OP Financial Group's Interim Report 1 January–30 September 2017

OP Financial Group's Interim Report for 1 January–30 September 2017: We are continuing to invest in present-day business reform; stable financial performance and in line with expectations

Earnings level in line with expectations, deposits and assets under management on the increase

- Earnings before tax amounted to EUR 873 million (921). Expenses rose and non-recurring income was lower than a year ago.
- Total income was 4% higher than a year ago. Net interest income increased by 2% and net commissions and fees by 6%. Net insurance income decreased by 19%.
- Expenses increased as expected, being 12% higher than a year ago, due mainly to an increase in investments related to the reform of the present-day business.
- Impairment loss on receivables, EUR 28 million (36), remained low and accounted for 0.04% of loans and receivables.
- The CET1 ratio was 19.2% (20.1) on 30 September 2017.
- **Banking:** The loan portfolio increased by 4% and deposits by 9% in the year to September. Banking net interest income increased by 5% and earnings before tax by 14%, supported by investment income.
- **Non-life Insurance:** Insurance premiums from private customers increased by 3%, while those from corporate customers decreased slightly. Non-life Insurance earnings were eroded particularly by lower net insurance income resulting from bringing forward the plan to reduce the discount rate.
- **Wealth Management:** Assets under management increased by 6%. Wealth Management earnings before tax increased by 4% as a result of higher net commissions and fees.
- **Other Operations:** Significant investments in the development of services reduced earnings.
- Timo Ritakallio, LL.M., MBA and D.Sc. (Tech.), has been appointed OP Financial Group's new President and Executive Chairman. He will take up his duties in March 2018. President and Executive Chairman Reijo Karhinen will retire on 1 February 2018, based on his executive contract.
- Full-year earnings for 2017 are expected to be about the same as or lower than those for 2016 due to increasing development costs and other expenses arising from strategy implementation.

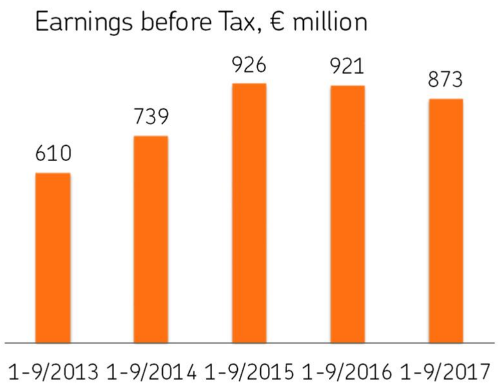
- Our development programme at annual level of over EUR 400 million is proceeding as planned.
  - Alongside the basic system reforms of our present-day business, development projects originating from the relevant authorities and legislation are still at the core of development work.
  - The service range related to housing widened as OP Home marketplace and related housing service search were launched. OP also introduced several new investment solutions into the market as well as an equity-based crowdfunding service. OP continued the development work in the field of mobility services and fully digital insurance services.
  - In operational efficiency enhancement, steps were taken to utilise robotics more.
- During the reporting period, OP Financial Group opened Pohjola Hospitals in Oulu and Kuopio.
- In the reporting period, the number of OP cooperative banks' owner-customers increased by almost 63,000 to 1.8 million and that of OP Financial Group's joint banking and insurance customers by 30,000 to 1.8 million.
- OP bonuses increased by 6% to EUR 164 million (154).
- OP Financial Group is currently building a new and proactive operating model for updating employee competencies in an effort to prepare for a change and reduction in work performed by individuals caused by digitisation and automation.

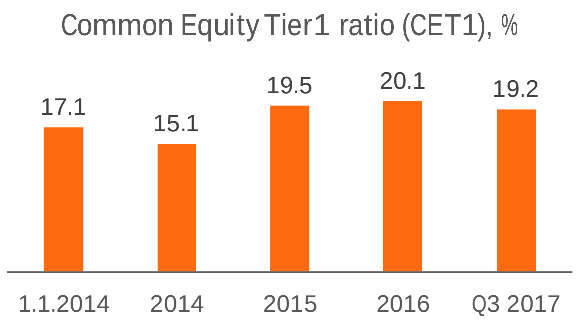
OP Financial Group's key indicators

	Q1–3/2017	Q1–3/2016	Change, %	Q1–4/2016
EBT, € million	873	921	-5.1	1,138
Banking	513	448	14.4	574
Non-life Insurance	137	206	-33.4	244
Wealth Management	190	183	4.3	226
Other Operations	32	83	-61.3	95
New OP bonuses accrued to owner-customers	164	154	6.0	208
	30 Sept. 2017	30 Sept. 2016	Change, %	31 Dec. 2016
Common Equity Tier 1 (CET1) ratio, %	19.2	19.7	-0.5*	20.1
Return on economic capital, % **	21.4	22.2	-0.8*	22.7
Ratio of capital base to minimum amount of capital base (under the Act on the Supervision of Financial and Insurance Conglomerates), % ***	146	164	-18*	170
Ratio of impairment loss on receivables to loan and guarantee portfolio, %	0.04	0.06	0.0*	0.09
Owner-customers (1,000)	1,810	1,719	5.3	1,747

Comparatives deriving from the income statement are based on figures reported for the corresponding period in 2016. Unless otherwise specified, balance sheet and other cross-sectional figures on 31 December 2016 are used as comparatives. In the reporting period, non-recurring items included VAT refunds of EUR 22 million and a 19-million-euro profit from the sale of the portfolio of agreements and POS terminals of merchant acquiring and POS terminal services. A non-recurring item a year ago included a gain from the sale of Visa Europe Ltd, totalling EUR 71 million.

* Change in ratio
** 12-month rolling
*** The FiCo ratio has been calculated under Solvency II transitional provisions.





Comments by Reijo Karhinen, President and Group Executive Chairman

OP Financial Group's financial performance remained strong and in line with expectations. January–September earnings were close to those reported for prior years while being close to all-time high earnings, despite a significant increase in development expenditure. The exceptionally large increase in expenses is a direct consequence of our dedicated efforts to reinvent ourselves as specified in our strategy. I find it particularly positive that net commissions and fees increased and growth in net interest income strengthened in an exceptionally challenging interest rate environment. Banking and Wealth Management improved their earnings supported by strong income performance. Non-life Insurance earnings and growth did not reach the levels reported for previous years. Wealth Management volume growth was brisk across the board. In Banking, the growth rate of deposits was clearly and that of the loan portfolio was slightly faster than the market average.

It is gratifying to see that our corporate image and employer brand have remained the best in the sector according to a survey conducted this autumn. The role of reputation, trust and attraction will only increase in a digital operating environment where customers and stakeholder groups will require of a company not only increasingly better customer experience but also action and values that are relevant to them.

During the reporting period, we continued building service packages in the field of health and wellbeing, mobility and housing, as specified in our strategy, that go beyond industry boundaries. We launched several new products and services. By giving a weighting to our business in a new way, we want to respond to change in customer behaviour, create conditions for improved customer experience and diversify our revenue generation. At the same time, we offered a considerable number of new career opportunities.

OP has a strong earnings power when facing a drastic financial-sector transformation that entails significant costs. During the next few years, we need to implement a very extensive investment programme, create new business models and new revenue generation as well as a large-scale update of employee competencies. Meanwhile, we must also ensure our price competitiveness. The speed of the change and increasing efficiency requirements will make our reinvention challenging.

In this moment too, a real driver of change lies in a new way of thinking and readiness to reinvent oneself. In reinvention, the enhancement of employee competencies is gathering pace along with the development of systems. The ability to learn new things is everyone's key asset in the future. Transformation in the employment landscape and increasingly accelerating digitisation will in the years to come shake up not only businesses but also entire sectors. The acute and profound change is not based on economic trends and will require of the entire society reforms never seen before. Jobs will disappear and new ones be created, but more and more often work duties and the skills they require will change.

As one of the pioneers in digitisation, OP will be at the forefront in encountering the transformation in the employment landscape. In this situation, OP's strong earnings power and values will direct us to bear greater responsibility for the enhancement of competencies of our personnel and for their new career paths. It is everyone's interests that the force and speed of change will not take us by surprise: it is necessary to be more open and more proactive in communicating changes in competence needs. It is crucial to find tools to prevent job displacement together with the personnel.

While digitisation challenges us, it will, however, benefit the Finnish economy significantly. Finland will face the change in the operating environment in a favourable economic situation. Our economy has just gathered momentum and the growth is on a broad basis. The virtuous upward spiral is likely to strengthen next year. Now it is high time to make reforms. Sufficient energy must be found in the economic policy not only in respect of efforts to reform health and social services but also of conditions for managing and succeeding in the digital world.

OP Financial Group's Interim Report for 1 January–30 September 2017

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Operating environment

In the third quarter, world economic growth continued to grow on a broad basis, showing a brisk rate. Economic confidence improved further. Economic growth in the euro zone has improved its rate more than expected, but the inflation rate has remained calm, though.

Euribor rates remained virtually unchanged. Interest rates of interest rate swaps have risen slightly during the year.

In October, the European Central Bank announced that it would continue its asset purchase programme until September 2018. However, the purchases will decrease to EUR 30 billion a month from January. According to the ECB, the main refinancing rates will remain at their current levels even after the end of the asset purchase programme.

The Finnish economy continued to grow strongly and on a broad basis. Not only the manufacturing sector but also services and trade showed brisk recovery. Employment improved and consumer confidence remained high. Business profitability improved and fixed investments increased.

In the housing market, new residential construction and sales of new homes remained lively. The prices of old homes rose slightly more than before but still moderately.

Favourable economic development is expected to continue in the near future, both in Finland and the rest of the euro area. The inflation rate should remain below the target level, and the ECB is expected to normalise its policy at a slow pace.

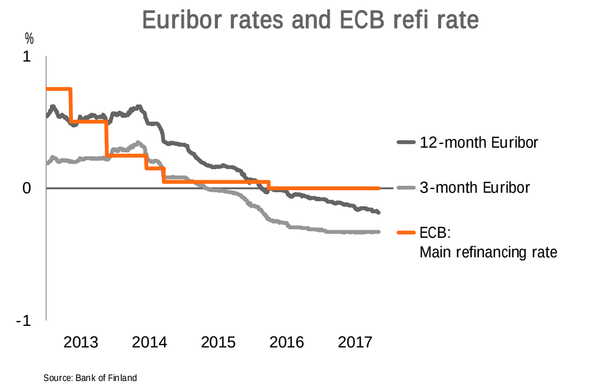
Geopolitical risks, in particular, will cast a shadow over the outlook in the near future. Finnish economic recovery has only begun and difficulties in the export market could undermine the economy more than usual.

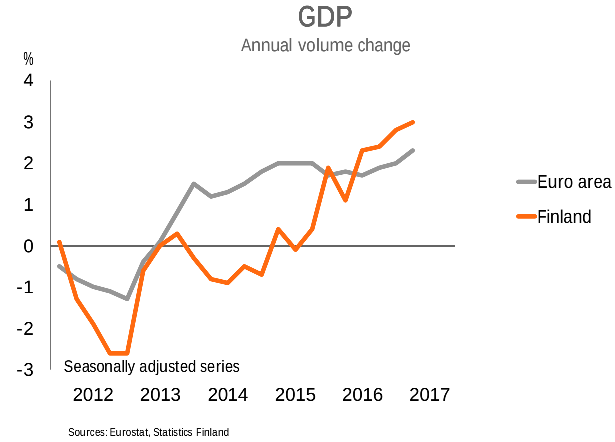
The annual growth rate of total household loans was 2.7% at the end of September. Home loans drawn down increased by around 2%. Demand for student loans increased markedly as a result of the reformed student financial aid. Corporate loans increased by 5.4%. Housing corporation loans showed a particularly strong growth, more than 10% over the previous year. Banking barometers forecast that demand for both household and corporate loans should remain heavy during the rest of the year.

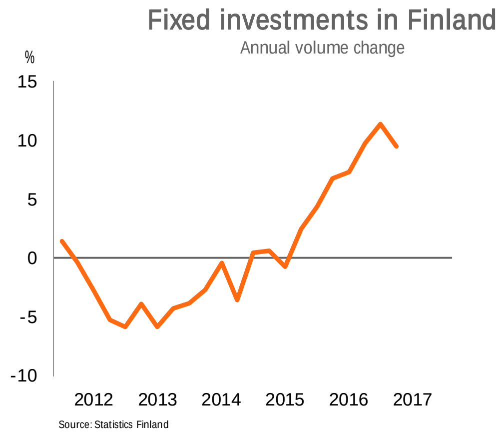
Total deposits increased by 5.4% over the previous year. The growth rate of household deposits improved to 3.9%. Meanwhile, term deposits declined further. Corporate deposits decreased further.

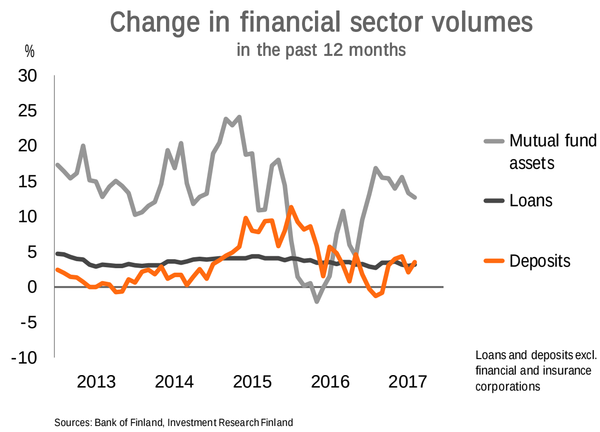
The value of the mutual funds registered in Finland increased by EUR 2 billion to EUR 114.4 billion during the third quarter. Third-quarter net asset inflows were EUR 1.1 billion, with most investments made in equity funds, balanced funds and alternative funds.

Positive mood in the economy and favourable developments in capital markets supported the insurance sector. On the other hand, price competition that has remained tough in the insurance market for private customers is expected to hinder development in premiums written.









