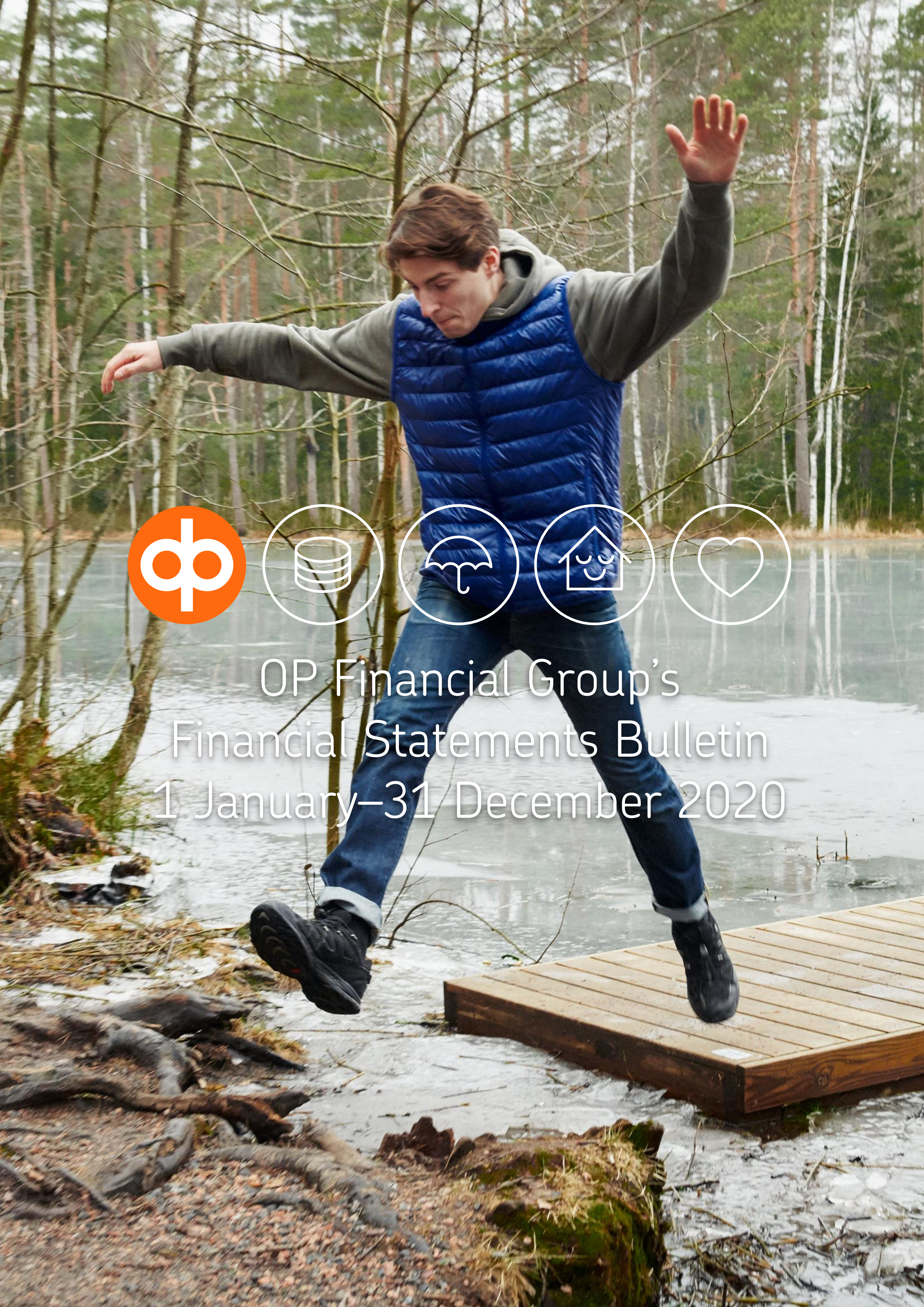


OP Financial Group's Financial Statements Bulletin 1 January–31 December 2020

OP Financial Group's Financial Statements Bulletin for 1 January–31 December 2020:

Earnings before tax EUR 785 million – net interest income and net insurance income increased in an uncertain business environment

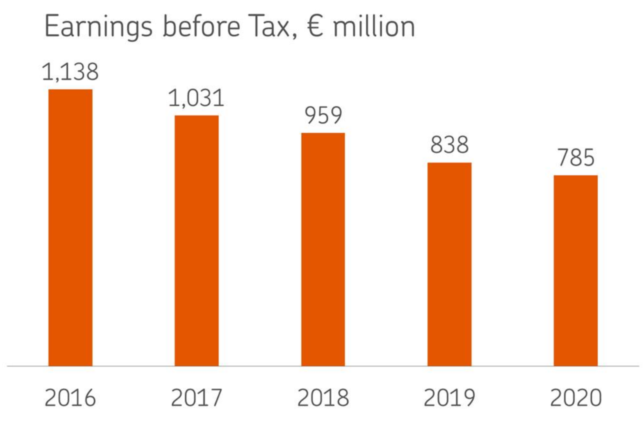
Earnings before tax Q1–4/2020	Net interest income Q1–4/2020	Net insurance income Q1–4/2020	Net commissions and fees Q1–4/2020	CET1 ratio 31 Dec 2020
€785 million	+4%	+36%	-1%	18.9%

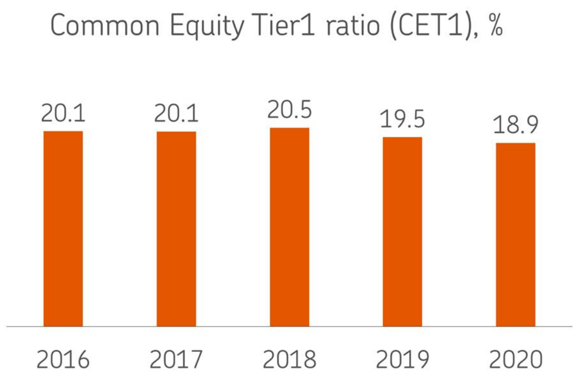
- Earnings before tax amounted to EUR 785 million (838).
- In customer business, net interest income increased by 4% to EUR 1,284 million (1,241) and net insurance income by 36% to EUR 572 million (421). Net commissions and fees totalled EUR 931 million (936).
- The effects of the Covid-19 pandemic on capital market developments weakened investment income, particularly in the first quarter. Investment income fell by 58% year on year, to EUR 181 million (425).
- Total income decreased by 3% to EUR 3,103 million (3,181).
- Total expenses decreased by 3% to EUR 1,839 million (1,903). The transfer of the remaining statutory earnings-related pension liability to Ilmarinen Mutual Pension Insurance Company at the end of 2020 reduced OP Financial Group's pension costs by EUR 96 million. Excluding the transfer, total expenses increased by 2% to EUR 1,935 million.
- Impairment loss on receivables was EUR 225 million (87), accounting for 0.23% (0.09) of the loan and guarantee portfolio. Impairment loss on receivables was increased by the effects of the Covid-19 pandemic on the loan portfolio quality and by the adoption of the new definition of default based on a regulatory change.
- OP Financial Group's loan portfolio grew year on year by 2% to EUR 94 billion (91) and deposits by 11% to EUR 71 billion (64).
- The CET1 ratio was 18.9% (19.5). The lower ratio was affected by the increase in the loan portfolio and the adoption of the new definition of default.
- Retail Banking earnings before tax decreased by 51% to EUR 115 million (235). Net interest income increased by EUR 3 million and net commissions and fees decreased by EUR 10 million. Impairment loss on receivables increased by EUR 136 million to EUR 172 million (36). The loan portfolio increased by 2% and deposits by 9% year on year.
- Corporate Banking earnings before tax increased by 13% to EUR 349 million (311). Net interest income increased by 3%, net commissions and fees by 22% and net investment income by 20%. Impairment loss on receivables totalled EUR 53 million (51). The loan portfolio grew by 1% year on year.
- Insurance earnings before tax decreased by 7% to EUR 348 million (373). Net insurance income grew by 35% to EUR 582 million (431). Investment income decreased by EUR 247 million to EUR 84 million (331). The operating combined ratio improved to 87.8% (92.7). The transfer of statutory earnings-related pension liability reduced pension costs by EUR 85 million.
- Other Operations earnings before tax were EUR 3 million (–37). The sale of the Vallila property on 31 January 2020 improved earnings by EUR 96 million. OP Financial Group continues operating in the property under a long-term lease agreement.
- In 2020, OP Financial Group invested a total of EUR 282 million (313) in business development and improving customer experience.
- New OP bonuses accrued to owner-customers totalled EUR 255 million (254).
- The number of owner-customers in OP cooperative banks totalled 2.0 million (2.0). OP Financial Group had a total of 1.3 million (1.2) joint banking and insurance customers.
- OP Financial Group complies with the recommendation of the European Central Bank (ECB) in its profit distribution. Following the recommendation, the Group discussed the level of profit distribution with the ECB Joint Supervisory Team, and the interest on Profit Shares for 2019 was paid to holders of those shares on 8 February 2021.
- Earnings before tax for 2021 are expected to be lower than in 2020. For more detailed information on the outlook, see "Outlook for 2021".

OP Financial Group's key indicators

	Q1–4/2020	Q1–4/2019	Change, %
Earnings before tax, € million	785	838	-6.3
Retail Banking	115	235	-51.2
Corporate Banking	349	311	12.5
Insurance	348	373	-6.5
Other Operations	3	-37	-
New OP bonuses accrued to owner-customers, € million	-255	-254	0.4
Return on equity (ROE), %	5.0	5.5	-0.5*
Return on equity, excluding OP bonuses, %	6.6	7.1	-0.6*
Return on assets (ROA), %	0.42	0.47	-0.05*
Return on assets, excluding OP bonuses, %	0.55	0.60	-0.06*
	31 Dec 2020	31 Dec 2019	Change, %
CET1 ratio, %	18.9	19.5	-0.6*
Loan portfolio, € billion	93.6	91.5	2.4
Deposits, € billion	70.9	64.0	10.8
Ratio of non-performing receivables to loan and guarantee portfolio, %	2.0	1.1	0.9*
Ratio of impairment loss on receivables to loan and guarantee portfolio, %	0.23	0.09	0.14*
Owner-customers (1,000)	2,025	2,003	1.1

*Change in ratio





Comments by President and Group Chief Executive Officer Timo Ritakallio

OP Financial Group's customer business grew in 2020 despite the challenging business environment. Net interest income and net insurance income increased year on year, and our market share remained strong in home loans and corporate loans as well as in the non-life insurance business. Our loan portfolio grew by 2% to EUR 94 billion and deposit portfolio by 11% to EUR 71 billion.

The decrease in net investment income had a negative effect on our earnings, particularly in the first quarter as the Covid-19 pandemic caused a decline in the capital market. Impairment loss on receivables also reduced earnings. In addition to the Covid-19 crisis, regulatory changes increased the impairment loss on receivables.

Earnings before tax for 2020 amounted to EUR 785 million, which was EUR 53 million lower than the year before. The sale of the Vallila property improved earnings by EUR 96 million. In addition, the transfer of the remaining statutory earnings-related pension liability to Ilmarinen Mutual Pension Insurance Company reduced OP Financial Group's pension costs by EUR 96 million, which had a positive impact on earnings.

Our capital adequacy is still on a very solid basis: our CET1 ratio was 18.9% at the end of 2020.

The number of OP cooperative bank owner-customers continued to grow in 2020. In 2021, we will continue to focus on improving owner-customers' experience of benefits.

In 2020, more than 200,000 persons were registered as new unitholders in mutual funds. More than half of them, almost 60%, started investing through OP's mutual funds.

During the Covid-19 crisis, we granted repayment holidays to 115,000 private customers and 11,000 corporate customers. Demand for repayment holidays from households and enquiries for loan modifications from corporate customers levelled off to their pre-crisis levels towards the end of the year.

The exceptional year 2020 changed customer behaviour. Cash withdrawals decreased by more than 20% from the previous year. The use of OP-mobile and OP Business mobile shows strong growth. In 2020, logins to OP-mobile increased by 34% and those to OP Business mobile by as much as 50%. We are expecting the same trend to continue as well as a further decline in visits to branches.

In 2021, the big question is how the economy will recover from the Covid-19 crisis. Interest rates are expected to remain unchanged. The Covid-19 shock of spring 2020 hit Finland less than feared, and the economy began to recover already during summer. Since autumn, the second wave of the Covid-19 pandemic has slowed down the recovery but the outlook is brighter following the gradual increase in vaccination coverage. However, the business environment will continue to involve major uncertainties. For some businesses, the recovery may be too late. Meanwhile, the financial market is looking further into the future, to the economic pickup expected in autumn 2021.

As regards the finances of businesses and households overall, they have done relatively well during the crisis. In addition to measures taken by businesses themselves, rapid actions in the economic policy have helped them in navigating through the pandemic. The next challenge is to see what the development will be like after the economic growth spurt that will follow the end of the pandemic. The medium-term growth outlook is sluggish, and weaknesses exposed by the crisis will pose risks. The heavy indebtedness of public finances is one of our biggest concerns.

OP Financial Group's Financial Statements Bulletin 1 January–31 December 2020

Tables

Business environment

The world economy was hit hard by the Covid-19 pandemic in 2020. After its sharp contraction in spring, the economy started to recover in the summer, but recovery slowed down again towards the year end due to the second wave of the pandemic. Nevertheless, the economy suffered from the rise in infections considerably less than in spring.

Aided by central banks, the financial market recovered quickly from the spring crisis. Stock prices have risen along with optimism brought by the introduction of vaccinations and economic stimulus measures. Towards the year end, accommodative policy measures and recovery expectations were extensively reflected in other investments, too.

The ECB extended its accommodative monetary policy measures in December while emphasising that the main refinancing rates will remain low for a long time. Market interest rates have remained low throughout.

Following a more moderate drop than in the rest of the euro area, the Finnish economy started to recover in the third quarter, similarly to the rest of the euro area. During the last quarter, recovery slowed down but did not stop altogether.

The economy has been afflicted by the recession in an uneven way. Hardship has affected some sectors suffering from the Covid-19 pandemic, such as tourism and restaurant services. Otherwise, the financial standing of households and companies largely remained good during the rest of the year. The housing market picked up towards the year end and the slight drop caused by the pandemic remained short-lived.

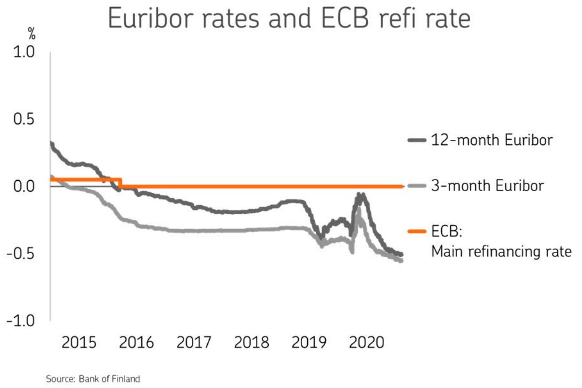
The Covid-19 pandemic will continue to cause uncertainty over the economic outlook. Increasing Covid-19 vaccination rates will support economic recovery. However, the interest rate environment is expected to remain low in the euro area.

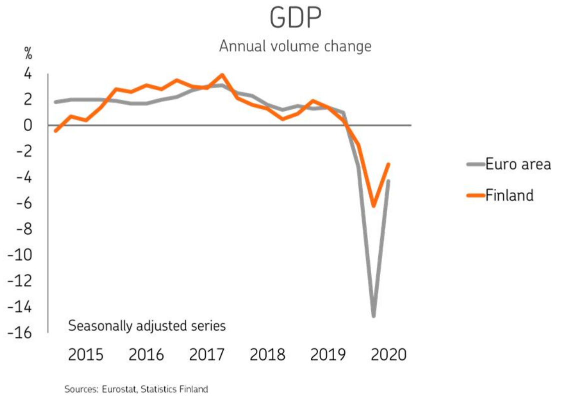
In banking, the pandemic intensified the growth in loans and deposits. April–May saw the greatest increase in loans at an annual rate of 6.8%. In December, the growth rate was 4.6%. At the end of December, corporate loans grew by 6.7% and consumer loans by 3.3%. Companies and public-sector entities lay behind the intensified growth in loans in the spring. In household loans, an increase in home loans was balanced by slowdown in consumer credit. Home loans grew by 3.3% in December as against 2.6% at the beginning of the year. Home loan drawdowns clearly decreased in spring but repayment holidays kept total loans on the increase. Home loan drawdowns increased during the rest of the year.

