OP Corporate Bank plc's Interim Report 1 January–30 September 2020

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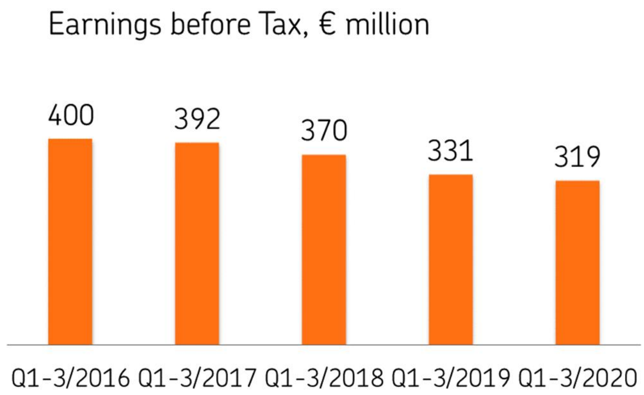
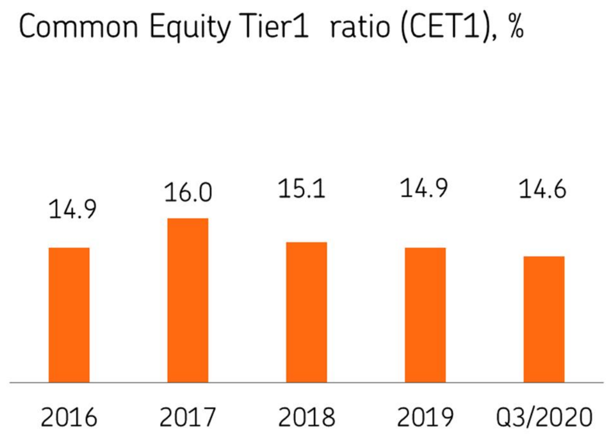
Earnings before tax Q1–3/2020	Net interest income Q1–3/2020	Net insurance income Q1–3/2020	CET1 ratio 30 Sep 2020
€319 million	+16%	+16%	14.6%

- **Consolidated** earnings before tax were EUR 319 million (331). Net insurance income increased by 16% to EUR 463 million (399) and net interest income by 16% to EUR 244 million (211). Impairment loss on receivables, EUR 65 million, increased by EUR 54 million year on year. Investment income fell by 22% to EUR 137 million (176). The Group's total income decreased by 2% to EUR 838 million (854), but including the overlay approach, income increased by 7% to EUR 860 million (806).
- **Corporate Banking** earnings before tax decreased by 3% to EUR 194 million (201). Net investment income increased by 46% to EUR 104 million (71) and net interest income by 6% to EUR 298 million (281). Corporate Banking earnings were weakened by an increase of EUR 55 million in impairment loss to EUR 66 million (11). The loan portfolio grew in the year to September by 4% to EUR 24.6 billion (23.7).
- **Insurance** earnings before tax rose by 2% to EUR 169 million (166). Net insurance income increased by 16% to EUR 463 million (399). Investment income fell by 74% to EUR 21 million (80). The operating combined ratio was 86.0% (91.8).
- **Other Operations** earnings before tax were EUR –43 million (–36). Liquidity remained good despite the COVID-19 crisis.
- The Group's CET1 ratio was 14.6% (14.9).

Earnings before tax, € million	Q1–3/2020	Q1–3/2019	Change, %	Q1–4/2019
Corporate Banking	194	201	-3.4	262
Insurance	169	166	2.1	200
Other Operations	-43	-36	-	-50
Group total	319	331	-3.7	412
Return on equity (ROE), %	7.6	8.4	-0.8*	7.8
Return on assets (ROA), %	0.45	0.52	-0.07*	0.49
	30 Sep 2020	30 Sep 2019	Change, %	31 Dec 2019
CET1 ratio, %	14.6	14.1	0.5*	14.9
Loan portfolio, € billion	24.6	23.7	3.5	23.7
Deposits, € billion	14.2	10.3	38.2	11.1
Ratio of non-performing receivables to loan and guarantee portfolio, %	1.0	0.5	0.4*	0.5
Ratio of impairment loss on receivables to loan and guarantee portfolio, %	0.32	0.06	0.27*	0.19

Comparatives deriving from the income statement are based on figures reported for the corresponding periods a year ago. Unless otherwise specified, balance-sheet and other cross-sectional figures on 31 December 2019 are used as comparatives.
*Change in ratio





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Business environment

The world economy was hit by the COVID-19 pandemic on a large scale and almost all countries experienced a sharp decline in the GDP. The economy began to recover in the third quarter when restrictions were lifted as the number of reported coronavirus infections began to decrease. However, GDP fell short of the previous year's level almost everywhere in the world.

Financial market uncertainty began to abate already in the second quarter as a result of exceptional support measures taken by central banks. Stock prices rose rapidly after hitting rock bottom, but the rise slowed down in the third quarter.

The European Central Bank has continued its accommodative monetary policy. Short-term interest rates and interest rate expectations in the market fell to a lower level in the summer than in the early part of the year. The required government bond yields and credit risk premia too decreased.

Finnish GDP dropped sharply in the second quarter but the drop was clearly smaller than in many other euro-area countries. Based on monthly data, the Finnish economy has started to recover from its lowest figures recorded in the spring, but total production is still clearly below the previous year's level.

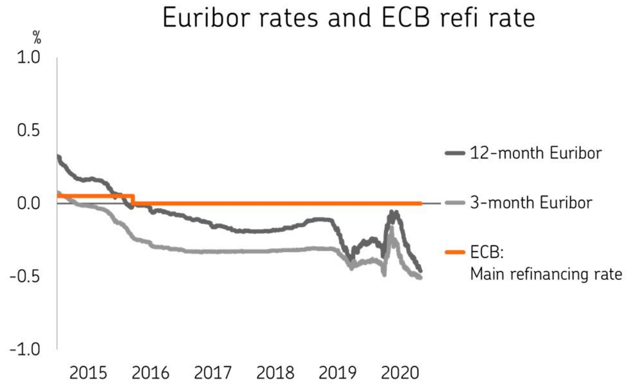
The effects of the crisis are unevenly distributed. For example, the collapse in the housing market and in car sales remained transient, and the level of activity already returned to its previous level in the summer. The spring crisis did not affect home prices due to its brevity. The tourism and event industries saw only a partial recovery, and sectors such as air traffic have stayed at the bottom.

The number of coronavirus cases reported in the autumn has again been on the increase and uncertainty has grown after a more favourable period experienced in the summer. The recovery is expected to remain slow if the pandemic does not escalate again. Exceptional risks are still involved in the economic situation. However, it is highly likely that interest rates will remain exceptionally low.

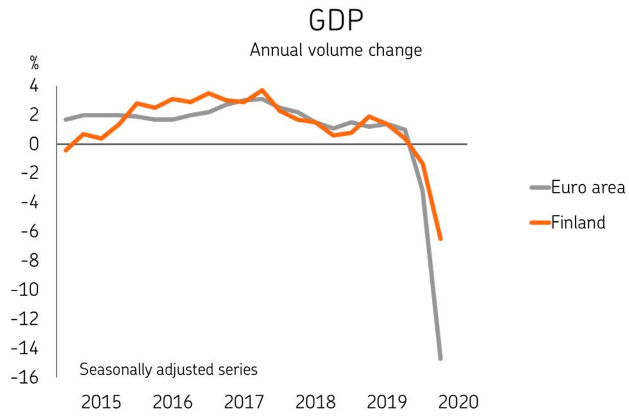
July–August growth in total loans slowed from its June-end level, increasing by 5.8%. However, total deposits continued to grow, showing an increase of 14.7%. The growth in total deposits gained momentum in public sector entities whereas growth in corporate deposits slowed down. 12-month growth in corporate loans too slowed down, standing at 10.2%. Growth in household loans remained steady at 3%. In July and August, total home loans increased by 2.7% in the year to September.

The value of mutual funds registered in Finland increased by EUR 5 billion to EUR 122.3 billion in July–September. The central banks' stimulus channels investments from fixed income investments to the equity market, in particular.

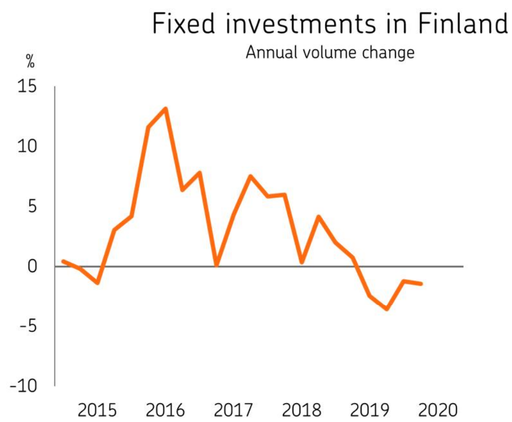
Low interest rates and the volatile capital market pose challenges to the insurance sector. The uncertain economic outlook caused by the COVID-19 pandemic will hinder insurance business but, on the other hand, greater uncertainty will highlight the necessity of insurance.



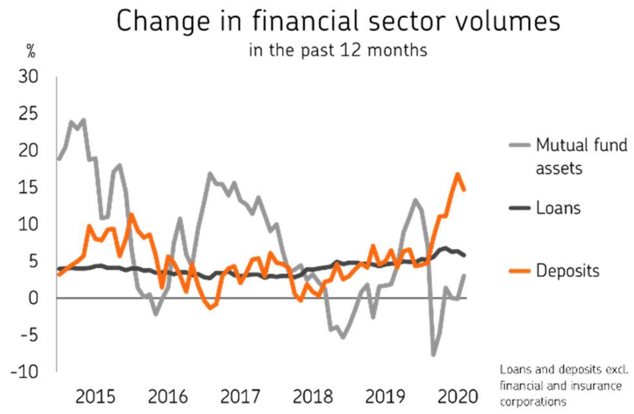
Source: Bank of Finland



Sources: Eurostat, Statistics Finland



Source: Statistics Finland



Sources: Bank of Finland, Investment Research Finland

Consolidated earnings

€ million	Q1–3/ 2020	Q1–3/ 2019	Change, %	Q3/ 2020	Q3/ 2019	Change, %	Q1–4/ 2019
Net interest income	244	211	15.8	79	74	5.8	295
Net insurance income	463	399	16.1	175	131	32.8	402
Net commissions and fees	-3	-17	-	2	-2	-	-28
Net investment income	115	224	-48.7	89	73	21.6	450
Other operating income	19	38	-48.5	5	8	-39.3	47
Total income	838	854	-1.9	349	286	22.3	1,165
Personnel costs	140	138	1.5	41	41	2,2	184
Depreciation/amortisation and impairment loss	38	37	2.3	14	12	17.0	63
Other operating expenses	295	287	3.0	87	88	-0.6	386
Total expenses	473	462	2.5	143	141	1.7	632
Impairment loss on receivables	-65	-11	-	2	3	-36.5	-51
OP bonuses to owner-customers	-4	-3	-	-1	-1	-	-4
Temporary exemption (overlay approach)	23	-48	-	-26	-3	-	-66
Total earnings before tax	319	331	-3.7	181	143	25.8	412

January–September

Consolidated earnings before tax were EUR 319 million (331). As regards income from customer business, net interest income and net insurance income increased. Earnings were reduced in particular by higher impairment loss on receivables and lower investment income than a year ago. The effects of the COVID-19 pandemic on the loan portfolio quality increased impairment loss on receivables. Market developments caused by the pandemic decreased investment income particularly in the first quarter. Total income decreased by 1.9% to EUR 838 million and total expenses increased by 2.5% to EUR 473 million.

Net interest income rose to EUR 244 million (211). Growth in the Corporate Banking segment's loan portfolio and a rise in lending margins increased net interest income. In the year to September, OP Corporate Bank's loan portfolio grew by 3.5% to EUR 24.6 billion and deposit portfolio by 38.2% to EUR 14.2 billion. The volume of deposits increased especially in the second quarter. Net insurance income rose to EUR 463 million (399). Insurance premium revenue increased by 1.9% and claims incurred decreased by 6.1%. Within the Insurance segment, the operating combined ratio improved to 86.0% (91.8) and operating risk ratio to 60.2% (65.3).

Net commissions and fees increased by EUR 14 million to EUR –3 million. Commission income, EUR 122 million, was EUR 6 million lower than a year ago and commission expenses, EUR 125 million, decreased by EUR 20 million. Lower commission income from health and wellbeing services reduced commission income. Commission income from securities brokerage and issues increased from the previous year. Commission expenses were reduced by lower expenses from insurance brokerage and from health and wellbeing services. The fees OP Corporate Bank Group pays to OP Financial Group's member cooperative banks for derivatives sales increase commission expenses. Commission expenses paid to member banks decreased by EUR 8 million year on year.

Net investment income decreased by EUR 109 million to EUR 115 million. Net income from financial assets recognised at fair value through other comprehensive income decreased by EUR 56 million to EUR 14 million. The assets recognised through other comprehensive income were reduced by lower capital gains on notes and bonds than a year ago, currency fair value losses and impairment losses. Net income from financial assets recognised at fair value through profit or loss fell by EUR 51 million to EUR 109 million, which was mainly caused by stock value changes. The value changes as well as dividends and shares of profit received from them dropped by EUR 93 million to EUR –14 million. Income from derivatives operations rose by EUR 48 million to EUR 115 million. Net income from investment property, EUR 5 million, decreased by EUR 7 million. Net investment income fell by EUR 129 million to EUR –2 million in the Insurance segment and by EUR 14 million to EUR 10 million in Other Operations, but rose by EUR 33 million to EUR 104 million in the Corporate Banking segment. Changes made in the valuation models of derivatives reduced Corporate Banking net investment income a year ago.

