OP Financial Group's Interim Report for 1 January–31 March 2021

OP Financial Group's Interim Report 1 January–31 March 2021:

Earnings before tax EUR 265 million – income increased and impairment loss on receivables decreased

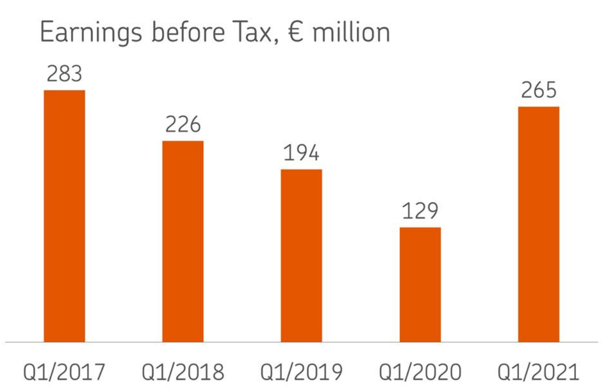
Earnings before tax Q1/2021	Net interest income Q1/2021	Net insurance income Q1/2021	Net commissions and fees Q1/2021	CET1 ratio 31 Mar 2021
€265 million	–1%	+19%	+10%	18.1%

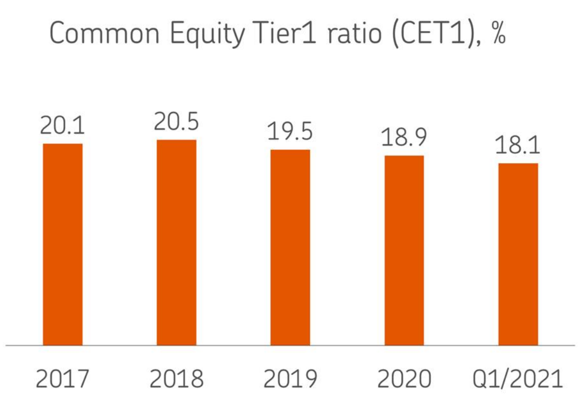
- Earnings before tax improved to EUR 265 million (129).
- In customer business, net insurance income increased by 19% to EUR 157 million (131) and net commissions and fees by 10% to EUR 270 million (244). Net interest income decreased by 1% to EUR 316 million (319).
- Investment income rose by EUR 80 million year on year, to EUR 91 million (11).
- Total income increased by 35% to EUR 896 million (662).
- Total expenses decreased by 2% to EUR 507 million (518).
- Impairment loss on receivables was EUR 22 million (105), or 0.09% (0.44) of the loan and guarantee portfolio. A year ago, impairment loss on receivables was increased by the effects of the Covid-19 pandemic on loan portfolio quality and by the adoption of the new definition of default based on a regulatory change.
- OP Financial Group's loan portfolio grew year on year by 1% to EUR 94 billion (93) and deposits by 10% to EUR 71 billion (65).
- The CET1 ratio was 18.1% (18.9). The lower ratio was affected by the ECB's decision which increased the risk-weighted assets of corporate exposures.
- Retail Banking earnings before tax improved by EUR 59 million to EUR 66 million (8). Net interest income increased by 3% and net commissions and fees by 5%. Impairment loss on receivables decreased by 57% to EUR 24 million (57). The loan portfolio grew by 1% and deposits by 10% in the year to March.
- Corporate Banking earnings before tax improved by EUR 101 million to EUR 115 million (14). Net interest income decreased by 1% and net commissions and fees increased by 48%. Net investment income grew by EUR 39 million to EUR 49 million (9). Reversal of impairment losses on receivables improved earnings by EUR 2 million (–47). The loan portfolio decreased by 1% in the year to March.
- Insurance earnings before tax improved by EUR 58 million to EUR 117 million (59). Net insurance income grew by 19% to EUR 164 million (138). Investment income rose by EUR 35 million to EUR 56 million (21). The operating combined ratio improved to 86.0% (92.7) in non-life insurance.
- Other Operations earnings before tax were EUR –22 million (57). A year ago, the sale of the Vallila property improved earnings by EUR 96 million.
- During the reporting period, OP Financial Group invested a total of EUR 70 million (82) in business development and improving customer experience.
- New OP bonuses accrued to owner-customers totalled EUR 51 million (65). The accrual of OP bonuses was changed as of 1 November 2020.
- The number of owner-customers in OP cooperative banks totalled 2.0 million (2.0). OP Financial Group had a total of 1.3 million (1.3) joint banking and insurance customers.
- OP Financial Group complies with the recommendation of the European Central Bank in its profit distribution. Following the recommendation, the Group discussed the level of profit distribution with the ECB Joint Supervisory Team, and the interest on Profit Shares for 2019 was paid to holders of those shares on 8 February 2021. Interest on Profit Shares for 2020 will be paid at the earliest in October 2021.
- The Covid-19 pandemic will cause uncertainty in the amount of impairment loss on receivables and investment income. Earnings before tax for 2021 are expected to be lower than in 2020. For more detailed information on the outlook, see "Outlook for 2021".

OP Financial Group's key indicators

	Q1/2021	Q1/2020	Change, %	Q1–4/2020
Earnings before tax, € million	265	129	105.6	785
Retail Banking	66	8	771.1	115
Corporate Banking	115	14	745.2	349
Insurance	117	59	98.0	348
Other Operations	-22	57	-138.2	3
New OP bonuses accrued to owner-customers, € million	-51	-65	-20.9	-255
Return on equity (ROE), %	6.5	3.1	3.4*	5.0
Return on equity, excluding OP bonuses, %	7.6	4.7	3.0*	6.6
Return on assets (ROA), %	0.52	0.26	0.26*	0.42
Return on assets, excluding OP bonuses, %	0.61	0.39	0.22*	0.55
	31 Mar 2021	31 Mar 2020	Change, %	31 Dec 2020
CET1 ratio, %	18.1	17.7	0.5*	18.9
Loan portfolio, € billion	93.8	93.0	0.9	93.6
Deposits, € billion	71.3	64.8	10.0	70.9
Ratio of non-performing receivables to exposures, %**	2.4	2.0	0.4*	2.5
Ratio of impairment loss on receivables to loan and guarantee portfolio, %	0.09	0.44	-0.35*	0.23
Owner-customers (1,000)	2,032	2,007	1.3	2,025

*Change in ratio
**The name and content of the ratio was changed in Q1/2021. Comparatives have been adjusted accordingly. More detailed information on the change can be found under table Forborne loans and non-performing receivables in the Risk exposure section.





Comments by President and Group Chief Executive Officer Timo Ritakallio

Our customer business made strong progress in January–March. Income from customer business increased by 7%, reaching a record level of EUR 743 million. The insurance business and asset management performed particularly well. Net insurance income and net commissions and fees were clearly higher than a year ago. Meanwhile, net interest income showed a slight decline.

OP Financial Group's earnings before tax doubled to EUR 265 million, an increase of EUR 136 million. All business segments improved their performance markedly year on year. Investment income grew significantly, particularly due to the favourable development of the equity market. The earnings improvement was also supported by the strong growth in income from customer business and the decline in impairment loss on receivables.

Impairment loss on receivables decreased by EUR 83 million year on year. In 2020, impairment loss was increased by the adoption of the new definition of default and the effects of the Covid-19 pandemic on loan portfolio quality.

OP Financial Group's expenses decreased year on year. Especially ICT costs were lower than a year ago.

OP Financial Group's capital adequacy is at a solid level. The CET1 ratio was 18.1% at the end of March.

OP Financial Group's loan portfolio increased by 1% and the deposit portfolio by 10% year on year. The growth in deposits was driven by the rise in consumer savings ratio.

Consumers' confidence in their personal finances remains good. This is reflected, for example, in increased activity of the housing market. March was the best month in ten years for OP Financial Group's home loan services.

Investing in mutual funds showed strong growth in 2020 and continued to grow in the reporting period. During the Covid-19 crisis, consumers have placed their funds in long-term saving, which supports the accumulation of wealth among people in Finland. In January–March, OP's mutual funds attracted more than 60,000 new unitholders. In February, OP Financial Group passed the milestone of one million unitholders. As part of our revised owner-customer membership programme, we launched an investor benefits package in early 2021 to encourage our owner-customers to save and invest on a long-term basis.

According to a survey published in March by ETLA Economic Research, OP Financial Group ranked number one among companies generating the most added value in Finland. The value we added to the economy was approximately EUR 1.7 billion in 2019. The impact of OP Financial Group's operations on the Finnish economy has increased by several hundreds of millions of euros over the last decade.

In January–March, the Covid-19 situation continued to be difficult but economic resilience remained fairly steady. The world economy has continued to recover and the Finnish economy has survived through the increase in infections and the related restrictions with relatively small damage. The most recent information indicates that the economy has continued to recover during the first quarter, too, and that the number of bankruptcies has remained moderate.

The pandemic affects different sectors in different ways. While a large part of the economy is doing well, the heaviest burden is on certain fields of the service sector. Although the situation continues to be critical for many businesses, increasing vaccination rates bring hope to sectors that have suffered the most.

According to OP's survey of large corporations, business confidence in Finland's long-term growth outlook is weak. This reflects not only the practical measures taken but also the atmosphere. Government should restore confidence in a pro-business economic policy. Without it, businesses will not be able to fully exploit the incoming economic rebound. Now it is extremely important to focus on the long-term sustainability of public finances.

OP Financial Group's Interim Report 1 January–31 March 2021

Tables

Business environment

The Covid-19 pandemic continued to afflict the economy in the first quarter but its effects on the economy were slight. The economic situation still varied a lot by country. The US economy continued to recover but the economy of some European countries declined.

Long-term market rates rose along with improved economic expectations, especially in the USA. At the end of March, the Euribor rates were at year-start levels. Stock prices continued to rise and the positive mood was reflected widely in the commodity market too.

The European Central Bank (ECB) continued its asset purchase programme based on its monetary policy decisions in December but informed in March that it would increase its purchases to maintain favourable financing conditions.

Confidence in the Finnish economy improved in the first quarter despite an increase in the number of Covid-19 infections. The situation improved in manufacturing industries in particular, and consumer confidence too remained good.

Some fields of the service sector suffered heavily from the restrictions caused by the Covid-19 pandemic, but the overall economic sentiment continued to show slight signs of recovery. The housing market was lively and home prices rose. Consumer price inflation accelerated but remained clearly below the target set by the ECB.

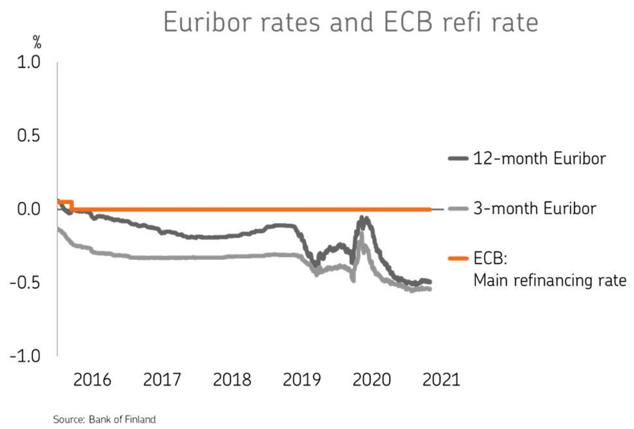
Economic recovery is expected to strengthen as the Covid-19 pandemic abates. Short-term market rates are expected to remain low throughout the year. The greatest risks are still related to the Covid-19 pandemic.

