OP Corporate Bank plc's Interim Report
1 January – 30 June 2018

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OP Corporate Bank plc's Interim Report for 1 January–30 June 2018

- Consolidated earnings before tax were EUR 244 million (280). The return on equity was 9.7% (11.6). Return on assets was 0.60% (0.75).
- Banking earnings before tax increased to EUR 183 million (167). The loan portfolio increased in the year to June by 9.3% to EUR 21 billion. The cost/income ratio was 35.1% (30.8).
- Non-life Insurance earnings before tax decreased to EUR 60 million (98). The operating combined ratio was 91.9% (92.5). Net return on investments at fair value totalled EUR 14 million (78).
- Other Operations earnings before tax were EUR 1 million (16). Liquidity and access to funding remained good.
- The CET1 ratio was 15.6% (16.0), while the target is 15%.
- Katja Keitaanniemi, Lic.Sc. (Tech.), was appointed OP Corporate Bank's new President and CEO. She will take up her new duties on 6 August 2018.
- Unchanged outlook: OP Corporate Bank Group's consolidated earnings before tax are expected to be about the same as in 2017.

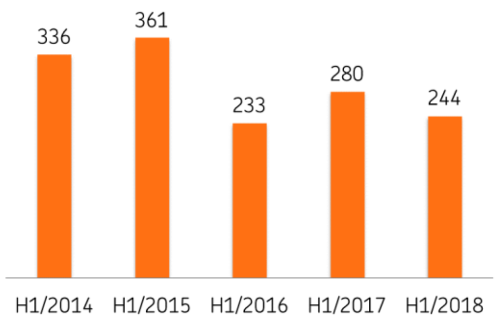
Earnings before tax, € million	Q1–2/2018	Q1–2/2017	Change, %	Q1–4/2017
Banking	183	167	9.6	344
Non-life Insurance	60	98	-39.0	193
Other Operations	1	16	-92.0	-2
Group total	244	280	-13.1	535
Return on equity (ROE), %	9.7	11.6	-1.9*	10.6
Return on assets (ROA), %	0.60	0.75	-0.1*	0.67

Comparatives deriving from the income statement are based on figures reported for the corresponding period a year ago. Unless otherwise specified, balance sheet and other cross-sectional figures on 31 December 2017 are used as comparatives. On 1 January 2018, OP Corporate Bank 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

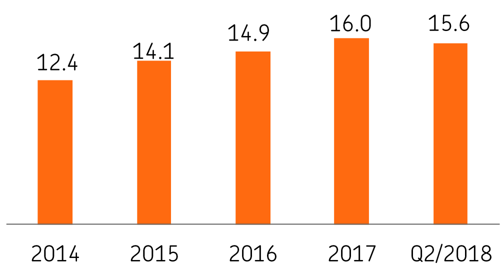
Financial targets	30 June 2018	31 Dec. 2017	Target
Customer experience, NPS (-100–+100)	70	69	70, over time 90
CET1 ratio, %	15.6	16.0	15
Return on economic capital, %	16.2	17.8	22
Expenses of present-day business*, € million	566	534	Expenses in 2020 lower than in 2015 (475)
Dividend payout ratio, %		49.7	50

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

Earnings before Tax, € million



Common Equity Tier1 ratio (CET1), %



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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.

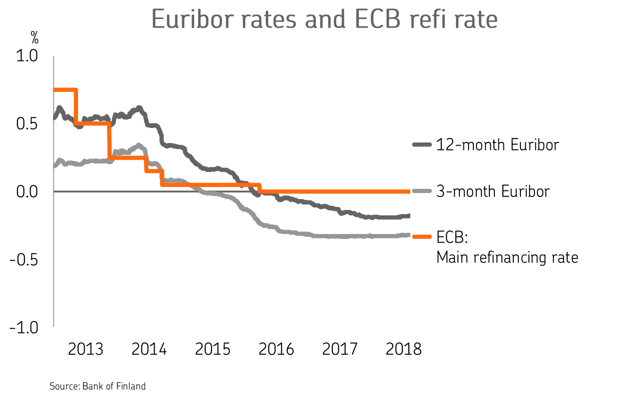
The Finnish economy should show favourable growth in the near term but the growth rate is expected to slow down gradually. The greatest risks are associated with uncertainty caused by the international political situation.

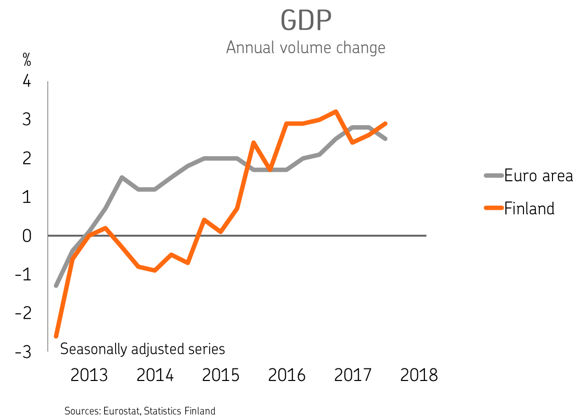
Growth in total household loans remained moderate in the second quarter. The growth rate of total home loans remained at about 2%. The average borrowing rate of the new home loans drawn down decreased during the reporting period to its lowest level ever measured. Strong growth in the total housing company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

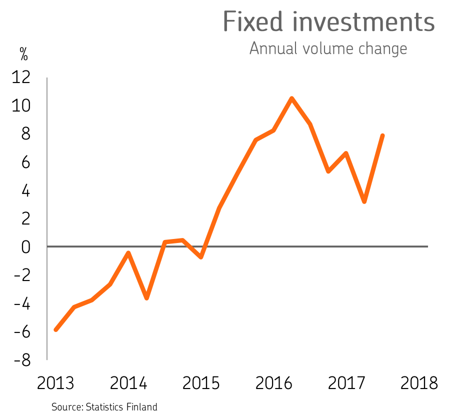
The annual growth rate of total deposits slowed down in the second quarter. Growth in household deposits remained moderate. An increase in corporate deposits showed signs of slowing down. Change in total deposits by public sector entities has varied drastically during the first half.

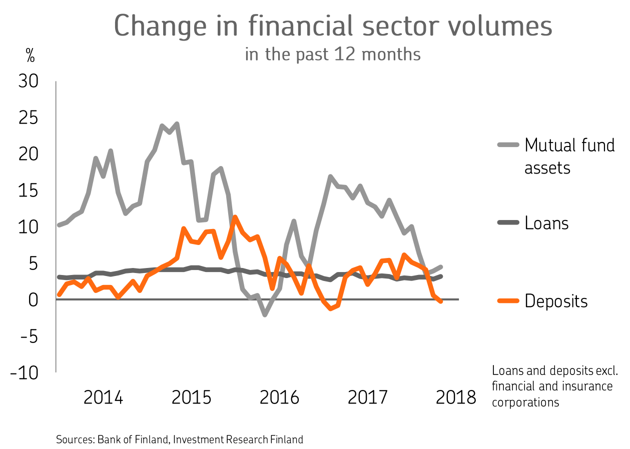
In the second quarter, the value of mutual funds registered in Finland increased by 0.8% to EUR 115.3 billion. This increase was due to favourable market developments, as net asset inflows fell by EUR 517 million.

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.









Consolidated earnings

€ million	Q1–2/ 2018	Q1–2/ 2017*	Change, %	Q2/ 2018	Q2/ 2017*	Change, %	Q1–4/ 2017*
Net interest income	127	120	5.6	66	65	1.1	259
Net insurance income	273	248	10.0	144	137	4.9	459
Net commissions and fees	-6	0		-2	0		-17
Net investment income	145	186	-22.4	67	83	-18.7	390
Other operating income	16	10	60.9	4	4	-0.6	26
Total income	555	565	-1.8	279	289	-3.5	1,117
Personnel costs	96	84	14.1	50	41	23.5	164
Depreciation/amortisation and impairment loss	36	29	24.3	21	15	38.2	64
Other operating expenses	180	160	12.7	96	79	21.0	339
Total expenses	311	272	14.3	167	135	23.7	568
Impairment loss on receivables	5	-11		-5	-7	-30.4	-12
OP bonuses to owner-customers	-1	-1	1.5	0	0	0.6	-2
Temporary exemption (overlay approach)	-4			-13			
Total earnings before tax	244	280	-13.1	94	147	-36.0	535

Following the adoption of IFRS 15, comparatives for 2017 have been changed as described in Note 1 Accounting policies.

January–June

Consolidated earnings before tax were EUR 244 million (280). Total income was down by 1.8%, while total expenses rose by 14.3% year on year. Income was increased by net interest income and net insurance income and decreased by net investment income. Expenses for the reporting period were increased, in particular, by ICT costs and charges of financial authorities. Recovery of impairment losses improved earnings for the reporting period.

