OP Corporate Bank plc's interim report
1 January–30 June 2017

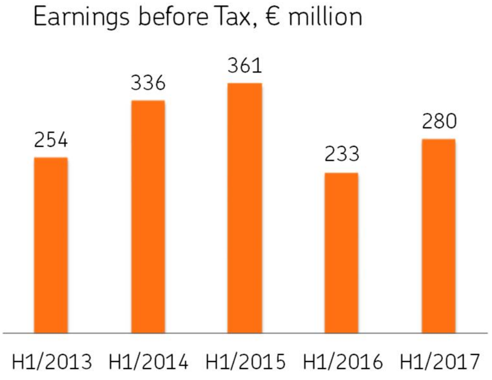
OP Corporate Bank plc's Interim Report for 1 January–30 June 2017

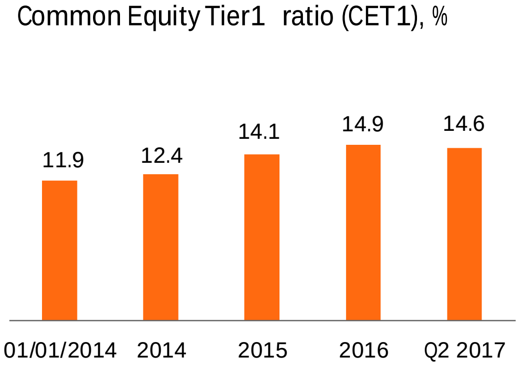
- Consolidated earnings before tax were EUR 280 million (233). The return on equity was 11.6% (10.0).
- Banking earnings before tax increased to EUR 167 million (113) due to higher net investment income and net interest income. The loan portfolio increased in the year to June by 10.9% to EUR 19.2 billion. The cost/income ratio was 30.8% (38.1).
- Non-life Insurance earnings before tax decreased to EUR 98 million (116). Non-life Insurance earnings were eroded particularly by weaker claims development than in the year before. The operating combined ratio was 92.5% (88.2). Net return on investments at fair value totalled EUR 78 million (-11).
- Other Operations earnings before tax were EUR 16 million (3). Liquidity and access to funding remained good.
- The CET1 ratio was 14.6% (14.9), while the target is 15%.
- Unchanged outlook: OP Corporate Bank Group's consolidated earnings before tax are expected to be about the same as or lower than in 2016.

	Q1–2/2017	Q1–2/2016	Change, %	Q1–4/2016
Earnings before tax, € million				
Banking	167	113	47.5	260
Non-life Insurance	98	116	-16.0	231
Other Operations	16	3		13
Group total	**280**	**233**	**20.4**	**504**

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

Financial targets	30 June 2017	31 Dec. 2016	Target
Customer experience, NPS (–100–+100)	66	58	70, over time 90
Common Equity Tier 1 (CET1) ratio, %	14.6	14.9	15
Return on economic capital, %	18.7	17.0	22
Expenses of present-day business, € million	495	471	Expenses in 2019 lower than in 2015 (475)
Dividend payout ratio, %	-	50.4	50





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Operating environment

In the second quarter, world economic growth continued to do well, growing on a broad basis. The euro-area economy continued to show favourable development with inflation remaining moderate.

In April, the European Central Bank (ECB) reduced its monthly asset purchases to EUR 60 billion. Based on its present decisions, the ECB will continue the purchases at least until the end of the year. According to the ECB, the main refinancing rates will remain at their current levels even after the end of the asset purchase programme. However, in June, the ECB did no longer allude to the possibility to cut the rates further.

The Euribor rates remained stable but longer-term interest rate swap rates rose slightly.

Consumer confidence in Finland improved further. The economic growth rate in Finland during the first few months of the year was faster than in the euro area and, based on preliminary information, the rate was faster than in the rest of the euro area in the spring too. The employment rate increased markedly and corporate net sales rose at a brisk rate.

With positive mood on the economy on a broad basis, both exports and the domestic market are showing recovery. Housing markets have picked up further led by sales of new homes. Prices of old homes have risen slightly.

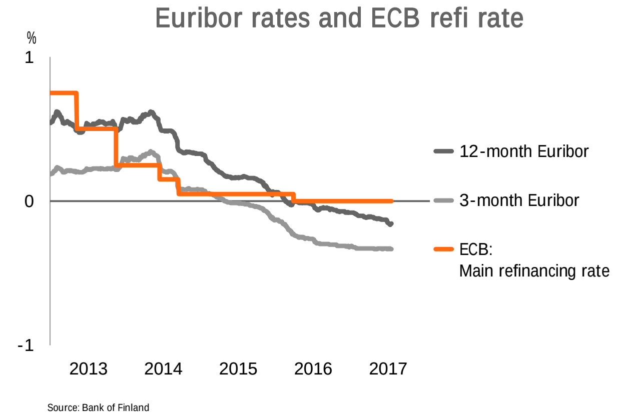
The world economy is expected to continue to show favourable development on a wide front during the rest of the year. The inflation rate is expected to remain moderate and short-term market interest rates to remain stable. The Finnish economy is expected to continue its recovery at a brisk rate. The greatest risks in the world economy are associated with political stability.

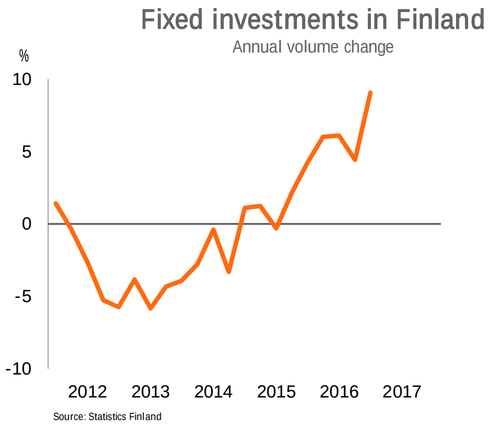
Household loan volumes continued to increase at a steady rate of 2.4% in the second quarter. The average borrowing rate of new home loans drawn down was 1.07% in June, down by 0.13 percentage points over the previous year. The annual growth rate of consumer loans improved to 4.8%. The annual growth rate of corporate loans (excluding housing cooperative loans) accelerated to 4.2%. Based on the most recent banking barometer, the index point for demand for corporate loans rose to its highest since 1997.

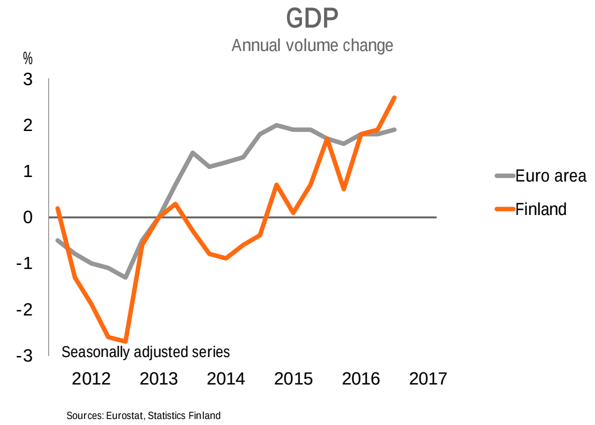
In the second quarter, growth in total deposits turned positive, rising to 4.4%. This change was particularly influenced by strong growth in deposits by public-sector entities. Household deposits increased by 3.4%, and the trend of funds moving from fixed-term time deposits to overnight deposits continued. Total corporate deposits dwindled further in the second quarter.

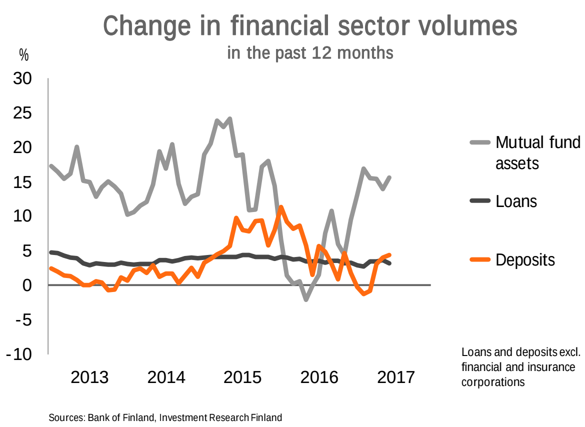
The value of the mutual funds registered in Finland increased by EUR 2 billion to EUR 112.5 billion during the second quarter. Second-quarter net asset inflows amounted to EUR 1.9 billion, of which EUR 1.3 billion were recognised in June.

The Finnish economy being on a positive note and the positive capital market supported the insurance sector in the first half. Then again, competition has toughened in the field of private customer insurance in particular. New insurance products and pricing models are actively being launched onto the market.









Consolidated earnings

€ million	Q1–2/2017	Q1–2/2016	Change, %	Q2/ 2017	Q2/ 2016	Change, %	Q1–4/ 2016
Net interest income	120	117	2.2	65	58	12.5	228
Net insurance income	248	256	-3.0	137	133	3.2	534
Net commissions and fees	-4	7		-2	0		-4
Net investment income	186	82		82	44	85.4	247
Other operating income	17	22	-19.6	8	12	-32.3	33
Share of associates' profit/loss	1	0		0	0	-216	-2
Total income	**568**	485	**17.1**	**290**	**247**	**17.2**	**1,037**
Personnel costs	84	85	-1.1	41	43	-6.0	162
Depreciation/amortisation and impairment loss	29	25	16.8	15	13	18.0	51
Other operating expenses	163	134	21.3	81	70	15.5	281
Total expenses	**276**	244	**13.0**	**136**	**126**	**8.4**	**494**
Impairment loss on receivables	11	7	50.6	7	0		37
OP bonuses to owner-customers	1	1	5.4	0	0	5.5	2
Total earnings before tax	**280**	233	**20.4**	**147**	**122**	**1.4**	**504**

January–June

Consolidated earnings before tax were EUR 280 million (233). Total income was up by 17.1% due to higher net investment income, while total expenses rose by 13%. Income increased in both business segments.

