (77), were low, accounting only for 0.06% of loans and receivables.
- CET1 ratio was 20.1%, or at the previous year-end level.
- **Banking:** The loan portfolio increased by 5% and deposits by 6%. Both net interest income and net commissions and fees increased by 4%. Supported by strong growth in income, earnings before tax increased by 16%.
- **Non-life Insurance:** Insurance premiums from private customers increased by 2%, while those from corporate customers decreased slightly. Earnings before tax decreased by 14%. The earnings were eroded by a reduction of the discount rate to 1.5% in September and more unfavourable claims development than a year ago.
- **Wealth Management:** Assets under management increased by 5%. Earnings before tax increased by 9%, aided by strong improvement in net commissions and fees.
- **Other Operations:** Earnings were weakened by higher investments in the development of services and other strategy implementation.
- President and Executive Chairman Reijo Karhinen retired on 31 January 2018, based on his executive contract. Timo Ritakallio, LL.M., MBA and D.Sc. (Tech.), will take up his duties as OP Financial Group's new President and Group Executive Chairman on 1 March 2018.
- Earnings before tax for 2018 are expected to be at about the same level as or lower than in 2017.

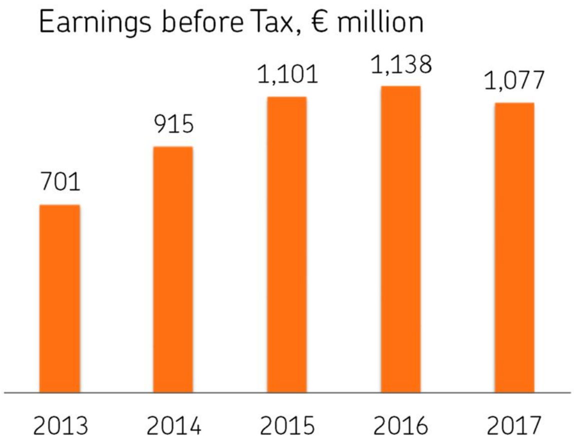
Business development and sense of community for the benefit of owner-customers

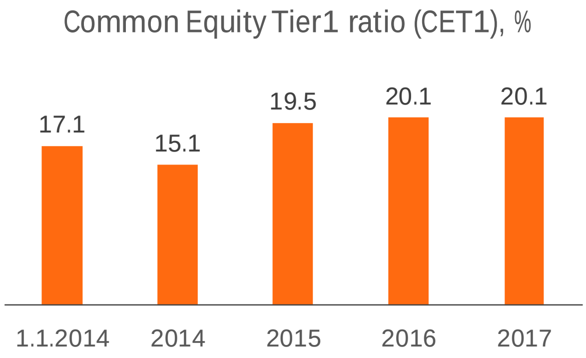
- In 2017, development investments worth around EUR 450 million focused on ensuring compliance with requirements set by the authorities and legislative requirements, improving operational efficiency and smoothness as well as developing business.
- In 2017, OP Financial Group opened Pohjola Hospitals in Oulu and Kuopio. The construction of a hospital in Turku is progressing as planned.
- The number of OP cooperative banks' owner-customers increased by 86,000 to over 1.8 million and that of OP Financial Group's joint banking and insurance customers by 40,000 to almost 1.8 million.
- In November, OP held the biggest electronic voting in Finland. Almost 2,400 owner-customers were elected to Representative Assemblies in 81 OP cooperative banks for the next four years.
- OP Financial Group had the objective of donating 100 person-years of volunteering in honour of the centenary of Finland's independence. Volunteer work performed with partners totalled 274 years.
- OP bonuses increased by 6% to EUR 220 million (208).

OP Financial Group's key indicators

	Q1–4/2017	Q1–4/2016	Change, %
EBT, € million	1,077	1,138	-5.4
Banking	666	574	16.0
Non-life Insurance	210	244	-13.9
Wealth Management	247	226	9.2
Other Operations	-45	95	
New OP bonuses accrued to owner-customers	220	208	5.7
	31 Dec. 2017	**31 Dec. 2016**	**Change, %**
CET1 ratio, %	20.1	20.1	0.0*
Return on economic capital, %**	21.3	22.7	-1.4*
Ratio of capital base to minimum amount of capital base (under the Act on the Supervision of Financial and Insurance Conglomerates), %***	148	170	-22*
Ratio of impairment loss on receivables to loan and guarantee portfolio, %	0.06	0.09	0.0*
Owner-customers (1,000)	1,833	1,747	4.9

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 for insurance companies using transition provisions included in solvency regulation.


Earnings before Tax, € million
701
915
1,101
1,138
1,077
2013
2014
2015
2016
2017


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

Comments by Executive Board Chair Tony Vepsäläinen

The year 2017 was a success for OP Financial Group in many respects. Implementing our strategy, which will transform our business on an in-depth basis, proceeded on a wide front, our financial position strengthened further, our business continued to grow steadily on the whole, and in our social role we produced visible and tangible results.

OP has stabilised its annual financial results at the level one billion euros. In spite of growth in expenses related to strategy implementation, EBT of almost EUR 1.1 billion is the third best ever recorded by OP Financial Group. Thanks to our strong results, the Group's CET1 ratio was back to over 20%.

Earnings were strengthened by growth in income on a broad basis. Not only net interest income but also commission income and investment income showed an increase. The quality of the loan portfolio remained good, which is why loan losses remained very low. The loan portfolio continued to grow at a rate above the market average, especially in corporate loans and housing corporation loans.

In 2017, our development expenditure totalled around EUR 450 million, the majority of the investments being allocated to ensuring regulatory compliance as well as to large-scale basic system upgrades and enhancing operational efficiency. The most visible improvements to our customers included our redesigned op.fi service and new versatile mobile payment solutions.

We took a number of steps to build new service packages based on our strategy. We opened a new hospital in Oulu and Kuopio, introduced new mobility services to our customers and opened an OP Home marketplace as a platform of housing-related services.

We celebrated Finland's 100 years of independence through volunteering characteristic of OP Financial Group: we encouraged our employees, administrative staff, customers and everyone in the country to donate a day of volunteering to Finland. In the end, the gift given by OP Financial Group and its partners to Finland was 274 years of volunteering. Hiiop100.fi, a meeting place for volunteering, will continue to combine tasks and their performers this year too.

OP Financial Group is there for its customers. In 2017, the number of the Group's owner-customers increased by over 86,000. In November 2017, we organised the biggest electronic voting in Finland where a total of almost 2,400 members out of the candidates were elected to the OP cooperative banks' Representative Assemblies. As part of our mission and social role, we are active in promoting prosperity in our operating regions, sense of community, responsibility and cooperation based on a people-first approach throughout Finland.

Working for OP Financial Group during five decades and heading the Group as President and Group Executive Chairman from 2007, Reijo Karhinen retired at the end of January 2018, based on his executive contract. Reijo Karhinen's career in OP Financial Group is unrivalled. During his term of being President and Group Executive Chairman, OP became Finland's leading financial services group, became fully owned by its customers and reinvented itself in a bold and responsible way. We therefore express our warmest thanks to Reijo for his unique life's work. OP Financial Group will continue reinventing itself and implementing its mission based on customer ownership. We are happy to welcome Timo Ritakallio as OP Financial Group's new President and Group Executive Chairman at the beginning of March – best of luck and success together!

OP Financial Group's Financial Statements Bulletin for 1 January–31 December 2017

Contents

Operating environment

The economic situation improved markedly in 2017. Confidence indicators continued to improve towards the year end. Based on preliminary information, the world economy grew at its fastest rate for over five years. Last year, the euro-area economy reached its best growth rate recorded during the current decade.

Inflation remained moderate despite the favourable economic development. The European Central Bank (ECB) continued its accommodative monetary policy. In 2017, the ECB's monthly asset purchases in the markets totalled EUR 60 billion and the main refinancing rates remained unchanged.

The Euribor rates remained negative. The 12-month Euribor rate decreased slightly because of abundant liquidity, but the 3-month Euribor rate remained unchanged. Longer-term rates rose slightly during the year.

The Finnish economy grew strongly on a wide front. Exports rose at their fastest pace during the current decade. Companies increased their fixed investments as a result of improved profitability and the need for additional capacity.

Supported by favourable employment development, consumer confidence improved to a record level and boosted consumer spending. Construction projects were abundant, the housing market picked up and home prices rose slightly on average.

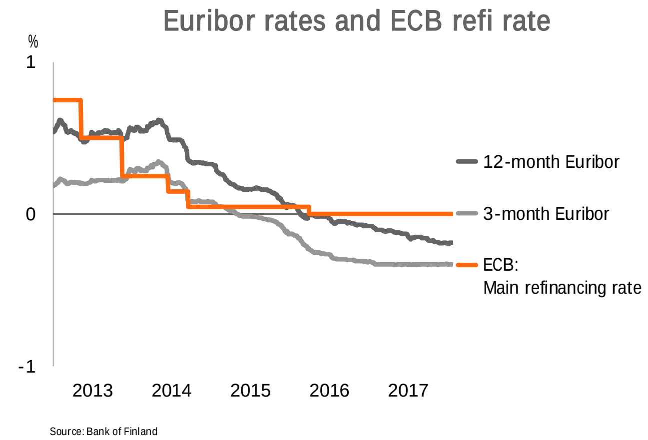
Favourable economic development is expected to continue in the near future, both in Finland and the rest of the euro area. The monetary policy is expected to tighten during 2018, but short-term interest rates should rise only slightly. The largest risks in the near future are associated with greater uncertainty in financial market and with the political environment.

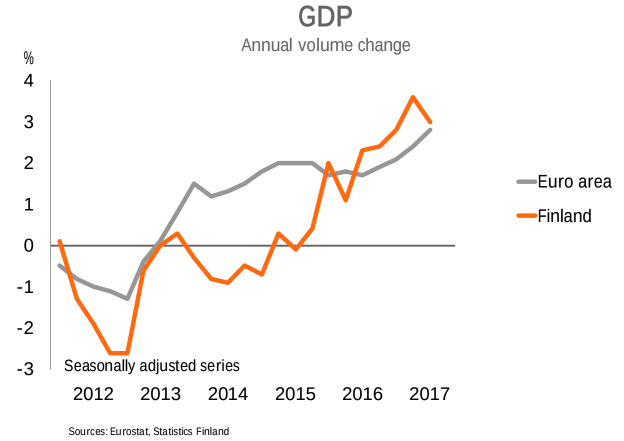
Total consumer loans increased by around 2.7% over the previous year. Consumer loans were raised more actively than a year ago. The average borrowing rate of new home loans drawn down declined further, coming to less than one percent. Corporate and housing association loans increased by 4.3% on a year earlier. Demand for consumer and corporate loans is expected to continue to pick up.

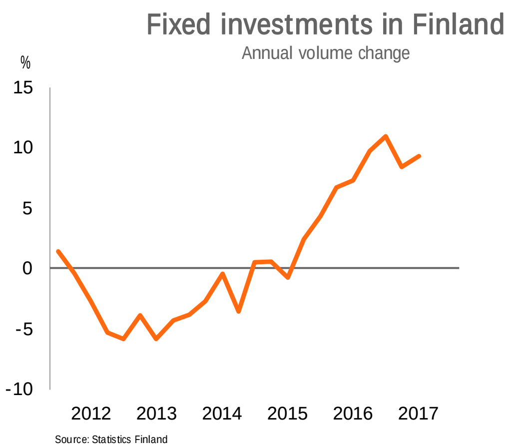
The annual growth rate of total deposits accelerated to 6.1% and that of total household decelerated deposits to 3.3%. Corporate deposits increased by 8.0% over the previous year while growth in deposits by public-sector entities remained brisk.

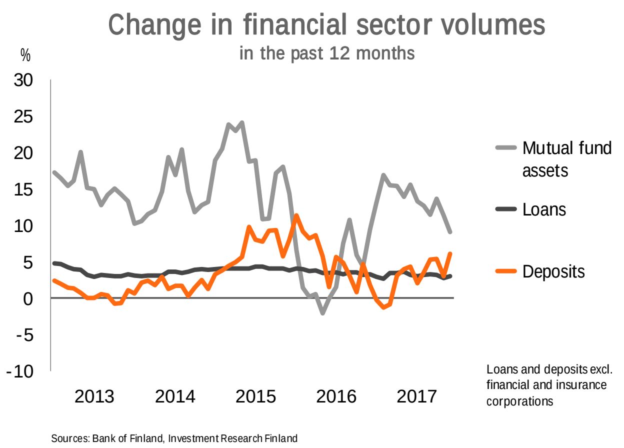
In 2017, the value of mutual funds registered in Finland increased by 8.9% to EUR 116.2 billion. A total of EUR 4.5 billion of this growth came from net asset inflows and EUR 5.1 million resulted from favourable market developments.

Positive mood in the economy and favourable developments in capital markets supported the insurance sector. However, price competition among private and corporate customers and in corporate and institutional insurance, which became fiercer during the latter half of the year, ate up premiums written.









Earnings analysis and balance sheet

Earnings analysis, € million	Q1–4/2017	Q1–4/2016	Change, %	Q4/2017	Q4/2016	Change, %	Q3/2017
Earnings before tax	**1,077**	**1,138**	**-5.4**	**204**	**218**	**-6.2**	**290**
Banking	666	574	16.0	153	126	21.5	175
Non-life Insurance	210	244	-13.9	73	38	92.5	30
Wealth Management	247	226	9.2	56	43	30.1	98
Other Operations	-45	95		-77	11		-13
Income							
Net interest income	1,094	1,058	3.4	279	260	7.4	285
Net insurance income	478	558	-14.4	137	140	-2.3	80
Net commissions and fees	928	859	8.0	254	222	14.4	217
Net investment income	495	390	26.9	90	108	-17.4	170
Other operating income	94	122	-23.3	11	18	-37.2	13
Share of associates' profit/loss	27	1		14	-4		1
Total income	**3,115**	**2,989**	**4.2**	**784**	**743**	**5.5**	**765**
Expenses							
Personnel costs	758	762	-0.6	193	199	-3.0	171
Depreciation/amortisation and impairment loss	246	160	54.2	88	44		63
Other operating expenses	769	646	19.0	223	188	18.4	180
Total expenses	**1,773**	**1,567**	**13.1**	**504**	**431**	**16.9**	**415**
Impairment loss on receivables	**48**	**77**	**-38.0**	**20**	**41**	**-51.6**	**5**
New OP bonuses accrued to owner-customers	**220**	**208**	**5.7**	**56**	**53**	**4.8**	**55**

Key balance sheet figures, € million	31 Dec. 2017	31 Dec. 2016	Change, %
Receivables from customers	82,240	78,604	4.6
Investment assets	22,506	25,105	-10.3
Liabilities to customers	65,549	60,077	9.1
Insurance liability	9,950	10,586	-6.0
Debt securities issued to the public	26,841	28,287	-5.1
Equity capital	11,121	10,237	8.6
Total assets	**137,242**	**133,747**	**2.6**

January–December

OP Financial Group's earnings before tax exceeded one billion euros for the third year in a row, totalling EUR 1,077 million (1,138). Compared with the record EBT in 2016, it declined by 5.4% due to higher expenses resulting from the implementation of the strategy. The figure was also reduced by lower net insurance income and non-recurring income. The reported earnings included EUR 41 million (76) in non-recurring income. In the meantime, net interest income, net commissions and fees and net investment income increased year on year.

