OP Corporate Bank plc's Half-year Financial Report 1 January–30 June 2021

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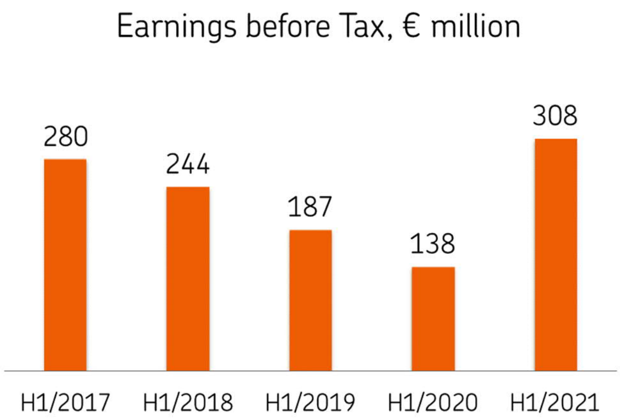
Earnings before tax H1/2021	Net interest income H1/2021	Net insurance income H1/2021	CET1 ratio 30 June 2021
€308 million	–7%	+11%	14.3%

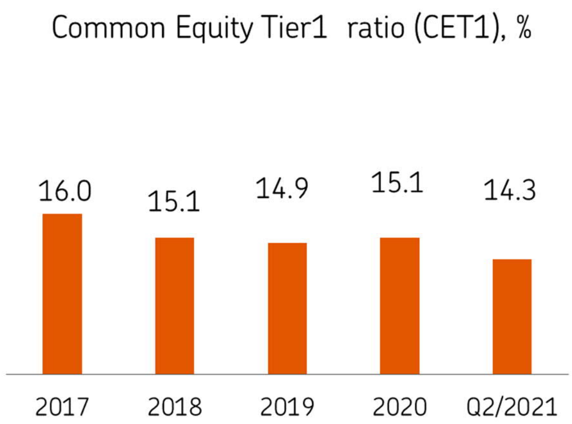
- Consolidated earnings before tax improved to EUR 308 million (138). Total income increased by 44% to EUR 702 million (488). Investment income of EUR 157 million rose by EUR 83 million year on year. Net insurance income increased by 11% to EUR 320 million (288). A total of EUR 12 million of impairment losses on receivables were reversed whereas they weakened earnings by EUR 67 million a year ago. Total expenses increased by 10% to EUR 363 million (330). Net interest income decreased by 7% to EUR 153 million (165).
- Corporate Banking earnings before tax improved to EUR 219 million (89). Total income increased by EUR 65 million to EUR 348 million (282). Net investment income increased to EUR 94 million (59). Earnings were also strengthened by lower impairment loss on receivables. Net interest income was EUR 203 million (202). The loan portfolio decreased in the year to June by 1% to EUR 24.4 billion (24.7).
- Insurance earnings before tax improved to EUR 158 million (86). Net insurance income increased by 11% to EUR 320 million (288). Investment income rose to EUR 60 million (13). The operating combined ratio improved to 86.2% (89.3).
- Other Operations earnings before tax were EUR –69 million (–36). Liquidity remained strong.
- The Group's CET1 ratio was 14.3% (15.1).
- 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, will be transferred to the direct ownership of OP Cooperative. Based on the plan, the demerger would be executed by the end of 2021.
- Pohjola Insurance Ltd, OP Corporate Bank's subsidiary, 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 Corporate Bank plc's key indicators

Earnings before tax, € million	H1/2021	H1/2020	Change, %	Q1–4/2020
Corporate Banking	219	89	147.2	301
Insurance	158	86	83.2	288
Other Operations	-69	-36	-	-58
Group total	308	138	122.6	529
Return on equity (ROE), %	10.1	5.2	4.9*	9.2
Return on assets (ROA), %	0.55	0.30	0.25*	0.55
	30 Jun 2021	30 Jun 2020	Change, %	31 Dec 2020
CET1 ratio, %	14.3	13.7	0.57*	15.1
Loan portfolio, € million**	24,894	25,101	-0.8	24,485
Guarantee portfolio, € million	2,879	2,742	5.0	2,214
Other exposures, € million	5,670	5,254	7.9	5,423
Deposits, € million	13,708	13,575	1.0	13,300
Ratio of non-performing exposures to exposures, %***	2.1	2.2	-0.1*	2.2
Ratio of impairment loss on receivables to loan and guarantee portfolio, %	-0.09	0.48	-0.57	0.20

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
** Data from the reference year Q2/2020 adjusted to correspond to the current monitoring.
***The name and content of the ratio were changed in Q1/2021. 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.





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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.

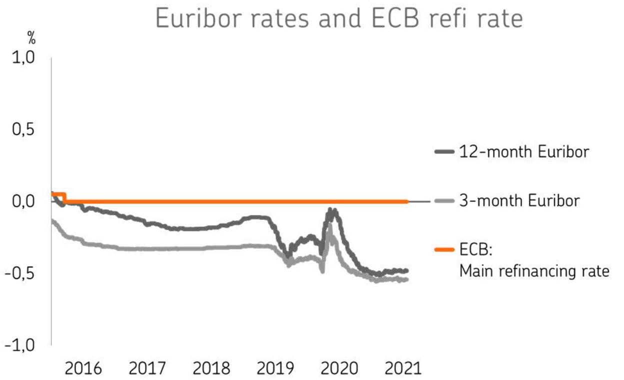
Growth in total loans slowed down, standing at 2.1% at the end of May compared with a year earlier. Demand for corporate loans lay behind the slower growth, whereas growth in loans to households became stronger and growth in housing company loans remained quite steady. Growth in corporate loans turned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

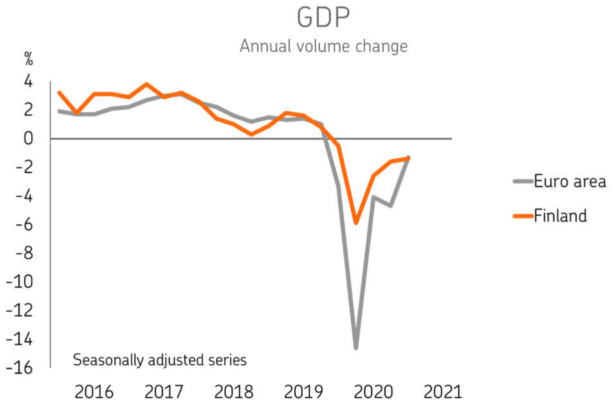
Growth in deposits too abated. The rate of growth in total deposits was 7.0% at the end of May, whereas the growth rate was 14.8% at the end of 2020. In May, corporate deposits increased by 4.4% and household deposits by 6.5%.

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.

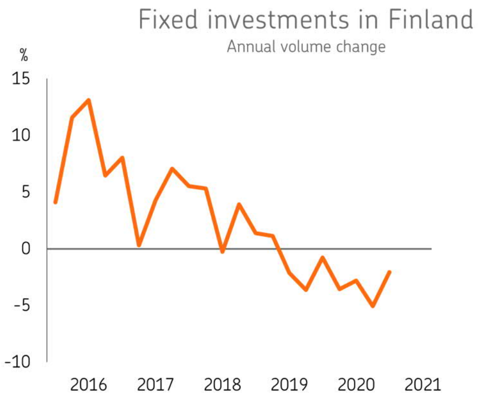
Demand for insurance has been strong and favourable developments in the capital market have also supported the business of insurance companies.



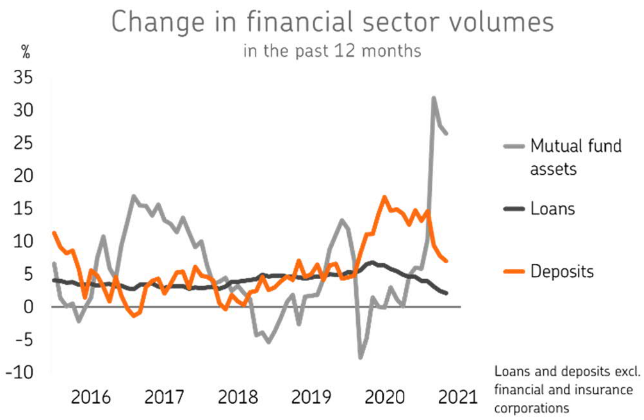
Source: Bank of Finland



Sources: Eurostat, Statistics Finland



Source: Statistics Finland



Sources: Bank of Finland, Investment Research Finland

Consolidated earnings

€ million	H1/2021	H1/2020	Change, %	Q2/2021	Q2/2020	Change, %	Q1–4/2020
Net interest income	153	165	-7.4	76	84	-9.5	325
Net insurance income	320	288	11.0	162	157	3.3	555
Net commissions and fees	14	-5	-	3	-6	-	5
Net investment income	198	25	680.2	87	82	5.7	233
Other operating income	17	15	16.9	7	5	52.9	29
Total income	702	488	43.7	335	322	4.0	1,148
Personnel costs	113	98	15.6	58	49	19.8	111
Depreciation/amortisation and impairment loss	26	24	7.1	13	12	14.7	53
Other operating expenses	224	208	8.0	100	99	1.4	393
Total expenses	363	330	10.2	172	159	8.0	557
Impairment loss on receivables	12	-67	-117.7	10	-18	-155.2	-53
OP bonuses to owner-customers	-1	-2	-53.7	-1	-1	-51.5	-5
Overlay approach	-41	49	-184.1	-17	-32	-49.0	529
Total earnings before tax	308	138	122.6	156	111	40.3	325

January–June

Consolidated earnings before tax improved to EUR 308 million (138). The Group's total income increased to EUR 702 million (488). The overlay approach is applied to certain insurance companies' equity instruments and, including the overlay approach, total income rose by 22.9% to EUR 660 million. Investment income rose by EUR 83 million to EUR 157 million. The effect of the Covid-19 pandemic on capital market developments decreased investment income a year ago. Net insurance income increased by EUR 32 million to EUR 320 million. Impairment losses on receivables were reversed during the reporting period, improving earnings by EUR 12 million. Impairment loss on receivables was EUR 79 million lower than a year ago. A year ago, the higher amount of the impairment loss on receivables was especially explained by the adoption of the new definition of default arising from regulatory change as well as changes arising from the Covid-19 crisis in the macroeconomic parameters used in the measurement of credit losses. The Group's total expenses increased by 10.2% to EUR 363 million. This year-on-year increase is especially explained by higher personnel costs and other operating expenses.

Net interest income decreased by 7.4% to EUR 153 million (165). Interest income on receivables from customers, EUR 210 million, was at the level reported a year ago. Higher interest expenses were affected by higher negative interest charges for central bank deposits and higher interest expenses for senior non-preferred bonds. Income from negative deposit interest rates increased interest income.

During the reporting period, OP Corporate Bank borrowed EUR 8 billion under TLTRO funding offered by the European Central Bank to banks. The amount of TLTRO funding increased to EUR 16 billion. In the year to June, the amount of senior non-preferred bonds rose by EUR 1.3 billion to EUR 3.0 billion. Tier 2 bonds amounted to EUR 2.4 billion (2.4) at the end of the reporting period. OP Corporate Bank Group's loan portfolio decreased in the year to June by 0.8% to EUR 24.9 billion. In the year to June, the deposit portfolio increased by 1.0% to EUR 13.7 billion.

Net insurance income increased by EUR 32 million to EUR 320 million. Insurance premium revenue increased by 1.6% and claims incurred decreased by 4.4%. Within the Insurance segment, the operating combined ratio improved to 86.2% (89.3) and operating risk ratio to 58.6% (62.0).

Net commissions and fees increased by EUR 19 million to EUR 14 million. Commissions and fees increased to EUR 93 million (82). Commissions and fees were especially increased by commission income from payment transfers and commission income from insurance operations. Commission expenses of EUR 80 million were EUR 7 million lower than the year before. Reduced expenses of derivative transactions paid to OP cooperative banks mainly decreased commission expenses.

Net investment income increased by EUR 173 million to EUR 198 million. Net income from financial assets recognised at fair value through other comprehensive income rose by EUR 8 million to EUR 20 million. The reversal of impairment losses related to notes and bonds amounted to EUR 1 million, whereas impairment loss a year ago decreased net investment income by EUR 7 million. Capital gains recognised on notes and bonds during the reporting period totalled EUR 7 million (6). Net income from financial assets recognised at fair value through profit or loss rose by EUR 152 million to EUR 176 million. The value changes in equities as well as dividends and shares of profit increased by EUR 131 million year on year. When the Covid-19 pandemic broke out over a year ago, the fair value of equities, and notes and bonds decreased significantly during the reporting period a year ago. Income from financial assets held for trading was especially increased by income from derivatives which increased by EUR 24 million to EUR 81 million. A rise in long-term interest rates reduced the Credit Valuation Adjustment (CVA) of derivatives and increased net investment income. Rental income from investment property, EUR 13 million, was at the level reported a year ago.