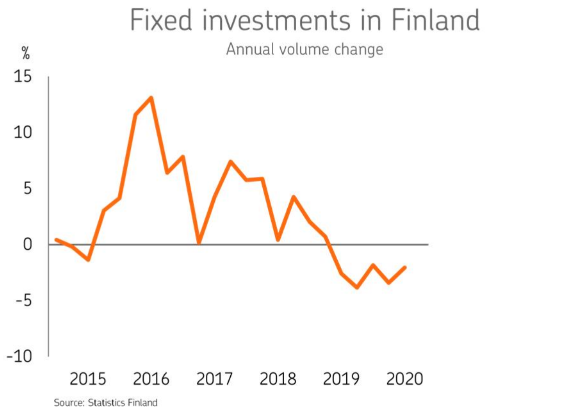
Growth in total deposits was at an exceptional level in 2020. Growth abated towards the year end from the peak of 16.8% reached in the summer, coming to 14.8% in December. In December, corporate deposits increased by 20.1% and household deposits by 8.5%.

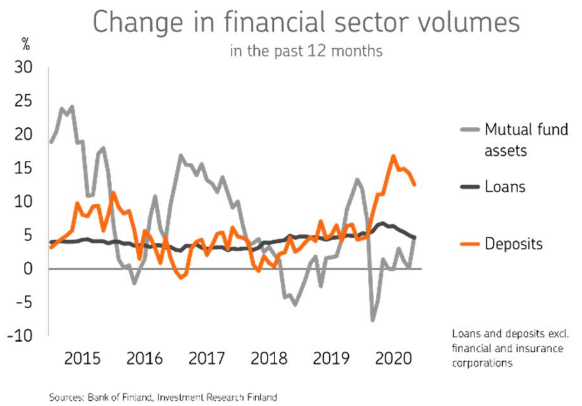
The value of mutual funds registered in Finland increased by EUR 7.5 billion to EUR 132.2 billion in 2020. EUR 6.3 billion of this increase was caused by a positive value change triggered by the strong rise in stock prices after the Covid-19 shock in spring.

Low interest rates and the volatile equity market have hindered insurance companies' investment activities. Reduced economic activity decreased claims volumes in spring but the long-term effects of the pandemic on insurance and on customers' financial standing are still unclear.









Earnings analysis and balance sheet

Earnings analysis, € million	Q1–4/ 2020	Q1–4/ 2019	Change, %	Q4/ 2020	Q4/ 2019	Change, %
Earnings before tax	785	838	-6.3	259	161	60.4
Retail Banking	115	235	-51.2	14	42	-66.3
Corporate Banking	349	311	12.5	128	79	62.1
Insurance	348	373	-6.5	154	94	63.5
Other Operations	3	-37	-	-36	-41	-10.8
Income						
Net interest income	1,284	1,241	3.5	324	318	1.6
Net insurance income	572	421	35.9	95	9	945.0
Net commissions and fees	931	936	-0.5	252	257	-1.8
Net investment income	184	530	-65.3	153	257	-40.6
Other operating income	132	53	146.2	11	12	-11.4
Total income	3,103	3,181	-2.5	835	854	-2.2
Expenses						
Personnel costs*	715	781	-8.6	120	208	-42.2
Depreciation/amortisation and impairment loss	273	278	-1.7	77	88	-13.0
Other operating expenses	852	844	0.9	228	242	-5.6
Total expenses	1,839	1,903	-3.4	425	538	-21.0
Impairment loss on receivables	-225	-87	-	-42	-51	-
Temporary exemption (overlay approach)	-3	-105	-	-48	-40	-
New OP bonuses accrued to owner-customers	-255	-254	-	-61	-63	-

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

Key indicators, € million	31 Dec 2020	31 Dec 2019	Change, %
Loan portfolio	93,644	91,456	2.4
Home loans	40,036	39,572	1.2
Corporate loans	22,587	22,509	0.3
Housing company and other loans	31,021	29,375	5.6
Guarantee portfolio	3,100	3,503	-11.5
Deposits	70,940	63,998	10.8
Assets under management (gross)*	89,126	83,106	7.2
Mutual funds	27,598	25,610	7.8
Institutional clients	25,330	24,445	3.6
Private Banking	24,888	22,199	12.1
Unit-linked insurance assets	11,310	10,852	4.2
Balance sheet total	160,207	147,024	9.0
Investment assets	23,562	23,509	0.2
Insurance liabilities	9,374	9,476	-1.1
Debt securities issued to the public	34,706	34,369	1.0
Equity capital	13,112	12,570	4.3

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

January–December

OP Financial Group's earnings before tax amounted to EUR 785 million (838). The figure decreased by EUR 53 million over the previous year. As regards income from customer business, net interest income and net insurance income increased. Earnings were also increased by the sale of the Vallila property as well as the transfer of the management of the remaining statutory earnings-related pension cover and the related insurance portfolio to Ilmarinen Mutual Pension Insurance Company.

The effects of the Covid-19 pandemic on loan portfolio quality increased impairment loss on receivables. Market developments caused by the pandemic decreased investment income, particularly in the first quarter. Earnings were also affected by the adoption of a new definition of default in the first quarter, based on a regulatory change, that increased impairment loss on receivables.

Net interest income increased by 3.5% to EUR 1,284 million. Net interest income reported by the Retail Banking segment increased by EUR 3 million and that by the Corporate Banking segment by EUR 11 million. OP Financial Group's loan portfolio grew by 2.4% to EUR 93.6 billion and deposits by 10.8% to EUR 70.9 billion, year on year. New loans drawn down by customers in 2020 totalled EUR 22.6 billion (25.1).

Net insurance income increased by 35.9% to EUR 572 million. The Insurance segment's non-life insurance premium revenue increased by 1.9% to EUR 1,506 million. Claims incurred decreased by 11.7% to EUR 951 million. The reduction in the discount rate for insurance liability increased claims incurred by EUR 45 million (136). Claims incurred as a result of the Covid-19 pandemic totalled EUR 37 million. The operating combined ratio improved to 87.8% (92.7).

Net commissions and fees totalled EUR 931 million (936). Net commissions and fees for mutual funds increased by EUR 11 million and those for payment transfer services by EUR 10. Meanwhile, net commissions and fees for asset management fell by EUR 27 million.

Net investment income decreased by 65.3% to EUR 184 million. Net income from financial assets at fair value through other comprehensive income totalled EUR 37 million (192). Capital gains were EUR 93 million lower than the year before. Capital gains on all financial instruments totalled EUR 43 million (197).

Net income from financial assets recognised at fair value through profit or loss totalled EUR 438 million (726). The fair value of equities, and notes and bonds decreased significantly in the first quarter. However, after that the situation in the securities market improved. An item corresponding to the decrease in the discount rate of the insurance liability for non-life insurance, EUR 45 million (136), was shown as positive value change in net investment income. Value changes in Credit Valuation Adjustment (CVA) in derivatives owing to market changes decreased earnings by EUR 19 million (–12).

Net income from investment property totalled EUR –30 million (19). Fair value on investment property decreased by EUR 35 million, whereas a year ago they increased by EUR 17 million.

An overlay approach is applied to certain equity instruments of insurance companies. Changes in the fair value of investments within the scope of the overlay approach are presented under the fair value reserve under shareholders' equity. The overlay approach decreased investment income by EUR 3 million (–105). Total investment income fell by 57.6% year on year, to EUR 181 million. The combined return on investments at fair value of OP Financial Group's insurance companies was 4.9% (8.9).

Other operating income rose by EUR 78 million year on year to EUR 132 million. The sale of the Vallila property increased other operating income in the first quarter. OP Financial Group recognised a capital gain of EUR 98 million on the sale in other operating income and an expense of EUR 2 million in other operating expenses. The Group will continue operating in the property under a long-term lease agreement, and the property was recognised as a right-of-use asset in the balance sheet. The value of the right-of-use asset under IFRS 16 was EUR 138 million and the lease liability was EUR 225 million. A year ago, the rise in other operating income was explained by the sale of occupational healthcare service business.

Total expenses decreased by 3.4% to EUR 1,839 million and personnel costs decreased by 8.6% to EUR 715 million. The transfer of the remaining statutory earnings-related pension liability at the end of 2020 reduced OP Financial Group's pension costs by EUR 96 million. Excluding the effect of this transfer, total expenses increased by 1.7% to EUR 1,935 million and personnel costs by 3.7% to EUR 811 million. Depreciation/amortisation and impairment loss on PPE and intangible assets decreased by 1.7% to EUR 273 million. Planned depreciation/amortisation increased by 6.6% to EUR 260 million due to higher development expenditure recognised for prior years. Impairment write-downs were EUR 13 million (33).

Other operating expenses increased by 0.9% to EUR 852 million. ICT costs increased by EUR 41 million to EUR 395 million. A one-off investment in the IT environment increased ICT costs for 2020. Development costs were EUR 183 million (183). Charges of financial authorities increased by 16.6% to EUR 52 million as a result of a higher EU stability contribution.

Impairment loss on loans and receivables and on investments recognised under various income statement items that reduced earnings amounted to EUR 244 million (110), of which EUR 225 million (87) concerned loans and receivables. During the Covid-19 crisis, customers actively applied for repayment holidays on their loans and changes to their repayment schedules. Combined with Covid-19 related extra provisions related to certain sectors and the changes in macroeconomic parameters applied in the calculation of expected credit losses, this increased impairment loss on receivables by EUR 88 million. The adoption of the new definition of default in the first quarter increased impairment loss on receivables by EUR 44 million. Rearrangement of receivables increased final net loan losses that came to EUR 107 million (45). Loss allowance was EUR 708 million (585) at the end of the reporting period. The ratio of non-performing receivables in loans and receivables to the loan and guarantee portfolio was 2.0% (1.1). Impairment loss on loans and receivables accounted for 0.23% (0.09) of the loan and guarantee portfolio.

OP Financial Group's income tax amounted to EUR 144 million (168). The effective tax rate was 18.3% (20.1). The rate decreased due to the transfer of statutory earnings-related pension liability and the group contributions provided.

OP Financial Group's equity amounted to EUR 13.1 billion (12.6). Equity included EUR 3.0 billion (3.0) in Profit Shares, terminated Profit Shares accounting for EUR 0.3 billion (0.3). The return target for Profit Shares for 2020 was 3.25%. Interest payable on Profit Shares is estimated to total EUR 95 million. The amount of interest paid for 2019 on 8 February 2021 totalled EUR 97 million.

Comprehensive income totalled EUR 734 million (926). A year ago, comprehensive income was increased by changes in the fair value reserve.

October–December

Earnings before tax for the fourth quarter were EUR 259 million against EUR 161 million a year ago. Earnings were improved by the increase in net interest income and net insurance income. In addition, earnings were increased by the transfer of the statutory earnings-related pension insurance liability to Ilmarinen Mutual Pension Insurance Company. Earnings were reduced in particular by lower investment income.

Year on year, net interest income rose by 1.6% to EUR 324 million. Net insurance income increased by EUR 86 million to EUR 95 million due to a decrease in claims incurred. The increase in claims incurred that resulted from the reduction in the discount rate for insurance liability was EUR 89 million lower than a year ago.

Net commissions and fees were EUR 252 million, or EUR 5 million higher than the year before.

Net investment income decreased by 40.6% to EUR 153 million. Net income from financial assets recognised at fair value through other comprehensive income decreased by EUR 40 million to EUR 6 million due to a EUR 38 million decrease in capital gains. Net income from financial assets recognised at fair value through profit or loss increased by EUR 137 million to EUR 179 million due to positive changes in fair value. An item corresponding to the decrease in the discount rate of the insurance liability for non-life insurance, EUR 45 million (136), was shown as a positive value change in net investment income. Net income from investment property decreased by EUR 16 million year on year to EUR – 21 million. The overlay approach was EUR –48 million (–39). In total, investment income fell by 51.8% to EUR 105 million.

Other operating income amounted to EUR 11 million (12).

Total expenses decreased by 21.0% year on year to EUR 425 million. Personnel costs decreased by 42.2% to EUR 120 million. The transfer of statutory earnings-related pension liability at the end of 2020 reduced OP Financial Group's pension costs by EUR 96 million. Excluding the effect of this transfer, total expenses decreased by 3.2% to EUR 521 million and personnel costs by 3.8% to EUR 216 million. Depreciation/amortisation and impairment loss decreased by 13.0% from the previous year, to EUR 77 million. Other operating expenses fell by 5.6% to EUR 228 million.

Impairment loss on receivables, EUR 42 million, decreased by EUR 9 million year on year. Final net loan losses recognised totalled EUR 24 million (4).

Comprehensive income of EUR 299 million (58) for the reporting period was increased by changes in the fair value reserve. In October–December, the fair value reserve grew by EUR 99 million (–106). The fair values of equities, and notes and bonds increased in the fourth quarter.

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

OP Financial Group has offered financial relief in the form of repayment holidays to its private and corporate customers who have run into financial problems due to the Covid-19 crisis. Households have the opportunity to get a repayment holiday of up to 12 months on their home loans. With respect to corporate customers, changes in repayment schedules are always evaluated on a case-by-case basis. In addition, guarantees provided by Finnvera have been used extensively. No separate fees were charged for loan modifications during the period 16 March–21 September 2020.

During the Covid-19 crisis, the Group received approximately 200,000 individual applications for repayment holidays from private customers by the end of December. All of these applications were not connected to challenges related to the Covid-19 crisis. In the summer, the number of repayment holiday applications returned to its pre-pandemic level. The number of applications for repayment holidays and loan modifications on corporate loans exceeded 20,000 by the end of December. Also, the number of applications from corporate customers decreased already in summer.

In the spring and summer, OP Real Estate Asset Management Ltd supported the lessees of the business property units it manages with flexible lease payment if the Covid-19 pandemic caused them financial difficulties. At the end of the reporting period, the lessees' need for flexible lease payment was marginal and the repayment of postponed leases began as agreed. Overall, the effects of the pandemic were minor. OP Real Estate Asset Management manages the portfolios of real estate funds that it and OP Fund Management are in charge of, and real estate units of OP Financial Group insurance companies. OP Real Estate Asset Management is the largest real estate fund investor in Finland.

OP cooperative banks granted brief reliefs on lease payment to their customers on a case-by-case basis, particularly in the second quarter. Most waivers and discounts on lease payments terminated at the end of the third quarter, and rental income mainly recovered to its pre-pandemic level.

When the coronavirus crisis began, Pohjola Insurance offered its customers flexibility in payment terms. Over 20,000 customers took the opportunity of extending the payment time of their insurance premiums between April and September.

During the spring and summer, the Covid-19 pandemic increased 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 year end, the number of claims restored to its pre-pandemic level. A total of EUR 37 million in Pohjola Insurance claims incurred related to loss events caused by the pandemic. Most of the payouts were for major public events that had to be cancelled as well as for travel losses.

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 transmission. Pohjola Hospital paid the personnel's salaries during the time of temporary work.

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

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

OP Financial Group has ensured that services critical to society are available during the Covid-19 crisis too. OP Financial Group has enabled safe working conditions for its personnel in its offices and branches. Extensive remote working is also encouraged in those jobs where it is possible. In the spring, up to three fourths of OP Financial Group's employees worked remotely. For the rest of the year, work continued through 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.

Events in October–December

OP Financial Group observed the recommendation issued by the European Central Bank (ECB) by postponing the payment of interest on Profit Shares for 2019 to 2021. On 2 April 2020, OP Financial Group announced that it would postpone the payment of interest on Profit Shares for 2019 from June to October 2020, in line with the recommendations issued by the ECB in March. On 28 July 2020, the ECB extended the validity of its recommendation and urged banks to refrain from profit distribution until 1 January 2021. On 15 December 2020, the ECB issued an updated recommendation whereby it urged banks to exercise extreme prudence in profit distribution or to refrain altogether from profit distribution until 30 September 2021.

Following the ECB's recommendation, OP Financial Group discussed the level of profit distribution with the ECB Joint Supervisory Team, and the interest on Profit Shares for 2019 was paid to holders of those shares on 8 February 2021. The interest payable for 2019 totalled EUR 97 million based on the original return target of 3.25%. The amount does not exceed the ECB's recommendation on the maximum limits for profit distribution. According to the recommendation, profit distribution paid by banks should not exceed 15% of the cumulated profit for 2019–2020, and the total amount of profit distributed should not be higher than 20 basis points of the Common Equity Tier 1 (CET1) ratio, whichever is lower. The purpose of this recommendation is to safeguard the ability of banks to support the real economy by providing funding to businesses and households to alleviate the effects of the economic crisis caused by the Covid-19 pandemic.