Net interest income increased by 3.4% to EUR 1,094 million. Net interest income from Banking rose by 4.4%, but the entire Group's net interest income was reduced by lower net interest income from the Other Operations segment. Net insurance income fell by 14.4% to EUR 478 million, resulting especially from the discount rate reduction larger than the year before and from poorer claims developments than a year ago. The reduced discount rate increased claims incurred by EUR 102 million (55). Net commissions and fees were EUR 928 million, or EUR 69 million higher than the year before. Mutual fund commissions increased by EUR 12 million and asset management performance-based fees by EUR 33 million. Payment transfer net commissions and fees increased by EUR 11 million as commission expenses decreased by EUR 29 million. Commission expenses declined by a total of EUR 24 million.

Net investment income increased by 26.9% to EUR 495 million. Income from equity investments under available-for-sale assets increased by a total of EUR 172 million year on year. Capital gains totalled EUR 263 million (201). Impairment losses on available-for-sale assets fell by EUR 13 million. Value changes in Credit Valuation Adjustment (CVA) in derivatives owing to market changes increased net income from securities trading by a total of EUR 33 million over the previous year. Supplementary Life Insurance interest rate provisions decreased net investment income by EUR 67 million over the previous year.

Other operating income decreased by 23.3% year on year to EUR 94 million. Non-recurring VAT refunds for prior years, interest included, totalled EUR 22 million. In the second quarter, OP Financial Group sold its portfolio of agreements and POS terminals of acquiring and POS terminal services to Nets. Non-recurring gain of EUR 25 million on the transaction was recognised in other operating income. OP Financial Group recognised extra amortisation and other expenses of EUR 6 million related to the transaction. A year ago, OP Financial Group recognised EUR 76 million in non-recurring gain as a result of the Visa Europe Ltd transaction. Associated companies improved their earnings by EUR 26 million year on year as a result of the larger number of associated companies consolidated into OP Financial Group.

Total expenses increased by 13.1% to EUR 1,773 million (1,567). This increase is mainly explained by higher development costs of present-day business, higher expenses of new businesses and higher amortisation/depreciation and impairment losses. OP Financial Group's significant investments in service development increased development costs by 62.2%. Direct development costs totalled EUR 219 million (135). New businesses accounted for EUR 30 million of the increase in total expenses. Planned depreciation/amortisation increased by 24.5% to EUR 191 million. This increase resulted mainly from higher development expenditure. Impairment losses increased by EUR 49 million year on year to EUR 55 million. Impairment losses recognised on property in own use totalled EUR 39 million (6). Personnel costs of EUR 758 million (762) were lower than a year ago.

Impairment losses on loans and receivables recognised under various income statement items that reduced earnings amounted to EUR 89 million (136), of which EUR 48 million (77) concerned loans and receivables. Net impairment loss on loans and receivables were very low, at 0.06% (0.09) of the loan and guarantee portfolio.

OP Financial Group's current tax amounted to EUR 223 million (223). The effective tax rate was 20.7% (19.6).

OP Financial Group's equity capital increased by 8.6% to EUR 11.1 billion (10.2). The reported earnings and Profit Shares were behind the increase. Equity capital included EUR 2.9 billion (2.7) in Profit Shares, terminated Profit Shares accounting for EUR 0.3 billion (0.3). The return target for Profit Shares for 2017 and 2018 is 3.25%. Interest payable on Profit Shares accrued during the reporting period is estimated to total EUR 90 million. The amount of interest paid for 2016 totalled EUR 83 million in June 2017. The fair value reserve decreased by EUR 142 million to EUR 176 million.

October–December

Earnings before tax amounted to EUR 204 million (218). The earnings declined by EUR 14 million year on year as a result of lower net investment income and higher expenses. The fourth-quarter earnings performance was supported by improved net interest income and net commissions and fees. Total income of EUR 784 million increased by 5.5% year on year.

Year on year, net interest income rose by 7.4% to EUR 279 million. Net insurance income decreased by 2.3% to EUR 137 million. Net commissions and fees were EUR 254 million, or EUR 32 million higher than the year before. Asset management performance-based fees rose by EUR 33 million. Net investment income decreased by 17.4% to EUR 90 million. Net income from available-for-sale assets increased by EUR 23 million year on year. Supplementary Life Insurance interest rate provisions decreased net investment income by EUR 51 million.

Total expenses increased by 16.9% year on year to EUR 504 million. Depreciation/amortisation and impairment loss on PPE and intangible assets amounted to EUR 88 million (44). Impairment losses recognised on property in own use and information systems were EUR 39 million higher than a year ago. Other operating expenses increased by 18.4% to EUR 223 million. Significant investments in service development increased development costs by EUR 34 million year on year.

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 a large-scale development programme underway to speed up the digitisation of its services. The Group will put the strategy into practice through systematically managed initiatives. The Group's development expenditure on the existing and new business will be up to EUR 2 billion between 2016 and 2020. The investments required to upgrade and streamline 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.

In accordance with its strategy, OP Financial Group increased its development expenditure significantly during the reporting period, being roughly 44% higher than a year ago. The majority of the expenditure was allocated to the development of the present-day business, but new businesses will account for a larger share in the future. Development expenditure for 2017 totalled over EUR 450 million.

The development investments ensure the competitiveness and continuity of the present-day business and regulatory compliance and create conditions for new customer-driven business models.

During the reporting period, OP Financial Group continued to upgrade its ICT architecture and the basic systems of the business segments with the aim of improving its competitiveness and enabling new digital services. The key investments for the reporting period covered upgrading the Group-level ICT platform, payment service and card systems as well as Non-life Insurance systems. The Group also further developed electronic sales and services for Wealth Management.

The reporting period saw the launch of redesigned online services (op.fi) for private and corporate customers. OP launched a number of new functionalities on OP-mobile and Pivo. OP also introduced the first fully digital financial services during the reporting period when it introduced OP Nano Insurance service family, with its home insurance launched in May and travel insurance in September. OP introduced several new products onto the market, such as a new motor liability insurance, products protecting home loans against higher interest rates, multi-currency cash pool account and cyber-insurance.

Several large-scale projects originating from the relevant authorities and legislation were also underway during the reporting period. The most significant ones were related to changes in data protection and anti-money laundering regulation, the new revised Payment Service Directive (PSD2) as well as to wealth management (MiFID II and T2S) and financial management (IFRS 9).

OP Financial Group has invested in operational efficiency on many fronts. In 2017, robotics enabled cost savings of EUR 9 million (1).

In the field of new businesses, OP Financial Group opened hospitals in Oulu and Kuopio and introduced several new mobility and e-commerce services. In addition, OP piloted its first new housing-related services. The development of new businesses starts from the fact that they must be inherently linked to the present-day business.

OP Financial Group's numerical targets	31 Dec. 2017	31 Dec. 2016	Target 2019
Customer experience, NPS (–100–+100)			
Brand	21.5	22.7	25
Service encounter	58	53	70, over time 90
CET1 ratio, %	20.1	20.1	22
Return on economic capital, % (12-month rolling)	21.3	22.7	22
Expenses of present-day business (12-month rolling), € million	1,661	1,532	Expenses for 2020 at 2015 level (1,500)
Owner-customers, million	1.8	1.7	2.1 (2019)

On 26 October 2017, the Supervisory Board further specified OP Financial Group's efficiency target. The previous target was that OP Financial Group's present-day business expenses for 2019 are at the same level as in 2015, at the most. The new target is that OP Financial Group's present-day business expenses for 2020 are at the 2015 level.

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 and enhancing its capital base. In its social role, the Group promotes the long-term success and prosperity of the community by representing a positive driver in the operating region. The social role involves impactful actions for the benefit of the community at both local and national level – digitally and physically. Succeeding in both roles is a measure of OP Financial Group's success.

January–December

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 business growth potential

OP Financial Group acts as an intermediary bank in two SME financing programmes guaranteed by the European Investment Fund (EIF) which enable financing worth a total of EUR 300 million. The EIF gives a 50% risk-sharing guarantee to the loans.

The programmes are targeted at projects and investments of growing and innovative companies. The agreement covering the first financing programme, designed for companies with a staff of less than 500, was signed in March 2016. The agreement signed in January 2017, in turn, focuses on companies with a staff of less than 250. Within the framework of these programmes, OP has already granted 300 corporate loans totalling EUR 180 million. By providing financing to companies with growth potential, OP Financial Group wants to be involved in supporting future economic growth and employment.

With the European Investment Bank (EIB), OP Financial Group signed an agreement in November on a new guarantee programme for large and mid-sized companies. Following the agreement, OP made a 300-million euro financing package available to mid-sized Finnish companies.

Support for families with children through the #Perheenlisä initiative

From May 2016 until the end of 2017, OP Financial Group offered families with a baby products and services making their daily life easier. The #Perheenlisä initiative included a health insurance and living allowance insurance for an unborn child and NewLife life insurance for parents of children under the age of one year for one year, with no charge. Moreover, the initiative also offered 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 was born before the end of 2017.

During the campaign, health insurance policies were granted to over 26,600 babies to be born, i.e. almost every third baby born in Finland received the health insurance as a gift. The value of the benefit during the campaign totalled around EUR 12 million. The number of NewLife policies issued during the campaign totalled over 13,300. Furthermore, borrowers used repayment holidays for some 29,500 loans.

Hiiop – OP Financial Group's gift to the 100-year-old Finland

During the centenary of Finland's independence, OP Financial Group wanted to donate 100 person-years of volunteering to Finland and lower the threshold for volunteering. Inviting everyone in Finland to do good together, OP created a volunteer work exchange site at Hiiop100.fi. All 12,000 OP employees could do voluntary work for one day during their working hours. During the jubilee year, OP Financial Group's personnel and administration did over 274 person years of volunteering together with partners and other people.

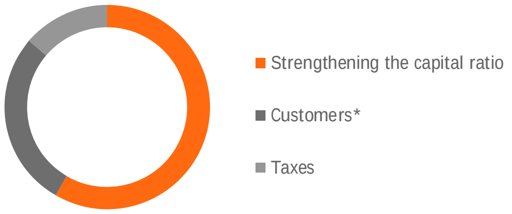
The biggest electronic voting in Finland

In November, OP Financial Group's 81 cooperative banks held the election of the Representative Assemblies electronically, where owner-customers elected from among them the Representative Assembly for their own bank for four years. The number of owner-customers entitled to vote totalled 1.5 million. Electronic votes accounted for 66% and postal votes for 34%. Almost 2,400 members out of over 5,600 candidates were elected to the Representative Assemblies.

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 = customer 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 the majority 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 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–December highlights

The ECB offered 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 have been able to borrow up to 30% of their loan balance as at 31 January 2016 to be used for lending 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 ECB's decision to set risk weight floors for OP Financial Group's 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. The most essential shortcomings have been fixed. Fixing the remaining shortcomings is proceeding as planned.

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. The bank has taken corrective measures and customers have not suffered any financial harm. The warning was based on the inspection conducted by the Financial Supervisory Authority at several companies in autumn 2015.

On 5 April 2017, OP Financial Group and Nets signed an agreement whereby OP transferred its portfolio of agreements and POS terminals of acquiring and POS terminal services to Nets on 28 June 2017. Acquiring and POS terminal services enable merchants to accept card payments as a payment method for purchases. As a result of the transaction, OP transferred acquiring and payment terminal service agreements of some 15,000 merchants to Nets. OP and Nets have been in cooperation in the services sold since 2011. OP Financial Group recognised EUR 19 million in non-recurring earnings on the transaction in the reporting period.

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.

With the "Positive driver of change through responsibility" as the theme, OP's Corporate Responsibility Programme is built around the following four themes: "We foster a sustainable economy", "We support local vitality", "We act with a people-first approach and through engagement" and "We foster health, security and wellbeing". One of the objectives of the Programme in practice includes being carbon positive by 2025. As part of this objective, some energy needed for OP's Vallila building is being generated by means of the solar power station built on the roof of the building during the reporting period.

To promote diversity, OP's objective is that the proportion of both genders in defined managerial positions is at least 40%. Women accounted for 21% at the end of 2017. OP's Annual Review presents the annual-level metrics of the Corporate Social Responsibility Programme.

During the reporting period, OP Financial Group updated its Code of Business Ethics with which all those employed by OP Financial Group must comply, whatever their role, position or location. The Code of Business Ethics also covers the key environmental principles.

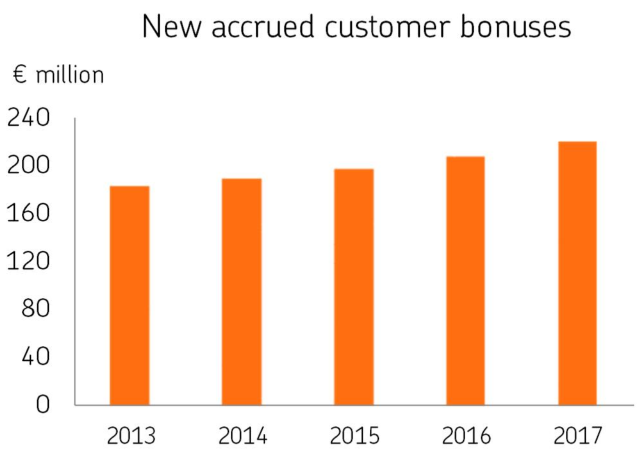
Customer relationships and customer benefits

In January–December, the number of OP Financial Group's owner-customers increased by 86,000 to over 1.8 million.

Contributions made by OP cooperative banks' owner-customers to the banks' Profit Shares and cooperative shares totalled EUR 3.1 billion (2.9) on 31 December 2017.

In January–December, the number of OP Financial Group's customers increased by 38,000 in net terms. The number of customers totalled 4,395,000 at the end of December.
The number of private customers totalled 3,950,000 and that of corporate customers 445,000. In January–December, the number of joint banking and non-life insurance customers increased by 40,000 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 owner-customers between January–December for using OP as their main bank and insurer was worth EUR 220 million (208). A total of EUR 103 million (101) of bonuses were used to pay for banking and wealth management services and EUR 114 million (107) to pay non-life insurance premiums. OP bonuses were used to pay 2,315,000 insurance bills (2,200,000), with 327,000 (297,000) of them paid in full using bonuses.