Net interest income rose to EUR 120 million (117). Banking net interest income strengthened as the loan portfolio increased and the average margin rose year on year. On the other hand, net interest income was decreased by net interest income from Other Operations' derivatives operations.

Net insurance income fell by 3.0% to EUR 248 million (256). Insurance premium revenue increased by 1.4% thanks to the rise in insurance premium revenue from private customers. Claims incurred rose by 4.3% due to weaker claims trend than the year before.

Net commissions and fees were EUR -4 million, while a year ago they totalled EUR 7 million. Commission income rose by 4.8% year on year, increased by commission income from securities brokerage and securities issuance. Commission expenses were increased by fees paid by Banking and Non-life Insurance to member banks. Commission expenses excluding fees paid to member banks were at the previous year's level.

Net investment income totalled EUR 186 million (82). Net income from securities trading increased by a total of EUR 78 million, of which EUR 52 million came from positive value changes in Credit Valuation Adjustment (CVA) in derivatives owing to market changes. In addition, income was improved by income from Other Operations' derivatives operations. Net income from available-for-sale assets was increased year on year by a 9-million euro rise in capital gains on equity investments and a 12-million euro increase in dividends and share of profits. On the other hand, this income was decreased by EUR 28 million in capital losses on notes and bonds. Net investment income included a total of EUR 4 million (13) in impairment losses.

Other operating income decreased to EUR 17 million (22). A year ago, other operating income was increased by higher centralised liquidity buffer costs, charged from OP Financial Group's other credit institutions, than in the reporting period.

Total expenses increased to EUR 276 million (244). Personnel costs fell year on year by 1.1%. Other operating expenses were increased by higher ICT costs and expansion of the health and wellbeing business. Depreciation/amortisation was increased mainly by higher depreciation/amortisation related to ICT investments particularly in Non-life Insurance.

Impairment losses on receivables totalled EUR 11 million (7), accounting for 0.05% (0.04) of the loan and guarantee portfolio.

The fair value reserve before tax increased from its 2016-end level to EUR 248 million (245) at the end of the period.

April–June

Earnings before tax improved to EUR 147 million (122). Income and expenses increased by 17.2% and 8.4%, respectively. Income was increased by net income from securities trading.

Net interest income rose year on year by EUR 7 million to EUR 65 million (58). The loan portfolio grew by 10.9% from 30 June 2016 and by 1.3% in March–April. The average margin on the corporate loan portfolio increased year on year by 0.03 percentage points.

Net insurance income rose by EUR 4 million to EUR 137 million (133). Insurance premium revenue increased year on year by 1.9%, growth in claims incurred remaining at 1.6%.

Commission income remained at the level reported a year ago. Commission expenses were increased by fees paid to member banks.

Net investment income increased clearly year on year, to EUR 82 million (44). Income was increased by net income from Banking's securities trading and Other Operations' derivatives operations.

Total expenses increased by EUR 11 million year on year, to EUR 136 million (126). Expenses were increased by EUR 8 million in ICT costs and EUR 2 million in depreciation/amortisation. Personnel expenses decreased by EUR 3 million.

January–June highlights

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

The ECB is offering euro-area credit institutions four targeted longer-term refinancing operations with a maturity of four years (TLTRO-II) with the primary aim of fostering growth. Under TLTRO-II, the banks will be able to borrow up to 30% of their loan balance as at 31 January 2016 to be used for lending to non-financial corporations and households in the euro area, excluding loans to households for a home purchase. To contribute to strong growth, OP Financial Group participated in TLTRO-II operations in the reporting period with a total of EUR 1 billion. In total, OP Financial Group has participated in TLTRO-II with a total of EUR 4 billion.

SME financing programmes

OP Financial Group acts as an intermediary bank in two SME financing programmes guaranteed by the European Investment Fund (EIF) which enable financing worth a total of EUR 300 million. The EIF gives a 50% risk-sharing guarantee to the loans. The programmes are targeted at projects and investments of growing and innovative companies. The agreement covering the first financing programme, designed for companies with a staff of less than 500, was signed in March 2016. The agreement signed in January 2017, in turn, focuses on companies with a staff of less than 250. In the framework of these programmes, OP has already granted 170 SME loans totalling almost EUR 100 million. By providing financing to SMEs with growth potential, OP Financial Group wants to be involved in supporting future economic growth and employment.

Request for clarification from the Finnish Competition and Consumer Authority

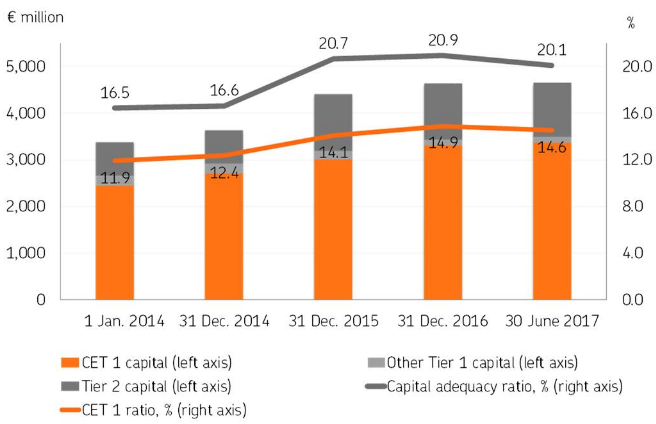
OP Financial Group has provided its replies to the request for clarification received from the Finnish Competition and Consumer Authority in 2015. The authorities are investigating OP Financial Group's market position in retail banking services and the pricing of non-life insurance products. The issue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

Divestment of merchant acquiring and POS terminal services

OP Financial Group and Nets signed on 5 April 2017 an agreement whereby OP sold its portfolio of agreements and POS terminals of acquiring and POS terminal services to Nets specialising in providing digital card payments. Acquiring and POS terminal services enable merchants to accept card payments as a payment method for purchases. As a result of the transaction, OP transferred acquiring and payment terminal service agreements of some 15,000 merchants to Nets. OP and Nets have been in cooperation in the sold services since 2011. The sale had no material impact on OP Corporate Bank Group's earnings.

Group's capital adequacy

Capital base and capital adequacy



Capital adequacy for credit institutions

The Group's CET1 ratio was 14.6% (14.9) on 30 June 2017. The Group's CET1 target is 15%.

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

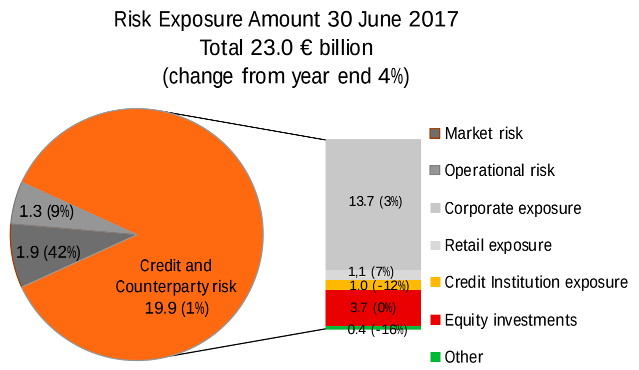
The CET1 capital totalled EUR 3.4 billion (3.3) on 30 June 2017, thanks to earnings by the Banking segment and the Other Operations segment.

On 30 June 2017, the risk exposure amount (REA) totalled EUR 23.0 billion (22.1), or 4.3% higher than on 31 December 2016. The average credit risk weights remained at the same level as at the turn of the year. OP Financial Group treats insurance holdings within the financial and insurance conglomerate as risk-weighted assets, based on permission from the European Central Bank (ECB). Equity investments include EUR 3.7 billion in risk-weighted assets of OP Corporate Bank Group's internal insurance holdings with a risk weight of around 280%.

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

The Financial Supervisory Authority makes a macroprudential policy decision on a quarterly basis. In June 2017, the Financial Supervisory Authority reiterated its decision not to impose a countercyclical capital buffer requirement on banks but it decided to set a 15% minimum risk weight on housing loans from the beginning of 2018 for at least two years. When imposed, the minimum risk weight on housing loans will have no material effect on OP Corporate Bank's capital adequacy.

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



ECB supervision

OP Financial Group is supervised by the 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 and effective as of 1 January 2017 is 1.75%. When taking account of the P2R, the new minimum for OP Financial Group's CET1 ratio is 10.75% and for its capital adequacy ratio 14.25%. In addition, the ECB has set on OP Financial Group a capital adequacy guidance (P2G) of 1.0%. Failure to meet this guidance would not affect e.g. profit distribution. The P2G included, the CET1 requirement is 11.75%. OP Financial Group's capital adequacy clearly exceeds the new minimum set. The discretionary capital buffer requirement set by the ECB does not apply to OP Corporate Bank.

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

Liabilities under the Resolution Act

Regulation in force since early 2015 applies to crisis resolution of credit institutions and investment firms. In addition, more specified guidelines on the application of these provisions were issued by authorities in summer 2016. The resolution authority is authorised to intervene in the terms and conditions of investment products issued by a bank in a way that affects an investor's position. The EU's Single Resolution Board (SRB) based in Brussels is OP Financial Group's resolution authority. The SRB is determining the minimum level of liabilities, under the Resolution Act, at the OP Financial Group level.

Solvency of non-life insurance companies

The solvency position of Non-life Insurance remained strong at the end of June, being higher than at the end of December 2016.

