OP Financial Group's Financial Statements Bulletin for 1 January–31 December 2018

OP Financial Group's Financial Statements Bulletin 1 January–31 December 2018:

Customer business developed favourably and full-year earnings before tax were EUR 1,017 million

Earnings before tax Q1–4/2018	Net interest income Q1–4/2018	Net insurance income Q1–4/2018	Net commissions and fees Q1–4/2018	CET1 ratio 31 Dec. 2018
€1,017 million	+7%	+19%	+1%	20.5%

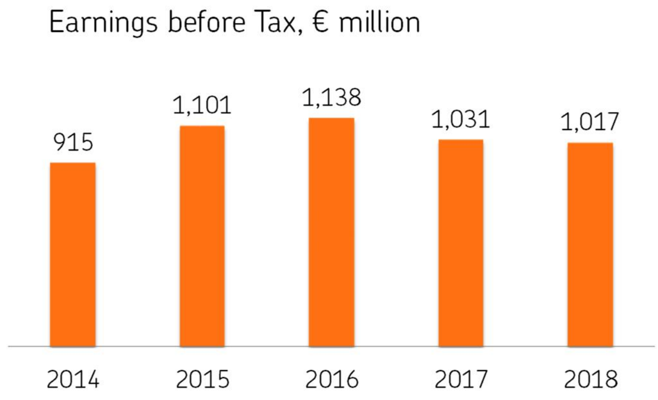
- Earnings before tax amounted to EUR 1,017 million (1,031).
- Income from customer business showed favourable development. Net interest income increased by 7% to EUR 1,175 million and net commissions and fees by 1% to EUR 887 million. Net insurance income increased by 19% to EUR 566 million – comparable change was –2%.
- Investment income fell by 46% to EUR 280 million and other operating income by 26% to EUR 61 million. Investment income was affected by a year-on-year decrease of EUR 227 million in capital gains.
- Expenses decreased by 5% to EUR 1,681 million. OP Financial Group transferred the management of the majority of the personnel's statutory earnings-related pension insurance and the related portfolio to Ilmarinen Mutual Pension Insurance Company at the end of 2018. The transfer reduced OP Financial Group's pension costs and improved earnings before tax by EUR 286 million while improving the Group's capital adequacy ratio by 0.4 percentage points.
- Impairment loss on receivables was EUR 46 million (48), or still low.
- The CET1 ratio was 20.5% (20.1).
- Banking earnings before tax increased by 28% to EUR 795 million. Net interest income increased by 4% and net commissions and fees decreased by 6%. The transfer of the pension liability improved the segment's earnings by EUR 172 million. The loan portfolio increased by 6% and deposits by 6%.
- Non-life Insurance earnings before tax decreased by 37% to EUR 133 million. Insurance premium revenue increased by 2% and expenses by 9%. Investment income fell by EUR 159 million. The reduction in the discount rate for insurance liability increased claims incurred by EUR 102 million a year ago.
- Wealth Management earnings before tax decreased by 14% to EUR 213 million. Net commissions and fees decreased by 11% and investment income by 11%. The transfer of the pension liability improved the segment earnings by EUR 35 million. Assets under management decreased by 8%.
- Other Operations earnings before tax were EUR –123 million (–45). The earnings were eroded by an increase in depreciation/amortisation and impairment losses as well as by a decrease in net investment income. The transfer of the pension liability improved the segment earnings by EUR 71 million. Non-recurring income of EUR 42 million was included in income a year ago.
- In 2018, OP invested EUR 384 million (454) in developing its operations and improving customer experience.
- OP bonuses given out rose by 4% to EUR 230 million.
- In January–December, the number of OP cooperative banks' owner-customers increased by 79,000 to over 1.9 million and that of OP Financial Group's joint banking and insurance customers by 21,000 to over 1.8 million.
- Earnings before tax for 2019 are expected to be lower than in 2018. For more detailed information on the outlook, see "Outlook for 2019".

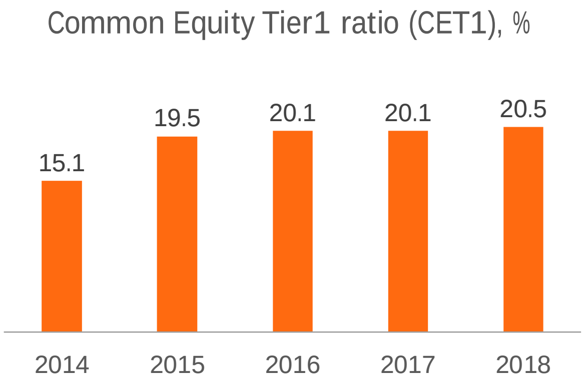
OP Financial Group's key indicators

	Q1–4/2018	Q1–4/2017	Change, %
Earnings before tax, € million	1,017	1,031	-1.3
Banking	795	619	28.3
Non-life Insurance	133	210	-36.7
Wealth Management	213	247	-13.7
Other Operations	-123	-45	172.9
New OP bonuses accrued to owner-customers	-230	-220	4.4
	31 Dec. 2018	31 Dec. 2017	Change, %
CET1 ratio, %	20.5	20.1	0.4*
Ratio of capital base to minimum amount of capital base (under the Act on the Supervision of Financial and Insurance Conglomerates), % **	147	148	0*
Return on economic capital, %***	20.8	20.4	0.4*
Return on equity (ROE), %	6.9	7.7	-0.8*
Return on assets (ROA), %	0.57	0.60	0.0*
Ratio of non-performing receivables to loan and guarantee portfolio, %****	1.0	1.2	-0.2*
Owner-customers (1,000)	1,911	1,833	4.2

On 1 January 2018, OP Financial Group adopted IFRS 9 Financial Instruments. Comparatives deriving from the income statement are based on figures under IAS 39 reported for the corresponding period in 2017. Unless otherwise specified, balance sheet and other cross-sectional figures under IAS 39 on 31 December 2017 are used as comparatives.

* Change in ratio
** The FiCo ratio has been calculated for insurance companies using transition provisions included in solvency regulation.
*** 12-month rolling
**** Non-performing receivables refer to receivables that are more than 90 days past due, other receivables classified as risky and forborne receivables related to such receivables due to the customer's financial difficulties.





Comments by President and Group Executive Chair Timo Ritakallio

Our customer business continued to show favourable development during the last quarter of 2018. Our loan and deposit portfolio increased at a brisk pace, and credit risks and impairment loss on receivables were still low. Our full-year earnings before tax amounted to EUR 1,017 million, thus remaining almost at the same level as in the previous year. Our capital adequacy improved further.

Growth in expenses was OP Financial Group's challenge in 2018. Higher claims incurred weakened Non-life Insurance earnings. Investment income, too, decreased markedly. In Wealth Management, general market developments decreased client assets under management.

The transfer of the management of statutory earnings-related pension insurance and the related portfolio to Ilmarinen Mutual Pension Insurance Company had a positive impact on OP Financial Group's earnings for 2018. The transfer will strengthen our capital base and provides us with the opportunity to focus on our core business. The investment environment for the transfer was exceptionally favourable, and the timing was highly successful due to the situation in capital markets.

As part of a more extensive change in our operating model, we completed the Information and Consultation of Employees process in the last quarter of the year, concerning 6,000 central cooperative employees. As a result, 700 roles ceased to exists and 1,000 new jobs were created. The negotiations with employee representatives were held in a very good spirit. During this transformation, we have supported our personnel in many ways to find a new job in OP Financial Group, and the number of employee redundancies has remained low.

One of our priorities is to utilise the opportunities provided by digitalisation in our business. At the end of the year, we extended our automatic home loan service to cover a larger number of our customers. The service enables customers to apply for a home loan digitally and get a loan decision almost on a real-time basis. In the service, we exploit opportunities provided by artificial intelligence.

The Finnish economy showed a favourable development last year. Employment improved and low interest rates supported consumer buying power. The global economy weakened considerably at the end of last year and uncertainty increased. Swings in the financial markets were significantly wilder than in the previous year. Home sales decreased and prices increased only slightly.

Economic growth is slowing down. In 2019, the Finnish economy is expected to grow by 1.6%. OP's economists forecast that in 2020 slowing global economic growth will hit Finland harder than the rest of the euro zone. Fixed investments are expected to fade, which means that economic growth will rely more on domestic consumption. The weakening economic situation will challenge both the business sector and policymakers to be elected in the spring to make decisions on a long-term basis.

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Operating environment

World economic growth slowed down and economic confidence deteriorated during the last few months of 2018. The economic mood was still relatively good. The world economy grew at almost the same brisk rate in 2018 as in 2017. Differences in economic growth widened between different countries. Euro-area economic growth slowed down clearly over the course of the year, due partly to transient factors. The unemployment rate continued to fall markedly and the inflation rate rose.

The European Central Bank (ECB) continued to normalise its monetary policy. The ECB reduced its net asset purchases under its asset purchase programme to EUR 15 billion per month in October and ended them entirely at the end of the year.

The main refinancing rates remained unchanged the whole year. The Euribor rate rose a bit at the end of the year. Longer market rates decreased because of greater uncertainty at the end of the year, coming to the same level as at the beginning of the year. Due to a sharp fall seen at the end of the year, stock prices sank lower than at the beginning of the year.

The Finnish economy still continued to grow briskly during the latter half of the year. Based on preliminary information, the economic growth rate in 2018 was slightly slower than in 2017. The growth focused on consumption more than before. Employment saw a marked improvement and real earnings increased. However, consumer confidence weakened towards the year end. Business profitability continued to improve further but fixed investments increased only slightly.

The sales of old homes in the housing market decreased slightly over the previous year. Demand focused on new homes that were completed the most since the early 1990s. Home prices rose only slightly.

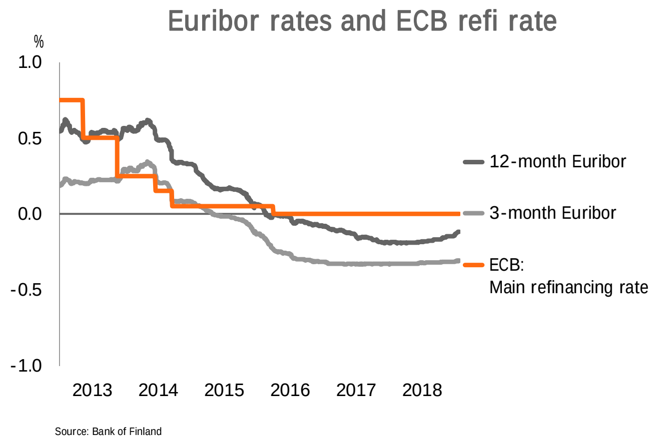
The economic outlook is deteriorating and uncertainty has clearly increased. The greatest risks are associated with the global economy and international policy. The outlook for interest rates is stable. The ECB has announced that it would keep its main refinancing rate at its current level at least for the summer of 2019.

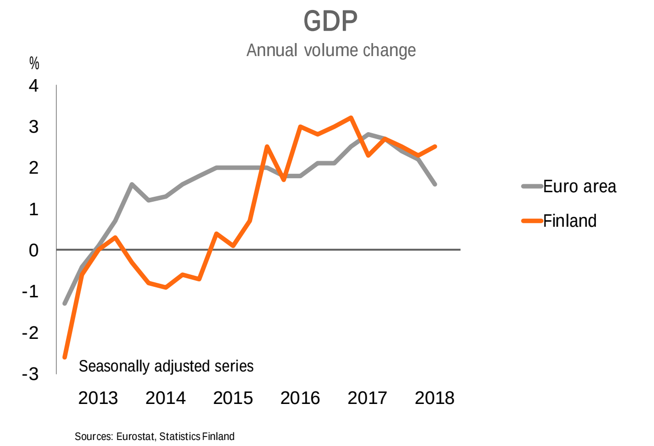
Total household loans grew by 2.2% in 2018. Home loans drawn down increased by 1.7% and a decrease in the borrowing rate for new home loans drawn down came to a halt towards the end of the year. The annual growth rate in corporate and housing company loans sped up, standing at 7.5% in December. The banking barometer results anticipate demand for household and corporate loans to decline markedly.

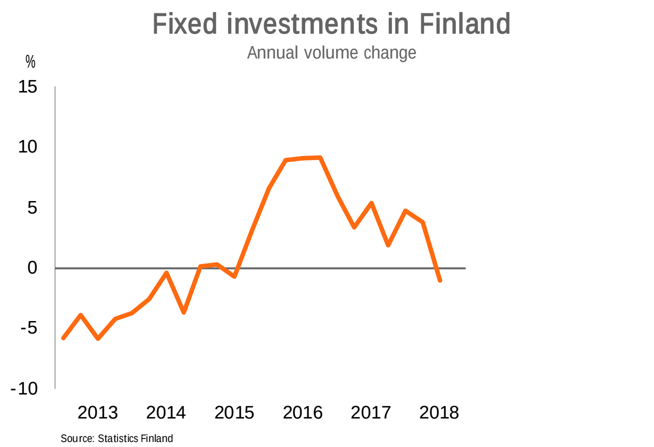
Total deposits increased by 2.6% in 2018. Household deposits increased by 5.6% and corporate deposits by 3.5%. Total deposits by public-sector entities decreased by almost 13%.

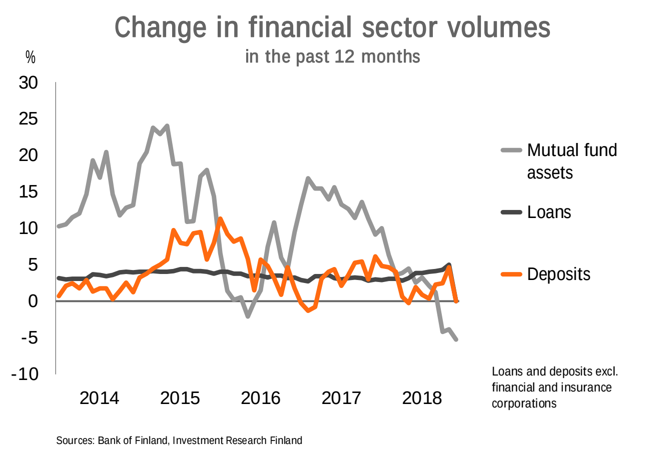
The value of mutual funds registered in Finland amounted to EUR 110.1 billion at the end of 2018. The funds' net asset inflows during the year were EUR 3.9 billion negative. Long-term bond funds and equity funds saw redemptions the most.

The positive economic mood supported the Finnish insurance sector in 2018 but price competition that remained rather tough and the capital market turbulence at the end of the year weakened earnings performance.









Earnings analysis and balance sheet

Earnings analysis, € million	Q1–4/2018	Q1–4/2017*	Change, %	Q4/2018	Q4/2017*	Change, %	Q3/2018
Earnings before tax	1,017	1,031	-1.3	330	192	71.5	262
Banking	795	619	28.3	306	141	116.6	156
Non-life Insurance	133	210	-36.7	2	73	-97.4	67
Wealth Management	213	247	-13.7	76	56	36.1	42
Other Operations	-123	-45	172.9	-54	-77	-30.5	-4
Income							
Net interest income	1,175	1,102	6.7	308	281	9.7	297
Net insurance income	566	478	18.5	134	137	-2.5	154
Net commissions and fees	887	879	0.9	232	242	-4.4	212
Net investment income	254	522	-51.3	-31	104	-129.5	79
Other operating income	61	83	-26.2	15	8	77.6	25
Total income	2,943	3,063	-3.9	657	772	-14.8	766
Expenses							
Personnel costs (excl. transfer of earnings-related pension liability)	803	758	6.0	211	193	9.1	178
Transfer of statutory earnings-related pension liability	-286			-286			
Depreciation/amortisation and impairment loss	325	246	32.0	136	88	55.1	58
Other operating expenses	839	764	9.9	242	222	9.2	185
Total expenses	1,681	1,768	-4.9	303	503	-39.7	422
Impairment loss on receivables	-46	-48	-3.6	-22	-20	8.3	-17
Temporary exemption (overlay approach)	26			56			-7
New OP bonuses accrued to owner-customers	-230	-220	4.4	-58	-56	4.1	-58

*2017 comparatives have been changed as described in the Notes, as a result of entry into force of IFRS 15 and change in the recognition practice of loan service fees.