Net interest income rose to EUR 127 million (120). Derivatives operations increased net interest income in the Other Operations segment but decreased net interest income in Banking. The loan portfolio grew in the year to June by 9.3%. Net insurance income rose to EUR 273 million (248) as insurance premium revenue increased and claims incurred decreased from the previous year when reduction of the discount rate increased claims incurred by EUR 26 million. Insurance premium revenue was improved by higher insurance premium revenue from corporate customers, but the intensified price competition affected the generation of revenue from private customers which remained at the level reported a year ago.

Net commissions and fees were EUR –6 million (0). Commission income fell by 1.5%, due to lower income from payment service fees and security brokerage than a year ago. Commission expenses rose by 5.6%. The fees OP Corporate Bank Group pays to member cooperative banks for non-life insurance and derivatives sales increase commission expenses and turn net commissions and fees negative. Fees paid for derivative products to member banks grew year on year. Excluding fees paid to member banks, commission expenses decreased year on year due to lower expenses of the payment transfer services and security brokerage.

Net investment income totalled EUR 145 million (186). A temporary exemption overlay approach is applied to some equity instruments of Non-life Insurance, which decreased earnings for the reporting period by EUR 4 million. In net terms, investment income fell by EUR 46 million. Return on investments by Non-life Insurance at fair value was 0.5% (1.5).

Net income from financial assets recognised at fair value through profit or loss totalled EUR 111 million (127) and net income from financial assets recognised at fair value through other comprehensive income totalled EUR 44 million (73). Net investment income included EUR 70 million (125) from derivatives operations. Capital gains and changes in the fair value of investments recognised through profit or loss totalled EUR 61 million (35). Dividend income and share of profits amounted to EUR 19 million (35).

Other operating income increased to EUR 16 million (10). Income was increased by service fees received from OP Financial Group's other credit institutions, as well as income from guarantees.

Total expenses increased by 14.3% to EUR 311 million (272). Personnel costs were up by EUR 12 million over the previous year, due to higher headcount particularly in Non-life Insurance. Depreciation/amortisation was increased mainly by a 7-million euro increase in depreciation/amortisation and impairment losses related to ICT investments. Other operating expenses were increased by a 10-million euro rise in ICT costs and EUR 10 million in charges of financial authorities. ICT investments and related specifications made up a significant portion of development expenditure. Development mostly concerned the present-day business. In January–June, development expenditure totalled EUR 51 million (48). It includes licence fees, purchased services, other external costs related to projects and in-house work. The capitalised development expenditure totalled EUR 18 million (24).

Net impairment losses on receivables improved earnings by EUR 5 million due to recovery of expected credit losses. A year ago, impairment losses reduced earnings by EUR 11 million. Realised and expected credit losses on loans improved earnings by EUR 3 million in net terms and, on those of on-balance-sheet items recognised at fair value through other comprehensive income and off-balance sheet commitments, by EUR 2 million.

April–June

Earnings before tax decreased to EUR 94 million (147). Total income decreased by 3.5% and total expenses rose by 23.7%. Income was reduced by lower (year on year) net income from financial assets recognised at fair value through profit or loss included in net investment income, while expenses were increased by charges of financial authorities paid during the second quarter, as well as higher personnel costs.

Net interest income rose year on year by EUR 1 million to EUR 66 million (65). Net insurance income rose by EUR 7 million to EUR 144 million (137). Net commissions and fees totalled EUR –2 million (0). Commission income was slightly lower than the year before. Commission expenses were increased by fees paid to member banks which were EUR 6 million higher than a year ago. Net investment income decreased year on year, to EUR 67 million (83), due to net income from derivatives operations.

Total expenses increased by EUR 32 million year on year, to EUR 167 million (135). Personnel costs rose year on year by EUR 10 million, primarily due to higher headcount in Non-life Insurance. Depreciation/amortisation and impairment loss increased expenses over the previous year by EUR 6 million, ICT costs by EUR 8 million and charges of financial authorities by EUR 9 million.

H1 highlights

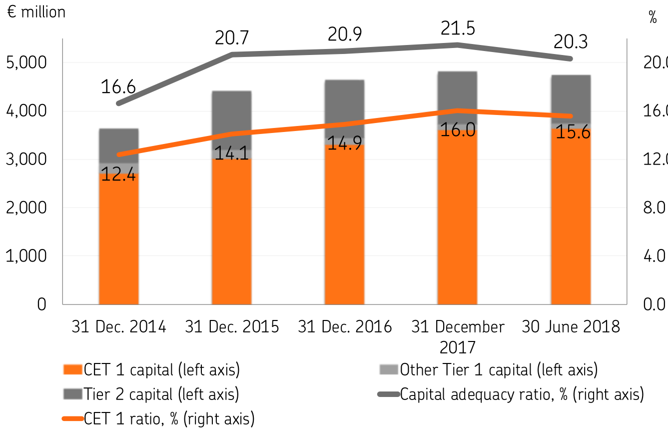
Transfer of the personnel's statutory earnings-related pension insurance portfolio to Ilmarinen Mutual Pension Insurance Company

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. The insurance portfolio concerned accounts for some 90 per cent 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. The transfer is anticipated to have no material effect on OP Corporate Bank's earnings or CET1 ratio.

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. The remaining portion mainly consists of OP Insurance's pension liabilities transferred from Ilmarinen Mutual Pension Insurance Company to OP Bank Group Pension Fund on 31 December 2015.

Group's capital adequacy

Capital base and capital adequacy



Capital adequacy for credit institutions

The Group's CET1 ratio was 15.6% (16.0) on 30 June 2018. The Group's CET1 target is 15%.

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

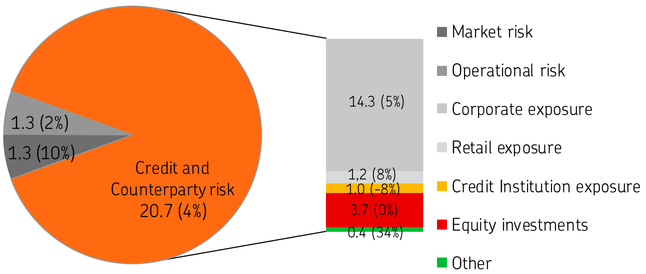
The CET1 capital totalled EUR 3.6 billion (3.6) on 30 June 2018, slightly up due to earnings by the Banking segment.

On 30 June 2018, the risk exposure amount (REA) totalled EUR 23.3 billion (22.3), or 4.1% higher than on 31 December 2017. The average credit risk weights rose slightly. 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 3.7 billion in risk-weighted assets of OP Corporate Bank Group's internal insurance holdings with a risk weight of around 280%.

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

The Financial Supervisory Authority makes a macroprudential policy decision on a quarterly basis. In June 2018, the Financial Supervisory Authority reiterated its decision not to impose a countercyclical capital buffer requirement on banks. The Authority set a 2% systemic risk buffer on OP Financial Group as of 1 July 2019.

Risk Exposure Amount 30 June 2018
Total 23.3 € billion
(change from year end 4%)



ECB supervision

OP Financial Group is supervised by the European Central Bank (ECB). The ECB has set a capital requirement for OP Financial Group based on the supervisory review and evaluation process (SREP). The capital buffer requirement (P2R) set by the ECB is 1.75%. When taking account of the P2R, the minimum for OP Financial Group's CET1 ratio is 10.8% and for its capital adequacy ratio 14.3%. In addition, the ECB has set on OP Financial Group a capital adequacy guidance (P2G) of 1.0%. Failure to meet this guidance would not affect e.g. profit distribution. The P2G included, the CET1 requirement for OP Financial Group is 11.8%. OP Financial Group's capital adequacy clearly exceeds the set minimum. The discretionary capital buffer requirement set by the ECB does not apply to OP Corporate Bank.

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

Liabilities under the Resolution Act

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

Solvency of non-life insurance companies

The solvency position was slightly better than on 31 December 2017.

€ million	30 June 2018	31 Dec. 2017
Capital base, € million*	968	902
Solvency capital requirement (SCR), € million*	664	666
Solvency ratio, %*	146	135
Solvency ratio, % (excluding transitional provision)	146	135

*including transitional provisions.

Credit ratings

OP Corporate Bank plc's credit ratings on 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 Insurance Ltd's financial strength ratings on 30 June 2018

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

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

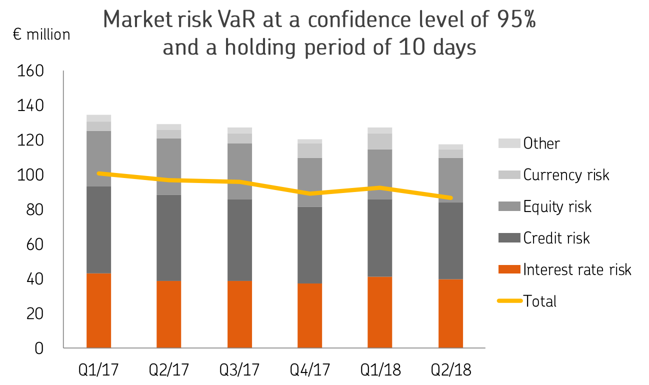
The ratings of OP Corporate Bank plc and OP Insurance Ltd did not change during the reporting period.