Owner-customers were provided with EUR 70 million (67) in non-life insurance loyalty discounts during the reporting period. In addition, owner-customer bought, sold and switched the majority of the mutual funds without separate charges. The value of the benefit was EUR 5 million (3) during the reporting period.

Interest payable on Profit Shares accrued during the reporting period is estimated to total EUR 90 million (83). Interest payable on Profit Shares for 2017 is 3.25% (3.25).

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 December, OP-mobile was the main channel for customers' daily banking, with visits totalling almost 18 million (13) during one month. The number of visits to online services amounted to around 9 million (10). The number of visits to the Pivo mobile application totalled over 2.5 million (1.8) in December. The number of visits to OP Business mobile launched in 2016 totalled 360,000 (41,000) in December.

The reporting period saw the launch of several new mobile payment methods: Pivo person-to-person payment, Pivo payment button and Siirto payments on Pivo and OP-mobile. The Pivo person-to-person payment and the Siirto payment enable customers to send money to other people by using their mobile phone number. By now over 333,000 OP customers have registered for Siirto payments. 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 4,000 webshops.

In September, OP strengthened its mobile payment offering for companies by acquiring the Payment Highway service. The service enables OP's corporate customers to offer their customers, for example, new mobile payment methods like Pivo or Siirto and recurring payments made with a credit card. The service can be used, for example, to order food online or for cardless refuelling.

OP eServices op.fi has been redesigned, providing both private and corporate customers with banking services and private customers with insurance services. From the very beginning, OP has developed the new service together with its customers and is still collecting customer feedback that will guide further development.

Despite the expansion of online and mobile services, OP Financial Group still has Finland's most extensive branch network with 407 branches (442) 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 also has extensive presence in the most common social media channels where it has almost 370,000 followers (300,000). 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. The monthly number of visitors to the service totals around 350,000.

New businesses

Health and wellbeing

During the reporting period, Pohjola Health Ltd expanded its hospital network by two new Pohjola Hospitals. The Pohjola Hospital located in Helsinki and the Tampere hospital opened in 2016 were complemented by the Oulu hospital in May and the Kuopio hospital in August. All four Pohjola Hospitals provide basic healthcare and special healthcare services, examinations, surgery and rehabilitation on an extensive basis. The hospital network will be completed in May 2018 when the Turku Pohjola Hospital opens its doors.

In its meeting of 28 September 2017, the Supervisory Board discussed the next steps of the strategic expansion of the health and wellbeing business. In the coming years, the business is to be expanded through, for instance, the construction of a nationwide medical centre network. Branching out into care services for the elderly, too, is under investigation.

Customers have been satisfied with the service provided by Pohjola Hospitals. Among surgery customers, the NPS figure was 97 (96) in January–December.

Mobility services

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 expanded to Tampere and Turku and their neighbouring regions during the spring and summer. In July, OP announced OP Kulku service's car sharing solution in which electric cars acquired by cities are available to their employees or citizens, including during leisure time. Kotka piloted OP Kulku car sharing in November.

In April, OP 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 and their construction is underway.

In May, OP launched DriveNow car sharing in Finland. DriveNow offers 150 cars for car sharing in Helsinki and neighbouring regions at a minute-based fee. The third quarter saw the launch of new features to the DriveNow service, such as hourly packages and dynamic Drive'n Save pricing. At the end of December, DriveNow already had over 16,000 customers in Finland.

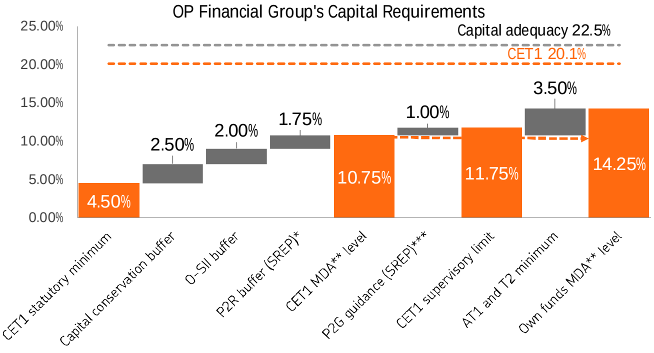
At the end of August, OP launched OP Flexible car, which has a minimum rental period of one month, alongside DriveNow based on a per-minute charge and OP Kulku designed for long-term rental.

Solvency

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

OP Financial Group's capital base, calculated according to the Act on the Supervision of Financial and Insurance Conglomerates

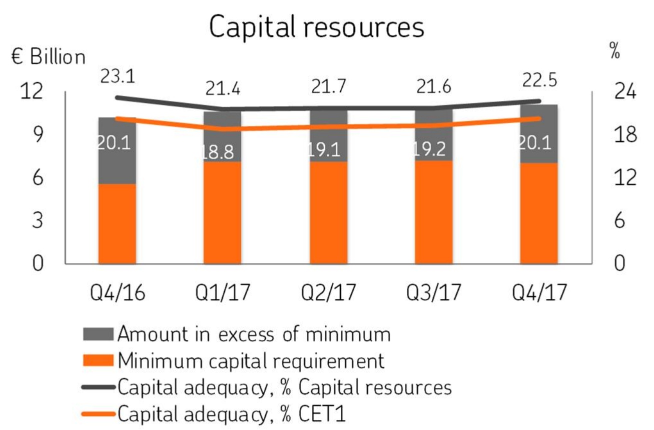
(FiCo), exceeded the minimum amount specified in the Act by EUR 3.6 billion (4.3). The buffer was reduced by the Pillar II capital requirement (P2R) of 1.75% determined by the ECB, based on the supervisor's evaluation, combined with a higher capital requirement caused by growth in banking business as 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 148% (170), with the P2R requirement reducing the ratio by 16 percentage points. The ratio was 162% without the risk weight floors set by the ECB. As a result of the buffer requirements for banking and solvency requirement for insurance companies, the minimum FiCo solvency of 100% reflects the level within which the group can operate without regulatory obligations resulting from buffers below the required level.



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

Capital adequacy for credit institutions

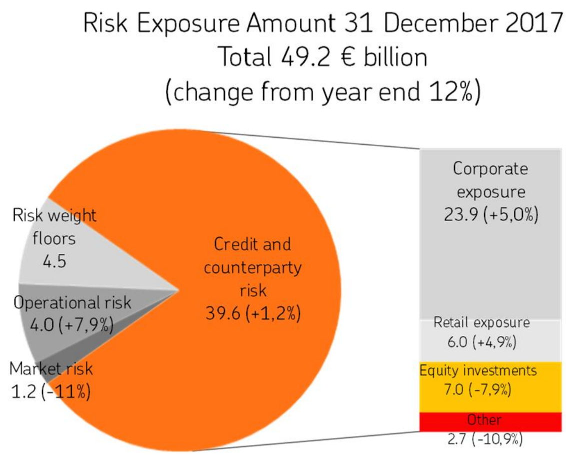
OP Financial Group's CET1 ratio was 20.1% (20.1). The risk weight floors set by the ECB decreased the CET1 ratio by 2.0 percentage points. An increase in CET1 capital exceeded an increase in total risk exposure amount resulting from growth in the loan portfolio. The effect of the calculated adjustments of defined benefit pension plans (IAS 19) on the Group's CET1 ratio was about –1.0 percentage points, or slightly lower than 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%.

The Group's CET1 capital was EUR 9.9 billion (8.9). CET1 capital was increased by Banking performance, Profit Share issues and dividends from the Group's insurance institutions. IAS 19 adjustments deducted from CET1 capital decreased slightly from their level at the end of December 2016. The amount of Profit Shares in CET1 capital was EUR 2.8 billion (2.6). Profit Shares refunded to customers in January 2018, totalling EUR 0.1 billion, are not included in CET1 capital.

On 31 December 2017, the risk exposure amount (REA) totalled EUR 49.2 billion (44.1), or 11.6% higher than on 31 December 2016. The 2016-end figure excludes the minimum risk weight set by the ECB that accounts for 88% of the increase. The minimum risk weight for retail exposures set by the ECB was EUR 4.5 billion, without which total risk was EUR 44.7 billion and the increase 1.4% from the turn of the year. The average credit risk weights of corporate exposures decreased slightly thanks to the improved quality of the loan portfolio and optimisation of calculation methods. The average risk weights of retail exposure rose slightly.



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 December 2017, the Financial Supervisory Authority reiterated its decision not to impose a countercyclical capital buffer requirement on banks. In housing loans, a 15% minimum risk weight became effective from the beginning of 2018 for at least two years. According to the Authority, this risk weight floor is aimed at preparing for a higher systemic risk caused by household indebtedness. 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. Without the ECB's risk weight floor, the minimum risk weight of 15% for home loans set by the Financial Supervisory Authority would reduce the CET1 ratio by an estimated 1.2 percentage points.

The upcoming EU regulation includes a requirement measuring the ratio of the degree of indebtedness, the leverage ratio. The leverage ratio of OP Financial Group's Banking is estimated at about 7.9% (7.4) based on the existing interpretations, calculated using the December-end figures. According to the draft rules, the minimum ratio is 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 Non-life and Life insurance capital base decreased as a result of dividend payments. The solvency position of insurance companies remained good.

	Non-life Insurance*		Life Insurance	
	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016
Capital base, € million **	902	983	1,317	1,455
Solvency capital requirement (SCR), € million**	666	687	674	742
Solvency ratio, % **	135	143	195	196
Solvency ratio, % (excluding transitional provision)	135	127	151	149

* OVY Ltd (formerly OVY Insurance Ltd) is excluded from the Non-life Insurance comparative
** including transitional provisions

ECB 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 was 1.75%. In addition, the ECB has set on OP Financial Group a capital adequacy guidance (P2G) which was 1.0%. Failure to meet this guidance would not affect e.g. profit distribution. The ECB issued a decision that took effect on 1 January 2018, which sets the same capital requirements for 2018 too.

The relevant risk weight floors for retail exposures set by the ECB are 15.4% for mortgage-backed exposures and 32.7% for other private customer exposures. Based on the decision, the risk weight floors will be effective at least until the third quarter of 2018.

Liabilities under the Resolution Act

Under regulation applied to crisis resolution of credit institutions and investment firms, 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 (MREL), under the Resolution Act, at the OP Financial Group level.

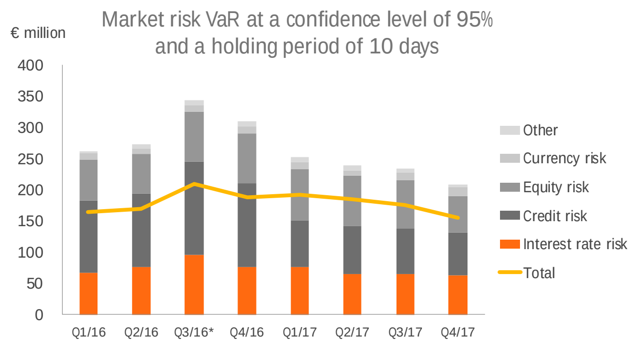
Risk exposure

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 period, OP Financial Group issued long-term bonds worth EUR 4.0 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 156 million (188) on 31 December 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 will, however, 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 48 million. Net liabilities were decreased by healthy investment return and lower assumption for the increase in future employee pensions. Increases performed in the amount of paid-up policies, based on the Finnish Insurance Board's recommendation, and a decision by the Labour Court related to the provisions of the collective agreement in the financial sector increased net liabilities of supplementary pensions by a total of EUR 45 million. A year ago, an increase in net liabilities related to defined benefit pension plans decreased other comprehensive income before tax by EUR 329 million.

In 2017, one of the key tasks of the Compliance function was to ensure compliance with regulatory requirements in OP Financial Group that became effective in 2018.

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 2.9 billion (2.6), performing forborne loans accounting for EUR 1.9 billion (1.7). 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 0.06% (0.09) of the loan and guarantee portfolio.

During the reporting period, the loan and guarantee portfolio increased by EUR 3.5 billion to EUR 84.8 billion (81.3). Private customers accounted for 58.9% (60.2) of the loan and guarantee portfolio. Of the six main categories for private customer exposure, 83.5% (84.2) of the exposures belonged to the top two categories, and 3.6% (3.5) to the lowest two. Corporate exposures (incl. housing corporations) represented 38.5% (37.5) of the loan and guarantee portfolio. Of corporate exposure, the highest borrower grade 1–5.5 exposure represented 55.4% (55.2) and the exposure of the two lowest borrower grades amounted to EUR 554 million (526), 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 11.0 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 18.1% (17.7), Energy representing 9.8% (9.1) and Operating of other real estate representing 9.3% (10.2). A total of 93.5% of exposures within Renting and Operating of Residential Real Estate were those by housing corporations and 13.1% were those guaranteed by general government.

In monitoring Banking exposures, OP Financial Group started to use exposure classes instead of the customer 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 –81 million at the end of December. The measurement method changed in 2017 in such a way that it includes changes in the zero floors for home loans written into the Consumer Protection Act.

Deposits within the scope of deposit guarantee (deposit insurance) and managed by OP Financial Group totalled EUR 34.3 billion (32.6) at the end of the reporting period. The Deposit Guarantee Fund compensates a maximum of EUR 100,000 for each OP Financial Group customer.

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 45 million. A 0.1-percentage point decrease in interest rates used in insurance liability valuation would increase insurance liabilities by EUR 27 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 risk exposure of investments was stable during the reporting period. The VaR, a measure of market risk, was EUR 52 million (57) on 31 December 2017. 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 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 27 million. A 0.1-percentage point decrease in interest rates used in insurance liability valuation would increase insurance liabilities by EUR 32 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 in 2016.

The risk exposure of investments was stable during the financial year. The VaR, a measure of market risk, was EUR 61 million (68) on 31 December 2017. 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 remained stable. The hedge ratio of insurance liability interest rate risk was slightly higher than at the beginning of the year.

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 market value of notes and bonds in the liquidity buffer (VaR with 95% confidence) remained stable during the reporting period. The volume of investments declined slightly and the asset class allocation saw no major changes.

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.

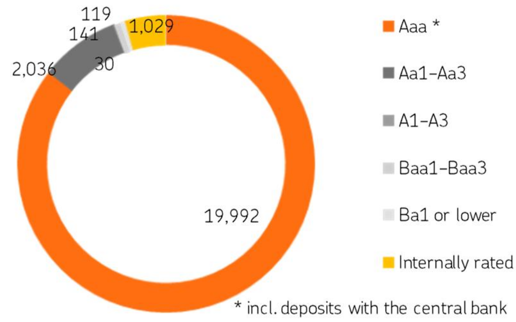
OP Financial Group monitors its liquidity and the adequacy of its liquidity buffer using, for example, the LCR (Liquidity Coverage Ratio). According to the transitional provisions, the LCR must be at least 80% in 2017 and at least 100% from the beginning of 2018. OP Financial Group's LCR was 123% on 31 December 2017.