Key balance sheet figures, € million	31 Dec. 2018	31 Dec. 2017	Change, %
Receivables from customers	87,081	82,193	5.9
Investment assets	23,047	23,324	-1.2
Liabilities to customers	66,112	65,549	0.9
Insurance liabilities	9,476	9,950	-4.8
Debt securities issued to the public	30,456	26,841	13.5
Equity	11,832	11,084	6.7
Total assets	140,382	137,205	2.3

January–December

OP Financial Group's earnings before tax amounted to EUR 1,017 million (1,031). The figure decreased by EUR 14 million over the previous year. Income from customer business, or net interest income, net insurance income and net commissions and fees, rose year on year. Transferring the management of the majority of statutory earnings-related pension insurance and the related portfolio to Ilmarinen Mutual Pension Insurance Company improved earnings before tax by EUR 286 million. Lower net investment income and other operating income reduced earnings.

Net interest income increased by 6.7% to EUR 1,175 million. Banking net interest income increased by EUR 50 million and that by the Other Operations segment by EUR 27 million. Net insurance income amounted to EUR 566 million (478). A year ago, the reduction in the discount rate for insurance liability reduced net insurance income by EUR 102 million. Comparable net insurance income changed by –2.3%. An increase in private and corporate customer insurance premium revenue supported an increase in net insurance income. Net commissions and fees were EUR 887 million, or EUR 8 million higher than the year before. Refunds based on unit-linked management fees increased by EUR 14 million, payment transfer net commissions and fees by EUR 17 million and net commissions and fees from health and wellbeing services by EUR 4 million. In the meantime, asset management commission income fell by EUR 29 million.

Net investment income decreased by EUR 268 million (51.3%) to EUR 254 million. The overlay approach is applied to certain equity instruments of insurance companies. Changes in the fair value of investments within the scope of the overlay approach are presented under the fair value reserve under equity. Total net investment income decreased by 46.3% to EUR 280 million. The combined return on investments at fair value of OP Financial Group's insurance institutions was 0.7% (3.1).

Net income recognised at fair value through other comprehensive income (net income from available-for-sale financial assets a year ago) decreased by EUR 252 million over the previous year. As a result of the adoption of IFRS 9 at the beginning of 2018, investments recognised at fair value through other comprehensive income and capital gains decreased. However, investments recognised at fair value in the income statement increased and their earnings effect was EUR 174 million (301). Net income from investment property decreased by EUR 40 million from its level a year ago. Capital gains recognised totalled EUR 36 million (263). A year ago, the capital gains were mainly used to supplement insurance liability. The net change in the short-term life insurance supplementary interest rate provision improved earnings by EUR 43 million. A year ago, the net change in these supplementary interest rate provisions reduced earnings by EUR 51 million. Net trading income resulting from positive value changes in Credit Valuation Adjustment (CVA) in derivatives credit and counterparty risk owing to market changes was EUR 14 million lower than a year ago.

Other operating income fell by EUR 22 million year on year to EUR 61 million. All share capital of the Baltic subsidiary Seesam Insurance AS was sold to Vienna Insurance Group (VIG). OP Financial Group recognised a total of EUR 16 million in non-recurring capital gain on the sale. Non-recurring VAT refunds for prior years, interest included, totalled EUR 22 million a year ago. In addition, non-recurring income of EUR 25 million from the sale of the portfolio of agreements and POS terminals of acquiring and POS services was recognised a year ago in other operating income and extra amortisation and other expenses recognised related to the sale totalled EUR 6 million.

Total expenses decreased by 4.9% to EUR 1,681 million. The transfer of statutory earnings-related pension liability at the end of 2018 reduced OP Financial Group's pension costs by EUR 286 million. Excluding the effect of this transfer, total expenses increased by 11.3% to EUR 1,967 million and personnel costs by 6.0% to EUR 803 million. Development costs were EUR 202 million (219). New businesses accounted for EUR 92 million (61) of total expenses. Planned depreciation/amortisation increased by 14.6% to EUR 219 million. This increase resulted from higher development expenditure recognised for prior years. Impairment write-downs increased by EUR 51 million year on year. Impairment loss recognised on property in own use totalled EUR 41 million and on information systems EUR 61 million. Charges of financial authorities increased by EUR 41 million year on year.

Impairment losses on loans and receivables and on investments recognised under various income statement items that reduced earnings amounted to EUR 70 million (89), of which EUR 46 million (48) concerned loans and receivables. Considering that impairment losses on receivables are calculated in 2018 based on IFRS 9, they are not comparable with those calculated under the previous IAS 39. The ratio of non-performing receivables in loans and receivables to the loan and guarantee portfolio was low, at 1.0% (1.2).

OP Financial Group's current tax amounted to EUR 125 million (189). The effective tax rate was 21.7% (20.7). The effective tax rate was increased by non-deductible items arising from the Group's internal holdings.

OP Financial Group's equity amounted to EUR 11.8 billion (11.1). Equity was increased by the reporting period's earnings. Equity included EUR 3.0 billion (2.9) in Profit Shares, terminated Profit Shares accounting for EUR 0.3 billion (0.3). The return target for Profit Shares for 2018 is 3.25%. Interest payable on Profit Shares accrued during the reporting period is estimated to total EUR 94 million. The amount of interest paid for 2017 totalled EUR 90 million in June 2018.

October–December

Earnings before tax for the fourth quarter were EUR 330 million against EUR 192 million reported a year ago. Earnings performance was supported by an increase in net interest income. Meanwhile, net insurance income, net commissions and fees and net investment income decreased. Total income of EUR 657 million decreased by 14.8% year on year. Transferring the majority of the management of statutory earnings-related pension insurance and the related portfolio to Ilmarinen Mutual Pension Insurance Company improved earnings before tax by EUR 286 million.

Year on year, net interest income rose by 9.7% to EUR 308 million. Net insurance income decreased by 2.5% to EUR 134 million. Net commissions and fees were EUR 232 million, or EUR 11 million lower than the year before. Net investment income, including the overlay approach, fell by 75.5% to EUR 25 million as capital gains declined by EUR 102 million.

Total expenses decreased by 39.7% year on year to EUR 303 million. The transfer of statutory earnings-related pension liability at the end of 2018 reduced OP Financial Group's pension costs by EUR 286 million. Excluding the effect of this transfer, total expenses increased by 17.1% to EUR 589 million and personnel costs by 9.1% to EUR 211 million. The central cooperative reorganisation provision raised personnel costs by EUR 10 million. Depreciation/amortisation and impairment losses increased by 55.1% year on year to EUR 136 million. Impairment loss recognised on property in own use totalled EUR 33 million and on information systems EUR 41 million. Other operating expenses increased by 9.2% to EUR 242 million. Impairment loss on receivables, EUR 22 million, increased by EUR 2 million year on year.

Q1–4 highlights

Changes in senior management

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. Timo Ritakallio, LL.M., MBA and D.Sc. (Tech.), took up his duties as the new President and Group Executive Chair on 1 March 2018. Previously, he was CEO of Ilmarinen Mutual Pension Insurance Company. Between 1 and 28 February 2018, the Executive Board was chaired by Tony Vepsäläinen, Executive Vice President, Operations, OP Financial Group, and he acted as President and Group Executive Chairman.

Jouko Pölönen, member of the Executive Board, resigned from membership of the Executive Board of OP Financial Group's central cooperative on 30 April 2018 to take up his duties as President and CEO of Ilmarinen Mutual Pension Insurance Company. From 2014, Jouko Pölönen as member of the Executive Board headed the Banking segment.

Jari Himanen, member of the Executive Board, resigned from membership of the Executive Board of OP Financial Group's central cooperative on 6 May 2018 and took up his duties as Managing Director of OP Suur-Savo. From 2014, Jari Himanen was member of the Executive Board and in charge of Group Steering and Customer Relationships.

On 6 June 2018, the Supervisory Board of OP Financial Group's central cooperative made a decision to reorganise the Executive Board of the central cooperative and the areas of responsibility of the senior management. During the rest of the year, OP Financial Group's central cooperative consolidated continued its reorganisation according to the new areas of responsibility of the Executive Board.

The core of OP Financial Group's business is banking and insurance business. Banking is divided into two areas of responsibility. On the Executive Board, responsibility for Banking Private and SME Corporate Customers rests with Harri Nummela, LL.M, eMBA.

Katja Keitaanniemi, Lic.Sc. (Tech.), as Executive Board member is in charge of the Banking Corporate and Institutional Customers business. She moved to OP Financial Group from Finnvera and took up her duties on 6 August 2018.

Insurance Business includes non-life and life insurance business for private and corporate customers, as well as health and wellbeing business. Olli Lehtilä, M.Sc. (Agr. & For.), eMBA, is responsible for the Insurance Customers business on the Executive Board.

Harri Luhtala, M.Sc. (Econ. & Bus. Adm.), acted as OP Financial Group's CFO, Executive Board member and OP Cooperative's CEO until 31 October 2018. Vesa Aho, M.Sc. (Econ. & Bus. Adm.), was appointed OP Financial Group's CFO, Executive Board member and OP Cooperative's CEO as of 1 November 2018. Previously, Aho acted as CEO of Garantia Insurance Company Ltd and CFO of Pohjola Bank plc.

Executive Board member Tony Vepsäläinen, LL.M, eMBA, is in charge of Group Services. He also acts as Vice Chair of the Executive Board and deputy to the President and Group Executive Chair.

Executive Board member Juho Malmberg, M.Sc. (Tech.), is in charge of Development and Technologies.

Executive Board member Tiia Tuovinen, Master of Laws, LL.M.Eur, is in charge of Legal Services and Compliance.

In addition to the Executive Board members, those reporting directly to the President and Group Executive Chair include Leena Kallasvuo, Chief Audit Executive; Tuuli Kousa, Chief Communications Officer and Executive Vice President, Communications and Public Affairs; Hannakaisa Länsisalmi, Executive Vice President, Human Resources; Pekka Puustinen, Executive Vice President, Strategy and Renewal; and Markku Pehkonen, CRO.

Transferring the management of the statutory earnings-related pension insurance and the related portfolio to Ilmarinen Mutual Pension Insurance Company

The Representative Assembly of OP Bank Group Pension Fund, which manages statutory earnings-related pension for OP Financial Group, decided on 31 July 2018 to transfer its pension liability and the management of earnings-related pension insurance portfolio worth around EUR 1,068 million to Ilmarinen Mutual Pension Insurance Company. The transferred solvency capital totalled EUR 263 million. This decision was preceded by competitive bidding in which the Board of Trustees of OP Bank Group Pension Fund invited bids from the largest pension insurance companies. The insurance portfolio concerned accounted for some 90.8% of OP Bank Group Pension Fund's total pension liability. The transfer was executed on 31 December 2018.

Based on the initial plan, the remaining pension liability will be transferred to Ilmarinen at a later date, but no earlier than at the end of 2020.

The transfer improved OP Financial Group's CET1 ratio by 0.4 percentage points. The transfer of the pension liabilities created an item in OP Financial Group's financial statements that improved OP Financial Group's earnings by EUR 286 million.

OP Financial Group becomes member of Finance Finland

OP Financial Group became member of Finance Finland as of 1 January 2019 and left membership of Service Sector Employers Palta. Through this decision, OP wanted to strengthen the development, cooperation and competitiveness of the Finnish financial sector.

Surveys and rewards

In the Luottamus & Maine (Reputation & Trust) survey by T-Media published in October, OP ranked seventh among the most renowned and trusted companies in Finland. The rank was the best among companies within the financial sector.

Based on the annual Employer Branding Survey conducted by Universum in October, OP was ranked the most attractive employer in the financial sector both among business professionals and IT professionals. As the most attractive employer, OP ranked fifth among business professionals and ninth among IT professionals.

In November, OP was ranked first in Finland in the Banker's Bank of the Year Awards.

In November, OP Corporate Bank plc was ranked the best bank in the Corporate Banking 2018 Finland survey conducted by Prospera among the largest companies category or those with net sales of over EUR 1.5 billion.

OP Financial Group's strategic targets and focus areas

OP Financial Group's strategic targets	31 Dec. 2018	31 Dec. 2017	Target 2019
Customer experience, NPS (-100–+100)			
Brand	23	22	25
Service encounter	61	58	70
CET1 ratio, %	20.5	20.1	22
Return on economic capital, % (12-month rolling)	20.8	20.4	22
Expenses of present-day business (12-month rolling), € million	1,833	1,661	Expenses for 2020 at 2015 level (1,500)
Owner-customers, million	1.9	1.8	2.1 (2019)

On 26 September 2018, the Supervisory Board of OP Financial Group's central cooperative decided on the key strategic focus areas of OP Financial Group for the remaining strategy period. It also decided on a new vision. The strategy confirmed in 2016 still forms the basis for OP Financial Group but the Group has wanted to sharpen its strategic focus because of changes in the operating environment.

OP Financial Group's vision is to be the leading and most attractive financial services Group in Finland from the perspective of employees, customers, partners and stakeholders. This is why excellent employee experience, best customer experience and an increase in the number of owner-customers to at least two million are highlighted as focus areas in the strategy. Two other strategic focus areas support these: maximising development productivity and faster growth in profits than expenses.

In order to implement its strategy and vision, OP Financial Group has begun to reform its practices. New agile practices highlight task significance and enhance job satisfaction, which, in turn, improves customer experience and workplace efficiency, creating potential for cost savings.

The agile practices will be phased in at OP Financial Group's central cooperative. The implementation of the new operating model began with reorganisation. The related Information and Consultation of Employees process started in the central cooperative consolidated on 1 October 2018 and ended on 13 November 2018. Following the changes, approximately 700 roles were lost, while more than 1,000 new jobs were created. The new organisation took effect on 1 January 2019. Developing the operating model and planning the change will continue in spring 2019. The organisational changes are a part of the 100 million euro cost savings programme in the central cooperative consolidated.

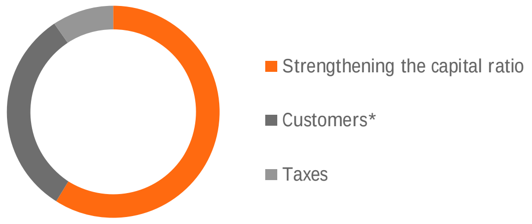
Promotion of the prosperity and wellbeing of owner-customers and in the operating region

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. OP'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.

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 and interest on contributions made by owner-customers

Implementing OP Financial Group'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 is 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.

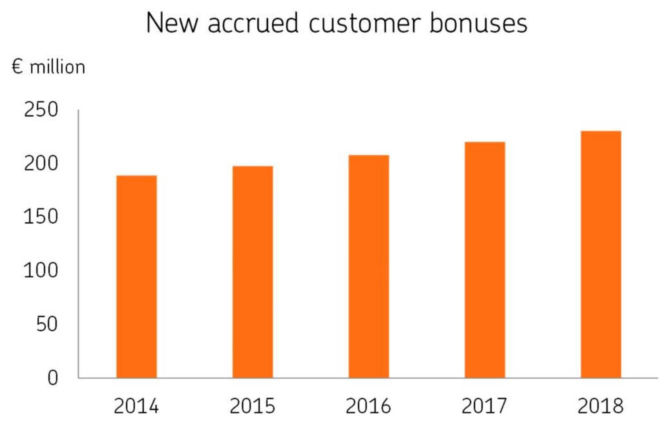
OP Financial Group is one the largest tax payers in Finland measured by tax on profits. By paying taxes in Finland, OP is contributing to prosperity in the whole of Finland.

Customer relationships and customer benefits

In January–December, the number of OP Financial Group's owner-customers increased by almost 79,000 to 1.9 million. In January–December, the number of joint banking and non-life insurance customers increased by 21,000 to over 1.8 million.

Contributions made by OP cooperative banks' owner-customers to the banks' Profit Shares and cooperative shares totalled EUR 3.2 billion (3.1) on 31 December 2018.

OP cooperative banks' 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 230 million (220). A total of EUR 111 million (102) of bonuses were used to pay for banking and wealth management services and EUR 118 million (114) to pay non-life insurance premiums. OP bonuses were used to pay 2,371,000 insurance bills (2,315,000), with 358,000 (327,000) of them paid in full using bonuses.



