OP Financial Group's Interim Report for 1 January–30 September 2020

OP Financial Group's Interim Report for 1 January–30 September 2020:

Earnings before tax EUR 526 million – net interest income and net insurance income increased in an uncertain business environment

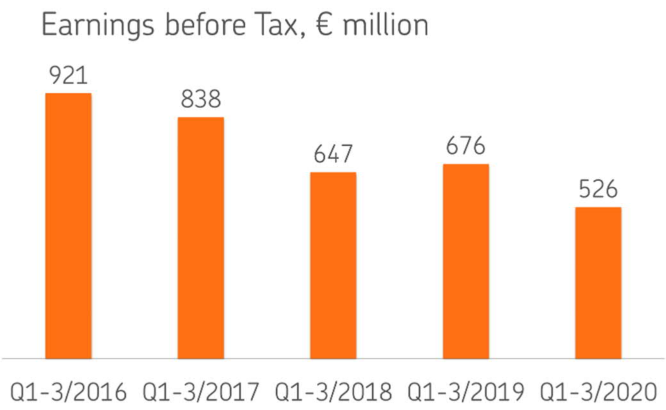
Earnings before tax Q1–3/2020	Net interest income Q1–3/2020	Net insurance income Q1–3/2020	Net commissions and fees Q1–3/2020	CET1 ratio 30 Sep 2020
€526million	+4%	+16%	0%	18.3%

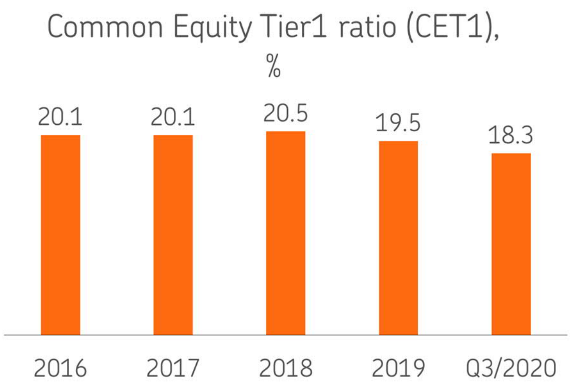
- Earnings before tax amounted to EUR 526 million (676).
- In customer business, net interest income increased by 4% to EUR 960 million (923) and net insurance income by 16% to EUR 476 million (412). Net commissions and fees, EUR 679 million, were at the previous year's level (679).
- The effects of the COVID-19 pandemic on capital market developments weakened investment income particularly in the first quarter. Investment income fell by 64% year on year, to EUR 76 million (208).
- Total income decreased by 3% to EUR 2,268 million (2,328) (including the overlay approach, income increased by 2%).
- Total expenses rose by 4% to EUR 1,414 million (1,365) due to higher ICT costs, ICT depreciation and amortisation and charges of financial authorities.
- Impairment loss on receivables, EUR 183 million (36), accounted for 0.25% (0.05) of loans and receivables. 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.
- In the year to September, OP Financial Group's loan portfolio grew by 4% to EUR 94 billion (91) and deposits by 13% to EUR 71 billion (63).
- The CET1 ratio was 18.3% (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 48% to EUR 100 million (193). Net interest income increased by 1% and net commissions and fees decreased by 3%. Impairment loss on receivables increased by EUR 93 million to EUR 118 million (25). The loan portfolio increased by 3% and deposits by 9% in the year to September.
- **Corporate Banking** earnings before tax decreased by 4% to EUR 221 million (232). Net interest income increased by 6%, net commissions and fees by 19% and net investment income by 45%. Impairment loss on receivables increased by EUR 55 million to EUR 66 million (11). The loan portfolio grew by 4% in the year to September.
- **Insurance** earnings before tax decreased by 30% to EUR 195 million (278). Net insurance income rose by 15% to EUR 485 million (421). Investment income decreased by EUR 145 million to EUR 8 million (153). The operating combined ratio was 86.0% (91.8).
- **Other Operations** earnings before tax were EUR 39 million (3). The sale of the Vallila property on 31 January 2020 improved earnings by EUR 96 million. OP Financial Group will continue operating in the property under a long-term lease agreement.
- In January–September, OP Financial Group invested a total of EUR 208 million (219) in business development and improving customer experience.
- New OP bonuses accrued to owner-customers totalled EUR 194 million (191).
- The number of owner-customers in OP cooperative banks totalled 2.0 million (2.0). The number of OP Financial Group's joint banking and insurance customers totalled 1.3 million (1.2).
- OP Financial Group's earnings before tax for 2020 are expected to be lower than in 2019. "Outlook towards the year end" describes the outlook in greater detail.

OP Financial Group's key indicators

	Q1–3/2020	Q1–3/2019	Change, %	Q1–4/2019
Earnings before tax, € million	526	676*	-22.2	838
Retail Banking	100	193	-47.9	235
Corporate Banking	221	232	-4.4	311
Insurance	195	278	-30.1	373
Other Operations	39	3	-	-37
New OP bonuses accrued to owner-customers	-194	-191	1.8	-254
Return on equity (ROE), %	4.4	6.0	-1.6**	5.5
Return on equity, excluding OP bonuses, %	6.0	7.6	-1.6**	7.1
Return on assets (ROA), %	0.36	0.51	-0.14**	0.47
Return on assets, excluding OP bonuses, %	0.49	0.64	-0.15**	0.60
	30 Sep 2020	30 Sep 2019	Change, %	31 Dec 2019
CET1 ratio, %	18.3	19.6	-1.3	19.5
Loan portfolio, € billion	94.2	91.0	3.5	91.5
Deposits, € billion	70.7	62.6	12.8	64.0
Ratio of non-performing receivables to loan and guarantee portfolio, %	1.7	1.1	0.6**	1.1
Ratio of impairment loss on receivables to loan and guarantee portfolio, %	0.25	0.05	0.20**	0.09
Owner-customers (1,000)	2,021	1,979	2.1	2,003

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





Comments by President and Group Chief Executive Officer Timo Ritakallio

OP Financial Group's customer business developed favourably in January–September despite the uncertain business environment caused by the COVID-19 pandemic. Net interest income increased by 4% and net insurance income by 16%. Net commissions and fees were at the previous year's level.

In the year to September, our loan portfolio grew by 4% to EUR 94 billion. The growth rate of deposits accelerated to 13% with the deposit portfolio amounting to EUR 71 billion at the end of September. The number of loan repayment holidays applied for by households and SMEs grew strongly in the spring but returned to its normal level in the summer.

Insurance premium revenue reported by non-life insurance grew by almost 2%. Claims incurred were down by 6% year on year as a result of lower economic activity. In non-life insurance, the operating combined ratio was excellent at 86%.

During the early part of 2020, the capital market decline that resulted from the COVID-19 pandemic decreased our investment income, particularly in the first quarter. In January–September, investment income totalled EUR 76 million, down by 64% compared to the EUR 208 million a year ago. The combined return on investments at fair value reported by the Group's insurance companies was 3.2% (10.4).

Our expenses increased by 4% year on year due to, for example, higher personnel and ICT costs and costs arising from regulatory requirements. Our ICT costs for 2020 are increased by a one-off investment in the IT environment.

OP Financial Group's earnings before tax for January–September totalled EUR 526 million, down by EUR 150 million year on year. Earnings were reduced in particular by lower investment income and higher impairment loss on receivables. Impairment loss on receivables was increased by the changes in the quality of the loan portfolio that resulted from the COVID-19 pandemic. Despite the prolonged crisis, the number of customers who have run into financial difficulties has remained low. The increase in impairment loss on receivables clearly slowed down in the third quarter. In the first half of 2020, the higher figure resulted from the adoption of the new definition of default, in addition to the COVID-19 pandemic. Earnings before tax for the third quarter, EUR 239 million, were clearly better than in the previous quarters of 2020.

Our capital adequacy is still on a solid basis at 18.3%.

In the last few months, we have launched several new services that further improve customer experience. OP was the first bank in Finland to provide corporate customers with the opportunity to make real-time mass payments in the form of SEPA instant credit transfers. Thanks to this service, companies are able to make urgent payments to payees' accounts in real time if needed. In asset management, investors showed strong interest in our recently launched special common fund that invests in alternative investment products. We also participated in channelling funding to businesses that promote sustainable development by means of corporate green bonds.

The worst fears of a collapse of the Finnish economy voiced during the first half of 2020 didn't materialise, and the economy has started to recover from the steep fall experienced in the spring. Nevertheless, the recovery of the Finnish economy to its pre-crisis level will take long. In the last few weeks, the number of COVID-19 infections has again started to increase, and large uncertainty prevails. However, the financial market is stable, largely thanks to the accommodative monetary policy measures taken by central banks. The financial situation of households remains good; so far, there are no signs of a new wave of temporary layoffs.

Similarly to other crises, the recession caused by the COVID-19 pandemic will have long-term consequences. The crisis both accelerates and decelerates existing megatrends. Businesses and governments must adapt to a new kind of economic environment. Decisions taken today may have long-ranging consequences. Good crisis management is important, but even during a crisis we must remember to renew ourselves and look into the future. We must learn to operate in a way that secures both our health and the functioning of our society and economy.

OP Financial Group’s Interim Report 1 January–30 September 2020

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Business environment

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

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

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

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

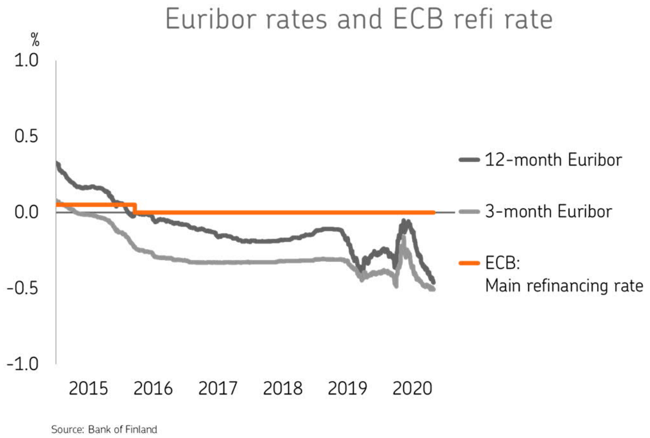
The effects of the crisis are unevenly distributed. For example, the collapse in the housing market and in car sales remained transient, and the level of activity already returned to its previous level in the summer. The spring crisis did not affect home prices due to its brevity. The tourism and event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

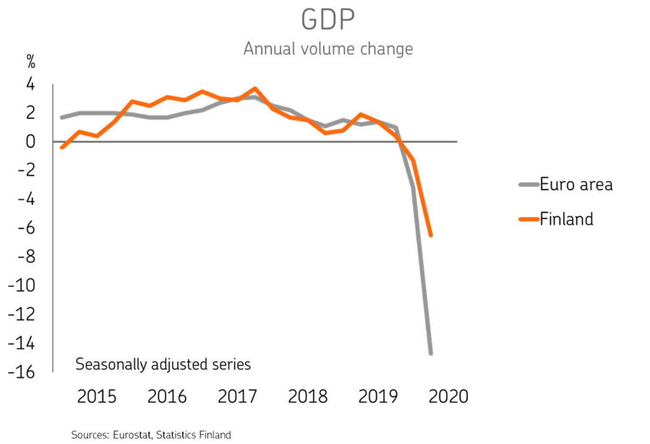
The number of coronavirus cases reported in the autumn has again been on the increase and uncertainty has grown after a more favourable period experienced in the summer. The recovery is expected to remain slow if the pandemic does not escalate again. Exceptional risks are still involved in the economic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

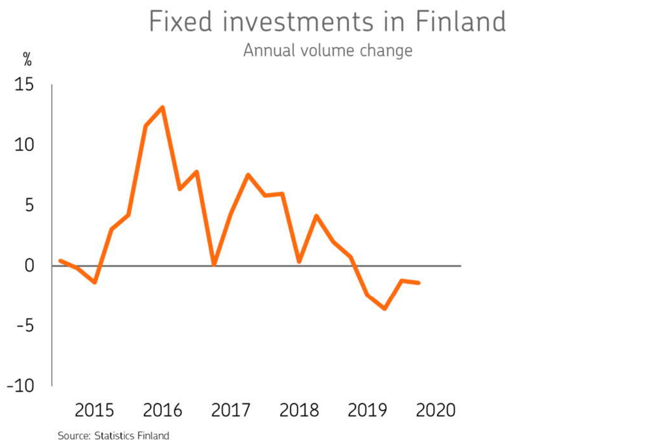
July–August growth in total loans slowed from its June-end level, increasing by 5.8%. However, total deposits continued to grow, showing an increase of 14.7%. The growth in total deposits gained momentum in public sector entities whereas growth in corporate deposits slowed down. 12-month growth in corporate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

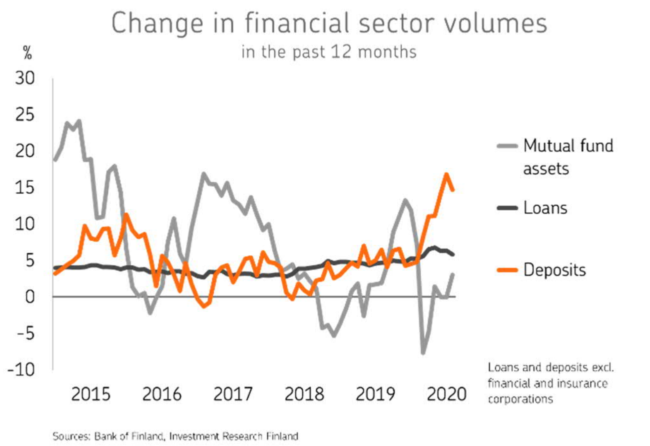
The value of mutual funds registered in Finland increased by EUR 5 billion to EUR 122.3 billion in July–September. The central banks' stimulus channels investments from fixed income investments to the equity market, in particular.

