# OP Financial Group's Half-year Financial Report for 1 January–30 June 2023

# OP Financial Group's Half-year Financial Report for 1 January–30 June 2023:

## Operating profit EUR 986 million – Income increased markedly

| Operating profit H1/2023 | Net interest income H1/2023 | Investment income H1/2023 | Total expenses H1/2023 | CET1 ratio 30 June 2023 |
|---|---|---|---|---|
| €986 million | +93% | +101% | +9% | 18.8% |

- Operating profit (earnings before tax) was EUR 986 million (402).
- Income from customer business, or net interest income, insurance service result and net commissions and fees, increased by 47% to EUR 1,777 million (1,209). Net interest income grew by 93% to EUR 1,299 million (675). Insurance service result decreased by EUR 48 million to EUR 8 million (56). Net commissions and fees were EUR 470 million (478).
- Impairment loss on receivables in the income statement totalled EUR 99 million (100). Ratio of impairment loss on receivables to loan and guarantee portfolio was 0.19% (0.20).
- Investment income increased by 101% to EUR 250 million (125).
- Total expenses increased by 9% to EUR 1,079 million (988).
- In the year to June, OP Financial Group's loan portfolio decreased by 1% to EUR 98.5 billion (99.2). Deposits decreased by 4% to EUR 73.3 billion (76.0).
- CET1 ratio was 18.8% (17.4), which exceeds the minimum regulatory requirement by 6.5 percentage points. During the first quarter, OP Financial Group adopted the Standardised Approach to credit risk.
- Retail Banking operating profit rose to EUR 524 million (136). Net interest income grew by 106% to EUR 999 million (485). Impairment loss on receivables increased by EUR 16 million to EUR 76 million (60). Net commissions and fees decreased by 9% to EUR 361 million (397). The loan portfolio decreased by 1% and deposits by 2% in the year to June.
- Corporate Banking operating profit was EUR 219 million (91). Net interest income grew by 33% to EUR 285 million (214). Impairment loss on receivables decreased by EUR 17 million to EUR 23 million (40). Net commission and fees grew by 39% to EUR 116 million (83) and investment income by EUR 23 million to EUR 30 million (7). The loan portfolio increased by 2% and deposits decreased by 23% in the year to June.
- Insurance operating profit was EUR 217 million (148). Insurance service result decreased by EUR 48 million to EUR 8 million (56). Investment income increased by 226% to EUR 211 million (65). Non-life Insurance recorded a combined ratio of 98% (94).
- Group Functions operating loss was EUR –1 million (–24).
- New OP bonuses accrued to owner-customers totalled EUR 134 million (107). OP Financial Group allocates part of its profitability improvement to support the daily lives of its owner-customers. The Group increased the OP bonuses earned for 2023 by 30% and will not charge its owner-customers for daily services between October 2023 and March 2024. The increase in OP bonuses means an estimated additional bonus of more than EUR 60 million for 2023. The value of the additional benefit from free daily banking services is approximately EUR 44 million.
- OP Financial Group has applied IFRS 17 Insurance Contracts as of 1 January 2023. As a result of the IFRS 17 transition, OP Financial Group's equity capital on 1 January 2022 decreased by EUR 52 million on the date of transition. At the same time, the Group ceased to apply the overlay approach. The figures in the income statement and balance sheet for 2022 have been adjusted retrospectively. Note 1 Accounting policies of this Half-year Financial Report provides more information on the adoption of IFRS 17 and the changes in the format of the income statement and balance sheet.
- Operating profit (earnings before tax) for 2023 is expected to be higher than in 2022. For more detailed information on the outlook, see "Outlook towards the year end".

# OP Financial Group's key indicators

| | H1/2023 | H1/2022 | Change, % | Q1–4/2022 |
|---|---|---|---|---|
| Operating profit, € million | 986 | 402 | 145.2 | 1,120 |
| Retail Banking | 524 | 136 | 286.1 | 502 |
| Corporate Banking | 219 | 91 | 140.1 | 416 |
| Insurance | 217 | 148 | 46.6 | 293 |
| Group Functions | -1 | -24 | - | -91 |
| New OP bonuses accrued to owner-customers, € million | -134 | -107 | 24.8 | -215 |
| Total income | 2,286 | 1,587 | 44.1 | 3,394 |
| Total expenses | -1,079 | -988 | 9.2 | -1,961 |
| Return on equity (ROE), % | 10.7 | 4.7 | 6.0* | 6.3 |
| Return on equity, excluding OP bonuses, % | 12.0 | 5.9 | 6.2* | 7.5 |
| Return on assets (ROA), % | 0.96 | 0.39 | 0.57* | 0.51 |
| Return on assets, excluding OP bonuses, % | 1.08 | 0.48 | 0.60* | 0.61 |
| | 30 Jun 2023 | 30 Jun 2022 | Change, % | 31 Dec 2022 |
| CET1 ratio, % | 18.8 | 17.6 | 1.2* | 17.4 |
| Loan portfolio, € billion** | 98.5 | 99.2 | -0.7 | 100.2 |
| Deposits, € billion** | 73.3 | 76.0 | -3.6 | 78.0 |
| Ratio of non-performing exposures to exposures, % ** | 2.53 | 2.44 | 0.9* | 2.31 |
| Ratio of impairment loss on receivables to loan and guarantee portfolio, % | 0.19 | 0.20 | -0.01* | 0.11 |
| Owner-customers (1,000) | 2,075 | 2,057 | 0.9 | 2,066 |

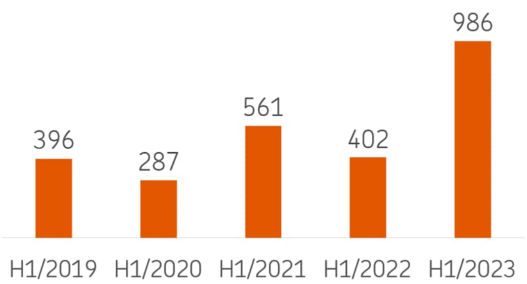
OP Financial Group has applied IFRS 17 Insurance Contracts as of 1 January 2023. The figures in the income statement and balance sheet for 2022 have been adjusted retrospectively. The preceding years' figures (2019, 2020 and 2021) have not been adjusted. Note 1 Accounting policies of this report provides more details on the adoption of IFRS 17 and the changes in the format of the income statement and balance sheet.

Comparatives for the income statement are based on the corresponding figures a year ago. Unless otherwise specified, figures from 31 December 2022 are used as comparatives for balance-sheet and other cross-sectional items.

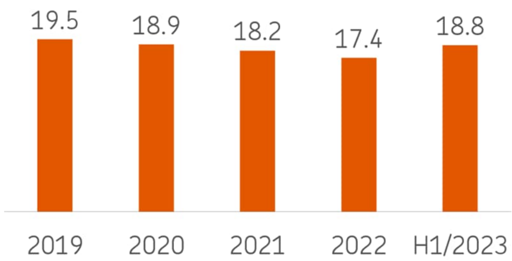
*Change in ratio

**The loan portfolio and deposits exclude changes in the fair value of loans and deposits in hedge accounting as of 1 January 2023. Comparatives have been adjusted to correspond to the current definition.

Operating profit, € million




Common Equity Tier1 ratio (CET1), %



# Comments by President and Group Chief Executive Officer Timo Ritakallio

## OP Financial Group reports strong performance, capital base and liquidity

In the first half of 2023, Finland saw modest economic growth, inflation remained clearly higher than before and market interest rates continued to rise. Despite the challenges in the business environment, OP Financial Group's operating profit continued to develop extremely well in the second quarter. The operating profit for January–June was EUR 986 million, which was clearly higher than a year ago.

OP Financial Group's CET1 ratio improved to 18.8%, which exceeds the minimum regulatory requirement by 6.5 percentage points. Our liquidity also remained excellent. Strong capital adequacy, excellent liquidity and broad trust among customers and other stakeholders are equally vital for a bank and an insurance company. At OP Financial Group, all these factors are in excellent shape.

Despite the apparent rise in funding costs, income from customer business showed solid growth, boosted in particular by the strong increase in net interest income. Similarly, investment income developed well in January–June. Meanwhile, net commissions and fees were slightly down, and insurance service result was clearly lower than a year ago. Overall, our income grew by 44 per cent in the first half of the year. OP Financial Group's cost trend remained well under control, with a growth rate of 9 per cent from a year earlier.

All three business segments showed strong performances in January–June. Growth was particularly strong in Retail Banking, whose operating profit grew by 286 per cent, following favourable developments in net interest income. Similarly, Corporate Banking and Insurance clearly outperformed their results for H1 2022.

Deposits and the loan portfolio continued to perform sluggishly: deposits decreased by 4 per cent and the loan portfolio by 1 per cent year on year. Demand for new home loans and corporate loans was clearly down from a year ago.

## Financial market calms down after the turbulence of early 2023

The instability on the financial market has levelled off since the first months of the year. The banking turbulence, which had its origins in the US, has persisted around regional US banks; in Europe, no new problem banks have emerged since the Swiss-based Credit Suisse. However, the first half of 2023 has seen a clear rise in banks' funding costs around the world.

In the past few months, the world economic outlook has become increasingly polarised: the industrial sector is in recession whereas the service sector continues to grow. The labour market situation has remained strong. We expect continuing economic growth driven by the service sector. As in other countries, use of consumer savings for service consumption has supported the Finnish economy. Construction and industries susceptible to economic fluctuations are experiencing a downturn in Finland, with no rapid turnaround in sight.

## Strong rise in health insurance demand and claims expenditure

The problems in public health care were clearly driving demand for health insurance. In the first half of 2023, the volume of new health insurance policies issued by Pohjola Insurance grew by 20 per cent from a year ago. Simultaneously, claims expenditure for health insurance grew by 50 per cent year on year. The digital transformation in health care is also reflected in the insurance sector: our Health Advisor service reached the milestone of one million contacts in April.

## Coaching customers in making better financial choices

OP Financial Group aims to coach its customers to help them make better financial choices. We provide various ways of managing personal finances more easily, while enabling and supporting long-term saving and investing. Despite the challenging economic times, our customers were active in saving and investing. In January–June, they opened more than 6,000 new equity savings accounts and over 59,000 systematic investment plans. Almost

3 million fund subscriptions were made through systematic investment plans, 7 per cent more than a year earlier. OP Financial Group's mutual funds have more than 1.2 million unitholders. More than 45,000 new Growth Return Accounts were opened during the reporting period.

Despite weak economic development, high inflation and rising interest rates, the loan repayment capacity of personal and corporate customers remained fairly good during the reporting period. The amount of non-performing exposures grew slightly, but the need for loan repayment holidays did not grow from last year. In April–June, the number of applications for home loan modifications was lower than a year ago. The volume of new home loans grew by as much as 23 per cent from the first quarter.

Meanwhile, the amount of extra repayments made by our customers on loans in January–June was around 10 per cent higher than a year ago. Towards the end of the reporting period, however, we identified weak signals indicating a deterioration in loan repayment capacity among some customers.

As market rates continued to rise during the spring, an increasing number of our home loan customers gained relief from interest rate protection. At the end of June, 32 per cent of our customers were benefiting from interest rate caps on their mortgages. In financial terms, their net benefit from interest rate caps totalled EUR 51 million during the reporting period.

### Continued investments in digital transformation – OP Financial Group to hire an additional 300 IT professionals

Our personal and corporate customers increasingly use digital channels for their banking and insurance matters. OP-mobile alone had 55 million logins in June. OP's mobile channels have almost 1.6 million active users.

During the first half of 2023, we continued our ICT investments, first and foremost to further increase the smoothness of our customer business and ensure data security and security of supply in all circumstances. Based on our estimate, OP Financial Group's ICT development expenditure for 2023 will amount to EUR 365 million (313). In future, artificial intelligence will play an increasingly important role in the provision of banking and insurance services. For this reason, we have decided to hire an additional 300 ICT professionals to OP Financial Group in order to develop competitive financial services of the future that will be increasingly based on AI.

### OP Financial Group to increase rewards for its owner-customers

In light of OP Financial Group's strong earnings performance, we want to continue rewarding our owner-customers and will provide them with various additional benefits. As we have previously announced, we will make daily life easier for around 2.1 million of our owner-customers by paying 30 per cent extra on OP bonuses accumulated in 2023. The estimated value of this additional benefit to our owner-customers will be more than EUR 60 million. In addition, we have now decided that we will not charge our owner-customers for daily services between October 2023 and March 2024. The total value of this additional benefit to our owner-customers in these financially challenging times will be approximately EUR 44 million. Our owner-customers will continue to enjoy financial and other benefits stemming from the financial success of a financial services group owned by its customers.

Many thanks to our customers for trusting in us, and to our personnel and governing bodies for their excellent work in the first half of the year.

# OP Financial Group's Half-year Financial Report 1 January–30 June 2023

## Report



## Tables

# Business environment

Economic surveys describing the world economy indicated a better outlook during the first half. Services rebounded but the situation in industry weakened. GDP in the euro area declined slightly in the first half of the year. In June, inflation slowed down to 5.5%, compared to 9.2% at the end of 2022.

Stock prices rose in several countries in the first half. Stock prices in Finland were lower at the end of June than at the end of last year. At the end of June, long-term bond rates were at the 2022-end level.

The European Central Bank (ECB) raised its main refinancing rate several times between January and June. Following the rate raise of 0.25 percentage points in June, the deposit facility rate stood at 3.50%. The most common reference interest rate for home loans, the 12-month Euribor, rose by 0.84 percentage points during January–June, standing at 4.13% at the end of June.

Finnish economic growth was weak during the first half of the year. Interest rates that rose rapidly reduced home sales, and home prices fell. The unemployment rate trend in May was at the 2022-end level, standing at 6.9%. In June, inflation slowed down to 6.3%, compared to 9.1% in December 2022.

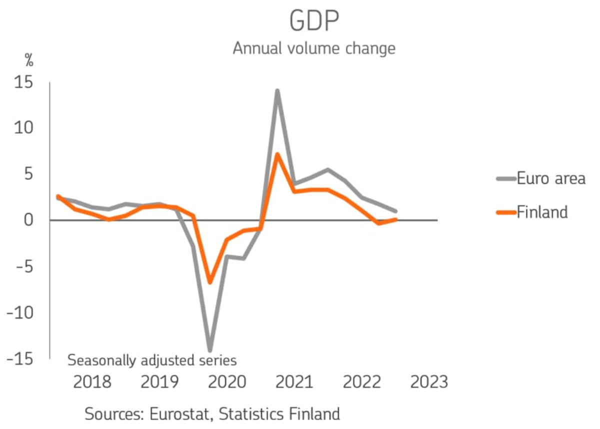
The economic outlook remains subdued and uncertain. Inflation is expected to remain above the ECB's target towards the year end and the ECB still has to pursue a tight monetary policy.

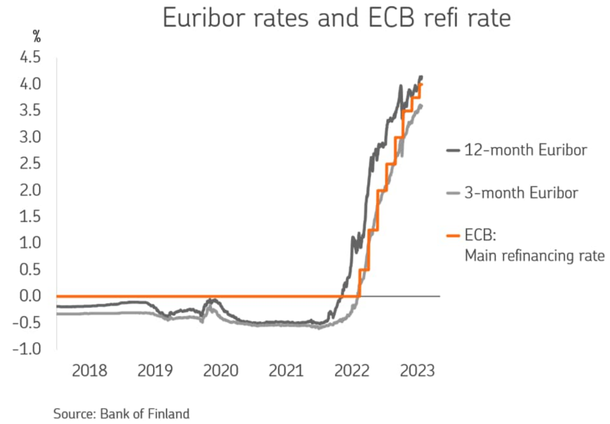
In May, total loans were 2.6% higher than a year ago. The annual growth rate of corporate loans was 3.2% and housing company loans 6.5%. Total household loans decreased by 0.4%. Demand for household loans slowed down in home loans, in particular, which decreased by 0.8% year on year. The annual growth rate of consumer loans was 2.8% in May as against 3.3% during the same period a year earlier.

Total deposits decreased by 0.9% over the previous year. Corporate deposits increased by 0.9% in the year to June, whereas household deposits decreased by 1.8%.

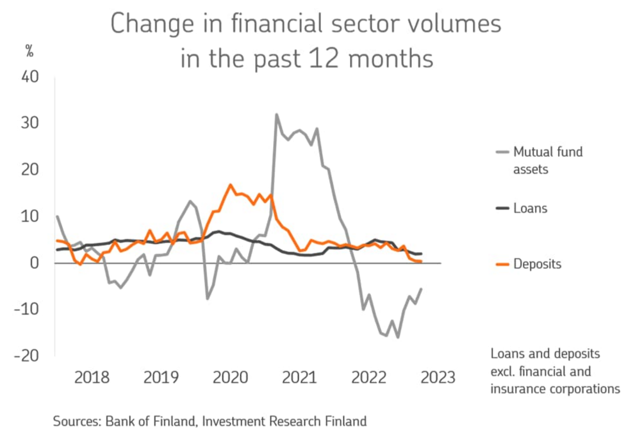
The value of mutual funds registered in Finland increased from EUR 134 billion to EUR 139 billion during the first five months of 2023. During that period, new assets worth a total of EUR 1,749 million were invested in mutual funds registered in Finland.

The end of the pandemic and inflationary pressures have increased insurance companies' claims incurred.







# Earnings analysis and balance sheet

| Earnings analysis, € million | H1/ 2023 | H1/ 2022 | Change, % | Q2/ 2023 | Q2/ 2022 | Change, % | Q1–4/ 2022 |
|---|---|---|---|---|---|---|---|
| **Operating profit** | **986** | **402** | **145.2** | **506** | **228** | **121.7** | **1,120** |
| Retail Banking | 524 | 136 | 286.1 | 268 | 82 | 226.7 | 502 |
| Corporate Banking | 219 | 91 | 140.1 | 119 | 88 | 35.2 | 416 |
| Insurance | 217 | 148 | 46.6 | 127 | 63 | 102.0 | 293 |
| Group Functions | -1 | -24 | - | -5 | -35 | - | -91 |
| Net interest income | 1,299 | 675 | 92.6 | 684 | 341 | 100.6 | 1,618 |
| Impairment loss on receivables | -99 | -100 | -1.5 | -76 | -17 | 355.5 | -115 |
| Net commissions and fees | 470 | 478 | -1.7 | 226 | 231 | -2.2 | 942 |
| Insurance service result | 8 | 56 | -85.9 | 10 | 35 | -70.9 | 106 |
| Insurance revenue | 967 | 916 | 5.6 | 482 | 464 | 3.7 | 1,898 |
| Insurance service expenses | -931 | -893 | 4.3 | -447 | -446 | 0.2 | -1,898 |
| Reinsurance contracts | -28 | 33 | - | -25 | 17 | - | 106 |
| Investment income | 250 | 125 | 100.5 | 123 | 55 | 123.8 | 245 |
| Other operating income | 21 | 46 | -53.6 | 15 | 7 | 122.7 | 67 |
| Personnel costs | -484 | -427 | 13.4 | -262 | -216 | 21.2 | -856 |
| Depreciation/amortisation and impairment loss | -92 | -110 | -16.8 | -45 | -53 | -14.8 | -214 |
| Other operating expenses | -504 | -451 | 11.7 | -220 | -205 | 7.1 | -892 |
| Transfers to insurance service result | 237 | 207 | 14.2 | 117 | 101 | 15.9 | 416 |
| OP bonuses to owner-customers | -122 | -96 | 26.2 | -66 | -51 | 30.4 | -198 |

OP Financial Group has applied IFRS 17 Insurance Contracts as of 1 January 2023. The figures in the income statement and balance sheet for 2022 have been adjusted retrospectively. Note 1 Accounting policies of this report provides more details on the adoption of IFRS 17 and the changes in the format of the income statement and balance sheet.

| Key indicators, € million | 30 Jun 2023 | 31 Dec 2022 | Change, % |
|---|---|---|---|
| Loan portfolio* | 98,498 | 100,234 | -1.7 |
| Home loans | 41,886 | 42,304 | -1.0 |
| Corporate loans | 23,387 | 23,117 | 1.2 |
| Housing company and other loans | 33,225 | 34,813 | -4.6 |
| Guarantee portfolio | 3,959 | 3,974 | -0.4 |
| Other exposures | 13,831 | 14,502 | -4.6 |
| Deposits* | 73,263 | 78,036 | -6.1 |
| Assets under management (gross) | 99,768 | 98,226 | 1.6 |
| Mutual funds | 28,781 | 27,575 | 4.4 |
| Institutional clients | 35,502 | 35,713 | -0.6 |
| Private Banking | 23,416 | 23,326 | 0.4 |
| Unit-linked insurance assets | 12,069 | 11,612 | 3.9 |
| Balance sheet total | 157,105 | 175,691 | -10.6 |
| Investment assets | 21,095 | 20,742 | 1.7 |
| Insurance contract liabilities | 11,629 | 11,446 | 1.6 |
| Debt securities issued to the public | 35,662 | 37,438 | -4.7 |
| Equity capital | 15,227 | 14,668 | 3.8 |

*The loan portfolio and deposits exclude changes in the fair value of loans and deposits in hedge accounting as of 1 January 2023. Comparatives have been adjusted to correspond to the current definition.

## January–June

OP Financial Group's operating profit (earnings before tax) was EUR 986 million (402), up by EUR 584 million year on year. Income from customer business, or net interest income, net commissions and fees and insurance service result, increased by a total of 47.0% to EUR 1,777 million (1,209).

Net interest income grew by 92.6% to EUR 1,299 million. A significant rise in market interest rates increased net interest income. Net interest income reported by the Retail Banking segment increased by EUR 514 million and that by the Corporate Banking segment by EUR 71 million. In the year to June, OP Financial Group's loan portfolio decreased by 0.7% to EUR 98.5 billion and deposits by 3.6% to EUR 73.3 billion. New loans drawn down by customers during the reporting period totalled EUR 10.9 billion (12.9).

Impairment loss on loans and receivables, which reduces earnings, totalled EUR 99 million (100). Provisions related to the real estate and construction sector increased. A year ago, the indirect effects of Russia's aggressive war in Ukraine increased impairment loss on receivables. Final credit losses recognised totalled EUR 32 million (37). Loss allowance was EUR 804 million (736) at the end of the reporting period. Non-performing exposures accounted for 2.5% (2.3) of total exposures. Impairment loss on loans and receivables accounted for 0.19% (0.20) of the loan and guarantee portfolio.

Net commissions and fees were EUR 470 million (478). Net commissions and fees for payment transfer services increased by EUR 8 million, those for mutual funds by EUR 12 million and those for lending by EUR 6 million. Meanwhile, net commissions and fees for residential brokerage decreased by EUR 6 million, those for insurance contracts brokerage by EUR 18 million and those for securities brokerage by EUR 4 million.

OP Financial Group has applied IFRS 17 Insurance Contracts as of 1 January 2023. The figures in the income statement and balance sheet for 2022 have been adjusted retrospectively. Insurance service result decreased by EUR 48 million to EUR 8 million. Reinsurance costs increased, and claims expenditure related to medical expenses insurance rose due to higher claims volumes. The number of large claims decreased year on year. Insurance service result includes EUR 237 million (207) in operating expenses. The Insurance segment's non-life insurance revenue increased by 4.7% to EUR 843 million. Claims incurred decreased by 3.7% to EUR 566 million and operating expenses increased by 12.2% to EUR 233 million. Combined ratio reported by non-life insurance weakened to 97.6% (94.3).

Investment income, or net investment income, net insurance finance income and income from financial assets held for trading, increased by a total of 100.5% to EUR 250 million. Investment income grew as a result of the increase in the value of shares.

OP Financial Group adopted IFRS 17 Insurance Contracts and stopped applying the overlay approach. The Insurance segment's investment result at fair value is fully recognised in the income statement. The impact of economic assumptions, such as the changes in interest rates, on the value of insurance contract liabilities is recognised in net finance income in the income statement. Net investment income together with net finance income describe investment profitability in the insurance business. The combined return on investments at fair value of OP Financial Group's insurance companies was 3.4% (–10.9). A year ago, the negative figure was affected by a rise in interest rates and the fall in stock prices.

Net income from financial assets recognised at fair value through profit or loss, or notes and bonds, shares and derivatives, totalled EUR 762 million (–2,670). Net income from investment contract liabilities totalled EUR –300 million (929). Net insurance finance income totalled EUR –253 million (1,861). Net income from investment property decreased by EUR 16 million to EUR 11 million.

In banking, net income from financial assets held for trading increased by a total of EUR 67 million to EUR 19 million due to the increase in interest income from notes and bonds and derivatives.

Other operating income decreased to EUR 21 million (46). A year ago, the sale of Pohjola Hospital increased other operating income by EUR 32 million.

Total expenses increased by 9.2% to EUR 1,079 million. Personnel costs rose by 13.4% to EUR 484 million. The increase was affected by higher headcount and growth in the provision for performance-based bonuses as well as the one-off compensation under collective agreements paid to personnel during the reporting period. Depreciation/amortisation and impairment loss on PPE and intangible assets decreased by 16.8% to EUR 92 million. Other operating expenses increased by 11.7% to EUR 504 million. ICT costs totalled EUR 207 million (185). Development costs were EUR 127 million (104). Charges of financial authorities fell by EUR 8 million to EUR 64 million.

Income tax amounted to EUR 196 million (72). The effective tax rate for the reporting period was 19.9% (17.9). A year ago, the tax-exempt capital gain of EUR 32 million on the sale of Pohjola Hospital reduced the effective tax rate.

Comprehensive income after tax totalled EUR 803 million (142). Changes in the fair value reserve improved comprehensive income by a total of EUR 3 million (–297).

OP Financial Group's equity amounted to EUR 15.2 billion (14.7). Equity included EUR 3.3 billion (3.4) in Profit Shares, terminated Profit Shares accounting for EUR 0.3 billion (0.4).

OP Financial Group's funding position and liquidity is strong. At the end of the reporting period, the Group's LCR was 214% (217) and NSFR was 131% (128). In the reporting period, OP Financial Group repaid in full the EUR 12.0 billion in TLTRO III loans.

## April–June

Earnings before tax amounted to EUR 506 million against EUR 228 million a year ago. Income from customer business, or net interest income, net commissions and fees and insurance service result, increased by a total of 51.5% to EUR 920 million (608).

Net interest income grew by 100.6% to EUR 684 million. A significant rise in market interest rates increased net interest income. New loans drawn down by customers during the second quarter totalled EUR 6.1 billion (6.9).

Impairment loss on loans and receivables, which reduces earnings, totalled EUR 76 million (17). Provisions related to the real estate and construction sector increased. Final credit losses recognised totalled EUR 24 million (29). Net commissions and fees totalled EUR 226 million (231).

Insurance service result decreased by EUR 25 million to EUR 10 million. Reinsurance costs increased, and claims expenditure related to medical expenses insurance rose due to higher claims volumes. The number of large claims decreased year on year. Insurance service result includes EUR 117 million (101) in operating expenses.

Investment income, or net investment income, net insurance finance income and income from financial assets held for trading, increased by a total of 123.8% to EUR 123 million. A year ago, the investment environment was challenging due to higher interest rates and lower stock prices.

Net income from financial assets recognised at fair value through profit or loss, or notes and bonds, shares and derivatives, totalled EUR 277 million (–1,456). Net income from investment contract liabilities totalled EUR –126 million (511). Net insurance finance income totalled EUR –31 million (1,024).

In banking, net income from financial assets held for trading increased by a total of EUR 14 million to EUR –14 million due to the increase in interest income from derivatives.

Other operating income amounted to EUR 15 million (7).

Total expenses increased by 11.1% to EUR 527 million. Personnel costs rose by 17.5% to EUR 262 million. The increase was affected by higher headcount and growth in the provision for performance-based bonuses as well as the one-off compensation under collective agreements paid to personnel in spring 2023. Depreciation/amortisation and impairment loss on PPE and intangible assets decreased by 17.4% to EUR 45 million. Other operating expenses increased by 6.6% to EUR 220 million. ICT costs totalled EUR 103 million (95).

Income tax amounted to EUR 101 million (47). The effective tax rate for the reporting period was 20.0% (20.4).

Comprehensive income after tax totalled EUR 483 million (185). Changes in the fair value reserve decreased comprehensive income by a total of EUR 24 million (–124).

# January–June highlights

## Adoption of IFRS 17 Insurance Contracts

OP Financial Group has applied IFRS 17 Insurance Contracts as of 1 January 2023. As a result of the IFRS 17 transition, OP Financial Group's equity capital on 1 January 2022 decreased by EUR 52 million on the date of transition. At the same time, the Group ceased to apply the overlay approach. The figures in the income statement and balance sheet for 2022 have been adjusted retrospectively. Solvency II valuations are used in the financial conglomerate's FiCo calculation, so the adoption of IFRS 17 did not affect the FiCo ratio. Note 1 Accounting policies of this Half-year Financial Report provides more information on the adoption of IFRS 17 and the changes in the format of the income statement and balance sheet.

## OP Financial Group adopted the Standardised Approach

OP Financial Group adopted the Standardised Approach in its capital adequacy measurement and reporting during the first quarter of 2023. The transition to the Standardised Approach had no impact on OP Financial Group's capital adequacy or risk profile. On 13 March 2023, the European Central Bank (ECB) issued its decision on the application of the Standardised Approach in OP Financial Group's capital adequacy measurement.
On 30 September 2022, OP Financial Group filed an application with the ECB on the use of the Standardised Approach in capital adequacy calculation, instead of internal models (IRBA) and the risk-weighted assets floor based on the Standardised Approach.

# OP Financial Group's strategic targets and priorities

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

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

In the next few years, OP Financial Group's operations will be guided by the following five strategic priorities:

- Value for customers
- Profitable growth
- Efficient, high-quality operations
- Responsible business
- Highly skilled, motivated and satisfied personnel.

OP Financial Group's operations are based on a strong culture of risk management and compliance.

OP Financial Group's strategic targets

| | 30 Jun 2023 | 31 Dec 2022 | Target 2025 |
|---|---|---|---|
| Return on equity (ROE excluding OP bonuses), % | 12.0 | 7.5 | 8.0 |
| CET1 ratio, % | 18.8 | 17.4 | at least CET1 requirement + 4 pps* |
| Brand recommendations, NPS (Net Promoter Score, personal and corporate customers)** | Banking: 25<br>Insurance: 17 | Banking: 27<br>Insurance: 17 | Banking: 30<br>Insurance: 20 |
| Credit rating | AA-/Aa3 | AA-/Aa3 | At least at the level of AA-/Aa3 |

* OP Financial Group's target CET1 ratio is at least the CET1 capital adequacy requirement plus four percentage points. The CET1 target calculated by applying the June-end capital adequacy requirement was 16.3%.

**Average of quarters (per financial year).

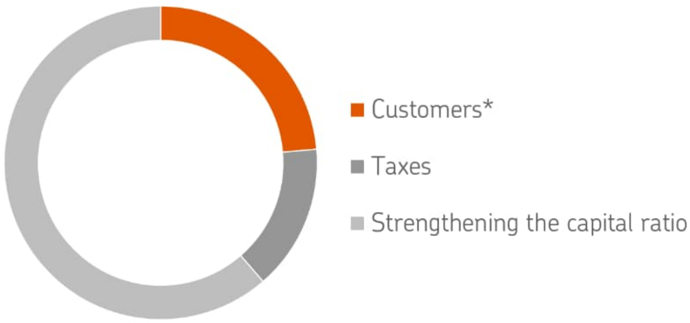
# Promotion of the success of owner-customers and operating region

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

## Allocation of earnings

OP Financial Group aims to provide its owner-customers with the services they need, as efficiently as possible. 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 2023 that is to be confirmed after the end of the financial year:




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

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

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

OP Financial Group wants to allocate part of its strong profitability to further improving its customer service and to carrying out various corporate responsibility actions. In 2023, the Group will focus on the wellbeing of children and young people in particular. OP Financial Group will support young people's hobbies and activities promoting their financial literacy and employment around Finland through donations and sponsorships of nearly EUR 4.5 million.

