OP Financial Group's Financial Statements Bulletin 1 January–31 December 2023

OP Financial Group's Financial Statements Bulletin for 1 January–31 December 2023:

Operating profit EUR 2,050 million – Record amount of benefits for owner-customers

Operating profit Q1–4/2023	Net interest income Q1–4/2023	Total income Q1–4/2023	Total expenses Q1–4/2023	CET1 ratio 31 Dec 2023
€2,050 mill.	+77%	+41%	+12%	19.2%

- Operating profit was EUR 2,050 million (1,120).
- Income from customer business, or net interest income, insurance service result and net commissions and fees, increased by 45% to EUR 3,860 million (2,666). Net interest income grew by 77% to EUR 2,871 million (1,618). Insurance service result decreased by 23.2% to EUR 81 million (106) and net commissions and fees by 3.7% to EUR 908 million (942).
- Impairment loss on receivables in the income statement was EUR 269 million (115), accounting for 0.26% (0.11) of the loan and guarantee portfolio.
- Investment income increased by 59% to EUR 389 million (245).
- Total expenses increased by 12% to EUR 2,201 million (1,961). The cost/income ratio improved to 46% (58).
- The loan portfolio decreased by 1% to EUR 98.9 billion (100.2) and deposits by 5% to EUR 74.5 billion (78.0).
- CET1 ratio was 19.2% (17.4), which exceeds the minimum regulatory requirement by 6.9 percentage points. During the first quarter, OP Financial Group adopted the Standardised Approach to credit risk.
- Retail Banking operating profit rose to EUR 1,223 million (502). Net interest income grew by 89% to EUR 2,258 million (1,194). Impairment loss on receivables increased by EUR 77 million to EUR 173 million (96). Net commissions and fees decreased by 11% to EUR 686 million (773). The cost/income ratio improved to 46% (62). The loan portfolio decreased by 2% and deposits by 6%.
- Corporate Banking operating profit decreased to EUR 408 million (416). Net interest income grew by 29% to EUR 591 million (457). Impairment loss on receivables increased by EUR 78 million to EUR 96 million (18). Net commissions and fees grew by 32% to EUR 219 million (166). The cost/income ratio improved to 40% (41). The loan portfolio increased by 1% and deposits decreased by 2%.
- Insurance operating profit increased to EUR 414 million (293). Insurance service result decreased by EUR 25 million to EUR 81 million (106). Investment income grew by EUR 193 million to EUR 347 million (154). Non-life Insurance recorded a combined ratio of 94% (90).
- Group Functions operating loss was EUR –26 million (–91).
- OP Financial Group paid 30% extra on OP bonuses earned by owner-customers for 2023. The value of the new OP bonuses earned totalled EUR 275 million (215). In addition, owner-customers will get daily banking services without monthly charges from October 2023 until the end of 2024. The value of this benefit was EUR 22 million for 2023.
- OP Financial Group has applied IFRS 17 Insurance Contracts as of 1 January 2023. At the same time, the Group ceased to apply the overlay approach. The figures in the income statement and balance sheet for 2022 have been adjusted retrospectively. Note 1 Accounting policies of this Financial Statements Bulletin provides more information on the adoption of IFRS 17 and the changes in the format of the income statement and balance sheet.
- Operating profit for 2024 is expected to be at a good level but lower than that for 2023. For more detailed information on the outlook, see "Outlook for 2024".

OP Financial Group's key indicators

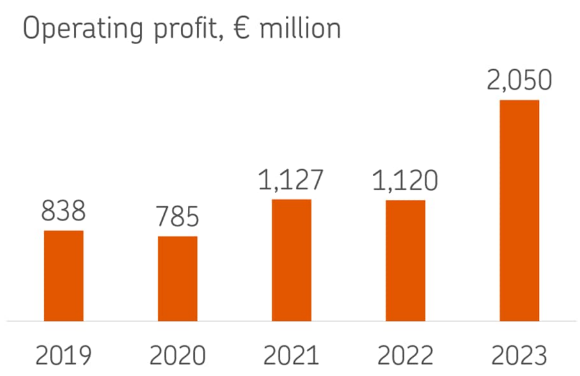
	Q1–4/2023	Q1–4/2022	Change, %
Operating profit, € million	2,050	1,120	83.0
Retail Banking	1,223	502	143.5
Corporate Banking	408	416	-2.1
Insurance	414	293	41.4
Group Functions	-26	-91	-
New OP bonuses accrued to owner-customers, € million	-275	-215	28.0
Total income	4,775	3,394	40.7
Total expenses	-2,201	-1,961	12.2
Cost/income ratio, %	46.1	57.8	-11.7*
Return on equity (ROE), %	10.6	6.3	4.3*
Return on equity, excluding OP bonuses, %	12.0	7.5	4.5*
Return on assets (ROA), %	0.98	0.51	0.46*
Return on assets, excluding OP bonuses, %	1.11	0.61	0.50*
	31 Dec 2023	31 Dec 2022	Change, %
CET1 ratio, %	19.2	17.4	1.8*
Loan portfolio, € billion**	98.9	100.2	-1.4
Deposits, € billion**	74.5	78.0	-4.6
Ratio of non-performing exposures to exposures, % **	2.94	2.31	0.6*
Ratio of impairment loss on receivables to loan and guarantee portfolio, %	0.26	0.11	0.15*
Owner-customers (1,000)	2,094	2,066	1.4

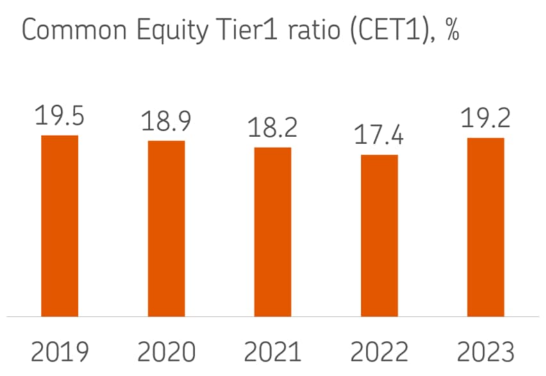
OP Financial Group has applied IFRS 17 Insurance Contracts as of 1 January 2023. The figures in the income statement and balance sheet for 2022 have been adjusted retrospectively. The preceding years' figures (2019, 2020 and 2021) have not been adjusted. Note 1 Accounting policies of this Financial Statements Bulletin provides more information on the adoption of IFRS 17 and the changes in the format of the income statement and balance sheet.

Comparatives for the income statement are based on the corresponding figures in 2022. Unless otherwise specified, figures from 31 December 2022 are used as comparatives for balance-sheet and other cross-sectional items.

* Change in ratio

** As of 1 January 2023, the loan portfolio and deposits exclude changes in the fair value of loans and deposits in hedge accounting. Comparatives have been adjusted to correspond to the current definition.





Comments by the President and Group Chief Executive Officer

The Finnish economy entered a recession, inflation eased, and interest rates remained higher than in recent years

The Finnish economy was affected by exceptional uncertainty and instability in 2023. A mild recession began late in the year and unemployment rose slightly. Inflation slowed down but remained clearly higher than in the preceding years. Despite lowering at the year end, market rates remained considerably higher than previously familiar levels, due to the ECB's continuation of its tight monetary policy.

On the housing market, home sale volumes and demand for home loans were clearly lower than a year earlier. In addition, home prices continued their downward trend.

The year-end fall in market rates boosted the stock markets, raising share prices on several stock exchanges, but indexes on the Nasdaq Helsinki declined.

The downturn was exceptionally severe in construction and the related sectors. Risks also grew markedly across the real estate sector. There was a clear rise in the number of bankruptcies compared to previous years.

Geopolitical risks were high throughout the year, intensifying in late 2023 as a result of the Middle East crisis in particular.

OP Financial Group had an outstandingly successful year – its strong performance enables better benefits for owner-customers

Despite the challenges in the business environment, OP Financial Group's business operations developed extremely well in 2023. Operating profit grew by 83 per cent on the previous year, to 2,050 million euros.

Because of this strong performance, we are providing our almost 2.1 million owner-customers with better benefits in 2024, playing our part to ease the strain on households in these economically challenging times. We will pay 40% extra on OP bonuses earned in 2024 and will not charge our owner-customers any monthly fees for daily services throughout the year. The total value of higher benefits on OP bonuses and daily services will rise to around 400 million euros – a major benefit for owner-customers. Being customer-owned, OP Financial Group will continue sharing its financial success through a range of financial and other benefits for its owner-customers.

Strong capital adequacy and excellent liquidity provide security in an uncertain business environment

OP Financial Group's CET1 ratio strengthened again, to 19.2 per cent, which exceeds the minimum regulatory requirement by 6.9 percentage points. OP Financial Group is one of the most financially solid large banks in Europe.

Furthermore, our liquidity remained excellent. Strong capital adequacy, excellent liquidity and broad trust among customers and other stakeholders are vital both for banks and insurance companies. OP Financial Group is in great shape in all these respects.

OP Financial Group's income from customer business continued to grow vigorously, spurred by the strong increase in net interest income. Meanwhile, there was a clear rise in deposit and wholesale funding costs. Investment income developed well, despite the difficult capital market environment, whereas net commissions and fees were slightly down year on year. The insurance service result was clearly below that of 2022, principally weighed down by higher claims expenditure in health insurance and rising operating expenses. Total income grew by 41 per cent on the previous year.

OP Financial Group's costs grew by 12 per cent on the year before, due in particular to growth in personnel costs and higher investments in ICT development. OP Financial Group's cost-income ratio improved considerably, reaching the excellent level of 46 per cent.

All three business segments performed well. Growth was particularly strong in Retail Banking, whose operating profit grew by 143 per cent to 1,223 million euros, following favourable developments in net interest income. Insurance's result also clearly improved year on year, lifted by considerably higher investment income in particular. Corporate Banking's result was a few per cent below that of 2022.

Deposit and loan volumes turned downwards – customers' repayment capacity remained sound

The deposit portfolio diminished by almost five per cent during the year, mainly due to a clear reduction in deposits by corporate and institutional customers. However, household deposits fell by less than one per cent and OP Financial Group's market share of household deposits grew.

OP Financial Group's loan portfolio shrank by around one per cent during the year, with demand for new home loans and corporate loans visibly down from 2022. This decrease was driven by a considerable fall in year-on-year demand for new home loans and a steep rise in premature home loan repayments in response to interest rate rises.

Despite higher interest rates, OP's home loan customers have been repaying their loans diligently and on schedule. The number of loan modification applications was actually lower than in recent years. However, there was a rise in the number of corporate customers with non-performing loans, especially in construction and in the real estate sector in general. Estimated loss provisions and non-performing exposures grew as the economy deteriorated.

In August, we published credit portfolio emissions reduction targets for three of our customer sectors: energy production, agriculture and housing. These sectors account for more than 90 per cent of emissions related to OP Financial Group's credit portfolio. We set such targets in order to promote the green transition, by encouraging our customers to move towards carbon neutrality.

We want to help people in Finland to prosper financially

We aim to coach our customers in making better financial choices and have worked on easing their personal financial management in multiple ways, while enabling and supporting long-term saving and investing. Asset and wealth management is one of our growth focus areas: we aim to achieve clear growth in this business activity in the coming years.

Preparation for the future featured prominently in customer behaviour. Demand for savings and investment products continued to grow briskly. Higher interest rates, particularly in the second half of the year, led to a clear rise in the number of Growth Return Accounts compared to 2022. A record 654,000 systematic investment agreements were valid in December. OP Financial Group's mutual funds already have more than 1.2 million unitholders. In addition, around 74,000 new equity savings accounts and book-entry accounts were opened in 2023.

Demand for insurance continued to grow

Our customers' desire to prepare for possible risks was reflected by growing demand for insurance products. Pohjola Insurance's premiums written grew by just under 6 per cent to 1.8 billion euros. Demand for health insurance increased most. Claims expenditure grew substantially by almost 6 per cent. Around 990,000 claims applications were filed and 94 per cent of reported claims were compensated.

Our customers took out 27 per cent more term life insurance than in 2022.

Growth in the use of digital services continued

Use of digital services grew substantially again. Our personal and corporate customers increasingly use digital channels for banking and insurance, logging into OP-mobile an average of 52.8 million times a month. OP-mobile already has more than 1.6 million active users.

We continued with ICT investments in 2023, primarily to improve the customer experience and ensure data security and service continuity in all circumstances. AI will play a growing role in our ICT development, enabling us to provide customers with even better services. Accordingly, we are investing heavily in information security and data protection through extensive training of personnel and high-level technology solutions. Responsible data use is a core aspect of our work.

Together through time – also during the current recession

OP Financial Group is in good shape and we are ready to support customers during the mild recession now underway. For example, I would encourage customers experiencing loan repayment problems to contact their OP cooperative bank at the earliest possible stage, so that we can find the best solution together.

My warm thanks to all our customers for the trust they showed in OP Financial Group in 2023. We aim to continue being worthy of the confidence you place in us. I would also like to thank our employees and governing bodies for their excellent work in 2023.

Timo Ritakallio
President and Group CEO

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Business environment

According to preliminary information, world economic growth in 2023 was slightly slower than the longer-term average. Economic survey results weakened towards the end of the year. GDP in the euro area grew slowly and contracted during the latter half of the year. The inflation rate in the euro area slowed down to 2.9% in December from 9.2% at the end of the previous year.

In the last quarter, stock prices rose as market rates began to fall, and were higher than at the beginning of the year in most countries. Stock prices in Finland were lower than at the end of 2022.

The European Central Bank (ECB) raised its main refinancing rate several times between January and September. Following the rate increase of 0.25 percentage points in September, the deposit facility rate remained at 4.00% during the rest of the year. The 12-month Euribor began to decrease towards the year end, standing at 3.51% at the end of December, which was only slightly higher than a year ago.

The Finnish GDP declined slightly in 2023. In December, the unemployment rate rose to 7.6%, compared to 6.9% at the end of 2022. Inflation slowed down to 3.6% in December, compared to 9.1% a year earlier. The rise in interest rates slowed down home purchases, and home prices went down.

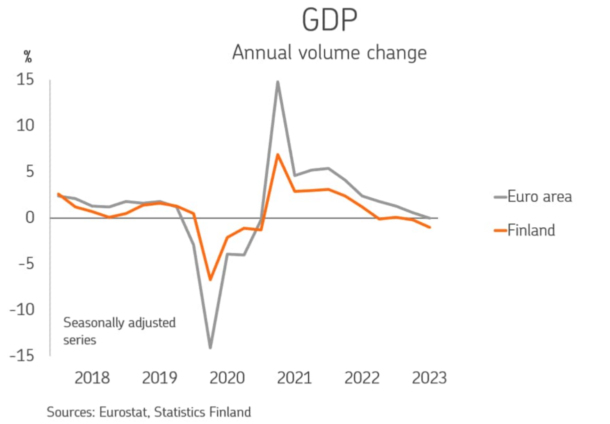
The economic outlook will remain subdued and uncertain in early 2024. Decelerating inflation is expected to enable a decrease in interest rates, which will pave the way for economic recovery towards the year end.

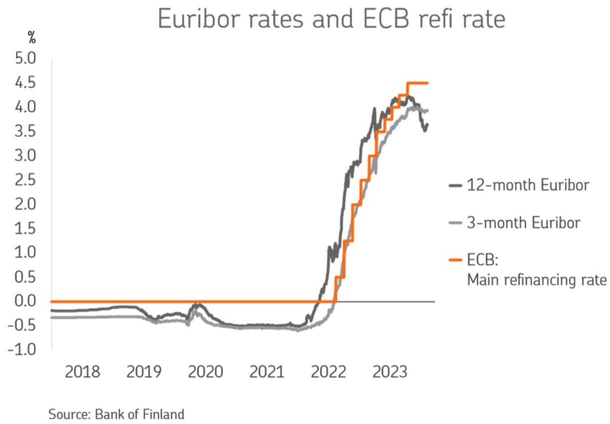
In December, total loans were 0.4% higher than a year earlier. The volume of corporate loans decreased by 0.6% on a year earlier. Total household loans decreased by 1.3% from the end of 2022, due especially to weak demand for home loans. In December, the annual growth rate of consumer loans was 2.5% (3.3).

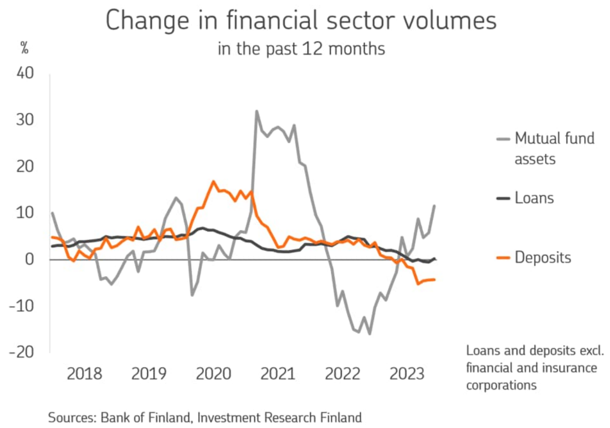
Total deposits decreased by 1.5% from the end of 2022. Corporate deposits decreased by 8.7% and household deposits by 2.6% on a year earlier.

The value of the assets of mutual funds registered in Finland increased from EUR 134 billion to EUR 149 billion in the year to December. New assets worth a total of EUR 3.2 billion were invested in mutual funds registered in Finland.

Demand for insurance products remained stable. Inflation that has remained high for a long time increased claims incurred and was also reflected in insurance prices. A rise in stock prices on a global scale improved insurance companies' profitability.







Earnings analysis and balance sheet

Earnings analysis, € million	Q1–4/ 2023	Q1–4/ 2022	Change, %	Q4/ 2023	Q4/ 2022	Change, %
Operating profit	2,050	1,120	83.0	480	354	35.7
Retail Banking	1,223	502	143.5	304	166	83.0
Corporate Banking	408	416	-2.1	87	197	-55.8
Insurance	414	293	41.4	116	146	-20.4
Group Functions	-26	-91	-	-24	-75	-
Net interest income	2,871	1,618	77.4	792	496	59.6
Impairment loss on receivables	-269	-115	134.0	-99	-45	120.8
Net commissions and fees	908	942	-3.7	223	234	-4.5
Insurance service result	81	106	-23.2	23	28	-20.0
Insurance revenue	2,000	1,898	5.4	534	491	8.8
Insurance service expenses	-1,824	-1,898	-3.9	-455	-434	4.7
Reinsurance contracts	-95	106	-	-56	-28	102.9
Investment income	389	245	58.9	96	106	-9.7
Other operating income	40	67	-40.4	12	15	-19.7
Personnel costs	-964	-856	12.7	-262	-239	9.6
Depreciation/amortisation and impairment loss	-226	-214	5.7	-89	-55	62.6
Other operating expenses	-1,011	-892	13.4	-287	-247	15.9
Transfers to insurance service result	485	416	16.6	137	111	23.6
OP bonuses to owner-customers	-255	-198	28.6	-67	-51	30.9

OP Financial Group has applied IFRS 17 Insurance Contracts as of 1 January 2023. The figures in the income statement and balance sheet for 2022 have been adjusted retrospectively. Note 1 Accounting policies of this Financial Statements Bulletin provides more information on the adoption of IFRS 17 and the changes in the format of the income statement and balance sheet.

Key indicators, € million	31 Dec 2023	31 Dec 2022	Change, %
Loan portfolio*	98,871	100,234	-1.4
Home loans	41,856	42,304	-1.1
Corporate loans	28,181	27,621	2.0
Housing company loans**	10,656	10,822	-1.5
Other loans to corporations and institutions	6,838	7,872	-13.1
Other consumer loans	11,339	11,615	-2.4
Guarantee portfolio	4,136	3,974	4.1
Other exposures	13,005	14,502	-10.3
Deposits*	74,465	78,036	-4.6
Assets under management (gross)	102,844	98,226	4.7
Mutual funds	30,010	27,575	8.8
Institutional clients	35,878	35,713	0.5
Private Banking	24,378	23,326	4.5
Unit-linked insurance assets	12,579	11,612	8.3
Balance sheet total	160,391	175,691	-8.7
Investment assets	21,896	20,742	5.6
Insurance contract liabilities	11,589	11,446	1.3
Debt securities issued to the public	37,511	37,438	0.2
Equity capital	16,262	14,668	10.9

* As of 1 January 2023, the loan portfolio and deposits exclude changes in the fair value of loans and deposits in hedge accounting. Comparatives have been adjusted to correspond to the current definition.

** Housing company loans includes housing companies and housing investment companies.

January–December

OP Financial Group's operating profit (earnings before tax) was EUR 2,050 million (1 120), up by EUR 929 million year on year. Income from customer business, or net interest income, net commissions and fees and insurance service result, increased by a total of 44.8% to EUR 3,860 million (2,666). The cost/income ratio improved to 46.1% (57.8).

Net interest income grew by 77.4% to EUR 2,871 million. The rise in market rates that began in spring 2022 increased net interest income. Net interest income reported by the Retail Banking segment increased by EUR 1,064 million and that by the Corporate Banking segment by EUR 134 million. OP Financial Group's loan portfolio decreased by 1.4% to EUR 98.9 billion and deposits by 4.6% to EUR 74.5 billion. New loans drawn down by customers during the reporting period totalled EUR 22.0 billion (24.5).

Impairment loss on loans and receivables, which reduces earnings, totalled EUR 267 million (154). Expected credit losses concerning the construction and real estate sectors increased. Final credit losses recognised totalled EUR 77 million (118). Loss allowance at the end of the reporting period was EUR 929 million (736), of which management overlay accounted for EUR 109 million (66). Non-performing exposures accounted for 2.9% (2.3) of total exposures. Impairment loss on loans and receivables accounted for 0.26% (0.11) of the loan and guarantee portfolio.

Net commissions and fees decreased by 3.7% to EUR 908 million. Owner-customers have got daily banking services without monthly charges since October 2023. Net commissions and fees for payment transfer services decreased by EUR 12 million to EUR 291 million, and those for residential brokerage by EUR 8 million to EUR 63 million. Sales commissions on insurance contracts decreased by EUR 9 million to EUR 33 million. Meanwhile, net commissions and fees for lending increased by EUR 9 million to EUR 159 million and those for asset and wealth management by EUR 7 million to EUR 43 million.

OP Financial Group has applied IFRS 17 Insurance Contracts as of 1 January 2023. The figures in the income statement and balance sheet for 2022 have been adjusted retrospectively. Insurance service result decreased by 23.2% to EUR 81 million during the reporting period as a result of the increase in net claims incurred and operating expenses. The rise in the general level of costs and the higher number of claims in health insurance increased claims incurred, whereas the number of large claims decreased year on year. Insurance service result includes EUR 485 million (416) in operating expenses. Non-life insurance revenue increased by 4.6% to EUR 1,758 million, net claims incurred after reinsurer's share by 5.6% to EUR 1,076 million and operating expenses by 15.6% to EUR 487 million. Combined ratio reported by non-life insurance weakened to 93.8% (89.8).

Investment income, or net investment income, net insurance finance expenses and income from financial assets held for trading, increased by a total of 58.9% to EUR 389 million. Investment income grew as a result of the increase in the value of shares.

OP Financial Group adopted IFRS 17 Insurance Contracts and stopped applying the overlay approach. The Insurance segment's investment result at fair value is fully recognised in the income statement. The impact of economic assumptions, such as the changes in interest rates, on the value of insurance contract liabilities is recognised in net finance income in the income statement. Net investment income together with net finance income describe investment profitability in the insurance business. The combined return on investments at fair value of OP Financial Group's insurance companies was 8.2% (-13.1). A year ago, the negative figure was affected by the rise in interest rates and the fall in stock prices.

Net income from financial assets recognised at fair value through profit or loss, or notes and bonds, shares and derivatives, totalled EUR 1,706 million (–2,822). Net income from investment contract liabilities totalled EUR –642 million (812). Net insurance finance expenses totalled EUR –722 million (2,226). Net income from investment property decreased by EUR 39 million to EUR –22 million as a result of the decline in the fair value of properties.

In banking, net income from financial assets held for trading increased by a total of EUR 84 million to EUR 55 million due to the increase in interest income from notes and bonds and derivatives.

Other operating income decreased to EUR 40 million (67). A year ago, the sale of Pohjola Hospital increased other operating income by EUR 32 million.

Total expenses increased by 12.2% to EUR 2,201 million. Personnel costs rose by 12.7% to EUR 964 million. The increase was affected by higher headcount and growth in the provision for performance-based bonuses as well as pay rises. Depreciation/amortisation and impairment loss on PPE and intangible assets increased by 5.7% to EUR 226 million. Impairment loss recognised mainly on information systems and property in own use totalled EUR 60 million (9). Other operating expenses increased by 13.4% to EUR 1,011 million. ICT costs totalled EUR 460 million (382). Development costs were EUR 294 million (216). Charges of financial authorities fell by EUR 5 million to EUR 77 million.

The income statement item 'OP bonuses to owner-customers' grew by 28.6% to EUR 255 million as a result of the additional bonuses paid for 2023.

Income tax amounted to EUR 408 million (213). The effective tax rate for the reporting period was 19.9% (19.0). A year ago, the tax-exempt capital gain of EUR 32 million on the sale of Pohjola Hospital reduced the effective tax rate. Corporate tax payable by OP Financial Group for 2023 is estimated to amount to EUR 396 million (227).

Comprehensive income after tax totalled EUR 1,719 million (525). Changes in the fair value reserve increased comprehensive income by EUR 70 million (–478).

OP Financial Group's equity amounted to EUR 16.3 billion (14.7). Equity included EUR 3.3 billion (3.4) in Profit Shares, terminated Profit Shares accounting for EUR 0.4 billion (0.4).

OP Financial Group's funding position and liquidity is strong. At the end of the reporting period, the Group's LCR was 199% (217) and NSFR was 130% (128). In the reporting period, OP Financial Group repaid in full the EUR 12.0 billion in TLTRO III loans.

October–December

Fourth-quarter operating profit totalled EUR 480 million, as against EUR 354 million a year earlier. Income from customer business, or net interest income, net commissions and fees and insurance service result, increased by a total of 36.8% to EUR 1,037 million (758).

Net interest income grew by 59.6% to EUR 792 million. The rise in market rates that began in spring 2022 increased net interest income. New loans drawn down by customers during the fourth quarter totalled EUR 6.0 billion (5.3).

Impairment loss on loans and receivables, which reduces earnings, totalled EUR 99 million (45). Expected credit losses concerning the construction sector increased. Final credit losses recognised totalled EUR 35 million (36).

Net commissions and fees decreased by 4.5% to EUR 223 million. Owner-customers have got daily banking services without monthly charges since October 2023.

Insurance service result decreased by EUR 6 million to EUR 23 million. Insurance service result includes EUR 137 million (111) in operating expenses.

Investment income, or net investment income, net insurance finance income and income from financial assets held for trading, decreased by a total of 9.7% to EUR 96 million.

Net income from financial assets recognised at fair value through profit or loss, or notes and bonds, shares and derivatives, totalled EUR 1,115 million (264). Net income from investment contract liabilities totalled EUR –410 million (–186). Net insurance finance income totalled EUR –621 million (7).

In banking, net income from financial assets held for trading decreased by a total of EUR 3 million to EUR 31 million.

Other operating income totalled EUR 12 million (15).

Total expenses increased by 17.8% to EUR 637 million. Personnel costs rose by 9.6% to EUR 262 million. The increase was affected by higher headcount and growth in the provision for performance-based bonuses as well as general pay increases. Depreciation/amortisation and impairment loss on PPE and intangible assets increased by 62.6% to EUR 89 million. Impairment loss recognised mainly on information systems and property in own use totalled EUR 54 million (7). Other operating expenses increased by 15.9% to EUR 287 million. ICT costs totalled EUR 141 million (105).

The income statement item 'OP bonuses to owner-customers' grew by 30.9% to EUR 67 million as a result of the additional bonuses paid for 2023.

Income tax amounted to EUR 95 million (71). The effective tax rate for the reporting period was 19.8% (20.2).

Comprehensive income after tax totalled EUR 462 million (182). Changes in the fair value reserve increased comprehensive income by a total of EUR 73 million (–66).

October–December highlights

Additional benefits for owner-customers

OP Financial Group allocates part of its profitability improvement to provide additional benefits to owner-customers. OP Financial Group increased the OP bonuses earned by owner-customers in 2024 by 40% – an estimated additional bonus of EUR 86 million to owner-customers. In 2023, the Group increased the OP bonuses by 30%, which meant an additional bonus of EUR 60 million.

Owner-customers get daily banking services without monthly charges from October 2023 until the end of 2024. The value of this benefit was EUR 22 million for 2023 and will be an estimated EUR 88 million for 2024.

The total value of these additional benefits to owner-customers was EUR 82 million for 2023 and will be an estimated EUR 174 million for 2024.

From 1 November 2023 onwards, owner-customers have got a 0.25% interest on deposits in their current accounts. This benefit applies to owner-customers who have an owner-customer membership and a current account with the same OP cooperative bank.

Adoption of IFRS 17 Insurance Contracts

OP Financial Group has applied IFRS 17 Insurance Contracts as of 1 January 2023. At the same time, the Group ceased to apply the overlay approach. The figures in the income statement and balance sheet for 2022 have been adjusted retrospectively. Solvency II valuations are used in the financial conglomerate's FiCo calculation, so the adoption of IFRS 17 did not affect the FiCo ratio. Note 1 Accounting policies of this Financial Statements Bulletin provides more information on the adoption of IFRS 17 and the changes in the format of the income statement and balance sheet.

OP Financial Group adopted the Standardised Approach

OP Financial Group adopted the Standardised Approach in its capital adequacy measurement and reporting during the first quarter of 2023. The transition to the Standardised Approach had no impact on OP Financial Group's capital adequacy or risk profile. On 13 March 2023, the European Central Bank (ECB) issued its decision on the application of the Standardised Approach in OP Financial Group's capital adequacy measurement.

New members of OP Cooperative's Executive Management Team

OP Financial Group is seeking significant growth in saving and investment services. On 26 September 2023, Hanna Porkka (53), M.Sc. (Econ. & Bus. Adm.), was appointed Executive Vice President, Wealth Management of OP Financial Group. The role is new, and Hanna Porkka will simultaneously become a member of OP Cooperative's Executive Management Team. She will take up her duties on 1 April 2024, at the latest. Porkka's appointment is conditional and subject to regulatory approval.

Rami Kinnala (54), LL.M., M.Sc. (Econ. & Bus. Adm.), was appointed Chief Legal Officer and Group General Counsel of OP Financial Group on 24 October 2023. In this position, he will lead OP Financial Group's legal affairs and the Legal Services and Compliance function of the central cooperative consolidated. On 1 January 2024, Kinnala took up his duties and also became a member of OP Cooperative's Executive Management Team. Tiia Tuovinen, Kinnala's predecessor, has requested to resign from OP Financial Group as of 1 July 2024. She acts as Senior Advisor from the beginning of January until the end of June.

OP Financial Group and Nordea will establish a joint venture to improve payment services in Finland

OP and Nordea are establishing a joint venture to create solutions for payment challenges. They aim to develop phone number-based payment and e-invoice management solutions for consumers and companies. The solution will be open to other market actors. The aim is for the company to start operating in 2024. Until then, customers can continue using the Siirto service as before. Realisation of the venture must await the approval of the competition authorities.