Earnings analysis and balance sheet

Earnings analysis, € million	Q1–3/2017	Q1–3/2016	Change, %	Q3/2017	Q3/2016	Change, %	Q1–4/2016
Earnings before tax	**873**	**921**	**-5.1**	**290**	**306**	**-5.2**	**1,138**
Banking	513	448	14.4	175	166	5.8	574
Non-life Insurance	137	206	-33.4	30	86	-64.7	244
Wealth Management	190	183	4.3	98	48		226
Other Operations	32	83	-61.3	-13	7		95
Income							
Net interest income	815	799	2.0	285	271	5.2	1,058
Net insurance income	341	418	-18.5	80	149	-46.7	558
Net commissions and fees	674	637	5.8	217	200	8.2	859
Net investment income	405	282	43.9	170	99	71.2	390
Other operating income	82	104	-20.9	13	11	24.9	122
Share of associates' profit/loss	13	5		1	2	-35.2	1
Total income	**2,331**	**2,245**	**3.8**	**765**	**732**	**4.6**	**2,989**
Expenses							
Personnel costs	564	563	0.3	171	167	2.6	762
Depreciation/amortisation and impairment loss	159	116	36.6	63	41	54.4	160
Other operating expenses	546	458	19.3	180	152	18.2	646
Total expenses	**1,269**	**1,136**	**11.7**	**415**	**361**	**15.1**	**1,567**
Impairment loss on receivables	28	36	-22.4	5	12	-63.6	77
New OP bonuses accrued to owner-customers	164	154	6.0	55	52	5.9	208

Key balance sheet figures, € million	30 Sept. 2017	31 Dec. 2016	Change, %
Receivables from customers	81,146	78,604	3.2
Investment assets	23,074	25,105	-8.1
Liabilities to customers	63,396	60,077	5.5
Insurance liability	10,134	10,586	-4.3
Debt securities issued to the public	26,427	28,287	-6.6
Equity capital	10,945	10,237	6.9
Total assets	**134,462**	**133,747**	**0.5**

January–September

OP Financial Group's earnings before tax amounted to EUR 873 million (921). The figure decreased by EUR 47 million over the previous year. Earnings were reduced by a decrease in non-recurring items, lower net insurance income and higher expenses. The reported earnings included EUR 41 million (71) in non-recurring income. In the meantime, net commissions and fees and net investment income increased year on year.

Net interest income increased by 2.0% to EUR 815 million. Net interest income from Banking rose by almost 5%, but the Group's net interest income was reduced by lower net interest income from the Other Operations segment. Net insurance income fell by 18.5% to EUR 341 million, resulting especially from bringing forward the plan to reduce the discount rate and from poorer claims developments than a year ago. The reduced discount rate increased claims incurred by EUR 102 million (41). Net commissions and fees were EUR 674 million, or EUR 37 million higher than the year before. Mutual fund commissions increased by EUR 11 million and Life Insurance commissions by EUR 10 million. Commission expenses declined by a total of EUR 15 million.

Net investment income increased by 43.9% to EUR 405 million. Income from equity investments under available-for-sale assets increased by a total of EUR 105 million year on year. Impairment losses on available-for-sale assets fell by EUR 15 million. Positive value changes in Credit Valuation Adjustment (CVA) in derivatives owing to market changes improved net income from securities trading. Life Insurance net investment income was reduced by lower capital gains.

Other operating income decreased by 20.9% year on year to EUR 82 million. Non-recurring VAT refunds for prior years, interest included, totalled EUR 22 million. In the second quarter, OP Financial Group sold its portfolio of agreements and POS terminals of acquiring and POS terminal services to Nets. Non-recurring gain of EUR 25 million on the transaction was recognised in other operating income. OP Financial Group recognised extra amortisation and other expenses of EUR 6 million related to the transaction. OP Financial Group recognised EUR 71 million in non-recurring gain a year ago as a result of the Visa Europe Ltd transaction in the second quarter.

Total expenses increased by 11.7% to EUR 1,269 million (1,136). This increase is mainly explained by higher development costs of present-day business, higher operating expenses of new businesses and higher amortisation/depreciation and impairment losses. OP Financial Group's significant investments in service development increased development costs by EUR 50 million. Development costs totalled EUR 146 million (96). New businesses accounted for EUR 19 million of the increase in total expenses. Depreciation/amortisation and impairment losses increased by EUR 43 million to EUR 159 million year on year as a result of higher amortisation on computer software and impairment loss on real property in own use. Personnel costs remained at the previous year's level at EUR 564 million.

Impairment losses recognised under various income statement items that reduced earnings amounted to EUR 50 million (84), of which EUR 28 million (36) concerned loans and receivables. Net impairment loss on loans and receivables were very low, at 0.04% (0.06) of the loan and guarantee portfolio.

OP Financial Group's current tax amounted to EUR 171 million (183). The effective tax rate was 19.6% (19.8).

OP Financial Group's equity capital increased by 6.9% to EUR 10.9 billion (10.2). The reported earnings and Profit Shares were behind the increase. Equity capital included EUR 2.8 billion (2.7) in Profit Shares, terminated Profit Shares accounting for EUR 0.2 billion (0.3). The return target for Profit Shares for 2017 and 2018 is 3.25%. Interest payable on Profit Shares accrued during the reporting period is estimated to total EUR 67 million (62). The amount of interest paid for 2016 totalled EUR 83 million in June 2017. The fair value reserve decreased by EUR 84 million to EUR 234 million.

July–September

Earnings before tax for the third quarter came to EUR 290 million (306). The earnings declined by EUR 16 million year on year as a result of lower net insurance income and higher expenses. The third-quarter earnings performance was supported by improved net interest income, net commissions and fees and net investment income. Total income of EUR 765 million increased by 4.6% year on year, despite lower net insurance income.

Year on year, net interest income rose by 5.2% to EUR 285 million. Net insurance income fell by 46.7% to EUR 80 million, resulting especially from the change in the plan to reduce the discount rate. Net commissions and fees were EUR 217 million, or EUR 16 million higher than the year before. Net investment income increased by 71.2% to EUR 170 million. Income from equity investments under available-for-sale assets increased by EUR 76 million year on year.

Total expenses increased by 15.1% year on year to EUR 415 million. Depreciation/amortisation and impairment loss on PPE and intangible assets increased by 54.4% to EUR 63 million. Other operating expenses increased by 18.2% to EUR 180 million. Significant investments in service development increased development costs by EUR 15 million year on year.

OP Financial Group's strategy and numerical targets

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

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

In accordance with its strategy, OP Financial Group increased its development expenditure significantly during the reporting period, being over 40% higher than a year ago. The majority of the expenditure was allocated to the development of the present-day business, but new businesses will account for a larger share in the future. Full-year development expenditure is expected to exceed EUR 400 million.

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

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

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

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

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

OP Financial Group's numerical targets	30 Sept. 2017	31 Dec. 2016	Target 2019
Customer experience, NPS (–100–+100)			
Brand	20.4	22.7	25
Service	57	53	70, over time 90
Common Equity Tier 1 (CET1) ratio, %	19.2	20.1	22
Return on economic capital, % (12-month rolling)	21.4	22.7	22
Expenses of present-day business (12-month rolling), € million	1,645	1,532	Expenses for 2020 at 2015 level (1,500)
Owner-customers, million	1.8	1.7	2.1 (2019)

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

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

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

As a cooperative business, OP Financial Group's operations are guided by a double role. In its business role, the Group provides its customers with competitive products and services while ensuring its profitability and enhancing its capital base. In its social role, OP promotes the long-term success and prosperity of the community by representing a positive driver in the operating region. The social role involves impactful actions for the benefit of the community at both local and national level – digitally and physically. Succeeding in both roles is a measure of the Group's success.

January–September

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

Financing for SME growth potential

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

The programmes are targeted at projects and investments of growing and innovative companies. The agreement covering the first financing programme, designed for companies with a staff of less than 500, was signed in March 2016. The agreement signed in January 2017, in turn, focuses on companies with a staff of less than 250. Within the framework of these programmes, OP has already granted 230 SME loans totalling over EUR 140 million. By providing financing to SMEs with growth potential, OP Financial Group wants to be involved in supporting future economic growth and employment.

Support for families with children through the #Perheenlisä initiative

Based on its #Perheenlisä initiative for families with a baby, OP offers products and services that make the daily life of a new family easier. For example, OP has already granted health and living allowance insurance for an unborn child for one year free of charge to over 22,000 babies. The value of this benefit enjoyed by customers totalled EUR 10 million by the end of the reporting period. Moreover, the initiative also offers the opportunity for a maximum of 12-month home loan repayment holiday without service charges to families who have fulfilled their loan obligations as per agreement and whose baby will be born before the end of 2017. OP will offer free of charge a NewLife life insurance for one year to parents with children under the age of one until the end of 2017.

Volunteering in honour of the centenary of Finland's independence

OP's gift to the 100-year-old Finland is 100 person-years of volunteering. All 12,000 OP employees may do voluntary work for one day during their working hours. This equals about half of the targeted hundred person-years. The other half of the target will be achieved by inviting people in Finland to become involved in volunteering on a broad basis. Hiiop100.fi, a volunteer work exchange site launched by OP at the turn of the year, brings together those in need of help and volunteers. The volunteer workdays recorded by the date of the release of this interim report totalled 50 years. It is possible to follow real time at hiiop100.fi the progress of the achievement of the target.

Allocation of earnings

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

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

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

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

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

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

Other January–September highlights

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

On 2 February 2017, OP Financial Group received the ECB's decision to set OP Financial Group's risk weight floors for retail exposures for a fixed period of 18 months. The shortcomings observed by the ECB in the IRBA (Internal Ratings Based Approach) management and validation process applied by OP Financial Group in capital adequacy measurement, especially delayed validations, lie behind the decision. The most essential shortcomings have been fixed. Fixing the remaining shortcomings is proceeding as planned.

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

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

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

Corporate social responsibility

Corporate social responsibility (CSR) is an integral part of OP Financial Group's business and strategy. CSR activities take economic, social and environmental responsibility into consideration. OP Financial Group's aim is to be a pioneer in CSR within its sector in Finland. OP Financial Group undertakes to comply with the ten principles of the UN Global Compact initiative in the areas of human rights, labour rights, the environment and anti-corruption. OP has followed the UN Principles for Responsible Investment since 2009. During the reporting period, OP joined the FIBS Diversity Charter Finland.

In May, OP informed that it would publish ESG analyses for its mutual funds from July. The quarterly updated, fund-specific analyses will be published for the funds for which there is sufficient data to produce the analysis. The Group uses ESG data collected by MSCI as the basis for the analyses.

During the reporting period, OP updated its Corporate Social Responsibility Programme themed "Positive driver of change through responsibility". The Programme is built around the following four themes: "We foster a sustainable economy", "We support local vitality", "We act with a people-first approach and through engagement" and "We foster health, security and wellbeing". One of the objectives of the Programme in practice includes being carbon positive by 2025.

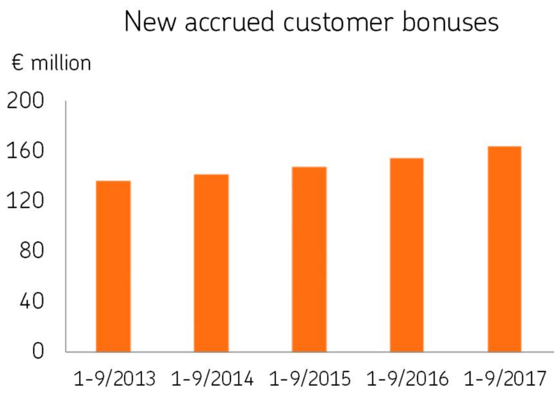
Customer relationships and customer benefits

In January–September, the number of OP Financial Group's owner-customers increased by 63,000 to over 1.8 million.

Contributions made by OP cooperative banks' owner-customers to the banks' Profit Shares and cooperative shares totalled EUR 3.0 billion (2.9) on 30 September 2017.

In January–September, the number of OP Financial Group's customers increased by 28,000 in net terms. The number of customers totalled 4,385,000 at the end of September. The number of private customers totalled over 3,941,000 and that of corporate customers over 443,000. In January–September, the number of joint banking and non-life insurance customers increased by 30,000 to almost 1.8 million.

Owner-customers earn OP bonuses through banking, non-life insurance and wealth management transactions. The combined amount of new bonuses earned by owner-customers between January–September for using OP as their main bank and insurer was worth EUR 164 million (154). A total of EUR 77 million (77) of bonuses were used to pay for banking and wealth management services and EUR 85 million (79) to pay non-life insurance premiums. OP bonuses were used to pay 1,759,000 insurance bills (1,648,000), with 242,000 (220,000) of them paid in full using bonuses.



Owner-customers were provided with EUR 54 million (52) in non-life insurance loyalty discounts during the reporting period.

Interest payable on Profit Shares accrued during the reporting period is estimated to total EUR 67 million (62). The return target for Profit Shares for 2017 is 3.25% (3.25). A total of around EUR 88 million (83) in interest is expected to be paid on Profit Shares, according to the profit target.

Multichannel services

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

In September, OP-mobile was the main channel for customers' daily banking, with visits totalling almost 16 million during the month. The number of visits to online services amounted to around 9 million. The number of visits to the Pivo mobile application totalled over 2 million in September.

The reporting period saw the launch of several new mobile payment methods: Pivo person-to-person payment, Pivo payment button and Siirto payments on Pivo and OP-mobile. The Pivo person-to-person payment and the Siirto payment enable customers to send money to other people by using their mobile phone number. The Pivo payment button enables customers to pay their web purchases without a key code list or their card's PIN. It is already a payment method option at over 4,000 webshops.

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

OP eServices op.fi has been redesigned, providing both private and corporate customers with banking and insurance services. Customers are advised to use the redesigned service. The old website is still serving as an auxiliary service. OP has developed the new service together with its customers from the very beginning and is still collecting customer feedback that will guide further development.

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

OP Financial Group has extensive presence in the most common social media channels where it has almost 350,000 followers. In addition to the Group's national social media accounts, many member cooperative banks have their own Facebook pages where they share publications destined for local customers. March saw the launch of op.media, which is OP's new social customer media for owner-customers and corporate customers. The monthly number of visitors to the service totals around 350,000.

New businesses

Health and wellbeing

Pohjola Health Ltd's fourth hospital was opened in Kuopio at the end of August 2017. The hospitals opened previously are located in Helsinki, Tampere and Oulu. Pohjola Health Ltd is expanding into a national player and its fifth hospital is under construction in Turku. In the construction plan, the hospital is scheduled to open its doors in late May or early June 2018.

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

Customers have been satisfied with the service provided by Pohjola Hospitals. Among surgery customers, the NPS figure was 97 at the end of September 2017.