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

## Customer relationships and customer benefits

OP Financial Group had a total of 2.1 million (2.1) owner-customers at the end of the reporting period. The number of owner-customers increased by 18,000 year on year.

The number of banking customers totalled 3.4 million (3.4). Retail Banking had a total of 3.1 million customers (3.1) and Corporate Banking 0.3 million customers (0.3). Non-life insurance had a total of 1.7 million customers (1.7) and life insurance 0.4 million customers (0.4). The definition of banking customer was revised at the beginning of 2023. As a result of this, the reported number of customers decreased by around 140,000. The comparative has been adjusted to correspond to the new definition. The number of joint banking and insurance customers totalled 1.3 million (1.3).

OP cooperative banks' owner-customers earn OP bonuses through banking, insurance and wealth management transactions. The value of new OP bonuses accrued in January–June totalled EUR 134 million (107). OP Financial Group increased the OP bonuses earned for 2023 by 30%, which means an estimated additional bonus of more than EUR 60 million for 2023.

During the reporting period, a total of EUR 57 million (58) of OP bonuses were used to pay for banking and wealth management services and EUR 66 million (55) to pay non-life insurance premiums.

Owner-customers benefitted EUR 40 million (33) from the reduced price of the daily services package of Retail Banking. At the beginning of 2023, the calculation method for the retail service package discounts was changed and the discounts for 2022 were adjusted for comparability. Owner-customers were provided with EUR 31 million (24) in non-life insurance loyalty discounts. They also bought, sold and switched units in most mutual funds without separate charges. The value of this benefit amounted to EUR 3 million (4).

The abovementioned OP bonuses and customer benefits totalled EUR 208 million (168), accounting for 17.4% (29.5) of OP Financial Group's operating profit before granted benefits.

In addition, OP Financial Group will not charge its owner-customers for daily services between October 2023 and March 2024. The value of this additional benefit will be approximately EUR 44 million.

Contributions made by OP cooperative banks' owner-customers to the OP cooperative banks' Profit Shares and cooperative shares totalled EUR 3.5 billion (3.6). Interest on Profit Shares for the financial year 2022, paid in June 2023, totalled EUR 144 million (96). The return target for Profit Shares for 2023 is an interest rate of 4.50% (4.45). Interest payable on Profit Shares accrued during the reporting period is estimated to total EUR 74 million (72).

## Multichannel services

OP Financial Group has a multichannel service network comprising online, mobile, branch and telephone services. In June, the Group's mobile channels (OP-mobile, OP Business mobile) had almost 1.6 million active users (1.4). The Group provides personal customer service both at branches and digitally.

### Mobile and online services, no. of logins (million)

| | H1/2023 | H1/2022 | Change, % |
|---|---|---|---|
| OP-mobile, personal customers | 295.9 | 261.3 | 13.2 |
| OP-mobile, corporate customers* | 11.4 | - | - |
| OP Business Mobile | 15.7 | 12.9 | 21.7 |
| Pivo | 20.4 | 21.5 | -5.1 |
| Op.fi** | 35.1 | 23.1 | 51.9 |
| | 30 Jun 2023 | 30 Jun 2023 | Change, % |
| Siirto payment, registered customers (OP) | 1,183,812 | 1,096,262 | 8.0 |

* OP-mobile services for corporate customers were launched in November 2022.
** The figures are not comparable due to a change in the measurement method in Q4 2022.

In March, OP expanded its mobile payment services by introducing the Apple Pay service in OP's Mastercards, alongside OP's Visa cards. The service enables customers to pay for their purchases using phones or smartwatches in contactless payment readers and on apps and online stores. In December 2022, OP extended the Google Pay service that works on Android phones or smartwatches to cover customers using Mastercard.

OP Financial Group has an extensive branch network with 293 branches (297) across the country. In addition, Pohjola Insurance has a comprehensive network of agencies and partnerships.

## Sustainability and corporate responsibility

Sustainability and corporate responsibility form an integral part of OP Financial Group's business and strategy, and responsible business is one of OP Financial Group's strategic priorities. OP Financial Group's sustainability programme is built around three themes: Climate and the environment, People and communities and Corporate governance.

The programme is based on OP Financial Group's values, megatrends in the business environment and materiality assessment. The Climate and environment section sets goals for the provision of sustainable financial and investment products, the emission reductions of loan and investment portfolios as well as the promotion of biodiversity. The People and communities section focuses on the wellbeing of local communities and on supporting management of personal finances and financial literacy. The Corporate governance section involves integrating responsibility with all business and related risk-taking and a goal to enhance governance diversity. Read more about the sustainability programme at op.fi/op-financial-group/corporate-social-responsibility.

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

OP Financial Group is committed to the international Partnership for Carbon Accounting Financials (PCAF), which aims to develop and implement a harmonised approach to assessing and disclosing greenhouse gas emissions associated with partners' loans and investments. In March, OP Financial Group published its first PCAF-compliant emission calculations as part of its annual reporting.

### Corporate responsibility highlights in April–June

OP Financial Group has developed two products based on the international framework for sustainable finance: green loans and sustainability-linked loans. Green loans are designed for corporate customers that can make a commitment to using the borrowed funds to promote specific projects, while sustainability-linked loans are for corporate customers that are prepared to pursue sustainability-based performance targets agreed with the lender. These targets affect the loan margin. In March 2023, OP Financial Group launched a green loan product for SMEs. On 30 June 2023, green loans granted to SMEs totalled EUR 7.7 million.

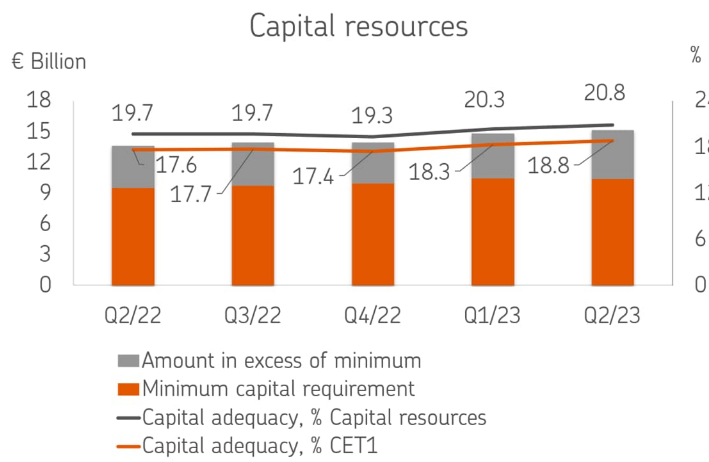
On the same date, total exposures from these loans and facilities stood at EUR 6.0 billion (5.2). Housing companies have been particularly interested in green investments. At the end of June, sustainable funds accounted for 59% of all fund assets. In spring 2023, OP Financial Group also launched sustainable supply chain finance.

To promote diversity, OP Financial Group's objective is that the proportion of both women and men in defined executive positions is at least 40%. Women accounted for 31% (31) at the end of June. OP Financial Group reports annually on sustainability issues in accordance with the GRI standards.

# Capital adequacy and capital base

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

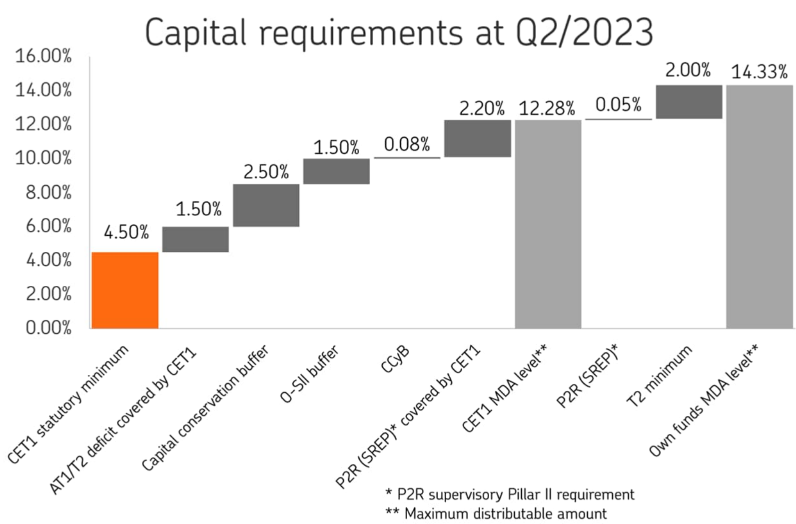
OP Financial Group's capital base, calculated according to the Act on the Supervision of Financial and Insurance Conglomerates (FiCo), exceeded the minimum amount specified in the Act by EUR 4.6 billion (4.1). Banking capital requirement was 14.3% (13.8), calculated on risk-weighted assets. The ratio of OP Financial Group's capital base to the minimum capital requirement was 141% (137). As a result of the buffer requirements for banking and the solvency requirements for insurance companies, the minimum FiCo solvency of 100% reflects the level within which the conglomerate can operate without regulatory obligations resulting from buffers below the required level.




## Capital adequacy for credit institutions

OP Financial Group's CET1 ratio was 18.8% (17.4), which exceeds the minimum regulatory requirement by 6.5 percentage points. The ratio was improved by earnings for the period and a decrease in risk-weighted assets which resulted from a decrease in the loan portfolio.

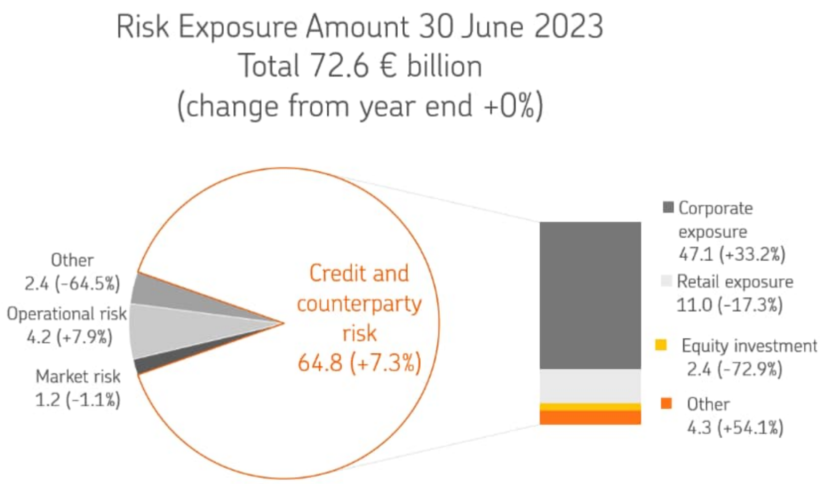
As a credit institution, OP Financial Group's capital adequacy is on a solid basis compared to the statutory requirements and those set by the authorities. The statutory minimum for the capital adequacy ratio is 8% and for the CET1 ratio 4.5%; the minimum requirement of 1.5% for AT1 and T2, which needs to be covered with CET1, raises the CET1 minimum to 6.0%. The requirement for the capital conservation buffer of 2.5% under the



Act on Credit Institutions, the O-SII buffer of 1.5%, the change in the countercyclical capital buffer for foreign exposures, and the ECB's P2R requirement increase, in practice, the minimum total capital ratio to 14.3% and the minimum CET1 ratio to 12.3%, including the shortfalls of Additional Tier 1 (AT1) and Tier 2 (T2) capital.

The CET1 capital of OP Financial Group as credit institution was EUR 13.6 billion (12.6). The CET1 capital was improved by Banking earnings and the elimination of the allowance for expected losses based on the IRBA, which resulted from the transition to the Standardised Approach to credit risk. The amount of Profit Shares in CET1 capital was EUR 3.3 billion (3.2).

The total risk exposure amount (TREA) was EUR 72.6 billion (72.3), or at the same level as on 31 December 2022. In the first quarter, OP Financial Group adopted the Standardised Approach in its capital adequacy measurement, instead of the internal ratings-based approach that it applied earlier. The transition increased the total risk exposure amount, but the change had no impact on the capital adequacy ratio.




OP Financial Group treats insurance holdings within the financial conglomerate as risk-weighted assets, based on permission from the ECB. Equity investments include EUR 2.3 billion in risk-weighted assets of the Group's internal insurance holdings. Under the Standardised Approach, the risk weight of insurance company holdings is 100%.

The Finnish Financial Supervisory Authority (FIN-FSA) makes a macroprudential policy decision on a quarterly basis. In June 2023, the FIN-FSA reiterated its decision not to impose a countercyclical capital buffer requirement on banks. In its macroprudential policy decision in March 2023, the FIN-FSA set a systematic risk buffer of 1% for OP Financial Group, effective as of 1 April 2024.

The minimum leverage ratio for OP Financial Group's Banking was 9.4% (7.6). The higher ratio was particularly due to the repayment of TLTRO III funding, and earnings performance. The regulatory minimum requirement is 3%.

The future changes in the EU Capital Requirements Regulation (CRR3), which will implement the final elements of Basel III, are assessed to not have a substantial effect on the capital adequacy of OP Financial Group. The changes should take effect in 2025.

The OP Amalgamation capital adequacy tables will be published in week 32.

## Insurance

The solvency position of insurance companies is strong.

| | Non-life insurance | | Life insurance | |
|---|---|---|---|---|
| | 30 Jun 2023 | 31 Dec 2022 | 30 Jun 2023 | 31 Dec 2022 |
| Capital base, € mill.* | 1,753 | 1,658 | 1,582 | 1,523 |
| Solvency capital requirement (SCR), € mill.* | 748 | 671 | 613 | 567 |
| Solvency ratio, %* | 235 | 247 | 258 | 269 |
| Solvency ratio, % (excl. transitional provision) | 235 | 247 | 229 | 232 |

*including transitional provisions

## ECB's supervision

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

On 13 March 2023, the ECB issued its decision on the application of the Standardised Approach to credit risk in OP Financial Group's capital adequacy measurement. OP Financial Group adopted the Standardised Approach to credit risk as of 31 March 2023.

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 has been 2.25% since 1 January 2022.

## Liabilities under the Resolution Act

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

The SRB updated the Minimum Requirement for Own Funds and Eligible Liabilities (MREL) for OP Financial Group in March 2023. As part of the MREL, the resolution authority has updated OP Financial Group's subordination requirement in accordance with the Single Resolution Mechanisms Regulation. The subordination requirement determines how much of the MREL must be fulfilled with own funds or subordinated liabilities. The MREL is 22.30% of the total risk exposure and 26.30% of the total risk exposure including a combined buffer requirement, and 7.40% (previously 9.92%) of leverage ratio exposures. The updated subordination requirement supplementing the MREL was decreased to 14.66% of the total risk exposure amount and 18.66% of the total risk exposure amount including a combined buffer requirement, and 7.40% of leverage ratio exposures. This took effect on 15 March 2023.

From the beginning of 2024, the MREL will be 22.89% of the total risk exposure and 26.89% of the total risk exposure including a combined buffer requirement, and 7.40% of leverage ratio exposures. The requirements include a combined buffer requirement (CBR) of 4.0%.

OP Financial Group's buffer for the MREL was EUR 8.0 billion and for the subordination requirement EUR 5.5 billion. The amount of senior non-preferred (SNP) bonds issued by OP Financial Group totalled EUR 3.9 billion. These bonds provide funds for the MREL subordination requirement.

OP Financial Group clearly exceeds the new MREL requirement. At the end of June, OP Financial Group's MREL ratio was 37.3% of the total risk exposure amount and, based on the subordination requirement, the MREL ratio for subordinated liabilities was 26.2% of leverage ratio exposures.

## Bases for risk profile management and the business environment

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

OP Financial Group's success is based on the trust of customers and other stakeholders, on the adequacy of capital and liquidity, and on extensive data and knowledge of customers. Risk-taking is based on deep understanding of matters affecting customers' future operations and success in the current business environment and in situations where the business environment is affected by an unexpected shock or change in trend.

OP Financial Group analyses the business environment as part of the ongoing risk assessment activities and strategy process. Megatrends and future visions behind the strategy reflect driving forces that affect the daily activities, conditions and future of OP Financial Group and its customers. Such factors currently shaping the business environment include climate change and biodiversity loss, demographic change in Finland, changes in geopolitical situations as well as technological and scientific innovations. For example, climate and environmental changes, development of artificial intelligence and other factors in the business environment are considered thoroughly so that their effects on the customers' future success are understood. By means of advice and business decisions, OP Financial Group encourages its customers in bolstering their sustainable and successful business of the future while managing its own risk profile on a longer-term basis.

Considering that OP Financial Group's business covers various areas of the financial sector on an extensive basis, unexpected external shocks from the economic environment may cause various direct and indirect effects on the prosperity of OP Financial Group's customers and on the Group's premises, IT infrastructure and personnel. If materialised, they may affect the risk profile, capitalisation, liquidity and the continuity of daily business in various ways. OP Financial Group assesses the effects of such potential shocks by means of scenario work. The Group is constantly prepared for such events by making various action plans for them and testing these plans.

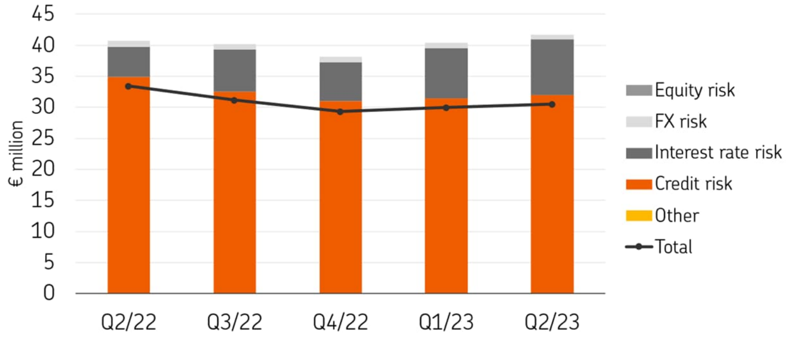
During the reporting period, the materialisation of OP Financial Group's operational risks resulted in EUR 2 million (2) in losses. As regards other risks, the risk profile is discussed in more detail by business segment.

### Retail Banking and Corporate Banking

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

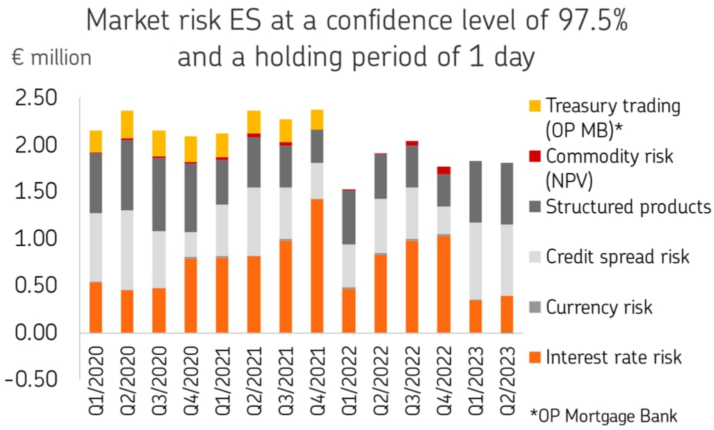
Banking credit risk exposure remained stable, its risk level remained moderate and the overall quality of the loan portfolio remained good. A rise in interest rates and inflation may have a negative effect on credit risk exposure.

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



The market risk level of Corporate Banking's investments remained at the first-quarter level. No major changes were made to the asset class allocation during the reporting period. The VaR, a measure of market risks, was EUR 31 million (29) on 30 June 2023. The VaR risk metric includes banking's bond investments and derivatives that hedge their interest rate risk as well as investments in money market papers.

Market risks associated with the Markets function remained at the first-quarter level. Since the beginning of 2023, OP Financial Group has used the Stressed Expected Shortfall (ES) risk measure. The Stressed ES is a more conservative risk measure than the unstressed ES used previously.



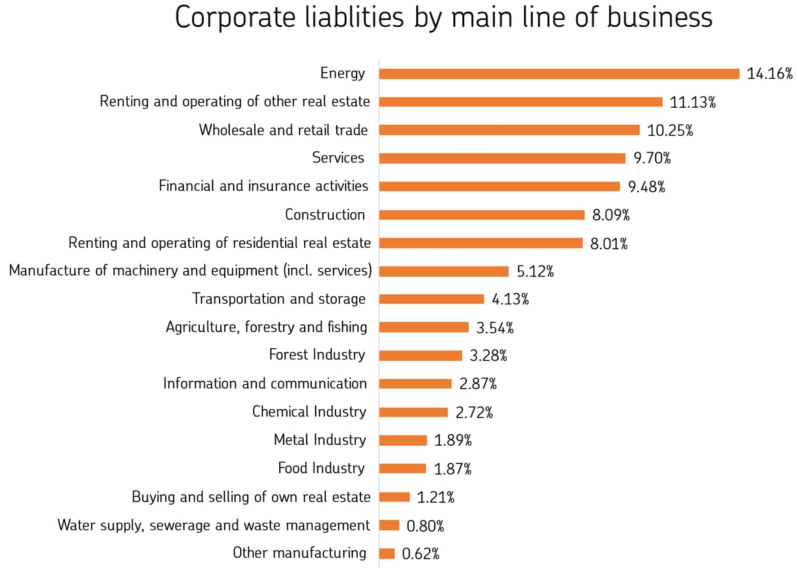
## Non-performing and forborne exposures

| | Performing forborne exposures (gross) | | Non-performing receivables (gross) | | Doubtful receivables (gross) | | Loss allowance | | Doubtful receivables (net) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 30 Jun 2023 | 31 Dec 2022 | 30 Jun 2023 | 31 Dec 2022 | 30 Jun 2023 | 31 Dec 2022 | 30 Jun 2023 | 31 Dec 2022 | 30 Jun 2023 | 31 Dec 2022 |
| Over 90 days past due, € billion | | | 0.57 | 0.52 | 0.57 | 0.52 | 0.21 | 0.19 | 0.36 | 0.33 |
| Unlikely to be paid, € billion | | | 0.90 | 0.91 | 0.90 | 0.91 | 0.14 | 0.16 | 0.77 | 0.75 |
| Forborne exposures, € billion | 3.55 | 3.38 | 1.47 | 1.32 | 5.02 | 4.70 | 0.20 | 0.18 | 4.83 | 4.51 |
| Total, € billion | 3.55 | 3.38 | 2.94 | 2.74 | 6.50 | 6.12 | 0.54 | 0.53 | 5.95 | 5.59 |

| | OP Financial Group | | Retail Banking | | Corporate Banking | |
|---|---|---|---|---|---|---|
| Key ratios | 30 Jun 2023 | 31 Dec 2022 | 30 Jun 2023 | 31 Dec 2022 | 30 Jun 2023 | 31 Dec 2022 |
| Ratio of doubtful receivables to exposures, %* | 5.59 | 5.16 | 7.37 | 6.64 | 2.04 | 1.91 |
| Ratio of non-performing receivables to exposures, %* | 2.53 | 2.31 | 2.97 | 2.67 | 1.73 | 1.53 |
| Ratio of performing forborne exposures to exposures, %* | 3.05 | 2.85 | 4.40 | 3.97 | 0.31 | 0.39 |
| Ratio of performing forborne exposures to doubtful receivables, % | 54.7 | 55.2 | 59.7 | 59.8 | 15.1 | 20.3 |
| Ratio of loss allowance (receivables from customers) to doubtful receivables, % | 12.3 | 12.0 | 9.1 | 8.5 | 37.5 | 38.4 |

*The loan portfolio included in exposures excludes changes in the fair value of loans in hedge accounting as of 1 January 2023. Comparatives have been adjusted to correspond to the current definition.

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



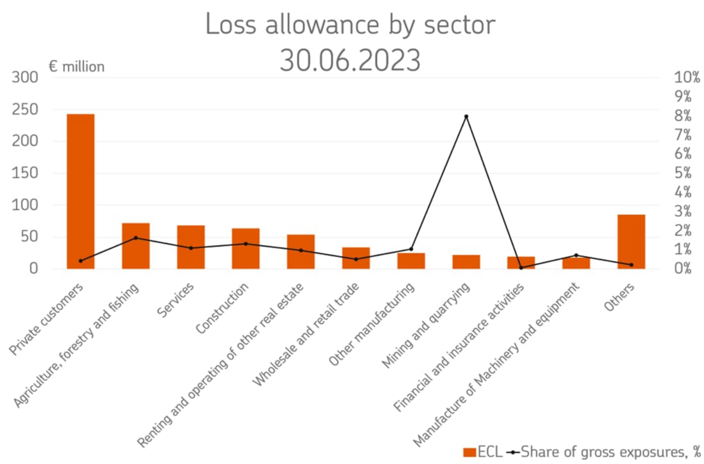

The graph shows the distribution of OP Financial Group's corporate exposures by sector as percentages at the end of the reporting period. Corporate exposures include the loan and guarantee portfolio, interest receivables and unused standby credit facilities. The figures do not include exposures for housing companies, totalling EUR 10.8 billion. The applied classification into sectors is not risk-based.

Retail Banking's interest rate risk in the banking book measured as the effect of a one-percentage point interest rate increase on net interest income was EUR 254 million (328) and as the effect of a one-percentage point decrease EUR –257 million (–364) on the average per year. Interest income risk is calculated for a one-year period by dividing the sum of the interest income risk for the next three years by three.

Corporate Banking's interest rate risk in the banking book measured as the effect of a one-percentage point interest rate increase on net interest income was EUR 17 million (1) and as the effect of a one-percentage point decrease EUR –17 million (–10) on the average per year.

Deposits within the scope of deposit guarantee and managed by OP Financial Group totalled EUR 44.4 billion (44.2) at the end of June. The Deposit Guarantee Fund compensates a maximum of EUR 100,000 for each OP Financial Group customer.

## Loss allowance by sector




The graph shows the loss allowance of different sectors and the ratio of loss allowance to gross exposures of the sector at the end of the reporting period, 30 June 2023.

## Insurance

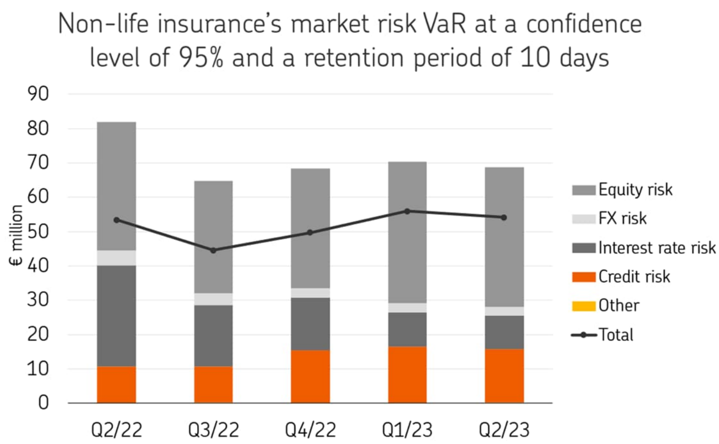
### Non-life insurance

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

A one-year increase in life expectancy would increase insurance contract liabilities for annuities by EUR 48 million. A 0.1 percentage point decrease in interest rates used in the valuation of insurance contract liabilities would increase insurance liabilities by EUR 20 million.

No significant changes took place in non-life insurance's underwriting risks during the reporting period. Non-life insurance's significant market risks include the equity risk, and lower market interest rates that increase the value of insurance contract liabilities and the capital requirement.

Compared to the previous report, non-life insurance equity risk on investments decreased. The VaR, a measure of market risk, was EUR 54 million (49) on 30 June 2023. VaR includes the company's investment balance including investments, insurance contract liabilities and derivatives that hedge against interest rate risk associated with insurance contract liabilities.



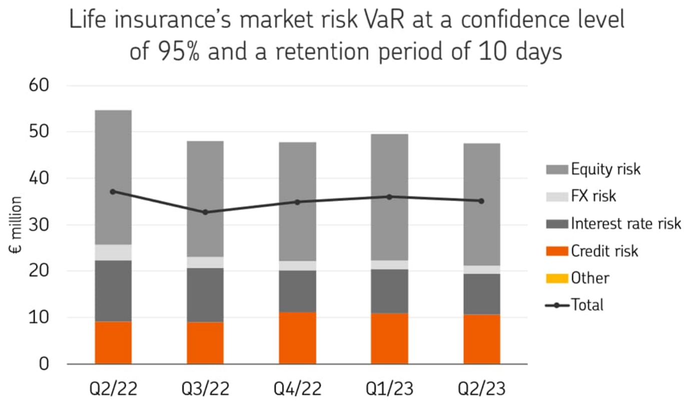

### Life insurance

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 contract 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 contract liabilities by EUR 25 million (25). A 0.1 percentage point decrease in interest rates used in the valuation of insurance contract liabilities would increase such liabilities by EUR 15 million (17). The decrease in interest rate sensitivity is due to higher interest rates and the change in the cash flows of insurance contract liabilities.

Investment risks associated with separated insurance portfolios and risks associated with changes in customer behaviour have been buffered. The buffer is sufficient to cover a significant negative return on the investment assets included in the separated portfolios, after which OP Financial Group will bear the risks associated with the portfolios. The buffers totalled EUR 254 million (246) on 30 June 2023.

VaR, a measure of market risk, was EUR 35 million at the end of the reporting period. VaR includes the life insurance's investment balance, including investments, insurance contract liabilities and derivatives that hedge against interest rate risk associated with insurance



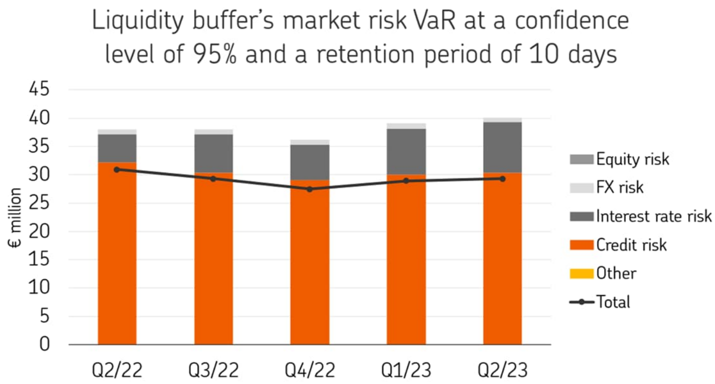
contract liabilities. Market risks associated with separated life insurance portfolios, assets that buffer against those risks or customer bonuses, are not included in the calculation.

## Group Functions

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

OP Financial Group's funding position and liquidity is strong. In January–June, OP Financial Group issued long-term bonds worth EUR 3.3 billion (4,0). The loan-to-deposit ratio remained stable during the reporting period.

The market risk associated with notes and bonds in the liquidity buffer (VaR 95%) remained almost at the first-quarter level. No major changes occurred in the asset class allocation. The VaR risk metric that measures market risk associated with the liquidity buffer was EUR 29 million (27) on 30 June 2023. The VaR risk metric includes bond investments in the liquidity buffer, derivatives that hedge their interest rate risk as well as investment in money market papers.




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.

