OP Financial Group's Half-year Financial Report for 1 January–30 June 2021

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Earnings before tax EUR 561 million – strong increase in total income, a decrease in impairment loss on receivables

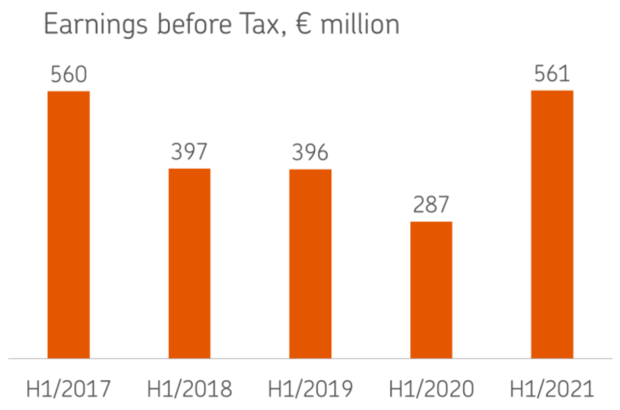
Earnings before tax H1/2021	Net interest income H1/2021	Net insurance income H1/2021	Net commissions and fees H1/2021	CET1 ratio 30 Jun 2021
€561 million	–1%	+11%	+12%	18.3%

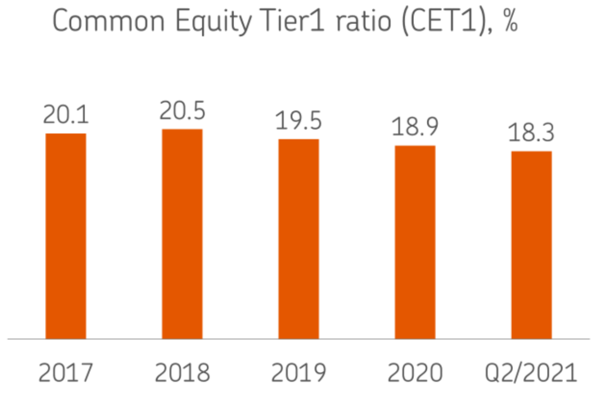
- Earnings before tax improved by 96% to EUR 561 million (287).
- Income from customer business increased by a total of 6% to EUR 1,479 million (1,396). Net insurance income increased by 11% to EUR 326 million (295) and net commissions and fees by 12% to EUR 512 million (455). Net interest income decreased by 1% to EUR 641 million (646).
- Investment income rose by EUR 104 million, to EUR 164 million (61) year on year.
- Total income increased by 20% to EUR 1,777 million (1,481).
- Total expenses remained at the previous year's level at EUR 991 million (993).
- Impairment loss on receivables was EUR 35 million (166), or 0.07% (0.34) of the loan and guarantee portfolio. A year ago, impairment loss on receivables was increased by the effects of the Covid-19 pandemic on loan portfolio quality and by the adoption of the new definition of default based on a regulatory change.
- OP Financial Group's loan portfolio grew by 1% to EUR 95 billion (94) and deposits by 6% to EUR 74 billion (69) year on year.
- The CET1 ratio was 18.3% (18.9). The lower ratio was affected by the ECB's decision which increased the risk-weighted assets of corporate exposures.
- Retail Banking earnings before tax improved by EUR 110 million to EUR 138 million (28). Net interest income increased by 3% and net commissions and fees by 7%. Impairment loss on receivables decreased by 52% to EUR 47 million (99). The loan portfolio grew by 2% and deposits by 7% in the year to June.
- Corporate Banking earnings before tax improved by EUR 173 million to EUR 276 million (103). Net interest income increased by 1%, net commissions and fees by 51% and net investment income by 60%. Reversal of impairment losses on receivables improved earnings by EUR 12 million (–68). The loan portfolio decreased by 1% in the year to June.
- Insurance earnings before tax improved by EUR 91 million to EUR 220 million (130). Net insurance income grew by 11% to EUR 335 million (302). Investment income rose by EUR 60 million to EUR 94 million (34). The operating combined ratio improved to 86.2% (89.3) in non-life insurance.
- Other Operations earnings before tax were EUR –51 million (43). A year ago, the sale of the Vallila property improved earnings by EUR 96 million.
- During the reporting period, OP Financial Group invested a total of EUR 138 million (154) in business development and improving customer experience.
- New OP bonuses accrued to owner-customers totalled EUR 103 million (129). The accrual of OP bonuses was changed as of 1 November 2020.
- The number of owner-customers in OP cooperative banks totalled 2.0 million (2.0). OP Financial Group had a total of 1.3 million (1.3) joint banking and insurance customers.
- In its profit distribution, OP Financial Group complies with the recommendation of the European Central Bank (ECB) that will remain in force until 30 September 2021 and that applies to the payment of interest on Profit Shares for 2020. The ECB announced on 23 July 2021 that its recommendation limiting banks' profit distribution will expire at the end of September 2021. OP Financial Group is preparing to pay interest on Profit Shares for 2020 after 30 September 2021 and will provide more information on the schedule of interest payment later in the autumn.
- Pohjola Insurance Ltd, part of OP Financial Group, will sell Pohjola Hospital Ltd to Pihlajalinna Terveys Oy for EUR 31.8 million. As part of the transaction, Pohjola Insurance and Pihlajalinna will sign a long-term cooperation agreement on the provision of health services for customers of Pohjola Insurance. The transaction is subject to approval by the Finnish Competition and Consumer Authority.
- OP Financial Group announced in a stock exchange release on 14 June 2021 that it has improved its earnings outlook for 2021. Earnings before tax for 2021 are expected to be at about the same level as or higher than in 2020. For more detailed information on the outlook, see "Outlook for 2021".

OP Financial Group's key indicators

	H1/2021	H1/2020	Change, %	Q1–4/2020
Earnings before tax, € million	561	287	95.7	785
Retail Banking	138	28	389.5	115
Corporate Banking	276	103	167.2	349
Insurance	220	130	69.8	348
Other Operations	-51	43	-220.3	3
New OP bonuses accrued to owner-customers, € million	-103	-129	-	-255
Return on equity (ROE), %	6.9	3.6	3.3*	5.0
Return on equity, excluding OP bonuses, %	8.1	5.2	2.9*	6.6
Return on assets (ROA), %	0.55	0.29	0.26*	0.42
Return on assets, excluding OP bonuses, %	0.65	0.42	0.22*	0.55
	30 Jun 2021	30 Jun 2020	Change, %	31 Dec 2020
CET1 ratio, %	18.3	17.7	0.7*	18.9
Loan portfolio, € billion	94.7	93.7	1.1	93.6
Deposits, € billion	73.6	69.2	6.4	70.9
Ratio of non-performing exposures to exposures, %**	2.4	2.2	0.2*	2.5
Ratio of impairment loss on receivables to loan and guarantee portfolio, %	0.07	0.34	-0.27*	0.23
Owner-customers (1,000)	2,039	2,013	1.3	2,025

Comparatives deriving from the income statement are based on figures reported for the corresponding periods a year ago. Unless otherwise specified, balance-sheet and other cross-sectional figures on 31 December 2020 are used as comparatives.
*Change in ratio
** The name and content of the ratio was changed in Q1/2021. Comparatives have been adjusted accordingly. More detailed information on the change can be found under table Non-performing and forborne exposures in the Risk exposure section of this Half-year Financial Report.





Comments by President and Group Chief Executive Officer Timo Ritakallio

OP Financial Group's January–June earnings before tax was excellent at EUR 561 million, representing a growth of 96% from a year earlier. All three business segments improved their earnings markedly year on year.

Our excellent performance demonstrates that our strategic focus on banking and insurance business is working well, and that we have succeeded in broadening our income base in line with our strategy while keeping our costs under control.

Total income increased on a wide front, totalling EUR 1,777 million, up by 20% year on year. Income from customer business increased by 6% to EUR 1,479 million due to higher net commissions and fees and net insurance income. Investment income increased markedly too.

OP Financial Group's expenses for January–June remained at the previous year's level. Impairment loss on receivables decreased by EUR 131 million year on year as our customers' repayment capacity remained good.

OP Financial Group's capital adequacy continued to be strong. At the end of June, the CET1 ratio was 18.3%, ranking among the best ratios reported by large European banks.

OP Financial Group's loan portfolio increased by 1% and the deposit portfolio by 6% in the year to June. In particular, demand for corporate loans for new investments has remained low. Meanwhile, demand for home loans continued to be lively: the sale of new home loans by OP Financial Group was at record levels in April–June.

Our customers were particularly active in the capital market. In January–June, OP's mutual funds attracted more than 100,000 new unitholders. Demand for other investment services was also high.

The use of cash has declined markedly in recent years, and the Covid-19 pandemic has further accelerated the shift to other means of payment among our customers. At the end of June, we announced our plan to further strengthen our mobile payment services through a joint mobile payment platform provided by OP Financial Group's Pivo, the Danish MobilePay and the Norwegian Vipps. Our goal is to provide consumers, merchants and other distributors with an unrivalled mobile payment experience. The plan is subject to the approval of the competition authorities.

Merger projects between OP cooperative banks are underway around Finland. Following the mergers decided upon so far, there will be 121 OP cooperative banks at the end of 2021, compared to 137 a year earlier. In the Helsinki Metropolitan Area, Helsinki Area Cooperative Bank, Itä-Uudenmaan Osuuspankki and Uudenmaan Osuuspankki have begun discussions on a possible merger to form a single bank that will be even more competitive with even better services. The main goal is to improve the customer experience in Finland's key growth area.

In July, we announced two major arrangements within OP Financial Group's central cooperative consolidated to support our strategic focus on banking and insurance business. Pohjola Insurance will focus on non-life insurance – its core business – and divest its hospital business by selling the entire share capital of Pohjola Hospital Ltd to Pihlajalinna Terveys Oy, part of the Pihlajalinna Group. The transaction is subject to the approval of the Finnish competition authorities.

Pohjola Insurance Ltd, currently a subsidiary of OP Corporate Bank plc, will be transferred to the direct ownership of OP Cooperative. The aim of the planned arrangement is to simplify the structure and governance of OP Financial Group's central cooperative consolidated and to clarify its management structure. Over the past three years, we have implemented our strategy to considerably simplify the structure of the central cooperative consolidated and have achieved major cost savings through these actions.

The economic recovery rate picked up in the second quarter. However, the economic situation is characterised by several contradictions. In some sectors, recovery has been offset by bottlenecks, and part of the service sector is still suffering badly from the restrictions caused by the Covid-19 pandemic. While the employment rebound is lagging in some sectors despite the improved Covid-19 situation, other sectors are suffering from labour shortage.

The global economic outlook is basically positive, but simultaneously characterised by uncertainty created by the exceptional situation. The new variants of the coronavirus may unexpectedly weaken economic recovery, and the rise in inflation may be more sustained than expected.

The Finnish economy is expected to continue its recovery. The Finnish economy suffered less from the Covid-19 pandemic than many other countries, and we are among the first developed countries to return to the pre-crisis growth path.

However, the anticipated growth trend of Finland will be more subdued than in its key competitor countries. There is still an urgent need for structural measures improving competitiveness so that Finnish companies will be able to fully seize the growth opportunities that will open up in international markets after the crisis. During the Covid-19 crisis, Finland has demonstrated itself to be a stable country, which may appeal to international investors. This is an opportunity that we can't afford to miss.

OP Financial Group's Half-year Financial Report 1 January–30 June 2021

Tables

Business environment

The world economy picked up in the second quarter when the pandemic situation improved. In many countries, inflation sped up in the spring more than expected. Prices have been lifted by bottlenecks arising from the economic recovery and a rise in commodity prices.

Inflation anxiety eased in the financial market in the second quarter and required bond yields began to go down. In June, the European Central Bank announced that it would continue its asset purchase programmes as specified in the previous policy lines and keep its benchmark interest rate unchanged until inflation is in line with its target.

The Finnish economy showed a clear growth and economic confidence improved. The labour market has become stronger and business bankruptcy cases have returned to their pre-pandemic levels. Inflation sped up and the inflation rate was 2.0% in June. Housing demand has remained brisk and home prices have increased faster than before, especially in the largest cities.

The Finnish economy is expected to continue its recovery during the rest of the year. Short-term market rates are expected to remain low throughout the year. The greatest risks are still related to the Covid-19 pandemic.

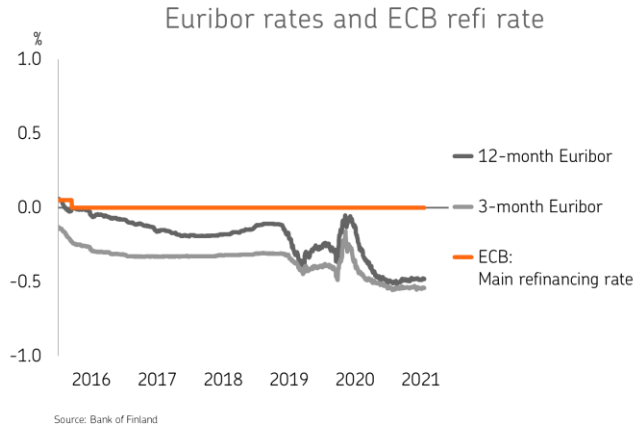
Growth in total loans slowed down, standing at 2.1% at the end of May compared with a year earlier. Demand for corporate loans lay behind the slower growth, whereas growth in loans to households became stronger and growth in housing company loans remained quite steady. Growth in corporate loans turned negative in May, standing at –2.7%. Housing company loans grew by 5.2% and loans to households by 4.0%.

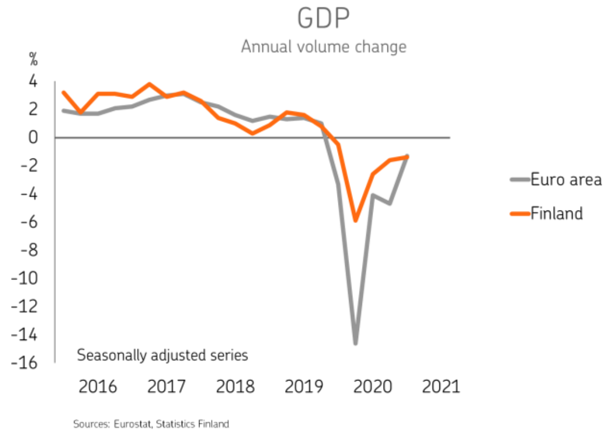
Growth in loans to households came from home loans. Growth in consumer loans picked up speed in the second quarter and was 2.4% at the end of May, which is, however, still clearly lower than before the pandemic.

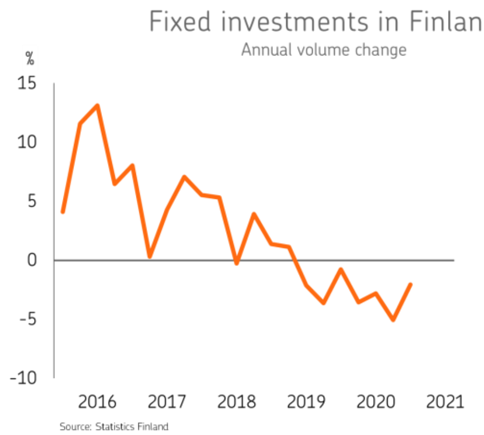
Growth in deposits too abated. The rate of growth in total deposits was 7.0% at the end of May, whereas the growth rate was 14.8% at the end of 2020. In May, corporate deposits increased by 4.4% and household deposits by 6.5%.

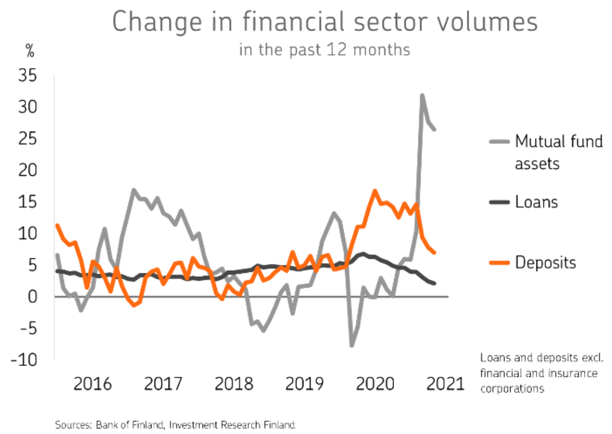
The value of the mutual funds registered in Finland increased by 9.5 billion to EUR 150 billion during the second quarter of 2021. Of the value change, EUR 4.2 billion came from net asset inflows and EUR 5.3 billion especially from positive value change brought by a rise in stock prices.

Demand for insurance has been strong and favourable developments in the capital market have also supported the business of insurance companies.









Earnings analysis and balance sheet

Earnings analysis, € million	H1/2021	H1/2020	Change, %	Q2/ 2021	Q2/ 2020	Change, %	Q1–4/ 2020
Earnings before tax	561	287	95.7	296	158	87.6	785
Retail Banking	138	28	389.5	73	21	251.0	115
Corporate Banking	276	103	167.2	161	90	79.5	349
Insurance	220	130	69.8	104	71	46.3	348
Other Operations	-51	43	-220.3	-29	-15	-	3
Income							
Net interest income	641	646	-0.7	324	327	-0.7	1,284
Net insurance income	326	295	10.5	170	164	3.6	572
Net commissions and fees	512	455	12.4	242	211	14.6	931
Net investment income	255	-28	-	109	112	-2.4	184
Other operating income	43	112	-62.1	36	5	578.0	132
Total income	1,777	1,481	20.0	881	819	7.6	3,103
Expenses							
Personnel costs*	460	415	10.9	238	207	15.2	715
Depreciation/amortisation and impairment loss	128	129	-0.4	65	64	1.6	273
Other operating expenses	403	449	-10.4	181	204	-11.2	852
Total expenses	991	993	-0.2	484	475	2.0	1,839
Impairment loss on receivables	-35	-166	-	-13	-60	-	-225
Temporary exemption (overlay approach)	-91	89	-202.2	-36	-62	-	-3
New OP bonuses accrued to owner-customers	-103	-129	-	-52	-64	-	-255

*The transfer of the remaining statutory earnings-related pension liability reduced pension costs for 2020 by EUR 96 million in the fourth quarter.

Key indicators, € million	30 Jun 2021	31 Dec 2020	Change, %
Loan portfolio	94,739	93,644	1.2
Home loans	40,692	40,036	1.6
Corporate loans	22,739	22,587	0.7
Housing company and other loans	31,308	31,021	0.9
Guarantee portfolio	3,810	3,100	22.9
Other exposures	15,255	13,941	9.4
Deposits	73,607	70,940	3.8
Assets under management (gross)	97,040	89,126	8.9
Mutual funds	30,883	27,598	11.9
Institutional clients	25,942	25,330	2.4
Private Banking	27,732	24,888	11.4
Unit-linked insurance assets	12,484	11,310	10.4
Balance sheet total	170,495	160,207	6.4
Investment assets	23,563	23,562	0.0
Insurance liabilities	9,244	9,374	-1.4
Debt securities issued to the public	34,120	34,706	-1.7
Equity capital	13,463	13,112	2.7

January–June

OP Financial Group's earnings before tax amounted to EUR 561 million (287), up by EUR 274 million from the previous year. As regards income from customer business, net insurance income and net commissions and fees showed strong growth. Earnings were also increased by higher investment income and lower impairment loss on receivables.

Net interest income decreased by 0.7% to EUR 641 million. Net interest income reported by the Retail Banking segment increased by 3.1% and that by the Corporate Banking segment by 0.5%. Meanwhile, net interest income reported by the Other Operations segment decreased by EUR 14 million. OP Financial Group's loan portfolio grew by 1.1% to EUR 94.7 billion and deposits by 6.4% to EUR 73.6 billion, year on year. New loans drawn down by customers during the reporting period totalled EUR 11.7 billion (11.7).

Net insurance income increased by 10.5% to EUR 326 million. The Insurance segment's non-life insurance premium revenue increased by 1.6% to EUR 752 million. Claims incurred decreased by 4.0% to EUR 441 million. Operating combined ratio reported by non-life insurance improved to 86.2% (89.3).

Net commissions and fees totalled EUR 512 million (455). Net commissions and fees for payment transfer services increased by EUR 10 million and those for deposits by EUR 11 million. Fund and management fees grew by EUR 20 million.

Net investment income increased by EUR 283 million to EUR 255 million. Net income from financial assets at fair value through other comprehensive income totalled EUR 37 million (32), of which capital gains accounted for EUR 9 million (16).

Net income from financial assets recognised at fair value through profit or loss totalled EUR 83 million (118). Net income from financial assets held for trading decreased by a total of EUR 271 million due to changes in the fair value of derivatives. Value changes in Credit Valuation Adjustment (CVA) in derivatives owing to market changes improved earnings by EUR 15 million (–21). Income from equity instruments recognised at fair value in the income statement increased by a total of EUR 296 million year on year. When the Covid-19 crisis broke out a year ago, the fair value of equities decreased significantly. Life insurance items, which include, for example, changes in technical items, increased net investment income by EUR 282 million to EUR 125 million.

An overlay approach is applied to certain equity instruments of insurance companies. Changes in the fair value of investments within the scope of the overlay approach are presented under the fair value reserve under shareholders' equity. The overlay approach decreased investment income by EUR 91 million, while a year ago it increased investment income by EUR 89 million. Total investment income rose by EUR 104 million year on year, to EUR 164 million. Capital gains on all financial instruments recognised through fair value reserve totalled EUR 79 million (32). The combined return on investments at fair value of OP Financial Group's insurance companies was 0.5% (1.6).