In the reporting period, owner-customers benefitted EUR 31 million (29) from the reduced price of the daily banking package, based on the updated calculation. Owner-customers were provided with EUR 67 million (71) in non-life insurance loyalty discounts. In addition, owner-customers bought, sold and switched the majority of the mutual funds without separate charges. The value of this benefit amounted to EUR 6 million (5).

The abovementioned OP bonuses and customer benefits totalled EUR 334 million (325), accounting for 24.7% of OP Financial Group's earnings before tax and granted benefits (24.0).

Interest payable on Profit Shares accrued during the reporting period is estimated to total EUR 94 million (90). The return target for Profit Shares for 2018 is an interest rate of 3.25% (3.25).

Corporate social responsibility

Corporate responsibility is an integral part of OP Financial Group's business and strategy. Corporate responsibility activities take economic, social and environmental responsibility into consideration. OP Financial Group's aim is to be a pioneer in corporate responsibility within its sector in Finland. OP 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 agreed to follow the UN Principles for Responsible Investment since 2009.

To promote diversity, OP Financial Group's objective is that the proportion of both genders in defined managerial positions is at least 40%. Women accounted for 24% (21) at the end of 2018.

Promoting the financial literacy among young people forms an important part of OP Financial Group's corporate responsibility. In 2018, OP supported personal financial management for 42,000 children and young adults in over 500 events across Finland. OP is the main partner of the national Financial Literacy competition for ninth-graders. The first stage of the reformed competition was held in comprehensive schools across Finland in early April, and OP hosted the national final in Vallila in May.

In May, OP became a member of the Climate Leadership Coalition (CLC). The CLC is a high-level association which aims to promote the Finnish businesses' and research organisations' competitiveness and ability to respond to the threats posed by climate change and the scarcity of natural resources, as well as to improve their ability to utilise the business opportunities related to these.

In its Summer jobs paid for by OP campaign, OP Financial Group donated over EUR 500,000 to non-profit organisations across Finland that were used to offer summer jobs to 1,200 young people.

In October, OP Financial Group approved a Green Bond Framework that enables the issuance of green bonds. Eligible sectors to be funded under the framework include, for example, renewable energy, energy efficiency, pollution prevention and control, and sustainable land use through sustainable forestry.

In 2018, OP launched the Feel Confident Online event concept focusing on digital guidance and provided seniors with guidance on digital skills in some 800 events.

OP supported Finnish education and competence in 2018 by donating a total of EUR 1.3 million to universities of applied sciences. In December 2018, OP donated EUR 50,000 to the WWF Finland for fighting climate change.

In 2018, OP continued to maintain the Hiiop100.fi exchange service for voluntary work as part of its corporate responsibility. In December, OP announced that it would hand over its Hiiop100.fi website to Citizen Forum.

Multichannel services

The Group has a multichannel service network comprising branch, online, mobile and telephone 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 July, OP launched a stripped-down and easy-to-use version of its online service to promote equal access to banking services for all customer groups. The OP Accessible platform provides basic banking services to private customers who are unable to use, for example, the op.fi service or OP-mobile due to vision or hearing impairments, motoric challenges or other functional defects. The service has been developed in cooperation with customers.

In December, OP-mobile was the main channel for customers' daily banking, with visits totalling over 22 million (18) during one month. The number of visits to the Pivo mobile application totalled 4 million (2) in December. The number of visits to OP Business mobile totalled 620,000 (360,000) in December. The person-to-person payment on Pivo and the Siirto payment enable customers to send money to other people by using their mobile phone number. By now some 520,000 OP customers (330,000) have registered for Siirto payments.

The number of visits to online services in December amounted to around 9 million (9). Despite the expansion of online and mobile services, OP Financial Group still has Finland's most extensive branch network with 365 branches (407) 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 some 420,000 followers (370,000). 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.

Health and wellbeing

The hospital network of Pohjola Health Ltd was completed in May 2018 when a hospital in Turku opened its doors. Hospitals located in Helsinki, Tampere, Oulu, Kuopio and Turku provide basic healthcare and special healthcare services, examinations, surgery and rehabilitation on an extensive basis. Pohjola Health has given up its previous plan to build a network of medical centres and will focus on hospital operations.

Customers have been satisfied with services provided by Pohjola Health. Among surgery customers, the NPS figure was 96 (97) in January–December 2018.

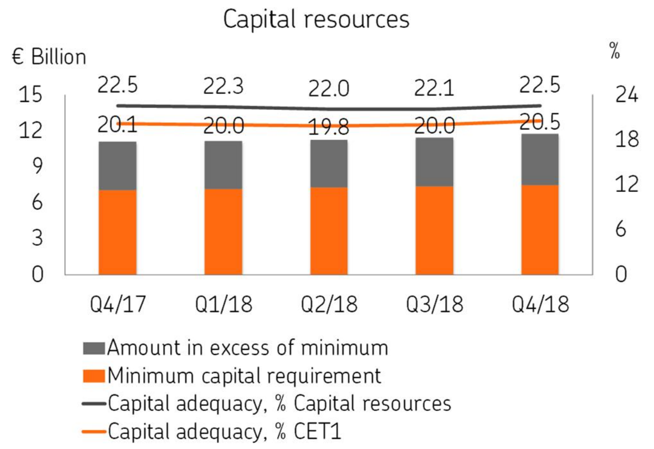
Solvency

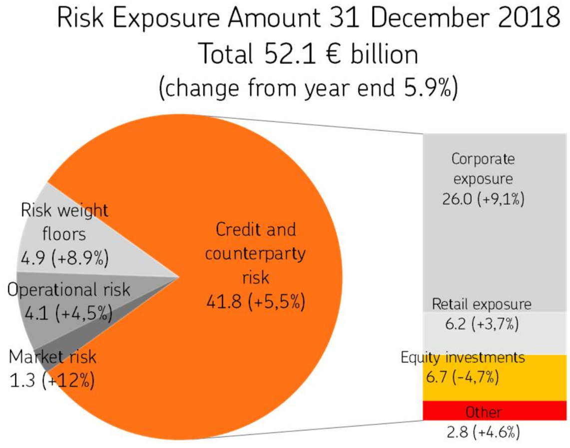
Capital adequacy under the Act on the Supervision of Financial and Insurance Conglomerates

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 3.7 billion (3.6). Banking capital requirement remained unchanged at 14.3%, calculated on risk-weighted assets. The ratio of the Group capital base to the minimum capital requirement was 147% (148). 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.

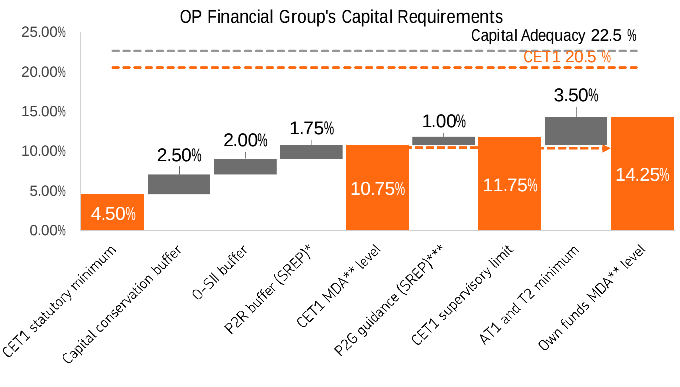
Capital adequacy for credit institutions

OP Financial Group's CET1 ratio was 20.5% (20.1). The risk weight floors set by the ECB decreased the CET1 ratio by 2.1 percentage points.





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



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

OP Financial Group's CET1 capital was EUR 10.7 billion (9.9). The CET1 capital was increased by Banking earnings, the transfer of the earnings-related pension liability and Profit Share issues. The amount of Profit Shares in CET1 capital was EUR 2.9 billion (2.8).

The risk exposure amount (REA) totalled EUR 52.1 billion (49.2), or 5.9% higher than on 31 December 2017. The minimum risk weight for retail exposures set by the ECB was EUR 4.9 billion, without which total risk was EUR 47.2 billion and the increase 5.6% from the turn of the year. The average risk weights of corporate and retail exposures 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 6.4 billion in risk-weighted assets of the Group's internal insurance holdings with a risk weight of around 280%.

The Finnish Financial Supervisory Authority (FIN-FSA) makes a macroprudential policy decision on a quarterly basis. In December 2018, 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. Without the ECB's risk weight floor, the risk weight floor of 15% for home loans set by the Financial Supervisory Authority would reduce the CET1 ratio by an estimated 1.4 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 8.6% (7.9) based on the existing interpretations, calculated using the December-end figures. The leverage ratio was especially improved by the more extensive identification of non-binding limits implemented in the calculation. According to the draft rules, the minimum ratio is 3%.

Non-life and Life Insurance

Interim dividends paid by non-life and life insurance companies decreased the capital base. The solvency position was improved by a decrease in the solvency requirement.

	Non-life Insurance		Life Insurance	
	31 Dec. 2018	31 Dec. 2017	31 Dec. 2018	31 Dec. 2017
Capital base, € million*	818	902	1,297	1,317
Solvency capital requirement (SCR), € million*	621	666	578	674
Solvency ratio, %*	132	135	225	195
Solvency ratio, % (excluding transitional provision)	132	135	176	151

*including transitional provisions

ECB's supervision

OP Financial Group is supervised by the European Central Bank (ECB). On 2 February 2017, OP Financial Group received the ECB's decision to set risk weight floors for OP Financial Group's retail exposures. 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.

The ECB has set a capital requirement for OP Financial Group based on the supervisory review and evaluation process (SREP). The capital buffer requirement (P2R) set by the ECB and effective as of 1 January 2018 is 1.75%. In addition, the ECB has set on OP Financial Group a capital adequacy guidance (P2G) of 1.0%. Failure to meet this guidance would not affect e.g. profit distribution. The capital requirements set by the ECB are at the same level as a year ago.

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 has set OP Financial Group's Minimum Requirement for own funds and Eligible Liabilities (MREL) at EUR 12.2 billion, accounting for 27.6% of the total risk exposure amount at the end of 2016. OP Financial Group aims to meet the requirements under the MREL with its capital base and other subordinated debt. OP Financial Group's MREL ratio stood at 35% at the turn of 2017. The SRB has confirmed a resolution strategy for OP Financial Group whereby the resolution measures would apply to OP Corporate Bank acting as a Single Point of Entry.

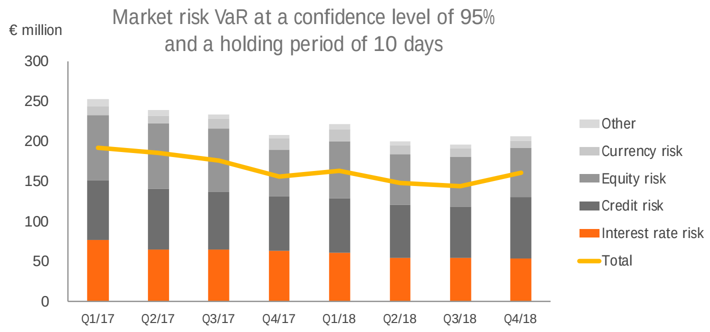
Risk exposure

OP Financial Group's risk exposure has remained stable. Risk capacity is strong and secures conditions for the Group's business.

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

OP Financial Group's funding position and liquidity is good. The availability of funding has remained good. During the reporting period, OP Financial Group issued long-term bonds worth EUR 3.3 billion (4.0). 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 160 million (156) on 31 December 2018. It includes the balance sheet total of the insurance institutions, trading, liquidity buffer and the Group Treasury's interest rate risk exposure.



The Group expects its operational risks to be moderate as targeted. Reorganisation, changing practices and the speed of service development will, however, set additional challenges for operational risk management in the coming 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 88 million (48). This change was mainly influenced by an increase in the discount rate and a decrease in the pension insurance assumption. The transfer of the statutory earnings-related pension insurance liability to Ilmarinen Mutual Pension Insurance Company will reduce this risk significantly.

In the reporting period, key tasks of the Compliance function involved ensuring compliance with new regulatory requirements that became effective in 2018.

In early 2016, OP Financial Group provided its reply to the request for clarification received in 2015 from the Finnish Competition and Consumer Authority. 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.

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 increased to EUR 3.1 billion (2.9) while performing forborne exposures rose by EUR 261 million. 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. OP 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. Performing forborne exposures (forborne exposures reclassified as performing ones during their probation period or forbearance measures made into a not non-performing agreement) accounted for 69.5% (64.3) of doubtful receivables. Non-performing receivables remained low, accounting for 1.0% (1.2) of the loan and guarantee portfolio. Impairment losses amounted to EUR 46 million (48).

Breakdown of loan and guarantee portfolio

	31 Dec. 2018	31 Dec. 2017
Loan and guarantee portfolio, EUR billion	90.0	84.8
Private customer exposures, EUR billion	51.5	50.0
of loan and guarantee portfolio, %	57.2	58.9
in the two highest borrower grades, %	84.0	83.5
in satisfactory borrower grades, %	12.5	12.9
in the two lowest borrower grades, %	3.5	3.6
Corporate and housing company exposures, EUR billion	34.6	32.6
of loan and guarantee portfolio, %	38.4	38.5
in the highest borrower grades (IG), %	54.6	55.4
in other borrower grades (excluding default), %	44.5	43.4
classified as default, %	1.0	1.2
classified as default, EUR million	473.5	554.3
Other exposures, EUR billion	4.0	2.2

No single customer's exposure exceeded 10% of the capital base after allowances and other recognition of credit risk mitigation. The capital base covering customer exposure amounted to EUR 11.4 billion (11.0).

The most significant sectors in corporate and housing company exposures	31 Dec. 2018	31 Dec. 2017**
Renting and operating of residential real estate*, %	17.9	17.4
Services, %	10.1	9.0
Renting and operating other real property, %	9.9	9.8
Other sectors, %	62.2	63.8
Total, %	100	100

*A total of 94.4% of exposures within Renting and Operating of Residential Real Estate were those by housing companies and 8.3% were those guaranteed by general government.
**The figures a year ago have been adjusted to be in accordance with the current monitoring.

Banking's interest rate risk measured as the effect of a one-percentage point decrease on 12-month net interest income was EUR –48 million (–81) at the end of December.

Deposits within the scope of deposit guarantee (deposit insurance) and managed by OP Financial Group totalled EUR 36.0 billion (34.3) at the end of December. 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 (45). A 0.1 percentage point decrease in interest rates used in insurance liability valuation would increase insurance liabilities by EUR 23 million (27).

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 50 million (52) on 31 December 2018. No major changes took place in the investment portfolio's asset class allocation. Interest rate derivatives have been used to hedge against interest rate risk associated with insurance liability. The portfolio's interest rate and credit risk remained stable. The Group has significantly increased the hedge ratio of interest rate risk associated with insurance liabilities.

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 among those insured.

A one-year increase in life expectancy would increase insurance liability by EUR 26 million (27). A 0.1 percentage point decrease in interest rates used in insurance liability valuation would increase insurance liabilities by EUR 29 million (32).

Investment risks associated with separated insurance portfolios transferred from Suomi Mutual and risks associated with changes in customer behaviour 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. The buffers totalled EUR 289 million (367) on 31 December 2018.

The risk exposure of investments was stable during the reporting period. The VaR, a measure of market risk, was EUR 56 million (61) on 31 December 2018. No major changes took place in the investment portfolio's asset class allocation. Interest rate derivatives have been used to hedge against interest rate risk associated with insurance liability. The portfolio's interest rate and credit risk remained stable. The Group has significantly increased the hedge ratio of interest rate risk associated with insurance liabilities.

Other Operations

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

The market risk in proportion to the market value of notes and bonds in the liquidity buffer (VaR with 95% confidence) remained stable during the reporting period. No major changes occurred in the asset class allocation.

OP Financial Group secures its liquidity through a liquidity buffer which consists mainly of deposits with central banks and receivables eligible as collateral for central bank refinancing. The liquidity buffer is sufficient to cover the need for short-term funding for known and predictable payment flows and in a liquidity stress scenario.

OP Financial Group monitors its liquidity and the adequacy of its liquidity buffer using, for example, the LCR (Liquidity Coverage Ratio). According to regulation, the LCR must be at least 100% from the beginning of 2018. OP Financial Group's LCR was 143% (123) on 31 December 2018.