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









Earnings analysis and balance sheet

Earnings analysis, € million	Q1–3/2020	Q1–3/2019*	Change, %	Q3/2020	Q3/2019*	Change, %	Q1–4/2019
Earnings before tax	526	676	-22.2	239	280	-14.6	838
Retail Banking	100	193	-47.9	72	99	-27.1	235
Corporate Banking	221	232	-4.4	118	92	28.0	311
Insurance	195	278	-30.1	65	86	-24.9	373
Other Operations	39	3	-	-3	14	-124.0	-37
Income							
Net interest income	960	923	4.1	315	321	-1.7	1,241
Net insurance income	476	412	15.7	181	138	31.6	421
Net commissions and fees	679	679	0.0	224	229	-2.5	936
Net investment income	31	273	-88.7	59	54	8.4	530
Other operating income	121	41	193.6	8	6	31.5	53
Total income	2,268	2,328	-2.6	787	748	5.2	3,181
Expenses							
Personnel costs	594	573	3.7	179	169	6.4	781
Depreciation/amortisation and impairment loss	196	189	3.6	67	62	9.1	278
Other operating expenses	624	602	3.5	174	181	-3.7	844
Total expenses	1,414	1,365	3.6	421	411	2.3	1,903
Impairment loss on receivables	-183	-36	-	-17	3	-	-87
Temporary exemption (overlay approach)	45	-65	-	-44	2	-	-105
New OP bonuses accrued to owner-customers	-194	-191	-	-65	-62	-	-254

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

Key indicators, € million	30 Sep 2020	31 Dec 2019	Change, %
Loan portfolio	94,173	91,456	3.0
Home loans	39,777	39,572	0.5
Corporate loans	22,890	22,509	1.7
Housing company and other loans	31,506	29,375	7.3
Guarantee portfolio	3,047	3,503	-13.0
Deposits	70,691	63,998	10.5
Assets under management (gross)*	85,046	83,106	2.3
Mutual funds	25,633	25,610	0.1
Institutional clients	24,391	24,445	-0.2
Private Banking	24,457	22,199	10.2
Unit-linked insurance assets	10,565	10,852	-2.6
Balance sheet total	159,407	147,024	8.4
Investment assets	23,536	23,509	0.1
Insurance liabilities	9,579	9,476	1.1
Debt securities issued to the public	35,020	34,369	1.9
Equity capital	12,770	12,570	1.6

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

January–September

OP Financial Group's earnings before tax amounted to EUR 526 million (676). The figure decreased by EUR 150 million over the previous year. In customer business, net interest income and net insurance income increased. In addition, the sale of the Vallila property increased earnings. The effects of the COVID-19 pandemic on the loan portfolio quality increased impairment loss on receivables. Market developments caused by the pandemic decreased investment income particularly in the first quarter. 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, and growth in expenses.

Net interest income increased by 4.1% to EUR 960 million. Net interest income reported by the Retail Banking segment increased by EUR 3 million and that by the Corporate Banking segment by EUR 16 million. In the year to September, OP Financial Group's loan portfolio grew by 3.5% to EUR 94.2 billion and deposits by 12.8% to EUR 70.7 billion. New loans drawn down by customers during January–September totalled EUR 16.6 billion (18.6).

Net insurance income totalled EUR 476 million (412). The Insurance segment's non-life insurance premium revenue increased by 1.9% to EUR 1,127 million. Claims incurred decreased by 6.1% to EUR 664 million. The operating combined ratio was 86.0% (91.8).

Net commissions and fees of EUR 679 million remained at the same level as a year ago. Net commissions and fees from mutual funds increased by EUR 7 million, those from securities issuance by EUR 5 million and those from securities brokerage by EUR 5 million. Meanwhile, commission income from lending decreased by EUR 7 million and net commission and fees from insurance brokerage by EUR 6 million.

Net investment income decreased by EUR 242 million to EUR 31 million. Net income from financial assets at fair value through other comprehensive income totalled EUR 31 million (146). Capital gains recognised totalled EUR 26 million (127).

Net income from financial assets recognised at fair value through profit or loss totalled EUR 259 million (683). 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. Value changes in Credit Valuation Adjustment (CVA) in derivatives owing to market changes decreased earnings by EUR 13 million (–15). In life insurance, the net change in short-term supplementary interest rate provisions decreased earnings by EUR 9 million (–12). Net income from investment property decreased by EUR 33 million to EUR –8 million.

The overlay approach is applied to certain equity instruments of insurance companies. Changes in the fair value of investments within the scope of the overlay approach are presented under the fair value reserve under equity. Total investment income fell by 63.5% year on year, to EUR 76 million. The combined return on investments at fair value of OP Financial Group's insurance companies was 3.2% (10.4).

Other operating income rose by EUR 80 million year on year to EUR 121 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 increased by 3.6% to EUR 1,414 million. Personnel costs increased by 3.7% to EUR 594 million. Depreciation/amortisation and impairment loss on PPE and intangible assets increased by 3.6% to EUR 196 million. Planned depreciation/amortisation increased by 6.1% to EUR 194 million due to higher development expenditure recognised for prior years. Impairment write-downs were EUR 2 million (6).

Other operating expenses increased by 3.5% to EUR 624 million. ICT costs increased by EUR 32 million to EUR 286 million. A one-off investment in the IT environment further increases ICT costs for 2020. Development costs were EUR 135 million (125). Charges of financial authorities increased by 21.2% to EUR 42 million as a result of a higher EU stability contribution.

Impairment loss on loans and receivables and on investments recognised under various income statement items that reduced earnings amounted to EUR 200 million (48), of which EUR 183 million (36) concerned loans and receivables. During the COVID-19 crisis, customers have actively applied for repayment holidays on their loans and changes to their repayment schedules. Combined with the COVID-19 related changes in macroeconomic parameters applied in the calculation of expected credit losses, this increased impairment loss on receivables by EUR 72 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 of EUR 82 million (42). Loss allowance was EUR 690 million (585) at the end of the reporting period. The ratio of non-performing receivables in loans and receivables to the loan and guarantee portfolio was 1.7% (1.1). Impairment loss on loans and receivables accounted for 0.25% (0.05) of the loan and guarantee portfolio.

OP Financial Group's current tax amounted to EUR 110 million (134). The effective tax rate was 20.9% (19.9).

OP Financial Group's equity amounted to EUR 12.8 billion (12.6). Equity included EUR 2.9 billion (3.0) in Profit Shares, terminated Profit Shares accounting for EUR 0.2 billion (0.2). The return target for Profit Shares for 2020 is 3.25%. Interest payable on Profit Shares accrued during the reporting period is estimated to total EUR 71 million (72). The amount of interest to be paid for 2019 in January 2021 totalled EUR 97 million.

Comprehensive income for the period totalled EUR 435 million (869). A year ago, comprehensive income was increased by changes in the fair value reserve.

July–September

Earnings before tax amounted to EUR 239 million against EUR 280 million a year ago. An increase in net insurance income improved earnings. Earnings were reduced in particular by lower investment income and higher impairment loss on receivables. However, impairment loss on receivables was clearly lower than in the first half of 2020.

Year on year, net interest income fell by 1.7% to EUR 315 million. Net insurance income increased by 31.6% to EUR 181 million due to a decrease in claims incurred. Net commissions and fees were EUR 234 million, or EUR 6 million lower than the year before.

In total, investment income fell by 73.4% to EUR 15 million. Net income from financial assets at fair value through other comprehensive income totalled EUR –1 million (72). Net capital gains recognised totalled EUR –6 million (64). Net income from financial assets recognised at fair value through profit or loss totalled EUR 141 million (210). In life insurance, the net change in short-term supplementary interest rate provisions decreased earnings by EUR 30 million (–34). Net income from investment property decreased by EUR 14 million year on year to EUR 2 million. The overlay approach decreased investment income by EUR 46 million to EUR –44 million.

Other operating income rose by EUR 2 million year on year to EUR 8 million.

Total expenses increased by 2.3% year on year to EUR 421 million. Personnel costs increased by 6.4% to EUR 179 million. Depreciation/amortisation and impairment losses increased by 9.1% year on year to EUR 67 million. Other operating expenses fell by 3.7% to EUR 174 million.

Impairment loss on receivables, EUR 17 million, increased by EUR 21 million year on year. During the COVID-19 crisis, customers have applied for repayment holidays on their loans and changes to their repayment schedules. This increased impairment loss on receivables by EUR 10 million. Rearrangement of receivables increased final net loan losses of EUR 56 million (16).

Comprehensive income of EUR 277 million (275) for the reporting period was increased by changes in the fair value reserve. In July–September, the fair value reserve grew by EUR 101 million (56). The fair values of equities, and notes and bonds increased in the third quarter.

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

OP Financial Group offers financial relief to its customers who have run into financial problems due to the COVID-19 crisis. OP Financial Group offers both households and SMEs the opportunity to postpone their loan repayments if the COVID-19 pandemic has affected their repayment capacity. Private customers have the opportunity to get a repayment holiday of up to 12 months on their home loans. With respect to corporate customers, changes in repayment schedules will always be evaluated on a case-by-case basis. In addition, guarantees provided by Finnvera will be used extensively. No separate fees were charged for loan modifications during the period 16 March–21 September 2020. During the COVID-19 crisis, private customers have applied for approximately 162,000 repayment holidays by the end of September. 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 totalled 22,000 by the end of September. The number of applications from corporate customers decreased in the summer, too.

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. 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.

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 their close friends and family, by providing a special telephone line. The purpose of this is to ensure that those in need of special support can do their banking transactions easily.

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. The 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's employees worked remotely. After the summer holiday season, the return to offices involved a flexible combination of remote and in-office work based on employees' duties and the needs of the teams while taking into account the safety and wellbeing of employees and customers, and business performance.

July–September events

OP Financial Group observes the recommendation issued by the European Central Bank (ECB) by further postponing the payment of interest on Profit Shares for 2019. Interest on Profit Shares will be paid in January 2021. On 2 April 2020, OP Financial Group announced that the payment of interest on Profit Shares for 2019 would be postponed from June to October 2020, in line with the recommendations of the ECB and the Finnish Financial Supervisory Authority (FIN-FSA). On 28 July 2020, the ECB extended the validity of its recommendation and urged banks to refrain from profit distribution until 1 January 2021. Similarly, the FIN-FSA extended the validity of its profit distribution recommendation until 1 January 2021. The purpose of this recommendation is to safeguard the ability of banks to support the real economy by providing funding to businesses and households to alleviate the effects of the economic crisis caused by the COVID-19 pandemic.

OP Bank Group Pension Fund transferred the majority of its pension liability and the management of earnings-related pension insurance portfolio to Ilmarinen Mutual Pension Insurance Company on 31 December 2018.
Transfer of the pension liability remaining with OP Bank Group Pension Fund is planned to take place at the end of 2020. The liability transfer applies 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 FIN-FSA issued an announcement on the liability transfer application on 30 September 2020. According to the present-day estimate, the transfer would affect earnings by around EUR 69 million. The estimated figures are highly sensitive to changes in parameters and the final earnings effect can be confirmed at the time of transfer. If the transfer is executed as planned, the earnings effect will be recognised as a deduction in OP Financial Group's personnel costs on 31 December 2020. The transfer has no effect on capital adequacy.

OP Financial Group's strategic targets and focus areas

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 specifies key tasks for achieving the Group's vision and defines 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

OP Financial Group's strategic priorities for 2020 are as follows:

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

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	30 Sep 2020	31 Dec 2019	Target 2025
Return on equity (ROE excluding OP bonuses), %	6.0	7.1	8.0
CET1 ratio, %	18.3	19.5	At least CET1 requirement + 4 pps
Brand recommendations, NPS (Net Promoter Score, private and corporate customers)	22	26	30
Credit rating	AA-/Aa3	AA-/Aa3	At least at the level of AA-/Aa3

On 27 April 2020, OP Cooperative's Board of Directors decided that OP Financial Group's target CET1 ratio be at least the CET1 capital adequacy requirement plus four percentage points. The CET1 target calculated by applying the September-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. OP's operations are based on cooperative values, a strong capital base, capable risk management and customer respect. The Group's core values are People First, Responsibility, and Succeeding Together.

Allocation of earnings

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

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

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

Implementing OP Financial Group's mission successfully requires a strong capital base which the requirements set by the authorities also necessitate. 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. OP's loyalty benefit programme consists of OP bonuses – accrued in proportion to an owner-customer's transactions with OP – as well as benefits and discounts related to OP's banking services, insurance contracts and saving and investment services. Owner-customers also have the opportunity to contribute capital to their own OP cooperative bank through Profit Shares. Interest will be annually paid on Profit Shares as the banks' profit distribution.

