OP Corporate Bank plc Report by the Board of Directors and Financial Statements 2017

Contents

Report by the Board of Directors for 2017

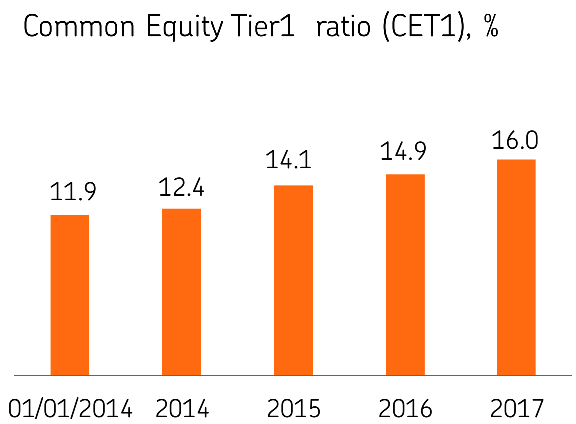
- Consolidated earnings before tax were EUR 535 million (504). The return on equity was 10.6% (10.4).
- Banking earnings before tax increased to EUR 344 million (260) due to higher net investment income and net interest income. The loan portfolio increased by 9.5% to EUR 20.1 billion. The cost/income ratio was 31.4% (32.8).
- Non-life Insurance earnings before tax decreased to EUR 193 million (231). Reduction of the discount rate weakened net insurance income and the operating combined ratio, which was 96.1% (87.6). Net return on investments at fair value totalled EUR 135 million (85).
- Other Operations earnings before tax were EUR -2 million (13). Liquidity and access to funding remained good.
- The CET1 ratio was 16.0% (14.9), while the target is 15%.
- Jouko Pölönen will resign from his position as President and CEO of OP Corporate Bank plc on 30 April 2018.
- Outlook for 2018: OP Corporate Bank Group's consolidated earnings before tax are expected to be about the same as in 2017.

	Q1–4/2017	Q1–4/2016	Change, %
Earnings before tax, € million			
Banking	344	260	32.2
Non-life Insurance	193	231	-16.7
Other Operations	-2	13	
Group total	535	504	6.0

Comparatives deriving from the income statement are based on figures reported for the corresponding period a year ago. Unless otherwise specified, balance-sheet and other cross-sectional figures on 31 December 2016 are used as comparatives.

Financial targets	31 Dec. 2017	31 Dec. 2016	Target
Customer experience, NPS (–100–+100)	69	58	70, over time 90
Common Equity Tier 1 (CET1) ratio, %	16.0	14.9	15
Return on economic capital, %	17.8	17.0	22
Expenses of present-day business*, € million	534	471	Expenses in 2020 lower than in 2015 (475)
Dividend payout ratio, % **	49.7	50.4	50

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



Operating environment

The economic situation improved markedly in 2017. Confidence indicators continued to improve towards the year end. Based on preliminary information, the world economy grew at its fastest rate for over five years. Last year, the euro-area economy reached its best growth rate recorded during the current decade.

Inflation remained moderate despite the favourable economic development. The European Central Bank (ECB) continued its accommodative monetary policy. In 2017, the ECB's monthly asset purchases in the markets totalled EUR 60 billion and the main refinancing rates remained unchanged.

The Euribor rates remained negative. The 12-month Euribor rate decreased slightly because of abundant liquidity, but the 3-month Euribor rate remained unchanged. Longer-term rates rose slightly during the year.

The Finnish economy grew strongly on a wide front. Exports rose at their fastest pace during the current decade. Companies increased their fixed investments as a result of improved profitability and the need for additional capacity.

Supported by favourable employment development, consumer confidence improved to a record level and boosted consumer spending. Construction projects were abundant, the housing market picked up and home prices rose slightly on average.

Favourable economic development is expected to continue in the near future, both in Finland and the rest of the euro area. The monetary policy is expected to tighten during 2018, but short-term interest rates should rise only slightly. The largest risks in the near future are associated with greater uncertainty in financial market and with the political environment.

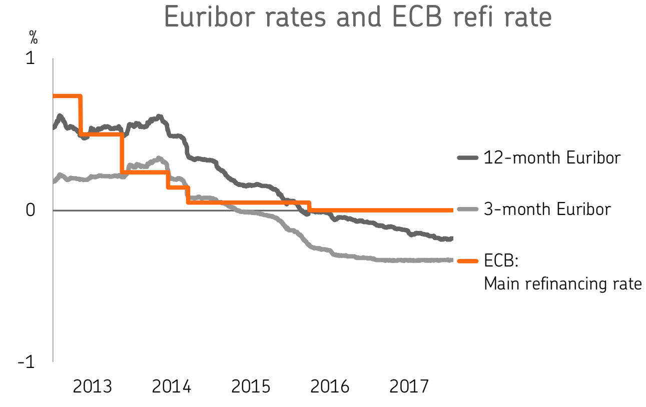
Total consumer loans increased by around 2.7% over the previous year. Consumer loans were raised more actively than a year ago. The average borrowing rate of new home loans drawn down declined further, coming to less than one percent. Corporate and housing association loans increased by 4.3% on a year earlier. Demand for consumer and corporate loans is expected to continue to pick up.

The annual growth rate of total deposits accelerated to 6.1% and that of total household decelerated deposits to 3.3%. Corporate deposits increased by 8.0% over the previous year while growth in deposits by public-sector entities remained brisk.

In 2017, the value of mutual funds registered in Finland increased by 8.9% to EUR 116.2 billion. A total of EUR 4.5 billion of this growth came from net asset inflows and EUR 5.1 million resulted from favourable market developments.

Positive mood in the economy and favourable developments in capital markets supported the insurance sector. However, price competition among private and corporate customers and in corporate and institutional insurance, which became fiercer during the latter half of the year, ate up premiums written.

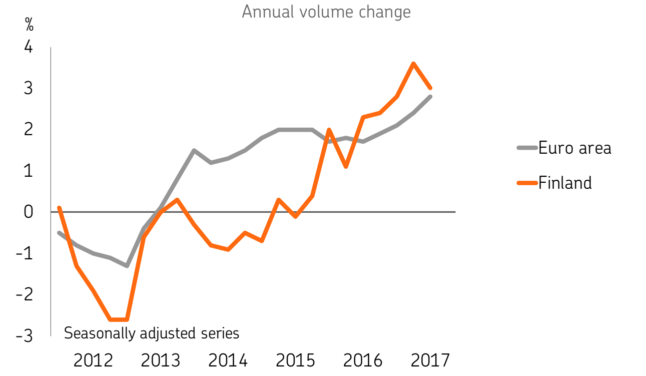
Euribor rates and ECB refi rate



Source: Bank of Finland

GDP

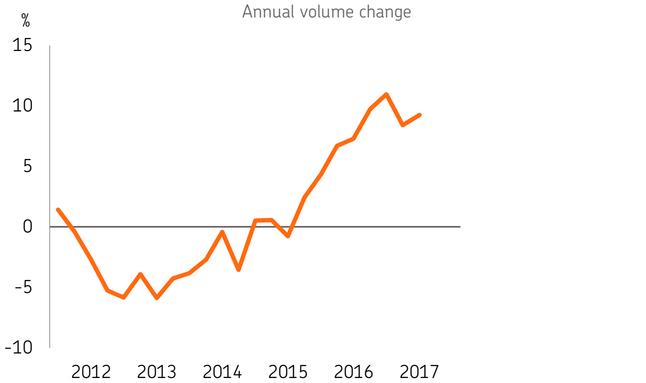
Annual volume change



Sources: Eurostat, Statistics Finland

Fixed investments in Finland

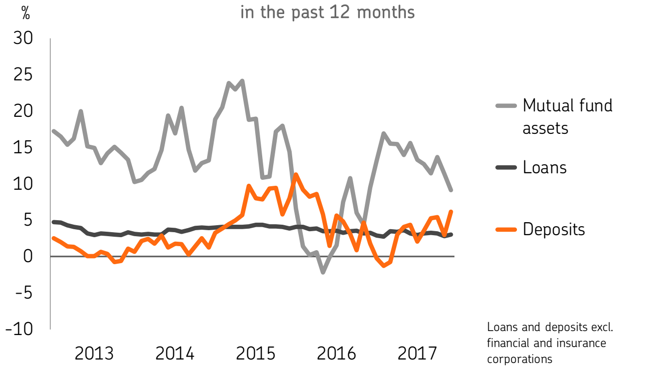
Annual volume change



Source: Statistics Finland

Change in financial sector volumes

in the past 12 months



Sources: Bank of Finland, Investment Research Finland

Consolidated earnings

€ million	Q1–4/2017	Q1–4/2016	Change, %
Net interest income	259	228	13.8
Net insurance income	459	534	-14.1
Net commissions and fees	-24	-4	
Net investment income	389	247	57.1
Other operating income	38	33	15.5
Share of associates' profit/loss	1	-2	
Total income	**1,121**	**1,037**	**8.2**
Personnel costs	164	162	1.2
Depreciation/amortisation and impairment loss	64	51	26,1
Other operating expenses	344	281	22.7
Total expenses	**573**	**494**	**16.0**
Impairment loss on receivables	12	37	-66.4
OP bonuses to owner-customers	2	2	5.0
Total earnings before tax	**535**	**504**	**6.0**

January–December

Consolidated earnings before tax were EUR 535 million (504). Total income rose by 8.2% and total expenses by 16%. Both Banking and Non-life Insurance increased their income. Net investment income, in particular, added to total income. Total expenses were increased by higher ICT costs.

Net interest income rose to EUR 259 million (228). Banking net interest income improved as funding costs decreased and the loan portfolio increased. Net interest income was decreased by net interest income from Other Operations' derivatives operations.

Net insurance income fell to EUR 459 million (534) due to higher claims incurred. Insurance premium revenue increased by EUR 12 million thanks to the rise in insurance premium revenue from Private Customers. Increased price competition eroded income generation in both Private and Corporate Customers. Bringing forward the plan to reduce the discount rate increased claims incurred by EUR 102 million (55). In addition, claims development was poorer than a year ago.

Net commissions and fees were EUR -24 million (-4). The fees OP Corporate Bank Group pays to member cooperative banks for non-life insurance and derivatives sales increase commission expenses and turn net commissions and fees negative. Commission income was up by EUR 6 million year on year, increased by commission income from securities brokerage and securities issuance. Commission income was also increased by higher commission income from the card business than in the year before. Commission income was decreased by lower commission income from payment transfer services and insurance brokerage. Commission expenses were increased by higher fees paid to member banks for sales of derivatives and FX products and fees paid for card business. Excluding fees paid to member banks, commission expenses decreased year on year due to lower expenses of the payment transfer services.

Net investment income totalled EUR 389 million (247). Net income from securities trading increased by a total of EUR 69 million, of which EUR 32 million came from positive value changes in Credit Valuation Adjustment (CVA) in derivatives owing to market movements. In addition, income was improved by income from Other Operations' derivatives operations. Net income from available-for-sale assets totalled EUR 196 million (137). Year on year, it was increased by a 87-million euro rise in capital gains on equity investments and a 14-million euro increase in dividends and share of profits but, conversely, decreased by EUR 56 million in capital losses on notes and bonds. Net investment income included a total of EUR 5 million (20) in impairment losses.

Other operating income increased to EUR 38 million (33). Income was increased by income from the health and wellbeing business as well as capital gains on the sale of the portfolio of agreements and POS terminals of acquiring and POS services.

Total expenses rose by 16% to EUR 573 million (494). Personnel costs were up by 1.2% over the previous year due to higher defined benefit pension costs. Other operating expenses were increased by a rise of EUR 39 million in ICT costs. In addition, other operating expenses increased by EUR 12 million due to expanding the health and wellbeing business and crediting a portion of income from the liquidity buffer to member banks. Depreciation/amortisation was increased mainly by higher depreciation/amortisation and impairment losses related to ICT investments particularly in Non-life Insurance.

ICT investments and related specifications made up a significant portion of development expenditure. Mostly development concerned the present-day business. In January–December, development expenditure totalled EUR 99 million (75). It includes licence fees, purchased services, other external costs related to projects and in-house work. The capitalised development expenditure totalled EUR 46 million (39).

Impairment losses on receivables totalled EUR 12 million (37), accounting for 0.05% (0.18) of the loan and guarantee portfolio.

The fair value reserve before tax decreased from its 2016-end level, totalling EUR 204 million (245) on 31 December 2017.

January–December highlights

ECB's targeted longer-term refinancing operations (TLTRO-II)

The ECB offered euro-area credit institutions four targeted longer-term refinancing operations with a maturity of four years (TLTRO-II) with the primary aim of fostering growth. Under TLTRO-II, the banks have been able to borrow up to 30% of their loan balance as at 31 January 2016 to 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 operations during the financial year with a total of EUR 1 billion. In total, OP Financial Group has participated in TLTRO-II with a total of EUR 4 billion.

SME financing programmes

OP Financial Group acts as an intermediary bank in two SME financing programmes guaranteed by the European Investment Fund (EIF) which enable financing worth a total of EUR 300 million. The EIF gives a 50% risk-sharing guarantee to the loans. The programmes are targeted at projects and investments of growing and innovative companies. The agreement covering the first financing programme, designed for companies with a staff of less than 500, was signed in March 2016. The agreement signed in January 2017, in turn, focuses on companies with a staff of less than 250. Within the framework of these programmes, OP has already granted 315 SME loans totalling almost EUR 180 million. By providing financing to SMEs with growth potential, OP Financial Group wants to be involved in supporting future economic growth and employment.

Request for clarification from the Finnish Competition and Consumer Authority

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.

Divestment of merchant acquiring and POS terminal services

OP Financial Group and Nets signed on 5 April 2017 an agreement whereby OP sold its portfolio of agreements and POS terminals of acquiring and POS terminal services to Nets specialising in providing digital card payments. Acquiring and POS terminal services enable merchants to accept card payments as a payment method for purchases. As a result of the transaction, OP transferred acquiring and payment terminal service agreements of some 15,000 merchants to Nets. OP and Nets have been in cooperation in the sold services since 2011.

On the transaction, OP Corporate Bank Group recognised EUR 2 million in earnings.

Launch of OP Crowdfunding

September saw the launch of OP Crowdfunding: a fully digital service connecting businesses in need of capital with investors. In the service, OP intermediates financing. For businesses, the service is a new tool for financing growth while, for investors, it provides a means to support operations in line with their values and local businesses. Crowdfunding is particularly suited for financing fast-growing SMEs.

At its best, crowdfunding will create new growth and jobs in Finland, which is why this type of financing fits perfectly into OP's social role.

Timo Ritakallio to become Chair of the Board of Directors

On 20 September 2017, the Supervisory Board of OP Financial Group's central cooperative appointed Timo Ritakallio, LL.M, MBA and D.Sc. (Tech.), OP Financial Group's new President and Group Executive Chairman. Following the appointment, he will also become Chair of the Board of Directors of OP Corporate Bank. He will take up his duties at OP Financial Group on 1 March 2018. Reijo Karhinen, OP Financial Group's President and Group Executive Chairman and Chair of the Board of Directors of OP Corporate Bank, retired on 31 January 2018, based on his executive contract. Until Ritakallio takes up his duties as the new Chair of the Board, Tony Vepsäläinen will act as Chair of the Board.

Efficiency target specified

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

EIB funding to support mid-sized and large companies' investments

The European Investment Bank (EIB) has agreed with OP on a risk-sharing guarantee facility for large and mid-sized companies. The agreement was signed between OP Corporate Bank and the EIB in November 2017. Following the agreement, OP makes a 300-million euro financing package available to mid-sized Finnish companies. This risk-sharing guarantee will be allocated to OP Corporate Bank's eligible mid-cap financing projects.

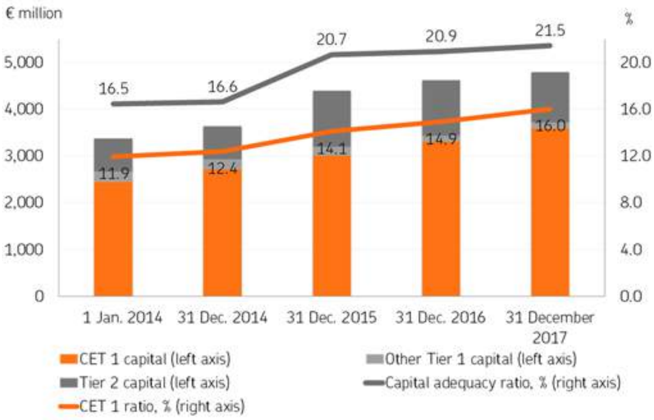
The agreement involves individual projects and enables a guarantee for a maximum of 20 contracts. Risk-sharing guarantee can be applied to projects whose financing is between EUR 7.5 million and EUR 50 million. Since the EIB will independently conduct credit appraisals and set the price for the guarantee portion, the risk-sharing model will generate no pricing benefits which could be passed on to the customer.

Jouko Pölönen to depart from OP

Jouko Pölönen will resign from his position as President and CEO of OP Corporate Bank plc on 30 April 2018 to become President and CEO of Ilmarinen Mutual Pension Insurance company. Employed by OP Financial Group since 2001, Jouko Pölönen became Executive Board member and responsible for the Group-level Banking business segment in 2014.

Group's capital adequacy and capital base

Capital base and capital adequacy



Capital adequacy for credit institutions

The Group's CET1 ratio was 16.0% (14.9) on 31 December 2017. The Group's CET1 target is 15%.

As a credit institution, the Group's consolidated capital adequacy is on a solid basis compared to the statutory requirements and those set by the authorities. The statutory minimum for the capital adequacy ratio is 8% and for the CET1 ratio 4.5%. The requirement for the capital conservation buffer of 2.5% under the Act on Credit Institutions increases in practice the minimum capital adequacy ratio to 10.5% and the CET1 ratio to 7%.

The CET1 capital totalled EUR 3.6 billion (3.3) on 31 December 2017, thanks to earnings by the Banking segment and the Other Operations segment and dividends from insurance companies.

On 31 December 2017, the risk exposure amount (REA) totalled EUR 22.3 billion (22.1), or 1.1% higher than on 31 December 2016. The average credit risk weights decreased from their 2016-end levels thanks to the improved quality of the loan portfolio and optimisation of calculation methods. OP Financial Group treats insurance holdings within the financial and insurance conglomerate as risk-weighted assets, based on permission from the European Central Bank (ECB). Equity investments include EUR 3.7 billion in risk-weighted assets of OP Corporate Bank Group's internal insurance holdings with a risk weight of around 280%.

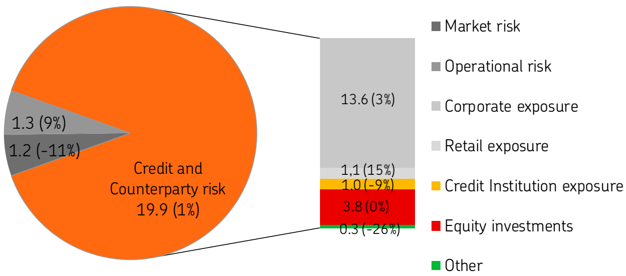
OP Corporate Bank Group belongs to OP Financial Group, whose capital adequacy is supervised in accordance with the Act on the Supervision of Financial and Insurance Conglomerates.

The Financial Supervisory Authority makes a macroprudential policy decision on a quarterly basis. In December 2017, the Financial Supervisory Authority reiterated its decision not to impose a countercyclical capital buffer requirement on banks. On housing loans, a 15% minimum risk weight became effective from the beginning of 2018 for at least two years. The minimum risk weight on housing loans concerns OP Financial Group and has no effect on OP Corporate Bank.

The Ministry of Finance is drafting the inclusion of the systemic risk buffer in the Act on Credit Institutions. Accordingly, the Financial Supervisory Authority could set the systemic risk buffer ranging from 0 to 5%.

Capital adequacy disclosures under Pillar III can be found in Notes 70–76.

Risk Exposure Amount 31 December 2017
Total 22.3 € billion
(change from year end 1%)



ECB supervision

OP Financial Group is supervised by the European Central Bank (ECB). The ECB has set a capital requirement for OP Financial Group based on the supervisory review and evaluation process (SREP). The capital buffer requirement (P2R) set by the ECB is 1.75%. When taking account of the P2R, the minimum for OP Financial Group's CET1 ratio is 10.75% and for its capital adequacy ratio 14.25%. In addition, the ECB has set on OP Financial Group a capital adequacy guidance (P2G) of 1.0%. Failure to meet this guidance would not affect e.g. profit distribution. The P2G included, the CET1 requirement for OP Financial Group is 11.75%. OP Financial Group's capital adequacy clearly exceeds the new minimum set. The discretionary capital buffer requirement set by the ECB does not apply to OP Corporate Bank.

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

Liabilities under the Resolution Act

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

Solvency of non-life insurance companies

The solvency position was slightly weaker than on 31 December 2016. Dividend distributions decreased the capital base.

Non-life Insurance figures under Solvency II

€ million	31 Dec. 2017	31 Dec. 2016
Capital base, € million*	902	983
Solvency capital requirement (SCR), € million*	666	687
Solvency ratio, %*	135	143
Solvency ratio, % (excluding transitional provision)	135	127

*including transitional provisions.

Credit ratings

OP Corporate Bank plc's credit ratings on 31 December 2017

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

OP Insurance Ltd's financial strength ratings on 31 December 2017

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

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

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

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

At the same time, Standard & Poor's also affirmed OP Insurance Ltd's financial strength rating at A+ while keeping the outlook stable.

Risk Management

The purpose of risk management is to identify threats and opportunities affecting strategy implementation. The objective is to help achieve the targets set in the strategy by controlling that risks taken are proportional to risk capacity.

OP Corporate Bank Group's significant risks include credit risk, market risk, liquidity risk, underwriting risk and concentration risk. Strategic risks, reputational risk and operational risks (including compliance risk) are inherently related to all Group business lines.

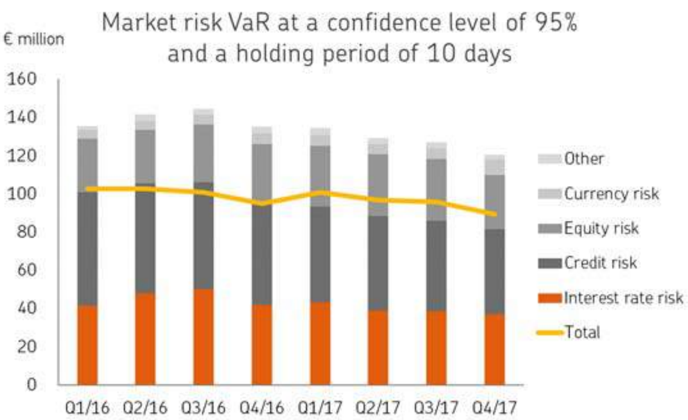
The risk management principles are described in the Financial Statements, Note 2, "Risk Management and Capital Adequacy Management Principles".

Group risk exposure

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

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

The Group's market risk exposure was stable during the financial year. The Value-at-Risk (VaR) metric, a measure of market risks, was EUR 89 million (95) on 31 December 2017. VaR includes the non-life insurance company's total assets, trading operations, the liquidity buffer of Other Operations and the interest rate exposure of Group Treasury.



The Group expects its operational risks to be moderate. The development speed of operations and services will, however, pose additional challenges to risk management in the upcoming years. Materialised operational risks resulted in approximately EUR 1.0 million (0.4) in costs during the financial year.

Risks associated with defined benefit pension plans relate to interest rate and market risk, future increases in pension benefits and longer life expectancy. A change in the discount rate for pension liabilities has a substantial effect on the amount of pension liabilities. The decrease in net liabilities related to defined benefit pension plans recognised in other comprehensive income during the financial year improved comprehensive income before tax by EUR 4 million. Net liabilities were decreased by healthy return on investment and lower assumption for the increase in future employee pensions and increased by OP Bank Group Pension Fund's experience adjustments. A year ago, an increase in net liabilities related to defined benefit pension plans decreased comprehensive income before tax by EUR 79 million.

Banking

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

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

Doubtful receivables totalled EUR 195 million (198). Doubtful receivables refer to receivables that are more than 90 days past due, other receivables classified as risky and forborne receivables due to the customer's financial difficulties. Forbearance measures consist of concessions agreed at the customers' initiative to contractual payment terms towards the customer to make it easier for them to manage through temporary payment difficulties. Impairment losses accounted for 0.05% (0.18) of the loan and guarantee portfolio.

Total exposure in Banking (including derivatives brokerage) was EUR 31.6 billion (29.3). The ratio of the exposure of the highest borrower grades 1–5.5 to total exposure (excluding private customers) was 66.4% (65.9). The proportion of the lowest borrower grades 11–12 was 0.6% (0.7). Corporate exposure (including housing corporations and corporate customers of retail exposure) accounted for 87.9% (88.1) of total Banking exposures. Of corporate exposures, the investment-grade exposure (borrower grades 1–5.5) accounted for 65.4% (64.9) and the exposure of the lowest two borrower grades amounted to EUR 187 million (196) or 0.7% (0.8) of the total corporate exposure.

Total Banking exposure by exposure class, € billion

	31 Dec. 2017	31 Dec. 2016	Change
Corporate exposures*	27.8	25.8	1.9
Retail exposure	1.7	1.5	0.2
Financial institutions and insurance companies	1.2	0.7	0.4
Public sector entities	1.0	1.2	-0.3
Total	31.6	29.3	2.3

* including housing corporations and corporate customers of retail exposure

Total Banking exposure* by borrower grade, € billion

Borrower grade	31 Dec. 2017	31 Dec. 2016	Change
1.0–2.0	2.2	1.7	0.5
2.5–5.5	17.7	16.6	1.1
6.0–7.0	6.5	5.9	0.6
7.5–9.0	3.2	3.2	0.0
9.5–10.0	0.2	0.2	0.0
11.0–12.0	0.2	0.2	0.0
Total	29.9	27.8	2.1

* excluding private customers

Four customers' exposures exceeded 10% of the capital base covering customer risk after allowances and other recognition of credit risk mitigation. On 31 December 2017, the amount of large corporate customer exposures totalled EUR 1.9 billion (0.0), while OP Corporate Bank's capital base covering customer risk was EUR 4.3 billion (4.6).

Corporate and housing corporation exposures by industry remained highly diversified. The most significant industries included Energy 14.8% (13.2), Trade 11.1% (10.5) and Services 9.6% (7.3).

Exposures by the Baltic operations grew to EUR 2.5 billion (2.0), accounting for 7.8% (6.9) of total exposures of the Banking segment.

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

Non-life Insurance

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

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

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

The risk exposure of investments was stable during the financial year. The VaR, a measure of market risk, was EUR 52 million (57) on 31 December 2017. No major changes took place in the investment portfolio's asset class allocation. The Group has used both interest rate derivatives and bonds to hedge against interest rate risk associated with insurance liability. The portfolio's interest rate and credit risk remained stable. The hedge ratio of interest rate risk associated with insurance liabilities was kept stable.

Other Operations

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

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

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

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

OP Financial Group monitors its liquidity and the adequacy of its liquidity buffer using, for example, the LCR (Liquidity Coverage Ratio). According to the transitional provisions, the LCR must be at least 80% in 2017 and at least 100% from the beginning of 2018. OP Financial Group's LCR was 123% on 31 December 2017.

Liquidity buffer

€ billion	31 Dec. 2017	31 Dec. 2016	Change, %
Deposits with central banks	12.8	9.3	37.2
Notes and bonds eligible as collateral	9.1	11.2	-18.7
Corporate loans eligible as collateral		0.1	
Total	21.9	20.6	6.2
Receivables ineligible as collateral	1.5	1.4	5.8
Liquidity buffer at market value	23.3	22.0	6.2
Collateral haircut	-0.7	-0.7	2.5
Liquidity buffer at collateral value	22.7	21.3	6.3

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 2017, € million

For OP Corporate Bank plc acting as OP Financial Group's central financial institution, OP cooperative banks and OP Cooperative with its subsidiaries form a significant customer group. Of the aggregated exposures of the Other Operations and the Banking segments, exposures of OP Financial Group (excluding OP Corporate Bank Group) represented 16.0%. These exposures increased during the year by EUR 0.4 billion or 3.6%. All exposures of OP Financial Group member cooperative banks and OP Cooperative are investment-grade exposures.

Total Other Operations exposure by borrower grade, € billion

Borrower grade	31 Dec. 2017	31 Dec. 2016	Change
1.0–2.0	31,5	29.7	1.8
2.5–5.5	5.6	6.8	-1.2
6.0–7.0	0.0	0.0	0.0
7.5–9.0	0.5	0.1	0.4
9.5–10.0	0.0	0.0	0.0
11.0–12.0	0.0	0.0	0.0
Total	37.6	36.6	-1.0

Financial performance by segment

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

Banking

- Earnings before tax increased to EUR 344 million (260) as a result of higher net interest income and net investment income.
- The loan portfolio increased in the year to December by 9.5% to EUR 20.1 billion.
- The ratio of impairment loss on receivables to the loan and guarantee portfolio decreased to 0.05% (0.18).
- The cost/income ratio was 31.4% (32.8).
- The most significant Banking development investments involved the development of finance and payment systems.
- In late 2017, a representative office was opened in Shanghai, China, to support Finnish companies' growth and internationalisation in the Asian market.

Banking: key figures and ratios

€ million	Q1–4/2017	Q1–4/2016	Change, %
Net interest income	348	300	16.1
Net commissions and fees	129	142	-9.5
Net investment income	18	-16	
Other operating income	24	15	58.9
Total income	**520**	**442**	**17.6**
Personnel costs	54	54	0.6
Depreciation/amortisation and impairment loss	11	10	15.1
Other operating expenses	98	81	20.5
Total expenses	**163**	**145**	**12.7**
Impairment loss on receivables	12	37	-66.6
Earnings before tax	**344**	**260**	**32.2**
Cost/income ratio, %	31.4	32.8	
Loan portfolio, € billion	20.1	18.0	11.7
Guarantee portfolio, € billion	2.4	2.5	-5.8
Margin on corporate loan portfolio, %	1.25	1.41	
Ratio of impairment loss on receivables to loan and guarantee portfolio, %	0.05	0.18	
Personnel	628	652	

The loan portfolio grew in the year to December by 9.5% to EUR 20.1 billion. Growth during the financial year was partly explained by a 0.4-billion euro internal change in the Group's customer exposures. The change had no impact on OP Corporate Bank Group's loan portfolio. The guarantee portfolio totalled EUR 2.4 billion (2.5) and committed standby credit facilities amounted to EUR 4.5 billion (4.4).

As a corporate partner, OP Corporate Bank aims to promote the success and internationalisation of Finnish business. In late 2017, a representative office was opened in Shanghai, China, to support Finnish companies' growth and internationalisation in the Asian market.

September saw the launch of OP Crowdfunding: a fully digital service connecting businesses in need of capital with investors. In the service, OP intermediates financing. Crowdfunding is particularly suited for financing fast-growing SMEs. Already during the financial year, OP Crowdfunding executed one crowdfunding round successfully and initiated in December its second crowdfunding project which was then successfully completed in January 2018.

In November 2017, OP Corporate Bank was the first player in Europe to sign an agreement with the European Investment Bank (EIB) on a risk-sharing guarantee facility for large and mid-sized companies. Following the agreement, OP Corporate Bank makes a 300-million euro financing package available to mid-sized Finnish companies. This risk-sharing guarantee will be allocated to OP Corporate Bank's eligible mid-cap financing projects. Moreover, the two other ongoing guarantee programmes, SME InnovFin and SME Initiative, have aroused interest among our corporate customers. These programmes put us in a strong position to support our customers' investments and growth.

Expectations of rising interest rates spurred the sales of interest rate protection products to Private and Corporate Customers. For example, their volume relative to home loans almost quintupled year on year.

January–December

Earnings before tax increased by 32.2% to EUR 344 million (260). Total income rose by 17.6% and total expenses by 12.7%. Total income was increased year on year by growth in the loan portfolio and positive CVA valuations. As a result of the rise in income, the cost/income ratio improved to 31.4% (32.8).

Owing to the increase in the loan portfolio and the decrease in funding costs, net interest income grew by 16.1% to EUR 348 million.

Net commissions and fees decreased by 9.5% to EUR 129 million (142). The fees paid to member banks for sales of derivatives and FX products were higher than the year before, increasing commission expenses for the financial year.

Net investment income was increased by positive CVA valuation arising from interest rate changes and other market movements. CVA valuation was EUR 21 million as against EUR -12 million a year ago.

Other operating income was increased by a 2-million euro gain on the sale of the acquiring and POS terminal services, a 3-million euro reimbursement for funding costs from the Other Operations segment and by EUR 1 million in income from home loan guarantees which were transferred from OP Insurance Ltd to OP Corporate Bank.

Net loan losses and impairment losses amounted to EUR 12 million (37), accounting for 0.05% (0.18) of the loan and guarantee portfolio. Final loan losses recognised totalled EUR 35 million (37) and reversal of impairment losses EUR 22 million (0).

Total expenses were EUR 163 million (145). Personnel costs remained at the previous year's level at EUR 54 million. Other operating expenses increased by 20.5% to EUR 98 million (81). ICT costs rose by EUR 13 million.

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

Non-life Insurance

- Earnings before tax amounted to EUR 193 million (231). Net investment income totalled EUR 175 million (102). Earnings before tax at fair value were EUR 108 million (300).
- Insurance premium revenue increased by 0.9% (1.6). Net return on investments at fair value totalled EUR 135 million (85).
- The discount rate for pension liabilities was lowered to 1.5% at the end of September 2017. The reduced discount rate increased claims incurred by EUR 102 million (55).
- The operating combined ratio was 96.1% (87.6) and operating expense ratio 20.3% (18.5). The combined ratio was 97.6% (89.1). The reduced discount rate and unfavourable claims development weakened the combined ratios.
- OP Financial Group will sell all share capital of its Baltic-based subsidiary Seesam Insurance As (Seesam), including its Latvian and Lithuanian branches, to Vienna Insurance Group (VIG). The parties signed the related contract of sale on 18 December 2017.
- The basic system upgrade of Non-life Insurance has begun. Launches in the financial year included new motor liability insurance and, within the fully digital OP Nano service family, home insurance and travel insurance.

Non-life Insurance: key figures and ratios

€ million	Q1–4/2017	Q1–4/2016	Change, %
Insurance premium revenue	1432	1,420	0.9
Claims incurred	970	883	9.8
Other expenses	3	3	4.3
Net insurance income	**459**	**534**	**-14.0**
Net investment income	175	102	71.1
Other net income	-61	-77	-20.1
Total income	**573**	**559**	**2.4**
Personnel costs	102	100	2.3
Depreciation/amortisation and impairment loss	50	40	25.7
Other operating expenses	226	187	21.2
Total expenses	**378**	**326**	**16.0**
OP bonuses to owner-customers	2	2	5.0
Earnings before tax	**193**	**231**	**-16.7**
Combined ratio, %	97.6	89.1	
Operating combined ratio, %	96.1	87.6	
Operating loss ratio, %	75.8	69.1	
Operating expense ratio, %	20.3	18.5	
Operating risk ratio, %	69.3	63.3	
Operating cost ratio, %	26.9	24.3	
Solvency ratio (Solvency II), %*	135	143	
Large claims incurred retained for own account	78	61	
Changes in claims for previous years (run off result)	35	60	
Personnel	1,774	1,730	

* Including the effect of transitional provisions.

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

OP bonuses earned through the use of banking and insurance services were used to pay 2,314,000 insurance bills (2,200,000), with 327,000 (297,000) of them paid in full using bonuses. Insurance premiums paid using bonuses totalled EUR 114 million (107).

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

During the financial year, Pohjola Health Ltd expanded its hospital network by two new Pohjola Hospitals. The Pohjola Hospital located in Helsinki and the Tampere hospital opened in 2016 were complemented by the Oulu hospital in May 2017 and the Kuopio hospital in August 2017. All four Pohjola Hospitals provide basic healthcare and special healthcare services, examinations, surgery and rehabilitation on an extensive basis. The hospital network will be completed in May 2018 when the Turku hospital opens its doors.

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

Customers have been satisfied with the service provided by Pohjola Hospitals. Among surgery customers, the NPS figure was 97 (96) in January–December 2017.

OP Financial Group will sell all share capital of its Baltic-based subsidiary Seesam Insurance As (Seesam), including its Latvian and Lithuanian branches, to Vienna Insurance Group (VIG). The parties signed the related contract of sale on 18 December 2017. The divestment should be completed during 2018, provided that it is approved by relevant authorities and that the related conditions are otherwise fulfilled.

January–December

Earnings before tax amounted to EUR 193 million (231). Net insurance income fell by 14.0% to EUR 459 million, chiefly due to the reduction of the discount rate. Net investment income recognised in the income statement increased by EUR 73 million. Capital gains on investments totalled EUR 132 million (55). Earnings before tax at fair value were EUR 108 million (300).

The operating combined ratio was 96.1% (87.6). The operating ratios exclude amortisation on intangible assets arising from the corporate acquisition.

Insurance premium revenue

€ million	Q1–4/2017	Q1–4/2016	Change, %
Private customers	786	771	1.9
Corporate customers	584	591	-1.3
Baltics	62	58	8.2
Total	1,432	1,420	0.9

Claims incurred, excluding the reduction in the discount rate, increased by 4.8%. Claims under property and business liability insurance incurred arising from new large claims were higher than a year ago. The reported number of new large claims under property and business liability insurance (in excess of EUR 0.3 million) amounted to 85 (78) in January December, with their claims incurred retained for own account totalling EUR 78 million (61). Provisions for unpaid claims under statutory pension changed year on year by EUR -8 million (10) in January–December. The discount rate was reduced to 1.5% at the end of September 2017. On 31 December 2016, the average discount rate was 1.97%. The reduced discount rate increased claims incurred by EUR 102 million (55) and weakened the operating combined ratio by 7.1 percentage points (3.9).

Changes in claims for previous years, excluding the effect of discount rate changes, improved the balance on technical account by EUR 35 million (60). The operating loss ratio was 75.8% (69.1). The operating risk ratio excluding indirect loss adjustment expenses was 69.3% (63.3).

Expenses grew by 16.0%, being EUR 52 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 20.3% (18.5). The operating cost ratio (including indirect loss adjustment expenses) was 26.9% (24.3).

Operating balance on technical account and combined ratio (CR)

	Q1–4/2017		Q1–4/2016	
	Balance € million	CR, %	Balance € million	CR, %
Private customers	93	88.1	130	83.1
Corporate customers	-41	107.0	41	93.1
Baltics	3	95.3	5	91.1
Total	55	96.1	176	87.6

Reduction in the discount rate weakened the balance on technical account both for Private Customers and particularly for Corporate Customers. Excluding the discount rate change deviating from the plan, the balance for Corporate Customers was EUR -4 million. The unfavourable claims development eroded the balance for major customers, in particular.

Investment

Net return on Non-life Insurance investments at fair value totalled EUR 135 million (85). 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. 2017	31 Dec. 2016
Bonds and bond funds*	68.0	74.4
Alternative investments*	4.7	3.2
Equities	8.5	8.1
Private equity	1.9	2.9
Real property	8.3	9.8
Money markets	8.5	1.9
Total	100	100

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

Non-life Insurance's investment portfolio totalled EUR 3,903 million (3,876) on 31 December 2017. Investments within the investment-grade category accounted for 95% (91), and 65% (62) of the investments were rated at least A–. On 31 December 2017, the fixed-income portfolio's modified duration was 5.1 (5.4).

The running yield for direct bond investments averaged 1.8% (1.7) on 31 December 2017.

Other Operations

- Earnings before tax were EUR -2 million (13). Earnings were eroded by lower earnings in Group Treasury than the year before.
- Earnings included EUR 19 million (19) in capital gains on notes and bonds and EUR 11 million (3) in dividend income.
- Liquidity and access to funding remained good.

Other Operations: key figures and ratios

€ million	Q1–4/2017	Q1–4/2016	Change, %
Net interest income	-68	-48	43.1
Net commissions and fees	-94	-84	11.3
Net investment income	195	159	22.5
Other operating income	8	13	-36.0
Total income	41	40	2.2
Personnel costs	8	8	6.8
Other expenses	36	19	87.3
Total expenses	43	27	59.0
Impairment loss on receivables	0	0	
Earnings before tax	-2	13	
Receivables and liabilities from/to OP Cooperative banks, net position, € billion	-2.8	1.1	
Personnel	50	72	-30.7

OP Corporate Bank's access to funding remained good. In January–December, OP Corporate Bank issued long-term senior bonds worth EUR 1.0 billion. In April 2017, OP Corporate Bank issued in the international capital market a senior bond of EUR 500 million with a maturity of five years. Furthermore, OP Corporate Bank participated in March 2017 in the second series of the ECB's targeted longer-term refinancing operations (TLTRO-II) with a total of EUR 1.0 billion. In total, OP Corporate Bank has participated in TLTRO-II with EUR 4.0 billion.

In December 2017, the average margin of senior wholesale funding and TLTRO-II funding was 19 basis points (31). Use of the TLTRO-II funding, together with funding arriving at maturity at higher cost, lower the cost of wholesale funding.

On 31 December 2017, OP cooperative banks' investments in OP Corporate Bank's Group Treasury were higher than funding borrowed by them from Group Treasury. OP cooperative banks' investments were increased by OP Mortgage Bank's covered bond funding which resulted in higher volumes of OP cooperative banks' investments in Group Treasury than before.

