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

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

Earnings before tax EUR 425 million – EBT for full year 2018 expected to be at the same level as a year ago

- Earnings before tax amounted to EUR 425 million (560).
- Income from customer business on the increase: net interest income and net insurance income were 7% and net commissions and fees 2% higher than the year before.
- Income from business other than customer business was markedly lower. Investment income decreased by EUR 63 million and other operating income by EUR 41 million. Investment income was affected by IFRS 9 adopted at the beginning of the year.
- Development investments increased expenses that were 12% higher than a year ago.
- Impairment loss on receivables, EUR 7 million (23), was very low due to recovery of impairments.
- CET1 ratio was 19.8%, or at the previous year-end level. CET1 capital exceeded EUR 10 billion.
- **Banking** earnings before tax increased by 6% to EUR 333 million (314). Net interest income increased by 3% and net commissions and fees decreased by 5%. Expenses rose by 8%. The loan portfolio increased by 5.3% and deposits by 7% in the year to June.
- **Non-life Insurance** earnings before tax decreased by 40% to EUR 64 million (107). Insurance premium revenue increased by 3% and expenses by 12%. Net investment income decreased by EUR 46 million from its level a year ago.
- **Wealth Management** earnings before tax increased by 2% to EUR 94 million (93). Net commissions and fees decreased by 3% and expenses rose by 6% from their level a year ago. Assets under management increased by 2% in the year to June.
- **Other Operations** earnings before tax were EUR –66 million (45). Earnings were eroded by higher expenses arising from development investments and lower net investment income. Non-recurring income of EUR 42 million was included in income a year ago.
- At its meeting on 6 June 2018, the Supervisory Board of OP Financial Group's central cooperative decided on a new division of responsibilities of the Executive Board.
- OP Financial Group has decided to transfer statutory earnings-related pension insurance portfolio to Ilmarinen Mutual Pension Insurance Company. The transfer will improve the Group's capital adequacy by an estimated 0.4 percentage points. The transfer is expected to take place by the end of 2018, which will improve the Group's earnings for 2018 by EUR 240, based on the current estimate.
- Change in the outlook: Earnings before tax for 2018 are expected to be at about the same level as in 2017 (lower in the previous estimate). "Outlook towards the year end" describes the change in greater detail.

Significant investments for the benefit of customers

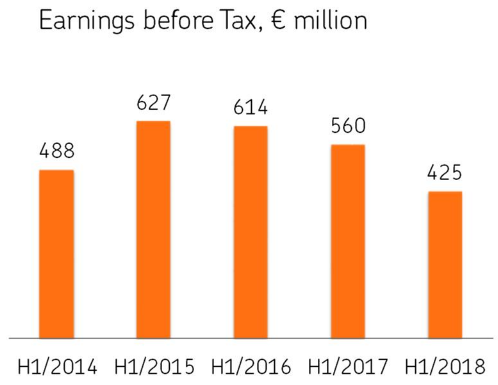
- During 2018, OP will invest around EUR 400 million in developing its operations and improving customer experience. During the reporting period, OP introduced a digital home loan service where customers can receive a home loan decision online on a real-time basis.
- In May 2018, OP opened Pohjola Health's fifth hospital, in Turku. Pohjola Health has started building its own network of medical centres. The first ones will be opened in Pori and Lappeenranta during 2018.
- New granted OP bonuses rose by 5% to EUR 113 million (108).
- In the first half, the number of OP cooperative banks' owner-customers increased by 32,000 to almost 1.9 million and that of OP Financial Group's joint banking and insurance customers by 19,000 to over 1.8 million.

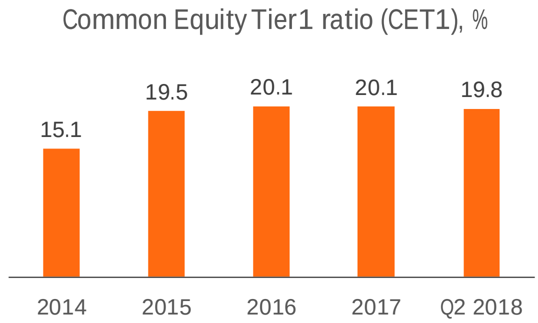
OP Financial Group's key indicators

	Q1–2/2018	Q1–2/2017	Change, %	Q1–4/2017
Earnings before tax, € million	425	560	-24.0	1,031
Banking	333	314	5.9	619
Non-life Insurance	64	107	-40.1	210
Wealth Management	94	93	1.5	247
Other Operations	-66	45		-45
New OP bonuses accrued to owner-customers	-113	-108	4.5	-220
	30 June 2018	30 June 2017	Change, %	31 Dec. 2017
CET1 ratio, %	19.8	19.1	0.7*	20.1
Ratio of capital base to minimum amount of capital base (under the Act on the Supervision of Financial and Insurance Conglomerates), % **	146	145	1*	148
Return on economic capital, %***	18.3	21.3	-3.0*	20.4
Return on equity (ROE), %	6.0	8.8	-2.8*	7.7
Return on assets (ROA), %	0.48	0.69	-0.2*	0.6
Ratio of non-performing receivables to loan and guarantee portfolio, %****	1.2	1.3	-0.1*	1.2
Owner-customers (1,000)	1,865	1,786	4.5	1,833

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

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





Comments by President and Group Executive Chair Timo Ritakallio

The first-half OP Financial Group's earnings were still quite good although they decreased markedly from the previous year. A marked decrease in investment income and a substantial increase in operating expenses lay behind by the weaker earnings. What was especially positive in the first half financial performance was the fact that the actual customer business performance remained at the same level as a year ago. Customer business income – net interest income, net insurance income and commission income – increased by 5% year on year. Our heavy investments in improving customer experience and business development increased our operating expenses by 12% over the previous year. Impairment loss on receivables was exceptionally low. At the end of the reporting period, OP Financial Group still had a strong capital base, providing a solid basis for a long-term business development while the financial sector transformation continues.

In the first half, OP Financial Group showed a business growth that was clearly faster than a year ago. The loan portfolio and Non-life premiums written increased to a rate of 3% and deposits increased to up to 6%. Corporate customer business showed strong growth in particular. Growth in client assets under our management was slower according to the general market trend, and therefore assets under management at the end of June were at the 2017 end level.

OP Financial Group is there for all of its customers. The world is digitalising at an ever faster pace, but we at OP Financial Group will continue to cater for customers with different needs for services. We want to offer a first-rate customer experience to both digital natives and those who are not so apt or accustomed to managing their affairs online. We aim to blaze the trail in building user-friendly services, and actually in early July we launched a stripped-down and easy-to-use OP Accessible online service to customers who are, for some reason or another, unable to use, say, the op.fi service or OP-mobile. The new service enables us to promote equal use of banking services among all customers and make their daily life easier. We have developed this service too in cooperation with our customers.

The representative assembly of OP Bank Group Pension Fund has decided to transfer statutory earnings-related pension insurance portfolio to Ilmarinen Mutual Pension Insurance Company. The transfer of the pension liability still awaiting regulatory approval will improve not only the capital base but also the current year's earnings of OP Financial Group. According to the current estimate, the transfer would improve earnings by around EUR 240 million on a non-recurring basis. The transfer of the pension liability would take place at the end of the year and its final effect on earnings will especially depend on developments in bond markets towards the end of the year. So, this is how we further specify OP Financial Group's earnings outlook for this year so that full-year earnings are expected to be at the same level as in 2017 – almost the record earnings ever reported.

OP Financial Group aims to transform in line with changing customer needs. In early June, the Supervisory Board of OP Cooperative decided on the composition and areas of responsibility of OP Financial Group's senior management. The reorganisation is aimed at sharpening the strategic focus, maximising the benefit for customers and speeding up business success. This reorganisation will involve simplified organisations and operating models and quicker decision-making. OP's new Executive Board started to work on 11 June 2018 and has been built around private and corporate customer business. The core of the business is still banking and insurance business. The new division of responsibilities and the Executive Board is aimed at improving strategic and operational agility while offering excellent customer experience and added value to our customers. The next stages in the reorganisation will take place during the upcoming autumn.

Alongside digitisation and the changing competitive environment, regulation is one of the factors shaping our sector drastically. We want to contribute to developments in the financial sector and be involved in building cooperation not only in Finland but also internationally. We have applied for the membership of Finance Finland as of the beginning of 2019 because a more intense cooperation is in the interests of all actors.

World economic development has continued favourably but more unevenly during the second quarter. The threat of a trade war, in particular, has caused uncertainty about economic development. The Finnish economy has continued to grow at a brisk rate in the spring and improved employment, in particular, has been gratifying. Economic surveys, however, suggest that the strongest stage of growth is about to be behind us. The economic outlook is still relatively favourable but we cannot pass over lightly especially international political woes.

On the whole, the Finnish macroeconomic stability is still in reasonably good shape. The current account shows surplus and there are no signs of overheating. Private sector indebtedness is increasing moderately as a whole – it is particularly worth noting that household wealth is still growing faster than debt. Debate about indebtedness will, however, continue. That is good. To support political decisions, an accurate snapshot of growth in household wealth is also needed.

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

Contents

Operating environment

During the second quarter, the world economy still showed a brisk growth but the growth varied in different regions. Economic growth in the euro area remained slightly more subdued than expected, and the results obtained from economic surveys declined from their record levels in the winter.

At its June meeting, the European Central Bank (ECB) announced that it would continue its asset purchase programme until the end of 2018, but the monthly purchases would decrease from EUR 30 billion to EUR 15 billion.

Also, based on the ECB's policy line, it will keep its main refinancing rates unchanged until the end of summer 2019, provided that the economy will develop as expected. The Euribor rates remained almost unchanged between March and June. Interest rates for interest rate swaps decreased to the year-start level as a result of greater uncertainty and the ECB's announcements.

Stock prices increased slightly despite uncertainty caused by a threat of trade war. As a result of international political woes, crude oil prices rose markedly.

The Finnish economy continued to grow strongly and on a broad basis in the spring. Plenty of new jobs were created and the unemployment rate fell markedly. Economic development remained well-balanced. The current account showed surplus and price developments were moderate. Average prices in the housing market only increased slightly. Property prices continued to rise mostly in the largest urban areas.

Economic confidence was high but the indicator was lower than in the beginning of the year. Consumer confidence remained good but confidence in the Finnish economy weakened.

The Finnish economy should show favourable growth in the near term but the growth rate is expected to slow down gradually. The greatest risks are associated with uncertainty caused by the international political situation.

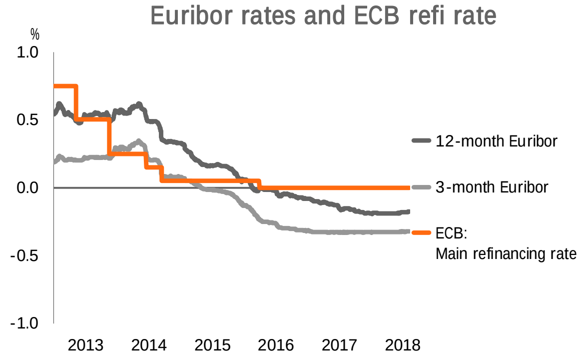
Growth in total household loans remained moderate in the second quarter. The growth rate of total home loans remained at about 2%. The average borrowing rate of the new home loans drawn down decreased during the reporting period to its lowest level ever measured. Strong growth in the total housing company loans supported growth in the total corporate loans. The banking barometer anticipates demand for household loans to remain brisker than a year ago.

The annual growth rate of total deposits slowed down in the second quarter. Growth in household deposits remained moderate. An increase in corporate deposits showed signs of slowing down. Change in total deposits by public sector entities has varied drastically during the first half.

In the second quarter, the value of mutual funds registered in Finland increased by 0.8% to EUR 115.3 billion. This increase was due to favourable market developments, as net asset inflows fell by EUR 517 million.

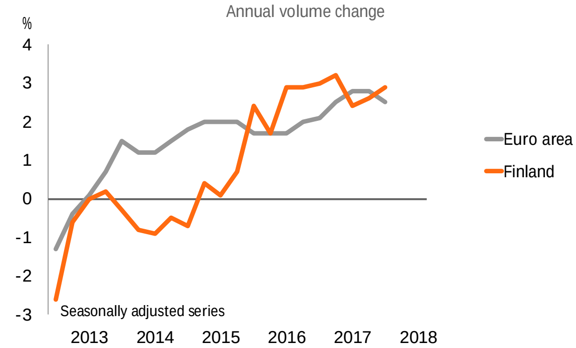
While the favourable Finnish economic mood supports the insurance sector, the intense price competition continued to lower premiums written. In particular, price competition in private customer motor liability insurance was intense.

Euribor rates and ECB refi rate



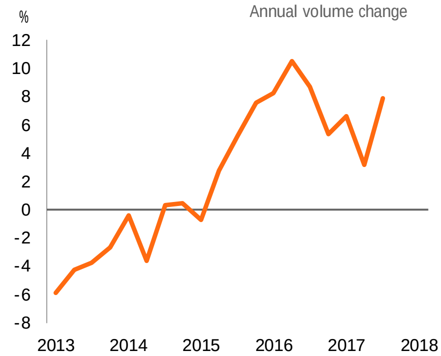
Source: Bank of Finland

GDP
Annual volume change



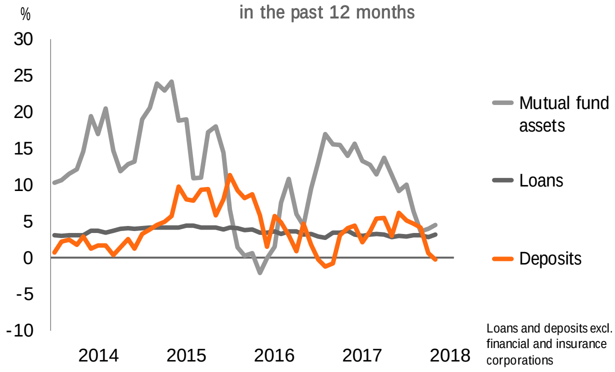
Sources: Eurostat, Statistics Finland

Fixed investments
Annual volume change



Source: Statistics Finland

Change in financial sector volumes
in the past 12 months



Sources: Bank of Finland, Investment Research Finland

Earnings analysis and balance sheet

Earnings analysis, € million	Q1–2/2018	Q1–2/2017*	Change, %	Q2/2018	Q2/2017*	Change, %	Q1–4/2017*
Earnings before tax	425	560	-24,0	187	276	-32,4	1,031
Banking	333	314	5.9	149	152	-2.2	619
Non-life Insurance	64	107	-40.1	26	58	-54.5	210
Wealth Management	94	93	1.5	47	59	-20.4	247
Other Operations	-66	45		-35	7		-45
Income							
Net interest income	571	534	6.8	289	274	5.4	1,102
Net insurance income	278	261	6.6	151	145	4.5	478
Net commissions and fees	444	434	2.1	212	209	1.6	879
Net investment income	206	247	-16.7	127	123	2.9	522
Other operating income	21	62	-66.1	9	32	-71.4	83
Total income	1,520	1,539	-1.3	788	782	0.7	3,063
Expenses							
Personnel costs	413	393	5.2	209	191	9.6	758
Depreciation/amortisation and impairment loss	131	95	37.2	65	53	23.0	246
Other operating expenses	412	363	13.6	225	192	17.6	764
Total expenses	956	851	12.4	500	436	14.7	1,768
Impairment loss on receivables	-7	-23	-70.4	-3	-15	-80.3	-48
Temporary exemption (overlay approach)	-22			-41			
New OP bonuses accrued to owner-customers	-113	-108	4.5	-57	-55	3.8	-220

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

Key balance sheet figures, € million	30 June 2018	31 Dec. 2017	Change, %
Receivables from customers	84,440	82,193	2.7
Investment assets	22,666	23,324	-2.8
Liabilities to customers	67,480	65,549	2.9
Insurance liabilities	9,937	9,950	-0.1
Debt securities issued to the public	30,247	26,841	12.7
Equity	11,291	11,084	1.9
Total assets	141,883	137,205	3.4

January–June

OP Financial Group's earnings before tax amounted to EUR 425 million (560). The figure decreased by EUR 134 million over the previous year. This earnings decrease came from lower net investment income and other operating income as well as higher expenses. Meanwhile, income from customer business, or net interest income, net insurance income and net commissions and fees, rose year on year.