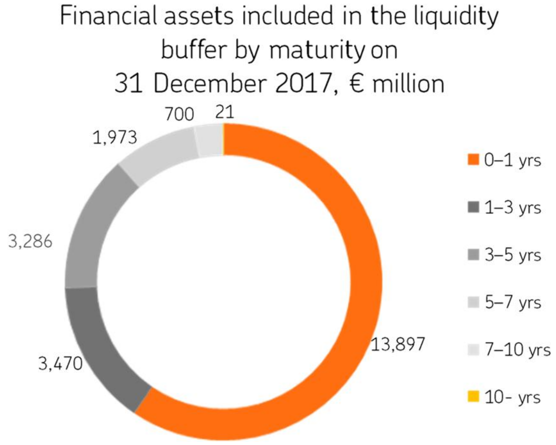
Liquidity buffer

€ billion	31 Dec. 2017	31 Dec. 2016	Change, %
Deposits with central banks	12.8	9.3	37.2
Notes and bonds eligible as collateral	9.1	11.2	-18.7
Corporate loans eligible as collateral		0.1	
Total	**21.9**	**20.6**	**6.2**
Receivables ineligible as collateral	1.5	1.4	5.8
Liquidity buffer at market value	**23.3**	**22.0**	**6.2**
Collateral haircut	-0.7	-0.7	2.5
Liquidity buffer at collateral value	**22.7**	**21.3**	**6.3**

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 December 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.

In July 2017, Standard & Poor's affirmed OP Corporate Bank plc's long-term debt rating at AA- and short-term debt rating at A-1+ while keeping the outlook stable.

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 666 million (574).
- Total income increased by 6.8%. Net interest income, net commissions and fees and net investment income increased year on year. Expenses increased by 5.3% due to development expenditure and higher volumes.
- The loan portfolio increased by 4.6% and the deposit portfolio by 5.8% in the year to December. Year on year, the volume of corporate loans drawn down increased by 1.6% and that of home loans decreased by 2.4%.
- Impairment losses of EUR 47 million (76) accounted for 0.06% (0.09) of the loan and guarantee portfolio.
- The most significant Banking development investments involved the upgrades of finance and payment systems. The solutions of protecting home loans against higher interest rates and mobile payment instruments have received a positive reception among customers.

Banking: key figures and ratios

€ million	Q1–4/2017	Q1–4/2016	Change, %
Net interest income	1,184	1,134	4.4
Net commissions and fees	631	605	4.3
Net investment income	18	-15	
Other income	37	27	37.0
Total income	**1,870**	**1,751**	**6.8**
Personnel costs	354	378	-6.2
Depreciation/amortisation and impairment loss	51	44	15.0
Other operating expenses	565	499	13.1
Total expenses	**970**	**921**	**5.3**
Impairment loss on receivables	47	76	-38.3
OP bonuses to owner-customers	187	180	4.1
Earnings before tax	**666**	**574**	**16.0**
Cost/income ratio, %	**51.9**	**52.6**	**-0.7**
€ million			
Home loans drawn down	6,954	7,125	-2.4
Corporate loans drawn down	7,389	7,275	1.6
No. of brokered residential property and property transactions	13,080	12,664	3.3
€ billion			
Loan portfolio	**31 Dec. 2017**	**31 Dec. 2016**	**Change, %**
Home loans	37.5	36.8	1.8
Corporate loans	19.7	19.0	4.0
Housing corporation and other loans	25.0	22.8	9.7
Total	**82.2**	**78.6**	**4.6**
Guarantee portfolio	2.6	2.8	-6.5
Deposits			
Current and payment transfer	40.1	37.1	8.1
Investment deposits	17.9	17.7	1.0
Total	**58.0**	**54.8**	**5.8**

The loan portfolio increased in the year to December by 4.6% to EUR 82.2 billion.

The deposit portfolio increased in the year to December by 5.8% to EUR 58.0 billion. Investment deposits increased by EUR 179 million, or 1.0%, in the year to December. The volume of deposits in current and payment transaction accounts increased by 8.1% in the year to December.

The volume of homes and real property sold and bought through the OP Kiinteistökeskus real estate agents increased by 3.3% over the previous year. OP Financial Group is developing new digital services for housing too. In the summer of 2017, OP Financial Group took the first step towards this housing ecosystem by launching the OP Home website.

Customers' interest in protecting home loans and housing corporation loans against rising interest rates has increased and, year on year, income from interest rate protection products quintupled to EUR 34 million (7).

As a result of a student loan reform that took effect on 1 August 2017, students can draw down government-guaranteed student loan by up to over 60% more per month than before. A record amount of OP Financial Group's student loans were drawn down between August and September, totalling EUR 98 million. In 2017, student loans drawn down totalled EUR 253 million (184).

During the reporting period, OP Financial Group signed an agreement with the European Investment Bank (EIB) on a risk-sharing guarantee facility for large and mid-sized companies. Following the agreement, OP Financial Group made a 300-million euro financing package available to mid-sized Finnish companies. This risk-sharing guarantee will be allocated to OP Financial Group's eligible mid-cap financing projects. In addition, two other guarantee programmes are underway with the European Investment Fund (EIF): SME InnovFin and SME Initiative. The programmes have provided support for customers' fixed investments for the value of EUR 180 million.

September saw the launch of OP Crowdfunding: a fully digital service connecting businesses in need of capital with investors. In the service, OP intermediates financing. For businesses, the service is a new tool for financing growth while, for investors, it provides a means to support operations in line with their values and local businesses. OP Financial Group arranged two crowdfunding rounds during the reporting period. At its best, crowdfunding will create new growth and jobs in Finland, which is why this type of financing fits well into OP's social role.

In the spring, OP Financial Group introduced the Siirto service in its OP-mobile and Pivo apps, which has increased phone number based payments among customers. The Group introduced Pivo as a payment method into webshops and the gradual implementation of the Mobile key began on OP-mobile.

OP Financial Group received recognition for products and services during the reporting period. OP Financial Group was selected number one in Finland by Global Finance in its awards for the World's Best Banks.

The number of banking customers totalled over 3.7 million at the end of December. Between January and December, OP Financial Group received 143,000 new banking customers, or 9.3% less than a year ago when the second quarter and third quarter of 2016 proved exceptionally good in terms of growth in the number of customers.

Earnings

Earnings before tax were EUR 666 million (574), or 16.0% higher than a year ago. Total income rose by 6.8% and total expenses by 5.3%. As a result of the rise in income, the cost/income ratio improved to 51.9% (52.6). Impairment losses were low, EUR 47 million (76), accounting for 0.06% (0.09) of the loan and guarantee portfolio.

Owing to an increase in the loan portfolio and a decrease in funding costs, net interest income grew by 4.4% to EUR 1,184 million (1,134).

Net commissions and fees increased by EUR 26 million to EUR 631 million (605) as a result of higher fees earned for interest rate protection products and realty commissions.

Net investment income increased by a total of EUR 33 million. Net investment income was increased by positive CVA valuation resulting from interest rate changes and other market movements. The CVA valuation was EUR 21 million as against EUR-12 million a year ago.

Other operating income was increased by a 4-million euro gain on the sale of the acquiring and POS terminal services and a 9-million euro reimbursement for funding costs from the Other Operations segment.

Total expenses increased by 5.3% to EUR 970 million (921). Personnel costs fell by EUR 23 million to EUR 354 million (378). Other operating expenses rose by 13.1%. ICT costs increased by EUR 51 million. Higher ICT costs were explained by investments in development and growth in volumes.

Non-life Insurance

- Earnings before tax amounted to EUR 210 million (244). Net investment income totalled EUR 179 million (97). Earnings before tax at fair value were EUR 119 million (311).
- Insurance premium revenue increased by 0.9% (1.6). Net return on investments at fair value totalled EUR 135 million (85).
- The discount rate for pension liabilities was reduced to 1.5% at the end of September 2017. The reduced discount rate increased claims incurred by EUR 102 million (55).
- The operating combined ratio was 96.1% (87.6) and operating expense ratio 20.3% (18.5). The combined ratio was 97.6% (89.1). The reduced discount rate and unfavourable claims development weakened the combined ratios.
- OP Financial Group will sell all share capital of its Baltic-based subsidiary Seesam Insurance AS (Seesam), including its Latvian and Lithuanian branches, to Vienna Insurance Group (VIG). The parties signed the related contract of sale on 18 December 2017.
- The basic system upgrade of Non-life Insurance has begun. Launches in the reporting period included new motor liability insurance and, within the fully digital OP Nano service family, home insurance and travel insurance.

Non-life Insurance: key figures and ratios

€ million	Q1–4/2017	Q1–4/2016	Change, %
Insurance premium revenue	1,432	1,420	0.9
Claims incurred	970	883	9.8
Other expenses	3	3	4.3
Net insurance income	**459**	**534**	**-14.0**
Net investment income	179	97	84.7
Other net income	-25	-33	-24.9
Total income	**614**	**598**	**2.7**
Personnel costs	116	115	0.8
Depreciation/amortisation and impairment loss	50	41	22.6
Other operating expenses	236	196	20.0
Total expenses	**402**	**352**	**14.1**
OP bonuses to owner-customers	2	2	5.0
Earnings before tax	**210**	**244**	**-13.9**
Combined ratio, %	97.6	89.1	
Operating combined ratio, %	96.1	87.6	
Operating loss ratio, %	75.8	69.1	
Operating expense ratio, %	20.3	18.5	
Operating risk ratio, %	69.3	63.3	
Operating cost ratio, %	26.9	24.3	
Solvency ratio, % *	135	143	
Large claims incurred retained for own account	78	61	
Changes in claims for provisions of previous years (run-off result)	35	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 and corporate insurance was reflected in income generation in both Private and Corporate Customers. Claims development was clearly weaker than the year before.

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% (70) of loss reports of private customers are filed through electronic channels. During the reporting period, the Group introduced a new and fully digital OP Nano service family, with its home insurance launched in May 2017 and travel insurance in September 2017.

During 2017, the Group opened Pohjola Hospitals in Oulu and Kuopio that are included in the Non-life Insurance segment. The construction of a hospital in Turku is progressing as planned.

OP Financial Group will sell all share capital of its Baltic-based subsidiary Seesam Insurance AS (Seesam), including its Latvian and Lithuanian branches, to Vienna Insurance Group (VIG). The parties signed the related contract of sale on 18 December 2017. The divestment should be completed during 2018, provided that it is approved by relevant authorities and that the related conditions are otherwise fulfilled.

Earnings

Earnings before tax amounted to EUR 210 million (244). Net insurance income fell by 14.0% to EUR 459 million, chiefly due to the reduction of the discount rate. Net investment income recognised in the income statement increased by EUR 82 million. Capital gains on investments totalled EUR 132 million (55). Earnings before tax at fair value were EUR 119 million (311).

The operating combined ratio was 96.1% (87.6). The operating ratios include the effects of changes in the discount rate but exclude amortisation on intangible assets arising from the corporate acquisitions.

Insurance premium revenue

€ million	Q1–4/2017	Q1–4/2016	Change, %
Private Customers	786	771	1.9
Corporate Customers	584	591	-1.3
Baltics	62	58	8.2
Total	**1,432**	**1,420**	**0.9**

Claims incurred, excluding the reduction in the discount rate, increased by 4.8%. Claims under property and business liability insurance incurred arising from new large claims were higher than a year ago. The reported number of new large claims under property and business liability insurance (in excess of EUR 0.3 million) amounted to 85 (78) in January–December, with their claims incurred retained for own account totalling EUR 78 million (61). Provisions for unpaid claims under statutory pension changed year on year by EUR –8 million (10) in January–December. The discount rate was reduced to 1.5% at the end of September 2017. On 31 December 2016, the average discount rate was 1.97%. The reduced discount rate increased claims incurred by EUR 102 million (55), weakening the operating combined ratio by 7.1 percentage points (3.9).

Changes in claims for previous years, excluding the effect of the change on the discount rate, improved the balance on technical account by EUR 35 million (60). The operating loss ratio was 75.8% (69.1). The operating risk ratio excluding indirect loss adjustment expenses was 69.3% (63.3).

Expenses grew by 14.1%, being EUR 50 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 20.3% (18.5). The operating cost ratio (including indirect loss adjustment expenses) was 26.9% (24.3).

Operating balance on technical account and combined ratio (CR)

	Q1–4/2017		Q1–4/2016	
	Balance, € million	CR, %	Balance, € million	CR, %
Private Customers	93	88.1	130	83.1
Corporate Customers	-41	107.0	41	93.1
Baltics	3	95.3	5	91.1
Total	**55**	**96.1**	**176**	**87.6**

Reduction of the discount rate weakened the balance on technical account both for Private Customers and particularly for Corporate Customers. Excluding the discount rate change deviating from the plan, the balance for Corporate Customers was EUR –4 million. The unfavourable claims eroded the balance for major customers.

Investment

Net return on Non-life Insurance investments at fair value totalled EUR 135 million (85). 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 Dec. 2017	31 Dec. 2016
Bonds and bond funds	68.0	74.4
Alternative investments	4.7	3.2
Equities	8.5	8.1
Private equity	1.9	2.9
Real property	8.3	9.8
Money markets	8.5	1.9
Total	**100**	**100**

In the investment portfolio by asset class, illiquid low-risk mortgage-backed funds were transferred from bonds and bond funds under alternative investments during the reporting period. The comparatives in the table have been restated.

Non-life Insurance's investment portfolio totalled EUR 3,903 million (3,876) on 31 December 2017. Investments within the investment-grade category accounted for 95% (91), and 66% (62) of the investments were rated at least A–. On 31 December 2017, the portfolio's modified duration was 5.1 (5.4).

The running yield for direct bond investments averaged 1.8% (1.7) on 31 December 2017.

Wealth Management

- Earnings before tax amounted to EUR 247 million (226). Earnings before tax at fair value were EUR 163 million (262).
- Net commissions and fees increased by 16.6% year on year. In particular, asset management performance-based fees, net assets inflow and the gross amount of assets under management increased year on year.
- Net investment income from Life Insurance decreased by EUR 41 million, or by 36.9%. Supplementary interest rate provisions decreased net investment income by EUR 67 million over the previous year. Net return on investments at fair value totalled EUR 96 million (78).
- The gross amount of assets under management increased in the year to December by 4.6% to EUR 78.0 billion.
- The reporting period involved preparing for regulatory changes and the Group adopted operating models based on MiFID II at the turn of the year. In addition, the Group continued to further develop electronic sales and services during the reporting period.