January–December

Earnings before tax amounted to EUR -2 million (13). Earnings before tax at fair value were EUR 35 million (38). Earnings were eroded by lower earnings in Group Treasury than the year before. Group Treasury manages liquidity for the entire OP Financial Group and, to a limited extent, net interest income in the banking book. Year-on-year earnings may vary depending on business funding requirements and on net interest income allocated to Group Treasury.

Derivatives operations decreased net interest income and increased net income from securities trading included in net investment income. According to the OP Corporate Bank Group's accounting policy, income from derivative instruments is split between net interest income and net income from securities trading. How this income is broken down between the two income statement items may vary considerably depending on the derivative instruments used in position management at a given time. Net investment income grew year on year by EUR 36 million thanks to derivatives operations generating higher net trading income included in the item. In addition, net investment income included EUR 19 million (19) in capital gains on notes and bonds and EUR 11 million (3) in dividend income. Dividend income in the financial year included EUR 7 million in interest on cooperative capital from Suomen Luotto-osuuskunta.

Net commissions and fees were eroded by client income from derivatives and FX trading paid to the Banking segment, which were higher than a year ago.

A year ago, other operating income was increased by costs of the centralised liquidity buffer charged from the Banking segment and OP Financial Group's other credit institutions. Income from the liquidity buffer credited to them, in turn, increased other expenses for the financial year.

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

Group restructuring

OP Corporate Bank Group is still making plans for restructuring under which the Non-life Insurance segment would be transferred from OP Corporate Bank to direct ownership of OP Cooperative. In addition, the option of separating central banking operations (Group Treasury) into a subsidiary wholly owned by OP Cooperative is being assessed. The specific manner or schedule to implement these changes has not yet been decided.

OP Corporate Bank's back office operations transferred to OP Financial Group's centralised services on 1 May 2017. Centralising back office operations is in line with OP Financial Group's strategy.

Foreign subsidiaries

The Estonia-based non-life insurance company Seesam Insurance AS and its branches will be sold to Vienna Insurance Group. The contract of sale was signed on 18 December 2017. The completion of the sale is conditional on obtaining the regulatory approval of the authorities. During the financial year, Seesam's insurance premium revenue totalled EUR 62 million and its balance on technical account was EUR 55 million.

OP Corporate Bank plc has subsidiaries and branches offering banking services for corporate customers in Estonia, Latvia and Lithuania. OP Corporate Bank is examining various strategic options in respect of Baltic Banking.

Representative offices

Towards the end of the financial year, a representative office was opened in China. The Shanghai representative office's mission is to help both Chinese and Finnish SMEs succeed in their business. It will seek to facilitate Finnish SMEs' access to large markets and promote their success, while assisting Chinese SMEs that might be interested in cooperating with Finnish partners.

The St. Petersburg representative office closed down at the end of the financial year. The St. Petersburg representative office has served cooperative banks' corporate customers since 1994, especially with respect to opening bank accounts and working capital finance, in cooperation with Raiffeisen Bank International. OP Corporate Bank's customers will continue to be served in cooperation with Raiffeisen Bank International.

Personnel and remuneration

In Banking and Other Operations, personnel were decreased due to the concentration of OP Corporate Bank's back office operations in OP Financial Group's centralised services. In Non-life Insurance's health and wellbeing business, personnel increased year on year.

Personnel

	31 Dec. 2017	31 Dec. 2016
Banking	628	652
Non-life Insurance	1,774	1,730
Other Operations	50	72
Total	2,452	2,454

During 2017, OP Financial Group was building an operating model to update employee competencies. The model anticipates the disruption whereby digitisation and automation will destroy some of the jobs currently existing in the financial sector, while also creating new jobs which require requiring new competencies. The operating model aims to encourage and steer employees to keep their own labour market value up to date. OP seeks to provide support, in terms of education, training and in finding a new type of job, for those employees whose job will either cease to exist or drastically change in the future. The first actions within this model will be started in 2018, and some have already been piloted.

The scheme for variable remuneration within OP Financial Group and OP Corporate Bank consists of short-term, company-specific remuneration and OP Financial Group-wide long-term remuneration.

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

OP Cooperative's Supervisory Board has set the following long-term target performance metrics: OP Financial Group's EBT, customer experience and the use of digital services.

The OP Financial Group-level targets are the same in the management incentive scheme and in OP Financial Group's Personnel Fund.

Corporate governance and management

OP Corporate Bank's management system is based on business segments. Management of OP Corporate Bank is part of OP Financial Group's management system.

The Annual General Meeting (AGM) re-elected OP Corporate Bank plc's Board: OP Financial Group's President and Group Executive Chairman Reijo Karhinen was re-elected Chairman of OP Corporate Bank's Board, and OP Financial Group's Executive Vice President of Operations Tony Vepsäläinen, OP Financial Group's Chief Financial Officer Harri Luhtala and Executive Vice President, OP Financial Group's Group Steering, Jari Himanen were re-elected Board members.

The AGM re-elected KPMG Oy Ab, a firm of authorised public accountants, to act as OP Corporate Bank's auditor, with Raija-

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

Jouko Pölönen acts as OP Corporate Bank's President and CEO until 30 April 2018.

On 20 September 2017, the Supervisory Board of OP Financial Group's central cooperative appointed Timo Ritakallio, LL.M, MBA and D.Sc. (Tech.), OP Financial Group's new President and Group Executive Chairman. Following the appointment, he will also become Chair of the Board of Directors of OP Corporate Bank. He will take up his duties at OP Financial Group on 1 March 2018. Reijo Karhinen, OP Financial Group's President and Group Executive Chairman and Chair of the Board of Directors of OP Corporate Bank, retired on 31 January 2018, based on his executive contract. Until Ritakallio takes up his duties as the new Chair of the Board, Tony Vepsäläinen will act as Chair of the Board.

OP Corporate Bank plc's Corporate Governance Statement is available at www.uusi.op.fi.

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.

With the positive driver of change through responsibility as the theme, OP's Corporate Responsibility Programme is built around the following four themes: "We foster a sustainable economy", "We support local vitality", "We act with a people-first approach and through engagement" and "We foster health, security and wellbeing". One of the objectives of the Programme in practice includes being carbon positive by 2025. As part of this objective, some energy needed for OP's Vallila building will be generated by means of the solar power station built on the roof of the building during the financial year. To promote diversity, OP's objective is that the proportion of both genders in management positions is at least 40%. The proportion of women in management positions was 21% at the end of 2017. OP's Annual Review presents the annual-level metrics of the Corporate Social Responsibility Programme.

During the financial year, OP Financial Group updated its Code of Business Ethics with which all those employed by OP Financial Group must comply, whatever their role, position or location. The Code of Business Ethics also covers the key environmental principles.

OP reports its CSR indicators based on the GRI Standards. Non-financial information is reported in OP Financial Group's Report by the Executive Board for 2017. For further information, see OP Year 2017.

Joint and several liability

OP Corporate Bank plc is a member of the central institution (OP Cooperative) of an amalgamation, as referred to in the Act on the Amalgamation of Deposit Banks, and belongs to said amalgamation.

The amalgamation is formed by OP Corporate Bank, OP Cooperative as the central institution of the amalgamation, other companies belonging to the central institutions consolidation group, the central institutions member credit institutions and companies belonging to their consolidation groups, and credit institutions, financial institutions and service companies in which the abovementioned institutions jointly hold more than half of the voting rights. OP Corporate Bank Group's insurance companies are not members of the aforementioned amalgamation.

The member credit institutions within the amalgamation (167 OP cooperative banks, OP Corporate Bank plc, OP Mortgage Bank, OP Card Company Plc and OP-Process Services Ltd) and the central institution are jointly and severally liable for each other's debts. A creditor who has not received payment of an overdue amount (principal debt) may demand payment from the central institution when the principal debt falls due. In such a case, the central institution must produce a statement referred to in said Act, showing the amount of liability apportioned to each member credit institution. This liability between the credit institutions is determined in proportion to the total assets shown in their most recently adopted balance sheets.

The member credit institutions, including OP Corporate Bank plc, are obliged to participate in any necessary support measures aimed at preventing another member credit institution from going into liquidation, and to pay a debt for another member credit institution as referred to in Section 5 of the Act on the Amalgamation of Deposit Banks.

Furthermore, upon default of the central institution, a member credit institution shall have unlimited refinancing liability for the central institution's debts as laid down in the Co-operatives Act.

The central institution supervises its member credit institutions as specified in the Act on the Amalgamation of Deposit Banks, confirms the operating principles referred to in Section 5 of said Act with which it must comply, and issues instructions to the member credit institutions on capital adequacy and risk management, good corporate governance and internal control to secure liquidity and capital adequacy, as well as instructions on compliance with uniform accounting policies in the preparation of the amalgamation's consolidated financial statements.

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

OP Corporate Bank plc belongs to the Deposit Guarantee Fund and to the Investors' Compensation Fund.

Under the law governing the Deposit Guarantee Fund, deposit banks as members of the amalgamation of cooperative banks (including OP Corporate Bank plc) are regarded as a single bank with respect to deposit guarantee. 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 considered to constitute a single credit institution in respect of investors' compensation. An investor's receivables are compensated up to a total maximum of EUR 20,000. The Fund does not cover losses incurred due to changes in the prices of securities or to wrong investment decisions. The Fund safeguards only retail investors' claims.

Deposit guarantee is the responsibility of the Financial Stability Board operating under the Ministry of Finance.

OP Corporate Bank plc's Board proposal for the allocation of distributable funds

On 31 December 2017, OP Corporate Bank's equity capital totalled EUR 2,697,644,183.43, of which EUR 1,445,303,773.92 represented distributable equity.

The following funds are at the AGM's disposal for profit distribution:

	EUR
Profit for 2017	394,080,029.08
Retained earnings	778,069,875.37
Reserve for invested non-restricted equity	307,931,364.75
Other non-restricted reserves	23,449,472.31
Capitalised development expenditure	-58,226,967.59
Total	1,445,303,773.92

The Board of Directors proposes that the company's distributable funds be distributed to shareholders as a dividend of EUR 0.66 per share, i.e. EUR 210,903,933.90. Accordingly, EUR 1,234,399,840.02 remains in the company's distributable equity.

The company's financial position has not undergone any material changes since the end of the financial year 2017. The company's liquidity is good and will not be jeopardised by the proposed profit distribution, in the Board of Directors' view.

Outlook for 2018

Last year, the euro-area economy reached its best growth rate recorded during the current decade. Nevertheless, inflation remained moderate and the European Central Bank's monetary policy accommodative. Economic growth in Finland continued swiftly and on a broad basis. Fixed investments increased strongly and business profitability improved. Consumer confidence remained high and growth in employment sped up. Favourable economic development is expected to continue in the near future, both in Finland and the rest of the euro area. The monetary policy is expected to tighten in 2018 but short-term rates are anticipated to rise moderately. The largest risks in the near future are associated with greater uncertainty in financial markets and with the political environment. A longer-term risk is that economic growth will remain modest if Finland is not able to restructure its economy to a sufficient extent when the population is ageing and digitisation is proceeding.

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

OP Corporate Bank Group's consolidated earnings before tax are expected to be about the same as in 2017. The most significant uncertainties affecting earnings relate to changes in the interest rate and investment environment, impairment loss on receivables, the rate of business growth and the effect of large claims on claims expenditure.

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

Key income statement and balance sheet items

Key income statements items, € million	2015*	2016	2017
Net interest income	220	228	259
Net insurance income	507	534	459
Net commissions and fees	91	-4	-24
Net investment income	319	247	389
Other income	36	31	39
Personnel costs	171	162	164
Other expenses	320	332	409
Impairment loss on receivables	29	37	12
OP bonuses to owner-customers	2	2	2
Earnings before tax	**652**	**504**	**535**
Key balance sheet items, Assets, € million			
Cash and cash equivalents	8,469	9,336	12,825
Derivative contracts	5,045	4,678	3,426
Receivables from credit institutions	9,678	9,458	9,294
Receivables from customers	17,183	18,702	20,120
Investment assets	14,881	16,698	15,506
PPE and intangible assets	839	883	892
Other assets	2,868	3,218	2,382
Total assets	**58,964**	**62,974**	**64,445**
Key balance sheet items, Liabilities and equity, € million			
Liabilities to credit institutions	5,209	10,332	14,035
Derivative contracts	4,959	4,398	3,216
Liabilities to customers	17,549	16,178	18,837
Insurance liabilities	2,917	3,008	3,143
Debt securities issued to the public	19,475	19,826	16,791
Other liabilies	5,112	5,228	4,273
Equity capital	3,741	4,005	4,149
Total liabilities and equity capital	**58,964**	**62,974**	**64,445**

*Discontinued operations included

Consolidated earnings by quarter

EUR million	Q1 / 2017	Q2/ 2017	Q3/ 2017	Q4/ 2017	Q1–4/ 2017	Q1–4/ 2016
Net interest income	55	65	67	72	259	228
Net insurance income	111	137	74	137	459	534
Net commissions and fees	-2	-2	-10	-10	-24	-4
Net investment income	103	82	104	99	389	247
Other operating income	9	8	11	10	38	33
Share of associates' profits	1	0	0	0	1	-2
Total income	**278**	**290**	**246**	**308**	**1,121**	**1,037**
Personnel costs	43	41	37	43	164	162
Depreciation/amortisation	14	15	15	21	64	51
Other expenses	82	81	83	98	344	281
Total expenses	**139**	**136**	**134**	**163**	**573**	**494**
Impairments of receivables	4	7	-1	2	12	37
OP bonuses to owner-customers	0	0	0	0	2	2
Earnings before tax	**133**	**147**	**112**	**142**	**535**	**504**

Financial indicators and share-related figures and ratios

Financial indicators	2015	2016	2017
Return on equity (ROE), %	14.8	10.4	10.6
Return on equity at fair value (ROE), %	11.5	12.2	9.5
Return on assets (ROA), %	1.0	0.7	0.7
Equity ratio, %	6.3	6.4	6.4
Cost/income ratio, %	41.9	47.6	51.1
Average personnel	2,446	2,401	2,458
Share-related figures and ratios			
Equity per share, €	11.38	12.19	12.80
Dividend per share, €*	0.48	0.63	0.66
Dividend payout ratio, %*	30	50.4	49.7
Number of shares, year end	319,551,415	319,551,415	319,551,415

* Board proposal 2017

OP Coperative holds all OP Corporate Bank plc´s shares. The number of shares did not change during the financial year.

Formulas for key figures and ratios

Alternative performance measures

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

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

Return on equity (ROE), %

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

Return on equity (ROE) at fair value, %

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

Return on assets (ROA), %

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

Equity ratio, %

$$\frac{\text{Equity}}{\text{Balance sheet total}} \times 100$$

Cost/income ratio, %

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

Equity/share

$$\frac{\text{Equity}}{\text{Share-issued adjusted number of shares on the balance sheet date}}$$

Dividend per share

$$\frac{\text{Dividends paid for the financial year}}{\text{Share-issued adjusted number of shares on the balance sheet date}}$$

Dividend payout ratio, %

$$\frac{\text{Dividend per share}}{\text{Earnings per share}} \times 100$$

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

$$\frac{\text{Impairment loss on receivables}}{\text{Loan and guarantee portfolio at financial year end}} \times 100$$

Non-life Insurance indicators

Loss ratio (excl. unwinding of discount), %

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

Expense ratio, %

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

Risk ratio (excl. unwinding of discount), %

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

Combined ratio (excl. unwinding of discount), %

Loss ratio + expense ratio

Risk ratio + cost ratio

Cost ratio, %

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

Operating loss ratio, %	Claims incurred, excl. changes in reserving bases / Insurance premium revenue, excl. net changes in reserving bases	x 100
Operating expense ratio, %	Operating expenses / Insurance premium revenue, excl. net changes in reserving bases	x 100
Operating combined ratio, %	Operating loss ratio + Operating expense ratio Operating risk ratio + Operating cost ratio	
Operating risk ratio (excl. unwinding of discount), %	Claims excl. loss adjustment expenses and changes in reserving bases / Net insurance premium revenue excl. changes in reserving bases	x 100
Operating cost ratio, %	Operating expenses and loss adjustment expenses / Net insurance premium revenue excl. changes in reserving bases	x 100

Indicators based on capital adequacy measurement

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

Non-Life Insurance Operating results	Q1–4/ 2017	Q1–4/ 2016	Change %
EUR million			
Insurance premium revenue	1,431	1,418	0.9
Claims incurred	-1,085	-979	10.8
Operating expenses	-291	-263	10.5
Amortisation adjustment of intangible assets	-21	-21	0.0
Balance on technical account	**34**	**154**	**-78.1**
Net investment income	175	102	71.1
Other income and expenses	-16	-25	-36.1
Earnings before tax	**193**	**231**	**-16.7**
Gross change in fair value reserve	-85	69	
Earnings before tax at fair value	**108**	**300**	**-64.1**

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

Consolidated financial statements, IFRS

Financial statements

Consolidated income statement

EUR million	Note	2017	2016
Net interest income	3	259	228
Net insurance income	4	459	534
Net commissions and fees	5	-24	-4
Net investment income	6	389	247
Other operating income	7	38	33
Share of associates' profits		1	-2
Total income		1,121	1,037
Personnel costs	8	164	162
Depreciation/amortisation	9	64	51
Other expenses	10	344	281
Total expenses		573	494
Impairment of receivables	11	12	37
OP bonuses to owner-customers		2	2
Earnings before tax		535	504
Income tax expense	12	105	102
Profit for the period		430	402
Attributable to:			
Attributable to owners of the Parent		424	399
Attributable to non-controlling interest		6	3
Profit for the period		430	402

Consolidated statement of comprehensive income

EUR million	Note	2017	2016
Profit for the period		**430**	**402**
Items that will not be reclassified to profit or loss			
Gains/(losses) arising from remeasurement of defined benefit plans	29	4	-79
Items that may be reclassified to profit or loss			
Change in fair value reserve			
Measurement at fair value	31	-37	104
Cash flow hedge	31	-4	-7
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	23	-1	16
Items that may be reclassified to profit or loss			
Measurement at fair value	31	7	-21
Cash flow hedge	31	1	1
Total comprehensive income for the period		**400**	**416**
Attributable to:			
Total comprehensive income attributable to owners of the Parent		394	412
Total comprehensive income attributable to non-controlling interest		6	4
Total comprehensive income for the period		**400**	**416**

Consolidated balance sheet

EUR million	Note	31 Dec. 2017	31 Dec. 2016
Cash and cash equivalents	13	12,825	9,336
Receivables from credit institutions	14	9,294	9,458
Financial assets held for trading	15	589	638
Derivative contracts	16	3,426	4,678
Receivables from customers	17	20,120	18,702
Investment assets	18	15,506	16,698
Investments in associates	19	49	46
Intangible assets	20	777	790
Property, plant and equipment (PPE)	21	115	93
Other assets	22	1,708	2,488
Tax assets	23	35	46
Total assets		**64,445**	**62,974**
Liabilities to credit institutions	24	14,035	10,332
Derivative contracts	25	3,216	4,398
Liabilities to customers	26	18,837	16,178
Insurance liabilities	27	3,143	3,008
Debt securities issued to the public	28	16,791	19,826
Provisions and other liabilities	29	2,307	3,231
Tax liabilities	23	419	405
Subordinated liabilities	30	1,547	1,592
Total liabilities		**60,295**	**58,969**
Equity capital	31		
Capital and reserves attributable to owners of the parent			
Share capital		428	428
Fair value reserve		164	197
Other reserves		1,093	1,093
Retained earnings		2,404	2,179
Non-controlling interest	42	**60**	**109**
Total equity capital		**4,149**	**4,005**
Total liabilities and equity capital		**64,445**	**62,974**

Consolidated statement of changes in equity

	Attributable to owners						
EUR million	Share capital	Fair value reserve*	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2016	428	120	1,093	1,996	3,637	105	3,741
Total comprehensive income for the period		77		336	412	4	416
Profit for the period				399	399	3	402
Other comprehensive income		77		-63	13	1	14
Profit distribution				-153	-153		-153
Other			0	0	0	1	1
Balance at 31 December 2016	428	197	1,093	2,179	3,896	109	4,005

	Attributable to owners						
EUR million	Share capital	Fair value reserve*	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2017	428	197	1,093	2,179	3,896	109	4,005
Total comprehensive income for the period		-33		427	394	6	400
Profit for the period				424	424	6	430
Other comprehensive income		-33		3	-29	0	-30
Profit distribution				-201	-201		-201
Other			0	0	0	-55	-55
Balance at 31 December 2017	428	164	1,093	2,404	4,089	60	4,149

* Note 31

Consolidated cash flow statement

EUR million	Note	2017	2016
Cash flow from operating activities			
Profit for the period		430	402
Adjustments to profit for the period		92	121
Increase (-) or decrease (+) in operating assets		597	-3,842
Receivables from credit institutions	14	617	183
Financial assets held for trading	15	-230	-62
Derivative contracts	16	-35	23
Receivables from customers	17	-1,443	-1,552
Investment assets	18	967	-1,695
Other assets	22	721	-740
Increase (+) or decrease (-) in operating liabilities		5,499	3,931
Liabilities to credit institutions	24	3,730	5,151
Financial liabilities at fair value through profit or loss		0	0
Derivative contracts	25	-6	-24
Liabilities to customers	26	2,659	-1,372
Insurance liabilities	27	36	29
Provisions and other liabilities	29	-921	146
Income tax paid		-77	-80
Dividends received		50	36
A. Net cash from operating activities		6,592	569
Cash flow from investing activities			
Decreases in held-to-maturity financial assets		29	15
Acquisition of subsidiaries and associates, net of cash acquired	19	-3	-33
Purchase of PPE and intangible assets	20,21	-79	-94
Proceeds from sale of PPE and intangible assets	20,21	12	6
B. Net cash used in investing activities		-41	-106
Cash flow from financing activities			
Increases in subordinated liabilities	30		0
Decreases in subordinated liabilities	30		-144
Increases in debt securities issued to the public	28	21,060	24,946
Decreases in debt securities issued to the public	28	-23,468	-24,282
Dividends paid		-201	-153
C. Net cash provided by (used in) financing activities		-2,609	367
Net increase/decrease in cash and cash equivalents (A+B+C)		3,941	830
Cash and cash equivalents at year-start		9,633	8,803
Cash and cash equivalents at year-end		13,575	9,633
Interest received		1,302	1,638
Interest paid		-1,060	-1,374

EUR million		2017	2016
Adjustments to profit for the financial year			
Non-cash items and other adjustments			
Impairment losses on receivables		13	37
Unrealised net earnings in insurance operations		81	88
Change in fair value for trading		-225	16
Unrealised net gains on foreign exchange operations		-36	-107
Change in fair value of other investments		141	-32
Depreciation/amortisation		64	51
Share of associates' profits		-1	2
Income tax paid		77	80
Dividends received		-50	-36
Other		28	23
Items presented outside cash flow from operating activities			
Capital gains, share of cash flow from investing activities		0	-1
Total adjustments		92	121
Cash and cash equivalents			
Liquid assets	14	12,825	9,336
Receivables from financial institutions payable on demand		749	297
Total		13,575	9,633

Segment reporting

OP Corporate Bank Group's business segments are Banking and Non-life Insurance. These business segments and Other Operations constitute the Group's operating segments. Defining segments and presentation are based on OP Corporate Bank plc's Board of Directors reporting. The segments' earnings and profitability are assessed in terms of EBT.

Segment accounting policies

Segment reporting conforms to the accounting policies applied to the consolidated financial statements. Income, expenses, assets and liabilities which are 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 the business segments are reported under the Other Operations segment. Inter-segment Group eliminations are reported under the "Group eliminations" column.

Banking and Other Operations 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. The Group has allocated capital to its operating segments in such a way that the Common Equity Tier 1 (CET1) ratio stands at 19% (18). Capital has been allocated to insurance operations in such a way that the solvency ratio (SII) is 120%. Capital allocation has an effect on the Group's internal interest amounts paid by the segment concerned. 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.

Banking

Banking consists of one business division, Corporate Customers, which covers corporate customer relationship management from small and mid-sized customers in the Helsinki Metropolitan Area to national large corporate and institutional customer management as well as corporate customers in the Baltic countries.

Banking provides corporate and institutional customers with financing and cash management services and financing services for foreign trade. The services also range from the arrangement of debt issues, corporate finance services, custody, equity, foreign exchange, money market and derivative products to investment research. OP Corporate Bank's branches and subsidiaries in Estonia, Latvia and Lithuania provide finance company products.

Net income derives mainly from net interest income, commissions and fees, and net investment income. The most significant risk category pertains to credit risk but business also involves market risks and operational risks.

Non-life Insurance

The following three Group companies conduct Non-life Insurance business in Finland: OP Insurance Ltd is a general non-life insurance company, A-Insurance Ltd focuses on non-life insurance for commercial transport and Eurooppalainen Insurance Company Ltd specialises in travel insurance. Non-life insurance business in Estonia is conducted by Seesam Insurance AS with a branch in both Latvia and Lithuania. Seesam Insurance and its branches will be sold to Vienna Insurance Group. The contract of sale was signed on 18 December 2017. The completion of the sale is conditional on obtaining the regulatory approval of the authorities.

The Non-life Insurance segment also includes Pohjola Health Ltd (formerly Omasairaala Oy) which has Pohjola Hospitals in Helsinki, Tampere, Kuopio and Oulu.

Non-life insurance products include non-life products sold to corporate and private customers. Net income generated by Non-life Insurance derives mainly from insurance premiums and investment income. The most significant risks in Non-life Insurance pertain to insurance risks and investment risks. Pohjola Hospital's earnings come from doctor's fees and billing for treatment, diagnostics and occupational healthcare services. The most significant risks in the health and wellbeing services are operational risks.

Other Operations

Functions supporting OP Financial Group and its business, such as Group Treasury and the liquidity buffer, have been centralised within Other Operations. OP Corporate Bank is an active player in international derivatives markets, the euro-area government bond market and covered bond market as well as corporate bond markets. Other Operations is also responsible for the management of the funding and liquidity of member credit institutions and the central cooperative consolidated. It is also in charge of the Group's wholesale funding together with OP Mortgage Bank. Net income derives mainly from net interest income, net commissions and fees, and net investment income. The most significant risk categories are market risks and credit risk.

In addition, income, expenses, investments and capital which have not been allocated to the business segments are reported under Other Operations.

Segment information

Segment capitalisation is based on OP Financial Group's capital adequancy 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 CET 1 ratio is 20% (19%). Capital has been allocated to Non-life Insurance operations in such a way that Solvency ratio (SII) is 120%. Capital allocation has an effect on the Group's internal interest amounts paid by the segment concerned.

Earnings 2017, EUR million	Banking	Non-life Insurance	Other operations	Elimi-nations	Group total
Net interest income	348	-15	-68	-6	259
- of which internal net income before tax	-18	-12	30		
Net insurance income		459		0	459
Net commissions and fees	129	-58	-94	-1	-24
Net investment income	18	175	195	0	389
Other operating income	24	11	8	-5	38
Share of associates' profits		1			1
Total income	520	573	41	-12	1,121
Personnel costs	54	102	8		164
Depreciation/amortisation and impairment losses	11	50	3		64
Other operating expenses	98	226	32	-12	344
Total expenses	163	378	43	-12	573
Impairments loss on receivables	12	0	0		12
OP bonuses to owner-customers		2			2
Earnings before tax	344	193	-2		535

Net income from the Baltic countries came to EUR 10 million

Earnings 2016, EUR million	Banking	Non-life Insurance	Other operations	Elimi-nations	Group total
Net interest income	300	-21	-48	-4	228
- of which internal net income before tax	-14	-17	31		
Net insurance income		534		0	534
Net commissions and fees	142	-61	-84	0	-4
Net investment income	-16	102	159	2	247
Other operating income	15	7	13	-2	33
Share of associates' profits		-2			-2
Total income	442	559	40	-5	1,037
Personnel costs	54	100	8	0	162
Depreciation/amortisation and impairment losses	10	40	2		51
Other operating expenses	81	187	17	-5	281
Total expenses	145	326	27	-5	494
Impairments loss on receivables	37	0	0		37
OP bonuses to owner-customers		2			2
Earnings before tax	260	231	13		504

Net income from the Baltic countries came to EUR 6 million

Balance sheet 31 December 2017, EUR million	Banking	Non-life Insurance	Other operations	Elimi-nations	Group total
Cash and cash equivalents	10	318	12,807	-309	12,825
Receivables from credit institutions	208	6	9,113	-33	9,294
Financial assets held for trading	-4		593		589
Derivative contracts	105	10	3,320	-10	3,426
Receivables from customers	20,591	0	29	-501	20,120
Investment assets	531	3,494	11,612	-131	15,506
Investments in associates		49			49
Intangible assets	63	688	26		777
Property, plant and equipment (PPE)	0	42	73		115
Other assets	92	727	1,095	-205	1,708
Tax assets	0	17	19		35
Total assets	**21,595**	**5,351**	**38,687**	**-1,189**	**64,445**
Liabilities to credit institutions	506		14,030	-501	14,035
Derivative contracts	118	15	3,097	-14	3,216
Liabilities to customers	11,410		7,839	-412	18,837
Insurance liabilities		3,143			3,143
Debt securities issued to the public	1,178		15,649	-37	16,791
Provisions and other liabilities	976	540	992	-202	2,307
Tax liabilities	1	75	343	0	419
Subordinated liabilities		135	1,412		1,547
Total liabilities	**14,189**	**3,908**	**43,362**	**-1,164**	**60,295**
Equity					**4,149**

Net assets from the Baltic countries came to EUR 74 million.

Balance sheet 31 December 2016, EUR million	Banking	Non-life Insurance	Other operations	Elimi-nations	Group total
Cash and cash equivalents	4	90	9,329	-87	9,336
Receivables from credit institutions	187	6	9,280	-15	9,458
Financial assets held for trading	-4		642		638
Derivative contracts	94	26	4,582	-23	4,678
Receivables from customers	18,342	0	721	-361	18,702
Investment assets	589	3,711	12,498	-100	16,698
Investments in associates		46			46
Intangible assets	63	701	26		790
Property, plant and equipment (PPE)	2	46	45		93
Other assets	85	707	1,905	-209	2,488
Tax assets	0	10	36		46
Total assets	**19,362**	**5,345**	**39,063**	**-795**	**62,974**
Liabilities to credit institutions	352		10,357	-377	10,332
Derivative contracts	109	17	4,297	-25	4,398
Liabilities to customers	9,519		6,760	-101	16,178
Insurance liabilities		3,008			3,008
Debt securities issued to the public	1,244		18,616	-35	19,826
Provisions and other liabilities	1,249	541	1,649	-208	3,231
Tax liabilities	1	95	310	0	405
Subordinated liabilities		135	1,457		1,592
Total liabilities	**12,475**	**3,796**	**43,445**	**-747**	**58,969**
Equity					**4,005**

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

Notes to the Consolidated Financial Statements

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CAPITAL ADEQUACY

Note 1. OP Corporate Bank Group's Accounting Policies

General

OP Corporate Bank is the leading non-life insurer and ranks among the leading corporate banks in Finland. OP Corporate Bank has a well-established and broad customer base consisting of companies and institutions to which it provides an extensive range of banking and non-life insurance services. In addition, it provides private customers with non-life insurance services. OP Corporate Bank also acts as the central bank for OP Financial Group's cooperative banks.

OP Corporate Bank has three segments during the financial year: Banking, Non-life Insurance and Other Operations. Banking provides corporate and institutional customers with financing, investment and payment transaction solutions on an international scale. Non-life Insurance provides corporate and private customers with non-life insurance products covering both statutory and voluntary policies. In addition to these two business segments, the financial results of Central Banking and Treasury and administrative functions are presented under the Other Operations segment.

OP Corporate Bank plc belongs to OP Financial Group, which consists of 170 cooperative banks and their central cooperative, OP Cooperative with its subsidiaries. OP Financial Group's member credit institutions comprise OP Corporate Bank plc, Helsinki Area Cooperative Bank, OP Card Company Plc, OP Mortgage Bank and OP Cooperative's member cooperative banks.

In accordance with the Act on the Amalgamation of Deposit banks, the member credit institutions, OP Corporate Bank included, and OP Cooperative are ultimately jointly and severally liable for each other's debts and commitments. If a member credit institution's own capital is depleted to such a low level owing to losses that the criteria, specified in the Act, for being placed in liquidation are fulfilled, OP Cooperative has the right to collect from its member credit institutions extra contributions on the basis of the combined balance sheets previously adopted.

OP Corporate Bank is domiciled in Helsinki and the address of its registered office is Gebhardinaukio 1, FI-00510 Helsinki. and the postal address of its registered office is P.O. Box 308, FI-00013 OP. A copy of OP Corporate Bank's consolidated financial statements is available at www.op.fi or the Company's registered office.

OP Corporate Bank plc's parent company is OP Cooperative and OP Corporate Bank's consolidated accounts are included in its consolidated financial statements.

Copies of the financial statements of OP Cooperative are available at the following address: Gebhardinaukio 1, FI-00510 Helsinki. OP Financial Group's financial statements are available at www.op.fi or the company's registered office at Gebhardinaukio 1, FI-00510 Helsinki.

The Board of Directors approved the consolidated financial statements for issue on 8 February 2018.

1 Basis of preparation

These consolidated 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 2017. 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 Corporate Bank's notes also conform to the requirements of Finnish accounting and company legislation that complement IFRS regulations.

In 2017, OP Corporate Bank adopted the following standards and interpretations:

- IAS 7 Statement of Cash Flows was amended, effective as of 1 January 2017. The amendment requires the presentation of a description of changes in financial liabilities classified as cash flows from financing activities. A new table is presented in Note X. The standard does not require the presentation of comparatives when applying the amendment for the first time.
- Annual improvements to IFRS for cycles 2014 2016 (applicable mainly to accounting periods beginning on or after 1 January 2017.) 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 IAS 12 Income Taxes, effective since 1 January 2017. The amendments did not have any major effect on OP Corporate Bank's financial statements.

OP Corporate Bank 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), derivative contracts and investment property.

The financial statements are presented in millions of euro. Number zero in the tables in Notes means that the item contains some balance but it is rounded off to zero. If nothing (blank) is presented in the item, the balance of the item is zero.

OP Corporate Bank 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 OP Financial Group's financial statements. OP Corporate Bank Group presents its capital base, the minimum capital requirement, capital ratios, corporate exposures by sector, corporate exposures and credit institution exposures by borrower grade and derivative contracts and counterparty risk.

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 17 "Critical accounting estimates and judgements" provides more detailed information on applying accounting policies requiring management assessment and judgement.

3 Consolidation principles

The Consolidated Financial Statements contain the parent company OP Corporate Bank plc and any subsidiaries that the parent company controls. OP Corporate Bank 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 the Group, which means that control is based on votes.

OP Corporate Bank 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 consolidated financial statements when the Group's control is not based on votes but the control of significant operations, exposure to varying income from the fund, and organising the fund's management. Changes in control concerning various fund investments consolidated into the 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 fund are accounted for as if the 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 shareholding has 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, in which OP Corporate Bank holds 20–50% of voting shares and over which OP Corporate Bank exercises significant influence but not control, are accounted for using the equity method. 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. If the 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 the Group is committed to fulfil the obligations of associates.

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 the Group has rights to the arrangement's net assets, while in a joint operation the Group has both rights to assets and obligations for the liabilities relating to the arrangement. Property companies are incorporated into OP Corporate Bank Group's financial statements as joint operations by consolidating the proportionate share of the 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 the 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 consolidated financial statements.

3.1 Non-controlling interests

Profit for the financial year attributable to the 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

The consolidated 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, 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 or a shorter period taking account of the product's structure and counterparty. 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 the balance sheet.

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:

- a 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 ability to operate on a going concern basis, such as negative cash flows resulting from

operations, insufficient capital and shortage of working capital;

- indications that a borrower will enter bankruptcy or other reorganisation;
- a borrower's breach of contract;
- a concession granted to the borrower;
- impairment recognised earlier; and
- 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 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.

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 Corporate Bank 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 company 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 and financial assets at fair value through profit or loss at inception. 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 the 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 the 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.

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.

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. These financial assets are shown as receivables from customers, from credit and financial institutions or as other assets in the consolidated balance sheet.

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, using the effective interest method.

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 Corporate Bank 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 company 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 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, using the effective interest method.

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 an equity instrument'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.

Interest income related to available-for-sale financial assets are recognised under Net interest income in the income statement and dividends under Net investment 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, using the effective interest method.

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.

The Group's Risk Management 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, the Group can hedge against interest rate risk, currency risk and price risk by applying fair value hedge or cash flow hedge. Cash flow hedging refers to hedging against changes in future cash flows and fair value hedging refers to hedging against changes in the fair value of the hedged asset.

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. The Group's parent company, OP Corporate Bank plc, also concludes derivative contracts which are in fact used to hedge against financial risks but which do not fulfil these criteria.

5.7.1 Derivatives held for trading

The difference between interest received and paid on interest-rate swaps held for trading is recorded in 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 are separated from the host contract and measured at fair value in the balance sheet, 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 highly 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 (OP Corporate Bank's own issues), individual bond and loan portfolios, as well as individual loans. OP Corporate Bank Group uses forward exchange contracts and interest-rate and currency swaps as hedging instruments. Hedging against equity and foreign currency risks applies to Non-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 under Net interest income, with the exception of changes in the fair value of mutual fund investments included in Non-life Insurance's available-for-sale financial assets and that of instruments hedging them, which are recognised in Net investment income.

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 the consolidated 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 under Net investment income in the income statement.

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 Corporate Bank 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 it 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, the Group obtains information on market rental and cost levels from sources outside OP Financial 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 Corporate Bank Group's internal expertise. In the fair value of undeveloped plots, OP Corporate Bank Group 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, OP Corporate Bank 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 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 Corporate Bank Group's acquired customer relationships is 10–13 years.

7.3 Brands

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

7.4 Deferred acquisition costs of insurance contracts

Foreign subsidiaries defer costs associated with the acquisition of new insurance contracts or with the renewal of existing contracts. The resulting intangible asset is amortised on a straight-line basis over the effective lives of the contracts, which is a policy period. An intangible asset is tested annually for impairment in connection with testing the adequacy of the liability associated with insurance contracts.

7.5 Other intangible assets

Other intangible assets are measured at cost less accumulated amortisation and any impairment losses. In general, computer software and licences are amortised over 4 years and other intangible assets over 5 years.

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 capitalised expenditure includes, for example, licence fees, purchased services, other external costs related to projects and in-house work. The asset will be amortised from the time it is ready for use. 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 measured at cost less 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
Machinery and equipment	3–10 years
ICT hardware	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

Whether a lease is classified as a finance lease or an operating lease depends 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 Corporate Bank Group companies' employees is arranged through pension insurance taken out with OP Bank Group Pension Fund. Some OP Corporate Bank 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 Corporate Bank Group has a short-term and long-term management remuneration scheme in place. Those included in the schemes may receive bonuses either in cash only or as a combination of cash and a reference instrument decided by OP Cooperative's Supervisory Board or a Remuneration Committee it has appointed. Bonuses will be paid for work performed during the so-called performance and vesting period. The maximum amount of the remuneration schemes 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 assets and liabilities within insurance business

The section "Classification and recognition" under Financial Instruments contains information on the classification of financial assets and liabilities within Non-life Insurance.

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. Almost all of the contracts issued by non-life insurers are insurance contracts.

Insurance contracts are classified into risk groups in such a way that the risks of contracts are homogeneous in each group. This classification into categories takes account of the insured object and 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).

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

Short-term policies usually have a policy term of 12 months or less, very rarely over 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.

Descriptions of insurance contracts can be found in the section "Risk Management Principles", Insurance operations.

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 are measured and accounted for in accordance with IFRS 4 – Insurance Contracts. Investment contracts are measured in accordance with 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.

The liabilities comprise provisions for unearned premiums and provision for unpaid claims. 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 occurred but not yet reported to the Group (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 instruments 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.

11.4 Liability adequacy test on insurance contracts

On each balance sheet date, OP Corporate Bank 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 liability's carrying amount arising from insurance contracts, less their deferred acquisition costs is not sufficient, the shortfall will be recognised in the income statement. If the reason for such insufficiency is too high deferred acquisition costs of insurance contracts, the shortfall will be recognised by reducing it and otherwise increasing the amount of the liability.

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.

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 only to a minor extent from insurance intermediaries. Prepaid insurance premiums are included in Direct insurance liabilities under 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 the 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 the 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.

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

11.8 Coinsurance and pools

The Group is involved in a few coinsurance arrangements with other reinsurers. Of coinsurance contracts, the Group treats only its share of the contract as insurance contracts and the Group's liability is limited to this share.

The 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. The 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. The Group recognises liabilities and receivables based on joint liability if joint liability is likely to materialise.

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 the 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 Income tax and deferred tax

Income tax expense shown in the income statement includes current tax, based on the taxable income of OP Corporate Bank 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 all temporary differences between the carrying amount and tax base of assets and liabilities. 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 the Group are tax provisions (e.g. credit 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.

14 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.

Commission income and expenses for services are recognised when the service is rendered. 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.

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
Net commissions and fees	Commission income and expenses, and the recognition of Day 1 profit related to illiquid derivatives
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
Other operating income	Other operating income, central banking service fee, healthcare and wellbeing service fees
Personnel costs	Wages and salaries, pension costs, bonuses paid based on the long-term management remuneration scheme, social expenses
Other operating expenses	Services purchased from others, ICT production and development costs, other administrative expenses, charges of financial authorities, rents and other expenses

15 Charges of financial authorities

OP Corporate Bank Group pays charges to various authorities. Responsibility for banking supervision rests with the European Central Bank. The Finnish Financial Supervisory Authority is responsible for insurance supervision, macroprudential supervision and supervision of conduct of business. The EU's Single Resolution Board (SRB) is responsible for bank resolution. The financial authority contributions and fees are recognised under other operating expenses on an accrual basis.