Other operating income decreased year on year to EUR 43 million (112). The sale of Checkout Finland Ltd to Paytrail Oyj on 30 April 2021 increased other operating income. A year ago, the sale of the Vallila property increased other operating income, for which OP Financial Group recognised a capital gain of EUR 98 million in other operating income and an expense of EUR 2 million in other operating expenses. The Group will continue operating in the property under a long-term lease agreement, and the property was recognised as a right-of-use asset in the balance sheet.

Total expenses of EUR 991 million (993) were at the previous year's level. Personnel costs increased by 10.9% to EUR 460 million due to higher provisions for performance-based bonuses and a higher headcount. Depreciation/amortisation and impairment loss on PPE and intangible assets were at the previous year's level at EUR 128 million (129).

Other operating expenses decreased by 10.4% to EUR 403 million. ICT costs decreased by EUR 34 million to EUR 172 million. A one-off investment in the IT environment increased ICT costs a year ago. Development costs were EUR 90 million (100). Charges of financial authorities increased by 26.5% to EUR 53 million as a result of a higher EU stability contribution.

Impairment loss on loans and receivables and on investments recognised under various income statement items that reduced earnings amounted to EUR 38 million (180), of which EUR 35 million (166) concerned loans and receivables. A year ago, customers actively applied for repayment holidays on their loans and changes to their repayment schedules due to the Covid-19 crisis. Combined with the changes in macroeconomic parameters applied in the calculation of expected credit losses, this increased impairment loss on receivables by EUR 65 million in January–June 2020. In addition, the adoption of the new definition of default in January-March 2020 increased impairment loss on receivables by EUR 44 million in January–June 2020. Final net loan losses recognised totalled EUR 51 million (26). Loss allowance was EUR 689 million (708) at the end of the reporting period. Non-performing exposures (gross) accounted for 2.4% (2.5) of the exposures. Impairment loss on loans and receivables accounted for 0.07% (0.34) of the loan and guarantee portfolio.

OP Financial Group's income tax amounted to EUR 109 million (62). The effective tax rate was 19.4% (21.8). A year ago, the rate was increased by the changes in deferred taxes arising from the sale and leaseback of the Vallila property.

Non-life insurance will focus on its core business and sell its hospital business. In the second quarter, Pohjola Hospital was classified as a non-current asset held for sale. Hospital business assets and liabilities recognised in the balance sheet totalled EUR 7 million.

OP Financial Group's equity amounted to EUR 13.5 billion (13.1). Equity included EUR 2.9 billion (3.0) in Profit Shares, terminated Profit Shares accounting for EUR 0.2 billion (0.3). The return target for Profit Shares for 2021 is 3.25%. Interest payable on Profit Shares accrued during the reporting period is estimated to total EUR 47 million (47). A total of EUR 95 million in interest for 2020 will be paid at the earliest in October 2021 in line with the recommendations of the ECB. The amount of interest paid for 2019 on 8 February 2021 totalled EUR 97 million.

Comprehensive income totalled EUR 466 million (158). A year ago, comprehensive income was decreased by changes in the fair value reserve.

April–June

Earnings before tax amounted to EUR 296 million against EUR 158 million a year ago. As regards income from customer business, net insurance income and net commissions and fees increased. Earnings were also increased by lower impairment loss on receivables.

Total income of EUR 881 million increased by 7.6% year on year. Net interest income decreased by 0.7% to EUR 324 million. Net insurance income increased by 3.6% to EUR 170 million. Net commissions and fees rose by 14.6% to EUR 242 million.

In total, investment income grew by 47.5% to EUR 73 million. Net income from financial assets recognised at fair value through profit or loss totalled EUR 104 million (249). Net income from financial assets held for trading decreased by a total of EUR 78 million due to changes in the fair value of derivatives. Life insurance items, which include, for example, changes in technical items, increased net investment income by EUR 106 million year on year. The decrease in investment income due to the overlay approach was EUR 26 million smaller than a year ago.

Other operating income rose by EUR 30 million to EUR 36 million. The sale of Checkout Finland Ltd increased income.

Total expenses increased by 2.0% to EUR 484 million. Personnel costs increased by 15.2% to EUR 238 million due to higher provisions for performance-based bonuses and a higher headcount. Depreciation/amortisation and impairment losses increased by 1.6% year on year to EUR 65 million. Other operating expenses decreased by 11.2% to EUR 181 million.

Impairment loss on receivables, EUR 13 million, decreased by EUR 47 million year on year. A year ago, customers actively applied for repayment holidays on their loans and changes to their repayment schedules due to the Covid-19 crisis. Combined with the changes in macroeconomic parameters applied in the calculation of expected credit losses, this increased impairment loss on receivables by EUR 36 million in the second quarter of 2020. Final net loan losses recognised totalled EUR 16 million (8).

Comprehensive income totalled EUR 279 million (278). A year ago, comprehensive income was increased by changes in the fair value reserve because the fair value of equities, and notes and bonds increased significantly.

Measures taken by OP Financial Group amid the Covid-19 crisis

OP Financial Group has offered financial relief in the form of repayment holidays to its personal and corporate customers who have run into financial problems due to the Covid-19 crisis. Households have been offered the opportunity to get a repayment holiday of up to 12 months on their home loans. With respect to corporate customers, changes in repayment schedules are always evaluated on a case-by-case basis. In addition, guarantees provided by Finnvera have been used extensively.

OP cooperative banks have granted brief rent concessions to their customers on a case-by-case basis during the Covid-19 crisis.

To ensure safe use of banking and insurance services, OP Financial Group has centralised most of its services in digital channels. Some OP cooperative bank branches have offered separate service hours for people that need special support. Moreover, OP has helped and supported those in need of special support, and their friends and family, by providing a special telephone line. The purpose of this has been to ensure that those in need of special support can do their banking transactions easily.

OP Financial Group has agreed on a number of detailed precautions to prevent the spread of the coronavirus. OP is closely monitoring the disease situation and the recommendations of the authorities and has implemented practices based on these in different regions. Individual branches have been closed temporarily due to the regional development of the pandemic. The Group has paid particular attention to hygiene and the safe use of services, and protective plexiglass has been installed in bank branches. Customers have been instructed to observe the recommendations of the authorities. Through joint instructions and regional actions, the Group has ensured the safety of its customers and personnel at the various phases of the pandemic.

OP Financial Group has ensured that services critical to society are available during the Covid-19 crisis too. The Group has enabled safe working conditions for its personnel in its offices and branches. Extensive remote working is also encouraged in those jobs where it is possible.

OP Financial Group has supported the work of UNICEF in India due to the worsened Covid-19 situation. Funds raised from the related campaign will be directed towards supporting hospital work and increasing testing capacity. Around 600 persons work for OP Financial Group in India through various partners.

April–June highlights

OP Financial Group strengthens its mobile payment services

OP Financial Group's Pivo, Danske Bank's MobilePay and the Norwegian Vipps are planning a new mobile payment platform. This will combine mobile wallets, used by 11 million Nordic customers, to create one of Europe's leading mobile payment services. The goal of the service is to provide consumers, merchants and distributors with an unrivalled mobile payment experience. Based on the plan, the banks that currently own Vipps will own 65 per cent, Danske Bank 25 per cent and OP Financial Group 10 per cent of the new company. The company will be headquartered in Oslo and its CEO will be the current CEO of Vipps. Based on the plan, OP Financial Group will be represented on the Board of Directors. The plan is subject to the approval of the competition authorities.

Pohjola Insurance will sell its hospital business

Pohjola Insurance will focus on its core business and sell its hospital business. Based on decisions made, OP Financial Group classified Pohjola Hospital for this Half-year Financial Report as a non-current asset held for sale. With hospitals in Helsinki, Tampere, Turku, Oulu and Kuopio, Pohjola Hospital is a hospital chain that specialises in orthopaedic care, i.e. treatment for musculoskeletal conditions and injuries. The company had 266 employees, on average, in 2020.

OP Financial Group's strategic targets and focus areas

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

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

OP Financial Group's strategic priorities for 2021:

- Best customer experience
- More benefit for owner-customers
- Excellent employee experience
- Faster growth in revenues than in expenses
- More efficient, higher quality operations.

On 30 October 2019, the Supervisory Board (as of 1 January 2020, the Supervisory Council) of OP Financial Group's central cooperative confirmed OP Financial Group's strategic long-term targets. The targets entered into force as of 1 January 2020.

OP Financial Group's strategic targets	30 Jun 2021	31 Dec 2020	Target 2025
Return on equity (ROE excluding OP bonuses), %	8.1	6.6	8.0
CET1 ratio, %	18.3	18.9	At least CET1 requirement + 4 pps*
Brand recommendations, NPS (Net Promoter Score, personal and corporate customers)**	21	23	30
Credit rating	AA-/Aa3	AA-/Aa3	At least at the level of AA-/Aa3

*OP Financial Group's target CET1 ratio is at least the CET1 capital adequacy requirement plus four percentage points. The CET1 target calculated by applying the June-end capital adequacy requirement was 13.7%.
**Average of quarters (per year)

Promotion of the success of owner-customers and operating region

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

Allocation of earnings

As a cooperative business, OP Financial Group 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 2021 that is to be confirmed after the end of the financial year:

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

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

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

OP Financial Group is one of the largest taxpayers in Finland measured by tax on profits. As a major taxpayer, The Group is contributing to prosperity in the whole of Finland.

Customer relationships and customer benefits

OP Financial Group had a total of 2.0 million (2.0) owner-customers at the end of the reporting period. The number of owner-customers increased by 26,000 in the year to June.

The number of banking customers totalled 3.6 million (3.6). Retail Banking had a total of 3.3 million customers (3.3) and Corporate Banking 0.3 million customers (0.3).

The number of joint banking and insurance customers totalled 1.3 million (1.3).

Contributions made by OP cooperative banks' owner-customers to the OP cooperative banks' Profit Shares and cooperative shares totalled EUR 3.2 billion (3.2).

OP cooperative banks' owner-customers earn OP bonuses through banking, insurance and wealth management transactions. The value of new OP bonuses accrued in January–June totalled EUR 103 million (129). The accrual of OP bonuses was changed as of 1 November 2020. During the reporting period, a total of 58 million euros (60) of OP bonuses were used to pay for banking and wealth management services and EUR 55 million (64) to pay non-life insurance premiums.

Owner-customers benefitted EUR 29 million (14) from the reduced price of the daily services package of Retail Banking. Owner-customers were provided with EUR 29 million (35) in non-life insurance loyalty discounts. In addition, owner-customers bought, sold and switched the majority of the mutual funds without separate charges. The value of this benefit amounted to 4 million euros (4).

The abovementioned OP bonuses and customer benefits totalled EUR 165 million (182), accounting for 22.7% (38.8) of OP Financial Group's earnings before tax and granted benefits.

Interest payable on Profit Shares for the financial year 2020 totals EUR 95 million (97). It will be paid at the earliest in October 2021 in line with the recommendations of the ECB. The return target for Profit Shares for 2021 is an interest rate of 3.25% (3.25). Interest payable on Profit Shares accrued during the reporting period is estimated to total EUR 47 million (47).

Corporate responsibility

Corporate responsibility is an integral part of OP Financial Group's business and strategy. The Group's aim is to be a forerunner of corporate responsibility within its sector in Finland. OP Financial Group's Corporate Responsibility Programme is built around four themes: we improve financial literacy in Finland, we foster a sustainable economy, we support local vitality and community spirit, and we use our information capital responsibly.

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

To promote diversity, OP Financial Group's objective is that the proportion of both genders in defined executive positions is at least 40%. Women accounted for 29% (28) at the end of June.

Corporate responsibility highlights in April–June

OP is the main partner of the national Financial Literacy Competition. This year, over 21,000 young people from 330 schools all over Finland participated in the competition. The final was arranged via remote connections on 23 May 2021. During the spring, OP cooperative banks supported students in preparing for the competition by organising financial literacy sessions as a part of the curriculum, either remotely or on-site in schools.

In May, OP published the annual Green Bond Report that contains a description of the green bond of EUR 500 million issued by OP Corporate Bank in February 2019, including examples of businesses and projects financed and the environmental impacts achieved. Proceeds raised with OP's first green bond were used to finance renewable energy, green buildings and sustainable land use. During 2020, it resulted in significant positive environmental impacts: almost 200,000 tonnes of avoided CO2e emissions in power generation, over 140,000 CO2e tonnes of carbon sinks through sustainable land use, production of 390 MW of renewable energy and 20,000 m2 of green certified building area.

In its loan decisions, OP Financial Group considers the ESG themes and risks related to environmental, social and governance factors in accordance with the EBA (European Banking Authority) Guidelines on loan origination and monitoring. In the new ESG analysis, customers are reviewed on a sector-specific basis in respect of the ESG themes. At the initial stage, the Guidelines will be applied to corporate customer exposures granted after 30 June 2021. In prior years, OP Corporate Bank has already conducted ESG analyses on its large customers, which have taken account of environmental, social and governance aspects. In corporate financing, OP Corporate Bank assesses the companies' climate change actions from the following perspectives: the company's impact on climate change, the relevance of the company's measures to mitigate climate change and the impacts of climate change on the company.

Multichannel services

OP Financial Group has a multichannel service network comprising online, mobile, branch and telephone services. In June, the Group's mobile channels (OP-mobile, OP Business mobile, OP Junior) had almost 1.3 million active users (1.2). The Group provides personal customer service both at branches and digitally. The Group seeks to provide the best multichannel customer experience in the sector.

In the exceptional situation caused by Covid-19, OP Financial Group has centralised most of its services in digital channels.

Mobile and online services, no. of logins (million)	H1/ 2021	H1/ 2020	Change, %
OP-mobile	231.0	191.2	20.8
OP Business mobile	9.5	7.1	33.3
Pivo	20.6	21.5	-4.3
Op.fi	28.3	38.7	-26.9
	30 Jun 2021	31 Dec 2020	Change, %
Siirto payment, registered customers (OP)	976,486	899,402	8.6

In February, OP launched a new SMS service to its non-digital customers. OP Account SMS sends automatically an SMS notification of all account transactions to the customer's mobile phone.

In March, OP introduced the Apple Pay service to its customers in Finland. The service enables customers to pay for their purchases using iPhone, iPad, Apple Watch or Mac. Customers have quickly adopted the service.

OP Financial Group has an extensive branch network with 332 branches (342) 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 a total of 600,000 followers (570,000). In addition to OP Financial Group's national social media accounts, many OP cooperative banks have their own Facebook pages where they share publications targeted at local customers.

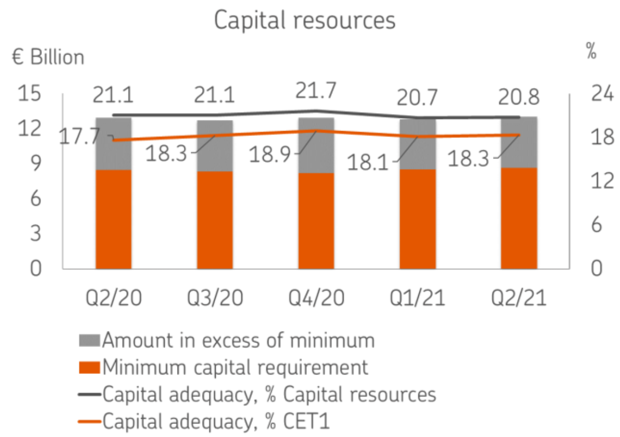
Capital adequacy and capital base

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

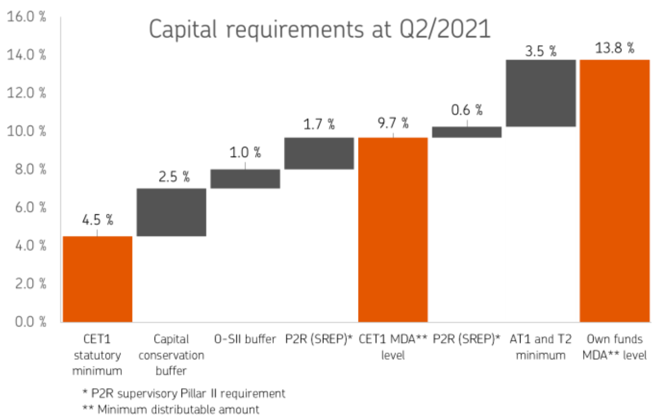
OP Financial Group's capital base, calculated according to the Act on the Supervision of Financial and Insurance Conglomerates (FiCo), exceeded the minimum amount specified in the Act by EUR 4.3 billion (4.4). Banking capital requirement remained unchanged at 13.8%, calculated on risk-weighted assets. The ratio of the Group capital base to the minimum capital requirement was 146% (150). As a result of the buffer requirements for banking and the solvency requirements for insurance companies, the minimum FiCo solvency of 100% reflects the level within which the conglomerate can operate without regulatory obligations resulting from buffers below the required level.

Capital adequacy for credit institutions

OP Financial Group's CET1 ratio was 18.3% (18.9). The lower ratio was affected in particular by the ECB's decision, which increased the risk-weighted items of corporate exposures.

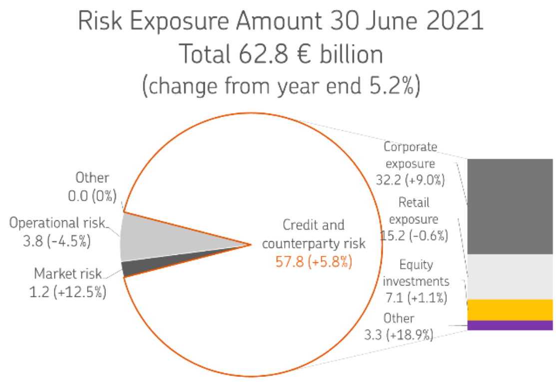


As a credit institution, OP Financial Group's capital adequacy is on a solid basis compared to the statutory requirements and those set by the authorities. The statutory minimum for the capital adequacy ratio is 8% and for the CET1 ratio 4.5%. The requirement for the capital conservation buffer of 2.5% under the Act on Credit Institutions, the O-SII buffer of 1% and the ECB's P2R requirement increase, in practice, the minimum total capital ratio to 13.8% and the minimum CET1 ratio to 9.7%.



The CET1 capital of OP Financial Group as credit institution was EUR 11.5 billion (11.3). Banking earnings, of which the planned full-year profit distribution has been subtracted, had a positive effect on the CET1 capital. The shortfall of ECL minus expected losses, which increased as a result of changes in credit risk parameters, had a negative effect on the CET1 capital. The amount of Profit Shares in CET1 capital was EUR 2.9 billion (2.8).

The risk exposure amount (REA) totalled EUR 62.8 billion (59.7), or 5% higher than at the turn of the year. In March, the ECB set a parameter factor for corporate exposures, based on the TRIM (Targeted Review of Internal Models) on corporate exposures, which increased the risk-weighted assets of corporate exposures. With respect to retail exposures, OP Financial Group added conservatism to the credit conversion factor, which increased the risk-weighted assets of retail exposures. The revised Capital Requirements Directive and Regulation (CRR2) came into force in June, which increased the counterparty risk associated with derivatives as anticipated.



OP Financial Group treats insurance holdings within the financial conglomerate as risk-weighted assets, based on permission from the ECB. Equity investments include EUR 6.8 billion in risk-weighted assets of the Group's internal insurance holdings.

The Finnish Financial Supervisory Authority (FIN-FSA) makes a macroprudential policy decision on a quarterly basis. In June 2021, the FIN-FSA reiterated its decision not to impose a countercyclical capital buffer requirement on banks.

The minimum leverage ratio requirement for OP Financial Group's Banking was 7.3% (7.8). The ratio decreased as a result of an increase in central bank deposits. The regulatory minimum requirement is 3%.

OP Financial Group plans to adopt a simplified approach in the measurement of insurance companies' risk weights during the latter half of 2021, which will reduce the CET1 ratio by about 0.5 percentage points. During the third quarter, OP Financial Group plans to adopt calibrated models on corporate exposures and expects this to decrease the CET1 ratio by about 0.3 percentage points.

OP Financial Group is in discussions with the ECB on reassessing the extent of application of internal models (IRBA, Internal Ratings-Based Approach). Based on the current estimate, the change in the scope of IRBA would decrease OP Financial Group's CET1 ratio by around 0.3 percentage points. The final effect of the change and the implementation schedule will be specified after discussions with the supervisor and the approval process related to the scope of IRBA.

The OP Amalgamation Capital Adequacy Report of 30 June 2021 will be published in English in week 32.

Insurance

The solvency position of insurance companies is strong. A good balance on technical account and an increase in the value of investments strengthened the capital base. A rise in market risks increased the solvency capital requirement. Furthermore, higher interest rates, for their part, strengthened solvency.

	Non-life insurance		Life insurance	
	30 Jun 2021	31 Dec 2020	30 Jun 2021	31 Dec 2020
Capital base, € mill.*	1,357	1,205	1,529	1,436
Solvency capital requirement (SCR), € mill.*	796	762	781	746
Solvency ratio, %*	170	158	196	193
Solvency ratio, % (excl. transitional provision)	170	158	167	161

*including transitional provisions

ECB's supervision

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

On 25 April 2019, OP Financial Group received the ECB's decision on increases in the risk weights of mortgage-backed retail exposures as part of the targeted review of internal models (TRIM). These risk weight increases will be valid until further notice, until the qualitative requirements set out in the decision have been met.

On 19 February 2020, OP Financial Group received the ECB's decision concerning the change in the definition of default, in which the ECB set risk weighting factors for corporate and retail exposures. These risk-weighting factors will be valid until the qualitative requirements set out in the decision have been met.

On 11 December 2020, OP Financial Group received the ECB's decision concerning increases in the risk weights of retail exposures. The decision overruled the ECB's earlier decision issued on 2 February 2017.

On 18 March 2021, OP Financial Group received the ECB's decision concerning an increase in the risk parameter of corporate exposures. This risk parameter factor will be valid until the qualitative requirements set out in the decision have been met.

