OP Financial Group's Half-year Financial Report for 1 January–30 June 2020

OP Financial Group's Half-year Financial Report for 1 January–30 June 2020:

Earnings before tax EUR 287 million – income from customer business increased in an uncertain business environment

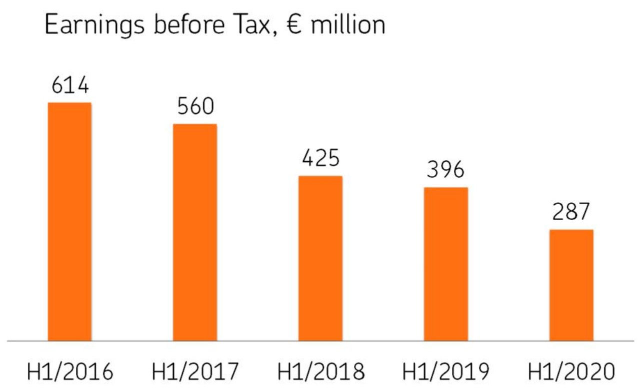
Earnings before tax H1/2020	Net interest income H1/2020	Net insurance income H1/2020	Net commissions and fees H1/2020	CET1 ratio 30 June 2020
€287 million	+7%	+8%	+1%	17.7%

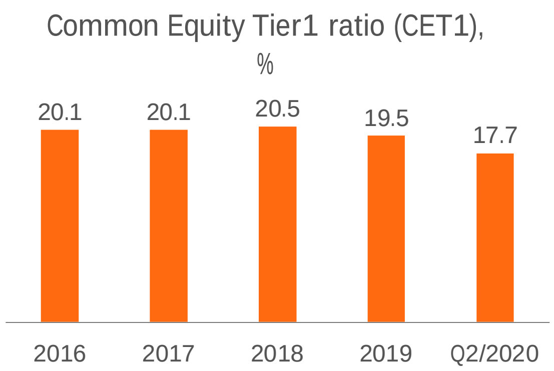
- Earnings before tax amounted to EUR 287 million (396).
- Income from customer business increased: net interest income increased by 7% to EUR 646 million (602), net insurance income by 8% to EUR 295 million (274) and net commissions and fees by 1% to EUR 455 million (450).
- The effects of the COVID-19 pandemic on capital market developments weakened investment income particularly in the first quarter. Investment income fell by 59% year on year, to EUR 61 million (152).
- Total income decreased by 6% to EUR 1,481 million (1,579) (including the overlay approach, income increased by 4%).
- Total expenses rose by 4% to EUR 993 million (953) due to higher ICT costs, ICT depreciation and amortisation and charges of financial authorities.
- Impairment loss on receivables, EUR 166 million (39), accounted for 0.34% (0.08) of loans and receivables. Impairment loss on receivables was increased by effects of the COVID-19 pandemic on the loan portfolio and the adoption of the new definition of default.
- In the year to June, OP Financial Group's loan portfolio grew by 5% to EUR 94 billion (90) and deposits by 9% to EUR 69 billion (63).
- The CET1 ratio was 17.7% (19.5). The lower ratio was affected by the increase in the loan portfolio and the adoption of the new definition of default.
- Retail Banking earnings before tax decreased by 70% to EUR 28 million (94). Net interest income increased by 1% and net commissions and fees decreased by 1%. Impairment loss on receivables increased by EUR 73 million to EUR 99 million (26). The loan portfolio increased by 3% and deposits by 6% in the year to June.
- Corporate Banking earnings before tax fell by 26% to EUR 103 million (139). Net interest income increased by 9%, net commissions and fees by 16% and net investment income by 15%. Impairment loss on receivables increased by EUR 54 million to EUR 68 million (14). The loan portfolio grew by 7% in the year to June.
- Insurance earnings before tax decreased by 32% to EUR 130 million (192). Net insurance income rose by 7% to EUR 302 million (283). Investment income decreased by EUR 77 million to EUR 34 million (111). The operating combined ratio was 89.3% (92.5).
- Other Operations earnings before tax were EUR 43 million (–10). The sale of the Vallila property on 31 January 2020 improved earnings by EUR 96 million. OP Financial Group will continue operating in the property under a long-term lease agreement.
- In January–June, OP Financial Group invested a total of EUR 154 million (157) in business development and improving customer experience.
- New OP bonuses accrued to owner-customers totalled EUR 129 million (129).
- The number of owner-customers in OP cooperative banks totalled 2.0 million (2.0). The number of OP Financial Group's joint banking and insurance customers totalled 1.2 million (1.2).
- OP Financial Group's earnings before tax for 2020 are expected to be lower than in 2019. "Outlook towards the year end" describes the outlook in greater detail.
- On 27 April 2020, OP Cooperative's Board of Directors decided that OP Financial Group's long-term strategic target for the CET1 ratio be at least the CET1 capital adequacy requirement plus four percentage points. The CET1 target calculated by applying the June-end capital adequacy requirement was 13.7%.

OP Financial Group's key indicators

	H1/2020	H1/2019	Change, %	Q1–4/2019
Earnings before tax, € million	287	396*	-27.6	838
Retail Banking	28	94	-69.8	235
Corporate Banking	103	139	-25.9	311
Insurance	130	192	-32.4	373
Other Operations	43	-10	-	-37
New OP bonuses accrued to owner-customers	-129	-129	0.1	-254
Return on equity (ROE), %	3.6	5.4	-1.8**	5.5
Return on equity, excluding OP bonuses, %	5.2	7.0	-1.8**	7.1
Return on assets (ROA), %	0.29	0.45	-0.16**	0.47
Return on assets, excluding OP bonuses, %	0.42	0.59	-0.17**	0.60
	30 June 2020	30 June 2019	Change, %	31 Dec 2019
CET1 ratio, %	17.7	19.5	-1.8**	19.5
Loan portfolio, € billion	93.7	89.7	4.6	91.5
Deposits, € billion	69.2	63.3	9.3	64.0
Ratio of non-performing receivables to loan and guarantee portfolio, %	1.6	1.1	0.5**	1.1
Ratio of impairment loss on receivables to loan and guarantee portfolio, %	0.34	0.08	0.26**	0.09
Owner-customers (1,000)	2,013	1,953	3.1	2,003

*In the fourth quarter of 2019, OP Financial Group adopted an amortisation-based revenue recognition method for the customer margin related to a derivative clause attached to loans with an interest rate cap or interest rate collar. The effect of this change was adjusted retrospectively in OP Financial Group's retained earnings (under equity). In addition, the income statements and balance sheets for the first three quarters of 2019 were restated to reflect the new revenue recognition practice. The change had no effect on segment reporting. Capital adequacy measurement was not adjusted retrospectively. For more information on this change, see the Financial Statements and the Financial Statements Bulletin for 2019.
**Change in ratio





Comments by President and Group Chief Executive Officer Timo Ritakallio

Our customer business developed favourably in January–June despite the challenging market conditions. Our net interest income, net insurance income and net commissions and fees increased clearly year on year. Investment income fell sharply year on year due to the economic uncertainty caused by the COVID-19 pandemic and the fluctuations in fixed-income and equity markets. In April–June, however, net investment income recovered and grew on a year-on-year basis.

In the year to June, OP Financial Group's loan portfolio grew by 5% to EUR 94 billion and deposits by 9% to EUR 69 billion.

In January–June, OP Financial Group's expenses rose by 4%. This resulted mainly from higher ICT costs, development costs, regulation-related costs and personnel costs. Our ICT costs for 2020 are increased by a one-off investment in the IT environment.

The COVID-19 pandemic weakens the economic outlook and the credit risk outlook. As a result of this, impairment loss on receivables increased clearly, by EUR 127 million to EUR 166 million. In addition to the COVID-19 crisis, regulatory changes increased the amount of impairment loss.

OP Financial Group's earnings before tax for January–June amounted to EUR 287 million, which was EUR 109 million lower than a year earlier. Earnings were reduced in particular by higher impairment loss on receivables and the steep decline in investment income.

In June, our capital ratio (CET1) remained strong at 17.7%.

In January–June, the COVID-19 pandemic affected OP Financial Group's operations in many ways. The Group offered households the opportunity to get repayment holidays of up to 12 months on their loans. As many as 120,000 households applied for a repayment holiday, but the number of applications fell to a normal level at the end of June. Meanwhile, 20,000 corporate customers applied for changes in their loan repayment plans, but the number of these applications also began to decline by the end of June.

In the Insurance segment, property claims expenditure increased due to event interruptions and interruptions caused by the epidemic, as well as travel insurance claims submitted due to interrupted or cancelled journeys. Meanwhile, a halt in travel, a significant decline in driving and lower activity in general reduced the number of claims by up to 25% from the normal level in April–June. At the end of June, the claims trend normalised. Based on current estimates, the total effect of the COVID-19 pandemic on net insurance income will remain minor.

Economic development was weak during the second quarter. In the Finnish market, the general activity in service industries plunged dramatically, but the situation began to improve surprisingly quickly in early summer. A similar trend was seen in the housing market. Finland's industry and construction did not suffer from COVID-19-related restrictions as much as those of many other countries.

In financial markets, the crisis peaked already in March. Determined stimulus measures taken by central banks calmed down the markets, and credit spreads narrowed significantly in fixed-income markets. Stock prices rebounded quickly, too.

For the time being, the economic outlook continues to be characterised by large uncertainty. In spring, we managed to avoid the worst economic implications of the COVID-19 pandemic, but worldwide the pandemic is not over yet. The performance of the export market may still weaken more than anticipated, and the pandemic may tighten its grip again in Finland, too. Towards the end of the year, we must ensure a return towards normal life where people feel safe about using services and public transport and returning to workplaces. OP Financial Group participates in efforts aimed at returning this confidence, which we consider vital for the recovery of the Finnish economy and the functioning of our society.

Economic policy has played an important role in supporting businesses to get beyond the worst phase of the crisis. Now efforts should focus on measures that support economic recovery and a favourable economic development in the long term. Particular attention should be paid to ensuring that the competitiveness of our export companies will not decline due to the crisis. Structural reforms are necessary for Finland's long-term economic resilience, and it is high time to get them through.

OP Financial Group's Half-year Financial Report 1 January–30 June 2020

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Business environment

The economic crisis caused by the COVID-19 pandemic escalated in the second quarter. The deepest plunge was seen in April, but the economy began to pick up in May–June when restrictions were eased.

In the financial market, the crisis came to a head already in March. Central banks reacted rapidly to increased market uncertainties and took sizeable exceptional measures to support market liquidity. In the second quarter, share prices rebounded clearly from the March bottom and bond market risk premiums fell. The uncertainty caused by the crisis also affected Euribor rates, but in June the rates dropped back close to pre-crisis levels.

The Finnish economy contracted already in the first quarter and the decline steepened further in April. While the economy began to recover in May–June, total GDP fell dramatically during the second quarter.

The sudden crisis lead to a record increase in lay-offs. Most lay-offs were temporary, however, and in June the number of people laid off was already much smaller. Based on payment card data, households cut their spending by over one-fifth in late March and early April. As restrictions were lifted and the greatest uncertainty reduced, household purchases returned to pre-crisis levels in June.

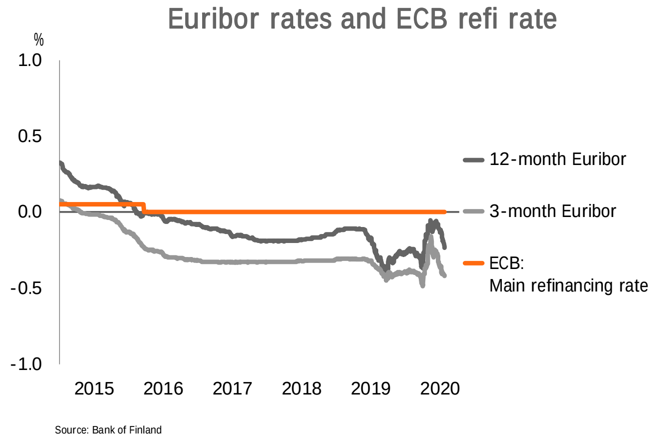
The housing market was hit hard. Home sales volumes plunged, but picked up in early summer. Home prices, in turn, were not directly affected by the crisis.

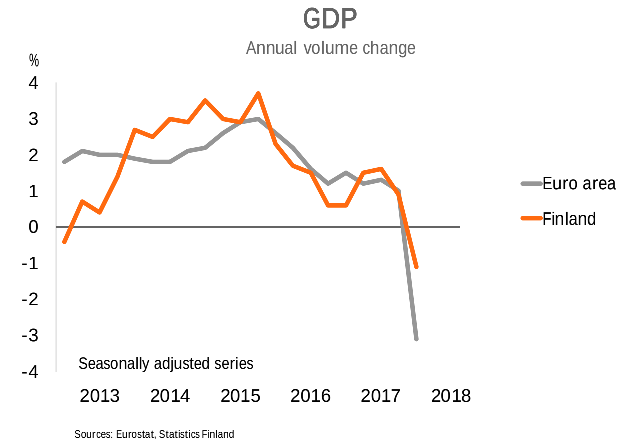
The economic outlook is still exceptionally uncertain in spite of the tentative recovery. Uncertainties in the financial market may increase rapidly if the pandemic outbreak worsens again. Recession in the export markets may also affect the Finnish economy with a lag, even if the direct effects of the pandemic gradually waned.

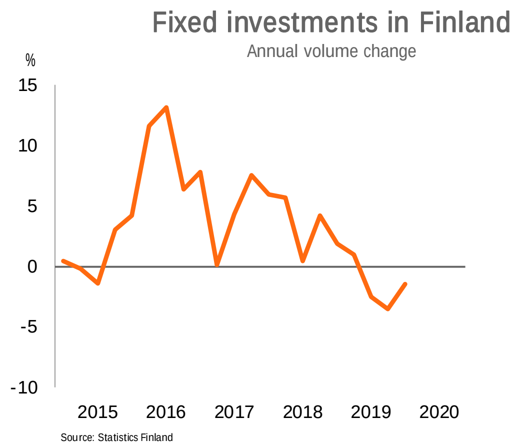
COVID-19 had a significant impact on banking in the second quarter. In April and May, the loan portfolio increased by 6.8% and the deposit portfolio by 11.2%. The growth in the loan portfolio was explained by the demand for new loans and by the repayment holidays granted. The corporate loan portfolio continued its strong growth rate, 12.1%, while the growth rate in private customer loans remained relatively stable at 3%. In April and May, the home loan portfolio grew by 2.8%.

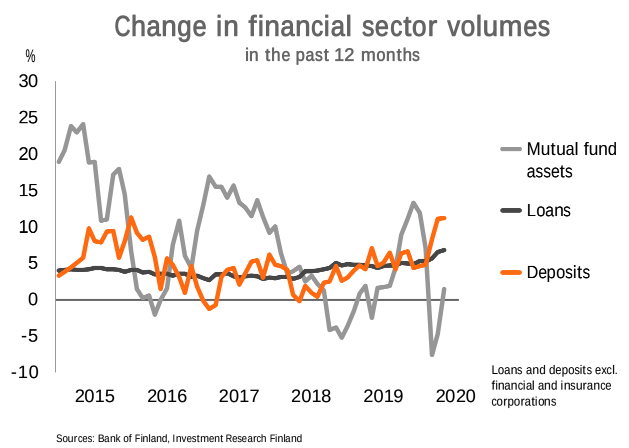
The value of the mutual funds registered in Finland increased by EUR 10.7 billion to EUR 117.2 billion in April–June. This rise was mainly due to positive value changes.

The economic slowdown caused by COVID-19 reduced the sales of some insurance lines during the second quarter, but the number of claims fell too. The sharp rise in stock prices during the second quarter supported insurance companies' investments.









Earnings analysis and balance sheet

Earnings analysis, € million	H1/2020	H1/2019*	Change, %	Q2/2020	Q2/2019*	Change, %	Q1–4/2019
Earnings before tax	287	396	-27.6	158	202	-21.8	838
Retail Banking	28	94	-69.8	21	45	-54.0	235
Corporate Banking	103	139	-25.9	90	84	7.1	311
Insurance	130	192	-32.4	71	105	-32.1	373
Other Operations	43	-10	-	-15	-16	-	-37
Income							
Net interest income	646	602	7.2	327	309	5.9	1,241
Net insurance income	295	274	7.7	164	165	-0.9	421
Net commissions and fees	455	450	1.2	211	216	-2.2	936
Net investment income	-28	218	-112.8	112	73	52.2	530
Other operating income	112	35	222.7	5	26	-79.7	53
Total income	1,481	1,579	-6.2	819	790	3.7	3,181
Expenses							
Personnel costs	415	404	2.6	207	208	-0.5	781
Depreciation/amortisation and impairment loss	129	127	1.0	64	69	-7.8	278
Other operating expenses	449	421	6.6	204	212	-3.5	844
Total expenses	993	953	4.1	475	488	-2.8	1,903
Impairment loss on receivables	-166	-39	-	-60	-28	-	-87
Temporary exemption (overlay approach)	89	-67	-	-62	-12	-	-105
New OP bonuses accrued to owner-customers	-129	-129	-	-64	-60	-	-254

*In the fourth quarter of 2019, OP Financial Group adopted an amortisation-based revenue recognition method for the customer margin related to a derivative clause attached to loans with an interest rate cap or interest rate collar. The effect of this change was adjusted retrospectively in OP Financial Group's retained earnings (under equity). In addition, the income statements and balance sheets for the first three quarters of 2019 were restated to reflect the new revenue recognition practice. The change had no effect on segment reporting. Capital adequacy measurement was not adjusted retrospectively. For more information on this change, see the Financial Statements and the Financial Statements Bulletin for 2019.

Key indicators, € million	30 June 2020	31 Dec 2019	Change, %
Loan portfolio	93,746	91,456	2.5
Home loans	39,790	39,572	0.6
Corporate loans	23,178	22,509	3.0
Housing company and other loans	30,778	29,375	4.8
Guarantee portfolio	4,012	3,503	14.5
Deposits	69,171	63,998	8.1
Assets under management (gross)*	79,779	83,106	-4.0
Mutual funds	24,330	25,610	-5.0
Institutional clients	23,274	24,445	-4.8
Private Banking	21,904	22,199	-1.3
Unit-linked insurance assets	10,272	10,852	-5.3
Balance sheet total	160,255	147,024	9.0
Investment assets	23,912	23,509	1.7
Insurance liabilities	9,699	9,476	2.4
Debt securities issued to the public	35,276	34,369	2.6
Equity capital	12,515	12,570	-0.4

*The figures a year ago have been adjusted to correspond to the updated accounting.