15.1 Stability contribution

Stability contributions will be paid to the euro-area Single Resolution Fund (SRF) until 2024 in such a way that the target of 1% of the amount of covered deposits will be reached. The SRF is managed by the Single Resolution Board which also determines the amount of stability contributions. In 2017, 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 between 2013 and 2014). The stability contribution had no effect on OP Corporate Bank in 2017 in terms of expenses.

15.2 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 Corporate Bank Group in 2017 in terms of expenses.

15.3 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.

15.4 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.

15.5 European Central Bank's supervisory fee

OP Financial Group, OP Corporate Bank included, is supervised by the European Central Bank (ECB). The ECB supervisory fee is determined based on the bank's importance and risk profile.

16 Segment reporting

Financial information, which the executive in charge monitors regularly, serves as the basis of defining operating segments. The reportable operating segments are Banking, Non-life Insurance, and Other Operations.

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

17 Critical accounting estimates and judgements

The preparation of financial statements requires making estimates and assumptions about the future and the future 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. Information on uncertainties included in assumptions related to insurance contracts and their effects can be found in Note 59.

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 the Group's share of the variable returns exceeds 37% and there is a link between the control and the returns.

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. Information on the effects of these assumptions and estimates can be found in Note 20.

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 affect the carrying amount of pension obligations. This is presented in more detail in Note 29.

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. This is presented in more detail in Note 36. Income probably generated in the future by property in own use is based on the management's judgement (Note 21. Property, plant and equipment).

18 New standards and interpretations

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

18.1 IFRS 9 Financial Instruments

On 1 January 2018, OP Corporate Bank Group adopted IFRS 9 Financial Instruments, issued by the IASB in July 2014 and approved by the EU in November 2016.

The adoption resulted in changes to the classification and measurement of financial instruments and impairments. Likewise, it has a significant effect of other standards dealing with financial instruments, such as IFRS 7 Financial Instruments, Disclosures. OP Corporate Bank Group continues to apply hedge accounting under IAS 39 after adoption of IFRS 9.

The IFRS 9 transition resulted in changes to the accounting policies as well as adjustments to the amounts of receivables previously recognised in the balance sheet. Adjustments made to carrying amounts are recognised in equity capital in the opening balance sheet on the adoption date. OP Corporate Bank Group will not restate the comparative figures for prior years in its financial statements for 2018. Changes in the notes to the financial statements under IFRS 7 arising from the application of IFRS 9 will only be presented for the financial year 2018. Notes to the financial statements for the comparative period will remain unchanged.

Based on the current assessment, the adoption of IFRS 9 on 1 January 2018 will decrease the opening balance of OP Corporate Bank Group's equity capital by EUR 58 million before tax.

- The pre-tax effect of the change in the impairment calculation method is EUR 57 million negative.
- The difference between the fair value and carrying amount resulting from the reclassification of financial assets was not significant.

The effects presented in this report resulting from the adoption of IFRS 9 may still change because OP Corporate Bank Group will continue refining and finalising ECL models and further developing related IT systems and strengthening the control environment.

New accounting policies, assessment methods and items subject to management's judgment may change until OP Corporate Bank Group publishes its first financial statements which include the opening balance sheet of 1 January 2018.

The accounting policies in accordance with IFRS 9 are presented in OP Financial Group's Accounting policies under "New standards and interpretations".

Classification and measurement

The classification and measurement of financial assets under IFRS 9 is based on business models and contractual cash flow characteristics.

OP Corporate Bank Group has reclassified financial assets in accordance with IFRS 9 based on how the loans and notes and bonds are managed within the business models and on the contractual cash flow characteristics of notes and bonds.

The majority of OP Corporate Bank Group's loans and notes and bonds will continue to be recognised at amortised cost or fair value through other comprehensive income.
The most significant changes in classification applied to OP Corporate Bank Non-life Insurance investments. Equity investments and mutual fund investments were mainly reclassified as those recognised at fair value through profit or loss. OP Corporate Bank Group will apply a temporary overlay approach to Non-life Insurance investments that restores the earnings effect of such investments to be compliant with IAS 39.

IFRS 9 did not change the classification of OP Corporate Bank Group's financial liabilities.

Impairment

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

The ECL is calculated using modelled risk parameters and using the formula probability of default (PD) x loss given default (LGD) x exposure at default (EAD) for the majority of the portfolios. Large corporate exposures make an exception. They are still monitored on an individual basis. The ECL is calculated for each contract for 12 months or lifetime, depending on whether the instrument's credit risk on the reporting day has increased significantly since initial recognition.

Both qualitative and quantitative criteria are used to assess whether the credit risk has increased significantly. Qualitative factors consist of various credit risk indicators (e.g. forbearance measures) to be mainly taken into account in credit rating models. Credit ratings will affect the lifetime PD used for assessing the quantitative change. In addition, credit risk has increased significantly if payment is over 30 days past due.

Contracts are classified into three stages:

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

Definition of default is consistent with the definition that is used for regulatory purposes.

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

The tables below present the preliminary effect of the application of IFRS 9 on the balance sheet of 1 January 2018.

a) Classification and measurement

The table below presents the measurement classes and carrying amounts of financial assets and liabilities in the opening balance sheet of 1 January 2018 according to IAS 39 and IFRS 9, excluding the effect of ECL. No changes have occurred in the classification and measurement of financial liabilities.

Measurement categories of financial assets Financial assets	IAS 39 Measurement category 31.12.2017	Carrying amount EUR million	IFRS 9 Measurement category 1.1.2018	Carrying amount EUR million *
Cash and cash equivalents	Amortised cost	12 825	Amortised cost	12 825
Receivables from credit institutions	Amortised cost (loans and other receivables)	9 294	Amortised cost	9 294
Derivative contracts	Fair value through profit and loss	3 426	Fair value throuhg profit and loss	3 426
Receivables from customers	Amortised cost (loans and other receivables)	20 120	Fair value throuhg profit	20 109
			Fair value throuhg profit and loss 1)	11
Investment assets				
Financial assets held for trading 3)	Fair value through profit and loss	589	Fair value throuhg profit and loss	578
Equity instruments	Fair value through other comprehensive income (available for sale)	728	Fair value throuhg profit and loss	727
	Fair value through profit and loss	0	Fair value throuhg profit and loss	0
	At cost	0	Fair value through other comprehensive income	0
Equity instruments	Fair value through other comprehensive income (available for sale)	14 050	Fair value throuhg profit and loss	14 048
			Fair value throuhg profit and loss 1)	12
			Amortised cost	0
	Fair value through profit and loss	304	Fair value throuhg profit and loss	304
			Fair value through other comprehensive income	0
	Amortised cost (held to maturity)	51	Fair value through other comprehensive income	50
			Amortised cost	0
	Amortised cost (other financial assets)	71	Amortised cost	-6
			Fair value throuhg profit and loss	77
Assets covering unit-linked contracts	Fair value through profit and loss	0	Fair value throuhg profit and loss 2)	0
Total financial assets		61 456		61 454

1) Non-trading financial assets mandatorily at fair value through profit or loss
2) Fair value option
3) Financial assets held for trading are included in Investments assets in the balance sheet as of 1 January 2018.
* Carrying amount does not include the effect of ECL

b) Reconciliation of balance sheet items under IAS 39 and IFRS 9

Measurement classes under IFRS 9 have been determined based on OP Corporate Bank's different business models and on the cash flow characteristics of the financial instrument concerned. OP Corporate Bank's business models are based on the existing business principles and they do not change as a result of entry into force of IFRS 9.

The table below presents the transition of the carrying amounts of financial assets from the measurement class under IAS 39 to the measurement class under IFRS 9 on the date of transition on 1 January 2018. The remeasurement column in the table contains only the change resulting from the reclassification excluding the effect of ECL.

Changes in classification and measurement

Financial assets, EUR million	Ref.	Carrying amount (IAS 39) 31.12.2017	Reclassifi-cations	Remeasure-ments	Carrying amount (IFRS 9) 1.1.2018 *
Cash and cash equivalents		12,825			12,825
Receivables from credit institutions		9,294			9,294
Derivative contracts		3,426			3,426
Receivables from customers		20,120			20,120
Investment assets					
Financial assets held for trading	1) 6)	589	-11		578
Equity instruments					
Fair value through other comprehensive income (available for sale)	2)	728	-678		50
Fair value through profit and loss	3)	0	678	-1	677
At cost		0			0
Notes and bonds					
Fair value through other comprehensive income (available for sale)	1)	14,050	49	-1	14,098
Fair value through profit and loss	4)	304	19		322
Amortised cost	5)	121	-57		64
Total		61,456	0	-2	61,454

* Carrying amount does not include the effect of ECL

The new classification requirements under IFRS 9 shown in the table above are described below:

1) Previously, OP Corporate Bank's liquidity buffer portfolio was classified as financial instruments recognised as fair value through profit or loss, available for sale, loans and receivables and held to maturity. Since OP Corporate Bank's business model for the liquidity buffer portfolio is to collect contractual cash flows and sales, the entire portfolio is designated as measured at fair value to be recognised through other comprehensive income. The business model is based on the portfolio management mechanisms and previous practice.
2) Equity instruments and mutual fund investments were previously classified as available-for-sale investments but which are chiefly designated as measured at fair value through profit or loss in accordance with IFRS 9. OP Corporate Bank reclassified equity instruments of EUR 678 million to be recognised at fair value through profit or loss. Fair value gains/losses of available-for-sale investments worth EUR 35 million previously recognised in the fair value reserve were transferred to retained earnings.
3) Assets recognised at fair value through income statement increased by EUR 678 million as a result of reclassification of other measurement classes and related measurement changes.
4) OP Corporate Bank has EUR 19 million in notes and bonds on convertible and perpetual bonds whose contractual cash flows are not solely payment of principal and the interest on the

principal outstanding. These investments are designated as measured at fair value through profit or loss.

5) Notes and bonds held to maturity worth EUR 51 million previously measured at amortised costs are designated as recognised at fair value through other comprehensive income in the adoption of IFRS 9.

6) Financial assets held for trading are included in Investments assets in the balance sheet as of 1 January 2018.

c) Effects on expected credit losses

OP Corporate Bank Group will mainly shift from the calculation of impairment on an individual basis to that of the expected credit loss calculated using models under IFRS 9. Consequently, prior impairment losses on an individual and collective basis under IAS 39 have been revoked and expected credit losses of EUR 278 million under IFRS 9 have been recognised. Impairment losses of EUR 192 million previously recognised on an individual basis have mainly been replaced with expected credit losses under stage 3 and impairment losses of EUR 30 million on a collective basis with expected credit losses under stages 1 and 2. As a result, equity capital decreased by EUR 57 million before tax.

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

ECL calculation includes high level of judgment which have a significant impact on the amount of expected credit losses, such as:

- Determining significant increases in credit risk (SICR)
- Various assumptions used in 12-month and lifetime ECL calculation
- Incorporating macroeconomic estimates into the calculation

The expected credit loss is anticipated to be sensitive to changes in macroeconomic estimates and it may increase significantly when the economic outlook deteriorates.

d) Effects of equity capital and the CET1 ratio

The table below presents the effects of the transition to IFRS 9 on equity:

Statement of changes in equity, EUR million	Share capital	Fair value reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 31 December 2017	428	164	1,093	2,404	4,089	60	4,149
Revocation of earlier IAS 39 impairment provision				221	221		221
New ECL according to IFRS 9				-278	-278		-278
Effect of IFRS 9 reclassifications							
1) Fair value through profit and loss							
Transfer of fair value reserve relating to available sale assets to retained earnings		-36		35	0		0
2) 5) Notes and bonds held to maturity							
Remeasurement to fair value in connection to transfer to fair value through other comprehensive income		-1			-1		-1
3) Amortised cost							
Remeasurement to fair value					0		0
Change in deferred tax				10	10		10
Restated balance at 1 January 2018	428	127	1,093	2,393	4,041	60	4,102

Since the expected credit losses (ECL), EUR 278 million, were less than expected loss deducted in capital adequacy measurement, the change has no effect on capital adequacy. The capital adequacy EL calculation method is regulated by the authorities and includes prudence, for example, in the form of various floors. However, the ECL accounting model describes the current economic situation and is based on OP Corporate Bank Group's own models without in-built prudence. OP Corporate Bank Group will not for the time being apply the transitional rules of Capital Requirements Regulation (CRR) for the period of 1 January 2018–31 December 2022, in which the effects of IFRS 9 based impairment calculation can be taken into account in stages.

18.2 IFRS 15 Revenue from Contracts with Customers

OP Corporate Bank has applied IFRS 15 since 1 January 2018. This standard replaced the current IAS 11 and IAS 18. In addition, amendments were made to IAS 40 Investment Property when IFRS 15 became effective. In OP Corporate Bank, IFRS 15 mainly applies to fees not included in the calculation of the effective interest rate in the Banking segment. The new standard will have no effect of the revenue recognition of financial instruments or insurance policies. IFRS 15 will lead to added information presented in the notes to the financial statements for 2018. The grouping of commission income and expenses in net commissions and fees is specified in the Notes. New items to be presented in net commissions and fees include commission income and expenses from health and wellbeing services, investment management fees, fees paid for investment management services, legal fees and mutual fund commission expenses. IFRS 15 will not change the revenue recognition time of the fees included the scope of application of the standard in comparison with the current practices. Consequently, the adoption of IFRS 15 will not have any financial effect on OP Corporate Bank's financial result. OP Corporate Bank will apply IFRS 15 using the retrospective transition method.

18.3. IFRS 18.3 Leases

OP Corporate Bank Group will adopt IFRS 16 Leases from 1 January 2019. 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. An exemption includes short-term contracts and those for underlying assets with low value. Accounting by lessors remains substantially similar to IAS 17.

OP Corporate Bank Group is planning to apply a retrospective approach in the transition to a limited extent, in which case comparatives will not be restated and any accrued effect will be recognised in adjustments to retained earnings. Owing to this choice, the following practical expedients under the transitional provisions are planned to be applied when assessing leases:

- At the date of initial application, the Group will not reassess whether a contract is, or contains, a lease.
- A lease liability is recognised at the date of initial application for leases previously classified as an operating lease applying IAS 17. Lease liability is measured at the present value of the remaining lease payments discounted using the incremental borrowing rate of 1 January 2019. The right-to-use asset is recognised to the amount that equals the lease liability adjusted to the prepayments or deferring lease payments related to the lease concerned, which are recognised in the balance sheet on 31 December 2018. Initial direct costs are not taken into account in the measurement of the right-to-use asset.
- During the transition, the right-to-use asset and the lease liability will not be recognised out of leases for whose lease term expires within 12 months of the initial application date (1 January 2019).
- Hindsight will be used to determine lease terms if the lease involves renewal or termination options.

In its implementation project, OP Corporate Bank Group has defined a process to collect the contract and how to analyse whether the contract meets the definition of a lease. OP Corporate Bank Group has also made a preliminary assessment of contracts, whereby the most substantial leases are leases of office premises and company cars. OP Corporate Bank Group assesses that the leased assets are not expected to have any significant effect on its balance sheet. Undiscounted lease liabilities amounted to EUR 4 million (Note. 39) on 31 December 2017.

18.4 IFRS 17 Insurance Contracts

IFRS 17 was published on 18 May 2017. Its mandatory effective date is 1 January 2021, replacing the existing IFRS 4 insurance contracts standard that OP Corporate Bank Group adopted on 1 January 2005. The implementation process of IFRS 17 is only in its early phase within the European Union.

The most important goal of the standard is to harmonise the measurement of insurance liability on a global basis; the measurement under the existing insurance contracts standard is based on national measurements. Under IFRS 17, measurement is based on current estimates that are updated, as is the case in insurance companies' solvency measurement. However, IFRS 17 differs from capital adequacy measurements in terms of its purpose and principle basis.

Insurance liability has three components:

- Estimates of future cash flows adjusted to reflect time value of money,
- A risk adjustment for the Group's non-financial risk describing risk appetite and
- The contractual service margin which is determined at the time of recognition of the contract in such a way that no profit comes from the contract at recognition but loss is recognised. Profits included in the contractual service margin are recognised during the policy period.

The current practice, in which insurance liability may contain implicit margins of risk-bearing and future profits, will cease to exist, forcing reporting entities to explain changes in liability in a transparent way.

Insurance liability volatility will increase as a result of assumptions that are consistent with relevant market information and are updated. Value changes arising from changes in assumptions concerning non-financial risk will be recognised as opposite signs in the capital value of cash flows from the fulfilment of contracts and in the contractual service margin. Changes in assumptions of financial risk and changes in liability arising from market changes can be buffered against corresponding changes in assets in income. The standard gives the right to reclassify insurance company assets when the standard is adopted.

Presentation of the balance sheet and income statement will change. Two new items will be included in the income statement: insurance service result and finance income or finance expenses. The savings portion of savings-type life policies must be separated from the insurance service.

The standard will increase quantitative requirements in Notes. The current standard already meant much more qualitative information in the notes to the financial statements, which the new standard will supplement.

The adoption of the new standard will be challenging especially in life insurance where almost all contracts are multi-year ones.

18.5 Other upcoming amendments to standards

Amendments to IAS 7 and IAS 12 took effect on 1 January 2017. The amendments will not have any significant effect on OP Corporate Bank's consolidated financial statements.

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

OP Corporate Bank's core values, strategic goals and financial targets form the basis for risk management and capital adequacy management. The purpose of risk management is to identify threats and opportunities affecting strategy implementation. Risk management aims to achieve the targets set in the strategy by controlling that risks are proportional to risk capacity.

OP Corporate Bank adopts a policy of moderate risk-taking and its business operations are based on a reasoned risk/return approach. OP Corporate Bank applies integrated risk management aimed at identifying, assessing and mitigating all significant business-related risks to an acceptable level.

OP Financial Group's risk policy controls OP Corporate Bank's risk-taking. In the risk policy, the central cooperative's Executive Board confirms annually risk-management principles, actions, objectives, 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 Appetite Framework (RAF). In addition, Non-life Insurance is guided by risk policies applied to private and corporate customers, reinsurance principles, investment plans and the policy governing hedging against interest rate risk associated with insurance liabilities.

1. General principles of risk and capital adequacy management

Risk and capital adequacy management falls under internal control. Its purpose is to ensure OP Corporate Bank Group's risk capacity and liquidity and, thereby, ensure continued operations.

Risk 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. Capital adequacy management is based on a proactive approach based on the Group's business strategy and plans. Well-balanced risk-taking, the capital structure, strong earnings power and proactive risk management secure OP Corporate Bank Group's risk capacity. Risk and capital adequacy management has been integrated as an integral part of the company's business and management.

OP Corporate Bank Group follows the principles of OP Financial Group's risk-taking and Risk Appetite Framework adopted by OP Cooperative's Supervisory Board. The principles specify how the Group's risk-taking is controlled, limited and supervised and how the risk management and internal capital adequacy assessment process (ICAAP) is organised.

1.1 Risk identification, assessment, measurement and mitigation

The risk management and ICAAP process consists of the continuous identification and assessment of risks associated with business and the operating environment. Before the company launches any products or services or adopts new operating models or systems, it assesses their risks using procedures as laid down by the central cooperative's Risk Management.

Quantifiable risks are mitigated by means of limits set by the central cooperative's Executive Board for capital adequacy and significant risks. The limits ensure that OP Corporate Bank Group does not take excessive risks to endanger its own or OP Financial Group's capital adequacy, profitability, liquidity and business continuity.

OP Corporate Bank 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.

The central cooperative's independent Risk Management monitors the development of OP Corporate Bank Group's and its subsidiaries' risk exposure and risk capacity. It provides regular reports on its observations and assessments to OP Corporate Bank plc's Board of Directors, OP Cooperative's Executive Board and the Supervisory Board's Risk Management Committee.

1.2 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 associated with trading and underwriting risks. The assessable risks are divided into operational risks and other risks. 'Other risks' include any significant risks that have not been taken into consideration in any other risk-specific models related to economic capital. 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 Corporate Bank Group's economic capital requirement consists of credit risks and about a fifth 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 many risk types are calculated separately in terms of economic capital, while in capital adequacy measurement they are included in the capital requirement.

Indicators based on the economic capital requirement are used, for example, in target and limit indicators, as the basis of loan pricing and premiums rating, in remuneration and in capital planning when defining the capital buffer.

1.3 Capital management

Capital management aims in all circumstances to proactively control and ensure that OP Corporate Bank Group's capital adequacy meets the set targets and official requirements and thus ensure the 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, a contingency plan, capital adequacy monitoring and control practices as well as scenario calculations to assess capital adequacy.

Capital adequacy management places emphasis on profitability and effective capital management. OP Corporate Bank plc's parent company, OP Cooperative, is responsible for capital management on a coordinated basis.

2. Organisation of risk management

OP Corporate Bank's operations are being managed in accordance with OP Financial Group central cooperative consolidated's management system through Banking and Non-life Insurance business segments.

OP Corporate Bank's Board of Directors decides on the company's business strategy based, among other things, on the principles issued by the central cooperative's Executive Board and approves a business plan and supervises their implementation. In line with the principles adopted by the central cooperative's Executive Board, it also confirms risk policy, funding plan, capital plan and proactive contingency plan for the capital base, investment plan, business continuity plan and significant risk management principles.

The Board of Directors supervises and monitors the implementation of risk and capital adequacy management and the fact that the company's risk management is in conformity with laws, official regulations and instructions issued by the central cooperative. The Board of Directors is responsible for the sufficiency of risk management systems and supervises their extent and performance. It also supervises the quantity and quality of capital, financial performance, risk exposure and compliance with the risk policy, limits and other instructions. The Board assesses the appropriateness, extent and reliability of OP Corporate Bank Group's capital adequacy management on a holistic basis at least once a year.

The Underwriting Executives make decisions within their confirmed authorisations concerning underwriting, annual pricing, reinsurance and other major issues on granting insurance contracts. The UW Executives report on their decisions to the board of directors of the insurance companies and to the ALM and Risk Management Committee of the central cooperative's Executive Board.

OP Corporate Bank's President and CEO takes charge of the overall control of the company in such a way that the company as a whole achieves its profit, risk capacity and other targets and goals by following shared strategies and policies.

OP Corporate Bank Group's business lines must bear primary responsibility for their risk-taking, financial performance and compliance with the principles of internal control and risk management and capital adequacy management. The business lines have the right to make decisions on risk-taking within the approved decision-making powers, exposure limits and credit limits.

The central cooperative is in charge of the OP Financial Group level risk and capital adequacy 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 capacity and to ensure that any business risks taken do not threaten profitability, capital adequacy, liquidity, business continuity and the achievement of strategic targets.

OP Corporate Bank Group's risk and capital adequacy management duties have been centralised within the parent company, OP Cooperative.

OP Financial Group's Internal Audit function is tasked with assisting OP Corporate Bank's Board of Directors and the company's senior management in controlling, supervising and assuring operations by carrying out operational audits. Internal audit is based on an independent and objective assessment, assurance and consulting activities.

It supports the management in their efforts to achieve objectives by providing a systematic, disciplined approach to assessing and upgrading the efficiency of the organisation's risk management, control and management and governance processes, with the focus on the identification of risk factors and the assessment of the performance of internal control.

3. OP Corporate Bank Group's risks

The table below presents OP Corporate Bank Group's significant risks. The paragraphs below the table describe the nature of the risks and how they can be managed.

Strategic risks	Risk caused by changes in the competitive environment, slow reaction to changes in the business environment or customer behaviour, 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	Risk of a counterparty failing 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 consists of structural market risk associated with the balance sheet (market risks associated with the banking book and insurance liabilities) and market risks 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.
Concentration risks	Risks that may arise of a business's excessive concentration on individual customers, products, lines of business, maturity periods or geographical areas.

4. Strategic risks

Identifying strategic risks and opportunities forms an integral part of OP Financial Group's strategic planning and continuous business development. Strategy statements are discussed extensively within OP Financial Group before being confirmed. The Group manages its most significant strategic development initiatives through strategic development programmes.

As part of the strategy process, OP Corporate Bank Group assesses strategic risks, identifies related control measures and assesses their effects, for example, on OP Financial Group's overall risk exposure and economic capital requirement. OP Corporate Bank 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.

The 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.

5 Management of 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 the moderate risk level but has not set company-specific operational risk limits. Owing to the nature of operational risks, their limit levels are threshold values. In 2017, MIM failures (major incidence management) and the usability of systems were the threshold values for the OP Financial Group-level operational risks.

The key area of operational risk management involves identifying and assessing risks and assessing the effectiveness and adequacy of risk control and management tools. Risk identification also involves paying attention to the illegal use of the banking system (e.g. money laundering and terrorism financing) as well as regulatory compliance-related risks. 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.

In its operational risk management, OP Corporate Bank adheres to a uniform OP Financial Group level, system-supported operating model. Business units assess operational risks, involving identifying and assessing their risks and defining and monitoring measures designed to reduce them. Each month, the business units report all events above a certain threshold through the operational risk reporting and management system. The report describes reasons for the loss event and measures taken to prevent similar losses.

The Group and its companies assess the level of operational risks and risk-mitigating management tools on a regular basis or immediately whenever necessary, using standardised methods. Reports issued by Internal Audit and ensuring the flow of sufficient information also form an important part of operational risk management.

The coordination, monitoring and reporting related to the identification and assessment of OP Corporate Bank Group's operational risks are carried out by the central cooperative's Risk Management.

5.1 Monitoring and reporting operational risks

For reporting purposes, operational risks are divided into different categories. Identified and materialised risks are reported to the executive management.

6. Compliance risks

Compliance risk forms part of operational risk. Compliance activities are aimed at ensuring that all 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 controls within Group entities rests with the senior and executive management and all supervisors and managers. Everyone employed by OP Corporate Bank Group is also 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, just like OP Corporate Bank Group, have centralised compliance functions within Risk Management.

6.1 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.

6.2 Compliance risk monitoring and reporting

Compliance risks are identified, assessed and reported regularly according to the operational risk management model as part of the assessment of operational risks. The Compliance function reports regularly on its observations to the senior and executive management.

7. Reputational risk

Reputational risk is managed proactively and in the long term by complying with regulation, good practices of the financial sector and OP Financial 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 Group's parent company and subsidiaries. Any threat to imminent reputational risk will be reported immediately.

8. Risk management of Banking

8.1 Credit risks

The principles based on OP Financial Group's Risk-taking system and Risk Appetite Framework, and Risk Policy are used to control credit risk. The 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.

OP Corporate Bank Group's credit risk derives primarily from corporate customer financing within Banking. Credit risk also derives from investment by insurance operations, from reinsurance and insurance premiums. Credit and country risks related to credit institutions arise mainly from liquidity management by banking and investment by insurance institutions. Funds are mainly invested in notes and bonds eligible as collateral for central bank refinancing, such as government bonds or mortgage-backed bonds. In insurance institutions' investments, government bonds and bonds issued by companies and credit institutions with a high credit rating have a significant weight in the investment portfolio. Counterparty and country risks also arise from interest rate trading the management of the portfolio of notes and bonds, and OP Financial Group's foreign trade financing.

8.2 Credit risk management

Credit risk management is based on active customer relationship management, 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. Careful and deliberate lending decisions are based on decision-making guidelines and updated credit rating. Credit rating controls customer selection, consequences of insufficient collateral and exposure pricing.

The assessment of 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 or other documents produced by account managers.

OP Corporate Bank 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 risk by concluding standard agreements and using only reliable clearing centres.

In order to ensure repayment, the Group takes collateral for exposures. 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.

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.

8.3 Credit risk monitoring

OP Corporate Bank Group monitors developments in credit risks regularly relative to the set limits. In addition, it monitors the quality and structure of the loan portfolio, the adequacy of collateral and doubtful receivables.

Customer monitoring consists of an annual analysis of financial statements and interim reports, and continuous monitoring of the customer's payment behaviour and business.

OP Corporate Bank Group monitors continuously customer credit record and doubtful receivables on the basis of information obtained from OP Financial Group's internal systems and from an external monitoring services. 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 that the credit approval decision is made by a higher-level decision-making body.

8.4 Decision-making

The central cooperative consolidated decision-making guidelines governing Banking exposures describe the decision-making system for the central cooperative consolidated Banking exposures. Decision-making bodies and decision-makers make decisions on exposures within the framework of OP Financial Group's risk policy, limits and exposure limits confirmed by OP Financial Group's Credit Risk Committee as well as instructions and adopted decision-making powers. Depending on the borrower grade, the exposure amount and the amount of insufficient collateral concerning a group of connected clients, decisions on exposures are made by the central cooperative consolidated's Banking Senior Credit Committee, Credit Committee and two authorised persons together. In addition, OP Corporate Bank Group also utilises an automated credit decision system, for example, in consumer lending.

8.5 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), €

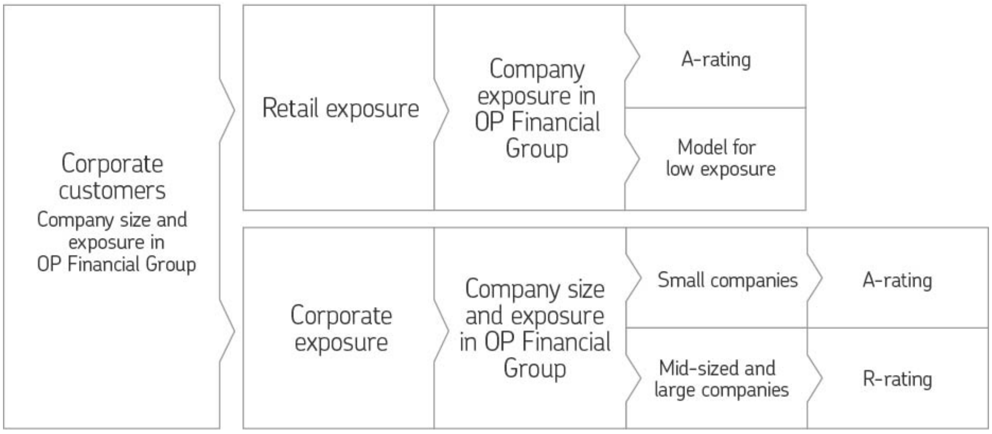
8.5.1 Credit rating and probability of default

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. A default customer also means a customer who does not fully meet his/her payment obligations without the bank's measures (e.g. realisation of collateral). 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.

8.5.2 Assessing corporate customers' probability of default

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

Rating of corporate customers in OP Financial Group



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. The borrower grade is determined by the central cooperative's independent Risk Management, based on the rating proposal, at least once a year and, in respect of potential default customers, on a half yearly basis.

Suomen Asiakatieto'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. Risk scores provided by the rating Alfa and OP Financial Group's internal payment behaviour data are used to generate OP Financial Group's borrower grades that will be changed based on expert assessments, if need be.

The validity of the borrower grade of significant A-rated customers within the Corporate Exposures group is assessed by the account manager at least once a year.

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.

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

8.5.3 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

8.5.4 Assessing probability of default of private customer agreements

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.

OP Corporate Banks's private customer exposures are categorised, before any loan portfolio rating model, mainly using the application-stage rating model for finance company products. The rating based on the application stage supports the loan approval process, credit risk assessment and the pricing of new loans.

8.5.5 Country rating

OP Corporate Bank Group examines country risks on the basis of external credit ratings.

8.5.6 Loss given default (LGD) and exposure at default (EAD)

In addition to the models used for assessing probability of default, OP Corporate Bank 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.

8.6 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.

OP Corporate 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 OP Financial Group's internal credit risk models affects the capital adequacy requirement for credit risk associated with the customer. Regulatory standard estimates 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). 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.

8.7 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 models related to credit risk parameters. 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 while ensuring the effectiveness of the rating process.

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 proposals for development 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.

8.8. Securitised assets

OP Corporate Bank has not acted as an originator or manager of securitisation transactions but has invested in securitised assets. The underlying assets that have been securitised are subject to regular monitoring. In calculating the total amount of the risk-weighted assets of securitisation exposures, the Group has applied IRBA to credit risk when the securitisation exposure belongs to the exposure category to which the assessment model based on credit rating is applied.

9. Liquidity risk management

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 the principles of OP Financial Group's risk-taking system and Risk Appetite Framework, Risk Policy lines as well as on the set tolerances, limits, target levels and the limits and control limits derived from the Group limits to Group entities. 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, and 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 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. Funding 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 funding 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 for use by the Group 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. OP Financial 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 tolerances and 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 OP Financial Group's liquidity buffer be funded not only through deposit funding and short-term funding but also through long-term wholesale funding. Diversifying funding sources will reduce OP Financial 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 accounts of the central cooperative consolidated or instruments it has issued in order not to increase the OP Financial Group's wholesale funding unnecessarily. OP Corporate Bank manages on a centralised basis OP Financial 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 funding 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 tolerances, limits and control limits issued by the central cooperative and guidelines and of account, deposit and loan terms and conditions.

Other Operations is responsible, on a centralised basis, for OP Corporate Bank's liquidity risk and funding liquidity risk management, long-term funding as well as the maintenance of the liquidity buffer portfolios.

As the central institution of the amalgamation of cooperative banks, OP Cooperative has given its member credit institution special permission, under the Act on the Amalgamation of Deposit Banks, whereby the liquidity requirements set for credit institutions mentioned in Part VI of the EU Capital Requirements Regulation are not applied to the member credit institutions. Liquidity based on the regulation is subject to supervision and reporting at the level of the cooperative banks' amalgamation.

9.1 Monitoring and reporting liquidity risks

OP Corporate Bank's liquidity risk is limited as part of the central cooperative consolidated for which limits have been set for net cash flows by maturity which guide the structural funding risk. 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. OP Corporate Bank Group monitors long-term funding maturity using a maturity distribution, for which it has set limits. It monitors structural funding risk on a monthly basis.

In addition, OP Financial Group has set liquidity risk tolerances for the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). 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 in shocks. The NSFR measures the sufficiency of the amalgamation's stable funding relative to the stable funding requirement of business.

Furthermore, OP Financial Group also monitors Group-level liquidity risk in scenarios based on liquidity stress testing. 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. Liquidity risk is subject to monitoring on a daily basis.

10. Market risk management

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 causing earnings effects to the bank. Such effects may be direct or span several financial years. The recognition of the effects on earnings depends on how a vulnerable asset or derivative instrument is accounted for. Market risk also affects the counterparty risk credit valuation adjustment (CVA).

Effective market risk management requires real-time and accurate information on exposures and markets and a quick response to changes.

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. This ensures that changes in market prices or other external market factors will not excessively deteriorate long-term profitability or capital adequacy.

OP Corporate Bank Group controls and restricts market risk-taking by following the principles of OP Financial Group's risk-taking system and Risk Appetite Framework and using the supplementary Risk Policy, limits and risk management guidelines.

OP Corporate Bank Group assesses its market risks by means of sensitivity analyses, VaR (Value-at-Risk) analyses, and stress tests. VaR-based limiting covers OP Corporate Bank Group's key market risk exposures.

OP Corporate Bank Group uses actively derivatives for trading and hedging purposes. It monitors risks associated with derivatives as part of the exposure using the same benchmarks as for balance sheet exposure.

10.1 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 the insurance liability of non-life insurance operations.

The interest rate risk associated with banking is by nature structural interest rate risk related to interest income from financing. The banking book consists of the loan and deposit portfolio and domestic and foreign wholesale funding and derivative contracts hedging the abovementioned items. The liquidity buffer and other investment assets are also included in the banking book. The management of market risks associated with the banking book has the aim of hedging the consolidation group's net financial income against interest rate fluctuations and the value change of investment assets against credit spreads. No currency risk is taken in the management of the banking book. 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.

In Non-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. Interest rate risk arises from long-term annuities in particular.

OP Corporate Bank Group hedges interest rate risk for insurance liabilities of 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.

10.2 Market risks associated with trading

Trading is aimed at earning commission income and benefiting from changes in market prices. Trading exposes OP Corporate Bank to market and counterparty risks. The effects on earnings of the market risks taken in trading are mainly immediately reflected in changes in the fair value of assets and derivatives.

OP Corporate Bank Group limits market risks through VaR and sensitivity figure limits monitored on a daily basis.

10.3 Market risks associated with long-term investment

In OP Corporate Bank Group, investment operations include investment by non-life insurance companies and the management of OP Financial Group's 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 the insurance companies are aimed at obtaining assets covering insurance liabilities and investing profitably. The aim is that investment operations meet the needs of each entity and business division without compromising the entity's capital adequacy.

OP Corporate Bank Group controls and restrict investment operations by means of OP Financial Group's risk-taking system and Risk Appetite Framework, and Risk Policy. 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. OP Corporate Bank Group limits investment risks through statistical VaR metrics, allocation, credit rating and country risk limits.

Companies' investment plans determining the desired risk and return level also play a key role. 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. OP Corporate Bank 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.

Sensitivity analyses are used to assess investment risks. VaR limitation covers the key investment risk exposures of insurance companies. The Group uses stress tests to assess the effects of exceptional market conditions.

10.4 Counterparty risk

Counterparty risk associated with derivative contracts arises from receivables which OP Financial Group may have from its counterparties in case they default.

Capital adequacy requirement due to counterparty risk may arise from items related to financing operations and the trading book. Capital adequacy requirement due to counterparty risk is calculated, for example, on OTC derivatives and sale and repurchase agreements.

OP Corporate Bank 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. The market value of counterparty credit risk adjusted using a Credit Value Adjustment (CVA) is determined at counterparty level.

OP Financial Group's portfolio of derivatives consists mainly of interest rate derivatives in which no parallel correlation exists between the creditworthiness of the counterparty to the derivative contract and interest rates (so-called Wrong Way Risk).

OP Financial Group manages counterparty risks associated with derivative contracts through master agreements enabling netting related to bankruptcies, through collateral and optional early termination. The Group confirms counterparty exposure limits once a year when it also checks the amount and the status of collateral applying to limits for derivatives. 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.

10.4 Market risk monitoring and reporting

In OP Corporate Bank Group, the extent and frequency of market risk reporting to the business and management vary by the nature and extent of business from real-time to monthly monitoring.

11. Risk management of Non-life Insurance

11.1 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.

11.2 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 occupational accident and occupational disease 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 occupational accident and occupational disease 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, those insured 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.

11.2.1 Underwriting risk management

The most important tasks within underwriting risk management 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.

11.2.2 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.

11.2.3 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 5 million euros. 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.

11.2.4 Risk concentrations

OP Corporate Bank 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.

11.2.5 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 evaluation 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 has reduced the discount rate.

Notes to the income statement

Note 3. Net interest income

EUR million	2017	2016
Interest income		
Receivables from credit institutions		
Interest	29	37
Negative interest	15	3
Total	43	40
Receivables from customers		
Loans	309	290
Finance lease receivables	24	23
Impaired loans and other commitments	1	0
Negative interest	13	7
Total	348	321
Notes and bonds		
Held for trading	6	8
At fair value through profit or loss		
Available for sale	98	117
Held to maturity	0	0
Loans and receivables	1	1
Total	106	127
Derivative contracts		
Held for trading	824	1,073
Fair value hedge	-115	-130
Cash flow hedge	5	9
Ineffective portion of cash flow hedge	0	0
Total	714	952
Other	9	7
Total	**1,219**	**1,447**
Interest expenses		
Liabilities to credit institutions		
Interest	58	48
Negative interest	57	35
Total	115	84
Financial liabilities at fair value through profit or loss	0	0
Liabilities to customers	-1	0
Debt securities issued to the public	193	179
Subordinated liabilities		
Subordinated loans	6	8
Other	44	44
Total	50	52
Derivative contracts		
Held for trading	792	1,048
Cash flow hedge	-133	-142
Other	-65	-9
Total	594	897
Other	9	7
Total	**960**	**1,218**

Net interest income before fair value adjustment under hedge accounting	259	229
Hedging derivatives	16	-132
Value changes of hedged items	-17	130
Total	259	228

* The comparative has been restated as a result of the more specified classification of finance lease receivables.

Note 4. Net insurance income

EUR million	2017	2016
Net insurance premium revenue		
Premiums written	1,446	1,443
Insurance premiums ceded to reinsurers	-5	-12
Change in provision for unearned premiums	-6	-14
Reinsurers' share	-3	3
Total	1,432	1,420
Net Non-life Insurance claims		
Claims paid	-889	-862
Insurance claims recovered from reinsurers	8	29
Change in provision for unpaid claims*	-109	-27
Reinsurers' share	20	-23
Total	-970	-883
Other Non-life Insurance items	-3	-3
Total	459	534

* The item includes EUR 102 million (55) as a result of the changed discount rate for insurance liabilities.

Note 5. Net commissions and fees

EUR million	2017	2016
Commission income		
Lending	42	40
Deposits	0	0
Payment transfers	24	29
Securities brokerage	19	16
Securities issuance	11	6
Mutual funds	0	0
Asset management and legal services	13	11
Guarantees	12	13
Insurance brokerage	13	16
Other	13	8
Total	146	140
Commission expenses		
Payment transfers	5	11
Securities brokerage	9	7
Securities issuance	2	1
Asset management and legal services	4	4
Insurance operations	70	76
Other*	80	43
Total	170	143
Total net commissions and fees	-24	-4

* The item includes EUR 66 million (35) in commission expenses paid to member banks arising from derivative trading.