A temporary exemption (overlay approach) is applied to non-life insurance equity instruments recognised at fair value through profit or loss, which improved investment income for the reporting period by EUR 23 million whereas it decreased earnings by EUR 48 million a year ago. Changes in the fair value of investments within the scope of the overlay approach are presented under the fair value reserve under shareholders' equity. Including the overlay approach, Group investment income, EUR 137 million, decreased by EUR 39 million year on year. Investment income reported by the Insurance segment decreased by EUR 59 million to EUR 21 million. Return on investments by Non-life Insurance at fair value was 2.9% (9.5).

Other operating income, EUR 19 million, was EUR 18 million lower than the year before. A year ago, the rise in other operating income was explained by the sale of occupational healthcare service business. The reporting period saw a change in the commission structure model related to OP Financial Group's internal derivatives, which decreased internal service charges presented in other operating income.

Total expenses increased by EUR 11 million year on year to EUR 473 million. Personnel costs, EUR 140 million, increased by EUR 2 million. Depreciation/amortisation and impairment loss, EUR 38 million, increased by EUR 1 million. Other operating expenses rose by EUR 8 million to EUR 295 million. This increase is mainly explained by higher amounts charged by OP Cooperative and higher ICT costs and higher year-on-year charges of financial authorities.

The impairment loss on receivables recognised that reduces earnings totalled EUR 65 million (11). Impairment loss on receivables was increased by the effects of the COVID-19 pandemic on the loan portfolio quality and the adoption in the first quarter of a new definition of default due to regulatory change that is used in the impairment loss calculation. Additional factors increasing impairment loss on receivables included the update of the macroeconomic parameters used in the calculation of expected credit losses and the transfer of loans between impairment stages. Final net loan losses recognised for the reporting period totalled EUR 52 million (3). Growth in final net loan losses was affected by rearrangements of receivables. The ratio of non-performing exposures to the loan and guarantee portfolio rose to 1.0% (0.5). Impairment loss on loans and receivables accounted for 0.32% (0.06) of the loan and guarantee portfolio.

Comprehensive income of EUR 238 million (363) for the reporting period was decreased by changes in the fair value reserve. The fair values of equities, and notes and bonds decreased significantly in the first quarter but rebounded in the beginning of the second quarter. In the third quarter, the fair value reserve returned to almost its year-end level to EUR 64 million (70). The fair value of the notes and bonds recognised through other comprehensive income increased by EUR 15 million during the reporting period. The fair value of equities that fall within the scope of the overlay approach fell by EUR 16 million.

July–September

Earnings before tax in July–September were EUR 181 million (143). Total income increased by 22.3% to EUR 349 million and total expenses by 1.7% to EUR 143 million. The earnings increase was especially explained by an increase of 32.8% in net insurance income to EUR 175 million. In addition, higher net interest income and net commissions and fees contributed to higher earnings. Earnings were weakened by lower investment income, other operating income that was lower than a year ago and higher expenses.

Net interest income increased by 5.8% to EUR 79 million. Net insurance income rose by EUR 43 million to EUR 175 million. Lower claims incurred particularly affected higher net insurance income. Net commissions and fees were EUR 2 million, while a year ago they totalled EUR –2 million. Commission income totalled EUR 40 million (44). Lower commission income from health and wellbeing services and lending reduced commission income. Commission income from issues and securities brokerage increased from the previous year. Commission expenses fell by EUR 8 million to EUR 38 million. Commission income was mainly reduced by fees paid to member banks, which were EUR 7 million lower than a year ago and by lower expenses reported by insurance business.

Net investment income increased in the third quarter by 21.6% to EUR 89 million. Net income from financial assets recognised at fair value through other comprehensive income decreased by EUR 30 million to EUR 2 million. This decrease was affected by lower capital gains on notes and bonds than a year ago and currency fair value losses on notes and bonds. Net income from financial assets recognised at fair value through profit or loss rose by EUR 44 million to EUR 85 million. This improvement was mainly explained by value changes in derivatives operations and by interest income. Including the overlay approach applied to equity investments, which weakened investment income by EUR 26 million (–3), investment income fell by EUR 7 million year on year to EUR 63 million.

Other operating income decreased by EUR 3 million year on year to EUR 5 million. This increase was mainly caused by lower service fees received from OP Financial Group related to derivatives.

Total expenses were EUR 143 million (141). Personnel costs remained at the previous year's level at EUR 41 million. Depreciation/amortisation and impairment loss increased to EUR 14 million (12) as a result of growth in planned depreciation/amortisation. Higher other operating expenses were mainly explained by higher service charges paid to OP Cooperative while ICT costs decreased.

Impairment loss on receivables totalled EUR 2 million (3) that improved earnings. Final net loan losses recognised totalled EUR 46 million (0), which, for its part, reduced the negative earnings effect on expected credit losses.

The third-quarter comprehensive income of EUR 206 million (112) was increased by changes in the fair value reserve. The fair value reserve grew by EUR 71 million since the end of June, to EUR 64 million.

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

During the COVID-19 crisis, OP Corporate Bank provided its customers with the opportunity to get a loan repayment holiday if the pandemic has caused disruptions in their business or repayment capacity. By the end of September during the COVID-19 pandemic, OP Corporate Bank had received over 6,000 applications from customers for loan modifications.

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

OP Corporate Bank has ensured that services critical to society are available during the COVID-19 crisis too. OP Corporate Bank has enabled safe working conditions for its personnel in their workplace. Extensive remote working is also encouraged in those jobs where it is possible. After the summer holiday season, the return to work involved a flexible combination of remote and in-office work based on employees' duties and the needs of the teams while taking into account the safety and wellbeing of employees and customers, and business performance.

July–September highlights

OP Bank Group Pension Fund transferred the majority of its pension liability and the management of earnings-related pension insurance portfolio to Ilmarinen Mutual Pension Insurance Company on 31 December 2018. Transfer of the pension liability remaining with OP Bank Group Pension Fund is planned to take place at the end of 2020. The liability transfer applies to the following OP Corporate Bank Group employers: Pohjola Insurance Ltd and Pohjola Hospital Ltd. The Representative Assembly of OP Bank Group Pension Fund resolved on the liability transfer on 4 August 2020. The Finnish Financial Supervisory Authority (FIN-FSA) issued an announcement on the liability transfer application on 30 September 2020. According to the present-day estimate, the transfer would affect earnings by around EUR 60 million. The estimated figures are highly sensitive to changes in parameters and the final earnings effect can be confirmed at the time of transfer. If the transfer is executed as planned, the earnings effect will be recognised as a deduction in OP Corporate Bank's personnel costs on 31 December 2020. The transfer has no effect on capital adequacy.

Corporate responsibility

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

Corporate responsibility is an integral part of OP Financial Group's business and strategy. Corporate responsibility activities take economic, social and environmental responsibility into consideration. OP Financial Group's aim is to be a forerunner of corporate responsibility within its sector in Finland. OP is committed to complying with the ten principles of the UN Global Compact initiative in the areas of human rights, labour rights, the environment and anti-corruption. OP has agreed to follow the UN Principles for Responsible Investment since 2009. In September 2019, OP Financial Group became a Founding Signatory of the Principles for Responsible Banking under the United Nations Environment Programme Finance Initiative (UNEP FI).

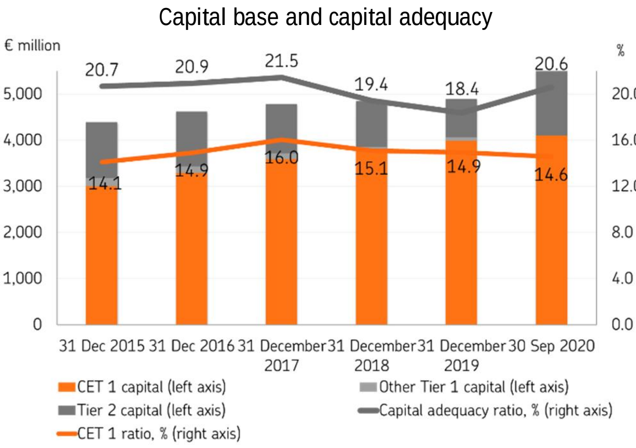
To promote diversity, OP Financial Group's objective is that the proportion of both genders in defined executive positions is at least 40%. Women accounted for 27% (26) at the end of September.

In February, OP published its first Green Bond Report that contains a description of the green bond of EUR 500 million issued by OP Corporate Bank in February 2019, including examples of businesses and projects financed and the environmental impacts achieved. Proceeds raised with the green bond were used to finance renewable energy, green buildings and sustainable land use. During the first year, significant positive environmental impacts were achieved with the proceeds of the green bond. OP Corporate Bank maintains a register of corporate loans eligible for green bonds. The green bond register includes the loan amount corresponding to the green bond's size and the reserve of unallocated green assets that covers, for example, maturing bonds.

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

Pohjola Insurance is involved in collecting hobby equipment for children and young people together with the WFC 2020 (World Floorball Championship) partners and Hope ry. The Give a chance charity campaign brings joy of exercise to children and young people for whom it is not possible due their family's financial standing. The campaign period involves collecting sports equipment for low-income families.

Group's capital adequacy



Capital adequacy for credit institutions

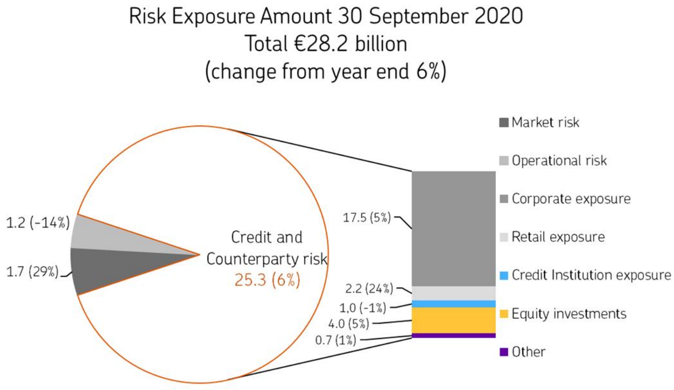
The Group's CET1 ratio was 14.6% (14.9) on 30 September 2020.

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

The CET1 capital totalled EUR 4.1 billion (4.0) on 30 September 2020. Insurance business result is not included in CET1 capital.

On 30 September 2020, the risk exposure amount (REA) totalled EUR 28.2 billion (26.7), or 5.9% higher than on 31 December 2019. Because of the adoption of the new definition of default, the average corporate exposure risk weights rose as result of the risk parameters set by the European Central Bank (ECB). The corporate loan portfolio grew from the end of 2019. OP Financial Group treats insurance holdings within the financial conglomerate as risk-weighted assets, based on permission from the ECB. Equity investments include EUR 3.9 billion (3.7) in risk-weighted assets of the Group's internal insurance holdings. Because of the adoption of the new definition of default, the risk-weighted assets of insurance holdings rose as result of the risk weighting factors set by the ECB. OP Corporate Bank Group is part of OP Financial Group, whose capital adequacy is supervised in accordance with the Act on the Supervision of Financial and Insurance Conglomerates. As part of OP Financial Group, OP Corporate Bank plc is supervised by the ECB.

The Finnish Financial Supervisory Authority (FIN-FSA) makes a macroprudential policy decision on a quarterly basis. In September 2020, the Financial Supervisory Authority reiterated its decision not to impose a countercyclical capital buffer requirement on banks.



In OP Financial Group's view, the most significant open changes in the regulatory and supervisory environment affecting capital adequacy for credit institutions include obligations, if any, imposed by the supervisor due to the ECB's review of OP's internal models (TRIM, Targeted Review of Internal Models), and changes resulting from the update of the EU capital requirements regulation (CRR2). The ECB review of internal models for corporate exposures (TRIM) is expected to reduce OP Corporate Bank's CET1 ratio by around 0.7 percentage points More detailed information on the effects is expected in the second half of 2020. The CRR2 changes are expected to reduce OP Corporate Bank's CET1 ratio by around 1.0 percentage point during 2021.

OP Financial Group has begun discussions with the ECB on reassessing the extent of application of internal models (IRBA, Internal Ratings-Based Approach). Based on the current estimate, the change in the scope of IRBA will decrease the CET1 ratio by around 0.7 percentage points. The final effect and its schedule will be specified after discussions with the supervisor and the approval process related to the scope of IRBA.

Liabilities under the Resolution Act

Under regulation applied to crisis resolution of credit institutions and investment firms, the resolution authority is authorised to intervene in the terms and conditions of investment products issued by a bank in a way that affects an investor's position. The EU's Single Resolution Board (SRB) based in Brussels is OP Financial Group's resolution authority. The SRB has set OP Financial Group's Minimum Requirement for own funds and Eligible Liabilities (MREL) at 12% of liabilities and own funds or accounting for 27% of the total risk exposure amount at the end of 2018. OP Financial Group aims to meet the requirements under the MREL with its capital base and other subordinated debt. OP Financial Group has specified the MREL ratio calculation, and the MREL ratio was an estimated 38% on 30 September 2020. The SRB has confirmed a resolution strategy for OP Financial Group whereby the resolution measures would apply to OP Corporate Bank acting as a Single Point of Entry.