Net investment income reported by the Insurance segment increased by EUR 138 million to EUR 101 million and that reported by the Corporate Banking segment by EUR 35 million to EUR 94 million. Equity value changes and dividends and shares of profit mainly increased net investment income reported by the Insurance segment. Higher income from derivative transactions particularly affected higher net investment income reported by the Corporate Banking segment. The overlay approach is applied to non-life insurance equity instruments recognised at fair value through profit or loss, which reduced investment income for the reporting period by EUR 41 million. A year ago, it increased earnings by EUR 49 million. Changes in the fair value of investments within the scope of the overlay approach are presented under the fair value reserve under shareholders' equity. Including the overlay approach, Group investment income, EUR 157 million, increased by EUR 83 million year on year. Investment income reported by the Insurance segment increased by EUR 47 million to EUR 60 million. Return on investments by non-life insurance at fair value was 0.9% (1.1).

Other operating income of EUR 17 million, rose by EUR 2 million year on year.

Total expenses increased by EUR 34 million year on year to EUR 363 million. Personnel costs rose by EUR 15 million to EUR 113 million due to higher provisions for performance-based bonuses. Depreciation/amortisation and impairment loss, EUR 26 million, increased by EUR 2 million. Other operating expenses increased by EUR 17 million to EUR 224 million. This increase is mainly explained by higher year-on-year charges of financial authorities and OP Cooperative's service charges.

A total of EUR 12 million of impairment losses on receivables were reversed whereas they weakened earnings by EUR 67 million a year ago. In addition, the adoption of the new definition of default in the first quarter of 2020 increased impairment loss on receivables during the first half of 2020. Changes made due to the Covid-19 crisis in the macroeconomic parameters used in the calculation of expected credit losses also increased impairment loss on receivables in H1 2020. In addition, the change in the impairment loss on receivables was affected by the improved credit risk exposure of counterparties. Final net loan losses recognised totalled EUR 4 million (6). Loss allowance was EUR 301 million (318) at the end of the reporting period. Non-performing exposures (gross) accounted for 2.1% (2.2) of the exposures. Impairment loss on loans and receivables accounted for –0.09% (0.48) of the loan and guarantee portfolio.

Comprehensive income for the reporting period, EUR 266 million, increased by EUR 234 million year on year. A year ago, the impact of the Covid-19 crisis on the capital market significantly decreased the fair value of notes and bonds recognised through other comprehensive income and of equities within the scope of the overlay approach.

April–June

Earnings before tax for the second quarter rose by EUR 45 million, amounting to EUR 156 million. Total income of EUR 335 million increased by EUR 13 million year on year. Earnings were improved by higher investment income, net commissions and fees and net insurance income. In addition, reversal of impairment losses on receivables improved earnings. Increased expenses and net interest income that lowered year on year weakened earnings.

Net interest income decreased by 9.5% to EUR 76 million. Interest income increased by 13.5% to EUR 132 million and interest expenses by 46.5% to EUR 52 million. Interest expenses were increased by higher negative interest charges for central bank deposits and higher interest expenses for Tier 2 bonds and senior non-preferred bonds.

Net insurance income rose by EUR 5 million to EUR 162 million.

Net commissions and fees were EUR 3 million, while a year ago they totalled EUR –6 million. Commission income totalled EUR 46 million (41). Commissions and fees were increased by commission income from payment transfers and higher commission income from insurance operations. Commission expenses fell by EUR 4 million to EUR 43 million. Commission expenses were mainly decreased by fees paid to member banks.

Net investment income increased in the second quarter by EUR 5 to EUR 87 million. Net income from financial assets at fair value recognised through other comprehensive income totalled EUR 2 million (1). Net income from financial assets recognised at fair value through profit or loss fell by EUR 8 million to EUR 85 million. Including the overlay approach applied to equity investments, which weakened investment income by EUR 17 million (–32), investment income increased by EUR 21 million year on year to EUR 70 million.

Other operating income of EUR 7 million rose by EUR 2 million.

Total expenses rose by EUR 13 million to EUR 172 million. Personnel costs increased by EUR 10 million to EUR 58 million and depreciation/amortisation and impairment loss by EUR 2 million to EUR 13 million. Other operating expenses were EUR 100 million (99).

Impairment loss on receivables totalled EUR 10 million that improved earnings. A year ago, impairment loss on receivables reduced earnings by EUR 18 million. Final net loan losses recognised totalled EUR 1 million (1).

Total comprehensive income for the second quarter was EUR 145 million (192). At the beginning of the second quarter a year ago, the fair values of equities, and notes and bonds rebounded after a significant decrease in the first quarter. As a result, the fair value reserve change increased comprehensive income in Q2 2020.

Measures taken by OP Corporate Bank amid the Covid-19 crisis

OP Corporate Bank has provided its customers with the opportunity for a loan modification if the Covid-19 pandemic has caused disruptions in their business or repayment capacity.

OP Corporate Bank has ensured that services critical to society are available during the Covid-19 crisis too. OP Corporate Bank has enabled safe working conditions for its personnel in their workplace. Extensive remote working is also encouraged in those jobs where it is possible.

April–June highlights

Based on decisions made, OP Corporate Bank classified Pohjola Hospital for the 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. After the reporting period on 2 July 2021, Pohjola Insurance Ltd announced that it would in future focus on non-life insurance and sell Pohjola Hospital. Pohjola Insurance Ltd will sell the entire share capital of Pohjola Hospital Ltd to Pihlajalinna Terveys Oy, part of Pihlajalinna Group.

With the agreement signed between OP and the European Investment Bank on 7 May 2021, OP will bring new financing worth EUR 300 million to mid-size Finnish companies. The support from the European Investment Bank is enabled by the guarantee programme launched by the European Guarantee Fund with a view to supporting companies in new investments and their recovery from the Covid-19 pandemic. Financing is intended to finance profitable investments and the working capital of companies.

Corporate responsibility

OP Financial Group's core values and principles governing corporate responsibility also guide the operations of OP Corporate Bank.

Corporate responsibility is an integral part of OP Financial Group's business and strategy. OP Financial Group's aim is to be a forerunner of corporate responsibility within its sector in Finland. 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 since 2009. OP Financial Group is a Founding Signatory of the Principles for Responsible Banking under the United Nations Environment Programme Finance Initiative (UNEP FI).

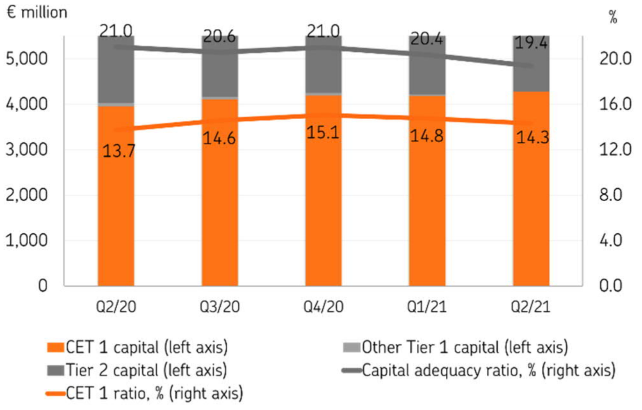
In May, OP published the annual Green Bond Report that contains a description of the green bond of EUR 500 million issued by OP Corporate Bank in February 2019, including examples of businesses and projects financed and the environmental impacts achieved. Proceeds raised with OP's first green bond were used to finance renewable energy, green buildings and sustainable land use. During 2020, it resulted in significant positive environmental impacts: almost 200,000 CO2e tonnes of avoided 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 Corporate Bank 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 covering 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.

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.

Group's capital adequacy

Capital base and capital adequacy



Capital adequacy for credit institutions

The Group's CET1 ratio was 14.3% (15.1) on 30 June 2021.

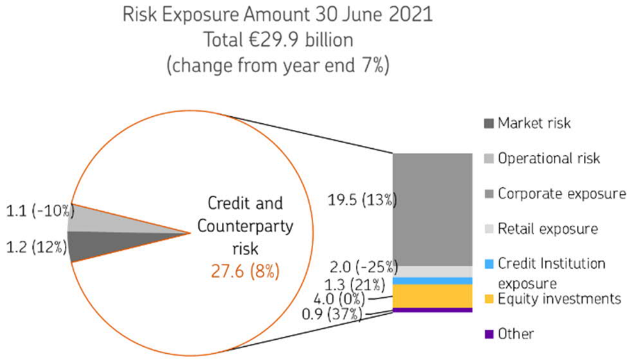
As a credit institution, the Group's consolidated capital adequacy is on a solid basis compared to the statutory requirements and those set by the authorities. The statutory minimum for the capital adequacy ratio is 8% and for the CET1 ratio 4.5%. The requirement for the capital conservation buffer of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

The CET1 capital totalled EUR 4.3 billion (4.2) on 30 June 2021. Insurance business result is not included in the CET1 capital.

On 30 June 2021, the risk exposure amount (REA) totalled EUR 29.9 billion (27.8), or 7.3% higher than on 31 December 2020. In March, the ECB set a parameter factor for corporate exposures, based on the TRIM (Targeted Review of Internal Models), which increased the risk-weighted assets of corporate exposures. Corporate exposures increased from their amount at the end of 2020. The revised Capital Requirements Directive and Regulation (CRR2) came into force in June, which increased counterparty risk associated with derivatives as anticipated. OP Corporate Bank treats insurance holdings within the financial conglomerate as risk-weighted assets, based on permission from the ECB. Equity investments include EUR 3.9 billion in risk-weighted assets of the Group's internal insurance holdings.

OP Corporate Bank Group is part of OP Financial Group, whose capital adequacy is supervised in accordance with the Act on the Supervision of Financial and Insurance Conglomerates. As part of OP Financial Group, OP Corporate Bank plc is supervised by the ECB. OP Financial Group presents capital adequacy information in its financial statements bulletin and interim and half-year financial reports in accordance with the Act on the Amalgamation of Deposit Banks. OP Financial Group also publishes Pillar III disclosures.

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.



OP Corporate Bank plans to adopt the simplified approach in the measurement of insurance companies' risk weights during the second half of 2021, which will reduce the CET1 ratio by about 0.7 percentage points. The effect will cease to exist along with the execution of the Group's restructuring.

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 extent of IRBA will not have any substantial effect on capital adequacy. The final effect will be specified after discussions with the supervisor and the approval process related to the scope of IRBA.

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 apply to OP Corporate Bank acting as a Single Point of Entry.

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 risk exposure amount and 10.12% of the leverage ratio exposures. 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 Mechanisms Regulation. The subordination requirement determines how much of the MREL must be met with own funds or with subordinated liabilities. From the beginning of 2022, the subordination requirement supplementing the MREL will account for 22% of the total risk exposure amount and for

10.11% of the leverage ratio exposure. From the beginning of 2024, the subordination requirement will account for 24% of the total risk exposure amount and for 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).

Solvency of non-life insurance company

Pohjola Insurance has a strong solvency position. 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.

	30 Jun 2021	31 Dec 2020
Capital base, € million*	1,357	1,205
Solvency capital requirement (SCR), € million*	796	762
Solvency ratio, %*	170	158
Solvency ratio, % (excl. transitional provision)	170	158

*including transitional provisions

Credit ratings

OP Corporate Bank plc's credit ratings 30 Jun 2021

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

Pohjola Insurance Ltd's financial strength ratings 30 Jun 2021

Rating agency	Financial strength rating	Outlook
Standard & Poor's	A+	Stable
Moody's	A2	Stable

OP Corporate Bank plc has credit ratings affirmed by Standard & Poor's Global Ratings Europe Limited and Moody's Investors Service (Nordics) AB. Pohjola Insurance Ltd has financial strength ratings affirmed by Standard & Poor's Credit Market Services Europe Limited and Moody's Deutschland GmbH. When assessing the companies' credit ratings, credit rating agencies take account of the entire OP Financial Group's financial standing.

Risk exposure

OP Financial Group's Risk Appetite Statement starts from the fact that the OP Financial Group assumes risks that are mainly associated with executing the Group's mission. In its risk-taking, OP Financial 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. Anticipating these risks is based on scenario work.

