OP Financial Group's interim report 1 January – 30 June 2017

OP Financial Group's Interim Report for 1 January–30 June 2017: Strong operational transformation while maintaining the good earnings level

Earnings were strong as expected, business grew on a broad basis

- Earnings before tax were EUR 583 million (614). Earnings adjusted for non-recurring items were at the previous year's level.
- Total income grew by over 3%. Net interest income was at the previous year's level, net commissions and fees increased by 5% and net insurance income decreased by 3%.
- Expenses increased as expected, being 10% higher than a year ago, due mainly to an increase in investments related to operational reform.
- Impairment loss on receivables, EUR 23 million (23), remained low accounting for 0.06% of loans and receivables.
- The CET1 ratio was 19.1% (20.1) on 30 June 2017.
- **Banking:** The loan portfolio increased by 4% and deposits by 6% in the year to June. Banking net interest income increased by 5% and earnings before tax by almost 20%, supported by investment income.
- **Non-life Insurance:** Insurance premiums from private customers increased by 3%, while those from corporate customers decreased by one per cent. Non-life Insurance earnings were eroded particularly by weaker claims development than in the year before.
- **Wealth Management:** Assets under management increased by 11%. Wealth Management earnings were reduced by lower investment income than a year ago.
- **Other Operations:** Earnings before non-recurring items were at the previous year's level.
- Full-year earnings for 2017 are expected to be about the same as or lower than those for 2016 due to increasing development costs and other expenses arising from strategy implementation.

Our development programme at annual level of over EUR 400 million is proceeding as planned.

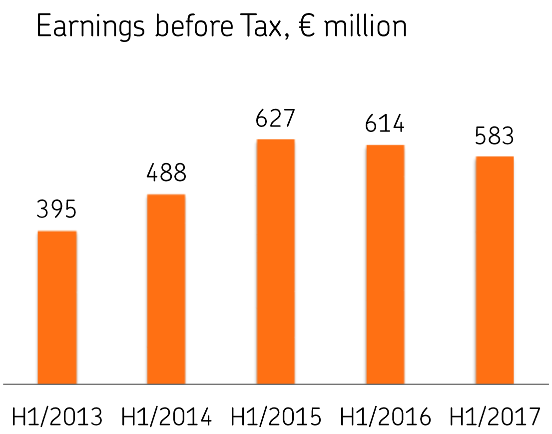
- Development focuses on present-day businesses – over 90% of our development expenditure goes to Banking, Non-life Insurance and Wealth Management.
    - Through our large-scale basic system upgrades, we will improve the competitiveness or our basic business and enable the development of new digital services. The most important system upgrades concern payment transactions, card business, non-life insurance and financing.
    - Furthermore, there are a large number of development projects underway originating from the relevant authorities and legislation related particularly to data protection and anti-money laundering legislation as well as MiFID II regulation.
    - Online services for private and corporate customers (op.fi) were redesigned. Private customer logins to mobile services increased by almost a quarter in the first half and new functionalities were implemented, such as Siirto payment and Pivo's new mobile payment methods. OP took its first steps in creating fully digital businesses by launching OP Nano Insurance.
    - OP introduced a record number of new products, services and functionalities onto the market. In particular, a new motor liability insurance and products protecting against a rise in interest rates met with a very favourable reception.
- A third hospital was opened in Oulu and several new mobility initiatives were launched.
- In the first half, the number of OP cooperative banks' owner-customers increased by almost 40,000 to 1.8 million and that of OP Financial Group's joint banking and insurance customers by 22,000 to 1.8 million.
- New OP bonuses increased at a rate of 6%. In the first half, they totalled EUR 108 million (102).

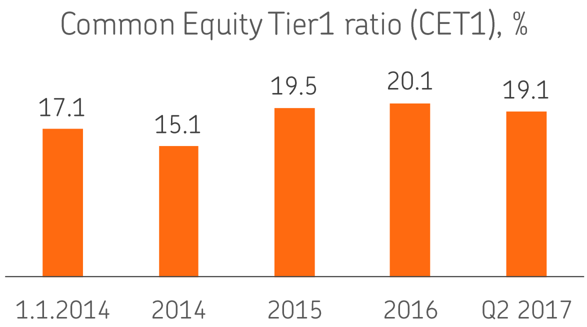
OP Financial Group's key indicators

	Q1–2/2017	Q1–2/2016	Change, %	Q1–4/2016
Earnings before tax, € million	583	614	-5.1	1,138
Banking	338	283	19.5	574
Non-life Insurance	107	120	-11.2	244
Wealth Management	93	135	-31.3	226
Other Operations	45	76	-40.7	95
New OP bonuses accrued to owner-customers	108	102	6.1	208
	30 June 2017	30 June 2016	Change, %	31 Dec. 2016
Common Equity Tier 1 (CET1) ratio, %	19.1	19.4	-0.3*	20.1
Return on economic capital, % **	21.8	22.4	-0.6*	22.7
Ratio of capital base to minimum amount of capital base (under the Act on the Supervision of Financial and Insurance Conglomerates), % ***	145	163	-17*	170
Ratio of impairment loss on receivables to loan and guarantee portfolio, %	0.06	0.06	0.0*	0.09
Owner-customers (1,000)	1,786	1,682	6.2	1,747

Comparatives deriving from the income statement are based on figures reported for the corresponding period in 2016. Unless otherwise specified, balance sheet and other cross-sectional figures on 31 December 2016 are used as comparatives. In the reporting period, non-recurring items included VAT refunds of EUR 22 million and an 18-million-euro profit from the sale of the portfolio of agreements and POS terminals of merchant acquiring and POS terminal services. A non-recurring item a year ago included a gain from the sale of Visa Europe Ltd, totalling EUR 71 million.

* Change in ratio
** 12-month rolling
*** The FiCo ratio has been calculated under Solvency II transitional provisions.





Comments by Reijo Karhinen, President and Group Executive Chairman

OP Financial Group's first half of the year is characterised by success in terms of transformation and financial performance. Our earnings were slightly lower than a year ago, as expected, but still very strong. Development investments that are growing heavily, according to our strategy, added to expenses significantly. Growth in income was based on favourable development in commission income while net interest income remained at the previous year's level. Favourable development in investment income compensated for a slight drop in net insurance income. Banking improved its financial performance the most, supported by volume growth, investment income and net interest income.

The historically broad-based and fast transformation in the financial sector – change in customer behaviour and transformation in the competitive arena – require remarkable reinvention of OP Financial Group too. Comprehensive reinvention in such a traditional business will necessitate huge amounts of resources, boldness and a bright future vision. Updating competencies too will become challenging.

In this transformation, our strong earnings power and in-depth customer insight as well as our genuine desire to work for customers' best interests is a clear strength of OP Financial Group owned by customers. Our challenge is to allocate development resources properly and ensure that sufficient emphasis will be put on the increasing role of customer experience as a competitive factor in all development work.

Based on our strategy confirmed in summer 2016, we have increased our annual product and service development expenditure to around EUR 400 million. The majority of this amount will be spent on extensive system upgrades and product and service development for our traditional businesses – Banking, Non-life Insurance, and Wealth Management – and for the utilisation of digitisation. This work is currently underway on an extensive basis.

As specified in our strategy, we have also taken our first bold steps in completely new businesses. We opened a third Pohjola Hospital in Oulu in May and introduced several new, innovative mobility services during the spring.

Broad-based economic recovery in Finland is a great and hoped-for thing. In the fast changing operating environment, we cannot, however, take a breathing space. Now we need creative solutions and bold initiatives in society. Digitisation is changing a whole heap of industries, conventional operating models and consumer behaviour in a way never seen before. At the same time, the ongoing update of competencies will provide all of us with the best protection. Alongside technology and new tools, there will be a need for a completely new type of abilities to understand an ecosystem mindset, sharing economy, new value chains and revenue generation models. Digitisation at its best makes it possible to create new businesses, increase employment and Finnish prosperity during the next 100 years as well.

OP Financial Group's Interim Report for 1 January–30 June 2017

Contents

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.

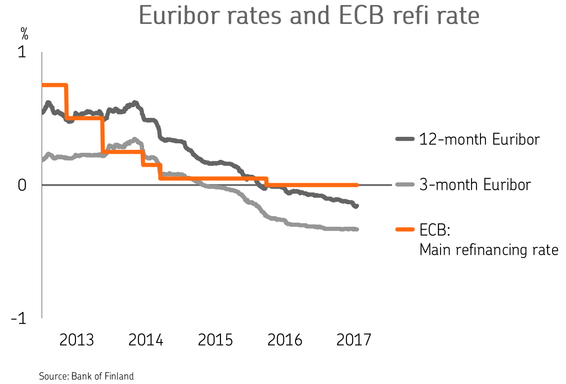
In the second quarter, growth in total deposits turned positive, rising to 4.4%. This change was particularly influenced by strong growth in deposits by public-sector entities. Household deposits increased by 3.4%, and the trend of funds moving from fixed-term time deposits to overnight deposits continued.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

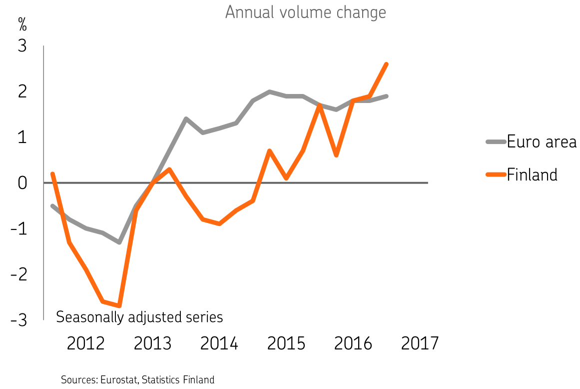
The Finnish economy being on a positive note and the positive capital market supported the insurance sector in the first half.

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.

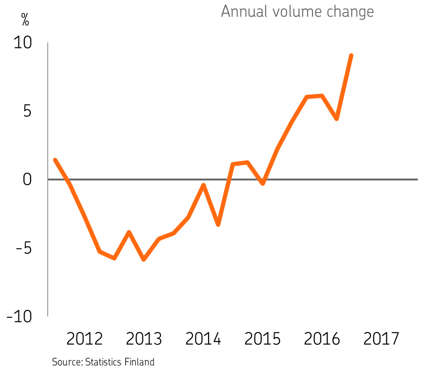
Euribor rates and ECB refi rate



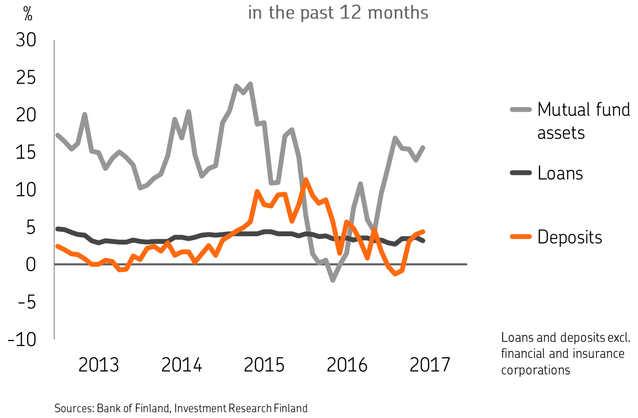
GDP
Annual volume change



Fixed investments in Finland
Annual volume change



Change in financial sector volumes
in the past 12 months



Earnings analysis and balance sheet

Earnings analysis, € million	Q1–2/2017	Q1–2/2016	Change, %	Q2/2017	Q2/2016	Change, %	Q1–4/2016
Earnings before tax	**583**	**614**	**-5.1**	**288**	**331**	**-13.0**	**1,138**
Banking	338	283	19.5	164	138	18.3	574
Non-life Insurance	107	120	-11.2	58	60	-2.9	244
Wealth Management	93	135	-31.3	59	62	-4.8	226
Other Operations	45	76	-40.7	7	71	-89.8	95
Income							
Net interest income	530	528	0.4	272	261	4.3	1,058
Net insurance income	261	269	-2.8	145	140	3.3	558
Net commissions and fees	458	437	4.6	220	213	3.5	859
Net investment income	235	182	29.0	113	96	17.8	390
Other operating income	69	94	-26.1	35	83	-58.1	122
Share of associates' profit/loss	12	4		10	2		1
Total income	**1,565**	**1,514**	**3.4**	**795**	**794**	**0.1**	**2,989**
Expenses							
Personnel costs	393	395	-0.7	191	195	-1.8	762
Depreciation/amortisation and impairment loss	95	75	26.8	53	38	38.1	160
Other operating expenses	366	305	19.8	193	166	16.2	646
Total expenses	**854**	**776**	**10.1**	**437**	**399**	**9.5**	**1,567**
Impairment loss on receivables	**23**	**23**	**-0.2**	**15**	**13**	**21.0**	**77**
New OP bonuses accrued to owner-customers	**108**	**102**	**6.1**	**55**	**52**	**5.8**	**208**

Key balance sheet figures, € million	30 June 2017	31 Dec. 2016	Change, %
Receivables from customers	80,201	78,604	2.0
Investment assets	23,182	25,105	-7.7
Liabilities to customers	61,405	60,077	2.2
Insurance liability	10,326	10,586	-2.5
Debt securities issued to the public	27,564	28,287	-2.6
Equity capital	10,734	10,237	4.9
Total assets	**134,287**	**133,747**	**0.4**

January–June

OP Financial Group's earnings before tax amounted to EUR 583 million (614). The figure decreased by EUR 32 million over the previous year. Lower non-recurring items reduced the earnings. The reported earnings included EUR 40 million (71) in non-recurring income. Higher expenses also reduced earnings over the previous year. In the meantime, net commissions and fees and net investment income increased year on year.

