OP Corporate Bank plc’s Interim Report 1 January–31 March 2018

OP Corporate Bank plc's Interim Report for 1 January–31 March 2018

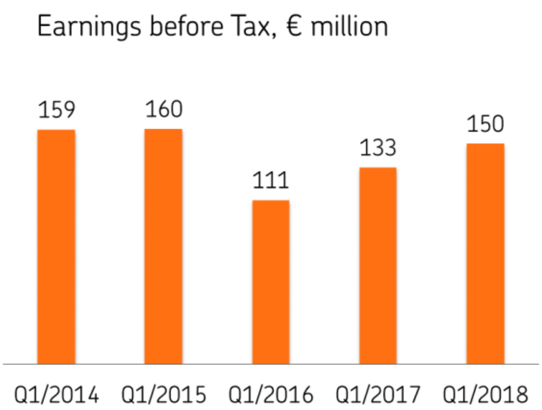
- Consolidated earnings before tax were EUR 150 million (133). The return on equity was 12.0% (11.1). Return on assets was 0.76% (0.70).
- Banking earnings before tax increased to EUR 109 million (82). The loan portfolio increased by 7.8% to EUR 20.4 billion. The cost/income ratio was 30.4% (32.2).
- Non-life Insurance earnings before tax decreased to EUR 32 million (42). The operating combined ratio was 93.2% (95.5). Net return on investments at fair value totalled EUR –13 million (50).
- Other Operations earnings before tax were EUR 8 million (9). Liquidity and access to funding remained good.
- The CET1 ratio was 15.8% (16.0), while the target is 15%.
- Timo Ritakallio, LL.M., MBA and D.Sc. (Tech.), took up his duties as Chair of of the Board of Directors of OP Corporate Bank on 1 March 2018.
- Jouko Pölönen resigned from his position as President and CEO of OP Corporate Bank plc on 30 April 2018. Hannu Jaatinen, M.Sc. (Econ. & Bus. Adm.) and eMBA, has been appointed acting President and CEO as of 1 May 2018.
- Unchanged outlook: OP Corporate Bank Group's consolidated earnings before tax are expected to be about the same as in 2017.

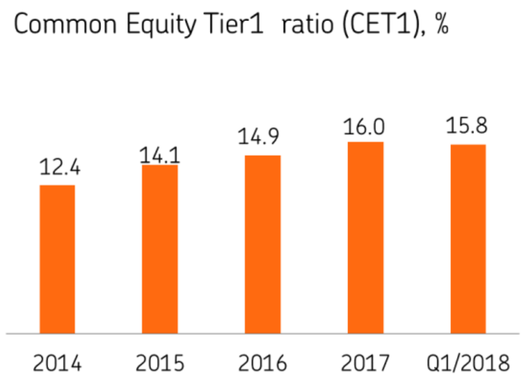
Earnings before tax, € million	Q1/2018	Q1/2017	Change, %	Q1–4/2017
Banking	109	82	32.9	344
Non-life Insurance	32	42	-23.4	193
Other Operations	8	9	-9.5	-2
Group total	**150**	**133**	**12.1**	**535**
Return on equity (ROE), %	120	11.1	0.9*	10.6
Return on assets (ROA), %	0.76	0.70	0.1*	0.67

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

Financial targets	31 March 2018	31 Dec. 2017	Target
Customer experience, NPS (-100–+100)	71	69	70, over time 90
CET1 ratio, %	15.8	16.0	15
Return on economic capital, %	18.1	17.8	22
Expenses of present-day business*, € million	538	534	Expenses in 2020 lower than in 2015 (475)
Dividend payout ratio, %		49.7	50

*Excluding expenses of the health and wellbeing business. Rolling 12-month.





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Operating environment

The world economy showed a favourable development during the first quarter. Yet, economic confidence weakened slightly as financial markets were faced by greater swings. In the euro area, preliminary information suggests that the economy has grown in the first quarter of 2018 but at a more tepid rate than in the second half of 2017. Inflation continued to remain moderate.

At the beginning of 2018, the European Central Bank (ECB) cut its asset purchases to EUR 30 billion per month. The purchases will continue at least until the end of September. The ECB still thinks that the main refinancing rates will remain at their current levels for a longer time and even after the asset purchase programme has come to an end.

Euribor rates remained almost unchanged in the first quarter. Longer-term interest rates rose in the first quarter because of strong economic sentiment and higher inflationary expectations. With added trade policy woes, longer-term rates started to go down and expectations of higher short-term rates were postponed.

Finnish economic development remained favourable during the first few months of the year. According to preliminary information, the economy grew at brisk rate but at a slower rate than last year.

Economic growth has remained broad-based. The employment rate has shown strong growth and confidence has continued to improve in the service sector. Exports continued brisk growth in the first quarter and industrial confidence was still strong although it petered out somewhat. Housing markets remained fairly favourable. Home prices rose slightly mostly in growth centres.

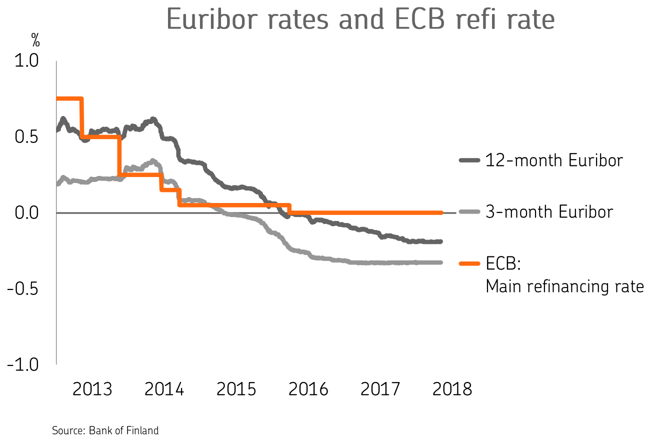
Favourable economic development is expected to continue in the near future in the whole of the euro area. Monetary policy normalisation is progressing steadily. The greatest near-term risks are associated with international policy.

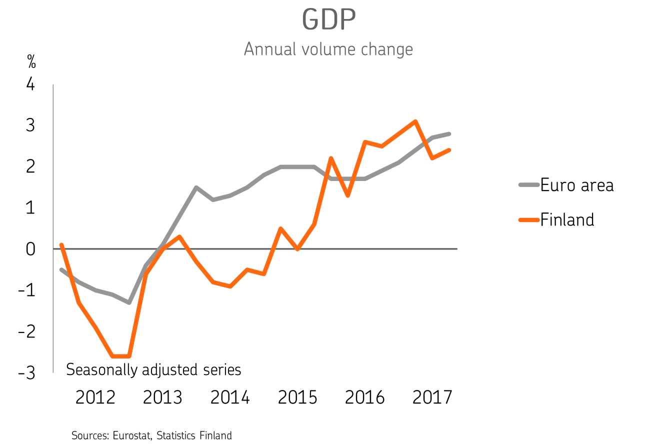
Total household loans increased moderately in the first quarter. The combined total loans increased by well over 2% and the home loan portfolio alone by around 2%. Total student loans increased by over 20% with a student loan reform enhancing demand for the loans. Growth in total corporate loans slowed down as a result of a decrease in syndicated loans. According to the banking barometer, demand for consumer and corporate loans is expected to pick up.

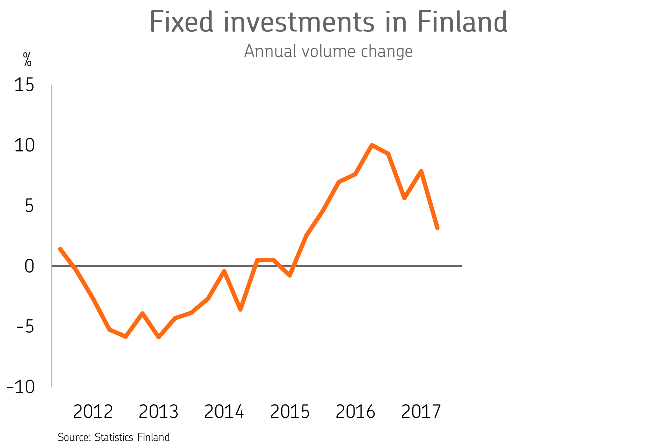
Total deposits increased at an annual rate of almost 5% in the first quarter. Corporate deposits increased slightly faster than household deposits.

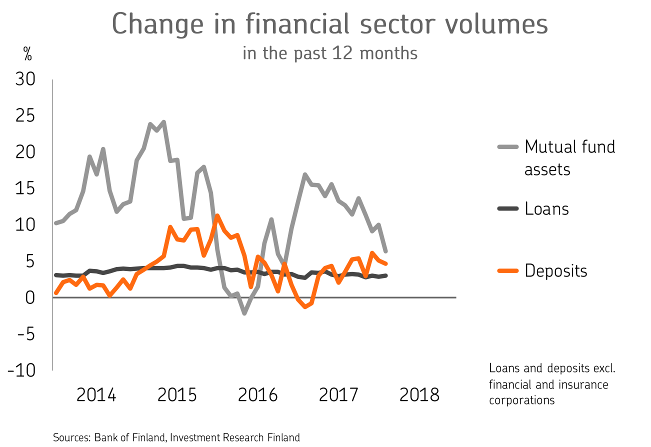
In the first quarter of 2018, the value of mutual funds registered in Finland declined by 1.6% to EUR 114.4 billion. Net asset inflows amounted to EUR 434 million, but the negative value change of EUR 2.3 billion following capital market unrest turned the total change of mutual funds negative.

The positive economic mood continued to support the insurance sector but price competition that has remained fierce in all customer groups slowed down development of premiums written in the entire sector.









Consolidated earnings

€ million	Q1/2018	Q1/2017*	Change, %	Q1–4/2017*
Net interest income	61	55	11.0	259
Net insurance income	129	111	16.2	459
Net commissions and fees	-3	0		-17
Net investment income	77	104	-25.3	390
Other operating income	11	5		26
Total income	**276**	**276**	**0.1**	**1,117**
Personnel costs	46	43	5.3	164
Depreciation/amortisation and impairment loss	15	14	9.4	64
Other operating expenses	84	80	4.4	339
Total expenses	**145**	**138**	**5.2**	**568**
Impairment loss on receivables	10	-4		-12
OP bonuses to owner-customers	0	0	2.4	-2
Temporary exemption (overlay approach)	9			
Total earnings before tax	**150**	**133**	**12.1**	**535**

* Following the adoption of IFRS 15, comparatives for 2017 have been changed as described in Note 1 Accounting policies.

Consolidated earnings

Consolidated earnings before tax were EUR 150 million (133). Total income remained at the previous year's level and total expenses rose by 5.2%. Net interest income and net insurance income increased and expenses were increased by higher ICT costs. Recovery of impairment losses improved earnings for the reporting period.

Net interest income rose to EUR 61 million (55), thanks to net interest income from derivatives operations.

Net insurance income rose to EUR 129 million (111) as insurance premium revenue increased and claims incurred decreased from the previous year when the discount rate was lowered. Insurance premium revenue was improved by higher insurance premium revenue from corporate customers, but intensified price competition affected the generation of revenue from private customers which remained at the level reported a year ago.

Net commissions and fees were EUR -3 million (0). Commission income was at the level reported a year ago. The fees OP Corporate Bank Group pays to member cooperative banks for non-life insurance and derivatives sales increase commission expenses and turn net commissions and fees negative. Fees paid for derivative products to member banks grew year on year. Excluding fees paid to member banks, commission expenses decreased year on year due to lower expenses of the payment transfer services.

Net investment income totalled EUR 77 million (104). Net income from financial assets recognised at fair value through profit or loss totalled EUR 63 million (51) and net income from financial assets recognised at fair value through other comprehensive income totalled EUR 21 million (59). Following the adoption of IFRS 9, investments recognised at fair value through profit or loss increased and investments recognised at fair value through other comprehensive income decreased. As a result of the change, capital gains on equity instruments fell year on year. Positive value changes of EUR 3 million (10) owing to market changes in Credit Valuation Adjustment (CVA) in derivatives improved net investment income. Capital gains and changes in the fair value of investments recognised through profit or loss totalled EUR 30 million (40). Dividend income and share of profits amounted to EUR 9 million (21).

A temporary exemption overlay approach is applied to some equity instruments of Non-life Insurance, which improved earnings for the reporting period by EUR 9 million. In net terms, investment income fell by EUR 17 million.

Other operating income increased to EUR 11 million (5). Income was increased by service fees received from OP Financial Group's other credit institutions as well as income from guarantees.

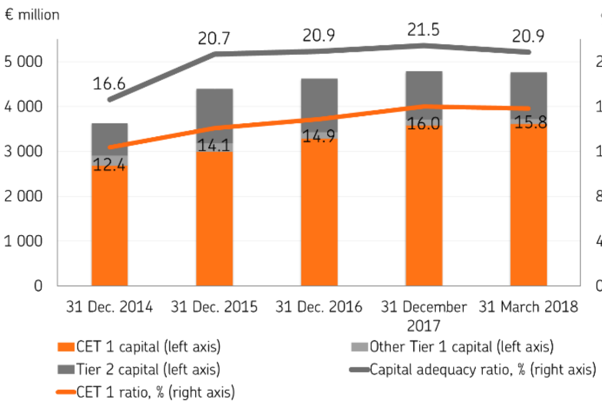
Total expenses increased by 5.2% to EUR 145 million (138). Personnel costs were up by EUR 2 million over the previous year. Depreciation/amortisation was increased mainly by higher depreciation/amortisation and impairment losses related to ICT investments particularly in Non-life Insurance. Other operating expenses were increased by a 3-million euro rise in ICT costs. ICT investments and related specifications made up a significant portion of development expenditure. Development mostly concerned the present-day business. In January–March, development expenditure totalled EUR 22 million (18). It includes licence fees, purchased services, other external costs related to projects and in-house work. The capitalised development expenditure totalled EUR 7 million (10).

