

OP Financial Group Report
by the Executive Board and
Financial Statements 2016

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2016 in brief

- Earnings before tax totalled EUR 1,138 million (1,101).
- Net interest income increased by 3% and net insurance income by 6% and total income grew by 3% on a year earlier. Expenses rose by 3%. The rise was entirely explained by higher development costs.
- The CET1 ratio increased by 0.6 percentage points year on year to 20.1%. Based on the results of the stress test conducted by the European Banking Authority, the Group's capital adequacy clearly exceeded regulatory requirements also in an operating environment of an extremely adverse scenario.
- The home loan portfolio increased by 4%, the corporate loan portfolio by 3% and deposits by 6%. New home loans drawn down were 8% and corporate loans 10% higher than a year ago.
- Insurance premium revenue increased by 2%.
- Assets managed by Wealth Management increased by 9% over the previous year.
- Full-year earnings for 2017 are expected to be about the same as or lower than those for 2016 due to increasing development costs and other expenses arising from strategy implementation.

Almost 160,000 new OP Financial Group banking customers and 260,000 new owner-customers

- OP Financial Group received almost 160,000 new banking customers, or 21% more than a year ago. The number of owner-customers increased by almost 260,000 to over 1.7 million. The number of joint banking and non-life insurance customers increased by almost 100,000 to 1.7 million.
- New OP bonuses totalled over EUR 200 million, up by almost 5% year on year. The estimated interest payable on Profit Shares totals EUR 83 million.
- The Group launched several #Suominousuun (Putting Finland on a new growth path) initiatives in its social role. During the financial year, the Group announced, for example, donations worth over EUR 6 million to Finnish universities.
- OP Financial Group's gift to the 100-year-old Finland is 100 person-years of volunteering. Hiiop100.fi, a new volunteer work exchange site, bring together those in need of help and volunteers.
- In June, OP Financial Group confirmed an updated strategy aimed at broad-based renewal which is being implemented on a wide front.

OP Financial Group's key indicators

	Q1-4/2016	Q1-4/2015	Change, %
Earnings before tax, € million	1,138	1,101	3.3
Banking	596	642	-7.3
Non-life Insurance	230	259	-11.1
Wealth Management	232	213	8.8
New OP bonuses accrued to owner-customers	208	197	5.3
	31 Dec. 2016	31 Dec. 2015	Change, %
CET1 ratio, %	20.1	19.5	0.6*
Return on economic capital, % **	22.7	21.5	1.2*
Ratio of capital base to minimum amount of capital base (under the Act on the Supervision of Financial and Insurance Conglomerates), % ***	170	191	-21*
Ratio of impairment loss on receivables to loan and guarantee portfolio, %	0.09	0.10	0.0*
Owner-customers (1,000)	1,747	1,491	17.2

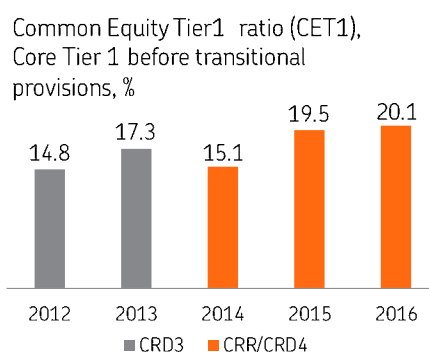
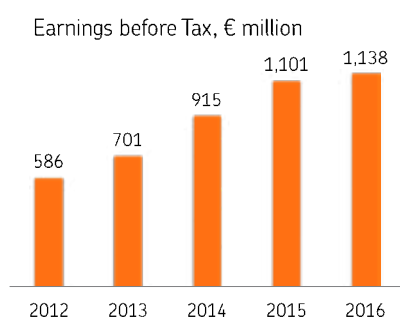
Comparatives deriving from the income statement are based on figures reported for the corresponding period in 2015. Unless otherwise specified, balance sheet

and other cross-sectional figures on 31 December 2015 are used as comparatives.

* Change in ratio

** 12-month rolling, change in percentage

*** The FiCo ratio has been calculated under Solvency II transitional provisions and the comparatives have been adjusted.



Operating environment

The world economy continued to grow slowly in 2016. The euro-area economy grew at a slightly lower rate than last year. Uncertainty over the economic outlook mounted in the summer when the UK voted for Brexit. Confidence indicators, however, improved again towards the year end and there were more signs of economic recovery.

The euro-area inflation rate remained low, especially in the first half. In March, the European Central Bank (ECB) cut its main refinancing rate to zero and deposit facility rate to -0.4%. In addition, the ECB expanded its asset purchase programme. The Euribor rates continued to decrease slightly as a result of the ECB's measures. Long-term interest rates rose towards the end of the year but remained lower than earlier in 2016.

The Finnish economy started to show gradual recovery. Construction grew vigorously and consumer spending grew at a brisk pace as well. Exports were still weak. Unemployment took a turn downwards and consumer confidence improved markedly towards the end of the year. Inflation remained low. The housing market picked up and home prices rose moderately.

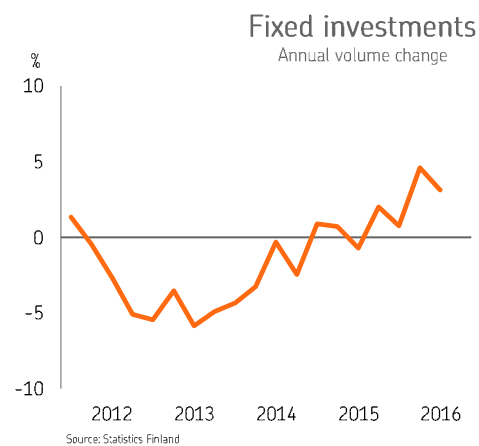
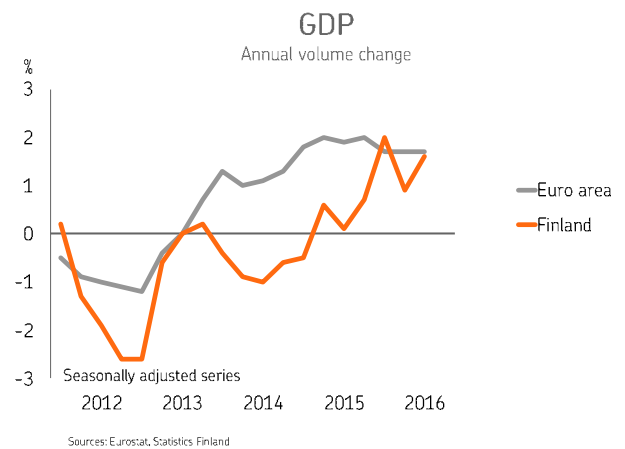
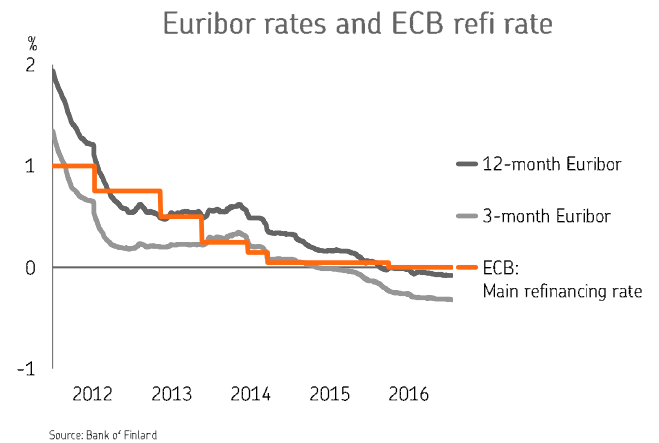
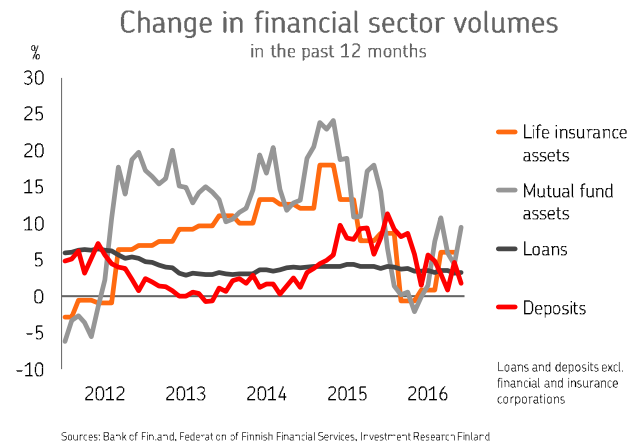
Confidence indicators have improved both in Finland and in the export markets. In 2017, the Finnish economy is expected to continue to grow at a slow but steady rate on a broader base than before. The ECB has announced that it would continue its quantitative easing policy in 2017 too. Based on the policy line, the key interest rates will remain low throughout 2017.

Consumer loan volumes continued to grow in 2016 at an around three per cent rate. The fall in the interest rates for new home loans drawn down came to a halt towards the end the year. The average interest rate for total home loans in Finland is the lowest in the euro area. Growth in housing corporation and corporate loan volumes slowed down over the previous year. Weaker developments in corporate loans in particular lie behind this change.

Total deposits grew more slowly than a year ago. The growth rate of total household deposits sped up but that of deposits by public-sector entities and corporations calmed down clearly after the previous year's spurt.

The value of mutual funds registered in Finland increased by almost 10% in 2016. Favourable market developments perked up demand towards the year end but growth in net asset inflows, however, remained weaker than a year ago. Life insurance premiums written were 30% lower than a year ago.

Premiums written reported by non-life insurers registered in Finland increased by 1.0% last year. During the same period, claims paid out rose by 5.5%.



Earnings analysis and balance sheet

Earnings analysis, € million	Q1–4/2016	Q1–4/2015	Change, %
Earnings before tax	1,138	1,101	3.3
Banking	596	642	-7.3
Non-life Insurance	230	259	-11.1
Wealth Management	232	213	8.8
Other Operations	80	-13	
Income			
Net interest income	1,058	1,026	3.2
Net insurance income	558	528	6.0
Net commissions and fees	859	855	0.5
Net investment income	390	432	-9.7
Other operating income	122	46	
Share of associates' profit/loss	1	9	-88.9
Total income	2,989	2,895	3.3
Expenses			
Personnel costs	762	781	-2.4
Depreciation/amortisation and impairment loss	160	162	-1.3
Other operating expenses	646	577	11.9
Total expenses	1,567	1,520	3.1
Impairment loss on receivables	77	78	-1.0
New OP bonuses accrued to owner-customers	208	197	5.3

Key balance sheet figures, € million	31 Dec. 2016	31 Dec. 2015	Change, %
Receivables from customers	78,604	75,192	4.5
Investment assets	25,105	20,784	20.8
Liabilities to customers	60,077	58,220	3.2
Insurance liability	10,586	7,705	37.4
Debt securities issued to the public	28,287	27,706	2.1
Equity capital	10,237	9,324	9.8
Total assets	133,747	124,455	7.5

January–December

OP Financial Group's earnings before tax were EUR 1,138 million (1,101), or the best ever recorded.

The figure improved by EUR 37 million over the previous year.

Net interest income rose by 3.2% to EUR 1,058 million in spite of low interest rates. Net insurance income improved by 6.0% to EUR 558 million. Net commissions and fees were EUR 859 million, or slightly higher than the year before. Fees from payment services and mutual funds and real estate agent commissions increased whereas securities brokerage and issuance fees declined over the previous year. Securities brokerage fees decreased by EUR 4 million as a result of the Sijoita Suomeen (Invest in Finland) opening included in the #Suominousuun (Putting Finland on a new growth path) initiative.

Net investment income decreased by 9.7% to EUR 390 million. Lower returns on equity instruments and impairment losses reduced net income from available-for-sale assets. Income from Life Insurance notes and bonds measured at fair value was increased by the individual life insurance portfolio transferred from Suomi Mutual to OP Financial Group at the end of 2015. Hedging interest rate risk associated with the insurance liability of Life Insurance added to income from derivatives.

Other operating income rose by EUR 77 million year on year to EUR 122 million. This rise resulted from the non-recurring gain of EUR 76 million recognised on the sale of Visa Europe Ltd.

Total expenses increased by 3.1% to EUR 1,567 million. Personnel costs decreased by EUR 19 million over the previous year due to lower defined benefit pension costs. A year ago,

personnel costs were increased by a non-recurring provision of EUR 9 million, related to the reorganisation of the central cooperative consolidated.

OP Financial Group's significant investments in service development increased development costs by EUR 60 million. Development costs totalled EUR 135 million (75). Other operating expenses a year ago included the non-recurring expenses totalling EUR 18 million related to the intra-Group ownership reorganisation and the reconstruction of the Vallila premises.

Impairment losses recognised under various income statement items that reduced earnings amounted to EUR 136 million (114), of which EUR 77 million (78) concerned loans and receivables. Net impairment loss on loans and receivables were low, at 0.09% (0.10) of the loan and guarantee portfolio.

OP Financial Group's current tax amounted to EUR 223 million (249). The effective tax rate was 19.6% (22.6). A year ago, the tax rate was increased by capital gains tax on OP Financial Group's internal transactions.

Equity capital increased by 9.8%, exceeding EUR 10 billion during the financial year. The increase came from the Group's earnings and owner-customers' Profit Shares. On 31 December 2016, EUR 2.7 billion (2.5) in Profit Shares were included in equity, terminated Profit Shares accounting for EUR 0.3 billion (0.3). The return target for Profit Shares for 2016 and 2017 is 3.25%. Interest payable on the Profit Shares accrued during the financial year is estimated to total EUR 83 million (66). The fair value reserve grew by EUR 77 million to EUR 318 million..

Key income statement items by quarter

	2016				2016	2015	Change
€ million	Q1	Q2	Q3	Q4	Q1-4	Q1-4	%
Net interest income	267	261	271	260	1,058	1,026	3.2
Net insurance income	129	140	149	140	558	528	6.0
Net commissions and fees	224	213	200	222	859	855	0.5
Net investment income	86	96	99	108	390	432	-9.7
Other income	12	85	12	14	123	54	
Total income	719	795	732	743	2,989	2,895	3.3
Personnel costs	201	195	167	199	762	781	-2.4
Other expenses	176	204	193	232	806	739	9.0
Total expenses	377	399	361	431	1,567	1,520	3.1
Impairment loss on receivables	11	13	12	41	77	78	-1.0
OP bonuses to owner-customers	48	52	53	53	206	196	6.0
Earnings before tax	284	331	306	218	1,138	1,101	3.3

OP Financial Group's strategy

In June, the Supervisory Board of OP Financial Group's central cooperative confirmed OP Financial Group's strategy and Group-level strategic goals. According to the new strategy, OP Financial Group aims to gradually change from a plain financial services provider to a diversified services company of the digital era with strong financial services expertise. The strategy highlights customer experience enhancement by digitising services and processes.

In the years to come, OP Financial Group intends to make health and wellbeing services its fourth business line alongside Banking, Non-life Insurance and Wealth Management.

OP Financial Group has initiated a large-scale development programme to speed up the digitisation of its services. The strategy will be put into practice through 15 strategic initiatives. The Group will allocate up to EUR 2 billion to development investments during the next five years. The investments required by upgrading and streamlining business will add to the Group's expenses and weaken Group profitability before the benefits from such investments are realised in terms of better financial indicators.

In its strategy, OP Financial Group set numerical targets for its capital adequacy (CET1), profitability (return on economic capital), efficiency (expenses of present-day business), growth in the number of owner-customers and customer experience (Net Promoter Score, or NPS, a measure of likelihood of recommendation). The customer experience metric has two parts, consisting of the NPS target (25) for the brand and the NPS target (70, over time 90) for service.

OP Financial Group's numerical targets	31 Dec. 2016	Target
Customer experience, NPS (-100+100)		
Brand	22.7	25
Service	53	70, over time 90
CET1 ratio, %	20.1	22
Return on economic capital, % (12-month rolling)	22.7	22
Expenses of present-day business (12-month rolling), € million	1,538	Expenses in 2019 lower than in 2015 (1,500)
Owner-customers, million	1.7	2.1 (2019)

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

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

As a cooperative business, OP Financial Group's operations are guided by a double role. In its business role, the Group provides its customers with competitive products and services while ensuring its profitability. Then again, in its social role OP Financial Group aims to promote its customers' prosperity and security on a broader basis too and in its operating region on a longer-term basis. Succeeding in both roles is a measure of the Group's success.

January–December

The year 2016 is the second full operating year after OP Financial Group went back to its roots as a financial services group wholly owned by its customers. This return to the cooperative basis has also involved the Group's more well-defined operating principles. OP Financial Group continued building a group wholly owned by customers during the financial year by, for example, converting OP Helsinki (formerly Helsinki OP Bank Ltd), a limited liability company, into a cooperative bank.

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

New financing models for SMEs

In March, OP Financial Group signed an agreement with the European Investment Fund (EIF) for financing worth EUR 150 million to spur SME innovations and growth. Under the agreement, OP may grant innovative SMEs new loans that will have a 50% risk-sharing guarantee provided by the EIF. SMEs have shown great interest in such financing. More than 50 companies have already used this financing opportunity and loans already granted account for some third of the 150-million euro financing under the programme. As a follow-on to the above, OP Financial Group extended its role of a financial intermediary by signing a new agreement on financing related to the joint SME initiative of the Finnish government, the EIB Group and the European Commission. Under the new programme, OP Financial Group may provide financing worth EUR 150 million to SMEs employing less than 250 people. By providing financing to SMEs with growth potential, OP Financial Group wants to be involved in supporting future economic growth and employment.

Support for families with children through the #Perheenlisä initiative

In April, OP Financial Group launched a #Perheenlisä (Addition to the family) initiative targeted at families with children, under which OP offers health and living allowance insurance for an unborn child for 12 months free of charge. Moreover, the initiative also offers the opportunity for a maximum of 12-month

home loan repayment holiday without service charges to families who have fulfilled their loan obligations as per agreement and whose baby will be born before the end of 2017. OP will offer free of charge a NewLife life insurance for one year to parents with children under the age of one until the end of 2017.

Encouragement and benefits to investment

The Invest in Finland opening, which ended in late March, was followed by a reduction in OP's electronic equity trading charges as of 1 April 2016. OP Financial Group also provides all its equity investment clients with Finland's most extensive equity research service as part of its overall range of services. At the beginning of June, OP Financial Group stopped permanently charging its owner-customers transaction costs related to mutual funds. Owner-customers can buy, sell and switch the majority of OP funds' units with no transaction costs.

Volunteering in honour of the centenary of Finland's independence

OP Financial Group is continuing the series of its #Suominousuun initiatives through a major volunteer work project in honour of the centenary of Finland's independence. OP's gift to the 100-year-old Finland is 100 person-years of volunteering. All 12,000 OP employees may do voluntary work for one day during their working hours. This equals about half of the targeted hundred person-years. The other part of the target involves activating people to be engaged in voluntary activities. Hiiop100.fi, a new volunteer work exchange site launched by OP at the turn of the year, brings together those in need of help and volunteers.

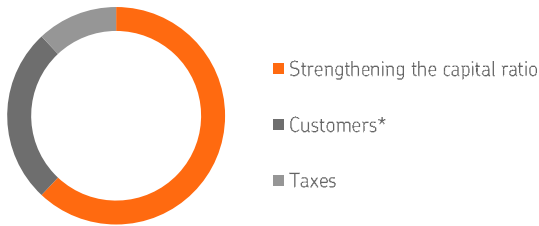
Supporting education through donations to universities

Prosperity in the operating region will also be supported by donations to Finnish universities worth EUR 6.3 million published by OP Financial Group in October. OP raises the level of its donations to higher education in a situation where education is pressured by significant funding cuts. The total amount consists of donations from OP cooperative banks and the Group's central cooperative.

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 financial year that is to be confirmed after the end of the financial year:



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

Implementing OP's mission successfully requires a strong capital base which the requirements set by the authorities also necessitate. OP Financial Group uses a significant part 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 large amount of earnings returns to owner-customers. 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 rewards its customers with OP bonuses that customers earn from almost all services, based on the amount of transactions, and with discounts on non-life insurance premiums. 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 of the largest tax payers in Finland measured by tax on profits. By paying taxes in Finland, the Group is contributing to prosperity in the whole of Finland.

Other January–December highlights

In January 2016, OP Cooperative's Executive Board, for its part, approved a bid submitted by Visa Inc. in November 2015 to acquire Visa Europe Ltd. As a result of the transaction, OP Financial Group recognised EUR 76 million in non-recurring gain in its results.

On 17 March 2016, OP Financial Group and Suomi Mutual Life Insurance Company agreed on transferring the latter's individual life insurance portfolio to OP Life Assurance Company Ltd. Suomi Mutual's individual pension insurance portfolio comprises slightly less than 38,000 insurance contracts, totalling approximately EUR 3.0 billion. The portfolio was consolidated into OP Financial Group on 30 September 2016. This consolidation had no major effect on OP Financial Group's earnings for 2016.

The ECB is offering euro-area credit institutions four targeted longer-term refinancing operations with a maturity of four years (TLTRO-II) with the primary aim of fostering growth. Under TLTRO-II, the banks will be able to borrow up to 30% of their loan balance as at 31 January 2016 to be used for lending to non-financial corporations and households in the euro area, excluding loans to households for a home purchase. To contribute to strong growth, OP Financial Group participated in TLTRO II with a total of EUR 3 billion.

On the basis of the stress test conducted by the European Banking Authority, OP Financial Group's capital adequacy remained on a solid basis and above the minimum capital adequacy requirement also in an operating environment of an

extremely adverse scenario. The results of the stress test were published in July 2016. In the baseline scenario under which the operating environment remains unchanged, OP Financial Group's CET1 ratio would improve further and be 21.2% in 2018. In an adverse scenario, capital adequacy would be burdened by a decrease in net interest income and significant impairment losses, bringing the CET1 ratio down to 14.9% in 2018, which would still be clearly above the minimum capital adequacy requirements.

On 28 September 2016, OP Cooperative's Supervisory Board decided on OP Financial Group's withdrawal from the Federation of Finnish Financial Services (FFS) activities and the Group applied for membership of Service Sector Employees Palta. OP Financial Group will enhance its in-house regulatory and public affairs expertise. After the withdrawal, OP will still continue to cooperate with the FFS in the field of payment services based on separate agreements. OP Financial Group became member of Palta on 1 January 2017.

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

Corporate social responsibility

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

OP has followed the UN Principles for Responsible Investment since 2009. The Group is continuously developing its responsible investment practices while seeking to foster a more responsible investment sector. In April, OP established an environmental, social and governance (ESG) unit for sustainable investing. The unit aims to deepen and broaden ESG activity and utilise more ESG information in investment decision-making and to engage actively with OP's investee companies. In late 2015, OP announced its intention to exclude high-carbon companies from active investments. As a result of its analysis of high-carbon companies completed in July 2016, OP excluded 60 companies from its investee companies.

OP reports its CSR indicators based on the GRI G4 framework. Read more in the OP in 2016 report.

Customer relationships and customer benefits

In January–December, the number of OP Financial Group's owner-customers increased by 256,000 to over 1.7 million. The increase is OP Financial Group's all-time high.

A new OP cooperative bank, OP Helsinki, was born in April. OP Helsinki accounted for 169,000 of the January–December growth in the number of owner-customers.

Contributions made by OP cooperative banks' owner-customers to the banks' Profit Shares, cooperative shares and

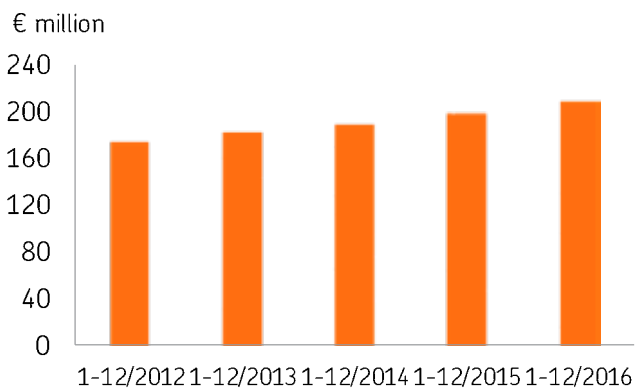
supplementary cooperative shares totalled EUR 3.0 billion (2.8) on 31 December 2016.

In 2016, OP Financial Group received 158,000 new banking customers, or 21% more than a year ago.

In January–December, the number of OP Financial Group's customers increased by 54,000 in net terms, totalling 4,357,000 on 31 December 2016. The number of private customers totalled 3,917,000 and that of corporate customers 440,000. In January–December, the number of joint banking and non-life insurance customers increased by 93,000 to over 1.7 million. The services of the customers of the six POP Group banks transferred to OP Financial Group were transferred to OP's services in the third quarter.

Owner-customers earn OP bonuses through banking, non-life insurance and wealth management transactions. The combined amount of new bonuses earned by OP bonus customers in January–December for using OP as their main bank and insurer was worth EUR 208 million (197). A total of EUR 101 million (100) of bonuses were used to pay for banking and wealth management services and EUR 107 million (101) to pay non-life insurance premiums. OP bonuses were used to pay 2,200,000 insurance bills (2,023,000), with 297,000 (273,000) of them paid in full using bonuses.

New accrued customer bonuses



Non-life Insurance premier customer households were provided with EUR 86 million (79) in loyalty discounts during the financial year.

Interest payable on the Profit Shares and supplementary cooperative shares accrued during the financial year is estimated to total EUR 83 million (68). The return target for Profit Shares for 2016 and 2017 is 3.25%.

Multichannel services

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

In December, OP-mobile was the main channel for customers' daily banking, with visits totalling over 13 million during one month. The number of visits to op.fi amounted to almost 10

million. The number of visits to OP-mobile launched in 2012 exceeded that of op.fi visits for the first time in March 2016. The number of visits to the Pivo mobile application totalled around 1.8 million in December. In 2016, the number of monthly op.fi visits averaged 10 million, that of OP-mobile 11.4 million and that of Pivo 1.7 million.

Mobile services were at the core of development during the financial year. Contactless payment with a phone became possible in April when OP launched a Pivo contactless payment option. OP was the first bank in Finland to enable mobile contactless payment and among the first banks in Europe. In May, OP launched two services designed for corporate customers: Pivo Cashier and OP Business mobile. Pivo Cashier is a cashier service for small businesses, providing all that is necessary for payment transactions and sales by both a brick-and-mortar shop and webshop. OP Business mobile enables an entrepreneur to manage not only basic banking services but also, for example, invoicing and monitoring receivables.

OP's eServices at op.fi is also being redesigned. The beta version of the new service can already be tried out at uusi.op.fi. OP has developed the service together with its customers from the very beginning and is collecting customer feedback on the beta version that guides further development. At uusi.op.fi, customers can do almost all their daily banking transactions but, for example, corporate customer services will be available for testing later. The current site coexists with the new service until the latter's completion.

Despite the expansion of online and mobile services, OP Financial Group still has Finland's most extensive branch network with some 450 branches across the country. The Group's own branch network is further supported by a comprehensive agency and partnership network, which is particularly important in terms of the sale of non-life insurance policies.

OP Financial Group also has extensive presence in the most common social media channels where it has almost 300,000 followers. In addition to the Group's national social media accounts, many member cooperative banks have their own Facebook pages where they share publications destined for local customers. OP also reaches customers and other stakeholders at OP's blog and content platform taloudessa.fi with an average of 100,000 monthly visitors.

New businesses

OP Financial Group opened its second private hospital on 1 August 2016 in Tampere. The first hospital was established in Helsinki in 2013 under the name of Omasairaala. When the Tampere hospital unit was opened, Omasairaala Oy was renamed Pohjola Health Ltd. During 2017–2018, the Group will open new Pohjola Hospitals in Oulu, Turku and Kuopio too.

In November, OP took its first step in the field of mobility services by launching the OP Kulku service. The service is aimed at lowering the threshold to use electric cars by providing consumers and small firms in the Helsinki Metropolitan Area with the opportunity to use an electric car with a monthly charge.

Key principles of risk and capital adequacy management

The purpose of risk and capital adequacy management is to secure OP Financial Group's and its entities' risk-bearing capacity and, thereby, ensure business continuity. Risk-bearing capacity is made up of effective risk management that is proportionate to the extent and complexity of operations and of adequate capital resources and liquidity based on profitable business operations.

Risk and capital adequacy management involves risk identification, measurement, assessment and mitigation. It also involves determining reliably and independently the need for capital and liquidity required for various risk types and business operations, and allocating capital and liquidity systematically in line with the current and planned risk-taking by business segment.

OP Financial Group's strategy outlines the Group's risk appetite and risk management priorities that help to ensure strategy implementation. According to the strategy, the Group will secure its risk-bearing capacity in all circumstances and keep risk-taking moderate vis-à-vis the risk-bearing capacity. Each Group entity focuses on carrying out its role according to its service capabilities and risk-bearing capacities in accordance with shared business models.

OP Cooperative (the central cooperative) is responsible for OP Financial Group's risk and capital adequacy management and for ensuring that the Group's risk management system is adequate and up to date. The central cooperative issues Group entities with guidelines for ensuring risk management and ensures, through supervision, that the entities operate in accordance with official regulations, their own rules, guidelines issued by the central cooperative, OP Financial Group's internal procedures and procedures that are appropriate and ethically sound for customer relationships. OP Financial Group entities are responsible for their own risk and capital adequacy management in accordance with the nature and extent of their operations.

OP Financial Group's quantifiable risks are restricted by means of limits and a system of control limits that guide operations at Group level, in OP cooperative banks and entities belonging to OP Cooperative Consolidated. The central cooperative's Supervisory Board has determined risk limits for 2016 concerning OP Financial Group's capital adequacy, credit, liquidity, market and underwriting risks as well as operational risks.

A more detailed description of OP Financial Group's risk and capital adequacy management principles can be found in Note 2 "OP Financial Group's risk management and capital adequacy management principles".

Solvency

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

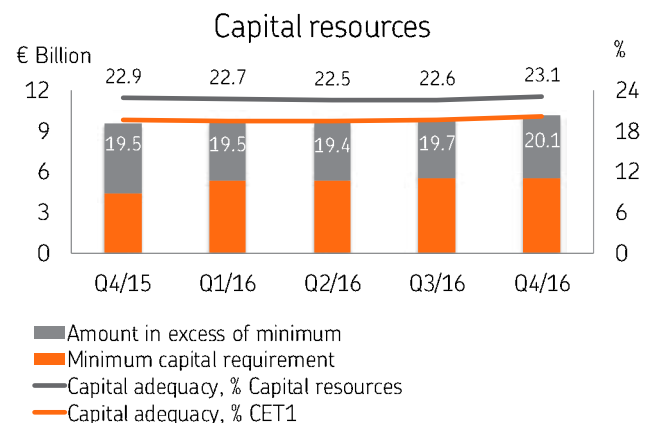
On 31 December 2016, OP Financial Group's capital base, calculated according to the Act on the Supervision of Financial and Insurance Conglomerates (FiCo), exceeded the minimum amount specified in the Act by EUR 4.3 billion (4.7). The buffer was decreased by the Other Systemically Important Institution (O-SII) buffer of 2% adopted at the beginning of 2016 combined

with a higher capital requirement caused by growth in banking operations. Since the beginning of 2016, insurance-sector solvency has been calculated in compliance with Solvency II and the figures have been presented in view of the transitional provisions. Comparatives are also presented under the new regulation. The O-SII buffer requirement increased the consolidated capital adequacy requirement from 10.5% to 12.5%, calculated as percentage of risk-weighted assets. The ratio of the Group capital base to the minimum capital requirement was 170% (191). with the O-SII buffer requirement reducing the ratio by 24 percentage points. As a result of the buffer requirements and Solvency II, the FiCo solvency does no longer reflect the minimum level of capital base of the FiCo group but the level within which the group can operate without regulatory obligations resulting from buffers below the required level.

Capital adequacy for credit institutions

The Group's CET1 ratio was 20.1% (19.5) on 31 December 2016. An increase in CET1 capital exceeded an increase in total risk exposure amount resulting from growth in the loan portfolio. Calculated adjustments arising from reduced market interest rates for defined benefit pension plans (IAS 19) decreased the Group's CET1 ratio by around 0.6 percentage points in the financial year.

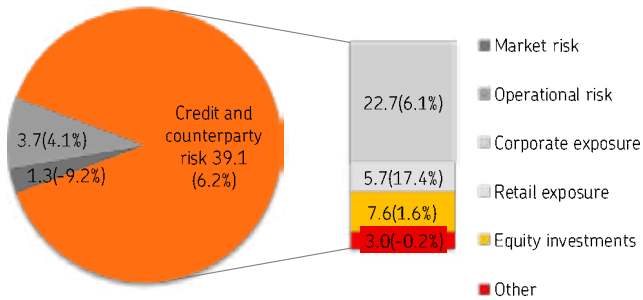
As a credit institution, OP Financial Group's capital adequacy is on a solid basis compared to the statutory requirements and those set by the authorities. The statutory minimum for the capital adequacy ratio is 8% and for the CET1 ratio 4.5%. The requirement for the capital conservation buffer of 2.5% under the Act on Credit Institutions and the O-SII buffer of 2% increase in practice the minimum capital adequacy ratio to 12.5% and the CET1 ratio to 9%.



The Group's CET1 capital was EUR 8.9 billion (8.2) on 31 December 2016. CET1 capital was increased by Banking performance, Profit Share issues and dividends from the Group's insurance institutions. Adjustments under IAS 19 reduced CET1 capital. The amount of Profit Shares in CET1 capital increased to EUR 2.6 billion, from which EUR 0.2 billion has been deducted related to Profit Shares refunded to customers in January 2017.

On 31 December 2016, the risk exposure amount (REA) totalled EUR 44.1 billion (41.8), or 5.4% higher than on 31 December 2015. The average risk weights of corporate exposures remained virtually unchanged while the average risk weights of retail exposures rose slightly as a result of model updates.

Risk Exposure Amount 31 December 2016
 Total 44.1 € billion
 (change from year end 5.4%)



Equity investments include EUR 6.5 billion (6.5) in risk-weighted assets of the Group's internal insurance holdings.

In October 2015, OP Financial Group received permission from the ECB to treat insurance holdings within the conglomerate as risk-weighted assets according to the previous practice. The method applied to insurance holdings leads to a risk weight of approximately 280%.

In December 2016, the Financial Supervisory Authority reiterated its decision not to impose a countercyclical capital buffer requirement on banks. The Financial Supervisory Authority makes a macroprudential policy decision on a quarterly basis. The Authority will continue preparing to set a 10% minimum risk weight on housing loans in an effort, according to the Authority, to prepare for an increased systemic risk. The Authority seeks to adopt the minimum risk weight at the beginning of July 2017. This 10% minimum would decrease the CET1 ratio by an estimated 0.9 percentage points and FiCo solvency by 7 percentage points.

The upcoming regulations include a ratio of the degree of indebtedness, the leverage ratio. The leverage ratio of OP Financial Group's Banking is estimated at about 7.4% based on the existing interpretations, calculated using the December-end figures, with the minimum level in the draft regulations being 3%.

Non-life and Life Insurance

The solvency regulations of the insurance sector changed in early 2016. Changes in the insurance sector's Solvency II regulations aim to improve the quality of insurance companies' capital base, improve their risk management, increase the risk-based capital requirements and harmonise insurance sector solvency requirements in Europe.

Solvency II	Non-life Insurance*		Life Insurance	
	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015
Capital base, € million **	992	1,177	1,455	1,419
Solvency capital requirement (SCR), € million**	693	714	742	692
Solvency ratio, % **	143	165	196	205
Solvency ratio, % (excluding transitional provision)	127	146	149	149

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

ECB banking supervision

OP Financial Group is supervised by the European Central Bank (ECB). In 2015, the ECB imposed on OP Financial Group a discretionary capital buffer requirement, in compliance with the Act on Credit Institutions, as part of the supervisory review and evaluation process (SREP). This buffer requirement was 9.75% the discretionary requirement included and 11.75% the O-SII buffer requirement included until the end of 2016. In view of OP Financial Group's strong capital base and high capital adequacy target, the discretionary capital buffer requirement has no practical implications for the Group's capital adequacy position or business.

Since the definition of the buffer requirement applicable in the SREP in 2017 has changed, the new requirement is not fully comparable to the previous one. The new capital buffer requirement (P2R) set by the ECB and effective as of 1 January 2017 is 1.75%. When taking account of the P2R, the new minimum for OP Financial Group's CET1 ratio is 10.75% and for its capital adequacy ratio 14.25%. The new minimum set by the ECB increases the capital requirement based on the Act on the Supervision of Financial and Insurance Conglomerates (FiCo), whereby the FiCo solvency falls by 16% following the new capital buffer requirement. In addition, the ECB has set on OP Financial Group a capital adequacy guidance (P2G) of 1.0%. Failure to meet this guidance would not affect e.g. profit distribution. The P2G included, the CET1 requirement is 11.75%. OP Financial Group's capital adequacy clearly exceeds the new minimum set.

The ECB has paid attention to shortcomings in OP Financial Group's credit risk models' validation process. The ECB may impose sanctions on OP Financial Group due to shortcomings it has discovered, such as raising the risk weights used in capital adequacy measurement for a fixed period. The ECB's handling is in progress, and the ECB's final decision on the matter can be expected during the first quarter of 2017.

OP Financial Group has started corrective measures to eliminate the shortcomings and completed all delayed validations. On the basis of the validations, there turned out to be no need to make material changes to the credit risk models used or risk weights.

Liabilities under the Resolution Act

Regulation in force since early 2015 applies to crisis resolution of credit institutions and investment firms. In addition, more specified guidelines on the application of these provisions were issued by an authority in summer 2016. According to the new regulation, the resolution authority is authorised to intervene in

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

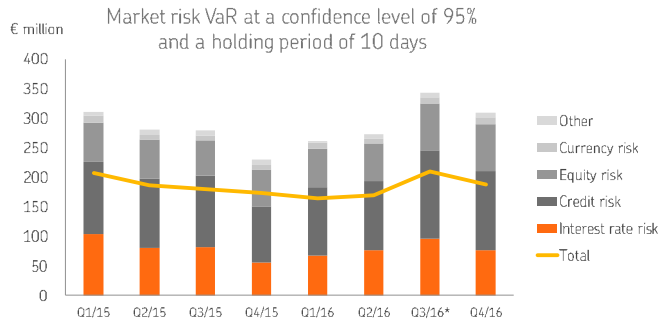
Risk exposure

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

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

OP Financial Group's funding and liquidity position is good. The availability of funding has remained good. During the financial year, the Group issued long-term bonds worth EUR 2.2 billion. In addition, OP Financial Group participated in the second series of the ECB's targeted longer-term refinancing operations (TLTRO-II) with EUR 3 billion. The loan-to-deposit ratio remained stable throughout the financial year.

OP Financial Group's market risk exposure was stable during the financial year. The Group's VaR, a measure of market risk, was EUR 188 million (174) on 31 December 2016. It includes the balance sheet total of the insurance institutions, trading, liquidity buffer and the Group Treasury's interest rate risk exposure.



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

The Group expects its operational risks to be moderate as targeted. The development speed of operations and services, however, will 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 increase of net liabilities related to defined benefit pension plans entered in the comprehensive income during the financial year weakened the comprehensive income before taxes by EUR 329 million. A year ago, a decrease in net liabilities related to defined benefit pension plans improved other comprehensive income before tax by EUR 519 million.

Banking

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

Credit risk exposure by Banking remained stable and credit risk remained moderate. Doubtful receivables totalled EUR 2.6 billion (2.1). An increase in forbearance measures had an effect on a rise in doubtful receivables. Doubtful receivables refer to receivables that are more than 90 days past due, other receivables classified as risky and forbore receivables due to the customer's financial difficulties. Forbearance measures consist of concessions agreed at the customers' initiative to contractual payment terms towards the customer to make it easier for them to manage through temporary payment difficulties. Member cooperative banks make every effort to find solutions to overcome customers' temporary financial difficulties. Loan modifications due to reasons other than the customer's financial difficulties are not classified as doubtful receivables. Impairment losses remained low, accounting for 0.09% (0.10) of the loan and guarantee portfolio.

During the financial year, the loan and guarantee portfolio increased by EUR 3.6 billion to EUR 81.3 billion. Private customers accounted for 60% (60) of the loan and guarantee portfolio. Of the six main categories for private customer exposure, 84% (83) of the exposures belonged to the top two categories, and 4% (3) to the lowest two. Corporate exposures (incl. housing corporations) represented 38% (36) of the loan and guarantee portfolio. Of corporate exposure, the highest borrower grade 1–5.5 exposure represented 55% (59) and the exposure of the two lowest borrower grades amounted to EUR 464 million (441), accounting for 1.2% (1.2) of the total corporate exposure. In August, Banking adopted an updated credit rating scale for corporate customers, which affected corporate customer exposure grades. Comparatives have not been restated.

No single customer's exposure exceeded 10% of the capital base after allowances and other recognition of credit risk mitigation. The Banking capital base covering customer exposure amounted to EUR 10.4 billion (9.4).

In the Companies and Housing Corporations sector, the most significant industries measured by exposure were Renting and Operating of Residential Real Estate representing 21.6% (21.9), Renting and Operating of Other Real Estate representing 11.0% (11.7) and Trade representing 9.9% (9.6). A total of 93% of exposures within Renting and Operating of Residential Real Estate were those by housing corporations and 15% were those guaranteed by general government.

Banking's interest rate risk measured as the effect of a one-percentage point decrease on 12-month net interest income was EUR 207 million (215) at the end of December.

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 43 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 solvency position under Solvency II remained strong at the end of 2016, although it was slightly lower than a year ago.

The investment risk level (VaR with 95% confidence, 1-month time period) remained stable during the review period. Equities were put a slightly more weight in the investment portfolio. The Group has moderately increased interest rate and credit risk associated with the investment portfolio. The Group has used both interest rate derivatives and bonds to hedge against interest rate risk associated with insurance liability. The Group has increased hedging against interest rate risk associated with the insurance liability.

Wealth Management

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

A one-year increase in life expectancy would decrease insurance liability by EUR 25 million. A 0.1 percentage point decrease in interest rates used in insurance liability valuation would increase insurance liabilities by EUR 39 million.

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

In life insurance underwriting risks, the Group has hedged against customer behaviour risk through a reinsurance contract, as a result of which the customer behaviour risk lowered. The Life Insurance solvency position under Solvency II was at the same level at the end of the financial year than the year before.

The investment risk level (VaR with 95% confidence, 1-month time period) remained stable during the review period. Equities were put a slightly more weight in the investment portfolio. The Group has moderately increased interest rate and credit risk associated with the investment portfolio. The Group has used both interest rate derivatives and bonds to hedge against interest rate risk associated with insurance liability. The hedge ratio of interest rate risk associated with insurance liabilities has remained stable.

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.

Although investments in the liquidity buffer increased, the market risk in proportion to the position size (VaR with 95%

confidence) decreased during the financial year as a result of allocation and market changes.

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

The Group has reassessed the application of the collateral eligibility criteria for corporate loans eligible as collateral included in the liquidity buffer, on the basis of which the comparative figure was reduced by EUR 2.2 billion. As a result of the measures taken in the last quarter, EUR 0.8 billion of these loans could be restored to being as eligible for collateral. The amount of corporate loans eligible as collateral decreased during the financial year because they were used as collateral in TLTRO-II.

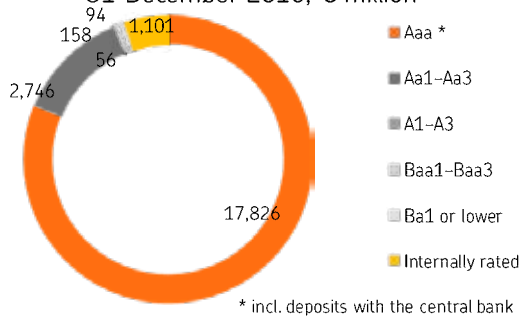
OP Financial Group monitors its liquidity and the adequacy of its liquidity buffer using, for example, the Liquidity Coverage Ratio (LCR). According to the transitional provisions, the LCR must be at least 70% in 2016 and at least 100% from the beginning of 2018. OP Financial Group's LCR was 117% on 31 December 2016.

Liquidity buffer

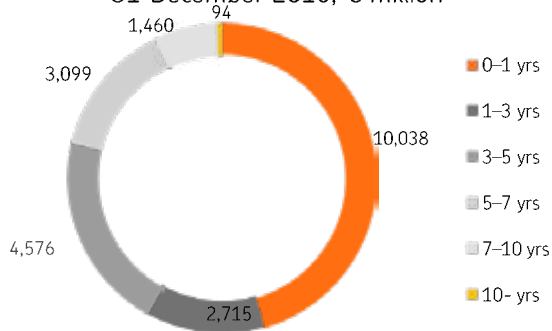
€ billion	31 Dec. 2016	31 Dec. 2015	Change, %
Deposits with central banks	9.3	8.5	10.2
Notes and bonds eligible as collateral	11.2	10.6	5.5
Corporate loans eligible as collateral	0.1	2.1	-95.5
Total	20.6	21.1	-2.5
Receivables ineligible as collateral	1.4	0.8	67.3
Liquidity buffer at market value	22.0	22.0	0.1
Collateral haircut	-0.7	-0.9	-30.2
Liquidity buffer at collateral value	21.3	21.0	1.5

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

Financial assets included in the liquidity buffer by credit rating on 31 December 2016, € million



Financial assets included in the liquidity buffer by maturity on 31 December 2016, € million



Credit ratings

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

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

The credit ratings did not change in the financial year. In July and November 2016, Standard & Poor's affirmed OP Corporate Bank plc's long-term debt rating at AA- and short-term debt rating at A-2016+ and in November changed the outlook from negative to stable. The change in the outlook reflects the change in the Finnish BICRA trend (Banking Industry Country Risk Assessment) from negative to stable thanks to the gradual recovery of the Finnish economy.

Financial performance by segment

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

Banking

- Earnings before tax amounted to EUR 596 million (642).
- Income decreased by 0.2%. Income was reduced by the changed operating model between the Banking segment and the Other Operations segment. Expenses increased by 3.5% due to development expenditure and higher volumes.
- The loan portfolio increased by 4.5% and the deposit portfolio by 5.5% in the year to December. Year on year, the volume of new home loans drawn down increased by 8.3% and that of corporate loans by 9.7%.
- Impairment losses of EUR 76 million (77) accounted for 0.09% (0.10) of the loan and guarantee portfolio.

Banking: key figures and ratios

€ million	Q1-4/2016	Q1-4/2015	Change, %
Net interest income	1,133	1,108	2.3
Net commissions and fees	758	663	14.2
Net investment income	6	120	-95.3
Other income	27	36	-24.2
Total income	1,924	1,927	-0.2
Personnel costs	451	472	-4.4
Depreciation/amortisation and impairment loss	52	52	-0.3
Other operating expenses	569	512	11.1
Total expenses	1,072	1,037	3.5
Impairment loss on receivables	76	77	-1.1
OP bonuses to owner-customers	179	171	4.9
Earnings before tax	596	642	-7.3
Cost/income ratio, %	55.7	53.8	2.0
€ million	31 Dec. 2016	31 Dec. 2015	Change, %
Home loans drawn down	7,125	6,577	8.3
Corporate loans drawn down	7,275	6,631	9.7
No. of brokered property transactions	12,664	12,149	4.2
€ billion			
Loan portfolio			
Home loans	36.8	35.3	4.4
Corporate loans	19.0	18.5	2.8
Housing corporation and other loans	22.8	21.5	6.0
Total	78.6	75.2	4.5
Guarantee portfolio	2.8	2.6	5.5
Deposits			
Current and payment transfer	37.1	34.7	6.9
Investment deposits	17.7	17.2	2.8
Total	54.8	51.9	5.5
Market share, %**	31 Dec. 2016	31 Dec. 2015	Change, %
Loans	35.4	35.2	0.2*
Deposits	38.5	37.7	0.8*

* Change in ratio

** Excluding financial and insurance institutions' loans and deposits

The loan portfolio continued to grow. The loan portfolio grew by 4.5% in the year to December. Year on year, the volume of new home loans drawn down increased by 8.3% and that of corporate loans by 9.7%.

The deposit portfolio increased by 5.5% in the year to December. Investment deposits increased by 2.8%. The volume of deposits in current and payment transaction accounts increased by 6.9% in the year to December.

OP Financial Group's market share of home loans increased in the year to December by 0.2 percentage points, being 39.4% at the end of December. The market share of corporate loans increased during the same period by 0.2 percentage point to 37.8% (37.6). The Group's market share of the total euro-denominated deposits, excluding financial and insurance institutions, was 38.5% (37.7).

The volume of homes sold and bought through the OP Kiinteistökeskus real estate agents increased by 4.2% over the previous year.

Earnings

Earnings before tax recorded by Banking amounted to EUR 596 million (642). Income decreased by 0.2% while total expenses increased by 3.5%. Lower income was affected by the change in the Group's internal operating model. The reduced income and increased expenses also affected the cost/income ratio, which was 56% (54). Impairment losses of EUR 76 million (77) accounted for 0.09% (0.10) of the loan and guarantee portfolio.

As from the beginning of the financial year, OP Financial Group's internal operating model was changed by transferring the Markets division's interest rate derivatives and FX trading as well as bonds trading from the Banking segment to the Other Operations segment. The change affects the Banking segment and Other Operations segment net interest income, net commissions and fees and net investment income. This change

together with other changes in internal operating models reduced Banking income by roughly EUR 29 million. Correspondingly, the change improved earnings by the Other Operations segment. Comparatives have not been changed.

Net interest income rose to EUR 1,133 million (1,108) as a result of an increase in the loan portfolio, a higher average loan portfolio margin and lower deposit funding costs.

Net commissions and fees increased by EUR 94 million to EUR 758 million (663). This increase was affected by the change in the Group's internal operating model, as a result of which EUR 79 million were recognised in commissions and fees from derivatives and FX trading. Commissions and fees related to payment transactions increased by EUR 7 million and those to wealth management and non-life insurance increased by a total of EUR 7 million.

Net investment income decreased by a total of EUR 114 million. The reduced net investment income was lowered by a negative 12-million euro (5) CVA valuation arising from interest rate changes and other market movements. As a result of the change in OP Financial Group's internal operating model, the fair value changes of balance-sheet and derivative items measured at fair value are partly allocated to the Other Operations segment instead of the Banking segment. These fair value changes recognised in Banking for the period a year ago totalled EUR 116 million.

Expenses increased by 3.5% to EUR 1,072 million (1,037).

Other operating expenses rose by 11.1%. ICT costs increased by EUR 48 million. Higher ICT costs were explained by heavy investments in development and growth in volumes.

Personnel costs decreased by EUR 21 million to EUR 451 million (472).

Non-life Insurance

- Earnings before tax amounted to EUR 230 million (259). Net investment income totalled EUR 97 million (125). Earnings before tax at fair value were EUR 298 million (171).
- Insurance premium revenue increased by 1.6% (6.5). Net return on investments at fair value totalled EUR 85 million (98).
- The operating combined ratio was 87.6% (87.3) and operating expense ratio 18.5% (17.7). The combined ratio was 89.1% (88.8).

Non-life Insurance: key figures and ratios

€ million	Q1-4/2016	Q1-4/2015	Change, %
Insurance premium revenue	1,420	1,397	1.6
Claims incurred	883	885	-0.2
Other expenses	3	5	-41.7
Net insurance income	534	508	5.2
Net investment income	97	125	-22.5
Other net income	-74	-70	4.4
Total income	557	563	-0.9
Personnel costs	100	101	-1.5
Depreciation/amortisation and impairment loss	39	37	5.6
Other operating expenses	187	168	14.0
Total expenses	326	302	7.8
OP bonuses to owner-customers	2	2	12.3
Earnings before tax	230	259	-11.1
Combined ratio, %	89.1	88.8	
Operating combined ratio, %	87.6	87.3	
Operating loss ratio, %	69.1	69.6	
Operating expense ratio, %	18.5	17.7	
Operating risk ratio, %	63.3	64.2	
Operating cost ratio, %	24.3	23.1	
Solvency ratio (Solvency II), %*	143	158	
Large claims incurred retained for own account	61	60	
Changes in claims for provisions of previous years (run-off result)	60	32	

* including transitional provisions.

Insurance premium revenue from Private Customers continued to grow. Insurance premium revenue from Corporate Customers was lower than a year ago. Insurance sales increased slightly year on year.

Measured by the market share of premiums written, OP Financial Group is clearly Finland's largest non-life insurer.

The number of premier customer households increased in the financial year by a record high of 63,000 to 740,000, of which up to 76% also use OP Financial Group member banks as their main bank.

Developing online and mobile services in both insurance and claims ranks among key Non-life Insurance priorities. The vahinkoapu.op.fi site (claims assistance) and the new loss report service on OP-mobile have been in frequent use since their launch in late 2015. Up to almost 70% of loss reports of private customers are filed through electronic channels.

Earnings

Earnings before tax amounted to EUR 230 million (259). Net insurance income increased by 5.2% to EUR 534 million. Net investment income recognised in the income statement decreased by EUR 28 million. Earnings before tax at fair value were EUR 298 million (171).

The operating combined ratio was 87.6% (87.3). The operating ratios exclude amortisation on intangible assets arising from the corporate acquisition.

Insurance premium revenue € million	Q1-4/2016	Q1-4/2015	Change, %
Private Customers	771	732	5.3
Corporate Customers	591	609	-2.9
Baltics	58	56	2.8
Total	1,420	1,397	1.6

Claims incurred decreased by 0.2%. Claims incurred arising from new large claims were higher than a year ago. The reported number of new large claims under property and business liability insurance (in excess of EUR 0.3 million) amounted to 78 (72) in January-December, with their claims incurred retained for own account totalling EUR 61 million (60). The change in provisions for unpaid claims under statutory pension decreased year on year, being EUR 9.7 million (15.7) between January and December. On 31 December 2016, the average discount rate was 1.97%. On 31 December 2015, the average discount rate was 2.22%. The reduced discount rate increased claims incurred by EUR 55 million (62), weakening the operating combined ratio by 3.9 percentage points (4.5).

Changes in claims for previous years, excluding the effect of changes on the discount rate, improved the balance on technical account by EUR 60 million (32). The operating loss ratio was 69.1% (69.6). The operating risk ratio excluding indirect loss adjustment expenses was 63.3% (64.2).

Expenses grew by 7.8%, being EUR 24 million higher than a year ago, due to higher ICT costs and the expansion of the health and wellbeing business. The operating expense ratio was 18.5% (17.7). The operating cost ratio (including indirect loss adjustment expenses) was 24.3% (23.1).

Operating balance on technical account and combined ratio (CR)

	Q1-4/2016		Q1-4/2015	
	Balance € million	CR, %	Balance € million	CR, %
Private Customers	130	83.1	140	80.9
Corporate Customers	41	93.1	32	94.7
Baltics	5	91.1	5	90.9
Total	176	87.6	177	87.3

Investment

Net return on Non-life Insurance investments at fair value totalled EUR 85 million (98). Net return on investments at fair value is calculated by deducting the value change in market-consistent insurance liability from income from total investment assets.

Investment portfolio by asset class

%	31 Dec. 2016	31 Dec. 2015
Bonds and bond funds	76.6	76.6
Alternative investments	0.8	0.8
Equities	8.1	6.7
Private equity	2.9	3.4
Real property	9.8	9.9
Money markets	1.9	2.5
Total	100	100

On 31 December 2016, the Non-life Insurance investment portfolio totalled EUR 3,876 million (3,687). Investments within the investment-grade category accounted for 91% (93), and 62% (63) of the investments were rated at least A-. The average residual term to maturity of the fixed-income portfolio was 5.9 years (5.7) and the duration 5.4 years (5.2).

The running yield for direct bond investments averaged 1.7% (1.8) on 31 December 2016.

Wealth Management

- Earnings before tax amounted to EUR 232 million (213). Earnings before tax at fair value were EUR 268 million (159).
- Net commissions and fees decreased by 1% and Life Insurance net investment income increased by 19% year on year. Net return on investments at fair value totalled EUR 78 million (109).
- The gross amount of assets under management increased year on year by almost 9% to EUR 74.5 billion.

Wealth Management: key figures and ratios

€ million	Q1–4/2016	Q1–4/2015	Change, %
Net commissions and fees			
Funds and asset management	187	188	-1.0
Life Insurance	169	171	-0.7
Expenses	139	139	0.1
Total net commissions and fees	217	220	-1.4
Life Insurance's net risk results	24	21	16.4
Net investment income from Life Insurance	117	98	18.5
Other income	8	5	
Total income	365	344	6.1
Personnel costs	30	32	-3.8
Depreciation/amortisation and impairment loss	19	24	-21.7
Other operating expenses	59	52	13.9
Total expenses	109	108	0.7
OP bonuses to owner-customers	25	23	5.9
Earnings before tax	232	213	8.8
€ billion	31 Dec. 2016	31 Dec. 2015	Change, %
Assets under management (gross)			
Mutual funds	23.5	21.7	8.2
Institutional clients	24.6	23.5	4.8
Private Banking	17.3	14.6	18.1
Unit-linked insurance savings	9.2	8.7	5.8
Total assets under management (gross)	74.5	68.5	8.9
€ million	Q1–4/2016	Q1–4/2015	Change, %
Net inflows			
Investor and saver customers	327	666	-50.9
Private Banking clients	437	469	-6.8
Institutional clients	434	-187	-
Total net inflows	1,198	948	26.4
Market share, %	31 Dec. 2016	31 Dec. 2015	Change, %
Mutual funds	22.0	22.2	-0.2

Capital market sentiment improved towards the year end, which was positively reflected in demand for Wealth Management products after the weak first half. Total net inflows were EUR 1,198 million (948) and the gross amount of assets under management increased by almost 9% to EUR 74.5 billion (68.5). This amount included about EUR 14 billion in assets of the companies belonging to OP Financial Group.

At the beginning of June, OP Financial Group stopped permanently charging its owner-customers transaction costs related to mutual funds. This benefit aroused customers' interest, as a result of which the number of unitholders increased by almost 50,000 during the financial year. The aggregate number of investor and saver customers grew by 12,000 in the financial year, totalling 766,000 on 31 December 2016.

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

During the financial year, the Group continued to further develop electronic sales and transactions for Wealth Management. Electronic channels accounted for 49% (40) of mutual fund subscriptions.

Earnings

Earnings before tax increased to EUR 232 million (213). This improvement was due to higher net investment income from Life Insurance. Earnings before tax at fair value were EUR 268 million (159).

Net commissions and fees decreased by 1.4% year on year, amounting to EUR 217 million (220). Net commissions and fees less OP bonuses to owner-customers accounted for 0.27% (0.29) of the gross amount of the assets under management.

Net return on Non-life Insurance investments at fair value totalled EUR 78 million (109). 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 rose by one per cent year on year. This rise was due to higher development expenditure. Wealth Management's operating cost/income ratio improved to 43.7% (45.6). Expenses accounted for 0.14% (0.16) 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. During the financial year, the Group began to hedge insurance liability through direct fixed-income investments. Accrued supplementary interest rate provisions related to insurance liabilities (excluding the separated balance sheets) totalled EUR 432 million (404) on 31 December 2016. Short-term supplementary interest rate provisions made for less than 12 months accounted for EUR 36 million (52) 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 4,100 million (4,032). Investments within the investment-grade category accounted for 93% (96) of the fixed-income portfolio. The portfolio's modified duration was 4.9 (4.7) on 31 December 2016. The running yield for direct bond investments (excluding the separated balance sheets averaged 1.6% (1.6) on 31 December 2016.

Investment portfolio by asset class

%	31 Dec. 2016	31 Dec. 2015
Bonds and bond funds	76.2	76.2
Alternative investments	7.1	5.7
Equities and equity funds	6.3	5.1
Real property	7.2	6.6
Money markets	3.2	6.4
Total	100	100

Return on investments on the separated Life Insurance balance sheets

Suomi Mutual's individual life insurance portfolio and individual pension insurance portfolio were consolidated into Life Insurance on 31 December 2015 and 30 December 2016, respectively. In connection with the portfolios' transfer, separated balance sheets were created out of the portfolios with a profit distribution policy differing from other life insurance operations.

On 31 December 2016, investment assets in the life insurance portfolio in the separated balance sheet, excluding interest rate derivatives hedging insurance liability, amounted to EUR 1,066 million. Net return on investments at fair value was EUR 17 million. Net return on investments at fair value is calculated by deducting the value change in market-consistent insurance liability from income from investment assets.

On 31 December 2016, investment assets in the pension insurance portfolio in the separated balance sheet amounted to EUR 3,049 million.

Investment portfolio by asset class in separated balance sheets

%	Individual life insurance	Individual pension insurance
Bonds and bond funds	81.1	71.4
Alternative investments	7.7	1.4
Equities and equity funds	2.9	2.4
Real property	6.7	6.1
Money markets	1.6	18.7
Total	100	100

Other Operations

Other Operations: key figure and ratios

€ million	Q1-4/2016	Q1-4/2015	Change, %
Net interest income	-60	-52	15.9
Net commissions and fees	-59	20	
Net investment income	179	86	
Other operating income	571	484	18.1
Total income	631	538	17.4
Personnel costs	180	176	2.7
Depreciation/amortisation and impairment loss	50	48	2.7
Other operating expenses	321	327	-1.8
Total expenses	551	551	0.0
Impairment loss on receivables	0	0	-97
Earnings before tax	80	-13	

Earnings

Earnings before tax amounted to EUR 80 million (-13). This earnings improvement came from higher net investment income and other operating income. Net commissions and fees, however, decreased year on year. Total income increased by 17.4% to EUR 631 million.

Net interest income was EUR -60 million (-52). On 31 December 2016, the average margin of OP Financial Group's senior wholesale funding, TLTRO II funding and covered bonds was 31 basis points (39). Use of the TLTRO-II funding lowers the cost of wholesale funding. Covered bonds are reported as part of the Banking segment.

During the financial year, OP Financial Group's internal operating model was changed by transferring the interest rate derivatives and FX trading, among other things, as well as bonds trading from the Banking segment to the Other Operations segment. This change added to net investment income reported by the Other Operations segment as a result of an increase in net income from securities trading and foreign exchange trading while decreasing net commissions and fees.

The Other Operations segment recognised EUR 76 million in non-recurring gain under other operating income as a result of the acquisition of Visa Europe Ltd by Visa Inc.

Expenses were at about the same level as a year ago, EUR 551 million. ICT costs decreased by EUR 27 million and purchased services increased by a total of EUR 30 million over the previous year. A year ago, higher other operating expenses were explained by non-recurring expenses of EUR 18 million related to the reconstruction of the Vallila premises.

Changes in OP Financial Group's structure

OP Financial Group's consolidated financial statements at the end of the financial year include the accounts of 173 member cooperative banks (178) including Group companies, OP Cooperative Consolidated and OVY Insurance Ltd.

During the financial year, the mergers of member cooperative banks reduced the number of OP cooperative banks while the conversion of Helsinki OP Bank Ltd's legal form into a cooperative bank registered on 1 April 2016 increased the

number. The bank's new business name is Helsinki Area Cooperative Bank (OP Helsinki). OP Helsinki as subsidiary is part of OP Financial Group central cooperative consolidated. The central cooperative will continue to have a major role in capitalising the new bank, which is why OP Cooperative exercises control over OP Helsinki, according to OP Helsinki's Bylaws.

On 30 November 2016, OVY Insurance Ltd transferred a banking special insurance portfolio to OP Insurance Ltd, consisting of special banking insurance policies issued as general liability and crime insurance as well as legal expenses insurance for OVY Insurance Ltd's senior management and administrative staff.

Östra Korsholms Andelsbank merged into Vasa Andelsbank on 29 February 2016.

On 31 October 2016, Keiteleen Osuuspankki merged into Pielaveden Osuuspankki, changing its name to Nilakan Seudun Osuuspankki.

On 31 December 2016, Enon Osuuspankki, Kiihtelysvaaran Osuuspankki and Tuupovaaran Osuuspankki merged into Ilomantsin Osuuspankki, changing its name to Vaara-Karjalan Osuuspankki.

On 31 October 2016, Puolangan Osuuspankki merged into Suomussalmen Osuuspankki, changing its name to Ylä-Kainuun Osuuspankki.

Pielisen Osuuspankki and Pohjois-Karjalan Osuuspankki accepted a merger plan on 10 October 2016, according to which the former will merge into the latter. The planned date for registration of the merger is 31 March 2017.

Karjalan Osuuspankki and Mynämäen-Nousiaisten Osuuspankki accepted a merger plan on 15 December 2016, according to which the former will merge into the latter. The planned date for registration of the merger is 30 April 2017.

Vetelin Osuuspankki and Kaustisen Osuuspankki accepted a merger plan on 21 November 2016, according to which the former will merge into latter. At the same time, Kaustisen

Osuuspankki will be renamed Perhonjokilaakson Osuuspankki. The planned date for registration of the merger is 31 May 2017.

Vetelin Ylipään Osuuspankki and Halsuan Osuuspankki accepted a merger plan on 28 November and 29 November 2016, according to which the former will merge into the latter. At the same time, Halsuan Osuuspankki will be renamed Halsua-Ylipään Osuuspankki. The planned date for registration of the merger is 30 June 2017.

Oriveden Seudun Osuuspankki and Mäntän Seudun Osuuspankki accepted a merger plan on 29 December 2016, according to which the former will merge into latter. At the same time, Mäntän Seudun Osuuspankki will be renamed Pohjois-Hämeen Osuuspankki. The planned date for registration of the merger is 30 June 2017.

The business names of OP Financial Group companies have been changed to begin with OP, effective as of 4 April 2016:

- Pohjola Bank plc became OP Corporate Bank plc
- Pohjola Insurance Ltd became OP Insurance Ltd
- Pohjola Asset Management Ltd became OP Asset Management Ltd
- Pohjola Property Management Ltd became OP Property Management Ltd
- Pohjola Asset Management Execution Services Ltd became OP Asset Management Execution Services Ltd

The business names of companies based in the Baltic countries have also been changed to begin with OP, as follows:

- Pohjola Bank plc Eesti filiaal became OP Corporate Bank plc Eesti filiaal
- Pohjola Bank plc filiāle Latvijā became OP Corporate Bank plc filiāle Latvijā
- Pohjola Bank plc Lietuvos filialas became OP Corporate Bank plc Lietuvos filialas
- Pohjola Finance Estonia AS became OP Finance AS
- "Pohjola Finance" SIA became "OP Finance" SIA
- UAB "Pohjola Finance" became UAB "OP Finance"

Omasairaala Oy was renamed Pohjola Health Ltd when the Tampere hospital unit was opened on 1 August 2016.

Personnel and remuneration

On 31 December 2016, OP Financial Group had 12,227 employees (12,130). The number of employees averaged 12,271 (12,174). OP Financial Group continued to invest in the development of digital business and customer experience, which led to higher headcount.

A total of 388 people (241) retired from OP Financial Group during the financial year at an average age of 61.7 years (61.5).

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.

The long-term management remuneration scheme confirmed for 2014-16 terminated at the end of the financial year. A new long-term management remuneration scheme has been

confirmed for 2017-2019. In addition, OP Financial Group's personnel fund remuneration scheme will be extended by one-year performance periods.

In drawing up the incentive schemes, OP Financial Group 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.

Executive Board members' and Chief Audit Executive's executive contracts

Remuneration and other benefits of OP Financial Group's President and Group Executive Chairman, who is also the central cooperative's CEO, and of the other central cooperative's Executive Board members, deputy members and Chief Audit Executive are decided on by the presiding officers of the central cooperative's Supervisory Board. A written executive contract, approved by the Supervisory Board, stipulates the terms and conditions governing each Executive Board member's, deputy member's and the Chief Audit Executive's employment.