OP Financial Group's strategic targets and priorities

OP Financial Group has a strategy process in which it assesses, reshapes and implements its strategy on an ongoing basis. The Group systematically assesses its business environment and operating model to be able to make and implement new strategic choices when needed.

OP Financial Group's mission, values, vision and strategic priorities form a whole whose parts complement each other. OP Financial Group's vision is to be the leading and most appealing financial services group in Finland. Continuous monitoring of the business environment and the strategic priorities will help achieve the shared vision and guide all actions.

On 24 August 2023, OP Cooperative's Supervisory Council confirmed OP Financial Group's strategy and updated strategic targets. In the next few years, the Group's operations will be guided by the following five strategic priorities:

- Value for customers
- Profitable growth
- Efficient, high-quality operations
- Responsible business
- Highly skilled, motivated and satisfied personnel.

OP Financial Group's operations are based on a strong culture of risk management and compliance.

OP Financial Group's strategic targets

	2023	2022	Target 2027
Return on equity (ROE excluding OP bonuses), %	12.0	7.5	9.0
CET1 ratio, %	19.2	17.4	At least CET1 requirement + 4 pps*
Brand recommendations, bNPS (Net Promoter Score, personal and corporate customers)**	Banking: 1 Insurance: 3	Banking: 1 Insurance: 3	Banking: 1 Insurance: 1
Credit rating	AA-/Aa3	AA-/Aa3	At least at the level of AA-/Aa3

* OP Financial Group's target CET1 ratio is at least the CET1 capital adequacy requirement plus four percentage points. The CET1 target calculated by applying the December 2023 end capital adequacy requirement was 16.3%.

** Ranking in the survey on switching bank and insurer by Kantar Finland Oy and in a nationwide survey on SMEs by Red Note Oy.

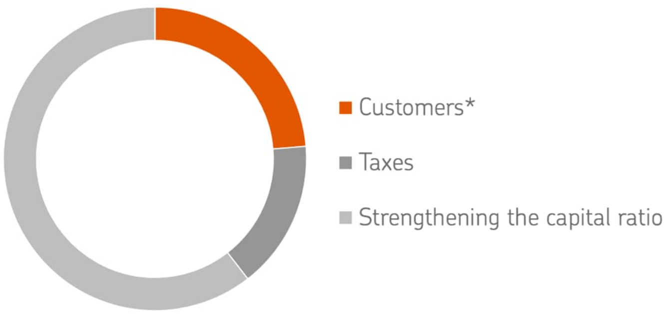
Promotion of the success of owner-customers and operating region

OP Financial Group's mission is to promote the sustainable prosperity, security and wellbeing of its owner-customers and operating region. The Group's operations are based on its values, mission, a strong capital base, capable risk management and customer respect.

Allocation of earnings

OP Financial Group aims to provide its owner-customers with the services they need, as efficiently as possible. The shared success will be used for the benefit of owner-customers in the form of loyalty benefits and other financial benefits as well as the maintenance and further development of service capabilities.

OP Financial Group's estimated earnings allocation for 2023 that is to be confirmed after the end of the financial year:



*) Customers = OP bonuses, discounts and interest on Profit Shares to owner-customers

Implementing OP Financial Group's mission successfully requires a strong capital base which the requirements set by the authorities also necessitate. A stronger capital base will require efficiency and earnings power of the Group in the years to come too. In addition to the part returned to owner-customers, a significant part of earnings is used to strengthen OP Financial Group's capital base.

Benefits created by OP Financial Group are allocated to owner-customers on the basis of the extent to which each owner-customer of an OP cooperative bank uses the Group's services. The owner-customers' loyalty benefit programme consists of OP bonuses – accrued on the basis of an owner-customer's transactions with OP – as well as benefits and discounts granted on OP's banking services, insurance contracts and savings and investment services. Owner-customers also have the opportunity to contribute capital to their own OP cooperative bank through Profit Shares. Interest will be paid annually on Profit Shares as the banks' profit distribution.

OP Financial Group wants to allocate part of its strong profitability to further improving its customer service and to carrying out various corporate responsibility actions. In 2023, the Group focused on the wellbeing of children and young people in particular. The Group supported young people's hobbies and activities promoting their financial literacy and employment around Finland through donations and sponsorships of nearly EUR 4.5 million.

OP Financial Group is one of the largest taxpayers in Finland measured by tax on profits. As a major taxpayer, OP is contributing to prosperity in the whole of Finland. OP Financial Group paid EUR 227 million in corporate tax for 2022. Corporate tax payable by OP Financial for 2023 is estimated to amount to EUR 396 million.

Owner-customers and customer benefits

OP Financial Group had a total of 2.1 million (2.1) owner-customers at the end of the reporting period. The number of owner-customers increased by 28,000 year on year.

OP cooperative banks' owner-customers earn OP bonuses through banking, insurance and wealth management transactions. OP Financial Group increased the OP bonuses earned for 2023 by 30%. The value of the new OP bonuses earned totalled EUR 275 million (215).

During the reporting period, a total of EUR 99 million (101) of OP bonuses were used to pay for banking and wealth management services and EUR 145 million (114) to pay non-life insurance premiums.

Owner-customers benefitted EUR 98 million (72) from the reduced price of the daily services package of Retail Banking. At the beginning of 2023, the calculation method for the retail service package discounts was changed and the discounts for 2022 were adjusted for comparability. Owner-customers were provided with EUR 63 million (60) in non-life insurance loyalty discounts. They also bought, sold and switched units in most mutual funds without separate charges. The value of this benefit amounted to EUR 6 million (8).

Owner-customer benefits

€ million	2023	2022
New OP bonuses earned	275	215
Retail Banking's daily services packages	98	72
Non-life Insurance's loyalty discounts	63	60
Benefits on mutual funds	6	8
Total	442	355

The abovementioned OP bonuses and customer benefits totalled EUR 442 million (355), accounting for 17.7% (24.1) of OP Financial Group's operating profit before granted benefits.

Owner-customers get daily banking services without monthly charges from October 2023 until the end of 2024. The value of this benefit was EUR 22 million for 2023 and will be an estimated EUR 88 million for 2024.

Contributions made by OP cooperative banks' owner-customers to the OP cooperative banks' Profit Shares and cooperative shares totalled EUR 3.6 billion (3.6). The return target for Profit Shares for 2023 was an interest rate of 4.50% (4.45). Interest payable on Profit Shares accrued during the reporting period is estimated to total EUR 148 million (144). The return target for Profit Shares for 2024 is an interest rate of 5.50% (4.50).

Multichannel services

OP Financial Group has a multichannel service network comprising online, mobile, branch and telephone services. In December, the Group's mobile channels (OP-mobile, OP Business mobile) had more than 1.6 million active users (1.4). The Group provides personal customer service both at branches and digitally.

Mobile and online services, no. of logins (million)

	Q1–4/2023	Q1–4/2022	Change, %
OP-mobile, personal customers	606.9	513.6	18.2
OP-mobile, corporate customers*	27.1	-	-
OP Business mobile	35.3	27.3	29.3
Pivo	38.6	43.4	-11.1
Op.fi	68.8	73.8	-6.8
	31 Dec 2023	31 Dec 2022	Change, %
Siirto payment, registered customers (OP)	1,220,989	1,148,218	6.3

* OP-mobile services for corporate customers were launched in November 2022.

In March 2023, OP expanded its mobile payment services by introducing the Apple Pay service in OP's Mastercards, alongside OP's Visa cards. The service enables customers to pay for their purchases using phones or smartwatches in contactless payment readers and on apps and online stores. In December 2022, OP extended the Google Pay service that works on Android phones or smartwatches to cover customers using Mastercard.

OP Financial Group has an extensive branch network with 289 branches (297) across the country. In addition, Pohjola Insurance has a comprehensive network of agencies and partnerships.

Sustainability and corporate responsibility

Sustainability and corporate responsibility form an integral part of OP Financial Group's business and strategy, and responsible business is one of OP Financial Group's strategic priorities. OP Financial Group's sustainability programme is built around three themes: Climate and the environment, People and communities and Corporate governance.

The programme is based on OP Financial Group's values, megatrends in the business environment and materiality assessment. The Climate and environment section sets goals for the provision of sustainable financial and investment products, the emission reductions of loan and investment portfolios as well as the promotion of biodiversity. The People and communities section focuses on the wellbeing of local communities and on supporting management of personal finances and financial literacy. The Corporate governance section involves integrating responsibility with all business and related risk-taking and a goal to enhance governance diversity. Read more about the sustainability programme at op.fi/op-financial-group/corporate-social-responsibility.

OP Financial Group is committed to complying with the ten principles of the UN Global Compact initiative in the areas of human rights, labour rights, the environment and anti-corruption. The Group has agreed to follow the UN Principles for Responsible Investment and the UN Principles of Sustainable Insurance. OP Financial Group is a Founding Signatory of the Principles for Responsible Banking under the United Nations Environment Programme Finance Initiative (UNEP FI).

OP Financial Group is committed to the international Partnership for Carbon Accounting Financials (PCAF), which aims to develop and implement a harmonised approach to assessing and disclosing greenhouse gas emissions associated with partners' loans and investments.

OP Financial Group set emissions reduction targets for three sectors in its loan portfolio: energy, agriculture and residential property sectors. These account for more than 90% of the emissions of OP Financial Group's loan portfolio. Measured from the 2022 initial level, the goal is to reduce by 2030 1) the emissions intensity of energy production by 50%; 2) the absolute emissions associated with the agricultural sector by 30%; and 3) the emissions intensity of home loans by 45%.

Corporate responsibility highlights in October–December

OP Financial Group has developed several products based on the international framework for sustainable finance, such as green loans, sustainability-linked loans and sustainable supply chain finance. Green loans are designed for corporate customers that can make a commitment to using the borrowed funds to promote specific projects, while sustainability-linked loans are for corporate customers that are prepared to pursue sustainability-based performance targets agreed with the lender. These targets affect the loan margin. The purpose of sustainable supply chain finance is to encourage supply chains to more sustainable operations through sustainability-linked financing. In March 2023, OP Financial Group launched a green loan product for SMEs. At the end of December, green loans granted to SMEs totalled EUR 62 million (0).

On 31 December 2023, total exposures from green loans and sustainability-linked loans and facilities stood at EUR 6.6 billion (5.2). On the same date, sustainable funds accounted for 87.7% of all fund assets.

In November, OP Financial Group introduced OP-Sustainable Wellbeing, a thematic fund that focuses on social themes. The fund's investment operations pay attention to the principles of sustainable development, placing a particular emphasis on social issues. The fund invests in companies whose business supports the sustainable wellbeing of people and society or which are an exemplary employer in terms of social issues.

In December, OP Financial Group published a biodiversity road map that includes measures to promote biodiversity at OP Financial Group. The aim is to create a nature positive handprint by 2030. 'Nature positive' means that OP Financial Group's operations will have a net positive impact (NPI) on nature.

In December, OP Financial Group also published a Human Rights Statement and Human Rights Policy. The Group respects all recognised human rights. The Human Rights Statement includes the requirements and expectations that OP Financial Group has set for itself and for the actors in its value chains. OP Financial Group is committed to remediation actions if it causes adverse human rights impacts.

In late 2023, OP Financial Group attended the COP28 UN Climate Change Conference together with other Finnish companies representing various industries. The goals of the first-ever Finnish pavilion in the Conference were to highlight Finnish companies' solutions and Finland as the cutting edge of green technology and to support climate change negotiations with pioneering companies.

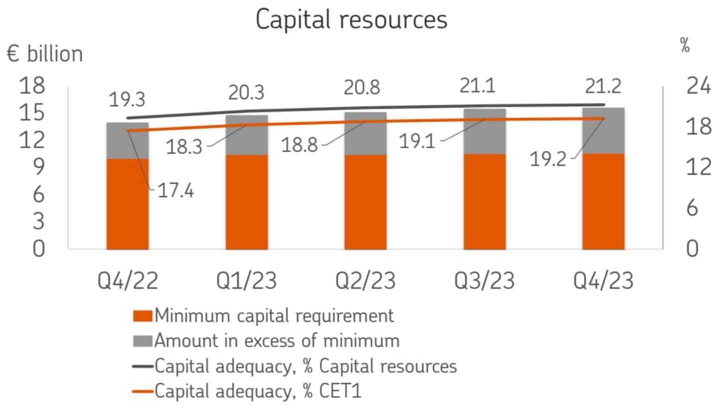
To promote diversity, OP Financial Group's objective is that the proportion of both women and men in defined executive positions is at least 40%. Women accounted for 31% (31) at the end of December.

OP Financial Group reports annually on sustainability issues in accordance with the GRI standards and, from the 2024 report onwards, in accordance with the European Sustainability Reporting Standards (ESRS) under the Corporate Sustainability Reporting Directive (CSRD). Non-financial and taxonomy reporting for 2023 will be published in OP Financial Group's Report by the Board of Directors for 2023.

Capital adequacy and capital base

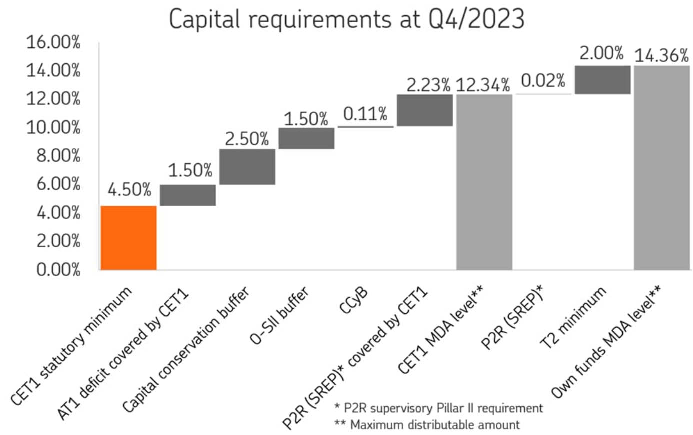
Capital adequacy ratio under the Act on the Supervision of Financial and Insurance Conglomerates

OP Financial Group's capital base, calculated according to the Act on the Supervision of Financial and Insurance Conglomerates (FiCo), exceeded the minimum amount specified in the Act by EUR 5.2 billion (4.1). Banking capital requirement was 14.4% (13.8), calculated on risk-weighted assets. The ratio of OP Financial Group's capital base to the minimum capital requirement was 144% (137). As a result of the buffer requirements for banking and the solvency requirements for insurance companies, the minimum FiCo solvency of 100% reflects the level within which the conglomerate can operate without regulatory obligations resulting from buffers below the required level.



Capital adequacy for credit institutions

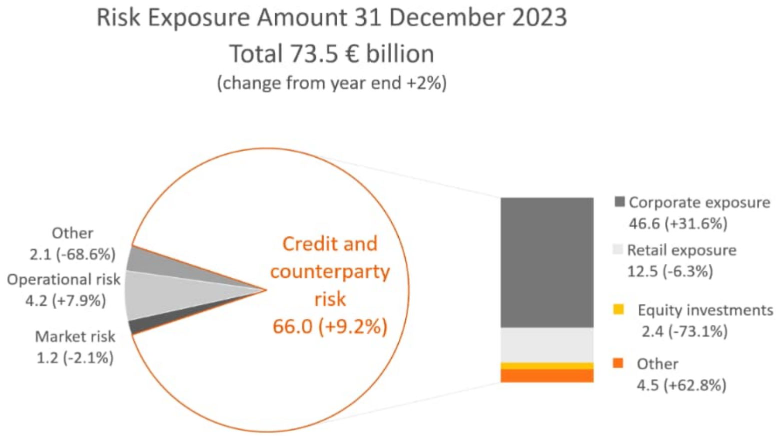
OP Financial Group's CET1 ratio was 19.2% (17.4), which exceeds the minimum regulatory requirement by 6.9 percentage points. The ratio was improved by earnings for the period.



As a credit institution, OP Financial Group's capital adequacy is on a solid basis compared to the statutory requirements and those set by the authorities. The statutory minimum for the capital adequacy ratio is 8% and for the CET1 ratio 4.5%; the minimum requirement of 1.5% for AT1 and T2, which needs to be covered with CET1, raises the CET1 minimum to 6.0%. The requirement for the capital conservation buffer of 2.5% under the Act on Credit Institutions, the O-SII buffer of 1.5%, the change in the countercyclical capital buffer for foreign exposures, and the ECB's P2R requirement increase, in practice, the minimum total capital ratio to 14.4% and the minimum CET1 ratio to 12.3%, including the shortfalls of Additional Tier 1 (AT1) and Tier 2 (T2) capital.

The CET1 capital of OP Financial Group as credit institution was EUR 14.1 billion (12.6). The CET1 capital was improved by Banking earnings and the elimination of the allowance for expected losses based on the IRBA, which resulted from the transition to the Standardised Approach to credit risk. The amount of Profit Shares in CET1 capital was EUR 3.1 billion (3.2).

The total risk exposure amount (TREA) was EUR 73.5 billion (72.3). In the first quarter, OP Financial Group adopted the Standardised Approach in its capital adequacy measurement, instead of the internal ratings-based approach that it applied earlier. The transition increased the total risk exposure amount, but the change had no impact on capital adequacy.



OP Financial Group treats insurance holdings within the financial conglomerate as risk-weighted assets, based on permission from the ECB. Equity investments include EUR 2.3 billion in risk-weighted assets of the Group's internal insurance holdings. Under the Standardised Approach, the risk weight of insurance company holdings is 100%.

The Finnish Financial Supervisory Authority (FIN-FSA) makes a macroprudential policy decision on a quarterly basis. In December 2023, the FIN-FSA reiterated its decision not to impose a countercyclical capital buffer requirement on banks. In its macroprudential policy decision in March 2023, the FIN-FSA set a systematic risk buffer of 1% for OP Financial Group, effective as of 1 April 2024.

The minimum leverage ratio for OP Financial Group's Banking was 9.5% (7.6). The higher ratio was particularly due to the repayment of TLTRO III funding, and earnings performance. The regulatory minimum requirement is 3%.

The future changes in the EU Capital Requirements Regulation (CRR3), which will implement the final elements of Basel III, are assessed to not have a substantial effect on the capital adequacy of OP Financial Group. The changes should take effect in 2025.

OP Amalgamation's Pillar III information for 2023 will be published in week 11.

Insurance

The solvency position of insurance companies is strong. On 30 September 2023, the life insurance business waived the application of the transitional provision in its solvency measurement. Both companies' solvency ratio weakened due to a higher capital requirement. The increase in capital requirement was due to the rise in equity risk, which forms part of market risk.

	Non-life insurance		Life insurance	
	31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022
Capital base, € mill.	1,747	1,658	1,466	1,369
Solvency capital requirement (SCR), € mill.	851	670	660	589
Solvency ratio, %	205	247	222	232

ECB's supervision

OP Financial Group is supervised by the European Central Bank (ECB).

On 13 March 2023, the ECB issued its decision on the application of the Standardised Approach to credit risk in OP Financial Group's capital adequacy measurement. OP Financial Group adopted the Standardised Approach to credit risk as of 31 March 2023.

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 has been 2.25% since 1 January 2022.

Liabilities under the Resolution Act

Under regulation applied to crisis resolution of credit institutions and investment firms, the resolution authority is authorised to intervene in the terms and conditions of investment products issued by a bank in a way that affects an investor's position. The EU's Single Resolution Board (SRB) based in Brussels is OP Financial Group's resolution authority. The SRB has confirmed a resolution strategy for OP Financial Group whereby the resolution measures would focus on the OP amalgamation and on the new OP Corporate Bank that would be formed in case of resolution.

The SRB updated the Minimum Requirement for Own Funds and Eligible Liabilities (MREL) for OP Financial Group in March 2023. As part of the MREL, the resolution authority has updated OP Financial Group's subordination requirement in accordance with the Single Resolution Mechanisms Regulation. The subordination requirement determines how much of the MREL must be fulfilled with own funds or subordinated liabilities. The MREL is 22.30% of the total risk exposure and 26.41% of the total risk exposure including a combined buffer requirement, and 7.40% of leverage ratio exposures. The updated subordination requirement supplementing the MREL was decreased to 14.66% of the total risk exposure amount and 18.77% of the total risk exposure amount including a combined buffer requirement, and 7.40% of leverage ratio exposures. This took effect on 15 March 2023.

From the beginning of 2024, the MREL will be 22.89% of the total risk exposure and 27.0% of the total risk exposure including a combined buffer requirement, and 7.40% of leverage ratio exposures. The requirements include a combined buffer requirement (CBR) of 4.11%.

OP Financial Group's buffer for the MREL was EUR 7.9 billion and for the subordination requirement EUR 5.6 billion. The amount of senior non-preferred (SNP) bonds issued by OP Financial Group totalled EUR 3.8 billion. These bonds provide funds for the MREL subordination requirement.

OP Financial Group clearly exceeds the new MREL requirement. OP Financial Group's MREL ratio was 37.1% of the total risk exposure amount and, based on the subordination requirement, the MREL ratio for subordinated liabilities was 26.4% of leverage ratio exposures.

Bases for risk profile management and the business environment

OP Financial Group's risk-taking starts from the fact that the Group assumes risks that are associated with executing the Group's mission. In all operations, the Group emphasises moderation and careful preparation in risk taking. Risk-taking is directed and limited by means of principles and limits prepared by senior management and approved by OP Cooperative's Board of Directors.

OP Financial Group's success is based on accumulated trust capital, on the adequacy of capital and liquidity, and on extensive data and knowledge of customers. Risk-taking is based on deep understanding of change factors affecting customer preferences, operations and future success in the current business environment and in situations where the business environment is affected by an unexpected shock or change in trend.

OP Financial Group analyses the business environment as part of the ongoing risk assessment activities and strategy process. Megatrends and future visions behind the strategy reflect driving forces that affect the daily activities, conditions and future of OP Financial Group and its customers. Such factors currently shaping the business environment include climate, biodiversity loss, scientific and technological innovations, demography and geopolitics. External business environment factors are considered thoroughly, so that their effects on customers' future success are understood. Advice and business decisions promote the sustainable financial success, security and wellbeing of owner-customers and the operating region while managing OP Financial Group's risk profile on a longer-term basis. Advice for customers, risk-based service sizing, contract lifecycle management, decision-making, management and reporting are based on correct and comprehensive information.

Considering that OP Financial Group's business covers various areas of the financial sector on an extensive basis, unexpected external shocks from the economic environment may cause various direct and indirect effects on the prosperity of OP Financial Group's customers and on the Group's premises, IT infrastructure and personnel.
If materialised, they may affect the risk profile, capitalisation, liquidity and the continuity of daily business in various ways. OP Financial Group assesses the effects of such potential shocks by means of scenario work. The Group is constantly prepared for such events by making various action plans for them and testing these plans.

Operational risks

There was a major change in the cybersecurity environment in 2022 due to the changed security situation in Europe. The cybersecurity threat level has remained elevated since early 2022, including in Finland. OP Financial Group protects its operations and the data of its customers and other stakeholders by maintaining a strong digital infrastructure, data security capabilities and cyber preparedness. This task extends to the level of the financial sector and the entire society.

Cooperation with the authorities and within the financial sector has been stepped up in Finland and the Nordic countries. This has proven an effective way to maintain resilience against cyber attacks throughout the financial sector. OP Financial Group has developed its cybersecurity on a long-term basis, taking account of cyber risks and the continuous changes in external threats. To ensure high-quality operations, the Group emphasises continuous practice, testing of activities, maintenance of competencies and sufficient resourcing. An analysis of successfully stopped attacks and systems-related vulnerabilities has shown that OP Financial Group has a good reaction speed and strong preventative capabilities, combining expertise, processes and technologies.

In late 2023, the denial of service (DoS) attacks towards Finnish companies and other organisations increased. The number of DoS attacks targeted at OP Financial Group trebled in 2023. These operations have caused only minor, short-term effects on the availability of services provided by OP Financial Group. OP Financial Group's ability to protect itself against and stop denial of service attacks is strong.

Besides these attacks, the volume of phishing messages from cybercriminals for data breach purposes has increased. The number of suspicious emails sent to OP Financial Group employees increased by 15%, and employees reported more than 12,000 messages identified as phishing emails in 2023.

Phishing attempts towards our customers quadrupled, but we responded effectively to the actions taken by criminals. In the future, AI will enable even more elaborate types of fraud crime.

At the end of 2023, we announced a data breach in the email of one of our employees. As a result of the data breach, an unauthorised party may have obtained the personal details of a limited group of customers, which is small in proportion to the total number of OP customers. The data breach did not target OP Financial Group's actual customer information systems, or the information held in them, but the email of an individual employee. It was executed using a very sophisticated attack technique that is difficult to detect and enables the bypassing of two-factor identification. This case is part of the phishing campaign about which the National Cyber Security Centre of Traficom warned organisations in the autumn of 2023.

OP Financial Group is systematically maintaining its operational capability and continuing the holistic development of its cybersecurity. Despite the preparedness of OP Financial Group, the financial sector and authorities, the risk of cyber attacks and other operations remains elevated.

On 7 September 2023, the Finnish Financial Supervisory Authority (FIN-FSA) issued a public warning to Pohjola Insurance concerning claim processing times of workers' compensation and occupational accident and disease insurance during 2019–2022. The FIN-FSA highlighted the related deficiencies in information systems and internal control. According to the FIN-FSA, Pohjola Insurance had significant deficiencies in adhering to statutory time limits, especially at the beginning of the review period. The observed deficiencies were corrected by the end of 2023.

During the reporting period, OP Financial Group continued to correct the matters observed in the AML audits completed by the FIN-FSA in 2022. The audits were performed as part of the FIN-FSA's normal supervisory and audit activities, applying to OP Corporate Bank plc, Etelä-Karjalan Osuuspankki, Turun Seudun Osuuspankki and OP Cooperative to the extent the audited banks had outsourced their tasks to it. The FIN-FSA did not make any observations that would indicate money laundering or terrorist financing. The FIN-FSA found matters requiring improvement in the assessment of money laundering risks, obtaining KYC information and keeping it up to date, assessment of risks associated with customer relationships, and matters related to internal control of AML. For several years, OP Financial Group has invested heavily in the development of money laundering risk management. A significant part of the corrective measures related to the supervisor's observations were taken by the end of the year.

In April 2023, the FIN-FSA began an AML audit at OP Retail Customers plc as part of its normal supervisory and audit activities. The audit was underway at the end of the financial year and is expected to be completed during spring 2024.

At the end of the reporting period, around 500 specialists worked in financial crime prevention in OP Financial Group's central cooperative. Employees of OP cooperative banks and OP Financial Group's other companies also play an important role in financial crime prevention.

During the reporting period, the volume of materialised operational risks decreased slightly at OP Financial Group, resulting in EUR 6 million (7) in losses. As regards other risks, the risk profile is discussed in more detail by business segment.

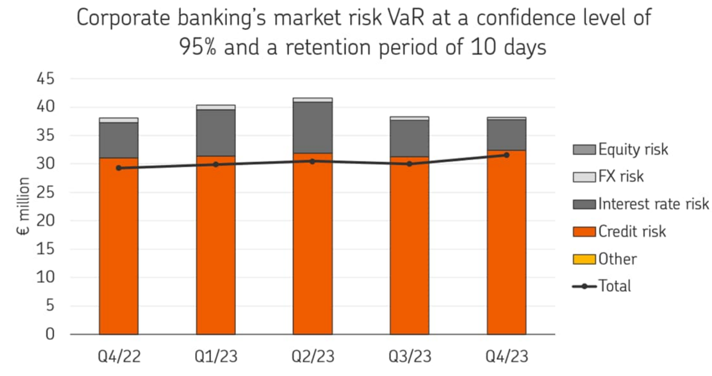
Retail Banking and Corporate Banking

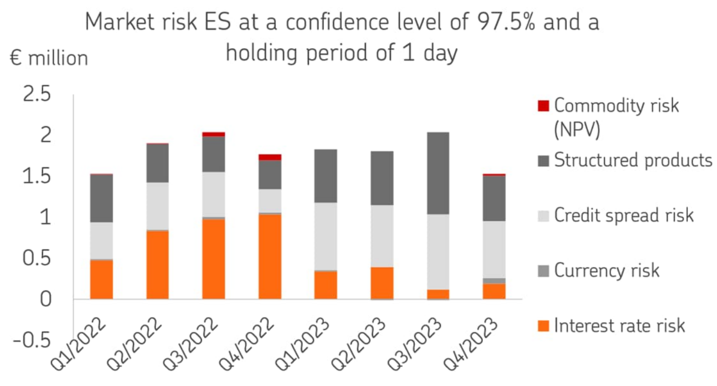
Major risks in banking are associated with credit risk arising from customer business, and market risk.

Banking credit risk exposure remained stable, the risk level was moderate and the overall quality of the loan portfolio was good although higher interest rates and inflation had a negative impact on the quality of the loan portfolio related to the construction and real estate sectors.

The VaR, a measure of market risks associated with OP Corporate Bank's investments, was EUR 32 million (29) on 31 December 2023. The market risk level increased during the fourth quarter. The VaR risk metric includes banking's bond investments, derivatives that hedge their interest rate risk as well as investments in money market papers. No major changes were made to the asset class allocation during the reporting period.

Market risks associated with the Markets function decreased during the fourth quarter. Since the beginning of 2023, OP Financial Group has used the Stressed Expected Shortfall (ES) risk measure.
The Stressed ES is a more conservative risk measure than the unstressed ES used previously.





Deposits within the scope of deposit guarantee and managed by OP Financial Group totalled EUR 44.2 billion (44.2) at the end of December, which equals 59.3% of deposits (56.7). The Deposit Guarantee Fund compensates a maximum of EUR 100,000 for each OP Financial Group customer.

Non-performing and forborne exposures

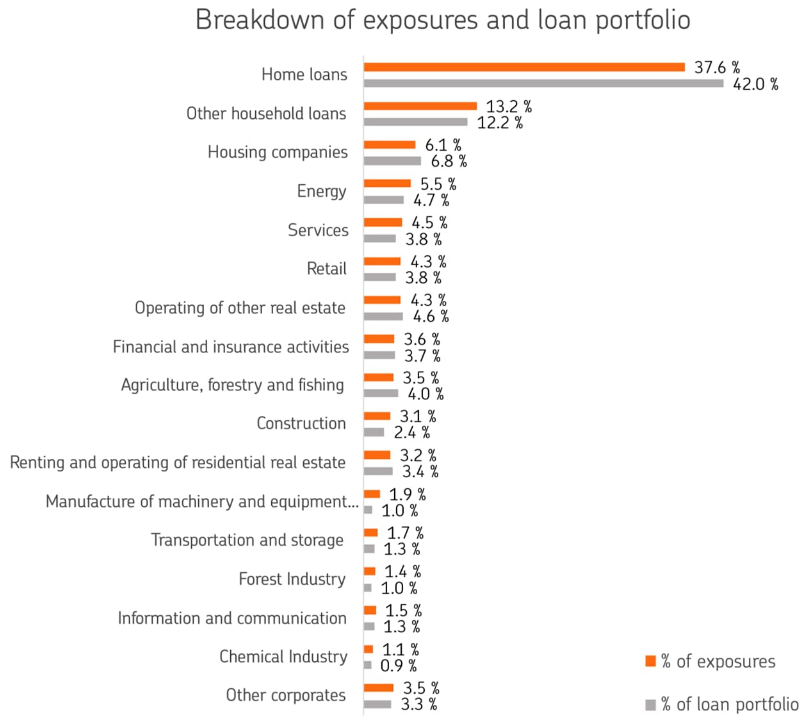
	Performing forborne exposures (gross)		Non-performing exposures (gross)		Doubtful receivables (gross)		Loss allowance		Doubtful receivables (net)	
	31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022
Over 90 days past due, € billion			0.59	0.52	0.59	0.52	0.21	0.19	0.38	0.33
Unlikely to be paid, € billion			1.37	0.91	1.37	0.91	0.21	0.16	1.16	0.75
Forborne exposures, € billion	3.33	3.38	1.45	1.32	4.78	4.70	0.20	0.18	4.59	4.51
Total, € billion	3.33	3.38	3.41	2.74	6.74	6.12	0.61	0.53	6.13	5.59

	OP Financial Group		Retail Banking		Corporate Banking	
Key ratios	31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022
Ratio of doubtful receivables to exposures, %*	5.81	5.16	7.30	6.64	2.52	1.92
Ratio of non-performing exposures to exposures, %*	2.94	2.31	3.25	2.67	2.23	1.53
Ratio of performing forborne exposures to exposures, %*	2.87	2.85	4.06	3.97	0.29	0.39
Ratio of performing forborne exposures to doubtful receivables, %	49.5	55.2	55.6	59.8	11.5	20.3
Ratio of loss allowance (receivables from customers) to doubtful receivables, %	13.7	12.0	10.4	8.5	34.8	38.4

* As of 1 January 2023, the loan portfolio included in exposures excludes changes in the fair value of loans in hedge accounting. Comparatives have been adjusted to correspond to the current definition.