Mobility services

In November 2016, OP took its first step in the field of mobility services by launching the OP Kulku service in the Helsinki Metropolitan Area. The service is aimed at lowering the threshold to use electric cars by providing consumers and small firms with the opportunity to use an electric car with a monthly charge. OP Kulku expanded to Tampere and Turku and their neighbouring regions during the spring and summer. In July, OP announced OP Kulku service's car sharing solution in which electric cars acquired by cities are available to their employees or citizens, including during leisure time. Kotka will pilot car sharing in November.

In April, OP announced that it would build with Fortum around hundred EV charging stations around Finland. The new stations will be built adjacent to OP cooperative bank branches and their construction is underway.

In May, OP launched DriveNow car sharing in Finland. DriveNow offers 150 cars for car sharing in Helsinki and neighbouring regions at a minute-based fee. The third quarter saw the launch of new features to the DriveNow service, such as hourly packages and dynamic Drive'n Save pricing. At the end of September, DriveNow already had over 12,000 customers in Finland.

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

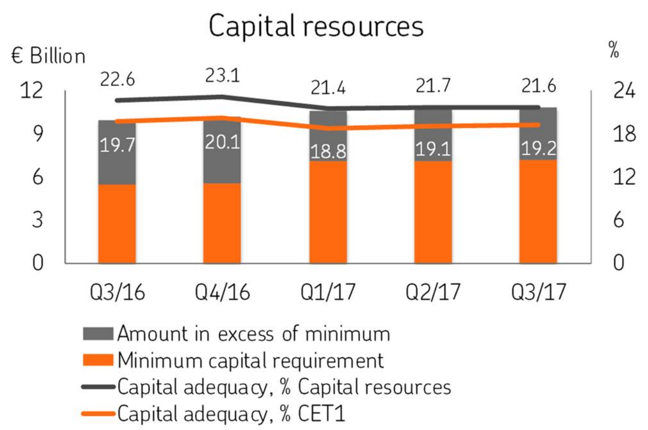
Solvency

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

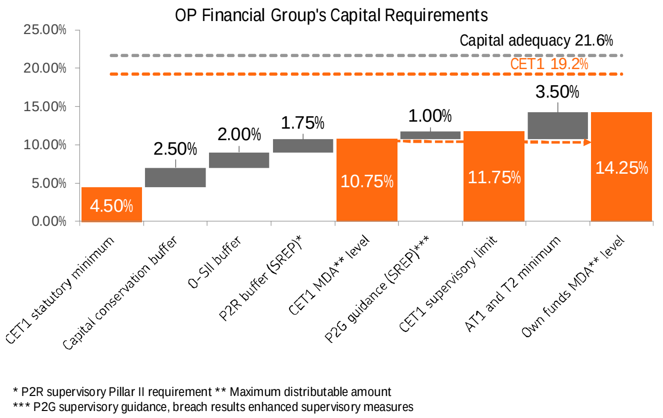
On 30 September 2017, OP Financial Group's capital base, calculated according to the Act on the Supervision of Financial and Insurance Conglomerates (FiCo), exceeded the minimum amount specified in the Act by EUR 3.5 billion (4.3). The buffer was reduced by the Pillar II capital requirement (P2R) of 1.75% determined by the ECB, based on the supervisor's assessment, combined with a higher capital requirement caused by growth in banking business as well as risk weight floors set by the ECB. The P2R buffer requirement increased the consolidated capital adequacy requirement from 12.5% to 14.3%, calculated as percentage of risk-weighted assets. The ratio of the Group capital base to the minimum capital requirement was 146% (170), with the P2R requirement reducing the ratio by 16 percentage points. The ratio was 159% 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 FiCo solvency does not reflect the minimum level of the capital base of the FiCo group but the level within which the group can operate without regulatory obligations resulting from buffers below the required level.

Capital adequacy for credit institutions

OP Financial Group's CET1 ratio was 19.2% (20.1) on 30 September 2017. The risk weight floors set by the ECB decreased the CET1 ratio by 1.8 percentage points. An increase in CET1 capital exceeded an increase in total risk exposure amount resulting from growth in the loan portfolio. The effect of the calculated adjustments of defined benefit pension plans (IAS 19) on the Group's CET1 ratio was about –1.0 percentage points, or slightly lower than at the end of 2016.

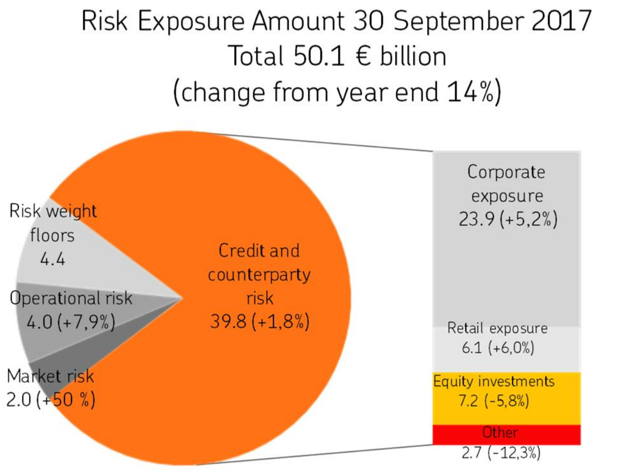


As a credit institution, OP Financial Group's capital adequacy is on a solid basis compared to the statutory requirements and those set by the authorities. The statutory minimum for the capital adequacy ratio is 8% and for the CET1 ratio 4.5%. The requirement for the capital conservation buffer of 2.5%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



The Group's CET1 capital was EUR 9.6 billion (8.9) on 30 September 2017. CET1 capital was increased by Banking performance, Profit Share issues and dividends from the Group's insurance institutions. IAS 19 adjustments deducted from CET1 capital decreased slightly from their level at the end of December 2016. The amount of Profit Shares in CET1 capital was EUR 2.8 billion (2.6).

On 30 September 2017, the risk exposure amount (REA) totalled EUR 50.1 billion (44.1), or 13.7% higher than on 31 December 2016. The year-end figure excludes the minimum risk weight set by the ECB that accounts for 72% of the increase. The minimum risk weight for retail exposures set by the ECB was EUR 4.4 billion, without which total risk was EUR 45.8 billion and the increase 3.8% from the turn of the year. The average risk weights of corporate exposure decreased slightly. The average risk weights of retail exposure rose slightly.



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

The Financial Supervisory Authority makes a macroprudential policy decision on a quarterly basis. In September 2017, the Financial Supervisory Authority reiterated its decision not to impose a countercyclical capital buffer requirement on banks but it confirmed that it would set a 15% minimum risk weight on housing loans from the beginning of 2018 for at least two years. According to the Authority, this risk weight floor is aimed at preparing for a systemic risk caused by greater household indebtedness. The minimum risk weight will have no effect on OP Financial Group's total risk exposure in view of the risk weight floors for retail exposures set by the ECB. Without the ECB's risk weight floor, the minimum risk weight of 15% for home loans set by the Financial Supervisory Authority would reduce the CET1 ratio by an estimated 1.1 percentage points.

The upcoming EU regulation includes a requirement measuring the ratio of the degree of indebtedness, the leverage ratio. The leverage ratio of OP Financial Group's Banking is estimated at about 7.8% (7.4) based on the existing interpretations, calculated using the September-end figures. According to the draft rules, the minimum ratio is 3%.

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

Non-life and Life Insurance

The solvency position of Non-life Insurance remained strong at the end of September, being higher than at the end of December 2016. The Life Insurance solvency position too was higher than at the end of December 2016, although the distribution of extra dividends decreased the capital base.

Solvency II	Non-life Insurance*		Life Insurance	
	30 Sept. 2017	31 Dec. 2016	30 Sept. 2017	31 Dec. 2016
Capital base, € million **	1,101	992	1,437	1,455
Solvency capital requirement (SCR), € million**	670	693	710	742
Solvency ratio, % **	164	143	202	196
Solvency ratio, % (excluding transitional provision)	161	127	160	149

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

ECB supervision

OP Financial Group is supervised by the European Central Bank (ECB). The ECB has set a capital requirement for OP Financial Group based on the supervisory review and evaluation process (SREP). The new capital buffer requirement (P2R) set by the ECB and effective as of 1 January 2017 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 relevant risk weight floors for retail exposures set by the ECB are 15.4% for mortgage-backed exposures and 32.7% for other private customer exposures. Based on the decision, the risk weight floors will be effective until the third quarter of 2018.

Liabilities under the Resolution Act

Under regulations applied to crisis resolution of credit institutions and investment firms, the resolution authority is authorised to intervene in the terms and conditions of investment products issued by a bank in a way that affects an investor's position. The EU's Single Resolution Board (SRB) based in Brussels is OP Financial Group's resolution authority. The SRB is determining the minimum level of liabilities, under the Resolution Act, at the OP Financial Group level.

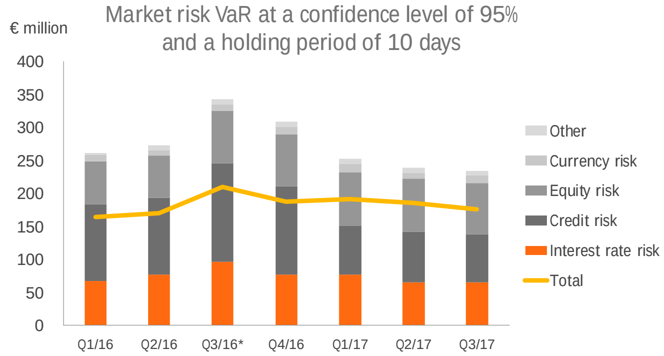
Risk exposure

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

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

OP Financial Group's funding and liquidity position is good. The availability of funding has remained good. During the reporting period, the Group issued long-term bonds worth EUR 2.9 billion. In addition, OP Financial Group participated in the second series of the ECB's targeted longer-term refinancing operations (TLTRO-II) with one billion euros. The loan-to-deposit ratio remained stable during the reporting period.

OP Financial Group's market risk exposure was stable during the reporting period. The Group's VaR, a measure of market risk, was EUR 177 million (188) on 30 September 2017. It includes the balance sheet total of the insurance institutions, trading, liquidity buffer and the Group Treasury's interest rate risk exposure.



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

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

Risks associated with defined benefit pension plans relate to interest rate and market risk, future increases in pension benefits and longer life expectancy. A change in the discount rate for pension liabilities has a substantial effect on the amount of pension liabilities. The decrease in net liabilities related to defined benefit pension plans recognised in other comprehensive income during the reporting period improved comprehensive income before tax by EUR 28 million. Net liabilities were reduced by higher interest rates and good return on investment. A year ago, an increase in net liabilities related to defined benefit pension plans decreased other comprehensive income before tax by EUR 302 million.

Banking

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

Credit risk exposure by Banking remained stable and credit risk remained moderate. Doubtful receivables totalled EUR 3.0 billion (2.6), performing forborne loans accounting for 1.9 billion (1.7). Higher doubtful receivables were caused by the greater use of forbearance measures and also partly by weaker borrower grades arising from the updated credit rating scale. Doubtful receivables refer to receivables that are more than 90 days past due, other receivables classified as risky and forborne receivables due to the customer's financial difficulties. Forbearance measures consist of concessions agreed at the customers' initiative to contractual payment terms towards the customer to make it easier for them to manage through temporary payment difficulties. Member cooperative banks make every effort to find solutions to overcome customers' temporary financial difficulties. Loan modifications due to reasons other than the customer's financial difficulties are not classified as doubtful receivables. Impairment losses remained low, accounting for 0.04% (0.06) of the loan and guarantee portfolio.

During the reporting period, the loan and guarantee portfolio increased by EUR 2.4 billion to EUR 83.8 billion (81.3). Private customers accounted for 59.6% (60.2) of the loan and guarantee portfolio. Of the six main categories for private customer exposure, 83.3% (84.2) of the exposures belonged to the top two categories, and 3.8% (3.5) to the lowest two. Corporate exposures (incl. housing corporations) represented 37.6% (37.5) of the loan and guarantee portfolio. Of corporate exposure, the highest borrower grade 1–5.5 exposure represented 55.1% (55.2) and the exposure of the two lowest borrower grades amounted to EUR 535 million (526), accounting for 1.2% (1.2) of the total corporate exposure.

No single customer's exposure exceeded 10% of the capital base after allowances and other recognition of credit risk mitigation. The Banking capital base covering customer exposure amounted to EUR 11.1 billion (10.4).

In the Companies and Housing Corporations exposures, the most significant industries measured by exposure were Renting and Operating of Residential Real Estate representing 18.1% (17.7), Renting and Operating of Other Real Estate representing 9.6% (10.2) and Energy representing 9.1% (9.1). A total of 93.3% of exposures within Renting and Operating of Residential Real Estate were those by housing corporations and 14.3% were those guaranteed by general government.

In monitoring Banking exposures, OP Financial Group started to use exposure classes instead of the customer sectors presented previously. Comparatives have been restated to correspond to the new monitoring method.

Banking's interest rate risk measured as a one-percentage point decrease on 12-month net interest income was EUR 88 million at the end of September. The measurement method changed in 2017 in such a way that it includes changes in the zero floors for home loans written into the Consumer Protection Act.

Deposits within the scope of deposit guarantee (deposit insurance) and managed by OP Financial Group totalled EUR 33.7 billion (32.6) at the end of the reporting period. The Deposit Guarantee Fund compensates a maximum of EUR 100,000 for each OP Financial Group customer.

Non-life Insurance

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

A one-year increase in life expectancy would increase insurance liability for annuities by EUR 45 million. A 0.1 percentage point decrease in interest rates used in insurance liability valuation would increase insurance liabilities by EUR 27 million.

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

The risk exposure of investments was stable during the reporting period. The VaR, a measure of market risk, was EUR 58 million (57) on 30 September 2017. No major changes took place in the investment portfolio's asset class allocation. The Group has used both interest rate derivatives and bonds to hedge against interest rate risk associated with insurance liability. The portfolio's interest rate and credit risk remained stable. The hedge ratio of interest rate risk associated with insurance liabilities was kept stable.

Wealth Management

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

A one-year increase in life expectancy would increase insurance liability by EUR 25 million. A 0.1 percentage point decrease in interest rates used in insurance liability valuation would increase insurance liabilities by EUR 32 million. Investment and customer behaviour risks associated with the separated life insurance portfolios transferred from Suomi Mutual have been buffered. The buffer is sufficient to cover a significant negative return on the investment assets included in the separate portfolios, after which OP Financial Group will bear the risks associated with the portfolios.