Non-life Insurance figures under Solvency II

€ million	30 June 2017	31 Dec. 2016
Capital base, € million*	1,092	983
Solvency capital requirement (SCR), € million*	676	687
Solvency ratio, %*	162	143
Solvency ratio, % (excluding transitional provision)	148	127

* including transitional provisions.

Credit ratings

OP Corporate Bank plc's credit ratings on 30 June 2017

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

OP Insurance Ltd's financial strength ratings on 30 June 2017

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

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

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

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

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

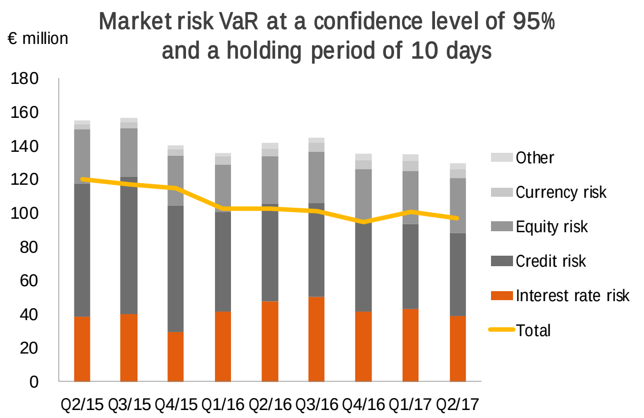
Group risk exposure

Major risks related to the Group's business are associated with developments in the overall economic environment and capital markets.

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

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

The Group's market risk exposure was stable during the reporting period. The Value-at-Risk (VaR) metric, a measure of market risks, was EUR 97 million (95) on 30 June 2017. VaR includes the non-life insurance company's total assets, trading operations, the liquidity buffer of Other Operations and the interest rate exposure of Group Treasury.



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 before tax by EUR 11 million. Net liabilities were reduced by higher interest rates. A year ago, an increase in net liabilities related to defined benefit pension plans decreased comprehensive income before tax by EUR 43 million.

Banking

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

Credit risk exposure by Banking remained stable and credit risk remained moderate. Doubtful receivables totalled EUR 215 million (198). Doubtful receivables refer to receivables that are more than 90 days past due, other receivables classified as risky and forborne receivables due to the customer's financial difficulties. Forbearance measures consist of concessions agreed at the customers' initiative to contractual payment terms towards the customer to make it easier for them to manage through temporary payment difficulties. Impairment losses remained low, accounting for 0.05% (0.04) of the loan and guarantee portfolio.

Total exposure in Banking (including derivatives brokerage) was EUR 30.9 billion (29.3). The ratio of the exposure of the highest borrower grades 1–5.5 to total exposure (excluding private customers) was 66.3% (65.9). The proportion of the lowest borrower grades 11–12 was 0.6% (0.7). Corporate exposure (including housing corporations and corporate customers of retail exposure) accounted for 88.1% (88.1) of total Banking exposures. Of corporate exposures, the investment-grade exposure (borrower grades 1–5.5) accounted for 65.5% (64.9) and the exposure of the lowest two borrower grades amounted to EUR 168 million (196) or 0.6% (0.8) of the total corporate exposure.

Total Banking exposure by exposure class, € billion

	30 June 2017	31 Dec. 2016	Change
Corporate exposures*	27.3	25.8	1.4
Retail exposure	1.6	1.5	0.1
Public sector entities	0.9	1.2	-0.3
Financial institutions and insurance companies	1.2	0.7	0.4
Total	**30.9**	**29.3**	**1.6**

* including housing corporations and corporate customers of retail exposure

Total Banking exposure* by borrower grade, € billion

Borrower grade	30 June 2017	31 Dec. 2016	Change
1.0–2.0	2.0	1.7	0.3
2.5–5.5	17.4	16.6	0.8
6.0–7.0	6.2	5.9	0.3
7.5–9.0	3.4	3.2	0.2
9.5–10.0	0.1	0.2	0.0
11.0–12.0	0.2	0.2	0.0
Total	**29.3**	**27.8**	**1.5**

* excluding private customers

Three customers' exposures exceeded 10% of the capital base covering customer risk after allowances and other recognition of credit risk mitigation. On 30 June 2017, the amount of large customer exposures totalled EUR 1.6 billion (0.0), while OP Corporate Bank's capital base covering customer risk was EUR 4.6 billion (4.6).

Corporate and housing corporation exposures by industry remained highly diversified. The most significant industries included Energy 12.6% (13.2), Trade 10.1% (10.5) and Renting and operating of non-residential real estate 8.0% (8.6).

Exposures by the Baltic operations grew to EUR 2.2 billion (2.0), accounting for 7.0% (6.9) of total exposures of the Banking segment.

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

Non-life Insurance

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

A one-year increase in life expectancy would increase insurance liability for annuities by EUR 43 million. A 0.1 percentage point decrease in interest rates used in insurance liability valuation would increase insurance liabilities by EUR 26 million.

No significant changes took place in Non-life Insurance's underwriting risks. Non-life Insurance's most significant market risk is associated with increasing insurance liability value and capital requirement resulting from lower market interest rates. The solvency position under Solvency II remained strong at the end of June, being slightly higher than at the end of December 2016.

The risk exposure of investments was stable during the reporting period. The VaR, a measure of market risk, was EUR 58 million (57) on 30 June 2017. No major changes took place in the investment portfolio's asset class allocation. The Group has used both interest rate derivatives and bonds to hedge against interest rate risk associated with insurance liability. The portfolio's interest rate and credit risk remained stable. The hedge ratio of interest rate risk associated with insurance liabilities was kept stable.

Other Operations

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

The market risk in proportion to the size of 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 and other sources of additional funding based on the contingency funding plan are sufficient to cover funding for at least 24 months in the event wholesale funding becomes unavailable and total deposits decrease at a moderate rate.

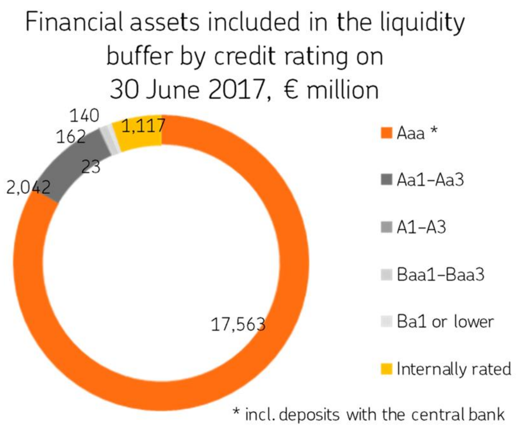
A decrease in the amount of notes and bonds eligible as collateral was due, for example, by their use as collateral in TLTRO-II.

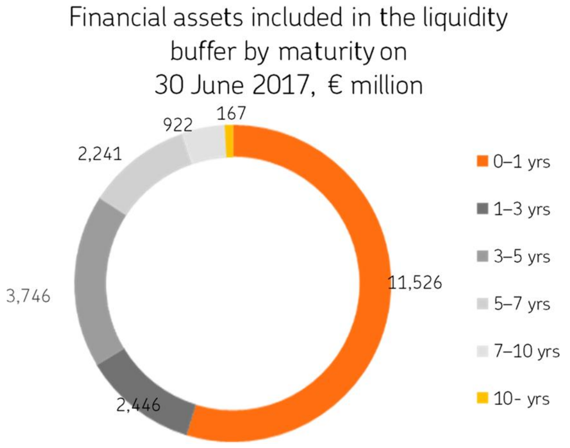
OP Financial Group monitors its liquidity and the adequacy of its liquidity buffer using, for example, the LCR (Liquidity Coverage Ratio). According to the transitional provisions, the LCR must be at least 80% in 2017 and at least 100% from the beginning of 2018. On 30 June 2017, OP Financial Group's LCR was 132%.

Liquidity buffer

€ billion	30 June 2017	31 Dec. 2016	Change, %
Deposits with central banks	10.6	9.3	14.0
Notes and bonds eligible as collateral	8.8	11.2	-21.3
Corporate loans eligible as collateral		0.1	-100.0
Total	**19.4**	**20.6**	**-5.7**
Receivables ineligible as collateral	1.6	1.4	17.1
Liquidity buffer at market value	**21.0**	**22.0**	**-4.2**
Collateral haircut	-0.7	-0.7	11.3
Liquidity buffer at collateral value	**20.3**	**21.3**	**-4.7**

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.





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 15.8%. These exposures decreased during the first half of the year by EUR 0.2 billion or 2.1%. All exposures of OP Financial Group member cooperative banks and OP Cooperative are investment-grade exposures.

Total Other Operations exposure by borrower grade, € billion

Borrower grade	30 June 2017	31 Dec. 2016	Change
1.0–2.0	29.2	29.7	-0,5
2.5–5.5	5.6	6.8	-1.1
6.0–7.0	0.1	0.0	0.0
7.5–9.0	0.3	0.1	0.2
9.5–10.0	0.0	0.0	0.0
11.0–12.0	0.0	0.0	0.0
Total	**35.1**	**34.6**	**-1.5**

Financial performance by segment

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

Banking

- Earnings before tax increased by 47.5% year on year to EUR 167 million (113) due to higher net investment income and net interest income.
- The loan portfolio increased in the year to June by 10.9% to EUR 19.2 billion.
- Impairment loss on receivables totalled EUR 11 million (7), accounting for 0.05% (0.04) of the loan and guarantee portfolio.
- The cost/income ratio was 30.8% (38.1).
- The most significant Banking development investments involved the development of payment and finance systems. New interest rate protection products related to home loans were introduced onto the market.

