OP Financial Group's Interim Report 1 January–30 September 2018

OP Financial Group's Interim Report for 1 January–30 September 2018:

Customer business developed favourably, but EBT decreased to EUR 687 million – full-year earnings are expected to be at about the same level as in 2017

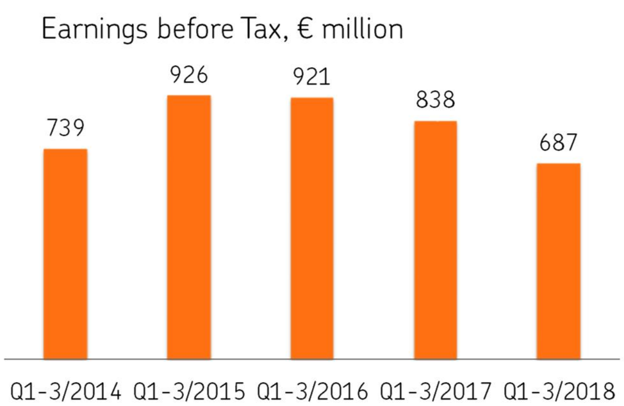
- Earnings before tax amounted to EUR 687 million (838).
- Income from customer business showed favourable development. Net interest income increased by 6% to EUR 867 million and net commissions and fees by 3% to EUR 655 million. Net insurance income increased by 27% to EUR 432 million – comparable change was –2%.
- Investment income fell by 39% to EUR 255 million and other operating income by 38% to EUR 46 million. Investment income was affected by a year-on-year decrease of EUR 151 million in capital gains.
- Expenses rose by 9% to EUR 1,378 million, due mainly to higher costs arising from development.
- Impairment losses on receivables were still low: EUR 24 million (28).
- CET1 ratio was 20.0%, or at the previous year-end level.
- Banking earnings before tax increased by 2% to EUR 489 million. Net interest income increased by 3% and net commissions and fees decreased by 6%. Expenses rose by 7%. The loan portfolio increased by 6% and deposits by 4% in the year to September.
- Non-life Insurance earnings before tax decreased by 5% to EUR 131 million. Insurance premium revenue increased by 3% and expenses by 10%. Investment income fell by EUR 98 million. The reduction in the discount rate for insurance liability increased claims incurred by EUR 102 million a year ago.
- Wealth Management earnings before tax decreased by 28% to EUR 136 million. Net commissions and fees decreased by 4%, investment income fell by 33% and expenses rose by 6%. Assets under management increased by 2% in the year to September.
- Other Operations earnings before tax were EUR –69 million (32). Earnings were eroded by higher expenses arising from development investments and lower net investment income. Non-recurring income of EUR 42 million was included in income a year ago.
- During 2018, OP will invest over EUR 400 million in developing its operations and improving customer experience.
- OP bonuses given out rose by 5% to EUR 171 million.
- In January–September, the number of OP cooperative banks' owner-customers increased by 55,000 to almost 1.9 million and that of OP Financial Group's joint banking and insurance customers by 18,000 to over 1.8 million.
- OP Financial Group decided to transfer its statutory earnings-related pension insurance portfolio to Ilmarinen Mutual Pension Insurance Company. The transfer is expected to take place by the end of 2018. The transfer will improve the Group's capital adequacy by an estimated 0.4 percentage points and earnings before tax by EUR 240 million, based on the current estimate.
- On 26 September 2018, the Supervisory Board of OP Financial Group's central cooperative decided on the strategic focus areas for the strategy period that ends at the end of 2019.
- Earnings before tax for 2018 are expected to be at about the same level as in 2017. "Outlook towards the year end" describes the outlook in greater detail.

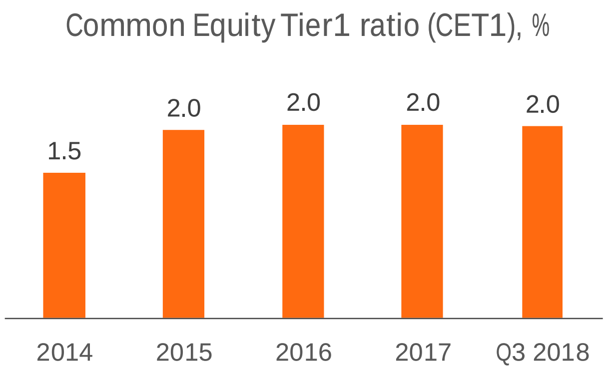
OP Financial Group's key indicators

	Q1–3/2018	Q1–3/2017	Change, %	Q1–4/2017
EBT, € million	687	838	-18.0	1,031
Banking	489	478	2.2	619
Non-life Insurance	131	137	-4.5	210
Wealth Management	136	190	-28.3	247
Other Operations	-69	32	-315.4	-45
New OP bonuses accrued to owner-customers	-171	-164	4.6	-220
	30 Sept. 2018	30 Sept. 2017	Change, %	31 Dec. 2017
CET1 ratio, %	20.0	19.2	0.8*	20.1
Ratio of capital base to minimum amount of capital base (under the Act on the Supervision of Financial and Insurance Conglomerates), % **	149	146	3*	148
Return on economic capital, %***	18.7	20.8	-2.1*	20.4
Return on equity (ROE), %	6.5	8.5	-2.0*	7.7
Return on assets (ROA), %	0.53	0.67	-0.1*	0.6
Ratio of non-performing receivables to loan and guarantee portfolio, %****	1.1	1.3	-0.1*	1.2
Owner-customers (1,000)	1,888	1,810	4.3	1,833

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

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





Comments by President and Group Executive Chair Timo Ritakallio

OP Financial Group's customer business and related income made favourable progress during the third quarter. However, January–September earnings before tax lagged the pace recorded a year ago. A marked year-on-year fall in investment income and an increase resulting from development expenditure, in particular, lay behind the lower earnings. Nevertheless, the earnings for the third quarter were clearly better than those for the first two quarters.

Impairment loss on receivables still remained very low. OP Financial Group's capital base is still strong, which provides solid foundations for long-term business development and investments that digitilisation in the financial sector necessitates.

OP Financial Group has continued to strengthen its market share in both loans and deposits, as evidenced by our ability to meet our customers' needs. The number of our owner-customers is increasing. At the end of the reporting period, OP Financial Group had almost 1.9 million owner-customers.

In July, the Representative Assembly of OP Bank Group Pension Fund decided to transfer the portfolio of OP Financial Group's statutory employee pension insurance to Ilmarinen, effective as of the turn of the year. This transfer will have a positive effect on OP Financial Group's earnings for 2018. We expect our full-year earnings to be at about the same level as in the previous year.

As the world changes even faster, it is important to keep the strategy up to date. During the third quarter, we revised OP Financial Group's vision and sharpened our strategic focus areas for the strategy period terminating at the end of the 2019. Our vision is to be the leading and most attractive financial services group in Finland. We aim to be both a leading actor in terms of the number of customers, and a forerunner that others look up to. We want to be the most attractive player for our customers, employees and partners.

During the remaining strategy period, we will focus on ensuring the competitiveness of our core business, and will review our service range with the emphasis on owner-customer benefits, in particular. Our strategic focus areas include creating excellent employee experience and the best customer experience, exceeding two millions of owner-customers before the 2020s, faster growth in income than in expenses and maximisation of benefits from our development investments.

During the third quarter, we continued our reorganisation. In early October, we initiated an Information and Consultation of Employees process covering 6,000 central cooperative consolidated employees. The planned changes apply to organisational structures, duties and practices. As a result of the reorganisation, some of the existing jobs will cease to exist or change substantially, but at the same time a significant number of new job opportunities will become available. We at OP Financial Group aim to become more agile in terms of practices and organisation where the value generated to the customer is guiding all what we do. In this reform, job descriptions will become more independent in nature and decision-making will become quicker.

In September, we launched a cost-cutting programme whereby our goal is to achieve annual cost savings of a hundred of million by sharpening the focus of our strategy, focusing on our core businesses and optimising the relation of inhouse and out-of-house services.

Pohjola is one of the most renowned brands in Finland and the brand among customers is strongly associated with insurance services. During 2019, OP Insurance will become Pohjola Insurance. As part of the focus of our health services business, Pohjola Health will change to Pohjola Hospital. OP Financial Group has the plan that the company would in future focus on the development of its hospital business and would not open new medical centres as specified in its previous plan.

The Finnish and world economy still continued to grow briskly in the third quarter. However, the growth was uneven and economic confidence was subdued. Financial market uncertainty has increased markedly since early autumn and stock markets have shown an obvious correction.

The near-future economic outlook is still relatively bright but the nightmare scenarios are growing. The euro-area inflation is increasing and monetary policy normalisation is progressing. Signs that the best growth stage is behind us have become stronger. The uncertainty is enhanced by the Italian political situation which is threatening to increase the interest rate differences of the Italian government bonds relative to other euro-area countries. The situation also impedes the refinancing of Italian banks. This will create significant uncertainty for the European economy. The global trade war is gathering dark clouds in respect of the world economy.

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Operating environment

Confidence in the world economic outlook worsened slightly during the third quarter but the world economy still continued to grow briskly. The US economy continued to grow strongly, the inflation rate accelerated and the Fed tightened its monetary policy.

A positive momentum was particularly strong in the US stock market until the beginning of October when the market saw more fluctuations again. The stock market in the euro area was more subdued than that in the US.

Euro-area economic growth slowed down slightly. Inflation rose because of higher energy prices but otherwise the increase in prices still fell short of the targets of the European Central Bank (ECB).

The ECB has adhered to the policy lines it issued in June. The ECB continued its monthly asset purchases worth EUR 30 billion until the end of September, after which it reduced their monthly amount to EUR 15 billion. Based on the ECB policy line, the main refinancing rates will remain at their present level at least through the summer of 2019. Market interest rates rose slightly from the second quarter.

The Finnish economy continued to show favourable development but the results of economic surveys deteriorated further. A plenty of new jobs were created and consumer confidence remained steady. Corporate profitability has improved and fixed investments have increased.

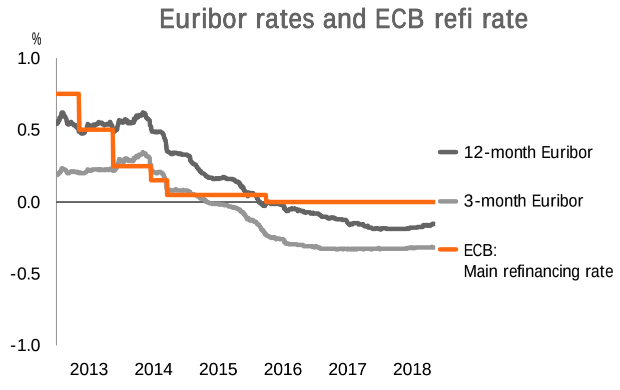
Sales in the housing market continued to focus on new homes and, as a whole, the volume was slightly lower than a year ago. Home prices continued to rise slowly on average and the trend was uneven by region and type of housing.

The economy is expected to show favourable development but the strongest growth is for now about to be behind us. Greater international trade barriers pose the greatest risk to the economic outlook. Financial market uncertainty is expected to increase, for example, by the gradually tightening monetary policy on a global scale.

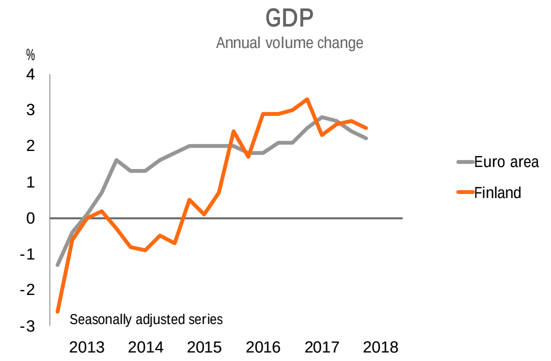
The annual growth rate of consumer loans was around 2.5% between January and September. Total home loans increased by roughly 2%. During the reporting period, demand for corporate loans (excl. housing company loans) strengthened markedly and growth in housing company loans remained strong. The results of the banking barometer conducted by Finance Finland suggest that demand for consumer loans should strengthen whereas the annual growth rate of corporate loans is expected to slow down.

Growth in total deposits slowed down to close to zero in the third quarter. However, total household deposits continued to grow strongly. Total deposits by public-sector entities decreased by around a fifth year on year.

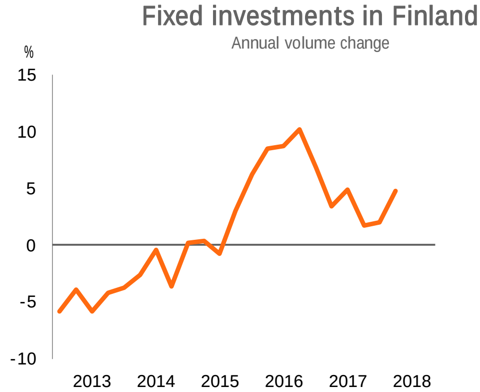
In the third quarter of 2018, the value of mutual funds registered in Finland increased by EUR 488 million to EUR 115.8 billion. Mutual funds' net asset inflows were negative, EUR –1.5 billion, but the value change arising from higher equity prices, in particular, was EUR 2.0 billion positive. The strong economic trend has supported developments in premiums written in the insurance market but price competition is expected to remain fierce.



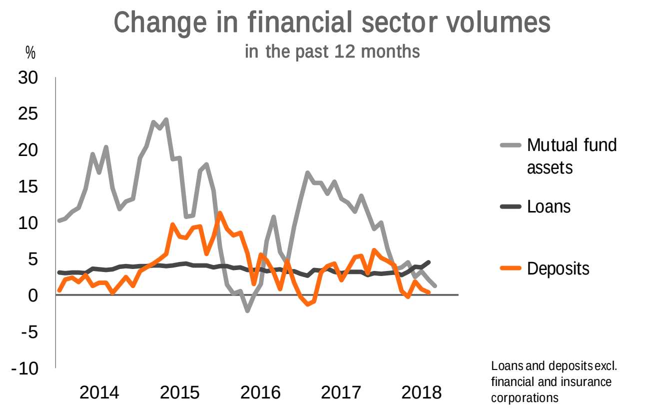
Source: Bank of Finland



Sources: Eurostat, Statistics Finland



Source: Statistics Finland



Sources: Bank of Finland, Investment Research Finland

Earnings analysis and balance sheet

Earnings analysis, € million	Q1–3/2018	Q1–3/2017*	Change, %	Q3/2018	Q3/2017*	Change, %	Q1–4/2017*
Earnings before tax	687	838	-18.0	262	279	-6.1	1,031
Banking	489	478	2.2	156	164	-4.8	619
Non-life Insurance	131	137	-4.5	67	30	121.7	210
Wealth Management	136	190	-28.3	42	98	-56.7	247
Other Operations	-69	32	-315.4	-4	-13	-72.9	-45
Income							
Net interest income	867	821	5.7	297	287	3.5	1,102
Net insurance income	432	341	26.9	154	80	93.7	478
Net commissions and fees	655	637	2.9	212	203	4.4	879
Net investment income	284	418	-32.0	79	171	-54.1	522
Other operating income	46	75	-37.8	25	12	104.3	83
Total income	2,286	2,292	-0.2	766	753	1.9	3,063
Expenses							
Personnel costs	592	564	4.9	178	171	4.1	758
Depreciation/amortisation and impairment loss	189	159	19.3	58	63	-7.7	246
Other operating expenses	597	542	10.2	185	179	3.3	764
Total expenses	1,378	1,265	9.0	422	414	2.0	1,768
Impairment loss on receivables	-24	-28	-12.2	-17	-5	285.6	-48
Temporary exemption (overlay approach)	-30			-7			
New OP bonuses accrued to owner-customers	-171	-164	4.6	-58	-55	4.8	-220

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

Key balance sheet figures, € million	30 Sept. 2018	31 Dec. 2017	Change, %
Receivables from customers	86,020	82,193	4.7
Investment assets	22,777	23,324	-2.3
Liabilities to customers	67,000	65,549	2.2
Insurance liabilities	9,632	9,950	-3.2
Debt securities issued to the public	29,378	26,841	9.5
Equity	11,617	11,084	4.8
Total assets	140,253	137,205	2.2

January–September

OP Financial Group's earnings before tax amounted to EUR 687 million (838). The figure decreased by EUR 151 million over the previous year. Income from customer business, or net interest income, net insurance income and net commissions and fees, rose year on year. This earnings decrease was explained by lower net investment income and other operating income as well as higher expenses.