Operational risks remained moderate as targeted. Materialised operational risks resulted in a gross loss of EUR 1.2 million (1.2). From the operational risk perspective, the implications of the Covid-19 pandemic on OP Corporate Bank Group were mild during the reporting period.

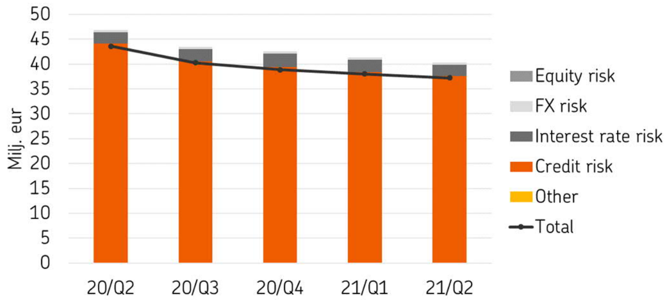
Corporate Banking

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

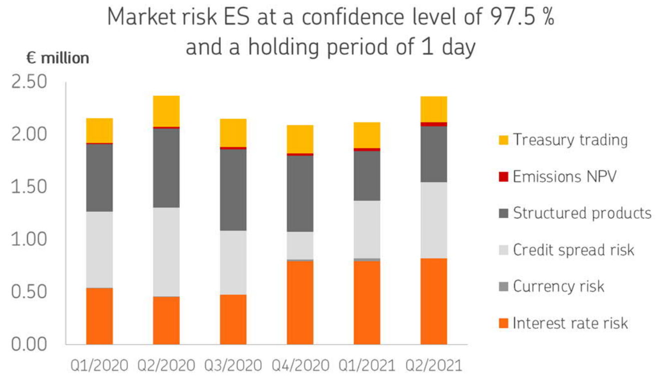
So far, the Covid-19 pandemic has not substantially weakened banking credit risk exposure, but there is still risk for a negative development if the consequences of the pandemic materialise. For the time being, however, growth in the number of customers who have got into deeper problems has remained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

The market risk level of the Corporate Banking segment'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.

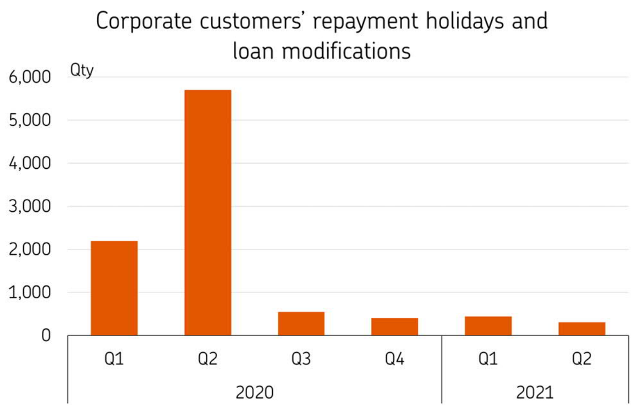


Corporate Banking's interest rate risk in the banking book measured as the effect of a one-percentage point change on a 12-month net interest income was EUR 25 million at the end of the reporting period. A rise in interest rates increases interest income risk. Interest income risk is calculated for a one-year period by dividing the sum of the interest income risk for the next three years by three.

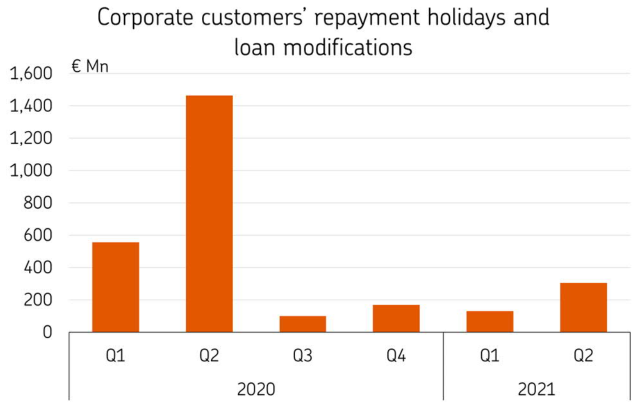
Corporate customers' repayment holidays and loan modifications

In the reporting period, OP Corporate Bank granted loan modifications and repayment holidays covering some 700 loans to corporate customers. A year ago, OP Corporate Bank granted loan modifications and repayment holidays covering some 8,000 loans to corporate customers.

In most cases, loan modifications will remain effective until the loan maturity, whereas repayment holidays are granted for a specific period of time. Repayment holidays and loan modifications granted in the second quarter of 2021 applied to exposures worth EUR 0.3 billion. 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 1.4 billion.

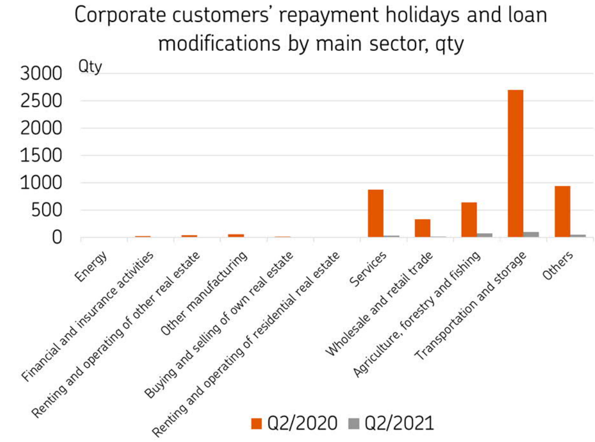


The graph shows the actual number of corporate customers' loan modifications and repayment holidays for the reporting period and by quarter in 2020.

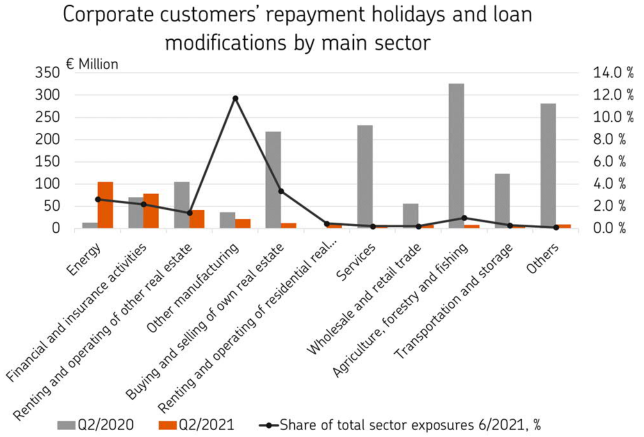


The graph shows the valid corporate customer exposures in euros for which a loan modification or a repayment holiday was implemented during each quarter. The status is presented for both the reporting period and for 2020.

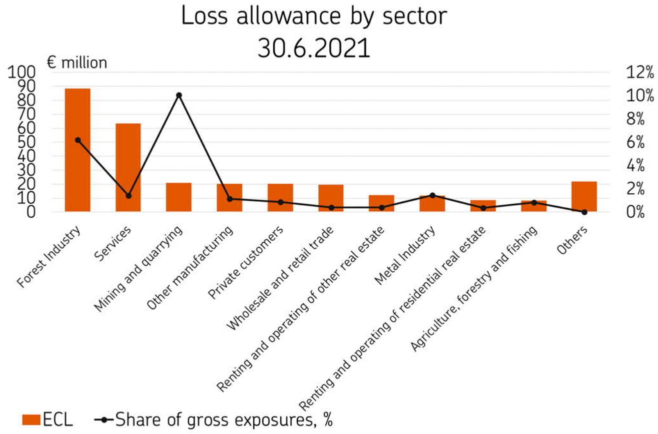
The graph shows the total amount of exposures affected by corporate customers' repayment holidays in force.



The graph shows the quantity of changes of actual corporate customer repayment holidays and loan modifications by sector for 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 2021 and 2020. The graph also shows the percentage of exposures for which a repayment holiday or loan modification was agreed during the reporting period.



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.

Forborne exposures and non-performing 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			0.13	0.13	0.13	0.13	0.09	0.08	0.05	0.05
Unlikely to be paid, € billion			0.40	0.49	0.40	0.49	0.12	0.13	0.28	0.35
Forborne exposures, € billion	0.19	0.25	0.16	0.10	0.35	0.34	0.05	0.05	0.31	0.30
Total, € billion	0.19	0.25	0.70	0.71	0.89	0.96	0.25	0.26	0.64	0.70

Ratios	30 Jun 2021	31 Dec 2020
Ratio of doubtful receivables to exposures, %	2.66	2.99
Ratio of non-performing exposures to exposures, %	2.08	2.22
Ratio of performing forborne exposures to exposures, %	0.57	0.77
Ratio of performing forborne exposures to doubtful receivables, %	21.6	25.8
Ratio of loss allowance (receivables from customers) to doubtful receivables, %	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.

On 30 June 2021, OP Corporate Bank plc had 8 (9) large customer exposures, totalling EUR 3.6 (3.9) billion. Large customer exposure refers to the amount of exposure of an individual group of connected clients which, after allowances and other techniques applied to mitigate credit risks, exceeds 10% of the capital base covering customer risk. As of June 2021, own funds covering customer exposure means Tier 1 capital under CRR II. Comparative information has been adjusted accordingly.

Exposures by the Baltic Banking were EUR 3.6 billion (3.6), accounting for 9.4% (9.2) of total banking exposures of the Corporate Banking segment.

Insurance

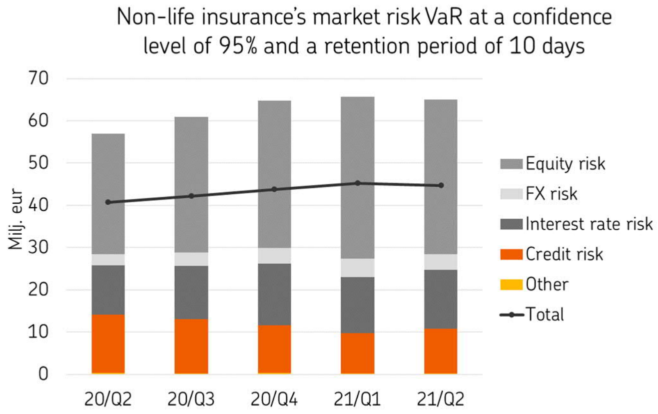
Major risks within non-life insurance include underwriting risks associated with claims developments, market risks associated with investments covering insurance liabilities, a faster-than-expected increase in life expectancy of the beneficiaries related to insurance liability for annuities, interest 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. 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 the non-life insurance business division 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 interest rate risk associated with insurance liabilities. Data from the reference years have been adjusted to correspond to the current monitoring.



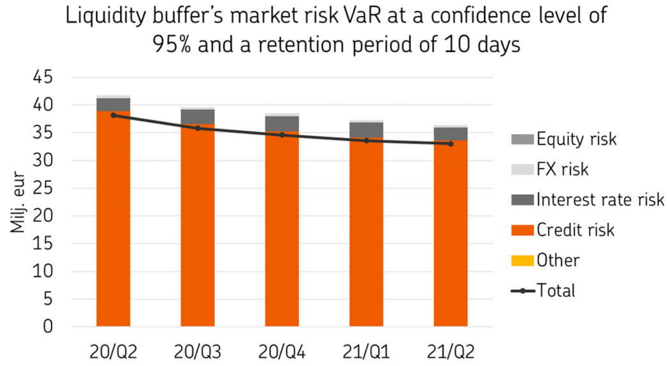
Other Operations

Major risks related to the Other Operations segment 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 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 OP Corporate Bank has been able to implement market-based financing operations as planned. OP Financial Group's and OP Corporate Bank's liquidity and capital are sufficient to secure business continuity.

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

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 maintained by OP Corporate Bank and consisting mainly of deposits with central banks and receivables eligible as collateral for central bank refinancing. The liquidity buffer is sufficient to cover the need for short-term funding for known and predictable payment flows and in a liquidity stress scenario.

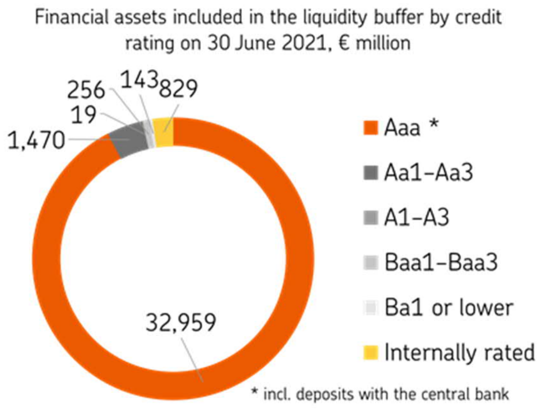
OP Financial Group monitors its liquidity and the adequacy of its liquidity buffer using, for example, the LCR (Liquidity Coverage Ratio). According to regulation, the LCR must be at least 100%. OP Financial Group's LCR was 229% (218) at the end of the reporting period.