The ECB has set a capital requirement for OP Financial Group based on the supervisory review and evaluation process (SREP). The capital buffer requirement (P2R) set by the ECB is 2.25% (2.0) as of 1 January 2020.

Liabilities under the Resolution Act

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

On 14 May 2021, the resolution authority updated the Minimum Requirement for Own Funds and Eligible Liabilities (MREL) for OP Financial Group. The updated MREL is 25.8% of the total risk exposure amount and 10.12% of the leverage ratio exposure. It will enter into force on 1 January 2022.

As part of the MREL, the resolution authority has set a new subordination requirement for OP Financial Group in accordance with the Single Resolution Mechanism Regulation. The subordination requirement determines how much of the MREL requirement must be met with own funds or with subordinated liabilities. From the beginning of 2022, the subordination requirement supplementing the MREL will be 22% of the total risk exposure amount and 10.11% of the leverage ratio exposure. From the beginning of 2024, the subordination requirement will be 24% of the total risk exposure amount and 10.12% of the leverage ratio exposure.

OP Financial Group's MREL ratio was an estimated 37% (40) and the MREL ratio based on the subordination requirement with subordinated liabilities was an estimated 25% (25).

Risk exposure

OP Financial Group's Risk Appetite Statement starts from the fact that the Group assumes risks that are mainly associated with executing the Group's mission. In its risk-taking, the Group emphasises moderation, responsibility and careful action. Risk-taking is directed and limited by means of principles and limits prepared by senior management and approved by Group Executive Management.

Considering that OP Financial Group's business covers various areas of the financial sector on an extensive basis, unexpected external shocks, such as the Covid-19 pandemic, may cause direct and indirect effects on the prosperity of OP Financial Group's customers and on the Group's premises, IT infrastructure and personnel that may come in many forms. If materialised, they may affect risk exposure, capitalisation, liquidity and the continuity of daily business in various ways. The Group makes these risks visible by means of scenario work.

The operational risk level remained moderate. Materialised operational risks resulted in a gross loss of EUR 3 million (5) during the reporting period. From the operational risk perspective, the implications of the Covid-19 pandemic on OP Financial Group were mild during the reporting period and mainly affected OP cooperative banks.

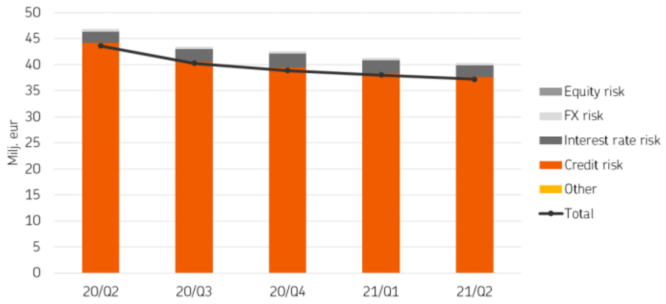
Retail Banking and Corporate Banking

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

The Covid-19 pandemic has not substantially weakened banking credit risk exposure, but there is still risk for a negative development. For the time being, however, growth in the number of customers who have got into deeper problems has remained moderate and limited mainly to certain sectors. So, the overall quality of the loan portfolio has remained good.

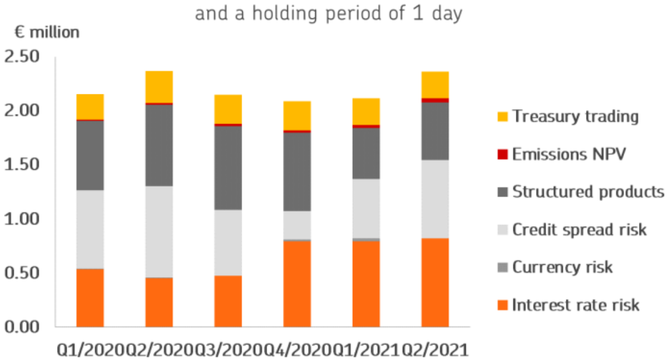
During the reporting period, the market risk level of corporate banking's long-term investments remained at the 2020-end level. No major changes were made to the asset class allocation during the reporting period. The Group's VaR, a measure of market risks, was EUR 37 million (39) on 30 June 2021. The VaR risk metric includes the liquidity buffer and banking's long-term bond investments.

Corporate banking's market risk VaR at a confidence level of 95% and a retention period of 10 days



Expected Shortfall (ES), a measure of market risk associated with the interest rate risk position of Markets and Treasury, remained at a moderate level.

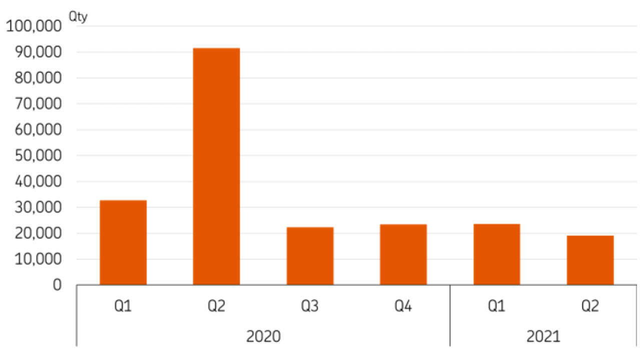
Market risk ES at a confidence level of 97.5 % and a holding period of 1 day



Personal customers' repayment holidays

In the summer of 2020, the volume of repayment holidays granted to personal customers returned to its pre-pandemic level. In April-June 2020, exposures affected by new repayment holidays totalled EUR 6.3 billion. In April–June 2021, exposures affected by new repayment holidays totalled EUR 1.3 billion (1.4).

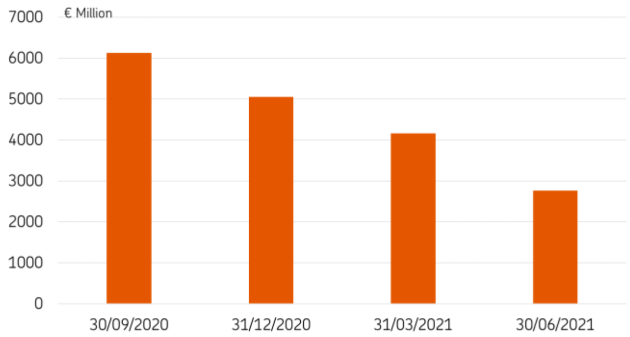
Personal customers' repayment holidays



The graph shows the actual number of personal customers' repayment holidays for the reporting period and for 2020. The quarter is determined by the date of execution of the repayment holiday. Earlier, the quarter was reported based on the customer's application date. Comparative information has been adjusted accordingly.

A large number of 12-month repayment holidays, granted to personal customers in spring 2020 due to the Covid-19 pandemic, expired during the second quarter of 2021. Repayment holidays that were in effect at the end of the reporting period affected exposures totalling EUR 2.8 billion (5.0).

Personal customers' repayment holidays in force

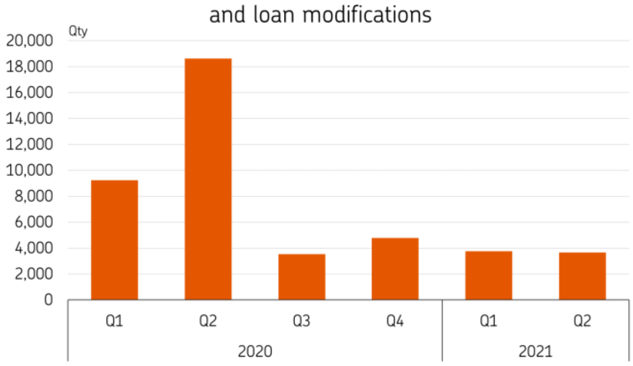


The graph shows the total amount of exposures affected by personal customers' repayment holidays in force.

Corporate customers' repayment holidays and loan modifications

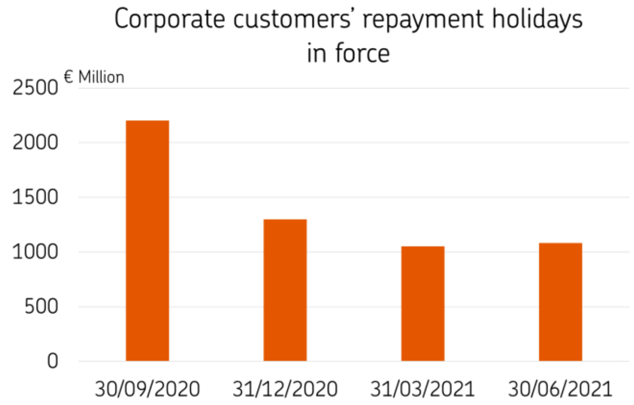
The number of repayment holidays and loan modifications granted to corporate customers returned to their pre-pandemic levels after the summer of 2020. New repayment holidays and loan modifications granted to corporate customers in the second quarter of 2020 due to the Covid-19 crisis applied to exposures worth EUR 4.1 billion. Repayment holidays and loan modifications granted in the second quarter of 2021 applied to exposures worth EUR 1.6 billion (1.7).

Corporate customers' repayment holidays and loan modifications

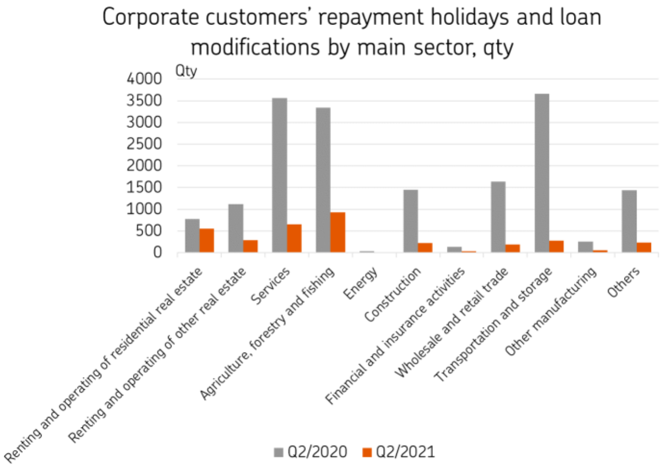


The graph shows the actual number of corporate customers' loan modifications and repayment holidays for the reporting period and by quarter in 2020. The quarter is determined by the date of execution of the change.

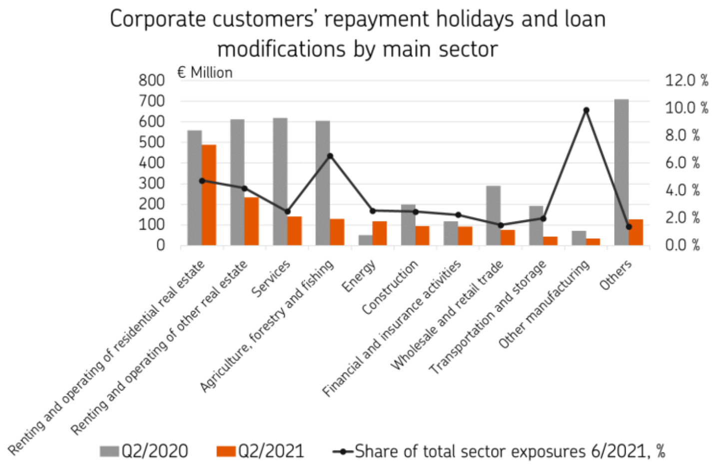
In most cases, loan modifications will remain effective until the loan maturity, whereas repayment holidays are granted for a specific period of time. Corporate customers' repayment holidays that were in effect at the end of the reporting period affected exposures totalling EUR 1.1 billion (1.3).



The graph shows the total amount of exposures affected by corporate customers' repayment holidays in force.

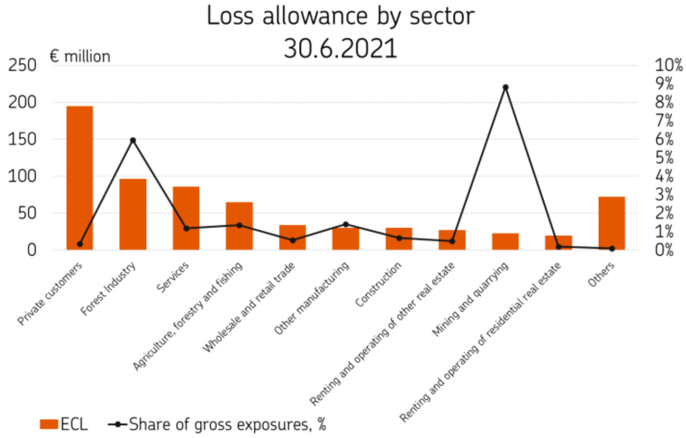


The graph shows by sector the repayment holidays and loan modifications implemented on corporate exposures during the second quarter of 2021 and 2020.



The graph shows by sector the corporate exposures affected by repayment holidays and loan modifications implemented during the second quarter of 2020 and 2021. The graph also shows by sector the percentage of exposures for which a repayment holiday or loan modification was agreed during the reporting period.

Loss allowance by sector



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

The distribution of expected credit loss by industry is presented in more detail in the OP Amalgamation Capital Adequacy Report of 30 June 2021.

Non-performing and forborne exposures

	Performing forborne exposures (gross)		Non-performing exposures (gross)		Doubtful receivables (gross)		Loss allowance		Doubtful receivables (net)	
	30 Jun 2021	31 Dec 2020	30 Jun 2021	31 Dec 2020	30 Jun 2021	31 Dec 2020	30 Jun 2021	31 Dec 2020	30 Jun 2021	31 Dec 2020
Over 90 days past due, € billion			0.63	0.66	0.63	0.66	0.24	0.24	0.40	0.42
Unlikely to be paid, € billion			0.84	0.95	0.84	0.95	0.16	0.18	0.68	0.77
Forborne exposures, € billion	3.50	3.29	1.29	1.12	4.78	4.41	0.16	0.15	4.63	4.26
Total, € billion	3.50	3.29	2.76	2.73	6.26	6.02	0.55	0.57	5.70	5.45

	OP Financial Group		Retail Banking		Corporate Banking	
Key ratios	30 Jun 2021	31 Dec 2020	30 Jun 2021	31 Dec 2020	30 Jun 2021	31 Dec 2020
Ratio of doubtful receivables to exposures, %	5.50	5.44	6.65	6.40	2.66	2.99
Ratio of non-performing exposures to exposures, %	2.42	2.47	2.56	2.56	2.08	2.22
Ratio of performing forborne exposures to exposures, %	3.07	2.97	4.10	3.84	0.57	0.77
Ratio of performing forborne exposures to doubtful receivables, %	55.9	54.6	61.6	60.0	21.6	25.8
Ratio of loss allowance (receivables from customers) to doubtful receivables, %	10.8	11.5	7.1	7.6	33.0	32.1

Key ratios were changed from net to gross as of the beginning of 2021, i.e. non-performing exposures no longer include loss allowance. At the same time, a more comprehensive concept of doubtful receivables was adopted which includes all off-balance-sheet non-performing exposures. In the key ratios, the new denominator includes the loan and guarantee portfolio, deferred interest income and unused standby credit facilities. Comparatives have been adjusted accordingly.

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

Retail Banking's interest rate risk in the banking book measured as the effect of a one-percentage point decrease on 12-month net interest income was EUR –62 million (–46) at the end of June. Interest income risk is calculated for a one-year period by dividing the sum of the interest income risk for the next three years by three.

Deposits within the scope of deposit guarantee and managed by OP Financial Group totalled EUR 42.6 billion (41.2) at the end of June. The Deposit Guarantee Fund compensates a maximum of EUR 100,000 for each OP Financial Group customer.

Insurance

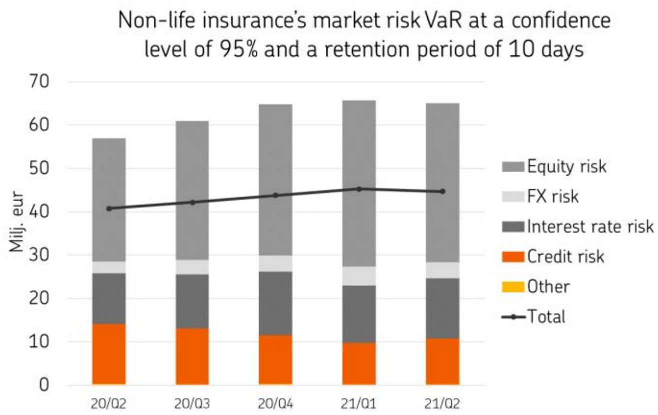
Non-life insurance

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 47 million (48). A 0.1 percentage point decrease in interest rates used in insurance liability valuation would increase insurance liabilities by EUR 26 million (29).

No significant changes took place in non-life insurance's underwriting risks during the reporting period. 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 Group uses derivative contracts to dampen earnings volatility caused by changes in interest rates used in insurance liability valuation.

The market risk level of the investments of non-life insurance has developed steadily during the current year. During the reporting period, equity risk increased because of favourable market developments. The VaR, a measure of market risk, was EUR 45 million (44) on 30 June 2021. VaR includes the company's investment balance including investments, insurance liabilities and derivatives that hedge against interest rate risk associated with insurance liabilities. Data from the reference years has been adjusted to correspond to the current monitoring.



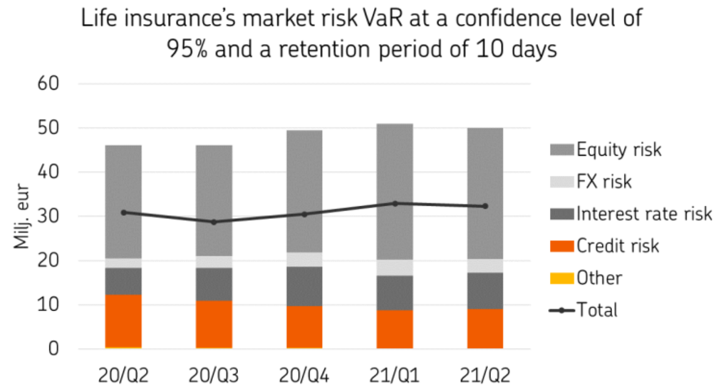
Life insurance

The key risks associated with life insurance are the market risks of life insurance's investment assets, the interest rate used for the valuation of insurance liabilities, a faster-than-expected life expectancy increase among those insured, and the lapse and surrender risk arising from changes in customer behaviour.

A one-year increase in life expectancy would increase insurance liability by EUR 27 million (27). A 0.1 percentage point decrease in interest rates used in insurance liability valuation would increase insurance liabilities by EUR 28 million (31).

Investment risks associated with separated insurance portfolios transferred from Suomi Mutual and risks associated with changes in customer behaviour have been buffered. The buffer is sufficient to cover a significant negative return on the investment assets included in the separated portfolios, after which OP Financial Group will bear the risks associated with the portfolios. The buffers totalled EUR 298 million (281) on 30 June 2021.

The market risk level of the investments of life insurance at the end of the reporting period was almost the same as last year. VaR, a measure of market risk, was EUR 32 million (31) on 30 June 2021. During the reporting period, equity risk increased because of favourable market developments. VaR includes life insurance's investment balance, including investments, insurance liabilities and derivatives that hedge against interest rate risk associated with insurance liabilities. Market risks associated with separated life insurance portfolios, assets that buffer against those risks or customer bonuses, are not included in the calculation. Data from the reference years has been adjusted to correspond to the current monitoring.



Other Operations

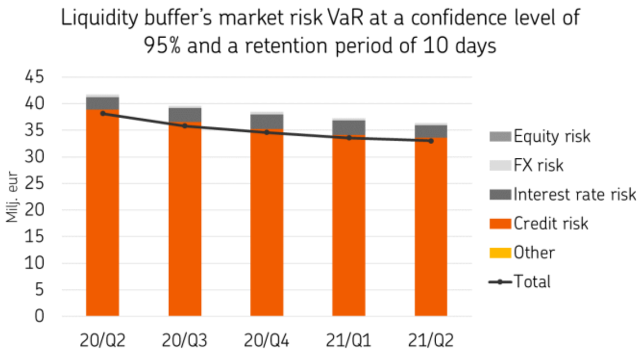
Major risks related to Other Operations include credit and market risks associated with the liquidity buffer, and liquidity risks. The most significant market risk factor is the effect of credit spread changes on the value of notes and bonds included in the liquidity buffer.

Concerns about the general state of the market among investors in the international financial market due to the Covid-19 pandemic and about OP Financial Group's success have abated, and the debt instrument market has functioned normally. The liquidity position has remained strong and the Group has been able to implement market-based financing operations as planned. The Group's liquidity and capital are sufficient to secure business continuity.

OP Financial Group's funding position and liquidity is strong. In January–June, the Group issued long-term bonds worth EUR 2.7 billion (5.9).

The loan-to-deposit ratio remained stable during the reporting period.

The market risk of notes and bonds in the liquidity buffer (VaR with 95% confidence) remained stable during the reporting period. No major changes occurred in the asset class allocation. The VaR risk metric that measures market risk associated with the liquidity buffer was EUR 33 million (35) on 30 June 2021. The VaR risk metric includes long-term bond investments within the liquidity buffer.



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

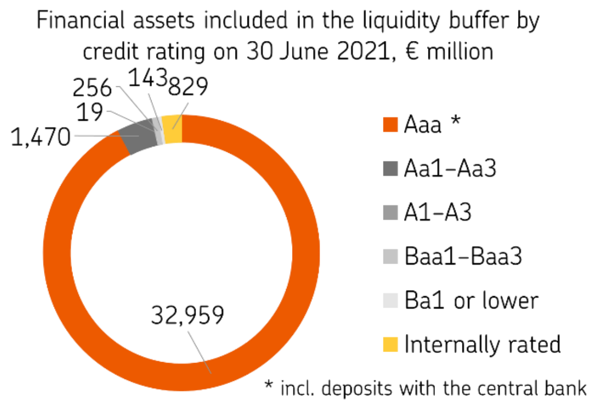
OP Financial Group monitors its liquidity and the adequacy of its liquidity buffer using, for example, the LCR (Liquidity Coverage Ratio). According to regulation, the LCR must be at least 100%. OP Financial Group's LCR was 228% (197) at the end of the reporting period.