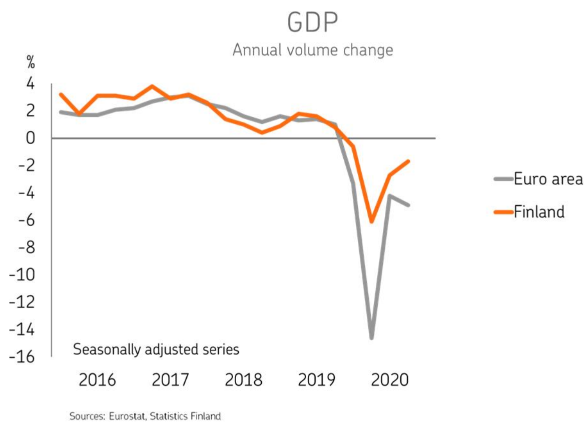
Growth in total loans continued to peter out in the first quarter. At the end of February, annual growth in total loans was 3.9% as against 4.6% at the end of 2020. Companies and housing companies were behind the slower growth whereas growth in consumer loans remained stable. In February, corporate loans grew by 5.2% and consumer loans by 3.4%. Home loans that have been the driver of the growth in consumer loans increased by 3.5% in February, which is slightly faster than the 3.3% growth at the end of 2020.

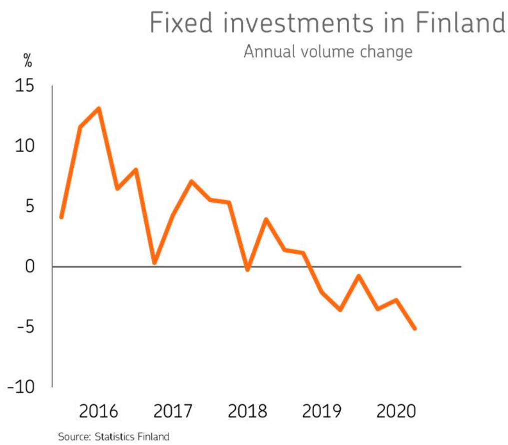
Total deposits still increased exceptionally fast. At the end of February, the growth rate of deposits was 14.6%, the same level as at the end of 2020. In February, corporate deposits increased by 19.0% and household deposits by 8.9%.

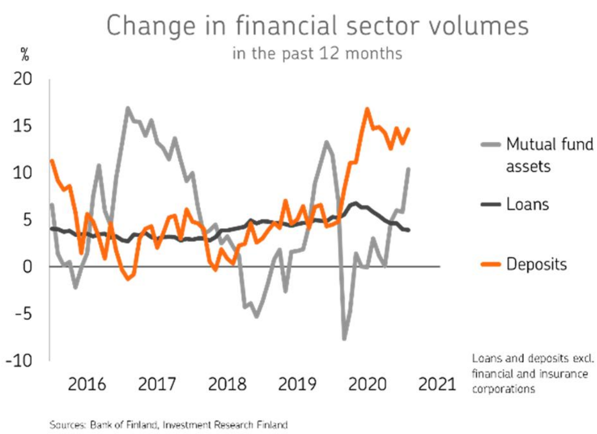
In the first quarter, the value of mutual funds registered in Finland increased to EUR 140.4 billion, aided by favourable market developments. The value of mutual fund assets was also increased by unit subscriptions, especially in equity funds and short-term fixed-income funds.

The improved economic outlook and positive developments in the capital market supported the insurance sector in the first quarter.









Earnings analysis and balance sheet

Earnings analysis, € million	Q1/2021	Q1/2020	Change, %	Q4/2020	Change, %	Q1–4/2020
Earnings before tax	265	129	105.6	259	2.3	785
Retail Banking	66	8	771.1	14	361.4	115
Corporate Banking	115	14	745.2	128	-10.1	349
Insurance	117	59	98.0	154	-24.3	348
Other Operations	-22	57	-138.2	-36	-	3
Income						
Net interest income	316	319	-0.7	324	-2.2	1,284
Net insurance income	157	131	19.1	95	64.2	572
Net commissions and fees	270	244	10.5	252	7.0	931
Net investment income	146	-140	-	153	-4.5	184
Other operating income	7	107	-93.7	11	-38.3	132
Total income	896	662	35.3	835	7.3	3,103
Expenses						
Personnel costs*	222	208	6.7	120	84.5	715
Depreciation/amortisation and impairment loss	64	65	-2.3	77	-17.2	273
Other operating expenses	221	245	-9.7	228	-2.9	852
Total expenses	507	518	-2.2	425	19.2	1,839
Impairment loss on receivables	-22	-105	-	-42	-	-225
Temporary exemption (overlay approach)	-55	151	-136.2	-48	-	-3
New OP bonuses accrued to owner-customers	-51	-65	-	-61	-	-255

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

Key indicators, € million	31 Mar 2021	31 Dec 2020	Change, %
Loan portfolio	93,813	93,644	0.2
Home loans	40,235	40,036	0.5
Corporate loans	22,437	22,587	-0.7
Housing company and other loans	31,054	31,021	0.1
Guarantee portfolio	3,315	3,100	6.9
Other exposures	**15,534**	**13,941**	**11.4**
Deposits	71,278	70,940	0.5
Assets under management (gross)	93,535	89,126	4.9
Mutual funds	29,326	27,598	6.3
Institutional clients	25,655	25,330	1.3
Private Banking	26,615	24,888	6.9
Unit-linked insurance assets	11,940	11,310	5.6
Balance sheet total	166,119	160,207	3.7
Investment assets	23,365	23,562	-0.8
Insurance liabilities	9,388	9,374	0.2
Debt securities issued to the public	34,993	34,706	0.8
Equity capital	13,156	13,112	0.3

January–March

OP Financial Group's earnings before tax amounted to EUR 265 million (129), up by EUR 136 million from the previous year. As regards income from customer business, net insurance income and net commissions and fees increased. Earnings were also increased by higher investment income and lower expenses and impairment loss on receivables.

Net interest income decreased by 0.7% to EUR 316 million. Net interest income reported by the Retail Banking segment increased by 2.5% and that by the Corporate Banking segment decreased by 0.8%. OP Financial Group's loan portfolio grew by 0.9% to EUR 93.8 billion and deposits by 10.0% to EUR 71.3 billion, year on year. New loans drawn down by customers during the reporting period totalled EUR 5.1 billion (6.2).

Net insurance income increased by 19.1% to EUR 157 million. The Insurance segment's non-life insurance premium revenue increased by 0.9% to EUR 372 million. Claims incurred decreased by 9.8% to EUR 218 million. Operating combined ratio reported by non-life insurance improved to 86.0% (92.7).

Net commissions and fees totalled EUR 270 million (244). Net commissions and fees for payment transfer services increased by EUR 8 million and fund and management fees by EUR 7 million.

Net investment income grew by EUR 285 million to EUR 146 million. Net income from financial assets at fair value through other comprehensive income totalled EUR 31 million (26), of which capital gains accounted for EUR 9 million (10).

Net income from financial assets recognised at fair value through profit or loss totalled EUR –20 million (–131). Net income from financial assets held for trading decreased by a total of EUR 198 million due to changes in the fair value of derivatives. Meanwhile, income from equity instruments recognised at fair value in the income statement increased by EUR 287 million year on year. When the Covid-19 crisis broke out a year ago, the fair value of equities decreased significantly. Value changes in Credit Valuation Adjustment (CVA) in derivatives owing to market changes improved earnings by EUR 12 million (–15). Life insurance items, which include, for example, changes in technical items, increased net investment income by EUR 178 million to EUR 134 million.

An overlay approach is applied to certain equity instruments of insurance companies. Changes in the fair value of investments within the scope of the overlay approach are presented under the fair value reserve under shareholders' equity. The overlay approach decreased investment income by EUR 55 million, while a year ago it increased investment income by EUR 151 million. Total investment income rose by EUR 80 million year on year, to EUR 91 million. Capital gains on all financial instruments recognised through fair value reserve totalled EUR 57 million (23). The combined return on investments at fair value of OP Financial Group's insurance companies was –0.6% (–2.3). The negative figure was affected by a rise in interest rates.

Other operating income decreased significantly year on year to EUR 7 million (107). A year ago, the sale of the Vallila property increased other operating income. 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.

Total expenses decreased by 2.2% to EUR 507 million. Personnel costs rose by 6.7% to EUR 222 million due to a higher headcount. Depreciation/amortisation and impairment loss on PPE and intangible assets decreased by 2.3% to EUR 64 million.

Other operating expenses fell by 9.7% to EUR 221 million. ICT costs decreased by EUR 16 million to EUR 91 million. A one-off investment in the IT environment increased ICT costs a year ago. Development costs were EUR 46 million (50). Charges of financial authorities increased by 33.3% to EUR 46 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 20 million (114), of which EUR 22 million (106) concerned loans and receivables. The adoption of the new definition of default a year ago increased impairment loss on receivables by EUR 44 million in Q1 2020. A year ago, customers actively applied for repayment holidays on their loans and changes to their repayment schedules due to the Covid-19 crisis. Combined with the changes in macroeconomic parameters applied in the calculation of expected credit losses, this increased impairment loss on receivables by EUR 29 million in Q1 2020. Final net loan losses recognised totalled EUR 35 million (18). Loss allowance was EUR 691 million (708) at the end of the reporting period. Non-performing receivables (gross) accounted for 2.4% (2.5) of the exposures. Impairment loss on loans and receivables accounted for 0.09% (0.44) of the loan and guarantee portfolio.

OP Financial Group's income tax amounted to EUR 55 million (33). The effective tax rate was 20.9% (25.7). A year ago, the rate was increased by the changes in deferred taxes arising from the sale and leaseback of the Vallila property.

OP Financial Group's equity amounted to EUR 13.2 billion (13.1). Equity included EUR 2.9 billion (3.0) in Profit Shares, terminated Profit Shares accounting for EUR 0.2 billion (0.3). The return target for Profit Shares for 2021 is 3.25%. Interest payable on Profit Shares is estimated to total EUR 23 million (24). A total of EUR 95 million in interest for 2020 will be paid at the earliest in October 2021 in line with the recommendations of the ECB. The amount of interest paid for 2019 on 8 February 2021 totalled EUR 97 million.

Comprehensive income totalled EUR 187 million (–150). A year ago, comprehensive income was decreased by changes in the fair value reserve.

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

OP Financial Group has offered financial relief in the form of repayment holidays to its personal and corporate customers who have run into financial problems due to the Covid-19 crisis. Households have the opportunity to get a repayment holiday of up to 12 months on their home loans. With respect to corporate customers, changes in repayment schedules are always evaluated on a case-by-case basis. In addition, guarantees provided by Finnvera have been used extensively.

OP cooperative banks have granted brief rent concessions to their customers on a case-by-case basis during the Covid-19 crisis.

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 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.