Net interest income increased by 6.8% to EUR 571 million. Banking net interest income increased by EUR 18 million and that by the Other Operations segment by EUR 22 million. Net insurance income amounted to EUR 278 million (261). A year ago, the reduction in the discount rate reduced net insurance income by EUR 26 million. An increase in corporate customer insurance premium revenue supported an increase in net insurance income. Net commissions and fees were EUR 444 million, or EUR 9 million higher than the year before. Refunds based on unit-linked management fees increased by EUR 6 million and commission expenses declined by EUR 20 million. However, payment transfer fees decreased by EUR 17 million. A year ago, OP Financial Group sold its portfolio of agreements and POS terminals of merchant acquiring and POS terminal services to Nets. Due to the sale, payment transfer commission income decreased by EUR 10 million and commission expenses by EUR 12 million over the previous year.

Net investment income decreased by 16.7% to EUR 206 million. A temporary exemption (overlay approach) is applied to certain equity instruments of insurance companies, which reduced earnings for the reporting period by EUR 22 million. Total investment income declined by EUR 63 million. The combined return on investments at fair value of OP Financial Group's insurance institutions was 0.5% (1.4).

Net income recognised at fair value through other comprehensive income (net income from available-for-sale financial assets a year ago) decreased by EUR 52 million over the previous year. As a result of the adoption of IFRS 9 at the beginning of 2018, investments recognised at fair value through other comprehensive income and capital gains decreased. In the reporting period, capital gains recognised totalled EUR 32 million (81). However, investments recognised at fair value in the income statement increased. Net trading income resulting from positive value changes in Credit Valuation Adjustment (CVA) in derivatives credit and counterparty risk owing to market changes was EUR 9 million lower than a year ago. Short-term supplementary Life Insurance interest rate provisions that were lower than a year ago improved net investment income by EUR 28 million over the previous year.

Other operating income fell by EUR 41 million year on year to EUR 21 million. Non-recurring VAT refunds for prior years, interest included, totalled EUR 22 million a year ago. In addition, non-recurring income of EUR 24 million from the sale of the portfolio of agreements and POS terminals of acquiring and POS services was recognised a year ago in other operating income and extra amortisation recognised related to the sale totalled EUR 3 million and other expenses EUR 3 million.

Total expenses increased by 12.4% to EUR 956 million (851). This increase is mainly explained by higher development costs of present-day business, higher expenses of new businesses and higher amortisation/depreciation and impairment losses. OP Financial Group's significant investments in service development increased development costs by 13.3%. Direct development costs totalled EUR 110 million (97). New businesses accounted for EUR 13 million of the increase in total expenses. Planned depreciation/amortisation increased by 18.2% to EUR 105 million. This increase resulted from higher development expenditure recognised for prior years. Impairment write-downs increased by EUR 19 million year on year. The expenses were also increased by charges of financial authorities by EUR 20 million year on year and a 5.2% increase in personnel costs to EUR 413 million.

Impairment losses on loans and receivables recognised under various income statement items that reduced earnings amounted to EUR 17 million (37), of which EUR 7 million (23) concerned loans and receivables. Considering that impairment losses on receivables are calculated in 2018 based on IFRS 9, they are not fully comparable with those calculated under the previous IAS 39. The ratio of non-performing receivables in loans and receivables to the loan and guarantee portfolio was low, at 1.2% (1.2).

OP Financial Group's current tax amounted to EUR 91 million (101). The effective tax rate was 21.3% (18.0).

OP Financial Group's equity amounted to EUR 11.3 billion (11.1). Equity was increased by the reporting period's earnings. Equity included EUR 2.9 billion (2.9) in Profit Shares, terminated Profit Shares accounting for EUR 0.2 billion (0.3). The return target for Profit Shares for 2018 is 3.25%. Interest payable on Profit Shares accrued during the reporting period is estimated to total EUR 47 million. The amount of interest paid for 2017 totalled EUR 90 million in June 2018.

April–June

Earnings before tax for the second quarter came to EUR 187 million (276). This earnings decrease came from lower other operating income as well as higher expenses. In the second quarter a year ago, the sale of merchant acquiring and POS terminal services resulted in a non-recurring income of EUR 18 million. The second-quarter earnings performance was supported by improved net interest income, net insurance income, net commissions and fees and net investment income. Total income of EUR 788 million, was up by EUR 6 million year on year.

Net interest income increased by 5.4% year on year to EUR 289 million and net insurance income rose by 4.5% to EUR 151 million. Net commissions and fees were EUR 212 million, or EUR 3 million higher than the year before. Net investment income increased by 2.9% to EUR 127 million. The temporary exemption (overlay approach) decreased earnings for the quarter by EUR 41 million. Total investment income declined by EUR 37 million.

Total expenses increased by 14.7% year on year to EUR 500 million as a result of higher personnel costs, depreciation/amortisation and other operating expenses. Year on year, personnel costs rose by 9.6% to EUR 209 million. Depreciation/amortisation and impairment loss on PPE and intangible assets increased by 23.0% to EUR 65 million. This increase resulted from higher development expenditure recognised for prior years. Other operating expenses increased by 17.6% to EUR 225 million. Charges of financial authorities increased by EUR 16 million and ICT costs increased by EUR 12 million year on year.

H1 highlights

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

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

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

If implemented, the transfer would improve OP Financial Group's CET1 ratio by an estimated 0.4 percentage points. The transfer of the pension portfolio will result in a non-recurring item shown in OP Financial Group's financial statements. According to the present-day estimate, the non-recurring item would improve OP Financial Group's 2018 earnings by EUR 240 million. Interest rate changes used in discounting pension liabilities will have a major effect on the final size of the item shown in the income statement, and the final amount to be recognised may significantly differ from the amount mentioned above. A 0.1 percentage point increase in the discount rate reduces the defined benefit pension net liability to be recognised by an estimated EUR 20–30 million.

OP Financial Group applies for membership of Finance Finland

In June, OP Financial Group decided to apply for membership of Finance Finland as of 1 January 2019 and to discontinue its membership of Service Sector Employers Palta. Through this decision on the membership transfer, OP wants to strengthen the development, cooperation and competitiveness of the Finnish financial sector.

Reorganised Executive Board's areas of responsibility

On 6 June 2018, the Supervisory Board of OP Financial Group's central cooperative made a decision to reorganise the Executive Board of OP's central cooperative and the areas of responsibility of the senior management. The new Executive Board began to work on 11 June 2018.

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

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

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

Harri Luhtala, M.Sc. (Econ. & Bus. Adm.), will continue as OP Financial Group's CFO and Executive Board member.

A new area of responsibility on the Executive Board is Development and Technologies and Juho Malmberg, M.Sc. (Tech.), is in charge of that area as a new member of the Executive Board.

Group Services consists of centralised service production and processes, procurement and facility management services as well as corporate security. Executive Board member Tony Vepsäläinen, LL.M, eMBA, will continue to be in charge of Group Services. He also acts as Vice Chair of the Executive Board.

Legal Services and Compliance is its own area of responsibility on the Executive Board. A new Executive Board member Tiia Tuovinen, LL.M.Eur, will be in charge of that area.

In addition to the Executive Board members, Erik Palmén, Chief Risk Officer; Outi Taivainen, Executive Vice President, HR Services; Carina Geber-Teir, Executive Vice President, Corporate Communications; and Leena Kallasvuo, Chief Audit Executive, will report directly to the President and Group Executive. The director in charge of Strategy and Reinvention, who will be appointed at a later date, will also report directly to the President and Group Executive Chair.

OP Financial Group's strategic targets

OP Financial Group's strategic targets	30 June 2018	31 Dec. 2017	Target 2019
Customer experience, NPS (-100–+100)			
Brand	22	22	25
Service encounter	59	58	70, over time 90
CET1 ratio, %	19.8	20.1	22
Return on economic capital, % (12-month rolling)	18.3	20.4	22
Expenses of present-day business (12-month rolling), € million	1,754	1,661	Expenses for 2020 at 2015 level (1,500)
Owner-customers, million	1.9	1.8	2.1 (2019)

At its meeting in June 2018, the Supervisory Board had a preliminary discussion on sharpening the OP 2016 strategy. The Supervisory Board will continue the strategy discussion at its September meeting.

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

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

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

Allocation of earnings

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

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

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

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

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

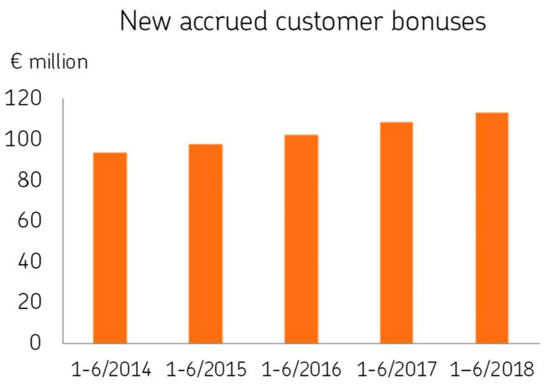
OP Financial Group is one the largest tax payers in Finland measured by tax on profits. By paying taxes in Finland, OP is contributing to prosperity in the whole of Finland.

Customer relationships and customer benefits

In January–June, the number of OP Financial Group's owner-customers increased by 32,000 to almost 1.9 million. In January–June, the number of joint banking and non-life insurance customers increased by 19,000 to over 1.8 million.

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

OP cooperative banks' owner-customers earn OP bonuses through banking, non-life insurance and wealth management transactions. The combined amount of new bonuses earned by owner-customers in the first half for using OP as their main bank and insurer was worth EUR 113 million (108). A total of EUR 56 million (52) of bonuses were used to pay for banking and wealth management services and EUR 58 million (57) to pay non-life insurance premiums. OP bonuses were used to pay 1,179,000 insurance bills (1,179,000), with 174,000 (158,000) of them paid in full using bonuses.



In the reporting period, owner-customers benefitted EUR 28 million (26) from the reduced price of the daily banking package. Owner-customers were provided with EUR 33 million (36) in non-life insurance loyalty discounts during the reporting period. In addition, owner-customers bought, sold and switched the majority of the mutual funds without separate charges. The value of the benefit was EUR 3 million (3) during the reporting period.

The abovementioned OP bonuses and customer benefits totalled EUR 177 million (173), accounting for 29% of OP Financial Group's earnings before tax and granted benefits.

Interest payable on Profit Shares accrued during the reporting period is estimated to total EUR 47 million (44). The return target for Profit Shares for 2018 is an interest rate of 3.25% (3.25).

Corporate social responsibility

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

In February, OP and LeaseGreen began partnership to help housing companies carry out energy-saving improvements. Through such energy-saving improvements, OP enables customers to reduce their carbon footprint.

To promote diversity, OP's objective is that the proportion of both genders in defined managerial positions is at least 40%. Women accounted for 23% at the end of June. At the end of 2017, the share was 21%.

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

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

In its 'Summer job on OP' campaign, OP Financial Group donated over EUR 500,000 to third-sector associations across Finland that are used to offer summer jobs to 1,200 young people.

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

Multichannel services

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

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

In June, OP-mobile was the main channel for customers' daily banking, with visits totalling around 19 million (16) during one month. The number of visits to online services amounted to around 9 million (10). The number of visits to the Pivo mobile application totalled over 3 million (2) in June. The number of visits to OP Business mobile totalled 485,000 (121,000) in June.

The Mobile key, a confirmation tool launched in December 2017, was made available in early 2018 to all OP-mobile users. The Mobile key is part of OP-mobile enabling users to confirm transactions on OP-mobile without the key code list.

On Pivo, the person-to-person payment and the Siirto payment enable customers to send money to other people by using their mobile phone number. By now some 426,000 OP customers have registered for Siirto payments. The Pivo payment button and the OP Siirto payment button enable customers to pay their web purchases without a key code list or their card's PIN. Pivo and Siirto are already a payment method option at over 4,000 webshops.

Despite the expansion of online and mobile services, OP Financial Group still has Finland's most extensive branch network with 377 branches (407) across the country. The Group's own branch network is further supported by a comprehensive agency and partnership network, which is particularly important in terms of the sale of non-life insurance policies. OP Financial Group also has extensive presence in the most common social media channels where it has some 400,000 followers (370,000). In addition to the Group's national social media accounts, many member cooperative banks have their own Facebook pages where they share publications destined for local customers.

Health and wellbeing

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

In the years to come, the Pohjola Health network will be supplemented by building a nationwide network of Pohjola Medical Centres. In late 2018, the first Pohjola Medical Centres will be opened in Lappeenranta and Pori. They are full-service health centres, which provide general practitioner and specialist medical services for private and occupational healthcare customers.