No single customer's exposure exceeded 10% of OP Financial Group's capital base after allowances and other recognition of credit risk mitigation.

Breakdown of exposures and loan portfolio

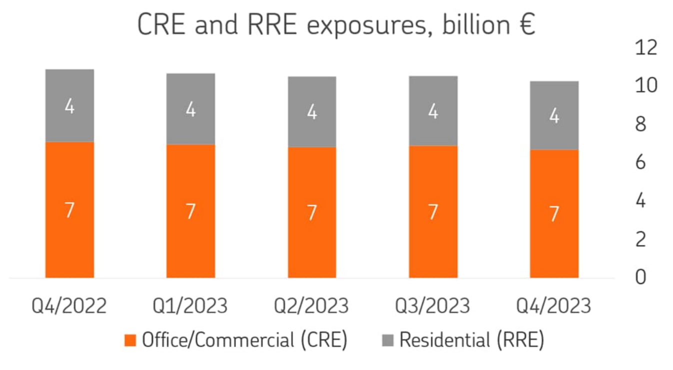


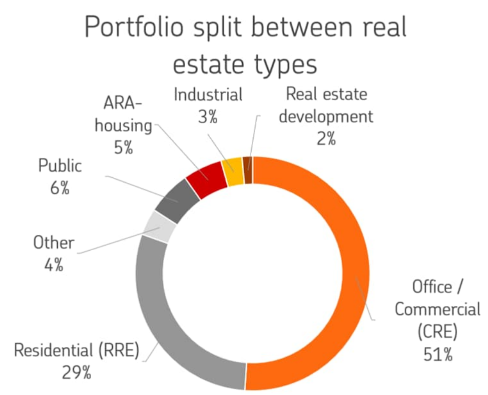
The graph shows the breakdown of OP Financial Group's exposures and loans by sector as percentages at the end of the reporting period.

Below is a more detailed description of the development of OP Financial Group's exposures to the real estate sector, and the breakdown of exposures by type of real estate. An increase in risk has been identified in the real estate sector due to the changed interest rate environment. In the graph above, exposures to the real estate sector are mainly included in Operating of other real estate, and Renting and operating of residential real estate.

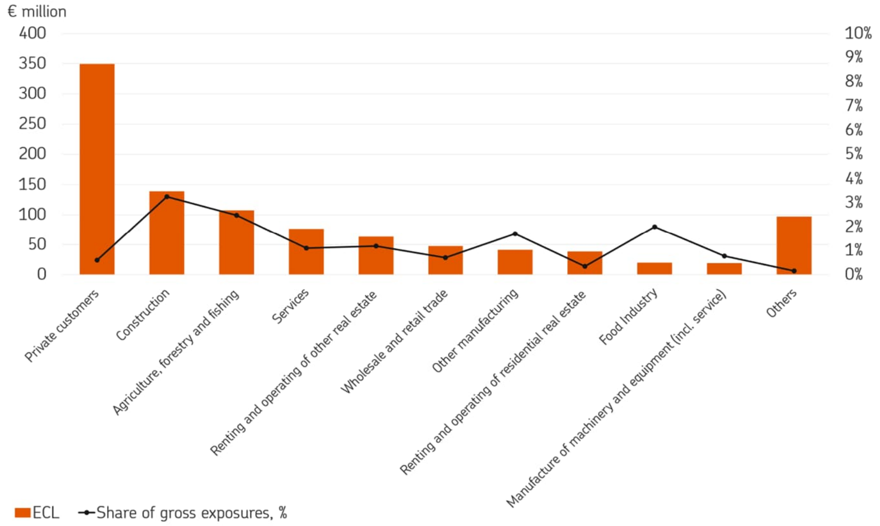
OP Financial Group's exposures to the real estate sector totalled 8.9% (9.3) of all exposures at period end. These exposures are well spread across different types of real estate. The largest type of real estate is commercial real estate units, which includes offices. On 31 December 2023, 63.0% of OP Financial Group's real estate portfolio was held by Corporate Banking and 37.0% by Retail Banking.

At the end of December, 4.63% of the real estate exposures (1.74%) were classified as non-performing exposures.





Loss allowance by sector 31.12.2023



The graph shows the loss allowance of different sectors and the ratio of loss allowance to gross exposures of the sector at the end of the reporting period, 31 December 2023.

Interest rate risk

Retail Banking's interest rate risk in the banking book measured as the effect of a one-percentage point interest rate increase on net interest income was EUR 130 million (286) and as the effect of a one-percentage point decrease EUR –137 million (–289) on the average per year. Interest income risk is calculated for a one-year period by dividing the sum of the interest income risk for the next three years by three.

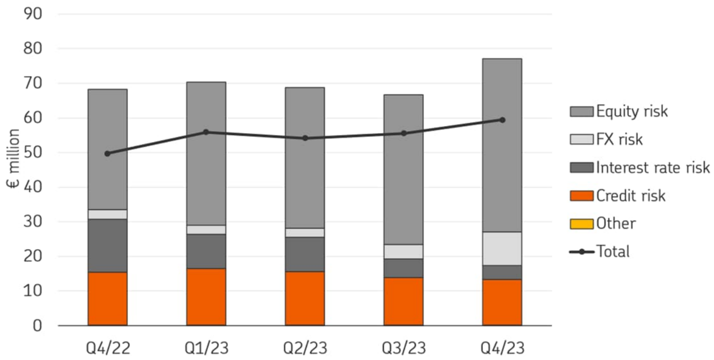
Corporate Banking's interest rate risk in the banking book measured as the effect of a one-percentage point interest rate increase on net interest income was EUR 17 million (16) and as the effect of a one-percentage point decrease EUR –18 million (–16) on the average per year.

Insurance

Non-life insurance

Major risks within non-life insurance include underwriting risks associated with claims developments, market risks associated with investments covering insurance contract liabilities, a faster-than-expected increase in life expectancy of the beneficiaries related to insurance contract liabilities for annuities, and interest rates used in the valuation of insurance contract liabilities.

Non-life insurance's market risk VaR at a confidence level of 95% and a retention period of 10 days



A 5% decrease in mortality assumptions would have an annual impact of EUR –15 million (–15) on insurance contract liabilities. A one percentage point decrease in interest rates used in the valuation of insurance contract liabilities would have an annual impact of EUR –176 million (–161) on such liabilities.

No significant changes took place in non-life insurance's underwriting risks during the reporting period. Non-life insurance's significant market risks include the equity risk, and lower market interest rates that increase the value of insurance contract liabilities and the capital requirement.

Compared to the previous report, non-life insurance interest rate risk on investments decreased. The VaR, a measure of market risk, was EUR 59 million (49) on 31 December 2023. VaR includes the company's investment balance including investments, insurance contract liabilities and derivatives that hedge against interest rate risk associated with insurance contract liabilities.

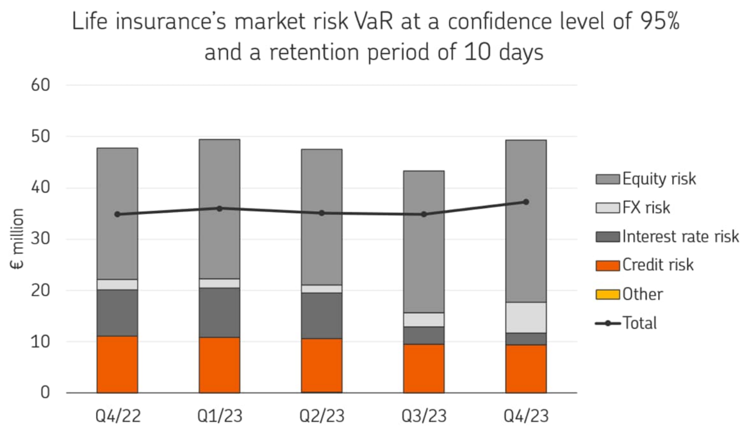
Life insurance

The key risks associated with life insurance are the market risks of life insurance's investment assets, the interest rate used for the valuation of insurance contract liabilities, changes in mortality rates among those insured, and the lapse risk arising from changes in customer behaviour.

Longevity, or the decline in mortality, increases payments made from pension portfolios. Overall, a 5% decrease in mortality assumptions would have an annual impact of EUR 22 million (20) on insurance contract liabilities related to annuity portfolios. Meanwhile, in term life insurance portfolios, the growth in mortality rates increases the number of claims. Overall, a 5% increase in mortality assumptions would have an annual impact of EUR 21 million (17) on insurance contract liabilities related to term life insurance portfolios. A 10% increase in the insurance policy lapse rate would have an annual impact of EUR 58 million (50) on insurance contract liabilities. A one percentage point decrease in interest rates used in the valuation of insurance contract liabilities would have an annual impact of EUR 177 million (184) on such liabilities.

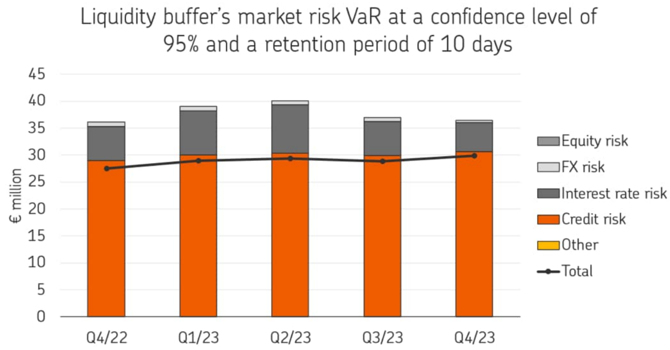
Investment risks associated with separated insurance portfolios and risks associated with changes in customer behaviour have been buffered. The buffer is sufficient to cover a significant negative return on the investment assets included in the separated portfolios, after which OP Financial Group will bear the risks associated with the portfolios. The buffers totalled EUR 245 million (246) on 31 December 2023.

VaR, a measure of market risk, was EUR 37 million (35) at the end of the reporting period. VaR includes the life insurance's investment balance, including investments, insurance contract liabilities and derivatives that hedge against interest rate risk associated with insurance contract liabilities. Market risks associated with separated life insurance portfolios, assets that buffer against those risks or customer bonuses, are not included in the calculation.



Group Functions

Major risks related to the Group Functions segment include credit and market risks associated with the liquidity buffer, and liquidity risks. The most significant market risk factor is the effect of credit spread changes on the value of notes and bonds included in the liquidity buffer.



OP Financial Group's funding position and liquidity is strong. In 2023, OP Financial Group issued long-term bonds worth a total of EUR 5.2 billion (8.0).

The VaR risk metric that measures market risk associated with the liquidity buffer was EUR 30 million (27) on 31 December 2023. The market risk level increased during the fourth quarter. The VaR risk metric includes bond investments in the liquidity buffer, derivatives that hedge their interest rate risk as well as investment in money market papers. No major changes occurred in the asset class allocation.

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

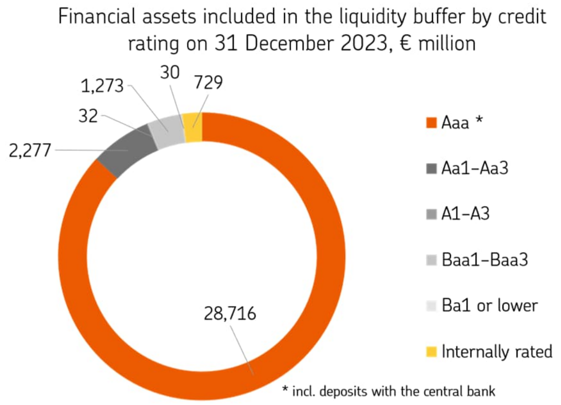
OP Financial Group monitors its liquidity and the adequacy of its liquidity buffer using, for example, the LCR (Liquidity Coverage Ratio). According to regulation, the LCR must be at least 100%. OP Financial Group's LCR was 199% (217) at the end of the reporting period.

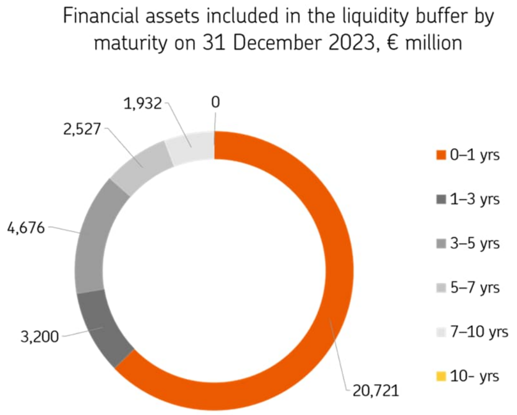
OP Financial Group monitors its long-term funding sufficiency, for example, by means of the Net Stable Funding Ratio (NSFR), which measures structural funding risk. According to regulation, the NSFR must be at least 100%. OP Financial Group's NSFR was 130% (128) at the end of the reporting period.

Liquidity buffer

€ billion	31 Dec 2023	31 Dec 2022	Change, %
Deposits with central banks	19.6	34.8	-43.8
Notes and bonds eligible as collateral	11.8	2.1	461.8
Loan receivables eligible as collateral	1.1	-	-
Total	32.4	36.9	-12.2
Receivables ineligible as collateral	0.7	0.7	-6.2
Liquidity buffer at market value	33.1	37.6	-12.1
Collateral haircut	-0.7	-0.2	-
Liquidity buffer at collateral value	32.3	37.4	-13.5

The liquidity buffer comprises notes and bonds issued by governments, municipalities, financial institutions and companies all showing good credit ratings, securitised assets and loan receivables eligible as collateral. In the reporting period, OP Financial Group repaid in full the EUR 12.0 billion in TLTRO III loans. At the end of the reporting period, the liquidity buffer included bonds worth EUR 622 million (0), classified at amortised cost and issued by non-OP Financial Group issuers. The fair value of these bonds amounted to EUR 640 million (0) at the end of the reporting period. In the above information on the liquidity buffer, these bonds are measured at fair value.





Credit ratings

Credit ratings 31 December 2023

Rating agency	OP Corporate Bank plc				Pohjola Insurance Ltd	
	Short-term debt	Outlook	Long-term debt	Outlook	Financial strength rating	Outlook
Standard & Poor's	A-1+	-	AA-	Stable	A+	Stable
Moody's	P-1	Stable	Aa3	Stable	A2	Stable

OP Corporate Bank plc and Pohjola Insurance Ltd have credit ratings affirmed by Standard & Poor's Global Ratings Europe Limited and Moody's Investors Service (Nordics) AB. When assessing OP Corporate Bank's credit rating, credit rating agencies take account of the entire OP Financial Group's financial position. The credit ratings did not change in 2023.

Financial performance by segment

OP Financial Group's business segments are Retail Banking (Banking Personal and SME Customers), Corporate Banking (Banking Corporate and Institutional Customers) and Insurance (Insurance Customers). Non-business segment operations are presented under the Group Functions segment. OP Financial Group prepares its segment reporting in compliance with its accounting policies.

Retail Banking

- Operating profit increased to EUR 1,223 million (502) and the cost/income ratio improved to 45.8% (61.6).
- Total income increased by 49.1% to EUR 2,976 million. Income from customer business increased by a total of 49.8%: net interest income increased by 89.2% to EUR 2,258 million and net commissions and fees decreased by 11.2% to EUR 686 million. The decrease in net commissions and fees was affected by the fact that owner-customers have got their daily banking services free of monthly charges since October 2023.
- Impairment loss on receivables increased to EUR 173 million (96). Non-performing exposures (gross) accounted for 3.2% (2.7) of total exposures.
- Total expenses increased by 10.9% to EUR 1,363 million. Personnel costs increased by 9.7% to EUR 500 million and other operating expenses by 11.9% to EUR 806 million.
- OP bonuses to owner-customers increased by 28.7% to EUR 217 million (168).
- The loan portfolio decreased by 1.6% to EUR 70.9 billion and deposits by 5.6% to EUR 61.2 billion.
- The most significant development investments focused on upgrading the core banking system and developing digital services.

Key figures and ratios

€ million	Q1–4/2023	Q1–4/2022	Change, %
Net interest income	2,258	1,194	89.2
Impairment loss on receivables	-173	-96	79.2
Net commissions and fees	686	773	-11.2
Investment income	-29	-9	-
Other operating income	61	39	57.3
Personnel costs	-500	-455	9.7
Depreciation/amortisation and impairment loss	-57	-53	6.7
Other operating expenses	-806	-720	11.9
OP bonuses to owner-customers	-217	-168	28.7
Operating profit	1,223	502	143.5
Total income	2,976	1,996	49.1
Total expenses	-1,363	-1,229	10.9
Cost/income ratio, %	45.8	61.6	-15.8*
Ratio of non-performing exposures to exposures, % ***	3.2	2.7	0.5*
Ratio of impairment loss on receivables to loan and guarantee portfolio, %	0.24	0.13	0.11*
Return on assets (ROA), %	0.99	0.40	0.59*
Return on assets, excluding OP bonuses, %	1.17	0.54	0.63*

€ million	Q1–4/2023	Q1–4/2022	Change, %
Home loans drawn down	5,569	7,513	-25.9
Corporate loans drawn down	1,996	2,702	-26.1
No. of brokered residential property and property transactions	8,949	10,844	-17.6

€ billion	31 Dec 2023	31 Dec 2022	Change, %
Loan portfolio**			
Home loans	41.9	42.3	-1.1
Corporate loans	7.9	8.3	-5.6
Housing companies****	8.6	8.8	-1.9
Other loans to corporations and institutions	4.2	4.1	3.0
Other consumer loans	8.4	8.6	-2.0
Total loan portfolio	70.9	72.1	-1.6
Guarantee portfolio	1.0	1.0	1.0
Other exposures	7.6	8.3	-8.4
Deposits**			
Current and payment transfer deposits	36.8	43.3	-14.9
Investment deposits	24.4	21.6	13.0
Total deposits	61.2	64.8	-5.6

*Change in ratio

** As of 1 January 2023, the loan portfolio and deposits exclude changes in the fair value of loans and deposits in hedge accounting. Comparatives have been adjusted to correspond to the current definition.

*** As of 1 January 2023, in the calculation of this ratio, the exposures item excludes changes in the fair value of loans in hedge accounting. Comparatives have been adjusted to correspond to the current definition.

**** Housing company loans includes housing companies and housing investment companies.

OP Financial Group's Retail Banking segment consists of banking and asset management services for personal and SME customers at OP cooperative banks and at the central cooperative consolidated.

The loan portfolio decreased by 1.6% to EUR 70.9 billion. The home loan portfolio decreased by 1.1% to EUR 41.9 billion. High inflation and the rise in reference interest rates had a major impact on the housing market. As a result of the prolonged slack home loan market, the amount of home loans drawn down totalled EUR 5.6 billion, representing a decrease of 25.9% year on year. However, in October–December 2023, the amount of home loans drawn down increased by 5.5% year on year thanks to the transfer tax exemption granted to first-time home buyers, which boosted home sales and purchases. The volume of home and real property sales brokered by OP Koti real estate agents totalled 8,932, a decrease of 17.6% year on year. At the end of the reporting period, 80.6% (89.5) of the home loan portfolio was tied to the 12-month Euribor, 16.0% (7.4) to shorter Euribor rates, and 3.4% (3.1) to the OP-Prime rate and a fixed interest rate. The corporate loan portfolio decreased by 5.6% to EUR 7.9 billion due to the decline in the willingness of SMEs to invest. The housing company loan portfolio decreased by 1.9% to EUR 8.6 billion. Other loans to corporations and institutions increased by 3.0% to EUR 4.2 billion. Other consumer loans decreased by 2.0% to EUR 8.4 billion.

On 31 December 2023, a total of 34.4% (32.8) of personal customers' home loans were covered by interest rate protection. On the same date, the interest expenses of around 160,000 home loans were being cut by an interest rate cap; the loans' aggregate principal totalled EUR 14.1 billion. In financial terms, the net benefit gained by customers from interest rate caps totalled EUR 168 million in 2023.

The deposit portfolio decreased by 5.6% to EUR 61.2 billion. This was mainly attributable to the decrease in corporate customers' payment transfer deposits. Deposits on current and payment transfer accounts decreased by 14.9% and investment deposits increased by 13.0%.

In March, OP Financial Group launched a green loan for SMEs and housing companies. The new green loan boosts investments in areas such as energy-efficient construction, renewable energy, and infrastructure for low-emission transport. At the end of December, green loans granted to SMEs totalled EUR 62 million (0).

OP Financial Group customers' interest in saving and investing continued. During the reporting period, OP's mutual funds attracted 65,000 new unitholders, and customers made 126,000 new systematic investment plans on mutual funds. At the end of the reporting period, OP's mutual funds had almost 1.28 million unitholders. The number of active equity investor customers was record high, showing a growth of 16.0% year on year. In share trading, the number of executed orders was 1.9% higher than a year ago.

OP Financial Group paid 30% extra on OP bonuses earned by owner-customers for 2023. The value of the new OP bonuses earned totalled EUR 275 million (215). OP Financial Group will pay 40% extra on OP bonuses earned for 2024 – an estimated additional bonus of EUR 86 million for owner-customers. In addition, owner-customers will get daily banking services without monthly charges from October 2023 until the end of 2024. The value of this benefit was EUR 22 million for 2023 and will be an estimated EUR 88 million for 2024.

From 1 November 2023 onwards, owner-customers have got a 0.25% interest on deposits in their current accounts. This benefit applies to owner-customers who have an owner-customer membership and a current account with the same OP cooperative bank.

During the reporting period, the most significant development investments focused on upgrading the core banking system and developing digital services.

In December, OP announced that OP and Nordea are establishing a joint venture to create Finnish solutions for payment challenges. They aim to develop phone number-based payment and e-invoice management solutions for consumers and companies. The solution will be open to other market actors. Realisation of the venture must await the approval of the competition authorities.

At the end of December, the number of OP cooperative banks was 102 (108). Merger projects between OP cooperative banks are underway in different parts of Finland.

Financial performance for the reporting period

Retail Banking's operating profit amounted to EUR 1,223 million (502). Total income increased by 49.1% to EUR 2,976 million. Net interest income grew by 89.2% to EUR 2,258 million due to the rise in market interest rates that began in spring 2022.

Net commissions and fees decreased by 11.2% to EUR 686 million. Owner-customers have got daily banking services without monthly charges since October 2023. In addition, Retail Banking's net commissions and fees were reduced by the change in the operating model applied to hedging interest rate risk associated with derivative contracts between Corporate Banking and Retail Banking, which was implemented at the end of 2022.

Impairment loss on receivables grew by 79.2% to EUR 173 million (96). Expected credit losses concerning the construction and real estate sectors increased. Final net loan losses recognised for the reporting period totalled EUR 36 million (32). Non-performing exposures accounted for 3.2% (2.7) of total exposures.

Total expenses increased by 10.9% to EUR 1,363 million. Personnel costs rose by 9.7% to EUR 500 million. The increase was affected by higher headcount and growth in the provision for performance-based bonuses as well as pay rises. Other operating expenses increased by 11.9% to EUR 806 million. The increase was mainly due to higher ICT costs. Depreciation/amortisation and impairment loss increased by 6.7% from the previous year, to EUR 57 million.

OP bonuses to owner-customers grew by 28.7% to EUR 217 million as a result of the additional bonuses paid for 2023.

Corporate Banking

- Operating profit decreased to EUR 408 million (416) and the cost/income ratio improved to 40.1% (41.4).
- Total income grew to EUR 885 million (776). Net interest income grew by 29.3% to EUR 591 million (457) and net commissions and fees by 32.2% to EUR 219 million (166). Investment income decreased to EUR 53 million (136).
- Impairment loss on receivables totalled EUR 96 million (18). Non-performing exposures (gross) accounted for 2.2% (1.5) of total exposures.
- Total expenses increased to EUR 354 million (321). Personnel costs increased by 9.8% to EUR 104 million (95). Depreciation/amortisation and impairment losses decreased by 63.3% to EUR 3 million (8). Other operating expenses increased by 13.4% to EUR 247 million.
- The loan portfolio grew by 0.9% to EUR 28.1 billion and deposits decreased by 1.6% to EUR 13.8 billion. Assets under management by Corporate Banking increased by 3.4% to EUR 74.8 billion.
- The most significant development investments involved the upgrades of customer relationship management, payment and asset management systems, and sustainability.

Key figures and ratios

€ million	Q1–4/2023	Q1–4/2022	Change, %
Net interest income	591	457	29.3
Impairment loss on receivables	-96	-18	424.6
Net commissions and fees	219	166	32.2
Investment income	53	136	-60.7
Other operating income	21	18	20.4
Personnel costs	-104	-95	9.8
Depreciation/amortisation and impairment loss	-3	-8	-63.3
Other operating expenses	-247	-218	13.4
OP bonuses to owner-customers	-26	-20	30.1
Operating profit	408	416	-2.1
Total income	885	776	14.0
Total expenses	-354	-321	10.4
Cost/income ratio, %	40.1	41.4	-1.3*
Ratio of non-performing exposures to exposures, % **	2.2	1.5	0.7*
Ratio of impairment loss on receivables to loan and guarantee portfolio, %	0.31	0.06	0.25*
Return on assets (ROA), %	0.93	1.00	-0.07*
Return on assets, excluding OP bonuses, %	0.99	1.05	-0.05*

€ billion	31 Dec 2023	31 Dec 2022	Change, %
Loan portfolio***			
Corporate loans	20.4	19.9	2.7
Housing companies****	2.0	2.1	-3.1
Other consumer loans	3.2	2.8	14.9
Other loans	2.3	3.0	-21.3
Total loan portfolio	28.1	27.8	0.9
Guarantee portfolio	3.2	3.4	-6.7
Other exposures	5.7	6.4	-10.9
Deposits***	13.8	14.0	-1.6
Assets under management (gross)			
Mutual funds	30.0	27.6	8.8
Institutional clients	35.9	35.7	0.8
Private Banking	8.8	9.0	-2.8
Total (gross)	74.7	72.3	3.4
€ million	**Q1–4/2023**	**Q1–4/2022**	
Net inflows			
Private Banking clients	174	-1	-
Institutional clients	-313	-356	-12.2
Total net inflows	-139	-357	-61.1

*Change in ratio.

** As of 1 January 2023, in the calculation of this ratio, the exposures item excludes changes in the fair value of loans in hedge accounting. Comparatives have been adjusted to correspond to the current definition.

*** As of 1 January 2023, the loan portfolio and deposits exclude changes in the fair value of loans and deposits in hedge accounting. Comparatives have been adjusted to correspond to the current definition.

**** Housing company loans includes housing companies and housing investment companies.

OP Financial Group's Corporate Banking segment consists of banking and asset management services for corporate and institutional customers. The segment comprises OP Corporate Bank plc's banking, OP Asset Management Ltd, OP Fund Management Company Ltd, OP Custody Ltd and OP Real Estate Asset Management Ltd.

The loan portfolio grew by 0.9% to EUR 28.1 billion. The slowdown in companies' willingness to invest, reduced international trade and a lower need for working capital affected the development of the loan portfolio. On the other hand, the loan portfolio grew due to the increase in consumer finance, especially car finance. During 2023, OP Corporate Bank became the market leader of passenger car finance.

The deposit portfolio grew during the fourth quarter, but overall the deposit portfolio decreased by 1.6% to EUR 13.8 billion during 2023.

Investments by Corporate Banking in promoting a sustainable economy increased the commitment portfolio of sustainable finance to EUR 6.5 billion (5.2). Demand for sustainable financing has remained strong and companies have made active use of Corporate Banking's expertise in financing the sustainable economy.

The most significant Corporate Banking development investments involved the upgrades of customer relationship management, payment, finance and asset management systems, and sustainability. With the implementation of the new Group-level customer relationship management system, Corporate Banking aims at better customer experience and higher quality and more efficient operations. The upgrade of core payment systems and improvement of digital services will continue further. In asset and wealth management, fund management processes and customer service will be further upgraded.

Within asset management, net assets inflow was EUR –139 million (–357). Despite the challenging market conditions, assets under management by Corporate Banking increased by 3.2% to EUR 74.7 billion (72.3). This included EUR 23.2 billion (23.2) in assets of the companies belonging to OP Financial Group.

In the fourth quarter, Corporate Banking established the new OP-Sustainable Wellbeing fund in order to strengthen the social dimension of ESG in the range of mutual funds provided by OP Financial Group by promoting the sustainable wellbeing of people and societies.

At the end of 2023, large Finnish corporations again ranked OP Corporate Bank as Finland's best corporate bank, achieving a shared first position in the Prospera survey. OP Corporate Bank is the only corporate bank in Finland to have been in the top two of the Prospera survey for six consecutive years.

Financial performance for the reporting period

Corporate Banking's operating profit amounted to EUR 408 million (416). The cost/income ratio was 40.1% (41.4). Net interest income grew by 29.3% to EUR 591 million (457). The rise in market rates that has continued since the spring of 2022 increased net interest income.

Impairment loss on receivables totalled EUR 96 million (18). During the reporting period, impairment loss on receivables increased as a result of the deteriorated situation in the construction and real estate sectors, among others. An additional management overlay provision of EUR 9 million was included in impairment loss on receivables, mainly targeted at the construction industry. Non-performing exposures accounted for 2.2% (1.5) of total exposures.

Corporate Banking's net commissions and fees totalled EUR 219 million (166). The change in the operating model applied to hedging interest rate risk associated with derivative contracts between Corporate Banking and Retail Banking, which was implemented at the end of 2022, improved net commissions and fees and, correspondingly, reduced investment income.

Corporate Banking segment's net commissions and fees

€ million	Q1–4/2023	Q1–4/2022	Change, %
Mutual funds	125	127	-1.9
Asset management	33	16	109.6
Other	60	22	172.5
Total	219	166	32.2

Investment income decreased to EUR 53 million (136). Value changes in Credit Valuation Adjustment (CVA) in derivatives owing to market changes decreased earnings by EUR 6 million (4).

Personnel costs rose by 9.8% to EUR 104 million. The increase was affected by higher headcount and growth in the provision for performance-based bonuses as well as pay rises. Other operating expenses increased by 13.4% to EUR 247 million. The increase was due to higher intra-Group charges at OP Financial Group.