Solvency of insurance company

The solvency position of the insurance company was good. The increased value of investments strengthened the capital base. On the other hand, a decrease in the discount rate increased insurance liability while decreasing the capital base.

€ million	30 Sep 2020	31 Dec 2019
Capital base, € million*	1,067	1,008
Solvency capital requirement (SCR), € mill.*	731	699
Solvency ratio, %*	146	144
Solvency ratio, % (excluding transitional provision)	146	144

*including transitional provisions.

Credit ratings

OP Corporate Bank plc's credit ratings on 30 September 2020

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

Pohjola Insurance Ltd's financial strength ratings on 30 September 2020

Rating agency	Rating	Outlook
Standard & Poor's	A+	Negative
Moody's	A2	Stable

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

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

Other ratings of OP Corporate Bank plc or Pohjola Insurance Ltd did not change during the reporting period.

Risk exposure

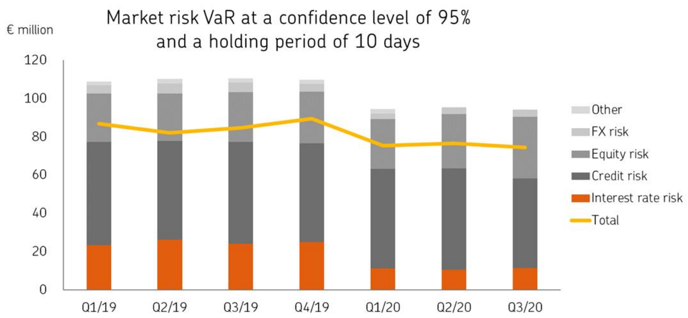
OP Corporate Bank's strategy is based on moderate risk-taking, a strong capital base and responsible operations. When entering 2020, OP Corporate Bank had a strong risk-bearing capacity and sufficient capital base, capital buffers and liquidity.

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

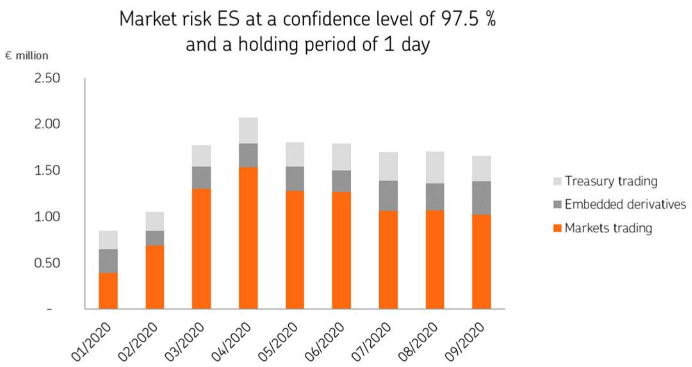
The COVID-19 pandemic affects OP Corporate Bank in three ways. The financial standing of customers affects OP Corporate Bank Group's account funds and the credit risk and insurance risk exposure. The crisis has increased the volume of deposit funds and weakened customers' debt-servicing capacity. The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

The Group's funding and liquidity position is good. The availability of funding has remained good. In general, the COVID-19 crisis has been reflected in the price and availability of wholesale funding for banks.

The market risk level of the Group's long-term investments remained moderate. No major changes were made to the asset class allocation during the reporting period. The Value-at-Risk (VaR) metric, a measure of market risks, was EUR 74 million (90) on 30 September 2020. The VaR risk metric includes the balance sheet total of the non-life insurance company concerned, the liquidity buffer and long-term banking bond investments. The non-life insurance balance sheet total contains investments, insurance liabilities and derivatives that hedge against interest rate risk associated with insurance liabilities. The 2020 figures no longer include risk associated with Markets nor the interest rate risk exposure of Group Treasury.



The market risk involved in OP Corporate Bank's Markets function and the market risk involved in the interest rate risk hedges transferred from OP Mortgage Bank to OP Corporate Bank remained stable in the third quarter. The Expected Shortfall (ES) metrics are used to measure market risks at a confidence level of 97.5% and a retention period of one day.



The Group expects its operational risks to be moderate as targeted. Materialised operational risks resulted in a gross loss of approximately EUR 1.2 million (0.4) during the reporting period. From the operational risk perspective, the implications of the COVID-19 pandemic on OP Corporate Bank Group were mild during the reporting period.

Corporate Banking

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

So far, the COVID-19 pandemic has not substantially weakened banking credit risk exposure, but there is still risk for a negative development if the consequences of the pandemic materialise.

Loan repayment holidays and loan modifications due to the COVID-19 crisis OP Corporate Bank granted by the end of September totalled around EUR 1.3 billion in customer exposures. In OP Corporate Bank's 20-tier internal system for rating corporate customers, 10% of the corporate exposures to which a loan modification or repayment holiday was granted were categorised in the highest nine rating grades (excellent or good creditworthiness), while 8% were in the lowest five rating grades.

Of the corporate exposures involving repayment holidays or loan modifications, 24% concerned transportation and storage, while 20% concerned operating and renting of real estate.
Services accounted for 17%.

At the end of September, expected credit losses were most recognised in the exposures of the forest industry, service sector and construction companies.

Corporate Banking's interest rate risk in the banking book measured as the effect of a one-percentage point change on a 12-month net interest income was EUR –26 million at the end of September. A rise in interest rates increases interest income risk. Interest income risk is calculated for a one-year period by dividing the sum of the interest income risk for the next three years by three.

Forborne loans and non-performing receivables

	Performing forborne exposures (gross)		Non-performing receivables (gross)		Doubtful receivables (gross)		Loss allowance		Doubtful receivables (net)	
	30 Sep 2020	31 Dec 2019	30 Sep 2020	31 Dec 2019	30 Sep 2020	31 Dec 2019	30 Sep 2020	31 Dec 2019	30 Sep 2020	31 Dec 2019
More than 90 days past due, € billion			0.10	0.13	0.10	0.13	0.08	0.11	0.02	0.02
Unlikely to be paid, € billion			0.35	0.24	0.35	0.24	0.14	0.13	0.21	0.12
Forborne exposures, € billion	0.18	0.11	0.08	0.02	0.26	0.13	0.04	0.01	0.22	0.11
Total	0.18	0.11	0.52	0.39	0.71	0.50	0.26	0.25	0.45	0.25

In March 2020, OP Corporate Bank adopted a new definition of default, which increased the number of defaulted contracts.

Key ratios	30 Sep 2020	31 Dec 2019
Ratio of doubtful receivables to loan and guarantee portfolio, %	1.7	0.9
Ratio of non-performing receivables to loan and guarantee portfolio, %	1.0	0.5
Ratio of impairment loss on receivables to loan and guarantee portfolio, %	0.32	0.19
Ratio of performing forborne exposures to loan and guarantee portfolio, %	0.7	0.4
Ratio of performing forborne exposures to doubtful receivables, %	39.8	42.1
Ratio of loss allowance (receivables from customers) to doubtful receivables, %	41.8	59.3

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

For OP Corporate Bank plc, three customers' exposure exceeded 10% of the capital base covering customer risk, after allowances and other recognition of credit risk mitigation. Large customer risks amounted to EUR 1.6 billion.

Exposures by the Baltic operations were EUR 3.7 billion (3.8), accounting for 9.6% (9.8) of total banking exposures of the Corporate Banking segment.

Insurance

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

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

No significant changes took place in non-life insurance's underwriting risks. Non-life insurance's most significant market risk is associated with increasing insurance liability value and capital requirement resulting from lower market interest rates. The Group uses derivative contracts to dampen earnings volatility caused by changes in interest rates used in insurance liability valuation.

The market risk level of investments remained moderate. In the asset class allocation, the weight of illiquid investments has grown slightly. In addition, changes in the bond portfolio and equity prices increased the risk level. The VaR, a measure of market risk, was EUR 63 million (54) on 30 September 2020. Interest rate derivatives have been used to hedge against interest rate risk associated with insurance liability.

Other Operations

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

The market risk of notes and bonds in the liquidity buffer (VaR with 95% confidence) remained stable during the reporting period. No major changes occurred in the asset class allocation.

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

OP Financial Group monitors its liquidity and the adequacy of its liquidity buffer using, for example, the LCR (Liquidity Coverage Ratio). According to regulation, the LCR must be at least 100%. OP Financial Group's LCR was 203% (141) at the end of the reporting period.

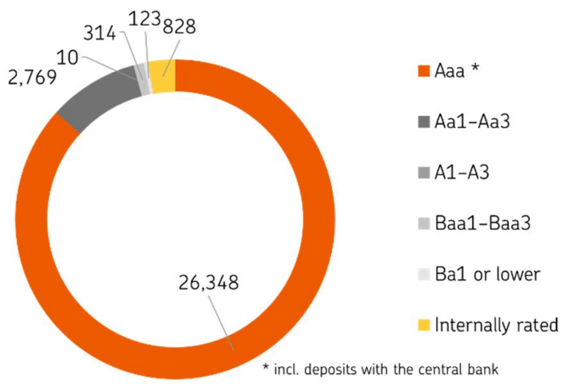
OP Financial Group monitors its long-term funding sufficiency, for example, by means of the Net Stable Funding Ratio (NSFR), which measures structural funding risk. In regulation, no minimum requirement for the NSFR has been set as yet. OP Financial Group's NSFR was 120% (112) on 31 August 2020.

Liquidity buffer

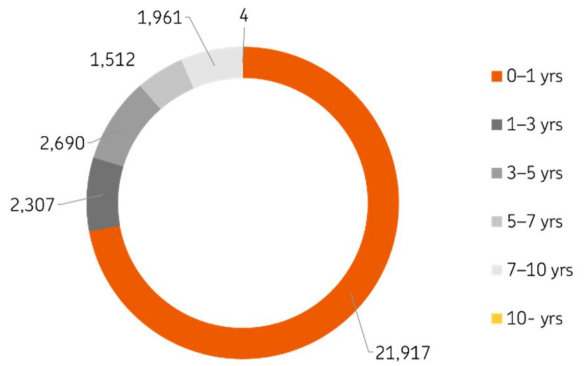
€ billion	30 Sep 2020	31 Dec 2019	Change, %
Deposits with central banks	21.1	11.9	77.0
Notes and bonds eligible as collateral	8.2	11.1	-26.6
Corporate loans eligible as collateral	-	0.0	-
Total	29.2	23.0	26.9
Receivables ineligible as collateral	1.2	2.0	-41.4
Liquidity buffer at market value	30.4	25.0	21.5
Collateral haircut	-0.5	-0.8	-38.5
Liquidity buffer at collateral value	29.9	24.2	23.6

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

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



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



For OP Corporate Bank plc acting as OP Financial Group's central financial institution, OP cooperative banks and OP Cooperative with its subsidiaries form a significant customer group. Of the aggregated exposures of the segments Other Operations and Corporate Banking, exposures of OP Financial Group represented 17.3%. These exposures increased during the reporting period by EUR 3.2 billion. All exposures of OP cooperative banks and OP Cooperative are investment-grade exposures.

Financial performance by segment

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

Corporate Banking

- Earnings before tax decreased by 3.4% to EUR 194 million due to higher impairment loss on receivables.
- Total income increased by 14.7%. Net interest income increased by 6.1%. Net investment income increased by 46.4%. Value changes in Credit Valuation Adjustment (CVA) in derivatives owing to market changes decreased earnings by EUR 13 million (15).
- Total expenses rose by 4.5% to EUR 173 million (165), of which the increase in ICT costs accounted for EUR 2 million and the increase in the EU stability contribution for EUR 2 million.
- The loan portfolio grew in the year to September by 3.5% to EUR 24.6 billion.
- Impairment loss on receivables increased by EUR 55 million to EUR 66 million (11). Non-performing receivables accounted for 1.0% (0.5) of the loan and guarantee portfolio.
- The most significant development investments involved the development of finance and payment systems.

Key figures and ratios

€ million	Q1–3/2020	Q1–3/2019	Change, %	Q1–4/2019
Net interest income	298	281	6.1	383
Net commissions and fees	20	7	161.3	11
Net investment income	104	71	46.4	115
Other operating income	13	20	-33.3	26
Total income	434	379	14.7	536
Personnel costs	43	42	1.3	58
Depreciation/amortisation and impairment loss	10	11	-13.7	14
Other operating expenses	120	112	7.5	148
Total expenses	173	165	4.5	220
Impairment loss on receivables	-66	-11	495.6	-51
OP bonuses to owner-customers	-2	-2	13.2	-2
Earnings before tax	194	201	-3.4	262
Cost/income ratio, %	39.8	43.6	-3.88*	41.1
Ratio of non-performing receivables to loan and guarantee portfolio, %	1.0	0.5	0.4*	0.5
Ratio of impairment loss on receivables to loan and guarantee portfolio, %	0.32	0.06	0.27*	0.19
Return on assets (ROA), %	0.83	0.91	-0.08*	0.91
Return on assets, excluding OP bonuses, %	0.84	0.92	-0.08*	0.92
	30 Sep 2020	30 Sep 2019	Change, %	31 Dec 2019
Loan portfolio, € billion	24.6	23.7	3.5	23.7
Guarantee portfolio, € billion	2.5	2.7	-7.4	3.1
Deposits, € billion	14.3	10.1	41.5	11.2

*Change in ratio.