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

The risk exposure of investments was stable during the reporting period. The VaR, a measure of market risk, was EUR 63 million (68) on 30 September 2017. No major changes took place in the investment portfolio's asset class allocation. The Group has used both interest rate derivatives and bonds to hedge against interest rate risk associated with insurance liability. The portfolio's interest rate and credit risk remained stable. The hedge ratio of insurance liability interest rate risk was slightly higher than at the beginning of the reporting period.

Other Operations

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

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

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

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

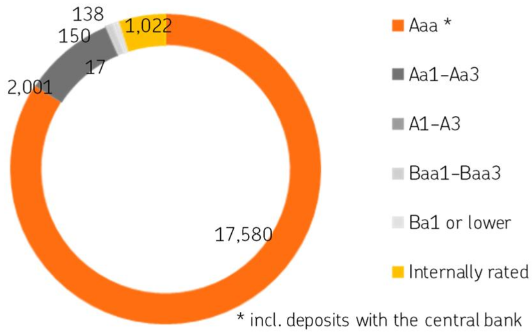
OP Financial Group monitors its liquidity and the adequacy of its liquidity buffer using, for example, the LCR (Liquidity Coverage Ratio). According to the transitional provisions, the LCR must be at least 80% in 2017 and at least 100% from the beginning of 2018. On 30 September 2017, OP Financial Group's LCR was 139%.

Liquidity buffer

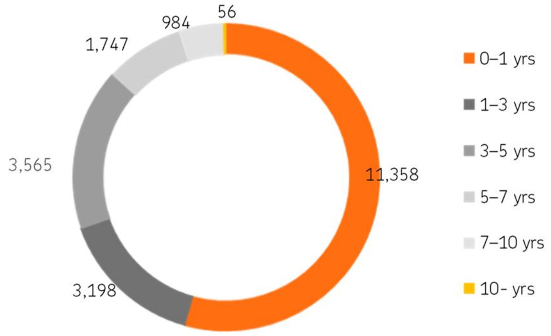
€ billion	30 Sept. 2017	31 Dec. 2016	Change, %
Deposits with central banks	10.6	9.3	13.5
Notes and bonds eligible as collateral	8.8	11.2	-21.0
Corporate loans eligible as collateral		0.1	
Total	**19.4**	**20.6**	**-5.7**
Receivables ineligible as collateral	1.5	1.4	8.1
Liquidity buffer at market value	**20.9**	**22.0**	**-4.9**
Collateral haircut	-0.7	-0.7	4.3
Liquidity buffer at collateral value	**20.2**	**21.3**	**-5.2**

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

Financial assets included in the liquidity buffer by credit rating on 30 September 2017, € million



Financial assets included in the liquidity buffer by maturity on 30 September 2017, € million



Credit ratings

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

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

The credit ratings did not change in the reporting period.

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

Financial performance by segment

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

Banking

- Earnings before tax amounted to EUR 513 million (448).
- Total income increased by 8.7%. Net interest income, net commissions and fees and net investment income increased year on year. Expenses increased by 7.3% due to development expenditure and higher volumes.
- The loan portfolio increased by 4.3% and the deposit portfolio by 9.0% in the year to September. Year on year, the volume of corporate loans drawn down decreased by 2.0% and that of home loans by 2.8%.
- Impairment losses of EUR 27 million (35) accounted for 0.04% (0.06) of the loan and guarantee portfolio.
- The most significant Banking development investments involved the upgrades of finance and payment systems. The new solutions of protecting home loans against higher interest rates and mobile payment instruments have received a positive reception among customers, as expected. September saw the launch of OP Crowdfunding: a fully digital service connecting businesses in need of capital with investors.

Banking: key figures and ratios

€ million	Q1–3/2017	Q1–3/2016	Change, %	Q1–4/2016
Net interest income	887	846	4.8	1,134
Net commissions and fees	474	461	2.8	605
Net investment income	19	-36		-15
Other income	20	18	9.5	27
Total income	**1,401**	**1,289**	**8.7**	**1,751**
Personnel costs	270	281	-3.9	378
Depreciation/amortisation and impairment loss	39	31	23.6	44
Other operating expenses	413	360	14.6	499
Total expenses	**722**	**672**	**7.3**	**921**
Impairment loss on receivables	27	35	-22.9	76
OP bonuses to owner-customers	139	133	4.2	180
Earnings before tax	**513**	**448**	**14.4**	**574**
Cost/income ratio, %	**51.5**	**52.2**	**-0.6**	**52.6**
€ million				
Home loans drawn down	5,226	5,380	-2.8	7,125
Corporate loans drawn down	4,898	4,997	-2.0	7,275
No. of brokered property transactions	10,050	9,470	6.1	12,664
€ billion				
Loan portfolio	30 Sept. 2017	30 Sept. 2016	Change, %	31 Dec. 2016
Home loans	37.4	36.5	2.4	36.8
Corporate loans	19.3	18.6	4.0	19.0
Housing corporation and other loans	24.4	22.7	7.6	22.8
Total	**81.1**	**77.8**	**4.3**	**78.6**
Guarantee portfolio	2.6	2.6	-1.4	2.8
Deposits				
Current and payment transfer	41.1	36.7	12.0	37.1
Investment deposits	18.2	17.7	2.8	17.7
Total	**59.2**	**54.3**	**9.0**	**54.8**

The loan portfolio increased in the year to September by 4.3% to EUR 81.1 billion. The loan portfolio increased by 3.2% (3.5) from the beginning of the year.

The deposit portfolio increased by 9.0% in the year to September and by 8.0% to EUR 59.2 billion during January–September. Investment deposits increased by EUR 456 million, or 2.6%, in the year to September. The volume of deposits in current and payment transaction accounts increased by 12.0% in the year to September.

The volume of homes sold and bought through the OP Kiinteistökeskus real estate agents increased by 6.1% over the previous year. The development of housing-related services is going on. Opened in the summer, the OP Home website puts together OP-Kiinteistökeskus real property and services, topical tips for housing as well as service providers for daily needs. The Asunnon myyntiapu service on the site helps customers to sell their owner-occupied home by, for example, giving an appraisal of the home price. The Palveluhaku service, in turn, brings together the providers of home-related services, such as cleaning services, and households that need such services.

Customers' interest in protecting home loans and housing corporation loans against rising interest rates has increased and, year on year, income from interest rate protection products quadrupled to EUR 32 million (8).

As a result of a student loan reform that took effect on 1 August 2017, students can draw down government-guaranteed student loan by up to over 60% more per month than before. A record amount of OP Financial Group's student loans were drawn down between August and September, totalling EUR 98 million. OP accounted for 46% of new student loans at the end of August.

September saw the launch of OP Crowdfunding: a fully digital service connecting businesses in need of capital with investors. In the service, OP intermediates financing. For businesses, the service is a new tool for financing growth while, for investors, it provides a means to support operations in line with their values and local businesses. Crowdfunding is particularly suited for financing fast-growing SMEs. At its best, crowdfunding will create new growth and jobs in Finland, which is why this type of financing fits perfectly into OP's social role.

The number of banking customers totalled 3.7 million at the end of September. Between January and September, OP Financial Group received 108,000 new banking customers, or 10.5% less than a year ago when the second quarter and third quarter of 2016 proved exceptionally good in terms of growth in the number of customers.

Earnings

Earnings before tax were EUR 513 million (448), or 14.4% higher than a year ago. Total income rose by 8.7% and total expenses by 7.3%. As a result of the rise in income, the cost/income ratio improved to 51.5% (52.2). Impairment losses were low, EUR 27 million (35), accounting for 0.04% (0.06) 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 4.8% to EUR 887 million (846).

Net commissions and fees increased by EUR 13 million to EUR 474 million (461) as a result of higher fees for interest rate hedges and realty commissions.

Net investment income increased by a total of EUR 56 million. Net investment income was increased by positive CVA valuation resulting from interest rate changes and other market movements. The CVA valuation was EUR 21 million as against EUR-36 million a year ago.

Total expenses increased by 7.3% to EUR 722 million (672). Personnel costs fell by EUR 11 million to EUR 270 million (281). Other operating expenses rose by 14.6%. ICT costs increased by EUR 51 million. Higher ICT costs were explained by investments in the development of mobile services and processes as well as growth in volumes.

Non-life Insurance

- Earnings before tax amounted to EUR 137 million (206). Net investment income totalled EUR 125 million (87). Earnings before tax at fair value were EUR 88 million (289).
- Insurance premium revenue increased by 1.2% (2.3). Net return on investments at fair value totalled EUR 119 million (18).
- The plan to reduce the discount rate for pension liabilities was brought forward. The reduced discount rate increased claims incurred by EUR 102 million (41). The discount rate applied now is 1.5%.
- The operating combined ratio was 97.0% (86.5) and operating expense ratio 19.7% (17.6). The combined ratio was 98.5% (88.0). The reduced discount rate and unfavourable claims development during the first three quarters weakened the combined ratios.
- The basic system upgrade of Non-life Insurance has begun. Launches in the reporting period included a new motor liability insurance and, within the fully digital OP Nano service family, home insurance and travel insurance.

Non-life Insurance: key figures and ratios

€ million	Q1–3/2017	Q1–3/2016	Change, %	Q1–4/2016
Insurance premium revenue	1,074	1,062	1.2	1,420
Claims incurred	749	660	13.4	883
Other expenses	3	3	-9.8	3
Net insurance income	**322**	**398**	**-19.1**	**534**
Net investment income	125	87	44.1	97
Other net income	-16	-23	-29.5	-33
Total income	**431**	**462**	**-6.7**	**598**
Personnel costs	86	85	0.5	115
Depreciation/amortisation and impairment loss	34	30	12.3	41
Other operating expenses	173	139	24.0	196
Total expenses	**292**	**255**	**14.7**	**352**
OP bonuses to owner-customers	1	1	5.5	2
Earnings before tax	**137**	**206**	**-33.4**	**244**
Combined ratio, %	98.5	88.0		89.1
Operating combined ratio, %	97.0	86.5		87.6
Operating loss ratio, %	77.3	68.9		69.1
Operating expense ratio, %	19.7	17.6		18.5
Operating risk ratio, %	71.1	63.2		63.3
Operating cost ratio, %	25.9	23.3		24.3
Solvency ratio (Solvency II), %*	163	162		143
Large claims incurred retained for own account	52	43		61
Changes in claims for provisions of previous years (run-off result)	25	41		60

* including transitional provisions.

Insurance premium revenue from Private Customers and Baltics increased. Insurance premium revenue from Corporate Customers was lower than a year ago. Increased price competition particularly with respect to motor liability insurance and corporate insurance was reflected in income performance in both Private and Corporate Customers. Claims development was clearly weaker than the year before, particularly in the first quarter.

Measured by the market share of premiums written, OP Financial Group is clearly Finland's largest non-life insurer. OP Financial Group's market share strengthened further in 2016 and attained 32.4% based on the information published in May 2017.

Developing online and mobile services in both insurance and claims ranks among key Non-life Insurance priorities. The new vahinkoapu.op.fi site (Claim Help) and the new loss report service on OP-mobile have been in frequent use. Up to almost 70% of loss reports of private customers are filed through electronic channels. In the reporting period OP Financial Group introduced, in a new and fully digital OP Nano service family, a home insurance in May 2017 and a travel insurance in September 2017.

Earnings

Earnings before tax amounted to EUR 137 million (206). Net insurance income fell by 19.1% to EUR 322 million, chiefly due to bringing forward the plan to reduce the discount rate. Net investment income recognised in the income statement increased by EUR 38 million. Earnings before tax at fair value were EUR 88 million (289).

The operating combined ratio was 97.0% (86.5). The operating ratios exclude amortisation on intangible assets arising from the corporate acquisitions.

Insurance premium revenue

€ million	Q1–3/2017	Q1–3/2016	Change, %
Private Customers	593	578	2.6
Corporate Customers	435	441	-1.4
Baltics	46	43	8.1
Total	**1,074**	**1,062**	**1.2**

Claims incurred, excluding the reduction in the discount rate, increased by 4.5%. 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 66 (50) in January September, with their claims incurred retained for own account totalling EUR 52 million (43). Provisions for unpaid claims under statutory pension changed year on year by EUR -3 million (9) between January and September. The discount rate was reduced to 1.5% at the end of September 2017. On 31 December 2016, the average discount rate was 1.97%. The reduced discount rate increased claims incurred by EUR 102 million (41), weakening the operating combined ratio by 9.5 percentage points (3.9).

Changes in claims for previous years, excluding the effect of changes on the discount rate, improved the balance on technical account by EUR 25 million (41). The operating loss ratio was 77.3% (68.9). The operating risk ratio excluding indirect loss adjustment expenses was 71.1% (63.2).

Expenses grew by 14.7%, being EUR 38 million higher than a year ago, due to higher ICT costs and the expansion of the health and wellbeing business. The operating expense ratio was 19.7% (17.6). The operating cost ratio (including indirect loss adjustment expenses) was 25.9% (23.3).

Operating balance on technical account and combined ratio (CR)

	Q1–3/2017		Q1–3/2016	
	Balance € million	CR, %	Balance € million	CR, %
Private Customers	77	86.9	104	82.0
Corporate Customers	-48	111.1	36	91.8
Baltics	3	92.6	3	92.3
Total	**32**	**97.0**	**143**	**86.5**

Reduction of the discount rate weakened the balance on technical account both for Private Customers and particularly for Corporate Customers. Excluding the discount rate deviating from the previous plan, the balance for Corporate Customers was EUR –3 million. The unfavourable claims development in the first three quarters eroded the balance for major customers.

Investment

Net return on Non-life Insurance investments at fair value totalled EUR 119 million (18). 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

%	30 Sept. 2017	31 Dec. 2016
Bonds and bond funds	67.6	74.4
Alternative investments	4.2	3.2
Equities	8.4	8.1
Private equity	2.6	2.9
Real property	9.6	9.8
Money markets	7.6	1.9
Total	**100**	**100**

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

Non-life Insurance's investment portfolio totalled EUR 3,949 million (3,876) on 30 September 2017. Investments within the investment-grade category accounted for 95% (91), and 65% (62) of the investments were rated at least A–. On 30 September 2017, the fixed-income portfolio's modified duration was 5.1 (5.4).