January–June

OP Financial Group's earnings before tax amounted to EUR 287 million (396). The figure decreased by EUR 109 million over the previous year. Income from customer business, or net interest income, net insurance income and net commissions and fees, increased. In addition, the sale of the Vallila property increased earnings. Market developments caused by the COVID-19 pandemic decreased investment income particularly in the first quarter and contributed to the increase in impairment loss on receivables. Earnings were also affected by the adoption of a new definition of default that increased impairment loss on receivables, and growth in expenses.

Net interest income increased by 7.2% to EUR 646 million. Net interest income reported by the Retail Banking segment increased by EUR 3 million and that by the Corporate Banking segment by EUR 17 million. In the year to June, OP Financial Group’s loan portfolio grew by 4.6% to EUR 93.7 billion and deposits by 9.3% to EUR 69.2 billion. New loans drawn down by customers during January–June totalled EUR 5.5 billion (7.0).

Net insurance income totalled EUR 295 million (274). The Insurance segment’s non-life insurance premium revenue increased by 1.9% to EUR 740 million. Claims incurred decreased by 1.6% to EUR 451 million. The operating combined ratio was 89.3% (92.5).

Net commissions and fees were EUR 455 million, or EUR 6 million higher than the year before. Net commissions and fees from payment transfers increased by EUR 19 million, those from mutual funds by EUR 6 million and those from securities brokerage by EUR 4 million. Meanwhile, commission income from lending decreased by EUR 3 million and life insurance total expense loading by EUR 4 million.

Net investment income decreased by EUR 246 million to EUR – 28 million. Net income from financial assets recognised at fair value through profit or loss totalled EUR 118 million (473). The fair values of equities, and notes and bonds decreased significantly in the first quarter as a result of the COVID-19 crisis. In the second quarter, however, the situation in the securities market improved, and net income from financial assets recognised at fair value through profit or loss totalled EUR 249 million (212) in the second quarter. An overlay approach is applied to certain equity instruments of insurance companies. Changes in the fair value of investments within the scope of the overlay approach are presented under the fair value reserve under equity. Total investment income fell by 59.9% year on year, to EUR 61 million. Capital gains recognised totalled EUR 32 million (63). Net income from investment property decreased by EUR 18 million to EUR – 11 million. The combined return on investments at fair value of OP Financial Group's insurance companies was 1.6% (7.1). The net change in the short-term life insurance supplementary interest rate provision improved earnings by EUR 21 million (23). Value changes in Credit Valuation Adjustment (CVA) in derivatives owing to market changes decreased earnings by EUR 21 million (–7).

Other operating income rose by EUR 78 million year on year to EUR 112 million. The sale of the Vallila property increased other operating income in the first quarter. OP Financial Group recognised a capital gain of EUR 98 million on the sale in other operating income and an expense of EUR 2 million in other operating expenses. The Group will continue operating in the property under a long-term lease agreement, and the property was recognised as a right-of-use asset in the balance sheet. The value of the right-of-use asset under IFRS 16 was EUR 138 million and the lease liability was EUR 225 million. A year ago, the sale of occupational healthcare service business increased other operating income.

Total expenses increased by 4.1% to EUR 993 million. Personnel costs increased by 2.6% to EUR 415 million. Depreciation/ amortisation and impairment loss on PPE and intangible assets increased by 1.0% to EUR 129 million. Planned depreciation/ amortisation increased by 4.2% to EUR 127 million due to higher development expenditure recognised for prior years. Impairment write-downs were EUR 2 million (6).

Other operating expenses increased by 6.6% to EUR 449 million. ICT costs increased by a total of EUR 33 million. A one-off investment in the IT environment will further increase ICT costs for 2020. Development costs were EUR 100 million (91). Charges of financial authorities increased by 21.4% to EUR 42 million as a result of a higher EU stability contribution.

Impairment loss on loans and receivables and on investments recognised under various income statement items that reduced earnings amounted to EUR 175 million (45), of which EUR 166 million (39) concerned loans and receivables. As a result of the COVID-19 crisis, customers have actively applied for repayment holidays on their loans and changes to their repayment schedules. Combined with the changes in macroeconomic parameters applied in the calculation of expected credit losses, this increased impairment loss on receivables by EUR 65 million. When the new definition of default was adopted in the first quarter, impairment loss on receivables increased by EUR 44 million. Final net loan losses recognised totalled EUR 26 million (26). Loss allowance was EUR 731 million (585) at the end of the reporting period. The ratio of non-performing receivables in loans and receivables to the loan and guarantee portfolio was 1.6% (1.1). Impairment loss on loans and receivables accounted for 0.34% (0.08) of the loan and guarantee portfolio.

OP Financial Group's current tax amounted to EUR 62 million (77). The effective tax rate was 21.8% (19.5). The effective tax rate was increased by the changes in deferred taxes arising from the sale and leaseback of the Vallila property.

OP Financial Group's equity amounted to EUR 12.5 billion (12.6). Equity included EUR 2.9 billion (3.0) in Profit Shares, terminated Profit Shares accounting for EUR 0.2 billion (0.2). The return target for Profit Shares for 2020 is 3.25%. Interest payable on Profit Shares accrued during the reporting period is estimated to total EUR 47 million (48). The amount of interest to be paid for 2019 in October 2020 will total EUR 97 million, unless new restrictions on interest payment become applicable due to recommendations by the authorities.

Comprehensive income of EUR 158 million (594) was decreased by changes in the fair value reserve. The fair value reserve fell by 27.4% to EUR 182 million from the end of 2019. Due mainly to the COVID-19 crisis, the fair values of notes and bonds recognised through other comprehensive income decreased by

EUR 65 million, and the fair values of equities within the scope of the overlay approach decreased by EUR 85 million.

April–June

Earnings before tax amounted to EUR 158 million against EUR 202 million a year ago. Earnings were improved by an increase in net interest income and a decrease in expenses. The earnings were reduced by lower investment income and higher impairment loss on receivables.

Total income of EUR 819 million increased by 3.7% year on year. Year on year, net interest income rose by 5.9% to EUR 327 million. Net insurance income decreased by 0.9% to EUR 164 million. Net commissions and fees were EUR 211 million, or EUR 5 million lower than the year before.

In total, investment income fell by 12.3% to EUR 50 million. The situation in the securities market improved, and net income from financial assets recognised at fair value through profit or loss grew by 17.6% to EUR 249 million. Net income from investment property decreased by EUR 14 million year on year to EUR –12 million. The overlay approach decreased investment income by EUR 50 million to EUR –62 million.

Other operating income fell by EUR 21 million year on year to EUR 5 million. A year ago, the sale of occupational healthcare service business increased other operating income.

Total expenses decreased by 2.8% year on year to EUR 475 million. Personnel costs decreased by 0.5% to EUR 207 million. Depreciation/amortisation and impairment losses decreased by 7.8% from the previous year, to EUR 64 million. Other operating expenses fell by 3.5% to EUR 204 million.

Impairment loss on receivables, EUR 60 million, increased by EUR 32 million year on year. As a result of the COVID-19 crisis, customers have actively applied for repayment holidays on their loans and changes to their repayment schedules. Combined with the changes in macroeconomic parameters applied in the calculation of expected credit losses, this increased impairment loss on receivables by EUR 36 million. Final net loan losses recognised totalled EUR 8 million (11).

Comprehensive income of EUR 278 million (279) was increased by changes in the fair value reserve. The fair value reserve grew by EUR 237 million since the end of March, to EUR 182 million. The fair values of equities, and notes and bonds increased in the second quarter.

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

OP Financial Group offers financial relief to its customers who have run into financial problems due to the COVID-19 crisis. OP Financial Group offers both households and SMEs the opportunity to postpone their loan repayments if the COVID-19 pandemic has affected their repayment capacity. Private customers have the opportunity to get a repayment holiday of up to 12 months on their home loans. With respect to corporate customers, changes in repayment schedules will be evaluated on a case-by-case basis. In addition, guarantees provided by Finnvera will be used extensively. No separate fees will be charged for loan modifications. During the COVID-19 crisis, private customers have applied for repayment holidays to approximately 120,000 loans by the end of June. At the end of June, the number of repayment holiday applications returned to its pre-pandemic level. The number of applications for repayment holidays and changes in repayment schedules on corporate loans totalled 20,000 by the end of June. The number of applications from corporate customers declined in June, too.

OP Real Estate Asset Management supports the lessees of the business property units it manages with flexible lease payment if the COVID-19 pandemic causes them financial difficulties. At the end of the reporting period, the lessees' need for flexible lease payment decreased. OP Real Estate Asset Management Ltd manages the portfolios of real estate funds that it and OP Fund Management are in charge of, and real estate units of OP Financial Group insurance companies. OP Real Estate Asset Management is the largest real estate fund investor in Finland.

To ensure safe use of banking and insurance services, OP Financial Group has centralised most of its services in digital channels. Some OP cooperative bank branches have offered separate service hours for people that need special support. Individual branches have been closed temporarily due to the COVID-19 pandemic. Moreover, OP helps and supports those in need of special support, and their friends and family, by providing a special telephone line. The purpose of this is to ensure that those in need of special support can do their banking transactions easily.

Pohjola Hospital has given its personnel's contribution in public healthcare tasks that are critical to society during the COVID-19 crisis. They have helped, for example, in tracking the chains of infection. Pohjola Hospital has paid the personnel's salaries during the time of temporary work.

OP Financial Group has enabled safe working conditions for its personnel in its offices and branches. Extensive remote working is also encouraged in those jobs where it is possible. During the reporting period, up to three fourths of OP's employees worked remotely. The Group has paid particular attention to hygiene and the safe use of services, and protective plexiglass has been installed in bank branches. Through these measures, OP has ensured that services critical to the society are available during the COVID-19 crisis too.

OP Financial Group has drawn up detailed plans for a safe, gradual and well-controlled return to in-office work. As of the beginning of June, OP employees have been able to return to offices so that a maximum of 30% of employees are present at the same time. In August – after the main summer holiday season – OP Financial Group aims to return to work practices that are as normal as possible, while taking into account the safety and wellbeing of employees and customers, and business performance.

April–June events

OP Financial Group postpones OP cooperative banks' profit distribution, i.e. the payment of interest on Profit Shares for the financial year 2019, from June until October 2020 in line with the recommendations issued by the European Central Bank

(ECB) and the Financial Supervisory Authority (FIN-FSA). On 27 March 2020, the ECB issued a recommendation asking banks to postpone profit distribution until at least 1 October 2020. The FIN-FSA issued a similar recommendation to banks under its supervision on 28 March 2020 and refined it on 30 March 2020. The purpose of this recommendation is to safeguard the ability of banks to support the real economy by providing funding to businesses and households to alleviate the effects of the economic crisis caused by the COVID-19 pandemic.

OP Bank Group Pension Fund transferred the majority of its pension liability and the management of earnings-related pension insurance portfolio to Ilmarinen Mutual Pension Insurance Company on 31 December 2018. Transfer of the pension liability remaining with OP Bank Group Pension Fund is planned to take place at the end of 2020. According to the present-day estimate, the transfer would affect earnings by around EUR 57 million. The estimated figures are highly sensitive to changes in parameters and the final earnings effect can be confirmed at the time of transfer. If the transfer is executed as planned, the earnings effect will be recognised as a deduction in OP Financial Group's personnel costs on 31 December 2020. The transfer has no effect on capital adequacy.

OP Financial Group's strategic targets and focus areas

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

OP Financial Group's strategic targets	30 June 2020	31 Dec 2019	Target 2025
Return on equity (ROE excluding OP bonuses), %	5.2	7.1	8.0
CET1 ratio, %	17.7	19.5	At least CET1 requirement + 4 pps
Brand recommendations, NPS (Net Promoter Score, private and corporate customers)	24	26	30
Credit rating	AA-/Aa3	AA-/Aa3	At least at the level of AA-/Aa3

On 27 April 2020, OP Cooperative's Board of Directors decided that OP Financial Group's target CET1 ratio be at least the CET1 capital adequacy requirement plus four percentage points. The CET1 target calculated by applying the June-end capital adequacy requirement was 13.7%.

OP Financial Group has a strategy process in which it assesses, reshapes and implements its strategy on an ongoing basis.

The Group systematically assesses its business environment and operating model to be able to make and implement new strategic choices when needed.

OP Financial Group's strategic priorities for 2020 are:

- Best customer experience
- More benefit for owner-customers
- Excellent employee experience
- Faster growth in profits than in expenses
- Productive development.

The priorities reviewed annually will help achieve the shared vision: to be the leading and most appealing financial services group in Finland.

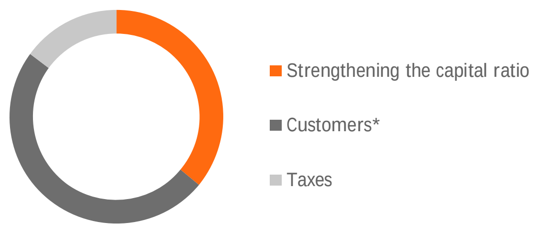
Promotion of the success of owner-customers and operating region

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

Allocation of earnings

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

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



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

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

A considerable amount of earnings is returned to the owner-customers in the form of OP bonuses and other benefits and discounts. According to the fundamental cooperative business principle, benefits are allocated on the basis of the extent to which each member uses the cooperative's services. OP's loyalty benefit programme consists of OP bonuses – accrued in proportion to the customer's transactions with OP – as well as benefits and discounts related to OP's banking services, insurance contracts and saving and investment services. Furthermore, some service packages are available only to owner-customers. Owner-customers also have the opportunity to contribute capital to their own OP cooperative bank through Profit Shares. Interest will be annually paid on Profit Shares as the banks' profit distribution.

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

Customer relationships and customer benefits

OP Financial Group had a total of 2.0 million (2.0) owner-customers at the end of the reporting period.

At the end of June, OP cooperative banks had a total of 3.6 million (3.6) banking customers. Private customers numbered 3.3 million (3.3) and corporate customers 0.3 million (0.3). Corporate Banking had 0.2 million customers (0.2) at the end of June.

The number of joint banking and insurance customers totalled 1.2 million (1.2) at the end of June.

Contributions made by OP cooperative banks' owner-customers to the OP cooperative banks' Profit Shares and cooperative shares totalled EUR 3.1 billion (3.2) on 30 June 2020.

OP cooperative banks' owner-customers earn OP bonuses through banking, insurance and asset management transactions. The value of new OP bonuses accrued in January–June totalled EUR 129 million (129). During the same period, a total of EUR 60 million (57) of bonuses were used to pay for banking and wealth management services and EUR 64 million (61) to pay non-life insurance premiums.

In the reporting period, owner-customers benefitted EUR 14 million (16) from the reduced price of the daily services package of Retail Banking. Owner-customers were provided with EUR 35 million (34) in non-life insurance loyalty discounts. In addition, owner-customers bought, sold and switched the majority of the mutual funds without separate charges. The value of this benefit amounted to EUR 4 million (3).

The abovementioned OP bonuses and customer benefits totalled EUR 182 million (182), accounting for 38.8% (31.5) of OP Financial Group's earnings before tax and granted benefits.

Interest payable on Profit Shares accrued during the reporting period is estimated to total EUR 47 million (48). The return target for Profit Shares for 2020 is an interest rate of 3.25% (3.25).

Corporate responsibility

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's Corporate Responsibility Programme is built around four themes: we improve financial literacy in Finland, we foster a sustainable economy, we support local vitality and community spirit, and we use our information capital responsibly.

OP undertakes to comply with the ten principles of the UN Global Compact initiative in the areas of human rights, labour rights, the environment and anti-corruption. OP has agreed to follow the UN Principles for Responsible Investment since 2009. In September 2019, OP Financial Group became a Founding Signatory of the Principles for Responsible Banking under the United Nations Environment Programme Finance Initiative (UNEP FI).

To promote diversity, OP Financial Group's objective is that the proportion of both genders in defined executive positions is at least 40%. Women accounted for 27% (26) at the end of June.

April–June highlights

OP Finnfund Global Impact Fund I accrued EUR 76 million in the first round of funding. As the first Finnish impact fund to invest in emerging markets, the fund targets measurable sustainability impacts in addition to profits. The fund will only invest in projects with an expected return that corresponds to the risk, and that can also have a significant impact on sustainability. The fund will make its first investments over the summer.

In June, OP's Vallila offices switched to zero-emission district heating. This will enable OP Financial Group to cut its emissions by approximately 4.6%.

In June, OP released a review of investment risks and opportunities related to climate change. The review was prepared according to recommendations by the international climate change initiative, the Task Force on Climate-related Financial Disclosures (TCFD). According to the review, the carbon intensity of OP's funds has dropped by an average of 6% in two years. OP Asset Management became a supporter of the TCFD in 2019.

In 2020, OP provided funding for summer jobs in the third sector for 2,100 young people through its annual "Summer Jobs Paid for by OP" campaign. Many summer jobs were cancelled due to the COVID-19 situation, but by the date of publication of this Half-year Financial Report, over 1,800 summer jobs had been realised as OP cooperative banks across Finland had donated more than EUR 730,000 to non-profit associations to support summer jobs to those aged from 15 to 17 years.

In its Lunches for Families campaign launched in June 2020 and aiming to support families in need and restaurant owners, Pohjola Insurance donates 9,600 lunches to low-income families. The campaign is organised together with Hope ry.

Multichannel services

OP Financial Group has a multichannel service network comprising branch, online, mobile and telephone services. OP-mobile, the main channel for customers' daily banking, has 1.1 million active users. The Group provides personal customer service both at branches and digitally. The Group seeks to provide the best multichannel customer experience in the sector by creating ongoing and relevant encounters in all channels.

In the exceptional situation caused by COVID-19, OP Financial Group has centralised most of its services in digital channels. In March, OP opened a special telephone line for those in need of special support, and their friends and family. The exceptional situation has sped up the move towards digital channels, especially among older people.

Mobile and online services, no. of logins (million)	H1/2020	H1/2019	Change, %
OP-mobile	191.2	141.1	35.5%
OP Business mobile	7.1	4.5	56.5%
Pivo	21.5	24.3	-11.3%
Op.fi	38.7	54.5	-29.0%
	30 June 2020	31 Dec 2019	Change, %
Siirto payment, registered customers (OP)	791,191	666,321	18.7%

The use of the Mobile key identification method was extended to cover the op.fi service in January and online payments and other online services, such as MyTax and Kela, in March. In June, Mobile key already had more than 1.1 million active users, and over 70% of logins are made by using Mobile key.

Since April, Siirto mobile payments have been available to any bank's customers. In June, the number of registered users exceeded one million. OP will continue to develop the Siirto system in cooperation with Nordea. Those using OP apps can make Siirto payments both on OP-mobile and on Pivo.

In June, OP introduced the new OP Multi-bank Service for viewing account information from different banks in one channel. OP's customers can adopt the service in the op.fi service and on OP-mobile.