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

Corporate Banking's loan portfolio increased in the year to September by 3.5% to EUR 24.6 billion. The guarantee portfolio totalled EUR 2.5 billion (2.7) and committed standby credit facilities amounted to EUR 4.0 billion (4.2). Demand for capital market products increased from the previous year.

During the reporting period, uncertainty caused by the COVID-19 pandemic affected Corporate Banking especially through demand for loans and the capital market. Credit spreads and volatility increased in the capital market especially in the first quarter. On the other hand, trading became more active. The effects of COVID-19 and developments in the economic environment are reflected in demand for services, the capital market and developments in the amount of impairment loss on receivables.

During the reporting period, OP launched a new OP Corporate Hub service. OP Corporate Hub is a digital service that helps companies with cash management and comprehensive financial monitoring. In September, OP was the first bank in Finland to extend real-time SEPA instant credit transfers into businesses' mass payments in the corporate file transfer channel.

Financial performance for the reporting period

Corporate Banking earnings before tax decreased by 3.4% to EUR 194 million (201). Total income increased by 14.7%. Total expenses increased by 4.5%. The cost/income ratio improved to 39.8% (43.6) year on year.

Net interest income grew by 6.1% to EUR 298 million (281) as a result of an increase in the loan portfolio and higher lending margins. Net commissions and fees increased to EUR 20 million (7). The increase in net commissions and fees was affected by the change in commissions paid to cooperative banks within OP Financial Group.

Net investment income totalled EUR 104 million, up 46.4% year on year. CVA valuation weakened earnings by EUR 13 million (–15). Income from client trading rose. Compared with the first quarter in particular, the narrowing of credit spreads increased the valuation of the trading book. Changes made in the valuation models of derivatives reduced net investment income a year ago by EUR 25 million.

Other operating income amounted to EUR 13 million (20). Impairment loss on receivables totalled EUR 66 million (11). The new definition of default adopted in March and the COVID-19 related changes in the macroeconomic parameters used in the calculation of expected credit losses increased, for their part, the impairment loss on receivables. Final net loan losses recognised for the reporting period totalled EUR 52 million (3). Non-performing receivables accounted for 1.0% (0.5) of the loan and guarantee portfolio.

Total expenses were EUR 173 million (165). Personnel costs remained at the previous year's level at EUR 43 million (42). Other operating expenses increased by 7.5% to EUR 120 million. ICT costs increased by EUR 2 million and the EU stability contribution by EUR 2 million.

Insurance

- Earnings before tax increased by 2.1% to EUR 169 million (166).
- Insurance premium revenue increased by 1.9% and claims incurred decreased by 6.1%.
- Investment income totalled EUR 21 million (80), including the overlay approach. Net return on investments at fair value totalled EUR –24 million (50).
- The operating combined ratio was 86.0% (91.8) and operating risk ratio 60.2% (65.3). The operating cost ratio was 25.8% (26.5).
- Development investments focused on development of electronic services and the core system upgrade.

Key figures and ratios

€ million	Q1–3/2020	Q1–3/2019	Change, %	Q1–4/2019
Insurance premium revenue	1,128	1,106	1.9	1,479
Claims incurred	664	707	-6.1	1,077
Net insurance income	463	399	16.1	402
Non-life insurance, net commissions and fees	-27	-33	-	-49
Health and wellbeing, net commissions and fees	6	12	-50.2	13
Net commissions and fees	-21	-22	-	-36
Net investment income	-2	128	-101.2	308
Other net income	-1	0	-	-4
Total income	440	505	-12.9	671
Personnel costs	94	94	-0.5	125
Depreciation/amortisation and impairment loss	27	25	8.6	47
Other operating expenses	171	171	-0.1	230
Total expenses	292	290	0.5	403
OP bonuses to owner-customers	-2	-2	5.0	-2
Temporary exemption (overlay approach)	23	-48	-	-66
Earnings before tax	169	166	2.1	200
Return on assets (ROA), %	3.31	3.01	0.30*	2.93
Return on assets, excluding OP bonuses, %	3.34	3.04	0.30*	2.96
Operating combined ratio, %	86.0	91.8		92.7
Operating risk ratio, %	60.2	65.3		65.1
Operating cost ratio, %	25.8	26.5		27.7

* Change in ratio.

The Insurance segment comprises non-life insurance plus the health and wellbeing business. Non-life insurance products include non-life products sold to corporate and private customers. The Insurance segment includes Pohjola Hospital Ltd with five hospitals. A-Insurance Ltd merged into Pohjola Insurance Ltd on 31 March 2020.

During the spring, the COVID-19 pandemic increased customer inquiries and the number of travel and business interruption insurance claims filed. In many other insurance lines, the number of claims decreased as a result of lower activity in general. Towards the autumn, the number of claims has approached the pre-pandemic level. Claims incurred as a result of the COVID-19 pandemic totalled EUR 26 million.

In the spring and summer, Pohjola Hospital gave its personnel's contribution healthcare tasks. They have helped, for example, in tracking the chains of infection.

Customers have been satisfied with services provided by Pohjola Hospital. Among surgery customers, the NPS figure was 97 (96) in January–September 2020.

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

Financial performance for the reporting period

Earnings before tax amounted to EUR 169 million (166). Net insurance income increased to EUR 463 million (399).

The operating combined ratio improved to 86.0% (91.8). The operating ratios exclude the changed discount rate.

Insurance premium revenue

€ million	Q1–3/2020	Q1–3/2019	Change, %
Private Customers	643	620	3.8
Corporate Customers	484	487	-0.6
Total	1,127	1,106	1.9

Insurance premium revenue from private customers increased and that from corporate customers decreased during the reporting period. Insurance premium revenue increased by a total of 1.9%.

Claims incurred decreased by 6.1%. The reported number of large claims under property and business liability insurance (in excess of EUR 0.3 million) amounted to 78 (60) in January–September, with their claims incurred retained for own account totalling EUR 89 million (62). The COVID-19 pandemic in particular increased claims expenditure related to travel losses and event interruptions. Changes in the provision for outstanding claims under statutory pensions improved earnings by EUR 6 million during the reporting period while improving it by EUR 2 million a year ago.

Changes in claims for previous years, excluding the effect of the discount rate change, improved the balance on technical account by EUR 18 million (15). The non-life insurance operating risk ratio excluding indirect loss adjustment expenses was 60.2% (65.3).

Total expenses increased by 0.5%, being EUR 2 million higher than in the previous year. The operating cost ratio (including indirect loss adjustment expenses) was 25.8% (26.5).

Investment

The value performance in the capital market was exceptionally poor because of the COVID-19 pandemic.

Investment income

€ million	Q1–3/2020	Q1–3/2019
At fair value through other comprehensive income	8	64
At fair value through profit or loss	2	82
Amortised cost	-1	1
Non-life insurance items	-16	-21
Associated companies	6	1
Net investment income	-2	128
Overlay approach	23	-48
Total	21	80

Non-life insurance: key investment indicators

€ million	Q1–3/2020	Q1–3/2019
Net return on investments at fair value, € million*	-24	50
Return on investments at fair value, %	2.9	9.5
Fixed income investments' running yield, %	1.2	1.4
	30 Sep 2020	31 Dec 2019
Investment portfolio, € million	3,990	3,952
Investments within the investment grade category, %	91	92
A-rated receivables, minimum, %	58	61
Modified duration, %	3.3	4.0

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

Other Operations

- Earnings before tax amounted to EUR –43 million (–36).
- The EBT included EUR 5 million (6) in capital gains on notes and bonds.
- Liquidity remained good despite the COVID-19 crisis.

Key figures and ratios

€ million	Q1–3/2020	Q1–3/2019	Change, %	Q1–4/2019
Net interest income	-46	-52	-	-64
Net commissions and fees	-2	-1	-	-2
Net investment income	10	24	-58.0	26
Other operating income	10	5	78.9	7
Total income	-28	-23	-	-33
Personnel costs	3	1	238.9	1
Other expenses	13	12	13.1	17
Total expenses	16	12	-	18
Impairment loss on receivables	1	0	54.9	0
Earnings before tax	-43	-36	-	-50
Receivables and liabilities from/to the amalgamation's central cooperative and member credit institutions, net position, € billion	-8.5	-2.1		-3.8

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

Financial performance for the reporting period

Other Operations earnings before tax amounted to EUR –43 million (–36). Earnings before tax at fair value were EUR –29 million (–26). The widening of credit spreads due to the COVID-19 crisis reduced the fair value reserve in the first quarter. In the second quarter, the European Central Bank's stimulus measures narrowed credit spreads and the fair value reserve has thus recovered.

Net interest income was EUR –46 million (–52). Net interest income was improved by the change in the European Central Bank's deposit facility rate that came into effect in late 2019.

Net investment income totalled EUR 10 million (24). Net investment income included EUR 5 million (6) in capital gains on notes and bonds.

OP Corporate Bank's access to funding remained good. In January–September, OP Corporate Bank issued long-term bonds worth EUR 4.8 billion. In March, the wholesale funding market was disrupted due to the COVID-19 crisis and the prices of long-term unsecured wholesale funding increased fast and significantly. In the second quarter, the wholesale funding market recovered markedly, although prices did not return to pre-crisis levels. In January, OP Corporate Bank issued a senior non-preferred bond of EUR 500 million with a maturity of 7 years. In May and June, it issued two senior bonds of EUR 1 billion with a maturity of 5.25 and 4 years.

In May and June, OP Corporate Bank issued two Tier 2 bonds, one worth SEK 3.25 billion and the other worth EUR 1 billion. The Tier 2 bonds have a maturity of 10 years, but they can be called in after 5 years from the issue date. In August, OP Corporate Bank redeemed early a Tier 2 bond with a maturity of 10 years and worth SEK 3.5 billion, whose maturity date was 25 August 2025.

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

Liquidity remained good during the reporting period despite the COVID-19 crisis. In September 2020, the average margin of senior and senior non-preferred wholesale funding and TLTRO funding was 14 basis points (22). The cost is lowered by TLTRO funding.

On 30 September 2020, investments by the amalgamation's central cooperative and the member credit institutions in OP Corporate Bank were EUR 8.5 billion higher than funding borrowed by them from Group Treasury. The change in the net position was mainly due to OP Mortgage Bank's covered bond funding which results in higher volumes of OP cooperative banks' investments in Group Treasury than before. In addition, since April the member credit institutions have made a liquidity deposit in Group Treasury, enabling the allocation of the liquidity requirement to the member credit institutions.

Service development

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

The January–September ICT costs of OP Corporate Bank's service development and production maintenance totalled EUR 155 million (151). These include licence fees, purchased services, other external costs related to projects and in-house work. Production ICT costs increased by EUR 29 million to EUR 130 million. Total development costs declined by EUR 23 million to EUR 54 million. The capitalised development expenditure totalled EUR 28 million (26).

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

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

Group restructuring

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

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

OP Corporate Bank is planning a restructuring whereby Pohjola Insurance Ltd would be transferred from the ownership of OP Corporate Bank plc to the direct ownership of OP Cooperative. The plan was announced in 2014 for the first time. The specific manner or schedule to implement such restructuring has not yet been decided.

Corporate governance and management

On 21 July 2020, the Board of Directors elected Jari Jaulimo (LL.M, Trained on the bench, MBA), Head of Transaction Banking, as new Deputy President and CEO of OP Corporate Bank. He took up his duties on 1 August 2020 when the current Deputy President and CEO Hannu Jaatinen retired.

Personnel and remuneration

On 30 September 2020, the Group had 2,840 employees (2,675). Personnel increased from the 2019-end level in the Insurance segment in particular. The increase was chiefly caused by the transfer of OP cooperative banks' non-life insurance sales to Pohjola Insurance.

Personnel at period end

	30 Sep 2020	31 Dec 2019
Corporate Banking	758	700
Insurance	2,041	1,947
Other Operations	41	28
Total	2,840	2,675

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

Outlook towards the year end

During the third quarter, the world economy began to recover from the collapse experienced in spring. However, the recovery was uneven with GDP clearly below last year's level almost everywhere in the world. In autumn, the number of COVID-19 infections rebounded but so far the consequences have been less severe than in spring. The financial market has remained calm, partly due to major support from central banks. Interest rates are exceptionally low throughout.

A gradual recovery of the economy is expected to continue if the COVID-19 pandemic remains reasonably under control. However, the outlook is still uncertain both in the domestic and the export market. A sudden worsening of the pandemic would affect OP Corporate Bank in three ways: economic uncertainty and uncertainty in the financial and capital market would increase, a rise in financial difficulties among customers would increase credit risk and decrease the demand for services, and a worsening disease situation could make it more difficult for OP Financial Group to run its operations efficiently.

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

In 2020, full-year earnings estimates will only be provided at the OP Financial Group level, in its financial statements bulletin and interim reports.

All forward-looking statements in this Interim Report expressing the management's expectations, beliefs, estimates, forecasts, projections and assumptions are based on the current view of the future development in the business environment and the future financial performance of OP Corporate Bank Group and its various functions, and actual results may differ materially from those expressed in the forward-looking statements.