The running yield for direct bond investments averaged 1.8% (1.7) on 30 September 2017.

Wealth Management

- Earnings before tax amounted to EUR 190 million (183). Earnings before tax at fair value were EUR 132 million (239).
- Net commissions and fees rose by 10.0% year on year as a result of favourable net asset inflows and value performance of assets under management.
- Net investment income from Life Insurance decreased by 8.9% year on year, due to smaller capital gains.
- The gross amount of assets under management increased in the year to September by 6.2% to EUR 76.5 billion.
- During the reporting period, the Group continued to further develop electronic sales and services. Electronic agreements already account for 50%. In addition, OP Financial Group prepared for regulatory changes.

Wealth Management: key figures and ratios

€ million	Q1–3/2017	Q1–3/2016	Change, %	Q1–4/2016
Net commissions and fees				
Funds and asset management	190	181	4.7	252
Life Insurance	174	156	11.2	218
Expenses	105	103	2.6	139
Total net commissions and fees	258	235	10.0	**330**
Life Insurance's net risk results	18	20	-6.0	24
Net investment income from Life Insurance	93	102	-8.9	117
Other income	14	13	7.3	7
Total income	**383**	**369**	**3.8**	**478**
Personnel costs	57	66	-14.4	89
Depreciation/amortisation and impairment loss	20	19	7.6	25
Other operating expenses	95	84	13.9	119
Total expenses	**172**	**169**	**2.1**	**233**
OP bonuses to owner-customers	21	18	15.2	25
Earnings before tax	**190**	**183**	**4.3**	**226**
€ billion	**30 Sept. 2017**	**30 Sept. 2016**	Change, %	**31 Dec. 2016**
Assets under management (gross)				
Mutual funds	24.0	22.0	9.2	23.5
Institutional Clients	23.8	24.6	-3.1	24.6
Private Banking	18.8	16.6	12.9	17.3
Unit-linked insurance savings	9.9	8.8	12.1	9.2
Total assets under management (gross)	**76.5**	**72.0**	**6.2**	**74.5**
€ million	**Q1–3/2017**	**Q1–3/2016**	Change, %	**Q1–4/2016**
Net inflows				
Investor and saver customers	489	156		327
Private Banking clients	398	316	25.9	437
Institutional Clients	344	-54		434
Total net inflows	**1,231**	**418**		**1,198**

The improved world economic outlook reflected favourably in the capital market. As a result, demand for Wealth Management products continued to grow and the value of assets under management increased. Total net inflows were EUR 1,231 million (418) and the gross amount of assets under management increased in the year to September by 6.2% to EUR 76.5 billion (72.0). Assets under management included about EUR 13 billion in assets of the companies belonging to OP Financial Group.

OP Financial Group has stopped permanently charging its owner-customers transaction costs related to OP mutual funds. These benefits have aroused interest among customers, considering that the number of unitholders increased by almost 43,000 during the reporting period. The aggregate number of investor and saver customers grew by around 15,000 in the reporting period, totalling 781,000 on 30 September 2017.

The risk-adjusted return of OP Mutual Funds remained good in the reporting period. The Morningstar rating for OP Mutual Funds was 3.1 (3.2).

During the reporting period, the Group continued to further develop electronic sales and services for Wealth Management. Electronic agreements already account for 50% (48) of Wealth Management agreements. A total of 79% (74) of mutual fund orders were made electronically. Moreover, the Group promoted development projects during the reporting period related to regulatory changes, such as MiFID II. Such investments create the capacity to develop business on an ongoing basis in a new regulatory environment.

Earnings

Earnings before tax increased to EUR 190 million (183). This increase is explained by favourable developments in net commissions and fees. Capital gains were EUR 6 million lower than a year ago. Earnings before tax at fair value were EUR 132 million (239).

Net commissions and fees increased by 10.0% year on year, amounting to EUR 258 million (235). Net commissions and fees accounted for 0.47% of the gross amount of the assets under management.

Net return on Life Insurance investments at fair value totalled EUR 99 million (18). Net return on investments at fair value is calculated by deducting the value change in market-consistent insurance liability from income from total investment assets. These investments exclude the so-called separated balance sheets that were transferred from Suomi Mutual.

Expenses were almost at the previous year's level as development costs included in other operating expenses increased by EUR 8 million, depreciation/amortisation by EUR 1 million and as personnel costs decreased by EUR 9 million. Expenses accounted for 0.30% of the gross amount of the assets under management.

Interest rate risk associated with insurance liability has been hedged through supplementary interest rate provisions and interest rate derivatives. In the reporting period, short-term supplementary interest rate provisions changed by EUR 0 million (–16) in net terms. A year ago, net change in short-term supplementary interest rate provisions reduced insurance liability. Accrued supplementary interest rate provisions related to insurance liabilities (excluding the separated balance sheets) totalled EUR 350 million (432) on 30 September 2017. Short-term supplementary interest rate provisions made for less than 12 months accounted for EUR 36 million (36) of these provisions.

Life Insurance's investment assets, excluding assets covering unit-linked insurance, interest rate derivatives hedging insurance liability and the separated balance sheets, amounted to EUR 3,821 million (4,100). Investments within the investment-grade category accounted for 95% (93) of the fixed-income portfolio. On 30 September 2017, the fixed-income portfolio's modified duration was 4.7 (4.9). The running yield for direct bond investments (excluding the separated balance sheets) averaged 1.6% (1.6) on 30 September 2017.

Investment portfolio by asset class

%	30 Sept. 2017	31 Dec. 2016
Bonds and bond funds	70.0	76.2
Alternative investments	9.6	7.4
Equities and equity funds	6.5	6.3
Real property	7.7	7.2
Money markets	6.2	3.2
Total	**100**	**100**

Return on investments on the separated Life Insurance balance sheets

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

On 30 September 2017, investment assets in the individual life insurance portfolio in the separated balance sheet, excluding interest rate derivatives hedging insurance liability, amounted to EUR 933 million (1,066). Net return on investments at fair value was EUR 22 million (17). Net return on investments at fair value is calculated by deducting the value change in market-consistent insurance liability from income from investment assets.

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

%	30 Sept. 2017	31 Dec. 2016
Bonds and bond funds	78.7	81.1
Alternative investments	8.1	7.7
Equities and equity funds	2.7	2.9
Real property	7.2	6.7
Money markets	3.3	1.6
Total	**100**	**100**

On 30 September 2017, investment assets in the individual pension insurance portfolio in the separated balance sheet, excluding interest rate derivatives hedging insurance liability, amounted to EUR 2,664 million (3,049). Net return on investments at fair value was EUR 57 million. Net return on investments at fair value is calculated by deducting the value change in market-consistent insurance liability from income from investment assets.

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

%	30 Sept. 2017	31 Dec. 2016
Bonds and bond funds	76.8	71.4
Alternative investments	10.8	1.4
Equities and equity funds	2.6	2.4
Real property	6.7	6.1
Money markets	3.1	18.7
Total	**100**	**100**

Other Operations

Other Operations segment: key figure and ratios

€ million	Q1–3/2017	Q1–3/2016	Change, %	Q1–4/2016
Net interest income	-60	-34	74.4	-61
Net commissions and fees	-44	-48	-7.0	-59
Net investment income	172	131	31.9	199
Other operating income	481	424	13.3	572
Share of associates' profit/loss	3	-1		-6
Total income	**553**	**473**	**16.9**	**646**
Personnel costs	152	130	16.5	180
Depreciation/amortisation and impairment loss	65	35	84.2	50
Other operating expenses	303	223	35.7	321
Total expenses	**520**	**389**	**33.7**	**552**
Impairment loss on receivables	0	0		0
Earnings before tax	**32**	**83**	**-61.3**	**95**

Earnings

Earnings before tax amounted to EUR 32 million (83). This earnings reduction is explained by lower net interest income, lower non-recurring income and higher expenses due to development investments. Total income increased by 16.9% to EUR 553 million.

Net interest income was EUR –60 million (–34). Net investment income increased by 31.9% to EUR 172 million. Derivatives operations decreased net interest income and increased net income from securities trading included in net investment income. According to OP Financial Group's accounting policy, income from derivative instruments is split between net interest income and net income from securities trading. How this income is broken down between the two income statement items may vary considerably depending on the derivative instruments used in position management at a given time. In addition, an increase of EUR 14 million in net income from available-for-sale assets added to net investment income. Net commissions and fees increased by EUR 3 million to EUR –44 million as commission expenses decreased.

Other operating income rose by EUR 57 million to EUR 481 million due to higher intra-Group charges. A total of EUR 22 million in non-recurring VAT refunds for prior years, interest included were recognised under the Other Operations segment. In the second quarter, OP Financial Group sold its portfolio of agreements and POS terminals of acquiring and POS terminal services to Nets. Non-recurring gain of EUR 20 million on the transaction was recorded in the Other Operations segment. OP Financial Group recognised extra amortisation of EUR 3 million and other expenses of EUR 3 million related to the transaction. A year ago, Other Operations recognised EUR 71 million in non-recurring gain under other operating income as a result of the acquisition of Visa Europe Ltd by Visa Inc.

Investments in the development of services increased significantly the Other Operations segments' expenses. Total expenses increased by EUR 131 million to EUR 520 million. Personnel costs increased by 16.5% to EUR 152 million. Other operating expenses increased by 35.7% to EUR 303 million.

Depreciation/amortisation and impairment loss on PPE and intangible assets increased by 84.2% to EUR 65 million.

In September 2017, the average margin of OP Financial Group's senior wholesale funding, TLTRO-II funding and covered bonds was 20 basis points (31). Use of the TLTRO-II funding, together with funding arriving at maturity at higher cost, lower the cost of wholesale funding. Covered bonds are reported as part of the Banking segment.

Changes in OP Financial Group's structure

OP Financial Group's consolidated financial statements at the end of the reporting period include the accounts of 167 member cooperative banks (173), OP Cooperative Consolidated and OVY Insurance Ltd.

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

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

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

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

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

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

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

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

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

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

Personnel and remuneration

On 30 September 2017, OP Financial Group had 12,216 employees (12,227). The number of employees averaged 12,195 (12,271).

During the reporting period, 272 OP Financial Group employees (255) retired, at an average age of 62.1 years (61.9).

OP Financial Group is currently building an operating model to update employee competencies. The model is being built since in the future digitisation and automation will destroy some of the existing jobs in the financial sector. Meanwhile, digitisation and automation also create new jobs which require new competencies. The operating model for updating competencies aims to encourage and steer employees to keep their own labour market value up to date. OP's goal is that those employees whose job will either cease to exist or drastically change in the future can, if they so wish, get support for education and training and in finding a new type of job. The model will be introduced at the beginning of 2018.

On 20 September 2017, the Supervisory Board of OP Financial Group's central cooperative appointed Timo Ritakallio, LL.M, MBA and D.Sc. (Tech.), OP Financial Group's new President and Group Executive Chairman. He will join OP Financial Group as President and CEO of Ilmarinen Pension Insurance Company and will take up his duties at OP Financial Group in March 2018. President and Executive Chairman Reijo Karhinen will retire on 1 February 2018, based on his executive contract. He has served as OP Financial Group's President and Group Executive Chairman since 2007. Tony Vepsäläinen, Deputy to President and Group Executive Chairman and Vice Chair of the Executive Board, will act as President and Group Executive Chairman between the time when Karhinen retires and the time when Timo Ritakallio takes up his duties as the new President and Group Executive Chairman.

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

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

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

OP Cooperative's Supervisory Board has set the following long-term target performance metrics: OP Financial Group's EBT, customer experience and the use of digital services. The Group-level targets are the same in the management incentive scheme and in OP Financial Group's Personnel Fund.

Governance of OP Cooperative

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

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

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

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

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

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

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

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

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

Capital expenditure and service development

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

OP Financial Group's development expenditure for January–September totalled EUR 302 million (214). These include licence fees, purchased services, other external costs related to projects and in-house work. The capitalised development expenditure totalled EUR 156 million (118).

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

Outlook towards the year end

The world economy showed favourable development during the third quarter. The euro-area economy has grown at a brisker pace than expected, but the inflation rate has remained moderate and the interest rate outlook has remained low. The Finnish economy continued to grow strongly and on a broad basis. Economic sentiment is still improving. Improvement in employment will support consumer confidence and better business profitability will increase fixed investments. Favourable economic development is expected to continue in the near future. Geopolitical risks, in particular, are casting a shadow over the outlook. In Finland, the risk is that a longer-term economic growth will remain modest if adequate reforms that support an increase in the employment rate cannot be implemented.

The financial sector has adjusted rather well to the new type of low interest rate environment. While low interest rates have retarded growth in banks' net interest income and eroded insurance institutions' income from fixed income investments, they also have improved customers' repayment capacity. Impairment losses have remained low despite the slow growth that has lasted for several years now. The most significant strategic risks in the financial sector are currently associated with changing customer behaviour, operating environment digitisation and more complex regulation. Industry disruption is threatening to slow down growth and erode income generation in the years to come. In the next few years, the financial sector will be faced with a strong need to reinvent itself. Changes in the operating environment will emphasise the necessity of reinvention with a long-term approach as well as the role of the management of profitability and capital adequacy.