Information required by the EU capital requirements regulation and directive concerning the remuneration of OP Financial Group's identified staff are published annually on OP's website.

In 2016, OP Financial Group's President and Group Executive Chairman received EUR 754,392 in salary, EUR 18,480 in fringe benefits and EUR 218,838 in bonuses for 2015 based on the short-term scheme, i.e. a total of EUR 991,710. In 2016, the amount of deferred bonuses earned for 2011-2013 under the short-term and long-term schemes totalled EUR 628,658.

Other Executive Board members, deputy members and the Chief Audit Executive received a total of EUR 3,430,193 in salary and EUR 161,997 in fringe benefits. The amount of bonuses earned for 2011-2015 under the short-term and long-term schemes totalled EUR 2,352,938. Salaries and bonuses paid to other Executive Board members, deputy members and the Chief Audit Executive totalled EUR 5,945,128.

Salaries and bonuses include the amount of the performance-based bonuses earned for 2012, 2013 and 2015 and paid in 2016. Payment of performance-based bonuses earned by the President and Group Executive Chairman and Executive Board members for 2015 under the short-term scheme has not been deferred. The deferral procedure is based on a procedure prescribed in the Act on Credit Institutions (610/2014), which is described in Note 59 of OP Financial Group's 2016 IFRS Financial Statements on variable remuneration.

The President and Group Executive Chairman, the other Executive Board members, deputy members and the Chief Audit Executive retire at the age of 63. Pension benefits are determined in accordance with pension laws and OP Financial Group's own pension plans.

Supplementary pension insurance payments for 2016 totalled EUR 829,698. In 2016, no payments were recognised under the OP Bank Group Pension Foundation supplementary pension scheme.

Supplementary pension costs have been published in the credit institutions' remuneration data collected annually by the European Banking Authority (EBA) in accordance with the capital requirements regulation (EU 575/2013) and directive of the (2013/36/EU, CRD IV) of the European Parliament and of the Council.

	Regular pay	Fringe benefits	Short-term performance-based bonus for 2015	Total salaries, bonuses and fringe benefits paid in 2016	Deferred amount of performance-based bonuses earned for 2011, 2012 and 2013, and paid in 2016 (*)	Total salaries, bonuses and fringe benefits, and deferred performance-based bonuses paid in 2016
Reijo Karhinen	754,392	18,480	218,838	991,710	628,658	1,620,368
Tony Vepsäläinen	594,681	14,436	146,985	756,102	492,794	1,248,896
Karri Alameri	291,592	12,420	60,000	364,012	122,105	486,117
Carina Geber-Teir	197,420	12,100	56,718	266,237	92,394	358,632
Jari Himanen	280,386	23,437	52,800	356,623	92,173	448,796
Olli Lehtilä	293,795	36,348	57,200	387,343	129,530	516,873
Harri Luhtala	250,637	10,077	45,100	305,813	134,992	440,805
Harri Nummela	336,159	12,720	60,830	409,709	173,922	583,631
Erik Palmén	238,876	-	46,815	285,691	114,583	400,274
Jouko Pölonen	388,622	13,200	112,000	513,822	143,107	656,929
Outi Taivainen	194,164	5,198	8,000	207,362	-	207,362
Markku Koponen	182,985	11,100	26,347	220,432	74,171	294,603
Leena Kallasvu	180,876	10,961	33,187	225,024	77,185	302,209
Total	4,184,585	180,477	924,820	5,289,881	2,275,614	7,565,496

*) Include the amount of performance-based bonuses earned for 2012 and 2013 and paid in 2016 as well as the amount of long-term performance-based bonuses earned for 2011–2013 and paid in 2016. Payment of deferred amounts requires a separate decision.

The period of notice for the President and Group Executive Chairman, other Executive Board members, deputy member and the Chief Audit Executive is 6 months. Upon termination of employment in cases specifically stipulated in their executive contracts, the President and Group Executive Chairman is entitled to a severance pay and a sum equivalent to a maximum of 12 months' pay, while other Executive Board members, deputy member and the Chief Audit Executive are entitled to a sum equivalent to a maximum of 6 months' pay.

Governance of OP Cooperative

OP Financial Group's central cooperative (OP Cooperative) held its Annual Cooperative Meeting on 15 March 2016. The Meeting re-elected for the term of three years ending in 2019 the following members to the Supervisory Board who were due to resign: Product Group Director Ola Eklund, entrepreneur Leif Enberg and senior lecturer Mervi Väisänen.

New members elected to the Supervisory Board for a three-year term ending in 2019 were Deputy Director Taija Jurmu, senior lecturer Marja-Liisa Kaakko and dean Petri Sahlström.

In addition, the Meeting elected the following Supervisory Board members replacing those who had requested resignation from the Supervisory Board during their mid-term: Managing Director Anne Harju (2016–2018), Health Centre Physician Terttu Hällfors (2016–2017), APA Katja Kuosa-Kaartti (2016–2018), Managing Director Timo Laine (2016–2017) and CEO Olli Näsi (2016–2018). The Supervisory Board comprises 34 members.

At its first meeting after the Annual Cooperative Meeting, the Supervisory Board elected Professor Jaakko Pehkonen to act as Chair and Senior Lecturer Mervi Väisänen and Managing Director Olli Tarkkanen to act as Vice Chairs.

Upon decision made by the Annual Cooperative Meeting to alter the Cooperative Bylaws, the maximum number of Executive Board members increased from eight to nine, in addition to the Executive Board Chair and Vice Chair. As a result, Outi Taivainen, Executive Vice President of Human Resources, became an ordinary Executive Board member (previously deputy member). Markku Koponen, deputy Executive Board member, Chief Legal Officer, resigned on 31 December 2016.

The Annual Cooperative Meeting re-elected KPMG Oy Ab, an accounting firm, to act as OP Financial Group's auditor, with

Raija-Leena Hankonen, APA, acting as the Auditor-in-charge, appointed by KPMG Oy Ab.

Capital expenditure and service development

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

In January–December, OP Financial Group's development expenditure totalled EUR 315 million (201). These include licence fees, purchased services, other external costs related to projects and in-house work. The capitalised development expenditure totalled EUR 180 million (126).

Events after the balance sheet date

On 2 February 2017, OP Financial Group was informed of the European Central Bank's (ECB) decision to raise OP Financial Group's risk weights for retail exposures for a fixed period of 18 months. The shortcomings observed by the ECB in the IRBA validation process applied by OP Financial Group in capital adequacy measurement, especially delayed validations, lie behind this raise. As a result of the rise in risk weights, OP Financial Group's CET1 ratio will decrease by less than two percentage points. At the end of December 2016, OP Financial Group's CET1 ratio stood at 20.1%.

OP Financial Group has already remedied the shortcomings observed by the ECB to a substantial extent and will complete the corrective measures as soon as possible.

Under supervision by the Finnish Financial Supervisory Authority, OP Financial Group adopted IRBA for credit risk between 2008 and 2011. The ECB has supervised OP Financial Group since November 2014.

Outlook for 2017

The Finnish economy recovered last year driven by consumer spending and construction in particular. Brexit, in particular, added uncertainty during 2016. The uncertainty remained, however, transient. Confidence indicators improved during the rest of the year. In Finland, consumer confidence in particular improved, which was helped by lower unemployment. The housing market picked up and home prices rose moderately. The world economy is expected to recover slightly, which together with pro-competitiveness measures should gradually support Finnish exports. The Finnish economy is expected to continue to grow at a relatively steady rate on a broader base than before. Political uncertainty in export markets and partly in Finland too will cast a shadow over the economic outlook.

Low market interest rates will erode banks' net interest income and weaken insurance institutions' investment income, but then again will support customers' repayment capacity. Impairment losses in the banking sector have been low despite the persistent slow economic growth. The financial sector's preparation for changing customer behaviour and challenges presented by digitisation will substantially increase the need for reinvention in the sector across the board. Industry disruption is threatening to erode income generation too in the years to come. Changes in the operating environment will emphasise the role of the

management of operational efficiency, profitability and capital adequacy with a long-term approach.

OP Financial Group expects its full-year earnings for 2017 to be about the same as or lower than those for 2016 due to increasing development costs and other expenses arising from strategy implementation. Abnormally high uncertainty that is related to developments in the operating environment has further increased short-term earnings volatility, which will have an effect on the predictability of OP Financial Group's full-year earnings performance. The most significant uncertainties relate to changes in the interest rate and investment environment, impairment loss developments and the rate of business growth.

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.

Legal structure of the amalgamation of the cooperative banks and OP Financial Group

Amalgamation of OP Financial Group member cooperative banks, and OP Financial Group

The amalgamation of OP Financial Group member cooperative banks is formed by OP Cooperative (central cooperative), companies belonging to its consolidation group, the central cooperative's member credit entities and companies belonging to their consolidation groups, and credit institutions, financial institutions and service companies in which the abovementioned entities together hold more than half of the total votes.

OP Financial Group is comprised of the amalgamation of the member cooperative banks and those non-amalgamation entities of which entities belonging to the amalgamation hold more than half of the total votes. The extent of OP Financial Group differs from that of the amalgamation of the member cooperative banks in that OP Financial Group subsumes companies other than credit institutions, financial institutions or service companies. The most important of these are the insurance companies with which the amalgamation forms a financial and insurance conglomerate. In addition, Pohjola Health Ltd, a hospital, belongs to OP Financial Group.

Control, risk management and capital adequacy of the amalgamation of cooperative banks

Pursuant to the Act on the Amalgamation of Deposit Banks, the consolidated capital base and liquidity of the companies within the amalgamation are controlled on a consolidated basis. The central cooperative is under an obligation to supervise its member credit institutions, issue instructions to them on risk management, good corporate governance and internal control to secure liquidity and capital adequacy, as well as instructions on compliance with standardised accounting policies in the preparation of the consolidated financial statements. In the manner as specified in its Bylaws, the central cooperative may also confirm general principles to be followed by its member credit institutions in operations relevant to their amalgamation.

However, the obligation to issue guidelines and exercise supervision does not authorise the central cooperative to dictate the course of the member credit institutions' business operations. Each member credit institution carries on its business independently within the scope of its own resources and guidelines provided by the central cooperative.

A company belonging to the amalgamation may not, in the course of its operations, take any risk of such magnitude that it poses a substantial danger to the combined capital base or liquidity of the companies within the amalgamation. The central cooperative must by law pursue good corporate governance that enables effective risk management and have in place adequate internal control and risk management systems in view of the performance of the amalgamation. The risk management principles applied to the amalgamation of the cooperative banks are included in OP Financial Group's risk-taking and risk tolerance system document described in greater detail in other parts of the Report by the Executive Board and OP Financial Group's IFRS Financial Statements.

The amalgamation must fulfil the legal requirements concerning its financial position. The amalgamation must have the minimum capital base specified in Chapter 10, Section 1 of the Act on Credit Institutions.

Member credit institution's capital adequacy and its supervision

In accordance with the Act on the Amalgamation of Deposit Banks, the supervisor may give the central cooperative permission to decide on exceptions to its member credit institutions related to the capital base amount and capital requirements, customer risks and liquidity and the qualitative management of risks.

The central cooperative may not make an exception to a member credit institution that has to a significant extent or repeatedly failed to comply with guidelines issued by the central cooperative pursuant to Section 17 of the Act on Credit Institutions or the member credit institution's obligations prescribed in Section 23 or issued pursuant to said supervisor's regulation. Such exception may be granted for a maximum period of three years. The central cooperative has enabled exceptions, authorised by the supervisor, with regard to member credit institutions' customer exposure, liquidity and qualitative management of risks.

A member credit institution is under no obligation to publish an interim report in accordance with Chapter 12, Section 12 of the Act on Credit Institutions. Member credit institutions are under no obligation to publish capital adequacy information (Pillar III disclosures) in their entirety; such information is disclosed on the amalgamation of OP member cooperative banks.

Joining the amalgamation of the cooperative banks and withdrawal from its membership

Central cooperative members may include credit institutions if their bylaws or articles of association correspond to what is prescribed by the Act on the Amalgamation of Deposit Banks and if their bylaws or articles of association have been approved by the central cooperative. The central cooperative's Supervisory Board decides on admitting members.

A member credit institution has the right to withdraw from its membership of the central cooperative. Even if a member credit institution withdraws from membership, the aggregate amount of capital resources of companies belonging to the amalgamation must be maintained at the level as required by the Act on the Amalgamation of Deposit Banks.

A member credit institution may also be expelled from membership of the central cooperative in accordance with the Co-operatives Act. A member credit institution may also be expelled if it has not complied with instructions issued by the central cooperative by virtue of Section 17 of the Act on the Amalgamation of Deposit Banks in a way that significantly jeopardises liquidity or capital adequacy management, the application of the standardised principles related to the preparation of financial statements or the supervision of adherence to them within the amalgamation. Expulsion is also possible if a member credit institution is in material breach of the amalgamation's general operating principles approved by the central cooperative.

The provisions of the Act on the Amalgamation of Deposit Banks governing payment liability of a member credit institution shall also apply to a former member credit institution which has withdrawn or expelled from the central cooperative, if less than five years have passed from the end of the calendar year of the member credit institution's withdrawal or expulsion from the central cooperative when a demand regarding payment liability is presented to the member credit institution.

OP Financial Group's financial statements and audit

According to the Act on the Amalgamation of Deposit Banks, OP Financial Group's financial statements must be prepared in compliance with the International Financial Reporting Standards, as referred to in the Accounting Act. The Financial Supervisory Authority has issued more detailed regulations on the preparation of OP Financial Group's financial statements. The accounting policies applied are presented in the notes to OP Financial Group's financial statements.

The central cooperative has a statutory obligation to issue instructions to the member credit institutions on observing uniform accounting policies in preparing the OP Financial Group's financial statements. The member credit institutions are obliged to provide the central cooperative with the information necessary for the consolidation of OP Financial Group's financial statements. The central cooperative's auditors are authorised to obtain a copy of the documents relating to a member credit institution's audit for auditing OP Financial Group's financial statements.

The central cooperative's auditors audit OP Financial Group's financial statements observing, as appropriate, the provisions of the Act on Credit Institutions. The financial statements are presented and distributed to the Annual Cooperative Meeting of the central cooperative.

Supervision of the amalgamation of the cooperative banks

The central cooperative and the amalgamation of the cooperative banks is supervised by the European Central Bank (ECB), while

the central cooperative's member credit institutions are supervised by the ECB and the central cooperative.

The central cooperative exercises oversight to ensure that the companies within the amalgamation operate in compliance with the laws, decrees and regulations issued by the relevant authorities governing financial markets, and with their own bylaws or articles of associations and the instructions issued by the central cooperative by virtue of Section 17 of the Act on the Amalgamation of Deposit Banks. Furthermore, the central cooperative supervises the financial position of the companies within the amalgamation.

The ECB oversees the central cooperative so that it controls and supervises the member credit institutions in accordance with the provisions of the Act on the Amalgamation of Deposit Banks and that the companies within the amalgamation fulfil their legal requirements.

The audit of the central cooperative and its member credit institutions is carried out by Internal Audit, which reports to the central cooperative's Executive Chairman. It is responsible for the internal audit of the central cooperative's member credit institutions and companies belonging to their consolidation groups and the central cooperative and its subsidiaries.

Internal audit performed by Internal Audit departments of OP Financial Group's Audit function is an independent and objective assessment, assurance and consulting activity designed to add value to OP Financial Group and improve its operations. Internal Audit helps OP Financial Group to reach its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, supervision and governance processes, with the focus on the identification of risk factors and the assessment of the performance of internal control. In its reports, Internal Audit issues recommendations for remedying any defects discovered.

Audits are carried out by adhering to international standards for internal audits, and to good auditing practices.

Central cooperative's liability for debt and joint and several liability of member credit institutions

As a support measure referred to in the Act on the Amalgamation of Deposit Banks, the central cooperative is liable to pay any of its member credit institutions an amount that is necessary to prevent the credit institution from being placed in liquidation. The central cooperative is also liable for the debts of a member credit institution which cannot be paid using the member credit institution's assets.

Each member credit institution is liable to pay a proportion of the amount which the central cooperative has paid to either another member credit institution as part of support action or to a creditor of such member credit institution in payment of an amount overdue which the creditor has not received from the member credit institution. Furthermore, in the case of the central cooperative's default, a member credit institution has unlimited refinancing liability for the central cooperative's debts as referred to in the Co-operatives Act.

Each member credit institution's liability for the amount the central cooperative has paid to the creditor on behalf of a member credit institution is divided between the member credit institutions in proportion to their last adopted balance sheets. The combined annual amount collected from each member credit institution in order to prevent liquidation of one of the member credit institutions may in each financial year account for a maximum of five thousandths of the last adopted balance sheet of each member credit institution.

Protection afforded by the Deposit Guarantee Fund and the Investors' Compensation Fund

According to the law governing the Deposit Guarantee Fund, the deposit banks belonging to the amalgamation of the cooperative banks are considered to constitute a single bank in respect of deposit insurance. The Deposit Guarantee Fund reimburses a maximum total of EUR 100,000 to an individual account holder who has receivables from deposit banks belonging to the amalgamation of cooperative banks

Under the law governing the Investors' Compensation Fund, the amalgamation of the cooperative banks is also considered to constitute a single credit institution in respect of investors' compensation. The Investors' Compensation Fund's assets may be used to compensate an investor's receivables from companies belonging to the amalgamation of the cooperative banks up to a total maximum of 20,000 euros.

A new authority founded in 2015, the Financial Stability Board, manages the Financial Stability Fund outside the government budget. The Fund consists of a resolution fund financed through stability contributions and a deposit guarantee fund financed through deposit guarantee contributions.

Financial and insurance conglomerate

OP Financial Group forms a financial and insurance conglomerate as defined in the Act on the Supervision of Financial and Insurance Conglomerates. The amalgamation's central cooperative operates as the company heading the amalgamation pursuant to Section 3 of said Act.

The Act stipulates a specific capital adequacy requirement for a financial and insurance conglomerate. OP Financial Group's capital adequacy is stated as the amount of its capital base in excess of the minimum capital requirement and as a ratio of the total capital base to the minimum required capital base.

The Act also stipulates the maximum limits for customer risks of a financial and insurance conglomerate. Moreover, Section 21 of the Act on the Amalgamation of Deposit Banks governing the amalgamation's customer registers applies to the financial and insurance conglomerate formed by OP Financial Group.

The set of norms governing financial statements under the Act on the Supervision of Financial and Insurance Conglomerates does not apply to OP Financial Group on the basis of Section 30 of the Act, because the Group prepares its financial statements in compliance with IFRS.

Key income statement and balance sheet items, and financial indicators

€ million	2016	2015	2014
Key income statement items, € million			
Net interest income	1,058	1,026	1,043
Net insurance income	558	528	481
Net commissions and fees	859	855	853
Net investment income	390	432	321
Other income	123	54	55
Personnel costs	762	781	741
Other expenses	806	739	814
Impairment loss on receivables	77	78	88
OP bonuses to owner-customers	206	196	195
Earnings before tax	1,138	1,101	915
Key balance sheet items – assets, € million			
Cash and cash equivalents	9,471	8,619	3,942
Derivative contracts	4,732	5,072	5,998
Receivables from credit institutions	337	425	686
Receivables from customers	78,604	75,192	70,683
Investment assets	25,105	20,784	16,153
Assets covering unit-linked contracts	9,168	8,640	7,492
Property, plant and equipment, and intangible assets	2,345	2,238	2,113
Other items	3,985	3,484	3,360
Total assets	133,747	124,455	110,427
Key balance sheet items – liabilities and equity, € million			
Liabilities to credit institutions	4,669	1,673	1,776
Derivative contracts	4,044	4,678	5,499
Liabilities to customers	60,077	58,220	51,163
Insurance liability	10,586	7,705	6,386
Liabilities from unit-linked insurance and investment contracts	9,205	8,666	7,513
Debt securities issued to the public	28,287	27,706	24,956
Other liabilities	6,642	6,483	5,921
Equity capital	10,237	9,324	7,213
Total liabilities and equity capital	133,747	124,455	110,427
Figures and ratios			
Return on equity, ROE, %	9.4	10.3	8.1
Return on equity (ROE) at fair value, %	7.8	13.2	5.7
Return on assets, ROA, %	0.7	0.7	0.6
Cost/income ratio, %	52	53	56
Average personnel	12,271	12,174	12,548
Common Equity Tier 1 (CET1) capital ratio, %	20.1	19.5	15.1
Capital adequacy ratio, %	23.1	22.9	17.3
Capital adequacy under the Act on the Supervision of Financial and Insurance Conglomerates, %	170	191	158

*Year-on-year figures are presented under Solvency II. Transitional provisions have been taken into account in figures.

Formulas for key ratios

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

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

ALTERNATIVE PERFORMANCE MEASURES:

Return on equity (ROE), %	$\frac{\text{Profit for the financial year}}{\text{Shareholders' equity (average of the beginning and end of financial year)}} \times 100$
Return on equity (ROE) at fair value, %	$\frac{\text{Total comprehensive income for the financial year}}{\text{Shareholders' equity (average of the beginning and end of financial year)}} \times 100$
Return on assets (ROA), %	$\frac{\text{Profit for the financial year}}{\text{Balance sheet total (average of the beginning and end of financial year)}} \times 100$
Cost/income ratio, %	$\frac{\text{Total expenses}}{\text{Total income}} \times 100$
Ratio of impairment loss on receivables to loan and guarantee portfolio, %	$\frac{\text{Impairment loss on receivables}}{\text{Loan and guarantee portfolio at end of financial year}} \times 100$
Non-life Insurance key ratios:	
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

Operational risk ratio (excl. unwinding of discount), %	$\frac{\text{Claims excl. loss adjustment expenses and changes in reserving bases}}{\text{Net insurance premium revenue, excl. net changes in reserving bases}} \times 100$
Operating cost ratio, %	$\frac{\text{Operating expenses and loss adjustment expenses}}{\text{Net insurance premium revenue, excl. net changes in reserving bases}} \times 100$
KEY INDICATORS BASED ON A SEPARATE CALCULATION	
Capital adequacy ratio, %	$\frac{\text{Total capital}}{\text{Total risk exposure amount}} \times 100$
Tier 1 capital ratio, %	$\frac{\text{Tier 1 capital (Tier 1)}}{\text{Total risk exposure amount}} \times 100$
Common Equity Tier 1 (CET1) capital ratio, %	$\frac{\text{Common Equity Tier 1 (CET1)}}{\text{Total risk exposure amount}} \times 100$
Solvency ratio, %	$\frac{\text{Capital base}}{\text{Solvency capital requirement (SCR)}} \times 100$
Leverage ratio, %	$\frac{\text{Tier 1 capital (T1)}}{\text{Exposure amount}} \times 100$
Liquidity coverage ratio (LCR), %	$\frac{\text{Liquid assets}}{\text{Liquidity outflows - liquidity outflows in stress situations}} \times 100$
FiCo capital adequacy ratio	$\frac{\text{Conglomerate's total capital base}}{\text{Conglomerate's total minimum capital base}} \times 100$
Return on economic capital, %	$\frac{\text{Earnings + customer bonuses after tax (12-month rolling)}}{\text{Average economic capital}} \times 100$

Non-life Insurance operating result	2016	2015	Change, %
€ million			
Insurance premium revenue	1,418	1,396	1.6
Claims incurred	-979	-972	0.8
Operating expenses	-263	-247	6.5
Amortisation adjustment of intangible assets	-21	-21	-0.3
Balance on technical account	154	156	-0.8
Net investment income	97	125	-22.4
Other income and expenses	-21	-22	-2.8
Earnings before tax	230	259	-11.1
Gross change in fair value reserve	68	-87	-177.3
Earnings before tax at fair value	298	171	73.6

The Non-life Insurance financial indicators 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.

Income statement

EUR million	Notes	2016	2015
Net interest income	6	1,058	1,026
Net insurance income	7	558	528
Net commissions and fees	8	859	855
Net investment income	9	390	432
Other operating income	10	122	46
Share of associates' profits		1	9
Total income		2,989	2,895
Personnel costs	11	762	781
Depreciation/amortisation	12	160	162
Other expenses	13	646	577
Total expenses		1,567	1,520
Impairments loss on receivables		77	78
OP bonuses to owner-customers	15	206	196
Earnings before tax		1,138	1,101
Income tax expense	16	223	249
Profit for the financial year		915	853
Attributable to:			
Profit for the period attributable to owners		913	845
Profit for the period attributable to non-controlling interest		2	8
Total		915	853

Statement of comprehensive income

EUR million	Notes	2016	2015
Profit for the financial year		915	853
Items that will not be reclassified to profit or loss			
Gains/(losses) arising from remeasurement of defined benefit plans	35	-329	519
Items that may be reclassified to profit or loss			
Change in fair value reserve			
Measurement at fair value	38	176	-205
Cash flow hedge	38	-35	-14
Translation differences		0	0
Income tax on other comprehensive income			
Items that will not be reclassified to profit or loss			
Gains/(losses) arising from remeasurement of defined benefit plans	28	66	-104
Items that may be reclassified to profit or loss			
Measurement at fair value	38	-35	41
Cash flow hedge	38	7	3
Total comprehensive income for the financial year		764	1,093
Attributable to:			
Total comprehensive income for the period attributable to owners		726	1,077
Total comprehensive income for the period attributable to non-controlling interests		38	16
Total		764	1,093

The grouping of the income statement and balance sheet formats has been revised. Comparatives have been restated to correspond to the new grouping. Information on the grouping change can be found in Note 3.

Balance sheet

EUR million	Notes	31 Dec. 2016	31 Dec. 2015
Cash and cash equivalents	17	9,471	8,619
Receivables from credit institutions	18	337	425
Financial assets held for trading	19	692	928
Derivative contracts	20	4,732	5,072
Receivables from customers	21	78,604	75,192
Investment assets	22	25,105	20,784
Assets covering unit-linked contracts	23	9,168	8,640
Investments in associates	24	91	93
Intangible assets	25	1,474	1,395
Property, plant and equipment (PPE)	26	871	843
Other assets	27	2,992	2,347
Tax assets	28	210	118
Total assets		133,747	124,455
Liabilities to credit institutions	29	4,669	1,673
Derivative contracts	30	4,044	4,678
Liabilities to customers	31	60,077	58,220
Insurance liabilities	32	10,586	7,705
Liabilities from unit-linked insurance and investment contracts	33	9,205	8,666
Debt securities issued to the public	34	28,287	27,706
Provisions and other liabilities	35	4,226	3,921
Tax liabilities	28	894	866
Supplementary cooperative share	36	77	106
Subordinated liabilities	37	1,445	1,590
Total liabilities		123,509	115,131
Equity capital			
Share of OP Financial Group's owners			
Cooperative capital			
Cooperative share		166	154
Profit shares		2,719	2,502
Fair value reserve		318	242
Other reserves		2,108	2,085
Retained earnings		4,824	4,271
Non-controlling interests		102	70
Total equity capital	38	10,237	9,324
Total liabilities and equity capital		133,747	124,455

Statement of changes in equity capital

EUR million	Notes	Attributable to owners				Total	Non-controlling interests	Total equity capital
		Cooperative capital	Fair value reserve**	Other reserves	Retained earnings			
Balance at 1 Jan. 2015		1,709	425	1,996	3,014	7,144	69	7,213
Total comprehensive income for the period			-185		1,260	1,075	16	1,091
Profit for the period					845	845	8	853
Other comprehensive income			-185		415	230	8	239
One-off effect of transfer of POP Group banks to OP Financial Group*			1	67	48	116		116
Increase in cooperative capital		947				947		947
Transfer of reserves				22	-22			
Profit distribution					-21	-21		-21
Other					-8	-8	-15	-22
Balance at 31 Dec. 2015		2,656	242	2,085	4,271	9,254	70	9,324

* On 19 May 2015, six former POP Group member banks joined OP Financial Group.

EUR million	Notes	Attributable to owners				Total	Non-controlling interests	Total equity capital
		Cooperative capital	Fair value reserve**	Other reserves	Retained earnings			
Balance at 1 Jan. 2016		2,656	242	2,085	4,271	9,254	70	9,324
Total comprehensive income for the period			77		650	726	38	764
Profit for the period					913	913	2	915
Other comprehensive income			77		-263	-187	36	-151
Increase in cooperative capital		229				229		229
Transfer of reserves				23	-23	0		0
Profit distribution					-71	-71		-71
Other					-2	-2	-6	-8
Balance at 31 Dec. 2016		2,885	318	2,108	4,824	10,135	102	10,237

** Note 38

Cash flow statement

EUR million	Notes	2016	2015
Cash flow from operating activities			
Profit for the financial year		915	853
Adjustments to profit for the financial year		577	1,430
Increase (-) or decrease (+) in operating assets		-8,573	-9,052
Receivables from credit institutions	18	99	169
Financial assets at fair value through profit or loss	19	-28	148
Derivative contracts	20	32	-6
Receivables from customers	21	-3,531	-4,003
Non-life Insurance assets	23	-150	-962
Investment assets	22	0	-4,802
Other assets	27	0	405
Increase (+) or decrease (-) in operating liabilities		7,500	8,121
Liabilities to credit institutions	29	3,025	-120
Financial liabilities at fair value through profit or loss		0	-4
Derivative contracts	30	-36	-5
Liabilities to customers	31	1,857	6,360
Non-life Insurance liabilities	32	3,061	1,328
Life Insurance liabilities	33	-185	52
Provisions and other liabilities	35	-222	511
Income tax paid		-248	-359
Dividends received		91	94
A. Net cash from operating activities		263	1,087
Cash flow from investing activities			
Increases in held-to-maturity financial assets		-3	-2
Decreases in held-to-maturity financial assets		19	85
Acquisition of subsidiaries, net of cash and cash equivalents acquired		-3	-27
Disposal of subsidiaries, net of cash and cash equivalents disposed		0	1
Purchase of PPP and intangible assets	25, 26	-308	-301
Proceeds from sale of PPE and intangible assets	25, 26	50	17
B. Net cash used in investing activities		-246	-226
Cash flow from financing activities			
Increases in subordinated liabilities	37	0	1,242
Decreases in subordinated liabilities	37	-144	-698
Increases in debt securities issued to the public	34	26,164	29,711
Decreases in debt securities issued to the public	34	-25,303	-27,444
Increases in cooperative and share capital		1,317	3,238
Decrease in cooperative and share capital		-1,118	-2,395
Dividends paid and interest on cooperative capital		-71	-30
C. Net cash used in financing activities		845	3,623
Net change in cash and cash equivalents (A+B+C)		863	4,485
POP Group banks' cash and cash equivalents*		47	47
		863	4,531
Cash and cash equivalents at period-start		8,708	4,176
Cash and cash equivalents at period-end		9,571	8,708

EUR million	2016	2015
Interest received	2,362	2,552
Interest paid	-1,325	-1,537
Adjustments to profit for the financial year		
Non-cash items and other adjustments		
Impairment losses on receivables	92	93
Unrealised net earnings in insurance operations	102	840
Change in fair value for trading	-2	26
Unrealised net gains on foreign exchange operations	-98	-117
Change in fair value of other investments	-19	91
Planned amortisation and depreciation	160	162
Share of associates' profits/losses	5	-6
OP bonuses to owner-customers	205	193
Income tax paid	248	359
Dividends received	-91	-94
Other	-24	-114
Items presented outside cash flow from operating activities		
Capital gains, share of cash flow from investing activities	-2	-2
Interest on cooperative capital	1	1
Total adjustments	577	1,431
Cash and cash equivalents		
Liquid assets	18	9,471
Receivables from credit institutions payable on demand		100
Total	9,571	8,708

* On 19 May 2015, six former POP Group member banks joined OP Financial Group.

Segment reporting

Segment information

OP Financial Group's business segments are Banking, Non-life Insurance, and Wealth Management. Non-segment operations are presented under Other Operations. OP Financial Group prepares its segment reporting in compliance with its accounting policies. Defining segments and presentation are based on management reporting. The segments' earnings and profitability are assessed in terms of EBT.

The Banking segment companies consist of Group member cooperative banks, Helsinki Area Cooperative Bank, OP Card Company Plc, OP Mortgage Bank and OP Corporate Bank Group's Banking segment.

Net interest income is Banking's most significant income item. Income also comes from commissions and fees and investment. Expenses arise mainly from personnel costs and other administrative expenses and the costs of the branch network and returns to owner-customers. The most significant risk category pertains to credit risk but business also involves market risks and operational risks.

The Wealth Management segment comprises OP Life Assurance Company Ltd engaged in life and pension insurance business, OP Fund Management Company Ltd engaged in mutual fund business, OP Asset Management Ltd and its subsidiaries as well as OP Corporate Bank plc's Markets Equities. The most significant items of income generated by the Wealth Management segment include life insurance net interest and risk results and commissions and fees arising from life insurance, asset management and mutual fund operations. The commissions and fees of the Wealth Management segment consist of those from asset and mutual fund management and life insurance policies.

The Non-life Insurance segment encompasses the operations of OP Financial Group's non-life insurance companies, i.e. OP Insurance Ltd, Eurooppalainen Insurance Company Ltd, A-Insurance Ltd, the Seesam company operating in the Baltic countries, as well as the operations of service companies supporting non-life insurance.

Non-life insurance products include non-life products sold to corporate and private customers. Net income generated by Non-life Insurance derives mainly from premiums written and investment income. The most significant risks in Non-life Insurance pertain to insurance risks and investment risks. The Non-life Insurance segment also includes Pohjola Health Ltd (formerly Omasairaala Oy), whose earnings come from doctor's fees and billing for treatment, diagnostics and occupational healthcare services.

Other Operations includes operations that support the segments, particularly the operations of OP Cooperative, OP-Services Ltd and OP Process Services Ltd as well as OP Corporate Bank Group's Treasury and the Markets division's interest rate derivatives and FX trading as well as bonds trading. In addition, OYY Insurance Ltd and the new businesses Pivo Wallet Oy and Checkout Finland Oy are reported under the Other Operations segment. Costs of the services for the business segments are allocated to the segments in the form of internal service charges.

As of 1 January 2016, the operating model of Group Treasury has been revised, whereby the division of responsibilities was changed between Banking and Other Operations. Comparative segment information has not been changed.

Segment accounting policies

OP Financial Group's segment reporting is based on accounting policies applied in its financial statements. Income, expenses, assets and liabilities which have been considered to relate directly to and be reasonably attributable to the segments are allocated to the segments. Income, expenses, investments and capital which have not been allocated to segments and inter-segment Group eliminations are reported under 'Group eliminations'.

The segments' earnings and profitability are assessed in terms of EBT. 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 19% (18%). Capital has been allocated to non-life insurance in such a way that the solvency ratio (SII) is 120% and to life insurance in such a way that the solvency ratio is 130%. Capital allocation has an effect on the Group's internal interest amounts paid by the segment concerned. The allocation of equity capital to the business segments is carried out through an internal bank under Other Operations, which means that any earnings effect of equity capital differing from the target level is shown under 'Other Operations'.

The grouping of the income statement and balance sheet formats has been revised. Comparatives have been restated to correspond to the new grouping. Information on the grouping change can be found in Note 3.

Q1–4 earnings 2016, EUR million	Banking	Non-life Insurance	Wealth Management	Other operations	Eliminations	OP Financial Group
Net interest income	1,133	-20	6	-60	-1	1,058
- of which internal net income before tax	-18	-17	5	30		
Net insurance income		534	24		0	558
Net commissions and fees	758	-62	217	-59	5	859
Net investment income	6	97	111	179	-3	390
Other operating income	31	7	4	571	-491	122
Share of associates' profits	-4	1	3	0	0	1
Total income	1,924	557	365	631	-489	2,989
Personnel costs	451	100	30	180	0	762
Depreciation/amortisation	52	39	19	50		160
Other operating expenses	569	187	59	321	-490	646
Total expenses	1,072	326	109	551	-490	1,567
Impairments loss on receivables	76	0		0	1	77
OP bonuses to owner–customers	179	2	25		0	206
Earnings before tax	596	230	232	80	0	1,138

Net income from the Baltic countries came to EUR 6 million

Q1–4 earnings 2015, EUR million	Banking	Non-life Insurance	Wealth Management	Other operations	Eliminations	OP Financial Group
Net interest income	1,108	-22	3	-52	-11	1,026
- of which internal net income before tax	-26	-20	3	43		
Net insurance income		508	21		0	528
Net commissions and fees	663	-55	220	20	7	855
Net investment income	120	125	98	86	2	432
Other operating income	29	7	1	484	-475	46
Share of associates' profits	7	0	1		0	9
Total income	1,927	563	344	538	-477	2,895
Personnel costs	472	101	32	176	0	781
Depreciation/amortisation	52	37	24	48		162
Other operating expenses	512	164	52	327	-478	577
Total expenses	1,037	302	108	551	-478	1,520
Impairments loss on receivables	77	0		0	1	78
OP bonuses to owner–customers	171	2	23		0	196
Earnings before tax	642	259	213	-13	0	1,101

Net income from the Baltic countries came to EUR 7 million

Balance sheet 31 December 2016	Banking	Non-life Insurance	Wealth Management	Other operations	Eliminations	OP Financial Group
Cash and cash equivalents	113	90	459	9,329	-520	9,471
Receivables from credit institutions	6,351	6	53	10,180	-16,253	337
Financial assets held for trading	51		0	643	-2	692
Derivative contracts	458	26	125	4,582	-459	4,732
Receivables from customers	79,144	0		683	-1,223	78,604
Investment assets	6,211	3,755	7,909	18,067	-10,837	25,105
Assets covering unit-linked contracts			9,168		0	9,168
Investments in associates	37	2	28	0	25	91
Intangible assets	62	689	374	353	-3	1,474
Property, plant and equipment (PPE)	480	46	25	332	-12	871
Other assets	294	707	335	2,104	-448	2,992
Tax assets	111	10	7	61	21	210
Total assets	93,312	5,331	18,483	46,333	-29,712	133,747
Liabilities to credit institutions	9,568			10,530	-15,428	4,669
Derivative contracts	168	17	21	4,297	-460	4,044
Liabilities to customers	54,693		3	6,815	-1,434	60,077
Insurance liabilities		3,008	7,578		0	10,586
Liabilities from unit-linked insurance and investments contracts			9,205			9,205
Debt securities issued to the public	10,357			18,955	-1,026	28,287
Provisions and other liabilities	1,889	543	262	2,094	-562	4,226
Tax liabilities	371	95	86	324	19	894
Cooperative capital	253			970	-1,147	77
Subordinated liabilities	63	135	245	1,455	-452	1,445
Total liabilities	77,361	3,798	17,400	45,440	-20,490	123,509
Equity						10,237

Net assets from the Baltic countries came to EUR 66 million.

Balance sheet 31 December 2015	Banking	Non-life Insurance	Wealth Management	Other operations	Eliminations	OP Financial Group
Cash and cash equivalents	130	107	230	8,451	-299	8,619
Receivables from credit institutions	4,415	6	39	10,506	-14,540	425
Financial assets held for trading	939			5	-17	928
Derivative contracts	5,178	14	75	203	-398	5,072
Receivables from customers	75,633			801	-1,242	75,192
Investment assets	6,425	3,570	5,125	16,446	-10,782	20,784
Assets covering unit-linked contracts			8,640			8,640
Investments in associates	42	2	-1	32	18	93
Intangible assets	67	695	280	261	92	1,395
Property, plant and equipment (PPE)	494	47	16	299	-13	843
Other assets	1,030	666	280	617	-247	2,347
Tax assets	47	4	10	40	16	118
Total assets	94,401	5,111	14,694	37,661	-27,412	124,455
Liabilities to credit institutions	10,712			4,374	-13,414	1,673
Financial liabilities at fair value through profit or loss	0					0
Derivative contracts	4,832	15	37	192	-398	4,678
Liabilities to customers	53,586		0	6,106	-1,472	58,220
Insurance liabilities		2,917	4,788			7,705
Liabilities from unit-linked insurance and investments contracts			8,666			8,666
Debt securities issued to the public	10,971			17,893	-1,158	27,706
Provisions and other liabilities	2,122	322	98	1,704	-325	3,921
Tax liabilities	406	84	69	299	8	866
Cooperative capital	255			5,799	-5,947	106
Subordinated liabilities	80	135	281	1,591	-497	1,590
Total liabilities	82,963	3,473	13,939	37,958	-23,203	115,131
Equity						9,324

Net assets from the Baltic countries came to EUR 60 million.

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Note 1. OP Financial Group's accounting policies under IFRS

General

OP Financial Group is a financial entity as referred to in §9 of the Act on the Amalgamation of Deposit Banks. OP Financial Group's financial statements have been prepared as a combination of the financial statements and consolidated financial statements of OP Cooperative and its subsidiaries and member credit institutions.

OP Financial Group does not form a consolidation group, as referred to in the Accounting Act, because OP Cooperative and its member cooperative banks do not have control over each other, as referred to in general consolidated accounting principles. For this reason, a technical parent company has been determined for OP Financial Group.

OP Cooperative acts as the entire OP Financial Group's strategic owner institution and as a central cooperative in charge of Group control and supervision.

The Act on the Amalgamation of Deposit Banks requires OP Financial Group's central cooperative, OP Cooperative, to prepare consolidated financial statements for OP Financial Group. OP Cooperative's Executive Board is responsible for preparing the financial statements in accordance with applicable regulations.

OP Cooperative is domiciled in Helsinki and the address of its registered office is Gebhardinaukio 1, FI-00510 Helsinki.

A copy of OP Financial Group's consolidated financial statements is available at www.op.fi or the Group's office at Gebhardinaukio 1, FI-00510 Helsinki.

The Executive Board of OP Cooperative has approved OP Financial Group's financial statements bulletin for issue on 2 February 2017.

1 Basis of preparation

OP Financial Group's financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS), applying IASs, IFRSs and SIC and IFRIC interpretations effective on 31 December 2016. The International Financial Reporting Standards refer to standards and their interpretations adopted in accordance with Regulation (EU) No. 1606/2002 of the European Parliament and of the Council. OP Financial Group's obligation to prepare its financial statements in accordance with IFRS is based on the Act on the Amalgamation of Deposit Banks. OP Financial Group's notes also conform to the requirements of Finnish accounting and company legislation that complement IFRS regulations.

The grouping of the income statement and balance sheet formats has been revised in the financial statements. This has no effect on equity capital, balance sheet total or profit for the financial year. Segment reporting has been updated

accordingly. The comparatives have been restated to correspond to the new grouping (Note 3: Changes in presentation of financial statements).

In 2016, OP Financial Group adopted the following standards and interpretations:

- Amendment to IAS 1 was aimed at enhancing the understandability of financial statements by focusing on presenting relevant items. The adopted new income statement and balance sheet format better reflects the current business model than the previous one.
- Annual improvements to IFRS for cycles 2012–2014 (applicable mainly to accounting periods beginning on or after 1 January 2016.) Minor amendments are annually made to standards through the Annual Improvements process. The effects of the amendments vary by standard but they are not significant.
- In addition, amendments have been made to IFRS 10, IFRS 11, IFRS 12, IAS 16, IAS 28 and IAS 38, effective since 1 January 2016. The amendments did not have any major effect on OP Financial Group's financial statements.

OP Financial Group's consolidated financial statements were prepared at historical cost, with the exception of financial assets and liabilities at fair value through profit or loss, available-for-sale financial assets, hedged items in fair value hedging (for hedged risk) and investment property measured at fair value.

The financial statements are presented in millions of euro.

According to the Act on the Amalgamation of Deposit Banks and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, OP Cooperative's Executive Board must confirm any applicable accounting policies for which the IFRSs provide no guidelines. In accordance with the above, OP Cooperative's Executive Board has confirmed the principle that OP Financial Group's technical parent company consists of OP Financial Group member cooperative banks.

OP Financial Group presents Pillar 3 capital adequacy information, consistent with EU Regulation No. 575/2013 of the European Parliament and of the Council, as part of its financial statements and, where applicable, in the Report by the Executive Board.

2 Use of estimates

The preparation of the financial statements in conformity with IFRS requires the management to make judgements, estimates and assumptions in the application of the accounting policies. Section 19 "Critical accounting estimates and judgements" provides more detailed information on applying accounting policies requiring management assessment and judgement

3 Consolidation principles

3.1 Technical parent company

The Act on the Amalgamation of Deposit Banks Act prescribes that the consolidated financial statements of OP Financial Group must be a combination of the financial statements or consolidated financial statements of OP Cooperative and its member credit institutions. The consolidated financial statements also include the accounts of entities over which the abovementioned entities jointly have control as prescribed in the Accounting Act. OP Financial Group's cooperative capital comprises such cooperative contributions paid by members of cooperative banks which the member banks have an unconditional right to refuse the redemption. In accordance with the above principles, OP Financial Group has formed a technical parent company.

Within the technical parent company, intra-Group holdings, transactions, receivables and liabilities, distribution of profit and margins are eliminated.

3.2 Subsidiaries, associates and joint arrangements

The financial statements of the technical parent company and companies over which it exercises control are consolidated into those of OP Financial Group. OP Financial Group has control over an entity if it is exposed, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity (including structured entities). Most of the subsidiaries are wholly owned by OP Financial Group, which means that the Group's control is based on votes.

OP Financial Group both acts as investor and manages various mutual funds in order to gain investment income and various commissions. Funds that have been classified as structured entities have been consolidated into the Group's financial statements when OP Financial Group's control is not based on votes but the control of significant operations, exposure to variable returns from the fund, and organising the fund's management. Changes in control concerning various fund investments consolidated into OP Financial Group are monitored quarterly. When estimating the amount of control, the Group takes into account the investor's power to direct relevant activities over an investee and the investor's exposure to varying returns. When the Group ceases to have control any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in the income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial assets. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if OP Financial Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to the income statement.

Intra-Group holdings have been eliminated using the acquisition method. The consideration transferred and the acquiree's identifiable assets acquired and liabilities assumed are measured at fair value at the time of acquisition. Acquisition cost in excess of net assets is presented under goodwill. If the acquisition cost is lower than the fair value of net assets, the difference is recognised in profit and loss.

Acquisition-related costs are expensed as incurred. Any contingent consideration is measured at fair value and classified as a liability or equity. Contingent consideration classified as a liability is measured at fair value in the income statement on the balance sheet date.

Associated companies over which OP Financial Group companies exercise significant influence are accounted for using the equity method. Significant influence generally arises if the Group holds 20–50% of the other company's votes or otherwise exercises influence, not control, over the company. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. OP Financial Group's investment in associates includes goodwill identified on the acquisition date. If the consolidation group's share of losses in an associate exceeds its interest in the associate, the investment is entered in the balance sheet at zero value, and further losses exceeding the carrying amount are not recognised unless OP Financial Group is committed to fulfil the obligations of associates. Private equity funds treated as associates are measured at fair value as permitted by IAS 28.

A joint arrangement is an arrangement of which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. A joint arrangement is either a joint operation or a joint venture. A joint venture is an arrangement in which OP Financial Group has rights to the arrangement's net assets, while in a joint operation OP Financial Group has both rights to assets and obligations for the liabilities relating to the arrangement. Property companies are incorporated into OP Financial Group's financial statements as joint operations by consolidating the proportionate share of OP Financial Group's holding of the property company's assets and liabilities.

Subsidiaries, associates or joint arrangements acquired during the financial year are consolidated from the date on which control or significant influence is transferred to OP Financial Group while those that have been sold are de-consolidated from the date on which control or significant influence ceases.

Intra-Group transactions, receivables, liabilities and profit distribution are eliminated in the preparation of the financial statements.

3.3 Non-controlling interests

Profit for the financial year attributable to the technical owners of the parent and non-controlling interests is presented in the income statement, and total comprehensive income attributable to the owners of the parent and non-controlling interests is presented in the statement of comprehensive income. Profit shown in the income statement and the statement of comprehensive income is also attributed to non-controlling interests in the event that their share, as a result, would become negative. Non-controlling interests are presented as part of equity capital in the balance sheet. If the investee's equity does not fulfil the equity classification criteria under IAS 32, the non-controlling parties' share of the net assets is presented as liability.

Non-controlling interests in an acquiree are measured either at fair value or as the proportionate share of net assets of the acquiree. The valuation principle applied is determined separately for each acquiree.

4 Foreign currency translation

OP Financial Group's financial statements are presented in euros, which is the functional and presentation currency of the parent. Non-euro transactions are recognised in euros at the exchange rate quoted on the transaction date or at the average exchange rate of the month of recognition. On the balance sheet date, non-euro monetary balance sheet items are translated into euros at the exchange rate quoted on the balance sheet date. Non-monetary balance sheet items measured at cost are presented at the exchange rate quoted on the transaction date.

The exchange rate differences arising from the translation of non-euro transactions and monetary balance sheet items into euros are recognised as foreign exchange gains or losses under "Net investment income" in the income statement.

5 Financial instruments

5.1 Fair value determination

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date.

The fair value of financial instruments is determined using either prices quoted in an active market or the company's own valuation techniques where no active market exists. Markets are deemed to be active if price quotes are easily and regularly available and reflect real and regularly occurring market transactions on an arm's length basis. The current bid price is used as the quoted market price of financial assets.

If the market has a commonly used valuation technique applied to a financial instrument to which the fair value is not directly available (e.g. OTC derivatives), the fair value is based on a

commonly used valuation technique and market quotations of the inputs used by the technique.

If the valuation technique is not a commonly used technique in the market, a valuation model created for the instrument in question will be used to determine the fair value. Valuation models are based on widely used measurement techniques, incorporating all factors that market participants would consider in setting a price, and are consistent with accepted economic methodologies for pricing financial instruments.

The valuation techniques used include prices of market transactions, the discounted cash flow method and reference to the current fair value of another instrument that is substantially the same. The valuation techniques take account of estimated credit risk, applicable discount rates, the possibility of early repayment and other factors affecting the reliable measurement of the fair value of financial instruments.

The fair values of financial instruments are categorised into three hierarchy levels, depending on the inputs used in valuation techniques:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1)
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2)
- Inputs for the asset or liability that are not based on observable market data (Level 3)

If the inputs used to measure fair value are categorised into different levels of the fair value hierarchy, the fair value measurement is categorised in its entirety at the same level as the lowest level input that is significant to the entire measurement. The significance of inputs has been assessed on the basis of the fair value measurement in its entirety.

It is typical of illiquid instruments that their price calculated using a pricing model differs from the actual transaction price. However, the actual transaction price is the best evidence of the instrument's fair value. The Day 1 profit/loss, based on the difference between the actual transaction price and the price deriving from the pricing model that uses market prices, is recognised in the income statement over the term of the agreement. However, the non-recognised amount will be recognised as soon as there is a genuine market price for the instrument or a well-established pricing practice is created in the market.

The amount of illiquid financial assets is insignificant in OP Financial Group's balance sheet.

The illiquid financial liabilities (investment contracts) of the Group's life insurance operations are measured at fair value according to IAS 39. The investment contracts' fair value is measured using a valuation technique which takes account, for example, of the time value of money and the fair value of

financial assets that are used to cover them. However, the value of the liability may not be lower than the contract's surrender value. These contracts have been categorised on Level 3 in the fair value hierarchy above.

5.2 Impairment of financial assets

At the end of each reporting period, the Group assesses whether there is objective evidence that a financial asset other than that carried at fair value through profit or loss is impaired.

A financial asset is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that the loss event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

The criteria used to determine whether there is objective evidence of an impairment loss include:

- significant decline in the issuer's financial results, credit rating, balance sheet, payment status or business plans, and unfavourable changes in the issuer's economic and operating environment;
- a bona fide bid for the same or similar investment from the market below acquisition value;
- events or circumstances that significantly weaken the issuer's business opportunities on a going concern basis, such as negative cash flows resulting from operations, insufficient capital and shortage of working capital;
- a debtor's bankruptcy or other reorganisation becomes probable;
- a debtor's breach of contract;
- a concession granted to the debtor;
- impairment recognised earlier;
- the disappearance of an active market for a financial asset.

In addition, a significant or prolonged decline in the equity instrument's fair value below its cost constitutes objective evidence of impairment.

A more detailed description of recognition of impairment losses can be found under the various financial instruments below.

5.3 Securities sale and repurchase agreements

The purchase price of securities bought under 'resell conditions' binding on both parties is recognised as a receivable under the balance sheet item determined by the counterparty. The difference between the purchase price and resale price is treated as interest income and accrued over the term of the agreement.

The selling price of securities sold under 'resell conditions' binding on both parties is recognised as a financial liability

under the balance sheet item determined by the counterparty. The difference between the selling price and repurchase price is treated as interest expenses and accrued over the term of the agreement.

5.4 Classification and recognition of OP Financial Group's financial instruments

Upon initial recognition, financial assets and liabilities are classified as follows: financial assets and liabilities at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets and other financial liabilities. The classification depends on the purpose for which the financial assets and liabilities were acquired. Loans and receivables, held-to-maturity investments and other financial liabilities are measured at amortised cost, using the effective interest method.

The purchase and sale of financial assets and liabilities at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets are recognised in the balance sheet on the transaction date, or the date on which the company agrees to buy or sell the asset or liability in question. Notes and bonds classified as loans and receivables are recognised as financial assets on the transaction date and loans granted on the date on which the customer draws down the loan.

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

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Financial liabilities are derecognised when they are extinguished, i.e. when the obligation is discharged, cancelled or expires.

5.4.1 Financial assets and liabilities at fair value through profit or loss

Financial instruments at fair value through profit or loss include financial assets and liabilities held for trading, derivative contracts held for trading, financial assets at fair value through profit or loss at inception, and liabilities from investment contracts with no entitlement to discretionary participation feature granted by insurance companies. Financial assets at fair value through profit or loss are initially recognised at fair value and transaction costs are charged to expenses. A subsequent change in fair value as well as capital gains and losses, interest income and expenses, and dividend income are recognised in the item by their nature in the income statement.

5.4.1.1 Financial assets and liabilities held for trading and derivative contracts held for trading

Assets held for trading include notes and bonds, and shares and participations acquired with a view to generating profits from short-term fluctuations in market prices. Liabilities held for trading refer to the obligation to deliver securities which have been sold but which have not been owned at the time of selling (short selling). Derivatives are also treated as held for trading items unless they are designated as derivatives for effective hedging or they are guarantee contract derivatives.

5.4.1.2 Financial assets at fair value through profit or loss at inception

Financial assets at fair value through profit or loss at inception include financial assets which are designated as at fair value through profit or loss upon their initial recognition.

Bonds, which OP Financial Group, in accordance with its risk management principles, manages and assesses their performance at fair value in order to receive a true and real-time picture of investment operations, are defined as those recognised at fair value through profit or loss at inception. Reporting to OP Financial Group's management is based on fair values. Since the business involves investment on a long-term basis, financial assets are presented separately from those held for trading.

Investments covering life-insurance unit-linked policies are classified as those at fair value through profit or loss because the corresponding insurance liability or investment contract liability is recognised at fair value through profit or loss.

Financial assets at fair value through profit or loss also include hybrid instruments in which the fair value of an embedded derivative cannot be determined separately, and investments related to unit-linked insurance policies.

5.4.2 Loans and receivables

Financial assets classified as loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables related to insurance contracts, claims administration contracts and disposal of investments are presented within this asset class.

Loans and receivables are initially recognised at cost, which is the fair value of consideration given plus directly attributable transaction costs. Loans and receivables are carried at amortised cost after their initial recognition.

Impairment losses on loans and receivables are recognised on an individual or collective basis. Impairments will be assessed on an individual basis if the debtor's total exposure is significant. In other respects, impairment is assessed on a collective basis.

Impairment is recognised and impairment losses incurred if there is objective evidence that the receivable cannot be recovered in full. The receivable has impaired if its present value of the estimated future cash flows – collateral included – is lower than the aggregate carrying amount of the loan and the related unpaid interest. Estimated future cash flows are discounted at the loan's original effective interest rate. If the loan carries a variable interest rate, the discount rate for measuring any impairment is the current effective interest rate determined under the agreement. Impairment loss recognised in profit or loss equals the difference between the carrying amount of the loan and the lower present value of future cash flows.

Impairment assessment is a two-phase process. Impairment is assessed individually for loans and receivables. If it is not necessary to assess impairment for financial assets included in loans and receivables on an individual basis, they will be assessed collectively for impairment. Collectively assessed impairment includes losses incurred but not yet reported, which cannot yet be allocated to a certain loan. Collectively assessed impairment provisions are based on a statistical model used in the measurement of economic capital. The model is derived from the expected credit loss model used in capital adequacy measurement, adjusted to correspond to the requirements under IFRS. Through-the-cycle component and the official minimum capital adequacy requirements have been eliminated from the PD and LGD estimates used in the economic capital requirement model so that they better reflect the point in time approach and the current economic cycle. In the model, the so-called emergence period is used to measure the identification of a loss event. The emergence period is based on OP Financial Group's impairment assessment process by customer segment. The emergence period reflects the time effect of a loss event on testing a loan for impairment on an individual basis. In addition, the receivables in the model are grouped into customer segments on the basis of similar credit risk characteristics. Collectively assessed impairment is measured by customer segment on the basis of the expected loss and the measurement also takes account of the emergence period and the discounted present values of collateral.

If the contractual payment terms of a loan are modified, the reason for such modification and the severity class are documented using an internally defined scale. Loans may also be modified for reasons related to the management of customer relationships, not to the financial difficulties of the customer. Such modifications do not affect loan impairment recognition. In some cases, the Group may, due to the customer's financial difficulties, modify the loan terms and conditions, such as in terms of repayment holiday for a limited period or another loan modification, which are aimed at securing the customer's repayment capacity and limiting credit risk associated with liabilities. Such renegotiated loans are reported as doubtful receivables. Modifications in the contractual payment terms that are due to the customer's financial difficulties are forbearance measures and together with other criteria reduce the customer's credit rating and thereby increase collective impairment allowance. In addition, they will also have an effect on the loan being assessed on an individual basis for impairment. If the customer has adhered to

the new payment terms and no impairment allowance has been recognised for the customer's exposure, it will be removed from doubtful debt classification after two years. Modifications in payment terms are subject to regular monitoring and reporting to the management as an indicator anticipating customers solvency.

Loans and receivables are categorised in the notes to evaluate the credit quality also on the basis of how the debtor is estimated to be able to fulfil its payment obligations. A loan is categorised as non-performing if payments are more than 90 days past due, if the customer has been rated in the Group's internal 12-grade rating system in the weakest two borrower grades (11 or 12) or if an individual impairment loss has been recognised. In all other cases the loan is reported under "performing" category.

Both individual and collective impairment loss is recorded in a separate allowance account to reduce the carrying amount of receivables in the balance sheet. Impairment losses are presented in the income statement under "Impairment losses on receivables". Recognition of interest on the impaired amount continues after the recognition of impairment.

The loan is derecognised after the completion of all debt-collection measures if the loan terms are substantially modified (such as refinancing). Payments received after the derecognition are recognised as an adjustment to impairment losses on receivables. If there is subsequent objective evidence of the debtor's improved solvency, the amount of the impairment loss recognised earlier will be reassessed and any change in the recoverable amount will be recorded in the income statement.

5.4.3 Investments held to maturity

Investments held to maturity are non-derivative financial assets with fixed or determinable payments that the company has the positive intention and ability to hold to maturity. Held-to-maturity investments are initially recognised at fair value to which transaction costs are added. These investments are subsequently carried at amortised cost after their initial recognition.

Impairment of investments held to maturity is reviewed on the basis of the same principles as that of loans and receivables. The difference between the carrying amount of notes and bonds and a lower present value of future cash flows is recognised as an impairment loss in the income statement.

Investments included in the financial assets held to maturity category are sold before their maturity only in exceptional cases mentioned in IAS 39.

5.4.4 Available-for-sale financial assets

Available-for-sale financial assets include non-derivative assets which are not classified as the abovementioned financial assets

but which may be sold before their maturity, comprising notes and bonds, shares and participations.

At the time of their acquisition, available-for-sale financial assets are recognised at cost, which equals the fair value of the consideration paid plus transaction costs directly attributable to their acquisition. Available-for-sale financial assets are subsequently measured at fair value. Any changes in their fair value are recognised in other comprehensive income, from where they are transferred to the income statement when the asset is derecognised or there is objective evidence that the asset is impaired.

In the case of available-for-sale financial assets, for example, a significant downgrade of the credit rating of the issuer of bonds and notes, or a significant or prolonged decline in the equity instrument's fair value below its cost, constitutes objective evidence.

If a security's market value continues to fall following impairment recognition, the impairment loss will be recognised in the income statement.

If the fair value of impaired notes and bonds classified as available-for-sale financial assets increases subsequently and this increase can be objectively regarded as being related to an event after their impairment loss recognition, the impairment loss will be reversed and recorded in the income statement. If the fair value of an impaired equity instrument increases subsequently, this increase will be recognised in other comprehensive income.

The difference between the nominal value and the acquisition cost of fixed-rate bonds is recognised in interest income over the estimated residual term to maturity, using the effective interest method.

5.5 Cash and cash equivalents

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

5.6 Other financial liabilities

Other financial liabilities include financial liabilities other than those at fair value through profit or loss, comprising deposits and other liabilities to credit institutions and customers, debt securities issued to the public and other financial liabilities. Other financial liabilities are recognised in the balance sheet on the settlement date and carried at amortised cost after initial recognition.

The difference between the nominal value and the acquisition cost of fixed-rate bonds is recognised in interest expenses over the estimated residual term to maturity.

5.7 Derivative contracts

Derivative contracts are classified as hedging derivative contracts and derivative contracts held for trading, containing interest rate, currency, equity, commodity and credit derivatives. Derivatives are measured at fair value at all times.

The fair value of OTC interest rate derivatives for central counterparty clearing is cleared in cash on a daily basis. In the balance sheet, these cleared derivatives are netted and shown as a net change in cash and cash equivalents. Other derivatives are presented in the balance sheet on a gross basis, in which case positive value changes are presented as Derivative contracts under assets and negative value changes as Derivative contracts under liabilities.

5.7.1 Hedging derivatives

OP Financial Group has prepared methods and internal principles used for hedge accounting, whereby a financial instrument can be defined as a hedging instrument. In accordance with the hedging principles, OP Financial Group can hedge against interest rate risk, currency risk and price risk by applying fair value hedge or cash flow hedge. Fair value hedging refers to hedging against changes in the fair value of the hedged asset, and cash flow hedging to hedging against changes in future cash flows.

Contracts are not accounted for according to the rules of hedge accounting if the hedging relationship between the hedging instrument and the related hedged item, as required by IAS 39, does not meet the criteria of the standard. OP Financial Group also concludes derivative contracts which are in fact used to hedge against financial risks but which do not fulfil these criteria.

5.7.2 Derivatives held for trading

The difference between interest received and paid on interest-rate swaps held for trading is recorded in net interest income or expenses and the corresponding interest carried forward is recognised in other assets or other liabilities. Changes in the fair value of derivatives held for trading are recorded under Net investment income in the income statement. Derivatives are carried as assets under Derivative contracts when their fair value is positive and as liabilities under Derivative contracts when their fair value is negative.

Embedded derivatives associated with structured bonds issued and certain loan agreements are separated from the host contract and measured at fair value in the balance sheet, and changes in the fair value of these embedded derivatives and changes in their fair value and derivatives designated as their hedging instruments are recognised in Net interest income.

5.8 Hedge accounting

Hedge accounting is used to verify that changes in the fair value of a hedging instrument or cash flows fully or partially offset the corresponding changes of a hedged item.

The relationship between hedging and hedged instruments is formally documented, containing information on risk management principles, hedging strategy and the methods used to demonstrate hedge effectiveness. Hedge effectiveness is tested at the inception of the hedge and in subsequent periods by comparing respective changes in the fair value or cash flows of the hedging and hedged instrument. The hedge is considered effective if the change in the fair value of the hedging instrument or in cash flows offsets the change in the fair value of the hedged contract or portfolio or in cash flows within a range of 80–125%.

5.8.1 Fair value hedges

Fair value hedging against interest rate risk involves long-term fixed-rate debt instruments (such as the Group's own issues and certain term deposit issues), individual bond and loan portfolios, as well as individual loans. The Group applies a fair-value portfolio hedging model to hedging against interest rate risk involved in certain demand deposit current and savings accounts with a fixed interest rate or an interest-rate cap. The Group uses forward exchange contracts and interest-rate and currency swaps (OTC swaps) as hedging instruments. Hedging against equity and foreign currency risks applies to Non-life Insurance's and Life Insurance's equity fund investments.

Changes in the fair value of derivative contracts that are documented as hedging the fair value and are highly effective hedges are recognised in the income statement. Hedged assets and liabilities are also measured at fair value during the period for which the hedge is designated, and any fair value changes are recognised through profit or loss.

In fair value hedge accounting, changes in the fair value of the hedged item and hedging instrument are recorded in Banking in the income statement under Net interest income (loans and own issues) and Net investment income (bonds are included in available-for-sale financial assets). In Non-life and Life Insurance, they are recorded under net investment income (mutual fund investments are included in available-for-sale financial assets).

5.8.2 Cash flow hedges

A cash flow hedge is a hedge of the exposure to the variability attributable to a particular risk associated with variable-rate debt or other variable-rate assets and liabilities. In addition, cash flow hedging is used to hedge the future interest flows of the loans defined on the basis of reference interest rate linkage. Interest rate swaps are mainly used as hedging instruments.

Derivative contracts which are documented as cash flow hedges and provide effective hedges are measured at fair value. The effective portion of changes in the fair value of the hedging instrument is recognised in other comprehensive income. Any ineffective portion of changes in the fair value is recognised immediately in profit or loss. Fair value changes recognised in equity are included in the income statement in the period when hedged items affect net income.

6 Investment property

Investment property is land and/or buildings or part thereof held to earn rental income or for capital appreciation. Property, a minor part of which is used by the owner company or its personnel, is also accounted for as investment property. However, a part of property used by the owner company or its personnel is not accounted for as investment property if the part can be sold separately. Investment property is shown as investment assets in OP Financial Group's balance sheet.

Investment property is initially recognised at cost which includes transaction costs. It is subsequently carried at fair value. Investment property under construction is also measured at fair value only if the fair value can be determined reliably. Any changes in fair value are recognised in Net income from investment property under Net investment income.

If no comparable market data is available on the actual transaction prices of the property comparable with the property under review, the Group uses the income approach and internal methods based on property-specific net income to determine the fair value of commercial, office and industrial premises. OP Financial Group uses both its internal and external information in the income approach. A property's net income comprises the difference between rental income and maintenance charges and is based on income under current leases or, if no lease is in force, on average market rents. Expenses deducted from income are mainly based on actual expenses. Assumption of underutilisation of the property is also taken into account in the calculation. For the income approach, OP Financial Group obtains information on market rental and cost levels from sources outside the Group, in addition to its own expertise. The return requirements for investment property holdings are determined on the basis of the property's purpose of use, location and condition/modernness and are based on market data provided by an external expert.

The fair value of residential buildings and land areas is primarily determined using the market approach, based on information on the actual transaction prices of similar properties and on OP Financial Group's internal expertise. In the fair value of undeveloped plots, the central cooperative consolidated has taken account of the planning and market situation at the time of appraisal. The fair value of major property holdings is based on valuation reports drawn up by Authorised Property Valuers. External valuers use a cash flow analysis as the basis for their appraisal.

7 Intangible assets

7.1 Goodwill

For business combinations on or after 1 January 2010, the Group measures goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree and the previous holding exceed OP Financial Group's share of the fair value of the acquired assets and assumed liabilities.