Formulas for key figures and ratios

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

Alternative Performance Measures

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

Non-life insurance key ratios

Operating loss ratio, %

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

Operating expense ratio, %

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

Operating combined ratio, %

Operating loss ratio + operating expense ratio

Operating risk ratio + operating cost ratio

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

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

Operating cost ratio, %

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

Indicators based on a separate calculation

Capital adequacy ratio, %

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

Tier 1 ratio, %

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

CET1 ratio, %

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

Solvency ratio, %

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

Leverage ratio, %

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

Liquidity coverage requirement (LCR), %

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

Net stable funding ratio (NSFR), %

$$\frac{\text{Available stable funding}}{\text{Required stable funding}} \times 100$$

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

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

Ratio of non-performing receivables to loan and guarantee portfolio, %

$$\frac{\text{Non-performing receivables (net)**}}{\text{Loan and guarantee portfolio at period end}} \times 100$$

Ratio of doubtful receivables to loan and guarantee portfolio, %

$$\frac{\text{Doubtful receivables (net)***}}{\text{Loan and guarantee portfolio at period end}} \times 100$$

Ratio of performing forborne exposures to loan and guarantee portfolio, %

$$\frac{\text{Performing forborne exposures (net)***}}{\text{Loan and guarantee portfolio at period end}} \times 100$$

Ratio of performing forborne exposures to doubtful receivables, %

$$\frac{\text{Performing forborne exposures (net)***}}{\text{Doubtful receivables at period end}} \times 100$$

Guarantee and loan portfolio

Guarantee portfolio + loan portfolio

Ratio of loss allowance (receivables from customers) to doubtful receivables, %

$$\frac{\text{Loss allowance for receivables from customers in the balance sheet}}{\text{Doubtful receivables at period end}} \times 100$$

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

Non-life insurance operating result

€ million	Q1–3/2020	Q1–3/2019	Q1-4/2019
Insurance premium revenue	1,127	1,106	1,478
Claims incurred	757	795	1,060
Operating expenses	212	221	311
Balance on technical account	158	91	107
Reduction in discount rate			-136
Investment income and expenses	2	123	307
Other income and expenses	-5	-14	-23
Earnings before tax	154	200	255
Temporary exemption (overlay approach)	19	-44	-65
Earnings before tax	173	156	190

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

Capital adequacy and solvency

Capital adequacy for credit institutions

Capital base, € million	30 Sep 2020	31 Dec 2019
OP Corporate Bank Group's equity	4,592	4,374
The effect of insurance companies on the Group's equity is excluded	-294	-202
Fair value reserve, cash flow hedge	-1	0
Common Equity Tier 1 (CET1) before deductions	4,297	4,171
Intangible assets	-43	-51
Excess funding of pension liability and valuation adjustments	-30	-26
Planned profit distribution and profit distribution unpaid for the previous period		
Shortfall of ECL minus expected losses	-115	-112
CET1 capital	4,109	3,982
Hybrid capital to which transitional provision is applied	55	82
Additional Tier 1 capital (AT1)	55	82
Tier 1 capital (T1)	4,164	4,064
Debenture loans	1,644	811
Excess of ECL minus expected losses		26
Tier 2 capital (T2)	1,644	837
Total capital	5,808	4,900

Risk exposure amount, € million	30 Sep 2020	31 Dec 2019
Credit and counterparty risk	25,169	23,753
Standardised Approach (SA)	3,013	2,687
Central government and central banks exposure	97	78
Credit institution exposure	8	8
Corporate exposure	2,845	2,540
Retail exposure	0	8
Equity investments	12	8
Other	50	45
Internal Ratings-based Approach (IRB)	22,056	21,066
Credit institution exposure	1,014	1,023
Corporate exposure	14,632	14,148
Retail exposure	2,155	1,725
Equity investments	3,942	3,772
Other	414	399
Market and settlement risk (Standardised Approach)	1,686	1,309
Operational risk (Standardised Approach)	1,190	1,387
Valuation adjustment (CVA)	171	191
Other risks		11
Total risk exposure amount	28,216	26,651

Ratios, %	30 Sep 2020	31 Dec 2019
CET1 capital ratio	14.6	14.9
Tier 1 ratio	14.8	15.2
Capital adequacy ratio	20.6	18.4

Ratios, fully loaded, %	30 Sep 2020	31 Dec 2019
CET1 capital ratio	14.6	14.9
Tier 1 ratio	14.6	14.9
Capital adequacy ratio	20.4	18.1

Capital requirement, EUR million	30 Sep 2020	31 Dec 2019
Capital base	5,808	4,900
Capital requirement	2,965	2,824
Buffer for capital requirements	2,843	2,077

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

Income statement

EUR million	Notes	Q1–3 2020	Q1–3 2019	Q3 2019	Q3 2019
Net interest income	2	244	211	79	74
Net insurance income	3	463	399	175	131
Net commissions and fees	4	-3	-17	2	-2
Net investment income	5	115	224	89	73
Other operating income		19	38	5	8
Total income		**838**	**854**	**349**	**286**
Personnel costs		140	138	41	41
Depreciation/amortisation		38	37	14	12
Other expenses	6	295	287	87	88
Total expenses		**473**	**462**	**143**	**141**
Impairments loss on receivables	7	-65	-11	2	3
OP bonuses to owner-customers		-4	-3	-1	-1
Temporary exemption (overlay approach)		23	-48	-26	-3
Earnings before tax		**319**	**331**	**181**	**143**
Income tax expense		62	64	36	30
Profit for the period		**257**	**267**	**144**	**113**
Attributable to:					
Profit for the period attributable to owners		256	261	144	109
Profit for the period attributable to non-controlling interest		1	6	0	4
Profit for the period		**257**	**267**	**144**	**113**

Statement of comprehensive income

EUR million	Notes	Q1–3 2020	Q1–3 2019	Q3 2019	Q3 2019
Profit for the period		**257**	**267**	**144**	**113**
Items that will not be reclassified to profit or loss					
Gains/(losses) arising from remeasurement of defined benefit plans		-17	-15	-12	-2
Items that may be reclassified to profit or loss					
Change in fair value reserve					
Measurement at fair value		12	88	65	-2
Cash flow hedge		1	-1	-2	0
Temporary exemption (overlay approach)		-19	48	26	3
Income tax					
Items that will not be reclassified to profit or loss					
Gains/(losses) arising from remeasurement of defined benefit plans		3	3	2	0
Change in revaluation reserve					
Measurement at fair value		-2	-18	-13	0
Cash flow hedge		0	0	0	0
Temporary exemption (overlay approach)		4	-10	-5	-1
Total comprehensive income for the period		**238**	**363**	**206**	**112**
Attributable to:					
Total comprehensive income for the period attributable to owners		237	357	205	109
Total comprehensive income for the period attributable to non-controlling interests		1	6	0	4
Total comprehensive income for the period		**238**	**363**	**206**	**112**

Balance sheet

EUR million	Notes	30 Sep 2020	31 Dec 2019
Cash and cash equivalents		21,110	11,914
Receivables from credit institutions		9,839	9,126
Derivative contracts	15	5,413	4,874
Receivables from customers		25,038	23,829
Investment assets		18,455	17,174
Intangible assets		708	709
Property, plant and equipment (PPE)		137	114
Other assets		1,735	1,334
Tax assets		44	51
Total assets		**82,480**	**69,126**
Liabilities to credit institutions		26,535	15,334
Derivative contracts		4,443	3,882
Liabilities to customers		16,699	15,503
Insurance liabilities	8	3,444	3,234
Debt securities issued to the public	9	21,869	22,726
Provisions and other liabilities		2,014	2,148
Tax liabilities		453	452
Subordinated liabilities		2,430	1,474
Total liabilities		**77,888**	**64,752**
Equity capital			
Capital and reserves attributable to owners of the parent			
Share capital		428	428
Fair value reserve	10	64	70
Other reserves		1,093	1,093
Retained earnings		2,951	2,710
Non-controlling interests		**57**	**74**
Total equity capital		**4,593**	**4,374**
Total liabilities and equity capital		**82,480**	**69,126**

Statement of changes in equity capital

EUR million	Share capital	Fair value reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity capital
	Attributable to owners						
Balance at 1 January 2019	**428**	**-12**	**1,093**	**2,559**	**4,067**	**80**	**4,147**
Total comprehensive income for the period		108		249	**357**	6	**363**
Profit for the period				261	**261**	6	**267**
Other comprehensive income		108		-12	**96**		**96**
Profit distribution				-173	**-173**	-8	**-180**
Other			0	0	**0**	0	**0**
Balance at 30 September 2019	**428**	**96**	**1,093**	**2,636**	**4,252**	**78**	**4,330**

EUR million	Share capital	Fair value reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity capital
	Attributable to owners						
Balance at 1 January 2020	**428**	**70**	**1,093**	**2,710**	**4,299**	**74**	**4,374**
Total comprehensive income for the period		-5		242	**237**	1	**238**
Profit for the period				256	**256**	1	**257**
Other comprehensive income		-5		-14	**-19**		**-19**
Profit distribution						-5	**-5**
Other				0	**0**	-13	**-13**
Balance at 30 September 2020	**428**	**64**	**1,093**	**2,951**	**4,536**	**57**	**4,593**

Cash flow statement

EUR million	Q1–3 2020	Q1–3 2019
Cash flow from operating activities		
Profit for the period	257	267
Adjustments to profit for the period	-32	-59
Increase (-) or decrease (+) in operating assets	**-5,110**	**-2,978**
Receivables from credit institutions	-1,618	199
Derivative contracts	-667	-39
Receivables from customers	-1,260	-1,393
Investment assets	-1,170	-806
Other assets	-395	-940
Increase (+) or decrease (-) in operating liabilities	**12,054**	**-1,175**
Liabilities to credit institutions	11,102	-815
Derivative contracts	-438	18
Liabilities to customers	1,196	-2,163
Insurance liabilities	17	193
Provisions and other liabilities	177	1,593
Income tax paid	-47	-66
Dividends received	18	23
A. Net cash from operating activities	**7,140**	**-3,988**
Cash flow from investing activities		
Purchase of PPP and intangible assets	-10	-28
Proceeds from sale of PPE and intangible assets	0	1
B. Net cash used in investing activities	**-10**	**-27**
Cash flow from financing activities		
Increases in subordinated liabilities	1,312	
Decreases in subordinated liabilities	-348	
Increases in debt securities issued to the public	23,967	21,935
Decreases in debt securities issued to the public	-24,274	-20,481
Dividends and interest on cooperative capital	-5	-173
Lease liabilities	-4	
C. Net cash used in financing activities	**648**	**1,281**
Net change in cash and cash equivalents (A+B+C)	**7,778**	**-2,735**
Cash and cash equivalents at period-start	12,902	13,355
Effect of foreign exchange rate changes	513	
Cash and cash equivalents at period-end	21,193	10,620
Interest received	752	818
Interest paid	-553	-613
Cash and cash equivalents		
Liquid assets	21,110	8,720
Receivables from credit institutions payable on demand	83	1,900
Total	**21,193**	**10,620**

Segment reporting

Segment information

Q1–3 earnings 2020, EUR million	Corporate Banking	Insurance	Other operations	Group eliminations	Group total
Net interest income	298	-4	-46	-3	244
of which internal net income before tax	-17		17		
Net insurance income		463		-1	463
Net commissions and fees	20	-21	-2	0	-3
Net investment income	104	-2	10	2	115
Other operating income	13	4	10	-7	19
Total income	**434**	**440**	**-28**	**-8**	**838**
Personnel costs	43	94	3	0	140
Depreciation/amortisation	10	27	1	0	38
Other operating expenses	120	171	12	-7	295
Total expenses	**173**	**292**	**16**	**-7**	**473**
Impairments loss on receivables	-66	0	1	0	-65
OP bonuses to owner-customers	-2	-2		0	-4
Temporary exemption (overlay approach)		23			23
Earnings before tax	**194**	**169**	**-43**	**-1**	**319**

Q1–3 earnings 2019, EUR million	Corporate Banking	Insurance	Other operations	Group eliminations	Group total
Net interest income	281	-15	-52	-4	211
of which internal net income before tax	-5	-10	15		
Net insurance income		399	0	0	399
Net commissions and fees	7	-22	-1	-1	-17
Net investment income	71	128	24	1	224
Other operating income	20	14	5	-2	38
Total income	**379**	**505**	**-23**	**-6**	**854**
Personnel costs	42	94	1	0	138
Depreciation/amortisation	11	25	1	0	37
Other operating expenses	112	171	11	-6	287
Total expenses	**165**	**290**	**12**	**-6**	**462**
Impairments loss on receivables	-11	0	0	0	-11
OP bonuses to owner-customers	-2	-2			-3
Temporary exemption (overlay approach)		-48		0	-48
Earnings before tax	**201**	**166**	**-36**	**0**	**331**

Balance sheet 30 September 2020, EUR million	Corporate Banking	Insurance	Other operations	Group eliminations	Group total
Cash and cash equivalents	64	0	21,047		21,110
Receivables from credit institutions	100	785	9,759	-805	9,839
Derivative contracts	5,159	62	200	-9	5,413
Receivables from customers	25,276	0	492	-729	25,038
Investment assets	681	3,494	14,309	-27	18,455
Intangible assets	37	652	18	0	708
Property, plant and equipment (PPE)	4	132	2	0	137
Other assets	453	813	474	-6	1,735
Tax assets	0	6	39	0	44
Total assets	**31,773**	**5,944**	**46,339**	**-1,576**	**82,480**
Liabilities to credit institutions	648		26,607	-720	26,535
Derivative contracts	4,098	6	350	-11	4,443
Liabilities to customers	14,358	136	3,010	-805	16,699
Insurance liabilities		3,444			3,444
Debt securities issued to the public	771		21,125	-27	21,869
Provisions and other liabilities	840	465	721	-12	2,014
Tax liabilities	1	86	365	0	453
Subordinated liabilities	-26	135	2,321		2,430
Total liabilities	**20,691**	**4,271**	**54,501**	**-1,574**	**77,888**
Equity					**4,593**

Balance sheet 31 December 2019, EUR million	Corporate Banking	Insurance	Other operations	Group eliminations	Group total
Cash and cash equivalents	19	617	11,891	-613	11,914
Receivables from credit institutions	124	12	9,023	-33	9,126
Derivative contracts	4,384	23	468	0	4,874
Receivables from customers	24,502	0	111	-784	23,829
Investment assets	1,005	3,503	12,699	-34	17,174
Intangible assets	45	645	19	0	709
Property, plant and equipment (PPE)	1	111	2	0	114
Other assets	339	684	321	-10	1,334
Tax assets	0	11	40		51
Total assets	**30,418**	**5,606**	**34,576**	**-1,474**	**69,126**
Liabilities to credit institutions	757		15,361	-784	15,334
Derivative contracts	3,657	38	195	-8	3,882
Liabilities to customers	11,349	136	4,664	-646	15,503
Insurance liabilities		3,234			3,234
Debt securities issued to the public	1,441		21,318	-34	22,726
Provisions and other liabilities	764	388	998	-2	2,148
Tax liabilities	2	95	355	0	452
Subordinated liabilities	9	135	1,329		1,474
Total liabilities	**17,979**	**4,026**	**44,221**	**-1,474**	**64,752**
Equity					**4,374**

Notes

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

Note 1. Accounting policies

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

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

The Interim Report is available in Finnish, English and Swedish. The Finnish version is official that will 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 judgment has been used especially in the calculation of expected credit losses.