OP Bank Group Pension Fund transferred the majority of the management of its pension liability and earnings-related pension insurance to Ilmarinen Mutual Pension Insurance

Company on 31 December 2018. Transfer of the statutory earnings-related pension liability remaining with OP Bank Group Pension Fund to Ilmarinen Mutual Pension Insurance Company took place on 31 December 2020. The transfer of the statutory earnings-related pension liability applied to the following companies of OP Financial Group in their capacity as employers: Pohjola Insurance Ltd, OP Asset Management Ltd, OP Real Estate Asset Management Ltd, OP Asset Management Execution Services Ltd and Pohjola Hospital Ltd. The Representative Assembly of OP Bank Group Pension Fund decided on the liability transfer on 4 August 2020. The earnings effect of the transfer, EUR 96 million, was recognised as a deduction in OP Financial Group's personnel costs. The transfer had no substantial effect on the CET1 ratio.

The sale of Automatia Pankkiautomaatit Oy, a company jointly owned by OP Financial Group, Danske Bank and Nordea, was finalised on 2 December 2020. Automatia's entire share capital was transferred to Loomis AB, which specialises in cash handling. In connection with this transaction, the sellers committed themselves to new, long-term service agreements and will continue to be major customers of Automatia. The sale has no effect on Automatia's services, such as the operation of Otto ATMs. In connection with the transaction, Nordea and OP Financial Group acquired rights to the Siirto brand previously owned by Automatia. Nordea and OP will continue to provide the Siirto service to their customers as before.

OP Financial Group's strategic targets and focus areas

At its meeting on 13 August 2020, the Supervisory Council of OP Financial Group's central cooperative confirmed the Group's updated strategy. The strategy update involved specifying the key tasks for achieving the Group's vision and defining its strategic priorities for 2021.

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

The Supervisory Council confirmed OP Financial Group's strategic priorities for 2021 as follows:

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

The strategic priorities reviewed annually will help achieve the shared vision and guide all actions. OP Financial Group's vision is to be the leading and most appealing financial services group in Finland.

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

OP Financial Group's strategic targets	31 Dec 2020	31 Dec 2019	Target 2025
Return on equity (ROE excluding OP bonuses), %	6.6	7.1	8.0
CET1 ratio, %	18.9	19.5	At least CET1 requirement + 4 pps
Brand recommendations, NPS (Net Promoter Score, private and corporate customers)*	23	26	30
Credit rating	AA-/Aa3	AA-/Aa3	At least at the level of AA-/Aa3

*Average of quarters (per year)

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

Promotion of the success of owner-customers and operating region

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

Allocation of earnings

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

OP Financial Group's estimated earnings allocation for 2020 that is to be confirmed after the end of the financial year:

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

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

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

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

Customer relationships and customer benefits

OP Financial Group had a total of 2.0 million (2.0) owner-customers at the end of the year. The number of owner-customers increased by 22,000 during the year.

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

The number of joint banking and insurance customers totalled 1.3 million (1.2).

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

OP cooperative banks' owner-customers earn OP bonuses through banking, insurance and wealth management transactions. The value of new OP bonuses accrued in January–December totalled EUR 255 million (254). During the same period, a total of EUR 119 million (113) of bonuses were used to pay for banking and wealth management services and EUR 130 million (129) to pay non-life insurance premiums.

Owner-customers benefitted EUR 27 million (35) from the reduced price of the daily services package of Retail Banking. The reduced price applied a year ago was adjusted to correspond to the updated accounting. Owner-customers were provided with EUR 66 million (69) in non-life insurance loyalty discounts. In addition, owner-customers bought, sold and switched the majority of the mutual funds without separate charges. The value of this benefit amounted to EUR 6 million (5).

The abovementioned OP bonuses and customer benefits totalled EUR 354 million (363), accounting for 31.1% (30.2) of OP Financial Group's earnings before tax and granted benefits.

Interest payable on Profit Shares for the financial year 2020 is estimated to total EUR 95 million (97). The return target for Profit Shares for 2020 was an interest rate of 3.25% (3.25). Similarly, the return target for Profit Shares for 2021 is an interest rate of 3.25%.

Corporate responsibility

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

OP Financial Group is committed to complying with the ten principles of the UN Global Compact initiative in the areas of human rights, labour rights, the environment and anti-corruption. OP has agreed to follow the UN Principles for Responsible Investment since 2009. In 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 28% (26) at the end of December.

October–December highlights

As part of its corporate responsibility work, OP Financial Group donated 100,000 euros to the Crisis Helpline operated by MIELI Mental Health Finland in October. The Covid-19 crisis has significantly affected people's wellbeing, and the prolonged crisis is putting a strain on the mental health of many of us. The donation will assist the Helpline in answering up to 10,000 more calls of those who need help.

In November, OP Financial Group adopted a Green Covered Bond Framework, which allows OP Mortgage Bank (a member of OP Financial Group) to issue green covered bonds. Based on the framework criteria, the sector to be financed is green buildings.

In December, OP Financial Group's climate actions scored, for a second time in a row, an A- in CDP's international climate impact assessment.

In 2020, OP Financial Group continued its long-term efforts that will benefit the climate. During the year, the Group introduced new responsible products, provided financing to businesses to support their sustainable finance, reduced its emissions and increased information on the impacts of climate change.

Multichannel services

OP Financial Group has a multichannel service network comprising branch, online, mobile and telephone services. In December, the Group's mobile channels (OP-mobile, OP Business mobile, OP Junior) had more than 1.2 million active users (1.1). The Group provides personal customer service both at branches and digitally. The Group seeks to provide the best multichannel customer experience in the sector.

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

Mobile and online services, no. of logins (million)	Q1–4/ 2020	Q1–4/ 2019	Change, %
OP-mobile	403.8	302.3	33.6%
OP Business mobile	15.2	10.2	49.6%
Pivo	43.7	52.7	-17.0%
Op.fi	68.1	102.0	-33.3%
	31 Dec 2020	31 Dec 2019	Change, %
Siirto payment, registered customers (OP)	899,402	666,321	35%

The use of the Mobile key identification method was extended to cover the op.fi service in January and online payments and other online services, such as MyTax and Kela, in March. In December, Mobile key already had more than 1.2 million active users, and over 80% of logins are made by using Mobile key.

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

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

In September, OP launched the new OP Corporate Hub service that will replace the old Cash Management Service for corporate customers. OP Corporate Hub is a digital service that helps companies in comprehensive financial monitoring, cash management and payment transactions.

In November, OP launched a digital OP Investment Partner service to help people start investing, and the Subscription management service that helps customers in managing their continuous agreements and subscriptions.

OP Financial Group has an extensive branch network with 342 branches (352) across the country. The Group's own branch network is further supported by a comprehensive agency and partnership network, which is particularly important in terms of the sale of non-life insurance policies.

OP Financial Group has extensive presence in the most common social media channels where it has around 570,000 followers (480,000). In addition to OP Financial Group's national social media accounts, many OP cooperative banks have their own Facebook pages where they share publications targeted at local customers.

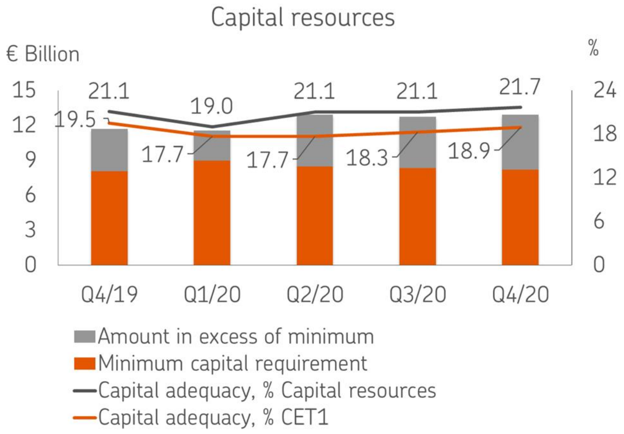
Capital adequacy and capital base

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

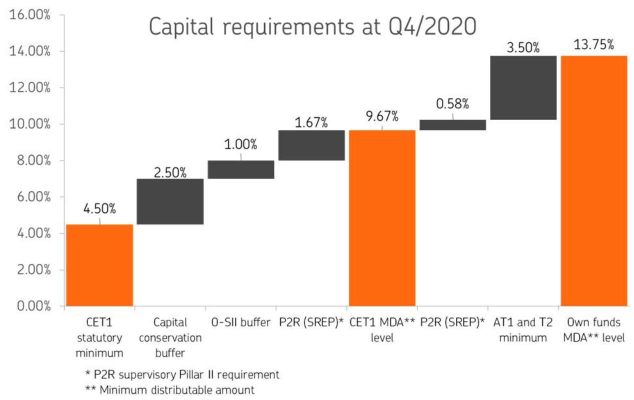
OP Financial Group's capital base, calculated according to the Act on the Supervision of Financial and Insurance Conglomerates (FiCo), exceeded the minimum amount specified in the Act by EUR 4.4 billion (3.2). Banking capital requirement fell to 13.8% (14.5), calculated on risk-weighted assets. The amount of Tier 2 (T2) loans issued during the second quarter totalled EUR 1.3 billion. The amount of T2 loans redeemed during the third quarter totalled EUR 0.4 billion. The ratio of the Group capital base to the minimum capital requirement was 150% (138). As a result of the buffer requirements for banking and the solvency requirements for insurance companies, the minimum FiCo solvency of 100% reflects the level within which the conglomerate can operate without regulatory obligations resulting from buffers below the required level.

Capital adequacy for credit institutions

OP Financial Group's CET1 ratio was 18.9% (19.5). The lower ratio was affected by the increase in the loan portfolio and the rise in risk weights caused by the new definition of default.

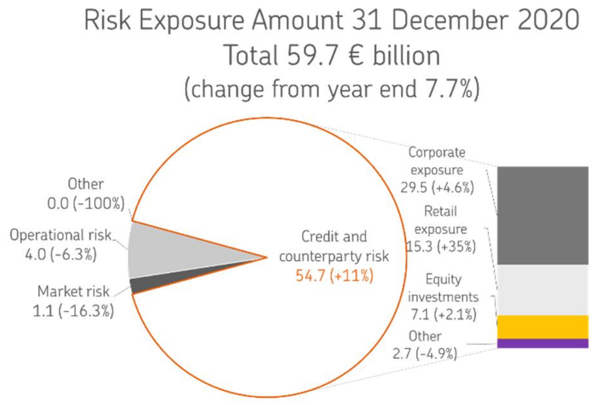


As a credit institution, OP Financial Group's capital adequacy is on a solid basis compared to the statutory requirements and those set by the authorities. The statutory minimum for the capital adequacy ratio is 8% and for the CET1 ratio 4.5%. The requirement for the capital conservation buffer of 2.5%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



The CET1 capital of OP Financial Group as credit institution was EUR 11.3 billion (10.8). The CET 1 capital was increased by banking earnings as well as by a decrease in the allowance for intangible assets following the regulatory change related to software expenditure capitalisation. The amount of Profit Shares in CET1 capital was EUR 2.8 billion (2.9).

The risk exposure amount (REA) totalled EUR 59.7 billion (55.5), or 8% higher than on 31 December 2019. The risk weight floor for retail exposures set by the ECB was discontinued and was replaced by a risk-weighting factor that is directly applied to retail exposures. Because of the adoption of the new definition of default, the average retail and corporate exposure risk weights rose due to the risk-weighting factors set by the ECB. In addition, a new risk-weighting factor was applied to retail exposures. Growth in the loan portfolio also increased the total risk exposure amount.



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

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

The upcoming EU regulation includes a requirement for measuring the degree of indebtedness, the leverage ratio. The leverage ratio of OP Financial Group's Banking is estimated at about 7.8% (8.3) based on the existing interpretations, calculated using the December-end figures. According to the draft rules, the minimum ratio is 3%.

In OP Financial Group's view, the most significant open changes in the regulatory and supervisory environment affecting capital adequacy for credit institutions include obligations, if any, imposed by the supervisor due to the ECB's Targeted Review of Internal Models (TRIM), and changes resulting from the update of the EU capital requirements regulation (CRR2). The ECB review of the internal models for corporate exposures is expected to reduce OP Financial Group's CET1 ratio by around 0.8 percentage points in the first half of 2021. The CRR2 changes are expected to reduce the CET1 ratio by around 0.5 percentage points during the second quarter of 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 would decrease OP Financial Group's CET1 ratio by around 0.8 percentage points during 2021. The final effect and its schedule will be specified after discussions with the supervisor and the approval process related to the scope of IRBA.

OP Financial Group's Capital Adequacy and Risk Management Report for 2020 will be published in week 10.

Insurance

The solvency position of insurance companies is strong. A good balance on technical account strengthened the capital base. In addition, the transfer of statutory earnings-related pension liability increased the capital base of non-life insurance by EUR 51 million. The solvency capital requirement was increased by higher underwriting risks caused by lower interest rates as well as higher market risks.

	Non-life insurance		Life insurance	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Capital base, € mill.*	1,205	1,008	1,436	1,423
Solvency capital requirement, € mill.*	762	699	746	687
Solvency ratio, %*	158	144	193	207
Solvency ratio, % (excl. transitional provision)	158	144	161	170

*including transitional provisions

ECB's supervision

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

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

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

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

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

Liabilities under the Resolution Act

Under regulation applied to crisis resolution of credit institutions and investment firms, the resolution authority is authorised to intervene in the terms and conditions of investment products issued by a bank in a way that affects an investor's position. The EU's Single Resolution Board (SRB) based in Brussels is OP Financial Group's resolution authority. The SRB has set OP Financial Group's Minimum Requirement for own funds and Eligible Liabilities (MREL) at 12% of liabilities and own funds or accounting for 27% of the total risk exposure amount at the end of 2018. OP Financial Group will update its policy regarding compliance with the MREL requirement when the supervisor makes its next MREL decision. The MREL ratio was an estimated 40% at the end of 2020 (43). The SRB has confirmed a resolution strategy for OP Financial Group whereby the resolution measures would apply to OP Corporate Bank acting as a Single Point of Entry.

Risk exposure

OP Financial Group implements its strategy by operating responsibly, taking moderate risk and maintaining a strong capital base and sufficient liquidity. When entering 2020, OP Financial Group had a strong risk-bearing capacity and sufficient capital base and liquidity in view of targets.

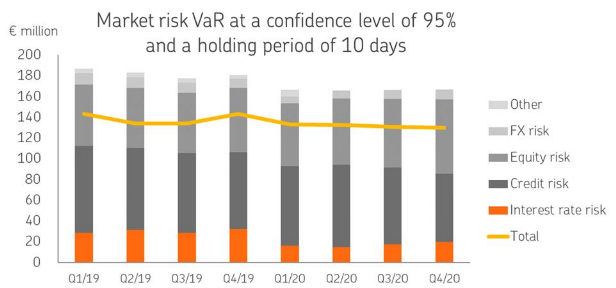
The Covid-19 pandemic that spread widely in early 2020 had a global effect on societies, which was further reflected in economic development and operating conditions in the financial sector, including in Finland. Engaged in business covering various areas of the financial sector, OP Financial Group may 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 Financial Group in three ways. The financial standing of customers affects OP Financial Group's account funds and the credit risk and insurance risk exposure. The crisis has increased the volume of deposit funds. The pandemic has weakened customers' debt-servicing capacity. However, the quality of the loan portfolio has remained good. Impairment loss on receivables has increased but has remained relatively low in relation to the loan and guarantee portfolio. Our personnel's health situation and the need to protect ourselves from the pandemic 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 and on OP Financial Group may affect the availability of market-based funding. The Group has been able to maintain its strong liquidity and has successfully executed long-term funding transactions in the market. Overall, the Group's liquidity and capital are sufficient to secure business continuity.

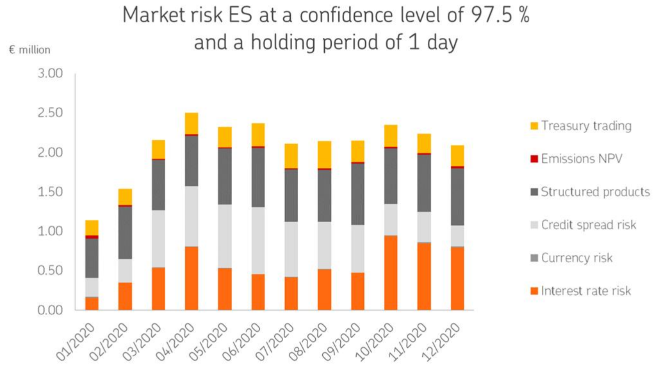
OP Financial Group's funding position and liquidity is good. In general, the Covid-19 crisis has been reflected in the price and availability of wholesale funding for banks. In March, the wholesale funding market was disrupted due to the Covid-19 crisis. Particularly in short-term wholesale funding, prices rose sharply and it was not possible to renew maturing contracts for a certain period of time. Long-term unsecured wholesale funding too experienced a markedly steep rise in risk premiums. During the second quarter, the wholesale funding market clearly began to recover. By the end of the year, risk premiums had already decreased to the pre-crisis level, due to strong support measures taken by central banks.