Net impairment losses on receivables improved earnings by EUR 10 million. A year ago, impairment losses reduced earnings by EUR 4 million. Impairment losses on receivables have been calculated according to recognition of expected credit losses under IFRS 9. Occurred credit losses totalled EUR 14 million (0), which in part reduced expected credit losses and thus had no impact in the income statement. In addition, cash flow based credit loss estimates were specified during the reporting period, which lead to the recognition of EUR 11 million in expected credit losses in the income statement. Due to the IFRS 9 transition, impairment loss is also calculated on all balance sheet items recognised at fair value through other comprehensive income (FVOCI) and on off-balance-sheet loan commitments and guarantee agreements. The amount of such impairment losses was not material.

The IFRS 9 transition reduced equity by EUR 45 million on 1 January 2018.

Group's capital adequacy

Capital base and capital adequacy



Capital adequacy for credit institutions

The Group's CET1 ratio was 15.8% (16.0) on 31 March 2018. The Group's CET1 target is 15%.

As a credit institution, the Group's consolidated 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 increases in practice the minimum capital adequacy ratio to 10.5% and the minimum CET1 ratio to 7%.

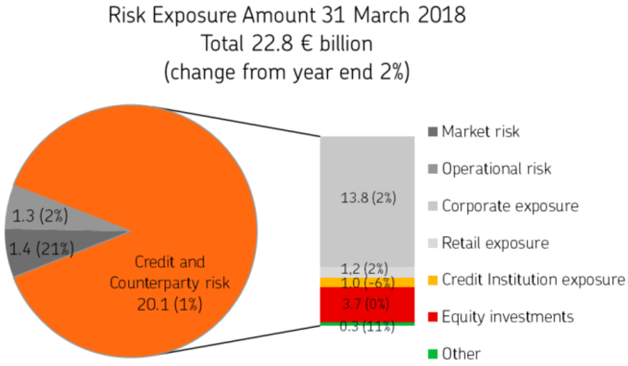
The CET1 capital totalled EUR 3.6 billion (3.6) on 31 March 2018, slightly up thanks to earnings by the Banking segment.

On 31 March 2018, the risk exposure amount (REA) totalled EUR 22.8 billion (22.3), or 2.2% higher than on 31 December 2017. The average credit risk weights remained at their 2017-end levels. OP Financial Group treats insurance holdings within the financial and insurance conglomerate as risk-weighted assets, based on permission from the European Central Bank (ECB). Equity investments include EUR 3.7 billion in risk-weighted assets of OP Corporate Bank Group's internal insurance holdings with a risk weight of around 280%.

OP Corporate Bank Group belongs to OP Financial Group, whose capital adequacy is supervised in accordance with the Act on the Supervision of Financial and Insurance Conglomerates.

The Financial Supervisory Authority makes a macroprudential policy decision on a quarterly basis. In March 2018, the Financial Supervisory Authority reiterated its decision not to impose a countercyclical capital buffer requirement on banks. On housing loans, a 15% minimum risk weight became effective from the beginning of 2018 for at least two years. The minimum risk weight on housing loans concerns OP Financial Group and has no effect on OP Corporate Bank.

The systemic risk buffer has been included in the Act on Credit Institutions. In accordance with the Act, the Financial Supervisory Authority can set the systemic risk buffer ranging from 0 to 5%.



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 capital buffer requirement (P2R) set by the ECB is 1.75%. When taking account of the P2R, the minimum for OP Financial Group's CET1 ratio is 10.8% and for its capital adequacy ratio 14.3%. In addition, the ECB has set on OP Financial Group a capital adequacy guidance (P2G) of 1.0%. Failure to meet this guidance would not affect e.g. profit distribution. The P2G included, the CET1 requirement for OP Financial Group is 11.8%. OP Financial Group's capital adequacy clearly exceeds the set minimum. The discretionary capital buffer requirement set by the ECB does not apply to OP Corporate Bank.

On 2 February 2017, OP Financial Group received the ECB's decision to set risk weight floors for OP Financial Group's retail exposures for a fixed period of 18 months. The shortcomings observed by the ECB in the IRBA (Internal Ratings Based Approach) management and validation process applied by OP Financial Group in capital adequacy measurement, especially delayed validations, lie behind the decision. The most essential shortcomings have already been fixed. Fixing the remaining shortcomings is proceeding as planned. The decision does not apply to OP Corporate Bank.

Liabilities under the Resolution Act

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

Solvency of non-life insurance companies

The solvency position was slightly better than on 31 December 2017.

€ million	31 March 2018	31 Dec. 2017
Capital base, € million*	929	902
Solvency capital requirement (SCR), € million*	677	666
Solvency ratio, %*	137	135
Solvency ratio, % (excluding transitional provision)	137	135

*including transitional provisions.

Credit ratings

OP Corporate Bank plc's credit ratings on 31 March 2018

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

OP Insurance Ltd's financial strength ratings on 31 March 2018

Rating agency	Rating	Outlook
Standard & Poor's	A+	Stable
Moody's	A3	Stable

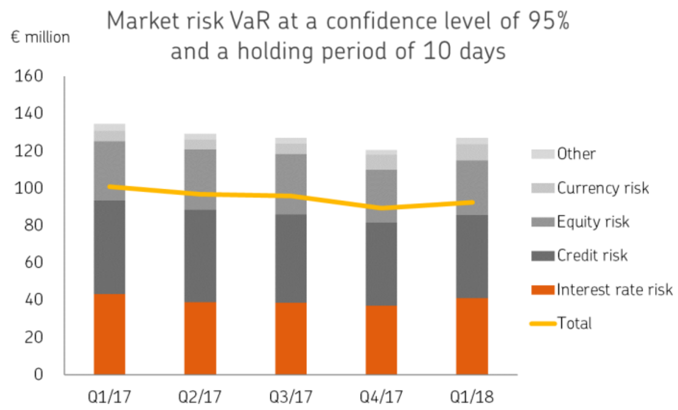
OP Corporate Bank plc and OP Insurance Ltd have credit ratings affirmed by Standard & Poor's Credit Market Services Europe Limited and Moody's Investors Service Ltd. When assessing the companies' credit ratings, credit rating agencies take account of the entire OP Financial Group's financial standing.

The ratings of OP Corporate Bank plc and OP Insurance Ltd did not change during the reporting period.

Group risk exposure

The Group's funding and liquidity position is good. The availability of funding has remained good.

The Group's market risk exposure was stable during the reporting period. The Value-at-Risk (VaR) metric, a measure of market risks, was EUR 93 million (89) on 31 March 2018. VaR includes the non-life insurance company's total assets, trading operations, the liquidity buffer of Other Operations and the interest rate exposure of Group Treasury.



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 for the reporting period before tax by EUR 3 million (3). Net liabilities were reduced by an increase in the discount rate.

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.

Banking

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

Credit risk exposure by Banking remained stable and credit risk remained moderate.

Doubtful receivables totalled EUR 168 million (195). 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. Non-performing receivables accounted for 0.5% (0.7) of the loan and guarantee portfolio. In Banking, impairment gains totalled EUR 10 million as a result of recovery of impairments.

Breakdown of Banking exposures

	31 March 2018	31 Dec. 2017
Total Banking exposure*, EUR billion	31.8	31.6
in the highest borrower grades (IG)**, %	66.7	68.4
in other borrower grades (excluding default), %	32.8	33.0
classified as default, %	0.5	0.6
classified as default, EUR million	160.0	187.0
Corporate and housing association exposures, EUR billion	27.9	27.8
of total Banking exposure, %	87.7	87.9
in the highest borrower grades (IG), %	65.4	65.4
in other borrower grades (excluding default), %	34.0	34.0
classified as default, %	0.6	0.7
classified as default, EUR million	160.0	187.0
Private customer exposures, EUR billion	1.7	1.7
Financial and insurance institutions' exposures, EUR billion	1.3	1.2
Public-sector entities' exposures, EUR billion	0.9	1.0

* including derivatives brokerage
** excluding Private Customers

One customer's exposures exceeded 10% of the capital base covering customer risk after allowances and other recognition of credit risk mitigation. On 31 March 2018, the amount of large corporate customer exposures totalled EUR 0.5 billion (1.0), while OP Corporate Bank's capital base covering customer risk was EUR 4.8 billion (4.8).

The most significant sectors in corporate and housing association exposures	31 March 2018	31 Dec. 2017
Energy, %	13.6	14.1
Trade, %	10.6	10.7
Services, %	9.9	9.4
Other sectors, %	66.0	64.5
Total	100	100

Exposures by the Baltic operations grew to EUR 2.6 billion (2.5), accounting for 8.1% (7.8) of total exposures of the Banking segment.

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 51 million (52) on 31 March 2018. 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 Group has significantly increased the hedge ratio of interest rate risk associated with insurance liabilities.

Other Operations

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

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

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

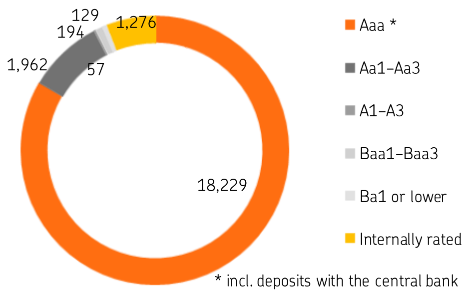
OP Financial Group monitors its liquidity and the adequacy of its liquidity buffer using, for example, the LCR (Liquidity Coverage Ratio). According to regulation, the LCR must be at least 100% from the beginning of 2018. OP Financial Group's LCR was 140% on 31 March 2018.

Liquidity buffer

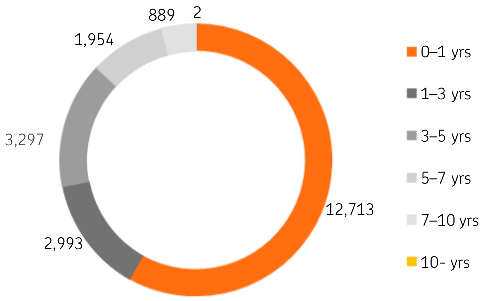
€ billion	31 March 2018	31 Dec. 2017	Change, %
Deposits with central banks	11.5	12.8	-9.9
Notes and bonds eligible as collateral	8.6	9.1	-4.8
Total	20.2	21.9	-7.8
Receivables ineligible as collateral	1.7	1.5	14.2
Liquidity buffer at market value	21.8	23.3	-6.4
Collateral haircut	-0.7	-0.7	1.4
Liquidity buffer at collateral value	21.2	22.7	-6.7

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

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



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



For OP Corporate Bank plc acting as OP Financial Group's central financial institution, OP cooperative banks and OP Cooperative with its subsidiaries form a significant customer group. Of the aggregated exposures of Other Operations and Banking, exposures of OP Financial Group (excluding OP Corporate Bank Group) represented 16.1%. These exposures decreased during the reporting period by EUR 143 billion or 1.3%. All exposures of OP Financial Group member cooperative banks and OP Cooperative are investment-grade exposures.

Breakdown of Other Operations exposures

	31 March 2018	31 Dec. 2017
Total Other Operations exposures, EUR billion	35.8	37.6
Financial and insurance institutions' exposures, EUR billion	17.8	18.1
Public-sector entities' exposures, EUR billion	16.5	18.1
Corporate and housing association exposures, EUR billion	1.6	1.4
in the highest borrower grades (IG. %	98.4	98.6
in other borrower grades. %	1.6	1.4
Private customer exposures, EUR billion	0.0	0.0

Financial performance by segment

OP Corporate Bank Group's business segments are Banking and Non-life Insurance, the latter including the health and wellbeing business. Non-business segment operations are presented in the Other Operations segment, including functions supporting OP Financial Group and its business, such as Group Treasury and the liquidity buffer. Segment reporting is based on the accounting policies applied in the Group's financial statements.

Banking

- Earnings before tax increased to EUR 109 million (82) as a result of higher net investment income and lower impairment losses on receivables.
- The loan portfolio increased in the year to March by 7.8% to EUR 20.4 billion.
- Due to recovery of impairments, impairment gains increased earnings by EUR 10 million (-4). Non-performing receivables accounted for 0.5% (0.7) of the loan and guarantee portfolio.
- The cost/income ratio was 30.4% (32.2).
- The most significant Banking development investments involved the development of finance and payment systems.

Banking: key figures and ratios

€ million	Q1/2018	Q1/2017	Change, %	Q1–4/2017
Net interest income	81	83	-3.0	348
Net commissions and fees	16	32	-49.2	129
Net investment income	40	10		18
Other operating income	6	2		24
Total income	**143**	**127**	**12.2**	520
Personnel costs	16	14	7.6	54
Depreciation/amortisation and impairment loss	3	2	40.7	11
Other operating expenses	24	24	1.6	98
Total expenses	**43**	**41**	**6.0**	163
Impairment loss on receivables	10	-4		-12
Earnings before tax	**109**	**82**	**32.9**	344
Cost/income ratio, %	30.4	32.2		31.4
Loan portfolio, € billion	20.4	18.9	7.8	20.1
Guarantee portfolio, € billion	2.4	2.4	-1.4	2.4
Margin on corporate loan portfolio, %	1.27	1.44		1.25
Ratio of non-performing receivables to loan and guarantee portfolio, %*	0.5	0.7	-0.2***	0.7
Ratio of performing forborne exposures to loan and guarantee portfolio, %**	0.2	0.2	0.0***	0.2
Personnel	654	648		628

* Non-performing receivables refer to receivables that are more than 90 days past due, other receivables classified as risky and forborne receivables related to such receivables due to the customer's financial difficulties.
** Performing forborne exposures are not non-performing.
*** Change in ratio.

The loan portfolio grew in the year to March by 7.8% to EUR 20.4 billion. The guarantee portfolio totalled EUR 2.4 billion (2.4) and committed standby credit facilities amounted to EUR 4.4 billion (4.5).

OP Corporate Bank 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 financing programme signed in March 2016 is designed for companies with a staff of less than 500 and the programme signed in January 2017 for companies with a staff of less than 250. Within the framework of these programmes, OP has already granted around 400 corporate loans totalling EUR 285 million.