Wealth Management: key figures and ratios

€ million	Q1–4/2017	Q1–4/2016	Change, %
Net commissions and fees			
Funds and asset management*	276	225	22.7
Life Insurance*	174	169	2.7
Expenses*	64	64	0.7
Total net commissions and fees	**385**	**330**	**16.6**
Life Insurance's net risk results	27	24	10.0
Net investment income from Life Insurance	70	111	-36.9
Other income	25	17	45.1
Total income	**507**	**483**	**5.0**
Personnel costs	75	89	-15.4
Depreciation/amortisation and impairment loss	28	25	10.3
Other operating expenses	130	119	9.0
Total expenses	**233**	**233**	**-0.1**
OP bonuses to owner-customers	28	25	14.8
Earnings before tax	**247**	**226**	**9.2**
€ billion	**31 Dec. 2017**	**31 Dec. 2016**	**Change, %**
Assets under management (gross)			
Mutual funds	24.6	23.5	4.7
Institutional clients	24.2	24.6	-1.7
Private Banking	19.1	17.3	10.5
Unit-linked insurance savings	10.2	9.2	10.3
Total assets under management (gross)	**78.0**	**74.5**	**4.6**
€ million	**Q1–4/2017**	**Q1–4/2016**	**Change, %**
Net inflows			
Investor and saver customers	711	327	
Private Banking clients	563	437	28.8
Institutional clients	623	434	43.5
Total net inflows	**1,897**	**1,198**	**58.3**

* Eliminations of the segment's internal items have been restated retrospectively during the fourth quarter.

The improved world economic outlook reflected favourably in the capital market. As a result, demand for Wealth Management products continued to grow and the value of assets under management increased. Total net inflows were EUR 1,897 million (1,198) and the gross amount of assets under management increased in the year to December by 4.6% to EUR 78.0 billion (74.5). Assets under management included about EUR 13 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 its mutual funds. These benefits have aroused interest among customers, considering that the number of OP Mutual Fund unitholders increased by almost 62,000 in gross terms during the reporting period. The aggregate number of investor and saver customers grew by around 17,000 in the reporting period, totalling 783,000 on 31 December 2017.

The Morningstar rating for OP Mutual Funds was 2.9 (3.1).

During the reporting period, the Group continued to further develop electronic sales and services for Wealth Management. Electronic agreements already account for 51% (38) of new Wealth Management agreements. A total of 80% (74) of mutual fund orders were made electronically. Moreover, the Group promoted development projects during the reporting period related to regulatory changes, such as MiFID II and T2S. Such investments create the capacity to develop business on an ongoing basis in a new regulatory environment.

Earnings

Earnings before tax increased to EUR 247 million (226). This earnings increase was especially supported by favourable development in asset management commission income. Earnings recorded by associated companies too were higher than a year ago. Capital gains increased by EUR 11 million to EUR 113 million year on year. Earnings before tax at fair value were EUR 163 million (262).

Net commissions and fees increased by 16.6% year on year, amounting to EUR 385 million (330). Net commissions and fees accounted for 0.50% of the gross amount of the assets under management.

Net return on Life Insurance investments at fair value totalled EUR 96 million (78). 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 were almost at the previous year’s level as ICT costs included in other operating expenses increased by EUR 11 million (development costs accounted for EUR 5 million of the increase) and depreciation/amortisation by EUR 3 million and as personnel costs decreased by EUR 14 million. Expenses accounted for 0.29% 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 51 million (–16) in net terms. A year ago, net change in short-term supplementary interest rate provisions reduced insurance liability. Accrued supplementary interest rate provisions related to insurance liabilities (excluding the separated balance sheets) totalled EUR 405 million (432) on 31 December 2017. Of the supplementary interest rate provisions, EUR 87 million (36) were short-term ones.

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 3,830 million (4,100). Investments within the investment-grade category accounted for 95% (93) of the fixed-income portfolio. On 31 December 2017, the fixed-income portfolio’s modified duration was 4.4 (4.9). The running yield for direct bond investments (excluding the separated balance sheets) averaged 1.7% (1.6) on 31 December 2017.

Investment portfolio by asset class

%	31 Dec. 2017	31 Dec. 2016
Bonds and bond funds	69.5	76.2
Alternative investments	9.3	7.1
Equities and equity funds	6.1	6.3
Real property	6.9	7.2
Money markets	8.2	3.2
Total	**100**	**100**

Return on investments on the separated Life Insurance balance sheets

In connection with the portfolios’ transfer, separated balance sheets were created out of the portfolios transferred from Suomi Mutual in 2015 and 2016 with a profit distribution policy differing from other life insurance operations.

On 31 December 2017, investment assets in the individual life insurance portfolio in the separated balance sheet, excluding interest rate derivatives hedging insurance liability, amounted to EUR 891 million (1,066). Net return on investments at fair value was EUR 19 million (17). 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 Dec. 2017	31 Dec. 2016
Bonds and bond funds	78.5	81.1
Alternative investments	9.4	7.7
Equities and equity funds	1.0	2.9
Real property	6.6	6.7
Money markets	4.4	1.6
Total	**100**	**100**

On 31 December 2017, investment assets in the individual pension insurance portfolio in the separated balance sheet, excluding interest rate derivatives hedging insurance liability, amounted to EUR 2,573 million (3,049). Net return on investments at fair value was EUR 86 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 Dec. 2017	31 Dec. 2016
Bonds and bond funds	75.8	71.4
Alternative investments	12.3	1.4
Equities and equity funds	0.7	2.4
Real property	7.4	6.1
Money markets	3.8	18.7
Total	**100**	**100**

Other Operations

Other Operations: key figure and ratios

€ million	Q1–4/2017	Q1–4/2016	Change, %
Net interest income	-75	-61	23.6
Net commissions and fees	-63	-59	6.4
Net investment income	230	199	15.7
Other operating income	632	572	10.4
Share of associates' profit/loss	7	-6	
Total income	**732**	**646**	**13.3**
Personnel costs	213	180	18.0
Depreciation/amortisation and impairment loss	118	50	
Other operating expenses	446	321	38.9
Total expenses	**777**	**552**	**40.9**
Impairment loss on receivables	0	0	
Earnings before tax	**-45**	**95**	

Earnings

Earnings before tax amounted to EUR –45 million (95). The earnings were weakened by higher expenses due to increased development expenditure and higher impairment losses on property in own use. Total income increased by 13.3% to EUR 732 million.

Net interest income was EUR –75 million (–61). Net investment income increased by 15.7% to EUR 230 million. Derivatives operations decreased net interest income and increased net income from securities trading included in net investment income. According to OP Financial Group's accounting policy, income from derivative instruments is split between net interest income and net income from securities trading. How this income is broken down between the two income statement items may vary considerably depending on the derivative instruments used in position management at a given time. In addition, an increase of EUR 5 million in net income from available-for-sale assets added to net investment income. Net commissions and fees decreased by EUR 4 million to EUR –63 million as commission income decreased.

Other operating income rose by EUR 60 million to EUR 632 million due to higher intra-Group charges. A total of EUR 22 million in non-recurring VAT refunds for prior years, interest included were recognised under the Other Operations segment. In the second quarter, OP Financial Group sold its portfolio of agreements and POS terminals of merchant acquiring and POS terminal services to Nets. Non-recurring gain of EUR 20 million on the transaction was recorded in the Other Operations segment. OP Financial Group recognised extra amortisation of EUR 3 million and other expenses of EUR 3 million related to the transaction. A year ago, Other Operations recognised EUR 76 million in non-recurring gain under other operating income as a result of the acquisition of Visa Europe Ltd by Visa Inc.

Investments in the development of services and impairment losses increased significantly the Other Operations segments' expenses. Furthermore, the centralisation of OP Cooperative banks' supporting services has affected the increase in expenses. Total expenses increased by EUR 225 million to EUR 777 million.

Personnel costs increased by 18.0% to EUR 213 million. Other operating expenses increased by 38.9% to EUR 446 million. Depreciation/amortisation and impairment loss on PPE and intangible assets increased by EUR 68 million to EUR 118 million. Impairment losses recognised on property in own use were EUR 37 million higher than a year ago.

In December 2017, the average margin of OP Financial Group's senior wholesale funding, TLTRO-II funding and covered bonds was 19 basis points (31). Use of the TLTRO-II funding, together with funding arriving at maturity at higher cost, lower the cost of wholesale funding. Covered bonds are reported as part of the Banking segment.

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 167 member cooperative banks (173) and OP Cooperative Consolidated.

OVY Insurance Ltd closed down its insurance business and voluntarily given up its insurance company licence. At this point the company's business name was changed to OVY Ltd. The company became fully owned by OP Cooperative on 21 December 2017.

The number of OP cooperative banks decreased during the reporting period due to mergers.

Pielisen Osuuspankki merged into Pohjois-Karjalan Osuuspankki. The merger was registered on 31 March 2017.

Karjalan Osuuspankki merged into Mynämäen-Nousiaisten Osuuspankki. The merger was registered on 30 April 2017.

Vetelin Osuuspankki merged into Kaustisen Osuuspankki. Consequently, the business name changed to Perhonjokilaakson Osuuspankki. The merger was registered on 31 May 2017.

Vetelin Ylipään Osuuspankki merged into Halsuan Osuuspankki. Consequently, the business name changed to Halsua-Ylipään Osuuspankki. The merger was registered on 30 June 2017.

Oriveden Osuuspankki merged into Mäntän Seudun Osuuspankki. Consequently, the business name changed to Pohjois-Hämeen Osuuspankki. The merger was registered on 30 June 2017.

Kuhmoisten Osuuspankki merged into Järvi-Hämeen Osuuspankki. The merger was registered on 31 July 2017.

Pohjois-Savon Osuuspankki, Leppävirran Osuuspankki and Suonenjoen Osuuspankki accepted a merger plan on 10 August 2017, according to which Leppävirran Osuuspankki and Suonenjoen Osuuspankki will merge into Pohjois-Savon Osuuspankki. The planned date for registration of the merger is 28 February 2018.

Paattisten Osuuspankki, Auran Osuuspankki, Marttilan Osuuspankki, Pöytyän Osuuspankki and Tarvasjoen Osuuspankki accepted a merger plan on 10 August 2017, according to which Auran Osuuspankki, Marttilan Osuuspankki, Pöytyän Osuuspankki and Tarvasjoen Osuuspankki will merge into Paattisten Osuuspankki. Consequently, the business name of Paattisten Osuuspankki will change to Auranmaan Osuuspankki. The planned date for the registration of the merger is 31 March 2018.

Suur-Savon Osuuspankki, Haukivuoren Osuuspankki, Heinäveden Osuuspankki, Hirvensalmen Osuuspankki and Sulkavan Osuuspankki accepted a merger plan on 20 September 2017, according to which Haukivuoren Osuuspankki, Heinäveden Osuuspankki, Hirvensalmen Osuuspankki and Sulkavan Osuuspankki will merge into Suur-Savon Osuuspankki. The planned date for the registration of the merger is 31 March 2018.

OP Insurance Ltd will sell all share capital of its Baltic-based subsidiary Seesam Insurance AS (Seesam), including its Latvian and Lithuanian branches, to Vienna Insurance Group (VIG). The parties signed the related contract of sale on 18 December 2017. The divestment should be completed during 2018, provided that it is approved by relevant authorities and that the related conditions are otherwise fulfilled.

Personnel and remuneration

On 31 December 2017, OP Financial Group had 12,269 employees (12,227). The number of employees averaged 12,212 (12,271). The number of OP cooperative banks' employees decreased during the year.

During the reporting period, 357 OP Financial Group employees (388) retired, at an average age of 62.1 years (61.7).

OP Financial Group is building an operating model to update employee competencies. The model anticipates the disruption whereby digitisation and automation will destroy some of the jobs currently existing in the financial sector, while also creating new jobs which require new competencies. The operating model aims to encourage and steer employees to keep their own labour market value up to date. OP seeks to provide support, in terms of education, training and in finding a new type of job, for those employees whose job will either cease to exist or drastically change in the future. The first actions within this model will be started in 2018, and some have already been piloted.

President and Executive Chairman Reijo Karhinen retired on 31 January 2018, based on his executive contract. He served as OP Financial Group's President and Group Executive Chairman from 2007. On 20 September 2017, the Supervisory Board of OP Financial Group's central cooperative appointed Timo Ritakallio, LL.M, MBA and D.Sc. (Tech.), OP Financial Group's new President and Group Executive Chairman. He will join OP Financial Group as President and CEO of Ilmarinen Mutual Pension Insurance Company. He will take up his duties at OP Financial Group on 1 March 2018. Tony Vepsäläinen will act as the Chair of the Executive Board and the President and Group Executive Chairman until Ritakallio takes up his duties as President and Group Executive Chairman.

Jouko Pölönen, member of the Executive Board, will resign from membership of the Executive Board of OP Financial Group's central cooperative on 30 April 2018 and will take up his duties as President and CEO of Ilmarinen Mutual Pension Insurance Company. Jouko Pölönen has been employed by OP Financial Group since 2001 and headed the Banking segment since 2014.

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.

Along with the presiding officers, the Supervisory Board's five committees have a key role in Supervisory Board work. The Supervisory Board Chair chairs the Supervisory Board Working Committee, Remuneration Committee and the central cooperative consolidated Executive Board's Nomination Committee. The Supervisory Board Audit Committee is chaired by Professor Jarna Heinonen and Risk Management Committee by engineer Ola Eklund.

OP Cooperative's Annual Cooperative Meeting of 21 March 2017 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

The central 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.

In January–December, OP Financial Group's development expenditure totalled EUR 454 million (315). These include licence fees, purchased services, other external costs related to projects and in-house work. The capitalised development expenditure totalled EUR 234 million (180).

More detailed information on the Group's investments can be found in this Financial Statements Bulletin under each business segment's section and under "OP Financial Group's strategy and numerical targets".

Outlook for 2018

Last year, the euro-area economy reached its best growth rate recorded during the current decade. Nevertheless, inflation remained moderate and the European Central Bank's monetary policy accommodative. Economic growth in Finland continued swiftly and on a broad basis. Fixed investments increased strongly and business profitability improved. Consumer confidence remained high and growth in employment sped up. Favourable economic development is expected to continue in the near future, both in Finland and the rest of the euro area. The monetary policy is expected to tighten in 2018 but short-term rates are anticipated to rise moderately. The largest risks in the near future are associated with greater uncertainty in financial markets and with the political environment. A longer-term risk is that economic growth will remain modest if Finland is not able to restructure its economy to a sufficient extent when the population is ageing and digitisation is proceeding.