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

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

Consolidated income statement

EUR million	Note	Q3/ 2017	Q3/ 2016	Q1–3/ 2017	Q1–3/ 2016
Net interest income	3	285	271	815	799
Net insurance income	4	80	149	341	418
Net commissions and fees	5	217	200	674	637
Net investment income	6	170	99	405	282
Other operating income		13	11	82	104
Share of associates' profits		1	2	13	5
Total income		**765**	**732**	**2,331**	**2,245**
Personnel costs		171	167	564	563
Depreciation/amortisation		63	41	159	116
Other expenses		180	152	546	458
Total expenses		**415**	**361**	**1,269**	**1,136**
Impairments of receivables	7	5	12	28	36
OP bonuses to owner-customers		55	53	161	153
Earnings before tax		**290**	**306**	**873**	**921**
Income tax expense		66	61	171	183
Profit for the period		**224**	**245**	**702**	**738**
Attributable to:					
Owners		223	245	699	736
Non-controlling interests		2	1	3	2
Profit for the period		**224**	**245**	**702**	**738**

Statement of comprehensive income

Profit for the period	**224**	**245**	**702**	**738**
Items that will not be reclassified to profit or loss				
Gains(/losses) arising from remeasurement of defined benefit plans	-33	-32	28	-302
Items that may be reclassified to profit or loss				
Change in fair value reserve				
Measurement at fair value	-58	135	-60	230
Cash flow hedge	-4	-1	-28	24
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	7	6	-6	60
Items that may be reclassified to profit or loss				
Measurement at fair value	12	-27	12	-46
Cash flow hedge	1	0	6	-5
Total comprehensive income for the period	**148**	**327**	**654**	**699**
Attributable to:				
Owners	152	320	637	663
Non-controlling interests	-3	7	17	35
Total comprehensive income for the period	**148**	**327**	**654**	**699**

Balance sheet

EUR million	Note	30 September 2017	31 December 2016
Cash and cash equivalents		10,718	9,471
Receivables from credit institutions		424	337
Financial assets held for trading		607	692
Derivative contracts	10	3,447	4,732
Receivables from customers	12	81,146	78,604
Investment assets		23,074	25,105
Assets covering unit-linked contracts		9,868	9,168
Investments in associates		181	91
Intangible assets		1,524	1,474
Property, plant and equipment (PPE)		879	871
Other assets		2,402	2,992
Tax assets		191	210
Total assets		**134,462**	**133,747**
Liabilities to credit institutions		4,669	4,669
Derivative contracts		3,071	4,044
Liabilities to customers		63,396	60,077
Insurance liabilities	13	10,134	10,586
Liabilities from unit-linked insurance and investment contracts	13	9,900	9,205
Debt securities issued to the public	14	26,427	28,287
Provisions and other liabilities		3,607	4,226
Tax liabilities		894	894
Supplementary cooperative share			77
Subordinated liabilities		1,418	1,445
Total liabilities		**123,516**	**123,509**
Equity capital			
Share of OP Financial Group's owners			
Cooperative capital			
Cooperative share		188	182
Profit shares		2,831	2,719
Fair value reserve	15	234	318
Other reserves		2,159	2,108
Retained earnings		5,407	4,808
Non-controlling interests		126	102
Total equity capital		**10,945**	**10,237**
Total liabilities and equity capital		**134,462**	**133,747**

Statement of changes in equity

	Attributable to owners						
EUR million	Cooperative capital	Fair value reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2016	**2,656**	**242**	**2,085**	**4,271**	**9,254**	**70**	**9,324**
Total comprehensive income for the period		169		494	663	35	698
Profit for the period				736	736	2	738
Other comprehensive income		169		-242	-73	33	-40
Profit distribution				-68	-68		-68
Change in cooperative capital	137				137		137
Transfer of reserves			75	-75			
Other				1	1	-19	-18
Balance at 30 September 2016	**2,793**	**411**	**2,159**	**4,624**	**9,987**	**86**	**10,073**

	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		-84		722	637	17	654
Profit for the period				699	699	3	702
Other comprehensive income		-84		23	-62	14	-48
Profit distribution				-88	-88		-88
Change in cooperative capital	118				118		118
Associated company transfers				15	15		15
Transfer of reserves			51	-51			
Other				1	1	7	8
Balance at 30 September 2017	**3,019**	**234**	**2,159**	**5,407**	**10,819**	**126**	**10,945**

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

Cash flow statement

EUR million	Q1–3/ 2017	Q1–3/ 2016
Cash flow from operating activities		
Profit for the period	702	738
Adjustments to profit for the period	1,270	435
Increase (-) or decrease (+) in operating assets	**-770**	**-8,221**
Receivables from credit institutions	30	119
Financial assets held for trading	-171	-242
Derivative contracts	-26	44
Receivables from customers	-2,573	-2,681
Assets covering unit-linked contracts	-444	-17
Investment assets	1,778	-4,879
Other assets	636	-564
Increase (+) or decrease (-) in operating liabilities	**1,746**	**6,104**
Liabilities to credit institutions	24	1,838
Financial liabilities at fair value through profit or loss	0	0
Derivative contracts	10	-38
Liabilities to customers	3,319	1,416
Insurance liabilities	11	3,234
Liabilities from unit-linked insurance and investments contracts	-898	-248
Provisions and other liabilities	-720	-98
Income tax paid	-151	-211
Dividends received	95	70
A. Net cash from operating activities	**2,892**	**-1,085**
Cash flow from investing activities		
Increases in held-to-maturity financial assets		0
Decreases in held-to-maturity financial assets	50	16
Acquisition of subsidiaries and associates, net of cash acquired	-58	-1
Disposal of subsidiaries and associates, net of cash disposed	2	
Purchase of PPE and intangible assets	-222	-194
Proceeds from sale of PPE and intangible assets	4	11
B. Net cash used in investing activities	**-224**	**-168**
Cash flow from financing activities		
Increases in subordinated liabilities		0
Decreases in subordinated liabilities		-144
Increases in debt securities issued to the public	20,084	20,722
Decreases in debt securities issued to the public	-21,342	-19,203
Increases in cooperative and share capital	628	682
Decreases in cooperative and share capital	-586	-572
Dividends paid and interest on cooperative capital	-88	-69
C. Net cash used in financing activities	**-1,304**	**1,416**
Net increase/decrease in cash and cash equivalents (A+B+C)	**1,363**	**162**
Cash and cash equivalents at period-start	**9,571**	**8,708**
Cash and cash equivalents at period-end	**10,934**	**8,870**
Interest received	**1,572**	**1,829**
Interest paid	**-811**	**-1,078**
Cash and cash equivalents		
Liquid assets	10,718	8,736
Receivables from credit institutions payable on demand	217	134
Total	**10,934**	**8,870**

Segment information

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

Q1–3 earnings 2017, EUR million	Banking	Non-life Insurance	Wealth Management	Other operations	Eliminations	Group total
Net interest income	887	-12	1	-60	-1	815
-of which internal net income before tax	-14	-9	1	23		
Net insurance income		322	18		0	341
Net commissions and fees	474	-17	258	-44	3	674
Net investment income	19	125	93	172	-4	405
Other operating income	19	11	7	481	-435	82
Share of associates' profits	1	3	6	3	0	13
Total income	**1,401**	**431**	**383**	**553**	**-437**	**2,331**
Personnel costs	270	86	57	152	0	564
Depreciation/amortisation and impairment losses	39	34	20	65	0	159
Other operating expenses	413	173	95	303	-438	546
Total expenses	**722**	**292**	**172**	**520**	**-438**	**1,269**
Impairments of receivables	27	0		0	1	28
OP bonuses to owner-customers	139	1	21		0	161
Earnings before tax	**513**	**137**	**190**	**32**	**0**	**873**

Q1–3 earnings 2016, EUR million	Banking	Non-life Insurance	Wealth Management	Other operations	Eliminations	Group total
Net interest income	846	-15	4	-34	-1	799
-of which internal net income before tax	-15	-13	4	24		
Net insurance income		398	20		0	418
Net commissions and fees	461	-15	235	-48	5	637
Net investment income	-36	87	102	131	-1	282
Other operating income	17	7	6	424	-350	104
Share of associates' profits	1	1	3	-1	0	5
Total income	**1,289**	**462**	**369**	**473**	**-348**	**2,245**
Personnel costs	281	85	66	130	0	563
Depreciation/amortisation and impairment losses	31	30	19	35	0	116
Other operating expenses	360	139	84	223	-349	458
Total expenses	**672**	**255**	**169**	**389**	**-349**	**1,136**
Impairments of receivables	35	0		0	1	36
OP bonuses to owner-customers	133	1	18		0	153
Earnings before tax	**448**	**206**	**183**	**83**	**0**	**921**

Balance sheet 30 September 2017, EUR million	Banking	Non-life Insurance	Wealth Management	Other operations	Eliminations	Group total
Cash and cash equivalents	98	325	336	10,596	-638	10,718
Receivables from credit institutions	7,986	5	76	9,475	-17,119	424
Financial assets held for trading	-4			613	-2	607
Derivative contracts	364	6	85	3,351	-358	3,447
Receivables from customers	81,999	0	0	262	-1,116	81,146
Investment assets	567	3,611	7,321	16,602	-5,026	23,074
Assets covering unit-linked contracts			9,868			9,868
Investments in associates	9	1	29	28	113	181
Intangible assets	65	681	364	417	-3	1,524
Property, plant and equipment (PPE)	446	42	28	375	-12	879
Other assets	344	783	319	1,147	-192	2,402
Tax assets	89	21	23	44	14	191
Total assets	**91,963**	**5,477**	**18,450**	**42,911**	**-24,340**	**134,462**
Liabilities to credit institutions	9,109			12,015	-16,456	4,669
Derivative contracts	195	28	57	3,150	-360	3,071
Liabilities to customers	60,314		14	4,636	-1,567	63,396
Insurance liabilities		3,235	6,899			10,134
Liabilities from unit-linked insurance and investments contracts			9,900			9,900
Debt securities issued to the public	11,000			16,255	-829	26,427
Provisions and other liabilities	1,793	393	182	1,472	-233	3,607
Tax liabilities	358	86	72	356	23	894
Subordinated liabilities	82	135	245	1,408	-452	1,418
Total liabilities	**82,852**	**3,877**	**17,369**	**39,292**	**-19,874**	**123,516**
Equity capital						**10,945**

Balance sheet 31 December 2016, EUR million	Banking	Non-life Insurance	Wealth Management	Other operations	Eliminations	Group total
Cash and cash equivalents	113	90	459	9,329	-520	9,471
Receivables from credit institutions	6,351	6	53	10,180	-16,253	337
Financial assets held for trading	-4		0	698	-2	692
Derivative contracts	458	26	125	4,582	-459	4,732
Receivables from customers	79,144	0		683	-1,223	78,604
Investment assets	580	3,755	7,909	17,705	-4,843	25,105
Assets covering unit-linked contracts			9,168		0	9,168
Investments in associates	10	2	28	27	25	91
Intangible assets	62	689	374	353	-3	1,474
Property, plant and equipment (PPE)	480	46	25	332	-12	871
Other assets	292	708	336	2,104	-448	2,992
Tax assets	103	12	12	62	21	210
Total assets	**87,588**	**5,334**	**18,490**	**46,054**	**-23,719**	**133,747**
Liabilities to credit institutions	9,565			10,533	-15,428	4,669
Derivative contracts	168	17	21	4,297	-460	4,044
Liabilities to customers	54,693		3	6,815	-1,434	60,077
Insurance liabilities		3,008	7,578			10,586
Liabilities from unit-linked insurance and investment contracts			9,205			9,205
Debt securities issued to the public	10,522			18,790	-1,026	28,287
Provisions and other liabilities	1,856	553	285	2,095	-562	4,226
Tax liabilities	355	95	87	338	19	894
Supplementary cooperative share	253				-177	77
Subordinated liabilities	82	135	245	1,436	-452	1,445
Total liabilities	**77,494**	**3,809**	**17,424**	**44,303**	**-19,520**	**123,509**
Equity capital						**10,237**

Notes

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Note 4	Net insurance income
Note 5	Net commissions and fees
Note 6	Net investment income
Note 7	Impairments of receivables
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Note 1 Accounting policies

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

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

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

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

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

Banking

Consolidated income statement	As presented previously 1 Jan.–30 Sep. 2016	Change	New 1 Jan.–30 Sep. 2016
Income	1,416	-127	1,289
Expenses	781	-109	672
Earnings before tax	467	-19	448

Balance sheet	As presented previously 31 Dec. 2016	Change	New 31 Dec. 2016
Assets	93,312	-5,723	87,588
Liabilities	77,361	132	77,494

Non-life Insurance

Consolidated income statement	As presented previously 1 Jan.–30 Sep. 2016	Change	New 1 Jan.–30 Sep. 2016
Income	436	26	462
Expenses	235	20	255
Earnings before tax	200	6	206

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

Wealth Management

Consolidated income statement	As presented previously 1 Jan.–30 Sep. 2016	Change	New 1 Jan.–30 Sep. 2016
Income	289	80	369
Expenses	80	89	169
Earnings before tax	191	-8	183

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

Other Operations

Consolidated income statement	As presented previously 1 Jan.–30 Sep. 2016	Change	New 1 Jan.–30 Sep. 2016
Income	452	21	473
Expenses	389	0	389
Earnings before tax	63	21	83

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

Eliminations

Consolidated income statement	As presented previously 1 Jan.–30 Sep. 2016	Change	New 1 Jan.–30 Sep. 2016
Income	-348	0	-348
Expenses	-349	0	-349
Earnings before tax	0	0	0

Balance sheet	As presented previously 31 Dec. 2016	Change	New 31 Dec. 2016
Assets	-29,712	5,993	-23,719
Liabilities	-20,490	970	-19,520

New standards and interpretations

IFRS 9 Financial Instruments:

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

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

Classification and measurement

OP Financial Group has assessed how the portfolios of loans and various notes and bonds are managed to achieve their business objective (so-called business model test). In addition, OP Financial Group tested at the end of September a contractual cash flow of the portfolios of the existing notes and bonds (SPPI test). The majority of OP Financial Group's loans and notes and bonds will remain within the existing measurement categories recognised at amortised cost or fair value through other comprehensive income. Consequently, the changes in the classification will be small and will have no significant effect on OP Financial Group's CET1 ratio.

The biggest classification changes will apply especially to investment by OP Financial Group's Non-life and Life Insurance, equity instruments and mutual fund investments, which will mainly be reclassified as those recognised at fair value through profit or loss. OP Financial Group is planning to apply the so-called overlay approach to some of these instruments, which will restore the profit/loss impact of these instruments to be aligned with the current IAS 39. No changes are expected to the classification of financial liabilities.

Impairment

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

OP Financial Group's credit risk models and the development of related systems are not yet finalised. The expected credit losses are calculated using modelled risk parameters and formula PDxLGDxEAD for the majority of the portfolios. The expected credit losses are calculated for each contract for 12 months or lifetime, depending on whether the instrument's credit risk on the reporting day has increased significantly since initial recognition. OP Financial Group assesses any significant increase in credit risk through both qualitative and quantitative criteria. Qualitative factors consist of various credit risk indicators (e.g. forbearance measures) to be mainly taken into account in credit rating models. Credit ratings will affect lifetime PDs which are used for quantitative assessment of a significant increase in credit risk. In addition, credit risk has increased significantly if payment is over 30 days past due. Contracts are classified into three stages. Stage 1 class includes contracts whose credit risk has not increased significantly from the original level and for which a 12-month expected loss is calculated. Stage 2 includes contracts whose credit risk has increased significantly from the original level and for which a lifetime expected loss is calculated. Stage 3 includes defaulted contracts for which a lifetime expected loss is also calculated. In the assessment of a significant increase in credit risk, OP Financial Group does not apply a transitional provision permitted by IFRS 9 to contracts for which it is not possible, without undue cost or effort, to calculate the original lifetime PDs. In the definition of default, OP Financial Group uses a uniform definition in capital adequacy measurement.