January–March events

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

OP Financial Group's strategic targets and focus areas

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

OP Financial Group's mission, core values, vision and strategic priorities form a whole whose parts complement each other. Continuous monitoring of the business environment and the annually reviewed strategic priorities 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.

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

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.

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

OP Financial Group's strategic targets	31 Mar 2021	31 Dec 2020	Target 2025
Return on equity (ROE excluding OP bonuses), %	7.6	6.6	8.0
CET1 ratio, %	18.1	18.9	At least CET1 requirement + 4 pps
Brand recommendations, NPS (Net Promoter Score, personal and corporate customers)*	20	23	30
Credit rating	AA-/Aa3	AA-/Aa3	At least at the level of AA-/Aa3

*Average of quarters (per year)

OP Financial Group's target CET1 ratio is at least the CET1 capital adequacy requirement plus four percentage points. The CET1 target calculated by applying the March-end capital adequacy requirement was 13.7%.

Promotion of the success of owner-customers and operating region

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

Allocation of earnings

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

OP Financial Group's estimated earnings allocation for 2021 that is to be confirmed after the end of the financial year:

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

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

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

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

Customer relationships and customer benefits

OP Financial Group had a total of 2.0 million (2.0) owner-customers at the end of the reporting period. The number of owner-customers increased by 25,000 in the year to March.

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 (1.3).

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).

OP cooperative banks' owner-customers earn OP bonuses through banking, insurance and wealth management transactions. The value of new OP bonuses accrued in January–March totalled EUR 51 million (65). The accrual of OP bonuses was changed as of 1 November 2020. During the reporting period, a total of 33 million euros (33) of OP bonuses were used to pay for banking and wealth management services and EUR 27 million (32) to pay non-life insurance premiums.

Owner-customers benefitted EUR 14 million (8) from the reduced price of the daily services package of Retail Banking. Owner-customers were provided with EUR 14 million (17) 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 2 million euros (2).

The abovementioned OP bonuses and customer benefits totalled EUR 81 million (92), accounting for 23.4% (41.6) of OP Financial Group's earnings before tax and granted benefits.

Interest payable on Profit Shares for the financial year 2020 is estimated to total EUR 95 million (97). It will be paid at the earliest in October 2021 in line with the recommendations of the ECB. The return target for Profit Shares for 2021 is an interest rate of 3.25% (3.25). Interest payable on Profit Shares accrued during the reporting period is estimated to total EUR 23 million (24).

Corporate responsibility

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

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

To promote diversity, OP Financial Group's objective is that the proportion of both genders in defined executive positions is at least 40%. Women accounted for 28% (28) at the end of March.

Corporate responsibility highlights in January–March

In March, OP Mortgage Bank issued the first green covered bond in Finland. The EUR 750 million bond has a maturity of 10 years. The bond is targeted at responsible international institutional investors, and proceeds raised with the bond will be allocated to OP Financial Group's home loans recognised as green ones according to the Green Covered Bond Framework of OP Mortgage Bank. The sector to be financed is energy-efficient residential buildings (green buildings).

In March, OP Financial Group announced that OP-Rental Yield special common fund aims to reach net zero emissions for its residential portfolio's energy use and will convert all energy used at its properties to have net zero emissions by 2030.

In March, OP Financial Group published its Data Balance Sheet that provides an open and transparent description of the governance, management and use of data in the Group.

In March, OP Financial Group organised its Financial Literacy Week at the same time as the Global Money Week. During the week, OP cooperative banks throughout Finland taught day-to-day finances and practical money skills to young people in OPxMoneyTalk lessons that were attended by thousands of lower secondary school students. The lessons were held via remote connections.

Multichannel services

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

In the exceptional situation caused by Covid-19, OP Financial Group has centralised most of its services in digital channels.

Mobile and online services, no. of logins (million)	Q1/2021	Q1/2020	Change, %
OP-mobile	112.0	95.0	17.8
OP Business mobile	4.5	3.6	26.3
Pivo	9.8	11.2	-12.2
Op.fi	14.5	21.5	-32.3
	31 Mar 2021	31 Mar 2020	Change, %
Siirto payment, registered customers (OP)	943,313	899,402	4.9

In February, OP launched a new SMS service to its non-digital customers. OP Account SMS sends automatically an SMS notification of all account transactions to the customer's mobile phone.

In March, OP introduced the Apple Pay service to its customers in Finland. The service enables customers to pay for their purchases using iPhone, iPad, Apple Watch or Mac. Customers have quickly adopted the service.

OP Financial Group has an extensive branch network with 337 branches (342) 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 almost 590,000 followers (570,000). 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.

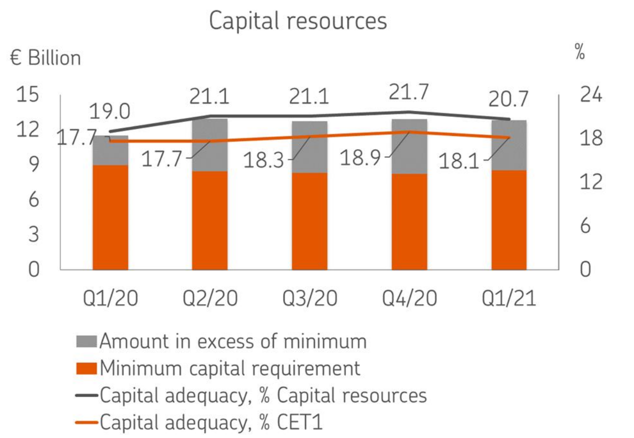
Capital adequacy and capital base

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

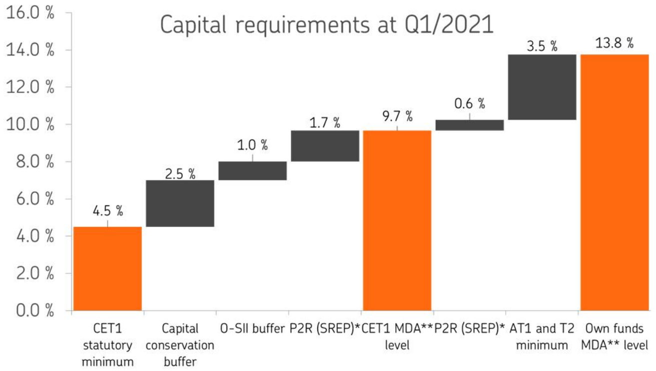
OP Financial Group's capital base, calculated according to the Act on the Supervision of Financial and Insurance Conglomerates (FiCo), exceeded the minimum amount specified in the Act by EUR 4.1 billion (4.4). Banking capital requirement remained unchanged at 13.8%, calculated on risk-weighted assets. The ratio of the Group capital base to the minimum capital requirement was 145% (150). 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 18.1% (18.9). The lower ratio was affected in particular by the ECB's decision which increased the risk-weighted assets of corporate exposures.



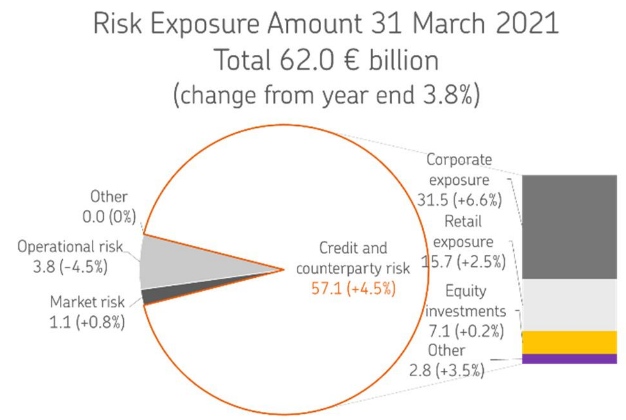
As a credit institution, OP Financial Group's capital adequacy is on a solid basis compared to the statutory requirements and those set by the authorities. The statutory minimum for the capital adequacy ratio is 8% and for the CET1 ratio 4.5%. The requirement for the capital conservation buffer of 2.5% 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%.



* P2R supervisory Pillar II requirement
** Minimum distributable amount

The CET1 capital of OP Financial Group as credit institution was EUR 11.2 billion (11.3). Banking earnings, of which the planned full-year profit distribution has been subtracted, had a positive effect on the CET1 capital. The shortfall of ECL minus expected losses, which increased as a result of changes in credit risk parameters, had a negative effect on the CET1 capital. The amount of Profit Shares in CET1 capital was EUR 2.9 billion (2.8).

The risk exposure amount (REA) totalled EUR 62.0 billion (59.7), or 4% higher than on 31 December 2020. In March, the ECB set a parameter factor for corporate exposures, based on the TRIM (Targeted Review of Internal Models) on corporate exposures, which increased the risk-weighted assets of corporate exposures. With respect to retail exposures, OP Financial Group added conservatism to the credit conversion factor, which increased the risk-weighted assets of retail exposures.



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 in risk-weighted assets of the Group's internal insurance holdings.

The Finnish Financial Supervisory Authority (FIN-FSA) makes a macroprudential policy decision on a quarterly basis. In March 2021, the FIN-FSA reiterated its decision not to impose a countercyclical capital buffer requirement on banks.

The upcoming EU regulation includes a requirement for measuring the degree of indebtedness, the leverage ratio. The leverage ratio of OP Financial Group's Banking is estimated at about 7.5% (7.8) based on the existing interpretations, calculated using the March-end figures. The ratio decreased as a result of an increase in central bank deposits. According to upcoming regulation, the minimum ratio will be 3%.

According to OP Financial Group's assessment, the regulatory factors affecting credit institution capital adequacy during 2021 are as follows: changes caused by the update of the EU Capital Requirements Regulation (CRR2) are expected to reduce OP Financial Group's CET1 ratio by around 0.1 percentage points during the second quarter of 2021. OP

Financial Group plans to adopt a simplified approach in the measurement of insurance companies' risk weights during the second quarter of 2021, which will reduce the CET1 ratio by about 0.6 percentage points.
OP Financial Group has begun discussions with the ECB on reassessing the extent of application of internal models (IRBA, Internal Ratings-Based Approach). Based on the current estimate, the change in the scope of IRBA would decrease OP Financial Group's CET1 ratio by around 0.3 percentage points during the latter half of 2021. The final effect and its schedule will be specified after discussions with the supervisor and the approval process related to the scope of IRBA.

The OP Amalgamation Capital Adequacy Report of 31 March 2021 will be published in week 18.

Insurance

The solvency position of insurance companies is strong. A good balance on technical account and an increase in the value of investments strengthened the capital base. A rise in market risks increased the solvency capital requirement. Furthermore, higher interest rates, for their part, strengthened solvency.

	Non-life insurance		Life insurance	
	31 Mar 2021	31 Dec 2020	31 Mar 2021	31 Dec 2020
Capital base, € mill.*	1,281	1,205	1,488	1,436
Solvency capital requirement (SCR), € mill.*	801	762	768	746
Solvency ratio, %*	160	158	194	193
Solvency ratio, % (excl. transitional provision)	160	158	164	161

*including transitional provisions

ECB's supervision

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

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

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

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

On 18 March 2021, OP Financial Group received the ECB's decision concerning an increase in the risk parameter of corporate exposures. This risk parameter factor 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 will update its policy regarding compliance with the MREL requirement when the supervisor makes its next MREL decision. The MREL ratio was an estimated 38% (40) at the end of the reporting period. The ratio was weakened by the growth in total risk exposure and improved by the issue of EUR 0.8 billion senior non-preferred bonds. 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 Risk Appetite Statement starts from the fact that the Group assumes risks that are mainly associated with executing the Group's mission. In its risk-taking, the Group emphasises moderation, responsibility and careful action.