Note 6. Net investment income

EUR million	2017	2016
Net income from available-for-sale assets		
Notes and bonds		
Interest income	39	42
Capital gains and losses	22	55
Transferred from fair value reserve during the financial year	11	12
Fair value gains and losses	-22	-2
Impairment losses and their reversal	0	0
Total	49	106
Shares and participations		
Dividends	50	36
Other income and expenses	-8	-2
Capital gains and losses	21	-10
Transferred from fair value reserve during the financial year	89	27
Impairment losses and their reversal	-5	-20
Total	147	31
Total net income from available-for-sale financial assets	196	137
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	1
Fair value gains and losses	-1	4
Total	-3	6
Shares and participations		
Capital gains and losses	0	0
Total	0	0
Derivatives		
Capital gains and losses	142	-11
Fair value gains and losses	19	94
Total	161	83
Total financial assets and liabilities held for trading	158	89
Assets and liabilities recognised at fair value through profit or loss		
Notes and bonds		
Interest income	4	1
Capital gains and losses	0	0
Fair value gains and losses	-6	-6
Total	-3	-4
Derivatives		
Interest income	-2	0
Capital gains and losses	10	8
Fair value gains and losses	6	2
Total	14	11
Total assets and liabilities recognised at fair value through profit or loss	11	6
Net income from foreign exchange operations		
Currency exchange	1	-2
Fair value gains and losses*	35	40
Total net income from foreign exchange operations	35	38

* Net income from hedging derivatives amounted to 6.0 million euros (-6.6).

Net income from investment property		
Rental income	30	24
Capital gains and losses	4	2
Gains on fair value measurement	4	4
Maintenance charges and expenses	-20	-14
Other	-2	-4
Net income from investment property total	**16**	**12**

Net income from loans and receivables measured at amortised cost**

Loans and receivables		
Interest income	5	5
Interest expenses	-1	-1
Capital gains and losses		-3
Impairment losses and their reversal	-1	0
Loans and receivables total	**4**	**1**

** Note 32 contains information on capital losses recognised on financial assets carried at amortised cost.

Non-life Insurance		
Unwinding of discount, Non-life Insurance	-32	-36

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 2017, the discount rate used was 1.5% (2) for losses occurred before 2015 and 1.5% for losses occurred in 2015, 2016 and 2017.

** Other technical items include changes in other technical provisions than those in supplementary interest rate provisions.

Total net investment income	**389**	**247**

Note 7. Other operating income

EUR million	2017	2016
Capital gains on property in own use	0	1
Central banking service fees	5	9
Leasing agreements	1	2
ICT income	2	2
Income from health and wellbeing services	12	9
Other	18	11
Total	**38**	**33**

Note 8. Personnel costs

EUR million	2017	2016
Wages and salaries	118	112
Variable remuneration*	10	16
Pension costs	29	24
Defined contribution plans	16	16
Defined benefit plans**	13	8
Other personnel related costs	7	10
Total	**164**	**162**

* Note 44

** Note 29

Note 9. Depreciation/amortisation and impairment loss

EUR million	2017	2016
Depreciation and amortisation		
Buildings	4	3
Machinery and equipment	1	1
Intangible assets related to business combinations	21	21
Other intangible assets	34	26
Leased out assets	-1	0
Other	0	0
Total	59	51
Impairment loss		
Property in own use	1	0
Other	4	
Total	5	0
Total	64	51

Note 10. Other operating expenses

EUR million	2017	2016
ICT costs		
Production	106	83
Development	52	36
Rental expenses	1	1
Expenses for property in own use	13	8
Government charges and audit fees*	17	15
Membership fees	2	1
Services purchased from others	61	54
Telecommunications	9	9
Marketing	13	11
Corporate social responsibility expenses	1	2
Other administrative expenses	28	27
Insurance and security costs	4	3
Other Non-life Insurance expenses	3	3
Costs of self-employed persons of health and wellbeing services	4	2
Other	31	25
Total	344	281

* The item includes EUR 270,000 (274,000) in audit fees paid to auditors, EUR 0 (45,000) in fees for assignments as referred to in sub-paragraph 2, paragraph 1 section 1 of the Auditing Act, EUR 41,000 (17,000) in fees for legal counselling and EUR 111,000 (89,000) in fees for other services. Non-audit services provided by KPMG Oy Ab to OP Financial Group companies totalled EUR 154 000.

Development costs

EUR million	2017	2016
ICT development costs	52	36
Share of own work	1	0
Total development costs in the income statement	53	36
Capitalised ICT costs	46	39
Capitalised share of own work	0	0
Total capitalised development costs	46	39
Total development costs	99	75
Depreciation/amortisation and impairment loss	36	25

The development investments ensure the competitiveness and continuity of the present-day business and regulatory compliance and create conditions for new customer-driven business models. The majority of the development expenditure was allocated to the development of the present-day business, but new businesses will account for a larger share in the future.

Note 11. Impairment loss on receivables

EUR million	2017	2016
Receivables written off as loan or guarantee losses	35	37
Recoveries of receivables written off	0	-1
Increase in impairment losses on individually assessed receivables	9	41
Decrease in impairment losses on individually assessed receivables	-36	-46
Collectively assessed impairment losses	5	5
Total	12	37

Note 12. Income tax

EUR million	2017	2016
Current tax	89	68
Tax for previous financial years	-1	1
Deferred tax	16	34
Income tax expense	105	102
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	535	504
Tax calculated at a tax rate of 20.0%	107	101
Tax for previous financial years	-1	1
Income not subject to tax	-9	-5
Expenses not deductible for tax purposes	6	5
Re-evaluation of unrecognised tax losses	1	0
Tax adjustments	1	1
Other items	-1	-1
Tax expense	105	102

Notes to assets

Note 13. Cash and cash equivalents

EUR million	31 Dec. 2017	31 Dec. 2016
Cash	2	1
Deposits with central banks repayable on demand		
OP Corporate Bank plc's minimum reserve deposit	668	651
Cheque account	12,155	8,684
Total cash and cash equivalents	12,825	9,336

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 14. Receivables from credit institutions

EUR million	31 Dec. 2017	31 Dec. 2016
Deposits		
Repayable on demand	749	297
Total	749	297
of which receivables from credit institutions due in less than 3 months	749	296
Loans and receivables		
Repayable on demand		
From other credit institutions	0	0
Total	0	0
Other		
From OP Financial Group entities	8,347	8,937
From other credit institutions	198	226
Total	8,546	9,163
Impairments		
From other credit institutions	-2	-2
Total	-2	-2
Total receivables from credit institutions	9,294	9,458

Note 15. Financial assets held for trading

EUR million	31 Dec. 2017	31 Dec. 2016
Financial assets held for trading		
Government notes and bonds	7	5
Certificates of deposit and commercial papers	392	440
Debentures	30	42
Perpetual loans	9	2
Bonds	152	149
Total	**589**	**638**

Notes and bonds held for trading and shares and participations by quotation and issuer

	31 Dec. 2017		31 Dec. 2016	
Financial assets held for trading, EUR million	Notes and bonds	Shares and partici-pations	Notes and bonds	Shares and partici-pations
Quoted				
From public sector entities	7		5	
From others	164		182	
Other				
From public sector entities	39		276	
From others	380		175	
Total	**589**		**638**	

Financial assets at fair value through profit or loss include EUR 70 million (88) in notes and bonds eligible for central bank refinancing and EUR 29 million (38) in subordinated publicly-quoted notes and bonds.

Note 16. Derivative contracts

EUR million	31 Dec. 2017	31 Dec. 2016
Held for trading		
Interest rate derivatives	3,043	4,009
Currency derivatives	213	261
Equity and index derivatives	1	1
Credit derivatives	1	1
Commodity derivatives	25	21
Total	3,283	4,292
Hedging derivative contracts		
Fair value hedging		
Interest rate derivatives	60	116
Currency derivatives	84	268
Cash flow hedge		
Interest rate derivatives	0	2
Total	143	386
Total derivative contracts	**3,426**	**4,678**

The balance sheet item includes positive changes in fair value of derivative contracts as well as premiums paid.

Note 17. Receivables from customers

EUR million	31 Dec. 2017	31 Dec. 2016
Loans to the public and public sector entities*	14,026	13,263
Notes and bonds		10
Finance lease receivables*	1,856	1,591
Guarantee receivables	2	2
Other receivables	4,455	4,077
Total	20,340	18,943
Impairment losses	-220	-241
Total receivables from customers	**20,120**	**18,702**

Changes in impairment losses on loans and guarantee receivables in receivables from customers

EUR million	Loans	Notes and bonds	Bank guarantee receivables	Interest recei-vables	Total
Impairments 1 Jan. 2017	241	-1	2	0	241
Increase in impairments of individually assessed loans and receivables	9	1		-12	-2
Change in impairments of collectively assessed loans and receivables	5		0		5
Reversal of impairments of loans and receivables individually assessed	-4		0	11	7
Loans and guarantee receivables derecognised from balance sheet, of which an individually assessed impairment was recognised	-32				-32
Impairments 31 Dec. 2017	**219**		**2**	**-1**	**220**

EUR million	Loans	Notes and bonds	Bank guarantee receivables	Interest recei-vables	Total
Impairments 1 Jan. 2016	234	-3	10	-1	240
Increase in impairments of individually assessed loans and receivables	41	2	0	-12	30
Change in impairments of collectively assessed loans and receivables	4		0		4
Reversal of impairments of loans and receivables individually assessed	-10		-9	14	-4
Loans and guarantee receivables derecognised from balance sheet, of which an individually assessed impairment was recognised	-29				-29
Impairments 31 Dec. 2016	**241**	**-1**	**2**	**0**	**241**

Finance lease receivables*

OP Corporate Bank Group finances moveable capital assets, real property and other premises through finance leases.

EUR million	31 Dec. 2017	31 Dec. 2016
Maturity of finance leases		
Not later than one year	423	387
1–5 years	1,132	907
Over 5 years	386	379
Gross investment in finance leases	1,941	1,673
Unearned finance income (–)	-85	-81
Present value of minimum lease payments	**1,856**	**1,591**
Present value of minimum lease payment receivables		
Not later than one year	401	365
1–5 years	1,089	869
Over 5 years	367	357
Total	**1,856**	**1,591**

* The comparative has been restated as a result of the more specified classification of finance lease receivables.

Note 18. Investment assets

EUR million	31 Dec. 2017	31 Dec. 2016
Financial assets at fair value through profit or loss at inception		
Notes and bonds	304	337
Total	304	337
Available-for-sale financial assets		
Notes and bonds	14,050	15,127
Shares and participations	728	807
Total	14,777	15,934
Financial assets held to maturity		
Notes and bonds	51	79
Total	51	79
Investment property		
Land and water areas	44	42
Buildings	259	274
Total	303	316
Loans and receivables		
Other	71	32
Total	71	32
Total investment assets	**15,506**	**16,698**

Breakdown of notes and bonds recognised at fair value through profit or loss and shares and participations by quotation and issuer

	31 Dec. 2017		31 Dec. 2016	
EUR million	Notes and bonds	Shares and partici-pations	Notes and bonds	Shares and partici-pations
Quoted				
From public corporations	304		337	
Total	304		337	

Available-for-sale financial assets and held-to-maturity investments on 31 Dec. 2017

	Available-for-sale notes and bonds			Available-for-sale shares and participations			
EUR million	At fair value	At amortised cost	Total	At fair value	At cost	Total	Held-to-maturity investments
Quoted							
Eligible as collateral	11,189		11,189				41
Ineligible as collateral	2,683		2,683	450		450	9
Other							
From others	178		178	277	2	278	
Total	14,050		14,050	726	2	728	51
Impairment losses for the financial year	0		0	-5		-5	

Available-for-sale financial assets did not include subordinated publicly-quoted notes and bonds.

Available-for-sale financial assets and held-to-maturity investments on 31 Dec. 2016

	Available-for-sale notes and bonds			Available-for-sale shares and participations			
EUR million	At fair value	At amortised cost	Total	At fair value	At cost	Total	Held-to-maturity investments
Quoted							
Eligible as collateral	12,182		12,182				69
Ineligible as collateral	2,784		2,784	508		508	10
Other							
From others	161		161	297	2	298	
Total	15,127		15,127	805	2	807	79
Impairment losses for the financial year	0		0	-20		-20	

Changes in investment property, EUR million	2017	2016
Acquisition cost 1 Jan.	279	263
Increase	41	38
Decrease	-54	-12
Transfers between items	0	-10
Acquisition cost 31 Dec.	267	279
Accumulated changes in fair value 1 Jan.	36	31
Changes in fair value during financial year	4	4
Decrease	-3	0
Other changes	0	1
Accumulated changes in fair value 31 Dec.	37	36
Carrying amount 31 Dec.	**303**	**316**

Increases in investment property include EUR 1 million (0) in capitalised expenses recognised after acquisition. Any 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.

Investment property does not include real property received as collateral in 2017 and 2016.

A total of 80% of investment property holdings, or EUR 242 million, was appraised by external property valuers, all of them being authorised property valuers (AKA).

Note 19. Investment accounted for using the equity method

Amounts entered in the balance sheet:

EUR million	31 Dec. 2017	31 Dec. 2016
Associates	49	46
Total	**49**	**46**

Amounts entered in the income statement:

EUR million	31 Dec. 2017	31 Dec. 2016
Associates	1	-2
Total	**1**	**-2**

Investments in associates and joint ventures
OP Corporate Bank Group has three (3) associated companies which are not significant when reviewing one by one. The table above shows OP Corporate Bank Group's share of the profit/loss of these associates. OP Corporate Bank Group has no investments in joint ventures.

OP Corporate Bank Group's investments in associated have no quoted market price and no contingent liabilities are involved in them.

Note 20. 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 Jan. 2017	422	179	291	322	1,215
Increases				47	47
Decreases				0	0
Transfers between items				0	0
Acquisition cost 31 Dec. 2017	422	179	291	368	1,261
Accumulated amortisation and impairments 1 Jan. 2017		-7	-239	-179	-425
Amortisation during the financial year			-23	-33	-55
Impairments for the financial year				-4	-4
Decreases				0	0
Other changes					
Accumulated amortisation and impairments 31 Dec. 2017		-7	-262	-215	-484
Carrying amount 31 Dec. 2017	**422**	**172**	**29**	**153**	**777**

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 Jan. 2016	422	179	278	280	1,160
Increases			13	43	56
Decreases				-1	-1
Transfers between items					
Acquisition cost 31 Dec. 2016	422	179	291	322	1,215
Accumulated amortisation and impairments 1 Jan. 2016		-7	-217	-155	-379
Business operations acquired					
Amortisation during the financial year			-22	-24	-47
Decreases				0	0
Other changes				1	1
Accumulated amortisation and impairments 31 Dec. 2016		-7	-239	-179	-425
Carrying amount 31 Dec. 2016	**422**	**172**	**52**	**143**	**790**

Other intangible assets, EUR million	31 Dec. 2017 Carrying amount	31 Dec. 2016 Carrying amount
Information systems	106	96
Information systems under development	46	46
Modernisation costs (leased premises)	0	0
Other	1	1
Total	153	143

Intangible assets with indefinite economic lives, EUR million	31 Dec. 2017	31 Dec. 2016
Goodwill	422	422
Brands	172	172
Total	595	595

The economic lives of brands acquired through business combinations are estimated to be indefinite, since they affect the accrual of cash flows for an indefinable period.

Goodwill, EUR million

Segment	Acquired business	31 Dec. 2017	31 Dec. 2016
Non-life Insurance	Acquisition of Pohjola Group plc’s non-life insurance business and Excenta Ltd’s wellness business	410	410
Banking	Acquisition of Pohjola Finance Ltd’s businesses	13	13
Total		422	422

Testing goodwill for impairment

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, entities or parts of a business division included in them. Impairment testing of goodwill was carried out in accordance with IAS 36 on those CGUs for which acquisition cost calculations were made.

For the purpose of goodwill testing, the value of the CGUs of OP Corporate Bank Group was determined by using the 'Excess Returns' method. Accordingly, profits for the current period and future periods were reduced by the return requirement set for shareholders' equity. Any excess return was discounted using a discount rate corresponding to the return requirement set for shareholders' equity in order to determine the present value of cash flows.

The testing period was determined to be five years under IAS 36, including residual values.

The forecasts used in cash flow statements are based on strategy figures for 2018–20 confirmed by OP Corporate Bank's Board of Directors in 2016, and post-strategy-period expectations derived from them regarding business developments. Growth in cash flows for post-forecast periods ranges between 2 and 4%.

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) was 8.9% and 9.4%. In 2016, the discount rate was 9.5% and 10.3%. The Group decreased the discount rate before tax for Non-life Insurance by 0.7 percentage points and for OP Finance by 0.5 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.

Sensitivity analysis of goodwill

A sensitivity analysis was carried out separately for each CGU on the basis of key parameters of each CGU. Variables used in the sensitivity analyses were the same a year ago. A change in one variable in relation to values used in forecasts causes an impairment risk. The sensitivity analysis does not include simultaneous changes in all key variables.

Key variables used in the sensitivity analysis and their changes that cause an impairment risk

Segment	Acquired business	Key variables	Value used in forecasts, %	Change caused by impairment risk, pp
Non-life Insurance	Non-life Insurance business	Discount rate, %	9.4	10.0
		Combined ratio, %	83-87	9.6
		Net investment income, %	2.3-2.6	-4.0
Banking	OP Finance Ltd's business	Discount rate, %	8.9	13.0
		Loan portfolio growth, %	4.0	-15.0
		Growth in expenses, %	2.0	14.0

Impairment testing of brands

OP Corporate Bank 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 costs for non-life and occupational healthcare services (7.8% and 7.5%) plus an asset-specific risk premium of 3%. The discount rate used in testing other brands was the market-based equity cost defined for Non-life Insurance (7.8%) plus an asset-specific risk premium of 3%. In addition, the same risk premium and the corresponding royalty percentages were applied in 2017 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 in the next few years. The forecasts used in cash flow statements are based on strategy figures for 2018-20 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 in accordance with IAS 36, an intangible asset with indefinite 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, Pohjola did not recognise any impairment loss on brands in its financial statements 2017.

Impairment testing of customer relationships

OP Corporate Bank Group's customer relationships were acquired as part of the acquisition of the business operations of Pohjola Group plc. Intangible assets originating from customer relationships are charged to expenses using straight-line amortisation over their estimated economic lives. No indications of the need for impairment recognition have been discovered.

Note 21. Property, plant and equipment

EUR million	31 Dec. 2017	31 Dec. 2016
Property in own use		
Land and water areas	10	9
Buildings	101	78
Total	111	87
Machinery and equipment	1	2
Other tangible assets	3	3
Leased-out assets	0	2
Total property, plant and equipment	**115**	**93**
of which construction in progress	18	24

Changes in property, plant and equipment (PPE), EUR million	Property in own use	Machinery and equipment	Other tangible assets	Leased-out assets	Total PPE
Acquisition cost 1 Jan. 2017	112	37	4	5	158
Increases	31	0	1	0	32
Decreases	-4	-6	-2	-3	-15
Transfers between items	0				0
Acquisition cost 31 Dec. 2017	139	31	3	2	175
Accumulated depreciation and impairments 1 Jan. 2017	-25	-36	0	-4	-65
Depreciation during the financial year	-3	-1	0	0	-5
Impairments for the financial year	-1				-1
Decreases	2	6	0	2	11
Other changes	0				0
Accumulated depreciation and impairments 31 Dec. 2017	-28	-30	0	-2	-60
Carrying amount 31 Dec. 2017	**111**	**1**	**3**	**0**	**115**

Changes in property, plant and equipment (PPE), EUR million	Property in own use	Machinery and equipment	Other tangible assets	Leased-out assets	Total PPE
Acquisition cost 1 Jan. 2016	60	37	4	17	118
Increases	44	0	3		47
Decreases	-2	0	-3	-12	-16
Transfers between items	10				10
Acquisition cost 31 Dec. 2016	112	37	4	5	158
Accumulated depreciation and impairments 1 Jan. 2016	-14	-35	0	-10	-59
Depreciation during the financial year	-3	-1	0	-2	-5
Impairments for the financial year	0				0
Reversals of impairments for the financial year	0				0
Decreases	1	0	0	8	9
Other changes	-9	0		0	-9
Accumulated depreciation and impairments 31 Dec. 2016	-25	-36	0	-4	-65
Carrying amount 31 Dec. 2016	**87**	**2**	**3**	**2**	**93**

Note 22. Other assets

EUR million	31 Dec. 2017	31 Dec. 2016
Payment transfer receivables	22	2
Pension assets		2
Accrued income and prepaid expenses		
Interest	118	116
Interest on derivatives receivables	194	280
Other insurance operations' items	27	29
Other	13	14
Derivatives receivables, central counterparty clearing	11	147
CSA receivables from derivative contracts	543	1,098
Securities receivables	16	25
Direct insurance receivables	480	474
Reinsurance receivables	8	8
Reinsurers' share of provisions for unearned premiums	11	14
Reinsurers' share of provisions for unpaid claims	84	64
Other receivables	182	217
Total	1,708	2,488

Note 23. Tax assets and liabilities

EUR million	31 Dec. 2017	31 Dec. 2016
Income tax assets	13	22
Deferred tax assets	22	24
Total tax assets	35	46

EUR million	31 Dec. 2017	31 Dec. 2016
Income tax liabilities	9	1
Deferred tax liabilities	411	404
Total tax liabilities	419	405

Deferred tax assets	31 Dec. 2017	31 Dec. 2016
Due to available-for-sale financial assets	0	0
Due to depreciation and impairment losses	0	0
Due to provisions and impairment losses on receivables	7	8
Due to timing difference of securities issued to the public	0	1
Due to defined-benefit pension plans	20	19
Due to consolidation of Group accounts	1	1
Due to other items	4	6
Set-off against deferred tax liabilities	-10	-11
Total	22	24

Deferred tax liabilities	31 Dec. 2017	31 Dec. 2016
Due to appropriations	261	243
Due to available-for-sale financial assets	40	47
Due to cash flow hedging	1	1
Due to elimination of equalisation provision	59	60
Due to fair value measurement of investment	15	12
Due to allocation of sale price of business combinations	36	40
Due to defined benefit pension plans	3	3
Due to consolidation of Group accounts	2	2
Due to other items	4	5
Set-off against deferred tax assets	-10	-11
Total	**411**	**404**
Net deferred tax asset (+)/liability (-)	**-389**	**-380**

Changes in deferred taxes	31 Dec. 2017	31 Dec. 2016
Deferred tax assets/liabilities 1 Jan.	-380	-343
Recognised on the income statement		
Provisions and impairments on receivables	0	0
Appropriations	-17	-20
Elimination of equalisation provision	0	-14
Fair value changes in and sale of investments	-3	3
Depreciation/amortisation and impairments	4	4
Timing difference of securities issued to the public	-1	-7
Defined benefit pension plans	1	1
Other	-1	-1
Recognised in statement of comprehensive income		
Fair value reserve		
Fair value measurement	-12	-25
Cash flow hedges	0	0
Transfers to the income statement	21	6
Actuarial gains/losses on post-employment benefit obligations	-1	16
Other	0	0
Total deferred tax assets 31 December, asset (+)/liability (-)	**-389**	**-380**
Income tax assets, asset (+)/liability (-)	**5**	**21**
Total tax assets, asset (+)/liability (-)	**-384**	**-359**

Tax losses for which a deferred tax asset was not recognised came to EUR 6 million (0) at the end of 2017. The losses will expire before 2027.

A deferred tax liability has not been recognised for the EUR 56 million (47) of undistributed profits of the Baltic subsidiaries, since the assets have been permanently invested in these countries.

Notes to liabilities and equity capital

Note 24. Liabilities to credit institutions

EUR Million	31 Dec. 2017	31 Dec. 2016
Liabilities to central banks	4,023	3,240
Liabilities to credit institutions		
Repayable on demand		
Deposits		
With OP Financial Group entities	641	668
With other credit institutions	10	3
Other liabilities		
With OP Financial Group entities	1,166	1,281
Total	1,816	1,952
Other than repayable on demand		
Deposits		
With OP Financial Group entities	7,222	3,799
With other credit institutions	974	1,342
Total	8,196	5,141
Total liabilities to credit institutions and central banks	**14,035**	**10,332**

Note 25. Derivative contracts

EUR million	31 Dec. 2017	31 Dec. 2016
Held for trading		
Interest rate derivatives	2,597	3,782
Currency derivatives	201	254
Equity and index derivatives	0	0
Credit derivatives	0	1
Other	26	19
Total	2,825	4,056
Hedging derivative contracts		
Fair value hedging		
Interest rate derivatives	305	330
Currency derivatives	86	11
Cash flow hedge		
Interest rate derivatives	0	0
Total	391	341
Total derivative contracts	**3,216**	**4,398**

The balance sheet item includes negative changes in value of derivative contracts as well as premiums received.

Note 26. Liabilities to customers

EUR million	31 Dec. 2017	31 Dec. 2016
Deposits		
Repayable on demand		
Private	72	79
Companies and public-sector entities	10,361	10,671
Total	10,433	10,750
Other		
Companies and public-sector entities	755	278
Total	755	278
Total deposits	11,189	11,028
Other financial liabilities		
Repayable on demand		
Private	11	13
Total	11	13
Other		
Companies and public-sector entities	7,638	5,136
Total	7,638	5,136
Total other financial liabilities	7,648	5,150
Total liabilities to customers	**18,837**	**16,178**

Note 27. Insurance liabilities

EUR million	31 Dec. 2017	31 Dec. 2016
Non-life Insurance insurance liabilities	3,143	3,008
Total	**3,143**	**3,008**

Non-life Insurance contract liabilities and reinsurers' share

	31 Dec. 2017			31 Dec. 2016		
EUR million	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
Provision for unpaid claims for annuities	1,516	-6	1,510	1,434	-6	1,427
Other provisions by case	194	-53	141	162	-34	128
Special provision for occupational diseases	14		14	17		17
Collective liability (IBNR)	779	-25	754	743	-24	719
Reserved loss adjustment expenses	67		67	66		66
Provision for unearned premiums	585	-11	574	578	-14	565
Interest rate hedge for insurance liabilities	-12		-12	8		8
Total Non-life Insurance insurance liabilities	**3,143**	**-95**	**3,048**	**3,008**	**-78**	**2,930**

Changes in insurance liabilities arising from insurance contracts and in receivables arising from reinsurance contracts

	2017			2016		
EUR million	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
Provision for unpaid claims						
Provision for unpaid claims 1 Jan.	2,430	-64	2,365	2,357	-87	2,269
Claims paid in financial year	-1,004	8	-996	-958	29	-929
Change in liability/receivable	1,113	-28	1,085	986	-6	979
Current period claims	1,043	-25	1,018	993	-8	985
Increase (decrease) from previous financial years	-32	-3	-35	-62	2	-61
Change in discount rate	102		102	55		55
Unwinding of discount	31		31	35		35
Value change in interest rate hedges	-12		-12	8		8
Acquired business operations 31 Dec.				3		3
Foreign exchange gains (losses)	0	0	0	0		0
Provision for unpaid claims 31 Dec.	2,557	-84	2,473	2,430	-64	2,365
Liability for remaining contract period						
Insurance liabilities 1 Jan.	578	-14	565	560	-11	550
Increase	524	-6	518	543	-14	529
Decrease	-518	9	-509	-528	11	-517
Acquired business operations 31 Dec.				3		3
Unwinding of discount	1		1	1		1
Insurance liabilities 31 Dec.	585	-11	574	578	-14	565
Total Non-life Insurance insurance liabilities	**3,143**	**-95**	**3,048**	**3,008**	**-78**	**2,930**

The insurance liability for the remaining contract period of insurance contracts has mainly been determined in accordance with the pro rata parte temporis rule for each contract.

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 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 2017, the discount rate used was 1.5% (2) for losses occurred before 2015 and 1.5% for losses occurred in 2015, 2016 and 2017. 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 102 million (55).

Effect of changes in methods and assumptions on amount of liability	2017	2016
EUR million (increase +/decrease - in liability)		
Change in discount rate	102	55
Total	**102**	**55**

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	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
Estimated total claims expenditure											
0*	707	666	738	784	815	903	931	976	1,000	1,043	8,563
n+1	693	633	746	751	802	879	905	887	1,006		
n+2	691	640	744	752	805	861	920	902			
n+3	689	641	743	757	821	885	939				
n+4	704	651	750	771	836	891					
n+5	726	653	760	786	840						
n+6	734	659	771	785							
n+7	741	670	772								
n+8	758	673									
n+9	759										
Current estimate of total claims expenditure											
	759	673	772	785	840	891	939	902	1,006	1,043	8,611
Accumulated claims paid											
	-726	-636	-733	-733	-777	-820	-839	-780	-824	-609	-7,477
Provision for unpaid claims for 2008-17											
	34	36	39	52	63	71	100	122	182	435	1,134
Provision for unpaid claims for previous years											151

* = 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
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
2017	14	53	-5	-3	3	0

Development of annuities confirmed as final, EUR million

Financial year	Year-start	Year-end	New annuity capital	Annuities paid	Changes in reserving basis*	Adequacy
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
2017	1,080	1,141	54	52	75	16

* 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	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
Estimated total claims expenditure											
0*	656	649	693	721	796	861	897	957	992	1,019	8,242
n+1	656	620	707	697	782	829	868	877	1,000		
n+2	658	629	705	710	786	819	875	892			
n+3	656	629	705	714	804	843	887				
n+4	670	633	712	727	818	847					
n+5	684	633	721	741	823						
n+6	691	635	732	743							
n+7	698	646	734								
n+8	715	648									
n+9	715										
Current estimate of total claims expenditure											
	715	648	734	743	823	847	887	892	1,000	1,019	8,309
Accumulated claims paid											
	-685	-624	-695	-693	-761	-782	-807	-778	-823	-608	-7,257
Provision for unpaid claims for 2008-17											
	30	**24**	**39**	**50**	**61**	**65**	**80**	**115**	**177**	**411**	**1,053**
Provision for unpaid claims for previous years											151

* = 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 increased by EUR 67 million while those for the previous financial year decreased by EUR 12 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.

Note 28. Debt securities issued to the public

EUR million	Average interest rate %	31 Dec. 2017	Average interest rate %	31 Dec. 2016
Bonds	1.20	9,716	1.35	11,792
Other				
Certificates of deposit	1.10	83	0.21	28
Commercial paper	0.47	7,034	0.42	8,059
Included in own portfolio in trading (–)*		-42		-54
Total debt securities issued to the public		16,791		19,826

*Own bonds held by OP Corporate Bank Group have been set off against liabilities.

Reconciliation of changes in liabilities in cash flows from financing activities against balance sheet items

EUR million	Debt securities issued to the public	Sub-ordinated liabilities
Balance sheet value 1 Jan. 2017	19,826	1,592
Changes in cash flows from financing activities		
Increases in bonds	1,194	
Increases in certificates of deposit	86	
Increases in commercial papers	19,779	
Increases total	21,060	
Decreases in bonds	-2,980	
Decreases in certificates of deposit	-28	
Decreases in commercial papers	-20,459	
Decreases total	-23,468	
Total changes in cash flows from financing activities	-2,408	
Valuations and changes in exchange rates	-627	-45
Balance sheet value 31 Dec. 2017	16,791	1,547

Long-term loans and interest rate bases	Nominal amount	Interest rate	Maturity
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	28.2	GBL3M + 0.350%	11 Jan. 2018
OP Corporate Bank plc Issue of JPY 2,000,000,000 Floating Rate Instruments due 28 March 2018 under the EUR 20,000,000,000 Programme for the Issuance of Debt Instruments	14.8	JPL3M + 0.200%	28 March 2018
OP Corporate Bank plc Issue of EUR 500,000,000 1.25 per cent. Instruments due 14 May 2018 under the EUR 20,000,000,000 Programme for the Issuance of Debt Instruments	500.0	Fixed 1.250%	14 May 2018
OP Corporate Bank plc Issue of GBP 300,000,000 Floating Rate Instruments due May 2018 under the EUR 20,000,000,000 Programme for the Issuance of Debt Instruments	338.1	GBL3M + 0.450%	21 May 2018
OP Corporate Bank plc Japanese Yen Bonds JPY 6,900,000,000 - Second Series (2013)	51.1	Fixed 0.698%	26 June 2018
OP Corporate Bank plc Japanese Yen Floating Rate Bonds JPY 2,000,000,000 - Second Series (2013)	14.8	JPL3M + 0.270%	26 June 2018
OP Corporate Bank plc Issue of EUR 750,000,000 1.750 per cent. Instruments due 29 August 2018 under the EUR 20,000,000,000 Programme for the Issuance of Debt Instruments	750.0	Fixed 1.750%	29 Aug. 2018
OP Corporate Bank plc Issue of EUR 10,000,000 Floating Rate Instruments due 20 September 2018 under the EUR 20,000,000,0000 Programme for the Issuance of Debt Instruments	10.0	EUB3M + 0.390%	20 Sept. 2018

OP Corporate Bank plc Issue of EUR 20,000,000 1.50 per cent. Fixed Rate Notes due 16 November 2018 under the EUR 20,000,000,000 Programme for the Issuance of Debt Instruments	20.0	Fixed 1.500%	16 Nov. 2018
OP Corporate Bank plc Issue of EUR 750,000,000 1.125 per cent. Instruments due 17 June 2019 under the EUR 20,000,000,000 Programme for the Issuance of Debt Instruments	750.0	Fixed 1.125%	17 June 2019
OP Corporate Bank plc Japanese Yen Bonds JPY 42,400,000,000 - Fourth Series (2014)	314.1	Fixed 0.434%	18 June 2019
OP Corporate Bank plc Issue of AUD 20,000,000 3.925 per cent Fixed Rate Notes due 27 June 2019 under the EUR 20,000,000,000 Programme for the Issuance of Debt Instruments	13.0	Fixed 3.925%	27 June 2019
OP Corporate Bank plc Issue of SEK 750,000,000 Floating Rate Note due September 2019 under the EUR 20,000,000,000 Programme for the Issuance of Debt Instruments	76.2	SES3M + 0.520%	16 Sept. 2019
OP Corporate Bank plc Issue of EUR 300,000,000 Floating Rate Instruments due 11 March 2020 under the EUR 20,000,000,000 Programme for the Issuance of Debt Instruments	300.0	EUB3M + 0.280%	11 March 2020
OP Corporate Bank plc Issue of EUR 50,000,000 Floating Rate Instruments due March 2020 under the EUR 20,000,000,000 Programme for the Issuance of Debt Instruments	50.0	EUB3M + 0.280%	11 March 2020
OP Corporate Bank plc Issue of EUR 150,000,000 Floating Rate Instruments due March 2020 under the EUR 20,000,000,000 Programme for the Issuance of Debt Instruments	150.0	EUB3M + 0.280%	11 March 2020
OP Corporate Bank plc Issue of EUR 30,000,000 Floating Rate Instruments due March 2020 under the EUR 20,000,000,000 Programme for the Issuance of Debt Instruments	30.0	EUB3M + 0.280%	11 March 2020
OP Corporate Bank plc Issue of EUR 50,000,000 Floating Rate Instruments due March 2020 under the EUR 20,000,000,000 Programme for the Issuance of Debt Instruments	50.0	EUB3M + 0.280%	11 March 2020
OP Corporate Bank plc Issue of EUR 25,000,000 Floating rate instruments due March 2020. Under the EUR 20,000,000,000 Programme for the issuance of debt instruments.	25.0	EUB3M + 0.280%	11 March 2020
OP Corporate Bank plc Issue of EUR 25,000,000 Floating Rate Instruments due March 2020 under the EUR 20,000,000,000 Programme for the Issuance of Debt Instruments	25.0	EUB3M + 0.280%	11 March 2020
OP Corporate Bank plc Issue of EUR 25,000,000 Floating Rate Instruments due March 2020 under the EUR 20,000,000,000 Programme for the Issuance of Debt Instruments	25.0	EUB3M + 0.280%	11 March 2020
OP Corporate Bank plc Issue of EUR 25,000,000 Floating Rate Instruments due March 2020 under the EUR 20,000,000,000 Programme for the Issuance of Debt Instruments	25.0	EUB3M + 0.280%	11 March 2020
OP Corporate Bank plc Issue of EUR 25,000,000 Floating Rate Instruments due March 2020, under the EUR 20,000,000,000 Programme for the Issuance of Debt Instruments	25.0	EUB3M + 0.280%	11 March 2020
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%	11 March 2020
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%	11 March 2020
OP Corporate Bank plc Issue of HKD 850,000,000 Floating Rate Note due May 2020 under the EUR 20,000,000,000 Programme for the Issuance of Debt Instruments	90.7	Fixed 2.140%	27 May 2020
OP Corporate Bank plc Issue of HKD 214,000,000 Floating Rate Note due September 2020 under the EUR 20,000,000,000 Programme for the Issuance of Debt Instruments	22.8	Fixed 2.160%	18 Sept. 2020
OP Corporate Bank plc issue of GBP 10 000 000 floating rate instruments due 13 November 2020 under EUR 20,000,000,000 programme for the Issuance of debt instruments	11.3	GBL3M + 0.850%	13 Nov. 2020
OP Corporate Bank plc Issue of EUR 10,000,000 1.965 per cent. Instruments due 19 November 2020 under the EUR 20,000,000,000 Programme for the Issuance of Debt Instruments	10.0	Fixed 1.965%	19 Nov. 2020
OP Corporate Bank plc Japanese Yen Bonds JPY 28,500,000,000 - Third Series (2015)	211.1	Fixed 0.325%	27 Nov. 2020
OP Corporate Bank plc Japanese Yen Floating Rate Bonds JPY 1,500,000,000 - Third Series (2015)	11.1	JPL3M + 0.160%	27 Nov. 2020

OP Corporate Bank plc Issue of JPY 8,000,000,000 Fixed Rate Instruments due December 2020 under the EUR 20,000,000,000 Programme for the Issuance of Debt Instruments	59.3	Fixed 1.405%	3 Dec. 2020
OP Corporate Bank plc Issue of EUR 750,000,000 2 per cent. Instruments due 3 March 2021 under the EUR 20,000,000,000 Programme for the Issuance of Debt Instruments	750.0	Fixed 2.000%	3 March 2021
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%	21 June 2021
OP Corporate Bank plc Issue of CHF 300,000,000 1.000 per cent. Instruments due 14 July 2021 under the EUR 20,000,000,000 Programme for the Issuance of Debt Instruments	256.4	Fixed 1.000%	14 July 2021
OP Corporate Bank plc Issue of EUR 60,000,000 3.75 per cent. Instruments due 1 March 2022 under the EUR 20,000,000,000 Programme for the Issuance of Debt Instruments	60.0	Fixed 3.750%	1 March 2022
OP Corporate Bank plc Issue of EUR 1,000,000,000 0.75 per cent. Instruments due March 2022 under the EUR 20,000,000,000 Programme for the Issuance of Debt Instruments	1,000.0	Fixed 0.750%	3 March 2022
OP Corporate Bank plc Issue of GBP 400,000,000 2.500 per cent. Instruments due 20 May 2022 under the EUR 20,000,000,000 Programme for the Issuance of Debt Instruments	450.8	Fixed 2.500%	20 May 2022
OP Corporate Bank plc Issue of EUR 200,000,000 Floating Rate Instruments due 13 June 2022 under the EUR 20,000,000,000 Programme for the Issuance of Debt Instruments	200.0	EUB3M + 0.75%	13 June 2022
OP Corporate Bank plc Issue of EUR 500,000,000 0.375 per cent. Instruments due 11 Oct 2022 under the EUR 20,000,000,000 Programme for the Issuance of Debt Instruments	500.0	Fixed 0.375%	11 Oct. 2022
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%	16 Feb. 2024
OP Corporate Bank plc Issue of EUR 57,000,000 1.07 per cent. Notes due 2025 under the EUR 20,000,000,000 Programme for the Issuance of Debt Instruments.	57.0	Fixed 1.070%	12 May 2025
OP Corporate Bank plc Issue of HKD 1,270,000,000 Floating Rate Note due September 2025 under the EUR 20,000,000,000 Programme for the Issuance of Debt Instruments	135.5	Fixed 3.001%	4 Sept. 2025
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	70.7	Fixed 2.880%	21 Jan. 2026
OP Corporate Bank plc Issue of EUR 10,000,000 1.058 per cent. Instruments due 18 May 2027 under the EUR 20,000,000,000 Programme for the Issuance of Debt Instruments	10.0	Fixed 1.058%	18 May 2027
OP Corporate Bank plc Issue of EUR 50,000,000 3.086 per cent. Instruments due 23 August 2027 under the EUR 20,000,000,000 Programme for the Issuance of Debt Instruments	50.0	Fixed 3.086%	23 Aug. 2027
OP Corporate Bank plc Issue of EUR 25,000,000 1.00 per cent. Notes due 2027 under the EUR 20,000,000,000 Programme for the Issuance of Debt Instruments	25.0	Fixed 1.000%	8 Oct. 2027
OP Corporate Bank plc Issue of NOK 200,000,000 3.80 per cent. Instruments due 27 May 2029 under the EUR 20,000,000,000 Programme for Debt Instruments	20.3	Fixed 3.800%	27 May 2029
OP Corporate Bank plc Issue of EUR 30,000,000 1.70 per cent. Notes due 2030 under the EUR 20,000,000,000 Programme for the Issuance of Debt Instruments	30.0	Fixed 1.700%	21 Aug. 2030
OP Corporate Bank plc Issue of EUR 50,000,000 2.045 per cent. Instruments due 18 November 2030 under the EUR 20,000,000,000 Programme for the Issuance of Debt Instruments	50.0	Fixed 2.045%	18 Nov. 2030
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%	27 Jan. 2031
OP Corporate Bank plc Issue of EUR 30,000,000 3.068 per cent. Instruments due 21 March 2034 under the EUR 20,000,000,000 Programme for the Issuance of Debt Instruments	30.0	Fixed 3.068%	21 March 2034
OP Corporate Bank plc Issue of EUR 30,000,000 Fixed Rate Notes due 2034 under the EUR 20,000,000,000 Programme for the Issuance of Debt Instruments	30.0	Fixed 3.015%	31 March 2034
OP Corporate Bank plc Issue of EUR 40,000,000 Fixed Rate Notes due 2034 under the EUR 20,000,000,000 Programme for the Issuance of Debt Instruments	40.0	Fixed 3.000%	11 April 2034

OP Corporate Bank plc Issue of EUR 40,000,000 1.40 cent. Instruments due 16 March 2035 under the EUR 20,000,000,000 Programme for the Issuance of Debt Instruments	40.0	Fixed 1.400%	16 March 2035
OP Corporate Bank plc Issue of EUR 30,000,000 2.155 per cent. Instruments due 20 November 2035 under the EUR 20,000,000,000 Programme for the Issuance of Debt Instruments	30.0	Fixed 2.155%	20 Nov. 2035
OP Corporate Bank plc Issue of JPY 2,500,000,000 1.30 per cent. Instruments due 27 November 2035 under the EUR 20,000,000,000 Programme for the Issuance of Debt Instruments	18.5	Fixed 1.300%	27 Nov. 2035

The interest rate is the rate according to the issue currency. The euro equivalents are calculated using the average rate of the European Central Bank on the balance sheet date. The nominal amount of structured bonds issued by OP Corporate Bank plc was EUR 1,229 million (1,257). The bonds' interest rate is determined on the basis of interest, equity, equity index or similar underlying instruments. Any possible additional return on the bonds to the investor is hedged using a corresponding derivative structure.