OP Financial Group is one of the largest 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 reporting period.

At the end of September, 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) at the end of September.

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

OP cooperative banks' owner-customers earn OP bonuses through banking, insurance and wealth management transactions. The value of new OP bonuses accrued in January–September totalled EUR 194 million (191). During the same period, a total of EUR 90 million (88) of bonuses were used to pay for banking and wealth management services and EUR 98 million (95) to pay non-life insurance premiums.

In the reporting period, owner-customers benefitted EUR 20 million (26) from the reduced price of the daily services package of Retail Banking. The reduced price applied a year ago has been adjusted to correspond to the updated accounting. Owner-customers were provided with EUR 51 million (52) 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 5 million (4).

The abovementioned OP bonuses and customer benefits totalled EUR 270 million (273), accounting for 33.9% (28.8) of OP Financial Group's earnings before tax and granted benefits.

Interest payable on Profit Shares accrued during the reporting period is estimated to total EUR 71 million (72). The return target for Profit Shares for 2020 is an interest rate of 3.25% (3.25).

Corporate responsibility

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

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

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

July–September highlights

In July, OP and Hope ry organised for the fourth time the Backpack for every back campaign to collect school backpacks at OP cooperative banks and Pohjola Hospitals across Finland. This year, a total of 3,800 backpacks were collected for the children of families living on limited means.

Multichannel services

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

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

Mobile and online services, no. of logins (million)	Q1–3/2020	Q1–3/2019	Change, %
OP-mobile	295.7	220.5	34.1%
OP Business mobile	10.9	7.2	51.1%
Pivo	33.2	39.1	-15.1%
Op.fi	54.1	79.1	-31.7%
	30 Sep 2020	31 Dec 2019	Change, %
Siirto payment, registered customers (OP)	854,936	666,321	28.3%

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 September, Mobile key already had more than 1.1 million active users, and as much as 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.

OP Financial Group has an extensive branch network with 344 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 560,000 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.

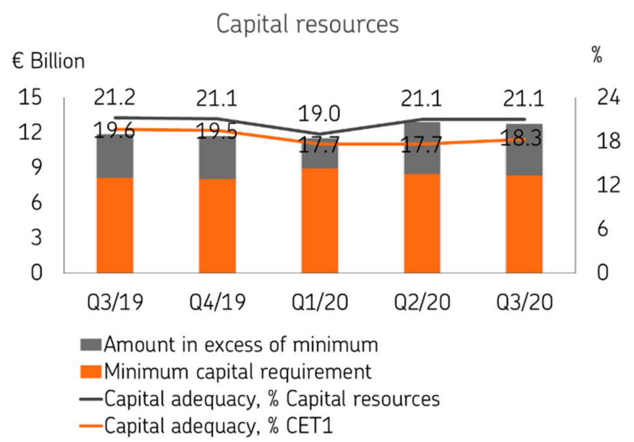
Capital adequacy and capital base

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

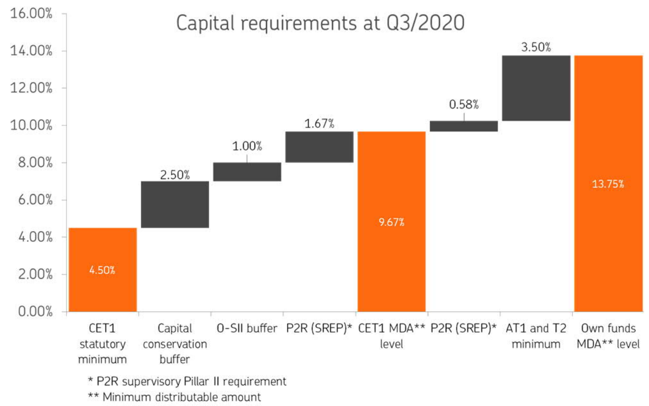
OP Financial Group's capital base, calculated according to the Act on the Supervision of Financial and Insurance Conglomerates (FiCo), exceeded the minimum amount specified in the Act by EUR 4.0 billion (3.2). Banking capital requirement fell to 13.8% (14.5), calculated on risk-weighted assets. The amount 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 145% (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 18.3% (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.

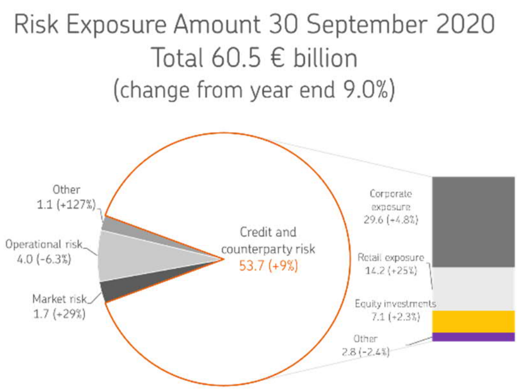


As a credit institution, OP Financial Group's capital adequacy is on a solid basis compared to the statutory requirements and those set by the authorities. The statutory minimum for the capital adequacy ratio is 8% and for the CET1 ratio 4.5%. The requirement for the capital conservation buffer of 2.5% 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 11.1 billion (10.8). Banking earnings had a positive effect on the CET1 capital. The amount of Profit Shares in CET1 capital was EUR 2.9 billion (2.9).

The risk exposure amount (REA) totalled EUR 60.5 billion (55.5), or 9% higher than on 31 December 2019. The risk weight floor for retail exposures set by the ECB decreased to EUR 0.4 billion. Because of the adoption of the new definition of default, the average retail and corporate exposure risk weights rose as result of the risk weighting factors set by the ECB. The loan portfolio grew especially in corporate exposures. To prepare for the effects of the COVID-19 pandemic, OP Financial Group made an extra addition of EUR 0.8 billion to risk-weighted assets.



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

The upcoming EU regulation includes a requirement for measuring the degree of indebtedness, the leverage ratio. The leverage ratio of OP Financial Group's banking operations is estimated at about 7.7% (8.3) based on the existing interpretations, calculated using the September-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. More detailed information on the effects is expected during 2020. The CRR2 changes are expected to reduce OP Financial Group's CET1 ratio by around 0.5 percentage points during 2021.

OP Financial Group has begun discussions with the ECB on reassessing the extent of 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 1.1 percentage points during 2020. The final effect and its schedule will be specified after discussions with the supervisor and the approval process related to the scope of IRBA.

The OP Amalgamation Capital Adequacy Report for the third quarter of 2020 will be published in week 44.

Insurance

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

	Non-life insurance		Life insurance	
	30 Sep 2020	31 Dec 2019	30 Sep 2020	31 Dec 2019
Capital base, € mill.*	1,067	1,008	1,385	1,423
Solvency capital requirement, € mill.*	731	699	678	687
Solvency ratio, %*	146	144	204	207
Solvency ratio, % (excl. transitional provision)	146	144	169	170

*including transitional provisions

ECB's supervision

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

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

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

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

Liabilities under the Resolution Act

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

Risk exposure

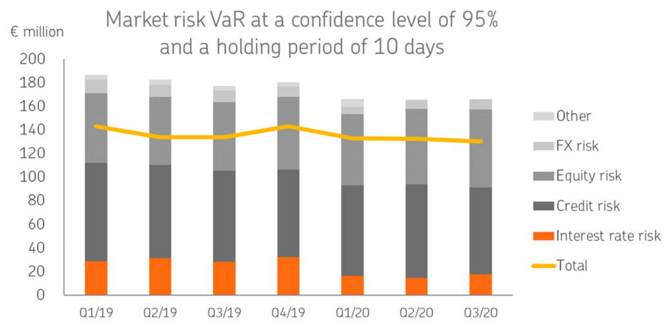
OP Financial Group's strategy is based on moderate risk-taking, a strong capital base and responsible operations. When entering 2020, OP Financial Group had a strong risk-bearing capacity and sufficient capital base, capital buffers and liquidity.

The COVID-19 pandemic that spread widely in early 2020 had a global effect on societies, which was further reflected in economic development and operating conditions in the financial sector, including in Finland. Engaged in business covering various areas of the financial sector, OP Financial Group 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.

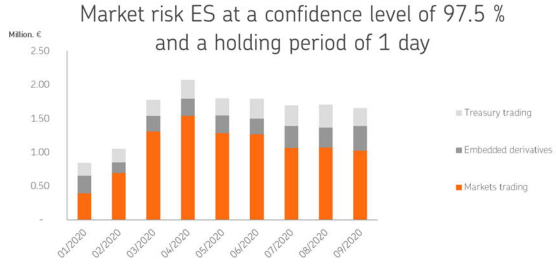
The COVID-19 pandemic affects OP Financial Group in three ways. The financial standing of customers affects OP Financial Group's account funds and the credit risk and insurance risk exposure. The volume of deposit funds has increased and customers' debt-servicing capacity has weakened during the crisis. 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 managed 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. During the reporting period, OP Financial Group issued long-term bonds worth EUR 6.6 billion (2.5). The loan-to-deposit ratio remained stable during the reporting period.

The market risk level of OP Financial Group's long-term investments remained moderate. No major changes were made to the asset class allocation during the reporting period. The Group's VaR, a measure of market risk, was EUR 131 million (143) on 30 September 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 remained stable in the third quarter. The Expected Shortfall (ES) metrics are used to measure market risks at a confidence level of 97.5% and a retention period of one day.



The Group expects its operational risks to be moderate as targeted. Materialised operational risks resulted in a gross loss of approximately EUR 6 million (12) during the reporting period.

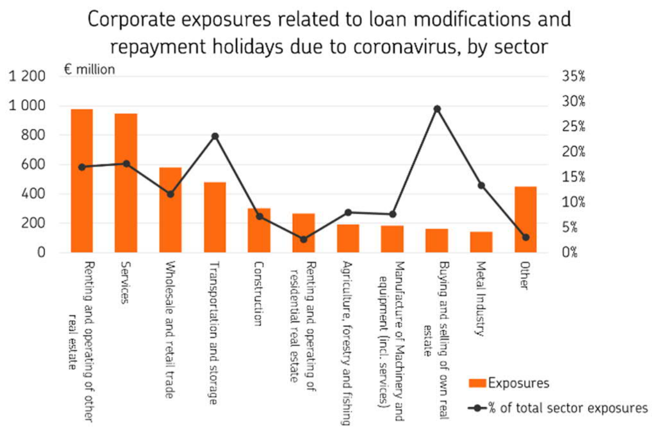
From the operational risk perspective, the implications of the COVID-19 pandemic on OP Financial Group were mild during the reporting period and mainly affected OP cooperative banks.

Retail Banking and Corporate Banking

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

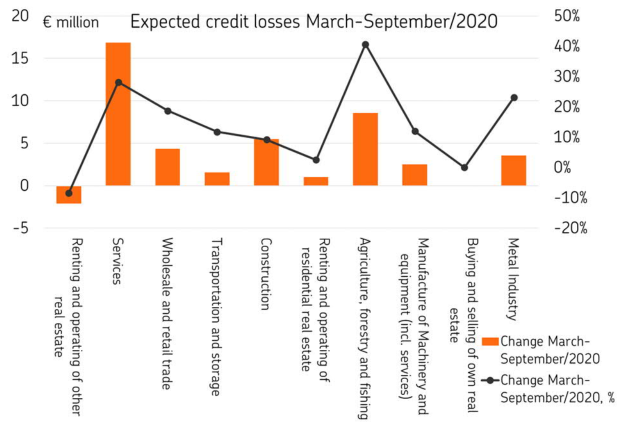
So far, the COVID-19 pandemic has not substantially weakened banking credit risk exposure, but there is still risk for a negative development.

At the end of September, repayment holidays and loan modifications granted by OP Financial Group mainly due to the COVID-19 crisis concerned customer exposures of around EUR 12.3 billion, 61.9% of which concerned private customer exposures. A total of 69.2% of repayment holidays granted to private customers concerned the top six rating grades in OP Financial Group's 16-tier internal rating system, while 4,7% concerned the lowest three rating grades. In OP Financial Group's 20-tier internal rating system for corporate customers, 25.9% of the corporate exposures to which a loan modification or repayment holiday was granted were categorised in the highest seven rating grades, while 5.8% were in the lowest three rating grades.



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

20.9% of repayment holidays and loan modifications related to corporate exposures concerned the sector Operating of real estate, 20.2% concerned the service sector (such as hotels, restaurants and tourism) and 12.4% concerned the trade sector.



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

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

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

Forborne loans and non-performing receivables

	Performing forborne exposures (gross)		Non-performing receivables (gross)		Doubtful receivables (gross)		Loss allowance		Doubtful receivables (net)	
	30 Sep 2020	31 Dec 2019	30 Sep 2020	31 Dec 2019	30 Sep 2020	31 Dec 2019	30 Sep 2020	31 Dec 2019	30 Sep 2020	31 Dec 2019
Over 90 days past due, € billion			0.68	0.64	0.68	0.64	0.24	0.25	0.44	0.39
Unlikely to be paid, € billion			0.76	0.51	0.76	0.51	0.18	0.15	0.58	0.36
Forborne exposures, € billion	2.89	2.03	0.73	0.34	3.62	2.38	0.12	0.05	3.50	2.33
Total, € billion	2.89	2.03	2.16	1.48	5.05	3.52	0.53	0.45	4.52	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 during the reporting period.