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

Expected credit loss provisions under IFRS 9 are assessed to increase slightly from its current level based on IAS 39 and it varies by portfolio. The provisions will reduce equity capital on the date of transition. Based on preliminary assessments, the increase in expected credit loss provisions is not expected to have any significant effect on OP Financial Group's CET1 ratio on the date of transition because the IFRS 9 compliant expected credit loss provisions are not expected to exceed the expected loss calculated in capital adequacy and the effect of used floors. The European Commission's proposal under preparation to amend the calculation of the CET1 ratio by gradually phasing in the effects of impairment loss measurement under IFRS 9 during five years will, if implemented, also reduce the effects on capital adequacy.

Hedge accounting

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

IFRS 15 Revenue from Contracts with Customers:

OP Financial Group will apply IFRS 15 as of 1 January 2018. This standard will replace the current IAS 11 and IAS 18. In OP Financial Group, IFRS 15 mainly applies to commissions and fees of the Wealth Management segment and Banking segment fees not included in the calculation of the effective interest rate. The new standard will have no effect of the revenue recognition of financial instruments or insurance policies. IFRS 15 will lead to added information presented in the notes to the financial statements. The grouping of commission income and expenses in net commissions and fees is specified in the Notes. IFRS 15 will not change the revenue recognition time of the Wealth Management management fees or performance-based fees or any other fees included in the scope of application of the standard in comparison with the current practices. Thus, the adoption of IFRS 15 will not have any significant effect on OP Financial Group's financial result. OP Financial Group will apply IFRS 15 using the retrospective transition method.

Note 2 Key figures and ratios and their formulas

	Q1–3/ 2017	Q1–3/ 2016
Return on equity (ROE), %	8.9	10.2
Return on equity (ROE) at fair value, %	8.3	9.6
Return on assets (ROA), %	0.70	0.76
Cost/income ratio, %	54	51
Average personnel	12,195	12,276

ALTERNATIVE PERFORMANCE MEASURES

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

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

Return on equity (ROE), %

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

Return on equity (ROE) at fair value, %

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

Return on assets (ROA), %

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

Cost/income ratio, %

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

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

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

Non-life Insurance indicators

Loss ratio (excl. unwinding of discount), %

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

Expense ratio, %

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

Risk ratio (excl. unwinding of discount), %

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

Combined ratio (excl. unwinding of discount), %

Loss ratio + expense ratio

Risk ratio + cost ratio

Cost ratio, %

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

Operating loss ratio, %

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

Operating expense ratio, %

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

Operating combined ratio, %

Operating loss ratio + Operating expense ratio

Operating risk ratio + Operating cost ratio

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

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

Operating cost ratio, %

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

INDICATORS BASED ON CAPITAL ADEQUACY MEASUREMENT

Capital adequacy ratio, %

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

Tier 1 ratio, %

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

CET1 ratio, %

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

Solvency ratio, %

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

Leverage ratio, %

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

Liquidity coverage requirement (LCR), %

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

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

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

Return on economic capital, %

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

NON-LIFE INSURANCE OPERATING RESULTS

EUR million	Q1–3/ **2017**	Q1–3/ **2016**	**Change %**	Q1–4/ **2016**
Insurance premium revenue	1,073	1,061	1.2	1,418
Claims incurred	-829	-731	13.4	-979
Operating expenses	-212	-187	13.4	-263
Amortisation adjustment of intangible assets	-16	-16	0.0	-21
Balance on technical account	**16**	**127**	**-87.2**	**154**
Net investment income	125	87	44.1	97
Other income and expenses	-4	-8	-50.1	-8
Earnings before tax	**137**	**206**	**-33.4**	**244**
Gross change in fair value reserve	-49	83		68
Earnings before tax at fair value	**88**	**289**	**-69.5**	**311**

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

Note 3 Net interest income

EUR million	Q3/ 2017	Q3/ 2016	Q1–3/ 2017	Q1–3/ 2016
Interest income				
Receivables from credit institutions	7	1	20	4
Receivables from customers				
Loans	296	295	878	891
Finance lease receivables	4	4	11	11
Impaired loans and other commitments	1	1	2	2
Notes and bonds				
Held for trading	2	2	5	7
Available for sale	26	31	79	96
Held to maturity	0	1	1	2
Loans and receivables	0	0	1	1
Derivative contracts				
Held for trading	177	223	548	722
Fair value hedge	-29	-33	-88	-97
Cash flow hedge	9	10	27	28
Ineffective portion of cash flow hedge	1	-1	1	1
Other	2	2	8	5
Total	**496**	**536**	**1,494**	**1,674**
Interest expenses				
Liabilities to credit institutions	14	6	42	18
Financial liabilities at fair value through profit or loss	0	0	0	0
Liabilities to customers	19	22	57	75
Debt securities issued to the public	68	71	218	215
Subordinated liabilities				
Subordinated loans	1	1	2	3
Other	11	11	33	34
Derivative contracts				
Held for trading	146	189	468	633
Cash flow hedge	-35	-37	-101	-108
Other	-15		-46	
Other	2	2	8	5
Total	**212**	**265**	**680**	**875**
Net interest income before fair value adjustment under hedge accounting	**284**	**271**	**814**	**799**
Hedging derivatives	-3	-10	-82	-35
Value changes of hedged items	3	10	84	34
Total net interest income	**285**	**271**	**815**	**799**

Note 4 Net insurance income

EUR million	Q3/ 2017	Q3/ 2016	Q1–3/ 2017	Q1–3/ 2016
Net insurance premium revenue				
Premiums written	268	256	1,189	1,171
Insurance premiums ceded to reinsurers	-1	1	-6	-5
Change in provision for unearned premiums	105	112	-115	-108
Reinsurers' share	-8	-7	6	4
Total	**365**	**362**	**1,074**	**1,062**
Net Non-life Insurance claims				
Claims paid	-205	-197	-652	-642
Insurance claims recovered from reinsurers	2	12	6	26
Change in provision for unpaid claims	-88	-27	-111	-26
Reinsurers' share	1	-8	9	-18
Total	**-290**	**-220**	**-749**	**-660**
Other Non-life Insurance items	-1	0	-3	-3
Life Insurance risk premiums collected	6	7	18	20
Total net insurance income	**80**	**149**	**341**	**418**

Note 5 Net commissions and fees

EUR million	Q3/ 2017	Q3/ 2016	Q1–3/ 2017	Q1–3/ 2016
Comission income				
Lending	48	49	151	154
Deposits	1	1	4	4
Payment transfers	56	66	188	195
Securities brokerage	4	4	14	11
Securities issuance	1	0	7	5
Mutual funds	38	31	111	100
Asset management and legal services	18	17	55	56
Guarantees	5	5	14	16
Housing service	19	17	55	51
Insurance brokerage	8	10	47	46
Life insurance total expense loadings	24	15	72	66
Refund of unit-linked management fees	17	16	50	46
Other	6	6	18	15
Total	**246**	**237**	**786**	**765**
Comission expenses				
Payment transfers	4	17	33	52
Securities brokerage	4	-2	9	7
Securities issuance	1	1	2	2
Asset management and legal services	3	3	10	11
Insurance operations	10	10	32	30
Other	9	7	25	24
Total	**30**	**36**	**112**	**127**
Total net commissions and fees	**217**	**200**	**674**	**637**

Note 6 Net investment income

EUR million	Q3/ 2017	Q3/ 2016	Q1–3/ 2017	Q1–3/ 2016
Net income from available-for-sale assets				
Notes and bonds	18	31	59	145
Equity instruments	82	13	121	41
Dividend income and share of profits	22	14	89	64
Impairment losses and their reversals	-10	-5	-25	-40
Total	**113**	**52**	**246**	**210**
Net income recognised at fair value through profit or loss				
Insurance				
Notes and bonds	23	18	3	64
Equity instruments	3	4	10	7
Derivatives	14	37	3	211
Banking and Other operations				
Securities trading	34	33	132	50
Foreign exchange trading	7	5	31	28
Investment property	10	2	21	18
Other	1	1	3	2
Total	**92**	**99**	**202**	**381**
Net income carried at amortised cost				
Loans and other receivables	1	3	7	6
Impairment losses and their reversals	-2	0	-2	-1
Total	**-1**	**3**	**5**	**5**
Life Insurance				
Interest credited on customers' insurance savings	-22	-23	-67	-71
Change in supplementary interest rate provisions	30	-5	98	-53
Other technical items	-33	-17	-54	-163
Total	**-25**	**-45**	**-23**	**-287**
Non-life Insurance				
Unwinding of discount	-8	-9	-25	-27
Total	**-8**	**-9**	**-25**	**-27**
Total net investment income	**170**	**99**	**405**	**282**

Note 7 Impairments of receivables

EUR million	Q3/ 2017	Q3/ 2016	Q1–3/ 2017	Q1–3/ 2016
Receivables written off as loan or guarantee losses	24	10	63	69
Recoveries of receivables written off	-6	-3	-11	-11
Increase in impairment losses on individually assessed receivables	13	19	45	54
Decrease in impairment losses on individually assessed receivables	-29	-14	-74	-82
Collectively assessed impairment losses	2	0	4	6
Total impairments of receivables	**5**	**12**	**28**	**36**

Note 8 Classification of financial assets and liabilities

Assets, EUR million	Loans and other receivables	Invest-ments held to maturity	Financial assets at fair value through profit or loss*	Available-for-sale financial assets	Hedging derivatives	Total
Cash and cash equivalents	10,718					10,718
Receivables from credit institutions	424					424
Derivative contracts			3,126		321	3,447
Receivables from customers	81,146					81,146
Assets covering unit-linked contracts			9,868			9,868
Notes and bonds		42	4,056	16,387		20,484
Equity instruments			315	1,793		2,109
Other financial assets	2,515					2,515
Financial assets	**94,802**	**42**	**17,366**	**18,180**	**321**	**130,710**
Other than financial instruments						3,751
Total 30 September 2017	**94,802**	**42**	**17,366**	**18,180**	**321**	**134,462**

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

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

Liabilities, EUR million	Financial liabilities at fair value through profit or loss	Other liabilities	Hedging derivatives	Total
Liabilities to credit institutions		4,669		4,669
Derivative contracts	2,662		409	3,071
Liabilities to customers		63,396		63,396
Insurance liabilities		10,134		10,134
Liabilities from unit-linked insurance and investment contracts	9,900			9,900
Debt securities issued to the public		26,427		26,427
Subordinated liabilities		1,418		1,418
Other financial liabilities	0	2,604		2,604
Financial liabilities	**12,563**	**108,648**	**409**	**121,619**
Other than financial liabilities				1,897
Total 30 September 2017	**12,563**	**108,648**	**409**	**123,516**

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

Bonds included in debt securities issued to the public are carried at amortised cost. On 30 September, the fair value of these debt instruments was EUR 447 million (545) higher than their carrying amount, based on information available in markets and employing commonly used valuation techniques. Subordinated liabilities are carried at amortised cost. Their fair values are higher than their amortised costs, but determining reliable fair values involves uncertainty.

Note 9 Recurring fair value measurements by valuation technique

Fair value of assets on 30 Sep. 2017, EUR million	Level 1	Level 2	Level 3	Total
Recognised at fair value through profit or loss				
Equity instruments	204	84	28	315
Debt instruments	3,259	376	422	4,056
Unit-linked contracts	6,982	2,886		9,868
Derivative financial instruments	1	3,308	138	3,447
Available-for-sale				
Equity instruments	493	716	584	1,793
Debt instruments	12,985	2,979	422	16,387
Total	**23,925**	**10,348**	**1,593**	**35,867**

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

Fair value of liabilities on 30 Sep. 2017, EUR million	Level 1	Level 2	Level 3	Total
Recognised at fair value through profit or loss				
Unit-linked contracts	7,005	2,895		9,900
Other		0		0
Derivative financial instruments	9	2,977	85	3,071
Total	**7,014**	**5,873**	**85**	**12,971**

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

Level 1: Quoted prices in active markets

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

Level 2: Valuation techniques using observable inputs

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

Level 3: Valuation techniques using unobservable inputs

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

Transfers between levels of the fair value hierarchy

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

Reconciliation of Level 3 items that involve uncertainty

Specification of financial assets and liabilities

Financial assets, EUR million	Financial assets at fair value through profit or loss	Derivative contracts	Available-for-sale financial assets	Total assets
Opening balance 1 January 2017	142	160	1,149	1,452
Total gains/losses in profit or loss	8	-22	-12	-26
Total gains/losses in other comprehensive income			-97	-97
Purchases	21		95	117
Sales	-2		-108	-110
Settlements	-67		-7	-74
Transfers into Level 3	350		173	523
Transfers out of Level 3	-4		-188	-192
Closing balance 30 September 2017	**449**	**138**	**1,006**	**1,593**

Financial liabilities, EUR million	Derivative contracts	Total liabilities
Opening balance 1 January 2017	107	107
Total gains/losses in profit or loss	-22	-22
Closing balance 30 September 2017	**85**	**85**

Total gains/losses included in profit or loss by item on 30 Sep. 2017

EUR million	Net interest income	Net investment income	Statement of comprehen-sive income/ Change in fair value reserve	Net gains/losses on assets and liabilities held on 30 Sep.
Realised net gains	8			8
Unrealised net gains	0	-12	-97	-109
Total net gains	**8**	**-12**	**-97**	**-101**

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

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

Note 10 Derivative contracts

30 September 2017, EUR million	Nominal values / remaining term to maturity				Fair values*	
	<1 year	1–5 years	>5 years	Total	Assets	Liabilities
Interest rate derivatives	29,101	83,153	65,609	177,863	3,249	2,909
Cleared by the central counterparty	7,933	38,786	34,206	80,925	985	1,130
Currency derivatives	35,517	9,243	2,963	47,723	981	1,148
Equity and index derivatives	5	3		8	1	
Credit derivatives	15	211	6	233	7	5
Other derivatives	372	490	2	864	71	28
Total derivatives	**65,011**	**93,100**	**68,580**	**226,691**	**4,310**	**4,090**

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

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

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

Financial assets

30 September 2017, EUR million	Gross amount of financial assets	Gross amount of financial liabilities deducted from financial assets*	Net amount presented in the balance sheet**	Financial assets not set off in the balance sheet		Net amount
				Derivative contracts***	Collateral received	
Derivatives	4,411	-964	3,447	-1,883	-500	1,064

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

Financial liabilities

30 September 2017, EUR million	Gross amount of financial liabilities	Gross amount of financial assets deducted from financial liabilities*	Net amount presented in the balance sheet**	Financial liabilities not set off in the balance sheet		Net amount
				Derivative contracts***	Collateral given	
Derivatives	4,178	-1,107	3,071	-1,883	-658	531

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

* Incl. daily cleared derivatives on a net basis included in cash and cash equivalents, totalling -146 (-147) million euros.
** Fair values excluding accrued interest.
*** It is the practice to enter into master agreements for derivative transactions with all derivative counterparties.