Insurance

- Operating profit increased to EUR 414 million (293).
- Insurance service result was EUR 81 million (106). Investment income totalled EUR 347 million (154).
- Non-life insurance premiums written increased by 5.7% to EUR 1,792 million. Non-life insurance combined ratio was 93.8% (89.8).
- In life insurance, unit-linked insurance assets increased by 8.3% to EUR 12.6 billion. Premiums written in term life insurance grew by 10.2%.
- Return on investments by non-life insurance at fair value was 8.1% (–10.8) and that by life insurance was 8.3% (–16.1).
- Total expenses increased to EUR 548 million (462). Development investments focused on the core system upgrades and the development of digital services.

Key figures and ratios

€ million	Q1–4/2023	Q1–4/2022	Change, %
Insurance service result	81	106	-23.2
Net finance income	-722	2,226	-
Net investment income	1,069	-2,072	-
Investment income	347	154	125.1
Net commissions and fees	56	50	12.9
Other net income	4	39	-89.7
Personnel costs	-167	-147	13.6
Depreciation/amortisation and impairment loss	-64	-51	24.5
Other operating expenses	-317	-264	20.0
Total expenses	-548	-462	18.5
Transfers to insurance service result	485	416	16.6
OP bonuses to owner-customers	-12	-10	22.8
Operating profit	414	293	41.4
Return on assets (ROA), %	1.54	1.11	0.44*
Return on assets, excluding OP bonuses, %	1.64	1.18	0.46*

*Change in ratio

OP Financial Group's Insurance segment comprises life and non-life insurance business. The segment includes Pohjola Insurance Ltd and OP Life Assurance Company Ltd.

In non-life insurance, the number of prime customer households using Pohjola Insurance as their main insurer increased by 8,453, to 707,689 households. In particular, demand for health insurance was strong, and the number of those insured grew during the year.

The amount of claims reported grew by 10%. Health insurance showed the largest growth rate, 15%, due to a higher number of visits to doctors. The number of large claims decreased year on year.

In the life insurance business, premiums written in term life insurance grew by 10.2%. In life insurance, unit-linked insurance assets increased by 8.3% to EUR 12.6 billion (11.6).

Financial performance for the reporting period

Operating profit improved to EUR 414 million (293). Insurance service result was EUR 81 million (106).

Investment income increased to EUR 347 million (154). Net investment income grew following the increase in the value of shares. The value of insurance contract liabilities increased as a result of the decrease in interest rates in the fourth quarter, which decreased net finance income. A year ago, the rise in interest rates decreased the value of insurance contract liabilities and increased net finance income.

OP Financial Group has applied IFRS 17 Insurance Contracts as of 1 January 2023. The new method of recognition changed the timing of insurance service result. Expected loss is immediately recognised in the income statement. The investment result is recognised at fair value in the income statement. The impact of economic assumptions, such as the changes in interest rates, on the value of insurance contract liabilities is recognised in net finance income. Net investment income and net finance income together indicate the profitability of investment operations.

Investment income

€ million	Q1–4/2023	Q1–4/2022
Insurance companies’ investments		
Fixed income investments	403	-852
Quoted shares	167	-240
Other liquid investments	0	-8
Property investment	20	83
Other illiquid investments	13	39
Insurance companies' net investment income	604	-977
Net finance income*	-223	1,144
Interest on subordinated loans, and other income and expenses	-25	13
Investment income	356	180
Net income from separated balance sheets	-3	-5
Net income from customers’ savings and investments agreements	-7	-22
Total investment income	347	154

* Excluding net finance income from separated balance sheets and customers’ savings and investments agreements

Non-life insurance financial performance

Non-life insurance operating profit amounted to EUR 236 million (344). Positive developments in the value of shares strengthened the investment result. Profitability weakened, year on year, as a result of higher net claims incurred and operating expenses. A year ago, other income included a capital gain of EUR 32 million on the sale of Pohjola Hospital.

€ million	Q1–4/2023	Q1–4/2022	Change, %
Insurance revenue	1,758	1,680	4.6
Claims incurred	-1,087	-1,210	-10.2
Operating expenses	-487	-421	15.6
Insurance service result, gross	185	50	271.6
Reinsurer's share of insurance revenue	-98	-80	22.6
Reinsurer's share of insurance service expenses	16	194	-91.8
Net income from reinsurance	-82	114	-
Insurance service result	103	164	-37.3
Net finance income	-182	584	-
Income from investment activities	332	-435	-
Investment income	149	149	0.6
Other net income	-17	32	-
Operating profit	236	344	-31.6
Combined ratio	93.8	89.8	
Risk ratio	64.8	63.7	
Cost ratio	29.0	26.1	

Non-life insurance: premiums written

€ million	Q1–4/2023	Q1–4/2022	Change, %
Personal customers	987	929	6.3
Corporate customers	805	767	5.0
Total	1,792	1,696	5.7

Premiums written increased by 5.7% to EUR 1,792 million. Besides the growth in the number of customers, the increase was attributable to the rise in the general level of costs and the resulting index increments and price increases in insurance premiums. Net insurance revenue was burdened by a rise in reinsurance costs. Net insurance revenue including reinsurer's share grew by 3.7% to EUR 1,660 million.

Claims incurred before reinsurer's share decreased by 10.2% to EUR 1,087 million as a result of a year-on-year decrease in claims incurred associated with large claims. Meanwhile, the rise in the general level of costs and higher claims volumes, particularly in health insurance, increased claims incurred. Net claims incurred after reinsurer's share grew by 5.6% to EUR 1,076 million.

In 2023, the reported number of large claims under property and business liability insurance (in excess of EUR 0.3 million) amounted to 123 (121), with their claims incurred retained for own account totalling EUR 112 million (180). Non-life insurance operating risk ratio was 64.8% (63.7).

Operating expenses increased by 15.6% to EUR 487 million due to higher personnel costs and ICT development costs. Personnel costs increased due to pay rises and a higher headcount. ICT development costs increased as a result of a change in the capitalisation practice. These costs are no longer capitalised because development has been migrated to the cloud environment. Write-downs on development projects are included in other net income.

In non-life insurance, the cost ratio was 29.0% (26.1). Combined ratio reported by non-life insurance weakened to 93.8% (89.8). This was attributable to the substantial growth of claims incurred in health insurance, and higher operating expenses.

Non-life insurance: investment income

€ million	Q1–4/2023	Q1–4/2022
Net finance income and expenses	-182	584
Fixed income investments	219	-372
Quoted shares	103	-132
Other liquid investments	0	-4
Property investment	14	60
Other illiquid investments	8	21
Income from investment activities	343	-427
Interest on subordinated loans, and other income and expenses	-12	-9
Total investment income	149	149

Non-life insurance: key investment indicators

	Q1–4/2023	Q1–4/2022
Return on investments at fair value, %	8.1	-10.8
Fixed income investments' running yield, %	2.4	1.4
	31 Dec 2023	31 Dec 2022
Investment portfolio, € million	4,334	4,071
Investments within the investment grade category, %	90	92
At least A-rated receivables, %	53	56
Modified duration	3.5	2.8

Life insurance financial performance

Operating profit amounted to EUR 178 million (–57) due to a stronger investment performance. Insurance service result improved by EUR 36 million but remained negative as a result of the increase in the loss component of defined benefit group pension insurance following the updates of the calculation model. A contractual service margin of EUR 68 million (35) was recognised in the insurance service result. Positive developments in the value of investments strengthened the investment result. An update of calculation assumptions related to bonuses and rebates increased net finance income by EUR 30 million. Expenses increased by EUR 7 million to EUR 77 million. Development costs increased as a result of the core system reforms that were launched during the reporting period in term life insurance and individual unit-linked insurance.

€ million	Q1–4/2023	Q1–4/2022	Change, %
Insurance service result	-22	-58	-
Net finance income and expenses	-540	1,642	-
Income from investment activities	736	-1,643	-
Investment income	196	-1	-
Net commissions and fees	47	40	18.0
Other operating income and expenses	4	3	24.0
Personnel costs	-14	-13	13.2
Depreciation/amortisation and impairment loss	-16	-20	-18.4
Other operating expenses	-47	-37	25.6
Total expenses	-77	-70	11.0
Transfers to insurance service result	42	38	8.6
OP bonuses to owner-customers	-12	-10	22.8
Operating profit	178	-57	-
Cost/income ratio, %	29	312	-
Contractual service margin at period end	756	787	-4.0

Life insurance: investment income

€ million	Q1–4/2023	Q1–4/2022
Insurance company's investments		
Fixed income investments	184	-480
Quoted shares	64	-108
Other liquid investments	0	-4
Property investment	7	23
Other illiquid investments	5	19
Insurance company's net investment income	261	-550
Net finance income*	-40	560
Interest on subordinated loans, and other income and expenses	-15	16
Investment income	206	26
Net income from separated balance sheets	-3	-5
Net income from customers' savings and investments agreements	-7	-22
Total investment income	196	-1

* Excluding net finance income from separated balance sheets and customers' savings and investments agreements

Life insurance: key investment indicators*

	Q1–4/2023	Q1–4/2022
Return on investments at fair value, %	8.3	-16.1
Fixed income investments' running yield, %	2.1	1.3
	31 Dec 2023	31 Dec 2022
Investment portfolio, € million	3,201	3,235
Investments within the investment grade category, %	91	90
A-rated receivables, minimum, %	53	50
Modified duration	3.3	2.8

* Excluding the separated balance sheets

Group Functions

Key figures and ratios

€ million	Q1–4/2023	Q1–4/2022	Change, %
Net interest income	1	-62	-
Impairment loss on receivables	0	0	-
Net commissions and fees	-1	0	-
Investment income	10	-11	-
Other operating income	741	657	12.8
Personnel costs	-232	-195	19.1
Depreciation/amortisation and impairment loss	-104	-103	0.8
Other operating expenses	-441	-376	17.2
Operating loss	-26	-91	-

The Group Functions segment consists of OP Cooperative's functions tasked with the support and assurance of business segments, as well as OP Corporate Bank plc's treasury functions.

Financial performance for the reporting period

Group Functions operating loss was EUR –26 million (–91). Net interest income was EUR 1 million (–62). A rise in market interest rates had a positive effect on net interest income.

Investment income totalled EUR 10 million (-11). Other operating income increased by 12.8% to EUR 741 million. Other operating income mainly includes OP Financial Group's intra-group items.

Personnel costs rose by 19.1% to EUR 232 million. The increase was affected by higher headcount and growth in the provision for performance-based bonuses as well as general pay increases. Depreciation/amortisation and impairment loss on PPE and intangible assets increased by 0.8% to EUR 104 million. Other operating expenses increased by 17.2% to EUR 441 million. ICT costs increased by 15.5% to EUR 307 million.

OP Financial Group's funding position and liquidity is strong. At the end of the reporting period, the Group's LCR was 199% (217) and NSFR was 130% (128). At the end of the reporting period, OP Financial Group's balance sheet assets included bonds worth EUR 623 million (1), which are not measured at fair value in accounting. The fair value of these bonds amounted to EUR 641 million (1) at the end of the reporting period.

On 31 December 2023, the average margin of OP Financial Group's senior and senior non-preferred wholesale funding and covered bonds was 34 basis points (27). In 2023, OP Financial Group issued long-term bonds worth a total of EUR 5.2 billion (8.0). In the reporting period, OP Financial Group repaid in full the EUR 12.0 billion in TLTRO III loans.

ICT investments

OP Financial Group invests in developing its operations and improving customer experience on an ongoing basis. The central cooperative with its subsidiaries is responsible for the development of OP Financial Group's products and services, digital channels and shared technology, data and cybersecurity capabilities, while safeguarding the high quality, availability and data security of the services. ICT costs make up a significant portion of development costs.

OP Financial Group and Microsoft will deepen their IT partnership and OP Financial Group will switch over to using Microsoft cloud services on an extensive basis. This cloud migration is a significant investment for the Group in new technology, IT expertise and operating model. On 22 August 2023, OP announced its decision to build its new digital services and data platforms based on Microsoft Azure and concentrate its IT services on the cloud ecosystem located in Finland, which will foster digital growth in the whole of Finland. Along with the partnership and migration to the cloud environment, OP Financial Group can further improve the services provided to its customers.

OP Financial Group's development expenditure totalled EUR 356 million (313). This included licence fees, purchased services, other external costs related to projects, and in-house work. The capitalised development expenditure totalled EUR 62 million (97). More detailed information on OP Financial Group's investments can be found in the business segment reports in this Financial Statements Bulletin.

Personnel

On 31 December 2023, OP Financial Group had 13,806 employees (12,999). The number of employees averaged 13,533 (13,077). During the reporting period, the number of employees increased in areas such as service development, sales, customer service, risk management and compliance.

Personnel at period end

	31 Dec 2023	31 Dec 2022
Retail Banking	7,785	7,450
Corporate Banking	1,010	962
Insurance	2,494	2,373
Group Functions	2,517	2,214
Total	13,806	12,999

During the reporting period, 206 OP Financial Group employees (265) retired at an average age of 62.9 years (62.8).

On 24 July 2023, OP Financial Group announced that it will hire 300 new IT professionals in Helsinki and Oulu. These recruitments are part of OP's long-term investments in areas such as AI expertise, data utilisation and cloud services. Alongside new recruitment, OP is developing the competencies of current employees to meet future requirements.

Variable remuneration applied by OP Financial Group in 2023 consisted of the performance-based bonus scheme covering all personnel, and the personnel fund. Company-specific targets based on the annual plan and the Group-level strategic targets were taken into account in the metrics used in the performance-based bonus scheme and in the personnel fund. In drawing up the remuneration schemes, OP has taken account of the regulation regarding the financial sector's remuneration schemes.

Changes in OP Financial Group's structure

OP Financial Group's Financial Statements Bulletin at the end of the reporting period included the accounts of 102 OP cooperative banks (108) and OP Cooperative Consolidated. The number of OP cooperative banks decreased during the reporting period due to mergers.

Kiteen Seudun Osuuspankki and Rääkkylän Osuuspankki merged into Pohjois-Karjalan Osuuspankki on 31 March 2023.

Pohjolan Osuuspankki and Tornion Osuuspankki merged into Oulun Osuuspankki on 30 April 2023. Consequently, the business name of Oulun Osuuspankki was changed to Pohjolan Osuuspankki.

Korsnäsin Osuuspankki merged into Vaasan Osuuspankki on 31 October 2023.

Päijät-Hämeen Osuuspankki merged into Etelä-Hämeen Osuuspankki on 31 December 2023. Consequently, the business name of Etelä-Hämeen Osuuspankki was changed to Hämeen Osuuspankki.

On 27 September 2023, Etelä-Karjalan Osuuspankki and Kymenlaakson Osuuspankki accepted a merger plan, according to which the latter will merge into the former. The planned date for the execution of the merger is 30 April 2024. Consequently, the business name of Etelä-Karjalan Osuuspankki will change to Kaakkois-Suomen Osuuspankki.

Governance of OP Cooperative

On 1 December 2022, the Supervisory Council of OP Cooperative (the central cooperative of OP Financial Group) elected the members of the Board of Directors of OP Cooperative for the term of office from 1 January to 31 December 2023. The composition of the Board of Directors remained unchanged. In addition, according to the bylaws of OP Cooperative, the President and Group CEO is a Board member during their term of office.

The following members continued on the Board in 2023: Jarna Heinonen (Professor in Entrepreneurship, Turku School of Economics), Jari Himanen (kauppaneuvos, Finnish honorary title; Managing Director, Suur-Savon Osuuspankki), Kati Levoranta (Executive Vice President, Operational Activities, P2X Solutions Ltd), Pekka Loikkanen (board professional), Tero Ojanperä (Chair of the Board of Directors, Silo AI Ltd), Riitta Palomäki (board professional), Jaakko Pehkonen (rahoitusneuvos, Finnish honorary title; Professor of Economics, University of Jyväskylä), Timo Ritakallio (President and Group CEO, OP Financial Group), Petri Sahlström (Professor of Accounting and Finance, University of Oulu), Olli Tarkkanen (Managing Director, Etelä-Pohjanmaan Osuuspankki) and Mervi Väisänen (Senior Lecturer in Marketing, Kajaani University of Applied Sciences).

On 21 December 2022, the Board of Directors elected from among its members the chairs, vice chairs and other members to the statutory Board Committees for the new term. Jaakko Pehkonen continued as Chair and Jarna Heinonen as Vice Chair of the Board of Directors. On 2 May 2023, the Nomination and Remuneration Committee of the Board of Directors was divided into two separate committees. Consequently, the Board has four statutory committees: the Audit Committee, the Risk Committee, the Remuneration Committee and the Nomination Committee. On 2 May 2023, the Board of Directors updated the composition of its committees.

On 5 December 2023, the Supervisory Council elected Matti Kiuru, M.Sc. (Econ. & Bus. Adm.), eMBA, and Katja Kuosa-Kaartti, M.Sc. (Econ. & Bus. Adm.), Authorised Public Accountant, as new members of the Board of Directors of OP Cooperative. Jari Himanen's and Mervi Väisänen's term of office in the Board of Directors ended on 31 December 2023. Other members of the Board will continue in their position for the term 1 January–31 December 2024.

On 20 December 2023, the Board of Directors elected from among its members the chairs, vice chairs and other members to the statutory Board Committees for the new term. Jaakko Pehkonen will continue as Chair and Jarna Heinonen as Vice Chair of the Board of Directors.

On 26 April 2023, OP Cooperative held its Annual Cooperative Meeting which elected members of the Supervisory Council and the auditor.

The Supervisory Council comprises 36 members. The Meeting re-elected the following members to the Supervisory Council who were due to resign: M.Sc. Eeva Harju, Professor Saara Julkunen, Managing Director Matti Kiuru, Senior Agricultural Economist Päivi Kujala, Authorised Public Accountant Katja Kuosa-Kaartti, Senior Manager Anssi Mäkelä, Managing Director Kari Mäkelä, Managing Director Heikki Palosaari, Managing Director Jyrki Rantala, Managing Director Teemu Sarhemaa and Managing Director Ari Väänänen.

New Supervisory Council members elected were Sales Manager Jan Drugge, HR Director Titta Saksa and entrepreneur Miika Sunikka.

At its reorganising meeting on 26 April 2023, the Supervisory Council elected the presiding officers of the Supervisory Council. Chair of the Board of Directors Annukka Nikola was elected as Chair and entrepreneur Taija Jurmu and Managing Director Ari Väänänen as Vice Chairs of the Supervisory Council.

Eeva Harju's membership in the Supervisory Council ended on 18 May 2023, that of Jyrki Rantala on 9 November 2023 and that of Matti Kiuru and Katja Kuosa-Kaartti on 31 December 2023. The Supervisory Council will continue until the end of its term of office with 32 members.

The Annual Cooperative Meeting re-elected KPMG Oy Ab, an audit firm, to act as the auditor for the financial year 2023, with Juha-Pekka Mylén, APA, acting as the chief auditor, appointed by KPMG Oy Ab.

Outlook for 2024

The economy is expected to decline in early 2024 but decelerating inflation and falling interest rates will pave the way for economic recovery towards the year end. An exceptional degree of uncertainty is still associated with the business environment. Combined with increased geopolitical crises and tensions, developments in capital markets may abruptly affect the business environment.

OP Financial Group's operating profit for 2024 is expected to be at a good level but lower than that for 2023.

The most significant uncertainties affecting OP Financial Group's earnings performance are associated with developments in the business environment, changes in the interest rate and investment environment and developments in impairment loss on receivables. 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 on developments in the economy, and actual results may differ materially from those expressed in the forward-looking statements.

Formulas for key figures and ratios

The Alternative Performance Measures are presented to illustrate the financial performance of business operations and to improve comparability between reporting periods. The formulas for the used Alternative Performance Measures are presented below. The formulas for the key figures and ratios can be derived from the figures presented in this Financial Statements Bulletin, so separate reconciliation statements for the Alternative Performance Measures are not presented.

Alternative Performance Measures

Key figure or ratio	Formula		Description
Return on equity (ROE), %	Financial performance for the reporting period x (days of financial year/days of reporting period) / Equity (average at beginning and end of period)	x 100	The ratio describes how much return is generated on equity capital as a percentage of equity during the reporting period.
Return on equity (ROE) excluding OP bonuses, %	(Financial performance for the reporting period + OP bonuses after tax) x (days of financial year/days of reporting period) / Equity (average at beginning and end of period)	x 100	The ratio describes how much return is generated on equity capital as a percentage of equity during the reporting period, excluding OP bonuses paid to owner-customers that are charged to expenses.
Return on assets (ROA), %	Financial performance for the reporting period x (days of financial year/days of reporting period) / Average balance sheet total (average at beginning and end of financial year)	x 100	The ratio describes how much return is generated on capital tied up on business during the reporting period.
Return on assets (ROA) excluding OP bonuses, %	(Financial performance for the reporting period + OP bonuses after tax) x (days of financial year/days of reporting period) / Average balance sheet total (average at beginning and end of financial year)	x 100	The ratio describes how much return is generated on capital tied up on business during the reporting period, excluding OP bonuses paid to owner-customers that are charged to expenses.
Cost/income ratio, %	Total expenses / Total income	x 100	The ratio describes the ratio of expenses to income. The lower that ratio, the better.
Total income	Net interest income + Net commissions and fees + Insurance service result + Investment income + Other operating income + Transfers to insurance service result		The figure describes the development of all income.

Total expenses	Personnel costs + Depreciation/amortisation and impairment loss + Other operating expenses		The figure describes the development of all expenses.
Investment income	Net insurance finance income + Net interest income from financial assets held for trading + Net investment income		The figure describes the development of all income related to investment.
Loan portfolio	Loans and loss allowance included in the balance sheet item Receivables from customers.		Total amount of loans granted to customers.
Ratio of impairment loss on receivables to loan and guarantee portfolio, %	$\frac{\text{Impairment loss on receivables x (days of financial year/days of reporting period)}}{\text{Loan and guarantee portfolio at period end}}$	x 100	The ratio describes the ratio of impairment loss on receivables entered in the income statement to the loan and guarantee portfolio. The lower that ratio, the better.
Deposits	Deposits included in balance sheet item Liabilities to customers		Total amount of deposits by customers.
Coverage ratio, %	$\frac{\text{Loss allowance}}{\text{Balance sheet items involving credit risk + Credit equivalent of off-balance-sheet items}}$	x 100	The ratio describes the extent to which the amount of expected losses covers the amount of the liability.
Default capture rate, %	$\frac{\text{New defaulted contracts in stage 2 a year ago}}{\text{New defaulted contracts during the reporting period}}$	x 100	The ratio describes the effectiveness of the SICR model (significant increase in credit risk), in other words how many contracts were in stage 2 before moving to stage 3.
Income from customer business	Net interest income + insurance service result + net commissions and fees		Income from customer business describes the development of net interest income, insurance service result and net commissions and fees. Income directly from customers is presented mainly under these items.
Non-life insurance:			
Combined ratio, %	Risk ratio + Cost ratio		The combined ratio is a key indicator of efficiency for non-life insurance companies. The ratio describes whether the insurance revenue is sufficient to cover the company's expenses during the reporting period.
Risk ratio, %	$\frac{\text{Claims incurred, net}}{\text{Net insurance revenue}}$	x 100	The ratio describes how much of the insurance revenue is spent on claims paid. Claims incurred (net) is calculated by deducting operating expenses and reinsurers' share from insurance service expenses.

Ratio	Formula		Description
Cost ratio, %	Operating expenses, net / Net insurance revenue	x 100	The ratio describes the ratio of the company's costs (acquisition, management, administration and claims settlement expenses) to its insurance revenue.

Key indicators based on a separate calculation

Ratio	Formula		Description
Capital adequacy ratio, %	Total own funds / Total risk exposure amount	x 100	The ratio describes a credit institution's capital adequacy and shows the ratio of own funds to the total risk exposure amount.
Tier 1 ratio, %	Tier 1 capital / Total risk exposure amount	x 100	The ratio describes a credit institution's capital adequacy and shows the ratio of Tier 1 capital to the total risk exposure amount.
Common Equity Tier 1 (CET1) capital ratio, %	CET1 capital / Total risk exposure amount	x 100	The ratio describes a credit institution's capital adequacy and shows the ratio of CET1 capital to the total risk exposure amount.
Solvency ratio, %	Capital base / Solvency capital requirement (SCR)	x 100	The ratio describes an insurance company's solvency and shows the ratio of the capital base to the total risk exposure amount.
Leverage ratio, %	Tier 1 capital (T1) / Exposure amount	x 100	The ratio describes a credit institution's indebtedness and shows the ratio of Tier 1 capital to the total risk exposure amount.
Liquidity coverage requirement (LCR), %	Liquid assets / Liquidity outflows – liquidity inflows under stressed conditions	x 100	The ratio describes short-term funding liquidity risk that requires the bank to have sufficient, high-quality liquid assets to get through an acute 30-day stress scenario.
Net stable funding ratio (NSFR), %	Available stable funding / Required stable funding	x 100	The ratio describes a long-term liquidity risk that requires the bank to have a sufficient amount of stable funding sources in relation to items requiring stable funding sources. The objective is to secure the sustainable maturity structure of assets and liabilities applying a 12-month time horizon and to restrict excessive resort to short-term wholesale funding.

Capital adequacy ratio under the Act on the Supervision of Financial and Insurance Conglomerates*	$\frac{\text{Conglomerate's total capital base}}{\text{Conglomerate's total minimum capital requirement}}$	x 100	The ratio describes the capital adequacy of the financial conglomerate and shows the ratio of the capital base to the minimum amount of the capital base.
Ratio of non-performing exposures to exposures, %	$\frac{\text{Non-performing exposures (gross)}}{\text{Exposures at period end}}$	x 100	The ratio describes the ratio of customers with severe payment difficulties to the entire exposure portfolio. Non-performing exposures refer to receivables that are more than 90 days past due and other receivables classified as risky as well as forborne exposures related to such receivables due to the customer's financial difficulties. Forbearance measures consist of concessions agreed at the customers' initiative to the original repayment plan to make it easier for them to manage through temporary payment difficulties. Non-performing exposures are presented in gross terms; expected credit losses have not been deducted from them.
Ratio of doubtful receivables to exposures, %	$\frac{\text{Doubtful receivables (gross)}}{\text{Exposures at period end}}$	x 100	The ratio describes the ratio of customers with payment difficulties to the entire exposure portfolio. Doubtful receivables refer to receivables that are more than 90 days past due and other receivables classified as risky as well as forbearance related to such receivables or to performing receivables due to the customer's financial difficulties. Forbearance measures consist of concessions agreed at the customers' initiative to the original repayment plan to make it easier for them to manage through temporary payment difficulties. In addition to non-performing forborne exposures, doubtful receivables include non-performing exposures reclassified as performing ones during their probation period or forbearance measures made into a performing agreement. Loan modifications due to reasons other than the customer's financial difficulties are not classified as doubtful receivables. Doubtful receivables are presented in gross terms; expected credit losses have not been deducted from them.
Ratio of performing forborne exposures to exposures, %	$\frac{\text{Performing forborne exposures (gross)}}{\text{Exposures at period end}}$	x 100	The ratio describes the ratio of forborne exposures to the entire exposure portfolio. Performing forborne exposures include forborne exposures reclassified as performing ones during their probation period or forbearance measures made into a performing agreement. Loan modifications due to reasons other than the customer's financial difficulties are not classified as forborne exposures.

Ratio of performing forborne exposures to doubtful receivables, %	Performing forborne exposures (gross) / Doubtful receivables at period end	x 100	The ratio describes the ratio of performing forborne exposures to doubtful receivables that include not only performing forborne exposures but also non-performing exposures. Performing forborne exposures include forborne exposures reclassified as performing ones during their probation period or forbearance measures made into a performing agreement. Loan modifications due to reasons other than the customer's financial difficulties are not classified as forborne exposures.
Ratio of loss allowance (receivables from customers) to doubtful receivables, %	Loss allowance for receivables from customers in the balance sheet / Doubtful receivables at period end	x 100	The ratio describes the ratio of expected losses to all doubtful receivables. Doubtful receivables include non-performing exposures and performing forborne exposures.
Loan and guarantee portfolio	Loan portfolio + guarantee portfolio		The indicator describes the total amount of loans and guarantees given.
Exposures	Loan and guarantee portfolio + interest receivables + unused standby credit facilities		The sum of the loan and guarantee portfolio, interest receivables and unused standby credit facilities (undrawn loans and limits) is used as the basis for proportioning doubtful receivables and non-performing exposures.
Other exposures	Interest receivables + unused standby credit facilities		In addition to the loan and guarantee portfolio, exposures come from interest receivables and unused standby credit facilities (undrawn loans and limits).

*Transitional provisions have been taken into account in the FiCo solvency.

Capital adequacy and solvency

Capital adequacy for credit institutions

Capital base, € mill.	31 Dec 2023	31 Dec 2022
OP Financial Group's equity capital	16,262	14,668*
Excluding the effect of insurance companies on the Group's equity	-1,297	-1,045*
Fair value reserve, cash flow hedge	212	337
Common Equity Tier 1 (CET1) before deductions	15,177	13,951
Intangible assets	-314	-343
Excess funding of pension liability and valuation adjustments	-216	-231
Cooperative capital deducted from own funds	-198	-163
Planned profit distribution and unpaid profit distribution for previous FY	-148	-144
Shortfall of ECL minus expected losses		-425
Insufficient coverage for non-performing exposures	-187	-76
CET1 capital	14,114	12,569
Tier 1 capital (T1)	14,114	12,569
Debenture loans	1,308	1,308
Debentures to which transition rules apply	57	91
General credit risk adjustments	120	
Tier 2 capital (T2)	1,484	1,399
Total own funds	15,598	13,968

Risk exposure amount, € million	31 Dec 2023	31 Dec 2022
Credit and counterparty risk	65,997	60,437
Standardised Approach (SA)**	65,997	8,476
Central government and central banks exposure	509	495
Credit institution exposure	603	627
Corporate exposure	27,591	5,244
Retail exposure	10,174	1,245
Mortgage-backed exposure	18,988	153
Defaulted exposure	2,309	72
Items of especially high risk	1,697	
Covered bonds	608	540
Receivables to which a short-term credit rating can be applied		0
Collective investment undertakings (CIU)	201	0
Equity investments	2,410	1
Other	907	99
Internal Ratings-based Approach (IRB)		51,960
Corporate exposure		29,997
Retail exposure		12,002
Equity investments		8,944
Other		1,018
Risks of the CCP's default fund	1	0
Securitisations	50	111
Market and settlement risk (Standardised Approach)	1,006	1,070
Operational risk (Standardised Approach)	4,156	3,851
Valuation adjustment (CVA)	217	179
Other risks***	2,084	6,678
Total risk exposure amount	73,511	72,327

* Adoption of IFRS 17 Insurance Contracts on 1 January 2023 has been taken into account in equity capital.
** OP Financial Group adopted the Standardised Approach in its capital adequacy measurement and reporting during the first quarter of 2023.
*** Risks not otherwise covered. A year ago, the risk-weighted assets (RWA) floor based on the Standardised Approach.