Key ratios	OP Financial Group		Retail Banking		Corporate Banking	
	30 Sep 2020	31 Dec 2019	30 Sep 2020	31 Dec 2019	30 Sep 2020	31 Dec 2019
Ratio of doubtful receivables to loan and guarantee portfolio, %	4.6	3.2	5.8	4.1	1.7	0.9
Ratio of non-performing receivables to loan and guarantee portfolio, %	1.7	1.1	2.0	1.3	1.0	0.5
Ratio of performing forborne exposures to loan and guarantee portfolio, %	3.0	2.1	3.8	2.8	0.7	0.4
Ratio of performing forborne exposures to doubtful receivables, %	63.6	66.2	66.2	68.3	39.8	42.1
Ratio of loss allowance (receivables from customers) to doubtful receivables, %	12.8	15.7	8.0	8.6	41.8	59.3

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

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

Retail Banking's interest rate risk in the banking book measured as the effect of a one-percentage point decrease on 12-month net interest income was EUR –57 million (–24) at the end of September. Interest income risk is calculated for a one-year period by dividing the sum of the interest income risk for the next three years by three.

Deposits within the scope of deposit guarantee and managed by OP Financial Group totalled EUR 40.8 billion (38.0) at the end of September. The Deposit Guarantee Fund compensates a maximum of EUR 100,000 for each OP Financial Group customer.

Insurance

Non-life insurance

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

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

No significant changes took place in non-life insurance's underwriting risks 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. In the asset class allocation, the weight of illiquid investments has grown slightly. In addition, changes in the bond portfolio and equity prices increased the risk level. The VaR, a measure of market risk, was EUR 63 million (54) on 30 September 2020.

Interest rate derivatives have been used to hedge against interest rate risk associated with insurance liability.

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 30 million (31).

Investment risks associated with separated insurance portfolios transferred from Suomi Mutual and risks associated with changes in customer behaviour have been buffered. The buffer is sufficient to cover a significant negative return on the investment assets included in the separate portfolios, after which OP Financial Group will bear the risks associated with the portfolios. The buffers totalled EUR 286 million (327) on 30 September 2020.

The market risk level of investments remained moderate. No major changes were made to the asset class allocation during the reporting period. Changes in the bond portfolio increased the risk level moderately. The VaR, a measure of market risk, was EUR 61 million (58) on 30 September 2020. Interest rate derivatives have been used to hedge against interest rate risk associated with insurance liability.

Other Operations

Major risks related to 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 203% (141) at the end of the reporting period.

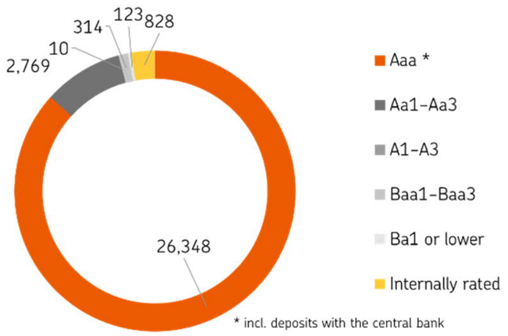
OP Financial Group monitors its long-term funding sufficiency, for example, by means of the Net Stable Funding Ratio (NSFR), which measures structural funding risk. In regulation, no minimum requirement for the NSFR has been set as yet. OP Financial Group's NSFR was 120% (112) on 31 August 2020.

Liquidity buffer

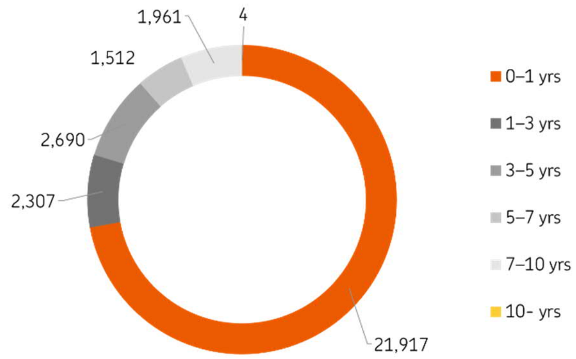
€ billion	30 Sep 2020	31 Dec 2019	Change, %
Deposits with central banks	21.1	11.9	77.0
Notes and bonds eligible as collateral	8.2	11.1	-26.6
Corporate loans eligible as collateral	-	0.0	-
Total	29.2	23.0	26.9
Receivables ineligible as collateral	1.4	2.0	-41.4
Liquidity buffer at market value	30.4	25.0	21.5
Collateral haircut	-0.5	-0.8	-38.5
Liquidity buffer at collateral value	29.9	24.2	23.6

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

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



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



Credit ratings

30 Sep 2020

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

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

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

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

Financial performance by segment

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

Retail Banking

- Earnings before tax amounted to EUR 100 million (193). Impairment loss on receivables, EUR 118 million, was EUR 93 million higher than a year ago. Impairment loss increased mainly due to the adoption of the new definition of default and the effects of the COVID-19 pandemic.
- Total income decreased by 0.3% to EUR 1,232 million. Net interest income increased by 0.5% to EUR 694 million. Net commissions and fees decreased by 2.5% to EUR 517 million.
- Total expenses decreased by 0.9% to EUR 852 million. Personnel costs decreased by 2.3%. Depreciation/amortisation and impairment loss increased by 14.3% mainly as a result of the card renewal programme.
- The loan portfolio increased by 2.6% and the deposit portfolio by 8.5% in the year to September.
- Impairment loss on receivables was EUR 118 million (25). Non-performing receivables accounted for 2.0% (1.3) of the loan and guarantee portfolio.
- The most significant development investments focused on improving the efficiency of the IT system environment, continuing the card renewal programme and enhancing customer experience and customer processes.

Key figures and ratios

€ million	Q1–3/2020	Q1–3/2019	Change, %	Q1–4/2019
Net interest income	694	691	0.5	922
Net commissions and fees	517	530	-2.5	708
Net investment income	1	-16	-	-17
Other income	21	32	-33.7	43
Total income	1,232	1,237	-0.3	1,657
Personnel costs	309	316	-2.3	426
Depreciation/amortisation and impairment loss	39	34	14.3	55
Other operating expenses	504	509	-0.9	692
Total expenses	852	859	-0.9	1,172
Impairment loss on receivables	-118	-25	-	-36
OP bonuses to owner-customers	-162	-160	-	-214
Earnings before tax	100	193	-47.9	235
Cost/income ratio, %	69.1	69.5	-0.4*	70.7
Ratio of non-performing receivables to loan and guarantee portfolio, %	2.0	1.3	0.7*	1.3
Ratio of impairment loss on receivables to loan and guarantee portfolio, %	0.22	0.05	0.17*	0.05
Return on assets (ROA), %	0.13	0.26	-0.14*	0.24
Return on assets, excluding OP bonuses, %	0.33	0.48	-0.15*	0.45
€ million				
Home loans drawn down	5,355	5,849	-8.4	7,799
Corporate loans drawn down	1,762	2,033	-13.3	2,729
No. of brokered residential property and property transactions	8,714	9,057	-3.8	12,139
€ billion	30 Sep 2020	30 Sep 2019	Change, %	31 Dec 2019
Loan portfolio				
Home loans	39.8	39.4	0.9	39.6
Corporate loans	8.2	7.9	3.3	8.1
Housing company and other loans	21.4	20.3	5.5	20.4
Total loan portfolio	69.3	67.6	2.6	68.1
Guarantee portfolio	0.9	0.7	23.7	0.8
Deposits				
Current and payment transfer	38.9	34.9	11.6	35.4
Investment deposits	19.4	18.9	2.7	19.0
Total deposits	58.3	53.8	8.5	54.4

*Change in ratio

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

The loan portfolio grew in the year to September by 2.6% to EUR 69.3 billion. In January–September, new home loan drawdowns decreased by 8.4% year on year. In the year to September, the home loan portfolio increased by 0.9% to EUR 39.8 billion and the corporate loan portfolio by 3.3% to EUR 8.2 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. In the 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 30 September 2020, a total of 26.7% (24.5) of private customers' home loans were covered by interest rate protection.

The deposit portfolio increased in the year to September by 8.5% to EUR 58.3 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. As of June, sales volumes began to pick up year on year as pent-up demand started to release and the housing market recovered. During the reporting period, the volume of homes and real property sold and bought through the OP Koti real estate agents decreased by 3.8% year on year.

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

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

During the reporting period, the most significant development investments focused on improving the efficiency of the IT system environment, continuing the card renewal programme and enhancing customer experience and customer processes. In the summer, OP's digital home loan service became available to everyone – also customers of other banks can get an automated loan decision from OP. OP also launched services that support the customer's personal financial management, and the OP Multi-bank Service.

Financial performance for the reporting period

Retail Banking earnings before tax were EUR 100 million (193). Net interest income grew by 0.5% to EUR 694 million as a result of an increase in the loan portfolio. Net commissions and fees decreased by 2.5% to EUR 517 million. Net investment income totalled EUR 1 million (–16). Total income decreased by 0.3% to EUR 1,232 million.

Total expenses decreased by 0.9% to EUR 852 million. Personnel costs decreased by 2.3%. Depreciation/amortisation and impairment loss increased by 14.3% to EUR 39 million, mainly as a result of the card renewal programme.

Impairment loss on receivables increased to EUR 118 million (25). In the 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. The new definition of default adopted in March also increased the amount of expected credit losses. Final net loan losses recognised totalled EUR 30 million (39). Non-performing receivables accounted for 2.0% (1.3) of the loan and guarantee portfolio.

Corporate Banking

- Earnings before tax amounted to EUR 221 million (232).
- Total income increased by 12.9%. Net interest income increased by 6.0% and net commissions and fees by 19.3%. Net investment income increased by 44.7%.
- Total expenses increased to EUR 220 million (207). Other operating expenses rose by 10.6% due to higher ICT costs and a higher stability contribution.
- In the year to September, the loan portfolio increased by 3.5% to EUR 24.6 billion and the deposit portfolio increased by 41.5% to EUR 14.3 billion. Assets under management increased by 9.2% year on year.
- Impairment loss on receivables amounted to EUR 66 million (11). Non-performing receivables accounted for 1.0% (0.5) of the loan and guarantee portfolio.
- The most significant development investments involved the upgrades of payment, finance and asset management systems.

Key figures and ratios

€ million	Q1–3/2020	Q1–3/2019	Change, %	Q1–4/2019
Net interest income	297	281	6.0	383
Net commissions and fees	104	87	19.3	125
Net investment income	106	73	44.7	119
Other income	14	20	-32.7	27
Total income	521	462	12.9	655
Personnel costs	56	56	0.6	76
Depreciation/amortisation and impairment loss	14	15	-7.1	20
Other operating expenses	150	136	10.6	182
Total expenses	220	207	6.6	277
Impairment loss on receivables	-66	-11	-	-51
OP bonuses to owner-customers	-14	-12	-	-16
Earnings before tax	221	232	-4.4	311
Cost/income ratio, %	42.3	44.8	-2.5*	42.3
Ratio of non-performing receivables to loan and guarantee portfolio, %	1.0	0.5	0.4*	0.5
Ratio of impairment loss on receivables to loan and guarantee portfolio, %	0.32	0.06	0.27*	0.19
Return on assets (ROA), %	0.73	0.83	-0.10*	0.85
Return on assets, excluding OP bonuses, %	0.77	0.88	-0.11*	0.89
€ billion	30 Sep 2020	30 Sep 2019	Change, %	31 Dec 2019
Loan portfolio				
Corporate loans	14.7	14.3	2.8	14.5
Housing company and other loans	9.9	9.4	5.3	9.2
Total loan portfolio	24.6	23.7	3.5	23.7
Guarantee portfolio	2.5	2.7	-5.0	3.1
Deposits	14.3	10.1	41.5	11.2
Assets under management (gross)**				
Mutual funds	25.6	25.1	2.0	25.6
Institutional clients	24.4	22.4	8.7	24.4
Private Banking	11.9	9.2	30.1	9.9
Total (gross)	62.0	56.7	9.2	59.9
€ million	Q1–3/2020	Q1–3/2019	Change, %	Q1–4/2019
Net inflows				
Private Banking clients	183	76	142.3	49
Institutional clients	-23	-18	-	-49
Total	160	57	179.3	1

*Change in ratio

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

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

The loan portfolio grew in the year to September by 3.5% to EUR 24.6 billion. The deposit portfolio increased in the year to September by 41.5% to EUR 14.3 billion.

The most significant Corporate Banking development investments involved the upgrades of payment, finance and asset management systems. During the reporting period, OP launched a new OP Corporate Hub service. OP Corporate Hub is a digital service that helps companies with cash management and comprehensive financial monitoring. In September, OP was the first bank in Finland to extend real-time SEPA instant credit transfers into businesses' mass payments in the corporate file transfer channel.

Within asset management, net assets inflow improved year on year, to EUR 160 million (57). Assets under management increased by 9.2% year on year, to EUR 62.0 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 68,000, to 918,000 unitholders. The Morningstar rating for OP Mutual Funds was 3.08 (3.13).

Investors are showing increasing interest in alternative funds. During the reporting period, OP Financial Group complemented its range of ordinary real estate funds by launching OP-Alternative Portfolio special common fund, which has attracted interest among customers.