In 2020, OP Financial Group issued long-term bonds worth EUR 8.9 billion (4.7). The loan-to-deposit ratio remained stable during the reporting period.

The market risk level of OP Financial Group's long-term investments remained moderate. No major changes were made to the asset class allocation during the reporting period. The Group's VaR, a measure of market risk, was EUR 130 million (143) on 31 December 2020. The VaR risk metric includes the total balance sheets of insurance institutions, the liquidity buffer and Banking's long-term bond investments. Insurance companies' total balance sheets contain investments, insurance liabilities and derivatives that hedge against interest rate risk associated with insurance liabilities. The 2020 figures no longer include risk associated with 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 increased in the first half due to the changed market situation and thereafter remained stable. 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.



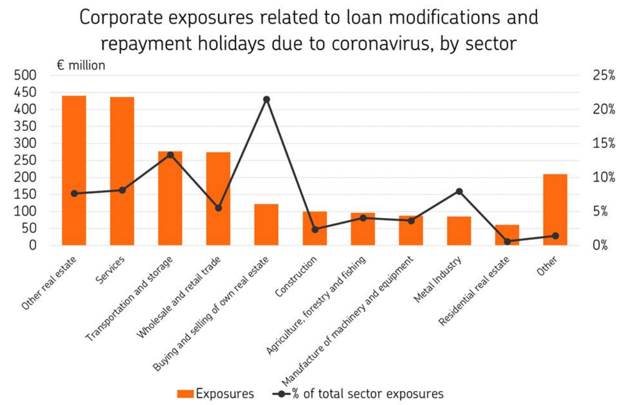
Operational risks remained moderate as targeted. Materialised operational risks resulted in a gross loss of EUR 7.8 million (14.8) during 2020. From the operational risk perspective, the implications of the Covid-19 pandemic on OP Financial Group were mild during the reporting period and mainly affected OP cooperative banks.

Retail Banking and Corporate Banking

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

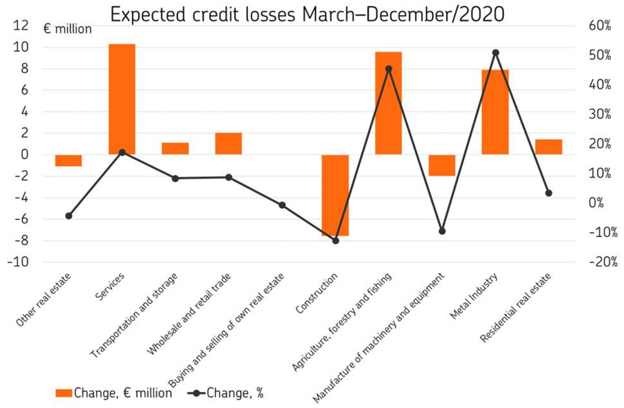
The Covid-19 pandemic has not substantially weakened banking credit risk exposure, but there is still risk for a negative development.

At the end of December, repayment holidays and loan modifications granted by OP Financial Group mainly due to the Covid-19 crisis concerned customer exposures of around EUR 8.2 billion, 73.4% of which concerned private customer exposures. A total of 70.4% of repayment holidays granted to private customers concerned the top six rating grades in OP Financial Group's 16-tier internal rating system, while 6,4% concerned the lowest three rating grades.
In OP Financial Group's 20-tier internal rating system for corporate customers, 26.7% of the corporate exposures to which a loan modification or repayment holiday was granted were categorised in the highest seven rating grades, while 5.4% were in the lowest three rating grades.



The table shows the distribution of corporate exposures by sector at the end of December as a result of loan modifications and repayment holidays granted mainly due to the Covid-19 crisis.

20.1% of repayment holidays and loan modifications related to corporate exposures concerned the sector Operating of real estate, 19.9% concerned the service sector (such as hotels, restaurants and tourism) and 12.6% concerned the transportation and storage sector.



The table shows the changes in expected credit loss by sector mainly due to the Covid-19 crisis in March–December.

In March–December, the most significant expected credit losses were recognised in corporate exposures related to services, agriculture, forestry, fishing and metal industry.

The distribution of expected credit loss by industry is presented in OP Financial Group's Capital Adequacy and Risk Management Report for 2020.

Forborne loans and non-performing receivables

	Performing forborne exposures (gross)		Non-performing receivables (gross)		Doubtful receivables (gross)		Loss allowance		Doubtful receivables (net)	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Over 90 days past due, € billion			0.63	0.64	0.63	0.64	0.24	0.25	0.39	0.39
Unlikely to be paid, € billion			0.78	0.51	0.78	0.51	0.18	0.15	0.60	0.36
Forborne exposures, € billion	3.28	2.03	1.10	0.34	4.38	2.38	0.15	0.05	4.24	2.33
Total, € billion	3.28	2.03	2.51	1.48	5.79	3.52	0.57	0.45	5.22	3.07

In March 2020, OP Financial Group adopted a new definition of default, which increased the number of defaulted contracts. During the Covid-19 crisis, customers actively applied for loan repayment holidays and loan modifications, and the amount of forborne exposures grew in 2020.

Key ratios	OP Financial Group		Retail Banking		Corporate Banking	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Ratio of doubtful receivables to loan and guarantee portfolio, %	5.4	3.2	6.7	4.1	2.0	0.9
Ratio of non-performing receivables to loan and guarantee portfolio, %	2.0	1.1	2.4	1.3	1.1	0.5
Ratio of performing forborne exposures to loan and guarantee portfolio, %	3.4	2.1	4.3	2.8	0.9	0.4
Ratio of performing forborne exposures to doubtful receivables, %	62.3	66.2	64.2	68.3	45.9	42.1
Ratio of loss allowance (receivables from customers) to doubtful receivables, %	15.1	15.7	9.4	8.6	85.5	59.3

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

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

Retail Banking's interest rate risk in the banking book measured as the effect of a one-percentage point decrease on 12-month net interest income was EUR –57 million (–40) at the end of December. Interest income risk is calculated for a one-year period by dividing the sum of the interest income risk for the next three years by three.

Deposits within the scope of deposit guarantee and managed by OP Financial Group totalled EUR 41.2 billion (38.0) at the end of December. The Deposit Guarantee Fund compensates a maximum of EUR 100,000 for each OP Financial Group customer.

Insurance

Non-life insurance

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

A one-year increase in life expectancy would increase insurance liability for annuities by EUR 48 million (48). A 0.1 percentage point decrease in interest rates used in insurance liability valuation would increase insurance liabilities by EUR 29 million (26).

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

The market risk level of investments remained moderate. Equity risk rose during the reporting period. The VaR, a measure of market risk, was EUR 64 million (54) on 31 December 2020. Interest rate derivatives have been used to hedge against interest rate risk associated with insurance liability.

Life insurance

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

A one-year increase in life expectancy would increase insurance liability by EUR 27 million (26). A 0.1 percentage point decrease in interest rates used in insurance liability valuation would increase insurance liabilities by EUR 31 million (31).

Investment risks associated with separated insurance portfolios transferred from Suomi Mutual and risks associated with changes in customer behaviour have been buffered. The buffer is sufficient to cover a significant negative return on the investment assets included in the separate portfolios, after which OP Financial Group will bear the risks associated with the portfolios. The buffers totalled EUR 281 million (327) on 31 December 2020.

The market risk level of investments remained moderate. No major changes were made to the asset class allocation during the reporting period. Equity risk rose during the reporting period. The VaR, a measure of market risk, was

EUR 61 million (58) on 31 December 2020. Interest rate derivatives have been used to hedge against interest rate risk associated with insurance liability.

Other Operations

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

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

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

OP Financial Group monitors its liquidity and the adequacy of its liquidity buffer using, for example, the LCR (Liquidity Coverage Ratio). According to regulation, the LCR must be at least 100%. OP Financial Group's LCR was 197% (141) at the end of the reporting period.

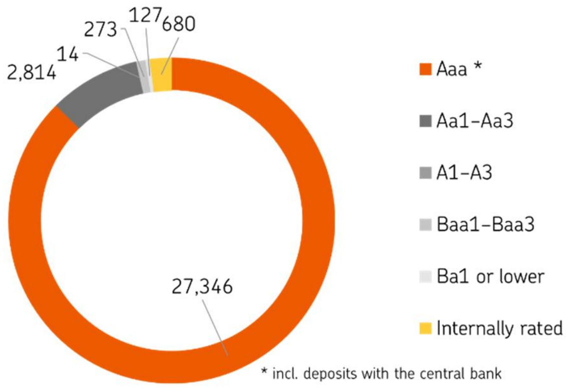
OP Financial Group monitors its long-term funding sufficiency, for example, by means of the Net Stable Funding Ratio (NSFR), which measures structural funding risk. In regulation, no minimum requirement for the NSFR has been set as yet. OP Financial Group's NSFR was 123% (112) at the end of the reporting period.

Liquidity buffer

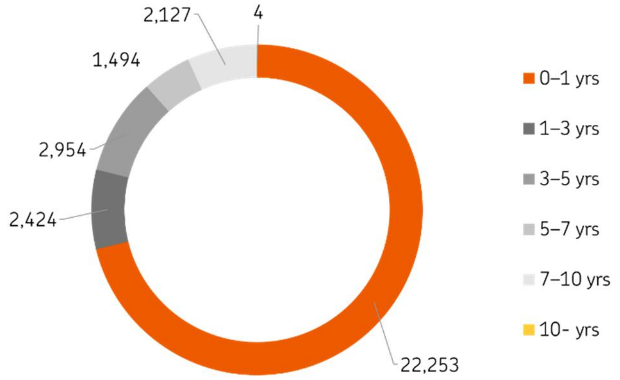
€ billion	31 Dec 2020	31 Dec 2019	Change, %
Deposits with central banks	21.6	11.9	81.1
Notes and bonds eligible as collateral	8.7	11.1	-21.9
Corporate loans eligible as collateral	-	0.0	-
Total	30.2	23.0	31.2
Receivables ineligible as collateral	1.0	2.0	-48.7
Liquidity buffer at market value	31.3	25.0	24.9
Collateral haircut	-0.5	-0.8	-41.2
Liquidity buffer at collateral value	30.8	24.2	27.3

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 31 December 2020, € million



Financial assets included in the liquidity buffer by maturity on
31 December 2020, € million



Credit ratings

31 Dec 2020

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

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

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

Other ratings of OP Corporate Bank plc did not change in 2020.

On 22 January 2021, Standard & Poor's restored the outlook on OP Corporate Bank plc's long-term credit rating from negative to stable after the trend in the BICRA score, which describes the status of the Finnish banking system, restored from negative to stable.

Financial performance by segment

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

Retail Banking

- Earnings before tax amounted to EUR 115 million (235). Impairment loss on receivables, EUR 172 million, was EUR 136 million higher than a year ago. Impairment loss increased mainly due to the adoption of the new definition of default and the effects of the Covid-19 pandemic on the quality of the loan portfolio.
- Total income decreased by 0.2% to EUR 1,653 million. Net interest income increased by EUR 3 million to EUR 925 million. Net commissions and fees decreased by EUR 10 million to EUR 698 million.
- Total expenses decreased by 1.7% to EUR 1,152 million. Personnel costs decreased by 3.1%. Depreciation/amortisation and impairment loss increased by 8.5% mainly as a result of the card system reform.
- The loan portfolio increased by 1.9% and the deposit portfolio by 8.7% year on year.
- Non-performing receivables accounted for 2.4% (1.3) of the loan and guarantee portfolio.
- The most significant development investments focused on improving the efficiency of the IT system environment, finalising the card system reform and enhancing customer experience and customer processes.

Key figures and ratios

€ million	Q1–4/2020	Q1–4/2019	Change, %
Net interest income	925	922	0.3
Net commissions and fees	698	708	-1.5
Net investment income	2	-17	-
Other income	29	43	-32.9
Total income	1,653	1,657	-0.2
Personnel costs	412	426	-3.1
Depreciation/amortisation and impairment loss	60	55	8.5
Other operating expenses	680	692	-1.6
Total expenses	1,152	1,172	-1.7
Impairment loss on receivables	-172	-36	-
OP bonuses to owner-customers	-214	-214	-
Earnings before tax	115	235	-51.2
Cost/income ratio, %	69.7	70.7	-1.0*
Ratio of non-performing receivables to loan and guarantee portfolio, %	2.4	1.3	1.1*
Ratio of impairment loss on receivables to loan and guarantee portfolio, %	0.24	0.05	0.19*
Return on assets (ROA), %	0.11	0.24	-0.13*
Return on assets, excluding OP bonuses, %	0.30	0.45	-0.15*

€ million			
Home loans drawn down	7,429	7,799	-4.7
Corporate loans drawn down	2,411	2,729	-11.7
No. of brokered residential property and property transactions	11,998	12,139	-1.2

€ billion	31 Dec 2020	31 Dec 2019	Change, %
Loan portfolio			
Home loans	40.0	39.6	1.2
Corporate loans	8.1	8.1	-0.3
Housing company and other loans	21.3	20.4	4.0
Total loan portfolio	69.4	68.1	1.9
Guarantee portfolio	0.9	0.8	17.2
Deposits			
Current and payment transfer	39.3	35.4	11.0
Investment deposits	19.8	19.0	4.2
Total deposits	59.1	54.4	8.7

*Change in ratio

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

In the year to December, the loan portfolio grew by 1.9% to EUR 69.4 billion. New home loan drawdowns decreased by 4.7% year on year. During the year, the home loan portfolio increased by 1.2% to EUR 40.0 billion. The corporate loan portfolio remained at the previous year's level at EUR 8.1 billion.

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

Customers showed continued interest in protecting home loans and housing company loans against risks. On 31 December 2020, a total of 27.1% (24.5) of private customers' home loans were covered by interest rate protection.

During the year, the deposit portfolio increased by 8.7% to EUR 59.1 billion. Most of this increase came from current and payment transfer accounts, but also from investment deposits, with household deposits showing the strongest growth.

The economic crisis caused by the Covid-19 pandemic reduced the volume of home sales in April–May. However, the slight drop remained short-lived: as of June, sales volumes began to pick up year on year as pent-up demand started to release and the housing market recovered. The volume of homes and real property sold and bought through the OP Koti real estate agents decreased by 1.2%.

The decline in household consumption in March–May reduced both the use of cash and card payments. Following the lifting of restrictions implemented in spring due to the exceptional situation, both the purchase volumes of card payments and the use of cash rebounded from their low levels experienced in spring. However, cash volumes remained below their pre-pandemic level and the long-term downward trend in the use of cash accelerated.

As a result of the exceptional situation caused by the Covid-19 pandemic, OP Financial Group's customers have taken a digital leap in the use of banking services. In 2020, online subscriptions for mutual funds doubled from the previous year. In addition, almost all home loan applications were submitted through digital channels, and most home loan negotiations were held remotely. Bids for homes brokered by OP Koti real estate agents were made digitally. The number of transactions completed on the digital platform for residential property transactions (DIAS) was higher than before. OP Financial Group has been involved in developing the platform right from the beginning. During the reporting period, the Group sold part of its holding in DIAS Oy. However, OP Financial Group aims to continue supporting the development of the platform and to complete almost 50% of applicable home sales through the platform in 2021.

OP Financial Group also sold its holding in Automatia Pankkiautomaatit Oy to Loomis AB, which specialises in cash handling. OP signed a long-term service agreement with Loomis and will continue to be a major customer of Automatia. The sale has no effect on Automatia's services, such as the operation of Otto ATMs.

During the reporting period, the most significant development investments focused on improving the efficiency of the IT system environment, finalising the card system reform and enhancing customer experience and customer processes. For example, OP's digital home loan service became available to everyone – also customers of other banks can get an automated loan decision from OP. OP also launched services that support the customer's personal financial management, and the OP Multi-bank Service. At the end of the year, the Group launched OP Investment Partner, a fully digital service that helps the customer reach their investment goal by investing in sustainability themed funds.

Financial performance for the reporting period

Retail Banking earnings before tax were EUR 115 million (235). Net interest income grew by EUR 3 million to EUR 925 million as a result of an increase in the loan portfolio. Net commissions and fees decreased by 1.5% to EUR 698 million, mainly due to the Covid-19 pandemic. Net investment income totalled EUR 2 million (–17). Total income remained at the previous year's level, approximately EUR 1,653 million.

Total expenses decreased by 1.7% to EUR 1,152 million. Personnel costs decreased by 3.1%. Depreciation/ amortisation and impairment loss increased by 8.5% to EUR 60 million, mainly as a result of the card system reform.

Impairment loss on receivables increased to EUR 172 million (36). In spring, customers actively applied for repayment holidays on their loans and changes to their repayment schedules due to the Covid-19 crisis. Combined with the Covid-19 related changes in macroeconomic parameters applied in the calculation of expected credit losses, this increased the amount of expected credit losses. Expected credit losses were also increased by calculation model updates that were based on regulatory changes. The most significant of these was the adoption of the new definition of default. Final net loan losses recognised totalled EUR 52 million (42). Non-performing receivables accounted for 2.4% (1.3) of the loan and guarantee portfolio.