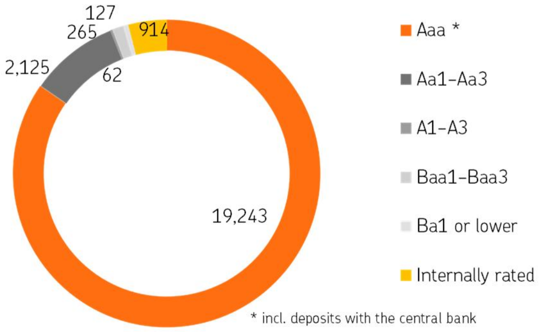
OP Financial Group monitors its long-term funding sufficiency, for example, by means of the Net Stable Funding Ratio, or NSFR. In regulation, no minimum requirement for the NSFR has been set as yet. Based on the present interpretations, OP Financial Group's NSFR was 111% (116) at the end of December 2018.

Liquidity buffer

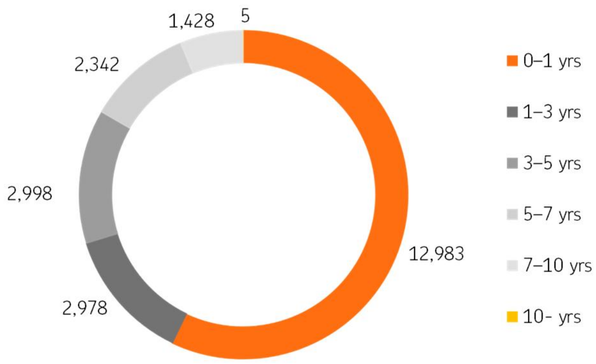
€ billion	31 Dec. 2018	31 Dec. 2017	Change, %
Deposits with central banks	12.2	12.8	-4.7
Notes and bonds eligible as collateral	9.2	9.1	1.3
Total	21.4	21.9	-2.2
Receivables ineligible as collateral	1.3	1.5	-9.3
Liquidity buffer at market value	22.7	23.3	-2.6
Collateral haircut	-0.7	-0.7	2.4
Liquidity buffer at collateral value	22.0	22.7	-2.8

The liquidity buffer comprises notes, bonds and securitised assets issued by governments, municipalities, financial institutions and companies all showing good credit ratings.

Financial assets included in the liquidity buffer by credit rating on 31 December 2018, € million



Financial assets included in the liquidity buffer by maturity on 31 December 2018, € million



Credit ratings

31 Dec. 2018

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 Global Ratings 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.

Moody's affirmed in December 2018 and Standard & Poor's affirmed in July 2018 OP Corporate Bank plc's credit ratings for short-term and long-term debt. Both rating agencies kept the rating outlook for both companies stable.

Financial performance by segment

At its meeting on 6 June 2018, the Supervisory Board of OP Financial Group's central cooperative decided a new division of responsibilities of the Executive Board, which changed the segment structure as of the beginning of 2019. In its interim reports and financial statements, OP Financial Group will begin financial reporting based on its new segments as of the first interim report of 2019. During the transition period, OP Financial Group will report its business segments according to the previous segment structure, with Banking, Non-life Insurance and Wealth Management as its business segments. 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 795 million (619).
- Total income increased by 4.8%. Net interest income increased by 4.2% year on year but net commissions and fees decreased by 6.3%. Total expenses decreased by 9.5% to EUR 878 million. The transfer of the earnings-related pension liability decreased personnel costs by EUR 172 million. Other operating expenses increased by 18.1% due to the stability contribution, development costs and higher volumes.
- The loan portfolio increased by 5.9% and the deposit portfolio by 5.8%. The loan portfolio showed the fastest growth in corporate loans as well as housing company loans and other loans.
- Impairment losses amounted to EUR 45 million (47). Non-performing receivables accounted for 1.0% (1.2) of the loan and guarantee portfolio.
- The most significant Banking development investments involved the upgrades of payment and finance systems, for example, those concerning the development of the digital home loan service.

Banking: key figures and ratios

€ million	Q1–4/2018	Q1–4/2017	Change, %
Net interest income	1,242	1,192	4.2
Net commissions and fees	540	576	-6.3
Net investment income	105	19	445.4
Other income	25	36	-30.7
Total income	1,911	1,823	4.8
Personnel costs (excl. transfer of earnings-related pension liability)	343	354	-3.1
Transfer of statutory earnings-related pension liability	-172		
Depreciation/amortisation and impairment loss	40	51	-22.1
Other operating expenses	667	565	18.1
Total expenses	878	970	-9.5
Impairment loss on receivables	-45	-47	-3.3
OP bonuses to owner-customers	-194	-187	3.7
Earnings before tax	795	619	28.3
Cost/income ratio, %	45.9	53.2	
€ million			
Home loans drawn down	7,633	6,954	9.8
Corporate loans drawn down	7,351	7,389	-0.5
No. of brokered residential property and property transactions	12,158	13,080	-7.0
€ billion			
Loan portfolio	31 Dec. 2018	31 Dec. 2017	Change, %
Home loans	38.6	37.5	2.8
Corporate loans	21.1	19.7	7.1
Housing company and other loans	27.4	25.0	9.5
Total	87.1	82.2	5.9
Guarantee portfolio	2.9	2.6	4.7
Deposits			
Current and payment transfer	42.8	40.1	6.8
Investment deposits	18.5	17.9	3.5
Total	61.3	58.0	5.8

OP Financial Group's Banking comprises banking for private and SME corporate customers as well as that for corporate and institutional customers. OP cooperative banks are mainly responsible for banking for private and SME corporate customers. The corporate and institutional customer business is almost entirely centralised in OP Corporate Bank.

The loan portfolio grew by 5.9% to EUR 87.1 billion. Growth in the corporate loan portfolio was especially strong, increasing by 7.1%. The home loan portfolio increased by 2.8%. OP Corporate Bank accounted for 26% of the loan portfolio.

The loan portfolio grew by 5.8% to EUR 61 billion. Investment deposits increased slightly year on year. OP Corporate Bank accounted for 19% of the deposit portfolio.

During the reporting period, OP introduced a digital home loan service which enables customers to apply for and receive a home loan decision and offer online, quickly and automatically. In the last quarter of the year, the service expanded further into 117 OP cooperative banks and to also cover loan decisions of co-borrowers.

OP is involved in developing a digital platform for selling and purchasing a home (DIAS), together with other banks, real estate businesses, a technology firm and authorities. The digitalisation of the system for selling and purchasing shares in a housing company started in the beginning of 2019 and will progress in stages.

The volume of homes and real property sold and bought through the OP-Kiinteistökeskus real estate agents decreased by 7.0% year on year.

Home loan borrowers have enjoyed historic low interest rates for an exceptionally long time, and customers have demonstrated greater interest in protecting their home loans and housing company loans against higher interest rates. At the end of the reporting period, 19.7% (11.5) of private customer home loans were covered by the interest rate protection.

The number of banking customers totalled 3.6 million (3.7) at the end of December.

Earnings

Earnings before tax recorded by Banking amounted to EUR 795 million (619). Total income increased by 4.8%. The personnel's statutory earnings-related pension insurance portfolio was transferred to Ilmarinen Mutual Pension Insurance Company. On the transfer, OP Financial Group recognised an item in its earnings, as a result of which personnel costs decreased by EUR 172 million. Other operating expenses rose by 18.1%. As a result of the decrease in expenses, the cost/income ratio improved to 45.9% (53.2). Impairment loss on receivables amounted to EUR 45 million (47). Non-performing receivables accounted for 1.0% (1.2) 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 4.2% to EUR 1,242 million. Derivatives operations decreased OP Corporate Bank's net interest income whereas OP cooperative banks' net interest income rose.

Net commissions and fees decreased to EUR 540 million (576). The decrease in net commissions and fees was affected by the inclusion of certain client income items of derivatives operations in the segment's net investment income during the reporting period; a year ago, the income concerned was included in net commissions and fees.

Net investment income increased by EUR 86 million. Net investment income was increased by EUR 16 million in a non-recurring capital gain. CVA valuation arising from interest rate changes and other market changes improved the income by EUR 7 million (21).

Expenses decreased to EUR 878 million. Personnel costs fell by EUR 183 million to EUR 171 million. The fall in personnel costs was affected by the transfer of the statutory earnings-related pension liability. Excluding the effect of this transfer, total expenses increased by 8.3% to EUR 1,050 million and personnel costs decreased by 3.1% to EUR 343 million. Other operating expenses increased by 18.1% to EUR 667 million. ICT costs increased by EUR 52 million. Higher ICT costs were explained by investments in development and by growth in volumes. Higher other operating expenses were also explained by stability contributions of EUR 39 million to the Financial Stability Authority. OP cooperative banks and OP Corporate Bank's Banking reported increased expenses.

Non-life Insurance

- Earnings before tax decreased by 36.7% to EUR 133 million (210).
- Insurance premium revenue increased by 2.4% (3.8% excluding the Baltics).
- The operating combined ratio was 92.0% (96.1) and operating expense ratio 21.0% (20.3). The combined ratio was 93.2% (97.6).
- Net investment income, taking account of the overlay approach, totalled EUR 24 million (183). Net return on investments at fair value totalled EUR 14 million (135).
- Development investments focused on development of electronic services and the basic system upgrade initiated.

Non-life Insurance: key figures and ratios

€ million	Q1–4/2018	Q1–4/2017	Change, %
Insurance premium revenue	1,466	1,432	2.4
Claims incurred	915	970	-5.7
Other expenses	3	3	-10.9
Net insurance income	549	459	19.5
Net investment income	0	183	-100.1
Other net income	-5	-33	84.9
Total income	543	609	-10.7
Personnel costs (excl. transfer of earnings-related pension liability)	137	116	17.9
Transfer of statutory earnings-related pension liability	-7		
Depreciation/amortisation and impairment loss	61	50	22.4
Other operating expenses	243	231	5.0
Total expenses	433	397	9.2
OP bonuses to owner-customers	-2	-2	3.0
Temporary exemption (overlay approach)	25		
Earnings before tax	133	210	-36.7
Combined ratio, %	93.2	97.6	
Operating combined ratio, %	92.0	96.1	
Operating loss ratio, %	70.9	75.8	
Operating expense ratio, %	21.0	20.3	
Operating risk ratio, %	64.5	69.3	
Operating cost ratio, %	27.4	26.9	
Solvency ratio, %*	132	135	
Large claims incurred retained for own account	107	78	
Changes in claims for provisions of previous years (run-off result)	42	35	

* including transitional provisions.

Insurance premium revenue from corporate customers increased, backed by the general economic development. Premium revenue from private customers began to rise in spite of intensified price competition.

Key development investments focused on the development of electronic transaction and purchase services and the basic system upgrade initiated. Developing online and mobile services in both insurance and claims services ranks among key Non-life Insurance priorities.

The sale of all share capital of the Baltic subsidiary Seesam Insurance AS to Vienna Insurance Group (VIG) was completed on 31 August 2018. The Baltic business is included in the segment's earnings until the date of completion of the sale.

Pohjola Health has launched a Health Advisor service to OP Insurance's private and corporate customers with personal insurance against illness or injury. The Pohjola Health Advisor helps in assessing the need for treatment and, whenever necessary, refers the person to appropriate treatment. Late in the year, the service expanded to be digital through the Pohjola Hospital application.

Earnings

Earnings before tax amounted to EUR 133 million (210). This earnings decline was particularly explained by net investment income which, including the overlay approach, was EUR 158 million lower than a year ago. Net capital gains on investments totalled EUR –5 million (133). Net insurance income increased by 19.5% to EUR 549 million. The reduction in the discount rate for insurance liability increased claims incurred by EUR 102 million a year ago. The sale of the Baltic non-life insurance business increased other operating income by EUR 16 million.

The operating combined ratio was 92.0% (96.1). The operating ratios a year ago include the effects of changes in the discount rate of insurance liability but exclude amortisation on intangible assets arising from the corporate acquisitions. The reduction in the discount rate weakened the operating combined ratio by 7.1 percentage points.

Insurance premium revenue

€ million	Q1–4/2018	Q1–4/2017	Change, %
Private Customers	798	786	1.5
Corporate Customers	624	584	6.8
Baltics	44	62	-29.0
Total	1,466	1,432	2.4

The divestment of the Baltic non-life insurance business had an impact on insurance premium revenue generation late in the year. Insurance premium revenue, excluding the Baltic figures, rose by 3.8% during the reporting period.

Claims incurred increased by 5.4%, excluding the effect of the reduced discount rate for insurance liability a year ago. 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 98 (85) in January–December, with their claims incurred retained for own account totalling EUR 107 million (78). The change in provisions for unpaid claims under statutory pension weakened earnings by one million euros (–8).

Changes in claims for previous years, excluding the effect of the discount rate change, improved the balance on technical account by EUR 42 million (35). The operating loss ratio was 70.9% (75.8). The operating risk ratio excluding indirect loss adjustment expenses was 64.5% (69.3).

Expenses grew by 9.2%, being EUR 36 million higher than a year ago, due to higher development-related ICT costs and depreciation/amortisation and the expansion of the health and wellbeing business. Impairment write-downs increased by EUR 12 million year on year. The operating expense ratio was 21.0% (20.3). The operating cost ratio (including indirect loss adjustment expenses) was 27.4% (26.9).

Operating balance on technical account and combined ratio (CR)

	Q1–4/2018		Q1–4/2017	
	Balance, € million	CR, %	Balance, € million	CR, %
Private Customers	87	89.0	93	88.1
Corporate Customers	33	94.8	-41	107.0
Baltics	-2	104.8	3	95.3
Total	118	92.0	55	96.1

Intensified price competition eroded profitability of the Private Customers business. A single large claim weakened the balance for Baltics.

Investment

Net return on Non-life Insurance investments at fair value totalled EUR 14 million (135). 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. 2018	31 Dec. 2017
Bonds and bond funds	71.9	68.0
Alternative investments	5.5	4.7
Equities	7.6	8.5
Private equity	2.0	1.9
Real property	8.4	8.3
Money markets	4.6	8.5
Total	100	100

Non-life Insurance's investment portfolio totalled EUR 3,730 million (3,903). Investments within the investment-grade category accounted for 94% (95), and 62% (66) of the investments were rated at least A–. On 31 December 2018, the fixed-income portfolio's modified duration was 4.3 (5.1).

The running yield for direct bond investments averaged 1.5% (1.7) on 31 December 2018. The calculation of the ratio was specified in 2018 and the comparative was adjusted retrospectively.

Wealth Management

- Earnings before tax decreased by 13.7% to EUR 213 million.
- Net commissions and fees decreased by 10.5% to EUR 345 million as assets under management and performance-based management fees declined, and due to price reductions executed.
- Net investment income, taking account of the overlay approach, totalled EUR 76 million (85). Net return on investments at fair value totalled EUR 53 million (96).
- The gross amount of assets under management decreased by 7.9% to EUR 71.8 billion.
- Development investments mainly focused on finishing the adoption of regulatory projects and the development of electronic services.

Wealth Management: key figures and ratios

€ million	Q1–4/2018	Q1–4/2017	Change, %
Net commissions and fees			
Funds, asset management and securities	228	276	-17.2
Life Insurance	185	174	6.3
Expenses	68	64	5.9
Total net commissions and fees	345	385	-10.5
Life Insurance's net risk results	29	27	8.1
Net investment income from Life Insurance	69	85	-19.1
Other income	8	10	-14.9
Total income	451	507	-11.0
Personnel costs (excl. transfer of earnings-related pension liability)	76	75	1.6
Transfer of statutory earnings-related pension liability	-35		
Depreciation/amortisation and impairment loss	33	28	21.4
Other operating expenses	142	130	8.9
Total expenses	216	233	-7.1
OP bonuses to owner-customers	-30	-28	5.9
Temporary exemption (overlay approach)	7		
Earnings before tax	213	247	-13.7
€ billion	31 Dec. 2018	31 Dec. 2017	Change, %
Assets under management (gross)			
Mutual funds	22.7	24.6	-7.8
Institutional clients	21.5	24.2	-11.2
Private Banking	17.9	19.1	-6.2
Unit-linked insurance assets	9.8	10.2	-3.5
Total assets under management (gross)	71.8	78.0	-7.9
€ million	Q1–4/2018	Q1–4/2017	Change, %
Net inflows			
Investor and saver customers	168	711	-76.4
Private Banking clients	223	563	-60.4
Institutional clients	363	623	-41.7
Total net inflows	754	1,897	-60.2

Capital market sentiment weakened as investors were anxious about tighter trade relations, import duties and higher interest rates. The negative sentiment reduced demand for Wealth Management products and net assets inflow decreased year on year by 60.2% to EUR 754 million. The gross amount of assets under management decreased by 7.9% to EUR 71.8 billion. Assets under management included about EUR 11 billion (13) in assets of the companies belonging to OP Financial Group. Along with the transfer of the OP Bank Group Pension Fund liabilities, assets transferred to Ilmarinen totalled EUR 1.3 billion.