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 during the third quarter. The effects of COVID-19 and developments in the economic environment are reflected in demand for services, the capital market and developments in the amount of impairment losses.

Financial performance for the reporting period

Corporate Banking earnings before tax were EUR 221 million (232). Total income amounted to EUR 521 million (462) and total expenses to EUR 220 million (207). The cost/income ratio improved to 42.3% (44.8). As a result of an increase in the loan portfolio, net interest income grew by 6.0% to EUR 297 million. Lending margins widened too.

Net commissions and fees totalled EUR 104 million (87). 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	Q1–3/2020	Q1–3/2019	Change, %
Mutual funds	82	79	3.5
Asset management	12	11	6.4
Other	11	-3	-
Total	104	87	19.3

Net investment income increased by 44.7% to EUR 106 million. CVA valuation weakened earnings by EUR 13 million (–15). Income from client trading rose. Compared with the first quarter in particular, the narrowing of credit spreads increased the valuation of the trading book. Changes made in the valuation models of derivatives reduced net investment income a year ago by EUR 25 million.

Total expenses increased to EUR 220 million (207). Personnel costs remained at the previous year's level at EUR 56 million. Other operating expenses increased by 10.6% to EUR 150 million. ICT costs increased by EUR 7 million and the EU stability contribution by EUR 3 million.

Impairment loss on receivables totalled EUR 66 million (11). Final net loan losses, EUR 53 million (3), were increased by the rearrangement of receivables. The new definition of default adopted in March and the COVID-19 related changes in macroeconomic parameters used in the calculation of expected credit losses also increased the impairment loss on receivables. Non-performing receivables accounted for 1.0% (0.5) of the loan and guarantee portfolio.

Insurance

- Earnings before tax totalled EUR 195 million (278).
- Insurance premium revenue reported by non-life insurance increased by 1.9% and claims incurred decreased by 6.1%.
- Investment income totalled EUR 8 million (153), including the overlay approach. Net return on investments at fair value reported by non-life insurance was EUR –24 million (50) and that by life insurance EUR –15 million (39).
- The non-life insurance operating combined ratio was 86.0% (91.8) and operating risk ratio 60.2% (65.3). The operating cost ratio was 25.8% (26.5).
- In life insurance, unit-linked insurance assets decreased by 2.7% to EUR 10.5 billion from the 2019-end level.
- Development investments focused on development of electronic services and the core system upgrade.

Key figures and ratios

€ million	Q1–3/2020	Q1–3/2019	Change, %	Q1-4/2019
Insurance premium revenue	1,127	1,106	1.9	1,479
Claims incurred	664	707	-6.1	1,077
Life insurance, net risk results	22	22	-1.5	29
Net insurance income	485	421	15.2	431
Life insurance, net commissions and fees	76	76	-0.4	135
Non-life insurance, net commissions and fees	-27	-33	-	-49
Health and wellbeing, net commissions and fees	6	11	-45.4	13
Net commissions and fees	55	54	0.7	99
Net investment income	-37	218	-116.8	435
Other net income	5	6	-8.7	4
Total income	508	698	-27.3	969
Personnel costs	101	100	1.2	133
Depreciation/amortisation and impairment loss	43	42	3.3	71
Other operating expenses	200	200	0.0	269
Total expenses	344	341	0.8	473
OP bonuses to owner-customers	-14	-14	-	-19
Temporary exemption (overlay approach)	45	-65	-	-104
Earnings before tax	195	278	-30.1	373
Return on assets (ROA), %	0.87	1.25	-0.38*	1.29
Return on assets, excluding OP bonuses, %	0.94	1.31	-0.38*	1.36
Operating combined ratio (non-life), %	86.0	91.8		92.7
Operating risk ratio (non-life), %	60.2	65.3		65.1
Operating cost ratio (non-life), %	25.8	26.5		27.7
Operating ratio (life), %	43.1	40.9		35.5

*Change in ratio

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

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

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

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

The capital market has recovered after the plunge in March. However, unit-linked insurance assets totalled EUR 10.5 billion at the end of the reporting period, representing a decrease of 2.7% from 31 December 2019. Net assets inflow of unit-linked insurance contracts amounted to EUR 105 million (–71). The amount of life insurance surrenders remained moderate.

Financial performance for the reporting period

Earnings before tax decreased to EUR 195 million (278). Net insurance income increased to EUR 485 million (421).

Non-life insurance: premium revenue

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

Claims incurred decreased by 6.1% to EUR 664 million. The reported number of large claims under property and business liability insurance (in excess of EUR 0.3 million) amounted to 78 (60) in January–September, with their claims incurred retained for own account totalling EUR 89 million (62). The COVID-19 pandemic in particular increased claims expenditure related to travel losses and event interruptions. Changes in the provision for outstanding claims under statutory pensions improved earnings by EUR 6 million during the reporting period while improving them by EUR 2 million a year ago.

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

Net commissions and fees rose by 0.7% to EUR 55 million.

Total expenses increased by 0.8% to EUR 344 million.
In non-life insurance, the operating cost ratio (including indirect loss adjustment expenses) was 25.8% (26.5).

Non-life insurance's operating combined ratio improved to 86.0% (91.8). The operating ratios exclude the changed discount rate.

Investment

Investment income

€ million	Q1–3/2020	Q1–3/2019
At fair value through other comprehensive income	31	145
At fair value through profit or loss	113	317
Amortised cost	-2	2
Life insurance items*	-154	-243
Unwinding of discount (non-life)	-16	-21
Associated companies	-9	17
Net investment income	-37	218
Temporary exemption	45	-65
Total	8	153

*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 8 million (153), including the overlay approach. Capital gains on investment amounted to EUR 8 million (50) in non-life insurance and to EUR 18 million (64) 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 decreased earnings by EUR 9 million (–12). Accrued supplementary interest rate provisions related to insurance liabilities (excluding the separated balance sheets) totalled EUR 512 million (534) on 30 September 2020. Short-term supplementary interest rate provisions accounted for EUR 54 million (55) of these provisions.

Non-life insurance: key investment indicators

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

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

Life insurance: key investment indicators*

€ million	Q1–3/2020	Q1–3/2019
Net return on investments at fair value, € million**	-15	39
Return on investments at fair value, %	3.5	11.4
Fixed income investments' running yield, %	1.1	1.3
	30 Sep 2020	31 Dec 2019
Investment portfolio, € million	3,496	3,619
Investments within the investment grade category, %	89	88
A-rated receivables, minimum, %	58	64
Modified duration, %	2.9	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	Q1–3/2020	Q1–3/2019	Change, %	Q1–4/2019
Net interest income	-46	-48	-	-59
Net commissions and fees	7	5	34.6	6
Net investment income	11	37	-70.9	38
Other operating income	582	446	30.6	593
Total income	553	440	25.8	578
Personnel costs	128	101	26.7	148
Depreciation/amortisation and impairment loss	102	98	4.2	132
Other operating expenses	285	237	19.8	336
Total expenses	515	437	17.9	616
Impairment loss on receivables	1	0	102.2	0
Earnings before tax	39	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 39 million (3). Sale of the Vallila property improved earnings, while the growth in expenses reduced earnings. Total income increased by 25.8% to EUR 553 million.

Net interest income was EUR –46 million (–48). Net investment income totalled EUR 11 million (37). A year ago, the earnings effect of EUR 14 million arising from early repayment of TLTRO II funding and the discontinuance of related fair value hedge accounting improved net income from financial assets held for sale.

Other operating income increased by 30.6% to EUR 582 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 17.9% year on year to EUR 515 million. Personnel costs increased by 26.7% to EUR 128 million. Depreciation/amortisation and impairment loss on PPE and intangible assets increased by 4.2% to EUR 102 million. Other operating expenses increased by 19.8% to EUR 285 million as ICT costs increased by EUR 29 million.

In September, the average margin of OP Financial Group's senior and senior non-preferred wholesale funding, TLTRO funding and covered bonds was 15 basis points (19). The cost is lowered by TLTRO funding. Covered bonds are reported as part of the Retail Banking segment.

OP Financial Group's access to funding remained good. In January–September, the Group issued long-term bonds worth EUR 6.6 billion. In March, the wholesale funding market was disrupted due to the COVID-19 crisis and the prices of long-term unsecured wholesale funding increased fast and significantly. In the second quarter, the wholesale funding market recovered markedly, although prices did not return to pre-crisis levels. In January, OP Financial Group issued a senior non-preferred bond of EUR 500 million with a maturity of 7 years, and a covered bond of EUR 1 billion with a maturity of 8.25 years. In May and June, it issued two senior bonds of EUR 1 billion with a maturity of 5.25 and 4 years.

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

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

Service development

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

OP Financial Group's development expenditure for January–September totalled EUR 208 million (219). This included licence fees, purchased services, other external costs related to projects and in-house work. The capitalised development expenditure totalled EUR 74 million (93). More detailed information on OP Financial Group's investments can be found in each business segment's section in this Interim Report.

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

Personnel

On 30 September 2020, OP Financial Group had 12,460 employees (12,226). The number of employees averaged 12,454 (12,376).

Personnel at period end

	30 Sep 2020	31 Dec 2019
Retail Banking	7,036	7,230
Corporate Banking	920	907
Insurance	2,161	2,015
Other Operations	2,343	2,074
Total	12,460	12,226

During the reporting period, 228 OP Financial Group employees (222) retired at an average age of 62.2 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. OP Financial Group's Remuneration Statement presents more detailed information of the variable remuneration.

Changes in OP Financial Group's structure

OP Financial Group's consolidated financial statements at the end of the reporting period included the accounts of 138 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.

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

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.

Simplifying OP Cooperative Consolidated's structure

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

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

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

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

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. The specific manner or schedule to implement such restructuring has not yet been decided.

Governance of OP Cooperative

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

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

At the beginning of 2020, the Board of Directors elected Jaakko Pehkonen as Chair and Jarna Heinonen as Vice Chair of the Board of Directors. 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. Ojanperä's appointment is conditional and subject to regulatory approval. As of 1 July 2020, the Board of Directors comprises 11 members.

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

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

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

The Supervisory Council comprises 35 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 Financial Group, Danske Bank and Nordea will sell the entire share capital of Automatia Pankkiautomaatit Oy to Loomis AB, which specialises in cash handling. The Finnish Competition and Consumer Authority issued a conditional approval for the sale on 14 October 2020. The condition for the approval was the commitment of Loomis and Automatia to provide access to Automatia's cash infrastructure for Loomis' competitors and to continue to purchase cash in transit and cash handling services from Loomis' most relevant competitor for the next five years. The sale will have no effect on Automatia's services, such as the operation of Otto ATMs.

Outlook towards the year end

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

A gradual recovery of the economy is expected to continue if the COVID-19 pandemic remains reasonably under control. However, the outlook is still uncertain both in the domestic and the export market. A sudden worsening of the pandemic would affect OP 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 exceptional uncertainty caused by the COVID-19 pandemic increases impairment loss on receivables and weakens investment income at OP Financial Group. OP Financial Group's earnings before tax for 2020 are expected to be lower than in 2019.

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

Formulas for key figures and ratios

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

Alternative Performance Measures

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

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

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

Operating cost ratio, %

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

Life Insurance:

Operating ratio, %

$$\frac{\text{Total expenses}}{\text{Expense loading + refund of management fee}} \times 100$$

Indicators based on a separate calculation

Capital adequacy ratio, %

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

Tier 1 ratio, %

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

CET1 ratio, %

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

Solvency ratio, %

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

Leverage ratio, %

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

Liquidity coverage requirement (LCR), %

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

Net stable funding ratio (NSFR), %

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

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

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

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

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

Ratio of doubtful receivables to loan and guarantee portfolio, %

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

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

The non-life insurance financial indicators are calculated using 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	30 Sep 2020	31 Dec 2019
OP Financial Group's equity capital	12,770	12,570
Effect of insurance companies on the Group's shareholders' equity is excluded	-336	-237
Fair value reserve, cash flow hedge	-193	-141
Common Equity Tier 1 (CET1) before deductions	12,240	12,192
Intangible assets	-564	-630
Excess funding of pension liability and valuation adjustments	-99	-76
Cooperative capital deducted from capital base	-2	-142
Planned profit distribution and unpaid profit distribution for previous period	-95	-97
Shortfall of ECL minus expected losses	-431	-428
CET1 capital	11,049	10,819
Hybrid capital to which transitional provision is applied	40	60
Additional Tier 1 capital (AT1)	40	60
Tier 1 capital (T1)	11,090	10,879
Debenture loans	1,641	806
Tier 2 capital (T2)	1,641	806
Total capital	12,731	11,685

Risk exposure amount, € million	30 Sep 2020	31 Dec 2019
Credit and counterparty risk	53,506	49,216
Standardised Approach (SA)	4,547	4,101
Central government and central banks exposure	387	304
Credit institution exposure	8	8
Corporate exposure	3,022	2,646
Retail exposure	1,022	1,069
Equity investments	35	22
Other	74	52
Internal Ratings-based Approach (IRB)	48,959	45,115
Credit institution exposure	1,014	1,023
Corporate exposure	26,562	25,580
Retail exposure	13,177	10,320
Equity investments	7,047	6,898
Other	1,160	1,293
Market and settlement risk (Standardised Approach)	1,686	1,309
Operational risk (Standardised Approach)	3,964	4,232
Valuation adjustment (CVA)	171	191
Other risks*	787	11
Total risk exposure amount	60,114	54,959
Risk weight floors based on ECB's decision	359	505
Total risk exposure amount including risk weight floors	60,473	55,464