Expected credit losses:

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

- selection of appropriate ECL models so that they describe the expected credit losses on the contract portfolio as well as possible
- different assumptions and expert assessments made in the models
- selection of the estimation methods of the parameters for the ECL models
- determination of the contract's maturity for non-maturing loans (revolving credit facilities)
- determination of model risk associated with the quality of the available modelling data and other data
- proper grouping of contracts into different segments so that their ECL can be calculated using the appropriate model
- selection of macroeconomic factors in such a way that their changes correlate with the contracts' probability of default
- forecasting future macroeconomic scenarios and their probabilities.

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

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

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

Management judgement and estimates included in the calculation of expected credit losses in respect of other than that presented above are included in the 2019 financial statements.

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

Goodwill and assets with indefinite useful lives:

Goodwill and assets with indefinite useful lives are subject to an annual impairment test or whenever there is any indication that the value of the cash-generating unit applied in testing may have lowered. The recoverable amount determined in the impairment test is usually based on value in use, and its calculation requires estimates of future cash flows and of the discount rate level applied in calculating their present value. A total of EUR 419 million in goodwill and EUR 162 million in the value of brands are covered by impairment tests. In the reporting period, the cash flow forecasts of cash-generating units for the upcoming five years were updated, and the change was compared to the corresponding forecasts at the time of testing in 2019. Despite the COVID-19 crisis, expectations of future cash flows did not change markedly during the reporting period, so there were no such indications of impairment that would have required the performance of new actual impairment tests.

2. Definition of default

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

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

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

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

OP Corporate Bank will apply a so-called two-step approach of the EBA Guidelines. The first step involved the change of the definition of default during the first quarter of 2020. The second step to be taken later involves the calibration of credit risk parameters. The adoption of the first step increased the number of defaulted exposures and that of the number of transfers to impairment stage 3. Expected credit losses increased by EUR 13 million, which was recognised as a change in the accounting estimate in profit or loss. Impairment loss on receivables is presented in Note 7.

3. Calculation of expected credit loss on notes and bonds

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

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

Notes to the income statement

Note 2. Net interest income

EUR million	Q1–3 2020	Q1–3 2019	Q3 2020	Q3 2019
Interest income				
Receivables from credit institutions				
Interest	20	12	9	4
Negative interest	33	10	25	3
Total	53	22	34	7
Receivables from customers				
Loans	271	254	91	88
Finance lease receivables	28	24	9	9
Impaired loans and other commitments	0	0		0
Negative interest	19	10	8	3
Total	318	288	108	100
Notes and bonds				
Measured at fair value through profit or loss	0	1	0	0
At fair value through other comprehensive income	48	62	15	20
Amortised cost	0	0	0	0
Total	48	63	15	20
Derivative contracts				
Fair value hedge	-72	-79	-24	-27
Cash flow hedge		0		
Ineffective portion of cash flow hedge		0		
Other	3	4	1	1
Total	-69	-75	-23	-25
Other	5	3	1	1
Total	**356**	**301**	**135**	**103**
Interest expenses				
Liabilities to credit institutions				
Interest	59	68	20	23
Negative interest	68	51	31	16
Total	126	119	51	39
Liabilities to customers	9	9	1	1
Notes and bonds issued to the public	121	128	34	43
Subordinated liabilities				
Subordinated loans	3	3	1	1
Other	42	34	17	11
Total	45	37	18	12
Derivative contracts				
Cash flow hedge	-120	-121	-37	-43
Other	-75	-87	-16	-27
Total	-196	-208	-53	-70
Other	4	3	1	1
Total	**109**	**89**	**53**	**27**
Net interest income before fair value adjustment under hedge accounting	246	212	82	76
Hedging derivatives	17	34	0	12
Value changes of hedged items	-20	-35	-3	-14
Total	**244**	**211**	**79**	**74**

Note 3. Net insurance income

EUR million	Q1–3 2020	Q1–3 2019	Q3 2020	Q3 2019
Net insurance premium revenue				
Premiums written	1,248	1,230	294	284
Insurance premiums ceded to reinsurers	4	1	-3	1
Change in provision for unearned premiums	-136	-132	103	104
Reinsurers' share	11	7	-6	-9
Total	1,127	1,106	388	380
Net non-life insurance claims				
Claims paid	-705	-775	-218	-253
Insurance claims recovered from reinsurers	16	17	3	6
Change in provision for unpaid claims	23	46	-5	-10
Reinsurers' share	4	9	7	9
Total	-661	-704	-213	-248
Other non-life insurance items	-3	-3	0	-1
Total	**463**	**399**	**175**	**131**

Note 4. Net commissions and fees

Q1-3 2020, EUR million	Corporate Banking	Insurance	Other operations	Group eliminations	Group total	Q3 2020
Commission income						
Lending	34		0	-1	33	11
Deposits	2		0	0	2	1
Payment transfers	23		0	-6	18	6
Securities brokerage	20			0	20	5
Securities issuance	7		0	0	7	3
Mutual funds	0		0		0	0
Asset management	10			0	10	3
Legal services	0				0	0
Guarantees	9		0	0	9	3
Insurance operations		9			9	3
Health and wellbeing services		9		0	9	3
Other	0		0	5	5	1
Total	**106**	**18**	**0**	**-2**	**122**	**40**
Commission expenses						
Lending	1		0		1	0
Payment transfers	2	1	0	-1	2	1
Securities brokerage	3		0	0	3	1
Securities issuance	1		0		2	0
Mutual funds		0			0	0
Asset management	2	0	1		3	1
Guarantees	0			0	0	1
Insurance operations		35		0	35	11
Health and wellbeing services		3		0	3	1
Other*	76	0	0	-1	76	22
Total	**86**	**39**	**2**	**-2**	**125**	**38**
Total net commissions and fees	**20**	**-21**	**-2**	**0**	**-3**	**2**

* The item includes EUR 70 million in commission expenses paid to member banks arising from derivatives trading. In July–September, commissions paid totalled EUR 20 million.

Q1-3 2019, EUR million	Corporate Banking	Insurance	Other operations	Group eliminations	Group total	Q3 2019
Commission income						
Lending	34	0	0	-1	34	13
Deposits	1		0	0	1	0
Payment transfers	29		0	-11	17	6
Securities brokerage	15		0	0	15	4
Securities issuance	4		0	0	4	0
Mutual funds	0		0		0	0
Asset management	9			0	9	3
Legal services	0				0	0
Guarantees	10		0	0	10	3
Insurance operations		10			10	3
Health and wellbeing services		18		0	18	7
Other				11	11	3
Total	**102**	**28**	**0**	**-2**	**128**	**44**
Commission expenses						
Lending	0		0		0	0
Payment transfers	1	1	0	-1	1	1
Securities brokerage	5				5	2
Securities issuance	2		0		2	0
Asset management	2	0	1		3	1
Insurance operations		42			42	13
Health and wellbeing services		7			7	1
Other*	84	0	0	0	84	29
Total	**94**	**50**	**2**	**-1**	**145**	**46**
Total net commissions and fees	**7**	**-22**	**-1**	**-1**	**-17**	**-2**

* The item includes EUR 79 million in commission expenses paid to member banks arising from derivatives trading. In July–September, commissions paid totalled EUR 27 million.

Note 5. Net investment income

EUR million	Q1–3 2020	Q1–3 2019	Q3 2020	Q3 2019
Net income from assets at fair value through other comprehensive income				
Notes and bonds				
Interest income	21	28	7	9
Other income and expenses	3	-4	4	-2
Capital gains and losses	7	35	1	17
Currency fair value gains and losses	-8	10	-7	9
Impairment losses and their reversal*	-10	1	-3	-1
Total	**14**	**70**	**2**	**32**

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

Net income recognised at fair value through profit or loss				
Financial assets held for trading				
Notes and bonds				
Interest income and expenses	4	4	3	1
Fair value gains and losses	0	7	2	2
Total	4	11	5	3
Shares and participations				
Fair value gains and losses	-2	1	-2	0
Dividend income and share of profits	6	1	5	1
Total	4	2	3	1
Derivatives				
Interest income and expenses	17	4	6	0
Fair value gains and losses	98	64	52	20
Total	115	67	58	20
Total	**123**	**79**	**65**	**24**
Financial assets that must measured at fair value through profit or loss				
Notes and bonds				
Interest income	1	2	0	1
Fair value gains and losses	3	1	0	1
Total	4	3	0	1
Shares and participations				
Fair value gains and losses	-31	55	16	7
Dividend income and share of profits	12	22	3	9
Total	-19	77	19	16
Total	**-14**	**80**	**19**	**17**
Total net income from financial assets recognised at fair value through profit or loss	**109**	**160**	**85**	**41**

Net income from investment property				
Rental income	19	20	6	6
Fair value gains and losses	5	8	2	3
Maintenance charges and expenses	-20	-14	-4	-3
Other	1	-3	0	-1
Net income from investment property total	5	12	5	5
Net income from loans and receivables measured at amortised cost				
Loans and receivables				
Interest income	3	4	2	1
Interest expenses	-2	-1	-1	0
Impairment losses and their reversal	0	-1	0	0
Loans and receivables total	2	2	2	1
Non-life insurance				
Unwinding of discount, Non-life Insurance	-16	-21	-5	-7
Associated companies				
Consolidated using the equity method	1	1	1	1
Total	1	1	1	1
Total net investment income	**115**	**224**	**89**	**73**

Note 6. Other operating expenses

EUR million	Q1–3 2020	Q1–3 2019	Q3 2020	Q3 2019
ICT costs				
Production	130	101	40	34
Development	26	50	7	16
Buildings	3	5	2	2
Government charges and audit fees*	41	31	7	5
Purchased services	26	26	8	9
Data communications	7	8	2	3
Marketing	7	9	2	3
Corporate social responsibility	2	1	0	1
Insurance and security costs	2	3	1	1
Other	51	53	16	16
Total	**295**	**287**	**87**	**88**

* Include EUR 20 million in service charges paid to OP Cooperative. In July–September, the share of the internal service charges was EUR 7 million.