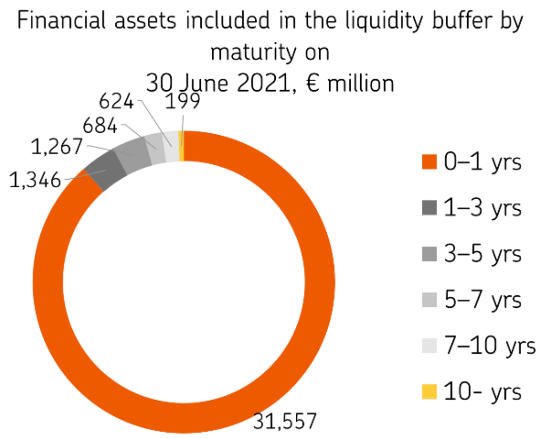
OP Financial Group monitors its long-term funding sufficiency, for example, by means of the Net Stable Funding Ratio (NSFR), which measures structural funding risk. In regulation, a minimum requirement of 100% has been set for the NSFR as of 30 June 2021. OP Financial Group's NSFR was 132% (123) at the end of the reporting period.

Liquidity buffer

€ billion	30 Jun 2021	31 Dec 2020	Change, %
Deposits with central banks	31.0	21.6	43.8
Notes and bonds eligible as collateral	3.6	8.7	-58.2
Corporate loans eligible as collateral	0.0	0.0	-
Total	34.6	30.2	14.5
Receivables ineligible as collateral	1.1	1.0	4.9
Liquidity buffer at market value	35.7	31.3	14.2
Collateral haircut	-0.3	-0.5	-
Liquidity buffer at collateral value	35.3	30.8	14.9

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





Credit ratings

30 June 2021

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

OP Corporate Bank plc has credit ratings affirmed by Standard & Poor's Global Ratings Europe Limited and Moody's Investors Service (Nordics) AB. When assessing OP Corporate Bank's credit rating, credit rating agencies take account of the entire OP Financial Group's financial position.

Financial performance by segment

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

Retail Banking

- Earnings before tax improved to EUR 138 million (28). Impairment loss on receivables decreased by EUR 52 million to EUR 47 million. A year ago, impairment loss was increased by the adoption of the new definition of default and the effects of the Covid-19 pandemic on loan portfolio quality.
- Total income increased by 5.2% to EUR 871 million. Income from customer business increased by a total of 4.6%: net interest income increased by 3.1% to EUR 474 million and net commissions and fees by 6.5% to EUR 376 million.
- Total expenses increased by 2.0% to EUR 607 million. Personnel costs increased by 4.5% and other operating expenses by 0.8% due to additional investments in risk management.
- OP bonuses to owner-customers decreased to EUR 79 million (106) as a result of changes made in the accrual of bonuses.
- The loan portfolio increased by 1.6% and the deposit portfolio by 7.0% year on year.
- Non-performing exposures (gross) accounted for 2.6% (2.6) of the exposures.
- The most significant development investments focused on enhancing customer experience and customer processes and upgrading the account and financing systems.

Key figures and ratios

€ million	H1/2021	H1/2020	Change, %	Q1–4/2020
Net interest income	474	460	3.1	925
Net commissions and fees	376	353	6.5	698
Net investment income	2	1	94.0	2
Other income	19	14	35.2	29
Total income	871	828	5.2	1,653
Personnel costs	225	215	4.5	412
Depreciation/amortisation and impairment loss	26	26	-1.4	60
Other operating expenses	356	353	0.8	680
Total expenses	607	595	2.0	1,152
Impairment loss on receivables	-47	-99	-	-172
OP bonuses to owner-customers	-79	-106	-	-214
Earnings before tax	138	28	389.5	115
Cost/income ratio, %	69.6	71.8	-2.2*	69.7
Ratio of non-performing exposures to exposures, %**	2.6	2.1	0.5*	2.6
Ratio of impairment loss on receivables to loan and guarantee portfolio, %	0.13	0.29	-0.16*	0.24
Return on assets (ROA), %	0.24	0.05	0.18*	0.11
Return on assets, excluding OP bonuses, %	0.37	0.26	0.11*	0.30
€ million				
Home loans drawn down	4,347	3,409	27.5	7,429
Corporate loans drawn down	1,256	1,312	-4.3	2,411
No. of brokered residential property and property transactions	6,498	5,175	25.6	11,998

€ billion	30 Jun 2021	30 Jun 2020	Change, %	31 Dec 2020
Loan portfolio				
Home loans	40.7	39.8	2.3	40.0
Corporate loans	8.1	8.4	-3.0	8.1
Housing company and other loans	21.3	20.8	2.2	21.3
Total loan portfolio	70.1	69.0	1.6	69.4
Guarantee portfolio	0.9	0.9	4.2	0.9
Other exposures	9.6	7.4	29.1	8.7
Deposits				
Current and payment transfer deposits	41.0	38.3	7.1	39.3
Investment deposits	20.4	19.1	6.6	19.8
Total deposits	61.4	57.4	7.0	59.1

*Change in ratio **The name and content of the ratio were changed in Q1/2021. Comparatives have been adjusted accordingly. More detailed information on the change can be found under table Non-performing and forborne exposures in the Risk exposure section of this Half-year Financial Report.

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

In the year to June, the loan portfolio grew by 1.6% to EUR 70.1 billion. New home loan drawdowns increased by 27.5% year on year. The home loan portfolio increased by 2.3% to EUR 40.7 billion year on year. The corporate loan portfolio decreased in the year to June by 3.0%, to EUR 8.1 billion.

The growth in the loan portfolio was affected by the demand for new loans and by the exceptionally large number of repayment holidays granted in the spring of 2020 as a result of the Covid-19 pandemic. A large number of 12-month repayment holidays expired during the second quarter of 2021. The number of new repayment holiday applications returned to its pre-pandemic level already in the summer of 2020.

Customers showed continued interest in protecting home loans and housing company loans against risks. On 30 June 2021, a total of 28.2% (27.1) of personal customers' home loans were covered by interest rate protection.

The lively housing market increased the volume of homes and real property sold and bought through the OP Koti real estate agents by 25.6%.

In the year to June, the deposit portfolio increased by 7.0% to EUR 61.4 billion. Most of this increase came from current and payment transfer accounts, but also from investment deposits, with household deposits showing the strongest growth.

OP's customers' continued interest in saving and investing reached record high levels in the reporting period. OP mutual funds attracted 104,000 new unitholders, most of whom began to invest systematically. Furthermore, the share trading volume was 15% higher than a year ago. In March, OP Financial Group launched a new investment benefits package for owner-customers.

During the reporting period, cash volumes remained clearly below their pre-pandemic level. OP is continuously developing its payment services. In March, OP introduced to its customers the Apple Pay service that enables them to pay for purchases using smart devices by Apple. Customers have quickly adopted the service. According to the plan announced in June, Pivo (owned by OP Financial Group), MobilePay (owned by Danske Bank) and the Norwegian Vipps are planning a new mobile payment platform. This will combine mobile wallets, used by 11 million Nordic customers, to create one of Europe's leading mobile payment services. The plan is subject to the approval of the competition authorities.

During the reporting period, the most significant development investments focused on enhancing customer experience and customer processes and upgrading the account and financing systems.

In March, OP Mortgage Bank issued a EUR 750 million green covered bond with a maturity of 10 years.

Financial performance for the reporting period

Retail Banking's earnings before tax improved to EUR 138 million (28). Net interest income increased by 3.1% to EUR 474 million and net commissions and fees by 6.5% to EUR 376 million mainly due to the increase in commissions for daily banking. Total income increased by 5.2% to EUR 871 million.

Total expenses increased to EUR 607 million (595). Personnel costs rose by EUR 4.5%. Depreciation/amortisation and impairment loss on receivables, EUR 26 million, were at the same level as a year ago. Other operating expenses increased by 0.8% to EUR 356 million due to additional investments in risk management and financial crime prevention.

Impairment loss on receivables decreased by EUR 52 million to EUR 47 million. A year ago, customers actively applied for repayment holidays on their loans and changes to their repayment schedules due to the Covid-19 crisis. Combined with the changes in macroeconomic parameters applied in the calculation of expected credit losses, this increased the amount of expected credit losses. A year ago, the adoption of the new definition of default also increased the amount of expected credit losses. Final net loan losses recognised for the reporting period totalled EUR 47 million (20). Non-performing exposures accounted for 2.6% (2.6) of the exposures.

OP bonuses to owner-customers decreased by EUR 27 million to EUR 79 million as a result of changes in the accrual of bonuses that became effective in November 2020. After the change, customers earn OP bonuses from home loans, student loans, secured bank loans, savings accounts and mutual fund assets as well as unit-linked insurance assets and insurance premiums.

Corporate Banking

- Earnings before tax improved to EUR 276 million (103).
- Total income increased by 32.3% to EUR 446 million. Net interest income increased by 0.5% and net commissions and fees by 50.9%. Net investment income increased by 59.7%.
- Total expenses increased to EUR 173 million (158). Other operating expenses rose by 8.1% due to a higher stability contribution and intra-Group charges.
- In the year to June, the loan portfolio decreased by 1.3% to EUR 24.4 billion, and deposits increased by 1.4% to EUR 13.8 billion. In the year to June, assets under management increased by 19.6% to EUR 68.9 billion.
- Reversal of impairment losses on receivables improved earnings by EUR 12 million (–68). Non-performing exposures (gross) accounted for 2.1% (2.2) of the exposures.
- The most significant development investments involved the upgrades of payment, finance and asset management systems.

Key figures and ratios

€ million	H1/2021	H1/2020	Change, %	Q1–4/2020
Net interest income	203	202	0.5	394
Net commissions and fees	98	65	50.9	153
Net investment income	95	60	59.7	143
Other income	50	11	360.8	17
Total income	446	337	32.3	707
Personnel costs	48	39	21.7	71
Depreciation/amortisation and impairment loss	7	10	-23.0	18
Other operating expenses	118	109	8.1	197
Total expenses	173	158	9.6	286
Impairment loss on receivables	12	-68	-	-53
OP bonuses to owner-customers	-9	-9	3.0	-18
Earnings before tax	276	103	167.2	349
Cost/income ratio, %	38.7	46.7	8.0*	40.4
Ratio of non-performing exposures to exposures, %**	2.1	2.3	-0.2*	2.2
Ratio of impairment loss on receivables to loan and guarantee portfolio, %	-	0.49	-	0.20
Return on assets (ROA), %	1.45	0.53	0.93*	0.86
Return on assets, excluding OP bonuses, %	1.50	0.57	0.93*	0.91

€ billion	30 Jun 2021	30 Jun 2020	Change, %	31 Dec 2020
Loan portfolio				
Corporate loans	14.6	15.0	-2.6	14.4
Housing company and other loans	9.8	9.7	0.6	9.6
Total loan portfolio	24.4	24.7	-1.3	24.0
Guarantee portfolio	2.9	3.1	-7.7	2.6
Other exposures	5.7	5.3	7.9	5.4
Deposits	13.8	13.6	1.4	13.1
Assets under management (gross)				
Mutual funds	30.9	24.3	26.9	27.6
Institutional clients	25.9	23.3	11.4	25.3
Private Banking	12.1	10.0	21.0	11.3
Total (gross)	68.9	57.6	19.6	64.2

€ million	H1/2021	H1/2020	Change, %	Q1–4/2020
Net inflows				
Private Banking clients	-102	116	-	225
Institutional clients	307	-139	-	190
Total	205	-23	-	415

*Change in ratio
** The name and content of the ratio was changed in Q1/2021. Comparatives have been adjusted accordingly. More detailed information on the change can be found under table Non-performing and forborne exposures in the Risk exposure section of this Half-year Financial Report.

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

The loan portfolio decreased in the year to June by 1.3%, to EUR 24.4 billion. In the year to June, the deposit portfolio increased by 1.4% to EUR 13.8 billion.

The most significant Corporate Banking development investments involved the upgrades of payment, finance and asset management systems. The upgrade of core payment systems and improvement of digital services will continue further. In asset management, fund management processes and services related to the customer interface will be further upgraded.

As the first bank in Finland, OP enabled multi-banking for businesses during the reporting period. OP's multi-banking feature makes it possible for companies to make payments from the accounts of different banks and to view their account transactions. This new feature simplifies the companies' daily business and cash flow management by providing a broader and more real-time view to their cash position. The users of OP Corporate Hub have been able to use the multi-banking feature since June. OP Corporate Hub is a digital financial management service provided by OP to companies.

Total income increased on a wide front by a total of 32.3% from the level a year ago. Within asset management, net assets inflow increased significantly year on year to EUR 205 million (–23). In the year to June, assets under management increased by 19.6% to EUR 68.9 billion (57.6). Assets under management included about EUR 11 billion (11) in assets of the companies belonging to OP Financial Group.

During the reporting period, the number of OP mutual fund unitholders exceeded the milestone of one million unitholders. The number of unitholders increased in gross terms by about 104,000, to 1,071,000 unitholders. The Morningstar rating for OP mutual funds was 3.08 (3.06).

Customers' interest in responsible investment fund products has remained strong. Among OP mutual funds, the OP-Climate fund continued to be the most popular investment option. Implemented at the end of 2020, the more extensive exclusion of fossil-based businesses from sustainability-themed funds had a positive impact on the carbon footprint of those funds.

With the agreement signed between OP and the European Investment Bank in May 2021, OP will bring new financing worth EUR 300 million to mid-size Finnish companies. The new financing will improve companies' investment opportunities and support them amid the challenges they have faced due to the Covid-19 pandemic. Financing guaranteed by the EIB and intermediated by OP is intended to finance profitable investments and the working capital of companies.

Financial performance for the reporting period

Earnings before tax improved to EUR 276 million (103). Total income amounted to EUR 446 million (337) and total expenses to EUR 173 million (158). The cost/income ratio was 38.7% (46.7).

Net interest income increased by 0.5% to EUR 203 million (202). Net commissions and fees totalled EUR 98 million (65). In the year to June, mutual fund assets under management grew by 26.9%, which increased net commissions and fees from funds. Other commissions and fees increased on a wide front, and OP Financial Group's internal commission expenses decreased.

Corporate Banking segment's net commissions and fees

€ million	H1/ 2021	H1/ 2020	Change, %
Mutual funds	65	52	22.9
Asset management	8	7	5.7
Other	26	7	-
Total	98	65	50.9

Net investment income totalled EUR 95 million (60). A rise in long-term interest rates reduced the CVA of derivatives, which improved net investment income. Earnings a year ago were weakened by credit risk margins that widened substantially amid the Covid-19 crisis. The sale of Checkout Finland Ltd increased other operating income.

Total expenses increased to EUR 173 million (158). Personnel costs rose by 21.7% to EUR 48 million due to higher provisions for performance-based bonuses. Other operating expenses grew by 8.1% to EUR 118 million. The EU stability contribution increased by 23.5% to EUR 24 million and intra-Group charges by EUR 5 million.

Reversal of impairment losses on receivables improved earnings by EUR 12 million (–68). A year ago, the adoption of the new definition of default, the changes in the macroeconomic parameters used in the calculation of expected credit losses and the weakening of individual customers' credit risk exposure increased the impairment loss on receivables. Non-performing exposures accounted for 2.1% (2.2) of the exposures.

Insurance

- Earnings before tax improved to EUR 220 million (130). Net insurance income improved as claims incurred decreased. Capital gains improved investment income.
- Non-life insurance premium revenue increased by 1.6% to EUR 752 million and claims incurred decreased by 4.0% to EUR 441 million.
- Investment income totalled EUR 94 million (34), including the overlay approach. Net return on investments at fair value reported by non-life insurance was EUR 134 million (–60) and that by life insurance EUR 104 million (–34).
- The non-life insurance operating combined ratio improved to 86.2% (89.3) and operating risk ratio to 58.6% (62.0). The operating cost ratio was 27.6% (27.3).
- In life insurance, unit-linked insurance assets increased by 10.4% to EUR 12.5 billion from the 2020-end level. Premiums written in term life insurance grew by 2.4%.
- Development investments focused on upgrading the core system, improving the accessibility of web and mobile services and enhancing opportunities to buy insurance products.
- Pohjola Insurance will focus on its core business and will sell its hospital chain.

Key figures and ratios

€ million	H1/2021	H1/2020	Change, %	Q1–4/2020
Net insurance income	335	302	10.9	582
Net commissions and fees	40	34	17.3	78
Net investment income	184	-54	-	88
Other net income	1	2	-36.5	8
Total income	561	285	96.9	755
Personnel costs	81	71	13.6	140
Transfer of statutory earnings-related pension liability				-85
Depreciation/amortisation and impairment loss	29	27	7.7	60
Other operating expenses	130	136	-4.6	269
Total expenses	240	234	2.4	384
OP bonuses to owner-customers	-10	-9	11.6	-19
Overlay approach	-91	88	-202.9	-4
Earnings before tax	220	130	69.8	348
Return on assets (ROA), %	1.49	0.88	0.60*	1.16
Return on assets, excluding OP bonuses, %	1.55	0.94	0.61*	1.22

*Change in ratio

OP Financial Group's Insurance segment comprises life and non-life insurance plus the health and wellbeing business. The segment includes Pohjola Insurance Ltd, OP Life Assurance Company Ltd and Pohjola Hospital Ltd.

In future, the Insurance segment will focus on non-life and life insurance business. Pohjola Insurance will sell Pohjola Hospital.

The first implementation of the non-life insurance core system upgrade took place in March when new sales of occupational accident and occupational disease insurance products transferred to a new platform.

Financial performance for the reporting period

Earnings before tax improved to EUR 220 million (130). Net insurance income increased by 10.9% to EUR 335 million. Total expenses increased by 2.4% to EUR 240 million. Investment income totalled EUR 94 million (34), including the overlay approach. Capital gains on investment amounted to EUR 41 million (11) in non-life insurance and to EUR 30 million (20) in life insurance.

Investment income

€ million	H1/2021	H1/2020
At fair value through other comprehensive income	22	33
At fair value through profit or loss	13	40
Amortised cost	1	-3
Life insurance items*	150	-109
Unwinding of discount**	-9	-11
Associated companies	8	-3
Net investment income	184	-54
Overlay approach	-91	88
Total	94	34

*Include credited interest on customers' insurance assets, changes in supplementary interest rate provisions and other technical items as well as changes in the fair value of unit-linked and separated balance sheet's investments.
**Non-life insurance.

Non-life insurance operating result

Non-life insurance earnings improved year on year as the balance on technical account and net investment income improved. Along with Covid-19 restrictions, a reduction in economic activity, widespread remote work and traffic volumes lower than usual have reduced claims in almost all lines of non-life insurance.

€ million	H1/2021	H1/2020	Change, %
Insurance premium revenue	752	740	1.6
Claims incurred	441	459	-4.0
Operating expenses	208	202	2.8
Balance on technical account	104	79	31.4
Investment income and expenses	108	-33	-
Other income and expenses	-4	-3	-
Overlay approach	-42	48	-189.2
Earnings before tax	166	90	83.6
Operating combined ratio	86.2	89.3	
Operating risk ratio	58.6	62.0	
Operating cost ratio	27.6	27.3	

Non-life insurance: premium revenue

€ million	H1/2021	H1/2020	Change, %
Personal customers	430	422	2.0
Corporate customers	321	318	1.0
Total	752	740	1.6

Premium revenue increased by 1.6% to EUR 752 million. Among personal customers, the number of loyal customer households increased. Premium revenue from corporate customers increased by 1.0%. A fall in occupational accident and occupational disease insurance premium revenue continued to slow down growth.

Claims incurred decreased by 4% to EUR 441 million. The reported number of new large claims under property and business liability insurance (in excess of EUR 0.3 million) amounted to 51 (52) in January–June, with their claims incurred retained for own account totalling EUR 53 million (69). Changes in claims for previous years improved the balance on technical account by EUR 31 million (12). The non-life insurance operating risk ratio excluding indirect loss adjustment expenses was 58.6% (62.0). Changes in the provision for outstanding claims under statutory pensions improved earnings by EUR 7 million (10).

In non-life insurance, the operating cost ratio (including indirect loss adjustment expenses) was 27.6% (27.3).

Operating combined ratio reported by non-life insurance improved to 86.2% (89.3).

Non-life insurance: key investment indicators

€ million	H1/2021	H1/2020
Net return on investments at fair value, € million*	134	-60
Return on investments at fair value, %	0.9	1.1
Fixed income investments' running yield, %	0.8	1.3
	30 Jun 2021	31 Dec 2020
Investment portfolio, € million	4,193	4,102
Investments within the investment grade category, %	92	92
At least A-rated receivables, %	56	58
Modified duration	3.2	3.5

*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.

Life insurance operating result

Capital market developments were strong during the reporting period. Unit-linked insurance assets, EUR 12.5 billion, were 10.4% higher than on 31 December 2020. Net assets inflow of unit-linked insurance contracts amounted to EUR 250 million (74). The amount of life insurance surrenders remained moderate. Premiums written in term life insurance grew by 2.4%.

Earnings before tax improved by 22.8% to EUR 57 million. This improvement was due to higher net investment income and lower expenses.