For acquisitions before the above date, goodwill represents at the time of acquisition the excess of the cost of an acquisition over the fair value of OP Financial Group's share of the net identifiable assets, liabilities and contingent liabilities of an acquiree.

Goodwill is tested annually for any impairment. For the purpose of impairment testing, goodwill is allocated to cash-generating units, which are either business segments or entities belonging to them. Goodwill is carried at cost less accumulated impairment losses.

7.2 Value of acquired insurance portfolio

An intangible asset corresponding to the value of an acquired insurance portfolio is recognised if the insurance portfolio is acquired directly from another insurance company or through the acquisition of a subsidiary. The fair value of acquired insurance policies is determined by estimating the present value of future cash flows on the basis of the insurance portfolio on the date of acquisition. Upon initial recognition, the fair value of acquired insurance policies is divided into two parts: a liability associated with insurance contracts measured in accordance with the applicable principles on the acquisition date, and an intangible asset. Subsequent to the acquisition, the intangible asset is amortised, depending on the business, either on a front-loaded basis or on a straight-line basis over the estimated effective lives of the acquired contracts. The effective lives are reviewed annually and the value is amortised over 1–4 years for non-life insurance and 10 years for life insurance. An intangible asset is tested annually for impairment in connection with testing the adequacy of the liability associated with insurance contracts.

7.3 Deferred acquisition costs of insurance contracts

OP Financial Group defers in Baltic non-life insurance operations commissions and other costs associated with the acquisition of new insurance contracts or the renewal of existing contracts. The resulting intangible asset is amortised on a straight-line basis over the effective lives of the contracts. An intangible asset is assessed annually for impairment in connection with testing the adequacy of the liability associated with insurance contracts.

7.4 Customer relationships

Identifiable customer relationships acquired through business combinations are measured at fair value upon acquisition. This intangible asset arising from customer relationships is amortised on a straight-line basis over the asset's estimated useful life. The estimated useful life of OP Financial Group's acquired customer relationships is 5–13 years.

7.5 Brands

Identifiable brands acquired through business combinations are measured at fair value upon acquisition. The estimated useful lives of brands are indefinite, since they will generate cash flows for an indefinable period. The value of brands is tested annually for impairment.

7.6 Other intangible assets

Other intangible assets are measured at cost less accumulated amortisation and any impairment losses. Computer software and licences are amortised over 2–10 years and other intangible assets over 5 years in general. Expenditure on the development of internally-generated intangibles (software) is capitalised starting from the time when the software is found to generate future economic benefits. The asset will be amortised from the time it is ready for use, mainly over 3–10 years. An asset that is not yet ready for use is assessed annually for impairment.

8 Property, plant and equipment

Property, plant and equipment (PPE) assets are carried at cost less accumulated depreciation and any impairment losses. These assets are depreciated on a straight-line basis over their estimated useful lives. Land is not subject to depreciation. Subsequent expenditures are capitalised at the asset's carrying amount only if it is probable that the asset will generate greater economic benefits than initially estimated.

The estimated useful lives are mainly as follows:

Buildings	20–50 years
Emergency power units and generators	15 years
Machinery and equipment	3–10 years
IT equipment	3–5 years
Cars	5–6 years
Other PPE assets	3–10 years

The assets' residual value and useful lives are reviewed on each balance sheet date and adjusted as appropriate if expectations differ from previous estimates with respect to economic benefits.

8.1 Impairment of PPE and intangible assets

On each balance sheet date, the Group assesses whether there is any indication of an asset's impairment. If such indication exists, the amount recoverable from the asset will be estimated. Regardless of the existence of such indication, the recoverable amount is estimated for assets not yet available for use, goodwill and intangible assets with indefinite useful lives (brands). An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its future recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell (net selling price) or value in use. The recoverable amount is primarily determined on the basis of the asset's net selling price, but if this is not possible, the asset's value in use must be determined. The asset's value in use equals the present value of future cash flows expected to be recoverable from the asset. The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset. The need for impairment of the annually tested assets stated above is always determined on the basis of value-in-use calculations.

If the asset's net selling price cannot be determined and the asset does not generate cash flows independent of other assets, the need for impairment will be determined through the cash-generating unit, or the business segment or its company, to which the asset belongs. In such a case, the carrying amounts of the unit's assets are compared with the entire unit's recoverable amounts.

An impairment loss is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The increased carrying amount of the asset may not exceed the carrying amount of the asset that would have been determined had no impairment loss been previously recognised. Impairment loss on goodwill may not be reversed under any circumstances.

In respect of property in own use, the Group assesses as part of the financial statements whether there is any indication of an impaired property. Such indication includes a significant reduction in the market value and evidence of non-marketability or physical damage. If the income generated in the future by property in own use is expected to be lower than its acquisition cost not depreciated, the resulting difference will be impairment loss and charged to expenses.

9 Leases

On the date of inception, leases (also when part of other arrangements) are classified as finance leases or operating leases depending on the substance of the transaction. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incident to ownership to the lessee. All other leases are classified as operating leases. Lease classification is performed at the inception of the lease.

Assets leased out under finance lease are recorded as receivables from customers in the balance sheet, to the amount equal to the net investment in the lease. Finance income from the lease is recognised in interest income based on a pattern reflecting a constant periodic rate of return on the lessor's net investment outstanding in respect of the finance lease.

Assets leased under finance lease are recognised as property, plant and equipment and the corresponding finance lease liability is included in other liabilities. At the inception of the lease term, these leased assets are recorded as assets and liabilities at the lower of the fair value of the asset and the present value of the minimum lease payments. PPA assets are depreciated over the shorter of the lease term or the life of the asset. Finance charges are recognised in interest expenses so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Assets leased out under operating lease are shown under property, plant and equipment and are depreciated on a straight-line basis over the lease term. Lease income is presented under "Other operating income" and is recognised on straight-line basis over the lease term. Lease payments for leased assets under operating lease are recognised as expenses in "Other operating expenses" on a straight-line basis over the lease term.

10 Employee benefits

10.1 Pension benefits

Statutory pension cover for OP Financial Group companies' employees is arranged through pension insurance taken out with OP Bank Group Pension Fund. Some OP Financial Group companies provide their employees with supplementary pension cover through OP Bank Group Pension Foundation or an insurance company.

With respect to funded disability and old-age pensions, pensions managed by OP Bank Group Pension Fund are defined benefit plans. Pension plans managed by insurance companies may be either defined benefit or defined contribution plans. All of the plans managed by OP Bank Group Pension Foundation are defined benefit plans.

Expenses arising from pension plans are recognised under "Personnel costs" in the income statement. Contributions under defined contribution plans are paid to the insurance company and charged to expenses for the financial year to which they relate. No other payment obligations are included in defined contribution plans. Changing or curtailing defined benefit pension plans is recognised through profit or loss at the time of occurrence.

Defined benefit plans managed by insurance companies, OP Bank Group Pension Fund and OP Bank Group Pension Foundation are funded through payments based on actuarial calculations.

The liability recognised in the balance sheet in respect of the defined benefit plan is the present value of the defined benefit obligation on the balance sheet date less the fair value of plan assets.

Defined benefit obligations are calculated separately for each plan using the projected unit credit method. Pension costs are charged to expenses over the employees' expected working lives on the basis of calculations performed by authorised actuaries. The discount rate for the present value of the defined benefit obligation is determined on the basis of the market return on high-grade corporate bonds on the closing date of the reporting period.

Items resulting from remeasurements of the net defined benefit liability are recognised in other comprehensive income in the period they occur. Remeasurements of the net defined benefit liability recognised in other comprehensive income will not be reclassified to income statement in later financial periods.

10.2. Long-term management remuneration scheme

OP Financial Group has short-term and long-term management remuneration schemes in place, on the basis of which the person covered by the schemes may receive the related compensation for services rendered during each performance period fully in cash or as a reward settled as a combination of cash and a debenture loan issued by OP Financial Group. The maximum amount of the remuneration scheme is calculated on the grant date and the amount charged to expenses is recognised in personnel costs and deferred expenses over the vesting period.

The amount of compensation corresponding to the objectives reached is reviewed quarterly. Any effects resulting from reviewing the original estimates are recognised in personnel costs and the corresponding adjustment is made in deferred expenses.

11 Insurance assets and liabilities

11.1 Classification of financial assets within insurance business

The section "Classification and recognition" under Financial Instruments contains information on the classification of financial assets within OP Financial Group's insurance operations.

11.2 Classification of insurance contracts issued by insurers

An insurance contract is a contract which transfers significant insurance risk from the policyholder to the insurer, as defined in IFRS 4. Other contracts which the insurance company may issue under its licence represent investment or claims management contracts. If a contract does not involve any significant insurance risk on the balance sheet date but the policyholder has the right to change the contract in such a way

that the contract transfers significant insurance risk to the insurer, the contract is classified as an insurance contract. The contracts are categorised by contract or by types of contract containing homogenous risks. If several contracts are concluded simultaneously with a single counterparty or if contracts are otherwise interdependent, the significance of insurance risk is assessed jointly.

The savings and insurance components of insurance contracts are not unbundled.

Almost all of the contracts issued by non-life insurers are insurance contracts. Contracts in which the difference between realised and estimated losses are balanced with a supplementary premium and which involve no underwriting risk have been categorised as claims management contracts.

Capital redemption contracts issued by life insurance companies and pension contracts acquired through previous portfolio transfers in 2012 are classified as investment contracts since they do not involve a significant insurance risk nor are the policyholders allowed to change them into such.

Insurance contracts are classified into risk groups in such a way that the risks of contracts are homogeneous in each group. This classification of non-life contracts takes account of the insured object, differences in the duration of contracts or the average length of the period between the occurrence of a loss event and the date of the fully-paid claim (claim settlement period). As to life insurance policies, the Group takes account whether savings are accumulated, how the return of the savings is determined and whether the contract is for life or death risk.

The main insurance contract categories are short-term non-life contracts, long-term non-life contracts and life insurance contracts.

Short-term non-life insurance contracts usually have a policy term of 12 months or less, very rarely more than 24 months. In particular, policies for private individuals, motor-vehicle policies and statutory workers' compensation policies are usually automatically renewable annual policies that are treated as short-term contracts.

Long-term non-life insurance contracts refer to contracts with an average minimum policy term of two years. These include perpetual insurance policies and decennial insurance policies under the Housing Transactions Act.

Life insurance contracts include single and regular premium endowment policies, individual pension policies, group pension policies supplementing statutory pension cover, and term insurance policies issued mainly for death. Life and pension insurance savings can have either a guaranteed interest rate, with a discretionary participation in the profit of the insurer, or unit-linked in which the investment risk has been transferred to policyholders.

11.3 Recognition and measurement of insurance contracts issued by insurers

Contracts are recognised when an insurer's obligation to pay out the related claim begins following the occurrence of an insurance event.

Insurance contracts and investment contracts where the contract holder has the right of discretionary participation feature or the right to transfer the savings for a guaranteed interest rate and thereby be entitled to the discretionary participation feature are treated and measured according to Insurance Contracts standard IFRS 4. Other investment contracts are measured according to IAS 39.

Liabilities of contracts issued by insurers and measured under IFRS 4 are calculated mainly in accordance with national accounting standards. However, equalisation provisions are not included in these liabilities but are included in equity capital. In addition, part of the insurance liability is measured by taking account of the current interest rate.

The liabilities comprise provisions for unearned premiums and claims liability. The life insurance provisions for unearned premiums consist of the net liability calculated from the expected claims and operating expenses during the contracts' remaining maturities less future premiums during the remaining coverage periods of the recognised policies. Non-life provisions for unearned premiums equal the liabilities arising from claims and other expenses expected for the remaining coverage periods of the recognised policies. Provision for unpaid claims arises from reported and non-reported claims incurred and from their claims and settlement expenses paid in the future.

11.3.1 Measurement of insurance contracts issued by non-life insurers

Premiums are primarily recognised as revenue over the term of the contract. However, revenue recognition in decennial and perpetual insurance policies is based on the distribution of underwriting risk. In these policies, the portion of premiums written for the post-balance sheet date is recorded as provision for unearned premiums in the balance sheet and recognised as premium revenue relative to risk over the policy term.

Claims paid out and direct and indirect claim settlement expenses are charged to claims incurred on the basis of the date of loss occurrence. Claims unsettled on the balance sheet date for losses already occurred and their settlement expenses – including claims incurred but not yet reported (IBNR) – are reserved in the provision for unpaid claims consisting of both claims reserved for individual cases and statistically reserved claims. The provision, included in the provision for unpaid claims, for the future settlement of expenses is based on estimated costs.

Provision for unearned premiums for decennial insurance and perpetual insurance policies and insurance liability related to annuities are discounted. The general trend for the interest

rate is taken into account in determining the discount rate. Change in the discount rate of the insurance liability for annuities is taken into account as one continuously updated variable of an accounting estimate. The discount rate may not exceed the expected return on the assets covering the liability or the level set by the authorities. An increase in liabilities due to the passage of time (unwinding of discount) is shown in the income statement as a separate item in Non-life Insurance items under Net investment income.

Non-life Insurance's interest rate risk associated with insurance liability is reduced by entering into interest rate derivative contracts and making direct fixed-income investments that are recognised at fair value through profit or loss. The value of derivatives is included in the insurance liability, because any benefit from the derivatives is used for the cash flows payable from the contracts.

Capital gain or loss on derivatives is recognised over the insurance liability's residual term to maturity mainly by decreasing or increasing the discount rate. A capital loss on a derivative may be recognised by increasing the discount rate only if the planned rate is not exceeded. By selling investment instrument that hedge the insurance liability, it is possible to cover the systematic decrease of the discount rate only to a limited extent. The limit at its most is the value change that has accrued from the rate movement exceeding the target level at that time.

11.3.2 Measurement of insurance contracts issued by life insurers

The portion of premiums written for risk insurance policies' post-balance sheet date, less any yet unpaid insurance premiums, is recognised as provision for unearned premiums in the balance sheet.

The liabilities of savings-type insurance contracts and those of insurance contracts measured under IFRS 4 are calculated as the capital value of future benefits, policy administration costs and future premiums. The capital value is calculated mainly by the discount rate, mortality and assumptions of operating expenses used for pricing. The decided additional bonuses are included in the insurance liability.

Provision for unpaid claims arises from reported and non-reported claims incurred and from their claims and settlement expenses paid in the future.

The liabilities' discount rate, according to the Insurance Companies Act, cannot be any higher than what was used for insurance pricing. The discount rate may not exceed the expected return on the assets covering the liability or the level set by the authorities.

The company has savings at its own risk with interest rate guarantees ranging between 1.5 and 4.5%. The insurance liability of contracts whose interest rate guarantee is 4.5% has been supplemented so that the technical interest rate of insurance liabilities in the financial statements is permanently

3.5% as the insurance liability discount rate. In addition to this, supplementary interest rate provisions have been applied to reduce the discount rate of the guaranteed-interest portfolio for a specific period. The provision for unpaid claims of life insurance other than pension insurance is not discounted.

The Group reduces the interest rate risk of the life insurance liability by entering into interest rate derivative contracts and making direct fixed-income investments that are recognised at fair value through profit or loss. The value of derivatives is included in the insurance liability, because any benefit from the derivatives is used for the guaranteed cash flows of the contracts.

The main assumption when calculating the liability of unit-linked insurance contracts and investment contracts is that the market income of assets covering the insurance liability is credited as income to the policy.

Unit-linked investment contracts are presented under Liabilities from unit-linked insurance and investment contracts in the balance sheet.

11.4 Liability adequacy test on insurance contracts

On each balance sheet date, OP Financial Group tests for the adequacy of liabilities in the balance sheet, using current estimates of future cash flows from insurance contracts. If the test shows that the carrying amount of insurance liabilities, less intangible assets related to capitalised policy acquisition costs and acquired insurance portfolios, is inadequate, the deficiency is recognised in profit or loss primarily by recording an additional amortisation on intangible assets and secondarily by increasing the liabilities.

11.5 Premiums written

Premiums written included in net insurance income in the income statement are a consideration of the insurance coverage that began during the period.

Insurance premium tax, but not commissions and credit loss on insurance premium receivables, is deducted from premiums written.

Insurance premiums based on non-life insurance contracts are recognised as premiums written when the insurance period begins.

Life insurance premiums and investment contract payments are recognised under premiums written on an accrual basis in such a way that contracts other than defined benefit contracts do not generate insurance receivables. Commissions or credit losses are not deducted from premiums written.

11.5.1 Receivables and payables related to insurance contracts

Non-life Insurance premium receivables are recognised at the beginning of the insurance period when the right to the receivable is established. These receivables are mainly those from policyholders and to a minor extent from insurance intermediaries. Prepaid insurance premiums are included in Direct insurance liabilities under Other liabilities.

Non-life Insurance receivables based on insurance contracts are tested for impairment on each balance sheet date. If there is objective evidence of an impaired receivable, its carrying amount is reduced through profit or loss. Both final impairment losses (loan losses) and impairment losses established statistically on the basis of the phase of collecting the charge are deducted from receivables.

11.6 Salvage and subrogation reimbursements

Subrogation reimbursements and damaged property that has come into possession are recognised at fair value under Other asset in the balance sheet when the claim is settled.

11.7 Reinsurance contracts

Reinsurance taken out by OP Financial Group refers to an insurance contract which meets the classification requirements set for insurance contracts and under which the Group may be paid compensation by another insurer if the Group becomes liable to pay compensation on the basis of other insurance contracts (ceded reinsurance).

Assets based on reinsurance contracts are tested for impairment on each balance sheet date. If there is objective evidence that OP Financial Group may not receive all amounts to which it is entitled on the basis of the contract terms, the carrying amount of the reinsurance asset is reduced to correspond to the recoverable amount and the impairment loss is recognised in the income statement.

Non-life insurance benefits received under reinsurance contracts held are included in Other assets, Reinsurance assets in the balance sheet. with the latter receivables corresponding to reinsurers' share of provision for unearned premiums and provision for unpaid claims of the insurance contracts reinsured by OP Financial Group. Premiums unpaid to reinsurers are included in Other liabilities, Reinsurance liabilities.

Amounts recovered from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and are recognised in the balance sheet either under Other assets or Other liabilities.

11.8 Coinsurance and pools

OP Financial Group is involved in a few coinsurance arrangements with other reinsurers. Of coinsurance contracts, OP Financial Group treats only its share of the contract as

insurance contracts and the Group's liability is limited to this share.

OP Financial Group also underwrites shares of insurance contracts through pools, whose members are primarily responsible for their own proportionate share of the underwriting risk. These shares are based on contracts confirmed annually. OP Financial Group treats as insurance contracts its own proportionate share of the direct insurance business managed by pools and of the reinsurance business from the pool to its members.

The pool's share of these insurance contracts is treated as reinsurance. In some pools, members are responsible for an insolvent member's liabilities in proportion to their shares in the pool. OP Financial Group recognises liabilities and receivables based on joint liability if joint liability is likely to materialise.

11.9 Principle of equity concerning life insurance

With the exception of unit-linked parts of life insurance contracts, almost all life insurance contracts and some capital redemption contracts entitle to a discretionary participation feature to the profit, in addition to guaranteed benefits, which may account for a significant portion of the total contractual benefits, but whose amount and timing is at the discretion of the company under the contract. Some unit-linked policies include an option for a discretionary participation feature. Additional benefits are distributed as additional return in excess of technical interest, additional death benefit or reduced premiums.

The distribution of the surplus is based on the principle of equity referred to in the Insurance Companies Act which requires that a reasonable amount of the surplus to which the contracts are entitled is distributed to these policyholders, provided the solvency requirements prevent this. It is necessary to aim at continuity with respect to the level of additional benefits. Nevertheless, the principle of equity will not enable policyholders to demand any funds as debt. OP Financial Group has published its life-insurance additional benefit principles and its realisation on its website.

Separated balance sheets with a profit distribution policy differing from other life insurance operations have been created from the endowment policies and individual pension policies transferred from Suomi Mutual Life Assurance Company. The amount with which the assets in the separated balance sheet exceed the insurance liabilities measured by discounting using a swap curve on a market consistency basis is reserved as liability for future bonuses.

12 Provisions and contingent liabilities

A provision is recognised for an obligation if the obligation is based on a past event and it is probable that an outflow of resources will be required to settle the obligation, but there is uncertainty about the timing or amount required in settlement. In addition, an entity must have a present legal or constructive obligation towards a third party as a result of past events. If it

is possible to receive compensation for part of the obligation from a third party, the compensation is recognised as a separate asset, but only at the time when receipt of the compensation is actually certain.

A contingent liability is a possible obligation arising from past events, whose existence will be confirmed only by the realisation of an uncertain future event beyond OP Financial Group's control. A present obligation which probably does not require fulfilment of payment obligation or the amount of which cannot be defined reliably is also considered as contingent liability. A contingent liability is presented as a note.

13 Cooperative capital

OP Financial Group categorises instruments it has issued on the basis of their nature either as equity or financial liability. Incremental costs directly attributable to the issue or purchase of equity instruments are shown in equity as a deduction.

Cooperative capital, divided into cooperative bank members' cooperative contributions and Profit shares, are classified as equity instruments. Cooperative banks have an unconditional right to refuse to redeem both cooperative shares and Profit Shares. However, cooperative banks may decide to redeem cooperative shares, within the limits set by the authorities. Cooperative banks' supplementary cooperative shares is presented in OP Financial Group's financial statements as liability.

Cooperative contributions and the resultant customer ownership entitle the owner-customer to take part in the bank's decision-making. Cooperative banks have an unconditional right to refuse redemption of cooperative contributions. No interest is paid on cooperative contributions.

Profit Shares confer no voting rights. Cooperative banks have an unconditional right to refuse payment of Profit Share capital or interest. Any interest payable on Profit Shares is the same for all Profit Shares. The interest is recognised as liability and deducted from equity once the decision for payment has been made.

14 Income tax and deferred tax

Income tax expense shown in the income statement includes current tax, based on the taxable income of OP Financial Group companies for the financial year, and income tax for prior financial years and deferred tax expense or income. Taxes are recognised in the profit and loss except when they are directly linked to items entered into equity or other items in other comprehensive income. In such a case, the tax is recognised in the items in question. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the companies operate and generate taxable income.

Deferred tax liabilities are recognised for temporary taxable differences between the carrying amount of assets and liabilities and their tax base. Deferred tax assets are calculated on tax-deductible temporary differences between the carrying

amount and taxable value included in the financial statements, and on losses confirmed for tax purposes. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. The greatest temporary differences in OP Financial Group are caused by tax provisions (such as loan loss provision), measurement of investments at fair value, and elimination of equalisation provision within non-life insurance.

The Group offsets deferred tax assets and liabilities by company. Deferred tax assets and liabilities resulting from consolidation are not offset. Deferred tax assets and liabilities are measured at the tax rate that is expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted by the balance sheet date.

15 Revenue recognition

Interest income and expenses for interest-bearing assets and liabilities are recognised using the effective interest method. Interest on receivables with non-settled, due payments is also recognised as revenue and this interest receivable is tested for impairment. The difference between the receivable's acquisition cost and its nominal value is recognised as interest income and that between the amount received and nominal value of the liability in interest expenses. The difference between the nominal value and the acquisition cost of fixed-rate bonds is recognised as interest income or expenses over the residual term to maturity.

Commission income and expenses for services are recognised when the service is rendered. The Wealth Management segment uses performance-based management fees tied to investment performance. Such fees are recognised when the income has been ascertained. For one-off commissions covering several years that may have to be refunded at a later date, only the portion of their revenue related to the period is recognised.

Dividends are primarily recognised when they are approved by the General Meeting of Shareholders by the distributing entity.

Income and expense items in the income statement are presented separately without offsetting them unless there is a justified reason for offsetting them in order to give a true and fair view.

Summary of presentation of income statement items:

Net interest income	Received and paid interest on fixed-income instruments, the recognised difference between the nominal value and acquisition value, interest on interest-rate derivatives and fair value change in fair value hedging. Fees that are regarded as compensation for the risk taken by the bank associated with the financial instrument and as being an integral part of the financial instrument's effective interest rate
Net insurance income	Non-life Insurance premiums written and paid claims, including the reinsures' share and the risk result of Life Insurance
Net commissions and fees	Commission income and expenses, and the recognition of Day 1 profit related to illiquid derivatives Life Insurance total expense loadings and return of unit-linked management fees
Net investment income	Fair value changes in financial instruments at fair value through profit or loss, excluding accrued interest, and capital gains and losses, as well as dividends Realised capital gains and losses on available-for-sale financial assets, impairment losses, dividends as well as fair value changes in investment property, capital gains and losses, rents and other property-related expenses Life Insurance credited interest on customers' insurance savings and change in underwriting provisions as well as Non-life Insurance unwinding of discount
Other operating income	Rental income and sales revenues from property in own use, healthcare and wellbeing fees, and other operating income
Personnel costs	Wages and salaries, pension costs, share-based payments, pension costs and social expenses
Other operating expenses	Office expenses, ICT costs, administrative expenses, charges of financial authorities, rents and other expenses

16 Charges of financial authorities

OP Financial Group pays charges to various authorities. The Financial Stability Authority is in charge of deposit guarantee. The Financial Stability Authority is tasked with managing the Financial Stability Fund which comprises a resolution fund financed through stability contributions and a deposit insurance fund (the new deposit guarantee fund) financed through deposit guarantee contributions. Responsibility for banking supervision rests with the European Central Bank. The Finnish Financial Supervisory Authority is responsible for macroprudential supervision and supervision of conduct of business. The financial authority contributions and fees are recognised under other operating expenses.

16.1 Stability contribution

Stability contributions will be paid to the euro-area Single Resolution Fund until 2024 in such a way that the target of 1% of the amount of covered deposits will be reached. Credit institutions pay stability contributions to the EU's Single Resolution Fund administered by the EU's Single Resolution Board (SRB). The SRB also determines the amount of the stability contributions. In 2016, each bank's stability contributions are credited in the same proportion as it previously paid bank levy (the Act on Temporary Bank Levy was in force during 2013–2014). The stability contribution had no effect on OP Financial Group in 2016 in terms of expenses.

16.2 Deposit guarantee contribution

Amounts contributed to the former Deposit Guarantee Fund currently exceed the EU requirements governing the deposit guarantee level. By virtue of its rules, the former Deposit Guarantee Fund takes charge of the deposit guarantee contributions payable by its member banks to the new Deposit Guarantee Fund in proportion to which each member bank has made contributions to the former Deposit Guarantee Fund over the years. The Financial Stability Fund will determine the contribution for each member bank but will charge the amount directly from the former Deposit Guarantee Fund. The deposit guarantee contribution had no effect on OP Financial Group in 2016 in terms of expenses.

16.3 Financial Stability Authority's administrative fee

The administrative fee charged by the Financial Stability Authority is based on the same calculation method as the supervision fee charged by the Financial Supervisory Authority.

16.4 Financial Supervisory Authority's supervision fee

The supervision fee charged by the Financial Supervisory Authority comprises a relative supervision fee, which is based on an entity's balance sheet total, and a fixed basic fee.

16.5 European Central Bank's supervisory fee

The ECB supervisory fee is determined based on the bank's importance and risk profile.

17 OP bonuses to owner-customers

OP bonuses to owner-customers are presented in the income statement as a separate line item, consisting of OP bonuses and remaining supplementary cooperative capital interest. Interest payable on Profit Shares is recognised as a deduction in equity capital as profit distribution. Owner-customers earn OP bonuses through banking, non-life insurance and wealth management transactions. OP bonuses are expensed in the income statement as they are earned and recognised as accrued liabilities in the balance sheet. Accrued bonuses are used automatically for banking and wealth management service fees and non-life insurance premiums starting from the oldest ones, and the accrued liabilities are reversed.

18 Segment reporting

Financial information, which the executive in charge monitors regularly, serves as the basis of defining operating segments.

OP Financial Group reports income statements and balance sheets for the following business segments: Banking, Non-life Insurance, and Wealth Management. Non-segment operations are presented in Other Operations. Segments are reported in a way that is uniform with internal reporting submitted to the management. In segment reporting, OP Corporate Bank Group's Central Banking is reported as part of Other Operations, as are income, expenses, investment and capital not included in actual business operations.

A description of the operating segments and segment accounting policies can be found as part of segment information.

19 Critical accounting estimates and judgements

The preparation of financial statements requires making estimates and assumptions about the future and the actual results may differ from these estimates and assumptions. It also requires the management to exercise its judgement in the process of applying the accounting policies.

Liabilities arising from insurance contracts involve several discretionary factors and uncertainty. With respect to Non-life Insurance, estimates are based on assumptions about the operating environment and on the actuarial analyses of the Group's own claims statistics. An especially high degree of management judgement is required for determining the discount rate and estimating claims expenditure arising from the already occurred loss events (Note 67. Risk sensitivity of Non-life Insurance).

Liabilities arising from life insurance contracts involve several discretionary factors and uncertainty. When calculating life

insurance liabilities, the Group primarily uses assumptions on the date when the contract was made concerning insurance risk materialisation, operating expenses and investment income. The Group follows the assumptions continuously and if it turns out that the liability calculated based on these assumptions is too small, the liability is increased to meet the latest observations. The management's judgement is required especially in determining the discount rate of the liability, mortality assumption and operating expenses related to the future management of insurance policies (Note 79. Information on the nature of Life Insurance and sensitivity analysis of insurance liabilities).

When estimating the control over structured entities, the Group takes into account the investor's power to direct investee's relevant activities and the exposure or right to variable returns from its involvement with the investee. Discretion is exercised when estimating power to direct relevant activities and variable returns. The emergence of control is evaluated in more detail when the investment accounts for 10–20% of the investee's net assets and returns. The investee is consolidated as a subsidiary at the latest when OP Financial Group's share of the variable returns exceeds 37% and there is a link between the control and the returns.

The values of insurance contracts, customer relationships and brands acquired through business combinations are based on estimates of e.g. future cash flows and the applicable discount rate.

Goodwill, assets with indefinite useful lives and intangible assets not yet available for use are tested annually for impairment. The recoverable amount determined in the impairment test is usually based on value in use, and its calculation requires estimates of future cash flows and the applicable discount rate (Note 25. Intangible assets).

Impairment tests for receivables are carried out on an individual or collective basis. An impairment test carried out on an individual basis is based on the management's estimate of the expected future cash flows of the individual loan. Collectively assessed impairment provisions are based on a statistical model used in the measurement of economic capital, in which expected future losses are adjusted by means of the emergence period so that the Group can assess the amount of losses incurred but not yet reported on the balance sheet date. In such a case, the management's judgement is required to determine the length of the emergence period.

Available-for-sale financial assets, notes and bonds included in loans and receivables, and investments held to maturity must be tested for impairment on each balance sheet date. If there is objective evidence of an impaired asset, the impairment loss will be recognised in the income statement. Verifying objective evidence involves management judgement. Impairment loss on an equity instrument must also be recognised if there is a significant or prolonged decline in the fair value. Defining objective evidence is a two-step approach where at first instruments that exceed certain indicators are regularly listed and put under closer review. The Group continuously assesses

such instruments under review for impairment. Impairment loss will be recognised at the latest when the maximum limits are exceeded with respect to the 12 months prolonged criteria or the significant criterion of 30%.

The management must assess when markets for financial instruments are not active. The management must also assess whether an individual financial instrument is actively traded and whether the price obtained from the market is a reliable indication of the instrument's fair value. When the fair value of financial instruments is determined using a valuation technique, management judgement is required to select the applicable valuation technique. Whenever market observable input data is not available for outputs produced by valuation techniques, the management must evaluate how much other information will be used.

The present value of pension obligations depends on several factors determined by using several assumptions. The discount rate, future increases in salaries and pension payments and the inflation rate are the assumptions used to determine net costs (or income) arising from pensions. Changes in actuarial assumptions have an effect on the carrying amount of pension obligations (Note 35. Provisions and other liabilities).

The measurement of investment property at fair value is partially based on the management's estimates of the market value of property holdings. Investment property is also measured using a calculation model based on the income capitalisation approach utilising estimates of future net yield on property holdings (Note 45. Recurring fair value measurements by valuation technique).

20 New standards and interpretations

The IASB (International Accounting Standards Board) has issued the following significant future IFRS amendments.

20.1 IFRS 9 Financial Instruments

IFRS 9 and amendments to it must be applied for accounting periods beginning on or after 1 January 2018. OP Financial Group will for the first time apply IFRS 9 as of 1 January 2018.

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

Classification and measurement

The classification of financial instruments under IFRS 9 is based on both the business model for managing the financial assets

and the contractual cash flow characteristics of the financial asset.

In case the objective of the debt instrument held within the portfolio business model is to hold assets in order to collect contractual cash flows or the objective is achieved by collecting contractual cash flows and selling financial assets, the classification is based on the contractual cash flow characteristics. In such a case, contractual cash flows that are solely payments of principal and interest on the principal amount outstanding are in line with a basic lending arrangement. Under IFRS 9, these financial assets are measured at amortised cost at fair value through other comprehensive income (FVOCI). The majority of OP Financial Group's financial assets under debt instruments are included in the abovementioned portfolios.

Other business models, for example when the objective is to realise cash flows by selling financial assets under debt instruments, leads to recognising them at fair value through profit or loss.

Equity instruments are, as a rule, recognised at fair value through profit or loss.

IFRS 9 eliminates assets classified as held to maturity, loans and receivables and available-for-sale applied under IAS 39.

Based on OP Financial Group's preliminary assessment, the biggest change applies to the classification of equity instruments and mutual fund investments. Such items will no longer be recognised in available-for-sale assets but, as a rule, in assets recognised at fair value through profit or loss. The classification change will particularly affect OP Financial Group's Non-life and Life Insurance investment operations. OP Financial Group is planning to apply the so-called overlay approach under amended IFRS 4. With the overlay approach, OP Financial Group will reconcile the different effective dates of IFRS 9 and a new upcoming insurance contracts standard IFRS 17 and balance the resulting earnings volatility. OP Financial Group is also planning to classify some equity instruments into those recognised at fair value upon initial recognition through comprehensive income. The changes in the classification are not expected have any significant effect on banking and other operations. OP Financial Group has not yet made final decisions with respect to the classification.

Impairment

IFRS 9 replaces the current incurred loss model with a forward-looking expected credit loss model for impairment. The model contains a substantial number of assessments of how changes in macroeconomic factors affect the amount of expected credit loss weighted by the probability that the loss will occur.

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

The expected credit loss is calculated:

- on the amount equalling the 12-month expected credit losses or
- on the amount of lifetime expected credit losses.

The expected credit losses are calculated for a lifetime if financial assets have had a significant increase in credit risk on the reporting date since initial recognition. In other cases, the 12-month expected losses are calculated.

In the expected credit loss modelling, OP Financial Group is planning to exploit as much as possible the existing IRBA models applied in capital adequacy and economic capital measurement. It will edit the models to conform to IFRS 9, for example, by removing from them the floors set by the authorities. 12-month risk parameters and lifetime risk parameters will be derived from the models. The expected credit loss is planned to be calculated using risk parameters and formula $PD \times LGD \times EAD$ for the majority of the portfolios. In the definition of default, the plan is to use a uniform definition in capital adequacy measurement. In addition, OP Financial Group will include forward-looking information and macroeconomic scenarios in the model.

OP Financial Group reviews a significant credit risk change by portfolio, taking account of both qualitative and quantitative criteria. A significant change in credit risk is assessed on the basis of, for example, a proportionate PD change. Credit risk is considered to have increased significantly when payments are more than 30 days past due. OP Financial Group has not yet decided on the final criteria for a significant increase in credit risk.

Expected credit loss provisions under IFRS 9 are assessed to increase significantly from its current level and it varies by portfolio. The provisions will reduce equity capital on the date of transition. The increase in provisions arises from an increase in the 12-month expected credit losses, inclusion of macroeconomic factors in the model and new on- and off-balance-sheet items included in the provisions, such as notes and bonds and loan commitments. In subsequent financial years, the provisions are expected to be sensitive to changes in economic conditions and to increase OP Financial Group's earnings volatility. However, the increase in expected credit loss provisions is not expected to have any significant effect on OP Financial Group's capital adequacy because the IFRS 9 compliant expected credit loss provisions are not expected to exceed the expected loss calculated in capital adequacy and the effect of used floors.

Hedge accounting

In transition to IFRS 9, OP Financial Group may decide whether it will continue with hedge accounting under IAS 39 or adopt hedge accounting under IFRS 9. OP Financial Group has not yet made the decision to adopt IFRS 9 compliant hedge accounting.

Transitional provisions

OP Financial Group will utilise the opportunity permitted by IFRS 9 not to restate comparative periods in classification and recognition (incl. impairment) in respect of the amendments. Retained earnings will be restated through the amendments as of 1 January 2018.

20.2 IFRS 15 Revenue from Contracts with Customers

IFRS 15 Revenue from Contracts with Customers (applicable to accounting periods beginning on or after 1 January 2018) replaces the current IAS 11 and IAS 18. The new standard has no effect on the recognition of financial instruments or insurance but mainly applies to various commissions and fees in OP Financial Group. The standard contains a 5-step model for revenue recognition based on customer contracts. The revenue is recognised over a period or at a specific time, and the key criterion is transfer of control. Incremental costs arising from contracts with customers obtained under IFRS 15 and costs arising from the fulfilment of the contracts are capitalised when the criteria under the standard are fulfilled. In addition, the standard includes guidelines for recognition practices and presentation of loyalty programmes. The standard will also increase the number of notes to be disclosed. Based on the current assessment, OP Financial Group will adopt IFRS 15 applying the cumulative effect method and will not restate comparative periods but will restate equity capital on 1 January 2018. In addition, OP Financial Group will present the amounts affecting each financial statement item when applying IFRS 15. 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. Changes to the revenue recognition date for Wealth Management management fees or profit-based performance management fees are not expected in comparison with the current practice. The combination of various products and services offered to Wealth Management and Banking customers, OP bonuses and expenses for customer contracts are still being analysed in greater detail. The adoption of IFRS 15 is not expected to have any significant financial effect.

20.3 IFRS 16 Leases

IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019) replaces IAS 17 Leases. A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The new standard will change accounting by lessees. The lessee recognises, with the exception of exemptions, a right-of-use asset and lease liability related to all contracts in the balance sheet. The exemption includes short-term contracts and those for underlying assets with low value.

Accounting by lessors remains substantially similar to the current standard. The lessor continues to classify leases as finance leases and operating leases. The standard will increase the number of notes to be disclosed. Based on the current assessment, the leased assets are not expected to have any significant effect on OP Financial Group's balance sheet.

Amendments to IAS 7 and IAS 12 will take effect on 1 January 2017. The amendments will not have any significant effect on OP Financial Group's financial statements.

Note 2. OP Financial Group's risk management and capital adequacy management principles

1 OP Financial Group's risk-taking

OP Financial Group's operations are based on cooperative ideals, a strong capital base and capable risk management. OP Financial Group's mission and core values as well as strategic goals and financial targets form the basis for risk management and capital adequacy management.

The strategy outlines the Group's risk appetite and risk management priorities that help to ensure strategy implementation. The aim is to ensure risk-bearing capacity in all circumstances and to keep risk-taking moderate relative to risk-bearing capacity. In the long term within moderate risk-taking, the Group seeks above-market-average growth. This requires controlled risk-taking relying on strong risk management.

OP Financial Group's principles governing risk-taking and the risk tolerance system, adopted by the central cooperative's Supervisory Board, define how the Group's risk-taking is controlled, restricted and supervised and how the risk management and internal capital adequacy assessment process is organised. These principles also define the most significant risks associated with OP Financial Group's business. They are also linked to the strategy, annual planning and capital allocation.

Group-level risk limits for capital adequacy and significant risks confirmed by the Supervisory Board specify the maximum

Group-level risk appetite. In risk policy, target levels and qualitative targets as well as limits and control limits for segments and OP Financial Group entities are derived from these. Quantitative and qualitative target levels set for risk appetite balance the business targets based on the strategy and moderate risk appetite out.

The Group is continually maintaining and enhancing a corporate culture that takes a positive approach to risk management and internal control. OP Financial Group's remuneration scheme does not encourage excessive risk-taking. The remuneration scheme takes into account the Group's capital adequacy and profitability.

Key risk appetite metrics at OP Financial Group in 2016:

Key risk appetite metrics at OP Financial Group

Capital adequacy	Common Equity Tier 1 (CET1) ratio, %
	Capital adequacy ratio under the Act on the Supervision of Financial and Insurance Conglomerates, %
Credit risks	Biggest individual customer risk, %
	Total significant customer risks, %
	Industry risk, %
	Doubtful receivables, %
Liquidity risks	Economic capital requirement for credit risk, %
	Minimum liquidity coverage ratio (LCR), %
Market risks	Banking structural funding risk
	Interest income risk in banking book
	Banking book present value risk, %
	Economic capital requirement for market risk associated with insurance operations, %
Insurance risks	Trading VaR 99%, 1 day
	Economic capital requirement for Non-life Insurance risks, %
Operational risks	Economic capital requirements for Life Insurance risks, %
	MIM failures

2 Risk and capital adequacy management

Risk and capital adequacy management aims to illustrate OP Financial Group's risk profile and risk-bearing capacity and their sensitivity to market movements and choices made by business lines/divisions. Another aim is to generate information for decision-making and ensure that risk-taking remain within the confirmed limits and control limits. This is to safeguard the risk-bearing capacity and liquidity of OP Financial Group and its entities while ensuring business continuity.

Risk-bearing capacity is made up of effective risk management that is proportionate to the extent and complexity of operations and of adequate capital resources and liquidity based on profitable business operations.

Risk and capital adequacy management consists of

- identifying, measuring, assessing and mitigating risks;
- determining reliably and independently how much capital and liquidity is required for various risk types and business operations; and
- allocating capital and liquidity systematically by business segment in line with current and planned risk-taking

In OP Financial Group's risk policy, the central cooperative's Executive Board confirms annually risk-management principles, actions, objectives, limits and control limits to be applied by all Group business segments and entities that are used to guide business to implement the policies confirmed in the Group's strategy and the principles of the risk tolerance system.

The risk limit system ensures that OP Financial Group or any of its entities does not take excessive risks to endanger the Group's or the entity's capital adequacy, profitability, liquidity and business continuity. The Supervisory Board confirms the Group's risk limits at least once a year. The Executive Board confirms limits for the central cooperative consolidated's entities and control limits for OP cooperative banks. The limits and control limits define the boundaries for implementing the strategy with moderate risk appetite.

Pursuant to the Act on the Amalgamation of Deposit Banks, the consolidated capital base and liquidity of the companies within the amalgamation are controlled on a consolidated basis. The central cooperative is under an obligation to control and supervise its member credit institutions, issue instructions to them on risk management, good corporate governance and internal control to secure liquidity and capital adequacy.

The central cooperative fulfils its statutory control and supervision obligation through Group-wide control and, in problems situations, entity-specific control based on risk categorisation. The risk category reflects the view of independent risk management on the bank's risk-bearing capacity and the bank's risk of having to resort to financial aid, or any possible risk to the Group's reputation. The main purpose of OP Financial Group's entity-specific control is to prevent an individual entity from having to resort to the Group's capital base or support. Another objective is to help

entities recover from problem situations that have threatened or jeopardised their operations.

OP Financial Group's statutory Recovery Plan creates a framework and determines the policy options used to safeguard the business continuity of the credit institutions within the amalgamation of cooperative banks in a situation where the amalgamation's financial position has significantly deteriorated and the amalgamation no longer fulfils internal capital adequacy or liquidity levels based on defined threshold values. Until the implementation of the Recovery Plan, the Group acts on the control measures in its capital plan.

2.1 Risk identification, assessment, measurement and mitigation

The risk management and ICAAP process consists of the continuous identification and assessment of risk associated with business and the operating environment. The central cooperative's independent Risk Management monitors the development of the Group's and its entities' risk exposure and risk-bearing capacity. It provides regular reports on its observations and assessments to the Executive Board and the Supervisory Board's Risk Management Committee.

OP Financial Group assesses its capital base and that of its entities in relation to the economic capital requirement and the existing and expected regulatory minimum capital requirements and the requirement for the capital conservation buffer. Such assessment also makes use of the results of stress tests.

Before the launch of any products or services or the adoption of new operating models or systems, OP Financial Group assesses related risks using procedures as laid down by the central cooperative's Risk Management. OP Financial Group offers only products to customers and applies business models that have been approved at Group level.

2.2 Economic capital requirement

The economic capital requirement is OP Financial Group's own estimate of the amount of capital sufficient to cover any annual losses with a 99.97% probability that may arise from risks associated with business and the operating environment. The economic capital requirement is calculated using models for each risk type, the results of which are combined taking account of correlations between the risk types and the resulting diversification benefits.

Economic capital is divided into quantitative and qualitative, or assessable, risks. Quantitative risks include credit risk, Banking interest rate, equity and property as well as market risk associated with long-term investment and insurance operations, and market and underwriting risks associated with trading. The assessable risks are divided into operational risks and other risks. 'Other risks' include any major risks that have not been taken into consideration in any other risk-specific models related to economic capital requirement. These risks are typically caused by external factors, such as changes in competition or the market situation or regulatory measures.

About a third of OP Financial Group's economic capital requirement consists of credit risks and about a fourth of market risks associated with insurance operations.

In the model for economic capital, the Group assesses several risk types on a more extensive basis than required by the authorities. Such risk types include banking interest rate risk, insurance market risks and other risks, in particular. The key difference in the measurement of economic capital for credit risks is related to concentration risk. Moreover, the measurement of economic capital differs from capital adequacy measurement in that the property and equity risks associated with banking are calculated separately in terms of economic capital, while in capital adequacy calculations they are included in the capital requirement for credit risk.

Indicators based on economic capital requirements are used in OP Financial Group's target, limit and control limit indicators, credit and insurance policy pricing and capital planning when defining the capital conservation buffer.

2.3 Stress tests

Stress tests are used to assess how various exceptionally serious, albeit potential, situations and those differing from the forecasts of risk models may affect the liquidity, profitability risk exposure or capital adequacy of OP Financial Group or its entity. Stress tests assess the effect of both individual stress factors and the joint effect of multiple variables acting simultaneously. Stress tests cover all of the most significant risks affecting OP Financial Group's financial position.

Sensitivity analyses are used as part of the risk analysis for various risk types. Sensitivity analyses help to understand how certain assumptions affect the risk parameter values. Sensitivity analyses conducted at different shock levels give a concrete idea of the effect of different risks and the probability of losses of various sizes.

Scenario analyses are used, in particular, for analysing the impact of risks in the operating environment. They are derived from the financial estimate based on the current strategy which is based on the prevailing levels of different market variables and the Group's best estimates of future development. In scenario analyses, this basic estimate is strained using the impact of different risks.

Stress test methods are utilised not only for the measurement of economic capital but also as complementary methods for the purposes of, for example, the Group's capital planning, liquidity management and as the basis for the business continuity and recovery planning as well as in the preparation of the Recovery Planning.

2.4 Capital management

Capital management aims in all circumstances to proactively control and ensure that OP Financial Group's capital adequacy meets the set targets and official requirements and thus ensure OP Financial Group's business continuity.

A capital plan is made to assess the adequacy of capital and proactively ensure an adequate capital base even in exceptional conditions. The capital plan contains, for example, quantitative and qualitative targets for capital adequacy, predicted changes in the capital base and capital requirement, capital allocation within OP Financial Group, a contingency plan, capital adequacy monitoring and control practices as well as scenario calculations to assess capital adequacy.

The central cooperative Executive Board adopts at least once a year a Group-level capital plan. Its main conclusions are communicated to the central cooperative's Supervisory Board.

Each OP Financial Group entity is responsible for its capital adequacy and must set its capital adequacy targets and limits according to guidelines set by the central cooperative.

In any potential crises, capital allocation within OP Financial Group is primarily performed on a market consistency basis. The central cooperative is in charge of capitalising OP Financial Group entities in cases where the entity's own resources are insufficient to secure its operational capacity. Ultimately, capital allocation within the amalgamation of cooperative banks is based on the provisions of the Act on the Amalgamation of Deposit Banks.

2.5 Liquidity management

OP Financial Group manages its liquidity position by means of

- proactive planning of funding structures, the Group's risk limits and limits, control limits and target levels derived for Group entities;
- monitoring the liquidity status and a liquidity buffer of the right size;
- planning and managing daily liquidity;
- business continuity and contingency planning based emergency levels; and
- effective and transparent control of the Group's liquidity status.

A solid funding structure requires that the loan portfolio and OP Financial Group's liquidity buffer be funded not only through deposit funding and short-term funding but also through long-term funding.

2.6 Control and reporting

Risk and capital adequacy management control adheres to the internal control principles confirmed by the Supervisory Board. The central cooperative's independent Risk Management controls the risk and capital adequacy management of the Group and its entities and analyses their risk exposure. It also controls the maintenance of their risk exposure, capital adequacy and liquidity within the confirmed limits and control limits.

Risk Management reports regularly on its observations and assessments to the Supervisory Board and its Risk Management Committee as well as the Executive Board and its

ALM and Risk Management Committee and to the Control and Compliance Committee.

The fact that reports on measurable risks are produced for Group entities on a centralised basis and separate from any business operations also ensures the independence of risk reporting.

3 Organisation of risk and capital adequacy management

Risk and capital adequacy management is organised in such a way that it is in sufficient proportion to the nature, extent and diversity of OP Financial Group and each business segment and entity.

The central cooperative is in charge of the OP Financial Group level risk and capital adequacy management. At Group level, risk management is carried out independent of business operations. OP Financial Group entities are responsible for their own risk and capital adequacy management. The application of the independence principle is determined separately in the Group entities' own guidelines, taking into consideration the extent and nature of their business.

3.1 Risk and capital adequacy management's three lines of defence

OP Financial Group's risk and capital adequacy management has been integrated as an integral part of the Group's business and management. Each OP Financial Group entity focuses on carrying out its role according to its service capabilities and risk-bearing capacities in accordance with shared business models.

OP Financial Group's risk management is built on three lines of defence.

The first line consists of risk management applied within business and other operations. It supervises risk decisions and manages documentation and the monitoring of risk retention levels.

The second line of defence consists of risk management independent of operational business organisations. It controls, supports and supervises the implementation of the principles, confirmed by the Supervisory Board, within OP Financial Group and its entities. It is in charge of the Group's risk management framework, supervises the risk-decision process and is responsible for the Group's consolidated risk exposure management and risk-bearing capacity monitoring.

Internal audit centralised in the central cooperative forms the third line of defence. It audits and evaluates both the Group's risk management framework and its application in the central cooperative and other Group entities. In its annual report, internal audit provides the Audit Committee of the central cooperative's Supervisory Board with its overall assessment of the risk management process.

3.2 OP Financial Group's risk management

OP Financial Group's Risk Management is a function independent of business that provides guidelines for, controls and supervises the overall risk management of the Group and its entities, and analyses their risk exposure. Risk management focuses on preventive work, preparation and proactive analysis of risk exposure. The objective is to secure the Group's and its entities' sufficient risk-bearing capacity and to ensure that any business risks taken do not threaten profitability, capital adequacy, liquidity, business continuity and the achievement of strategic targets. Risk management helps to achieve the targets set in the strategy by controlling that risks are proportional to risk-bearing capacity. Risk Management is in charge of the Group's risk management process and risk transfer, and supports Group entities in risk management implementation.

Three defence lines of risk management

<p>I Operational risk management</p> <p>Applies the risk management framework</p> <ul style="list-style-type: none"> • Risk management integrated as part of the operational units • Risk decisions and operational monitoring 	<p>Responsibility for risk exposure and its monitoring</p>
<p>II Independent risk management</p> <p>"Owns" the risk management framework</p> <ul style="list-style-type: none"> • Group's independent risk management function • Steering the risk decision process and managing consolidated risk exposure 	<p>Responsible for conditions for good risk management and control</p>
<p>III Internal Audit</p> <p>Inspects and assesses the risk management framework and its application</p> <ul style="list-style-type: none"> • Internal Audit • Independent audit function 	<p>Responsibility for independent assessment of risk management</p>

It is also responsible for maintaining and developing risk management systems and methods at Group level and for the entities. Moreover, it maintains, develops and prepares risk management principles for approval by the Executive Board and Supervisory Board.

The risk management organisation structure supports both an approach per risk type and consolidated risk exposure monitoring at Group and entity level. Risk Management is divided into the following four areas of responsibility:

- Risk exposure and capital requirement
- Lending support and control
- Credit risk process control and management
- Operational risk management and compliance

3.3 Supervisory Board

OP Cooperative's Supervisory Board adopts, among other things, OP Financial Group's strategy and other shared objectives and operating principles. It confirms the Group's principles of internal control and the risk tolerance system, the control system principles required by joint and several liability, the capital plan principles, the Group's annual plan and Group-level risk limits concerning capital adequacy and risk types. It also adopts the principles and policies concerning OP Financial Group's remuneration development and decides on the Group's long-term remuneration schemes. The Supervisory Board monitors the progress of strategy implementation and the development of the Group's and the central cooperative consolidated's business, risk-bearing capacity and risk exposure and its maintenance within the risk limits.

3.3.1 Supervisory Board committees

To support its work, OP Cooperative's Supervisory Board has set up a Working Committee, Audit Committee, Remuneration Committee and Risk Management Committee. The most important committees in terms of risk and capital adequacy management are the Risk Management Committee and the Audit Committee. The committees are not as a rule authorised to make decisions independently.

The Risk Management Committee assists the Supervisory Board in matters related to the central cooperative consolidated's and the Group's risk-taking and risk management and risk-based supervision to ensure that the executive management complies with the risk-taking policy in accordance with the Group strategy and the risk limits issued by the Supervisory Board. The Risk Management Committee assists the Supervisory Board to ensure that a sufficient risk management system is in place and that no exposure is so large that it can jeopardise business continuity, capital adequacy, liquidity and strategy implementation. The Committee also assists the Supervisory Board's Remuneration Committee in creating sound remuneration schemes.

The Audit Committee assists the Supervisory Board in ensuring that the central cooperative consolidated and OP Financial Group have in place a sufficient and effective control system to cover all operations and that the central cooperative consolidated's and OP Financial Group's accounting and asset management control is organised appropriately. The Committee is also responsible for ensuring that the central cooperative consolidated's and OP Financial Group's operations and internal control are organised in a manner as required by laws, regulations and the principles of good corporate governance, and for supervising the performance of internal control.

3.4 Executive Board

The duties of OP Cooperative's Executive Board include controlling the amalgamation's operations and providing its credit institutions with guidelines on risk management, good corporate governance and internal control in order to ensure their liquidity and capital adequacy. It also supervises compliance of the companies within the amalgamation with the laws and decrees governing the financial position, regulations issued by the relevant authorities, their own bylaws or articles of association, and instructions issued by the central cooperative.

Central cooperative's decision-making system



The Executive Board annually adopts OP Financial Group's risk policy and the risk limits of the central cooperative consolidated's entities and cooperative banks' control limits. It also adopts the risks included in economic capital and the stress testing framework. It is also responsible for ensuring that the systems and procedures concerning risk and capital adequacy management are sufficient and up to date.

The Executive Board adopts the control methods under the guidelines for each bank based on the control system required for joint and several liability. It also decides on banks belonging to lower risk categories and on related control methods.

The Executive Board reports to the Supervisory Board and its Risk Management Committee on changes in the business, risk-bearing capacity and risk exposure of the Group, the central cooperative and its entities.

3.4.1 Executive Board committees

OP Cooperative's Executive Board has set up, in support of its duties, an HR Committee, Development Committee, Control and Compliance Committee and ALM and Risk Management Committee. The most important ones in terms of risk management are the ALM and Risk Management Committee and the Control and Compliance Committee. The committees make decisions on matters delegated to them by the Executive Board.

The ALM and Risk Management Committee supports the Executive Board in steering and managing OP Financial Group's risk-bearing capacity and risk appetite according to confirmed operating principles and decisions. The Committee also assists the Executive Board in ensuring that the central cooperative and its consolidated group have adequate capital adequacy management and risk management systems in place covering all operations.

The Control and Compliance Committee's primary duty is to support the Executive Board in the central cooperative's implementation of control and supervision of the central cooperative consolidated and cooperative banks based on the principles issued by the central cooperative's Supervisory Board. The Committee is engaged in general control of the central cooperative consolidated and all OP cooperative banks and in bank-specific control.

In addition, there are two coherent OP Financial Group's committees appointed by the Executive Board and subordinated to it and under its supervision ensuring risk management: Risk Management Committee and Credit Risk Committee.

The Risk Management Committee is responsible for ensuring that OP Financial Group has the ability to operate successfully in the long term by making sure that the principles, methodologies, models, metrics valuations and instructions of the Group's risk and capital adequacy management systems correspond to the best estimates of the independent Risk

Management and comply with the principles based on the Risk Management Guidelines adopted by the Executive Board.

The Credit Risk Committee controls the Group's counterparty risk limiting system and makes credit and exposure limit decisions with the framework of the risk policy adopted by the Executive Board, monitors utilisation rates and follows credit portfolio development in terms of quantity, quality and structure.

Both committees report to the Executive Board's ALM and Risk Management Committee.

3.5 Central cooperative subsidiaries

The central cooperative Executive Board is in charge of the entire Group's operational management. It is responsible for the central cooperative consolidated's management and its appropriate organisation. In the entire central cooperative consolidated, decisions are made as extensively as possible at Group level by the central cooperative's Executive Board. The board of directors of each subsidiary discusses issued related to them primarily on the basis of the policy guidelines issued by the central cooperative's Executive Board or after hearing the Executive Board. The boards of directors of the subsidiaries mainly discuss only issues required by law.

In their operations, the central cooperative subsidiaries apply the principles of the risk tolerance system adopted by the central cooperative's Supervisory Board as required by the nature and extent of their business.

The subsidiary's executive management is responsible for the implementation of risk and capital adequacy management according to the principles and operating policies that have been agreed on, and reports regularly on the entity's business, risk-bearing capacity and risk exposure to the board of directors.

The duties of risk and capital adequacy management of OP Financial Group's and the central cooperative's subsidiaries (the second line of defence) have been centralised in the parent entity.

3.6 OP Financial Group member cooperative banks

OP Financial Group member cooperative banks apply the central cooperative's principles of the risk tolerance system as required by the nature and extent of their business.

The supervisory board's Audit Committee is tasked with assisting the supervisory board in overseeing the administration managed by the board of directors and the managing director. The rules of procedure of the Audit Committee confirmed by the supervisory board describe the responsibilities and composition of the Audit Committee.

The board of directors of the member cooperative bank confirms, for example, internal procedures and instructions

relating to internal audit and risk management, business targets, risk limits for various risk types and a capital plan. It is also responsible for risk management adequacy and supervises and monitors the bank's business, risk exposure and risk-bearing capacity on a regular basis. In controlling the banks' operations, the board of directors adheres to the Group's guidelines.

The executive management is in charge of the implementation of internal audit and risk management according to agreed principles and procedures, and reports regularly on the bank's business, risk-bearing capacity and risk exposure to the board of directors.

The largest OP Financial Group member cooperative banks have a risk management function independent of operational decision-making. In small and medium-sized member cooperative banks, the managing director is responsible for risk management. For these banks, the central cooperative also offers expert support for the independent management of credit risks, operational risks and compliance risks.

In member cooperative banks, the risk-management assessment independence of business operations is based on reports produced by the central cooperative's Risk Management, the bank risk categorisation carried out by the central cooperative as well as the assessment by OP Financial Group's Internal Audit concerning the status of the bank's capital adequacy management.

OP Financial Group's Internal Audit helps cooperative banks to reach their objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes. Internal audit is based on an independent and objective assessment, assurance and consulting activities.

4 OP Financial Group's risks

Risks associated with OP Financial Group's business segments differ in terms of weight. Banking risks are associated with the balance sheet, i.e. credit risk, structural interest rate and funding risk and liquidity play a pronounced role. Interest rate and other market risks are highlighted in Non-life Insurance and compliance risks and life insurance market risks in Wealth Management. Operational risks are highlighted in all business segments alongside the trend towards automated and digitised services. The extent of the Group provides significant risk diversification benefits. Meanwhile, however, the role of various concentration risks will increase.

The table below describes OP Financial Group's most significant risks. The paragraphs below the table describe the nature of the risks and how they can be managed.

OP Financial Group's most significant risks

Strategic risks	Risk caused by changes in the competitive environment, slow reaction to changes, poor choice of strategy or poor strategy implementation.
Operational risks	Risk of financial loss or other detrimental consequences caused by inadequate or failed processes, inadequate or flawed procedures or systems or some external factor. Operational risks also include ICT, security, data security, procedural and model risks.
Compliance risk	Risks caused by non-compliance with external regulation, internal policies, appropriate procedures or ethical principles governing customer relationships.
Reputational risk	Risk of deterioration of reputation or trust caused by negative publicity or realisation of some risk.
Credit risks	Credit risk means that a counterparty fails to fulfil its obligations arising from debt relationship. Non-fulfilment of other obligations of a counterparty is also known as counterparty risk.
Market risks	Market risks comprises structural market risks associated with the balance sheet (market risks associated with the banking book and insurance liability) and those associated with trading and long-term investment. Market risks include all interest rate, equity, currency, credit and property risks associated with on- and off-balance sheet items as well as other possible price risks.
Liquidity risks	Liquidity risk comprises funding liquidity risk, structural funding risk and concentration risk.
Non-life insurance risks	Non-life insurance risks comprise risk of loss or damage, and provision risk.
Life insurance risks	Life insurance risks comprise biometric risks, cost risks and customer behaviour risks.
Concentration risks	Risks that may arise of a business's excessive concentration on individual customers, products, lines of business, maturity periods or geographical areas.

5 Strategic risks

Identifying strategic risks and opportunities forms an integral part of the Group's strategic planning and continuous business development. The strategic guidelines are processed extensively within the Group before being confirmed. The Group manages its most significant strategic development initiatives through either strategic development programmes or individual development initiatives.

As part of the strategy process, OP Financial Group assesses strategic risks, identifies related control measures and assesses their effects, for example, on the Group's overall risk exposure and economic capital requirement. The Group takes account of risks associated with its operating environment by implementing proactive risk management and systematically monitoring its operating and competitive environment. Strategic risk is reduced by regular planning, based on analyses and forecasts of customer future needs, developments in different sectors and market areas, and of competition.

OP Financial Group assesses strategic risks on an annual basis. The strategic risks are subject to regular reporting and the central cooperative Executive Board and Supervisory Board discuss and monitor related actions and the progress of strategic development programmes.

6 Operational risks

The aim of operational risk management is to ensure that operations have been organised appropriately and that risks do not result in unforeseeable financial losses or other negative consequences, such as loss of reputation. The Group is continually maintaining and enhancing a corporate culture that takes a positive approach to operational risk management and internal control.

The target risk-taking level set for operational risks is moderate. The Group further develops operational risk limits describing a moderate risk level. Owing to the nature of operational risks, their limit levels are threshold values. In 2016, MIM failures (major incidence management) were the threshold value for the Group-level operational risks. System usability/availability and process reliability metrics were also monitored. The key area of operational risk management involves identifying and assessing risks and assessing the effectiveness and adequacy of risk control and management tools. Before any new business models (including outsourcing) are carried out or products or services are launched, their risks are assessed as laid down by the central cooperative's Risk Management. All OP Financial Group products offered to customers and business models in place have been approved at Group level. Risks that may disrupt business continuity are prepared against by means of business continuity planning in key business divisions. Business continuity planning also forms the basis for preparation against emergency conditions referred to in the Emergency Powers Act. Business continuity plans are tested according to testing plans that have been made.

Any effect of a materialised operational risk may be transferred outside the Group through insurance. The evaluation of the necessity for insurance depends on the nature of each entity's business and the level of risk management.

In its operational risk management, OP Financial Group adheres to a uniform, system-supported operating model. In this model, the Group's entities assess operational risks, involving identifying and assessing business risks and defining and monitoring measures designed to reduce them. The Group also monitors occurred risk events and close calls and losses suffered by other financial sector players, and analyses them and ensures adequate methods to prevent similar losses.

Group entities are responsible for the management of their own operational risks as required by the nature and extent of their business (including outsourced services/functions).

6.1 Monitoring and reporting operational risks

OP Financial Group entities identify operational risks associated with major products, services, functions, processes and systems, and outsourced services/functions. Risk identification also involves paying attention to the illegal use of banking systems, such as risks associated with money laundering and terrorism financing. The Group assesses the significance of identified risks on the basis of their financial effect and probability. The information obtained is used to support planning, decision-making and management.

Operational risks are reported regularly to the management of the central cooperative and the entities.

7 Compliance risks

Compliance risk forms part of operational risk. Compliance activities are aimed at ensuring that all OP Financial Group entities comply with laws, official instructions and regulations, self-regulation of markets, and internal guidelines, policies and instructions of OP Financial Group and the entities. Compliance also ensures that customer relationship management complies with appropriate and ethically sound principles and practices.

Materialisation of compliance risk may result not only in financial loss but also other adverse consequences, such as sanctions. Such sanctions may include a corporate fine and separate administrative fines for violation of obligations, and public warnings and reprimands. Compliance risk may materialise in terms of loss or deterioration of reputation or trust.

Responsibility for regulatory compliance and its supervision within OP Financial Group entities rests with the senior and executive management and all supervisors and managers. Everyone employed by OP Financial Group is responsible for his/her own part for compliance with regulations.

Guidelines, advice and support concerning compliance within OP Financial Group are the responsibility of Risk Management

that is independent of the central cooperative. The central cooperative consolidated entities have centralised compliance functions within Risk Management. Each member cooperative bank has a designated person to ensure regulatory compliance.

7.1 Compliance risk management tools

Managing compliance risks forms part of internal control and good corporate governance practices and, as such, an integral part of business management duties and the corporate culture. Compliance risk management tools include monitoring legislative developments, providing the organisation concerned with guidelines, training and consultation in respect of observing practices based on regulation as well as supervising the regulatory compliance with procedures applied within the organisation.

7.2 Monitoring and reporting compliance risks

Compliance risks are identified, assessed and reported regularly according to the operational risk management model as part of the assessment of operational risks. Any observations made by Compliance are reported regularly to the business line, the central cooperative's Executive Board and the Supervisory Board's Risk Management and Audit Committees.

8 Reputational risk

Reputational risk is managed proactively and in the long term by complying with regulation, good practices of the financial sector and the Group's Code of Business Ethics and by emphasising transparency of operations and communications. The Group adheres to international financial, social and environmental responsibility principles and international commitments.

Reputational risks are reported regularly to the management of the central cooperative and the entities. Any threat to imminent reputational risk will be reported immediately.

9 Credit risks

Credit risk means that a counterparty fails to fulfil its obligations arising from debt relationship. OP Financial Group's credit risk derives primarily from banking. Credit risk also derives from investment by insurance operations and reinsurance as well as insurance premiums. Credit risk includes country risks and settlement risks.

OP Financial Group's Risk Policy and the principles of the risk tolerance systems are used to control credit risk. The credit risk policy defines, for example, the target risk exposure level, risk-taking principles and restrictions as well as the principles governing customer selection, collateral and financial covenants that are used to ensure the sufficient diversification of the loan portfolio and to avoid excessive risk concentrations by customer group, industry, borrower grade, maturity period or country.

Credit risk management at a bank is based on good knowledge of customers, strong professional skills and comprehensive documentation. The day-to-day credit approval process and its effectiveness play a key role in the management of credit risks. A customer's sufficient debt-servicing capacity is the prerequisite for all lending. Credit approval decisions are based on the up-to-date credit rating in force. Credit rating controls customer selection, consequences of insufficient collateral and exposure pricing. Target values by borrower grade have been set for OP Financial Group's and its member banks' new lending and loan portfolio to maintain good loan portfolio quality.