Banking: key figures and ratios

€ million	Q1–2/2017	Q1–2/2016	Change, %	Q1–4/2016
Net interest income	170	144	17.7	300
Net commissions and fees	68	80	-15.6	142
Net investment income	14	-39		-16
Other operating income	5	9	-38.3	15
Total income	**257**	**194**	**32.3**	**442**
Expenses				
Personnel costs	27	28	-2.1	54
Depreciation/amortisation and impairment loss	5	5	13.1	10
Other operating expenses	47	42	12.8	81
Total expenses	**79**	**74**	**7.2**	**145**
Impairment loss on receivables	11	7	50.4	37
Earnings before tax	**167**	**113**	**47.5**	**260**
Cost/income ratio, %	30.8	38.1		32.8
Loan portfolio, € billion	19.2	17.3		18.0
Guarantee portfolio, € billion	2.5	2.3		2.5
Margin on corporate loan portfolio, %	1.38	1.35		1.41
Ratio of impairment loss on receivables to loan and guarantee portfolio, %	0.05	0.04		0.18
Personnel	620	659		652

The loan portfolio grew in the year to June by 10.9% to EUR 19.2 billion. It increased in January–June by EUR 1.2 billion, in part due to a 0.4-billion euro change in the Group's internal customer exposures. The change had no impact on OP Corporate Bank Group's loan portfolio. The guarantee portfolio totalled EUR 2.5 billion (2.5). Committed standby credit facilities amounted to EUR 4.4 billion (4.0).

January–June

Earnings before tax increased by 47.5% to EUR 167 million (113). Total income rose by 32.3% and total expenses by 7.2%. Total income was increased by growth in the loan portfolio and positive CVA valuations of derivatives. As a result of the rise in income, the cost/income ratio improved to 30.8% (38.1).

Net interest income increased by 17.7%. The average margin on the corporate loan portfolio in January–June was 0.03 percentage points higher than a year ago.

Net investment income decreased by 15.6% to EUR 68 million (80). Income from derivatives and FX trading were lower than in the previous year.

The net investment income was increased by positive CVA valuation arising from interest rate changes and other market movements. CVA valuation was EUR 16 million as against EUR -38 million a year ago.

Net loan losses and impairment losses amounted to EUR 11 million (7), accounting for 0.05% (0.04) of the loan and guarantee portfolio. Final loan losses recognised totalled EUR 18 million (37). Impairment losses decreased by EUR 7 million (29).

Total expenses were EUR 79 million (74). Personnel costs fell by EUR 1 million to EUR 27 million. Other operating expenses increased by 12.8% to EUR 47 million (42). ICT costs rose by EUR 6 million.

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

Non-life Insurance

- Earnings before tax amounted to EUR 98 million (116). Net investment income totalled EUR 63 million (56). Earnings before tax at fair value were EUR 79 million (155).
- Insurance premium revenue increased by 1.4% (2.6). Net return on investments at fair value totalled EUR 78 million (-11).
- The operating combined ratio was 92.5% (88.2) and operating expense ratio 20.1% (18.4). The combined ratio was 94.0% (89.8). Unfavourable developments in claims in the first few months of the year weakened the combined ratios.
- The basic system upgrade of Non-life Insurance has begun. The reporting period saw the introduction of the first fully digital non-life insurance product and the launch of a new motor liability insurance.

€ million	Q1–2/2017	Q1–2/2016	Change, %	Q1–4/2016
Insurance premium revenue	710	700	1.4	1,420
Claims incurred	459	440	4.3	883
Other expenses	2	4	-34.8	3
Net insurance income	248	256	-3.0	**534**
Net investment income	63	56	13.7	102
Other net income	-28	-34	-17.4	-77
Total income	284	278	2.1	**559**
Personnel costs	52	53	-0.2	100
Depreciation/amortisation and impairment loss	23	19	17.1	40
Other operating expenses	110	88	23.9	187
Total expenses	185	160	15.2	**326**
OP bonuses to owner-customers	1	1	5.4	2
Earnings before tax	98	116	-16.0	**231**
Combined ratio, %	94.0	89.8		89.1
Operating combined ratio, %	92.5	88.2		87.6
Operating loss ratio, %	72.4	69.8		69.1
Operating expense ratio, %	20.1	18.4		18.5
Operating risk ratio, %	66.0	63.9		63.3
Operating cost ratio, %	26.5	24.4		24.3
Solvency ratio (Solvency II), %*	162	158		143
Large claims incurred retained for own account	36	29		61
Changes in claims for previous years (run off result)	19	40		60
Personnel	1,774	1,708		1,730

* Including the effect of transitional provisions.

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

Measured by the market share of premiums written, OP Financial Group is clearly Finland's largest non-life insurer. OP Financial Group's market share strengthened further in 2016 and attained 32.4% based on the information published in May 2017.

OP cooperative bank customers used OP bonuses that they had earned through the use of banking and insurance services to pay 1,179,000 insurance bills (1,080,000) with 158,000 (142,000) paid in full using bonuses. Insurance premiums paid using bonuses totalled EUR 57 million (52).

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

Pohjola Health Ltd's third hospital was opened in Oulu in May. The hospitals opened previously are located in Helsinki and Tampere. Pohjola Health is expanding into a national player and hospitals are under construction also in Kuopio and Turku. Pohjola Hospital in Kuopio will open its doors in early autumn 2017 and that in Turku in early 2018. Customers have been satisfied with the service provided by Pohjola Hospitals. Among surgery customers, the NPS figure was 96 at the end of June 2017.

January–June

Earnings before tax amounted to EUR 98 million (116). Net insurance income decreased by 3.0% to EUR 248 million. Net investment income recognised in the income statement increased by EUR 8 million. Earnings before tax at fair value were EUR 79 million (155).

The operating combined ratio was 92.5% (88.2). The operating ratios exclude amortisation on intangible assets arising from the corporate acquisition.

Insurance premium revenue

€ million	Q1–2/2017	Q1–2/2016	Change, %
Private Customers	390	379	2.9
Corporate Customers	290	293	-1.1
Baltics	30	28	7.5
Total	**710**	**700**	**1.4**

Claims incurred increased by 4.3%. Claims incurred arising from new large claims were higher than a year ago. The reported number of new large claims under property and business liability insurance (in excess of EUR 0.3 million) amounted to 46 (38) in January June, with their claims incurred retained for own account totalling EUR 36 million (29). The change in provisions for unpaid claims under statutory pension decreased year on year, being EUR -7 million (11) between January and June.

On 30 June 2017, the average discount rate was 1.82%. On 31 December 2016, the average discount rate was 1.97%. The reduced discount rate increased claims incurred by EUR 26 million (27), weakening the operating combined ratio by 3.6 percentage points (3.9).

Changes in claims for previous years, excluding the effect of discount rate changes, improved the balance on technical account by EUR 19 million (40). The operating loss ratio was 72.4% (69.8). The operating risk ratio excluding indirect loss adjustment expenses was 66.0% (63.9).

Expenses grew by 15.2%, being EUR 24 million higher than a year ago, due to higher ICT costs and the expansion of the health and wellbeing business. The operating expense ratio was 20.1% (18.4). The operating cost ratio (including indirect loss adjustment expenses) was 26.5% (24.4).

Operating balance on technical account and combined ratio (CR)

	Q1–2/2017		Q1–2/2016	
	Balance € million	CR, %	Balance € million	CR, %
Private Customers	57.1	85.3	62.4	83.5
Corporate Customers	-6.3	102.2	18.4	93.7
Baltics	2.5	91.8	1.3	95.2
Total	**53.3**	**92.5**	**82.2**	**88.2**

The balance on technical account declined particularly in major customers where the claims development was weaker than the year before.

Investment

Net return on Non-life Insurance investments at fair value totalled EUR 78 million (-11). 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 2017	31 Dec. 2016
Bonds and bond funds	73	77
Alternative investments	1	1
Equities	8	8
Private equity	2	3
Real property	10	10
Money markets	6	2
Total	**100**	**100**

Non-life Insurance's investment portfolio totalled EUR 3,906 million (3,876) on 30 June 2017. Investments within the investment-grade category accounted for 93% (91), and 63% (62) of the investments were rated at least A–. On 30 June 2017, the fixed-income portfolio's modified duration was 5.3 (5.4).

The running yield for direct bond investments averaged 1.8% (1.7) on 30 June 2017.

Other Operations

- Earnings before tax amounted to EUR 16 million (3). These included EUR 12 million (4) in capital gains on notes and bonds and EUR 7 million (1) in dividend income.
- OP Corporate Bank issued in April a senior bond worth EUR 500 million with a maturity of five years.
- Liquidity and access to funding remained good.

Other Operations: key figures and ratios

€ million	Q1–2/2017	Q1–2/2016	Change, %	Q1–4/2016
Net interest income	-39	-15		-48
Net commissions and fees	-43	-45	-5.9	-84
Net investment income	107	65	66.0	159
Other operating income	5	13	-62.1	13
Total income	**31**	**17**	**83.2**	**40**
Personnel costs	4	4	-5.9	8
Other expenses	11	9	18.7	19
Total expenses	**15**	**13**	**10.6**	**27**
Impairment loss on receivables	0	0	91.7	0
Earnings before tax	**16**	3		**13**
Receivables and liabilities from/to OP Financial Group member banks, net position, € billion	-1.8	2.5		1.1
Personnel	50	70	-29.2	72

January–June

Earnings before tax amounted to EUR 16 million (3). Earnings before tax at fair value were EUR 35 million (2).