Net interest income increased by 0.4% to EUR 530 million. Net interest income from Banking rose by almost 5%, but the Group's net interest income was reduced by lower net interest income from the Other Operations segment. Net insurance income declined by 2.8% to EUR 261, due to weak claims developments in the first quarter, in particular. Net commissions and fees were EUR 458 million, or EUR 20 million higher than the year before. Mutual fund commissions increased by EUR 4 million and commission expenses decreased by a total of EUR 9 million.

Net investment income increased by 29.0% to EUR 235 million. Income from equity investments under available-for-sale assets increased by a total of EUR 29 million year on year. Impairment losses on available-for-sale assets fell by EUR 19 million. Positive value changes in Credit Valuation Adjustment (CVA) in derivatives owing to market changes improved net income from securities trading. Wealth Management net investment income was reduced by lower capital gains and short-term supplementary interest rate provisions of Life Insurance made for the reporting period that were higher than a year ago.

Other operating income decreased by 26.1% year on year to EUR 69 million. Non-recurring VAT refunds for prior years, interest included, totalled EUR 22 million. In the second quarter, OP Financial Group sold its portfolio of agreements and POS terminals of acquiring and POS terminal services to Nets. Non-recurring gain of EUR 24 million on the transaction was recognised in other operating income. OP Financial Group recognised extra amortisation of EUR 3 million and other expenses of EUR 3 million related to the transaction. A year ago, OP Financial Group recognised EUR 71 million in non-recurring gain as a result of the Visa Europe Ltd transaction.

Total expenses increased by 10.1% to EUR 854 million. This increase is mainly explained by higher development costs, operating expenses of new businesses and depreciation/amortisation. OP Financial Group's significant investments in service development increased development costs by EUR 35 million. Development costs totalled EUR 97 million (62). New businesses accounted for EUR 14 million of the increase in total expenses. Depreciation/amortisation increased by EUR 20 million year on year to EUR 95 million. Personnel costs decreased by 0.7% to EUR 393 million.

Impairment losses recognised under various income statement items that reduced earnings amounted to EUR 37 million (58), of which EUR 23 million (23) concerned loans and receivables. Net impairment loss on loans and receivables were low, at 0.06% (0.06) of the loan and guarantee portfolio.

OP Financial Group's current tax amounted to EUR 106 million (122). The effective tax rate was 19.0% (19.8).

OP Financial Group's equity capital increased by 4.9% to EUR 10.7 billion. The reported earnings and Profit Shares were behind the increase. Equity capital included EUR 2.8 billion (2.7) in Profit Shares, terminated Profit Shares accounting for EUR 0.2 billion (0.3). The return target for Profit Shares for 2017 is 3.25%. Interest payable on Profit Shares accrued during the reporting period is estimated to total EUR 44 million (40). The amount of interest paid for 2016 totalled EUR 83 million in June 2017. The fair value reserve decreased by EUR 40 million to EUR 278 million.

April–June

Earnings before tax for the second quarter came to EUR 288 million (331). The figure was reduced by a decrease of over EUR 50 million in non-recurring items. A year ago, other operating income included a non-recurring gain of EUR 71 million resulting from the Visa Europe Ltd transaction. The sale of merchant acquiring and POS terminal services had a positive earnings effect of EUR 18 million recognised for the second quarter.

The second-quarter earnings performance was supported by improved net interest income, net insurance income, net commissions and fees and net investment income. Total income of EUR 795 million was at the previous year's level despite lower non-recurring income.

Total expenses increased by 9.5% year on year to EUR 437 million as a result of higher depreciation/amortisation and other operating expenses. Significant investments in service development increased development costs by EUR 19 million year on year.

OP Financial Group's strategy and numerical targets

According to the strategy confirmed in June 2016, OP Financial Group aims to gradually change from a plain financial services provider to a diversified services company of the digital era with strong financial services expertise. The strategy highlights customer experience enhancement by digitising services and processes. In the years to come, OP Financial Group intends to make health and wellbeing services its fourth business line alongside Banking, Non-life Insurance and Wealth Management.

OP Financial Group has a large-scale development programme underway to speed up the digitisation of its services. The strategy will be put into practice through 15 strategic initiatives. The Group's development expenditure on the existing and new business will be up to EUR 2 billion between 2016–2020. The investments required by upgrading and streamlining business will add to the Group's expenses and weaken Group profitability before the benefits from such investments are realised in terms of better financial indicators.

In accordance with its strategy, OP Financial Group increased its development expenditure significantly during the reporting period, being almost 40% higher than a year ago. The majority of the expenditure was allocated to the development of the present-day business, but new businesses will account for a larger share in the future. Full-year development expenditure is expected to exceed EUR 400 million.

The development investments ensure the competitiveness and continuity of our present-day business and regulatory compliance and create conditions for new customer-driven business models.

During the reporting period, OP Financial Group continued to upgrade its ICT architecture and the basic systems of the business segments with the aim of improving its competitiveness and enabling new digital services. The key investments for the reporting period covered upgrading the Group-level ICT platform, payment service and card systems as well as non-life and financing systems. The Group also further developed electronic sales and services for Wealth Management.

The reporting period saw the launch of redesigned online services (op.fi) for private and corporate customers. OP launched a number of new functionalities on OP-mobile and Pivo. Logins by private customers to the mobile services increased by almost a quarter in the first half. OP also introduced the first fully digital financial services during the reporting period when it launched OP Nano Insurance. OP introduced several new products onto the market, such as a new motor liability insurance and products protecting home loans against higher interest rates, which were welcomed by customers.

Several large-scale projects originating from the relevant authorities and legislation are also underway. The most significant ones are related to changes in data protection and anti-money laundering regulation, the new revised Payment Service Directive (PSD2) as well as to wealth management (MiFID II and T2S) and financial management (IFRS 9).

In the field of new businesses, OP Financial Group opened its third hospital in Oulu and introduced several new mobility and e-commerce services. In addition, OP piloted its first new housing-related services. The development of new businesses starts from the fact that they should be inherently linked to the present-day business.

OP Financial Group's numerical targets	30 June 2017	31 Dec. 2016	Target
Customer experience, NPS (–100–+100)			
Brand	18.9	22.7	25
Service	56	53	70, over time 90
Common Equity Tier 1 (CET1) ratio, %	19.1	20.1	22
Return on economic capital, % (12-month rolling)	21.8	22.7	22
Expenses of present-day business (12-month rolling), € million	1,596	1,532	Expenses in 2019 lower than in 2015 (1,500)
Owner-customers, million	1.8	1.7	2.1 (2019)

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

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

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

January–June

During the reporting period, OP Financial Group continued with its #Suominousuun initiatives decided earlier. These initiatives are aimed at giving more leeway and economic activity among OP's broad customer base and in the entire Finland.

Financing for SME growth potential

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

Support for families with children through the #Perheenlisä initiative

Based on its #Perheenlisä initiative for families with a baby, OP offers products and services that make the daily life of a new family easier. For example, OP has already granted health and living allowance insurance for an unborn child for one year free of charge to over 18,000 babies. The value of this benefit enjoyed by customers totalled EUR 7 million by the end of the reporting period. Moreover, the initiative also offers the opportunity for a maximum of 12-month home loan repayment holiday without service charges to families who have fulfilled their loan obligations as per agreement and whose baby will be born before the end of 2017. OP will offer free of charge a NewLife life insurance for one year to parents with children under the age of one until the end of 2017.

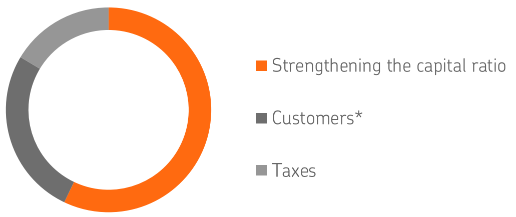
Volunteering in honour of the centenary of Finland's independence

OP's gift to the 100-year-old Finland is 100 person-years of volunteering. All 12,000 OP employees may do voluntary work for one day during their working hours. This equals about half of the targeted hundred person-years. The other half of the target will be achieved by inviting people in Finland to become involved in volunteering on a broad basis. Hiiop100.fi, a volunteer work exchange site launched by OP at the turn of the year, brings together those in need of help and volunteers. The volunteer workdays recorded by the date of the release of this interim report totalled 22 years. It is possible to follow real time at hiiop100.fi the progress of the achievement of the target.

Allocation of earnings

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

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



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

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

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

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

Other January–June highlights

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 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 EUR 1 billion. OP Financial Group has participated in TLTRO-II with a total of EUR 4 billion.

On 2 February 2017, OP Financial Group received the ECB's decision to set OP Financial Group's risk weight floors for retail exposures for a fixed period of 18 months. The shortcomings observed by the ECB in the IRBA (Internal Ratings Based Approach) management and validation process applied by OP Financial Group in capital adequacy measurement, especially delayed validations, lie behind the decision. Correction of the identified shortcomings has proceeded as planned and key shortcomings have already been remedied.

On 7 March 2017, the Finnish Financial Supervisory Authority issued a public warning to, and imposed a penalty payment of EUR 400,000 on, Helsinki Area Cooperative Bank due to shortcomings in investment advice related to the obligation to obtain information. OP Helsinki has taken corrective measures and customers have not suffered any financial harm. The warning is based on the inspection conducted by the Financial Supervisory Authority at several companies in autumn 2015.

On 5 April 2017, OP Financial Group and Nets signed an agreement whereby OP transferred its portfolio of agreements and POS terminals of acquiring and POS terminal services to Nets on 28 June 2017. 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 services sold since 2011. OP Financial Group recognised EUR 18 million in non-recurring earnings on the transaction for the second quarter.

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.

Corporate social responsibility

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

In May, OP informed that it would publish ESG analyses for its mutual funds from July. The quarterly updated, fund-specific analyses will be published for the funds for which there is sufficient data to produce the analysis. The Group uses ESG data collected by MSCI as the basis for the analyses.

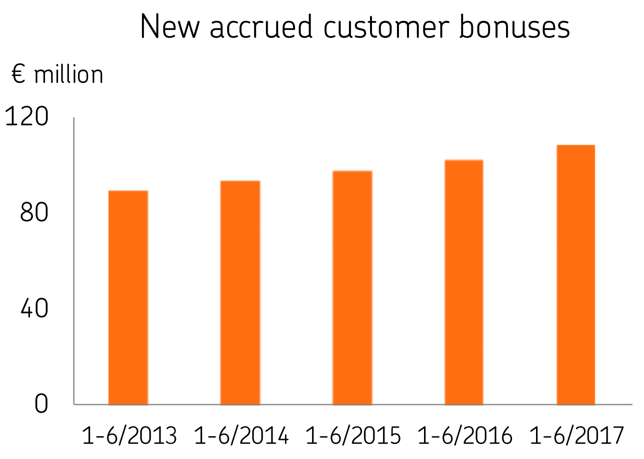
Customer relationships and customer benefits

In January–June, the number of OP Financial Group's owner-customers increased by 39,000 to almost 1.8 million.

Contributions made by OP cooperative banks' owner-customers to the banks' Profit Shares, cooperative shares and supplementary cooperative shares totalled EUR 3.0 billion (3.0) on 30 June 2017.

In January–June, the number of OP Financial Group's customers increased by 22,000 in net terms. The number of customers totalled 4,380,000 at the end of June. The number of private customers totalled 3,938,000 and that of corporate customers 442,000. In January–June, the number of joint banking and non-life insurance customers increased by 22,000 to almost 1.8 million.

Owner-customers earn OP bonuses through banking, non-life insurance and wealth management transactions. The combined amount of new bonuses earned by owner-customers in the first half for using OP as their main bank and insurer was worth EUR 108 million (102). A total of EUR 52 million (52) of bonuses were used to pay for banking and wealth management services and EUR 57 million (52) to pay non-life insurance premiums. OP bonuses were used to pay 1,179,000 insurance bills (1,080,000), with 158,000 (142,000) of them paid in full using bonuses.



Non-life Insurance premier customer households were provided with EUR 42 million (42) in loyalty discounts during the reporting period.

Interest payable on Profit Shares accrued during the reporting period is estimated to total EUR 44 million (40). The return target for Profit Shares for 2017 is 3.25% (3.25). A total of around EUR 88 million (83) in interest are expected to be paid on Profit Shares, according to the profit target.

Multichannel services

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

In June, OP-mobile was the main channel for customers' daily banking, with visits totalling over 15.5 million during one month. The number of visits to online services amounted to some 9 million. The number of visits to the Pivo mobile application totalled around 2 million in June.