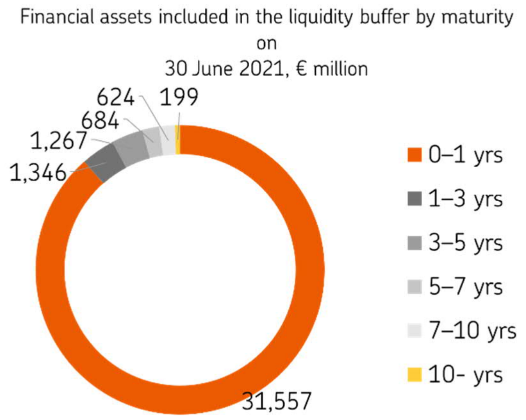
OP Financial Group monitors its long-term funding sufficiency, for example, by means of the Net Stable Funding Ratio (NSFR), which measures structural funding risk. In regulation, a minimum requirement of 100% has been set for the NSFR as of 30 June 2021. OP Financial Group's NSFR was 132% (123) at the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





For OP Corporate Bank plc acting as OP Financial Group's central financial institution, OP cooperative banks and OP Cooperative with its subsidiaries form a significant customer group. Of the aggregated exposures of the segments Other Operations and Corporate Banking, exposures of OP Financial Group entities represented 20.3%. These exposures increased during the year by EUR 4.6 billion. All exposures of OP cooperative banks and OP Cooperative are investment-grade exposures.

Financial performance by segment

OP Corporate Bank Group's business segments are Corporate Banking and Insurance. Non-business segment operations are presented in the Other Operations segment. Segment reporting is based on the accounting policies applied in OP Corporate Bank's consolidated financial statements.

Corporate Banking

- Earnings before tax improved to EUR 219 million (89).
- Total income increased by 23.1% to EUR 348 million. Net interest income increased by 0.5% to EUR 203 million. Net investment income increased significantly to EUR 94 million (59). Value changes in Credit Valuation Adjustment (CVA) in derivatives owing to market changes improved earnings by EUR 15 million (–21).
- Total expenses increased by 12.4% to EUR 141 million (125). The EU stability contribution represented EUR 5 million of the increase.
- The loan portfolio decreased in the year to June by 1.3% to EUR 24.4 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 development of finance and payment systems.

Key figures and ratios

€ million	H1/2021	H1/2020	Change, %	Q1–4/2020
Net interest income	203	202	0.5	395
Net commissions and fees	29	11	160.0	36
Net investment income	94	59	60.3	140
Other operating income	21	10	106.2	16
Total income	348	282	23.1	587
Personnel costs	36	30	19.6	62
Depreciation/amortisation and impairment loss	6	7	-14.5	12
Other operating expenses	99	89	12.0	156
Total expenses	141	125	12.4	231
Impairment loss on receivables	12	-68	-	-53
OP bonuses to owner-customers	-	-1	-	-2
Earnings before tax	219	89	147.2	301
Cost/income ratio, %	40.4	44.3	-3.85*	39.3
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, %	-0.09	0.49	-0.57*	0.20
Return on assets (ROA), %	1.43	0.57	0.86*	1.03
Return on assets, excluding OP bonuses, %	1.43	0.58	0.86*	0.98
	30 Jun 2021	30 Jun 2020	Change, %	31 Dec 2020
Loan portfolio, € billion	24.4	24.7	-1.3	24.0
Guarantee portfolio, € billion	2.9	3.1	-7.7	2.6
Other exposures, € billion	5.7	5.3	7.9	5.4
Deposits, € billion	13.8	13.6	1.4	13.1

*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 Forborne exposures and non-performing exposures in the Risk exposure section of this Half-year Financial Report.

The Corporate Banking segment provides corporate and institutional customers with financing and liquidity management services and financing services for foreign trade. The services also range from the arrangement of debt issues, corporate finance services, custody, equity, foreign exchange, money market, derivative products and asset and sales finance solutions to investment research. OP Corporate Bank's branches and subsidiaries in Estonia, Latvia and Lithuania provide asset and sales finance solutions.

Corporate Banking's loan portfolio decreased in the year to June by 1.3% to EUR 24.4 billion. The guarantee portfolio totalled EUR 2.9 billion (3.1) and committed standby credit facilities amounted to EUR 4.3 billion (3.9). Total income increased on a wide front by a total of 23.1% from the level a year ago.

The most significant Corporate Banking development investments involved the upgrades of payment and finance systems. The upgrade of core payment systems and improvement of digital services will continue further.

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.

Financial performance for the reporting period

Earnings before tax improved to EUR 219 million (89). Total income increased by 23.1%. Total expenses increased by 12.4%. The cost/income ratio improved to 40.4% (44.3) year on year.

Net interest income increased by 0.5% to EUR 203 million (202). The loan portfolio decreased by 1.3%. Net commissions and fees increased to EUR 29 million (11). Net commissions and fees increased on an extensive basis.

Net investment income increased to EUR 94 million (59) as a result of higher income from derivatives business. 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.

Other operating income amounted to EUR 21 million (10). 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 Covid-19 related changes in the macroeconomic parameters used in the calculation of expected credit losses and the weakening of individual customers' creditworthiness increased the impairment loss on receivables. Final net loan losses recognised for the reporting period totalled EUR 5 million (6). Non-performing exposures (gross) accounted for 2.1% (2.2) of the exposures.

Total expenses were EUR 141 million (125). Personnel costs rose by 19.6% to EUR 36 million due to higher provisions for performance-based bonuses. Other operating expenses increased by 12.0% to EUR 99 million (89). ICT costs were at the same level as a year ago. The EU stability contribution increased by EUR 5 million to EUR 24.4 million.

Insurance

- Earnings before tax improved to EUR 158 million (86). Net insurance income improved as claims incurred decreased. Capital gains improved investment income.
- Insurance premium revenue rose by 1.6% to EUR 752 million and claims incurred decreased by 4.4% to EUR 432 million.
- Investment income totalled EUR 60 million (13), including the overlay approach. Net return on investments at fair value totalled EUR 134 million (–60).
- The 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).
- 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
Insurance premium revenue	752	740	1.6	1,506
Claims incurred	432	451	-4.4	951
Net insurance income	320	288	11.0	556
Non-life insurance, net commissions and fees	-17	-18	-	-36
Health and wellbeing, net commissions and fees	4	4	14.9	8
Net commissions and fees	-13	-15	-	-28
Net investment income	101	-36	-	80
Other net income	-1	-1	11.8	1
Total income	408	237	72.3	609
Personnel costs	76	66	13.8	46
Depreciation/amortisation and impairment loss	19	16	17.7	39
Other operating expenses	113	116	-2.7	229
Total expenses	207	198	4.5	313
OP bonuses to owner-customers	-1	-1	3.8	-2
Overlay approach	-41	49	-184.4	-5
Earnings before tax	158	86	83.2	288
Return on assets (ROA), %	4.41	2.43	1.98*	4.07
Return on assets, excluding OP bonuses, %	4.44	2.46	1.98*	4.10
Operating combined ratio, %	86.2	89.3		87.8
Operating risk ratio, %	58.6	62.0		61.1
Operating cost ratio, %	27.6	27.3		26.6

*Change in ratio

The Insurance segment comprises non-life insurance plus the health and wellbeing business. Non-life insurance products include non-life products sold to corporate and personal customers. The segment consists of Pohjola Insurance Ltd and Pohjola Hospital Ltd with five hospitals.

Pohjola Insurance will in future focus on non-life insurance and sell Pohjola Hospital. Pohjola Insurance Ltd will sell the entire share capital of Pohjola Hospital Ltd to Pihlajalinna Terveys Oy, part of Pihlajalinna Group. 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.

Key development investments focused on the development of electronic transaction and purchase services and the non-life insurance core system upgrade. 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.

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

Financial performance for the reporting period

Earnings before tax improved to EUR 158 million (86) as the balance on technical account and net investment income improved. Net insurance income increased to EUR 320 million (288). 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.

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 rose by 1.0%. A fall in occupational accident and occupational disease insurance premium revenue continued to slow down growth.

Claims incurred decreased by 4.4%. 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 the provision for outstanding claims under statutory pensions improved earnings by EUR 7 million during the reporting period while improving them by EUR 10 million a year ago.

Changes in claims for previous years, excluding the effect of the discount rate change, 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).

Total expenses increased by 4.5%, being EUR 9 million higher than a year ago. 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). The operating ratios exclude the changed discount rate.

Investment

Investment income

€ million	H1/2021	H1/2020
At fair value through other comprehensive income	16	9
At fair value through profit or loss	89	-34
Amortised cost	1	-2
Non-life insurance items	-9	-11
Associated companies	4	1
Net investment income	101	-36
Overlay approach	-41	49
Total	60	13

Investment income totalled EUR 60 million (13), including the overlay approach. Capital gains on investments reported by non-life insurance totalled EUR 41 million (11).

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.

Other Operations

- Earnings before tax totalled EUR –69 million (–36).
- The EBT included EUR 3 million (1) in capital gains on notes and bonds.
- Liquidity remained strong.

Key figures and ratios

€ million	H1/2021	H1/2020	Change, %	Q1–4/2020
Net interest income	-46	-32	-	-59
Net commissions and fees	-2	-1	-	-2
Net investment income	1	2	-17.7	10
Other operating income	9	6	35.0	15
Total income	-37	-25	-	-37
Personnel costs	2	2	11.0	3
Other expenses	30	10	217.0	19
Total expenses	32	11	184.4	22
Impairment loss on receivables	0	1	-67.0	1
Earnings before tax	-69	-36	-	-58
Receivables and liabilities from/to the amalgamation's central cooperative and member credit institutions, net position, € billion	-13.9	-8.1	-	-10.7

Functions supporting OP Financial Group, such as Group Treasury, are centralised within Other Operations. Group Treasury is responsible for the management of the funding and liquidity of member credit institutions and the central cooperative consolidated. It is also in charge of OP Financial Group's wholesale funding together with OP Mortgage Bank. Income generated by Other Operations derives mainly from net interest income and net investment income. The most significant risk categories are market risks and credit risk. In addition, income, expenses, investments and capital which have not been allocated to the business segments are reported under Other Operations.

Financial performance for the reporting period

Other Operations earnings before tax amounted to EUR –69 million (–36). Earnings before tax at fair value were EUR –72 million (–57). Widening credit spreads caused by the Covid-19 crisis reduced the fair value reserve a year ago.

Net interest income was EUR –46 million (–32). Net interest income was weakened by the Tier 2 bonds issued and by senior non-preferred bonds issued, according to the funding plan, whose credit spread is higher than that 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.

Expenses for the reporting period were increased by the transmission within OP Financial Group of the margin exceeding the ECB's deposit facility rate based on the TLTRO programme launched in 2021.

Net investment income totalled EUR 1 million (2). Net investment income included EUR 3 million (1) in capital gains on notes and bonds.

In June 2021, the average margin of senior and senior non-preferred wholesale funding and TLTRO funding was 20 basis points (20). The cost is lowered by TLTRO funding.

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 Corporate Bank issued long-term bonds worth EUR 2.0 billion.

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. OP Financial Group has assessed that TLTRO III funding fulfils the terms of market-based financing and is treated according to IFRS 9.

On 30 June 2021, investments by the amalgamation's central cooperative and the member credit institutions in OP Corporate Bank were EUR 13.9 billion higher than funding borrowed by them from Group Treasury. This increase in the amount was affected by liquidity deposits made by member credit institutions at OP Corporate Bank and a year-on-year increase in the amount of OP Mortgage Bank's covered bonds that has partly been channelled to Group Treasury as investments.

The Group's funding position and liquidity are strong.

On 12 April 2021, OP Corporate Bank redeemed a perpetual subordinated loan worth EUR 50 million that it issued in March 2005.

OP Corporate Bank has announced that it will on 30 August 2021 redeem a perpetual subordinated loan worth EUR 40 million that it issued in November 2005.

Service development

OP Corporate Bank invests in developing its operations and improving customer experience on an ongoing basis. ICT investments make up a significant portion of the costs of developing these services.

ICT costs of OP Corporate Bank's service development and production maintenance totalled EUR 109 million (108). These include licence fees, purchased services, other external costs related to projects and inhouse work. Total development costs rose by EUR 1 million to EUR 39 million. The capitalised development expenditure totalled EUR 19 million (20).