Net interest income increased by 5.7% to EUR 867 million. Banking net interest income increased by EUR 27 million and that by the Other Operations segment by EUR 24 million. Net insurance income amounted to EUR 432 million (341). A year ago, the reduction in the discount rate for insurance liability reduced net insurance income by EUR 102 million. Comparable net insurance income changed by –2%. An increase in corporate customer insurance premium revenue supported an increase in net insurance income. Net commissions and fees were EUR 655 million, or EUR 18 million higher than the year before. Refunds based on unit-linked management fees increased by EUR 7 million and payment transfer net commissions and fees by EUR 9 million.

Net investment income decreased by 32.0% to EUR 284 million. A temporary exemption overlay approach is applied to certain equity instruments of insurance companies. Changes in the fair value of investments within the scope of the overlay approach are presented under fair value reserve under equity. Total net investment income decreased by 39.1% to EUR 255 million. The combined return on investments at fair value of OP Financial Group's insurance institutions was 1.2% (3.1).

Net income recognised at fair value through other comprehensive income (net income from available-for-sale financial assets a year ago) decreased by EUR 150 million over the previous year. As a result of the adoption of IFRS 9 at the beginning of 2018, investments recognised at fair value through other comprehensive income and capital gains decreased. However, investments recognised at fair value in the income statement increased and their earnings effect was EUR 184 million (202). In the reporting period, capital gains recognised totalled EUR 24 million (175). A year ago, the capital gains were mainly used to supplement insurance liability. The net change in the short-term life insurance supplementary interest rate provision improved earnings by EUR 33 million (0). Net trading income resulting from positive value changes in Credit Valuation Adjustment (CVA) in derivatives credit and counterparty risk owing to market changes was EUR 8 million lower than a year ago.

Other operating income fell by EUR 28 million year on year to EUR 46 million. The third quarter saw the completion of the sale of all share capital of the Baltic subsidiary Seesam Insurance AS to Vienna Insurance Group (VIG). OP Financial Group recognised a total of EUR 16 million in non-recurring capital gain on the sale. Non-recurring VAT refunds for prior years, interest included, totalled EUR 22 million a year ago. In addition, non-recurring income of EUR 25 million from the sale of the portfolio of agreements and POS terminals of acquiring and POS services was recognised a year ago in other operating income and extra amortisation and other expenses recognised related to the sale totalled EUR 6 million.

Total expenses increased by 9.0% year on year to EUR 1,378 million as a result of higher personnel costs, other operating expenses and depreciation/amortisation and impairment losses. OP Financial Group's investments in service development increased development costs by 2.3% to EUR 149 million. New businesses accounted for EUR 20 million of the increase in total expenses. Planned depreciation/amortisation increased by 9.8% to EUR 161 million. This increase resulted from higher development expenditure recognised for prior years. Impairment write-downs increased by EUR 16 million year on year. The expenses were also increased by charges of financial authorities by EUR 28 million and a 4.9% increase in personnel costs to EUR 592 million.

Impairment losses on loans and receivables recognised under various income statement items that reduced earnings amounted to EUR 44 million (50), of which EUR 24 million (28) concerned loans and receivables. Considering that impairment losses on receivables are calculated in 2018 based on IFRS 9, they are not comparable with those calculated under the previous IAS 39. The ratio of non-performing receivables in loans and receivables to the loan and guarantee portfolio was low, at 1.1% (1.2).

OP Financial Group's current tax amounted to EUR 135 million (164). The effective tax rate was 19.6% (19.6).

OP Financial Group's equity amounted to EUR 11.6 billion (11.1). The reported earnings and Profit Shares were behind the increase. Equity included EUR 3.0 billion (2.9) in Profit Shares, terminated Profit Shares accounting for EUR 0.2 billion (0.3). The return target for Profit Shares for 2018 is 3.25%. Interest payable on Profit Shares accrued during the reporting period is estimated to total EUR 70 million. The amount of interest paid for 2017 totalled EUR 90 million in June 2018.

July–September

Earnings before tax were EUR 262 million as against EUR 279 million reported a year ago. The earnings performance was supported by improved net interest income, net insurance income and net commissions and fees. Total income of EUR 766 million increased by 1.9% year on year. The earnings were reduced by lower net investment income and higher impairment loss on receivables.

Year on year, net interest income rose by 3.5% to EUR 297 million. Net insurance income increased by 93.7% to EUR 154 million. A year ago, the reduction in the discount rate of insurance liability reduced net insurance income by EUR 76 million. Net commissions and fees were EUR 212 million, or EUR 9 million higher than the year before. Net investment income, including the overlay approach, fell by 58.3% to EUR 71 million as capital gains declined.

A non-recurring capital gain totalling EUR 16 million was recognised on the sale of Seesam Insurance AS in other operating income.

Total expenses increased by 2.0% year on year to EUR 422 million. Personnel costs increased by 4.1% to EUR 178 million and other operating expenses by 3.3% to EUR 185 million. However, depreciation/amortisation and impairment losses decreased by 7.7% year on year to EUR 58 million. Impairment loss on receivables, EUR 17 million, increased by EUR 13 million year on year.

Q1–3 highlights

Transfer of the personnel's statutory earnings-related pension insurance portfolio to Ilmarinen Mutual Pension Insurance Company

The Representative Assembly of OP Bank Group Pension Fund, which manages statutory earnings-related pension for OP Financial Group, decided on 31 July 2018 to transfer the management of its pension liability worth around EUR 1.1 billion to Ilmarinen Mutual Pension Insurance Company. This decision was preceded by competitive bidding in which the Board of Trustees of OP Bank Group Pension Fund invited bids from the largest pension insurance companies. The insurance portfolio concerned accounts for some 90% of OP Bank Group Pension Fund's total pension liability. This transfer will still require regulatory approval. The transfer is expected to take place by the end of 2018.

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

If implemented, the transfer would improve OP Financial Group's CET1 ratio by an estimated 0.4 percentage points. The transfer of the pension portfolio will result in a non-recurring item shown in OP Financial Group's financial statements. According to the present-day estimate, the non-recurring item would improve OP Financial Group's 2018 earnings by EUR 240 million. This estimate has not changed from the June-end estimate. The final size of the item shown in the income statement will be essentially affected by the discount rate used for pension liabilities, and the final amount to be recognised may significantly differ from the amount mentioned above. A 0.1 percentage point increase in the discount rate would reduce the to-be-recognised defined benefit pension net liability by an estimated EUR 20–30 million.

OP Financial Group becomes member of Finance Finland

OP Financial Group will become member of Finance Finland as of 1 January 2019 and leave membership of Service Sector Employers Palta. Through this decision on the membership transfer, OP wants to strengthen the development, cooperation and competitiveness of the Finnish financial sector.

Executive Board's areas of responsibility

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

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

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

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

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

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

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

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

In addition to the Executive Board members, those reporting directly to the President and Group Executive Chair include Leena Kallasvuo, Chief Audit Executive; Tuuli Kousa, Chief Communications Officer and Executive Vice President, Communications and Public Affairs; Hannakaisa Länsisalmi, Executive Vice President, Human Resources; Pekka Puustinen, Executive Vice President, Strategy and Renewal; and Erik Palmén, Chief Risk Officer. Markku Pehkonen will take up his duties as new CRO on 1 December 2018.

OP Financial Group's strategic targets and focus areas

OP Financial Group's strategic targets	30 Sept. 2018	31 Dec. 2017	Target 2019
Customer experience, NPS (-100–+100)			
Brand	23	22	25
Service encounter	60	58	70
CET1 ratio, %	20.0	20.1	22
Return on economic capital, % (12-month rolling)	18.7	20.4	22
Expenses of present-day business (12-month rolling), € million	1 760	1 661	Expenses for 2020 at 2015 level (1,500)
Owner-customers, million	1.9	1.8	2.1 (2019)

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

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

To implement the strategy and vision, OP Financial Group has decided to initiate a major change in practices. New agile practices highlight task significance and enhance job satisfaction, which, in turn, improves customer experience and workplace efficiency, creating potential for cost savings.

The agile practices will first be phased in at OP Financial Group's central cooperative. The implementation of this new operating model will begin with reorganisation on which OP Financial Group published a release on 25 September 2018. The related Information and Consultation of Employees process began in the central cooperative consolidated on 1 October 2018. Alongside the new organisation, OP aims to reduce the annual costs incurred by the central cooperative consolidated by EUR 100 million.

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

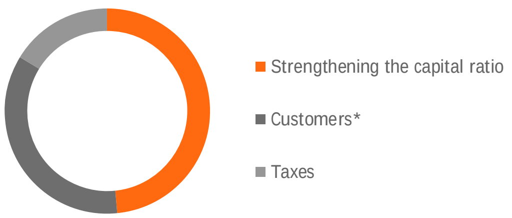
Based on its mission, OP Financial Group creates sustainable prosperity, security and wellbeing for its owner-customers and in its operating region by means of its strong capital base and efficiency. OP's operations are based on cooperative values, a strong capital base, capable risk management and customer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

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

Allocation of earnings

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

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



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

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

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

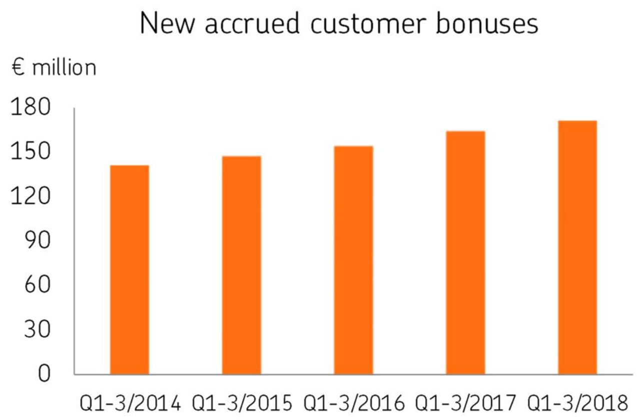
OP Financial Group is one the largest tax payers in Finland measured by tax on profits. By paying taxes in Finland, OP is contributing to prosperity in the whole of Finland.

Customer relationships and customer benefits

In January–September, the number of OP Financial Group's owner-customers increased by 55,000 to almost 1.9 million. In January–September, the number of joint banking and non-life insurance customers increased by 18,000 to over 1.8 million.

Contributions made by OP cooperative banks' owner-customers to the banks' Profit Shares and cooperative shares totalled EUR 3.2 billion (3.1) on 30 September 2018.

OP cooperative banks' owner-customers earn OP bonuses through banking, non-life insurance and wealth management transactions. The combined amount of new bonuses earned by owner-customers between January–September for using OP as their main bank and insurer was worth EUR 171 million (164). A total of EUR 83 million (77) of bonuses were used to pay for banking and wealth management services and EUR 87 million (85) to pay non-life insurance premiums. OP bonuses were used to pay 1,787,000 insurance bills (1,759,000), with 266,000 (242,000) of them paid in full using bonuses.



In the reporting period, owner-customers benefitted EUR 42 million (39) from the reduced price of the daily banking package. Owner-customers were provided with EUR 50 million (54) in non-life insurance loyalty discounts during the reporting period. In addition, owner-customers bought, sold and switched the majority of the mutual funds without separate charges. The value of the benefit was EUR 4 million (4) during the reporting period.

The abovementioned OP bonuses and customer benefits totalled EUR 267 million (261), accounting for 28.0% of OP Financial Group's earnings before tax and granted benefits (23.7).

Interest payable on Profit Shares accrued during the reporting period is estimated to total EUR 70 million (67). The return target for Profit Shares for 2018 is an interest rate of 3.25% (3.25).

Corporate social responsibility

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

In February, OP and LeaseGreen began partnership to help housing companies carry out energy-saving improvements. The first related project started in Helsinki in September. Through such energy-saving improvements, OP enables customers to reduce their carbon footprint.

To promote diversity, OP Financial Group's objective is that the proportion of both genders in defined managerial positions is at least 40%. Women accounted for 24% at the end of September. At the end of 2017, the share was 21%.

OP is the main partner of the national Financial Literacy competition for ninth-graders. The first stage of the reformed competition was held in comprehensive schools across Finland in early April, and OP hosted the national final in Vallila in May. Promoting the financial literacy among young people forms an important part of OP Financial Group's corporate social responsibility.

OP will continue maintaining Hiiop100.fi, an exchange service for volunteer work, as well as volunteering as part of its CSR Programme in 2018 too.

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

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

Multichannel services

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

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

In September, OP-mobile was the main channel for customers' daily banking, with visits totalling over 19 million (16) during one month. The number of visits to online services amounted to around 9 million (9). The number of visits to the Pivo mobile application totalled over 4 million (2) in September. The number of visits to OP Business mobile totalled 500,000 (200,000) in September.

On Pivo, the person-to-person payment and the Siirto payment enable customers to send money to other people by using their mobile phone number. By now some 470,000 OP customers (280,000) have registered for Siirto payments. The Pivo payment button and the OP Siirto payment button enable customers to pay their web purchases without a key code list or their card's PIN.

Despite the expansion of online and mobile services, OP Financial Group still has Finland's most extensive branch network with 371 branches (407) across the country. The Group's own branch network is further supported by a comprehensive agency and partnership network, which is particularly important in terms of the sale of non-life insurance policies. OP Financial Group also has extensive presence in the most common social media channels where it has some 410,000 followers (370,000). In addition to the Group's national social media accounts, many member cooperative banks have their own Facebook pages where they share publications destined for local customers.

Health and wellbeing

Pohjola Health's fifth hospital was opened in Turku in May, marking the completion of the hospital network. Five Pohjola Health hospitals, located in Helsinki, Tampere, Oulu, Kuopio and Turku, provide basic healthcare and special healthcare services, examinations, surgery and rehabilitation on an extensive basis.

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

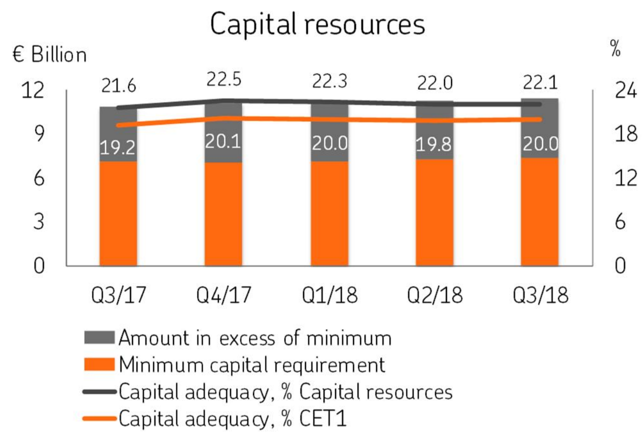
Solvency

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

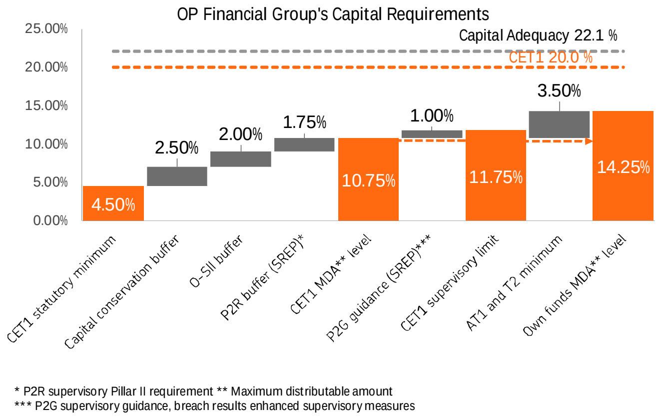
OP Financial Group's capital base, calculated according to the Act on the Supervision of Financial and Insurance Conglomerates (FiCo), exceeded the minimum amount specified in the Act by EUR 3.8 billion (3.6). Banking capital requirement remained unchanged at 14.3%, calculated on risk-weighted assets. The ratio of the Group capital base to the minimum capital requirement was 149% (148). The ratio was 164% without the risk weight floors set by the ECB. As a result of the buffer requirements for banking and solvency requirement for insurance companies, the minimum FiCo solvency of 100% reflects the level within which the group can operate without regulatory obligations resulting from buffers below the required level.