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

Ratios, %	30 Sep 2020	31 Dec 2019
CET1 capital ratio	18.3	19.5
Tier 1 ratio	18.3	19.6
Capital adequacy ratio	21.1	21.1

Ratios, fully loaded, %	30 Sep 2020	31 Dec 2019
CET1 capital ratio	18.3	19.5
Tier 1 ratio	18.3	19.5
Capital adequacy ratio	21.0	21.0

Capital requirement, EUR million	30 Sep 2020	31 Dec 2019
Capital base	12,731	11,685
Capital requirement	8,317	8,068
Buffer for capital requirements	4,413	3,617

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

Leverage ratio, EUR million	30 Sep 2020	31 Dec 2019
Tier 1 capital (T1)	11,090	10,879
Total exposure	144,613	131,504
Leverage ratio, %	7.7	8.3

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

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

€ million	30 Sep 2020	31 Dec 2019
OP Financial Group's equity capital	12,770	12,570
Hybrid instruments and debenture loans	1,681	866
Other sector-specific items excluded from capital base	-221	-349
Goodwill and intangible assets	-1,323	-1,393
Insurance business valuation differences*	614	720
Planned profit distribution and unpaid profit distribution for previous period	-95	-97
Items under IFRS deducted from capital base**	-183	-150
Shortfall of ECL minus expected losses	-405	-402
Conglomerate's total capital base	12,838	11,766
Regulatory capital requirement for credit institutions***	7,432	7,132
Regulatory capital requirement for insurance operations*	1,409	1,386
Conglomerate's total minimum capital requirement	8,841	8,518
Conglomerate's capital adequacy	3,997	3,248
Conglomerate's capital adequacy ratio (capital base/minimum of capital base) (%)	145	138

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

Transitional provisions have been taken into account in figures.

Income statement

EUR million	Notes	Q1–3 2020	Q1–3 2019	Q3 2020	Q3 2019
Net interest income	2	960	923	315	321
Net insurance income	3	476	412	181	138
Net commissions and fees	4	679	679	224	229
Net investment income	5	31	273	59	54
Other operating income		121	41	8	6
Total income		**2,268**	**2,328**	**787**	**748**
Personnel costs		594	573	179	169
Depreciation/amortisation		196	189	67	62
Other expenses	6	624	602	174	181
Total expenses		**1,414**	**1,365**	**421**	**411**
Impairments loss on receivables	7	-183	-36	-17	3
OP bonuses to owner-customers		-190	-186	-65	-62
Temporary exemption (overlay approach)		45	-65	-44	2
Earnings before tax		**526**	**676**	**239**	**280**
Income tax expense		110	134	48	57
Profit for the period		**416**	**542**	**191**	**223**
Attributable to:					
Profit for the period attributable to owners		413	535	190	219
Profit for the period attributable to non-controlling interest		3	7	1	4
Profit for the period		**416**	**542**	**191**	**223**

Statement of comprehensive income

EUR million	Notes	Q1–3 2020	Q1–3 2019	Q3 2020	Q3 2019
Profit for the period		**416**	**542**	**191**	**223**
Items that will not be reclassified to profit or loss					
Gains/(losses) arising from remeasurement of defined benefit plans		-15	-30	-18	-5
Items that may be reclassified to profit or loss					
Change in fair value reserve					
Measurement at fair value		13	149	85	-5
Cash flow hedge		65	226	-7	77
Temporary exemption (overlay approach)		-38	64	48	-3
Translation differences					0
Income tax					
Items that will not be reclassified to profit or loss					
Gains/(losses) arising from remeasurement of defined benefit plans		3	6	4	1
Items that may be reclassified to profit or loss					
Measurement at fair value		-3	-30	-17	1
Cash flow hedge		-13	-45	1	-15
Temporary exemption (overlay approach)		8	-13	-10	1
Total comprehensive income for the period		**435**	**869**	**277**	**275**
Attributable to:					
Total comprehensive income for the period attributable to owners		432	862	276	271
Total comprehensive income for the period attributable to non-controlling interests		3	7	1	4
Total comprehensive income for the period		**435**	**869**	**277**	**275**

Balance sheet

EUR million	Notes	30 Sep 2020	31 Dec 2019
Cash and cash equivalents		21,172	11,988
Receivables from credit institutions		305	246
Derivative contracts	16	5,278	4,824
Receivables from customers		94,173	91,463
Investment assets		23,536	23,509
Assets covering unit-linked contracts		10,542	10,831
Intangible assets		1,335	1,406
Property, plant and equipment (PPE)		654	524
Other assets		2,182	1,684
Tax assets		229	235
Non-current assets held for sale			314
Total assets		**159,407**	**147,024**
Liabilities to credit institutions		8,451	2,632
Derivative contracts		3,649	3,316
Liabilities to customers		73,050	68,289
Insurance liabilities	8	9,579	9,476
Liabilities from unit-linked insurance and investment contracts	9	10,575	10,862
Debt securities issued to the public	10	35,020	34,369
Provisions and other liabilities		3,404	3,163
Tax liabilities		1,053	1,050
Subordinated liabilities		1,855	1,290
Liabilities associated with non-current assets held for sale			6
Total liabilities		**146,637**	**134,454**
Equity capital			
Share of OP Financial Group's owners			
Cooperative capital			
Cooperative share		211	209
Profit shares		2,902	3,029
Fair value reserve	11	283	251
Other reserves		2,172	2,185
Retained earnings		7,045	6,730
Non-controlling interests		**157**	**166**
Total equity capital		**12,770**	**12,570**
Total liabilities and equity capital		**159,407**	**147,024**

Statement of changes in equity

EUR million	Coope-rative capital	Fair value reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity capital
	Attributable to owners						
Balance at 1 January 2019	**3,241**	**7**	**2,183**	**6,157**	**11,588**	**154**	**11,742**
Total comprehensive income for the period		351		511	**862**	7	**869**
Profit for the period				535	**535**	7	**542**
Other comprehensive income		351		- 24	**327**		**327**
Profit distribution				- 94	**- 94**	- 6	**- 101**
Change in membership and profit shares	- 31				**- 31**		**- 31**
Transfer of reserves			2	- 2			
Other				- 1	**- 1**	17	**16**
Balance at 30 September 2019	**3,210**	**357**	**2,185**	**6,571**	**12,324**	**171**	**12,495**

EUR million	Coope-rative capital	Fair value reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity capital
	Attributable to owners						
Balance at 1 January 2020	**3,238**	**251**	**2,185**	**6,730**	**12,404**	**166**	**12,570**
Total comprehensive income for the period		32		400	**432**	3	**435**
Profit for the period				413	**413**	3	**416**
Other comprehensive income		32		- 12	**20**		**20**
Profit distribution				- 98	**- 98**	- 8	**- 106**
Change in membership and profit shares	- 125				**- 125**		**- 125**
Transfer of reserves			- 14	14			
Other				- 2	**- 2**	- 4	**- 5**
Balance at 30 September 2020	**3,113**	**283**	**2,172**	**7,045**	**12,612**	**157**	**12,770**

Cash flow statement

EUR million	Q1–3 2020	Q1–3 2019
Cash flow from operating activities		
Profit for the period	416	542
Adjustments to profit for the period	122	-92
Increase (-) or decrease (+) in operating assets	**-4,026**	**-5,489**
Receivables from credit institutions	-3	51
Derivative contracts	-739	-27
Receivables from customers	-2,800	-3,861
Assets covering unit-linked contracts	57	84
Investment assets	-52	-510
Other assets	-490	-1,226
Increase (+) or decrease (-) in operating liabilities	**10,350**	**221**
Liabilities to credit institutions	5,720	-2,504
Derivative contracts	-443	29
Liabilities to customers	4,761	391
Insurance liabilities	9	185
Liabilities from unit-linked insurance and investment contracts	-29	197
Provisions and other liabilities	331	1,923
Income tax paid	-94	-137
Dividends received	35	59
A. Net cash from operating activities	**6,802**	**-4,897**
Cash flow from investing activities		
Acquisition of subsidiaries, net of cash acquired	0	
Disposal of subsidiaries, net of cash disposed	193	0
Purchase of PPP and intangible assets	-97	-118
Proceeds from sale of PPE and intangible assets	427	17
B. Net cash used in investing activities	**522**	**-101**
Cash flow from financing activities		
Increases in subordinated liabilities	1,312	
Decreases in subordinated liabilities	-740	
Increases in debt securities issued to the public	25,378	23,175
Decreases in debt securities issued to the public	-24,294	-21,375
Increases in invested unrestricted equity		
Increases in cooperative and share capital	17	294
Decreases in cooperative and share capital	-142	-325
Dividends and interest on cooperative capital	-106	-94
Lease liabilities	-25	
Other increases in equity items	5	
Other decreases in equity capital items	1	
C. Net cash used in financing activities	**1,407**	**1,674**
Net change in cash and cash equivalents (A+B+C)	**8,732**	**-3,323**
Cash and cash equivalents at period-start	**12,168**	**12,423**
Effect of foreign exchange rate changes	508	
Cash and cash equivalents at period-end	**21,408**	**9,100**
Interest received	**1,351**	**1,117**
Interest paid	**-444**	**-501**
Cash and cash equivalents		
Liquid assets	21,172	8,792
Receivables from credit institutions payable on demand	236	308
Total	**21,408**	**9,100**

Segment reporting

Segment information

Q1–3 earnings 2020, EUR million	Retail Banking	Corporate Banking	Insurance	Other operations	Group eliminations	OP Financial Group
Net interest income	694	297	-1	-46	16	960
of which internal net income before tax		-17		17		
Net insurance income			485		-8	476
Net commissions and fees	517	104	55	7	-4	679
Net investment income	1	106	-37	11	-50	31
Other operating income	21	14	6	582	-502	121
Total income	**1,232**	**521**	**508**	**553**	**-547**	**2,268**
Personnel costs	309	56	101	128	0	594
Depreciation/amortisation	39	14	43	102	-2	196
Other operating expenses	504	150	200	285	-515	624
Total expenses	**852**	**220**	**344**	**515**	**-517**	**1,414**
Impairments loss on receivables	-118	-66	0	1		-183
OP bonuses to owner-customers	-162	-14	-14			-190
Temporary exemption (overlay approach)			45	0	0	45
Earnings before tax	**100**	**221**	**195**	**39**	**-30**	**526**

Q1–3 earnings 2019, EUR million	Retail Banking	Corporate Banking	Insurance	Other operations	Group eliminations	OP Financial Group
Net interest income	691	281	-9	-48	8	923
of which internal net income before tax	0	-5	-8	13		
Net insurance income			421		-9	412
Net commissions and fees	530	87	54	5	3	679
Net investment income	-16	73	218	37	-39	273
Other operating income	32	20	14	446	-471	41
Total income	**1,237**	**462**	**698**	**440**	**-509**	**2,328**
Personnel costs	316	56	100	101	0	573
Depreciation/amortisation	34	15	42	98	0	189
Other operating expenses	509	136	200	237	-479	602
Total expenses	**859**	**207**	**341**	**437**	**-479**	**1,365**
Impairments loss on receivables	-25	-11	0	0	0	-36
OP bonuses to owner-customers	-160	-12	-14		0	-186
Temporary exemption (overlay approach)			-65		0	-65
Earnings before tax	**193**	**232**	**278**	**3**	**-30**	**676**

Balance sheet 30 September 2020, EUR million	Retail Banking	Corporate Banking	Insurance	Other operations	Group eliminations	OP Financial Group
Cash and cash equivalents	61	64	0	21,047		21,172
Receivables from credit institutions	18,257	106	1,942	10,396	-30,396	305
Derivative contracts	687	5,159	377	200	-1,146	5,278
Receivables from customers	69,336	25,276		505	-943	94,173
Investment assets	714	683	9,337	19,059	-6,257	23,536
Assets covering unit-linked contracts			10,542			10,542
Intangible assets	36	211	784	307	-3	1,335
Property, plant and equipment (PPE)	353	4	138	168	-10	654
Other assets	288	480	1,066	576	-227	2,182
Tax assets	113	6	6	64	40	229
Total assets	**89,846**	**31,988**	**24,193**	**52,323**	**-38,943**	**159,407**
Liabilities to credit institutions	9,712	648		26,607	-28,516	8,451
Derivative contracts	409	4,098	14	350	-1,222	3,649
Liabilities to customers	58,329	14,311		3,010	-2,600	73,050
Insurance liabilities			9,579			9,579
Liabilities from unit-linked insurance and investments contracts			10,575			10,575
Debt securities issued to the public	13,874	771	0	21,256	-880	35,020
Provisions and other liabilities	850	870	810	1,054	-178	3,404
Tax liabilities	504	2	147	401	-1	1,053
Subordinated liabilities	0	-26	380	2,306	-805	1,855
Total liabilities	**83,677**	**20,674**	**21,505**	**54,984**	**-34,203**	**146,637**
Equity						**12,770**

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	0	15,511	-22,601	2,632
Derivative contracts	323	3,657	109	195	-968	3,316
Liabilities to customers	54,434	11,290	0	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	4	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

Note 1. Accounting policies

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

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

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

1. Critical accounting estimates and judgements

The preparation of the Interim Report requires making estimates and assumptions about the future and the actual results may differ from these estimates and assumptions. It also requires the management to exercise its judgement in the process of applying the accounting policies. In preparing the Interim Report, management judgment has been used especially in the calculation of expected credit losses.