Note 29. Provisions and other liabilities

EUR million	31 Dec. 2017	31 Dec. 2016
Provisions		
Other liabilities		
Payment transfer liabilities	740	1,032
Accrued expenses		
Interest payable	110	131
Interest payable on derivatives	230	308
Other accrued expenses	59	61
CSA liabilities from derivatives	657	1,236
Pension liabilities	90	89
Accounts payable on securities	36	28
Payables based on purchase invoices	30	16
Direct insurance liabilities	48	45
Reinsurance liabilities	15	14
Claims administration contracts	192	179
Other	98	91
Total provisions and other liabilities	**2,307**	**3,231**

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 which has full risk for its own account. 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 Corporate Bank 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 Corporate Bank 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.

The new TyEL came into force in 2017. Benefits under the employees pension scheme comprise old-age pension, partial early old-age pension, year-of-service pension, disability pension, survivors' pension and rehabilitation benefits. As a result of entry into force of the new TyEL, part-time pension was replaced by partial early old-age pension. Years-of-service pension was introduced as a new type of pension. Change in mortality was made on 31 December 2016, increasing obligations by EUR 9 million. Due to the amended law and changed mortality, assets were reclassified in net terms on 31 December 2016 from defined contribution plans to defined benefit plans worth EUR 2 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 2017, OP Bank Group Pension Fund's level of contributions was 22.9% and the plan's average contribution level is 24.4%. 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 must invest its assets securely and profitably and in view of its liquidity. The Pension Fund must cover the insurance liability arising from pension obligations, in accordance with the national accounting framework. 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 institution'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 Corporate Bank 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 employment term entitling to pension begins from the day the employee turned 23 years in the employment of the employer. 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 -0.2 million on income and EUR -1.2 million on comprehensive income. In 2017, liabilities were increased by a one-off increase in the liability of paid-up policies performed based on the Finnish Insurance Complaints Board's recommendation, and by a decision by the Labour Court on adjusting supplementary pensions under the collective agreement in the financial sector to TyEL that entered into force at the beginning of the year. The effect of the liability on comprehensive income was EUR 5 million.

The change in mortality based on the amended TyEL on 31 December 2016 reduced obligations by EUR 0.7 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 pension institution'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)	
	2017	2016	2017	2016	2017	2016
Opening balance 1 Jan.	394	307	-307	-302	88	5
Defined benefit pension costs recognised in income statement						
Current service cost	11	8			11	8
Interest expense (income)	7	7	-5	-7	1	0
Effect of plan curtailment, fulfilment of obligation or previous service cost.	0	0		0	0	0
Administrative expenses			0	0	0	0
Total	**18**	**15**	**-5**	**-7**	**13**	**8**
Losses (gains) recognised in other comprehensive income arising from remeasurement						
Actuarial losses (gains) arising from changes in economic expectations	-4	70			-4	70
Actuarial losses (gains) arising from changes in demographic expectations	0	8			0	8
Return on TyEL interest rate difference and growth in old-age pension liabilities (net) and corporate transaction	6	-15	-6	10		-5
Experience adjustments	17	18			17	18
Return on plan assets, excluding amount (–) of net defined benefit liability (asset)			-18	-12	-18	-12
Total	**20**	**81**	**-24**	**-2**	**-4**	**79**
Other						
Employer contributions			-6	-4	-6	-4
Benefits paid	-9	-8	9	8		
Total	**-9**	**-8**	**3**	**4**	**-6**	**-4**
Closing balance 31 Dec.	**423**	**394**	**-333**	**-307**	**90**	**88**

Liabilities and assets recognised in the balance sheet, EUR million	31 Dec. 2017	31 Dec. 2016
Net liabilities/assets (Pension Foundation)	0	-2
Net liabilities/assets (Pension Fund)	70	70
Net liabilities (Other pension plans)	20	19
Total net liabilities	**90**	**89**
Total net assets	**0**	**-2**
Total net liabilities and assets	**91**	**88**

Pension Fund and Pension Foundation assets, grouped by valuation technique, 31 Dec. 2017, EUR million	Level 1	Level 2	Level 3	Total
Shares and participations	19		10	29
Notes and bonds	59	9	3	72
Real property			19	19
Mutual funds	80	6	71	157
Structured investment vehicles			1	1
Derivatives	0	0		1
Other assets	24			24
Total	183	15	104	302

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	17		9	26
Notes and bonds	51	12	4	67
Real property	0		20	21
Mutual funds	86	0	67	154
Structured investment vehicles			1	1
Derivatives	0	0		0
Other assets	7	2		8
Total	162	13	102	277

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.

Proportion of the most significant assets of total fair value of plan assets, %	31 Dec. 2017	31 Dec. 2016
Shares and participations	10	9
Financial sector	1	1
Forest	3	3
Real estate	1	1
Other	5	5
Notes and bonds	24	24
Government bonds	3	2
Other	21	22
Real property	6	7
Mutual funds	52	56
Equity funds	32	28
Bond funds	7	13
Real estate funds	9	9
Hedge funds	4	6
Derivatives	0	0
Interest rate derivatives	0	0
Currency derivatives	0	
Other	0	
Structured investment vehicles	0	0
Other	8	3
Total	100	100

Pension plan assets include, EUR million,	31 Dec. 2017	31 Dec. 2016
Securities issued by OP Financial Group companies	4	3
Other receivables from OP Financial Group companies	25	7
Total	29	10

Contributions payable under the defined benefit pension plan in 2018 are estimated at EUR 6 million.

The duration of the defined benefit pension obligation in the Pension Fund on 31 December 2017 was 24.2 years, in the Pension Foundation 15 years and in other plans 19.9 years.

Key actuarial assumptions used, 31 Dec. 2017, EUR million	Pension Fund	Pension Foundation	Other
Discount rate, %	1.8	1.5	1.7
Future pay increase assumption, %	2.7	2.5	2.6
Future pension increases, %	1.1	1.9	2.0
Turnover rate, %	3.0	0.0	0.0
Inflation rate, %	1.9	1.7	1.8
Estimated remaining service life of employees in years	23.3	8.0	10.0
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. 2016, EUR million	Pension Fund	Pension 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
Estimated remaining service life of employees in years	20.1	8.0	10.0
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

	Change in defined benefit pension obligation			
	Pension Fund		Pension Foundation	
Sensitivity analysis of key actuarial assumptions, 31 Dec. 2017	EUR million	%	EUR million	%
Discount rate				
0.5 pp increase	-33	-10.3	-3	-6.7
0.5 pp decrease	39	12.1	3	7.5
Pension increases				
0.5 pp increase	37	11.4	3	6.6
0.5 pp decrease	-33	-10.2	-3	-6.2
Mortality				
1-year increase in life expectancy	11	3.3	2	3.3
1-year decrease in life expectancy	-10	-3.2	-1	-3.2

The Pension Foundation's sensitivity figures do not include the one-off increase of EUR 4 million in paid-up policy liability on 31 December 2017, based on the recommendation issued by the Finnish Insurance Complaints Board.

	Change in defined benefit pension obligation			
	Pension Fund		Pension Foundation	
Sensitivity analysis of key actuarial assumptions, 31 Dec. 2016	EUR million	%	EUR million	%
Discount rate				
0.5 pp increase	-31	-10.5	-3	-6.6
0.5 pp decrease	37	12.4	3	7.4
Pension increases				
0.5 pp increase	34	11.5	3	6.5
0.5 pp decrease	-31	-10.3	-3	-6.1
Mortality				
1-year increase in life expectancy	10	3.4	2	3.2
1-year decrease in life expectancy	-10	-3.3	-1	-3.1

Note 30. Subordinated liabilities

EUR million	Average interest rate %	31 Dec. 2017	Average interest rate %	31 Dec. 2016
Subordinated loans	2.06	273	2.09	270
Other				
Debentures	3.40	1,274	3.32	1,321
Total subordinated liabilities		1,547		1,592

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 the interest due date as of 11 April 2010 at the earliest, subject to authorisation by the 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 supervisory authority, the loan may be called in on the due date of interest payment of 30 November 2010. The entire loan principal must be repaid in one instalment.

3. Hybrid bond of EUR 50 million

Perpetual bond of EUR 50 million, issued on 17 June 2008, carries a variable interest rate based on 3-month Euribor + 3.05%, payable on a quarterly basis on 17 March, 17 June, 17 September and 17 December. If interest cannot be paid for a given interest period, the obligation to pay interest will lapse. Subject to authorisation by the supervisory authority, the bond may be called in at the earliest on 17 June 2013 and thereafter on the due dates of interest payment. The entire loan principal must be repaid in one instalment.

4. OP Insurance Ltd's capital bond

Capital bond of EUR 50 million. Issued on 17 June 2008, the bond carries a variable interest rate based on 3-month Euribor + 3.20%, payable on a quarterly basis. Interest which cannot be paid on the interest payment date and interest which OP Insurance Ltd could not have paid for previous interest payment dates constitute 'Unpaid interest'. Interest will accrue on unpaid interest in accordance with the interest rate applicable to the bonds and this additional interest accrued until each interest payment date will be added to unpaid interest on the interest payment date in question. The issuer agrees not to distribute dividends or other profit or to buy back own shares until unpaid interest has been paid in its entirety. The bond may be called in at the earliest in 2013 and its principal can be paid back only if the statutory terms and conditions are fulfilled. The bond will not be taken into account in the capital adequacy measurement under the Act on Credit Institutions but can be fully utilised in the capital adequacy measurement of the insurance company.

5. OP Insurance Ltd's capital bond

Capital bond of EUR 75 million. Issued on 18 June 2015, the bond carries a variable interest rate based on 3-month Euribor + 2.60%, payable on a quarterly basis. Interest which cannot be paid on the interest payment date and interest which OP Insurance Ltd could not have paid for previous interest payment dates constitute 'Unpaid interest'. Interest will accrue on unpaid interest in accordance with the interest rate applicable to the bonds and this additional interest accrued until each interest payment date will be added to unpaid interest on the interest payment date in question. The issuer agrees not to distribute dividends or other profit or to buy back own shares until unpaid interest has been paid in its entirety. The bond matures on 18 June 2040 unless the issuer will have paid it earlier under the bond terms and conditions. The bond may be called in at the earliest on 18 June 2020 and its principal can be paid back only if the statutory terms and conditions are fulfilled. The bond will not be taken into account in the capital adequacy measurement under the Act on Credit Institutions but can be fully utilised in the capital adequacy measurement of the insurance company.

6. A-Insurance Ltd's capital bond

Capital bond of EUR 10 million. Issued on 18 June 2015, the bond carries a variable interest rate based on 3-month Euribor + 3.10%, payable on a quarterly basis. Interest which cannot be paid on the interest payment date and interest which A-Insurance Ltd could not have paid for previous interest payment dates constitute 'Unpaid interest'. Interest will accrue on unpaid interest in accordance with the interest rate applicable to the bonds and this additional interest accrued until each interest payment date will be added to unpaid interest on the interest payment date in question. The issuer agrees not to distribute dividends or other profit or to buy back own shares until unpaid interest has been paid in its entirety. The bond matures on 18 June 2040 unless the issuer will have paid it earlier under the bond terms and conditions. The bond may be called in at the earliest on 18 June 2020 and its principal can be paid back only if the statutory terms and conditions are fulfilled. The bond will not be taken into account in the capital adequacy measurement under the Act on Credit Institutions but can be fully utilised in the capital adequacy measurement of the insurance company.

Debentures

1. A debenture loan of CHF 100 million (euro equivalent 85 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 74 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 365 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.

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 difference between the nominal value and carrying amount is due to the fair value hedge related to interest rate risk measurement.

Note 31. Equity capital

EUR million	31 Dec. 2017	31 Dec. 2016
Capital and reserves attributable to owners		
Liabilities to central banks	428	428
Reserves		
Restricted reserves		
Share premium account	519	519
Reserve fund	204	204
Reserves according to the Articles of Association/Bylaws		
Fair value reserve		
Cash flow hedge	2	6
Measurement at fair value		
Notes and bonds	117	85
Shares and participations	45	106
Other restricted reserves	1	1
Non-restricted reserves		
Reserve for invested non-restricted equity	298	298
Other non-restricted reserves	72	72
Retained earnings		
Profit (loss) for previous financial years	1,981	1,779
Profit (loss) for the financial year	424	399
Equity capital attributable to owners	4,089	3,896
Non-controlling interests	60	109
Total equity capital	4,149	4,005

Share capital and shares

The number of shares remained unchanged, 319,551,415. The shares have no nominal value and their stated value (not an exact figure) is 1.34 euros per share. All of the shares issued have been paid in full.

Proposed distribution of dividend

The Board proposes to the Annual General Meeting that a dividend of EUR 0.66 (0.63) be distributed per share, totalling EUR 211 million (201).

Reserves

Share premium account

The share premium account was formed during the validity of regulations in force before 1 September 2006. Items entered in the share premium account include amounts exceeding the stated value paid for shares in a rights issue and amounts exceeding the stated value of a share and paid for share subscription based on stock options.

The share premium account may be lowered in compliance with the regulations governing the reduction of share capital and may be used to increase the share capital. The amount of the subscription price exceeding the stated value of shares subscribed in September and November 2006, based on stock options, was entered in the share premium account, because the General Meeting had made the decision on issuing stock options before the entry into force of the new Companies Act. Otherwise, it has no longer been possible to increase the share premium account since 1 September 2006.

Reserve fund

The reserve fund consists of profits transferred to it during previous periods and the loan loss provisions transferred to it in 1990. The reserve fund may be used to cover losses for which the non-restricted equity is not sufficient. The reserve fund may also be used to increase the share capital and it may be reduced in the same way as the share capital. Since 1 September 2006, it has no longer been possible to increase the reserve fund.

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

	Available-for-sale financial assets			
EUR million	Notes and bonds	Equity instruments	Cash flow hedging	Total
Opening balance 1 Jan. 2016	**32**	**77**	**11**	**120**
Fair value changes	78	47	1	126
Capital gains transferred to income statement	-12	-27		-38
Impairment loss transferred to income statement	0	16		16
Transfers to net interest income			-9	-9
Deferred tax	-13	-7	1	-19
Closing balance 31 Dec. 2016	**85**	**106**	**6**	**197**

	Available-for-sale financial assets			
EUR million	Notes and bonds	Equity instruments	Cash flow hedging	Total
Opening balance 1 Jan. 2017	**85**	**106**	**6**	**197**
Fair value changes	50	12	1	63
Capital gains transferred to income statement	-11	-89		-100
Impairment loss transferred to income statement	0	2		2
Transfers to net interest income			-5	-5
Deferred tax	-8	15	1	8
Closing balance 31 Dec. 2017	**117**	**45**	**2**	**164**

The fair value reserve before tax totalled EUR 204 million (245) and the related deferred tax liability EUR 41 million (49). On 31 December, positive mark-to-market valuations of equity instruments before tax in the fair value reserve totalled EUR 67 million (139) and negative mark-to-market valuations EUR 11 million (7).

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

Other restricted reserves

These reserves consist of retained earnings based on the Articles of Association or other rules describing their purpose.

Reserve for Invested non-restricted equity

Capital raised through the rights offering in 2009 was entered in the reserve for invested non-restricted equity.

Other non-restricted reserves

These reserves consist of retained earnings based on decisions by the General Meeting.

Retained earnings

companies and insurance companies' equalisation provisions and profits/(losses) due to the redefinition of defined benefit pension plans less deferred tax.

Other notes to the balance sheet

Note 32. Reclassified notes and bonds

The table below shows the carrying amounts and fair values of the reclassified notes and bonds.

EUR million, 31 Dec. 2017	Carrying amount	Fair value	Effective interest rate	Impairments arising from credit risk
Loans and receivables				
Investments held to maturity	31	29	4.4	
Total	**31**	**29**		

EUR million, 31 Dec. 2016	Carrying amount	Fair value	Effective interest rate	Impairments arising from credit risk
Loans and receivables	40	41	6.1	
Investments held to maturity	34	30	5.3	
Total	**74**	**72**		

If notes and bonds were not reclassified and had been measured using fair values available in the market:

	31 Dec. 2017		31 Dec. 2016	
EUR million	Income statement	Fair value reserve	Income statement	Fair value reserve
Effect	2		0	-1

Loans and receivables and held-to-maturity investments were reclassified in 2008.

Interest accrued on reclassified notes and bonds in January–December totalled EUR 1 million (3). The price difference between the nominal value and acquisition value recognised in the income statement totalled EUR 0 million (0). Positive mark-to-market valuations recognised on hedging derivative contracts amounted to EUR 1 million (2).

Note 33. Collateral given

EUR million	31 Dec. 2017	31 Dec. 2016
Given on behalf of own liabilities and commitments		
Pledges	35	1
Others	5,663	4,973
Total collateral given*	**5,699**	**4,973**
Secured derivative liabilities	889	1,351
Other secured liabilities	4,081	3,443
Total secured liabilities	**4,969**	**4,794**

* In addition, bonds with a book value of EUR 6.0 billion have been pledged in the central bank, of which EUR 1.5 billion in intraday settlement collateral. Given that the bonds are available for withdrawal without the central bank's advance permission, they are not presented in the table above.

Note 34. Financial collateral held

EUR million	31 Dec. 2017	31 Dec. 2016
Fair value of collateral received		
Other	414	1,177
Total	**414**	**1,177**

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 414 million on the balance sheet date (1,177). The Group had no securities received as collateral on the balance sheet date.

Note 35. 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	12,825					12,825
Receivables from credit institutions	9,294					9,294
Derivative contracts			3,283		143	3,426
Receivables from customers	20,120					20,120
Notes and bonds		51	893	14,050		14,993
Equity instruments				728		728
Other financial assets	1,779					1,779
Financial assets						**63,164**
Other than financial instruments						1,280
Total 31 December 2017	**44,017**	**51**	**4,176**	**14,777**	**143**	**64,445**

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	9,336					9,336
Receivables from credit institutions	9,458					9,458
Derivative contracts			4,292		386	4,678
Receivables from customers	18,702					18,702
Notes and bonds		79	975	15,127		16,182
Equity instruments			0	807		807
Other financial assets	2,520					2,520
Financial assets						**61,684**
Other than financial instruments						1,290
Total 31 December 2016	**40,017**	**79**	**5,268**	**15,934**	**386**	**62,974**

* Investment assets in the balance sheet include Non-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		14,035		14,035
Derivative contracts	2,825		391	3,216
Liabilities to customers		18,837		18,837
Insurance liabilities		3,143		3,143
Debt securities issued to the public		16,791		16,791
Subordinated loans		1,547		1,547
Other financial liabilities	1	2,083		2,084
Financial liabilities				**59,653**
Other than financial liabilities				642
Total 31 December 2017	**2,826**	**56,436**	**391**	**60,295**

Liabilities, EUR million	Financial liabilities at fair value through profit or loss	Other liabilities	Hedging derivatives	Carrying amount total
Liabilities to credit institutions		10,332		10,332
Derivative contracts	4,056		341	4,398
Liabilities to customers		16,178		16,178
Insurance liabilities		3,008		3,008
Debt securities issued to the public		19,826		19,826
Subordinated loans		1,592		1,592
Other financial liabilities	0	3,022		3,022
Financial liabilities				**58,355**
Other than financial liabilities				614
Total 31 December 2016	**4,057**	**53,957**	**341**	**58,969**

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 227 million (268) 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 36. Recurring fair value measurements by valuation technique

Fair value of assets on 31 December 2017, EUR million	Level 1	Level 2	Level 3	Total
Recognised at fair value through profit or loss				
Debt instruments	410	74	409	893
Derivative financial instruments	1	3,294	131	3,426
Available-for-sale				
Equity instruments	386	86	256	728
Debt instruments	10,313	3,418	319	14,050
Total financial instruments	**11,109**	**6,873**	**1,115**	**19,096**
Investment property			303	303
Total	**11,109**	**6,873**	**1,419**	**19,400**

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				
Debt instruments	472	495	8	975
Derivative financial instruments	6	4,512	160	4,678
Available-for-sale				
Equity instruments	464	61	281	807
Debt instruments	11,276	3,525	326	15,127
Total financial instruments	**12,218**	**8,594**	**776**	**21,588**
Investment property			316	316
Total	**12,218**	**8,594**	**1,092**	**21,904**

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

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				
Other		0		0
Derivative financial instruments	10	4,280	107	4,398
Total	10	4,280	107	4,398

Fair value measurement

Derivatives

The Group obtains the price of listed derivatives directly from markets. In the fair value measurement of OTC derivatives, OP Corporate Bank 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. Transfers between the levels are mainly due to the number of available market quotes and to the specification of the classification principles.

Reconciliation of Level 3 items

Specification of financial assets and liab

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. 2017	8	160	608	776
Total gains/losses in profit or loss	9	-29	-36	-56
Total gains/losses in other			4	4
Purchases			73	73
Sales			-69	-69
Settlements			-7	-7,100,000
Transfers into Level 3	392		112	504
Transfers out of Level 3			-110	-110
Closing balance 31 Dec. 2017	409	131	574	1,115

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	177	569	767
Total gains/losses in profit or loss	-13	-16	-11	-41
Total gains/losses in other			19	19
Purchases			61	61
Sales			-48	-48
Transfers into Level 3			124	124
Transfers out of Level 3			-105	-105
Closing balance 31 Dec. 2016	8	160	608	776

Financial liabilities, EUR million	Financial assets at fair value through profit or loss	Derivative contracts	Total liabilities
Opening balance 1 Jan. 2017		107	107
Total gains/losses in profit or loss		-15	-15
Closing balance 31 Dec. 2017		92	92

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

Total gains/losses included in profit or loss by item for the financial year on 31 Dec. 2017

EUR Million	Net interest income	Net investment income	Statement of comprehen-sive income/ Change in fair value reserve	Total gains/ losses for the financial year included in profit or loss for assets/ liabilities held at year-end
Realised net gains (losses)	9			9
Unrealised net gains (losses)	-14	-36	4	-46
Total net gains (losses)	**-4**	**-36**	**4**	**-37**

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 comprehen-sive income/ Change in fair value reserve	Total gains/ losses for the financial year included in profit or loss for assets/ liabilities held at year-end
Realised net gains (losses)	-13			-13
Unrealised net gains (losses)	11	-11	19	19
Total net gains (losses)	**-2**	**-11**	**19**	**6**

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

Changes in the levels of hierarchy

No major changes occurred in valuation techniques in 2017.

Sensitivity analysis of input parameters involving uncertainty on 31 Dec. 2017

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:					
Bond investments	409	0	409	41.0	10%
Derivatives:					
Index-linked bond hedges and structured derivatives, and derivatives with a long-term	131	-92	39	4.3	11%
Available-for-sale:					
Bond investments	319		319	31.9	10%
Illiquid investments	32		32	4.8	15%
Private equity funds**	124		124	12.4	10%
Real estate funds***	100		100	20.0	20%
Investment property					
Investment property***	303		303	60.6	20%

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:					
Bond investments	8		8	0.8	10%
Derivatives:					
Index-linked bond hedges and structured derivatives, and derivatives with a long-term	160	-107	53	5.8	11%
Available-for-sale:					
Bond investments	326		326	0	0
Illiquid investments	36		36	5.4	15%
Private equity funds**	186		186	18.6	10%
Real estate funds***	60		60	12.0	20%
Investment property					
Investment property***	316		316	63.2	20%

* Following stress scenarios: the combined value change of volatility of shares (30%), dividends of shares (30%), credit risk premiums (30%) and significant correlation changes.

** 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.

*** In the valuation of real estate funds and investment property, OP Corporate Bank Group 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 37. Off-balance-sheet commitments

	31 Dec. 2017	31 Dec. 2016
Guarantees	532	716
Other guarantee liabilities	1,470	1,460
Loan commitments	5,495	5,470
Commitments related to short-term trade transactions	359	344
Other	729	677
Total off-balance-sheet commitments	8,585	8,667

Note 38. 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 39. Operating leases

OP Corporate Bank Group as Lessee

The Group has leased some of the office premises it uses. The remaining 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. 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. 2017	31 Dec. 2016
No later than 1 year	3	3
Later than 1 year and no later than 5 years	1	1
Later than 5 years	0	0
Total	4	4

OP Corporate Bank Group as Lessor

OP Corporate Bank Group companies have leased out investment properties they own, which generated lease income of EUR 30 million (24).

Future minimum lease payments receivable under non-cancellable operating leases

EUR million	31 Dec. 2017	31 Dec. 2016
No later than 1 year	23	22
Later than 1 year and no later than 5 years	59	60
Later than 5 years	69	58
Total	151	140

Note 40. Derivative contracts

Derivatives held for trading 31 December 2017

EUR million	Nominal values/residual maturity <1 year	1–5 years	>5 years	Total	Fair values Assets	Liabilities	Potential future exposure
Interest rate derivatives							
Interest rate swaps	18,966	46,891	55,469	121,326	2,474	2,351	3,541
Cleared by the central counterparty	7,311	22,328	29,198	58,837	757	814	1,307
OTC interest rate options							
Call and caps							
Purchased	2,907	4,463	5,054	12,423	298	3	406
Written	2,801	6,822	4,231	13,853	4	208	14
Put and floors							
Purchased	1,050	6,133	2,777	9,960	146	10	226
Written	1,069	6,277	2,135	9,481	11	97	55
Total OTC interest rate derivatives	26,793	70,585	69,666	167,043	2,933	2,670	4,242
Interest rate futures	1,615	1,000		2,615	1	1	
Total exchange traded derivatives	1,615	1,000		2,615	1	1	
Total interest rate derivatives	28,408	71,585	69,666	169,659	2,934	2,670	4,242
Currency derivatives							
Forward exchange agreements	28,073	263	23	28,359	206	195	489
Interest rate and currency swaps	2,059	6,932	2,472	11,463	705	654	1,258
Currency options							
Call							
Purchased	115	28		143	3		6
Written	151	17		168		3	
Put							
Purchased	227	17		244	1		4
Written	178	31		209		1	
Total OTC currency derivatives	30,802	7,288	2,496	40,586	915	853	1,757
Total currency derivatives	30,802	7,288	2,496	40,586	915	853	1,757
Equity and index derivatives							
Equity index options							
Call							
Purchased	5	3		8	1	0	2
Total OTC equity and index derivatives	5	3		8	1	0	2
Total equity and index derivatives	5	3		8	1	0	2
Credit derivatives							
Credit default swaps	28	188	10	226	9	6	10
Total credit derivatives	28	188	10	226	9	6	10
Other							
Other forward contracts	17	0		17	0	3	2
Other swaps	211	513		723	65	31	130
Total other OTC derivatives	228	513		741	65	34	132
Other futures contracts	7	1		8	0	2	
Total other derivatives	235	513		748	65	36	132
Total derivatives held for trading	**59,479**	**79,576**	**72,172**	**211,226**	**3,925**	**3,565**	**6,142**

Derivatives held for trading 31 December 2016

EUR million	Nominal values/residual maturity <1 year	1–5 years	>5 years	Total	Fair values Assets	Liabilities	Potential future exposure
Interest rate derivatives							
Interest rate swaps	23,516	48,992	47,369	119,877	3,134	3,114	4,090
Cleared by the central counterparty	7,711	22,162	23,347	53,220	950	1,020	1,411
Forward rate agreements							
OTC interest rate options							
Call and caps							
Purchased	2,543	6,271	3,687	12,502	367	3	463
Written	2,171	8,292	4,007	14,470	2	321	8
Put and floors							
Purchased	2,783	4,601	2,436	9,820	201	6	274
Written	3,384	4,609	1,813	9,806	12	128	39
Total OTC interest rate derivatives	34,397	72,766	59,311	166,475	3,716	3,572	4,875
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	39,469	73,555	59,311	172,335	3,717	3,574	4,875
Currency derivatives							
Forward exchange agreements	21,877	383	50	22,311	254	249	481
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	25,772	9,445	2,817	38,034	1,420	1,487	2,343
Total currency derivatives	25,772	9,445	2,817	38,034	1,420	1,487	2,343
Equity and index derivatives							
Equity options							
Call							
Purchased		5		5	1		1
Equity index options							
Call							
Purchased		1		1	0		0
Total OTC equity and index derivatives		6		6	1		1
Total equity and index derivatives		6		6	1		1
Credit derivatives							
Credit default swaps	19	296	13	328	10	7	23
Total credit derivatives	19	296	13	328	10	7	23
Other							
Other forward contracts	1	0		2	0	0	0
Other swaps	272	542	2	816	63	18	136
Total other OTC derivatives	273	542	2	817	64	18	136
Other futures contracts	12	10		22	0	5	
Total other derivatives	285	553	2	840	64	23	136
Total derivatives held for trading	**65,546**	**83,854**	**62,143**	**211,543**	**5,212**	**5,091**	**7,379**

Derivative contracts for hedging purposes - fair value hedging 31 December 2017

EUR million	Nominal values/residual maturity <1 year	1–5 years	>5 years	Total	Fair values Assets	Liabilities	Potential future exposure
Interest rate derivatives							
Interest rate swaps	2,323	17,126	6,740	26,189	254	310	441
Cleared by the central counterparty	880	16,158	6,417	23,455	179	285	356
Total OTC interest rate derivatives	2,323	17,126	6,740	26,189	254	310	441
Total interest rate derivatives	2,323	17,126	6,740	26,189	254	310	441
Currency derivatives							
Interest rate and currency swaps	517	1,958	319	2,794	35	265	162
Total OTC currency derivatives	517	1,958	319	2,794	35	265	162
Total currency derivatives	517	1,958	319	2,794	35	265	162
Total derivative contracts, fair value hedge	2,840	19,084	7,059	28,983	289	575	603

Derivative contracts for hedging purposes – cash flow hedge 31 December 2017

EUR million	Nominal values /residual term to maturity <1 year	1–5 years	>5 years	Total	Fair values Assets	Liabilities	Potential future exposure
Interest rate derivatives							
Interest rate swaps	200	100		300	4		5
Cleared by the central counterparty	200	100		300	4		5
Total OTC interest rate derivatives	200	100		300	4		5
Total interest rate derivatives	200	100		300	4		5
Currency derivatives							
Forward exchange agreements	5,794			5,794	32	67	88
Total OTC currency derivatives	5,794			5,794	32	67	88
Total currency derivatives	5,794			5,794	32	67	88
Total derivative contracts, cash flow hedge	5,994	100		6,094	36	67	92
Total derivative contracts held for hedging	8,834	19,184	7,059	35,077	325	642	695

Derivative contracts for hedging purposes – fair value hedging 31 December 2016

EUR million	Nominal values/residual maturity <1 year	1–5 years	>5 years	Total	Fair values Assets	Liabilities	Potential future exposure
Interest rate derivatives							
Interest rate swaps	3,769	15,218	8,073	27,060	386	473	584
Cleared by the central counterparty	208	11,538	7,414	19,159	229	315	398
Total OTC interest rate derivatives	3,769	15,218	8,073	27,060	386	473	584
Total interest rate derivatives	3,769	15,218	8,073	27,060	386	473	584
Currency derivatives							
Interest rate and currency swaps	143	2,163	827	3,132	160	178	332
Total OTC currency derivatives	143	2,163	827	3,132	160	178	332
Total currency derivatives	143	2,163	827	3,132	160	178	332
Total derivative contracts, fair value hedge	3,912	17,380	8,900	30,192	547	652	915

Derivative contracts for hedging purposes – cash flow hedge 31 December 2016

EUR million	Nominal values /residual term to maturity <1 year	1–5 years	>5 years	Total	Fair values Assets	Liabilities	Potential future exposure
Interest rate derivatives							
Interest rate swaps	200	300		500	10		11
Cleared by the central counterparty		300		300	7		9
Total OTC interest rate derivatives	200	300		500	10	0	11
Total interest rate derivatives	200	300		500	10	0	11
Currency derivatives							
Interest rate and currency swaps	4,074			4,074	113	10	155
Total OTC currency derivatives	4,074			4,074	113	10	155
Total currency derivatives	4,074			4,074	113	10	155
Total derivative contracts, cash flow hedge	**4,274**	**300**		**4,574**	**122**	**10**	**167**
Total derivative contracts held for hedging	**8,186**	**17,680**	**8,900**	**34,767**	**669**	**662**	**1,082**

Total derivatives 31 December 2017

EUR million	Nominal values/residual maturity <1 year	1–5 years	>5 years	Total	Fair values Assets	Liabilities	Potential future exposure
Interest rate derivatives	30,931	88,811	76,406	196,148	3,192	2,981	4,688
Cleared by the central counterparty	8,392	38,585	35,615	82,592	941	1,100	1,668
Currency derivatives	37,113	9,246	2,815	49,174	982	1,185	2,007
Equity and index-linked derivatives	5	3		8	1	0	2
Credit derivatives	28	188	10	226	9	6	10
Other derivatives	235	513		748	65	36	132
Total derivatives	**68,313**	**98,760**	**79,230**	**246,303**	**4,250**	**4,208**	**6,837**

Total derivatives 31 December 2016

EUR million	Nominal values/residual maturity <1 year	1–5 years	>5 years	Total	Fair values Assets	Liabilities	Potential future exposure
Interest rate derivatives	43,438	89,073	67,384	199,895	4,113	4,047	5,470
Cleared by the central counterparty	7,919	33,999	30,761	72,679	1,186	1,335	1,818
Currency derivatives	29,989	11,607	3,644	45,241	1,693	1,676	2,830
Equity and index-linked derivatives		6		6	1		1
Credit derivatives	19	296	13	328	10	7	23
Other derivatives	285	553	2	840	64	23	136
Total derivatives	**73,732**	**101,535**	**71,043**	**246,310**	**5,881**	**5,753**	**8,461**

*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. Note 41 below presents the effects of netting. Other derivative contracts are presented on a gross basis in the balance sheet. In capital adequacy measurement, OP Crporate Bank Group also applies netting of derivatives. Note 76 below presents the effects of netting. Netting would reduce the credit equivalent of OP Corporate Bank plc's derivative contracts by EUR 4,495 million (5,896).

Note 41. Financial assets and liabilities offset in the balance sheet or subject to enforceable master netting arrangements or similar agreements

Financial assets

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

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	5,829	-1,151	4,678	-2,472	-1,177	1,030

Financial liabilities

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

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	5,704	-1,307	4,398	-2,472	-1,139	786

* Incl. daily cleared derivatives on a net basis included in cash and cash equivalents, totalling -161 (-147) million euros.

** Fair values excluding accrued interest

***It is the practice to enter into master agreements for derivative transactions with all derivative counterparties.

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

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

Other notes

Note 42. Ownership interests in subsidiaries, structured entities and joint operations

Changes occurred in subsidiaries and structured entities during the financial year

During the financial year, no changes occurred in subsidiaries and structured entities.

Material subsidiaries included in the consolidated financial statements in 2017

Major 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	% of share-holding	% of votes
A-Insurance Ltd	Helsinki	100	100
Pohjola Health Ltd	Helsinki	100	100
OP Finance AS	Estonia	100	100
OP Finance SIA	Latvia	100	100
OP Insurance Ltd	Helsinki	100	100
Seesam Insurance AS	Estonia	100	100
UAB OP Finance	Lithuania	100	100
Eurooppalainen Insurance Company Ltd	Helsinki	100	100

The number of other subsidiaries included in the consolidated financial statements was 1 (1), in addition to major subsidiaries.

Structured entities included in the consolidated financial statements

OP Corporate Bank Group acts as an investor in various mutual funds in order to gain investment income. The consolidated financial statements of group include the accounts of two (2) real estate funds. These funds that have been classified as structured entities because 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.

The table below structured entities with a significant number of non-controlling interests

Name	Place of business	Main line of business	Interest, % 2017	Interest, % 2016	Non-controlling interests, %
Real Estate Funds of Funds II Ky	Helsinki	Real estate fund	22.2	22.2	77.8
Real Estate Fund Finland III Ky	Helsinki	Real estate fund	33.3	33.3	66.7

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. 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 Corporate Bank Group's accounting policies. The figures below are before the elimination of internal transactions.

Balance sheet in summary	Real Estate Fund of Funds II Ky		Real Estate Fund Finland III Ky	
EUR million	2017	2016	2017	2016
Cash and cash equivalents	0	1	20	5
Investments	36	41	233	163
Other assets	0	0		
Total assets	**36**	**43**	**254**	**168**
Financial liabilities			199	50
Other liabilities	0	0		
Total liabilities	**0**	**0**	**205**	**54**
Net assets	**36**	**42**	**48**	**115**
Accrued share of non-controlling interests	28	33	32	76

Statement of comprehensive income in summary				
Net sales	3	3	6	6
Profit or loss of continuing operations after tax	3	3	6	2
Other comprehensive income	0	1		
Comprehensive income	**3**	**3**	**6**	**2**
Comprehensive income attributable to non-controlling interests	2	3	4	1
Share of profit paid to non-controlling interests	2	2	4	2

Cash flows in summary				
Net cash flow from operating activities	0	-1	40	-47
Net cash flow from investing activities	9	14	-101	-18
Net cash flow from financing activities	-9	-14	77	67
Net change in cash flows	**-1**	**-1**	**16**	**2**
Cash and cash equivalents at year start	1	2	5	2
Cash and cash equivalents at year end	0	1	20	5

Joint operations

A total of 45 (46) property companies are incorporated into OP Corporate Bank Group's financial statements as joint operations by consolidating the proportionate share of 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 Corporate Bank 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 Corporate Bank Group's own use. These apartments are included in property, plant and equipment in the balance sheet, shown in Note 21. Each shareholder of the mutual property company is responsible for its/his/her share of the company's loans. The rest of the property companies are investment property included in Note 18.

Summary of the effect of consolidation of joint operations on the balance sheet

EUR million	31 Dec. 2017	31 Dec. 2016
Land	41	39
Buildings	351	340
Total assets	**392**	**379**
Total liabilities	129	33

Most significant joint operations included in the consolidated financial statements in 2017

Name	Domicile	Sector	Holding
Kiinteistö Oy Helsingin Puutarhurinkuja 2	Helsinki	Property holding and management	100.0
Kiinteistö Oy Kanta-Sarvis II	Tampere	Property holding and management	100.0
Kiinteistö Oy STC Viinikkala	Vantaa	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 Grand Cargo Terminal 1	Vantaa	Property holding and management	100.0
Kiinteistö Oy Grand Cargo Terminal 2	Vantaa	Property holding and management	100.0
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
Kiinteistö Oy Topeliuksenkatu 41b	Helsinki	Property holding and management	50.0
Kiinteistö Oy Asiakkaankatu 3	Helsinki	Property holding and management	100.0
Kiinteistö Oy Tuusulan Jatke	Tuusula	Property holding and management	100.0

Most significant joint operations included in the consolidated financial statements in 2016

Name	Domicile	Sector	Holding
Kiinteistö Oy Helsingin Puutarhurinkuja 2	Helsinki	Property holding and management	100.0
Kiinteistö Oy Kanta-Sarvis II	Tampere	Property holding and management	100.0
Kiinteistö Oy STC Viinikkala	Vantaa	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 Grand Cargo Terminal 1	Vantaa	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 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

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 Corporate Bank 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. Group's risk of loss is limited to the investment's balance sheet value. Investments in mutual funds managed by OP Corporate Bank Group totalled 180 million (247) on 31 December 2017.

Note 43. Related-party transactions

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

Standard terms and conditions for credit are applied to loans granted to the related parties. Loans are tied to generally used reference rates.