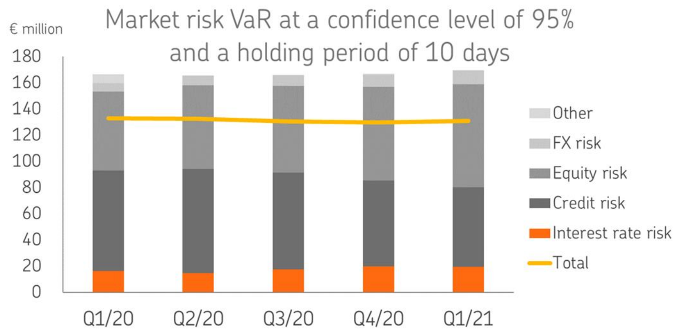
Engaged in business covering various areas of the financial sector, OP Financial Group may be exposed to a variety of direct and indirect business implications of the Covid-19 pandemic. If materialised, they may affect capitalisation, liquidity and the continuity of daily business. From the perspective of credit risk, the number of debtors whose future outlook is weakened by the Covid-19 pandemic has increased. For the time being, however, growth in the number of customers who have got into deeper problems has remained moderate and limited mainly to certain sectors. So, the overall quality of the loan portfolio has remained good.

Concerns about the general state of the market among investors in the international financial market due to the pandemic and about OP Financial Group's success have abated, and the debt instrument market has functioned normally. The liquidity position has remained strong and the Group has been able to implement market-based financing operations as planned. The Group's liquidity and capital are sufficient to secure business continuity. The personnel's health situation could in extreme situations endanger the continuity of operational business processes. The measures taken to secure the continuity of business operations have ensured that operations have continued without disruption.

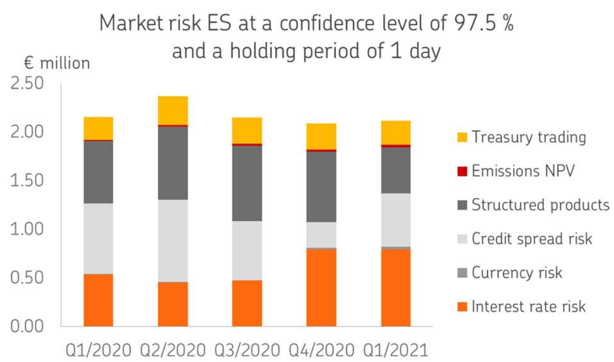
OP Financial Group's funding position and liquidity is strong. Between January and March, the Group issued long-term bonds worth EUR 2.1 billion (1.6).

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 (130) on 31 March 2021. 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.



Expected Shortfall (ES), a measure of market risk associated with the interest rate risk position of Markets and Treasury, remained at a moderate level.



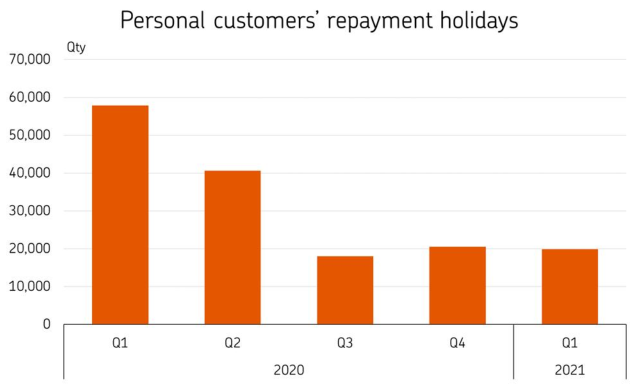
Operational risks remained moderate as targeted. Materialised operational risks resulted in a gross loss of EUR 1 million (2). From the operational risk perspective, the implications of the Covid-19 pandemic on OP Financial Group were mild during the reporting period and mainly affected OP cooperative banks.

Retail Banking and Corporate Banking

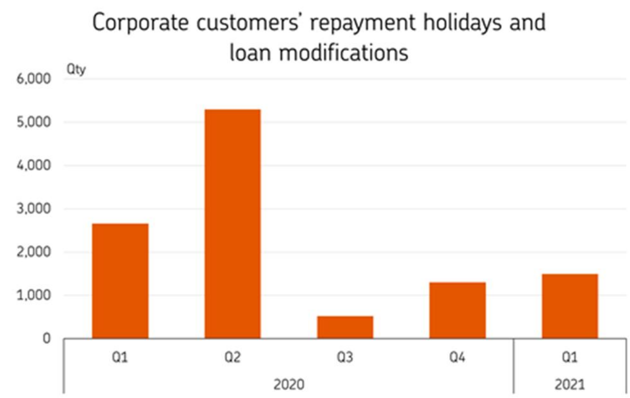
Major risks in banking are associated with credit risk arising from customer business, and market risk.

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

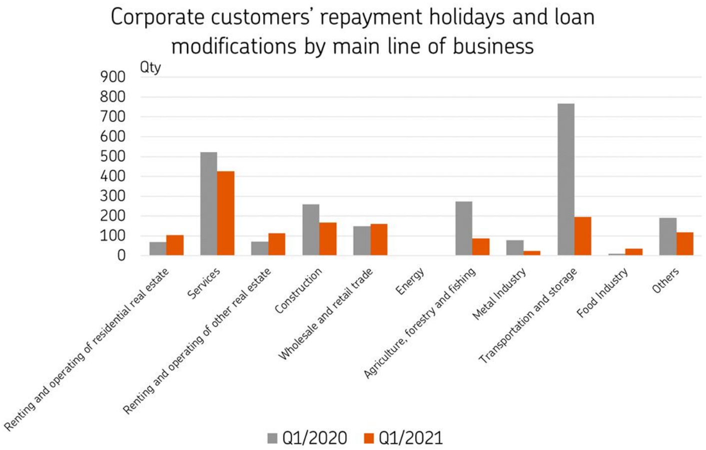
The amount of repayment holidays granted to personal customers returned to its pre-pandemic level in the summer of 2020.



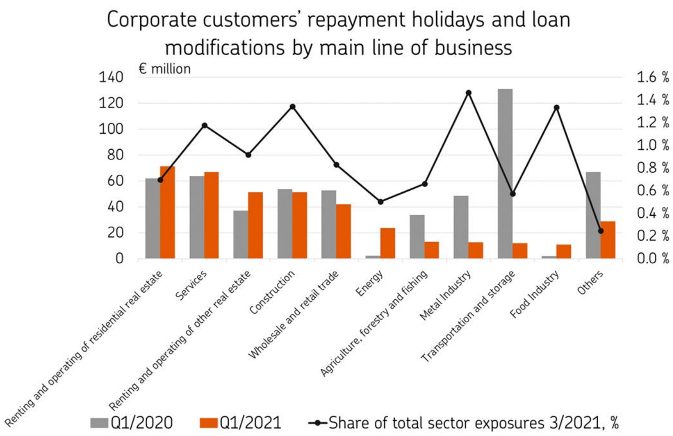
The graph shows the actual number of personal customers' repayment holidays for the reporting period and by quarter in 2020. The quarter is determined by the customer's application date.



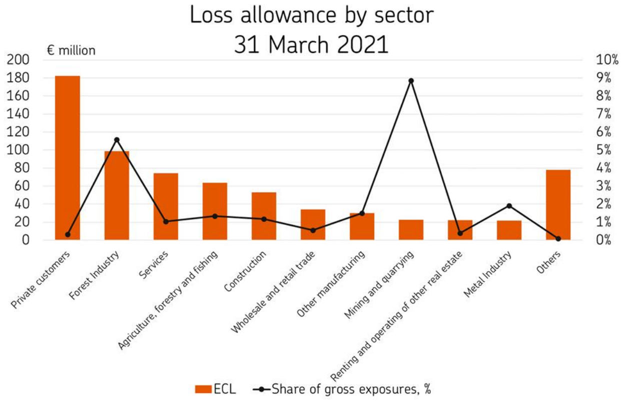
The graph shows the actual number of corporate customers' loan modifications and repayment holidays for the reporting period and by quarter in 2020. The quarter is determined by the date of execution of the change.



The graph shows repayment holidays and loan modifications implemented on corporate exposures by sector for the reporting period and the reporting period a year ago.



The graph shows repayment holidays and loan modifications implemented on corporate exposures by sector for the reporting period and the reporting period a year ago. The graph also shows the percentage of each sector's exposures for which a repayment holiday or loan modification was agreed during the reporting period.



The graph shows the loss allowance of various sectors at the end of the reporting period and the ratio of loss allowance to gross exposures of the sector at the end of the reporting period.

The distribution of expected credit loss by industry is presented in more detail in the OP Amalgamation Capital Adequacy Report of 31 March 2021.

Forborne loans and non-performing receivables

	Performing forborne exposures (gross)		Non-performing receivables (gross)		Doubtful receivables (gross)		Loss allowance		Doubtful receivables (net)	
	31 Mar 2021	31 Dec 2020	31 Mar 2021	31 Dec 2020	31 Mar 2021	31 Dec 2020	31 Mar 2021	31 Dec 2020	31 Mar 2021	31 Dec 2020
Over 90 days past due, € billion			0.63	0.66	0.63	0.66	0.23	0.24	0.40	0.42
Unlikely to be paid, € billion			0.92	0.95	0.92	0.95	0.18	0.18	0.74	0.77
Forborne exposures, € billion	3.40	3.29	1.18	1.12	4.58	4.41	0.14	0.15	4.44	4.26
Total, € billion	3.40	3.29	2.72	2.73	6.13	6.02	0.55	0.57	5.58	5.45

Key ratios	OP Financial Group		Retail Banking		Corporate Banking	
	31 Mar 2021	31 Dec 2020	31 Mar 2021	31 Dec 2020	31 Mar 2021	31 Dec 2020
Ratio of doubtful receivables to exposures, %	5.44	5.44	6.44	6.40	2.88	2.99
Ratio of non-performing receivables to exposures, %	2.42	2.47	2.52	2.56	2.13	2.22
Ratio of performing forborne exposures to exposures, %	3.02	2.97	3.92	3.84	0.75	0.77
Ratio of performing forborne exposures to doubtful receivables, %	55.54	54.58	60.85	60.04	26.17	25.80
Ratio of loss allowance (receivables from customers) to doubtful receivables, %	11.1	11.5	7.2	7.6	32.4	32.1

Key ratios were changed from net to gross as of the beginning of 2021, i.e. non-performing receivables no longer include loss allowance. At the same time, a more comprehensive concept of doubtful receivables was adopted which includes all off-balance-sheet non-performing receivables. In the key ratios, the new denominator includes the loan and guarantee portfolio, deferred interest income and unused standby credit facilities. Comparatives have been adjusted accordingly.

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

Retail Banking's interest rate risk in the banking book measured as the effect of a one-percentage point decrease on 12-month net interest income was EUR –31 million (–46) at the end of March. Interest income risk is calculated for a one-year period by dividing the sum of the interest income risk for the next three years by three.