In July 2018, Standard & Poor's affirmed OP Corporate Bank plc's credit ratings for short-term and long-term debt, as well as OP Insurance Ltd's financial strength rating, and kept the outlook for both companies stable.

Group risk exposure

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

The Group's market risk exposure was stable during the reporting period. The Value-at-Risk (VaR) metric, a measure of market risks, was EUR 87 million (89) on 30 June 2018. VaR includes the non-life insurance company's total assets, trading operations, the liquidity buffer of Other Operations and the interest rate exposure of Group Treasury.



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 7 million (11). 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 new regulatory requirements that became effective in 2017 and 2018.

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

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

Doubtful receivables totalled EUR 197 million (195). 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. 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 33.6% (25.1) of doubtful receivables. Non-performing receivables remained low, accounting for 0.6% (0.7) of the loan and guarantee portfolio. In Banking, impairment gains totalled EUR 5 million as a result of recovery of impairments.

Breakdown of Banking exposures

	30 June 2018	31 Dec. 2017
Total Banking exposure*, EUR billion	32.7	31.6
in the highest borrower grades (IG)**. %	65.8	68.4
in other borrower grades (excluding default). %	33.7	33.0
classified as default. %	0.5	0.6
classified as default. EUR million	164.0	187.0
Corporate and housing company exposures, EUR billion	28.2	27.8
of total Banking exposure. %	86.3	87.9
in the highest borrower grades (IG). %	63.7	65.4
in other borrower grades (excluding default). %	35.7	34.0
classified as default. %	0.6	0.7
classified as default. EUR million	164.0	187.0
Private customer exposures, EUR billion	1.8	1.7
Financial and insurance institutions' exposures, EUR billion	1.2	1.2
Public sector entities' exposures, EUR billion	1.4	1.0

* including derivatives brokerage

** excluding Private Customers

No single customer's exposure exceeded 10% of the capital base after allowances and other recognition of credit risk mitigation. OP Corporate Bank's capital base covering customer exposure amounted to EUR 4.7 billion (4.8).

The most significant sectors in corporate and housing company exposures	30 June 2018	31 Dec. 2017
Energy, %	13.4	14.1
Trade, %	10.7	10.7
Services, %	10.6	9.4
Other sectors, %	65.4	64.5
Total	100	100

Exposures by the Baltic operations grew to EUR 3.0 billion (2.5), accounting for 9.1% (7.8) of total exposures of the Banking segment.

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.

Other Operations

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

The market risk in proportion to the market value of notes and bonds in the liquidity buffer (VaR with 95% confidence) remained stable during the 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 maintained by OP Corporate Bank and consisting mainly of deposits with central banks and receivables eligible as collateral for central bank refinancing. The liquidity buffer is sufficient to cover the need for short-term funding for known and predictable payment flows and in a liquidity stress scenario.

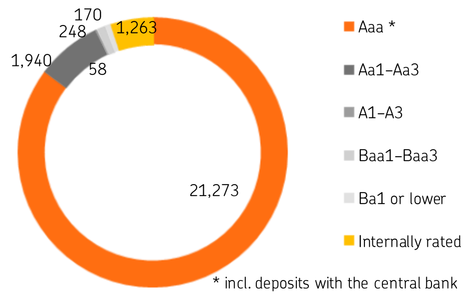
OP Financial Group monitors its liquidity and the adequacy of its liquidity buffer using, for example, the LCR (Liquidity Coverage Ratio). According to regulation, the LCR must be at least 100% from the beginning of 2018. On 30 June 2018, OP Financial Group's LCR was 148%.

Liquidity buffer

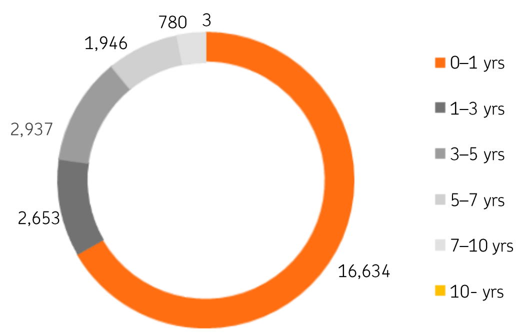
€ billion	30 June 2018	31 Dec. 2017	Change, %
Deposits with central banks	15.6	12.8	21.5
Notes and bonds eligible as collateral	7.7	9.1	-14.8
Total	23.3	21.9	6.4
Receivables ineligible as collateral	1.7	1.5	13.6
Liquidity buffer at market value	25.0	23.3	6.9
Collateral haircut	-0.7	-0.7	0.1
Liquidity 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. The notes and bonds included in the liquidity buffer are based on mark-to-market valuations.

Financial assets included in the liquidity buffer by credit rating on 30 June 2018, € million



Financial assets included in the liquidity buffer by maturity on 30 June 2018, € million



For OP Corporate Bank plc acting as OP Financial Group's central financial institution, OP cooperative banks and OP Cooperative with its subsidiaries form a significant customer group. Of the aggregated exposures of Other Operations and Banking, exposures of OP Financial Group (excluding OP Corporate Bank Group) represented 14.2%. These exposures decreased during the reporting period by EUR 893 billion or 8.1%. All exposures of OP Financial Group member cooperative banks and OP Cooperative are investment-grade exposures.

Breakdown of Other Operations exposures

	30 June 2018	31 Dec. 2017
Total Other Operations exposures, EUR billion	39.1	37.6
Financial and insurance institutions' exposures, EUR billion	17.1	18.1
Public-sector entities' exposures, EUR billion	20.4	18.1
Corporate and housing company exposures, EUR billion	1.6	1.4
in the highest borrower grades (IG). %	98.7	98.6
in other borrower grades. %	1.3	1.4
Private customer exposures, EUR billion	0.0	0.0

Financial performance by segment

At its meeting on 6 June 2018, the Supervisory Board of OP Financial Group's central cooperative decided a new division of responsibilities of the Executive Board, which will change the segment structure as of the beginning of 2019. In its interim reports and financial statements, OP Financial Group will begin financial reporting based on its new segments as of the first interim report of 2019. OP Corporate Bank Group's segment structure will be updated accordingly. During the transition period, OP Corporate Bank Group's business segments are reported according to the previous segment structure, with Banking and Non-life Insurance as its business segments. The health and wellbeing business is included in the Non-life Insurance segment. Non-business segment operations are presented in the Other Operations segment, including functions supporting OP Financial Group and its business, such as Group Treasury and the liquidity buffer. Segment reporting is based on the accounting policies applied in OP Corporate Bank's consolidated financial statements.

Banking

- Earnings before tax increased by 9.6% to EUR 183 million (167).
- The loan portfolio increased in the year to June by 9.3% to EUR 21.0 billion.
- Due to recovery of impairments, impairment gains increased earnings by EUR 5 million (–11). Non-performing receivables accounted for 0.6% (0.7) of the loan and guarantee portfolio.
- The most significant Banking development investments involved the development of finance and payment systems.

Banking: key figures and ratios

€ million	Q1–2/2018	Q1–2/2017	Change, %	Q1–4/2017
Net interest income	164	170	-3.8	348
Net commissions and fees	33	68	-51.0	129
Net investment income	68	14		18
Other operating income	9	5	73.0	24
Total income	274	257	6.5	520
Personnel costs	32	27	16.4	54
Depreciation/amortisation and impairment loss	6	5	10.3	11
Other operating expenses	59	47	25.2	98
Total expenses	96	79	21.2	163
Impairment loss on receivables	5	-11		-12
Earnings before tax	183	167	9.6	344
Cost/income ratio, %	35.1	30.8		31.4
	30 June 2018	30 June 2017	Change. %	31 Dec. 2017
Loan portfolio, € billion	21.0	19.2	9.3	20.1
Guarantee portfolio, € billion	2.4	2.5	-2.6	2.4
Margin on corporate loan portfolio, %	1.24	1.38		1.25
Ratio of non-performing receivables to loan and guarantee portfolio, %*	0.6	0.7	-0.1**	0.7
Personnel	669	620		628

* 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.
** Change in ratio

The loan portfolio grew in the year to June by 9.3% to EUR 21.0 billion. The guarantee portfolio totalled EUR 2.4 billion (2.4) and committed standby credit facilities amounted to EUR 4.5 billion (4.5).