The reporting period saw the launch of several new mobile payment methods: Pivo person-to-person payment, Pivo payment button and Siirto payments on Pivo and OP-mobile. The Pivo person-to-person payment and the Siirto payment enable customers to send money to other people by using their mobile phone number. The Pivo payment button enables customers to pay their web purchases without a key code list or their card's PIN. It is already a payment method option at over 2,500 webshops.

OP eServices op.fi has been redesigned, providing both private and corporate customers with banking and insurance services. Customers are already advised to use the redesigned service. OP is currently building individual transaction services, so the old website still co-exists with the new one. OP has developed the service together with its customers from the very beginning and is still collecting customer feedback that guides further development.

Despite the expansion of online and mobile services, OP Financial Group still has Finland's most extensive branch network with over 400 branches across the country. The Group's own branch network is further supported by a comprehensive agency and partnership network, which is particularly important in terms of the sale of non-life insurance policies.

OP Financial Group has extensive presence in the most common social media channels where it has more than 300,000 followers. In addition to the Group's national social media accounts, many member cooperative banks have their own Facebook pages where they share publications destined for local customers. March saw the launch of op.media, which is OP's new social customer media for owner-customers and corporate customers. So far one million people have visited the service.

New businesses

Health and wellbeing

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.

Mobility services

In November 2016, OP took its first step in the field of mobility services by launching the OP Kulku service in the Helsinki Metropolitan Area. The service is aimed at lowering the threshold to use electric cars by providing consumers and small firms with the opportunity to use an electric car with a monthly charge. OP Kulku established itself in Tampere and the neighbouring region in April. In April, OP also announced that it would build with Fortum around hundred EV charging stations around Finland. The new stations will be built adjacent to OP cooperative bank branches. In July, OP announced an OP Kulku service pilot with the City of Imatra, in which shared electric cars acquired by the City of Imatra are available for the City's employees, including during leisure time. A total of 9.5% of electric cars registered in Finland in the reporting period were OP Kulku service cars.

Mobility services expanded in May 2017 when OP introduced DriveNow shared cars in Finland. DriveNow offers registered users 150 cars for car sharing in Helsinki and neighbouring regions at a minute-based fee. At the end of June, DriveNow already had over 8,000 customers in Finland.

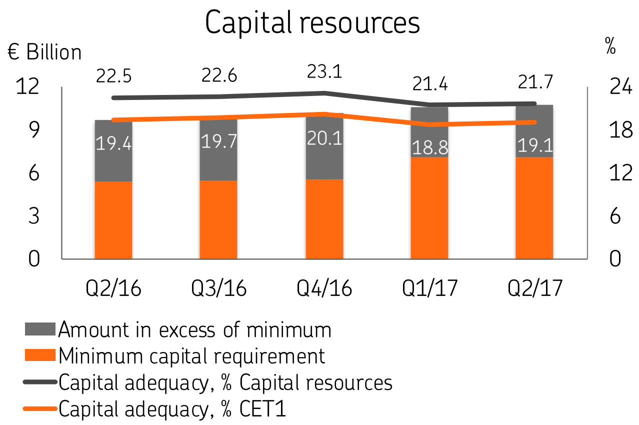
Solvency

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

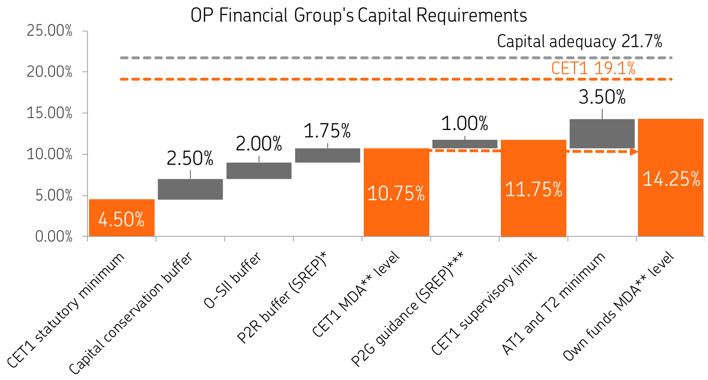
On 30 June 2017, OP Financial Group's capital base, calculated according to the Act on the Supervision of Financial and Insurance Conglomerates (FiCo), exceeded the minimum amount specified in the Act by EUR 3.4 billion (4.3). The buffer was reduced by the Pillar II capital requirement (P2R) of 1.75% determined by the ECB, based on the supervisor's assessment, combined with a higher capital requirement caused by growth in banking business as well as risk weight floors set by the ECB. The P2R buffer requirement increased the consolidated capital adequacy requirement from 12.5% to 14.3%, calculated as percentage of risk-weighted assets. The ratio of the Group capital base to the minimum capital requirement was 145% (170), with the P2R requirement reducing the ratio by 17 percentage points. The ratio was 159% without the risk weight floors set by the ECB. As a result of the buffer requirements for banking and solvency requirement for insurance companies under Solvency II, the FiCo solvency does not reflect the minimum level of the capital base of the FiCo group but the level within which the group can operate without regulatory obligations resulting from buffers below the required level.

Capital adequacy for credit institutions

OP Financial Group's CET1 ratio was 19.1% (20.1) on 30 June 2017. The risk weight floors set by the ECB decreased the CET1 ratio by 1.9 percentage points. An increase in CET1 capital exceeded an increase in total risk exposure amount resulting from growth in the loan portfolio. The effect of the calculated adjustments of defined benefit pension plans (IAS 19) on the Group's CET1 ratio was about –0.9 percentage points, or slightly lower than at the end of 2016.



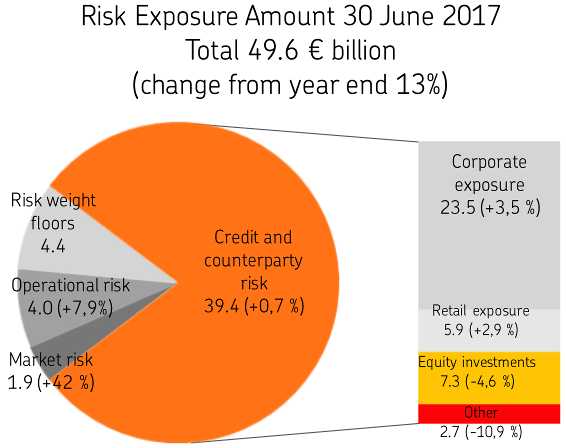
As a credit institution, OP Financial Group's capital adequacy is on a solid basis compared to the statutory requirements and those set by the authorities. The statutory minimum for the capital adequacy ratio is 8% and for the CET1 ratio 4.5%. The requirement for the capital conservation buffer of 2.5%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



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

The Group's CET1 capital was EUR 9.5 billion (8.9) on 30 June 2017. CET1 capital was increased by Banking performance, Profit Share issues and dividends from the Group's insurance institutions. IAS 19 adjustments deducted from CET1 capital decreased slightly from their level at the end of December 2017. The amount of Profit Shares in CET1 capital was EUR 2.8 billion (2.6).

On 30 June 2017, the risk exposure amount (REA) totalled EUR 49.6 billion (44.1), or 12.6% higher than on 31 December 2016. The year-end figure excludes the minimum risk weight set by the ECB that accounts for 80% of the increase. The minimum risk weight for retail exposures set by the ECB was EUR 4.4 billion, without which total risk was EUR 45.2 billion and the increase 2.6% from the turn of the year. The average risk weights of corporate exposure decreased slightly. The average risk weights of retail exposure rose slightly.



OP Financial Group treats insurance holdings within the financial and insurance conglomerate as risk-weighted assets, based on permission from the ECB. Equity investments include EUR 6.5 billion in risk-weighted assets of the Group's internal insurance holdings with a risk weight of around 280%.

The Financial Supervisory Authority makes a macroprudential policy decision on a quarterly basis. In June 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. According to the Authority, this risk weight floor is aimed at preparing for a systemic risk caused by greater household indebtedness. The minimum risk weight will have no effect on OP Financial Group's total risk exposure in view of the risk weight floors for retail exposures set by the ECB. Without the ECB's risk weight floor, the minimum risk weight of 15% for home loans set by the Financial Supervisory Authority would reduce the CET1 ratio by an estimated 1.6 percentage points.

The upcoming EU regulation includes a requirement measuring the ratio of the degree of indebtedness, the leverage ratio. The leverage ratio of OP Financial Group's Banking is estimated at about 7.8% (7.4) based on the existing interpretations, calculated using the June-end figures, with the minimum level in the draft regulations being 3%.

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%. The buffer would affect OP Financial Group only if it exceeded OP Financial Group's O-SII buffer which currently is 2%.

Non-life and Life Insurance

The solvency position of Non-life Insurance remained strong at the end of June, being higher than at the end of December 2016. The Life Insurance solvency position too was higher than at the end of December 2016, although the distribution of extra dividends decreased the capital base.

Solvency II	Non-life Insurance*		Life Insurance	
	30 June 2017	31 Dec. 2016	30 June 2017	31 Dec. 2016
Capital base, € million **	1,101	992	1,374	1,455
Solvency capital requirement (SCR), € million**	680	693	680	742
Solvency ratio, % **	162	143	202	196
Solvency ratio, % (excluding transitional provision)	149	127	152	149

* Non-life Insurance includes OVY Insurance Ltd
** including transitional provisions

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%. 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 relevant risk weight floors for retail exposures set by the ECB are 15.4% for mortgage-backed exposures and 32.7% for other private customer exposures. Based on the decision, the risk weight floors will be effective until the third quarter of 2018.

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. According to the regulation, 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.

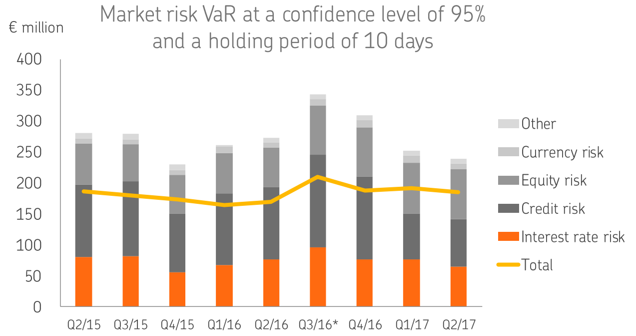
Risk exposure

OP Financial Group's risk exposure has remained stable. The Group has a strong risk capacity that secures business continuity.

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

OP Financial Group's funding and liquidity position is good. The availability of funding has remained good. During the reporting year, the Group issued long-term bonds worth EUR 2.8 billion. In addition, OP Financial Group participated in the second series of the ECB's targeted longer-term refinancing operations (TLTRO-II) with one billion euros. The loan-to-deposit ratio remained stable during the reporting period.

OP Financial Group's market risk exposure was stable during the reporting period. The Group's VaR, a measure of market risk, was EUR 185 million (188) on 30 June 2017. It includes the balance sheet total of the insurance institutions, trading, liquidity buffer and the Group Treasury's interest rate risk exposure.



* The separated balance sheet (pension insurance portfolio) transferred from Suomi Mutual Life Assurance Company has been included in figures since Q3/16.

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

Risks associated with defined benefit pension plans relate to interest rate and market risk, future increases in pension benefits and longer life expectancy. A change in the discount rate for pension liabilities has a substantial effect on the amount of pension liabilities. The decrease in net liabilities related to defined benefit pension plans recognised in other comprehensive income during the reporting period improved comprehensive income before tax by EUR 62 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 271 million.

Banking

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

Credit risk exposure by Banking remained stable and credit risk remained moderate. Doubtful receivables totalled EUR 2.9 billion (2.6), performing forborne loans accounting for 1.8 billion (1.7). Higher doubtful receivables were caused by the greater use of forbearance measures and also partly by weaker borrower grades arising from the updated credit rating scale. 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. Member cooperative banks make every effort to find solutions to overcome customers' temporary financial difficulties. Loan modifications due to reasons other than the customer's financial difficulties are not classified as doubtful receivables. Impairment losses remained low, accounting for 0.06% (0.06) of the loan and guarantee portfolio.

During the reporting period, the loan and guarantee portfolio increased by EUR 1.5 billion to EUR 82.8 billion (81.3). Private customers accounted for 59.6% (60.2) of the loan and guarantee portfolio. Of the six main categories for private customer exposure, 83.7% (84.2) of the exposures belonged to the top two categories, and 3.6% (3.5) to the lowest two. Corporate exposures (incl. housing corporations) represented 37.6% (37.5) of the loan and guarantee portfolio. Of corporate exposure, the highest borrower grade 1–5.5 exposure represented 55.9% (55.2) and the exposure of the two lowest borrower grades amounted to EUR 520 million (526), accounting for 1.2% (1.2) of the total corporate exposure.

No single customer's exposure exceeded 10% of the capital base after allowances and other recognition of credit risk mitigation. The Banking capital base covering customer exposure amounted to EUR 10,9 billion (10,4).