Development costs

EUR million	Q1–3 2020	Q1–3 2019	Q3 2020	Q3 2019
ICT development costs	26	50	7	16
Share of own work	0	1	0	0
Total development costs in the income statement	**26**	**51**	**7**	**16**
Capitalised ICT costs	28	26	8	9
Capitalised share of own work		0		0
Total capitalised development costs	**28**	**26**	**8**	**9**
Total development costs	**54**	**76**	**15**	**25**
Depreciation/amortisation and impairment loss	28	28	9	9

Note 7. Impairment losses on receivables

EUR million	Q1–3 2020	Q1–3 2019	Q3 2020	Q3 2019
Receivables written down as loan and guarantee losses	-53	-3	-46	-2
Recoveries of receivables written down	0	0	0	0
Expected credit losses (ECL) on receivables from customers and off-balance-sheet items	-14	-7	47	6
Expected credit losses (ECL) on notes and bonds*	1	-1	0	-1
Total	**-65**	**-11**	**2**	**3**

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

Credit risk exposures and related loss allowance

Exposures within the scope of accounting for expected credit losses by impairment stage 30 September 2020

Exposures	Stage 1	Stage 2			Stage 3	Total exposure
EUR million		Not more than 30 DPD	More than 30 DPD	Total		
Receivables from customers (gross)						
Corporate Banking	25,456	1,502	296	1,798	507	27,760
Total	**25,456**	**1,502**	**296**	**1,798**	**507**	**27,760**
Off-balance-sheet limits						
Corporate Banking	9,176	383	193	576	52	9,805
Total	**9,176**	**383**	**193**	**576**	**52**	**9,805**
Other off-balance-sheet commitments						
Corporate Banking	6,027	427		427	96	6,549
Total	**6,027**	**427**		**427**	**96**	**6,549**
Notes and bonds						
Other Operations	13,103	44		44		13,146
Insurance	2,257	32		32	7	2,296
Total	**15,360**	**75**		**75**	**7**	**15,443**
Total exposures within the scope of accounting for expected credit losses	**56,019**	**2,387**	**489**	**2,876**	**662**	**59,556**

Loss allowance by stage 30 September 2020

On-balance-sheet exposures and related off-balance-sheet limits*	Stage 1	Stage 2			Stage 3	Total loss allowance
EUR million		Not more than 30 DPD	More than 30 DPD	Total		
Receivables from customers						
Corporate Banking	-31	-27	-4	-32	-234	-297
Total	**-31**	**-27**	**-4**	**-32**	**-234**	**-297**
Other off-balance-sheet commitments**						
Corporate Banking	-12	-2		-2	-13	-27
Total	**-12**	**-2**		**-2**	**-13**	**-27**
Notes and bonds***						
Other Operations	-1	-1		-1		-2
Insurance	-3	-1		-1	-3	-7
Total notes and bonds	**-5**	**-2**		**-2**	**-3**	**-10**
Total	**-48**	**-31**	**-4**	**-36**	**-250**	**-333**

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

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

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

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

Summary and key indicators 30 September 2020	Stage 1	Stage 2			Stage 3	Total
		Not more than 30 DPD	More than 30 DPD	Total		
Receivables from customers; on-balance-sheet and off-balance-sheet items						
Corporate Banking	40,658	2,312	489	2,800	655	44,114
Loss allowance						
Corporate Banking	-43	-29	-4	-34	-247	-323
Coverage ratio, %						
Corporate Banking	-0.11%	-1.27%	-0.89%	-1.20%	-37.70%	-0.73%
Receivables from customers; total on-balance-sheet and off-balance-sheet items	**40,658**	**2,312**	**489**	**2,800**	**655**	**44,114**
Total loss allowance	**-43**	**-29**	**-4**	**-34**	**-247**	**-323**
Total coverage ratio, %	**-0.11%**	**-1.27%**	**-0.89%**	**-1.20%**	**-37.70%**	**-0.73%**
Carrying amount, notes and bonds						
Other Operations	13,103	44		44		13,146
Insurance	2,257	32		32	7	2,296
Loss allowance						
Other Operations	-1	-1		-1		-2
Insurance	-3	-1		-1	-3	-7
Coverage ratio, %						
Other Operations	-0.01%	-1.78%		-1.78%		-0.02%
Insurance	-0.14%	-3.72%		-3.72%	-40.62%	-0.32%
Total notes and bonds	**15,360**	**75**		**75**	**7**	**15,443**
Total loss allowance	**-5**	**-2**		**-2**	**-3**	**-10**
Total coverage ratio, %	**-0.03%**	**-2.60%**		**-2.60%**	**-40.62%**	**-0.06%**

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

Exposures	Stage 1	Stage 2			Stage 3	Total exposure
EUR million		Not more than 30 DPD	More than 30 DPD	Total		
Receivables from customers (gross)						
Corporate Banking	25,103	1,388	306	1,693	384	27,180
Total	**25,103**	**1,388**	**306**	**1,693**	**384**	**27,180**
Off-balance-sheet limits						
Corporate Banking	4,674	318	151	470	60	5,204
Total	**4,674**	**318**	**151**	**470**	**60**	**5,204**
Other off-balance-sheet commitments						
Corporate Banking	7,011	1,216		1,216	70	8,297
Total	**7,011**	**1,216**		**1,216**	**70**	**8,297**
Notes and bonds						
Other Operations	12,259	93		93		12,352
Insurance	1,990	2		2	5	1,998
Total	**14,250**	**95**		**95**	**5**	**14,350**
Total exposures within the scope of accounting for expected credit losses	**51,038**	**3,017**	**457**	**3,474**	**519**	**55,031**

Loss allowance by stage 31 December 2019

On-balance-sheet exposures and related off-balance-sheet limits*	Stage 1	Stage 2			Stage 3	Total loss allowance
EUR million		Not more than 30 DPD	More than 30 DPD	Total		
Receivables from customers						
Corporate Banking	-25	-18	-3	-21	-248	-294
Total	**-25**	**-18**	**-3**	**-21**	**-248**	**-294**
Other off-balance-sheet commitments**						
Corporate Banking	-2	-4		-4	-10	-16
Total	**-2**	**-4**		**-4**	**-10**	**-16**
Notes and bonds***						
Other Operations	-2	-1		-1		-3
Insurance	-2	0		0	-3	-5
Total notes and bonds	**-4**	**-1**		**-1**	**-3**	**-8**
Total	**-31**	**-24**	**-3**	**-27**	**-260**	**-318**

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

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

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

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

Summary and key indicators 31 December 2019	Stage 1	Stage 2			Stage 3	Total
		Not more than 30 DPD	More than 30 DPD	Total		
Receivables from customers; on-balance-sheet and off-balance-sheet items						
Corporate Banking	36,788	2,922	457	3,379	514	40,681
Loss allowance						
Corporate Banking	-27	-22	-3	-26	-258	-310
Coverage ratio, %						
Corporate Banking	-0.07%	-0.77%	-0.71%	-0.76%	-50.12%	-0.76%
Receivables from customers; total on-balance-sheet and off-balance-sheet items	**36,788**	**2,922**	**457**	**3,379**	**514**	**40,681**
Total loss allowance	**-27**	**-22**	**-3**	**-26**	**-258**	**-310**
Total coverage ratio, %	**-0.07%**	**-0.77%**	**-0.71%**	**-0.76%**	**-50.12%**	**-0.76%**
Carrying amount, notes and bonds						
Other Operations	12,259	93		93		12,352
Insurance	1,990	2		2	5	1,998
Loss allowance						
Other Operations	-2	-1		-1		-3
Insurance	-2	0		0	-3	-5
Coverage ratio, %						
Other Operations	-0.02%	-0.81%		-0.81%		-0.02%
Insurance	-0.09%	-18.51%		-18.51%	-53.78%	-0.24%
Total notes and bonds	**14,250**	**95**		**95**	**5**	**14,350**
Total loss allowance	**-4**	**-1**		**-1**	**-3**	**-8**
Total coverage ratio, %	**-0.03%**	**-1.18%**		**-1.18%**	**-53.78%**	**-0.06%**

The following flow statements shows the changes in loss allowance by impairment stage during Q1–3 2020 in respect of the effect of the following factors:

Receivables from customers and off-balance-sheet items, EUR million	Stage 1 12 months	Stage 2 Lifetime	Stage 3 Lifetime	Total
Loss allowance 1 January 2020	**27**	**26**	**257**	**310**
Transfers from Stage 1 to Stage 2	-2	11		9
Transfers from Stage 1 to Stage 3	-1		29	28
Transfers from Stage 2 to Stage 1	0	-3		-2
Transfers from Stage 2 to Stage 3		-4	31	27
Transfers from Stage 3 to Stage 2		0	-1	-1
Transfers from Stage 3 to Stage 1	0		0	0
Increases due to origination and acquisition	16	6	3	25
Decreases due to derecognition	-5	-5	-31	-41
Changes in risk parameters (net)	7	3	-11	0
Decrease in allowance account due to write-offs			-31	-31
Net change in expected credit losses	**16**	**8**	**-11**	**13**
Loss allowance 30 September 2020	**43**	**34**	**247**	**323**
Net change in expected credit losses Q3 2020	**5**	**2**	**-55**	**-48**

Effect of the application of the new definition of default

OP Corporate Bank will apply a so-called Two-Step Approach to the definition of default based on the EBA's guidelines. The first step involved the change of the definition of default during the first quarter of 2020. The second step to be taken later involves the calibration of credit risk parameters. The adoption of the first step increased the number of defaulted contracts and that of the number of transfers to Stage 3. Expected credit losses increased by EUR 13 million in the first quarter.

Coronavirus pandemic (COVID-19)

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

Finnvera's guarantees affect the LDG component in ECL measurement, thus reducing the ECL amount.

OP Corporate Bank independently provides its customers with the opportunity to get a repayment holiday for corporate loans. Changes in repayment schedules are evaluated on a case-by-case basis. In addition, guarantees provided by Finnvera will be used extensively. In loan modifications, forborne loans and customers in default are identified according to the normal set of instructions. During the coronavirus crisis, most of the repayment holidays have been granted to private customers and to SME customers.

In the ECL measurement, the COVID-19 crisis has been taken into account by updating macroeconomic factors on a quarterly basis. When the crisis began in the first quarter, a larger weight was given to the downside scenario; downside 40%, baseline 50% and upside 10%. The situation stabilised in the second quarter, after which the scenario weights have been normal; downside 20%, baseline 60% and upside 20%. For example, GDP growth for 2020 is predicted to be negative, from –2.5% to –5.7% in different scenarios, and that for 2021 is predicted to be positive, from 0.5% to 5.4% in different scenarios. The unemployment rate for 2020 is predicted to be from 7.2% to 7.6% in different scenarios, and that for 2021 is predicted to be from 6.9% to 8.1% in different scenarios.

The effect of the COVID-19 crisis on growth in expected credit loss during 2020 totalled approximately EUR 19 million. This was reflected in the transfer of contracts from impairment stages 1 and 2 to impairment stages 2 and 3, and in growth in risk parameters, especially in PD. Uncertainty still exists related to the economic development caused by the COVID-19 crisis.

Notes and bonds, EUR million	Stage 1 12 months	Stage 2 Lifetime	Stage 3 Lifetime	Total
Loss allowance 1 January 2020	**4**	**1**	**3**	**8**
Transfers from Stage 1 to Stage 2	-1	1		1
Transfers from Stage 1 to Stage 3	0		0	0
Transfers from Stage 3 to Stage 1	0		0	0
Increases due to origination and acquisition	2	0	1	3
Decreases due to derecognition	-1	-1	0	-2
Changes in risk parameters (net)	0	0	0	0
Changes due to update in the methodology for estimation (net)	0			0
Net change in expected credit losses	**1**	**1**	**0**	**2**
Loss allowance 30 September 2020	**5**	**2**	**3**	**10**
Net change in expected credit losses Q3 2020	**-1**	**0**	**-1**	**-1**

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

Receivables from customers and off-balance-sheet items, EUR million	Stage 1 12 months	Stage 2 Lifetime	Stage 3 Lifetime	Total
Loss allowance 1 January 2019	**27**	**30**	**207**	**263**
Transfers from Stage 1 to Stage 2	-1	9		8
Transfers from Stage 1 to Stage 3	-4		7	3
Transfers from Stage 2 to Stage 1	0	-3		-3
Transfers from Stage 2 to Stage 3		-7	9	2
Transfers from Stage 3 to Stage 2		0	-2	-2
Transfers from Stage 3 to Stage 1	0		-1	-1
Increases due to origination and acquisition	8	4	6	19
Decreases due to derecognition	-4	-4	-7	-14
Changes in risk parameters (net)	0	-4	40	37
Decrease in allowance account due to write-offs			-2	-2
Net change in expected credit losses	**0**	**-4**	**51**	**47**
Loss allowance 31 December 2019	**27**	**26**	**257**	**310**
Net change in expected credit losses Q3 2019	**5**	**4**	**1**	**9**

Notes and bonds, EUR million	Stage 1 12 months	Stage 2 Lifetime	Stage 3 Lifetime	Total
Loss allowance 1 January 2019	**4**	**2**	**2**	**9**
Transfers from Stage 1 to Stage 2	0	1		1
Transfers from Stage 1 to Stage 3	0		1	1
Transfers from Stage 2 to Stage 1	0	-1		-1
Transfers from Stage 3 to Stage 2	0	0	0	0
Transfers from Stage 3 to Stage 1	0		0	0
Increases due to origination and acquisition	1	0	0	1
Decreases due to derecognition	-2	-1	0	-3
Changes in risk parameters (net)	-1	0	0	0
Changes due to update in the methodology for estimation (net)	0			0
Net change in expected credit losses	**0**	**-1**	**1**	**-1**
Loss allowance 31 December 2019	**4**	**1**	**3**	**8**
Net change in expected credit losses Q3 2019	**0**	**-1**	**-2**	**-2**

Note 8. Insurance liabilities

EUR million	30 Sep 2020	31 Dec 2019
Provision for unpaid claims		
Provision for unpaid claims for annuities	1,565	1,571
Other provision for unpaid claims	1,099	1,101
Reserve for decreased discount rate (value of hedges of insurance liability)	59	-22
Total	2,724	2,650
Provisions for unearned premiums	720	584
Total	**3,444**	**3,234**

Note 9. Debt securities issued to the public

EUR million	30 Sep 2020	31 Dec 2019
Bonds	11,974	11,955
Subordinated bonds (SNP)	1,685	1,156
Other		
Certificates of deposit	288	
Commercial paper	7,996	9,716
Included in own portfolio in trading (–)*	-75	-101
Total debt securities issued to the public	**21,869**	**22,726**

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

Note 10. Fair value reserve after income tax

	Fair value through other comprehensive income			
EUR million	Notes and bonds	Shares and participations (overlay approach)	Cash flow hedging	Total
Opening balance 1 January 2019	**3**	**-15**	**0**	**-12**
Fair value changes	98	33	0	130
Capital gains transferred to income statement	-10	5		-6
Impairment loss transferred to income statement		10		10
Transfers to net interest income			0	0
Deferred tax	-18	-10	0	-27
Closing balance 30 September 2019	**73**	**23**	**0**	**96**

	Fair value through other comprehensive income			
EUR million	Notes and bonds	Shares and participations (overlay approach)	Cash flow hedging	Total
Opening balance 1 January 2020	**31**	**38**	**0**	**70**
Fair value changes	15	-16	1	-1
Capital gains transferred to income statement	-3	-3		-6
Impairment loss transferred to income statement		0		0
Deferred tax	-2	4	0	1
Closing balance 30 September 2020	**40**	**23**	**1**	**64**

The fair value reserve before tax amounted to EUR 80 million at the end of the reporting period and the related deferred tax liability was EUR 16 million. At the end of 2019, the fair value reserve totalled EUR 87 million and the related deferred tax liability was EUR 17 million. During the reporting period, positive mark-to-market valuations of equity instruments in the fair value reserve totalled EUR 44 million (51) and negative mark-to-market valuations EUR 16 million (3), owing to the application of the overlay approach. The loss allowance on notes and bonds recognised at fair value through other comprehensive income totalled EUR –2 million (2) in the fair value reserve during the reporting period.
The negative fair value reserve may recover by means of asset appreciation, capital losses and recognised impairments.