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.

More detailed information on OP Corporate Bank's investments can be found in each business segment's section in this Half-year Financial Report.

Group restructuring

On 10 February 2021, OP Corporate Bank plc and its Baltic subsidiaries OP Finance AS (Estonia), OP Finance SIA (Latvia) and AB OP Finance (Lithuania) signed 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.

After the reporting period 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 arrangement will improve OP Corporate Bank plc's CET1 ratio by approximately 2 percentage points. Following the arrangement, the non-life insurance business will no longer be included in OP Corporate Bank plc's financial reports. After the partial demerger, OP Corporate Bank plc will be engaged in corporate banking and central bank business.

Pohjola Insurance Ltd, OP Corporate Bank plc's subsidiary, 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 will sign 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.

Personnel and remuneration

On 30 June 2021, the Group had 3,292 employees (2,916). In the second quarter, the recruitment of summer employees mainly increased personnel.

Personnel at period end

	30 Jun 2021	31 Dec 2020
Corporate Banking	830	741
Insurance	2,418	2,136
Other Operations	44	39
Total	3,292	2,916

Variable remuneration applied by OP Financial Group and OP Corporate Bank 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 Corporate Bank's Report by the Board of Directors and Financial Statements 2020.

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 risk in inflation in the longer term would worsen the economic outlook. It would weaken consumer purchasing power and would suggest problems in recovery and in the success of the economic policy.

A sudden worsening of the pandemic would affect OP Corporate Bank in three ways: economic uncertainty and uncertainty in the financial and capital markets 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 Corporate Bank to run its operations efficiently.

The most significant uncertainties affecting earnings performance due to the Covid-19 crisis relate to changes in the interest rate and investment environment and to the developments in impairment losses. In addition, future earnings performance will be affected by the market growth rate, change in the competitive situation and the effect of large claims on claims expenditure.

Full-year earnings estimates for 2021 will only be provided at the OP Financial Group level, in its financial statements bulletin and interim and half-year financial reports.

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 of the future development in the business environment and the future financial performance of OP Corporate Bank Group and its various functions, and actual results may differ materially from those expressed in the forward-looking statements.

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), %	Financial performance for the reporting period x (days of financial year/days of reporting period) / Equity capital (average at beginning and end of period)	x 100
Return on equity (ROE) excluding OP bonuses, %	(Financial performance for the reporting period + OP bonuses after tax) x (days of financial year/days of reporting period) / Equity capital (average at beginning and end of period)	x 100
Return on assets (ROA), %	Financial performance for the reporting period x (days of financial year/days of reporting period) / Average balance sheet total (average at beginning and end of period)	x 100
Return on assets (ROA) excluding OP bonuses, %	(Financial performance for the reporting period + OP bonuses after tax) x (days of financial year/days of reporting period) / Average balance sheet total (average at beginning and end of period)	x 100
Cost/income ratio, %	Total expenses / Total income	x 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, %	Impairment loss on receivables x (days of financial year/days of reporting period) / Loan and guarantee portfolio at period end	x 100
Deposits	Deposits included in balance sheet item Liabilities to customers	
Coverage ratio, %	Loss allowance / Receivables from customers (on-balance-sheet and off-balance-sheet items)	x 100
Default capture rate, %	New defaulted contracts in stage 2 a year ago / New defaulted contracts during the period	x 100

Non-life insurance key ratios:

Operating loss ratio, %	Claims incurred, excl. changes in reserving bases and amortisation on intangible assets arising from company acquisitions / Insurance premium revenue, excl. net changes in reserving bases	x 100
Operating expense ratio, %	Operating expenses / Insurance premium revenue, excl. net changes in reserving bases	x 100
Operating combined ratio, %	Operating loss ratio + operating expense ratio Operating risk ratio + operating cost ratio	
Operating risk ratio (excl. unwinding of discount), %	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

Key indicators based on a separate calculation

Capital adequacy ratio, %	$\frac{\text{Total capital}}{\text{Total risk exposure amount}} \times 100$
Tier 1 ratio, %	$\frac{\text{Total Tier 1 capital}}{\text{Total risk exposure amount}} \times 100$
CET1 ratio, %	$\frac{\text{CET1 capital}}{\text{Total risk exposure amount}} \times 100$
Solvency ratio, %	$\frac{\text{Capital base}}{\text{Solvency capital requirement (SCR)}} \times 100$
Leverage ratio, %	$\frac{\text{Tier 1 capital (T1)}}{\text{Exposure amount}} \times 100$
Liquidity coverage requirement (LCR), %	$\frac{\text{Liquid assets}}{\text{Liquidity outflows – liquidity inflows under stressed conditions}} \times 100$
Net stable funding ratio (NSFR), %	$\frac{\text{Available stable funding}}{\text{Required stable funding}} \times 100$
Capital adequacy ratio under the Act on the Supervision of Financial and Insurance Conglomerates*	$\frac{\text{Conglomerate's total capital base}}{\text{Conglomerate's total minimum capital requirement}} \times 100$
Ratio of non-performing exposures to exposures, %	$\frac{\text{Non-performing exposures (gross)**}}{\text{Exposures at period end}} \times 100$
Ratio of doubtful receivables to exposures, %	$\frac{\text{Doubtful receivables (gross)***}}{\text{Exposures at period end}} \times 100$
Ratio of performing forborne exposures to exposures, %	$\frac{\text{Performing forborne exposures (gross)***}}{\text{Exposures at period end}} \times 100$
Ratio of performing forborne exposures to doubtful receivables, %	$\frac{\text{Performing forborne exposures (gross)***}}{\text{Doubtful receivables at period end}} \times 100$
Ratio of loss allowance (receivables from customers) to doubtful receivables, %	$\frac{\text{Loss allowance for receivables from customers in the balance sheet}}{\text{Doubtful receivables at period end}} \times 100$
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 Corporate Bank Group's equity	5,065	4,796
The effect of insurance companies on the Group's equity is excluded	-547	-407
Fair value reserve, cash flow hedge	0	-2
Common Equity Tier 1 (CET1) before deductions	4,517	4,388
Intangible assets	-33	-40
Excess funding of pension liability and valuation adjustments	-32	-28
Planned profit distribution		
Shortfall of ECL minus expected losses	-178	-125
Insufficient coverage for non-performing exposures	0	
CET1 capital	4,274	4,195
Hybrid capital to which transitional provision is applied		55
Additional Tier 1 capital (AT1)		55
Tier 1 capital (T1)	4,274	4,249
Debenture loans	1,308	1,602
Debentures to which transitional provision is applied	212	
Tier 2 capital (T2)	1,519	1,602
Total capital	5,794	5,852

Risk exposure amount, € million	30 Jun 2021	31 Dec 2020
Credit and counterparty risk	27,151	25,414
Standardised Approach (SA)	3,045	2,943
Central government and central banks exposure	74	78
Credit institution exposure	2	9
Corporate exposure	2,937	2,796
Retail exposure	1	0
Equity investments		11
Other	32	49
Internal Ratings-based Approach (IRB)	24,106	22,361
Credit institution exposure	1,254	1,029
Corporate exposure	16,518	14,455
Retail exposure	1,990	2,646
Equity investments	3,958	3,934
Other	385	406
Market and settlement risk (Standardised Approach)	1,232	1,096
Operational risk (Standardised Approach)	1,066	1,190
Valuation adjustment (CVA)	429	138
Total risk exposure amount	29,878	27,838

Ratios, %	30 Jun 2021	31 Dec 2020
CET1 capital ratio	14.3	15.1
Tier 1 ratio	14.3	15.3
Capital adequacy ratio	19.4	21.0

Ratios, fully loaded, %	30 Jun 2021	31 Dec 2020
CET1 capital ratio	14.3	15.1
Tier 1 ratio	14.3	15.1
Capital adequacy ratio	18.7	20.8

Capital requirement, EUR million	30 Jun 2021	31 Dec 2020
Capital base	5,794	5,852
Capital requirement	3,140	2,925
Buffer for capital requirements	2,654	2,927

The capital requirement comprises the minimum requirement of 8%, the capital conservation buffer of 2.5% and the changing capital conservation buffers by country for foreign exposures.

TABLES

Income statement

EUR million	Notes	Q1–2 2021	Q1–2 2020	Q2 2021	Q2 2020
Net interest income	2	153	165	76	84
Net insurance income	3	320	288	162	157
Net commissions and fees	4	14	-5	3	-6
Net investment income	5	198	25	87	82
Other operating income		17	15	7	5
Total income		**702**	**488**	**335**	**322**
Personnel costs		113	98	58	49
Depreciation/amortisation		26	24	13	12
Other expenses	6	224	208	100	99
Total expenses		**363**	**330**	**172**	**159**
Impairments loss on receivables	7	12	-67	10	-18
OP bonuses to owner-customers		-1	-2	-1	-1
Temporary exemption (overlay approach)		-41	49	-17	-32
Earnings before tax		**308**	**138**	**156**	**111**
Income tax expense		61	26	31	21
Profit for the period		**246**	**112**	**125**	**90**
Attributable to:					
Profit for the period attributable to owners of the Parent		248	112	125	91
Profit for the period attributable to non-controlling interest		-1	1	0	-1
Total		**246**	**112**	**125**	**90**

Statement of comprehensive income

EUR million	Notes	Q1–2 2021	Q1–2 2020	Q2 2021	Q2 2020
Profit for the period		**246**	**112**	**125**	**90**
Items that will not be reclassified to profit or loss					
Gains/(losses) arising from remeasurement of defined benefit plans		1	-6	2	-30
Items that may be reclassified to profit or loss					
Change in fair value reserve					
Measurement at fair value		-16	-53	5	140
Cash flow hedge		-2	3	1	-5
Temporary exemption (overlay approach)		41	-45	17	36
Income tax					
Items that will not be reclassified to profit or loss					
Gains/(losses) arising from remeasurement of defined benefit plans		0	1	0	-4
Items that may be reclassified to profit or loss					
Measurement at fair value		3	11	-1	-28
Cash flow hedge		0	-1	0	1
Temporary exemption (overlay approach)		-8	9	-3	-7
Total comprehensive income for the period		**266**	**32**	**145**	**192**
Attributable to:					
Total comprehensive income for the period attributable to owners of the Parent		267	31	145	193
Total comprehensive income for the period attributable to non-controlling interests		-1	1	0	-1
Total comprehensive income for the period		**266**	**32**	**145**	**192**

Balance sheet

EUR million	Notes	30 June 2021	31 Dec 2020
Cash and cash equivalents		31,144	21,764
Receivables from credit institutions		13,109	11,252
Derivative contracts	15	3,993	5,370
Receivables from customers		24,894	24,485
Investment assets		21,653	18,433
Intangible assets		713	706
Property, plant and equipment (PPE)		23	136
Other assets		1,880	1,812
Tax assets		47	33
Non-current assets held for sale		7	
Total assets		**97,463**	**83,991**
Liabilities to credit institutions		43,054	28,888
Derivative contracts		2,972	4,265
Liabilities to customers		16,118	15,894
Insurance liabilities	8	3,562	3,326
Debt securities issued to the public	9	21,691	21,903
Provisions and other liabilities		2,109	1,982
Tax liabilities		512	492
Subordinated liabilities		2,373	2,444
Liabilities associated with non-current assets held for sale		7	
Total liabilities		**92,398**	**79,194**
Equity capital			
Capital and reserves attributable to owners of the parent			
Share capital		428	428
Fair value reserve	10	143	125
Other reserves		1,093	1,093
Retained earnings		3,357	3,108
Non-controlling interests		**45**	**44**
Total equity capital		**5,065**	**4,797**
Total liabilities and equity capital		**97,463**	**83,991**

Statement of changes in equity

	Attributable to owners						
EUR million	**Share capital**	**Fair value reserve**	**Other reserves**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity capital**
Balance at 1 January 2020	428	70	1,093	2,710	4,299	74	4,374
Total comprehensive income for the period		-76		107	31	1	32
Profit for the period				112	112	1	112
Other comprehensive income		-76		-4	-80		-80
Profit distribution						-1	-1
Other				0	0	-17	-18
Balance at 30 June 2020	428	-6	1,093	2,816	4,330	57	4,387

	Attributable to owners						
EUR million	**Share capital**	**Fair value reserve**	**Other reserves**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity capital**
Balance at 1 January 2021	428	125	1,093	3,108	4,753	44	4,797
Total comprehensive income for the period		18		249	267	- 1	266
Profit for the period				248	248	- 1	246
Other comprehensive income		18		1	19		19
Other						2	2
Balance at 30 June 2021	428	143	1,093	3,357	5,020	45	5,065