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

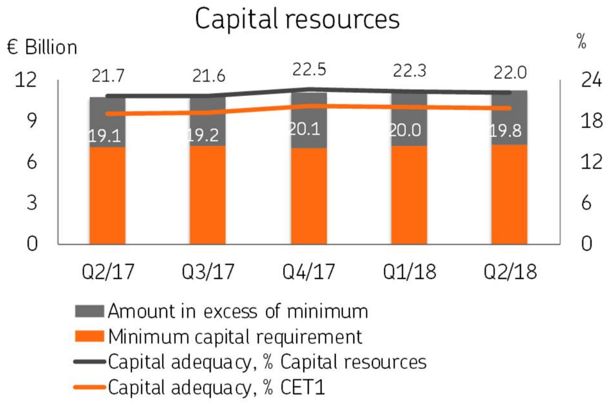
Solvency

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

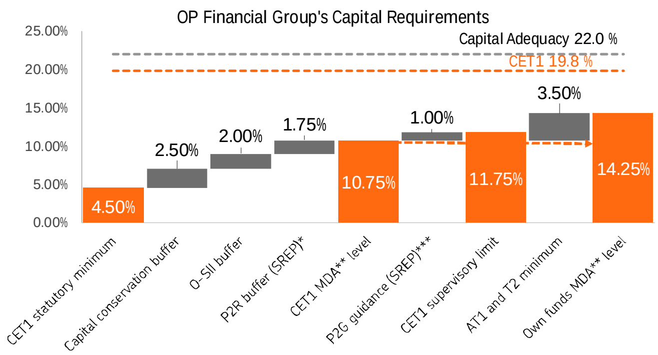
OP Financial Group's capital base, calculated according to the Act on the Supervision of Financial and Insurance Conglomerates (FiCo), exceeded the minimum amount specified in the Act by EUR 3.5 billion (3.6). Banking capital requirement remained unchanged at 14.3%, calculated on risk-weighted assets. The ratio of the Group capital base to the minimum capital requirement was 146% (148). The ratio was 161% without the risk weight floors set by the ECB. As a result of the buffer requirements for banking and solvency requirement for insurance companies, the minimum FiCo solvency of 100% reflects the level within which the group can operate without regulatory obligations resulting from buffers below the required level.

Capital adequacy for credit institutions

OP Financial Group's CET1 ratio was 19.8% (20.1). The risk weight floors set by the ECB decreased the CET1 ratio by 2.1 percentage points. Growth in total risk exceeded growth in CET1 capital. The effect of the calculated adjustments of defined benefit pension plans (IAS 19) on the Group's CET1 ratio was about –0.9 percentage points, or slightly lower than at the end of 2017.



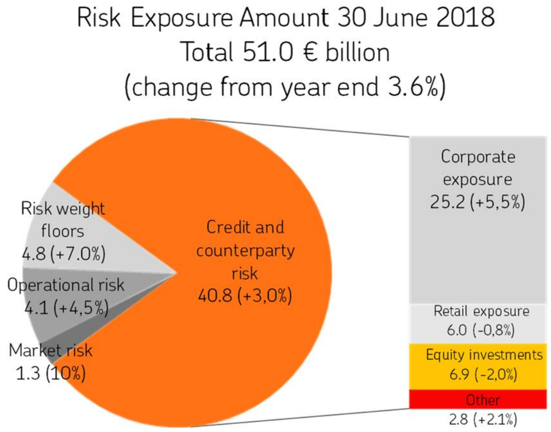
As a credit institution, OP Financial Group's capital adequacy is on a solid basis compared to the statutory requirements and those set by the authorities. The statutory minimum for the capital adequacy ratio is 8% and for the CET1 ratio 4.5%. The requirement for the capital conservation buffer of 2.5%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



* P2R supervisory Pillar II requirement ** Maximum distributable amount
*** P2G supervisory guidance, breach results enhanced supervisory measures

The Group's CET1 capital was EUR 10 billion (9.9). The CET1 capital was increased by Banking earnings and Profit Share issues. The amount of Profit Shares in CET1 capital was EUR 2.9 billion (2.8).

The risk exposure amount (REA) totalled EUR 51 billion (49.2), or 3.6% higher than on 31 December 2017. The minimum risk weight for retail exposures set by the ECB was EUR 4.8 billion, without which total risk was EUR 46.2 billion and the increase 3.3% from the turn of the year. The average risk weights of corporate exposures rose slightly while those of retail exposures remained at the level reported on 31 December 2017.



The central cooperative consolidated treats insurance holdings within the financial and insurance conglomerate as risk-weighted assets, based on permission from the European Central Bank (ECB). Equity investments include EUR 6.5 billion in risk-weighted assets of the Group's internal insurance holdings with a risk weight of around 280%.

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

The upcoming EU regulation includes a requirement measuring the ratio of the degree of indebtedness, the leverage ratio. The leverage ratio of OP Financial Group's Banking is estimated at about 7.7% (7.9) based on the existing interpretations, calculated using the June-end figures. According to the draft rules, the minimum ratio is 3%.

Non-life and Life Insurance

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

	Non-life Insurance		Life Insurance	
	30 June 2018	31 Dec. 2017	30 June 2018	31 Dec. 2017
Capital base, € million*	968	902	1,354	1,317
Solvency capital requirement (SCR), € million*	664	666	635	674
Solvency ratio, %*	146	135	213	195
Solvency ratio, % (excluding transitional provision)	146	135	168	151

*including transitional provisions

ECB supervision

OP Financial Group is supervised by the European Central Bank (ECB). On 2 February 2017, OP Financial Group received the ECB's decision to set risk weight floors for OP Financial Group's retail exposures for a fixed period of 18 months. The relevant risk weight floors for retail exposures set by the ECB are 15.4% for mortgage-backed exposures and 32.7% for other private customer exposures. Based on the decision, the risk weight floors will be effective at least until the third quarter of 2018. The shortcomings observed by the ECB in the IRBA (Internal Ratings Based Approach) management and validation process applied by OP Financial Group in capital adequacy measurement, especially delayed validations, lay behind the decision. The shortcomings have been fixed and the ECB is assessing the sufficiency of related measures.

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

Liabilities under the Resolution Act

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

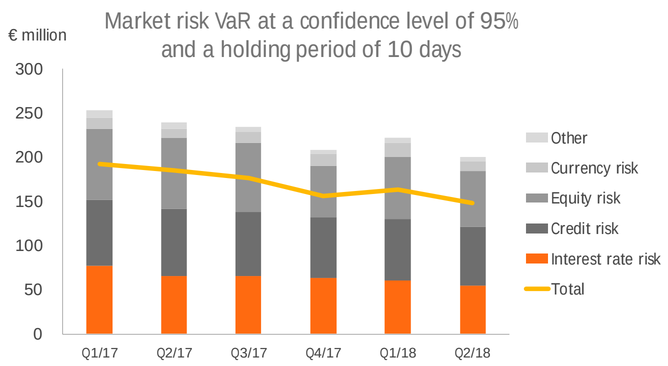
Risk exposure

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

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

OP Financial Group's funding position and liquidity is good. The availability of funding has remained good. During the reporting period, OP Financial Group issued long-term bonds worth EUR 2.4 billion. The loan-to-deposit ratio remained stable during the reporting period.

OP Financial Group's market risk exposure was stable during the reporting period. The Group's VaR, a measure of market risk, was EUR 148 million (156) on 30 June 2018. It includes the balance sheet total of the insurance institutions, trading, liquidity buffer and the Group Treasury's interest rate risk exposure.



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

Risks associated with defined benefit pension plans relate to interest rate and market risk, future increases in pension benefits and longer life expectancy. A change in the discount rate for pension liabilities has a substantial effect on the amount of pension liabilities. The decrease in net liabilities related to defined benefit pension plans recognised in other comprehensive income during the reporting period improved comprehensive income for the reporting period before tax by EUR 38 million (62). Net liabilities were reduced by an increase in the discount rate.

In the reporting period, key tasks of the Compliance function involved ensuring compliance with regulatory requirements that became effective in 2017 and 2018.

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

Banking

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

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

Doubtful receivables totalled EUR 3.0 billion (2.9). Doubtful receivables refer to receivables that are more than 90 days past due, other receivables classified as risky and forborne receivables due to the customer's financial difficulties. Forbearance measures consist of concessions agreed at the customers' initiative to contractual payment terms towards the customer to make it easier for them to manage through temporary payment difficulties. OP cooperative banks make every effort to find solutions to overcome customers' temporary financial difficulties. Loan modifications due to reasons other than the customer's financial difficulties are not classified as doubtful receivables. Performing forborne exposures (forborne exposures reclassified as performing ones during their probation period or forbearance measures made into a not non-performing agreement) accounted for 66.4% (64.3) of doubtful receivables. Non-performing receivables remained low, accounting for 1.2% (1.2) of the loan and guarantee portfolio. Impairment losses amounted to EUR 7 million (23).

Breakdown of loan and guarantee portfolio

	30 June 2018	31 Dec. 2017
Loan and guarantee portfolio, EUR billion	87.1	84.8
Private customer exposures, EUR billion	50.8	50.0
of loan and guarantee portfolio, %	58.3	58.9
in the two highest borrower grades, %	84.0	83.5
in satisfactory borrower grades, %	12.5	12.9
in the two lowest borrower grades, %	3.6	3.6
Corporate and housing company exposures, EUR billion	33.4	32.6
of loan and guarantee portfolio, %	38.3	38.5
in the highest borrower grades (IG), %	54.7	55.4
in other borrower grades (excluding default), %	44.2	43.4
classified as default, %	1.1	1.2
classified as default, EUR million	528.1	554.3
Other exposures, EUR billion	3.0	2.2

No single customer's exposure exceeded 10% of the capital base after allowances and other recognition of credit risk mitigation. The capital base covering customer exposure amounted to EUR 11.2 billion (11.0).

The most significant sectors in corporate and housing company exposures	30 June 2018	31 Dec. 2017**
Renting and operating of residential real estate*, %	17.9	17.4
Renting and operating other real estate, %	10.1	9.8
Services, %	9.6	9.0
Energy, %	9.3	9.8
Other sectors, %	53.1	54.0
Total, %	100	100

*A total of 94% of exposures within Renting and Operating of Residential Real Estate were those by housing companies and 12% were those guaranteed by general government.
**The figures a year ago have been adjusted to be in accordance with the current monitoring.

Banking's interest rate risk measured as the effect of a one-percentage point decrease on 12-month net interest income was EUR –96 million at the end of June.

Deposits within the scope of deposit guarantee (deposit insurance) and managed by OP Financial Group totalled EUR 35.2 billion (34.3) at the end of June. The Deposit Guarantee Fund compensates a maximum of EUR 100,000 for each OP Financial Group customer.

Non-life Insurance

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

A one-year increase in life expectancy would increase insurance liability for annuities by EUR 45 million. A 0.1 percentage point decrease in interest rates used in insurance liability valuation would increase insurance liabilities by EUR 23 million.

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

The risk exposure of investments was stable during the reporting period. The VaR, a measure of market risk, was EUR 50 million (52) on 30 June 2018. No major changes took place in the investment portfolio's asset class allocation. The Group has used both interest rate derivatives and bonds to hedge against interest rate risk associated with insurance liability. The portfolio's interest rate and credit risk remained stable. The Group has significantly increased the hedge ratio of interest rate risk associated with insurance liabilities.

Wealth Management

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

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

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

The risk exposure of investments was stable during the reporting period. The VaR, a measure of market risk, was EUR 57 million (61) on 30 June 2018. No major changes took place in the investment portfolio's asset class allocation. The central cooperative consolidated has used both interest rate derivatives and bonds to hedge against interest rate risk associated with insurance liability. The portfolio's interest rate and credit risk remained stable. The Group has significantly increased the hedge ratio of interest rate risk associated with insurance liabilities.

Other Operations

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

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

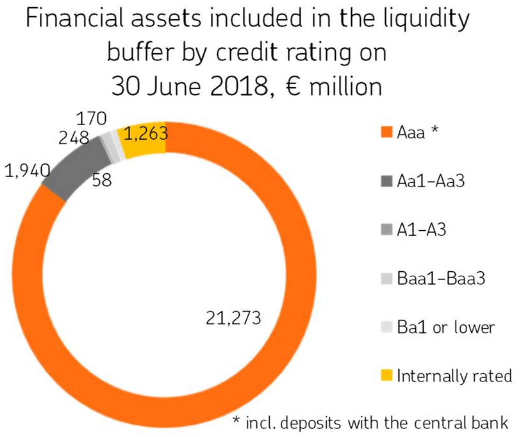
OP Financial Group secures its liquidity through a liquidity buffer which consists mainly of deposits with central banks and receivables eligible as collateral for central bank refinancing. The liquidity buffer is sufficient to cover the need for short-term funding for known and predictable payment flows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

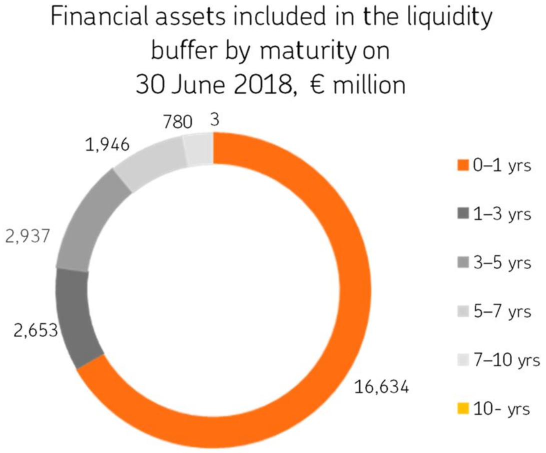
OP Financial Group monitors its liquidity and the adequacy of its liquidity buffer using, for example, the LCR (Liquidity Coverage Ratio). According to regulation, the LCR must be at least 100% from the beginning of 2018. On 30 June 2018, OP Financial Group's LCR was 148% (123).

Liquidity buffer

€ billion	30 June 2018	31 Dec. 2017	Change, %
Deposits with central banks	15.6	12.8	21.5
Notes and bonds eligible as collateral	7.7	9.1	-14.8
Total	23.3	21.9	6.4
Receivables ineligible as collateral	1.7	1.5	13.6
Liquidity buffer at market value	25.0	23.3	6.9
Collateral haircut	-0.7	-0.7	0.1
Liquidity buffer at collateral value	24.3	22.7	7.1

The liquidity buffer comprises notes and bonds issued by governments, municipalities, financial institutions and companies all showing good credit ratings, securitised assets and loans eligible as collateral.





Credit ratings

30 June 2018

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

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

The credit ratings did not change in the reporting period.