The financial sector has adjusted very well to the new type of low interest rate environment. While low interest rates have retarded growth in banks' net interest income and eroded insurance institutions' income from fixed income investments, they also have improved customers' repayment capacity. 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, operating environment digitisation and more complex regulation. 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 necessity of reinvention with a long-term approach as well as the role of the management of profitability and capital adequacy.

OP Financial Group's earnings before tax for 2018 are expected to be at about the same level as or lower than in 2017. The most significant uncertainties in respect of the financial performance relate to changes in the interest rate and investment environment, market growth rate, changes in the competitive situation and impairment losses. IFRS 9 adopted at the beginning of 2018 is expected to increase earnings volatility in the short term.

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

Consolidated income statement

EUR million	Note	Q4/ 2017	Q4/ 2016	Q1–4/ 2017	Q1–4/ 2016
Net interest income	3	279	260	1,094	1,058
Net insurance income	4	137	140	478	558
Net commissions and fees	5	254	222	928	859
Net investment income	6	90	108	495	390
Other operating income		11	18	94	122
Share of associates' profits		14	-4	27	1
Total income		**784**	**743**	**3,115**	**2,989**
Personnel costs		193	199	758	762
Depreciation/amortisation		88	44	246	160
Other expenses		223	188	769	646
Total expenses		**504**	**431**	**1,773**	**1,567**
Impairments of receivables	7	20	41	48	77
OP bonuses to owner-customers		56	53	217	206
Earnings before tax		**204**	**218**	**1,077**	**1,138**
Income tax expense		51	41	223	223
Profit for the period		**153**	**177**	**854**	**915**
Attributable to:					
Owners		150	177	849	913
Non-controlling interests		3	0	6	2
Profit for the period		**153**	**177**	**854**	**915**
Statement of comprehensive income					
Profit for the period		**153**	**177**	**854**	**915**
Items that will not be reclassified to profit or loss					
Gains(/losses) arising from remeasurement of defined benefit plans		20	-27	48	-329
Change in revaluation reserve		17		17	
Items that may be reclassified to profit or loss					
Change in fair value reserve					
Measurement at fair value		-86	-54	-146	176
Cash flow hedge		-4	-59	-32	-35
Translation differences		0	0	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		-4	5	-10	66
Change in revaluation reserve		-4		-4	0
Items that may be reclassified to profit or loss					
Measurement at fair value		17	11	29	-35
Cash flow hedge		1	12	6	7
Total comprehensive income for the period		**110**	**66**	**764**	**764**
Attributable to:					
Owners		122	63	759	726
Non-controlling interests		-12	3	5	38
Total comprehensive income for the period		**110**	**66**	**764**	**764**

Balance sheet

EUR million	Note	31 December 2017	31 December 2016
Cash and cash equivalents		12,937	9,471
Receivables from credit institutions		504	337
Financial assets held for trading		590	692
Derivative contracts	10	3,412	4,732
Receivables from customers	12	82,240	78,604
Investment assets		22,506	25,105
Assets covering unit-linked contracts		10,126	9,168
Investments in associates		228	91
Intangible assets		1,555	1,474
Property, plant and equipment (PPE)		798	871
Other assets		2,131	2,992
Tax assets		214	210
Total assets		**137,242**	**133,747**
Liabilities to credit institutions		5,157	4,669
Derivative contracts		3,026	4,044
Liabilities to customers		65,549	60,077
Insurance liabilities	13	9,950	10,586
Liabilities from unit-linked insurance and investment contracts	13	10,158	9,205
Debt securities issued to the public	14	26,841	28,287
Provisions and other liabilities		3,150	4,226
Tax liabilities		890	894
Supplementary cooperative share		0	77
Subordinated liabilities		1,400	1,445
Total liabilities		**126,122**	**123,509**
Equity capital			
Share of OP Financial Group's owners			
Cooperative capital			
Cooperative share		191	182
Profit shares		2,906	2,719
Fair value reserve	15	176	318
Other reserves		2,173	2,108
Retained earnings		5,573	4,808
Non-controlling interests		101	102
Total equity capital		**11,121**	**10,237**
Total liabilities and equity capital		**137,242**	**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		77		650	726	38	764
Profit for the period				913	913	2	915
Other comprehensive income		77		-263	-187	36	-151
Profit distribution				-71	-71		-71
Increases in membership, supplementary and profit shares	245*			-16*			
Transfer of reserves			23	-23			
Other				-2	-2	-6	-8
Balance at 31 December 2016	**2,901**	**318**	**2,108**	**4,808**	**10,135**	**102**	**10,237**

* Equity capital internal eliminations have been restated, as a result of which the amount of supplementary cooperative shares under Cooperative capital increased by EUR 16 million and retained earnings decreased by the same amount.

	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	**2,901**	**318**	**2,108**	**4,808**	**10,135**	**102**	**10,237**
Total comprehensive income for the period		-142	14	887	759	5	764
Profit for the period				849	849	6	854
Other comprehensive income		-142	14	38	-90	0	-90
Profit distribution				-89	-89		-89
Increases in membership, supplementary and profit shares	196				196		196
Associated company transfers				19	19		19
Transfer of reserves			51	-51			
Other				-1	-1	-6	-7
Balance at 31 December 2017	**3,097**	**176**	**2,173**	**5,573**	**11,019**	**101**	**11,121**

Cash flow statement

EUR million	Q1–4/ 2017	Q1–4/ 2016
Cash flow from operating activities		
Profit for the period	854	915
Adjustments to profit for the period	289	577
Increase (-) or decrease (+) in operating assets	**-1,520**	**-8,573**
Receivables from credit institutions	40	99
Financial assets held for trading	-185	-28
Derivative contracts	-41	32
Receivables from customers	-3,680	-3,531
Assets covering unit-linked contracts	-594	-150
Investment assets	2,059	-4,166
Other assets	881	-827
Increase (+) or decrease (-) in operating liabilities	**5,134**	**7,500**
Liabilities to credit institutions	605	3,025
Financial liabilities at fair value through profit or loss	0	0
Derivative contracts	-2	-36
Liabilities to customers	5,473	1,857
Insurance liabilities	29	3,061
Liabilities from unit-linked insurance and investments contracts	124	-185
Provisions and other liabilities	-1,095	-222
Income tax paid	-205	-248
Dividends received	123	91
A. Net cash from operating activities	**4,674**	**263**
Cash flow from investing activities		
Increases in held-to-maturity financial assets		-3
Decreases in held-to-maturity financial assets	52	19
Acquisition of subsidiaries and associates, net of cash acquired	-96	-3
Disposal of subsidiaries and associates, net of cash disposed	10	
Purchase of PPE and intangible assets	-352	-308
Proceeds from sale of PPE and intangible assets	51	50
B. Net cash used in investing activities	**-335**	**-246**
Cash flow from financing activities		
Increases in subordinated liabilities		0
Decreases in subordinated liabilities		-144
Increases in debt securities issued to the public	24,051	26,164
Decreases in debt securities issued to the public	-24,747	-25,303
Increases in cooperative and share capital	838	1,317
Decreases in cooperative and share capital	-718	-1,118
Dividends paid and interest on cooperative capital	-89	-71
C. Net cash used in financing activities	**-666**	**845**
Net increase/decrease in cash and cash equivalents (A+B+C)	**3,674**	**863**
Cash and cash equivalents at period-start	**9,571**	**8,708**
Cash and cash equivalents at period-end	**13,245**	**9,571**
Interest received	**2,066**	**2,362**
Interest paid	**-992**	**-1,325**
Cash and cash equivalents		
Liquid assets	12,937	9,471
Receivables from credit institutions payable on demand	307	100
Total	**13,245**	**9,571**

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 in life insurance 130%. 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
Q1–4 earnings 2017, EUR million						
Net interest income	1,184	-15	1	-75	-1	1,094
of which internal net income before tax	-17	-12	1	28		
Net insurance income		459	27		-8	478
Net commissions and fees	631	-25	385	-63	-1	928
Net investment income	18	179	70	230	-3	495
Other operating income	36	12	8	632	-595	94
Share of associates' profits	1	3	15	7	0	27
Total income	**1,870**	**614**	**507**	**732**	**-608**	**3,115**
Personnel costs	354	116	75	213	-1	758
Depreciation/amortisation and impairment losses	51	50	28	118		246
Other operating expenses	565	236	130	446	-608	769
Total expenses	**970**	**402**	**233**	**777**	**-609**	**1,773**
Impairments of receivables	47	0	0	0	1	48
OP bonuses to owner-customers	187	2	28		0	217
Earnings before tax	**666**	**210**	**247**	**-45**	**0**	**1,077**

	Banking	Non-life Insurance	Wealth Management	Other operations	Eliminations	Group total
Q1–4 earnings 2016, EUR million						
Net interest income	1,134	-20	6	-61	-1	1,058
of which internal net income before tax	-18	-17	5	30		
Net insurance income		534	24		0	558
Net commissions and fees	605	-23	330	-59	5	859
Net investment income	-15	97	111	199	-3	390
Other operating income	25	8	8	572	-491	122
Share of associates' profits	2	1	3	-6	0	1
Total income	**1,751**	**598**	**483**	**646**	**-489**	**2,989**
Personnel costs	378	115	89	180	0	762
Depreciation/amortisation and impairment losses	44	41	25	50	0	160
Other operating expenses	499	196	119	321	-490	646
Total expenses	**921**	**352**	**233**	**552**	**-490**	**1,567**
Impairments of receivables	76	0		0	1	77
OP bonuses to owner-customers	180	2	25		0	206
Earnings before tax	**574**	**244**	**226**	**95**	**0**	**1,138**

Balance sheet 31 December 2017, EUR million	Banking	Non-life Insurance	Wealth Management	Other operations	Eliminations	Group total
Cash and cash equivalents	104	318	438	12,807	-729	12,937
Receivables from credit institutions	9,727	6	84	9,615	-18,928	504
Financial assets held for trading	-4			596	-3	590
Derivative contracts	335	10	83	3,320	-336	3,412
Receivables from customers	83,070	0	1	-19	-812	82,240
Investment assets	531	3,532	7,088	16,740	-5,384	22,506
Assets covering unit-linked contracts			10,126			10,126
Investments in associates	9	10	64	30	114	228
Intangible assets	64	677	364	453	-3	1,555
Property, plant and equipment (PPE)	409	42	26	333	-12	798
Other assets	305	727	296	1,294	-490	2,131
Tax assets	112	18	29	43	11	214
Total assets	**94,661**	**5,341**	**18,599**	**45,213**	**-26,572**	**137,242**
Liabilities to credit institutions	9,460			14,204	-18,506	5,157
Derivative contracts	223	15	31	3,097	-339	3,026
Liabilities to customers	59,228		0	7,839	-1,518	65,549
Insurance liabilities		3,143	6,807		0	9,950
Liabilities from unit-linked insurance and investments contracts			10,158			10,158
Debt securities issued to the public	11,974			15,696	-829	26,841
Provisions and other liabilities	1,568	548	275	1,248	-489	3,150
Tax liabilities	376	76	69	369	0	890
Supplementary cooperative share	19				-19	0
Subordinated liabilities	82	135	245	1,391	-452	1,400
Total liabilities	**82,929**	**3,917**	**17,585**	**43,844**	**-22,153**	**126,122**
Equity capital						**11,121**

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**	**46,054**	**-23,719**	**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	2,095	-562	4,226
Tax liabilities	355	95	87	338	19	894
Supplementary cooperative share	93				-17	77
Subordinated liabilities	82	135	245	1,436	-452	1,445
Total liabilities	**77,334**	**3,809**	**17,424**	**44,303**	**-19,360**	**123,509**
Equity capital						**10,237**

Notes

Note 1 Accounting policies

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

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

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 the 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 Dec. 2016	Change	New 1 Jan.–31 Dec. 2016
Income	1,924	-173	1,751
Expenses	1,072	-151	921
Earnings before tax	596	-22	574

Balance sheet	As presented previously 31 Dec. 2016	Change	New 31 Dec. 2016
Assets	93,312	-5,723	87,588
Liabilities	77,361	-27	77,334

Non-life Insurance

Consolidated income statement	As presented previously 1 Jan.–31 Dec. 2016	Change	New 1 Jan.–31 Dec. 2016
Income	557	40	598
Expenses	326	26	352
Earnings before tax	230	14	244

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 Dec. 2016	Change	New 1 Jan.–31 Dec. 2016
Income	365	118	483
Expenses	109	124	233
Earnings before tax	232	-6	226

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 Dec. 2016	Change	New 1 Jan.–31 Dec. 2016
Income	631	15	646
Expenses	551	0	552
Earnings before tax	80	14	95

Balance sheet	As presented previously 31 Dec. 2016	Change	New 31 Dec. 2016
Assets	46,333	-279	46,054
Liabilities	45,440	-1,137	44,303

Eliminations

Consolidated income statement	As presented previously 1 Jan.–31 Dec. 2016	Change	New 1 Jan.–31 Dec. 2016
Income	-489	0	-489
Expenses	-490	0	-490
Earnings before tax	0	0	0

Balance sheet	As presented previously 31 Dec. 2016	Change	New 31 Dec. 2016
Assets	-29,712	5,993	-23,719
Liabilities	-20,490	1,130	-19,360

New standards and interpretations

IFRS 9 Financial Instruments

On 1 January 2018, OP Financial Group adopted IFRS 9 Financial Instruments, issued by the IASB in July 2014 and approved by the EU in November 2016. The adoption resulted in changes to the classification and measurement of financial instruments and impairments. Likewise, it has a significant effect on other standards dealing with financial instruments, such as IFRS 7 Financial Instruments, Disclosures. OP Financial Group continues to apply hedge accounting under IAS 39 after adoption of IFRS 9.

The IFRS 9 transition will cause changes to the accounting policies as well as adjustments to the amounts of receivables previously recognised in the balance sheet. Adjustments made to carrying amounts are recognised in equity capital in the opening balance sheet on the adoption date. OP Financial Group will not restate the comparative figures for prior years in its financial statements for 2018. Changes in the notes to the financial statements under IFRS 7 arising from the application of IFRS 9 will only be presented for the financial year 2018. Notes to the financial statements for the comparative period will remain unchanged.

Based on the current assessment, the adoption of IFRS 9 on 1 January 2018 will decrease opening balance of OP Financial Group's equity by EUR 59 million before tax, consisting of the following components:

- The pre-tax effect of the change in the impairment calculation method is EUR 53 million negative.
- The difference between the fair value and carrying amount resulting from the reclassification of financial assets is EUR 6 million negative.

The effects presented in this report resulting from the adoption of IFRS 9 may still change because OP Financial Group will continue refining and finalising ECL models and further developing related IT systems and strengthening the control environment.

New accounting policies, assessment methods and items subject to management's judgment may change until OP Financial Group publishes its first financial statements which include the opening balance sheet of 1 January 2018.