During the reporting period, Wealth Management was active in developing the range of wealth management investment products by, for example, launching several index-linked bonds. Wealth Management brought infra and credit risk investment baskets as investment vehicles to unit-linked insurance designed for institutional and private banking clients.

The number of OP Mutual Fund unitholders increased by about 27,000 in gross terms to 774,000 during the reporting period. The Morningstar rating for OP Mutual Funds was 3.0 (2.9).

The aggregate number of investor and saver customers grew by almost 12,000 in the reporting period, totalling around 795,000 on 31 December 2018.

During the reporting period, Wealth Management development investments focused on finalising the implementation of regulatory projects and developing electronic sales and transactions. Electronic agreements accounted for 56% (51) of new Wealth Management agreements. A total of 79% (80) of mutual fund orders were made electronically.

Earnings

Earnings before tax decreased by 13.7% to EUR 213 million year on year.

Net commissions and fees decreased by 10.5% year on year, amounting to EUR 345 million (385). This decrease was due, for example, to performance-based management fees that were lower than a year ago. Net commissions and fees accounted for 0.45% of the gross amount of the assets under management (0.50).

Net return on Life Insurance investments at fair value totalled EUR 53 million (96). 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 decreased by 7.1% year on year, amounting to EUR 216 million. Transferring the management of statutory earnings-related pension insurance and the related portfolio to Ilmarinen Mutual Pension Insurance Company at the end of 2018 lowered pension costs by 35 million. Excluding the effect of this transfer, total expenses increased by 8.0% to EUR 251 million and personnel costs by 1.6% to EUR 76 million. Expenses accounted for 0.27% (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. The net change in the short-term life insurance supplementary interest rate provision improved earnings by EUR 43 million (lowered by EUR 51 million). Accrued supplementary interest rate provisions related to insurance liabilities (excluding the separated balance sheets) totalled EUR 341 million (405) on 31 December 2018. Short-term supplementary interest rate provisions accounted for EUR 44 million (87) of these provisions.

Life Insurance's investment assets, excluding assets covering unit-linked insurance, interest rate derivatives hedging insurance liability and the separated balance sheets, amounted to EUR 3,644 million (3,830). Investments within the investment-grade category accounted for 95% (95) of the fixed-income portfolio. On 31 December 2018, the fixed-income portfolio's modified duration was 4.1 (4.4). The running yield for direct bond investments (excluding the separated balance sheets) averaged 1.4% (1.7) on 31 December 2018. The calculation of the ratio was specified in 2018 and the comparative was adjusted retrospectively.

Investment portfolio by asset class

%	31 Dec. 2018	31 Dec. 2017
Bonds and bond funds	71.1	69.5
Alternative investments	10.8	9.3
Equities and equity funds	6.1	6.1
Real property	7.4	6.9
Money markets	4.6	8.2
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 2018, investment assets in the individual life insurance portfolio in the separated balance sheet, excluding interest rate derivatives hedging insurance liability, amounted to EUR 810 million (891). Net return on investments at fair value totalled EUR 3 million (19). 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. 2018	31 Dec. 2017
Bonds and bond funds	77.3	78.5
Alternative investments	8.3	9.4
Equities and equity funds	1.8	1.0
Real property	8.4	6.6
Money markets	4.2	4.4
Total	100	100

On 31 December 2018, investment assets in the individual pension insurance portfolio in the separated balance sheet, excluding interest rate derivatives hedging insurance liability, amounted to EUR 2,295 million (2,573). Net return on investments at fair value totalled EUR –24 million (86). 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. 2018	31 Dec. 2017
Bonds and bond funds	74.8	75.8
Alternative investments	12.2	12.3
Equities and equity funds	1.8	0.7
Real property	8.1	7.4
Money markets	3.1	3.8
Total	100	100

Other Operations

Other Operations: key figures and ratios

€ million	Q1–4/2018	Q1–4/2017	Change, %
Net interest income	-48	-75	-36.4
Net commissions and fees	6	-63	-110.1
Net investment income	86	238	-63.9
Other operating income	671	632	6.1
Total income	715	732	-2.3
Personnel costs (excl. transfer of earnings-related pension liability)	248	213	16.6
Transfer of statutory earnings-related pension liability	-71		
Depreciation/amortisation and impairment loss	191	118	62.3
Other operating expenses	469	446	5.1
Total expenses	837	777	7.8
Impairment loss on receivables	-1	0	
Earnings before tax	-123	-45	172.9

Earnings

Earnings before tax amounted to EUR –123 million (–45). This earnings reduction is explained by lower net investment income and higher expenses. Transferring the management of statutory earnings-related pension insurance and the related portfolio to Ilmarinen Mutual Pension Insurance Company improved earnings before tax by EUR 71 million. Non-recurring income of EUR 42 million was included in earnings a year ago. Total income decreased by 2.3% to EUR 715 million.

Net interest income was EUR –48 million (–75).
Net investment income decreased by 63.9% to EUR 86 million. Derivatives operations increased net interest income by EUR 24 million and decreased net trading income included in net investment income by EUR 90 million. According to OP Financial Group's accounting policy, income from derivative instruments is split between net interest income and net trading income. 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, lower net investment income was explained by a reduction of EUR 10 million in dividend income and a reduction of EUR 29 million in net income from investment property.

Net commissions and fees were up by EUR 67 million year on year. OP Financial Group's internal net commissions and fees mainly affect those of the Other Operations segment.

Other operating income rose by EUR 6.1% to EUR 671 million due to higher intra-Group charges. A year ago, a total of EUR 22 million in non-recurring VAT refunds for prior years, interest included were recognised under the Other Operations segment. A year ago, OP Financial Group sold its portfolio of agreements and POS terminals of merchant acquiring and POS terminal services to Nets. A non-recurring gain of EUR 20 million on the transaction was recognised in other operating income of the Other Operations segment a year ago. For the reporting period a year ago, the Group recognised extra amortisation of EUR 3 million and other expenses of EUR 3 million related to the transaction.

Depreciation/amortisation and impairment losses increased the Other Operations segment's expenses. Total expenses increased by 7.8% to EUR 837 million. The transfer of statutory earnings-related pension liability at the end of 2018 reduced pension costs by EUR 71 million. Excluding the effect of the pension liability transfer, personnel costs rose by 16.6% to EUR 248 million. The reorganisation provision raised personnel costs by EUR 8 million. Other operating expenses increased by 5.1% to EUR 469 million as ICT costs rose by EUR 7 million and the costs of purchased services by EUR 12 million.
Depreciation/amortisation and impairment loss on PPE and intangible assets increased by 62.3% to EUR 191 million. Impairment write-downs were EUR 39 million higher than the year before. The increase in depreciation/amortication and impairment losses resulted from higher development expenditure recognised for prior years.

In December 2018, the average margin of OP Financial Group's senior wholesale funding, TLTRO-II funding and covered bonds was 14 basis points (19). Use of the TLTRO-II funding, together with funding arriving at maturity at higher cost, lowers the cost of wholesale funding. Covered bonds are reported as part of the Banking segment.

Capital expenditure and service development

OP Financial Group invests in developing its operations and improving customer experience on an ongoing basis. The central cooperative with its subsidiaries is responsible for OP Financial Group's service development. ICT investments make up a significant portion of the costs of developing these services.

In January–December, OP Financial Group's development expenditure totalled EUR 384 million (454). These include licence fees, purchased services, other external costs related to projects and in-house work. The capitalised development expenditure totalled EUR 182 million (234).

More detailed information on OP Financial Group's investments can be found in each business segment's section in this financial statements bulletin.

Personnel and remuneration

On 31 December 2018, OP Financial Group had 12,066 employees (12,269). The number of employees averaged 12,241 (12,212). During the reporting period, the number of employees decreased by 341 because of the sale of the Baltic non-life insurance business.

During the reporting period, 318 OP Financial Group employees (357) retired at an average age of 61.8 years (62.1).

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 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 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.

Changes in OP Financial Group's structure

OP Financial Group's consolidated financial statements at the end of the reporting period included the accounts of 156 OP cooperative banks (167) and OP Cooperative Consolidated.

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

Leppävirran Osuuspankki and Suonenjoen Osuuspankki merged into Pohjois-Savon Osuuspankki. The execution of the merger was registered on 28 February 2018.

Auran Osuuspankki, Marttilan Osuuspankki, Pöytyän Osuuspankki and Tarvasjoen Osuuspankki merged into Paattisten Osuuspankki. Consequently, the business name of Paattisten Osuuspankki changed to Auranmaan Osuuspankki. The execution of the merger was registered on 31 March 2018.

Haukivuoren Osuuspankki, Heinäveden Osuuspankki, Hirvensalmen Osuuspankki and Sulkavan Osuuspankki merged into Suur-Savon Osuuspankki. The execution of the merger was registered on 31 March 2018.

Käylän Osuuspankki merged with Kuusamon Osuuspankki. The execution of the merger was registered on 31 August 2018.

Mellilän Osuuspankki and Niinijoen Osuuspankki accepted a merger plan on 21 August 2018, according to which the former will merge into the latter. Consequently, the business name of Niinijoen Osuuspankki will change to Niinijokivarren Osuuspankki. The planned date for registration of the merger is 28 February 2019.

Turun Seudun Osuuspankki and Merimaskun Osuuspankki accepted a merger plan on 13 December 2018, according to which the former will merge into the latter. The planned date for registration of the merger is 30 April 2019.

Järvi-Hämeen Osuuspankki and Kalkkisten Osuuspankki accepted a merger plan on 17 December 2018, according to which the latter will merge into the former. The planned date for registration of the merger is 30 April 2019.

OP Insurance Ltd sold all share capital of its Baltic-based subsidiary Seesam Insurance As, including its Latvian and Lithuanian branches, to Vienna Insurance Group (VIG). The parties signed the related contract of sale on 18 December 2017 and the sale was completed on 31 August 2018.

OVY Insurance Ltd, which previously acted as OP Financial Group's internal credit insurance company, merged into OP Cooperative. The execution of the merger was registered on 31 July 2018.

OP Financial Group's subsidiary Payment Highway Oy merged into Checkout Finland Oy. The execution of the merger was registered on 31 August 2018.

OP Financial Group is planning to adopt the Pohjola name in its non-life insurance business during 2019. OP Insurance Ltd would, in the future, be known under the name Pohjola Insurance Ltd. Pohjola Health will be renamed Pohjola Hospital during 2019 and it will focus on hospital operations in the future.

Governance of OP Cooperative

OP Financial Group's central cooperative (OP Cooperative) held its Annual Cooperative Meeting on 20 March 2018.

The Meeting re-elected for the term of three years ending in 2021 the following members to the Supervisory Board who were due to resign: Managing Director Kalle Arvio, Managing Director Anne Harju, Professor Jarna Heinonen, M.Sc.(Agric.) Seppo Kietäväinen, Managing Director Olli Koivula, Lecturer Jaakko Korkonen, Authorised Public Accountant Katja Kuosa-Kaartti, Planner Jukka Kääriäinen, Senior Manager Anssi Mäkelä, Director, Administration Annukka Nikola, Managing Director Olli Näsi, Managing Director Olli Tarkkanen and Managing Director Ari Väänänen.

New members elected to the Supervisory Board for the term of three years ending in 2021 were Executive Director Timo Alho, Managing Director Kyösti Myller, Project Management Specialist Yrjö Niskanen, Strategy and Account Manager Timo Metsä-Tokila, Managing Director Leo-Petteri Nevalainen, Managing Director Timo Suhonen, Managing Director Juha-Pekka Nieminen, Professor Markku Sotarauta.

In addition, the Annual Cooperative Meeting re-elected Director Jaakko Kiander a Supervisory Board member outside of OP Financial Group for a three-year term ending in 2021.

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 Pehkonen 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 Riitta Palomäki, M.Sc. (Econ.&Bus. Adm.), and the Risk Management Committee by Arto Ylimartimo, M.Sc. (Econ.&Bus. Adm.), Chair of the Board of Directors.

At its meeting on 20 March 2018, the central cooperative's Annual Cooperative Meeting approved alteration of the cooperative Bylaws. The alteration applied to changes in the paragraphs related to the Supervisory Board and its committees as well as the Executive Board, based on official and regulatory requirements. A minimum of four Supervisory Board members must be outside of OP Financial Group.

The Annual Cooperative Meeting re-elected KPMG Oy Ab, an audit firm, to act as the auditor for the financial year 2018, with Raija-Leena Hankonen, APA, acting as the Auditor-in-charge, appointed by KPMG Oy Ab.

Outlook for 2019

The financial-sector operating environment is quite favourable on the whole although the world economy is showing signs of slower growth. While low market interest rates are expected to slow down growth in banks' net interest income and erode insurance institutions' income from fixed income investments, they should also improve customers' repayment capacity. Impairment losses have been very low for a long time now. The most significant strategic risks in the financial sector are currently associated with changing customer behaviour, operating environment digitisation, competition from outside of the traditional financial sector and more complex regulation. Industry disruption is threatening to slow down growth and erode income generation in the years to come. Changes mean that financial sector players will be faced with an obvious requirement to improve customer and employee experience, enhance the agility of their operations and related development as well as improve productivity.

OP Financial Group's Earnings before tax for 2019 are expected to be lower than in 2018. 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.

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/ 2018	Q4/ 2017	Q1–4/ 2018	Q1–4/ 2017
Net interest income	3	308	281	1,175	1,102
Net insurance income	4	134	137	566	478
Net commissions and fees	5	232	242	887	879
Net investment income	6	-31	104	254	522
Other operating income		15	8	61	83
Total income		**657**	**772**	**2,943**	**3,063**
Personnel costs		-75	193	516	758
Depreciation/amortisation		136	88	325	246
Other expenses		242	222	839	764
Total expenses		**303**	**503**	**1,681**	**1,768**
Impairments of receivables	7	-22	-20	-46	-48
OP bonuses to owner-customers		-58	-56	-226	-217
Temporary exemption (overlay approach)		56		26	
Earnings before tax		**330**	**192**	**1,017**	**1,031**
Income tax expense		89	49	223	214
Profit for the period		**241**	**143**	**794**	**817**
Attributable to:					
Owners		241	141	786	812
Non-controlling interests		0	3	8	6
Profit for the period		**241**	**143**	**794**	**817**

Statement of comprehensive income	Q4/ 2018	Q4/ 2017	Q1–4/ 2018	Q1–4/ 2017
Profit for the period	**241**	**143**	**794**	**817**
Items that will not be reclassified to profit or loss				
Gains(/losses) arising from remeasurement of defined benefit plans	-38	20	88	48
Change in revaluation reserve		17		17
Items that may be reclassified to profit or loss				
Change in fair value reserve				
Measurement at fair value	-71	-86	-172	-146
Cash flow hedge	34	-4	22	-32
Temporary exemption (overlay approach)	-56		-26	
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	8	-4	-18	-10
Change in revaluation reserve		-4		-4
Items that may be reclassified to profit or loss				
Measurement at fair value	14	17	34	29
Cash flow hedge	-7	1	-4	6
Temporary exemption (overlay approach)	11		5	
Total comprehensive income for the period	**137**	**101**	**723**	**727**
Attributable to:				
Owners	137	112	715	721
Non-controlling interests	0	-11	8	5
Total comprehensive income for the period	**137**	**101**	**723**	**727**