OP Corporate Bank acts as an intermediary bank in two SME financing programmes guaranteed by the European Investment Fund (EIF), which have enabled financing worth a total of EUR 300 million for SMEs. The EIF gives a 50% risk-sharing guarantee to the loans. The programmes are targeted at projects and investments of growing and innovative companies. The original financing programmes signed in 2016 and 2017 have been utilised, with over 400 corporate loans granted from them. In July 2018, OP signed an agreement for an increase in the guarantee programme which enables financing of a further EUR 150 million for SMEs in addition to the previous EUR 300 million. The financing programme signed in March 2016 is designed for companies with a staff of less than 500 and the programme signed in January 2017 for companies with a staff of less than 250.

Expectations of rising interest rates spurred the sales of interest rate protection products to Private and Corporate Customers.

Earnings

Earnings before tax increased by 9.6% to EUR 183 million (167). Total income rose by 6.5% and total expenses by 21.2%. As a result of the rise in expenses, the cost/income ratio weakened to 35.1% (30.8).

Derivatives operations decreased net interest income by 3.8% to EUR 164 million (170).

Net commissions and fees decreased by 51.0% to EUR 33 million (68). 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 rose by EUR 54 million year on year. Net investment income was increased by EUR 16 million in capital gains on equities. Derivatives operations increased net trading income included in the item. CVA valuation related to derivatives operations improved earnings by EUR 7 million (16).

Other operating income was increased by service fees received from OP Financial Group's other credit institutions, as well as income from guarantees which was EUR 4 million higher than a year ago.

In Banking, impairment gains totalled EUR 5 million as a result of recovery of impairments. Non-performing receivables accounted for 0.6% (0.7) of the loan and guarantee portfolio.

Total expenses were EUR 96 million (79). Personnel costs rose by EUR 4 million year on year to EUR 32 million. Other operating expenses increased by EUR 12 million year on year, due to stability contributions to the Financial Stability Board. ICT costs totalled EUR 27 million (27).

Non-life Insurance

- Earnings before tax decreased by 39% to EUR 60 million (98).
- 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 20 million (64). 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	22	64	-65.5	176
Other net income	-27	-32	-16.3	-68
Total income	269	280	-4.1	568
Personnel costs	60	52	14.3	102
Depreciation/amortisation and impairment loss	29	23	28.3	50
Other operating expenses	117	106	9.9	221
Total expenses	206	182	13.5	373
OP bonuses to owner-customers	-1	-1	1.5	-2
Temporary exemption	-2			
Earnings before tax	60	98	-39.0	193
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 (Solvency II), %*	146	162		135
Large claims incurred retained for own account	57	36		78
Changes in claims for previous years (run off result)	16	19		35
Personnel	2,151	1,774		1,774

* Including the effect of 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.

OP bonuses earned through the use of banking and insurance services were used towards 1,179,000 insurance bills (1,179,000), with 174,000 (158,000) of them paid in full using bonuses. Insurance premiums paid using bonuses totalled EUR 58 million (57).

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

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

The Estonia-based non-life insurance company Seesam Insurance AS and its branches will be sold to Vienna Insurance Group. The divestment should be completed during 2018, provided that it is approved by relevant authorities and that the related conditions are otherwise fulfilled.

Earnings

Earnings before tax amounted to EUR 60 million (98). Net insurance income increased by 10.2% to EUR 273 million. Net investment income, taking account of the temporary exemption, totalled EUR 20 million (64). Capital gains on investments totalled EUR 1 million (29).

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. A year ago, the lowered discount rate increased claims incurred by EUR 26 million, weakening 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 13.5%, being EUR 25 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 property	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 96% (95), and 62% (65) 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.

Health and wellbeing

Pohjola Health Ltd's fifth hospital was opened in Turku in May, marking the completion of the hospital network. Five Pohjola 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.

Other Operations

- Earnings before tax amounted to EUR 1 million (16).
- Earnings included EUR 18 million (12) in capital gains on notes and bonds, and EUR 4 million (7) in dividend income.
- Liquidity and access to funding remained good.

Other Operations: key figures and ratios

€ million	Q1–2/2018	Q1–2/2017	Change, %	Q1–4/2017
Net interest income	-26	-39	-33.7	-68
Net commissions and fees	-16	-43	-62.2	-94
Net investment income	54	107	-49.6	195
Other operating income	4	5	-17.1	8
Total income	16	31	-47.2	41
Personnel costs	4	4	3.9	8
Other expenses	11	11	2.6	36
Total expenses	15	15	0.8	43
Impairment loss on receivables	0	0		0
Earnings before tax	1	16	-92.0	-2
Receivables and liabilities from/to the amalgamation's central cooperative and member credit institutions, net position, € billion	-2.3	0.6		-0.1
Personnel	49	50	-1.7	50

Earnings

Earnings before tax amounted to EUR 1 million (16). Lower gains on positions subject to market risk weakened earnings from the year before. Earnings before tax at fair value were EUR –44 million. A year ago, earnings before tax at fair value totalled EUR 35 million.

Derivatives operations increased net interest income and decreased net trading income included in net investment income. According to the OP Corporate Bank Group's accounting policy, income from derivative instruments is split between net interest income and net trading income. How this income is broken down between the two income statement items may vary considerably depending on the derivative instruments used in position management at a given time. Net investment income totalled EUR 54 million (107), down by EUR 53 million year on year due to lower income from derivatives operations. In addition, net investment income was weakened by the transfer of the client income items of certain derivatives products directly in Banking's net investment income as of the beginning of the reporting period. Net investment income included EUR 18 million (12) in capital gains on notes and bonds and EUR 4 million (7) in dividend income. Dividend income in the reporting period included EUR 7 million in interest on cooperative capital from Suomen Luotto-osuuskunta.

Net commissions and fees totalled EUR –16 million (–43). Some derivatives sales commissions are recognised in Other Operations and then credited to Banking. Such credited commissions turn Other Operations' net commissions and fees negative. However, net commissions and fees increased year on year since certain client income items of derivatives operations were directly included in Banking's net investment income as of the beginning of the reporting period, which lowered commissions expenses paid by the Other Operations segment.

OP Corporate Bank's access to funding remained good. In January–June, OP Corporate Bank issued long-term senior bonds worth EUR 1.4 billion. In May, OP Corporate Bank issued two senior bonds in the international capital market, each worth EUR 500 million, with a maturity of three and seven years.

In June 2018, the average margin of senior wholesale funding and TLTRO-II funding was 17 basis points (19).

On 30 June 2018, investments by the amalgamation's central cooperative and the member credit institutions in OP Corporate Bank were EUR 2.3 billion higher than funding borrowed by them from Group Treasury. The change in the net position was mainly due to OP Mortgage Bank's covered bond funding which results in higher volumes of OP cooperative banks' investments in Group Treasury than before.

OP Corporate Bank plc, as OP Financial Group's treasury, has signed a commitment to follow new international ethical guidelines for currency and currency derivatives trading. The FX Global Code promotes a harmonised, liquid and functioning foreign exchange market where currency and currency derivatives trading is open, fair and transparent. The FX Global Code was developed by a partnership between central banks and market participants on the basis of plans laid out by the Basel Committee on Banking Supervision. Originally published in May 2017, the FX Global Code is intended to form a harmonised and integral part of the wholesale currency and currency derivatives market.

Group restructuring

The Estonia-based non-life insurance company Seesam Insurance AS and its branches will be sold to Vienna Insurance Group. The contract of sale was signed on 18 December 2017. The completion of the sale is conditional on obtaining the regulatory approval of the authorities.

Personnel and remuneration

Personnel increased from the 2017-end level particularly in Non-life Insurance. During the reporting period, the division of tasks between OP Financial Group's centralised services and OP Insurance was streamlined, which lead to higher headcount in OP Insurance. In health and wellbeing services, headcount continued to grow as Pohjola Health's Turku hospital opened its doors in May 2018. Personnel in Banking was increased following OP Financial Group's internal reorganisation. In 2017, personnel in Banking decreased due to the transfer of OP Corporate Bank's back office services in OP Financial Group's centralised services.

Personnel

	30 June 2018	31 Dec. 2017
Banking	669	628
Non-life Insurance	2,151	1,774
Other Operations	49	50
Total	2,869	2,452

Reijo Karhinen, OP Financial Group's President and Executive Chairman and Chair of the Board of Directors of OP Corporate Bank, retired on 31 January 2018, based on his executive contract. On 20 September 2017, the Supervisory Board of OP Financial Group's central cooperative appointed Timo Ritakallio, LL.M, MBA and D.Sc. (Tech.), OP Financial Group's new President and Group Executive Chair as of 1 March 2018. Following the appointment, Ritakallio also became Chair of the Board of Directors of OP Corporate Bank. Previously he was CEO of Ilmarinen Mutual Pension Insurance Company. From 1 to 28 February 2018, the Board of Directors was chaired by Tony Vepsäläinen, Executive Vice President, Operations, OP Financial Group.