The central cooperative consolidated ensures the repayment capacity of private customers against higher interest rates as well. Customers can protect their loans against higher interest rates choosing a fixed interest rate or an interest rate cap. In lending, the Group avoids high financing percentages. Customers are offered payment protection insurance in the case of illness or unemployment.

The assessment of corporate customers' debt-servicing capacity and credit risk uses not only credit ratings but also payment behaviour data, financial statements analyses and forecasts, corporate analyses, statements and sector reviews, and customer needs analyses, credit rating assessments and other documents produced by the banks' account managers.

Credit and country risks related to credit institutions arise mainly from liquidity management by banking and investment by insurance institutions. Counterparty and country risks affecting credit institutions may also be the result of interest rate trading and management of the notes and bonds portfolio and the Group's trade financing.

In insurance operations, credit risk management is based not only on customer selection but also on credit control and investment plans. Reinsurance credit risk is managed by using companies with a sufficient creditworthiness.

The central cooperative consolidated responds to any foreseeable problems as early as possible. The operating models for potential default and default customers are described to ensure uniform treatment of private, corporate and agricultural customers. Customers whose financial status performance, credit risk and payment behaviour justify a more detailed review are subject to special control. In this context, the Group also analyses the need to revise the customer's credit rating, the probability of a credit loss and the need to recognise an impairment loss. This often means changes in loan decision levels.

9.1 Credit risk management

The Group mitigates credit risks by using collateral, financial covenants, central counterparty clearing, netting agreements and exchange-traded products. Settlement risk management focuses on ensuring the reliability of a counterparty, and the Group mitigates the risks by concluding standard agreements and using only reliable clearing centres.

In order to ensure repayment, collateral is provided for exposure, and any retail banking exposure is primarily secured by hard collateral. With larger corporate customers in particular, the Group also uses financial covenants to ensure the availability of information and an option to re-evaluate loan terms and conditions, collateral requirements or pricing should the risk status changes. Insufficient collateral may be acceptable in the best borrower grades.

Separate instructions apply to collateral assessment and use of financial covenants. Maximum valuation percentages for each type of collateral have been specified and the Group monitors developments in collateral values on a regular basis. Collateral evaluation is based on the principle of independent evaluation and a prudent approach to fair value. The Group exercises special care in assessing the value of collateral deemed as cyclical in nature. In case a customer gets into difficulties or the collateral's value changes significantly, the Group checks whether there is need for collateral re-evaluation.

Unsecured retail exposures and leasing and factoring have been centralised within the central cooperative's Banking.

9.2 Credit risk monitoring and reporting

The Group monitors developments in credit risk regularly relative to the set limits, control limits and targets. In addition, it monitors the quality and structure of the loan portfolio, the adequacy of collateral and doubtful receivables.

Credit risk is measured based, for example, on the ratio of doubtful receivables to the loan and guarantee portfolio, expected loss of credit exposure and the economic capital requirement relative to exposure in default. Concentration risk associated with the loan portfolio is measured through industry risk and the ratio of an individual customer risk and total significant customer risks to the capital base.

9.3 Credit risk models

OP Financial Group uses credit risk models for Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD).

The Group makes extensive use of credit risk models in measuring and managing credit risk, such as in

- lending and pricing;
- specifying financing decision-making powers;
- setting and monitoring the loan portfolio's qualitative targets;
- credit risk reporting;
- capital adequacy measurement using the Internal Ratings Based Approach (IRBA);
- measuring economic capital requirement and expected loss; and
- the measurement of impairment losses on a collective basis.

Credit risk models

Probability of loan defaults within 12 months	=	Probability of default (PD), %
Estimate of the loss caused by a loan default	=	Loss given default (LGD), %
Estimate of the sum the customer would owe the bank in case of default	=	Exposure at default (EAD), €

9.3.1 Credit rating and probability of default

The purpose of credit rating is to group customers (agreements in the case of private customers) by borrower grade based on probability of default. Default means that some of the customer's exposures becomes a receivable to OP Financial Group that is over 90 days past due or some other more severe payment default. Probability of default, or PD, is the average proportion of default events estimated for each borrower grade during one year over the economic cycle. When the economy is thriving, the actual proportion of defaulted customers in a given borrower grade is lower than the estimated PD.

9.3.2 Assessing private customers' probability of default

OP Financial Group uses a 16-level scale of A–F to assess the probability of default for its private customer agreements, with F representing defaulting borrowers.

The Group assesses monthly all private customer agreements' PD using a loan portfolio rating model. The loan portfolio rating is based on a customer's basic data, payment behaviour and other transaction history data. The scores calculated on the basis of this data determine the borrower grade. Average PDs have been calculated for each borrower grade for a period of 12 months. The loan portfolio rating model is used for credit risk assessment and capital requirement calculation.

When a loan is granted, Group member cooperative banks use the home loan and secured consumer loan application stage rating model. The Group's finance company products and unsecured consumer loans have their own application stage models. The application stage rating takes place as part of OP Financial Group's loan approval process. The rating based on the application stage supports the loan approval process, credit risk assessment and the pricing of new loans.

9.3.3 Assessing corporate customers' probability of default

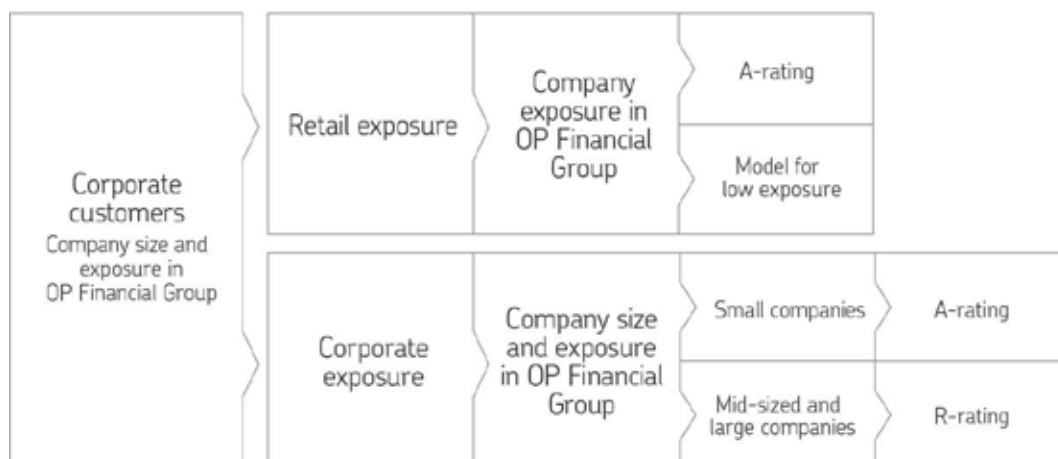
OP Financial Group assesses the probability of default of its corporate customers using its internal 20-level credit rating system on a scale of 1.0–12.0, with 11–12 borrower grades representing defaulting customers.

The R rating for mid-size and large corporate customers is based on the company's financial indicators and qualitative background data on the basis of which a statistical model generates a proposal for rating. An expert familiar with the customer will make a rating proposal on the basis of what is suggested by the model and of any other information available. Any changes and uncertainties relating to the future outlook will be regarded as warning signs and exceptions to the rating provided by the model. R rating determined at least on an annual basis for a customer is based on the rating proposal and for default customers on a half-yearly basis.

Asiakatiето's automated rating model, Rating Alfa, forms the basis of small corporate customers' A rating. The rating Alfa variables include information on payment default and payment practices of the company or its persons in charge, key indicators based on financial statements and the customer's basic data. Scores provided by Rating Alfa have been described (calibrated) into OP Financial Group's internal borrower grades. Rating Alfa is supplemented with internal information on payment behaviour and, if needed, is changed based on expert assessments.

Low exposure corporate customers are rated using a rating model for low exposures. The rating model is an automated rating model calculated on a monthly basis that is created on the basis of the customer's basic data, transaction data and payment behaviour data.

Rating of corporate customers in OP Financial Group



Borrower grades generated by the corporate rating models are comparable because, irrespective of the model, each borrower grade is subject to the same probability of default. In deriving probability of default, the Group has used recent years' actual

payment default data, long-term loan loss data and bankruptcy statistics and the cyclical nature of the model. The need for updating probabilities of default for each grade is assessed annually.

OP Financial Group's credit ratings for corporate customers and Standard & Poor's (S&P) equivalent

S&P Rating	AAA...AA-	A+...A-	BBB+...BBB-	BB+...BB-	B+...B-	CCC+...C
OP Financial Group	1.0–2.5	3.0–4.0	4.5–5.5	6.0–7.0	7.5–8.5	9.0–10.0

9.3.4 Assessing credit institutions' probability of default

Credit institution exposure is divided into 20 grades ranging from 1.0 to 12.0, with defaulted customers falling into categories 11–12.

A specific L rating model is used to assess the probability of default of credit institutions as counterparties, the structure of which corresponds to the R rating model.

The statistical model as the basis of the credit rating is based on financial indicators in financial statements and on qualitative background data. Such rating can be revised by an expert with warning signs and, in many cases, rating is also affected by the parent company's support to the banking group and by the Sovereign Ceiling rule whereby the counterparty cannot be better than the country concerned in terms of creditworthiness. The Group decides on credit institution ratings at least once a year.

OP Financial Group's credit ratings for credit institutions and Standard & Poor's (S&P) equivalent

S&P Rating	AAA...AA+	AA...BBB+	BBB...BBB-	BB+...BB-	B+...B	B-...CCC
OP Financial Group	1.0–2.0	2.5–4.5	5.0	5.5–7.0	7.5–8.0	8.5–10.0

9.3.5 Loss given default and exposure at default

In addition to the models used for assessing probability of default, OP Financial Group uses models for predicting loss given default (LGD) and exposure at default (EAD) to measure credit risk. EAD refers to the estimated amount of the bank's receivable from the customer at default. Off-balance-sheet exposures at default are determined on the basis of the conversion factor (CF). Loss Given Default, or LGD, is an estimate of a financial loss incurred by the bank, as a share of EAD, if the customer defaults.

OP Financial Group's credit risk models affects the capital adequacy requirement for credit risk associated with the customer. Standard estimates issued by the authorities are used for LGD and CF.

The Group uses FIRBA to calculate the capital requirement for credit risk on retail exposures, in which the capital requirement is affected by the PD, LGD and EAD values of OP Financial Group's internal credit risk models. The Group uses the Standardised Approach (SA) for government and central bank exposures and for some other exposure categories (like those of the Baltic countries and POP Group banks). As a rule, a simple model applies to equity investments. The PD/LGD method applies to OP Financial Group's strategic investments, where the PD values are based on internal models and LGD values on standard estimates.

9.3.6 Use of credit risk models in capital adequacy measurement

For the measurement of credit risk for capital adequacy, OP Financial Group has permission from the supervisory authority to use the Internal Ratings-based Approach for corporate and credit institution exposures, retail exposures and equity investments.

The Group applies the Foundations Internal Ratings Based Approach (FIRBA) to measure capital adequacy requirement for credit risk on corporate and credit institution exposures. In FIRBA, an estimate of probability of default (PD) generated by

9.3.7 Decision-making and assessment related to credit risk models

The Executive Board's ALM and Risk Management Committee decides on the adoption of changes in models and parameters approved by the Risk management Committee. If such adoption requires permission from or notification to the relevant authority, Finance and Treasury will apply for the required permit before any decision on the adoption. The models are

developed and maintained by OP Financial Group's Risk Management, independent of business lines/divisions.

The effectiveness of the credit rating process and credit risk models is subject to regular monitoring and supervision. OP Financial Group's Risk Management collects continuous feedback from the business lines/divisions on the effectiveness of the credit rating process and credit risk models. On a monthly basis, it monitors the models that automatically create a borrower grade. The purpose of this monitoring is to follow changes in the loan portfolio and lending that may, for example, indicate errors in IT implementation.

In addition, the Group assures the quality of the models at least once a year in accordance with the validation instructions approved by OP Financial Group's Risk Management Committee. The set of the validation instructions contains requirements for quality assurance carried out when adopting a model. Validation uses statistical methods to test, for example, the model's sensitivity and the validity of risk parameter estimates (PD, LGD and EAD). Validation also involves qualitative assessment, such as an analysis of user feedback, and a peer group analysis. The results of validation and any recommendations for required measures are reported to the Risk Management Committee, which decides on any improvements on the basis of the validation.

OP Financial Group's Internal Audit performs audits to ensure the independence of validation. It also controls the risk model development process and the appropriate and extensive use of the models on the basis of its risk-based assessment.

9.4. Securitised assets

OP Financial Group has not acted as an originator or manager of securitisation transactions but has invested in asset-backed securities. In calculating the total amount of the risk-weighted assets of securitisation exposures, Group has used IRBA to credit risk when the securitisation exposure belongs to the exposure category to which the assessment model based on credit rating is applied.

The Group applies credit ratings affirmed by Moody's, Fitch and Standard & Poor's to securitised exposures. If two selected credit rating agencies have affirmed credit ratings pertaining to a securitisation transaction, the lower rating will apply. If more than two selected credit rating agencies have affirmed credit ratings pertaining to a securitisation transaction, the two highest ratings will apply. If the two highest ratings differ from one another, the lower rating will apply.

10 Liquidity risks

Liquidity risk comprises funding liquidity risk and structural funding risk as well as concentration risk associated with funding. Funding liquidity risk refers to the risk that OP Financial Group will not be able to meet its current and future cash flows and collateral needs, both expected and unexpected, without affecting its daily operations or overall financial position. Structural funding risk refers to uncertainty related to

long-term lending, arising from the refinancing risk due to the structure of funding. Funding concentration risk refers to the risk that funding becomes more difficult due, for example, to a transaction related to an individual counterparty, currency, instrument or maturity band.

Liquidity risk management is based on OP Financial Group's principles of the risk tolerance system and the Risk Policy lines and set risk limits. The ALM and Risk Management Committee of the central cooperative's Executive Board approves the qualitative targets set for the liquidity buffer, a funding plan, a business continuity and contingency funding plan in the case of threat scenarios. The business continuity and contingency plan contains a control model for liquidity for various threshold levels, funding sources and a contingency funding plan for liquidity management at operational level.

OP Financial Group manages its liquidity position through the proactive planning of the funding structure, the Group's risk limits and limits and control limits derived from them as well as target levels, the monitoring of the liquidity status and a well-balanced liquidity buffer, planning and management of daily liquidity, the business continuity and contingency plan based on emergency preparedness, as well as the effective and ongoing control of the Group's liquidity status.

Liquidity management is governed by the regulations governing the minimum reserve and marginal lending facility systems by the European Central Bank.

OP Financial Group safeguards its liquidity with a liquidity buffer and other sources of finance referred to in the contingency plan. The liquidity buffer has the size required for the time to implement the contingency plan in a liquidity crisis. Liquid funding may be made available by selling notes and bonds in the liquidity buffer or using them as collateral. The liquidity buffer consists mainly of deposits with the central bank and receivables eligible as collateral for central bank refinancing.

As OP Financial Group's central bank, OP Corporate Bank plc is tasked with securing the liquidity of the entire Group and each Group member cooperative bank or Group entity. The Group's daily liquidity management refers to managing liquidity of the Group's companies engaged in banking. The liquidity of OP Financial Group's insurance and pension institutions transfers through bank accounts to the Group's overall liquidity. Any changes in their liquidity position will change OP Corporate Bank's liquidity position. The liquidity buffer of banking within the entire OP Financial Group is managed by the Group's Treasury.

OP Financial Group's funding planning is based on the proactive planning of the funding structure and on the risk limits set for the liquidity risk. Deposits from the general public and wholesale funding form the basis of OP Financial Group's funding. Wholesale funding is aimed at actively and proactively covering funding needs arising from the growth differentials between the receivables and the deposit portfolio in the balance sheet, funding maturity and other internal objectives. A solid

funding structure requires that the loan portfolio and the Group's liquidity buffer be funded not only through deposit funding and short-term funding but also through long-term funding. Diversifying funding sources will reduce the Group's dependence on an individual source and decrease price risk associated with funding. The Group diversifies its funding by time, maturity, instrument and customer segment.

Any surplus deposits with member banks are mainly channelled to the central cooperative consolidated accounts or instruments it has issued in order not to increase the Group's wholesale funding unnecessarily. OP Corporate Bank manages on a centralised basis the Group's wholesale funding in the form of senior bonds and equity capital, while OP Mortgage Bank manages wholesale funding based on covered bonds.

The central cooperative's Executive Board is responsible for OP Financial Group's liquidity risk management and controls liquidity management using various threshold levels. In cases of market disruption, liquidity management relies on the business continuity and contingency plan. Each entity within OP Financial Group controls its liquidity management within the framework of control limits issued by the central cooperative and guidelines and of account, deposit and loan terms and conditions.

Insurance operations' funding liquidity risk is assessed individually from each insurance business's viewpoint. Insurance companies' investment assets act only as a liquidity buffer for the company concerned. The entities' liquidity requirements are taken into account in the investment portfolio weightings.

10.1. Monitoring and reporting liquidity risks

Monitoring and reporting liquidity risks exposed by Group entities vary from real-time to quarterly practices, depending on the nature and extent of their business. Monitoring and reporting are based on the Group's risk limits and target values. Depending on the entity and reporting level, reporting practices may vary from daily cash-flow monitoring (funding liquidity) to the monitoring and forecasting of the long-term funding structure (refinancing risk).

For each of those liquidity levels, the Group has specified control and monitoring practices which become more rigorous when moving up to the next level. The Group reports liquidity risks to the Executive Board on a regular basis and, with a heightened threshold level of the liquidity status, will adopt weekly or daily progress reporting practices whenever necessary. Group entities report liquidity risks to their boards of directors regularly, applying at least the level which has been set for control limits and limits.

The effect of threats and future scenarios related to structural funding risk and funding liquidity risk on the Group's liquidity, financial performance and capital adequacy is stress-tested as part of its risk management and internal capital adequacy assessment process.

OP Financial Group's risk limits for liquidity risk have been set for net cash flows by maturity which guide the structural funding risk and for the Liquidity Coverage Ratio (LCR). The risk indicator for the structural funding risk indicates the maximum portion of the net cash flows in the Group's balance sheet that may have a maturity within different time periods. Agreements with a maturity date are included in the analysis of structural funding risk according to the maturity date or any earlier repayment date. The maturities of accounts with no maturity date and early repayments have been modelled.

The calculation of the LCR is based on rules issued by the authorities. The LCR requires that a bank have sufficient liquid assets that cover the net cash outflows from the bank under stressed conditions.

The Group monitors long-term funding maturity using a maturity distribution, for which it has set limits. Concentrations by counterparty and instrument are also subject to monitoring.

Furthermore, OP Financial Group monitors funding liquidity risk in scenarios based on liquidity stress testing it has determined. The funding liquidity risk indicators show for how long the liquidity buffer will cover the known and predictable net cash flows payable daily outside the Group and any unexpected liquidity stress scenario.

The allocation breakdown of insurance investment portfolios is subject to regular reporting. Stress tests are also used to assess sensitivity to funding liquidity risk.

11 Market risks

Effective market risk management requires real-time and accurate information on exposures and markets and a quick response to changes. Due to this, OP Financial Group manages market risks on a more consolidated basis than other risks.

Market risks comprise structural market risks associated with the banking book and those associated with trading and long-term investment.

Market risks include all interest rate, equity, currency, credit spread and property risks associated with on- and off-balance sheet items as well as other possible price risks. Market risks are the result of interest rate, price, volatility and market liquidity changes in the financial market. Market risk also affects the counterparty risk credit valuation adjustment (CVA).

The task of market risk management is to identify and assess market risks associated with business operations, mitigate them to an acceptable level, and report them regularly and efficiently. This ensures that changes in market prices or other external market factors will not excessively deteriorate the long-term profitability or capital base of any individual entity within the Group or of OP Financial Group in its entirety.

OP Financial Group controls and restricts market risk-taking by following the principles of its risk tolerance system and using

the supplementary Risk Policy, risk management guidelines as well as limits and control limits.

The Group assesses its market risks by means of sensitivity analyses, statistical volatility and correlation analyses, VaR (Value-at-Risk) analyses, and stress tests. The risk analysis is supplemented with stress tests because risk management must also take account of the continuous opportunity for the emergence of new risk factors and the limited perspective of risk measurement performed on the basis of historical time series data.

OP Financial Group uses derivatives for trading and hedging purposes. OP cooperative banks use derivatives only for hedging purposes. The Group monitors risks associated with derivatives as part of the exposure using the same benchmarks as for balance sheet exposure.

11.1 Structural market risk associated with the balance sheet

The most significant sources of the structural market risk in the balance sheet include the interest rate risk associated with the banking book and that associated with insurance liability. The interest rate risk associated with banking is by nature structural interest rate risk related to interest income from financing which is sensitive to changes in short-term interest rates. In Non-life Insurance and Life Insurance, interest rate risk arises when changes in the interest rate affect the value of and income from investment assets and the cash flows of insurance liabilities. The value of insurance companies' investments and insurance liabilities is sensitive to changes in long-term interest rates.

The interest rate risk associated with the banking book of OP cooperative banks is primarily managed by the choice of the range of borrowing and lending products and the terms and conditions offered. OP cooperative banks may also hedge against interest rate risk in their banking book by means of interest-rate derivatives as approved within the Group. In addition to the interest rate monitoring standardised throughout the Group, the Group's Treasury controls interest rate risk by means of interest rate risk limits specific to responsibility areas.

All interest-bearing on- and off-balance sheet items are included in the Banking interest-rate risk analysis. The effect of customer behaviour on the deposit portfolio and of early repayment of loans has been taken into account in the interest risk assessment. The interest rate risk limit associated with financing has been set for an interest income risk, which measures the effect of a one-percentage-point parallel change on net interest income for the next 12 months. Another interest rate risk limit indicator describes the effect of a two-percentage-point change in interest rates on the present value of the Group's Banking relative to the Group's permanent capital. As part of regular interest rate risk measurement and reporting, the Group carries out stress tests to analyse the effects of various interest rate changes on the present value of the interest rate risk exposure.

In Life Insurance, interest rate risk is involved in obligations to policyholders that are included in insurance liabilities. These obligations consist of a binding income promise in insurance contracts and customer bonuses. Interest rate risk in Non-life Insurance arises from long-term annuities. The Group hedges interest rate risk for insurance liabilities of Life and Non-life Insurance using the investment portfolio and interest rate derivatives in order to bring the overall risk exposure to the target level set in the investment plan.

11.2. Market risks associated with trading

The purpose of trading is to benefit from market price changes and offer trading services to customers. Trading exposes OP Financial Group to market and counterparty risks. The OP cooperative banks' trading books must fulfil the terms and conditions of the small trading book determined under capital adequacy regulation, in which case the management of market risks and capital adequacy is executed as with the banking book.

The Group limits market risks through VaR and sensitivity figure limits monitored on a daily basis.

Interest rate, credit spread, currency, equity and commodity risk associated with trading, and the price risk associated with structured products, are limited by means of a VaR limit.

11.3 Market risks associated with long-term investment

OP Financial Group's long-term investment includes investment by insurance companies and the management of the liquidity buffer. OP Financial Group secures its liquidity through a liquidity buffer maintained by OP Corporate Bank and consisting mainly of deposits with central banks and receivables eligible as collateral for central bank refinancing. Investments made by insurance companies are aimed at ensuring customer income (Life Insurance), obtaining assets covering insurance liabilities, and investing profitably. The aim is that investment operations meet the needs of OP Financial Group and each business division and entity without compromising the capital adequacy of the Group or a Group entity. OP Financial Group's risk policy controls and restricts investment risk-taking. The risk policy provides the Group and its entities with quantitative and qualitative restrictions in terms of products, regions and creditworthiness. In addition, investment operations are guided by the principles of sustainable investment. The Group limits investment risks through statistical VaR metrics, allocation, credit rating and country risk limits.

Annual investment plans, confirmed by the boards of directors of Group companies, determining the desired risk and return level are also very important. These investment plans also specify the mix, range and benchmark indices for investment assets as well as other restrictions on investment.

The investment asset allocation of insurance operations takes account of the insurance companies' risk-bearing capacity, structural interest rate risk and other requirements set by insurance liability on investment assets and their liquidity. In

Life Insurance, the application of the principle of equity also affects investment targets and the amount of risk taken. The Group diversifies investments effectively among various asset classes and investment instruments, both by region and industry.

Insurance companies manage market risks associated with investment and insurance liabilities by means of various investment instruments and derivative contracts. The extent and principles of use of derivatives are determined annually in the companies' investment plans and the principles governing the use of derivatives.

The risk exposure of investments is measured by means of the profit, risk, VaR and correlation models. Investment assets undergo sensitivity analyses to assess the effects of changes in equity prices, interest rates and real property values. A sensitivity analysis of the credit risk is also carried out for each investment. OP Financial Group uses stress tests to assess the effects of exceptional market conditions. The market risk limit for Group-level insurance operations has been set on the basis of the ratio of the economic capital requirement to the Group's capital base concerning the risk in question. Within insurance operations, the economic capital requirement for interest rate, currency, credit spread, equity, vega, inflation and commodity risks are calculated using the VaR model based on Monte Carlo simulation.

11.4 Market risk monitoring and reporting

The extent and frequency of market risk reporting in Group entities vary by the nature and extent of their business from real-time to monthly monitoring. The central cooperative's Risk Management provides market risk reports for OP cooperative banks and regularly reports the development of the entire OP Financial Group's balance sheet structure and market risks to the central cooperative's management.

Underwriting risks associated with Non-life Insurance

12.1 Risks of insurance operations

The insurance business is based on taking and managing risks. The largest risks pertain to risk selection and pricing, the acquisition of reinsurance cover, and the adequacy of insurance liabilities. The risk inherent in insurance liabilities lies mainly in insurance lines characterised by a long claims settlement period. In addition to underwriting risks, a significant insurance business risk consists of the investment risk related to the assets covering insurance liabilities.

12.2. Underwriting risks

Underwriting risks associated with Non-life Insurance comprise risk of loss or damage, and provision risk.

Risk of loss or damage occurs when there are an above-average number of losses or they are exceptionally large. This results in assets covering technical provisions differing due to

expected higher claims incurred. Provision risk arises when the claims incurred due to already-occurred losses are higher than anticipated on the balance sheet date. The uncertainty related to the timing of claims paid out also has an effect on the amount of provision for unpaid claims. Once a loss has been reported, uncertainty may still prevail as regards the size of the loss. However, the most significant uncertainty relates to the assessment of unknown losses.

The majority of claims expenditure in statutory lines of insurance for bodily injuries consists of compensation for loss of income and for medical care. In addition to accidental injuries, statutory workers' compensation insurance covers occupational diseases, which tend to develop slowly. For this reason, major uncertainty is involved in assessing claims incurred in the case of occupational diseases.

It is typical of the statutory lines of insurance that the period from the date of the occurrence of loss until the date on which the claim is fully paid is often long. Such underwriting business generates a long-term cash flow, on the evaluation of which the mortality of beneficiaries, medical-cost inflation and return to work have the greatest impact. With respect to statutory workers' compensation insurance and motor liability insurance, the insurance company is not, however, liable for the index increments of compensation for loss of income nor for any medical expenses that are paid for over ten years after the accident's occurrence. These are financed through the pay-as-you-go system. The pay-as-you-go system is a scheme based on special laws governing each statutory line of insurance. Under this system, the financing of benefits, the so-called pay-as-you-go benefits, specified in these laws, has been arranged through the pay-as-you-go system. The pay-as-you-go system does not generate any financial benefit or harm to the insurance company that would lead to changes in equity.

Individual claims are usually small in voluntary accident and health insurance. The largest claims may arise from catastrophes with a large number of injured people. Medical-cost inflation has a major impact on projecting cash flows in medical expenses insurance, with respect to illnesses for which compensation is paid for a long time. Rapid progress in medicine and rising pharmaceuticals costs increase medical-cost inflation. Developments in public healthcare will also affect future cash flows. If tax-funded public healthcare services decline, people will increasingly start paying for their medical care through medical expenses insurance.

In motor vehicle and cargo insurance, weather conditions have the greatest effect on the number and size of claims. Claims expenditure is therefore larger during the winter than during the summer. The greatest risks within cargo insurance are associated with risk concentrations caused by sea transport and trading stock. In addition, weather conditions, such as storms and floods, and snow and icy roads during the winter relating to motor vehicle insurance may involve accumulation risks covering a geographically large region.

The largest single risks within property and business interruption insurance include fire, natural phenomenon and

breakage risks exposed by companies' production facilities and buildings, and the related business interruption risks. Households' individual property risks are small and the related individual claims have no material effect on the Non-life Insurance earnings. The majority of claims expenditure for households is due to leakage, fire and burglary claims.

The risk of natural catastrophes has been considered minor in Finland and the Baltic region. However, studies have suggested that there are indications of a change in climatic conditions in the Group's operating region at least in the long term. The projected temperature increase will probably be reflected in changes in summer and winter conditions and, for instance, in higher precipitation and wind speeds.

Laws and legal practice governing the liability to pay damages have a major impact on the number and size of liability claims. For private individuals, claims have a minor effect on earnings. In addition, private individuals' risks account for a minor share of the total risk within the class. The majority of corporate liability policies consist of product liability and commercial general liability policies. Liability insurance is characterised by losses being revealed and settled slowly, especially in respect of product liability insurance in North America.

Decennial insurance and perpetual insurance are long-term contracts. Decennial insurance is a statutory policy where a loss event requires both a construction defect and the builder's default. The underwriting of perpetual insurance was terminated in the 1970s and their sums insured and associated risks are small due to low inflation. The policyholders consist mainly of private individuals.

A specific risk type consists of a claim accumulation generated by natural catastrophes or large catastrophes caused by human activity. In such a case, one catastrophic event may in practice give rise to simultaneously payable claims for a large number of insured risks at high amounts. The resulting total claims expenditure may be extremely large.

Unidentified background factors may also affect underwriting risks. Examples from recent history include cases of occupational diseases caused by exposure to asbestos dust, and the effect of higher life expectancy than predicted on the pension portfolio of statutory insurance.

12.2.1 Underwriting risk management

The most important tasks within the management underwriting risks relate to risk selection and pricing, the acquisition of reinsurance cover, the monitoring of claims expenditure and the analysis of insurance liabilities. The highest underwriting risk decision-making body is the Underwriting (UW) Executives tasked with managing Non-life Insurance underwriting risks. The Underwriting Executives make underwriting decisions within the framework of powers confirmed by the boards of directors of the insurance companies, and report its decisions to these boards.

Decisions on customer and insurance object selection and risk pricing are made according to the UW Guidelines. The UW Executives approve risks with the most significant effect and the most demanding risks while decisions on smaller risks, depending on the size and severity of the risk, require decisions made jointly by several underwriters or managers. For basic insurance lines, decisions are made on a system-supported basis and customers and the objects of insurance are selected within the powers determined by instructions specifically approved.

12.2.2 Risk selection and pricing

Operating models highlight the role of risk selection and pricing. The Group has set limits for the size and extent of risk for each insurance line and risk concentration. Non-life Insurance has a centralised data warehouse and analysis applications in place to support risk selection and pricing. Insurance terms and conditions play a substantial role in risk mitigation. In addition, the Group performs risk analyses on a customer or insurance line specific basis to mitigate risks.

12.2.3. Reinsurance

The reinsurance principles and the maximum risk per claim retained for own account are annually adopted by the boards of directors of the insurance companies, in accordance with the principles of the central cooperative's Executive Board. In practice, the Group's own retention levels can be kept lower than the maximum retention levels adopted by the board of directors, if the reinsurance pricing supports this. Retention in both risk-specific reinsurance and catastrophe reinsurance is a maximum of EUR 5 million. Reinsurance has an effect on the solvency capital requirement. Only reinsurance companies with a sufficiently high financial strength rating are accepted as reinsurers. The reinsurer's counterparty risk is managed by means of reinsurance diversification limits.

12.2.4 Risk concentrations

The Group takes account of local risk concentrations in EML (Estimated Maximum Loss) estimates for property and business interruption risks and through EML breakthrough cover included in reinsurance cover. Our operating region has no major risk of earthquakes. With respect to risks associated with other natural disasters, such as storms and floods, Finland is a stable area. However, the Group has protected against catastrophe accumulation losses through an extensive catastrophe reinsurance cover whose size has been dimensioned to correspond to the calculated size of a catastrophe loss occurring once every 200 years. The catastrophe accumulation cover applies to property damage and personal injuries.

12.2.5 Evaluation of insurance liabilities

The Group monitors the adequacy of insurance liabilities on an annual basis. Insurance liabilities arising from insurance contracts are determined on the basis of estimated future cash

flows. The cash flows comprise payable claims and loss adjustment expenses.

The amount of insurance liabilities has been estimated securely in such a way that it would be sufficient to fulfil the obligations arising from insurance contracts. This has been performed in such a way that an expected value has first been estimated for the insurance liability on top of which a safety loading based on the degree of uncertainty related to the liability has been determined.

The estimation of insurance liabilities always involves uncertainties which may be due, for instance, to the prediction of the claims trend, delays in verifying losses, cost inflation, legislative amendments and general economic development. Every three years, an external actuary performs for Non-life Insurance an analysis of the appropriateness of the calculation bases and the amount of insurance liabilities.

The provision for unpaid claims for annuities consists mainly of annuities of statutory insurance lines. Discounting is used in the computation of the provision for unpaid claims for annuities and the discount rate used is of great significance for the provision. Due to low interest rates, Non-life Insurance reduces the discount rate on a controlled basis.

13 Underwriting risks associated with Life Insurance

In life insurance, underwriting risks comprise biometric risks, customer behaviour risk and cost risk.

Biometric risks occur when disability, death or illness causes higher claims paid out than expected, or pension disbursements being paid for a longer period than expected.

Mortality and life expectancy affect a life insurance company's risk exposure in pure life insurance policies and pension policies. Longevity risk is particularly prevalent in group pension insurance policies under a defined benefit plan, because these contracts do not contain any significant amount of the opposite mortality risk.

Disability risk is included in group pension insurance contracts on the basis of which benefits are paid as disability benefits for the insured person's reduced incapacity for work.

The policyholders' customer behaviour may give rise to lapse risk and surrender risk. Policyholders have the right to stop paying their premiums, terminate the contract prematurely or change the contract if there is an option provided for this; this will result in higher risk for the company. One example of such options is the customer's right to change the profit type of his/her assets from unit-linked to one with a guaranteed interest rate, which increases the market risk. Another example is the postponement of pension, which increases the longevity risk. Endowment policies and capital redemption contracts with the right of surrender as well as term life policies, which the policyholder can terminate anytime, are particularly susceptible to risk of termination related to customer behaviour. Surrender

of pension insurance is possible only in exceptional circumstances.

Expense risk refers to a situation in which incurred insurance contract management expenses differ from those estimated in rating.

13.1 Life Insurance underwriting risk management tools

Life Insurance underwriting risk management tools include prudent premium rating, careful selection of exposure and reinsurance. Diversifying insurance between different insurance types also reduces risks. Life Insurance reinsures, when necessary, any major individual risks and risk concentrations.

Risks related to mortality and longevity are rated in a secure way on the basis of the conditions and situation prevailing when the policy is issued. The company may change the prices of these long-term contracts to a very limited extent. This is why the risk for any later changes in the premium rating bases will be borne by the insurance company so that the premiums of new policies are increased and the company records an insurance liability supplement to sold policies. Offering insurance policies that have opposite risk exposures reduces the net risk of the entire insurance portfolio.

The primary method for managing disability risk is by appropriate rating.

Termination risk related to customer behaviour and risk of a customer's option to change the profit type of his/her assets to one with the guaranteed interest rate are managed through a competitive range of products, suitable product structures and incentives and sanctions in the contract terms and conditions. Termination of insurance policies may also jeopardise the accuracy of cost assumptions used for rating and thereby contribute to the materialisation of the expense risk.

The central cooperative consolidated manages expense risk by means of sufficient cost control and appropriate premium rating. The Group monitors regularly the realisation of assumptions made with regard to rating and, if necessary, increases the premiums of new policies and records a supplement to insurance liabilities with regard to the sold policies.

13.2 Monitoring and reporting underwriting risks associated with Life Insurance

The Group monitors changes in underwriting risks on a monthly basis, with more detailed analyses carried out when necessary. A more detailed analysis is carried out annually, showing risk materialisation by insurance type and age group. The Group monitors operating expenses by insurance line on a monthly basis. It also monitors monthly customer behaviour, payments, terminations and transfers of savings between different types of profit performance bases.

Legislative amendments may lead to such changes in the insurance terms and conditions that may have an effect especially on the sales of new policies and customer behaviour. Such amendments include amendments to laws or directives affecting products based on a systematic investment plan or the premium rating bases of life insurance policies. Life insurance companies follow any legislative amendments and, whenever necessary, adjust their insurance contract pricing and terms and conditions as required by laws and in the manner as required by the companies' solvency management.

A Group-level limit has been set for Life Insurance's underwriting risks which describes economic capital of the underwriting risk in relation to the Group's capital base. Economic capital for underwriting risk is measured using the insurance company's own risk model.

Note 3. Changes in presentation of financial statements

Change in presentation of financial statements

The grouping of the income statement and balance sheet formats has been revised in the financial statements. This has no effect on equity capital, balance sheet total or profit for the financial year. Segment reporting has been updated accordingly. Comparatives have been restated to correspond to the new grouping. The income statement and balance sheet formats based on the new grouping better reflect and support the current business model.

The most significant changes caused by the new grouping are as follows:

Net interest income broken down into interest income and expenses is presented in the notes. Net interest income after impairment loss is not presented separately. Impairment loss on receivables is presented in its own line after expenses.

The previously presented line "Net income from Non-life Insurance" has been divided into net insurance income and net investment income that better describe the nature of the items. Unwinding of discount is presented under "Net investment income".

The previously presented line "Net income from Life Insurance" has been divided in such a way that fee-type life insurance total expense loadings and refunds of unit-linked management fees are presented under "Net commissions and fees" and risk results under "Insurance premium revenue". Other items previously presented in the line are allocated to "Net investment income".

"Net trading income" previously presented in its own line has been incorporated into "Net investment income". The line "Share of associates' profits/losses" is presented under income.

Expenses have been divided into personnel costs, amortisation/depreciation and other operating expenses. Expenses were previously divided into personnel costs, other administrative expenses and other operating expenses. OP bonuses to owner-customers are presented in their own lines in all segments after expenses.

The lines Non-life Insurance and Life Insurance assets previously presented in the balance sheet have been allocated to other lines that best describe their content. Assets covering unit-linked contracts are presented as a new line.

The lines Non-life Insurance and Life Insurance liabilities previously presented in the balance sheet have been allocated to lines that best describe their content. "Insurance liabilities" and "Liabilities from unit-linked insurance and investment contracts" are presented as new lines.

Recognition of valuation interest rate and currency swaps in the balance sheet

Recognition of valuation of interest rate and currency swaps in the balance sheet has changed. The previously applied recognition method reviewed interest rate valuations of an individual swap agreement as well as agreement's exchange rate valuation separately in gross terms. The new method of recognition in the balance sheet based on net valuation per agreement better reflects asset or liability relationship between the contracting parties.

The interest rate and currency swap valuations are recognised in the balance sheet under Derivative contracts. The balance sheet comparatives have been restated. Derivative contracts of assets and liabilities a year ago decreased by around EUR 690 million.

Note 4. Changes in OP Financial Group's structure

Six POP Group cooperative banks, or Osuuspankki Poppia, Keiteleen Osuuspankki, Laihian Osuuspankki, Multian Osuuspankki, Petäjäveden Osuuspankki and Tuusniemen Osuuspankki became OP Financial Group member cooperative banks on 19 May 2015 since when they have been consolidated into OP Financial Group's financial statements. The tables below show the effects of this consolidation on the Group's income statement and balance sheet on 31 Dec 2015. As a result, OP Financial Group's equity increased by EUR 116 million as the POP Group banks' equity capital is included as part of the equity of the technical parent company of OP Financial Group.

Effect on income statement	Other	POP Group	OP Financial
	OP Financial Group	banks total	Group total
EUR million	1 Jan.– 31 Dec. 2015	19 May– 31 Dec. 2015	1 Jan.– 31 Dec. 2015
Total income	2,796	11	2,807
Total expenses	1,510	10	1,520
Profit for the period	852	0	853

Effect on balance sheet	Other	POP Group	OP Financial
	OP Financial Group	banks total	Group total
EUR million	31 Dec. 2015	31 Dec. 2015	31 Dec. 2015
Total assets	124,211	934	125,145
Total liabilities	115,004	818	115,822
Total equity capital	9,207	116	9,324
Total liabilities and equity capital	124,211	934	125,145

Note 5. Transfers of Suomi Mutual Life Assurance Company's portfolios

Suomi Mutual Life Assurance Company Ltd's (Suomi Mutual) individual life insurance portfolio transferred to OP Life Assurance Company Ltd on 31 December 2015, excluding non-life policy type personal insurance that transferred to OP Insurance Ltd. Suomi Mutual's individual life insurance portfolio includes about 130,000 contracts with some 300,000 policies. As a rule, the policies were sold to customers before 1 July 1997. Suomi Mutual has not underwritten new business since 2005. In the transfer of the insurance portfolio, insurance contracts transfer on the previous terms and conditions, which means that the additional benefits granted by Suomi Mutual will remain. Suomi Mutual has been a run-off company for 10 years now when OP has managed the transferring insurance portfolio and been in charge of customer service for Suomi Mutual's customers. During the portfolio transfer, EUR 1.3 billion in assets and insurance liability measured at fair value transferred from Suomi Mutual. In connection with the portfolio transfer, a separated balance sheet was created out of the portfolio with a profit distribution policy differing from other life insurance operations.

The individual pension insurance portfolio of Suomi Mutual was consolidated into OP Life Assurance Company Ltd on 30 September 2016. Suomi Mutual's individual pension insurance portfolio comprises slightly less than 38,000 insurance contracts. The portfolio also contains around 2,000 statutory athlete's insurance policies. OP has been managing the insurance portfolio for ten years already and provided customer service for Suomi Mutual's customers. The transfer of the individual pension insurance portfolio to OP Financial Group will complete Suomi Mutual's over 10-year run-down. During the portfolio transfer, EUR 3.0 billion in assets and insurance liability measured at fair value transferred from Suomi Mutual. A separated balance sheet has been created out of the portfolio with a profit distribution policy differing from other life insurance operations. More detailed information on the transfer of the portfolios can be found in Note 79.

EUR million	Separated balance sheet 1	Separated balance sheet 2
Intangible assets		
Insurance contracts	22	
Investment assets	1,238	3,027
Other assets	2	8
Cash in hand and at bank	37	14
Total assets	1,298	3,049
Insurance liabilities, Life Insurance	1,267	3,045
Insurance liabilities, Non-life Insurance	31	
Other liabilities		4
Total liabilities	1,298	3,049

Notes to the income statement

Note 6. Net interest income

EUR million	2016	2015
Interest income		
Receivables from credit institutions		
Interest	3	4
Negative interest	9	
Total	12	4
Receivables from customers		
Loans	1,186	1,247
Finance lease receivables	15	16
Impaired loans and other commitments	3	3
Negative interest	3	-1
Total	1,207	1,264
Notes and bonds		
Held for trading	9	11
At fair value through profit or loss	0	0
Available for sale	126	149
Held to maturity	2	3
Loans and receivables	1	3
Total	139	167
Derivative contracts		
Held for trading	928	1,136
Fair value hedge	-130	-120
Cash flow hedge	39	34
Ineffective portion of cash flow hedge	-1	-1
Total	835	1,049
Other	7	3
Total	2,200	2,487
Interest expenses		
Liabilities to credit institutions		
Interest	4	12
Negative interest	36	0
Total	40	12
Financial liabilities at fair value through profit or loss	0	0
Liabilities to customers	95	153
Notes and bonds issued to the public	286	351
Subordinated liabilities		
Subordinated loans	4	7
Other	45	41
Total	49	48
Derivative contracts		
Held for trading	818	1,039
Cash flow hedge	-145	-146
Other	-9	
Total	665	893
Other	7	5
Total	1,141	1,461
Net interest income before fair value adjustment under hedge accounting	1,059	1,026
Hedging derivatives	-67	-90
Value changes of hedged items	66	91
Total	1,058	1,026

Note 7. Net insurance income

EUR million	2016	2015
Net insurance premium revenue		
Premiums written	1,443	1,417
Insurance premiums ceded to reinsurers	-12	-10
Change in provision for unearned premiums	-14	-8
Reinsurers' share	3	-2
Total	1,420	1,397
Net Non-life Insurance claims		
Claims paid	-862	-804
Insurance claims recovered from reinsurers	29	25
Change in provision for unpaid claims*	-27	-114
Reinsurers' share	-23	8
Total	-883	-885
Other Non-life Insurance items	-3	-5
Life Insurance risk premiums collected	24	21
Total	558	528

* The item includes EUR 55 million (62) as a result of the changed discount rate for insurance liabilities.

Note 8. Net commissions and fees

EUR million	2016	2015
Commission income		
Lending	200	203
Deposits	5	5
Payment transfers	262	256
Securities brokerage	16	22
Securities issuance	6	13
Mutual funds	135	129
Asset management and legal services	80	82
Guarantees	21	21
Housing service	68	61
Insurance brokerage	55	60
Life insurance total expense loadings	95	87
Refund of unit-linked management fees	62	64
Other	23	26
Total	1,028	1,029
Commission expenses		
Payment transfers	65	65
Securities brokerage	10	11
Securities issuance	2	4
Asset management and legal services	15	20
Insurance operations	41	39
Other	35	34
Total	169	174
Total net commissions and fees	859	855

Note 9. Net investment income

EUR million	2016	2015
Net income from available-for-sale assets		
Notes and bonds		
Interest income	80	79
Capital gains and losses	112	26
Transferred from fair value reserve during the financial year	24	33
Fair value gains and losses	-3	3
Impairment losses and their reversal	-1	-3
Total	211	139
Shares and participations		
Dividends	39	47
Other income and expenses	47	45
Capital gains and losses	-20	57
Transferred from fair value reserve during the financial year	69	135
Impairment losses	-34	-12
Total	100	272
Total net income from available-for-sale financial assets	312	411
Net income recognised at fair value through profit or loss		
Financial assets and liabilities held for trading		
Notes and bonds		
Capital gains and losses	2	-7
Fair value gains and losses	4	-5
Total	7	-12
Shares and participations		
Capital gains and losses	3	6
Fair value gains and losses	-1	-2
Dividend income	0	0
Total	3	4
Derivatives		
Capital gains and losses	-14	134
Fair value gains and losses	97	-51
Total	83	83
Total financial assets and liabilities held for trading	93	75
Assets and liabilities recognised at fair value through profit or loss		
Notes and bonds		
Interest income	22	0
Capital gains and losses	7	-1
Fair value gains and losses	-5	0
Total	24	0
Shares and participations		
Capital gains and losses	-1	
Fair value gains and losses	8	
Dividend income	1	
Total	8	
Derivatives		
Interest income	8	11
Capital gains and losses	81	-19
Fair value gains and losses	54	-23
Total	143	-30
Other		
Interest income	0	
Total	0	
Total assets and liabilities recognised at fair value through profit or loss	175	-31
Net income from foreign exchange operations		
Currency exchange	-1	2
Fair value gains and losses*	28	29
Total net income from foreign exchange operations	27	30

* Net income from hedging derivatives amounted to -14.3 million euros.

Net income from investment property

Rental income	70	65
Capital gains and losses	2	-4
Gains on fair value measurement	1	-6
Maintenance charges and expenses	-55	-47
Other	-3	-1
Net income from investment property total	15	8

Net income from loans and receivables measured at amortised cost**
Loans and receivables

Interest income	8	8
Interest expenses	-1	-2
Capital gains and losses	0	0
Fair value gains and losses	0	0
Impairment losses and their reversal	0	0
Loans and receivables total	6	6

** Note 39 contains information on capital losses recognised on financial assets carried at amortised cost.

Non-life Insurance

Unwinding of discount, Non-life Insurance	-36	-38
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The increase in the discounted insurance liabilities in Non-life Insurance due to passage of time is unwinding of discount. Unwinding of discount is computed monthly applying the discount rate at the end of the previous month and the insurance liabilities at the beginning of the current month. On 31 December 2016, the discount rate used was 2% (2.25) for losses occurred before 2015 and 1.5% for losses occurred in 2015 and 2016.

Life Insurance

Interest credited on customers' insurance savings	-93	-96
Change in insurance liabilities	34	89
Other technical items***	-143	-22
Total	-202	-29

*** Other technical items include changes in other technical provisions than those in supplementary interest rate provisions.

Total net investment income **390** **432**

Note 10. Other operating income

EUR million	2016	2015
Rental income from property in own use	12	11
Capital gains on property in own use	2	2
Leasing agreements	2	5
ICT income	1	2
Debt collection	1	1
Other*	105	24
Total	122	46

* In 2016, the item includes the non-recurring gain of EUR 76 million recognised on the sale of Visa Europe Ltd.

Note 11. Personnel costs

EUR million	2016	2015
Wages and salaries	537	531
Variable remuneration	67	66
Pension costs		
Defined contribution plans	78	79
Defined benefit plans	41	68
Other personnel related costs	39	37
Total	762	781

Note 12. Depreciation/amortisation and impairment loss

EUR million	2016	2015
Depreciation and amortisation		
Buildings	32	39
Machinery and equipment	14	13
Intangible assets related to business combinations	34	39
Other intangible assets	68	57
Leased out assets	0	2
Other	6	7
Total	153	157
Impairment loss		
Property in own use	4	3
Goodwill		0
Other	2	1
Total	6	4
Total	160	162

Note 13. Other operating expenses

EUR million	2016	2015
Rental expenses	7	6
Expenses for property in own use	72	83
Capital losses on property in own use	0	0
Government charges and audit fees*	10	11
Membership fees	6	6
Office expenses	113	79
ICT costs	244	204
Telecommunications	36	37
Marketing	36	32
Corporate social responsibility expenses	12	8
Other administrative expenses	64	60
Insurance and security costs	10	11
Other Non-life Insurance expenses	3	3
Other	32	39
Total	646	577

* The item includes EUR 1.9 million (2.2) in audit fees paid to auditors, EUR 0.2 million (0.3) in fees for assignments as referred to in sub-paragraph 2, paragraph 1, section 1 of the Auditing Act, EUR 0.1 million (0.0) in fees for tax consultation and EUR 0.7 million (0.7) in fees for other services.

OP Financial Group's stability contribution of EUR 19.2 million (11.8) calculated for 2016 has been fully covered by the bank levy paid previously.

OP Financial Group's deposit guarantee contribution of EUR 22.2 million (24.1) calculated for 2016 has been fully covered by the statutory contribution to the Deposit Guarantee Fund paid previously.

Note 14. Impairment losses on receivables

EUR million	2016	2015
Receivables written down as loan and guarantee losses	80	83
Recoveries of receivables written down	-15	-15
Increase in impairment losses on individually assessed receivables	103	107
Decrease in impairment losses on individually assessed receivables	-99	-88
Collectively assessed impairment losses	7	-9
Total	77	78

Note 15. OP bonuses to owner-customers

EUR million	2016	2015
OP bonuses	205	195
Interest on supplementary cooperative capital	1	1
Total	206	196

Note 16. Income tax

EUR million	2016	2015
Current tax	170	251
Tax for previous financial years	0	-5
Deferred tax	53	3
Income tax expense	223	249
Corporate income tax rate	20.0	20.0
 Reconciliation between tax expense in the income statement and tax expense calculated by the applicable tax rate		
Earnings before tax	1,138	1,101
Tax calculated at a tax rate of 20%	228	220
Tax for previous financial years	0	-5
Income not subject to tax	-16	-16
Expenses not deductible for tax purposes	20	14
Re-evaluation of unrecognised tax losses	-6	-1
Tax adjustments	-1	1
Effect of capital gain on intra-Group transaction		37
Other items	-1	-2
Tax expense	223	249

Notes to assets

Note 17. Liquid assets

EUR million	31 Dec. 2016	31 Dec. 2015
Cash	109	118
Deposits with central banks repayable on demand		
OP Corporate Bank plc's minimum reserve deposit	651	590
Cheque account	8,710	7,911
Total liquid assets	9,471	8,619

In accordance with the minimum reserve system under the euro system, credit institutions are obligated to have a minimum reserve deposit with their national central bank. The reserve deposit equals the required percentage of the reserve base, as specified by the European Central Bank. The reserve base includes deposits (extensive) and debt securities with a maximum maturity of two years. The reserve base does not include deposits from other parties subject to the minimum reserve obligation. The reserve deposit is currently 1% of the reserve base. Credit institutions within OP Financial Group place a reserve deposit with OP Corporate Bank plc, which acts as an intermediary authorised by OP Financial Group credit institutions and is responsible for OP Financial Group's obligation to place a deposit with the Bank of Finland.

Note 18. Receivables from credit institutions

EUR million	31 Dec. 2016	31 Dec. 2015
Receivables from credit institutions		
Deposits		
Repayable on demand	100	89
Other	13	91
Total	113	179
Loans and receivables		
Repayable on demand	0	1
Other	196	216
Notes and bonds	30	30
Total	226	247
Total	339	426
Impairment losses	-2	-1
Total receivables from credit institutions	337	425

Note 19. Financial assets held for trading

EUR million	31 Dec. 2016	31 Dec. 2015
Financial assets held for trading		
Government notes and bonds	7	560
Certificate of deposits and commercial papers	440	82
Debentures	42	19
Perpetual loans	3	6
Bonds	157	185
Other notes and bonds	4	6
Shares and participations	39	70
Total	692	928

Notes and bonds held for trading and shares and participations by quotation and issuer

Financial assets held for trading	31 Dec. 2016		31 Dec. 2015	
	Notes and bonds	Shares and participations	Notes and bonds	Shares and participations
EUR million				
Quoted				
From public-sector entities	10		562	
From others	393	39	210	70
Other				
From public-sector entities	246		82	
From others	4	0	4	0
Total	653	39	858	70

Note 20. Derivative contracts

EUR million	31 Dec. 2016	31 Dec. 2015
Held for trading		
Interest rate derivatives	3,798	4,393
Currency derivatives	256	61
Equity and index derivatives	1	29
Credit derivatives	1	2
Commodity derivatives	21	61
Other	0	
Total	4,077	4,546
Hedging derivative contracts		
Fair value hedging		
Interest rate derivatives	350	365
Currency derivatives	269	118
Cash flow hedge		
Interest rate derivatives	2	5
Total	620	489
Other hedging derivatives		
Interest rate derivatives	36	37
Other	0	0
Total	36	37
Total derivative contracts	4,732	5,072

The balance sheet item includes positive changes in fair value of derivative contracts as well as premiums paid.

Note 21. Receivables from customers

EUR million	31 Dec. 2016	31 Dec. 2015
Loans to the public and public-sector entities	72,568	69,620
Notes and bonds	10	10
Finance lease receivables	1,268	1,166
Guarantee receivables	11	23
Receivables	5,254	4,867
Total	79,111	75,686
Impairment losses	-506	-494
Total receivables from customers	78,604	75,192

Changes in impairment losses on loans and guarantee receivables in receivables from customers

EUR million	Loans	Notes and bonds	Bank guarantee receivables	Interest receivables	Total
Impairment losses 1 January 2016	482	-3	17	-3	494
Increase in impairments of individually assessed loans and receivables	102	2	0	-15	90
Change in impairments of collectively assessed loans and receivables	7		0		7
Reversal of impairments of loans and receivables individually assessed	-39		-9	16	-31
Loans and guarantee receivables derecognised from the balance sheet, of which an individually assessed impairment was recognised	-53				-53
Impairment losses 31 December 2016	500	-1	9	-1	506

EUR million	Loans	Notes and bonds	Bank guarantee receivables	Interest receivables	Total
Impairment losses 1 January 2015	465	0	20	-2	483
Increase in impairments of individually assessed loans and receivables	113	-3	0	-20	89
Change in impairments of collectively assessed loans and receivables	-10		0		-10
Reversal of impairments of loans and receivables individually assessed	-28		-2	20	-10
Loans and guarantee receivables derecognised from the balance sheet, of which an individually assessed impairment was recognised	-58				-58
Impairment losses 31 December 2015	482	-3	17	-3	494

Finance lease receivables

OP finances moveable capital assets, real property and other premises through finance leases.

EUR million	31 Dec. 2016	31 Dec. 2015
Maturity of finance leases		
Not later than one year	330	303
1-5 years	640	586
Over 5 years	369	352
Gross investment in finance leases	1,339	1,242
Unearned finance income (-)	-72	-76
Present value of minimum lease payments	1,268	1,166
Present value of minimum lease payment receivables		
Not later than one year	313	285
1-5 years	607	552
Over 5 years	347	328
Total	1,268	1,166

Note 22. Investment assets

EUR million	31 Dec. 2016	31 Dec. 2015
Financial assets at fair value through profit or loss at inception		
Notes and bonds	3,664	
Shares and participations	510	
Total	4,175	
Available-for-sale financial assets		
Notes and bonds	17,541	17,372
Shares and participations	2,245	2,387
Total	19,786	19,760
Held-to-maturity investments		
Notes and bonds	92	108
Investment property		
Land and water areas	148	117
Buildings	803	718
Total	951	835
Loans and receivables		
Notes and bonds	15	24
Other	86	57
Total	101	82
Total investment assets	25,105	20,784

Breakdown of notes and bonds recognised at fair value through profit or loss and shares and participations by quotation and issuer

EUR million	31 Dec. 2016		31 Dec. 2015	
	Notes and bonds	Shares and participations	Notes and bonds	Shares and participations
Quoted				
From public corporations	2,023	1		
From others	1,539	510		
Other				
From others	102			
Total	3,664	510		

Available-for-sale financial assets and held-to-maturity investments, 31 December 2016

EUR million	Available-for-sale notes and bonds			Available-for-sale shares and participations			Held-to-maturity investments
	At fair value	At amortised cost	Total	At fair value	At cost	Total	
Quoted							
Eligible as collateral	12,249		12,249				51
Ineligible as collateral	4,908		4,908	1,372		1,372	24
Other							
From public corporations							
From others	384		384	785	88	873	18
Total	17,541		17,541	2,157	88	2,245	92
Impairment losses for the financial year	-1		-1	-34		-34	

Available-for-sale financial assets include EUR 30 million (EUR 15 million) in subordinated publicly-quoted notes and bonds from others.

Available-for-sale financial assets and held-to-maturity investments, 31 December 2015

EUR million	Available-for-sale notes and bonds			Available-for-sale shares and participations			Held-to-maturity investments
	At fair value	At amortised cost	Total	At fair value	At cost	Total	
Quoted							
Eligible as collateral	12,111		12,111				40
Ineligible as collateral	4,998		4,998	1,650		1,650	49
Other							
From public corporations	7		7				
From others	255		255	714	24	738	19
Total	17,372		17,372	2,364	24	2,387	108
Impairment losses for the financial year	-3		-3	-12		-12	

Changes in investment property, EUR million

	2016	2015
Acquisition cost 1 Jan.	792	711
Business operations acquired	31	55
Increases	145	55
Decreases	-50	-33
Transfers between items	-8	3
Acquisition cost 31 Dec.	910	792
Accumulated changes in fair value 1 Jan.	43	52
Changes in fair value during the financial year	1	-6
Decreases	-4	-1
Other changes	0	-1
Accumulated changes in fair value 31 Dec.	41	43
Carrying amount 31 Dec.	951	835

Increases in investment property include EUR 0 million (EUR 7 million) in capitalised expenses recognised after the acquisition. Changes in the fair value of investment property are recognised under Net investment income. The fair value of investment property holdings includes the portion of debt.

OP Financial Group companies own investment property subject to restrictions concerning their assignment and sales price under the legislation on state-subsidized housing loans, such property being worth EUR 2 million (2). Group companies had EUR 1 million (0) in construction and repair obligations regarding investment properties that were based on preliminary agreements.

A breakdown of tangible assets leased out under operating lease can be found in Note 48.

Investment property contains property used as collateral worth EUR 6 million (6).

Note 23. Assets covering unit-linked contracts

EUR million	31 Dec. 2016	31 Dec. 2015
Shares and participations	9,157	8,606
Other investments	10	34
Total	9,168	8,640

Note 24. Investments accounted for using the equity method

Amounts entered in the balance sheet:

EUR million	31 Dec. 2016	31 Dec. 2015
Associates	91	92
Joint ventures	0	0
Total	91	93

Amounts entered in the income statement:

EUR million	31 Dec. 2016	31 Dec. 2015
Associates	1	9
Total	1	9

Investments in associates and joint ventures

OP Financial Group has 12 (10) associates and 3 (3) joint ventures which are not significant when reviewing them one by one. The table below shows OP Financial Group's share of the profit/loss of these associates and joint ventures. Four (4) of the private equity funds treated as associates have been measured at fair value in accordance with IAS 28.

OP Financial Group's investments in associates and joint ventures have no quoted market price.

No contingent liabilities are involved in the associates or joint ventures. No such unrecognised commitments are related to the joint ventures that concern the provision of financing or resources or an obligation to buy another investor's interest in case certain future events occur.

EUR million	Associates consolidated using equity method		Associates measured at fair value		Joint ventures	
	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015
Profit of continuing operations	2	8	-1	1		
Comprehensive income	2	8	-1	0		

The above summary of associates measured at fair value is based on the companies' financial statements.

Associates included in the consolidation group in respect of capital adequacy

Name	Domicile	Interest, % 2016	Interest, % 2015	Sector	Consolidation method
Associates					
Automatia Pankkiautomaatit Oy	Helsinki	33.3	33.3	Banking	Equity method
Access Capital Partners Group S.A.	Belgium	45.0	45.0	Investment	Equity method
Turun TeknologiaKiinteistöt Oy	Turku	28.2	28.2	Real property	Equity method
Uudenmaan Pääomarahasto Oy	Helsinki	31.9	31.9	Investment	Fair value

Note 25. Intangible assets

Changes in intangible assets, EUR million	Goodwill	Brands	Customer relationships related to insurance contracts and policy acquisition costs	Other intangible assets	Total
Acquisition cost 1 January 2016	635	179	513	782	2,108
Increases*			2	182	184
Decreases				-5	-5
Other changes	0			0	-1
Acquisition cost 31 December 2016	634	179	514	959	2,286
Acc. amortisation and impairments 1 January 2016		-7	-338	-368	-713
Amortisation during the financial year			-34	-66	-100
Impairments during the financial year				-2	-2
Decreases				2	2
Other changes				1	1
Acc. amortisation and impairments 31 December 2016	0	-7	-373	-433	-812
Carrying amount 31 December 2016	634	172	142	526	1,474

* Internal development work accounts for EUR 10 million (EUR 7 million).

Changes in intangible assets, EUR million	Goodwill	Brands	Customer relationships related to insurance contracts and policy acquisition costs	Other intangible assets	Total
Acquisition cost 1 January 2015	635	179	493	644	1,950
Business operations acquired			20	2	22
Increases*				132	132
Decreases				-3	-3
Other changes	0			7	7
Acquisition cost 31 December 2015	634	179	513	782	2,108
Acc. amortisation and impairments 1 January 2015		-7	-299	-312	-618
Business operations acquired				-2	-2
Amortisation for the period			-39	-56	-95
Decreases				2	2
Accumulated amortisation and impairments 31 December 2015		-7	-338	-368	-713
Carrying amount 31 December 2015	634	172	174	414	1,395

Intangible assets with indefinite economic lives

EUR million	31 Dec. 2016	31 Dec. 2015
Goodwill	634	634
Brands	172	172
Total	807	807

The economic lives of goodwill and brands acquired through business combinations are estimated to be indefinite, since they affect the accrual of cash flows for an indefinable period.

Other intangible assets

Carrying amount, EUR million	31 Dec. 2016	31 Dec. 2015
Information systems	246	196
Information systems under development	273	209
Modernisation costs	7	8
Other	1	1
Total	526	414

Goodwill was acquired as part of the acquisition of Pohjola Group plc's business operations in 2005 and as part of the acquisition of Pohjola Finance Ltd (formerly K-Finance Ltd) in 2008. Goodwill increased in 2011 as a result of the acquisition of Excenta Ltd, a strategic corporate wellness services provider, and in 2013 as a result of OP-Kiinteistökeskus Oy's acquisition of Espoon 1-Housing Oy's real estate business related to housing in Finland. Brands and customer relationships were acquired as part of the acquisition of the businesses of Pohjola Group plc.

Goodwill impairment test

Goodwill, EUR million	31 Dec. 2016	31 Dec. 2015
Non-life Insurance	390	390
Asset management	97	97
Mutual funds	71	71
Life Insurance	49	49
Systems service business	10	10
Finance company services	13	13
Wellbeing-at-work services	3	3
Other business	2	2
Total	635	635

Testing goodwill for impairment

Goodwill of OP Financial Group originates entirely from the acquisition of the business operations of Pohjola Group Plc, Pohjola Finance Ltd, Excenta Oy and Checkout Finland Oy. Goodwill was determined by the so-called Purchase Price Allocation process (PPA). The resulting goodwill was allocated to the cash-generating units (CGUs), which were either business segments or entities included in them. Impairment testing of goodwill was carried out in accordance with IAS 36 on those CGUs for which acquisition cost calculations in accordance with PPA were made, i.e. for Non-life Insurance, Life Insurance, Asset Management, mutual fund and systems service business and finance company services.

The value of the CGUs of OP Financial Group was, for the goodwill testing, determined by the 'Excess Returns' method. Accordingly, the profits for the current and future periods were reduced by the return requirement on equity capital. Any excess return was discounted by a discount rate corresponding to the return rate on equity capital in order to determine the present value of cash flows.

The testing period was determined to be five years under IFRS 36, including residual values.

The forecasts used in the cash flow statements are based on OP Financial Group's long-term business strategy, confirmed in 2016 by OP Financial Group Central Cooperative's Supervisory Board, and expectations derived from them concerning business development in 2017–2019. Growth in cash flows for periods after 2019 ranges between 2 and 7%. Within Life Insurance, however, premiums written in interest-bearing investment are expected to fall further throughout the testing period, as specified in the valid strategy.

The discount rate used in the calculations was the market-based equity cost, which is in line with the applied value determination methods (i.e. through cash flows, only the value of equity belonging to investors was determined and the value was discounted by using the return requirement rate on equity capital). The discount rate used in the calculations before tax (i.e. IFRS WACC) varied from 7.1 to 12.0%. In 2015, it varied from 7.4 to 10.9%. Based on the market information, OP Financial Group decreased the discount rate for Non-life and Life Insurance as well as for system service by 0.3 percentage points. The Group increased the discount rate for Wealth Management and the mutual fund business by 1.0 percentage point and that for finance company services by 0.4 percentage points to correspond to the discount rate based on market information.

The impairment testing of goodwill did not lead to recognition of impairment losses.

A sensitivity analysis was carried out separately on each CGU on the basis of essential parameters of each CGU.

The discount rate, combined ratio and net investment return (%) were used as key parameters in Non-life Insurance's sensitivity analysis – the same as in the previous year. The results of the sensitivity analysis did not undergo any major changes over the previous year. A 9.7-percentage point increase in the discount rate, a 8.2-percentage point increase in the combined ratio and a 3.5-percentage point decrease in net investment return compared with forecasts throughout the testing period, with one tested parameter changing and other parameters remaining unchanged, would entail an impairment risk. In 2015, the results were as follows: a 7.7-percentage point increase in the discount rate, a 6.3-percentage point increase in the combined ratio and a 3.0-percentage point decrease in net investment return compared with forecasts throughout the testing period, would have entailed an impairment risk.