Balance sheet

EUR million	Note	31 December 2018	31 December 2017
Cash and cash equivalents		12,350	12,937
Receivables from credit institutions		183	504
Derivative contracts	10	3,482	3,412
Receivables from customers	12	87,081	82,193
Investment assets		23,047	23,324
Assets covering unit-linked contracts		9,771	10,126
Intangible assets		1,490	1,555
Property, plant and equipment (PPE)		737	798
Other assets		2,033	2,131
Tax assets		209	224
Total assets		**140,382**	**137,205**
Liabilities to credit institutions		4,807	5,157
Derivative contracts		2,821	3,026
Liabilities to customers		66,112	65,549
Insurance liabilities	13	9,476	9,950
Liabilities from unit-linked insurance and investment contracts	13	9,812	10,158
Debt securities issued to the public	14	30,456	26,841
Provisions and other liabilities		2,785	3,150
Tax liabilities		921	890
Subordinated liabilities		1,358	1,400
Total liabilities		**128,547**	**126,122**
Equity			
Share of OP Financial Group's owners			
Cooperative capital			
Cooperative shares		199	191
Profit shares		3,042	2,906
Fair value reserve	15	7	176
Other reserves		2,183	2,173
Retained earnings		6,250	5,536
Non-controlling interests		154	101
Total equity		**11,835**	**11,084**
Total liabilities and equity		**140,382**	**137,205**

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 2017	**2,901**	**318**	**2,108**	**4,808**	**10,135**	**102**	**10,237**
Total comprehensive income for the period		-142	14	850	721	6	727
Profit for the period				812	812	6	817
Other comprehensive income		-142	14	38	-90		-90
Profit distribution				-89	-89		-89
Change in membership 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**	**5,536**	**10,982**	**101**	**11,084**

	Attributable to owners						
EUR million	Cooperative capital	Fair value reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 31 Dec. 2017	**3,097**	**176**	**2,173**	**5,536**	**10,982**	**101**	**11,084**
Effect of IFRS 9 transition at 1 Jan. 2018		-28		-33	-61		-61
Equity 1 Jan. 2018	**3,097**	**148**	**2,173**	**5,503**	**10,921**	**101**	**11,023**
Total comprehensive income for the period		-141		857	715	8	723
Profit for the period				786	786	8	794
Other comprehensive income		-141		70	-71		-71
Profit distribution				-90	-90	-13	-103
Change in membership and profit shares	144				144		144
Transfer of reserves			10	-10			
Other				-10	-10	59	50
Balance at 31 December 2018	**3,241**	**7**	**2,183**	**6,250**	**11,681**	**154**	**11,835**

Cash flow statement

EUR million	Q1–4/ 2018	Q1–4/ 2017
Cash flow from operating activities		
Profit for the period	794	817
Adjustments to profit for the period	-127	289
Increase (-) or decrease (+) in operating assets	**-4,920**	**-1,523**
Receivables from credit institutions	88	40
Derivative contracts	-87	-41
Receivables from customers	-4,907	-3,643
Assets covering unit-linked contracts	-299	-594
Investment assets	68	1,833
Other assets	216	881
Increase (+) or decrease (-) in operating liabilities	**44**	**5,134**
Liabilities to credit institutions	-420	605
Derivative contracts	-5	-2
Liabilities to customers	562	5,473
Insurance liabilities	46	29
Liabilities from unit-linked insurance and investments contracts	102	124
Provisions and other liabilities	-242	-1,094
Income tax paid	-145	-205
Dividends received	106	123
A. Net cash from operating activities	**-4,249**	**4,634**
Cash flow from investing activities		
Acquisition of subsidiaries, net of cash acquired	0	
Disposal of subsidiaries, net of cash disposed	67	6
Purchase of PPE and intangible assets	-228	-352
Proceeds from sale of PPE and intangible assets	16	51
B. Net cash used in investing activities	**-145**	**-295**
Cash flow from financing activities		
Increases in debt securities issued to the public	27,984	24,051
Decreases in debt securities issued to the public	-24,465	-24,747
Increases in cooperative and share capital	659	838
Decreases in cooperative and share capital	-515	-718
Dividends paid and interest on cooperative capital	-90	-89
Other decreases in equity items		0
C. Net cash used in financing activities	**3,573**	**-666**
Net increase/decrease in cash and cash equivalents (A+B+C)	**-821**	**3,674**
Cash and cash equivalents at period-start	**13,245**	**9,571**
Cash and cash equivalents at period-end	**12,423**	**13,245**
Interest received	**2,012**	**2,066**
Interest paid	**-829**	**-992**
Cash and cash equivalents		
Liquid assets	12,350	12,937
Receivables from credit institutions payable on demand	74	307
Total	**12,423**	**13,245**

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 21% (20%). Capital has been allocated to Non-life Insurance in such a way that the Solvency ratio (SII) is 120% and 130% in life insurance. Capital allocation has an effect on the Group's internal interest amounts paid by the segment concerned.

	Banking	Non-life Insurance	Wealth Management	Other Operations	Eliminations	Group total
Q1–4 earnings 2018, EUR million						
Net interest income	1,242	-15	3	-48	-7	1,175
of which internal net income before tax	-6	-12	3	14		
Net insurance income		549	29		-12	566
Net commissions and fees	540	-12	345	6	8	887
Net investment income	105	0	69	86	-5	254
Other operating income	25	22	5	671	-661	61
Total income	**1,911**	**543**	**451**	**715**	**-678**	**2,943**
Personnel costs	171	130	41	177	-2	516
Depreciation/amortisation and impairment losses	40	61	33	191	0	325
Other operating expenses	667	243	142	469	-682	839
Total expenses	**878**	**433**	**216**	**837**	**-684**	**1,681**
Impairments of receivables	-45	0	0	-1	0	-46
OP bonuses to owner-customers	-194	-2	-30		0	-226
Temporary exemption (overlay approach)		25	7		-6	26
Earnings before tax	**795**	**133**	**213**	**-123**	**0**	**1,017**

	Banking	Non-life Insurance	Wealth Management	Other Operations	Eliminations	Group total
Q1–4 earnings 2017, EUR million						
Net interest income	1,192	-15	1	-75	-1	1,102
of which internal net income before tax	-17	-12	1	28		
Net insurance income		459	27		-8	478
Net commissions and fees	576	-17	385	-63	-3	879
Net investment income	19	183	85	238	-3	522
Other operating income	36	-1	8	632	-593	83
Total income	**1,823**	**609**	**507**	**732**	**-608**	**3,063**
Personnel costs	354	116	75	213	-1	758
Depreciation/amortisation and impairment losses	51	50	28	118	0	246
Other operating expenses	565	231	130	446	-608	764
Total expenses	**970**	**397**	**233**	**777**	**-609**	**1,768**
Impairments of receivables	-47	0	0	0	-1	-48
OP bonuses to owner-customers	-187	-2	-28		0	-217
Earnings before tax	**619**	**210**	**247**	**-45**	**0**	**1,031**

Balance sheet 31 December 2018, EUR million	Banking	Non-life Insurance	Wealth Management	Other Operations	Eliminations	Group total
Cash and cash equivalents	90	249	436	12,209	-634	12,350
Receivables from credit institutions	10,921	10	67	10,136	-20,951	183
Derivative contracts	681	32	124	3,057	-411	3,482
Receivables from customers	87,944	0	0	-19	-844	87,081
Investment assets	-76	3,500	6,738	18,233	-5,348	23,047
Assets covering unit-linked contracts			9,771			9,771
Intangible assets	50	637	346	461	-3	1,490
Property, plant and equipment (PPE)	347	41	25	336	-11	737
Other assets	301	747	270	1,171	-456	2,033
Tax assets	105	13	15	66	11	209
Total assets	**100,362**	**5,228**	**17,790**	**45,651**	**-28,649**	**140,382**
Liabilities to credit institutions	10,248			15,773	-21,214	4,807
Derivative contracts	322	11	26	2,876	-414	2,821
Liabilities to customers	62,290		14	5,228	-1,421	66,112
Insurance liabilities		3,157	6,319			9,476
Liabilities from unit-linked insurance and investments contracts			9,812			9,812
Debt securities issued to the public	11,357			19,263	-165	30,456
Provisions and other liabilities	1,499	559	259	912	-443	2,785
Tax liabilities	414	66	61	381	-1	921
Subordinated liabilities	41	135	245	1,332	-395	1,358
Total liabilities	**86,172**	**3,928**	**16,736**	**45,764**	**-24,053**	**128,547**
Equity						**11,835**

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
Derivative contracts	335	10	83	3,320	-336	3,412
Receivables from customers	83,023	0	1	-19	-812	82,193
Investment assets	536	3,542	7,152	17,358	-5,264	23,324
Assets covering unit-linked contracts			10,126			10,126
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	1,303	-499	2,131
Tax assets	122	18	29	43	11	224
Total assets	**94,624**	**5,341**	**18,599**	**45,213**	**-26,572**	**137,205**
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 investment 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 shares	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						**11,084**

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 consolidated financial statements 2017.

The Financial Statements Bulletin is based on unaudited information. Since all figures in the Bulletin have been rounded off, the sum of single figures may differ from the presented sum total.

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

Adoption of IFRS 9 on 1 January 2018

On 1 January 2018, OP Financial Group adopted IFRS 9 Financial Instruments. OP Financial Group's accounting policies under IFRS 9 have been published in the Notes to the Financial Statements 2017. The effects of transition to IFRS 9 on the classification and measurement of financial instruments have been presented in OP Financial Group's Notes to the Financial Statements 2017 and Interim Report for 1 January–31 March 2018. Adjustments made to carrying amounts were recognised in equity in the opening balance sheet on the adoption date of 1 January 2018. OP Financial Group has not adjusted comparatives for prior years. OP Financial Group is continuing the development work of ECL models and related IT systems.

The alternative ratio presented previously – the ratio of impairment loss on receivables to the loan and guarantee portfolio, %, – is no longer presented because the content of the ratio is not comparable as a result of the IFRS 9 transition. "The ratio of non-performing receivables to the loan and guarantee portfolio, %", is a new alternative ratio presented.

Change in accounting policies for amortisation of fees

Following the systems development occurred in connection with the adoption of IFRS 9, OP Financial Group adopted 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 has been restated from the income statement. The change decreased net commissions and fees for Q1–4/2017 by EUR 54 million and increased net interest income by EUR 8 million. As a result, earnings before tax reported a year ago decreased by EUR 37 million. On the balance sheet of 31 December 2017, receivables from customers decreased by EUR 47 million, tax assets increased by EUR 10 million and equity decreased by EUR 37 million. These fees will be amortised for future years for the average life of private customer loans.

Adoption of IFRS 15 on 1 January 2018

OP Financial Group has applied IFRS 15, Revenue from Contracts with Customers, since 1 January 2018. 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 effects of transition to IFRS 15 have been presented in OP Financial Group's Notes to the Financial Statements 2017 and Interim Report for 1 January–31 March 2018.

The adoption of IFRS 15 did not have any effect on OP Financial Group's earnings before tax. OP Financial Group started to apply IFRS 15 using the retrospective transition method, i.e. the Q1–4/2017 data has been adjusted. Below is a description of the retrospective changes made to the specification of net commissions and fees:

- Commission income from health and wellbeing services, EUR 11 million, has been transferred from other operating income to commission income.
- Commission expenses from health and wellbeing services, EUR 5 million, have been transferred from other operating expenses to commission expenses.
- Asset management commission income and commission income from legal services, EUR 112 million, will be presented separately in future.
- Brokerage expenses of securities, EUR 12 million, have been separately divided among mutual fund charges and brokerage expenses of securities.
- Net commissions and fees have been presented as divided into segments.

Changes in presentation

The "Share of associates' profit/loss line" in the income statement will be presented in net investment income and the "Interest in associates" line in the balance sheet will be presented in investment assets in the balance sheet. A significant number of the associates are private equity fund investments which are measured at fair value through income statement under IFRS 9. Data for the reporting period a year ago has been adjusted according to the new presentation.

The Financial assets held for trading in the balance sheet will in the future be presented under investment assets according to its nature. Data for the reporting period a year ago has been adjusted according to the new presentation.

Note 2 Key figures and ratios and their formulas

	Q1–4/ 2018	Q1–4/ 2017
Return on equity (ROE), %	6.9	7.7
Return on equity (ROE) at fair value, %	5.2	6.0
Return on assets (ROA), %	0.57	0.60
Cost/income ratio, %	57	58
Ratio of non-performing receivables to loan and guarantee portfolio, %	1.0	1.2
Average personnel	12,241	12,212

ALTERNATIVE PERFORMANCE MEASURES

The Alternative Performance Measures are presented to illustrate the financial performance of business operations and to improve comparability between reporting periods.

The formulas for the used Alternative Performance Measures are presented below.

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 non-performing receivables to loan and guarantee portfolio, %

$$\frac{\text{Non-performing receivables (net)}}{\text{Loan and guarantee portfolio at period end}} \times 100$$

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, %

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

Net stable funding ratio (NSFR), %

$$\frac{\text{Available stable funding}}{\text{Required stable funding}} \times 100$$

NON-LIFE INSURANCE OPERATING RESULTS	Q1–4/ 2018	Q1–4/ 2017	Change %
EUR million			
Insurance premium revenue	1,465	1,431	2.4
Claims incurred	-1,039	-1,085	-4.2
Operating expenses	-308	-291	6.0
Amortisation adjustment of intangible assets	-18	-21	-16.7
Balance on technical account	**100**	**34**	
Net investment income	0	183	
Other income and expenses	8	-7	
Temporary exemption (overlay approach)	25		
Earnings before tax	**133**	**210**	**-36.7**

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 in the Consolidated Income Statement.

Note 3 Net interest income

EUR million	Q4/ 2018	Q4/ 2017	Q1–4/ 2018	Q1–4/ 2017
Interest income				
Receivables from credit institutions	7	7	28	27
Receivables from customers				
Loans	300	283	1,169	1,166
Finance lease receivables	6	10	23	22
Impaired loans and other commitments	0	1	1	3
Notes and bonds				
Held for trading	2	1	7	7
Measured at fair value through profit or loss	0		2	
At fair value through other comprehensive income	23		90	
Amortised cost	0		1	
Available for sale		26		105
Held to maturity		0		1
Loans and receivables		0		1
Derivative contracts				
Held for trading	164	172	703	720
Fair value hedge	-27	-29	-101	-117
Cash flow hedge	12	10	44	37
Ineffective portion of cash flow hedge	2	0	0	1
Other	2	2	8	9
Total	**491**	**483**	**1,974**	**1,983**
Interest expenses				
Liabilities to credit institutions	16	15	64	57
Liabilities to customers	17	18	60	74
Debt securities issued to the public	62	70	249	288
Subordinated liabilities				
Subordinated loans	0	1	2	2
Other	12	11	45	45
Derivative contracts				
Held for trading	133	132	591	600
Fair value hedge	-30	-29	-123	-130
Other	-28	-18	-92	-65
Other	2	2	8	10
Total	**185**	**202**	**805**	**882**
Net interest income before fair value adjustment under hedge accounting	**306**	**281**	**1,169**	**1,101**
Hedging derivatives	43	-31	-22	-114
Value changes of hedged items	-40	31	28	114
Total net interest income	**308**	**281**	**1,175**	**1,102**

Note 4 Net insurance income

EUR million	Q4/ 2018	Q4/ 2017	Q1–4/ 2018	Q1–4/ 2017
Net insurance premium revenue				
Premiums written	254	249	1,468	1,438
Insurance premiums ceded to reinsurers	-1	1	0	-5
Change in provision for unearned premiums	112	109	-10	-6
Reinsurers' share	-8	-10	-3	-3
Total	**358**	**349**	**1,454**	**1,424**
Net Non-life Insurance claims				
Claims paid	-260	-237	-951	-889
Insurance claims recovered from reinsurers	8	3	30	8
Change in provision for unpaid claims	6	2	-6	-109
Reinsurers' share	14	11	13	20
Total	**-232**	**-221**	**-915**	**-970**
Other Non-life Insurance items	0	0	-3	-3
Life Insurance risk premiums collected	8	8	29	27
Total net insurance income	**134**	**137**	**566**	**478**