In the Companies and Housing Corporations exposures, the most significant industries measured by exposure were Renting and Operating of Residential Real Estate representing 17.8% (17.7), Renting and Operating of Other Real Estate representing 9.6% (10.2) and Trade representing 8.8% (9.1). A total of 93% of exposures within Renting and Operating of Residential Real Estate were those by housing corporations and 15% were those guaranteed by general government.

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

Banking's interest rate risk measured as the effect of a one-percentage point decrease on 12-month net interest income was EUR 90 million at the end of June. The measurement method changed in 2017 in such a way that it includes changes in the zero floors for home loans written into the Consumer Protection Act.

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 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.

Wealth Management

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

A one-year increase in life expectancy would increase insurance liability by EUR 25 million. A 0.1 percentage point decrease in interest rates used in insurance liability valuation would increase insurance liabilities by EUR 31 million. Investment and customer behaviour risks associated with the separated life insurance portfolios transferred from Suomi Mutual have been buffered. The buffer is sufficient to cover a significant negative return on the investment assets included in the separate portfolios, after which OP Financial Group will bear the risks associated with the portfolios.

In life insurance underwriting risks, the Group has hedged against customer behaviour risk through a reinsurance contract, as a result of which the customer behaviour risk is lower than last year.

The risk exposure of investments was stable during the reporting period. The VaR, a measure of market risk, was EUR 64 million (68) 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 Group has increased the hedge ratio of interest rate risk associated with insurance liabilities.

Other Operations

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

The market risk in proportion to the 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 which consists 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.

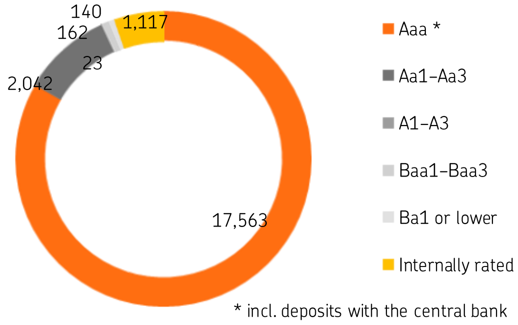
OP Financial Group monitors its liquidity and the adequacy of its liquidity buffer using, for example, the LCR (Liquidity Coverage Ratio). According to the transitional provisions, the LCR must be at least 80% in 2017 and at least 100% from the beginning of 2018. On 30 June 2017, OP Financial Group's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

Liquidity buffer

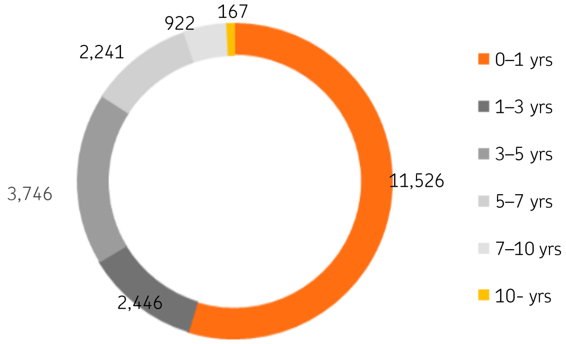
€ billion	30 June 2017	31 Dec. 2016	Change, %
Deposits with central banks	10.6	9.3	14.0
Notes and bonds eligible as collateral	8.8	11.2	-21.3
Corporate loans eligible as collateral		0.1	
Total	**19.4**	**20.6**	**-5.7**
Receivables ineligible as collateral	1.6	1.4	17.1
Liquidity buffer at market value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

Financial assets included in the liquidity buffer by credit rating on 30 June 2017, € million



Financial assets included in the liquidity buffer by maturity on 30 June 2017, € million



Credit ratings

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

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

The credit ratings did not change in the reporting period.

In July 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.

Financial performance by segment

OP Financial Group's business segments are Banking, Non-life Insurance, and Wealth Management. The health and wellbeing business is included in the Non-life Insurance segment. Non-business segment operations are presented under the Other Operations segment. OP Financial Group prepares its segment reporting in compliance with its accounting policies.

Banking

- Earnings before tax amounted to EUR 338 million (283).
- Total income increased by 9.9%. Higher net investment income, net interest income and net commissions and fees added to total income. Expenses increased by 5.6% due to development expenditure and higher volumes.
- The loan portfolio increased by 4.2% and the deposit portfolio by 6.4% in the year to June. Year on year, the volume of new corporate loans drawn down increased by 4.7% and that of home loans decreased by 4.1%.
- Impairment losses of EUR 23 million (23) accounted for 0.06% (0.06) of the loan and guarantee portfolio.
- The most significant Banking development investments involved the upgrades of payment and financing systems. OP Financial Group introduced onto the market new interest rate protection products related to home loans and mobile payment solutions.

Banking: key figures and ratios

€ million	Q1–2/2017	Q1–2/2016	Change, %	Q1–4/2016
Net interest income	587	560	4.8	1,134
Net commissions and fees	323	318	1.4	605
Net investment income	14	-38		-15
Other income	14	13	7.6	27
Total income	**938**	**854**	**9.9**	**1,751**
Personnel costs	188	197	-4.7	378
Depreciation/amortisation and impairment loss	21	19	7.7	44
Other operating expenses	278	244	13.7	499
Total expenses	**486**	**461**	**5.6**	**921**
Impairment loss on receivables	23	23	-1.2	76
OP bonuses to owner-customers	91	87	4.2	180
Earnings before tax	**338**	**283**	**19.5**	**574**
Cost/income ratio, %	**51.9**	**54.0**	**-2.1**	**52.6**
€ million				
Home loans drawn down	3,418	3,565	-4.1	7,125
Corporate loans drawn down	3,687	3,521	4.7	7,275
No. of brokered property transactions	6,439	6,115	5.3	12,664
€ billion				
Loan portfolio	30 June 2017	30 June 2016	Change, %	31 Dec. 2016
Home loans	37.1	35.9	3.2	36.8
Corporate loans	19.5	18.6	4.8	19.0
Housing corporation and other loans	23.7	22.5	5.3	22.8
Total	**80.2**	**77.0**	**4.2**	**78.6**
Guarantee portfolio	2.6	2.6	3.4	2.8
Deposits				
Current and payment transfer	39.4	36.3	8.6	37.1
Investment deposits	17.9	17.5	1.9	17.7
Total	**57.2**	**53.8**	**6.4**	**54.8**

The loan portfolio continued to grow. It increased by 4.2% in the year to June and by 2.0% during the first half. During the reporting period, the loan portfolio exceeded EUR 80 billion, standing at EUR 80.2 billion on 30 June 2017. Year on year, the volume of new corporate loans drawn down increased by 4.7%. The volume of home loans decreased from the exceptionally high level a year ago by 4.1%. In the second quarter of 2016, OP Financial Group got a significantly larger number of customers than usual.

OP Financial Group has been active in providing its customers with the opportunity to make use of the very low interest rates and protect their loans against a rise in interest rates. Sales of interest rate protection products for home loans have tripled over the previous year.

The deposit portfolio increased by 6.4% in year to June and by 4.4% to EUR 57.2 billion during the first half. Investment deposits increased by 1.9% in the year to June. The volume of deposits in current and payment transaction accounts increased by 8.6% in the year to June.

The volume of homes sold and bought through the OP Kiinteistökeskus real estate agents increased by 5.3% over the previous year. OP Financial Group has expanded its housing-related services by introducing a new digital platform (beta.opkoti.fi). The first services introduced during the reporting period included Asunnon myyntiapu and Palveluhaku. The Asunnon myyntiapu service helps customers to sell their owner-occupied home by, for example, giving an appraisal of the home price. The Palveluhaku service brings together the providers of home-related services, such as cleaning services, and households that need such services.

Between January and June, OP Financial Group received 72,000 new banking customers, or 7.3% less than a year ago when the second quarter proved exceptionally good in terms of performance. The number of banking customers totalled 3.7 million at the end of June.

Earnings

Earnings before tax were EUR 338 million (283), or 19.5% higher than a year ago. Total income rose by 9.9% and total expenses by 5.6%. As a result of the rise in income, the cost/income ratio improved to 51.9% (54.0). Impairment losses were low, EUR 23 million (23), accounting for 0.06% (0.06) of the loan and guarantee portfolio.

Net interest income rose to EUR 587 million (560), as a result of an increase in the loan portfolio, a higher average loan portfolio margin and lower funding costs.

Net commissions and fees increased by EUR 5 million to EUR 323 million (318) as a result of higher payment transaction fees and realty commissions. Income from protection against higher interest rates for consumer loans rose, but that related to corporate loans decreased.

Net investment income increased by a total of EUR 52 million. 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.

Expenses increased by 5.6% to EUR 486 million (461). Personnel costs fell by EUR 9 million to EUR 188 million (197). Other operating expenses rose by 13.7%. ICT costs increased by EUR 34 million. Higher ICT costs were explained by heavy investments in online and mobile transaction development and growth in volumes.

Non-life Insurance

- Earnings before tax amounted to EUR 107 million (120). Net investment income totalled EUR 64 million (55). Earnings before tax at fair value were EUR 87 million (158).
- 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.

Non-life Insurance: key figures and ratios

€ 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	64	55	16.9	97
Other net income	-7	-15	-53.3	-33
Total income	**305**	**295**	**3.3**	**598**
Personnel costs	60	61	-1.1	115
Depreciation/amortisation and impairment loss	23	20	12.8	41
Other operating expenses	114	93	22.7	196
Total expenses	**197**	**174**	**13.2**	**352**
OP bonuses to owner-customers	1	1	5.4	2
Earnings before tax	**107**	**120**	**-11.2**	**244**
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 provisions of previous years (run-off result)	19	40		60

* including 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 clearly weaker than the year before, 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.

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.

Earnings

Earnings before tax amounted to EUR 107 million (120). Net insurance income decreased by 3.0% to EUR 248 million. Net investment income recognised in the income statement increased by EUR 9 million. Earnings before tax at fair value were EUR 87 million (158).

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

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 under property and business liability insurance incurred arising from new large claims were higher than a year ago. The reported number of new large claims under property and business liability insurance (in excess of EUR 0.3 million) amounted to 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 2016, 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 changes on the discount rate, 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 13.2%, being EUR 23 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	85.3	62	83.5
Corporate Customers	-6	102.2	18	93.7
Baltics	2	91.8	-1	95.2
Total	**53**	**92.5**	**82**	**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	73.3	76.6
Alternative investments	0.9	0.8
Equities	8.0	8.1
Private equity	2.5	2.9
Real property	9.7	9.8
Money markets	5.5	1.9
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.

Wealth Management

- Earnings before tax amounted to EUR 93 million (135). Earnings before tax at fair value were EUR 76 million (156).
- Total net commissions and fees rose by 5.0% year on year as a result of favourable net asset inflows and value performance of assets under management.
- Life Insurance net investment income fell by 65.8% because gains on sales were lower than a year ago and the net effect of the short-term supplementary interest rate provision turned negative.
- The gross amount of assets under management increased in the year to June by 10.9% to over EUR 76 billion.
- During the reporting period, the Group continued to further develop electronic sales and transactions. Electronic agreements already account for almost 50%.

Wealth Management: key figures and ratios

€ million	Q1–2/2017	Q1–2/2016	Change, %	Q1–4/2016
Net commissions and fees				
Funds and asset management	128	125	2.2	252
Life Insurance	119	113	5.6	218
Expenses	75	74	1.0	139
Total net commissions and fees	**172**	**164**	**5.0**	**330**
Life Insurance's net risk results	13	13	2.0	24
Net investment income from Life Insurance	26	76	-65.8	117
Other income	12	9	33.3	7
Total income	**223**	**262**	**-15.0**	**478**
Personnel costs	39	47	-17.0	89
Depreciation/amortisation and impairment loss	12	13	-2.5	25
Other operating expenses	65	56	16.8	119
Total expenses	**116**	**115**	**0.9**	**233**
OP bonuses to owner-customers	14	12	15.3	25
Earnings before tax	**93**	**135**	**-31.3**	**226**
€ billion	30 June 2017	30 June 2016	Change, %	31 Dec. 2016
Assets under management (gross)				
Mutual funds	23.6	21.1	12.2	23.5
Institutional clients	24.6	24.1	2.2	24.6
Private Banking	18.5	15.3	20.8	17.3
Unit-linked insurance savings	9.7	8.5	14.3	9.2
Total assets under management (gross)	**76.4**	**68.9**	**10.9**	**74.5**
€ million	Q1–2/2017	Q1–2/2016	Change, %	Q1–4/2016
Net inflows				
Investor and saver customers	395	-28		327
Private Banking clients	281	115		437
Institutional clients	150	-111		434
Total net inflows	825	-23		1,198

The improved world economic outlook reflected favourably in the capital market. As a result, demand for Wealth Management products continued to grow while increasing the value of assets under management. Total net inflows were EUR 825 million (–23) and the gross amount of assets under management increased in the year to June by 10.9% to EUR 76.4 billion (74.5). Assets under management included about EUR 14 billion in assets of the companies belonging to OP Financial Group.

OP Financial Group has stopped permanently charging its owner-customers transaction costs related to OP mutual funds. These benefits have aroused interest among customers, considering that the number of unitholders increased by almost 35,000 during the reporting period. The aggregate number of investor and saver customers grew by around 14,000 in the reporting period, totalling 779,000 on 30 June 2017.