In the sensitivity analysis, Life Insurance key parameters were the discount rate, the growth rate in operating expenses, and the margin percentage of investment. The parameters used were the same as last year. The results of the sensitivity analysis have not changed significantly from last year. A 5.4-percentage point increase in the discount rate, an 6.9-percentage point increase in operating expenses and a 0.7-percentage point decrease in investment margin compared with forecasts throughout the testing period, with other parameters remaining unchanged, would entail an impairment risk. Last year, the results were as follows: a 4.9-percentage point increase in the discount rate, a 9.4-percentage point increase in operating expenses and a 0.8-percentage point decrease in investment margin percentage compared with forecasts throughout the testing period would have entailed an impairment risk.

The discount rate, growth rate (%) of assets under management and growth rate (%) of expenses were used as key parameters in Wealth Management's sensitivity analysis. The parameters used were the same as last year. A 22-percentage point increase in the discount rate, a 10-percentage point decrease in assets under management and a 12-percentage increase in expenses compared with forecasts throughout the testing period, with other parameters remaining unchanged, would entail an impairment risk. Last year, the results were as follows: a 22-percentage point increase in the discount rate, a 11-percentage point decrease in assets under management and a 13-percentage point growth in expenses compared with forecasts throughout the testing period would have entailed an impairment risk.

Mutual funds' key parameters were the discount rate, the growth rate in mutual fund assets and the growth rate of fixed-nature expenses. The parameters used were the same as last year. The results of the sensitivity analysis changed significantly from last year. A 35-percentage point increase in the discount rate, a 29-percentage point decrease in mutual fund assets and a 31-percentage point increase in expenses compared with forecasts throughout the testing period, with other parameters remaining unchanged, would entail an impairment risk. Last year, the results were as follows: an 34-percentage point increase in the discount rate, a 30-percentage point decrease in mutual fund assets and an 32-percentage point growth in fixed-nature expenses compared with forecasts throughout the testing period would have entailed an impairment risk.

The discount rate, the growth rate and the margin of service income were used as key parameters in the sensitivity analysis of the systems service business. The parameters used were the same as last year. The results of the sensitivity analysis did not change significantly from last year. A 40-percentage point increase in the discount rate, a 63-percentage point decrease in service income and a 1.7-percentage point decrease in margin compared with forecasts throughout the testing period, with other parameters remaining unchanged, would entail an impairment risk. Last year, the results were as follows: a 40-percentage point increase in the discount rate, a 54-percentage point decrease in service income and a 2.5-percentage point decrease in margin compared with forecasts throughout the testing period would have entailed an impairment risk.

The discount rate, the growth rate (%) of the loan portfolio and the growth rate (%) of expenses were used as key parameters in finance company services' sensitivity analysis. The parameters used were the same as last year. The results of the sensitivity analysis have not changed significantly from last year. An 15-percentage point increase in the discount rate, a 22-percentage point decrease in the loan portfolio and a 20-percentage increase in expenses compared with forecasts throughout the testing period, with other parameters remaining unchanged, would entail an impairment risk. Last year, the results were as follows: a 18-percentage point increase in the discount rate, a 25-percentage point decrease in the loan portfolio and a 26-percentage point increase in expenses compared with forecasts throughout the testing period would have entailed an impairment risk.

Impairment testing of brands

OP Financial Group's brands originate entirely from the acquisition of Pohjola Group plc's business operations. Impairment testing was carried out separately for the Pohjola, Eurooppalainen, A-Vakuutus (A-Insurance) and Seesam brands, in accordance with IAS 36.

The value of the brands was determined by using the 'Relief from Royalty' method. Accordingly, their value was determined to be royalty savings accrued in the future from owning the brands, discounted to the present. In testing the Pohjola brand, the used discount rate was the weighted average of market-based equity cost for non-life and occupational healthcare services plus an asset-specific risk premium. The discount rate used in testing other brands was the market-based equity cost defined for Non-life Insurance plus an asset-specific risk premium. In addition, the same risk premium and the corresponding royalty percentages were applied in 2016 as in the PPA procedure and in previous years' tests.

The testing period of brands was mainly determined to be five years under IAS 36. The testing period of the Pohjola brand was determined to be an exceptional period of 15 years because the use of the brand will be extended to cover a completely new business that will grow strongly in the next few years. The forecasts used in cash flow statements are based on strategy figures for 2017–19 updated for Non-life Insurance and post-strategy-period expectations derived from them regarding the business line's future developments. A 3% inflationary expectation was used as growth in cash flows for post-forecast periods.

In the autumn of 2014, OP Financial Group Central Cooperative's Supervisory Board decided to put Non-life Insurance together with Banking and Wealth Management under the OP brand. The Pohjola brand will be used mainly in the healthcare and wellbeing business and the closely related non-life products. As part of testing the Pohjola brand for impairment, the Group assessed the effect of the abovementioned change on the useful life and the length of the testing period, the discount rate, risk premium and royalty rate used in testing. As a result, the Group stated that the brand is, according to IAS 36, an intangible asset in terms of its useful life. Because the brand will be used in the new business that is expected to grow strongly in the initial stage, the testing period was extended to 15 years. The Group did not make any major changes in parameters because the new healthcare and wellbeing business is closely related to Non-life Insurance. In the testing of the brand, the Group took account of the cash flows comparable with the net sales of the businesses that will operate under the brand.

As a result of testing brands for any impairment, OP Financial Group did not recognise any impairment loss on brands in its financial statements 2016. An impairment loss of EUR 1 million related to the Seesam brand was recognised in the 2011 and EUR 3 million in the 2009 and 2008 financial statements.

Impairment testing of other essential intangible assets

OP Financial Group's customer relationships and insurance contracts were acquired as part of the acquisition of the business operations of Pohjola Group plc. In addition, intangible assets related to customer relationships and insurance contracts were allocated to OP Financial Group's balance sheet in 2012 as part of the acquisition of Aurum Investment Insurance Ltd.

Intangible assets originating from Non-life and Life Insurance customer relationships as well as from life insurance contracts are charged to expenses using either amortisation on a front-loaded basis or straight-line amortisation, depending on the business line, over their estimated useful lives. No indications of the need for impairment loss recognition have been discovered. Intangible assets deriving from customer relationships with Wealth Management and mutual fund business as well as from software used by Non-life Insurance, Life Insurance, Wealth Management, and mutual funds were expensed in full in prior financial years.

Note 26. Property, plant and equipment

EUR million	31 Dec. 2016	31 Dec. 2015
Property in Group use		
Land and water areas	93	90
Buildings	714	683
Machinery and equipment	45	46
Other tangible assets	17	17
Leased-out assets	2	7
Total property, plant and equipment	871	843
of which construction in progress	37	5

Changes in property, plant and equipment (PPE), and investment property, EUR million	Property in Group use	Machinery and equipment	Other tangible assets	Leased-out assets	Total PPE
Acquisition cost 1 January 2016	1,161	212	33	17	1,424
Increases	120	13	4	0	137
Decreases	-63	-12	-3	-12	-90
Transfers between items	8	1	0	0	9
Acquisition cost 31 December 2016	1,226	214	34	5	1,479
Accumulated depreciation and impairments					
1 January 2016	-388	-167	-16	-10	-581
Depreciation for the financial year	-32	-13	-1	-2	-47
Impairments for the financial year	-4	0	0	0	-4
Reversal of impairments during the financial year	4	0	0	0	4
Decreases	14	11	0	8	33
Other changes	-14	0	0	0	-14
Accumulated depreciation and impairments					
31 December 2016	-419	-169	-16	-4	-609
Carrying amount 31 December 2016	807	45	17	2	871

Changes in property, plant and equipment (PPE), and investment property, EUR million	Property in Group use	Machinery and equipment	Other tangible assets	Leased-out assets	Total PPE
Acquisition cost 1 January 2015	1,057	211	33	36	1,338
Business operations acquired	8	4	0	0	12
Increases	128	17	3	0	148
Decreases	-29	-19	-3	-20	-71
Transfers between items	-3	0	0	0	-3
Acquisition cost 31 December 2015	1,161	212	33	17	1,424
Accumulated depreciations and impairments					
1 January 2015	-353	-168	-16	-20	-557
Business operations acquired	-3	-3	0	0	-6
Depreciation for the financial year	-41	-13	-1	-4	-59
Impairments for the financial year	-3	0	0	0	-3
Reversal of impairments during the financial year	1	0	0	0	1
Decreases	13	18	1	14	45
Other changes	-2	0	0	0	-2
Accumulated depreciations and impairments					
31 December 2015	-388	-167	-16	-10	-581
Carrying amount 31 December 2015	773	46	17	7	843

Note 27. Other assets

EUR million	31 Dec. 2016	31 Dec. 2015
Payment transfer receivables	15	13
Pension assets	9	61
Accrued income and prepaid expenses		
Interest	200	203
Interest on derivatives receivables	279	442
Other insurance operations' items	100	99
Other	61	38
Derivatives receivables, central counterparty clearing	147	66
CSA receivables from derivative contracts	1,098	508
Securities receivables	26	31
Direct insurance receivables	481	441
Reinsurance receivables	86	89
Reinsurers' share of provisions for unearned premiums	14	11
Reinsurers' share of provisions for unpaid claims	64	87
Other receivables	411	259
Total	2,992	2,347

Note 28. Tax assets and liabilities

EUR million	31 Dec. 2016	31 Dec. 2015
Income tax assets	54	25
Deferred tax assets	156	93
Total tax assets	210	118

EUR million	31 Dec. 2016	31 Dec. 2015
Income tax liabilities	31	79
Deferred tax liabilities	863	786
Total tax liabilities	894	866

Deferred tax assets	31 Dec. 2016	31 Dec. 2015
Due to available-for-sale financial assets	9	7
Due to depreciation and impairments	2	2
Due to provisions and impairments on loans	16	16
Due to losses related to taxation	0	4
Cash flow hedge	5	0
Due to hedging of interest rate risk associated with technical provisions	8	1
Due to timing difference of securities issued to the public	1	7
Due to timing difference of derivatives	8	9
Due to defined-benefit pension plans	72	4
Due to consolidation of Group accounts	24	22
Due to other items	37	38
Set-off against deferred tax liabilities	-28	-17
Total	156	93

Deferred tax liabilities	31 Dec. 2016	31 Dec. 2015
Due to appropriations	576	536
Due to available-for-sale financial assets	109	74
Cash flow hedge	15	19
Due to elimination of equalisation provision	61	55
Due to fair value measurement of investment	29	14
Allocation of price of corporate acquisitions	57	63
Defined benefit pension plans	12	14
Due to consolidation of Group accounts	3	1
Due to other items	30	26
Set-off against deferred tax assets	-28	-17
Total	863	786
Net deferred tax asset (+)/liability (-)	-707	-693

	31 Dec. 2016	31 Dec. 2015
Changes in deferred taxes		
Deferred tax assets/liabilities 1 January	-693	-628
Recognised in the income statement		
Effect of losses	-4	-8
Provisions and impairments on receivables	0	-3
Appropriations	-40	-6
Amortisation/depreciation and impairments	6	7
Eliminations of equalisation provisions	-6	-1
Defined-benefit pension plans	5	13
Due to hedging of interest rate risk associated with technical provisions	8	-9
Due to provisions and impairment losses on receivables	-7	-5
Due to timing difference of derivatives	-1	9
Investment valuation	-15	-2
Other	-1	2
Recognised in statement of comprehensive income		
Available-for-sale financial assets		
Changes in fair value	-50	7
Cash flow hedge	-1	-4
Transfers to the income statement	23	41
Actuarial gains/losses on post-employment benefit obligations	66	-104
Other	2	-3
Total deferred tax assets 31 December, asset (+)/liability (-)	-707	-693
Income tax assets, asset (+)/liability (-)	23	-55
Total tax assets, asset (+)/liability (-)	-684	-748

Tax losses for which a deferred tax asset was not recognised came to EUR 12 million (EUR 45 million) at the end of 2016. The losses will expire before 2026.

A deferred tax liability has not been recognised for the EUR 47 million (EUR 41 million) of undistributed profits of the Baltic subsidiaries, since the assets have been permanently invested in these countries.

Notes to liabilities and equity capital

Note 29. Liabilities to credit institutions

EUR Million	31 Dec. 2016	31 Dec. 2015
Liabilities to central banks	3,240	13
Liabilities to credit institutions		
Repayable on demand		
Deposits	23	167
Other liabilities	0	0
Total	23	168
Other than repayable on demand		
Deposits	1,342	1,415
Other liabilities	65	77
Total	1,407	1,492
Total liabilities to credit institutions and central banks	4,669	1,673

Liite 30. Derivative contracts

EUR million	31 Dec. 2016	31 Dec. 2015
Held for trading		
Interest rate derivatives	3,413	4,274
Currency derivatives	254	14
Equity and index derivatives	0	14
Credit derivatives	2	1
Other	19	57
Total	3,688	4,359
Hedging derivative contracts		
Fair value hedging		
Interest rate derivatives	341	318
Currency derivatives	12	
Other	0	0
Cash flow hedge		
Interest rate derivatives	3	1
Total	356	319
Total derivative contracts	4,044	4,678

The balance sheet item includes negative changes in value of derivative contracts as well as premiums received.

Note 31. Liabilities to customers

EUR million	31 Dec. 2016	31 Dec. 2015
Deposits		
Repayable on demand		
Private	31,011	28,314
Companies and public-sector entities	21,114	20,041
Total	52,125	48,355
Other		
Private	2,147	2,925
Companies and public-sector entities	550	660
Total	2,697	3,585
Total deposits	54,822	51,941
Other financial liabilities		
Repayable on demand		
Private	18	14
Companies and public-sector entities	46	21
Total	64	34
Other		
Private		
Companies and public-sector entities	5,191	6,245
Total	5,191	6,245
Total other financial liabilities	5,255	6,279
Total liabilities to customers	60,077	58,220

Note 32. Insurance liabilities

EUR million	31 Dec. 2016	31 Dec. 2015
Non-life Insurance insurance liabilities	3,008	2,917
Insurance liability of Life Insurance other than guaranteed portions of unit-linked insurance	7,614	4,816
Life Insurance liability other than guaranteed portions of unit-linked investment contracts	3	6
	10,626	7,740

Non-life Insurance contract liabilities and reinsurers' share

EUR million	31 Dec. 2016			31 Dec. 2015		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
Provision for unpaid claims for annuities	1,434	-6	1,427	1,386	-7	1,379
Other provisions by case	162	-34	128	180	-59	121
Special provision for occupational diseases	17		17	19		19
Collective liability (IBNR)	743	-24	719	707	-21	685
Reserved loss adjustment expenses	66		66	65		65
Provision for unearned premiums	578	-14	565	560	-11	550
Interest rate hedge for insurance liabilities	8		8	0		0
Total Non-life Insurance insurance liabilities	3,008	-78	2,930	2,917	-98	2,819

Changes in insurance liabilities arising from insurance contracts and in receivables arising from reinsurance contracts

EUR million	31 Dec. 2016			31 Dec. 2015		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
Provision for unpaid claims						
Provision for unpaid claims 1 Jan.	2,357	-87	2,269	2,213	-79	2,134
Claims paid in financial year	-958	29	-929	-891	25	-866
Change in liability/receivable	986	-6	979	1,005	-34	972
Current period claims	993	-8	985	960	-19	942
Increase (decrease) from previous financial years	-62	2	-61	-17	-15	-32
Change in discount rate	55		55	62		62
Other change in reserving basis						
Unwinding of discount	35		35	38		38
Value change in interest rate hedges	8		8	-12		-12
Acquired business operations 31 Dec.	3		3	3		3
Foreign exchange gains (losses)	0		0	0		0
Provision for unpaid claims 31 Dec.	2,430	-64	2,365	2,357	-87	2,269
Provision for unearned premiums						
Provision for unearned premiums 1 Jan.	560	-11	550	523	-13	511
Increase	543	-14	529	499	-11	488
Decrease	-528	11	-517	-491	13	-478
Exchange rate gains (losses)						
Change in discount rate						
Acquired business operations 31 Dec.	3		3	28		28
Unwinding of discount	1		1	1		1
Provision for unearned premiums 31 Dec.	578	-14	565	560	-11	550
Total Non-life Insurance insurance liabilities	3,008	-78	2,930	2,917	-99	2,819

The provision for unearned premiums represents obligations relating to insurance cover which has not yet expired at the year-end.

Determination of insurance liabilities arising from non-life insurance contracts

a) Methods and assumptions used

The amount of insurance liability has been estimated in such a way that it is, in reasonable probability, sufficient to cover the liabilities arising from insurance contracts. This has been performed by estimating an expected value for the insurance liability and, after that, by determining a safety margin based on the degree of uncertainty related to the liability.

The provision for unearned premiums arising from insurance contracts has mainly been determined in accordance with the pro rata parte temporis rule for each contract.

The provision for unpaid claims for annuities corresponds to the discounted present value of cash flow of compensation for loss of income payable as continuous annuity. The discount rate is determined taking account of the current interest rate, security required by law and the maximum discount rate set by the authorities and expected reasonable return on assets covering insurance liabilities. On 31 December 2016, the discount rate used was 2% (2.25) for losses occurred before 2015 and 1.5% for losses occurred in 2015 and 2016. The mortality model applied is the cohort mortality model which is based on Finnish demographic statistics and which assumes the current trend of an increase in life expectancy to continue.

The provision for unpaid claims includes asbestos liabilities which arise from occupational diseases coverable under statutory workers' compensation insurance. The forecasted cash flow of these claims is based on an analysis which takes account of to what extent asbestos was used annually as raw material in Finland and how the latency periods of different asbestos diseases are distributed. Trends in asbestos-related claims are monitored annually and the outcome has corresponded well to the forecast.

Determining collective liability is based on different statistical methods: Bornhuetter-Ferguson, Cape Cod and Chain Ladder. When applying these methods, other selections must also be made, in addition to the selection of the method, such as deciding on how many occurrence years' statistics the methods will be applied.

In the valuation of collective liability, the largest risks relate to

- Estimating the future rate of inflation (excl. indemnities for loss of income payable on the basis of statutory insurance)
- Adjustment of changes due to changed compensation practices and legislation in the development triangle of claims (i.e. whether history provides a correct picture of the future)
- Adequacy of historical information over dozens of years.

Of the collective liability, only the liability for annuities has been discounted.

For the assessment of collective liability, the Group's non-life insurance portfolio is divided into several categories by risk and eg maturity of the cash flow applying to compensation paid. In each category, collective liability is first calculated using each statistical method stated above, and the method that best suits the category under review is chosen. The selection criteria used includes how well the model would have predicted developments in prior years of occurrence and the sensitivity of the estimate generated by the model with respect to the number of statistical years used. The safety margin of 2-10% is added to the expected value generated by the selected model. The safety margin is determined by the uncertainty associated with future cash flows and duration, as well as the quality of historical data.

When estimating the collective liability for medical expenses and rehabilitation expenses benefits in statutory workers' compensation and motor liability insurance, the Group has taken account of the fact claims paid for losses occurred more than 10 years ago are financed through the pay-as-you-go system.

b) Changes in assumptions

As a result of a reduction in the lower discount rate, the provision for unpaid claims for annuities rose by EUR 55 million (62).

Effect of changes in methods and assumptions on amount of liability	2016	2015
EUR million (increase +/decrease - in liability)		
Change in discount rate	55	62
Total	55	62

c) Claims development

The claims triangle compares the actual claims incurred with previous estimates. The triangles describing claims development have been drawn up by occurrence year.

With the exception of long-term liabilities, claims development for the gross business is presented over a period of ten years. The claims triangle does not monitor the shares of pools and the trends in the rights of recourse related to statutory workers' compensation insurance. The capital value of finalised annuities is treated as if the annuities had been paid equalling the capital amount in connection with confirmation as final. For long-term liabilities, i.e. annuities confirmed as final and asbestos-related claims, information on the adequacy of insurance liabilities is provided.

Claims triangles, gross business, EUR million

Occurrence year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
Estimated total claims expenditure											
0*	638	707	666	738	784	815	903	931	976	1,000	8,158
n+1	633	693	633	746	751	802	879	905	887		
n+2	627	691	640	744	752	805	861	920			
n+3	622	689	641	743	757	821	885				
n+4	622	704	651	750	771	836					
n+5	647	726	653	760	786						
n+6	657	734	659	771							
n+7	661	741	670								
n+8	664	758									
n+9	673										
Current estimate of total claims expenditure	673	758	670	771	786	836	885	920	887	1,000	8,186
Accumulated claims paid	-650	-714	-620	-722	-715	-753	-791	-788	-715	-558	-7,026
Provision for unpaid claims for 2007-2016	23	44	50	50	72	83	94	132	172	442	1,160

Provision for unpaid claims for previous years 147

* = at the end of the occurrence year

Development of claims due to latent occupational diseases, EUR million

Financial year	Collective liability	Known liabilities for annuities	Claims paid	Claims incurred	Changes in reserving basis*	Adequacy
2007	41	40	-4	-2	-1	-2
2008	40	41	-4	-4	3	-2
2009	42	43	-4	-8	4	-4
2010	38	44	-3	0		0
2011	35	50	-3	-6	5	-2
2012	32	53	-4	-4	2	-1
2013	28	53	-4	-1	1	0
2014	22	53	-4	-2	2	0
2015	19	54	-4	-2	2	-1
2016	17	53	-5	-1	2	1

Development of annuities confirmed as final, EUR million

Financial year	Year-start	Year-end	New annuity capital	Annuities paid	Changes in reserving basis*	Adequacy
2007	731	745	60	28	-15	3
2008	745	766	55	30		4
2009	763**	771	42	32		2
2010	771	794	60	34		3
2011	794	895	66	35	77	7
2012	895	940	66	34	31	18
2013	940	965	51	37	23	12
2014	965	1,010	54	40	36	5
2015	1,010	1,046	53	44	30	2
2016	1,046	1,080	54	49	31	3

* Effect of changes in the discount rate and the mortality model on final annuity capital.

** A small amount of healthcare and senior housing provisions was eliminated from 2009 figures.

Claims triangles, net business, EUR million

Occurrence year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
Estimated total claims expenditure											
0*	621	656	649	693	721	796	861	897	957	992	7,845
n+1	623	656	620	707	697	782	829	868	877		
n+2	619	658	629	705	710	786	819	875			
n+3	615	656	629	705	714	804	843				
n+4	615	670	633	712	727	818					
n+5	624	684	633	721	741						
n+6	634	691	635	732							
n+7	637	698	646								
n+8	640	715									
n+9	648										
Current estimate of total claims expenditure	648	715	646	732	741	818	843	875	877	992	7,888
Accumulated claims paid	-626	-674	-610	-683	-676	-737	-754	-758	-713	-558	-6,789
Provision for unpaid claims for 2007-2016	23	41	37	49	66	81	89	117	164	434	1,100
Provision for unpaid claims for previous years											147

* = at the end of the occurrence year

Change in claims incurred based on loss events for prior financial years

Claims incurred for losses occurred in prior financial years decreased by EUR 12 million while those for the previous financial year increased by EUR 15 million. Change in claims incurred based on loss events for prior financial years describes the adequacy of insurance liabilities, which on average is positive due to the security of insurance liabilities.

Changes in Life Insurance insurance liabilities

Liabilities, EUR million	1 Jan. 2016	Growth in liability arising from insurance premiums	Dis- charged liabilities	Credited interest and changes in value	Other charges and credits	Other items*	31 Dec. 2016
Other than unit-linked contract liabilities							
Other insurance liability than unit-linked liability discounted with interest rate guarantee	3,093	179	-243	94	-96	3,017	6,044
Separated balance sheet 1	1,256	1	-73	30	-8	-140	1,066
Other liability than unit-linked investment contracts discounted with interest rate guarantee	6	0	-2	0	0	0	3
Liability for bonus reserves							
Reserve for decreased discount rate	401					-11	390
Effect of discounting with market interest rate	4					39	42
Other items	63					9	72
Total	4,822	180	-319	123	-104	2,914	7,618

* Other items include the individual pension insurance portfolio consolidated from Suomi Mutual on 30 September 2016, out of which a separated balance sheet has been created.

Liabilities, EUR million	1 Jan. 2015	Growth in liability arising from insurance premiums	Dis- charged liabilities	Credited interest and changes in value	Other charges and credits	Other items	31 Dec. 2015
Other than unit-linked contract liabilities							
Other insurance liability than unit-linked liability discounted with interest rate guarantee	3,137	186	-264	96	-87	24	3,093
Separated balance sheet 1						1,256	1,256
Other liability than unit-linked investment contracts discounted with interest rate guarantee	10	0	-5	0	0	0	6
Liability for bonus reserves							
Reserve for decreased discount rate	428					-27	401
Effect of discounting with market interest rate	47					-44	4
Other items	60					3	63
Total	3,684	186	-269	97	-87	1,211	4,822

When determining the liabilities related to insurance and investment contracts other than unit-linked contracts and to unit-linked policies, OP Financial Group has complied with the Finnish Accounting Standards, with the exception that the Group started using the discount rate for insurance liabilities that is closer to the real-time interest rate. Insurance and capital redemption contract savings have been entered in the life insurance company's balance sheet at its own investment risk with their interest rate guarantees ranging between 1.5% and 4.5% and discounted to the amount of the interest guarantee in the national financial accounts' insurance liabilities. The effect of the reduced discount rate under FAS has been entered in the reserve for the decreased discount rate. Part of the interest rate risk between the market and discount rate has been hedged using fixed-income investments, the value of which has been entered as part of the liability from insurance and capital redemption contracts.

Life insurance liabilities act as term life insurance liabilities.

Amounts recovered from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and are recognised in the balance sheet separately.

Group pension insurance liabilities have been annually increased since 2011 owing to the higher life expectancy.

Refunded interest amounts includes guaranteed interest and, based on management judgement, distributed and paid customer bonuses.

Note 33. Liabilities from unit-linked insurance and investments contracts

EUR million	31 Dec. 2016	31 Dec. 2015
Unit-linked contract liabilities		
Liabilities for unit-linked insurance contracts	7,766	7,053
Liabilities for unit-linked investment contracts	1,400	1,578
Total	9,166	8,631

Changes in insurance liabilities

Liabilities, EUR million	1 Jan. 2016	Growth in liability arising from insurance premiums	Discharged liabilities	Credited interest and changes in value	Other charges and credits	Other items	31 Dec. 2016
Unit-linked contract liabilities							
Liabilities for unit-linked insurance contracts	7,053	692	-476	340	-30	187	7,766
Liabilities for unit-linked investment contracts	1,578	126	-328	38	-16	2	1,400
Total	8,631	818	-804	378	-46	189	9,166

Liabilities, EUR million	1 Jan. 2015	Growth in liability arising from insurance premiums	Discharged liabilities	Credited interest and changes in value	Other charges and credits	Other items	31 Dec. 2015
Unit-linked contract liabilities							
Liabilities for unit-linked insurance contracts	6,047	1,222	-461	296	-39	-12	7,053
Liabilities for unit-linked investment contracts	1,432	147	-89	99	-21	11	1,578
Total	7,478	1,369	-550	395	-60	-1	8,631

The dependence of unit-linked contracts is the policyholder's choice. At company level, the value change cannot be compared with any benchmark index. Similarly, return from guaranteed-interest investment contracts cannot reliably be compared with any benchmark index. Return from guaranteed-interest investment contracts cannot reliably be compared with any benchmark index. The return is based on that on assets covering the liability. Company assets have no benchmark.

Unit-linked investment contracts are measured at fair value.

The liability of unit-linked policies is valued at the market values of assets associated with contracts on the balance sheet date.

Note 34. Debt securities issued to the public

EUR million	Average interest rate %	31 Dec. 2016	Average interest rate %	31 Dec. 2015
Bonds	1.27	10,976	1.45	12,292
Covered bonds		9,278		9,003
Other				
Certificates of deposit	0.21	28	0.30	249
Commercial paper	0.42	8,059	0.50	6,290
Other	0.00		0.00	0
Included in own portfolio in trading (-)*		-54		-128
Total debt securities issued to the public		28,287		27,706

*Own bonds held by OP Group have been set off against liabilities.

Most significant issues in 2016	Nominal amount	Interest rate
OP Corporate Bank plc		
OP Corporate Bank plc Issue of GBP 25,000,000 Floating Rate Instruments due 11 January 2018 under the EUR 20,000,000,000 Programme for the Issuance of Debt Instruments	29.2	GBL3M + 0.450%
OP Corporate Bank plc Issue of EUR 35,000,000 Floating Rate Instruments due March 2020, under the EUR 20,000,000,000 Programme for the Issuance of Debt Instruments	35.0	EUB3M + 0.280 %
OP Corporate Bank plc Issue of EUR 20,000,000 Floating Rate Instruments due March 2020, under the EUR 20,000,000,000 Programme for the Issuance of Debt Instruments	20.0	EUB3M + 0.280 %
OP Corporate Bank plc Issue of EUR 500,000,000 0.875 per cent. Instruments due 21 June 2021 under the EUR 20,000,000,000 Programme for the Issuance of Debt Instruments	500.0	Fixed 0.875%
OP Corporate Bank plc Issue of EUR 20,000,000 1.097 per cent. Instruments due 16 February 2024 under the EUR 20,000,000,000 Programme for the Issuance of Debt Instruments	20.0	Fixed 1.097 %
OP Corporate Bank plc Issue of HKD 663,000,000 2.88 per cent. Instruments due 21 January 2026 under the EUR 20,000,000,000 Programme for the Issuance of Debt Instruments	81.1	Fixed 2.880 %
OP Corporate Bank plc Issue of EUR 10,000,000 1.865 per cent. Instruments due 27 January 2031 under the EUR 20,000,000,000 Programme for the Issuance of Debt Instruments	10.0	Fixed 1.865 %
OP Mortgage Bank		
OP Mortgage Bank Issue of EUR 1,230,000,000 0.25 per cent. Covered Notes due 11 May 2023 under the EUR 15,000,000,000 Euro Medium Covered Note Programme.	1,250.0	Fixed 0.2500 %

Note 35. Provisions and other liabilities

EUR million	31 Dec. 2016	31 Dec. 2015
Provisions	3	4
Other liabilities		
Payment transfer liabilities	1,043	1,057
Accrued expenses		
Interest payable	242	311
Interest payable on derivatives	265	382
Other accrued expenses	390	382
CSA liabilities from derivatives	1,236	1,023
Pension liabilities	319	15
Accounts payable on securities	28	32
Payables based on purchase invoices	45	39
Direct insurance liabilities	44	44
Reinsurance liabilities	15	9
Claims administration contracts	182	169
Total	3,810	3,465
Other	413	453
Total provisions and other liabilities	4,226	3,921

Changes in provisions

EUR million	Reorgani- sation	Other provisions	Total
1 Jan. 2016	0	3	4
Increase in provisions		1	1
Provisions used	0	-2	-2
Reversal of unused provisions		-1	-1
31 Dec. 2016	0	3	3

EUR million	Reorgani- sation	Other provisions	Total
1 Jan. 2015	1	1	2
Increase in provisions	0	3	3
Provisions used	-1		-1
31 Dec. 2015	0	3	4

Claims administration contracts

Claims administration contracts are contracts which are not insurance contracts, but on the basis of which claims are paid on behalf of another party. Among these contracts, the most important are captive arrangements in which the insured risk is reinsured with a captive company belonging to the same Group of companies with the customer; index increases in annuities of statutory workers' compensation, motor liability and patient insurance policies; certain other increases in benefits; and medical treatment indemnities payable over ten years after the occurrence of the accident; as well as public sector patient insurance.

Defined benefit pension plans

OP Financial Group has funded assets of its pension schemes through OP Bank Group Pension Fund, OP Bank Group Pension Foundation and insurance companies. Schemes related to supplementary pensions in the Pension Foundation and insurance company, as well as the TyEL (Employees' Pensions Act) funded old-age and disability pension schemes managed by the Pension Fund are treated as defined benefit plans. Contributions to the TyEL pay-as-you-go system are treated as defined contribution plans.

OP Bank Group Pension Fund

OP Bank Group Pension Fund managed statutory pension insurance for the employees of OP Financial Group employers in 2016. The statutory pension scheme under TyEL (Employees' Pensions Act) provides pension benefits based on the years of employment and earnings as prescribed in the Act. Benefits under the employees pension scheme until the end of 2016 comprised old-age pension, part-time pension, disability pension, survivor's pension and rehabilitation benefits. The retirement age of the old-age pension under TyEL is 63–68 years.

In 2015, the Finnish parliament passed an amended TyEL law that will enter into force in 2017. The law will change benefits, replace part-time pension with partial early-age pension and includes a new benefit for the years-of-service pension. The changes in benefits caused by the amended law was recognised in the income statement in the financial statements for 2015. Change in mortality was made in 31 December 2016, increasing obligations by EUR 25 million. Due to the amended law and changed mortality, assets were reclassified in net terms on 31 December 2016 from defined benefit plans to defined contribution plans worth EUR 1 million. All these items have been included in comprehensive income.

The TyEL pension scheme is based on a system that is partly a funded system and partly a pay-as-you go system. A pension insurance institution, which has insured each employment, manages funding for each employee. The funded portion of the pension benefits disbursed annually by the Pension Fund accounts for an average of a quarter.

The Pension Fund aims to manage statutory pension insurance in such a way that the level of contributions will remain steady year after year and be below the average contribution level of the employees pension scheme. In 2016, OP Bank Group Pension Fund's level of contributions was 22.5% and the plan's average contribution level is 24.0%. The most significant associated risk relates to the possibility of the actual return on investment assets being lower than the actual average investment return under the pension scheme. If such a risk materialises in several consecutive years, this would result in increasing the level of insurance contributions.

The most significant actuarial risks of OP Bank Group Pension Fund are associated with interest rate and market risks, future increases in pension benefits and systematically increasing life expectancy. A change in the discount rate for pension liabilities has a substantial effect on the amount of pension liabilities.

Under the Employee Benefit Funds Act, the Pension Fund shall invest its assets securely and profitably and in view of its liquidity. The Pension Fund must cover the insurance liability arising from pension obligations. When covering the insurance liability, the Pension Fund must consider what type of insurance business it conducts and, accordingly, must ensure the security of, return on and cashability of its assets and that they are appropriately versatile and properly diversified. The Employee Benefit Funds Act specifies in greater detail the assets and commitments with which the insurance liability must cover. As prescribed by law, the Pension Fund has a specific solvency limit which it must cover through its solvency capital.

Responsible for investment, the Board of Trustees of the Pension Fund approves the Pension Fund's investment plan related to its assets. A pension institution's chief actuary prepares annually a forecast for developments in insurance liabilities and pension costs. On this basis, investment asset allocation takes account of the requirements set by the nature of insurance liabilities for investment operations with respect to the level of security, productivity and liquidity, as well as the Pension Fund's risk-bearing capacity.

Supplementary pension at OP Bank Group Pension Foundation and insurance companies

OP Bank Group Pension Foundation manages supplementary pension cover for employees provided by the employers within OP Financial Group. The purpose of the Pension Foundation is to grant old-age and disability pension benefits and sickness benefits to employees covered by the Pension Foundation activities, and survivors' pension benefits to their beneficiaries, and burial grant. In addition, the Pension Foundation may grant said employees benefits related to rehabilitation. Given that providing supplementary pension is voluntary, not all employers belonging to the Pension Fund belong automatically to the Pension Foundation. Supplementary pension cover provided by the Pension Foundation is fully funded.

The Pension Foundation covers every employee who has reached the age of 20 years and who has been employed, as specified by TyEL, for two consecutive years by the employer within the Pension Foundation and whose employment has begun before 1 July 1991. The salary/wage serving as the basis for the calculation of pension refers to pensionable pay based on one and the same employment and calculated under the Finnish Employees' Pensions Act, TEL, in force until 31 December 2006. The retirement age of those covered by the Pension Foundation varies from 60 to 65 years, depending on the personnel group to which the employee belongs under the Pension Foundation rules.

OP Bank Group Pension Foundation altered its bylaws to be in line with the amended TyEL effective since 1 January 2017. The effect of this alteration was EUR -2 million on income and EUR -12 million on comprehensive income.

The change in mortality based on the amended TyEL on 31 December 2016 reduced obligations by EUR 9 million recognised in comprehensive income.

The most significant associated risk relates to the possibility of the actual return on investment assets being lower than the target set for the minimum return. If such a risk materialises in several consecutive years, this would result in charging contributions.

The most significant actuarial risks of OP Bank Group Pension Foundation are associated with interest rate and market risks, systematically increasing life expectancy and inflation risk. A change in the discount rate for pension liabilities has a substantial effect on the amount of pension liabilities.

Responsible for investment, the Board of Trustees of the Pension Foundation approves the Foundation's investment plan related to its assets. A pension institution's chief actuary prepares annually a forecast for developments in insurance liabilities and pension costs. On this basis, investment asset allocation takes account of the requirements set by the nature of insurance liabilities for investment operations with respect to the level of security, productivity and liquidity, as well as the Pension Foundation's risk-bearing capacity.

Supplementary pension has also been arranged in life insurance companies.

Balance sheet value of defined benefit plans, EUR million	Defined benefit obligations		Fair value of pension assets		Net liabilities (assets)	
	2016	2015	2016	2015	2016	2015
Opening balance 1 Jan.	1,746	2,051	-1,791	-1,631	-45	420
Defined benefit pension costs recognised in income statement						
Current service cost	43	47			43	47
Interest expense (income)	39	39	-40	-31	-1	8
Effect of plan curtailment, fulfilment of obligation or previous service cost.	-2	117	0	-105	-2	12
Administrative expenses			1	1	1	1
Total	80	204	-40	-135	41	68
Losses (gains) recognised in other comprehensive income arising from remeasurement						
Actuarial losses (gains) arising from changes in economic expectations	345	-465			345	-465
Actuarial losses (gains) arising from changes in demographic expectations	17				17	
Return on TyEL interest rate difference and growth in old-age pension liabilities (net)	-10	5	10	-5		
Experience adjustments	12	8			12	8
Return on plan assets, excluding amount (-) of net defined benefit liability (asset)			-44	-62	-44	-62
Total	363	-452	-34	-67	329	-519
Other						
Employer contributions			-15	-14	-15	-14
Benefits paid	-59	-56	59	56		
Total	-59	-56	43	42	-15	-14
Closing balance 31 Dec.	2,131	1,746	-1,821	-1,791	310	-45

Liabilities and assets recognised in the balance sheet, EUR million	31 Dec. 2016	31 Dec. 2015
Net liabilities/assets (Pension Foundation)	-9	-61
Net liabilities/assets (Pension Fund)	295	
Net liabilities (Other pension plans)	23	15
Total net liabilities	318	15
Total net assets	-9	-61
Total net liabilities and assets	310	-45

Pension Fund and Pension Foundation assets, grouped by valuation technique, 31 Dec. 2016, EUR million	Level 1	Level 2	Level 3	Total
Shares and participations	111		57	167
Notes and bonds	330	74	28	433
Real property	3		130	132
Mutual funds	553	2	432	987
Structured investment vehicles			6	6
Derivatives	-1	0		-1
Other assets	42	10		52
Total	1,038	86	652	1,776

Pension Fund and Pension Foundation assets, grouped by valuation technique, 31 Dec. 2015, EUR million	Level 1	Level 2	Level 3	Total
Shares and participations	42	1	51	94
Notes and bonds	108	203	18	329
Real property			131	131
Mutual funds	673	1	375	1,049
Structured investment vehicles			7	7
Derivatives	0			0
Other assets	140	6		146
Total	963	212	582	1,756

The fair value of Level 1 assets is determined on the basis of the quotes in markets.

The fair value of Level 2 assets 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.

The fair value Level 3 assets is determined using a pricing model whose input parameters involve uncertainty.

	31 Dec. 2016	31 Dec. 2015
Proportion of the most significant assets of total fair value of plan assets, %		
Shares and participations	9	5
Financial sector	1	0
Forest	3	1
Real estate	1	2
Other	5	2
Notes and bonds	24	19
Government bonds	2	1
Other	22	18
Real property	7	7
Mutual funds	56	60
Equity funds	28	32
Bond funds	13	14
Real estate funds	9	8
Hedge funds	6	6
Derivatives	0	0
Interest rate derivatives	0	0
Structured investment vehicles	0	0
Other	3	8
Total	100	100
Pension plan assets include, EUR million,		
	31 Dec. 2016	31 Dec. 2015
Securities issued by OP Financial Group companies	19	26
Other receivables from OP Financial Group companies	51	157
Total	70	184

Contributions payable under the defined benefit pension plan in 2017 are estimated at EUR 22 million.

The duration of the defined benefit pension obligation in the Pension Fund on 31 December 2016 was 22.4 years, in the Pension Foundation 15.5 years and in other plans 22.2 years.

Key actuarial assumptions used, 31 Dec. 2016, EUR million	Pension		
	Fund	Foundation	Other
Discount rate, %	1.7	1.5	1.8
Future pay increase assumption, %	2.6	2.5	2.6
Future pension increases, %	1.3	1.9	2.0
Turnover rate, %	3.0	0.5	0.0
Inflation rate, %	1.8	1.7	1.8
Life expectancy for 65-year old people			
Men	21.4	21.4	21.4
Women	25.4	25.4	25.4
Life expectancy for 45-year old people after 20 years			
Men	23.7	23.7	23.7
Women	28.1	28.1	28.1
Key actuarial assumptions used, 31 Dec. 2015, EUR million			
	Pension Fund	Pension Foundation	Other
Discount rate, %	2.3	2.1	2.4
Future pay increase assumption, %	1.6	1.6	1.6
Future pension increases, %	1.0	1.2	1.2
Turnover rate, %	3.0	0.5	0.0
Inflation rate, %	1.1	1.1	1.1
Life expectancy for 65-year old people			
Men	19.0	19.0	19.0
Women	24.7	24.7	24.7
Life expectancy for 45-year old people after 20 years			
Men	20.6	20.6	20.6
Women	26.4	26.4	26.4

Sensitivity analysis of key actuarial assumptions, 31 Dec. 2016	Change in defined benefit pension obligation			
	Pension Fund		Pension Foundation	
	EUR million	%	EUR million	%
Discount rate				
0.5 pp increase	-152	-9.6	-33	-6.9
0.5 pp decrease	177	11.2	37	7.8
Pension increases				
0.5 pp increase	165	10.5	32	6.6
0.5 pp decrease	-150	-9.5	-30	-6.2
Mortality				
1-year increase in life expectancy	55	3.5	16	3.3
1-year decrease in life expectancy	-53	-3.3	-15	-3.2

Sensitivity analysis of key actuarial assumptions, 31 Dec. 2015	Change in defined benefit pension obligation			
	Pension Fund		Pension Foundation	
	EUR million	%	EUR million	%
Discount rate				
0.5 pp increase	-102	-8.1	-28	-6.4
0.5 pp decrease	117	9.3	31	7.1
Pension increases				
0.5 pp increase	110	8.7	27	6.3
0.5 pp decrease	-101	-8.0	-25	-5.9
Mortality				
1-year increase in life expectancy	37	2.9	12	2.8
1-year decrease in life expectancy	-36	-2.8	-12	-2.7

Note 36. Supplementary cooperative capital

EUR million	31 Dec. 2016	31 Dec. 2015
Opening balance 1 Jan. 2016	106	192
Converted into profit shares	-10	-36
Refunds of supplementary cooperative capital	-19	-51
POP Group banks' cooperative capital*	0	2
Closing balance 31 Dec. 2016	77	106

Supplementary cooperative capital, which OP Financial Group member banks have no absolute right to refuse to refund to members, included in equity in the national financial statements of the member cooperative banks are classified as liability under IFRS financial statements.

Supplementary cooperative capital will be refunded after six months of the end of the financial period on the basis of with the refund may be performed for the first time. If it has not been possible to refund the cancelled supplementary cooperative capital in full, the refund can be made later if it is feasible on the basis of the following three financial statements. Interest will be paid on supplementary cooperative capital until the date when it is available for withdrawal as specified in the Co-operatives Act.

The Group has decided to redeem supplementary cooperative capital from customers against refund. Supplementary cooperative capital will be refunded during 2017. The refund requires permission from the supervisor.

*The terms and conditions of the cooperative capital of the six former POP Group banks transferred to OP Financial Group in 2015 were not yet harmonised in 2015 with those of OP Financial Group. In 2015, such capital was classified as liabilities.

Note 37. Subordinated liabilities

EUR million	Average interest rate %	31 Dec. 2016	Average interest rate %	31 Dec. 2015
Subordinated loans	0.81	77	2.57	214
Other				
Debentures	3.30	1,368	3.35	1,376
Total subordinated liabilities		1,445		1,590

Principal terms and conditions of the hybrid bonds/subordinated loans are as follows:

1. Perpetual bond of EUR 50 million

This is a perpetual loan without interest-rate step-ups, but with an 8% interest rate cap. The loan was issued on 31 March 2005 and its interest rate for the first year was 6.5% and thereafter CMS 10 years + 0.1%. Interest payments are made annually on 11 April. If interest cannot be paid for a given interest period, the obligation to pay interest for the period in question will lapse. The loan can be called in on 11 April 2010 at the earliest, subject to authorisation by the Financial Supervisory Authority. The loan's entire principal must be repaid in one instalment.

2. Perpetual bond of EUR 40 million

This perpetual loan carries a variable interest rate based on 3-month Euribor + 1.25% payable quarterly on 28 February, 30 May, 30 August and 30 November. If interest cannot be paid for a given interest period, the obligation to pay interest for the period in question will lapse. Subject to authorisation by the Financial Supervisory Authority, the loan may be called in on the due dates of interest payment. The entire loan principal must be repaid in one instalment.

Debentures

1. A debenture loan of CHF 100 million (euro equivalent 93 million), which is a ten-year bullet loan, will mature on 14 July 2021. The loan carries a fixed interest rate of 3.375% p.a.
2. A debenture loan of EUR 100 million, which is a ten-year bullet loan, will mature on 14 September 2021. The loan carries a fixed interest rate of 5.25% p.a.
3. A debenture loan of EUR 500 million, which is a 10-year bullet loan, will mature on 22 August 2022. Under the terms and conditions of the loan, the issuer will have the opportunity for early redemption in case the principal cannot be counted as part of the bank's Tier 2 capital. The loan carries a fixed interest rate of 5.75% p.a.
4. Debenture loan of JPY 10 billion (euro equivalent 81 million), which is a ten-year bullet loan, will mature on 3 July 2025. Under the terms and conditions of the loan, the issuer will have the opportunity for early redemption in case the principal cannot be counted as part of the bank's Tier 2 capital. The loan carries a floating rate linked to the JPY Libor + 0.735%.
5. Debenture loan of SEK 3,500 million (euro equivalent 366 million), which is a ten-year non-call 5 loan. The loan may be called in on 25 August 2020, matures on 25 August 2025. Under the terms and conditions of the loan, the issuer will have the opportunity for early redemption in case the principal cannot be counted as part of the bank's Tier 2 capital. The loan carries a floating rate linked to Stibor + 1.60% .
6. Debenture loan of 100 million euros, which is a 10-year bullet loan, will mature on 25 September 2025. Under the terms and conditions of the loan, the issuer will have the opportunity for early redemption in case the principal cannot be counted as part of the bank's Tier 2 capital. The loan carries a fixed interest rate of 2.405% p.a.
7. A debenture loan of EUR 11 million, which is a 10-year bullet loan, will mature on 14 May 2024. The loan carries a fixed interest rate of 3.25% p.a.
8. A debenture loan of EUR 11 million, which is a 10-year bullet loan, will mature on 18 June 2024. The loan carries a fixed interest rate of 3.25% p.a. until 18 June 2019 and thereafter a 6-month Euribor + 2.54% p.a.
9. A debenture loan of EUR 6 million, which is a 10-year bullet loan, will mature on 22 August 2024. The loan carries a fixed interest rate of 3.25% p.a. until 22 August 2019 and thereafter a 6-month Euribor + 2.67% p.a.
10. A debenture loan of EUR 11 million, which is a 10-year bullet loan, will mature on 10 October 2024. The loan carries a fixed interest rate of 3.25% p.a. until 10 October 2019 and thereafter a 6-month Euribor + 2.78% p.a.
11. A debenture loan of EUR 11 million, which is a 10-year bullet loan, will mature on 14 November 2024. The loan carries a fixed interest rate of 3.25% p.a. until 14 November 2019 and thereafter a 6-month Euribor + 2.81% p.a.
12. A debenture loan of EUR 8 million, which is a 10-year bullet loan, will mature on 29 December 2024. The loan carries a fixed interest rate of 3.25% p.a. until 29 December 2019 and thereafter a 6-month Euribor + 2.86% p.a.

Loans 1–6 were issued in international capital markets.

In addition, OP Corporate Bank plc has issued a fixed debenture loan of EUR 0.8 million related to OP Financial Group management remuneration.

OP Corporate Bank plc has no breaches of the terms and conditions of the loan contracts with respect to principal, interest and other conditions. The financial statements include EUR -5 million recognised for the price difference of the loans (-4). The difference between the nominal value and carrying amount is due to the fair value hedge related to interest rate risk measurement.

Note 38. Equity capital

EUR million	31 Dec. 2016	31 Dec. 2015
Capital and reserves attributable to OP Financial Group owners		
Cooperative capital, cooperative shares	161	148
of which cancelled cooperative shares	5	5
Cooperative capital, profit shares	2,420	2,241
of which cancelled profit shares	299	261
Reserves		
Restricted reserves		
Share premium account	0	0
Reserve fund	788	735
Reserves according to the Articles of Association/Bylaws		
Fair value reserve		
Cash flow hedge	41	69
Measurement at fair value		
Notes and bonds	105	31
Shares and participations	172	142
Other restricted reserves	1	1
Non-restricted reserves		
Reserve for invested non-restricted equity		
Other non-restricted reserves	1,319	1,349
Retained earnings		
Profit (loss) for previous financial years	3,911	3,426
Profit (loss) for the financial year	913	845
Equity capital attributable to OP Financial Group's owners	10,135	9,254
Non-controlling interests	102	70
Total equity capital	10,237	9,324

Cooperative capital, cooperative shares

The equity capital of OP Financial Group includes cooperative shares paid by Group member cooperative bank members, and the bank has an absolute right to refuse to pay interest on them and refund the capital. Cooperative contributions and the following customer ownership entitle the customer to take part in the bank's administration and decision-making.

Cooperative capital, profit shares

The equity capital of OP Financial Group also includes investments in profit shares made by members of the Group member cooperative bank members, and the bank has an absolute right to refuse to pay interest on them and refund the capital. For 2016-17, OP Financial Group seeks an interest rate of 3.25% and will each year confirm afterwards the interest payable. The return target may change on an annual basis. No customer-owner rights are involved in profit shares and they do not confer any voting rights.

During the financial year, supplementary cooperative capital converted into profit shares amounted to EUR 10 million.

If a member cooperative bank has not refused a refund, the cooperative contribution and the profit share contribution may be refunded within 12 months after the end of the financial year when membership terminated or the profit share has been cancelled by its holder. If the refund cannot be made in full in any given year, the balance will be refunded from disposable equity capital based on subsequent financial statements. However, this entitlement to the refund for the balance will terminate after the fifth financial statements. No interest will be paid on the balance.

Number of Group cooperative shares

(1 000)	Cooperative capital, member shares	Cooperative capital, profit shares	Total number of cooperative shares
1 Jan. 2015	1,503	15,608	17,111
Increase in cooperative capital	90	9,414	9,504
Refund of cooperative capital	-32		-32
31 Dec. 2015	1,560	25,021	26,582
Increase in cooperative capital	319	3,125	3,444
Refund of cooperative capital	-53	-958	-1,011
31 Dec. 2016	1,826	27,189	29,015

Reserves

Reserve fund

The reserve fund consists of profits transferred to it during previous periods and of the portion transferred to it from member cooperative banks' revaluation reserves and loan loss provisions. The reserve fund may be used to cover losses for which non-restricted equity capital is not sufficient. The reserve fund may also be used to raise the share capital and it can be lowered in the same way as the share capital. In cooperative credit institutions, the reserve fund can only be used to cover losses. In a limited liability company, it has not been possible to increase the reserve fund since 1 September 2006.

Fair value reserve

The fair value reserve includes the change in the fair value of available-for-sale financial assets. Items included in this reserve will be derecognised and recorded in the income statement when an available-for-sale financial asset is disposed of or is subject to impairment. The reserve also includes the net fair value change of interest rate derivatives as cash flow hedges verified as effective and adjusted for deferred tax. Fair value changes are included in the income statement in the period when hedged cash flows affect net income.

Fair value reserve after income tax

EUR million	Available-for-sale financial assets			Total
	Notes and bonds	Shares, participations and mutual funds	Cash flow hedging	
Opening balance 1 Jan. 2015	139	206	80	425
Fair value changes	-105	59	18	-28
Capital gains transferred to income statement	-33	-149		-183
Impairment loss transferred to income statement	2	10		13
Transfers to net interest income			-33	-33
One-off effect of transfer of POP Group banks to OP Financial Group	0	1	1	2
Deferred tax	27	16	3	46
Closing balance 31 Dec. 2015	31	142	69	242

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

The fair value reserve before tax totalled EUR 398 million (302) and the related deferred tax liability EUR 79 million (60). On 31 December, positive mark-to-market valuations of equity instruments before tax in the fair value reserve totalled EUR 268 million (245) and negative mark-to-market valuations EUR 23 million (21).

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

Other restricted reserves

These reserves consist of retained earnings based on the Articles of Association or other rules describing their purpose.

Other non-restricted reserves

These reserves consist of retained earnings based on the Articles of Association or other rules, or decisions taken by the General Meeting, Representatives' Meeting, or Cooperative Meeting.

Retained earnings

Retained earnings also contain voluntary provisions and depreciation difference included in the separate financial statements of Group companies and insurance companies' equalisation provisions and profits/(losses) due to the redefinition of defined benefit pension plans that are recognised in retained earnings less deferred tax in the IFRS financial statements.

Other notes to the balance sheet

Note 39. Reclassified notes and bonds

The table below shows the carrying amounts and fair values of the reclassified notes and bonds.

EUR million, 31 Dec. 2016	Carrying amount	Fair value	Effective interest rate	Impairments arising from credit risk
Loans and receivables	55	59	6.2	
Investments held to maturity	34	30	5.3	
Total	89	90		

EUR million, 31 Dec. 2015	Carrying amount	Fair value	Effective interest rate	Impairments arising from credit risk
Loans and receivables	74	80	6.0	
Investments held to maturity	39	35	4.4	
Total	113	115		

If notes and bonds were not reclassified and had been measured using fair values available in the market:

EUR million	31 Dec. 2016		31 Dec. 2015	
	Income statement	Fair value reserve	Income statement	Fair value reserve
Effect	1	-2	0	-5

Loans and receivables and held-to-maturity investments were reclassified in 2008.

Interest accrued on reclassified notes and bonds totalled EUR 4 million (5) in January–December. A total of EUR 0 million (2) was recognised as the price difference between the nominal value and purchase value. Capital gains recognised on notes and bonds amounted to EUR 5 million (5). Positive mark-to-market valuations recognised on hedging derivative contracts amounted to EUR 2 million (1).

Note 40. Notes and bonds eligible for central bank refinancing

EUR million	31 Dec. 2016	31 Dec. 2015
Financial assets at fair value through profit or loss	88	646
Available for sale		
Measured at fair value	11,981	10,537
Held to maturity	51	40
Total notes and bonds eligible for central bank refinancing	12,119	11,223

Only OP Corporate Bank plc within OP Financial Group is eligible for central bank refinancing.

Note 41. Subordinated notes and bonds

EUR million	31 Dec. 2016	31 Dec. 2015
Publicly quoted		
From others	39	23
Total	39	23
Other		
From others	6	2
Total	6	2
Total included financial assets at fair value through profit or loss	46	25
Investment assets		
Publicly quoted		
From others	25	15
Total	25	15
Other		
From others	2	1
Total	2	1
Total included in investment assets	26	16

Note 42. Collateral given

EUR million	31 Dec. 2016	31 Dec. 2015
Given on behalf of own liabilities and commitments		
Mortgages	0	1
Pledges	1	5
Loans (as collateral for covered bonds)	10,407	10,053
Others	4,973	671
Other collateral given		
Pledges	3,351	3,969
of which intraday settlement collateral	1,500	2,000
Total collateral given	18,732	14,699
Other secured liabilities	3,443	507
Covered bonds	9,277	9,003
Total secured liabilities	12,720	9,510

Note 43. Financial collateral held

OP has received collateral, in accordance with the Financial Collateral Act, which it may resell or repledge.

EUR million	31 Dec. 2016	31 Dec. 2015
Fair value of collateral received		
Other	1,177	1,030
Total	1,177	1,030

The credit risk arising from derivatives is mitigated through collateral, which means the use of ISDA Credit Support Annex (CSA) contract associated with the ISDA general agreement. In the collateral system, the counterparty provides securities or cash in security for the receivable. The amount of CSA-related collateral received in cash totalled EUR 1,177 million on the balance sheet date (1,030). The Group had no securities received as collateral on the balance sheet date.

Note 44. Classification of financial assets and liabilities

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

Assets, EUR million	Loans and other receivables	Investments held to maturity	Financial assets at fair value through profit or loss*	Available-for-sale financial assets	Hedging derivatives	Carrying amount total
Cash and cash equivalents	8,619					8,619
Receivables from credit institutions	425					425
Derivative contracts			4,583		489	5,072
Receivables from customers	75,192					75,192
Assets covering unit-linked contracts			8,640			8,640
Notes and bonds		108	858	17,372		18,338
Equity instruments			70	2,387		2,457
Other financial assets	2,428					2,428
Financial assets						121,171
Other than financial instruments						3,283
Total 31 December 2015	86,664	108	14,151	19,760	489	124,455

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

Liabilities, EUR million	Financial liabilities at fair value through profit or loss	Other liabilities	Hedging derivatives	Carrying amount total
Liabilities to credit institutions		4,669		4,669
Financial liabilities held for trading (excl. derivatives)	0			0
Derivative contracts	3,691		353	4,044
Liabilities to customers		60,077		60,077
Insurance liabilities		10,586		10,586
Liabilities from unit-linked insurance and investment contracts	9,205			9,205
Debt securities issued to the public		28,287		28,287
Subordinated loans		1,445		1,445
Other financial liabilities		3,326		3,326
Financial liabilities				121,639
Other than financial liabilities				1,870
Total 31 December 2016	12,896	108,390	353	123,509

Liabilities, EUR million	Financial liabilities at fair value through profit or loss	Other liabilities	Hedging derivatives	Carrying amount total
Liabilities to credit institutions		1,673		1,673
Financial liabilities held for trading (excl. derivatives)	0			0
Derivative contracts	4,364		314	4,678
Liabilities to customers		58,220		58,220
Insurance liabilities		7,705		7,705
Liabilities from unit-linked insurance and investment contracts	8,666			8,666
Debt securities issued to the public		27,706		27,706
Subordinated loans		1,590		1,590
Other financial liabilities		3,251		3,251
Financial liabilities				113,489
Other than financial liabilities				1,642
Total 31 December 2015	13,031	100,144	314	115,131

Bonds included in debt securities issued to the public are carried at amortised cost. On 31 December, the fair value of these debt instruments was approximately EUR 545 (441) million 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 45. Recurring fair value measurements by valuation technique

Fair value of assets on 31 December 2016, EUR million	Level 1	Level 2	Level 3	Total
Recognised at fair value through profit or loss				
Equity instruments	442	82	26	550
Debt instruments	3,489	712	117	4,318
Unit-linked contracts	6,591	2,577		9,168
Derivative financial instruments	6	4,566	160	4,732
Available-for-sale				
Equity instruments	900	564	780	2,245
Debt instruments	13,130	4,042	369	17,541
Total financial instruments	24,559	12,543	1,452	38,553
Investment property			951	951
Total	24,559	12,543	2,403	39,504
Fair value of assets on 31 December 2015, EUR million	Level 1	Level 2	Level 3	Total
Recognised at fair value through profit or loss				
Equity instruments		70		70
Debt instruments	616	221	21	858
Unit-linked contracts	6,425	2,215		8,640
Derivative financial instruments	2	4,893	176	5,072
Available-for-sale				
Equity instruments	1,683	-9	712	2,387
Debt instruments	12,037	5,042	293	17,372
Total financial instruments	20,763	12,433	1,203	34,400
Investment property			835	835
Total	20,763	12,433	2,038	35,234
Fair value of liabilities on 31 December 2016, EUR million	Level 1	Level 2	Level 3	Total
Recognised at fair value through profit or loss				
Unit-linked contracts	6,618	2,587		9,205
Other		0		0
Derivative financial instruments	10	3,926	107	4,044
Total	6,628	6,514	107	13,249
Fair value of liabilities on 31 December 2015, EUR million	Level 1	Level 2	Level 3	Total
Recognised at fair value through profit or loss				
Unit-linked contracts	6,444	2,222		8,666
Other		0		0
Derivative financial instruments	35	4,508	135	4,678
Total	6,480	6,730	135	13,345

Fair value measurement
Derivatives

The Group obtains the price of listed derivatives directly from markets. In the fair value measurement of OTC derivatives, Pohjola uses models and techniques commonly used in markets. These are needed, for instance, to create yield curves and currency conversion charts and volatility surfaces as well as for option valuation. The input data of these models can generally be derived from markets. In the fair value measurement of some contracts, however, the Group has to use models where input data cannot be observed in the market and therefore they must be assessed. Such contracts are included in Level 3.

Middle Office is responsible for the fair value measurement of Banking derivatives and the quality and reliability of market data, valuation curves and volatility surfaces used in them, as part of its daily fair value measurement process, including the measurement of Level 3 hierarchy. Middle Office compares regularly at contract level valuation prices with valuations supplied by CSA counterparties and central counterparties and, whenever necessary, determine any possible significant valuation differences.

Risk Management Control is responsible for approval of new fair value measurement models and techniques and supervision of the fair value measurement process. Verifying fair values is based, for example, on valuation using alternative sources for market prices and other input data. In this verification process, valuation prices can be compared with prices supplied by CSA counterparties and central counterparties. In addition, it is possible to use valuation services provided by third parties.

The fair value measurement of OTC derivatives takes account of the credit risk of the parties to a transaction. Credit risk is adjusted with a Credit Valuation Adjustment (CVA) and with a Debit Valuation Adjustment (DVA). CVA and DVA valuation adjustments are calculated for each counterparty. CVA and DVA adjustments are calculated by simulating the market values of derivatives and events of default based primarily on data obtained from markets. In assessing probabilities of default, the Group utilises market data through illiquid counterparties too by combining the counterparties with liquid market data.

Fair value hierarchy
Level 1: Quoted prices in active markets

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

Level 2: Valuation techniques using observable inputs

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

Level 3: Valuation techniques using unobservable inputs

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

Transfers between levels of the fair value hierarchy

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

Reconciliation of Level 3 items
Specification of financial assets and liabilities

Financial assets, EUR million	Financial assets at fair value through profit or loss	Derivative contracts	Available-for-sale financial assets	Total assets
Opening balance 1 Jan. 2016	21	176	1,005	1,203
Total gains/losses in profit or loss	-12	-16	-50	-79
Total gains/losses in other comprehensive income			97	97
Purchases	133		259	391
Sales	-2		-128	-130
Settlements	0			0
Transfers into Level 3	2		148	150
Transfers out of Level 3			-181	-181
Closing balance 31 Dec. 2016	142	160	1,149	1,452

Financial assets, EUR million	Financial assets at fair value through profit or loss	Derivative contracts	Available-for-sale financial assets	Total assets
Opening balance 1 Jan. 2015	7	202	626	835
Total gains/losses in profit or loss	21	-26	-58	-62
Total gains/losses in other comprehensive income			51	51
Purchases			231	231
Sales			-125	-125
Settlements	-7			-7
Transfers into Level 3			281	281
Closing balance 31 Dec. 2015	21	176	1,005	1,203

Financial liabilities, EUR million	Financial assets at fair value through profit or loss	Derivative contracts	Total liabilities
Opening balance 1 Jan. 2016		135	135
Total gains/losses in profit or loss		-28	-28
Closing balance 31 Dec. 2016		107	107

Financial liabilities, EUR million	Financial assets at fair value through profit or loss	Derivative contracts	Total liabilities
Opening balance 1 Jan. 2015		130	130
Total gains/losses in profit or loss		5	5
Closing balance 31 Dec. 2015		135	135

Total gains/losses included in profit or loss by item for the financial year on 31 Dec. 2016

EUR Million	Net interest income	Net investment income	Statement of	Total gains/ losses for the financial year included in profit or loss for assets/ liabilities held at year- end
			comprehensive income/ value reserve	
Realised net gains (losses)	-12			-12
Unrealised net gains (losses)	11	-50	97	58
Total net gains (losses)	-1	-50	97	46

Total gains/losses included in profit or loss by item for the financial year on 31 Dec. 2015

EUR Million	Net interest income	Net investment income	Statement of	Total gains/ losses for the financial year included in profit or loss for assets/ liabilities held at year- end
			comprehensive income/ value reserve	
Realised net gains (losses)	21	-60		-39
Unrealised net gains (losses)	-31	3	51	22
Total net gains (losses)	-10	-58	51	-17

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

Changes in the levels of hierarchy

No major changes occurred in valuation techniques in 2016.

Sensitivity analysis of input parameters involving uncertainty on 31 Dec. 2016

Type of instrument, EUR million	Receivables	Liabilities	Net balance	Sensitivity analysis	Reasonably possible change in fair value
Recognised at fair value through profit or loss:					
Private equity funds*	26		26	2.6	10 %
Bond investments	117		117	11.7	10 %
Derivatives:					
Index-linked bond hedges and structured derivatives, and derivatives with a long-term maturity**	160	-107	53	5.8	11 %
Available-for-sale:					
Bond investments	369		369	36.9	10 %
Illiquid investments	65		65	9.75	15 %
Private equity funds*	489		489	48.9	10 %
Real estate funds***	225		225	45	20 %
Investment property					
Investment property***	951		951	190	20 %

Sensitivity analysis of input parameters involving uncertainty on 31 Dec. 2015

Type of instrument, EUR million	Receivables	Liabilities	Net balance	Sensitivity analysis	Reasonably possible change in fair value
Recognised at fair value through profit or loss:					
Structured investment vehicles	21	0	21	2.1	10 %
Derivatives:					
Index-linked bond hedges and structured derivatives**	177	-135	42	5.6	13 %
Available-for-sale:					
Illiquid investments	70		70	10.5	15 %
Private equity funds*	694		694	69.4	10 %
Real estate funds***	240		240	48	20 %
Investment property					
Investment property***	835		835	167	20 %

* The value of private equity funds depends mainly on the profit performance of portfolio companies and the PE ratios of similar listed companies. The Total Value to Paid-in (TVPI) multiple, which has changed an average of 10%, is used to monitor the progress of the fair value of private equity funds.

** Following stress scenarios: the combined value change of volatility of shares (30%), dividends of shares (30%), credit risk premiums (30%) and significant correlation changes.

*** In the valuation of real estate funds and investment property, OP mainly uses the income approach whose main components are yield requirement and net rent. A +/- 1 percentage point change in the yield requirement leads on average to around 20% change in the fair value.