Note 5 Net commissions and fees

Q1–4 2018, EUR million	Banking	Non-life Insurance	Wealth Management	Other Operations	Eliminations	Group total	Q4 2018
Commission income							
Lending	142	0		4	1	147	37
Deposits	3		0	0	0	3	1
Payment transfers	190			61	-14	238	65
Securities brokerage	0		21	0	-4	17	5
Securities issuance	4		1	4	0	8	0
Mutual funds	0		144		2	146	36
Asset management	11		56	1	-11	57	18
Legal services	24			0		24	7
Guarantees	20			0	0	20	5
Housing service	72					72	18
Insurance brokerage	41	13	10	0	-13	51	7
Life insurance total expense loadings			93			93	24
Refund of unit-linked management fees			82			82	24
Health and wellbeing services		19			-2	17	5
Other	79		6	-34	-13	37	11
Total	**586**	**32**	**413**	**36**	**-55**	**1,012**	**264**
Commission expenses							
Payment transfers	26	1	1	7	-22	13	4
Securities brokerage	0		13	0	-5	8	2
Securities issuance	1		0	1	2	3	1
Mutual funds			9		1	10	2
Asset management	3		14	2	-7	11	2
Insurance operations	-10	36	27		-13	40	8
Health and wellbeing services		7				7	2
Other	26	0	4	21	-19	32	10
Total	**46**	**44**	**68**	**30**	**-63**	**125**	**32**
Total net commissions and fees	**540**	**-12**	**345**	**6**	**8**	**887**	**232**

Q1–4 2017, EUR million	Banking	Non-life Insurance	Wealth Management	Other Operations	Eliminations	Group total	Q4 2017
Commission income							
Lending	140	0		4	1	145	35
Deposits	4			0	0	4	1
Payment transfers	194			75	-25	244	57
Securities brokerage	0		25	0	-5	19	5
Securities issuance	6		2	4	0	11	4
Mutual funds	0		144		4	147	36
Asset management	11		99	-1	-21	89	51
Legal services	23			0	0	23	6
Guarantees	19			0	0	19	5
Housing service	71					71	16
Insurance brokerage	43	15	11		-15	55	8
Life insurance total expense loadings			96			96	23
Refund of unit-linked management fees			67			67	17
Health and wellbeing services		13			-2	11	3
Other	128		7	-86	-20	28	9
Total	**639**	**28**	**450**	**-5**	**-83**	**1,029**	**276**
Commission expenses							
Payment transfers	40	1	1	28	-33	37	4
Securities brokerage	0		9		-7	2	1
Securities issuance	1		0	1	2	3	1
Mutual funds			7		3	10	2
Asset management	3	0	17	0	-7	13	4
Insurance operations	-6	39	25		-13	45	13
Health and wellbeing services		5				5	1
Other	25	0	5	29	-24	36	10
Total	**63**	**46**	**64**	**58**	**-80**	**150**	**34**
Total net commissions and fees	**576**	**-17**	**385**	**-63**	**-3**	**879**	**242**

Note 6 Net investment income

EUR million	Q4/ 2018	Q4/ 2017	Q1–4/ 2018	Q1–4/ 2017
Net income from assets at fair value through other comprehensive income (Net income from available-for-sale financial assets)				
Notes and bonds	21	24	110	83
Equity instruments	0	97	0	218
Dividend income and share of profits	4	18	11	107
Other	0	0	3	2
Impairment losses and their reversals	-1	-13	-5	-39
Total	**23**	**125**	**118**	**371**
Net income recognised at fair value through profit or loss				
Financial assets held for trading				
Notes and bonds	-3		-5	
Equity instruments	-5		11	
Dividend income and share of profits	0		3	
Derivatives	69		133	
Financial assets that shall be measured at fair value through profit or loss				
Notes and bonds	4		19	
Equity instruments	-56		-33	
Dividend income and share of profits	7		63	
Financial assets designated as at fair value through profit or loss				
Notes and bonds	8		7	
Equity instruments	-7		-24	
Dividend income and share of profits	-3		14	
Derivatives	-1		-3	
Insurance				
Notes and bonds		16		19
Equity instruments		3		14
Derivatives		31		34
Banking and Other operations				
Securities trading		32		164
Foreign exchange trading		6		37
Investment property	-22	9	-11	29
Other		1		3
Total	**-10**	**99**	**174**	**301**
Net income carried at amortised cost				
Loans and other receivables	1	3	13	10
Impairment losses and their reversals	1	-2	-2	-3
Total	**1**	**2**	**11**	**7**
Life Insurance				
Interest credited on customers' insurance savings	-20	-21	-85	-89
Change in supplementary interest rate provisions	-12	-41	38	48
Other technical items	-23	-67	-15	-111
Total	**-54**	**-129**	**-62**	**-152**
Non-life Insurance				
Unwinding of discount	-7	-7	-28	-32
Total	**-7**	**-7**	**-28**	**-32**
Associates				
Accounted for using the fair value method	5		21	
Consolidated using the equity method	12	14	19	27
Total	**16**	**14**	**41**	**27**
Total net investment income	**-31**	**104**	**254**	**522**

Note 7 Impairment loss on receivables

EUR million	Q4/ 2018	Q4/ 2017	Q1–4/ 2018	Q1–4/ 2017
Receivables written off as loan or guarantee losses	-27	-15	-70	-79
Recoveries of receivables written off	7	4	15	15
ECL on receivables from customers and off-balance-sheet items	-1		10	
ECL on notes and bonds*	-1		-1	
Increase in impairment losses on individually assessed receivables		-23		-68
Decrease in impairment losses on individually assessed receivables		17		91
Collectively assessed impairment losses		-3		-7
Total impairment loss on receivables	**-22**	**-20**	**-46**	**-48**

* The expected credit losses on notes and bonds in insurance operations is presented in net investment income at fair value under impairment loss and their reversal through other comprehensive income.

Receivables from customers and off-balance-sheet items, EUR million	Stage 1	Stage 2	Stage 3	Total
	12-month	Lifetime	Lifetime	
Loss allowance 1 January 2018	**31**	**80**	**431**	**543**
Transfers from Stage 1 to Stage 2	-2	18		16
Transfers from Stage 1 to Stage 3	0		25	25
Transfers from Stage 2 to Stage 1	2	-16		-14
Transfers from Stage 2 to Stage 3		-8	23	15
Transfers from Stage 3 to Stage 2		9	-30	-21
Transfers from Stage 3 to Stage 1	1		-7	-6
Increases due to origination and acquisition	13	7	13	34
Decreases due to derecognition	-9	-12	-22	-43
Changes in risk parameters (net)	4	3	28	35
Decrease in allowance account due to write-offs	0	0	-52	-52
Expected credit losses (ECL)	**9**	**3**	**-22**	**-10**
Loss allowance 31 December 2018	**40**	**83**	**409**	**532**
Expected credit losses Q4/2018	**7**	**-8**	**2**	**1**

Notes and bonds, EUR million	Stage 1	Stage 2	Stage 3	Total
	12-month	Lifetime	Lifetime	
Loss allowance 1 January 2018	**5**	**0**	**0**	**5**
Transfers from Stage 1 to Stage 2	0	1		1
Transfers from Stage 1 to Stage 3	0		2	2
Transfers from Stage 2 to Stage 1	0	0		0
Transfers from Stage 2 to Stage 3		0	0	0
Transfers from Stage 3 to Stage 2		0	0	0
Transfers from Stage 3 to Stage 1	0		0	0
Increases due to origination and acquisition	2	3	2	7
Decreases due to derecognition	-2	0		-2
Changes in risk parameters (net)	0			0
Changes due to update in the methodology for estimation (net)	1		0	1
Expected credit losses (ECL)	**1**	**4**	**3**	**8**
Loss allowance 31 December 2018	**6**	**4**	**4**	**14**
Expected credit losses Q4/2018	**1**	**3**	**-1**	**3**

Exposures within the scope of accounting for expected credit losses by impairment stage 31 December 2018

On-balance-sheet exposure, EUR million	Stage 1	Stage 2			Stage 3	Total exposure
Receivables from customers (gross)		Not more than 30 DPD	More than 30 DPD	Total		
Non-banking corporates	31,130	3,454	219	3,673	782	35,585
Households	45,584	4,604	241	4,845	448	50,877
Public-sector entities	1,265		6	6		1,272
Other	2,722		0	0	1	2,723
Total	**80,702**	**8,057**	**466**	**8,524**	**1,230**	**90,456**
Off-balance-sheet limits						
Non-banking corporates	4,488	650	128	778	18	5,284
Households	3,231	53	3	56	3	3,290
Public-sector entities	763		9	9		772
Other	1,409	1		1	0	1,410
Total	**9,890**	**703**	**141**	**844**	**21**	**10,755**
Other off-balance-sheet commitments						
Non-banking corporates	6,365	262		262	34	6,661
Households	1,768	3		3		1,771
Public-sector entities	443					443
Other	385	0		0	0	385
Total	**8,961**	**265**		**265**	**34**	**9,260**
Notes and bonds						
Total	**16,896**	**332**		**332**	**11**	**17,240**
Total exposures within the scope of accounting for expected credit losses	**116,450**	**9,358**	**607**	**9,965**	**1,297**	**127,712**

Loss allowance by stage 31 December 2018

On-balance-sheet exposures and related off-balance-sheet limits* EUR million	Stage 1	Stage 2			Stage 3	Total loss allowance
Receivables from customers		Not more than 30 DPD	More than 30 DPD	Total		
Non-banking corporates	-29	-44	-2	-45	-336	-410
Households	-5	-30	-5	-35	-73	-113
Public-sector entities	-1		0	0		-1
Other	-2		0	0		-2
Total	**-37**	**-74**	**-6**	**-81**	**-409**	**-526**
Other off-balance-sheet commitments**						
Non-banking corporates	-2	-2		-2	0	-5
Households	0	0		0		0
Public-sector entities	0					0
Other	0					0
Total	**-3**	**-3**		**-3**	**0**	**-6**
Notes and bonds***	**-6**	**-4**		**-4**	**-4**	**-14**
Total	**-46**	**-81**	**-6**	**-87**	**-413**	**-546**

* Loss allowance is recognised as one component to deduct the balance sheet item.

** Loss allowance is recognised in provisions and other liabilities in the balance sheet.

*** Loss allowance is recognised in the fair value reserve in other comprehensive income.

Note 8 Classification of financial assets and liabilities

Assets, EUR million	Amortised cost	Fair value through other comprehen-sive income	Fair value through profit or loss			Hedging derivatives	Total
			Financial assets held for trading	Financial assets designated as at fair value through profit or loss	Must be measured at fair value through profit or loss		
Cash and cash equivalents	12,350						12,350
Receivables from credit institutions	183						183
Derivative contracts			2,905			577	3,482
Receivables from customers	87,081						87,081
Assets covering unit-linked contracts				9,771			9,771
Notes and bonds	4	17,124	502	2,227	451		20,309
Equity instruments		0	81	245	1,130		1,456
Other financial assets	2,098						2,098
Financial assets	**101,715**	**17,124**	**3,488**	**12,243**	**1,581**	**577**	**136,730**
Other than financial instruments							3,652
Total 31 December 2018	**101,715**	**17,124**	**3,488**	**12,243**	**1,581**	**577**	**140,382**

Assets, EUR million	Loans and other receivables	Invest-ments held to maturity	Available-for-sale financial assets	Financial assets at fair value through profit or loss*	Hedging derivatives	Total
Cash and cash equivalents	12,937					12,937
Receivables from credit institutions	504					504
Derivative contracts				3,100	312	3,412
Receivables from customers	82,193					82,193
Assets covering unit-linked contracts				10,126		10,126
Notes and bonds		40	16,372	3,899		20,311
Equity instruments			1,399	220		1,620
Other financial assets	2,293					2,293
Financial assets	**97,927**	**40**	**17,771**	**17,346**	**312**	**133,396**
Other than financial instruments						3,809
Total 31 December 2017	**97,927**	**40**	**17,771**	**17,346**	**312**	**137,205**

* 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		4,807		4,807
Derivative contracts	2,400		421	2,821
Liabilities to customers		66,112		66,112
Insurance liabilities		9,476		9,476
Liabilities from unit-linked insurance and investment contracts	9,812			9,812
Debt securities issued to the public		30,456		30,456
Subordinated liabilities		1,358		1,358
Other financial liabilities		2,302		2,302
Financial liabilities	**12,212**	**114,511**	**421**	**127,143**
Other than financial liabilities				1,404
Total 31 December 2018	**12,212**	**114,511**	**421**	**128,547**

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		2,275		2,275
Financial liabilities	**12,730**	**111,172**	**454**	**124,356**
Other than financial liabilities				1,765
Total 31 December 2017	**12,730**	**111,172**	**454**	**126,122**

Bonds included in debt securities issued to the public are carried at amortised cost. On 31 December 2018, the fair value of these debt instruments was EUR 242 million (385) 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. 2018, EUR million	Level 1	Level 2	Level 3	Total
Recognised at fair value through profit or loss				
Equity instruments	592	185	679	1,456
Debt instruments	2,107	762	312	3,181
Unit-linked contracts	6,337	3,434		9,771
Derivative financial instruments	0	3,425	57	3,482
Fair value through other comprehensive income				
Equity instruments		0		0
Debt instruments	13,885	3,026	214	17,124
Total	**22,921**	**10,831**	**1,262**	**35,014**

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 liabilities on 31 Dec. 2018, EUR million	Level 1	Level 2	Level 3	Total
Recognised at fair value through profit or loss				
Unit-linked contracts	6,364	3,448		9,812
Other		0		0
Derivative financial instruments	10	2,767	44	2,821
Total	**6,373**	**6,215**	**44**	**12,633**

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**

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	Fair value through other comprehen-sive income	Total assets
Balance sheet 31 December 2017	454	131	931	1,516
Effects of IFRS 9 transition 1 Jan. 2018	601		-593	8
Opening balance 1 January 2018	1,055	131	338	1,525
Total gains/losses in profit or loss	-382	-75	-1	-457
Total gains/losses in other comprehensive income			0	0
Purchases	201		3	203
Sales	-164		-1	-166
Issues				0
Settlements	-15		-10	-24
Transfers into Level 3	296		141	437
Transfers out of Level 3			-256	-256
Closing balance 31 December 2018	**991**	**57**	**214**	**1,262**

Financial liabilities, EUR million	Derivative contracts	Total liabilities
Opening balance 1 January 2018	92	92
Total gains/losses in profit or loss	-48	-48
Closing balance 31 December 2018	**44**	**44**

Total gains/losses included in profit or loss by item on 31 Dec. 2018

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	-411	29		-382
Unrealised net gains	-26		0	-27
Total net gains	**-438**	**29**	**0**	**-409**

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 table above. 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 2018.

Note 10 Derivative contracts

	Nominal values / residual term to maturity				Fair values*	
31 December 2018, EUR million	**<1 year**	**1–5 years**	**>5 years**	**Total**	**Assets**	**Liabilities**
Interest rate derivatives	30,535	84,181	70,116	184,833	2,060	1,374
Cleared by the central counterparty	9,278	38,670	36,704	84,652	8	12
Currency derivatives	28,646	6,784	3,404	38,835	1,018	1,120
Equity and index derivatives		3		3	0	0
Credit derivatives	15	189	2	206	4	9
Other derivatives	208	364	8	580	34	29
Total derivatives	**59,404**	**91,522**	**73,530**	**224,456**	**3,116**	**2,532**

	Nominal values / residual 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**

* 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 2018, 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: Derivative contracts***	Financial assets not set off in the balance sheet: Collateral received	Net amount
Derivatives	4,416	-934	3,482	-1,823	-490	1,169

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: Derivative contracts***	Financial assets not set off in the balance sheet: Collateral received	Net amount
Derivatives	4,341	-928	3,412	-1,928	-412	1,072

Financial liabilities

31 December 2018, 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: Derivative contracts***	Financial liabilities not set off in the balance sheet: Collateral given	Net amount
Derivatives	3,887	-1,066	2,821	-1,823	-703	295

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: Derivative contracts***	Financial liabilities not set off in the balance sheet: Collateral given	Net amount
Derivatives	4,112	-1,085	3,026	-1,928	-717	381

* Incl. daily cleared derivatives on a net basis included in cash and cash equivalents, totalling -140 (-161) 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, in 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 Finance Finland 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 2018, EUR million	Not impaired (gross)	Expected credit losses (ECL)	Balance sheet value
Receivables from credit institutions and customers			
Receivables from credit institutions	184	1	183
Receivables from customers	85,442	521	84,921
of which bank guarantee receivables	10	0	10
Finance leases	2,154	4	2,150
Total	**87,780**	**526**	**87,254**
Receivables from credit institutions and customers by sector			
Non-banking corporate sector	32,405	410	31,995
Financial institutions and insurance companies	1,065	2	1,064
Households	51,511	105	51,406
Non-profit organisations	814	6	808
Public sector entities	1,985	3	1,981
Total	**87,780**	**526**	**87,254**

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	80,247	627	80,875	421	70	80,383
of which 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**

Doubtful and forborne receivables 31 December 2018, 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)	Expected credit losses (ECL)	Receivables from credit institutions and custo-mers (net)
More than 90 days past due		614	614	229	385
Unlikely to be paid		426	426	148	278
Forborne receivables	2,137	340	2,477	62	2,414
Total	**2,137**	**1,380**	**3,517**	**440**	**3,077**

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**

Key ratio, %	31 Dec. 2018	31 Dec. 2017
Exposures individually assessed for impairment/ECL, % of doubtful receivables	12.5 %	12.6 %

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. Forborne receivables are in ECL measurement at stage two or three.