Jouko Pölönen resigned from his position as President and CEO of OP Corporate Bank on 30 April 2018 to become President and CEO of Ilmarinen Mutual Pension Insurance Company. Hannu Jaatinen will be OP Corporate Bank's acting President and CEO until the new one takes up her duties. Katja Keitaanniemi, Lic.Sc. (Tech.), was appointed OP Corporate Bank's new President and CEO. She will move to OP Financial Group from Finnvera where she has acted as Executive Vice President, SMEs. Keitaanniemi will take up her duties on 6 August 2018 and will report to Timo Ritakallio, OP Financial Group's President and Group Executive Chair. Hannu Jaatinen was appointed deputy President and CEO as of 6 August 2018.

Jari Himanen, member of the Board of Directors since 2016, resigned from membership of the Board of Directors on 6 May 2018 in order to take up his duties as Managing Director of OP Suur-Savo.

Tiia Tuovinen, LL.M.Eur., heading OP Financial Group's Legal Services and Compliance, was appointed member of the Board of Directors as of 2 July 2018.

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

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

A long-term management remuneration scheme has been confirmed for 2017–2019. As a rule, the remuneration scheme for 2017–2019 follows the principles observed during the previous three-year performance period. OP Financial Group's personnel fund remuneration scheme also continues with one-year performance periods.

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 Corporate Bank Group's consolidated earnings before tax are expected to be about the same as in 2017. The most significant uncertainties affecting earnings relate to changes in the interest rate and investment environment, impairment loss on receivables, market growth rate, changes in the competitive situation and the effect of large claims on claims expenditure. 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 of the future development in the operating environment and the future financial performance of OP Corporate Bank Group and its various functions, and actual results may differ materially from those expressed in the forward-looking statements.

Consolidated income statement

EUR million	Note	Q2/ 2018	Q2/ 2017	Q1–2/ 2018	Q1–2/ 2017
Net interest income	3	66	65	127	120
Net insurance income	4	144	137	273	248
Net commissions and fees	5	-2	0	-6	0
Net investment income	6	67	83	145	186
Other operating income		4	4	16	10
Total income		**279**	**289**	**555**	**565**
Personnel costs		50	41	96	84
Depreciation/amortisation		21	15	36	29
Other expenses		96	79	180	160
Total expenses		**167**	**135**	**311**	**272**
Impairments of receivables	7	-5	-7	5	-11
OP bonuses to owner-customers		0	0	-1	-1
Temporary exemption (overlay approach)		-13		-4	
Earnings before tax		**94**	**147**	**244**	**280**
Income tax expense		17	23	47	48
Profit for the period		**77**	**123**	**196**	**232**
Attributable to:					
Owners of the parent		76	123	193	231
Non-controlling interests		1	1	4	1
Profit for the period		**77**	**123**	**196**	**232**
Statement of comprehensive income					
Profit for the period		**77**	**123**	**196**	**232**
Items that will not be reclassified to profit or loss					
Gains(/losses) arising from remeasurement of defined benefit plans		4	8	7	11
Items that may be reclassified to profit or loss					
Change in fair value reserve					
Measurement at fair value		-22	5	-59	5
Cash flow hedge		1	-1	-1	-1
Temporary exemption (overlay approach)		13		4	
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		-1	-2	-1	-2
Items that may be reclassified to profit or loss					
Measurement at fair value		4	-1	12	-1
Cash flow hedge		0	0	0	0
Temporary exemption (overlay approach)		-3		-1	
Total comprehensive income for the period		**74**	**133**	**157**	**244**
Attributable to:					
Owners of the parent		73	132	153	242
Non-controlling interests		1	1	4	2
Total comprehensive income for the period		**74**	**133**	**157**	**244**

Balance sheet

EUR million	Note	30 June 2018	31 December 2017
Cash and cash equivalents		15,578	12,825
Receivables from credit institutions		8,031	9,294
Derivative contracts	10	3,642	3,426
Receivables from customers	12	20,999	20,120
Investment assets		15,865	16,144
Intangible assets		762	777
Property, plant and equipment (PPE)		119	115
Other assets		1,923	1,708
Tax assets		61	35
Total assets		**66,980**	**64,445**
Liabilities to credit institutions		14,230	14,035
Derivative contracts		3,280	3,216
Liabilities to customers		18,603	18,837
Insurance liabilities	13	3,392	3,143
Debt securities issued to the public	14	19,144	16,791
Provisions and other liabilities		2,319	2,307
Tax liabilities		429	419
Subordinated liabilities		1,527	1,547
Total liabilities		**62,923**	**60,295**
Equity			
Capital and reserves attributable to owners of the parent			
Share capital		428	428
Fair value reserve	15	73	164
Other reserves		1,093	1,093
Retained earnings		2,393	2,404
Non-controlling interests		70	60
Total equity		**4,056**	**4,149**
Total liabilities and equity		**66,980**	**64,445**

Statement of changes in equity

	Attributable to owners						
EUR million	Share capital	Fair value reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2017	**428**	**197**	**1,093**	**2,179**	**3,896**	**109**	**4,005**
Total comprehensive income for the period		2		240	242	2	244
Profit for the period				231	231	1	232
Other comprehensive income		2		9	11	1	12
Profit distribution				-201	-201		-201
Other			0	0	0	-3	-3
Balance at 30 June 2017	**428**	**199**	**1,093**	**2,217**	**3,936**	**108**	**4,045**

	Attributable to owners						
EUR million	Share capital	Fair value reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 31 Dec. 2017	**428**	**164**	**1,093**	**2,404**	**4,089**	**60**	**4,149**
Effect of IFRS 9 transition at 1 Jan. 2018		-46		2	-45		-45
Equity 1 Jan. 2018	**428**	**118**	**1,093**	**2,406**	**4,044**	**60**	**4,104**
Total comprehensive income for the period		-45		198	153	4	157
Profit for the period				193	193	4	196
Other comprehensive income		-45		6	-39		-39
Profit distribution				-211	-211		-211
Other			0	0	0	6	6
Balance at 30 June 2018	**428**	**73**	**1,093**	**2,393**	**3,987**	**70**	**4,056**

Cash flow statement

EUR million	Q1–2/ 2018	Q1–2/ 2017
Cash flow from operating activities		
Profit for the period	196	232
Adjustments to profit for the period	187	224
Increase (-) or decrease (+) in operating assets	**226**	**933**
Receivables from credit institutions	1,156	679
Derivative contracts	-47	-4
Receivables from customers	-900	-835
Investment assets	205	1,131
Other assets	-189	-38
Increase (+) or decrease (-) in operating liabilities	**-16**	**1,132**
Liabilities to credit institutions	173	1,834
Derivative contracts	-5	-4
Liabilities to customers	-234	-238
Insurance liabilities	33	15
Provisions and other liabilities	17	-474
Income tax paid	-41	-31
Dividends received	20	35
A. Net cash from operating activities	**573**	**2,526**
Cash flow from investing activities		
Purchase of PPE and intangible assets	-25	-46
Proceeds from sale of PPE and intangible assets	4	2
B. Net cash used in investing activities	**-21**	**-43**
Cash flow from financing activities		
Increases in debt securities issued to the public	13,686	12,209
Decreases in debt securities issued to the public	-11,380	-13,251
Dividends paid	-211	-201
C. Net cash used in financing activities	**2,095**	**-1,244**
Net increase/decrease in cash and cash equivalents (A+B+C)	**2,647**	**1,239**
Cash and cash equivalents at period-start	**13,575**	**9,633**
Cash and cash equivalents at period-end	**16,222**	**10,872**
Cash and cash equivalents		
Liquid assets	15,578	10,654
Receivables from credit institutions payable on demand	644	218
Total	**16,222**	**10,872**

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%. Capital allocation has an effect on the Group's internal interest amounts paid by the segment concerned.