Deposits within the scope of deposit guarantee and managed by OP Financial Group totalled EUR 41.7 billion (41.2) at the end of March. The Deposit Guarantee Fund compensates a maximum of EUR 100,000 for each OP Financial Group customer.

Insurance

Non-life insurance

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

A one-year increase in life expectancy would increase insurance liability for annuities by EUR 48 million (48). A 0.1 percentage point decrease in interest rates used in insurance liability valuation would increase insurance liabilities by EUR 27 million (29).

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

The market risk level of investments remained moderate. Equity risk rose during the reporting period. The VaR, a measure of market risk, was EUR 64 million (64) on 31 March 2021. 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 (27). A 0.1 percentage point decrease in interest rates used in insurance liability valuation would increase insurance liabilities by EUR 29 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 separated portfolios, after which OP Financial Group will bear the risks associated with the portfolios. The buffers totalled EUR 307 million (281) on 31 March 2021.

The market risk level of investments remained moderate. No major changes were made to the asset class allocation during the reporting period. Equity risk rose during the reporting period. The VaR, a measure of market risk, was EUR 61 million (61) on 31 March 2021. 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 218% (197) at the end of the reporting period.

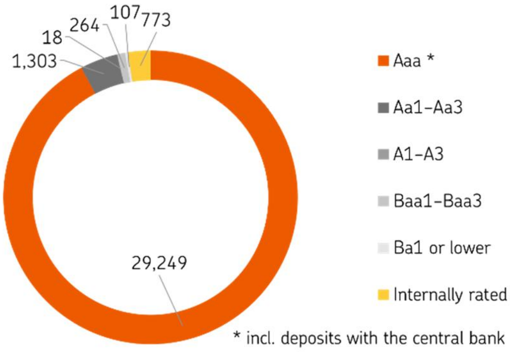
OP Financial Group monitors its long-term funding sufficiency, for example, by means of the Net Stable Funding Ratio (NSFR), which measures structural funding risk. In regulation, a minimum requirement of 100% will be set for the NSFR as of 30 June 2021. OP Financial Group's NSFR was 123% (123) at the end of the reporting period.

Liquidity buffer

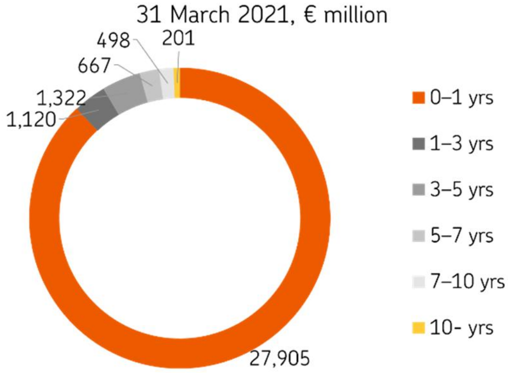
€ billion	31 Mar 2021	31 Dec 2020	Change, %
Deposits with central banks	27.4	21.6	27.3
Notes and bonds eligible as collateral	3.3	8.7	-62.0
Corporate loans eligible as collateral	-	0.0	-
Total	30.7	30.2	1.6
Receivables ineligible as collateral	1.0	1.0	-3.1
Liquidity buffer at market value	31.7	31.3	1.5
Collateral haircut	-0.3	-0.5	-
Liquidity buffer at collateral value	31.4	30.8	2.1

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

Financial assets included in the liquidity buffer by credit rating on 31 March 2021, € million



Financial assets included in the liquidity buffer by maturity on 31 March 2021, € million



Credit ratings

31 March 2021

Rating agency	Short-term funding	Outlook	Long-term funding	Outlook
Standard & Poor's	A-1+	-	AA-	Stable
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 22 January 2021, Standard & Poor's restored the outlook on OP Corporate Bank plc's long-term credit rating from negative to stable after the trend in the BICRA score, which describes the status of the Finnish banking system, was restored from negative to stable.

Financial performance by segment

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

Retail Banking

- Earnings before tax improved to EUR 66 million (8). Impairment loss on receivables decreased by EUR 33 million to EUR 24 million. A year ago, the adoption of a new definition of default increased impairment loss on receivables.
- Total income increased by 3.2% to EUR 442 million. Income from customer business increased by a total of 3.9%: net interest income increased by 2.5% to EUR 235 million and net commissions and fees by 4.5% to EUR 198 million.
- Total expenses, EUR 316 million (314), remained almost unchanged year on year. Personnel costs decreased by 1.0% and depreciation/amortisation and impairment loss by 10.2%. Other operating expenses increased by 2.4% due to additional investments in risk management.
- OP bonuses to owner-customers decreased to EUR 37 million (51) as a result of changes made in the accrual of bonuses.
- The loan portfolio increased by 1.3% and the deposit portfolio by 7.8% year on year.
- Non-performing receivables (gross) accounted for 2.5% (2.6) of the exposures.
- The most significant development investments focused on enhancing customer experience and customer processes (such as digital customer onboarding and customer feedback process) and improving the efficiency of the IT system environment.

Key figures and ratios

€ million	Q1/2021	Q1/2020	Change, %	Q1–4/2020
Net interest income	235	230	2.5	925
Net commissions and fees	198	189	4.5	698
Net investment income	-1	2	-	2
Other income	10	8	27.3	29
Total income	442	429	3.2	1,653
Personnel costs	109	110	-1.0	412
Depreciation/amortisation and impairment loss	12	14	-10.2	60
Other operating expenses	195	190	2.4	680
Total expenses	316	314	0.6	1,152
Impairment loss on receivables	-24	-57	-	-172
OP bonuses to owner-customers	-37	-51	-	-214
Earnings before tax	66	8	771.1	115
Cost/income ratio, %	71.3	73.2	-1.8*	69.7
Ratio of non-performing receivables to exposures, %**	2.5	1.9	0.6*	2.6
Ratio of impairment loss on receivables to loan and guarantee portfolio, %	0.14	0.33	-0.19*	0.24
Return on assets (ROA), %	0.23	0.03	0.20*	0.11
Return on assets, excluding OP bonuses, %	0.36	0.22	0.13*	0.30
€ million				
Home loans drawn down	1,918	1,679	14.2	7,429
Corporate loans drawn down	535	586	-8.8	2,411
No. of brokered residential property and property transactions	3,009	2,608	15.4	11,998

€ billion	31 Mar 2021	31 Mar 2020	Change, %	31 Dec 2020
Loan portfolio				
Home loans	40.2	39.6	1.6	40.0
Corporate loans	8.1	8.2	-2.0	8.1
Housing company and other loans	21.2	20.8	1.9	21.3
Total loan portfolio	69.5	68.7	1.3	69.4
Guarantee portfolio	0.9	0.8	11.7	0.9
Other exposures	10.1	8.3	22.2	8.7
Deposits				
Current and payment transfer	39.8	36.5	9.1	39.3
Investment deposits	20.2	19.2	5.2	19.8
Total deposits	60.0	55.7	7.8	59.1

*Change in ratio
** The name and content of the ratio was changed in Q1/2021. Comparatives have been adjusted accordingly. More detailed information on the change can be found under table Forborne loans and non-performing receivables in the Risk exposure section.

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

In the year to March, the loan portfolio grew by 1.3% to EUR 69.5 billion. New home loan drawdowns increased by 14.2% year on year. The home loan portfolio increased by 1.6% to EUR 40.2 billion year on year. The corporate loan portfolio decreased by 2.0% to EUR 8.1 billion year on year.

The growth in the loan portfolio was affected by the demand for new loans and by the exceptionally large number of repayment holidays granted in the spring of 2020 as a result of the Covid-19 pandemic. A large number of repayment holidays granted for 12 months will end during the second quarter. After the temporary demand spike, the number of repayment holiday applications returned to its pre-pandemic level as of the summer of 2020.

Customers showed continued interest in protecting home loans and housing company loans against risks. On 31 March 2021, a total of 27.6% (27.1) of personal customers' home loans were covered by interest rate protection.

The volume of homes and real property sold and bought through the OP Koti real estate agents increased by 15.4%.

In the year to March, the deposit portfolio increased by 7.8% to EUR 60.0 billion. Most of this increase came from current and payment transfer accounts, but also from investment deposits, with household deposits showing the strongest growth.

OP customers' continued interest in saving and investing reached record high levels in the reporting period. OP mutual funds attracted more than 60,000 new unitholders, most of whom began to invest systematically. Furthermore, the share trading volume was 20% higher than a year ago. In March, OP Financial Group launched a new investment benefits package for owner-customers.

In January–March, cash volumes remained below their pre-pandemic level and the long-term downward trend in the use of cash accelerated. OP is continuously developing its range of payment services to support new payment methods adopted by customers while taking account of the needs of special groups. In March, OP introduced to its customers the Apple Pay service that enables them to pay for purchases using smart devices by Apple. Customers have quickly adopted the service.

In the reporting period, the most significant development investments focused on enhancing customer experience and customer processes and improving the efficiency of the IT system environment.

In March, OP Mortgage Bank issued a EUR 750 million green covered bond with a maturity of 10 years.

Financial performance for the reporting period

Retail Banking earnings before tax improved to EUR 66 million (8). Net interest income increased by 2.5% to EUR 235 million and net commissions and fees by 4.5% to EUR 198 million mainly due to the increase in commissions for daily banking. Total income increased by 3.2% to EUR 442 million.

Total expenses, EUR 316 million (314), remained almost unchanged year on year. Personnel costs decreased by 1.0% and depreciation/amortisation and impairment loss by 10.2%. Other operating expenses increased by 2.4% due to additional investments in risk management and financial crime prevention.

Impairment loss on receivables, EUR 24 million, was EUR 33 million lower than a year ago. A year ago, the adoption of a new definition of default increased impairment loss on receivables. A year ago, customers actively applied for repayment holidays on their loans and changes to their repayment schedules due to the Covid-19 crisis. Combined with the changes in macroeconomic parameters applied in the calculation of expected credit losses, this also increased impairment loss on receivables. Final net loan losses recognised for the reporting period totalled EUR 33 million (13). Non-performing receivables accounted for 2.5% (2.6) of the exposures.

OP bonuses to owner-customers decreased by 27.3% to EUR 37 million as a result of changes in the accrual of bonuses that became effective in November 2020. After the change, customers earn OP bonuses from home loans, student loans, secured bank loans, savings accounts and mutual fund assets as well as unit-linked insurance assets and insurance premiums.

Corporate Banking

- Earnings before tax improved to EUR 115 million (14).
- Total income increased by 40.0%. Net interest income decreased by 0.8% and net commissions and fees increased by 48.1%. Net investment income increased significantly to EUR 49 million (9).
- Total expenses increased to EUR 96 million (87). Other operating expenses rose by 11.6% due to a higher stability contribution and intra-Group charges.
- The loan portfolio decreased by 1.0% to EUR 24.1 billion and the deposit portfolio increased by 14.0% to EUR 12.5 billion year on year. Assets under management increased by 26.2% year on year.
- Reversal of impairment losses on receivables improved earnings by EUR 2 million (–47). Non-performing receivables (gross) accounted for 2.1% (2.2) of the exposures.
- The most significant development investments involved the upgrades of payment, finance and asset management systems.