Despite the expansion of mobile and online services, OP Financial Group still has Finland's most extensive branch network with 350 branches (352) across the country. The Group's own branch network is further supported by a comprehensive agency and partnership network, which is particularly important in terms of the sale of non-life insurance policies.

OP Financial Group has extensive presence in the most common social media channels where it has around 550,000 followers (480,000). In addition to OP Financial Group's national social media accounts, many OP cooperative banks have their own Facebook pages where they share publications targeted at local customers.

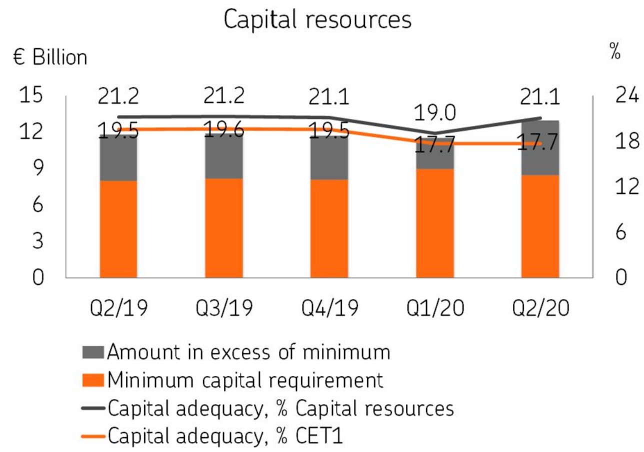
Capital adequacy and capital base

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

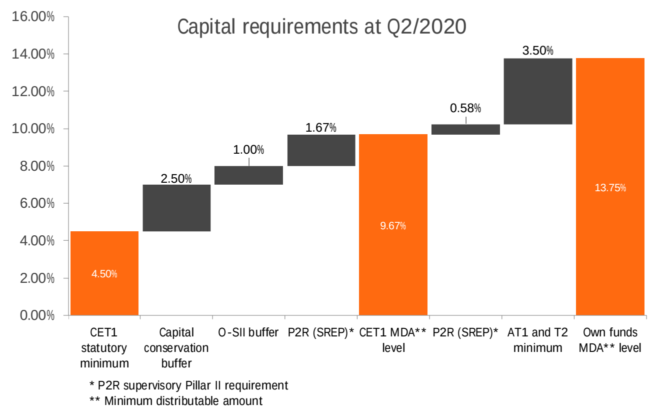
OP Financial Group's capital base, calculated according to the Act on the Supervision of Financial and Insurance Conglomerates (FiCo), exceeded the minimum amount specified in the Act by EUR 3.9 billion (3.2). Banking capital requirement fell to 13.8% (14.5), calculated on risk-weighted assets. The amount of Tier 2 (T2) loans issued during the second quarter totalled EUR 1.3 billion. The ratio of the Group capital base to the minimum capital requirement was 144% (138). As a result of the buffer requirements for banking and the solvency requirements for insurance companies, the minimum FiCo solvency of 100% reflects the level within which the conglomerate can operate without regulatory obligations resulting from buffers below the required level.

Capital adequacy for credit institutions

OP Financial Group's CET1 ratio was 17.7% (19.5). The lower ratio was affected by the increase in the loan portfolio and the rise in risk weights caused by the new definition of default.



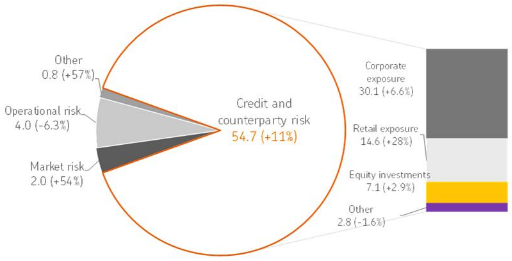
As a credit institution, OP Financial Group's capital adequacy is on a solid basis compared to the statutory requirements and those set by the authorities. The statutory minimum for the capital adequacy ratio is 8% and for the CET1 ratio 4.5%. The requirement for the capital conservation buffer of 2.5%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



The CET1 capital of OP Financial Group as credit institution was EUR 10.8 billion (10.8). Banking earnings had a positive effect on the CET1 capital, while the increase in expected loss (EL) caused by the growth in risk parameters had a negative effect on the CET1 capital. The amount of Profit Shares in CET1 capital was EUR 2.9 billion (2.9).

The risk exposure amount (REA) totalled EUR 61.4 billion (55.5), or 11% higher than on 31 December 2019. The risk weight floor for retail exposures set by the ECB decreased to EUR 0.2 billion. Because of the adoption of the new definition of default, the average retail and corporate exposure risk weights rose as result of the risk weighting factors set by the ECB. The loan portfolio grew especially in corporate exposures. To prepare for the effects of the COVID-19 pandemic, OP Financial Group made an extra addition of EUR 0.6 billion to risk-weighted assets.

Risk Exposure Amount 30 June 2020
Total 61.4 € billion
(change from year end 10.8%)



OP Financial Group treats insurance holdings within the financial conglomerate as risk-weighted assets, based on permission from the ECB. Equity investments include EUR 6.8 billion (6.4) in risk-weighted assets of the Group's internal insurance holdings. Because of the adoption of the new definition of default, the risk-weighted assets of insurance holdings rose as result of the risk weighting factors set by the ECB.

The Finnish Financial Supervisory Authority (FIN-FSA) makes a macroprudential policy decision on a quarterly basis. In June 2020, the FIN-FSA reiterated its decision not to impose a countercyclical capital buffer requirement on banks. In April, the FIN-FSA decided to reduce the O-SII buffer requirement set for OP Financial Group to 1% and the systemic risk buffer requirement to 0% due to the COVID-19 crisis. The reduced buffer requirements became effective as of the second quarter. The risk weight floor of 15% set for home loans will be effective until the end of 2020. After the risk weights for home loans increased, the FIN-FSA's risk weight floor has no material effect on capital adequacy.

The upcoming EU regulation includes a requirement for measuring the degree of indebtedness, the leverage ratio. The leverage ratio of OP Financial Group's banking operations is estimated at about 7.5% (8.3) based on the existing interpretations, calculated using the June-end figures. According to the draft rules, the minimum ratio is 3%.

In OP Financial Group's view, the most significant open changes in the regulatory and supervisory environment affecting capital adequacy for credit institutions include obligations, if any, imposed by the supervisor due to the ECB's targeted review of internal (IRBA) models (TRIM), and changes resulting from the update of the EU capital requirements regulation (CRR2). The ECB review of the internal models for corporate exposures is expected to reduce OP Financial Group's CET1 ratio by around 0.6 percentage points. More detailed information on the effects is expected in the second half of 2020. The CRR2 changes are expected to reduce OP Financial Group's CET1 ratio by around 0.5 percentage points during 2021.

OP Financial Group has begun discussions with the ECB on reassessing the extent of the IRBA application. Based on the current estimate, the change in the scope of IRBA would decrease OP Financial Group's CET1 ratio by around 1.1 percentage points during 2020. The final effect and its schedule will be specified after discussions with the supervisor and the approval process related to the scope of IRBA.

The OP Amalgamation Capital Adequacy Report for the second quarter of 2020 will be published in week 31.

Insurance

The solvency position of the non-life insurance company was good and the solvency position of the life insurance company was strong. The capital base was reduced by the lower value of investments. On the other hand, an increase in the discount rate decreased insurance liability while increasing the capital base.

	Non-life insurance		Life insurance	
	30 June 2020	31 Dec 2019	30 June 2020	31 Dec 2019
Capital base, € mill.*	989	1,008	1,308	1,423
Solvency capital requirement, € mill.*	712	699	698	687
Solvency ratio, %*	139	144	188	207
Solvency ratio, % (excl. transitional provision)	139	144	152	170

*including transitional provisions

ECB's supervision

OP Financial Group is supervised by the European Central Bank (ECB). On 2 February 2017, OP Financial Group received the ECB's decision to set risk weight floors for OP Financial Group's retail exposures. The relevant risk weight floor for retail exposures set by the ECB is 32.7% for other than mortgage-backed private customer exposures.

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

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

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

Liabilities under the Resolution Act

Under regulation applied to crisis resolution of credit institutions and investment firms, the resolution authority is authorised to intervene in the terms and conditions of investment products issued by a bank in a way that affects an investor's position. The EU's Single Resolution Board (SRB) based in Brussels is OP Financial Group's resolution authority. The SRB has set OP Financial Group's Minimum Requirement for own funds and Eligible Liabilities (MREL) at EUR 14.1 billion, accounting for 27% of the total risk exposure amount at the end of 2018. OP Financial Group aims to meet the requirements under the MREL with its capital base and other subordinated debt. OP Financial Group's MREL ratio was an estimated 43% at the end of the reporting period. 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.

Risk exposure

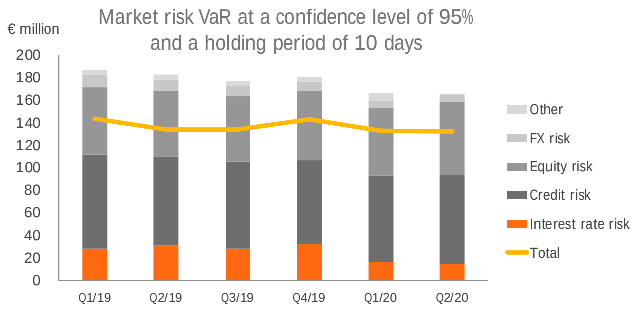
OP Financial Group's strategy is based on moderate risk-taking, a strong capital base and responsible operations. When entering 2020, OP Financial Group had a strong risk-bearing capacity and sufficient capital base, capital buffers and liquidity.

The COVID-19 pandemic that spread widely in early 2020 had a global effect on societies, which was further reflected in economic development and operating conditions in the financial sector, including in Finland. Engaged in business covering various areas of the financial sector, OP Financial Group is exposed to a variety of direct and indirect business implications of the COVID-19 pandemic. If materialised, they may affect the sufficiency of capital and business continuity.

The COVID-19 pandemic affects OP Financial Group in three ways. Customers' success affects OP Financial Group's account funds and the credit risk and insurance risk exposure. The volume of deposit funds has increased during the crisis. The COVID-19 pandemic has weakened customers' debt-servicing capacity. Our personnel's health situation and the need to protect ourselves from the pandemic may endanger the continuity of our operational business processes. The measures taken to secure the continuity of business operations have ensured that operations have continued without disruption. The view that investors in the international financial market have on the market and on OP Financial Group may affect the availability of market-based funding. The Group has maintained its strong liquidity and has managed to successfully execute long-term funding transactions in the market. Overall, the Group's liquidity and capital are sufficient to secure business continuity.

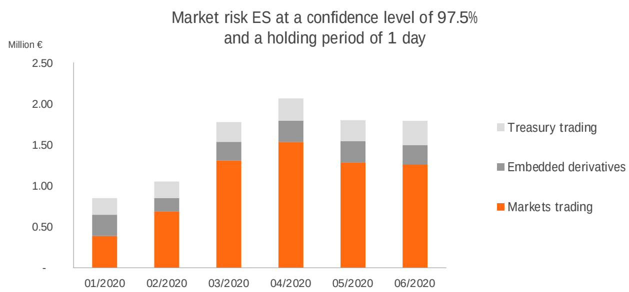
OP Financial Group's funding position and liquidity is good. In general, the COVID-19 crisis has been reflected in the price and availability of wholesale funding for banks. During the reporting period, OP Financial Group issued long-term bonds worth EUR 5.9 billion (2.5). The loan-to-deposit ratio remained stable during the reporting period.

The market risk level of OP Financial Group's long-term investments remained moderate. No major changes were made to the asset class allocation during the reporting period. The Group's VaR, a measure of market risk, was EUR 133 million (143) on 30 June 2020. The VaR risk metric includes the total balance sheets of insurance institutions, the liquidity buffer and Banking's long-term bond investments. Insurance companies' total balance sheets contain investments, insurance liabilities and derivatives that hedge against interest rate risk associated with insurance liabilities. The 2020 figures no longer include risk associated with trading nor the interest rate risk exposure of Group Treasury.



The expected shortfall (ES) metrics have been used to measure trading risk since the beginning of 2020. Expected shortfall is a risk measure similar to the VaR measure, but instead of choosing from the return distribution the smallest loss of the losses remaining outside the confidence level, the expected value of the tail is calculated under ES, i.e. one-day expected shortfall at a given confidence level.

The market risk associated with trading increased in April but then returned to the first-quarter end level.



The Group expects its operational risks to be moderate as targeted. Materialised operational risks resulted in a gross loss of approximately EUR 5 million (11) during the reporting period. From the operational risk perspective, the implications of the COVID-19 pandemic on OP Financial Group were mild during the reporting period and mainly affected OP cooperative banks.

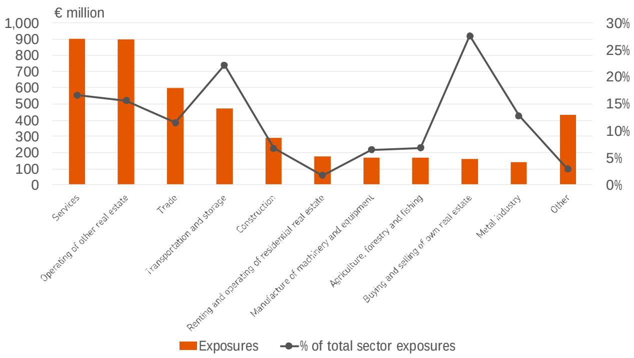
Retail Banking and Corporate Banking

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

In banking, credit risk exposure has remained stable and credit risk moderate for the time being, but the COVID-19 pandemic will weaken banking credit risk exposure in 2020. During the reporting period, the main consequences were the increased demand for loan repayment holidays and higher impairment loss on receivables.

Due to the COVID-19 crisis, OP Financial Group granted repayment holidays and changes in repayment plans to customer exposures worth a total of EUR 11.1 billion in March–June. 60% of this concerned private customer exposures. 76% of repayment holidays granted to private customers concerned the top six rating grades in OP Financial Group's 16-tier internal rating system, while 4% concerned the lowest three rating grades. In OP Financial Group's 20-tier internal rating system for corporate customers, 35% of the corporate exposures to which a repayment plan change or repayment holiday was granted were categorised in the highest seven rating grades, while 5% were in the lowest three rating grades.

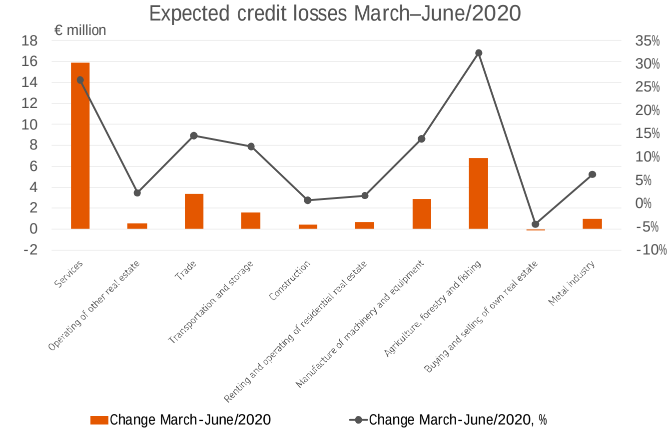
Corporate exposures related to loan modifications and repayment holidays due to coronavirus, by sector



The table shows the distribution of corporate exposures by sector as a result of loan modifications and changes in repayment schedules granted mainly due to the COVID-19 crisis in March–June.

21% of repayment holidays and changes in repayment schedules related to corporate exposures concerned the service sector (such as hotels, restaurants and tourism), 20% concerned operating of other real estate and 14% concerned the trade sector.

Expected credit losses March–June/2020



The table shows the increase in expected credit loss by sector mainly due to the COVID-19 crisis in March–June.

In March–June, the most significant expected credit losses were recognised in corporate exposures related to services, agriculture, forestry, fishery and the trade sector.

The distribution of expected credit loss by industry is presented in the OP Amalgamation Capital Adequacy Report of 30 June 2020.

Forborne loans and non-performing receivables

	Performing forborne exposures (gross)		Non-performing receivables (gross)		Doubtful receivables (gross)		Loss allowance		Doubtful receivables (net)	
	30 June 2020	31 Dec 2019	30 June 2020	31 Dec 2019	30 June 2020	31 Dec 2019	30 June 2020	31 Dec 2019	30 June 2020	31 Dec 2019
Over 90 days past due, € billion			0.71	0.64	0.71	0.64	0.26	0.25	0.45	0.39
Unlikely to be paid, € billion			0.76	0.51	0.76	0.51	0.20	0.15	0.56	0.36
Forborne exposures, € billion	2.84	2.03	0.68	0.34	3.54	2.38	0.11	0.05	3.43	2.33
Total, € billion	2.84	2.03	2.15	1.48	5.01	3.52	0.57	0.45	4.44	3.07

In March 2020, OP Financial Group adopted a new definition of default, which increased the number of defaulted contracts. As a result of the COVID-19 crisis, customers have actively applied for loan repayment holidays and changes to loan repayment schedules, and the amount of forborne exposures grew during the reporting period.

Key ratios	OP Financial Group		Retail Banking		Corporate Banking	
	30 June 2020	31 Dec 2019	30 June 2020	31 Dec 2019	30 June 2020	31 Dec 2019
Ratio of doubtful receivables to loan and guarantee portfolio, %	4.5	3.2	5.7	4.1	1.7	0.9
Ratio of non-performing receivables to loan and guarantee portfolio, %	1.6	1.1	1.9	1.3	1.1	0.5
Ratio of performing forborne exposures to loan and guarantee portfolio, %	2.9	2.1	3.8	2.8	0.6	0.4
Ratio of performing forborne exposures to doubtful receivables, %	64.0	66.2	67.1	68.3	35.5	42.1
Ratio of loss allowance (receivables from customers) to doubtful receivables, %	13.7	15.7	8.0	8.6	44.9	59.3

Performing forborne exposures are stated without expected credit losses. Comparatives have been restated.

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

Retail Banking's interest rate risk in the banking book measured as the effect of a one-percentage point decrease on 12-month net interest income was EUR –55 million (–46) at the end of June. Interest income risk is calculated for a one-year period by dividing the sum of the interest income risk for the next three years by three.

Deposits within the scope of deposit guarantee and managed by OP Financial Group totalled EUR 40.1 billion (38.0) at the end of June. The Deposit Guarantee Fund compensates a maximum of EUR 100,000 for each OP Financial Group customer.

Insurance

Non-life insurance

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

A one-year increase in life expectancy would increase insurance liability for annuities by EUR 47 million (48). A 0.1 percentage point decrease in interest rates used in insurance liability valuation would increase insurance liabilities by EUR 28 million (26).

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 investments remained moderate. No major changes were made to the asset class allocation during the reporting period. Changes in the bond portfolio and equity prices raised the risk level. The VaR, a measure of market risk, was EUR 63 million (54) on 30 June 2020. Interest rate derivatives have been used to hedge against interest rate risk associated with insurance liability.