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

Financial performance by segment

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

Banking

- Earnings before tax increased by 5.9% to EUR 333 million (314).
- Total income increased by 4.9%. Net interest income increased by 3.0% year on year but net commissions and fees decreased by 4.9%. Expenses increased by 8.3% due to the stability contribution, development expenditure and higher volumes.
- The loan portfolio increased by 5.3% and the deposit portfolio by 7.3% in the year to June. Corporate loans as well as housing company and other loans showed the fastest growth in loans.
- Impairment losses amounted to EUR 6 million (23). Non-performing receivables accounted for 1.2% (1.2) of the loan and guarantee portfolio.
- The most significant Banking development investments involved the upgrades of payment and finance systems such as the digital home loan service.

Banking: key figures and ratios

€ million	Q1–2/2018	Q1–2/2017	Change, %	Q1–4/2017
Net interest income	608	591	3.0	1,192
Net commissions and fees	281	296	-4.9	576
Net investment income	58	15		19
Other income	13	14	-7.4	36
Total income	960	915	4.9	1,823
Personnel costs	182	188	-3.1	354
Depreciation/amortisation and impairment loss	19	21	-8.8	51
Other operating expenses	326	278	17.3	565
Total expenses	527	486	8.3	970
Impairment loss on receivables	-6	-23	-71.9	-47
OP bonuses to owner-customers	-93	-91	2.8	-187
Earnings before tax	333	314	5.9	619
Cost/income ratio, %	54.9	53.2		53.2
€ million				
Home loans drawn down	3,777	3,418	10.5	6,954
Corporate loans drawn down	3,884	3,687	5.3	7,389
No. of brokered residential property and property transactions	5,958	6,439	-7.5	13,080
€ billion				
Loan portfolio	30 June 2018	30 June 2017	Change, %	31 Dec. 2017
Home loans	38.0	37.1	2.5	37.5
Corporate loans	20.6	19.5	5.8	19.7
Housing company and other loans	25.8	23.7	9.2	25.0
Total	84.4	80.2	5.3	82.2
Guarantee portfolio	2.7	2.6	0.3	2.6
Deposits				
Current and payment transfer	43.2	39.4	9.8	40.1
Investment deposits	18.2	17.9	1.9	17.9
Total	61.4	57.2	7.3	58.0

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

The loan portfolio increased in the year to June by 5.3% to EUR 84.4 billion. The corporate loan portfolio increased by 5.8% and the home loan portfolio by 2.5%. OP Corporate Bank accounted for 25% the loan portfolio.

The deposit portfolio increased in the year to June by 7.3% to EUR 61.4 billion. Investment deposits increased slightly year on year. OP Corporate Bank accounted for 20% the deposit portfolio.

During the reporting period, OP introduced a digital home loan service which enables customers to apply for a home loan through op.fi and receive a home loan decision immediately. The service expanded during the second quarter, through which customers of 26 OP cooperative banks can receive a home loan decision online on a real time basis.

The volume of homes and real estate sold and bought through the OP-Kiinteistökeskus real estate agents decreased by 7.5% over the previous year. Related commission income was at the level reported a year ago.

Customers' interest in protecting home loans and housing company loans against rising interest rates increased and, year on year, income from interest rate protection products increased markedly.

The number of banking customers totalled over 3.7 million (3.7) at the end of June.

Earnings

Earnings before tax were EUR 333 million (314), or 5.9% higher than a year ago. Total income rose by 4.9% and total expenses by 8.3%. As a result of the rise in expenses, the cost/income ratio weakened to 54.9% (53.2). Impairment loss on receivables was very low, amounting to EUR 6 million (23). Non-performing receivables accounted for 1.2% (1.2) of the loan and guarantee portfolio.

Owing to an increase in the loan portfolio and a decrease in funding costs, net interest income grew by 3.0% to EUR 608 million (591). Derivatives operations decreased OP Corporate Bank's net interest income whereas OP cooperative banks' net interest income rose.

Net commissions and fees decreased to EUR 281 million (296). The decrease in net commissions and fees was due to the inclusion of certain client income items of derivatives operations in Banking's net investment income during the reporting period. A year ago, such items were included in net commissions and fees.

Net investment income increased by a total of EUR 43 million. Net investment income was increased by EUR 16 million in capital gain. CVA valuation arising from interest rate changes and other market changes improved the income by EUR 7 million (16).

Total expenses increased by 8.3% to EUR 527 million (486). Personnel costs fell by EUR 6 million to EUR 182 million (188). Other operating expenses rose by 17.3%. ICT costs increased by EUR 22 million. Higher ICT costs were explained by investments in development and growth in volumes. Higher other operating expenses were explained by stability contributions to the Financial Stability Board. OP cooperative banks and OP Corporate Bank's Banking reported increased expenses.

Non-life Insurance

- Earnings before tax decreased by 40.1% amounting to EUR 64 million (107).
- Insurance premium revenue increased by 3.3%.
- The operating combined ratio was 91.9% (92.5) and operating expense ratio 20.8% (20.1). The combined ratio was 93.3% (94.0).
- Net investment income, taking account of the temporary exemption, totalled EUR 21 million (67). Net return on investments at fair value totalled EUR 14 million (78).
- Development investments focused on development of electronic services and the basic system upgrade initiated.

Non-life Insurance: key figures and ratios

€ million	Q1–2/2018	Q1–2/2017	Change, %	Q1–4/2017
Insurance premium revenue	733	710	3.3	1,432
Claims incurred	458	459	-0.3	970
Other expenses	2	2	-30.6	3
Net insurance income	273	248	10.2	459
Net investment income	21	67	-68.7	183
Other net income	-12	-13	-7.9	-33
Total income	282	302	-6.4	609
Personnel costs	67	60	11.2	116
Depreciation/amortisation and impairment loss	29	23	28.1	50
Other operating expenses	122	111	9.3	231
Total expenses	217	194	12.1	397
OP bonuses to owner-customers	-1	-1	1.5	-2
Temporary exemption (overlay approach)	0			
Earnings before tax	64	107	-40.1	210
Combined ratio, %	93.3	94.0		97.6
Operating combined ratio, %	91.9	92.5		96.1
Operating loss ratio, %	71.0	72.4		75.8
Operating expense ratio, %	20.8	20.1		20.3
Operating risk ratio, %	64.4	66.0		69.3
Operating cost ratio, %	27.4	26.5		26.9
Solvency ratio, %*	146	162		135
Large claims incurred retained for own account	57	36		78
Changes in claims for provisions of previous years (run-off result)	16	19		35

* including transitional provisions.

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

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

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

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

Pohjola Health expanded its business when it opened its fifth hospital in Turku in May. It will open Medical Centres in Lappeenranta and Pori in the autumn of 2018.

Earnings

Earnings before tax amounted to EUR 64 million (107). This earnings decline was particularly explained by net investment income which, including the temporary exemption, was EUR 46 million lower than a year ago. Capital gains on investments totalled EUR 1 million (29). Net insurance income increased by 10.2% to EUR 273 million. The reduction in the discount rate increased claims incurred by EUR 26 million a year ago.

The operating combined ratio was 91.9% (92.5). The operating ratios a year ago include the effects of changes in the discount rate but exclude amortisation on intangible assets arising from the corporate acquisitions. The reduction in the discount rate weakened the operating combined ratio by 3.6 percentage points.

Insurance premium revenue

€ million	Q1–2/2018	Q1–2/2017	Change, %
Private Customers	391	390	0.4
Corporate Customers	309	290	6.8
Baltics	32	30	6.4
Total	733	710	3.3

Claims incurred, excluding the reduction in the discount rate, increased by 5.6%. Claims under property and business liability insurance incurred arising from new large claims were higher than a year ago. The reported number of large claims under property and business liability insurance (in excess of EUR 0.3 million) amounted to 57 (46) in January–June, with their claims incurred retained for own account totalling EUR 57 million (36). The change in provisions for unpaid claims under statutory pension increased year on year. Provisions for unpaid claims under statutory pension changed year on year by EUR 6 million (–7) between January and June.

Changes in claims for previous years, excluding the effect of the discount rate change, improved the balance on technical account by EUR 16 million (19). The operating loss ratio was 71.0% (72.4). The operating risk ratio excluding indirect loss adjustment expenses was 64.4% (66.0).

Expenses grew by 12.1%, being EUR 23 million higher than a year ago, due to higher ICT costs and depreciation/amortisation and the expansion of the health and wellbeing business. The operating expense ratio was 20.8% (20.1). The operating cost ratio (including indirect loss adjustment expenses) was 27.4% (26.5).

Operating balance on technical account and combined ratio (CR)

	Q1–2/2018		Q1–2/2017	
	Balance, € million	CR, %	Balance, € million	CR, %
Private Customers	49	87.5	57	85.3
Corporate Customers	9	97.2	-6	102.2
Baltics	2	93.4	2	91.8
Total	60	91.9	53	92.5

Intensified price competition eroded profitability of the Private Customer business.

Investment

Net return on Non-life Insurance investments at fair value totalled EUR 14 million (78). Net return on investments at fair value is calculated by deducting the value change in market-consistent insurance liability from income from total investment assets.

Investment portfolio by asset class

%	30 June 2018	31 Dec. 2017
Bonds and bond funds	69.1	68.0
Alternative investments	4.4	4.7
Equities	7.9	8.5
Private equity	2.1	1.9
Real estate	8.7	8.3
Money markets	7.9	8.5
Total	100	100

Non-life Insurance's investment portfolio totalled EUR 3,839 million (3,903) on 30 June 2018. Investments within the investment-grade category accounted for 94% (95), and 62% (66) of the investments were rated at least A–. On 30 June 2018, the fixed-income portfolio's modified duration was 4.4 (5.1).

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

Wealth Management

- Earnings before tax increased by 1.5% to EUR 94 million (93).
- Net commissions and fees decreased year on year due to e.g. executed price reductions.
- Net investment income, taking into account the temporary exemption, totalled EUR 46 million (32). Net return on investments at fair value totalled EUR 24 million (66).
- The gross amount of assets under management increased in the year to June by 1.7% to EUR 77.7 billion.
- Development investments mainly focused on finishing the adoption of regulatory projects and the development of electronic services.

Wealth Management: key figures and ratios

€ million	Q1–2/2018	Q1–2/2017	Change, %	Q1–4/2017
Net commissions and fees				
Mutual funds, asset management and securities*	113	118	-4.4	276
Life Insurance*	95	92	3.7	174
Expenses*	41	38	8.3	64
Total net commissions and fees	167	172	-2.9	385
Life Insurance's net risk results	15	13	17.4	27
Net investment income from Life Insurance	63	32	97.6	85
Other income	3	6	-42.3	10
Total income	249	223	11.6	507
Personnel costs	41	39	6.5	75
Depreciation/amortisation and impairment loss	15	12	23.6	28
Other operating expenses	67	65	2.2	130
Total expenses	123	116	5.9	233
OP bonuses to owner-customers	-15	-14	7.9	-28
Temporary exemption (overlay approach)	-17			
Earnings before tax	94	93	1.5	247
€ billion	30 June 2018	30 June 2017	Change, %	31 Dec. 2017
Assets under management (gross)				
Mutual funds	24.4	23.6	3.2	24.6
Institutional clients	23.8	24.6	-3.4	24.2
Private Banking	19.2	18.5	4.1	19.1
Unit-linked insurance assets	10.3	9.7	6.1	10.2
Total assets under management (gross)	77.7	76.4	1.7	78.0
€ million	Q1–2/2018	Q1–2/2017	Change, %	Q1–4/2017
Net inflows				
Investor and saver customers	122	395	-69.0	711
Private Banking clients	50	281	-82.3	563
Institutional clients	14	150	-90.4	623
Total net inflows	187	825	-77.4	1,897

*Eliminations of the segment's internal items have been adjusted for H1/2017

Tightening monetary policy and the threat of a trade war brought negative sentiment to capital markets although the economic outlook and corporate financial performance are still favourable. Greater uncertainty weakened demand for Wealth Management products and net assets inflow decreased by 77.4% to EUR 187 million (825) over the previous year. The gross amount of assets under management increased in the year to June by 1.7% to EUR 77.7 billion. Assets under management (gross) included about EUR 13 billion in assets of the companies belonging to OP Financial Group.

OP expanded its range of mutual funds by launching OP-Finland Micro Cap Fund (non-UCITS) in May and OP-Finland Index Fund in June. At the end of June, OP changed electronic equity trading prices by reducing trading fees for owner-customers, in particular.

The number of OP Mutual Fund unitholders increased by about 17,000 in gross terms to 764,000 during the reporting period. The Morningstar rating for OP Mutual Funds was 3.0 (2.9).

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

During the reporting period, Wealth Management development investments focused on finalising the implementation of regulatory projects and developing electronic sales and transactions. Electronic agreements already accounted for 54% (51) of new Wealth Management agreements. A total of 79% (78) of mutual fund orders were made electronically.

Earnings

Earnings before tax remained at the previous year's level, amounting to EUR 94 million (93).

Net commissions and fees decreased by 2.9% year on year, amounting to EUR 167 million (172). Net commissions and fees accounted for 0.49% of the gross amount of the assets under management (0.46).

Net return on Life Insurance investments at fair value totalled EUR 24 million (66). Net return on investments at fair value is calculated by deducting the value change in market-consistent insurance liability from income from total investment assets. These investments exclude the so-called separated balance sheets that were transferred from Suomi Mutual.

Expenses increased by 5.9% year on year, amounting to EUR 123 million (116). This increase mainly resulted from higher expenses associated with development. Expenses accounted for 0.29% of the gross amount of the assets under management.

Interest rate risk associated with insurance liability has been hedged through supplementary interest rate provisions and interest rate derivatives. Short-term supplementary interest rate provisions decreased by EUR 18 million during the reporting period whereas they increased by EUR 9 million a year ago. Accrued supplementary interest rate provisions related to insurance liabilities (excluding the separated balance sheets) totalled EUR 364 million (405) on 30 June 2018. Short-term supplementary interest rate provisions accounted for EUR 68 million (87) of these provisions.

Life Insurance's investment assets, excluding assets covering unit-linked insurance, interest rate derivatives hedging insurance liability and the separated balance sheets, amounted to EUR 3,687 million (3,830). Investments within the investment-grade category accounted for 95% (95) of the fixed income portfolio. On 30 June 2018, the fixed income portfolio's modified duration was 3.8 (4.4). The running yield for direct bond investments (excluding the separated balance sheets) averaged 1.4% (1.7) on 30 June 2018. The calculation of the ratio was specified in 2018 and the comparative was adjusted retrospectively.