Capital adequacy for credit institutions

OP Financial Group's CET1 ratio was 20.0% (20.1). The risk weight floors set by the ECB decreased the CET1 ratio by 2.0 percentage points. Growth in total risk exceeded growth in CET1 capital. The effect of the calculated adjustments of defined benefit pension plans (IAS 19) on the Group's CET1 ratio was about –0.8 percentage points, or slightly lower than at the end of 2017.



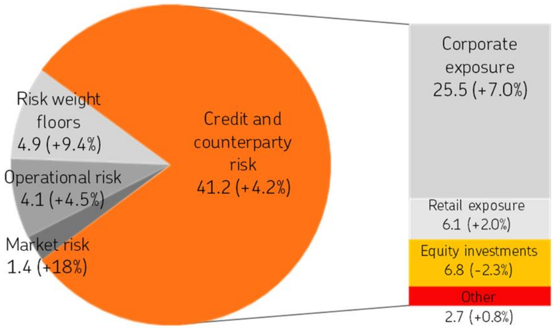
As a credit institution, OP Financial Group's capital adequacy is on a solid basis compared to the statutory requirements and those set by the authorities. The statutory minimum for the capital adequacy ratio is 8% and for the CET1 ratio 4.5%. The requirement for the capital conservation buffer of 2.5%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



The Group's CET1 capital was EUR 10.3 billion (9.9). The CET1 capital was increased by Banking earnings and Profit Share issues. The amount of Profit Shares in CET1 capital was EUR 3.0 billion (2.8).

The risk exposure amount (REA) totalled EUR 51.7 billion (49.2), or 5.0% higher than on 31 December 2017. The minimum risk weight for retail exposures set by the ECB was EUR 4.9 billion, without which total risk was EUR 46.8 billion and the increase 4.6% from the turn of the year. The average risk weights of corporate exposures rose slightly while those of retail exposures remained at the level reported on 31 December 2017.

Risk Exposure Amount 30 September 2018
Total 51.7 € billion
(change from year end 5.0%)



The central cooperative consolidated 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 6.5 billion in risk-weighted assets of the Group's internal insurance holdings with a risk weight of around 280%.

The Financial Supervisory Authority makes a macroprudential policy decision on a quarterly basis. In June 2018, the Authority decided to set a 2% systemic risk buffer on OP Financial Group, or a capital buffer requirement that will enter into force on 1 July 2019. At the same time, it also confirmed OP Financial Group's O-SII buffer requirement at 2%. Considering that these capital buffer requirements are parallel buffers and the larger one is applied, the decision will have no effect on OP Financial Group's total capital adequacy requirement. In September 2018, the Financial Supervisory Authority reiterated its decision not to impose a countercyclical capital buffer requirement on banks. In housing loans, a 15% minimum risk weight became effective from the beginning of 2018 for at least two years. According to the Authority, this risk weight floor is aimed at preparing for a higher systemic risk caused by household indebtedness. The risk weight floor will have no effect on OP Financial Group's total risk exposure in view of the risk weight floors for retail exposures set by the ECB. Without the ECB's risk weight floor, the risk weight floor of 15% for home loans set by the Financial Supervisory Authority would reduce the CET1 ratio by an estimated 1.3 percentage points.

The upcoming EU regulation includes a requirement measuring the ratio of the degree of indebtedness, the leverage ratio. The leverage ratio of OP Financial Group's Banking is estimated at about 7.9% (7.9) based on the existing interpretations, calculated using the September-end figures. According to the draft rules, the minimum ratio is 3%.

Non-life and Life Insurance

The capital base of Non-life Insurance and Life Insurance increased as a result of earnings. A decrease in the solvency requirement also improved the solvency position.

	Non-life Insurance		Life Insurance	
	30 Sept. 2018	31 Dec. 2017	30 Sept. 2018	31 Dec. 2017
Capital base, € million*	1,066	902	1,405	1,317
Solvency capital requirement (SCR), € million*	630	666	619	674
Solvency ratio, %*	169	135	227	195
Solvency ratio, % (excluding transitional provision)	169	135	181	151

*including transitional provisions

ECB's supervision

OP Financial Group is supervised by the European Central Bank (ECB). On 2 February 2017, OP Financial Group received the ECB's decision to set risk weight floors for OP Financial Group's retail exposures. The relevant risk weight floors for retail exposures set by the ECB are 15.4% for mortgage-backed exposures and 32.7% for other private customer exposures. The 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, lay behind the decision. The shortcomings have been fixed and the ECB is assessing the sufficiency of related measures.

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

Liabilities under the Resolution Act

Under regulation applied to crisis resolution of credit institutions and investment firms, the resolution authority is authorised to intervene in the terms and conditions of investment products issued by a bank in a way that affects an investor's position. The EU's Single Resolution Board (SRB) based in Brussels is OP Financial Group's resolution authority. The SRB has set OP Financial Group's Minimum Requirement for own funds and Eligible Liabilities (MREL) at EUR 12.2 billion, accounting for 27.6% of the total risk exposure amount at the end of 2016. OP Financial Group aims to meet the requirements under the MREL with its capital base and other subordinated debt. OP Financial Group's MREL ratio stood at 35% at the turn of 2017. In the same connection, the SRB confirmed a resolution strategy for OP Financial Group whereby the resolution measures would apply to OP Corporate Bank acting as a Single Point of Entry.

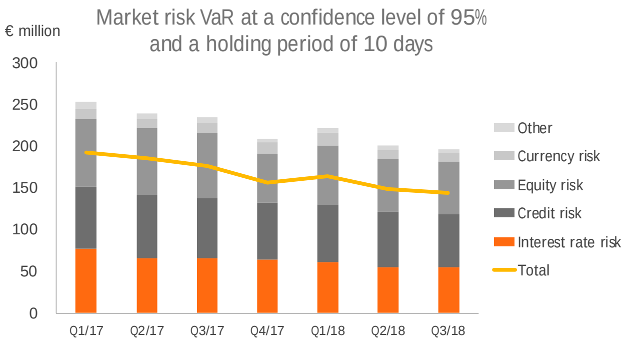
Risk exposure

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

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

OP Financial Group's funding position and liquidity is good. The availability of funding has remained good. During the reporting period, OP Financial Group issued long-term bonds worth EUR 3.1 billion (4.0). The loan-to-deposit ratio remained stable during the reporting period.

OP Financial Group's market risk exposure was stable during the reporting period. The Group's VaR, a measure of market risk, was EUR 144 million (156) on 30 September 2018.
It includes the balance sheet total of the insurance institutions, trading, liquidity buffer and the Group Treasury's interest rate risk exposure.



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

Risks associated with defined benefit pension plans relate to interest rate and market risk, future increases in pension benefits and longer life expectancy. A change in the discount rate for pension liabilities has a substantial effect on the amount of pension liabilities. The decrease in net liabilities related to defined benefit pension plans recognised in other comprehensive income during the reporting period improved comprehensive income before tax by EUR 126 million (28). Net liability was reduced by good earnings by OP Bank Group Pension Fund and OP Bank Group Pension Foundation and the increase in the discount rate.

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

OP Financial Group has provided its reply 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, major risks are associated with credit risk arising from customer business, and market risk.

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

Doubtful receivables increased to EUR 3.1 billion (2.9) while performing forborne exposures rose by EUR 205 million. Doubtful receivables refer to receivables that are more than 90 days past due, other receivables classified as risky and forborne receivables due to the customer's financial difficulties. Forbearance measures consist of concessions agreed at the customers' initiative to contractual payment terms towards the customer to make it easier for them to manage through temporary payment difficulties. OP cooperative banks make every effort to find solutions to overcome customers' temporary financial difficulties. Loan modifications due to reasons other than the customer's financial difficulties are not classified as doubtful receivables. Performing forborne exposures (forborne exposures reclassified as performing ones during their probation period or forbearance measures made into a not non-performing agreement) accounted for 67.3% (64.3) of doubtful receivables. Non-performing receivables remained low, accounting for 1.1% (1.2) of the loan and guarantee portfolio. Impairment losses amounted to EUR 24 million (28).

Breakdown of loan and guarantee portfolio

	30 Sept. 2018	31 Dec. 2017
Loan and guarantee portfolio, EUR billion	88.7	84.8
Private customer exposures, EUR billion	51.3	50.0
of loan and guarantee portfolio, %	57.9	58.9
in the two highest borrower grades, %	84.3	83.5
in satisfactory borrower grades, %	12.6	12.9
in the two lowest borrower grades, %	3.1	3.6
Corporate and housing company exposures, EUR billion	33.7	32.6
of loan and guarantee portfolio, %	38	38.5
in the highest borrower grades (IG), %	54.3	55.4
in other borrower grades (excluding default), %	44.6	43.4
classified as default, %	1.1	1.2
classified as default, EUR million	518.6	554.3
Other exposures, EUR billion	3.7	2.2

No single customer's exposure exceeded 10% of the capital base after allowances and other recognition of credit risk mitigation. The capital base covering customer exposure amounted to EUR 11.5 billion (11.0).

The most significant sectors in corporate and housing company exposures	30 Sept. 2018	31 Dec. 2017**
Renting and operating of residential real estate*, %	17.6	17.4
Renting and operating other real property, %	10.2	9.8
Services, %	9.7	9.0
Energy, %	9.2	9.8
Other sectors, %	53.4	54.0
Total, %	100	100

* A total of 94.4% of exposures within Renting and Operating of Residential Real Estate were those by housing companies and 11.9% were those guaranteed by general government.
**The figures a year ago have been adjusted to be in accordance with the current monitoring.

Banking's interest rate risk measured as the effect of a one-percentage point decrease on 12-month net interest income was EUR –84 million at the end of September.

Deposits within the scope of deposit guarantee (deposit insurance) and managed by OP Financial Group totalled EUR 35.3 billion (34.3) at the end of September. The Deposit Guarantee Fund compensates a maximum of EUR 100,000 for each OP Financial Group customer.

Non-life Insurance

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

A one-year increase in life expectancy would increase insurance liability for annuities by EUR 45 million. A 0.1 percentage point decrease in interest rates used in insurance liability valuation would increase insurance liabilities by EUR 23 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 48 million (52) on 30 September 2018. No major changes took place in the investment portfolio's asset class allocation. Interest rate derivatives have been used to hedge against interest rate risk associated with insurance liability. The portfolio's interest rate and credit risk remained stable. The Group has significantly increased the hedge ratio of interest rate risk associated with insurance liabilities.

Wealth Management

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

A one-year increase in life expectancy would increase insurance liability by EUR 26 million. A 0.1 percentage point decrease in interest rates used in insurance liability valuation would increase insurance liabilities by EUR 30 million.

Investment and customer behaviour risks associated with the separated life insurance portfolios transferred from Suomi Mutual have been buffered. The buffer is sufficient to cover a significant negative return on the investment assets included in the separate portfolios, after which OP Financial Group will bear the risks associated with the portfolios.

The risk exposure of investments was stable during the reporting period. The VaR, a measure of market risk, was EUR 55 million (61) on 30 September 2018. No major changes took place in the investment portfolio's asset class allocation. Interest rate derivatives have been used to hedge against interest rate risk associated with insurance liability. The portfolio's interest rate and credit risk remained stable. The Group has significantly increased the hedge ratio of interest rate risk associated with insurance liabilities.

Other Operations

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

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

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

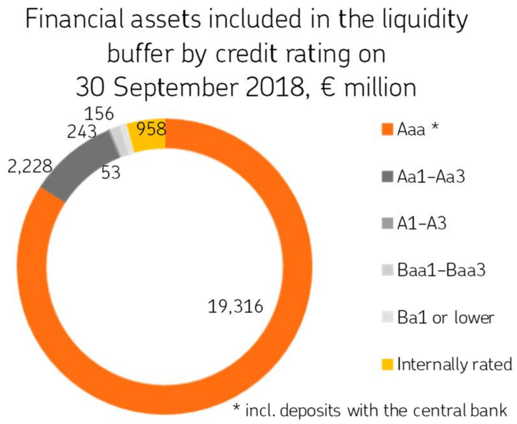
OP Financial Group monitors its liquidity and the adequacy of its liquidity buffer using, for example, the LCR (Liquidity Coverage Ratio). According to regulation, the LCR must be at least 100% from the beginning of 2018. On 30 September 2018, OP Financial Group’s LCR was 143% (123).

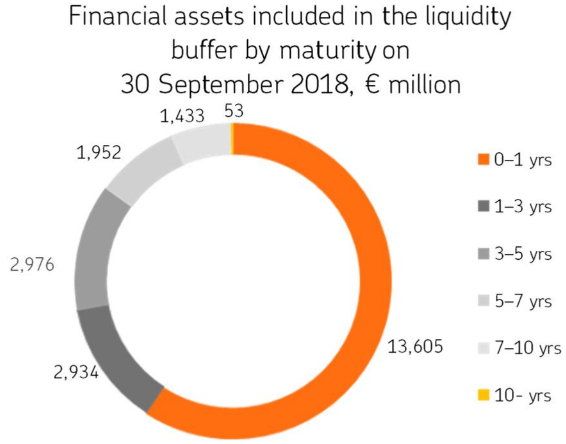
OP Financial Group monitors its long-term funding sufficiency, for example, by means of the Net Stable Funding Ratio, or NSFR. In regulation, no minimum requirement for the NSFR has been set as yet. Based on the present interpretations, OP Financial Group's NSFR was 112% (116) at the end of September.

Liquidity buffer

€ billion	30 Sept. 2018	31 Dec. 2017	Change, %
Deposits with central banks	12.6	12.8	-1.3
Notes and bonds eligible as collateral	8.7	9.1	-4.1
Total	21.3	21.9	-2.5
Receivables ineligible as collateral	1.6	1.5	10.4
Liquidity buffer at market value	23.0	23.3	-1.7
Collateral haircut	-0.7	-0.7	6.1
Liquidity buffer at collateral value	22.2	22.7	-1.9

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.





Credit ratings

30 Sept. 2018

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

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

The credit ratings did not change in the reporting period.

In July 2018, Standard & Poor's affirmed OP Corporate Bank plc's credit ratings for short-term and long-term debt and kept the outlook stable.

Financial performance by segment

At its meeting on 6 June 2018, the Supervisory Board of OP Financial Group's central cooperative decided a new division of responsibilities of the Executive Board, which will change the segment structure as of the beginning of 2019. In its interim reports and financial statements, OP Financial Group will begin financial reporting based on its new segments as of the first interim report of 2019. During the transition period, OP Financial Group will report its business segments according to the previous segment structure, with Banking, Non-life Insurance and Wealth Management as its business segments. The health and wellbeing business is included in the Non-life Insurance segment. Non-business segment operations are presented under the Other Operations segment. OP Financial Group prepares its segment reporting in compliance with its accounting policies.