OP Corporate Bank also acts as an intermediary bank in the European Investment Bank's (EIB) guarantee programme for large and mid-sized companies. Following the agreement signed in November 2017, OP Corporate Bank made a 300-million euro financing package available to mid-sized Finnish companies.

Expectations of rising interest rates spurred the sales of interest rate protection products to Private and Corporate Customers.

Earnings

Earnings before tax increased by 32.9% to EUR 109 million (82). Total income rose by 12.2% and total expenses by 6.0%. As a result of the rise in income, the cost/income ratio improved to 30.4% (32.2).

Derivatives operations decreased net interest income by 3.0% to EUR 81 million.

Net commissions and fees decreased by 49.2% to EUR 16 million (32). The decrease in net commissions and fees was due to the inclusion of certain client income items of derivatives operations in Banking's net investment income during the reporting period. A year ago, such items were included in net commissions and fees.

Net investment income rose year on year by EUR 30 million. Net investment income was increased by EUR 16 million in capital gains on equities. Derivatives operations increased net trading income included in the item by EUR 13 million. CVA valuation related to derivatives operations was EUR 3 million as against EUR 11 million a year ago.

Other operating income was increased by service fees received from OP Financial Group's other credit institutions as well as income from guarantees which was EUR 4 million higher than a year ago.

In Banking, impairment gains totalled EUR 10 million as a result of recovery of impairments. Non-performing receivables accounted for 0.5% (0.7) of the loan and guarantee portfolio.

Total expenses were EUR 43 million (41). Personnel costs rose by EUR 2 million year on year to EUR 16 million. Other operating expenses remained at the previous year's level at EUR 24 million. ICT costs totalled EUR 13 million (14).

Non-life Insurance

- Earnings before tax amounted to EUR 32 million (42).
- Insurance premium revenue increased by 2.4%.
- The operating combined ratio was 93.2% (95.5) and operating expense ratio 21.1% (19.7). The combined ratio was 94.7% (97.0).
- Net investment income, taking account of the temporary exemption, totalled EUR 14 million (39). Net return on investments at fair value totalled EUR –13 million (50).
- Development investments focused on development of electronic services and the basic system upgrade initiated.

Non-life Insurance: key figures and ratios

€ million	Q1/2018	Q1/2017	Change, %	Q1–4/2017
Insurance premium revenue	358	350	2.4	1,432
Claims incurred	228	238	-4.1	970
Other expenses	0	1	-45.6	3
Net insurance income	**130**	**111**	**16.5**	459
Net investment income	3	39	-92.9	176
Other net income	-13	-17	-26.4	-68
Total income	**120**	**133**	**-10.0**	568
Personnel costs	28	27	5.7	102
Depreciation/amortisation and impairment loss	12	11	7.8	50
Other operating expenses	58	53	10.2	221
Total expenses	**98**	**90**	**8.6**	373
OP bonuses to owner-customers	-0	-0	2.4	-2
Temporary exemption	11			
Earnings before tax	**32**	**42**	**-23.4**	193
Combined ratio, %	94.7	97.0		97.6
Operating combined ratio, %	93.2	95.5		96.1
Operating loss ratio, %	72.1	75.8		75.8
Operating expense ratio, %	21.1	19.7		20.3
Operating risk ratio, %	65.6	69.9		69.3
Operating cost ratio, %	27.7	25.6		26.9
Solvency ratio (Solvency II), %*	137	153		135
Large claims incurred retained for own account	18	20		78
Changes in claims for previous years (run off result)	5	3		35
Personnel	1,791	1,741		1,774

* Including the effect of transitional provisions.

Insurance premium revenue from Corporate Customers and Baltics increased. Insurance premium revenue from Private Customers remained at the previous year's level due to the impact of price competition. The economic pick-up contributed to the premium revenue trend for Corporate Customers.

OP bonuses earned through the use of banking and insurance services were used to pay 580,000 insurance bills (574,000), with 81,500 (74,000) of them paid in full using bonuses. Insurance premiums paid using bonuses totalled EUR 28 million (27).

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

The motorcycle insurance was updated during the reporting period and its sales began at the beginning of April.

The Estonia-based non-life insurance company Seesam Insurance AS and its branches will be sold to Vienna Insurance Group. The divestment should be completed during 2018, provided that it is approved by relevant authorities and that the related conditions are otherwise fulfilled.

Earnings

Earnings before tax amounted to EUR 32 million (42). Net insurance income increased by 16.5% to EUR 130 million. Net investment income, taking account of the temporary exemption, totalled EUR 14 million (39). Capital gains on investments totalled EUR 3 million (24).

The operating combined ratio was 93.2% (95.5). The operating ratios for the reporting period include the effects of changes in the discount rate but exclude amortisation on intangible assets arising from the corporate acquisitions. A year ago, the lowered discount rate increased claims incurred by EUR 13 million, weakening the operating combined ratio by 3.6 percentage points.

Insurance premium revenue

€ million	Q1/2018	Q1/2017	Change, %
Private Customers	192	191	0.2
Corporate Customers	151	144	5.1
Baltics	16	15	3.1
Total	358	350	2.4

Claims incurred, excluding the reduction in the discount rate, increased by 1.3%. Claims under property and business liability insurance incurred arising from new large claims were lower than a year ago. The reported number of large claims under property and business liability insurance (in excess of EUR 0.3 million) amounted to 20 (19) in January–March, with their claims incurred retained for own account totalling EUR 18 million (20). The change in provisions for unpaid claims under statutory pension increased year on year. Provisions for unpaid claims under statutory pension changed year on year by EUR 10 million (–5) in January–March.

Changes in claims for previous years, excluding the effect of the discount rate change, improved the balance on technical account by EUR 5 million (3). The operating loss ratio was 72.1% (75.8). The operating risk ratio excluding indirect loss adjustment expenses was 65.6% (69.9).

Expenses grew by 8.6%, being EUR 7 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 21.1% (19.7). The operating cost ratio (including indirect loss adjustment expenses) was 27.7% (25.6).

Operating balance on technical account and combined ratio (CR)

	Q1/2018		Q1/2017	
	Balance € million	CR, %	Balance € million	CR, %
Private Customers	19	90.0	26	86.3
Corporate Customers	2	98.9	-11	107.5
Baltics	3	78.2	0	98.3
Total	24	93.2	16	95.5

Intensified price competition eroded profitability of Private Customers. In the Baltics, the claims trend was favourable.

Investment

Net return on Non-life Insurance investments at fair value totalled EUR -13 million (50). Net return on investments at fair value is calculated by deducting the value change in market-consistent insurance liability from income from total investment assets.

Investment portfolio by asset class

%	31 March 2018	31 Dec. 2017
Bonds and bond funds	70.6	68.0
Alternative investments	4.8	4.7
Equities	9.2	8.5
Private equity	2.1	1.9
Real property	8.4	8.3
Money markets	4.9	8.5
Total	100	100

Non-life Insurance's investment portfolio totalled EUR 3,836 million (3,903) on 31 March 2018. Investments within the investment-grade category accounted for 95% (95), and 63% (65) of the investments were rated at least A–. On 31 March 2018, the fixed-income portfolio's modified duration was 4.6 (5.1).

The running yield for direct bond investments averaged 1.5% (1.7) on 31 March 2018.

Health and wellbeing

Pohjola Health will expand as its fifth hospital opens its doors in Turku in May and as medical centres are opened in Lappeenranta and Pori in the autumn. Currently, Pohjola Health has hospitals in Helsinki, Kuopio, Tampere and Oulu.

Other Operations

- Earnings before tax amounted to EUR 8 million (9).
- Earnings included EUR 15 million (8) in capital gains on notes and bonds and EUR 1 million (7) in dividend income.
- Liquidity and access to funding remained good.

Other Operations: key figures and ratios

€ million	Q1/2018	Q1/2017	Change, %	Q1–4/2017
Net interest income	-13	-22	-38.2	-68
Net commissions and fees	-7	-18	-59.8	-94
Net investment income	33	54	-38.9	195
Other operating income	2	3	-38.8	8
Total income	**14**	**17**	**-18.4**	**41**
Personnel costs	2	2	-15.5	8
Other expenses	4	6	-28.5	36
Total expenses	**6**	**8**	**-25.2**	**43**
Impairment loss on receivables	0	0		0
Earnings before tax	**8**	**9**	**-9.5**	**-2**
Receivables and liabilities from/to the amalgamation's central cooperative and member credit institutions, net position, € billion	-0.6	1.3		-0.1
Personnel	50	73		50

Earnings

Earnings before tax amounted to EUR 8 million (9). Earnings before tax at fair value were EUR -24 million (17).

Derivatives operations increased net interest income and decreased net trading income included in net investment income. According to the OP Corporate Bank Group's accounting policy, income from derivative instruments is split between net interest income and net trading income. How this income is broken down between the two income statement items may vary considerably depending on the derivative instruments used in position management at a given time. Net investment income fell year on year by EUR 21 million as derivatives operations generated lower net trading income included in the item. In addition, net investment income was weakened by the inclusion of certain client income items of derivatives operations directly in Banking's net investment income as of the beginning of the reporting period. Net investment income included EUR 15 million (8) in capital gains on notes and bonds and EUR 1 million (7) in dividend income. Dividend income in the reporting period included EUR 7 million in interest on cooperative capital from Suomen Luotto-osuuskunta.

Net commissions and fees increased year on year. As of the beginning of the reporting period, certain client income items of derivatives operations were directly included in Banking's net investment income, which lowered commissions expenses paid by the Other Operations segment.

Net commissions and fees were increased in the reporting period by certain derivatives commissions which a year ago were included in net investment income under Other Operations and then credited from Other Operations to net commissions fees under Banking.

OP Corporate Bank's back office operations were transferred to OP Financial Group's centralised services, reducing personnel from a year ago.

Group restructuring

The Estonia-based non-life insurance company Seesam Insurance AS and its branches will be sold to Vienna Insurance Group. The contract of sale was signed on 18 December 2017. The completion of the sale is conditional on obtaining the regulatory approval of the authorities.

Personnel and remuneration

Personnel increased from the 2017-end level in Banking as well as in Non-life Insurance. A year ago, personnel decreased due to the transfer of OP Corporate Bank's back office services in OP Financial Group's centralised services. In Non-life Insurance, personnel continued to grow in health and wellbeing services.

Personnel

	31 March 2018	31 Dec. 2017
Banking	654	628
Non-life Insurance	1,791	1,774
Other Operations	50	50
Total	**2,495**	**2,452**

Reijo Karhinen, OP Financial Group's President and Executive Chairman and Chair of the Board of Directors of OP Corporate Bank, retired on 31 January 2018, based on his executive contract. 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 Chair as of 1 March 2018. Following the appointment, Ritakallio also became Chair of the Board of Directors of OP Corporate Bank. Previously he was CEO of Ilmarinen Mutual Pension Insurance Company. From 1 to 28 February 2018, the Board of Directors was chaired by Tony Vepsäläinen, Executive Vice President, Operations, OP Financial Group.

Jouko Pölönen resigned from his position as President and CEO of OP Corporate Bank on 30 April 2018 to become President and CEO of Ilmarinen Mutual Pension Insurance Company.

Jari Himanen, member of the Board of Directors since 2016, will resign from membership of the Board of Directors on 6 May 2018 and will take up his duties as Managing Director of OP Suur-Savo.

The scheme for variable remuneration within OP Financial Group and OP Corporate Bank consists of short-term, company-specific remuneration and OP Financial Group-wide long-term remuneration. The long-term scheme for the entire OP Financial Group consists of a management incentive scheme and a personnel fund for other staff. In drawing up the incentive schemes, OP has taken account of the regulation regarding the financial sector's remuneration schemes.

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.

A long-term management remuneration scheme has been confirmed for 2017–2019. As a rule, the remuneration scheme for 2017–2019 follows the principles observed during the previous three-year performance period. OP Financial Group's personnel fund remuneration scheme continues with one-year performance periods.

Decisions by the Annual General Meeting

The Annual General Meeting (AGM) of 19 March 2018 adopted the Financial Statements for 2017, discharged members of the Board of Directors and the President and CEO from liability and decided to distribute a dividend of EUR 0.66 per share, totalling EUR 211 million.

The AGM elected OP Financial Group's President and Group Executive Chair Timo Ritakallio Chair of OP Corporate Bank's Board of Directors. OP Financial Group's Executive Vice President of Operations Tony Vepsäläinen, OP Financial Group's Chief Financial Officer Harri Luhtala and OP Financial Group's Executive Vice President of Group Steering and Customer Relationships Jari Himanen were elected Board members.

The AGM re-elected KPMG Oy Ab, a firm of authorised public accountants, to act as OP Corporate Bank's auditor with Raija-Leena Hankonen, APA, acting as the Auditor-in-charge, appointed by KPMG Oy Ab.

Events after the reporting period

Hannu Jaatinen, M.Sc. (Econ. & Bus. Adm.) and eMBA, has been appointed acting President and CEO as of 1 May 2018. Jaatinen has acted as Head of Corporate Banking at OP Financial Group since 2014. He has been employed by OP Financial Group since 1985.

Outlook towards the year end

Economic growth in the euro area is expected to have continued during the first few months of the year but at a slightly slower rate than in late last year. Inflation continued to remain moderate. The European Central Bank continued its accommodative policy although it cut asset purchases. The Finnish economy too is expected to have grown at a brisk rate during the first few months of the year. The growth has been broad-based. Employment has improved, exports have grown and confidence indicators are strong. Economic development is anticipated to remain favourable in the euro area in the near future too. Monetary policy normalisation is progressing steadily and a rise in short-term market interest rates is expected to be moderate. The largest risks in the near future are associated with greater uncertainty in financial markets and with the political environment. A longer-term risk is that economic growth will remain modest if Finland is not able to restructure its economy to a sufficient extent when the population is ageing and digitisation is proceeding.