€ million	H1/2021	H1/2020	Change, %
Net risk results	15	14	8.5
Net investment income	79	-13	-
Net commissions and fees	53	49	8.0
Total income	147	50	-
Personnel costs	5	5	10.1
Depreciation/ amortisation and impairment loss	10	11	-7.2
Other operating expenses	17	20	-15.4
Total expenses	33	36	-9.5
OP bonuses	-9	-8	12.6
Overlay approach	-48	41	-
Earnings before tax	57	46	22.8
Operating ratio	37.5	44.6	

Life insurance: key investment indicators*

€ million	H1/2021	H1/2020
Net return on investments at fair value, € million**	104	-34
Return on investments at fair value, %	0.0	2.0
Fixed income investments' running yield, %	0.9	1.1
	30 Jun 2021	31 Dec 2020
Investment portfolio, € million	3,664	3,602
Investments within the investment grade category, %	91	90
A-rated receivables, minimum, %	57	58
Modified duration	3.0	3.2

*Excluding the separated balance sheets
**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 separated balance sheets.

Interest rate risk associated with insurance liability has been hedged through supplementary interest rate provisions and interest rate derivatives. In life insurance, the net change in short-term supplementary interest rate provisions was EUR 0 million, while a year ago it improved earnings by EUR 21 million. Accrued supplementary interest rate provisions related to insurance liabilities (excluding the separated balance sheets) totalled EUR 390 million (490) on 30 June 2021. Short-term supplementary interest rate provisions accounted for EUR 44 million (44) of these provisions.

Other Operations

Key figures and ratios

€ million	H1/2021	H1/2020	Change, %	Q1–4/2020
Net interest income	-46	-32	-	-60
Net commissions and fees	1	5	-84.5	9
Net investment income	8	2	310.0	12
Other operating income	343	421	-18.5	744
Total income	306	396	-22.8	705
Personnel costs	108	89	20.6	177
Depreciation/amortisation and impairment loss	67	67	-0.6	138
Other operating expenses	182	197	-7.6	388
Total expenses	357	354	0.8	703
Impairment loss on receivables	0	1	-	1
Earnings before tax	-51	43	-220.3	3

The Other Operations segment consists of functions that support the business segments. The segment includes the majority of OP Cooperative, OP Services Ltd and OP Corporate Bank plc's treasury functions.

Financial performance for the reporting period

Earnings before tax amounted to EUR –51 million (43). Total income decreased by 22.8% to EUR 306 million. A year ago, the sale of the Vallila property improved earnings by EUR 96 million.

Net interest income was EUR –46 million (–32). Net interest income was weakened by the Tier 2 bonds and senior non-preferred bonds issued, according to the funding plan, whose margins are higher than those of senior bonds. Net interest income was also weakened by a non-recurring cost caused by the cancellation of interest rate hedge of a subordinated loan redeemed in April. Net investment income totalled EUR 8 million (2).

Other operating income decreased by 18.5% to EUR 343 million. A year ago, the sale of the Vallila property increased other operating income. OP Financial Group recognised a capital gain of EUR 98 million on the sale in other operating income and an expense of EUR 2 million in other operating expenses. OP Financial Group will continue operating in the property under a long-term lease agreement.

Expenses remained at the previous year's level at EUR 357 million (354). Personnel costs increased by 20.6% to EUR 108 million due to higher provisions for performance-based bonuses and a higher headcount. The number of personnel increased in functions such as development, risk management and financial crime prevention. Depreciation/amortisation and impairment loss on PPE and intangible assets were at the previous year's level at EUR 67 million (67). Other operating expenses decreased by 7.6% to EUR 182 million as ICT costs decreased by EUR 18 million.

On 30 June 2021, the average margin of OP Financial Group's senior and senior non-preferred wholesale funding, TLTRO funding and covered bonds was 18 basis points (19). Covered bonds are reported as part of the Retail Banking segment.

OP Financial Group's funding position and liquidity is strong.

OP Corporate Bank participated in the seventh TLTRO III operation for EUR 5.0 billion in March and in the eighth operation for EUR 3.0 billion in June. OP Corporate Bank's TLTRO III financing amounted to a total of EUR 16.0 billion at the end of June. OP Corporate Bank issued two senior non-preferred bonds in March and one in June. The bonds issued in March were worth EUR 500 million with a 5-year maturity and EUR 300 million with a 10-year maturity. The bond issued in June was worth EUR 500 million with a 7-year maturity. In January–June, OP Financial Group issued long-term bonds worth EUR 2.7 billion (5.9).

In 2020, the Governing Council of the European Central Bank modified the terms and conditions of TLTRO III to stimulate bank lending to those hardest hit by the Covid-19 pandemic. According to the modified conditions, the interest rate between 24 June 2020 and 23 June 2022 can be the ECB's deposit facility rate (–0.50% on the reporting date) minus 0.50%. For the subsequent loan maturity, the interest rate can be, at its best, the ECB's deposit facility rate. The reduced interest rate is conditional on fulfilling the criteria for net lending performance.

The rate for 24 June 2020–23 June 2021 was determined based on the net lending review period expired on 31 March 2021. OP Financial Group assesses that it has fulfilled these criteria. The final interest rate will be determined when the TLTRO III operation matures.

For the current interest period, OP Financial Group will monitor the conditions for the fulfilment of the criteria for net lending performance. If the management later updates its assessment of the fulfilment of the criteria for net lending performance for the current interest period, a positive earnings effect will be recognised on a one-off basis on the margin received on top of the base rate, according to IFRS 9.

Service development

OP Financial Group invests in developing its operations and improving customer experience on an ongoing basis. The central cooperative with its subsidiaries is responsible for OP Financial Group's service development. ICT investments make up a significant portion of the costs of developing these services.

OP Financial Group's development expenditure for January–June totalled EUR 138 million (154). This included licence fees, purchased services, other external costs related to projects and in-house work. The capitalised development expenditure totalled EUR 48 million (53). More detailed information on OP Financial Group's investments can be found in each business segment's section in this Half-year Financial Report.

In the spring of 2019, OP Financial Group concluded a five-year agreement with Tata Consultancy Services Ltd (TCS) on the production of ICT services. The agreement involves the ICT infrastructure services used by OP Financial Group, such as mainframe, server and capacity services. The agreement also includes data centre and cloud services. The transfer of ICT infrastructure services to TCS was completed as planned in February 2021.

In February 2021, OP Financial Group signed a new five-year agreement with CGI on producing IT application services in the fields of insurance and centres of excellence, in particular. The agreement is part of increasing the effectiveness of and reforming practices and partnerships related to IT operations.

In May 2021, OP Financial Group signed a new five-year agreement with Accenture on producing IT application services especially in the field of banking. The agreement is part of increasing the effectiveness of and reforming practices and partnerships related to IT operations.

Personnel

On 30 June 2021, OP Financial Group had 13,354 employees (12,604). The number of employees averaged 12,928 (12,486). The increase in the second quarter was due to the recruitment of summer employees.

Personnel at period end

	30 Jun 2021	31 Dec 2020
Retail Banking	7,279	7,069
Corporate Banking	981	899
Insurance	2,547	2,260
Other Operations	2,547	2,376
Total	13,354	12,604

During the reporting period, 114 OP Financial Group employees (142) retired at an average age of 61.9 years (62.5).

Business and commerce students ranked OP Financial Group as the most attractive employer in Finland for the first time in the employer branding survey carried out by Universum in spring 2021. In addition, the Group maintained its position as the most attractive employer in the financial sector among students in other fields, too.

Variable remuneration applied by OP Financial Group in 2021 consists of the performance-based bonus scheme covering all personnel, and the personnel fund. Company-specific targets based on the annual plan and the Group-level strategic targets are taken into account in the metrics used in the performance-based bonus scheme and the personnel fund. In drawing up the remuneration schemes, OP has taken account of the regulation regarding the financial sector's remuneration schemes. More detailed information on variable remuneration is available in OP Financial Group's Report by the Board of Directors and Financial Statements 2020.

Changes in OP Financial Group's structure

OP Financial Group's consolidated financial statements at the end of the reporting period included the accounts of 132 OP cooperative banks (137) and OP Cooperative Consolidated. The number of OP cooperative banks decreased during the reporting period due to mergers.

Ruukin Osuuspankki and Vihannin Osuuspankki merged into Raahen Seudun Osuuspankki on 31 March 2021. Consequently, the business name of Raahen Seudun Osuuspankki was changed to Raahentienoon Osuuspankki.

Lokalahden Osuuspankki and Taivassalon Osuuspankki merged into Lounaisrannikon Osuuspankki on 31 March 2021.

Mynämäen-Nousiaisten Osuuspankki merged into Auranmaan Osuuspankki on 30 April 2021. Consequently, the business name of Auranmaan Osuuspankki changed to Osuuspankki Vakka-Auranmaa.

On 19 January 2021, Artjärven Osuuspankki and Länsi-Kymen Osuuspankki approved a merger plan, according to which the former will merge into the latter. The planned date for registration of the merger is 31 July 2021.

On 16 February 2021, Oripään Osuuspankki and Alastaron Osuuspankki approved a merger plan, according to which the former will merge into the latter. The planned date for registration of the merger is 31 July 2021. Consequently, the business name of Alastaron Osuuspankki will change to Osuuspankki Harjuseutu.

On 23 March 2021, Kurun Osuuspankki and Tampereen Seudun Osuuspankki approved a merger plan, according to which the former will merge into the latter. The planned date for registration of the merger is 31 August 2021.

On 24 March 2021, Kiikoisten Osuuspankki, and on 25 March 2021, Länsi-Suomen Osuuspankki approved a merger plan, according to which the former will merge into the latter. The planned date for registration of the merger is 31 August 2021.

On 11 February 2021, Himangan Osuuspankki, Perhon Osuuspankki and Nivalan Osuuspankki approved a merger plan, according to which Himangan Osuuspankki and Perhon Osuuspankki will merge into Nivalan Osuuspankki. The planned date for registration of the merger is 30 September 2021. Consequently, the business name of Nivalan Osuuspankki will change to Joki-Pohjanmaan Osuuspankki.

On 14 April 2021, Oulaisten Osuuspankki and Suomenselän Osuuspankki accepted a merger plan, according to which the former will merge into the latter. The planned date for registration of the merger is 30 September 2021.

On 31 May 2021, Halsua-Ylipään Osuuspankki, Toholammin Osuuspankki, Ullavan Osuuspankki and Perhonjokilaakson Osuuspankki accepted merger plans according to which Halsua-Ylipään Osuuspankki, Toholammin Osuuspankki and Ullavan Osuuspankki will merge into Perhonjokilaakson Osuuspankki. The planned date for registration of the mergers is 31 October 2021. Consequently, the business name of Perhonjokilaakson Osuuspankki will change to Jokilaaksojen Osuuspankki.

Loimaan Osuuspankki and Lounais-Suomen Osuuspankki accepted a merger plan on 26 May 2021, according to which the former will merge into the latter. The planned date for registration of the merger is 31 December 2021.

Simplifying OP Cooperative Consolidated's structure

The legal restructuring of OP Financial Group's central cooperative consolidated streamlines the group structure, simplifies management and makes the cost structure slimmer.

OP Asset Management Execution Services Oy merged into OP Asset Management Ltd through a subsidiary merger on 30 April 2021.

OP Cooperative sold the entire share capital of its subsidiary, Checkout Finland Ltd, to Paytrail Oyj. The transaction was finalised on 30 April 2021.

On 4 June and 22 June 2021, OP Corporate Bank plc and its Baltic subsidiaries OP Finance AS (Estonia), OP Finance SIA (Latvia) and AB OP Finance (Lithuania) accepted a merger plan whereby the Baltic subsidiaries will merge into their parent company OP Corporate Bank plc through a cross-border merger. The planned date for registration of the merger is 31 October 2021.

On 25 May 2021, OP-Services Ltd and OP Cooperative accepted a merger plan, according to which the former will merge into the latter through a subsidiary merger. The planned date for registration of the merger is 30 November 2021.

The business name of OP Card Company Plc changed to OP Retail Customers Plc as of 1 June 2021.

Governance of OP Cooperative

On 18 November 2020, the Supervisory Council of OP Cooperative (the central cooperative of OP Financial Group) elected the members of the Board of Directors of OP Cooperative for the term of office from 1 January to 31 December 2021. The composition of the Board of Directors remained unchanged.

All former members will continue on the Board in 2021: Leif Enberg (Chair of the Board of Directors, Oy Mapromec Ab), Jarna Heinonen (Professor in Entrepreneurship, Turku School of Economics), Jari Himanen (Managing Director, OP Suur-Savo), Kati Levoranta (Executive Vice President, Commercial and Operational Activities, P2X Solutions Ltd), Pekka Loikkanen (board professional), Tero Ojanperä (Chair of the Board of Directors, Silo AI Ltd), Riitta Palomäki (board professional), Jaakko Pehkonen (Professor of Economics, University of Jyväskylä), Timo Ritakallio (President and Group CEO, OP Financial Group), Olli Tarkkanen (Managing Director, Etelä-Pohjanmaan Osuuspankki) and Mervi Väisänen (Senior Lecturer in Marketing, Kajaani University of Applied Sciences).

On 15 December 2020, OP Cooperative's Board of Directors elected from among its members the chairs, vice chairs and other members to the statutory Board Committees for the new term. Jaakko Pehkonen will continue as Chair and Jarna Heinonen as Vice Chair of the Board of Directors. The compositions of Board Committees remained unchanged.

On 21 April 2021, OP Cooperative held its Annual Cooperative Meeting which elected members of the Supervisory Council and the auditor.

The Supervisory Council comprises 36 members. The Annual Cooperative Meeting re-elected the following members to the Supervisory Council who were due to resign: Procurement Manager Päivi Hakasuo, Managing Director Mika Helin, Bachelor of Hospitality Management, MBA Mervi Hinkkanen, Professor Juha-Pekka Junttila, entrepreneur Taija Jurmu, postgraduate Päivi Kujala, APA Katja Kuosa-Kaartti, Managing Director Pekka Lehtonen, Managing Director Sirpa Leppäkoski, Director Timo Metsä-Tokila, Senior Manager Anssi Mäkelä, CFO Annukka Nikola, D.Sc. (Agr. & For.) Yrjö Niskanen, Managing Director Ulf Nylund, farmer-entrepreneur Johanna Pättiniemi, Development Director Tiina Rajala, Professor Petri Sahlström, entrepreneur Carolina Sandell, farmer-entrepreneur Timo Saukkonen, Professor Markku Sotarauta, entrepreneur Timo Syrjälä, Managing Director Pauliina Takala and Managing Director Ari Väänänen.

New members elected to the Supervisory Council were Managing Director Raili Hyvönen, Associate Professor Saara Julkunen, Development Manager Mika Kainusalmi, Managing Director Matti Kiuru, Regional Assistant Vicar Toivo Loikkanen, farmer-entrepreneur Veijo Manninen, Managing Director Kaisa Markula, Service Supervisor Jarmo Nurmela, Managing Director Heikki Palosaari, Managing Director Teuvo Perätalo, Managing Director Tuomas Puttonen, Managing Director Jyrki Rantala and Managing Director Teemu Sarhemaa.

At its reorganising meeting, the Supervisory Council elected the presiding officers of the Supervisory Council. CFO Annukka Nikola will continue as the Supervisory Council Chair and Professor Markku Sotarauta and Managing Director Ari Väänänen as Vice Chairs.

The Annual Cooperative Meeting re-elected KPMG Oy Ab, an audit firm, to act as the auditor for the financial year 2021, with Juha-Pekka Mylén, APA, acting as the chief auditor, appointed by KPMG Oy Ab.

Events after the reporting period

Pohjola Insurance Ltd, part of OP Financial Group, will sell the entire share capital of Pohjola Hospital Ltd to Pihlajalinna Terveys Oy, part of Pihlajalinna Group. The corporate transaction was published on 2 July 2021. The net debt free transaction price is EUR 31.8 million. As part of the transaction, Pohjola Insurance and Pihlajalinna signed a long-term cooperation agreement on the provision of health services for customers of Pohjola Insurance. The transaction will have no staffing implications. The transaction is subject to approval by the Finnish Competition and Consumer Authority.

On 2 July 2021, OP Corporate Bank plc's Board of Directors approved a demerger plan whereby the shares of Pohjola Insurance Ltd, OP Corporate Bank plc's subsidiary engaged in non-life insurance business, will be transferred to the direct ownership of OP Cooperative. Based on the plan, the demerger would be executed by the end of 2021. The aim of the restructuring is to simplify the structure and governance of OP Financial Group's central cooperative consolidated and to clarify its management structure. The restructuring will have no effect on OP Financial Group's capital adequacy, earnings or business segments.

In its profit distribution, OP Financial Group complies with the ECB's recommendation that will remain in force until 30 September 2021 and that applies to the payment of interest on Profit Shares for 2020. The ECB announced on 23 July 2021 that its recommendation limiting banks' profit distribution will expire at the end of September 2021. OP Financial Group is preparing to pay interest on Profit Shares for 2020 after 30 September 2021 and will provide more information on the schedule of interest payment later in the autumn.

Outlook for 2021

The number of Covid-19 cases decreased in many countries in the spring of 2021. The world economic recovery gathered momentum and spread more clearly to the service sector too. Inflation accelerated clearly in many countries. This was partly due to a poor benchmark level but also to the bottlenecks arising from the economic recovery and a rise in commodity prices.

Inflation anxiety eased in the financial market in the course of the second quarter and required bond yields went down. Mood in the stock market remained robust. Central banks continued to pursue an accommodative monetary policy, and it is not expected to tighten this year.

The Finnish economic recovery rate picked up in the second quarter. The financial situation of both companies and households was favourable. Bankruptcies remained at prior years' level and unemployment decreased. Mood in the housing market was robust. The Finnish economy is expected to continue its recovery during the rest of the year.

The Covid-19 pandemic still poses the greatest direct risk to the economy although the impact of the new waves of coronavirus infections on the economy has step by step diminished with the increasing vaccinations rates. Furthermore, a stronger-than-expected rise in inflation in the longer term would worsen the economic outlook. It would weaken consumer purchasing power and suggest problems in recovery and in the success of the economic policy.

A sudden worsening of the pandemic would affect OP Financial Group in three ways: economic uncertainty and uncertainty in the financial and capital market would increase, a rise in financial difficulties among customers would increase credit risk and decrease the demand for services, and a worsening disease situation could make it more difficult for OP Financial Group to run its operations efficiently.

OP Financial Group's earnings before tax for 2021 are expected to be at about the same level as or higher than in 2020. The Covid-19 pandemic will continue to cause uncertainty in the amount of impairment loss on receivables and investment income.

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

Formulas for key figures and ratios

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

Alternative Performance Measures

Return on equity (ROE), %

$$\frac{\text{Financial performance for the reporting period x (days of financial year/days of reporting period)}}{\text{Equity capital (average at beginning and end of period)}} \times 100$$

Return on equity (ROE) excluding OP bonuses, %

$$\frac{\text{(Financial performance for the reporting period + OP bonuses after tax) x (days of financial year/days of reporting period)}}{\text{Equity capital (average at beginning and end of period)}} \times 100$$

Return on assets (ROA), %

$$\frac{\text{Financial performance for the reporting period x (days of financial year/days of reporting period)}}{\text{Average balance sheet total (average at beginning and end of period)}} \times 100$$

Return on assets (ROA) excluding OP bonuses, %

$$\frac{\text{(Financial performance for the reporting period + OP bonuses after tax) x (days of financial year/days of reporting period)}}{\text{Average balance sheet total (average at beginning and end of period)}} \times 100$$

Cost/income ratio, %

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

Investment income	Net investment income + Overlay approach
Loan portfolio	Balance sheet item Receivables from customers

Ratio of impairment loss on receivables to loan and guarantee portfolio, %

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

Deposits	Deposits included in balance sheet item Liabilities to customers

Coverage ratio, %

$$\frac{\text{Loss allowance}}{\text{Receivables from customers (on-balance-sheet and off-balance-sheet items)}} \times 100$$

Default capture rate, %

$$\frac{\text{New defaulted contracts in stage 2 a year ago}}{\text{New defaulted contracts during the reporting period}} \times 100$$

Income from customer business	Net interest income + net insurance income + net commissions and fees

Non-life insurance:

Operating loss ratio, %

$$\frac{\text{Claims incurred, excl. changes in reserving bases and amortisation on intangible assets arising from company acquisitions}}{\text{Insurance premium revenue, excl. net changes in reserving bases}} \times 100$$

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), %	Claims excl. loss adjustment expenses and changes in reserving bases / Net insurance premium revenue, excl. changes in reserving bases	x 100
Operating cost ratio, %	Operating expenses and loss adjustment expenses / Net insurance premium revenue, excl. changes in reserving bases	x 100
Life Insurance:		
Operating ratio, %	Total expenses / Expense loading + refund of management fee	x 100

Key indicators based on a separate calculation

Capital adequacy ratio, %	Total capital / Total risk exposure amount	x 100
Tier 1 ratio, %	Total Tier 1 capital / Total risk exposure amount	x 100
CET1 ratio, %	CET1 capital / Total risk exposure amount	x 100
Solvency ratio, %	Capital base / Solvency capital requirement (SCR)	x 100
Leverage ratio, %	Tier 1 capital (T1) / Exposure amount	x 100
Liquidity coverage requirement (LCR), %	Liquid assets / Liquidity outflows – liquidity inflows under stressed conditions	x 100
Net stable funding ratio (NSFR), %	Available stable funding / Required stable funding	x 100
Capital adequacy ratio under the Act on the Supervision of Financial and Insurance Conglomerates*	Conglomerate's total capital base / Conglomerate's total minimum capital requirement	x 100
Ratio of non-performing exposures to exposures, %	Non-performing exposures (gross)** / Exposures at period end	x 100
Ratio of doubtful receivables to exposures, %	Doubtful receivables (gross)*** / Exposures at period end	x 100
Ratio of performing forborne exposures to exposures, %	Performing forborne exposures (gross)*** / Exposures at period end	x 100

Ratio of performing forborne exposures to doubtful receivables, %	Performing forborne exposures (gross)*** / Doubtful receivables at period end	x 100
Ratio of loss allowance (receivables from customers) to doubtful receivables, %	Loss allowance for receivables from customers in the balance sheet / Doubtful receivables at period end	x 100
Loan and guarantee portfolio	Loan portfolio + guarantee portfolio	
Exposures	Loan and guarantee portfolio + interest receivables + unused standby credit facilities	
Other exposures	Interest receivables + unused standby credit facilities	

*Transitional provisions have been taken into account in the FiCo solvency.
**Non-performing exposures refer to receivables that are more than 90 days past due and other receivables classified as risky as well as forborne exposures related to such receivables due to the customer's financial difficulties. Forbearance measures consist of concessions agreed at the customers' initiative to the original repayment plan to make it easier for them to manage through temporary payment difficulties.
***Doubtful receivables refer to receivables that are more than 90 days past due and other receivables classified as risky as well as forbearance related to such receivables or to performing receivables due to the customer's financial difficulties. Forbearance measures consist of concessions agreed at the customers' initiative to the original repayment plan to make it easier for them to manage through temporary payment difficulties. Performing forborne exposures include forborne exposures reclassified as performing ones during their probation period or forbearance measures made into a performing agreement. Loan modifications due to reasons other than the customer's financial difficulties are not classified as doubtful receivables.