Note 11. Collateral given

EUR million	30 Sep 2020	31 Dec 2019
Given on behalf of own liabilities and commitments		
Pledges	39	79
Others	14,833	3,496
Total collateral given*	**14,872**	**3,575**
Secured derivative liabilities	1,210	1,098
Other secured liabilities	8,047	2,093
Total	**9,257**	**3,191**

* In addition, bonds with a book value of EUR 3.1 billion have been pledged in the central bank, of which EUR 1.5 billion in intraday settlement collateral. Given that the bonds are available for withdrawal without the central bank's advance permission, they are not presented in the table above.

Note 12. Classification of financial assets and liabilities

		Fair value through profit or loss				
Assets, EUR million	**Amortised cost**	**Fair value through other comprehen-sive income**	**Financial assets held for trading**	**Must be measured at fair value through profit or loss**	**Hedging derivatives**	**Carrying amount total**
Cash and cash equivalents	21,110					21,110
Receivables from credit institutions	9,839					9,839
Derivative contracts			5,216		197	5,413
Receivables from customers	25,038					25,038
Notes and bonds	815	15,890	567	24		17,295
Equity instruments		0	19	701		720
Other financial assets	1,769					1,769
Financial assets						**81,184**
Other than financial instruments						1,296
Total 30 September 2020	**58,572**	**15,890**	**5,801**	**724**	**197**	**82,480**

Assets, EUR million	Amortised cost	Fair value through other comprehen-sive income	Financial assets held for trading	Must be measured at fair value through profit or loss	Hedging derivatives	Carrying amount total
Cash and cash equivalents	11,914					11,914
Receivables from credit institutions	9,126					9,126
Derivative contracts			4,407		468	4,874
Receivables from customers	23,829					23,829
Notes and bonds		14,899	1,033	42		15,975
Equity instruments		0	23	694		717
Other financial assets	1,393					1,393
Financial assets						**67,828**
Other than financial instruments						1,297
Total 31 December 2019	**46,262**	**14,899**	**5,463**	**737**	**468**	**69,126**

Liabilities, EUR million	Financial liabilities at fair value through profit or loss	Other liabilities	Hedging derivatives	Carrying amount total
Liabilities to credit institutions		26,535		26,535
Derivative contracts	4,088		355	4,443
Liabilities to customers		16,699		16,699
Insurance liabilities		3,444		3,444
Debt securities issued to the public		21,869		21,869
Subordinated loans		2,430		2,430
Other financial liabilities		1,743		1,743
Financial liabilities				**77,163**
Other than financial liabilities				724
Total 30 September 2020	**4,088**	**72,721**	**355**	**77,888**

Liabilities, EUR million	Financial liabilities at fair value through profit or loss	Other liabilities	Hedging derivatives	Carrying amount total
Liabilities to credit institutions		15,334		15,334
Derivative contracts	3,683		199	3,882
Liabilities to customers		15,503		15,503
Insurance liabilities		3,234		3,234
Debt securities issued to the public		22,726		22,726
Subordinated loans		1,474		1,474
Other financial liabilities		1,991		1,991
Financial liabilities				**64,143**
Other than financial liabilities				609
Total 31 December 2019	**3,683**	**60,260**	**199**	**64,752**

Bonds included in debt securities issued to the public are carried at amortised cost. On 30 September 2020, the fair value of these debt instruments was approximately EUR 235 million (232) higher than their carrying amount, based on information available in markets and employing commonly used valuation techniques. Subordinated liabilities are carried at amortised cost. Their fair values are higher than their amortised costs, but determining reliable fair values involves uncertainty.

Note 13. Recurring fair value measurements by valuation technique

Fair value of assets on 30 September 2020, EUR million	Level 1	Level 2	Level 3	Total
Recognised at fair value through profit or loss				
Equity instruments	340	64	315	720
Debt instruments	12,250	-12,036	377	590
Derivative financial instruments	0	5,364	48	5,413
Fair value through other comprehensive income				
Equity instruments		0		0
Debt instruments	1,910	13,622	358	15,890
Total financial instruments	**14,500**	**7,013**	**1,099**	**22,612**
Investment property			317	317
Total	**14,500**	**7,013**	**1,416**	**22,930**

Fair value of assets on 31 December 2019, EUR million	Level 1	Level 2	Level 3	Total
Recognised at fair value through profit or loss				
Equity instruments	334	58	325	717
Debt instruments	484	82	510	1,076
Derivative financial instruments	11	4,789	74	4,874
Fair value through other comprehensive income				
Equity instruments		0		0
Debt instruments	12,470	1,556	874	14,899
Total financial instruments	**13,299**	**6,485**	**1,783**	**21,566**
Investment property			339	339
Total	**13,299**	**6,485**	**2,121**	**21,905**

Fair value of liabilities on 30 September 2020, EUR million	Level 1	Level 2	Level 3	Total
Recognised at fair value through profit or loss				
Other		0		0
Derivative financial instruments	0	4,369	74	4,443
Total	**0**	**4,369**	**74**	**4,443**

Fair value of liabilities on 31 December 2019, EUR million	Level 1	Level 2	Level 3	Total
Recognised at fair value through profit or loss				
Other		12		12
Derivative financial instruments	9	3,841	32	3,882
Total	**9**	**3,853**	**32**	**3,894**

Level 1: Quoted prices in active markets

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

Level 2: Valuation techniques using observable inputs

Valuation techniques based on observable input parameters. The fair value of the instruments included within this level means value derived from the market price of a financial instrument's components or similar financial instruments; or value which can be determined using commonly used valuation models and techniques if the inputs significant to the fair value measurement are based on observable market data. This hierarchy level includes the majority of OP Corporate Bank Group's OTC derivatives and quoted debt instruments issued by companies, governments and financial institutions which have not been included in Level 1.

Level 3: Valuation techniques using unobservable inputs

Valuation techniques whose input parameters involve uncertainty. The fair value determination of the instruments included within this level contains inputs not based on observable market data (unobservable inputs). Level 3 also includes bonds for which there is little, if any, market activity on the valuation date. This level includes the most complex OTC derivatives and derivatives with a long maturity for which the Group had to extrapolate the market data used in their value measurement, as well as certain private equity investments, and illiquid bonds, structured bonds, including securitised bonds and structured debt securities, and hedge funds. Level 3 fair value is based on pricing information from a third party.

Transfers between levels of the fair value hierarchy

Transfers between the levels of the fair value hierarchy are considered to take place on the date when an event causes such transfer or when circumstances change. Transfers between the levels are mainly due to the number of available market quotes.

Reconciliation of Level 3 items

Specification of financial assets and liabilities

Financial assets, EUR million	Financial assets at fair value through profit or loss	Derivative contracts	Fair value through other comprehen-sive income	Total assets
Opening balance 1 January 2020	**834**	**74**	**875**	**1,783**
Total gains/losses in profit or loss	-507	-26	0	-534
Total gains/losses in other comprehensive income			0	0
Purchases	48			48
Sales	-36		0	-37
Transfers into Level 3	353		-448	-95
Transfers out of Level 3	0		-66	-66
Closing balance 30 September 2020	**692**	**48**	**358**	**1,099**

Financial liabilities, EUR million	Derivative contracts	Total liabilities
Opening balance 1 January 2020	**32**	**32**
Total gains/losses in profit or loss	41	41
Closing balance 30 September 2020	**74**	**74**

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

EUR million	Net interest income	Net investment income	Statement of comprehensive income/ Change in fair value reserve	Total gains/ losses for the financial year included in profit or loss for assets/ liabilities held at year-end
Realised net gains (losses)	-491	-16	0	-507
Unrealised net gains (losses)	-68		0	-68
Total net gains (losses)	**-559**	**-16**	**0**	**-575**

Derivatives included in Level 3 comprise structured derivatives for customer needs, whose market risk is covered by a corresponding derivatives contract. The uncovered market risk does not have any effect on earnings. Level 3 derivatives relate to structured bonds issued by OP Corporate Bank, whose return is determined by the value performance of an embedded derivative instrument. The fair value change of these embedded derivatives is not presented in the above table. In addition, long-maturity derivatives have been included in Level 3 for which the Group had to extrapolate the market data used in their value measurement.

Changes in the levels of hierarchy

No major changes occurred in valuation techniques in 2020.

Note 14. Off-balance-sheet commitments

EUR million	30 Sep 2020	31 Dec 2019
Guarantees	444	550
Other guarantee liabilities	1,516	1,882
Loan commitments	5,067	5,146
Commitments related to short-term trade transactions	220	315
Other*	658	699
Total off-balance-sheet commitments	**7,905**	**8,593**

* Of which Non-life Insurance commitments to private equity funds amount to EUR 157 million (194).

Note 15. Derivative contracts

Total derivatives 30 September 2020

	Closing balance 30 September 2020					
	Nominal values/residual maturity				Fair values*	
EUR million	<1 year	1–5 years	>5 years	Total	Assets	Liabilities
Interest rate derivatives	50,721	86,606	90,389	227,716	3,925	2,766
Cleared by the central counterparty	12,018	43,061	46,403	101,482	67	52
Currency derivatives	41,103	3,764	2,153	47,020	949	1,142
Equity and index-linked derivatives	1	2		3	0	
Credit derivatives	60	520		580	1	19
Other derivatives	176	440	13	629	39	53
Total derivatives	**92,060**	**91,332**	**92,554**	**275,947**	**4,914**	**3,980**

Total derivatives 31.12.2019

	Nominal values/residual maturity				Fair values*	
EUR million	<1 year	1–5 years	>5 years	Total	Assets	Liabilities
Interest rate derivatives	47,526	87,484	86,157	221,167	3,198	2,506
Cleared by the central counterparty	10,791	36,126	42,208	89,126	52	53
Currency derivatives	45,365	6,954	2,414	54,733	1,250	972
Equity and index-linked derivatives	1	2		3	0	
Credit derivatives	59	892	112	1,063	14	12
Other derivatives	233	435	18	686	68	38
Total derivatives	**93,185**	**95,766**	**88,701**	**277,652**	**4,530**	**3,529**

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

Note 16. Investment distribution of the Insurance segment

Investment asset portfolio allocation	30 Sep 2020 Fair value, EUR million*	%	31 Dec 2019 Fair value, EUR million*	%
Money market total	**551**	**14**	**547**	**14**
Money market instruments and deposits**	546	14	541	14
Derivative instruments***	5	0	6	0
Total bonds and bond funds	**2,559**	**64**	**2,644**	**67**
Governments	454	11	447	11
Investment Grade	1,599	40	1,669	42
Emerging markets and High Yield	314	8	253	6
Structured investments****	193	5	275	7
Total equities	**455**	**11**	**426**	**11**
Finland	108	3	116	3
Developed markets	185	5	172	4
Emerging markets	88	2	67	2
Fixed assets and unlisted equities	6	0	6	0
Private equity investments	68	2	65	2
Total alternative investments	**32**	**1**	**35**	**1**
Hedge funds	32	1	35	1
Total property investments	**393**	**10**	**300**	**8**
Direct property investments	250	6	159	4
Indirect property investments	142	4	141	4
Total	**3,990**	**100**	**3,952**	**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, loan funds and illiquid bonds.

Note 17. Related-party transactions

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

Standard terms and conditions for credit are applied to loans granted to the related parties. Loans are tied to generally used reference rates.

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

Financial reporting in 2021

Time of publication of 2020 reports:

OP Corporate Bank's Report by the Board of Directors and Financial Statements for 2020	Week 10
OP Corporate Bank's Corporate Governance Statement 2020	Week 10

Schedule for Financial Statements Bulletin 2020 and Interim Reports and Half-year Financial Report in 2021:

Financial Statements Bulletin 2020	10 February 2021
Interim Report Q1/2021	28 April 2021
Half-year Financial Report H1/2021	28 July 2021
Interim Report Q1–3/2021	27 October 2021

Helsinki, 22 October 2020

OP Corporate Bank plc
Board of Directors

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