Banking

- Earnings before tax increased by 2.2% to EUR 489 million.
- Total income increased by 4.7%. Net interest income increased by 3.0% year on year but net commissions and fees decreased by 5.6%. Expenses increased by 7.2% due to the stability contribution, development expenditure and higher volumes.
- The loan portfolio increased by 6.0% and the deposit portfolio by 4.1% in the year to September. The loan portfolio showed the fastest growth in corporate loans as well as housing company loans and other loans.
- Impairment losses amounted to EUR 24 million (27). Non-performing receivables accounted for 1.1% (1.2) of the loan and guarantee portfolio.
- The most significant Banking development investments involved the upgrades of payment and finance systems, for example, those concerning the development of the digital home loan service.

Banking: key figures and ratios

€ million	Q1–3/2018	Q1–3/2017	Change, %	Q1–4/2017
Net interest income	919	893	3.0	1 192
Net commissions and fees	409	434	-5.6	576
Net investment income	83	20	309.9	19
Other income	17	19	-8.0	36
Total income	1,430	1,366	4.7	1,823
Personnel costs	262	270	-3.0	354
Depreciation/amortisation and impairment loss	29	39	-26.5	51
Other operating expenses	482	413	16.9	565
Total expenses	773	722	7.2	970
Impairment loss on receivables	-24	-27	-10.4	-47
OP bonuses to owner-customers	-143	-139	3.4	-187
Earnings before tax	489	478	2.2	619
Cost/income ratio, %	54.1	52.8		53.2
€ million				
Home loans drawn down	5,729	5,226	9.6	6,954
Corporate loans drawn down	5,318	4,898	8.6	7,389
No. of brokered residential property and property transactions	9,180	10,050	-8.7	13,080
€ billion				
Loan portfolio	30 Sept. 2018	30 Sept. 2017	Change, %	31 Dec. 2017
Home loans	38.3	37.4	2.6	37.5
Corporate loans	20.7	19.3	6.9	19.7
Housing company and other loans	27.0	24.4	10.7	25.0
Total	86.0	81.1	6.0	82.2
Guarantee portfolio	2.7	2.6	4.7	2.6
Deposits				
Current and payment transfer	43.3	41.1	5.5	40.1
Investment deposits	18.3	18.2	0.8	17.9
Total	61.6	59.2	4.1	58.0

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

The loan portfolio increased in the year to September by 6.0% to EUR 86.0 billion. The corporate loan portfolio increased by 6.9% and the home loan portfolio by 2.6%. OP Corporate Bank accounted for 25% the loan portfolio.

The deposit portfolio increased in the year to September by 4.1% to EUR 61.6 billion. Investment deposits increased slightly year on year. OP Corporate Bank accounted for 20% the deposit portfolio.

During the reporting period, OP introduced a digital home loan service which enables customers to apply for a home loan through op.fi and receive a home loan decision immediately. The service expanded further during the third quarter, enabling customers of 44 OP cooperative banks to receive a home loan decision online on a real time basis.

OP was the first one in Finland to pilot face recognition payment. Face recognition payment is based on a reliable payment system and face recognition technology. The internal pilot collects experiences of the use of the service implemented together with Visa.

The volume of homes and real property sold and bought through the OP-Kiinteistökeskus real estate agents decreased by 8.7% over the previous year. Related commission income was at the level reported a year ago.

Home loan borrowers have enjoyed historic low interest rates for an exceptionally long time, and customers have demonstrated greater interest in protecting their home loans and housing company loans against higher interest rates. At the end of the reporting period, 17.2% (11.7) of private customer home loans were covered by the interest rate protection.

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

Earnings

Earnings before tax were EUR 489 million or 2.2% higher than a year ago. Total income rose by 4.7% and total expenses by 7.2%. As a result of the rise in expenses, the cost/income ratio weakened to 54.1% (52.8). Impairment loss on receivables amounted to EUR 24 million (27). Non-performing receivables accounted for 1.1% (1.2) of the loan and guarantee portfolio.

Owing to an increase in the loan portfolio and a decrease in funding costs, net interest income grew by 3.0% to EUR 919 million. Derivatives operations decreased OP Corporate Bank's net interest income whereas OP cooperative banks' net interest income rose.

Net commissions and fees decreased to EUR 409 million (434). The decrease in net commissions and fees was affected by the inclusion of certain client income items of derivatives operations in the segment's net investment income during the reporting period; a year ago, the income concerned was included in net commissions and fees.

Net investment income increased by a total of EUR 63 million. Net investment income was increased by EUR 16 million in capital gain. CVA valuation arising from interest rate changes and other market changes improved the income by EUR 13 million (21).

Total expenses increased by 7.2% to EUR 773 million. Personnel costs fell by EUR 8 million to EUR 262 million. Other operating expenses increased by 16.9% to EUR 482 million. ICT costs increased by EUR 33 million. Higher ICT costs were explained by investments in development and by growth in volumes. Higher other operating expenses were also explained by stability contributions of EUR 28 million to the Financial Stability Board. OP cooperative banks and OP Corporate Bank's Banking reported increased expenses.

Non-life Insurance

- Earnings before tax decreased by 4.5% to EUR 131 million (137).
- Insurance premium revenue increased by 3.1%.
- The operating combined ratio was 90.5% (97.0) and operating expense ratio 20.4% (19.7). The combined ratio was 92.0% (98.5).
- Net investment income, taking account of the temporary exemption, totalled EUR 29 million (128). Net return on investments at fair value totalled EUR 48 million (119).
- Development investments focused on development of electronic services and the basic system upgrade initiated.

Non-life Insurance: key figures and ratios

€ million	Q1–3/2018	Q1–3/2017	Change, %	Q1–4/2017
Insurance premium revenue	1,107	1,074	3.1	1,432
Claims incurred	683	749	-8.9	970
Other expenses	2	3	-20.4	3
Net insurance income	422	322	31.0	459
Net investment income	34	128	-73.0	183
Other net income	-3	-23	87.8	-33
Total income	454	427	6.3	609
Personnel costs	97	86	12.6	116
Depreciation/amortisation and impairment loss	41	34	21.0	50
Other operating expenses	178	169	5.8	231
Total expenses	316	288	9.6	397
OP bonuses to owner-customers	-1	-1	2.6	-2
Temporary exemption (overlay approach)	-5			
Earnings before tax	131	137	-4.5	210
Combined ratio, %	92.0	98.5		97.6
Operating combined ratio, %	90.5	97.0		96.1
Operating loss ratio, %	70.1	77.3		75.8
Operating expense ratio, %	20.4	19.7		20.3
Operating risk ratio, %	63.6	71.1		69.3
Operating cost ratio, %	26.9	25.9		26.9
Solvency ratio, %*	169	163		135
Large claims incurred retained for own account	79	52		78
Changes in claims for provisions of previous years (run-off result)	33	25		35

* including transitional provisions.

Insurance premium revenue from corporate customers increased, backed by the general economic development. Premium revenue from private customers began to rise but the intensified price competition continued to curb the trend.

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

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

Earnings

Earnings before tax amounted to EUR 131 million (137). This earnings decline was particularly explained by net investment income which, including the temporary exemption, was EUR 98 million lower than a year ago. Net capital gains on investments totalled EUR –6 million (76). Net insurance income increased by 31.0% to EUR 422 million. The reduction in the discount rate for insurance liability increased claims incurred by EUR 102 million a year ago. The sale of the Baltic non-life insurance business increased other net income by EUR 16 million.

The operating combined ratio was 90.5% (97.0). The operating ratios a year ago include the effects of changes in the discount rate of insurance liability but exclude amortisation on intangible assets arising from the corporate acquisitions. The reduction in the discount rate weakened the operating combined ratio by 9.5 percentage points.

Insurance premium revenue

€ million	Q1–3/2018	Q1–3/2017	Change, %
Private Customers	598	593	0.9
Corporate Customers	465	435	6.9
Baltics	44	46	-4.6
Total	1,107	1,074	3.1

The effect of the divestment of the Baltic non-life insurance business will show in insurance premium revenue during the rest of the year. Insurance premium revenue, excluding the Baltic figures, rose by 3.5% during the reporting period.

Claims incurred, excluding the reduction in the discount rate of insurance liability, increased by 5.5%. Claims under property and business liability insurance incurred arising from new large claims were higher than a year ago. The reported number of large claims under property and business liability insurance (in excess of EUR 0.3 million) amounted to 74 (66) in January–September, with their claims incurred retained for own account totalling EUR 79 million (52). The change in provisions for unpaid claims under statutory pension improved earnings. Between January and September, these provisions decreased year on year by EUR 2 million (3).

Changes in claims for previous years, excluding the effect of the discount rate change, improved the balance on technical account by EUR 33 million (25). The operating loss ratio was 70.1% (77.3). The operating risk ratio excluding indirect loss adjustment expenses was 63.6% (71.1).

Expenses grew by 9.6%, being EUR 28 million higher than a year ago, due to higher ICT costs and depreciation/amortisation and the expansion of the health and wellbeing business. The operating expense ratio was 20.4% (19.7). The operating cost ratio (including indirect loss adjustment expenses) was 26.9% (25.9).

Operating balance on technical account and combined ratio (CR)

	Q1–3/2018		Q1–3/2017	
	Balance, € million	CR, %	Balance, € million	CR, %
Private Customers	86	85.6	77	86.9
Corporate Customers	21	95.5	-48	111.1
Baltics	-2	104.8	3	92.6
Total	105	90.5	32	97.0

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

Investment

Net return on Non-life Insurance investments at fair value totalled EUR 48 million (119). Net return on investments at fair value is calculated by deducting the value change in market-consistent insurance liability from income from total investment assets.

Investment portfolio by asset class

%	30 Sept. 2018	31 Dec. 2017
Bonds and bond funds	66.8	68.0
Alternative investments	4.7	4.7
Equities	7.9	8.5
Private equity	1.9	1.9
Real property	8.7	8.3
Money markets	10.1	8.5
Total	100	100

Non-life Insurance's investment portfolio totalled EUR 3,844 million (3,903) on 30 September 2018. Investments within the investment-grade category accounted for 95% (95), and 64% (66) of the investments were rated at least A–. On 30 September 2018, the fixed-income portfolio's modified duration was 4.2 (5.1).

The running yield for direct bond investments averaged 1.5% (1.7) on 30 September 2018. The calculation of the ratio was specified in 2018 and the comparative was adjusted retrospectively.

Wealth Management

- Earnings before tax decreased by 28.3% to EUR 136 million.
- Net commissions and fees decreased by 4.3% to EUR 247 million due, for example, to executed price reductions.
- Net investment income, taking account of the temporary exemption, totalled EUR 67 million (99). Net return on investments at fair value totalled EUR 65 million (99).
- The gross amount of assets under management increased in the year to September by 1.7% to EUR 77.8 billion.
- Development investments mainly focused on finishing the adoption of regulatory projects and the development of electronic services.

Wealth Management: key figures and ratios

€ million	Q1–3/2018	Q1–3/2017	Change, %	Q1–4/2017
Net commissions and fees				
Mutual funds, asset management and securities*	164	173	-5.4	276
Life Insurance*	137	133	2.7	174
Expenses*	53	48	10.9	64
Total net commissions and fees	247	258	-4.3	385
Life Insurance's net risk results	21	18	15.4	27
Net investment income from Life Insurance	85	99	-13.9	85
Other income	6	8	-27.9	10
Total income	359	383	-6.3	507
Personnel costs	58	57	3.3	75
Depreciation/amortisation and impairment loss	22	20	10.2	28
Other operating expenses	102	95	7.4	130
Total expenses	182	172	6.2	233
OP bonuses to owner-customers	-22	-21	7.6	-28
Temporary exemption (overlay approach)	-18			
Earnings before tax	136	190	-28.3	247
€ billion	30 Sept. 2018	30 Sept. 2017	Change, %	31 Dec. 2017
Assets under management (gross)				
Mutual funds	24.3	24.0	1.1	24.6
Institutional clients	23.4	23.8	-1.7	24.2
Private Banking	19.6	18.8	4.6	19.1
Unit-linked insurance assets	10.5	9.9	5.6	10.2
Total assets under management (gross)	77.8	76.5	1.7	78.0
€ million	Q1–3/2018	Q1–3/2017	Change, %	Q1–4/2017
Net inflows				
Investor and saver customers	173	489	-64.6	711
Private Banking clients	150	398	-62.2	563
Institutional clients	-182	344	-152.9	623
Total net inflows	142	1,231	-88.5	1,897

*Eliminations of the segment's internal items have been adjusted for Q1–3/2017.

Capital market sentiment weakened as investors were anxious about tighter trade relations, import duties and higher interest rates. The negative sentiment reduced demand for Wealth Management products and net assets inflow decreased by 88.5% to EUR 142 million over the previous year. The gross amount of assets under management increased in the year to September by 1.7% to EUR 77.8 billion. Assets under management included about EUR 13 billion (13) in assets of the companies belonging to OP Financial Group.

The pricing reform of electronic equity trading introduced at the end of June met with a favourable reception. The number of trading clients increased by almost 10% to 68,000 clients in the year to September.

The number of OP Mutual Fund unitholders increased by about 26,000 in gross terms to 773,000 during the reporting period. The Morningstar rating for OP Mutual Funds was 3.0 (2.9).

The aggregate number of investor and saver customers grew by around 12,800 in the reporting period, totalling roughly 796,000 on 30 September 2018.

During the reporting period, Wealth Management development investments focused on finalising the implementation of regulatory projects and developing electronic sales and transactions. Electronic agreements already accounted for 56% (50) of new Wealth Management agreements. A total of 79% (79) of mutual fund orders were made electronically.

Earnings

Earnings before tax decreased by 28.3% to EUR 136 million year on year.

Net commissions and fees decreased by 4.3% year on year, amounting to EUR 247 million (258). Net commissions and fees accounted for 0.48% of the gross amount of the assets under management (0.47).

Net return on Life Insurance investments at fair value totalled EUR 65 million (99). Net return on investments at fair value is calculated by deducting the value change in market-consistent insurance liability from income from total investment assets. These investments exclude the so-called separated balance sheets that were transferred from Suomi Mutual.

Expenses increased by 6.2% year on year, amounting to EUR 182 million. This increase mainly resulted from higher expenses associated with business development. Expenses accounted for 0.30% (0.30) of the gross amount of the assets under management.

Interest rate risk associated with insurance liability has been hedged through supplementary interest rate provisions and interest rate derivatives. The net change in the short-term life insurance supplementary interest rate provision improved earnings by EUR 33 million (0). Accrued supplementary interest rate provisions related to insurance liabilities (excluding the separated balance sheets) totalled EUR 326 million (405) on 30 September 2018. Short-term supplementary interest rate provisions accounted for EUR 54 million (87) of these provisions.

Life Insurance's investment assets, excluding assets covering unit-linked insurance, interest rate derivatives hedging insurance liability and the separated balance sheets, amounted to EUR 3,654 million (3,830). Investments within the investment-grade category accounted for 95% (95) of the fixed-income portfolio. On 30 September 2018, the fixed-income portfolio's modified duration was 3.6 (4.4). The running yield for direct bond investments (excluding the separated balance sheets) averaged 1.4% (1.5) on 30 September 2018. The calculation of the ratio was specified in 2018 and the comparative was adjusted retrospectively.

Investment portfolio by asset class

%	30 Sept. 2018	31 Dec. 2017
Bonds and bond funds	68.7	69.5
Alternative investments	9.9	9.3
Equities and equity funds	6.1	6.1
Real property	7.2	6.9
Money markets	8.1	8.2
Total	100	100

Return on investments on the separated Life Insurance balance sheets

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

On 30 September 2018, investment assets in the individual life insurance portfolio in the separated balance sheet, excluding interest rate derivatives hedging insurance liability, amounted to EUR 825 million (891). Net return on investments at fair value totalled EUR 10 million (22). Net return on investments at fair value is calculated by deducting the value change in market-consistent insurance liability from income from investment assets.