Capital adequacy and solvency

Capital adequacy for credit institutions

Capital base, € million	30 Jun 2021	31 Dec 2020
OP Financial Group's equity capital	13,463	13,112
Effect of insurance companies on the Group's shareholders' equity is excluded	-698	-498
Fair value reserve, cash flow hedge	-143	-203
Common Equity Tier 1 (CET1) before deductions	12,622	12,410
Intangible assets	-345	-391
Excess funding of pension liability and valuation adjustments	-120	-93
Cooperative capital deducted from capital base	-2	-126
Planned profit distribution and unpaid profit distribution for previous period	-95	-95
Shortfall of ECL minus expected losses	-537	-413
Insufficient coverage for non-performing exposures	-1	
CET1 capital	11,523	11,293
Hybrid capital to which transitional provision is applied		40
Additional Tier 1 capital (AT1)		40
Tier 1 capital (T1)	11,523	11,333
Debenture loans	1,308	1,599
Debentures to which transitional provision applies	210	
Tier 2 capital (T2)	1,518	1,599
Total capital	13,041	12,933

Risk exposure amount, € million	30 Jun 2021	31 Dec 2020
Credit and counterparty risk	57,387	54,522
Standardised Approach (SA)	4,762	4,562
Central government and central banks exposure	264	347
Credit institution exposure	2	9
Corporate exposure	3,222	3,068
Retail exposure	1,051	1,026
Equity investments	11	32
Other	212	80
Internal Ratings-based Approach (IRB)	52,625	49,960
Credit institution exposure	1,254	1,029
Corporate exposure	28,961	26,461
Retail exposure	14,177	14,295
Equity investments	7,136	7,036
Other	1,097	1,140
Market and settlement risk (Standardised Approach)	1,232	1,096
Operational risk (Standardised Approach)	3,786	3,964
Valuation adjustment (CVA)	429	138
Total risk exposure amount	62,835	59,720

Ratios, %	30 Jun 2021	31 Dec 2020
CET1 capital ratio	18.3	18.9
Tier 1 ratio	18.3	19.0
Capital adequacy ratio	20.8	21.7

Ratios, fully loaded, %	30 Jun 2021	31 Dec 2020
CET1 capital ratio	18.3	18.9
Tier 1 ratio	18.3	18.9
Capital adequacy ratio	20.4	21.6

Capital requirement, EUR million	30 Jun 2021	31 Dec 2020
Capital base	13,041	12,933
Capital requirement	8,643	8,213
Buffer for capital requirements	4,399	4,719

The capital requirement of 13.8% comprises the minimum requirement of 8%, the capital conservation buffer of 2.5%, the O-SII buffer requirement of 1.0%, the minimum requirement (P2R) of 2.25% set by the ECB and the country-specific countercyclical capital buffers for foreign exposures.

Leverage ratio, EUR million	30 Jun 2021	31 Dec 2020
Tier 1 capital (T1)	11,523	11,333
Total exposure	157,855	144,799
Leverage ratio, %	7,3	7,8

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

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

€ million	30 Jun 2021	31 Dec 2020
OP Financial Group's equity capital	13,463	13,112
Hybrid instruments and debenture loans	1,518	1,640
Other sector-specific items excluded from capital base	-194	-331
Goodwill and intangible assets	-1,109	-1,147
Insurance business valuation differences*	641	623
Planned profit distribution and unpaid profit distribution for previous period	-95	-95
Items under IFRS deducted from capital base**	-155	-184
Shortfall of ECL minus expected losses	-511	-387
Conglomerate's total capital base	13,559	13,231
Regulatory capital requirement for credit institutions***	7,713	7,284
Regulatory capital requirement for insurance operations*	1,576	1,508
Conglomerate's total minimum capital requirement	9,289	8,791
Conglomerate's capital adequacy	4,269	4,439
Conglomerate's capital adequacy ratio (capital base/minimum of capital base) (%)	146	150

* Differences between fair values and carrying amounts based on the solvency of insurance companies and an estimate of SCR.
** Excess funding of pension liability, portion of cash flow hedge of fair value reserve.
*** Total risk exposure amount x 13.8%

Transitional provisions have been taken into account in figures.

TABLES

Income statement

EUR million	Notes	Q1–2 2021	Q1–2 2020	Q2 2021	Q2 2020
Net interest income	2	641	646	324	327
Net insurance income	3	326	295	170	164
Net commissions and fees	4	512	455	242	211
Net investment income	5	255	-28	109	112
Other operating income		43	112	36	5
Total income		**1,777**	**1,481**	**881**	**819**
Personnel costs		460	415	238	207
Depreciation/amortisation		128	129	65	64
Other expenses	6	403	449	181	204
Total expenses		**991**	**993**	**484**	**475**
Impairment loss on receivables	7	-35	-166	-13	-60
OP bonuses to owner-customers		-98	-124	-52	-64
Temporary exemption (overlay approach)		-91	89	-36	-62
Earnings before tax		**561**	**287**	**296**	**158**
Income tax expense		109	62	54	29
Profit for the period		**452**	**224**	**242**	**129**
Attributable to:					
Profit for the period attributable to owners		451	222	241	129
Profit for the period attributable to non-controlling interest		1	2	1	0
Profit for the period		**452**	**224**	**242**	**129**

Statement of comprehensive income

EUR million	Notes	Q1–2 2021	Q1–2 2020	Q2 2021	Q2 2020
Profit for the period		**452**	**224**	**242**	**129**
Items that will not be reclassified to profit or loss					
Gains/(losses) arising from remeasurement of defined benefit plans		38	3	20	-72
Items that may be reclassified to profit or loss					
Change in fair value reserve					
Measurement at fair value		-36	-73	5	206
Cash flow hedge		-76	72	-15	24
Temporary exemption (overlay approach)		90	-86	36	66
Income tax					
Items that will not be reclassified to profit or loss					
Gains/(losses) arising from remeasurement of defined benefit plans		-8	-1	-4	-16
Items that may be reclassified to profit or loss					
Measurement at fair value		7	14	-1	-41
Cash flow hedge		15	-14	3	-5
Temporary exemption (overlay approach)		-18	17	-7	-13
Total comprehensive income for the period		**466**	**158**	**279**	**278**
Attributable to:					
Total comprehensive income for the period attributable to owners		465	156	278	278
Total comprehensive income for the period attributable to non-controlling interests		1	2	1	0
Total comprehensive income for the period		**466**	**158**	**279**	**278**

Balance sheet

EUR million	Notes	30 June 2021	31 Dec 2020
Cash and cash equivalents		31,198	21,827
Receivables from credit institutions		478	306
Derivative contracts	16	3,703	5,215
Receivables from customers		94,739	93,644
Investment assets		23,563	23,562
Assets covering unit-linked contracts		12,461	11,285
Intangible assets		1,267	1,311
Property, plant and equipment (PPE)		512	633
Other assets		2,401	2,236
Tax assets		167	188
Non-current assets held for sale		7	
Total assets		**170,495**	**160,207**
Liabilities to credit institutions		16,252	8,086
Derivative contracts		2,407	3,424
Liabilities to customers		75,902	73,422
Insurance liabilities	8	9,244	9,374
Liabilities from unit-linked insurance and investment contracts	9	12,507	11,323
Debt securities issued to the public	10	34,120	34,706
Provisions and other liabilities		3,318	3,431
Tax liabilities		1,077	1,069
Subordinated liabilities		2,199	2,261
Liabilities associated with non-current assets held for sale		7	
Total liabilities		**157,033**	**147,095**
Equity capital			
Share of OP Financial Group's owners			
Cooperative capital			
Cooperative shares		212	212
Profit shares		2,949	2,962
Fair value reserve	11	365	382
Other reserves		2,172	2,172
Retained earnings		7,636	7,248
Non-controlling interests		**129**	**137**
Total equity capital		**13,463**	**13,112**
Total liabilities and equity capital		**170,495**	**160,207**

Statement of changes in equity

	Attributable to owners						
EUR million	**Coope-rative capital**	**Fair value reserve**	**Other reserves**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity capital**
Balance at 1 January 2020	**3,238**	**251**	**2,185**	**6,730**	**12,404**	**166**	**12,570**
Total comprehensive income for the period		-69		224	**156**	2	**158**
Profit for the period				222	**222**	2	**224**
Other comprehensive income		-69		2	**-66**		**-66**
Profit distribution				-75	**-75**	-3	**-78**
Change in membership and profit shares	-127				**-127**		**-127**
Transfer of reserves			-14	14			
Other				-1	**-1**	-7	**-8**
Balance at 30 June 2020	**3,111**	**182**	**2,172**	**6,891**	**12,356**	**158**	**12,515**

	Attributable to owners						
EUR million	**Coope-rative capital**	**Fair value reserve**	**Other reserves**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity capital**
Balance at 1 January 2021	**3,174**	**382**	**2,172**	**7,248**	**12,975**	**137**	**13,112**
Total comprehensive income for the period		-17		482	**465**	1	**466**
Profit for the period				451	**451**	1	**452**
Other comprehensive income		-17		30	**14**		**14**
Profit distribution				-94	**- 94**	-6	**-100**
Change in membership and profit shares	-13				**- 13**		**-13**
Other				0	**0**	-2	**-2**
Balance at 30 June 2021	**3,161**	**365**	**2,172**	**7,636**	**13,334**	**129**	**13,463**

Cash flow statement

EUR million	Q1–2 2021	Q1–2 2020
Cash flow from operating activities		
Profit for the period	452	224
Adjustments to profit for the period	440	46
Increase (-) or decrease (+) in operating assets	**-1,671**	**-3,931**
Receivables from credit institutions	-7	-92
Derivative contracts	185	-158
Receivables from customers	-1,251	-2,386
Assets covering unit-linked contracts	-233	55
Investment assets	-127	-551
Other assets	-238	-799
Increase (+) or decrease (-) in operating liabilities	**11,035**	**10,490**
Liabilities to credit institutions	8,158	5,849
Derivative contracts	-25	-289
Liabilities to customers	2,594	4,461
Insurance liabilities	39	52
Liabilities from unit-linked insurance and investment contracts	228	-68
Provisions and other liabilities	40	485
Income tax paid	-84	-67
Dividends received	49	21
A. Net cash from operating activities	**10,220**	**6,784**
Cash flow from investing activities		
Acquisition of subsidiaries, net of cash acquired	0	0
Disposal of subsidiaries, net of cash disposed	35	193
Purchase of PPP and intangible assets	-60	-67
Proceeds from sale of PPE and intangible assets	4	421
B. Net cash used in investing activities	**-22**	**547**
Cash flow from financing activities		
Subordinated liabilities, change	-47	1,301
Debt securities issued to the public, change	-354	754
Increases in cooperative and share capital	113	37
Decreases in cooperative and share capital	-126	-178
Dividends and interest on cooperative capital	-96	-11
Lease liabilities	-18	-17
C. Net cash used in financing activities	**-528**	**1,886**
Net change in cash and cash equivalents (A+B+C)	**9,671**	**9,217**
Cash and cash equivalents at period-start	**22,053**	**12,168**
Effect of foreign exchange rate changes	-199	658
Cash and cash equivalents at period-end	**31,525**	**22,043**
Interest received	**742**	**915**
Interest paid	**-212**	**-312**
Cash and cash equivalents		
Liquid assets	31,198	21,947
Receivables from credit institutions payable on demand	327	96
Total	**31,525**	**22,043**

Segment reporting

Segment information

Q1–2 earnings 2021, EUR million	Retail Banking	Corporate Banking	Insurance	Other operations	Group eliminations	OP Financial Group
Net interest income	474	203	-1	-46	11	641
of which internal net income before tax		-2		2		
Net insurance income			335		-9	326
Net commissions and fees	376	98	40	1	-3	512
Net investment income	2	95	184	8	-34	255
Other operating income	19	50	2	343	-372	43
Total income	**871**	**446**	**561**	**306**	**-407**	**1,777**
Personnel costs	225	48	81	108	-1	460
Depreciation/amortisation	26	7	29	67	-1	128
Other operating expenses	356	118	130	182	-383	403
Total expenses	**607**	**173**	**240**	**357**	**-385**	**991**
Impairment loss on receivables	-47	12	0	0	0	-35
OP bonuses to owner-customers	-79	-9	-10			-98
Temporary exemption (overlay approach)			-91	0		-91
Earnings before tax	**138**	**276**	**220**	**-51**	**-23**	**561**

Q1–2 earnings 2020, EUR million	Retail Banking	Corporate Banking	Insurance	Other operations	Group eliminations	OP Financial Group
Net interest income	460	202	0	-32	17	646
of which internal net income before tax		-6		6		
Net insurance income			302		-7	295
Net commissions and fees	353	65	34	5	-2	455
Net investment income	1	60	-54	2	-37	-28
Other operating income	14	11	3	421	-336	112
Total income	**828**	**337**	**285**	**396**	**-365**	**1,481**
Personnel costs	215	39	71	89	0	415
Depreciation/amortisation	26	10	27	67	-2	129
Other operating expenses	353	109	136	197	-346	449
Total expenses	**595**	**158**	**234**	**354**	**-348**	**993**
Impairment loss on receivables	-99	-68	0	1		-166
OP bonuses to owner-customers	-106	-9	-9			-124
Temporary exemption (overlay approach)			88	0	1	89
Earnings before tax	**28**	**103**	**130**	**43**	**-17**	**287**

Balance sheet 30 June 2021, EUR million	Retail Banking	Corporate Banking	Insurance	Other operations	Group eliminations	OP Financial Group
Cash and cash equivalents	54	172	0	30,972		31,198
Receivables from credit institutions	26,878	204	1,769	13,548	-41,921	478
Derivative contracts	485	3,696	93	299	-871	3,703
Receivables from customers	70,063	25,136		497	-957	94,739
Investment assets	632	545	9,522	22,107	-9,242	23,563
Assets covering unit-linked contracts			12,461			12,461
Intangible assets	32	194	787	259	-5	1,267
Property, plant and equipment (PPE)	338	4	18	159	-7	512
Other assets	318	627	1,185	435	-164	2,401
Tax assets	46	2	30	45	45	167
Non-current assets held for sale			7			7
Total assets	**98,845**	**30,582**	**25,872**	**68,320**	**-53,124**	**170,495**
Liabilities to credit institutions	12,934	606		42,974	-40,263	16,252
Derivative contracts	344	2,861	24	109	-931	2,407
Liabilities to customers	61,571	13,733		3,029	-2,432	75,902
Insurance liabilities			9,244			9,244
Liabilities from unit-linked insurance and investments contracts			12,507			12,507
Debt securities issued to the public	16,571	1,157		20,691	-4,300	34,120
Provisions and other liabilities	786	981	495	1,123	-67	3,318
Tax liabilities	458	3	205	411	1	1,077
Subordinated liabilities	0	0	380	2,225	-406	2,199
Liabilities associated with non-current assets held for sale			7			7
Total liabilities	**92,664**	**19,341**	**22,862**	**70,563**	**-48,397**	**157,033**
Equity						**13,463**

Balance sheet 31 December 2020, EUR million	Retail Banking	Corporate Banking	Insurance	Other operations	Group eliminations	OP Financial Group
Cash and cash equivalents	63	224	0	21,540		21,827
Receivables from credit institutions	20,668	103	1,653	11,845	-33,965	306
Derivative contracts	722	5,144	341	209	-1,199	5,215
Receivables from customers	69,362	24,701		495	-915	93,644
Investment assets	676	494	9,597	19,053	-6,257	23,562
Assets covering unit-linked contracts			11,285			11,285
Intangible assets	35	207	782	291	-3	1,311
Property, plant and equipment (PPE)	341	4	130	165	-9	633
Other assets	278	588	979	627	-235	2,236
Tax assets	91	2	10	45	40	188
Total assets	**92,237**	**31,467**	**24,777**	**54,270**	**-42,543**	**160,207**
Liabilities to credit institutions	11,117	564		28,709	-32,303	8,086
Derivative contracts	425	4,082	2	192	-1,278	3,424
Liabilities to customers	59,436	13,118		3,221	-2,352	73,422
Insurance liabilities			9,374			9,374
Liabilities from unit-linked insurance and investments contracts			11,323			11,323
Debt securities issued to the public	13,932	855		21,207	-1,288	34,706
Provisions and other liabilities	903	774	682	1,254	-183	3,431
Tax liabilities	496	4	176	395	-1	1,069
Subordinated liabilities	-6		380	2,294	-407	2,261
Total liabilities	**86,302**	**19,396**	**21,937**	**57,271**	**-37,811**	**147,095**
Equity						**13,112**

Notes

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

Note 1. Accounting policies

The Half-year Financial Report has been prepared in accordance with IAS 34 Interim Financial Reporting and with the accounting policies presented in the consolidated financial statements 2020.

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

The Half-year Financial Report is available in Finnish, English and Swedish. The Finnish version of the Report is official and will be used if there is any discrepancy between the language versions.

1. Critical accounting estimates and judgements

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

Expected credit losses

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

- selection of appropriate ECL models so that they describe the expected credit losses on the contract portfolio as well as possible
- different assumptions and expert assessments made in the models
- selection of the estimation methods of the parameters for the ECL models
- determination of the contract's maturity for non-maturing loans (revolving credit facilities)
- determination of model risk associated with the quality of the available modelling data and other data
- proper grouping of contracts into different segments so that their ECL can be calculated using the appropriate model
- selection of macroeconomic factors in such a way that their changes correlate with the contracts' probability of default
- forecasting future macroeconomic scenarios and their probabilities
- extra provisions based on management judgement related to a certain industry due to Covid-19, for example
- reductions in collateral value made on the basis of the geographical location of collateral based on management judgement.

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

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

The actual calculation of ECL figures is performed using the ECL models without management judgement, except if a large corporate exposure in stage 3 is involved, in which case the ECL is calculated using the cash flow based ECL method based on expert assessment.

Management judgement and estimates included in the calculation of expected credit losses in respect of other than that presented above are included in the 2020 financial statements.

Note 7 Impairment loss on receivables includes information on choices made in calculating expected credit losses during the Covid-19 crisis.

2. Effective interest rate of TLTRO III loans

The effective interest rate has been calculated on TLTRO loans based on management judgement related to the fulfilment of net lending criteria for upcoming review periods. If any changes occur in this management judgement, they will be treated as changes in the loan's carrying amount in such a way that the gross carrying amount of the loan will be recalculated in a way that it corresponds to the present value of the re-estimated cash flows that has been determined by discounting using the loan's original effective interest rate. The resulting adjustment is recognised through profit or loss.

3. Effect of Interest Rate Benchmark Reform on accounting policies

On 1 January 2021, OP Financial Group adopted a document entitled Interest Rate Benchmark Reform (Phase 2) that will amend IFRS 9, IAS 39 and IFRS 7, IFRS 4 and IFRS 16. These amendments are a continuation of the Interest Rate Benchmark Reform document (Phase 1) adopted in 2020.

The amendments to Phase 2 bring two practical reliefs and they are applied from the date when the benchmark rate has changed. The first one applies to financial instruments carried at amortised cost so that changing contractual cash flows due to the Interest Rate Benchmark Reform is treated by updating the effective interest rate, in which case the change does not cause a direct profit or loss. This amendment will have no significant effect on OP Financial Group because the majority of receivables and liabilities are linked to the Euribor and the Euribor is still a reference interest rate in use. Libor-linked liabilities and receivables are only small in number. The second amendment applies to hedge accounting that is not discontinued despite the transition of the benchmark rate to another one during the hedging relationship, but the hedged risk and related cash flows are redetermined when the benchmark rate changes and, correspondingly, hedge documentation is changed in respect of the hedged risk and hedging instrument. The resulting change in valuation is presented as part of hedge effectiveness. This change will have no significant effect on OP Corporate Bank because hedges are mostly linked to the Euribor.

4. Classification of Pohjola Hospital as a non-current asset held for sale

Based on decisions made, OP Financial Group classified Pohjola Hospital for this Half-year Financial Report as a non-current asset held for sale. Pohjola Hospital is a hospital chain that specialises in orthopaedic care, i.e. treatment for musculoskeletal conditions and injuries, in five Finnish cities with university hospitals: Helsinki, Tampere, Turku, Oulu and Kuopio. The company had 266 employees, on average, in 2020. Pohjola Hospital was in its entirety presented in the Insurance segment's balance sheet of 30 June 2021.