Related-party transactions 2017

EUR 1,000	Parent company	Associates	Administrative personnel	Others*
Loans			70	5,584,630
Other receivables	107		70	164,235
Deposits	434,657	419		2,534,165
Other liabilities	1,449			319,432
Interest income	3,006			82,699
Interest expenses	4,891			188,934
Dividend income	1			
Net income from Non-life Insurance	411			4,760
Net commissions and fees	91	0		36,108
Net trading income				71,165
Other operating income	356			5,654
Operating expenses	36,061			143,691
Contingent liabilities and derivatives				
Off-balance-sheet commitments				
Guarantees				
Other guarantee liabilities				9,828
Loan commitments				
Commitments related to short-term trade transactions				
Other				
Derivative contracts				
Nominal values				22,432,461
Credit equivalents				220,908
Salaries, other short-term benefits and performance-based pay				
Salaries, other short-term benefits and performance-based pay			598	
Related-party holdings				
Number of shares	319,551,415			

Related-party transactions 2016

EUR 1,000	Parent company	Associates	Administrative personnel	Others*
Loans				4,642,739
Other receivables	329			143,664
Deposits	830,463	205		1,540,567
Other liabilities	873			416,742
Interest income	3,145			120,891
Interest expenses	5,032			210,404
Dividend income	1			
Net income from Non-life Insurance	20			1,851
Net commissions and fees	84	0		25,316
Net trading income				72,700
Other operating income	299			7,315
Operating expenses	46,953			104,833
Contingent liabilities and derivatives				
Off-balance-sheet commitments				
Guarantees				
Other guarantee liabilities				7,943
Loan commitments				
Commitments related to short-term trade transactions				
Other				
Derivative contracts				
Nominal values				21,404,755
Credit equivalents				190,795
Salaries, other short-term benefits and performance-based pay				
Salaries, other short-term benefits and performance-based pa			657	
Related-party holdings				
Number of shares	319,551,415			

* Other related-party entities include OP Bank Group Pension Fund, OP Bank Group Pension Foundation and their sister companies within OP Cooperative Consolidated.

Board member fees 2017

In 2017, the members of the Board of Directors did not receive from OP Corporate Bank Group subsidiaries any monthly fees or attendance allowances or share-based bonuses.

Salaries and performance-based bonuses paid to the President and CEO and his deputy in the financial year ending 31 December 2017 were as follows:

Jouko Pölönen, President and CEO	EUR 597,789*

The period of notice applicable under the President and CEO's executive contract is six months. According to this contract, the company must pay the President and CEO severance pay equalling his 6-month total salary, in addition to compensation for loss of office, if the company dismisses him or he has to resign or terminate the contract due to a reason attributable to the company. In case the executive contract terminates due to reasons attributable to the company, the President and CEO will be entitled to bonuses under the short- and long-term remuneration schemes for the year of contract termination, provided that the schemes' performance criteria and the criteria for payment under the schemes' terms and conditions are fulfilled and his executive contract has been effective throughout the performance year. In addition, the President and CEO belongs to the long-term management incentive schemes for 2011–13, 2014–16 and 2017–2019, under which bonuses will be paid from 2015 until 2017, 2018–20 and 2020–23, respectively. The President and CEO has unlimited company car benefit.

* The amount includes EUR 11,200 in performance-based bonuses deferred for prior years and EUR 131,907 in bonuses paid under the long-term remuneration scheme. Payment of deferred amounts requires a Board decision. Detailed information on the deferral procedure can be found in Note 44 below.

Pension obligations regarding President and CEO and Board members

The President and CEO is covered by TyEL (the Finnish Employees Pensions Act) which provides pension benefits based on the years of employment and earnings as prescribed in the Act. The retirement age is 63–68 years, depending on his choice. A retirement age of 63 years applies to the President and CEO under the executive contract. The supplementary pension plan for the President and CEO has been arranged through OP Life Assurance Company Ltd. No pension obligations apply to Board members. This also applies to former Board members. More detailed information on OP Corporate Bank Group's pension plan can be found in Note 29 Provisions and other liabilities.

	Pension costs under TyEL plan*		IFRS expense of voluntary supplementary defined benefit pension	
EUR 1,000	2017	2016	2017	2016
Jouko Pölönen, President and CEO	96	100	101	68

* 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 44. Variable remuneration

Personnel fund

OP Corporate Bank plc joined OP Financial Group's Personnel Fund in 2004. The Fund covers the employees of OP Corporate Bank and its subsidiaries who are not included in the management remuneration scheme or the Baltic operations. About 98% of all personnel are members of the Personnel Fund.

Payment of profit-based bonuses to OP Financial Group's Personnel Fund in 2017 was based on the achievement of the following targets: OP Financial Group's EBT with a weight of 60%, use of digital services with a weight of 20%, service encounter NPS with a weight of 15% and brand NPS with a weight of 5%. Profit-based bonuses for 2017 transferred to the Fund account for some 3.2% (5.7) of the combined salaries and wages earned by the Fund's members. The bonuses recognised in 2017 totalled EUR 3.3 million (5.6).

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

OP Corporate Bank plc belongs to the long-term incentive scheme within OP Financial Group, which has OP Financial Group level targets. These targets conform to those of OP Personnel Fund for all of the Group's personnel.

OP Corporate Bank's and its subsidiaries' directors and designated persons in key positions are included in the long-term management incentive scheme whom the board of directors of the company concerned or the Executive Board of OP Cooperative has appointed. Some 320 OP Financial Group employees are included in the long-term management remuneration scheme. The number of those included in the scheme has varied by performance period from some 300 to 320.

The scheme consists of consecutive three-year performance periods, the first of which was 1 January 2011–31 December 2013. The bonus for the performance period of 2011–13 was paid after a deferment period in three equal instalments by the end of each June from 2015 to 2017. The second performance period was 1 January 2014–31 December 2016 and the bonuses will be paid after a deferment period in three equal instalments by the end of each June from 2018 to 2020. Bonuses earned for the third performance period of 1 January 2017–31 December 2019, which began during the financial year, will be paid in four equal instalments between 2020 and 2023.

The bonus is determined by the management position. During the performance period of 2011–13, it was possible to annually earn bonuses equalling a person's regular 2–12-month salary subject to PAYE tax, provided that the set targets are achieved at 100%. Targets were achieved at around 43% during the performance period of 2011–13. During the performance period of 2014–16, it was possible to annually earn bonuses equalling a person's 2–8-month salary and the targets were achieved at around 57%. During the performance period of 2017–19, it is possible to annually earn bonuses equalling a person's 1–8-month salary, provided that the targets are achieved at 100%.

Performance metrics under the long-term scheme

The Supervisory Board of OP Cooperative shall determine the performance metrics for the scheme and targets set for them separately for each performance period. The targets for the 2011–13 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 limits the maximum variable remuneration to the amount of a person's annual fixed remuneration. The targets for the 2014–16 scheme were 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

The targets set for the 2017–19 scheme are in line with the strategy in force and are based on the following criteria:

- Group EBT
- Use of digital services
- Service encounter NPS
- Brand NPS

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 1.2 million shares which would be partly based on cash-settled payments (the amount of tax withheld) and equity-settled payments. OP Cooperative executed a public voluntary bid for all Series A and K shares issued by Pohjola Bank plc and not held by OP 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 were 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 terms and conditions of 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. During the financial year, OP Cooperative's Supervisory Board decided to change the terms and conditions of the scheme in such a way that, instead of the debentures, the bonus payout is tied to a reference instrument decided by the Supervisory Board or the Remuneration Committee it has appointed.

Bonuses for 2017–19 will be paid in cash unless deferral procedures under regulation are applied to the person.

Bonuses for the 2014–16 scheme will be paid to their beneficiaries provided that OP Financial Group's FiCo capital adequacy is 1.30 or higher on the payout date. Bonuses for the 2017–19 scheme will be paid to their beneficiaries provided that OP Financial Group's CET1 ratio is over the CET1 buffer set by the ECB + 3% on the payout date and that the person within the scheme is employed by OP Financial Group up to the payout date.

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 2.7 million (3.7) on 31 December 2017.

OP Cooperative's Supervisory Board or the Remuneration Committee it has appointed manages the long-term scheme and supervises compliance with it. OP Cooperative's Supervisory Board may exercise discretion to change the terms and conditions of the scheme and defer bonus payout for compelling reasons.

Short-term remuneration schemes

In short-term schemes, the performance period is one calendar year and the bonus is primarily paid in cash. The short-term incentive schemes are based on performance and other business targets specified for each business unit, covering all OP Corporate Bank Group's staff.

The bonus is determined by the job grade and the maximum bonuses correspond to a 1–4-month annual salary. The maximum bonuses for separately specified duties may not exceed the amount equalling the person's annual salary.

Performance metrics under the short-term scheme

In OP Corporate Bank Group's short-term employee remuneration scheme, the weights of the shared, business line/function and personal targets are determined based on the person's job grade. The shared target measured is OP Financial Group's EBT and OP Central Cooperative Consolidated's expenses. Other targets measured include customer business earnings and expenses by business line/function. Personal targets in the balanced scorecard are derived from action based on annual planning.

Determination and payout of bonuses under the short-term scheme

Like in the long-term remuneration, bonuses will be paid to their beneficiaries provided that OP Financial Group's CET1 ratio is over the CET1 buffer set by the ECB + 3% on the payout date. The scheme also includes a coefficient related to OP Financial Group's earnings, on the basis of which earned bonuses will be multiplied downwards if OP Financial Group's EBT is not at a predetermined level In addition, the person within the scheme must be employed by OP Financial Group up to the payout date.

Bonuses earned based on the balanced scorecard will be reduced before bonus payout if binding internal guidelines within the Group or task or regulatory requirements have been ignored and risk management elements have been materialised. If an offence or negligence becomes apparent only after the bonus payout, bonus reduction or clawback can also be applied retrospectively.

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.

Deferral 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 Corporate Bank Group include managing directors and other key management personnel, other people with a major impact on 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. 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 deferment situation, half of the variable remuneration is paid in cash and half is tied to the value of the reference instrument decided by OP Cooperative's Supervisory Board or the Remuneration Committee appointed by the Supervisory Board. The bonus tied to the reference instrument will be paid to its beneficiary after a one-year retention period.

Remuneration for persons in charge of control duties

The remuneration objectives of persons in charge of control duties independent of business lines, such as risk management, internal audit, compliance and actuarial duties, may not jeopardise the independence of the duties. Variable remuneration must be independent of the business line under control and the Chief Risk Officer's metrics may not include any direct sales-based targets. It is also recommended that the balanced scorecard also includes a qualitative metric that measures the performance of control duties.

Monitoring of OP Financial Group's remuneration

OP Financial Group monitors the market consistency of its total remuneration on a regular basis. It receives information on trading venues and on the market consistency of the structures of the systems from providers, such as Alexander Incentives, Aon Hewitt, Hay Group and Mercer.

The Remuneration Committee appointed by OP Cooperative annually monitors how paid bonuses are in proportion to OP Financial Group's success vis-à-vis benchmark companies and refunds paid to customers. OP Financial Group also makes internal, Group-level comparisons of remuneration and structures on a regular basis.

Expenses recognised for variable remuneration*

EUR million	2017	2016
Personnel fund	3	5
Short-term schemes	6	10
Long-term schemes		
Scheme for 2011–13	0	0
Scheme for 2014–16	0	1
Scheme for 2017–19	1	
Total	**10**	**16**

* Excl. social expenses

More information on the remuneration schemes is available at www.op.fi.

Note 45. Events after the balance sheet date

No significant events took place after the balance sheet date.

Notes to risk management

Note 2 covers risk management and capital adequacy management principles. Notes 47–57 present the risk exposure within Banking and Other Operations. Notes 58–69 present the risk exposure within Non-life Insurance. OP Corporate Bank Group's capital adequacy information under Pillar III is disclosed as part of the OP Amalgamation Capital Adequacy Report. OP Corporate Bank Group's capital base, minimum capital requirements, derivative contracts and counterparty risk are presented in Notes 70–76.

Note 46. OP Corporate Bank Group's exposure split by geographic region and exposure class

The majority of OP Corporate Bank 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. 2017, EUR million

Geographic region	Exposure to central governments and central banks	Exposures to credit institutions	Exposures to corporates	Retail exposures	Equity investments*	Collateralised notes and bonds**	Other	Total
Finland	14,861	12,046	26,890	2,448	388	500	228	57,360
Baltic countries	129	194	1,878	5	0			2,207
Other Nordic countries	186	506	1,276	33	3	1,721	15	3,740
Germany	2,007	174	41	58	7	1,059	3	3,349
France	358	272	141	48	14	640	10	1,483
UK		686	85	83	31	455	7	1,348
Italy		3	16	8			4	31
Spain		10	5	7			1	23
Other EU countries	1,114	304	470	57	277***	886	18	3,126
Rest of Europe	7	194	64	26	4	5	5	306
USA		158	21	193	103	8	104	588
Russia		50	11		7			68
Asia		346	76	23	18	2	26	492
Other countries	961	70	78	29	147***	1,288	88	2,660
Total	**19,623**	**15,014**	**31,052**	**3,019**	**999**	**6,564**	**508**	**76,780**

* Also include EUR 68 million in bond funds.

** Consist of 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. 2016, EUR million

Geographic region	Exposure to central governments and central banks	Exposures to credit institutions	Exposures to corporates	Retail exposures	Equity investments*	Collateralised notes and bonds**	Other	Total
Finland	11,500	10,825	25,786	2,194	350	532	223	51,410
Baltic countries	197	0	1,492	5	0		0	1,694
Other Nordic countries	178	387	1,089	37	10	1,773	10	3,484
Germany	2,172	186	50	86	12	1,090		3,596
France	640	417	94	60	25	729	7	1,972
UK		668	97	103	53	455	2	1,377
Italy		5	6	25	10			46
Spain		22	5	8	11		1	47
Other EU countries	2,423	237	475	90	198***	937	10	4,369
Rest of Europe	6	202	59	32	16	86	5	406
USA	3	180	39	205	147	8	90	672
Russia		7	28	0	11			45
Asia		308	87	27	25	3	8	458
Other countries	32	66	104	29	154***	1,330	66	1,782
Total	17,151	13,509	29,410	2,901	1,023	6,942	423	71,359

* Also include EUR 36 million in bond funds.

** Consist of 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.

Risk exposure by Banking and Other Operations

The classification by Statistics Finland is used in these notes, deviating partly from the classification used in the risk exposure section presented in the Report by the Board of Directors.

Note 47. Impairment loss recognised on financial assets

EUR million	31 Dec. 2017	31 Dec. 2016
Derivative contracts		
Held for trading	-1	1
Loans and receivables		
Loans granted	10	35
Guarantee receivables	2	2
Available-for-sale financial assets		
Shares and participations	0	0
Total	12	38

Note 48. Exposure

	Finland			Other countries		
31 Dec. 2017, EUR million	Balance sheet value	Impairments	Accrued interest	Balance sheet value	Impairments	Accrued interest
Assets						
Receivables from credit institutions	8,920	0	1	374	-2	1
Receivables from customers	15,986	216	40	2,277	4	3
Finance leases	1,360			496		0
Notes and bonds	1,899		13	10,625		40
Other	99			480		
Total	28,263	216	54	14,253	3	44
Off-balance-sheet commitments						
Unused standby credit facilities	4,751			744		
Guarantees and letters of credit	1,770			591		
Derivative contracts	1,065			3,180		
Other	241			488		
Total	7,827			5,003		
Total exposure	36,090	216	54	19,256	3	44

31 Dec. 2016, EUR million	Finland Balance sheet value	Finland Impair-ments	Finland Accrued interest	Other countries Balance sheet value	Other countries Impair-ments	Other countries Accrued interest
Assets						
Receivables from credit institutions	9,200	0	4	258	-2	1
Receivables from customers*	14,965	209	36	2,146	34	4
Finance leases*	1,235			357		
Notes and bonds	1,858		15	11,668		46
Other	89			1,185		
Total	**27,347**	**209**	**55**	**15,613**	**32**	**51**
Off-balance-sheet commitments						
Unused standby credit facilities	4,752			718		
Guarantees and letters of credit	1,930			590		
Derivative contracts	1,267			4,598		
Other	188			489		
Total	**8,137**			**6,395**		
Total exposure	**35,484**	**209**	**55**	**22,009**	**32**	**51**

* The comparative has been restated as a result of the more specified classification of finance lease receivables.

The tables show the recognised positive market value of derivative contracts.

Note 49. Exposure by sector

31 Dec. 2017, EUR million	Balance sheet values Finnish	Balance sheet values Foreign	Off-balance-sheet Finnish	Off-balance-sheet Foreign	Total
Non-banking corporate sector	15,289	3,235	6,556	1,027	26,106
Financial institutions and insurance companies	10,162	6,642	480	3,722	21,005
Households	1,698	26	1	0	1,725
Non-profit organisations	336	67	68		471
Public sector entities	832	4,328	722	254	6,137
Total	**28,317**	**14,297**	**7,827**	**5,003**	**55,445**

31 Dec. 2016, EUR million	Balance sheet values Finnish	Balance sheet values Foreign	Off-balance-sheet Finnish	Off-balance-sheet Foreign	Total
Non-banking corporate sector	14,214	2,873	6,980	1,024	25,090
Financial institutions and insurance companies	10,608	6,695	394	5,174	22,871
Households	1,523	25	1	0	1,550
Non-profit organisations	291	68	38		396
Public sector entities	766	6,004	724	197	7,690
Total	**27,401**	**15,665**	**8,137**	**6,395**	**57,598**

The balance sheet values are carrying amounts including impairments and accrued interest income.

Note 50. Receivables from credit institutions and customers, and doubtful receivables

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

31 Dec. 2016, EUR million	Not impaired (gross)	Impaired (gross)	Total	Individual assessment of impairment	Collective assessment of impairment	Balance sheet value
Receivables from credit institutions and customers						
Receivables from credit institutions	9,460		9,460		2	9,458
Receivables from customers, of which*	17,110	243	17,353	219	23	17,111
Bank guarantee receivables	0	2	2	2	0	0
Finance leases*	1,591		1,591			1,591
Total	**28,161**	**243**	**28,405**	**219**	**25**	**28,160**
Receivables from credit institutions and customers by sector						
Non-banking corporate sector	15,463	242	15,706	218	12	15,475
Financial institutions and insurance companies	10,467		10,467		2	10,464
Households	1,558	1	1,559	1	11	1,548
Non-profit organisations	290	0	290	0	0	290
Public sector entities	383		383		0	383
Total	**28,161**	**243**	**28,405**	**219**	**25**	**28,160**

* The comparative has been restated as a result of the more specified classification of finance lease receivables.

31 Dec. 2017, EUR million	Not impaired (gross)	Impaired (gross)	Total	Arrears	Impairments Indi-vidually assessed	Impairments Collectively assessed
Doubtful receivables						
Receivables from credit institutions						2
Receivables from customers, of which	166	218	384	82	192	28
Bank guarantee receivables	0	2	2		2	0
Finance leases	2	1	3	1		
Total	**168**	**219**	**387**	**83**	**192**	**30**
Doubtful receivables by sector						
Non-banking corporate sector	150	218	368	81	191	16
Financial institutions and insurance companies	0		0	0		2
Households	18	1	19	1	1	12
Non-profit organisations	0		0	0		0
Public sector entities				0		0
Total	**168**	**219**	**387**	**83**	**192**	**30**

31 Dec. 2016, EUR million	Not impaired (gross)	Impaired (gross)	Total	Arrears	Impairments Indi-vidually assessed	Impairments Collectively assessed
Doubtful receivables						
Receivables from credit institutions						2
Receivables from customers, of which	171	243	414	90	219	23
Bank guarantee receivables	0	2	2		2	0
Finance leases	3		3	0		
Total	**174**	**243**	**417**	**91**	**219**	**25**
Doubtful receivables by sector						
Non-banking corporate sector	157	242	399	88	218	12
Financial institutions and insurance companies				0		2
Households	16	1	17	3	1	11
Non-profit organisations	1	0	1	0	0	0
Public sector entities				0		0
Total	**174**	**243**	**417**	**91**	**219**	**25**

Doubtful and forborne receivables

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

Doubtful and forborne receivables

31 Dec. 2016, EUR million	Performing receivables from credit institutions and customers (gross)	Non-performing receivables from credit institutions and customers (gross)	Receivables from credit institutions and customers (gross)	Individually assessed impairment	Receivables from credit institutions and customers (net)
Over 90 days past due		95	95	81	13
Unlikely to be paid		268	268	133	135
Forborne loans	35	20	55	5	50
Total	35	382	417	219	198

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

Key ratio, %	2017	2016
Exposures individually assessed for impairment, % of doubtful receivables	49.5 %	52.6 %

Past due but not impaired financial assets by maturity

		Days			
31 Dec. 2017, EUR million	Less than 30	30–90	Over 90–180	Over 180	Total
Past due but not impaired loans and receivables	274	33	23	5	335

		Days			
31 Dec. 2016, EUR million	Less than 30	30–90	Over 90–180	Over 180	Total
Past due but not impaired loans and receivables	236	56	26	5	323

Note 51. Credit losses and impairments

Credit losses and impairments

EUR million	2011	2012	2013	2014	2015	2016	2017
Gross credit losses and impairments	132	97	82	75	69	83	49
Reversals	-71	-40	-45	-49	-40	-46	-36
Net credit losses and impairments	60	57	37	25	29	37	12

In 2017, credit and guarantee losses and impairments accounted for 0.05% (0.18) of the credit and guarantee portfolio.

Note 52. Collateral received by type of collateral

EUR million	31 Dec. 2017	%	31 Dec. 2016	%
Public-sector guarantees	2,533	27.8	2,613	30.1
Object of financing as collateral	2,377	26.1	2,290	26.4
Property or lease mortgage on office or industrial property	2,289	25.1	2,082	24.0
Shares and participations, other	785	8.6	605	7.0
Property or lease mortgage on residential property	235	2.6	237	2.7
Shares in housing corporations, and housing associations and property companies in residential use	231	2.5	251	2.9
Other collateral	212	2.3	162	1.9
Factoring	191	2.1	184	2.1
Business mortgage	182	2.0	178	2.0
Bank guarantee	87	1.0	87	1.0
Total	9,124	100.0	8,688	100.0

Received collateral by type of collateral has been calculated on the basis of the values of collateral held by the bank allocated to liabilities. The collateral's fair value is used as the basis for calculating the collateral value which is derived from the fair value on the basis of valuation percentages, based on conservative estimates, by type of collateral.

Note 53. Funding structure

EUR million	31 Dec. 2017	%	31 Dec. 2016	%
Liabilities to credit institutions	14,035	27.4	10,332	21.6
Liabilities to customers				
Deposits	11,189	21.8	11,028	23.0
Other	7,648	14.9	5,150	10.7
Debt securities issued to the public				
Certificates of deposit and ECPs	7,117	13.9	8,088	16.9
Bonds	9,674	18.9	11,738	24.5
Subordinated liabilities	1,547	3.0	1,592	3.3
Total	51,211	100.0	47,928	100.0

Note 54. Maturity of financial assets and liabilities by residual term to maturity

31 Dec. 2017, EUR million	Less than 3 months	3–12 months	1–5 years	5–10 years	More than 10 years	Total
Liquid assets	12,816					12,816
Notes and bonds	219	196	135	38	0	589
Receivables from credit institutions	2,693	3,146	3,252	181	22	9,294
Receivables from customers	3,915	2,189	10,780	1,683	1,553	20,120
Available-for-sale financial assets						
Notes and bonds	58	755	7,831	2,986	255	11,884
Held-to-maturity financial assets						
Notes and bonds			30	21		51
Total assets	**19,701**	**6,286**	**22,028**	**4,908**	**1,830**	**54,754**
Liabilities to credit institutions	3,337	190	5,513	4,995		14,035
Liabilities to customers	16,617	1,379	349	493		18,837
Debt securities issued to the public	5,248	3,750	6,759	735	299	16,791
Subordinated liabilities		190	1,098	174	85	1,547
Total liabilities	**25,203**	**5,509**	**13,718**	**6,397**	**384**	**51,211**
Guarantees	3	50	436	1	43	532
Other guarantee liabilities	198	374	441	32	426	1,470
Loan commitments	5,495					5,495
Commitments related to short-term trade transactions	105	181	73			359
Other	516	2	1	209		729
Total off-balance-sheet commitments	**6,317**	**606**	**951**	**242**	**468**	**8,585**

31 Dec. 2016, EUR million	Less than 3 months	3–12 months	1–5 years	5–10 years	More than 10 years	Total
Liquid assets	9,333					9,333
Notes and bonds	406	59	141	29	2	638
Receivables from credit institutions	3,680	2,458	3,080	218	22	9,458
Receivables from customers	3,996	2,012	9,819	1,424	1,451	18,702
Available-for-sale financial assets						
Notes and bonds	15	197	7,840	4,741	15	12,808
Held-to-maturity financial assets						
Notes and bonds	25		31	24		79
Total assets	**17,455**	**4,727**	**20,911**	**6,437**	**1,490**	**51,019**
Liabilities to credit institutions	3,923	664	4,125	1,620		10,332
Liabilities to customers	14,868	839	271	150	50	16,178
Debt securities issued to the public	8,022	2,723	6,498	2,206	377	19,826
Subordinated liabilities		90	736	681	85	1,592
Total liabilities	**26,813**	**4,315**	**11,630**	**4,657**	**512**	**47,928**
Guarantees	12	209	434	0	60	716
Other guarantee liabilities	193	421	472	19	356	1,460
Loan commitments	5,470					5,470
Commitments related to short-term trade transactions	73	84	187			344
Other	516	3	0	158		677
Total off-balance-sheet commitments	**6,265**	**717**	**1,093**	**177**	**416**	**8,667**

Financial assets at fair value through profit or loss consist of notes and bonds which may be sold anytime. Notes and bonds included in available-for-sale financial assets may be sold whenever necessary. Notes and bonds included in financial assets at fair value through profit or loss and those included in available-for-sale financial assets are, however, presented within the sub-category determined on the basis of the remaining term to maturity in the table. Nominal amounts of debt are presented under categories by maturity. Financial liabilities held for trading are presented under the shortest maturity category. In its financial risk management, OP Corporate Bank Group uses forward exchange contracts and interest-rate and currency swaps. Since their net effect on the financial risk in euro countervalue is insignificant, they are not specifically presented.

Debt repayable on demand, included in the shortest maturity category, totalled EUR 12.3 billion (12.7).

Note 55. Liquidity buffer

The liquidity buffer is presented under the Other Operations segment.

Liquidity buffer by maturity and credit rating on 31 December 2017, EUR million

Year(s)	0–1	1–3	3–5	5–7	7–10	10–	Total	Proportion, %
Aaa*	13,201	2,499	2,470	1,367	435	20	19,992	85.6
Aa1–Aa3	205	707	475	423	225	0	2,036	8.7
A1–A3	1	18	6	0	5	0	30	0.1
Baa1–Baa3	10	36	64	18	13		141	0.6
Ba1 or lower	0	12	20	65	22	0	119	0.5
Internally rated**	480	198	252	99			1,029	4.4
Total	**13,897**	**3,470**	**3,286**	**1,973**	**700**	**21**	**23,347**	**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 3.7 years.

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	Proportion, %
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.

Note 56. Maturities of financial assets and liabilities by maturity or repricing

31 Dec. 2017, EUR million	1 month or less	>1–3 months	>3–12 months	>1–2 years	>2–5 years	>5 years	Total
Cash and cash equivalents	12,816						12,816
Notes and bonds	97	138	196	22	97	39	589
Receivables from credit institutions	4,964	2,141	1,541	385	219	43	9,294
Receivables from customers	5,800	6,220	4,783	396	1,803	1,117	20,120
Available-for-sale financial assets							
Notes and bonds	545	248	686	1,117	6,048	3,241	11,884
Held-to-maturity financial assets							
Notes and bonds	15	16			20		51
Total assets	24,238	8,764	7,207	1,920	8,187	4,439	54,754
Liabilities to credit institutions	3,349	1,846	1,228	283	4,394	2,936	14,035
Liabilities to customers	16,251	768	1,689		129		18,837
Debt securities issued to the public	3,003	4,064	4,586	1,211	3,256	670	16,791
Subordinated liabilities	74	453	176		745	100	1,547
Total liabilities	22,677	7,131	7,679	1,493	8,525	3,706	51,211

Debt repayable on demand totalled EUR 12.3 billion, consisting mainly of public deposits.

31 Dec. 2016, EUR million	1 month or less	>1–3 months	>3–12 months	>1–2 years	>2–5 years	>5 years	Total
Cash and cash equivalents	9,333						9,333
Notes and bonds	93	317	63	13	122	31	638
Receivables from credit institutions	2,939	2,979	2,669	483	343	45	9,458
Receivables from customers	5,730	6,387	3,521	347	1,692	1,025	18,702
Available-for-sale financial assets							
Notes and bonds	591	276	198	1,196	5,849	4,700	12,808
Held-to-maturity financial assets							
Notes and bonds	41	18			20		79
Total assets	18,727	9,976	6,451	2,038	8,026	5,800	51,019
Liabilities to credit institutions	4,088	578	735	136	3,496	1,299	10,332
Liabilities to customers	14,007	1,304	826		40		16,178
Debt securities issued to the public	3,406	6,381	4,114	1,397	2,779	1,749	19,826
Subordinated liabilities	81	586	51		274	600	1,592
Total liabilities	21,582	8,849	5,726	1,533	6,589	3,648	47,928

Debt repayable on demand totalled EUR 12.7 billion, consisting mainly of public deposits.

Note 57. Sensitivity analysis of interest rate and market risk

Interest rate risk associated with balance sheet

	-200bp		+200bp	
Currency EUR million	2017	2016	2017	2016
EUR	-11	37	11	-37
GBP	-1	-10	1	10
USD	2	-4	-2	4
Other	1	4	1	4

Risks of GBP and USD are expressed in euro equivalents. Euro-denominated risks of other currencies have been added up as intrinsic values. Interest rate risk is calculated daily as the volatility of the present value of balance sheet cash flows to the parallel 2 percentage point change of the yield curve. The content of the calculation was changed in 2017 and the figures for 2016 has been restated to be comparable.

Sensitivity analysis of market risk

EUR million		2017	2016
Interest rate volatility*	10bp	2	1
Currency volatility*	10 pps	1	1
Credit risk premium**	10bp	-45	-55

* Trading portfolio

** Long-term investment assets

Risk exposure by Non-life Insurance

Note 58. 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 figures are unaudited.

Insurance company solvency, EUR million	31 Dec. 2017	31 Dec. 2016
Eligible capital	902	983
Solvency capital requirement (SCR)		
Market risk	460	483
Underwriting risk	289	293
Counterparty risk	40	31
Operational risk	45	43
Diversification benefits and loss absorbency	-169	-164
Total	666	687
Buffer for SCR	296	296
SCR ratio, %	135%	143%
SCR ratio, % excluding transitional provisions	135%	127%

Note 59. Sensitivity analysis of Non-life insurance

The table below shows the effect of various risk parameters on profit and solvency capital

Risk parameter	Total in 2017, EUR million	Change in risk parameter	Effect on share-holders' equity, EUR million	Effect on combined ratio
Insurance portfolio or insurance premium revenue*	1,431	Up by 1%	14	Up by 1.0 pps
Claims incurred*	1,085	Up by 1%	-11	Down by 0.8 pps
Large claim, over EUR 5 million		1 loss	-5	Down by 0.3 pps
Personnel costs*	116	Up by 8%	-9	Down by 0.6 pps
Expenses by function*/**	385	Up by 4%	-15	Down by 1.1 pps
Inflation for collective liability	745	Up by 0.25 pps	-5	Down by 0.4 pps
Life expectancy for discounted insurance liabilities	1,905	Up 1 year	-45	Down by 3.1 pps
Discount rate for discounted insurance liabilities	1,905	Down by 0.1 pp	-27	Down by 1.9 pps

* Moving 12-month

** Expenses by function in Non-life Insurance excluding expenses for investment management and expenses for other services rendered.

Note 60. 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
2017	13	10	9	8
2016	13	14	11	11

* EML = Estimated Maximum Loss per object of insurance

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
2017	4	4	6	3
2016	3	4	6	2

* 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.

	Gross		Net*	
EUR million	2017	2016	2017	2016
Decennial insurance	1,882	2,100	1,882	2,100

* For insurance company's own account after reinsurers' share but before counter guarantee

Note 61. Trend in large claims

Number of detected large claims by year of detection for 2013–17

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 claims exceeding EUR 2 million	Statutory lines	Other accident and health	Hull and cargo	Property and business interruption	Liability and legal expenses	Long term
2013	4			5	1	
2014	6			5	1	
2015	1			6		
2016				6		
2017				9		
				Total claims, EUR million	168	
Gross amount, total claims, EUR million						
2013–2017	**24**			**138**	**6**	

Net amount

Number of claims exceeding EUR 2 million	Statutory lines	Other accident and health	Hull and cargo	Property and business interruption	Liability and legal expenses	Long term
2013	4			3	1	
2014	6			5	1	
2015	1			6		
2016				6		
2017				9		
				Total claims, EUR million	119	
Net amount, total claims, EUR million						
2013–2017	**24**			**93**	**3**	

Note 62. 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.

2017, EUR million	Gross IP revenue	Net IP revenue	Net CR*	Net** CR*
Statutory lines	442	440	105%	105%
Other accident and health	250	250	94%	94%
Hull and cargo	302	301	92%	92%
Property and business interruption	385	354	93%	93%
Liability and legal expenses	89	83	87%	87%
Long-term	5	3	14%	14%
Total	**1,473**	**1,431**	**96%**	**96%**

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%**

* 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 is excluded from the calculation.

** One-off changes affecting the balance on technical account have been eliminated.

Note 63. Information on the nature of insurance liabilities

Information on the nature of liabilities	2017	2016
Net liabilities due to insurance contracts (EUR million)		
Latent occupational diseases	15	17
Other	3,033	2,913
Total (before transfers)	**3,048**	**2,930**
Duration of debt (years)		
Discounted insurance liabilities	14.4	13.7
Undiscounted insurance liabilities	2.2	2.1
Total	**9.8**	**9.3**
Discounted net debt (EUR million)		
Known provision for claims for annuities	1,517	1,427
Collective liability	351	343
Provision for unearned premiums	43	45
Total	**1,911**	**1,816**

Note 64. Insurance liabilities by estimated maturity

31 Dec. 2017, EUR million	0–1 yr	1–5 yrs	5–10 yrs	10–15 yrs	over 15 yrs	Total
Provision for unearned premiums*	416	120	21	6	10	574
Provision for unpaid claims						
Undiscounted	322	225	60	12	4	624
Discounted	96	434	354	281	685	1,849
Total insurance liabilities**	**835**	**779**	**435**	**299**	**699**	**3,048**

* Includes EUR 43 million in discounted liability.

**Excluding the value of derivatives hedging the interest rate risk associated with insurance liabilities.

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 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.

Note 65. Risk exposure of insurance investments

	31 Dec. 2017		31 Dec. 2016	
Allocation of investment portfolio	Fair value, EUR million*	%	Fair value, EUR million*	%
Money market total	332	9	72	2
Money market instruments and deposits**	327	8	66	2
Derivative instruments***	5	0	5	0
Total bonds and bond funds	2,812	72	2,969	77
Governments	511	13	522	13
Inflation-indexed bonds	14	0	45	1
Investment Grade	1,835	47	1,981	51
Emerging markets and High Yield	251	6	330	9
Structured investments****	201	5	91	2
Total equities	408	10	425	11
Finland	70	2	77	2
Developed markets	185	5	169	4
Emerging markets	76	2	65	2
Fixed assets and unlisted equities	3	0	3	0
Private equity investments	75	2	111	3
Total alternative investments	26	1	33	1
Hedge funds	26	1	33	1
Total property investments	324	8	378	10
Direct property investments	187	5	208	5
Indirect property investments	137	4	170	4
Total	3,903	100	3,876	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 66. 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 59. Effects of changes in investments and insurance liabilities offset one another.

	Portfolio at fair value, EUR million			Effect on solvency capital, EUR million	
Non-life Insurance	31 Dec. 2017	Risk parameter	Change	31 Dec. 2017	31 Dec. 2016
Bonds and bond funds*	2,654	Interest rate	1 pp	127	150
Equities**	356	Market value	10%	34	46
Capital investments and unquoted equities	78	Market value	10%	8	11
Commodities		Market value	10%		
Real property	324	Market value	10%	32	38
Currency	138	Currency value	10%	20	11
Credit risk premium***	2,605	Credit spread	0.1 pp	31	15
Derivatives	11	Volatility	10 pps	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 67. 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 liabilities have on the interest-rate risk, because only some insurance liabilities have been discounted using an administrative interest rate (Note 27).

Fair value by duration or repricing date, EUR million*	31 Dec. 2017	31 Dec. 2016
0–1 year	442	199
>1–3 years	643	513
>3–5 years	776	909
>5–7 years	415	552
>7–10 years	385	434
>10 years	267	299
Total	**2,929**	**2,906**
Modified duration	5.1	5.4
Effective interest rate, %	1.8	1.7

* Includes money-market investments and deposits, bonds, convertible bonds and bond funds.

Fixed-income portfolio by maturity and credit rating on 31 Dec. 2017*, EUR million

Year(s)	0–1	1–3	3–5	5–7	7–10	10–	Total	Pro-portion, %
Aaa	6	82	149	143	172	164	715	24.4
Aa1-Aa3	326	49	162	33	50	34	654	22.3
A1-A3	33	199	168	70	54	41	564	19.2
Baa1-Baa3	48	248	274	153	107	27	856	29.2
Ba1 or lower	27	65	25	16	2	0	135	4.6
Internally rated	1	1	0	0	1	0	3	0.1
Total	442	643	776	415	385	267	2,929	100.0

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	Pro-portion, %
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

* 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 5.7 years (calculated on the basis of the call date and the maturity date).

Note 68. Currency risk

Foreign currency exposure, EUR million	31 Dec. 2017	31 Dec. 2016
USD	72	46
SEK	0	2
JPY	0	0
GBP	9	48
Other	56	16
Total*	138	112

* The currency exposure was 3.5% (2.9) of the investment portfolio. It is calculated as the sum total of individual currencies' intrinsic values.

Note 69. Counterparty risk

Credit rating, consistent with Moody's, EUR million	31 Dec. 2017 Invest-ment*	31 Dec. 2017 Insurance**	31 Dec. 2016 Invest-ment*	31 Dec. 2016 Insurance**
Aaa	715		778	
Aa1–Aa3	654	25	372	20
A1–A3	564	29	654	25
Baa1–Baa3	856	0	844	0
Ba1 or lower	135		244	
Internally rated	3	42	14	34
Total	2,929	96	2,906	79

* Include money-market investments and deposits, bonds and bond funds

** Includes the reinsurers' share of insurance liabilities, and receivables from reinsurers

Capital adequacy

Notes 70–76 disclose a summary of information on the capital adequacy of the consolidation group, as specified in 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, it is not directly comparable with other information disclosed on OP Corporate Bank Group. Complete Pillar III information can be found in the OP Amalgamation Capital Adequacy Report.

The consolidation group that forms the basis of OP Corporate Bank plc's capital adequacy comprises OP Corporate Bank Group companies excluding insurance companies and their subsidiaries.

The 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.

Note 70. Capital base

The Group has presented its capital base of 31 December 2017 in accordance with the EU capital requirements regulation and directive (EU 575/2013) (CRR).

EUR million	31 Dec. 2017	31 Dec. 2016
OP Corporate Bank Group's equity capital	**4,149**	**4,005**
Elimination of insurance companies' effect in equity capital	-125	-279
Fair value reserve, cash flow hedging	-2	-6
Common Equity Tier 1 (CET1) before deductions	**4,022**	**3,720**
Intangible assets	-76	-76
Excess funding of pension liability and valuation adjustments	-16	-23
Dividend distribution proposed by Board of Directors	-212	-201
Shortfall of impairments – expected losses	-134	-126
Common Equity Tier 1 (CET1)	**3,584**	**3,295**
Subordinated loans to which transitional provisions applies	137	140
Additional Tier 1 capital (AT1)	**137**	**140**
Tier 1 capital (T1)	**3,720**	**3,435**
Debenture loans	1,073	1,193
Tier 2 capital (T2)	**1,073**	**1,193**
Total capital base	**4,793**	**4,628**

The CET1 capital totalled EUR 3.6 billion (3.3) on 31 December 2017, thanks to earnings by the Banking segment and the Other Operations segment and dividends from insurance companies.

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

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

Note 71. Minimum capital requirement

OP Corporate Bank 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. Investments in OP Corporate Bank Group's insurance companies have been deducted from the capital base. OP Corporate Bank 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 standard estimates supplied by the authorities. OP Corporate Bank 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, and 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 the official 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 Corporate Bank has used the Standardised Approach to measure capital requirement for operational risks and market risks.

	31 Dec. 2017		31 Dec. 2016	
EUR million	Capital requirement*	Risk-weighted assets	Capital requirement*	Risk-weighted assets
Credit and counterparty risk	**1,576**	**19,694**	**1,548**	**19,354**
Standardised Approach (SA)	**165**	**2,069**	**149**	**1,861**
Exposures to central government and central banks			0	1
Exposures to regional government or local authorities	1	18	1	15
Exposures to public sector entities			1	17
Exposures to institutions	2	29	4	51
Exposures to corporates	150	1,879	130	1,623
Retail exposures	1	14	1	12
Exposures secured by mortgages on immovable property	7	83	6	79
Exposures in default	0	0	0	0
Other items	4	44	5	64
Internal Ratings Based Approach (IRB)	**1,410**	**17,626**	**1,399**	**17,493**
Exposures to institutions	84	1,053	91	1,141
Exposures to corporates	931	11,643	924	11,551
Retail exposures	90	1,130	79	983
Exposures secured by mortgages on immovable property	2	21	1	9
Other retail exposures	89	1,109	78	974
Equity investments	300	3,753	299	3,741
PD/LGD method	295	3,688	295	3,688
Basic Indicator Approach	5	64	4	52
Private equity investments	4	44	3	32
Other	2	21	2	21
Securitisation positions	3	42	5	63
Other non-credit obligations	0	5	1	14
Clearing/settlement risk	**0**	**1**	**0**	**0**
Market risk (Standardised Approach)	**94**	**1,178**	**106**	**1,329**
Notes and bonds	93	1,159	105	1,309
Equities	0	0	1	14
Commodities	2	19	0	6
Operational risk (Standardised Approach)	**101**	**1,266**	**93**	**1,163**
Risk associated with exposure value adjustment	**16**	**205**	**20**	**253**
Total risk	1,787	22,343	1,768	22,099

* Capital requirement = Risk-weighted assets * 0.08

On 31 December 2017, the risk exposure amount (REA) totalled EUR 22.3 billion (22.1), or 1.1% higher than on 31 December 2016. The average credit risk weights decreased from their 2016-end levels thanks to the improved quality of the loan portfolio and optimisation of calculation methods.