Notes to contingent liabilities and derivatives

Note 46. Off-balance-sheet commitments

EUR million	31 Dec. 2016	31 Dec. 2015
Guarantees	836	764
Other guarantee liabilities	1,921	1,848
Pledges		1
Loan commitments	11,049	10,042
Commitments related to short-term trade transactions	358	194
Other	966	587
Total off-balance-sheet commitments	15,129	13,436

Note 47. Contingent liabilities and assets

Insurance companies belonging to OP Financial Group underwrite insurance policies through pools. Pool members are primarily responsible for their own proportionate share of the risk. Proportionate shares are based on contracts confirmed annually. In certain pools, pool members are responsible for an insolvent member's liabilities in proportion to their shares in the pool. Group insurance companies recognise liabilities and receivables based on joint liability if joint liability is likely to materialise.

Note 48. Operating leases

OP Financial Group as Lessee

OP has leased some of the office premises it uses. The term of these leases varies between one and ten years and they usually include the option of extending the lease after the original date of expiry. Some of the leased premises have been subleased. In addition, motor vehicles and office equipment have been leased under lease agreements.

Future minimum lease payments under non-cancellable operating leases

EUR million	31 Dec. 2016	31 Dec. 2015
No later than 1 year	9	8
Later than 1 year and no later than 5 years	17	12
Later than 5 years	2	5
Total	27	25

OP Financial Group as Lessor

OP Financial Group companies have leased out investment properties they own, which generated lease income of EUR 70 million (65).

Future minimum lease payments receivable under non-cancellable operating leases

EUR million	31 Dec. 2016	31 Dec. 2015
No later than 1 year	55	44
Later than 1 year and no later than 5 years	125	86
Later than 5 years	112	109
Total	292	238

Note 49. Derivative contracts
Derivatives held for trading 31 December 2016

EUR million	Nominal values/residual maturity				Fair values		Potential future exposure
	<1 year	1–5 years	>5 years	Total	Assets	Liabilities	
Interest rate derivatives							
Interest rate swaps	16,966	34,004	37,559	88,528	2,804	2,712	3,538
Cleared by the central counterparty	7,711	22,162	23,347	53,220	950	1,020	1,411
OTC interest rate options							
Call and caps							
Purchased	2,513	5,910	4,317	12,741	400	1	504
Written	2,091	7,489	3,392	12,972	2	317	8
Put and floors							
Purchased	2,678	3,718	1,821	8,217	149	6	209
Written	3,359	4,374	1,633	9,366	12	116	39
Total OTC interest rate derivatives	27,608	55,495	48,721	131,824	3,366	3,153	4,298
Interest rate futures	4,071	789		4,860	0	1	
Interest rate options							
Put							
Written	1,000			1,000	0		
Total exchange traded derivatives	5,071	789		5,860	1	1	
Total interest rate derivatives	32,679	56,284	48,721	137,684	3,367	3,154	4,298
Currency derivatives							
Forward exchange agreements	21,371	382	50	21,803	249	249	471
Interest rate and currency swaps	3,196	9,052	2,767	15,015	1,161	1,234	1,853
Currency options							
Call							
Purchased	131	2		134	1		3
Written	181	2		183		2	
Put							
Purchased	226	2		228	4		6
Written	161	3		164		2	
Total OTC currency derivatives	25,266	9,443	2,817	37,526	1,415	1,487	2,332
Total currency derivatives	25,266	9,443	2,817	37,526	1,415	1,487	2,332
Equity and index derivatives							
Equity options							
Call							
Purchased		5		5	1		1
Equity index options							
Call							
Purchased	0	1		1	0		0
Total OTC equity and index derivatives	0	6		6	1		1
Equity futures	15			15		0	
Total exchange traded derivatives	15			15		0	
Total equity and index derivatives	15	6		21	1	0	1
Credit derivatives							
Credit default swaps	19	397	13	429	11	8	36
Total credit derivatives	19	397	13	429	11	8	36
Other							
Other forward contracts	1	0		2	0	0	0
Other swaps	261	541	2	805	63	18	135
Total other OTC derivatives	263	542	2	807	64	18	135
Other futures contracts	12	10		22	0	5	
Total other derivatives	275	552	2	829	64	23	135
Total derivatives held for trading	58,254	66,683	51,553	176,490	4,857	4,673	6,802

Derivatives held for trading 31 December 2015

EUR million	Nominal values/residual maturity				Fair values		Potential future exposure
	<1 year	1–5 years	>5 years	Total	Assets	Liabilities	
Interest rate derivatives							
Interest rate swaps	19,541	44,642	37,475	101,659	3,175	3,184	3,937
Cleared by the central counterparty	4,207	21,163	11,936	37,305	697	665	980
OTC interest rate options							
Call and caps							
Purchased	1,535	5,058	3,379	9,973	308	2	391
Written	1,344	5,332	3,084	9,760	1	257	2
Put and floors							
Purchased	3,739	2,444	1,607	7,791	132	4	189
Written	4,752	3,569	1,465	9,785	11	97	47
Total OTC interest rate derivatives	30,911	61,045	47,011	138,968	3,627	3,543	4,566
Interest rate futures	4,127	3,224		7,351	1	6	
Total exchange traded derivatives	4,127	3,224		7,351	1	6	
Total interest rate derivatives	35,038	64,270	47,011	146,319	3,628	3,549	4,566
Currency derivatives							
Forward exchange agreements	27,361	358	53	27,772	218	301	514
Interest rate and currency swaps	1,141	7,415	5,472	14,029	1,178	1,086	1,970
Currency options							
Call							
Purchased	233	13		246	4		7
Written	321	12		333		4	
Put							
Purchased	262	20		282	4		8
Written	224	22		246		4	
Total OTC currency derivatives	29,542	7,841	5,525	42,908	1,404	1,394	2,499
Currency futures							
Total currency derivatives	29,542	7,841	5,525	42,908	1,404	1,394	2,499
Equity and index derivatives							
Equity options							
Call							
Purchased	243	5		248	13		28
Equity index options							
Call							
Purchased	6	1		7	1		2
Total OTC equity and index derivatives	249	6		256	14		30
Equity index futures	33			33	0		
Total exchange traded derivatives	33			33	0		
Total equity and index derivatives	282	6		288	15		30
Credit derivatives							
Credit default swaps	15	126	82	223	10	13	10
Total credit derivatives	15	126	82	223	10	13	10
Other							
Other forward contracts	6	1		7	0	0	1
Other swaps	88	687	14	788	80	29	155
Other options							
Call							
Purchased	27	0		27	0		3
Written	16			16		0	
Put							
Purchased	4			4	1		1
Written	4			4		1	
Total other OTC derivatives	145	688	14	847	81	31	160
Other futures contracts	40	34		74	2	31	
Total other derivatives	185	722	14	921	83	61	160
Total derivatives held for trading	65,062	72,964	52,632	190,659	5,140	5,017	7,265

Derivative contracts for hedging purposes - fair value hedging 31 December 2016

EUR million	Nominal values/residual maturity				Fair values		Potential future exposure
	<1 year	1-5 years	>5 years	Total	Assets	Liabilities	
Interest rate derivatives							
Interest rate swaps	5,027	19,358	11,313	35,698	656	475	923
Cleared by the central counterparty	208	11,538	7,414	19,159	229	315	398
Total OTC interest rate derivatives	5,027	19,358	11,313	35,698	656	475	923
Total interest rate derivatives	5,027	19,358	11,313	35,698	656	475	923
Currency derivatives							
Forward exchange agreements	32			32		1	0
Interest rate and currency swaps	143	2,163	827	3,132	160	178	332
Total OTC currency derivatives	175	2,163	827	3,164	160	179	332
Total currency derivatives	175	2,163	827	3,164	160	179	332
Total derivative contracts, fair value hedge	5,201	21,520	12,140	38,862	817	654	1,255

Derivative contracts for hedging purposes - cash flow hedge 31 December 2016

EUR million	Nominal values /residual term to maturity				Fair values		Potential future exposure
	<1 year	1-5 years	>5 years	Total	Assets	Liabilities	
Interest rate derivatives							
Interest rate swaps	513	1,872	789	3,175	106	3	127
Cleared by the central counterparty		300		300	7		9
Total OTC interest rate derivatives	513	1,872	789	3,175	106	3	127
Total interest rate derivatives	513	1,872	789	3,175	106	3	127
Currency derivatives							
Forward exchange agreements	4,074			4,074	113	10	155
Total OTC currency derivatives	4,074	0	0	4,074	113	10	155
Total currency derivatives	4,074	0	0	4,074	113	10	155
Total derivative contracts, cash flow hedge	4,588	1,872	789	7,249	219	13	282
Total derivative contracts held for hedging	9,789	23,393	12,929	46,111	1,035	667	1,537

Derivative contracts for hedging purposes - fair value hedging 31 December 2015

EUR million	Nominal values/residual maturity				Fair values		Potential future exposure
	<1 year	1-5 years	>5 years	Total	Assets	Liabilities	
Interest rate derivatives							
Interest rate swaps	2,914	17,076	10,661	30,652	666	427	912
Cleared by the central counterparty	163	2,964	3,072	6,199	165	202	226
Total OTC interest rate derivatives	2,914	17,076	10,661	30,652	666	427	912
Total interest rate derivatives	2,914	17,076	10,661	30,652	666	427	912
Currency derivatives							
Interest rate and currency swaps	1,414	1,926	1,181	4,520	123	85	322
Total OTC currency derivatives	1,414	1,926	1,181	4,520	123	85	322
Total currency derivatives	1,414	1,926	1,181	4,520	123	85	322
Total derivative contracts, fair value hedge	4,328	19,002	11,842	35,172	790	512	1,234

Derivative contracts for hedging purposes - cash flow hedge 31 December 2015

EUR million	Nominal values /residual term to maturity				Fair values		Potential future exposure
	<1 year	1-5 years	>5 years	Total	Assets	Liabilities	
Interest rate derivatives							
Interest rate swaps	546	2,020	583	3,148	113		132
Cleared by the central counterparty		400		400	14		16
Total OTC interest rate derivatives	546	2,020	583	3,148	113	0	132
Total interest rate derivatives	546	2,020	583	3,148	113	0	132
Total derivative contracts, cash flow hedge	546	2,020	583	3,148	113	0	132
Total derivative contracts held for hedging	4,874	21,021	12,425	38,320	903	512	1,366

Total derivatives 31 December 2016

EUR million	Nominal values/residual maturity				Fair values		Potential future exposure
	<1 year	1–5 years	>5 years	Total	Assets	Liabilities	
Interest rate derivatives	38,219	77,514	60,823	176,557	4,129	3,632	5,347
Cleared by the central counterparty	7,919	33,999	30,761	72,679	1,186	1,335	1,818
Currency derivatives	29,515	11,606	3,644	44,765	1,688	1,676	2,820
Equity and index-linked derivatives	15	6		21	1	0	1
Credit derivatives	19	397	13	429	11	8	36
Other derivatives	275	552	2	829	64	23	135
Total derivatives	68,043	90,075	64,482	222,601	5,892	5,340	8,340

Total derivatives 31 December 2015

EUR million	Nominal values/residual maturity				Fair values		Potential future exposure
	<1 year	1–5 years	>5 years	Total	Assets	Liabilities	
Interest rate derivatives	38,498	83,365	58,255	180,119	4,408	3,976	5,610
Cleared by the central counterparty	4,370	24,526	15,008	43,904	876	867	1,222
Currency derivatives	30,956	9,766	6,706	47,428	1,528	1,479	2,821
Equity and index-linked derivatives	282	6		288	15		30
Credit derivatives	15	126	82	223	10	13	10
Other derivatives	185	722	14	921	83	61	160
Total derivatives	69,936	93,985	65,057	228,979	6,043	5,529	8,631

*Fair values include accrued interest which is shown under other assets or provisions and other liabilities in the balance sheet.

Interest rate derivatives for central counterparty clearing are offset in the balance sheet. The effects of netting can be found in Note 50 below. Other derivative contracts are presented on a gross basis in the balance sheet. In capital adequacy measurement, OP Corporate Bank Group also applies netting of derivatives. The effects of netting on counterparty risk can be found in Note 101 below. Netting would reduce the credit equivalent of OP Corporate Bank plc's derivative contracts by EUR 5,896 million (6,248).

Note 50. Financial assets and liabilities offset in the balance sheet or subject to enforceable master netting arrangements or similar agreements

Financial assets

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

31 Dec. 2015, EUR million	Gross amount of financial assets	Gross amount of financial liabilities deducted from financial assets*	Net amount presented in the balance sheet**	Financial assets not set off in the balance sheet		
				Derivative contracts***	Collateral received	Net amount
Derivatives	5,942	-870	5,072	-3,412	-1,030	630

Financial liabilities

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

31 Dec. 2015, EUR million	Gross amount of financial liabilities	Gross amount of financial assets deducted from financial liabilities*	Net amount presented in the balance sheet**	Financial liabilities not set off in the balance sheet		
				Derivative contracts***	Collateral given	Net amount
Derivatives	5,518	-840	4,678	-3,412	-1,061	896

* Incl. daily cleared derivatives on a net basis included in cash and cash equivalents, totalling -147 (22) 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

February 2013 saw the adoption of central counterparty clearing in accordance with EMIR (Regulation (EU) No 648/2012). Standardised OTC derivative transactions entered into with financial counterparties are cleared in London Clearing House. Based on this model, the central counterparty will become the derivatives counterparty at the end of the daily clearing process, with whom daily payments for derivatives are netted. In addition, collateral is paid or received daily, which corresponds to the change in the fair value of open positions (variation margin). Interest rate derivatives cleared by the central counterparty are presented on a net basis in the balance sheet.

Other bilaterally cleared OTC derivative contracts

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

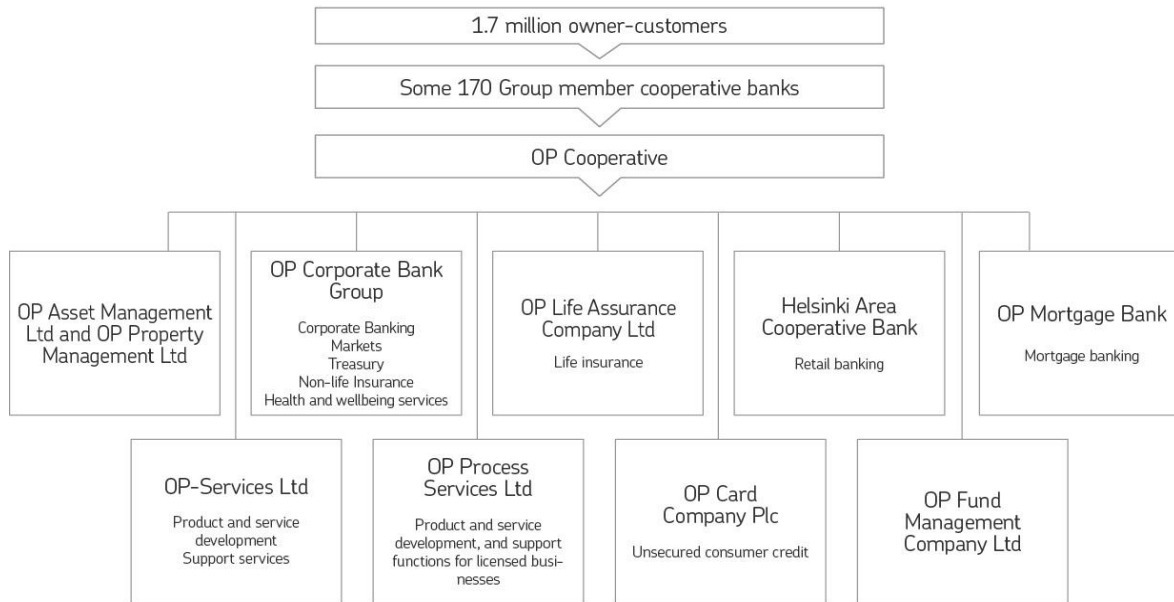
Other notes

Note 51. Ownership interests in subsidiaries, structured entities and joint operations

OP Financial Group's structure

The following figure describes the structure of OP Financial Group. Group member cooperative banks constitute the Group's technical parent company. In addition to the member cooperative banks, the most important subsidiaries, OP Cooperative (central cooperative) and its subsidiaries, associates and various joint arrangements are consolidated into OP Financial Group.

Structure of OP Financial Group



Credit institutions within OP Financial Group are liable for each other's debts. OP Financial Group is supervised by the ECB on a consolidated basis.

Major subsidiaries included in the financial statements of OP Financial Group in 2016

Major OP Financial Group subsidiaries include companies whose business is subject to licence and other major companies relevant to business operations. All major consolidated subsidiaries are wholly owned and accordingly they have no major non-controlling interests.

Company	Domicile/ home country	Interest, %	Votes, %	Company belongs to the consolidation group with respect to capital adequacy
OP Cooperative	Helsinki	100.0	100.0	x
Helsinki Area Cooperative Bank	Helsinki			x
OP Mortgage Bank	Helsinki	100.0	100.0	x
OP Life Assurance Company Ltd	Helsinki	100.0	100.0	
OP Card Company Plc	Helsinki	100.0	100.0	x
OP-Services Ltd*)	Helsinki	100.0	100.0	x
OP Process Services Ltd	Helsinki	100.0	100.0	x
OP Fund Management Company Ltd	Helsinki	100.0	100.0	x
Ovy Insurance Ltd	Helsinki	100.0	100.0	
Pivo Wallet Oy	Helsinki	100.0	100.0	
OP Corporate Bank plc	Helsinki	100.0	100.0	x
Checkout Finland Oy	Tampere	100.0	100.0	x
OP Property Management Ltd	Helsinki	100.0	100.0	
OP Asset Management Limited	Helsinki	100.0	100.0	x

*Helsinki Area Cooperative Bank is a cooperative. Every representative of its Representative Assembly has one vote. The Representative Assembly has 20 representatives appointed by the central cooperative and 10 owner-customer representatives.

Subsidiaries consolidated into OP Corporate Bank Group's financial statements

A-Insurance Ltd	Helsinki	100.0	100.0	
Pohjola Health Ltd	Helsinki	100.0	100.0	
OP Finance AS	Estonia	100.0	100.0	x
OP Finance SIA	Latvia	100.0	100.0	x
OP Insurance Ltd	Helsinki	100.0	100.0	
Seesam Insurance AS	Estonia	100.0	100.0	
UAB OP Finance	Lithuania	100.0	100.0	x
Eurooppalainen Insurance Company Ltd	Helsinki	100.0	100.0	

In addition to the subsidiaries, 47 (53) OP-Kiinteistökeskus real estate agencies are consolidated into the financial statements of OP Financial Group. These real estate agencies, which are wholly owned subsidiaries, provide services for buying and selling real property and homes and house management services. In addition to the real estate agencies, 23 (23) other subsidiaries have been consolidated.

Member cooperative banks forming the technical parent company of OP Financial Group in 2016

Name	Balance	Capital ade-	Managing Director
	sheet 2016, EUR million	quacy, % 31 Dec. 2016	
Akaan Seudun Op	168	66.7	Tuomo Smätt
Alajärven Op	275	59.0	Jari Leivo
Alastaron Op	60	48.8	Sanna Metsänranta
Alavieskan Op	68	48.1	Antero Alahautala
Alavuden seudun Op	218	54.0	Jussi Ruuhela
Andelsbanken för Åland	397	26.3	Johnny Nordqvist
Andelsbanken Raseborg	421	28.2	Lars Björklöf
Artjärven Op	48	63.3	Reijo Hurskainen
Askolan Op	120	49.5	Tuulikki Kyyhkynen
Auran Op	96	45.5	Sauli Nuolemo
Etelä-Hämeen Op	1,364	54.0	Mika Helin
Etelä-Karjalan Op	1,371	48.1	Petri Krohns
Etelä-Pohjanmaan Op	1,116	29.3	Olli Tarkkanen
Euran Op	182	76.4	Timo Viitanen
Haapamäen Seudun Op	60	63.2	Hannu Petjoi
Hailuodon Op	40	64.6	Eija Sipola
Halsuan Op	36	60.2	Heidi Pöyhönen
Haukivuoren Op	68	61.2	Seppo Laurila
Heinäveden Op	80	71.8	Jukka Tuomisto
Himangan Op	85	33.4	Kalevi Humalajoki
Hirvensalmen Op	45	65.0	Kirsi Hännikäinen
Honkilahden Op	34	77.6	Jukka-Pekka Koivisto
Humppilan Op	62	55.6	Jari Salokangas
Itä-Uudenmaan Op	1,144	28.9	Mauri Molander
Janakkalan Op	363	73.6	Mikko Suutari
Jokioisten Op	117	60.2	Vesa Rantanen
Jämsän Seudun Op	287	67.2	Kyösti Myller
Järvi-Hämeen Op	346	62.3	Jari Laaksonen
Kainuun Op	653	49.1	Seppo Rytivaara
Kalajoen Op	227	37.8	Leena Kälviä
Kalkkisten Op	21	73.6	Heikki Leppähaara
Kangasalan Seudun Op	437	39.2	Mika Kivimäki
Kangasniemen Op	192	74.1	Leo Pakkanen
Kannuksen Op	102	40.5	Juha Lundström
Karjalan Op	31	67.5	Lasse Vehviläinen
Kaustisen Op	104	45.6	Asko Ahonen
Kemin Seudun Op	315	51.3	Heikki Palosaari
Kerimäen Op	77	67.5	Jarmo Kaivonurmi
Keski-Pohjanmaan Op	998	30.7	Kimmo Peuranto
Keski-Suomen Op	2,198	36.6	Pasi Sorri
Keski-Uudenmaan Op	1,701	51.8	Juhani Rinta-Kartano
Kesälahden Op	80	71.4	Toni Ruokanen
Kihniön Op	37	62.6	Pirjo Haapa-aho Vehniä
Kiikoisten Op	30	62.4	Pirjo Koponen
Kiteen Seudun Op	286	59.0	Olli Koivula
Koitin-Pertunmaan Op	75	73.1	Jouko Iso-Kuortti

Korpilahden Op	87	61.7	Tuomas Kupsala
Korsnäs Andelsbank	143	44.1	Jan-Erik Westerdahl
Kronoby Andelsbank	127	59.7	Kurt Nyman (vt. tj.)
Kuhmoisten Op	61	64.1	Teemu Sarhema
Kuhmon Op	176	45.7	Hannu Kurkinen
Kuortaneen Op	66	55.9	Markku Jaatinen
Kurun Op	52	54.3	Marja-Leena Siuro
Kuusamon Op	205	40.9	Kari Kivelä
Kymenlaakson Op	1,774	49.6	Juha Korhonen
Kärkölan Op	91	50.8	Arto Haavikko
Käylän Op	27	60.0	Piia Mourujärvi
Köyliön Op	66	53.1	Jari Valonen
Laihian Op	103	21.7	Seppo Hautala
Lapin Op	97	61.6	Juha Teerialho
Lehtimäen Op	66	36.1	Veli-Jussi Haapala
Lemin Op	83	49.2	Ilkka Martikainen
Leppävirran Op	156	66.4	Jukka Kilpeläinen
Limingan Op	110	42.1	Petteri Juusola
Liperin Op	190	57.5	Jukka Asikainen
Loimaan Seudun Op	250	63.4	Juha Pullinen
Lokalahden Op	40	71.5	Ville Aarnio
Lounaismaan OP	1,443	44.6	Jukka Hulkkonen
Lounaisrannikon Op	526	34.7	Juha-Pekka Nieminen
Lounais-Suomen Op	287	69.3	Vesa Viitaniemi
Luhangan Op	55	43.9	Tuomas Puttonen
Luopioisten Op	38	61.1	Sirpa Leppäkoski
Luumäen Op	96	66.0	Mikko Purmonen
Länsi-Kymen Op	295	42.6	Pertti Olander
Länsi-Suomen Op	2,701	47.9	Simo Kauppi
Länsi-Uudenmaan Op	952	35.8	Jarmo Viitanen
Maaningan Op	100	71.0	Ari Väänänen
Marttilan Op	82	62.4	Matti Vahalahti
Mellilän Seudun Op	37	78.0	Aarre Anttila
Merimaskun Op	35	75.8	Sauli Jalonen
Metsämaan Op	30	86.9	Jussi Nieminen
Miehkälän Op	75	75.6	Mikael Hanhilahti
Mouhijärven Op	75	42.1	Rainer Sillanpää
Multian Op	75	27.2	Arto Laitinen
Mynämäen-Nousiaisten Op	362	61.5	Kimmo Ranta
Mäntsälän Op	212	55.6	Heikki Kananen
Mäntän Seudun Op	229	49.9	Markku Martikainen
Nagu Andelsbank	51	45.2	Johan Broos
Nakkila-Luvian Op	215	66.4	Jussi Kuvaja
Niinijoen Op	37	92.0	Jouni Tammelin
Nilakan Seudun Op	171	28.1	Jouni Karhinen
Nivalan Op	199	42.0	Markku Niskala
Op Kantrisola	95	62.1	Bo Hellen
Orimattilan Op	242	71.1	Jukka Sipilä
Oripään Op	67	29.0	Jouko Rekolainen
Oriveden seudun Op	200	50.3	Pertti Pyykkö
Oulaisten Op	227	46.4	Mika Korkia-aho
Oulun Op	3,074	29.6	Timo Levo
Outokummun Op	136	69.0	Ari Karhapää
Paattisten Op	90	62.7	Soile Noren
Paltamon Op	61	68.8	Jorma Niemi
Parikkalan Op	129	67.2	Tuomo Liukka
Pedersörejdens Andelsbank	455	31.7	Thomas Hulten
Perhon Op	82	55.0	Pekka Pajula
Peräseinäjoen Op	117	62.8	Juha Mäki
Petäjäveden Op	85	32.8	Jaakko Ylitalo
Pielisen Op	492	39.8	Jaana Reimasto-Heiskanen
Pihtiputaan Op	86	39.9	Vesa Isosalo
Pohjois-Karjalan Op	870	36.2	Esko Mononen

Pohjois-Savon Op	2,324	48.0	Seppo Pääkkö
Pohjolan Op	1,066	35.1	Keijo Posio
Polvijärven Op	131	60.4	Ari Noponen
Posion Op	104	73.0	Vesa Jurmu
Pudasjärven Op	186	75.4	Teuvo Perätalo
Pukkilan Op	75	71.3	Ari Talkara
Pulkkilan Op	45	83.4	Eero Keskitalo
Punkalaitumen Op	93	43.0	Petri Antila
Purmo Andelsbank	38	47.8	Stig-Göran Jansson
Päijät-Hämeen Op	1,430	32.6	Timo Laine
Pöytyän Op	94	48.4	Tuomo Jokinen
Raahen seudun Op	357	50.6	Ari Pohjola
Rantasalmen Op	131	60.1	Kari Mäkelä
Rautalammin Op	77	47.0	Esko-Pekka Markkanen
Riistaveden Op	126	36.0	Pauli Kröger
Ruoveden Op	149	43.6	Leena Selkee
Ruukin Op	133	47.8	Kalle Arvio
Rymättylän Op	65	50.6	Leena Nikula
Rääkkylän Op	82	48.3	Heli Silvennoinen
Sallan Op	84	45.8	Anne Harju
Sastamalan Op	287	38.1	Jyrki Rantala
Satakunnan Op	472	62.1	Olli Näsi
Satapirkan Op	307	38.9	Antti Suomijärvi
Savitaipaleen Op	107	64.6	Leo-Petteri Nevalainen
Siikajoen Op	41	63.4	Anna Koskela
Siikalatvan Op	84	41.7	Ismo Välijärvi
Simpeleen Op	80	80.4	Asko Impola
Sonkajärven Op	102	67.3	Esko Nissinen
Sulkavan Op	69	52.7	Kari Haverinen
Suomenselän Op	604	39.6	Timo Suhonen
Suonenjoen Op	139	54.8	Antti Hult
Suur-Savon Op	1,822	42.2	Kari Manninen
Säkylän Op	86	42.0	Jari Katila
Taivalkosken Op	73	57.3	Riitta-Liisa Ahokumpu
Taivassalon Op	58	39.7	Jens Hildén
Tampereen Seudun Op	3,234	32.2	Mikko Rosenlund
Tarvasjoen Op	50	75.6	Esa Hentula
Tervolan Op	78	51.0	Hannu Neuvonen
Tervon Op	58	41.0	Jani Kääriäinen
Toholammin Op	115	44.6	Juha Pajumaa
Tornion Op	314	35.5	Pentti Alaperä
Turun Seudun Op	2,985	18.7	Olli-Pekka Saario
Tuusniemen Op	133	25.4	Esa Simanainen
Tyrnävän Op	98	43.7	Antto Joutsiniemi
Ullavan Op	41	47.7	Jorma Somero
Urjalan Op	116	70.6	Sami Pietilä
Utajärven Op	218	36.1	Martti Pulkkinen
Vaara-Karjalan Op	428	57.5	Raili Hyönen
Vaasan Op	880	33.1	Ulf Nylund
Valkeakosken Op	237	44.3	Juha Luomala
Vampulan Op	83	56.4	Kari Hänti
Vehmersalmen Op	74	56.9	Petri Tyllinen
Vesannon Op	68	44.9	Markku Niskanen
Vetelin Op	36	51.8	Jarmo Lehojärvi
Vetelin Ylipään Op	32	57.8	Heidi Pöyhönen
Vihannin Op	119	45.8	Jari Kantomaa
Vimpelin Op	73	59.7	Kari Jukantupa
Virtain Op	187	51.9	Ari Kakkori
Ylitornion Op	103	44.9	Terttu Hagelin
Ylä-Kainuun Op	217	54.4	Eija Sipola
Yläneen Op	89	45.9	Heikki Eskola
Ylä-Savon Op	455	18.5	Timo Niskanen
Ypäjän Op	70	62.1	Kirsi-Marja Hiidensalo

Structured entities included in the consolidated financial statements

OP Financial Group both acts as investor and manages various mutual funds in order to gain investment income and various commissions. The financial statements of OP Financial Group include the accounts of 1 (1) mutual fund and of 2 (2) real estate funds. These funds that have been classified as structured entities because OP Financial Group's control is not based on votes but the control of significant operations, exposure to variable returns from the fund, and organising the fund's management. These funds also involve non-controlling interests most relevant to the Group.

The table below structured entities with a significant number of non-controlling interests

Name	Place of business	Main line of business	Interest, % 2016	Interest, % 2015	Non-controlling interests, %
Real Estate Funds of Funds II Ky	Helsinki	Real Estate Fund	27.8	27.8	72.3

Summary of financial information on subsidiaries with a significant proportion of non-controlling interests

The table below presents a summary of financial information on subsidiaries with a significant proportion of non-controlling interests from OP Financial Group's perspective. The financial information corresponds to the figures presented in the financial statements of the subsidiaries to which, for example, fair value adjustments have been made to correspond to OP Financial Group's accounting policies. The figures below are before the elimination of internal transactions.

Balance sheet in summary EUR million	Real Estate Fund of Funds II Ky	
	2016	2015
Cash and cash equivalents	1	2
Investments	41	51
Total assets	43	53
Total liabilities		
Total	43	53
Accrued share of non-controlling interests	33	41
Statement of comprehensive income in summary		
Net sales	3	8
Profit or loss of continuing operations after tax	3	8
Other comprehensive income	1	-3
Comprehensive income	3	5
Comprehensive income attributable to non-controlling interests	3	4
Share of profit paid to non-controlling interests	2	5
Cash flows in summary		
Net cash flow from operating activities	-1	-1
Net cash flow from investing activities	14	20
Net cash flow from financing activities	-14	-24
Net change in cash flows	-1	-4
Cash and cash equivalents at year start	2	6
Cash and cash equivalents at year end	-1	2

Joint operations

Some 1,241 (1,230) property companies are incorporated into OP Financial Group's financial statements as joint operations by consolidating the proportionate share of OP Financial Group's holding of the property company's assets. Classification into joint operations has been made according to the nature of the business although OP Financial Group has control over some of the property companies. The shares of the property companies entitle to the occupancy of certain apartments some of which are in OP Financial Group's own use. Each shareholder of the mutual real estate company is responsible for its/his/her share of the company's loans. Some of these joint operations constitute OP Financial Group's branch network in Finland and are included in property, plant and equipment in the balance sheet as shown in Note 26. The rest of the property companies are investment property included in Note 22.

Summary of the effect of consolidation of joint operations on the balance sheet

EUR million	31 Dec. 2016	31 Dec. 2015
Land	153	142
Buildings	1,255	1,196
Total assets	1,409	1,338
Total liabilities	3	3

Most significant joint operations consolidated into OP Financial Group's financial statements in 2016

Name	Domicile	Sector	Holding	Company belongs to the consolidation group with respect to capital adequacy
Asunto Oy Oulun Kalevankulma	Oulu	Property holding and management	100.0	x
Kiinteistö Oy Ansatie 5	Helsinki	Property holding and management	100.0	
Kiinteistö Oy Arkadiankatu 23	Helsinki	Property holding and management	100.0	
Kiinteistö Oy Hämeenkivi	Tampere	Property holding and management	100.0	x
Kiinteistö Oy Jyväskylän Kassatalo	Jyväskylä	Property holding and management	100.0	x
Kiinteistö Oy Kaisaniemenkatu 1	Helsinki	Property holding and management	22.4	x
Kiinteistö Oy Koskikatu 9	Joensuu	Property holding and management	67.0	x
Kiinteistö Oy OPK-Vallila	Helsinki	Property holding and management	100.0	x
Kiinteistö Oy Quartetto Intermezzo	Helsinki	Property holding and management	100.0	
Kiinteistö Oy Tampereen Hämeenkatu 12	Tampere	Property holding and management	100.0	x
Kiinteistö Oy Turun Asemanseutu	Turku	Property holding and management	49.5	x
Kiinteistö Oy Uusi Paino	Helsinki	Property holding and management	100.0	
Kiinteistö Oy Vammalan Torikeskus	Vammala	Property holding and management	100.0	x
Kiinteistö Oy Vääksyntie 2	Helsinki	Property holding and management	100.0	x
Kiinteistö Oy Vääksyntie 4	Helsinki	Property holding and management	100.0	x
Mikkelin Forum Oy	Mikkeli	Property holding and management	87.1	x
Kiinteistö Oy Eteläesplanadi 12	Helsinki	Property holding and management	99.8	
As Oy Lappeenrannan Kirkkokatu 9	Lappeenranta	Property holding and management	100.0	x
Companies owned by OP Corporate Bank Group				
Kiinteistö Oy Kanta-Sarvis II	Tampere	Property holding and management	100.0	
Kiinteistö Oy Helsingin Puutarhurinkuja 2	Helsinki	Property holding and management	100.0	
Kiinteistö Oy STC Viinikkala	Vantaa	Property holding and management	100.0	
Kiinteistö Oy Grand Cargo Terminal 1	Helsinki	Property holding and management	100.0	
Kiinteistö Oy Grand Cargo Terminal 2	Vantaa	Property holding and management	100.0	
Kiinteistö Oy Tampereen Ratinankaari	Tampere	Property holding and management	100.0	
Kiinteistö Oy Vantaan Kisällintie 13	Vantaa	Property holding and management	100.0	
Tikkurilan Kauppatalo Oy	Vantaa	Property holding and management	53.7	
Kiinteistö Oy Vuosaaren Pohjoinen Shopping centres	Helsinki	Property holding and management	100.0	
Kiinteistö Oy Kanta-Sarvis I	Helsinki	Property holding and management	50.0	
Kiinteistö Oy Koskitammi	Tampere	Property holding and management	100.0	
Kiinteistö Oy Kuopion Isabella	Kuopio	Property holding and management	100.0	
Kiinteistö Oy Oulun Kiilakivi	Oulu	Property holding and management	100.0	
Kiinteistö Oy Turun Joukahaisenkatu 9	Turku	Property holding and management	100.0	
Kiinteistö Oy Helsingin Frantseninkatu 13	Helsinki	Property holding and management	100.0	

Most significant joint operations consolidated into OP Financial Group's financial statements in 2016

Name	Domicile	Sector	Holding	Company belongs to the consolidation group with respect to capital adequacy
Asunto Oy Oulun Kalevankulma	Oulu	Property holding and management	100.0	x
Kiinteistö Oy Ansatie 5	Helsinki	Property holding and management	100.0	
Kiinteistö Oy Arkadiankatu 23	Helsinki	Property holding and management	100.0	
Kiinteistö Oy Hämeenkivi	Tampere	Property holding and management	100.0	x
Kiinteistö Oy Jyväskylän Kassatalo	Jyväskylä	Property holding and management	100.0	x
Kiinteistö Oy Kaisaniemenkatu 1	Helsinki	Property holding and management	22.4	x
Kiinteistö Oy Koskikatu 9	Joensuu	Property holding and management	67.0	x
Kiinteistö Oy OPK-Vallila	Helsinki	Property holding and management	100.0	x
Kiinteistö Oy Piispankalliontie 13-15	Espoo	Property holding and management	100.0	
Kiinteistö Oy Quartetto Intermezzo	Helsinki	Property holding and management	100.0	
Kiinteistö Oy Säästöraha	Oulu	Property holding and management	100.0	
Kiinteistö Oy Tampereen Hämeenkatu 12	Tampere	Property holding and management	100.0	x
Kiinteistö Oy Turun Asemanseutu	Turku	Property holding and management	49.5	x
Kiinteistö Oy Uusi Paino	Helsinki	Property holding and management	100.0	
Kiinteistö Oy Vammalan Torikeskus	Vammala	Property holding and management	100.0	x
Kiinteistö Oy Vääksyntie 2	Helsinki	Property holding and management	100.0	x
Kiinteistö Oy Vääksyntie 4	Helsinki	Property holding and management	100.0	x
Mikkelin Forum Oy	Mikkeli	Property holding and management	87.1	x
Kiinteistö Oy Eteläesplanadi 12	Helsinki	Property holding and management	100.0	

Companies owned by OP Corporate Bank Group

Kiinteistö Oy Kanta-Sarvis II	Tampere	Property holding and management	100.0	
Kiinteistö Oy Helsingin Puutarhurinkuja 2	Helsinki	Property holding and management	100.0	
Kiinteistö Oy STC Viinikkala	Vantaa	Property holding and management	100.0	
Kiinteistö Oy Grand Cargo Terminal 1	Helsinki	Property holding and management	100.0	
Kiinteistö Oy Grand Cargo Terminal 2	Vantaa	Property holding and management	100.0	
Kiinteistö Oy Tampereen Ratinankaari	Tampere	Property holding and management	100.0	
Kiinteistö Oy Vantaan Kisällintie 13	Vantaa	Property holding and management	100.0	
Tikkurilan Kauppatalo Oy	Vantaa	Property holding and management	53.7	
Kiinteistö Oy Vuosaaren Pohjoisen Shopping centres	Helsinki	Property holding and management	100.0	
Kiinteistö Oy Kanta-Sarvis I	Helsinki	Property holding and management	50.0	
Kiinteistö Oy Koskitammi	Tampere	Property holding and management	100.0	

The consolidated financial statements include the share of assets and related liabilities under joint control.

Interests in unconsolidated structured entities

OP Fund Management Company Ltd within OP Financial Group manages OP Mutual Funds OP Fund Management Company Ltd uses OP Asset Management Ltd as the portfolio manager for many of the mutual funds it manages. In addition, OP Property Management Ltd within the Group manages several real estate funds. In many funds, the fund management company controls significant operations by making investment decisions in accordance with the fund rules. OP Financial Group companies have no interests in the funds managed by the abovementioned companies that would significantly expose the Group to the varying return on the investment and would thereby cause a consolidation obligation.

OP Financial Group receives management fee income from unconsolidated funds that is included in net commissions and fees in the income statement. In addition, OP Financial Group as investor receives from unconsolidated funds income which is recognised in net investment income, depending on in which balance sheet item the investments are recognised in the balance sheet.

OP Financial Group's investments in OP Mutual Funds and the funds of OP Property Management Ltd have been recognised in investment property in the balance sheet. The Group's risk of loss is limited to the investment's balance sheet value. Investments in mutual funds managed by OP Financial Group totalled 887 million (803) on 31 December 2016.

Note 52. Related-party transactions

The related parties of OP Financial Group include associates, administrative personnel and other related party companies. The administrative personnel comprise OP Financial Group's Executive Chairman (Chairman of the Executive Board of OP Cooperative), President of OP Cooperative, members and deputy members of the Executive and Supervisory Boards and their close relatives. 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.

Standard terms and conditions for credit are applied to loans granted to the related parties. Loans are tied to generally used reference rates.

The period of notice observed by OP Financial Group's Executive Chairman, other OP Central Cooperative's Executive Board members and a deputy member and the employer is a maximum of 6 months. Upon termination of employment in cases specifically stipulated in the executive contract, the Executive Chairman and CEO is entitled to a severance pay and a sum equivalent to a maximum of 12 months' pay, while other Board members, deputy members and the Chief Audit Officer are entitled to a sum equivalent to a maximum of 6 months' pay.

OP Cooperative purchased in June 2015 all OP Life Assurance Company Ltd and OP Card Company Plc shares held by member cooperative banks and Helsinki Area Cooperative Bank. The price paid for the shares was based on the opinions of external appraisers.

Related-party transactions 2016

EUR 1,000	Associates	Administrative personnel	Others
Loans	178,604	11,198	
Receivables	45	2,790	
Deposits	5,301	3,622	42,119
Interest income		136	
Interest expenses	3	2	230
Insurance premium revenue	22	59	6,308
Commission income	152	47	135
Commission expenses	6	15	6
Off-balance-sheet commitments			
Guarantees		708	
Salaries and other short-term benefits, and performance-based pay			
Salaries and other short-term benefits		6,576	
Related-party holdings			
Number of participations		79	

Related-party transactions 2015

EUR 1,000	Associates	Administrative personnel	Others
Loans	83,141	1,894	
Receivables	20		5,132
Deposits	2,374	2,304	150,825
Interest income		36	
Interest expenses	8	6	242
Insurance premium revenue	20	27	5,623
Commission income	151	15	113
Commission expenses	7	14	6
Salaries and other short-term benefits, and performance-based pay			
Salaries and other short-term benefits		6,784	
Related-party holdings			
Number of participations		67	

Pension obligations regarding members of the Executive Board

OP Cooperative has an Executive Board acting as a directorate. The Executive Board comprises a chairman acting as the CEO and called as President and Group Executive Chairman; a deputy to the Executive Chairman and CEO; and a minimum of four and a maximum of nine other members and a maximum of four deputy members.

The President and Group Executive Chairman's retirement age is 63, while the other Executive Board members and deputy members retire at 63. Pension benefits are determined in accordance with pension laws and OP Financial Group's own pension plans. Note 35 provides more detailed information on OP Financial Group's pension plans.

EUR 1,000	Pension costs under TyEL		IFRS expense of voluntary supplementary defined benefit pension	
	2016	2015	2016	2015
President and Group Executive Chairman Reijo Karhinen, Executive Board Chairman	174	134	122	163
Tony Vepsäläinen, Executive Board Vice Chair	163	114	170	211
Karri Alameri, Executive Vice President, Executive Board member since 1 October 2015	45	11	50	12
Carina Geber-Teir, Executive Board member	62	78	34	55
Jari Himanen, Executive Board member	71	59	62	55
Markku Koponen, Chief Legal Officer	40	34	51	60
Olli Lehtilä, Executive Board member	81	93	67	64
Harri Luhtala, Executive Board member	64	75	46	66
Harri Nummela, Executive Board member	78	89	49	61
Erik Palmén, Executive Board member	60	43	56	68
Jouko Pölonen, Executive Board member	100	86	68	60
Outi Taivainen, Executive Vice President, Human Resources, Executive Board member since 16 November 2015	30	4	31	3

* IFRS expense has been used for the portion of the TyEL defined benefit plan and the equalisation portion of an employee's contribution less the employee's portion of the contribution has been used for the defined contribution plan.

Note 53. Variable remuneration

Personnel fund

About 83% of all personnel are members of OP Financial Group's Personnel Fund.

Payment of profit-based bonuses to OP Personnel Fund in 2016 was based on the achievement of the following targets: OP Financial Group's EBT and CET1, both having a weight of 30%, and growth in the number of loyal customers with a weight of 40%. Profit-based bonuses for 2016 transferred to the Fund account for some 5.7% (5.3) of the combined salaries and wages earned by the Fund's members. The bonuses recognised in 2015 totalled EUR 27 million (23).

Long-term remuneration schemes

OP Financial Group's remuneration schemes are in compliance with regulation in the financial sector and are based on OP Financial Group's strategic targets

OP Financial Group's variable remuneration principles take account of the Group's risk exposure and risk management methods. The performance indicator targets have been set at a level that does not encourage excessive risk-taking. Long-term variable remuneration is based on reaching OP Financial Group's targets, whereas short-term variable remuneration is based on how an individual Group company or business unit reaches its targets. The maximum amount of remuneration is limited in all schemes.

Long-term scheme

Managers and designated persons in key positions in OP Central Cooperative Consolidated and Group member banks and their subsidiaries, whom the management of the company in question or the central cooperative's Supervisory Board have appointed, are included in the long-term management incentive scheme. A total of 294 (312) people were included in the 2011–13 scheme and 311 (333) in the 2014–16 scheme.

The scheme consists of consecutive three-year performance periods, the first of which is 1 January 2011–31 December 2013. The bonus for the 2011–13 performance period will be paid after a deferment period in three equal instalments by the end of each June in 2015–17. The second performance period is 1 January 2014–31 December 2016 and the bonuses will be paid after a deferment period in three equal instalments by the end of June in 2018–20.

The bonus is determined by the management position. If the set targets are annually achieved at 100 per cent, the management and key employees will be entitled to a bonus equalling their regular 2–12-month salary subject to PAYE tax. For performance period 2014–16, the annual bonus entitlement may equal a 2–8-month salary. The targets for performance period 2011–13 were achieved at roughly 43%. The estimated outcome for performance period 2014–16 is around 58%.

The long-term management remuneration scheme confirmed for 2014–16 terminated at the end of the financial year. A new long-term management remuneration scheme has been confirmed for 2017–19. As a rule, the remuneration scheme for 2017–19 follows the principles observed during the previous three-year performance period.

Performance metrics under the long-term scheme

The Supervisory Board of OP Cooperative determines the performance indicators for the scheme and targets set for them separately for each performance period. The targets for the 2011–2013 scheme were based on the following criteria:

- Growth in the number of customers using OP as the main bank and insurer
- Change in the market share of corporate customer business
- Return on economic capital

In setting targets for the 2014–16 scheme, OP has taken account of the Capital Requirements Directive IV (CRD IV) of the European Parliament and of the Council, which will limit the maximum variable remuneration to the amount of a person's annual fixed remuneration. The targets for the 2014–16 are based on the following criteria:

- OP Financial Group's EBT
- OP Financial Group's CET1
- Growth in the number of customers using OP as their main bank and insurer

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

Determination and payout of bonuses under the long-term scheme

The target bonus was determined at the beginning of the 2011–13 scheme, i.e. the maximum remuneration in terms of Pohjola Bank plc Series A shares. This target bonus for the 2011–13 performance period was 5.1 million shares (5.1) which would be partly based on cash-settled payments (the amount of tax withheld) and equity-settled payments. OP Central Cooperative made a public voluntary bid for all Series A and K shares issued by Pohjola Bank plc and not held by OP Central Cooperative. As a result, the bonus payout for the performance period of 2011–13 applies the scheme's condition under which bonuses will be fully paid in cash if any of Pohjola's shareholders has the right, under Chapter 18, Section 1 of the Limited Liability Companies Act, to redeem (right of squeeze-out) the shares on the grounds that the shareholder has more than 90% of the company's shares and of the votes conferred by the shares. Bonuses that were to be paid as a combination of Pohjola's series A shares and cash will be paid in cash in 2015, 2016 and 2017 according to the original payout schedule. The bonus was converted into cash by multiplying the number of shares by the redemption price.

At the beginning of the scheme for 2014–16, bonuses were determined in euro terms and bonuses that may be paid under the scheme will be paid in terms of debentures issued by OP. The earned euro bonus will be converted into the number of debentures once the outcome of the scheme is known. An amount paid in cash will be deducted from the bonus to cover related taxes and fiscal charges.

Bonuses will be paid to their beneficiaries provided that OP Financial Group's capital adequacy ratio under the Act on the Supervision of Financial and Insurance Conglomerates is 1.3 or higher on the bonus payout date and that the person within the scheme is employed by OP Financial Group up to the payout date.

Previously, the 2011–13 scheme was accounted for as cash settlements in OP Financial Group companies other than OP Corporate Bank Group. Shares were accounted for as equity-settled payments in Pohjola Group. Due to the change in the method of payment under the scheme, the scheme's accounting treatment was changed in 2014 to correspond to treatment of employee benefits specified in IAS 19. Expenses for both schemes are recognised from the beginning of the performance period up to the date of payment (vesting period) as personnel costs, and the equivalent liability is recognised under deferred expenses. A liability recognised under the scheme amounted to EUR 23 million (40) on 31 December 2016.

OP Central Cooperative's Supervisory Board manages the long-term scheme and supervises compliance with it. The Supervisory Board may exercise discretion to change the terms and conditions of the scheme and postpone bonus payments for compelling reasons.

Short-term remuneration schemes

In short-term schemes, the performance period is one calendar year and the bonus is paid in cash. Short-term incentive schemes are based on targets set by each company and entity, covering all personnel of OP Financial Group.

Expenses for the schemes are recognised from the beginning of the performance period up to the date of payment (vesting period) as personnel costs, and the equivalent liability is recognised under deferred expenses.

Deferment of variable remuneration

The payment of variable remuneration has been prescribed in the Act on Credit Institutions (610/2014). If a person is categorised on the basis of his duties as belonging to a group that may cause considerable risk (identified staff) to his company, the company may defer the payment of variable remuneration over three years under certain conditions.

Identified staff in OP Financial Group include managing directors and other key management personnel, other people with a major impact of the company's risk exposure, Internal Control and other designated persons or special groups.

The deferment of variable remuneration payment applies to identified staff if their variable remuneration for a 12-month performance period exceeds EUR 50,000 – the maximum recommended by the Financial Supervisory Authority – or two months' fixed gross salary above this amount. The remuneration of the identified staff is reviewed up to the EUR 50,000 deferment limit as a whole, considering both long- and short-term remuneration.

If the euro maximum for deferment is exceeded, some bonus is paid immediately, while the rest is deferred and the deferred bonus will be paid in equal instalments within the next three years. In such a case of deferment, any short-term scheme bonuses are always paid half in cash and half as debenture loans issued by OP.

Expenses recognised for variable remuneration*

EUR million	2016	2015
Personnel fund	25	23
Short-term schemes	34	36
Long-term schemes:		
Scheme for 2011–13	3	4
Scheme for 2014–16	5	3
Total	67	66

* Excl. social expenses

More information on the remuneration schemes is available at www.op.fi.

Note 54. Events after the balance sheet date

On 2 February 2017, OP Financial Group was informed of the European Central Bank's (ECB) decision to raise OP Financial Group's risk weights for retail exposures for a fixed period of 18 months. The shortcomings observed by the ECB in the IRBA validation process applied by OP Financial Group in capital adequacy measurement, especially delayed validations, lie behind this raise. As a result of the rise in risk weights, OP Financial Group's CET1 ratio will decrease by less than two percentage points. At the end of December 2016, OP Financial Group's CET1 ratio stood at 20.1%.

OP Financial Group has already remedied the shortcomings observed by the ECB to a substantial extent and will complete the corrective measures as soon as possible.

Under supervision by the Finnish Financial Supervisory Authority, OP Financial Group adopted IRBA for credit risk between 2008 and 2011. The ECB has supervised OP Financial Group since November 2014.

Notes to risk management

Note 2 describes OP Financial Group's risk and capital adequacy management principles.

Notes 55–58 present OP Financial Group's risk exposure, Notes 59–65 Banking risk exposure, Notes 66–67 Non-life Insurance risk exposure and Notes 78–85 Wealth Management risk exposure. Capital adequacy disclosures under Pillar III can be found in Notes 86–108.

OP Financial Group's risk exposure

Note 55. OP Financial Group's risk limits

The limit system ensures that the Group or any of its entities does not take excessive risks to endanger the Group's or the entity's capital adequacy, profitability, liquidity and continued operations. The limits define the boundary for implementing risk appetite under the strategy. OP Cooperative's Supervisory Board annually confirms risk limits related to the Group's capital adequacy and credit and liquidity, market, underwriting and operational risks. These limits are used to control the Group's risk-taking. The Group's risks have been within the set limits.

Indicator	Risk limit	31 Dec. 2016	31 Dec. 2015
Capital adequacy			
CET1, %	13.0	20.1	19.5
FiCo solvency, %*	110	160	177
Credit risks			
Largest single customer risk / capital under FiCo, %	10.0	4.0	12.1
Total of significant customer risks (≥ 5%) / capital under FiCo, %	75.0	0.0	12.6
Industry risk / corporate receivables and commitments, %	15.0	11.7	12.7
Doubtful receivables / loan and guarantee portfolio, %	4.00	3.20	2.70
Economic capital requirement for credit risk / exposure at default, %	3.0	2.00	2.00
Liquidity risks			
Funding liquidity risk			
Liquidity coverage (LCR) ratio, %	80.0	117.00	116.00
Non-euro liquidity coverage ratio (LCR, GBP), %	80.0	107.00	96.00
Banking structural funding risk, EUR million			
≤ 12 months net funding position	-1,500	9,327	10,329
1–2 yrs net funding position	0	5,779	3,181
2–3 yrs net funding position	0	5,320	3,145
3–5 yrs net funding position	-1,000	243	3,076
Market risks			
Interest income risk associated with banking book of Banking, (-100 bps), 1 yr € million	-250	-206.8	-8.7
Banking book present value risk of Banking to 2-pp change in interest rate / permanent capital, %	-15	0.6	-10.0
Economic capital requirement for market risk associated with insurance operations / permanent capital, %	30	17.3	15.4
Trading VaR, 99%, 1 day, EUR million	7		2.2
Underwriting risks			
Economic capital requirement for Non-life Insurance risks / permanent capital, %	8	4.3	4.7
Economic capital requirement for Life Insurance risks / permanent capital, %	7	2.8	2.3
Operational risks			
MIM failures	18 MIM	18 MIM	9 MIM

* FiCo solvency, excluding transitional provisions. Year-on-year figures are presented under Solvency II. The FiCo solvency figures are unaudited.

** Negative interest rates have been taken into account since 2016.

Credit risks

OP Financial Group uses credit risk limits to spread risk by sector and counterparty and to limit the formation of doubtful receivables. The Group's sector and customer risks are diversified. At the end of 2016, customer risk deriving from an individual counterparty and the total of significant customer risk was clearly within the limits. Any customer exposure that accounts for at least 5% of the Group's capital base covering customer exposure under the Act on the Supervision of Financial and Insurance Conglomerates is taken into account in measuring significant customer exposure. In calculating sector risk the Group uses its internal sector breakdown and, in addition to Banking receivables and commitment, takes account of direct investments by insurance institutions, incomplete housing associations and guarantees from public sector entities. On 31 December 2016, the biggest sector risk originated from the management of non-residential property.

Liquidity risk

OP Financial Group's risk limit for liquidity risk has been set for net cash flows by maturity that guide the structural funding risk and for the liquidity coverage ratio.

The risk indicator for the structural funding risk indicates the maximum portion of the net cash flows in the Group's balance sheet that may mature in different maturities. On 31 December 2016, the maturing net cash flows in the Group's balance sheet were in all maturity periods within the limits of risk limits.

Market risks

OP Financial Group limits its Trading market risk using the VaR limit (99% confidence level, 1-day time horizon) within its risk limit system. At the end of the year, the VaR of Trading was clearly within the limit set for it.

The market risk limit for insurance operations has been set on the basis of the ratio between the economic capital and the Group's capital resources concerning the risk in question. At the end of the year, the market risk associated with insurance operations was clearly within limit set for it.

Insurance risks

Within the risk limit system, the Group limits underwriting risk using the ratio of Non-life and Life Insurance underwriting risk economic capital to capital resources. On 31 December 2016, underwriting risks were within the set limits.

Note 56. OP Financial Group's capital adequacy

Note 2, OP Financial Group's risk and capital adequacy management principles, provides a description of how the Group organises its Group-level risk and capital-adequacy management process. OP Financial Group and all of its entities fulfil the capital adequacy requirements set by the authorities.

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

EUR million	31 Dec. 2016	31 Dec. 2015
OP Financial Group's equity capital	10,237	9,324
Other cooperative capital, hybrid instruments, perpetual bonds and debenture bonds	1,397	1,547
Other sector-specific items excluded from capital base	-139	-70
Goodwill and intangible assets	-1,438	-1,356
Insurance business valuation differences	743	728
Proposed profit distribution	-83	-66
Items under IFRS deducted from capital base*	16	-57
Shortfall of impairments – expected losses	-283	-280
Conglomerate's capital base, total	10,449	9,769
Regulatory capital requirement for credit institutions**	4,713	3,707
Regulatory capital requirement for insurance operations***	1,434	1,406
Conglomerate's total minimum capital requirement	6,147	5,113
Conglomerate's capital adequacy	4,302	4,656
Conglomerate's capital adequacy ratio (capital base/minimum of capital base) (%)	170	191

* Excess funding of pension liability, Fair value measurement of investment property, Portion of cash flow hedge of fair value reserve.

** Risk-weighted assets x 12.5%, risk-weighted assets a year ago x 10.5%

*** Estimate of differences and SCR under Solvency II.

Year-on-year figures are presented under Solvency II. Transitional provisions have been taken into account in the figures. Solvency II figures are presented in Notes 66 and 79. O.V.Y Insurance accounts for EUR 6 million (16) of the SCR. The 0-SII buffer (2%) set for OP Financial Group on 7 January 2016 reduced the CET1 ratio by 24 percentage points. The FiCo calculation is unaudited.

Capital adequacy

OP Financial Group has two risk limit indicators for its capital adequacy. The first one is capital adequacy as referred to in the Act on the Supervision of Financial and Insurance Conglomerates. The Group's risk limit for this ratio is 110%. The statutory minimum is 100%. On 31 December 2016, the ratio of the capital base to the minimum amount of the capital base was 170 (191). On 31 December 2016, the Group's capital base totalled EUR 3,687 million (4,145) above the Group's internal risk limit and EUR 4,302 million (4,656) more than the limit required by law.

Note 57. OP Financial Group's exposure split by geographic region and exposure class

The majority of OP Financial Group's country exposure is in EU countries. The exposures cover all balance-sheet and off-balance-sheet items and are based on values used in capital adequacy.

Exposure split by geographic region 31 Dec. 2016

EUR million	Exposures to central governments and		Exposures to corporates	Retail exposures	Equity investments*	Collateralised notes and bonds**	Other	Total exposures
	central banks	credit institutions						
Finland	12,989	312	40,628	54,559	299	583	1,426	110,796
Baltic countries	197	0	1,494	16	0		0	1,707
Other Nordic countries	206	650	1,171	139	20	1,940	21	4,147
Germany	2,523	228	50	268	21	1,111	0	4,201
France	696	539	153	249	44	738	14	2,433
UK	0	852	222	315	106	503	5	2,004
Italy	147	21	7	58	12			244
Spain		34	15	35	14	1	61	160
Other EU countries	2,765	355	510	249	1014***	1,024	16	5,933
Rest of Europe	11	261	94	100	27	102	13	609
USA	5	329	105	517	298	8	182	1,445
Russia		7	28	10	24		0	68
Asia		308	112	66	41	6	22	554
Other countries	38	104	106	72	499***	1,357	221	2,398
Total	19,576	4,002	44,694	56,653	2,419	7,373	1,980	136,698

* Also includes EUR 182 million in bond funds.

** Comprises RMBS, ABS and Covered Bond investments.

*** Consist mainly of investments in European funds in Other EU countries and Emerging Markets and Global funds in Other countries.

Exposure split by geographic region 31 Dec. 2015

EUR million	Exposures to central governments and		Exposures to corporates	Retail exposures	Equity investments*	Collateralised notes and bonds**	Other	Total exposures
	central banks	credit institutions						
Finland	12,764	360	38,645	52,565	793	449	1,041	106,615
Baltic countries	71	0	1,294	19	0		0	1,385
Other Nordic countries	86	774	699	136	21	1,517	14	3,246
Germany	2,502	275	49	250	20	861	6	3,964
France	375	499	124	234	47	926	25	2,229
UK		1,030	157	365	101	375	6	2,033
Italy	70	5	0	4	14		6	99
Spain		14	4	15	14	0	49	97
Other EU countries	2,655	366	435	226	817***	732	16	5,247
Rest of Europe	2	225	87	80	24	82	1	501
USA	19	314	118	416	191		12	1,070
Russia		26	16	14	4			59
Asia		200	80	52	42		2	376
Other countries	39	52	58	46	478***	1,031	6	1,709
Total	18,582	4,139	41,767	54,421	2,566	5,973	1,183	128,631

* Also includes EUR 286 million in bond funds.

** Comprises RMBS, ABS and Covered Bond investments.

*** Consist mainly of investments in European funds in Other EU countries and Emerging Markets and Global funds in Other countries.

Note 58. Impairment loss recognised on financial assets

EUR million	31 Dec. 2016	31 Dec. 2015
Derivative contracts		
Held for trading	-1	0
Loans and receivables		
Loans granted	68	60
Guarantee receivables	9	18
Available-for-sale financial assets		
Shares and participations	1	2
Total financial assets	77	79

Risk exposure by Banking
Note 59. Receivables from credit institutions and customers, and doubtful receivables

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

31 Dec. 2015	Receivable base					Balance sheet value
	Not impaired (gross)	Impaired (gross)	Total	Individual assessment of impairment	Collective assessment of impairment	
Receivables						
Receivables from credit institutions	426		426		1	425
Receivables from customers	73,903	620	74,523	441	56	74,026
Bank guarantee receivables	6	17	23	18	0	5
Finance leases	1,166		1,166			1,166
Total	75,495	620	76,115	441	57	75,617
Receivables by sector						
Non-banking corporate sector	25,491	471	25,961	358	32	25,571
Financial institutions and insurance companies	1,124	0	1,124	0	2	1,122
Households	47,528	143	47,671	79	22	47,570
Non-profit organisations	665	6	671	4	1	667
Public-sector entities	688		688		0	688
Total	75,495	620	76,115	441	57	75,617

31 Dec. 2016	Not impaired (gross)	Impaired (gross)	Total	Arrears	Impairments	
					Individually assessed	Collectively assessed
Doubtful receivables						
Receivables from credit institutions						2
Receivables from customers	2,432	640	3,073	378	445	63
Bank guarantee receivables	2	9	11	9	9	1
Finance leases	3		3	0		
Total	2,435	640	3,076	378	445	64
Doubtful receivables by sector						
Non-banking corporate sector	547	461	1,008	235	349	32
Financial institutions and insurance companies	0	0	0	0	0	3
Households	1,869	173	2,042	140	92	29
Non-profit organisations	19	6	25	3	4	1
Public-sector entities				0		0
Total	2,435	640	3,076	378	445	64

31 Dec. 2015	Not impaired (gross)	Impaired (gross)	Total	Arrears	Impairments	
					Individually assessed	Collectively assessed
Doubtful receivables						
Receivables from credit institutions						1
Receivables from customers	1,920	620	2,540	386	441	56
Bank guarantee receivables	6	17	23	12	18	0
Finance leases	3		3	0		
Total	1,923	620	2,543	386	441	57
Doubtful receivables by sector						
Non-banking corporate sector	476	471	947	255	358	32
Financial institutions and insurance companies	0	0	0	0	0	2
Households	1,440	143	1,583	128	79	22
Non-profit organisations	7	6	13	3	4	1
Public-sector entities				0		0
Total	1,923	620	2,543	386	441	57

Doubtful receivables

31 Dec. 2016	Performing receivables from credit institutions and customers (gross)	Non-performing receivables from credit institutions and customers (gross)	Receivables from credit institutions and customers (gross)	Receivables from credit institutions and customers (net)	
				Individually assessed	from credit customers (net)
Over 90 days past due		578	578	222	356
Unlikely to be paid		508	508	173	335
Forborne loans	1,711	279	1,990	50	1,940
Total	1,711	1,364	3,076	445	2,631

Doubtful receivables

31 Dec. 2015	Performing receivables from credit institutions and customers (gross)	Non-performing receivables from credit institutions and customers (gross)	Receivables from credit institutions and customers (gross)	Receivables from credit institutions and customers (net)	
				Individually assessed	from credit customers (net)
Over 90 days past due		543	543	223	319
Unlikely to be paid		499	499	175	325
Forborne loans	1,310	191	1,501	43	1,458
Total	1,310	1,233	2,543	441	2,102

The Group reports 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. Agreements with the lowest two borrower grades (F for private customers and 11–12 for other) are reported as default. Forborne loans include receivables that have been modified due to the customer's financial difficulties. The loan terms and conditions of other renegotiated receivables have been eased due to the customer's financial difficulties by means of such as granting a home repayment holiday of 6–12 months.

Key ratio, %	2016	2015
Exposures individually assessed for impairment, % of doubtful receivables	14.5 %	17.3 %

Past due but not impaired financial assets by maturity

	Less than 30 days	30-90 days	90-180 days	Over 180 days.	Total
31 Dec. 2016					
Matured receivables, not impaired	564	312	136	203	1,215
31 Dec. 2015					
Matured receivables, not impaired	561	276	104	191	1,132

Note 60. Loan losses and impairment losses

EUR million	31 Dec. 2012	31 Dec. 2013	31 Dec. 2014	31 Dec. 2015	31 Dec. 2016
Impairment losses on receivables	175	171	181	190	183
Reversal of impairment losses	-60	-72	-87	-88	-99
Payments on eliminated receivables	-14	-15	-13	-15	-15
Net change in impairments of collectively assessed loans and receivables	-2	-1	7	-9	7
Total	99	84	88	78	77

In 2016, loan and guarantee losses and impairment losses accounted for 0.09% (0.10) of the loan and guarantee portfolio.