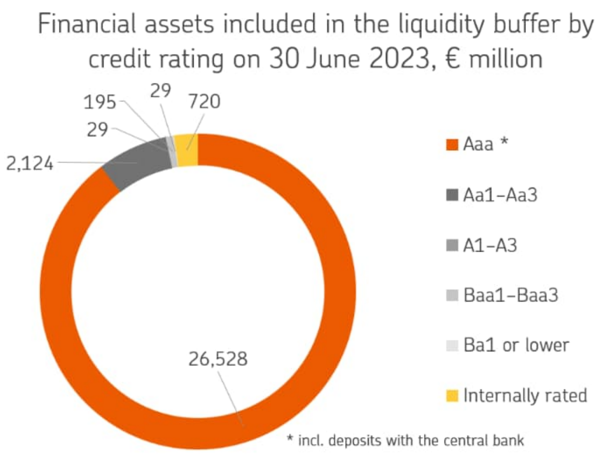
OP Financial Group monitors its liquidity and the adequacy of its liquidity buffer using, for example, the LCR (Liquidity Coverage Ratio). According to regulation, the LCR must be at least 100%. OP Financial Group's LCR was 214% (217) at the end of the reporting period.

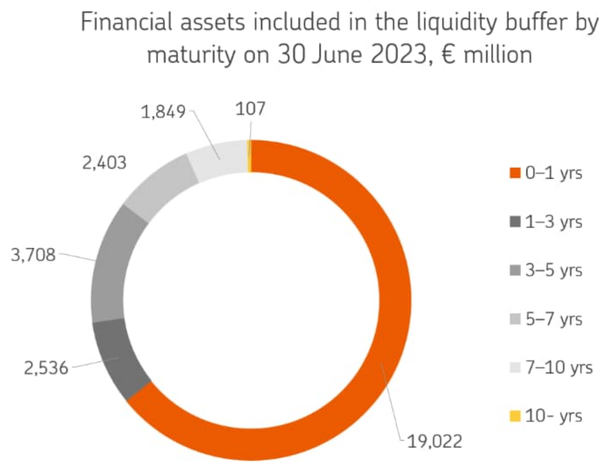
OP Financial Group monitors its long-term funding sufficiency, for example, by means of the Net Stable Funding Ratio (NSFR), which measures structural funding risk. According to regulation, the NSFR must be at least 100%. OP Financial Group's NSFR was 131% (128) at the end of the reporting period.

### Liquidity buffer

| € billion | 30 Jun 2023 | 31 Dec 2022 | Change, % |
|---|---|---|---|
| Deposits with central banks | 17.2 | 34.8 | -50.7 |
| Notes and bonds eligible as collateral | 11.6 | 2.1 | 455.4 |
| Total | 28.8 | 36.9 | -22.0 |
| Receivables ineligible as collateral | 0.8 | 0.7 | 17.4 |
| Liquidity buffer at market value | 29.6 | 37.6 | -21.3 |
| Collateral haircut | -0.6 | -0.2 | - |
| Liquidity buffer at collateral value | 29.0 | 37.4 | -22.5 |

The liquidity buffer comprises notes, bonds and securitised assets issued by governments, municipalities, financial institutions and companies all showing good credit ratings. In the reporting period, OP Financial Group repaid in full the EUR 12.0 billion in TLTRO III loans. At the end of the reporting period, the liquidity buffer included bonds with a carrying amount of EUR 161 million (0), classified at amortised cost and issued by non-OP Financial Group issuers. The fair value of these bonds amounted to EUR 159 million (0) at the end of the reporting period. In the above information on the liquidity buffer, these bonds are measured at fair value.




## Credit ratings

### Credit ratings 30 June 2023

| | OP Corporate Bank plc | | | | Pohjola Insurance Ltd | |
|---|---|---|---|---|---|---|
| Rating agency | Short-term debt | Outlook | Long-term debt | Outlook | Financial strength rating | Outlook |
| Standard & Poor's | A-1+ | - | AA- | Stable | A+ | Stable |
| Moody's | P-1 | Stable | Aa3 | Stable | A2 | Stable |

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

# Financial performance by segment

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

## Retail Banking

- Operating profit increased to EUR 524 million (136).
- Total income increased by 53.2% to EUR 1,386 million. Income from customer business increased by a total of 54.2%: net interest income increased by 106.0% to EUR 999 million and net commissions and fees decreased by 9.1% to EUR 361 million.
- Impairment loss on receivables increased to EUR 76 million (60). Non-performing exposures (gross) accounted for 3.0% (2.7) of total exposures.
- Total expenses increased by 8.8% to EUR 683 million. Personnel costs increased by 8.6% to EUR 249 million and other operating expenses by 10.0% to EUR 412 million.
- OP bonuses to owner-customers increased by 26.9% to EUR 103 million (81).
- In the year to June, the loan portfolio decreased by 0.9% to EUR 71.2 billion and deposits by 2.1% to EUR 62.9 billion.
- The most significant development investments focused on upgrading the core banking system and developing digital services.

### Key figures and ratios

| € million | H1/2023 | H1/2022 | Change, % | Q1–4/2022 |
|---|---|---|---|---|
| Net interest income | 999 | 485 | 106.0 | 1,194 |
| Impairment loss on receivables | -76 | -60 | 26.5 | -96 |
| Net commissions and fees | 361 | 397 | -9.1 | 773 |
| Investment income | -2 | 5 | - | -9 |
| Other operating income | 28 | 18 | 55.5 | 39 |
| Personnel costs | -249 | -230 | 8.6 | -455 |
| Depreciation/amortisation and impairment loss | -22 | -24 | -8.3 | -53 |
| Other operating expenses | -412 | -374 | 10.0 | -720 |
| OP bonuses to owner-customers | -103 | -81 | 26.9 | -168 |
| Operating profit | 524 | 136 | 286.1 | 502 |
| | | | | |
| Total income | 1,386 | 905 | 53.2 | 1,996 |
| Total expenses | -683 | -628 | 8.8 | -1,229 |
| | | | | |
| Cost/income ratio, % | 49.3 | 69.4 | -20.1* | 61.6 |
| Ratio of non-performing exposures to exposures, % *** | 3.0 | 2.7 | 0.27* | 2.7 |
| Ratio of impairment loss on receivables to loan and guarantee portfolio, % | 0.21 | 0.17 | 0.05* | 0.13 |
| Return on assets (ROA), % | 0.85 | 0.22 | 0.63* | 0.40 |
| Return on assets, excluding OP bonuses, % | 1.02 | 0.35 | 0.67* | 0.54 |

| € million | H1/2023 | H1/2022 | Change, % | Q1–4/2022 |
|---|---|---|---|---|
| Home loans drawn down | 2,753 | 4,336 | -36.5 | 7,513 |
| Corporate loans drawn down | 1,062 | 1,418 | -25.1 | 2,702 |
| No. of brokered residential property and property transactions | 4,163 | 5,763 | -27.8 | 10,844 |

| € billion | 30 Jun 2023 | 30 Jun 2022 | Change, % | 31 Dec 2022 |
|---|---|---|---|---|
| Loan portfolio** | | | | |
| Home loans | 41.9 | 42.3 | -1.0 | 42.3 |
| Corporate loans | 8.1 | 8.3 | -2.6 | 8.3 |
| Housing companies | 8.8 | 8.5 | 2.8 | 8.8 |
| Other loans | 12.5 | 12.7 | -2.0 | 12.6 |
| Total loan portfolio | 71.2 | 71.8 | -0.9 | 72.1 |
| Guarantee portfolio | 1.0 | 1.0 | 3.2 | 1.0 |
| Other exposures | 8.2 | 9.4 | -12.7 | 8.3 |
| | | | | |
| Deposits** | | | | |
| Current and payment transfer deposits | 39.8 | 43.0 | -7.5 | 43.3 |
| Investment deposits | 23.1 | 21.2 | 8.8 | 21.6 |
| Total deposits | 62.9 | 64.3 | -2.1 | 64.8 |

*Change in ratio

**The loan portfolio and deposits exclude changes in the fair value of loans and deposits in hedge accounting as of 1 January 2023. Comparatives have been adjusted to correspond to the current definition.

*** In the calculation of this ratio, the exposures item excludes changes in the fair value of loans in hedge accounting as of 1 January 2023. Comparatives have been adjusted to correspond to the current definition.

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

In the year to June, the loan portfolio decreased by 0.9% to EUR 71.2 billion. As a result of the prolonged slack home loan market, the amount of home loans drawn down decreased by 36.5% year on year. In the year to June, the home loan portfolio decreased by 1.0% to EUR 41.9 billion. High inflation and the rise in reference interest rates had a major impact on the housing market. The volume of home and real property sales brokered by OP Koti real estate agents totalled 4,163, a decrease of 27.8% year on year. At the end of the reporting period, 85% of the home loan portfolio was tied to the 12-month Euribor, 11% to shorter Euribor rates, and 3% to the OP-Prime rate and a fixed interest rate. In the year to June, the corporate loan portfolio decreased by 2.6% to EUR 8.1 billion. The housing company loan portfolio grew by 2.8% to EUR 8.8 billion. Other loans decreased by a total of 2.0% to EUR 12.5 billion.

On 30 June 2023, a total of 34.3% (32.8) of personal customers' home loans were covered by interest rate protection. On the same date, the interest expenses of around 150,000 home loans were being cut by an interest rate cap; the loans' aggregate principal totalled EUR 13.4 billion.

In the year to June, the deposit portfolio decreased by 2.1% to EUR 62.9 billion. Deposits on current and payment transfer accounts decreased by 7.5% and investment deposits increased by 8.8%.

In March, OP launched a green loan for SMEs and housing companies. The new green loan boosts investments in areas such as energy-efficient construction, renewable energy, and infrastructure for low-emission transport.
On 30 June 2023, green loans granted to SMEs totalled EUR 7.7 million.

OP Financial Group customers' interest in saving and investing continued. During the reporting period, OP's mutual funds attracted 36,700 new unitholders, and customers made 59,000 new systematic investment plans on mutual funds. At the end of the reporting period, the number of unitholders in OP's mutual funds totalled 1,248,000. In share trading, the number of executed orders was 10% lower than a year ago.

OP Financial Group will not charge its owner-customers for daily services between October 2023 and March 2024. The value of this additional benefit will be approximately EUR 44 million.

During the reporting period, the most significant development investments focused on upgrading the core banking system and developing digital services.

At the end of June, the number of OP cooperative banks was 104 (108). Merger projects between OP cooperative banks are underway in different parts of Finland.

## Financial performance for the reporting period

Retail Banking's operating profit amounted to EUR 524 million (136). Total income increased by 53.2% to EUR 1,386 million. Net interest income grew by 106.0% to EUR 999 million, due to a strong rise in market interest rates. In the year to June, net commissions and fees decreased by 9.1% to EUR 361 million. They were reduced by the change in the operating model applied to hedging interest rate risk associated with derivative contracts between Corporate Banking and Retail Banking, which was implemented at the end of 2022.

Impairment loss on receivables grew by 26.5% to EUR 76 million (60). Provisions related to the real estate and construction sector increased. Final net loan losses recognised for the reporting period totalled EUR 15 million (16). Non-performing exposures accounted for 3.0% (2.7) of total exposures.

Total expenses increased by 8.8% to EUR 683 million. Personnel costs increased by 8.6% to EUR 249 million and other operating expenses by 10.0% to EUR 412 million. ICT costs increased other operating expenses. Depreciation/amortisation and impairment loss decreased by 8.3% year on year, to EUR 22 million.

OP bonuses to owner-customers increased by 26.9% to EUR 103 million. OP Financial Group increased the OP bonuses earned by owner-customers for 2023 by 30% – an estimated additional bonus of more than EUR 60 million for 2023.

## Corporate Banking

- Operating profit increased to EUR 219 million (91).
- Net interest income grew by 33.2% to EUR 285 million and net commissions and fees by 38.8% to EUR 116 million. Investment income amounted to EUR 30 million (7).
- Impairment loss on receivables totalled EUR 23 million (40). Non-performing exposures (gross) accounted for 1.7% (1.9) of total exposures.
- Other operating expenses increased by 8.3% to EUR 132 million.
- In the year to June, the loan portfolio grew by 1.5% to EUR 27.4 billion while deposits decreased by 22.7% to EUR 10.7 billion. Assets under management by Corporate Banking increased by 0.5% to EUR 73.1 billion, year on year.
- The most significant development investments involved the upgrades of customer relationship management, payment and asset management systems.

### Key figures and ratios

| € million | H1/2023 | H1/2022 | Change, % | Q1–4/2022 |
|---|---|---|---|---|
| Net interest income | 285 | 214 | 33.2 | 457 |
| Impairment loss on receivables | -23 | -40 | -42.7 | -18 |
| Net commissions and fees | 116 | 83 | 38.8 | 166 |
| Investment income | 30 | 7 | 327.7 | 136 |
| Other operating income | 12 | 11 | 12.7 | 18 |
| Personnel costs | -54 | -46 | 15.8 | -95 |
| Depreciation/amortisation and impairment loss | -2 | -5 | -56.9 | -8 |
| Other operating expenses | -132 | -122 | 8.3 | -218 |
| OP bonuses to owner-customers | -13 | -10 | 23.7 | -20 |
| Operating profit | 219 | 91 | 140.1 | 416 |
| | | | | |
| Total income | 443 | 315 | 40.5 | 776 |
| Total expenses | -188 | -173 | 8.3 | -321 |
| | | | | |
| Cost/income ratio, % | 42.4 | 55.0 | -12.6* | 41.4 |
| Ratio of non-performing exposures to exposures, % ** | 1.7 | 1.9 | -0.2 | 1.5 |
| Ratio of impairment loss on receivables to loan and guarantee portfolio, % | 0.15 | 0.27 | -0.1* | 0.06 |
| Return on assets (ROA), % | 1.01 | 0.46 | 0.55* | 1.00 |
| Return on assets, excluding OP bonuses, % | 1.07 | 0.51 | 0.56* | 1.05 |

| € billion | 30 Jun 2023 | 30 Jun 2022 | Change, % | 31 Dec 2022 |
|---|---|---|---|---|
| Loan portfolio*** | | | | |
| Corporate loans | 19.4 | 19.3 | 0.5 | 19.9 |
| Housing companies | 2.1 | 2.0 | 5.0 | 2.1 |
| Other loans | 5.9 | 5.7 | 3.5 | 5.8 |
| Total loan portfolio | 27.4 | 27.0 | 1.5 | 27.8 |
| Guarantee portfolio | 3.0 | 3.5 | -13.5 | 3.4 |
| Other exposures | 5.9 | 5.9 | 0.5 | 6.4 |
| Deposits*** | 10.7 | 13.8 | -22.7 | 14.0 |
| Assets under management (gross) | | | | |
| Mutual funds | 28.8 | 28.2 | 2.1 | 27.6 |
| Institutional clients | 35.5 | 35.7 | -0.6 | 35.7 |
| Private Banking | 8.8 | 8.8 | -0.1 | 9.0 |
| Total (gross) | 73.1 | 72.7 | 0.5 | 72.3 |

| € million | H1/2023 | H1/2022 | Change, % | Q1–4/2022 |
|---|---|---|---|---|
| Net inflows | | | | |
| Private Banking clients | 113 | 22 | 417.9 | -1 |
| Institutional clients | -100 | -465 | - | -356 |
| Total net inflows | 13 | -443 | - | -357 |

*Change in ratio.

**In the calculation of this ratio, the exposures item excludes changes in the fair value of loans in hedge accounting as of 1 January 2023. Comparatives have been adjusted to correspond to the current definition.

***The loan portfolio and deposits exclude changes in the fair value of loans and deposits in hedge accounting as of 1 January 2023. Comparatives have been adjusted to correspond to the current definition.

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, OP Custody Ltd and OP Real Estate Asset Management Ltd.

In the year to June, the loan portfolio increased by 1.5% to EUR 27.4 billion and the deposit portfolio decreased by 22.7% to EUR 10.7 billion. The loan portfolio in corporate financing showed a moderate growth. The slowdown in companies' willingness to invest, reduced international trade and a lower need for working capital affected the development of the loan portfolio. Growth in the loan portfolio was driven by financing for car purchases, renewable energy and energy efficiency systems. Financing for e-commerce is also on the increase. OP Financial Group's market share in financing the purchases of low-emission cars increased during the reporting period.

Investments by Corporate Banking in promoting a sustainable economy increased the commitment portfolio of sustainable finance to EUR 6.0 billion (5.2). Demand for sustainable financing has remained strong and companies have made active use of Corporate Banking's expertise in financing the sustainable economy.

The most significant Corporate Banking development investments involved the upgrades of customer relationship management, payment, finance and asset management systems. With the implementation of the new Group-level customer relationship management system, Corporate Banking aims at better customer experience and higher quality and more efficient operations. The upgrade of core payment systems and improvement of digital services will continue further. In asset and wealth management, fund management processes and customer service will be further upgraded.

Within asset management, net assets inflow was EUR 13 million (–443). Despite the challenging market conditions, assets under management by Corporate Banking increased by 0.5% year on year, to EUR 73.1 billion (72.7). This included about EUR 23 billion (23) in assets of the companies belonging to OP Financial Group.

OP Fund Management Company Ltd established two new funds to complement its product portfolio of alternative investments. The OP-Private Equity fund has been designed for aggressive investors and the OP-Alternative Credit fund for professional clients. During the reporting period, OP Financial Group adopted an upgraded electronic foreign exchange trading platform. The upgrade enhanced and sped up pricing for customers.

## Financial performance for the reporting period

Corporate Banking's operating profit amounted to EUR 219 million (91). The cost/income ratio was 42.4% (55.0). Net interest income grew by 33.2% to EUR 285 million (214). A rise in market rates increased net interest income.

Impairment loss on receivables totalled EUR 23 million (40). An additional management overlay provision of EUR 10 million for the construction industry and the real estate sector increased impairment loss on receivables. Non-performing exposures accounted for 1.7% (1.5) of total exposures.

Corporate Banking's net commissions and fees totalled EUR 116 million (83). The change in the operating model applied to hedging interest rate risk associated with derivative contracts between Corporate Banking and Retail Banking, which was implemented at the end of 2022, improved net commissions and fees and, correspondingly, reduced investment income.

### Corporate Banking segment's net commissions and fees

| € million | H1/2023 | H1/2022 | Change, % |
|---|---|---|---|
| Mutual funds | 66 | 65 | 1.1 |
| Asset management | 11 | 8 | 33.0 |
| Other | 39 | 10 | 289.1 |
| Total | 116 | 83 | 38.8 |

During the reporting period, the reversal of a fast upward trend in interest rates improved investment income, which amounted to EUR 30 million (7).

Personnel costs rose by 15.8% to EUR 54 million. The increase was affected by higher headcount and growth in the provision for performance-based bonuses as well as the one-off compensation under collective agreements paid to personnel during the reporting period. Other operating expenses increased by 8.3% to EUR 132 million.

## Insurance

- Operating profit amounted to EUR 217 million (148).
- Insurance service result was EUR 8 million (56). Investment income totalled EUR 211 million (65).
- Non-life insurance premiums written increased by 5.2% to EUR 1,146 million. Non-life insurance combined ratio was 97.6% (94.3).
- Expenses increased year on year to EUR 261 million (230).
- In life insurance, unit-linked insurance assets increased by 3.9% to EUR 12.1 billion. Premiums written in term life insurance grew by 10.3%.
- Development investments focused on the core system upgrades and the development of digital services.

### Key figures and ratios

| € million | H1/2023 | H1/2022 | Change, % | Q1–4/2022 |
|---|---|---|---|---|
| Insurance service result | 8 | 56 | -85.9 | 109 |
| Net finance income | -253 | 1,861 | - | 2,226 |
| Net investment income | 464 | -1,796 | - | -2,072 |
| Investment income | 211 | 65 | 226.1 | 154 |
| Net commissions and fees | 24 | 25 | -1.5 | 50 |
| Other net income | 4 | 31 | -86.7 | 36 |
| Personnel costs | -87 | -73 | 19.0 | -147 |
| Depreciation/amortisation and impairment loss | -25 | -26 | -5.3 | -51 |
| Other operating expenses | -148 | -131 | 13.5 | -264 |
| Total expenses | -261 | -230 | 13.1 | -462 |
| Transfers to insurance service result | 237 | 207 | 14.2 | 416 |
| OP bonuses to owner-customers | -6 | -5 | 19.8 | -10 |
| Operating profit | 217 | 148 | 46.6 | 293 |
| | | | | |
| Return on assets (ROA), % | 1.60 | 1.40 | -0.21* | |
| Return on assets, excluding OP bonuses, % | 1.70 | 1.47 | -0.23* | |

*Change in ratio

OP Financial Group's Insurance segment comprises life and non-life insurance business. The segment includes Pohjola Insurance Ltd and OP Life Assurance Company Ltd.

In non-life insurance, the number of prime customer households using Pohjola Insurance as their main insurer increased by 7,027 during the first half, to 706,263 households. In particular, the sale of health insurance policies increased during the reporting period.

The amount of claims reported grew by 14% year on year. Health insurance showed the largest growth rate, 38%, due to a higher number of visits to doctors. The number of large claims decreased year on year.

In the life insurance business, premiums written in term life insurance increased by 10.3% and premiums written in unit-linked group pension insurance grew by 21.7%. In life insurance, unit-linked insurance assets increased by 3.9% to EUR 12.1 billion (11.6).

## Financial performance for the reporting period

Operating profit amounted to EUR 217 million (148). Insurance service result was EUR 8 million (56).

Investment income totalled EUR 211 million (65). Net investment income grew following the increase in the value of shares. The value of insurance contract liabilities increased as a result of a slight decrease in long-term market rates from the end of 2022, which increased net finance expenses. A year ago, the rise in interest rates decreased the value of insurance contract liabilities.

OP Financial Group has applied IFRS 17 Insurance Contracts as of 1 January 2023. The new method of recognition changed the intra-year timing of insurance service result. Expected losses are immediately recognised in the income statement, which decreases earnings for the first year-half. In life insurance, recognition of the loss component changed the timing of earnings between years. The investment result is recognised at fair value in the income statement. The impact of economic assumptions, such as the changes in interest rates, on the value of insurance contract liabilities is recognised in net finance income. Net investment income and net finance income together indicate the profitability of investment operations.

### Investment income

| € million | H1/2023 | H1/2022 |
|---|---|---|
| Net finance income and expenses | -35 | 893 |
| Fair value changes in liabilities (unit-linked) | -180 | 695 |
| Change in the liability of separated balance sheets | -38 | 273 |
| Net finance income and expenses | -253 | 1,861 |
| Fixed-income investments | 103 | -710 |
| Quoted shares | 119 | -194 |
| Other liquid investments | 1 | -8 |
| Property investment | 15 | 54 |
| Other illiquid investments | 15 | 30 |
| Investment income | 252 | -827 |
| Value change in the investment assets of separated balance sheet | 40 | -284 |
| Income from assets covering unit-linked insurance and investment contracts | 479 | -1,634 |
| Movement in investment contract (IFRS 9) liabilities | -288 | 941 |
| Associates, joint ventures and other | -19 | 8 |
| Total investment income | 211 | 65 |

## Non-life insurance financial performance

Non-life insurance operating profit amounted to EUR 107 million (166). Positive developments in the value of shares strengthened the investment result. Profitability weakened, year on year, as a result of higher claims incurred and operating expenses and higher reinsurance costs. A year ago, other income included a capital gain of EUR 32 million on the sale of Pohjola Hospital.

| € million | H1/2023 | H1/2022 | Change, % |
|---|---|---|---|
| Insurance revenue | 843 | 805 | 4.7 |
| Claims incurred | -566 | -587 | -3.7 |
| Operating expenses | -233 | -208 | 12.2 |
| Insurance service result, gross | 44 | 10 | 341.4 |
| Reinsurer's share of insurance revenue | -54 | -31 | 73.4 |
| Reinsurer's share of insurance service expenses | 29 | 65 | -55.5 |
| Net income from reinsurance | -25 | 34 | -174.2 |
| Insurance service result | 19 | 44 | -56.1 |
| Net finance income | -55 | 467 | - |
| Investment income | 143 | -374 | - |
| Investment income | 88 | 93 | -5.7 |
| Other net income | 0 | 29 | -100.4 |
| Operating profit | 107 | 166 | -35.6 |
| Combined ratio | 97.6 | 94.3 | |
| Risk ratio | 68.4 | 67.6 | |
| Cost ratio | 29.2 | 26.7 | |

## Non-life insurance: premiums written (FAS)

| € million | H1/2023 | H1/2022 | Change, % |
|---|---|---|---|
| Personal customers | 479 | 450 | 6.4 |
| Corporate customers | 667 | 639 | 4.3 |
| Total | 1,146 | 1,089 | 5.2 |

Premiums written increased by 5.2% to EUR 1,146 million. Besides the growth in the number of customers, the increase was attributable to the rise in the general level of costs and the resulting index increments and price increases in insurance premiums. Net insurance revenue was burdened by a rise in reinsurance costs. Net insurance revenue increased by 1.9% to EUR 789 million.

Claims incurred before reinsurer's share decreased by 3.7% to EUR 566 million as a result of a year-on-year decrease in claims incurred associated with large claims. Meanwhile, the rise in the general level of costs and higher claims volumes, particularly in medical expenses insurance, increased claims incurred. Net claims incurred after reinsurer's share grew by 3.1% to EUR 540 million.

The reported number of new large claims under property and business liability insurance (in excess of EUR 0.3 million) amounted to 60 (66) in January–June, with their claims incurred retained for own account totalling EUR 51 million (91). The non-life insurance operating risk ratio, excluding indirect loss adjustment expenses, was 68.4% (67.6). Changes in the provision for outstanding claims under statutory pensions improved earnings by EUR 7 million (9).

Operating expenses increased by 12.2% to EUR 233 million. Personnel costs increased due to pay rises and the increase in personnel in Claims Settlement.

In non-life insurance, the cost ratio (including indirect loss adjustment expenses) was 29.2% (26.7). Combined ratio reported by non-life insurance weakened to 97.6% (94.3).

### Non-life insurance: investment income

| € million | H1/2023 | H1/2022 |
|---|---|---|
| Net finance income and expenses | -55 | 467 |
| Fixed-income investments | 59 | -316 |
| Quoted shares | 72 | -105 |
| Other liquid investments | 0 | -4 |
| Property investment | 11 | 41 |
| Other illiquid investments | 8 | 16 |
| Investment income | 150 | -367 |
| Other | -8 | -7 |
| Total investment income | 88 | 93 |

### Non-life insurance: key investment indicators

| | H1/2023 | H1/2022 |
|---|---|---|
| Return on investments at fair value, % | 3.5 | -9.2 |
| Fixed income investments' running yield, % | 2.1 | 1.0 |
| | 30 Jun 2023 | 31 Dec 2022 |
| Investment portfolio, € million | 4,226 | 4,071 |
| Investments within the investment grade category, % | 92 | 92 |
| At least A-rated receivables, % | 55 | 56 |
| Modified duration | 3.3 | 2.8 |

## Life insurance financial performance

Operating profit amounted to EUR 101 million (–28) due to a stronger investment performance. Insurance service result weakened due to the index increases in defined benefit group pension insurance plans and the default updates related to the calculation model. A contractual service margin of EUR 36 million (23) was recognised in the insurance service result. Positive developments in the value of shares strengthened the investment result.
An update of calculation assumptions related to bonuses and rebates increased net finance income by EUR 30 million. Expenses increased by EUR 6 million to EUR 40 million. Development costs increased as a result of the platform transitions that were launched during the reporting period in term life insurance and individual unit-linked insurance.

| € million | H1/2023 | H1/2022 | Change, % | Q1–4/2022 |
|---|---|---|---|---|
| Insurance service result | -11 | 12 | - | -55 |
| Net finance expenses | -199 | 1,394 | - | 1,642 |
| Investment income | 313 | -1,432 | - | -1,643 |
| Investment income | 114 | -39 | - | -1 |
| Net commissions and fees | 19 | 19 | 0.0 | 40 |
| Other operating income and expenses | 4 | 0 | - | 0 |
| Personnel costs | -8 | -7 | 20.3 | -13 |
| Depreciation/amortisation and impairment loss | -9 | -10 | -12.0 | -20 |
| Other operating expenses | -23 | -17 | 35.0 | -37 |
| Total expenses | -40 | -34 | 18.2 | -70 |
| Transfers to insurance service result | 22 | 19 | 18.0 | 38 |
| OP bonuses to owner-customers | -6 | -5 | 19.8 | -10 |
| Operating profit | 101 | -28 | - | -57 |
| | | | | |
| Cost/income ratio, % | 27 | 307 | 280 | 312 |
| | | | | |
| Contractual service margin at period end | 776 | 746 | 4.0 | 787 |

## Life insurance: investment income

| € million | H1/2023 | H1/2022 |
|---|---|---|
| Net finance income and expenses | 20 | 426 |
| Fair value changes in liabilities (unit-linked) | -180 | 695 |
| Change in the liability of separated balance sheets | -38 | 273 |
| Net finance income and expenses | -199 | 1,394 |
| Fixed-income investments | 44 | -394 |
| Quoted shares | 47 | -88 |
| Other liquid investments | 0 | -4 |
| Property investment | 4 | 13 |
| Other illiquid investments | 7 | 14 |
| Investment income | 102 | -460 |
| Value change in the investment assets of separated balance sheet | 40 | -284 |
| Income from assets covering unit-linked insurance and investment contracts | 479 | -1,634 |
| Movement in investment contract (IFRS 9) liabilities | -288 | 941 |
| Associates, joint ventures and other | -21 | 4 |
| Total investment income | 114 | -39 |

### Life insurance: key investment indicators*

| | H1/2023 | H1/2022 |
|---|---|---|
| Return on investments at fair value, % | 3.2 | -12.8 |
| Fixed income investments' running yield, % | 2.0 | 1.0 |
| | **30 Jun 2023** | **31 Dec 2022** |
| Investment portfolio, € million | 3,242 | 3,235 |
| Investments within the investment grade category, % | 92 | 90 |
| A-rated receivables, minimum, % | 54 | 50 |
| Modified duration | 3.1 | 2.8 |

* Excluding the separated balance sheets

## Group Functions

### Key figures and ratios

| € million | H1/2023 | H1/2022 | Change, % | Q1–4/2022 |
|---|---|---|---|---|
| Net interest income | -24 | -35 | - | -62 |
| Impairment loss on receivables | 0 | 0 | - | 0 |
| Net commissions and fees | 0 | 0 | - | 0 |
| Investment income | 22 | 7 | 209.6 | -11 |
| Other operating income | 364 | 342 | 6.3 | 657 |
| Personnel costs | -118 | -101 | 16.8 | 195 |
| Depreciation/amortisation and impairment loss | -43 | -56 | -22.8 | 103 |
| Other operating expenses | -203 | -182 | 11.4 | 376 |
| Operating loss | -1 | -24 | - | -91 |

The Group Functions segment consists of OP Cooperative's functions tasked with the support and assurance of business segments, as well as OP Corporate Bank plc's treasury functions.

### Financial performance for the reporting period

Group Functions operating loss was EUR –1 million (–24). Net interest income was EUR –24 million (–35). The effect of items related to TLTRO III funding and its hedging amounted to EUR –11 million (–4) during the reporting period. A rise in market interest rates had a positive effect on net interest income.

Investment income totalled EUR 22 million (7). Other operating income increased by 6.3% to EUR 364 million. Other operating income mainly includes OP Financial Group's intra-group items.

Personnel costs rose by 16.8% to EUR 118 million. The increase was affected by higher headcount and growth in the provision for performance-based bonuses as well as the one-off compensation under collective agreements paid to personnel during the reporting period. Depreciation/amortisation and impairment loss on PPE and intangible assets decreased by 22.8% to EUR 43 million. Other operating expenses increased by 11.4% to EUR 203 million. ICT costs increased by 8.8% to EUR 142 million.