Key figures and ratios

€ million	Q1/2021	Q1/2020	Change, %	Q1–4/2020
Net interest income	100	101	-0.8	394
Net commissions and fees	52	35	48.1	153
Net investment income	49	9	415.9	143
Other income	13	8	72.8	17
Total income	214	153	40.0	707
Personnel costs	22	20	8.1	71
Depreciation/amortisation and impairment loss	5	5	1.0	18
Other operating expenses	70	63	11.6	197
Total expenses	96	87	10.3	286
Impairment loss on receivables	2	-47	-	-53
OP bonuses to owner-customers	-4	-5	-	-18
Earnings before tax	115	14	741.6	349
Cost/income ratio, %	45.0	57.1	12.1*	40.4
Ratio of non-performing receivables to exposures, %**	2.1	2.2	-0.1*	2.2
Ratio of impairment loss on receivables to loan and guarantee portfolio, %	-0.03	0.69	-	0.20
Return on assets (ROA), %	1.22	0.14	1.08*	0.86
Return on assets, excluding OP bonuses, %	1.27	0.19	1.08*	0.91

€ billion	31 Mar 2021	31 Mar 2020	Change, %	31 Dec 2020
Loan portfolio				
Corporate loans	14.3	14.6	-2.1	14.4
Housing company and other loans	9.8	9.7	1.1	9.6
Total loan portfolio	24.1	24.3	-1.0	24.0
Guarantee portfolio	2.8	3.1	-8.9	2.6
Other exposures	5.6	5.3	6.1	5.4
Deposits	12.5	11.0	14.0	13.1
Assets under management (gross)				
Mutual funds	29.3	21.9	34.0	27.6
Institutional clients	25.7	22.6	13.6	25.3
Private Banking	12.2	8.7	40.3	11.3
Total (gross)	67.2	53.2	26.2	64.2

€ million	Q1/2021	Q1/2020	Change, %	Q1–4/2020
Net inflows				
Private Banking clients	65	-7	-	225
Institutional clients	192	-70	-	190
Total	257	-77	-	415

*Change in ratio
** The name and content of the ratio was changed in Q1/2021. Comparatives have been adjusted accordingly. More detailed information on the change can be found under table Forborne loans and non-performing receivables in the Risk exposure section.

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

In the year to March, the loan portfolio decreased by 1.0% to EUR 24.1 billion. The deposit portfolio increased by 14.0% to EUR 12.5 billion.

The most significant Corporate Banking development investments involved the upgrades of payment, finance and asset management systems. The upgrade of core payment systems and improvement of digital services will continue further. In asset management, fund management processes and services related to the customer interface will be further upgraded.

Total income increased on a wide front by a total of 40.0% from the level a year ago. The level of activity on the bond market remained high during the reporting period.
OP arranged a total of five bond issues in the first quarter. Within asset management, net assets inflow increased significantly year on year, to EUR 257 million (–77). In the year to March, assets under management increased by 26.2% to EUR 67.2 billion (53.3). 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 exceeded the milestone of one million unitholders. The number of unitholders increased in gross terms by about 61,000, to 1,028,000 unitholders. The Morningstar rating for OP mutual funds was 3.11 (3.02).

Customers' interest in responsible investment fund products has remained strong. Among OP mutual funds, the OP-Climate fund continued to be the most popular investment option. Implemented at the end of 2020, the more extensive exclusion of fossil-based businesses from sustainability-themed funds had a positive impact on the carbon footprint of those funds, clearly outperforming global reduction levels.

Financial performance for the reporting period

Corporate Banking earnings before tax improved to EUR 115 million (14). Total income amounted to EUR 214 million (153) and total expenses to EUR 96 million (87). The cost/income ratio was 45.0% (57.1).

Net commissions and fees totalled EUR 52 million (35). In the year to March, mutual fund assets under management grew by 34.0%, which increased net commissions and fees from funds.

Corporate Banking segment's net commissions and fees

€ million	Q1/2021	Q1/2020	Change, %
Mutual funds	32	26	25.7
Asset management	4	3	52.3
Other	16	7	128.8
Total	52	35	48.1

Net investment income increased by EUR 39 million to EUR 49 million. A rise in long-term market rates reduced the CVA of derivatives. Earnings a year ago were weakened by credit risk margins that widened substantially amid the Covid-19 crisis.

Total expenses increased to EUR 96 million (87). Personnel costs increased by 8.1% to EUR 22 million. Other operating expenses grew by 11.6% to EUR 70 million. The EU stability contribution increased by EUR 4 million and intra-Group charges by EUR 2 million.

Reversal of impairment losses on receivables improved earnings by EUR 2 million (–47). A year ago, the adoption of the new definition of default and changes in the macroeconomic parameters applied in the calculation of expected credit losses increased the impairment loss on receivables. Final net loan losses recognised for the reporting period totalled EUR 3 million (5). Non-performing receivables accounted for 2.1% (2.2) of the exposures.

Insurance

- Earnings before tax improved to EUR 117 million (59). Net insurance income improved as claims incurred decreased. Capital gains improved investment income.
- Non-life insurance premium revenue increased by 0.9% and claims incurred decreased by 9.8%.
- Investment income totalled EUR 56 million (21), including the overlay approach. Net return on investments at fair value reported by non-life insurance was EUR 84 million (–98) and that by life insurance EUR 62 million (–48).
- The non-life insurance operating combined ratio improved to 86.0% (92.7) and operating risk ratio to 58.6% (65.5). The operating cost ratio was 27.5% (27.2).
- In life insurance, unit-linked insurance assets increased by 5.6% to EUR 11.9 billion from the 2020-end level. Premiums written in term life insurance grew by 1.8%.
- Development investments focused on upgrading the core system, improving the accessibility of web and mobile services and enhancing opportunities to buy insurance products.

Key figures and ratios

€ million	Q1/2021	Q1/2020	Change, %	Q1-4/2020
Net insurance income	164	138	19.3	582
Net commissions and fees	21	18	16.3	78
Net investment income	110	-129	-	88
Other net income	0	1	-90.6	8
Total income	295	28	967.8	755
Personnel costs	40	36	12.7	140
Transfer of statutory earnings-related pension liability				-85
Depreciation/amortisation and impairment loss	14	14	-4.2	60
Other operating expenses	65	64	1.4	269
Total expenses	119	114	4.2	384
OP bonuses to owner-customers	-5	-5	4.8	-19
Overlay approach	-55	150	-136.3	-4
Earnings before tax	117	59	98.0	348
Return on assets (ROA), %	1.59	0.80	0.80*	1.16
Return on assets, excluding OP bonuses, %	1.66	0.86	0.80*	1.22

*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.

Financial performance for the reporting period

Earnings before tax improved to EUR 117 million (59). Net insurance income improved to EUR 164 million (138). Total expenses increased by 4.2% to EUR 119 million.

Investment income totalled EUR 56 million (21), including the overlay approach. Capital gains on investment amounted to EUR 24 million (8) in non-life insurance and to EUR 22 million (12) in life insurance.

The core system upgrade proceeded to the first implementation in March when new sales of occupational accident and occupational disease insurance products transferred to a new platform.

Investment income

€ million	Q1/2021	Q1/2020
At fair value through other comprehensive income	23	26
At fair value through profit or loss	-78	-75
Amortised cost	0	2
Life insurance items*	169	-82
Unwinding of discount**	-4	-5
Associated companies	1	5
Net investment income	110	-129
Overlay approach	-55	150
Total	56	21

*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.
**Non-life insurance.

Non-life insurance operating result

Non-life insurance earnings improved year on year as the balance on technical account and net investment income improved. Along with Covid-19 restrictions, a reduction in economic activity, widespread remote work and traffic volumes lower than usual have reduced claims in almost all lines of non-life insurance.

€ million	Q1/2021	Q1/2020	Change, %
Insurance premium revenue	372	368	0.9
Claims incurred	218	241	-9.8
Operating expenses	102	100	1.9
Balance on technical account	52	27	94.4
Investment income and expenses	67	-69	-
Other income and expenses	-4	-1	-
Overlay approach	-26	82	-131.5
Earnings before tax	89	39	128.4
Operating combined ratio	86.0	92.7	
Operating risk ratio	58.6	65.5	
Operating cost ratio	27.5	27.2	

Non-life insurance: premium revenue

€ million	Q1/2021	Q1/2020	Change, %
Personal customers	211	207	1.5
Corporate customers	161	161	0.2
Total	372	368	0.9

Premium revenue increased by 0.9% to EUR 372 million. Among personal customers, the number of loyal customer households increased. Premium revenue from corporate customers was at the previous year's level because of a decline in total payrolls associated with occupational accident and occupational disease insurance.

Claims incurred decreased by 10% to EUR 218 million. The reported number of new large claims under property and business liability insurance (in excess of EUR 0.3 million) amounted to 22 (24) in January–March, with their claims incurred retained for own account totalling EUR 18 million (27). Changes in claims for previous years improved the balance on technical account by EUR 9 million (6). The non-life insurance operating risk ratio excluding indirect loss adjustment expenses was 58.6% (65.5). Changes in the provision for outstanding claims under statutory pensions improved earnings by EUR 7 million (6).

In non-life insurance, the operating cost ratio (including indirect loss adjustment expenses) was 27.5% (27.2).

Operating combined ratio reported by non-life insurance improved to 86.0% (92.7).

Non-life insurance: key investment indicators

€ million	Q1/2021	Q1/2020
Net return on investments at fair value, € million*	84	-98
Return on investments at fair value, %	-0.2	-2.8
Fixed income investments' running yield, %	0.8	1.4
	31 Mar 2021	31 Dec 2020
Investment portfolio, € million	4,150	4,102
Investments within the investment grade category, %	93	92
A-rated receivables, minimum, %	57	58
Modified duration	3.5	3.5

*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 operating result

The first quarter was strong in the capital market. Unit-linked insurance assets, EUR 11.9 billion, were 5.6% higher than on 31 December 2020. Net assets inflow of unit-linked insurance contracts amounted to EUR 133 million (62). The amount of life insurance surrenders remained moderate. Premiums written in term life insurance grew by 1.8%.

Earnings before tax improved by 32.2% to EUR 29 million (19). This improvement was due to higher net investment income and lower expenses.

€ million	Q1/2021	Q1/2020	Change, %
Net risk results	7	6	3.9
Net investment income	45	-60	-
Net commissions and fees	26	27	-2.7
Total income	78	-26	-
Personnel costs	3	3	5.7
Depreciation/amortisation and impairment loss	5	6	-9.0
Other operating expenses	8	10	-19.8
Total expenses	16	18	-13.0
OP bonuses	-5	-4	-
Overlay approach	-29	68	-
Earnings before tax	29	19	47.4
Operating ratio	36.9	42.0	

Life insurance: key investment indicators*

€ million	Q1/2021	Q1/2020
Net return on investments at fair value, € million**	62	-48
Return on investments at fair value, %	-1.0	-1.7
Fixed income investments' running yield, %	0.9	1.1
	31 Mar 2021	31 Dec 2020
Investment portfolio, € million	3,602	3,602
Investments within the investment grade category, %	91	90
A-rated receivables, minimum, %	56	58
Modified duration	3.3	3.2

*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.