Corporate Banking

- Earnings before tax improved to EUR 349 million (311).
- Total income increased by 7.9%. Net interest income increased by 2.9% and net commissions and fees by 22.0%. Net investment income increased by 19.7%.
- Total expenses increased to EUR 286 million (277). Other operating expenses rose by 8.2% due to higher ICT costs and a higher stability contribution.
- The loan portfolio increased by 1.2% to EUR 24.0 billion and the deposit portfolio increased by 17.2% to EUR 13.1 billion year on year. Assets under management increased by 7.1% year on year.
- Impairment loss on receivables amounted to EUR 53 million (51). Non-performing receivables accounted for 1.1% (0.5) of the loan and guarantee portfolio.
- The most significant development investments involved the upgrades of payment, finance and asset management systems.

Key figures and ratios

€ million	Q1–4/2020	Q1–4/2019	Change, %
Net interest income	394	383	2.9
Net commissions and fees	153	125	22.0
Net investment income	143	119	19.7
Other income	17	27	-38.8
Total income	707	655	7.9
Personnel costs	71	76	-6.6
Depreciation/amortisation and impairment loss	18	20	-6.6
Other operating expenses	197	182	8.2
Total expenses	286	277	3.1
Impairment loss on receivables	-53	-51	5.1
OP bonuses to owner-customers	-18	-16	10.3
Earnings before tax	349	311	12.5
Cost/income ratio, %	40.4	42.3	1.9*
Ratio of non-performing receivables to loan and guarantee portfolio, %	1.06	0.53	0.53*
Ratio of impairment loss on receivables to loan and guar. portfolio, %	0.20	0.19	0.01*
Return on assets (ROA), %	0.86	0.85	0.01*
Return on assets, excluding OP bonuses, %	0.91	0.89	0.01*

€ billion	31 Dec 2020	31 Dec 2019	Change, %
Loan portfolio			
Corporate loans	14.4	14.5	-0.7
Housing company and other loans	9.6	9.2	4.3
Total loan portfolio	24.0	23.7	1.2
Guarantee portfolio	2.6	3.1	-18.1
Deposits	13.1	11.2	17.2
Assets under management (gross)**			
Mutual funds	27.6	25.6	7.8
Institutional clients	25.3	24.4	3.6
Private Banking	11.3	9.9	14.3
Total (gross)	64.2	59.9	9.2

€ million	Q1–4/2020	Q1–4/2019	Change, %
Net inflows			
Private Banking clients	225	49	355.4
Institutional clients	190	-49	-490.4
Total	415	1	-

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

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

In the year to December, the loan portfolio grew by 1.2% to EUR 24.0 billion. The deposit portfolio increased by 17.2% to EUR 13.1 billion.

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

In November, large Finnish corporations ranked OP Corporate Bank as Finland's best corporate bank in the Prospera Corporate Banking 2020 survey. Also in November, The Banker, an international publication, once again ranked OP as the number one bank in Finland in its Bank of the Year competition.

During the reporting period, OP Financial Group joined the European Payments Initiative (EPI) as a founding shareholder. The ambition of EPI is to create a unified and innovative European payment solution that aims to become a new standard in payments for European consumers and merchants. In 2020, OP launched a new OP Corporate Hub service. It's a digital service that helps companies with cash management and comprehensive financial monitoring. 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.

Within asset management, net assets inflow improved year on year, to EUR 421 million (1). Assets under management increased by 7.1% year on year, to EUR 64.2 billion. Assets under management included about EUR 11 billion (11) in assets of the companies belonging to OP Financial Group.

During the reporting period, the number of OP Mutual Fund unitholders increased in gross terms by about 115,000, to 965,000 unitholders. The Morningstar rating for OP Mutual Funds was 3.15 (3.21).

Investors are showing increasing interest in alternative funds. The first emerging markets impact fund in Finland, OP Finnfund Global Impact Fund I, seeks positive impacts on, for instance, climate change, food security, gender equality and the availability of financing. The second round of funding ended at the beginning of December and raised approximately EUR 58 million more in capital.

The uncertainty caused by the Covid-19 pandemic affected Corporate Banking especially through demand for loans and through the capital market. Credit spreads and volatility in the capital market increased especially in the first quarter. On the other hand, trading became more active. Assets under management grew in the latter half of the year. The effects of Covid-19 and developments in the economic environment were reflected in demand for services, the capital market and developments in the amount of impairment loss on receivables.

Financial performance for the reporting period

Corporate Banking earnings before tax improved to EUR 349 million (311). Total income amounted to EUR 707 million (655) and total expenses to EUR 286 million (277). The cost/income ratio improved to 40.4% (42.3). As a result of an increase in the loan portfolio, net interest income grew by 2.9% to EUR 394 million. Lending margins widened too.

Net commissions and fees totalled EUR 153 million (125). An increase in other net commissions and fees is mainly due to the change in OP Financial Group's internal charges.

Corporate Banking segment's net commissions and fees

€ million	Q1–4/ 2020	Q1–4/ 2019	Change, %
Mutual funds	112	105	6.8
Asset management	17	24	-30.7
Other	24	-4	791.7
Total	153	125	22.0

Net investment income increased by 19.7% to EUR 143 million. CVA valuation weakened earnings by EUR 19 million (–12). 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.

Total expenses increased to EUR 286 million (277). Personnel costs decreased to EUR 71 million (76). The transfer of statutory earnings-related pension liability reduced pension costs by EUR 11 million. Other operating expenses increased by 8.2% to EUR 197 million. ICT costs increased by EUR 6 million and the EU stability contribution by EUR 2 million.

Impairment loss on receivables totalled EUR 53 million (51). During the reporting period, impairment loss on receivables was increased by the effects of the Covid-19 pandemic on the loan portfolio quality and the adoption of the new definition of default in the first quarter due to a regulatory change. Other factors increasing impairment loss on receivables included the Covid-19-related update of macroeconomic parameters used in the calculation of expected credit losses as well as the transfer of loans between impairment stages. Final net loan losses recognised for the reporting period totalled EUR 55 million (3). Growth in final net loan losses was affected by rearrangements of receivables. Non-performing receivables accounted for 1.1% (0.5) of the loan and guarantee portfolio.

Insurance

- Earnings before tax totalled EUR 348 million (373). The transfer of statutory earnings-related pension liability improved earnings by EUR 85 million. Lower investment income reduced earnings.
- Non-life insurance premium revenue increased by 1.9% and claims incurred decreased by 3.7%, excluding the effect of the change in the discount rate.
- Investment income totalled EUR 84 million (331), including the overlay approach. Net return on investments at fair value reported by non-life insurance was EUR 25 million (96) and that by life insurance EUR 14 million (72).
- The non-life insurance operating combined ratio improved to 87.8% (92.7) and operating risk ratio to 61.1% (65.1). The operating cost ratio was 26.6% (27.7).
- In life insurance, unit-linked insurance assets increased by 4.2% to EUR 11.3 billion from the 2019-end level.
- Development investments focused on development of electronic services and the core system upgrade.

Key figures and ratios

€ million	Q1–4/2020	Q1–4/2019	Change, %
Insurance premium revenue	1 506	1 479	1.9
Claims incurred	951	1 077	-11.7
Life insurance, net risk results	26	29	-11.7
Net insurance income	582	431	34.9
Life insurance, net commissions and fees	106	135	-21.4
Non-life insurance, net commissions and fees	-36	-49	27.0
Health and wellbeing, net commissions and fees	7	13	-41.3
Net commissions and fees	78	99	-21.1
Net investment income	88	435	-79.8
Other net income	8	4	98.5
Total income	755	969	-22.1
Personnel costs	140	133	4.0
Transfer of statutory earnings-related pension liability	-85		
Depreciation/amortisation and impairment loss	60	71	-15.8
Other operating expenses	269	269	-0.1
Total expenses	384	473	-18.9
OP bonuses to owner-customers	-19	-19	-0.4
Temporary exemption (overlay approach)	-4	-104	-96.9
Earnings before tax	348	373	-6.5
Return on assets (ROA), %	1.16	1.29	-0.13*
Return on assets, excluding OP bonuses, %	1.22	1.36	-0.14*
Operating combined ratio (non-life), %	87.8	92.7	
Operating risk ratio (non-life), %	61.1	65.1	
Operating cost ratio (non-life), %	26.6	27.7	
Operating ratio (life), %	42.1	35.5	

*Change in ratio

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

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

During the spring and summer, the Covid-19 pandemic increased 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 year end, the number of claims restored to its pre-pandemic level. Claims incurred as a result of the Covid-19 pandemic totalled EUR 37 million.

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

The capital market recovered after the plunge experienced in March. Unit-linked insurance assets, EUR 11.3 billion, were 4.2% higher than at the end of 2019. Net assets inflow of unit-linked insurance contracts amounted to EUR 193 million (–275). The amount of life insurance surrenders remained moderate.

Financial performance for the reporting period

Earnings before tax totalled EUR 348 million (373). Net insurance income improved to EUR 582 million (431). The non-life insurance discount rate was decreased from 1.0% to 0.85%, which reduced net insurance income by EUR 45 million (136). An item corresponding to the change in the discount rate of non-life insurance liability was shown as a positive value change in net investment income.

Non-life insurance: premium revenue

€ million	Q1–4/2020	Q1–4/2019	Change, %
Private Customers	857	826	3.8
Corporate Customers	649	653	-0.6
Total	1,506	1,479	1.9

Claims incurred, excluding the reduction in the discount rate, decreased by 3.7% to EUR 906 million. The reported number of new large claims under property and business liability insurance (in excess of EUR 0.3 million) amounted to 119 (87) in January–December, with their claims incurred retained for own account totalling EUR 131 million (80). The Covid-19 pandemic in particular increased claims expenditure related to travel losses and business interruptions. Changes in the provision for outstanding claims under statutory pensions improved earnings by EUR 10 million during the reporting period while weakening them by EUR 4 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 39 million (24). The non-life insurance operating risk ratio excluding indirect loss adjustment expenses was 61.1% (65.1).

Net commissions and fees decreased by 21.1% to EUR 78 million.

The transfer of statutory earnings-related pension liability reduced pension costs by EUR 85 million. Excluding the effect of this transfer, costs decreased by 1.0% to EUR 469 million. In non-life insurance, the operating cost ratio (including indirect loss adjustment expenses) was 26.6% (27.7).

Operating combined ratio improved to 87.8% (92.7). The operating ratios exclude the changed discount rate and the transfer of earnings-related pension liability.

Investment

Investment income

€ million	Q1–4/2020	Q1–4/2019
At fair value through other comprehensive income	47	217
At fair value through profit or loss	230	389
Amortised cost	-5	1
Life insurance items*	-154	-161
Unwinding of discount (non-life)	-21	-27
Associated companies	-11	17
Net investment income	88	435
Temporary exemption	-4	-104
Total	84	331

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

Investment income totalled EUR 84 million (331), including the overlay approach. Capital gains on investment amounted to EUR 23 million (90) in non-life insurance and to EUR 26 million (96) in life insurance.

Interest rate risk associated with insurance liability has been hedged through supplementary interest rate provisions and interest rate derivatives. In life insurance, the net change in short-term supplementary interest rate provisions improved earnings by EUR 2 million (–2). Accrued supplementary interest rate provisions related to insurance liabilities (excluding the separated balance sheets) totalled EUR 490 million (426) on 31 December 2020. Short-term supplementary interest rate provisions accounted for EUR 44 million (46) of these provisions.

Non-life insurance: key investment indicators

€ million	Q1–4/2020	Q1–4/2019
Net return on investments at fair value, € million*	25	96
Return on investments at fair value, %	4.8	8.4
Fixed income investments' running yield, %	1.0	1.3
	31 Dec 2020	31 Dec 2019
Investment portfolio, € million	4,102	3,952
Investments within the investment grade category, %	92	92
A-rated receivables, minimum, %	58	61
Modified duration, %	3.5	4.0

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

Life insurance: key investment indicators*

€ million	Q1–4/2020	Q1–4/2019
Net return on investments at fair value, € million**	14	72
Return on investments at fair value, %	5.0	9.4
Fixed income investments' running yield, %	1.0	1.2
	31 Dec 2020	31 Dec 2019
Investment portfolio, € million	3,602	3,619
Investments within the investment grade category, %	90	88
A-rated receivables, minimum, %	58	64
Modified duration, %	3.2	2.9

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

Other Operations

Key figures and ratios

€ million	Q1–4/2020	Q1–4/2019	Change, %
Net interest income	-60	-59	-
Net commissions and fees	9	6	37.7
Net investment income	12	38	-67.5
Other operating income	744	593	25.4
Total income	705	578	21.9
Personnel costs	177	148	19.6
Depreciation/amortisation and impairment loss	138	132	4.8
Other operating expenses	388	336	15.4
Total expenses	703	616	14.2
Impairment loss on receivables	1	0	-
Earnings before tax	3	-37	-

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

Financial performance for the reporting period

Earnings before tax amounted to EUR 3 million (–37). Sale of the Vallila property improved earnings, while the growth in expenses reduced earnings. Total income increased by 21.9% to EUR 705 million.

Net interest income was EUR –60 million (–59). Net investment income totalled EUR 12 million (38). A year ago, the earnings effect of EUR 16 million arising from early repayment of TLTRO II funding (targeted longer-term refinancing operations) and the discontinuance of related fair value hedge accounting improved net income from financial assets held for sale.

Other operating income increased by 25.4% to EUR 744 million. The sale of the Vallila property increased other operating income in the first quarter. OP Financial Group recognised a capital gain of EUR 98 million on the sale in other operating income and an expense of EUR 2 million in other operating expenses. OP Financial Group will continue operating in the property under a long-term lease agreement. The property was recognised as a right-of-use asset in the balance sheet. The value of the right-of-use asset under IFRS 16 was EUR 138 million and the lease liability was EUR 225 million.

Total expenses increased by 14.2% year on year to EUR 703 million. Personnel costs increased by 19.6% to EUR 177 million. Depreciation/amortisation and impairment loss on PPE and intangible assets increased by 4.8% to EUR 138 million. Other operating expenses increased by 15.4% to EUR 388 million as ICT costs increased by EUR 40 million.

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

OP Financial Group's access to funding remained good. In January–December, the Group issued long-term bonds worth EUR 8.9 billion. In March, the wholesale funding market was disrupted due to the Covid-19 crisis. Particularly in short-term wholesale funding, prices rose sharply and it was not possible to renew maturing contracts for a certain period of time. Long-term unsecured wholesale funding too experienced a markedly steep rise in risk premiums. During the second quarter, the wholesale funding market clearly began to recover. By the end of the year, risk premiums had already decreased to the pre-crisis level, due to strong support measures taken by central banks.

In January, OP Financial Group issued a senior non-preferred bond of EUR 500 million with a maturity of 7 years, and a covered bond of EUR 1 billion with a maturity of 8.25 years. In May and June, it issued two senior bonds of EUR 1 billion with a maturity of 5.25 and 4 years. In November, OP Financial Group issued a senior bond of EUR 1 billion with a maturity of 7 years and a covered bond of EUR 1.25 billion with a maturity of 10 years.

In May and June, OP Financial Group also issued two Tier 2 bonds, one worth SEK 3.25 billion and the other worth EUR 1 billion. The Tier 2 bonds have a maturity of 10 years, but they can be called in after 5 years from the issue date.

In August, the Group redeemed early a Tier 2 bond worth SEK 3.5 billion whose maturity was 10 years and maturity date 25 August 2025.

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

EUR 6.0 billion. OP Financial Group's TLTRO III financing amounts to a total of EUR 8.0 billion.

During 2020, the Governing Council of the European Central Bank modified the conditions of TLTRO III financing in order to stimulate bank lending to actors which have been hardest hit by the spread of Covid-19. According to the modified conditions, the interest rate between 24 June 2020 and 23 June 2022 can be the ECB's deposit facility rate (–0.50% on the reporting date) minus 0.50%. For the subsequent loan maturity, the interest rate can be, at its best, the ECB's deposit facility rate. The reduced interest rate is conditional on fulfilling the criteria for net lending performance. The final interest rate will not be determined until the TLTRO III operations mature (or during repayment). Changes in the interest rate are reflected in the effective interest rate. OP Financial Group assesses that it will fulfil the net lending performance criteria affecting the price of financing.

Liquidity remained good in 2020 despite the Covid-19 crisis.

Service development

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

OP Financial Group's development expenditure for January–December totalled EUR 282 million (313). This included licence fees, purchased services, other external costs related to projects and in-house work. The capitalised development expenditure totalled EUR 97 million (123). More detailed information on OP Financial Group's investments can be found under each business segment's section in this financial statements bulletin.