Expected credit losses:

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

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

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

- the expert assessment used in the assessment of change in relative credit risk associated with private customers to ensure a true number of contracts that move to stage 2 before moving to stage 3 (so-called default capture rate)
- the selection of the absolute threshold that is based on historical default behaviour and OP 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 COVID-19 crisis.

Goodwill and assets with indefinite useful lives:

Goodwill and assets with indefinite useful lives are subject to an annual impairment test or whenever there is any indication that the value of the cash-generating unit applied in testing may have lowered. The recoverable amount determined in the impairment test is usually based on value in use, and its calculation requires estimates of future cash flows and of the discount rate level applied in calculating their present value. A total of EUR 632 million in goodwill and EUR 162 million in the value of brands are covered by impairment tests. In the reporting period, the cash flow forecasts of cash-generating units for the upcoming five years were updated, and the change was compared to the corresponding forecasts at the time of testing in 2019. Despite the COVID-19 crisis, expectations of future cash flows did not change markedly during the reporting period, so there were no such indications of impairment that would have required the performance of new actual impairment tests.

2. Definition of default

In the IFRS 9 based calculation, OP 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 EUR 2 millionin 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. Change in accounting policies in 2019

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

Notes to the income statement

Note 2. Net interest income

EUR million	Q1–3 2020	Q1–3 2019	Q3 2020	Q3 2019
Interest income				
Receivables from credit institutions				
Interest	1	1	0	1
Negative interest	26	17	19	5
Total	27	19	20	6
Receivables from customers				
Loans	940	910	316	309
Finance lease receivables	22	21	7	8
Impaired loans and other commitments	0	0		0
Negative interest	15	8	7	2
Total	978	939	330	319
Notes and bonds				
Measured at fair value through profit or loss	1	1	0	0
At fair value through other comprehensive income	48	62	15	20
Amortised cost	3	8	1	3
Total	51	71	16	23
Derivative contracts				
Fair value hedge	-94	-79	-31	-27
Cash flow hedge	37	39	12	13
Ineffective portion of cash flow hedge	3	8	3	2
Other		-14		-4
Total	-53	-46	-16	-16
Other	7	3	2	1
Total	**1,010**	**986**	**351**	**333**
Interest expenses				
Liabilities to credit institutions				
Interest	3	6	0	2
Negative interest	45	46	21	14
Total	48	52	21	15
Liabilities to customers	48	53	12	16
Notes and bonds issued to the public	178	188	53	62
Subordinated liabilities				
Subordinated loans	0	1	0	0
Other	38	35	16	12
Total	38	35	16	12
Derivative contracts				
Cash flow hedge	-198	-192	-63	-66
Other	-75	-87	-16	-27
Total	-273	-279	-79	-93
Other	5	3	2	2
Total	**44**	**53**	**25**	**14**
Net interest income before fair value adjustment under hedge accounting	**965**	**933**	**326**	**320**
Hedging derivatives	108	201	-2	76
Value changes of hedged items	-113	-212	-8	-76
Total	**960**	**923**	**315**	**321**

Note 3. Net insurance income

EUR million	Q1–3 2020	Q1–3 2019	Q3 2020	Q3 2019
Net insurance premium revenue				
Premiums written	1,241	1,222	293	284
Insurance premiums ceded to reinsurers	4	1	-3	1
Change in provision for unearned premiums	-136	-132	103	104
Reinsurers' share	11	7	-6	-9
Total	1,119	1,097	386	380
Net non-life insurance claims				
Claims paid	-705	-775	-218	-253
Insurance claims recovered from reinsurers	16	17	3	6
Change in provision for unpaid claims	23	46	-5	-10
Reinsurers' share	4	9	7	9
Total	-661	-704	-213	-248
Other non-life insurance items	-3	-3	0	-1
Life Insurance risk premiums collected	22	22	8	7
Total	**476**	**412**	**181**	**138**

Note 4. Net commissions and fees

Q1-3 2020, EUR million	Retail Banking	Corporate Banking	Insurance	Other operations	Elimi-nations	OP Financial Group	Q3 2020
Commission income							
Lending	71	34		4	-1	108	33
Deposits	1	2		0	0	2	1
Payment transfers	264	31		12	-77	229	79
Securities brokerage	6	20			-6	20	6
Securities issuance	0	7		0	0	7	3
Mutual funds	28	155	0	0	-73	110	38
Asset management	22	19		0	-10	32	10
Legal services	16	0			0	16	6
Guarantees	6	9		0	0	15	5
Housing service	53					53	20
Insurance operations	76		20		-53	43	-73
Life insurance total expense loadings			64			64	22
Refund of unit-linked management fees			60			60	21
Health and wellbeing services			9		0	9	3
Other	0	0		0	0	0	0
Total	**543**	**277**	**153**	**16**	**-220**	**770**	**174**
Commission expenses							
Lending	0	1		0	-1	0	0
Payment transfers	19	5	1	2	-8	19	7
Securities brokerage		9	0	0	-1	8	3
Securities issuance	0	1		0	-1	0	0
Mutual funds		74	0		-74	0	0
Asset management		6	0	1	0	7	1
Guarantees		0			0	0	1
Insurance operations	-5		89		-48	36	12
Health and wellbeing services			3		0	3	1
Other	13	78	0	5	-78	18	7
Total	**27**	**173**	**93**	**9**	**-211**	**91**	**32**
Total net commissions and fees	**517**	**104**	**60**	**7**	**-9**	**679**	**142**

Q1-3 2019, EUR million	Retail Banking	Corporate Banking	Insurance	Other operations	Elimi-nations	OP Financial Group	Q3 2019
Commission income							
Lending	78	34	0	4	-1	115	38
Deposits	1	1		0	0	2	1
Payment transfers	273	34		11	-94	223	77
Securities brokerage	3	15		0	-3	15	4
Securities issuance		4		0	0	4	0
Mutual funds	24	154		0	-68	109	39
Asset management	20	20		0	-10	31	10
Legal services	18	0			0	18	5
Guarantees	6	10		0	0	15	5
Housing service	55					55	20
Insurance operations	89		21		-67	43	6
Life insurance total expense loadings			69			69	23
Refund of unit-linked management fees			59			59	19
Health and wellbeing services			18		-1	17	7
Total	**567**	**271**	**167**	**15**	**-244**	**776**	**257**
Commission expenses							
Lending	0	0		0	0	1	0
Payment transfers	16	3	1	2	-8	14	4
Securities brokerage		10	-0		-3	7	2
Securities issuance	0	2		0	0	2	0
Mutual funds		75			-69	6	2
Asset management		7	0	1	0	8	3
Insurance operations	-7		105		-67	30	9
Health and wellbeing services			7			7	1
Other	28	86	0	6	-99	22	7
Total	**37**	**184**	**112**	**10**	**-246**	**97**	**27**
Total net commissions and fees	**530**	**87**	**54**	**5**	**3**	**679**	**229**

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

Note 5. Net investment income

EUR million	Q1–3 2020	Q1–3 2019	Q3 2020	Q3 2019
Net income from assets at fair value through other comprehensive income				
Notes and bonds				
Interest income	40	53	12	18
Other income and expenses	-7	-1	-6	-0
Capital gains and losses	16	71	-0	37
Currency fair value gains and losses	-14	21	-13	19
Impairment losses and their reversal*	-4	2	6	-1
Total	**31**	**146**	**-1**	**72**

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

Net income recognised at fair value through profit or loss				
Financial assets held for trading				
Notes and bonds				
Interest income and expenses	4	4	3	1
Fair value gains and losses	2	7	2	2
Total	6	11	5	3
Shares and participations				
Fair value gains and losses	-1	15	-2	1
Dividend income and share of profits	9	1	6	1
Total	8	16	3	3
Derivatives				
Interest income and expenses	97	69	33	19
Fair value gains and losses	163	292	32	102
Total	260	361	65	121
Total	**274**	**388**	**73**	**126**
Financial assets that must measured at fair value through profit or loss				
Notes and bonds				
Interest income	17	18	5	6
Fair value gains and losses	6	4	0	3
Total	23	22	6	9
Shares and participations				
Fair value gains and losses	-64	93	29	14
Dividend income and share of profits	20	38	2	15
Total	-44	131	31	29
Total	**-21**	**153**	**36**	**38**
Financial assets designated as at fair value through profit or loss				
Notes and bonds				
Interest income	24	29	8	10
Fair value gains and losses	14	119	19	30
Total	38	149	26	40
Shares and participations				
Fair value gains and losses	-18	-2	-2	-1
Dividend income and share of profits	7	7	4	1
Total	-12	6	2	-0
Derivatives				
Fair value gains and losses	-20	-12	3	6
Total	-20	-12	3	6
Total	**6**	**142**	**32**	**46**
Total net income from financial assets recognised at fair value through profit or loss	**259**	**683**	**141**	**210**

Net income from investment property				
Rental income	40	50	13	16
Fair value gains and losses	-5	23	-1	14
Maintenance charges and expenses	-44	-44	-10	-12
Other	1	-4	0	-1
Net income from investment property total	-8	24	2	16
Net income from loans and receivables measured at amortised cost				
Loans and receivables				
Interest income	6	7	4	3
Interest expenses	-2	-1	-1	0
Capital gains and losses	0			
Impairment losses and their reversal	1	-2	0	1
Loans and receivables total	4	4	3	3
Non-life insurance				
Unwinding of discount, Non-life Insurance	-16	-21	-5	-7
Life insurance				
Interest credited on customers' insurance savings	-62	-64	-20	-21
Change in supplementary interest rate provisions	-86	-197	-22	-111
Other technical items**	-89	-305	-38	-112
Total	-237	-567	-80	-244

** 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	-8	11	-4	5
Consolidated using the equity method	6	-8	2	-1
Total	-2	3	-1	4
Total net investment income	**31**	**273**	**59**	**54**

Note 6. Other operating expenses

EUR million	Q1–3 2020	Q1–3 2019	Q3 2020	Q3 2019
ICT costs				
Production	192	166	59	59
Development	94	88	22	23
Buildings	36	40	12	11
Government charges and audit fees	46	38	1	1
Purchased services	97	97	32	33
Data communications	28	25	9	9
Marketing	20	26	6	9
Corporate social responsibility	7	7	2	2
Insurance and security costs	7	9	2	3
Other	97	106	30	32
Total	**624**	**602**	**174**	**181**

Development costs

EUR million	Q1–3 2020	Q1–3 2019	Q3 2020	Q3 2019
ICT development costs	94	88	22	**23**
Share of own work	40	37	12	12
Total development costs in the income statement	**135**	**125**	**34**	**34**
Capitalised ICT costs	64	84	17	24
Capitalised share of own work	10	9	3	3
Total capitalised development costs	**74**	**93**	**21**	**27**
Advance payments	0		0	
Total development costs	**208**	**219**	**55**	**62**
Depreciation/amortisation and impairment loss	136	129	46	43

Note 7. Impairment losses on receivables

EUR million	Q1–3 2020	Q1–3 2019	Q3 2020	Q3 2019
Receivables written down as loan and guarantee losses	89	50	59	19
Recoveries of receivables written down	-7	-9	-3	-3
Expected credit losses (ECL) on receivables from customers and off-balance-sheet items	102	-6	-39	-21
Expected credit losses (ECL) on notes and bonds*	-1	1	0	1
Total	**183**	**36**	**17**	**-3**

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

Credit risk exposures and related loss allowance

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

Exposures	Stage 1	Stage 2			Stage 3	
EUR million		Not more than 30 DPD	More than 30 DPD	Total		Total exposure
Receivables from customers (gross)						
Retail Banking	62,711	7,215	49	7,264	1,530	71,505
Corporate Banking	25,456	1,502	296	1,798	507	27,760
Total	**88,167**	**8,717**	**345**	**9,062**	**2,036**	**99,265**
Off-balance-sheet limits						
Retail Banking	8,662	368	1	368	19	9,049
Corporate Banking	9,176	383	193	576	52	9,805
Total	**17,838**	**751**	**194**	**945**	**72**	**18,854**
Other off-balance-sheet commitments						
Retail Banking	3,465	80		80	15	3,561
Corporate Banking	6,027	427		427	96	6,549
Total	**9,492**	**507**		**507**	**111**	**10,110**
Notes and bonds						
Other Operations	13,103	44		44		13,146
Insurance	4,215	52		52	14	4,281
Total	**17,318**	**96**		**96**	**14**	**17,427**
Total exposures within the scope of accounting for expected credit losses	**132,815**	**10,070**	**539**	**10,609**	**2,232**	**145,656**