	Banking	Non-life Insurance	Other Operations	Eliminations	Group total
Q1–2 earnings 2018, EUR million					
Net interest income	164	-8	-26	-3	127
of which internal net income before tax	-4	-6	10		
Net insurance income		273		-1	273
Net commissions and fees	33	-22	-16	-1	-6
Net investment income	68	22	54	1	145
Other operating income	9	3	4	-1	16
Total income	**274**	**269**	**16**	**-4**	**555**
Personnel costs	32	60	4	0	96
Depreciation/amortisation and impairment losses	6	29	1	0	36
Other operating expenses	59	117	10	-6	180
Total expenses	**96**	**206**	**15**	**-6**	**311**
Impairments of receivables	5	0	0		5
OP bonuses to owner-customers		-1			-1
Temporary exemption (overlay approach)		-2		-2	-4
Earnings before tax	**183**	**60**	**1**		**244**

	Banking	Non-life Insurance	Other Operations	Eliminations	Group total
Q1–2 earnings 2017, EUR million					
Net interest income	170	-8	-39	-3	120
of which internal net income before tax	-10	-7	17		
Net insurance income		248			248
Net commissions and fees	68	-24	-43	-1	0
Net investment income	14	64	107	1	186
Other operating income	5	1	5	-1	10
Total income	**257**	**280**	**31**	**-3**	**565**
Personnel costs	27	52	4		84
Depreciation/amortisation and impairment losses	5	23	1		29
Other operating expenses	47	106	10	-3	160
Total expenses	**79**	**182**	**15**	**-3**	**272**
Impairments of receivables	-11	0	0		-11
OP bonuses to owner-customers		-1			-1
Earnings before tax	**167**	**98**	**16**		**280**

Balance sheet 30 June 2018, EUR million	Banking	Non-life Insurance	Other Operations	Eliminations	Group total
Cash and cash equivalents	8	362	15,546	-338	15,578
Receivables from credit institutions	186	3	7,857	-16	8,031
Derivative contracts	365	14	3,272	-9	3,642
Receivables from customers	21,575	0	26	-602	20,999
Investment assets	540	3,483	11,973	-131	15,865
Intangible assets	59	675	27		762
Property, plant and equipment (PPE)	0	43	76		119
Other assets	126	872	933	-8	1,923
Tax assets	4	28	28		61
Total assets	**22,864**	**5,480**	**39,740**	**-1,105**	**66,980**
Liabilities to credit institutions	591		14,242	-602	14,230
Derivative contracts	179	8	3,105	-11	3,280
Liabilities to customers	12,535		6,495	-427	18,603
Insurance liabilities		3,392			3,392
Debt securities issued to the public	1,156		18,024	-36	19,144
Provisions and other liabilities	922	398	1,004	-6	2,319
Tax liabilities	0	74	355	0	429
Subordinated liabilities		135	1,392		1,527
Total liabilities	**15,384**	**4,006**	**44,616**	**-1,082**	**62,923**
Equity					**4,056**

Balance sheet 31 December 2017, EUR million	Banking	Non-life Insurance	Other Operations	Eliminations	Group total
Cash and cash equivalents	10	318	12,807	-309	12,825
Receivables from credit institutions	208	6	9,113	-33	9,294
Derivative contracts	105	10	3,320	-10	3,426
Receivables from customers	20,591	0	29	-501	20,120
Investment assets	527	3,543	12,205	-131	16,144
Intangible assets	63	688	26		777
Property, plant and equipment (PPE)	0	42	73		115
Other assets	92	727	1,095	-205	1,708
Tax assets	0	17	19		35
Total assets	**21,595**	**5,351**	**38,687**	**-1,189**	**64,445**
Liabilities to credit institutions	506		14,030	-501	14,035
Derivative contracts	118	15	3,097	-14	3,216
Liabilities to customers	11,410		7,839	-412	18,837
Insurance liabilities		3,143			3,143
Debt securities issued to the public	1,178		15,649	-37	16,791
Provisions and other liabilities	976	540	992	-202	2,307
Tax liabilities	1	75	343	0	419
Subordinated liabilities		135	1,412		1,547
Total liabilities	**14,189**	**3,908**	**43,362**	**-1,164**	**60,295**
Equity					**4,149**

Notes

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 sum total of individual figures may deviate from the presented sums.

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

Adoption of IFRS 9 on 1 January 2018

On 1 January 2018, OP Corporate Bank adopted IFRS 9 Financial Instruments. OP Corporate Bank's accounting policies under IFRS 9 were published in the Interim Report for 1 January–31 March 2018. The effects of transition to IFRS 9 on the classification and measurement of financial instruments have been presented in OP Corporate Bank'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 Corporate Bank has not adjusted comparatives for prior years. OP Corporate Bank 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.

Adoption of IFRS 15 on 1 January 2018

OP Corporate Bank has applied IFRS 15, Revenue from Contracts with Customers, since 1 January 2018. In OP Corporate Bank, IFRS 15 mainly applies to fees not included in the calculation of the effective interest rate in the Banking segment. IFRS 15 will lead to added information presented in the Notes to the Financial Statements. The effects of transition to IFRS 15 have been presented in OP Corporate Bank'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 Corporate Bank's earnings before tax. OP Corporate Bank 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 8 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 7 million, will be presented separately in future.
- 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), %	9.7	11.6
Return on equity (ROE) at fair value, %	7.3	11.5
Return on assets (ROA), %	0.60	0.75
Cost/income ratio, %	56	48
Ratio of non-performing receivables to loan and guarantee portfolio, %	0.6	0.7
Average personnel	2,658	2,460

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), %

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

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	22	64	-65.5	176
Other income and expenses	-9	-9	5.1	-17
Temporary exemption (overlay approach)	-2			
Earnings before tax	**60**	**98**	**-39.0**	**193**

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	10	11	20	22
Receivables from customers				
Loans	82	83	160	162
Finance lease receivables	6	5	13	9
Impaired loans and other commitments	0	0	0	0
Notes and bonds				
Held for trading	2	2	3	3
Measured at fair value through profit or loss	0		0	
At fair value through other comprehensive income	22		45	
Amortised cost			0	
Available for sale		24		49
Held to maturity		0		0
Loans and receivables		0		1
Derivative contracts				
Held for trading	206	212	404	427
Fair value hedge	-27	-29	-55	-59
Cash flow hedge	1	1	2	3
Ineffective portion of cash flow hedge	0	0	0	0
Other	2	3	3	5
Total	**304**	**313**	**596**	**623**
Interest expenses				
Liabilities to credit institutions	34	28	66	54
Liabilities to customers	0	0	-1	-1
Debt securities issued to the public	45	51	83	100
Subordinated liabilities				
Subordinated loans	1	1	3	3
Other	11	11	22	22
Derivative contracts				
Held for trading	203	204	397	422
Fair value hedge	-35	-34	-66	-70
Other	-22	-15	-40	-32
Other	2	3	4	5
Total	**239**	**248**	**469**	**503**
Loan modification gains and losses on loans	**0**		**0**	
Net interest income before fair value adjustment under hedge accounting	**65**	**65**	**127**	**120**
Hedging derivatives	8	-10	9	5
Value changes of hedged items	-7	10	-9	-5
Total net interest income	**66**	**65**	**127**	**120**

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	941	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	**375**	**360**	**733**	**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
Total net insurance income	**144**	**137**	**273**	**248**

Note 5 Net commissions and fees

Q1–2 2018, EUR million	Banking	Non-life Insurance	Other Operations	Eliminations	Group total	Q2 2018
Commission income						
Lending	22	0	0	0	22	11
Deposits	0		0	0	0	0
Payment transfers	11		0	0	11	5
Securities brokerage	8		0		8	4
Securities issuance	4		3		6	4
Mutual funds	0			0	0	0
Asset management	7		0	0	7	3
Legal services	0		0	0	0	0
Guarantees	6		0		6	3
Insurance brokerage		6		0	6	3
Health and wellbeing services		9		0	8	4
Other	23		-17	0	6	3
Total	**82**	**15**	**-14**	**-1**	**81**	**41**
Commission expenses						
Payment transfers	1	1	0	0	1	1
Securities brokerage	3				3	1
Securities issuance	0		0		0	0
Asset management	1		1		2	1
Insurance operations		33			33	16
Health and wellbeing services		3			3	2
Other	43		1	0	44	23
Total	**49**	**37**	**2**	**0**	**87**	**44**
Total net commissions and fees	**33**	**-22**	**-16**	**-1**	**-6**	**-2**

Q1–2 2017, EUR million	Banking	Non-life Insurance	Other Operations	Eliminations	Group total	Q2 2017
Commission income						
Lending	20		0	0	20	10
Deposits	0		0	0	0	0
Payment transfers	14		0	0	14	7
Securities brokerage	10			0	10	4
Securities issuance	3		2		6	4
Mutual funds	0				0	0
Asset management	7		0	0	6	3
Legal services	0				0	0
Guarantees	6		0	0	6	3
Insurance brokerage		8			8	4
Health and wellbeing services		8		0	8	4
Other	45		-40	0	6	3
Total	**105**	**15**	**-37**	**-1**	**83**	**42**
Commission expenses						
Payment transfers	4	1	0	0	4	2
Securities brokerage	4				4	2
Securities issuance	0		0		1	0
Asset management	1		1		2	1
Insurance operations		36			36	17
Health and wellbeing services		3			3	2
Other	27		4	0	32	19
Total	**38**	**40**	**5**	**0**	**82**	**42**
Total net commissions and fees	**68**	**-24**	**-43**	**-1**	**0**	**0**