Ratios, %	31 Dec 2023	31 Dec 2022
CET1 capital ratio	19.2	17.4
Tier 1 ratio	19.2	17.4
Capital adequacy ratio	21.2	19.3

Ratios, fully loaded, %	31 Dec 2023	31 Dec 2022
CET1 capital ratio	19.2	17.4
Tier 1 ratio	19.2	17.4
Capital adequacy ratio	21.1	19.2

Capital requirement, EUR million	31 Dec 2023	31 Dec 2022
Own funds	15,598	13,968
Capital requirement	10,558	9,979
Buffer for capital requirements	5,041	3,989

The capital requirement of 14.4% comprises the minimum requirement of 8%, the capital conservation buffer of 2.5%, the O-SII buffer requirement of 1.5%, the minimum requirement (P2R) of 2.25% set by the ECB and the country-specific countercyclical capital buffers for foreign exposures.

Leverage ratio, EUR million	31 Dec 2023	31 Dec 2022
Tier 1 capital (T1)	14,114	12,569
Total exposure	148,852	165,362
Leverage ratio, %	9.5	7.6

The leverage ratio describes indebtedness. The minimum requirement for the leverage ratio is 3%.

OP Financial Group's capital adequacy under the Act on the Supervision of Financial and Insurance Conglomerates

€ million	31 Dec 2023	31 Dec 2022
OP Financial Group's equity capital	16,262	14,668****
Other items included in Banking's Tier 1 and Tier 2 capital	1,484	1,399
Other sector-specific items excluded from capital base	-571	-442
Goodwill and intangible assets	-1,000	-1,077
Insurance business valuation differences*	855	749****
Proposed profit distribution	-148	-144
Items under IFRS deducted from capital base**	48	177
Shortfall of ECL minus expected losses		-370
Conglomerate's total capital base	16,931	14,961
Regulatory capital requirement for credit institutions***	10,227	9,661
Regulatory capital requirement for insurance operations*	1,511	1,237
Conglomerate's total minimum capital requirement	11,738	10,898
Conglomerate's capital adequacy	5,193	4,063
Conglomerate's capital adequacy ratio (capital base/minimum of capital base) (%)	144	137

* Differences between fair values and carrying amounts based on the solvency of insurance companies and an estimate of SCR
** Excess funding of pension liability, portion of cash flow hedge of fair value reserve
*** Total risk exposure amount x 14.4%
**** Adoption of IFRS 17 Insurance Contracts on 1 January 2023 has been taken into account in equity capital
Transitional provisions have been taken into account in figures.

TABLES

Income statement

€ million	Notes	Q1–4 2023	Adjusted Q1–4 2022	Q4 2023	Adjusted Q4 2022
Interest income		5,480	1,833	1,690	763
Interest expenses		-2,609	-215	-898	-267
Net interest income	3	2,871	1,618	792	496
Impairment loss on receivables	4	-269	-115	-99	-45
Commission income		1,038	1,077	250	268
Commission expenses		-130	-134	-27	-34
Net commissions and fees	5	908	942	223	234
Insurance premium revenue		2,000	1,898	534	491
Insurance service expenses		-1,824	-1,898	-455	-434
Net income from reinsurance contracts		-95	106	-56	-28
Insurance service result	6	81	106	23	28
Net finance income (+)/expenses (–) related to insurance		-722	2,228	-633	5
Net finance income (+)/expenses (–) related to reinsurance		0	-1	13	2
Net insurance finance income (+)/expenses (–)	7	-722	2,226	-621	7
Net interest income from financial assets held for trading	8	55	-29	31	33
Net investment income	9	1,057	-1,952	686	66
Other operating income		40	67	12	15
Personnel costs		-964	-856	-262	-239
Depreciation/amortisation and impairment loss		-226	-214	-89	-55
Other operating expenses	10	-1,011	-892	-287	-247
Transfers to insurance service result		485	416	137	111
Operating expenses		-1,716	-1,545	-500	-430
OP bonuses to owner-customers		-255	-198	-67	-51
Operating profit (loss)		**2,050**	**1,120**	**480**	**354**
Earnings before tax		**2,050**	**1,120**	**480**	**354**
Income tax		-408	-213	-95	-71
Profit for the period		**1,642**	**907**	**385**	**282**
Attributable to:					
Profit for the period attributable to owners		1,637	898	386	281
Profit for the period attributable to non-controlling interest		5	9	-1	1
Profit for the period		**1,642**	**907**	**385**	**282**

Statement of comprehensive income

€ million	Notes	Q1–4 2023	Adjusted Q1–4 2022	Q4 2023	Adjusted Q4 2022
Profit for the period		**1,642**	**907**	**385**	**282**
Items that will not be reclassified to profit or loss					
Gains/(losses) arising from remeasurement of defined benefit plans		8	120	-1	-43
Items that may later be reclassified to the profit or loss					
Change in fair value reserve					
On fair value measurement	15	-68	-58	-36	-54
On cash flow hedging	15	156	-540	129	-29
Income tax					
On items not reclassified to profit or loss					
On gains/(losses) arising from measurement of defined benefit plans		-2	-24	5	9
On items that may subsequently be reclassified to profit or loss					
On fair value measurement	15	14	12	6	11
On cash flow hedging	15	-31	108	-26	6
Other comprehensive income items		**77**	**-382**	**77**	**-100**
Total comprehensive income for the period		**1,719**	**525**	**462**	**182**
Comprehensive income for the period attributable to:					
Comprehensive income for the period attributable to owners		1,714	516	462	180
Comprehensive income for the period attributable to non-controlling interests		5	9	-1	1
Total		**1,719**	**525**	**462**	**182**

Balance sheet

€ million	Notes	31 Dec 2023	Adjusted 31 Dec 2022
Cash and cash equivalents		19,755	35,004
Receivables from credit institutions		858	798
Receivables from customers		97,836	98,546
Derivative contracts		3,401	4,117
Investment assets		21,896	20,742
Assets covering unit-linked contracts		12,581	11,597
Reinsurance contract assets	11	106	245
Intangible assets		1,065	1,153
Property, plant and equipment		398	423
Other assets		2,222	2,401
Tax assets		273	664
Total assets		**160,391**	**175,691**
Liabilities to credit institutions		66	12,301
Liabilities to customers		76,656	81,468
Derivative contracts	20	3,271	4,432
Insurance contract liabilities		11,589	11,446
Reinsurance contract liabilities	13	0	2
Liabilities from investment agreements		7,944	7,211
Debt securities issued to the public and debentures	14	37,511	37,438
Provisions and other liabilities		4,450	3,818
Tax liabilities		1,229	1,522
Subordinated liabilities		1,414	1,384
Total liabilities		**144,129**	**161,023**
Equity capital			
Capital and reserves attributable to OP Financial Group owners			
Cooperative capital			
Member cooperative shares		219	217
Profit Shares		3,335	3,369
Fair value reserve	15	-290	-360
Other reserves		2,172	2,172
Retained earnings		10,703	9,153
Non-controlling interests		**124**	**118**
Total equity		**16,262**	**14,668**
Total liabilities and equity		**160,391**	**175,691**

OP Financial Group has applied IFRS 17 Insurance Contracts as of 1 January 2023. The figures in the income statement and balance sheet for 2022 have been adjusted. Note 1 Accounting policies to this Financial Statements Bulletin provides more information on the adoption of IFRS 17 and the changes in the format of the income statement and balance sheet.

Statement of changes in equity

€ million	Cooperative capital	Fair value reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity capital
	Attributable to owners						
Equity capital 31 December 2021	3,459	323	2,184	8,090	14,057	128	14,184
Effect of IFRS 17 transition 1 January 2022		-205		154	-52		-52
Equity capital 1 January 2022	3,459	118	2,184	8,244	14,005	128	14,133
Total comprehensive income for the period		-478		994	516	9	525
Profit for the period				898	898	9	907
Other comprehensive income items		-478		96	-382		-382
Profit distribution				-96	-96	-7	-103
Changes in membership and profit shares	127				127		127
Transfers between reserves			-12	12			
Other				-1	-1	-11	-12
Equity capital 31 December 2022	3,586	-360	2,172	9,153	14,550	118	14,668

€ million	Cooperative capital	Fair value reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity capital
	Attributable to owners						
Equity capital 1 January 2023	3,586	-360	2,172	9,153	14,550	118	14,668
Total comprehensive income for the period		70		1,644	1,714	5	1,719
Profit for the period				1,637	1,637	5	1,642
Other comprehensive income items		70		7	77		77
Profit distribution				-144	-144	-4	-148
Changes in membership and profit shares	-32				-32		-32
Other*			0	51	51	5	56
Equity capital 31 December 2023	3,554	-290	2,172	10,703	16,139	124	16,262

* Deferred tax adjustment of EUR 55 million on the transition date of the adoption of IFRS 17 on 1 January 2022 has been entered in item Other. Note 1. Accounting policies describes the adjustment in greater detail.

Cash flow statement

€ million	Q1–4 2023	Adjusted Q1–4 2022
Cash flow from operating activities		
Profit for the period	1,642	907
Adjustments to profit for the period	345	2,387
Increase (-) or decrease (+) in operating assets	**897**	**-4,105**
Receivables from credit institutions	-521	84
Receivables from customers	1,162	-3,333
Derivative contracts, assets	199	-369
Investment assets	-130	-244
Assets covering unit-linked contracts	-74	80
Reinsurance contract assets	139	-131
Other assets	122	-191
Increase (+) or decrease (–) in operating liabilities	**-16,793**	**-1,316**
Liabilities to credit institutions	-12,249	-4,279
Liabilities to customers	-5,311	4,592
Derivative contracts, liabilities	-105	539
Insurance contract liabilities	146	-2,523
Reinsurance contract liabilities	-2	-11
Liabilities from investment agreements	0	0
Provisions and other liabilities	727	366
Income tax paid	-275	-283
Dividends received	47	102
A. Net cash from operating activities	**-14,136**	**-2,308**
Cash flow from investing activities		
Acquisition of subsidiaries, net of cash and cash equivalents acquired	-51	0
Disposal of subsidiaries, net of cash and cash equivalents disposed of	0	33
Purchase of PPE and intangible assets	-99	-123
Proceeds from sale of PPE and intangible assets	11	11
B. Net cash used in investing activities	**-139**	**-79**
Cash flow from financing activities		
Subordinated liabilities, change	-5	-517
Debt securities issued to the public and debentures, change	-1,174	5,135
Increases in cooperative and share capital	130	292
Decreases in cooperative and share capital	-162	-165
Dividends paid and interest on cooperative capital	-144	-96
Lease liabilities	-33	-33
C. Net cash used in financing activities	**-1,389**	**4,615**
Net change in cash and cash equivalents (A+B+C)	**-15,663**	**2,228**
Cash and cash equivalents at period start	**35,656**	**33,129**
Effect of foreign exchange rate changes	-46	299
Cash and cash equivalents at period end	**19,947**	**35,656**
Interest received	**8,364**	**2,298**
Interest paid	**-5,562**	**-747**
Cash in hand		
Cash and cash equivalents	19,755	35,004
Receivables from credit institutions payable on demand	191	652
Total	**19,947**	**35,656**

Notes

1. Accounting policies
2. Segment reporting
3. Net interest income
4. Impairment losses on receivables
5. Net commissions and fees
6. Insurance service result
7. Net insurance finance expenses
8. Net interest income from financial assets held for trading
9. Net investment income
10. Other operating expenses
11. Impairment losses on receivables
12. Insurance contract liabilities
13. Reinsurance contract liabilities
14. Debt securities issued to the public
15. Fair value reserve after income tax
16. Collateral given
17. Classification of financial assets and liabilities
18. Recurring fair value measurements by valuation technique
19. Off-balance-sheet commitments
20. Derivative contracts
21. Investment distribution of the Insurance segment
22. Related-party transactions

Note 1. Accounting policies

The Financial Statements Bulletin has been prepared in accordance with IAS 34 (Interim Financial Reporting) and with the accounting policies presented in the financial statements 2022. Key accounting policies related to the adoption of IFRS 17 on 1 January 2023 are described in section 2.

The Financial Statements Bulletin is based on unaudited information. Given that all figures in the Financial Statements Bulletin have been rounded off, the sum of single figures may differ from the presented sum total.

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

1. Critical accounting estimates and judgements

The preparation of the Financial Statements Bulletin requires making estimates and assumptions about the future and the actual results may differ from these estimates and assumptions. It also requires the management to exercise its judgement in the process of applying the accounting policies. In preparing the Financial Statements Bulletin, management judgement has been used especially in the calculation of expected credit losses and the measurement of insurance contracts.

Expected credit losses

The determination of the measurement models for expected credit losses (ECL) involves several factors requiring management judgement, such as:

- selection of appropriate ECL models so that they describe the expected credit losses on the contract portfolio as well as possible
- different assumptions and expert assessments made in the models
- selection of the estimation methods of the parameters for the ECL models
- determination of the contract's maturity for non-maturing loans (revolving credit facilities)
- determination of model risk associated with the quality of the available modelling data and other data
- proper grouping of contracts into different segments so that their ECL can be measured using the appropriate model
- selection of macroeconomic factors in such a way that their changes correlate with the contracts' probability of default
- forecasting future macroeconomic scenarios and their probabilities
- management overlays related to a certain industry.
- reductions in collateral value made on the basis of the geographical location of collateral based on management judgement.

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

- the expert assessment used in the assessment of change in relative credit risk associated with personal customers to ensure a true number of contracts that move to stage 2 before moving to stage 3 (so-called default capture rate)
- the selection of the absolute threshold that is based on historical default behaviour and OP Financial Group's credit risk process
- the determination of the length of a period during which the customer must prove proper payment behaviour so that the impairment stage 3 can improve to stage 2 or 1, in addition to recovery times set by the authorities.

The actual measurement of ECL figures is performed using the ECL models, except if it is mainly the question of a large corporate exposure in stage 2 or 3 and on the watch list, in which case the ECL is calculated using the cash flow based ECL method based on expert judgement. Management judgement is involved in expert judgements.

Extra provisions based on management overlay directly to the ECL figures (post-model adjustments) are intended only for temporary use until an unpredictable event caused by the overlay provision or circumstance could have been taken into account in the ECL models.

The ECL models take account of Environmental, Social and Governance (ESG) risks of sustainable development, as follows:

- An assessment of economic impacts has been included in the measurement of the ECL models in the macro scenario where the use of fossil energy is reduced, so that carbon neutrality will be achieved by 2035.
- Since the beginning of 2023, OP Financial Group has started to use an ESG warning signal in the credit rating process of large corporations based on expert judgement that consists of an estimate of ESG risk factors. The ESG warning signal identifies situations where the ESG risk factors have an effect on the customer’s rating grade. If necessary, the customer's credit rating can be lowered with the ESG warning signal and thereby increase the PD risk parameter and ECL of the customer's contracts.

Management judgement and estimates included in the calculation of expected credit losses in respect of other than that presented above are included in the 2022 financial statements.

Geopolitical risks

Geopolitical events may have an indirect effect on OP Financial Group's income and risks as a result of customers' changed business conditions, and a direct effect on the general financial market conditions and obstruction of the technical infrastructure. OP Financial Group is constantly prepared for such events by making various action plans for them and testing these plans.

Measurement of insurance contracts

In applying IFRS 17, risk adjustment is one of the components in the measurement of insurance contracts and the management has exercised the following judgement:

- In the calculation of risk adjustment, 5% has been set as the level of the cost of capital (CoC) parameter. The CoC level is shared by OP Life Assurance Company Ltd and Pohjola Insurance Ltd in the measurement of insurance contracts. OP Financial Group assesses the value of the cost of capital parameter at least once a year and it is changed, if necessary. The parameter can also be revised if the management deems it necessary on the basis of a business change or the market situation, for example. The methods and assumptions used have not changed during the financial year.
- Risk adjustment is determined for OP Life Assurance Company Ltd and Pohjola Insurance Ltd separately and diversification benefits between the companies are not taken into account when determining risk adjustment.
- The confidence level for Pohjola Insurance varies between 70% and 75% and for OP Life Assurance Company between 90% and 95%. A scaling technique related to the confidence level of normal distribution has been used as the confidence level determination technique. OP Financial Group's combined confidence level is 85%.

Management has exercised judgement in the determination of the discount rate used in the calculation of insurance contracts, as follows:

- Discounting curves are derived as the sum of the risk-free interest rate and liquidity premium dependent on the characteristics of insurance contracts. The management exercises judgement in defining the principles for the parameters of the risk-free discounting curve and the liquidity premium. Insurance contract cash flows typically extend over a longer term than liquid market quotes, so euro swap rates are directly taken into account only until the defined maximum maturity (20 years). Thenceforth, the risk-free curve is extrapolated towards a long-term balance level. A credit risk component is removed from the swap rates, if necessary.
- Liquidity premium is determined by means of the investment universe that takes account of each insurance company's exposure. The investment universe means a portfolio allocation. When creating it, the amount of exposure is taken into account in weightings and index choices, the maturities of exposure and investment cash flows as well as cash flow predictability. The investment universe includes reference indices and their weights for government bonds, IG corporate bonds (IG, credit rating AAA-BBB and higher-risk corporate bonds (HY, credit rating BB-C). The management reviews the allocation on a regular basis.
- The movements of the discount rate affect earnings through the value change of cash flows and the selection of the interest rate model has a significant impact on earnings. At least once a year, OP Financial Group reviews the values of the parameters used in the yield curve modelling. The parameters can also be revised if the management deems it necessary. During the financial year, used assumptions were changed in such a way that the maximum maturity of the USD yield curve has been set at 30 years (previously 50 years) and the long-term equilibrium interest rate of the EUR, USD, NOK and SEK is set at 3.3 per cent in accordance with the UFR analysis of the EIOPA (previously 3.45 per cent). Changes have not been made to other parameters. The calculation of the long-term equilibrium interest rate has the biggest impact, which increases the value of non-life insurance insurance contract liabilities by an estimated EUR 3 million.

Judgement exercised by the management to measure insurance contracts in the adoption of IFRS 17 and the assessment process of the input data of these methods:

- When measuring groups of insurance contracts, estimates concerning future cash flows reflect future assumptions made on the measurement date that include an adjustment that reflects the time value of money and financial risks associated with future cash flows to the extent that the financial risks are not included in the values of future cash flows as well as an estimate of risk adjustment to other than the financial risk.
- The objective of estimating future cash flows is to determine the expected value, or probability-weighted mean, of the full range of possible outcomes, considering all reasonable and supportable information available at the reporting date without undue cost or effort. Reasonable and supportable information available at the reporting date without undue cost or effort includes information on past events and current conditions, and forecasts of future conditions.
- Deterministic technical provisions models are used to model the expected value unless cash flows are affected by factors requiring complex stochastic simulation. OP Financial Group uses simulation in the calculation of time value of customer bonuses in OP Life Assurance Company's insurance contracts.
- Mortality models based on the latest mortality studies are used in cash flow assumptions. OP Financial Group monitors the relevance of the mortality models on an ongoing basis and, if needed, updates the models. In addition, customer behaviour assumptions and assumptions of operating expenses have a significant impact on insurance contract cash flows. The assumptions have been modelled using statistics and are continuously monitored and updated with

increasing information. Since endowment and single-premium savings policies are often sold as long-term contracts, some policyholders terminate their contracts by surrendering the policies according to their needs before the date of expiry under the contract. The risk of surrender in individual pension plans is very low, since law limits surrender opportunities only in specific cases mentioned in the law such as divorce and long-term unemployment. In addition to mortality assumptions, the term life insurance is significantly affected by lapse rate assumptions, or how customers decide to terminate their insurance

- Cash flows from claims and operating expenses consist of provisions for unknown and known claims, discretionary extra provisions and their operating expense loading, and they are determined by the principles described below.
    - Provision will be made for known claims if claims expenditure is estimated to exceed the defined euro value. The claim-specific provision for such large claims is made based on the assessments by claims specialists in compliance with provision guidelines approved by the Actuarial function. In addition, provisions for all known foreign underwriting business claims are made on a case-by-case basis, including claims where the proportion of reinsurers of non-proportional reinsurance does not deviate from zero.
    - Unknown claims and the proportion of known claims for which no provision is made are statistically assessed using the observed speed of settling claims, risk ratio developments and assumptions of changes, if any. At the same time, the amount of claim-specific provisions is adjusted collectively to the best estimate. The collective method is used for a statistical forecast method applicable to each risk group, mainly methods based on development factors and the Cape Cod method. The forecasts place the heaviest emphasis mainly on the year of occurrence itself and its immediate years. Furthermore, the forecasts emphasise years of occurrence with a large volume and where a significant proportion of claims has already been paid out. Collective estimates are implemented with accuracy that is relevant to the product risk and phenomenon.
    - Provision for outstanding claims in pension insurance benefits are made on a claim-specific basis by applying the reference mortality model produced by the Insurance Centre.
    - The insurance contract liability is supplemented on a discretionary basis through special provisions, utilising assessments by the business unit, claims processing and Actuarial function specialists unless there is sufficient statistical data on the phenomenon to calculate the statistical provision. Such special provisions can be made in case there is some other known reason or phenomenon on the basis of which the provision for outstanding claims must be supplemented. For example, provision for delay in processing can be made in a situation where the number of unprocessed claims has become exceptionally large compared with the basic situation.
    - If a certain loss event, such as a storm, causes several claims with a total estimated value exceeding the specified value, a provision can be made for a claim accumulation.
    - Future cash flows from operating expenses consist of forecasts of insurance management and administrative expenses as well as a forecast of claims settlement expenses. Forecasts of claims settlement expenses are formed as the best estimate by loading cash flows related to claims forecasts. Forecasts of other operating expenses are formed by means of amortising insurance premiums on a pro rata basis by applying the operating expense factor to them.

Judgement exercised by the management in the application of the Variable Fee Approach (VFA) in the adoption of IFRS 17:

- OP Financial Group grants endowment, unit-linked and pension insurance policies. According to the contract concerned, their objective is to produce, or is expected to produce, investment-related services and receive a fee from the services as compensation that is determined based on the underlying items. The insurance contract may contain various investment products.
- On initial recognition, such contracts must be assessed whether they include direct participation features using the following criteria:
    - under the contract, the policyholder is entitled to participate in the share of the underlying investment products;
    - OP Financial Group expects to pay to the policyholder an amount equal to a substantial share of the fair value returns on the underlying items;
    - OP Financial Group expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items.
- OP Financial Group assesses the fulfilment of the VFA terms applied to insurance contracts according to the expectations prevailing at inception of a contract and does not reassess the terms afterwards, except if changes are made to the contract. In selecting a valuation model, OP Financial Group considers all substantive rights and obligations to which all terms and conditions are included in the contract. A unit of account under IFRS 17 is a group of contracts, which is why the same valuation model is applied to the entire Group according to the characteristics of its cash flows. All contracts with similar risks belong to the group of insurance contracts and they are managed together.

Judgement exercised by the management in the adoption of IFRS 17 in defining coverage units that determine recognition:

- The contractual service margin included in the contract in the group of insurance contracts is recognised an amount in profit or loss in each period to reflect the insurance contract services provided under the group of insurance contracts in that period. The amount of the contractual service margin recognised in profit or loss is determined using coverage units included in the group of contracts. The coverage units describe the quantity of insurance contract services provided by the contracts in the group, determined by considering for each contract the quantity of the benefits provided under a contract and the contract's duration.

- For typical non-life insurance contracts of short duration, insurance service is interpreted to be provided evenly during the coverage period and insurance premiums received from contracts in the same insurance group are used as the basis for the coverage unit at insurance group level. The forecast lifecycle recognition of the contractual service margin of life insurance products in profit or loss, depending on the contract type, is affected by the saved amount by group, expected duration of the contract, amount of compensation or savings, lapses and future insurance premiums. Release of the contractual service margin and the basis of coverage units vary by insurance line: the basis is the development of the amount of assets for endowment-type insurance products and the development of capital at risk for term life insurance.
- The insurance products of OP Financial Group, where both investment service and insurance service are provided, are produced evenly and in the same proportion over the expected duration of the contract. In addition, both services are produced at the same time and their contract periods are of the same duration.

Judgement exercised by the management in the adoption of IFRS 17 related to the determination of investment components:

- Management has identified that some life insurance contracts of OP Financial Group include investment components. Their size is determined at the amount that OP Financial Group must pay back to the policyholder under the insurance contract in all circumstances. Examples of these situations include those where an insurance event occurs or the contract expires or cease to be in effect without the occurrence of an insurance event.
- The following life insurance contracts include significant investment components determined as follows:
    - Unit-linked and pension insurance:
        - if death cover is over 100%, the investment component is the amount of savings.
        - if death cover is less than 100%, the investment component is the amount covered with death cover.
    - In separated balance sheets, the investment component is the amount of claims paid.

Judgement related to fair value determination and the modifications under the MRA used in the IFRS 17 transition:

- The method of transition to the MRA has been applied to the majority of insurance contracts granted by Pohjola Insurance. The values of transition to IFRS 17 have separately been determined for typical insurance contracts and insurance contracts requiring special treatment. Typical insurance contracts mean contracts of short duration, generally duration of one year or sometimes a few years. The MRA transition method is applied to them. Pohjola uses the modification to especially adjust cash flows that have already realised in order to avoid undue cost and effort in the determination of the values of transition.
- The fair value transition approach has been applied to OP Life Assurance Company contracts, which is due to the long-term nature of the products. The contracts have already been in force before the date when reasonable and supportable information needed for retrospective calculation was available that could be used without hindsight.
- To apply the fair value approach, OP Financial Group has determined the contractual service margin included in the contract or the fair value of the loss component of the debt for the remaining coverage period of the group of insurance contracts on the date of transition and the difference of the fulfilment cash flows resulting from the fulfilment of the contract determined on the date concerned. Under IFRS 17, the contractual service margin of the group of insurance contracts reflects the group's expected future profit that is recognised during the future life cycle of the group of insurance contracts.
- The fair value determination determined for the group of insurance contracts takes account of the discounted present value of the future cash flows of the group of insurance contracts, risk adjustment, in view of the future profit or loss arising from the insurance premiums already accrued in the group of insurance contracts as well as the future profit or loss arising from future insurance premiums on the date of transition on 1 January 2022 and the risk premiums generally required by the market participant in connection with the sale of the portfolio. The management has exercised judgement in the determination of the used valuation parameters in determining cash flows, the discount rate and risk margin, for example. In practice, there are no active and established markets for selling insurance portfolios but potential sales are often executed in bilateral transactions that would correspond to the most favourable market.

2. Adoption of IFRS 17 Insurance Contracts

OP Financial Group has applied IFRS 17 Insurance Contracts since 1 January 2023, which is the mandatory effective date. The European Union adopted IFRS 17 on 19 November 2021. In addition, OP Financial Group has applied an amendment to IFRS 17 that allows a classification overlay for financial assets. This removed an accounting mismatch between insurance contract liabilities and related financial assets due to the adoption of IFRS 17 for the adjusted comparative information. The European Union adopted the amendment on 8 September 2022.

IFRS 17 affects the measurement and recognition of OP Financial Group's non-life and life insurance products as well as their presentation in the financial statements. For the presentation of the balance sheet, the rights and obligations involved in insurance contracts are netted and presented either in assets or liabilities. In the income statement, the insurance service result is presented as a subtotal and separately investment income. In addition, the new standard means more qualitative and quantitative requirements for notes to the financial statements, such as reconciliation statements for changes in the net carrying amounts of insurance contracts during the period and an analysis of insurance service income per valuation component.

The most important goal of the standard is to harmonise the measurement of insurance contract liability on a global basis; the previous measurement under IFRS 4 was based on national measurements. Under IFRS 17, measurement is based on current estimates, as is the case in insurance companies' solvency measurement. However, IFRS 17 differs from solvency measurement in terms of its purpose and principle basis. The previous practice under IFRS 4, in which insurance contract liability may contain implicit margins of risk-bearing and future profits, ceases to exist, leading to explaining changes in liability in a transparent way.

Significant changes to OP Financial Group's accounting policies of the financial statements under IFRS are shown below:

IFRS 17 is applied to contracts under which OP Financial Group accepts significant insurance risk from another party. When making an assessment, OP Financial Group takes account of all terms included in a contract, explicit or implied, but OP Financial Group shall disregard terms that have no commercial substance. Contracts held by OP Financial Group that transfer significant insurance risk of underlying insurance contracts to another party are classified as reinsurance contracts and are included within the scope of the standard. Insurance contracts and reinsurance contracts expose OP Financial Group to financial risk too. Changes in assumptions of financial risk and changes in liability arising from market changes can be reversed with changes in the fair value of assets in income/expenses.

Measurement models in use

Insurance contracts with no direct participation features are measured using the General Measurement Model (GMM). This measurement model is applied to typical non-life insurance contracts and the life insurance contracts that do not fulfil the criteria of the variable fee approach (VFA). Insurance contracts with direct participation features are measured using the VFA. These are unit-linked insurance contracts which have a significant insurance risk. On initial recognition, OP Financial Group assesses whether the contract includes direct participation features using the following criteria:

- The contractual terms specify that the policyholder participates in a share of a clearly identified pool of underlying items (e.g. investment basket).
- OP Financial Group expects to pay to the policyholder an amount equal to a substantial share of the fair value returns on the underlying items.
- OP Financial Group expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items.

Initial measurement and grouping

For initial measurement, insurance contracts are identified and grouped into those subject to similar risks and managed together. Insurance contracts are measured at cohort level that is created by means of a product line, customer group and cohort year. Contracts are grouped further based on their level of profitability and if the group of contracts is onerous on initial recognition or the existing group becomes onerous, the loss is immediately recognised in the income statement.

Insurance acquisition expenses are capitalised in assets in the balance sheet to the extent they can be deemed to relate to the renewal of the contracts. Capitalised acquisition expenses are allocated to the groups of future insurance contracts based on experience data using a systematic and rational method, which is presented in Other assets in the balance sheet. Capitalised cash flows are derecognised and are included in the measurement of the related new group of insurance contracts at the date of initial recognition. OP Financial Group regularly assesses the recoverability of an asset for insurance acquisition cash flows. OP Financial Group recognises an impairment loss in profit or loss if facts and circumstances indicate that the asset may be impaired. This is applied to the non-life insurance products where it is typical that some customers renew short 12-month policies, when the capitalisation criteria are fulfilled.

OP Financial Group recognises a group of insurance contracts are from the earliest of the following:

- the beginning of the coverage period of the group of contracts
- the date when the first payment from a policyholder in the group becomes due
- the date when the group of contracts becomes onerous.

The fulfilment cash flow of the group of insurance contracts is a sum of the following components:

- the fulfilment cash flows adjusted for the time value of money
- risk adjustment that reflects OP Financial Group's risk appetite
- the contractual service margin that is a residual item and represents unearned profit.

If the contractual service margin is negative, the group of contracts is onerous and the loss is immediately recognised in loss.

The following items are included in the cash flows of groups of insurance contracts:

- cash flows within the boundary of an insurance contract and those that relate directly to the fulfilment of the contract (such as claims settlement expenses and administrative expenses as well as net commission expenses), including cash flows for which OP Financial Group has discretion over the amount and timing.
- investment components with a high interrelation with insurance contracts as master agreements.
- any potential embedded derivatives closely related to insurance contracts as the master agreement.
- a promise that may be included in insurance contracts to provide non-insurance services or products when it is the question of ancillary cash flows.

Some life insurance contracts include investment components where their determination varies by contract type. The expenses of these investment component are presented separate from other incurred insurance service expenses.

Subsequent measurement

Subsequently, at the end of each reporting period, the carrying amount in the balance sheet of the group of insurance contracts includes:

- the liability for remaining coverage (LRC) period that includes measurements of the components defined in initial recognition on the reporting day, cash flows of the contracts related to the future service to be provided and the value of contractual service margin.
- the liability incurred for claims (LIC) that includes claims and expenses for past service allocated to the group of insurance contracts at that date that have not yet been paid and claims that have occurred but have not yet been reported.