Note 13 Insurance liabilities

EUR million	31 Dec. 2018	31 Dec. 2017
Provision for unpaid claims		
Provision for unpaid claims for annuities	1,510	1,516
Other provision for unpaid claims	1,056	1,054
Reserve for decreased discount rate (value of hedges of insurance liability)	21	-12
Total	2,588	2,557
Provisions for unearned premiums	569	585
Liabilities from unit-linked insurance and investment contracts		
Liabilities from unit-linked insurance	8,298	8,747
Investment contracts	1,513	1,411
Total	9,812	10,158
Life insurance insurance liabilities	6,319	6,807
Total	**19,288**	**20,108**

Note 14 Debt securities issued to the public

EUR million	31 Dec. 2018	31 Dec. 2017
Bonds	9,470	8,974
Covered bonds	10,720	10,750
Certificates of deposit, commercial papers and ECPs	10,266	7,117
Total	**30,456**	**26,841**

Note 15 Fair value reserve after income tax

EUR million	Fair value through other comprehensive income: Notes and bonds	Equity instruments	Temporary exemption (overlay approach)	Cash flow hedging	Total
Balance sheet 31 Dec. 2017	**135**	**25**		**16**	**176**
Effects of IFRS 9 transition 1 Jan. 2018	-2	-25			-28
Opening balance 1 January 2018	**133**	**0**		**16**	**148**
Fair value changes	-135	0	-35	66	**-104**
Capital gains transferred to income statement	-37		-8		**-45**
Impairment loss transferred to income statement			17		**17**
Transfers to net interest income				-45	**-45**
Deferred tax	34	0	5	-4	**35**
Closing balance 31 December 2018	**-5**		**-21**	**33**	**7**

EUR million	Available-for-sale financial assets: 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**

The fair value reserve before tax amounted to EUR 9 million (220) and the related deferred tax liability amounted to EUR 2 million (44). At the end of the reporting period, positive mark-to-market valuations of equity instruments in the fair value reserve totalled EUR 82 million (146) and negative mark-to-market valuations EUR 54 million (38), owing to the application of the overlay approach.The loss allowance on notes and bonds recognised at fair value through other comprehensive income totalled EUR -6 million in the fair value reserve.

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. 2018	31 Dec. 2017
Collateral given on behalf of own liabilities and commitments		
Pledges	171	110
Loans (as collateral for covered bonds)	13,700	13,266
Other	5,775	5,663
Total collateral given*	**19,647**	**19,039**
Secured derivative liabilities	889	889
Other secured liabilities	4,149	4,146
Covered bonds	10,720	10,750
Total	**15,758**	**15,784**

* In addition, bonds with a book value of EUR 5.1 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 permission, they are not presented in the table above.

Note 17 Off-balance-sheet items

EUR million	31 Dec. 2018	31 Dec. 2017
Guarantees	775	643
Other guarantee liabilities	2,162	1,936
Loan commitments	12,577	12,176
Commitments related to short-term trade transactions	283	372
Other*	1,195	1,121
Total	**16,993**	**16,247**

* Of which Non-life Insurance commitments to private equity funds amount to EUR 203 million (208).

Note 18 Capital adequacy for credit institutions

	31 Dec. 2018	31 Dec. 2017
Capital base, EUR million		
OP Financial Group's equity capital	11,835	11,121
The effect of insurance companies on the Group's shareholders' equity is excluded	189	92
Fair value reserve, cash flow hedging	-33	-16
Common Equity Tier 1 (CET1) before deductions	**11,991**	**11,197**
Intangible assets	-710	-717
Excess funding of pension liability and valuation adjustments	-76	-31
Cooperative capital deducted from own funds	-147	-148
Planned profit distribution	-94	-90
Shortfall of ECL minus expected losses	-288	-320
Common Equity Tier 1 (CET1)	**10,677**	**9,891**
Subordinated loans to which transitional provision applies	80	81
Additional Tier 1 capital (AT1)	**80**	**81**
Tier 1 capital (T1)	**10,757**	**9,973**
Debenture loans	995	1,121
Tier 2 Capital (T2)	**995**	**1,121**
Total capital base	**11,752**	**11,093**

A prudent valuation adjustment of EUR 27 million (20) has been deducted from CET1 capital.

Terminated cooperative capital contributions of EUR 147 million (148) refunded to customers in January 2019, as permitted by the supervisor, were deducted from CET1 capital. The Group has applied transitional provisions regarding old capital instruments to subordinated loans. In the calculation of capital adequacy and the leverage ratio, the Group has not applied the IFRS 9 transitional provision.

	31 Dec. 2018	31 Dec. 2017
Risk exposure amount, EUR million		
Credit and counterparty risk	**41,602**	**39,383**
Standardised Approach (SA)	**3,878**	**3,859**
Central government and central banks exposure*	293	18
Credit institution exposure	7	8
Corporate exposure	2,561	2,423
Retail exposure	961	1,057
Equity investments	12	
Other*	43	353
Internal Ratings-based Approach (IRB)	**37,724**	**35,525**
Credit institution exposure	1,083	1,054
Corporate exposure	23,474	21,438
Retail exposure	5,276	4,959
Equity investments**	6,659	7,002
Other	1,233	1,072
Market and settlement risk (Standardised Approach)	**1,319**	**1,179**
Operational risk (Standardised Approach)	**4,136**	**3,958**
Valuation adjustment (CVA)	**175**	**205**
Total risk exposure amount	**47,233**	**44,725**
Risk weight floors based on ECB's decision	**4,893**	**4,492**
Total risk exposure amount including risk weight floors	**52,126**	**49,216**

* EUR 261 million (283 in other exposures a year ago) of government 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. 2018	31 Dec. 2017
CET1 capital ratio	20.5	20.1
Tier 1 ratio	20.6	20.3
Capital adequacy ratio	22.5	22.5

Ratios, fully loaded, %	31 Dec. 2018	31 Dec. 2017
CET1 capital ratio	20.5	20.1
Tier 1 ratio	20.5	20.1
Capital adequacy ratio	22.4	22.4

Ratios excluding the risk weight floors, %	31 Dec. 2018	31 Dec. 2017
CET1 capital ratio	22.6	22.1
Tier 1 ratio	22.8	22.3
Capital adequacy ratio	24.9	24.8

The effect of risk weight floors on the CET 1 ratio was -2.1 percentage points.

Capital requirement, EUR million	31 Dec. 2018	31 Dec. 2017
Capital base	11,752	11,093
Capital requirement	7,448	7,027
Buffer for capital requirements	4,304	4,067

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. The ECB's P2R has been effective since 1 January 2017.

Leverage ratio, EUR million	31 Dec. 2018	31 Dec. 2017
Tier 1 capital (T1)	10,757	9,973
Total exposure	125,510	127,027
Leverage ratio, %	8.6	7.9

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

Overview of RWAs (EU-OV1), EUR million		RWAs		Minimum capital requirements
		31 Dec. 2018	30 Sept. 2018	31 Dec. 2018
1	**Credit risk (excluding CCR)**	**40,833**	**40,218**	**3,267**
2	Of which the standardised approach	4,798	4,532	384
3	Of which the foundation IRB (FIRB) approach	24,100	23,670	1,928
4	Of which the advanced IRB (AIRB) approach	5,276	5,173	422
5	Of which equity IRB under the simple risk-weighted approach	205	390	16
5a	Of which equity investments under PD/LGD method	6,454	6,453	516
6	**CCR**	**638**	**674**	**51**
7	Of which mark to market	463	447	37
12	Of which CVA	175	227	14
13	**Settlement risk**	**0**	**0**	**0**
14	**Securitisation exposures in the banking book (after the cap)**	**46**	**41**	**4**
15	Of which IRB approach	46	41	4
19	**Market risk**	**1,319**	**1,393**	**106**
20	Of which the standardised approach	1,319	1,393	106
23	**Operational risk**	**4,136**	**4,136**	**331**
25	Of which standardised approach	4,136	4,136	331
27	**Amounts below the thresholds for deduction (subject to 250% risk weight)**	**261**	**312**	**21**
29	**Total**	**47,233**	**46,773**	**3,779**
30	**Risk weight floors based on ECB's decision**	**4,893**	**4,915**	**391**
31	**Total risk exposure amount including risk weight floors**	**52,126**	**51,688**	**4,170**

During the quarter, total risk exposure increased by 1.0%.

Risk weight floors based on the ECB's decision apply to corporate exposures of retail exposures other than SME corporate exposures. In these, floors set for the average risk weight are 15.4% for mortgage-backed securities and 32.7% for other than mortgage-backed securities. The ECB's risk weight floor will be effective until the annulment of the decision.

Note 19 Exposures by rating category

Retail exposures by rating category (AIRB)

All retail exposures 31 December 2018

Rating category	Balance sheet items, exposure value, (EAD) EUR million	Off-balance-sheet items, exposure value (EAD), EUR million	Average CF, %	Average PD, %	Average LGD, %	RWA, EUR million	Average risk weight, %	Expected losses, EUR million
Personal customers, total	**49,985**	**1,817**	**54.1**	**0.7**	**16.8**	**4,146**	**7.4**	**159**
A	31,412	1,319	52.8	0.0	15.9	571	1.7	2
B	10,647	399	56.9	0.1	15.9	523	4.7	2
C	3,915	73	61.6	0.5	22.5	690	17.3	4
D	2,172	23	65.6	2.3	21.0	795	36.2	11
E	1,429	3	69.5	20.0	21.4	1,205	84.1	59
F	409			100.0	23.5	362	88.5	80
Corporate customers, total	**2,099**	**173**	**68.4**	**3.6**	**40.1**	**1,130**	**47.1**	**71**
1.0–2.0	1	0	65.9	0.0	26.4	0	2.0	0
2.5–5.5	591	48	67.3	0.4	26.7	88	13.7	1
6.0–7.0	838	73	68.3	1.4	42.2	378	41.5	5
7.5–8.5	457	39	67.7	4.9	48.3	368	74.2	12
9.0–10.0	154	13	76.3	24.7	49.8	208	124.7	21
11.0–12.0	57	0	75.7	100.0	59.2	88	153.8	33
Total	**52,084**	**1,990**	**55.0**	**0.9**	**17.8**	**5,276**	**9.0**	**230**

All retail exposures 31 December 2017

Rating category	Balance sheet items, exposure value, (EAD) EUR million	Off-balance-sheet items, exposure value (EAD), EUR million	Average CF, %	Average PD, %	Average LGD, %	RWA, EUR million	Average risk weight, %	Expected losses, EUR million
Personal customers, total	**48,246**	**1,622**	**53.1**	**0.7**	**17.0**	**4,159**	**7.5**	**157**
A	29,908	879	52.4	0.0	15.8	528	1.7	2
B	10,536	642	53.8	0.1	17.2	592	5.3	3
C	3,854	74	56.6	0.5	21.9	666	17.0	4
D	2,168	23	52.7	2.3	20.6	789	36.0	10
E	1,365	3	45.0	20.0	20.8	1,142	83.5	56
F	415			100.0	25.1	441	106.3	82
Corporate customers, total	**1,459**	**137**	**68.4**	**3.4**	**38.3**	**800**	**42.6**	**42**
2.5–5.5	459	41	67.9	0.4	22.6	57	11.5	0
6.0–7.0	569	57	66.7	1.3	42.6	257	41.1	4
7.5–8.5	285	28	70.6	5.1	47.6	221	70.5	8
9.0–10.0	103	11	74.4	23.4	47.6	127	111.2	12
11.0–12.0	43			100.0	65.3	138	320.6	18
Total	**49,706**	**1,759**	**54.1**	**0.8**	**17.7**	**4,959**	**8.6**	**199**

The defaults, i.e. 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 2018

Rating category	Balance sheet items, exposure value, (EAD) EUR million	Off-balance-sheet items, 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	748	381	84.2	0.0	44.4	166	14.7	0
2.5–5.5	16,058	3,815	72.7	0.2	43.8	8,031	40.4	20
6.0–7.0	7,823	1,464	72.1	1.3	43.0	8,067	86.8	52
7.5–8.5	4,082	679	72.6	4.5	43.0	5,673	119.1	91
9.0–10.0	672	140	68.4	19.9	43.4	1,538	189.4	69
11.0–12.0	658	22	60.7	100.0	44.1			301
Total	**30,041**	**6,502**	**73.0**	**1.5**	**43.5**	**23,474**	**65.4**	**533**

31 December 2017

Rating category	Balance sheet items, exposure value, (EAD) EUR million	Off-balance-sheet items, 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	667	214	93.3	0.0	44.7	128	14.6	0
2.5–5.5	14,933	3,867	72.7	0.2	44.5	7,335	39.0	18
6.0–7.0	6,622	1,376	69.7	1.3	44.0	6,803	85.1	45
7.5–8.5	3,895	763	70.0	4.3	44.1	5,596	120.1	89
9.0–10.0	681	142	62.5	19.9	44.2	1,576	191.5	72
11.0–12.0	717	26	59.2	100.0	45.0			335
Total	**27,516**	**6,388**	**71.9**	**1.5**	**44.3**	**21,438**	**64.7**	**560**

The defaults, i.e. 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 2018		31 December 2017	
	Life Insurance	Non-life Insurance	Life Insurance	Non-life Insurance
Eligible capital	**1,297**	**818**	**1,317**	**902**
Solvency capital requirement (SCR)				
Market risk	732	421	759	460
Insurance risk	351	281	394	289
Counterparty risk	30	36	27	40
Operational risk	34	45	36	45
Diversification benefits and loss absorbency	-570	-162	-541	-169
Total	578	621	674	666
Buffer for SCR	**719**	**197**	**643**	**236**
Solvency ratio (SCR), %	**225**	**132**	**195**	**135**
Solvency ratio (SCR), % (excluding transitional provision)	**176**	**132**	**151**	**135**

The figures are according to OP Financial Group's estimate and transitional provisions have been taken into account in them.

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

EUR million	31 December 2018	31 December 2017
OP Financial Group's equity capital	**11,835**	**11,121**
Hybrid instruments and debenture bonds	1,075	1,202
Other sector-specific items excluded from capital base	-349	-236
Goodwill and intangible assets	-1,501	-1,525
Insurance business valuation differences*	735	824
Proposed profit distribution	-94	-90
Items under IFRS deducted from capital base**	-46	3
Shortfall of ECL minus expected losses	-262	-294
Conglomerate's capital base, total	**11,393**	**11,005**
Regulatory capital requirement for credit institutions***	6,528	6,107
Regulatory capital requirement for insurance operations*	1,199	1,340
Conglomerate's total minimum capital requirement	**7,727**	**7,447**
Conglomerate's capital adequacy	**3,666**	**3,558**
Conglomerate's capital adequacy ratio (capital base/minimum of capital base), %	**147**	**148**

* 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 %.

Transitional provisions and the risk weight floors have been taken into account in figures. The risk weight floors decreased the ratio by approximately 15 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 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 2017.

Financial reporting in 2019

Time of publication of 2018 reports:

OP Financial Group's Report by the Executive Board and Financial Statements for 2018	Week 9
OP Financial Group's Corporate Governance Statement 2018	Week 9
OP Financial Group's Annual Review 2018 (incl. CSR Report)	Week 9

Schedule for Interim Reports in 2019:

Interim Report Q1/2019	7 May 2019
Interim Report H1/2019	30 July 2019
Interim Report Q1–3/2019	29 October 2019

Helsinki, 5 February 2019

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