Total income increased by a total of EUR 14 million. Derivatives operations decreased net interest income and increased net income from securities trading included in net investment income. According to the Group's accounting policy, income from derivative instruments is split between net interest income and net income from securities trading. How this income is broken down between the two income statement items may vary considerably depending on the derivative instruments used in position management at a given time. Net investment income grew year on year by EUR 43 million thanks to derivatives operations generating higher net trading income in the item. In addition, net investment income included EUR 12 million (4) in capital gains on notes and bonds and EUR 7 million (1) in dividend income. Dividend income in the reporting period included EUR 7 million in interest on cooperative capital from Suomen Luotto-osuuskunta.

A year ago, other operating income was increased by higher costs of the centralised liquidity buffer charged from the Banking segment and OP Financial Group's other credit institutions than in the reporting period.

OP Corporate Bank's access to funding remained good. In January–June 2017, OP Corporate Bank issued long-term senior bonds worth EUR 0.8 billion. In April 2017, OP Corporate Bank issued in the international capital market a senior bond of EUR 500 million with a maturity of five years. Furthermore, OP Corporate Bank participated in March 2017 in the second series of the ECB's targeted longer-term refinancing operations (TLTRO-II) with a total of EUR 1.0 billion. In total, OP Corporate Bank has participated in TLTRO-II with EUR 4.0 billion.

In June 2017, the average margin of senior wholesale funding and TLTRO-II funding was 21 basis points (31). Use of the TLTRO-II funding, together with funding arriving at maturity at higher prices, lower the cost of wholesale funding.

OP cooperative banks' net funding position turned negative in the reporting period since OP cooperative banks' investments in OP Corporate Bank's Group Treasury were higher than funding borrowed by them from Group Treasury. OP cooperative banks' investments were increased by OP Mortgage Bank's covered bond funding which resulted in higher volumes of OP cooperative banks' investments in Group Treasury than before.

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

Group restructuring

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

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

Personnel and remuneration

Personnel were decreased in Banking and Other Operations due to centralisation of OP Corporate Bank's back office operations to OP Financial Group's centralised services. In Non-life Insurance's health and wellbeing business, personnel increased from its 2016-end level.

Personnel

	30 June 2017	31 Dec. 2016
Banking	620	652
Non-life Insurance	1,774	1,730
Other Operations	50	72
Total	**2,444**	**2,454**

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 Financial Group 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.

Outlook towards the year end

Both the world economy and the euro-area economy developed favourably in the first half of the year. Economic growth in Finland was strong and broad-based: exports and the home market rebounded, the housing market picked up and confidence in the Finnish economy strengthened. Tailwinds in the Finnish economy are estimated to continue for the second half of the year too. If realised, political risks and uncertainties both in Finland and in the export markets can, however, weaken the outlook. A threat to the Finnish economy's positive long-term development is posed by many structural problems that still remain unresolved.

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

OP Corporate Bank Group's consolidated earnings before tax are expected to be about the same as or lower than in 2016. The most significant uncertainties affecting earnings relate to changes in the interest rate and investment environment, impairment loss on receivables, the rate of business growth and the effect of large claims on claims expenditure.

All forward-looking statements in this 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/ 2017	Q2/ 2016	Q1–2/ 2017	Q1–2/ 2016
Net interest income	3	65	58	120	117
Net insurance income	4	137	133	248	256
Net commissions and fees	5	-2	0	-4	7
Net investment income	6	82	44	186	82
Other operating income		8	12	17	22
Share of associates' profits		0	0	1	0
Total income		**290**	**247**	**568**	**485**
Personnel costs		41	43	84	85
Depreciation/amortisation		15	13	29	25
Other expenses		81	70	163	134
Total expenses		**136**	**126**	**276**	**244**
Impairments of receivables	7	7	0	11	7
OP bonuses to owner-customers		0	0	1	1
Earnings before tax		**147**	**122**	**280**	**233**
Income tax expense		23	23	48	45
Profit for the period		**123**	**98**	**232**	**187**
Attributable to:					
Owners of the parent		123	97	231	186
Non-controlling interests		1	1	1	1
Profit for the period		**123**	**98**	**232**	**187**
Statement of comprehensive income					
Profit for the period		**123**	**98**	**232**	**187**
Items that will not be reclassified to profit or loss					
Gains(/losses) arising from remeasurement of defined benefit plans		8	-12	11	-43
Items that may be reclassified to profit or loss					
Change in fair value reserve					
Measurement at fair value		5	31	5	36
Cash flow hedge		-1	-2	-1	-2
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		-2	2	-2	9
Items that may be reclassified to profit or loss					
Measurement at fair value		-1	-6	-1	-7
Cash flow hedge		0	0	0	0
Total comprehensive income for the period		**133**	**112**	**244**	**180**
Attributable to:					
Owners of the parent		132	112	242	178
Non-controlling interests		1	0	2	2
Total comprehensive income for the period		**133**	**112**	**244**	**180**

Balance sheet

EUR million	Note	30 June 2017	31 December 2016
Cash and cash equivalents		10,654	9,336
Receivables from credit institutions		8,700	9,458
Financial assets held for trading		693	638
Derivative contracts	10	3,704	4,678
Receivables from customers	12	19,516	18,702
Investment assets		15,576	16,698
Investments in associates		53	46
Intangible assets		787	790
Property, plant and equipment (PPE)		109	93
Other assets		2,519	2,488
Tax assets		36	46
Total assets		**62,347**	**62,974**
Liabilities to credit institutions		12,140	10,332
Derivative contracts		3,811	4,398
Liabilities to customers		15,939	16,178
Insurance liabilities	13	3,245	3,008
Debt securities issued to the public	14	18,431	19,826
Provisions and other liabilities		2,745	3,231
Tax liabilities		420	405
Subordinated liabilities		1,571	1,592
Total liabilities		**58,302**	**58,969**
Equity capital			
Capital and reserves attributable to owners of the parent			
Share capital		428	428
Fair value reserve	15	199	197
Other reserves		1,093	1,093
Retained earnings		2,217	2,179
Non-controlling interests		108	109
Total equity capital		**4,045**	**4,005**
Total liabilities and equity capital		**62,347**	**62,974**

Statement of changes in equity

EUR million	Attributable to owners						
	Share capital	Fair value reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2016	**428**	**120**	**1,093**	**1,996**	**3,637**	**105**	**3,741**
Total comprehensive income for the period		27		152	178	2	180
Profit for the period				186	186	1	187
Other comprehensive income		27		-35	-8	1	-7
Profit distribution				-153	-153		-153
Other			0	0	0	8	8
Balance at 30 June 2016	**428**	**147**	**1,093**	**1,994**	**3,661**	**115**	**3,776**

EUR million	Attributable to owners						
	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**

Cash flow statement

EUR million	Q1–2/ 2017	Q1–2/ 2016
Cash flow from operating activities		
Profit for the period	231	186
Adjustments to profit for the period	226	132
Increase (-) or decrease (+) in operating assets	**913**	**-3,729**
Receivables from credit institutions	679	352
Financial assets held for trading	137	-227
Derivative contracts	-4	18
Receivables from customers	-835	-775
Investment assets	973	-2,507
Other assets	-38	-590
Increase (+) or decrease (-) in operating liabilities	**1,132**	**151**
Liabilities to credit institutions	1,834	1,644
Financial liabilities at fair value through profit or loss	0	0
Derivative contracts	-4	-29
Liabilities to customers	-238	-1,809
Insurance liabilities	15	74
Provisions and other liabilities	-474	271
Income tax paid	-31	-44
Dividends received	35	23
A. Net cash from operating activities	**2,506**	**-3,281**
Cash flow from investing activities		
Decreases in held-to-maturity financial assets	27	3
Acquisition of subsidiaries and associates, net of cash acquired	-6	
Purchase of PPE and intangible assets	-46	-36
Proceeds from sale of PPE and intangible assets	2	0
B. Net cash used in investing activities	**-23**	**-33**
Cash flow from financing activities		
Increases in subordinated liabilities		0
Decreases in subordinated liabilities		-144
Increases in debt securities issued to the public	12,209	12,548
Decreases in debt securities issued to the public	-13,251	-12,671
Dividends paid	-201	-153
C. Net cash used in financing activities	**-1,244**	**-421**
Net increase/decrease in cash and cash equivalents (A+B+C)	**1,239**	**-3,735**
Cash and cash equivalents at period-start	**9,633**	**8,803**
Cash and cash equivalents at period-end	**10,872**	**5,069**

Cash and cash equivalents		
Liquid assets	10,654	4,781
Receivables from credit institutions payable on demand	218	288
Total	**10,872**	**5,069**

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 20% (19%). 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.