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 and is estimated to be finalised in February 2021.

Personnel

On 31 December 2020, OP Financial Group had 12,604 employees (12,226). The number of employees averaged 12,486 (12,376). In 2020, the number of employees increased particularly in development and risk management.

Personnel at period end

	31 Dec 2020	31 Dec 2019
Retail Banking	7,069	7,230
Corporate Banking	899	907
Insurance	2,260	2,015
Other Operations	2,376	2,074
Total	12,604	12,226

During the reporting period, 282 OP Financial Group employees (306) retired at an average age of 62.3 years (61.8).

Variable remuneration applied by OP Financial Group in 2020 consists of the performance-based bonus scheme covering all personnel and the personnel fund. Company-specific targets based on the annual plan and the Group-level strategic targets are taken into account in the metrics used in the performance-based bonus scheme and the personnel fund. In drawing up the remuneration schemes, OP has taken account of the regulation regarding the financial sector's remuneration schemes. More detailed information on variable remuneration will be available in OP Financial Group's Report by the Board of Directors and Financial Statements 2020 that will be published in week 10.

Changes in OP Financial Group's structure

OP Financial Group's consolidated financial statements at the end of the reporting period included the accounts of 137 OP cooperative banks (147) and OP Cooperative Consolidated. The number of OP cooperative banks decreased during the reporting period due to mergers.

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

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

Kannuksen Osuuspankki merged into Suomenselän Osuuspankki on 31 March 2020.

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

On 31 July 2020, Honkilahden Osuuspankki merged into Euran Osuuspankki.

On 31 August 2020, Parikkalan Osuuspankki and Simpeleen Osuuspankki merged into Etelä-Karjalan Osuuspankki.

On 31 October 2020, Kalajoen Osuuspankki merged into Keski-Pohjanmaan Osuuspankki.

On 29 September 2020, Ruukin Osuuspankki, Vihannin Osuuspankki and Raahen Seudun Osuuspankki accepted merger plans, according to which Ruukin Osuuspankki and Vihannin Osuuspankki will merge into Raahen Seudun Osuuspankki. The planned date for registration of the mergers is 31 March 2021. Consequently, the business name of Raahen Seudun Osuuspankki will change to Raahentienoon Osuuspankki.

On 26 November 2020, Lokalahden Osuuspankki, Taivassalon Osuuspankki and Lounaisrannikon Osuuspankki accepted merger plans, according to which Lokalahden Osuuspankki and Taivassalon Osuuspankki will merge into Lounaisrannikon Osuuspankki. The planned date for registration of the mergers is 31 March 2021.

On 26 November 2020, Mynämäen-Nousiaisten Osuuspankki and Auranmaan Osuuspankki accepted a merger plan, according to which the former will merge into the latter. The planned date for registration of the merger is 30 April 2021. Consequently, the business name of Auranmaan Osuuspankki will change to Osuuspankki Vakka-Auranmaa.

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

Simplifying OP Cooperative Consolidated's structure

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

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

Kaivokadun PL-hallinto Oy merged into OP Corporate Bank plc on 31 October 2020.

OP Co-ride Ltd merged into OP Cooperative on 31 October 2020.

Transfer of the pension liability remaining with OP Bank Group Pension Fund to Ilmarinen Mutual Pension Insurance Company took place on 31 December 2020. OP Bank Group Pension Fund will be dissolved through liquidation during 2021.

On 27 October 2020, OP Asset Management Execution Services Ltd and OP Asset Management Ltd approved a merger plan, according to which the former will merge into the latter through a subsidiary merger. The planned date for registration of the merger is 30 April 2021.

OP Financial Group 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 Group announced the plan for the first time in 2014. In addition, a merger of OP Corporate Bank plc's Baltic subsidiaries into their parent company, OP Corporate Bank, is being planned.

Governance of OP Cooperative

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

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

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

On 10 June 2020, the Supervisory Council of OP Cooperative appointed Tero Ojanperä (b. 1966, Ph.D. Eng) as member of the Board of Directors of OP Cooperative as of 1 July 2020. As of 1 July 2020, the Board of Directors comprises 11 members.

On 18 November 2020, the Supervisory Council re-elected all Board members to continue in their roles for the term 1 January–31 December 2021. On 15 December 2020, OP Cooperative's Board of Directors elected from among its members the chairs, vice chairs and other members to the statutory Board Committees for the new term. Jaakko Pehkonen will continue as Chair and Jarna Heinonen as Vice Chair of the Board of Directors. The compositions of Board Committees remained unchanged.

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

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

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

On 31 December 2020, the Supervisory Council comprised 33 members.

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

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

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

Events after the reporting period

OP Cooperative will sell the entire share capital of its subsidiary, Checkout Finland Ltd, to Paytrail Oyj. The parties signed the related contract of sale on 4 January 2021. The sale should be completed during the spring of 2021, provided that it is approved by the Finnish Financial Supervisory Authority.

OP Financial Group paid interest on Profit Shares for 2019 to holders of those shares on 8 February 2021. In its profit distribution, OP Financial Group complies with the ECB's updated recommendation that will remain in force at least until 30 September 2021 and that applies also to interest on Profit Shares for 2020. Based on the recommendation currently in force, interest on Profit Shares for 2020 can be paid at the earliest in October 2021, unless the ECB later this year extends the validity of its recommendation or amends its content. More detailed information on the payment schedule will be provided as allowed by the recommendations of the ECB.

Outlook for 2021

The number of Covid-19 infections increased in most countries over the autumn. As a result of this, the economic recovery that started last summer faltered somewhat. Towards the end of the year, the effects of the pandemic on the economy began to ease off, mainly affecting the service sector. Economic recovery will continue as the pandemic will continue to subside. In financial markets, expectations are positive. Policy actions by central banks are expected to calm down markets and keep interest rates low.

The Covid-19 pandemic will continue to cause uncertainty over the economic outlook. A sudden worsening of the pandemic would affect OP Financial Group in three ways: economic uncertainty and uncertainty in the financial and capital market would increase, a rise in financial difficulties among customers would increase credit risk and decrease the demand for services, and a worsening disease situation could make it more difficult for OP Financial Group to run its operations efficiently.

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

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

Formulas for key figures and ratios

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

Alternative Performance Measures

Return on equity (ROE), %	Financial performance for the reporting period x (days of financial year/days of reporting period) Equity capital (average at beginning and end of period)	x 100
Return on equity (ROE) excluding OP bonuses, %	(Financial performance for the reporting period + OP bonuses after tax) x (days of financial year/days of reporting period) Equity capital (average at beginning and end of period)	x 100
Return on assets (ROA), %	Financial performance for the reporting period x (days of financial year/days of reporting period) Average balance sheet total (average at beginning and end of period)	x 100
Return on assets (ROA) excluding OP bonuses, %	(Financial performance for the reporting period + OP bonuses after tax) x (days of financial year/days of reporting period) Average balance sheet total (average at beginning and end of period)	x 100
Cost/income ratio, %	Total expenses Total income	x 100
Investment income	Net investment income + Overlay approach	
Loan portfolio	Balance sheet item Receivables from customers	
Ratio of impairment loss on receivables to loan and guarantee portfolio, %	Impairment loss on receivables x (days of financial year/days of reporting period) Loan and guarantee portfolio at period end	x 100
Deposits	Deposits included in balance sheet item Liabilities to customers	
Coverage ratio, %	Loss allowance Receivables from customers (on-balance-sheet and off-balance-sheet items)	x 100
Default capture rate, %	New defaulted contracts at step 2 a year ago New defaulted contracts during the reporting period	x 100
Non-life insurance:		
Operating loss ratio, %	Claims incurred, excl. changes in reserving bases and amortisation on intangible assets arising from company acquisitions Insurance premium revenue, excl. net changes in reserving bases	x 100
Operating expense ratio, %	Operating expenses Insurance premium revenue, excl. net changes in reserving bases	x 100
Operating combined ratio, %	Operating loss ratio + operating expense ratio Operating risk ratio + operating cost ratio	

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

Key indicators based on a separate calculation

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

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

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

Non-life insurance operating result

€ million	Q1–4/2020	Q1–4/2019	Change %
Insurance premium revenue	1,506	1,478	1.9
Claims incurred	1,028	1,060	-3.0
Operating expenses	293	311	-5.6
Balance on technical account	184	107	71.6
Reduction in discount rate	-45	-136	-
Investment income and expenses	99	307	-67.6
Other income and expenses	79	-23	-
Earnings before tax	318	255	25.0
Temporary exemption (overlay approach)	-4	-65	-
Earnings before tax	314	190	65.4

The non-life insurance financial indicators are calculated using non-life insurance companies' expenses by function, 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	31 Dec 2020	31 Dec 2019
OP Financial Group's equity capital	13,112	12,570
Effect of insurance companies on the Group's shareholders' equity is excluded	-498	-237
Fair value reserve, cash flow hedge	-203	-141
Common Equity Tier 1 (CET1) before deductions	12,410	12,192
Intangible assets	-391	-630
Excess funding of pension liability and valuation adjustments	-93	-76
Cooperative capital deducted from capital base	-126	-142
Planned profit distribution and unpaid profit distribution for previous period	-95	-97
Shortfall of ECL minus expected losses	-413	-428
CET1 capital	11,293	10,819
Hybrid capital to which transitional provision is applied	40	60
Additional Tier 1 capital (AT1)	40	60
Tier 1 capital (T1)	11,333	10,879
Debenture loans	1,599	806
Tier 2 capital (T2)	1,599	806
Total capital	12,933	11,685

Risk exposure amount, € million	31 Dec 2020	31 Dec 2019
Credit and counterparty risk	54,522	49,216
Standardised Approach (SA)	4,562	4,101
Central government and central banks exposure	347	304
Credit institution exposure	9	8
Corporate exposure	3,068	2,646
Retail exposure	1,026	1,069
Equity investments	32	22
Other	80	52
Internal Ratings-based Approach (IRB)	49,960	45,115
Credit institution exposure	1,029	1,023
Corporate exposure	26,461	25,580
Retail exposure	14,295	10,320
Equity investments	7,036	6,898
Other	1,140	1,293
Market and settlement risk (Standardised Approach)	1,096	1,309
Operational risk (Standardised Approach)	3,964	4,232
Valuation adjustment (CVA)	138	191
Other risks		11
Total risk exposure amount	59,720	54,959
Risk weight floors based on ECB's decision		505
Total risk exposure amount including risk weight floors	59,720	55,464

Ratios, %	31 Dec 2020	31 Dec 2019
CET1 capital ratio	18.9	19.5
Tier 1 ratio	19.0	19.6
Capital adequacy ratio	21.7	21.1

Ratios, fully loaded, %	31 Dec 2020	31 Dec 2019
CET1 capital ratio	18.9	19.5
Tier 1 ratio	18.9	19.5
Capital adequacy ratio	21.6	21.0

Capital requirement, EUR million	31 Dec 2020	31 Dec 2019
Capital base	12,933	11,685
Capital requirement	8,213	8,068
Buffer for capital requirements	4,719	3,617

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

Leverage ratio, EUR million	31 Dec 2020	31 Dec 2019
Tier 1 capital (T1)	11,333	10,879
Total exposure	144,799	131,504
Leverage ratio, %	7.8	8.3

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

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

€ million	31 Dec 2020	31 Dec 2019
OP Financial Group's equity capital	13,112	12,570
Hybrid instruments and debenture loans	1,640	866
Other sector-specific items excluded from capital base	-331	-349
Goodwill and intangible assets	-1,147	-1,393
Insurance business valuation differences*	623	720
Planned profit distribution and unpaid profit distr. for previous period	-95	-97
Items under IFRS deducted from capital base**	-184	-150
Shortfall of ECL minus expected losses	-387	-402
Conglomerate's total capital base	13,231	11,766
Regulatory capital requirement for credit institutions***	7,284	7,132
Regulatory capital requirement for insurance operations*	1,508	1,386
Conglomerate's total minimum capital requirement	8,791	8,518
Conglomerate's capital adequacy	4,439	3,248
Conglomerate's capital adequacy ratio (capital base/minimum of capital base) (%)	150	138

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

Transitional provisions have been taken into account in figures.

TABLES

Income statement

EUR million	Notes	Q1–4 2020	Q1–4 2019	Q4 2020	Q4 2019
Net interest income	2	1,284	1,241	324	318
Net insurance income	3	572	421	95	9
Net commissions and fees	4	931	936	252	257
Net investment income	5	184	530	153	257
Other operating income		132	53	11	12
Total income		**3,103**	**3,181**	**835**	**854**
Personnel costs		715	781	120	208
Depreciation/amortisation		273	278	77	88
Other expenses	6	852	844	228	242
Total expenses		**1,839**	**1,903**	**425**	**538**
Impairments loss on receivables	7	-225	-87	-42	-51
OP bonuses to owner-customers		-251	-249	-61	-63
Temporary exemption (overlay approach)		-3	-105	-48	-40
Earnings before tax		**785**	**838**	**259**	**161**
Income tax expense		144	168	34	34
Profit for the financial year		**641**	**670**	**225**	**128**
Attributable to:					
Profit for the financial year attributable to owners		641	663	229	128
Profit for the financial year attributable to non-controlling interest		0	6	-4	0
Profit for the financial year		**641**	**670**	**225**	**128**

Statement of comprehensive income

EUR million	Notes	Q1–4 2020	Q1–4 2019	Q4 2020	Q4 2019
Profit for the financial year		**641**	**670**	**225**	**128**
Items that will not be reclassified to profit or loss					
Gains/(losses) arising from remeasurement of defined benefit plans		-47	15	-32	45
Items that may be reclassified to profit or loss					
Change in fair value reserve					
Measurement at fair value		81	62	68	-87
Cash flow hedge		78	135	13	-91
Temporary exemption (overlay approach)		5	108	43	45
Translation differences					0
Income tax					
Items that will not be reclassified to profit or loss					
Gains/(losses) arising from remeasurement of defined benefit plans		9	-3	6	-9
Items that may be reclassified to profit or loss					
Measurement at fair value		-16	-12	-14	17
Cash flow hedge		-16	-27	-3	18
Temporary exemption (overlay approach)		-1	-22	-9	-9
Total comprehensive income for the financial year		**734**	**926**	**299**	**58**
Attributable to:					
Total comprehensive income for the financial year attributable to owners		734	920	302	58
Total comprehensive income for the financial year attributable to non-controlling interests		0	6	-4	0
Total comprehensive income for the financial year		**734**	**926**	**299**	**58**

Balance sheet

EUR million	Notes	31 Dec 2020	31 Dec 2019
Cash and cash equivalents		21,827	11,988
Receivables from credit institutions		306	246
Derivative contracts	16	5,215	4,824
Receivables from customers		93,644	91,463
Investment assets		23,562	23,509
Assets covering unit-linked contracts		11,285	10,831
Intangible assets		1,311	1,406
Property, plant and equipment (PPE)		633	524
Other assets		2,236	1,684
Tax assets		188	235
Non-current assets held for sale			314
Total assets		**160,207**	**147,024**
Liabilities to credit institutions		8,086	2,632
Derivative contracts		3,424	3,316
Liabilities to customers		73,422	68,289
Insurance liabilities	8	9,374	9,476
Liabilities from unit-linked insurance and investment contracts	9	11,323	10,862
Debt securities issued to the public	10	34,706	34,369
Provisions and other liabilities		3,431	3,163
Tax liabilities		1,069	1,050
Subordinated liabilities		2,261	1,290
Liabilities associated with non-current assets held for sale			6
Total liabilities		**147,095**	**134,454**
Equity capital			
Share of OP Financial Group's owners			
Cooperative capital			
Cooperative shares		212	209
Profit shares		2,962	3,029
Fair value reserve	11	382	251
Other reserves		2,172	2,185
Retained earnings		7,248	6,730
Non-controlling interests		**137**	**166**
Total equity capital		**13,112**	**12,570**
Total liabilities and equity capital		**160,207**	**147,024**

Statement of changes in equity

EUR million	Cooperative capital	Fair value reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity capital
	Attributable to owners						
Balance at 1 January 2019	**3,241**	**7**	**2,183**	**6,157**	**11,588**	**154**	**11,742**
Total comprehensive income for the financial year		244		675	**920**	6	**926**
Profit for the financial year				663	**663**	6	**670**
Other comprehensive income		244		12	**256**		**256**
Profit distribution				- 94	**- 94**	- 9	**- 104**
Change in membership and profit shares	- 3				**- 3**		**- 3**
Transfer of reserves			2	- 2			
Other				- 6	**- 6**	15	**9**
Balance at 31 December 2019	**3,238**	**251**	**2,185**	**6,730**	**12,404**	**166**	**12,570**