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

%	30 Sept. 2018	31 Dec. 2017
Bonds and bond funds	76.2	78.5
Alternative investments	8.5	9.4
Equities and equity funds	1.9	1.0
Real property	8.2	6.6
Money markets	5.2	4.4
Total	100	100

On 30 September 2018, investment assets in the individual pension insurance portfolio in the separated balance sheet, excluding interest rate derivatives hedging insurance liability, amounted to EUR 2,370 million (2,573). Net return on investments at fair value totalled EUR 2 million (57). Net return on investments at fair value is calculated by deducting the value change in market-consistent insurance liability from income from investment assets.

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

%	30 Sept. 2018	31 Dec. 2017
Bonds and bond funds	76.0	75.8
Alternative investments	11.6	12.3
Equities and equity funds	1.9	0.7
Real property	8.0	7.4
Money markets	2.5	3.8
Total	100	100

Other Operations

Other Operations: key figures and ratios

€ million	Q1–3/2018	Q1–3/2017	Change, %	Q1–4/2017
Net interest income	-36	-60	-40.4	-75
Net commissions and fees	4	-44	-108.1	-63
Net investment income	80	175	-54.2	238
Other operating income	491	481	2.1	632
Total income	540	553	-2.3	732
Personnel costs	175	152	15.0	213
Depreciation/amortisation and impairment loss	97	65	49.1	118
Other operating expenses	337	303	11.0	446
Total expenses	609	520	17.0	777
Impairment loss on receivables	0	0		0
Earnings before tax	-69	32	315.4	-45

Earnings

Earnings before tax amounted to EUR –69 million (32). This earnings reduction is explained by lower net investment income and higher expenses. Non-recurring income of EUR 42 million was included in earnings a year ago. Total income decreased by 2.3% to EUR 540 million.

Net interest income was EUR –36 million (–60). Net investment income decreased by 54.2% to EUR 80 million. Derivatives operations increased net interest income and decreased net trading income included in net investment income. According to OP Financial Group's accounting policy, income from derivative instruments is split between net interest income and net trading income. How this income is broken down between the two income statement items may vary considerably depending on the derivative instruments used in position management at a given time. In addition, lower net investment income was explained by a reduction of EUR 8 million in dividend income and a reduction of EUR 9 million in net income from investment property.

Net commissions and fees were up by EUR 48 million year on year. OP Financial Group's internal net commissions and fees mainly affect those of the Other Operations segment.

Other operating income rose by EUR 2.1% to EUR 491 million due to higher intra-Group charges. A year ago, a total of EUR 22 million in non-recurring VAT refunds for prior years, interest included were recognised under the Other Operations segment. A year ago, OP Financial Group sold its portfolio of agreements and POS terminals of merchant acquiring and POS terminal services to Nets. A non-recurring gain of EUR 20 million on the transaction was recognised in other operating income of the Other Operations segment a year ago. For the reporting period a year ago, the Group recognised extra amortisation of EUR 3 million and other expenses of EUR 3 million related to the transaction.

The Other Operations segment's expenses were increased by personnel costs and development-related expenses. Total expenses increased by 17.0% to EUR 609 million. Personnel costs increased by 15.0% to EUR 175 million. Other operating expenses increased by 11.0% to EUR 337 million as ICT costs rose by EUR 15 million and the costs of purchased services by EUR 11 million. Depreciation/amortisation and impairment loss on PPE and intangible assets increased by 49.1% to EUR 97 million. This increase resulted from higher development expenditure recognised for prior years. Impairment write-downs were EUR 10 million higher than the year before.

In September 2018, the average margin of OP Financial Group's senior wholesale funding, TLTRO-II funding and covered bonds was 16 basis points (19). Use of the TLTRO-II funding, together with funding arriving at maturity at higher cost, lowers the cost of wholesale funding. Covered bonds are reported as part of the Banking segment.

Capital expenditure and service development

During 2018, OP will invest over EUR 400 million in developing its operations and improving customer experience. The central cooperative with its subsidiaries is responsible for OP Financial Group's service development. ICT investments make up a significant portion of the costs of developing these services.

OP Financial Group's development expenditure for January–September totalled EUR 291 million (302). These include licence fees, purchased services, other external costs related to projects and in-house work. The capitalised development expenditure totalled EUR 142 million (156).

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

Personnel and remuneration

On 30 September 2018, OP Financial Group had 11,983 employees (12,269). The number of employees averaged 12,301 (12,212). During the reporting period, the number of employees decreased because of the sale of the Baltic non-life insurance business.

During the reporting period, 260 OP Financial Group employees (272) retired, at an average age of 61.8 years (62.1).

President and Executive Chairman Reijo Karhinen retired on 31 January 2018, based on his executive contract. He served as OP Financial Group's President and Group Executive Chairman from 2007. Timo Ritakallio, LL.M., MBA and D.Sc. (Tech.), took up his duties as the new President and Group Executive Chair on 1 March 2018. Previously he was CEO of Ilmarinen Mutual Pension Insurance Company. From 1 to 28 February 2018, the Executive Board was chaired by Tony Vepsäläinen, Executive Vice President, Operations, OP Financial Group, and he acted as President and Group Executive Chairman.

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

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

The areas of responsibility of the Executive Board and senior management of OP Financial Group's central cooperative changed on 11 June 2018. The Q1–3 highlights section in this interim report provides more detailed information on these changes.

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

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

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

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

Changes in OP Financial Group's structure

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

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

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

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

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

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

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

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

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

Payment Highway Oy merged into Checkout Finland Oy. The execution of the merger was registered on 31 August 2018.

Governance of OP Cooperative

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

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

Näsi, Managing Director Olli Tarkkanen and Managing Director Ari Väänänen.

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

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

The Supervisory Board comprises 36 members.

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

Along with the presiding officers, the Supervisory Board's five committees have a key role in Supervisory Board work. The Supervisory Board Chair chairs the Supervisory Board Working Committee, Remuneration Committee and the central cooperative consolidated Executive Board's Nomination Committee. The Supervisory Board Audit Committee is chaired by Riitta Palomäki, M.Sc. (Econ.&Bus. Adm.), and the Risk Management Committee by Arto Ylimartimo, Chair of the Board of Directors.

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

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

Events after the reporting period

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

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

Outlook towards the year end

World economic growth has remained brisk but more uneven than before. The US economy has continued to grow strongly but economic growth in the euro area has slowed down. The differences in economic growth have also been reflected in financial markets. Stock prices and market interest rates in the US have risen more strongly than in Europe. Based on the ECB policy line, the main refinancing rates will remain at their present level at least through the summer of 2019.

The Finnish economy has continued to develop favourably. A plenty of new jobs have been created and consumer confidence has remained steady. Sales in the housing market have focused on new homes and, as a whole, the volume has been slightly lower than a year ago. Home prices have risen slightly on average.

The economy is expected to show favourable development in the near future but the strongest growth is for now about to be behind us. Greater international trade barriers pose the greatest risk to the economic outlook. Financial market uncertainty is expected to increase, for example, by the gradually tightening monetary policy on a global scale and Italy's deviation from commitments to the EU's fiscal policy principles.

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

OP Financial Group expects its earnings before tax for 2018 to be at about the same level as in 2017. The most significant uncertainties related to the earnings for the rest of the year are associated with the amount of the non-recurring item arising from the transfer of the portfolio of the statutory earnings-related pension insurance for OP Financial Group's personnel, with other potential effects of significant changes in the interest rate and investment environment as well as impairment losses.

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

Consolidated income statement

EUR million	Note	Q3/ 2018	Q3/ 2017	Q1–3/ 2018	Q1–3/ 2017
Net interest income	3	297	287	867	821
Net insurance income	4	154	80	432	341
Net commissions and fees	5	212	203	655	637
Net investment income	6	79	171	284	418
Other operating income		25	12	46	75
Total income		**766**	**753**	**2,286**	**2,292**
Personnel costs		178	171	592	564
Depreciation/amortisation		58	63	189	159
Other expenses		185	179	597	542
Total expenses		**422**	**414**	**1,378**	**1,265**
Impairments of receivables	7	-17	-5	-24	-28
OP bonuses to owner-customers		-58	-55	-167	-161
Temporary exemption (overlay approach)		-7		-30	
Earnings before tax		**262**	**279**	**687**	**838**
Income tax expense		44	64	135	164
Profit for the period		**218**	**215**	**552**	**674**
Attributable to:					
Owners		214	214	545	671
Non-controlling interests		4	2	8	3
Profit for the period		**218**	**215**	**552**	**674**
Statement of comprehensive income					
Profit for the period		**218**	**215**	**552**	**674**
Items that will not be reclassified to profit or loss					
Gains(/losses) arising from remeasurement of defined benefit plans		88	-33	126	28
Items that may be reclassified to profit or loss					
Change in fair value reserve					
Measurement at fair value		-21	-58	-101	-60
Cash flow hedge		-25	-4	-12	-28
Temporary exemption (overlay approach)		7		30	
Translation differences		0	0	0	0
Income tax on other comprehensive income					
Items that will not be reclassified to profit or loss					
Gains(/losses) arising from remeasurement of defined benefit plans		-18	7	-25	-6
Items that may be reclassified to profit or loss					
Measurement at fair value		4	12	20	12
Cash flow hedge		5	1	2	6
Temporary exemption (overlay approach)		-1		-6	
Total comprehensive income for the period		**257**	**139**	**586**	**626**
Attributable to:					
Owners		253	143	578	609
Non-controlling interests		4	-3	8	17
Total comprehensive income for the period		**257**	**139**	**586**	**626**

Balance sheet

EUR million	Note	30 September 2018	31 December 2017
Cash and cash equivalents		12,767	12,937
Receivables from credit institutions		335	504
Derivative contracts	10	3,286	3,412
Receivables from customers	12	86,020	82,193
Investment assets		22,777	23,324
Assets covering unit-linked contracts		10,430	10,126
Intangible assets		1,540	1,555
Property, plant and equipment (PPE)		775	798
Other assets		2,103	2,131
Tax assets		220	224
Total assets		**140,253**	**137,205**
Liabilities to credit institutions		4,239	5,157
Derivative contracts		2,795	3,026
Liabilities to customers		67,000	65,549
Insurance liabilities	13	9,632	9,950
Liabilities from unit-linked insurance and investment contracts	13	10,466	10,158
Debt securities issued to the public	14	29,378	26,841
Provisions and other liabilities		2,867	3,150
Tax liabilities		906	890
Subordinated liabilities		1,353	1,400
Total liabilities		**128,636**	**126,122**
Equity			
Share of OP Financial Group's owners			
Cooperative capital			
Cooperative shares		196	191
Profit shares		2,965	2,906
Fair value reserve	15	81	176
Other reserves		2,179	2,173
Retained earnings		6,050	5,536
Non-controlling interests		145	101
Total equity		**11,617**	**11,084**
Total liabilities and equity		**140,253**	**137,205**

Statement of changes in equity

EUR million	Attributable to owners					Non-controlling interests	Total equity
	Cooperative capital	Fair value reserve	Other reserves	Retained earnings	Total		
Balance at 1 January 2017	2,901	318	2,108	4,808	10,135	102	10,237
Total comprehensive income for the period		-84		694	609	17	626
Profit for the period				671	671	3	674
Other comprehensive income		-84		23	-62	14	-48
Profit distribution				-88	-88		-88
Change in membership, supplementary and profit shares	118				118		118
Transfer of reserves			51	-51			
Other				1	1	7	8
Balance at 30 September 2017	3,019	234	2,159	5,379	10,791	126	10,917

EUR million	Attributable to owners					Non-controlling interests	Total equity
	Cooperative capital	Fair value reserve	Other reserves	Retained earnings	Total		
Balance at 31 Dec. 2017	3,097	176	2,173	5,536	10,982	101	11,084
Effect of IFRS 9 transition at 1 Jan. 2018		-28		-30	-58		-58
Equity 1 Jan. 2018	3,097	148	2,173	5,506	10,924	101	11,025
Total comprehensive income for the period		-67		645	578	8	586
Profit for the period				545	545	8	552
Other comprehensive income		-67		100	33		33
Profit distribution				-99	-99		-99
Change in membership, supplementary and profit shares	64				64		64
Transfer of reserves			7	-7			
Other				5	5	36	41
Balance at 30 September 2018	3,161	81	2,179	6,050	11,472	145	11,617

Cash flow statement

EUR million	Q1–3/ 2018	Q1–3/ 2017
Cash flow from operating activities		
Profit for the period	552	702
Adjustments to profit for the period	57	1,270
Increase (-) or decrease (+) in operating assets	**-3,602**	**-776**
Receivables from credit institutions	25	30
Derivative contracts	-57	-26
Receivables from customers	-3,863	-2,573
Assets covering unit-linked contracts	-182	-444
Investment assets	321	1,601
Other assets	154	636
Increase (+) or decrease (-) in operating liabilities	**313**	**1,746**
Liabilities to credit institutions	-914	24
Derivative contracts	-3	10
Liabilities to customers	1,451	3,319
Insurance liabilities	11	11
Liabilities from unit-linked insurance and investments contracts	85	-898
Provisions and other liabilities	-316	-720
Income tax paid	-108	-151
Dividends received	95	95
A. Net cash from operating activities	**-2,692**	**2,886**
Cash flow from investing activities		
Acquisition of subsidiaries, net of cash acquired	0	
Disposal of subsidiaries, net of cash disposed	67	
Purchase of PPE and intangible assets	-169	-222
Proceeds from sale of PPE and intangible assets	4	4
B. Net cash used in investing activities	**-98**	**-219**
Cash flow from financing activities		
Increases in debt securities issued to the public	21,680	20,084
Decreases in debt securities issued to the public	-19,169	-21,342
Increases in cooperative and share capital	480	628
Decreases in cooperative and share capital	-416	-586
Dividends paid and interest on cooperative capital	-99	-88
C. Net cash used in financing activities	**2,475**	**-1,304**
Net increase/decrease in cash and cash equivalents (A+B+C)	**-315**	**1,363**
Cash and cash equivalents at period-start	**13,245**	**9,571**
Cash and cash equivalents at period-end	**12,930**	**10,934**
Interest received	**1,491**	**1,572**
Interest paid	**-666**	**-811**
Cash and cash equivalents		
Liquid assets	12,767	10,718
Receivables from credit institutions payable on demand	163	217
Total	**12,930**	**10,934**

Segment information

Segment capitalisation is based on OP Financial Group's capital adequacy measurement in accordance with the Act on Credit Institutions. Capital requirements according to this measurement are allocated among the operating segments. Capital has been allocated to Banking in such a way that the CET1 ratio is 21% (20%). Capital has been allocated to Non-life Insurance in such a way that the Solvency ratio (SII) is 120% and 130% in life insurance. Capital allocation has an effect on the Group's internal interest amounts paid by the segment concerned.