The risk-adjusted return of OP Mutual Funds remained good in the reporting period. The Morningstar rating for OP Mutual Funds was 3.1 (3.1). Morningstar selected OP-Finland Small Cap as Finland's best equity fund at its annual Morningstar Awards.

During the reporting period, the Group continued to further develop electronic sales and transactions for Wealth Management. Electronic agreements already account for almost 50% (48) of Wealth Management agreements. A total of 78% (71) of mutual fund orders were made electronically.

Earnings

Earnings before tax decreased to EUR 93 million (135). This decrease was due to lower net investment income recorded by Life Insurance. Capital gains were EUR 36 million lower than a year ago and the net effect of short-term supplementary interest rate provisions turned negative. Earnings before tax at fair value were EUR 76 million (156).

Net commissions and fees increased by 5.0% year on year, amounting to EUR 172 million (164). Net commissions and fees accounted for 0.46% of the gross amount of the assets under management.

Net return on Life Insurance investments at fair value totalled EUR 66 million (13). Net return on investments at fair value is calculated by deducting the value change in market-consistent insurance liability from income from total investment assets. These investments exclude the so-called separated balance sheets that were transferred from Suomi Mutual.

Expenses were at the previous year's level as personnel costs decreased by EUR 8 million and development costs included in other operating expenses increased by EUR 5 million. Expenses accounted for 0.30% of the gross amount of the assets under management.

Interest rate risk associated with insurance liability has been hedged through supplementary interest rate provisions and interest rate derivatives. In the reporting period, short-term supplementary interest rate provisions increased by EUR 9 million (–5) in net terms. Accrued supplementary interest rate provisions related to insurance liabilities (excluding the separated balance sheets) totalled EUR 379 million (432) on 30 June 2017. Short-term supplementary interest rate provisions made for less than 12 months accounted for EUR 45 million (36) of these provisions.

Life Insurance's investment assets, excluding assets covering unit-linked insurance, interest rate derivatives hedging insurance liability and the separated balance sheets, amounted to EUR 3,868 million (4,100). Investments within the investment-grade category accounted for 93% (93) of the fixed-income portfolio. On 30 June 2017, the portfolio's modified duration was 4.9 (4.9). The running yield for direct bond investments (excluding the separated balance sheets) averaged 1.7% (1.5) on 30 June 2017.

Investment portfolio by asset class

%	30 June 2017	31 Dec. 2016
Bonds and bond funds	72.5	76.2
Alternative investments	9.6	7.4
Equities and equity funds	6.2	6.3
Real property	7.8	7.2
Money markets	3.8	3.2
Total	**100**	**100**

Return on investments on the separated Life Insurance balance sheets

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

On 30 June 2017, investment assets in the individual life insurance portfolio in the separated balance sheet, excluding interest rate derivatives hedging insurance liability, amounted to EUR 965 million (1,066). Net return on investments at fair value was EUR 16 million. Net return on investments at fair value is calculated by deducting the value change in market-consistent insurance liability from income from investment assets.

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

%	30 June 2017	31 Dec. 2016
Bonds and bond funds	74.8	81.1
Alternative investments	8.4	7.7
Equities and equity funds	2.3	2.9
Real property	7.3	6.7
Money markets	7.1	1.6
Total	**100**	**100**

On 30 June 2017, investment assets in the individual pension insurance portfolio in the separated balance sheet, excluding interest rate derivatives hedging insurance liability, amounted to EUR 2,764 million (3,049). Net return on investments at fair value was EUR 42 million. Net return on investments at fair value is calculated by deducting the value change in market-consistent insurance liability from income from investment assets.

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

%	30 June 2017	31 Dec. 2016
Bonds and bond funds	70.4	71.4
Alternative investments	11.4	1.4
Equities and equity funds	2.2	2.4
Real property	6.6	6.1
Money markets	9.4	18.7
Total	**100**	**100**

Other Operations

Other Operations segment: key figure and ratios

€ million	Q1–2/2017	Q1–2/2016	Change, %	Q1–4/2016
Net interest income	-45	-21		-61
Net commissions and fees	-28	-37	-24.5	-59
Net investment income	129	88	47.1	199
Other operating income	331	306	8.0	572
Share of associates' profit/loss	3	-1		-6
Total income	**391**	**336**	**16.3**	**646**
Personnel costs	106	91	16.6	180
Depreciation/amortisation and impairment loss	40	23	71.0	50
Other operating expenses	200	145	37.3	321
Total expenses	**345**	**260**	**33.0**	**552**
Impairment loss on receivables	0	0	99.8	0
Earnings before tax	**45**	**76**	**-40.7**	**95**

Earnings

Earnings before tax amounted to EUR 45 million (76). The earnings were reduced by lower net interest income and net commissions and fees as well as higher expenses. Total income increased by 16.3% to EUR 391 million.

Net interest income was EUR –45 million (–21). Net investment income increased by 47.1% to EUR 129 million. Derivatives operations decreased net interest income and increased net income from securities trading included in net investment income. According to OP Financial Group's accounting policy, income from derivative instruments is split between net interest income and net income from 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. In addition, an increase of EUR 14 million in net income from available-for-sale assets added to net investment income. Net commissions and fees increased by EUR 9 million to EUR –28 million as commission expenses decreased.

Other operating income rose by EUR 25 million to EUR 331 million due to higher intra-Group charges. A total of EUR 22 million in non-recurring VAT refunds for prior years, interest included, were recognised under the Other Operations segment. In the second quarter, OP Financial Group sold its portfolio of agreements and POS terminals of acquiring and POS terminal services to Nets. Non-recurring gain of EUR 20 million on the transaction was recorded in the Other Operations segment. OP Financial Group recognised extra amortisation of EUR 3 million and other expenses of EUR 3 million related to the transaction. A year ago, Other Operations recognised EUR 71 million in non-recurring gain under other operating income as a result of the acquisition of Visa Europe Ltd by Visa Inc.

Expenses increased by EUR 85 million to EUR 345 million due to higher development expenditure.

In June 2017, the average margin of OP Financial Group's senior wholesale funding, TLTRO-II funding and covered bonds was 22 basis points (31). Use of the TLTRO-II funding, together with funding arriving at maturity at higher cost, lower the cost of wholesale funding. Covered bonds are reported as part of the Banking segment.

Changes in OP Financial Group's structure

OP Financial Group's consolidated financial statements at the end of the reporting period include the accounts of 168 member cooperative banks (173), OP Cooperative Consolidated and OVY Insurance Ltd.

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

Pielisen Osuuspankki merged into Pohjois-Karjalan Osuuspankki. The merger was registered on 31 March 2017.

Karjalan Osuuspankki merged into Mynämäen-Nousiaisten Osuuspankki. The merger was registered on 30 April 2017.

Vetelin Osuuspankki merged into Kaustisen Osuuspankki. Consequently, the business name changed to Perhonjokilaakson Osuuspankki. The merger was registered on 31 May 2017.

Vetelin Ylipään Osuuspankki merged into Halsuan Osuuspankki. Consequently, the business name changed to Halsua-Ylipään Osuuspankki. The merger was registered on 30 June 2017.

Oriveden Osuuspankki merged into Mäntän Seudun Osuuspankki. Consequently, the business name changed to Pohjois-Hämeen Osuuspankki. The merger was registered on 30 June 2017.

Kuhmoisten Osuuspankki and Järvi-Hämeen Osuuspankki accepted a merger plan on 16 March 2017 and 15 March 2017, according to which the former will merge into the latter. The merger was registered on 31 July 2017.

Personnel and remuneration

On 30 June 2017, OP Financial Group had 12,306 employees (12,227). The number of employees averaged 12,170 (12,271). In the first half, the Group increased headcount as a result of recruitment based on the new strategy.

During the reporting period, 179 OP Financial Group employees (160) retired, at an average age of 62.1 years (61.7).

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

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

In drawing up the incentive schemes, OP has taken account of the regulation regarding the financial sector's remuneration schemes. As a rule, the remuneration scheme for 2017–19 follows the principles observed during the previous three-year performance period.

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

Governance of OP Cooperative

OP Financial Group's central cooperative (OP Cooperative) held its Annual Cooperative Meeting on 21 March 2017.

The Meeting re-elected for the term of three years ending in 2020 the following members to the Supervisory Board who were due to resign: Health Centre Physician Terttu Hällfors, Managing Director Timo Laine and professor Jaakko Pehkonen.

New members elected to the Supervisory Board for a three-year term ending in 2020 were Coordinator Mervi Hinkkanen and Managing Director Juha Luomala.

The Meeting elected the following Supervisory Board members for a term ending in 2018 replacing those resigning from the Supervisory Board during their mid-term: Managing Director Olli Koivula and Senior Manager Anssi Mäkelä.

In addition, the Meeting elected the following members to the Supervisory Board outside of OP Financial Group for a term ending in 2020: Senior Lawyer Tiina Bäckman, CFO Riitta Palomäki and Chief Executive Officer Arto Ylimartimo. The Supervisory Board comprises 36 members.

At its reorganising meeting, the Supervisory Board elected the presiding officers of the Supervisory Board. Professor of Economics Jaakko Lehtonen was re-elected the Chair and Senior Lecturer in Marketing Mervi Väisänen and Managing Director Olli Tarkkanen Vice Chairs.

Along with the presiding officers, the Supervisory Board's five committees have a key role in Supervisory Board work. The Supervisory Board Chair chairs the Supervisory Board Working Committee, Remuneration Committee and the central cooperative consolidated's Nomination Committee. The Supervisory Board Audit Committee is chaired by Professor Jarna Heinonen and Risk Management Committee by engineer Ola Eklund.

The Annual Cooperative Meeting decided to alter the cooperative Bylaws in such a way that Executive Board deputy membership is removed from the Bylaws. This decision has no effect on the current composition of the Executive Board.

The Annual Cooperative Meeting re-elected KPMG Oy Ab, an audit firm, to act as the auditor for the financial year 2017, with Raija-Leena Hankonen, APA, acting as the Auditor-in-charge, appointed by KPMG Oy Ab.

Capital expenditure and service development

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

OP Financial Group's development expenditure for January–June totalled EUR 202 million (145). These include licence fees, purchased services, other external costs related to projects and in-house work. The capitalised development expenditure totalled EUR 105 million (83).

More detailed information on the Group's investments can be found in each business segment's section in this interim report and in section "OP Financial Group's strategy and numerical targets".

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 Financial Group expects its full-year earnings before tax for 2017 to be about the same as or lower than those for 2016 due to increasing development costs and other expenses arising from strategy implementation. Uncertainty that is still related to the operating environment may cause short-term earnings volatility, which will have an effect on the predictability of OP Financial Group's earnings performance. The most significant uncertainties in respect of the financial performance towards the year end relate to changes in the interest rate and investment environment, impairment losses and the rate of business growth.

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

Consolidated income statement

EUR million	Note	Q2/ 2017	Q2/ 2016	Q1–2/ 2017	Q1–2/ 2016
Net interest income	3	272	261	530	528
Net insurance income	4	145	140	261	269
Net commissions and fees	5	220	213	458	437
Net investment income	6	113	96	235	182
Other operating income		35	83	69	94
Share of associates' profits		10	2	12	4
Total income		**795**	**794**	**1,565**	**1,514**
Personnel costs		191	195	393	395
Depreciation/amortisation		53	38	95	75
Other expenses		193	166	366	305
Total expenses		**437**	**399**	**854**	**776**
Impairments of receivables	7	15	13	23	23
OP bonuses to owner-customers		55	52	106	100
Earnings before tax		**288**	**331**	**583**	**614**
Income tax expense		50	68	106	122
Profit for the period		**238**	**263**	**477**	**493**
Attributable to:					
Owners		237	262	476	491
Non-controlling interests		1	1	1	1
Profit for the period		**238**	**263**	**477**	**493**

Statement of comprehensive income		Q2/ 2017	Q2/ 2016	Q1–2/ 2017	Q1–2/ 2016
Profit for the period		**238**	**263**	**477**	**493**
Items that will not be reclassified to profit or loss					
Gains(/losses) arising from remeasurement of defined benefit plans		46	-78	62	-271
Items that may be reclassified to profit or loss					
Change in fair value reserve					
Measurement at fair value		5	39	-2	95
Cash flow hedge		-14	9	-24	25
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		-9	16	-12	54
Items that may be reclassified to profit or loss					
Measurement at fair value		-1	-8	0	-19
Cash flow hedge		3	-2	5	-5
Total comprehensive income for the period		**268**	**239**	**505**	**372**
Attributable to:					
Owners		260	228	485	344
Non-controlling interests		7	11	20	28
Total comprehensive income for the period		**268**	**239**	**505**	**372**