Itemised non-current assets held for sale:

Assets, € million	30 June 2021
Property, plant and equipment	0
Intangible assets	1
Other assets	6
Total assets (A)	7
Liabilities, € million	30 June 2021
Provisions and other liabilities	7
Total liabilities (B)	7
Balance sheet net worth (A–B)	0

5. Accounting for configuration or customisation costs in a cloud computing arrangement

In April 2021, the IFRS Interpretations Committee issued a final agenda decision on accounting for configuration or customisation costs in a cloud computing arrangement. In its agenda decision, the Committee considered whether an intangible asset, applying IAS 38, is recognised for the configuration or customisation of the application and if no intangible asset is recognised, how such configuration or customisation costs is recognised. OP Financial Group has begun an analysis of whether the agenda decision will have an effect on the accounting policies applied to the costs of implementing a cloud computing solution. The analysis will be carried out during autumn 2021, and any effects will be considered in the 2021 financial statements at the latest.

Note 2. Net interest income

EUR million	Q1–2 2021	Q1–2 2020	Q2 2021	Q2 2020
Interest income				
Receivables from credit institutions				
Interest	0	1	0	0
Negative interest	31	6	20	4
Total	31	7	20	4
Receivables from customers				
Loans	611	624	312	317
Finance lease receivables	16	15	8	7
Impaired loans and other commitments		0		0
Negative interest	16	9	8	5
Total	642	648	329	329
Notes and bonds				
Measured at fair value through profit or loss	0	1	0	0
At fair value through other comprehensive income	26	33	13	16
Amortised cost	0	2	0	1
Total	26	35	13	17
Derivative contracts				
Fair value hedge	-71	-62	-36	-29
Cash flow hedge	25	25	13	12
Ineffective portion of cash flow hedge	-2	0	-1	-2
Other				
Total	-49	-37	-24	-19
Other	6	5	0	3
Total	**658**	**658**	**338**	**335**
Interest expenses				
Liabilities to credit institutions				
Interest	0	3	0	2
Negative interest	52	24	30	14
Total	52	27	30	15
Liabilities to customers	7	37	3	18
Notes and bonds issued to the public	76	126	35	63
Subordinated liabilities				
Subordinated loans	0	0	0	0
Other	30	22	15	11
Total	30	22	15	11
Derivative contracts				
Cash flow hedge	-135	-135	-66	-65
Other	-19	-60	-9	-29
Total	-154	-195	-75	-93
Other	2	3	1	2
Total	**14**	**19**	**9**	**15**
Net interest income before fair value adjustment under hedge accounting	**644**	**639**	**329**	**320**
Hedging derivatives	-120	111	-37	21
Value changes of hedged items	116	-104	32	-14
Total	**641**	**646**	**324**	**327**

Note 3. Net insurance income

EUR million	Q1–2 2021	Q1–2 2020	Q2 2021	Q2 2020
Net insurance premium revenue				
Premiums written	977	948	300	293
Insurance premiums ceded to reinsurers	-5	6	8	13
Change in provision for unearned premiums	-253	-238	68	61
Reinsurers' share	23	17	4	5
Total	743	733	380	371
Net non-life insurance claims				
Claims paid	-430	-487	-208	-232
Insurance claims recovered from reinsurers	13	13	6	8
Change in provision for unpaid claims	-32	28	-35	16
Reinsurers' share	20	-3	21	-6
Total	-429	-449	-217	-214
Other non-life insurance items	-3	-3	-1	-1
Life insurance risk premiums collected	15	14	8	8
Total	**326**	**295**	**170**	**164**

Note 4. Net commissions and fees

Q1–2 2021, EUR million	Retail Banking	Corporate Banking	Insurance	Other operations	Elimi-nations	OP Financial Group	Q2 2021
Commission income							
Lending	51	24		0	-1	74	35
Deposits	10	2		0	0	12	6
Payment transfers	136	21		7	-6	158	79
Securities brokerage	6	16			-6	16	7
Securities issuance		5			0	5	2
Fund and management fees	22	120	45	0	-55	132	67
Asset management	12	14		0	-6	20	10
Legal services	12	0			0	12	6
Guarantees	5	7		0	0	12	6
Housing service	38				0	38	20
Insurance brokerage	61		18		-41	38	7
Life insurance total expense loadings			43			43	21
Health and wellbeing services			6		0	6	3
Other	38	2		0	-37	3	2
Total	**393**	**210**	**112**	**7**	**-153**	**570**	**273**
Commission expenses							
Lending	0	0		0	0	0	0
Payment transfers	11	3	1	1	-5	11	6
Securities brokerage		2	0	0	0	2	1
Securities issuance	0	1		0	-1	0	0
Fund and management fees		55	0		-55	0	0
Asset management		6	0	1	0	6	3
Guarantees		0				0	0
Insurance brokerage	-3		66		-38	25	12
Health and wellbeing services			2		0	2	1
Other	8	44	0	4	-46	10	6
Total	**16**	**112**	**69**	**7**	**-146**	**57**	**31**
Total net commissions and fees	**376**	**98**	**43**	**1**	**-6**	**512**	**242**

Q1–2 2020, EUR million	Retail Banking	Corporate Banking	Insurance	Other operations	Elimi-nations	OP Financial Group	Q2 2020
Commission income							
Lending	50	23		3	-1	75	34
Deposits	0	1		0	0	1	1
Payment transfers	129	17		8	-6	148	84
Securities brokerage	5	15			-4	15	6
Securities issuance	0	4		0	0	4	3
Fund and management fees	18	102	40	0	-49	111	53
Asset management	16	13		0	-6	23	10
Legal services	10	0			0	10	5
Guarantees	4	6		0	0	10	5
Housing service	33					33	16
Insurance brokerage	57		18		-40	35	-36
Life insurance total expense loadings			42			42	21
Health and wellbeing services			6		0	6	3
Other	47	3		0	-49	2	-6
Total	**370**	**184**	**105**	**11**	**-154**	**515**	**198**
Commission expenses							
Lending	0	0		0	0	0	0
Payment transfers	12	3	1	2	-5	12	6
Securities brokerage		6	0	0	0	5	2
Securities issuance	0	1		0	-1	0	0
Fund and management fees		49	0		-50	0	0
Asset management		5	0	1	0	5	3
Guarantees					-1	-1	-1
Insurance brokerage	-4		64		-36	24	11
Health and wellbeing services			2		0	2	1
Other	9	55	0	3	-56	11	8
Total	**17**	**119**	**67**	**6**	**-149**	**60**	**30**
Total net commissions and fees	**353**	**65**	**38**	**5**	**-6**	**455**	**168**

Note 5. Net investment income

EUR million	Q1–2 2021	Q1–2 2020	Q2 2021	Q2 2020
Net income from assets at fair value through other comprehensive income				
Notes and bonds				
Interest income	19	28	9	14
Other income and expenses	-1	-2	0	-1
Capital gains and losses	9	16	0	6
Currency fair value gains and losses	7	-1	-3	-9
Impairment losses and their reversal*	2	-10	0	-4
Total	**37**	**32**	**6**	**6**

* Expected credit losses (ECL) on notes and bonds of insurance

Net income recognised at fair value through profit or loss

EUR million	Q1–2 2021	Q1–2 2020	Q2 2021	Q2 2020
Financial assets held for trading				
Notes and bonds				
Interest income and expenses	2	1	1	0
Fair value gains and losses	-2	0	0	5
Total	-0	1	1	5
Shares and participations				
Fair value gains and losses	5	1	5	7
Dividend income and share of profits	0	3	-1	1
Total	5	5	4	8
Derivatives				
Interest income and expenses	19	64	8	38
Fair value gains and losses	-94	132	24	65
Total	-75	195	33	103
Total	**-70**	**201**	**37**	**116**
Financial assets that must be measured at fair value through profit or loss				
Notes and bonds				
Interest income	9	12	5	6
Fair value gains and losses	-27	6	2	9
Total	-19	18	6	15
Shares and participations				
Fair value gains and losses	152	-92	50	54
Dividend income and share of profits	42	17	14	3
Total	194	-75	64	56
Total	**175**	**-57**	**70**	**71**
Financial assets designated as at fair value through profit or loss				
Notes and bonds				
Interest income	12	16	6	8
Fair value gains and losses	-38	-4	-7	66
Total	-26	12	-1	74
Shares and participations				
Fair value gains and losses	11	-16	2	-0
Dividend income and share of profits	3	2	2	-0
Total	13	-14	5	-1
Derivatives				
Fair value gains and losses	-9	-23	-7	-11
Total	-9	-23	-7	-11
Total	**-22**	**-25**	**-4**	**62**
Total net income from financial assets recognised at fair value through profit or loss	**83**	**118**	**104**	**249**

Net income from investment property				
Rental income	25	27	12	13
Fair value gains and losses	-6	-4	-5	-8
Maintenance charges and expenses	-19	-34	-10	-17
Other	1	1	0	0
Net income from investment property total	1	-11	-2	-12
Net income from loans and receivables measured at amortised cost				
Loans and receivables				
Interest income	4	2	2	0
Interest expenses	-1	-1	-1	-1
Capital gains and losses		0		0
Impairment losses and their reversal	3	1	2	-2
Loans and receivables total	5	1	3	-3
Non-life insurance				
Unwinding of discount, Non-life Insurance	-9	-11	-4	-6
Life insurance				
Interest credited on customers' insurance savings	-40	-42	-20	-21
Change in supplementary interest rate provisions	100	-64	16	-12
Other technical items**	65	-51	-5	-82
Total	125	-157	-9	-115

** Other technical items include changes in other technical provisions than those in supplementary interest rate provisions.

Associated companies				
Accounted for using the fair value method	9	-4	8	-8
Consolidated using the equity method	4	4	3	0
Total	13	-1	11	-8
Total net investment income	**255**	**-28**	**109**	**112**

Note 6. Other operating expenses

EUR million	Q1–2 2021	Q1–2 2020	Q2 2021	Q2 2020
ICT costs				
Production	114	133	52	63
Development	58	72	29	36
Buildings	24	24	12	14
Government charges and audit fees	56	45	8	9
Purchased services	56	65	29	31
Data communications	16	19	9	9
Marketing	12	13	7	8
Corporate social responsibility	4	5	2	3
Insurance and security costs	4	5	3	2
Other	59	67	31	30
Total	**403**	**449**	**181**	**204**

Development costs

EUR million	Q1–2 2021	Q1–2 2020	Q2 2021	Q2 2020
ICT development costs	58	72	29	36
Share of own work	32	28	16	14
Total development costs in the income statement	**90**	**100**	**45**	**50**
Capitalised ICT costs	40	47	19	26
Capitalised share of own work	8	7	4	3
Total capitalised development costs	**48**	**53**	**23**	**29**
Advance payments		0		
Total development costs	**138**	**154**	**68**	**79**
Depreciation/amortisation and impairment loss	88	90	44	45

Note 7. Impairment losses on receivables

EUR million	Q1–2 2021	Q1–2 2020	Q2 2021	Q2 2020
Receivables written down as loan and guarantee losses	56	30	18	10
Recoveries of receivables written down	-5	-4	-3	-2
Expected credit losses (ECL) on receivables from customers and off-balance-sheet items	-16	140	-3	55
Expected credit losses (ECL) on notes and bonds*	0	-1	0	-2
Total	**35**	**166**	**13**	**60**

* The expected credit losses on notes and bonds in insurance operations are presented in net investment income.

Credit risk exposures and related loss allowance

Exposures within the scope of accounting for expected credit losses by impairment stage 30 June 2021

Exposures	Stage 1	Stage 2			Stage 3	
EUR million		Not more than 30 DPD	More than 30 DPD	Total		Total exposure
Receivables from customers (gross)						
Retail Banking	61,356	7,486	65	7,551	1,916	70,823
Corporate Banking	24,086	845	260	1,105	533	25,724
Total	**85,442**	**8,331**	**325**	**8,656**	**2,449**	**96,547**
Off-balance-sheet limits						
Retail Banking	6,480	353	9	362	28	6,871
Corporate Banking	4,351	213	103	316	62	4,729
Total	**10,832**	**566**	**113**	**678**	**90**	**11,600**
Other off-balance-sheet commitments						
Retail Banking	3,724	49		49	12	3,786
Corporate Banking	6,551	55		55	121	6,727
Total	**10,275**	**104**		**104**	**133**	**10,512**
Notes and bonds						
Other Operations	13,311	23		23		13,333
Insurance	4,273	31		31	9	4,314
Total	**17,584**	**54**		**54**	**9**	**17,647**
Total exposures within the scope of accounting for expected credit losses	**124,132**	**9,055**	**438**	**9,493**	**2,681**	**136,306**

Loss allowance by impairment stage 30 June 2021

On-balance-sheet exposures and related off-balance-sheet limits*	Stage 1	Stage 2			Stage 3	
EUR million		Not more than 30 DPD	More than 30 DPD	Total		Total loss allowance
Receivables from customers						
Retail Banking	-24	-68	-3	-71	-287	-381
Corporate Banking	-20	-17	-4	-21	-238	-278
Total	**-43**	**-85**	**-6**	**-91**	**-525**	**-659**
Off-balance-sheet commitments**						
Retail Banking	-1	-1		-1	0	-2
Corporate Banking	-2	0		0	-12	-15
Total	**-3**	**-1**		**-1**	**-12**	**-17**
Notes and bonds***						
Other Operations	-2	0		0		-2
Insurance	-5	-1		-1	-5	-11
Total notes and bonds	**-6**	**-2**		**-2**	**-5**	**-13**
Total	**-53**	**-87**	**-6**	**-94**	**-542**	**-689**

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

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

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

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

Summary and key indicators 30 June 2021	Stage 1	Stage 2			Stage 3	
		Not more than 30 DPD	More than 30 DPD	Total		Total
Receivables from customers; on-balance-sheet and off-balance-sheet items						
Retail Banking	71,561	7,888	74	7,963	1,956	81,479
Corporate Banking	34,988	1,113	364	1,476	715	37,180
Loss allowance						
Retail Banking	-25	-68	-3	-71	-287	-383
Corporate Banking	-22	-17	-4	-21	-250	-293
Coverage ratio, %						
Retail Banking	-0.03%	-0.87%	-3.93%	-0.89%	-14.67%	-0.47%
Corporate Banking	-0.06%	-1.55%	-0.98%	-1.41%	-34.96%	-0.79%
Receivables from customers; total on-balance-sheet and off-balance-sheet items	**106,549**	**9,001**	**438**	**9,439**	**2,672**	**118,659**
Total loss allowance	**-47**	**-86**	**-6**	**-92**	**-537**	**-676**
Total coverage ratio, %	**-0.04%**	**-0.95%**	**-1.48%**	**-0.98%**	**-20.10%**	**-0.57%**
Carrying amount, notes and bonds						
Other Operations	13,311	23		23		13,333
Insurance	4,273	31		31	9	4,314
Loss allowance						
Other Operations	-2	-0		-0		-2
Insurance	-5	-1		-1	-5	-11
Coverage ratio, %						
Other Operations	-0.01%	-1.38%		-1.38%		-0.02%
Insurance	-0.11%	-3.86%		-4.17%	-52.64%	-0.25%
Total notes and bonds	**17,584**	**54**		**54**	**9**	**17,647**
Total loss allowance	**-6**	**-2**		**-2**	**-5**	**-13**
Total coverage ratio, %	**-0.04%**	**-2.82%**		**-3.00%**	**-52.64%**	**-0.07%**

Exposures within the scope of accounting for expected credit losses by impairment stage 31 December 2020

Exposures	Stage 1	Stage 2			Stage 3	
EUR million		Not more than 30 DPD	More than 30 DPD	Total		Total exposure
Receivables from customers (gross)						
Retail Banking	61,405	6,649	58	6,707	1,865	69,977
Corporate Banking	23,609	1,190	156	1,346	499	25,454
Total	**85,013**	**7,839**	**214**	**8,053**	**2,365**	**95,431**
Off-balance-sheet limits						
Retail Banking	6,219	379	2	381	24	6,624
Corporate Banking	4,048	377	69	446	65	4,558
Total	**10,267**	**756**	**71**	**826**	**88**	**11,182**
Other off-balance-sheet commitments						
Retail Banking	3,348	61		61	13	3,422
Corporate Banking	6,267	262		262	99	6,628
Total	**9,615**	**324**		**324**	**111**	**10,050**
Notes and bonds						
Other Operations	13,141	50		50		13,191
Insurance	4,403	48		48	17	4,469
Total	**17,544**	**98**		**98**	**17**	**17,660**
Total exposures within the scope of accounting for expected credit losses	**122,439**	**9,017**	**285**	**9,302**	**2,582**	**134,323**

Loss allowance by impairment stage 31 December 2020

On-balance-sheet exposures and related off-balance-sheet limits*	Stage 1	Stage 2			Stage 3	
EUR million		Not more than 30 DPD	More than 30 DPD	Total		Total loss allowance
Receivables from customers						
Retail Banking	-28	-62	-1	-63	-290	-382
Corporate Banking	-25	-28	-1	-29	-227	-281
Total	**-53**	**-90**	**-3**	**-92**	**-518**	**-663**
Other off-balance-sheet commitments**						
Retail Banking	-1	-1		-1		-2
Corporate Banking	-12	-1		-1	-14	-27
Total	**-13**	**-2**		**-2**	**-14**	**-29**
Notes and bonds***						
Other Operations	-1	-1		-1		-2
Insurance	-5	-2		-2	-6	-14
Total notes and bonds	**-7**	**-3**		**-3**	**-6**	**-16**
Total	**-72**	**-95**	**-3**	**-97**	**-538**	**-708**

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

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

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

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

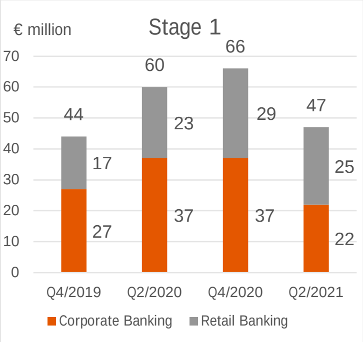
Summary and key indicators 31 December 2020	Stage 1	Stage 2			Stage 3	
		Not more than 30 DPD	More than 30 DPD	Total		Total
Receivables from customers; on-balance-sheet and off-balance-sheet items						
Retail Banking	70,972	7,089	60	7,149	1,902	80,023
Corporate Banking	33,923	1,829	225	2,054	663	36,640
Loss allowance						
Retail Banking	-29	-63	-1	-64	-290	-383
Corporate Banking	-37	-29	-1	-30	-242	-309
Coverage ratio, %						
Retail Banking	-0.04%	-0.89%	-2.34%	-0.90%	-15.27%	-0.48%
Corporate Banking	-0.11%	-1.59%	-0.55%	-1.48%	-36.48%	-0.84%
Receivables from customers; total on-balance-sheet and off-balance-sheet items	**104,895**	**8,918**	**285**	**9,203**	**2,564**	**116,663**
Total loss allowance	**-65**	**-92**	**-3**	**-95**	**-532**	**-692**
Total coverage ratio, %	**-0.06%**	**-1.03%**	**-0.93%**	**-1.03%**	**-20.75%**	**-0.59%**
Carrying amount, notes and bonds						
Other Operations	13,141	50		50		13,191
Insurance	4,403	48		48	17	4,469
Loss allowance						
Other Operations	-1	-1		-1		-2
Insurance	-5	-2		-2	-6	-14
Coverage ratio, %						
Other Operations	-0.01%	-1.34%		-1.34%		-0.02%
Insurance	-0.12%	-4.16%		-4.16%	-36.09%	-0.31%
Total notes and bonds	**17,544**	**98**		**98**	**17**	**17,660**
Total loss allowance	**-7**	**-3**		**-3**	**-6**	**-16**
Total coverage ratio, %	**-0.04%**	**-2.72%**		**-2.72%**	**-36.09%**	**-0.09%**

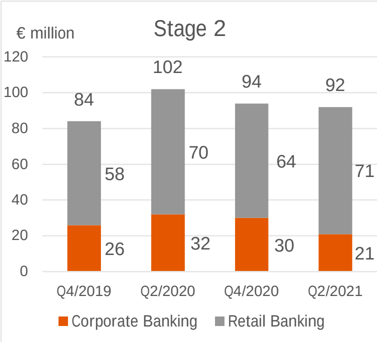
The following flow statements show the changes in loss allowance by impairment stage during January-June 2021.

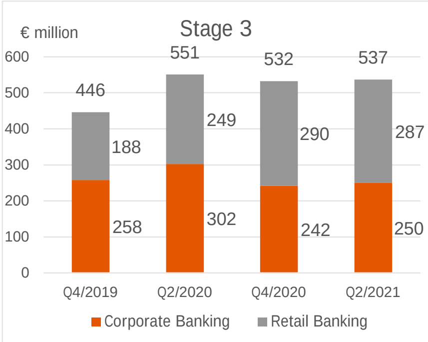
Receivables from customers and off-balance-sheet items, EUR million	**Stage 1**	**Stage 2**	**Stage 3**	
	12 months	**Lifetime**	**Lifetime**	**Total**
Loss allowance 1 January 2021	**65**	**93**	**533**	**692**
Transfers from Stage 1 to Stage 2	-3	27		23
Transfers from Stage 1 to Stage 3	-10		15	5
Transfers from Stage 2 to Stage 1	3	-13		-10
Transfers from Stage 2 to Stage 3		-17	50	33
Transfers from Stage 3 to Stage 2	2		-7	-4
Transfers from Stage 3 to Stage 1		4	-15	-11
Increases due to origination and acquisition	6	5	11	22
Decreases due to derecognition	-6	-6	-32	-45
Changes in risk parameters (net)	-11	-2	21	8
Decrease in allowance account due to write-offs			-38	-38
Net change in expected credit losses	**-18**	**-2**	**5**	**-16**
Loss allowance 30 June 2021	**47**	**92**	**537**	**676**
Net change in expected credit losses Q2 2021	**-16**	**1**	**13**	**-3**

In Q1/2021, OP Financial Group calibrated its internal rating model for retail customers to correspond to the new 2020 definition of default. This had an effect in April on the PD model under IFRS 9 and on the quantitative SICR model that is used to decide on transferring the agreement from impairment stage 1 to stage 2. OP Financial Group calibrated the original PD curves used in the SICR model to be comparable, in which case the calibration had no significant effect on the amount of the ECL. As part of its normal model update, OP Financial Group will update the actual PD model for retail customers under IFRS 9 and the quantitative SICR model during H2/2021.