EUR million	Cooperative capital	Fair value reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity capital
	Attributable to owners						
Balance at 1 January 2020	**3,238**	**251**	**2,185**	**6,730**	**12,404**	**166**	**12,570**
Total comprehensive income for the financial year		131		604	**734**	0	**734**
Profit for the financial year				641	**641**	0	**641**
Other comprehensive income		131		- 38	**93**		**93**
Profit distribution				- 98	**- 98**	- 11	**- 109**
Change in membership and profit shares	- 64				**- 64**		**- 64**
Transfer of reserves			- 14	14			
Other				- 1	**- 1**	- 18	**- 20**
Balance at 31 December 2020	**3,174**	**382**	**2,172**	**7,248**	**12,975**	**137**	**13,112**

Cash flow statement

EUR million	Q1–4 2020	Q1–4 2019
Cash flow from operating activities		
Profit for the period	641	670
Adjustments to profit for the period	111	126
Increase (-) or decrease (+) in operating assets	**-2,878**	**-4,266**
Receivables from credit institutions	-11	43
Derivative contracts	-35	-25
Receivables from customers	-2,287	-4,418
Assets covering unit-linked contracts	-8	254
Investment assets	-128	131
Other assets	-410	-250
Increase (+) or decrease (-) in operating liabilities	**10,247**	**325**
Liabilities to credit institutions	5,660	-2,347
Derivative contracts	-305	13
Liabilities to customers	4,829	2,177
Insurance liabilities	0	-25
Liabilities from unit-linked insurance and investment contracts	98	262
Provisions and other liabilities	-34	246
Income tax paid	-89	-116
Dividends received	44	76
A. Net cash from operating activities	**8,077**	**-3,185**
Cash flow from investing activities		
Acquisition of subsidiaries, net of cash acquired		
Disposal of subsidiaries, net of cash disposed	193	0
Purchase of PPP and intangible assets	-131	-168
Proceeds from sale of PPE and intangible assets	444	50
B. Net cash used in investing activities	**506**	**-118**
Cash flow from financing activities		
Subordinated liabilities, change	978	
Debt securities issued to the public, change	68	3,650
Increases in cooperative and share capital	78	480
Decreases in cooperative and share capital	-142	-485
Dividends and interest on cooperative capital	0	-94
Lease liabilities	-34	-19
C. Net cash used in financing activities	**948**	**3,533**
Net change in cash and cash equivalents (A+B+C)	**9,530**	**230**
Cash and cash equivalents at period-start	**12,168**	**12,423**
Effect of foreign exchange rate changes*	357	-485
Cash and cash equivalents at period-end	**22,055**	**12,168**
Interest received	**1,778**	**1,987**
Interest paid	**-552**	**-612**
Cash and cash equivalents		
Liquid assets	21,827	11,988
Receivables from credit institutions payable on demand	229	180
Total	**22,055**	**12,168**

* The effect of foreign exchange rate changes is presented under changes in cash and cash equivalents, whereas previously they were presented under cash flow from financing activities. The reference year has been adjusted to correspond to the current presentation.

Segment reporting

Segment information

Q1–4 earnings 2020, EUR million	Retail Banking	Corporate Banking	Insurance	Other operations	Group eliminations	OP Financial Group
Net interest income	925	394	-1	-60	27	1,284
of which internal net income before tax		-25		25		
Net insurance income			582		-10	572
Net commissions and fees	698	153	78	9	-6	931
Net investment income	2	143	88	12	-61	184
Other operating income	29	17	9	744	-667	132
Total income	**1,653**	**707**	**755**	**705**	**-717**	**3,103**
Personnel costs	412	71	55	177	0	715
Depreciation/amortisation	60	18	60	138	-3	273
Other operating expenses	680	197	269	388	-683	852
Total expenses	**1,152**	**286**	**384**	**703**	**-686**	**1,839**
Impairments loss on receivables	-172	-53	0	1	0	-225
OP bonuses to owner-customers	-214	-18	-19		0	-251
Temporary exemption (overlay approach)			-4	0	0	-3
Earnings before tax	**115**	**349**	**348**	**3**	**-31**	**785**

Q1–4 earnings 2019, EUR million	Retail Banking	Corporate Banking	Insurance	Other operations	Group eliminations	OP Financial Group
Net interest income	922	383	-12	-59	7	1,241
of which internal net income before tax	1	-3	-11	13		
Net insurance income			431		-10	421
Net commissions and fees	708	125	99	6	-3	936
Net investment income	-17	119	435	38	-46	530
Other operating income	43	27	16	593	-626	53
Total income	**1,657**	**655**	**969**	**578**	**-678**	**3,181**
Personnel costs	426	76	133	148	-1	781
Depreciation/amortisation	55	20	71	132	0	278
Other operating expenses	692	182	269	336	-635	844
Total expenses	**1,172**	**277**	**473**	**616**	**-635**	**1,903**
Impairments loss on receivables	-36	-51	0	0	0	-87
OP bonuses to owner-customers	-214	-16	-19		0	-249
Temporary exemption (overlay approach)			-104		-1	-105
Earnings before tax	**235**	**311**	**373**	**-37**	**-43**	**838**

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

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

Notes

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

Note 1. Accounting policies

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

The Financial Statements Bulletin is based on unaudited information. Given that all figures in the Financial Statements Bulletin have been rounded off, the sum of single figures may differ from the presented sum total.

The Financial Statements Bulletin is available in Finnish, English and Swedish. The Finnish version is the official version that will be used if there is any discrepancy between the language versions.

1. Critical accounting estimates and judgements

The preparation of the Financial Statements Bulletin 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 Financial Statements Bulletin, management judgment has been used especially in the calculation of expected credit losses.

Expected credit losses

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

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

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

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

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

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 coronavirus 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 in may have lowered. The recoverable amount determined in the impairment test is usually based on value in use, and its calculation requires estimates of future cash flows and of the discount rate level applied in calculating their present value. A total of EUR 631 million in goodwill and EUR 162 million in the value of brands are covered by impairment tests. During the reporting period, goodwill and assets with an indefinite useful lives were tested. Despite the Covid-19 crisis, expectations of future cash lows have not substantially changed, so no impairment loss was recognised based on the test.

2. Definition of default

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

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

In the first quarter of 2020, OP Financial Group adopted the European Banking Authority's (EBA) guidelines on the application of the definition of default (Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013: EBA/GL/2016/07 and EBA/RTS/2016/06). The Guidelines harmonise the definition of default applied by European banks on their customers. The process in accordance with the Guidelines recognises default earlier, for example, based on the unlikeliness to pay criteria that include, for example, payment defaults registered in external credit registers or granted forbearance where the present value of the loan decreases by more than 1 per cent. The Guidelines also extend default among private customers to all credit obligations of an obligor when a significant proportion (20%) of private customer exposures are defaulted. In addition, the materiality threshold for exposures of over 90 days past due has been lowered to 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 Financial Group will apply a so-called two-step approach of the EBA Guidelines. The first step involved the change of the definition of default during the first quarter of 2020. The second step to be taken later involves the calibration of credit risk parameters. The adoption of the first step increased the number of defaulted exposures and that of the number of transfers to impairment stage 3. Expected credit losses increased by EUR 44 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 Financial Group 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, the Group used OP Financial Group's own model based on credit rating information.

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

4. Sale of the Vallila property

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

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

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

5. Changes in ECL models and parameters

In November, OP Financial Group updated its estimates of two LGD model parameters: the non-collateral return and the cure rate. The cure rate for impairment stages 1 and 2 was updated based on data complying with the new definition of default adopted in the first quarter of 2020. The estimates for the non-collateral return and the cure rate for impairment stage 3 were made time-dependent so that they will decrease if the period of default or debt collection increases. Expected credit losses increased by EUR 17 million, which was recognised as a change in the accounting estimate in profit or loss.

In December, OP Financial Group updated its lifetime PD model for corporate exposures based on data complying with the new definition of default adopted in the first quarter of 2020, among other things. In addition, the Group further specified model segmentation and revised the explaining macroeconomic factors so as to include GDP and real interest rate (previously, the factors included GDP and 12-month Euribor for large companies and investments for other companies). Expected credit losses decreased by EUR 12 million, which was recognised as a model change in profit or loss.

In addition, the effect of the calibration of the private customer credit rating model in December has been taken into account based on the data according to the new definition of default adopted in the first quarter of 2020. Expected credit losses increased by EUR 28 million, which was recognised as a change in the accounting estimate in profit or loss.

Note 2. Net interest income

EUR million	Q1–4 2020	Q1–4 2019	Q4 2020	Q4 2019
Interest income				
Receivables from credit institutions				
Interest	1	2	0	1
Negative interest	43	21	17	4
Total	44	24	17	5
Receivables from customers				
Loans	1,254	1,225	314	315
Finance lease receivables	30	28	8	6
Impaired loans and other commitments	0	0		0
Negative interest	22	10	7	3
Total	1,307	1,263	329	324
Notes and bonds				
Measured at fair value through profit or loss	1	1	0	0
At fair value through other comprehensive income	62	81	14	19
Amortised cost	3	10	1	2
Total	66	92	15	21
Derivative contracts				
Fair value hedge	-128	-133	-35	-54
Cash flow hedge	49	52	12	13
Ineffective portion of cash flow hedge	-3	6	-7	-2
Other		0		14
Total	-83	-75	-29	-29
Other	10	6	3	2
Total	**1,344**	**1,310**	**335**	**324**
Interest expenses				
Liabilities to credit institutions				
Interest	3	6	0	-1
Negative interest	68	59	23	13
Total	71	65	23	13
Liabilities to customers	55	69	7	15
Notes and bonds issued to the public	226	249	48	61
Subordinated liabilities				
Subordinated loans	0	1	0	0
Other	53	46	15	12
Total	53	47	15	12
Derivative contracts				
Cash flow hedge	-267	-260	-69	-68
Other	-87	-115	-12	-28
Total	-354	-375	-81	-96
Other	6	5	1	2
Total	**58**	**60**	**13**	**7**
Net interest income before fair value adjustment under hedge accounting	**1,286**	**1,250**	**321**	**317**
Hedging derivatives	96	-1	-12	-203
Value changes of hedged items	-99	-7	14	204
Total	**1,284**	**1,241**	**324**	**318**

Note 3. Net insurance income

EUR million	Q1–4 2020	Q1–4 2019	Q4 2020	Q4 2019
Net insurance premium revenue				
Premiums written	1,499	1,484	259	263
Insurance premiums ceded to reinsurers	7	-2	3	-3
Change in provision for unearned premiums	-8	-14	127	119
Reinsurers' share	-1	0	-11	-7
Total	1,497	1,468	378	371
Net non-life insurance claims				
Claims paid	-954	-1,017	-249	-242
Insurance claims recovered from reinsurers	27	21	11	5
Change in provision for unpaid claims	-24	-79	-47	-124
Reinsurers' share	8	2	4	-7
Total	-943	-1,073	-282	-369
Other non-life insurance items	-7	-4	-5	0
Life Insurance risk premiums collected	26	29	4	7
Total	**572**	**421**	**95**	**9**

Note 4. Net commissions and fees

Q1–4 2020, EUR million	Retail Banking	Corporate Banking	Insurance	Other operations	Elimi- nations	OP Financial Group	Q4 2020
Commission income							
Lending	92	47		5	-1	144	36
Deposits	1	3		0	0	3	1
Payment transfers	357	43		15	-99	316	87
Securities brokerage	9	27			-8	27	7
Securities issuance	0	11		0	0	11	3
Mutual funds	38	211	0	0	-99	150	40
Asset management	38	27		0	-13	52	20
Legal services	23	0			0	23	7
Guarantees	8	12		0	0	21	6
Housing service	72					72	19
Insurance brokerage	94		23		-67	50	7
Life insurance total expense loadings			90			90	25
Refund of unit-linked management fees			82			82	22
Health and wellbeing services			13		0	12	3
Total	**732**	**381**	**207**	**21**	**-287**	**1,054**	**284**
Commission expenses							
Lending	0	1		0	0	1	1
Payment transfers	26	6	1	3	-11	25	7
Securities brokerage		12	0	0	-1	11	3
Securities issuance	0	2		0	-2	0	0
Mutual funds		100	0		-99	0	0
Asset management		9	0	1	0	10	3
Guarantees		0			0	0	0
Insurance brokerage	-7		117		-61	49	13
Health and wellbeing services			5		0	4	1
Other	16	98	0	7	-100	21	4
Total	**34**	**228**	**122**	**12**	**-274**	**123**	**32**
Total net commissions and fees	**698**	**153**	**85**	**9**	**-13**	**931**	**252**

Q1–4 2019, EUR million	Retail Banking	Corporate Banking	Insurance	Other operations	Elimi-nations	OP Financial Group	Q4 2019
Commission income							
Lending	102	46	0	5	-1	152	36
Deposits	1	2		0	0	3	1
Payment transfers	370	44		14	-126	303	80
Securities brokerage	4	21		0	-4	21	6
Securities issuance		6		0	0	6	2
Mutual funds	34	210	0	0	-96	148	39
Asset management	34	36	29	0	-20	81	50
Legal services	23	0			0	24	6
Guarantees	8	12		0	0	20	5
Housing service	74				0	74	18
Insurance brokerage	113		24		-86	50	7
Life insurance total expense loadings			91			91	22
Refund of unit-linked management fees			83			83	24
Health and wellbeing services			22		-1	20	3
Total	**763**	**378**	**249**	**20**	**-334**	**1,075**	**299**
Commission expenses							
Lending	0	0		0	0	1	0
Payment transfers	24	5	1	3	-11	22	8
Securities brokerage		14	0	0	-4	10	3
Securities issuance	0	2		0	0	2	0
Mutual funds		105			-97	8	2
Asset management		11	0	1	0	12	4
Insurance brokerage	-9		140		-86	45	15
Health and wellbeing services			8			8	2
Other	39	116	0	8	-132	31	10
Total	**55**	**253**	**150**	**13**	**-331**	**139**	**43**
Total net commissions and fees	**708**	**125**	**99**	**6**	**-3**	**936**	**257**

Commission income from payment transfers has been adjusted to correspond to current monitoring.

Note 5. Net investment income

EUR million	Q1–4 2020	Q1–4 2019	Q4 2020	Q4 2019
Net income from assets at fair value through other comprehensive income				
Notes and bonds				
Interest income	50	68	11	15
Other income and expenses	-14	0	-15	1
Capital gains and losses	22	115	6	44
Currency fair value gains and losses	-26	7	-13	-14
Impairment losses and their reversal*	5	2	17	-0
Total	**37**	**192**	**6**	**46**

* 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	5	6	0	2
Fair value gains and losses	4	-6	2	-13
Total	8	0	2	-11
Shares and participations				
Fair value gains and losses	-0	12	0	-3
Dividend income and share of profits	12	6	3	5
Total	12	18	4	2
Derivatives				
Interest income and expenses	118	104	21	32
Fair value gains and losses	242	321	79	32
Total	360	425	100	64
Total	**380**	**443**	**106**	**55**
Financial assets that must be measured at fair value through profit or loss				
Notes and bonds				
Interest income	23	24	6	6
Fair value gains and losses	7	-4	0	-8
Total	29	21	6	-2
Shares and participations				
Fair value gains and losses	-22	140	42	47
Dividend income and share of profits	30	47	10	9
Total	8	186	52	56
Total	**37**	**207**	**58**	**54**
Financial assets designated as at fair value through profit or loss				
Notes and bonds				
Interest income	31	38	7	9
Fair value gains and losses	29	79	15	-41
Total	61	117	22	-32
Shares and participations				
Fair value gains and losses	-26	-32	-7	-30
Dividend income and share of profits	11	9	4	1
Total	-15	-23	-3	-29
Derivatives				
Fair value gains and losses	-25	-18	-5	-6
Total	-25	-18	-5	-6
Total	**21**	**76**	**14**	**-67**
Total net income from financial assets recognised at fair value through profit or loss	**438**	**726**	**179**	**42**

Net income from investment property				
Rental income	54	66	14	17
Fair value gains and losses	-35	17	-29	-6
Maintenance charges and expenses	-51	-59	-7	-15
Other	1	-5	0	-1
Net income from investment property total	-30	19	-21	-5
Net income from loans and receivables measured at amortised cost				
Loans and receivables				
Interest income	8	10	2	3
Interest expenses	-4	-1	-2	0
Capital gains and losses	0			
Impairment losses and their reversal	1	-4	0	-2
Loans and receivables total	4	5	0	1
Non-life insurance				
Unwinding of discount, Non-life Insurance	-21	-27	-5	-6
Life insurance				
Interest credited on customers' insurance savings	-82	-85	-20	-21
Change in supplementary interest rate provisions	-65	-88	22	109
Other technical items**	-116	-215	-27	91
Total	-263	-387	-26	179