Cash flow statement

EUR million	Q1–2 2021	Q1–2 2020
Cash flow from operating activities		
Profit for the period	246	112
Adjustments to profit for the period	536	-20
Increase (-) or decrease (+) in operating assets	**-5,486**	**-4,596**
Receivables from credit institutions	-1,738	-876
Derivative contracts	-15	-79
Receivables from customers	-420	-1,354
Investment assets	-3,246	-1,550
Other assets	-68	-737
Increase (+) or decrease (-) in operating liabilities	**14,672**	**11,892**
Liabilities to credit institutions	14,276	10,047
Derivative contracts	-57	-287
Liabilities to customers	224	1,759
Insurance liabilities	43	58
Provisions and other liabilities	185	315
Income tax paid	-60	-37
Dividends received	17	11
A. Net cash from operating activities	**9,926**	**7,362**
Cash flow from investing activities		
Acquisition of subsidiaries, net of cash acquired	0	0
Purchase of PPE and intangible assets	-19	-1
Proceeds from sale of PPE and intangible assets	0	0
B. Net cash used in investing activities	**-19**	**-1**
Cash flow from financing activities		
Subordinated liabilities, change	-56	1,301
Debt securities issued to the public, change	-150	-247
Increases in share capital		4
Dividends paid	0	0
Lease liabilities	-3	-3
C. Net cash used in financing activities	**-209**	**1,056**
Net change in cash and cash equivalents (A+B+C)	**9,699**	**8,417**
Cash and cash equivalents at period-start	21,846	12,902
Effect of foreign exchange rate changes	-199	657
Cash and cash equivalents at period-end	31,345	21,976
Interest received	379	509
Interest paid	-303	-380
Cash and cash equivalents		
Liquid assets	31,144	21,883
Receivables from credit institutions payable on demand	201	93
Total	**31,345**	**21,976**

Segment reporting

Segment information

Q1–2 earnings 2021, EUR million	Corporate Banking	Insurance	Other operations	Group eliminations	Group total
Net interest income	203	-3	-46	-1	153
of which internal net income before tax	-2		2		
Net insurance income		320		-1	320
Net commissions and fees	29	-13	-2	-1	14
Net investment income	94	101	1	2	198
Other operating income	21	2	9	-15	17
Total income	**348**	**408**	**-37**	**-17**	**702**
Personnel costs	36	76	2		113
Depreciation/amortisation	6	19	1		26
Other operating expenses	99	113	30	-17	224
Total expenses	**141**	**207**	**32**	**-17**	**363**
Impairments loss on receivables	12	0	0		12
OP bonuses to owner-customers		-1			-1
Temporary exemption (overlay approach)		-41			-41
Earnings before tax	**219**	**158**	**-69**	**0**	**308**

Q1–2 earnings 2020, EUR million	Corporate Banking	Insurance	Other operations	Group eliminations	Group total
Net interest income	202	-3	-32	-2	165
of which internal net income before tax	-6	0	0	6	
Net insurance income	0	288	0	0	288
Net commissions and fees	11	-15	-1	0	-5
Net investment income	59	-36	2	1	25
Other operating income	10	2	6	-4	15
Total income	**282**	**237**	**-25**	**-6**	**488**
Personnel costs	30	66	2	0	98
Depreciation/amortisation	7	16	1	0	24
Other operating expenses	89	116	9	-5	208
Total expenses	**125**	**198**	**11**	**-5**	**330**
Impairments loss on receivables	-68	0	1	0	-67
OP bonuses to owner-customers	-1	-1	0	0	-2
Temporary exemption (overlay approach)	0	49	0	0	49
Earnings before tax	**89**	**86**	**-36**	**-1**	**138**

Balance sheet 30 June 2021, EUR million	Corporate Banking	Insurance	Other operations	Group eliminations	Group total
Cash and cash equivalents	172		30,972		31,144
Receivables from credit institutions	204	822	12,924	-841	13,109
Derivative contracts	3,696	2	299	-5	3,993
Receivables from customers	25,136		487	-728	24,894
Investment assets	542	3,763	17,366	-18	21,653
Intangible assets	28	668	17		713
Property, plant and equipment (PPE)	4	18	1		23
Other assets	597	919	370	-6	1,880
Tax assets	0	20	27	0	47
Non-current assets held for sale		7			7
Total assets	**30,380**	**6,218**	**62,463**	**-1,598**	**97,463**
Liabilities to credit institutions	606		43,169	-721	43,054
Derivative contracts	2,861	8	109	-6	2,972
Liabilities to customers	13,794	136	3,029	-841	16,118
Insurance liabilities		3,562			3,562
Debt securities issued to the public	1,157		20,561	-27	21,691
Provisions and other liabilities	953	357	811	-12	2,109
Tax liabilities	1	112	398	2	512
Subordinated liabilities	0	135	2,238		2,373
Liabilities associated with non-current assets held for sale		7			7
Total liabilities	**19,372**	**4,316**	**70,315**	**-1,604**	**92,398**
Equity					**5,065**

Balance sheet 31 December 2020, EUR million	Corporate Banking	Insurance	Other operations	Group eliminations	Group total
Cash and cash equivalents	224	0	21,540		21,764
Receivables from credit institutions	97	620	11,180	-645	11,252
Derivative contracts	5,144	25	209	-8	5,370
Receivables from customers	24,701	0	482	-699	24,485
Investment assets	491	3,667	14,303	-28	18,433
Intangible assets	35	654	18	0	706
Property, plant and equipment (PPE)	4	130	1	0	136
Other assets	559	719	545	-11	1,812
Tax assets	0	6	27	0	33
Total assets	**31,254**	**5,821**	**48,305**	**-1,390**	**83,991**
Liabilities to credit institutions	564		29,014	-690	28,888
Derivative contracts	4,082	1	192	-10	4,265
Liabilities to customers	13,182	136	3,221	-645	15,894
Insurance liabilities		3,326		0	3,326
Debt securities issued to the public	855		21,076	-28	21,903
Provisions and other liabilities	746	333	919	-16	1,982
Tax liabilities	2	104	386	0	492
Subordinated liabilities	0	135	2,309		2,444
Total liabilities	**19,431**	**4,035**	**57,116**	**-1,388**	**79,194**
Equity					**4,797**

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. Debt securities issued to the public
10. Fair value reserve after income tax
11. Collateral given
12. Classification of financial assets and liabilities
13. Recurring fair value measurements by valuation technique
14. Off-balance-sheet commitments
15. Derivative contracts
16. Investment distribution of the Insurance segment
17. 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 Corporate Bank 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 Corporate Bank 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 Corporate Bank classified Pohjola Hospital for the 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 Corporate Bank 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	21	11	11	7
Negative interest	47	8	28	6
Total	68	19	39	12
Receivables from customers				
Loans	176	180	88	92
Finance lease receivables	18	18	9	9
Impaired loans and other commitments		0		0
Negative interest	16	11	9	6
Total	210	210	106	107
Notes and bonds				
Measured at fair value through profit or loss	0	0	0	0
At fair value through other comprehensive income	26	33	13	16
Amortised cost	-2	0	-2	0
Total	24	33	11	16
Derivative contracts				
Fair value hedge	-54	-48	-27	-22
Cash flow hedge	0		0	
Other	3	2	1	1
Total	-51	-45	-26	-21
Other	3	4	2	2
Total	**254**	**221**	**132**	**116**
Interest expenses				
Liabilities to credit institutions				
Interest	33	39	16	20
Negative interest	83	36	46	20
Total	116	75	62	41
Liabilities to customers	-2	8	-1	4
Notes and bonds issued to the public	47	87	22	43
Subordinated liabilities				
Subordinated loans	2	2	1	1
Other	32	24	16	13
Total	34	26	17	14
Derivative contracts				
Cash flow hedge	-81	-83	-40	-39
Other	-19	-60	-9	-29
Total	-100	-142	-49	-68
Other	2	2	1	1
Total	**96**	**57**	**52**	**35**
Net interest income before fair value adjustment under hedge accounting	157	164	80	81
Hedging derivatives	-56	17	-5	3
Value changes of hedged items	51	-16	1	-1
Total	**153**	**165**	**76**	**84**

Note 3. Net insurance income

EUR million	Q1–2 2021	Q1–2 2020	Q2 2021	Q2 2020
Net insurance premium revenue				
Premiums written	986	955	301	294
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	751	739	381	372
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
Total	**320**	**288**	**162**	**157**

Note 4. Net commissions and fees

Q1–2 2021, EUR million	Corporate Banking	Insurance	Other operations	Group eliminations	Group total	Q2 2021
Commission income						
Lending	24		0	-1	24	12
Deposits	2		0	0	2	1
Payment transfers	17		0	-1	16	9
Securities brokerage	16				16	7
Securities issuance	5				5	2
Mutual funds	0		0		0	0
Asset management	8		0	0	8	4
Legal services	0				0	0
Guarantees	7		0	0	7	3
Insurance operations		9			9	5
Health and wellbeing services		6		0	6	3
Other	2		0	0	2	1
Total	**80**	**15**	**0**	**-2**	**93**	**46**
Commission expenses						
Lending	0		0		1	0
Payment transfers	2	1	0	-1	2	1
Securities brokerage	2		0		2	1
Securities issuance	1		0		2	1
Mutual funds		0			0	0
Asset management	2	0	1		3	1
Guarantees	0				0	0
Insurance operations		25			25	14
Health and wellbeing services		2		0	2	1
Other*	43	0	0	0	43	23
Total	**51**	**28**	**2**	**-1**	**80**	**43**
Total net commissions and fees	**29**	**-13**	**-2**	**-1**	**14**	**3**

* The item includes EUR 42 million in commission expenses paid to member banks arising from derivatives trading. In April–June, commissions paid totalled EUR 23 million.

Q1–2 2020, EUR million	Corporate Banking	Insurance	Other operations	Group eliminations	Group total	Q2 2020
Commission income						
Lending	23		0	-1	22	11
Deposits	1		0	0	1	1
Payment transfers	12		0	-1	12	6
Securities brokerage	15				15	6
Securities issuance	4		0	0	4	3
Mutual funds	0		0		0	0
Asset management	7			0	7	4
Legal services	0				0	0
Guarantees	6		0	0	6	3
Insurance operations		6			6	3
Health and wellbeing services		6		0	6	3
Other	3		0	0	3	2
Total	**71**	**12**	**0**	**-1**	**82**	**41**
Commission expenses						
Lending	0		0	1	1	1
Payment transfers	1	1	0	0	1	0
Securities brokerage	2		0	0	2	1
Securities issuance	1		0		1	1
Asset management	2	0	1		2	1
Guarantees				-1	-1	-1
Insurance operations		24		0	24	10
Health and wellbeing services		2		0	2	1
Other*	54	0	0	0	54	33
Total	**60**	**27**	**1**	**-1**	**87**	**47**
Total net commissions and fees	**11**	**-15**	**-1**	**0**	**-5**	**-6**

* The item includes EUR 50 million in commission expenses paid to member banks arising from derivatives trading. In April–June, commissions paid totalled EUR 30 million.