Interest rate risk associated with insurance liability has been hedged through supplementary interest rate provisions and interest rate derivatives. In life insurance, the net change in short-term supplementary interest rate provisions improved earnings by EUR 10 million in the reporting period a year ago. Accrued supplementary interest rate provisions related to insurance liabilities (excluding the separated balance sheets) totalled EUR 406 million (490) on 31 March 2021. Short-term supplementary interest rate provisions accounted for EUR 44 million (44) of these provisions.

Other Operations

Key figures and ratios

€ million	Q1/2021	Q1/2020	Change, %	Q1-4/2020
Net interest income	-21	-17	-	-60
Net commissions and fees	1	2	-39.3	9
Net investment income	1	-6	-	12
Other operating income	176	259	-32.0	744
Total income	157	238	-33.9	705
Personnel costs	52	43	22.4	177
Depreciation/amortisation and impairment loss	34	33	0.8	138
Other operating expenses	93	103	-9.5	388
Total expenses	179	179	0.0	703
Impairment loss on receivables	0	-2	-	1
Earnings before tax	-22	57	-138.2	3

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 –22 million (57). Total income decreased by 33.9% to EUR 157 million. A year ago, the sale of the Vallila property improved earnings by EUR 96 million.

Net interest income was EUR –21 million (–17). Net investment income totalled EUR 1 million (–6).

Other operating income decreased by 32.0% to EUR 176 million. A year ago, the sale of the Vallila property increased other operating income. 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.

Expenses remained at the previous year's level at EUR 179 million. Personnel costs increased by 22.4% to EUR 52 million due to a higher headcount. The number of personnel increased in development, risk management and financial crime prevention. Depreciation/amortisation and impairment loss on PPE and intangible assets were at the previous year's level at EUR 34 million (34). Other operating expenses decreased by 9.5% to EUR 93 million as ICT costs decreased by EUR 12 million.

On 31 March 2021, the average margin of OP Financial Group's senior and senior non-preferred wholesale funding, TLTRO funding and covered bonds was 21 basis points (19). Covered bonds are reported as part of the Retail Banking segment.

OP Financial Group's funding position and liquidity is strong.

In March, OP Corporate Bank participated in the seventh TLTRO III operation for EUR 5.0 billion. OP Corporate Bank's TLTRO III financing amounted to a total of EUR 13.0 billion at the end of March. In March, OP Corporate Bank issued two senior non-preferred bonds: a bond of EUR 500 million with a 5-year maturity and a bond of EUR 300 million with a 10-year maturity. Between January and March, the Group issued long-term bonds worth EUR 2.1 billion.

In 2020, the Governing Council of the European Central Bank modified the terms and conditions of TLTRO III to stimulate bank lending to those hardest hit by the Covid-19 pandemic. According to the modified conditions, the interest rate between 24 June 2020 and 23 June 2022 can be the ECB's deposit facility rate (–0.50% on the reporting date) minus 0.50%. For the subsequent loan maturity, the interest rate can be, at its best, the ECB's deposit facility rate. The reduced interest rate is conditional on fulfilling the criteria for net lending performance.

The rate for 24 June 2020–23 June 2021 was determined based on the net lending review period expired on 31 March 2021. The final interest rate will be determined when the TLTRO III operation matures. OP Financial Group assesses that it will fulfil the criteria for net lending performance for this period. In respect of the subsequent interest period, OP Financial Group will monitor the fulfilment of the criteria and, whenever necessary, change cash flow forecasts. OP Financial Group has assessed that TLTRO III funding fulfils the terms of market-based financing and is treated according to IFRS 9.

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–March totalled EUR 70 million (82). This included licence fees, purchased services, other external costs related to projects and in-house work. The capitalised development expenditure totalled EUR 25 million (24). More detailed information on OP Financial Group's investments can be found under 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 was completed as planned in February 2021.

In February, OP Financial Group signed a new five-year agreement with CGI on producing IT application services in the fields of insurance and centres of excellence, in particular. The agreement is part of increasing the effectiveness of and reforming practices and partnerships related to IT operations.

Personnel

On 31 March 2021, OP Financial Group had 12,758 employees (12,604). The number of employees averaged 12,694 (12,486). The number of employees increased particularly in customer service, development, risk management and financial crime prevention.

Personnel at period end

	31 Mar 2021	31 Dec 2020
Retail Banking	7,053	7,069
Corporate Banking	909	899
Insurance	2,354	2,260
Other Operations	2,442	2,376
Total	12,758	12,604

During the reporting period, 52 OP Financial Group employees (61) retired at an average age of 61.2 years (62.5).

Variable remuneration applied by OP Financial Group in 2021 consists of the performance-based bonus scheme covering all personnel and the personnel fund. Company-specific targets based on the annual plan and the Group-level strategic targets are taken into account in the metrics used in the performance-based bonus scheme and the personnel fund. In drawing up the remuneration schemes, OP has taken account of the regulation regarding the financial sector's remuneration schemes. More detailed information on variable remuneration is available in OP Financial Group's Report by the Board of Directors and Financial Statements 2020.

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 133 OP cooperative banks (137) and OP Cooperative Consolidated. The number of OP cooperative banks decreased during the reporting period due to mergers.

Ruukin Osuuspankki and Vihannin Osuuspankki merged into Raahen Seudun Osuuspankki on 31 March 2021. Consequently, the business name of Raahen Seudun Osuuspankki was changed to Raahentienoon Osuuspankki.

Lokalahden Osuuspankki and Taivassalon Osuuspankki merged into Lounaisrannikon Osuuspankki on 31 March 2021.

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

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

On 16 February 2021, Oripään Osuuspankki and Alastaron Osuuspankki approved a merger plan, according to which the former will merge into the latter. The planned date for registration of the merger is 31 July 2021. Consequently, the business name of Alastaron Osuuspankki will change to Osuuspankki Harjuseutu.

On 23 March 2021, Kurun Osuuspankki and Tampereen Seudun Osuuspankki approved a merger plan, according to which the former will merge into the latter. The planned date for registration of the merger is 31 August 2021.

On 24 March 2021, Kiikoisten Osuuspankki, and on 25 March 2021, Länsi-Suomen Osuuspankki approved a merger plan, according to which the former will merge into the latter. The planned date for registration of the merger is 31 August 2021.

On 11 February 2021, Himangan Osuuspankki, Perhon Osuuspankki and Nivalan Osuuspankki approved a merger plan, according to which Himangan Osuuspankki and Perhon

Osuuspankki will merge into Nivalan Osuuspankki. The planned date for registration of the merger is 30 September 2021. Consequently, the business name of Nivalan Osuuspankki will change to Joki-Pohjanmaan 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.

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

OP Cooperative will sell the entire share capital of its subsidiary, Checkout Finland Ltd, to Paytrail Oyj. The parties signed the related contract of sale on 4 January 2021. The sale should be completed on 30 April 2021.

On 10 February 2021, OP Corporate Bank plc and its Baltic subsidiaries OP Finance AS (Estonia), OP Finance SIA (Latvia) and AB OP Finance (Lithuania) signed a merger plan whereby the Baltic subsidiaries will merge into their parent company OP Corporate Bank plc through a cross-border merger. The planned date for registration of the merger is 31 October 2021.

OP Financial Group is planning a restructuring whereby Pohjola Insurance Ltd would be transferred from the ownership of OP Corporate Bank plc to the direct ownership of OP Cooperative. The Group announced the plan for the first time in 2014.

A decision was made on 10 February 2021 to change the business name of OP Card Company Plc to OP Retail Customers Plc. The name change will become effective on 1 June 2021.

Governance of OP Cooperative

On 18 November 2020, the Supervisory Council of OP Cooperative (the central cooperative of OP Financial Group) elected the members of the Board of Directors of OP Cooperative for the term of office from 1 January to 31 December 2021. The composition of the Board of Directors remained unchanged.

All former members will continue on the Board in 2021: Leif Enberg (Chair of the Board of Directors, Oy Mapromec Ab), Jarna Heinonen (Professor in Entrepreneurship, Turku School of Economics), Jari Himanen (Managing Director, OP Suur-Savo), Kati Levoranta (Executive Vice President, Commercial and Operational Activities, P2X Solutions Ltd), Pekka Loikkanen (board professional), Tero Ojanperä (Chair of the Board of Directors, Silo AI Ltd), Riitta Palomäki (board professional), Jaakko Pehkonen (Professor of Economics, University of Jyväskylä), Timo Ritakallio (President and Group CEO, OP Financial Group), Olli Tarkkanen (Managing Director, Etelä-Pohjanmaan Osuuspankki) and Mervi Väisänen (Senior Lecturer in Marketing, Kajaani University of Applied Sciences).

On 15 December 2020, OP Cooperative's Board of Directors elected from among its members the chairs, vice chairs and other members to the statutory Board Committees for the new term. Jaakko Pehkonen will continue as Chair and Jarna Heinonen as Vice Chair of the Board of Directors. The compositions of Board Committees remained unchanged.

On 21 April 2021, OP Cooperative held its Annual Cooperative Meeting which elected members of the Supervisory Council and the auditor.

Events after the reporting period

OP Cooperative's Annual Cooperative Meeting of 21 April 2021

OP Financial Group's central cooperative (OP Cooperative) held its Annual Cooperative Meeting on 21 April 2021.

The Supervisory Council comprises 36 members. The Annual Cooperative Meeting re-elected the following members to the Supervisory Council who were due to resign: Procurement Manager Päivi Hakasuo, Managing Director Mika Helin, Bachelor of Hospitality Management, MBA Mervi Hinkkanen, Professor Juha-Pekka Junttila, entrepreneur Taija Jurmu, postgraduate Päivi Kujala, APA Katja Kuosa-Kaartti, Managing Director Pekka Lehtonen, Managing Director Sirpa Leppäkoski, Director Timo Metsä-Tokila, Senior Manager Anssi Mäkelä, CFO Annukka Nikola, D.Sc. (Agr. & For.) Yrjö Niskanen, Managing Director Ulf Nylund, farmer-entrepreneur Johanna Pättiniemi, Development Director Tiina Rajala, Professor Petri Sahlström, entrepreneur Carolina Sandell, farmer-entrepreneur Timo Saukkonen, Professor Markku Sotarauta, entrepreneur Timo Syrjälä, Managing Director Pauliina Takala and Managing Director Ari Väänänen.

New members elected to the Supervisory Council were Managing Director Raili Hyvönen, Associate Professor Saara Julkunen, Development Manager Mika Kainusalmi, Managing Director Matti Kiuru, Regional Assistant Vicar Toivo Loikkanen, farmer-entrepreneur Veijo Manninen, Managing Director Kaisa Markula, Service Supervisor Jarmo Nurmela, Managing Director Heikki Palosaari, Managing Director Teuvo Perätalo, Managing Director Tuomas Puttonen, Managing Director Jyrki Rantala and Managing Director Teemu Sarhemaa.

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 2021, with Juha-Pekka Mylén, APA, acting as the chief auditor, appointed by KPMG Oy Ab.