OP Financial Group's funding position and liquidity is strong. At the end of the reporting period, the Group's LCR was 214% (217) and NSFR was 131% (128). At the end of the reporting period, OP Financial Group's balance sheet assets included bonds worth EUR 162 million (1), which are not measured at fair value in accounting. The fair value of these bonds amounted to EUR 160 million (1) at the end of the reporting period.

On 30 June 2023, the average margin of OP Financial Group's senior and senior non-preferred wholesale funding and covered bonds was 33 basis points (27). In January–June, OP Financial Group issued long-term bonds worth EUR 3.3 billion (4,0). In the reporting period, OP Financial Group repaid in full the EUR 12.0 billion in TLTRO III loans.

# ICT investments

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 the development of OP Financial Group's products and services, digital channels and shared technology, data and cybersecurity capabilities, while safeguarding the high quality, availability and data security of the services. ICT costs make up a significant portion of development costs.

OP Financial Group's development expenditure for January–June totalled EUR 177 million (151). This included licence fees, purchased services, other external costs related to projects and in-house work. The capitalised development expenditure totalled EUR 50 million (47). More detailed information on OP Financial Group's investments can be found in each business segment's text section in this Half-year Financial Report.

# Personnel

On 30 June 2023, OP Financial Group had 13,804 employees (12,999). The number of employees averaged 13,355 (13,077). The growth was due to the recruitment of summer employees and the increase in salesforce and customer service resources.

### Personnel at period end

| | 30 Jun 2023 | 31 Dec 2022 |
|---|---|---|
| Retail Banking | 7,853 | 7,450 |
| Corporate Banking | 1,065 | 962 |
| Insurance | 2,498 | 2,373 |
| Group Functions | 2,388 | 2,214 |
| Total | 13,804 | 12,999 |

During the reporting period, 88 OP Financial Group employees (124) retired at an average age of 62.2 years (62.9).

Variable remuneration applied by OP Financial Group in 2023 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 in the personnel fund. In drawing up the remuneration schemes, OP has taken account of the regulation regarding the financial sector's remuneration schemes.

## 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 104 OP cooperative banks (108) and OP Cooperative Consolidated. The number of OP cooperative banks decreased during the reporting period due to mergers.

Kiteen Seudun Osuuspankki and Rääkkylän Osuuspankki merged into Pohjois-Karjalan Osuuspankki on 31 March 2023.

Pohjolan Osuuspankki and Tornion Osuuspankki merged into Oulun Osuuspankki on 30 April 2023. Consequently, the business name of Oulun Osuuspankki was changed to Pohjolan Osuuspankki.

On 16 February 2023, Etelä-Hämeen Osuuspankki and Päijät-Hämeen Osuuspankki approved a merger plan according to which the latter will merge into the former. The planned date for the execution of the merger is 31 December 2023. Consequently, the business name of Etelä-Hämeen Osuuspankki will change to Hämeen Osuuspankki.

On 17 April 2023, Korsnäsin Osuuspankki and Vaasan Osuuspankki approved a merger plan according to which the former will merge into the latter. The planned date for the execution of the merger is 31 October 2023.

## Governance of OP Cooperative

On 1 December 2022, the Supervisory Council of OP Cooperative (the central cooperative of OP Financial Group) elected the members of the Board of Directors of OP Cooperative for the term of office from 1 January to 31 December 2023. The composition of the Board of Directors remained unchanged. In addition, according to the bylaws of OP Cooperative, the President and Group CEO is a Board member during their term of office.

The following members continued on the Board in 2023: Jarna Heinonen (Professor in Entrepreneurship, Turku School of Economics), Jari Himanen (kauppaneuvos, Finnish honorary title; Managing Director, Suur-Savon Osuuspankki), Kati Levoranta (Executive Vice President, Commercial and Operational Activities, P2X Solutions Ltd), Pekka Loikkanen (board professional), Tero Ojanperä (Chair of the Board of Directors, Silo AI Ltd), Riitta Palomäki (board professional), Jaakko Pehkonen (rahoitusneuvos, Finnish honorary title; Professor of Economics, University of Jyväskylä), Timo Ritakallio (President and Group CEO, OP Financial Group), Petri Sahlström (Professor of Accounting and Finance, University of Oulu), Olli Tarkkanen (Managing Director, Etelä-Pohjanmaan Osuuspankki) and Mervi Väisänen (Senior Lecturer in Marketing, Kajaani University of Applied Sciences).

On 21 December 2022, the Board of Directors elected from among its members the chairs, vice chairs and other members to the statutory Board Committees for the new term. Jaakko Pehkonen will continue as Chair and Jarna Heinonen as Vice Chair of the Board of Directors. On 2 May 2023, the Nomination and Remuneration Committee of the Board of Directors was divided into two separate committees. Consequently, the Board has four statutory committees: the Audit Committee, the Risk Committee, the Remuneration Committee and the Nomination Committee. On 2 May 2023, the Board of Directors updated the composition of its committees.

On 26 April 2023, OP Cooperative held its Annual Cooperative Meeting which elected members of the Supervisory Council and the auditor.

The Supervisory Council comprises 36 members. The Meeting re-elected the following members to the Supervisory Council who were due to resign: M.Sc. Eeva Harju, Professor Saara Julkunen, Managing Director Matti Kiuru, Senior Agricultural Economist Päivi Kujala, Authorised Public Accountant Katja Kuosa-Kaartti, Senior Manager Anssi Mäkelä, Managing Director Kari Mäkelä, Managing Director Heikki Palosaari, Managing Director Jyrki Rantala, Managing Director Teemu Sarhemaa and Managing Director Ari Väänänen.

New Supervisory Council members elected were Sales Manager Jan Drugge, HR Director Titta Saksa and entrepreneur Miika Sunikka.

At its reorganising meeting on 26 April 2023, the Supervisory Council elected the presiding officers of the Supervisory Council. Chair of the Board of Directors Annukka Nikola was elected as Chair and entrepreneur Taija Jurmu and Managing Director Ari Väänänen as Vice Chairs of the Supervisory Council. Eeva Harju (M.Sc.), member of the Supervisory Council, died in May 2023. The Supervisory Council will continue until the end of its term of office with 35 members.

The Annual Cooperative Meeting re-elected KPMG Oy Ab, an audit firm, to act as the auditor for the financial year 2023, with Juha-Pekka Mylén, APA, acting as the chief auditor, appointed by KPMG Oy Ab.

## Events after the reporting period

On 24 July 2023, OP Financial Group announced that it will hire 300 new IT professionals in Helsinki and Oulu. These recruitments are part of OP's long-term investments in areas such as AI expertise, data utilisation and cloud services. Alongside new recruitment, OP is developing the competencies of current employees to meet future requirements.

## Outlook towards the year end

The economy is expected to enter a mild recession and inflation to fall back slowly. An exceptional degree of uncertainty is still associated with the business environment. Rising interest rates are weakening the real estate market and construction sector in particular.- Combined with the geopolitical situation, developments in global capital markets may abruptly affect the business environment.

OP Financial Group's operating profit (earnings before tax) for 2023 is expected to be higher than in 2022, due to an increase in market rates.

The most significant uncertainties affecting OP Financial Group's earnings performance are associated with developments in the business environment, changes in the interest rate and investment environment and developments in impairment loss on receivables. 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. The formulas for the key figures and ratios can be derived from the figures presented in this Financial Statements Bulletin, so separate reconciliation statements for the Alternative Performance Measures are not presented.

## Alternative Performance Measures

| Key figure or ratio | Formula | | Description |
|---|---|---|---|
| Return on equity (ROE), % | Financial performance for the reporting period x (days of financial year/days of reporting period) / Equity (average at beginning and end of period) | x 100 | The ratio describes how much return is generated on equity capital as a percentage of equity during the reporting period. |
| 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 (average at beginning and end of period) | x 100 | The ratio describes how much return is generated on equity capital as a percentage of equity during the reporting period, excluding OP bonuses paid to owner-customers that are charged to expenses. |
| 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 financial year) | x 100 | The ratio describes how much return is generated on capital tied up on business during the reporting period. |
| 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 financial year) | x 100 | The ratio describes how much return is generated on capital tied up on business during the reporting period, excluding OP bonuses paid to owner-customers that are charged to expenses. |
| Cost/income ratio, % | Total expenses / Total income | x 100 | The ratio describes the ratio of expenses to income. The lower that ratio, the better. |
| Total income | Net interest income + Net commissions and fees + Insurance service result + Investment income + Other operating income + Transfers to insurance service result | | The figure describes the development of all income. |

| | | | |
|---|---|---|---|
| Total expenses | Personnel costs + Depreciation/amortisation and impairment loss + Other operating expenses | | The figure describes the development of all expenses. |
| Investment income | Net insurance finance income + Net interest income from financial assets held for trading + Net investment income | | The figure describes the development of all income related to investment. |
| Loan portfolio | Loans and loss allowance included in the balance sheet item Receivables from customers. | | Total amount of loans granted to customers. |
| Ratio of impairment loss on receivables to loan and guarantee portfolio, % | Impairment loss on receivables x (days of financial year/days of reporting period) / Loan and guarantee portfolio at period end | x 100 | The ratio describes the ratio of impairment loss on receivables entered in the income statement to the loan and guarantee portfolio. The lower that ratio, the better. |
| Deposits | Deposits included in balance sheet item Liabilities to customers | | Total amount of deposits by customers. |
| Coverage ratio, % | Loss allowance / Receivables from customers (on-balance-sheet and off-balance-sheet items) | x 100 | The ratio describes the extent to which the amount of expected losses covers the amount of the liability. |
| Default capture rate, % | New defaulted contracts in stage 2 a year ago / New defaulted contracts during the reporting period | x 100 | The ratio describes the effectiveness of the SICR model (significant increase in credit risk), in other words how many contracts were in stage 2 before moving to stage 3. |
| Income from customer business | Net interest income + insurance service result + net commissions and fees | | Income from customer business describes the development of net interest income, insurance service result and net commissions and fees. Income directly from customers is presented mainly under these items. |
| **Non-life insurance:** | | | |
| Combined ratio, % | Risk ratio + Cost ratio | | The combined ratio is a key indicator of efficiency for non-life insurance companies. The ratio describes whether the insurance revenue is sufficient to cover the company's expenses during the reporting period. |
| Risk ratio, % | Claims incurred / Net insurance revenue | x 100 | The ratio describes how much of the insurance revenue is spent on claims paid. The ratio is calculated after reinsurers' share. |

| | | | |
|---|---|---|---|
| Cost ratio, % | Operating expenses and loss adjustment expenses / Net insurance revenue | x 100 | The ratio describes the ratio of the company's costs (acquisition, management, administration and claims settlement expenses) to its insurance revenue. |

## Key indicators based on a separate calculation

| | | | |
|---|---|---|---|
| Capital adequacy ratio, % | Total own funds / Total risk exposure amount | x 100 | The ratio describes a credit institution's capital adequacy and shows the ratio of own funds to the total risk exposure amount. |
| Tier 1 ratio, % | Tier 1 capital / Total risk exposure amount | x 100 | The ratio describes a credit institution's capital adequacy and shows the ratio of Tier 1 capital to the total risk exposure amount. |
| Common Equity Tier 1 (CET1) capital ratio, % | CET1 capital / Total risk exposure amount | x 100 | The ratio describes a credit institution's capital adequacy and shows the ratio of CET1 capital to the total risk exposure amount. |
| Solvency ratio, % | Capital base / Solvency capital requirement (SCR) | x 100 | The ratio describes an insurance company's solvency and shows the ratio of the capital base to the total risk exposure amount. |
| Leverage ratio, % | Tier 1 capital (T1) / Exposure amount | x 100 | The ratio describes a credit institution's indebtedness and shows the ratio of Tier 1 capital to the total risk exposure amount. |
| Liquidity coverage requirement (LCR), % | Liquid assets / Liquidity outflows – liquidity inflows under stressed conditions | x 100 | The ratio describes short-term funding liquidity risk that requires the bank to have sufficient, high-quality liquid assets to get through an acute 30-day stress scenario. |
| Net stable funding ratio (NSFR), % | Available stable funding / Required stable funding | x 100 | The ratio describes a long-term liquidity risk that requires the bank to have a sufficient amount of stable funding sources in relation to items requiring stable funding sources. The objective is to secure the sustainable maturity structure of assets and liabilities applying a 12-month time horizon and to restrict excessive resort to short-term wholesale funding. |

| | | | |
|---|---|---|---|
| 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 | The ratio describes the capital adequacy of the financial conglomerate and shows the ratio of the capital base to the minimum amount of the capital base. |
| Ratio of non-performing exposures to exposures, % | Non-performing receivables (gross) / Exposures at period end | x 100 | The ratio describes the ratio of customers with severe payment difficulties to the entire exposure portfolio. Non-performing exposures refer to receivables that are more than 90 days past due and other receivables classified as risky as well as forborne exposures related to such receivables due to the customer's financial difficulties. Forbearance measures consist of concessions agreed at the customers' initiative to the original repayment plan to make it easier for them to manage through temporary payment difficulties. Non-performing exposures are presented in gross terms; expected credit losses have not been deducted from them. |
| Ratio of doubtful receivables to exposures, % | Doubtful receivables (gross) / Exposures at period end | x 100 | The ratio describes the ratio of customers with payment difficulties to the entire exposure portfolio. 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. In addition to non-performing forborne exposures, doubtful receivables include non-performing 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. Doubtful receivables are presented in gross terms; expected credit losses have not been deducted from them. |

..

| | | | |
|---|---|---|---|
| Ratio of performing forborne exposures to exposures, % | Performing forborne exposures (gross) / Exposures at period end | x 100 | The ratio describes the ratio of forborne exposures to the entire exposure portfolio.<br>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 forborne exposures. |
| Ratio of performing forborne exposures to doubtful receivables, % | Performing forborne exposures (gross) / Doubtful receivables at period end | x 100 | The ratio describes the ratio of performing forborne exposures to doubtful receivables that include not only performing forborne exposures but also non-performing exposures.<br>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 forborne exposures. |
| 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 | The ratio describes the ratio of expected losses to all doubtful receivables. Doubtful receivables include non-performing exposures and performing forborne exposures. |
| Loan and guarantee portfolio | Loan portfolio + guarantee portfolio | | The indicator describes the total amount of loans and guarantees given. |
| Exposures | Loan and guarantee portfolio + interest receivables + unused standby credit facilities | | The sum of the loan and guarantee portfolio, interest receivables and unused standby credit facilities (undrawn loans and limits) is used as the basis for proportioning doubtful receivables and non-performing exposures. |
| Other exposures | Interest receivables + unused standby credit facilities | | In addition to the loan and guarantee portfolio, exposures come from interest receivables and unused standby credit facilities (undrawn loans and limits). |

*Transitional provisions have been taken into account in the FiCo solvency.

# Capital adequacy and solvency

## Capital adequacy for credit institutions

| Own funds, € million | 30 Jun 2023 | 31 Dec 2022 |
|---|---|---|
| OP Financial Group's equity capital | 15,227 | 14,335 |
| Effect of insurance companies on the Group's shareholders' equity is | -1,059 | -721 |
| Fair value reserve, cash flow hedge | 325 | 337 |
| Common Equity Tier 1 (CET1) before deductions | 14,493 | 13,951 |
| Intangible assets | -313 | -343 |
| Excess funding of pension liability and valuation adjustments | -227 | -231 |
| Cooperative capital deducted from own funds | -5 | -163 |
| Planned profit distribution and unpaid profit distribution for previous | -147 | -144 |
| Shortfall of ECL minus expected losses | | -425 |
| Insufficient coverage for non-performing exposures | -152 | -76 |
| CET1 capital | 13,650 | 12,569 |
| | | |
| Tier 1 capital (T1) | 13,650 | 12,569 |
| | | |
| Debenture loans | 1,308 | 1,308 |
| Debentures to which transition rules apply | 74 | 91 |
| General credit risk adjustments | 108 | |
| Tier 2 capital (T2) | 1,490 | 1,399 |
| Total own funds | 15,139 | 13,968 |

| Risk exposure amount, € million | 30 Jun 2023 | 31 Dec 2022 |
|---|---|---|
| Credit and counterparty risk | 64,847 | 60,437 |
| Standardised Approach (SA)* | 64,847 | 8,476 |
| Central government and central banks exposure | 582 | 495 |
| Credit institution exposure | 565 | 627 |
| Corporate exposure | 27,365 | 5,244 |
| Retail exposure | 8,888 | 1,245 |
| Mortgage-backed exposure | 19,768 | 153 |
| Defaulted exposure | 2,122 | 72 |
| Items of especially high risk | 1,326 | |
| Covered bonds | 563 | 540 |
| Receivables to which a short-term credit rating can be applied | 10 | 0 |
| Collective investment undertakings (CIU) | 243 | 0 |
| Equity investments | 2,420 | 1 |
| Other | 995 | 99 |
| Internal Ratings-based Approach (IRB) | | 51,960 |
| Corporate exposure | | 29,997 |
| Retail exposure | | 12,002 |
| Equity investments | | 8,944 |
| Other | | 1,018 |
| Risks of the CCP's default fund | 0 | 0 |
| Securitisations | 110 | 111 |
| Market and settlement risk (Standardised Approach) | 1,025 | 1,070 |
| Operational risk (Standardised Approach) | 4,156 | 3,851 |
| Valuation adjustment (CVA) | 211 | 179 |
| Other risks** | 2,300 | 6,678 |
| Total risk exposure amount | 72,649 | 72,327 |

* OP Financial Group adopted the Standardised Approach in its capital adequacy measurement and reporting during the first quarter of 2023.

** Risks not otherwise covered. A year ago, the risk-weighted assets (RWA) floor based on the Standardised Approach.

| Ratios, % | 30 Jun 2023 | 31 Dec 2022 |
|---|---|---|
| CET1 capital ratio | 18.8 | 17.4 |
| Tier 1 ratio | 18.8 | 17.4 |
| Capital adequacy ratio | 20.8 | 19.3 |

| Ratios, fully loaded, % | 30 Jun 2023 | 31 Dec 2022 |
|---|---|---|
| CET1 capital ratio | 18.8 | 17.4 |
| Tier 1 ratio | 18.8 | 17.4 |
| Capital adequacy ratio | 20.7 | 19.2 |

| Capital requirement, EUR million | 30 Jun 2023 | 31 Dec 2022 |
|---|---|---|
| Own funds | 15,139 | 13,968 |
| Capital requirement | 10,410 | 9,979 |
| Buffer for capital requirements | 4,729 | 3,989 |

The capital requirement of 14.3% comprises the minimum requirement of 8%, the capital conservation buffer of 2.5%, the O-SII buffer requirement of 1.5%, the minimum requirement (P2R) of 2.25% set by the ECB and the country-specific countercyclical capital buffers for foreign exposures.

| Leverage ratio, EUR million | 30 Jun 2023 | 31 Dec 2022 |
|---|---|---|
| Tier 1 capital (T1) | 13,650 | 12,569 |
| Total exposure | 145,459 | 165,362 |
| Leverage ratio, % | 9.4 | 7.6 |

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

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

| € million | 30 Jun 2023 | 31 Dec 2022 |
|---|---|---|
| OP Financial Group's equity capital | 15,227 | 14,335 |
| Other items included in Banking's Tier 1 and Tier 2 capital | 1,490 | 1,399 |
| Other sector-specific items excluded from capital base | -335 | -442 |
| Goodwill and intangible assets | -1,034 | -1,077 |
| Insurance business valuation differences* | 715 | 1,083 |
| Proposed profit distribution | -147 | -144 |
| Items under IFRS deducted from capital base** | 161 | 177 |
| Shortfall of ECL minus expected losses | | -370 |
| Conglomerate's total capital base | 16,078 | 14,961 |
| Regulatory capital requirement for credit institutions*** | 10,080 | 9,661 |
| Regulatory capital requirement for insurance operations* | 1,361 | 1,237 |
| Conglomerate's total minimum capital requirement | 11,441 | 10,898 |
| Conglomerate's capital adequacy | 4,637 | 4,063 |
| Conglomerate's capital adequacy ratio (capital base/minimum of capital base) (%) | 141 | 137 |

* 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 14.3%
Transitional provisions have been taken into account in figures.

# TABLES

## Income statement

| € million | Notes | H1/2023 | H1/2022 | Q2/2023 | Q2/2022 |
|---|---|---|---|---|---|
| Interest income | | 2,327 | 675 | 1,327 | 336 |
| Interest expenses | | -1,027 | -1 | -643 | 5 |
| Net interest income | 3 | 1,299 | 675 | 684 | 341 |
| Impairment loss on receivables | 4 | -99 | -100 | -76 | -17 |
| Commission income | | 538 | 546 | 261 | 265 |
| Commission expenses | | -67 | -68 | -35 | -34 |
| Net commissions and fees | 5 | 470 | 478 | 226 | 231 |
| Insurance premium revenue | | 967 | 916 | 482 | 464 |
| Insurance service expenses | | -931 | -893 | -447 | -446 |
| Net income from reinsurance contracts | | -28 | 33 | -25 | 17 |
| Insurance service result | 6 | 8 | 56 | 10 | 35 |
| Net finance income (+)/expenses (–) related to insurance | | -243 | 1,866 | -29 | 1,027 |
| Net finance income (+)/expenses (–) related to reinsurance | | -10 | -5 | -1 | -3 |
| Net insurance finance income (+)/expenses (–) | 7 | -253 | 1,861 | -31 | 1,024 |
| Net interest income from financial assets held for trading | 8 | 19 | -48 | -14 | -29 |
| Net investment income | 9 | 485 | -1,688 | 168 | -940 |
| Other operating income | | 21 | 46 | 15 | 7 |
| Personnel costs | | -484 | -427 | -262 | -216 |
| Depreciation/amortisation and impairment loss | | -92 | -110 | -45 | -53 |
| Other operating expenses | 10 | -504 | -451 | -220 | -205 |
| Transfers to insurance service result | | 237 | 207 | 117 | 101 |
| Operating expenses | | -843 | -781 | -410 | -373 |
| OP bonuses to owner-customers | | -122 | -96 | -66 | -51 |
| **Operating profit (loss)** | | **986** | **402** | **506** | **228** |
| **Earnings before tax** | | **986** | **402** | **506** | **228** |
| Income tax | | -196 | -72 | -101 | -47 |
| **Profit for the period** | | **790** | **330** | **405** | **182** |
| | | | | | |
| **Attributable to:** | | | | | |
| Profit for the period attributable to owners | | 785 | 324 | 402 | 182 |
| Profit for the period attributable to non-controlling interest | | 5 | 6 | 3 | 0 |
| **Profit for the period** | | **790** | **330** | **405** | **182** |

### Statement of comprehensive income

| € million | Notes | H1/2023 | H1/2022 | Q2/2023 | Q2/2022 |
|---|---|---|---|---|---|
| **Profit for the period** | | **790** | **330** | **506** | **228** |
| Items that will not be reclassified to profit or loss | | | | | |
| Gains/(losses) arising from remeasurement of defined benefit plans | | 12 | 135 | 1 | 101 |
| Items that may later be reclassified to the profit or loss | | | | | |
| Change in fair value reserve | | | | | |
| On fair value measurement | 15 | -10 | -28 | -8 | -8 |
| On cash flow hedging | 15 | 14 | -343 | -22 | -147 |
| Income tax | | | | | |
| On items not reclassified to profit or loss | | | | | |
| On gains/(losses) arising from measurement of defined benefit plans | | -2 | -27 | 0 | -20 |
| On items that may subsequently be reclassified to profit or loss | | | | | |
| On fair value measurement | 15 | 2 | 6 | 2 | 2 |
| On cash flow hedging | 15 | -3 | 69 | 4 | 29 |
| **Other comprehensive income items** | | **13** | **-188** | **-23** | **-43** |
| **Total comprehensive income for the period** | | **803** | **142** | **483** | **185** |
| | | | | | |
| **Comprehensive income for the period attributable to:** | | | | | |
| Comprehensive income for the period attributable to owners | | 797 | 135 | 480 | 185 |
| Comprehensive income for the period attributable to non-controlling interests | | 5 | 6 | 3 | 0 |
| **Total** | | **803** | **142** | **483** | **185** |

## Balance sheet

| € million | Notes | 30 June 2023 | 31 Dec 2022 |
|---|---|---|---|
| Cash and cash equivalents | | 17,232 | 35,004 |
| Receivables from credit institutions | | 844 | 798 |
| Receivables from customers | | 96,889 | 98,546 |
| Derivative contracts | | 3,614 | 4,117 |
| Investment assets | | 21,095 | 20,742 |
| Assets covering unit-linked contracts | | 12,051 | 11,597 |
| Reinsurance contract assets | 11 | 251 | 245 |
| Intangible assets | | 1,133 | 1,153 |
| Property, plant and equipment | | 440 | 423 |
| Other assets | | 3,170 | 2,401 |
| Tax assets | | 385 | 664 |
| **Total assets** | | **157,105** | **175,691** |
| | | | |
| Liabilities to credit institutions | | 68 | 12,301 |
| Liabilities to customers | | 74,648 | 81,468 |
| Derivative contracts | 20 | 3,853 | 4,432 |
| Insurance contract liabilities | | 11,629 | 11,446 |
| Reinsurance contract liabilities | 13 | 2 | 2 |
| Liabilities from investment agreements | | 7,559 | 7,211 |
| Debt securities issued to the public and debentures | 14 | 35,662 | 37,438 |
| Provisions and other liabilities | | 5,777 | 3,818 |
| Tax liabilities | | 1,317 | 1,522 |
| Subordinated liabilities | | 1,364 | 1,384 |
| **Total liabilities** | | **141,878** | **161,023** |
| **Equity capital** | | | |
| **Capital and reserves attributable to OP Financial Group owners** | | | |
| Cooperative capital | | | |
| Member cooperative shares | | 216 | 217 |
| Profit Shares | | 3,287 | 3,369 |
| Fair value reserve | 15 | -357 | -360 |
| Other reserves | | 2,172 | 2,172 |
| Retained earnings | | 9,802 | 9,153 |
| **Non-controlling interests** | | 107 | 118 |
| **Total equity** | | **15,227** | **14,668** |
| **Total liabilities and equity** | | **157,105** | **175,691** |

OP Financial Group has applied IFRS 17 Insurance Contracts as of 1 January 2023. The figures in the income statement and balance sheet for 2022 have been adjusted. Note 1 Accounting policies to this Half-year Financial Report provides more information on the adoption of IFRS 17 and the changes in the format of the income statement and balance sheet.

## Statement of changes in equity

| € million | Cooperative capital | Fair value reserve | Other reserves | Retained earnings | Total | Non-controlling interests | Total equity capital |
|---|---|---|---|---|---|---|---|
| | Attributable to owners | | | | | | |
| **Equity capital 31 December 2021** | **3,459** | **323** | **2,184** | **8,090** | **14,057** | **128** | **14,184** |
| Effect of IFRS 17 transition 1 January 2022 | | -205 | | 154 | -52 | | -52 |
| **Equity capital 1 January 2022** | **3,459** | **118** | **2,184** | **8,244** | **14,005** | **128** | **14,133** |
| Total comprehensive income for the period | | -297 | | 432 | 135 | 6 | 142 |
| Profit for the period | | | | 324 | 324 | 6 | 330 |
| Other comprehensive income items | | -297 | | 108 | -188 | | -188 |
| Profit distribution | | | | -96 | -96 | -2 | -98 |
| Changes in membership and profit shares | 1 | | | | 1 | | 1 |
| Transfers between reserves | | | -12 | 12 | | | |
| Other | | | | 0 | 0 | 3 | 3 |
| **Equity capital 30 June 2022** | **3,460** | **-179** | **2,172** | **8,591** | **14,045** | **135** | **14,180** |

| € million | Cooperative capital | Fair value reserve | Other reserves | Retained earnings | Total | Non-controlling interests | Total equity capital |
|---|---|---|---|---|---|---|---|
| | Attributable to owners | | | | | | |
| **Equity capital 1 January 2023** | **3,586** | **-360** | **2,172** | **9,153** | **14,550** | **118** | **14,668** |
| Total comprehensive income for the period | | 3 | | 794 | 797 | 5 | 803 |
| Profit for the period | | | | 785 | 785 | 5 | 790 |
| Other comprehensive income items | | 3 | | 9 | 13 | | 13 |
| Profit distribution | | | | -144 | -144 | -3 | -147 |
| Changes in membership and profit shares | -83 | | | | -83 | | -83 |
| Other | | | 0 | 0 | 0 | -14 | -14 |
| **Equity capital 30 June 2023** | **3,503** | **-357** | **2,172** | **9,802** | **15,120** | **107** | **15,227** |

## Cash flow statement

| € million | H1/2023 | H1/2022 |
|---|---|---|
| **Cash flow from operating activities** | | |
| Profit for the period | 790 | 330 |
| Adjustments to profit for the period | -152 | 2,326 |
| **Increase (-) or decrease (+) in operating assets** | **304** | **-3,374** |
| Receivables from credit institutions | -479 | -257 |
| Receivables from customers | 1,656 | -2,446 |
| Derivative contracts | -6 | -137 |
| Investment assets | 9 | -342 |
| Assets covering unit-linked contracts | -41 | -32 |
| Reinsurance contract assets | -6 | -33 |
| Other assets | -829 | -128 |
| **Increase (+) or decrease (–) in operating liabilities** | **-16,957** | **-4,261** |
| Liabilities to credit institutions | -12,247 | -3,702 |
| Liabilities to customers | -6,857 | 287 |
| Derivative contracts | -54 | 549 |
| Insurance contract liabilities | 186 | -1,963 |
| Reinsurance contract liabilities | 0 | -3 |
| Liabilities from investment agreements | 0 | 0 |
| Provisions and other liabilities | 2,017 | 572 |
| | | |
| Income tax paid | -125 | -139 |
| Dividends received | 29 | 61 |
| **A. Net cash from operating activities** | **-16,111** | **-5,058** |
| **Cash flow from investing activities** | | |
| Disposal of subsidiaries, net of cash and cash equivalents disposed of | | 33 |
| Purchase of PPE and intangible assets | -65 | -64 |
| Proceeds from sale of PPE and intangible assets | 3 | 11 |
| **B. Net cash used in investing activities** | **-61** | **-20** |
| **Cash flow from financing activities** | | |
| Subordinated liabilities, change | -23 | -507 |
| Debt securities issued to the public and debentures, change | -1,789 | -78 |
| Increases in cooperative and share capital | 78 | 164 |
| Decreases in cooperative and share capital | -162 | -163 |
| Dividends paid and interest on cooperative capital | -144 | -96 |
| Lease liabilities | -17 | -17 |
| **C. Net cash used in financing activities** | **-2,056** | **-698** |
| **Net change in cash and cash equivalents (A+B+C)** | **-18,229** | **-5,776** |
| | | |
| **Cash and cash equivalents at period start** | **35,656** | **33,129** |
| Effect of foreign exchange rate changes | 24 | 81 |
| **Cash and cash equivalents at period end** | **17,451** | **27,435** |
| | | |
| **Interest received** | **3,605** | **756** |
| **Interest paid** | **-2,243** | **-56** |
| | | |
| **Cash in hand** | | |
| Cash and cash equivalents | 17,232 | 27,034 |
| Receivables from credit institutions payable on demand | 220 | 401 |
| **Total** | **17,451** | **27,435** |

# Notes

1. Accounting policies
2. Segment reporting
3. Net interest income
4. Impairment losses on receivables
5. Net commissions and fees
6. Insurance service result
7. Net insurance finance expenses
8. Net interest income from financial assets held for trading
9. Net investment income
10. Other operating expenses
11. Impairment losses on receivables
12. Insurance contract liabilities
13. Reinsurance contract liabilities
14. Debt securities issued to the public
15. Fair value reserve after income tax
16. Collateral given
17. Classification of financial assets and liabilities
18. Recurring fair value measurements by valuation technique
19. Off-balance-sheet commitments
20. Derivative contracts
21. Investment distribution of the Insurance segment
22. 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 financial statements 2022.