Q1–3 earnings 2018, EUR million	Banking	Non-life Insurance	Wealth Management	Other Operations	Eliminations	Group total
Net interest income	919	-12	2	-36	-7	867
of which internal net income before tax	-5	-9	2	12		
Net insurance income		422	21		-11	432
Net commissions and fees	409	-11	247	4	6	655
Net investment income	83	34	85	80	1	284
Other operating income	17	20	4	491	-486	46
Total income	**1,430**	**454**	**359**	**540**	**-496**	**2,286**
Personnel costs	262	97	58	175	0	592
Depreciation/amortisation and impairment losses	29	41	22	97	0	189
Other operating expenses	482	178	102	337	-502	597
Total expenses	**773**	**316**	**182**	**609**	**-502**	**1,378**
Impairments of receivables	-24	0	0	0	0	-24
OP bonuses to owner-customers	-143	-1	-22		0	-167
Temporary exemption (overlay approach)		-5	-18		-6	-30
Earnings before tax	**489**	**131**	**136**	**-69**	**0**	**687**

Q1–3 earnings 2017, EUR million	Banking	Non-life Insurance	Wealth Management	Other Operations	Eliminations	Group total
Net interest income	893	-12	1	-60	-1	821
of which internal net income before tax	-14	-9	1	23		
Net insurance income		322	18		0	341
Net commissions and fees	434	-12	258	-44	2	637
Net investment income	20	128	99	175	-4	418
Other operating income	19	1	7	481	-434	75
Total income	**1,366**	**427**	**383**	**553**	**-437**	**2,292**
Personnel costs	270	86	57	152	0	564
Depreciation/amortisation and impairment losses	39	34	20	65	0	159
Other operating expenses	413	169	95	303	-438	542
Total expenses	**722**	**288**	**172**	**520**	**-438**	**1,265**
Impairments of receivables	-27	0		0	-1	-28
OP bonuses to owner-customers	-139	-1	-21		0	-161
Earnings before tax	**478**	**137**	**190**	**32**	**0**	**838**

Balance sheet 30 September 2018, EUR million	Banking	Non-life Insurance	Wealth Management	Other Operations	Eliminations	Group total
Cash and cash equivalents	88	433	514	12,646	-914	12,767
Receivables from credit institutions	9,900	2	117	9,224	-18,908	335
Derivative contracts	558	10	81	2,969	-331	3,286
Receivables from customers	86,862	0	2	-21	-823	86,020
Investment assets	-56	3,401	6,703	18,063	-5,333	22,777
Assets covering unit-linked contracts			10,430			10,430
Intangible assets	55	648	354	486	-3	1,540
Property, plant and equipment (PPE)	383	41	25	337	-11	775
Other assets	338	800	246	880	-161	2,103
Tax assets	104	28	35	42	11	220
Total assets	**98,233**	**5,363**	**18,506**	**44,626**	**-26,474**	**140,253**
Liabilities to credit institutions	9,238			14,116	-19,114	4,239
Derivative contracts	277	14	39	2,799	-333	2,795
Liabilities to customers	62,848		3	5,895	-1,745	67,000
Insurance liabilities		3,243	6,389		0	9,632
Liabilities from unit-linked insurance and investments contracts			10,466			10,466
Debt securities issued to the public	11,385			18,157	-165	29,378
Provisions and other liabilities	1,460	380	138	1,038	-150	2,867
Tax liabilities	395	72	67	373	-1	906
Subordinated liabilities	41	135	245	1,326	-395	1,353
Total liabilities	**85,644**	**3,844**	**17,346**	**43,704**	**-21,903**	**128,636**
Equity						**11,617**

Balance sheet 31 December 2017, EUR million	Banking	Non-life Insurance	Wealth Management	Other Operations	Eliminations	Group total
Cash and cash equivalents	104	318	438	12,807	-729	12,937
Receivables from credit institutions	9,727	6	84	9,615	-18,928	504
Derivative contracts	335	10	83	3,320	-336	3,412
Receivables from customers	83,023	0	1	-19	-812	82,193
Investment assets	536	3,542	7,152	17,358	-5,264	23,324
Assets covering unit-linked contracts			10,126			10,126
Intangible assets	64	677	364	453	-3	1,555
Property, plant and equipment (PPE)	409	42	26	333	-12	798
Other assets	305	727	296	1,303	-499	2,131
Tax assets	122	18	29	43	11	224
Total assets	**94,624**	**5,341**	**18,599**	**45,213**	**-26,572**	**137,205**
Liabilities to credit institutions	9,460			14,204	-18,506	5,157
Derivative contracts	223	15	31	3,097	-339	3,026
Liabilities to customers	59,228		0	7,839	-1,518	65,549
Insurance liabilities		3,143	6,807		0	9,950
Liabilities from unit-linked insurance and investment contracts			10,158			10,158
Debt securities issued to the public	11,974			15,696	-829	26,841
Provisions and other liabilities	1,568	548	275	1,248	-489	3,150
Tax liabilities	376	76	69	369	0	890
Supplementary cooperative shares	19				-19	0
Subordinated liabilities	82	135	245	1,391	-452	1,400
Total liabilities	**82,929**	**3,917**	**17,585**	**43,844**	**-22,153**	**126,122**
Equity						**11,084**

Notes

Note 1	Accounting policies
Note 2	Formulas for key figures and ratios
Note 3	Net interest income
Note 4	Net insurance income
Note 5	Net commissions and fees
Note 6	Net investment income
Note 7	Impairments of receivables
Note 8	Classification of financial assets and liabilities
Note 9	Recurring fair value measurements by valuation technique
Note 10	Derivative contracts
Note 11	Financial assets and liabilities offset in the balance sheet or subject to enforceable master netting arrangements or similar agreements
Note 12	Receivables from credit institutions and customers, and doubtful receivables
Note 13	Insurance liabilities
Note 14	Debt securities issued to the public
Note 15	Fair value reserve after income tax
Note 16	Collateral given
Note 17	Off-balance-sheet items
Note 18	Capital adequacy for credit institutions
Note 19	Exposures by rating category
Note 20	Insurance company solvency
Note 21	Capital adequacy under the Act on the Supervision of Financial and Insurance Conglomerates
Note 22	Related-party transactions

Note 1 Accounting policies

The Interim Report has been prepared in accordance with IAS 34 (Interim Financial Reporting) and with the accounting policies presented in the 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 total sum of individual figures may deviate from the presented sums.

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

Adoption of IFRS 9 on 1 January 2018

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

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

Change in accounting policies for amortisation of fees

Following the systems development that took place in connection with the adoption of IFRS 9, OP Financial Group adopted the amortisation of fees over the life of the loan paid for office and arrangement fees at the time of drawdown of private customer loans, applying the effective interest method. Since the fully retrospective application is not technically possible, only the fees for 2017 has been restated from the income statement. The change decreased net commissions and fees for Q1–3/2017 by EUR 41 million and increased net interest income by EUR 6 million. As a result, earnings before tax reported a year ago decreased by EUR 28 million. On the balance sheet of 31 December 2017, receivables from customers decreased by EUR 47 million, tax assets increased by EUR 10 million and equity decreased by EUR 37 million. These fees will be amortised for future years for the average life of private customer loans.

Adoption of IFRS 15 on 1 January 2018

OP Financial Group has applied IFRS 15, Revenue from Contracts with Customers, since 1 January 2018. In OP Financial Group, IFRS 15 mainly applies to commissions and fees of the Wealth Management segment and Banking segment fees not included in the calculation of the effective interest rate. The effects of transition to IFRS 15 have been presented in OP Financial Group's Notes to the Financial Statements 2017 and Interim Report for 1 January–31 March 2018.

The adoption of IFRS 15 did not have any effect on OP Financial Group’s earnings before tax. OP Financial Group started to apply IFRS 15 using the retrospective transition method, i.e. the Q1–3/2017 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 8 million, has been transferred from other operating income to commission income.
- Commission expenses from health and wellbeing services, EUR 4 million, have been transferred from other operating expenses to commission expenses.
- Asset management commission income and commission income from legal services, EUR 55 million, will be presented separately in the future.
- Brokerage expenses of securities, EUR 9 million, have been separately divided among mutual fund charges and brokerage expenses of securities.
- Net commissions and fees have been presented as divided into segments.

Changes in presentation

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

The Financial assets held for trading in the balance sheet will in 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

	Q1–3/ 2018	Q1–3/ 2017
Return on equity (ROE), %	6.5	8.5
Return on equity (ROE) at fair value, %	5.2	7.9
Return on assets (ROA), %	0.53	0.67
Cost/income ratio, %	60	55
Ratio of non-performing receivables to loan and guarantee portfolio, %	1.1	1.3
Average personnel	12,301	12,195

ALTERNATIVE PERFORMANCE MEASURES

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

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

Return on equity (ROE), %

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

Return on equity (ROE) at fair value, %

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

Return on assets (ROA), %

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

Cost/income ratio, %

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

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

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

Non-life Insurance indicators

Loss ratio (excl. unwinding of discount), %

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

Expense ratio, %

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

Risk ratio (excl. unwinding of discount), %

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

Combined ratio (excl. unwinding of discount), %

Loss ratio + expense ratio

Risk ratio + cost ratio

Cost ratio, %

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

Operating loss ratio, %

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

Operating expense ratio, %

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

Operating combined ratio, %

Operating loss ratio + Operating expense ratio

Operating risk ratio + Operating cost ratio

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

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

Operating cost ratio, %

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

INDICATORS BASED ON CAPITAL ADEQUACY MEASUREMENT

Capital adequacy ratio, %	$\frac{\text{Total capital}}{\text{Total risk exposure amount}} \times 100$
Tier 1 ratio, %	$\frac{\text{Total Tier 1 capital}}{\text{Total risk exposure amount}} \times 100$
CET1 ratio, %	$\frac{\text{CET1 capital}}{\text{Total risk exposure amount}} \times 100$
Solvency ratio, %	$\frac{\text{Capital base}}{\text{Capital requirement (SCR)}} \times 100$
Leverage ratio, %	$\frac{\text{Tier 1 capital (T1)}}{\text{Exposure amount}} \times 100$
Liquidity coverage requirement (LCR), %	$\frac{\text{Liquid assets}}{\text{Liquidity outflows - liquidity inflows under stressed conditions}} \times 100$
Capital adequacy ratio under the Act on the Supervision of Financial and Insurance Conglomerates	$\frac{\text{Conglomerate's total capital}}{\text{Conglomerate's total minimum capital requirement}} \times 100$
Return on economic capital, %	$\frac{\text{Earnings + customer bonuses after tax (value rolling 12 month)}}{\text{Average economic capital}} \times 100$
Net stable funding ratio (NFSR), %	$\frac{\text{Available stable funding}}{\text{Required stable funding}} \times 100$

NON-LIFE INSURANCE OPERATING RESULTS	Q1–3/ 2018	Q1–3/ 2017	Change %	Q1–4/ 2017
EUR million				
Insurance premium revenue	1,106	1,073	3.1	1,431
Claims incurred	-776	-829	-6.4	-1,085
Amortisation adjustment of intangible assets	-16	-16	0.0	-21
Balance on technical account	**89**	**16**		**34**
Net investment income	34	128	-73.0	183
Other income and expenses	13	-7		-7
Temporary exemption (overlay approach)	-5			
Earnings before tax	**131**	**137**	**-4.5**	**210**

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

Note 3 Net interest income

EUR million	Q3/ 2018	Q3/ 2017	Q1–3/ 2018	Q1–3/ 2017
Interest income				
Receivables from credit institutions	7	7	21	20
Receivables from customers				
Loans	292	297	869	884
Finance lease receivables	6	4	17	11
Impaired loans and other commitments	0	1	0	2
Notes and bonds				
Held for trading	2	2	5	5
Measured at fair value through profit or loss	0		1	
At fair value through other comprehensive income	22		67	
Amortised cost	0		1	
Available for sale		26		79
Held to maturity		0		1
Loans and receivables		0		1
Derivative contracts				
Held for trading	176	177	539	548
Fair value hedge	-24	-29	-73	-88
Cash flow hedge	11	9	33	27
Ineffective portion of cash flow hedge	-1	1	-2	1
Other	2	2	5	8
Total	**493**	**498**	**1,483**	**1,500**
Interest expenses				
Liabilities to credit institutions	16	14	48	42
Liabilities to customers	15	19	44	57
Debt securities issued to the public	57	68	187	218
Subordinated liabilities				
Subordinated loans	1	1	2	2
Other	11	11	33	33
Derivative contracts				
Held for trading	155	146	458	468
Fair value hedge	-32	-35	-93	-101
Other	-25	-15	-64	-46
Other	2	2	5	8
Total	**200**	**212**	**619**	**680**
Net interest income before fair value adjustment under hedge accounting	**294**	**286**	**864**	**820**
Hedging derivatives	-62	-3	-65	-82
Value changes of hedged items	65	3	69	84
Total net interest income	**297**	**287**	**867**	**821**

Note 4 Net insurance income

EUR million	Q3/ 2018	Q3/ 2017	Q1–3/ 2018	Q1–3/ 2017
Net insurance premium revenue				
Premiums written	282	268	1,213	1,189
Insurance premiums ceded to reinsurers	0	-1	0	-6
Change in provision for unearned premiums	101	105	-122	-115
Reinsurers' share	-10	-8	5	6
Total	**373**	**365**	**1,096**	**1,074**
Net Non-life Insurance claims				
Claims paid	-224	-205	-690	-652
Insurance claims recovered from reinsurers	6	2	21	6
Change in provision for unpaid claims	-7	-88	-12	-111
Reinsurers' share	1	1	-1	9
Total	**-225**	**-290**	**-683**	**-749**
Other Non-life Insurance items	-1	-1	-2	-3
Life Insurance risk premiums collected	6	6	21	18
Total net insurance income	**154**	**80**	**432**	**341**

Note 5 Net commissions and fees

Q1–3 2018, EUR million	Banking	Non-life Insurance	Wealth Management	Other Operations	Eliminations	Group total	Q3 2018
Commission income							
Lending	106	0		3	1	111	35
Deposits	2		0	0	0	2	1
Payment transfers	140			43	-10	173	58
Securities brokerage	0		15	0	-3	12	3
Securities issuance	3		1	4	0	8	1
Mutual funds	0		109		1	110	37
Asset management	9		37	1	-7	39	12
Legal services	17			0		17	6
Guarantees	15			0	0	15	5
Housing service	55					55	19
Insurance brokerage	36	9	10	0	-12	44	7
Life insurance total expense loadings			69			69	23
Refund of unit-linked management fees			57			57	18
Health and wellbeing services		14			-2	12	4
Other	58		3	-25	-9	26	9
Total	**440**	**23**	**301**	**25**	**-41**	**748**	**239**
Commission expenses							
Payment transfers	20	1	0	4	-16	9	2
Securities brokerage	0		10	0	-4	6	2
Securities issuance	0		0	0	1	2	0
Mutual funds			7		1	8	2
Asset management	2		11	1	-5	8	2
Insurance operations	-7	28	23		-12	32	9
Health and wellbeing services		5				5	2
Other	17	0	3	16	-13	22	7
Total	**31**	**34**	**53**	**22**	**-47**	**93**	**27**
Total net commissions and fees	**409**	**-11**	**247**	**4**	**6**	**655**	**212**

Q1–3 2017, EUR million	Banking	Non-life Insurance	Wealth Management	Other Operations	Eliminations	Group total	Q3 2017
Commission income							
Lending	106			3	0	110	35
Deposits	4			0	0	4	1
Payment transfers	147			61	-21	188	56
Securities brokerage	0		18		-4	14	4
Securities issuance	3		1	3		7	1
Mutual funds	0		108		3	111	38
Asset management	8		42	-1	-12	38	13
Legal services	17			0	0	17	5
Guarantees	14			0	0	14	5
Housing service	55					55	19
Insurance brokerage	38	13	11		-15	47	8
Life insurance total expense loadings			72			72	24
Refund of unit-linked management fees			50			50	17
Health and wellbeing services		9			-1	8	1
Other	91		5	-62	-15	18	6
Total	**485**	**22**	**306**	**4**	**-64**	**753**	**234**
Commission expenses							
Payment transfers	33	1	0	26	-27	33	4
Securities brokerage	0		6		-5	1	0
Securities issuance	1		0	1	1	2	1
Mutual funds			6		2	8	3
Asset management	2	0	13	0	-5	10	3
Insurance operations	-2	29	19		-14	32	10
Health and wellbeing services		4				4	1
Other	17	0	4	22	-18	25	9
Total	**51**	**35**	**48**	**49**	**-67**	**116**	**31**
Total net commissions and fees	**434**	**-12**	**258**	**-44**	**2**	**637**	**203**