The operating environment in the financial sector on the whole has been quite favourable. 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 are low. The most significant strategic risks in the financial sector are currently associated with changing customer behaviour, operating environment digitisation, competition from outside of the traditional financial sector and more complex regulation. Industry disruption is threatening to slow down growth and erode income generation in the years to come. 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 Corporate Bank Group's consolidated earnings before tax are expected to be about the same as in 2017. The most significant uncertainties affecting earnings relate to changes in the interest rate and investment environment, impairment loss on receivables, the rate of business growth and the effect of large claims on claims expenditure. IFRS 9 adopted at the beginning of 2018 is expected to increase short-term earnings volatility and decrease investment income soon after its adoption.

All forward-looking statements in this report expressing the management's expectations, beliefs, estimates, forecasts, projections and assumptions are based on the current view of the future development in the operating environment and the future financial performance of OP Corporate Bank Group and its various functions, and actual results may differ materially from those expressed in the forward-looking statements.

Consolidated income statement

EUR million	Note	Q1/ 2018	Q1/ 2017
Net interest income	3	61	55
Net insurance income	4	129	111
Net commissions and fees	5	-3	0
Net investment income	6	77	104
Other operating income		11	5
Total income		**276**	**276**
Personnel costs		46	43
Depreciation/amortisation		15	14
Other expenses		84	80
Total expenses		**145**	**138**
Impairments of receivables	7	10	-4
OP bonuses to owner-customers		0	0
Temporary exemption (overlay approach)		9	
Earnings before tax		**150**	**133**
Income tax expense		30	25
Profit for the period		**120**	**109**
Attributable to:			
Owners of the parent		116	108
Non-controlling interests		3	0
Profit for the period		**120**	**109**

Statement of comprehensive income

Profit for the period		**120**	**109**
Items that will not be reclassified to profit or loss			
Gains(/losses) arising from remeasurement of defined benefit plans		3	3
Items that may be reclassified to profit or loss			
Change in fair value reserve			
Measurement at fair value		-36	0
Cash flow hedge		-2	0
Temporary exemption (overlay approach)		-9	
Translation differences		0	0
Income tax on other comprehensive income			
Items that will not be reclassified to profit or loss			
Gains(/losses) arising from remeasurement of defined benefit plans		-1	-1
Items that may be reclassified to profit or loss			
Measurement at fair value		7	0
Cash flow hedge		0	0
Temporary exemption (overlay approach)		2	
Total comprehensive income for the period		**84**	**111**
Attributable to:			
Owners of the parent		80	110
Non-controlling interests		3	1
Total comprehensive income for the period		**84**	**111**

Balance sheet

EUR million	Note	31 March 2018	31 December 2017
Cash and cash equivalents		11,562	12,825
Receivables from credit institutions		8,865	9,294
Derivative contracts	10	3,328	3,426
Receivables from customers	12	20,434	20,120
Investment assets		16,148	16,144
Intangible assets		770	777
Property, plant and equipment (PPE)		119	115
Other assets		2,010	1,708
Tax assets		52	35
Total assets		**63,288**	**64,445**
Liabilities to credit institutions		13,669	14,035
Derivative contracts		3,042	3,216
Liabilities to customers		17,306	18,837
Insurance liabilities	13	3,412	3,143
Debt securities issued to the public	14	17,672	16,791
Provisions and other liabilities		2,263	2,307
Tax liabilities		422	419
Subordinated liabilities		1,530	1,547
Total liabilities		**59,316**	**60,295**
Equity			
Capital and reserves attributable to owners of the parent			
Share capital		428	428
Fair value reserve	15	79	164
Other reserves		1,093	1,093
Retained earnings		2,314	2,404
Non-controlling interests		58	60
Total equity		**3,972**	**4,149**
Total liabilities and equity		**63,288**	**64,445**

Statement of changes in equity

	Attributable to owners						
EUR million	Share capital	Fair value reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2017	**428**	**197**	**1,093**	**2,179**	**3,896**	**109**	**4,005**
Total comprehensive income for the period		-1		111	110	1	111
Profit for the period				108	108	0	109
Other comprehensive income		-1		3	1	1	2
Profit distribution				-201	-201		-201
Other			0		0	-2	-2
Balance at 31 March 2017	**428**	**196**	**1,093**	**2,088**	**3,804**	**108**	**3,912**

	Attributable to owners						
EUR million	Share capital	Fair value reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 31 Dec. 2017	**428**	**164**	**1,093**	**2,404**	**4,089**	**60**	**4,149**
Effect of IFRS 9 transition 1 Jan. 2018		-46		2	**-45**		**-45**
Balance at 1 Jan. 2018	**428**	**118**	**1,093**	**2,406**	**4,044**	**60**	**4,104**
Total comprehensive income for the period		-38		119	80	3	84
Profit for the period				116	116	3	120
Other comprehensive income		-38		2	-36		-36
Profit distribution				-211	-211		-211
Other			0	0	0	-6	-5
Balance at 31 March 2018	**428**	**79**	**1,093**	**2,314**	**3,914**	**58**	**3,972**

Cash flow statement

EUR million	Q1/ 2018	Q1/ 2017
Cash flow from operating activities		
Profit for the period	120	109
Adjustments to profit for the period	263	274
Increase (-) or decrease (+) in operating assets	**-574**	**1,290**
Receivables from credit institutions	222	1,202
Derivative contracts	-28	-5
Receivables from customers	-333	-583
Investment assets	-177	799
Other assets	-258	-122
Increase (+) or decrease (-) in operating liabilities	**-1,921**	**1,636**
Liabilities to credit institutions	-358	1,139
Derivative contracts	3	-5
Liabilities to customers	-1,531	685
Insurance liabilities	10	19
Provisions and other liabilities	-45	-202
Income tax paid	-24	-23
Dividends received	3	21
A. Net cash from operating activities	**-2,133**	**3,307**
Cash flow from investing activities		
Purchase of PPE and intangible assets	-12	-21
Proceeds from sale of PPE and intangible assets	4	2
B. Net cash used in investing activities	**-8**	**-18**
Cash flow from financing activities		
Increases in debt securities issued to the public	6,274	7,612
Decreases in debt securities issued to the public	-5,393	-8,351
Dividends paid	-211	-201
C. Net cash used in financing activities	**670**	**-940**
Net increase/decrease in cash and cash equivalents (A+B+C)	**-1,470**	**2,350**
Cash and cash equivalents at period-start	**13,575**	**9,633**
Cash and cash equivalents at period-end	**12,104**	**11,983**
Cash and cash equivalents		
Liquid assets	11,562	11,845
Receivables from credit institutions payable on demand	542	138
Total	**12,104**	**11,983**

Segment information

Segment capitalisation is based on OP Financial Group's capital adequacy measurement in accordance with the Act on Credit Institutions. Capital requirements according to this measurement are allocated among the operating segments. Capital has been allocated to Banking in such a way that the CET1 ratio is 21% (20%). Capital has been allocated to Non-life Insurance in such a way that the Solvency ratio (SII) is 120%. Capital allocation has an effect on the Group's internal interest amounts paid by the segment concerned.

	Banking	Non-life Insurance	Other Operations	Eliminations	Group total
Q1 earnings 2018, EUR million					
Net interest income	81	-4	-13	-2	61
of which internal net income before tax	-2	-3	5		
Net insurance income		130		0	129
Net commissions and fees	16	-12	-7	0	-3
Net investment income	40	3	33	2	77
Other operating income	6	4	2	0	11
Total income	**143**	**120**	**14**	**-1**	**276**
Personnel costs	16	28	2		46
Depreciation/amortisation and impairment losses	3	12	0	0	15
Other operating expenses	24	58	4	-3	84
Total expenses	**43**	**98**	**6**	**-3**	**145**
Impairments of receivables	10	0	0		10
OP bonuses to owner-customers		0			0
Temporary exemption (overlay approach)		11		-2	9
Earnings before tax	**109**	**32**	**8**		**150**

	Banking	Non-life Insurance	Other Operations	Eliminations	Group total
Q1 earnings 2017, EUR million					
Net interest income	83	-4	-22	-2	55
of which internal net income before tax	-5	-4	9		
Net insurance income		111			111
Net commissions and fees	32	-13	-18	0	0
Net investment income	10	39	54	1	104
Other operating income	2	1	3	-1	5
Total income	**127**	**133**	**17**	**-2**	**276**
Personnel costs	14	27	2		43
Depreciation/amortisation and impairment losses	2	11	0		14
Other operating expenses	24	53	6	-2	80
Total expenses	**41**	**90**	**8**	**-2**	**138**
Impairments of receivables	-4	0	0		-4
OP bonuses to owner-customers		0			0
Earnings before tax	**82**	**42**	**9**	**0**	**133**

Balance sheet 31 March 2018, EUR million	Banking	Non-life Insurance	Other Operations	Eliminations	Group total
Cash and cash equivalents	7	155	11,536	-137	11,562
Receivables from credit institutions	212	4	8,672	-24	8,865
Derivative contracts	290	7	3,043	-12	3,328
Receivables from customers	20,961	0	18	-545	20,434
Investment assets	536	3,800	11,940	-127	16,148
Intangible assets	61	682	28		770
Property, plant and equipment (PPE)	0	42	76		119
Other assets	139	956	921	-5	2,010
Tax assets	4	23	25		52
Total assets	**22,209**	**5,668**	**36,259**	**-849**	**63,288**
Liabilities to credit institutions	557		13,656	-545	13,669
Derivative contracts	165	11	2,879	-13	3,042
Liabilities to customers	11,692		5,848	-233	17,306
Insurance liabilities		3,412			3,412
Debt securities issued to the public	1,163		16,545	-36	17,672
Provisions and other liabilities	916	595	756	-4	2,263
Tax liabilities	1	73	348	0	422
Subordinated liabilities		135	1,395		1,530
Total liabilities	**14,494**	**4,226**	**41,428**	**-831**	**59,316**
Equity					**3,972**

Balance sheet 31 December 2017, EUR million	Banking	Non-life Insurance	Other Operations	Eliminations	Group total
Cash and cash equivalents	10	318	12,807	-309	12,825
Receivables from credit institutions	208	6	9,113	-33	9,294
Derivative contracts	105	10	3,320	-10	3,426
Receivables from customers	20,591	0	29	-501	20,120
Investment assets	527	3,543	12,205	-131	16,144
Intangible assets	63	688	26		777
Property, plant and equipment (PPE)	0	42	73		115
Other assets	92	727	1,095	-205	1,708
Tax assets	0	17	19		35
Total assets	**21,595**	**5,351**	**38,687**	**-1,189**	**64,445**
Liabilities to credit institutions	506		14,030	-501	14,035
Derivative contracts	118	15	3,097	-14	3,216
Liabilities to customers	11,410		7,839	-412	18,837
Insurance liabilities		3,143			3,143
Debt securities issued to the public	1,178		15,649	-37	16,791
Provisions and other liabilities	976	540	992	-202	2,307
Tax liabilities	1	75	343	0	419
Subordinated liabilities		135	1,412		1,547
Total liabilities	**14,189**	**3,908**	**43,362**	**-1,164**	**60,295**
Equity					**4,149**

Notes

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 consolidated financial statements 2017.

The Interim Report is based on unaudited figures. 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 be used if there is any discrepancy between the language versions.

Adoption of IFRS 9 on 1 January 2018

On 1 January 2018, OP Corporate Bank adopted IFRS 9 Financial Instruments. OP Corporate Bank's accounting policies under IFRS 9 are published in this Interim Report. The effects of transition to IFRS 9 on the classification and measurement of financial instruments have been presented in OP Corporate Bank's Notes to the Financial Statements 2017. Adjustments made to carrying amounts were recognised in equity in the opening balance sheet on the adoption date of 1 January 2018. OP Corporate Bank has not adjusted comparatives for prior years.

The most significant changes in classification applied to OP Corporate Bank Non-life Insurance investments. Equity investments and mutual fund investments were mainly reclassified as those recognised at fair value through profit or loss. OP Corporate Bank applies a temporary overlay approach to certain Non-life and Life Insurance equity investments that restores the earnings effect of such investments in accordance with the previous IAS 39. Overlay approach is presented as a new line in the income statement. The same item is also presented in the statement of comprehensive income. Capital gains on investments within the scope of the overlay approach are presented as part of change of the overlay approach line whereas they were previously presented as capital gains on available-for-sale investments.

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

The table below presents the replacement of the impairment provision for the realised losses recognised in the Financial Statements 2017 under IAS 39 with the provision for expected credit losses under IFRS 9 on 1 January 2018.

Table listing changes in impairment loss on receivables 1 January 2018

Impairment loss on receivables

Balance sheet items, € million	Impairment loss on receivables (IAS 39) 31 Dec. 2017	Remeasurement	Expected credit losses (IFRS 9) 1 Jan. 2018
Cash and cash equivalents	-		0
Receivables from customers	222	47	269
Investment assets (FVOCI)	-	4	4
Off-balance-sheet items			
Loan commitments	-	1	1
Guarantees	-	3	3
Total	221	55	276

OP Corporate Bank has adopted the measurement of expected credit losses using mainly the models under IFRS 9. Consequently, prior impairment losses on an individual and collective basis under IAS 39, totalling EUR 221 million, have been replaced with the expected credit losses under IFRS 9, totalling EUR 276 million.

Expected credit losses increased in all product categories. Corporate loans showed the largest growth in ECL. In addition, notes and bonds measured at fair value through other comprehensive income and off-balance-sheet items were included in ECL measurement for the first time.

The table below presents exposures in ECL measurement and their ECL provisions by stage. Stage 1 includes contracts whose credit risk has not increased significantly since initial recognition. Stage 2 includes contracts whose credit risk has increased significantly since initial recognition. Relative and absolute threshold values as well as payments over 30 days past due (DPD) are used as the threshold values of a significant increase in credit risk. Sometimes the contract may fulfil more than one of the abovementioned threshold values. In the tables below, all such contracts are classified as more than 30 days past due, irrespective of whether some other threshold value has been fulfilled. Defaulted contracts are classified into Stage 3. The tables exclude internal OP Financial Group's contracts.