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

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

### 1. Critical accounting estimates and judgements

The preparation of the Interim 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 Interim Report, management judgement has been used especially in the calculation of expected credit losses and the measurement of insurance contracts.

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 measured using the appropriate model
- selection of macroeconomic factors in such a way that their changes correlate with the contracts’ probability of default
- forecasting future macroeconomic scenarios and their probabilities
- extra provisions based on management judgement related to a certain industry due to the Covid-19 pandemic, for example
- reductions in collateral value made on the basis of the geographical location of collateral based on management judgement.

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

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

The actual measurement of ECL figures is performed using the ECL models, except if it is mainly the question of a large corporate exposure in stage 2 or 3 and on the watch list, in which case the ECL is calculated using the cash flow based ECL method based on expert judgement. Management judgement is involved in expert judgements.

Extra provisions based on management overlay directly to the ECL figures (post-model adjustments) are intended only for temporary use until an unpredictable event caused by the overlay provision or circumstance could have been taken into account in the ECL models.

The ECL models take account of Environmental, Social and Governance (ESG) risks of sustainable development, as follows:

- An assessment of economic impacts has been included in the measurement of the ECL models in the macro scenario where the use of fossil energy is reduced, so that carbon neutrality will be achieved by 2035.
- Since the beginning of 2023, OP Financial Group has started to use an ESG warning signal in the credit rating process (R Rating) of large corporations based on expert judgement that consists of an estimate of ESG risk factors. The ESG warning signal identifies situations where the ESG risk factors have an effect on the customer’s rating grade. If necessary, the customer’s credit rating can be lowered with the ESG warning signal and thereby increase the PD risk parameter and ECL of the customer’s contracts.

Management judgement and estimates included in the calculation of expected credit losses in respect of other than that presented above are included in the 2022 financial statements.

### Geopolitical risks

Geopolitical events may have an indirect effect on OP Financial Group's income and risks as a result of customers' changed business conditions, and a direct effect on the general financial market conditions and obstruction of the technical infrastructure. OP Financial Group is constantly prepared for such events by making various action plans for them and testing these plans.

### Measurement of insurance contracts

Significant solutions based on management judgement when applying IFRS 17. Risk adjustment is one of the components in the measurement of insurance contracts and the management has exercised the following judgement:

- In the calculation of risk adjustment, 5% has been set as the level of the cost of capital (CoC) parameter. The CoC level is shared by OP Life Assurance Company Ltd and Pohjola Insurance Ltd in the measurement of insurance contracts. OP Financial Group assesses the value of the cost of capital parameter at least once a year and it is changed, if necessary. The parameter can also be revised if the management deems it necessary on the basis of a business change or the market situation, for example. The methods and assumptions used have not changed during the reporting period.
- Risk adjustment is determined for OP Life Assurance Company Ltd and Pohjola Insurance Ltd separately and diversification benefits between the companies are not taken into account when determining risk adjustment.
- The confidence level for Pohjola Insurance varies between 70% and 75% and for OP Life Assurance Company between 90% and 95%. A scaling technique related to the confidence level of normal distribution has been used as the confidence level determination technique. OP Financial Group's combined confidence level is 85%.

Management has exercised judgement in the determination of the discount rate used in the calculation of insurance contracts, as follows:

- Discounting curves are derived as the sum of the risk-free interest rate and liquidity premium dependent on the characteristics of insurance contracts. The management exercises judgement in defining the principles for the parameters of the risk-free discounting curve and the liquidity premium. Insurance contract cash flows typically extend over a longer term than liquid market quotes, so swap rates are directly taken into account only until the defined maximum maturity. Thenceforth, the risk-free curve is extrapolated towards a long-term balance level. A credit risk component is removed from the swap rates, if necessary.
- Liquidity premium is determined by means of the investment universe that takes account of each insurance company's exposure. The investment universe means a portfolio allocation. When creating it, the amount of exposure is taken into account in weightings and index choices, the maturities of exposure and investment cash flows as well as cash flow predictability. The investment universe includes reference indices and their weights for government bonds, IG corporate bonds (IG, credit rating AAA-BBB and higher-risk corporate bonds (HY, credit rating BB-C). The management reviews the allocation on a regular basis.
- The movements of the discount rate affect earnings through the value change of cash flows and the selection of the interest rate model has a significant impact on earnings. At least once a year, OP Financial Group reviews the values of the parameters used in the yield curve modelling. The parameters can also be revised if the management deems it necessary. The methods and assumptions used have not changed during the reporting period.

Judgement exercised by the management to measure insurance contracts in the adoption of IFRS 17 and the assessment process of the input data of these methods:

- When measuring groups of insurance contracts, estimates concerning future cash flows reflect future assumptions made on the measurement date that include an adjustment that reflects the time value of money and financial risks associated with future cash flows to the extent that the financial risks are not included in the values of future cash flows as well as an estimate of risk adjustment to other than the financial risk.
- The objective of estimating future cash flows is to determine the expected value, or probability-weighted mean, of the full range of possible outcomes, considering all reasonable and supportable information available at the reporting date without undue cost or effort. Reasonable and supportable information available at the reporting date without undue cost or effort includes information on past events and current conditions, and forecasts of future conditions.
- Deterministic technical provisions models are used to model the expected value unless cash flows are affected by factors requiring complex stochastic simulation. OP Financial Group uses simulation in the calculation of time value of customer bonuses in OP Life Assurance Company's insurance contracts.
- Mortality models based on the latest mortality studies are used in cash flow assumptions. OP Financial Group monitors the relevance of the mortality models on an ongoing basis and, if needed, updates the models. In addition, customer behaviour assumptions and assumptions of operating expenses have a significant impact on insurance contract cash flows. The assumptions have been modelled using statistics and are continuously monitored and updated with increasing information.

Judgement exercised by the management in the application of the Variable Fee Approach (VFA) in the adoption of IFRS 17:

- OP Financial Group grants endowment, unit-linked and pension insurance policies. According to the contract concerned, their objective is to produce, or is expected to produce, investment-related services and receive a fee from the services as compensation that is determined based on the underlying items. The insurance contract may contain various investment products.

- On initial recognition, such contracts must be assessed whether they include direct participation features using the following criteria:
    - o under the contract, the policyholder is entitled to participate in the share of the underlying investment products;
    - o OP Financial Group expects to pay to the policyholder an amount equal to a substantial share of the fair value returns on the underlying items;
    - o OP Financial Group expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items.
- OP Financial Group assesses the fulfilment of the VFA terms applied to insurance contracts according to the expectations prevailing at inception of a contract and does not reassess the terms afterwards, except if changes are made to the contract. In selecting a valuation model, OP Financial Group considers all substantive rights and obligations to which all terms and conditions are included in the contract. A unit of account under IFRS 17 is a group of contracts, which is why the same valuation model is applied to the entire Group according to the characteristics of its cash flows. All contracts with similar risks belong to the group of insurance contracts and they are managed together.

Judgement exercised by the management in the adoption of IFRS 17 in defining coverage units that determine recognition:

- The contractual service margin included in the contract in the group of insurance contracts is recognised an amount in profit or loss in each period to reflect the insurance contract services provided under the group of insurance contracts in that period. The amount of the contractual service margin recognised in profit or loss is determined using coverage units included in the group of contracts. The coverage units describe the quantity of insurance contract services provided by the contracts in the group, determined by considering for each contract the quantity of the benefits provided under a contract and the contract's duration.
- For typical non-life insurance contracts of short duration, insurance service is interpreted to be provided evenly during the coverage period and insurance premiums received from contracts in the same insurance group are used as the basis for the coverage unit at insurance group level. The forecast lifecycle recognition of the contractual service margin of life insurance products in profit or loss, depending on the contract type, is affected by the saved amount by group, expected duration of the contract, amount of compensation or savings, lapses and future insurance premiums. Release of the contractual service margin and the basis of coverage units vary by insurance line: the basis is the development of the amount of assets for endowment-type insurance products and the development of capital at risk for term life insurance.
- The insurance products of OP Financial Group, where both investment service and insurance service are produced, are produced evenly and in the same proportion over the expected duration of the contract. In addition, both services are produced at the same time and their contract periods are of the same duration.

Judgement exercised by the management in the adoption of IFRS 17 related to the determination of investment components:

- Management has identified that some life insurance contracts of OP Financial Group include investment components: Their size is determined at the amount that OP Financial Group must pay back to the policyholder under the insurance contract in all circumstances. Examples of these situations include those where an insurance event occurs or the contract expires or cease to be in effect without the occurrence of an insurance event.
- The following life insurance contracts include significant investment components determined as follows:
    - o Unit-linked and pension insurance:
        - ▪ if death cover is over 100%, the investment component is the amount of savings
        - ▪ if death cover is less than 100%, the investment component is the amount covered with death cover.
    - o In separated balance sheets, the investment component is the amount of claims paid.

Judgement related to fair value determination and the modifications under the MRA used in the IFRS 17 transition:

- The method of transition to the MRA has been applied to the majority of insurance contracts granted by Pohjola Insurance. The values of transition to IFRS 17 have separately been determined for typical insurance contracts and insurance contracts requiring special treatment. Typical insurance contracts mean contracts of short duration, generally duration of one year or sometimes a few years. The MRA transition method is applied to them. Pohjola uses the modification to especially adjust cash flows that have already realised in order to avoid undue cost and effort in the determination of the values of transition.
- The fair value transition approach has been applied to OP Life Assurance contracts, which is due to the long-term nature of the products. The contracts have already been in force before the date when reasonable and supportable information needed for retrospective calculation was available that could be used without hindsight.
- To apply the fair value approach, OP Financial Group has determined the contractual service margin included in the contract or the fair value of the loss component of the debt for the remaining coverage period of the group of insurance contracts on the date of transition and the difference of the capital value of cash flows resulting from the fulfilment of the contract determined on the date concerned. Under IFRS 17, the contractual service margin of the group of

insurance contracts reflects the group's expected future profit that is recognised during the future life cycle of the group of insurance contracts.

- The fair value determination determined for the group of insurance contracts takes account of the discounted present value of the future cash flows of the group of insurance contracts, risk adjustment, in view of the future profit or loss arising from the insurance premiums already accrued in the group of insurance contracts as well as the future profit or loss arising from future insurance premiums on the date of transition on 1 January 2022 and the risk premiums generally required by the market participant in connection with the sale of the portfolio. The management has exercised judgement in the determination of the used valuation parameters in determining cash flows, the discount rate and risk margin, for example. In practice, there are no active and established markets for selling insurance portfolios but potential sales are often executed in bilateral transactions that would correspond to the most favourable market.

## 2. Adoption of IFRS 17 Insurance Contracts

OP Financial Group has applied IFRS 17 Insurance Contracts since 1 January 2023, which is the mandatory effective date. The European Union adopted IFRS 17 on 19 November 2021. In addition, OP Financial Group has applied an amendment to IFRS 17 that allows a classification overlay for financial assets. This removed an accounting mismatch between insurance contract liabilities and related financial assets due to the adoption of IFRS 17 for the adjusted comparative information. The European Union adopted the amendment on 8 September 2022.

IFRS 17 affects the measurement and recognition of OP Financial Group's non-life and life insurance products as well as their presentation in the financial statements. For the presentation of the balance sheet, the rights and obligations involved in insurance contracts are netted and presented either in assets or liabilities. In the income statement, the insurance service result is presented as a subtotal and separately investment income. In addition, the new standard means more qualitative and quantitative requirements for notes to the financial statements, such as reconciliation statements for changes in the net carrying amounts of insurance contracts during the period and an analysis of insurance service income per valuation component.

The most important goal of the standard is to harmonise the measurement of insurance contract liability on a global basis; the previous measurement under IFRS 4 was based on national measurements. Under IFRS 17, measurement is based on current estimates, as is the case in insurance companies' solvency measurement. However, IFRS 17 differs from solvency measurement in terms of its purpose and principle basis. The previous practice under IFRS 4, in which insurance contract liability may contain implicit margins of risk-bearing and future profits, ceases to exist, leading to explaining changes in liability in a transparent way.

**Significant changes to OP Financial Group's accounting policies of the financial statements under IFRS are shown below:**

IFRS 17 is applied to contracts under which OP Financial Group accepts significant insurance risk from another party. When making an assessment, OP Financial Group takes account of all terms included in a contract, explicit or implied, but OP Financial Group shall disregard terms that have no commercial substance. Contracts held by OP Financial Group that transfer significant insurance risk of underlying insurance contracts to another party are classified as reinsurance contracts and are included within the scope of the standard. Insurance contracts and reinsurance contracts expose OP Financial Group to financial risk too. Changes in assumptions of financial risk and changes in liability arising from market changes can be reversed with changes in the fair value of assets in income/expenses.

Measurement models in use

Insurance contracts with no direct participation features are measured using the General Measurement Model (GMM). This measurement model is applied to typical non-life insurance contracts and the life insurance contracts that do not fulfil the criteria of the variable fee approach (VFA). Insurance contracts with direct participation features are measured using the VFA. These are unit-linked insurance contracts which have a significant insurance risk. On initial recognition, OP Financial Group assesses whether the contract includes direct participation features using the following criteria:

- The contractual terms specify that the policyholder participates in a share of a clearly identified pool of underlying items (e.g. investment basket).
- OP Financial Group expects to pay to the policyholder an amount equal to a substantial share of the fair value returns on the underlying items.
- OP Financial Group expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items.

Initial measurement and grouping

For initial measurement, insurance contracts are identified and grouped into those subject to similar risks and managed together. Insurance contracts are measured at cohort level that is created by means of a product line, customer group and cohort year. Contracts are grouped further based on their level of profitability and if the group of contracts is onerous on initial recognition or the existing group becomes onerous, the loss is immediately recognised in the income statement.

Insurance acquisition expenses are capitalised in assets in the balance sheet to the extent they can be deemed to relate to the renewal of the contracts. Capitalised acquisition expenses are allocated to the groups of future insurance contracts based on experience data using a systematic and rational method, which is presented in Other assets in the balance sheet. Capitalised cash flows are derecognised and are included in the measurement of the related new group of insurance contracts at the date of initial recognition. OP Financial Group regularly assesses the recoverability of an asset for insurance acquisition cash flows. OP Financial Group recognises an impairment loss in profit or loss if facts and circumstances indicate that the asset may be impaired. This is applied to the non-life insurance products where it is typical that some customers renew short 12-month policies, when the capitalisation criteria are fulfilled.

OP Financial Group recognises a group of insurance contracts are from the earliest of the following:

- the beginning of the coverage period of the group of contracts
- the date when the first payment from a policyholder in the group becomes due
- the date when the group of contracts becomes onerous.

The fulfilment cash flow of the group of insurance contracts is a sum of the following components:

- the fulfilment of cash flows adjusted with the time value of money
- risk adjustment that reflects OP Financial Group's risk appetite
- the contractual service margin that is a residual item and represents unearned profit.

If the contractual service margin is negative, the group of contracts is onerous and the loss is immediately recognised in loss.

The following items are included in the cash flows of groups of insurance contracts:

- cash flows within the boundary of an insurance contract and those that relate directly to the fulfilment of the contract (such as claims settlement expenses and administrative expenses as well as net commission expenses), including cash flows for which OP Financial Group has discretion over the amount and timing.
- investment components with a high interrelation with insurance contracts as master agreements.
- any potential embedded derivatives closely related to insurance contracts as the master agreement.
- a promise that may be included in insurance contracts to provide non-insurance services or products when it is the question of ancillary cash flows.

Some life insurance contracts include investment components where their determination varies by contract type. The expenses of these investment component are presented separate from other incurred insurance service expenses.

<u>Subsequent measurement</u>

Subsequently, at the end of each reporting period, the carrying amount in the balance sheet of the group of insurance contracts includes:

- the liability for remaining coverage (LRC) period that includes measurements of the components defined in initial recognition on the reporting day, cash flows of the contracts related to the future service to be provided and the value of contractual service margin.
- the liability incurred for claims (LIC) that includes claims and expenses for past service allocated to the group of insurance contracts at that date that have not yet been paid and claims that have occurred but have not yet been reported.

When measuring groups of insurance contracts, estimates of future cash flows reflect future assumptions made at the measurement date, the discount rate used is the rates at the measurement date and the estimate of risk adjustment for non-financial risk is revised. Discount rates used to determine the rate accreting on the contractual service margin are locked-in rates determined for contracts under the GMM model at the beginning of the group of contracts and for contracts under the VFA model the rate at the reporting date.

Changes in the capital value of the cash flows arising from the fulfilment of insurance contracts are recognised in the GMM in the following way:

- Changes that relate to services produced in the future are adjusted at the contractual service carrying amount in the balance sheet (or the insurance service result in the income statement if the group of insurance contracts is onerous).
- Changes that relate to service for the reporting period or past service are recognised in the insurance service result in the income statement.
- Changes in the discount rate and the effect of other financial changes on the value of the insurance contract liability and the effect of the passage of time (unwinding of discount) are recognised in the net insurance finance income and expenses in the income statement.

<u>Risk adjustment determination principle</u>

Risk adjustment is one of the measurement components of insurance contracts. In this context, risk adjustment means compensation that the company management requires to bear uncertainty concerning the amount of future cash flows of insurance contracts and timing that is caused by risk other than financial risk. The remaining risk adjustment amount is presented in the insurance liability reconciliation statement and risk adjustment related to a separately produced service (recognised portion). OP Financial Group applies the cost of capital method in determining risk adjustment. The risk adjustment calculation takes account of uncertainty associated with risk other than financial risk in respect of the groups of insurance contracts under IFRS 17. Risk adjustment is modelled as the difference between the best estimate and the present values of the stressed cash flow. The stressed cash flow is calculated at the confidence level or 99.5%, or the same confidence level as the insurance capital requirement.

The stressed cash flow calibration uses the cash flow stresses of the capital adequacy calculation and, as applicable, the company's internal calculation models. Stress scenarios that affect the amount of the risk adjustment in the group of insurance contracts concerned depend on the groups of insurance contracts and insurance lines. In OP Life Assurance Company term life policies, for example, growth in the mortality rate and the insurance lapse rate constitute the most significant stress scenarios. Risks associated with general activities have been excluded from risk adjustment.

A larger risk adjustment results from long-term cash flows in risks of the groups of insurance contracts. As a result of setting assumptions in new insurance contracts, risk adjustment is determined higher. With increasing information, the assumptions will be updated and therefore the risk adjustment will decrease as the best estimate based on the starting point is further specified. Risk adjustment is recognised based on the cash flow forecasts used in the calculation. Pohjola Insurance's and OP Life Assurance's risk adjustments represent the proportion of the risk adjustment remaining with their responsibility after the effect reducing reinsurance risk adjustment.

<u>Discount rate determination principle</u>

All cash flows are discounted at a rate and discounting curves are derived as the sum of the risk-free interest rate and the liquidity premium dependent on the characteristics of insurance contracts (bottom-up approach), extrapolating long-term interest rates. The risk-free interest rate is the same for all OP Financial Group insurance companies but the liquidity premium depends on the characteristics of insurance contracts, so the calculation uses several different discount rate curves for significant currencies. Swap rate quotes are used as market data for risk-free discount rate curves in selected liquid maturities. A credit risk component is removed from the swap rates, if necessary.

Liquidity premium is determined by means of the investment universe that takes account of each insurance company's exposure. The investment universe means a portfolio allocation. When creating it, the amount of exposure is taken into account in weightings and index choices, the maturities of exposure and investment cash flows as well as cash flow predictability. The investment universe includes reference indices and their weights for government bonds, IG corporate bonds (IG, credit rating AAA–BBB and higher-risk corporate bonds (HY, credit rating BB–C).

The movements of the discount rate affect earnings through the value change of cash flows and the selection of the interest rate model has a significant impact on earnings. At least once a year, OP Financial Group reviews the values of the parameters used in the yield curve modelling.

The discount rate used to determine the rate accreting on the contractual service margin are locked-in rates determined for contracts under the GMM at the beginning of the group of contracts determined at the beginning of the group of contracts.

<u>Contractual service margin and its recognition</u>

The contractual service margin represents the unearned profit of the group of insurance contracts and an amount of the contractual service margin is recognised in profit or loss in each period to reflect the insurance contract services provided under the group of insurance contracts in that period. The amount recognised in profit or loss is determined by:

- identifying the coverage units in the group of insurance contracts. The number of coverage units in a group is the quantity of insurance contract services provided by the contracts in the group, determined by considering for each contract the quantity of the benefits provided under a contract and the contract's duration.
- allocating the contractual service margin at the end of the period (before recognising any amounts in profit or loss to reflect the insurance contract services provided in the period) equally to each coverage unit provided in the current period and expected to be provided in the future.
- recognising in profit or loss the amount allocated to coverage units provided in the period.

At OP Financial Group, coverage units are determined for the forecast lifecycle of the contract. For typical non-life insurance contracts of short duration, insurance service is interpreted to be provided evenly during the coverage period and insurance premiums received from contracts in the same insurance group are used as the basis for the coverage unit at insurance group level. The forecast lifecycle recognition of the contractual service margin of life insurance products in profit or loss, depending on the contract type, is affected by the saved amount by group, expected duration of the contract, amount of compensation or savings, lapses and future insurance premiums. Release of the contractual service margin and the basis of coverage units vary by insurance line: the basis is the development of the amount of assets for endowment-type insurance products and the development of capital at risk for term life insurance. In the reference year 2022, the basis is, however, an insurance premium with respect to term life insurance products.

The insurance products of OP Financial Group, where both investment service and insurance service are produced, are produced evenly and in the same proportion over the expected duration of the contract. In addition, both services are produced at the same time and their contract periods are of the same duration.

In the VFA model, a company's share of changes in the fair value of underlying investments is included in the contractual service margin that changes on each reporting date.

Reinsurance contracts

Reinsurance contracts are grouped using the same principle as direct insurance contracts, but proportional and non-proportional reinsurance contracts are additionally grouped separately. The date of initial recognition of reinsurance contracts held is earlier of the following:

- the start date of the coverage period of the group of reinsurance contracts. If this date is later than the start date of the coverage period of the group of reinsurance contracts, recognition is delayed until the underlying insurance contract has been initially recognised.
- The date when OP Financial Group recognises an onerous group of underlying direct insurance contracts when OP Financial Group entered into the related reinsurance contract held in the group of reinsurance contracts held at or before that date.

OP Financial Group adjusts the contractual service margin of reinsurance contracts held and, as a result, recognises income when recognising a loss either in connection with initial recognition of the group of underlying onerous reinsurance contracts or when adding underlying onerous insurance contracts to the group. This adjustment to the contractual service margin and the resulting income are determined by multiplying:

- the loss recognised on the underlying insurance contracts
- the percentage of claims on the underlying insurance contracts OP Financial Group expects to recover from the group of reinsurance contracts held.

Presenting insurance contracts in the income statement and balance sheet

Income of the group of insurance contracts is presented in the row Insurance revenue in the income statement, comprising the measurement of the following components: future cash flows, risk adjustment for non-financial risk and contractual service margin. Expenses related to the group of insurance contracts consist of claims incurred, losses from onerous contracts, changes related to prior periods and operating expenses and they are presented in the row Insurance service expenses. Expenses and income related to reinsurance contracts are presented in the row Net income from reinsurance contracts.

The income statement item Net insurance finance income and expenses includes the effect of change in the discount rate and other financial changes on the value of insurance contract liability and the effect of the passage of time, meaning unwinding of discount. In addition, the item includes an option of risk mitigation to apply to certain life insurance contracts. Applying this option gives an opportunity to adjust accounting for contracts under the VFA model in such a way that those changes in cash flows involving a hedgeable position in respect of funding risk are transferred from the contractual service margin to the income statement.

In the balance sheet, future cash flows related to contracts are presented in net terms and grouped into insurance contract liabilities or assets at portfolio level and into reinsurance contract liabilities or assets at portfolio level. The previous presentation under IFRS 4 based on expense types in the income statement will change because, as a result of IFRS 4, a proportion of personnel costs, depreciation/amortisation and other operating expenses is included in the calculation of insurance contract liability under IFRS 17 and presented in Insurance service expenses.

OP Financial Group has made the following significant choices related to the accounting policies:

- Presenting financial income and expenses related to the insurance for the period through profit or loss; discounting curves are derived as the sum of the risk-free interest rate and the liquidity premium dependent on the characteristics of insurance contracts (bottom-up approach), extrapolating long-term interest rates. Similarly, investments related to insurance contract liability are reclassified in such a way that their fair value is presented through profit or loss. The overlay approach applied to equity investments allowed by IFRS 4 ceases to be effective at the date of initial application.
- A risk mitigation option is used for certain contracts based on the VFA that are hedged according to the goal and strategy of the management of market risks in interest rate risk on the balance sheet. This removes the result mismatch.
- The Cost of Capital Method is used to determine risk adjustment.
- OP Financial Group does not apply the Premium Allocation Approach (PAA), nor does it apply the option allowed by IFRS 17 adopted in the European Union to group together several annual cohorts.

### Transition to IFRS 17 1 January 2022

In the transition to IFRS 17, the modified retrospective approach is applied to non-life insurance contracts covering all types of insurance contracts to which fully retrospective transition approach cannot be applied. The modification is especially used to adjust cash flows that have already realised and to determine the discount rate. Insofar as complete data are not in all respects available for applying the full retrospective approach, the modified retrospective approach, permitted by the standard, is applied to in situations where reasonable and supportable information can, however, be used that is available without undue cost or effort. The end results of the modified retrospective approach will quite closely correspond to those of the full retrospective approach.

In addition, the fair value approach is applied to life insurance contracts and other non-life insurance contracts to which the modified retrospective approach is not applied. According to the option allowed by the transitional provisions, all contracts are grouped on a portfolio basis into one transition cohort. The full retrospective approach is the primary transition model, but it must be able to be applied without hindsight relating, for example, to data concerning cash flows received and paid before the transition, their estimates and changes itemised for each group of insurance contracts in view of the inception year of contracts.

As a result of the IFRS 17 transition, OP Financial Group's equity capital on 1 January 2022 decreased by EUR 52 million on the date of transition. Solvency II valuations are used in FiCo calculation, so this change to OP Financial Group's equity capital will not affect the FiCo ratio.

The change in equity capital on the date of transition on 1 January 2022 is itemised in the table below. Equity capital was increased by the non-life insurance capitalised acquisition costs recognised in "Other assets", totalling 238 million euros. On the date of transition, insurance contract liabilities measured under IFRS 17 were higher than those measured under IFRS 4, which lowered equity capital. Risk adjustment added to insurance contract liabilities under IFRS 17 was higher than the margin included in the calculation under IFRS 4. As a result of the reclassification of investments at fair value through profit or loss, the valuation difference previously accrued in the investments of insurance companies was reversed from the fair value reserve that was recognised in retained earnings.

Effect of the date of transition to IFRS 17 on equity capital on 1 January 2022

| € million | Cooperative capital | Fair value reserve* | Other reserves | Retained earnings | Total |
|---|---|---|---|---|---|
| Equity capital 31 Dec 2021 | 3,459 | 323 | 2,184 | 8,090 | 14,057 |
| Effect of non-life insurance on the transition date | | -121 | | 324 | 202 |
| Effect of life insurance on the transition date | | -99 | | -123 | -223 |
| Effect of consolidation adjustments | | 15 | | 4 | 19 |
| Change in deferred tax asset/liability | | | | -51 | -51 |
| Effect of IFRS 17 transition 1 Jan. 2022, in total | | -205 | | 154 | -52 |
| Equity capital on 1 Jan 2022 (capital and reserved attributable to parent company owners) | 3,459 | 118 | 2,184 | 8,244 | 14,005 |

* The figures also include changes in deferred taxes

OP Financial Group's 2022 earnings before tax measured under IFRS 17 are estimated to be EUR 1,120 million, or EUR 145 million lower than reported in the financial statements bulletin 2022 (EUR 1,265 million lower). This earnings difference comes mainly from a change in life insurance earnings that is caused, for example, by timing differences. Furthermore, changes in the provisions for upcoming customer bonuses due to higher interest rates caused the difference. Entry into force of IFRS 17 will have no effect of the overall profitability of insurance contracts. There may be differences in the timing of recognition in profit or loss between the measurement models under IFRS 4 and IFRS 17.

Changes in opening balance 1 January 2022

| OP Financial Group opening balance 1 January 2022, € | 31 Dec 2021 | Changes | 1 Jan 2022 |
|---|---|---|---|
| Cash and cash equivalents | 32,846 | | 32,846 |
| Receivables from credit institutions | 541 | | 541 |
| Derivative contracts | 3,467 | | 3,467 |
| Receivables from customers | 96,947 | | 96,947 |
| Insurance contract assets | | | 0 |
| Reinsurance contract assets | | 114 | 114 |
| Investment assets | 22,945 | -4 | 22,941 |
| Assets covering unit-linked contracts | 13,137 | | 13,137 |
| Intangible assets | 1,212 | | 1,212 |
| Property, plant and equipment | 446 | | 446 |
| Other assets | 2,419 | -244 | 2,176 |
| Tax assets | 141 | 15 | 156 |
| Non-current assets held for sale | 8 | | 8 |
| Total assets | 174,110 | -119 | 173,991 |
| | | | |
| Liabilities to credit institutions | 16,650 | | 16,650 |
| Derivative contracts | 2,266 | | 2,266 |
| Liabilities to customers | 77,898 | | 77,898 |
| Insurance liabilities | 8,773 | -8,773 | |
| Insurance contract liabilities | | 13,968 | 13,968 |
| Reinsurance contract liabilities | | 13 | 13 |
| Liabilities from unit-linked insurance and investment contracts | 13,210 | -13,210 | |
| Liabilities from investment agreements | | 7,880 | 7,880 |
| Debt securities issued to the public | 34,895 | | 34,895 |
| Provisions and other liabilities | 3,134 | -16 | 3,118 |
| Tax liabilities | 1,109 | 71 | 1,180 |
| Subordinated liabilities | 1,982 | | 1,982 |
| Liabilities associated with non-current assets held for sale | 8 | | 8 |
| Total liabilities | 159,926 | -67 | 159,858 |

| Equity capital | | | |
|---|---|---|---|
| Capital and reserves attributable to | | | |
| Cooperative capital | | | |
| Member cooperative shares | 215 | | 215 |
| Profit Shares | 3,244 | | 3,244 |
| Fair value reserve | 323 | -205 | 118 |
| Other reserves | 2,184 | | 2,184 |
| Retained earnings | 8,090 | 154 | 8,244 |
| Non-controlling interests | 128 | | 128 |
| Total equity | 14,184 | -52 | 14,133 |
| Total liabilities and equity | 174,110 | -119 | 173,991 |

In addition to entries due to transition to IFRS 17, changes in the opening balance sheet includes changes in recognition related to clearer presentation. Changes to presentation did not affect the amount of equity capital on 1 January 2022. Of the investment asset changes on 1 January 2022, totalling EUR–4 million, the effect of transition to IFRS 17 in the reclassification of investments was EUR 2 million and the transfer due to the change in presentation to other assets was EUR –6 million. The effect of the transition to IFRS 17 in changes in other assets, EUR 244 million, was EUR –249 million and the transfer of presentation from investment assets EUR 6 million.