When measuring groups of insurance contracts, estimates of future cash flows reflect future assumptions made at the measurement date, the discount rate used is the rates at the measurement date and the estimate of risk adjustment for non-financial risk is revised. Discount rates used to determine the rate accreting on the contractual service margin are locked-in rates determined for contracts under the GMM model at the beginning of the group of contracts and for contracts under the VFA model the rate at the reporting date.

Changes in the capital value of the cash flows arising from the fulfilment of insurance contracts are recognised in the GMM in the following way:

- Changes that relate to services produced in the future are adjusted at the contractual service carrying amount in the balance sheet (or the insurance service result in the income statement if the group of insurance contracts is onerous).
- Changes that relate to service for the reporting period or past service are recognised in the insurance service result in the income statement.
- Changes in the discount rate and the effect of other financial changes on the value of the insurance contract liability and the effect of the passage of time (unwinding of discount) are recognised in the net insurance finance income and expenses in the income statement.

Risk adjustment determination principle

Risk adjustment is one of the measurement components of insurance contracts. In this context, risk adjustment means compensation that the company management requires to bear uncertainty concerning the amount of future cash flows of insurance contracts and timing that is caused by risk other than financial risk. The remaining risk adjustment amount is presented in the insurance liability reconciliation statement and risk adjustment related to a separately produced service (recognised portion). OP Financial Group applies the cost of capital method in determining risk adjustment. The risk adjustment calculation takes account of uncertainty associated with risk other than financial risk in respect of the groups of insurance contracts under IFRS 17. Risk adjustment is modelled as the difference between the best estimate and the present values of the stressed cash flow. The stressed cash flow is calculated at the confidence level of 99.5%, or the same confidence level as the insurance capital requirement.

The stressed cash flow calibration uses the cash flow stresses of the capital adequacy calculation and, as applicable, the company's internal calculation models. Stress scenarios that affect the amount of the risk adjustment in the group of insurance contracts concerned depend on the groups of insurance contracts and insurance lines. In OP Life Assurance Company term life policies, for example, growth in the mortality rate and the insurance lapse rate constitute the most significant stress scenarios. Risks associated with general activities have been excluded from risk adjustment.

A larger risk adjustment results from long-term cash flows in risks of the groups of insurance contracts. As a result of setting assumptions in new insurance contracts, risk adjustment is determined higher. With increasing information, the assumptions will be updated and therefore the risk adjustment will decrease as the best estimate based on the starting point is further specified. Risk adjustment is recognised based on the cash flow forecasts used in the calculation. Pohjola Insurance's and OP Life Assurance's risk adjustments represent the proportion of the risk adjustment remaining with their responsibility after the effect reducing reinsurance risk adjustment.

Discount rate determination principle

All cash flows are discounted at a rate and discounting curves are derived as the sum of the risk-free interest rate and the liquidity premium dependent on the characteristics of insurance contracts (bottom-up approach), extrapolating long-term interest rates. The risk-free interest rate is the same for all OP Financial Group insurance companies but the liquidity premium depends on the characteristics of insurance contracts, so the calculation uses several different discount rate curves for significant currencies. Swap rate quotes are used as market data for risk-free discount rate curves in selected liquid maturities. A credit risk component is removed from the swap rates, if necessary.

Liquidity premium is determined by means of the investment universe that takes account of each insurance company's exposure. The investment universe means a portfolio allocation. When creating it, the amount of exposure is taken into account in weightings and index choices, the maturities of exposure and investment cash flows as well as cash flow predictability. The investment universe includes reference indices and their weights for government bonds, IG corporate bonds (IG, credit rating AAA–BBB and higher-risk corporate bonds (HY, credit rating BB–C).

The movements of the discount rate affect earnings through the value change of cash flows and the selection of the interest rate model has a significant impact on earnings. At least once a year, OP Financial Group reviews the values of the parameters used in the yield curve modelling.

The discount rate used to determine the rate accreting on the contractual service margin are locked-in rates determined for contracts under the GMM at the beginning of the group of contracts determined at the beginning of the group of contracts.

Contractual service margin and its recognition

The contractual service margin represents the unearned profit of the group of insurance contracts and an amount of the contractual service margin is recognised in profit or loss in each period to reflect the insurance contract services provided under the group of insurance contracts in that period. The amount recognised in profit or loss is determined by:

- identifying the coverage units in the group of insurance contracts. The number of coverage units in a group is the quantity of insurance contract services provided by the contracts in the group, determined by considering for each contract the quantity of the benefits provided under a contract and the contract's duration.
- allocating the contractual service margin at the end of the period (before recognising any amounts in profit or loss to reflect the insurance contract services provided in the period) equally to each coverage unit provided in the current period and expected to be provided in the future.
- recognising in profit or loss the amount allocated to coverage units provided in the period.

At OP Financial Group, coverage units are determined for the forecast lifecycle of the contract. For typical non-life insurance contracts of short duration, insurance service is interpreted to be provided evenly during the coverage period and insurance premiums received from contracts in the same insurance group are used as the basis for the coverage unit at insurance group level. The forecast lifecycle recognition of the contractual service margin of life insurance products in profit or loss, depending on the contract type, is affected by the saved amount by group, expected duration of the contract, amount of compensation or savings, lapses and future insurance premiums. Release of the contractual service margin and the basis of coverage units vary by insurance line: the basis is the development of the amount of assets for endowment-type insurance products and the development of capital at risk for term life insurance. In the reference year 2022, the basis is, however, an insurance premium with respect to term life insurance products.

The insurance products of OP Financial Group, where both investment service and insurance service are provided, are produced evenly and in the same proportion over the expected duration of the contract. In addition, both services are produced at the same time and their contract periods are of the same duration.

In the VFA model, a company's share of changes in the fair value of underlying investments is included in the contractual service margin that changes on each reporting date.

Reinsurance contracts

Reinsurance contracts are grouped using the same principle as direct insurance contracts, but proportional and non-proportional reinsurance contracts are additionally grouped separately. The date of initial recognition of reinsurance contracts held is earlier of the following:

- the start date of the coverage period of the group of reinsurance contracts. If this date is later than the start date of the coverage period of the group of reinsurance contracts, recognition is delayed until the underlying insurance contract has been initially recognised.
- The date when OP Financial Group recognises an onerous group of underlying direct insurance contracts when OP Financial Group entered into the related reinsurance contract held in the group of reinsurance contracts held at or before that date.

OP Financial Group adjusts the contractual service margin of reinsurance contracts held and, as a result, recognises income when recognising a loss either in connection with initial recognition of the group of underlying onerous reinsurance contracts or when adding underlying onerous insurance contracts to the group. This adjustment to the contractual service margin and the resulting income are determined by multiplying:

- the loss recognised on the underlying insurance contracts
- the percentage of claims on the underlying insurance contracts OP Financial Group expects to recover from the group of reinsurance contracts held.

Presenting insurance contracts in the income statement and balance sheet

Income of the group of insurance contracts is presented in the row Insurance revenue in the income statement, comprising the measurement of the following components: future cash flows, risk adjustment for non-financial risk and contractual service margin. Expenses related to the group of insurance contracts consist of claims incurred, losses from onerous contracts, changes related to prior periods and operating expenses and they are presented in the row Insurance service expenses. Expenses and income related to reinsurance contracts are presented in the row Net income from reinsurance contracts.

The income statement item Net insurance finance income and expenses includes the effect of change in the discount rate and other financial changes on the value of insurance contract liability and the effect of the passage of time, meaning unwinding of discount. In addition, the item includes an option of risk mitigation to apply to certain life insurance contracts. Applying this option gives an opportunity to adjust accounting for contracts under the VFA model in such a way that those changes in cash flows involving a hedgeable position in respect of funding risk are transferred from the contractual service margin to the income statement.

In the balance sheet, future cash flows related to contracts are presented in net terms and grouped into insurance contract liabilities or assets at portfolio level and into reinsurance contract liabilities or assets at portfolio level. The previous presentation under IFRS 4 based on expense types in the income statement will change because, as a result of IFRS 17, a proportion of personnel costs, depreciation/amortisation and other operating expenses is included in the calculation of insurance contract liability under IFRS 17 and presented in Insurance service expenses.

OP Financial Group has made the following significant choices related to the accounting policies:

- Presenting financial income and expenses related to the insurance for the period through profit or loss; discounting curves are derived as the sum of the risk-free interest rate and the liquidity premium dependent on the characteristics of insurance contracts (bottom-up approach), extrapolating long-term interest rates. Similarly, investments related to insurance contract liability are reclassified in such a way that their fair value is presented through profit or loss. The overlay approach applied to equity investments allowed by IFRS 4 ceases to be effective at the date of initial application.
- A risk mitigation option is used for certain contracts based on the VFA that are hedged according to the goal and strategy of the management of market risks in interest rate risk on the balance sheet. This removes the result mismatch.
- The Cost of Capital Method is used to determine risk adjustment.
- OP Financial Group does not apply the Premium Allocation Approach (PAA), nor does it apply the option allowed by IFRS 17 adopted in the European Union to group together several annual cohorts.

Transition to IFRS 17 1 January 2022

In the transition to IFRS 17, the modified retrospective approach is applied to non-life insurance contracts covering all types of insurance contracts to which fully retrospective transition approach cannot be applied. The modification is especially used to adjust cash flows that have already realised and to determine the discount rate. Insofar as complete data are not in all respects available for applying the full retrospective approach, the modified retrospective approach, permitted by the standard, is applied to in situations where reasonable and supportable information can, however, be used that is available without undue cost or effort. The end results of the modified retrospective approach will quite closely correspond to those of the full retrospective approach.

In addition, the fair value approach is applied to life insurance contracts and other non-life insurance contracts to which the modified retrospective approach is not applied. According to the option allowed by the transitional provisions, all contracts are grouped on a portfolio basis into one transition cohort. The full retrospective approach is the primary transition model, but it must be able to be applied without hindsight relating, for example, to data concerning cash flows received and paid before the transition, their estimates and changes itemised for each group of insurance contracts in view of the inception year of contracts.

As a result of the IFRS 17 transition, OP Financial Group's equity capital on 1 January 2022 decreased by EUR 52 million on the date of transition. Solvency II valuations are used in FiCo calculation, so this change to OP Financial Group's equity capital will not affect the FiCo ratio.

The change in equity capital on the date of transition on 1 January 2022 is itemised in the table below. Equity capital was increased by the non-life insurance capitalised acquisition costs recognised in "Other assets", totalling 238 million euros. On the date of transition, insurance contract liabilities measured under IFRS 17 were higher than those measured under IFRS 4, which lowered equity capital. Risk adjustment added to insurance contract liabilities under IFRS 17 was higher than the margin included in the calculation under IFRS 4. As a result of the reclassification of investments at fair value through profit or loss, the valuation difference previously accrued in the investments of insurance companies was reversed from the fair value reserve that was recognised in retained earnings.

Effect of the date of transition to IFRS 17 on equity capital on 1 January 2022

€ million	Cooperative capital	Fair value reserve*	Other reserves	Retained earnings	Total
Equity capital 31 Dec 2021	3,459	323	2,184	8,090	14,057
Effect of the non-life insurance transition date		-121		324	202
Effect of the life insurance transition date		-99		-123	-223
Effect of consolidation adjustments		15		4	19
Change in deferred tax asset/liability				-51	-51
Effect of IFRS 17 transition 1 Jan. 2022, in total		-205		154	-52
Equity capital on 1 Jan. 2022 (capital and reserved attributable to parent company owners)	3,459	118	2,184	8,244	14,005

* The figures also include changes in deferred taxes

OP Financial Group's 2022 earnings before tax measured under IFRS 17 are estimated to be EUR 1,120 million, or EUR 145 million lower than reported in the financial statements bulletin 2022 (EUR 1,265 million lower). This earnings difference comes mainly from a change in life insurance earnings that is caused, for example, by timing differences. Furthermore, changes in the provisions for upcoming customer bonuses due to higher interest rates caused the difference. Entry into force of IFRS 17 will have no effect of the overall profitability of insurance contracts. There may be differences in the timing of recognition in profit or loss between the measurement models under IFRS 4 and IFRS 17.

Changes in opening balance 1 January 2022

OP Financial Group opening balance 1 January 2022, €	31 Dec 2021	Changes	1 Jan 2022
Cash and cash equivalents	32,846		32,846
Receivables from credit institutions	541		541
Derivative contracts	3,467		3,467
Receivables from customers	96,947		96,947
Insurance contract assets			0
Reinsurance contract assets		114	114
Investment assets	22,945	-4	22,941
Assets covering unit-linked contracts	13,137		13,137
Intangible assets	1,212		1,212
Property, plant and equipment	446		446
Other assets	2,419	-244	2,176
Tax assets	141	15	156
Non-current assets held for sale	8		8
Total assets	174,110	-119	173,991
Liabilities to credit institutions	16,650		16,650
Derivative contracts	2,266		2,266
Liabilities to customers	77,898		77,898
Insurance liabilities	8,773	-8,773	
Insurance contract liabilities		13,968	13,968
Reinsurance contract liabilities		13	13
Liabilities from unit-linked insurance and investment contracts	13,210	-13,210	
Liabilities from investment agreements		7,880	7,880
Debt securities issued to the public and debentures	34,895		34,895
Provisions and other liabilities	3,134	-16	3,118
Tax liabilities	1,109	71	1,180
Subordinated liabilities	1,982		1,982
Liabilities associated with non-current assets held for sale	8		8
Total liabilities	159,926	-67	159,858
Equity capital			
Capital and reserves attributable to OP Financial Group owners			
Cooperative capital			
Membership capital contributions	215		215
Profit Shares	3,244		3,244
Fair value reserve	323	-205	118
Other reserves	2,184		2,184
Retained earnings	8,090	154	8,244
Non-controlling interests	128		128
Total equity	14,184	-52	14,133
Total liabilities and equity	174,110	-119	173,991

In addition to entries due to transition to IFRS 17, changes in the opening balance sheet includes changes in recognition related to clearer presentation. Changes to presentation did not affect the amount of equity capital on 1 January 2022. Of the investment asset changes on 1 January 2022, totalling EUR–4 million, the effect of transition to IFRS 17 in the reclassification of investments was EUR 2 million and the transfer due to the change in presentation to other assets was EUR –6 million. The effect of the transition to IFRS 17 in changes in other assets, EUR 244 million, was EUR –249 million and the transfer of presentation from investment assets EUR 6 million.

Insurance contract liabilities on the date of transition 1 January 2022 divided by transition model

Insurance contract liabilities 1 Jan 2022 € million	Modified retrospective approach (MRA)	Fair value approach (FVA)	Total
Non-life insurance	2,956	28	2,985
Discounted cash flows	2,750	11	2,761
Risk adjustment	129	0	130
Contractual service margin (CSM)	77	17	94
Loss component	6	2	9
Life insurance		10,984	10,984
Discounted cash flows		10,014	10,014
Risk adjustment		284	284
Contractual service margin (CSM)		686	686
Loss component		229	229
OP Financial Group, total	2,956	11,012	13,968

Adjusted figures for 2022

In the income statement, Insurance service result will replace Net insurance income. Insurance revenue and Insurance service expenses are included in insurance service result. Insurance revenue includes recognition of the contractual service margin (CSM) in profit or loss, change of expected claims and operating expenses as well as risk adjustments and changes to prior period payments. Insurance service expenses include operating expenses of insurance contract, claims incurred and the losses of onerous contracts and changes related to prior periods. Insurance contract operating expenses include operating expenses and net commission expenses. Net income from reinsurance contracts in the income statement is presented in its specific row as part of Insurance service result.

"Net insurance finance income and expenses" is a new item in the income statement. The item includes the effect of change in the discount rate and other financial changes on the value of insurance contract liability and the effect of the passage of time, meaning unwinding of discount. In addition, the item includes an option of risk mitigation to apply to certain life insurance contracts. Applying this option gives an opportunity to adjust accounting for contracts under the VFA model in such a way that those changes in cash flows involving a hedgeable position in respect of funding risk are transferred from the contractual service margin to the income statement. This acts as a counterpart to the value change of the hedging portfolio.

Net investment income shows return on investment assets in terms of fair value. Net investment income together with in net insurance finance income and expenses describe investment profitability.

Expenses in the income statement decreased because the operating expenses of insurance contracts measured under IFRS 17 are transferred to insurance service result. The item OP bonuses to owner-customers decreased because the cash flows payable from insurance contracts are included in the cash flows under IFRS 17 calculation, in case they are included as part of the insurance service result.

OP Financial Group's income statement under IFRS 17

€ million	Q1-4/2022
Net interest income	1,618
Impairment loss on receivables	-115
Net commissions and fees	942
Insurance premium revenue	1,898
Insurance service expenses	-1,898
Net income from reinsurance contracts	106
Insurance service result	**106**
Net finance income (+)/expenses (–) related to insurance	2,228
Net finance income (+)/expenses (–) related to reinsurance	-1
Net insurance finance income (+)/expenses (–)	2,226
Net interest income from financial assets held for trading	-29
Net investment income	-1,952
Other operating income	67
Personnel costs	-856
Depreciation/amortisation and impairment loss	-214
Other operating expenses	-892
Transfers to insurance service result	416
Operating expenses	-1,545
OP bonuses to owner-customers	-198
Operating profit (loss)	**1,120**
Earnings before tax	**1,120**
Income tax	-213
Profit for the period	**907**
Earnings before tax disclosed in the 2022 financial statements bulletin	**1,265**

Insurance revenue: Recognition of the contractual service margin (CSM) in profit or loss, change of expected claims and operating expenses as well as risk adjustments and changes to prior period payments.

Insurance service expenses: Claims incurred and the losses of onerous contracts and changes related to prior periods, plus operating expenses.

Net insurance finance income expenses: The unwinding of discount during the period, the effect of change in the discount rate and other financial changes on the value of insurance contract liability, the effect of risk mitigation through life insurance.

The insurance service result includes **operating expenses for contracts measured under IFRS 17**, in other words, operating expenses and net commission expenses. In the income statement, these have been included as part of the insurance service result.

OP Financial Group's IFRS 17 balance sheet on 31 Dec 2022

€ million	1 Dec 2022
Cash and cash equivalents	35,004
Receivables from credit institutions	798
Receivables from customers	98,546
Derivative contracts	4,117
Investment assets	20,742
Assets covering unit-linked contracts	11,597
Insurance contract assets	0
Reinsurance contract assets	245
Intangible assets	1,153
Property, plant and equipment	423
Other assets	2,401
Tax assets	664
Total assets	175,691
Liabilities to credit institutions	12 301
Liabilities to customers	81,468
Derivative contracts	4,432
Insurance contract liabilities	11 446
Reinsurance contract liabilities	2
Liabilities from investment agreements	7,211
Debt securities issued to the public and debentures	37,438
Provisions and other liabilities	3,818
Tax liabilities	1,522
Subordinated liabilities	1,384
Total liabilities	161,023
Equity capital	
Capital and reserves attributable to OP Financial Group owners	
Cooperative capital	
Membership capital contributions	217
Profit Shares	3,369
Fair value reserve	-360
Other reserves	2,172
Retained earnings	9,153
Non-controlling interests	118
Total equity	14,668
Total liabilities and equity	175,691

In OP Financial Group's balance sheet, assets of reinsurance contracts measured under IFRS 17 are in the balance sheet assets. The acquisition costs capitalised in non-life insurance are recognised in "Other assets". Insurance contract liabilities in the balance sheet replaced insurance liabilities under IFRS 4.

Insurance contract liabilities, € million	31 Dec 2022
Non-life insurance	2,536
Life insurance	8,906
Total	11,442

The fair value reserve in equity capital decreased because investments related to the insurance contract liability of non-life and life insurance has been reclassified so that their fair value is now entirely presented in profit or loss based on the option allowed by IFRS 17.

On the date of transition on 1 January 2022, the contractual service margin amounted to an estimated EUR 780 million of which life insurance accounted for an estimated EUR 690 million and non-life insurance for an estimated EUR 90 million. Non-life insurance contracts have mainly duration of one year. At the beginning of the period, new insurance contracts involve a contractual service margin, releasing during the period. In life insurance, the contractual service margin is released in the result through long-term contracts, even in the course of decades. A new contractual service margin is also created in new sales of portfolios. Recognition of the contractual service margin in profit or loss in relation to a new CSM was around 7% in the reference year. In the reference year, term life insurance coverage units were determined using premiums and capital at risk is used in coverage units from the beginning of 2023. This change has no significant effect on OP Financial Group's result.

Amount of the contractual service margin CSM and recognition in profit or loss:

€ million	1 Jan 2022	31 Dec 2022	CSM recognition during the period
Non-life insurance	94	116	231
Life insurance	686	787	47
OP Financial Group, total	780	903	278

Adjusted figures in OP Financial Group's income statement, €	Q1 2022	Q2 2022	Q3 2022	Q4 2022
Interest income	339	675	1,070	1,833
Interest expenses	-6	-1	52	-215
Net interest income	334	675	1,122	1,618
Impairment loss on receivables	-83	-100	-70	-115
Commission income	280	546	809	1,077
Commission expenses	-33	-68	-100	-134
Net commissions and fees	247	478	709	942
Insurance premium revenue	451	916	1,407	1,898
Insurance service expenses	-447	-893	-1,463	-1,898
Net income from reinsurance contracts	16	33	134	106
Insurance service result	21	56	77	106
Net finance income (+)/expenses (–) related to insurance	839	1,866	2,223	2,228
Net finance income (+)/expenses (–) related to reinsurance	-2	-5	-3	-1
Net insurance finance income (+) /expenses (–)	837	1,861	2,219	2,226
Net interest income from financial assets held for trading	-19	-48	-62	-29
Net investment income	-748	-1,688	-2,019	-1,952
Other operating income	39	46	52	67
Personnel costs	-211	-427	-617	-856
Depreciation/amortisation and impairment loss	-57	-110	-159	-214
Other operating expenses	-246	-451	-644	-892
Transfers to insurance service result	106	207	305	416
Operating expenses	-407	-781	-1,115	-1,545
OP bonuses to owner-customers	-46	-96	-147	-198
Operating profit (loss)	**174**	**402**	**766**	**1,120**
Earnings before tax	**174**	**402**	**766**	**1,120**
Income tax	-25	-72	-142	-213
Profit for the period	**148**	**330**	**624**	**907**

Differences between Solvency II **solvency measurement and measurement under IFRS 17**

IFRS 17 changes the measurement of insurance contracts for those contracts to which the standard is applied. Measurement is market-based and close to measurement in line with Solvency II solvency measurement. Mainly the same cash flows of insurance contracts as in solvency measurement form the basis. These cash flows are discounted at a risk-free interest and liquidity premium. The risk-free interest is the same as the risk-free interest in solvency measurement and the liquidity premium corresponds to the volatility adjustment, but its size is determined based on the nature of the insurance contract liability of the Group's insurance companies and the investment universe. The risk adjustment calculated using the Cost of Capital method is added to the value of insurance contracts that conceptually corresponds to the risk margin in solvency measurement but it has been calculated using the company's own parameters. As part of the IFRS 17 insurance contract liability, a contractual service margin is reserved that spreads out the profits of insurance contracts for the coverage period. In solvency measurement, the item corresponding to the contractual service margin is not deducted from own funds but the profit of insurance contracts increases own funds directly on the first measurement date. Of the acquisition expenses of insurance contracts under IFRS 17, the portion that is considered to be allocated to future annual cohorts are capitalised in the balance sheet assets. Capitalised acquisition costs are not taken into account in Solvency II own funds.

Equity capital adjustment 31 Dec 2023

The effect of the IFRS 17 transition on 1 January 2022 on OP Financial Group's equity capital was EUR –52 million. When reassessing deferred taxes in late 2023, OP Financial Group noticed that, on 1 January 2022, it had recognised too much deferred tax liabilities from the difference between the fair value and carrying amount of investments with the result that equity capital was EUR 55 million too small on 1 January 2022. Equity capital was revised for 31 December 2023 by reducing tax liability and increasing retained earnings by EUR 55 million. In practice, any retroactive adjustment was no longer possible on 1 January 2022.

3. Changes in the 2023 income statement and balance sheet format

OP Financial Group changed its official income statement and balance sheet format as of 1 January 2023. It has made changes retrospectively for 2022 too. Income statement income is presented without a sign and expenses with minus signs. The key changes in income statement and balance sheet format are as follows:

a) The rows Total income and Total expenses were removed because insurance income and expenses (such as personnel costs) have been presented in the row Insurance service result since the entry into force of IFRS 17 on 1 January 2023.
b) The sub-rows of Net interest income (interest income and interest expenses) and Net commissions and fees (commission income and commission expenses) have been broken down in presentation.
c) Impairment loss on receivables was transferred from the end of the income statement next to net interest income to operating items.
d) New items under IFRS 17, Insurance service result and Net insurance finance income were added to the income statement. The former row Net insurance income was removed.
e) Net income from financial assets held for trading is presented on a specific row separate from Net investment income. Net income from financial assets held for trading includes only Banking and Group Functions items. Net investment income includes net income from financial assets at fair value recognised through comprehensive income, net income from financial assets recognised through profit or loss, net income from investment property, net income from financial assets carried at amortised cost, the result of the associate or joint venture as well as net income from life insurance investment contract liabilities recognised according to IFRS 9.
f) Operating expenses Personnel costs, Depreciation/amortisation and impairment loss and Other operating expenses are mainly presented the same way as previously, showing OP Financial Group's total expenses, but item Transfers to insurance service result next to these items has been added. It describes how much of these expenses are presented in Investment service result.
g) OP bonuses to owner-customers no longer include OP bonuses of insurance contracts measured under IFRS 17 because they are presented in the insurance service result.
h) A new row, Operating profit, is presented in the income statement.
i) The balance sheet presents new balance sheet items under IFRS 17: Insurance contract assets, Reinsurance contract assets, Insurance contract liabilities and Reinsurance liabilities.
j) The balance sheet item Investment contract liabilities presents life investment contracts measured in accordance with IFRS 9.

Income statement

	Explanation of the format change:
Interest income	b) New row
Interest expenses	b) New row
Net interest income	No change
Impairment loss on receivables	c) Moved to another place in the format
Commission income	b) New row
Commission expenses	b) New row
Net commissions and fees	No change
Insurance revenue	d) New row under IFRS 17
Insurance service expenses	d) New row under IFRS 17
Net income from reinsurance contracts	d) New row under IFRS 17
Insurance service result	d) New row under IFRS 17
Net insurance finance income (+) /expenses (–)	d) New row under IFRS 17
Net interest income from financial assets held for trading	e) New row
Net investment income	e) Item content has changed
Other operating income	No change
Personnel costs	No change
Depreciation/amortisation and impairment loss	No change
Other operating expenses	No change
Transfers to insurance service result	f) New row related to the adoption of IFRS 17
Operating expenses	f) New row related to the adoption of IFRS 17
OP bonuses to owner-customers	g) Item content has changed
Operating profit (loss)	h) New row
Earnings before tax	No change
Income tax	No change
Profit for the period	No change

Balance sheet

	Explanation of the format change:
Cash and cash equivalents	No change
Receivables from credit institutions	No change
Receivables from customers	No change
Derivative contracts	No change
Investment assets	No change
Assets covering unit-linked contracts	No change
Insurance contract assets	i) New row under IFRS 17
Reinsurance contract assets	i) New row under IFRS 17
Intangible assets	No change
Property, plant and equipment	No change
Other assets	No change
Tax assets	No change
Total assets	No change
Liabilities to credit institutions	No change
Liabilities to customers	No change
Derivative contracts	No change
Insurance contract liabilities	i) New row under IFRS 17
Reinsurance contract liabilities	i) New row under IFRS 17
Liabilities from investment agreements	i) New row under IFRS 17
Debt securities issued to the public	No change
Provisions and other liabilities	No change
Tax liabilities	No change
Subordinated liabilities	No change
Total liabilities	No change
Equity capital	No change
Cooperative capital	No change
Member cooperative shares	No change
Profit Shares	No change
Fair value reserve	No change
Other reserves	No change
Retained earnings	No change
Non-controlling interests	No change
Total equity	No change
Total liabilities and equity	No change

Note 2. Segment reporting

Segment information

Q1-4 earnings 2023, € million	Retail Banking	Corporate Banking	Insurance	Group Functions	Group eliminations	OP Financial Group
Interest income	3,756	1,790	1	2,636	-2,704	5,480
Interest expenses	-1,499	-1,199	-1	-2,636	2,725	-2,609
Net interest income	2,258	591	0	1	21	2,871
of which inter-segment items	0	-387		387	0	0
Impairment loss on receivables	-173	-96		0	0	-269
Commission income	735	393	81	21	-192	1,038
Commission expenses	-50	-174	-25	-21	139	-130
Net commissions and fees	686	219	56	-1	-52	908
Insurance premium revenue			2,000		0	2,000
Insurance service expenses			-1,824		0	-1,824
Net income from reinsurance contracts			-95		0	-95
Insurance service result			81			81
Net finance income (+)/expenses (–) related to insurance			-722		0	-722
Net finance income (+)/expenses (–) related to reinsurance			0		0	0
Net insurance finance income (+)/expenses (–)			-722		0	-722
Net interest income from financial assets held for trading	3	53	-1	6	-6	55
Net investment income	-32	0	1,070	4	15	1,057
Other operating income	61	21	4	741	-788	40
Personnel costs	-500	-104	-167	-232	38	-964
Depreciation/amortisation and impairment loss	-57	-3	-64	-104	2	-226
Other operating expenses	-806	-247	-317	-441	801	-1,011
Transfers to insurance service result			485		0	485
Operating expenses	-1,363	-354	-62	-777	841	-1,716
OP bonuses to owner-customers	-217	-26	-12		0	-255
Operating profit (loss)	**1,223**	**408**	**414**	**-26**	**31**	**2,050**
Earnings before tax	**1,223**	**408**	**414**	**-26**	**31**	**2,050**

The calculated ineffectiveness of fair value hedges arising from the elimination of internal items is presented in Group eliminations.