The following graphs illustrate the trend in the expected credit losses of customer receivables by impairment stage during the last few years, showing their growth during the Covid-19 pandemic and how they have levelled off.



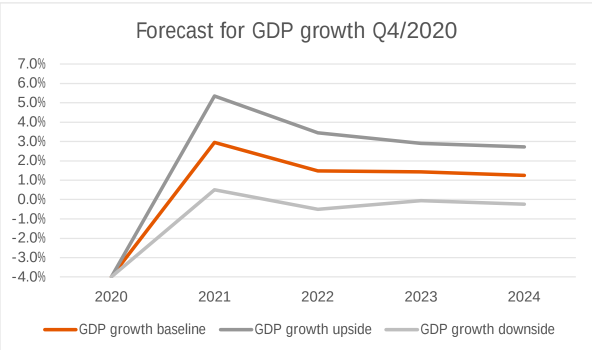


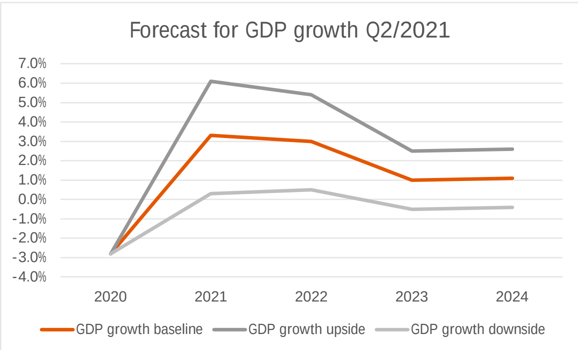


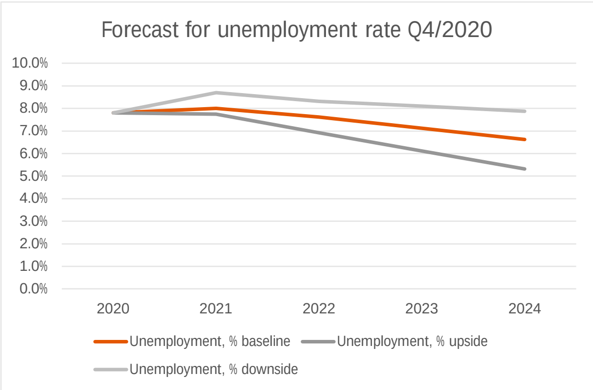
OP Financial Group provides its customers with the opportunity to get a maximum of 12-month repayment holiday on their home loans. As regards corporate customers, changes in repayment schedules will be evaluated on a case-by-case basis, and guarantees provided by Finnvera will be used extensively. In loan modifications, forborne loans and customers in default are identified according to the normal set of instructions.

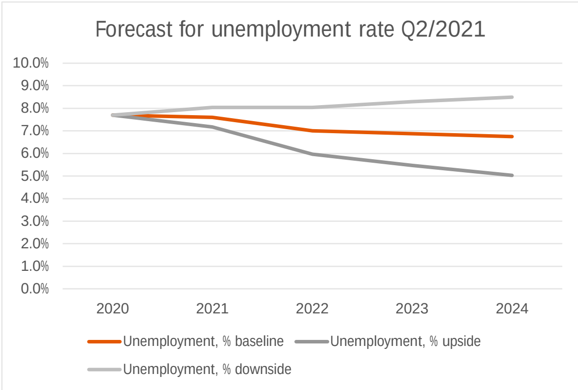
In ECL measurement, macroeconomic factors are updated on a quarterly basis. The ECL is measured as the weighted average under three scenarios. Scenario weights have been at normal level, or downside 20%, baseline 60% and upside 20%. During the reporting period, more positive macroeconomic forecasts decreased expected credit losses by around EUR 8 million.

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









Notes and bonds, EUR million	Stage 1 12 months	Stage 2 Lifetime	Stage 3 Lifetime	Total
Loss allowance 1 January 2021	**7**	**3**	**6**	**16**
Transfers from Stage 2 to Stage 1	0	0		0
Increases due to origination and acquisition	1		0	1
Decreases due to derecognition	-2	-1	-1	-4
Changes in risk parameters (net)	0	0	0	0
Net change in expected credit losses	**-1**	**-1**	**-1**	**-3**
Loss allowance 30 June 2021	**6**	**2**	**5**	**13**
Net change in expected credit losses Q2 2021	**0**	**0**	**0**	**-1**

The table below shows the change in loss allowance by impairment stage during 2020.

Receivables from customers and off-balance-sheet items, EUR million	Stage 1 12 months	Stage 2 Lifetime	Stage 3 Lifetime	Total
Loss allowance 1 January 2020	**44**	**83**	**446**	**573**
Transfers from Stage 1 to Stage 2	-3	21		18
Transfers from Stage 1 to Stage 3	-1		53	52
Transfers from Stage 2 to Stage 1	2	-15		-13
Transfers from Stage 2 to Stage 3		-20	101	81
Transfers from Stage 3 to Stage 2		1	-7	-6
Transfers from Stage 3 to Stage 1	0		-1	-1
Increases due to origination and acquisition	21	14	18	53
Decreases due to derecognition	-9	-14	-47	-70
Changes in risk parameters (net)	19	28	34	81
Decrease in allowance account due to write-offs		0	-62	-62
Net change in expected credit losses	**22**	**10**	**88**	**119**
Loss allowance 31 December 2020	**65**	**93**	**533**	**692**

Notes and bonds, EUR million	Stage 1 12 months	Stage 2 Lifetime	Stage 3 Lifetime	Total
Loss allowance 1 January 2020	**6**	**1**	**5**	**13**
Transfers from Stage 1 to Stage 2	-1	2		1
Transfers from Stage 1 to Stage 3	0		1	1
Transfers from Stage 3 to Stage 1	0		-1	-1
Increases due to origination and acquisition	3	1	2	5
Decreases due to derecognition	-1	-1	-1	-3
Changes in risk parameters (net)	0	0	0	0
Changes due to update in the methodology for estimation (net)	0			0
Net change in expected credit losses	**1**	**1**	**1**	**3**
Loss allowance 31 December 2020	**7**	**3**	**6**	**16**

Note 8. Insurance liabilities

EUR million	30 June 2021	31 Dec 2020
Provision for unpaid claims		
Provision for unpaid claims for annuities	1,592	1,596
Other provision for unpaid claims	1,165	1,121
Reserve for decreased discount rate (value of hedges of insurance liability)	-42	16
Total	2,716	2,733
Provisions for unearned premiums	846	593
Life insurance insurance liabilities	5,682	6,047
Total	**9,244**	**9,374**

Note 9. Liabilities from unit-linked insurance and investment contracts

EUR million	30 June 2021	31 Dec 2020
Liabilities from unit-linked insurance	10,405	9,449
Investment contracts	2,102	1,873
Total	**12,507**	**11,323**

Note 10. Debt securities issued to the public

EUR million	30 June 2021	31 Dec 2020
Bonds	11,158	12,217
Subordinated bonds (SNP)	2,957	1,689
Covered bonds	12,488	13,252
Other		
Certificates of deposit	51	273
Commercial paper	7,582	7,347
Included in own portfolio in trading (–)*	-116	-72
Total debt securities issued to the public	**34,120**	**34,706**

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

Note 11. Fair value reserve after income tax

	Fair value through other comprehensive income			
EUR million	Notes and bonds	Shares and participations (overlay approach)	Cash flow hedging	Total
Opening balance 1 January 2020	**44**	**65**	**141**	**251**
Fair value changes	-65	-85	97	-53
Capital gains transferred to income statement	-7	-8		-16
Impairment loss transferred to income statement		8		8
Transfers to net interest income			-25	-25
Deferred tax	15	17	-14	17
Closing balance 30 June 2020	**-14**	**-3**	**199**	**182**

	Fair value through other comprehensive income			
EUR million	Notes and bonds	Shares and participations (overlay approach)	Cash flow hedging	Total
Opening balance 1 January 2021	**109**	**70**	**203**	**382**
Fair value changes	-24	113	-53	36
Capital gains transferred to income statement	-11	-28		-39
Impairment loss transferred to income statement		5		5
Transfers to net interest income			-23	-23
Deferred tax	7	-18	15	4
Closing balance 30 June 2021	**81**	**142**	**143**	**365**

The fair value reserve before tax amounted to EUR 457 million (228) at the end of the reporting period and the related deferred tax asset/liability was EUR –91 million (-46). The loss allowance on notes and bonds recognised at fair value through other comprehensive income totalled EUR 3 million (–5) in the fair value reserve during the reporting period. Data on 30 June 2020 is used as comparatives.

Note 12. Collateral given

EUR million	30 June 2021	31 Dec 2020
Given on behalf of own liabilities and commitments		
Pledges	1	136
Loans (as collateral for covered bonds)	15,814	15,722
Others	17,913	9,784
Total collateral given*	**33,728**	**25,643**
Secured derivative liabilities	690	1,078
Other secured liabilities	16,005	8,143
Covered bonds	12,488	13,252
Total	**29,183**	**22,473**

* In addition, bonds with a book value of EUR 1.7 billion have been pledged in the central bank, of which EUR 1.0 billion in intraday settlement collateral. Given that the bonds are available for withdrawal without the central bank's advance permission, they are not presented in the table above.

Note 13. Classification of financial assets and liabilities

			Fair value through profit or loss				
Assets, EUR million	**Amortised cost**	**Fair value through other comprehen-sive income**	**Financial assets held for trading**	**Financial assets designated as at fair value through profit or loss**	**Must be measured at fair value through profit or loss**	**Hedging derivatives**	**Carrying amount total**
Cash and cash equivalents	31,198						31,198
Receivables from credit institutions	478						478
Derivative contracts			2,833			870	3,703
Receivables from customers	94,739						94,739
Assets covering unit-linked contracts				12,461			12,461
Notes and bonds	1	17,979	389	2,110	376		20,855
Equity instruments		0	88	194	1,479		1,761
Other financial assets	2,496						2,496
Financial assets							**167,690**
Other than financial instruments							2,806
Total 30 June 2021	**128,912**	**17,979**	**3,310**	**14,764**	**1,855**	**870**	**170,495**

Assets, EUR million	**Amortised cost**	**Fair value through other comprehen-sive income**	**Financial assets held for trading**	**Financial assets designated as at fair value through profit or loss**	**Must be measured at fair value through profit or loss**	**Hedging derivatives**	**Carrying amount total**
Cash and cash equivalents	21,827						21,827
Receivables from credit institutions	306						306
Derivative contracts			4,296			920	5,215
Receivables from customers	93,644						93,644
Assets covering unit-linked contracts				11,285			11,285
Notes and bonds	1	18,134	330	2,172	408		21,044
Equity instruments		-21	73	206	1,419		1,678
Other financial assets	2,290						2,290
Financial assets							**157,289**
Other than financial instruments							2,919
Total 31 December 2020	**118,067**	**18,113**	**4,698**	**13,663**	**1,827**	**920**	**160,207**

Liabilities, EUR million	Financial liabilities at fair value through profit or loss	Other liabilities	Hedging derivatives	Carrying amount total
Liabilities to credit institutions		16,252		16,252
Derivative contracts	2,047		360	2,407
Liabilities to customers		75,902		75,902
Insurance liabilities		9,244		9,244
Liabilities from unit-linked insurance and investment contracts	12,507			12,507
Debt securities issued to the public		34,120		34,120
Subordinated loans		2,199		2,199
Other financial liabilities		2,503		2,503
Financial liabilities				**155,133**
Other than financial liabilities				1,899
Total 30 June 2021	**14,554**	**140,219**	**360**	**157,033**

Liabilities, EUR million	Financial liabilities at fair value through profit or loss	Other liabilities	Hedging derivatives	Carrying amount total
Liabilities to credit institutions		8,086		8,086
Derivative contracts	2,954		470	3,424
Liabilities to customers		73,422		73,422
Insurance liabilities		9,374		9,374
Liabilities from unit-linked insurance and investment contracts	11,323			11,323
Debt securities issued to the public		34,706		34,706
Subordinated loans		2,261		2,261
Other financial liabilities		2,448		2,448
Financial liabilities				**145,044**
Other than financial liabilities				2,052
Total 31 December 2020	**14,276**	**130,297**	**470**	**147,095**

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 approximately EUR 671 (810) million 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 14. Recurring fair value measurements by valuation technique

Fair value of assets on 30 June 2021, EUR million	Level 1	Level 2	Level 3	Total
Recognised at fair value through profit or loss				
Equity instruments	751	349	661	1,761
Debt instruments	1,934	574	368	2,875
Unit-linked contracts	8,304	4,157		12,461
Derivative financial instruments	2	3,615	85	3,703
Fair value through other comprehensive income				
Debt instruments	15,865	1,694	420	17,979
Total financial instruments	**26,856**	**10,388**	**1,533**	**38,778**
Investment property			696	696
Total	**26,856**	**10,388**	**2,229**	**39,474**

Fair value of assets on 31 December 2020, EUR million	Level 1	Level 2	Level 3	Total
Recognised at fair value through profit or loss				
Equity instruments	772	268	638	1,678
Debt instruments	1,970	661	278	2,909
Unit-linked contracts	7,481	3,804		11,285
Derivative financial instruments	0	5,154	61	5,215
Fair value through other comprehensive income				
Debt instruments	16,064	1,768	301	18,134
Total financial instruments	**26,287**	**11,655**	**1,278**	**39,221**
Investment property			623	623
Total	**26,287**	**11,655**	**1,902**	**39,844**

Fair value of liabilities on 30 June 2021, EUR million	Level 1	Level 2	Level 3	Total
Recognised at fair value through profit or loss				
Unit-linked contracts	8,335	4,172		12,507
Other		1		1
Derivative financial instruments	0	2,379	28	2,407
Total	**8,335**	**6,552**	**28**	**14,915**

Fair value of liabilities on 31 December 2020, EUR million	Level 1	Level 2	Level 3	Total
Recognised at fair value through profit or loss				
Unit-linked contracts	7,506	3,817		11,323
Other		0		0
Derivative financial instruments	0	3,382	42	3,424
Total	**7,506**	**7,199**	**42**	**14,747**

Level 1: Quoted prices in active markets

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

Level 2: Valuation techniques using observable inputs

Valuation techniques based on observable input parameters. The fair value of the instruments included within this level means value derived from the market price of a financial instrument's components or similar financial instruments; or value which can be determined using commonly used valuation models and techniques if the inputs significant to the fair value measurement are based on observable market data. This hierarchy level includes the majority of OP Corporate Bank 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. Transfers between the levels are mainly due to the number of available market quotes.

Reconciliation of Level 3 items

Specification of financial assets and liabilities

Financial assets, EUR million	Financial assets at fair value through profit or loss	Derivative contracts	Fair value through other comprehen-sive income	Total assets
Opening balance 1 January 2021	**916**	**61**	**301**	**1,278**
Total gains/losses in profit or loss	-201	24	0	-177
Total gains/losses in other comprehensive income			0	0
Purchases	61		19	80
Sales	-37		-7	-43
Settlements	-3		-1	-4
Transfers into Level 3	312		215	527
Transfers out of Level 3	-19		-107	-126
Closing balance 30 June 2021	**1,028**	**85**	**420**	**1,533**

Financial liabilities, EUR million	Derivative contracts	Total liabilities
Opening balance 1 January 2020	**42**	**42**
Total gains/losses in profit or loss	-14	-14
Closing balance 30 June 2021	**28**	**28**

Total gains/losses included in profit or loss by item for the financial year on 30 June 2021

EUR million	Net interest income	Net investment income	Statement of comprehensive income/ Change in fair value reserve	Total gains/ losses for the financial year included in profit or loss for assets/ liabilities held at year-end
Realised net gains (losses)	-235	33	0	-201
Unrealised net gains (losses)	38		0	37
Total net gains (losses)	**-196**	**33**	**0**	**-165**

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 2021.

Note 15. Off-balance-sheet commitments

EUR million	30 June 2021	31 Dec 2020
Guarantees	706	686
Other guarantee liabilities	2,684	2,160
Loan commitments	15,143	13,826
Commitments related to short-term trade transactions	419	255
Other*	1,346	1,535
Total off-balance-sheet commitments	**20,299**	**18,461**

* Of which Non-life Insurance commitments to private equity funds amount to EUR 169 million (174).

Note 16. Derivative contracts

Total derivatives 30 June 2021

	Nominal values/residual maturity				Fair values*	
EUR million	<1 year	1–5 years	>5 years	Total	Assets	Liabilities
Interest rate derivatives	18,898	68,458	87,146	174,503	2,673	1,553
Cleared by the central counterparty	9,323	40,094	52,995	102,413	66	73
Settled-to-market (STM)	5,961	25,628	39,198	70,787	53	57
Collateralised-to-market (CTM)	3,362	14,466	13,797	31,626	13	16
Currency derivatives	45,058	4,646	1,313	51,016	749	615
Equity and index-linked derivatives		2		2	0	
Credit derivatives	84	1,528	214	1,826	0	0
Other derivatives	171	525	10	706	80	38
Total derivatives	**64,210**	**75,159**	**88,683**	**228,052**	**3,502**	**2,207**

Total derivatives 31 December 2020

	Nominal values/residual maturity				Fair values*	
EUR million	<1 year	1–5 years	>5 years	Total	Assets	Liabilities
Interest rate derivatives	30,868	71,044	81,706	183,618	3,993	2,173
Cleared by the central counterparty	9,805	42,800	48,980	101,586	19	21
Settled-to-market (STM)	6,579	27,094	35,623	69,296	14	16
Collateralised-to-market (CTM)	3,226	15,706	13,357	32,290	5	5
Currency derivatives	48,773	4,121	1,880	54,774	1,038	1,059
Equity and index-linked derivatives		2		2	0	
Credit derivatives	90	82		172	1	0
Other derivatives	133	458	11	602	52	28
Total derivatives	**79,864**	**75,707**	**83,597**	**239,168**	**5,085**	**3,260**

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

Note 17. Investment distribution of the Insurance segment

Non-life Insurance	30 June 2021		31 December 2020	
Investment asset portfolio allocation	Fair value*, EUR million	%	Fair value*, EUR million	%
Money market total	**543**	**13**	**461**	**11**
Money market instruments and deposits**	535	13	456	11
Derivatives***	8	0	5	0
Total bonds and bond funds	**2,652**	**63**	**2,684**	**65**
Governments	602	14	605	15
Inflation-linked bonds			10	0
Investment Grade	1,697	40	1,602	39
Emerging markets and High Yield	166	4	280	7
Structured Investments****	187	4	188	5
Total equities	**568**	**14**	**525**	**13**
Finland	120	3	112	3
Developed markets	265	6	237	6
Emerging markets	112	3	110	3
Fixed assets and unquoted equities	6	0	6	0
Private equity investments	66	2	59	1
Total alternative investments	**33**	**1**	**33**	**1**
Hedge funds	33	1	33	1
Total property investment	**397**	**9**	**398**	**10**
Direct property investment	251	6	251	6
Indirect property investment	146	3	148	4
Total	**4,193**	**100**	**4,102**	**100**

* Includes accrued interest income.

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

*** Effect of derivatives on the allocation of the asset class (delta-weighted equivalents).

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

Life Insurance	30 June 2021		31 December 2020	
Investment asset portfolio allocation	Fair value*, EUR million	%	Fair value*, EUR million	%
Total money market instruments	**688**	**19**	**493**	**14**
Money market investments and deposits**	682	19	490	14
Derivatives***	6	0	3	0
Total bonds and bond funds	**2,240**	**61**	**2,414**	**67**
Governments	345	9	447	12
Inflation-linked bonds			9	0
Investment Grade	1,526	42	1,497	42
Emerging markets and High Yield	105	3	191	5
Structured investments****	264	7	270	7
Total equities	**512**	**14**	**471**	**13**
Finland	99	3	86	2
Developed markets	238	6	214	6
Emerging markets	98	3	101	3
Fixed assets and unquoted equities	3	0	3	0
Private equity investments	73	2	67	2
Total alternative investments	**39**	**1**	**40**	**1**
Hedge funds	39	1	40	1
Total real property investments	**186**	**5**	**185**	**5**
Direct property investments	50	1	50	1
Indirect property investments	136	4	135	4
Total	**3,664**	**100**	**3,602**	**100**

* Includes accrued interest income.

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

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

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

Note 18. Related-party transactions

OP Financial Group's related parties comprise subsidiaries consolidated into OP Financial Group, associates, key management personnel and their close family members, and other related-party entities. OP Financial Group's key management personnel comprises OP Financial Group's President and Group Chief Executive Officer, members of OP Cooperative's Executive Management Team and directors directly reporting to the President and Group Chief Executive Officer, the Chair and members of OP Cooperative's Board of Directors as well as members of the Supervisory Council. Related parties of the management also include companies over which key management persons or their close family member exercises significant influence. Other entities regarded as related parties include OP 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 2020.

Financial reporting in 2021

Interim Report Q1–3/2021	27 October 2021
OP Amalgamation Capital Adequacy Report 30 June 2021	Week 32
OP Amalgamation Capital Adequacy Report 30 September 2021	Week 44

Helsinki, 28 July 2021

OP Cooperative
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