Classification and measurement

The classification and measurement of financial assets under IFRS 9 is based on business models and contractual cash flow characteristics.

OP Financial Group has reclassified financial assets in accordance with IFRS 9 based on how the loans and various notes and bonds are managed within the business models and on the contractual cash flow characteristics of notes and bonds.

The majority of OP Financial Group's loans and notes and bonds will continue to be recognised at amortised cost or fair value through other comprehensive income.

The most significant classification changes applied to investments by OP Financial Group's Non-life and Life Insurance. Equity instruments and mutual fund investments were mainly reclassified as those recognised at fair value through profit or loss. OP Financial Group will apply a temporary overlay approach to Non-life and Life Insurance investments that restores the earnings effect of such investments in accordance with IAS 39.

IFRS 9 did not change the classification of OP Financial Group's financial liabilities.

Impairment

The expected credit losses (ECL) are calculated on all balance sheet items measured at amortised cost and those recognised at fair value through other comprehensive income (FVOCI) as well as on off-balance-sheet loan commitments and guarantee agreements.

The ECL is calculated using modelled risk parameters and using the formula probability of default (PD) x loss given default (LGD) x exposure at default (EAD) for the majority of the portfolios. Large corporate exposures make an exception. They are still monitored on an individual basis. The ECL is calculated for each contract for 12 months or lifetime, depending on whether the instrument's credit risk on the reporting day has increased significantly since initial recognition.

Both qualitative and quantitative criteria are used to assess whether the credit risk has increased significantly. Qualitative factors consist of various credit risk indicators (e.g. forbearance measures) to be mainly taken into account in credit rating models. Credit ratings will affect lifetime PDs which are used for quantitative assessment of a significant increase in credit risk. In addition, credit risk has increased significantly if payment is over 30 days past due.

Contracts are classified into three stages:

- Stage 1: contracts whose credit risk has not increased significantly since initial recognition and for which a 12-month ECL is calculated.
- Stage 2: contracts whose credit risk has increased significantly since initial recognition and for which a lifetime ECL is calculated.
- Stage 3: includes defaulted contracts for which a lifetime ECL is also calculated.

Definition of default is consistent with the definition that is used for regulatory purposes.

OP Financial Group incorporates forward-looking information and macroeconomic scenarios into the calculation model. The macroeconomic scenarios are the same that OP Financial Group uses otherwise in its financial annual planning. Three scenarios are used: baseline, upside and downside.

OP Financial Group will mainly shift from the calculation of impairment on an individual basis to that of the expected credit loss calculated using models under IFRS 9. Consequently, prior impairment losses on an individual and collective basis under IAS 39 have been revoked and expected credit losses of EUR 546 million under IFRS 9 have been recognised. Impairment losses of EUR 422 million previously recognised on an individual basis have mainly been replaced with expected credit losses under stage 3 and impairment losses of EUR 71 million on a collective basis with expected credit losses under stages 1 and 2. As a result, equity decreased by EUR 53 million before tax.

Expected credit losses increased the most in corporate financing whereas expected credit losses in home loans decreased from their IAS 39 level due to their good collateral position. In private customers, revolving credit facilities showed the largest growth because they also include the forecast use of the off-balance-sheet limit.

Investments recognised at fair value through other comprehensive income, loan commitments and guarantees are new items included in ECL calculation for the first time.

ECL calculation includes high level of judgment which have a significant impact on the amount of expected credit losses such as:

- Determining significant increases in credit risk (SICR)
- Various assumptions used in 12-month and lifetime ECL calculation
- Incorporating macroeconomic estimates into the calculation.

The expected credit loss is anticipated to be sensitive to changes in macroeconomic estimates and it may increase significantly when the economic outlook deteriorates.

Since the amount of expected credit losses (ECL), EUR 546 million, was below the expected loss (EL) calculated in capital adequacy measurement, EUR 791 million, the ECL amount in accounting had no impact on OP Financial Group's CET1 ratio on 1 January 2018. The capital adequacy EL calculation method is regulated by the authorities and includes prudence, for example, in the form of various floors. However, the ECL accounting model describes the current economic situation and is based on OP Financial Group's own models without in-built prudence. OP Financial Group will not for the time being apply the transitional rules of Capital Requirements Regulation (CRR) for the period of 1 January 2018–31 December 2022, in which the effects of IFRS 9 based impairment calculation can be taken into account in stages.

Change in accounting policies for amortisation of fees

Following the systems development occurred in connection with the adoption of IFRS 9, OP Financial Group will adopt the amortisation of fees over the life of the loan paid for office and arrangement fees at the time of drawdown of private customer loans, applying the effective interest method. Since the fully retrospective application is not technically possible, only the fees for 2017 will be restated from the income statement. This has a negative effect of EUR 47 million on equity before tax. These fees will be amortised for future years for the average life of private customer loans.

IFRS 15 Revenue from Contracts with Customers

OP Financial Group applies IFRS 15 as of 1 January 2018. This standard replaced the current IAS 11 and IAS 18. In addition, amendments were made to IAS 40 Investment Property when IFRS 15 became effective. In OP Financial Group, IFRS 15 mainly applies to commissions and fees of the Wealth Management segment and Banking segment fees not included in the calculation of the effective interest rate. The new standard will have no effect on the revenue recognition of financial instruments or insurance policies. IFRS 15 will lead to added information presented in the notes to the financial statements for 2018. The grouping of commission income and expenses in net commissions and fees is specified in the Notes. New items to be presented in net commissions and fees include commission income and expenses from health and wellbeing services, investment management fees, fees paid for investment management services, legal fees and mutual fund commission expenses. IFRS 15 will not change the revenue recognition time of the Wealth Management management fees or performance-based fees or any other fees included in the scope of application of the standard in comparison with the current practices. The adoption of IFRS 15 will not have any financial effect on OP Financial Group's result. OP Financial Group will apply IFRS 15 using the retrospective transition method.

Note 2 Key figures and ratios and their formulas

	Q1–4/ 2017	Q1–4/ 2016
Return on equity (ROE), %	8.0	9.4
Return on equity (ROE) at fair value, %	6.4	7.8
Return on assets (ROA), %	0.63	0.71
Cost/income ratio, %	57	52
Average personnel	12,212	12,271

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	Q1–4/ 2017	Q1–4/ 2016	Change %
EUR million			
Insurance premium revenue	1,431	1,418	0.9
Claims incurred	-1,085	-979	10.8
Operating expenses	-291	-263	10.5
Amortisation adjustment of intangible assets	-21	-21	0.0
Balance on technical account	**34**	**154**	**-78.1**
Net investment income	179	97	84.7
Other income and expenses	-3	-8	-56.1
Earnings before tax	**210**	**244**	**-13.9**
Gross change in fair value reserve	-91	68	
Earnings before tax at fair value	**119**	**311**	**-61.7**

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	Q4/ 2017	Q4/ 2016	Q1–4/ 2017	Q1–4/ 2016
Interest income				
Receivables from credit institutions	7	8	27	12
Receivables from customers				
Loans*	281	298	1,159	1,184
Finance lease receivables*	10	4	22	20
Impaired loans and other commitments	1	1	3	3
Notes and bonds				
Held for trading	1	2	7	9
Available for sale	26	30	105	126
Held to maturity	0	1	1	2
Loans and receivables	0	0	1	1
Derivative contracts				
Held for trading	172	205	720	928
Fair value hedge	-29	-33	-117	-130
Cash flow hedge	10	11	37	39
Ineffective portion of cash flow hedge	0	-2	1	-1
Other	2	2	9	7
Total	**481**	**526**	**1,975**	**2,200**
Interest expenses				
Liabilities to credit institutions	15	22	57	40
Financial liabilities at fair value through profit or loss	0	0	0	0
Liabilities to customers	18	20	74	95
Debt securities issued to the public	70	71	288	286
Subordinated liabilities				
Subordinated loans	1	1	2	4
Other	11	11	45	45
Derivative contracts				
Held for trading	132	185	600	818
Cash flow hedge	-29	-37	-130	-145
Other	-18	-9	-65	-9
Other	2	2	10	7
Total	**202**	**267**	**882**	**1,141**
Net interest income before fair value adjustment under hedge accounting	**279**	**259**	**1,093**	**1,059**
Hedging derivatives	-31	-32	-114	-67
Value changes of hedged items	31	32	114	66
Total net interest income	**279**	**260**	**1,094**	**1,058**

*The comparative has been restated as a result of the more specified classification of finance lease receivables.

Note 4 Net insurance income

EUR million	Q4/ 2017	Q4/ 2016	Q1–4/ 2017	Q1–4/ 2016
Net insurance premium revenue				
Premiums written	249	272	1,438	1,443
Insurance premiums ceded to reinsurers	1	-7	-5	-12
Change in provision for unearned premiums	109	94	-6	-14
Reinsurers' share	-10	-1	-3	3
Total	**349**	**358**	**1,424**	**1,420**
Net Non-life Insurance claims				
Claims paid	-237	-220	-889	-862
Insurance claims recovered from reinsurers	3	4	8	29
Change in provision for unpaid claims	2	-1	-109	-27
Reinsurers' share	11	-5	20	-23
Total	**-221**	**-223**	**-970**	**-883**
Other Non-life Insurance items	0	1	-3	-3
Life Insurance risk premiums collected	8	5	27	24
Total net insurance income	**137**	**140**	**478**	**558**

Note 5 Net commissions and fees

EUR million	Q4/ 2017	Q4/ 2016	Q1–4/ 2017	Q1–4/ 2016
Comission income				
Lending	49	45	199	200
Deposits	1	1	4	5
Payment transfers	57	67	244	262
Securities brokerage	5	5	19	16
Securities issuance	4	1	11	6
Mutual funds	36	35	147	135
Asset management and legal services	57	24	112	80
Guarantees	5	5	19	21
Housing service	16	17	71	68
Insurance brokerage	8	9	55	55
Life insurance total expense loadings	23	29	96	95
Refund of unit-linked management fees	17	16	67	62
Other	9	8	28	23
Total	**287**	**263**	**1,073**	**1,028**
Comission expenses				
Payment transfers	4	13	37	65
Securities brokerage	2	3	12	10
Securities issuance	1	0	3	2
Asset management and legal services	4	4	13	15
Insurance operations	13	10	45	41
Other	10	11	36	35
Total	**33**	**42**	**145**	**169**
Total net commissions and fees	**254**	**222**	**928**	**859**

Note 6 Net investment income

EUR million	Q4/ 2017	Q4/ 2016	Q1–4/ 2017	Q1–4/ 2016
Net income from available-for-sale assets				
Notes and bonds	24	66	83	211
Equity instruments	97	26	218	67
Dividend income and share of profits	18	22	107	86
Impairment losses and their reversals	-13	-12	-39	-52
Total	**125**	**102**	**371**	**312**
Net income recognised at fair value through profit or loss				
Insurance				
Notes and bonds	16	-40	19	24
Equity instruments	3	1	14	8
Derivatives	31	-71	34	141
Banking and Other operations				
Securities trading	32	42	164	93
Foreign exchange trading	6	-1	37	27
Investment property	9	-3	29	15
Other	1	1	3	2
Total	**99**	**-71**	**301**	**310**
Net income carried at amortised cost				
Loans and other receivables	3	0	10	7
Impairment losses and their reversals	-2	1	-3	0
Total	**2**	**1**	**7**	**6**
Life Insurance				
Interest credited on customers' insurance savings	-21	-22	-89	-93
Change in supplementary interest rate provisions	-41	87	48	34
Other technical items	-67	20	-111	-143
Total	**-129**	**85**	**-152**	**-202**
Non-life Insurance				
Unwinding of discount	-7	-9	-32	-36
Total	**-7**	**-9**	**-32**	**-36**
Total net investment income	**90**	**108**	**495**	**390**

Note 7 Impairments of receivables

EUR million	Q4/ 2017	Q4/ 2016	Q1–4/ 2017	Q1–4/ 2016
Receivables written off as loan or guarantee losses	15	11	79	80
Recoveries of receivables written off	-4	-3	-15	-15
Increase in impairment losses on individually assessed receivables	23	49	68	103
Decrease in impairment losses on individually assessed receivables	-17	-17	-91	-99
Collectively assessed impairment losses	3	2	7	7
Total impairments of receivables	**20**	**41**	**48**	**77**

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	12,937					12,937
Receivables from credit institutions	504					504
Derivative contracts			3,139		273	3,412
Receivables from customers	82,240					82,240
Assets covering unit-linked contracts			10,126			10,126
Notes and bonds		40	3,899	16,372		20,311
Equity instruments			220	1,399		1,620
Other financial assets	2,292					2,292
Financial assets	**97,973**	**40**	**17,385**	**17,771**	**273**	**133,443**
Other than financial instruments						3,799
Total 31 December 2017	**97,973**	**40**	**17,385**	**17,771**	**273**	**137,242**

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 at fair value 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		5,157		5,157
Derivative contracts	2,572		454	3,026
Liabilities to customers		65,549		65,549
Insurance liabilities		9,950		9,950
Liabilities from unit-linked insurance and investment contracts	10,158			10,158
Debt securities issued to the public		26,841		26,841
Subordinated liabilities		1,400		1,400
Other financial liabilities	1	2,274		2,275
Financial liabilities	**12,731**	**111,172**	**454**	**124,356**
Other than financial liabilities				1,765
Total 31 December 2017	**12,731**	**111,172**	**454**	**126,122**

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
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 liabilities		1,445		1,445
Other financial liabilities	0	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 December, the fair value of these debt instruments was EUR 385 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 Dec. 2017, EUR million	Level 1	Level 2	Level 3	Total
Recognised at fair value through profit or loss				
Equity instruments	125	57	38	220
Debt instruments	3,249	234	416	3,899
Unit-linked contracts	7,111	3,015		10,126
Derivative financial instruments	2	3,279	131	3,412
Available-for-sale				
Equity instruments	623	200	577	1,399
Debt instruments	11,977	4,041	354	16,372
Total	**23,087**	**10,826**	**1,516**	**35,429**

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 Dec. 2017, EUR million	Level 1	Level 2	Level 3	Total
Recognised at fair value through profit or loss				
Unit-linked contracts	7,133	3,024		10,158
Other		1		1
Derivative financial instruments	5	2,929	92	3,026
Total	**7,138**	**5,955**	**92**	**13,185**

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 in Level 3 is based on a pricing model whose input parameters involve uncertainty. 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. Transfers between the levels are mainly due to the number of available market quotes.