Balance sheet

EUR million	Note	30 June 2017	31 December 2016
Cash and cash equivalents		10,770	9,471
Receivables from credit institutions		421	337
Financial assets held for trading		712	692
Derivative contracts	10	3,705	4,732
Receivables from customers	12	80,201	78,604
Investment assets		23,182	25,105
Assets covering unit-linked contracts		9,640	9,168
Investments in associates		179	91
Intangible assets		1,516	1,474
Property, plant and equipment (PPE)		879	871
Other assets		2,891	2,992
Tax assets		190	210
Total assets		**134,287**	**133,747**
Liabilities to credit institutions		4,881	4,669
Derivative contracts		3,597	4,044
Liabilities to customers		61,405	60,077
Insurance liabilities	13	10,326	10,586
Liabilities from unit-linked insurance and investment contracts	13	9,679	9,205
Debt securities issued to the public	14	27,564	28,287
Provisions and other liabilities		3,714	4,226
Tax liabilities		893	894
Supplementary cooperative share		70	77
Subordinated liabilities		1,424	1,445
Total liabilities		**123,554**	**123,509**
Equity capital			
Share of OP Financial Group's owners			
Cooperative capital			
Cooperative share		169	166
Profit shares		2,778	2,719
Fair value reserve	15	278	318
Other reserves		2,158	2,108
Retained earnings		5,229	4,824
Non-controlling interests		122	102
Total equity capital		**10,734**	**10,237**
Total liabilities and equity capital		**134,287**	**133,747**

Statement of changes in equity

	Attributable to owners						
EUR million	Cooperative capital	Fair value reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2016	2,656	242	2,085	4,271	9,254	70	9,324
Total comprehensive income for the period		69		275	344	28	372
Profit for the period				491	491	1	493
Other comprehensive income		69		-217	-148	27	-121
Profit distribution				-68	-68		-68
Change in cooperative capital	19				19		19
Transfer of reserves			75	-75			
Other				1	1	-10	-9
Balance at 30 June 2016	2,674	311	2,159	4,404	9,549	88	9,637

	Attributable to owners						
EUR million	Cooperative capital	Fair value reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2017	2,885	318	2,108	4,824	10,135	102	10,237
Total comprehensive income for the period		-25		525	500	20	520
Profit for the period				476	476	1	477
Other comprehensive income		-25		49	24	19	43
Profit distribution				-85	-85		-85
Change in cooperative capital	62				62		62
Associated company transfers		-15		15			
Transfer of reserves			50	-50			
Other				0	0	0	0
Balance at 30 June 2017	2,946	278	2,158	5,229	10,612	122	10,734

Cash flow statement

EUR million	Q1–2/ 2017	Q1–2/ 2016
Cash flow from operating activities		
Profit for the period	477	493
Adjustments to profit for the period	1,227	1,323
Increase (-) or decrease (+) in operating assets	**48**	**-4,837**
Receivables from credit institutions	16	105
Financial assets held for trading	53	-240
Derivative contracts	-11	33
Receivables from customers	-1,631	-1,796
Assets covering unit-linked contracts	-301	125
Investment assets	1,644	-2,537
Other assets	279	-527
Increase (+) or decrease (-) in operating liabilities	**123**	**-254**
Liabilities to credit institutions	237	883
Financial liabilities at fair value through profit or loss	0	0
Derivative contracts	-1	-38
Liabilities to customers	1,328	-66
Insurance liabilities	14	-929
Liabilities from unit-linked insurance and investments contracts	-916	-211
Provisions and other liabilities	-539	107
Income tax paid	-99	-154
Dividends received	73	55
A. Net cash from operating activities	**1,849**	**-3,375**
Cash flow from investing activities		
Increases in held-to-maturity financial assets		0
Decreases in held-to-maturity financial assets	49	5
Acquisition of subsidiaries and associates, net of cash acquired	-58	0
Disposal of subsidiaries and associates, net of cash disposed	2	
Purchase of PPE and intangible assets	-149	-119
Proceeds from sale of PPE and intangible assets	3	10
B. Net cash used in investing activities	**-152**	**-104**
Cash flow from financing activities		
Decreases in subordinated liabilities	0	-142
Increases in debt securities issued to the public	15,294	13,666
Decreases in debt securities issued to the public	-15,562	-13,610
Increases in cooperative and share capital	496	518
Decreases in cooperative and share capital	-440	-503
Dividends paid and interest on cooperative capital	-85	-69
C. Net cash used in financing activities	**-298**	**-141**
Net increase/decrease in cash and cash equivalents (A+B+C)	**1,400**	**-3,620**
Cash and cash equivalents at period-start	**9,571**	**8,708**
Cash and cash equivalents at period-end	**10,971**	**5,088**
Interest received	**1,010**	**1,216**
Interest paid	**-515**	**-727**
Cash and cash equivalents		
Liquid assets	10,770	4,890
Receivables from credit institutions payable on demand	200	198
Total	**10,971**	**5,088**

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% and 130% in life insurance. Capital allocation has an effect on the Group's internal interest amounts paid by the segment concerned.

	Banking	Non-life Insurance	Wealth Management	Other operations	Eliminations	Group total
Q1–2 earnings 2017, EUR million						
Net interest income	587	-8	1	-45	-4	530
-of which internal net income before tax	-9	-7	1	15		
Net insurance income		248	13		0	261
Net commissions and fees	323	-11	172	-28	1	458
Net investment income	14	64	26	129	2	235
Other operating income	14	9	5	331	-290	69
Share of associates' profits	1	3	5	3	0	12
Total income	**938**	**305**	**223**	**391**	**-291**	**1,565**
Personnel costs	188	60	39	106	0	393
Depreciation/amortisation and impairment losses	21	23	12	40	0	95
Other operating expenses	278	114	65	200	-291	366
Total expenses	**486**	**197**	**116**	**345**	**-291**	**854**
Impairments of receivables	23	0		0	0	23
OP bonuses to owner-customers	91	1	14		0	106
Earnings before tax	**338**	**107**	**93**	**45**	**0**	**583**

	Banking	Non-life Insurance	Wealth Management	Other operations	Eliminations	Group total
Q1–2 earnings 2016, EUR million						
Net interest income	560	-10	3	-21	-3	528
-of which internal net income before tax	-11	-8	3	17		
Net insurance incomes		256	13		0	269
Net commissions and fees	318	-11	164	-37	2	437
Net investment income	-38	55	76	88	2	182
Other operating income	12	4	5	306	-234	94
Share of associates' profits	1	1	2	-1	0	4
Total income	**854**	**295**	**262**	**336**	**-233**	**1,514**
Personnel costs	197	61	47	91	0	395
Depreciation/amortisation and impairment losses	19	20	13	23	0	75
Other operating expenses	244	93	56	145	-234	305
Total expenses	**461**	**174**	**115**	**260**	**-234**	**776**
Impairments of receivables	23	0		0	0	23
OP bonuses to owner-customers	87	1	12		0	100
Earnings before tax	**283**	**120**	**135**	**76**	**0**	**614**

Balance sheet 30 June 2017, EUR million	Banking	Non-life Insurance	Wealth Management	Other operations	Eliminations	Group total
Cash and cash equivalents	100	265	485	10,646	-726	10,770
Receivables from credit institutions	8,092	5	48	9,441	-17,165	421
Financial assets held for trading	-4			718	-2	712
Derivative contracts	373	8	88	3,599	-363	3,705
Receivables from customers	81,026	0	0	330	-1,155	80,201
Investment assets	568	3,640	7,320	16,649	-4,994	23,182
Assets covering unit-linked contracts			9,647		-7	9,640
Investments in associates	9	2	29	28	112	179
Intangible assets	65	686	369	400	-3	1,516
Property, plant and equipment (PPE)	460	43	27	361	-12	879
Other assets	277	835	323	1,666	-210	2,891
Tax assets	90	21	21	41	18	190
Total assets	**91,055**	**5,504**	**18,356**	**43,880**	**-24,509**	**134,287**
Liabilities to credit institutions	8,934			12,311	-16,365	4,881
Derivative contracts	202	20	43	3,696	-365	3,597
Liabilities to customers	58,461		2	4,684	-1,741	61,405
Insurance liabilities		3,245	7,081			10,326
Liabilities from unit-linked insurance and investments contracts			9,679			9,679
Debt securities issued to the public	11,079			17,314	-829	27,564
Provisions and other liabilities	1,898	407	177	1,538	-307	3,714
Tax liabilities	358	93	72	347	24	893
Supplementary cooperative share	251				-180	70
Subordinated liabilities	82	135	245	1,415	-452	1,424
Total liabilities	**81,264**	**3,901**	**17,298**	**41,306**	**-20,215**	**123,554**
Equity capital						**10,734**

Balance sheet 31 December 2016, EUR million	Banking	Non-life Insurance	Wealth Management	Other operations	Eliminations	Group total
Cash and cash equivalents	113	90	459	9,329	-520	9,471
Receivables from credit institutions	6,351	6	53	10,180	-16,253	337
Financial assets held for trading	-4		0	698	-2	692
Derivative contracts	458	26	125	4,582	-459	4,732
Receivables from customers	79,144	0		683	-1,223	78,604
Investment assets	580	3,755	7,909	17,705	-4,843	25,105
Assets covering unit-linked contracts			9,168		0	9,168
Investments in associates	10	2	28	27	25	91
Intangible assets	62	689	374	353	-3	1,474
Property, plant and equipment (PPE)	480	46	25	332	-12	871
Other assets	292	708	336	2,104	-448	2,992
Tax assets	103	12	12	62	21	210
Total assets	**87,588**	**5,334**	**18,490**	**46,054**	**-23,719**	**133,747**
Liabilities to credit institutions	9,565			10,533	-15,428	4,669
Derivative contracts	168	17	21	4,297	-460	4,044
Liabilities to customers	54,693		3	6,815	-1,434	60,077
Insurance liabilities		3,008	7,578			10,586
Liabilities from unit-linked insurance and investment contracts			9,205			9,205
Debt securities issued to the public	10,522			18,790	-1,026	28,287
Provisions and other liabilities	1,856	553	285	2,095	-562	4,226
Tax liabilities	355	95	87	338	19	894
Supplementary cooperative share	253				-177	77
Subordinated liabilities	82	135	245	1,436	-452	1,445
Total liabilities	**77,494**	**3,809**	**17,424**	**44,303**	**-19,520**	**123,509**
Equity capital						**10,237**

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.

Allocation of OP cooperative banks' income and expenses to the segments

OP cooperative banks' income and expenses were previously presented under the Banking segment. Since the beginning of 2017, OP cooperative banks' income items have been allocated to different segments. Expenses have been allocated to the segments based on the matching principle or allocation rules. More income and expenses than before are assigned to the Wealth Management segment in particular. OP cooperative banks' investments in OP Cooperative's membership shares and supplementary shares previously presented in the Banking segment have been eliminated in the Other Operations segment. The comparatives in the interim report have been restated to be compliant with new presentation. The tables below show changes made to the comparatives of the key income statement and balance sheet items.

Banking

Consolidated income statement	As presented previously 1 Jan.–30 June 2016	Change	New 1 Jan.–30 June 2016
Income	941	-87	854
Expenses	536	-75	461
Earnings before tax	295	-12	283

Balance sheet	As presented previously 31 Dec. 2016	Change	New 31 Dec. 2016
Assets	93,312	-5,723	87,588
Liabilities	77,361	132	77,494

Non-life Insurance

Consolidated income statement	As presented previously 1 Jan.–30 June 2016	Change	New 1 Jan.–30 June 2016
Income	278	17	295
Expenses	160	14	174
Earnings before tax	117	4	120

Balance sheet	As presented previously 31 Dec. 2016	Change	New 31 Dec. 2016
Assets	5,331	2	5,334
Liabilities	3,798	10	3,809

Wealth Management

Consolidated income statement	As presented previously 1 Jan.–30 June 2016	Change	New 1 Jan.–30 June 2016
Income	207	55	262
Expenses	54	62	115
Earnings before tax	141	-6	135

Balance sheet	As presented previously 31 Dec. 2016	Change	New 31 Dec. 2016
Assets	18,483	7	18,490
Liabilities	17,400	24	17,424

Other Operations

Consolidated income statement	As presented previously 1 Jan.–30 June 2016	Change	New 1 Jan.–30 June 2016
Income	321	15	336
Expenses	259	0	260
Earnings before tax	62	14	76

Balance sheet	As presented previously 31 Dec. 2016	Change	New 31 Dec. 2016
Assets	46,333	-279	46,054
Liabilities	45,440	-1,137	44,303

Eliminations

Consolidated income statement	As presented previously 1 Jan.–30 June 2016	Change	New 1 Jan.–30 June 2016
Income	-233	0	-233
Expenses	-234	0	-234
Earnings before tax	0	0	0

Balance sheet	As presented previously 31 Dec. 2016	Change	New 31 Dec. 2016
Assets	-29,712	5,993	-23,719
Liabilities	-20,490	970	-19,520

New standards and interpretations

IFRS 9 Financial Instruments:

OP Financial Group 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 Financial Group analyse the calculation and monitoring processes for financial instruments, with the related changes being made are not yet completed. OP Financial Group 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 Financial Group'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 Financial Group's CET1 ratio.
The biggest classification changes will apply especially to investment by OP Financial Group's Non-life and Life Insurance, equity instruments and mutual fund investments, which will mainly be reclassified as those recognised at fair value through profit or loss. OP Financial Group 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-balancesheet loan commitments and guarantee commitments.
OP Financial Group'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 life-time, depending on whether the instrument's credit risk on the reporting day has increased significantly since initial recognition. The Group 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 Financial Group 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 Financial Group uses a uniform definition in capital adequacy measurement.