Note 6 Net investment income

EUR million	Q3/ 2018	2017	Q1–3/ 2018	2017
Net income from assets at fair value through other comprehensive income (Net income from available-for-sale financial assets)				
Notes and bonds	21	18	89	59
Equity instruments	0	82	0	121
Dividend income and share of profits	1	22	7	89
Other	2	2	3	2
Impairment losses and their reversals	-1	-10	-4	-25
Total	**22**	**113**	**95**	**246**
Net income recognised at fair value through profit or loss				
Financial assets held for trading				
Notes and bonds	-1		-2	
Equity instruments	7		17	
Dividend income and share of profits	0		2	
Derivatives	3		64	
Financial assets that shall be measured at fair value through profit or loss				
Notes and bonds	7		15	
Equity instruments	-5		23	
Dividend income and share of profits	27		56	
Financial assets designated as at fair value through profit or loss				
Notes and bonds	-5		-1	
Equity instruments	-13		-16	
Dividend income and share of profits	13		17	
Derivatives	1		-3	
Insurance				
Notes and bonds		23		3
Equity instruments		3		10
Derivatives		14		3
Banking and Other operations				
Securities trading		34		132
Foreign exchange trading		7		31
Investment property	3	10	11	21
Other		1		3
Total	**37**	**92**	**184**	**202**
Net income carried at amortised cost				
Loans and other receivables	5	1	12	7
Impairment losses and their reversals	-3	-2	-3	-2
Total	**2**	**-1**	**9**	**5**
Life Insurance				
Interest credited on customers' insurance savings	-21	-22	-65	-67
Change in supplementary interest rate provisions	38	20	50	88
Other technical items	-3	-23	8	-44
Total	**13**	**-25**	**-7**	**-23**
Non-life Insurance				
Unwinding of discount	-7	-8	-21	-25
Total	**-7**	**-8**	**-21**	**-25**
Associates				
Accounted for using the fair value method	8		17	
Consolidated using the equity method	3	1	8	13
Total	**11**	**1**	**25**	**13**
Total net investment income	**79**	**171**	**284**	**418**

Note 7 Impairment loss on receivables

EUR million	Q3/ 2018	Q3/ 2017	Q1–3/ 2018	Q1–3/ 2017
Receivables written off as loan or guarantee losses	-10	-24	-43	-63
Recoveries of receivables written off	3	6	8	11
ECL on receivables from customers and off-balance-sheet items	-9		11	
ECL on notes and bonds*	0		0	
Increase in impairment losses on individually assessed receivables		-13		-45
Decrease in impairment losses on individually assessed receivables		29		74
Collectively assessed impairment losses		-2		-4
Total impairment loss on receivables	**-17**	**-5**	**-24**	**-28**

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

Receivables from customers and off-balance-sheet items, EUR million	Stage 1	Stage 2	Stage 3	Total
Expected credit losses (ECL)	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	
ECL 1 Jan. 2018	**31**	**80**	**431**	**543**
Transfers from Stage 1 to Stage 2	-2	16		14
Transfers from Stage 1 to Stage 3	-1		16	16
Transfers from Stage 2 to Stage 1	1	-11		-9
Transfers from Stage 2 to Stage 3		-2	14	12
Transfers from Stage 3 to Stage 2		7	-20	-13
Transfers from Stage 3 to Stage 1	2		-5	-3
Increases due to origination and acquisition	6	5	10	21
Decreases due to derecognition	-8	-4	-19	-30
Changes in risk parameters (net)	2	0	16	18
Decrease in allowance account due to write-offs	0	0	-36	-36
Net change in ECL	**2**	**11**	**-24**	**-11**
ECL 30 September 2018	**33**	**91**	**407**	**532**
Net change in ECL Q3/2018	**7**	**-14**	**16**	**9**

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	**5**	**0**	**0**	**5**
Transfers from Stage 1 to Stage 2	0	1		1
Transfers from Stage 1 to Stage 3	0		1	1
Transfers from Stage 2 to Stage 1	0	0		0
Transfers from Stage 2 to Stage 3		0	1	0
Increases due to origination and acquisition	2	1	3	5
Changes in risk parameters (net)	0		0	0
Changes due to update in the methodology for estimation (net)	0			0
Net change in ECL	**0**	**1**	**5**	**6**
ECL 30 September 2018	**5**	**1**	**5**	**11**
Net change in ECL Q3/2018	**1**	**0**	**2**	**3**

IFRS 9 ECL scope and stage 30 September 2018

On-balance-sheet exposure, EUR million	Stage 1	Stage 2			Stage 3	Total exposure
Receivables from customers (gross)		Not more than 30 DPD	More than 30 DPD	Total		
Non-banking corporates	29,283	3,871	205	4,076	810	34,170
Households	44,962	4,703	181	4,884	437	50,283
Public-sector entities	1,785	11	10	22		1,807
Other	2,956	45	14	59	7	3,022
Total	**78,986**	**8,630**	**410**	**9,040**	**1,255**	**89,281**
Off-balance-sheet limits						
Non-banking corporates	4,449	718	115	833	30	5,312
Households	3,146	56	3	59	3	3,209
Public-sector entities	718		21	21		739
Other	1,471	27	59	86	2	1,558
Total	**9,784**	**801**	**197**	**998**	**35**	**10,818**
Other off-balance-sheet commitments						
Non-banking corporates	5,925	229		229	35	6,189
Households	1,387	4		4		1,391
Public-sector entities	650					650
Other	432	24		24	1	458
Total	**8,395**	**257**		**257**	**36**	**8,688**
Notes and bonds						
Total	**16,725**	**72**		**72**	**13**	**16,810**
Total IFRS 9 ECL scope exposures	**113,890**	**9,761**	**607**	**10,368**	**1,338**	**125,596**

IFRS 9 ECL provision by stage 30 September 2018

On-balance-sheet exposures and related off-balance-sheet limits* EUR million	Stage 1	Stage 2			Stage 3	Total ECL
Receivables from customers		Not more than 30 DPD	More than 30 DPD	Total		
Non-banking corporates	-21	-42	-1	-43	-338	-402
Households	-4	-43	-3	-46	-69	-120
Public-sector entities	-5	0	0	0		-5
Other	0	0		0		-1
Total	**-31**	**-86**	**-4**	**-89**	**-407**	**-527**
Other off-balance-sheet commitments**						
Non-banking corporates	-2	-2		-2	0	-4
Households	0	0		0		0
Public-sector entities	0					0
Other	0					0
Total	**-2**	**-2**		**-2**	**0**	**-4**
Notes and bonds***	**-5**	**-1**		**-1**	**-5**	**-11**
Total ECL	**-38**	**-89**	-4	**-92**	**-412**	**-543**

* 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 other comprehensive income.

Note 8 Classification of financial assets and liabilities

Assets, EUR million	Amortised cost	Fair value through other comprehen-sive income	Fair value through profit or loss: Financial assets held for trading	Fair value through profit or loss: Financial assets designated as at fair value through profit or loss	Fair value through profit or loss: Must be measured at fair value through profit or loss	Hedging derivatives	Total
Cash and cash equivalents	12,767						12,767
Receivables from credit institutions	335						335
Derivative contracts			2,808			478	3,286
Receivables from customers	86,020						86,020
Assets covering unit-linked contracts				10,430			10,430
Notes and bonds	4	16,804	561	2,319	429		20,116
Equity instruments		0	91	207	1,063		1,362
Other financial assets	2,174						2,174
Financial assets	**101,299**	**16,804**	**3,460**	**12,955**	**1,492**	**478**	**136,488**
Other than financial instruments							3,765
Total 30 September 2018	**101,299**	**16,804**	**3,460**	**12,955**	**1,492**	**478**	**140,253**

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

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

Liabilities, EUR million	Financial liabilities at fair value through profit or loss	Other liabilities	Hedging derivatives	Total
Liabilities to credit institutions		4,239		4,239
Derivative contracts	2,394		401	2,795
Liabilities to customers		67,000		67,000
Insurance liabilities		9,632		9,632
Liabilities from unit-linked insurance and investment contracts	10,466			10,466
Debt securities issued to the public		29,378		29,378
Subordinated liabilities		1,353		1,353
Other financial liabilities		2,158		2,158
Financial liabilities	**12,860**	**113,760**	**401**	**127,021**
Other than financial liabilities				1,615
Total 30 September 2018	**12,860**	**113,760**	**401**	**128,636**

Liabilities, EUR million	Financial liabilities at fair value through profit or loss	Other liabilities	Hedging derivatives	Total
Liabilities to credit institutions		5,157		5,157
Derivative contracts	2,572		454	3,026
Liabilities to customers		65,549		65,549
Insurance liabilities		9,950		9,950
Liabilities from unit-linked insurance and investment contracts	10,158			10,158
Debt securities issued to the public		26,841		26,841
Subordinated liabilities		1,400		1,400
Other financial liabilities		2,275		2,275
Financial liabilities	**12,730**	**111,172**	**454**	**124,356**
Other than financial liabilities				1,765
Total 31 December 2017	**12,730**	**111,172**	**454**	**126,122**

Bonds included in debt securities issued to the public are carried at amortised cost. On 30 September 2018, the fair value of these debt instruments was EUR 252 million (385) higher than their carrying amount, based on information available in markets, and employing commonly used valuation techniques. Subordinated liabilities are carried at amortised cost. Their fair values are higher than their amortised costs, but determining reliable fair values involves uncertainty.

Note 9 Recurring fair value measurements by valuation technique

Fair value of assets on 30 Sep. 2018, EUR million	Level 1	Level 2	Level 3	Total
Recognised at fair value through profit or loss				
Equity instruments	634	191	536	1,361
Debt instruments	2,314	580	414	3,308
Unit-linked contracts	6,899	3,530		10,430
Derivative financial instruments	4	3,200	82	3,286
Fair value through other comprehensive income				
Equity instruments		0		0
Debt instruments	14,437	2,023	344	16,804
Total	**24,288**	**9,524**	**1,377**	**35,189**

Fair value of assets on 31 Dec. 2017, EUR million	Level 1	Level 2	Level 3	Total
Recognised at fair value through profit or loss				
Equity instruments	125	57	38	220
Debt instruments	3,249	234	416	3,899
Unit-linked contracts	7,111	3,015		10,126
Derivative financial instruments	2	3,279	131	3,412
Available-for-sale				
Equity instruments	623	200	577	1,399
Debt instruments	11,977	4,041	354	16,372
Total	**23,087**	**10,826**	**1,516**	**35,429**

Fair value of liabilities on 30 Sep. 2018, EUR million	Level 1	Level 2	Level 3	Total
Recognised at fair value through profit or loss				
Unit-linked contracts	6,923	3,543		10,466
Other		0		0
Derivative financial instruments		2,795		2,795
Total	**6,923**	**6,338**	**0**	**13,261**

Fair value of liabilities on 31 Dec. 2017, EUR million	Level 1	Level 2	Level 3	Total
Recognised at fair value through profit or loss				
Unit-linked contracts	7,133	3,024		10,158
Other		1		1
Derivative financial instruments	5	2,929	92	3,026
Total	**7,138**	**5,955**	**92**	**13,185**

Level 1: Quoted prices in active markets

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

Level 2: Valuation techniques using observable inputs

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

Level 3: Valuation techniques using unobservable inputs

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

Transfers between levels of the fair value hierarchy

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

Reconciliation of Level 3 items that involve uncertainty

Specification of financial assets and liabilities

Financial assets, EUR million	Financial assets at fair value through profit or loss	Derivative contracts	Fair value through other comprehen-sive income	Total assets
Balance sheet 31 December 2017	454	131	931	1,516
Effects of IFRS 9 transition 1 Jan. 2018	601		-593	8
Opening balance 1 January 2018	1,055	131	338	1,525
Total gains/losses in profit or loss	-437	-49	0	-486
Total gains/losses in other comprehensive income	0		0	-1
Purchases	140		3	143
Sales	-147		-7	-154
Settlements	-17		-10	-27
Transfers into Level 3	355		150	505
Transfers out of Level 3			-127	-127
Closing balance 30 September 2018	**950**	**82**	**345**	**1,377**

Financial liabilities, EUR million	Derivative contracts	Total liabilities
Opening balance 1 January 2018	92	92
Total gains/losses in profit or loss	-92	-92
Closing balance 30 September 2018	**0**	**0**

Total gains/losses included in profit or loss by item on 30 Sep. 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 30 Sep.
Realised net gains	-365	-72		-437
Unrealised net gains	43		0	42
Total net gains	**-322**	**-72**	**0**	**-394**

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

Changes in the levels of hierarchy

No major changes occurred in valuation techniques in 2018.

Note 10 Derivative contracts

30 September 2018, EUR million	Nominal values / residual term to maturity <1 year	1–5 years	>5 years	Total	Fair values* Assets	Liabilities
Interest rate derivatives	30,740	85,306	67,846	183,891	1,902	1,375
Cleared by the central counterparty	9,983	38,160	35,034	83,177	62	63
Currency derivatives	34,696	6,598	3,311	44,605	972	1,114
Equity and index derivatives		3		3	0	
Credit derivatives	19	181	9	209	6	3
Other derivatives	276	340		616	71	25
Total derivatives	**65,730**	**92,428**	**71,166**	**229,323**	**2,952**	**2,518**

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

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

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

Financial assets

30 September 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	4,027	-741	3,286	-1,822	-429	1,034

31 December 2017, EUR million	Gross amount of financial assets	Gross amount of financial liabilities deducted from financial assets*	Net amount presented in the balance sheet**	Financial assets not set off in the balance sheet		Net amount
				Derivative contracts***	Collateral received	
Derivatives	4,341	-928	3,412	-1,928	-412	1,072

Financial liabilities

30 September 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	3,637	-841	2,795	-1,822	-568	405

31 December 2017, EUR million	Gross amount of financial liabilities	Gross amount of financial assets deducted from financial liabilities*	Net amount presented in the balance sheet**	Financial liabilities not set off in the balance sheet		Net amount
				Derivative contracts***	Collateral given	
Derivatives	4,112	-1,085	3,026	-1,928	-717	381

* Incl. daily cleared derivatives on a net basis included in cash and cash equivalents, totalling -102 (-161) million euros.
** Fair values excluding accrued interest.
*** It is the practice to enter into master agreements for derivative transactions with all derivative counterparties.