IFRS 9 ECL scope and stage 1 January 2018

On-balance-sheet exposure, € million	**Stage 1**	**Stage 2**			**Stage 3**	**Total exposure**
		Not more than 30 DPD	More than 30 DPD	Total		
Receivables from customers (gross)						
Non-banking corporates	16,809	961	474	1,435	347	18,591
Households	1,045	138	15	153	5	1,203
Public-sector entities	81	12	12	24		105
Other	11		0	0		11
Total receivables from customers	**17,946**	**1,111**	**501**	**1,612**	**352**	**19,910**
Off-balance-sheet limits						
Non-banking corporates	594	72	0	72	3	668
Households	8	0	4	4	1	12
Public-sector entities		5		5		5
Other	5			0	0	5
Total	**607**	**77**	**4**	**81**	**3**	**691**
Other off-balance-sheet commitments						
Non-banking corporates	6,212	239		239	15	6,466
Households	1			0	0	1
Public-sector entities						
Other	0			0		0
Total	**6,213**	**239**		**239**	**15**	**6,467**
Notes and bonds						
Total notes and bonds	14,027	30		30	1	14,058
Total IFRS 9 ECL scope exposures	**38,793**	**1,457**	**505**	**1,962**	**371**	**41,126**

IFRS 9 ECL provision by stage 1 January 2018

On-balance-sheet exposures and related off-balance-sheet limits* € million	Stage 1	Stage 2			Stage 3	Total ECL
		Not more than 30 DPD	More than 30 DPD	Total		
Receivables from customers						
Non-banking corporates	-15	-25	-1	-26	-221	-262
Households	-1	-3	0	-3	-2	-6
Public-sector entities	0	0	0	0		0
Other	0			0	0	0
Total receivables from customers	**-16**	**-28**	**-1**	**-29**	**-223**	**-268**
Other off-balance-sheet commitments**						
Non-banking corporates	-2	-3		-3	0	-5
Households	0					0
Public-sector entities						
Other						
Total	**-2**	**-3**		**-3**	**0**	**-5**
Notes and bonds***	-3	0		0	0	-4
Total ECL	**-22**	**-31**	**-1**	**-32**	**-223**	**-276**

*ECL is recognised as one component to deduct the balance sheet item.
**ECL is recognised in provisions and other liabilities in the balance sheet.
***ECL is recognised in the fair value reserve in OCI.

IFRS 9 ECL scope and stage 31 March 2018

On-balance-sheet exposure, € million	Stage 1	Stage 2			Stage 3	Total exposure
		Not more than 30 DPD	More than 30 DPD	Total		
Receivables from customers (gross)						
Non-banking corporates	15,971	1,050	479	1,529	346	17,846
Households	1,178	168	16	185	5	1,367
Public-sector entities	430		12	12		441
Other	11		14	14		25
Total receivables from customers	**17,590**	**1,218**	**521**	**1,740**	**350**	**19 680**
Off-balance-sheet limits						
Non-banking corporates	1,083	155	447	603	13	1,698
Households	18	2	9	11	1	30
Public-sector entities	28		61	61		89
Other	5		1	1		6
Total	**1,134**	**157**	**518**	**675**	**14**	**1,823**
Other off-balance-sheet commitments						
Non-banking corporates	5,804	242		242	11	6,057
Households	1			0		1
Public-sector entities	255					255
Other	155					155
Total	**6,215**	**242**		**242**	**11**	**6,469**
Notes and bonds						
Total notes and bonds	14,043	15		15	6	14,063
Total IFRS 9 ECL scope exposures	**38,982**	**1,632**	**1,040**	**2,672**	**381**	**42,035**

IFRS 9 ECL provision by stage 31 March 2018

On-balance-sheet exposures and related off-balance-sheet limits* € million	Stage 1	Stage 2			Stage 3	Total ECL
		Not more than 30 DPD	More than 30 DPD	Total		
Receivables from customers						
Non-banking corporates	-15	-38	-1	-39	-185	-238
Households	-1	-3	0	-3	-2	-6
Public-sector entities	-1		0	0		-1
Other	0		0	0		0
Total receivables from customers	**-17**	**-41**	**-1**	**-42**	**-186**	**-246**
Off-balance-sheet commitments**						
Non-banking corporates	-1	-2		-2		-3
Households	0			0		0
Public-sector entities						0
Other	0					0
Total	**-1**	**-2**		**-2**	**0**	**-3**
Notes and bonds***	-3	0		0	-1	-4
Total ECL	**-21**	**-43**	**-1**	**-44**	**-188**	**-253**

*ECL is recognised as one component to deduct the balance sheet item
**ECL is recognised in provisions and other liabilities in the balance sheet
***ECL is recognised in the fair value reserve in OCI

20.1.2 IFRS 9 accounting policies

Chapter 5 Financial instruments in OP Corporate Bank's accounting policies in the Financial Statements for 2017 has changed as of 1 January 2018 as described below, except for Sections 5.1 Fair value determination, 5.7 Derivative contracts and 5.8 Hedge accounting. In addition, paragraphs related to impairment have been updated in Section 17 Critical accounting estimates and judgements.

5.2 Financial assets and liabilities

5.2.1 Measurement methods

5.2.1.1 Amortised cost

Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest method uses the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortised cost of a financial liability. When calculating the effective interest rate, OP Corporate Bank shall estimate the expected cash flows by considering all the contractual terms of the financial instrument excluding the expected credit losses (ECL). The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Fees that are an integral part of the rate of a financial instrument include office and origination fees related to loan drawdown and they are amortised over the expected life of the financial instrument or a shorter period if that is appropriate. Fees that are not an integral part of the effective interest rate of a financial instrument and are accounted for in accordance with IFRS 15 include fees charged for servicing a loan.

OP Corporate Bank incorporates the impact of expected credit losses in the estimated future cash flows when calculating the credit-adjusted effective interest rate for financial assets that are considered to be purchased or originated credit-impaired at initial recognition (POCI).

Interest revenue

Interest revenue has been calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:

a) purchased or originated credit-impaired financial assets. For those financial assets, OP Corporate Bank applies the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition

b) financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets (or that are in stage 3). For those financial assets, OP Corporate Bank applies the effective interest rate to the amortised cost of the financial asset (i.e. to the net carrying amount after the deduction of the expected credit loss).

5.2.2. Initial recognition and measurement

At initial recognition, OP Corporate Bank measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability. Immediately after initial recognition, an expected credit loss allowance of a financial asset will be recognised if the financial asset is measured at amortised cost or at fair value through other comprehensive income. This results in accounting loss recognition for newly originated or newly purchased financial assets in the income statement.

5.3 Classification and subsequent measurement of financial assets

OP Corporate Bank will classify financial assets into the following categories as of 1 January 2018:

- Fair value through profit or loss (FVPL)
- Fair value through other comprehensive income (FVOCI)
- Amortised cost.

5.3.1 Loans and notes and bonds

The classification and subsequent measurement of loans and notes and bonds depend on the following factors:

a) OP Corporate Bank's business model for managing the financial assets and
b) the contractual cash flow characteristics of the financial asset.

On the basis of these factors, OP Corporate Bank classifies loans and notes and bonds into the following three measurement categories:

1) Financial assets measured at amortised cost shall be held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and that are solely payments of principal and interest on the principal amount outstanding. The financial asset's carrying amount is adjusted by any allowance for expected credit losses and interest revenue is recognised in interest revenue using the effective interest method.

2) Financial assets recognised at fair value through other comprehensive income are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. In addition, the contractual terms of the financial asset give rise on specified dates that are solely payments of principal and interest on the principal amount outstanding. Changes in the fair value are recognised in the fair value reserve. Impairment gains or losses and foreign exchange gains or losses are recognised in profit or loss. When a financial asset is derecognised, the cumulative profit or loss in the fair value reserve is reclassified from equity to profit or loss in net investment income as

a reclassification adjustment. Interest calculated using the effective interest method is recognised in interest revenue or net investment income (insurance company investments).

3) Financial assets measured at fair value through profit or loss are held for trading or assets that do not meet the criteria for amortised cost or FVOCI. Gains and losses are recognised in net investment income.

Business model

A business model refers to how OP Corporate Bank manages its financial assets in order to generate cash flows. OP Corporate Bank's business model determines whether cash flows will result solely from collecting contractual cash flows or from collecting contractual cash flows and cash flows and by selling a financial asset, or whether the purpose is held for trading. Financial assets within the trading business model are measured through profit or loss. When assessing the business model, OP Corporate Bank takes account of future measures to achieve the objective of the business model. The assessment includes previous experience in collecting cash flows, how the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel, how risks are managed and how managers of the business are compensated. For example, OP Corporate Bank holds loans it has granted to collect contractual cash flows. In addition, the objective of the business model of OP Financial Corporate Bank's liquidity buffer is to collect contractual cash flows and to sell financial assets.

Cash flow characteristics

When OP Corporate Bank's business model is other than trading, OP Corporate Bank assesses whether contractual cash flows are consistent with a basic lending arrangement. In the basic lending arrangement, contractual cash flows are solely payments or principal and interest on the principal amount outstanding (SPPI) where consideration for the time value of money, credit risk, lending risks and profit margin are typically the most significant elements of interest. The majority of OP Corporate Bank's financial assets are basic lending arrangements.

All loans to private customers and some corporate loans granted by OP Corporate Bank contain the option for early repayment. The terms and conditions are, however, consistent with the basic lending arrangement because the prepayment amount substantially represents the contractual par amount and accrued (but unpaid) contractual interest, which may include reasonable additional compensation for the early termination of the contract.

When contractual cash flows are exposed, for example, to change in stock prices or a borrower's financial result, this is no basic lending arrangement and such financial assets are measured through profit or loss. These are typically various mutual fund investments which do not fulfil the definition of equity in the issuer's financial statements under IAS 32.

Embedded derivatives included in financial assets are not separated from the host contract but they are considered in the overall assessment of contractual cash flows.

If OP Corporate Bank has to change its business model for managing financial assets, it may have to reclassify financial assets. The reclassification must be applied prospectively from the reclassification date. Such changes are expected to be very infrequent.

5.3.2 Equity instruments

Equity instruments are instruments that evidence a residual interest in the assets of a company after deducting all of its liabilities. These are typically equity investments.

Equity instruments are subsequently measured at fair value through profit or loss, except when OP Corporate Bank has made an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income. The number of these investments is not significant and they are related to involvement in local activities. Capital gains or losses on these investments are not recognised through profit or loss but their dividends are recognised in other operating income. Dividends of equity instruments held for trading are recognised in net investment income in the income statement.

5.3.3 Modification of contractual cash flows

Modifications in the contractual payment terms are made as a normal measure related to the management of customer relationship but also in situations where the customer's repayment capacity has deteriorated. In such a case, a concession resulting from weaker repayment capacity has to be given to the loan terms – such as a repayment holiday – for a limited period. Generally in these cases, the contractual cash flows of a loan are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that loan. In such a case, OP Corporate Bank shall recalculate the gross carrying amount of the loan and recognise a modification or loss in profit or loss. The gross carrying amount of the loan is recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the loan's original effective interest rate. Any costs or fees incurred adjust the carrying amount of the modified loan and are amortised over the remaining term of the modified loan. Modifications in payment terms are subject to regular monitoring and reporting to the management as an indicator anticipating customers' solvency.

If modifications to the loan terms are significant or the loan is renegotiated, OP Corporate Bank derecognises the original loan and recognises the modified new loan in the balance sheet. The date of renegotiation is consequently considered to be the date of initial recognition for the impairment calculation purposes. This typically means measuring the loss allowance at an amount equal to 12-month expected credit losses. OP Corporate Bank uses internal rating to classify reasons for modifications and severity classes to monitor whether there has been evidence that the new loan recognised has deemed to be credit-impaired at initial recognition. Accordingly, it is recognised as an originated credit-impaired financial asset. This might occur, for example, in a situation in which there was a substantial modification of a distressed asset.

Otherwise, OP Corporate Bank derecognises financial assets when the contractual rights to the cash flows from the financial asset expire or it transfers the financial asset to another party and the transfer qualifies for derecognition.

5.3.4 Insurance companies' financial assets measured at fair value through profit or loss

A financial asset is measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income. OP Corporate Bank has designated financial assets as measured at fair value through profit or loss (fair value option) if doing so eliminates or reduces the so-called accounting mismatch in the measurement of financial assets and related financial liabilities.

Equity instruments and mutual fund investments related to OP Corporate Bank's non-life investment are classified into this category. OP Corporate Bank applies a temporary overlay approach to some of these instruments, which will restore the profit/loss impact of these instruments to be aligned with the IAS 39. OP Corporate Bank will stop applying the overlay approach at the latest when IFRS 17 Insurance Contracts becomes effective. The overlay approach is aimed at reconciling temporary earnings volatility resulting from the different dates of entry into force of IFRS 9 and IFRS 17 when investments are measured at fair value through profit or loss in accordance with IFRS 9 but the related insurance liability can not yet be measured at fair value through profit or loss in accordance with IFRS 17.

5.4 Impairment

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 financial guarantee contracts. Expected credit losses are recognised at each reporting date, reflecting:

(a) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
(b) the time value of money and
(c) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Expected credit losses are calculated using modelled risk parameters with the formula probability of default (PD) x loss given default (LGD) x exposure at default (EAD) for majority of portfolios per contract and they reflect expectations of future credit losses at the reporting date. Large corporate exposures make an exception. They are monitored on an individual basis. PD describes probability of default according to the definition of default. LGD describes the share of an asset if a borrower defaults. It is affected, for example, by the quantity and type of collateral securities and various financial guarantees. EAD describes the exposure amount at default, including exposure in the balance sheet and expected use of off-balance-sheet items at default.

The ECL calculation is based on three different scenarios. Risk parameters PD, LGD and EAD are calculated for yearly time buckets in each scenario. Yearly ECL figures are discounted to the reporting date and a probability-weighted ECL is calculated from the figures of different scenarios. The contract's effective interest or its estimate is used as the discount factor. The contract's maximum remaining term to maturity is limited to 30 years in the calculation.