Life insurance

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

A one-year increase in life expectancy would increase insurance liability by EUR 26 million (26). A 0.1 percentage point decrease in interest rates used in insurance liability valuation would increase insurance liabilities by EUR 30 million (31).

Investment risks associated with separated insurance portfolios transferred from Suomi Mutual and risks associated with changes in customer behaviour have been buffered. The buffer is sufficient to cover a significant negative return on the investment assets included in the separate portfolios, after which OP Financial Group will bear the risks associated with the portfolios. The buffers totalled EUR 272 million (327) on 30 June 2020.

The market risk level of investments remained moderate. No major changes were made to the asset class allocation during the reporting period. Changes in the bond portfolio increased the risk level moderately. The VaR, a measure of market risk, was EUR 63 million (58) on 30 June 2020. Interest rate derivatives have been used to hedge against interest rate risk associated with insurance liability.

Other Operations

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

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.

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

OP Financial Group monitors its liquidity and the adequacy of its liquidity buffer using, for example, the LCR (Liquidity Coverage Ratio). According to regulation, the LCR must be at least 100%. OP Financial Group's LCR was 180% (138) at the end of the reporting period.

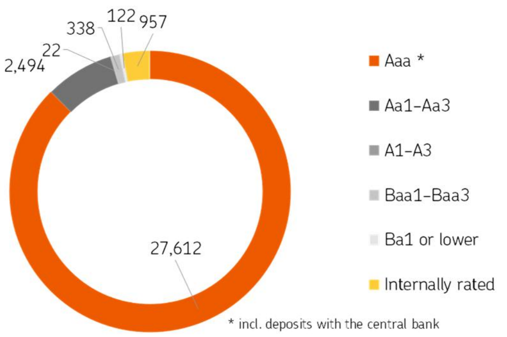
OP Financial Group monitors its long-term funding sufficiency, for example, by means of the Net Stable Funding Ratio (NSFR), which measures structural funding risk. In regulation, no minimum requirement for the NSFR has been set as yet. OP Financial Group's NSFR was 113% (111) on 31 May 2020.

Liquidity buffer

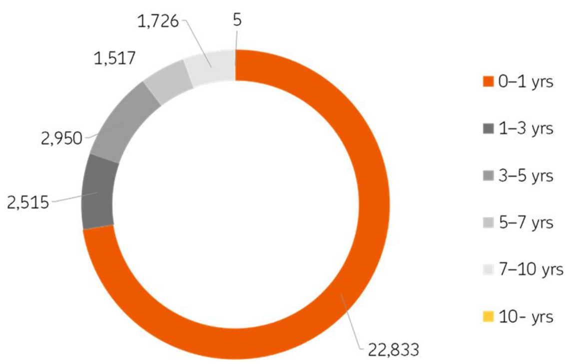
€ billion	30 June 2020	31 Dec 2019	Change, %
Deposits with central banks	21.8	11.9	83.5
Notes and bonds eligible as collateral	8.3	11.1	-25.1
Corporate loans eligible as collateral	-	0.0	-
Total	30.2	23.0	30.9
Receivables ineligible as collateral	1.4	2.0	-30.2
Liquidity buffer at market value	31.5	25.0	26.1
Collateral haircut	-0.6	-0.8	-33.3
Liquidity buffer at collateral value	31.0	24.2	28.2

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

Financial assets included in the liquidity buffer by credit rating on 30 June 2020, € million



Financial assets included in the liquidity buffer by maturity on
30 June 2020, € million



Credit ratings

30 June 2020

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

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

On 19 May 2020, Standard & Poor's revised the outlook on OP Corporate Bank plc's long-term credit rating from stable to negative after the trend in Finland's Banking Industry Country Risk Assessment (BICRA) changed from stable to negative.

Other ratings of OP Corporate Bank plc did not change in the reporting period.

Financial performance by segment

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

Retail Banking

- Earnings before tax amounted to EUR 28 million (94). Impairment loss on receivables was EUR 73 million higher than a year ago. Impairment loss increased mainly due to the adoption of the new definition of default and the effects of the COVID-19 pandemic.
- Total income increased by 0.9% to EUR 828 million. Net interest income increased by 0.6% to EUR 460 million. Net commissions and fees decreased by 0.9% to EUR 353 million.
- Total expenses remained at the previous year's level at EUR 595 million. Other operating expenses increased by 1.2% mainly due to higher ICT costs and volumes. Depreciation/amortisation and impairment loss increased mainly as a result of the card renewal programme. Personnel costs decreased by 3.1%.
- The loan portfolio increased by 3.2% and the deposit portfolio by 6.2% in the year to June.
- Impairment loss on receivables was EUR 99 million (26). Non-performing receivables accounted for 1.9% (1.3) of the loan and guarantee portfolio.
- The most significant development investments focused on improving customer experience (for example, through the extended use of Mobile key) and on customer service processes and the card renewal programme.

Key figures and ratios

€ million	H1/2020	H1/2019	Change, %	Q1–4/2019
Net interest income	460	457	0.6	922
Net commissions and fees	353	356	-0.9	708
Net investment income	1	-14	-	-17
Other income	14	21	-33.2	43
Total income	828	820	0.9	1,657
Personnel costs	215	222	-3.1	426
Depreciation/amortisation and impairment loss	26	23	14.6	55
Other operating expenses	353	349	1.2	692
Total expenses	595	594	0.1	1,172
Impairment loss on receivables	-99	-26	-	-36
OP bonuses to owner-customers	-106	-107	-	-214
Earnings before tax	28	94	-69.8	235
Cost/income ratio, %	71.8	72.4	-0.6*	70.7
Ratio of non-performing receivables to loan and guarantee portfolio, %	1.9	1.4	0.5*	1.3
Ratio of impairment loss on receivables to loan and guarantee portfolio, %	0.28	0.08	0.05	0.05
Return on assets (ROA), %	0.05	0.19	-0.14*	0.24
Return on assets, excluding OP bonuses, %	0.26	0.41	-0.39*	0.45
€ million				
Home loans drawn down	3,409	3,759	-9.3	7,799
Corporate loans drawn down	1,312	1,438	-8.8	2,729
No. of brokered residential property and property transactions	5,175	5,552	-6.8	12,139
€ billion	30 June 2020	30 June 2019	Change, %	31 Dec 2019
Loan portfolio				
Home loans	39.8	39.1	1.8	39.6
Corporate loans	8.4	7.8	7.1	8.1
Housing company and other loans	20.8	19.9	4.4	20.4
Total loan portfolio	69.0	66.8	3.2	68.1
Guarantee portfolio	0.9	0.7	27.0	0.8
Deposits				
Current and payment transfer	38.3	35.3	8.5	35.4
Investment deposits	19.1	18.8	1.8	19.0
Total deposits	57.4	54.0	6.2	54.4

*Change in ratio

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

The loan portfolio increased in the year to June by 3.2% to EUR 69 billion. In January–June, new home loan drawdowns decreased by 9.3% year on year. In the year to June, the home loan portfolio increased by 1.8% to EUR 39.8 billion and the corporate loan portfolio by 7.1% to EUR 8.4 billion.

The growth in the loan portfolios was affected by the demand for new loans and by the repayment holidays granted. At the end of March, OP Financial Group offered households and SMEs the opportunity to apply for a loan repayment holiday if the COVID-19 pandemic had affected their loan repayment capacity. This temporarily increased the number of such applications tenfold. At the end of June, the number of repayment holiday applications returned to its pre-pandemic level.

Customers showed continued interest in protecting home loans and housing company loans against risks. On 30 June 2020, a total of 26.2% (24.5) of private customers' home loans were covered by interest rate protection.

The deposit portfolio increased in the year to June by 6.2% to EUR 57.4 billion. Most of this increase came from current and payment transfer accounts, but also from investment deposits, with household deposits showing the strongest growth.

The economic crisis caused by the COVID-19 pandemic reduced the volume of home sales in April–May. In June, sales volumes picked up year on year as pent-up demand started to unwind. The volume of homes and real property sold and bought through the OP Koti real estate agents decreased by 6.8% year on year.

The decline in household consumption in March–May reduced both the use of cash and card payments. Following the lifting of restrictions implemented due to the exceptional situation, purchase volumes returned to the pre-crisis levels in June.

As a result of the exceptional situation caused by the COVID-19 pandemic, OP Financial Group's customers have taken a digital leap in the use of banking services. During the state of emergency, 85% of home loan applications were filed through digital channels, almost all home loan negotiations were held remotely, all home viewings through OP Koti real estate agents were organised privately and bids were made digitally. In addition, the number of transactions completed on the digital platform for residential property transactions (DIAS) was markedly higher than before. Furthermore, online subscriptions for mutual fund units showed strong growth.

During the reporting period, the most significant development investments focused on improving customer experience (for example, through the extended use of Mobile key) and on customer service processes and the card renewal programme. In June, OP's digital home loan service became available to everyone – also customers of other banks can get an automated loan decision from OP. OP also launched services that support the customer's personal financial management, and the OP Multi-bank Service.

Financial performance for the reporting period

Retail Banking earnings before tax were EUR 28 million (94). Net interest income grew by 0.6% to EUR 460 million as a result of an increase in the loan portfolio. Net commissions and fees decreased by 0.9% to EUR 353 million. Net investment income totalled EUR 1 million (–14). Total income increased by 0.9% to EUR 828 million.

Total expenses remained at the previous year's level at EUR 595 million. Personnel costs decreased by 3.1% to EUR 215 million following a decline in the number of personnel, year on year. Depreciation/amortisation and impairment loss increased by 14.6% to EUR 26 million, mainly as a result of the card renewal programme. Other operating expenses increased by 1.2% to EUR 353 million due to higher ICT costs and business volumes and the increase in the EU stability contribution.

Impairment loss on receivables increased to EUR 99 million (26). As a result of the COVID-19 crisis, customers have actively applied for repayment holidays on their loans and changes to their repayment schedules. Combined with the changes in macroeconomic parameters applied in the calculation of expected credit losses, this increased the amount of expected credit losses. The new definition of default adopted in March also increased the amount of expected credit losses. Non-performing receivables accounted for 1.9% (1.3) of the loan and guarantee portfolio.

Corporate Banking

- Earnings before tax amounted to EUR 103 million (139).
- Total income increased by 9.7%. Net interest income increased by 9.3% and net commissions and fees by 15.5%. Net investment income increased by 14.9%. CVA valuation weakened earnings by EUR 21 million (–7).
- Total expenses increased to EUR 158 million (146). Other operating expenses rose by 12.7% due to higher ICT costs and a higher stability contribution.
- In the year to June, the loan portfolio increased by 6.8% to EUR 24.7 billion and the deposit portfolio increased by 32.6% to EUR 13.6 billion. Assets under management increased by 3.2% year on year.
- Impairment loss on receivables amounted to EUR 68 million (14). Non-performing receivables accounted for 1.1% (0.5) of the loan and guarantee portfolio.
- The most significant development investments involved the upgrades of payment, finance and asset management systems.

Key figures and ratios

€ million	H1/2020	H1/2019	Change, %	Q1–4/2019
Net interest income	202	185	9.3	383
Net commissions and fees	65	56	15.5	125
Net investment income	60	52	14.9	119
Other income	11	15	-26.0	27
Total income	337	308	9.7	655
Personnel costs	39	39	-0.6	76
Depreciation/amortisation and impairment loss	10	10	-6.8	20
Other operating expenses	109	97	12.7	182
Total expenses	158	146	7.7	277
Impairment loss on receivables	-68	-14	-	-51
OP bonuses to owner-customers	-9	-8	-	-16
Earnings before tax	103	139	-25.9	311
Cost/income ratio, %	46.7	47.6	0.8*	42.3
Ratio of non-performing receivables to loan and guarantee portfolio, %	1.1	0.5	0.6*	0.5
Ratio of impairment loss on receivables to loan and guarantee portfolio, %	0.49	0.11	0.38*	0.19
Return on assets (ROA), %	0.53	0.79	-0.26*	0.85
Return on assets, excluding OP bonuses, %	0.57	0.84	-0.27*	0.90

€ billion	30 June 2020	30 June 2019	Change, %	31 Dec 2019
Loan portfolio				
Corporate loans	15.0	14.0	7.1	14.5
Housing company and other loans	9.7	9.2	5.9	9.2
Total loan portfolio	24.7	23.2	6.8	23.7
Guarantee portfolio	3.1	2.6	18.1	3.1
Deposits	13.6	10.3	32.6	11.2
Assets under management (gross)**				
Mutual funds	24.3	24.4	-0.3	25.6
Institutional clients	23.3	22.2	5.0	24.4
Private Banking	10.0	9.2	8.4	9.9
Total (gross)	57.6	55.8	3.2	59.9

€ million	H1/2020	H1/2019	Change, %	Q1–4/2019
Net inflows				
Private Banking clients	116	3	-	49
Institutional clients	-139	-144	3.8	-49
Total	-23	-141	83.7	1

*Change in ratio
**The figures for Q1–4/2019 have been adjusted to correspond to the updated accounting.

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

The loan portfolio grew in the year to June by 6.8% to EUR 24.7 billion. The deposit portfolio increased in the year to June by 32.6% to EUR 13.6 billion. Demand for capital market products increased from the previous year.

The most significant Corporate Banking development investments involved the upgrades of payment, finance and asset management systems.

Within asset management, net assets inflow improved year on year, to EUR –23 million (–141). Assets under management increased by 3.2% year on year, to EUR 57.6 billion. Assets under management included about EUR 11 billion (11) in assets of the companies belonging to OP Financial Group.

During the reporting period, the number of OP Mutual Fund unitholders increased in gross terms by about 48,000, to 898,000 unitholders. The Morningstar rating for OP Mutual Funds was 3.06 (3.00).

OP Finnfund Global Impact Fund I is the first Finnish impact fund to invest in emerging markets, targeting measurable sustainability effects in addition to profits. The fund accrued EUR 76 million in the first round of funding. The fund has targeted measurable positive impacts on, for instance, climate change, food security, gender equality and the availability of financing.

During the reporting period, OP Real Estate Asset Management announced that it would support the lessees of the business property units it manages with flexible lease payment if the COVID-19 pandemic causes them financial difficulties.

During the reporting period, uncertainty caused by the COVID-19 pandemic affected Corporate Banking through capital markets and resulted in higher demand for loans. The value changes in assets under management were negative, and credit spreads and volatility increased, especially in the first quarter. On the other hand, trading on the capital market became more active. The effects of COVID-19 and developments in the economic environment are reflected in demand for services, the capital market and developments in the amount of impairment losses.

Financial performance for the reporting period

Corporate Banking earnings before tax were EUR 103 million (139). Total income amounted to EUR 337 million (308) and total expenses to EUR 158 million (146). The cost/income ratio improved to 46.7% (47.6). Mainly as a result of an increase in the loan portfolio, net interest income grew by 9.3% to EUR 202 million. Lending margins widened too.

Net commissions and fees totalled EUR 65 million (56). An increase in other net commissions and fees is mainly due to the decline in OP Financial Group's internal charges.

Corporate Banking segment's net commissions and fees

€ million	H1/2020	H1/2019	Change, %
Mutual funds	52	51	3.7
Asset Management	7	8	-5.7
Other	7	-2	-
Total	65	56	15.5

Net investment income increased by 14.9% to EUR 60 million. CVA valuation weakened earnings by EUR 21 million (–7). Income from client trading rose. Compared with the first quarter, the narrowing of credit spreads increased the valuation of the trading book. Changes made in the valuation models of derivatives reduced net investment income a year ago by EUR 22 million.

Total expenses increased to EUR 158 million (146). Personnel costs remained at the previous year's level at EUR 39 million. Other operating expenses increased by 12.7% to EUR 109 million. ICT costs increased by EUR 5 million and the EU stability contribution by EUR 3 million.

Impairment loss on receivables totalled EUR 68 million (14). The new definition of default adopted in March increased impairment loss on receivables. Changes in the macroeconomic parameters used in the calculation of expected credit losses increased impairment loss on receivables too. Non-performing receivables accounted for 1.1% (0.5) of the loan and guarantee portfolio.

Insurance

- Earnings before tax totalled EUR 130 million (192).
- Insurance premium revenue reported by non-life insurance increased by 1.9% and claims incurred decreased by 1.6%.
- Investment income totalled EUR 34 million (111), including the overlay approach. Net return on investments at fair value reported by non-life insurance was EUR –60 million (51) and that by life insurance EUR –34 million (31).
- The non-life insurance operating combined ratio was 89.3% (92.5) and operating risk ratio 62.0% (64.4). The operating cost ratio was 27.3% (28.2).
- In life insurance, unit-linked insurance assets decreased by 5.3% to EUR 10.3 billion from the 2019-end level.
- Development investments focused on development of electronic services and the core system upgrade.

Key figures and ratios

€ million	H1/2020	H1/2019	Change, %	Q1–4/2019
Insurance premium revenue	740	726	1.9	1,479
Claims incurred	451	459	-1.6	1,077
Life insurance, net risk results	14	15	-8.5	29
Net insurance income	302	283	7.0	431
Life insurance, net commissions and fees	49	51	-3.9	135
Non-life insurance, net commissions and fees	-18	-23	-20.2	-49
Health and wellbeing, net commissions and fees	3	4	-26.9	13
Net commissions and fees	34	33	4.4	99
Net investment income	-54	178	-130.1	435
Other net income	2	8	-75.2	4
Total income	285	502	-43.2	969
Personnel costs	71	70	1.9	133
Depreciation/amortisation and impairment loss	27	28	-2.9	71
Other operating expenses	136	136	-0.1	269
Total expenses	234	234	0.1	473
OP bonuses to owner-customers	-9	-9	-	-19
Temporary exemption (overlay approach)	88	-67	-	-104
Earnings before tax	130	192	-32.4	373
Return on assets (ROA), %	0.88	1.31	0.43*	1.29
Return on assets, excluding OP bonuses, %	0.94	1.38	0.43*	1.36
Operating combined ratio (non-life), %	89.3	92.5		92.7
Operating risk ratio (non-life), %	62.0	64.4		65.1
Operating cost ratio (non-life), %	27.3	28.2		27.7
Operating ratio (life), %	44.6	41.6		35.5

*Change in ratio

OP Financial Group's Insurance segment comprises life and non-life insurance plus the health and wellbeing business. The segment includes Pohjola Insurance Ltd, OP Life Assurance Company Ltd and Pohjola Hospital Ltd. A-Insurance Ltd merged into Pohjola Insurance Ltd on 31 March 2020.

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

During the spring, the COVID-19 pandemic increased customer inquiries and the number of travel and business interruption insurance claims filed. In many other insurance lines, the number of claims decreased as a result of lower activity in general.