Investment portfolio by asset class

%	30 June 2018	31 Dec. 2017
Bonds and bond funds	68.9	69.5
Alternative investments	9.6	9.3
Equities and equity funds	6.0	6.1
Real estate	7.1	6.9
Money markets	8.4	8.2
Total	100	100

Return on investments on the separated Life Insurance balance sheets

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

On 30 June 2018, investment assets in the individual life insurance portfolio in the separated balance sheet, excluding interest rate derivatives hedging insurance liability, amounted to EUR 844 million (891). Net return on investments at fair value totalled EUR 5 million (16). Net return on investments at fair value is calculated by deducting the value change in market-consistent insurance liability from income from investment assets.

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

%	30 June 2018	31 Dec. 2017
Bonds and bond funds	76.5	78.5
Alternative investments	9.9	9.4
Equities and equity funds	1.8	1.0
Real estate	8.1	6.6
Money markets	3.7	4.4
Total	100	100

On 30 June 2018, investment assets in the individual pension insurance portfolio in the separated balance sheet, excluding interest rate derivatives hedging insurance liability, amounted to EUR 2,438 million (2,573). Net return on investments at fair value totalled EUR –8 million (42). Net return on investments at fair value is calculated by deducting the value change in market-consistent insurance liability from income from investment assets.

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

%	30 June 2018	31 Dec. 2017
Bonds and bond funds	76.1	75.8
Alternative investments	12.7	12.3
Equities and equity funds	1.7	0.7
Real estate	7.9	7.4
Money markets	1.7	3.8
Total	100	100

Other Operations

Other Operations: key figures and ratios

€ million	Q1–2/2018	Q1–2/2017	Change, %	Q1–4/2017
Net interest income	-23	-45	-49.5	-75
Net commissions and fees	1	-28		-63
Net investment income	55	132	-58.0	238
Other operating income	325	331	-1.7	632
Total income	360	391	-7.9	732
Personnel costs	123	106	16.1	213
Depreciation/amortisation and impairment loss	68	40	72.0	118
Other operating expenses	235	200	17.6	446
Total expenses	426	345	23.3	777
Impairment loss on receivables	0	0		0
Earnings before tax	-66	45		-45

Earnings

Earnings before tax amounted to EUR –66 million (45). Non-recurring income of EUR 42 million was included in earnings a year ago. This earnings reduction is also explained by lower net investment income and higher expenses. Total income decreased by 7.9% to EUR 360 million.

Net interest income was EUR –23 million (–45). Net investment income decreased by 58.0% to EUR 55 million. Derivatives operations increased net interest income and decreased net trading income included in net investment income. According to OP Financial Group's accounting policy, income from derivative instruments is split between net interest income and net income from trading. How this income is broken down between the two income statement items may vary considerably depending on the derivative instruments used in position management at a given time. Furthermore, net investment income was decreased by a 10-million euro reduction in dividend income.

Net commissions and fees were up by EUR 29 million year on year. OP Financial Group's internal net commissions and fees mainly affect those of the Other Operations segment.

Other operating income decreased by 1.7% to EUR 325 million despite higher intra-Group charges. A year ago, a total of EUR 22 million in non-recurring VAT refunds for prior years, interest included were recognised under the Other Operations segment. A year ago, OP Financial Group sold its portfolio of agreements and POS terminals of merchant acquiring and POS terminal services to Nets. Non-recurring gain of EUR 20 million on the transaction was recorded in the Other Operations segment.

Investments in the development of services and personnel costs increased the Other Operations segment's expenses. Total expenses increased by 23.3% to EUR 235 million. Personnel costs increased by 16.1% to EUR 123 million. Other operating expenses increased by 17.6% to EUR 235 million as ICT costs rose by EUR 23 million and the costs of purchased services by EUR 5 million. Depreciation/amortisation and impairment loss on PPE and intangible assets increased by 72.0% to EUR 68 million. This increase resulted from higher development expenditure recognised for prior years. Impairment write-downs were EUR 13 million higher than the year before.

In June 2018, the average margin of OP Financial Group's senior wholesale funding, TLTRO-II funding and covered bonds was 18 basis points (19). Use of the TLTRO-II funding, together with funding arriving at maturity at higher cost, lowers the cost of wholesale funding. Covered bonds are reported as part of the Banking segment.

Capital expenditure and service development

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

OP Financial Group's development expenditure for January–June totalled EUR 215 million (202). These include licence fees, purchased services, other external costs related to projects and in-house work. The capitalised development expenditure totalled EUR 106 million (105).

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

Changes in OP Financial Group's structure

OP Financial Group's consolidated financial statements at the end of the reporting period include the accounts of 157 member cooperative banks (167) and OP Cooperative Consolidated.

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

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

Auran Osuuspankki, Marttilan Osuuspankki, Pöytyän Osuuspankki and Tarvasjoen Osuuspankki merged into Paattisten

Osuuspankki. Consequently, the business name of Paattisten Osuuspankki changed to Auranmaan Osuuspankki. The execution of the merger was registered on 31 March 2018.

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

Käylän Osuuspankki and Kuusamon Osuuspankki accepted a merger plan on 23 February 2018 and 26 February 2018, according to which Käylän Osuuspankki will merge into Kuusamon Osuuspankki. The planned date for registration of the merger is 31 August 2018.

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

Payment Highway Oy and Checkout Finland Oy accepted a merger plan on 5 April 2018, according to which Payment Highway Oy will merge into Checkout Finland Oy. The planned date for registration of the merger is 31 August 2018.

OVY Insurance Ltd merged into OP Cooperative. The execution of the merger was registered on 31 July 2018.

Personnel and remuneration

On 30 June 2018, OP Financial Group had 12,446 employees (12,269). The number of employees averaged 12,334 (12,212).

During the reporting period, 152 OP Financial Group employees (179) retired, at an average age of 61.8 years (62.1).

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

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

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

The areas of responsibility of the Executive Board and senior management of OP Financial Group's central cooperative changed on 11 June 2018. The H1 highlights section in this interim report provides more detailed information on these changes.

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

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

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

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

Governance of OP Cooperative

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

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

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

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

The Supervisory Board comprises 36 members.

At its reorganising meeting, the Supervisory Board elected the presiding officers of the Supervisory Board. Professor of Economics Jaakko Lehtonen was re-elected the Chair and Senior

Lecturer in Marketing Mervi Väisänen and Managing Director Olli Tarkkanen Vice Chairs.

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

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

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

Outlook towards the year-end

The world economic and euro area economic outlook still look favourable although the euro area economic growth slightly fell short of expectations during the second quarter. Owing to strong economic growth, the European Central Bank is gradually normalising its monetary policy. Finnish economic development has been favourable as well. Economic growth has been strong and built on a broad basis, employment has improved, the current account has shown surplus and the economic confidence index has been high.

Economic growth is expected to continue in the near future too although the Finnish economic growth rate is anticipated to slow down. The largest risks in the near future are associated with greater uncertainty in financial markets and with the political environment. A longer-term risk is that economic growth will remain modest if Finland is not able to restructure its economy to a sufficient extent when the population is ageing and digitisation is proceeding.

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

OP Financial Group's earnings before tax for 2018 are expected to be at about the same level as in 2017 (lower in the previous estimate). This outlook change has been motivated by a significant non-recurring item from the transfer of OP Financial Group's personnel's statutory earnings-related pension insurance portfolio and the final amount to be recognised in the income statement will be affected by the market conditions prevailing during the second half of the year.

The most significant uncertainties in respect of the financial performance relate to changes in the interest rate and investment environment, market growth rate, changes in the competitive situation and impairment losses. IFRS 9 adopted at the beginning of 2018 is expected to increase short-term earnings volatility and decrease investment income soon after its adoption.

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

Consolidated income statement

EUR million	Note	Q2/ 2018	Q2/ 2017	Q1–2/ 2018	Q1–2/ 2017
Net interest income	3	289	274	571	534
Net insurance income	4	151	145	278	261
Net commissions and fees	5	212	209	444	434
Net investment income	6	127	123	206	247
Other operating income		9	32	21	62
Total income		**788**	**782**	**1,520**	**1,539**
Personnel costs		209	191	413	393
Depreciation/amortisation		65	53	131	95
Other expenses		225	192	412	363
Total expenses		**500**	**436**	**956**	**851**
Impairments of receivables	7	-3	-15	-7	-23
OP bonuses to owner-customers		-57	-55	-109	-106
Temporary exemption (overlay approach)		-41		-22	
Earnings before tax		**187**	**276**	**425**	**560**
Income tax expense		38	48	91	101
Profit for the period		**149**	**228**	**335**	**459**
Attributable to:					
Owners		148	228	331	457
Non-controlling interests		1	1	4	1
Profit for the period		**149**	**228**	**335**	**459**

Statement of comprehensive income

EUR million	Note	Q2/ 2018	Q2/ 2017	Q1–2/ 2018	Q1–2/ 2017
Profit for the period		**149**	**228**	**335**	**459**
Items that will not be reclassified to profit or loss					
Gains(/losses) arising from remeasurement of defined benefit plans		23	46	38	62
Items that may be reclassified to profit or loss					
Change in fair value reserve					
Measurement at fair value		-28	5	-80	-2
Cash flow hedge		18	-14	13	-24
Temporary exemption (overlay approach)		41		22	
Translation differences		0	0	0	0
Income tax on other comprehensive income					
Items that will not be reclassified to profit or loss					
Gains(/losses) arising from remeasurement of defined benefit plans		-5	-9	-8	-12
Items that may be reclassified to profit or loss					
Measurement at fair value		6	-1	16	0
Cash flow hedge		-4	3	-3	5
Temporary exemption (overlay approach)		-8		-4	
Total comprehensive income for the period		**192**	**258**	**329**	**487**
Attributable to:					
Owners		191	251	325	467
Non-controlling interests		1	7	4	20
Total comprehensive income for the period		**192**	**258**	**329**	**487**

Balance sheet

EUR million	Note	30 June 2018	31 December 2017
Cash and cash equivalents		15,679	12,937
Receivables from credit institutions		337	504
Derivative contracts	10	3,628	3,412
Receivables from customers	12	84,440	82,193
Investment assets		22,666	23,324
Assets covering unit-linked contracts		10,259	10,126
Intangible assets		1,561	1,555
Property, plant and equipment (PPE)		779	798
Other assets		2,300	2,131
Tax assets		233	224
Total assets		**141,883**	**137,205**
Liabilities to credit institutions		4,222	5,157
Derivative contracts		3,082	3,026
Liabilities to customers		67,480	65,549
Insurance liabilities	13	9,937	9,950
Liabilities from unit-linked insurance and investment contracts	13	10,298	10,158
Debt securities issued to the public	14	30,247	26,841
Provisions and other liabilities		3,066	3,150
Tax liabilities		905	890
Subordinated liabilities		1,353	1,400
Total liabilities		**130,591**	**126,122**
Equity			
Share of OP Financial Group's owners			
Cooperative capital			
Cooperative shares		193	191
Profit shares		2,910	2,906
Fair value reserve	15	113	176
Other reserves		2,171	2,173
Retained earnings		5,775	5,536
Non-controlling interests		129	101
Total equity		**11,291**	**11,084**
Total liabilities and equity		**141,883**	**137,205**

Statement of changes in equity

EUR million	Attributable to owners						
	Cooperative capital	Fair value reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2017	**2,901**	**318**	**2,108**	**4,808**	**10,135**	**102**	**10,237**
Total comprehensive income for the period		-40		507	467	20	487
Profit for the period				457	457	1	459
Other comprehensive income		-40		49	9	19	28
Profit distribution				-85	-85		-85
Change in cooperative shares, supplementary and profit shares	62				62		62
Transfer of reserves			50	-50			
Other				0	0	0	0
Balance at 30 June 2017	**2,962**	**278**	**2,158**	**5,194**	**10,593**	**122**	**10,715**

EUR million	Attributable to owners						
	Cooperative capital	Fair value reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 31 Dec. 2017	**3,097**	**176**	**2,173**	**5,536**	**10,982**	**101**	**11,084**
Effect of IFRS 9 transition at 1 Jan. 2018		-28		-30	-58		-58
Equity 1 Jan. 2018	**3,097**	**148**	**2,173**	**5,506**	**10,924**	**101**	**11,025**
Total comprehensive income for the period		-36		361	325	4	329
Profit for the period				331	331	4	335
Other comprehensive income		-36		30	-6		-6
Profit distribution				-98	-98		-98
Change in cooperative shares, supplementary and profit shares	6				6		6
Transfer of reserves			-1	1			
Other				5	5	24	29
Balance at 30 June 2018	**3,103**	**113**	**2,171**	**5,775**	**11,162**	**129**	**11,291**

Cash flow statement

EUR million	Q1–2/ 2018	Q1–2/ 2017
Cash flow from operating activities		
Profit for the period	335	477
Adjustments to profit for the period	213	1,227
Increase (-) or decrease (+) in operating assets	**-1,918**	**42**
Receivables from credit institutions	19	16
Derivative contracts	-41	-11
Receivables from customers	-2,264	-1,631
Assets covering unit-linked contracts	-127	-301
Investment assets	608	1,690
Other assets	-114	279
Increase (+) or decrease (-) in operating liabilities	**873**	**123**
Liabilities to credit institutions	-957	237
Derivative contracts	-5	-1
Liabilities to customers	1,931	1,328
Insurance liabilities	27	14
Liabilities from unit-linked insurance and investments contracts	48	-916
Provisions and other liabilities	-171	-540
Income tax paid	-67	-99
Dividends received	49	73
A. Net cash from operating activities	**-516**	**1,843**
Cash flow from investing activities		
Acquisition of subsidiaries, net of cash acquired	0	
Purchase of PPE and intangible assets	-123	-149
Proceeds from sale of PPE and intangible assets	9	3
B. Net cash used in investing activities	**-113**	**-146**
Cash flow from financing activities		
Increases in subordinated liabilities		0
Decreases in subordinated liabilities		0
Increases in debt securities issued to the public	14,659	15,294
Decreases in debt securities issued to the public	-11,344	-15,562
Increases in cooperative and share capital	333	496
Decreases in cooperative and share capital	-327	-440
Dividends paid and interest on cooperative capital	-98	-85
C. Net cash used in financing activities	**3,223**	**-298**
Net increase/decrease in cash and cash equivalents (A+B+C)	**2,594**	**1,400**
Cash and cash equivalents at period-start	**13,245**	**9,571**
Cash and cash equivalents at period-end	**15,839**	**10,971**
Interest received	**947**	**1,010**
Interest paid	**-427**	**-515**
Cash and cash equivalents		
Liquid assets	15,680	10,770
Receivables from credit institutions payable on demand	159	200
Total	**15,839**	**10,971**