Adjusted Q1-4 earnings 2022, € million	Retail Banking	Corporate Banking	Insurance	Group Functions	Group eliminations	OP Financial Group
Interest income	1,305	548	1	319	-339	1,833
Interest expenses	-111	-91	-2	-381	370	-215
Net interest income	1,194	457	-1	-62	31	1,618
of which inter-segment items		-35		35		
Impairment loss on receivables	-96	-18	0	0	0	-115
Commission income	814	395	84	14	-230	1,077
Commission expenses	-41	-229	-34	-15	184	-134
Net commissions and fees	773	166	50	0	-45	942
Insurance premium revenue			1,898			1,898
Insurance service expenses			-1,898			-1,898
Net income from reinsurance contracts			106		0	106
Insurance service result			106		0	106
Net finance income (+)/expenses (–) related to insurance			2,228		0	2,228
Net finance income (+)/expenses (–) related to reinsurance			-1			-1
Net insurance finance income (+)/expenses (–)			2,226			2,226
Net interest income from financial assets held for trading	-4	132	-1	-22	-133	-29
Net investment income	-5	4	-2,070	11	108	-1,952
Other operating income	39	18	39	657	-686	67
Personnel costs	-455	-95	-147	-195	36	-856
Depreciation/amortisation and impairment loss	-53	-8	-51	-103	2	-214
Other operating expenses	-720	-218	-264	-376	687	-892
Transfers to insurance service result			416			416
Operating expenses	-1,229	-321	-46	-674	725	-1,545
OP bonuses to owner-customers	-168	-20	-10		0	-198
Operating profit (loss)	**502**	**416**	**293**	**-91**	**-1**	**1,120**
Earnings before tax	**502**	**416**	**293**	**-91**	**-1**	**1,120**

Balance sheet 31 December 2023, € million	Retail Banking	Corporate Banking	Insurance	Group Functions	Group eliminations	OP Financial Group
Cash and cash equivalents	45	125		19,585	0	19,755
Receivables from credit institutions	24,254	209	570	12,705	-36,880	858
Receivables from customers	70,157	28,061	0	-53	-329	97,836
Derivative contracts	902	4,538	58	242	-2,340	3,401
Investment assets	453	555	9,460	16,223	-4,794	21,896
Assets covering unit-linked contracts			12,581			12,581
Reinsurance contract assets			106		0	106
Intangible assets	22	179	634	169	62	1,065
Property, plant and equipment	260	3	3	137	-4	398
Other assets	1,176	264	558	914	-690	2,222
Tax assets	101	1	82	48	41	273
Total assets	**97,370**	**33,935**	**24,051**	**49,969**	**-44,934**	**160,391**
Liabilities to credit institutions	10,638	5	59	25,006	-35,642	66
Liabilities to customers	60,817	13,656		3,509	-1,325	76,656
Derivative contracts	1,158	4,106	27	390	-2,410	3,271
Insurance contract liabilities			11,589		0	11,589
Reinsurance contract liabilities			0			0
Liabilities from investment agreements			7,944			7,944
Debt securities issued to the public and debentures	14,190	2,466		21,492	-637	37,511
Provisions and other liabilities	1,699	1,056	316	1,937	-559	4,450
Tax liabilities	581	4	248	391	5	1,229
Subordinated liabilities	0	0	380	1,414	-380	1,414
Total liabilities	**89,083**	**21,292**	**20,563**	**54,138**	**-40,947**	**144,129**
Equity capital						**16,262**

Adjusted Balance sheet 31 December 2022, € million	Retail Banking	Corporate Banking	Insurance	Group Functions	Group eliminations	OP Financial Group
Cash and cash equivalents	52	154	0	34,797	0	35,004
Receivables from credit institutions	29,713	310	904	13,173	-43,301	798
Receivables from customers	70,729	27,803		383	-369	98,546
Derivative contracts	1,266	5,612	76	169	-3,007	4,117
Investment assets	537	298	8,702	20,485	-9,280	20,742
Assets covering unit-linked contracts			11,597			11,597
Reinsurance contract assets			245		0	245
Intangible assets	23	181	717	202	29	1,153
Property, plant and equipment	285	4	2	136	-4	423
Other assets	635	1,756	762	-493	-259	2,401
Tax assets	137	3	456	24	44	664
Assets	**103,378**	**36,120**	**23,462**	**68,877**	**-56,146**	**175,691**
Liabilities to credit institutions	11,615	-36	65	42,621	-41,965	12,301
Liabilities to customers	63,951	14,043		4,876	-1,402	81,468
Derivative contracts	1,667	5,295	60	443	-3,033	4,432
Insurance contract liabilities			11,446		0	11,446
Reinsurance contract liabilities			2			2
Liabilities from investment agreements			7,211			7,211
Debt securities issued to the public and debentures	16,941	1,672		23,537	-4,711	37,438
Provisions and other liabilities	846	891	347	1,954	-221	3,818
Tax liabilities	514	2	631	372	4	1,522
Subordinated liabilities	0	-51	380	1,435	-380	1,384
Liabilities	**95,535**	**21,816**	**20,142**	**75,239**	**-51,709**	**161,023**
Equity capital						**14,668**

Note 3. Net interest income

€ million	Q1–4 2023	Q1–4 2022	Q4 2023	Q4 2022
Interest income				
Receivables from credit institutions	656	111	175	100
Receivables from customers				
Loans	3,963	593	1,175	-444
Finance lease receivables	87	35	25	13
Fair value adjustments under hedge accounting	-402	-618	591	1,072
Total	3,648	10	1,792	641
Notes and bonds				
Measured at fair value through profit or loss	0	0	0	-9
At fair value through other comprehensive income	131	66	38	22
Amortised cost	7	0	4	0
Fair value adjustments under hedge accounting	551	-1,479	493	-34
Total	690	-1,414	535	-20
Derivative contracts*				
Fair value hedges	491	3,073	-799	3,229
Cash flow hedges	-84	27	-30	-3,118
Other		0		0
Total	407	3,101	-828	112
Liabilities to credit institutions				
Interest	0	-23	0	-69
Liabilities to customers				
Negative interest	4	24	2	1
Other	75	24	15	10
Total	**5,480**	**1,833**	**1,690**	**776**
Interest expenses				
Liabilities to credit institutions				
Interest expenses for liabilities to credit institutions	-76	2	0	-1
Fair value adjustments under hedge accounting	-363	1,007	-303	30
Total	-439	1,009	-303	28
Liabilities to customers	-1,037	2	-480	-47
Debt securities issued to the public and debentures				
Interest expenses for debt securities issued to the public and debentures	-665	-198	-190	-100
Fair value adjustments under hedge accounting	-946	2,411	-865	41
Total	-1,611	2,213	-1,055	-59
Subordinated liabilities				
Other	-29	-35	-1	-8
Fair value adjustments under hedge accounting	-35	82	-21	4
Total	-63	47	-22	-4
Derivative contracts*				
Fair value hedges	558	-3,438	973	-192
Other	71	40	15	16
Total	629	-3,398	988	-175
Receivables from credit institutions				
Negative interest	0	-73	0	0
Other	-86	-14	-27	-9
Total	**-2,609**	**-215**	**-898**	**-267**
Total interest expenses	**2,871**	**1,618**	**792**	**509**

* Includes the valuation of derivatives and interest.

Note 4. Impairment losses on receivables

€ million	Q1–4 2023	Q1–4 2022	Q4 2023	Q4 2022
Receivables written down as loan and guarantee losses	-93	-133	-39	-40
Recoveries of receivables written down	16	15	4	4
Expected credit losses (ECL) on receivables from customers and off-balance-sheet items	-192	3	-64	-9
Expected credit losses (ECL) on notes and bonds	0	0	0	0
Total	**-269**	**-115**	**-99**	**-45**

Credit risk exposures and related loss allowance

Exposures within the scope of accounting for expected credit losses by impairment stage 31 December 2023

The tables below describe exposures that fall within the scope of accounting for expected credit losses

Exposures	Stage 1	Stage 2			Stage 3	
€ million		Not more than 30 DPD	More than 30 DPD	Total		Total exposure
Receivables from customers (gross)						
Retail Banking	55,280	11,893	61	11,955	2,373	69,608
Corporate Banking	25,988	3,064	150	3,214	707	29,909
Total	**81,269**	**14,957**	**211**	**15,168**	**3,080**	**99,517**
Off-balance-sheet limits						
Retail Banking	1,449	354	0	354	8	1,811
Corporate Banking	2,960	173	0	173	8	3,141
Total	**4,410**	**526**	**0**	**527**	**16**	**4,952**
Other off-balance-sheet commitments						
Retail Banking	721	36		36	17	775
Corporate Banking	2,632	216		216	46	2,895
Total	**3,354**	**253**		**253**	**63**	**3,670**
Notes and bonds*						
Group Functions	12,737	69		69	3	12,809
Total	**12,737**	**69**		**69**	**3**	**12,809**
Total exposures within the scope of accounting for expected credit losses	**101,769**	**15,805**	**212**	**16,017**	**3,163**	**120,948**

* Notes and bonds related to the insurance business have been measured at fair value through profit or loss since 1 January 2023 in connection with the adoption of IFRS 17. So, the expected credit loss will no longer be calculated. The figures in comparative year have been adjusted.

Loss allowance by impairment stage 31 December 2023

On-balance-sheet exposures and related off-balance-sheet limits*	Stage 1	Stage 2			Stage 3	
€ million		Not more than 30 DPD	More than 30 DPD	Total		Total loss allowance
Receivables from customers						
Retail Banking	-21	-160	-1	-161	-413	-594
Corporate Banking	-33	-76	-7	-83	-173	-288
Total receivables from customers	**-53**	**-236**	**-8**	**-243**	**-586**	**-882**
Off-balance-sheet commitments**						
Retail Banking	-1	-1		-1	-5	-7
Corporate Banking	-3	-11		-11	-23	-37
Total off-balance-sheet commitments	**-3**	**-13**		**-13**	**-29**	**-44**
Notes and bonds***						
Group Functions	-1	-1		-1	-1	-2
Total notes and bonds	**-1**	**-1**		**-1**	**-1**	**-2**
Total	**-58**	**-249**	**-8**	**-257**	**-615**	**-929**

* Loss allowance for on- and related off-balance sheet limits is recognised as one component to deduct the balance sheet item.

** Loss allowance is recognised in provisions and other liabilities in the balance sheet.

*** Loss allowance is recognised in the fair value reserve in other comprehensive income.

Notes and bonds related to the insurance business have been measured at fair value through profit or loss since 1 January 2023 in connection with the adoption of IFRS 17. So, the expected credit loss will no longer be calculated. The figures in comparative year have been adjusted.

The table below shows a summary of loss allowance relative to the exposure amount by impairment stage. The coverage ratio describes the ratio of loss allowance to exposure amount.

Summary and key indicators 31 December 2023	Stage 1	Stage 2			Stage 3	
		Not more than 30 DPD	More than 30 DPD	Total		Total
Receivables from customers; on-balance-sheet and off-balance-sheet items						
Retail Banking	57,451	12,283	62	12,345	2,398	72,194
Corporate Banking	31,581	3,453	150	3,603	761	35,945
Loss allowance						
Retail Banking	-21	-161	-1	-162	-418	-602
Corporate Banking	-35	-87	-7	-94	-196	-325
Coverage ratio, %						
Retail Banking	-0.04%	-1.31%	-1.42%	-1.31%	-17.43%	-0.83%
Corporate Banking	-0.11%	-2.52%	-4.54%	-2.60%	-25.78%	-0.90%
Receivables from customers; total on-balance-sheet and off-balance-sheet items	89,032	15,736	212	15,948	3,159	108,139
Total loss allowance	-57	-248	-8	-256	-614	-927
Total coverage ratio, %	-0.06%	-1.58%	-3.64%	-1.60%	-19.44%	-0.86%
Carrying amount, notes and bonds						
Group Functions	12,737	69		69	3	12,809
Loss allowance						
Group Functions	-1	-1		-1	-1	-2
Coverage ratio, %						
Group Functions	-0.01%	-0.93%		-0.93%	-16.38%	-0.02%
Total notes and bonds	12,737	69		69	3	12,809
Total loss allowance	-1	-1		-1	-1	-2
Total coverage ratio, %	-0.01%	-0.93%		-0.93%	-16.38%	-0.02%

Exposures within the scope of accounting for expected credit losses by impairment stage 31 December 2022

Exposures	Stage 1	Stage 2			Stage 3	
€ million		Not more than 30 DPD	More than 30 DPD	Total		Total exposure
Receivables from customers (gross)						
Retail Banking	60,769	7,933	49	7,982	2,041	70,791
Corporate Banking	26,623	2,518	109	2,627	452	29,703
Total	87,391	10,451	158	10,609	2,493	100,494
Off-balance-sheet limits						
Retail Banking	2,836	155	0	155	5	2,996
Corporate Banking	3,139	129	2	130	6	3,275
Total	5,975	284	2	286	11	6,272
Other off-balance-sheet commitments						
Retail Banking	413	26		26	12	451
Corporate Banking	2,706	176		176	33	2,915
Total	3,119	202		202	45	3,366
Notes and bonds						
Group Functions	12,982	73		73		13,055
Total	12,982	73		73		13,055
Total exposures within the scope of accounting for expected credit losses	109,468	11,010	160	11,170	2,549	123,187

Loss allowance by impairment stage 31 December 2022

On-balance-sheet exposures and related off-balance-sheet limits*	Stage 1	Stage 2			Stage 3	
€ million		Not more than 30 DPD	More than 30 DPD	Total		Total loss allowance
Receivables from customers						
Retail Banking	-18	-78	-1	-79	-363	-461
Corporate Banking	-30	-23	-5	-28	-182	-240
Total	**-48**	**-101**	**-6**	**-108**	**-546**	**-701**
Other off-balance-sheet commitments**						
Retail Banking	-1	-1		-1	-2	-4
Corporate Banking	-3	-2		-2	-24	-29
Total	**-4**	**-3**		**-3**	**-26**	**-32**
Notes and bonds***						
Group Functions	-1	-1		-1		-2
Total notes and bonds	**-1**	**-1**		**-1**		**-2**
Total	**-53**	**-105**	**-6**	**-111**	**-572**	**-736**

* Loss allowance for on- and related off-balance sheet limits is recognised as one component to deduct the balance sheet item.

** Loss allowance is recognised in provisions and other liabilities in the balance sheet.

*** Loss allowance is recognised in the fair value reserve in other comprehensive income.

The table below shows a summary of loss allowance relative to the exposure amount by impairment stage. The coverage ratio describes the ratio of loss allowance to exposure amount.

Summary and key indicators 31 December 2022	Stage 1	Stage 2			Stage 3	
		Not more than 30 DPD	More than 30 DPD	Total		Total
Receivables from customers; on-balance-sheet and off-balance-sheet items						
Retail Banking	64,018	8,114	49	8,163	2,058	74,239
Corporate Banking	32,468	2,823	111	2,934	491	35,892
Loss allowance						
Retail Banking	-19	-79	-1	-80	-366	-460
Corporate Banking	-33	-25	-5	-30	-206	-274
Coverage ratio, %						
Retail Banking	-0.03%	-0.98%	-2.04%	-0.98%	-17.77%	-0.62%
Corporate Banking	-0.10%	-0.87%	-4.73%	-1.02%	-42.00%	-0.76%
Receivables from customers; total on-balance-sheet and off-balance-sheet items	**96,485**	**10,937**	**160**	**11,097**	**2,549**	**110,131**
Total loss allowance	**-52**	**-104**	**-6**	**-110**	**-572**	**-734**
Total coverage ratio, %	**-0.05%**	**-0.95%**	**-3.90%**	**-0.99%**	**-22.44%**	**-0.67%**
Carrying amount, notes and bonds						
Group Functions	12,982	73		73		13,055
Loss allowance						
Group Functions	-1	-1		-1		-2
Coverage ratio, %						
Group Functions	-0.01%	-1.18%		-1.18%		-0.02%
Total notes and bonds	**12,982**	**73**		**73**		**13,055**
Total loss allowance	**-1**	**-1**		**-1**		**-2**
Total coverage ratio, %	**-0.01%**	**-1.18%**		**-1.18%**		**-0.02%**

The table below shows a change in exposures within the scope of the measurement of expected credit losses by impairment Stage for 2023 resulting from the effect of the following factors:

Receivables from customers and off-balance-sheet items, € million	Stage 1	Stage 2	Stage 3	Total
Receivables from customers; on-balance-sheet and off-balance-sheet items 1 January 2023	**96,485**	**11,097**	**2,549**	**110,131**
Transfers from Stage 1 to Stage 2, incl. repayments	-9,329	8,887		-442
Transfers from Stage 1 to Stage 3, incl. repayments	-756		719	-37
Transfers from Stage 2 to Stage 1, incl. repayments	3,245	-3,379		-135
Transfers from Stage 2 to Stage 3, incl. repayments		-704	630	-74
Transfers from Stage 3 to Stage 1, incl. repayments	53		-65	-12
Transfers from Stage 3 to Stage 2, incl. repayments		263	-297	-34
Increases due to origination and acquisition	15,116	1,138	165	16,419
Unchanged Stage, incl. repayments	-5,744	-274	-109	-6,124
Recognised as final credit loss	0	-1	-91	-95
Receivables from customers; on-balance-sheet and off-balance-sheet items 31 December 2023	**89,032**	**15,948**	**3,159**	**108,139**

Transfers from stage 1 to stage 2 include the transfer of EUR 3,2 billion concerning exposures related to a management overlay provision.

The following flow statements show the changes in loss allowance by impairment stage during 2023.

Receivables from customers and off-balance-sheet items, € million	Stage 1 12 months	Stage 2 Lifetime	Stage 3 Lifetime	Total
Loss allowance 1 January 2023	**52**	**110**	**572**	**734**
Transfers from Stage 1 to Stage 2	-8	132		124
Transfers from Stage 1 to Stage 3	-1		84	83
Transfers from Stage 2 to Stage 1	2	-16		-15
Transfers from Stage 2 to Stage 3		-11	67	56
Transfers from Stage 3 to Stage 1	0		-9	-8
Transfers from Stage 3 to Stage 2		5	-31	-26
Increases due to origination and acquisition	12	32	35	79
Decreases due to derecognition	-11	-12	-71	-94
Changes in risk parameters (net)	11	17	32	59
Decrease in allowance account due to write-offs		0	-65	-65
Net change in expected credit losses	**5**	**146**	**42**	**193**
Loss allowance 31 December 2023	**57**	**256**	**614**	**927**
Net change in expected credit losses Q4 2023	**-1**	**49**	**16**	**64**

Transfers from stage 1 to stage 2 include the transfer of an increase of EUR 64 million concerning a management overlay provision.

The weak outlook for the construction industry is reflected in an increase in credit losses in stages 2 and 3.

In Q4/2023, OP Financial Group calibrated the LGD model for loans with residential property collateral. The calibration improved the collateral value forecast model and its macroeconomic sensitivity. This affected the collateral return component and increased expected credit losses by EUR 1.4 million.

OP Financial Group has added the over triple growth of probability of default (PD) in Q3/2023 (annualised) as a new criterion for elevated credit risk in stage 2 transfers. This caused a transfer of exposures totalling slightly under EUR 400 million from stage 1 to stage 2 and an increase of EUR 1.4 million in expected credit losses (ECL). According to the criterion, the annualised PD must, however, be over 0.3%, so OP Financial Group uses for the first time in this connection the so-called low credit risk assumption mentioned in IFRS 9.

OP Financial Group has assessed the financial effects caused by Russia's war of aggression in Ukraine on its customers' credit risk and the related remaining EUR 2 million of the management overlay provision made in Q1/2022. The provision was reversed in Q2/2023.

OP Financial Group has assessed the impacts of a rise in inflation and Euribor rates as well as a fall in the price of residential property collateral on the credit risk associated with home loans. The assessment was carried out as a stress test which measured the cash flow of households, on the basis of which potential customers whose repayment capacity is jeopardised were assessed. Based on the analysis, an additional management overlay of EUR 42.4 million was made in Q4/2022. This was reduced by EUR 6.4 million in Q3/2023 as the effect of inflation was removed from the stress test. In addition, the management overlay was extended to cover all exposures to personal customers. The stress test of the personal customer provision was updated with new assumptions in Q4/2023. The assumption is that the interest rate will go down slowly, the unemployment rate will rise to 8% and home prices will further decrease by 2%. However, the amount of the management overlay provision remained unchanged at EUR 35.9 million in Q4/2023.

In Q4/2022, the management overlay was used to perform the ECL provision for the construction industry worth EUR 5.3 million, based on OP Financial Group's analysis. The analysis was updated in Q2/2023 due to the further deteriorating outlook in the industry. The analysis was made as a stress test based on the baseline scenario (weight of 60%) and the downside scenario (weight of 40%) with the assumptions that net sales decrease by 20%/35%, profitability weakens by 20%/40%, equity ratio decreases by 10%/20%, interest rates stand at 4%/6% and the prices of new homes have fallen by 15%/30%. Based on the update, the provision was increased by EUR 11.7 million to EUR 17.0 million. The provision was updated in Q4/2023 by stressing rating grades under different scenarios. In addition, the provision was extended to cover small construction companies, too. The weak outlook for the construction industry is expected to continue until 2025. The provision was increased by EUR 21.7 million to EUR 38.7 million.

In Q2/2023, a management overlay provision of EUR 27.2 million was made in the real estate sector based on the weaker outlook in the sector. The analysis was made as a stress test based on the baseline scenario (weight of 70%) and the downside scenario (weight of 30%) with the assumptions that net sales increase by 3%/0%, profitability weakens by 5%/10%, equity ratio decreases by 10%/20%, interest rates stand at 4%/6%. The provision was updated in Q4/2023 and it was reversed by EUR 13 million to EUR 14.2 million because a rise in the inflation rate and the interest rate has been realised for the most part and credit grades have been performed.

In addition, OP Financial Group was prepared in Q4/2022 for the retrospective correction of the data stock on forborne exposures with a 5-million euro management overlay provision to be performed in the first half of 2023. The provision was reversed in Q2/2023 because the correction of the data stock has been entered into systems and within the scope of ECL accounting.

At the end of 2021, OP Financial Group made a 34-million euro additional ECL provision concerning CRE backed loans. The provision was aimed at anticipating growth in the ECL caused by the update of the collateral assessment of the riskiest collateral real estate holdings and probable default statutes. The remaining provision for Q4/2023 is EUR 6 million.

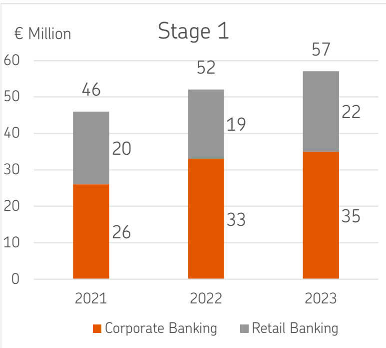
In Q4/2023, OP Financial Group made a new management overlay provision to improve the processes for the early warning system (EWS) and a group of connected clients. The improvement will be carried out during 2024. The process improvement is expected to increase expected credit losses by roughly EUR 14.1 million in the Retail Banking segment.

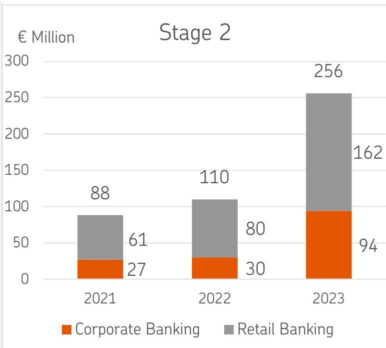
The table below shows the loss allowance before the discretionary provisions under management overlay, management overlay provisions described above and the total loss allowance.

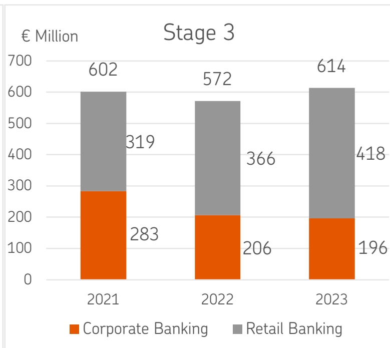
Loss allowance 31 December 2023	Retail Banking	Corporate Banking	Total
Loss allowance before discretionary provisions	**504**	**314**	**818**
Discretionary provisions under management overlay			
Personal customers: inflation, interest rates and value of collateral securities	35	1	36
Construction industry	29	9	39
Real estate sector	13	1	14
Collateral valuation of CRE backed loans	6		6
Improvement to the identification processes for EWS and connected clients	14		14
Total discretionary provisions under management overlay	**98**	**11**	**109**
Total reported loss allowance	**602**	**325**	**927**

Loss allowance 31 December 2022	Retail Banking	Corporate Banking	Total
Loss allowance before discretionary provisions	**401**	**267**	**668**
Discretionary provisions under management overlay			
Russia-Ukraine war	2		2
Price of electricity, interest rates & value of collateral	42		42
Construction industry	3	3	5
Future retrospective correction to forborne exposures	5		5
Collateral valuation of CRE backed loans	11		11
Total discretionary provisions under management overlay	**63**	**3**	**66**
Total reported loss allowance	**465**	**269**	**734**

The following graphs illustrate the trend in the expected credit losses of customer receivables by impairment stage during the last few years.

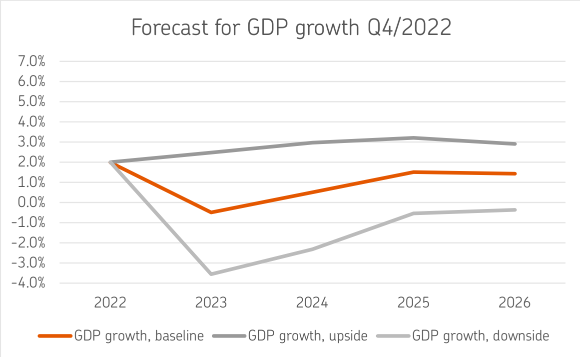


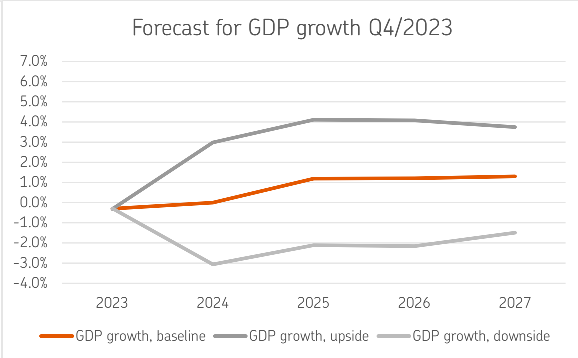


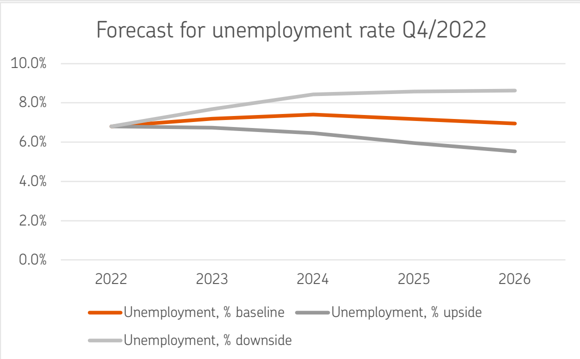


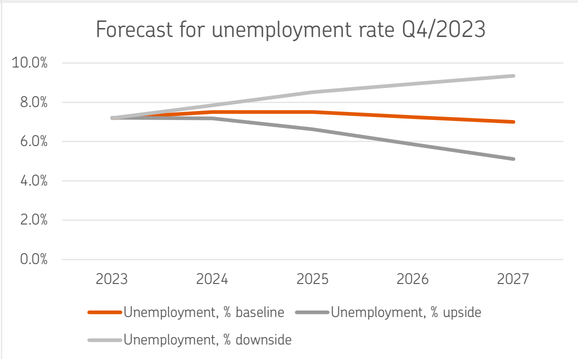
In ECL measurement, macroeconomic factors are updated on a quarterly basis. The ECL is measured as the weighted average under three scenarios. Scenario weights have been at normal level, or downside 20%, baseline 60% and upside 20%. During the last quarter of 2023, the update of the macroeconomic forecasts slightly increased the ECL.

The following graphs illustrate change in forecasts for GDP and the unemployment rate.









Notes and bonds, € million	Stage 1 12 months	Stage 2 Lifetime	Stage 3 Lifetime	Total
Loss allowance 1 January 2023	1	1		2
Transfers from Stage 1 to Stage 2		0		0
Transfers from Stage 1 to Stage 3			1	0
Transfers from Stage 2 to Stage 1	0			
Increases due to origination and acquisition	0	0		0
Decreases due to derecognition				
Changes in risk parameters (net)				
Net change in expected credit losses			1	0
Loss allowance 31 December 2023	1	1	1	2
Net change in expected credit losses Q4 2023	0	0	0	0

The table below shows a change in exposures within the scope of the measurement of expected credit losses by impairment Stage for 2022 resulting from the effect of the following factors:

Receivables from customers and off-balance-sheet items, € million	Stage 1	Stage 2	Stage 3	Total
Receivables from customers; on-balance-sheet and off-balance-sheet items 1 January 2022	93,044	8,806	2,530	104,380
Transfers from Stage 1 to Stage 2, incl. repayments	-5,695	5,491		-203
Transfers from Stage 1 to Stage 3, incl. repayments	-376		339	-37
Transfers from Stage 2 to Stage 1, incl. repayments	2,684	-2,976		-292
Transfers from Stage 2 to Stage 3, incl. repayments		-536	486	-50
Transfers from Stage 3 to Stage 1, incl. repayments	49		-51	-2
Transfers from Stage 3 to Stage 2, incl. repayments		218	-247	-29
Increases due to origination and acquisition	19,141	1,077	138	20,355
Decreases due to derecognition	-11,465	-890	-365	-12,720
Unchanged Stage, incl. repayments	-896	-93	-171	-1,160
Recognised as final credit loss	0	0	-110	-111
Receivables from customers; on-balance-sheet and off-balance-sheet items 31 December 2022	96,485	11,097	2,549	110,131

The table below shows the change in loss allowance by impairment stage during 2022.