Pohjola Hospital has given its personnel's contribution in public healthcare tasks that are critical to society during the COVID-19 crisis. They have helped, for example, in tracking the chains of infection.

The capital market has recovered after the plunge in March. However, unit-linked insurance assets totalled EUR 10.3 billion at the end of the reporting period, representing a decrease of 5.3 % from 31 December 2019. Net assets inflow of unit-linked insurance contracts amounted to EUR 73 million (–41). The amount of life insurance surrenders remained moderate.

Financial performance for the reporting period

Earnings before tax decreased to EUR 130 million (192). Net insurance income increased to EUR 302 million (283).

Non-life insurance: premium revenue

€ million	H1/2020	H1/2019	Change, %
Private Customers	422	406	4.0
Corporate Customers	318	321	-0.8
Total	740	726	1.9

Claims incurred decreased by 1.6% to EUR 451 million. The reported number of large claims under property and business liability insurance (in excess of EUR 0.3 million) amounted to 52 (41) in January–June, with their claims incurred retained for own account totalling EUR 69 million (38). The COVID-19 pandemic in particular increased claims expenditure related to travel losses and event interruptions. Changes in the provision for outstanding claims under statutory pensions improved earnings by EUR 10 million during the reporting period while reducing it by EUR 1 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 12 million (–1). The non-life insurance operating risk ratio excluding indirect loss adjustment expenses was 62.0% (64.4).

Net commissions and fees rose by 4.4% to EUR 34 million.

Total expenses remained at the previous year's level at EUR 234 million. In non-life insurance, the operating cost ratio (including indirect loss adjustment expenses) was 27.3% (28.2).

The operating combined ratio was 89.3% (92.5) in non-life insurance. Operating ratios do not include changes in discount rate.

Investment

Investment income

€ million	H1/2020	H1/2019
At fair value through other comprehensive income	33	70
At fair value through profit or loss	45	237
Amortised cost	-3	0
Life insurance items*	-109	-125
Unwinding of discount (non-life)	-11	-14
Associated companies	-9	11
Net investment income	-54	178
Temporary exemption	88	-67
Total	34	111

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

Investment income totalled EUR 34 million (111), including the overlay approach. Capital gains on investment amounted to EUR 11 million (27) in non-life insurance and to EUR 20 million (28) in life insurance.

Interest rate risk associated with insurance liability has been hedged through supplementary interest rate provisions and interest rate derivatives. The net change in the short-term life insurance supplementary interest rate provision improved earnings by EUR 21 million (23). Accrued supplementary interest rate provisions related to insurance liabilities (excluding the separated balance sheets) totalled EUR 490 million (414) on 30 June 2020. Short-term supplementary interest rate provisions accounted for EUR 25 million (21) of these provisions.

Non-life insurance: key investment indicators

€ million	H1/2020	H1/2019
Net return on investments at fair value, € million*	-60	51
Return on investments at fair value, %	1.1	6.7
Fixed income investments' running yield, %	1.3	1.5
	30 June 2020	31 Dec 2019
Investment portfolio, € million	3,919	3,952
Investments within the investment grade category, %	90	92
A-rated receivables, minimum, %	59	61
Modified duration, %	3.5	4.0

*Net return on investments at fair value is calculated by deducting the value change in market-consistent insurance liability from income from total investment assets.

Life insurance: key investment indicators*

€ million	H1/2020	H1/2019
Net return on investments at fair value, € million**	-34	31
Return on investments at fair value, %	2.0	7.6
Fixed income investments' running yield, %	1.1	1.4
	30 June 2020	31 Dec 2019
Investment portfolio, € million	3,454	3,619
Investments within the investment grade category, %	89	88
A-rated receivables, minimum, %	59	64
Modified duration, %	3.1	2.9

*Excluding the separated balance sheets
**Net return on investments at fair value is calculated by deducting the value change in market-consistent insurance liability from income from total investment assets. These investments exclude separated balance sheets.

Other Operations

Key figures and ratios

€ million	H1/2020	H1/2019	Change, %	Q1–4/2019
Net interest income	-32	-34	-	-59
Net commissions and fees	5	4	43.3	6
Net investment income	2	22	-91.2	38
Other operating income	421	298	41.4	593
Total income	396	289	37.0	578
Personnel costs	89	73	22.3	148
Depreciation/amortisation and impairment loss	67	66	1.6	132
Other operating expenses	197	161	22.7	336
Total expenses	354	300	18.0	616
Impairment loss on receivables	1	1	15.0	0
Earnings before tax	43	-10	-	-37

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

Financial performance for the reporting period

Earnings before tax amounted to EUR 43 million (–10). Sale of the Vallila property improved earnings, while the growth in expenses reduced earnings. Total income increased by 37.0% to EUR 396 million.

Net interest income was EUR –32 million (–34). Net investment income totalled EUR 2 million (22). Net income from financial assets recognised at fair value through profit or loss decreased by EUR 16 million.

Other operating income increased by 41.4% to EUR 421 million. The sale of the Vallila property increased other operating income in the first quarter. OP Financial Group recognised a capital gain of EUR 98 million on the sale in other operating income and an expense of EUR 2 million in other operating expenses.
OP Financial Group will continue operating in the property under a long-term lease agreement. The property was recognised as a right-of-use asset in the balance sheet. The value of the right-of-use asset under IFRS 16 was EUR 138 million and the lease liability was EUR 225 million.

Total expenses increased by 18.0% year on year to EUR 354 million. Personnel costs increased by 22.3% to EUR 89 million. Depreciation/amortisation and impairment loss on PPE and intangible assets increased by 1.6% to EUR 67 million. Other operating expenses increased by 22.7% to EUR 197 million as ICT costs increased by EUR 25 million.

On 30 June 2020, the average margin of OP Financial Group's senior and senior non-preferred wholesale funding, TLTRO funding and covered bonds was 23 basis points (19). Covered bonds are reported as part of the Retail Banking segment.

OP Financial Group's access to funding remained good. In January–June, the Group issued long-term bonds worth EUR 5.9 billion. In March, the wholesale funding market was disrupted due to the COVID-19 crisis and the prices of long-term unsecured wholesale funding increased fast and significantly. In the second quarter, the wholesale funding market recovered markedly, although prices did not return to pre-crisis levels. In January, OP Financial Group issued a senior non-preferred bond of EUR 500 million with a maturity of 7 years, and a covered bond of EUR 1 billion with a maturity of 8.25 years. In May and June, it issued two senior bonds of EUR 1 billion with a maturity of 5.25 and 4 years. In May and June, OP Financial Group also issued two Tier 2 bonds, one worth SEK 3.25 billion and the other worth EUR 1 billion. The Tier 2 bonds have a maturity of 10 years, but they can be called in after 5 years from the issue date.

In March, OP Financial Group took out financing worth USD 500 million offered by the ECB to banks. The maturity of the loan is less than one year. In June, OP Financial Group participated in the third series of the ECB's targeted longer-term refinancing operations (TLTRO-III) with a total of EUR 6.0 billion.

Liquidity remained good during the reporting period despite the COVID-19 crisis.

Service development

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

OP Financial Group's development expenditure for January–June totalled EUR 154 million (157). This included licence fees, purchased services, other external costs related to projects and in-house work. The capitalised development expenditure totalled EUR 53 million (66). More detailed information on OP Financial Group's investments can be found in each business segment's section in this Half-year Financial Report.

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

Personnel

On 30 June 2020, OP Financial Group had 12,772 employees (12,226). The increase in the second quarter was due to the recruitment of summer interns. The number of employees averaged 12,395 (12,376).

Personnel at period end

	30 June 2020	31 Dec 2019
Retail Banking	7,278	7,230
Corporate Banking	968	907
Insurance	2,218	2,015
Other Operations	2,308	2,074
Total	12,772	12,226

During the reporting period, 142 OP Financial Group employees (136) retired at an average age of 62.5 years (62.1).

Variable remuneration applied by OP Financial Group in 2020 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.
OP Financial Group's remuneration statement presents more detailed information of the variable remuneration.

Changes in OP Financial Group's structure

OP Financial Group's consolidated financial statements at the end of the reporting period included the accounts of 141 OP cooperative banks (147) and OP Cooperative Consolidated. The number of OP cooperative banks decreased during the reporting period due to mergers.

Köyliön Osuuspankki and Vampulan Osuuspankki merged into Säkylän Osuuspankki on 29 February 2020. Consequently, the business name of Säkylän Osuuspankki was changed to Ala-Satakunnan Osuuspankki.

Kihniön Osuuspankki merged into Virtain Osuuspankki on 29 February 2020. After this, on the same day, Virtain Osuuspankki merged into Ruoveden Osuuspankki. Consequently, the business name of Ruoveden Osuuspankki was changed to Ylä-Pirkanmaan Osuuspankki.

Kannuksen Osuuspankki merged into Suomenselän Osuuspankki on 31 March 2020.

On 30 April 2020, Kesälahden Osuuspankki merged into Pohjois-Karjalan Osuuspankki.

On 11 February 2020 and 13 February 2020, Honkilahden Osuuspankki and Euran Osuuspankki accepted a merger plan, according to which the former will merge into the latter. The planned date for registration of the merger is 31 July 2020.

On 21 January 2020, Parikkalan Osuuspankki, Simpeleen Osuuspankki and Etelä-Karjalan Osuuspankki accepted merger plans, according to which Parikkalan Osuuspankki and Simpeleen Osuuspankki will merge into Etelä-Karjalan Osuuspankki. The planned date for registration of the mergers is 31 August 2020.

Kalajoen Osuuspankki and Keski-Pohjanmaan Osuuspankki accepted a merger plan on 2 June 2020, according to which the former will merge into the latter. The planned date for registration of the merger is 31 October 2020.

Simplifying OP Cooperative Consolidated's structure

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

A-Insurance Ltd merged into Pohjola Insurance Ltd on 31 March 2020.

On 28 April 2020, OP Corporate Bank plc and Kaivokadun PL-hallinto Oy accepted a merger plan, according to which the latter will merge into the former. The planned date for registration of the merger is 31 October 2020.

On 19 May 2020, OP Cooperative and OP Co-ride Ltd accepted a merger plan, according to which the latter will merge into the former. The planned date for registration of the merger is 31 October 2020.

Governance of OP Cooperative

At its meeting on 30 October 2019, OP Cooperative's Supervisory Board (as of 1 January 2020, the Supervisory Council) decided on the conditional composition of OP Cooperative's new Board of Directors. The Supervisory Council confirmed the appointments after OP Cooperative's new Bylaws had entered into force on 1 January 2020. The regulatory authority has approved the composition of OP Cooperative's Board of Directors.

As of 1 January 2020, the Board of Directors consists of the following members: Leif Enberg (b. 1954, M.Sc., Econ. & Bus. Adm., Approved Board Member), Jarna Heinonen (b. 1965, D.Sc., Econ. & Bus. Adm.), Jari Himanen (b. 1962, Diploma in Bus. & Adm., eMBA), Kati Levoranta (b. 1970, LL.M., MBA), Pekka Loikkanen (b. 1959, M.Sc., Econ. & Bus. Adm.), Riitta Palomäki (b. 1957, M.Sc., Econ. & Bus. Adm.), Jaakko Pehkonen (b. 1960, D.Sc., Econ. & Bus. Adm.), Timo Ritakallio (b. 1962, LL.M., MBA, D.Sc., Tech.), Olli Tarkkanen (b. 1962, LL.M., eMBA) and Mervi Väisänen (b. 1963, M.Sc., Econ. & Bus. Adm., Approved Board Member).

At the beginning of 2020, the Board of Directors elected Jaakko Pehkonen as Chair and Jarna Heinonen as Vice Chair of the Board of Directors. On 7 January 2020, the Board of Directors elected from among its members the chairs, vice chairs and other members to the statutory Board Committees.

On 10 June 2020, the Supervisory Council of OP Cooperative appointed Tero Ojanperä (b. 1966, Ph.D. Eng) as member of the Board of Directors of OP Cooperative as of 1 July 2020. Ojanperä's appointment is conditional and subject to regulatory approval. As of 1 July 2020, the Board of Directors comprises 11 members.

OP Financial Group's central cooperative (OP Cooperative) held its Annual Cooperative Meeting on 19 March 2020.

The Meeting re-elected for the term ending in 2021 the following members to the Supervisory Council who were due to resign: Mika Helin, Managing Director, and Mervi Hinkkanen, Bachelor of Hospitality Management, MBA.

New members elected to the Supervisory Council for a term ending in 2021 were Procurement Manager Päivi Hakasuo, Professor Juha-Pekka Junttila, postgraduate Päivi Kujala, Managing Director Pekka Lehtonen, Managing Director Sirpa Leppäkoski, Senior Manager Anssi Mäkelä, Managing Director Ulf Nylund, farmer-entrepreneur Johanna Pättiniemi, Development Director Tiina Rajala, entrepreneur Timo Syrjälä and Managing Director Pauliina Takala.

The Supervisory Council comprises 36 members.

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

The Annual Cooperative Meeting re-elected KPMG Oy Ab, an audit firm, to act as the auditor for the financial year 2020, with Juha-Pekka Mylén, APA, acting as the chief auditor, appointed by KPMG Oy Ab.

The Annual Cooperative Meeting of 19 March 2020 decided to alter the central cooperative's Bylaws. A major change is that the allotment of seats in the Supervisory Council will be determined so that each Federation of Cooperative Banks will have six seats in the Supervisory Council of the central cooperative.

Outlook towards the year end

Due to the COVID-19 pandemic, the global economy declined sharply in the second quarter. However, it began to recover already in early summer as restrictions were eased. The financial market picked up during the second quarter as well, helped by central banks' sizeable support measures. While the Finnish economy directly suffered less from restrictions than the economies of many other countries, Finland's GDP also plunged in the spring.

The economic outlook is still exceptionally uncertain in spite of the tentative recovery. Uncertainties in the financial market may increase rapidly if the pandemic outbreak worsens again. Recession in the export markets may also affect the Finnish economy with a lag, even if the direct effects of the pandemic gradually waned. A recession caused by the pandemic may have lagged effects on banks and insurance companies, if customers' financial difficulties persist.

The exceptional uncertainty caused by the COVID-19 pandemic increases impairment loss on receivables and weakens investment income at OP Financial Group. OP Financial Group's earnings before tax for 2020 are expected to be lower than in 2019.

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

Formulas for key figures and ratios

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

Alternative Performance Measures

Return on equity (ROE), %	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 excluding guarantee receivables	
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 at step 2 a year ago ――― New defaulted contracts during the reporting period	x 100
Non-life insurance:		
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

Life Insurance:

Operating ratio, %	Total expenses / Expense loading + refund of management fee	x 100

Indicators based on a separate calculation

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

Ratio of performing forborne exposures to doubtful receivables, %	Performing forborne exposures (net)*** / Doubtful receivables at period end	x 100
Ratio of loss allowance (receivables from customers) to doubtful receivables, %	Loss allowance for receivables from customers in the balance sheet / Doubtful receivables at period end	x 100
Loan and guarantee portfolio	Loan portfolio + guarantee portfolio	

*Transitional provisions have been taken into account in the FiCo solvency.
**Non-performing receivables refer to receivables that are more than 90 days past due and other receivables classified as risky as well as forborne receivables 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.

Non-life insurance operating result

€ million	H1/2020	H1/2019	Q1–4/2019
Insurance premium revenue	740	726	1 478
Claims incurred	514	518	1 060
Operating expenses	147	154	311
Balance on technical account	79	54	107
Reduction in discount rate			-136
Investment income and expenses	-33	87	307
Other income and expenses	-3	-12	-23
Earnings before tax	43	130	255
Temporary exemption (overlay approach)	48	-40	-65
Earnings before tax	90	89	190

The non-life insurance financial indicators are calculated using expenses by function applied by non-life insurance companies, which are not presented on the same principle as in the Consolidated Income Statement.

Capital adequacy and solvency

Capital adequacy for credit institutions

Capital base, € million	30 June 2020	31 Dec 2019
OP Financial Group's equity capital	12,515	12,570
Effect of insurance companies on the Group's shareholders' equity is excluded	-224	-237
Fair value reserve, cash flow hedge	-199	-141
Common Equity Tier 1 (CET1) before deductions	12,092	12,192
Intangible assets	-590	-630
Excess funding of pension liability and valuation adjustments	-105	-76
Cooperative capital deducted from capital base	-2	-142
Planned profit distribution and unpaid profit distribution for previous period	-69	-97
Shortfall of ECL minus expected losses	-481	-428
CET1 capital	10,845	10,819
Hybrid capital to which transitional provision is applied	40	60
Additional Tier 1 capital (AT1)	40	60
Tier 1 capital (T1)	10,885	10,879
Debenture loans	2,049	806
Tier 2 capital (T2)	2,049	806
Total capital	12,934	11,685

Risk exposure amount, EUR million	30 June 2020	31 Dec 2019
Credit and counterparty risk	54,424	49,216
Standardised Approach (SA)	4,462	4,101
Central government and central banks exposure	391	304
Credit institution exposure	7	8
Corporate exposure	2,957	2,646
Retail exposure	1,008	1,069
Equity investments	23	22
Other	75	52
Internal Ratings-based Approach (IRB)	49,962	45,115
Credit institution exposure	1,056	1,023
Corporate exposure	27,137	25,580
Retail exposure	13,607	10,320
Equity investments	7,095	6,898
Other	1,065	1,293
Market and settlement risk (Standardised Approach)	2,016	1,309
Operational risk (Standardised Approach)	3,964	4,232
Valuation adjustment (CVA)	242	191
Other risks*	611	11
Total risk exposure amount	61,256	54,959
Risk weight floors based on ECB's decision	179	505
Total risk exposure amount including risk weight floors	61,435	55,464

*Other risks on 30 June 2020 describes the effects of preparing for COVID-19.

Ratios, %	30 June 2020	31 Dec 2019
CET1 capital ratio	17.7	19.5
Tier 1 ratio	17.7	19.6
Capital adequacy ratio	21.1	21.1

Ratios, fully loaded, %	30 June 2020	31 Dec 2019
CET1 capital ratio	17.7	19.5
Tier 1 ratio	17.7	19.5
Capital adequacy ratio	21.0	21.0

Capital requirement, EUR million	30 June 2020	31 Dec 2019
Capital base	12,934	11,685
Capital requirement	8,449	8,068
Buffer for capital requirements	4,484	3,617

The capital requirement of 13.8% comprises the minimum requirement of 8%, the capital conservation buffer of 2.5%, the O-SII buffer requirement of 1.0%, the minimum requirement (P2R) of 2.25% (2.0 a year ago) set by the ECB and the changing capital conservation buffers by country for foreign exposures.