Loss allowance by stage 30 September 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	-19	-68	-1	-69	-261	-348
Corporate Banking	-31	-27	-4	-32	-234	-297
Total	**-49**	**-95**	**-5**	**-100**	**-495**	**-645**
Off-balance-sheet commitments**						
Retail Banking	-1	-1		-1	-1	-3
Corporate Banking	-12	-2		-2	-13	-27
Total	**-13**	**-3**		**-3**	**-13**	**-30**
Notes and bonds***						
Other Operations	-1	-1		-1		-2
Insurance	-6	-2		-2	-6	-14
Total notes and bonds	**-7**	**-3**		**-3**	**-6**	**-16**
Total	**-70**	**-101**	**-5**	**-106**	**-514**	**-690**

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

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

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

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

Summary and key indicators 30 September 2020	Stage 1	Stage 2			Stage 3	
		Not more than 30 DPD	More than 30 DPD	Total		Total
Receivables from customers; on-balance-sheet and off-balance-sheet items						
Retail Banking	74,838	7,663	50	7,712	1,564	84,115
Corporate Banking	40,658	2,312	489	2,800	655	44,114
Loss allowance						
Retail Banking	-20	-68	-1	-70	-261	-351
Corporate Banking	-43	-29	-4	-34	-247	-323
Coverage ratio, %						
Retail Banking	-0.03%	-0.89%	-1.78%	-0.90%	-16.72%	-0.42%
Corporate Banking	-0.11%	-1.27%	-0.89%	-1.20%	-37.70%	-0.73%
Receivables from customers; total on-balance-sheet and off-balance-sheet items	**115,497**	**9,974**	**539**	**10,513**	**2,219**	**128,229**
Total loss allowance	**-63**	**-98**	**-5**	**-103**	**-508**	**-674**
Total coverage ratio, %	**-0.05%**	**-0.98%**	**-0.97%**	**-0.98%**	**-22.91%**	**-0.53%**
Carrying amount, notes and bonds						
Other Operations	13,103	44		44		13,146
Insurance	4,215	52		52	14	4,281
Loss allowance						
Other Operations	-1	-1		-1		-2
Insurance	-6	-2		-2	-6	-14
Coverage ratio, %						
Other Operations	-0.01%	-1.78%		-1.78%		-0.02%
Insurance	-0.14%	-4.14%		-4.14%	-41.79%	-0.32%
Total notes and bonds	**17,318**	**96**		**96**	**14**	**17,427**
Total loss allowance	**-7**	**-3**		**-3**	**-6**	**-16**
Total coverage ratio, %	**-0.04%**	**-3.06%**		**-3.06%**	**-41.79%**	**-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 stage 31 December 2019

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

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

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

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

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

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

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

Receivables from customers and off-balance-sheet items, EUR million	**Stage 1**	**Stage 2**	**Stage 3**	
	12 months	**Lifetime**	**Lifetime**	**Total**
Loss allowance 1 January 2020	**44**	**83**	**446**	**573**
Transfers from Stage 1 to Stage 2	-4	26		22
Transfers from Stage 1 to Stage 3	-1		49	48
Transfers from Stage 2 to Stage 1	2	-13		-12
Transfers from Stage 2 to Stage 3		-18	91	72
Transfers from Stage 3 to Stage 2		1	-4	-3
Transfers from Stage 3 to Stage 1	0		-1	-1
Increases due to origination and acquisition	21	11	11	42
Decreases due to derecognition	-7	-12	-43	-62
Changes in risk parameters (net)	9	26	6	41
Decrease in allowance account due to write-offs		0	-45	-45
Net change in expected credit losses	**19**	**20**	**62**	**102**
Loss allowance 30 September 2020	**63**	**103**	**508**	**674**
Net change in expected credit losses Q3 2020	**2**	**1**	**-42**	**-39**

Effect of the application of the new definition of default

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

Coronavirus pandemic (COVID-19)

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

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 coronavirus crisis, most of the repayment holidays have been granted to private customers and to SME customers.

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

The effect of the COVID-19 crisis on growth in expected credit loss during 2020 totalled approximately EUR 72 million. This was reflected in the transfer of contracts from impairment stages 1 and 2 to impairment stages 2 and 3, and in growth in risk parameters, especially in PD. Uncertainty still exists related to the economic development caused by the COVID-19 crisis.

Notes and bonds, EUR million	**Stage 1**	**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		0	0
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	2	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**	**0**	**3**
Loss allowance 30 September 2020	**7**	**3**	**6**	**16**
Net change in expected credit losses Q3 2020	**-1**	**0**	**-1**	**-2**

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

Receivables from customers and off-balance-sheet items, EUR million	**Stage 1**	**Stage 2**	**Stage 3**	
	12 months	**Lifetime**	**Lifetime**	**Total**
Loss allowance 1 January 2019	**40**	**83**	**409**	**532**
Transfers from Stage 1 to Stage 2	-3	22		19
Transfers from Stage 1 to Stage 3	-4		15	11
Transfers from Stage 2 to Stage 1	2	-11		-10
Transfers from Stage 2 to Stage 3		-14	33	19
Transfers from Stage 3 to Stage 2		5	-16	-11
Transfers from Stage 3 to Stage 1	1		-2	-2
Increases due to origination and acquisition	16	15	14	45
Decreases due to derecognition	-7	-14	-24	-44
Changes in risk parameters (net)	-1	-2	48	45
Decrease in allowance account due to write-offs	0	0	-31	-31
Net change in expected credit losses	**4**	**0**	**37**	**41**
Loss allowance 31 December 2019	**44**	**83**	**446**	**573**
Net change in expected credit losses Q3 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 Q3 2019	**0**	**-3**	**1**	**-1**

Note 8. Insurance liabilities

EUR million	30 Sep 2020	31 Dec 2019
Provision for unpaid claims		
Provision for unpaid claims for annuities	1,565	1,571
Other provision for unpaid claims	1,099	1,101
Reserve for decreased discount rate (value of hedges of insurance liability)	59	-22
Total	2,724	2,650
Provisions for unearned premiums	720	584
Life insurance insurance liabilities	6,136	6,242
Total	**9,579**	**9,476**

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

EUR million	30 Sep 2020	31 Dec 2019
Liabilities from unit-linked insurance	8,828	9,086
Investment contracts	1,747	1,776
Total	**10,575**	**10,862**

Note 10. Debt securities issued to the public

EUR million	30 Sep 2020	31 Dec 2019
Bonds	11,910	11,501
Subordinated bonds (SNP)	1,685	1,156
Covered bonds	13,215	12,097
Other		
Certificates of deposit	288	
Commercial paper	7,996	9,716
Included in own portfolio in trading (–)*	-75	-101
Total debt securities issued to the public	**35,020**	**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	168	49	179	396
Capital gains transferred to income statement	-20	0		-20
Impairment loss transferred to income statement		15		15
Transfers to net interest income			47	47
Deferred tax	-30	-13	-45	-88
Closing balance 30 September 2019	**114**	**30**	**214**	**357**

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	21	-35	106	92
Capital gains transferred to income statement	-9	-8		-16
Impairment loss transferred to income statement		5		5
Transfers to net interest income			-41	-41
Deferred tax	-3	8	-13	-8
Closing balance 30 September 2020	**55**	**35**	**193**	**283**

The fair value reserve before tax totalled EUR 354 million (314) and the related deferred tax asset/liability EUR -71 million (–63). During the reporting period, positive mark-to-market valuations of equity instruments in the fair value reserve totalled EUR 69 million (80) and negative mark-to-market valuations EUR 107 million (16), 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	30 Sep 2020	31 Dec 2019
Given on behalf of own liabilities and commitments		
Pledges	136	230
Loans (as collateral for covered bonds)	15,392	14,551
Others	14,911	3,496
Total collateral given*	**30,439**	**18,277**
Secured derivative liabilities	1,210	1,098
Other secured liabilities	8,144	2,209
Covered bonds	13,215	12,097
Total	**22,570**	**15,404**

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

Note 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	21,172						21,172
Receivables from credit institutions	305						305
Derivative contracts			4,399			878	5,278
Receivables from customers	94,173						94,173
Assets covering unit-linked contracts				10,542			10,542
Notes and bonds	-0	17,856	567	2,238	429		21,090
Equity instruments		0	73	198	1,253		1,524
Other financial assets	2,244						2,244
Financial assets							**156,329**
Other than financial instruments							3,078
Total 30 September 2020	**117,895**	**17,856**	**5,039**	**12,978**	**1,682**	**878**	**159,406**

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		8,451		8,451
Derivative contracts	3,034		615	3,649
Liabilities to customers		73,050		73,050
Insurance liabilities		9,579		9,579
Liabilities from unit-linked insurance and investment contracts	10,575			10,575
Debt securities issued to the public		35,020		35,020
Subordinated loans		1,855		1,855
Other financial liabilities		2,350		2,350
Financial liabilities				**144,530**
Other than financial liabilities				2,107
Total 30 September 2020	**13,609**	**130,306**	**615**	**146,637**

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

Bonds included in debt securities issued to the public are carried at amortised cost. On 30 September, the fair value of these debt instruments was approximately EUR 712 (529) million higher than their carrying amount, based on information available in markets and employing commonly used valuation techniques. Subordinated liabilities are carried at amortised cost. Their fair values are higher than their amortised costs, but determining reliable fair values involves uncertainty.

Note 14. Recurring fair value measurements by valuation technique

Fair value of assets on 30 September 2020, EUR million	Level 1	Level 2	Level 3	Total
Recognised at fair value through profit or loss				
Equity instruments	685	247	591	1,523
Debt instruments	14,134	-11,312	413	3,234
Unit-linked contracts	6,976	3,567		10,542
Derivative financial instruments	0	5,229	48	5,278
Fair value through other comprehensive income				
Equity instruments		0		0
Debt instruments	3,545	13,945	367	17,856
Total financial instruments	**25,340**	**11,676**	**1,418**	**38,434**
Investment property			651	651
Total	**25,340**	**11,676**	**2,069**	**39,085**

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

Fair value of liabilities on 30 September 2020, EUR million	Level 1	Level 2	Level 3	Total
Recognised at fair value through profit or loss				
Unit-linked contracts	6,997	3,578		10,575
Other		0		0
Derivative financial instruments	0	3,575	74	3,649
Total	**6,998**	**7,152**	**74**	**14,224**

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	-559	-26	0	-585
Total gains/losses in other comprehensive income			0	0
Purchases	86		0	86
Sales	-61		-2	-62
Settlements	-4			-4
Transfers into Level 3	365		-446	-82
Transfers out of Level 3	-5		-73	-78
Closing balance 30 September 2020	**1,004**	**48**	**367**	**1,418**

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

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

EUR million	Net interest income	Net investment income	Statement of comprehensive income/ Change in fair value reserve	Total gains/ losses for the financial year included in profit or loss for assets/ liabilities held at year-end
Realised net gains (losses)	-491	-68	0	-559
Unrealised net gains (losses)	-68		0	-69
Total net gains (losses)	**-559**	**-68**	**-1**	**-627**

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

Changes in the levels of hierarchy

No major changes occurred in valuation techniques in 2020.

Note 15. Off-balance-sheet commitments

EUR million	30 Sep 2020	31 Dec 2019
Guarantees	676	711
Other guarantee liabilities	2,130	2,459
Loan commitments	13,992	13,180
Commitments related to short-term trade transactions	241	333
Other*	1,300	1,311
Total off-balance-sheet commitments	**18,340**	**17,995**

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

Note 16. Derivative contracts

Total derivatives 30 September 2020

	Nominal values/residual maturity				Fair values*	
EUR million	<1 year	1–5 years	>5 years	Total	Assets	Liabilities
Interest rate derivatives	34,819	75,138	79,708	189,665	3,771	2,050
Cleared by the central counterparty	12,018	43,061	46,403	101,482	67	52
Currency derivatives	41,268	3,764	2,153	47,185	948	1,145
Equity and index-linked derivatives	1	2		3	0	
Credit derivatives	60	520		580	1	19
Other derivatives	176	840	13	1,029	39	53
Total derivatives	**76,324**	**80,264**	**81,874**	**238,462**	**4,759**	**3,266**

Total derivatives 31 December 2019

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

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

Note 17. Investment distribution of the Insurance segment

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

* Includes accrued interest income.

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

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

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

Life Insurance	30 September 2020		31 December 2019	
Investment asset portfolio allocation	Fair value*, EUR million	%	Fair value*, EUR million	%
Total money market instruments	**588**	**17**	**386**	**11**
Money market investments and deposits**	584	17	381	11
Derivatives***	3	0	5	0
Total bonds and bond funds	**2,289**	**65**	**2,555**	**71**
Governments	300	9	516	15
Investment Grade	1,488	43	1,548	44
Emerging markets and High Yield	224	6	200	6
Structured investments****	278	8	290	8
Total equities	**398**	**11**	**406**	**11**
Finland	84	2	105	3
Developed markets	163	5	156	4
Emerging markets	76	2	61	2
Fixed assets and unquoted equities	3	0	3	0
Private equity investments	73	2	81	2
Total alternative investments	**39**	**1**	**41**	**1**
Hedge funds	39	1	41	1
Total real property investments	**183**	**5**	**231**	**6**
Direct property investments	48	1	93	3
Indirect property investments	135	3	138	3
Total	**3,496**	**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 reporting	Week 10

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

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

Helsinki, 22 October 2020

OP Cooperative
Board of Directors

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