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

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

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

30 September 2018, EUR million	Not impaired (gross)	Expected credit losses (ECL)	Balance sheet value
Receivables from credit institutions and customers			
Receivables from credit institutions	336	1	335
Receivables from customers	84,497	521	83,976
of which bank guarantee receivables	11		11
Finance leases	2,048	5	2,043
Total	**86,882**	**527**	**86,355**
Receivables from credit institutions and customers by sector			
Non-banking corporate sector	31,858	383	31,475
Financial institutions and insurance companies	961	4	957
Households	51,396	131	51,265
Non-profit organisations	886	3	883
Public sector entities	1,782	6	1,775
Total	**86,882**	**527**	**86,355**

31 December 2017, EUR million	Not impaired (gross)	Impaired (gross)	Total	Individual assessment of impairment	Collective assessment of impairment	Balance sheet value
Receivables from credit institutions and customers						
Receivables from credit institutions	506		506		2	504
Receivables from customers	80,201	627	80,828	421	70	80,337
of which bank guarantee receivables	2	8	11	8	1	2
Finance leases	1,856		1,856			1,856
Total	**82,563**	**627**	**83,190**	**421**	**71**	**82,697**
Receivables from credit institutions and customers by sector						
Non-banking corporate sector	29,253	423	29,677	317	38	29,321
Financial institutions and insurance companies	1,387	0	1,387	0	2	1,385
Households	49,884	201	50,085	102	30	49,953
Non-profit organisations	788	3	791	2	1	789
Public sector entities	1,250		1,250		0	1,250
Total	**82,563**	**627**	**83,190**	**421**	**71**	**82,697**

Doubtful and forborne receivables 30 September 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		644	644	226	419
Unlikely to be paid		414	414	111	303
Forborne receivables	2,081	335	2,416	48	2,369
Total	**2,081**	**1,393**	**3,475**	**384**	**3,091**

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		611	611	217	394
Unlikely to be paid		513	513	147	366
Forborne receivables	1,876	341	2,217	58	2,160
Total	**1,876**	**1,465**	**3,341**	**421**	**2,920**

Key ratio, %	30 Sep. 2018	31 Dec. 2017
Exposures individually assessed for impairment/ECL, % of doubtful receivables	11.1 %	12.6 %

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

Note 13 Insurance liabilities

EUR million	30 Sep. 2018	31 Dec. 2017
Provision for unpaid claims		
Provision for unpaid claims for annuities	1,505	1,516
Other provision for unpaid claims	1,060	1,054
Reserve for decreased discount rate (value of hedges of insurance liability)	-3	-12
Total	2,562	2,557
Provisions for unearned premiums	681	585
Liabilities from unit-linked insurance and investment contracts		
Liabilities from unit-linked insurance	8,970	8,747
Investment contracts	1,496	1,411
Total	10,466	10,158
Life insurance insurance liabilities	6,389	6,807
Total	**20,098**	**20,108**

Note 14 Debt securities issued to the public

EUR million	30 Sep. 2018	31 Dec. 2017
Bonds	9,221	8,974
Covered bonds	10,743	10,750
Certificates of deposit, commercial papers and ECPs	9,413	7,117
Total	**29,378**	**26,841**

Note 15 Fair value reserve after income tax

EUR million	Fair value through other comprehensive income: Notes and bonds	Fair value through other comprehensive income: Equity instruments	Temporary exemption (overlay approach)	Cash flow hedging	Total
Balance sheet 31 Dec. 2017	**135**	**25**		**16**	**176**
Effects of IFRS 9 transition 1 Jan. 2018	-2	-25			-28
Opening balance 1 January 2018	**133**	**0**		**16**	**148**
Fair value changes	-67	0	23	19	**-25**
Capital gains transferred to income statement	-34		-6		**-40**
Impairment loss transferred to income statement			12		**12**
Transfers to net interest income				-31	**-31**
Deferred tax	20	0	-6	2	**16**
Closing balance 30 September 2018	**52**	**0**	**24**	**6**	**81**

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

The fair value reserve before tax amounted to EUR 102 million (220) and the related deferred tax liability amounted to EUR 20 million (44). At the end of the reporting period, positive mark-to-market valuations of equity instruments in the fair value reserve totalled EUR 71 million (146) and negative mark-to-market valuations EUR 40 million (38), owing to the application of the overlay approach. The loss allowance on notes and bonds recognised at fair value through other comprehensive income totalled EUR -4 million in the fair value reserve.

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

Note 16 Collateral given

EUR million	30 Sep. 2018	31 Dec. 2017
Collateral given on behalf of own liabilities and commitments		
Pledges	171	110
Loans (as collateral for covered bonds)	12,976	13,266
Other	5,576	5,663
Total collateral given*	**18,724**	**19,039**
Secured derivative liabilities		889
Other secured liabilities	4,115	4,146
Covered bonds	10,743	10,750
Total	**14,858**	**15,784**

* In addition, bonds with a book value of EUR 5.4 billion have been pledged in the central bank, of which EUR 1.5 billion in intraday settlement collateral. Given that the bonds are available for withdrawal without the central bank's advance permission, they are not presented in the table above.

Note 17 Off-balance-sheet items

EUR million	30 Sep. 2018	31 Dec. 2017
Guarantees	728	643
Other guarantee liabilities	1,986	1,936
Loan commitments	13,252	12,176
Commitments related to short-term trade transactions	313	372
Other*	1,181	1,121
Total	**17,460**	**16,247**

* Of which Non-life Insurance commitments to private equity funds amount to EUR 244 million (208).

Note 18 Capital adequacy for credit institutions

	30 Sep. 2018	31 Dec. 2017
Capital base, EUR million		
OP Financial Group's equity capital	11,617	11,121
The effect of insurance companies on the Group's shareholders' equity is excluded	-120	92
Fair value reserve, cash flow hedging	-6	-16
Common Equity Tier 1 (CET1) before deductions	**11,490**	**11,197**
Intangible assets	-740	-717
Excess funding of pension liability and valuation adjustments	-70	-31
Repayable cooperative capital		-148
Planned profit distribution	-70	-90
Shortfall of impairments – expected losses	-298	-320
Common Equity Tier 1 (CET1)	**10,312**	**9,891**
Subordinated loans to which transitional provision applies	80	81
Additional Tier 1 capital (AT1)	**80**	**81**
Tier 1 capital (T1)	**10,393**	**9,973**
Debenture loans	1,028	1,121
Tier 2 Capital (T2)	**1,028**	**1,121**
Total capital base	**11,420**	**11,093**

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

Terminated cooperative capital contributions of EUR 148 million refunded to customers in January 2018, as permitted by the supervisor, were deducted from CET1 capital a year ago. The Group has applied transitional provisions regarding old capital instruments to subordinated loans. In the calculation of capital adequacy and the leverage ratio, the Group has not applied the IFRS 9 transitional provision.

	30 Sep. 2018	31 Dec. 2017
Risk exposure amount, EUR million		
Credit and counterparty risk	**41,017**	**39,383**
Standardised Approach (SA)	**3,758**	**3,859**
Central government and central banks exposure	19	18
Credit institution exposure	9	8
Corporate exposure	2,429	2,423
Retail exposure	961	1,057
Other*	339	353
Internal Ratings-based Approach (IRB)	**37,259**	**35,525**
Credit institution exposure	990	1,054
Corporate exposure	23,106	21,438
Retail exposure	5,173	4,959
Equity investments**	6,843	7,002
Other	1,147	1,072
Market and settlement risk (Standardised Approach)	**1,393**	**1,179**
Operational risk (Standardised Approach)	**4,136**	**3,958**
Valuation adjustment (CVA)	**227**	**205**
Total risk exposure amount	**46,773**	**44,725**
Risk weight floors based on ECB's decision	**4,915**	**4,492**
Total risk exposure amount including risk weight floors	**51,688**	**49,216**

* EUR 312 million (283) of Other exposures represent deferred tax assets that are treated with a risk weight of 250% instead of a deduction from Common Equity Tier 1 capital.

** The risk weight of equity investments includes EUR 6.4 billion in insurance holdings within OP Financial Group.

Ratios, %	30 Sep. 2018	31 Dec. 2017
CET1 capital ratio	20.0	20.1
Tier 1 ratio	20.1	20.3
Capital adequacy ratio	22.1	22.5

Ratios, fully loaded, %	30 Sep. 2018	31 Dec. 2017
CET1 capital ratio	20.0	20.1
Tier 1 ratio	20.0	20.1
Capital adequacy ratio	21.9	22.4

Ratios excluding the risk weight floors, %	30 Sep. 2018	31 Dec. 2017
CET1 capital ratio	22.0	22.1
Tier 1 ratio	22.2	22.3
Capital adequacy ratio	24.4	24.8

The effect of risk weight floors on the CET 1 ratio was -2.0 percentage points.

Capital requirement, EUR million	30 Sep. 2018	31 Dec. 2017
Capital base	11,420	11,093
Capital requirement	7,377	7,027
Buffer for capital requirements	4,043	4,067

The capital requirement of 14.3% comprises the minimum requirement of 8%, the capital conservation buffer of 2.5%, the O-SII buffer of 2.0%, the minimum requirement of 1.75% set by the ECB (P2R) and the changing capital conservation buffer by country for foreign exposures. The ECB's P2R has been effective since 1 January 2017.

Leverage ratio, EUR million	30 Sep. 2018	31 Dec. 2017
Tier 1 capital (T1)	10,393	9,973
Total exposure	131,435	127,027
Leverage ratio, %	7.9	7.9

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

	Overview of RWAs (EU-OV1), EUR million	RWAs		Minimum capital requirements
1	**Credit risk (excluding CCR)**	**40,218**	**39,634**	**3,217**
2	Of which the standardised approach	4,532	4,752	363
3	Of which the foundation IRB (FIRB) approach	23,670	23,132	1,894
4	Of which the advanced IRB (AIRB) approach	5,173	4,887	414
5	Of which equity IRB under the simple risk-weighted approach	390	409	31
5a	Of which equity investments under PD/LGD method	6,453	6,455	516
6	**CCR**	**674**	**729**	**54**
7	Of which mark to market	447	533	36
12	Of which CVA	227	197	18
13	**Settlement risk**	**0**	**0**	**0**
14	**Securitisation exposures in the banking book (after the cap)**	**41**	**40**	**3**
15	Of which IRB approach	41	40	3
19	**Market risk**	**1,393**	**1,298**	**111**
20	Of which the standardised approach	1,393	1,298	111
23	**Operational risk**	**4,136**	**4,136**	**331**
25	Of which standardised approach	4,136	4,136	331
27	**Amounts below the thresholds for deduction (subject to 250% risk weight)**	**312**	**358**	**25**
29	**Total**	**46,773**	**46,196**	**3,742**
30	**Risk weight floors based on ECB's decision**	**4,915**	**4,808**	**393**
31	**Total risk exposure amount including risk weight floors**	**51,688**	**51,003**	**4,135**

During the quarter, total risk exposure increased by 1.3%.

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

RWA flow statements of credit risk exposures under the IRB approach (EU-CR8), EUR million

	a	b
	RWA amounts	Capital requirements
1 RWAs as at the end of the previous reporting period 30th June 2018	**28,019**	**2,242**
2 Asset size	497	40
3 Asset quality	191	15
4 Model updates	136	11
9 RWAs as at the end of the reporting period 30th Sep. 2018	**28,842**	**2,307**

Changes occurred in retail exposures, corporate exposures and credit institution exposures during the quarter are presented using the flow statements. The increase in the number of exposures and the deterioration of the quality of the loan portfolio increased risk-weighted assets. The use of internal credit rating methods was extended to cover cooperative banks that joined the Group. The impact is described under "Model updates".

Note 19 Exposures by rating category

Retail exposures by rating category (AIRB)

All retail exposures 30 September 2018

Rating category	Balance sheet items, exposure value, (EAD) EUR million	Off-balance-sheet items, exposure value (EAD), EUR million	Average CF, %	Average PD, %	Average LGD, %	RWA, EUR million	Average risk weight, %	Expected losses, EUR million
Personal customers, total	**49,625**	**2,118**	**52.7**	**0.7**	**17.3**	**4,181**	**7.5**	**155**
A	30,838	1,563	52.4	0.0	16.4	579	1.8	2
B	10,883	457	53.7	0.1	16.4	553	4.9	2
C	3,919	71	52.4	0.5	22.9	706	17.7	5
D	2,199	24	52.7	2.3	21.0	808	36.3	11
E	1,393	3	47.0	20.0	21.6	1,188	85.1	59
F	393			100.0	22.7	347	88.3	76
Corporate customers, total	**1,837**	**159**	**62.9**	**3.9**	**37.6**	**991**	**45.6**	**55**
2.5–5.5	499	44	63.2	0.4	23.9	67	12.3	1
6.0–7.0	720	66	63.9	1,3	40.03	312	39.7	4
7.5–8.5	416	37	59.2	5.0	44.2	325	71.7	10
9.0–10.0	147	12	70.2	25.0	45.7	182	114.6	17
11.0–12.0	55			100.0	55.4	105	192.2	23
Total	**51,462**	**2,277**	**53.3**	**0.8**	**18.0**	**5,173**	**8.9**	**209**

All retail exposures 31 December 2017

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

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

Corporate exposures (FIRB) by rating category

30 September 2018

Rating category	Balance sheet items, exposure value, (EAD) EUR million	Off-balance-sheet items, exposure value (EAD), EUR million	Average CF, %	Average PD, %	Average LGD, %	RWA, EUR million	Average risk weight, %	Expected losses, EUR million
1.0–2.0	762	374	84.4	0.0	44.8	166	14.6	0
2.5–5.5	16,033	3,671	72.3	0.2	44.5	7,862	39.9	19
6.0–7.0	7,332	1,478	69.3	1.3	44.3	7,625	86.6	51
7.5–8.5	4,298	705	68.4	4.4	44.1	5,999	119.9	97
9.0–10.0	717	69	68.2	21.8	44.2	1,453	184.8	76
11.0–12.0	686	25	51.6	100.0	44.9			319
Total	**29,830**	**6,321**	**71.6**	**1.6**	**44.4**	**23,106**	**65.2**	**563**

31 December 2017

Rating category	Balance sheet items, exposure value, (EAD) EUR million	Off-balance-sheet items, exposure value (EAD), EUR million	Average CF, %	Average PD, %	Average LGD, %	RWA, EUR million	Average risk weight, %	Expected losses, EUR million
1.0–2.0	667	214	93.3	0.0	44.7	128	14.6	0
2.5–5.5	14,933	3,867	72.7	0.2	44.5	7,335	39.0	18
6.0–7.0	6,622	1,376	69.7	1.3	44.0	6,803	85.1	45
7.5–8.5	3,895	763	70.0	4.3	44.1	5,596	120.1	89
9.0–10.0	681	142	62.5	19.9	44.2	1,576	191.5	72
11.0–12.0	717	26	59.2	100.0	45.0			335
Total	**27,516**	**6,388**	**71.9**	**1.5**	**44.3**	**21,438**	**64.7**	**560**

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

Note 20 Insurance company solvency

EUR million	30 September 2018		31 December 2017	
	Life Insurance	Non-life Insurance	Life Insurance	Non-life Insurance
Eligible capital	**1,405**	**1,066**	**1,317**	**902**
Solvency capital requirement (SCR)				
Market risk	790	441	759	460
Insurance risk	362	287	394	289
Counterparty risk	30	36	27	40
Operational risk	34	44	36	45
Diversification benefits and loss absorbency	-596	-178	-541	-169
Total	619	630	674	666
Buffer for SCR	**785**	**436**	**643**	**236**
Solvency ratio (SCR), %	**227**	**169**	**195**	**135**
Solvency ratio (SCR), % (excluding transitional provision)	**181**	**169**	**151**	**135**

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

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

EUR million	30 September 2018	31 December 2017
OP Financial Group's equity capital	11,617	11,121
Hybrid instruments and debenture bonds	1,108	1,202
Other sector-specific items excluded from capital base	-192	-236
Goodwill and intangible assets	-1,551	-1,525
Insurance business valuation differences*	856	824
Proposed profit distribution	-70	-90
Items under IFRS deducted from capital base**	-5	3
Shortfall of impairments – expected losses	-272	-294
Conglomerate's capital base, total	**11,491**	**11,005**
Regulatory capital requirement for credit institutions***	6,458	6,107
Regulatory capital requirement for insurance operations*	1,249	1,340
Conglomerate's total minimum capital requirement	**7,707**	**7,447**
Conglomerate's capital adequacy	**3,783**	**3,558**
Conglomerate's capital adequacy ratio (capital base/minimum of capital base), %	**149**	**148**

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

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

*** Total risk exposure amount x 14.3 %.

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

Note 22 Related-party transactions

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

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

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

Schedule for Financial Statements Bulletin for 2018 and Interim Reports in 2019:

Financial Statements Bulletin 2018	5 February 2019
Interim Report Q1/2019	7 May 2019
Interim Report H1/2019	30 July 2019
Interim Report Q1-3/2019	29 October 2019

Helsinki, 31 October 2018

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