Leverage ratio, EUR million	30 June 2020	31 Dec 2019
Tier 1 capital (T1)	10,885	10,879
Total exposure	144,356	131,504
Leverage ratio, %	7.5	8.3

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

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

€ million	30 June 2020	31 Dec 2019
OP Financial Group's equity capital	12,515	12,570
Hybrid instruments and debenture loans	2,089	866
Other sector-specific items excluded from capital base	-223	-349
Goodwill and intangible assets	-1,351	-1,393
Insurance business valuation differences*	588	720
Planned profit distribution and unpaid profit distribution for previous period	-69	-97
Items under IFRS deducted from capital base**	-196	-150
Shortfall of ECL minus expected losses	-455	-402
Conglomerate's total capital base	12,897	11,766
Regulatory capital requirement for credit institutions***	7,564	7,132
Regulatory capital requirement for insurance operations*	1,410	1,386
Conglomerate's total minimum capital requirement	8,974	8,518
Conglomerate's capital adequacy	3,923	3,248
Conglomerate's capital adequacy ratio (capital base/minimum of capital base) (%)	144	138

* Differences between fair values and carrying amounts based on the solvency of insurance companies and an estimate of SCR.
** Excess funding of pension liability, portion of cash flow hedge of fair value reserve.
*** Total risk exposure amount x 13.8%, a year ago 14.5%.

Transitional provisions have been taken into account in figures.

Income statement

EUR million	Notes	Q1–2 2020	Q1–2 2019	Q2 2020	Q2 2019
Net interest income	2	646	602	327	309
Net insurance income	3	295	274	164	165
Net commissions and fees	4	455	450	211	216
Net investment income	5	-28	218	112	73
Other operating income		112	35	5	26
Total income		**1,481**	**1,579**	**819**	**790**
Personnel costs		415	404	207	208
Depreciation/amortisation		129	127	64	69
Other expenses	6	449	421	204	212
Total expenses		**993**	**953**	**475**	**488**
Impairments loss on receivables	7	-166	-39	-60	-28
OP bonuses to owner-customers		-124	-124	-64	-60
Temporary exemption (overlay approach)		89	-67	-62	-12
Earnings before tax		**287**	**396**	**158**	**202**
Income tax expense		62	77	29	37
Profit for the period		**224**	**319**	**129**	**165**
Attributable to:					
Profit for the period attributable to owners		222	316	129	163
Profit for the period attributable to non-controlling interest		2	3	0	2
Profit for the period		**224**	**319**	**129**	**165**

Statement of comprehensive income

EUR million	Notes	Q1–2 2020	Q1–2 2019	Q2 2020	Q2 2019
Profit for the period		**224**	**319**	**129**	**165**
Items that will not be reclassified to profit or loss					
Gains/(losses) arising from remeasurement of defined benefit plans		3	-25	-72	-17
Items that may be reclassified to profit or loss					
Change in fair value reserve					
Measurement at fair value		-73	153	206	70
Cash flow hedge		72	149	24	79
Temporary exemption (overlay approach)		-86	66	66	10
Translation differences			0		0
Income tax					
Items that will not be reclassified to profit or loss					
Gains/(losses) arising from remeasurement of defined benefit plans		-1	5	-16	3
Items that may be reclassified to profit or loss					
Measurement at fair value		14	-31	-41	-14
Cash flow hedge		-14	-30	-5	-16
Temporary exemption (overlay approach)		17	-13	-13	-2
Total comprehensive income for the period		**158**	**594**	**278**	**279**
Attributable to:					
Total comprehensive income for the period attributable to owners		156	591	278	278
Total comprehensive income for the period attributable to non-controlling interests		2	3	0	2
Total comprehensive income for the period		**158**	**594**	**278**	**279**

Balance sheet

EUR million	Notes	30 June 2020	31 Dec 2019
Cash and cash equivalents		21,947	11,988
Receivables from credit institutions		254	246
Derivative contracts	16	5,378	4,824
Receivables from customers		93,754	91,463
Investment assets		23,912	23,509
Assets covering unit-linked contracts		10,261	10,831
Intangible assets		1,364	1,406
Property, plant and equipment (PPE)		652	524
Other assets		2,496	1,684
Tax assets		237	235
Non-current assets held for sale			314
Total assets		**160,255**	**147,024**
Liabilities to credit institutions		8,579	2,632
Derivative contracts		3,874	3,316
Liabilities to customers		72,750	68,289
Insurance liabilities	8	9,699	9,476
Liabilities from unit-linked insurance and investment contracts	9	10,292	10,862
Debt securities issued to the public	10	35,276	34,369
Provisions and other liabilities		3,662	3,163
Tax liabilities		1,020	1,050
Subordinated liabilities		2,587	1,290
Liabilities associated with non-current assets held for sale			6
Total liabilities		**147,740**	**134,454**
Equity capital			
Share of OP Financial Group's owners			
Cooperative capital			
Cooperative share		209	209
Profit shares		2,902	3,029
Fair value reserve	11	182	251
Other reserves		2,172	2,185
Retained earnings		6,891	6,730
Non-controlling interests		**158**	**166**
Total equity capital		**12,515**	**12,570**
Total liabilities and equity capital		**160,255**	**147,024**

Statement of changes in equity capital

EUR million	Coope-rative capital	Fair value reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity capital
	Attributable to owners						
Balance at 1 January 2019	**3,241**	**7**	**2,183**	**6,157**	**11,588**	**154**	**11,742**
Total comprehensive income for the period		295		296	**591**	3	**594**
Profit for the period				316	**316**	3	**319**
Other comprehensive income		295		-20	**275**		**275**
Profit distribution				-94	**-94**	-4	**-99**
Change in membership and profit shares	-54				**-54**		**-54**
Transfer of reserves			2	-2			
Other				-1	**-1**	21	**19**
Balance at 30 June 2019	**3,187**	**301**	**2,185**	**6,355**	**12,029**	**173**	**12,202**

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

Cash flow statement

EUR million	Q1–2 2020	Q1–2 2019
Cash flow from operating activities		
Profit for the period	224	319
Adjustments to profit for the period	46	-3
Increase (-) or decrease (+) in operating assets	**-4,441**	**-2,954**
Receivables from credit institutions	-92	47
Derivative contracts	-668	-10
Receivables from customers	-2,386	-2,569
Non-life insurance assets	55	51
Investment assets	-551	111
Other assets	-799	-583
Increase (+) or decrease (-) in operating liabilities	**10,490**	**1,150**
Liabilities to credit institutions	5,849	-104
Derivative contracts	-289	26
Liabilities to customers	4,461	623
Insurance liabilities	52	113
Liabilities from unit-linked insurance and investment contracts	-68	168
Provisions and other liabilities	485	323
Income tax paid	-67	-94
Dividends received	21	37
A. Net cash from operating activities	**6,275**	**-1,545**
Cash flow from investing activities		
Acquisition of subsidiaries, net of cash acquired	0	0
Disposal of subsidiaries, net of cash disposed	193	0
Purchase of PPP and intangible assets	-67	-78
Proceeds from sale of PPE and intangible assets	421	1
B. Net cash used in investing activities	**547**	**-77**
Cash flow from financing activities		
Increases in subordinated liabilities	1,312	
Decreases in subordinated liabilities	-10	
Increases in debt securities issued to the public	17,536	16,656
Decreases in debt securities issued to the public	-16,273	-16,633
Increases in cooperative and share capital	37	175
Decreases in cooperative and share capital	-178	-230
Dividends paid and interest on cooperative capital	-11	-94
Lease liabilities	-17	
C. Net cash used in financing activities	**2,396**	**-127**
Net change in cash and cash equivalents (A+B+C)	**9,217**	**-1,750**
Cash and cash equivalents at period-start	**12,168**	**12,423**
Effect of foreign exchange rate changes	**658**	
Cash and cash equivalents at period-end	**22,043**	**10,673**
Interest received	**915**	**926**
Interest paid	**-312**	**-347**
Cash and cash equivalents		
Liquid assets	21,947	10,551
Receivables from credit institutions payable on demand	96	122
Total	**22,043**	**10,673**

Segment reporting

Segment information

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

Q1–2 earnings 2019, EUR million	**Retail Banking**	**Corporate Banking**	**Insurance**	**Other operations**	**Group eliminations**	**OP Financial Group**
Net interest income	457	185	-5	-34	0	602
of which internal net income before tax	0	-1	-5	6		0
Net insurance income			283		-9	274
Net commissions and fees	356	56	33	4	1	450
Net investment income	-14	52	178	22	-19	218
Other operating income	21	15	14	298	-313	35
Total income	**820**	**308**	**502**	**289**	**-340**	**1,579**
Personnel costs	222	39	70	73	0	404
Depreciation/amortisation	23	10	28	66	0	127
Other operating expenses	349	97	136	161	-321	421
Total expenses	**594**	**146**	**234**	**300**	**-321**	**953**
Impairments loss on receivables	-26	-14	0	1	0	-39
OP bonuses to owner-customers	-107	-8	-9		0	-124
Temporary exemption (overlay approach)			-67		0	-67
Earnings before tax	**94**	**139**	**192**	**-10**	**-19**	**396**

Balance sheet 30 June 2020, EUR million	Retail Banking	Corporate Banking	Insurance	Other operations	Group eliminations	OP Financial Group
Cash and cash equivalents	64	41	0	21,842		21,947
Receivables from credit institutions	17,037	104	1,802	9,632	-28,322	254
Derivative contracts	690	5,219	401	241	-1,174	5,378
Receivables from customers	68,841	25,498		369	-954	93,754
Investment assets	310	706	9,432	19,330	-5,866	23,912
Assets covering unit-linked contracts			10,261			10,261
Intangible assets	39	215	787	326	-3	1,364
Property, plant and equipment (PPE)	356	4	131	172	-12	652
Other assets	250	637	1,108	710	-210	2,496
Tax assets	113	6	7	74	38	237
Total assets	**87,701**	**32,431**	**23,930**	**52,697**	**-36,504**	**160,255**
Liabilities to credit institutions	8,972	697		25,524	-26,615	8,579
Derivative contracts	400	4,161	5	534	-1,227	3,874
Liabilities to customers	57,375	13,619		4,203	-2,448	72,750
Insurance liabilities			9,699			9,699
Liabilities from unit-linked insurance and investments contracts			10,292			10,292
Debt securities issued to the public	13,481	886	0	21,804	-895	35,276
Provisions and other liabilities	856	1,085	844	1,069	-191	3,662
Tax liabilities	499	2	130	391	-1	1,020
Subordinated liabilities	-18	-17	380	2,638	-395	2,587
Total liabilities	**81,564**	**20,434**	**21,350**	**56,163**	**-31,771**	**147,740**
Equity						**12,515**

Balance sheet 31 December 2019, EUR million	Retail Banking	Corporate Banking	Insurance	Other operations	Group eliminations	OP Financial Group
Cash and cash equivalents	71	19	1,506	11,891	-1,499	11,988
Receivables from credit institutions	12,785	130	23	9,577	-22,269	246
Derivative contracts	507	4,384	379	468	-913	4,824
Receivables from customers	67,985	24,502	0	95	-1,118	91,463
Investment assets	316	1,006	9,798	17,626	-5,236	23,509
Assets covering unit-linked contracts			10,831			10,831
Intangible assets	43	221	791	354	-3	1,406
Property, plant and equipment (PPE)	355	2	134	43	-11	524
Other assets	247	376	869	407	-216	1,684
Tax assets	103	4	45	39	42	235
Non-current assets held for sale				314		314
Total assets	**82,411**	**30,645**	**24,376**	**40,814**	**-31,223**	**147,024**
Liabilities to credit institutions	8,965	757		15,511	-22,601	2,632
Derivative contracts	323	3,657	109	195	-968	3,316
Liabilities to customers	54,434	11,290		4,664	-2,100	68,289
Insurance liabilities			9,476			9,476
Liabilities from unit-linked insurance and investments contracts			10,862			10,862
Debt securities issued to the public	11,574	1,441		21,449	-94	34,369
Provisions and other liabilities	642	801	767	1,120	-167	3,163
Tax liabilities	483	5	201	363	-1	1,050
Subordinated liabilities	-18	9	380	1,314	-395	1,290
Liabilities associated with non-current assets held for sale				6		6
Total liabilities	**76,403**	**17,960**	**21,795**	**44,622**	**-26,326**	**134,454**
Equity						**12,570**

Notes

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

Note 1. Accounting policies

The Half-year Financial Report has been prepared in accordance with IAS 34 Interim Financial Reporting and with the accounting policies presented in the consolidated financial statements 2019.

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.

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.

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.

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 private 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.

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

Goodwill and assets with indefinite useful lives are subject to an annual impairment test or whenever there is any indication that the value of the cash-generating unit applied in testing in may have lowered. The recoverable amount determined in the impairment test is usually based on value in use, and its calculation requires estimates of future cash flows and of the discount rate level applied in calculating their present value. A total of EUR 632 million in goodwill and EUR 162 million in the value of brands are covered by impairment tests. In the reporting period, the cash flow forecasts of cash-generating units for the upcoming five years were updated, and the change was compared to the corresponding forecasts at the time of testing in 2019. Despite the coronavirus crisis, expectations on future cash flows did not change markedly during the reporting period, so there were no such indications of impairment that would have required the performance of new actual impairment tests.

Definition of default

In the IFRS 9 based calculation, OP Financial Group applies the same definition of default as in internal credit risk models (IRB). OP Financial Group assesses default using its internal rating system based on payment behaviour. For private customers, the definition of default is applied on a contract-by-contract basis whereas corporate customers are reviewed in terms of a group of connected clients. A customer is classified as a default customer when it is probable that the customer will not pay their loan obligations in full without OP Financial Group resorting to measures (e.g. realisation of collateral) or no later than when payment related to financial assets is more than 90 days past due.

The definition of default is based on Article 178 of Regulation No. 575/2013 (CRR) of the European Parliament and of the Council.

In the first quarter of 2020, OP Financial Group adopted the European Banking Authority's (EBA) guidelines on the application of the definition of default (Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013: EBA/GL/2016/07 and EBA/RTS/2016/06). The Guidelines harmonise the definition of default applied by European banks on their customers. The process in accordance with the Guidelines recognises default earlier, for example, based on the unlikeliness to pay criteria that include, for example, payment defaults registered in external credit registers or granted forbearance where the present value of the loan decreases by more than 1 per cent. The Guidelines also extend default among private customers to all credit obligations of an obligor when a significant proportion (20%) of private customer exposures are defaulted. In addition, the materiality threshold for exposures of over 90 days past due has been lowered to 100 euros and 1 per cent of the contract's or the customer's balance sheet exposures in retail exposures and to 500 euros and 1 per cent of the contract's or the customer's balance sheet exposures in exposures other than retail exposures.

The customer's default ends when it no longer meets the criteria for the definition of default and the subsequent probation period of 6–12 months has ended.

OP Financial Group will apply a so-called two-step approach of the EBA Guidelines. The first step involved the change of the definition of default during the first quarter of 2020. The second step to be taken later involves the calibration of credit risk parameters. The adoption of the first step increased the number of defaulted exposures and that of the number of transfers to impairment Stage 3. Expected credit losses increased by 44 million euros, which was recognised as a change in the accounting estimate in profit or loss. Impairment loss on receivables is presented in Note 7.

Calculation of expected credit loss on notes and bonds

OP Financial Group used two separate models in the calculation of the expected credit loss on notes and bonds. The primary model was the Bloomberg tool. For the bonds that the Bloomberg tool did not support on each ECL measurement date, the Group used OP Financial Group's own model based on credit rating information.

On 30 June 2020, OP Financial Group discontinued the use of the Bloomberg tool and started using only OP's own model based on credit rating information. This model is based on external credit ratings and, where these are not available, OP Financial Group's internal ratings. OP Financial Group's model based on credit rating information takes better account of collateral in the LGD component and ensures the transfer of notes and bonds between impairment stages at the right time. In addition, the model harmonises and speeds up the calculation process. The change of model had no major effect on the amount of expected credit loss on notes and bonds.

Sale of the Vallila property

OP Financial Group classified the Vallila property in the third quarter of 2019 as a non-current asset held for sale. The Vallila property comprises a block located in Vallila, Helsinki, which was completed in 2017.

On 31 January 2020, OP Cooperative, OP Financial Group's central cooperative, sold the Vallila property to a South Korean-Finnish consortium which includes Varma Mutual Pension Insurance Company, NH Investment & Securities (NHIS) and Shinhan Investment Corp. The value of the transaction was 480 million euros. The sale of the property improved OP Financial Group's CET1 ratio by 0.2 percentage points. A capital gain of EUR 96 million was recognised on the sale in OP Financial Group's first quarter results 2020. OP Financial Group recognised a capital gain of 98 million euros on the sale in other operating income and expenses of 2 million euros in other operating expenses. The full capital gain was recognised in the Other Operations segment.

The Group will continue operating in the property under a long-term lease agreement, and the property was recognised as a right-of-use asset in the balance sheet. The value of the right-of-use asset under IFRS 16 was 138 million euros and the lease liability was 225 million euros.

Change in accounting policies in 2019

In the fourth quarter of 2019, OP Financial Group adopted an amortisation-based revenue recognition method for the customer margin related to a derivative clause attached to loans with an interest rate cap or interest rate collar. The effect of this change was adjusted retrospectively in OP Financial Group's retained earnings (under equity). In addition, the income statements and balance sheets for the first three quarters of 2019 were restated to reflect the new revenue recognition practice. The change had no effect on segment reporting. For more information on this change, see the Financial Statements and the Financial Statements Bulletin for 2019.