Reconciliation of Level 3 items that involve uncertainty

Specification of financial assets and liabilities

Financial assets, EUR million	Financial assets at fair value through profit or loss	Derivative contracts	Available-for-sale financial assets	Total assets
Opening balance 1 January 2017	142	160	1,149	1,452
Total gains/losses in profit or loss	13	-29	-62	-77
Total gains/losses in other comprehensive income			-33	-33
Purchases	29		136	165
Sales	-53		-189	-242
Settlements	-67		-7	-74
Transfers into Level 3	392		175	567
Transfers out of Level 3	-3		-240	-242
Closing balance 31 December 2017	**454**	**131**	**930**	**1,516**

Financial liabilities, EUR million	Derivative contracts	Total liabilities
Opening balance 1 January 2017	107	107
Total gains/losses in profit or loss	-15	-15
Closing balance 31 December 2017	**92**	**92**

Total gains/losses included in profit or loss by item on 31 Dec. 2017

EUR million	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 Dec.
Realised net gains	13			13
Unrealised net gains	-14	-62	-33	-108
Total net gains	**0**	**-62**	**-33**	**-95**

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*	
31 December 2017, EUR million	**<1 year**	**1–5 years**	**>5 years**	**Total**	**Assets**	**Liabilities**
Interest rate derivatives	23,391	78,621	66,708	168,720	3,157	2,751
Cleared by the central counterparty	8,392	38,585	35,615	82,592	941	1,100
Currency derivatives	36,708	9,245	2,815	48,768	982	1,180
Equity and index derivatives	286	3		288	2	0
Credit derivatives	28	189	10	227	9	6
Other derivatives	235	513		748	65	36
Total derivatives	**60,647**	**88,571**	**69,533**	**218,751**	**4,216**	**3,973**

	Nominal values / remaining term to maturity				Fair values*	
31 December 2016, EUR million	**<1 year**	**1–5 years**	**>5 years**	**Total**	**Assets**	**Liabilities**
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 December 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	4,341	-928	3,412	-1,928	-412	1,072

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 December 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	4,112	-1,085	3,026	-1,928	-717	381

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 -161 (-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

Standardised OTC derivative transactions entered into with financial counterparties are cleared in London Clearing House, accordance with EMIR (EU 648/2012). 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 December 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	506		506		2	504
Receivables from customers, of which	80,247	627	80,875	421	70	80,383
bank guarantee receivables	2	8	11	8	1	2
Finance leases	1,856		1,856			1,856
Total	**82,609**	**627**	**83,236**	**421**	**71**	**82,744**
Receivables from credit institutions and customers by sector						
Non-banking corporate sector	29,253	423	29,677	317	38	29,321
Financial institutions and insurance companies	1,387	0	1,387	0	2	1,385
Households	49,931	201	50,132	102	30	50,000
Non-profit organisations	788	3	791	2	1	789
Public sector entities	1,250		1,250		0	1,250
Total	**82,609**	**627**	**83,236**	**421**	**71**	**82,744**

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*	76,880	640	77,520	445	63	77,013
bank guarantee receivables	2	9	11	9	1	2
Finance leases*	1,591		1,591			1,591
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**

*The comparative has been restated as a result of the more specified classification of finance lease receivables.

Doubtful and forborne receivables 31 December 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 custo-mers (net)
More than 90 days past due		611	611	217	394
Unlikely to be paid		513	513	147	366
Forborne receivables	1,876	341	2,217	58	2,160
Total	**1,876**	**1,465**	**3,341**	**421**	**2,920**

Doubtful and forborne 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 custo-mers (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 Dec. 2017	31 Dec. 2016
Exposures individually assessed for impairment, % of doubtful receivables	12.6 %	14.5 %

The Group reports on the remaining principal as the amount of a receivable that is more than 90 days past due whose interest or principal amount has been overdue and outstanding for over 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 Dec. 2017	31 Dec. 2016
Provision for unpaid claims		
Provision for unpaid claims for annuities	1,516	1,434
Other provision for unpaid claims	1,054	988
Reserve for decreased discount rate (value of hedges of insurance liability)	-12	8
Total	2,557	2,430
Provisions for unearned premiums	585	578
Liabilities from unit-linked insurance and investment contracts		
Liabilities from unit-linked insurance	8,747	7,918
Investment contracts	1,411	1,287
Total	10,158	9,205
Life insurance insurance liabilities	6,807	7,578
Total	**20,108**	**19,791**

Note 14 Debt securities issued to the public

EUR million	31 Dec. 2017	31 Dec. 2016
Bonds	8,972	10,922
Covered bonds	10,750	9,277
Certificates of deposit, commercial papers and ECPs	7,117	8,088
Total	**26,841**	**28,287**

Note 15 Fair value reserve after income tax

	Available-for-sale financial assets			
EUR million	Notes and bonds	Equity instruments	Cash flow hedging	Total
Opening balance 1 January 2017	**105**	**172**	**41**	**318**
Fair value changes	59	-39	6	**26**
Capital gains transferred to income statement	-22	-165		**-187**
Impairment loss transferred to income statement	0	21		**21**
Transfers to net interest income			-38	**-38**
Deferred tax	-7	37	6	**35**
Closing balance 31 December 2017	**135**	**25**	**16**	**176**

	Available-for-sale financial assets			
EUR million	Notes and bonds	Equity instruments	Cash flow hedging	Total
Opening balance 1 January 2016	**31**	**142**	**69**	**242**
Fair value changes	115	92	3	**210**
Capital gains transferred to income statement	-23	-87		**-110**
Impairment loss transferred to income statement	1	33		**34**
Transfers to net interest income			-37	**-37**
Deferred tax	-19	-7	7	**-19**
Closing balance 31 December 2016	**105**	**172**	**41**	**318**

The fair value reserve before tax amounted to EUR 220 million (398) and the related deferred tax liability amounted to EUR 44 million (79). On 31 December 2017, positive mark-to-market valuations of equity instruments in the fair value reserve totalled EUR 146 million (268) and negative mark-to-market valuations EUR 38 million (23).

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

Note 16 Collateral given

EUR million	31 Dec. 2017	31 Dec. 2016
Collateral given on behalf of own liabilities and commitments		
Pledges	110	1
Loans (as collateral for covered bonds)	13,266	10,407
Other	5,663	4,973
Total collateral given*	**19,039**	**15,381**
Secured derivative liabilities	889	1,351
Other secured liabilities	4,146	3,443
Covered bonds	10,750	9,277
Total	**15,784**	**14,071**

* In addition, bonds with a book value of EUR 6.0 billion have been pledged in the central bank, of which EUR 1.5 billion in intraday 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 Dec. 2017	31 Dec. 2016
Guarantees	643	836
Other guarantee liabilities	1,936	1,921
Loan commitments	12,176	11,049
Commitments related to short-term trade transactions	372	358
Other*	1,121	966
Total off-balance-sheet items	**16,247**	**15,129**

* Of which Non-life Insurance commitments to private equity funds amount to EUR 208 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 Dec. 2017	31 Dec. 2016
OP Financial Group's equity capital	11,121	10,237
The effect of insurance companies on the Group's shareholders' equity is excluded	92	-168
Fair value reserve, cash flow hedging	-16	-41
Supplementary cooperative capital to which transition provision applies		77
Common Equity Tier 1 (CET1) before deductions	**11,197**	**10,105**
Intangible assets	-717	-620
Excess funding of pension liability and valuation adjustments	-31	-64
Repayable cooperative capital	-148	-156
Planned profit distribution	-90	-83
Shortfall of impairments – expected losses	-320	-309
Common Equity Tier 1 (CET1)	**9,891**	**8,872**
Subordinated loans to which transitional provision applies	81	81
Additional Tier 1 capital (AT1)	**81**	**81**
Tier 1 capital (T1)	**9,973**	**8,954**
Debenture loans	1,121	1,239
Tier 2 Capital (T2)	**1,121**	**1,239**
Total capital base	**11,093**	**10,192**

A prudent valuation adjustment of EUR 20 (36) million has been deducted from CET1 capital.

Terminated cooperative capital contributions of EUR 148 million (156) refunded to customers in January 2018 and supplementary capital contributions of EUR 70 million refunded to customers in July 2017, as permitted by the supervisor, were deducted from CET1 capital. OP Financial Group has applied transitional provisions regarding old capital instruments to supplementary cooperative shares and subordinated loans.

Risk exposure amount, EUR million	31 Dec. 2017	31 Dec. 2016
Credit and counterparty risk	**39,383**	**38,853**
Standardised Approach (SA)	**3,859**	**3,233**
Central government and central banks exposure	18	39
Credit institution exposure	8	36
Corporate exposure	2,423	1,812
Retail exposure	1,057	1,039
Other*	353	307
Internal Ratings-based Approach (IRB)	**35,525**	**35,620**
Credit institution exposure	1,054	1,143
Corporate exposure	21,438	20,913
Retail exposure	4,959	4,698
Equity investments**	7,002	7,605
Other	1,072	1,261
Market and settlement risk (Standardised Approach)	**1,179**	**1,329**
Operational risk (Standardised Approach)	**3,958**	**3,666**
Valuation adjustment (CVA)	**205**	**253**
Total risk exposure amount	**44,725**	**44,101**
Risk weight floors based on ECB's decision	**4,492**	
Total risk exposure amount including risk weight floors	**49,216**	**44,101**

* EUR 283 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 6.4 billion in insurance holdings within OP Financial Group.

Ratios, %	31 Dec. 2017	31 Dec. 2016
CET1 capital ratio	20.1	20.1
Tier 1 ratio	20.3	20.3
Capital adequacy ratio	22.5	23.1

Ratios, fully loaded, %	31 Dec. 2017	31 Dec. 2016
CET1 capital ratio	20.1	19.9
Tier 1 ratio	20.1	19.9
Capital adequacy ratio	22.4	22.8

Ratios excluding the risk weight floors, %	31 Dec. 2017	31 Dec. 2016
CET1 capital ratio	22.1	20.1
Tier 1 ratio	22.3	20.3
Capital adequacy ratio	24.8	23.1

The effect of risk weight floors on the CET1 ratio was -2.0 percentage points.

Capital requirement, EUR million	31 Dec. 2017	31 Dec. 2016
Capital base	11,093	10,192
Capital requirement	7,027	5,520
Buffer for capital requirements	4,067	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 Dec. 2017	31 Dec. 2016
Tier 1 capital (T1)	9,973	8,954
Total exposure	127,027	120,257
Leverage ratio, %	7.9	7.4

The leverage ratio that describes a company's minimum leverage ratio is presented in accordance with EU 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 December 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	**49,868**	**53.1**	**0.7**	**17.0**	**4,159**	**7.5**	**157**
A	30,788	52.4	0.0	15.8	528	1.7	2
B	11,178	53.8	0.1	17.2	592	5.3	3
C	3,928	56.6	0.5	21.9	666	17.0	4
D	2,192	52.7	2.3	20.6	789	36.0	10
E	1,368	45.0	20.0	20.8	1,142	83.5	56
F	415		100.0	25.1	441	106.3	82
Corporate customers, total	**1,596**	**68.4**	**3.4**	**38.3**	**800**	**42.6**	**42**
2.5–5.5	500	67.9	0.4	22.6	57	11.5	0
6.0–7.0	626	66.7	1.3	42.6	257	41.1	4
7.5–8.5	313	70.6	5.1	47.6	221	70.5	8
9.0–10.0	114	74.4	23.4	47.6	127	111.2	12
11.0–12.0	43		100.0	65.3	138	320.6	18
Total	**51,464**	**54.1**	**0.8**	**17.7**	**4,959**	**8.6**	**199**

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

	31 December 2017						
Rating category	Exposure value (EAD), EUR million	Average CF, %	Average PD, %	Average LGD, %	RWA, EUR million	Average risk weight, %	Expected losses, EUR million
1.0–2.0	880	93.3	0.0	44.7	128	14.6	0
2.5–5.5	18,800	72.7	0.2	44.5	7,335	39.0	18
6.0–7.0	7,998	69.7	1.3	44.0	6,803	85.1	45
7.5–8.5	4,658	70.0	4.3	44.1	5,596	120.1	89
9.0–10.0	823	62.5	19.9	44.2	1,576	191.5	72
11.0–12.0	743	59.2	100.0	45.0			335
Total	**33,903**	**71.9**	**1.5**	**44.3**	**21,438**	**64.7**	**560**

	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
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, are not included in the average PD and risk weight.

Note 20 Insurance company solvency

EUR million	31 December 2017		31 December 2016	
	Life Insurance	Non-life Insurance	Life Insurance	Non-life Insurance
Eligible capital	**1,317**	**902**	**1,455**	**983**
Solvency capital requirement (SCR)				
Market risk	759	460	996	483
Insurance risk	394	289	405	293
Counterparty risk	27	40	27	31
Operational risk	36	45	25	43
Diversification benefits and loss absorbency	-541	-169	-712	-164
Total	674	666	742	687
Buffer for SCR	**643**	**236**	**713**	**296**
Solvency ratio (SCR), %	**195**	**135**	**196**	**143**
Solvency ratio (SCR), % (excluding transitional provision)	**151**	**135**	**149**	**127**

Transitional provisions have been taken into account in the figures and they are according to OP Financial Group's estimate. OVY Ltd (formerly OVY Insurance Ltd) is excluded from the Non-life Insurance comparative.

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

EUR million	31 December 2017	31 December 2016
OP Financial Group's equity capital	**11,121**	**10,237**
Other cooperative capital, hybrid instruments and debenture bonds	1,202	1,397
Other sector-specific items excluded from capital base	-236	-139
Goodwill and intangible assets	-1,525	-1,438
Insurance business valuation differences*	824	743
Proposed profit distribution	-90	-83
Items under IFRS deducted from capital base**	3	16
Shortfall of impairments – expected losses	-294	-283
Conglomerate's capital base, total	**11,005**	**10,449**
Regulatory capital requirement for credit institutions***	6,107	4,713
Regulatory capital requirement for insurance operations*	1,340	1,434
Conglomerate's total minimum capital requirement	**7,447**	**6,147**
Conglomerate's capital adequacy	**3,558**	**4,302**
Conglomerate's capital adequacy ratio (capital base/minimum of capital base) (%)	**148**	**170**

* Differences between fair values and carrying amounts based on the solvency of insurance companies and an estimate of SCR.

** Excess funding of pension liability, 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 17 percentage points. The risk weight floors decreased the ratio by approximately 14 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 2018

Time of publication of 2017 reports:

OP Financial Group's Report by the Executive Board and Financial Statements for 2017	Week 9
OP Amalgamation Capital Adequacy Report 2017	Week 9
OP Financial Group's Corporate Governance Statement 2017	Week 9
OP Financial Group's Annual Review 2017 (incl. CSR Report)	Week 9

Schedule for Interim Reports in 2018:

Interim Report Q1/2018	3 May 2018
Interim Report H1/2018	1 August 2018
Interim Report Q1–3/2018	31 October 2018

Helsinki, 8 February 2018

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