The risk weight of equity investments includes EUR 3.7 billion in insurance holdings within OP Financial Group.

EUR 44 million (45) of Other exposures represent deferred tax assets that are treated with a risk weight of 250% instead of a deduction from common equity tier 1 capital.

Capital requirement for counterparty risk amounts to EUR 39 million (55).

Note 72. Capital ratios

	31 Dec. 2017	31 Dec. 2016
Ratios, %		
CET1 ratio	16.0	14.9
Tier 1 ratio	16.7	15.5
Capital adequacy ratio	21.5	20.9
Rations without the effects of transitional provisions, %		
CET1 ratio	16.0	14.9
Tier 1 ratio	16.0	14.9
Capital adequacy ratio	20.8	20.3
Capital requirement, EUR million		
Capital base	4,793	4,628
Capital requirement	2,358	2,327
Buffer for capital requirements	2,435	2,301

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

Note 73. Corporate exposure by sector

31 Dec. 2017, EUR million	Exposure amount	RWA	Past due exposures	Impaired exposures	Impairment loss	Exposure as percentage
Energy	4,026	1,251	37	13	14	12.7
Trade	3,668	1,874	2	1	0	11.6
Services	3,012	1,690	3	0	0	9.5
Financial and insurance activities	2,432	936	1	0	0	7.7
Other manufacturing	2,223	1,024	27	20	11	7.0
Operating of other real estate	2,088	1,101	1	7	2	6.6
Renting and operation of residential real estate	2,076	587	0			6.6
Manufacture of machinery and equipment (incl. maintenance)	2,018	618	59	23	25	6.4
Construction	1,817	1,008	30	8	6	5.7
Transportation and storage	1,518	831	11	5	2	4.8
Forest industry	1,192	659	114	105	105	3.8
Agriculture, forestry and fishing	1,002	498	7	1	1	3.2
Food industry	987	462	6	5	5	3.1
Metal industry	959	614	41	26	21	3.0
Information and communication	886	295	8	2	3	2.8
Buying and selling of own real estate	828	393	0			2.6
Manufacture of chemicals and chemical products	331	109				1.0
Water supply and waste management	325	157	0			1.0
Mining and quarrying	310	104	27	24	23	1.0
Other sectors	-53	-234	0		2	-0.2
Total	31,646	13,978	376	240	221	100.0

31 Dec. 2016, EUR million	Exposure amount	RWA	Past due exposures	Impaired exposures	Impairment loss	Exposure as percentage
Energy	3,513	1,081	37	13	13	11.8
Trade	3,338	1,775	2	1	0	11.2
Operating of other real estate	2,265	1,104	1	7	3	7.6
Services	2,197	1,211	5	1	1	7.4
Renting and operation of residential real estate	2,187	580	0			7.3
Financial and insurance activities	2,113	1,018	0	0	0	7.1
Manufacture of machinery and equipment (incl. maintenance)	2,008	694	47	24	25	6.7
Construction	1,845	1,046	24	6	4	6.2
Other manufacturing	1,770	536	67	37	29	5.9
Transportation and storage	1,436	889	4	0	0	4.8
Forest industry	1,268	719	114	103	99	4.3
Buying and selling of own real estate	986	473				3.3
Metal industry	966	701	67	39	35	3.2
Food industry	910	399	6	5	5	3.1
Information and communication	894	354	10	3	3	3.0
Agriculture, forestry and fishing	866	415	7	1	1	2.9
Other sectors	398	278	1		1	1.3
Manufacture of chemicals and chemical products	318	100				1.1
Mining and quarrying	303	89	27	23	23	1.0
Water supply and waste management	252	100	0			0.8
Total	**29,834**	**13,562**	**419**	**264**	**242**	**100.0**

Corporate exposures in this Note also include SMEs with 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 74. Corporate exposure by rating category (FIRB)

31 December 2017

Rating category	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	970	93.3	0.0	44.7	8.3	144	14.9	0
2.5–5.5	14,036	72.7	0.2	44.4	3.6	5,250	37.4	11
6.0–7.0	3,572	68.8	1.2	43.5	3.0	3,261	91.3	19
7.5–8.5	1,765	68.9	4.0	44.0	3.3	2,333	132.2	31
9.0–10.0	292	62.2	16.6	44.9	18.3	655	224.3	22
11.0–12.0	338	58.8	100.0	45.9	4.4			155
Total	20,972	72.0	0.9	44.3	3.9	11,643	56.4	238

31 December 2016

Rating category	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	1,028	92.5	0.0	44.7	8.3	154	15.0	0
2.5–5.5	13,003	74.9	0.2	44.3	3.7	4,956	38.1	10
6.0–7.0	3,671	71.4	1.2	44.1	2.7	3,440	93.7	19
7.5–8.5	1,932	69.6	4.4	44.5	2.9	2,732	141.4	38
9.0–10.0	116	54.3	22.7	44.7	30.2	268	230.8	12
11.0–12.0	374	53.2	100.0	46.1	5.9			173
Total	20,124	74.0	0.9	44.3	3.9	11,551	58.5	252

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

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 75. Credit institution exposures (FIRB) by rating category

31 December 2017

Rating category	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	2,507	76.3	0.0	14.9	4.0	131	5.2	0
2.5–5.5	4,588	60.8	0.1	19.6	6.2	656	14.3	1
6.0–7.0	182	24.7	1.9	45.0	0.9	236	129.2	2
7.5–8.5	16	20.9	5.6	45.0	0.4	26	165.6	0
9.0–10.0	2	56.6	24.0	45.0	0.1	4	260.1	0
Total	7,295	57.1	0.1	18.7	5.3	1,053	14.4	3

31 December 2016

Rating category	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	2,454	76.5	0.0	13.4	4.4	114	4.6	0
2.5–5.5	5,034	60.6	0.1	20.2	4.7	797	15.8	1
6.0–7.0	150	27.2	1.7	45.0	1.8	184	122.5	1
7.5–8.5	23	20.7	6.8	45.0	0.4	41	177.1	1
9.0–10.0	2	53.0	19.1	45.0	0.0	5	247.1	0
Total	7,663	57.9	0.1	18.6	4.5	1,141	14.9	3

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

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 76. 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. The credit equivalent based on the fair value model is used both in the regulatory capital adequacy requirement and economic capital requirement.

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 2017, the gross exposure value of derivative contracts for central counterparty clearing amounted to EUR 1.7 billion and the net credit risk to EUR 291 million. These are included in the figures shown in the table.

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 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. In respect of guarantees and collateral securities, the Group applies the same practice as in credit risks.

If S&P had downgraded OP Financial Group's credit rating from AA– to A on 31 December 2017, an additional collateral worth EUR 7 million would have been required. If the credit rating had been downgraded in 2016, additional collateral of EUR 61 million would have been required.

Capital adequacy requirement due to counterparty risk may arise from items related to financing operations 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. 2017, EUR million	Gross exposure	Benefits from netting	Present netted credit risk	Collateral held	Net credit risk
Derivative contracts	7,077	4,327	2,750	412	2,338
Total	7,077	4,327	2,750	412	2,338

Counterparty risk contract types, 31 Dec. 2016, EUR million	Gross exposure	Benefits from netting	Present netted credit risk	Collateral held	Net credit risk
Derivative contracts	8,422	4,695	3,727	1,177	2,550
Total	8,422	4,695	3,727	1,177	2,550

Note 41 presents the positive gross fair value of contracts.

Parent Company Financial Statements, FAS

Financial Statements

Income statement

EUR million	2017	2016
Interest income	1,205	1,382
Net lease income	23	23
Interest expenses	-962	-1,219
Net interest income	**266**	**186**
Income from equity investments	208	338
From subsidiaries	200	338
From other companies	8	0
Commissions and fees	132	123
Commission expenses	-98	-66
Net income from securities and foreign exchange trading	172	164
Net income from securities trading	135	78
Net income from foreign exchange trading	37	86
Net income from available-for-sale financial assets	20	20
Net income from hedge accounting	-1	-1
Net income from investment property	2	1
Other operating income	29	29
Administrative expenses	-149	-135
Personnel costs	-55	-59
Wages and salaries	-45	-48
Social expenses	-9	-11
Pension costs	-7	-8
Other social expenses	-2	-3
Other administrative expenses	-94	-76
Depreciation/amortisation and write-downs on tangible and intangible assets	-13	-11
Other operating expenses	-27	-20
Impairment loss on other financial assets	-12	-37
Operating profit	**529**	**592**
Appropriations	-87	-97
Income taxes	-48	-33
Taxes for the financial year	-48	-25
Taxes for previous financial years	0	0
Change in deferred taxes	-1	-8
Profit for the financial year	**394**	**462**

Balance sheet

Assets

EUR million	31 Dec. 2017	31 Dec. 2016
Cash and cash equivalents	12,816	9,333
Notes and bonds eligible for refinancing with central banks	11,077	12,188
Other	11,077	12,188
Receivables from credit institutions	9,293	9,427
Repayable on demand	749	296
Other	8,544	9,131
Receivables from the public and public sector entities	18,742	17,477
Other	18,742	17,477
Lease assets	1,359	1,234
Notes and bonds	1,489	1,422
From public sector entities	39	246
From other	1,450	1,176
Shares and participations	11	11
Shares and participations in subsidiaries	1,025	1,025
Derivative contracts	3,425	4,676
Intangible assets	58	57
Tangible assets	5	14
Investment property and shares and participations in investment property	0	9
Other property and shares and participations in property companies	2	2
Other tangible assets	3	3
Other assets	856	1,577
Deferred income and advances paid	334	428
Total assets	60,492	58,870

Liabilities

EUR million	31 Dec. 2017	31 Dec. 2016
Liabilities		
Liabilities to credit institutions	14,035	10,299
Central banks	4,023	3,240
Credit institutions	10,012	7,059
Repayable on demand	1,816	1,952
Other	8,196	5,107
Liabilities to the public and public sector entities	19,050	16,279
Deposits	11,531	11,129
Repayable on demand	10,775	10,851
Other	755	278
Other liabilities	7,519	5,150
Repayable on demand	11	13
Other	7,508	5,136
Debt securities issued to the public	16,869	19,915
Bonds	9,752	11,827
Other	7,117	8,088
Derivative contracts and other liabilities held for trading	3,216	4,406
Other liabilities	1,522	2,350
Other liabilities	1,522	2,350
Deferred expenses and advances received	383	478
Subordinated liabilities	1,412	1,457
Subordinated loans	138	135
Other	1,274	1,321
Deferred tax liabilities	12	
Total liabilities	**56,499**	**55,187**
Appropriations	**1,295**	**1,208**
Depreciation difference	204	172
Taxation-based provisions	1,091	1,036
Shareholders' equity		
Share capital or cooperative capital	428	428
Share capital	428	428
Share premium account	524	524
Other restricted reserves	242	212
Reserve fund	164	164
Fair value reserve	79	48
Cash flow hedging	2	6
Fair value measurement	77	43
Non-restricted reserves	331	331
Reserve for invested non-restricted equity	308	308
Other reserves	23	23
Retained earnings	778	518
Profit for the financial year	394	462
Total shareholders' equity	**2,698**	**2,474**
Total liabilities and shareholders' equity	**60,492**	**58,870**

Off-balance-sheet commitments	**8,389**	**8,511**
Commitments given to a third party on behalf of customers	2,374	2,520
Guarantees and pledges	2,015	2,176
Other	359	344
Irrevocable commitments given on behalf of customers	6,015	5,991
Securities repurchase commitments	5	5
Other	6,010	5,986

Cash flow statement

EUR million	31 Dec. 2017	31 Dec. 2016
Cash flow from operating activities		
Profit for the financial year	394	462
Adjustments to profit for the financial year	-33	-361
Increase (-) or decrease (+) in operating assets	199	-3,898
Notes and bonds eligible for refinancing with central banks	273	-1,462
Receivables from financial institutions	586	182
Receivables from the public and public sector entities	-1,289	-1,453
Lease assets	-124	-84
Notes and bonds	-6	-432
Shares and participations	-1	0
Derivative contracts	-29	21
Investment property		0
Other assets	789	-668
Increase (+) or decrease (-) in operating liabilities	5,567	3,845
Liabilities to credit institutions and central banks	3,763	5,118
Liabilities to the public and public sector entities	2,771	-1,380
Derivative contracts and other liabilities held for trading	-36	-20
Other liabilities	-931	126
Income tax paid	-23	-24
Dividends received	208	338
A. Net cash from operating activities	6,312	362
Cash flow from investing activities		
Decreases in held-to-maturity financial assets	29	15
Purchase of tangible and intangible assets	-14	-14
Proceeds from sale of tangible and intangible assets	9	1
B. Net cash used in investing activities	24	2
Cash flow from financing activities		
Increases in subordinated liabilities	5	0
Decreases in subordinated liabilities	-49	-144
Increases in debt securities issued to the public	21,047	24,941
Decreases in debt securities issued to the public	-23,466	-24,282
Dividends paid and interest on cooperative capital	-201	-153
C. Net cash used in financing activities	-2,665	361
D. Effect of foreign exchange rate changes on cash and cash equivalents	265	107
Cash and cash equivalents transferred due to combination	3,937	832
Cash and cash equivalents at year-start	9,629	8,796
Cash and cash equivalents at year-end	13,565	9,629
Change in cash and cash equivalents	3,937	832
Interest received	1,334	1,622
Interest paid	1,129	1,374

Adjustments to profit for the financial year		
Non-cash items		
Change in fair value for trading	1	-6
Unrealised net gains on foreign exchange operations	-265	-107
Change in fair value of investment assets	0	-1
Depreciation/amortisation, change in depreciation/amortisation difference and voluntary provisions	99	108
Impairment losses on receivables	12	37
Other	119	-392
Items presented outside cash flow from operating activities		
Capital gains, share of cash flow from investing activities		-1
Total adjustments	**-33**	**-361**

Cash and cash equivalents		
Liquid assets	12,816	9,333
Receivables from credit institutions payable on demand	749	296
Total	**13,565**	**9,629**

Parent Company's (OP Corporate Bank plc) Accounting Policies

General

OP Corporate Bank plc is a Finnish credit institution whose business divisions comprise Corporate Customers and Group Treasury. Other Operations includes administrative functions.

OP Corporate Bank plc is part of OP Financial Group which currently consists of some 170 independent cooperative banks and their central cooperative, OP Cooperative, and other member credit institutions. OP Financial Group's member credit institutions comprise OP Corporate Bank plc, Helsinki Area Cooperative Bank, OP Card Company Plc, OP Mortgage Bank and OP Cooperative's member cooperative banks.

OP Corporate Bank plc's parent company is OP Cooperative and OP Corporate Bank's consolidated accounts are included in its consolidated financial statements. Copies of the financial statements of OP Cooperative are available at the following address: Gebhardinaukio 1, FI-00510 Helsinki. OP Financial Group's financial statements are available at www.op.fi or the company's registered office at Gebhardinaukio 1, FI-00510 Helsinki. The accounts of OP Corporate Bank plc are also consolidated into those of OP Corporate Bank Group. A copy of OP Corporate Bank's consolidated financial statements is available at www.op.fi or the Company's registered office Gebhardinauko 1, FI-00510 Helsinki.

In accordance with the Act on the Amalgamation of Deposit banks, the member credit institutions, OP Corporate Bank included, and OP Cooperative are ultimately jointly and severally liable for each other's debts and commitments. If a member credit institution's own capital is depleted to such a low level owing to losses that the criteria, specified in the Act, for being placed in liquidation are fulfilled, OP Cooperative has the right to collect from its member credit institutions extra contributions on the basis of the combined balance sheets previously adopted.

OP Corporate Bank is domiciled in Helsinki and the address of its registered office is Gebhardinaukio 1, FI-00510 Helsinki and the postal address of its registered office is P.O. Box 308, FI-00013 OP.

Basis of preparation

OP Corporate Bank plc's financial statements based on national regulation are prepared and presented according to the Act on Credit Institutions, the Ministry of Finance Decree on the Financial Statements and Consolidated Financial Statements of a Credit Institution and Investment Firm, the Accounting Act and the set of the Financial Supervisory Authority's regulations and guidelines governing financial sector accounting, financial statements and the report by the board of directors. In addition, the central cooperative of the amalgamation of cooperative banks, OP Cooperative, issues instructions for compliance with unified accounting principles and the preparation of the financial statements.

OP Corporate Bank plc's financial statements are presented in millions of euros and were prepared at historical cost, with the exception of financial assets at fair value through profit or loss, available-for-sale financial assets, hedged items in fair value hedging (for hedged risk) and derivative instruments measured at fair value.

The preparation of financial statements requires the management to make assessments and estimates and exercise its judgement in the process of applying the accounting policies.

Foreign currency translation

OP Corporate Bank plc's financial statements are prepared in euros, which is the presentation currency. 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 income from foreign exchange trading in the income statement.

Financial instruments

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, 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 or a shorter period taking account of the product's structure and counterparty. 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 the balance sheet.

Impairment of financial assets

At the end of each reporting period, the company 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 instrument

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.

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.

Classification and recognition of 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. 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 Corporate Bank plc 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 company 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.

Financial assets and liabilities held for trading

Financial assets at fair value through profit or loss are subdivided into financial assets held for trading and financial assets at fair value through profit or loss at inception. Financial liabilities at fair value through profit or loss are financial liabilities held for trading.

All financial assets and liabilities that are expected to generate short-term profits arising from fluctuations in interest rates, prices and quotations or in which an embedded derivative contract cannot be separated from the host contract are classified as held for trading. 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).

Financial assets and liabilities held for trading include derivatives other than those used for hedging purposes.

Financial assets and liabilities held for trading are recognised at fair value in the balance sheet, and subsequent changes in the fair value are recognised under Net income from securities trading in the income statement.

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. These financial assets are measured at fair value and any change in their fair value and any capital gains and losses, interest income and expenses as well as dividend income are recognised in the income statement.

Bonds, which the company, 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 the 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.

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. These financial assets are measured at fair value in the balance sheet, and any subsequent changes in the fair value are recognised under Net income from securities trading in the income statement.

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.

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, using the effective interest method.

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. 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 from the loss event to 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 company 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.

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 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.

Held-to-maturity investments

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, using the effective interest method.

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.

Impairment loss on investments held to maturity is reviewed on the basis of the same principles.

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.

If the fair value cannot be determined reliably, shares and holdings necessary for operations and other unquoted shares and holdings are measured at cost. Any changes in their fair value are recognised in the Fair value reserve under shareholders' equity, from where they, including any capital gain or loss, are transferred to Net income from available-for-sale financial assets in the income statement when the asset is derecognised or impaired. Interest income and dividends are recorded in the income statement.

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 an equity instrument'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 equity.

Interest income and dividends related to available-for-sale financial assets are recognised in the income statement.

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.

Participating interests, and shares and holdings in Group companies

Participating interests, and shares and holdings and other equity investments in Group companies are recognised at cost or, if the item's value on the balance sheet date is found to be lower than the acquisition cost due to impairment, at cost less impairment loss.

Impairment losses are recognised under Impairment losses on other financial assets in the income statement.

Cash and cash equivalents

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

Other assets

Other assets comprise receivables repayable on demand arising from payment transfers, receivables in various clearing accounts, marginal account receivables related to derivative contracts and all other receivables that cannot be presented under any other suitable balance sheet item, such as various accounts receivable and rental receivables.

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, using the effective interest method.

Other liabilities

Other liabilities consist mainly of payment transfer liabilities, accounts payable and liabilities related to securities trading.

Derivative contracts

Derivatives are divided into hedging and non-hedging contracts. Both hedging and non-hedging derivatives are recognised at fair value in the balance sheet. Accrued interest on non-hedging interest rate swaps is recognised in interest income and interest carried forward corresponding to them in deferred income and deferred expenses. Changes in the fair value of non-hedging interest-rate, loan, currency, equity and commodity derivatives are recognised under Net income from foreign exchange trading in the income statement. Positive fair value changes and premiums paid for derivative contracts are recognised as assets under Derivative contracts while negative fair value changes and premiums received from derivative contracts are recognised under Derivative contracts and other liabilities held for trading.

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.

The Group’s Risk Management 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, the Group’s Parent Company, OP Corporate Bank plc, can hedge against interest rate risk, currency risk and price risk by applying fair value hedge or cash flow hedge. Cash flow hedging refers to hedging against changes in future cash flows and fair value hedging refers to hedging against changes in the fair value of the hedged asset.

OP Corporate Bank plc enters into derivative contracts which are in fact used to hedge against financial risks but which do not fulfil these criteria.

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

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 highly 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%.

Fair value hedges

Fair value hedging against interest rate risk involves long-term fixed-rate debt instruments (OP Corporate Bank's own issues), individual bond and loan portfolios, as well as individual loans. OP Corporate Bank uses forward exchange contracts and interest-rate and currency swaps as hedging instruments.

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 hedging and hedged instrument are recorded under "Net interest income".

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.

Lease assets

Leased out assets and lease assets' advance payments are recognised at non-depreciated cost and presented under Lease assets in the balance sheet. As a rule, lease assets are depreciated according to the annuity depreciation method.

Lease income from leased out assets based on lease contracts less planned depreciation on the lease assets are recognised under Net lease income. In addition, the item includes impairment losses on lease assets, capital gains and losses on the disposal of lease assets, commissions charged from customers and other income and expenses directly attributable to lease contracts. Other income and expenses due to leases are included in the income statement item that corresponds to the nature of the income or expense item.

Intangible assets

Intangible assets are stated at cost less amortisation and any write-downs. These assets are amortised over their estimated useful lives, which is 2–10 years for computer software and licences and 5 years in general for other intangible assets. The useful lives of assets are reviewed on each balance sheet date.

Development expenditure referred to Chapter 5, Section 8 of the Accounting Act are capitalised if it is expected to generate income during several financial years. Capitalised development expenditure is amortised as planned over its useful life. If the useful life cannot be assessed reliably, development expenditure will be amortised over a maximum of ten years.

Planned amortisation and write-downs on intangible assets are recognised under Depreciation/amortisation and write-downs on tangible and intangible assets in the income statement.

Tangible assets

Investment property

Investment property is land and/or building or part thereof held to earn rental income and/or for capital appreciation. Property, a minor part of which (less than five per cent of the area) is used by the owner company or its personnel, is also accounted for as investment property.

Investment property is stated at cost less planned depreciation and write-downs. Land and shares and holdings in property companies can be subject to revaluation if their probable selling price on the balance sheet date is permanently higher than the original acquisition cost. Expenses incurred after the original acquisition will be capitalised only if it is probable that the resulting economic benefit from the property will be higher than initially estimated.

If the probable selling price of investment property is permanently lower than the carrying amount, the difference between the carrying amount and probable selling price is depreciated during the financial year when the write-down is detected.

The fair value of business, office and industrial premises classified as investment property holdings and presented in the related note to the financial statements is primarily determined using the income approach based on direct capitalisation. The fair value of investment property under construction can be presented only if its fair value can be determined reliably. The fair value of land, water and forest areas and residential buildings is primarily determined using the market approach. Recognition of write-downs is based on their consistency and materiality.

Income, expenses, capital gains and losses, planned depreciation and write-downs related to investment property are recognised under Net income from investment property in the income statement.

Other property holdings

Other property holdings refer to property in own use as an office, storage or other such facility, or for the personnel's accommodation, recreation or other such purpose, as well as shares in housing corporations that entitle holding in these facilities. Also, property in own use comprises partly-leased properties in direct ownership of which the leased share cannot be sold separately and in which the company occupies more than 5% of the floor space. The shares in an ordinary property company are considered to be in one's own use if over five per cent of the premises owned by the company is in its use.

When determining the balance sheet value of property in the company's own use, the starting point is the value of the asset in terms of expected income of ordinary operations. Buildings are recognised on the balance sheet at cost less depreciation according to plan. Holdings in property companies and land, water and forest areas are stated at cost. Property modernisation costs are capitalised and charged to expenses according to planned depreciation.

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

Appreciation may be involved in real property and its counterpart is recognised in the revaluation reserve. Appreciation is not subject to depreciation. Property modernisation costs are capitalised and charged to expenses according to planned depreciation.

Income from and capital gains on property in the company's own use are recognised under Other operating income and expenses and expenses and capital losses under Other operating expenses in the income statement. Planned depreciation and write-downs are recognised under Depreciation/amortisation and write-downs on tangible and intangible assets in the income statement.

Other tangible assets

Tangible assets are stated at cost less accumulated depreciation and any write-downs. These assets are depreciated on a straight-line basis over their estimated useful lives. Planned depreciation is not applicable to land and shares in property companies.

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	30–50 years
Machinery and equipment	4–10 years
IT equipment	3–5 years
Cars	6 years
Other tangible assets	5–10 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.

Assets' planned depreciation and write-downs are recognised under Depreciation/amortisation and write-downs on tangible and intangible assets in the income statement. Income from and capital gains on property in the company's own use are recognised under Other operating income and expenses and capital losses under Other operating expenses in the income statement.

Employee benefits

Pension benefits

The statutory pension cover for OP Corporate Bank plc's employees is managed through contributions to OP Bank Group Pension Fund and supplementary pension cover through OP Bank Group Pension Foundation. The Pension Foundation has been closed to new employees since 1 July 1991. Expenses arising from pension plans are recognised under Personnel costs in the income statement. Pension liabilities are fully covered.

Long-term management remuneration

OP Corporate Bank has a short-term and long-term management remuneration scheme in place. Those included in the schemes may receive bonuses either in cash only or as a combination of cash and a reference instrument decided by OP Cooperative's Supervisory Board or a Remuneration Committee it has appointed. Bonuses will be paid for work performed during the so-called performance and vesting period. The maximum amount of the remuneration schemes 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.

Personnel fund

OP Corporate Bank plc belongs to OP Financial Group's OP Personnel Fund into which bonuses are paid on the basis of pre-agreed principles, depending on the achievement of targets. Bonuses transferred to the Fund are recognised under Wages and salaries in the income statement and the counterpart as Deferred expenses in the balance sheet.

Statutory provisions

A statutory provision is recognised for an obligation in the income statement and balance sheet 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.

Charges of financial authorities

OP Corporate Bank pays charges to various authorities. The Financial Stability Authority is in charge of deposit guarantee. 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 EU's Single Resolution Board (SRB) is responsible for bank resolution. The financial authority contributions and fees are recognised under other operating expenses on an accrual basis.

Stability contribution

Stability contributions will be paid to the euro-area Single Resolution Fund (SRF) until 2024 in such a way that the target of 1% of the amount of covered deposits will be reached. The SRF is managed by the Single Resolution Board which also determines the amount of stability contributions. In 2017, each bank's stability contributions are credited in the same proportion as it previously paid the bank levy until the amount which the bank levy allocated to the stability contributions sufficed (the Act on Temporary Bank Levy was in force between 2013 and 2014). The stability contribution had no effect on OP Corporate Bank in 2017 in terms of expenses.

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 OP Financial Group but will charge the amount directly from the former Deposit Guarantee Fund. The deposit guarantee contribution had no effect on OP Corporate Bank Group in 2017 in terms of expenses.

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.

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.

European Central Bank's supervisory fee

OP Financial Group, OP Corporate Bank plc included, is supervised by the European Central Bank (ECB). The ECB supervisory fee is determined based on the bank's importance and risk profile. The ECB imposes the supervisory fee on OP Financial Group's central institution which shares the fee among OP Financial Group's member banks.

Subordinated loans

Hybrid capital instruments are recorded as a separate balance-sheet item under Subordinated liabilities. In capital adequacy measurement, these instruments are included in Tier 1 capital. Interest on these instruments may be paid only within the limits of distributable funds.

Appropriations

The depreciation difference under appropriations in the balance sheet includes the accumulated difference between depreciation made and planned depreciation. Tax-based provisions contain voluntary appropriations made which are appropriations permitted by tax law. Such a provision is e.g. the loan loss provision permitted for deposit banks by the Business Income Tax Act. According to this Act, a deposit bank may deduct a loan loss provision made during the tax year, the amount of which accounts for a maximum of 0.6% of the total amount of receivables at the end of the tax year.

The total amount of non-reversed loan loss provisions made during the tax year and earlier may account for a maximum of 5% of the total amount of receivables at the end of the tax year.

An increase and decrease in depreciation made and planned depreciation as well as tax-based provisions are recognised under appropriations in the income statement. Appropriations in the income statement and balance sheet also include deferred tax liabilities. The amount of and change in tax-based provisions do not reflect OP Corporate Bank's calculated risks.

Income taxes

Income taxes shown in the income statement include current tax, based on the taxable income of OP Corporate Bank plc, income tax for prior financial years and deferred tax expense or income.

Deferred tax liabilities are recognised for all temporary differences between the book value and taxable value of assets and liabilities. Deferred tax assets are calculated on tax-deductible temporary differences between the book value 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 company offsets deferred tax assets and liabilities. 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. If deferred tax originates from balance sheet items not recognised in the income statement, any change in deferred tax is recognised in shareholders' equity, not in the income statement.

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.

Commission income and expenses for services are recognised when the service is rendered. 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.

Off-balance-sheet items

Off-balance-sheet commitments include commitments made for a third party on behalf of customers, such as guarantees and various guarantee engagements, and irrevocable commitments made for customers, such as binding supplementary loan arrangements, loan commitments, standby credit facilities and underwritings.

Commitments made for a third party on behalf of customers are recognised as off-balance-sheet commitments to the amount to which guarantee corresponds at most from time to time. Irrevocable commitments made for customers are recognised to the maximum amount which may have to be paid on the basis of them.

Adoption of IFRS 9 on 1 January 2018

On 1 January 2018, OP Corporate Bank plc adopted sections of IFRS 9 Financial Instruments included in the Financial Supervisory Authority's regulations and instructions (2/2016) as well as other amendments due to entry into force of IFRS 9 on 1 January 2018. For OP Corporate Bank plc, the most significant change is that impairment losses are recognised on a more front-loaded basis, based on expected credit losses (ECL). IFRS 9 also entailed changes to accounting policies, adjustments for receivables recognised earlier in the balance sheet and changes to classification of financial instruments. Adjustments made to carrying amounts were recognised in retained earnings in the opening balance sheet on the adoption date.

OP Corporate Bank plc continues to apply hedge accounting under IAS 39 after adoption of IFRS 9. Comparatives for the financial statements included in the first opening balance sheet of 1 January 2018 were not adjusted. Changes in the notes to the financial statements arising from the application of IFRS 9 are only presented for the financial year 2018.

Based on the current assessment, the adoption of IFRS 9 will have no significant effect on OP Corporate Bank plc's shareholders' equity on 1 January 2018. The allowance for expected credit losses under equity capital on 1 January 2018 totalled EUR 254 million. Impairment loss on receivables assessed individually and collectively on 31 December 2017, amounting to EUR 221 million, was reversed to retained earnings. In addition, the amount of shareholders' equity on 1 January 2018 will be affected by the difference between the fair value and carrying amount arising from the remeasurement of financial assets and by change in deferred tax.

Equity instruments and mutual fund investments were previously classified as available-for-sale investments. Equity instruments are recognised at fair value through profit or loss in accordance with IFRS 9. Fair value gains/losses of available-for-sale investments previously recognised in the fair value reserve were transferred to retained earnings on 1 January 2018.

Previously, OP Corporate Bank's liquidity buffer portfolio was classified as financial instruments recognised as fair value through profit or loss, available for sale, loans and receivables and held to maturity. Since OP Corporate Bank plc's business model for the liquidity buffer portfolio is to collect contractual cash flows and sales, the entire portfolio is classified at fair value to be recognised through other comprehensive income. The business model is based on the portfolio management mechanisms and previous practice.

OP Corporate Bank has a small amount of convertible, perpetual and hybrid bonds whose contractual cash flows are not solely payment of principal and the interest on the principal outstanding. Consequently, they fail the SPPI test and must be measured and classified at fair value through profit or loss.

Notes and bonds held by OP Corporate Bank that were previously held to maturity will be measured and classified at fair value through other comprehensive income in the transition.

The impacts of IFRS 9 presented above are preliminary since the adoption of IFRS 9 is still underway. The impacts may still change because:

- Improvements may be made in the models used in calculating expected credit losses.

- Calculation of expected credit losses has only been in our test use for a short time and modifications might still be needed in the new IT system.
- Testing of the new IT system has not yet been fully completed and new internal controls are not yet in full use.

More detailed information on the calculation model of expected credit losses and its main features as well as the classification of financial instruments under IFRS 9 can be found in OP Financial Group's Financial Statements for 2017 and in the description of transition to IFRS 9 found in OP Corporate Bank's Consolidated Financial Statements.

New accounting policies, assessment methods may change until OP Corporate Bank publishes its first financial statements which include the opening balance sheet of 1 January 2018.

Notes to Parent Company Financial Statements

Contents

Notes to the Income Statement

Notes concerning an entity under the Group's control

Note 1. Interest income and expenses

EUR million	2017	2016
Interest income		
Receivables from credit institutions	43	40
Receivables from the public and public sector entities	324	297
Notes and bonds	113	130
Derivative contracts	716	908
Trading items	826	1,029
Hedge accounting	-110	-121
of which cash flow hedge	5	9
Other	9	7
Total	1,205	1,382
Of which interest income from impaired receivables	1	0
Interest expenses		
Liabilities to credit institutions	117	84
Liabilities to the public and public sector entities	-4	0
Debt securities issued to the public	200	182
Derivative contracts and other liabilities held for trading	597	897
Subordinated liabilities	46	48
Other	9	7
Total	965	1,219

Interest income received from Group and associated companies and interest expenses paid to them

	2017		2016	
EUR million	Subsidiaries	Associates	Subsidiaries	Associates
Interest income	9		6	
Interest expenses	4		2	

Note 2. Net lease income

EUR million	2017	2016
Lease income	295	285
Planned depreciation	-270	-260
Capital gains and losses (net) on the disposal of lease assets	1	2
Commissions and fees	2	1
Other direct income	0	0
Other direct expenses	-5	-5
Total	23	23

Note 3. Income from equity investments

EUR million	2017	2016
Available for sale	8	0
Subsidiaries	200	338
Total	208	338

Note 4. Commissions and fees

EUR million	2017	2016
Commissions and fees		
Lending	40	38
Deposits	0	0
Payment transfers	24	29
Asset management	13	12
Legal services	0	0
Securities brokerage	19	16
Securities issuance	11	6
Guarantees	12	13
Other	13	9
Total	132	123
Commission expenses		
Service fees paid	5	11
Securities brokerage and issuance	6	5
Refunds of fees for shares	5	4
Other	82	46
Total	98	66

Note 5. Net income from securities and foreign exchange trading

Net income from securities and foreign exchange trading 2017

EUR million	Capital gains and losses	Due to fair value changes	Other income	Total
Notes and bonds	-2	-1		-4
Shares and participations	0			0
Other	-1	3		2
Derivative contracts		87	50	137
Liabilities held for trading	0	0		0
Total net income from securities trading	-3	89	50	135
Net income from foreign exchange trading				37
Total net income from securities and foreign exchange trading				172

Net income from securities and foreign exchange trading 2016

EUR million	Capital gains and losses	Due to fair value changes	Other income	Total
Notes and bonds	-1	6		4
Shares and participations	0			0
Other	-1	-1		-2
Derivative contracts		157	-82	75
Liabilities held for trading	0	0		0
Total net income from securities trading	-3	162	-82	78
Net income from foreign exchange trading				86
Total net income from securities and foreign exchange trading				164

Note 6. Net income from available-for-sale financial assets

EUR million	2017	2016
Notes and bonds		
Capital gains and losses	20	19
Transferred from fair value reserve during the financial year	0	1
Total	20	20
Shares and participations		
Capital gains and losses	0	0
Impairment losses	0	0
Transferred from fair value reserve during the financial year		1
Total	0	1
Total net income from available-for-sale financial assets	20	20

Note 7. Net income from hedge accounting

EUR million	2017	2016
Net income from hedging instruments	16	-132
Net income from hedged items	-17	130
Total	-1	-1

Note 8. Net income from investment property

EUR million	2017	2016
Rental and dividend income	0	1
Capital gains	6	0
Other income		0
Rental expenses	-2	0
Capital losses	-3	
Other expenses		0
Total	2	1

Note 9. Other operating income

EUR million	2017	2016
Rental income from property in own use	0	0
Capital gains on property in own use		1
Income from central banking services	5	9
Other	24	19
Total	29	29

Note 10. Depreciation/amortisation and write-downs on tangible and intangible assets

EUR million	2017	2016
Planned depreciation	13	11
Write-down		0
Total	13	11

Note 11. Other operating expenses

EUR million	2017	2016
Rental expenses	2	1
Expenses for property in own use	0	0
Other	25	18
Total	27	20

OP Financial Group's internal service charges have been transferred to other expenses.

Note 12. Impairment losses on loans and other commitments and other financial assets

31 Dec. 2017, EUR million	Gross impairment losses on individually assessed receivable	Gross impairment losses on collectively assessed receivable	Reductions	Entered in income statement
Impairment losses on loans and other commitments				
Receivables from the public and public sector entities	44	4	-36	12
Total	44	4	-36	12
Impairment losses on other financial assets				
Total impairment losses	44	4	-36	12

31 Dec. 2016, EUR million	Gross impairment losses on individually assessed receivable	Gross impairment losses on collectively assessed receivable	Reductions	Entered in income statement
Impairment losses on loans and other commitments				
Receivables from the public and public sector entities	78	5	-46	37
Total	78	5	-46	37
Impairment losses on other financial assets				
Total impairment losses	78	5	-46	37

Note 13. Income, operating profit or loss and assets and liabilities by Division

31 Dec. 2017, EUR million	Corporate customers	Corporate Banking	Other	Total
Income*	580	69	179	828
Operating profit	331	24	174	529
Assets	21,096	38,115	1,281	60,492
Liabilities	13,665	41,322	1,513	56,499
Personnel	593	50	17	660

31 Dec. 2016, EUR million	Corporate customers	Corporate Banking	Other	Total
Income*	470	74	316	860
Operating profit	237	43	312	592
Assets	19,015	38,535	1,320	58,870
Liabilities	12,099	41,576	1,512	55,187
Personnel	618	72	16	706

* Income consists of the following items in the income statement: interest income, income from equity investments, commissions and fees, net income from securities and foreign exchange trading, net income from available-for-sale assets, net income from hedge accounting, net income from investment property and other operating income.

Notes to the Balance Sheet

Note 14. Receivables from credit institutions

EUR million	31 Dec. 2017	31 Dec. 2016
Repayable on demand		
Deposits	571	241
Other	178	54
Total	749	296
Other than those repayable on demand		
From OP Financial Group institutions	5,509	7,049
Other	3,035	2,082
Total	8,544	9,131
Total receivables from credit institutions	9,293	9,427
of which subordinated receivables	22	22

OP Corporate Bank plc has only receivables repayable on demand from central banks.

Note 15. Receivables from the public and public sector entities

EUR million	31 Dec. 2017	31 Dec. 2016
Receivables from the public and public sector entities by sector		
Non-banking corporate sector and housing corporations	12,930	12,248
Financial institutions and insurance companies	687	816
Public sector entities	377	140
Non-profit organisations serving households	322	275
Households	1,707	1,528
Foreign	2,747	2,492
Collective impairments	-28	-23
Total	18,742	17,477
of which subordinated receivables	10	21

The balance-sheet item includes EUR x.xx million in loans for which interest income is not recognised (0.00).
Doubtful receivables are presented in the Group's note "Receivables from credit institutions and customers, and doubtful receivables".

Write-downs on loans		
Write-downs at year-start	248	248
+ Write-downs on individually assessed receivables during the financial year	9	41
+/- Write-downs on collectively assessed receivables during the financial year	4	5
- Write-downs reversed for individually assessed receivables during the financial year	-4	-16
of which write-downs on individually assessed receivables were made previously	-32	-29
Write-downs at year-end	225	248

Final loan losses of EUR 35 million (37) were recognised from receivables.