Segment information

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

	Banking	Non-life Insurance	Wealth Management	Other Operations	Eliminations	Group total
Q1–2 earnings 2018, EUR million						
Net interest income	608	-8	1	-23	-8	571
of which internal net income before tax	-3	-6	1	9		
Net insurance income		273	15		-10	278
Net commissions and fees	281	-8	167	1	1	444
Net investment income	58	21	63	55	9	206
Other operating income	13	4	3	325	-323	21
Total income	**960**	**282**	**249**	**360**	**-331**	**1,520**
Personnel costs	182	67	41	123	0	413
Depreciation/amortisation and impairment losses	19	29	15	68	0	131
Other operating expenses	326	122	67	235	-337	412
Total expenses	**527**	**217**	**123**	**426**	**-337**	**956**
Impairments of receivables	-6	0	0	0	0	-7
OP bonuses to owner-customers	-93	-1	-15		0	-109
Temporary exemption (overlay approach)		0	-17	0	-6	-22
Earnings before tax	**333**	**64**	**94**	**-66**	**0**	**425**

	Banking	Non-life Insurance	Wealth Management	Other Operations	Eliminations	Group total
Q1–2 earnings 2017, EUR million						
Net interest income	591	-8	1	-45	-4	534
of which internal net income before tax	-9	-7	1	15		
Net insurance income		248	13		0	261
Net commissions and fees	296	-6	172	-28	0	434
Net investment income	15	67	32	132	2	247
Other operating income	14	1	5	331	-289	62
Total income	**915**	**302**	**223**	**391**	**-291**	**1,539**
Personnel costs	188	60	39	106	0	393
Depreciation/amortisation and impairment losses	21	23	12	40	0	95
Other operating expenses	278	111	65	200	-291	363
Total expenses	**486**	**194**	**116**	**345**	**-291**	**851**
Impairments of receivables	-23	0		0	0	-23
OP bonuses to owner-customers	-91	-1	-14		0	-106
Earnings before tax	**314**	**107**	**93**	**45**	**0**	**560**

Balance sheet 30 June 2018, EUR million	Banking	Non-life Insurance	Wealth Management	Other Operations	Eliminations	Group total
Cash and cash equivalents	92	362	499	15,546	-820	15,679
Receivables from credit institutions	10,262	3	49	8,418	-18,396	337
Derivative contracts	605	14	92	3,272	-355	3,628
Receivables from customers	85,234	0	-1	-22	-771	84,440
Investment assets	-42	3,485	6,863	17,717	-5,357	22,666
Assets covering unit-linked contracts			10,259			10,259
Intangible assets	59	665	359	483	-3	1,561
Property, plant and equipment (PPE)	386	43	25	337	-11	779
Other assets	337	873	249	1,022	-181	2,300
Tax assets	106	29	33	54	11	233
Total assets	**97,038**	**5,474**	**18,427**	**46,826**	**-25,882**	**141,883**
Liabilities to credit institutions	8,379			14,441	-18,598	4,222
Derivative contracts	297	8	27	3,105	-354	3,082
Liabilities to customers	62,576		4	6,495	-1,594	67,480
Insurance liabilities		3,392	6,545		0	9,937
Liabilities from unit-linked insurance and investments contracts			10,298			10,298
Debt securities issued to the public	12,409			18,027	-189	30,247
Provisions and other liabilities	1,478	404	154	1,203	-173	3,066
Tax liabilities	386	75	66	379	0	905
Subordinated liabilities	41	135	245	1,376	-445	1,353
Total liabilities	**85,566**	**4,013**	**17,339**	**45,026**	**-21,353**	**130,591**
Equity						**11,291**

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

Notes

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

Note 1 Accounting policies

The Interim Report has been prepared in accordance with IAS 34 (Interim Financial Reporting) and with the accounting policies presented in the consolidated financial statements 2017.

The Interim Report is based on unaudited figures. Given that all figures in the Interim Report have been rounded off, the total sum of individual figures may deviate from the presented sums.

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

Adoption of IFRS 9 on 1 January 2018

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

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

Change in accounting policies for amortisation of fees

Following the systems development that took place in connection with the adoption of IFRS 9, OP Financial Group adopted the amortisation of fees over the life of the loan paid for office and arrangement fees at the time of drawdown of private customer loans, applying the effective interest method. Since the fully retrospective application is not technically possible, only the fees for 2017 has been restated from the income statement. The change decreased net commissions and fees for Q1–2/2017 by EUR 27 million and increased net interest income by EUR 4 million. As a result, earnings before tax reported a year ago decreased by EUR 19 million. On the balance sheet of 31 December 2017, receivables from customers decreased by EUR 47 million, tax assets increased by EUR 10 million and equity decreased by EUR 37 million. These fees will be amortised for future years for the average life of private customer loans.

Adoption of IFRS 15 on 1 January 2018

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

The adoption of IFRS 15 did not have any effect on OP Financial Group’s earnings before tax. OP Financial Group started to apply IFRS 15 using the retrospective transition method, i.e. the Q1–2/2017 data has been adjusted. Below is a description of the retrospective changes made to the specification of net commissions and fees:

- Commission income from health and wellbeing services, EUR 7 million, has been transferred from other operating income to commission income.
- Commission expenses from health and wellbeing services, EUR 3 million, have been transferred from other operating expenses to commission expenses.
- Asset management commission income and commission income from legal services, EUR 37 million, will be presented separately in the future.
- Brokerage expenses of securities, EUR 6 million, have been separately divided among mutual fund charges and brokerage expenses of securities.
- Net commissions and fees have been presented as divided into segments.

Changes in presentation

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

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

Note 2 Key figures and ratios and their formulas

	Q1–2/ 2018	Q1–2/ 2017
Return on equity (ROE), %	6.0	8.8
Return on equity (ROE) at fair value, %	5.4	9.4
Return on assets (ROA), %	0.48	0.69
Cost/income ratio, %	63	55
Ratio of non-performing receivables to loan and guarantee portfolio, %	1.2	1.3
Average personnel	12,334	12,170

ALTERNATIVE PERFORMANCE MEASURES

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

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

Return on equity (ROE), %

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

Return on equity (ROE) at fair value, %

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

Return on assets (ROA), %

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

Cost/income ratio, %

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

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

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

Non-life Insurance indicators

Loss ratio (excl. unwinding of discount), %

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

Expense ratio, %

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

Risk ratio (excl. unwinding of discount), %

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

Combined ratio (excl. unwinding of discount), %

Loss ratio + expense ratio
Risk ratio + cost ratio

Cost ratio, %

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

Operating loss ratio, %

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

Operating expense ratio, %

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

Operating combined ratio, %

Operating loss ratio + Operating expense ratio
Operating risk ratio + Operating cost ratio

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

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

Operating cost ratio, %

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

INDICATORS BASED ON CAPITAL ADEQUACY MEASUREMENT

Capital adequacy ratio, %

$$\frac{\text{Total capital}}{\text{Total risk exposure amount}} \times 100$$

Tier 1 ratio, %

$$\frac{\text{Total Tier 1 capital}}{\text{Total risk exposure amount}} \times 100$$

CET1 ratio, %

$$\frac{\text{CET1 capital}}{\text{Total risk exposure amount}} \times 100$$

Solvency ratio, %

$$\frac{\text{Capital base}}{\text{Capital requirement (SCR)}} \times 100$$

Leverage ratio, %

$$\frac{\text{Tier 1 capital (T1)}}{\text{Exposure amount}} \times 100$$

Liquidity coverage requirement (LCR), %

$$\frac{\text{Liquid assets}}{\text{Liquidity outflows - liquidity inflows under stressed conditions}} \times 100$$

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

$$\frac{\text{Conglomerate's total capital}}{\text{Conglomerate's total minimum capital requirement}} \times 100$$

Return on economic capital, %

$$\frac{\text{Earnings + customer bonuses after tax (value rolling 12 month)}}{\text{Average economic capital}} \times 100$$

NON-LIFE INSURANCE OPERATING RESULTS	Q1–2/ 2018	Q1–2/ 2017	Change %	Q1–4/ 2017
EUR million				
Insurance premium revenue	733	709	3.4	1,431
Claims incurred	-521	-513	1.4	-1,085
Operating expenses	-153	-142	7.2	-291
Amortisation adjustment of intangible assets	-11	-11	0.0	-21
Balance on technical account	**49**	**43**	**14.9**	**34**
Net investment income	21	67	-68.7	183
Other income and expenses	-6	-2		-7
Temporary exemption (overlay approach)	0			
Earnings before tax	**64**	**107**	**-40.1**	**210**

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

Note 3 Net interest income

EUR million	Q2/ 2018	Q2/ 2017	Q1–2/ 2018	Q1–2/ 2017
Interest income				
Receivables from credit institutions	7	7	14	13
Receivables from customers				
Loans	291	295	576	586
Finance lease receivables	6	4	12	8
Impaired loans and other commitments	0	1	0	1
Notes and bonds				
Held for trading	2	2	4	4
Measured at fair value through profit or loss	0		1	
At fair value through other comprehensive income	22		45	
Amortised cost	0		0	
Available for sale		26		53
Held to maturity		0		1
Loans and receivables		0		1
Derivative contracts				
Held for trading	186	184	364	371
Fair value hedge	-24	-29	-50	-59
Cash flow hedge	11	9	21	18
Ineffective portion of cash flow hedge	1	-1	-1	-1
Other	2	5	4	6
Total	**504**	**504**	**990**	**1,003**
Interest expenses				
Liabilities to credit institutions	16	15	32	28
Liabilities to customers	14	19	29	38
Debt securities issued to the public	69	75	129	150
Subordinated liabilities				
Subordinated loans	1	1	1	1
Other	11	11	22	22
Derivative contracts				
Held for trading	155	154	303	321
Fair value hedge	-31	-32	-61	-66
Other	-22	-15	-40	-32
Other	2	3	4	6
Total	**215**	**230**	**420**	**469**
Loan modification gains and losses on loans	**0**		**0**	
Net interest income before fair value adjustment under hedge accounting	**289**	**273**	**570**	**534**
Hedging derivatives	26	-69	-3	-80
Value changes of hedged items	-26	70	4	80
Total net interest income	**289**	**274**	**571**	**534**

Note 4 Net insurance income

EUR million	Q2/ 2018	Q2/ 2017	Q1–2/ 2018	Q1–2/ 2017
Net insurance premium revenue				
Premiums written	318	306	932	921
Insurance premiums ceded to reinsurers	8	5	0	-5
Change in provision for unearned premiums	46	45	-223	-221
Reinsurers' share	3	3	14	14
Total	**374**	**360**	**723**	**710**
Net Non-life Insurance claims				
Claims paid	-231	-214	-466	-447
Insurance claims recovered from reinsurers	7	2	15	4
Change in provision for unpaid claims	-11	-9	-5	-23
Reinsurers' share	6	-1	-2	8
Total	**-230**	**-221**	**-458**	**-459**
Other Non-life Insurance items	-1	-1	-2	-2
Life Insurance risk premiums collected	8	8	15	13
Total net insurance income	**151**	**145**	**278**	**261**

Note 5 Net commissions and fees

Q1–2 2018, EUR million	Banking	Non-life Insurance	Wealth Management	Other Operations	Eliminations	Group total	Q1–2 2018
Commission income							
Lending	72	0		2	1	75	37
Deposits	2		0	0	0	1	1
Payment transfers	93			28	-7	114	59
Securities brokerage	0		11	0	-2	9	4
Securities issuance	3		0	3	0	6	4
Mutual funds	0		72		1	73	37
Asset management	6		28	1	-7	26	13
Legal services	11			0	0	11	6
Guarantees	10			0		10	5
Housing service	36					36	19
Insurance brokerage	31	7	10	0	-11	37	7
Life insurance total expense loadings			46			46	22
Refund of unit-linked management fees			39			39	21
Health and wellbeing services		9			-1	8	4
Other	38		2	-17	-6	17	10
Total	**302**	**15**	**208**	**16**	**-33**	**509**	**247**
Commission expenses							
Payment transfers	13	1	0	3	-11	7	4
Securities brokerage	0		7		-3	4	2
Securities issuance	0		0	0	1	1	1
Mutual funds			5		1	5	3
Asset management	1		7	1	-3	6	3
Insurance operations	-5	19	19		-11	23	11
Health and wellbeing services		3				3	2
Other	12	0	2	10	-9	15	10
Total	**21**	**23**	**41**	**15**	**-35**	**65**	**35**
Total net commissions and fees	**281**	**-8**	**167**	**1**	**1**	**444**	**212**

Q1–2 2017, EUR million	Banking	Non-life Insurance	Wealth Management	Other Operations	Eliminations	Group total	Q1–2 2017
Commission income							
Lending	73			2	0	75	37
Deposits	3			0	0	2	1
Payment transfers	102			47	-17	132	67
Securities brokerage	0		13		-3	10	5
Securities issuance	3		1	2		6	4
Mutual funds	0		72		1	73	37
Asset management	6		29	0	-9	25	12
Legal services	12			0		12	6
Guarantees	10			0	0	10	5
Housing service	36					36	19
Insurance brokerage	32	10	11		-13	39	10
Life insurance total expense loadings			48			48	24
Refund of unit-linked management fees			33			33	16
Health and wellbeing services		8			-1	7	3
Other	56		3	-40	-7	12	6
Total	**330**	**18**	**210**	**11**	**-49**	**519**	**252**
Commission expenses							
Payment transfers	25	1	0	25	-22	29	15
Securities brokerage			4		-4	1	1
Securities issuance	0		0	0	1	1	1
Mutual funds			5		0	5	2
Asset management	1	0	9	0	-3	7	3
Insurance operations	-2	20	17		-13	22	12
Health and wellbeing services		3				3	2
Other	9	0	2	14	-9	17	9
Total	**34**	**24**	**38**	**39**	**-49**	**85**	**44**
Total net commissions and fees	**296**	**-6**	**172**	**-28**	**0**	**434**	**209**