Insurance contract liabilities on the date of transition 1 January 2022 divided by transition model

| Insurance contract liabilities 1 Jan 2022, € million | Modified retrospective approach (MRA) | Fair value approach (FVA) | Total |
|---|---|---|---|
| Non-life insurance | 2,956 | 28 | 2,985 |
| Discounted cash flows | 2,750 | 11 | 2,761 |
| Risk adjustment | 129 | 0 | 130 |
| Contractual service margin (CSM) | 77 | 17 | 94 |
| Loss component | 6 | 2 | 9 |
| Life insurance | | 10,984 | 10,984 |
| Discounted cash flows | | 10,014 | 10,014 |
| Risk adjustment | | 284 | 284 |
| Contractual service margin (CSM) | | 686 | 686 |
| Loss component | | 229 | 229 |
| OP Financial Group, total | 2,956 | 11,012 | 13,968 |

### Adjusted figures for 2022

In the income statement, Insurance service result will replace Net insurance income. Insurance revenue and Insurance service expenses are included in insurance service result. Insurance revenue includes recognition of the contractual service margin (CSM) in profit or loss, change of expected claims and operating expenses as well as risk adjustments and changes to prior period payments. Insurance service expenses include operating expenses of insurance contract, claims incurred and the losses of onerous contracts and changes related to prior periods. Insurance contract operating expenses include operating expenses and net commission expenses. Net income from reinsurance contracts in the income statement is presented in its specific row as part of Insurance service result.

“Net insurance finance income and expenses” is a new item in the income statement. The item includes the effect of change in the discount rate and other financial changes on the value of insurance contract liability and the effect of the passage of time, meaning unwinding of discount. In addition, the item includes an option of risk mitigation to apply to certain life insurance contracts. Applying this option gives an opportunity to adjust accounting for contracts under the VFA model in such a way that those changes in cash flows involving a hedgeable position in respect of funding risk are transferred from the contractual service margin to the income statement. This acts as a counterpart to the value change of the hedging portfolio.

Net investment income shows return on investment assets in terms of fair value. Net investment income together with in net insurance finance income and expenses describe investment profitability.

Expenses in the income statement decreased because the operating expenses of insurance contracts measured under IFRS 17 are transferred to insurance service result. The item OP bonuses to owner-customers decreased because the cash flows payable from insurance contracts are included in the cash flows under IFRS 17 calculation, in case they are included as part of the insurance service result.

## OP Financial Group's income statement under IFRS 17

| € million | Q1–4/2022 |
|---|---|
| Net interest income | 1,618 |
| Impairment loss on receivables | -115 |
| Net commissions and fees | 942 |
| Insurance revenue | 1,898 |
| Insurance service expenses | -1,898 |
| Net income from reinsurance contracts | 106 |
| **Insurance service result** | **106** |
| Net finance income (+)/expenses (–) related to insurance | 2,228 |
| Net finance income (+)/expenses (–) related to reinsurance | -1 |
| **Net insurance finance income (+)/expenses (–)** | 2,226 |
| Net interest income from financial assets held for trading | -29 |
| Net investment income | -1,952 |
| Other operating income | 67 |
| Personnel costs | -856 |
| Depreciation/amortisation and impairment loss | -214 |
| Other operating expenses | -892 |
| Transfers to insurance service result | 416 |
| Operating expenses | -1,545 |
| OP bonuses to owner-customers | -198 |
| **EBIT (loss)** | **1,120** |
| **Earnings before tax** | **1,120** |
| Income tax | -213 |
| **Profit for the period** | **907** |
| | |
| **Earnings before tax disclosed in the 2022 financial statements bulletin** | **1,265** |

**Insurance revenue:** Recognition of the contractual service margin (CSM) in profit or loss, change of expected claims and operating expenses as well as risk adjustments and changes to prior period payments.

**Insurance service expenses:** Claims incurred and the losses of onerous contracts and changes related to prior periods, plus operating expenses.

**Net insurance finance income expenses:** The unwinding of discount during the period, the effect of change in the discount rate and other financial changes on the value of insurance contract liability, the effect of risk mitigation through life insurance.

The insurance service result includes **operating expenses for contracts measured under IFRS 17**, in other words, operating expenses and net commission expenses. In the income statement, these have been included as part of the insurance service result.

## OP Financial Group's IFRS 17 balance sheet on 31 Dec 2022

| **€ million** | **31 Dec 2022** |
|---|---|
| Cash and cash equivalents | 35,004 |
| Receivables from credit institutions | 798 |
| Receivables from customers | 98,546 |
| Derivative contracts | 4,117 |
| Investment assets | 20,742 |
| Assets covering unit-linked contracts | 11,597 |
| Insurance contract assets | 0 |
| Reinsurance contract assets | 245 |
| Intangible assets | 1,153 |
| Property, plant and equipment | 423 |
| Other assets | 2,401 |
| Tax assets | 664 |
| Total assets | 175,691 |
| | |
| Liabilities to credit institutions | 12,301 |
| Liabilities to customers | 81,468 |
| Derivative contracts | 4,432 |
| Insurance contract liabilities | 11,446 |
| Reinsurance contract liabilities | 2 |
| Liabilities from investment agreements | 7,211 |
| Debt securities issued to the public | 37,438 |
| Provisions and other liabilities | 3,818 |
| Tax liabilities | 1,522 |
| Subordinated liabilities | 1,384 |
| Total liabilities | 161,023 |
| Equity capital | |
| Capital and reserves attributable to OP Financial Group owners | |
| Cooperative capital | |
| Member cooperative shares | 217 |
| Profit Shares | 3,369 |
| Fair value reserve | -360 |
| Other reserves | 2,172 |
| Retained earnings | 9,153 |
| Non-controlling interests | 118 |
| Total equity | 14,668 |
| Total liabilities and equity | 175,691 |

In OP Financial Group's balance sheet, assets of reinsurance contracts measured under IFRS 17 are in the balance sheet assets. The acquisition costs capitalised in non-life insurance are recognised in "Other assets". Insurance contract liabilities in the balance sheet replaced insurance liabilities under IFRS 4.

| Insurance contract liabilities, € million | 31 Dec 2022 |
|---|---|
| Non-life insurance | 2,536 |
| Life insurance | 8,906 |
| Total | 11,442 |

The fair value reserve in equity capital decreased because investments related to the insurance contract liability of non-life and life insurance has been reclassified so that their fair value is now entirely presented in profit or loss based on the option allowed by IFRS 17.

On the date of transition on 1 January 2022, the contractual service margin amounted to an estimated EUR 780 million of which life insurance accounted for an estimated EUR 690 million and non-life insurance for an estimated EUR 90 million. Non-life insurance contracts have mainly duration of one year. At the beginning of the period, new insurance contracts involve a contractual service margin, releasing during the period. In life insurance, the contractual service margin is released in the result through long-term contracts, even in the course of decades. A new contractual service margin is also created in new sales of portfolios. Recognition of the contractual service margin in profit or loss in relation to a new CSM was around 7% in the reference year. In the reference year, term life insurance coverage units were determined using premiums and capital at risk is used in coverage units from the beginning of 2023. This change has no significant effect on OP Financial Group's result.

Amount of the contractual service margin CSM and recognition in profit or loss:

| € million | 1 Jan 2022 | 31 Dec 2022 | CSM recognition during the period |
|---|---|---|---|
| Non-life insurance | 94 | 116 | 231 |
| Life insurance | 686 | 787 | 47 |
| OP Financial Group, total | 780 | 903 | 278 |

| Adjusted figures in OP Financial Group's income statement, € | Q1 2022 | Q2 2022 | Q3 2022 | Q4 2022 |
|---|---|---|---|---|
| Interest income | 339 | 675 | 1,070 | 1,833 |
| Interest expenses | -6 | -1 | 52 | -215 |
| Net interest income | 334 | 675 | 1,122 | 1,618 |
| Impairment loss on receivables | -83 | -100 | -70 | -115 |
| Commission income | 280 | 546 | 809 | 1,077 |
| Commission expenses | -33 | -68 | -100 | -134 |
| Net commissions and fees | 247 | 478 | 709 | 942 |
| Insurance revenue | 451 | 916 | 1,407 | 1,898 |
| Insurance service expenses | -447 | -893 | -1,463 | -1,898 |
| Net income from reinsurance contracts | 16 | 33 | 134 | 106 |
| Insurance service result | 21 | 56 | 77 | 106 |
| Net finance income (+)/expenses (–) related to insurance | 839 | 1,866 | 2,223 | 2,228 |
| Net finance income (+)/expenses (–) related to reinsurance | -2 | -5 | -3 | -1 |
| Net insurance finance income (+) /expenses (–) | 837 | 1,861 | 2,219 | 2,226 |
| Net interest income from financial assets held for trading | -19 | -48 | -62 | -29 |
| Net investment income | -748 | -1,688 | -2,019 | -1,952 |
| Other operating income | 39 | 46 | 52 | 67 |
| Personnel costs | -211 | -427 | -617 | -856 |
| Depreciation/amortisation and impairment loss | -57 | -110 | -159 | -214 |
| Other operating expenses | -246 | -451 | -644 | -892 |
| Transfers to insurance service result | 106 | 207 | 305 | 416 |
| Operating expenses | -407 | -781 | -1,115 | -1,545 |
| OP bonuses to owner-customers | -46 | -96 | -147 | -198 |
| **EBIT (loss)** | **174** | **402** | **766** | **1,120** |
| **Earnings before tax** | **174** | **402** | **766** | **1,120** |
| Income tax | -25 | -72 | -142 | -213 |
| **Profit for the period** | **148** | **330** | **624** | **907** |

### Differences between Solvency II solvency measurement and measurement under IFRS 17

IFRS 17 changes the measurement of insurance contracts for those contracts to which the standard is applied. Measurement is market-based and close to measurement in line with Solvency II solvency measurement. Mainly the same cash flows of insurance contracts as in solvency measurement form the basis. These cash flows are discounted at a risk-free interest and liquidity premium. The risk-free interest is the same as the risk-free interest in solvency measurement and the liquidity premium corresponds to the volatility adjustment, but its size is determined based on the nature of the insurance contract liability of the Group's insurance companies and the investment universe. The risk adjustment calculated using the Cost of Capital method is added to the value of insurance contracts that conceptually corresponds to the risk margin in solvency measurement but it has been calculated using the company's own parameters. As part of the IFRS 17 insurance contract liability, a contractual service margin is reserved that spreads out the profits of insurance contracts for the coverage period. In solvency measurement, the item corresponding to the contractual service margin is not deducted from own funds but the profit of insurance contracts increases own funds directly on the first measurement date. Of the acquisition expenses of insurance contracts under IFRS 17, the portion that is considered to be allocated to future annual cohorts are capitalised in the balance sheet assets. Capitalised acquisition costs are not taken into account in Solvency II own funds.

## 3. Changes in the 2023 income statement and balance sheet format

OP Financial Group changed its official income statement and balance sheet format as of 1 January 2023. It has made changes retrospectively for 2022 too. Income statement income is presented without a sign and expenses with minus signs. The key changes in income statement and balance sheet format are as follows:

a) The rows Total income and Total expenses were removed because insurance income and expenses (such as personnel costs) have been presented in the row Insurance service result since the entry into force of IFRS 17 on 1 January 2023.
b) The sub-rows of Net interest income (interest income and interest expenses) and Net commissions and fees (commission income and commission expenses) have been broken down in presentation.
c) Impairment loss on receivables was transferred from the end of the income statement next to net interest income to operating items.
d) New items under IFRS 17, Insurance service result and Net insurance finance income were added to the income statement. The former row Net insurance income was removed.
e) Net income from financial assets held for trading is presented on a specific row separate from Net investment income. Net income from financial assets held for trading includes only Banking and Group Functions items. Net investment income includes net income from financial assets at fair value recognised through comprehensive income, net income from financial assets recognised through profit or loss, net income from investment property, net income from financial assets carried at amortised cost, the result of the associate or joint venture as well as net income from life insurance investment contract liabilities recognised according to IFRS 9.
f) Operating expenses Personnel costs, Depreciation/amortisation and impairment loss and Other operating expenses are mainly presented the same way as previously, showing OP Financial Group's total expenses, but item Transfers to insurance service result next to these items has been added. It describes how much of these expenses are presented in Investment service result.
g) OP bonuses to owner-customers no longer include OP bonuses of insurance contracts measured under IFRS 17 because they are presented in the insurance service result.
h) A new row, Operating profit, is presented in the income statement.
i) The balance sheet presents new balance sheet items under IFRS 17: Insurance contract assets, Reinsurance contract assets, Insurance contract liabilities and Reinsurance liabilities.
j) The balance sheet item Investment contract liabilities presents life investment contracts measured in accordance with IFRS 9.

## Income statement

| | Explanation of the format change: |
|---|---|
| Interest income | b) New row |
| Interest expenses | b) New row |
| Net interest income | No change |
| Impairment loss on receivables | c) Moved to another place in the format |
| Commission income | b) New row |
| Commission expenses | b) New row |
| Net commissions and fees | No change |
| Insurance revenue | d) New row under IFRS 17 |
| Insurance service expenses | d) New row under IFRS 17 |
| Net income from reinsurance contracts | d) New row under IFRS 17 |
| Insurance service result | d) New row under IFRS 17 |
| Net insurance finance income (+) /expenses (–) | d) New row under IFRS 17 |
| Net interest income from financial assets held for trading | e) New row |
| Net investment income | e) Item content has changed |
| Other operating income | No change |
| Personnel costs | No change |
| Depreciation/amortisation and impairment loss | No change |
| Other operating expenses | No change |
| Transfers to insurance service result | f) New row related to the adoption of IFRS 17 |
| Operating expenses | f) New row related to the adoption of IFRS 17 |
| OP bonuses to owner-customers | g) Item content has changed |
| Operating profit (loss) | h) New row |
| Earnings before tax | No change |
| Income tax | No change |
| Profit for the period | No change |

## Balance sheet

| | Explanation of the format change: |
|---|---|
| Cash and cash equivalents | No change |
| Receivables from credit institutions | No change |
| Receivables from customers | No change |
| Derivative contracts | No change |
| Investment assets | No change |
| Assets covering unit-linked contracts | No change |
| Insurance contract assets | i) New row under IFRS 17 |
| Reinsurance contract assets | i) New row under IFRS 17 |
| Intangible assets | No change |
| Property, plant and equipment | No change |
| Other assets | No change |
| Tax assets | No change |
| Total assets | No change |
| Liabilities to credit institutions | No change |
| Liabilities to customers | No change |
| Derivative contracts | No change |
| Insurance contract liabilities | i) New row under IFRS 17 |
| Reinsurance contract liabilities | i) New row under IFRS 17 |
| Liabilities from investment agreements | i) New row under IFRS 17 |
| Debt securities issued to the public | No change |
| Provisions and other liabilities | No change |
| Tax liabilities | No change |
| Subordinated liabilities | No change |
| Total liabilities | No change |
| Equity capital | No change |
| Cooperative capital | No change |
| Member cooperative shares | No change |
| Profit Shares | No change |
| Fair value reserve | No change |
| Other reserves | No change |
| Retained earnings | No change |
| Non-controlling interests | No change |
| Total equity | No change |
| Total liabilities and equity | No change |

## Note 2. Segment reporting

**Segment information**

| Earnings H1/2023, € million | Retail Banking | Corporate Banking | Insurance | Group Functions | Group eliminations | OP Financial Group |
|---|---|---|---|---|---|---|
| Interest income | 1,598 | 231 | 0 | 1,065 | -568 | 2,327 |
| Interest expenses | -598 | 54 | 0 | -1,089 | 607 | -1,027 |
| Net interest income | 999 | 285 | 0 | -24 | 39 | 1,299 |
| of which internal net profits before tax | 0 | -148 | | 148 | 0 | 0 |
| Impairment loss on receivables | -76 | -23 | | 0 | 0 | -99 |
| Commission income | 385 | 201 | 40 | 11 | -99 | 538 |
| Commission expenses | -24 | -85 | -15 | -11 | 68 | -67 |
| Net commissions and fees | 361 | 116 | 24 | 0 | -31 | 470 |
| Insurance premium revenue | | | 967 | | 0 | 967 |
| Insurance service expenses | | | -931 | | 0 | -931 |
| Net income from reinsurance contracts | | | -28 | | 0 | -28 |
| Insurance service result | | | 8 | | 0 | 8 |
| Net finance income (+)/expenses (–) related to insurance | | | -243 | | | -243 |
| Net finance income (+)/expenses (–) related to reinsurance | | | -10 | | 0 | -10 |
| Net insurance finance income (+)/expenses (–) | | | -253 | | 0 | -253 |
| Net interest income from financial assets held for trading | 2 | 29 | 0 | 11 | -23 | 19 |
| Net investment income | -3 | 0 | 465 | 12 | 12 | 485 |
| Other operating income | 28 | 12 | 4 | 364 | -387 | 21 |
| Personnel costs | -249 | -54 | -87 | -118 | 24 | -484 |
| Depreciation/amortisation and impairment loss | -22 | -2 | -25 | -43 | 1 | -92 |
| Other operating expenses | -412 | -132 | -148 | -203 | 392 | -504 |
| Transfers to insurance service result | | | 237 | | 0 | 237 |
| Operating expenses | -683 | -188 | -24 | -364 | 416 | -843 |
| OP bonuses to owner-customers | -103 | -13 | -6 | | 0 | -122 |
| **Operating profit (loss)** | **524** | **219** | **217** | **-1** | **26** | **986** |
| **Earnings before tax** | **524** | **219** | **217** | **-1** | **26** | **986** |

The calculated ineffectiveness of fair value hedges arising from the elimination of internal items is presented in Group eliminations.

| Earnings H1/2022, € million | Retail Banking | Corporate Banking | Insurance | Group Functions | Group eliminations | OP Financial Group |
|---|---|---|---|---|---|---|
| Interest income | 479 | 202 | 0 | -65 | 59 | 675 |
| Interest expenses | 6 | 12 | -1 | 30 | -48 | -1 |
| Net interest income | 485 | 214 | -1 | -35 | 11 | 675 |
| of which internal net profits before tax | | -21 | | 21 | | |
| Impairment loss on receivables | -60 | -40 | 0 | 0 | 0 | -100 |
| Commission income | 416 | 203 | 42 | 7 | -122 | 546 |
| Commission expenses | -19 | -119 | -17 | -7 | 95 | -68 |
| Net commissions and fees | 397 | 83 | 25 | 0 | -27 | 478 |
| Insurance premium revenue | | | 916 | | 0 | 916 |
| Insurance service expenses | | | -893 | | 0 | -893 |
| Net income from reinsurance contracts | | | 33 | | 0 | 33 |
| Insurance service result | | | 56 | | 0 | 56 |
| Net finance income (+)/expenses (–) related to insurance | | | 1,866 | | 0 | 1,866 |
| Net finance income (+)/expenses (–) related to reinsurance | | | -5 | | | -5 |
| Net insurance finance income (+)/expenses (–) | | | 1,861 | | 0 | 1,861 |
| Net interest income from financial assets held for trading | 2 | 7 | -1 | -2 | -54 | -48 |
| Net investment income | 3 | 0 | -1,795 | 9 | 95 | -1,688 |
| Other operating income | 18 | 11 | 31 | 342 | -357 | 46 |
| Personnel costs | -230 | -46 | -73 | -101 | 23 | -427 |
| Depreciation/amortisation and impairment loss | -24 | -5 | -26 | -56 | 1 | -110 |
| Other operating expenses | -374 | -122 | -131 | -182 | 359 | -451 |
| Transfers to insurance service result | | | 207 | | | 207 |
| Operating expenses | -628 | -173 | -23 | -339 | 383 | -781 |
| OP bonuses to owner-customers | -81 | -10 | -5 | | 0 | -96 |
| **Operating profit (loss)** | **136** | **91** | **148** | **-24** | **51** | **402** |
| **Earnings before tax** | **136** | **91** | **148** | **-24** | **51** | **402** |

Value change arising from market changes in derivative contracts between Corporate Banking and Retail Banking is included in Group eliminations.

| Balance sheet 30 June 2023, € million | Retail Banking | Corporate Banking | Insurance | Group Functions | Group eliminations | OP Financial Group |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | 47 | 143 | | 17,041 | | 17,232 |
| Receivables from credit institutions | 25,569 | 223 | 398 | 13,566 | -38,912 | 844 |
| Receivables from customers | 69,887 | 27,427 | 0 | -74 | -350 | 96,889 |
| Derivative contracts | 1,234 | 5,205 | 47 | 211 | -3,083 | 3,614 |
| Investment assets | 486 | 501 | 9,483 | 16,451 | -5,824 | 21,095 |
| Assets covering unit-linked contracts | | | 12,051 | | | 12,051 |
| Reinsurance contract assets | | | 251 | | 0 | 251 |
| Intangible assets | 21 | 179 | 670 | 202 | 62 | 1,133 |
| Property, plant and equipment | 287 | 3 | 7 | 146 | -4 | 440 |
| Other assets | 845 | 141 | 1,686 | 974 | -476 | 3,170 |
| Tax assets | 140 | 3 | 153 | 45 | 45 | 385 |
| **Total assets** | **98,516** | **33,823** | **24,747** | **48,562** | **-48,542** | **157,105** |
| Liabilities to credit institutions | 11,291 | 691 | 64 | 25,783 | -37,761 | 68 |
| Liabilities to customers | 62,056 | 10,682 | | 3,140 | -1,230 | 74,648 |
| Derivative contracts | 1,686 | 4,750 | 38 | 494 | -3,114 | 3,853 |
| Insurance contract liabilities | | | 11,629 | | | 11,629 |
| Reinsurance contract liabilities | | | 2 | | | 2 |
| Liabilities from investment agreements | | | 7,559 | | | 7,559 |
| Debt securities issued to the public and debentures | 13,725 | 2,091 | | 21,502 | -1,657 | 35,662 |
| Provisions and other liabilities | 1,279 | 3,023 | 1,467 | 358 | -351 | 5,777 |
| Tax liabilities | 571 | 1 | 334 | 402 | 8 | 1,317 |
| Subordinated liabilities | 0 | | 380 | 1,364 | -380 | 1,364 |
| **Total liabilities** | **90,609** | **21,238** | **21,472** | **53,043** | **-44,484** | **141,878** |
| **Equity capital** | | | | | | **15,227** |

| Balance sheet 31 December 2022, € million | Retail Banking | Corporate Banking | Insurance | Group Functions | Group eliminations | OP Financial Group |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | 52 | 154 | 0 | 34,797 | | 35,004 |
| Receivables from credit institutions | 29,713 | 310 | 904 | 13,173 | -43,301 | 798 |
| Receivables from customers | 70,729 | 27,803 | | 383 | -369 | 98,546 |
| Derivative contracts | 1,266 | 5,612 | 76 | 169 | -3,007 | 4,117 |
| Investment assets | 537 | 298 | 8,702 | 20,485 | -9,280 | 20,742 |
| Assets covering unit-linked contracts | | | 11,597 | | | 11,597 |
| Reinsurance contract assets | | | 245 | | 0 | 245 |
| Intangible assets | 23 | 181 | 717 | 202 | 29 | 1,153 |
| Property, plant and equipment | 285 | 4 | 2 | 136 | -4 | 423 |
| Other assets | 635 | 1,756 | 762 | -493 | -259 | 2,401 |
| Tax assets | 137 | 3 | 456 | 24 | 44 | 664 |
| **Assets** | **103,378** | **36,120** | **23,462** | **68,877** | **-56,146** | **175,691** |
| Liabilities to credit institutions | 11,615 | -36 | 65 | 42,621 | -41,965 | 12,301 |
| Liabilities to customers | 63,951 | 14,043 | | 4,876 | -1,402 | 81,468 |
| Derivative contracts | 1,667 | 5,295 | 60 | 443 | -3,033 | 4,432 |
| Insurance contract liabilities | | | 11,446 | | 0 | 11,446 |
| Reinsurance contract liabilities | | | 2 | | | 2 |
| Liabilities from investment agreements | | | 7,211 | | | 7,211 |
| Debt securities issued to the public and debentures | 16,941 | 1,672 | | 23,537 | -4,711 | 37,438 |
| Provisions and other liabilities | 846 | 891 | 347 | 1,954 | -221 | 3,818 |
| Tax liabilities | 514 | 2 | 631 | 372 | 4 | 1,522 |
| Subordinated liabilities | 0 | -51 | 380 | 1,435 | -380 | 1,384 |
| **Liabilities** | **95,535** | **21,816** | **20,142** | **75,239** | **-51,709** | **161,023** |
| **Equity capital** | | | | | | **14,668** |

## Note 3. Net interest income

| € million | H1/2023 | H1/2022 | Q2/2023 | Q2/2022 |
|---|---|---|---|---|
| **Interest income** | | | | |
| Receivables from credit institutions | 327 | 0 | 141 | 0 |
| Receivables from customers | | | | |
| Loans | 1,681 | 642 | 929 | 329 |
| Finance lease receivables | 37 | 14 | 21 | 7 |
| Fair value adjustments under hedge accounting | -959 | -1,052 | -46 | -512 |
| Total | 759 | -396 | 904 | -176 |
| Notes and bonds | | | | |
| Measured at fair value through profit or loss | 0 | 0 | 0 | 0 |
| At fair value through other comprehensive income | 58 | 26 | 32 | 14 |
| Amortised cost | 2 | 0 | 1 | 0 |
| Fair value adjustments under hedge accounting | 79 | -933 | -27 | -440 |
| Total | 139 | -907 | 6 | -427 |
| Derivative contracts | | | | |
| Fair value hedges | 198 | -75 | 121 | -42 |
| Cash flow hedges | 864 | 1,987 | 56 | 952 |
| Other | | 0 | | 0 |
| Total | 1,062 | 1,912 | 177 | 910 |
| Liabilities to credit institutions | | | | |
| Interest | 0 | 36 | 76 | 14 |
| Liabilities to customers | | | | |
| Negative interest | 1 | 21 | 0 | 10 |
| Other | 38 | 9 | 22 | 5 |
| **Total** | **2,327** | **675** | **1,327** | **336** |
| | | | | |
| **Interest expenses** | | | | |
| Liabilities to credit institutions | | | | |
| Interest expenses for liabilities to credit institutions | -79 | 3 | -77 | 0 |
| Fair value adjustments under hedge accounting | -49 | 572 | 21 | 275 |
| Total | -128 | 574 | -56 | 275 |
| Liabilities to customers | -326 | 0 | -179 | 3 |
| Debt securities issued to the public and debentures | | | | |
| Interest expenses for debt securities issued to the public and debentures | -300 | -51 | -160 | -32 |
| Fair value adjustments under hedge accounting | -32 | 1,542 | 115 | 716 |
| Total | -332 | 1,490 | -45 | 684 |
| Subordinated liabilities | | | | |
| Other | -18 | -19 | -9 | -7 |
| Fair value adjustments under hedge accounting | -4 | 44 | 2 | 23 |
| Total | -22 | 26 | -7 | 16 |
| Derivative contracts | | | | |
| Fair value hedges | -221 | -2,035 | -354 | -945 |
| Other | 36 | 13 | 18 | 8 |
| Total | -185 | -2,022 | -335 | -938 |
| Receivables from credit institutions | | | | |
| Negative interest | 0 | -65 | 0 | -32 |
| Other | -35 | -4 | -20 | -2 |
| **Total** | **-1,027** | **-1** | **-643** | **5** |
| | | | | |
| **Total interest expenses** | **1,299** | **675** | **684** | **341** |

## Note 4. Impairment losses on receivables

| € million | H1/2023 | H1/2022 | Q2/2023 | Q2/2022 |
|---|---|---|---|---|
| Receivables written down as loan and guarantee losses | -39 | -44 | -28 | -33 |
| Recoveries of receivables written down | 7 | 7 | 4 | 4 |
| Expected credit losses (ECL) on receivables from customers and off-balance-sheet items | -67 | -63 | -53 | 12 |
| Expected credit losses (ECL) on notes and bonds | 0 | 0 | 2 | 0 |
| **Total** | **-99** | **-100** | **-76** | **-17** |

### Credit risk exposures and related loss allowance

**Exposures within the scope of accounting for expected credit losses by impairment stage 30 June 2023**

| Exposures | Stage 1 | Stage 2 | | | Stage 3 | |
|---|---|---|---|---|---|---|
| € million | | Not more than 30 DPD | More than 30 DPD | Total | | Total exposure |
| **Receivables from customers (gross)** | | | | | | |
| Retail Banking | 59,562 | 10,499 | 48 | 10,547 | 2,253 | 72,363 |
| Corporate Banking | 25,483 | 3,215 | 58 | 3,273 | 542 | 29,298 |
| **Total** | **85,046** | **13,714** | **107** | **13,821** | **2,795** | **101,661** |
| **Off-balance-sheet limits** | | | | | | |
| Retail Banking | 6,377 | 470 | 4 | 474 | 43 | 6,894 |
| Corporate Banking | 7,858 | 756 | 12 | 768 | 49 | 8,675 |
| **Total** | **14,235** | **1,226** | **15** | **1,242** | **92** | **15,569** |
| **Other off-balance-sheet commitments** | | | | | | |
| Retail Banking | 2,794 | 66 | | 66 | 30 | 2,890 |
| Corporate Banking | 7,150 | 570 | | 570 | 80 | 7,800 |
| **Total** | **9,944** | **636** | | **636** | **110** | **10,689** |
| **Notes and bonds*** | | | | | | |
| Group Functions | 12,291 | 88 | | 88 | 3 | 12,382 |
| **Total** | **12,291** | **88** | **0** | **88** | **3** | **12,382** |
| **Total exposures within the scope of accounting for expected credit losses** | **121,516** | **15,664** | **122** | **15,786** | **3,000** | **140,302** |

* Notes and bonds related to the insurance business have been measured at fair value through profit or loss since 1 January 2022 in connection with the adoption of IFRS 17. So, the expected credit loss will no longer be calculated.  The figures in comparative year have been adjusted.

**Loss allowance by impairment stage 30 June 2023**

| On-balance-sheet exposures and related off-balance-sheet limits* | Stage 1 | Stage 2 | | | Stage 3 | |
|---|---|---|---|---|---|---|
| € million | | Not more than 30 DPD | More than 30 DPD | Total | | Total loss allowance |
| **Receivables from customers** | | | | | | |
| Retail Banking | -20 | -128 | -2 | -130 | -370 | -520 |
| Corporate Banking | -29 | -47 | -5 | -53 | -161 | -243 |
| **Total** | **-50** | **-175** | **-7** | **-182** | **-531** | **-763** |
| **Off-balance-sheet commitments**** | | | | | | |
| Retail Banking | -1 | -2 | | -2 | -3 | -5 |
| Corporate Banking | -2 | -5 | | -5 | -26 | -33 |
| **Total** | **-3** | **-6** | | **-6** | **-29** | **-38** |
| **Notes and bonds***** | | | | | | |
| Group Functions | -1 | -1 | | -1 | 0 | -2 |
| **Total** | **-1** | **-1** | | **-1** | **0** | **-2** |
| **Total** | **-54** | **-182** | **-7** | **-190** | **-561** | **-804** |

* 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.

Notes and bonds related to the insurance business have been measured at fair value through profit or loss since 1 January 2022 in connection with the adoption of IFRS 17. So, the expected credit loss will no longer be calculated. The figures in comparative year have been adjusted.