Note 16. Asset leased out under finance leases

EUR million	31 Dec. 2017	31 Dec. 2016
Advance payments	38	16
Machinery and equipment	869	802
Real property and buildings	399	356
Other assets	53	60
Total	1,359	1,234

Note 17. Notes and bonds

Notes and bonds eligible for refinancing with central banks and other notes and bonds 31 December 2017

EUR million	Eligible for refinancing with central banks	Other notes and bonds	Total	Of which subordinated
Financial assets at fair value through profit or loss	70	561	631	40
Available for sale	10,965	919	11,884	12
Held to maturity	41	9	51	
Total	11,077	1,489	12,566	52

Notes and bonds eligible for refinancing with central banks and other notes and bonds 31 December 2016

EUR million	Eligible for refinancing with central banks	Other notes and bonds	Total	Of which subordinated
Financial assets at fair value through profit or loss	88	605	693	45
Available for sale	12,002	807	12,808	11
Held to maturity	69	10	79	
Held in another portfolio	30		30	
Total	12,188	1,422	13,610	56

Publicly-quoted and other notes and bonds 31 December 2017

EUR million	Publicly quoted	Other	Total
Financial assets at fair value through profit or loss	205	426	631
Available for sale	11,706	178	11,884
Held to maturity	51		51
Total	11,962	604	12,566

Publicly-quoted and other notes and bonds 31 December 2016

EUR million	Publicly quoted	Other	Total
Financial assets at fair value through profit or loss	232	461	693
Available for sale	12,647	161	12,808
Held to maturity	79		79
Held in another portfolio	30		30
Total	12,988	622	13,610

Notes and bonds by type, EUR million	31 Dec. 2017	31 Dec. 2016
Financial assets at fair value through profit or loss		
Local authority papers	39	246
Commercial papers	345	194
Certificates of deposit	8	
Other bonds	239	253
Total	631	693
Available for sale		
Convertible bonds	0	0
Other bonds	11,884	12,808
Total	11,884	12,808
Held to maturity		
Other bonds	51	79
Total	51	79
Held in another portfolio		
Other bonds		30
Total		30

By 31 December 2017, all OP Corporate Bank plc's notes and bonds accrued interest recognised in accounting.

Note 18. Reclassified notes and bonds

The table below shows the carrying amounts and fair values of the reclassified notes and bonds.

31 Dec. 2017, EUR million	Carrying amount	Fair value	Effective interest rate	Impairments arising from credit risk
Investments held to maturity	31	29	4.4	
Total	31	29		

31 Dec. 2016, EUR million	Carrying amount	Fair value	Effective interest rate	Impairments arising from credit risk
Loans and other receivables	40	41	6.1	
Investments held to maturity	34	30	5.3	
Total	74	72		

Value changes as shown below, if notes and bonds were not reclassified and had been measured at fair value:

	1–12/2017		1–12/2016	
EUR million	Income statement	Fair value reserve	Income statement	Fair value reserve
Banking			-1	
Other Operations	2		-2	-1
Effect			0	-1

Loans and receivables and held-to-maturity investments were reclassified in 2008.

Interest accrued on reclassified notes and bonds in January–December totalled EUR 1 million (2). The price difference between the nominal value and acquisition value recognised in the income statement totalled EUR 0 million (0). Pohjola used derivatives to hedge against interest rate risks, applying hedge accounting from 1 October 2008. Positive mark-to-market valuations recognised on hedging derivative contracts amounted to EUR 1 million (2).

Note 19. Shares and participations

31 Dec. 2017, EUR million	Publicly quoted	Other	Total
Shares and participations			
Available for sale		11	11
Shares and participations in Group companies		1,025	1,025
Total		1,036	1,036

31 Dec. 2016, EUR million	Publicly quoted	Other	Total
Shares and participations			
Available for sale		11	11
Shares and participations in Group companies		1,025	1,025
Total		1,036	1,036

EUR 3.0 (3.0) million in shares and participations other than those quoted publicly was measured at fair value and the rest at cost.

EUR million	31 Dec. 2017	31 Dec. 2016
Shares and participations by sector		
Non-banking corporate sector and housing corporations	4	4
Financial institutions and insurance companies	1,018	1,018
Foreign entities	15	14
Total	1,036	1,036

Note 20. Derivative contracts

Derivative contracts for hedging purposes – fair value hedge in 2017

	Nominal values/residual term to maturity				Fair values	
EUR million	<1 year	1–5 years	>5 years	Total	Positive	Negative
Interest rate derivatives	**2,323**	**17,126**	**6,740**	**26,189**	**254**	**310**
Interest rate swaps	2,323	17,126	6,740	26,189	254	310
Currency derivatives	**517**	**1,958**	**319**	**2,794**	**35**	**265**
Interest rate and currency swaps	517	1,958	319	2,794	35	265

Derivative contracts for hedging purposes – cash flow hedge in 2017

	Nominal values/residual term to maturity				Fair values	
EUR million	<1 year	1–5 years	>5 years	Total	Positive	Negative
Interest rate derivatives	**200**	**100**		**300**	**4**	
Interest rate swaps	200	100		300	4	
Currency derivatives	**5,794**			**5,794**	**32**	**67**
Forward exchange agreements	5,794			5,794	32	67

Derivative contracts held for trading in 2017

	Nominal values/residual term to maturity				Fair values	
EUR million	<1 year	1–5 years	>5 years	Total	Positive	Negative
Interest rate derivatives	**28,831**	**72,518**	**69,050**	**170,399**	**2,935**	**2,664**
Futures and forwards	1,615	1,000		2,615	1	1
Options	**8,250**	**24,672**	**14,270**	**47,192**	**461**	**321**
Called	4,171	11,115	7,871	23,157	446	14
Put	4,078	13,557	6,399	24,034	15	307
Interest rate swaps	18,966	46,846	54,780	120,592	2,474	2,343
Currency derivatives	**30,973**	**7,288**	**2,496**	**40,756**	**915**	**855**
Futures and forwards	28,243	263	23	28,530	206	197
Options	**671**	**93**		**764**	**4**	**4**
Called	342	45		387	4	
Put	329	48		377		4
Interest rate and currency swaps	2,059	6,932	2,472	11,463	705	654
Equity derivatives	**82**	**380**		**462**	**41**	**9**
Options	**5**	**3**		**8**	**1**	
Called	5	3		8	1	
Other swap contracts	77	377		454	40	9
Other derivatives	**290**	**212**	**10**	**513**	**34**	**33**
Futures and forwards	24	1		25	0	4
Other swap contracts	238	31		269	25	22
Credit derivatives	28	181	10	219	9	6

The underlying value for interest rate derivative contracts is the nominal value, for currency derivative contracts the euro-denominated stated value of the purchased currency on the balance sheet date, and for equity derivative contracts the probable value of equities on the balance sheet date. The values are expressed in gross amounts. Accrued interest is presented in deferred income and deferred expenses.

Credit equivalents of contracts in 2017

EUR million	Made for hedging purposes: Fair value hedge	Made for hedging purposes: Cash flow hedge	Held for trading
Interest rate derivatives	441	5	4,237
Options			706
Called			637
Put			70
Interest rate swaps	441	5	3,531
Currency derivatives	162	88	1,759
Futures and forwards		88	491
Options			10
Called			10
Interest rate and currency swaps	162		1,258
Options			77
Called			2
Other derivatives			75
Futures and forwards			65
Options			2
Other swap contracts			55
Credit derivatives			9

Derivative contracts for hedging purposes – fair value hedge in 2016

	Nominal values/residual term to maturity				Fair values	
EUR million	<1 year	1–5 years	>5 years	Total	Positive	Negative
Interest rate derivatives	3,769	15,218	8,073	27,060	386	473
Interest rate swaps	3,769	15,218	8,073	27,060	386	473
Currency derivatives	143	2,163	827	3,132	160	178
Interest rate and currency swaps	143	2,163	827	3,132	160	178

Derivative contracts for hedging purposes – cash flow hedge in 2016

	Nominal values/residual term to maturity				Fair values	
EUR million	<1 year	1–5 years	>5 years	Total	Positive	Negative
Interest rate derivatives	200	300		500	10	
Interest rate swaps	200	300		500	10	
Currency derivatives	4,074			4,074	113	10
Forward exchange agreements	4,074			4,074	113	10

Derivative contracts held for trading in 2016

	Nominal values/residual term to maturity				Fair values	
EUR million	<1 year	1–5 years	>5 years	Total	Positive	Negative
Interest rate derivatives	**39,704**	**74,890**	**58,990**	**173,583**	**3,736**	**3,585**
Futures and forward contracts	5,071	789		5,860	1	1
Options	**11,117**	**25,403**	**11,980**	**48,500**	**588**	**465**
Called	5,522	11,834	6,123	23,479	574	10
Put	5,595	13,569	5,857	25,022	14	455
Interest rate swaps	23,516	48,697	47,010	119,223	3,122	3,113
Other swap contracts					26	6
Currency derivatives	**26,012**	**9,445**	**2,817**	**38,273**	**1,424**	**1,486**
Futures and forwards	22,117	383	50	22,550	258	248
Options	**699**	**10**		**709**	**5**	**4**
Called	357	5		362	5	
Put	342	5		347		4
Interest rate and currency swaps	3,196	9,052	2,767	15,015	1,161	1,234
Equity derivatives	**185**	**321**	**2**	**508**	**43**	
Options		**6**		**6**	**1**	
Called		6		6	1	
Other derivatives	**185**	**315**	**2**	**502**	**43**	**4**
Futures and forwards	119	427	13	559	31	26
Options	**14**	**11**		**24**	**0**	**5**
Credit derivatives	86	227		314	21	14
	19	189	13	221	10	7

The underlying value for interest rate derivative contracts is the nominal value, for currency derivative contracts the euro-denominated stated value of the purchased currency on the balance sheet date, and for equity derivative contracts the probable value of equities on the balance sheet date. The values are expressed in gross amounts. Accrued intrest is presented in deferred income and deferred expenses.

Credit equivalents of contracts in 2016

	Made for hedging purposes		Held for trading
EUR million	Fair value hedge	Cash flow hedge	
Interest rate derivatives	**584**	**11**	**4,868**
Options			**797**
Called			749
Put			48
Interest rate swaps	584	11	4,071
Currency derivatives	**332**	**155**	**2,349**
Futures and forwards		155	487
Options			**9**
Called			9
Interest rate and currency swaps	332		1,853
Options			**80**
Called			1
Put			79
Other derivatives			**67**
Futures and forwards			0
Options			**57**
Credit derivatives			10

Derivative contracts are presented in gross amounts in this note. Netting would reduce the credit equivalent of OP Corporate Bank plc's derivative contracts by EUR 4,495 million (5,896).

Note 21. Intangible assets and tangible assets and changes during the financial year

Intangible assets

EUR million	31 Dec. 2017	31 Dec. 2016
IT costs	37	40
Other intangible assets	22	17
Total	58	57

Tangible assets

31 Dec. 2017, EUR million	In own use	Investment property Book value	Investment property Fair value
Property holdings			
Land and water		0	0
Buildings	0		
Shares and holdings in property companies	2	0	0
Total	2	0	0
Other tangible assets		3	

31 Dec. 2016, EUR million	In own use	Investment property Book value	Investment property Fair value
Property holdings			
Land and water	0	0	0
Buildings	0		
Shares and holdings in property companies	2	9	32
Total	2	9	32
Other tangible assets		3	

Changes in intangible and tangible assets during the financial year

EUR million	Goodwill	Other intangible assets	Investment property	Property in own use	Other tangible assets
Acquisition cost 1 January 2017	12	149	12	3	51
+ increases during the year		14			1
- decreases during the year			-10		-2
- planned depreciation/amortisation		-13		0	0
-/+ impairment losses and their reversals					
+ accumulated depreciation/amortisation and write-downs on adjustments and transfers 1 January					0
- accumulated depreciation/amortisation 1 January	-12	-91		-1	-48
- accumulated impairment 1 January			-3	0	
Book value 31 December 2017		58	0	2	3

EUR million	Goodwill	Other intangible assets	Investment property	Property in own use	Other tangible assets
Acquisition cost 1 January 2016	12	135	12	4	51
+ increases during the year		14	0	0	3
- decreases during the year		0	0	-1	-3
- planned depreciation/amortisation		-11		0	0
-/+ impairment losses and their reversals				0	
+ accumulated depreciation/amortisation and write-downs on adjustments and transfers 1 January				1	0
- accumulated depreciation/amortisation 1 January	-12	-80		-1	-48
- accumulated impairment 1 January			-3	0	
Book value 31 December 2016		57	9	2	3

Note 22. Other assets

EUR million	31 Dec. 2017	31 Dec. 2016
Accounts receivable from securities	16	25
Payment transfer receivables	22	2
Derivative contracts	2	61
Margin receivables related to derivative contracts	11	147
Accounts receivable	208	207
Emissions allowances	18	2
Other	580	1,133
Total	**856**	**1,577**

"Other" under Other assets includes EUR 543 million (1,097) in CSA collateral receivables.

Note 23. Deferred income and advances paid

EUR million	31 Dec. 2017	31 Dec. 2016
Interest		
Interest receivables	320	398
Interest advances paid	2	3
Total	**322**	**400**
Other		
Other advances paid	0	0
Other deferred income	12	27
Total	**12**	**28**
Total deferred income and advances paid	**334**	**428**

Note 24. Deferred tax assets and liabilities

31 Dec .2017, EUR million	Deferred tax assets	Deferred tax liabilities	Net
From timing differences	8	0	8
From other temporary differences		20	-20
Total	**8**	**20**	**-12**

31 Dec. 2016, EUR million	Deferred tax assets	Deferred tax liabilities	Net
From timing differences	8	0	8
From other temporary differences	0	12	-12
Total	**8**	**12**	**-4**

Deferred tax assets and liabilities arising from other temporary differences comprise deferred tax assets and liabilities based on revaluations of available-for-sale financial assets recognised in the fair value reserve under equity and of derivatives designated as cash flow hedges.

Revaluations 31 December 2017

The balance sheet does not include any revaluation (-).

Appropriations

31 Dec. 2017, EUR million	Balance sheet value	Deferred tax liability	Net
Depreciation difference	204	41	163
Taxation-based provisions	1,091	218	873
Total	**1,295**	**259**	**1,036**

31 Dec. 2016, EUR million	Balance sheet value	Deferred tax liability	Net
Depreciation difference	172	34	138
Taxation-based provisions	1,036	207	829
Total	**1,208**	**242**	**967**

Depreciation difference and voluntary provisions have been entered in the balance sheet to the amount of non-deducted deferred tax.

Note 25. Debt securities issued to the public

EUR million	Book value 31 Dec. 2017	Nominal value 31 Dec. 2017	Book value 31 Dec. 2016	Nominal value 31 Dec. 2016
Certificates of deposit	83	83	28	28
Bonds	9,752	9,745	11,827	11,830
Other	7,034	7,039	8,059	8,063
Total	**16,869**	**16,866**	**19,915**	**19,921**

Note 26. Other liabilities

EUR million	31 Dec. 2017	31 Dec. 2016
Payment transfer liabilities	740	1,032
Accounts payable on securities	36	28
Margin liabilities related to derivative contracts	0	0
Other	746	1,290
Total	**1,522**	**2,350**

Other' includes EUR 412 million (1,177) in CSA collateral liabilities.

Note 27. Deferred expenses and advances received

EUR million	31 Dec. 2017	31 Dec. 2016
Interest		
Interest liabilities	343	440
Interest advances received	4	3
Total	**347**	**443**
Other		
Other advance payments received	0	0
Vacation pay liabilities	7	8
Tax liabilities	8	
Other deferred expenses	21	27
Total	**37**	**35**
Total deferred expenses and advances received	**383**	**478**

Note 28. Subordinated liabilities

EUR million	Book value 31 Dec. 2017	Nominal value 31 Dec. 2017	Book value 31 Dec. 2016	Nominal value 31 Dec. 2016
Subordinated loans	138	140	135	140
Other				
Debenture loans	1,274	1,216	1,321	1,241
Total	**1,412**	**1,356**	**1,457**	**1,381**

Perpetual loans and debentures

1. A debenture loan of CHF 100 million (euro equivalent 85 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 74 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 356 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.

Loans 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.

Subordinated loans

Subordinated loans included in Tier 1 capital

1) Subordinated loan 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 the interest due date as of 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) Subordinated loan 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 date of interest payment of 30 November 2010. The entire loan principal must be repaid in one instalment.

3) Subordinated loan of EUR 50 million

Perpetual bond of EUR 50 million, issued on 17 June 2008, carries a variable interest rate based on 3-month Euribor + 3.05%, payable on a quarterly basis on 17 March, 17 June, 17 September and 17 December. If interest cannot be paid for a given interest period, the obligation to pay interest will lapse. Subject to authorisation by the Financial Supervisory Authority, the bond may be called in on 17 June 2013 at the earliest and thereafter on the due dates of interest payment. The entire loan principal must be repaid in one instalment.

Loans 1 and 3 are included in hybrid instruments.

OP Corporate Bank plc has no violations of the terms and conditions of the loan contracts with respect to principal, interest and other conditions.

The difference between the nominal value and carrying amount is due to the fair value hedge related to interest rate risk measurement.

Note 29. Shareholders' equity

EUR million	Shareholder´s equity 1 Jan. 2017	Increases	Decreases	Transfers between items	Shareholder´s equity 31 Dec. 2017
Total shareholders' equity	2,474				2,698
Share capital	428				428
Share premium account	524				524
Other restricted reserves	212	30			242
Reserve fund	164				164
Fair value reserve	48	30			79
Fair value measurement	43	34			77
Cash flow hedge	6		4		2
Non-restricted funds	331				331
Reserve for invested non-restricted equity	308				308
Other funds	23				23
Retained earnings or losses after adjustments	979		201		778
Profit or loss for the financial year		394			394

Changes in fair value reserve

EUR million	At year-start 1 Jan. 2017	Increases	Decreases	Transferred to income statement	At year-end 31 Dec. 2017
Notes and bonds	41	42		0	75
Deferred tax	-10		8		-19
Shares and participations	1	0	0		2
Deferred tax	0		0		0
Other	6	1	4		2
Cash flow hedge	7		4		3
Deferred tax	-1	1			-1
Total	48	43	13	0	79

EUR million	Shareholder's equity 1 Jan. 2016	Increases	Decreases	Transfers between items	Shareholder´s equity 31 Dec. 2016
Total shareholders' equity	2,142				2,474
Share capital	428				428
Share premium account	524				524
Other restricted reserves	188				212
Reserve fund	164				164
Fair value reserve	25	23			48
Fair value measurement	13	29			43
Cash flow hedge	12		6		6
Non-restricted funds	331				331
Reserve for invested non-restricted equity	308				308
Other funds	23				23
Retained earnings or losses after adjustments	671		153		518
Profit or loss for the financial year		462			462

Changes in fair value reserve

EUR million	At year-start 1 Jan. 2016	Increases	Decreases	Transferred to income statement	At year-end 31 Dec. 2016
Notes and bonds	12	37		1	41
Deferred tax	-3		7		-10
Shares and participations	1	0	0	1	1
Deferred tax	0		0		0
Other	12	1	7		6
Cash flow hedge	14		7		7
Deferred tax	-3	1			-1
Total	25	38	15	2	48

Note 30. Restricted and non-restricted equity and distributable funds

EUR million	31 Dec. 2017	31 Dec. 2016
Shareholders' equity		
Restricted equity	1,194	1,164
Non-restricted equity	1,504	1,311
Total shareholders' equity	2,698	2,474

EUR million	31 Dec. 2017	31 Dec. 2016
Distributable funds		
Non-restricted equity	1,504	1,311
Capitalised development expenditure	-58	-57
Total distributable funds	1,445	1,253

Note 31. Financial assets and liabilities by residual term to maturity

31 Dec. 2017, EUR million	Less than 3 months	3–12 months	1–5 years	5–10 years	over 10 years
Notes and bonds eligible for refinancing with central banks	59	721	7,171	2,870	255
Receivables from credit institutions	2,691	3,147	3,252	181	22
Receivables from the public and public sector entities	3,355	2,086	10,400	1,675	1,225
Notes and bonds	219	237	857	175	
Total assets	6,324	6,191	21,681	4,901	1,503
Liabilities to credit institutions and central banks	3,337	190	5,513	4,977	18
Liabilities to the public and public sector entities	16,959	1,379	219	493	
Debt securities issued to the public	5,255	3,759	6,821	736	299
Subordinated liabilities		140	1,098	174	
Total liabilities	25,551	5,468	13,651	6,379	317

31 Dec. 2016, EUR million	Less than 3 months	3–12 months	1–5 years	5–10 years	over 10 years
Notes and bonds eligible for refinancing with central banks	25	172	7,374	4,602	15
Receivables from credit institutions	3,677	2,429	3,081	218	22
Receivables from the public and public sector entities	3,408	1,906	9,518	1,416	1,229
Notes and bonds	432	123	672	194	2
Total assets	7,542	4,630	20,644	6,430	1,268
Liabilities to credit institutions and central banks	3,923	664	4,091	1,611	10
Liabilities to the public and public sector entities	14,970	839	271	150	50
Debt securities issued to the public	8,034	2,732	6,535	2,248	371
Subordinated liabilities		40	736	681	
Total liabilities	26,927	4,275	11,633	4,690	431

Deposits other than fixed-term deposits are included in the maturity class 'less than 3 months'.

Note 32. Classification of assets and liabilities

31 Dec. 2017, EUR million	Loans and receivables	Held to maturity	At fair value through profit or loss*	Available for sale	Hedging derivatives	Carrying amount total
Cash and balances with central banks	12,816					12,816
Receivables from credit institutions and central banks	9,293					9,293
Derivative contracts			3,282		143	3,425
Receivables from customers	20,061					20,061
Notes and bonds		51	631	11,884		12,566
Shares and participations				1,036		1,036
Other receivables	1,294		0			1,294
Total assets	43,465	51	3,913	12,920	143	60,492

31 Dec. 2017, EUR million	At fair value through profit or loss*	Other liabilities	Hedging derivatives	Carrying amount total
Liabilities to credit institutions		14,035		14,035
Financial liabilities held for trading (excl. derivatives)	1			1
Derivative contracts	2,824		391	3,215
Liabilities to customers		19,050		19,050
Debt instruments issued to the public		16,869		16,869
Subordinated liabilities		1,412		1,412
Other liabilities		3,212		3,212
Total liabilities	2,825	54,579	391	57,795

31 Dec. 2016, EUR million	Loans and receivables	Held to maturity	At fair value through profit or loss*	Available for sale	Hedging derivatives	Carrying amount total
Cash and balances with central banks	9,333					9,333
Receivables from credit institutions and central banks	9,457					9,457
Derivative contracts			4,290		386	4,676
Receivables from customers	18,651					18,651
Notes and bonds		79	693	12,808		13,580
Shares and participations				1,036		1,036
Other receivables	2,129		9			2,137
Total assets	39,569	79	4,991	13,844	386	58,870

31 Dec. 2016, EUR million	At fair value through profit or loss*	Other liabilities	Hedging derivatives	Carrying amount total
Liabilities to credit institutions		10,299		10,299
Financial liabilities held for trading (excl. derivatives)	0			0
Derivative conctracts	4,064		341	4,406
Liabilities to customers		16,279		16,279
Debt instruments issued to the public		19,915		19,915
Subordinated liabilities		1,457		1,457
Other liabilities		4,040		4,040
Total liabilities	4,065	51,989	341	56,395

* Assets at fair value through profit or loss include financial assets held for trading, financial assets at fair value through profit or loss at inception and investment property.

Debt securities issued to the public are carried at amortised cost. On 31 December 2017, the fair value of these debt instruments was EUR 227 million (268) 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 the amortised cost, but determining reliable fair values involves uncertainty.

Note 33. Financial instruments measured at fair value, grouped by valuation technique

Financial instruments measured at fair value in the balance sheet, 31 Dec. 2017, EUR million	Level 1	Level 2	Level 3	Total
Assets				
Recognised at fair value through profit or loss	106	116	409	631
Derivative contracts	1	3,293	131	3,425
Available-for-sale	8,468	4,155	297	12,920
Total assets	**8,575**	**7,564**	**838**	**16,977**
Liabilities				
Derivative contracts	5	3,118	92	3,215
Total liabilities	**5**	**3,118**	**92**	**3,215**

Financial instruments measured at fair value in the balance sheet, 31 Dec. 2016, EUR million	Level 1	Level 2	Level 3	Total
Assets				
Recognised at fair value through profit or loss	135	550	8	693
Derivative contracts	6	4,510	160	4,676
Available-for-sale	9,290	4,274	281	13,844
Total assets	**9,430**	**9,334**	**449**	**19,213**
Liabilities				
Derivative contracts	10	4,288	107	4,406
Total liabilities	**10**	**4,288**	**107**	**4,406**

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 exchange-traded derivatives. The fair value of these instruments is determined on the basis of quotes in active markets.

Level 2: Valuation techniques using observable inputs

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

Level 3: Valuation techniques using unobservable inputs

Valuation techniques whose input parameters involve special 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. In many cases, the Level 3 fair value is based on pricing information from a third party.

EUR million	31 Dec. 2017	31 Dec. 2016
Net income for the financial year from Level 3		
Realised net income	17	-12
Unrealised net income	-14	11
Total net income	**3**	**-1**

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 Pohjola, 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 which the Group had to extrapolate the market data used in their value measurement.

Note 34. Assets and liabilities denominated in euros and foreign currencies

31 Dec. 2017, EUR million	Euros	Foreign currencies	Of which Subsidiaries	Of which Associates
Receivables from credit institutions	8,981	312		
Receivables from the public and public sector entities	18,021	721	501	
Notes and bonds	11,954	611		
Derivative contracts	3,280	145	5	
Other assets	16,374	92	1,230	
Total assets	**58,610**	**1,882**	**1,736**	
Liabilities to credit institutions and central banks	12,948	1,087		
Liabilities to the public and public sector entities	18,028	1,021	342	1
Debt securities issued to the public	9,767	7,102	37	
Derivative contracts and liabilities held for trading	3,100	116	8	
Subordinated liabilities	897	515		
Other liabilities	1,782	135	1	
Total liabilities	**46,523**	**9,976**	**388**	**1**

31 Dec. 2016, EUR million	Euros	Foreign currencies	Of which Subsidiaries	Of which Associates
Receivables from credit institutions	9,261	166		
Receivables from the public and public sector entities	16,578	899	384	
Notes and bonds	13,148	462		
Derivative contracts	4,518	157	13	
Other assets	13,526	154	1,229	
Total assets	**57,032**	**1,838**	**1,626**	
Liabilities to credit institutions and central banks	8,681	1,617		
Liabilities to the public and public sector entities	14,721	1,558	101	0
Debt securities issued to the public	11,883	8,032	35	
Derivative contracts and liabilities held for trading	4,272	134	15	
Subordinated liabilities	916	541		
Other liabilities	2,665	167	7	
Total liabilities	**43,139**	**12,048**	**158**	**0**

Other notes

Note 35. Variable remuneration

Personnel fund

Payment of profit-based bonuses to OP Personnel Fund in 2017 was based on the achievement of the following targets: OP Financial Group's EBT with a weight of 60%, use of digital services with a weight of 20%, service encounter NPS with a weight of 15% and brand NPS with a weight of 5%.
Profit-based bonuses for 2017 transferred to the Fund account for some 3.2% (5.7%) of the combined salaries and wages earned by the Fund's members. The bonuses recognised in 2017 totalled EUR 1.1 (1.8) million.

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

OP Corporate Bank plc belongs to the long-term incentive scheme within OP Financial Group, which has OP Financial Group level targets. These targets conform to those of OP Personnel Fund for all of the Group's personnel.

Separately defined executives and key employees, appointed by the Executive Board, are included in the long-term management incentive scheme.
OP Cooperative's Supervisory Board shall determine OP's Group-level performance metrics for the scheme and targets set for them separately for each performance period.

The scheme consists of consecutive three-year performance periods, the first of which was 1 January 2011–31 December 2013. The bonus for the performance period of 2011–13 was paid after a deferment period in three equal instalments by the end of each June from 2015 to 2017. The second performance period was 1 January 2014–31 December 2016 and the bonuses will be paid after a deferment period in three equal instalments by the end of each June from 2018 to 2020. Bonuses earned for the third performance period of 1 January 2017–31 December 2019, which began during the financial year, will be paid in four equal instalments between 2020 and 2023.

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.

Short-term remuneration schemes

In the short-term incentive scheme, the performance period is one calendar year and the bonus is paid in cash. This short-term scheme covers all OP Financial Group's staff.

The bonus is determined by the job grade and the maximum bonuses correspond to a 1–4-month annual salary. The maximum bonuses for separately specified duties may not exceed the amount equalling the person's annual salary.

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.

Deferred payment 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 (person affecting risk profile) to his company, the company may defer the payment of variable remuneration over three years under certain conditions.

People who may affect the company's risk profile will have their variable remuneration payment deferred if their variable remuneration for a 12-month performance period exceeds EUR 50,000 – the maximum recommended by the Financial Supervisory Authority. The remuneration of the person affecting the company's risk profile is viewed up to the EUR 50,000 deferral 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 deferment situation, half of the variable remuneration is paid in cash and half is tied to the value of the reference instrument decided by OP Cooperative's Supervisory Board or the Remuneration Committee appointed by the Supervisory Board. The bonus tied to the reference instrument will be paid to its beneficiary after a one-year retention period.

Expenses charged for variable remuneration *

EUR million	2017	2016
Personnel fund	1	2
Short-term schemes	3	6
Long-term schemes		
Scheme for 2011–2013	0	0
Scheme for 2014–2016	0	0
Scheme for 2017–2019	0	
Total	5	8

* Excluding social expenses

Note 36.Collateral given

EUR million	31 Dec. 2017	31 Dec. 2016
Given on behalf of own debts and commitments		
Other	5,662	4,973
Total assets pledged as collateral	**5,662**	**4,973**
Secured derivative liabilities	864	1,351
Other secured liabilities	4,057	3,443
Total secured liabilities*	**4,921**	**4,794**

* In addition, bonds with a book value of EUR 6.0 billion have been pledged in the central bank, of which EUR 1.5 billion in intrady settlement collateral. Given that the bonds are available for withdrawal without the central bank's advance premission, they are not presented in the table above.

Other collateral given on own behalf consists of collateral required for the maintenance of liquidity.

Note 37. Pension liabilities

EUR million	31 Dec. 2017	31 Dec. 2016
Direct liabilities from pension commitments	3	3

The statutory pension cover for OP Corporate Bank plc employees is managed through the OP Bank Group Pension Fund and the supplementary pension cover through the OP Bank Group Pension Foundation. The Foundation has not accepted new beneficiaries since 30 June 1991. OP Bank plc's pension liabilities are fully covered.

Note 38. Finance lease and other lease liabilities

Material contract terms and conditions regarding termination and redemption

OP Corporate Bank plc has no significant lease or other rental liabilities. The contracts primarily cover personnel car leases with a maturity of three years.

Note 39. Off-balance-sheet commitments

EUR million	On behalf of subsidiaries	On behalf of affiliates	On behalf of others	Total
Off-balance-sheet commitments 31 December 2017			8,389	8,389
Commitments given to a third party on behalf of customers			2,374	2,374
Guarantees and pledges			2,015	
Other			359	
Irrevocable commitments given on behalf of customers			6,015	6,015
Loan commitments			5,495	
Other			520	

EUR million	On behalf of subsidiaries	On behalf of affiliates	On behalf of others	Total
Off-balance-sheet commitments 31 December 2016			8,511	8,511
Commitments given to a third party on behalf of customers			2,520	2,520
Guarantees and pledges			2,176	
Other			344	
Irrevocable commitments given on behalf of customers			5,991	5,991
Loan commitments			5,470	
Other			521	

Note 40. Other contingent liabilities and commitments at the year-end

On 31 December 2017, OP Corporate Bank plc's commitments to private equity funds amounted to EUR 5.0 (5.2) million and relate to those presented in Note 41.

Client assets related to brokerage amounted to EUR -1.0 (3.1) million included in 'Liabilities to the public and public sector entities'.

Accounts payable related to brokerage totalled EUR 75.0 (60.0) million and accounts receivable EUR x75.3 (57.0) million.

Note 41. Personnel and members of administrative bodies, and related parties

Average personnel in 2017	Average no.	Change during the year
Permanent full-time personnel	610	-33
Permanent part-time personnel	15	-9
Fixed-term personnel	47	
Total	672	-46

Remuneration paid to members of administrative bodies in 2017	Wages and salaries, EUR million
Members of the Board of Directors, President and CEO, and Deputy CEO	1

In the financial year 2017, the members of the Board of Directors did not receive any monthly fees or attendance allowances.

Salaries and bonuses paid to President and CEO Jouko Pölönen for the financial year that ended on 31 December 2017 totalled 597,789 euros.*

* The amount includes EUR 11,200 in performance-based bonuses deferred for prior years and EUR 131,907 in bonuses paid under the long-term remuneration scheme. Payment of deferred amounts requires a Board decision. Detailed information on the deferral procedure can be found in Note 35 above.

The period of notice applicable under the President and CEO's executive contract is six months. According to this contract, the company must pay the President and CEO severance pay equalling his 6-month total salary, in addition to compensation for loss of office, if the company dismisses him/her or he/she has to resign or terminate the contract due to a reason attributable to the company. If the contract terminates due to a reason not attributable to the President and CEO or due to his/her retirement, the company will pay him/her the bonuses (s)he has earned according to the criteria of the incentive scheme under the terms and conditions of the incentive schemes. Bonuses earned under the short-term scheme may, by way of exception, be paid irrespective of the termination of the contract if the targets under the remuneration scheme have been met and the Supervisory Board considers that remuneration is justified. Official regulations are taken into account in their payment. The President and CEO is involved in the long-term remuneration scheme. Bonuses under the scheme for 2011–2013 will be paid between 2015 and 2014, bonuses under the scheme for 2014–2016 will be paid between 2018 and 2020 and those for 2017–2019 between 2020 and 2023. The President and CEO has unlimited company car benefit.

The President and CEO is a member of OP Cooperative's Executive Board whose members' improved pension cover has been arranged through supplementary pension taken out with OP Life Assurance Company Ltd. A retirement age of 63 years applies to the President and CEO under the executive contract.

Loans, guarantees and collateral granted to members of the administrative bodies on 31 December 2017

As at 31 December 2017 and 31 December 2016, OP Corporate Bank plc had not granted loans or guarantees to members of the Board of Directors.

Pension commitments

Members of the administrative and supervisory bodies are not covered by any pension commitments. Furthermore, no pension commitments have been made for previous members of these bodies.

Auditors' remuneration	2017	2016
Audit	EUR 131,050	EUR 126,514
Other services based on legislation*		EUR 44,796
Tax counsultation	EUR 40,716	EUR 16,000
Other services	EUR 111,222	EUR 87,296
Total	**EUR 282,988**	**EUR 274,606**

Non-audit services provided by KPMG Oy Ab totalled EUR 151,938 (148,092).

* Assignments as referred to in sub-paragraph 2, paragraph 1, Section 1 of the Auditing Act.

Related parties

OP Corporate Bank plc's related parties include members and deputy members of the Board of Directors, President and CEO and his deputy, auditor and deputy auditor or the chief auditor of the accounting firm as well as their spouses or persons living in a marital-type relationship and underage children. The related parties also include OP Cooperative which owns 100% of OP Life Assurance Company Ltd. Related party transactions consist of paid salaries and fees as well as ordinary business transactions with OP Financial Group entities.

Transactions based on ownership, EUR million	2017	2016
Loans and other receivables	0	0
Deposits and other debts	-436	831
Net interest income	-2	2
Dividend income	0	0
Net commissions and fees	0	0
Net other operating income	15	-21

No impairments have been recognised for the items.

Note 42. Holdings in other companies

Subsidiaries, 31 December 2017	Holding, %	Equity capital	Profit or loss for the financial year
OP Insurance Ltd Helsinki	100	370	178
A-Insurance Ltd Helsinki	100	81	7
Kaivokadun PL-hallinto Oy Helsinki	100	5	0
Vakuutuspalvelu Otava Oy Helsinki	100	0	
Northclaims Oy Helsinki	100	0	
OP Finance AS Estonia	100	7	1
"OP Finance" SIA Latvia	100	10	1
UAB "OP Finance" Lithuania	100	10	2

Participating interests, 31 December 2017	Holding, %	Equity capital	Profit or loss for the financial year
Finnmezzanine Rahasto III B Ky Helsinki	49.49	1	0

Associate's data as per 31 December 2016. OP Corporate Bank plc has no shareholdings in companies in which it would have unlimited liability.

Note 43. Information by country

OP Corporate Bank plc has branches engaged in banking in Estonia, Latvia and Lithuania. In addition, it has subsidiaries in Estonia, Latvia and Lithuania engaged in finance-company operations. In Estonia OP Insurance Ltd has a non-life insurance subsidiary with a branch in both Latvia and Lithuania.

Name		Domicile
OP Corporate Bank plc Estonian Branch	Branch	Estonia
OP Corporate Bank plc Latvian Branch	Branch	Latvia
OP Corporate Bank plc Lithuanian Branch	Branch	Lithuania
OP Finance AS	Subsidiary	Estonia
"OP Finance" SIA	Subsidiary	Latvia
UAB "OP Finance"	Subsidiary	Lithuania
Seesam Insurance AS	Subsidiary	Estonia
Seesam Insurance AS Latvian Branch	Branch	Latvia
Seesam Insurance AS Lithuanian Branch	Branch	Lithuania

Financial information, EUR million	Estonia	Latvia	Lithuania	31 Dec. 2017 Total
Total operating income	42	22	29	**94**
Total EBIT	9	2	8	**19**
Total current tax		0	1	**1**
Total personnel in man-years	170	104	124	**399**

Financial information, EUR million	Estonia	Latvia	Lithuania	31 Dec. 2016 Total
Total operating income	36	19	24	**79**
Total EBIT	3	-1	4	**5**
Total current tax		0	1	**1**
Total personnel in man-years	178	104	123	**404**

Note 44. Trustee Services

OP Corporate Bank plc provides the general public with investment services and asset management and custodian services. OP Corporate Bank plc holds no assets based on discretionary investment management or on another agreement.

Notes concerning an entity under the Group's control

OP Corporate Bank plc's parent company is OP Cooperative and OP Corporate Bank Group's consolidated accounts are included in its consolidated financial statements. Copies of the financial statements of OP Cooperative are available at the following address: Gebhardinaukio 1, FI-00510 Helsinki, Finland.

The accounts of OP Corporate Bank plc are consolidated into those of OP Corporate Bank Group. Copies of OP Corporate Bank Group's consolidated financial statements are available at www.op.com or the company's registered office, Gebhardinaukio 1, FI-00510 Helsinki, Finland.

Signatures for the Financial Statements and Report by the Board of Directors

Helsinki, 8 February 2018

Tony Vepsäläinen

Jouko Pölönen
President and CEO

Harri Luhtala

Jari Himanen

Auditors' note

We have today issued an auditor's report on the audit we have performed.

Helsinki, 14 February 2018

KPMG Oy Ab
Audit firm

Raija-Leena Hankonen
Authorised Public Accountant

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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 Annual General Meeting of OP Corporate Bank Plc

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of OP Corporate Bank Plc (business identity code 0199920-7) for the year ended 31 December, 2017. The financial statements comprise the consolidated balance sheet, [income statement], statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, statement of cash flows and notes.

In our opinion

— the consolidated financial statements give a true and fair view of the group's financial position, financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU

— the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

Our opinion is consistent with the additional report submitted to the Board of Directors.

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 the parent company and of the group companies 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.

In our best knowledge and understanding, the non-audit services that we have provided to the parent company and group companies are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note 10 to the consolidated financial statements.

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. The significant risks of material misstatement referred to in the EU Regulation No 537/2014 point (c) of Article 10(2) are included in the description of key audit matters below.

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, 3, 11 and 17 to the financial statements)	
Receivables from customers, totaling € 20.1 billion, are the most significant item on the OP Corporate Bank's consolidated balance sheet representing 31 percent of the total assets. Interest income accruing on receivables was € 0.3 billion. 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 Corporate Bank 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 from customers 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. 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. Furthermore, we considered the appropriateness of the notes provided by OP Corporate Bank in respect of receivables and impairment losses.

Investment assets and derivative contracts (notes 1, 6, 16, 18 and 25 to consolidated financial statements)

The carrying value of investment assets totals € 15.5 billion mainly consisting of investments measured at fair value. The aggregate derivative assets are € 3.4 billion and derivative liabilities € 3.2 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 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 Corporate Bank'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 Corporate Bank, 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 Corporate Bank in respect of investments.

Insurance liabilities (notes 1, 4 and 27 to consolidated financial statements)

Measurement of insurance liabilities, amounting to € 3.1 billion on OP Corporate Bank's balance sheet, is based on various actuarial assumptions and calculation methods.

Calculation of insurance liabilities is based on data processed in many IT systems and combination of that data. The databases are

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 extensive and data volumes processed by the IT systems are substantial.

Interest rate risk associated with insurance liabilities is hedged with derivatives and interest rate 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 system

OP Corporate Bank has outsourced a significant part of its financial reporting process and IT-systems to the parent company OP Cooperative and its subsidiaries.

In respect of the accuracy of the financial statements of OP Corporate Bank, the key reporting processes are dependent on information systems. 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 Corporate Bank 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, interfaces and outsourcing management.

For the financial year 2017 our focus areas were the purchase invoice and payment applications as well as the loan decision application for corporate customers.

As part of our audit we performed extensive substantive procedures and data analyses relating to various aspects in financial reporting process.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors 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, 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 Board of Directors 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 Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as going concern, disclosing, as applicable, matters relating to 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 the parent company or the group or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of 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 the parent company's or the 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 Board of Directors' 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 the parent company's or the 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 the parent company or the group to 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 the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Information on our audit engagement

We were first appointed as auditors by the Annual General Meeting in 2002, and our appointment represents a total period of uninterrupted engagement of 16 years.

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors. 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 other information and, in doing so, consider whether the other information 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 Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors 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 of the report of the Board of Directors, we are required to report that fact. We have nothing to report in this regard.

Helsinki February 14, 2018

KPMG OY AB

RAIJA-LEENA HANKONEN
Raija-Leena Hankonen
Authorised Public Accountant, KHT