Note 61. Structure of OP Financial Group funding

EUR million	31 Dec. 2016	%	31 Dec. 2015	%
Liabilities to credit institutions	4,669	4.6	1,673	1.7
Liabilities to customers				
Deposits	54,822	53.9	51,941	54.2
Other	5,255	5.2	6,279	6.5
Debt securities issued to the public				
Certificates of deposit, commercial papers and ECPs	8,033	7.9	6,411	6.7
Bonds	20,253	19.9	21,294	22.2
Other liabilities	4,226	4.2	3,921	4.1
Subordinated liabilities	1,445	1.4	1,590	1.7
Share capital				
Supplementary cooperative capital	77	0.1	106	0.1
Membership capital contributions	166	0.2	154	0.2
Profit shares	2,719	2.7	2,502	2.6
Total	101,665	100.0	95,871	100.0

Note 62. Maturity of financial assets and liabilities by residual maturity

31 Dec. 2016	Less than 3 months	3-12 months	1-5 years	5-10 years	More than 10 years	Total
Financial assets						
Liquid assets	9,441					9,441
Financial assets at fair value through profit or loss						
Notes and bonds	407	63	148	33	2	653
Receivables from credit institutions	142	168	27	0	0	337
Receivables from customers	5,541	7,146	30,378	17,518	18,021	78,604
Investment assets						
Available-for-sale notes and bonds	36	207	8,045	4,742	16	13,047
Held-to-maturity notes and bonds	38	11	20	24	0	92
Total financial assets	15,606	7,594	38,617	22,318	18,039	102,175
Transfer of financial assets held for trading to less-than-3-months category	-407	-63	-148	-33	-2	-653
	653					653
Total financial assets in internal reporting	15,852	7,532	38,469	22,285	18,037	102,175

	Less than 3 months	3-12 months	1-5 years	5-10 years	More than 10 years	Total
Financial liabilities						
Liabilities to credit institutions	1,482	126	3,032	30		4,669
Financial liabilities at fair value through profit or loss						
Liabilities to customers	57,056	1,993	523	158	347	60,077
Debt securities issued to the public	7,991	4,030	10,752	5,155	360	28,287
Subordinated liabilities		40	735	670	0	1,445
Total financial liabilities	66,528	6,188	15,042	6,012	708	94,478
Transfer of private customers' deposit repayable on demand from the less-than-3-months category to the 3-12-months category	-31,030	31,030				
Total financial liabilities in internal reporting	35,498	37,218	15,042	6,012	708	94,478
Guarantees	13	210	449	12	153	836
Other guarantee liabilities	247	521	613	53	487	1,921
Loan commitments	11,049					11,049
Commitments related to short-term trade transactions	77	90	191	0	0	358
Other	536	258	0	170	2	966
Total off-balance-sheet commitments	11,922	1,079	1,252	235	642	15,129
31 Dec. 2015	Less than 3 months	3-12 months	1-5 years	5-10 years	More than 10 years	Total
Financial assets						
Liquid assets	8,581					8,581
Financial assets at fair value through profit or loss						
Notes and bonds	115	20	691	28	4	858
Receivables from credit institutions	181	163	79	0	1	425
Receivables from customers	5,444	7,245	28,328	16,891	17,285	75,192
Investment assets						
Available-for-sale notes and bonds	149	221	6,510	4,414	1	11,295
Held-to-maturity notes and bonds	0	11	71	26	0	108
Total financial assets	14,471	7,661	35,678	21,357	17,292	96,459
Transfer of financial assets at fair value through profit or loss to the less-than-3-months category	-115	-20	-691	-28	-4	-858
	858					858
Total financial assets in internal reporting	15,213	7,641	34,988	21,330	17,288	96,459
Financial liabilities	Less than 3 months	3-12 months	1-5 years	5-10 years	More than 10 years	Total
Liabilities to credit institutions	1,523	93	28	30		1,673
Liabilities to customers	53,938	3,094	653	217	318	58,220
Debt securities issued to the public	6,477	3,142	11,709	6,023	355	27,706
Subordinated liabilities	70	167	505	847	0	1,590
Total financial liabilities	62,007	6,496	12,895	7,118	673	89,188
Transfer of private customers' deposit repayable on demand from the less-than-3-months category to the 3-12-months category	-28,328	28,328				
Total financial liabilities in internal reporting	33,680	34,824	12,895	7,118	673	89,188
Guarantees	19	245	382	16	101	764
Other guarantee liabilities	212	442	503	51	640	1,848
Loan commitments	10,042					10,042
Commitments related to short-term trade transactions	89	74	30	0	0	194
Other	259	1	5	304	19	588
Total off-balance-sheet commitments	10,621	762	921	371	761	13,436

Note 63. Maturities of financial assets and liabilities by maturity or repricing

31 Dec. 2016	1 month or less	>1-3 months	>3-12 months	>1-2 years	>2-5 years	Over 5 years	Total
Financial assets							
Liquid assets	9,441						9,441
Notes and bonds	94	318	70	14	125	33	653
Receivables from credit institutions	138	29	144	22	3	0	337
Receivables from customers	17,591	19,861	36,361	620	2,516	1,656	78,604
Available-for-sale financial assets							
Notes and bonds	606	281	207	1,182	6,068	4,702	13,047
Held-to-maturity financial assets							
Notes and bonds	44	28	11	6	3	1	92
Total financial assets	27,914	20,517	36,793	1,843	8,716	6,392	102,175
Financial liabilities							
Liabilities to credit institutions	1,397	129	126	3,000	17		4,669
Financial liabilities at fair value through profit or loss					0	0	0
Liabilities to customers	55,826	1,689	1,981	215	63	303	60,077
Debt securities issued to the public	3,385	6,187	5,419	2,346	5,980	4,971	28,287
Subordinated liabilities	81	401	42	0	274	647	1,445
Total financial liabilities	60,689	8,405	7,568	5,561	6,334	5,921	94,478
31 Dec. 2015							
Financial assets							
Liquid assets	8,581						8,581
Notes and bonds	110	58	42	103	520	25	858
Receivables from credit institutions	180	60	130	47	7	1	425
Receivables from customers	18,579	20,687	31,879	554	2,186	1,306	75,192
Available-for-sale financial assets							
Notes and bonds	424	402	240	440	5,485	4,304	11,295
Held-to-maturity financial assets							
Notes and bonds	45	38	25		0		108
Total financial assets	27,919	21,246	32,316	1,144	8,198	5,637	96,459
Financial liabilities							
Liabilities to credit institutions	896	685	93				1,673
Financial liabilities at fair value through profit or loss	0						0
Liabilities to customers	51,694	2,823	3,078	320	66	238	58,220
Debt securities issued to the public	2,937	6,367	3,600	3,009	6,180	5,613	27,706
Subordinated liabilities	76	459	181	0	80	794	1,590
Total financial liabilities	55,603	10,333	6,951	3,330	6,326	6,645	89,188

Note 64. Sensitivity analysis of interest rate and market risk
Interest rate risk associated with balance sheet

Currency	-200bp		+200bp	
	2016	2015	2016	2015
EUR	-437	-459	391	345
Other	18	42	18	42

Interest rate risk has been calculated as the volatility of the present value of balance sheet cash flows to the parallel 2 percentage point change of the yield curve. Interest rate risk is subject to monthly calculation.

Sensitivity analysis of market risk

EUR million	Change	
	2016	2015
Interest rate volatility*	10bp	1
Currency volatility*	10 pps	1
Credit risk premium**	10bp	55

* Trading portfolio

** Long-term investment assets (excl. Trading portfolio)

Note 65. Liquidity buffer

The liquidity buffer is presented under the Other Operations segment.

Liquidity buffer by maturity and credit rating on 31 December 2016, EUR million

Year(s)	0-1	1-3	3-5	5-7	7-10	10-	Total	Pro- portion, %
Aaa*	9,435	1,893	3,509	2,409	578		17,826	81.1
Aa1-Aa3	56	488	845	506	850	0	2,746	12.5
A1-A3	14	35	6	0	0		56	0.3
Baa1-Baa3	3	44	82	11	17	1	158	0.7
Ba1 or lower	5	28	14	24	9	16	94	0.4
Internally rated**	524	226	120	148	6	77	1,101	5.0
Total	10,038	2,715	4,576	3,099	1,460	94	21,981	100.0

* incl. deposits with the central bank

** PD <= 0.40%

The liquidity buffer's (excl. deposits with the central bank) residual term to maturity averages 4.3 years.

Liquidity buffer by maturity and credit rating on 31 December 2015, EUR million

Year(s)	0-1	1-3	3-5	5-7	7-10	10-	Total	Pro- portion, %
Aaa*	8,622	1,370	3,573	2,263	980		16,808	69.5
Aa1-Aa3	1	354	668	447	588		2,057	8.5
A1-A3		21	39	2	14	0	76	0.3
Baa1-Baa3	85	13	49	50	13	2	213	0.9
Ba1 or lower		3	29	0	1	0	33	0.1
Internally rated**	906	1,675	1,465	465	276	216	5,003	20.7
Total	9,614	3,435	5,823	3,227	1,871	219	24,189	100.0

* incl. deposits with the central bank

** PD <= 0.40%

The liquidity buffer's (excl. deposits with the central bank) residual term to maturity averages 4.5 years.

Risk exposure of Non-life Insurance

Note 66. Non-life Insurance risk-bearing capacity

Non-life Insurance must fulfil all capital adequacy requirements set by regulatory authorities mainly at company level. Based on EU directives, a minimum solvency margin requirement and a minimum solvency capital requirement apply to all non-life insurance companies.

The ratio of the capital base to solvency capital is described as the solvency ratio that reflects the company's opportunity to cover unexpected risks. The Solvency II figures are unaudited.

	31 Dec. 2016	31 Dec. 2015
Solvency under Solvency II, € Million		
Eligible capital	983	1,105
Solvency capital requirement (SCR)		
Market risk	483	467
Underwriting risk	293	286
Counterparty risk	31	27
Operational risk	43	44
Diversification benefits and loss absorbency	-164	-126
Total	687	698
Buffer for SCR	296	407
SCR ratio, %	143 %	158 %
SCR ratio, % excluding transitional provisions	127 %	139 %

Note 67. Sensitivity analysis

The table below shows the effect of various risk parameters on profit and solvency capital:

Risk parameter	Total in 2016, EUR million	Change in risk parameter	Effect on profit/ solvency, EUR million	Effect on combined ratio
Insurance premium revenue *	1418	Up by 1%	14	Up by 0.9 pps
Claims incurred *	979	Up by 1%	-10	Down by 0.7 pps
Large claim, over EUR 5 million		1 large claim	-5	Down by 0.4 pps
Personnel costs *	100	Up by 8%	-8	Down by 0.6 pps
Expenses by function **	345	Up by 4%	-14	Down by 1.0 pp
Inflation for collective liability	719	Up by 0.25 pps	-5	Down by 0.3 pps
Life expectancy for discounted insurance liabilities	1816	Up 1 year	-43	Down by 3.0 pps
Discount rate for discounted insurance liabilities	1816	Down by 0.1 pp	-23	Down by 1.6 pps

* Moving 12-month

** Expenses by function in Non-life Insurance excluding expenses for investment management and expenses

Note 68. Premiums written and sums insured by class

Premiums written by EML* class in corporate property insurance

The degree of risk in property insurance can be evaluated by dividing risks into classes by their EML* amounts. The table below shows premiums written calculated for each risk class.

EUR million	5–20	20–50	50–100	100–500
2016	13	14	11	11
2015	14	14	11	12

* EML = Estimated Maximum Loss per object of insurance

Division of premiums written by TSI* class in corporate liability insurance

The degree of risk in liability insurance can be evaluated by dividing risks into classes by their TSI* amounts. The table below shows premiums written calculated for each risk class.

EUR million	2–4	4–10	10–30	30–90
2016	3	4	6	2
2015	3	4	6	5

* TSI = Total Sum Insured

Sums insured in decennial insurance

The sum insured of insurance contracts depicts the volume of decennial insurance (construction defects insurance). The gross and net amounts of the sum insured are itemised in the table below. The liability period of decennial insurance is 10 years.

EUR million	Gross		Net*	
	2016	2015	2016	2015
Decennial insurance	2100	2209	2100	2209

* For insurance company's own account after reinsurers' share but before counter guarantee

Note 69. Trend in large claims

Number of detected large claims by year of detection for 2012–2016

Non-life Insurance monitors carefully claims expenditure arising from large claims. The claims expenditure explains a significant part of the annual fluctuation in the underwriting result. In addition, monitoring the claims expenditure arising from large claims helps to detect any changes in risks or risk selection. In this analysis, large claims are those whose gross amount exceeds EUR 2 million. Most large claims occur in property and business interruption insurance. In statutory policies, the risk of large claim is small relative to the large volume of the line of business.

Gross amount

Number of losses exceeding EUR 2 million	Statutory lines	Other accidents and health		Property and business interruption	Liability and legal expenses	Long-term
			Hull and cargo			
2012	3			7	1	
2013	4			6	1	
2014	6			8	1	
2015	1			6		
2016				7		
Total claims, EUR million					175	

Gross amount, total claims, EUR million

2012–2016	31	113	32
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Net amount

Number of losses exceeding EUR 2 million	Statutory lines	Other accidents and health		Property and business interruption	Liability and legal expenses	Long-term
			Hull and cargo			
2012	3			6	1	
2013	4			6	1	
2014	6			7		
2015	1			6		
2016				7		
Total claims, EUR million					132	

Net amount, total claims, EUR million

2012–2016	31	90	11
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Note 70. Insurance profitability

Trends in insurance premium revenue (gross and net) and combined ratio (net)

Insurance premium revenue describes the volume of an insurance class, enabling the evaluation of the importance of the insurance class in relation to the whole portfolio. Similarly, the combined ratio (CR) is used to evaluate fluctuations in the results of the insurance class and the profitability of the class. The combined ratio is presented separately adjusted for one-off items relating to previous insurance periods.

2016, EUR million	Gross IP revenue	Net IP revenue	Net CR*	Net** CR*
Statutory lines	462	460	96 %	96 %
Other accident and health	227	227	84 %	84 %
Hull and cargo	301	300	86 %	86 %
Property and business interruption	380	348	82 %	82 %
Liability and legal expenses	87	81	81 %	81 %
Long-term	4	3	17 %	17 %
Total	1,461	1,418	86 %	86 %

2015, EUR million	Gross IP revenue	Net IP revenue	Net CR*	Net** CR*
Statutory lines	482	480	100 %	100 %
Other accident and health	199	198	83 %	83 %
Hull and cargo	298	295	80 %	80 %
Property and business interruption	374	338	82 %	82 %
Liability and legal expenses	84	77	76 %	76 %
Long-term	9	8	2 %	2 %
Total	1,445	1,396	87 %	87 %

* The combined ratio is calculated by dividing the sum of claims incurred (net) and operating expenses of insurance business by insurance premium revenue (net). Amortisation on intangible rights has not been taken into account.

** One-off changes affecting the balance on technical account have been eliminated.

Note 71. Information on the nature of insurance liabilities

Information on the nature of liabilities	2016	2015
Net insurance contract liabilities (EUR million)		
Latent occupational diseases	17	20
Other	2,913	2,799
Total (before transfers)	2,930	2,819
Duration of debt (years)		
Discounted insurance contract liabilities	13.7	13.2
Undiscounted insurance contract liabilities	2.1	2.1
Total	9.3	9.1
Discounted net debt (EUR million)		
Provision for known unpaid claims for annuities	1,427	1,379
Collective liability (IBNR)	343	328
Provision for unearned premiums	45	61
Total	1,816	1,768

Note 72. Insurance contract liabilities by estimated maturity

31 Dec. 2016, EUR million	0–1 yr	1–5 yrs	5–10 yrs	10–15 yrs	Over 15 yrs	Total
Provision for unearned premiums*	410	118	21	6	10	565
Provision for unpaid claims						
Undiscounted	303	212	57	11	4	587
Discounted	97	447	345	268	612	1,771
Total insurance contract liabilities**	810	777	423	285	626	2,922

* Includes EUR 45 million in discounted liability.

** Excluding the value of derivatives hedging the interest rate risk associated with insurance liabilities.

31 Dec. 2015, EUR million	0–1 yr	1–5 yrs	5–10 yrs	10–15 yrs	Over 15 yrs	Total
Provision for unearned premiums*	400	113	21	6	9	550
Provision for unpaid claims						
Undiscounted	291	203	54	10	4	562
Discounted	97	442	338	259	572	1,707
Total insurance liabilities**	788	757	413	275	585	2,819

* Includes EUR 62 million in discounted liability.

** Excluding the value of derivatives hedging the interest rate risk associated with insurance liabilities.

Note 73. Risk exposure of insurance investments

Allocation of investment portfolio	31 Dec. 2016		31 Dec. 2015	
	Fair value*, EUR million	%	Fair value*, EUR million	%
Money market total	72	2	91	2
Money market instruments and deposits**	66	2	61	2
Derivatives***	5	0	31	1
Total bonds and bond funds	2,969	77	2,825	77
Governments	522	13	580	16
Inflation-linked bonds	45	1	45	1
Investment Grade	1,981	51	1,931	52
Emerging markets and High Yield	330	9	206	6
Structured Investments****	91	2	64	2
Total equities	425	11	374	10
Finland	77	2	67	2
Developed markets	169	4	171	5
Emerging markets	65	2	39	1
Unlisted equities	3	0	3	0
Private equity investments	111	3	127	3
Equity derivatives***			-33	-1
Total alternative investments	33	1	31	1
Hedge funds	33	1	28	1
Commodities			3	0
Convertible bonds				
Total property investment	378	10	366	10
Direct property investment	208	5	214	6
Indirect property investment	170	4	151	4
Total	3,876	100	3,687	100

* Includes accrued interest income

** Includes settlement receivables and liabilities and market value of derivatives

*** Effect of derivatives on the allocation of the asset class (delta-weighted equivalents)

**** Include covered bonds, loan funds and illiquid bonds

Note 74. Sensitivity analysis of investment risks

The table below shows the sensitivity of investment risks by investment category. The discount rate sensitivity analysis related to the calculation of insurance liabilities is presented in Note 67 dealing with insurance liabilities. Effects of changes in investment and insurance liabilities offset one another.

Non-life Insurance	Portfolio at fair value, 31 Dec. 2016, EUR million	Risk parameter	Change	Effect on solvency capital, EUR million	
				31 Dec. 2016	31 Dec. 2015
Bonds and bond funds*	2,859	Interest rate	1 pp	150	146
Equities**	458	Market value	10 %	46	27
Venture capital funds and unlisted shares	114	Market value	10 %	11	13
Commodities	0	Market value	10 %	0	0
Real property	378	Market value	10 %	38	37
Currency	112	Value of currency	10 %	11	32
Credit risk premium***	2,620	Credit spread	0.1 pp	15	14
Derivatives		Volatility	10 pps	0	1

* Include money market investments, convertible bonds and interest-rate derivatives

** Include hedge funds and equity derivatives

*** Includes bonds and convertible bonds and money-market investments, excluding government bonds issued by developed countries

Note 75. Interest-rate risk

The market risk arising from changes in interest rates is monitored by classifying investments by instrument, in accordance with duration. The table below does not indicate the balancing effect which the insurance contract liabilities have on the interest-rate risk, because only some of the insurance contract liabilities have been discounted using an administrative interest rate (Note 32).

Fair value by duration or repricing date*, EUR million	31 Dec. 2016	31 Dec. 2015
0-1 year	199	158
>1-3 years	513	411
>3-5 years	909	948
>5-7 years	552	746
>7-10 years	434	246
>10 years	299	292
Total	2,906	2,800
Modified duration	5.4	5.2
Effective interest rate, %	1.7	1.5

* Includes money market investments and deposits, bonds, convertible bonds and bond funds

Fixed-income portfolio by maturity and credit rating on 31 Dec 2016, EUR million

Year(s)	0-1	1-3	3-5	5-7	7-10	10-	Total	Proportion, %
Aaa	22	15	220	140	189	192	778	26.8 %
Aa1-Aa3	56	54	115	51	56	40	372	12.8 %
A1-A3	62	152	179	146	76	39	654	22.5 %
Baa1-Baa3	20	206	306	181	104	27	844	29.0 %
Ba1 or lower	37	83	85	29	9	1	244	8.4 %
Internally rated	1	4	5	4		0	14	0.5 %
Total	199	513	909	552	434	299	2,906	100.0 %

Fixed-income portfolio by maturity and credit rating on 31 Dec 2015, EUR million

Year(s)	0-1	1-3	3-5	5-7	7-10	10-	Total	Proportion, %
Aaa	13	41	277	140	84	201	756	27.0 %
Aa1-Aa3	52	39	78	118	23	21	331	11.8 %
A1-A3	24	124	265	150	70	39	671	24.0 %
Baa1-Baa3	25	139	282	312	59	19	836	29.9 %
Ba1 or lower	43	68	32	26	9	4	181	6.5 %
Internally rated	1	0	15			7	24	0.9 %
Total	158	411	948	746	246	292	2,800	100.0 %

* Excludes credit derivatives.

The maturity is presented until the end of the term to maturity. If the paper includes a call option, the maturity is presented until the first possible Call date.

The average credit rating of the Non-life Insurance fixed-income portfolio is Moody's A3.

The term to maturity of the Non-life Insurance fixed-income portfolio averages 5.9 years (calculated on the basis of the Call date and the maturity date).

Note 76. Currency risk

Foreign currency exposure, EUR million	31 Dec. 2016	31 Dec. 2015
USD	46	121
SEK	2	55
JPY	0	17
GBP	48	78
Other	16	51
Total*	112	322

* The currency exposure was 2.9% (8.7%) of the investment portfolio. It is calculated as the sum total of individual currencies' intrinsic values.

Note 77. Counterparty risk

Credit rating, consistent with Moody's, EUR million	31 Dec. 2016		31 Dec. 2015	
	Investment*	Insurance**	Investment*	Insurance**
Aaa	778		756	
Aa1–Aa3	372	20	331	18
A1–A3	654	25	671	34
Baa1–Baa3	844	0	836	0
Ba1 or lower	244		181	
Internal rating	14	34	24	47
Total	2,906	79	2,800	99

* Includes money market investments, deposits and bonds and bond funds.

** Includes the reinsurers' share of insurance contract liabilities, and receivables from reinsurers.

Risk exposure by Wealth Management

The Wealth Management segment provides products and services in the field of insurance saving, personal risk insurance, mutual funds and discretionary and advisory mandates. The Group's life insurance, investment management and mutual fund businesses are included in the Wealth Management segment.

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 the faster-than-expected life expectancy increase.

Note 78. Assets managed by Wealth Management

Assets managed by Wealth Management totalled EUR 74.5 billion (68.5) on 31 December 2015. Of the assets under management, mutual funds accounted for EUR 23.5 billion (21.7), unit-linked life policies for EUR 9.2 billion (8.7), institutional clients for EUR 24.6 billion (23.5) and private banking clients for EUR 17.3 billion (14.6).

Note 79. Information on the nature of insurance liabilities and their sensitivity analysis

Risk-bearing capacity of Life Insurance based on statutory indicators

Life insurance companies must fulfil the solvency requirements prescribed by law in force. The minimum capital and solvency requirements in compliance with Solvency II are the key requirements to be monitored.

On 31 December 2016, the life insurance company's capital totalled EUR 1 455 million, including transitional provisions, and EUR 1 135 million, excluding transitional provisions. On 31 December 2015, the life insurance company's capital totalled EUR 1 419 million, including transitional provisions, and EUR 1 078 million, excluding transitional provisions. The solvency capital requirement was EUR 742 million (692) and the minimum capital requirement EUR 197 million (173), including transitional provisions, and EUR 763 million (722) and EUR 202 million (180), respectively, excluding transitional provisions.

The life insurance risk-bearing capacity is measured using the solvency ratio, which means the ratio of the capital base to solvency capital. Based on the Group's strategic indicators, the target for the solvency ratio is 130%, excluding transitional provisions. The Solvency II figures are unaudited.

Solvency under Solvency II, EUR million	31 Dec. 2016	31 Dec. 2015
Eligible capital	1,455	1,419
Solvency capital requirement (SCR)		
Market risk	996	669
Underwriting risk	405	432
Counterparty risk	27	27
Operational risk	25	20
Diversification benefits and loss absorbency	-711	-456
Total	742	692
Buffer for SCR	713	1,419
SCR ratio, %	196 %	205 %
SCR ratio, % excluding transitional provisions	149 %	149 %

Portfolio of insurance and investment contracts in Life Insurance 31 Dec. 2016

	Liability, 31 Dec. 2016, EUR million	Number of insureds or contracts	Duration on yield curve, 31 Dec. 2016
Unit-linked contracts	9,166	351,453	12.8
Unit-linked insurance contracts	7,766	300,565	13.6
Life Insurance/Savings	6,375	167,858	12.5
Individual pension insurance	1,280	124,613	18.6
Group pension insurance	111	8,094	20.8
Unit-linked investment contracts	1,400	50,888	8.6
Pension contracts	1,084	49,349	8.6
Capital redemption contracts	316	1,539	8.4
Other than unit-linked contracts	7,618	590,260	11.0
Insurance contracts discounted with technical interest rate	7,500	590,243	11.0
Life Insurance/Savings	1,804	85,114	9.7
Rate of guaranteed interest 4.5%	58	1,000	9.0
Rate of guaranteed interest 3.5%	479	11,746	11.7
Rate of guaranteed interest 2.5%	199	10,868	8.3
Rate of guaranteed interest 1.5%	2	138	9.9
Rate of guaranteed interest 4.5% (Separate balance sheet)	1,066	61,362	9.1
Individual pension insurance	4,119	88,673	8.9
Rate of guaranteed interest 4.5%	309	8,156	6.3
Rate of guaranteed interest 3.5%	500	20,735	9.3
Rate of guaranteed interest 2.5%	264	22,580	17.8
Rate of guaranteed interest 1.5%	1	102	8.4
Rate of guaranteed interest 4.5% (Separate balance sheet)	3,045	37,100	8.3
Group pension insurance	1,385	35,253	19.1
Defined benefit 3.5%	1,133	26,837	19.2
Defined benefit 2.5%	115	2,876	19.1
Defined benefit 0.5%	69	1,728	22.6
Defined benefit 1.5%	11	276	20.0
Defined contribution 3.5%	5	73	11.9
Defined contribution 2.5%	46	3,148	13.1
Defined contribution 1.5%	5	293	20.0
Defined contribution 0.5%	0	22	20.8
Individual risk life insurance	182	375,609	4.8
Group life insurance	10	5,594	1.0
Other than unit-linked investment contracts discounted with technical interest rate	3	17	3.8
Capital redemption contracts	3	17	3.8
Rate of guaranteed interest 2.5%	3	15	3.7
Rate of guaranteed interest 1.5%	0	2	8.6
Effect of discounting with market interest rate	42		
Other insurance liability items	72		
Total	16,783	941,713	12.0

Portfolio of insurance and investment contracts in Life Insurance 31 Dec. 2015

	Liability, 31 Dec. 2015, EUR million	Number of insureds or contracts	Duration on yield curve, 31 Dec. 2015
Unit-linked contracts	8,631	366,915	12.0
Unit-linked insurance contracts	7,053	297,956	12.7
Life Insurance/Savings	5,765	163,747	12.5
Individual pension insurance	1,195	126,584	12.4
Group pension insurance	93	7,625	29.0
Unit-linked investment contracts	1,578	68,959	8.8
Pension contracts	1,328	67,576	9.0
Capital redemption contracts	251	1,383	8.1
Other than unit-linked contracts	4,822	577,556	12.6
Insurance contracts discounted with technical interest rate	4,750	577,537	12.6
Life Insurance/Savings	2,089	102,744	10.6
Rate of guaranteed interest 4.5%	66	1,318	9.0
Rate of guaranteed interest 3.5%	539	13,458	11.9
Rate of guaranteed interest 2.5%	226	12,343	7.7
Rate of guaranteed interest 1.5%	2	167	10.0
Rate of guaranteed interest 4.5% (Separate balance sheet)	1,256	75,458	9.5
Individual pension insurance	1,084	54,281	10.9
Rate of guaranteed interest 4.5%	317	8,774	6.8
Rate of guaranteed interest 3.5%	506	21,969	9.6
Rate of guaranteed interest 2.5%	259	23,437	18.2
Rate of guaranteed interest 1.5%	1	102	7.7
Group pension insurance	1,374	34,635	15.9
Defined benefit 3.5%	1,178	27,523	15.5
Defined benefit 2.5%	114	2,784	14.0
Defined benefit 1.5%	33	803	31.1
Defined contribution 3.5%	5	74	18.5
Defined contribution 2.5%	39	3,172	23.2
Defined contribution 1.5%	5	279	26.6
Individual risk life insurance	192	379,717	4.3
Group life insurance	11	6,160	0.9
Other than unit-linked investment contracts discounted with technical interest rate	6	19	1.8
Capital redemption contracts	6	19	1.8
Rate of guaranteed interest 2.5%	6	17	1.6
Rate of guaranteed interest 1.5%	0	2	9.0
Effect of discounting with market interest rate	4		
Other insurance liability items	63		0.5
Total	13,453	944,471	12.0

Sensitivity of life insurance liabilities to changes in calculation principles

Since savings and single-premium savings policies have been sold in plenty as long-term contracts, policyholders may terminate their contracts by surrendering the policies according to their needs before the date of expiry under the contract. For this reason, the number of surrenders is large. The company takes account of the resulting loss of surpluses or deficits when calculating the life insurance solvency position.

The risk of surrender for individual pension plans is very small, since by law this can only be done in specific cases such as divorce and long-term unemployment. The accumulated surrender value of insurance is paid back to the policyholder upon surrender.

The beginning of pension disbursement under individual pension insurance is postponed. Often, when taking out a pension, policyholders do not have a realistic view of when they will actually retire. Tax laws have also changed over the decades, allowing people to claim their individual pensions later.

Pension insurance companies' mortality data show that the life expectancy figures based on technical bases are too low. However, the mortality risk and longevity risk of individual pensions offset each other, to the point that there is no need for a mortality supplement despite the rise in life expectancy. On the other hand, in group pension insurance, the longevity risk is higher than the mortality risk, and the liabilities have therefore had to be supplemented. If the mortality assumption is modified, by increasing the life expectancy of policyholders by one year on average, the liabilities will grow by EUR 25 million (24).

Since in savings insurance and investment insurance, the mortality and longevity risks almost offset each other, no mortality supplement has been needed.

The company has complied with the FAS in establishing insurance liabilities, with the exception that the company has moved closer to a real-time interest rate in the discount rate. The company has insurance contract savings at its own risk with guaranteed interest rate ranging between 1.5% and 4.5%. The insurance liability of the contracts with a technical interest rate of 4.5% has been permanently supplemented in such a way that the discount rate of the insurance liability is 3.5% (excl. insurance assets transferred from Suomi Mutual that are included in the balance sheets separated from OP Life Assurance Ltd's balance sheet). In addition, insurance liabilities of contracts with guaranteed interest have been supplemented with supplementary short-term interest rate provisions until 30 September 2017 and income recognised on the sale of fixed-income investments hedging sold insurance liabilities has been allocated to insurance liabilities as supplementary interest rate provisions for the residual term to maturity of fixed-income investments. Following the supplementary interest rate provisions, the company's discount rate based on technical interest is 0% until 30 September 2017, 2.1% for the following ten years and 3.1% thenceforth. The company has used fixed-income investments to hedge against some of the interest rate risk that exists between the market and discount rate. Since the benefit deriving from fixed-income investments are used for guaranteed benefits involved in insurance and capital redemption contracts, their liability is increased to the amount of the fixed-income investments under the national financial accounts by EUR 42 million (4).

In financial statements based on national regulation, lowering the discount rate by 0.1 percentage point would increase the technical provisions by EUR 27 million (28).

On 31 December 2015, insurance liabilities transferred from Suomi Mutual to OP Life Assurance Company through a portfolio transfer. At that time, a balance sheet separated from the company's balance sheet was created out of the transferred endowment policies. The individual pension insurance portfolio of Suomi Mutual was consolidated into OP Life Assurance Company Ltd on 30 September 2016. During the portfolio transfer, EUR 3.0 billion in assets and insurance liability measured at fair value transferred from Suomi Mutual. A separated balance sheet was also created out of this portfolio. The separated balance sheets apply their own profit distribution policy specified in the portfolio transfer plans. The separate balance sheets also include liabilities of future supplementary benefits that buffer market and customer behaviour risk associated with the separated balance sheets.

The liability of unit-linked policies is measured at the market values of assets associated with the policies on the balance sheet date.

Investment contracts come in two types: OP Life Assurance Company Ltd's investment contracts are capital redemption contracts and Aurum Investment Insurance Ltd's pension contracts. Some capital redemption contracts include entitlement to a discretionary participation feature and they are measured in the same way as insurance contracts as specified in the Insurance Contracts standard (IFRS4). Some exclude this entitlement and they are measured and classified as contracts recognised at fair value through profit or loss, in accordance with IAS 39. All pension insurance contracts issued by Aurum Investment Insurance Ltd are measured in compliance with IAS 39.

Note 80. Expected maturity of life insurance and investment contracts

31 Dec. 2016, EUR million	Duration						
	2017-2018	2019-2020	2021-2025	2026-2030	2031-2035	2036-2040	2041-
Unit-linked contracts	-797	-861	-1,896	-1,576	-1,146	-825	-1,366
Insurance contracts	-570	-630	-1,520	-1,267	-972	-739	-1,332
Life Insurance/Savings	-627	-618	-1,355	-1,068	-797	-606	-1,072
Individual pension insurance	43	-12	-137	-163	-148	-110	-207
Group pension insurance	13	0	-28	-36	-26	-23	-53
Investment contracts	-227	-231	-376	-309	-173	-86	-34
Pension contracts	-171	-180	-300	-219	-136	-67	-34
Capital redemption contracts	-55	-51	-76	-90	-38	-19	0
Other than unit-linked contracts	-1,085	-1,112	-2,312	-1,525	-950	-564	-959
Insurance contracts	-952	-1,022	-2,158	-1,484	-937	-561	-958
Life Insurance/Savings	-136	-120	-235	-158	-107	-71	-122
Rate of guaranteed interest 4.5%	-17	-7	-15	-14	-9	-4	-4
Rate of guaranteed interest 3.5%	-76	-77	-150	-111	-81	-57	-101
Rate of guaranteed interest 2.5%	-43	-36	-69	-33	-17	-10	-16
Rate of guaranteed interest 1.5%	0	0	-1	0	0	0	0
Rate of guaranteed interest 4.5% (Separate balance sheet)	-109	-105	-252	-263	-179	-36	-15
Individual pension insurance	-68	-203	-428	-202	-108	-90	-166
Rate of guaranteed interest 4.5%	-33	-80	-153	-44	-12	-2	-1
Rate of guaranteed interest 3.5%	-33	-98	-214	-102	-65	-33	-30
Rate of guaranteed interest 2.5%	-2	-24	-60	-56	-31	-56	-135
Rate of guaranteed interest 1.5%	0	0	0	0	0	0	0
Rate of guaranteed interest 4.5% (Separate balance sheet)	-497	-464	-895	-544	-276	-137	-180
Group pension insurance	-94	-103	-313	-305	-264	-227	-476
Defined benefit 3.5%	-1	-1	-2	-1	-1	-1	-5
Defined benefit 2.5%	3	-1	-13	-14	-17	-11	-22
Defined benefit 1.5%	1	0	-1	-1	-2	-2	-3
Defined benefit 0.5%	0	0	0	0	0	0	0
Defined contribution 3.5%	-164	-149	-324	-244	-184	-135	-209
Defined contribution 2.5%	-16	-13	-27	-19	-15	-13	-28
Defined contribution 1.5%	83	61	54	-26	-45	-65	-208
Defined contribution 0.5%	0	0	0	0	0	0	0
Individual pure risk insurance	-37	-27	-36	-12	-3	0	0
Group life insurance	-11	0	0	0	0	0	0
Investment contracts	-1	-1	-2	0	0	0	0
Capital redemption contracts	-1	-1	-2	0	0	0	0
Rate of guaranteed interest 2.5%	-1	-1	-2	0	0	0	0
Rate of guaranteed interest 1.5%	0	0	0	0	0	0	0
Liability for bonus reserves	-4	-2	0	0	0	0	0
Reserve for decreased discount rate	-128	-87	-152	-41	-13	-3	-1
Other items in insurance liabilities	0	0	0	0	0	0	0
Total	-1,882	-1,973	-4,208	-3,101	-2,096	-1,389	-2,325

31 Dec. 2015 EUR million	Duration						
	2016-2017	2018-2019	2020-2024	2025-2029	2030-2034	2035-2039	2040-
Unit-linked contracts	-847	-910	-2,172	-1,860	-1,456	-1,014	-1,643
Insurance contracts	-631	-666	-1,710	-1,508	-1,178	-897	-1,576
Life Insurance/Savings	-562	-502	-1,199	-1,002	-768	-616	-1,222
Individual pension insurance	-92	-178	-499	-476	-381	-253	-292
Group pension insurance	23	14	-13	-30	-30	-28	-63
Investment contracts	-216	-244	-462	-352	-277	-117	-66
Pension contracts	-175	-206	-377	-305	-202	-112	-66
Capital redemption contracts	-41	-37	-85	-47	-75	-6	0
Other than unit-linked contracts	-583	-522	-1,423	-986	-742	-478	-957
Insurance contracts	-441	-447	-1,293	-941	-726	-475	-956
Life Insurance/Savings	-154	-141	-297	-188	-137	-90	-181
Rate of guaranteed interest 4.5%	-16	-16	-18	-15	-13	-5	-9
Rate of guaranteed interest 3.5%	-80	-80	-194	-124	-102	-72	-152
Rate of guaranteed interest 2.5%	-57	-45	-84	-48	-22	-13	-20
Rate of guaranteed interest 1.5%	0	0	-1	0	0	0	0
Rate of guaranteed interest 4.5% (Separate balance sheet)	-77	-70	-173	-178	-140	-44	-18
Individual pension insurance	-67	-120	-484	-231	-146	-86	-182
Rate of guaranteed interest 4.5%	-27	-58	-175	-63	-20	-5	-1
Rate of guaranteed interest 3.5%	-31	-59	-231	-126	-76	-39	-38
Rate of guaranteed interest 2.5%	-9	-4	-77	-41	-50	-42	-142
Rate of guaranteed interest 1.5%	0	0	-1	0	0	0	0
Group pension insurance	-93	-92	-309	-334	-298	-255	-575
Defined benefit 3.5%	-97	-93	-290	-307	-270	-229	-510
Defined benefit 2.5%	-5	-4	-9	-7	-5	-5	-14
Defined benefit 1.5%	4	2	-2	-5	-5	-5	-17
Defined contribution 3.5%	0	-1	-2	-1	-1	-1	-5
Defined contribution 2.5%	5	3	-5	-13	-17	-14	-25
Defined contribution 1.5%	1	0	-1	0	-1	-2	-4
Individual pure risk insurance	-38	-23	-30	-11	-4	-1	0
Group life insurance	-12	-1	0	0	0	0	0
Investment contracts	-8	0	-2	0	0	0	0
Capital redemption contracts	-8	0	-2	0	0	0	0
Rate of guaranteed interest 3.5%	0	0	0	0	0	0	0
Rate of guaranteed interest 2.5%	-8	0	-2	0	0	0	0
Rate of guaranteed interest 1.5%	0	0	0	0	0	0	0
Liability for bonus reserves	0	0	0	0	0	0	0
Reserve for decreased discount rate	-134	-74	-129	-45	-16	-3	-1
Other items in insurance liabilities	60	0	0	0	0	0	0
Total	-1,371	-1,432	-3,595	-2,847	-2,197	-1,492	-2,600

Note 81. Life Insurance profitability

EUR million	2016			2015		
	Risk income	Claims incurred	Claim ratio	Risk income	Claims incurred	Claim ratio
Life insurance	393	371	94 %	360	353	98 %
Pure risk insurance	36	14	38 %	32	14	42 %
Insurance saving	357	357	100 %	328	339	103 %
Pension insurance	40	40	101 %	36	37	103 %
Defined benefit	24	25	103 %	21	22	104 %
Defined contribution	16	16	99 %	15	15	101 %
OP Life Assurance Company	432	411	95 %	396	390	98 %

The defined-benefit group pension includes the longevity provision of EUR 3.1 million in 2015 and EUR 3.7 million in 2016.

Note 82. Life Insurance asset allocation

	31 Dec. 2016		31 Dec. 2015	
	Fair value, EUR million	%	Fair value, EUR million	%
Allocation of investment assets				
Fixed-income investments*				
Bonds	2,942	72 %	2,838	70 %
Other money market instruments****	131	3 %	65	2 %
Mutual funds	238	6 %	352	9 %
Shares and participations				
Equities and mutual funds****	258	6 %	222	6 %
Alternative investments**	237	6 %	274	7 %
Properties***	294	7 %	281	7 %
Total	4,100	100 %	4,032	100 %

* Include accrued interest and notes and bonds reclassified into loans and receivables within financial assets. Exclude interest rate derivatives used to hedge interest rate risk associated with insurance liabilities.

** Incl. investments in hedge funds and private equity investments

*** Only direct investments in properties

**** Incl. effect of equity futures

Separated balance sheets have been created out of the life insurance and pension insurance portfolios transferred from Suomi Mutual, which apply a profit distribution policy differing from other life insurance operations. The tables of Notes 82–85 exclude the separated balance sheets' investments.

Note 83. Life Insurance investment sensitivity analysis

31 Dec. 2016	Portfolio at fair		Change	Effect on equity capital, EUR million	
	value, EUR million	Risk parameter		31 Dec. 2016	31 Dec. 2015
Bonds and bond funds	3,133	Interest rate	1 pp	155	144
Shares and alternatives	665	Market value	10 per cent	66	50
Properties	364	Market value	10 per cent	36	28

Note 84. Risk exposure of Life Insurance investments in fixed-income securities

Fair value by duration or repricing date, EUR million	31 Dec. 2016	31 Dec. 2015
0-1 year	316	238
>1-5 years	1,550	1,658
>5-10 years	1,111	1,031
>10-20 years	167	209
>20 years	104	88
Total	3,248	3,225
Modified duration	4.9	4.7
Average interest rate, %	1.4	1.3

Fixed-income portfolio by maturity and credit rating on 31 Dec 2016, EUR million

Year(s)	0-1	1-3	3-5	5-7	7-10	10-	Total	Proportion
Aaa	-8	170	171	117	228	172	850	26.2 %
Aa1-Aa3	112	57	87	52	75	21	404	12.4 %
A1-A3	59	143	261	132	115	39	749	23.1 %
Baa1-Baa3	82	242	300	191	150	37	1,003	30.9 %
Ba1 or lower	27	91	23	24	19	2	185	5.7 %
Internally rated	43	14	-9	8	0	0	56	1.7 %
Total	316	717	833	523	587	271	3,248	100.0 %

Fixed-income portfolio by maturity and credit rating on 31 Dec 2015, EUR million

Year(s)	0-1	1-3	3-5	5-7	7-10	10-	Total	Proportion
Aaa	16	125	370	117	50	176	853	26.5 %
Aa1-Aa3	75	45	68	135	19	42	384	11.9 %
A1-A3	16	131	301	236	114	26	825	25.6 %
Baa1-Baa3	78	220	282	221	115	42	958	29.7 %
Ba1 or lower	47	61	45	15	9	1	177	5.5 %
Internally rated	6	5	6	2	0	9	27	0.8 %
Total	238	587	1,071	725	307	297	3,225	100.0 %

The maturity is presented until the end of the term to maturity. If the paper includes a call option, the maturity is presented until the first possible Call date.

The average credit rating of a Life Insurance portfolio by Moody's is A2.

The average residual term to maturity of a Life Insurance fixed-income portfolio is 5.5 years (calculated on the basis of the Call date and maturity date).

Note 85. Currency risk associated with Life Insurance investments

Foreign currency exposure, EUR million	31 Dec. 2016	31 Dec. 2015
USD	70	58
SEK	2	2
JPY	0	0
GBP	47	31
Other	60	57
Total*	178	148

* Total net currency exposure

The currency exposure was 4.3% (3.7) of the investment portfolio.

Pillar III disclosures

Notes 86-108 disclose information on the capital adequacy of the consolidated group of the amalgamation of member cooperative banks, as specified in Part Eight of the Capital Requirements Regulation of the European Parliament and of the Council (Pillar III disclosures). Given that this information is based on the consolidated capital adequacy on the amalgamation of member cooperative banks, it is not directly comparable with information disclosed on OP Financial Group.

The amalgamation of the member cooperative banks consists of the amalgamation's central cooperative (OP Cooperative), the central cooperative's member credit institutions and the companies belonging to their consolidation groups. Although OP Financial Group's insurance companies do not belong to the amalgamation of the cooperative banks, investments made in them have a major impact on capital adequacy calculated in accordance with the capital adequacy regulations for credit institutions. More detailed information on companies within the consolidation group can be found in Notes 24 and 51.

OP Financial Group's risk management practices and goals can be found in Notes 2 and 55. OP Financial Group's Corporate Governance and steering systems are available on websites covering respective issues (op.fi > OP Financial Group > Corporate Governance).

A description of remuneration schemes and practices can be found in Note 53 and on websites related to OP Financial Group's remuneration (op.fi > Corporate Governance > Remuneration).

OP Financial Group has applied the Internal Ratings Based Approach (IRBA) to retail, credit institution and corporate exposures and equity investments. The Standardised Approach (SA) is used for other exposure categories. The Standardised Approach is used for OP Card Company's and new member cooperative banks' exposures; the aim is to adopt IRBA for the company's exposures in 2017. The new member cooperative banks aim to adopt IRBA after the supervisor has approved extended use of IRBA.

Note 86. Capital base

The Group has presented its capital base and capital adequacy in accordance with the EU capital requirement regulation and directive (EU 575/2013) (CRR).

EUR million	31 Dec. 2016	31 Dec. 2015
OP Financial Group's equity capital	10,237	9,324
The effect of insurance companies on the Group's shareholders' equity is excluded	-168	-200
Fair value reserve, cash flow hedge	-41	-69
Supplementary cooperative capital to which transition provision applies	77	143
Common Equity Tier 1 (CET1) before deductions	10,105	9,197
Intangible assets	-620	-518
Excess funding of pension liability and valuation adjustments	-64	-131
Repayable cooperative capital	-156	
Expected profit distribution	-83	-66
Impairments – shortfall of expected losses	-309	-306
Common Equity Tier 1 (CET1)	8,872	8,176
Hybrid capital to which transitional provision is applied	81	141
Additional Tier 1 capital (AT1)	81	141
Tier 1 capital (T1)	8,954	8,316
Debenture loans	1,239	1,253
Tier 2 capital (T2)	1,239	1,253
Total capital base	10,192	9,569

The Group's CET1 capital was EUR 8.9 billion (8.2) on 31 December 2016. CET1 capital was increased by Banking performance, Profit Share issues and dividends from the Group's insurance institutions. Adjustments under IAS 19 reduced CET1 capital. The amount of Profit Shares in CET1 capital increased to EUR 2.6 billion, from which EUR 0.2 billion has been deducted related to Profit Shares refunded to customers in January 2017.

A prudent valuation adjustment of EUR 36 (69) million has been deducted from CET1 capital.

OP Financial Group has applied transitional provisions regarding old capital instruments to supplementary cooperative capital and subordinated loans. In June 2016, the Group redeemed a subordinated loan of JPY10 billion of which EUR 52 million were included in the capital base on 31 December 2015.

Note 87. Minimum capital requirement

OP Financial Group has used the Foundation Internal Ratings Based Approach (FIRBA) to measure capital requirement for corporate and credit institution exposures. This approach uses internal credit ratings to determine a customer's probability of default (PD), whereas loss given default (LDG) and credit conversion factor (CF) are regulatory standard estimates. The Group has used the Internal Ratings Based Approach (IRBA) to measure capital requirement for retail exposures. This approach uses internal credit ratings to determine a customer's PD, LGD and CF are estimated internally.

It is possible to use various methods to measure capital adequacy requirement for equity investments. In the PD/LGD method, investments' risk-weighted exposure is calculated using PD, based on internal credit rating, and a regulatory standard LGD. According to the Simple Risk Weight Approach, investments' risk-weighted exposure amount derives from multiplying each investment by the risk-weight determined by the type of investment.

OP Financial Group has used the Standardised Approach to measure capital requirement for operational risks and market risks.

EUR million	31 Dec. 2016		31 Dec. 2015	
	Capital requirement*	Risk weighted assets	Capital requirement*	Risk weighted assets
Credit and counterparty risk	3,108	38,853	2,916	36,445
Standardised Approach	259	3,233	242	3,026
Exposures to central government and central banks	1	7	0	5
Exposures to regional government or local authorities	1	15	0	6
Exposures to public sector entities	1	17	1	17
Exposures to multilateral development banks				
Exposures to international organisations				
Exposures to institutions	3	36	2	29
Exposures to corporates	127	1,593	134	1,680
Retail exposures	83	1,039	73	910
Exposures secured by mortgages on immovable property	18	219	13	158
Exposures in default	2	22	2	19
Exposures associated with particularly high risk			0	1
Exposures in the form of covered bonds			0	0
Exposures in the form of units or shares in collective investment undertakings (CIU)			5	60
Equity exposures			1	11
Other items	23	285	11	132
Internal Ratings-based Approach (IRB)	2,850	35,620	2,673	33,418
Exposures to central government and central banks				
Exposures to institutions	91	1,143	92	1,149
Exposures to corporates	1,673	20,913	1,567	19,587
Retail exposures	376	4,698	318	3,976
Exposures secured by mortgages on immovable property	245	3,065	199	2,493
Other retail exposures	131	1,633	119	1,483
Qualifying revolving retail exposures				
Equity investments	608	7,605	593	7,412
PD/LGD method	517	6,458	522	6,525
Simple Risk Weight Approach	92	1,148	71	887
Private equity investments	6	76	6	78
Listed investments	7	84	7	89
Other	79	988	58	720
Securitisation exposures	5	63	4	46
Other non-credit obligations	96	1,198	100	1,247
Clearing/settlement risk	0	0	0	0
Market risk (Standardised Approach)	106	1,329	117	1,464
Notes and bonds	105	1,309	113	1,412
Equities	1	14	1	10
Foreign currency			1	14
Commodities	0	6	2	27
Operational risk	293	3,666	282	3,521
Risk associated with exposure value adjustment	20	253	32	394
Risk exposure amount	3,528	44,101	3,346	41,824

* Capital requirement = Risk-weighted assets * 0.08

On 31 December 2016, the risk exposure amount (REA) totalled EUR 44.1 billion (41.8), or 5.4% higher than on 31 December 2015. The average risk weights of corporate exposures remained virtually unchanged while the average risk weights of retail exposures rose slightly as a result of model updates.

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

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

Capital requirement for counterparty risk amounts to EUR 54 million (EUR 53 million).

Note 88. Capital ratios

Ratios, %	31 Dec.	31 Dec.
	2016	2015
CET1 ratio	20.1	19.5
Tier 1 ratio	20.3	19.9
Capital adequacy ratio	23.1	22.9
Ratios, fully loaded, %	31 Dec.	31 Dec.
	2016	2015
CET1 ratio	19.9	19.2
Tier 1 ratio	19.9	19.2
Capital adequacy ratio	22.8	22.2

Capital requirement, EUR million	31 Dec. 2016	31 Dec. 2015
Capital base	10,192	9,569
Capital requirement with buffers	5,520	4,394
Buffer for capital requirements	4,673	5,175

The capital requirement of 12.5% comprises the minimum requirement of 8%, the capital conservation buffer of 2.5%, the O-SII buffer of 2.0% and the institution-specific capital conservation buffer for foreign exposures. The O-SII capital buffer has been in force since 1 January 2016.

Note 89. Total exposures by exposure class

31 Dec. 2016, EUR million	On-balance- sheet exposures	Off-balance- sheet exposures	Derivatives exposures	Gross exposures	Average exposure during the year
Standardised Approach	19,658	3,387	829	23,874	23,721
Exposures to central government and central banks	11,762	187	266	12,215	11,893
Exposures to regional government or local authorities	2,503	666	354	3,524	3,304
Exposures to public sector entities	242	160		402	401
Exposures to multilateral development banks	656		182	838	1,047
Exposures to international organisations	764			764	735
Exposures to institutions	157	21		178	317
Exposures to corporates	1,503	325		1,828	1,890
Retail exposures	1,402	2,008	0	3,409	3,457
Exposures secured by mortgages on immovable property	520	21	27	568	513
Exposures in default	15			15	15
Exposures in the form of units or shares in collective investment undertakings (CIU)					39
Equity exposures					6
Other items	133			133	105
Internal Ratings-based Approach	87,064	16,872	1,522	105,458	102,750
Exposures to institutions	6,462	786	845	8,094	7,735
Exposures to corporates	27,339	13,522	676	41,538	40,306
Retail exposures	48,831	2,552	0	51,383	50,383
Exposures secured by mortgages on immovable property	44,087	1,016		45,103	44,386
Other retail exposures	4,744	1,536	0	6,281	5,997
Equity investments	2,637	11		2,649	2,626
Securitisation exposures	597			597	477
Other non-credit obligations	1,198			1,198	1,222
Total	106,722	20,259	2,351	129,332	126,471

31 Dec. 2015, EUR million	On-balance- sheet exposures	Off-balance- sheet exposures	Derivatives exposures	Gross exposures	Average exposure during the year
Standardised Approach	18,208	4,658	703	23,569	18,652
Exposures to central government and central banks	10,182	1,122	266	11,570	8,283
Exposures to regional government or local authorities	2,413	437	233	3,083	2,780
Exposures to public sector entities	240	160		400	288
Exposures to multilateral development banks	1,060		195	1,256	915
Exposures to international organisations	706			706	697
Exposures to institutions	361	91	5	457	336
Exposures to corporates	1,539	410	2	1,952	1,736
Retail exposures	1,073	2,431	0	3,504	3,224
Exposures secured by mortgages on immovable property	451	7		459	230
Exposures in default	15	0		15	13
Exposures associated with particularly high risk	0			0	0
Exposures in the form of covered bonds	1			1	0
Items representing securitisation positions					
Exposures to institutions and corporates for which a short-term					
Exposures in the form of units or shares in collective investment	78			78	39
Equity exposures	11			11	6
Other items	76			76	105
Internal Ratings-based Approach	83,309	15,062	1,671	100,042	97,432
Exposures to institutions	5,917	415	1,045	7,377	7,027
Exposures to corporates	26,085	12,363	625	39,074	37,815
Retail exposures	47,108	2,274	1	49,382	48,458
Mortgage-backed retail exposures	42,696	974		43,670	42,994
Other retail exposures	4,412	1,300	1	5,713	5,465
Equity investments	2,594	10		2,603	2,660
Items representing securitisation positions	358			358	267
Other non-credit obligations	1,247			1,247	1,205
Total	101,517	19,720	2,374	123,611	116,085

Note 90. Exposure split by geographic region and exposure class

31 Dec. 2016, EUR million	Central government and central banks	Credit institutions	Corporate	Retail	Equity investments	Securitisation positions	Other
Finland	12,317	544	40,007	54,521	2,602	30	1,913
Other Nordic countries	172	1,905	1,032	73	1		0
Baltic States	197	0	1,493	16			0
Rest of EU	5,018	3,810	589	98	21	567	1
Rest of Europe		242	34	18	4		0
USA		96	9	25	20		0
Asia		308	71	22			
Other	38	1,366	130	18	0		0
Total exposure	17,743	8,272	43,366	54,793	2,649	597	1,914

Finland accounts for 90% (91) of exposures calculated using the Internal Ratings-based Approach (IRBA).

31 Dec. 2015, EUR million	Central government and central banks	Credit institutions	Corporate	Retail	Equity investments	Securitisation positions	Other
Finland	11,759	822	38,960	52,616	2,677	19	1,341
Other Nordic countries	71	0	1,292	19			
Baltic States	50	1,686	547	74	1		0
Rest of EU	5,097	3,782	516	93	12	340	0
Rest of Europe		205	11	19	3		
USA		50	16	22			
Asia		180	70	20			
Other	39	1,109	71	24	0		0
Total exposure	17,016	7,834	41,483	52,886	2,693	358	1,341

Note 91. Exposure split by residual maturity and exposure class

31 Dec. 2016, EUR million	< 3 months	3-12 months	1-5 yrs	5-10 yrs	> 10 yrs	Total
Exposures to central governments and central banks	10,700	300	3,044	3,101	598	17,743
Exposures to institutions	229	179	384	7,468	11	8,272
Exposures to corporates	9,030	3,830	16,293	5,778	8,434	43,366
Retail exposures	3,941	943	6,465	8,934	34,509	54,793
Equity investments						2,649
Securitisation positions				517	80	597
Other items	1,186	7	155	177	389	1,914
Total	25,085	5,259	26,858	25,539	43,942	129,332

31 Dec. 2015, EUR million	< 3 months	3-12 months	1-5 yrs	5-10 yrs	> 10 yrs	Total
Exposures to central governments and central banks	10,802	146	2,964	2,639	465	17,016
Exposures to institutions	246	35	551	6,990	13	7,834
Exposures to corporates	8,460	4,090	14,944	5,622	8,367	41,483
Retail exposures	3,791	1,074	6,392	8,484	33,145	52,886
Equity investments						2,693
Securitisation positions			266	93		358
Other items	1,298	4	2	36	1	1,341
Total	24,596	5,348	25,118	23,863	41,992	123,611

Note 92. Past due and impaired exposures by exposure class

31 Dec. 2016, EUR million	Past due loans	Impaired loans	Impairment loss
Exposures to central governments and central banks			0
Exposures to institutions			2
Exposures to corporates	802	460	399
Retail exposures	430	173	104
Equity investments	0	6	5
Other positions	15	1	5
Total	1,248	641	515

31 Dec. 2015, EUR million	Past due		Impairment loss
	loans	Impaired loans	
Exposures to central governments and central banks			0
Exposures to institutions	0	1	1
Exposures to corporates	795	479	408
Retail exposures	392	143	89
Equity investments	1	7	5
Other items	7		5
Total	1,194	630	509

A total of 96% (95) of past due exposures, 95% (95) of impaired exposures and 96% (96) of impairment losses originate in Finland.

Note 93. Corporate exposures by sector

31 Dec. 2016, EUR million	Exposure amount	RWA	Past due exposures	Impaired exposures	Impairment loss	Exposure as percentage
Renting and operation of residential real estate	7,402	3,475	6	1	1	16.4
Operating of other real estate	4,586	2,783	64	39	18	10.1
Trade	4,567	2,492	59	29	19	10.1
Energy	3,944	1,193	38	13	14	8.7
Services	3,699	2,177	78	36	31	8.2
Construction	3,667	2,351	67	23	17	8.1
Manufacture of machinery and equipment (incl. maintenance)	2,210	805	73	33	35	4.9
Other manufacturing	2,195	809	90	47	40	4.9
Financial and insurance activities	1,823	911	8	7	8	4.0
Transportation and storage	1,803	1,146	25	11	10	4.0
Agriculture, forestry and fishing	1,665	1,080	50	23	13	3.7
Forest industry	1,467	875	137	113	114	3.2
Metal industry	1,232	872	87	51	46	2.7
Food industry	1,111	560	20	14	12	2.5
Information and communication	1,075	468	15	6	1	2.4
Buying and selling of own real estate	1,054	533	2	2	1	2.3
Other sectors	613	452	2	0	6	1.4
Mining and quarrying	366	130	32	25	25	0.8
Water supply and waste management	363	134	3	1	1	0.8
Manufacture of chemicals and chemical products	360	131	0	0	0	0.8
Total	45,204	23,376	856	473	411	100.0

31 Dec. 2015, EUR million	Exposure amount	RWA	Past due exposures	Impaired exposures	Impairment loss	Exposure as percentage
Renting and operation of residential real estate	7,478	3,499	5	2	1	17.3
Operating of other real estate	4,538	2,770	55	34	17	10.5
Trade	4,110	2,438	62	33	20	9.5
Energy	3,657	1,015	1	0	0	8.5
Services	3,282	1,770	81	36	29	7.6
Construction	2,831	1,692	59	17	14	6.6
Other manufacturing	2,330	902	78	40	33	5.4
Financial and insurance activities	2,109	985	9	7	7	4.9
Manufacture of machinery and equipment (incl. maintenance)	1,869	634	74	31	33	4.3
Transportation and storage	1,737	1,080	29	12	10	4.0
Agriculture, forestry and fishing	1,539	979	36	15	10	3.6
Forest industry	1,484	982	146	120	118	3.4
Food industry	1,125	508	47	40	39	2.6
Other sectors	1,033	663	1	0	0	2.4
Buying and selling of own real estate	1,032	529	3	2	1	2.4
Information and communication	987	489	9	6	7	2.3
Metal industry	986	577	120	71	53	2.3
Water supply and waste management	432	152	3	2	1	1.0
Manufacture of chemicals and chemical products	316	108	0	0	0	0.7
Mining and quarrying	229	114	33	25	25	0.5
Total	43,107	21,884	853	492	419	100.0

Corporate exposures in this Note also include SMEs of retail exposures. This standard industrial classification is based on the latest TOL 2008 classification issued by Statistics Finland.

Past due exposures in the Standardised Approach are exposures whose interest or capital are over 90 days overdue. In the FIRB Approach, past due exposures are exposures to customers at default belonging to rating categories 11–12 or F.

Note 94. Exposures by credit rating before and after credit risk mitigation

Risk weight %, EUR million	31 Dec. 2016			31 Dec. 2015		
	Exposure before credit risk mitigation	Exposure after credit risk mitigation	RWA	Exposure before credit risk mitigation	Exposure after credit risk mitigation	RWA
0	19,789	22,586		19,524	22,065	
10				3	3	0
20	392	392	71	302	84	56
35	257	257	136	456	456	157
50	167	167	81	24	25	12
75	1,384	1,384	1,033	1,243	1,215	907
100	1,703	1,703	1,587	1,934	1,922	1,757
150	14	14	22	11	11	16
250	101	101	253	40	40	100
Other risk weights	68	68	50	32	32	22
Total	23,874	26,672	3,233	23,569	25,852	3,026

In its capital adequacy measurement for credit risk under the Standardised Approach to determine the exposure's risk weight, OP Financial Group applies credit ratings by Moody's Investors Service or Fitch Ratings to receivables from central governments and central banks and corporations. External credit assessment determines the receivable's credit rating category. In the capital adequacy requirement for receivables, the risk weight is determined by the credit rating category. OP Financial Group has also applied risk weights based on the credit rating category to government exposures.

The risk weight of international development banks' receivables may also be determined on the basis of other than credit rating based on external credit assessment. If the risk weight is affected by external credit assessment, credit ratings issued by the aforementioned rating agencies will also apply to the risk weighting of international development banks' receivables in capital adequacy measurement.

For a receivable in capital adequacy measurement, the security-specific credit rating of the issue programme or arrangement to which the receivable belongs must be used. If such a rating is not available, the issuer's general credit rating will be used, provided that it is available.

Note 95. Retail exposures by borrower grade (AIRB)
All retail exposures

Borrower grade 31 Dec. 2016	Exposure value (EAD), MEUR	Average CF, %	Average PD, %	Average LGD, %	Average maturity, yrs	RWA	Average risk weight, %	Expected losses, EUR million
Personal customers, total	48,607	52.5	0.8	16.9	13.7	3,919	7.3	147
A	30,426	52.5	0.0	16.0	14.3	533	1.8	2
B	10,757	52.8	0.1	16.3	13.5	521	4.8	2
C	3,759	54.7	0.5	21.4	11.4	621	16.5	4
D	1,965	43.9	2.3	21.0	10.7	712	36.2	9
E	1,323	24.9	20.6	21.1	11.0	1,127	85.2	56
F	378		100.0	24.9	19.0	405	107.2	74
Corporate customers, total	1,552	68.2	3.3	37.0	5.4	779	41.3	39
2.5-5.5	493	67.1	0.4	21.9	5.6	58	11.8	0
6.0-7.0	606	67.4	1.3	41.1	4.5	244	40.3	3
7.5-8.5	294	69.6	4.9	46.5	5.0	201	68.4	7
9.0-10.0	111	74.0	22.9	45.4	3.7	118	106.5	11
11.0-12.0	47		100.0	63.1	19.9	157	332.2	18
Total	50,159	53.7	0.8	17.5	13.5	4,698	8.3	186

All retail exposures

Borrower grade 31 Dec. 2015	Exposure value (EAD), MEUR	Average CF, %	Average PD, %	Average LGD, %	Average maturity, yrs	RWA	Average risk weight, %	Expected losses, EUR million
Personal customers, total	47,420	85.6	0.8	14.7	13.7	3,519	6.8	136
A	30,327	85.2	0.0	13.2	14.4	446	1.5	1
B	9,697	86.7	0.1	15.6	13.1	449	4.6	2
C	3,685	89.4	0.5	18.9	11.6	540	14.7	3
D	2,033	84.0	2.3	19.9	11.5	697	34.3	9
E	1,346	78.1	21.1	19.9	11.0	1,053	78.3	55
F	333		100.0	25.0	20.5	334	100.4	65
Corporate customers, total	1,543	70.8	3.8	23.0	5.4	457	24.5	26
2.5-5.5	507	71.1	0.3	14.5	5.9	35	6.9	0
6.0-7.0	603	69.5	1.1	25.9	4.6	141	23.3	2
7.5-8.5	249	72.7	4.9	28.7	4.2	102	40.9	4
9.0-10.0	130	72.8	28.2	27.4	4.1	87	66.8	10
11.0-12.0	54		100.0	32.9	18.9	92	172.2	11
Total	48,963	84.4	0.9	14.9	13.5	3,976	7.3	162

Retail exposures secured by real-estates

Borrower grade 31 Dec. 2016	Exposure value (EAD), MEUR	Average CF, %	Average PD, %	Average LGD, %	Average maturity, yrs	RWA	Average risk weight, %	Expected losses, EUR million
Personal customers, total	43,832	53.6	0.7	14.7	14.1	2,822	5.7	75
A	29,194	54.1	0.0	14.6	14.3	460	1.6	1
B	9,283	51.3	0.1	14.8	13.7	402	4.3	2
C	2,625	51.9	0.5	15.3	13.4	317	12.1	2
D	1,433	54.3	2.3	14.8	12.6	449	31.3	5
E	999	48.9	21.5	15.1	12.9	849	85.0	33
F	298		100.0	19.2	17.6	345	115.7	32
Corporate customers, total	813	68.4	3.1	14.5	6.1	242	24.7	9
2.5-5.5	169	66.2	0.3	6.4	7.0	5	3.2	0
6.0-7.0	444	67.7	1.0	13.6	5.8	68	15.4	1
7.5-8.5	122	71.0	5.0	22.0	4.7	70	57.6	1
9.0-10.0	56	74.4	24.2	21.4	4.2	51	92.1	3
11.0-12.0	22		100.0	36.7	16.5	47	211.8	4
Total	44,645	55.4	0.7	14.7	13.9	3,065	6.0	84

Retail exposures secured by real-estates

Borrower grade 31 Dec. 2015	Exposure value (EAD), MEUR	Average CF, %	Average PD, %	Average LGD, %	Average maturity, yrs	RWA	Average risk weight, %	Expected losses, EUR million
Personal customers, total	42,617	79.9	0.7	11.7	14.1	2,363	5.0	65
A	28,817	80.1	0.0	11.2	14.3	355	1.2	1
B	8,326	79.5	0.1	12.3	13.5	300	3.6	1
C	2,669	80.9	0.5	12.8	13.6	270	10.1	2
D	1,523	77.4	2.3	13.2	12.8	430	28.2	5
E	1,018	72.4	21.8	13.2	13.0	758	74.4	30
F	262		100.0	17.3	18.5	251	95.8	27
Corporate customers, total	840	69.9	3.7	7.9	6.3	130	12.9	5
2.5-5.5	290	71.0	0.3	4.5	7.1	6	2.1	0
6.0-7.0	347	68.6	1.0	8.6	5.7	33	9.4	0
7.5-8.5	107	70.7	5.0	11.1	4.9	31	29.2	1
9.0-10.0	70	73.0	29.1	11.3	4.7	35	49.8	2
11.0-12.0	26		100.0	13.7	15.1	25	94.7	2
Total	43,457	78.7	0.7	11.6	13.9	2,493	5.1	70

The defaults, or borrower grades 11.0 and 12.0 as well as F, are not included in the average PD and risk weight. The calculation of the comparatives has been specified and the comparatives have been revised accordingly.

In setting PD values given by rating models assessing solvency of personal customers' retail exposures, OP Financial Group has used its own payment default data and external data. As external data, OP Financial Group has made use of the unemployment rate since 1989. The Group has taken account of uncertainty associated with the data using a statistical margin of conservatism.

In setting PD values given by rating models assessing solvency of corporate customers' retail exposures, OP Financial Group has used its own payment default data and external data. As external data, the Group has used bankruptcy statistics since 1987. The Group has taken account of uncertainty associated with the data using a statistical margin of conservatism. The current corporate customer PDs in use were adopted in the first quarter of 2015.