5.4.1 Loans

The lifetime PD models for a contract have been prepared separately for private customers and corporate customers. The PD models are substantially affected by the contract's credit rating, loan age (private customers) as well as the model's sub-segment, which is determined for corporate customers on the basis the rating model and for private customers on the basis of the product type. In addition, PD estimates are dependent on macroeconomic factors and their forecasts in each scenario.

The life time LGD for a contract consists of the following three components: 1) cure rate, 2) collateral return and 3) non-collateral return. The values of the different components depend substantially on the product type, industry (companies) and the type of collateral. The macroeconomic factors and their forecasts affect the first two components.

The lifetime EAD for a contract is based on contractual cash flows, utilisation rate, prepayment rate and maturity model, depending on the product type.

Classification of contracts into three impairment stages

Contracts are classified into three stages. The different stages reflect credit deterioration since initial recognition.

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

In addition, originated credit-impaired contracts are always within the scope of the lifetime expected credit loss.

Significant increases in credit risk

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 date has increased significantly since initial recognition. Both qualitative and quantitative criteria are used to assess whether the credit risk has increased significantly. Qualitative factors consist of various credit risk indicators (e.g. forbearance measures or breach of covenants) to be mainly taken into account in credit rating models or in the assessment of the payment behavioural category.

OP Corporate Bank has included relative and absolute thresholds for the determination of significant quantitative increases in credit risk considering all reasonable and supportable information. In addition to the aforementioned criteria, credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due.

In the assessment of a significant increase in credit risk, OP Corporate Bank has not applied a transitional rule on the assumption of low credit risk permitted by IFRS 9 to contracts, for which it is not possible without undue cost or effort, to calculate the original lifetime PDs.

The calculation model includes forward-looking information and macroeconomic scenarios. OP Corporate Bank's economists update macroeconomic scenarios on a quarterly basis and the scenarios are the same that OP Corporate Bank uses otherwise in its financial annual planning. Macroeconomic forecasts span five years and have been extrapolated for up to 30 years ahead using a production function. The macroeconomic factors used are: GDP growth, unemployment rate, investment growth rate, inflation rate, change in income level and 12-month Euribor rate. In addition, the house price index is used in LGD models. Three scenarios are used: baseline, upside and downside. Scenarios also include probability weights.

Preparing macroeconomic forecasts and projecting them into the future up to 30 years involves a large amount of uncertainty, which is why actual results may differ significantly from the forecasts. OP Corporate Bank has analysed that the relationship of the change in the components of risk parameters and macroeconomic factors used in the ECL calculation is not linear. Accordingly, the macroeconomic forecasts represent OP Corporate Bank's best view of potential scenarios and outcomes.

OP Corporate Bank monitors regularly how effectively the abovementioned criteria perceive a significant increase in credit risk before contractual payments have been over 30 days past due and that the contracts do not generally move from impairment stage 1 directly to impairment stage 3, and performs the required calibrations to the calculation method of the relative change.

Definition of default

In the IFRS 9 based calculation, OP Corporate Bank applies the same definition of default as in internal credit risk models (IRB). OP Corporate Bank assesses default using its internal rating system based on payment behaviour. Default as definition for private customers is applied on a contract-by-contract basis whereas corporate customers are reviewed in terms of a group of connected clients. A customer is classified as a default customer when it is probable that the customer will not pay his loan obligations in full without OP Corporate Bank resorting to measures (e.g. realisation of collateral) or no later than when payment related to financial assets is more than 90 days past due.

The definition of default is based on Article 178 of Regulation No. 575/2013 (CRR) of the European Parliament and of the Council.

The customer's default ends when it no longer meets the criteria for the definition of default. After that, the payment behavioural class will be restored with a delay of 6 months.

5.4.2 Notes and bonds

The expected loss on notes and bonds recognised through other comprehensive income are recognised through profit or loss and to increase the fair value reserve.

Expected credit losses are also calculated using the formula PD x LGD x EAD for all portfolios per purchase lot and they reflect expectations of future credit losses at the reporting date.

OP Corporate Bank avails itself of the Bloomberg tool in the calculation of the expected credit loss on notes and bonds.

In the case of listed companies, OP Corporate Bank uses the Merton distance-to-default (DD) model as the basis for probability of default (PD), whose outcome will be converted into the PD value based on the model's historical outcome.
The figure is adjusted with indicators from companies' financial statements data describing the strength of the balance sheet, liquidity risk and earnings power. These indicators have, in turn, been normalised according to the estimated effect of off-balance-sheet items.

In the case of private companies, PD modelling is based on financial indicators collected from their financial statements and on the average risk modelled for the sector.

The definition of default is consistent with that required by international regulators, covering bankruptcy, non-payment, distressed exchanges and government bail-out.

The recovery rate in the LGD model is based on historical realised recovery rates of default bonds. The realised recovery rate is defined as trading price of the defaulted bond. It takes account of payment rank, issuer's creditworthiness, nature of the industry, credit cycle, type of collateral, region etc.

Investments whose 12-month PD has doubled, an investment is subject to forbearance measures or its payments are over 30 days past due are transferred to stage 2. Investments related to an issuer in default are classified into stage 3 if its payments are over 90 days past due or if the customer is a default customer.

5.4.3 Off-balance-sheet items

Several products provided by OP Corporate Bank include a limit, credit facility or another off-balance-sheet loan commitment as a standard feature or a feature in some stage of the product lifecycle. For example, revolving credit facilities, such as credit cards and accounts with credit facility, include both a loan and an undrawn commitment component. Moreover, OP Corporate Bank is an issuer in various guarantee contracts, such as financial guarantees and other commercial guarantees or guarantees given to authorities, to all of which IFRS 9 impairment rules apply. For loan commitments and financial guarantee contracts, the date that OP Corporate Bank becomes a party to the irrevocable commitment shall be considered to be the date of initial recognition for the purposes of applying the impairment requirements. Accordingly, only OP Corporate Bank's binding items are taken into account in the calculation of expected credit losses.

The expected credit loss is calculated for these items using the same principles as for loans. Likewise, increases in significant credit risk are assessed on the same grounds. OP Corporate Bank models EAD for such products that forecasts exposure at default. It includes both the utilisation rate and credit conversion factor. In addition, a maturity model is applied to contracts valid until further notice. The model takes account of cases where OP Corporate Bank has a contractual ability to demand repayment and cancel the undrawn commitment but it does not limit OP Corporate Bank's exposure to credit losses during the contractual notice period.

5.4.4 Recognition of expected credit losses

OP Corporate Bank mainly recognises a loss allowance for expected credit losses on a loan in a separate account. For loan commitments and financial guarantee contracts the loss allowance is recognised as a provision. For products that include both a loan (i.e. financial asset) and an undrawn commitment (i.e. loan commitment) component and OP Corporate Bank cannot separately identify the expected credit losses on the loan commitment component from those on the financial asset component, the expected credit losses on the loan commitment are recognised together with the loss allowance for the financial asset.

5.4.5 Write-off

A write-off constitutes a derecognition event. When OP Corporate Bank has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof, it directly reduces the gross carrying amount of the financial asset.

The loan is derecognised after the completion of all debt-collection measures of if the loan terms are substantially modified (such as refinancing). Payments received after the derecognition are recognised as an adjustment to impairment losses on receivables.

5.5 Cash and cash equivalents

Cash and cash equivalents consist of cash and receivables from credit institutions repayable on demand.

5.6 Classification and subsequent measurement of financial liabilities

Financial liabilities comprise deposits and other liabilities to credit institutions and customers, debt securities issued to the public and other financial liabilities.

Financial liabilities are classified at amortised cost using the effective interest method, except for derivative liabilities measured at fair value through profit or loss. In addition, investment contracts with no entitlement to discretionary participation feature issued by insurance companies are designated as measured at fair value through profit or loss. Liabilities held for trading also include obligations to deliver securities to the counterparty which have been sold but which are not owned at the time of selling (short selling).

Upon initial recognition, OP Corporate Bank has not designated financial liabilities as measured at fair value through profit or loss.

OP Corporate Bank removes a financial liability (or a part of a financial liability) from its balance sheet when it is extinguished – i.e. when the obligation specified in the contract is discharged or cancelled or expires.

An exchange between OP Corporate Bank and original lenders of financial liabilities with substantially different terms must be accounted for as an extinguishment of the original financial liability. In such a case, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, the amortised cost of the modified financial liability will be recalculated by discounting the modified contractual cash flows using the original effective interest rate. Changes in the amortised cost of the financial liability is recognised through profit or loss. Costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability. OP Corporate Bank has not made any exchanges of financial liabilities for the existing financial liabilities.

5.7 Netting

Financial assets and liabilities are offset in the balance sheet if OP Financial Group currently has a legally enforceable right of set-off in the normal course of business and in the event of default, insolvency or bankruptcy, and intends to settle the asset and liability on a net basis. OTC interest rate derivatives for central counterparty clearing are offset in the balance sheet, which are cleared in the daily clearing process with London Clearing House.

19 Critical accounting estimates and judgements

Determining the expected credit loss (ECL) requires several management judgements, such as:

- Selection of appropriate ECL models so that they describe the expected credit losses on the contract portfolio as well as possible
- Different assumptions and expert judgements made in the models
- Selection of the estimation methods of the parameters for the ECL models
- Determination of model risk associated with the quality of the available modelling data and other data
- Proper grouping of contracts into different segments so that their ECL can be calculated using the appropriate model
- Selection of macroeconomic factors in such a way that their changes correlate with the contracts' probability of default
- Forecasting future macroeconomic scenarios and their probabilities.

Management judgement has also been used in the assessment of a significant increase in credit risk, such as in:

- The expert judgement used in the assessment of change in relative credit risk associated with private customers to ensure a true number of contracts that move to stage 2 before moving to stage 3 (so-called default capture rate)

- The selection of the absolute threshold that is based on historical default behaviour and OP Corporate Bank’s credit risk process
- The determination of the length of a period during which the customer must prove proper payment behaviour so that the impairment stage 3 can improve to stage 2 or 1.

Adoption of IFRS 15 on 1 January 2018

OP Corporate Bank has applied IFRS 15, Revenue from Contracts with Customers, since 1 January 2018. In OP Corporate Bank, IFRS 15 mainly applies to fees not included in the calculation of the effective interest rate in the Banking segment. 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 has been specified in the Notes to the Interim Report. Net commissions are divided into groups according to commission income and expenses recorded from customer agreements. New groups to be presented in net commissions and fees include commission income and expenses from health and wellbeing services, asset management fees, fees paid for asset management services as well as legal fees. Net commissions and fees are presented as divided into segments.

IFRS 15 did not change the revenue recognition time of the fees included in the scope of application of the standard in comparison with the previous practices. The adoption of IFRS 15 did not have any effect on OP Corporate Bank's earnings before tax. OP Corporate Bank started to apply IFRS 15 using the retrospective transition method, i.e. the Q1/2017 data has been adjusted. Below is a description of the retrospective changes made to the specification of net commissions and fees:

- Commission income from health and wellbeing services, EUR 4 million, has been transferred from other operating income to commission income.
- Commission expenses from health and wellbeing services, EUR 2 million, have been transferred from other operating expenses to commission expenses.
- Asset management fees and fees for legal services, EUR 3 million, will be presented separately in future.
- Net commissions and fees have been presented as divided into segments.

Changes in presentation

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

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

Note 2 Key figures and ratios and their formulas

	Q1/ 2018	Q1/ 2017
Return on equity (ROE), %	12.0	11.1
Return on equity (ROE) at fair value, %	8.0	10.8
Return on assets (ROA), %	0.76	0.70
Cost/income ratio, %	52	50
Ratio of non-performing receivables to loan and guarantee portfolio, %	0.5	0.7
Ratio of performing forborne to loan and guarantee portfolio, %	0.2	0.2
Average personnel	2,468	2,455

ALTERNATIVE PERFORMANCE MEASURES

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

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

Return on equity (ROE), %

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

Return on equity (ROE) at fair value, %

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

Return on assets (ROA), %

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

Cost/income ratio, %

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

Ratio of non-performing receivables to loan and guarantee portfolio, %

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

Ratio of performing forborne to loan and guarantee portfolio, %

$$\frac{\text{Performing forborne exposures}}{\text{Loan and guarantee portfolio at period end}} \times 100$$

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), %	Claims excl. loss adjustment expenses and changes in reserving bases / Net insurance premium revenue excl. changes in reserving bases x 100
Operating cost ratio, %	Operating expenses and loss adjustment expenses / Net insurance premium revenue excl. changes in reserving bases x 100

INDICATORS BASED ON CAPITAL ADEQUACY MEASUREMENT

Capital adequacy ratio, %	Total capital / Total risk exposure amount x 100
Tier 1 ratio, %	Total Tier 1 capital / Total risk exposure amount x 100
CET1 ratio, %	CET1 capital / Total risk exposure amount x 100
Solvency ratio, %	Capital base / Capital requirement (SCR) x 100
Leverage ratio, %	Tier 1 capital (T1) / Exposure amount x 100
Liquidity coverage requirement (LCR), %	Liquid assets / Liquidity outflows - liquidity inflows under stressed conditions x 100
Return on economic capital, %	Earnings + customer bonuses after tax (value rolling 12 month) / Average economic capital x 100

NON-LIFE INSURANCE OPERATING RESULTS	Q1/ 2018	Q1/ 2017	Change %	Q1–4/ 2017
EUR million				
Insurance premium revenue	359	350	2.6	1,431
Claims incurred	-259	-265	-2.4	-1,085
Operating expenses	-76	-69	9.9	-291
Amortisation adjustment of intangible assets	-5	-5	0.0	-21
Balance on technical account	**19**	**10**	**83.8**	**34**
Net investment income	3	39	-92.9	176
Other income and expenses	-1	-7	-87.7	-17
Temporary exemption (overlay approach)	12			
Earnings before tax	**32**	**42**	**-23.4**	**193**