Note 6 Net investment income

EUR million	Q2/ 2018	Q2/ 2017	Q1–2/ 2018	Q1–2/ 2017
Net income from assets at fair value through other comprehensive income (Net income from available-for-sale financial assets)				
Notes and bonds	42	8	69	41
Equity instruments	0	2	0	39
Dividend income and share of profits	4	28	6	67
Other	4		9	
Impairment losses and their reversals	-1	-8	-3	-15
Total	**49**	**30**	**81**	**133**
Net income recognised at fair value through profit or loss				
Financial assets held for trading				
Notes and bonds	0		-1	
Equity instruments	3		10	
Dividend income and share of profits	0		2	
Derivatives	26		62	
Financial assets that shall be measured at fair value through profit or loss				
Notes and bonds	4		8	
Equity instruments	34		27	
Dividend income and share of profits	18		29	
Financial assets designated as at fair value through profit or loss				
Notes and bonds	11		4	
Equity instruments	12		-3	
Dividend income and share of profits	-1		4	
Derivatives	-4		-3	
Insurance				
Notes and bonds		-6		-20
Equity instruments		2		7
Derivatives		13		-11
Banking and Other operations				
Securities trading		54		98
Foreign exchange trading		13		24
Investment property	10	5	8	11
Other		1		2
Total	**114**	**82**	**146**	**110**

Net income carried at amortised cost				
Loans and other receivables	2	3	4	6
Impairment losses and their reversals	4	0	3	0
Total	**6**	**3**	**7**	**6**
Life Insurance				
Interest credited on customers' insurance savings	-22	-22	-44	-45
Change in supplementary interest rate provisions	-1	59	11	69
Other technical items	-22	-30	3	-21
Total	**-45**	**6**	**-29**	**2**
Non-life Insurance				
Unwinding of discount	-7	-8	-14	-17
Total	**-7**	**-8**	**-14**	**-17**
Associates				
Accounted for using the fair value method	4		9	
Consolidated using the equity method	5	10	5	12
Total	**9**	**10**	**14**	**12**
Total net investment income	**127**	**123**	**206**	**247**

Note 7 Impairment loss on receivables

Receivables from customers and off-balance-sheet items, EUR million	Stage 1	Stage 2	Stage 3	Total
Expected credit losses (ECL)	12-month ECL	Lifetime ECL	Lifetime ECL	
ECL 1 Jan. 2018	**31**	**80**	**432**	**543**
Transfers from Stage 1 to Stage 2	-3	20		17
Transfers from Stage 1 to Stage 3	-1		5	4
Transfers from Stage 2 to Stage 1	1	-5		-4
Transfers from Stage 2 to Stage 3		0	13	13
Transfers from Stage 3 to Stage 2		4	-8	-3
Transfers from Stage 3 to Stage 1	0		0	0
Increases due to origination and acquisition	5	2	3	10
Decreases due to derecognition	-7	-3	-16	-26
Changes in risk parameters (net)	0	6	-4	1
Decrease in allowance account due to write-offs		0	-33	-33
Net change in ECL	**-5**	**25**	**-40**	**-21**
ECL 30 June 2018	**26**	**105**	**391**	**522**
Net change in ECL Q2/2018	**-2**	**6**	**-9**	**-5**

Notes and bonds, EUR million	Stage 1	Stage 2	Stage 3	Total
Expected credit losses (ECL)	12-month ECL	Lifetime ECL	Lifetime ECL	
ECL 1 Jan. 2018	**5**	**0**	**0**	**5**
Transfers from Stage 1 to Stage 2	0	0		0
Transfers from Stage 2 to Stage 1	0	0		0
Transfers from Stage 3 to Stage 1	0		0	0
Increases due to origination and acquisition	1	0	2	4
Decreases due to derecognition	-1	0		-2
Changes in risk parameters (net)	0		0	0
Changes due to update in the methodology for estimation (net)	0	0	0	0
Net change in ECL	**0**	**1**	**3**	**3**
ECL 30 June 2018	**4**	**1**	**3**	**8**
Net change in ECL Q2/2018	**0**	**1**	**1**	**2**

EUR million	Q1–2/ 2018	Q1–2/ 2017	Q2/ 2018	Q2/ 2017
Receivables written off as loan or guarantee losses	-33	-39	-10	-30
Recoveries of receivables written off	5	5	3	3
ECL on receivables from customers and off-balance-sheet items	21		5	
ECL on notes and bonds*	0		0	
Increase in impairment losses on individually assessed receivables		-32		-19
Decrease in impairment losses on individually assessed receivables		45		33
Collectively assessed impairment losses		-2		-2
Total impairment loss on receivables	**-7**	**-23**	**-3**	**-15**

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

IFRS 9 ECL scope and stage 30 June 2018

On-balance-sheet exposure, EUR million	Stage 1	Stage 2			Stage 3	Total exposure
Receivables from customers (gross)		Not more than 30 DPD	More than 30 DPD	Total		
Non-banking corporates	27 426	3 562	1 191	4 753	794	32 972
Households	45 593	4 668	572	5 239	443	51 275
Public-sector entities	1 350	1	89	90		1 440
Other	2 981	9	14	23	4	3 008
Total	**77 350**	**8 239**	**1 866**	**10 105**	**1 241**	**88 696**
Off-balance-sheet limits						
Non-banking corporates	3 951	610	498	1 108	19	5 077
Households	3 054	50	18	68	4	3 125
Public-sector entities	695		60	60		755
Other	1 268	10	59	69	1	1 338
Total	**8 967**	**670**	**635**	**1 305**	**24**	**10 295**
Other off-balance-sheet commitments						
Non-banking corporates	6 210	282		282	62	6 554
Households	1 908	2		2		1 910
Public-sector entities	481					481
Other	339	27		27	0	366
Total	**8 938**	**311**		**311**	**63**	**9 311**
Notes and bonds						
Total	**16 326**	**62**		**62**	**9**	**16 397**
Total IFRS 9 ECL scope exposures	**111 580**	**9 281**	**2 501**	**11 783**	**1 336**	**124 699**

IFRS 9 ECL provision by stage 30 June 2018

On-balance-sheet exposures and related off-balance-sheet limits*, EUR million	Stage 1	Stage2			Stage 3	Total ECL
Receivables from customers		**Not more than 30 DPD**	**More than 30 DPD**	**Total**		
Non-banking corporates	-19	-51	-3	-54	-308	-382
Households	-3	-44	-4	-48	-83	-134
Public-sector entities	-2	0	0	0		-2
Other	0	0		0		0
Total	**-24**	**-96**	**-7**	**-103**	**-391**	**-518**
Other off-balance-sheet commitments**						
Non-banking corporates	-1	-2		-2		-4
Households	0	0		0		0
Public-sector entities	0					0
Other						
Total	**-2**	**-2**		**-2**	**0**	**-4**
Notes and bonds***	-4	-1		-1	-3	-8
Total ECL	**-30**	**-99**	**-7**	**-106**	**-394**	**-531**

* ECL is recognised as one component to deduct the balance sheet item.

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

*** ECL is recognised in the fair value reserve in OCI.

Note 8 Classification of financial assets and liabilities

			Fair value through profit or loss				
Assets, EUR million	**Amortised cost**	**Fair value through other comprehen-sive income**	**Trading**	**Fair value option**	**Fair value due to SPPI test**	**Hedging derivatives**	**Total**
Cash and cash equivalents	15,679						15,679
Receivables from credit institutions	337						337
Derivative contracts			3,150			478	3,628
Receivables from customers	84,440						84,440
Assets covering unit-linked contracts				10,259			10,259
Notes and bonds	4	16,335	644	2,389	452		19,825
Equity instruments		0	97	270	1,166		1,534
Other financial assets	2,359						2,359
Financial assets	**102,820**	**16,335**	**3,891**	**12,919**	**1,619**	**478**	**138,061**
Other than financial instruments							3,821
Total 30 June 2018	**102,820**	**16,335**	**3,891**	**12,919**	**1,619**	**478**	**141,883**

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

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

Liabilities, EUR million	Financial liabilities at fair value through profit or loss	Other liabilities	Hedging derivatives	Total
Liabilities to credit institutions		4,222		4,222
Derivative contracts	2,660		422	3,082
Liabilities to customers		67,480		67,480
Insurance liabilities		9,937		9,937
Liabilities from unit-linked insurance and investment contracts	10,298			10,298
Debt securities issued to the public		30,247		30,247
Subordinated liabilities		1,353		1,353
Other financial liabilities		2,328		2,328
Financial liabilities	**12,958**	**115,568**	**422**	**128,948**
Other than financial liabilities				1,643
Total 30 June 2018	**12,958**	**115,568**	**422**	**130,591**

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

Bonds included in debt securities issued to the public are carried at amortised cost. On 30 June 2018, the fair value of these debt instruments was EUR 328 million (385) higher than their carrying amount, based on information available in markets, and employing commonly used valuation techniques. Subordinated liabilities are carried at amortised cost. Their fair values are higher than their amortised costs, but determining reliable fair values involves uncertainty.

Note 9 Recurring fair value measurements by valuation technique

Fair value of assets on 30 June 2018, EUR million	Level 1	Level 2	Level 3	Total
Recognised at fair value through profit or loss				
Equity instruments	735	194	605	1,534
Debt instruments	2,362	694	430	3,486
Unit-linked contracts	6,768	3,491		10,259
Derivative financial instruments	5	3,566	57	3,628
Fair value through other comprehensive income				
Equity instruments		0		0
Debt instruments	13,900	2,126	309	16,335
Total	**23,769**	**10,071**	**1,401**	**35,241**

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

Fair value of liabilities on 30 June 2018, EUR million	Level 1	Level 2	Level 3	Total
Recognised at fair value through profit or loss				
Unit-linked contracts	6,794	3,504		10,298
Other		0		0
Derivative financial instruments	15	3,047	19	3,082
Total	**6,809**	**6,552**	**19**	**13,380**

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

Level 1: Quoted prices in active markets

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

Level 2: Valuation techniques using observable inputs

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

Level 3: Valuation techniques using unobservable inputs

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

Transfers between levels of the fair value hierarchy

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

Reconciliation of Level 3 items that involve uncertainty

Specification of financial assets and liabilities

Financial assets, EUR million	Financial assets at fair value through profit or loss	Derivative contracts	Fair value through other compre-hensive income	Total assets
Balance sheet 31 December 2017	454	131	931	1,516
Effects of IFRS 9 transition 1 Jan. 2018	601		-593	8
Opening balance 1 January 2018	1,055	131	338	1,525
Total gains/losses in profit or loss	-386	-74	0	-460
Total gains/losses in other comprehensive income			0	0
Purchases	105		1	106
Sales	-113			-113
Settlements	-20		-12	-32
Transfers into Level 3	397		80	478
Transfers out of Level 3	-4		-97	-101
Closing balance 30 June 2018	**1,035**	**57**	**310**	**1,402**

Financial liabilities, EUR million	Derivative contracts	Total liabilities
Opening balance 1 January 2018	92	92
Total gains/losses in profit or loss	-73	-73
Closing balance 30 June 2018	**19**	**19**

Total gains/losses included in profit or loss by item on 30 June 2018

EUR million	Net interest income	Net investment income	Statement of comprehen-sive income/ Change in fair value reserve	Net gains/losses on assets and liabilities held on 30 June
Realised net gains	-396	10		-386
Unrealised net gains	-2		0	-2
Total net gains	**-398**	**10**	**0**	**-388**

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

Changes in the levels of hierarchy

No major changes occurred in valuation techniques in 2018.

Note 10 Derivative contracts

30 June 2018, EUR million	Nominal values / residual term to maturity <1 year	1–5 years	>5 years	Total	Fair values* Assets	Liabilities
Interest rate derivatives	26,084	94,263	68,740	189,087	2,047	1,431
Cleared by the central counterparty	10,339	39,237	36,906	86,481	13	18
Currency derivatives	37,382	6,850	2,793	47,026	1,192	1,320
Equity and index derivatives		3		3	0	
Credit derivatives	20	186	2	207	5	5
Other derivatives	373	330	10	713	68	46
Total derivatives	**63,858**	**101,632**	**71,545**	**237,036**	**3,312**	**2,803**

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

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

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

Financial assets

30 June 2018, EUR million	Gross amount of financial assets	Gross amount of financial liabilities deducted from financial assets*	Net amount presented in the balance sheet**	Financial assets not set off in the balance sheet		Net amount
				Derivative contracts***	Collateral received	
Derivatives	4,578	-950	3,628	-1,991	-647	990

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

Financial liabilities

30 June 2018, EUR million	Gross amount of financial liabilities	Gross amount of financial assets deducted from financial liabilities*	Net amount presented in the balance sheet**	Financial liabilities not set off in the balance sheet		Net amount
				Derivative contracts***	Collateral given	
Derivatives	4,148	-1,066	3,082	-1,991	-711	379

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

* Incl. daily cleared derivatives on a net basis included in cash and cash equivalents, totalling -126 (-161) million euros.
** Fair values excluding accrued interest.
*** It is the practice to enter into master agreements for derivative transactions with all derivative counterparties.