Q1–2 earnings 2017, EUR million	Banking	Non-life Insurance	Other operations	Eliminations	Group total
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	-29	-43	0	-4
Net investment income	14	63	107	1	186
Other operating income	5	9	5	-1	17
Share of associates' profits		1			1
Total income	**257**	**284**	**31**	**-3**	**568**
Personnel costs	27	52	4		84
Depreciation/amortisation and impairment losses	5	23	1		29
Other operating expenses	47	110	10	-3	163
Total expenses	**79**	**185**	**15**	**-3**	**276**
Impairments of receivables	11	0	0		11
OP bonuses to owner-customers		1			1
Earnings before tax	**167**	**98**	**16**		**280**

Q1–2 earnings 2016, EUR million	Banking	Non-life Insurance	Other operations	Eliminations	Group total
Net interest income	144	-10	-15	-1	117
-of which internal net income before tax	-9	-8	18		
Net insurance income		256			256
Net commissions and fees	80	-28	-45	0	7
Net investment income	-39	56	65	1	82
Other operating income	9	4	13	-3	22
Share of associates' profits		0			0
Total income	**194**	**278**	**17**	**-4**	**485**
Personnel costs	28	53	4		85
Depreciation/amortisation and impairment losses	5	19	1		25
Other operating expenses	42	88	8	-4	134
Total expenses	**74**	**160**	**13**	**-4**	**244**
Impairments of receivables	7	0	0		7
OP bonuses to owner-customers		1			1
Earnings before tax	**113**	**116**	**3**	**0**	**233**

Balance sheet 30 June 2017, EUR million	Banking	Non-life Insurance	Other operations	Eliminations	Group total
Cash and cash equivalents	2	265	10,646	-259	10,654
Receivables from credit institutions	172	5	8,549	-26	8,700
Financial assets held for trading	-4		696		693
Derivative contracts	105	8	3,599	-9	3,704
Receivables from customers	19,617	0	350	-451	19,516
Investment assets	565	3,589	11,554	-132	15,576
Investments in associates		53			53
Intangible assets	64	698	26		787
Property, plant and equipment (PPE)	1	43	65		109
Other assets	112	835	1,576	-4	2,519
Tax assets	0	19	17		36
Total assets	**20,635**	**5,515**	**37,078**	**-880**	**62,347**
Liabilities to credit institutions	457		12,134	-451	12,140
Derivative contracts	106	20	3,696	-11	3,811
Liabilities to customers	11,594		4,677	-332	15,939
Insurance liabilities		3,245			3,245
Debt securities issued to the public	1,163		17,305	-37	18,431
Provisions and other liabilities	1,274	399	1,073	-2	2,745
Tax liabilities	0	93	328	0	420
Subordinated liabilities		135	1,436		1,571
Total liabilities	**14,594**	**3,892**	**40,649**	**-833**	**58,302**
Equity capital					**4,045**

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

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 financial statements 2016.

The Interim Report is based on unaudited data. 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 apply if there is any discrepancy between the language versions.

New standards and interpretations

IFRS 9 Financial Instruments:

OP Corporate Bank will for the first time apply IFRS 9 as of 1 January 2018. The comparatives will not be restated.

The quantitative effect of the application of the standard on the 2018 financial statements cannot yet be assessed reliably since it will depend on the amount of the financial instruments held at that time, the financial position at that time and the choice of the calculation principles and management judgement. The new standard requires that OP Corporate Bank analyses the calculation and monitoring processes for financial instruments, with the related changes being made are not yet completed. OP Corporate Bank will update the effects of the IFRS 9 transition presented in the financial statements for 2016, as follows:

Classification and measurement

The majority of OP Corporate Bank's loans and notes and bonds will remain within the existing measurement categories recognised at amortised cost or fair value through other comprehensive income. Consequently, the changes in the classification will be small and will have no significant effect on OP Corporate Bank's CET1 ratio.

The biggest classification changes will apply especially to investment by OP Corporate Bank's Non-life Insurance, equity instruments and mutual fund investments, which will mainly be reclassified as those recognised at fair value through profit or loss. OP Corporate Bank is planning to apply the so-called overlay approach to some of these instruments, which will restore the profit/loss impact of these instruments to be aligned with the current IAS 39. No changes are expected to the classification of financial liabilities.

Impairment

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

OP Corporate Bank's credit risk models and the development of related systems are still underway. The expected credit losses are calculated using modelled risk parameters and formula PDxLGDxEAD for the majority of the portfolios. The expected credit losses are calculated for each contract for 12 months or lifetime, depending on whether the instrument's credit risk on the reporting day has increased significantly since initial recognition. OP Corporate Bank assesses any significant increase in credit risk through both qualitative and quantitative criteria. Qualitative factors consist of various credit risk indicators (e.g. forbearance measures) to be mainly taking into account in credit rating models. Credit ratings will affect lifetime PDs which are used for quantitative assessment of significant increase in credit risk. In addition, credit risk has increased significantly if payment is over 30 days past due. In the assessment of a significant increase in credit risk, OP Corporate Bank applies a transitional provision permitted by IFRS 9 to contracts for which it is not possible, without undue cost or effort, to calculate the original lifetime PDs. In the definition of default, OP Corporate Bank uses a uniform definition in capital adequacy measurement.

OP Corporate Bank will include forward-looking information and macroeconomic scenarios in the model. The macroeconomic scenarios are the same that OP Corporate Bank uses otherwise in its financial annual planning.

Expected credit loss provisions under IFRS 9 are assessed to increase significantly from its current level based on IAS 39 and it varies by portfolio. The provisions will reduce equity capital on the date of transition. Based on preliminary assessments, the increase in expected credit loss provisions is not expected to have any significant effect on OP Corporate Bank's CET1 ratio on the date of transition because the IFRS 9 compliant expected credit loss provisions are not expected to exceed the expected loss calculated in capital adequacy and the effect of used floors. Once implemented, the European Commission's proposed amendment to the measurement of the CET1 ratio, whereby the effects of the IFRS 9 impairment loss measurement would be phased in within five years, will lessen the effects on capital adequacy.

Hedge accounting

For portfolio hedges, OP Corporate Bank will continue to apply hedge accounting under IAS 39. OP Corporate Bank has not yet made the decision to adopt IFRS 9 compliant hedge accounting.

IFRS 15 Revenue from Contracts with Customers:

IFRS 15 Revenue from Contracts with Customers (applicable to accounting periods beginning on or after 1 January 2018) replaces the current IAS 11 and IAS 18. The new standard has no effect on the recognition of financial instruments or insurance but mainly applies to various commissions and fees in OP Corporate Bank. Based on the current assessment, OP Corporate Bank Group will adopt IFRS 15 applying the cumulative effect method and will not restate comparative periods but will restate equity capital on 1 January 2018. In addition, it will present the amounts affecting each financial statement item when applying IFRS 15. The method will be confirmed once the final impact assessment has been completed. In OP Corporate Bank, IFRS 15 mainly applies to fees not included in the calculation of the effective interest rate in Banking. The combinations of various services offered to Banking customers are still being analysed in greater detail. The adoption of IFRS 15 will not have any significant financial effect.

Note 2 Key figures and ratios and their formulas

	Q1–2/ 2017	Q1–2/ 2016
Return on equity (ROE), %	11.6	10.0
Return on equity (ROE) at fair value, %	11.5	11.3
Return on assets (ROA), %	0.75	0.63
Cost/income ratio, %	49	50
Average personnel	2,460	2,352

ALTERNATIVE PERFORMANCE MEASURES

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

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

Return on equity (ROE), %

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

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 impairment loss on receivables to loan and guarantee portfolio, %

$$\frac{\text{Impairment loss on receivables x (days of financial year/days of reporting period)}}{\text{Loan and guarantee portfolio at period end}} \times 100$$

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

INDICATORS BASED ON CAPITAL ADEQUACY MEASUREMENT

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

NON-LIFE INSURANCE OPERATING RESULTS	Q1–2/ 2017	Q1–2/ 2016	Change %	Q1–4/ 2016
EUR million				
Insurance premium revenue	709	699	1.4	1,418
Claims incurred	-513	-488	5.2	-979
Operating expenses	-142	-129	10.3	-263
Amortisation adjustment of intangible assets	-11	-11	0.0	-21
Balance on technical account	**43**	**71**	**-40.4**	**154**
Net investment income	63	56	13.7	102
Other income and expenses	-8	-11	-24.4	-25
Earnings before tax	**98**	**116**	**-16.0**	**231**
Gross change in fair value reserve	-19	38		69
Earnings before tax at fair value	**79**	**155**	**-49.1**	**300**

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/ 2017	Q2/ 2016	Q1–2/ 2017	Q1–2/ 2016
Interest income				
Receivables from credit institutions	11	9	22	19
Receivables from customers				
Loans	83	71	162	141
Finance lease receivables	5	4	9	9
Impaired loans and other commitments	0	0	0	0
Notes and bonds				
Held for trading	2	2	3	5
Available for sale	24	30	49	61
Held to maturity	0	0	0	0
Loans and receivables	0	0	1	1
Derivative contracts				
Held for trading	212	272	427	578
Fair value hedge	-29	-34	-59	-65
Cash flow hedge	1	2	3	5
Ineffective portion of cash flow hedge	0	0	0	0
Other	3	2	5	3
Total	**313**	**359**	**623**	**757**
Interest expenses				
Liabilities to credit institutions	28	14	54	29
Financial liabilities at fair value through profit or loss	0	0	0	0
Liabilities to customers	0	0	-1	3
Debt securities issued to the public	51	42	100	87
Subordinated liabilities				
Subordinated loans	1	2	3	5
Other	11	11	22	22
Derivative contracts				
Held for trading	204	266	422	564
Cash flow hedge	-34	-35	-70	-72
Other	-15		-32	
Other	3	2	5	3
Total	**248**	**301**	**503**	**640**
Net interest income before fair value adjustment under hedge accounting	**65**	**58**	**120**	**118**
Hedging derivatives	-10	-61	5	-154
Value changes of hedged items	10	61	-5	154
Total net interest income	**65**	**58**	**120**	**117**

Note 4 Net insurance income

EUR million	Q2/ 2017	Q2/ 2016	Q1–2/ 2017	Q1–2/ 2016
Net insurance premium revenue				
Premiums written	306	298	921	915
Insurance premiums ceded to reinsurers	5	3	-5	-6
Change in provision for unearned premiums	45	49	-221	-220
Reinsurers' share	3	2	14	11
Total	**360**	**352**	**710**	**700**
Net Non-life Insurance claims				
Claims paid	-214	-231	-447	-445
Insurance claims recovered from reinsurers	2	10	4	14
Change in provision for unpaid claims	-9	17	-23	1
Reinsurers' share	-1	-14	8	-10
Total	**-221**	**-218**	**-459**	**-440**
Other Non-life Insurance items	-1	-2	-2	-4
Total net insurance income	**137**	**133**	**248**	**256**