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	10	15	5	8
Other income and expenses	-2	-2	-1	-1
Capital gains and losses	7	6	0	3
Currency fair value gains and losses	4	-1	-2	-5
Impairment losses and their reversal*	1	-7	0	-4
Total	**20**	**12**	**2**	**1**

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

EUR million	Q1–2 2021	Q1–2 2020	Q2 2021	Q2 2020
Net income recognised at fair value through profit or loss				
Financial assets held for trading				
Notes and bonds				
Interest income and expenses	2	1	1	-1
Fair value gains and losses	-2	-2	0	5
Total	0	-1	1	5
Shares and participations				
Fair value gains and losses	-1	0	1	-1
Dividend income and share of profits		2		0
Total	-1	1	1	0
Derivatives				
Interest income and expenses	10	11	3	12
Fair value gains and losses	71	46	46	40
Total	81	57	50	52
Total	**80**	**58**	**51**	**57**
Financial assets that must be measured at fair value through profit or loss				
Notes and bonds				
Interest income	1	1	0	1
Fair value gains and losses	0	3	0	5
Total	1	4	0	5
Shares and participations				
Fair value gains and losses	78	-47	28	29
Dividend income and share of profits	17	9	6	2
Total	96	-38	34	31
Total	**97**	**-34**	**34**	**36**
Total net income from financial assets recognised at fair value through profit or loss	**176**	**24**	**85**	**93**

Net income from investment property				
Rental income	13	13	7	6
Fair value gains and losses	2	2	0	-2
Maintenance charges and expenses	-11	-16	-5	-9
Other	0	1	0	0
Net income from investment property total	5	0	1	-4
Net income from loans and receivables measured at amortised cost				
Loans and receivables				
Interest income	2	1	1	0
Interest expenses	-1	-1	-1	-1
Impairment losses and their reversal	1	0	1	-1
Loans and receivables total	3	0	2	-2
Non-life insurance				
Unwinding of discount, Non-life insurance	-9	-11	-4	-6
Associated companies				
Consolidated using the equity method	4	1	1	0
Total	4	1	1	0
Total net investment income	**198**	**25**	**87**	**82**

Note 6. Other operating expenses

EUR million	Q1–2 2021	Q1–2 2020	Q2 2021	Q2 2020
ICT costs				
Production	90	89	42	45
Development	19	19	9	8
Buildings	3	0	2	0
Government charges and audit fees*	44	34	13	10
Purchased services	17	17	9	9
Data communications	4	5	2	3
Marketing	4	5	2	3
Corporate social responsibility	1	1	0	1
Insurance and security costs	2	2	1	1
Other	40	35	20	19
Total	**224**	**208**	**100**	**99**

* Include EUR 19 million (13) in service charges paid to OP Cooperative. In April–June, the share of the internal service charges was EUR 9 million (7).

Development costs

EUR million	Q1–2 2021	Q1–2 2020	Q2 2021	Q2 2020
ICT development costs	19	19	9	8
Share of own work	0	0	0	0
Total development costs in the income statement	**19**	**19**	**9**	**8**
Capitalised ICT costs	19	20	9	11
Total capitalised development costs	**19**	**20**	**9**	**11**
Total development costs	**39**	**38**	**18**	**19**
Depreciation/amortisation and impairment loss	19	19	10	10

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	-4	-7	-1	-1
Recoveries of receivables written down	0	0	0	0
Expected credit losses (ECL) on receivables from customers and off-balance-sheet items	16	-61	11	-19
Expected credit losses (ECL) on notes and bonds*	0	1	0	2
Total	**12**	**-67**	**10**	**-18**

* 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 EUR million	Stage 1	Stage 2 Not more than 30 DPD	 More than 30 DPD	 Total	Stage 3	Total exposure
Receivables from customers (gross)						
Corporate Banking	24,086	845	260	1,105	533	25,724
Total	**24,086**	**845**	**260**	**1,105**	**533**	**25,724**
Off-balance-sheet limits						
Corporate Banking	4,351	213	103	316	62	4,729
Total	**4,351**	**213**	**103**	**316**	**62**	**4,729**
Other off-balance-sheet commitments						
Corporate Banking	6,551	55		55	121	6,727
Total	**6,551**	**55**		**55**	**121**	**6,727**
Notes and bonds						
Other Operations	13,311	23		23		13,333
Insurance	2,360	20		20	5	2,384
Total	**15,670**	**43**		**43**	**5**	**15,718**
Total exposures within the scope of accounting for expected credit losses	**50,658**	**1,155**	**364**	**1,519**	**720**	**52,898**

Loss allowance by impairment stage 30 June 2021

On-balance-sheet exposures and related off-balance-sheet limits* EUR million	Stage 1	Stage 2 Not more than 30 DPD	 More than 30 DPD	 Total	Stage 3	Total loss allowance
Receivables from customers						
Corporate Banking	-20	-17	-4	-21	-238	-278
Total	**-20**	**-17**	**-4**	**-21**	**-238**	**-278**
Other off-balance-sheet commitments**						
Corporate Banking	-2	0		0	-12	-15
Total	**-2**	**0**		**0**	**-12**	**-15**
Notes and bonds***						
Other Operations	-2	-0		0		-2
Insurance	-3	-1		-1	-2	-6
Total notes and bonds	**-4**	**-1**		**-1**	**-2**	**-8**
Total	**-26**	**-18**	**-4**	**-22**	**-253**	**-301**

* Loss allowance 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	Total
		Not more than 30 DPD	More than 30 DPD	Total		
Receivables from customers; on-balance-sheet and off-balance-sheet items						
Corporate Banking	34,988	1,113	364	1,476	715	37,180
Loss allowance						
Corporate Banking	-22	-17	-4	-21	-250	-293
Coverage ratio, %						
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	**34,988**	**1,113**	**364**	**1,476**	**715**	**37,180**
Total loss allowance	**-22**	**-17**	**-4**	**-21**	**-250**	**-293**
Total coverage ratio, %	**-0.06%**	**-1.55%**	**-0.98%**	**-1.41%**	**-34.96%**	**-0.79%**
Carrying amount, notes and bonds						
Other Operations	13,311	23		23		13,333
Insurance	2,360	20		20	5	2,384
Loss allowance						
Other Operations	-2	0		0		-2
Insurance	-3	-1		-1	-2	-6
Coverage ratio, %						
Other Operations	-0.01%	-1.38%		-1.38%		-0.02%
Insurance	-0.11%	-3.38%		-3.38%	-51.60%	-0.24%
Total notes and bonds	**15,670**	**43**		**43**	**5**	**15,718**
Total loss allowance	**-4**	**-1**		**-1**	**-2**	**-8**
Total coverage ratio, %	**-0.03%**	**-2.31%**		**-2.31%**	**-51.60%**	**-0.05%**

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

Exposures	Stage 1	Stage 2			Stage 3	Total exposure
EUR million		Not more than 30 DPD	More than 30 DPD	Total		
Receivables from customers (gross)						
Corporate Banking	23,609	1,190	156	1,346	499	25,454
Total	**23,609**	**1,190**	**156**	**1,346**	**499**	**25,454**
Off-balance-sheet limits						
Corporate Banking	4,048	377	69	446	65	4,558
Total	**4,048**	**377**	**69**	**446**	**65**	**4,558**
Other off-balance-sheet commitments						
Corporate Banking	6,267	262		262	99	6,628
Total	**6,267**	**262**		**262**	**99**	**6,628**
Notes and bonds						
Other Operations	13,141	50		50		13,191
Insurance	2,349	30		30	9	2,388
Total	**15,490**	**80**		**80**	**9**	**15,579**
Total exposures within the scope of accounting for expected credit losses	**49,413**	**1,909**	**225**	**2,135**	**671**	**52,219**

Loss allowance by impairment stage 31 December 2020

On-balance-sheet exposures and related off-balance-sheet limits*	Stage 1	Stage 2			Stage 3	Total loss allowance
EUR million		Not more than 30 DPD	More than 30 DPD	Total		
Receivables from customers						
Corporate Banking	-25	-28	-1	-29	-227	-281
Total	**-25**	**-28**	**-1**	**-29**	**-227**	**-281**
Other off-balance-sheet commitments**						
Corporate Banking	-12	-1		-1	-14	-27
Total	**-12**	**-1**		**-1**	**-14**	**-27**
Notes and bonds***						
Other Operations	-1	-1		-1		-2
Insurance	-3	-1		-1	-3	-7
Total notes and bonds	**-4**	**-2**		**-2**	**-3**	**-10**
Total	**-41**	**-31**	**-1**	**-32**	**-245**	**-318**

* Loss allowance 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.

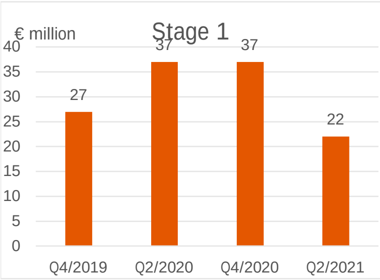
Summary and key indicators 31 December 2020	Stage 1	Stage 2			Stage 3	Total
		Not more than 30 DPD	More than 30 DPD	Total		
Receivables from customers; on-balance-sheet and off-balance-sheet items						
Corporate Banking	33,923	1,829	225	2,054	663	36,640
Loss allowance						
Corporate Banking	-37	-29	-1	-30	-242	-309
Coverage ratio, %						
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	**33,923**	**1,829**	**225**	**2,054**	**663**	**36,640**
Total loss allowance	**-37**	**-29**	**-1**	**-30**	**-242**	**-309**
Total coverage ratio, %	**-0.11%**	**-1.59%**	**-0.55%**	**-1.48%**	**-36.48%**	**-0.84%**
Carrying amount, notes and bonds						
Other Operations	13,141	50		50		13,191
Insurance	2,349	30		30	9	2,388
Loss allowance						
Other Operations	-1	-1		-1		-2
Insurance	-3	-1		-1	-3	-7
Coverage ratio, %						
Other Operations	-0.01%	-1.34%		-1.34%		-0.02%
Insurance	-0.13%	-3.90%		-3.90%	-36.16%	-0.31%
Total notes and bonds	**15,490**	**80**		**80**	**9**	**15,579**
Total loss allowance	**-4**	**-2**		**-2**	**-3**	**-10**
Total coverage ratio, %	**-0.03%**	**-2.30%**		**-2.30%**	**-36.16%**	**-0.06%**

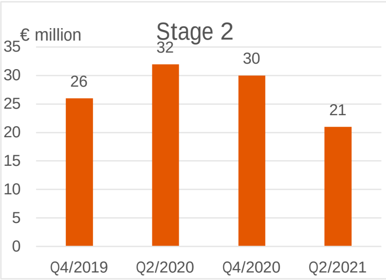
The table below shows the change in loss allowance by impairment stage during January–June 2021.

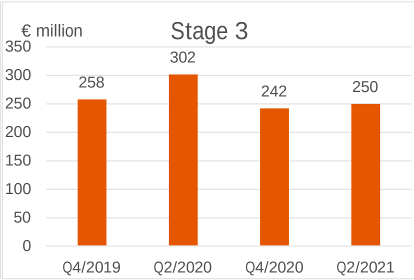
Receivables from customers and off-balance-sheet items, EUR million	Stage 1 12 months	Stage 2 Lifetime	Stage 3 Lifetime	Total
Loss allowance 1 January 2021	**37**	**29**	**243**	**309**
Transfers from Stage 1 to Stage 2	-1	5		4
Transfers from Stage 1 to Stage 3	-10		7	-3
Transfers from Stage 2 to Stage 1	1	-5		-4
Transfers from Stage 2 to Stage 3		-7	17	10
Transfers from Stage 3 to Stage 2	0		-2	-2
Transfers from Stage 3 to Stage 1		1	-4	-3
Increases due to origination and acquisition	4	2	5	10
Decreases due to derecognition	-5	-4	-17	-25
Changes in risk parameters (net)	-4	-2	5	-1
Decrease in allowance account due to write-offs			-2	-2
Net change in expected credit losses	**-15**	**-9**	**8**	**-16**
Loss allowance 30 June 2021	**22**	**21**	**250**	**293**
Net change in expected credit losses Q2 2021	**-10**	**-9**	**8**	**-11**

In Q1/2021, OP Corporate Bank 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 Corporate Bank 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 Corporate Bank 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. Recognition of actual credit losses has decreased the amount of expected credit losses in stage 3.