Notes to the income statement

Note 2. Net interest income

EUR million	Q1–2 2020	Q1–2 2019	Q2 2020	Q2 2019
Interest income				
Receivables from credit institutions				
Interest	1	1	0	1
Negative interest	6	12	4	5
Total	7	13	4	6
Receivables from customers				
Loans	624	601	317	303
Finance lease receivables	15	13	7	7
Impaired loans and other commitments	0	0	0	
Negative interest	9	5	5	2
Total	648	620	329	313
Notes and bonds				
Measured at fair value through profit or loss	1	1	0	0
At fair value through other comprehensive income	33	42	16	20
Amortised cost	2	5	1	5
Total	35	48	17	26
Derivative contracts				
Fair value hedge	-62	-52	-29	-26
Cash flow hedge	25	26	12	13
Ineffective portion of cash flow hedge	0	5	-2	1
Other		-9		-5
Total	-37	-30	-19	-16
Other	5	2	3	1
Total	**658**	**653**	**335**	**330**
Interest expenses				
Liabilities to credit institutions				
Interest	3	5	2	3
Negative interest	24	32	14	15
Total	27	37	15	18
Liabilities to customers	37	37	18	19
Notes and bonds issued to the public	126	126	63	66
Subordinated liabilities				
Subordinated loans	0	0	0	0
Other	22	23	11	12
Total	22	23	11	12
Derivative contracts				
Cash flow hedge	-135	-125	-65	-64
Other	-60	-60	-29	-29
Total	-195	-185	-93	-93
Other	3	2	2	1
Total	**19**	**39**	**15**	**22**
Net interest income before fair value adjustment under hedge accounting	**639**	**613**	**320**	**308**
Hedging derivatives	111	125	21	110
Value changes of hedged items	-104	-136	-14	-109
Total	**646**	**602**	**327**	**309**

Note 3. Net insurance income

EUR million	Q1–2 2020	Q1–2 2019	Q2 2020	Q2 2019
Net insurance premium revenue				
Premiums written	948	938	293	304
Insurance premiums ceded to reinsurers	6	0	13	11
Change in provision for unearned premiums	-238	-236	61	52
Reinsurers' share	17	16	5	4
Total	733	718	371	371
Net non-life insurance claims				
Claims paid	-487	-523	-232	-230
Insurance claims recovered from reinsurers	13	10	8	1
Change in provision for unpaid claims	28	55	16	15
Reinsurers' share	-3	0	-6	1
Total	-449	-457	-214	-213
Other non-life insurance items	-3	-2	-1	-1
Life Insurance risk premiums collected	14	15	8	8
Total	**295**	**274**	**164**	**165**

Note 4. Net commissions and fees

Q1-2 2020, EUR million	Retail Banking	Corporate Banking	Insurance	Other operations	Elimi-nations	OP Financial Group	Q2 2020
Commission income							
Lending	50	23		3	-1	75	34
Deposits	0	1		0	0	1	1
Payment transfers	129	17		8	-6	148	84
Securities brokerage	5	15			-4	15	6
Securities issuance	0	4		0	0	4	3
Mutual funds	18	102	0	0	-49	71	36
Asset management	16	13		0	-6	23	10
Legal services	10	0			0	10	5
Guarantees	4	6		0	-0	10	5
Housing service	33					33	16
Insurance brokerage	57		18		-40	35	-36
Life insurance total expense loadings			42			42	21
Refund of unit-linked management fees			40			40	17
Health and wellbeing services			6		0	6	3
Other	47	3		0	-49	2	-6
Total	**370**	**184**	**105**	**11**	**-154**	**515**	**198**
Commission expenses							
Payment transfers	12	3	1	2	-5	12	6
Securities brokerage		6	0	0	0	5	2
Securities issuance	0	1		0	-1	0	0
Mutual funds		49	0		-50	0	0
Asset management		5	0	1	0	5	3
Insurance operations	-4		64		-36	24	11
Health and wellbeing services			2		0	2	1
Other	9	55	0	3	-56	10	7
Total	**17**	**119**	**67**	**6**	**-149**	**60**	**30**
Total net commissions and fees	**353**	**65**	**38**	**5**	**-6**	**455**	**168**

Q1-2 2019, EUR million	Retail Banking	Corporate Banking	Insurance	Other operations	Elimi-nations	OP Financial Group	Q2 2019
Commission income							
Lending	54	22	0	2	-1	77	38
Deposits	1	1		0	0	2	1
Payment transfers	111	15		7	-6	127	67
Securities brokerage	2	10		0	-2	10	4
Securities issuance		4		0	0	4	2
Mutual funds	15	99	0	0	-44	70	35
Asset management	14	13		0	-7	20	10
Legal services	12	0			0	12	6
Guarantees	4	6		0	0	10	5
Housing service	35					35	19
Insurance brokerage	67		18		-47	37	-35
Life insurance total expense loadings			46			46	22
Refund of unit-linked management fees			39			39	21
Health and wellbeing services			11		-1	10	5
Other	67	7		0	-56	19	10
Total	**382**	**177**	**113**	**10**	**-164**	**519**	**209**
Commission expenses							
Payment transfers	11	2	1	2	-6	10	7
Securities brokerage		7	0		-2	5	2
Securities issuance	0	2		0	0	3	1
Mutual funds		49			-44	4	2
Asset management		5	0	0	-0	5	3
Insurance operations	-5		74		-48	21	9
Health and wellbeing services			6			6	3
Other	19	57	0	4	-66	15	8
Total	**26**	**121**	**81**	**6**	**-165**	**69**	**35**
Total net commissions and fees	**356**	**56**	**33**	**4**	**1**	**450**	**174**

Note 5. Net investment income

EUR million	Q1–2 2020	Q1–2 2019	Q2 2020	Q2 2019
Net income from assets at fair value through other comprehensive income				
Notes and bonds				
Interest income	28	35	14	17
Other income and expenses	-2	0	-1	0
Capital gains and losses	16	33	6	4
Currency fair value gains and losses	-1	2	-9	-7
Impairment losses and their reversal*	-10	4	-4	3
Total	**32**	**74**	**6**	**17**

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

Net income recognised at fair value through profit or loss				
Financial assets held for trading				
Notes and bonds				
Interest income and expenses	1	3	0	1
Fair value gains and losses	-0	5	5	2
Total	1	8	5	3
Shares and participations				
Fair value gains and losses	1	13	7	6
Dividend income and share of profits	3	0	1	0
Total	5	14	8	7
Derivatives				
Interest income and expenses	64	48	38	28
Fair value gains and losses	132	192	65	115
Total	195	240	103	143
Total	**201**	**261**	**116**	**153**
Financial assets that must measured at fair value through profit or loss				
Notes and bonds				
Interest income	12	12	6	6
Fair value gains and losses	6	1	9	0
Total	18	13	15	7
Shares and participations				
Fair value gains and losses	-92	78	54	8
Dividend income and share of profits	17	23	3	11
Total	-75	102	56	19
Total	**-57**	**115**	**71**	**26**
Financial assets designated as at fair value through profit or loss				
Notes and bonds				
Interest income	16	20	8	10
Fair value gains and losses	-4	89	66	35
Total	12	109	74	45
Shares and participations				
Fair value gains and losses	-16	-1	0	-1
Dividend income and share of profits	2	7	0	5
Total	-14	6	-1	3
Derivatives				
Fair value gains and losses	-23	-18	-11	-16
Total	-23	-18	-11	-16
Total	**-25**	**97**	**62**	**33**
Total net income from financial assets recognised at fair value through profit or	**118**	**473**	**249**	**212**

Net income from investment property				
Rental income	27	34	13	17
Fair value gains and losses	-4	9	-8	2
Maintenance charges and expenses	-34	-32	-17	-16
Other	1	-3	0	-1
Net income from investment property total	-11	8	-12	2
Net income from loans and receivables measured at amortised cost				
Loans and receivables				
Interest income	2	4	0	2
Interest expenses	-1	-1	-1	0
Capital gains and losses	0		0	
Impairment losses and their reversal	1	-3	-2	-1
Loans and receivables total	1	1	-3	1
Non-life insurance				
Unwinding of discount, Non-life Insurance	-11	-14	-6	-7
Life insurance				
Interest credited on customers' insurance savings	-42	-43	-21	-21
Change in supplementary interest rate provisions	-64	-86	-12	-47
Other technical items**	-51	-193	-82	-83
Total	-157	-322	-115	-152

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

Associated companies				
Accounted for using the fair value method	-4	5	-8	-1
Consolidated using the equity method	4	-6	0	2
Total	-1	-1	-8	1
Total net investment income	**-28**	**218**	**112**	**73**

Note 6. Other operating expenses

EUR million	Q1–2 2020	Q1–2 2019	Q2 2020	Q2 2019
ICT costs				
Production	133	107	63	54
Development	72	65	36	38
Buildings	24	30	14	15
Government charges and audit fees	45	37	9	7
Purchased services	65	64	31	36
Data communications	19	16	9	8
Marketing	13	17	8	10
Corporate social responsibility	5	5	3	2
Insurance and security costs	5	6	2	4
Other	67	75	30	38
Total	**449**	**421**	**204**	**212**

Development costs

EUR million	Q1–2 2020	Q1–2 2019	Q2 2020	Q2 2019
ICT development costs	72	65	36	38
Share of own work	28	26	14	14
Total development costs in the income statement	100	91	50	51
Capitalised ICT costs	47	60	26	29
Capitalised share of own work	7	6	3	3
Total capitalised development costs	53	66	29	32
Advance payments	**0**			
Total development costs	**154**	**157**	**79**	**83**
Depreciation/amortisation and impairment loss	90	85	45	47

Note 7. Impairment losses on receivables

EUR million	Q1–2 2020	Q1–2 2019	Q2 2020	Q2 2019
Receivables written down as loan and guarantee losses	30	31	10	14
Recoveries of receivables written down	-4	-5	-2	-3
Expected credit losses (ECL) on receivables from customers and off-balance-sheet	140	14	55	17
Expected credit losses (ECL) on notes and bonds*	-1	-1	-2	0
Total	**166**	**39**	**60**	**28**

* 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 2020

Exposures	Stage 1	Stage 2			Stage 3	
EUR million		Not more than 30 DPD	More than 30 DPD	Total		Total exposure
Receivables from customers (gross)						
Retail Banking	61,871	7,565	68	7,633	1,424	70,928
Corporate Banking	25,601	1,498	332	1,830	588	28,019
Total	**87,472**	**9,063**	**400**	**9,463**	**2,012**	**98,947**
Off-balance-sheet limits						
Retail Banking	8,711	349	1	349	17	9,078
Corporate Banking	9,257	463	139	602	68	9,926
Total	**17,968**	**812**	**140**	**951**	**85**	**19,004**
Other off-balance-sheet commitments						
Retail Banking	1,185	76		76	14	1,276
Corporate Banking	6,182	293		293	108	6,584
Total	**7,368**	**369**		**369**	**123**	**7,860**
Notes and bonds						
Other Operations	14,132	44		44		14,176
Insurance	4,419	45		45	17	4,481
Total	**18,551**	**88**		**88**	**17**	**18,657**
Total exposures within the scope of accounting for expected credit losses	**131,359**	**10,333**	**540**	**10,872**	**2,237**	**144,468**

Loss allowance by stage 30 June 2020

On-balance-sheet exposures and related off-balance-sheet limits*	Stage 1	Stage 2			Stage 3	
EUR million		Not more than 30 DPD	More than 30 DPD	Total		Total loss allowance
Receivables from customers						
Retail Banking	-22	-68	-1	-69	-249	-340
Corporate Banking	-34	-28	-2	-30	-284	-348
Total	**-56**	**-96**	**-4**	**-100**	**-533**	**-689**
Off-balance-sheet commitments**						
Retail Banking	-1	-1		-1	0	-2
Corporate Banking	-3	-2		-2	-18	-22
Total	**-4**	**-3**		**-3**	**-18**	**-24**
Notes and bonds***						
Other Operations	-2	-1		-1		-2
Insurance	-7	-2		-2	-7	-16
Total notes and bonds	**-8**	**-3**		**-3**	**-7**	**-18**
Total	**-69**	**-101**	**-4**	**-105**	**-558**	**-731**

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

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

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

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

Summary and key indicators 30 June 2020	Stage 1	Stage 2			Stage 3	
		Not more than 30 DPD	More than 30 DPD	Total		Total
Receivables from customers; on-balance-sheet and off-balance-sheet items						
Retail Banking	71,768	7,989	69	8,058	1,456	81,281
Corporate Banking	41,040	2,255	471	2,726	764	44,529
Loss allowance						
Retail Banking	-23	-69	-1	-70	-249	-342
Corporate Banking	-37	-30	-2	-32	-302	-371
Coverage ratio, %						
Retail Banking	-0.03%	-0.86%	-2.15%	-0.87%	-17.11%	-0.42%
Corporate Banking	-0.09%	-1.31%	-0.51%	-1.17%	-39.50%	-0.83%
Receivables from customers; total on-balance-sheet and off-balance-sheet items	**112,807**	**10,244**	**540**	**10,784**	**2,219**	**125,811**
Total loss allowance	**-60**	**-98**	**-4**	**-102**	**-551**	**-713**
Total coverage ratio, %	**-0.05%**	**-0.96%**	**-0.72%**	**-0.95%**	**-24.82%**	**-0.57%**
Carrying amount, notes and bonds						
Other Operations	14,132	44		44		14,176
Insurance	4,419	45		45	17	4,481
Loss allowance						
Other Operations	-2	-1		-1		-2
Insurance	-7	-2		-2	-7	-16
Coverage ratio, %						
Other Operations	-0.01%	-1.90%		-1.90%		-0.02%
Insurance	-0.15%	-3.76%		-3.76%	-41.03%	-0.35%
Total notes and bonds	**18,551**	**88**		**88**	**17**	**18,657**
Total loss allowance	**-8**	**-3**		**-3**	**-7**	**-18**
Total coverage ratio, %	**-0.05%**	**-2.84%**		**-2.84%**	**-41.03%**	**-0.10%**

Exposures within the scope of accounting for expected credit losses by impairment stage 31 December 2019

Exposures	Stage 1	Stage 2			Stage 3	
EUR million		Not more than 30 DPD	More than 30 DPD	Total		Total exposure
Receivables from customers (gross)						
Retail Banking	60,605	6,778	173	6,951	909	68,464
Corporate Banking	25,103	1,388	306	1,693	384	27,180
Total	**85,707**	**8,166**	**479**	**8,645**	**1,292**	**95,644**
Off-balance-sheet limits						
Retail Banking	5,218	354	7	361	11	5,589
Corporate Banking	4,674	318	151	470	60	5,204
Total	**9,892**	**673**	**158**	**830**	**71**	**10,793**
Other off-balance-sheet commitments						
Retail Banking	2,775	94		94	12	2,881
Corporate Banking	7,011	1,216		1,216	70	8,297
Total	**9,786**	**1,309**		**1,309**	**82**	**11,178**
Notes and bonds						
Other Operations	12,259	93		93		12,352
Insurance	3,936	4		4	10	3,950
Total	**16,196**	**97**		**97**	**10**	**16,302**
Total exposures within the scope of accounting for expected credit losses	**121,581**	**10,245**	**637**	**10,881**	**1,455**	**133,918**

Loss allowance by stage 31 December 2019

On-balance-sheet exposures and related off-balance-sheet limits*	Stage 1	Stage 2			Stage 3	
EUR million		Not more than 30 DPD	More than 30 DPD	Total		Total loss allowance
Receivables from customers						
Retail Banking	-16	-54	-3	-57	-188	-261
Corporate Banking	-25	-18	-3	-21	-248	-294
Total	**-40**	**-72**	**-6**	**-78**	**-436**	**-555**
Other off-balance-sheet commitments**						
Retail Banking	-1	-1		-1	0	-2
Corporate Banking	-2	-4		-4	-10	-16
Total	**-3**	**-5**		**-5**	**-10**	**-18**
Notes and bonds***						
Other Operations	-2	-1		-1		-3
Insurance	-4	-1		-1	-5	-10
Total notes and bonds	**-6**	**-1**		**-1**	**-5**	**-13**
Total	**-49**	**-79**	**-6**	**-85**	**-451**	**-585**

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

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

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

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

Summary and key indicators 31 December 2019	Stage 1	Stage 2			Stage 3	
		Not more than 30 DPD	More than 30 DPD	Total		Total
Receivables from customers; on-balance-sheet and off-balance-sheet items						
Retail Banking	68,597	7,226	180	7,406	931	76,934
Corporate Banking	36,788	2,922	457	3,379	514	40,681
Loss allowance						
Retail Banking	-17	-55	-3	-58	-188	-263
Corporate Banking	-27	-22	-3	-26	-258	-310
Coverage ratio, %						
Retail Banking	-0.02%	-0.76%	-1.67%	-0.78%	-20.22%	-0.34%
Corporate Banking	-0.07%	-0.77%	-0.71%	-0.76%	-50.12%	-0.76%
Receivables from customers; total on-balance-sheet and off-balance-sheet items	**105,386**	**10,148**	**637**	**10,784**	**1,445**	**117,615**
Total loss allowance	**-43**	**-77**	**-6**	**-83**	**-446**	**-573**
Total coverage ratio, %	**-0.04%**	**-0.76%**	**-0.98%**	**-0.77%**	**-30.86%**	**-0.49%**
Carrying amount, notes and bonds						
Other Operations	12,259	93		93	0	12,352
Insurance	3,936	4		4	10	3,950
Loss allowance						
Other Operations	-2	-1		-1	0	-3
Insurance	-4	-1		-1	-5	-10
Coverage ratio, %						
Other Operations	-0.02%	-0.81%		-0.81%		-0.02%
Insurance	-0.09%	-19.84%		-19.84%	-54.58%	-0.24%
Total notes and bonds	**16,196**	**97**		**97**	**10**	**16,302**
Total loss allowance	**-6**	**-1**		**-1**	**-5**	**-13**
Total coverage ratio, %	**-0.04%**	**-1.52%**		**-1.52%**	**-54.58%**	**-0.08%**

The following flow statements show the changes in loss allowance by impairment stage during Q1-2 2020 in respect of the effect of the following factors:

Receivables from customers and off-balance-sheet items, EUR million	Stage 1	Stage 2	Stage 3	
	12 months	Lifetime	Lifetime	Total
Loss allowance 1 January 2020	**44**	**83**	**446**	**573**
Transfers from Stage 1 to Stage 2	-4	29		25
Transfers from Stage 1 to Stage 3	-2		44	43
Transfers from Stage 2 to Stage 1	2	-11		-9
Transfers from Stage 2 to Stage 3		-18	83	65
Transfers from Stage 3 to Stage 2		1	-3	-3
Transfers from Stage 3 to Stage 1	0		-1	-1
Increases due to origination and acquisition	10	5	13	27
Decreases due to derecognition	-6	-10	-18	-34
Changes in risk parameters (net)	17	24	2	43
Decrease in allowance account due to write-offs		0	-15	-15
Net change in expected credit losses	**17**	**19**	**105**	**140**
Loss allowance 30 June 2020	**61**	**102**	**551**	**713**
Net change in expected credit losses Q2 2020	**6**	**33**	**17**	**55**

Effect of the application of the new definition of default

OP Financial Group will apply a so-called Two-Step Approach. The first step involved the change of the definition of default during the first quarter of 2020. The second step to be taken later involves the calibration of credit risk parameters. The adoption of the first step increased the number of defaulted contracts and that of the number of transfers to Stage 3. Expected credit losses increased by EUR 44 million in the first quarter.

Coronavirus pandemic (COVID-19)

To prevent the significant economic effects caused by the coronavirus pandemic (COVID-19), the EU member states have implemented a variety of financial support measures. On 2 April 2020, the European Banking Authority (EBA) published clarification to relief on processing payment moratoria due to the COVID-19 pandemic in the capital requirements regulation for applying, for example, to forborne exposures and default (EBA/GL/2020/02 "Guidelines on legislative and non-legislative moratoria on loan payments applied in the light of the COVID-19 crisis"). On 7 July 2020, the EBA also published a report on the implementation of selected COVID-19 policies (EBA/REP/2020/19). However, the relief applies to legislative payment moratorium or payment moratorium jointly agreed within the banking sector that have not been carried out in Finland. In Finland, the financial support measures for lending consist of raising the Finnvera's (Government guarantee institution) financing authorisation to EUR 12 billion. Consequently, SMEs can apply for working capital backed up by a guarantee from Finnvera to get through the coronavirus crisis.