Note 5 Net commissions and fees

EUR million	Q2/ 2017	Q2/ 2016	Q1–2/ 2017	Q1–2/ 2016
Comission income				
Lending	10	12	20	22
Deposits	0	0	0	0
Payment transfers	7	7	14	15
Securities brokerage	4	4	10	7
Securities issuance	4	3	6	5
Mutual funds	0	0	0	0
Asset management and legal services	3	3	7	6
Guarantees	3	4	6	7
Insurance brokerage	4	4	8	8
Other	3	1	6	2
Total	**38**	**38**	**75**	**71**
Comission expenses				
Payment transfers	2	3	4	6
Securities brokerage	2	2	4	3
Securities issuance	0	1	1	1
Asset management and legal services	1	1	2	2
Insurance operations	17	17	36	35
Other	19	14	32	17
Total	**41**	**38**	**79**	**64**
Total net commissions and fees	**-2**	**0**	**-4**	**7**

Note 6 Net investment income

EUR million	Q2/ 2017	Q2/ 2016	Q1–2/ 2017	Q1–2/ 2016
Net income from available-for-sale assets				
Notes and bonds	5	28	27	55
Equity instruments	-3	2	14	5
Dividend income and share of profits	14	11	35	23
Impairment losses and their reversals	-1	-8	-4	-13
Total	**14**	**34**	**73**	**70**
Net income recognised at fair value through profit or loss				
Insurance				
Notes and bonds	-3	5	-6	5
Derivatives	9	-9	12	-15
Banking and Other operations				
Securities trading	53	8	93	15
Foreign exchange trading	11	10	19	19
Investment property	5	4	9	5
Total	**76**	**18**	**127**	**29**
Net income carried at amortised cost				
Loans and other receivables	1	1	2	2
Impairment losses and their reversals	0	0	0	0
Total	**1**	**1**	**2**	**2**
Non-life Insurance				
Unwinding of discount	-8	-9	-17	-18
Total	**-8**	**-9**	**-17**	**-18**
Total net investment income	**82**	**44**	**186**	**82**

Note 7 Impairments of receivables

EUR million	Q2/ 2017	Q2/ 2016	Q1–2/ 2017	Q1–2/ 2016
Receivables written off as loan or guarantee losses	18	36	18	37
Recoveries of receivables written off	0	0	0	0
Increase in impairment losses on individually assessed receivables	6	1	8	8
Decrease in impairment losses on individually assessed receivables	-17	-41	-18	-40
Collectively assessed impairment losses	0	4	3	3
Total impairments of receivables	**7**	**0**	**11**	**7**

Note 8 Classification of financial assets and liabilities

Assets, EUR million	Loans and other receivables	Invest-ments held to maturity	Financial assets at fair value through profit or loss*	Available-for-sale financial assets	Hedging derivatives	Total
Cash and cash equivalents	10,654					10,654
Receivables from credit institutions	8,700					8,700
Derivative contracts			3,517		187	3,704
Receivables from customers	19,516					19,516
Notes and bonds		52	997	14,067		15,116
Equity instruments				774		774
Other financial assets	2,559					2,559
Financial assets	**41,430**	**52**	**4,514**	**14,841**	**187**	**61,024**
Other than financial instruments						1,323
Total 30 June 2017	**41,430**	**52**	**4,514**	**14,841**	**187**	**62,347**

Assets, EUR million	Loans and other receivables	Invest-ments held to maturity	Financial assets at fair value through profit or loss*	Available-for-sale financial assets	Hedging derivatives	Total
Cash and cash equivalents	9,336					9,336
Receivables from credit institutions	9,458					9,458
Derivative contracts			4,292		386	4,678
Receivables from customers	18,702					18,702
Notes and bonds		79	975	15,127		16,182
Equity instruments			0	807		807
Other financial assets	2,520					2,520
Financial assets	**40,017**	**79**	**5,268**	**15,934**	**386**	**61,684**
Other than financial instruments						1,290
Total 31 December 2016	**40,017**	**79**	**5,268**	**15,934**	**386**	**62,974**

* Investment assets in the balance sheet include Non-life Insurance notes and bonds recognised 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		12,140		12,140
Derivative contracts	3,406		405	3,811
Liabilities to customers		15,939		15,939
Insurance liabilities		3,245		3,245
Debt securities issued to the public		18,431		18,431
Subordinated loans		1,571		1,571
Other financial liabilities		2,517		2,517
Financial liabilities	**3,406**	**53,844**	**405**	**57,655**
Other than financial liabilities				648
Total 30 June 2017	**3,406**	**53,844**	**405**	**58,302**

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

Bonds included in debt securities issued to the public are carried at amortised cost. On 30 June, the fair value of these debt instruments was EUR 261 million (268) higher than their carrying amount, based on information available in markets and employing commonly used valuation techniques. Subordinated liabilities are carried at amortised cost. Their fair values are higher than their amortised costs, but determining reliable fair values involves uncertainty.

Note 9 Recurring fair value measurements by valuation technique

Fair value of assets on 30 June 2017, EUR million	Level 1	Level 2	Level 3	Total
Recognised at fair value through profit or loss				
Debt instruments	431	84	482	997
Derivative financial instruments	2	3,562	140	3,704
Available-for-sale				
Equity instruments	417	65	293	774
Debt instruments	11,890	1,857	319	14,067
Total	**12,740**	**5,568**	**1,234**	**19,542**

Fair value of assets on 31 Dec. 2016, EUR million	Level 1	Level 2	Level 3	Total
Recognised at fair value through profit or loss				
Debt instruments	472	495	8	975
Derivative financial instruments	6	4,512	160	4,678
Available-for-sale				
Equity instruments	464	61	281	807
Debt instruments	11,276	3,525	326	15,127
Total	**12,218**	**8,594**	**776**	**21,588**

Fair value of liabilities on 30 June 2017, EUR million	Level 1	Level 2	Level 3	Total
Derivative financial instruments	5	3,714	92	3,811
Total	**5**	**3,714**	**92**	**3,811**

Fair value of liabilities on 31 Dec. 2016, EUR million	Level 1	Level 2	Level 3	Total
Recognised at fair value through profit or loss				
Other		0		0
Derivative financial instruments	10	4,280	107	4,398
Total	**10**	**4,280**	**107**	**4,398**

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 within this level contains inputs not based on observable market data (unobservable inputs). Level 3 also includes bonds for which there is little, if any, market activity on the valuation date. This level includes the most complex OTC derivatives and derivatives with a long maturity for which the Group had to extrapolate the market data used in their value measurement, as well as certain private equity investments, and illiquid bonds, structured bonds, including securitised bonds and structured debt securities, and hedge funds. Level 3 fair value is based on pricing information from a third party.

Transfers between levels of the fair value hierarchy

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

Reconciliation of Level 3 items that involve uncertainty

Specification of financial assets and liabilities

Financial assets, EUR million	Financial assets at fair value through profit or loss	Derivative contracts	Available-for-sale financial assets	Total assets
Opening balance 1 January 2017	8	160	608	776
Total gains/losses in profit or loss	10	-20	-5	-16
Total gains/losses in other comprehensive income			0	0
Purchases			45	45
Sales			-26	-26
Settlements			-8	-8
Transfers into Level 3	464		83	547
Transfers out of Level 3			-84	-84
Closing balance 30 June 2017	**482**	**140**	**612**	**1,234**

Financial liabilities, EUR million	Derivative contracts	Total liabilities
Opening balance 1 January 2017	107	107
Total gains/losses in profit or loss	-15	-15
Closing balance 30 June 2017	**92**	**92**

Total gains/losses included in profit or loss by item on 30 June 2017

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 (losses)	10			10
Unrealised net gains (losses)	-5	-5	0	-11
Total net gains (losses)	**5**	**-5**	**0**	**-1**

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

Changes in the levels of hierarchy

No major changes occurred in valuation techniques in 2017.

Note 10 Derivative contracts

30 June 2017, EUR million	Nominal values / remaining term to maturity <1 year	1–5 years	>5 years	Total	Fair values* Assets	Liabilities
Interest rate derivatives	36,826	84,736	76,688	198,250	3,456	3,335
Cleared by the central counterparty	6,963	38,486	35,346	80,795	999	1,189
Currency derivatives	32,959	10,508	3,023	46,491	1,175	1,627
Equity and index derivatives	5	1		6	1	
Credit derivatives	22	191	14	227	7	6
Other derivatives	353	446	2	802	67	24
Total derivatives	**70,166**	**95,882**	**79,727**	**245,775**	**4,706**	**4,993**

31 December 2016, EUR million	Nominal values / remaining term to maturity <1 year	1–5 years	>5 years	Total	Fair values* Assets	Liabilities
Interest rate derivatives	43,438	89,073	67,384	199,895	4,113	4,047
Cleared by the central counterparty	7,919	33,999	30,761	72,679	1,186	1,335
Currency derivatives	29,989	11,607	3,644	45,241	1,693	1,676
Equity and index derivatives		6		6	1	
Credit derivatives	19	296	13	328	10	7
Other derivatives	285	553	2	840	64	23
Total derivatives	**73,732**	**101,535**	**71,043**	**246,310**	**5,881**	**5,753**

* 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 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	4,674	-970	3,704	-2,157	-661	886

31 December 2016, EUR million	Gross amount of financial assets	Gross amount of financial liabilities deducted from financial assets*	Net amount presented in the balance sheet**	Financial assets not set off in the balance sheet		Net amount
				Derivative contracts***	Collateral received	
Derivatives	5,829	-1,151	4,678	-2,472	-1,177	1,030

Financial liabilities

30 June 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	4,972	-1,161	3,811	-2,157	-1,053	602

31 December 2016, EUR million	Gross amount of financial liabilities	Gross amount of financial assets deducted from financial liabilities*	Net amount presented in the balance sheet**	Financial liabilities not set off in the balance sheet		Net amount
				Derivative contracts***	Collateral given	
Derivatives	5,704	-1,307	4,398	-2,472	-1,139	786

* Incl. daily cleared derivatives on a net basis included in cash and cash equivalents, totalling -189 (-147) million euros.
** Fair values excluding accrued interest.
*** It is the practice to enter into master agreements for derivative transactions with all derivative counterparties.