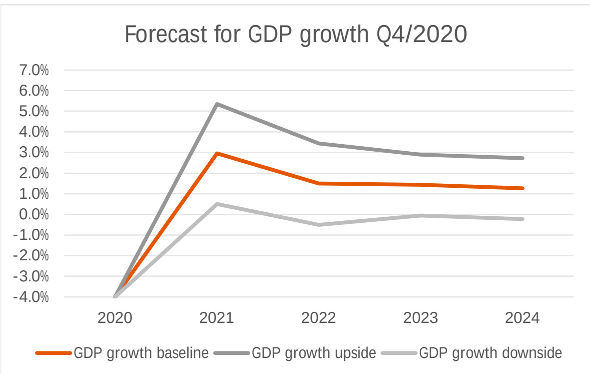


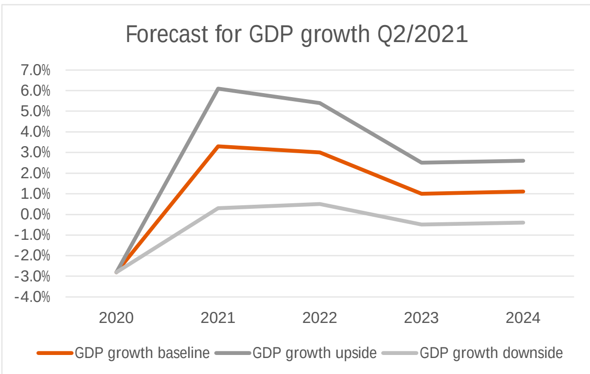


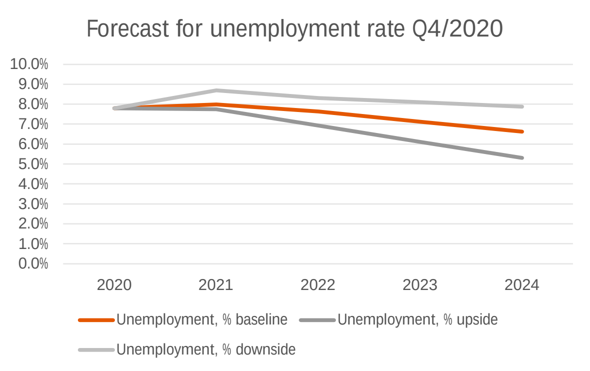
OP Corporate Bank provides its customers with the opportunity to get a maximum of 12-month repayment holiday on their home loans. As regards corporate customers, changes in repayment schedules will be evaluated on a case-by-case basis, and guarantees provided by Finnvera will be used extensively. In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

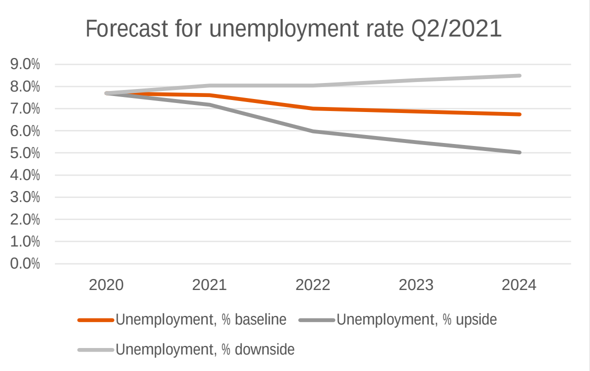
In ECL measurement, macroeconomic factors are updated on a quarterly basis. The ECL is measured as the weighted average under three scenarios. Scenario weights have been at normal level, or downside 20%, baseline 60% and upside 20%. During the reporting period, more positive macroeconomic forecasts decreased expected credit losses by around EUR 6 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	**5**	**2**	**3**	**10**
Transfers from Stage 2 to Stage 1	0	0		0
Increases due to origination and acquisition	1		0	1
Decreases due to derecognition	-1	0	-1	-2
Changes in risk parameters (net)	0	0	0	0
Net change in expected credit losses	**0**	**-1**	**-1**	**-2**
Loss allowance 30 June 2021	**4**	**1**	**2**	**8**
Net change in expected credit losses Q2 2021	**0**	**0**	**0**	**0**

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	**27**	**26**	**257**	**310**
Transfers from Stage 1 to Stage 2	-1	7		6
Transfers from Stage 1 to Stage 3	-1		29	28
Transfers from Stage 2 to Stage 1	0	-3		-3
Transfers from Stage 2 to Stage 3		-4	28	24
Transfers from Stage 3 to Stage 2		0	-3	-2
Transfers from Stage 3 to Stage 1	0		0	0
Increases due to origination and acquisition	16	7	4	27
Decreases due to derecognition	-6	-6	-32	-44
Changes in risk parameters (net)	7	5	-7	5
Changes due to update in the methodology for estimation (net)	-5	-2		-7
Decrease in allowance account due to write-offs			-33	-33
Net change in expected credit losses	**10**	**4**	**-14**	**-1**
Loss allowance 31 December 2020	**37**	**29**	**243**	**309**
Net change in expected credit losses Q2 2020	**4**	**10**	**5**	**20**

Notes and bonds, EUR million	Stage 1 12 months	Stage 2 Lifetime	Stage 3 Lifetime	Total
Loss allowance 1 January 2020	**4**	**1**	**3**	**8**
Transfers from Stage 1 to Stage 2	0	1		1
Transfers from Stage 1 to Stage 3	0		0	0
Transfers from Stage 3 to Stage 1	0		0	0
Increases due to origination and acquisition	2	0	1	3
Decreases due to derecognition	-1	-1	0	-2
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**	**0**	**2**
Loss allowance 31 December 2020	**5**	**2**	**3**	**10**
Net change in expected credit losses Q2 2020	**4**	**0**	**1**	**5**

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
Total	**3,562**	**3,326**

Note 9. Debt securities issued to the public

EUR million	30 June 2021	31 Dec 2020
Bonds	11,217	12,666
Subordinated bonds (SNP)	2,957	1,689
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	**21,691**	**21,903**

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

Note 10. 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	**31**	**38**	**0**	**70**
Fair value changes	-52	-42	3	-90
Capital gains transferred to income statement	-1	-4		-5
Impairment loss transferred to income statement		0		0
Deferred tax	11	9	-1	19
Closing balance 30 June 2020	**-11**	**2**	**3**	**-6**

	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	**79**	**44**	**2**	**125**
Fair value changes	-9	55	-2	45
Capital gains transferred to income statement	-8	-17		-25
Impairment loss transferred to income statement		3		3
Transfers to net interest income			0	0
Deferred tax	3	-8	0	5
Closing balance 30 June 2021	**66**	**77**	**0**	**143**

The fair value reserve before tax amounted to EUR 179 million (–8) at the end of the reporting period and the related deferred tax asset/liability was EUR –36 million (2). The loss allowance on notes and bonds recognised at fair value through other comprehensive income totalled EUR 2 million (–3) in the fair value reserve during the reporting period. Data on 30 June 2020 are used as comparatives.

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

Note 11. Collateral given

EUR million	30 June 2021	31 Dec 2020
Given on behalf of own liabilities and commitments		
Pledges	1	39
Others	17,793	9,710
Total collateral given*	**17,794**	**9,749**
Secured derivative liabilities	690	1,078
Other secured liabilities	16,005	8,046
Total	**16,695**	**9,124**

* 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 12. 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**	**Must be measured at fair value through profit or loss**	**Hedging derivatives**	**Carrying amount total**
Cash and cash equivalents	31,144					31,144
Receivables from credit institutions	13,109					13,109
Derivative contracts			3,692		301	3,993
Receivables from customers	24,894					24,894
Notes and bonds	3,871	16,033	389	23		20,316
Equity instruments		0	29	812		841
Other financial assets	1,909					1,909
Financial assets						**96,207**
Other than financial instruments						1,256
Total 30 June 2021	**74,928**	**16,033**	**4,110**	**835**	**301**	**97,463**

Assets, EUR million	Amortised cost	Fair value through other comprehen-sive income	Financial assets held for trading	Must be measured at fair value through profit or loss	Hedging derivatives	Carrying amount total
Cash and cash equivalents	21,764					21,764
Receivables from credit institutions	11,252					11,252
Derivative contracts			5,161		209	5,370
Receivables from customers	24,485					24,485
Notes and bonds	814	16,052	332	24		17,222
Equity instruments		0	19	775		794
Other financial assets	1,839					1,839
Financial assets						**82,726**
Other than financial instruments						1,265
Total 31 December 2020	**60,154**	**16,052**	**5,511**	**799**	**209**	**83,991**

Liabilities, EUR million	Financial liabilities at fair value through profit or loss	Other liabilities	Hedging derivatives	Carrying amount total
Liabilities to credit institutions		43,054		43,054
Derivative contracts	2,859		114	2,972
Liabilities to customers		16,118		16,118
Insurance liabilities		3,562		3,562
Debt securities issued to the public		21,691		21,691
Subordinated loans		2,373		2,373
Other financial liabilities		1,839		1,839
Financial liabilities				**91,610**
Other than financial liabilities				789
Total 30 June 2021	**2,859**	**88,638**	**114**	**92,398**

Liabilities, EUR million	Financial liabilities at fair value through profit or loss	Other liabilities	Hedging derivatives	Carrying amount total
Liabilities to credit institutions		28,888		28,888
Derivative contracts	4,070		195	4,265
Liabilities to customers		15,894		15,894
Insurance liabilities		3,326		3,326
Debt securities issued to the public		21,903		21,903
Subordinated loans		2,444		2,444
Other financial liabilities		1,803		1,803
Financial liabilities				**78,522**
Other than financial liabilities				672
Total 31 December 2020	**4,070**	**74,257**	**195**	**79,194**

Bonds included in debt securities issued to the public are carried at amortised cost. On 30 June 2021, the fair value of these debt instruments was approximately EUR 282 million (303) 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 13. 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	415	91	335	841
Debt instruments	159	26	227	412
Derivative financial instruments	2	3,905	85	3,993
Fair value through other comprehensive income				
Equity instruments		0		0
Debt instruments	14,211	1,496	326	16,033
Total financial instruments	**14,787**	**5,518**	**975**	**21,279**
Investment property			398	398
Total	**14,787**	**5,518**	**1,372**	**21,677**

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	377	95	321	794
Debt instruments	65	38	253	356
Derivative financial instruments	0	5,309	61	5,370
Fair value through other comprehensive income				
Equity instruments		0		0
Debt instruments	14,219	1,536	297	16,052
Total financial instruments	**14,661**	**6,978**	**933**	**22,572**
Investment property			306	306
Total	**14,661**	**6,978**	**1,238**	**22,878**

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				
Other		1		1
Derivative financial instruments	0	2,944	28	2,972
Total	**0**	**2,945**	**28**	**2,973**

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				
Other		0		0
Derivative financial instruments	0	4,222	42	4,265
Total	**0**	**4,223**	**42**	**4,265**

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	**574**	**61**	**297**	**933**
Total gains/losses in profit or loss	-221	24	0	-196
Total gains/losses in other comprehensive income			0	0
Purchases	20		13	33
Sales	-20		-7	-27
Transfers into Level 3	209		129	338
Transfers out of Level 3			-104	-104
Closing balance 30 June 2021	**563**	**85**	**326**	**975**

Financial liabilities, EUR million	Derivative contracts	Total liabilities
Opening balance 1 January 2021	**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 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 period included in profit or loss for assets/ liabilities held at period-end
Realised net gains (losses)	-235	14	0	-221
Unrealised net gains (losses)	38		0	38
Total net gains (losses)	**-196**	**14**	**0**	**-183**

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 14. Off-balance-sheet commitments

EUR million	30 June 2021	31 Dec 2020
Guarantees	458	447
Other guarantee liabilities	2,022	1,539
Loan commitments	5,615	5,364
Commitments related to short-term trade transactions	398	227
Other*	667	676
Total off-balance-sheet commitments	**9,160**	**8,254**

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

Note 15. 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	31,784	81,201	99,716	212,701	2,973	2,075
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	45,439	4,646	1,313	51,397	756	615
Equity and index-linked derivatives		2		2	0	
Credit derivatives	84	795	107	986	0	0
Other derivatives	171	525	10	706	80	38
Total derivatives	**77,478**	**87,169**	**101,145**	**265,792**	**3,808**	**2,729**

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	44,980	82,907	93,570	221,457	4,168	2,948
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	48,909	4,121	1,880	54,910	1,032	1,067
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	**94,112**	**87,570**	**95,462**	**277,144**	**5,253**	**4,042**

* 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 16. Investment distribution of the Insurance segment

Investment asset portfolio allocation	30 June 2021 Fair value, EUR million*	%	31 Dec 2020 Fair value, EUR million*	%
Money market total	**543**	**13**	**461**	**11**
Money market instruments and deposits**	535	13	456	11
Derivative instruments***	8	0	5	0
Total bonds and bond funds	**2,652**	**63**	**2,684**	**65**
Governments	602	14	605	15
Inflation-indexed 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 unlisted 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 investments	**397**	**9**	**398**	**10**
Direct property investments	251	6	251	6
Indirect property investments	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).
**** Includes covered bonds, loan funds and illiquid bonds.

Note 17. Related-party transactions

The related parties of OP Corporate Bank Group comprise its parent OP Cooperative, consolidated subsidiaries, associated companies, key management personnel and other related party entities. OP Corporate Bank Group's key management personnel comprises OP Corporate Bank plc's President and CEO, Board members and their close family members. Related parties also include companies over which key management personnel or their close family member exercise significant influence. The other related party entities include OP Bank Group Pension Fund, OP Bank Group Pension Foundation and sister companies in OP Cooperative Consolidated.

Standard terms and conditions for credit are applied to loans granted to the related parties. 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

Schedule for Interim Reports in 2021:

Interim Report Q1–3/2021 27 October 2021

Helsinki, 28 July 2021

OP Corporate Bank plc
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