The Finnvera guarantees will reduce the ECL amount through LGD components in the ECL calculation.

OP Financial Group has independently provided its private customers with the opportunity to get a 12-month repayment holiday on their home loans. With respect to corporate customers, changes in repayment schedules are evaluated on a case-by-case basis. In addition, guarantees provided by Finnvera are used extensively. In loan modifications, forborne loans and customers in default are identified according to the normal set of instructions. During the coronavirus crisis, most of the repayment holidays have been granted to private customers and to SME customers.

In the ECL measurement, the coronavirus crisis has been taken into account by updating macroeconomic factors in both the first and the second quarter. When the crisis began in the first quarter, a larger weight was given to the downside scenario; downside 40%, baseline 50% and upside 10%. As the situation levelled off in the second quarter, the scenario weights were reinstated to normal; downside 20%, baseline 60% and upside 20%. For example, GDP growth for 2020 is predicted to be negative, from –4.5% to –7.5% in different scenarios, and that for 2021 is predicted to be positive, from 1.6% to 5.5% in different scenarios. The unemployment rate for 2020 is predicted to be from 7.7% to 9.0% in different scenarios, and that for 2021 is predicted to be from 7.3% to 10.1% in different scenarios.

In the first half of 2020, the effect of the coronavirus crisis on growth in expected credit loss totalled approximately EUR 65 million. This was reflected in the transfer of contracts from impairment stages 1 and 2 to impairment stages 2 and 3, and in growth in risk parameters, especially in PD. Uncertainty still exists related to the economic development caused by the coronavirus crisis.

Notes and bonds, EUR million	Stage 1	Stage 2	Stage 3	
	12 months	Lifetime	Lifetime	Total
Loss allowance 1 January 2020	**6**	**1**	**5**	**13**
Transfers from Stage 1 to Stage 2	0	2		1
Transfers from Stage 1 to Stage 3	0		1	1
Transfers from Stage 2 to Stage 1	0	0		0
Transfers from Stage 2 to Stage 3		-1	1	0
Transfers from Stage 3 to Stage 2		0	0	0
Transfers from Stage 3 to Stage 1	1		-2	-1
Increases due to origination and acquisition	1	1	0	2
Decreases due to derecognition	-1	-1		-1
Changes in risk parameters (net)	0			0
Changes due to update in the methodology for estimation (net)	0		2	2
Net change in expected credit losses	**2**	**1**	**2**	**5**
Loss allowance 30 June 2020	**8**	**3**	**7**	**18**
Net change in expected credit losses Q2 2020	**-3**	**1**	**1**	**-1**

The table below shows the change in loss allowance by impairment stage during 2019 in respect of the effect of the following factors:

Receivables from customers and off-balance-sheet items, EUR million	Stage 1	Stage 2	Stage 3	
	12 months	Lifetime	Lifetime	Total
Loss allowance 1 January 2019	**40**	**83**	**409**	**532**
Transfers from Stage 1 to Stage 2	-3	22		19
Transfers from Stage 1 to Stage 3	-4		15	11
Transfers from Stage 2 to Stage 1	2	-11		-10
Transfers from Stage 2 to Stage 3		-14	33	19
Transfers from Stage 3 to Stage 2		5	-16	-11
Transfers from Stage 3 to Stage 1	1		-2	-2
Increases due to origination and acquisition	16	15	14	45
Decreases due to derecognition	-7	-14	-24	-44
Changes in risk parameters (net)	-1	-2	48	45
Decrease in allowance account due to write-offs	0	0	-31	-31
Net change in expected credit losses	**4**	**0**	**37**	**41**
Loss allowance 31 December 2019	**44**	**83**	**446**	**573**
Net change in expected credit losses Q2 2019	**-3**	**1**	**-1**	**-3**

Notes and bonds, EUR million	Stage 1	Stage 2	Stage 3	
	12 months	Lifetime	Lifetime	Total
Loss allowance 1 January 2019	**6**	**4**	**4**	**14**
Transfers from Stage 1 to Stage 2	0	1		1
Transfers from Stage 1 to Stage 3	0		2	2
Transfers from Stage 2 to Stage 1	0	-2		-2
Transfers from Stage 3 to Stage 1	0		0	0
Increases due to origination and acquisition	2	0	0	2
Decreases due to derecognition	-2	-2	-1	-4
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	**0**	**-2**	**1**	**-1**
Loss allowance 31 December 2019	**6**	**1**	**5**	**13**
Net change in expected credit losses Q2 2019	**0**	**-3**	**1**	**-1**

Note 8. Insurance liabilities

EUR million	30 June 2020	31 Dec 2019
Provision for unpaid claims		
Provision for unpaid claims for annuities	1,563	1,571
Other provision for unpaid claims	1,092	1,101
Reserve for decreased discount rate (value of hedges of insurance liability)	56	-22
Total	2,710	2,650
Provisions for unearned premiums	822	584
Life insurance insurance liabilities	6,167	6,242
Total	**9,699**	**9,476**

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

EUR million	30 June 2020	31 Dec 2019
Liabilities from unit-linked insurance	8,584	9,086
Investment contracts	1,708	1,776
Total	**10,292**	**10,862**

Note 10. Debt securities issued to the public

EUR million	30 June 2020	31 Dec 2019
Bonds	10,124	12,657
Subordinated bonds (SNP)	1,685	1,156
Covered bonds	13,214	12,097
Other		
Certificates of deposit	119	
Commercial paper	10,218	9,716
Included in own portfolio in trading (–)*	-84	-101
Total debt securities issued to the public	**35,276**	**34,369**

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

Note 11. Fair value reserve after income tax

EUR million	Fair value through other comprehensive income: Notes and bonds	Shares and participations (overlay approach)	Cash flow hedging	Total
Opening balance 1 January 2019	**-5**	**-21**	**33**	**7**
Fair value changes	173	70	180	423
Capital gains transferred to income statement	-20	-13		-33
Impairment loss transferred to income statement		9		9
Transfers to net interest income			-31	-31
Deferred tax	-31	-13	-30	-74
Closing balance 30 June 2019	**117**	**32**	**152**	**301**

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

The fair value reserve before tax totalled EUR 228 million (314) and the related deferred tax asset/liability EUR -46 million (–63). During the reporting period, positive mark-to-market valuations of equity instruments in the fair value reserve totalled EUR 28 million (84) and negative mark-to-market valuations EUR 113 million (18), owing to the application of the overlay approach. The loss allowance on notes and bonds recognised at fair value through other comprehensive income totalled EUR -5 million (2) in the fair value reserve during the reporting period.
A negative fair value reserve may recover by means of asset appreciation and recognised impairments.

Note 12. Collateral given

EUR million	30 June 2020	31 Dec 2019
Given on behalf of own liabilities and commitments		
Pledges	133	230
Loans (as collateral for covered bonds)	15,656	14,551
Others	4,947	3,496
Total collateral given*	**20,736**	**18,277**
Secured derivative liabilities	1,403	1,098
Other secured liabilities	3,144	2,209
Covered bonds	13,214	12,097
Total	**17,760**	**15,404**

* In addition, bonds with a book value of EUR 3.6 billion have been pledged in the central bank, of which EUR 1.5 billion in intraday settlement collateral. Given that the bonds are available for withdrawal without the central bank's advance permission, they are not presented in the table above.

Note 13. Classification of financial assets and liabilities

			Fair value through profit or loss				
Assets, EUR million	Amortised cost	Fair value through other comprehen-sive income	Financial assets held for trading	Financial assets designated as at fair value through profit or loss	Must be measured at fair value through profit or loss	Hedging derivatives	Carrying amount total
Cash and cash equivalents	21,947						21,947
Receivables from credit institutions	254						254
Derivative contracts			4,449			929	5,378
Receivables from customers	93,754						93,754
Assets covering unit-linked contracts				10,261			10,261
Notes and bonds	0	18,208	554	2,237	452		21,451
Equity instruments		0	77	199	1,203		1,480
Other financial assets	2,565						2,565
Financial assets							**157,090**
Other than financial instruments							3,165
Total 30 June 2020	**118,520**	**18,208**	**5,081**	**12,697**	**1,655**	**929**	**160,255**

Assets, EUR million	Amortised cost	Fair value through other comprehen-sive income	Financial assets held for trading	Financial assets designated as at fair value through profit or loss	Must be measured at fair value through profit or loss	Hedging derivatives	Carrying amount total
Cash and cash equivalents	11,988						11,988
Receivables from credit institutions	246						246
Derivative contracts			3,821			1,003	4,824
Receivables from customers	91,463						91,463
Assets covering unit-linked contracts				10,831			10,831
Notes and bonds	3	16,695	1,415	2,216	466		20,795
Equity instruments		0	77	254	1,248		1,580
Other financial assets	1,884						1,884
Financial assets							**143,612**
Other than financial instruments							3,412
Total 31 December 2019	**105,585**	**16,695**	**5,313**	**13,301**	**1,714**	**1,003**	**147,024**

Liabilities, EUR million	Financial liabilities at fair value through profit or loss	Other liabilities	Hedging derivatives	Carrying amount total
Liabilities to credit institutions		8,579		8,579
Derivative contracts	3,080		794	3,874
Liabilities to customers		72,750		72,750
Insurance liabilities		9,699		9,699
Liabilities from unit-linked insurance and investment contracts	10,292			10,292
Debt securities issued to the public		35,276		35,276
Subordinated loans		2,587		2,587
Other financial liabilities		2,620		2,620
Financial liabilities				**145,677**
Other than financial liabilities				2,063
Total 30 June 2020	**13,372**	**131,511**	**794**	**147,740**

Liabilities, EUR million	Financial liabilities at fair value through profit or loss	Other liabilities	Hedging derivatives	Carrying amount total
Liabilities to credit institutions		2,632		2,632
Derivative contracts	2,887		429	3,316
Liabilities to customers		68,289		68,289
Insurance liabilities		9,476		9,476
Liabilities from unit-linked insurance and investment contracts	10,862			10,862
Debt securities issued to the public		34,369		34,369
Subordinated loans		1,290		1,290
Other financial liabilities		2,578		2,578
Financial liabilities				**132,812**
Other than financial liabilities				1,642
Total 31 December 2019	**13,749**	**118,634**	**429**	**134,454**

Bonds included in debt securities issued to the public are carried at amortised cost. On 30 June, the fair value of these debt instruments was approximately EUR 607 (529) million higher than their carrying amount, based on information available in markets and employing commonly used valuation techniques. Subordinated liabilities are carried at amortised cost. Their fair values are higher than their amortised costs, but determining reliable fair values involves uncertainty.

Note 14. Recurring fair value measurements by valuation technique

Fair value of assets on 30 June 2020, EUR million	Level 1	Level 2	Level 3	Total
Recognised at fair value through profit or loss				
Equity instruments	619	258	603	1,480
Debt instruments	1,945	1,101	196	3,243
Unit-linked contracts	6,733	3,528		10,261
Derivative financial instruments	0	5,331	46	5,378
Fair value through other comprehensive income				
Equity instruments		0		0
Debt instruments	15,540	2,071	597	18,208
Total financial instruments	**24,838**	**12,290**	**1,443**	**38,570**
Investment property			702	702
Total	**24,838**	**12,290**	**2,145**	**39,273**

Fair value of assets on 31 December 2019, EUR million	Level 1	Level 2	Level 3	Total
Recognised at fair value through profit or loss				
Equity instruments	705	231	643	1,579
Debt instruments	2,810	750	537	4,097
Unit-linked contracts	7,048	3,783	0	10,831
Derivative financial instruments	22	4,728	74	4,824
Fair value through other comprehensive income				
Equity instruments		0		0
Debt instruments	13,980	1,827	888	16,695
Total financial instruments	**24,565**	**11,319**	**2,143**	**38,027**
Investment property			714	714
Total	**24,565**	**11,319**	**2,857**	**38,741**

Fair value of liabilities on 30 June 2020, EUR million	Level 1	Level 2	Level 3	Total
Recognised at fair value through profit or loss				
Unit-linked contracts	6,754	3,538		10,292
Other		0		0
Derivative financial instruments	1	3,797	75	3,874
Total	**6,755**	**7,336**	**75**	**14,166**

Fair value of liabilities on 31 December 2019, EUR million	Level 1	Level 2	Level 3	Total
Recognised at fair value through profit or loss				
Unit-linked contracts	7,068	3,794	0	10,862
Other		12		12
Derivative financial instruments	18	3,266	32	3,316
Total	**7,086**	**7,072**	**32**	**14,190**

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 2020	**1,181**	**74**	**888**	**2,143**
Total gains/losses in profit or loss	-548	-28	0	-576
Total gains/losses in other comprehensive income			0	0
Purchases	68		1	69
Sales	-45		-1	-46
Settlements	-5			-5
Transfers into Level 3	154		-192	-38
Transfers out of Level 3	-4		-99	-104
Closing balance 30 June 2020	**800**	**46**	**597**	**1,443**

Financial liabilities, EUR million	Derivative contracts	Total liabilities
Opening balance 1 January 2020	**32**	**32**
Total gains/losses in profit or loss	43	43
Closing balance 30 June 2020	**75**	**75**

Total gains/losses included in profit or loss by item for the financial year on 30 June 2020

EUR million	Net interest income	Net investment income	Statement of comprehensive income/ Change in fair value reserve	Total gains/ losses for the financial year included in profit or loss for assets/ liabilities held at year-end
Realised net gains (losses)	-487	-51	-11	-548
Unrealised net gains (losses)	-71		0	-71
Total net gains (losses)	**-558**	**-51**	**-11**	**-620**

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 2020.

Note 15. Off-balance-sheet commitments

EUR million	30 June 2020	31 Dec 2019
Guarantees	956	711
Other guarantee liabilities	2,388	2,459
Loan commitments	12,069	13,180
Commitments related to short-term trade transactions	287	333
Other*	1,257	1,311
Total off-balance-sheet commitments	**16,957**	**17,995**

* Of which Non-life Insurance commitments to private equity funds amount to EUR 182 million (194).

Note 16. Derivative contracts

Total derivatives 30 June 2020

	Nominal values/residual maturity				Fair values*	
EUR million	<1 year	1–5 years	>5 years	Total	Assets	Liabilities
Interest rate derivatives	41,811	69,812	81,729	193,353	3,904	2,072
Cleared by the central counterparty	12,438	40,322	47,300	100,060	34	25
Currency derivatives	43,824	4,829	2,410	51,063	965	1,274
Equity and index-linked derivatives	1	2		3		
Credit derivatives	93	114	4	211	1	23
Other derivatives	226	409	11	646	39	52
Total derivatives	**85,955**	**75,165**	**84,155**	**245,274**	**4,909**	**3,421**

Total derivatives 31 December 2019

	Nominal values/residual maturity				Fair values*	
EUR million	<1 year	1–5 years	>5 years	Total	Assets	Liabilities
Interest rate derivatives	34,200	75,299	77,593	187,091	3,151	2,015
Cleared by the central counterparty	10,791	36,126	42,208	89,126	52	53
Currency derivatives	45,143	6,954	2,414	54,511	1,252	967
Equity and index-linked derivatives	1	2		3	0	
Credit derivatives	59	1,610	4,468	6,137	25	20
Other derivatives	233	435	18	686	68	38
Total derivatives	**79,636**	**84,299**	**84,493**	**248,427**	**4,496**	**3,041**

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

Note 17. Investment distribution of the Insurance segment

Non-life Insurance	30 June 2020		31 December 2019	
Investment asset portfolio allocation	Fair value*, EUR million	%	Fair value*, EUR million	%
Money market total	**480**	**12**	**547**	**14**
Money market instruments and deposits**	475	12	541	14
Derivatives***	5	0	6	0
Total bonds and bond funds	**2,584**	**66**	**2,644**	**67**
Governments	462	12	447	11
Investment Grade	1,622	41	1,669	42
Emerging markets and High Yield	312	8	253	6
Structured Investments****	187	5	275	7
Total equities	**428**	**11**	**426**	**11**
Finland	91	2	116	3
Developed markets	189	5	172	4
Emerging markets	78	2	67	2
Unlisted equities	6	0	6	0
Private equity investments	64	2	65	2
Total alternative investments	**34**	**1**	**35**	**1**
Hedge funds	34	1	35	1
Total property investment	**393**	**10**	**300**	**8**
Direct property investment	250	6	159	4
Indirect property investment	143	4	141	4
Total	**3,919**	**100**	**3,952**	**101**

* Includes accrued interest income.

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

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

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

Life Insurance	30 June 2020		31 December 2019	
Investment asset portfolio allocation	Fair value*, EUR million	%	Fair value*, EUR million	%
Total money market instruments	**453**	**13**	**386**	**11**
Money market investments and deposits**	450	13	381	11
Derivatives***	3	0	5	0
Total bonds and bond funds	**2,344**	**68**	**2,555**	**71**
Governments	426	12	516	15
Investment Grade	1,418	41	1,548	45
Emerging markets and High Yield	229	7	200	6
Structured investments****	271	8	290	8
Total equities	**384**	**11**	**406**	**11**
Finland	71	2	105	3
Developed markets	166	5	156	5
Emerging markets	67	2	61	2
Fixed assets and unquoted equities	3	0	3	0
Private equity investments	77	2	81	2
Total alternative investments	**41**	**1**	**41**	**1**
Hedge funds	41	1	41	1
Total real property investments	**233**	**7**	**231**	**6**
Direct property investments	93	3	93	3
Indirect property investments	140	4	138	4
Total	**3,454**	**100**	**3,619**	**100**

* Includes accrued interest income.

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

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

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

Note 18. Related-party transactions

Due to OP Cooperative's new governance structure of 1 January 2020, the definition of a related party was updated and a new Board of Directors was included in the related party. The term key management personnel under IAS 24 will also be used instead of management body members.

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

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

Related-party transactions have not undergone any substantial changes since 31 December 2019.

Financial reporting in 2020

Interim Report Q1–3/2020	22 October 2020
OP Amalgamation Capital Adequacy Report 30 June 2020	Week 31
OP Amalgamation Capital Adequacy Report 30 September 2020	Week 44

Helsinki, 21 July 2020

OP Cooperative
Board of Directors

Additional information:
Timo Ritakallio, President and Group Chief Executive Officer, tel. +358 (0)10 252 4500
Vesa Aho, Chief Financial Officer, tel. +358 (0)10 252 1427
Tuuli Kousa, Chief Communications and Corporate Responsibility Officer, tel. +358 (0)10 252 2957

www.op.fi