Receivables from customers and off-balance-sheet items, € million	Stage 1 12 months	Stage 2 Lifetime	Stage 3 Lifetime	Total
Loss allowance 1 January 2022	**46**	**89**	**603**	**737**
Transfers from Stage 1 to Stage 2	-5	38		33
Transfers from Stage 1 to Stage 3	-3		67	64
Transfers from Stage 2 to Stage 1	2	-18		-16
Transfers from Stage 2 to Stage 3		-12	57	45
Transfers from Stage 3 to Stage 1		4	-23	-19
Transfers from Stage 3 to Stage 2	1		-6	-6
Increases due to origination and acquisition	17	14	30	61
Decreases due to derecognition	-8	-14	-92	-114
Changes in risk parameters (net)	4	7	40	51
Changes due to update in the methodology for estimation (net)				
Changes in model assumptions and methodology	0	2	5	7
Decrease in allowance account due to write-offs	0	0	-108	-108
Net change in expected credit losses	**6**	**21**	**-31**	**-3**
Loss allowance 31 December 2022	**52**	**110**	**572**	**734**

Notes and bonds, € million	Stage 1 12 months	Stage 2 Lifetime	Stage 3 Lifetime	Total
Loss allowance 31 December 2021	**7**	**2**	**5**	**14**
IFRS 17 transition 1 Jan 2022	-5	-2	-5	-12
Loss allowance 1 January 2022	**2**	**0**	**0**	**2**
Transfers from Stage 1 to Stage 2	0	1		1
Transfers from Stage 1 to Stage 3				
Transfers from Stage 2 to Stage 1				
Transfers from Stage 2 to Stage 3				
Increases due to origination and acquisition	0	0		0
Decreases due to derecognition	0	0		0
Changes in risk parameters (net)	0	0		0
Net change in expected credit losses	**0**	**1**	**0**	**0**
Loss allowance 31 December 2022	**1**	**1**	**0**	**2**

Note 5. Net commissions and fees

Q1–4 2023, € million	Retail Banking	Corporate Banking	Insurance	Other operations	Elimi-nations	OP Financial Group	Q42023
Commission income							
Lending	108	54		0	-2	160	40
Deposits	23	2		0	0	25	6
Payment transfers	285	32		19	-19	317	63
Securities brokerage	6	18		0	-7	18	5
Securities issuance	0	5		0	0	5	2
Mutual funds	48	231	48		-47	279	70
Asset management	31	28		1	-13	46	19
Legal services	23	0			0	23	6
Guarantees	11	12		0	0	23	6
Housing agency	63				0	63	16
Sales commissions on insurance contracts	92		9		-64	38	7
Life insurance contracts			25			25	6
Other	44	10		1	-40	14	3
Total	**735**	**393**	**81**	**21**	**-192**	**1,038**	**250**
Commission expenses							
Lending	0	-2		0	1	0	1
Payment transfers	-30	-7	-2	-3	16	-26	-5
Securities brokerage		-3		0	0	-3	-1
Securities issuance	0	-5		0	0	-5	-1
Mutual funds		-106	0		47	-58	-14
Asset management		-8	5	-1	0	-4	3
Guarantees		0				0	0
Sales commissions on insurance contracts			-28		23	-5	-1
Other	-20	-44	-1	-16	52	-29	-9
Total	**-50**	**-174**	**-25**	**-21**	**139**	**-130**	**-27**
Total net commissions and fees	**686**	**219**	**56**	**-1**	**-52**	**908**	**223**

Adjusted Q1–4 2022, € million	Retail Banking	Corporate Banking	Insurance	Other operations	Elimi-nations	OP Financial Group	Q42022
Commission income							
Lending	104	48		0	-1	150	36
Deposits	22	3		0	0	25	7
Payment transfers	298	32		11	-12	329	83
Securities brokerage	8	22			-8	22	4
Securities issuance	0	6		0	0	6	2
Mutual funds	47	237	48	0	-46	286	71
Asset management	33	27		1	-13	48	18
Legal services	27	0				27	6
Guarantees	12	13		0	0	25	6
Housing agency	72				0	72	16
Sales commissions on insurance contracts	96		10		-60	46	8
Life insurance contracts			24			24	6
Other	94	8	1	2	-90	16	4
Total	**814**	**395**	**84**	**14**	**-230**	**1,077**	**268**
Commission expenses							
Lending	0	-2		0	1	0	0
Payment transfers	-29	-3	-1	-2	10	-25	-5
Securities brokerage		-4		0	0	-4	-1
Securities issuance	0	-4		0	4	0	0
Mutual funds		-110	0		46	-64	-15
Asset management		-9	0	-4		-13	-3
Guarantees		0				0	0
Sales commissions on insurance contracts	5		-31		21	-5	-2
Other	-16	-98	-2	-8	102	-23	-7
Total	**-41**	**-229**	**-34**	**-15**	**184**	**-134**	**-34**
Total net commissions and fees	**773**	**166**	**50**	**0**	**-45**	**942**	**234**

Note 6. Net insurance income

€ million	Q1–4 2023	Q1–4 2022	Q4 2023	Q4 2022
Non-life insurance				
Expected claims incurred and other directly allocated insurance service costs	1,309	1,269	338	315
Changes in risk adjustment (other than adjustments related to funding risks)	11	21	3	6
Contractual service margin of services produced during the period	249	231	44	69
Recognition of insurance acquisition cash flows as revenue	124	124	34	33
Other changes in insurance premium revenue	65	34	52	17
Non-life insurance premium revenue according to the General Measurement Model (GMM), total	**1,758**	**1,680**	**471**	**439**
Life insurance				
Expected claims incurred and other directly allocated insurance service costs	119	112	29	28
Changes in risk adjustment (other than adjustments related to funding risks)	10	14	2	3
Contractual service margin of services produced during the period	64	40	15	10
Recognition of insurance acquisition cash flows as revenue	14	20	5	4
Other changes in insurance premium revenue	9	2	4	-2
Life insurance premium revenue according to the General Measurement Model (GMM), total	**216**	**189**	**56**	**42**
Expected claims incurred and other directly allocated insurance service costs	17	19	4	5
Changes in risk adjustment (other than adjustments related to funding risks)	4	9	1	2
Contractual service margin of services produced during the period	5	6	1	2
Recognition of insurance acquisition cash flows as revenue	2	2	1	1
Other changes in insurance premium revenue	-2	-7	0	-1
Life insurance premium revenue according to the Variable Fee Approach (VFA), total	**26**	**29**	**7**	**9**
Total life insurance premium revenue	**242**	**217**	**63**	**51**
Total insurance premium revenue	**2,000**	**1,898**	**534**	**491**
Non-life insurance				
Actual claims incurred and other directly allocated insurance service costs	-1,295	-1,454	-366	-364
Changes arising from insurance events occurred in services for past periods	-116	-41	25	36
Insurance contract acquisition costs	-124	-124	-34	-33
Impairment loss on amortised acquisition costs of insurance contracts, and their reversals		0		0
Losses and reversals of onerous contracts	-33	-8	-4	2
Non-life insurance insurance service expenses according to the General Measurement Model (GMM), total	**-1,568**	**-1,627**	**-378**	**-359**
Life insurance				
Actual claims incurred and other directly allocated insurance service costs	-135	-120	-33	-34
Changes arising from insurance events occurred in services for past periods	-2	-7	0	2
Insurance contract acquisition costs	-14	-20	-5	-4
Losses and reversals of onerous contracts	-53	-101	-23	-39
Life insurance insurance service expenses according to the General Measurement Model (GMM), total	-205	-248	-61	-75
Actual claims incurred and other directly allocated insurance service costs	-26	-21	-7	-5
Changes arising from insurance events occurred in services for past periods	-1	-1	0	0
Reversal of acquisition costs of insurance contracts	-2	-2	-1	-1
Losses and reversals of onerous contracts	-24	1	-8	5
Life insurance insurance service expenses according to the Variable Fee Approach (VFA), total	-52	-23	-16	-1
Life insurance insurance service expenses, total	**-256**	**-271**	**-77**	**-75**
Total insurance service expenses	**-1,824**	**-1,898**	**-455**	**-434**
Net income from non-life insurance reinsurance contracts	-88	111	-54	-26
Net income from life insurance reinsurance contracts	-7	-5	-3	-2
Total net income from reinsurance contracts	**-95**	**106**	**-56**	**-28**
Insurance service result	**81**	**106**	**23**	**28**

Note 7. Net insurance finance income (+)/expenses (–)

€ million	Q1–4 2023	Q1–4 2022	Q4 2023	Q4 2022
Non-life insurance				
Unwinding of discount of insurance liability	-33	-1	-12	-1
Effect of insurance contract interest rates and changes in economic assumptions	-153	595	-178	30
Exchange rate differences of insurance contracts	0	-1	0	1
Finance income and expenses related to non-life insurance direct insurance contracts (GMM), total	-186	593	-190	30
Finance income and expenses related to non-life insurance reinsurance contracts, total	4	-10	15	1
Life insurance				
Unwinding of discount of insurance liability	12	27	1	5
Effect of insurance contract interest rates and changes in economic assumptions	-119	533	-109	44
Finance income and expenses related to life insurance direct insurance contracts (GMM), total	-107	560	-108	50
Insurance contract net financing items, risk mitigation	-53	363	-87	15
Effect of insurance contract interest rates and changes in economic assumptions	0		0	
Net financing items of fair value changes of underlying insurance contract items	-377	711	-249	-89
Finance income and expenses related to life insurance direct insurance contracts (VFA), total	-429	1,074	-335	-74
Finance income and expenses related to life insurance reinsurance contracts, total	-3	8	-2	1
Net insurance finance income (+)/expenses (–)	**-722**	**2,226**	**-621**	**7**

Note 8. Net interest income from financial assets held for trading

Financial assets held for trading

€ million	Q1–4 2023	Q1–4 2022	Q4 2023	Q4 2022
Notes and bonds				
Interest income and expenses	20	4	2	1
Fair value gains and losses of notes and bonds	5	-24	6	2
Total	26	-20	9	3
Shares and participations				
Fair value gains and losses	1	9	-4	4
Dividend income and share of profits	4	2	0	0
Total	4	11	-4	5
Derivatives				
Interest income and expenses	67	-17	27	-5
Fair value gains and losses	-42	-2	-1	30
Total	25	-20	26	26
Total	**55**	**-29**	**31**	**33**

Note 9. Net investment income

€ million	Q1–4 2023	Q1–4 2022	Q4 2023	Q4 2022
Net income from assets at fair value through other comprehensive income				
Notes and bonds				
Capital gains and losses	5	10	0	0
Other income and expenses		-1		-1
Total	**5**	**9**	**0**	**-1**

Net income from financial assets recognised at fair value through profit or loss

Financial assets held for trading, insurance business € million	Q1–4 2023	Adjusted Q1–4 2022	Q4 2023	Adjusted Q4 2022
Derivatives				
Interest income and expenses	-22	10	-5	1
Fair value gains and losses	106	-443	143	10
Total	84	-433	138	11
Total	**84**	**-433**	**138**	**11**
Financial assets that must be measured at fair value through profit or loss				
Shares and participations				
Fair value gains and losses		-1		
Dividend income and share of profits	0	5	0	2
Total	0	3	0	2
Total	**0**	**3**	**0**	**2**
Financial assets designated as at fair value through profit or loss				
Notes and bonds				
Interest income	136	102	36	25
Fair value gains and losses	278	-812	233	-28
Total	414	-710	269	-3
Shares and participations				
Fair value gains and losses	152	-230	48	-36
Dividend income and share of profits	43	93	9	23
Total	195	-137	57	-14
Total	**609**	**-847**	**327**	**-16**
Income from assets covering unit-linked insurance and investment contracts				
Interest income	103	-85	78	-19
Fair value gains and losses	910	-1,460	571	287
Total	**1,013**	**-1,545**	**650**	**268**
Net income from financial assets designated as at fair value through profit or loss, total	**1,622**	**-2,392**	**976**	**252**
Total net income from financial assets recognised at fair value through profit or loss	**1,706**	**-2,822**	**1,115**	**264**

Net income from investment property				
Rental income	52	52	13	13
Fair value gains and losses	-29	6	-21	-8
Maintenance charges and expenses	-46	-42	-18	-14
Other	0	1	0	0
Total net income from investment property	**-22**	**17**	**-26**	**-9**
Net income from loans and receivables recognised at amortised cost				
Interest income	12	3	4	1
Interest expenses	-2	1	-1	3
Impairment losses and their reversals	-2	2	0	0
Total net income from loans and receivables recognised at amortised cost	8	6	3	4
Associates and joint ventures				
Accounted for using the fair value method, associates	0	15	-4	-8
Consolidated using the equity method, associates	2	8	-2	0
Joint ventures	0	2	0	2
Total	3	25	-5	-8
Financial liabilities designated as at fair value through profit or loss				
Premiums written from insurance contracts	448	503	128	103
Claims paid under investment contracts	-358	-359	-90	-93
Change in investment contract liabilities	-733	668	-439	-196
Total net income from investment contract liabilities	-642	812	-401	-186
Other net investment income of insurance				
Interest on insurance subordinated loans of insurance			0	
Currency fair value gains/losses related to insurance service result	0	-1	0	-1
Other income and expenses from loans and receivables	0		0	
Total	0	-1	0	-1
Total net investment income	**1,057**	**-1,952**	**686**	**66**

Note 10. Other operating expenses

€ million	Q1–4 2023	Adjusted Q1–4 2022	Q4 2023	Adjusted Q4 2022
ICT costs				
Production	-238	-228	-62	-58
Development	-222	-153	-80	-47
Buildings	-58	-58	-19	-18
Government charges and audit fees	-82	-88	-16	-15
Service purchases	-143	-123	-40	-33
Expert services	-55	-46	-16	-18
Telecommunications	-33	-32	-8	-8
Marketing	-44	-39	-13	-14
Donations	-14	-14	-4	-3
Insurance and security costs	-15	-12	-2	-3
Expenses of short-term and low-value leases	-6	-6	-1	-1
Other	-101	-93	-25	-28
Total	**-1,011**	**-892**	**-287**	**-247**

Development costs

€ million	Q1–4 2023	Q1–4 2022	Q4 2023	Q4 2022
ICT development costs	-222	-153	-80	-47
Share of own work	-72	-63	-20	-17
Total development costs in the income statement	**-294**	**-216**	**-100**	**-64**
Capitalised ICT costs	-51	-81	7	-24
Transfer of capitalised costs/personnel costs	-12	-16	-3	-4
Total capitalised development costs	**-62**	**-97**	**4**	**-28**
Total development costs	**-356**	**-313**	**-96**	**-92**
Depreciation/amortisation and impairment loss	-142	-145	-56	-33

Note 11. Reinsurance contract assets

€ million	31 Dec 2023	31 Dec 2022
Non-life insurance		
Reinsurance contract assets for the remaining coverage period	-18	-24
Reinsurance contract liability for occurred losses	124	268
Total non-life insurance reinsurance contract assets	**106**	**245**

Note 12. Insurance contract liabilities

€ million	31 Dec 2023	31 Dec 2022
Non-life insurance		
Liabilities for the remaining coverage period, GMM	230	180
Liability for occurred losses, GMM	2,303	2,356
Total non-life insurance contract liabilities	2,533	2,536
Life insurance		
Liabilities for the remaining coverage period, GMM	3,177	3,260
Liability for occurred losses, GMM	14	12
Liabilities for the remaining coverage period, VFA total	5,824	5,586
Liability for occurred losses (VFA), total	41	51
Total life insurance contract liabilities	9,056	8,909
Total insurance contract liabilities	**11,589**	**11,446**

Note 13. Reinsurance contract liabilities

€ million	31 Dec 2023	31 Dec 2022
Life insurance		
Reinsurance contract liabilities for the remaining coverage period	0	2
Total life insurance reinsurance contract liabilities	0	2
Total reinsurance contract liabilities	**0**	**2**

Note 14. Debt securities issued to the public and debentures

€ million	31 Dec 2023	31 Dec 2022
Bonds	12,845	10,563
Subordinated bonds	4,045	4,306
Mortgage-backed bonds	13,871	12,262
Other		
Certificates of deposit	668	1,083
Commercial papers	6,128	9,287
Included in own portfolio in trading (-)*	-46	-63
Total debt securities issued to the public and debentures	**37,511**	**37,438**

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

Note 15. Fair value reserve after tax

€ million	Recognised at fair value through other comprehensive income Notes and bonds	Shares and participations (overlay approach)	Cash flow hedges	Total
Closing balance 31 December 2021	63	164	96	323
Effect of transition to IFRS 17 Insurance Contracts	-41	-164		-205
Opening balance 1 January 2022	23		96	118
Fair value changes	-48		-512	-561
Capital gains transferred to income statement	-10			-10
Transfers to net interest income			-28	-28
Deferred tax	12		108	120
Closing balance 2022	-24		-337	-360

€ million	Recognised at fair value through other comprehensive income Notes and bonds	Shares and participations (overlay approach)	Cash flow hedges	Total
Opening balance 1 January 2023	-24		-337	-360
Fair value changes	-62		72	10
Capital gains transferred to income statement	-6			-6
Transfers to net interest income			84	84
Deferred tax	14		-31	-18
Closing balance 2023	-78		-212	-290

The fair value reserve before tax amounted to EUR -363 million (-450) at the end of the reporting period and the related deferred tax asset/liability was EUR 73 million (90). The loss allowance on notes and bonds recognised at fair value through other comprehensive income totalled EUR 0 million (0) in the fair value reserve during the reporting period.

Note 16. Collateral given

€ million	31 Dec 2023	31 Dec 2022
Given on behalf of own liabilities and commitments		
Pledges	241	1
Loans (as collateral for covered bonds)	18,163	21,048
Others	744	14,128
Total collateral given*	**19,148**	**35,176**
Secured derivative liabilities	657	701
Other secured liabilities	168	12,000
Covered bonds	13,871	12,262
Total	**14,696**	**24,962**

* In addition, bonds with a book value of EUR 1.5 billion have been pledged in the central bank, of which EUR 1.0 billion in intraday settlement collateral. Given that the bonds are available for withdrawal without the central bank's advance permission, they are not presented in the table above.

Note 17. Classification of financial assets and liabilities

			Recognised at fair value through profit or loss				
Financial assets 31 Dec 2023, € million	Amortised cost	Fair value through other comprehen-sive income	Financial assets held for trading	Financial assets designated as at fair value through profit or loss	Must be measured at fair value through profit or loss	Hedging derivatives	Carrying amount total
Cash and cash equivalents	19,755						19,755
Receivables from credit institutions	858						858
Liabilities to credit institutions			2,256			1,145	3,401
Receivables from customers	97,836						97,836
Assets covering unit-linked contracts				12,581			12,581
Notes and bonds	623	11,588	216	6,367			18,793
Equity instruments		0	84	2,349	1		2,434
Other than financial instruments	2,226						2,226
Total	**121,298**	**11,588**	**2,556**	**21,297**	**1**	**1,145**	**157,885**

At the end of the reporting period, OP Financial Group's balance sheet had bonds worth EUR 623 million (1), which were not measured at market value due to the measurement category. The market value of these bonds amounted to EUR 641 million (1) at the end of the reporting period.

In the fair value measurement of promissory notes carried at amortised cost, a price is sought for the loan that would be obtained from it on the reporting date if the loan were now granted to the customer. The average margin on the reporting date is determined by rating grade and the so-called valuation curve is created out of the rating grades. The 12-month Euribor is used as the base rate of the valuation curve for euro loans and the 6-month reference rate for other non-euro loans. The valuation curve is used to calculate a discount factor with which the loan's contractual cash flows are discounted to the reporting date. The sum of discounted cash flows is fair value. On 31 December 2023, the fair value of promissory notes was EUR 3.416 million higher than the carrying amount.

			Recognised at fair value through profit or loss				
Financial assets 31 Dec 2022, € million	Amortised cost	Fair value through other comprehen-sive income	Financial assets held for trading	Financial assets designated as at fair value through profit or loss	Must be measured at fair value through profit or loss	Hedging derivatives	Carrying amount total
Cash and cash equivalents	35,004						35,004
Receivables from credit institutions	798						798
Liabilities to credit institutions			2,874			1,243	4,117
Receivables from customers	98,546						98,546
Assets covering unit-linked contracts				11,597			11,597
Notes and bonds	1	11,755	295	6,247	0		18,298
Equity instruments		0	86	1,653	2		1,741
Other financial assets	2,394						2,394
Total	**136,743**	**11,756**	**3,255**	**19,497**	**2**	**1,243**	**172,496**

Financial liabilities 31 Dec 2023, € million	Recognised at fair value through profit or loss	Other liabilities	Hedging derivatives	Carrying amount total
Liabilities to credit institutions		66		66
Derivative contracts	2,895		375	3,271
Liabilities to customers		76,656		76,656
Liabilities from investment agreements	7,944			7,944
Debt securities issued to the public and debentures	2,210	35,300		37,511
Subordinated loans		1,414		1,414
Other financial liabilities		5,739		5,739
Total	13,049	119,176	375	132,600

Adjusted Financial liabilities 31 Dec 2022, € million	Recognised at fair value through profit or loss	Other liabilities	Hedging derivatives	Carrying amount total
Liabilities to credit institutions		12,301		12,301
Derivative contracts	3,980		452	4,432
Liabilities to customers		81,468		81,468
Liabilities from investment agreements	7,211			7,211
Debt securities issued to the public and debentures	1,190	36,248		37,438
Subordinated loans		1,384		1,384
Other financial liabilities		3,813		3,813
Total	12,382	135,215	452	148,048

At the end of December, the fair value of OP Financial Group's senior and senior non-preferred bonds issued to the public and carried at amortised cost totalled around EUR 28,782 million (30,129). The fair value is based on information available from the market. All subordinated liabilities are carried at amortised cost. Their fair value is lower than their amortised cost, but determining reliable fair values involves uncertainty.

Note 18. Recurring fair value measurements by valuation technique

Fair value of assets on 31 December 2023, € million	Level 1	Level 2	Level 3	Total
Recognised at fair value through profit or loss				
Equity instruments	1,425	263	746	2,434
Debt instruments	5,564	936	83	6,583
Unit-linked contracts	7,624	4,957		12,581
Derivative financial instruments	0	3,303	98	3,401
Fair value through other comprehensive income				
Equity instruments	0			0
Debt instruments	9,166	1,694	727	11,588
Total financial instruments	23,779	11,153	1,655	36,587
Investment property			527	527
Total	23,779	11,153	2,182	37,114

Fair value of assets on 31 December 2022, € million	Level 1	Level 2	Level 3	Total
Recognised at fair value through profit or loss				
Equity instruments	736	265	740	1,741
Debt instruments	5,090	1,382	70	6,542
Unit-linked contracts	7,431	4,167		11,597
Derivative financial instruments	5	4,035	77	4,117
Fair value through other comprehensive income				
Debt instruments	9,193	1,721	801	11,755
Total financial instruments	22,456	11,569	1,688	35,712
Investment property			561	561
Total	22,456	11,569	2,249	36,274

Fair value of liabilities on 31 December 2023, € million	Level 1	Level 2	Level 3	Total
Recognised at fair value through profit or loss				
Unit-linked contracts	4,814	3,130		7,944
Structured notes			2,210	2,210
Other		5		5
Derivative financial instruments	2	3,178	91	3,271
Total	**4,815**	**6,313**	**2,302**	**13,430**

Adjusted Fair value of liabilities on 31 December 2022, € million	Level 1	Level 2	Level 3	Total
Recognised at fair value through profit or loss				
Unit-linked contracts	4,620	2,591		7,211
Structured notes			1,190	1,190
Derivative financial instruments	7	4,332	94	4,432
Total	**4,627**	**6,922**	**1,284**	**12,834**

Fair value measurement

Derivatives and other financial instruments measured at fair value

OP Financial 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 that best suits financial instrument measurement. 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. However, in the fair value measurement of some contracts, OP Corporate Bank 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, incl. level 3 hierarchy, 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. Middle Office compares regularly at contract level valuation prices with valuations supplied by CSA counterparties and central counterparties and, whenever necessary, determines 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 derivative contracts related to banking takes account of credit risk of the parties to the transaction and credit spreads exceeding the financing costs. Credit risk is adjusted with a Credit Valuation Adjustment (CVA) and with a Debt Valuation Adjustment (DVA). CVAs and DVAs are calculated for each counterparty. CVA and DVA adjustments are calculated for each counterparty by simulating the market values of derivatives and events of default based primarily on data obtained from markets. In assessing probabilities of default, OP Financial Group utilises counterparty rating information, liquid credit risk indices and the CDS sector curves of market data providers. OP Financial Group assesses the effect of the financing costs of OTC derivatives on fair value measurement by editing discount curves used in the measurement by means of the statistical differences of credit spreads between credit risk instruments with and without capital.

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'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.

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.

Derivatives relevant to OP Financial Group's business are interest rate swaps, interest rate options and structured debt securities. Interest rate swaps are measured by deriving valuation curves from the prices of interest rate swaps and other interest rate derivatives observed in the market. Valuation curves are used to forecast future cash flows and determine the present values of cash flows also through interest rate swaps whose price is not directly observable in the market. The same method applies to the fair value measurement of interest rate options. Volatilities describing the price of interest rate options observed in the market are also used in comparison with interest rate swaps.

In the fair value measurement of complex derivatives or, for example, share structures of structured debt securities, OP Corporate Bank uses a model where the development of market prices is simulated and the actual value of the derivative is calculated in each simulation. The price of the derivate is derived from calculating the average of the simulations.

Level 2 input date include, for example: quoted prices of similar items in active markets and quoted prices of similar items in inactive markets, market interest rates, implied volatilities and credit spreads.

Level 3 input data are input data that are not observable for an item subject to valuation. Level 3 input data include, for example: use of historical volatility in the fair value measurement of an option, such long-term interest rate with no corresponding contracts are not observable in the market.

Real estate investments have no similar daily quoted prices or price sources as in liquid markets. The appraisal process of real estate is based on using external valuers (property value over 1 million euros) or on the business's own appraisal methods.

The main sources of the appraisal of direct real estate investments are appraisal documents given by authorised external valuers. The external valuer independently selects the method that best suits the appraisal of each property. The commonly used methods include the transactions value method, income capitalisation approach and replacement value method. The values of real estate funds are obtained from underlying investee funds on the date determined by the rules of each underlying fund and according to the standard laid down by the rules. The valuations are mainly based on the combined values of the underlying investee fund's real estate units plus the underlying investee fund's net asset. The values of individual property units are mainly based on appraisal reports drawn up by authorised independent valuers.

Reconciliation of Level 3 items

Breakdown of financial assets and financial liabilities

Financial assets, € million	Recognised at fair value through profit or loss	Derivative contracts	Fair value through other comprehensive income	Total assets
Adoption of IFRS 17 and changes for 2022	51		-8	43
Opening balance 1 Jan 2023	810	77	801	1,688
Total gains/losses in profit or loss	-74	21		-53
Purchases	151			151
Sales	-51			-51
Repayments	-82			-82
Transfers to level 3	28		229	257
Transfers from level 3	-3		-294	-297
Closing balance 31 December 2023	829	98	727	1,655

Financial liabilities, € million	Recognised at fair value through profit or loss	Derivative contracts	Total liabilities
Opening balance 1 Jan 2023	1,190	94	1,284
Total gains/losses in profit or loss	52	-2	50
Other changes	968		968
Closing balance 31 December 2023	2,210	91	2,302

Breakdown of net income by income statement item 31 December 2023

€ million	Net interest income	Net investment income	Statement of comprehensive 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 income	-44	-82		-126
Unrealised net income	24			24
Total net income	-21	-82		-103

Changes in the levels of hierarchy

No major changes occurred in valuation techniques in 2023.

Note 19. Off-balance-sheet commitments

€ million	31 Dec 2023	31 Dec 2022
Guarantees	841	570
Guarantee liabilities	2,743	2,668
Loan commitments	12,525	14,267
Commitments related to short-term trade transactions	553	736
Other*	1,509	1,420
Total off-balance-sheet commitments	**18,171**	**19,662**

* Of which Non-life Insurance commitments to private equity funds amount to EUR 224 million (200).

Note 20. Derivative contracts

Total derivatives 31 March 2023

	Nominal values/residual term to maturity				Fair values*	
€ million	< 1 year	1–5 years	> 5 years	Total	Assets	Liabilities
Interest rate derivatives	47,197	103,240	80,309	230,746	2,451	2,144
Cleared by the central counterparty	27,933	69,134	46,751	143,817	103	82
Settled-to-market (STM)	14,874	39,783	32,361	87,019	61	46
Collateralised-to-market (CTM)	13,059	29,351	14,390	56,799	42	36
Currency derivatives	59,921	4,869	1,404	66,193	922	1,044
Credit derivatives	42	104	9	154	10	8
Other derivatives	438	898	39	1,375	94	76
Total derivatives	**107,598**	**109,111**	**81,760**	**298,469**	**3,477**	**3,271**

Total derivatives 31 December 2022

	Nominal values/residual term to maturity				Fair values*	
€ million	< 1 year	1–5 years	> 5 years	Total	Assets	Liabilities
Interest rate derivatives of which	29,963	105,209	89,412	224,584	2,981	3,096
Cleared by the central counterparty	22,144	60,716	55,600	138,460	190	191
Settled-to-market (STM)	11,535	35,194	39,212	85,941	126	134
Collateralised-to-market (CTM)	10,609	25,521	16,388	52,519	64	58
Currency derivatives	55,961	5,303	1,086	62,350	958	1,157
Credit derivatives	34	63	13	110	1	34
Other derivatives	439	889	26	1,355	91	82
Total derivatives	**86,398**	**111,463**	**90,538**	**288,399**	**4,031**	**4,368**

* The fair values include accrued interest that is, excluding other than those held-for-trading derivatives, presented in the balance sheet in other assets or provisions and other liabilities. In addition, the fair value of derivatives for central counterparty clearing is offset in the balance sheet.

Note 21. Investment distribution of the Insurance segment

Non-life Insurance	31 December 2023		31 December 2022	
Investment asset portfolio allocation	Fair value*, EUR million	%	Fair value*, EUR million	%
Money market total	**433**	**10**	**622**	**15**
Money market instruments and deposits**	422	10	632	16
Derivatives***	11	0	-10	0
Total bonds and bond funds	**2,662**	**61**	**2,526**	**62**
Governments	304	7	303	7
Investment Grade	1,928	44	1,834	45
Emerging markets and High Yield	234	5	206	5
Structured Investments****	196	5	181	4
Total equities	**872**	**20**	**557**	**14**
Finland	122	3	67	2
Developed markets	582	13	326	8
Emerging markets	90	2	88	2
Fixed assets and unquoted equities	6	0	6	0
Private equity investments	71	2	69	2
Total alternative investments	**29**	**1**	**31**	**1**
Hedge funds	29	1	31	1
Total property investment	**338**	**8**	**336**	**8**
Direct property investment	153	4	155	4
Indirect property investment	186	4	181	4
Total	**4,334**	**100**	**4,071**	**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, bond funds and illiquid bonds.

Life Insurance	31 December 2023		31 December 2022	
Investment asset portfolio allocation	Fair value*, EUR million	%	Fair value*, EUR million	%
Total money market instruments	**367**	**11**	**614**	**19**
Money market investments and deposits**	361	11	601	19
Derivatives***	6	0	13	0
Total bonds and bond funds	**2,070**	**65**	**1,976**	**61**
Governments	225	7	182	6
Investment Grade	1,519	47	1,469	45
Emerging markets and High Yield	156	5	161	5
Structured investments****	170	5	163	5
Total equities	**546**	**17**	**419**	**13**
Finland	82	3	44	1
Developed markets	343	11	240	7
Emerging markets	53	2	65	2
Fixed assets and unquoted equities	3	0	3	0
Private equity investments	65	2	67	2
Total alternative investments	**36**	**1**	**38**	**1**
Hedge funds	36	1	38	1
Total real property investments	**180**	**6**	**189**	**6**
Direct property investments	13	0	24	1
Indirect property investments	168	5	165	5
Total	**3,201**	**100**	**3,235**	**100**

* Includes accrued interest income.

** Include settlement receivables and liabilities and market value of derivatives.

*** Effect of derivatives on the allocation of the asset class (delta equivalent).

**** Include covered bonds, bond funds and illiquid bonds.

Note 22. Related-party transactions

OP Financial Group's related parties comprise subsidiaries consolidated into OP Financial Group, associates, key management personnel and their close family members, and other related-party entities. OP Financial Group's key management personnel comprises OP Financial Group's President and Group Chief Executive Officer, members of OP Cooperative's Executive Management Team and directors directly reporting to the President and Group Chief Executive Officer, the Chair and members of OP Cooperative's Board of Directors as well as members of the Supervisory Council. Related parties of the management also include companies over which key management persons or their close family member exercises significant influence. Other entities regarded as related parties include OP Financial Group's Personnel Fund and OP Bank Group Pension Foundation.

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

Related-party transactions have not undergone any substantial changes since 31 December 2022.

Financial reporting

Time of publication of 2023 reports:

OP Financial Group's Report by the Board of Directors and Financial Statements for 2023	Week 11
OP Financial Group's Corporate Governance Statement 2023	Week 11
OP Financial Group's Annual Review 2023 (incl. CSR Reporting)	Week 11
OP Financial Group's Capital Adequacy and Risk Management Report 2023	Week 11
OP Amalgamation Pillar III Tables 31 December 2023	Week 11
Remuneration Report for Governing Bodies at OP Financial Group 2023	Week 11
Remuneration Policy for Governing Bodies at OP Financial Group	Week 11

Schedule for Interim Reports and Half-year Financial Report in 2024:

Interim Report Q1/2024	8 May 2024
Half-year Financial Report H1/2024	24 July 2024
Interim Report Q1–3/2024	31 October 2024
OP Amalgamation Pillar III Tables 31 March 2024	Week 19
OP Amalgamation Pillar III Tables 30 June 2024	Week 32
OP Amalgamation Pillar III Tables 30 September 2024	Week 45

Helsinki, 7 February 2024

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