OP Financial Group will include forward-looking information and macroeconomic scenarios in the model. The macroeconomic scenarios are the same that OP Financial Group 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 Financial Group'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 Financial Group will continue to apply hedge accounting under IAS 39. OP Financial Group 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 Financial Group. Based on the current assessment, OP Financial 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 Financial Group, IFRS 15 mainly applies to commissions and fees of the Wealth Management segment and Banking segment fees not included in the calculation of the effective interest rate. Changes to the revenue recognition date for Wealth Management management fees or profit-based performance management fees are not expected in comparison with the current practice. The combinations of various services offered to Wealth Management and Banking customers as well as OP bonuses 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), %	9.2	10.4
Return on equity (ROE) at fair value, %	9.7	7.9
Return on assets (ROA), %	0.72	0.79
Cost/income ratio, %	55	51
Average personnel	12,170	12,258

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, %

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

Operating combined ratio, %

Operating loss ratio + Operating expense ratio

Operating risk ratio + Operating cost ratio

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

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

Operating cost ratio, %

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

INDICATORS BASED ON CAPITAL ADEQUACY MEASUREMENT

Capital adequacy ratio, %

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

Tier 1 ratio, %

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

CET1 ratio, %

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

Solvency ratio, %

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

Leverage ratio, %

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

Liquidity coverage requirement (LCR), %

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

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

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

Return on economic capital, %

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

NON-LIFE INSURANCE OPERATING RESULTS

EUR million	Q1–2/ 2017	Q1–2/ 2016	Change %	Q1–4/ 2016
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	64	55	16.9	97
Other income and expenses	1	-6		-8
Earnings before tax	**107**	**120**	**-11.2**	**244**
Gross change in fair value reserve	-20	38		68
Earnings before tax at fair value	**87**	**158**	**-45.0**	**311**

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	7	2	13	3
Receivables from customers				
Loans	293	297	582	596
Finance lease receivables	4	3	8	7
Impaired loans and other commitments	1	1	1	2
Notes and bonds				
Held for trading	2	3	4	5
Available for sale	26	32	53	65
Held to maturity	0	1	1	1
Loans and receivables	0	0	1	1
Derivative contracts				
Held for trading	184	235	371	500
Fair value hedge	-29	-33	-59	-64
Cash flow hedge	9	10	18	19
Ineffective portion of cash flow hedge	-1	0	-1	1
Other	5	2	6	3
Total	**502**	**551**	**999**	**1,138**
Interest expenses				
Liabilities to credit institutions	15	6	28	12
Financial liabilities at fair value through profit or loss	0	0	0	0
Liabilities to customers	19	24	38	52
Debt securities issued to the public	75	67	150	144
Subordinated liabilities				
Subordinated loans	1	1	1	3
Other	11	11	22	22
Derivative contracts				
Held for trading	154	211	321	444
Cash flow hedge	-32	-33	-66	-71
Other	-15		-32	
Other	3	2	6	3
Total	**230**	**290**	**469**	**610**
Net interest income before fair value adjustment under hedge accounting	**271**	**261**	**530**	**529**
Hedging derivatives	-69	-17	-80	-25
Value changes of hedged items	70	17	80	25
Total net interest income	**272**	**261**	**530**	**528**

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
Life Insurance risk premiums collected	8	7	13	13
Total net insurance income	**145**	**140**	**261**	**269**

Note 5 Net commissions and fees

EUR million	Q2/ 2017	Q2/ 2016	Q1–2/ 2017	Q1–2/ 2016
Comission income				
Lending	50	54	102	105
Deposits	1	1	2	3
Payment transfers	67	67	132	129
Securities brokerage	5	4	10	7
Securities issuance	4	3	6	5
Mutual funds	37	35	73	69
Asset management and legal services	18	18	37	39
Guarantees	5	5	10	10
Housing service	19	18	36	34
Insurance brokerage	10	10	39	36
Life insurance total expense loadings	24	24	48	50
Refund of unit-linked management fees	16	15	33	30
Other	6	5	12	10
Total	**262**	**260**	**540**	**528**
Comission expenses				
Payment transfers	15	19	29	36
Securities brokerage	2	4	6	9
Securities issuance	1	1	1	1
Asset management and legal services	3	4	7	8
Insurance operations	12	10	22	20
Other	9	9	17	17
Total	**42**	**47**	**82**	**91**
Total net commissions and fees	**220**	**213**	**458**	**437**

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	8	80	41	114
Equity instruments	2	21	39	28
Dividend income and share of profits	28	23	67	50
Impairment losses and their reversals	-8	-22	-15	-35
Total	**30**	**102**	**133**	**157**
Net income recognised at fair value through profit or loss				
Insurance				
Notes and bonds	-6	21	-20	46
Equity instruments	2	4	7	3
Derivatives	13	27	-11	175
Banking and Other operations				
Securities trading	54	11	98	17
Foreign exchange trading	13	15	24	24
Investment property	5	13	11	16
Other	1	1	2	1
Total	**82**	**91**	**110**	**282**
Net income carried at amortised cost				
Loans and other receivables	3	1	6	3
Impairment losses and their reversals	0	0	0	-1
Total	**3**	**2**	**6**	**3**
Life Insurance				
Interest credited on customers' insurance savings	-22	-24	-45	-47
Change in supplementary interest rate provisions	59	11	69	-48
Other technical items	-30	-78	-21	-146
Total	**6**	**-90**	**2**	**-242**
Non-life Insurance				
Unwinding of discount	-8	-9	-17	-18
Total	**-8**	**-9**	**-17**	**-18**
Total net investment income	**113**	**96**	**235**	**182**

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	30	48	39	59
Recoveries of receivables written off	-3	-6	-5	-9
Increase in impairment losses on individually assessed receivables	19	17	32	35
Decrease in impairment losses on individually assessed receivables	-33	-55	-45	-68
Collectively assessed impairment losses	2	8	2	5
Total impairments of receivables	**15**	**13**	**23**	**23**

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	10,770					10,770
Receivables from credit institutions	421					421
Derivative contracts			3,355		350	3,705
Receivables from customers	80,201					80,201
Assets covering unit-linked contracts			9,640			9,640
Notes and bonds		43	3,955	16,505		20,503
Equity instruments			409	1,929		2,338
Other financial assets	2,980					2,980
Financial assets	**94,372**	**43**	**17,359**	**18,435**	**350**	**130,559**
Other than financial instruments						3,729
Total 30 June 2017	**94,372**	**43**	**17,359**	**18,435**	**350**	**134,287**

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	9,471					9,471
Receivables from credit institutions	337					337
Derivative contracts			4,112		620	4,732
Receivables from customers	78,604					78,604
Assets covering unit-linked contracts			9,168			9,168
Notes and bonds		92	4,318	17,541		21,951
Equity instruments			550	2,245		2,794
Other financial assets	3,093					3,093
Financial assets	**91,505**	**92**	**18,147**	**19,786**	**620**	**130,150**
Other than financial instruments						3,597
Total 31 December 2016	**91,505**	**92**	**18,147**	**19,786**	**620**	**133,747**

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

Liabilities, EUR million	Financial liabilities at fair value through profit or loss	Other liabilities	Hedging derivatives	Total
Liabilities to credit institutions		4,881		4,881
Derivative contracts	3,137		460	3,597
Liabilities to customers		61,405		61,405
Insurance liabilities		10,326		10,326
Liabilities from unit-linked insurance and investment contracts	9,679			9,679
Debt securities issued to the public		27,564		27,564
Subordinated loans		1,424		1,424
Other financial liabilities		2,826		2,826
Financial liabilities	**12,816**	**108,426**	**460**	**121,702**
Other than financial liabilities				1,851
Total 30 June 2017	**12,816**	**108,426**	**460**	**123,554**

Liabilities, EUR million	Financial liabilities at fair value through profit or loss	Other liabilities	Hedging derivatives	Total
Liabilities to credit institutions		4,669		4,669
Derivative contracts	3,691		353	4,044
Liabilities to customers		60,077		60,077
Insurance liabilities		10,586		10,586
Liabilities from unit-linked insurance and investment contracts	9,205			9,205
Debt securities issued to the public		28,287		28,287
Subordinated loans		1,445		1,445
Other financial liabilities	0	3,324		3,324
Financial liabilities	**12,896**	**108,388**	**353**	**121,637**
Other than financial liabilities				1,872
Total 31 December 2016	**12,896**	**108,388**	**353**	**123,509**

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 435 million (545) 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				
Equity instruments	330	53	26	409
Debt instruments	3,108	296	551	3,955
Unit-linked contracts	6,859	2,781		9,640
Derivative financial instruments	2	3,563	140	3,705
Available-for-sale				
Equity instruments	686	596	647	1,929
Debt instruments	13,542	2,604	359	16,505
Total	**24,527**	**9,893**	**1,723**	**36,144**

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				
Equity instruments	442	82	26	550
Debt instruments	3,489	712	117	4,318
Unit-linked contracts	6,591	2,577		9,168
Derivative financial instruments	6	4,566	160	4,732
Available-for-sale				
Equity instruments	900	564	780	2,245
Debt instruments	13,130	4,042	369	17,541
Total	**24,559**	**12,543**	**1,452**	**38,553**

Fair value of liabilities on 30 June 2017, EUR million	Level 1	Level 2	Level 3	Total
Recognised at fair value through profit or loss				
Unit-linked contracts	6,887	2,792		9,679
Derivative financial instruments	5	3,500	92	3,597
Total	**6,892**	**6,292**	**92**	**13,276**

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				
Unit-linked contracts	6,618	2,587		9,205
Other		0		0
Derivative financial instruments	10	3,926	107	4,044
Total	**6,628**	**6,514**	**107**	**13,249**

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 at fair value through profit or loss	Derivative contracts	Available-for-sale financial assets	Total assets
Financial assets, EUR million				
Opening balance 1 January 2017	142	160	1,149	1,452
Total gains/losses in profit or loss	11	-20	0	-10
Total gains/losses in other comprehensive income			-43	-43
Purchases	21		70	91
Sales	-1		-78	-80
Settlements	-60		-8	-69
Transfers into Level 3	467		85	552
Transfers out of Level 3	-2		-169	-171
Closing balance 30 June 2017	578	140	1,006	1,723

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)	11			11
Unrealised net gains (losses)	-5	0	-43	-49
Total net gains (losses)	6	0	-43	-37

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

	Nominal values / remaining term to maturity				Fair values*	
30 June 2017, EUR million	<1 year	1–5 years	>5 years	Total	Assets	Liabilities
Interest rate derivatives	33,099	74,685	67,095	174,880	3,423	3,062
Cleared by the central counterparty	6,963	38,486	35,346	80,795	999	1,189
Currency derivatives	32,550	10,507	3,023	46,081	1,176	1,619
Equity and index derivatives	5	1		6	1	
Credit derivatives	22	192	14	228	7	6
Other derivatives	353	446	2	801	67	24
Total derivatives	**66,030**	**85,832**	**70,135**	**221,996**	**4,674**	**4,713**

	Nominal values / remaining term to maturity				Fair values*	
31 December 2016, EUR million	<1 year	1–5 years	>5 years	Total	Assets	Liabilities
Interest rate derivatives	38,219	77,514	60,823	176,557	4,129	3,632
Cleared by the central counterparty	7,919	33,999	30,761	72,679	1,186	1,335
Currency derivatives	29,515	11,606	3,644	44,765	1,688	1,676
Equity and index derivatives	15	6		21	1	0
Credit derivatives	19	397	13	429	11	8
Other derivatives	275	552	2	829	64	23
Total derivatives	**68,043**	**90,075**	**64,482**	**222,601**	**5,892**	**5,340**

* 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		
				Derivative contracts***	Collateral received	Net amount
Derivatives	4,675	-970	3,705	-2,084	-661	960

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		
				Derivative contracts***	Collateral received	Net amount
Derivatives	5,883	-1,151	4,732	-2,418	-1,177	1,138

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		
				Derivative contracts***	Collateral given	Net amount
Derivatives	5,414	-1,161	4,253	-2,084	-1,053	1,117

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		
				Derivative contracts***	Collateral given	Net amount
Derivatives	5,350	-1,307	4,044	-2,418	-1,139	486

* 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	422		422		1	421
Receivables from customers, of which	78,763	633	79,396	432	66	78,899
bank guarantee receivables	3	8	11	8	1	2
Finance leases	1,302		1,302			1,302
Total	80,488	633	81,121	432	67	80,622
Receivables from credit institutions and customers by sector						
Non-banking corporate sector	28,327	452	28,779	338	36	28,405
Financial institutions and insurance companies	1,148	0	1,148	0	2	1,146
Households	49,360	175	49,535	91	28	49,416
Non-profit organisations	781	6	787	3	1	783
Public sector entities	872		872		0	872
Total	80,488	633	81,121	432	67	80,622