Central counterparty clearing for OTC derivatives
Standardised OTC derivative transactions entered into with financial counterparties are cleared in London Clearing House, accordance with EMIR (EU 648/2012). Based on this model, the central counterparty will become the derivatives counterparty at the end of the daily clearing process, with whom daily payments for derivatives are netted. In addition, collateral is paid or received daily, which corresponds to the change in the fair value of open positions (variation margin). Interest rate derivatives cleared by the central counterparty are presented on a net basis in the balance sheet.

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

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

30 September 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	425		425		1	424
Receivables from customers, of which	79,269	614	79,882	416	67	79,399
bank guarantee receivables	3	8	11	8	1	2
Finance leases	1,747		1,747			1,747
Total	**81,441**	**614**	**82,054**	**416**	**68**	**81,570**
Receivables from credit institutions and customers by sector						
Non-banking corporate sector	28,716	426	29,142	319	37	28,786
Financial institutions and insurance companies	1,183	0	1,183	0	2	1,181
Households	49,841	184	50,025	95	28	49,901
Non-profit organisations	785	4	788	2	1	785
Public sector entities	916		916		0	916
Total	**81,441**	**614**	**82,054**	**416**	**68**	**81,570**

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

Doubtful and forborne receivables 30 September 2017, EUR million	Performing receivables from credit institutions and customers (gross)	Non-performing receivables from credit institutions and customers (gross)	Receivables from credit institutions and customers, total (gross)	Individually assessed impairment	Receivables from credit institutions and customers (net)
More than 90 days past due		623	623	215	408
Unlikely to be paid		532	532	149	383
Forborne receivables	1,951	327	2,278	52	2,226
Total	**1,951**	**1,482**	**3,433**	**416**	**3,017**

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

Key ratio, %	30 Sep. 2017	31 Dec. 2016
Exposures individually assessed for impairment, % of doubtful receivables	13.1 %	14.5 %

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

Note 13 Insurance liabilities

EUR million	30 Sep. 2017	31 Dec. 2016
Provision for unpaid claims		
Provision for unpaid claims for annuities	1,042	1,434
Other provision for unpaid claims	1,523	988
Reserve for decreased discount rate (value of hedges of insurance liability)	-25	8
Total	2,541	2,430
Provisions for unearned premiums	694	578
Liabilities from unit-linked insurance and investment contracts		
Liabilities from unit-linked insurance	8,526	7,918
Investment contracts	1,374	1,287
Total	9,900	9,205
Life insurance insurance liabilities	6,899	7,578
Total	**20,034**	**19,791**

Note 14 Debt securities issued to the public

EUR million	30 Sep. 2017	31 Dec. 2016
Bonds	8,969	10,922
Covered bonds	9,822	9,277
Certificates of deposit, commercial papers and ECPs	7,636	8,088
Total	**26,427**	**28,287**

Note 15 Fair value reserve after income tax

EUR million	Available-for-sale financial assets: Notes and bonds	Available-for-sale financial assets: Equity instruments	Cash flow hedging	Total
Opening balance 1 January 2017	**105**	**172**	**41**	**318**
Fair value changes	47	-7	0	**41**
Capital gains transferred to income statement	-18	-114		**-132**
Impairment loss transferred to income statement	0	14		**14**
Transfers to net interest income			-28	**-28**
Deferred tax	-6	21	6	**21**
Closing balance 30 September 2017	**129**	**86**	**19**	**234**

EUR million	Available-for-sale financial assets: Notes and bonds	Available-for-sale financial assets: Equity instruments	Cash flow hedging	Total
Opening balance 1 January 2016	**31**	**142**	**69**	**242**
Fair value changes	199	37	53	**288**
Capital gains transferred to income statement	-16	-60		**-76**
Impairment loss transferred to income statement	1	28		**29**
Transfers to net interest income			-29	**-29**
Deferred tax	-37	-1	-5	**-42**
Closing balance 30 September 2016	**178**	**146**	**88**	**411**

The fair value reserve before tax amounted to EUR 292 million (514) and the related deferred tax liability amounted to EUR 58 million (102). On 30 September 2017, positive mark-to-market valuations of equity instruments in the fair value reserve totalled EUR 200 million (244) and negative mark-to-market valuations EUR 29 million (29).

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

Note 16 Collateral given

EUR million	30 Sep. 2017	31 Dec. 2016
Collateral given on behalf of own liabilities and commitments		
Pledges	115	1
Loans (as collateral for covered bonds)	11,488	10,407
Other	5,407	4,973
Total*	**17,010**	**15,381**
Secured derivative liabilities	798	1,351
Other secured liabilities	4,150	3,443
Covered bonds	9,822	9,277
Total	**14,770**	**14,071**

* In addition, bonds with a book value of EUR 6.2 billion have been pledged in the central bank, of which EUR 1.5 billion in intrady settlement collateral. Given that the bonds are available for withdrawal without the central bank's advance premission, they are not presented in the table above.

Note 17 Off-balance-sheet items

EUR million	30 Sep. 2017	31 Dec. 2016
Guarantees	626	836
Other guarantee liabilities	1,964	1,921
Loan commitments	12,063	11,049
Commitments related to short-term trade transactions	386	358
Other*	1,072	966
Total off-balance-sheet items	**16,111**	**15,129**

* Of which Non-life Insurance commitments to private equity funds amount to EUR 188 million (156).

Note 18 Capital adequacy for credit institutions

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

Capital base, EUR million	30 Sep. 2017	31 Dec. 2016
OP Financial Group's equity capital	10,945	10,237
The effect of insurance companies on the Group's shareholders' equity is excluded	-201	-168
Fair value reserve, cash flow hedging	-19	-41
Supplementary cooperative capital to which transition provision applies		77
Common Equity Tier 1 (CET1) before deductions	**10,725**	**10,105**
Intangible assets	-685	-620
Excess funding of pension liability and valuation adjustments	-36	-64
Repayable cooperative capital		-156
Planned profit distribution	-67	-83
Shortfall of impairments – expected losses	-319	-309
Common Equity Tier 1 (CET1)	**9,618**	**8,872**
Subordinated loans to which transitional provision applies	81	81
Additional Tier 1 capital (AT1)	**81**	**81**
Tier 1 capital (T1)	**9,699**	**8,954**
Debenture loans	1,154	1,239
Tier 2 Capital (T2)	**1,154**	**1,239**
Total capital base	**10,854**	**10,192**

A prudent valuation adjustment of EUR 23 (36) million has been deducted from CET1 capital.

Supplementary capital contributions of EUR 70 million refunded to customers, as permitted by the supervisor, were deducted from CET1 capital. A year ago, EUR 156 million were deducted from CET1 capital, based on the supervisor's permission to refund cooperative capital. OP Financial Group has applied transitional provisions regarding old capital instruments to supplementary cooperative shares and subordinated loans.

Risk exposure amount, EUR million	30 Sep. 2017	31 Dec. 2016
Credit and counterparty risk	**39,620**	**38,853**
Standardised Approach (SA)	**3,780**	**3,233**
Central government and central banks exposure	31	39
Credit institution exposure	11	36
Corporate exposure	2,329	1,812
Retail exposure	1,060	1,039
Other*	349	307
Internal Ratings-based Approach (IRB)	**35,839**	**35,620**
Credit institution exposure	991	1,143
Corporate exposure	21,581	20,913
Retail exposure	5,023	4,698
Equity investments**	7,167	7,605
Other	1,078	1,261
Market and settlement risk (Standardised Approach)	**1,988**	**1,329**
Operational risk (Standardised Approach)	**3,958**	**3,666**
Valuation adjustment (CVA)	**206**	**253**
Total risk exposure amount	**45,772**	**44,101**
Risk weight floors based on ECB's decision	**4,377**	
Total risk exposure amount including risk weight floors	**50,149**	**44,101**

* EUR 271 million (253) of Other exposures represent deferred tax assets that are treated with a risk weight of 250% instead of a deduction from common equity tier 1 capital.

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

Ratios, %	30 Sep. 2017	31 Dec. 2016
CET1 capital ratio	19.2	20.1
Tier 1 ratio	19.3	20.3
Capital adequacy ratio	21.6	23.1

Ratios, fully loaded, %	30 Sep. 2017	31 Dec. 2016
CET1 capital ratio	19.2	19.9
Tier 1 ratio	19.2	19.9
Capital adequacy ratio	21.5	22.8

Ratios excluding the risk weight floors, %	30 Sep. 2017	31 Dec. 2016
CET1 capital ratio	21.0	20.1
Tier 1 ratio	21.2	20.3
Capital adequacy ratio	23.7	23.1

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

Capital requirement, EUR million	30 Sep. 2017	31 Dec. 2016
Capital base	10,854	10,192
Capital requirement	7,158	5,520
Buffer for capital requirements	3,696	4,673

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

Leverage ratio, EUR million	30 Sep. 2017	31 Dec. 2016
Tier 1 capital (T1)	9,699	8,954
Total exposure	123,704	120,257
Leverage ratio, %	7.8	7.4

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

Note 19 Exposures by rating category

Retail exposures by rating category (AIRB)

All retail exposures 30 September 2017

Rating category	Exposure value (EAD), EUR million	Average CF, %	Average PD, %	Average LGD, %	RWA, EUR million	Average risk weight, %	Expected losses, EUR million
Personal customers, total	**49,647**	**52.8**	**0.8**	**16.9**	**4,200**	**7.6**	**159**
A	30,680	52.3	0.0	15.9	534	1.7	2
B	10,989	54.6	0.1	16.1	528	4.8	2
C	3,862	53.8	0.5	22.2	664	17.2	4
D	2,261	52.3	2.3	20.6	818	36.2	11
E	1,421	46.3	20.1	20.8	1,197	84.2	58
F	434		100.0	24.2	459	105.7	82
Corporate customers, total	**1,602**	**68.2**	**3.4**	**38.2**	**823**	**42.9**	**42**
2.5–5.5	501	67.3	0.4	22.5	60	12.1	0
6.0–7.0	624	66.9	1.4	42.4	259	41.5	4
7.5–8.5	316	70.3	5.0	47.3	221	70.0	8
9.0–10.0	112	75.0	23.0	47.7	125	111.2	12
11.0–12.0	48		100.0	63.5	157	327.0	19
Total	**51,248**	**53.9**	**0.9**	**17.6**	**5,023**	**8.7**	**201**

All retail exposures 31 December 2016

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

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

Corporate exposures (FIRB) by rating category

30 September 2017

Rating category	Exposure value (EAD), EUR million	Average CF, %	Average PD, %	Average LGD, %	RWA, EUR million	Average risk weight, %	Expected losses, EUR million
1.0–2.0	838	93.3	0.0	44.7	123	14.6	0
2.5–5.5	18,240	73.8	0.2	44.4	7,418	40.7	18
6.0–7.0	8,044	70.4	1.3	44.0	6,976	86.7	45
7.5–8.5	4,474	70.2	4.4	44.2	5,444	121.7	87
9.0–10.0	840	61.1	19.1	44.0	1,621	193.0	70
11.0–12.0	725	55.9	100.0	45.3			328
Total	**33,161**	**72.8**	**1.6**	**44.3**	**21,581**	**66.5**	**548**

31 December 2016

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

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

Note 20 Insurance company solvency

EUR million	30 September 2017		31 December 2016	
	Life Insurance	Non-life Insurance	Life Insurance	Non-life Insurance
Eligible capital	**1,437**	**1,101**	**1,455**	**992**
Solvency capital requirement (SCR)				
Market risk	911	494	996	484
Insurance risk	391	285	405	298
Counterparty risk	27	32	27	32
Operational risk	35	43	25	43
Diversification benefits and loss absorbency	-654	-184	-712	-164
Total	710	670	742	693
Buffer for SCR	**727**	**431**	**713**	**299**
Solvency ratio (SCR), %	**202**	**164**	**196**	**143**
Solvency ratio (SCR), % (excluding transitional provision)	**160**	**161**	**149**	**127**

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

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

EUR million	30 Sep. 2017	31 Dec. 2016
OP Financial Group's equity capital	**10,945**	**10,237**
Other cooperative capital, hybrid instruments and debenture bonds	1,236	1,397
Other sector-specific items excluded from capital base	-115	-139
Goodwill and intangible assets	-1,493	-1,438
Insurance business valuation differences*	865	743
Proposed profit distribution	-67	-83
Items under IFRS deducted from capital base**	45	16
Shortfall of impairments – expected losses	-293	-283
Conglomerate's capital base, total	**11,123**	**10,449**
Regulatory capital requirement for credit institutions***	6,238	4,713
Regulatory capital requirement for insurance operations*	1,380	1,434
Conglomerate's total minimum capital requirement	**7,617**	**6,147**
Conglomerate's capital adequacy	**3,506**	**4,302**
Conglomerate's capital adequacy ratio (capital base/minimum of capital base) (%)	**146**	**170**

* Differences between fair value and carrying amount, and estimate of SCR under Solvency II.

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

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

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

Note 22 Related-party transactions

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

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

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

Financial reporting in 2018

Schedule for Financial Statements Bulletin for 2017 and Interim Reports in 2018:

Financial Statements Bulletin 2017	8 February 2018
Interim Report Q1/2018	3 May 2018
Interim Report H1/2018	1 August 2018
Interim Report Q1–3/2018	31 October 2018

Helsinki, 1 November 2017

OP Cooperative
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