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 2023 | 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 | 68,733 | 11,035 | 52 | 11,087 | 2,326 | 82,147 |
| Corporate Banking | 40,492 | 4,541 | 70 | 4,611 | 670 | 45,773 |
| **Loss allowance** | | | | | | |
| Retail Banking | -21 | -129 | -2 | -131 | -373 | -525 |
| Corporate Banking | -32 | -52 | -5 | -57 | -187 | -276 |
| **Coverage ratio, %** | | | | | | |
| Retail Banking | -0.03% | -1.17% | -3.95% | -1.18% | -16.04% | -0.64% |
| Corporate Banking | -0.08% | -1.15% | -7.64% | -1.24% | -27.95% | -0.60% |
| **Receivables from customers; total on-balance-sheet and off-balance-sheet items** | **109,225** | **15,576** | **122** | **15,698** | **2,997** | **127,919** |
| **Total loss allowance** | **-53** | **-181** | **-7** | **-189** | **-560** | **-802** |
| **Total coverage ratio, %** | **-0.05%** | **-1.16%** | **-6.07%** | **-1.20%** | **-18.70%** | **-0.63%** |
| | | | | | | |
| **Carrying amount, notes and bonds** | | | | | | |
| Group Functions | 12,291 | 88 | | 88 | 3 | 12,382 |
| **Loss allowance** | | | | | | |
| Group Functions | -1 | -1 | | -1 | 0 | -2 |
| **Coverage ratio, %** | | | | | | |
| Group Functions | -0.01% | -1.16% | | -1.16% | | -0.02% |
| **Total notes and bonds** | **12,291** | **88** | | **88** | **3** | **12,382** |
| **Total loss allowance** | **-1** | **-1** | **0** | **-1** | **0** | **-2** |
| **Total coverage ratio, %** | **-0.01%** | **-1.16%** | | **-1.16%** | **6.00%** | **-0.02%** |

**Exposures within the scope of accounting for expected credit losses by impairment stage 31 December 2022**

| Exposures | Stage 1 | Stage 2 | | | Stage 3 | |
|---|---|---|---|---|---|---|
| € million | | Not more than 30 DPD | More than 30 DPD | Total | | Total exposure |
| **Receivables from customers (gross)** | | | | | | |
| Retail Banking | 62,761 | 8,256 | 51 | 8,306 | 2,127 | 73,195 |
| Corporate Banking | 26,588 | 2,518 | 109 | 2,627 | 451 | 29,666 |
| **Total** | **89,349** | **10,774** | **159** | **10,933** | **2,578** | **102,861** |
| | | | | | | |
| **Off-balance-sheet limits** | | | | | | |
| Retail Banking | 6,705 | 371 | 0 | 372 | 39 | 7,115 |
| Corporate Banking | 8,351 | 493 | 29 | 521 | 71 | 8,944 |
| **Total** | **15,056** | **864** | **29** | **893** | **110** | **16,059** |
| | | | | | | |
| **Other off-balance-sheet commitments** | | | | | | |
| Retail Banking | 2,636 | 54 | | 54 | 26 | 2,715 |
| Corporate Banking | 6,943 | 448 | | 448 | 72 | 7,462 |
| **Total** | **9,579** | **501** | | **501** | **98** | **10,178** |
| | | | | | | |
| **Notes and bonds** | | | | | | |
| Group Functions | 12,982 | 73 | | 73 | | 13,055 |
| **Total** | **12,982** | **73** | | **73** | | **13,055** |
| | | | | | | |
| **Total exposures within the scope of accounting for expected credit losses** | **126,966** | **12,212** | **188** | **12,401** | **2,787** | **142,153** |

Loss allowance by impairment stage 31 December 2022

| On-balance-sheet exposures and related off-balance-sheet limits* | Stage 1 | Stage 2 | | | Stage 3 | |
|---|---|---|---|---|---|---|
| € million | | Not more than 30 DPD | More than 30 DPD | Total | | Total loss allowance |
| **Receivables from customers** | | | | | | |
| Retail Banking | -18 | -78 | -1 | -79 | -363 | -457 |
| Corporate Banking | -30 | -23 | -5 | -28 | -182 | -245 |
| **Total** | **-48** | **-101** | **-6** | **-108** | **-546** | **-701** |
| | | | | | | |
| **Other off-balance-sheet commitments**** | | | | | | |
| Retail Banking | -1 | -1 | | -1 | -2 | -4 |
| Corporate Banking | -3 | -2 | | -2 | -24 | -29 |
| **Total** | **-4** | **-3** | | **-3** | **-26** | **-32** |
| | | | | | | |
| **Notes and bonds***** | | | | | | |
| Group Functions | -1 | -1 | | -1 | | -2 |
| **Total notes and bonds** | **-1** | **-1** | | **-1** | | **-2** |
| | | | | | | |
| **Total** | **-53** | **-105** | **-6** | **-111** | **-572** | **-736** |

* 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 2022 | 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 | 72,102 | 8,681 | 51 | 8,732 | 2,192 | 83,026 |
| Corporate Banking | 41,882 | 3,459 | 137 | 3,596 | 595 | 46,072 |
| **Loss allowance** | | | | | | |
| Retail Banking | -19 | -79 | -1 | -80 | -366 | -460 |
| Corporate Banking | -33 | -25 | -5 | -30 | -206 | -274 |
| **Coverage ratio, %** | | | | | | |
| Retail Banking | -0.03% | -0.91% | -1.98% | -0.92% | -16.68% | -0.55% |
| Corporate Banking | -0.08% | -0.71% | -3.81% | -0.83% | -34.69% | -0.59% |
| **Receivables from customers; total on-balance-sheet and off-balance-sheet items** | **113,983** | **12,139** | **188** | **12,328** | **2,787** | **129,098** |
| **Total loss allowance** | **-52** | **-104** | **-6** | **-110** | **-572** | **-734** |
| **Total coverage ratio, %** | **4.00%** | **-0.86%** | **-3.31%** | **-0.89%** | **-20.53%** | **-0.57%** |
| | | | | | | |
| **Carrying amount, notes and bonds** | | | | | | |
| Group Functions | 12,982 | 73 | | 73 | | 13,055 |
| **Loss allowance** | | | | | | |
| Group Functions | -1 | -1 | | -1 | | -2 |
| **Coverage ratio, %** | | | | | | |
| Group Functions | -0.01% | -1.18% | | -1.18% | | -0.02% |
| **Total notes and bonds** | **12,982** | **73** | | **73** | | **13,055** |
| **Total loss allowance** | **-1** | **-1** | | **-1** | | **-2** |
| **Total coverage ratio, %** | **-0.01%** | **-1.18%** | | **-1.18%** | | **-0.02%** |

The table below shows a change in exposures within the scope of the measurement of expected credit losses by impairment Stage for H1 /2023 resulting from the effect of the following factors:

| Receivables from customers and off-balance-sheet items, € million | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Receivables from customers; on-balance-sheet and off-balance-sheet items 1 January 2023** | **113,983** | **12,328** | **2,787** | **129,098** |
| Transfers from Stage 1 to Stage 2, incl. repayments | -7,338 | 7,162 | | -176 |
| Transfers from Stage 1 to Stage 3, incl. repayments | -310 | | 315 | 5 |
| Transfers from Stage 2 to Stage 1, incl. repayments | 3,092 | -3,176 | | -84 |
| Transfers from Stage 2 to Stage 3, incl. repayments | | -525 | 490 | -34 |
| Transfers from Stage 3 to Stage 1, incl. repayments | 60 | | -63 | -3 |
| Transfers from Stage 3 to Stage 2, incl. repayments | | 225 | -243 | -17 |
| Increases due to origination and acquisition | 10,347 | 333 | 81 | 10,762 |
| Decreases due to derecognition | -7,905 | -590 | -202 | -8,697 |
| Unchanged Stage, incl. repayments | -2,706 | -59 | -119 | -2,609 |
| Recognised as final credit loss | | 0 | -50 | -325 |
| **Receivables from customers; on-balance-sheet and off-balance-sheet items 30 June 2023** | **109,225** | **15,698** | **2,997** | **127,919** |

Transfers from stage 1 to stage 2 include the transfer of EUR 2 million concerning exposures related to a management overlay provision.

The following flow statements show the changes in loss allowance by impairment stage during H1 /2023.

| Receivables from customers and off-balance-sheet items, € million | Stage 1 | Stage 2 | Stage 3 | |
|---|---|---|---|---|
| | 12 months | Lifetime | Lifetime | Total |
| **Loss allowance 1 January 2023** | **52** | **110** | **572** | **734** |
| Transfers from Stage 1 to Stage 2 | -2 | 90 | | 88 |
| Transfers from Stage 1 to Stage 3 | -2 | | 27 | 25 |
| Transfers from Stage 2 to Stage 1 | 2 | -14 | | -12 |
| Transfers from Stage 2 to Stage 3 | | -8 | 44 | 37 |
| Transfers from Stage 3 to Stage 2 | 0 | | -7 | -7 |
| Transfers from Stage 3 to Stage 1 | | 5 | -27 | -22 |
| Increases due to origination and acquisition | 6 | 6 | 19 | 30 |
| Decreases due to derecognition | -6 | -5 | -42 | -52 |
| Changes in risk parameters (net) | 4 | 3 | 1 | 8 |
| Changes in model assumptions and methodology | | | | |
| Decrease in allowance account due to write-offs | | 0 | -27 | -28 |
| **Net change in expected credit losses** | **1** | **78** | **-12** | **67** |
| **Loss allowance 30 June 2023** | **53** | **189** | **560** | **802** |
| **Net change in expected credit losses Q2 2023** | **5** | **64** | **-15** | **54** |

Transfers from stage 1 to stage 2 include the transfer of an increase of EUR 32 million concerning a management overlay provision.

OP Financial Group has assessed the financial effects caused by Russia's war of aggression in Ukraine on its customers' credit risk and the related remaining EUR 2 million of the management overlay provision made in Q1/2022. The provision was reversed in Q2/2023.

OP Financial Group has assessed the impacts of a rise in inflation and Euribor rates as well as a fall in the price of residential property collateral on the credit risk associated with home loans. The assessment made as a stress test measured the cash flow of households, on the basis of which potential customers were assessed whose repayment capacity is jeopardised. Based on the analysis, a management overlay provision of EUR 42.4 million was made in Q4/2022, which has been kept unchanged in Q2/2023.

In Q4/2022, based on its analysis, OP Financial Group made a management overlay provision of EUR 5.3 million in the construction industry. The analysis was updated in Q2/2023 due to the further deteriorating outlook in the industry. The analysis was made as a stress test based on the baseline scenario (weight of 60%) and the downside scenario (weight of 40%) with the assumptions that net sales decrease by 20%/35%, profitability weakens by 20%/40%, equity ratio decreases by 10%/20%, interest rates stand at 4%/6% and the prices of new homes have fallen by 15%//30%. Based on the update, the provision was increased by EUR 11.7 million to EUR 17.0 million.

In Q2/2023, a management overlay provision of EUR 27.2 million was made in the real estate sector based on the weaker outlook in the sector. The analysis was made as a stress test based on the baseline scenario (weight of 70%) and the downside scenario (weight of 30%) with the assumptions that net sales increase by 3%/0%, profitability weakens by 5%/10%, equity ratio decreases by 10%/20%, interest rates stand at 4%/6%.

In addition, OP Financial Group was prepared in Q4/2022 for the retrospective correction of the data stock on forborne exposures with a 5-million euro management overlay provision to be performed in the first half of 2023. The provision was reversed in Q2/2023 because the correction of the data stock has been entered into systems and within the scope of ECL accounting.

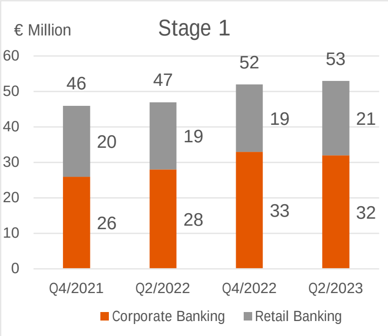
At the end of 2021, OP Financial Group made a 34-million euro additional ECL provision concerning CRE backed loans. The provision was aimed at anticipating growth in the ECL caused by the update of the collateral assessment of the riskiest collateral real estate holdings and probable default statutes. The remaining provision for Q2/2023 is EUR 11 million.

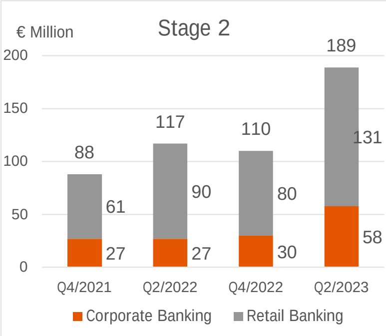
The table below shows the loss allowance before the discretionary provisions under management overlay, management overlay provisions described above and the total loss allowance.

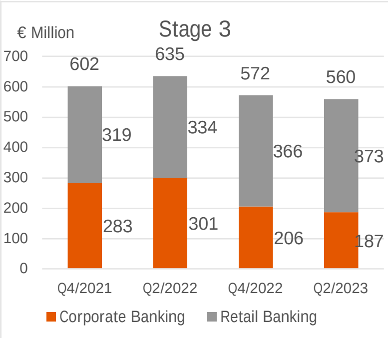
| **Loss allowance 30 June 2023** | **Retail Banking** | **Corporate Banking** | **Total** |
|---|---|---|---|
| **Loss allowance before discretionary provisions** | 440 | 264 | 704 |
| **Discretionary provisions under management overlay** | | | |
| Personal customers: inflation, interest rates and value of collateral securities | 42 | | 42 |
| Construction industry | 11 | 6 | 17 |
| Real estate sector | 21 | 6 | 27 |
| Collateral valuation of CRE backed loans | 11 | | 11 |
| **Total discretionary provisions under management overlay** | 85 | 12 | 97 |
| **Total reported loss allowance** | 525 | 276 | 801 |

| **Loss allowance 31 December 2022** | **Retail Banking** | **Corporate Banking** | **Total** |
|---|---|---|---|
| **Loss allowance before discretionary provisions** | 401 | 267 | 668 |
| **Discretionary provisions under management overlay** | | | |
| Russia-Ukraine war | 2 | | 2 |
| Price of electricity, interest rates & value of collateral | 42 | | 42 |
| Construction industry | 3 | 3 | 5 |
| Future retrospective correction to forborne exposures | 5 | | 5 |
| Collateral valuation of CRE backed loans | 11 | | 11 |
| **Total discretionary provisions under management overlay** | 63 | 3 | 66 |
| **Total reported loss allowance** | 465 | 269 | 734 |

The following graphs illustrate the trend in the expected credit losses of customer receivables by impairment stage during the last few years.

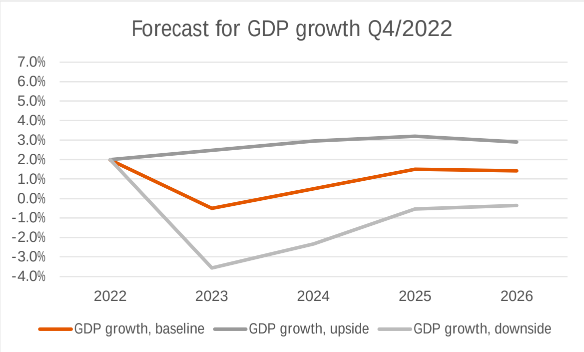


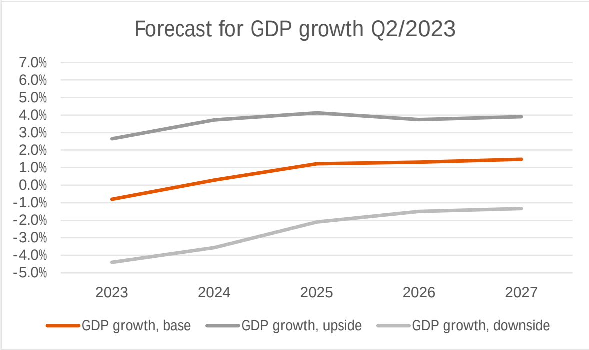



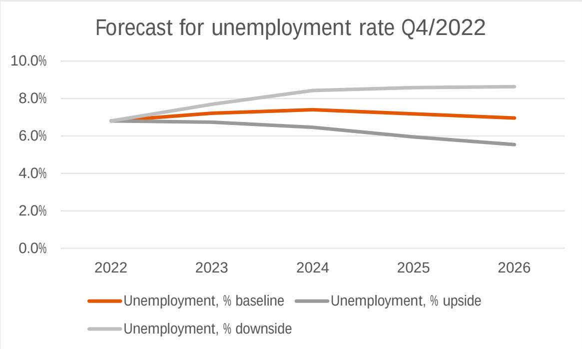



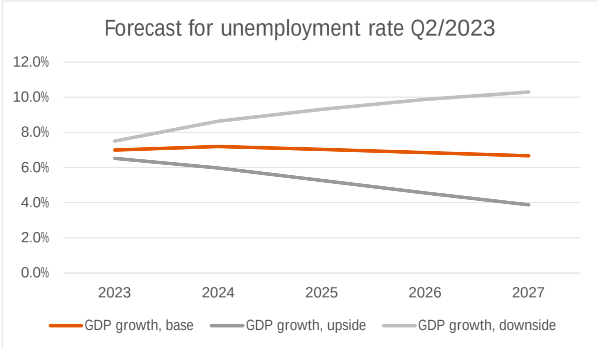

In ECL measurement, macroeconomic factors are updated on a quarterly basis. The ECL is measured as the weighted average under three scenarios. Scenario weights have been at normal level, or downside 20%, baseline 60% and upside 20%. During the first quarter of 2023, the update of the macroeconomic forecasts slightly increased the ECL.

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




| **Notes and bonds, € million** | **Stage 1 12 months** | **Stage 2 Lifetime** | **Stage 3 Lifetime** | **Total** |
|---|---|---|---|---|
| **Loss allowance 1 January 2023** | **2** | **0** | | **1** |
| Transfers from Stage 1 to Stage 2 | 0 | 0 | | 0 |
| Transfers from Stage 1 to Stage 3 | 0 | | 0 | 0 |
| Transfers from Stage 2 to Stage 1 | 0 | 0 | | 0 |
| Increases due to origination and acquisition | 0 | 0 | | 0 |
| Decreases due to derecognition | 0 | | | 0 |
| Changes in risk parameters (net) | 0 | 0 | | 0 |
| **Net change in expected credit losses** | **0** | **0** | **0** | **0** |
| **Loss allowance 30 June 2023** | **1** | **0** | **0** | **1** |
| **Net change in expected credit losses Q2/2023** | **0** | **0** | **-2** | **-2** |

The table below shows a change in exposures within the scope of the measurement of expected credit losses by impairment Stage for 2022 resulting from the effect of the following factors:

| **Receivables from customers and off-balance-sheet items, € million** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
|---|---|---|---|---|
| **Receivables from customers; on-balance-sheet and off-balance-sheet items 1 January 2022** | **107,825** | **9,650** | **2,808** | **120,283** |
| Transfers from Stage 1 to Stage 2, incl. repayments | -6,564 | 6,194 | | -370 |
| Transfers from Stage 1 to Stage 3, incl. repayments | -432 | | 378 | -53 |
| Transfers from Stage 2 to Stage 1, incl. repayments | 2,937 | -3,224 | | -288 |
| Transfers from Stage 2 to Stage 3, incl. repayments | | -582 | 532 | -50 |
| Transfers from Stage 3 to Stage 1, incl. repayments | 65 | | -75 | -10 |
| Transfers from Stage 3 to Stage 2, incl. repayments | | 238 | -272 | -33 |
| Increases due to origination and acquisition | 23,512 | 1,160 | 162 | 24,834 |
| Decreases due to derecognition | -14,270 | -985 | -434 | -15,689 |
| Unchanged Stage, incl. repayments | 910* | -122 | -203 | 585 |
| Recognised as final credit loss | 0 | 0 | -111 | -111 |
| **Receivables from customers; on-balance-sheet and off-balance-sheet items 31 December 2022** | **113,983** | **12,328** | **2,787** | **129,098** |

* Stage 1 positive net change is related to increases in off-balance-sheet limits.

The table below shows the change in loss allowance by impairment stage during 2022.

| Receivables from customers and off-balance-sheet items, € million | Stage 1 12 months | Stage 2 Lifetime | Stage 3 Lifetime | Total |
|---|---|---|---|---|
| **Loss allowance 1 January 2022** | **46** | **89** | **603** | **737** |
| Transfers from Stage 1 to Stage 2 | -5 | 38 | | 33 |
| Transfers from Stage 1 to Stage 3 | -3 | | 67 | 64 |
| Transfers from Stage 2 to Stage 1 | 2 | -18 | | -16 |
| Transfers from Stage 2 to Stage 3 | | -12 | 57 | 45 |
| Transfers from Stage 3 to Stage 2 | 1 | | -6 | -6 |
| Transfers from Stage 3 to Stage 1 | | 4 | -23 | -19 |
| Increases due to origination and acquisition | 17 | 14 | 30 | 61 |
| Decreases due to derecognition | -8 | -14 | -92 | -114 |
| Changes in risk parameters (net) | 4 | 7 | 40 | 51 |
| Changes due to update in the methodology for estimation (net) | | | | |
| Changes in model assumptions and methodology | 0 | 2 | 5 | 7 |
| Decrease in allowance account due to write-offs | 0 | 0 | -108 | -108 |
| **Net change in expected credit losses** | **6** | **21** | **-31** | **-3** |
| **Loss allowance 31 December 2022** | **52** | **110** | **572** | **734** |

| Notes and bonds, € million | Stage 1 12 months | Stage 2 Lifetime | Stage 3 Lifetime | Total |
|---|---|---|---|---|
| **Loss allowance 31 December 2021** | **7** | **2** | **5** | **14** |
| IFRS 17 transition 1 Jan 2022 | -5 | -2 | -5 | -12 |
| **Loss allowance 1 January 2022** | **2** | **0** | **0** | **2** |
| Transfers from Stage 1 to Stage 2 | 0 | 1 | | 1 |
| Transfers from Stage 1 to Stage 3 | | | | |
| Transfers from Stage 2 to Stage 1 | | | | |
| Transfers from Stage 2 to Stage 3 | | | | |
| Increases due to origination and acquisition | 0 | 0 | | 0 |
| Decreases due to derecognition | 0 | 0 | | 0 |
| Changes in risk parameters (net) | 0 | 0 | | 0 |
| **Net change in expected credit losses** | **0** | **1** | **0** | **0** |
| **Loss allowance 31 December 2022** | **2** | **0** | **0** | **1** |
| **Net change in expected credit losses Q2 2022** | **1** | **0** | **1** | **3** |

## Note 5. Net commissions and fees

| H1/2023, € million | Retail Banking | Corporate Banking | Insurance | Other operations | Elimi-nations | OP Financial Group | Q2/2023 |
|---|---|---|---|---|---|---|---|
| **Commission income** | | | | | | | |
| Lending | 57 | 29 | | 0 | -1 | 85 | 42 |
| Deposits | 12 | 1 | | 0 | 0 | 13 | 6 |
| Payment transfers | 153 | 17 | | 10 | -11 | 169 | 85 |
| Securities brokerage | 4 | 10 | | | -4 | 9 | 4 |
| Securities issuance | 0 | 3 | | 0 | 0 | 3 | 2 |
| Mutual funds | 24 | 119 | 23 | | -23 | 142 | 79 |
| Asset management | 13 | 11 | | 1 | -6 | 18 | 10 |
| Legal services | 12 | 0 | | | 0 | 12 | 6 |
| Guarantees | 6 | 6 | | 0 | 0 | 12 | 6 |
| Housing agency | 31 | | | | 0 | 31 | 16 |
| Sales commissions on insurance contracts | 54 | | 5 | | -35 | 23 | -6 |
| Life insurance total expense loading | | | 12 | | | 12 | 6 |
| Other | 20 | 5 | | 0 | -18 | 8 | 3 |
| **Total** | **385** | **201** | **40** | **11** | **-99** | **538** | **261** |
| | | | | | | | |
| **Commission expenses** | | | | | | | |
| Lending | 0 | -1 | | 0 | 0 | -1 | 0 |
| Payment transfers | -15 | -3 | -1 | -2 | 7 | -13 | -6 |
| Securities brokerage | | -2 | | 0 | 0 | -2 | -1 |
| Securities issuance | 0 | -2 | | 0 | 0 | -2 | -1 |
| Mutual funds | | -53 | 0 | | 24 | -30 | -15 |
| Asset management | | -1 | 0 | -1 | 0 | -2 | -2 |
| Guarantees | | 0 | | | | 0 | 0 |
| Sales commissions on insurance contracts | | | -14 | | 12 | -3 | 0 |
| Other | -9 | -22 | 0 | -8 | 25 | -14 | -9 |
| **Total** | **-24** | **-85** | **-15** | **-11** | **68** | **-67** | **-35** |
| | | | | | | | |
| **Total net commissions and fees** | **361** | **116** | **24** | **0** | **-31** | **470** | **226** |

| H1/2022, € million | Retail Banking | Corporate Banking | Insurance | Other operations | Elimi-nations | OP Financial Group | Q2/2022 |
|---|---|---|---|---|---|---|---|
| **Commission income** | | | | | | | |
| Lending | 56 | 23 | | 0 | 0 | 79 | 39 |
| Deposits | 10 | 2 | | 0 | 0 | 12 | 6 |
| Payment transfers | 144 | 16 | | 5 | -5 | 159 | 81 |
| Securities brokerage | 5 | 13 | | | -5 | 13 | 5 |
| Securities issuance | 0 | 3 | | 0 | 0 | 3 | 2 |
| Mutual funds | 24 | 121 | 12 | 0 | -23 | 133 | 70 |
| Asset management | 14 | 14 | | 1 | -7 | 22 | 10 |
| Legal services | 14 | 0 | | | | 14 | 8 |
| Guarantees | 6 | 6 | | 0 | 0 | 12 | 6 |
| Housing agency | 37 | | | | 0 | 37 | 19 |
| Sales commissions on insurance contracts | 55 | | 17 | | -33 | 39 | 9 |
| Life insurance total expense loading | | | 12 | | | 12 | 6 |
| Other | 50 | 4 | 1 | 2 | -48 | 9 | 3 |
| **Total** | **416** | **203** | **42** | **7** | **-122** | **546** | **265** |
| | | | | | | | |
| **Commission expenses** | | | | | | | |
| Lending | 0 | -1 | | 0 | 1 | 0 | 0 |
| Payment transfers | -14 | -1 | -1 | -1 | 4 | -12 | -7 |
| Securities brokerage | | -2 | | 0 | 0 | -2 | -1 |
| Securities issuance | 0 | -1 | | 0 | 1 | 0 | 0 |
| Mutual funds | | -56 | 0 | | 23 | -33 | -16 |
| Asset management | | -5 | 0 | -2 | 0 | -7 | -3 |
| Guarantees | | 0 | | | | 0 | -0 |
| Sales commissions on insurance contracts | 3 | | -15 | | 11 | -1 | -1 |
| Other | -8 | -53 | -2 | -4 | 55 | -12 | -7 |
| **Total** | **-19** | **-119** | **-17** | **-7** | **95** | **-68** | **-34** |
| | | | | | | | |
| **Total net commissions and fees** | **397** | **83** | **25** | **0** | **-27** | **478** | **231** |

## Note 6. Net insurance income

| € million | H1/2023 | H1/2022 | Q2/2023 | Q2/2022 |
|---|---|---|---|---|
| **Non-life insurance** | | | | |
| Expected claims incurred and other directly allocated insurance service costs | 633 | 621 | 326 | 321 |
| Changes in risk adjustment (other than adjustments related to funding risks) | 5 | 10 | 3 | 5 |
| Contractual service margin of services produced during the period | 144 | 101 | 71 | 52 |
| Insurance acquisition cash flow amortisation | 58 | 59 | 30 | 31 |
| Other changes in insurance premium revenue | 3 | 13 | -3 | 2 |
| **Non-life insurance premium revenue according to the General Measurement Model (GMM), total** | **843** | **805** | **428** | **411** |
| **Life insurance** | | | | |
| Expected claims incurred and other directly allocated insurance service costs | 61 | 57 | 30 | 28 |
| Changes in risk adjustment (other than adjustments related to funding risks) | 5 | 7 | 2 | 4 |
| Contractual service margin of services produced during the period | 33 | 20 | 16 | 10 |
| Insurance acquisition cash flow amortisation | 5 | 7 | 2 | 7 |
| Other changes in insurance premium revenue | 7 | 7 | -2 | -2 |
| **Life insurance premium revenue according to the General Measurement Model (GMM), total** | **111** | **98** | **48** | **46** |
| Expected claims incurred and other directly allocated insurance service costs | 9 | 10 | 4 | 5 |
| Changes in risk adjustment (other than adjustments related to funding risks) | 2 | 4 | 1 | 2 |
| Contractual service margin of services produced during the period | 3 | 3 | 1 | 1 |
| Insurance acquisition cash flow amortisation | 1 | 1 | 0 | 1 |
| Other changes in insurance premium revenue | -1 | -4 | -1 | -2 |
| **Life insurance premium revenue according to the Variable Fee Approach (VFA), total** | **13** | **13** | **6** | **7** |
| **Total life insurance premium revenue** | **124** | **110** | **54** | **53** |
| **Total insurance premium revenue** | **967** | **916** | **482** | **464** |
| **Non-life insurance** | | | | |
| Actual claims incurred and other directly allocated insurance service costs | -588 | -660 | -306 | -337 |
| Changes arising from insurance events occurred in services for past periods | -140 | -66 | -41 | -24 |
| Reversal of acquisition costs of insurance contracts | -58 | -59 | -30 | -31 |
| Losses and reversals of onerous contracts | -13 | -9 | -6 | -1 |
| **Non-life insurance insurance service expenses according to the General Measurement Model (GMM), total** | **-799** | **-795** | **-383** | **-393** |
| **Life insurance** | | | | |
| Actual claims incurred and other directly allocated insurance service costs | -71 | -60 | -32 | -26 |
| Changes arising from insurance events occurred in services for past periods | -2 | -4 | 0 | -2 |
| Reversal of acquisition costs of insurance contracts | -5 | -7 | -2 | -7 |
| Onerous contracts | -29 | -25 | -14 | -12 |
| Life insurance insurance service expenses according to the General Measurement Model (GMM), total | -108 | -97 | -48 | -47 |
| Actual claims incurred and other directly allocated insurance service costs | -12 | -10 | -7 | -5 |
| Changes arising from insurance events occurred in services for past periods | -1 | -1 | 0 | 0 |
| Reversal of acquisition costs of insurance contracts | -1 | -1 | 1 | 1 |
| Onerous contracts | -11 | 10 | -9 | 0 |
| Life insurance insurance service expenses according to the Variable Fee Approach (VFA), total | -25 | -1 | -16 | -5 |
| **Life insurance insurance service expenses, total** | **-132** | **-98** | **-64** | **-52** |
| **Total insurance service expenses** | **-931** | **-893** | **-447** | **-446** |
| Net income from non-life insurance reinsurance contracts | -25 | 34 | -23 | 17 |
| Net income from life insurance reinsurance contracts | -3 | -1 | -1 | 0 |
| **Total net income from reinsurance contracts** | **-28** | **33** | **-25** | **17** |
| **Insurance service result** | **8** | **56** | **10** | **35** |