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	339		339		2	337
Receivables from customers, of which	77,204	640	77,844	445	63	77,337
bank guarantee receivables	2	9	11	9	1	2
Finance leases	1,268		1,268			1,268
Total	78,810	640	79,450	445	64	78,941
Receivables from credit institutions and customers by sector						
Non-banking corporate sector	27,280	461	27,741	349	32	27,360
Financial institutions and insurance companies	1,035	0	1,035	0	3	1,032
Households	48,921	173	49,094	92	29	48,973
Non-profit organisations	758	6	765	4	1	760
Public sector entities	816		816		0	816
Total	78,810	640	79,450	445	64	78,941

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 customers (net)
More than 90 days past due		620	620	232	388
Unlikely to be paid		533	533	150	383
Forborne receivables	1,829	319	2,148	50	2,098
Total	1,829	1,472	3,301	432	2,869

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 customers (net)
More than 90 days past due		578	578	222	356
Unlikely to be paid		508	508	173	335
Forborne receivables	1,711	279	1,990	50	1,940
Total	1,711	1,364	3,076	445	2,631

Key ratio, %	30 June 2017	31 Dec. 2016
Exposures individually assessed for impairment, % of doubtful receivables	13.1 %	14.5 %

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
Liabilities from unit-linked insurance and investment contracts		
Liabilities from unit-linked insurance	8,326	7,918
Investment contracts	1,353	1,287
Total	9,679	9,205
Life insurance insurance liabilities	7,081	7,578
Total	**20,005**	**19,791**

Note 14 Debt securities issued to the public

EUR million	30 June 2017	31 Dec. 2016
Bonds	9,737	10,922
Covered bonds	9,916	9,277
Certificates of deposit, commercial papers and ECPs	7,912	8,088
Total	**27,564**	**28,287**

Note 15 Fair value reserve after income tax

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

EUR million	Available-for-sale financial assets Notes and bonds	Equity instruments	Cash flow hedging	Total
Opening balance 1 January 2016	**31**	**142**	**69**	**242**
Fair value changes	108	-18	44	**135**
Capital gains transferred to income statement	-12	-42		**-54**
Impairment loss transferred to income statement		25		**25**
Transfers to net interest income			-20	**-20**
Deferred tax	-19	7	-5	**-17**
Closing balance 30 June 2016	**108**	**114**	**89**	**311**

The fair value reserve before tax amounted to EUR 347 million (388) and the related deferred tax liability amounted to EUR 69 million (77). On 30 June 2017, positive mark-to-market valuations of equity instruments in the fair value reserve totalled EUR 278 million (217) and negative mark-to-market valuations EUR 30 million (39).

A negative fair value reserve may recover by means of asset appreciation 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	115	1
Loans (as collateral for covered bonds)	11,944	10,407
Other	5,831	4,973
Total*	**17,891**	**15,381**
Secured derivative liabilities	1,238	1,351
Other secured liabilities	4,159	3,443
Covered bonds	9,916	9,277
Total	**15,313**	**14,071**

* 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	642	836
Other guarantee liabilities	2,005	1,921
Loan commitments	11,973	11,049
Commitments related to short-term trade transactions	403	358
Other*	962	966
Total off-balance-sheet items	**15,986**	**15,129**

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

Note 18 Capital adequacy for credit institutions

OP Financial Group presents the amalgamation's 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 Financial Group's equity capital	10,734	10,237
The effect of insurance companies on the Group's shareholders' equity is excluded	-170	-168
Fair value reserve, cash flow hedging	-22	-41
Supplementary cooperative capital to which transition provision applies		77
Common Equity Tier 1 (CET1) before deductions	**10,542**	**10,105**
Intangible assets	-668	-620
Excess funding of pension liability and valuation adjustments	-39	-64
Repayable cooperative capital		-156
Planned profit distribution	-44	-83
Shortfall of impairments – expected losses	-311	-309
Common Equity Tier 1 (CET1)	**9,479**	**8,872**
Subordinated loans to which transitional provision applies	81	81
Additional Tier 1 capital (AT1)	**81**	**81**
Tier 1 capital (T1)	**9,561**	**8,954**
Debenture loans	1,193	1,239
Tier 2 Capital (T2)	**1,193**	**1,239**
Total capital base	**10,753**	**10,192**

A prudent valuation adjustment of EUR 25 (36) million has been deducted from CET1 capital.

Supplementary capital contributions of EUR 70 million refunded to customers, as permitted by the supervisor, were deducted from CET1 capital. A year ago, EUR 156 million were deducted from CET1 capital, based on the supervisor's permission to refund cooperative capital. OP Financial Group has applied transitional provisions regarding old capital instruments to supplementary cooperative shares and subordinated loans.

Risk exposure amount, EUR million	30 June 2017	31 Dec. 2016
Credit and counterparty risk	**39,169**	**38,853**
Standardised Approach (SA)	**3,180**	**3,233**
Central government and central banks exposure	36	39
Credit institution exposure	13	36
Corporate exposure	1,740	1,812
Retail exposure	1,062	1,039
Other*	327	307
Internal Ratings-based Approach (IRB)	**35,990**	**35,620**
Credit institution exposure	1,016	1,143
Corporate exposure	21,791	20,913
Retail exposure	4,840	4,698
Equity investments**	7,254	7,605
Other	1,089	1,261
Market and settlement risk (Standardised Approach)	**1,884**	**1,329**
Operational risk (Standardised Approach)	**3,958**	**3,666**
Valuation adjustment (CVA)	**225**	**253**
Total risk exposure amount	**45,236**	**44,101**
Risk weight floors based on ECB's decision	**4,406**	
Total risk exposure amount including risk weight floors	**49,642**	**44,101**

* EUR 255 million (253) of Other exposures represent deferred tax assets that are treated with a risk weight of 250% instead of a deduction from common equity tier 1 capital.

** The risk weight of equity investments includes EUR 6.5 billion in insurance holdings within OP Financial Group.

Ratios, %	30 June 2017	31 Dec. 2016
CET1 capital ratio	19.1	20.1
Tier 1 ratio	19.3	20.3
Capital adequacy ratio	21.7	23.1

Ratios, fully loaded, %	30 June 2017	31 Dec. 2016
CET1 capital ratio	19.1	19.9
Tier 1 ratio	19.1	19.9
Capital adequacy ratio	21.5	22.8

Ratios excluding the risk weight floors, %	30 June 2017	31 Dec. 2016
CET1 capital ratio	21.0	20.1
Tier 1 ratio	21.1	20.3
Capital adequacy ratio	23.8	23.1

The effect of risk weight floors on the CET 1 ratio was -1.9 percentage points.

Capital requirement, EUR million	30 June 2017	31 Dec. 2016
Capital base	10,753	10,192
Capital requirement	7,087	5,520
Buffer for capital requirements	3,666	4,673

The capital requirement of 14.3% comprises the minimum requirement of 8%, the capital conservation buffer of 2.5%, the O-SII buffer of 2.0%, the minimum requirement of 1.75% set by the ECB (P2R) and the changing capital conservation buffer by country for foreign exposures. A year ago, the capital requirement was 12.5%. The ECB's P2R took effect on 1 January 2017.

Leverage ratio, EUR million	30 June 2017	31 Dec. 2016
Tier 1 capital (T1)	9,561	8,954
Total exposure	122,588	120,257
Leverage ratio, %	7.8	7.4

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

Note 19 Exposures by rating category

Retail exposures by rating category (AIRB)

All retail exposures 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
Personal customers, total	49,083	51.5	0.7	16.9	4,035	7.4	151
A	30,500	52.3	0.0	15.9	532	1.7	2
B	10,936	49.5	0.1	16.3	531	4.9	2
C	3,831	48.1	0.5	21.9	648	16.9	4
D	2,090	43.3	2.3	21.0	764	36.6	10
E	1,317	34.0	20.6	21.1	1,120	85.0	56
F	410		100.0	24.5	441	107.6	77
Corporate customers, total	1,583	67.9	3.2	38.3	805	42.3	41
2.5–5.5	510	67.2	0.4	23.4	64	12.5	0
6.0–7.0	628	66.8	1.4	42.7	262	41.8	4
7.5–8.5	294	69.0	5.0	47.6	208	70.6	7
9.0–10.0	104	75.0	23.2	47.2	115	110.6	11
11.0–12.0	48		100.0	63.2	157	326.8	18
Total	50,666	52.7	0.8	17.6	4,840	8.5	192

All retail exposures 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
Personal customers, total	48,607	52.5	0.7	16.9	3,919	7.3	147
A	30,426	52.5	0.0	16.0	533	1.8	2
B	10,757	52.8	0.1	16.3	521	4.8	2
C	3,759	54.6	0.5	21.4	621	16.5	4
D	1,965	43.9	2.3	21.0	712	36.2	9
E	1,323	24.9	20.6	21.1	1,127	85.2	56
F	378		100.0	24.9	405	107.2	74
Corporate customers, total	1,552	68.2	3.3	37.0	779	41.3	39
2.5–5.5	493	67.1	0.4	21.9	58	11.8	0
6.0–7.0	606	67.4	1.3	41.1	244	40.3	3
7.5–8.5	294	69.6	4.9	46.5	201	68.4	7
9.0–10.0	111	74.0	22.9	45.4	118	106.5	11
11.0–12.0	47		100.0	63.1	157	332.2	18
Total	50,159	53.7	0.8	17.5	4,698	8.3	186

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

Corporate exposures (FIRB) by rating category

	30 June 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	859	93.0	0.0	44.7	125	14.6	0
2.5–5.5	18,388	74.1	0.2	44.4	7,443	40.5	18
6.0–7.0	8,006	70.5	1.3	44.0	7,052	88.1	45
7.5–8.5	4,836	70.1	4.5	44.2	6,005	124.2	96
9.0–10.0	630	61.5	21.0	43.9	1,164	184.7	58
11.0–12.0	722	54.5	100.0	45.2			327
Total	**33,441**	**73.0**	**1.5**	**44.3**	**21,791**	**66.6**	**544**

	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	933	92.2	0.0	44.7	137	14.7	0
2.5–5.5	17,374	74.5	0.2	44.4	7,044	40.5	17
6.0–7.0	7,717	71.6	1.3	44.2	6,786	87.9	43
7.5–8.5	4,638	70.7	4.6	44.2	5,825	125.6	94
9.0–10.0	616	55.1	22.1	44.0	1,120	181.9	60
11.0–12.0	747	54.9	100.0	45.2			338
Total	**32,024**	**73.5**	**1.6**	**44.3**	**20,913**	**66.9**	**552**

The defaults, or borrower grades 11.0 and 12.0, as well as F are not included in the average PD and risk weight.

Note 20 Insurance company solvency

EUR million	30 June 2017		31 December 2016	
	Life Insurance	Non-life Insurance	Life Insurance	Non-life Insurance
Eligible capital	**1,374**	**1,101**	**1,455**	**992**
Solvency capital requirement (SCR)				
Market risk	895	488	996	484
Insurance risk	377	299	405	298
Counterparty risk	27	32	27	32
Operational risk	36	43	25	43
Diversification benefits and loss absorbency	-655	-181	-712	-164
Total	680	680	742	693
Buffer for SCR	**694**	**421**	**713**	**299**
Solvency ratio (SCR), %	**202**	**162**	**196**	**143**
Solvency ratio (SCR), % (excluding transitional provision)	**152**	**149**	**149**	**127**

Transitional provisions have been taken into account in figures under Solvency II and they are according to OP Financial Group's estimate. Non-life Insurance figures also include those of OVY Insurance.

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

EUR million	30 June 2017	31 Dec. 2016
OP Financial Group's equity capital	10,734	10,237
Other cooperative capital, hybrid instruments and debenture bonds	1,274	1,397
Other sector-specific items excluded from capital base	-121	-139
Goodwill and intangible assets	-1,483	-1,438
Insurance business valuation differences*	829	743
Proposed profit distribution	-44	-83
Items under IFRS deducted from capital base**	42	16
Shortfall of impairments – expected losses	-285	-283
Conglomerate's capital base, total	10,945	10,449
Regulatory capital requirement for credit institutions***	6,167	4,713
Regulatory capital requirement for insurance operations*	1,360	1,434
Conglomerate's total minimum capital requirement	7,527	6,147
Conglomerate's capital adequacy	3,418	4,302
Conglomerate's capital adequacy ratio (capital base/minimum of capital base) (%)	145	170

* Differences between fair value and carrying amount, and estimate of SCR under Solvency II.

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

*** Total risk exposure amount x 14.3 %, total risk exposure amount x 12.5 % a year ago.

Transitional provisions and the risk weight floors have been taken into account in figures. The P2R set for OP Financial Group on 1 January 2017 decreased the capital ratio by approximately 16 percentage points. The risk weight floors decreased the ratio by approximately 13 percentage points.

Note 22 Related-party transactions

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

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

Related-party transactions have not undergone any substantial changes since 31 December 2016.

Financial reporting in 2017

Schedule for Interim Reports in 2017:

Interim Report Q1–3/2017	1 November 2017

Helsinki, 2 August 2017

OP Cooperative
Executive Board

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