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

Note 3 Net interest income

EUR million	Q1/ 2018	Q1/ 2017
Interest income		
Receivables from credit institutions	10	11
Receivables from customers		
Loans	79	79
Finance lease receivables	6	4
Impaired loans and other commitments	0	0
Notes and bonds		
Held for trading	2	2
Mandatorily measured at fair value through profit or loss	0	
At fair value through other comprehensive income	23	
Amortised cost	0	
Available for sale		25
Held to maturity		0
Loans and receivables		0
Derivative contracts		
Held for trading	198	216
Fair value hedge	-28	-30
Cash flow hedge	1	2
Ineffective portion of cash flow hedge	0	0
Other	2	2
Total	**292**	**310**
Interest expenses		
Liabilities to credit institutions	33	26
Liabilities to customers	0	0
Debt securities issued to the public	38	50
Subordinated liabilities		
Subordinated loans	1	1
Other	11	11
Derivative contracts		
Held for trading	194	218
Fair value hedge	-31	-36
Other	-18	-17
Other	2	3
Total	**230**	**255**
Loan modification gains and losses on loans	**0**	
Net interest income before fair value adjustment under hedge accounting	**62**	**55**
Hedging derivatives	1	15
Value changes of hedged items	-2	-15
Total net interest income	**61**	**55**

Note 4 Net insurance income

EUR million	Q1/ 2018	Q1/ 2017
Net insurance premium revenue		
Premiums written	623	615
Insurance premiums ceded to reinsurers	-8	-10
Change in provision for unearned premiums	-269	-266
Reinsurers' share	12	11
Total	**358**	**350**
Net Non-life Insurance claims		
Claims paid	-235	-233
Insurance claims recovered from reinsurers	8	2
Change in provision for unpaid claims	6	-15
Reinsurers' share	-7	8
Total	**-228**	**-238**
Other Non-life Insurance items	0	-1
Total net insurance income	**129**	**111**

Note 5 Net commissions and fees

Q1 2018, EUR million	Banking	Non-life Insurance	Other Operations	Eliminations	Group total
Comission income					
Lending	11	0	0	0	11
Deposits	0		0	0	0
Payment transfers	5		0	0	5
Securities brokerage	4		0		4
Securities issuance	1		1	0	3
Mutual funds	0			0	0
Asset management	3		0	0	3
Legal services	0		0	0	0
Guarantees	3		0		3
Insurance brokerage		3		0	3
Health and wellbeing services		4		0	4
Other	10		-7	0	3
Total	**39**	**7**	**-6**	**0**	**40**
Comission expenses					
Payment transfers	0	0	0	0	0
Securities brokerage	2				2
Securities issuance	0		0		0
Asset management	1		0	0	1
Insurance operations		17			17
Health and wellbeing services		2			2
Other	20		0	0	21
Total	**23**	**19**	**1**	**0**	**43**
Total net commissions and fees	**16**	**-12**	**-7**	**0**	**-3**

Q1 2017, EUR million	Banking	Non-life Insurance	Other Operations	Eliminations	Group total
Comission income					
Lending	10		0	0	10
Deposits	0		0	0	0
Payment transfers	7		0	0	7
Securities brokerage	5				5
Securities issuance	0		1	0	1
Mutual funds	0				0
Asset management	3			0	3
Legal services	0				0
Guarantees	3		0		3
Insurance brokerage		4			4
Health and wellbeing services		4		0	4
Other	19		-16	0	3
Total	**48**	**8**	**-15**	**0**	**40**
Comission expenses					
Payment transfers	2	0	0	0	2
Securities brokerage	2				2
Securities issuance	0		0	0	1
Asset management	1		0	0	1
Insurance operations		19			19
Health and wellbeing services		2			2
Other	10		2	0	13
Total	**16**	**21**	**3**	**0**	**40**
Total net commissions and fees	**32**	**-13**	**-18**	**0**	**0**

Note 6 Net investment income

EUR million	Q1/ 2018	Q1/ 2017
Net income from assets at fair value through other comprehensive income (Net income from available-for-sale financial assets)		
Notes and bonds	22	23
Equity instruments	-1	17
Dividend income and share of profits	1	21
Impairment losses and their reversals	-1	-3
Total	**21**	**59**
Net income recognised at fair value through profit or loss		
Financial assets held for trading		
Notes and bonds	-1	
Equity instruments	5	
Dividend income and share of profits	2	
Derivatives	43	
Financial assets that are mandatorily measured at fair value through profit or loss		
Notes and bonds	0	
Equity instruments	5	
Dividend income and share of profits	6	
Financial assets designated as at fair value through profit or loss		
Notes and bonds	1	
Insurance		
Notes and bonds		-3
Derivatives		3
Banking and Other operations		
Securities trading		40
Foreign exchange trading		8
Investment property	2	4
Total	**63**	**51**
Net income carried at amortised cost		
Loans and other receivables	1	1
Impairment losses and their reversals	0	0
Total	**1**	**2**
Non-life Insurance		
Unwinding of discount	-7	-8
Total	**-7**	**-8**
Associates		
Accounted for using the fair value method		
Consolidated using the equity method	0	1
Total	**0**	**1**
Total net investment income	**77**	**104**

Note 7 Impairment loss on receivables

Receivables from customers and off-balance-sheet items, EUR million	Stage 1	Stage 2	Stage 3	Total
Expected credit losses (ECL)	12-month ECL	Lifetime ECL	Lifetime ECL	
ECL 1 Jan. 2018	**18**	**32**	**223**	**273**
Transfers from Stage 1 to Stage 2	-1	4		3
Transfers from Stage 1 to Stage 3	0		0	0
Transfers from Stage 2 to Stage 1	1	-4		-3
Transfers from Stage 2 to Stage 3		0	1	1
Transfers from Stage 3 to Stage 2		0	0	0
Transfers from Stage 3 to Stage 1	1		-1	0
Increases due to origination and acquisition	1	0	0	1
Decreases due to derecognition	-1	0	-5	-7
Changes in risk parameters (net)	0	13	-4	9
Decrease in allowance account due to write-offs			-27	-27
Total net result effect	**0**	**12**	**-36**	**-24**
ECL 31 March 2018	**19**	**44**	**186**	**249**

Notes and bonds, EUR million	Stage 1	Stage 2	Stage 3	Total
Expected credit losses (ECL)	12-month ECL	Lifetime ECL	Lifetime ECL	
ECL 1 Jan. 2018	**3**	**0**	**0**	**4**
Transfers from Stage 1 to Stage 2	0	0		0
Transfers from Stage 2 to Stage 1	0	0		0
Increases due to origination and acquisition	1	0	1	2
Decreases due to derecognition	-1	0		-1
Changes in risk parameters (net)	0		0	0
Changes due to update in the methodology for estimation (net)	0			0
Total net result effect	**-1**	**0**	**1**	**1**
ECL 31 March 2018	**3**	**0**	**1**	**4**

EUR million	1–3/ 2018	1–3/ 2017
Receivables written off as loan or guarantee losses	-14	0
Recoveries of receivables written off	0	0
ECL on receivables from customers and off-balance-sheet items	24	
ECL on notes and bonds*	0	
Increase in impairment losses on individually assessed receivables		-2
Decrease in impairment losses on individually assessed receivables		0
Collectively assessed impairment losses		-3
Total impairment loss on receivables	**10**	**-4**

* The ECL on notes and bonds in insurance operations is presented in net investment income.

Note 8 Classification of financial assets and liabilities

Assets, EUR million	Amortised cost	Fair value through other comprehensive income	Fair value through profit or loss			Hedging derivatives	Total
			Trading	Fair value option	Fair value due to SPPI test		
Cash and cash equivalents	11,562						11,562
Receivables from credit institutions	8,865						8,865
Derivative contracts			3,173			155	3,328
Receivables from customers	20,434						20,434
Notes and bonds	0	13,968	684	54	52		14,758
Equity instruments		0	52		738		790
Other financial assets	2,252						2,252
Financial assets	**43,113**	**13,968**	**3,909**	**54**	**790**	**155**	**61,989**
Other than financial instruments							1,299
Total 31 March 2018	**43,113**	**13,968**	**3,909**	**54**	**790**	**155**	**63,288**

Assets, EUR million	Loans and other receivables	Invest-ments held to maturity	Available-for-sale financial assets	Financial assets at fair value through profit or loss*	Hedging derivatives	Total
Cash and cash equivalents	12,825					12,825
Receivables from credit institutions	9,294					9,294
Derivative contracts				3,283	143	3,426
Receivables from customers	20,120					20,120
Notes and bonds		51	14,050	893		14,993
Equity instruments			728			728
Other financial assets	1,779					1,779
Financial assets	**44,017**	**51**	**14,777**	**4,176**	**143**	**63,164**
Other than financial instruments						1,280
Total 31 December 2017	**44,017**	**51**	**14,777**	**4,176**	**143**	**64,445**

* Investment assets in the balance sheet include Non-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		13,669		13,669
Derivative contracts	2,706		337	3,042
Liabilities to customers		17,306		17,306
Insurance liabilities		3,412		3,412
Debt securities issued to the public		17,672		17,672
Subordinated liabilities		1,530		1,530
Other financial liabilities		2,082		2,082
Financial liabilities	**2,706**	**55,670**	**337**	**58,713**
Other than financial liabilities				603
Total 31 March 2018	**2,706**	**55,670**	**337**	**59,316**

Liabilities, EUR million	Financial liabilities at fair value through profit or loss	Other liabilities	Hedging derivatives	Total
Liabilities to credit institutions		14,035		14,035
Derivative contracts	2,825		391	3,216
Liabilities to customers		18,837		18,837
Insurance liabilities		3,143		3,143
Debt securities issued to the public		16,791		16,791
Subordinated liabilities		1,547		1,547
Other financial liabilities		2,084		2,084
Financial liabilities	**2,825**	**56,437**	**391**	**59,653**
Other than financial liabilities				642
Total 31 December 2017	**2,825**	**56,437**	**391**	**60,295**

Bonds included in debt securities issued to the public are carried at amortised cost. On 31 March, the fair value of these debt instruments was EUR 180 million (227) higher than their carrying amount, based on information available in markets and employing commonly used valuation techniques. Subordinated liabilities are carried at amortised cost. Their fair values are higher than their amortised costs, but determining reliable fair values involves uncertainty.

Note 9 Recurring fair value measurements by valuation technique

Fair value of assets on 31 March 2018, EUR million	Level 1	Level 2	Level 3	Total
Recognised at fair value through profit or loss				
Equity instruments	423	106	261	790
Debt instruments	231	63	496	790
Derivative financial instruments	10	3,265	53	3,328
Fair value through other comprehensive income				
Equity instruments		0		0
Debt instruments	11,774	1,933	261	13,968
Total	**12,438**	**5,367**	**1,071**	**18,876**

Fair value of assets on 31 Dec. 2017, EUR million	Level 1	Level 2	Level 3	Total
Recognised at fair value through profit or loss				
Debt instruments	410	74	409	893
Derivative financial instruments	1	3,294	131	3,426
Available-for-sale				
Equity instruments	386	86	256	728
Debt instruments	10,313	3,418	319	14,050
Total	**11,109**	**6,873**	**1,115**	**19,096**

Fair value of liabilities on 31 March 2018, EUR million	Level 1	Level 2	Level 3	Total
Recognised at fair value through profit or loss				
Other		0		0
Derivative financial instruments	26	2,997	20	3,042
Total	**26**	**2,997**	**20**	**3,042**

Fair value of liabilities on 31 Dec. 2017, EUR million	Level 1	Level 2	Level 3	Total
Recognised at fair value through profit or loss				
Other		1		1
Derivative financial instruments	5	3,120	92	3,216
Total	**5**	**3,120**	**92**	**3,217**

Level 1: Quoted prices in active markets

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

Level 2: Valuation techniques using observable inputs

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

Level 3: Valuation techniques using unobservable inputs

Valuation techniques whose input parameters involve uncertainty. The fair value determination of the instruments included in Level 3 is based on a pricing model whose input parameters involve uncertainty. Level 3 also includes bonds for which there is little, if any, market activity on the valuation date. This level includes the most complex OTC derivatives and derivatives with a long maturity for which the Group had to extrapolate the market data used in their value measurement, as well as certain private equity investments, and illiquid bonds, structured bonds, including securitised bonds and structured debt securities, and hedge funds. Level 3 fair value is based on pricing information from a third party.

Transfers between levels of the fair value hierarchy

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

Reconciliation of Level 3 items that involve uncertainty

Specification of financial assets and liabilities

Financial assets, EUR million	Financial assets at fair value through profit or loss	Derivative contracts	Fair value through other comprehen-sive income	Total assets
Balance sheet 31 December 2017	409	131	574	1,115
Effects of IFRS 9 transition 1 Jan. 2018	270		-263	6
Opening balance 1 January 2018	679	131	311	1,122
Total gains/losses in profit or loss	-383	-78		-461
Total gains/losses in other comprehensive income			0	0
Purchases	16		0	16
Sales	-8			-8
Settlements	-8			-8
Transfers into Level 3	460		125	585
Transfers out of Level 3			-175	-175
Closing balance 31 March 2018	**757**	**53**	**261**	**1,071**

Financial liabilities, EUR million	Derivative contracts	Total liabilities
Opening balance 1 January 2018	92	92
Total gains/losses in profit or loss	-72	-72
Closing balance 31 March 2018	**20**	**20**

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

EUR million	Net interest income	Net investment income	Statement of comprehen-sive income/ Change in fair value reserve	Net gains/losses on assets and liabilities held on 31 March
Realised net gains	-383	1		-383
Unrealised net gains	-6		0	-6
Total net gains	**-389**	**1**	**0**	**-389**

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 2018.