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	22	5	44	27
Equity instruments	-1	-3	-2	14
Dividend income and share of profits	3	14	4	35
Impairment losses and their reversals	-1	-1	-2	-4
Total	**24**	**14**	**44**	**73**
Net income recognised at fair value through profit or loss				
Financial assets held for trading				
Notes and bonds	0		-1	
Equity instruments	-3		2	
Dividend income and share of profits	0		2	
Derivatives	27		70	
Financial assets that shall be measured at fair value through profit or loss				
Notes and bonds	0		0	
Equity instruments	12		18	
Dividend income and share of profits	7		13	
Financial assets designated as at fair value through profit or loss				
Notes and bonds	0		1	
Insurance				
Notes and bonds		-3		-6
Derivatives		9		12
Banking and Other operations				
Securities trading		53		93
Foreign exchange trading		11		19
Investment property	4	5	6	9
Total	**48**	**76**	**111**	**127**
Net income carried at amortised cost				
Loans and other receivables	1	1	2	2
Impairment losses and their reversals	1	0	1	0
Total	**2**	**1**	**3**	**2**
Non-life Insurance				
Unwinding of discount	-7	-8	-14	-17
Total	**-7**	**-8**	**-14**	**-17**
Associates				
Accounted for using the fair value method				
Consolidated using the equity method	0	0	1	1
Total	**0**	**0**	**1**	**1**
Total net investment income	**67**	**83**	**145**	**186**

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	**18**	**32**	**223**	**273**
Transfers from Stage 1 to Stage 2	-2	8		7
Transfers from Stage 1 to Stage 3	0		1	0
Transfers from Stage 2 to Stage 1	0	-2		-1
Transfers from Stage 2 to Stage 3		-1	4	4
Transfers from Stage 3 to Stage 2		1	-4	-3
Transfers from Stage 3 to Stage 1	0		0	0
Increases due to origination and acquisition	3	1	2	6
Decreases due to derecognition	-1	-2	-6	-9
Changes in risk parameters (net)	-1	8	-4	3
Decrease in allowance account due to write-offs			-27	-27
Net change in ECL	**-1**	**15**	**-35**	**-20**
ECL 30 June 2018	**18**	**47**	**188**	**253**
Net change in ECL Q2/2018	**-1**	**3**	**1**	**4**

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	**3**	**0**	**0**	**4**
Transfers from Stage 1 to Stage 2	0	0		0
Transfers from Stage 2 to Stage 1	0	0		0
Increases due to origination and acquisition	1	0	1	2
Decreases due to derecognition	-1	0		-1
Changes in risk parameters (net)	0		0	0
Changes due to update in the methodology for estimation (net)	0			0
Net change in ECL	**0**	**0**	**2**	**1**
ECL 30 June 2018	**3**	**0**	**2**	**5**
Net change in ECL Q2/2018	**0**	**0**	**0**	**1**

EUR million	Q1–2/ 2018	Q1–2/ 2017	Q2/ 2018	Q2/ 2017
Receivables written off as loan or guarantee losses	-15	-18	-1	-18
Recoveries of receivables written off	0	0	0	0
ECL on receivables from customers and off-balance-sheet items	20		-4	
ECL on notes and bonds*	0		0	
Increase in impairment losses on individually assessed receivables		-8		-6
Decrease in impairment losses on individually assessed receivables		18		17
Collectively assessed impairment losses		-3		0
Total impairment loss on receivables	**5**	**-11**	**-5**	**-7**

* 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	16 009	1 077	1 121	2 198	349	18 556
Households	1 438	91	317	408	24	1 870
Public-sector entities	650	0	88	88		738
Other	1 997	3	14	17		2 014
Total receivables from customers	**20 094**	**1 171**	**1 539**	**2 711**	**374**	**23 178**
Off-balance-sheet limits						
Non-banking corporates	2 210	367	498	865	13	3 088
Households	79	3	16	19	1	99
Public-sector entities	327		60	60		387
Other	900	6	59	65	1	966
Total	**3 516**	**376**	**633**	**1 009**	**15**	**4 540**
Other off-balance-sheet commitments						
Non-banking corporates	5 852	198		198	47	6 096
Households	1					1
Public-sector entities	360					360
Other	338	27		27	0	365
Total	**6 551**	**225**		**225**	**47**	**6 822**
Notes and bonds						
Total notes and bonds	13 950	34		34	5	13 989
Total IFRS 9 ECL scope exposures	**44 110**	**1 806**	**2 173**	**3 978**	**440**	**48 529**

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	-14	-39	-3	-42	-183	-239
Households	-1	-1	-2	-4	-5	-9
Public-sector entities	-1	0	0	0		-2
Other	0		0	0		0
Total receivables from customers	**-16**	**-40**	**-5**	**-46**	**-188**	**-250**
Other off-balance-sheet commitments**						
Non-banking corporates	-1	-2		-2		-3
Households	0					0
Public-sector entities	0					0
Total	**-2**	**-2**		**-2**	**0**	**-3**
Notes and bonds***	-3	0		0	-2	-5
Total ECL	**-21**	**-42**	**-5**	**-47**	**-189**	**-258**

* 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 due to SPPI test	Hedging derivatives	Total
Cash and cash equivalents	15,578					15,578
Receivables from credit institutions	8,031					8,031
Derivative contracts			3,462		179	3,642
Receivables from customers	20,999					20,999
Notes and bonds		14,026	638	50		14,714
Equity instruments		0	47	703		750
Other financial assets	1,952					1,952
Financial assets	**46,560**	**14,026**	**4,147**	**753**	**179**	**65,666**
Other than financial instruments						1,314
Total 30 June 2018	**46,560**	**14,026**	**4,147**	**753**	**179**	**66,980**

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

* Investment assets in the balance sheet include Non-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		14,230		14,230
Derivative contracts	2,995		285	3,280
Liabilities to customers		18,603		18,603
Insurance liabilities		3,392		3,392
Debt securities issued to the public		19,144		19,144
Subordinated liabilities		1,527		1,527
Other financial liabilities		2,156		2,156
Financial liabilities	**2,995**	**59,051**	**285**	**62,331**
Other than financial liabilities				592
Total 30 June 2018	**2,995**	**59,051**	**285**	**62,923**

Liabilities, EUR million	Financial liabilities at fair value through profit or loss	Other liabilities	Hedging derivatives	Total
Liabilities to credit institutions		14,035		14,035
Derivative contracts	2,825		391	3,216
Liabilities to customers		18,837		18,837
Insurance liabilities		3,143		3,143
Debt securities issued to the public		16,791		16,791
Subordinated liabilities		1,547		1,547
Other financial liabilities		2,084		2,084
Financial liabilities	**2,825**	**56,437**	**391**	**59,653**
Other than financial liabilities				642
Total 31 December 2017	**2,825**	**56,437**	**391**	**60,295**

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 188 million (227) 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	411	66	273	750
Debt instruments	178	92	419	689
Derivative financial instruments	5	3,580	57	3,642
Fair value through other comprehensive income				
Equity instruments		0		0
Debt instruments	11,937	1,820	268	14,026
Total	**12,531**	**5,558**	**1,017**	**19,106**

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				
Debt instruments	410	74	409	893
Derivative financial instruments	1	3,294	131	3,426
Available-for-sale				
Equity instruments	386	86	256	728
Debt instruments	10,313	3,418	319	14,050
Total	**11,109**	**6,873**	**1,115**	**19,096**

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				
Other		0		0
Derivative financial instruments	15	3,246	19	3,280
Total	**15**	**3,246**	**19**	**3,280**

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				
Other		1		1
Derivative financial instruments	5	3,120	92	3,216
Total	**5**	**3,120**	**92**	**3,217**

Level 1: Quoted prices in active markets

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

Level 2: Valuation techniques using observable inputs

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

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

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

Reconciliation of Level 3 items that involve uncertainty

Specification of financial assets and liabilities

Financial assets, EUR million	Financial assets at fair value through profit or loss	Derivative contracts	Fair value through other comprehen-sive income	Total assets
Balance sheet 31 December 2017	409	131	574	1,115
Effects of IFRS 9 transition 1 Jan. 2018	270		-263	6
Opening balance 1 January 2018	679	131	311	1,122
Total gains/losses in profit or loss	-391	-74	0	-465
Total gains/losses in other comprehensive income			0	0
Purchases	57		1	58
Sales	-39			-39
Settlements	-8		-6	-13
Transfers into Level 3	393		57	449
Transfers out of Level 3			-95	-95
Closing balance 30 June 2018	**692**	**57**	**268**	**1,017**

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	5		-391
Unrealised net gains	-2		0	-2
Total net gains	**-398**	**5**	**0**	**-392**

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

	Nominal values / residual term to maturity				Fair values*	
30 June 2018, EUR million	**<1 year**	**1–5 years**	**>5 years**	**Total**	**Assets**	**Liabilities**
Interest rate derivatives	36,780	106,090	77,074	219,943	2,105	1,617
Cleared by the central counterparty	10,339	39,237	36,906	86,481	13	18
Currency derivatives	37,797	6,850	2,793	47,441	1,196	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	**74,970**	**113,459**	**79,879**	**268,307**	**3,374**	**2,988**