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

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

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

30 June 2018, EUR million	Not impaired (gross)	Expected credit losses (ECL)	Balance sheet value
Receivables from credit institutions and customers			
Receivables from credit institutions	339	2	337
Receivables from customers	82,977	513	82,464
of which bank guarantee receivables	11	0	11
Finance leases	1,980	4	1,976
Total	**85,295**	**518**	**84,777**
Receivables from credit institutions and customers by sector			
Non-banking corporate sector	31,269	387	30,881
Financial institutions and insurance companies	951	3	947
Households	50,847	123	50,724
Non-profit organisations	815	2	813
Public sector entities	1,414	2	1,412
Total	**85,295**	**518**	**84,777**

31 December 2017, EUR million	Not impaired (gross)	Impaired (gross)	Total	Individual assessment of impairment	Collective assessment of impairment	Balance sheet value
Receivables from credit institutions and customers						
Receivables from credit institutions	506		506		2	504
Receivables from customers	80,247	627	80,875	421	70	80,383
of which bank guarantee receivables	2	8	11	8	1	2
Finance leases	1,856		1,856			1,856
Total	**82,609**	**627**	**83,236**	**421**	**71**	**82,744**
Receivables from credit institutions and customers by sector						
Non-banking corporate sector	29,253	423	29,677	317	38	29,321
Financial institutions and insurance companies	1,387	0	1,387	0	2	1,385
Households	49,931	201	50,132	102	30	50,000
Non-profit organisations	788	3	791	2	1	789
Public sector entities	1,250		1,250		0	1,250
Total	**82,609**	**627**	**83,236**	**421**	**71**	**82,744**

Doubtful and forborne receivables 30 June 2018, EUR million	Performing receivables from credit institutions and customers (gross)	Non-performing receivables from credit institutions and customers (gross)	Receivables from credit institutions and customers, total (gross)	Expected credit losses (ECL)	Receivables from credit institutions and custo-mers (net)
More than 90 days past due		592	592	214	378
Unlikely to be paid		470	470	119	351
Forborne receivables	2,022	338	2,360	42	2,318
Total	**2,022**	**1,400**	**3,422**	**374**	**3,048**

Doubtful and forborne receivables 31 December 2017, EUR million	Performing receivables from credit institutions and customers (gross)	Non-performing receivables from credit institutions and customers (gross)	Receivables from credit institutions and customers, total (gross)	Individually assessed impairment	Receivables from credit institutions and custo-mers (net)
More than 90 days past due		611	611	217	394
Unlikely to be paid		513	513	147	366
Forborne receivables	1,876	341	2,217	58	2,160
Total	**1,876**	**1,465**	**3,341**	**421**	**2,920**

Key ratio, %	30 June 2018	31 Dec. 2017
Exposures individually assessed for impairment/ECL, % of doubtful receivables	10.9 %	12.6 %

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

Note 13 Insurance liabilities

EUR million	30 June 2018	31 Dec. 2017
Provision for unpaid claims		
Provision for unpaid claims for annuities	1,519	1,516
Other provision for unpaid claims	1,068	1,054
Reserve for decreased discount rate (value of hedges of insurance liability)	-4	-12
Total	2,583	2,557
Provisions for unearned premiums	809	585
Liabilities from unit-linked insurance and investment contracts		
Liabilities from unit-linked insurance	8,840	8,747
Investment contracts	1,459	1,411
Total	10,298	10,158
Life insurance insurance liabilities	6,545	6,807
Total	**20,235**	**20,108**

Note 14 Debt securities issued to the public

EUR million	30 June 2018	31 Dec. 2017
Bonds	9,433	8,974
Covered bonds	11,768	10,750
Certificates of deposit, commercial papers and ECPs	9,046	7,117
Total	**30,247**	**26,841**

Note 15 Fair value reserve after income tax

EUR million	Fair value through other comprehensive income: Notes and bonds	Equity instruments	Temporary exemption (overlay approach)	Cash flow hedging	Total
Balance sheet 31 Dec. 2017	**135**	**25**		**16**	**176**
Effects of IFRS 9 transition 1 Jan. 2018	-2	-25			**-28**
Opening balance 1 January 2018	**133**	**0**		**16**	**148**
Fair value changes	-49	0	20	33	**5**
Capital gains transferred to income statement	-31		-5		**-36**
Impairment loss transferred to income statement			7		**7**
Transfers to net interest income				-21	**-21**
Deferred tax	16	0	-4	-3	**9**
Closing balance 30 June 2018	**69**		**18**	**26**	**113**

EUR million	Available-for-sale financial assets: Notes and bonds	Equity instruments	Cash flow hedging	Total
Opening balance 1 January 2017	**105**	**172**	**41**	**318**
Fair value changes	15	7	-6	**16**
Capital gains transferred to income statement	-14	-42		**-57**
Impairment loss transferred to income statement	0	8		**8**
Transfers to net interest income			-18	**-18**
Deferred tax	0	5	5	**10**
Closing balance 30 June 2017	**106**	**150**	**22**	**278**

The fair value reserve before tax amounted to EUR 141 million (220) and the related deferred tax liability amounted to EUR 28 million (44). On 30 June 2018, positive mark-to-market valuations of equity instruments in the fair value reserve totalled EUR 53 million (146) and negative mark-to-market valuations EUR 34 million (38).

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

Note 16 Collateral given

EUR million	30 June 2018	31 Dec. 2017
Collateral given on behalf of own liabilities and commitments		
Pledges	172	110
Loans (as collateral for covered bonds)	13,410	13,266
Other	5,826	5,663
Total collateral given*	**19,408**	**19,039**
Secured derivative liabilities	878	889
Other secured liabilities	4,134	4,146
Covered bonds	11,768	10,750
Total	**16,780**	**15,784**

* In addition, bonds with a book value of EUR 5.5 billion have been pledged in the central bank, of which EUR 1.5 billion in intraday settlement collateral. Given that the bonds are available for withdrawal without the central bank's advance permission, they are not presented in the table above.

Note 17 Off-balance-sheet items

EUR million	30 June 2018	31 Dec. 2017
Guarantees	668	643
Other guarantee liabilities	1,988	1,936
Loan commitments	13,428	12,176
Commitments related to short-term trade transactions	335	372
Other*	1,058	1,121
Total off-balance-sheet items	**17,477**	**16,247**

* Of which Non-life Insurance commitments to private equity funds amount to EUR 228 million (208).

Note 18 Capital adequacy for credit institutions

Capital base, EUR million	30 June 2018	31 Dec. 2017
OP Financial Group's equity capital	11,291	11,121
The effect of insurance companies on the Group's shareholders' equity is excluded	-30	92
Fair value reserve, cash flow hedging	-26	-16
Common Equity Tier 1 (CET1) before deductions	**11,236**	**11,197**
Intangible assets	-738	-717
Excess funding of pension liability and valuation adjustments	-44	-31
Repayable cooperative capital		-148
Planned profit distribution	-47	-90
Shortfall of impairments – expected losses	-297	-320
Common Equity Tier 1 (CET1)	**10,110**	**9,891**
Subordinated loans to which transitional provision applies	80	81
Additional Tier 1 capital (AT1)	**80**	**81**
Tier 1 capital (T1)	**10,190**	**9,973**
Debenture loans	1,055	1,121
Tier 2 Capital (T2)	**1,055**	**1,121**
Total capital base	**11,245**	**11,093**

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

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

Risk exposure amount, EUR million	30 June 2018	31 Dec. 2017
Credit and counterparty risk	**40,565**	**39,383**
Standardised Approach (SA)	**4,024**	**3,859**
Central government and central banks exposure	20	18
Credit institution exposure	8	8
Corporate exposure	2,511	2,423
Retail exposure	1,081	1,057
Other*	404	353
Internal Ratings-based Approach (IRB)	**36,541**	**35,525**
Credit institution exposure	989	1,054
Corporate exposure	22,653	21,438
Retail exposure	4,888	4,959
Equity investments**	6,863	7,002
Other	1,148	1,072
Market and settlement risk (Standardised Approach)	**1,298**	**1,179**
Operational risk (Standardised Approach)	**4,136**	**3,958**
Valuation adjustment (CVA)	**197**	**205**
Total risk exposure amount	**46,196**	**44,725**
Risk weight floors based on ECB's decision	**4,808**	**4,492**
Total risk exposure amount including risk weight floors	**51,003**	**49,216**

* EUR 358 million (283) of Other exposures represent deferred tax assets that are treated with a risk weight of 250% instead of a deduction from common equity tier 1 capital.

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

Ratios, %	30 June 2018	31 Dec. 2017
CET1 capital ratio	19.8	20.1
Tier 1 ratio	20.0	20.3
Capital adequacy ratio	22.0	22.5

Ratios, fully loaded, %	30 June 2018	31 Dec. 2017
CET1 capital ratio	19.8	20.1
Tier 1 ratio	19.8	20.1
Capital adequacy ratio	21.9	22.4

Ratios excluding the risk weight floors, %	30 June 2018	31 Dec. 2017
CET1 capital ratio	21.9	22.1
Tier 1 ratio	22.1	22.3
Capital adequacy ratio	24.3	24.8

The effect of risk weight floors on the CET 1 ratio was -2.1 percentage points.

Capital requirement, EUR million	30 June 2018	31 Dec. 2017
Capital base	11,245	11,093
Capital requirement	7,280	7,027
Buffer for capital requirements	3,965	4,067

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

Leverage ratio, EUR million	30 June 2018	31 Dec. 2017
Tier 1 capital (T1)	10,190	9,973
Total exposure	132,538	127,027
Leverage ratio, %	7.7	7.9

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

Overview of RWAs (EU-OV1), EUR million		RWAs		Minimum capital requirements
		30 June 2018	31 March 2018	30 June 2018
1	**Credit risk (excluding CCR)**	**39,634**	**38,563**	**3,171**
2	Of which the standardised approach	4,752	4,544	380
3	Of which the foundation IRB (FIRB) approach	23,132	22,394	1,851
4	Of which the advanced IRB (AIRB) approach	4,887	4,786	391
5	Of which equity IRB under the simple risk-weighted approach	409	386	33
5a	Of which equity investments under PD/LGD method	6,455	6,452	516
6	**CCR**	**729**	**695**	**58**
7	Of which mark to market	533	485	43
12	Of which CVA	197	210	16
13	**Settlement risk**	**0**	**0**	**0**
14	**Securitisation exposures in the banking book (after the cap)**	**40**	**37**	**3**
15	Of which IRB approach	40	37	3
19	**Market risk**	**1,298**	**1,427**	**104**
20	Of which the standardised approach	1,298	1,427	104
23	**Operational risk**	**4,136**	**4,136**	**331**
25	Of which standardised approach	4,136	4,136	331
27	**Amounts below the thresholds for deduction (subject to 250% risk weight)**	**358**	**346**	**29**
29	**Total**	**46,196**	**45,205**	**3,696**
30	**Risk weight floors based on ECB's decision**	**4,808**	**4,768**	**385**
31	**Total risk exposure amount including risk weight floors**	**51,003**	**49,973**	**4,080**

During the quarter, total risk exposure increased by 2.1%.

Risk weight floors based on the ECB's decision apply to corporate exposures of retail exposures other than SME corporate exposures. In these, floors set for the average risk weight are 15.4% for mortgage-backed securities and 32.7% for other than mortgage-backed securities. The ECB's risk-weight floor will be effective until at least Q3/2018.

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

	a	b
	RWA amounts	Capital requirements
1 RWAs as at the end of the previous reporting period 31 March 2018	**27,180**	**2,174**
2 Asset size	538	43
3 Asset quality	295	24
5 Methodology and policy	6	0
9 RWAs as at the end of the reporting period 30 June 2018	**28,019**	**2,242**

Changes occurred in retail exposures, corporate exposures and credit institution exposures during the quarter are presented using the flow statements. Exposure amount increased risk-weighted assets and the credit quality weakened slightly in corporate exposures, which increased risk-weighted assets. The Group further specified the handling of retail exposure guarantees.

Note 19 Exposures by rating category

Retail exposures by rating category (AIRB)

All retail exposures 30 June 2018

Rating category	Balance sheet items, exposure value, (EAD) EUR million	Off-balance-sheet items, exposure value (EAD), EUR million	Average CF, %	Average PD, %	Average LGD, %	RWA, EUR million	Average risk weight, %	Expected losses, EUR million
Personal customers, total	**48,855**	**2,027**	**51.8**	**0.8**	**17.4**	**4,127**	**7.6**	**150**
A	30,582	1,557	52.5	0.0	16.4	577	1.8	2
B	10,499	384	49.9	0.1	16.6	537	4.9	2
C	3,840	65	48.9	0.5	22.9	692	17.7	4
D	2,150	18	46.5	2.3	21.2	796	36.7	11
E	1,430	2	40.3	20.1	21.4	1,218	85.0	60
F	354			100.0	22.9	308	87.0	70
Corporate customers, total	**1,479**	**145**	**63.1**	**3.4**	**38.7**	**760**	**42.9**	**43**
2.5–5.5	476	45	63.7	0.4	23.8	63	12.1	0
6.0–7.0	569	56	63.6	1.3	42.6	257	41.1	4
7.5–8.5	291	32	59.5	5.1	48.9	231	71.3	8
9.0–10.0	103	11	70.1	23.9	48.7	129	113.1	13
11.0–12.0	40			100.0	60.3	81	203.9	18
Total	**50,334**	**2,171**	**52.4**	**0.8**	**18.0**	**4,888**	**8.6**	**193**

All retail exposures 31 December 2017

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

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

Corporate exposures (FIRB) by rating category

30 June 2018

Rating category	Balance sheet items, exposure value, (EAD) EUR million	Off-balance-sheet items, exposure value (EAD), EUR million	Average CF, %	Average PD, %	Average LGD, %	RWA, EUR million	Average risk weight, %	Expected losses, EUR million
1.0–2.0	649	360	84.9	0.0	44.7	149	14.8	0
2.5–5.5	15,293	3,757	71.9	0.2	44.4	7,557	39.7	19
6.0–7.0	7,018	1,430	70.0	1.3	44.3	7,381	87.4	50
7.5–8.5	4,208	753	69.0	4.4	44.3	5,975	120.4	96
9.0–10.0	718	120	63.8	20.9	44.3	1,591	189.8	78
11.0–12.0	681	23	53.0	100.0	45.1			317
Total	**28,566**	**6,443**	**71.5**	**1.6**	**44.4**	**22,653**	**66.0**	**560**

31 December 2017

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

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

Note 20 Insurance company solvency

EUR million	30 June 2018		31 December 2017	
	Life Insurance	Non-life Insurance	Life Insurance	Non-life Insurance
Eligible capital	**1,354**	**968**	**1,317**	**902**
Solvency capital requirement (SCR)				
Market risk	807	459	759	460
Insurance risk	365	296	394	289
Counterparty risk	30	40	27	40
Operational risk	35	46	36	45
Diversification benefits and loss absorbency	-603	-176	-541	-169
Total	635	664	674	666
Buffer for SCR	**719**	**304**	**643**	**236**
Solvency ratio (SCR), %	**213**	**146**	**195**	**135**
Solvency ratio (SCR), % (excluding transitional provision)	**168**	**146**	**151**	**135**

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

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

EUR million	30 June 2018	31 December 2017
OP Financial Group's equity capital	**11,291**	**11,121**
Hybrid instruments and debenture bonds	1,135	1,202
Other sector-specific items excluded from capital base	-172	-236
Goodwill and intangible assets	-1,538	-1,525
Insurance business valuation differences*	822	824
Proposed profit distribution	-47	-90
Items under IFRS deducted from capital base**	-13	3
Shortfall of impairments – expected losses	-271	-294
Conglomerate's capital base, total	**11,207**	**11,005**
Regulatory capital requirement for credit institutions***	6,361	6,107
Regulatory capital requirement for insurance operations*	1,299	1,340
Conglomerate's total minimum capital requirement	**7,660**	**7,447**
Conglomerate's capital adequacy	**3,547**	**3,558**
Conglomerate's capital adequacy ratio (capital base/minimum of capital base) ,%	**146**	**148**

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

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

*** Total risk exposure amount x 14.3 %.

Transitional provisions and the risk weight floors have been taken into account in figures. The risk weight floors decreased the ratio by approximately 14 percentage points.

Note 22 Related-party transactions

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

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

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

Financial reporting in 2018

Schedule for Interim Reports in 2018:

Interim Report Q1–3/2018	31 October 2018

Helsinki, 1 August 2018

OP Cooperative
Executive Board

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