## Note 7. Net insurance finance expenses

| € million | H1/2023 | H1/2022 | Q2/2023 | Q2/2022 |
|---|---|---|---|---|
| **Non-life insurance** | | | | |
| Unwinding of discount of insurance liability | -11 | 0 | -7 | 0 |
| Effect of insurance contract interest rates and changes in economic assumptions | -34 | 474 | -8 | 275 |
| Exchange rate differences of insurance contracts | 0 | -1 | 0 | -1 |
| Finance income and expenses related to non-life insurance direct insurance contracts (GMM), total | -45 | 473 | -15 | 274 |
| Finance income and expenses related to non-life insurance reinsurance contracts, total | -10 | -5 | -1 | -3 |
| **Life insurance** | | | | |
| Unwinding of discount of insurance liability | 8 | 15 | 3 | 7 |
| Effect of insurance contract interest rates and changes in economic assumptions | -19 | 408 | 31 | 211 |
| Finance income and expenses related to life insurance direct insurance contracts (GMM), total | -11 | 423 | 34 | 218 |
| Insurance contract net financing items, risk mitigation | -8 | 276 | 5 | 153 |
| Effect of insurance contract interest rates and changes in economic assumptions | 0 | | | |
| Net financing items of fair value changes of underlying insurance contract items | -180 | 695 | -54 | 382 |
| Finance income and expenses related to life insurance direct insurance contracts (VFA), total | -187 | 970 | -48 | 535 |
| Finance income and expenses related to life insurance reinsurance contracts, total | 0 | 0 | 0 | 0 |
| **Net insurance finance income (+)/expenses (–)** | **-253** | **1,861** | **-31** | **1,024** |

## Note 8. Net interest income from financial assets held for trading

**Financial assets held for trading**

| **€ million** | **H1/2023** | **H1/2022** | **Q2/2023** | **Q2/2022** |
|---|---|---|---|---|
| Notes and bonds | | | | |
| Interest income and expenses | 16 | 2 | 2 | 1 |
| Fair value gains and losses of notes and bonds | -1 | -21 | 0 | -11 |
| Total | 15 | -19 | 1 | -10 |
| Shares and participations | | | | |
| Fair value gains and losses | 6 | 4 | 1 | -3 |
| Dividend income and share of profits | 3 | 1 | 2 | 0 |
| Total | 8 | 5 | 3 | -3 |
| Derivatives | | | | |
| Interest income and expenses | 29 | -7 | 15 | -7 |
| Fair value gains and losses | -33 | -27 | -35 | -9 |
| Total | -4 | -34 | -19 | -17 |
| **Total** | **19** | **-48** | **-14** | **-29** |

## Note 9. Net investment income

| **€ million** | **H1/2023** | **H1/2022** | **Q2/2023** | **Q2/2022** |
|---|---|---|---|---|
| **Net income from assets at fair value through other comprehensive income** | | | | |
| Notes and bonds | | | | |
| Interest income | | 0 | | 0 |
| Capital gains and losses | 6 | 9 | 3 | 0 |
| Other income and expenses | 0 | 0 | 0 | 0 |
| **Total** | **6** | **9** | **3** | **0** |

**Net income from financial assets recognised at fair value through profit or loss**

**Financial assets held for trading, insurance business**

| **€ million** | **H1/2023** | **H1/2022** | **Q2/2023** | **Q2/2022** |
|---|---|---|---|---|
| Derivatives | | | | |
| Interest income and expenses | -10 | 7 | -6 | 1 |
| Fair value gains and losses | 32 | -375 | 12 | -163 |
| Total | 22 | -368 | 6 | -162 |
| **Total** | **22** | **-368** | **6** | **-162** |
| | | | | |
| **Financial assets that must be measured at fair value through profit or loss** | | | | |
| Shares and participations | | | | |
| Fair value gains and losses | | -3 | | |
| Dividend income and share of profits | 0 | 5 | 0 | 0 |
| Total | 0 | 2 | 0 | 0 |
| **Total** | **0** | **2** | **0** | **0** |
| | | | | |
| **Financial assets designated as at fair value through profit or loss** | | | | |
| Notes and bonds | | | | |
| Interest income | 66 | 51 | 35 | 26 |
| Fair value gains and losses | 57 | -603 | -13 | -332 |
| Total | 124 | -552 | 22 | -306 |
| Shares and participations | | | | |
| Fair value gains and losses | 112 | -172 | 61 | -116 |
| Dividend income and share of profits | 26 | 54 | 8 | 23 |
| Total | 137 | -118 | 69 | -93 |
| Derivatives | | -1 | | |
| **Total** | **261** | **-670** | **91** | **-399** |
| | | | | |
| Income from assets covering unit-linked insurance and investment contracts | | | | |
| Interest income | 66 | 12 | 48 | 18 |
| Fair value gains and losses | 413 | -1,646 | 132 | -914 |
| **Total** | **479** | **-1,634** | **180** | **-896** |
| | | | | |
| **Net income from financial assets designated as at fair value through profit or loss, total** | **740** | **-2,304** | **271** | **-1,295** |
| | | | | |
| **Total net income from financial assets recognised at fair value through profit or loss** | **762** | **-2,670** | **277** | **-1,456** |

| | | | | |
|---|---|---|---|---|
| **Net income from investment property** | | | | |
| Rental income | 27 | 26 | 14 | 12 |
| Fair value gains and losses | 3 | 19 | 4 | -5 |
| Maintenance charges and expenses | -19 | -19 | -10 | -9 |
| Other | 0 | 0 | 1 | 0 |
| **Total net income from investment property** | **11** | **27** | **9** | **-2** |
| | | | | |
| **Net income from loans and receivables recognised at amortised cost** | | | | |
| | | | | |
| **Loans and receivables** | | | | |
| Interest income | 5 | 1 | 3 | 0 |
| Interest expenses | 0 | -2 | 0 | -1 |
| Impairment losses and their reversals | -3 | 2 | 0 | 3 |
| Total | 2 | 1 | 2 | 2 |
| | | | | |
| **Associates and joint ventures** | | | | |
| Accounted for using the fair value method | 2 | 13 | 0 | 1 |
| Consolidated using the equity method | 3 | 3 | 2 | 3 |
| Total | 4 | 16 | 3 | 4 |
| | | | | |
| **Financial liabilities designated as at fair value through profit or loss** | | | | |
| Premiums written from insurance contracts | 226 | 285 | 110 | 119 |
| Claims paid under investment contracts | -179 | -192 | -93 | -82 |
| Change in investment contract liabilities | -348 | 836 | -144 | 474 |
| Total net income from investment contract liabilities | -300 | 929 | -126 | 511 |
| | | | | |
| **Other net investment income of insurance** | | | | |
| Interest on insurance subordinated loans of insurance | | 0 | 0 | 0 |
| Currency fair value gains/losses related to insurance service result | 0 | 0 | 0 | 0 |
| Other income and expenses from loans and receivables | 0 | | 0 | |
| Total | 0 | 0 | 0 | 0 |
| | | | | |
| **Total net investment income** | **485** | **-1,688** | **168** | **-940** |

## Note 10. Other operating expenses

| **€ million** | **H1/2023** | **H1/2022** | **Q2/2023** | **Q2/2022** |
|---|---|---|---|---|
| ICT costs | | | | |
| Production | -116 | -113 | -58 | -57 |
| Development | -91 | -72 | -46 | -38 |
| Buildings | -27 | -45 | -15 | -23 |
| Government charges and audit fees | -64 | -72 | 0 | -6 |
| Service purchases | -68 | -57 | -35 | -29 |
| Expert services | -25 | -19 | -12 | -12 |
| Telecommunications | -16 | -15 | -8 | -8 |
| Marketing | -21 | -16 | -12 | -10 |
| Donations | -6 | -8 | -3 | -5 |
| Insurance and security costs | -9 | -5 | -2 | -2 |
| Expenses of short-term and low-value leases | -3 | 14 | -2 | 7 |
| Other | -57 | -43 | -26 | -22 |
| **Total** | **-504** | **-451** | **-220** | **-205** |

**Development costs**

| **€ million** | **H1/2023** | **H1/2022** | **Q2/2023** | **Q2/2022** |
|---|---|---|---|---|
| ICT development costs | 91 | 72 | 46 | 38 |
| Share of own work | 36 | 32 | 18 | 16 |
| **Total development costs in the income statement** | **127** | **104** | **64** | **54** |
| Capitalised ICT costs | 43 | 39 | 24 | 20 |
| Transfer of capitalised costs/personnel costs | 6 | 8 | 3 | 4 |
| **Total capitalised development costs** | **50** | **47** | **27** | **25** |
| **Total development costs** | **177** | **151** | **91** | **78** |
| Depreciation/amortisation and impairment loss | -60 | -78 | -28 | -38 |

## Note 11. Reinsurance contract assets

| € million | 30 Jun 2023 | 31 Dec 2022 |
|---|---|---|
| Non-life insurance | | |
| Reinsurance contract assets for the remaining coverage period | -26 | -24 |
| Reinsurance contract liability for occurred losses | 277 | 268 |
| Total non-life insurance reinsurance contract assets | 251 | 245 |
| | | |
| Life insurance | | |
| Reinsurance contract assets for the remaining coverage period | 0 | |
| Total life insurance reinsurance contract assets | 0 | |
| | | |
| **Total reinsurance contract assets** | **251** | **245** |

## Note 12. Insurance contract liabilities

| € million | 30 Jun 2023 | 31 Dec 2022 |
|---|---|---|
| Non-life insurance | | |
| Liabilities for the remaining coverage period, GMM | 320 | 180 |
| Liability for occurred losses, GMM | 2,371 | 2,356 |
| Total non-life insurance contract liabilities | 2,691 | 2,536 |
| | | |
| Life insurance | | |
| Liabilities for the remaining coverage period, GMM | 3,213 | 3,260 |
| Liability for occurred losses, GMM | 13 | 12 |
| Liabilities for the remaining coverage period, VFA total | 5,668 | 5,586 |
| Liability for occurred losses (VFA), total | 43 | 51 |
| Total life insurance contract liabilities | 8,938 | 8,909 |
| | | |
| **Total insurance contract liabilities** | **11,629** | **11,446** |

## Note 13. Reinsurance contract liabilities

| € million | 30 Jun 2023 | 31 Dec 2022 |
|---|---|---|
| Life insurance | | |
| Reinsurance contract liabilities for the remaining coverage period | 2 | 2 |
| Total life insurance reinsurance contract liabilities | 2 | 2 |
| | | |
| **Total reinsurance contract liabilities** | **2** | **2** |

## Note 14. Debt securities issued to the public and debentures

| € million | 30 Jun 2023 | 31 Dec 2022 |
|---|---|---|
| Bonds | 11,471 | 10,563 |
| Subordinated bonds | 4,325 | 4,306 |
| Mortgage-backed bonds | 12,389 | 12,262 |
| Other | | |
| Certificates of deposit | 1,159 | 1,083 |
| Commercial papers | 6,386 | 9,287 |
| Included in own portfolio in trading (-)* | -67 | -63 |
| **Total debt securities issued to the public and debentures** | **35,662** | **37,438** |

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

## Note 15. Fair value reserve after tax

| € million | Recognised at fair value through other comprehensive income: Notes and bonds | Recognised at fair value through other comprehensive income: Shares and participations (overlay approach) | Cash flow hedges | Total |
|---|---|---|---|---|
| **Closing balance 31 December 2021** | **63** | **164** | **96** | **323** |
| Effect of transition to IFRS 17 Insurance Contracts | -41 | -164 | | -205 |
| **Opening balance 1 January 2022** | 23 | | 96 | 118 |
| Fair value changes | -20 | | -332 | -352 |
| Capital gains transferred to income statement | -9 | | | -9 |
| Transfers to net interest income | | | -11 | -11 |
| Deferred tax | 6 | | 69 | 74 |
| **Closing balance 30 June 2022** | **0** | | **-178** | **-179** |

| € million | Recognised at fair value through other comprehensive income: Notes and bonds | Cash flow hedges | Total |
|---|---|---|---|
| **Opening balance 1 January 2023** | **-24** | **-337** | **-360** |
| Fair value changes | -3 | -10 | -14 |
| Capital gains transferred to income statement | -7 | | -7 |
| Transfers to net interest income | | 25 | 25 |
| Deferred tax | 2 | -3 | -1 |
| **Closing balance 30 June 2023** | **-32** | **-325** | **-357** |

The fair value reserve before tax amounted to EUR -447 million (-223) at the end of the reporting period and the related deferred tax asset/liability was EUR 89 million (45). The loss allowance on notes and bonds recognised at fair value through other comprehensive income totalled EUR 0 million (0) 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 16. Collateral given

| € million | 30 June 2023 | 31 Dec 2022 |
|---|---|---|
| Given on behalf of own liabilities and commitments | | |
| Mortgages | | |
| Pledges | 255 | 1 |
| Loans (as collateral for covered bonds) | 17,309 | 21,048 |
| Others | 857 | 14,128 |
| **Total collateral given*** | **18,421** | **35,176** |
| Secured derivative liabilities | 677 | 701 |
| Other secured liabilities | 236 | 12,000 |
| Covered bonds | 12,389 | 12,262 |
| **Total** | **13,303** | **24,962** |

* In addition, bonds with a book value of EUR 1.5 billion have been pledged in the central bank, of which EUR 1.0 billion in intraday settlement collateral. Given that the bonds are available for withdrawal without the central bank's advance permission, they are not presented in the table above.

## Note 17. Classification of financial assets and liabilities

| | | | Recognised at fair value through profit or loss | | | | |
|---|---|---|---|---|---|---|---|
| **Assets, € 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 | 17,232 | | | | | | 17,232 |
| Receivables from credit institutions | 844 | | | | | | 844 |
| Liabilities to credit institutions | | | 2,278 | | | 1,336 | 3,614 |
| Receivables from customers | 96,889 | | | | | | 96,889 |
| Assets covering unit-linked contracts | | | | 12,051 | | | 12,051 |
| Notes and bonds | 162 | 11,211 | 219 | 6,605 | | | 18,198 |
| Equity instruments | | 0 | 92 | 2,090 | 1 | | 2,183 |
| Other than financial instruments | 3,174 | | | | | | 3,174 |
| **Financial assets** | **118,301** | **11,212** | **2,589** | **20,746** | **1** | **1,336** | **154,185** |
| Other than financial assets | | | | | | | 2,919 |
| **Total 30 June 2023** | **118,301** | **11,212** | **2,589** | **20,746** | **1** | **1,336** | **157,105** |

At the end of the reporting period, OP Financial Group's balance sheet had bonds worth EUR 162 million (1), which were not measured at market value due to the measurement category. The market value of these bonds amounted to EUR 160 million (1) at the end of the reporting period.

| | | | Recognised at fair value through profit or loss | | | | |
|---|---|---|---|---|---|---|---|
| **Assets, € 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 | 35,004 | | | | | | 35,004 |
| Receivables from credit institutions | 798 | | | | | | 798 |
| Liabilities to credit institutions | | | 2,867 | | | 1,251 | 4,117 |
| Receivables from customers | 98,546 | | | | | | 98,546 |
| Assets covering unit-linked contracts | | | | 11,597 | | | 11,597 |
| Notes and bonds | 1 | 11,755 | 295 | 6,247 | 0 | | 18,298 |
| Equity instruments | | 0 | 86 | 1,653 | 2 | | 1,741 |
| Other financial assets | 2,394 | | | | | | 2,394 |
| **Financial assets** | **136,743** | **11,756** | **3,247** | **19,497** | **2** | **1,251** | **172,496** |
| Other than financial instruments | | | | | | | 3,195 |
| **Total 31 December2022** | **136,743** | **11,756** | **3,247** | **19,497** | **2** | **1,251** | **175,691** |

| Liabilities, € million | Recognised at fair value through profit or loss | Other liabilities | Hedging derivatives | Carrying amount total |
|---|---|---|---|---|
| Liabilities to credit institutions | | 68 | | 68 |
| Derivative contracts | 2,179 | | 1,674 | 3,853 |
| Liabilities to customers | | 74,648 | | 74,648 |
| Liabilities from investment agreements | 7,559 | | | 7,559 |
| Debt securities issued to the public and debentures | | 35,662 | | 35,662 |
| Subordinated loans | | 1,364 | | 1,364 |
| Other financial liabilities | | 5,774 | | 5,774 |
| **Financial liabilities** | **9,738** | **117,516** | **1,674** | **128,928** |
| Other than financial liabilities | | | | 12,950 |
| **Total 30 June 2023** | **9,738** | **117,516** | **1,674** | **141,878** |

| Liabilities, € million | Recognised at fair value through profit or loss | Other liabilities | Hedging derivatives | Carrying amount total |
|---|---|---|---|---|
| Liabilities to credit institutions | | 12,301 | | 12,301 |
| Derivative contracts | 2,779 | | 1,653 | 4,432 |
| Liabilities to customers | | 81,468 | | 81,468 |
| Liabilities from investment agreements | 7,211 | | | 7,211 |
| Debt securities issued to the public and debentures | | 37,438 | | 37,438 |
| Subordinated loans | | 1,384 | | 1,384 |
| Other financial liabilities | | 3,813 | | 3,813 |
| **Financial liabilities** | **9,990** | **136,405** | **1,653** | **148,048** |
| Other than financial liabilities | | | | 12,973 |
| **Total 31 December 2022** | **9,990** | **136,405** | **1,653** | **161,023** |

Bonds included in debt securities issued to the public are carried at amortised cost. On 30 June 2023, the fair value of these debt instruments was approximately EUR 29.727 million (30.350) based on information available from markets and employing commonly used valuation techniques. Subordinated liabilities are carried at amortised cost. Their fair values are lower than their amortised costs, but determining reliable fair values involves uncertainty.

## Note 18. Recurring fair value measurements by valuation technique

| Fair value of assets on 30 June 2023, € million | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Recognised at fair value through profit or loss | | | | |
| Equity instruments | 1,180 | 234 | 770 | 2,183 |
| Debt instruments | 5,623 | 1,051 | 151 | 6,825 |
| Unit-linked contracts | 7,326 | 4,725 | | 12,051 |
| Derivative financial instruments | 3 | 3,534 | 76 | 3,614 |
| Fair value through other comprehensive income | | | | |
| Equity instruments | 0 | | | 0 |
| Debt instruments | 9,566 | 847 | 799 | 11,211 |
| **Total financial instruments** | **23,699** | **10,391** | **1,795** | **35,885** |
| Investment property | | | 564 | 564 |
| **Total** | **23,699** | **10,391** | **2,359** | **36,449** |

| Fair value of assets on 31 December 2022, € million | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Recognised at fair value through profit or loss | | | | |
| Equity instruments | 736 | 265 | 740 | 1,741 |
| Debt instruments | 5,090 | 1,382 | 70 | 6,542 |
| Unit-linked contracts | 7,431 | 4,167 | | 11,597 |
| Derivative financial instruments | 5 | 4,035 | 77 | 4,117 |
| Fair value through other comprehensive income | | | | |
| Debt instruments | 9,193 | 1,721 | 801 | 11,755 |
| **Total financial instruments** | **22,456** | **11,569** | **1,688** | **35,712** |
| Investment property | | | 561 | 561 |
| **Total** | **22,456** | **11,569** | **2,249** | **36,274** |

| Fair value of liabilities on 30 June 2023, € million | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Recognised at fair value through profit or loss | | | | |
| Unit-linked contracts | 4,595 | 2,964 | | 7,559 |
| Other | | 1 | | 1 |
| Derivative financial instruments | 0 | 3,755 | 98 | 3,853 |
| **Total** | **4,596** | **6,720** | **98** | **11,413** |

| Fair value of liabilities on 31 December 2022, € million | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Recognised at fair value through profit or loss | | | | |
| Unit-linked contracts | 4,620 | 2,591 | | 7,211 |
| Derivative financial instruments | 7 | 4,332 | 94 | 4,432 |
| **Total** | **4,627** | **6,922** | **94** | **11,643** |

### Fair value measurement

#### Derivatives

OP Financial Group obtains the price of listed derivatives directly from markets. In the fair value measurement of OTC derivatives, OP Corporate Bank uses models and techniques commonly used in markets that best suits financial instrument measurement. These are needed, for instance, to create yield curves and currency conversion charts and volatility surfaces as well as for option valuation. The input data of these models can generally be derived from markets. However, in the fair value measurement of some contracts, OP Corporate Bank has to use models where input data cannot be observed in the market and therefore they must be assessed. Such contracts are included in Level 3.

Middle Office is responsible for the fair value measurement of Banking derivatives, incl. level 3 hierarchy, and the quality and reliability of market data, valuation curves and volatility surfaces used in them, as part of its daily fair value measurement process. Middle Office compares regularly at contract level valuation prices with valuations supplied by CSA counterparties and central counterparties and, whenever necessary, determines any possible significant valuation differences.

Risk Management Control is responsible for approval of new fair value measurement models and techniques and supervision of the fair value measurement process. Verifying fair values is based, for example, on valuation using alternative sources for market prices and other input data. In this verification process, valuation prices can be compared with prices supplied by CSA counterparties and central counterparties. In addition, it is possible to use valuation services provided by third parties.

The fair value measurement of OTC derivative contracts related to banking takes account of credit risk of the parties to the transaction and credit spreads exceeding the financing costs. Credit risk is adjusted with a Credit Valuation Adjustment (CVA) and with a Debt Valuation Adjustment (DVA). CVAs and DVAs are calculated for each counterparty. CVA and DVA adjustments are calculated for each counterparty by simulating the market values of derivatives and events of default based primarily on data obtained from markets. In assessing probabilities of default, OP Financial Group utilises counterparty rating information, liquid credit risk indices and the CDS sector curves of market data providers. OP Financial Group assesses the effect of the financing costs of OTC derivatives on fair value measurement by editing discount curves used in the measurement by means of the statistical differences of credit spreads between credit risk instruments with and without capital.

### Fair value hierarchy

#### 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 and 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'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.

#### 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.

Derivatives relevant to OP Financial Group’s business are interest rate swaps and interest rate options. Interest rate swaps are measured by deriving valuation curves from the prices of interest rate swaps and other interest rate derivatives observed in the market. Valuation curves are used to forecast future cash flows and determine the present values of cash flows also through interest rate swaps whose price is not directly observable in the market. The same method applies to the fair value measurement of interest rate options. Volatilities describing the price of interest rate options observed in the market are also used in comparison with interest rate swaps.

In the fair value measurement of complex derivatives, such as structured equity product, OP Corporate Bank uses a model where the development of market prices is simulated and the actual value of the derivative is calculated in each simulation. The price of the derivate is derived from calculating the average of the simulations.

Level 2 input date include, for example: quoted prices of similar items in active markets and quoted prices of similar items in inactive markets, market interest rates, implied volatilities and credit spreads.

Level 3 input data are input data that are not observable for an item subject to valuation. Level 3 input data include, for example: use of historical volatility in the fair value measurement of an option, such long-term interest rate with no corresponding contracts are not observable in the market.

Real estate investments have no similar daily quoted prices or price sources as in liquid markets. The appraisal process of real estate is based on using external valuers (property value over 1 million euros) or on the business’s own appraisal methods.

The main sources of the appraisal of direct real estate investments are appraisal documents given by authorised external valuers. The external valuer independently selects the method that best suits the appraisal of each property. The commonly used methods include the transactions value method, income capitalisation approach and replacement value method. The values of real estate funds are obtained from underlying investee funds on the date determined by the rules of each underlying fund and according to the standard laid down by the rules. The valuations are mainly based on the combined values of the underlying investee fund's real estate units plus the underlying investee fund's net asset. The values of individual property units are mainly based on appraisal reports drawn up by authorised independent valuers.

### Reconciliation of Level 3 items

#### Breakdown of financial assets and financial liabilities

| Financial assets, € million | Recognised at fair value through profit or loss | Derivative contracts | Fair value through other comprehensive income | Total assets |
|---|---|---|---|---|
| Adoption of IFRS 17 and changes for 2022 | 51 | | -8 | 43 |
| **Opening balance 1 Jan 2023** | **810** | **77** | **799** | **1,686** |
| Total gains/losses in profit or loss | -50 | -1 | | -50 |
| Purchases | 133 | | | 133 |
| Sales | -21 | | | -21 |
| Repayments | -77 | | | -77 |
| Transfers to level 3 | 77 | | 177 | 254 |
| Transfers from level 3 | -3 | | -172 | -175 |
| **Closing balance 30 June 2023** | **921** | **76** | **797** | **1,795** |

| Financial liabilities, € million | Derivative contracts | Total liabilities |
|---|---|---|
| **Opening balance 1 Jan 2023** | 94 | **94** |
| Total gains/losses in profit or loss | 4 | **4** |
| **Closing balance 30 June 2023** | **98** | **98** |

#### Breakdown of net income by income statement item 30 June 2023

| € 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 income | -42 | -7 | | -50 |
| Unrealised net income | -5 | | | -5 |
| **Total net income** | **-47** | **-7** | | **-55** |

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 2023.

## Note 19. Off-balance-sheet commitments

| € million | 30 Jun 2023 | 31 Dec 2022 |
|---|---|---|
| Guarantees | 567 | 570 |
| Guarantee liabilities | 2,691 | 2,668 |
| Loan commitments | 13,860 | 14,267 |
| Commitments related to short-term trade transactions | 701 | 736 |
| Other* | 1,592 | 1,420 |
| **Total off-balance-sheet commitments** | **19,412** | **19,662** |

* Of which Non-life Insurance commitments to private equity funds amount to EUR 239 million (200).

## Note 20. Derivative contracts

**Total derivatives 30 June 2023**

| | Nominal values/residual term to maturity | | | | Fair values* | |
|---|---|---|---|---|---|---|
| **€ million** | **< 1 year** | **1–5 years** | **> 5 years** | **Total** | **Assets** | **Liabilities** |
| Interest rate derivatives | 38,556 | 107,774 | 83,486 | 229,817 | 3,011 | 2,730 |
| Cleared by the central counterparty | 29,567 | 65,075 | 51,759 | 146,401 | 29 | 32 |
| Settled-to-market (STM) | 14,228 | 39,770 | 35,638 | 89,636 | 19 | 21 |
| Collateralised-to-market (CTM) | 15,339 | 25,305 | 16,121 | 56,764 | 10 | 11 |
| Currency derivatives | 50,261 | 5,504 | 975 | 56,740 | 781 | 1,032 |
| Equity and index-linked derivatives | 380 | | | 380 | 1 | 0 |
| Credit derivatives | 39 | 85 | 9 | 133 | 3 | 30 |
| Other derivatives | 428 | 766 | 34 | 1,228 | 73 | 75 |
| **Total derivatives** | **89,664** | **114,130** | **84,504** | **288,298** | **3,870** | **3,868** |

**Total derivatives 31 December 2022**

| | Nominal values/residual term to maturity | | | | Fair values* | |
|---|---|---|---|---|---|---|
| **€ million** | **< 1 year** | **1–5 years** | **> 5 years** | **Total** | **Assets** | **Liabilities** |
| Interest rate derivatives of which | 29,963 | 105,209 | 89,412 | 224,584 | 2,981 | 3,096 |
| Cleared by the central counterparty | 22,144 | 60,716 | 55,600 | 138,460 | 190 | 191 |
| Settled-to-market (STM) | 11,535 | 35,194 | 39,212 | 85,941 | 126 | 134 |
| Collateralised-to-market (CTM) | 10,609 | 25,521 | 16,388 | 52,519 | 64 | 58 |
| Currency derivatives | 55,961 | 5,303 | 1,086 | 62,350 | 958 | 1,157 |
| Credit derivatives | 34 | 63 | 13 | 110 | 1 | 34 |
| Other derivatives | 439 | 889 | 26 | 1,355 | 91 | 82 |
| **Total derivatives** | **86,398** | **111,463** | **90,538** | **288,399** | **4,031** | **4,368** |

* 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 21. Investment distribution of the Insurance segment

| Non-life Insurance | 30 June 2023 | | 31 December 2022 | |
|---|---|---|---|---|
| **Investment asset portfolio allocation** | **Fair value*, EUR million** | **%** | **Fair value*, EUR million** | **%** |
| **Money market total** | **522** | **12** | **622** | **15** |
| Money market instruments and deposits** | 505 | 12 | 632 | 16 |
| Derivatives*** | 16 | 0 | -10 | 0 |
| **Total bonds and bond funds** | **2,635** | **62** | **2,526** | **62** |
| Governments | 250 | 6 | 303 | 7 |
| Investment Grade | 2,002 | 47 | 1,834 | 45 |
| Emerging markets and High Yield | 193 | 5 | 206 | 5 |
| Structured Investments**** | 190 | 4 | 181 | 4 |
| **Total equities** | **702** | **17** | **557** | **14** |
| Finland | 90 | 2 | 67 | 2 |
| Developed markets | 446 | 11 | 326 | 8 |
| Emerging markets | 90 | 2 | 88 | 2 |
| Fixed assets and unquoted equities | 6 | 0 | 6 | 0 |
| Private equity investments | 71 | 2 | 69 | 2 |
| **Total alternative investments** | **30** | **1** | **31** | **1** |
| Hedge funds | 30 | 1 | 31 | 1 |
| **Total property investment** | **338** | **8** | **336** | **8** |
| Direct property investment | 156 | 4 | 155 | 4 |
| Indirect property investment | 182 | 4 | 181 | 4 |
| **Total** | **4,226** | **100** | **4,071** | **100** |

* Includes accrued interest income.

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

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

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

| Life Insurance | 30 June 2023 | | 31 December 2022 | |
|---|---|---|---|---|
| **Investment asset portfolio allocation** | **Fair value*, EUR million** | **%** | **Fair value*, EUR million** | **%** |
| **Total money market instruments** | **580** | **18** | **614** | **19** |
| Money market investments and deposits** | 561 | 17 | 601 | 19 |
| Derivatives*** | 19 | 1 | 13 | 0 |
| **Total bonds and bond funds** | **1,986** | **61** | **1,976** | **61** |
| Governments | 185 | 6 | 182 | 6 |
| Investment Grade | 1,494 | 46 | 1,469 | 45 |
| Emerging markets and High Yield | 138 | 4 | 161 | 5 |
| Structured investments**** | 170 | 5 | 163 | 5 |
| **Total equities** | **451** | **14** | **419** | **13** |
| Finland | 58 | 2 | 44 | 1 |
| Developed markets | 264 | 8 | 240 | 7 |
| Emerging markets | 60 | 2 | 65 | 2 |
| Fixed assets and unquoted equities | 3 | 0 | 3 | 0 |
| Private equity investments | 65 | 2 | 67 | 2 |
| **Total alternative investments** | **37** | **1** | **38** | **1** |
| Hedge funds | 37 | 1 | 38 | 1 |
| **Total real property investments** | **188** | **6** | **189** | **6** |
| Direct property investments | 24 | 1 | 24 | 1 |
| Indirect property investments | 164 | 5 | 165 | 5 |
| **Total** | **3,242** | **100** | **3,235** | **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 22. Related-party transactions

OP Financial Group's related parties comprise subsidiaries consolidated into OP Financial Group, associates, key management personnel and their close family members, and other related-party entities. OP Financial Group's key management personnel comprises OP Financial Group's President and Group Chief Executive Officer, members of OP Cooperative's Executive Management Team and directors directly reporting to the President and Group Chief Executive Officer, the Chair and members of OP Cooperative's Board of Directors as well as members of the Supervisory Council. Related parties of the management also include companies over which key management persons or their close family member exercises significant influence. Other entities regarded as related parties include OP Financial Group's Personnel 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 2022.

## Financial reporting 2023

| | |
|---|---|
| Interim Report Q1–3/2023 | 25 October 2023 |
| OP Amalgamation capital adequacy tables 30 June 2023 | Week 32 |
| OP Amalgamation capital adequacy tables 30 September 2023 | Week 44 |

Helsinki, 25 July 2023

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