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

Associated companies				
Accounted for using the fair value method	4	10	11	-1
Consolidated using the equity method	15	-7	9	1
Total	18	3	20	0
Total net investment income	**184**	**530**	**153**	**257**

Note 6. Other operating expenses

EUR million	Q1–4 2020	Q1–4 2019	Q4 2020	Q4 2019
ICT costs				
Production	268	223	76	57
Development	127	131	33	43
Buildings	48	58	11	18
Government charges and audit fees	58	49	12	11
Purchased services	130	130	32	33
Data communications	36	36	8	11
Marketing	30	39	11	13
Corporate social responsibility	10	10	3	3
Insurance and security costs	9	14	2	5
Other	136	153	40	47
Total	**852**	**844**	**228**	**242**

Development costs

EUR million	Q1–4 2020	Q1–4 2019	Q4 2020	Q4 2019
ICT development costs	127	131	33	43
Share of own work	56	52	16	15
Total development costs in the income statement	**183**	**183**	**49**	**58**
Capitalised ICT costs	84	110	20	26
Capitalised share of own work	14	12	4	3
Total capitalised development costs	**97**	**123**	**24**	**29**
Advance payments	1	7	1	7
Total development costs	**282**	**313**	**74**	**95**
Depreciation/amortisation and impairment loss	184	192	48	64

Note 7. Impairment losses on receivables

EUR million	Q1–4 2020	Q1–4 2019	Q4 2020	Q4 2019
Receivables written down as loan and guarantee losses	117	68	27	18
Recoveries of receivables written down	-10	-23	-3	-14
Expected credit losses (ECL) on receivables from customers and off-balance-sheet items	119	41	17	47
Expected credit losses (ECL) on notes and bonds*	-1	0	0	0
Total	**225**	**87**	**42**	**51**

* 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 31 December 2020

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

Loss allowance by impairment stage 31 December 2020

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

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

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

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

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

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

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

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

Loss allowance by impairment stage 31 December 2019

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

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

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

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

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

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

The following flow statements show the changes in loss allowance by impairment stage during 2020

Receivables from customers and off-balance-sheet items, EUR million	Stage 1	Stage 2	Stage 3	
	12 months	Lifetime	Lifetime	Total
Loss allowance 1 January 2020	**44**	**83**	**446**	**573**
Transfers from Stage 1 to Stage 2	-3	21		18
Transfers from Stage 1 to Stage 3	-1		53	52
Transfers from Stage 2 to Stage 1	2	-15		-13
Transfers from Stage 2 to Stage 3		-20	101	81
Transfers from Stage 3 to Stage 2		1	-7	-6
Transfers from Stage 3 to Stage 1	0		-1	-1
Increases due to origination and acquisition	21	14	18	53
Decreases due to derecognition	-9	-14	-47	-70
Changes in risk parameters (net)	19	28	34	81
Changes due to update in the methodology for estimation (net)	-7	-5		-12
Decrease in allowance account due to write-offs		0	-62	-62
Net change in expected credit losses	**22**	**10**	**88**	**119**
Loss allowance 31 December 2020	**65**	**93**	**533**	**692**
Net change in expected credit losses Q4 2020	**3**	**-10**	**25**	**18**

Effect of the application of the new definition of default, and changes in ECL models and parameters

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

The second step taken in the fourth quarter involved taking account of the effect of the calibration of the credit rating model for private customers so as to comply with the new definition of default. This increased ECL by EUR 28 million, which is presented as a change in risk parameters.

In the fourth quarter, OP Financial Group also updated the estimates of two LGD model parameters: the non-collateral return and the cure rate. The cure rate for impairment stages 1 and 2 was updated based on data complying with the new definition of default. The estimates for the non-collateral return and the cure rate for impairment stage 3 were made time-dependent so that they will decrease if the period of default or debt collection increases. ECL increased by EUR 17 million; it is presented as a change in risk parameters.

Furthermore, in the fourth quarter, OP Financial Group updated its lifetime PD model for corporate exposures based on data complying with the new definition of default, among other things. In addition, the Group further specified model segmentation and revised the explaining macroeconomic factors so as to include GDP and real interest rate (previously, the factors included GDP and 12-month Euribor for large companies and investments for other companies). ECL decreased by EUR 12 million; it is presented as a change in model assumptions and methodology.

COVID-19 pandemic

To prevent the significant economic effects caused by the COVID-19 pandemic, 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 Financial Group has independently provided its private customers with the opportunity to get a 12-month repayment holiday on their home loans. With respect to corporate customers, changes in repayment schedules are evaluated on a case-by-case basis. In addition, guarantees provided by Finnvera are used extensively. In loan modifications, forborne loans and customers in default are identified according to the normal set of instructions. During the Covid-19 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 2021 is predicted to be from 0.5% to 5.4% in different scenarios, and that for 2022 is predicted to be from 0.5% to 3.4% in different scenarios. The unemployment rate for 2021 is predicted to be from 7.7% to 8.7% in different scenarios, and that for 2022 is predicted to be from 6.9% to 8.3% in different scenarios.

The effect of the Covid-19 crisis on growth in expected credit loss during 2020 totalled approximately EUR 88 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. The figure includes approximately EUR 7 million in management's assessment concerning sectors affected by the Covid-19 crisis and consideration of regional circumstances in the valuation of residential property collateral. Uncertainty still exists related to the economic development caused by the Covid-19 crisis.

Notes and bonds, EUR million	Stage 1	Stage 2	Stage 3	
	12 months	Lifetime	Lifetime	Total
Loss allowance 1 January 2020	**6**	**1**	**5**	**13**
Transfers from Stage 1 to Stage 2	-1	2		1
Transfers from Stage 1 to Stage 3	0		1	1
Transfers from Stage 2 to Stage 1				
Transfers from Stage 2 to Stage 3				
Transfers from Stage 3 to Stage 2		0	0	0
Transfers from Stage 3 to Stage 1	0		-1	-1
Increases due to origination and acquisition	3	1	2	5
Decreases due to derecognition	-1	-1	-1	-3
Changes in risk parameters (net)	0	0	0	0
Changes due to update in the methodology for estimation (net)	0			0
Net change in expected credit losses	**1**	**1**	**1**	**3**
Loss allowance 31 December 2020	**7**	**3**	**6**	**16**
Net change in expected credit losses Q4 2020	**0**	**0**	**0**	**0**

The table below shows the change in loss allowance by impairment stage during 2019

Receivables from customers and off-balance-sheet items, EUR million	Stage 1	Stage 2	Stage 3	
	12 months	Lifetime	Lifetime	Total
Loss allowance 1 January 2019	**40**	**83**	**409**	**532**
Transfers from Stage 1 to Stage 2	-3	22		19
Transfers from Stage 1 to Stage 3	-4		15	11
Transfers from Stage 2 to Stage 1	2	-11		-10
Transfers from Stage 2 to Stage 3		-14	33	19
Transfers from Stage 3 to Stage 2		5	-16	-11
Transfers from Stage 3 to Stage 1	1		-2	-2
Increases due to origination and acquisition	16	15	14	45
Decreases due to derecognition	-7	-14	-24	-44
Changes in risk parameters (net)	-1	-2	48	45
Decrease in allowance account due to write-offs	0	0	-31	-31
Net change in expected credit losses	**4**	**0**	**37**	**41**
Loss allowance 31 December 2019	**44**	**83**	**446**	**573**
Net change in expected credit losses Q4 2019	**-3**	**1**	**-1**	**-3**

Notes and bonds, EUR million	Stage 1	Stage 2	Stage 3	
	12 months	Lifetime	Lifetime	Total
Loss allowance 1 January 2019	**6**	**4**	**4**	**14**
Transfers from Stage 1 to Stage 2	0	1		1
Transfers from Stage 1 to Stage 3	0		2	2
Transfers from Stage 2 to Stage 1	0	-2		-2
Transfers from Stage 3 to Stage 1	0		0	0
Increases due to origination and acquisition	2	0	0	2
Decreases due to derecognition	-2	-2	-1	-4
Changes in risk parameters (net)	0	0	0	0
Changes due to update in the methodology for estimation (net)	0			0
Net change in expected credit losses	**0**	**-2**	**1**	**-1**
Loss allowance 31 December 2019	**6**	**1**	**5**	**13**
Net change in expected credit losses Q4 2019	**0**	**-3**	**1**	**-1**

Note 8. Insurance liabilities

EUR million	31 Dec 2020	31 Dec 2019
Provision for unpaid claims		
Provision for unpaid claims for annuities	1,596	1,571
Other provision for unpaid claims	1,121	1,101
Reserve for decreased discount rate (value of hedges of insurance liability)	16	-22
Total	2,733	2,650
Provisions for unearned premiums	593	584
Life insurance insurance liabilities	6,047	6,242
Total	**9,374**	**9,476**

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

EUR million	31 Dec 2020	31 Dec 2019
Liabilities from unit-linked insurance	9,449	9,086
Investment contracts	1,873	1,776
Total	**11,323**	**10,862**

Note 10. Debt securities issued to the public

EUR million	31 Dec 2020	31 Dec 2019
Bonds	12,217	11,501
Subordinated bonds (SNP)	1,689	1,156
Covered bonds	13,252	12,097
Other		
Certificates of deposit	273	
Commercial paper	7,347	9,716
Included in own portfolio in trading (–)*	-72	-101
Total debt securities issued to the public	**34,706**	**34,369**

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

Note 11. Fair value reserve after income tax

EUR million	Fair value through other comprehensive income: Notes and bonds	Shares and participations (overlay approach)	Cash flow hedging	Total
Opening balance 1 January 2019	**-5**	**-21**	**33**	**7**
Fair value changes	93	70	77	241
Capital gains transferred to income statement	-32	12		-20
Impairment loss transferred to income statement		26		26
Transfers to net interest income			58	58
Deferred tax	-12	-22	-27	-61
Closing balance 31 December 2019	**44**	**65**	**141**	**251**

EUR million	Fair value through other comprehensive income: Notes and bonds	Shares and participations (overlay approach)	Cash flow hedging	Total
Opening balance 1 January 2020	**44**	**65**	**141**	**251**
Fair value changes	94	-7	124	210
Capital gains transferred to income statement	-13	-3		-16
Impairment loss transferred to income statement		15		15
Transfers to net interest income			-46	-46
Deferred tax	-16	-1	-16	-33
Closing balance 31 December 2020	**109**	**70**	**203**	**382**

The fair value reserve before tax totalled EUR 478 million (314) and the related deferred tax asset/liability EUR -96 million (–63). During the reporting period, positive mark-to-market valuations of equity instruments in the fair value reserve totalled EUR 15 million (99) and negative mark-to-market valuations EUR 10 million (11), 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 3 million (2) in the fair value reserve during the reporting period.

A negative fair value reserve may recover by means of asset appreciation and recognised impairments.

Note 12. Collateral given

EUR million	31 Dec 2020	31 Dec 2019
Given on behalf of own liabilities and commitments		
Pledges	136	230
Loans (as collateral for covered bonds)	15,722	14,551
Others	9,784	3,496
Total collateral given*	**25,643**	**18,277**
Secured derivative liabilities	1,078	1,098
Other secured liabilities	8,143	2,209
Covered bonds	13,252	12,097
Total	**22,473**	**15,404**

* In addition, bonds with a book value of EUR 5.3 billion have been pledged in the central bank, of which EUR 1.5 billion in intraday settlement collateral. Given that the bonds are available for withdrawal without the central bank's advance permission, they are not presented in the table above.

Note 13. Classification of financial assets and liabilities

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

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

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

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

Bonds included in debt securities issued to the public are carried at amortised cost. On 31 December, the fair value of these debt instruments was approximately EUR 810 (529) million higher than their carrying amount, based on information available in markets and employing commonly used valuation techniques. Subordinated liabilities are carried at amortised cost. Their fair values are higher than their amortised costs, but determining reliable fair values involves uncertainty.

Note 14. Recurring fair value measurements by valuation technique

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

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

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

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

Level 1: Quoted prices in active markets

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

Level 2: Valuation techniques using observable inputs

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

Level 3: Valuation techniques using unobservable inputs

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

Transfers between levels of the fair value hierarchy

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

Reconciliation of Level 3 items

Specification of financial assets and liabilities

Financial assets, EUR million	Financial assets at fair value through profit or loss	Derivative contracts	Fair value through other comprehen-sive income	Total assets
Opening balance 1 January 2020	1,181	74	888	2,143
Total gains/losses in profit or loss	-569	-13	0	-582
Total gains/losses in other comprehensive income			0	0
Purchases	109		1	111
Sales	-101		-3	-104
Settlements	-3		-5	-8
Transfers into Level 3	303		-499	-196
Transfers out of Level 3	-4		-81	-86
Closing balance 31 December 2020	916	61	301	1,278

Financial liabilities, EUR million	Derivative contracts	Total liabilities
Opening balance 1 January 2020	32	32
Total gains/losses in profit or loss	9	9
Closing balance 31 December 2020	42	42

Total gains/losses included in profit or loss by item for the financial year on 31 December 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)	-497	-73	0	-569
Unrealised net gains (losses)	-22		0	-22
Total net gains (losses)	**-519**	**-73**	**0**	**-592**

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

Changes in the levels of hierarchy

No major changes occurred in valuation techniques in 2020.

Note 15. Off-balance-sheet commitments

EUR million	31 Dec 2020	31 Dec 2019
Guarantees	686	711
Other guarantee liabilities	2,160	2,459
Loan commitments	13,826	13,180
Commitments related to short-term trade transactions	255	333
Other*	1,535	1,311
Total off-balance-sheet commitments	**18,461**	**17,995**

* Of which Non-life Insurance commitments to private equity funds amount to EUR 174 million (194).

Note 16. Derivative contracts

Total derivatives 31 December 2020

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

Total derivatives 31 December 2019

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

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

Note 17. Investment distribution of the Insurance segment

Non-life Insurance	31 December 2020		31 December 2019	
Investment asset portfolio allocation	Fair value*, EUR million	%	Fair value*, EUR million	%
Money market total	**461**	**11**	**547**	**14**
Money market instruments and deposits**	456	11	541	14
Derivatives***	5	0	6	0
Total bonds and bond funds	**2,684**	**65**	**2,644**	**67**
Governments	605	15	447	11
Inflation-linked bonds	10	0		0
Investment Grade	1,602	39	1,669	42
Emerging markets and High Yield	280	7	253	6
Structured Investments****	188	5	275	7
Total equities	**525**	**13**	**426**	**11**
Finland	112	3	116	3
Developed markets	237	6	172	4
Emerging markets	110	3	67	2
Fixed assets and unquoted equities	6	0	6	0
Private equity investments	59	1	65	2
Total alternative investments	**33**	**1**	**35**	**1**
Hedge funds	33	1	35	1
Total property investment	**398**	**10**	**300**	**8**
Direct property investment	251	6	159	4
Indirect property investment	148	4	141	4
Total	**4,102**	**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, bond funds and illiquid bonds.

Life Insurance	31 December 2020		31 December 2019	
Investment asset portfolio allocation	Fair value*, EUR million	%	Fair value*, EUR million	%
Total money market instruments	**493**	**14**	**386**	**11**
Money market investments and deposits**	490	14	381	11
Derivatives***	3	0	5	0
Total bonds and bond funds	**2,414**	**67**	**2,555**	**71**
Governments	447	12	516	14
Inflation-linked bonds	9	0	0	0
Investment Grade	1,497	42	1,548	43
Emerging markets and High Yield	191	5	200	6
Structured investments****	270	7	290	8
Total equities	**471**	**13**	**406**	**11**
Finland	86	2	105	3
Developed markets	214	6	156	4
Emerging markets	101	3	61	2
Fixed assets and unquoted equities	3	0	3	0
Private equity investments	67	2	81	2
Total alternative investments	**40**	**1**	**41**	**1**
Hedge funds	40	1	41	1
Total real property investments	**185**	**5**	**231**	**6**
Direct property investments	50	1	93	3
Indirect property investments	135	4	138	3
Total	**3,602**	**100**	**3,619**	**100**

* Includes accrued interest income.

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

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

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

Note 18. Related-party transactions

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

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

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

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

Financial reporting in 2021

Time of publication of 2020 reports:

OP Financial Group's Report by the Board of Directors and Financial Statements for 2020	Week 10
OP Financial Group's Corporate Governance Statement 2020	Week 10
OP Financial Group's Annual Review 2020 (incl. CSR Reporting)	Week 10
OP Financial Group's Capital Adequacy and Risk Management Report 2020	Week 10
Remuneration Report for Governing Bodies at OP Financial Group 2020	Week 10
Remuneration Policy for Governing Bodies at OP Financial Group	Week 10

Schedule for Interim Reports and Half-year Financial Report in 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, 10 February 2021

OP Cooperative
Board of Directors

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

www.op.fi