	Nominal values / residual term to maturity				Fair values*	
31 December 2017, EUR million	**<1 year**	**1–5 years**	**>5 years**	**Total**	**Assets**	**Liabilities**
Interest rate derivatives	30,931	88,811	76,406	196,148	3,192	2,981
Cleared by the central counterparty	8,392	38,585	35,615	82,592	941	1,100
Currency derivatives	37,113	9,246	2,815	49,174	982	1,185
Equity and index derivatives	5	3		8	1	0
Credit derivatives	28	188	10	226	9	6
Other derivatives	235	513		748	65	36
Total derivatives	**68,313**	**98,760**	**79,230**	**246,303**	**4,250**	**4,208**

* 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	4,592	-950	3,642	-2,054	-647	940

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	4,354	-928	3,426	-1,994	-412	1,020

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	4,346	-1,066	3,280	-2,054	-711	514

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	4,302	-1,085	3,216	-1,994	-717	506

* 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	8,033	2	8,031
Receivables from customers	19,267	244	19,023
of which bank guarantee receivables	2		2
Finance leases	1,980	4	1,976
Total	**29,280**	**250**	**29,030**
Receivables from credit institutions and customers by sector			
Non-banking corporate sector	17,522	234	17,288
Financial institutions and insurance companies	8,778	3	8,775
Households	1,874	10	1,864
Non-profit organisations	357	1	357
Public sector entities	749	2	747
Total	**29,280**	**250**	**29,030**

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	9,295		9,295		2	9,294
Receivables from customers	18,264	219	18,483	192	28	18,263
of which bank guarantee receivables	0	2	2	2	0	0
Finance leases	1,856		1,856			1,856
Total	**29,416**	**219**	**29,635**	**192**	**30**	**29,413**
Receivables from credit institutions and customers by sector						
Non-banking corporate sector	16,581	218	16,799	191	16	16,592
Financial institutions and insurance companies	10,077		10,077		2	10,075
Households	1,736	1	1,736	1	12	1,724
Non-profit organisations	336		336		0	336
Public sector entities	687		687		0	687
Total	**29,416**	**219**	**29,635**	**192**	**30**	**29,413**

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		88	88	86	3
Unlikely to be paid		204	204	93	111
Forborne receivables	66	27	93	9	84
Total	**66**	**319**	**385**	**188**	**197**

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		89	89	79	10
Unlikely to be paid		225	225	106	119
Forborne receivables	49	24	73	7	66
Total	**49**	**338**	**387**	**192**	**195**

Key ratio, %	30 June 2018	31 Dec. 2017
Exposures individually assessed for impairment/ECL, % of doubtful receivables	48.8 %	49.5 %

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
Total	**3,392**	**3,143**

Note 14 Debt securities issued to the public

EUR million	30 June 2018	31 Dec. 2017
Bonds	10,097	9,674
Certificates of deposit, commercial papers and ECPs	9,046	7,117
Total	**19,144**	**16,791**

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	**117**	**45**		**2**	**164**
Effects of IFRS 9 transition 1 Jan. 2018	-1	-45			-46
Opening balance 1 January 2018	**115**	**0**		**2**	**118**
Fair value changes	-33	0	5	0	**-27**
Capital gains transferred to income statement	-26		-2		**-28**
Impairment loss transferred to income statement			1		**1**
Transfers to net interest income				-2	**-2**
Deferred tax	12	0	-1	0	**11**
Closing balance 30 June 2018	**69**		**3**	**1**	**73**

EUR million	Available-for-sale financial assets: Notes and bonds	Equity instruments	Cash flow hedging	Total
Opening balance 1 January 2017	**85**	**106**	**6**	**197**
Fair value changes	18	13	2	**32**
Capital gains transferred to income statement	-8	-20		**-28**
Impairment loss transferred to income statement	0	2		**2**
Transfers to net interest income			-3	**-3**
Deferred tax	-2	1	0	**-1**
Closing balance 30 June 2017	**93**	**101**	**4**	**199**

The fair value reserve before tax amounted to EUR 91 million (204) and the related deferred tax liability amounted to EUR 18 million (41). On 30 June 2018, positive mark-to-market valuations of equity instruments in the fair value reserve totalled EUR 22 million (67) and negative mark-to-market valuations EUR 18 million (11).

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	59	35
Other	5,826	5,663
Total collateral given*	**5,885**	**5,699**
Secured derivative liabilities	878	889
Other secured liabilities	4,040	4,081
Total	**4,918**	**4,969**

* 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	556	532
Other guarantee liabilities	1,513	1,470
Loan commitments	5,362	5,495
Commitments related to short-term trade transactions	324	359
Other*	748	729
Total off-balance-sheet items	**8,502**	**8,585**

* 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 Corporate Bank Group's equity capital	4,056	4,149
The effect of insurance companies on the Group's shareholders' equity is excluded	-165	-125
Fair value reserve, cash flow hedging	-1	-2
Common Equity Tier 1 (CET1) before deductions	**3,891**	**4,022**
Intangible assets	-74	-76
Excess funding of pension liability and valuation adjustments	-23	-16
Planned profit distribution	-96	-212
Shortfall of impairments – expected losses	-81	-134
Common Equity Tier 1 (CET1)	**3,617**	**3,584**
Subordinated loans to which transitional provision applies	109	137
Additional Tier 1 capital (AT1)	**109**	**137**
Tier 1 capital (T1)	**3,727**	**3,720**
Debenture loans	1,005	1,073
Tier 2 Capital (T2)	**1,005**	**1,073**
Total capital base	**4,732**	**4,793**

A prudent valuation adjustment of EUR 6 million (5) has been deducted from CET1 capital.

OP Corporate Bank 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	**20,478**	**19,694**
Standardised Approach (SA)	**2,342**	**2,069**
Central government and central banks exposure	20	18
Credit institution exposure	7	29
Corporate exposure	2,215	1,963
Retail exposure	13	14
Other*	87	44
Internal Ratings-based Approach (IRB)	**18,136**	**17,626**
Credit institution exposure	988	1,053
Corporate exposure	12,071	11,643
Retail exposure	1,221	1,130
Equity investments**	3,737	3,753
Other	119	47
Market and settlement risk (Standardised Approach)	**1,298**	**1,179**
Operational risk (Standardised Approach)	**1,285**	**1,266**
Valuation adjustment (CVA)	**197**	**205**
Total risk exposure amount	**23,257**	**22,343**

* EUR 78 million (44) 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 3.7 billion in insurance holdings within OP Financial Group.

Ratios, %	30 June 2018	31 Dec. 2017
CET1 capital ratio	15.6	16.0
Tier 1 ratio	16.0	16.7
Capital adequacy ratio	20.3	21.5

Ratios, fully loaded, %	30 June 2018	31 Dec. 2017
CET1 capital ratio	15.6	16.0
Tier 1 ratio	15.6	16.0
Capital adequacy ratio	19.9	20.8

Capital requirement, EUR million	30 June 2018	31 Dec. 2017
Capital base	4,732	4,793
Capital requirement	2,453	2,358
Buffer for capital requirements	2,279	2,435

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

Note 19 Exposures by rating category

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	748	357	84.9	0.0	44.8	166	15.0	0
2.5–5.5	10,677	3,189	71.8	0.2	44.3	5,264	38.0	11
6.0–7.0	2,765	895	69.3	1.3	44.2	3,495	95.5	21
7.5–8.5	1,655	306	65.7	4.1	44.5	2,590	132.1	35
9.0–10.0	184	73	60.7	16.4	44.6	556	215.6	19
11.0–12.0	289	16	51.9	100.0	46.1			141
Total	**16,320**	**4,836**	**71.4**	**0.9**	**44.4**	**12,071**	**57.9**	**227**

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	757	212	93.3	0.0	44.7	144	14.9	0
2.5–5.5	10,597	3,439	72.7	0.2	44.4	5,250	37.4	11
6.0–7.0	2,674	899	68.8	1.2	43.5	3,261	91.3	19
7.5–8.5	1,389	376	68.9	4.0	44.0	2,333	132.2	31
9.0–10.0	176	116	62.2	16.6	44.9	655	224.3	22
11.0–12.0	322	16	58.8	100.0	45.9			155
Total	**15,915**	**5,057**	**72.0**	**0.9**	**44.3**	**11,643**	**56.4**	**238**

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 Dec. 2017
Eligible capital	**968**	**902**
Solvency capital requirement (SCR)		
Market risk	459	460
Insurance risk	296	289
Counterparty risk	40	40
Operational risk	46	45
Diversification benefits and loss absorbency	-176	-169
Total	664	666
Buffer for SCR	**304**	**236**
Solvency ratio (SCR), %	**146**	**135**
Solvency ratio (SCR), % (excluding transitional provision)	**146**	**135**

The figures are according to insurance companies' estimates and transitional provisions have been taken into account in them.

Note 21 Related-party transactions

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

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

OP Corporate Bank plc publishes the following financial information pursuant to the regular disclosure obligation of a securities issuer.

Schedule for Interim Reports in 2018:

Interim Report Q1–3/2018	31 October 2018

Helsinki, 1 August 2018

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