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

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

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

30 June 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	8,701		8,701		1	8,700
Receivables from customers, of which	18,211	238	18,449	209	26	18,214
bank guarantee receivables	0	2	2	2	0	0
Finance leases	1,302		1,302			1,302
Total	**28,215**	**238**	**28,453**	**209**	**28**	**28,216**
Receivables from credit institutions and customers by sector						
Non-banking corporate sector	16,091	237	16,328	209	14	16,105
Financial institutions and insurance companies	9,758		9,758		2	9,756
Households	1,646	1	1,647	1	12	1,635
Non-profit organisations	324		324		0	324
Public sector entities	396		396		0	396
Total	**28,215**	**238**	**28,453**	**209**	**28**	**28,216**

31 December 2016, EUR million	Not impaired (gross)	Impaired (gross)	Total	Individual assessment of impairment	Collective assessment of impairment	Balance sheet value
Receivables from credit institutions and customers						
Receivables from credit institutions	9,460		9,460		2	9,458
Receivables from customers, of which	17,434	243	17,677	219	23	17,435
bank guarantee receivables	0	2	2	2	0	0
Finance leases	1,268		1,268			1,268
Total	**28,161**	**243**	**28,405**	**219**	**25**	**28,160**
Receivables from credit institutions and customers by sector						
Non-banking corporate sector	15,463	242	15,706	218	12	15,475
Financial institutions and insurance companies	10,467		10,467		2	10,464
Households	1,558	1	1,559	1	11	1,548
Non-profit organisations	290	0	290	0	0	290
Public sector entities	383		383		0	383
Total	**28,161**	**243**	**28,405**	**219**	**25**	**28,160**

Doubtful and forborne receivables 30 June 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		107	107	94	13
Unlikely to be paid		226	226	110	116
Forborne receivables	71	20	91	5	86
Total	**71**	**353**	**424**	**209**	**215**

Doubtful and forborne receivables 31 December 2016, EUR million	Performing receivables from credit institutions and customers (gross)	Non-performing receivables from credit institutions and customers (gross)	Receivables from credit institutions and customers, total (gross)	Individually assessed impairment	Receivables from credit institutions and custo-mers (net)
More than 90 days past due		95	95	81	13
Unlikely to be paid		268	268	133	135
Forborne receivables	35	20	55	5	50
Total	**35**	**382**	**417**	**219**	**198**

Key ratio, %	30 June 2017	31 Dec. 2016
Exposures individually assessed for impairment, % of doubtful receivables	49.3 %	52.6 %

The Group reports as the amount of a receivable that is more than 90 days past due whose interest or principal amount has been past due and outstanding for more than 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.

Note 13 Insurance liabilities

EUR million	30 June 2017	31 Dec. 2016
Provision for unpaid claims		
Provision for unpaid claims for annuities	1,450	1,434
Other provision for unpaid claims	1,020	988
Reserve for decreased discount rate (value of hedges of insurance liability)	-24	8
Total	2,446	2,430
Provisions for unearned premiums	799	578
Total	**3,245**	**3,008**

Note 14 Debt securities issued to the public

EUR million	30 June 2017	31 Dec. 2016
Bonds	10,519	11,738
Certificates of deposit, commercial papers and ECPs	7,912	8,088
Total	**18,431**	**19,826**

Note 15 Fair value reserve after income tax

	Available-for-sale financial assets			
	Notes and bonds	Equity instruments	Cash flow hedging	Total
EUR million				
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**

	Available-for-sale financial assets			
	Notes and bonds	Equity instruments	Cash flow hedging	Total
EUR million				
Opening balance 1 January 2016	**32**	**77**	**11**	**120**
Fair value changes	52	-9	3	**46**
Capital gains transferred to income statement	-6	-13		**-20**
Impairment loss transferred to income statement		11		**11**
Transfers to net interest income			-5	**-5**
Deferred tax	-9	2	0	**-7**
Closing balance 30 June 2016	**69**	**68**	**10**	**147**

The fair value reserve before tax amounted to EUR 248 million (245) and the related deferred tax liability amounted to EUR 49 million (49). On 30 June 2017, positive mark-to-market valuations of equity instruments in the fair value reserve totalled EUR 136 million (139) and negative mark-to-market valuations EUR 10 million (7).

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 2017	31 Dec. 2016
Collateral given on behalf of own liabilities and commitments		
Pledges	36	1
Other	5,831	4,973
Total*	**5,867**	**4,973**
Secured derivative liabilities	1,238	1,351
Other secured liabilities	4,091	3,443
Total	**5,330**	**4,794**

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

Note 17 Off-balance-sheet items

EUR million	30 June 2017	31 Dec. 2016
Guarantees	529	716
Other guarantee liabilities	1,538	1,460
Loan commitments	5,891	5,470
Commitments related to short-term trade transactions	389	344
Other*	705	677
Total off-balance-sheet items	**9,052**	**8,667**

* Of which Non-life Insurance commitments to private equity funds amount to EUR 184 million (156).

Note 18 Capital adequacy for credit institutions

OP Corporate Bank Group presents its capital adequacy for credit institutions in accordance with the EU capital requirement regulation and directive (EU 575/2013) (CRR).

Capital base, EUR million	30 June 2017	31 Dec. 2016
OP Corporate Bank Group's equity capital	4,045	4,005
The effect of insurance companies on the Group's shareholders' equity is excluded	-352	-279
Fair value reserve, cash flow hedging	-4	-6
Common Equity Tier 1 (CET1) before deductions	**3,688**	**3,720**
Intangible assets	-77	-76
Excess funding of pension liability and valuation adjustments	-14	-23
Planned profit distribution	-115	-201
Shortfall of impairments – expected losses	-126	-126
Common Equity Tier 1 (CET1)	**3,355**	**3,295**
Subordinated loans to which transitional provision applies	137	140
Additional Tier 1 capital (AT1)	**137**	**140**
Tier 1 capital (T1)	**3,492**	**3,435**
Debenture loans	1,142	1,193
Tier 2 Capital (T2)	**1,142**	**1,193**
Total capital base	**4,634**	**4,628**

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

Risk exposure amount, EUR million	30 June 2017	31 Dec. 2016
Credit and counterparty risk	**19,673**	**19,354**
Standardised Approach (SA)	**1,770**	**1,861**
Central government and central banks exposure	31	33
Credit institution exposure	33	51
Corporate exposure ***	1,655	1,702
Retail exposure	11	12
Other*	39	64
Internal Ratings-based Approach (IRB)	**17,903**	**17,493**
Credit institution exposure	1,015	1,141
Corporate exposure	12,026	11,551
Retail exposure	1,054	983
Equity investments**	3,745	3,741
Other	64	77
Market and settlement risk (Standardised Approach)	**1,884**	**1,329**
Operational risk (Standardised Approach)	**1,266**	**1,163**
Valuation adjustment (CVA)	**225**	**253**
Total risk exposure amount	**23,048**	**22,099**

* EUR 39 million (45) of Other exposures represent deferred tax assets that are treated with a risk weight of 250% instead of a deduction from common equity tier 1 capital.

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

*** The comparative information has been adjusted for SA Corporate exposures.

Ratios, %	30 June 2017	31 Dec. 2016
CET1 capital ratio	14.6	14.9
Tier 1 ratio	15.2	15.5
Capital adequacy ratio	20.1	20.9

Ratios, fully loaded, %	30 June 2017	31 Dec. 2016
CET1 capital ratio	14.6	14.9
Tier 1 ratio	14.6	14.9
Capital adequacy ratio	19.5	20.3

Capital requirement, EUR million	30 June 2017	31 Dec. 2016
Capital base	4,634	4,628
Capital requirement	2,432	2,327
Buffer for capital requirements	2,201	2,301

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

Note 19 Exposures by rating category

Corporate exposures (FIRB) by rating category

30 June 2017

Rating category	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	962	93.1	0.0	44.7	143	14.9	0
2.5–5.5	13,721	74.2	0.2	44.3	5,221	38.1	11
6.0–7.0	3,804	70.2	1.2	43.6	3,564	93.7	20
7.5–8.5	2,077	68.4	4.2	44.5	2,843	136.9	38
9.0–10.0	111	57.9	20.7	44.3	255	228.8	10
11.0–12.0	339	53.1	100.0	46.3			157
Total	**21,015**	**73.4**	**0.9**	**44.2**	**12,026**	**58.2**	**237**

31 December 2016

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

The defaults, or 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 2017	31 Dec. 2016
Eligible capital	**1,092**	**983**
Solvency capital requirement (SCR)		
Market risk	488	483
Insurance risk	294	293
Counterparty risk	31	31
Operational risk	43	43
Diversification benefits and loss absorbency	-181	-164
Total	676	687
Buffer for SCR	**416**	**296**
Solvency ratio (SCR), %	**162**	**143**
Solvency ratio (SCR), % (excluding transitional provision)	**148**	**127**

Transitional provisions have been taken into account in figures under Solvency II and they are according to OP Financial Group's estimate.

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 Pension Fund, OP 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 2016.

Financial reporting in 2017

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

Schedule for Interim Reports in 2017:

Interim Report Q1–3/2017	1 November 2017

Helsinki, 2 August 2017

OP Corporate Bank plc
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