Note 10 Derivative contracts

31 March 2018, EUR million	Nominal values / residual term to maturity				Fair values*	
	<1 year	1–5 years	>5 years	Total	Assets	Liabilities
Interest rate derivatives	32,242	101,798	77,255	211,295	2,085	1,589
Cleared by the central counterparty	8,865	41,020	36,457	86,341	28,332	14,272
Currency derivatives	35,674	8,108	2,752	46,534	944	1,091
Equity and index derivatives		3		3	0	
Credit derivatives	27	372	6	405	7	6
Other derivatives	359	391		750	63	52
Total derivatives	**68,302**	**110,671**	**80,013**	**258,986**	**3,099**	**2,738**

31 December 2017, EUR million	Nominal values / remaining term to maturity				Fair values*	
	<1 year	1–5 years	>5 years	Total	Assets	Liabilities
Interest rate derivatives	30,931	88,811	76,406	196,148	3,192	2,981
Cleared by the central counterparty	8,392	38,585	35,615	82,592	941	1,100
Currency derivatives	37,113	9,246	2,815	49,174	982	1,185
Equity and index derivatives	5	3		8	1	0
Credit derivatives	28	188	10	226	9	6
Other derivatives	235	513		748	65	36
Total derivatives	**68,313**	**98,760**	**79,230**	**246,303**	**4,250**	**4,208**

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

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

Financial assets

31 March 2018, EUR million	Gross amount of financial assets	Gross amount of financial liabilities deducted from financial assets*	Net amount presented in the balance sheet**	Financial assets not set off in the balance sheet		Net amount
				Derivative contracts***	Collateral received	
Derivatives	4,234	-904	3,330	-1,924	-387	1,019

31 December 2017, EUR million	Gross amount of financial assets	Gross amount of financial liabilities deducted from financial assets*	Net amount presented in the balance sheet**	Financial assets not set off in the balance sheet		Net amount
				Derivative contracts***	Collateral received	
Derivatives	4,354	-928	3,426	-1,994	-412	1,020

Financial liabilities

31 March 2018, EUR million	Gross amount of financial liabilities	Gross amount of financial assets deducted from financial liabilities*	Net amount presented in the balance sheet**	Financial liabilities not set off in the balance sheet		Net amount
				Derivative contracts***	Collateral given	
Derivatives	4,117	-1,074	3,042	-1,924	-564	555

31 December 2017, EUR million	Gross amount of financial liabilities	Gross amount of financial assets deducted from financial liabilities*	Net amount presented in the balance sheet**	Financial liabilities not set off in the balance sheet		Net amount
				Derivative contracts***	Collateral given	
Derivatives	4,302	-1,085	3,216	-1,994	-717	506

* Incl. daily cleared derivatives on a net basis included in cash and cash equivalents, totalling -166 (-161) million euros.
** Fair values excluding accrued interest.
*** It is the practice to enter into master agreements for derivative transactions with all derivative counterparties.

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

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

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

31 March 2018, EUR million	Not impaired (gross)	Expected credit losses (ECL)	Balance sheet value
Receivables from credit institutions and customers			
Receivables from credit institutions	8,866	1	8,865
Receivables from customers	18,797	238	18,559
of which bank guarantee receivables	2		2
Finance leases	1,881	6	1,875
Total	**29,544**	**246**	**29,299**
Receivables from credit institutions and customers by sector			
Non-banking corporate sector	17,191	234	16,956
Financial institutions and insurance companies	9,540	3	9,537
Households	1,784	7	1,777
Non-profit organisations	361	0	360
Public sector entities	669	1	668
Total	**29,544**	**246**	**29,299**

31 December 2017, EUR million	Not impaired (gross)	Impaired (gross)	Total	Individual assessment of impairment	Collective assessment of impairment	Balance sheet value
Receivables from credit institutions and customers						
Receivables from credit institutions	9,295		9,295		2	9,294
Receivables from customers	18,264	219	18,483	192	28	18,263
of which bank guarantee receivables	0	2	2	2	0	0
Finance leases	1,856		1,856			1,856
Total	**29,416**	**219**	**29,635**	**192**	**30**	**29,413**
Receivables from credit institutions and customers by sector						
Non-banking corporate sector	16,581	218	16,799	191	16	16,592
Financial institutions and insurance companies	10,077		10,077		2	10,075
Households	1,736	1	1,736	1	12	1,724
Non-profit organisations	336		336		0	336
Public sector entities	687		687		0	687
Total	**29,416**	**219**	**29,635**	**192**	**30**	**29,413**

Doubtful and forborne receivables 31 March 2018, EUR million	Performing receivables from credit institutions and customers (gross)	Non-performing receivables from credit institutions and customers (gross)	Receivables from credit institutions and customers, total (gross)	Expected credit losses (ECL)	Receivables from credit institutions and customers (net)
More than 90 days past due		88	88	85	4
Unlikely to be paid		198	198	94	104
Forborne receivables	52	15	67	7	60
Total	**52**	**301**	**353**	**186**	**168**

Doubtful and forborne receivables 31 December 2017, EUR million	Performing receivables from credit institutions and customers (gross)	Non-performing receivables from credit institutions and customers (gross)	Receivables from credit institutions and customers, total (gross)	Individually assessed impairment	Receivables from credit institutions and customers (net)
More than 90 days past due		89	89	79	10
Unlikely to be paid		225	225	106	119
Forborne receivables	49	24	73	7	66
Total	**49**	**338**	**387**	**192**	**195**

Key ratio, %	31 March 2018	31 Dec. 2017
Exposures individually assessed for impairment/ECL, % of doubtful receivables	52.6 %	49.5 %

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

Note 13 Insurance liabilities

EUR million	31 March 2018	31 Dec. 2017
Provision for unpaid claims		
Provision for unpaid claims for annuities	2,417	1,516
Other provision for unpaid claims	152	1,054
Reserve for decreased discount rate (value of hedges of insurance liability)	-12	-12
Total	2,557	2,557
Provisions for unearned premiums	854	585
Total	**3,412**	**3,143**

Note 14 Debt securities issued to the public

EUR million	31 March 2018	31 Dec. 2017
Bonds	9,677	9,674
Certificates of deposit, commercial papers and ECPs	7,995	7,117
Total	**17,672**	**16,791**

Note 15 Fair value reserve after income tax

	Fair value through other comprehensive income				
	Notes and bonds	Equity instruments	Temporary exemption (overlay approach)	Cash flow hedging	Total
EUR million					
Balance sheet 31 Dec. 2017	**117**	**45**		**2**	**164**
Effects of IFRS 9 transition 1 Jan. 2018	-1	-45			-46
Opening balance 1 January 2018	**115**	**0**		**2**	**118**
Fair value changes	-32	0	-11	-1	**-44**
Capital gains transferred to income statement	-4		1		**-3**
Impairment loss transferred to income statement			0		**0**
Transfers to net interest income				-1	**-1**
Deferred tax	7	0	2	0	**10**
Closing balance 31 March 2018	**86**		**-7**	**0**	**79**

	Available-for-sale financial assets			
	Notes and bonds	Equity instruments	Cash flow hedging	Total
EUR million				
Opening balance 1 January 2017	**85**	**106**	**6**	**197**
Fair value changes	4	14	1	**20**
Capital gains transferred to income statement	-6	-15		**-21**
Impairment loss transferred to income statement		1		**1**
Transfers to net interest income			-1	**-1**
Deferred tax	0	0	0	**0**
Closing balance 31 March 2017	**84**	**106**	**6**	**196**

The fair value reserve before tax amounted to EUR 96 million (204) and the related deferred tax liability amounted to EUR 20 million (41). On 31 March 2018, positive mark-to-market valuations of equity instruments in the fair value reserve totalled EUR 11 million (67) and negative mark-to-market valuations EUR 23 million (11).

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

Note 16 Collateral given

EUR million	31 March 2018	31 Dec. 2017
Collateral given on behalf of own liabilities and commitments		
Pledges	1	35
Other	5,516	5,663
Total collateral given*	**5,517**	**5,699**
Secured derivative liabilities	737	889
Other secured liabilities	4,037	4,081
Total	**4,774**	**4,969**

* In addition, bonds with a book value of EUR 4.5 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	31 March 2018	31 Dec. 2017
Guarantees	536	532
Other guarantee liabilities	1,467	1,470
Loan commitments	5,241	5,495
Commitments related to short-term trade transactions	392	359
Other*	726	729
Total off-balance-sheet items	**8,362**	**8,585**

* Of which Non-life Insurance commitments to private equity funds amount to EUR 205 million (208).

Note 18 Capital adequacy for credit institutions

OP Corporate Bank Group presents its capital adequacy for credit institutions in accordance with the EU capital requirement regulation and directive (EU 575/2013) (CRR).

Capital base, EUR million	31 March 2018	31 Dec. 2017
OP Corporate Bank Group's equity capital	3,972	4,149
The effect of insurance companies on the Group's shareholders' equity is excluded	-123	-125
Fair value reserve, cash flow hedging	0	-2
Common Equity Tier 1 (CET1) before deductions	**3,849**	**4,022**
Intangible assets	-76	-76
Excess funding of pension liability and valuation adjustments	-20	-16
Planned profit distribution	-58	-212
Shortfall of impairments – expected losses	-79	-134
Common Equity Tier 1 (CET1)	**3,615**	**3,584**
Subordinated loans to which transitional provision applies	109	137
Additional Tier 1 capital (AT1)	**109**	**137**
Tier 1 capital (T1)	**3,725**	**3,720**
Debenture loans	1,039	1,073
Tier 2 Capital (T2)	**1,039**	**1,073**
Total capital base	**4,764**	**4,793**

A prudent valuation adjustment of EUR 7 (5) million has been deducted from CET1 capital.

OP Corporate Bank Group has applied transitional provisions regarding old capital instruments to subordinated loans.

Risk exposure amount, EUR million	31 March 2018	31 Dec. 2017
Credit and counterparty risk	**19,910**	**19,694**
Standardised Approach (SA)	**2,183**	**2,069**
Central government and central banks exposure	18	18
Credit institution exposure	7	29
Corporate exposure	2,064	1,963
Retail exposure	14	14
Other*	79	44
Internal Ratings-based Approach (IRB)	**17,727**	**17,626**
Credit institution exposure	1,006	1,053
Corporate exposure	11,786	11,643
Retail exposure	1,157	1,130
Equity investments**	3,736	3,753
Other	42	47
Market and settlement risk (Standardised Approach)	**1,427**	**1,179**
Operational risk (Standardised Approach)	**1,285**	**1,266**
Valuation adjustment (CVA)	**210**	**205**
Total risk exposure amount	**22,832**	**22,343**

* EUR 70 million (44) 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 3.7 billion in insurance holdings within OP Financial Group.

Ratios, %	31 March 2018	31 Dec. 2017
CET1 capital ratio	15.8	16.0
Tier 1 ratio	16.3	16.7
Capital adequacy ratio	20.9	21.5

Ratios, fully loaded, %	31 March 2018	31 Dec. 2017
CET1 capital ratio	15.8	16.0
Tier 1 ratio	15.8	16.0
Capital adequacy ratio	20.4	20.8

Capital requirement, EUR million	31 March 2018	31 Dec. 2017
Capital base	4,764	4,793
Capital requirement	2,408	2,358
Buffer for capital requirements	2,356	2,435

The capital requirement comprises the minimum requirement of 8%, the capital conservation buffer of 2.5% and the institution-specific capital conservation buffer for foreign exposures.

Note 19 Exposures by rating category

Corporate exposures (FIRB) by rating category

Rating category	31 March 2018							
	Balance sheet items, exposure value (EAD), € million	Off-balance-sheet items, exposure value (EAD), € million	Average CF, %	Average PD, %	Average LGD, %	RWA, EUR million	Average risk weight, %	Expected losses, EUR million
1.0–2.0	781	254	89.8	0.0	44.7	155	14.9	0
2.5–5.5	10,787	3,299	72.2	0.2	44.4	5,268	37.4	11
6.0–7.0	2,622	935	69.4	1.3	43.6	3,317	93.2	20
7.5–8.5	1,570	277	66.2	4.1	44.0	2,427	131.5	33
9.0–10.0	199	79	59.2	16.3	44.8	619	222.2	20
11.0–12.0	293	16	59.6	100.0	46.0			143
Total	**16,253**	**4,861**	**71.7**	**0.9**	**44.3**	**11,786**	**56.7**	**227**

Rating category	31 December 2017							
	Balance sheet items, exposure value (EAD), € million	Off-balance-sheet items, exposure value (EAD), € million	Average CF, %	Average PD, %	Average LGD, %	RWA, EUR million	Average risk weight, %	Expected losses, EUR million
1.0–2.0	757	212	93.3	0.0	44.7	144	14.9	0
2.5–5.5	10,597	3,439	72.7	0.2	44.4	5,250	37.4	11
6.0–7.0	2,674	899	68.8	1.2	43.5	3,261	91.3	19
7.5–8.5	1,389	376	68.9	4.0	44.0	2,333	132.2	31
9.0–10.0	176	116	62.2	16.6	44.9	655	224.3	22
11.0–12.0	322	16	58.8	100.0	45.9			155
Total	**15,915**	**5,057**	**72.0**	**0.9**	**44.3**	**11,643**	**56.4**	**238**

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

Note 20 Insurance company solvency

EUR million	31 March 2018	31 Dec. 2017
Eligible capital	**929**	**902**
Solvency capital requirement (SCR)		
Market risk	477	460
Insurance risk	291	289
Counterparty risk	40	40
Operational risk	45	45
Diversification benefits and loss absorbency	-176	-169
Total	677	666
Buffer for SCR	**252**	**236**
Solvency ratio (SCR), %	**137**	**135**
Solvency ratio (SCR), % (excluding transitional provision)	**137**	**135**

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

Note 21 Related-party transactions

OP Corporate Bank Group's related parties comprise its parent company OP Cooperative, subsidiaries consolidated into the Group, associates and administrative personnel, their close family members included, and other related-party entities. OP Corporate Bank Group's administrative personnel comprises OP Corporate Bank plc's President and CEO and members of the Board of Directors. Related parties also include companies over which a person among administrative personnel or his close family member exercises significant influence. Other related-party entities include OP Pension Fund, OP Pension Foundation and sister companies within OP Cooperative Consolidated.

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

Related-party transactions have not undergone any substantial changes since 31 December 2017.

Financial reporting in 2018

OP Corporate Bank plc publishes the following financial information pursuant to the regular disclosure obligation of a securities issuer.

Schedule for Interim Reports in 2018:

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

Helsinki, 3 May 2018

OP Corporate Bank plc
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