In determining LGD estimates for retail exposures, the Group has used contract, customer, default, collateral and debt-collection data from 2008 until 2014. The Group applies the definition of payment default as in the PD models. In addition, the model uses the cash flow data on uncollateralised returns and the recovery rate of default probabilities as well as recession valuation adjustments for collateral values based on the recession of the early 1990s.

In the risk weight calculation, the Group applies the PD minimum of 0.03% to retail exposures and the LDG minimum of 10% and 15% to residential mortgage-backed exposures and commercial mortgage-backed exposures, respectively

Note 96. Corporate exposures (FIRB) by borrower grade

Borrower grade 31 Dec. 2016	Exposure value (EAD), MEUR	Average CF, %	Average PD, %	Average LGD, %	Average maturity, yrs	RWA	Average risk weight, %	Expected losses, EUR million
1.0-2.0	933	92.2	0.0	44.7	4.2	137	14.7	0
2.5-5.5	17,374	74.5	0.2	44.4	6.1	7,044	40.6	17
6.0-7.0	7,717	71.6	1.3	44.2	7.7	6,786	87.9	43
7.5-8.5	4,638	70.7	4.6	44.2	7.0	5,825	125.6	94
9.0-10.0	616	55.1	22.1	44.0	11.7	1,120	181.9	60
11.0-12.0	747	54.9	100.0	45.2	14.6			338
Total	32,024	73.5	1.6	44.4	6.9	20,913	66.9	552

Borrower grade 31 Dec. 2015	Exposure value (EAD), MEUR	Average CF, %	Average PD, %	Average LGD, %	Average maturity, yrs	RWA	Average risk weight, %	Expected losses, EUR million
1.0-2.0	1,042	91.6	0.0	44.7	11.2	152	14.6	0
2.5-5.5	16,922	70.8	0.2	44.5	6.1	7,035	41.6	17
6.0-7.0	6,269	71.3	1.3	44.3	7.5	5,491	87.6	35
7.5-8.5	4,299	70.3	4.5	44.4	7.0	5,369	124.9	86
9.0-10.0	819	58.9	22.8	44.0	13.7	1,541	188.0	82
11.0-12.0	745	58.5	100.0	45.2	16.3			337
Total	30,096	71.1	1.7	44.5	7.2	19,587	66.7	557

The defaults, or borrower grades 11.0 and 12.0, are not included in the average PD and risk weight. The calculation of the average risk weight values on Total lines has been specified and the comparatives have been revised accordingly.

In setting PD values given by rating models assessing solvency of corporate customers' retail exposures, OP Financial Group has used its own payment default data and external data. As external data, the Group has used bankruptcy statistics since 1987. The Group has taken account of uncertainty associated with the data using a statistical margin of conservatism. The current corporate customer PDs in use were adopted in the first quarter of 2015. In the risk weight calculation, the Group applies the PD minimum of 0.03% to corporate exposures.

Note 97. Credit institution exposures (FIRB) by borrower grade

Borrower grade 31 Dec. 2016	Exposure value (EAD), MEUR	Average CF, %	Average PD, %	Average LGD, %	Average maturity, yrs	RWA	Average risk weight, %	Expected losses, EUR million
1.0-2.0	2,456	76.7	0.0	13.5	4.4	114	4.7	0
2.5-5.5	5,037	60.6	0.1	20.3	4.7	799	15.9	1
6.0-7.0	150	27.2	1.7	45.0	1.8	184	122.6	1
7.5-8.5	23	20.7	6.8	45.0	0.4	41	177.1	1
9.0-10.0	2	53.1	19.1	45.0	0.0	5	247.1	0
Total	7,668	57.9	0.1	18.6	4.5	1,143	14.9	3

Borrower grade 31 Dec. 2015	Exposure value (EAD), MEUR	Average CF, %	Average PD, %	Average LGD, %	Average maturity, yrs	RWA	Average risk weight, %	Expected losses, EUR million
1.0-2.0	2,407	76.3	0.0	14.1	4.1	119	4.9	0
2.5-5.5	4,678	58.8	0.1	22.3	4.8	857	18.3	2
6.0-7.0	103	86.8	1.8	45.0	1.0	142	138.9	1
7.5-8.5	17	22.0	5.5	45.0	0.4	29	165.2	0
9.0-10.0	1	65.9	27.8	45.0	0.0	2	288.8	0
11.0-12.0	0	75.0	100.0	45.0	0.0			0
Total	7,206	62.0	0.1	19.9	4.5	1,149	15.9	3

The defaults, or rating categories 11.0 and 12.0, are not included in the average PD and risk weight. The calculation of the average risk weight values on Total lines has been specified and the comparatives have been revised accordingly.

For setting PD values given by the credit institution exposure rating model, OP Financial Group has used rating scores for credit institution exposure and external credit ratings and the corresponding payment default data. PD values have been adjusted with a margin of conservatism in order to take account of uncertainties associated with the data. In the risk weight calculation, the Group applies the PD minimum of 0.03% to credit institution exposures.

Note 98. Equity investments

PD/LGD method

Borrower grade	31 Dec. 2016			31 Dec. 2015		
	Exposure value (EAD), MEUR	Average PD, %	Average risk weight, %	Exposure value (EAD), MEUR	Average PD, %	Average risk weight, %
2.5-5.5	2,309	1.3	279.2	2,334	1.3	279.2
6.0-7.0	4	1.3	279.2	3	1.3	279.2
Total	2,313	1.3	279.2	2,337	1.3	279.2

Equity investments include intra-Group insurance holdings of EUR 2.3 billion in exposure and EUR 6.5 billion as risk-weighted assets. The PD/LGD method related to equity investments is applied to strategic investments of OP Financial Group. The Group treats insurance holdings in equity investments based on the regulator's permission. The minimum PD for these investments according to the PD/LGD method is 1.25. In October 2015, OP Financial Group received permission from the ECB to treat insurance holdings within the conglomerate as risk-weighted assets according to the previous practice.

Simple Risk Weight Approach

EUR million	31 Dec. 2016		31 Dec. 2015	
	Exposure	Risk-weighted assets	Exposure	Risk-weighted assets
Private equity investments, risk weight 190%	40	76	41	78
Listed investments, 290%	29	84	31	89
Other, risk weight 370%	267	988	195	720
Total	336	1,148	266	887

Note 99. Expected loss and impairments

Loss, EUR million	Retail exposures					Total
	Credit institution exposures	Corporate exposures	Exposures secured by real estates	Other	Equity investments	
31 Dec. 2016						
(EL)	3	281	41	75	33	433
Impairments	2	395	46	52	5	499
31 Dec. 2015						
(EL)	0	0	0	0	0	0
Impairments	0	0	0	0	0	0
31 Dec. 2014						
(EL)	4	282	31	71	32	419
Impairments		411	31	40	12	494
31 Dec. 2013						
(EL)	3	303	51	87	8	453
Impairments		396	19	34	11	460
31 Dec. 2012						
(EL)	4	307	53	95	8	467
Impairments	1	348	16	35	12	412

The expected loss shown in the above table is based on parameters generated by OP Financial Group's internal credit risk models. These parameters include a considerable number of various factors of conservatism preventing risk underestimation but do not fully correspond to those used in capital adequacy measurement. For corporate and credit institution exposures, the Group uses only PD parameters in capital adequacy measurement.

Capital adequacy measurement parameters include a larger number of factors of conservatism compared with the internal credit risk models. Due to the factors of conservatism involved in the parameters, the expected loss of capital adequacy measurement was substantially high, EUR 775 million (754). Shortfall of expected losses of capital adequacy measurement over impairment losses related to IRBA-based exposure classes has been deducted from the capital base. Impairment losses on equity investments are not taken into account in calculating the deduction.

Note 100. Collateral used in capital adequacy calculation

31 Dec. 2016, EUR million	Exposure	Guarantees	Financial collateral	Other collateral
Standardised Approach	23,874	853	4	571
Exposures to central government and central banks	12,215	116	2	
Exposures to regional government or local authorities	3,524	158		
Exposures to public sector entities	402	293		
Exposures to multilateral development banks	838			
Exposures to international organisations	764	263		
Exposures to institutions	178			
Exposures to corporates	1,828	4	1	
Retail exposures	3,409	20	2	
Exposures secured by mortgages on immovable property	568			568
Exposures in default	15		0	3
Other items	133			
Internal Ratings-based Approach	105,458	7,036	539	64,778
Exposures to institutions	8,094	122		
Exposures to corporates	41,538	3,694	340	1,031
Retail exposures	51,383	3,220	199	63,746
Exposures secured by mortgages on immovable property	45,103	1,332	100	62,726
Other retail exposures	6,281	1,888	100	1,020
Equity investments	2,649			
PD/LGD method	2,313			
Simple Risk Weight Approach	336			
Items representing securitisation positions	597			
Other non-credit obligations	1,198			
Total	129,332	7,889	543	65,349
31 Dec. 2015, EUR million	Exposure	Guarantees	Financial collateral	Other collateral
Standardised Approach	23,569	830	3	1
Exposures to central government and central banks	11,570	207		
Exposures to regional government or local authorities	3,083	96		
Exposures to public sector entities	400	292		
Exposures to multilateral development banks	1,256			
Exposures to international organisations	706	202		
Exposures to institutions	457			
Exposures to corporates	1,952	8	1	
Retail exposures	3,504	26	2	0
Exposures secured by mortgages on immovable property	459			1
Exposures in default	15	0	0	
Exposures associated with particularly high risk	0			
Exposures in the form of covered bonds	1			
Exposures in the form of units or shares in collective investment undertakings (CIU)	78			
Equity exposures	11			
Other items	76			
Internal Ratings-based Approach	100,042	5,821	401	61,938
Exposures to institutions	7,377	65		
Exposures to corporates	39,074	2,524	189	1,179
Retail exposures	49,382	3,232	212	60,759
Exposures secured by mortgages on immovable property	43,670	1,390	97	59,839
Other retail exposures	5,713	1,842	116	920
Equity investments	2,603			
PD/LGD method	2,337			
Simple Risk Weight Approach	266			
Items representing securitisation positions	358			
Other items	1,247			
Total	123,611	6,651	401	61,938

In the IRBA applied to retail exposures, it is possible to use collateral securities on a more extensive basis than in the SA applied to credit institution and corporate exposures. Guarantees and collateral related to retail exposures are treated as part of LGD.

In the SA and IRBA applied to credit institution and corporate exposures, OP Financial Group utilises the following real collateral securities specified in the capital adequacy regulations: residential buildings and shares entitling their holders to the possession of an apartment, deposits and securities (equities). Deposits and securities are financial collateral, as referred to in the regulatory framework, and alternative methods are available for their accounting treatment. OP Financial Group has treated financial collateral in the above approaches using the so-called comprehensive method and volatility adjustments ordered by the relevant regulator.

In the SA and IRBA applied to credit institution and corporate exposures, only approved guarantors specified in the capital adequacy regulations may be used, such as guarantees granted by the Finnish State and other states, and those granted by municipalities and banks. Guarantees issued by companies or credit derivatives were not used. Offsetting balance-sheet or off-balance-sheet items was not applied in capital adequacy measurement.

Residential buildings and shares entitling their holders to the possession of an apartment lodged as collateral constitute the largest collateral type used in capital adequacy. The effect of other real securities on the capital adequacy of credit risks is much less significant. Guarantees used have been given by a number of sources, the largest single one being the State of Finland.

Note 101. Derivative contracts and counterparty risk

Credit risk arising from derivative contracts is defined as a credit equivalent based on the daily market valuation of derivative contracts.

The size of customer limits are defined on the basis of assets included in derivative contracts and the estimated validity of the contracts.

Counterparty risk associated with derivative contracts arises from receivables which OP Financial Group may have from its counterparties in case they default. OP Financial Group measures counterparty risk using a fair value model, whereby the value of liability comprises the contract market value and the expected potential future exposure.

OP Financial Group manages counterparty risks associated with derivative contracts through master agreements enabling netting related to bankruptcies, through collateral and optional early termination. With respect to master agreements, there exist written statements issued by an external legal expert of the legal validity of netting in each derivative counterparty's national legislation. OP Financial Group uses netting for counterparty exposure arising from derivative contracts in both capital adequacy measurement and the monitoring of credit risk limits. Derivative contracts are also increasingly novated to a central counterparty. On 31 December 2016, the gross exposure value of derivative contracts for central counterparty clearing amounted to EUR 1.8 billion and the net credit risk to EUR 253 million.

The Group confirms corporate counterparty exposure limits once a year and in this connection also checks the status of collateral applying to the limits for derivative transactions.

Credit risk arising from bank counterparties is reduced through collateral, which means the use of ISDA Credit Support Annex (CSA) contract associated with the ISDA general agreement. In the collateral system, the counterparty provides cash or securities in security for the receivable. Matching between counterparties are performed on a daily basis.

If S&P had downgraded OP Financial Group's credit rating from AA- to A on 31 December 2016, an additional collateral worth EUR 61 million would have been required. If the credit rating had been downgraded in 2015, additional collateral of EUR 8 million would have been required.

Capital adequacy requirement due to counterparty risk may arise from items related to banking book and the trading book. Capital adequacy requirement due to counterparty risk is calculated, for example, on OTC derivatives and sale and repurchase agreements.

Counterparty risk contract types, 31 Dec. 2016, EUR million	Gross exposure value	Benefits from netting	Present	Collateral held	Net credit risk
			netted credit risk		
Derivative contracts	8,223	4,695	3,527	1,177	2,351

Counterparty risk contract types, 31 Dec. 2015, EUR million	Gross exposure value	Benefits from netting	Present	Collateral held	Net credit risk
			netted credit risk		
Derivative contracts	8,625	5,221	3,404	1,030	2,374

Note 50 presents the positive gross fair value of contracts.

Note 102. Securitisation positions

Securitisation positions by rating category, Moody's equivalent, EUR million	2016		2015	
	Exposure	weighted assets	Exposure	Risk-weighted assets
Non-trading book positions				
Securitisation positions	597	63	358	46
Aaa	562	42	319	24
A1-A3	24	4	28	5
Baa1-Baa3	4	2	6	2
Ba1-Ba3	6	16	6	16
Total	597	63	358	46

Securitized items did not include past due or impaired receivables.

The IRBA has been applied to securitisation positions. OP Financial Group pays special attention to bonds' structural and collateral-related features in its investment in securitised assets.

OP Financial Group follows regularly changes related to the credit and market risk of securitised loans.

Note 103. Reconciliation of consolidated balance sheet and consolidation group balance sheet

31 Dec. 2016, EUR million	Consolidated balance sheet	Consolidation group balance sheet	Difference
Cash and cash equivalents	9,471	9,441	30
Receivables from credit institutions	337	304	33
Financial assets held for trading	692	692	
Derivative contracts	4,732	4,661	71
Receivables from customers	78,604	78,789	-185
Investment assets	25,105	15,835	9,270
Assets covering unit-linked contracts	9,168		9,168
Investments in associates	91	58	33
of which goodwill in associates	24	24	
Intangible assets	1,474	596	878
Property, plant and equipment (PPE)	871	812	58
Other assets	2,992	2,335	657
of which pension assets	9	9	
Tax assets	210	149	61
Total assets	133,747	113,673	20,073
Liabilities to credit institutions	4,669	4,649	20
Financial liabilities at fair value through profit or loss	0	0	
Derivative contracts	4,044	4,086	-43
of which DVA	-27	-27	
Liabilities to customers	60,077	60,650	-574
Insurance liabilities	10,586		10,586
Liabilities from unit-linked insurance and investment contracts	9,205		9,205
Debt securities issued to the public	28,287	28,445	-159
Provisions and other liabilities	4,226	3,620	606
Tax liabilities	894	631	263
Supplementary cooperative share	77	77	
Subordinated liabilities	1,445	1,445	
Total liabilities	123,509	103,604	19,905
Equity capital			
Share of OP Financial Group's owners			
Cooperative capital			
Cooperative share	166	166	
Profit share (Non-voting cooperative share)	2,719	2,719	
Fair value reserve	318	28	291
of which cash flow hedge reserve	41	41	
Other reserves	2,108	2,096	12
Retained earnings	4,824	5,061	-237
Profit for previous financial years	4,435	4,490	-55
Actuarial gains and losses	-524	-512	-12
Profit for the financial year	913	1,084	-171
Non-controlling interests	102		102
Total equity capital	10,237	10,069	168
Total liabilities and equity capital	133,747	113,673	20,073

The differences between the balance sheets of OP Financial Group and the consolidation group are due to differences in the content and extent of consolidation. Within the consolidation group, insurance companies have not been consolidated but are shown in investments made by the consolidation group and the insurance companies' equity capital is not included in the equity capital of the consolidation group. The consolidation group has applied the materiality threshold specified in Article 19 of CRR in the consolidation of its companies. Note 86 presents items deducted from the capital base.

Note 104. Capital base under transitional provisions

According to the European Commission implementing regulation, a credit institution must present its own funds using the transition period model for disclosure for own funds determined by the European Banking Authority.

31 Dec. 2016, EUR million		(A) Amount on disclosure data	(B) Article of regulation (EU) no. 575/2013 to which is referred	which treatment prior to regulation (EU) no. 575/2013 or the remaining amount set out in regulation
CET1: Instruments and reserves				
1	Capital instruments and related share premium accounts	2,729	Paragraph 1 of Article 26, Articles 27, 28 and 29, EBA's list related to Paragraph 3 of Article 26	
	of which: cooperative shares	166	EBA's list, paragraph 3 of Article 26	
	of which: profit shares (Non-voting cooperative share)	2,719	EBA's list, paragraph 3 of Article 26	
	of which: refundable cooperative capital	-156		
2	Retained earnings	4,490	Paragraph 1, sub- paragraph 3a of Article 26	
3	Accumulated other comprehensive income (and any other reserves; also covers unrealised gains and losses by virtue of applicable financial reporting standards)	1,611	Paragraph 1 of Article 26	
4	The amount of qualifying items as referred to in Article 484 (3) and the related share premium accounts that will be phased out from CET1.	77	Paragraph 2 of Article 486	77
5a	Interim profits audited by an independent party, from which all foreseeable charges and dividends have been deducted	1,001	Paragraph 2 of Article 26	
6	CET1 before regulatory adjustments:	9,907		77

CET1): Regulatory adjustments		
7	Other value adjustments	-36 Articles 34 and 105
8	Intangible assets	-620 Paragraph 1, sub-paragraph b of Article 37, Article 37, paragraph 4 of Article 472
11	Items included in the fair value reserve that relate to gains or losses on cash flow hedging	-41 Paragraph a of Article 33
12	Negative amounts resulting from the calculation of expected loss amounts	-309 Paragraph 1, sub-paragraph 1 d of Article 36, Article 159, paragraph 6 of Article 472
14	Gains or losses on liabilities measures at fair value resulting from changes in the institution's own credit standing	-21 Paragraph b of Article 33
15	Defined benefit pension fund assets	-7 Paragraph 1, sub-paragraph e of Article 36, Article 41, paragraph 7 of Article 472
28	Total regulatory adjustments to CET1	-1,035
29	CET1	8,872
		77
Additional Tier 1 (AT1): Instruments		
33	The amount of qualifying items as referred to in Article 484 (4) and the related share premium accounts that will be phased out from AT1.	81 Paragraph 3 of Article 486
36	AT1 before regulatory adjustments:	81
		81
AT1: regulatory adjustments		
43	Total regulatory adjustments to AT1	
44	AT1	81
45	Tier 1 (T1 = CET1 + AT1)	8,954
		158
Tier 2 (T2): Instruments and provisions		
46	Capital instruments and related share premium accounts	1,239 Articles 62 and 63
51	T2 before regulatory adjustments	1,239
T2: regulatory adjustments		
57	Total regulatory adjustments to T2	
58	T2	1,239
59	Total capital (T1 + T2 = TC)	10,192
60	Total risk-weighted assets	44,101
		158

Capital adequacy ratios and capital buffers

61	CET1 as percentage of total risk	20.1	Paragraph 2, sub-paragraph a of Article 92, Article 465
62	T1 as percentage of total risk	20.3	Paragraph 2, sub-paragraph b of Article 92, Article 465
63	Total capital as percentage of total risk	23.1	Paragraph 2, sub-paragraph c of Article 92
64	Entity-specific buffer requirement as percentage of total risk	9.0	Articles 128, 129 and 130 of Capital Requirements Directive
65	of which: General capital buffer requirement	2.5	
66	of which: countercyclical capital buffer requirement	0.0	
67a	of which: a buffer related global systematically important institutions (G-SII) or other systematically important institutions (O-SII)	2.0	Article 131 of Capital Requirements Directive
68	Available CET1 capital required for the fulfilment of capital buffer requirements (as percentage of total risk)	20.1	Article 128 of Capital Requirements Directive
Caps that are applied to the inclusion of provisions in T2 capital			
79	Caps applied to inclusion of credit risk adjustments in T2 capital when applying the Internal Ratings-based Approach	35,620	Article 62
Capital instruments subject to phase-out arrangements (1 January 2013–1 January 2022)			
80	Current cap for CET1 instruments subject to phase-out arrangements	370	Paragraph 3 of Article 484, paragraphs 2 and 5 of Article 486
81	Amount deducted from CET1 due to the cap (amount above the cap after redemptions and maturities)		Paragraph 4 of Article 484, paragraphs 3 and 5 of Article 486
82	Current cap for AT1 instruments subject to phase-out arrangements	121	Paragraph 3 of Article 484, paragraphs 2 and 5 of Article 486
83	Amount deducted from AT1 due to the cap (amount above the cap after redemptions and maturities)		Paragraph 3 of Article 484, paragraphs 2 and 5 of Article 486

Note 105. Capital instruments' main features

Capital instruments' main features template	Cooperative share	Profit share (Non-voting cooperative share)
1 Issuer	Group member cooperative banks	Group member cooperative banks
2 Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	Not applicable	Not applicable
3 Governing law(s) of the instrument	Finnish law, especially the Co-operatives Act and the Act on the Amalgamation of Deposit Banks, the EU Capital Requirements Regulation (575/2013 (CRR)	Finnish law, especially the Co-operatives Act and the Act on the Amalgamation of Deposit Banks, CRR
Regulatory treatment		
4 Transitional CRR rules	Common Equity Tier 1 (CET1)	Common Equity Tier 1 (CET1)
5 Post-transitional CRR rules	Common Equity Tier 1 (CET1)	Common Equity Tier 1 (CET1)
6 Eligible at solo/(sub-)consolidated/ solo & (sub-) consolidated	Solo and consolidated	Solo and consolidated
7 Instrument type (types to be specified by each jurisdiction)	CET1 as published in the EBA list	CET1 as published in the EBA list
8 Amount recognised in regulatory capital (currency as of most recent reporting date) EUR mln	163	2,566
9 Nominal amount of instrument (in millions)	EUR 163	EUR 2 566
9a Issue price	100%	100%
9b Redemption price	100%	100%
10 Accounting classification	Central cooperative's share, cooperative capital	Central cooperative's share, cooperative capital
11 Original date of issuance	Not applicable	Not applicable
12 Perpetual or dated	Perpetual	Perpetual
13 Original maturity date	No maturity	No maturity
14 Issuer call subject to prior supervisory approval	Yes	Yes
15 Optional call date, contingent call dates and redemption amount	Cooperative banks refund shareholders their cooperative contributions upon termination of membership. However, cooperative banks have the right to refuse to refund the contributions while the bank is operating. If a cooperative bank has not refused to refund the contribution, this may take place within 12 months after the end of the financial year when membership terminated. If the refund cannot be made in full in any given year, the balance will be refunded from disposable cooperative capital based on subsequent financial statements. However, this entitlement to the refund for the balance will terminate after the fifth financial statements.	Cooperative banks refund shareholders the subscription price of their Profit shares upon termination of membership. A Profit share's subscription price is also refunded to the shareholder when the shareholder has cancelled the Profit share. However, cooperative banks have the right to refuse to refund the Profit share contributions while the bank is operating. If a cooperative bank has not refused to refund the Profit share contribution, this may take place within 12 months after the end of the financial year when membership terminated or the Profit share has been cancelled. If the refund cannot be made in full in any given year, the balance will be refunded from disposable cooperative capital based on subsequent financial statements. However, this entitlement to the refund for the balance will terminate after the fifth financial statements.
16 Subsequent call dates, if applicable	See item 15	See item 15
Coupons/dividends		
17 Fixed or floating dividend/coupon	Floating	Floating
18 Coupon rate and any related index	Not applicable	Not applicable
19 Existence of dividend stopper	No	No
20a Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Fully discretionary
20b Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Fully discretionary
21 Existence of step up or other incentive to redeem	Not applicable	Not applicable
22 Noncumulative or cumulative	Non-cumulative	Non-cumulative
23 Convertible or non-convertible	Non-convertible	Non-convertible
24 If convertible, conversion triggers	Not applicable	Not applicable
25 If convertible, fully or partially	Not applicable	Not applicable
26 If convertible, conversion rate	Not applicable	Not applicable
27 If convertible, mandatory or optional conversion	Not applicable	Not applicable
28 If convertible, specify instrument type convertible into	Not applicable	Not applicable
29 If convertible, specify issuer of instrument it converts into	Not applicable	Not applicable
Write-down features		
30 Write-down features	Yes	Yes
31 If write-down, write-down triggers	Accumulation of losses	Accumulation of losses
32 If write-down, full or partial	Full or partial	Full or partial
33 If write-down, permanent or temporary	Temporary	Temporary
34 If temporary write-down, description of write-up mechanism	Through increase of cooperative capital	Through increase of cooperative capital
35 Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	If a cooperative bank is dissolved either through liquidation or bankruptcy, any supplementary cooperative capital is refunded before other cooperative capital or, if the funds are insufficient, that part of supplementary cooperative capital that is proportional to the supplementary cooperative capital paid.	If a cooperative bank is dissolved either through liquidation or bankruptcy, any supplementary cooperative capital is refunded before other cooperative capital or, if the funds are insufficient, that part of supplementary cooperative capital that is proportional to the supplementary cooperative capital paid.
36 Non-compliant transitioned features	No	No
37 If yes, specify non-compliant features	Not applicable	Not applicable

The terms and conditions of CET1 instruments can be found in the bylaws of each Group member cooperative bank on their website: op.fi > OP Ryhmä > Osuuspankit
 The terms and conditions of AT1 and T2 capital instruments can be found on OP Corporate Bank's website: pohjola.com > Investor Relations > Debt Investors,
 and on the Helsinki OP Bank website: op.fi > OP Ryhmä > Osuuspankit > Helsingin OP Pankki

Capital instruments' main features template	Supplementary cooperative share	EUR 50,000,000 Non-cumulative Perpetual Capital Securities
1 Issuer	Group member cooperative banks	OP Corporate Bank plc
2 Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	Not applicable	ISIN: XS0213603177
3 Governing law(s) of the instrument	Finnish law, especially the Co-operatives Act and the Act on the Amalgamation of Deposit Banks, CRR	English law, except for conditions relating to creditor order of priority and distributable assets, Dividend Stopper, permission for early redemption, and to capital adequacy, to which Finnish law is applied
Regulatory treatment		
4 Transitional CRR rules	Common Equity Tier 1 (CET1)	Additional Tier 1 capital (AT1)
5 Post-transitional CRR rules	Not applicable	Not applicable
6 Eligible at solo/(sub-)consolidated/ solo & (sub-) consolidated	Solo and consolidated	Solo and consolidated
7 Instrument type (types to be specified by each jurisdiction)	CET1 as published in the EBA list	Not applicable
8 Amount recognised in regulatory capital (currency as of most recent reporting date) EUR mln	77	41
9 Nominal amount of instrument (in millions)	EUR 77	EUR 50
9a Issue price	100%	100%
9b Redemption price	100%	100%
10 Accounting classification	Central cooperative's share, liabilities	Liability - carried at amortised cost
11 Original date of issuance	Not applicable	31/03/2005
12 Perpetual or dated	Perpetual	Perpetual
13 Original maturity date	No maturity	No maturity
14 Issuer call subject to prior supervisory approval	Yes	Yes
15 Optional call date, contingent call dates and redemption amount	Cooperative banks refund shareholders their supplementary cooperative contributions upon termination of membership or cancellation of the contribution by the shareholder. A supplementary cooperative contribution will be refunded within 6 months after the end of the financial year when membership ended or the contribution was terminated by the shareholder. If it has not been possible to refund the supplementary cooperative capital in full, the refund can be made later if it is feasible on the basis of the following three financial statements.	The issuer has the right to capital payment. Right to redeem if, owing to (i) change in law, (ii) official interpretation or (iii) Financial Supervisory Authority decision, the issuer cannot include the instrument under its Tier 1 capital; The issuer also has right to early redemption on the basis of such tax laws and interpretations that would result in the issuer having to pay extra or not being able to deduct interest. Redemption price 100%
16 Subsequent call dates, if applicable	See item 15	See item 15
17 Fixed or floating dividend/coupon	Floating	From fixed to floating
18 Coupon rate and any related index	Not applicable	6.5% per annum until 11 April 2006, after which 10-year Swap interest + 0.1% per annum, maximum interest 8% per annum
19 Existence of dividend stopper	No	Yes
20a Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Partially discretionary
20b Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Partially discretionary; [if the issuer's distributable funds were not be enough for the payment of interest on (i) the instrument, (ii) other subordinated loans or (iii) subordinated loans guaranteed by the issuer.]
21 Existence of step up or other incentive to redeem	Not applicable	No
22 Noncumulative or cumulative	Non-cumulative	Non-cumulative
23 Convertible or non-convertible	Non-convertible	Non-convertible
24 If convertible, conversion triggers	Not applicable	Not applicable
25 If convertible, fully or partially	Not applicable	Not applicable
26 If convertible, conversion rate	Not applicable	Not applicable
27 If convertible, mandatory or optional conversion	Not applicable	Not applicable
28 If convertible, specify instrument type convertible into	Not applicable	Not applicable
29 If convertible, specify issuer of instrument it converts into	Not applicable	Not applicable
30 Write-down features	Yes	Not applicable
31 If write-down, write-down triggers	Accumulation of losses	Not applicable
32 If write-down, full or partial	Full or partial	Not applicable
33 If write-down, permanent or temporary	Temporary	Not applicable
34 If temporary write-down, description of write-up mechanism	Through increase of cooperative capital	Not applicable
35 Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Not applicable	The issuer's Tier 2 instruments and other subordinated debt with a higher priority than the instrument
36 Non-compliant transitioned features	Yes	Yes
37 If yes, specify non-compliant features	The customer has the opportunity to redeem the cooperative contribution unilaterally	No loss cover mechanism and dividend stopper

Capital instruments' main features template	EUR 40,000,000 Perpetual Non-Step-Up Hybrid Tier 1	EUR 500,000,000 Subordinated Instruments due 2022
1 Issuer	OP Corporate Bank plc	OP Corporate Bank plc
2 Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	Not applicable	ISIN: XS0750702507 [(EMTN Series 130)]
3 Governing law(s) of the instrument	English law, except for conditions relating to creditor order of priority and distributable assets, Dividend Stopper, permission for early redemption, and to capital adequacy, to which Finnish law is applied	English law, except for conditions relating to creditor order of priority, to which Finnish law is applied
Regulatory treatment		
4 Transitional CRR rules	Additional Tier 1 capital (AT1)	Tier 2 Capital (T2)
5 Post-transitional CRR rules	Not applicable	Tier 2 Capital (T2)
6 Eligible at solo/(sub-)consolidated/ solo & (sub-) consolidated	Solo and consolidated	Solo and consolidated
7 Instrument type (types to be specified by each jurisdiction)	Not applicable	Not applicable
8 Amount recognised in regulatory capital (currency as of most recent reporting date) EUR mln	40	466
9 Nominal amount of instrument (in millions)	EUR 40	EUR 500
9a Issue price	100%	99.977%
9b Redemption price	100%	100%
10 Accounting classification	Liability - carried at amortised cost	Liability - carried at amortised cost
11 Original date of issuance	30/11/2005	28/02/2012
12 Perpetual or dated	Perpetual	Dated
13 Original maturity date	No maturity	28/02/2022
14 Issuer call subject to prior supervisory approval	Yes	Yes
15 Optional call date, contingent call dates and redemption amount	1) Right to redeem on 30 November 2010 or the following interest payment dates: 28 February, 30 May, 30 August or 30 November; 2) Right to redeem if, owing to (i) change in law, (ii) official interpretation or (iii) Financial Supervisory Authority decision, the issuer cannot include the instrument under its Tier 1 capital; 3) Right to early redemption on the basis of such tax laws and interpretations that would result in the issuer having to pay extra or not being able to deduct interest. Redemption price 100%	The issuer has the right of redemption, which begins on the date of issuance and ends 90 calendar days after CRD IV entered into force and the directive was adopted in Finland, provided the Financial Supervisory Authority decides that the issuer may no longer include the instrument under its Tier 2 capital, in part or in full. Redemption price 101%. Also the right to early redemption on the basis of such tax laws and interpretations that would result in the issuer having to pay extra. Redemption price 100%
16 Subsequent call dates, if applicable	See item 15	See item 15
Coupons/dividends		
17 Fixed or floating dividend/coupon	Floating	Fixed
18 Coupon rate and any related index	3-month EURIBOR + 1.25% per annum	5.75% per annum
19 Existence of dividend stopper	Yes	No
20a Fully discretionary, partially discretionary or mandatory (in terms of timing)	Partially discretionary	Mandatory
20b Fully discretionary, partially discretionary or mandatory (in terms of amount)	Partially discretionary:[if the issuer's distributable funds were not be enough for the payment of interest on (i) the instrument, (ii) other subordinated loans or (iii) subordinated loans guaranteed by the issuer.]	Mandatory
21 Existence of step up or other incentive to redeem	No	No
22 Noncumulative or cumulative	Non-cumulative	Non-cumulative
23 Convertible or non-convertible	Non-convertible	Non-convertible
24 If convertible, conversion triggers	Not applicable	Not applicable
25 If convertible, fully or partially	Not applicable	Not applicable
26 If convertible, conversion rate	Not applicable	Not applicable
27 If convertible, mandatory or optional conversion	Not applicable	Not applicable
28 If convertible, specify instrument type convertible into	Not applicable	Not applicable
29 If convertible, specify issuer of instrument it converts into	Not applicable	Not applicable
Write-down features		
31 If write-down, write-down triggers	Not applicable	Not applicable
32 If write-down, full or partial	Not applicable	Not applicable
33 If write-down, permanent or temporary	Not applicable	Not applicable
34 If temporary write-down, description of write-up mechanism	Not applicable	Not applicable
35 Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	The issuer's Tier 2 instruments and other subordinated debt with a higher priority than the instrument	Issuer's senior instruments
36 Non-compliant transitioned features	Yes	No
37 If yes, specify non-compliant features	No loss cover mechanism and dividend stopper	Not applicable

Capital instruments' main features template	EUR 100,000,000 5.25 per cent. Subordinated Instruments due 14 September 2021	CHF 100,000,000 3.375 Subordinated Instruments
1 Issuer	OP Corporate Bank plc	OP Corporate Bank plc
2 Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	ISIN: XS0677081993 [[EMTN Series 127]]	ISIN: CH0132112993
3 Governing law(s) of the instrument	English law, except for conditions relating to creditor order of priority, to which Finnish law is applied	English law, except for conditions relating to creditor order of priority, to which Finnish law is applied
Regulatory treatment		
4 Transitional CRR rules	Tier 2 Capital (T2)	Tier 2 Capital (T2)
5 Post-transitional CRR rules	Tier 2 Capital (T2)	Tier 2 Capital (T2)
6 Eligible at solo/(sub-)consolidated/ solo & (sub-) consolidated	Solo and consolidated	Solo and consolidated
7 Instrument type (types to be specified by each jurisdiction)	Not applicable	Not applicable
8 Amount recognised in regulatory capital (currency as of most recent reporting date) EUR mln	94	76
9 Nominal amount of instrument (in millions)	EUR 100	CHF 100
9a Issue price	99.612%	100.208%
9b Redemption price	100%	100%
10 Accounting classification	Liability - carried at amortised cost	Liability - carried at amortised cost
11 Original date of issuance	14/09/2011	14/07/2011
12 Perpetual or dated	Dated	Dated
13 Original maturity date	14/09/2021	14/07/2021
14 Issuer call subject to prior supervisory approval	Yes	Yes
15 Optional call date, contingent call dates and redemption amount	Right to early redemption on the basis of such changes in tax laws and interpretations that would result in the issuer having to pay extra. Redemption price 100%	Right to early redemption on the basis of such changes in tax laws and interpretations that would result in the issuer having to pay extra. Redemption price 100%
16 Subsequent call dates, if applicable	See item 15	See item 15
Coupons/dividends		
17 Fixed or floating dividend/coupon	Fixed	Fixed
18 Coupon rate and any related index	5.25% per annum	3.375% per annum
19 Existence of dividend stopper	No	No
20a Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory
20b Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory
21 Existence of step up or other incentive to redeem	No	No
22 Noncumulative or cumulative	Non-cumulative	Non-cumulative
23 Convertible or non-convertible	Non-convertible	Non-convertible
24 If convertible, conversion triggers	Not applicable	Not applicable
25 If convertible, fully or partially	Not applicable	Not applicable
26 If convertible, conversion rate	Not applicable	Not applicable
27 If convertible, mandatory or optional conversion	Not applicable	Not applicable
28 If convertible, specify instrument type convertible into	Not applicable	Not applicable
29 If convertible, specify issuer of instrument it converts into	Not applicable	Not applicable
Write-down features		
31 If write-down, write-down triggers	Not applicable	Not applicable
32 If write-down, full or partial	Not applicable	Not applicable
33 If write-down, permanent or temporary	Not applicable	Not applicable
34 If temporary write-down, description of write-up mechanism	Not applicable	Not applicable
35 Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Issuer's senior instruments	Issuer's senior instruments
36 Non-compliant transitioned features	No	No
37 If yes, specify non-compliant features	Not applicable	Not applicable

Capital instruments' main features template		JPY 10,000,000,000 Subordinated Floating Rate Instruments due 3 July 2025	SEK 3,500,000,000 Callable Floating Rate Dated Tier 2 Instruments due 2025
1	Issuer	OP Corporate Bank plc	OP Corporate Bank plc
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	ISIN: XS1255402288	ISIN: XS1280147569
3	Governing law(s) of the instrument	English law, except for the subordination provisions which are governed by Finnish law	English law, except for the subordination provisions which are governed by Finnish law
	Regulatory treatment		
4	Transitional CRR rules	Tier 2 Capital (T2)	Tier 2 Capital (T2)
5	Post-transitional CRR rules	Tier 2 Capital (T2)	Tier 2 Capital (T2)
6	Eligible at solo/(sub-)consolidated/ solo & (sub-) consolidated	Solo and consolidated	Solo and consolidated
7	Instrument type (types to be specified by each jurisdiction)	Not applicable	Not applicable
8	Amount recognised in regulatory capital (currency as of most recent reporting date) EUR mln	72	371
9	Nominal amount of instrument (in millions)	JPY 10 000	SEK 3 500
9a	Issue price	100%	100%
9b	Redemption price	100%	100%
10	Accounting classification	Liability - carried at amortised cost	Liability - carried at amortised cost
11	Original date of issuance	03/07/2015	25/08/2015
12	Perpetual or dated	Dated	Dated
13	Original maturity date	03/07/2025	25/08/2025
14	Issuer call subject to prior supervisory approval	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	Right to early redemption on the basis of such changes in tax laws and interpretations that would result in the issuer having to pay extra. Redemption price 100%.	The issuer's opportunity to redeem on 25 August 2020. The right of redemption at nominal value at any time due during the loan term due to a capital transaction or taxable event. Right to early redemption on the basis of such changes in tax laws and interpretations that would result in the issuer having to pay extra. Redemption price 100%.
16	Subsequent call dates, if applicable	See item 15	See item 15
	Coupons/dividends		
17	Fixed or floating dividend/coupon	Floating	Floating
18	Coupon rate and any related index	3-month JPY Libor + 0.735% per annum	3-month Stibor + 1.6% per annum. Minimum interest rate of 0% per annum
19	Existence of dividend stopper	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No
22	Noncumulative or cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion triggers	Not applicable	Not applicable
25	If convertible, fully or partially	Not applicable	Not applicable
26	If convertible, conversion rate	Not applicable	Not applicable
27	If convertible, mandatory or optional conversion	Not applicable	Not applicable
28	If convertible, specify instrument type convertible into	Not applicable	Not applicable
29	If convertible, specify issuer of instrument it converts into	Not applicable	Not applicable
30	Write-down features	Not applicable	Not applicable
31	If write-down, write-down triggers	Not applicable	Not applicable
32	If write-down, full or partial	Not applicable	Not applicable
33	If write-down, permanent or temporary	Not applicable	Not applicable
34	If temporary write-down, description of write-up mechanism	Not applicable	Not applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Issuer's senior instruments	Issuer's senior instruments
36	Non-compliant transitioned features	No	No
37	If yes, specify non-compliant features	Not applicable	Not applicable

Capital instruments' main features template		EUR 100,000,000 2.405 per cent Dated Tier 2 Instruments due 2025	Helsinki OP Fixed Debenture 1/2014
1	Issuer	OP Corporate Bank plc	Helsinki Area Cooperative Bank
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	ISIN: XS1296897579	ISIN: FI4000090360
3	Governing law(s) of the instrument	English law, except for the subordination provisions which are governed by Finnish law	Finnish law
	Regulatory treatment		
4	Transitional CRR rules	Tier 2 Capital (T2)	Tier 2 Capital (T2)
5	Post-transitional CRR rules	Tier 2 Capital (T2)	Tier 2 Capital (T2)
6	Eligible at solo/(sub-)consolidated/ solo & (sub-) consolidated	Solo and consolidated	Solo and consolidated
7	Instrument type (types to be specified by each jurisdiction)	Not applicable	Not applicable
8	Amount recognised in regulatory capital (currency as of most recent reporting date) EUR mln	100	11
9	Nominal amount of instrument (in millions)	EUR 100	EUR 11
9a	Issue price	100%	100%
9b	Redemption price	100%	100%
10	Accounting classification	Liability - carried at amortised cost	Liability - carried at amortised cost
11	Original date of issuance	25/09/2015	14/05/2014
12	Perpetual or dated	Dated	Dated
13	Original maturity date	25/09/2025	14/05/2024
14	Issuer call subject to prior supervisory approval	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	The right of redemption at nominal value at any time due during the loan term due to a capital transaction or taxable event. Right to early redemption on the basis of such changes in tax laws and interpretations that would result in the issuer having to pay extra. Redemption price 100%.	The debenture is refunded in full in one instalment on 14 May 2024, on early refund date on 14 May 2019 or on the date specified in the issuer's general loan terms. Amount to be refunded: Nominal value
16	Subsequent call dates, if applicable	See item 15	See item 15
	Coupons/dividends		
17	Fixed or floating dividend/coupon	Fixed	Fixed
18	Coupon rate and any related index	2.405% per annum	3.25% per annum
19	Existence of dividend stopper	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No
22	Noncumulative or cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion triggers	Not applicable	Not applicable
25	If convertible, fully or partially	Not applicable	Not applicable
26	If convertible, conversion rate	Not applicable	Not applicable
27	If convertible, mandatory or optional conversion	Not applicable	Not applicable
28	If convertible, specify instrument type convertible into	Not applicable	Not applicable
29	If convertible, specify issuer of instrument it converts into	Not applicable	Not applicable
30	Write-down features	Not applicable	Not applicable
31	If write-down, write-down triggers	Not applicable	Not applicable
32	If write-down, full or partial	Not applicable	Not applicable
33	If write-down, permanent or temporary	Not applicable	Not applicable
34	If temporary write-down, description of write-up mechanism	Not applicable	Not applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Issuer's senior instruments	Debentures are debt instruments that have lower priority belonging to Tier 2 capital as specified in Article 63 of Regulation No. 575/2013 of the European Parliament and of the Council, provided the other conditions in the article are met. The debenture has lower priority than the issuer's other commitments. The debenture cannot be used to set off counter receivables.
36	Non-compliant transitioned features	No	No
37	If yes, specify non-compliant features	Not applicable	Not applicable

Capital instruments' main features template	Helsinki OP Fixed Debenture 2/2014	Helsinki OP Fixed Debenture 3/2014
1 Issuer	Helsinki Area Cooperative Bank	Helsinki Area Cooperative Bank
2 Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	ISIN: FI4000096938	FI4000100409
3 Governing law(s) of the instrument	Finnish law	Finnish law
Regulatory treatment		
4 Transitional CRR rules	Tier 2 Capital (T2)	Tier 2 Capital (T2)
5 Post-transitional CRR rules	Tier 2 Capital (T2)	Tier 2 Capital (T2)
6 Eligible at solo/(sub-)consolidated/ solo & (sub-) consolidated	Solo and consolidated	Solo and consolidated
7 Instrument type (types to be specified by each jurisdiction)	Not applicable	Not applicable
8 Amount recognised in regulatory capital (currency as of most recent reporting date) EUR mln	11	6
9 Nominal amount of instrument (in millions)	EUR 11	EUR 6
9a Issue price	100%	100%
9b Redemption price	100%	100%
10 Accounting classification	Liability - carried at amortised cost	Liability - carried at amortised cost
11 Original date of issuance	18/06/2014	22/08/2014
12 Perpetual or dated	Dated	Dated
13 Original maturity date	18/06/2024	22/08/2024
14 Issuer call subject to prior supervisory approval	Yes	Yes
15 Optional call date, contingent call dates and redemption amount	The debenture is refunded in full in one instalment on 18 June 2024, on early refund date on 18 June 2019 or on the date specified in the issuer's general loan terms. Amount to be refunded: Nominal value	The debenture is refunded in full in one instalment on 22 August 2024, on early refund date on 22 August 2019 or on the date specified in the issuer's general loan terms. Amount to be refunded: Nominal value
16 Subsequent call dates, if applicable	See item 15	See item 15
Coupons/dividends		
17 Fixed or floating dividend/coupon	From fixed to floating	From fixed to floating
18 Coupon rate and any related index	3.25% per annum until 18 June 2019, after which 6-month EURIBOR + 2.54.% per annum	3.25% per annum until 22 August 2019, after which 6-month EURIBOR + 2.67% per annum
19 Existence of dividend stopper	No	No
20a Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory
20b Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory
21 Existence of step up or other incentive to redeem	No	No
22 Noncumulative or cumulative	Non-cumulative	Non-cumulative
23 Convertible or non-convertible	Non-convertible	Non-convertible
24 If convertible, conversion triggers	Not applicable	Not applicable
25 If convertible, fully or partially	Not applicable	Not applicable
26 If convertible, conversion rate	Not applicable	Not applicable
27 If convertible, mandatory or optional conversion	Not applicable	Not applicable
28 If convertible, specify instrument type convertible into	Not applicable	Not applicable
29 If convertible, specify issuer of instrument it converts into	Not applicable	Not applicable
30 Write-down features	Not applicable	Not applicable
31 If write-down, write-down triggers	Not applicable	Not applicable
32 If write-down, full or partial	Not applicable	Not applicable
33 If write-down, permanent or temporary	Not applicable	Not applicable
34 If temporary write-down, description of write-up mechanism	Not applicable	Not applicable
35 Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Debentures are debt instruments that have lower priority belonging to Tier 2 capital as specified in Article 63 of Regulation No. 575/2013 of the European Parliament and of the Council, provided the other conditions in the article are met. The debenture has lower priority than the issuer's other commitments. The debenture cannot be used to set off counter receivables.	Debentures are debt instruments that have lower priority belonging to Tier 2 capital as specified in Article 63 of Regulation No. 575/2013 of the European Parliament and of the Council, provided the other conditions in the article are met. The debenture has lower priority than the issuer's other commitments. The debenture cannot be used to set off counter receivables.
36 Non-compliant transitioned features	No	No
37 If yes, specify non-compliant features	Not applicable	Not applicable

Capital instruments' main features template	Helsinki OP Fixed Debenture 4/2014	Helsinki OP Fixed Debenture 5/2014
1 Issuer	Helsinki Area Cooperative Bank	Helsinki Area Cooperative Bank
2 Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	F14000106398	F14000113063
3 Governing law(s) of the instrument	Finnish law	Finnish law
Regulatory treatment		
4 Transitional CRR rules	Tier 2 Capital (T2)	Tier 2 Capital (T2)
5 Post-transitional CRR rules	Tier 2 Capital (T2)	Tier 2 Capital (T2)
6 Eligible at solo/(sub-)consolidated/ solo & (sub-) consolidated	Solo and consolidated	Solo and consolidated
7 Instrument type (types to be specified by each jurisdiction)	Not applicable	Not applicable
8 Amount recognised in regulatory capital (currency as of most recent reporting date) EUR mln	11	11
9 Nominal amount of instrument (in millions)	EUR 11	EUR 12
9a Issue price	100%	100%
9b Redemption price	100%	100%
10 Accounting classification	Liability - carried at amortised cost	Liability - carried at amortised cost
11 Original date of issuance	10/10/2014	14/11/2014
12 Perpetual or dated	Dated	Dated
13 Original maturity date	10/10/2024	14/11/2024
14 Issuer call subject to prior supervisory approval	Yes	Yes
15 Optional call date, contingent call dates and redemption amount	The debenture is refunded in full in one instalment on 10 October 2024, on early refund date on 10 October 2019 or on the date specified in the issuer's general loan terms. Amount to be refunded: Nominal value	The debenture is refunded in full in one instalment on 14 November 2024, on early refund date on 14 November 2019 or on the date specified in the issuer's general loan terms. Amount to be refunded: Nominal value
16 Subsequent call dates, if applicable	See item 15	See item 15
Coupons/dividends		
17 Fixed or floating dividend/coupon	From fixed to floating	From fixed to floating
18 Coupon rate and any related index	3.25% per annum until 10 October 2019, after which 6-month EURIBOR + 2.78% per annum	3.25% per annum until 14 November 2019, after which 6-month EURIBOR + 2.81% per annum
19 Existence of dividend stopper	No	No
20a Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory
20b Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory
21 Existence of step up or other incentive to redeem	No	No
22 Noncumulative or cumulative	Non-cumulative	Non-cumulative
23 Convertible or non-convertible	Non-convertible	Non-convertible
24 If convertible, conversion triggers	Not applicable	Not applicable
25 If convertible, fully or partially	Not applicable	Not applicable
26 If convertible, conversion rate	Not applicable	Not applicable
27 If convertible, mandatory or optional conversion	Not applicable	Not applicable
28 If convertible, specify instrument type convertible into	Not applicable	Not applicable
29 If convertible, specify issuer of instrument it converts into	Not applicable	Not applicable
30 Write-down features	Not applicable	Not applicable
31 If write-down, write-down triggers	Not applicable	Not applicable
32 If write-down, full or partial	Not applicable	Not applicable
33 If write-down, permanent or temporary	Not applicable	Not applicable
34 If temporary write-down, description of write-up mechanism	Not applicable	Not applicable
35 Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Debentures are debt instruments that have lower priority belonging to Tier 2 capital as specified in Article 63 of Regulation No. 575/2013 of the European Parliament and of the Council, provided the other conditions in the article are met. The debenture has lower priority than the issuer's other commitments. The debenture cannot be used to set off counter receivables.	Debentures are debt instruments that have lower priority belonging to Tier 2 capital as specified in Article 63 of Regulation No. 575/2013 of the European Parliament and of the Council, provided the other conditions in the article are met. The debenture has lower priority than the issuer's other commitments. The debenture cannot be used to set off counter receivables.
36 Non-compliant transitioned features	No	No
37 If yes, specify non-compliant features	Not applicable	Not applicable

Capital instruments' main features template		Helsinki OP Fixed Debenture 6/2014
1	Issuer	Helsinki Area Cooperative Bank
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	FI4000115530
3	Governing law(s) of the instrument	Finnish law
	Regulatory treatment	
4	Transitional CRR rules	Tier 2 Capital (T2)
5	Post-transitional CRR rules	Tier 2 Capital (T2)
6	Eligible at solo/(sub-)consolidated/ solo & (sub-) consolidated	Solo and consolidated
7	Instrument type (types to be specified by each jurisdiction)	Not applicable
8	Amount recognised in regulatory capital (currency as of most recent reporting date) EUR mln	8
9	Nominal amount of instrument (in millions)	EUR 8
9a	Issue price	100%
9b	Redemption price	100%
10	Accounting classification	Liability - carried at amortised cost
11	Original date of issuance	29/12/2014
12	Perpetual or dated	Dated
13	Original maturity date	29/12/2024
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	The debenture is refunded in full in one instalment on 29 December 2024, on early refund date on 29 December 2019 or on the date specified in the issuer's general loan terms. Amount to be refunded: Nominal value
16	Subsequent call dates, if applicable	See item 15
	Coupons/dividends	
17	Fixed or floating dividend/coupon	From fixed to floating
18	Coupon rate and any related index	3.25% per annum until 29 December 2019, after which 6-month EURIBOR + 2.86% per annum
19	Existence of dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion triggers	Not applicable
25	If convertible, fully or partially	Not applicable
26	If convertible, conversion rate	Not applicable
27	If convertible, mandatory or optional conversion	Not applicable
28	If convertible, specify instrument type convertible into	Not applicable
29	If convertible, specify issuer of instrument it converts into	Not applicable
30	Write-down features	Not applicable
31	If write-down, write-down triggers	Not applicable
32	If write-down, full or partial	Not applicable
33	If write-down, permanent or temporary	Not applicable
34	If temporary write-down, description of write-up mechanism	Not applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Debentures are debt instruments that have lower priority belonging to Tier 2 capital as specified in Article 63 of Regulation No. 575/2013 of the European Parliament and of the Council, provided the other conditions in the article are met. The debenture has lower priority than the issuer's other commitments. The debenture cannot be used to set off counter receivables.
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	Not applicable

Note 106. Disclosure on asset encumbrance

The tables below provide information on asset encumbrance and liabilities related to encumbered assets. The figures are presented as the quarterly median for 2016. An asset is considered encumbered if it has been pledged or given as collateral or they secure transactions recognised in the balance sheet (e.g. to secure debt). Other assets that are not freely available within the Group are also classified as encumbered. Encumbered assets mainly relate to collateral pertaining to OP Corporate Bank plc's derivatives, loans with collateral of central bank refinancing and collateral with respect to covered bonds issued by OP Mortgage Bank. Of the collateral related to covered bonds, EUR 945 million is overcollateralised. 64% of unencumbered assets is not eligible as collateral (e.g. intangible assets, and property, plant and equipment, adjusting entries for assets and tax assets).

Assets, EUR million	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Equity instruments			228	228
Debt securities	785	785	13,724	13,734
Loans	12,112		65,728	
Other assets	824		17,032	
Total assets	13,720	785	96,712	13,962

The table below presents collateral received by asset type

Collateral received, EUR million	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
Equity instruments		
Debt securities		2
Other collateral received		899
Total collateral received		901

Encumbered assets and collateral received accounted for 12.3 % of the assets of the amalgamation of the Group's member cooperative bank.

Encumbered assets and associated liabilities, EUR million	Liabilities associated with	
	encumbered assets	Encumbered assets
Covered bonds	9,326	10,167
Other secured debt	7,368	3,561
Total	16,694	13,728

Note 107. Leverage

Leverage ratio, EUR million	31 Dec. 2016	31 Dec. 2015
Tier 1 capital (T1)	8,954	8,316
Total exposure	120,257	114,780
Leverage ratio, %	7.4	7.2

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. The minimum leverage ratio is based on December-end figures.

Table LRSum: Summary reconciliation of accounting assets and leverage ratio exposures		Applicable amount
1	Total assets as per published financial statements	133,747
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-20,073
4	Adjustments for derivative financial instruments	2,592
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	12,169
7	Other adjustments	-8,178
8	Leverage ratio total exposure measure	120,257

Table LRCom: Leverage ratio common disclosure CRR		CRR leverage ratio exposures
On-balance sheet exposures (excluding derivatives and SFTs) 1		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	106,772
2	Asset amounts deducted in determining Tier 1 capital	-1,035
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	105,737
Derivative exposures		
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	771
5	Add-on amounts for PFE associated with all derivatives transactions (mark- to-market method)	1,580
11	Total derivatives exposures	2,351
Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	20,259
18	Adjustments for conversion to credit equivalent amounts	-8,091
19	Other off-balance sheet exposures	12,169
Capital and total exposure measure		
20	Tier 1 capital	8,954
21	Leverage ratio total exposure measure	120,257
Leverage ratio		
22	Leverage ratio	7.4
Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	Transitional

Table LR5pl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)		CRR leverage ratio exposures
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	106,772
EU-2	Trading book exposures	638
EU-3	Banking book exposures, of which:	106,134
EU-4	Covered bonds	5,990
EU-5	Exposures treated as sovereigns	18,413
EU-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	119
EU-7	Institutions	533
EU-8	Secured by mortgages of immovable properties	44,820
EU-9	Retail exposures	6,021
EU-10	Corporate	25,091
EU-11	Exposures in default	1,167
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	3,979

Table LRQua: Free format text boxes for disclosure on qualitative items

- 1 Description of the processes used to manage the risk of excessive leverage**
By means of ALM and capital management, the Group ensures that leverage will remain controlled in view of maturity transformation and that adequate tools will remain available for leverage management. OP Financial Group has set its capital adequacy target sufficiently high, in which case leverage will not be high or the minimum leverage ratio will not decrease close to the minimum level. The Group monitors leverage by means of its internal target levels for the leverage ratio and of capital adequacy; in addition, the Group monitors, for example, the net stable funding ratio (NSFR) and the asset encumbrance (AE).
- 2 Description of the factors that had an impact on the leverage Ratio during the period to which the disclosed leverage Ratio refers**
Equity capital increased slightly faster than balance sheet exposures. As a result, the minimum leverage ratio increased slightly. The balance sheet grew in line with the growth targets set for the loan portfolio and the liquidity buffer. The Report by the Executive Board describes changes in the operating environment.

Note 108. Institution-specific countercyclical capital buffer

Table 1: Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer, EUR million

Row	General credit exposures		Trading book exposure		Securitisation exposure	
	Exposure value for SA	Exposure value IRB	Sum of long and short position of trading book	Value of trading book exposure for internal models	Exposure value for SA	Exposure value for IRB
	010	020	030	040	050	060
010	Breakdown by country*					
	Finland	2,929	86,566	297		30
	Sweden	2	634	10		
	Norway	0	180			
	Other	985	1,365	11		567
020	Total	3,917	88,745	318		597

Row	Own funds requirements				Total	Own funds requirement weights	Countercyclical capital buffer rate
	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securitisation exposures				
	070	080	090		100	110	120
010	Breakdown by country*						
	Finland	2,813	17	0	2,830	0.94	0.00%
	Sweden	34	1		35	0.01	1.50%
	Norway	5			5	0.00	1.50%
	Other	147	0	5	152	0.05	0.00%
020	Total	2,998	19	5	3,021	1.00	

Table 2: Amount of institution-specific countercyclical capital buffer

Row	Column
010	Total risk exposure amount
020	Institution specific countercyclical buffer rate
030	Institution specific countercyclical buffer requirement

* Exposures calculated based on Article 140.4 of the Capital Requirements Directive exclude government exposures, exposures comparable to them and credit institution exposures.

Statement concerning the financial statements

We have approved the Report by the Executive Board and the Financial Statements for 1 January–31 December 2016 of OP Financial Group, a financial entity as referred to in Section 9 of the Act on the Amalgamation of Deposit Banks. The Report by the Executive Board and the Financial Statements are presented to, and passed out at, the Annual Cooperative Meeting.

Helsinki, 7 February 2017

Executive Board of OP Cooperative

Reijo Karhinen
OP Financial Group's President and
Group Executive Chairman

Tony Vepsäläinen

Karri Alameri

Carina Geber-Teir

Jari Himanen

Olli Lehtilä

Harri Luhtala

Harri Nummela

Erik Palmén

Jouko Pölönen

Outi Taivainen

Auditors' note

We have today issued an auditor's report on the audit performed.

Helsinki, 9 February 2017

KPMG Oy Ab
Firm of Authorised Public Accountants

Raija-Leena Hankonen
Authorised Public Accountant

This document is an English translation of the Finnish auditor's report. Only the Finnish version of the report is legally binding.

Auditor's report

To the members of OP Cooperative

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of amalgamation OP Financial Group pursuant to the Act on the Amalgamation of Deposit Banks for the year ended 31 December, 2016. The financial statements comprise the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity capital, cash flow statement and notes, including a summary of significant accounting policies.

In our opinion the consolidated financial statements give a true and fair view of OP Financial Group's financial performance and financial position in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of member institutions within OP Financial Group in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Materiality

The scope of our audit was influenced by our application of materiality. The materiality is determined based on our professional judgement and is used to determine the nature, timing and extent of our audit procedures and to evaluate the effect of identified misstatements on the financial statements as a whole. The level of materiality we set is based on our assessment of the magnitude of misstatements that, individually or in aggregate, could reasonably be expected to have influence on the economic decisions of the users of the financial statements. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

THE KEY AUDIT MATTER**HOW THE MATTER WAS ADDRESSED IN THE
AUDIT**

Receivables from customers (notes 1, 6, 14 and 21 to the financial statements)

Receivables from customers, totaling € 78.6 billion, are the most significant item on the OP Financial Group's consolidated balance sheet representing 59 percent of the total assets. Interest income accruing on receivables, in aggregate € 1.2 billion, forms a material part of the OP Financial Group's result.

Impairment losses on loans and receivables are recognized on an individual or collective basis. Impairments are assessed on an individual basis if the debtor's total exposure is significant. An impairment assessed on individual basis is recognized when there is objective evidence that the receivable cannot be recovered in full. Collectively assessed impairment is calculated on a modelled basis. OP Cooperative evaluates and validates the basis of the model regularly.

Valuation of receivables involves management judgement, especially in respect of the amount and timing of impairment losses.

Due to the significance of the carrying amount involved, and the high level of judgment involved relating to impairment review, receivables are addressed as a key audit matter.

Our audit procedures included assessment of recognition and valuation principles applied to receivables for appropriateness, as well as testing of internal controls over determination and recognition of loan impairments.

We evaluated the compliance with lending instructions. We tested controls over recognition and monitoring of loan receivables, interest and impairments. We utilized data analysis in our audit focusing on the loans granted during the financial year. Furthermore, we considered the appropriateness of impairments assessed on individual basis of a sample of loans selected using data analysis.

Our audit procedures also comprised interest income analysis by reference to developments in loan receivables and interest margins.

We assessed the collective impairment model in use, parameters used and the validation process of the model.

We requested other auditors of OP Financial Group institutions to issue an opinion that the institutions within OP Financial Group have complied with the instructions provided by OP Cooperative in respect of valuation of receivables.

Furthermore, we considered the appropriateness of the notes provided by OP Financial Group in respect of receivables and impairment losses.

Investment assets and derivative contracts (notes 1, 9, 20, 22 and 30 to the financial statements)

The carrying value of investment assets totals € 25.1 billion mainly consisting of investments measured at fair value. The aggregate derivative assets are € 4.7 billion and derivative liabilities € 4.0 billion comprising contracts held for trading and hedging purposes. Derivatives are measured at fair value in preparing financial statements.

The fair value of financial instruments is determined using either prices quoted in an active market or OP Financial Group's own valuation techniques where no active market exists. Determining fair values for investments and derivatives involves management judgements, especially in respect of those instruments for which market-based data is not available.

OP Financial Group's investment assets and derivative positions comprise a diverse range of interest, currency, commodity and share instruments as well as property investments and their fair values may fluctuate significantly depending on market conditions.

Due to the significant carrying values of investment assets and derivative positions involved, and management judgements related to measurement of illiquid investments, valuation of these assets is addressed as a key audit matter.

We evaluated the appropriateness of the accounting principles applied and the valuation techniques used by OP Financial Group, and tested internal controls over the valuation process of investments and derivative contracts.

Our audit procedures also comprised assessment of net investment income by reference to developments in market and the structure of the investment portfolio.

In respect of derivative contracts we considered the appropriateness of the accounting treatment applied with the requirements set under IFRS.

As part of our year-end audit procedures we compared the fair values used in valuation of investment assets and derivatives to market quotations and other external price references.

We also assessed the impairment principles applied and techniques used by OP Financial Group in respect of investments.

Finally, we considered the appropriateness of the notes on investment assets and derivatives.

Insurance liabilities (notes 1, 7 and 32 to the financial statements)

Measurement of insurance liabilities, amounting to € 10.6 billion on the OP Financial Group's balance sheet, is based on various actuarial assumptions and calculation methods.

Our audit procedures included assessment of the principles related to calculation and recognition of insurance liabilities. Our actuary specialist evaluated the appropriateness of the assumptions and methods used in determining insurance liabilities, and compared the

Calculation of insurance liabilities is based on data processed in many IT systems and combination of that data. The databases are extensive and data volumes processed by the IT systems are substantial.

Interest rate risk associated with insurance liabilities is hedged with derivatives and interest instruments, which are measured at fair value in the financial statements.

Due to the significant carrying value of insurance liabilities involved, and the complexity associated with actuarial models used, insurance liabilities are addressed as a key audit matter.

assumptions to industry development and market information, among others.

We evaluated internal control over the accuracy of data used in calculating insurance liabilities, assessed the appropriateness of the related controls and compared them with methods widely used in the industry.

We analyzed the effectiveness of hedging against interest rate risks, and the appropriateness of the accounting for derivative instruments used for hedging purposes.

Furthermore, we considered the appropriateness of the notes on insurance liabilities.

Control environment relating to financial reporting process and IT systems

In respect of the accuracy of the financial statements of OP Financial Group, the key reporting processes are dependent on technology. Therefore, information technology plays an essential role for business continuity, incident management and the accuracy of financial reporting. Consequently, the IT environment related to the financial reporting process and the application controls of individual IT systems have a significant effect on the selected audit approach.

As the consolidated financial statements of OP Financial Group are based on a large number of data flows from many systems, the financial reporting IT environment is addressed as a key audit matter.

We obtained an understanding of the IT systems related to financial reporting and the associated control environment, and tested the effectiveness of the related internal controls.

Our audit procedures also concentrated on monitoring of key data flows and transactions, change management, system development and business continuity management.

For the financial year 2016 our focus areas were the subledger for corporate customer loans and the key IT systems of non-life insurance.

As part of our audit we performed extensive substantive procedures and data analyses relating to various aspects in financial reporting process.

Responsibilities of the Executive Board and the Managing Director for the Financial Statements

The Executive Board and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU in a manner explained in more detail in the notes to the financial statements, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Executive Board and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Executive Board and the Managing Director are responsible for assessing OP Financial Group's ability to continue as a going concern, disclosing, as applicable, matters relating to the going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate OP Financial Group or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of OP Financial Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Executive Board and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on OP Financial Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause OP Financial Group cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within OP Financial Group to express an opinion on the consolidated financial statements. We remain solely responsible for our audit opinion.
- We also acquaint ourselves with the financial statement policies adopted by OP Financial Group's member institutions, as well as the auditors' reports submitted for the audit of OP Financial Group's consolidated financial statements.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Requirements

Other Information

The Executive Board and the Managing Director are responsible for the other information. The other information comprises information included in the report of the Executive Board. Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the information included in the report of the Executive Board and, in doing so, consider whether the information included in the report of the Executive Board is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. Our responsibility also includes considering whether the report of the Executive Board has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Executive Board is consistent with the information in the financial statements and the report of the Executive Board has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed, we conclude that there is a material misstatement in the information included in the report of the Executive Board, we are required to report this fact. We have nothing to report in this regard.

Helsinki February 9, 2017

KPMG OY AB

Raija-Leena Hankonen
Authorised Public Accountant, KHT