Outlook for 2021

The Covid-19 pandemic continued to afflict the economy in the first quarter of 2021. However, the pandemic did not weaken economic growth as much as before. In particular, the global economic mood and industrial sentiment remained good. During the quarter, confidence in the economy began to improve in the fields of the service sector too, and positive expectations were also reflected in the financial market. Stock and commodity prices rose. Along with the favourable outlook, inflationary expectations became higher and long-term market rates rose. Nevertheless, central banks continued their easy monetary policy and emphasised that this accommodative policy would still continue for a long time.

Based on the available information, the resilience of the Finnish economy to the growth in Covid-19 infections and the resulting restrictions has been rather good. Confidence in the economy has improved and economic recovery is expected to strengthen as the vaccination process proceeds and the pandemic abates.

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

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

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

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

Key indicators based on a separate calculation

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

Ratio of performing forborne exposures to doubtful receivables, %	Performing forborne exposures (gross)*** / 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	
Exposures	Loan and guarantee portfolio + interest receivables + unused standby credit facilities	
Other exposures	Interest receivables + unused standby credit facilities	

*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.

Capital adequacy and solvency

Capital adequacy for credit institutions

Capital base, € million	31 Mar 2021	31 Dec 2020
OP Financial Group's equity capital	13,156	13,112
Effect of insurance companies on the Group's shareholders' equity is excluded	-587	-498
Fair value reserve, cash flow hedge	-155	-203
Common Equity Tier 1 (CET1) before deductions	12,414	12,410
Intangible assets	-345	-391
Excess funding of pension liability and valuation adjustments	-102	-93
Cooperative capital deducted from capital base	-2	-126
Planned profit distribution and unpaid profit distribution for previous period	-152	-95
Shortfall of ECL minus expected losses	-573	-413
CET1 capital	11,240	11,293
Hybrid capital to which transitional provision is applied	20	40
Additional Tier 1 capital (AT1)	20	40
Tier 1 capital (T1)	11,260	11,333
Debenture loans	1,559	1,599
Tier 2 capital (T2)	1,559	1,599
Total capital	12,819	12,933

Risk exposure amount, € million	31 Mar 2021	31 Dec 2020
Credit and counterparty risk	56,943	54,522
Standardised Approach (SA)	4,645	4,562
Central government and central banks exposure	265	347
Credit institution exposure	9	9
Corporate exposure	3,072	3,068
Retail exposure	1,008	1,026
Equity investments	31	32
Other	260	80
Internal Ratings-based Approach (IRB)	52,298	49,960
Credit institution exposure	1,039	1,029
Corporate exposure	28,401	26,461
Retail exposure	14,693	14,295
Equity investments	7,053	7,036
Other	1,111	1,140
Market and settlement risk (Standardised Approach)	1,104	1,096
Operational risk (Standardised Approach)	3,786	3,964
Valuation adjustment (CVA)	152	138
Total risk exposure amount	61,985	59,720

Ratios, %	31 Mar 2021	31 Dec 2020
CET1 capital ratio	18.1	18.9
Tier 1 ratio	18.2	19.0
Capital adequacy ratio	20.7	21.7

Ratios, fully loaded, %	31 Mar 2021	31 Dec 2020
CET1 capital ratio	18.1	18.9
Tier 1 ratio	18.1	18.9
Capital adequacy ratio	20.6	21.6

Capital requirement, EUR million	31 Mar 2021	31 Dec 2020
Capital base	12,819	12,933
Capital requirement	8,525	8,213
Buffer for capital requirements	4,293	4,719

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

Leverage ratio, EUR million	31 Mar 2021	31 Dec 2020
Tier 1 capital (T1)	11,260	11,333
Total exposure	151,087	144,799
Leverage ratio, %	7.5	7.8

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

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

€ million	31 Mar 2021	31 Dec 2020
OP Financial Group's equity capital	13,156	13,112
Hybrid instruments and debenture loans	1,579	1,640
Other sector-specific items excluded from capital base	-190	-331
Goodwill and intangible assets	-1,103	-1,147
Insurance business valuation differences*	672	623
Planned profit distribution and unpaid profit distribution for previous period	-152	-95
Items under IFRS deducted from capital base**	-147	-184
Shortfall of ECL minus expected losses	-547	-387
Conglomerate's total capital base	13,267	13,231
Regulatory capital requirement for credit institutions***	7,596	7,284
Regulatory capital requirement for insurance operations*	1,568	1,508
Conglomerate's total minimum capital requirement	9,164	8,791
Conglomerate's capital adequacy	4,103	4,439
Conglomerate's capital adequacy ratio (capital base/minimum of capital base) (%)	145	150

* 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%.

Transitional provisions have been taken into account in figures.

TABLES

Income statement

EUR million	Notes	Q1 2021	Q1 2020
Net interest income	2	316	319
Net insurance income	3	157	131
Net commissions and fees	4	270	244
Net investment income	5	146	-140
Other operating income		7	107
Total income		**896**	**662**
Personnel costs		222	208
Depreciation/amortisation		64	65
Other expenses	6	221	245
Total expenses		**507**	**518**
Impairments loss on receivables	7	-22	-105
OP bonuses to owner-customers		-46	-60
Temporary exemption (overlay approach)		-55	151
Earnings before tax		**265**	**129**
Income tax expense		55	33
Profit for the period		**210**	**96**
Attributable to:			
Profit for the period attributable to owners		210	94
Profit for the period attributable to non-controlling interest		0	2
Total		**210**	**96**

Statement of comprehensive income

EUR million	Notes	Q1 2021	Q1 2020
Profit for the period		**210**	**96**
Items that will not be reclassified to profit or loss			
Gains/(losses) arising from remeasurement of defined benefit plans		19	75
Items that may be reclassified to profit or loss			
Change in fair value reserve			
Measurement at fair value		-41	-279
Cash flow hedge		-61	48
Temporary exemption (overlay approach)		55	-151
Translation differences			
Income tax			
Items that will not be reclassified to profit or loss			
Gains/(losses) arising from remeasurement of defined benefit plans		-4	-15
Items that may be reclassified to profit or loss			
Measurement at fair value		8	56
Cash flow hedge		12	-10
Temporary exemption (overlay approach)		-11	30
Total comprehensive income for the period		**187**	**-150**
Attributable to:			
Total comprehensive income for the period attributable to owners		188	-152
Total comprehensive income for the period attributable to non-controlling interests		0	2
Total comprehensive income for the period		**187**	**-150**

Balance sheet

EUR million	Notes	31 March 2021	31 Dec 2020
Cash and cash equivalents		27,683	21,827
Receivables from credit institutions		506	306
Derivative contracts	16	4,303	5,215
Receivables from customers		93,813	93,644
Investment assets		23,365	23,562
Assets covering unit-linked contracts		11,920	11,285
Intangible assets		1,289	1,311
Property, plant and equipment (PPE)		616	633
Other assets		2,459	2,236
Tax assets		165	188
Total assets		**166,119**	**160,207**
Liabilities to credit institutions		13,229	8,086
Derivative contracts		2,941	3,424
Liabilities to customers		73,627	73,422
Insurance liabilities	8	9,388	9,374
Liabilities from unit-linked insurance and investment contracts	9	11,969	11,323
Debt securities issued to the public	10	34,993	34,706
Provisions and other liabilities		3,526	3,431
Tax liabilities		1,048	1,069
Subordinated liabilities		2,242	2,261
Total liabilities		**152,963**	**147,095**
Equity capital			
Share of OP Financial Group's owners			
Cooperative capital			
Cooperative shares		211	212
Profit shares		2,871	2,962
Fair value reserve	11	345	382
Other reserves		2,172	2,172
Retained earnings		7,427	7,248
Non-controlling interests		**130**	**137**
Total equity capital		**13,156**	**13,112**
Total liabilities and equity capital		**166,119**	**160,207**

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 2020	**3,238**	**251**	**2,185**	**6,730**	**12,404**	**166**	**12,570**
Total comprehensive income for the period		-306		154	**-152**	2	**-150**
Profit for the period				94	**94**	2	**96**
Other comprehensive income		-306		60	**-245**		**-245**
Profit distribution				-19	**-19**		**-19**
Change in membership and profit shares	-128				**-128**		**-128**
Transfer of reserves			-14	14			
Other				0	**0**	4	**3**
Balance at 31 March 2020	**3,110**	**-55**	**2,172**	**6,878**	**12,105**	**172**	**12,277**

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 2021	**3,174**	**382**	**2,172**	**7,248**	**12,975**	**137**	**13,112**
Total comprehensive income for the period		-37		225	**188**	0	**187**
Profit for the period				210	**210**	0	**210**
Other comprehensive income		-37		15	**-23**		**-23**
Profit distribution				-45	**-45**	-4	**-50**
Change in membership and profit shares	-92				**-92**		**-92**
Other				0	**0**	-2	**-2**
Balance at 31 March 2021	**3,082**	**345**	**2,172**	**7,427**	**13,026**	**130**	**13,156**

Cash flow statement

EUR million	Q1 2021	Q1 2020
Cash flow from operating activities		
Profit for the period	210	96
Adjustments to profit for the period	444	359
Increase (-) or decrease (+) in operating assets	**-474**	**-2,794**
Receivables from credit institutions	26	5
Derivative contracts	176	-26
Receivables from customers	-289	-1,618
Assets covering unit-linked contracts	-104	23
Investment assets	-9	-259
Other assets	-274	-918
Increase (+) or decrease (-) in operating liabilities	**5,826**	**2,131**
Liabilities to credit institutions	5,136	609
Derivative contracts	177	-25
Liabilities to customers	284	1,171
Insurance liabilities	17	71
Liabilities from unit-linked insurance and investment contracts	118	-217
Provisions and other liabilities	95	522
Income tax paid	-48	-34
Dividends received	30	24
A. Net cash from operating activities	**5,987**	**-219**
Cash flow from investing activities		
Acquisition of subsidiaries, net of cash acquired		0
Purchase of PPE and intangible assets	-30	-18
Proceeds from sale of PPE and intangible assets	-2	401
B. Net cash used in investing activities	**-32**	**383**
Cash flow from financing activities		
Subordinated liabilities, change	-10	-14
Debt securities issued to the public, change	468	-2,091
Increases in cooperative and share capital	33	97
Decreases in cooperative and share capital	-125	-225
Dividends and interest on cooperative capital	-96	
Lease liabilities	-9	-9
C. Net cash used in financing activities	**261**	**-2,242**
Net change in cash and cash equivalents (A+B+C)	**6,217**	**-2,078**
Cash and cash equivalents at period-start	**22,053**	**12,168**
Effect of foreign exchange rate changes*	-199	301
Cash and cash equivalents at period-end	**28,071**	**10,391**
Interest received	**321**	**427**
Interest paid	**-123**	**-173**
Cash and cash equivalents		
Liquid assets	27,683	10,215
Receivables from credit institutions payable on demand	388	176
Total	**28,071**	**10,391**

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

Segment reporting

Segment information

Q1 earnings 2021, EUR million	Retail Banking	Corporate Banking	Insurance	Other operations	Group eliminations	OP Financial Group
Net interest income	235	100	0	-21	3	316
of which internal net income before tax		-3		3		
Net insurance income			164		-7	157
Net commissions and fees	198	52	21	1	-2	270
Net investment income	-1	49	110	1	-13	146
Other operating income	10	13	1	176	-194	7
Total income	**442**	**214**	**295**	**157**	**-214**	**896**
Personnel costs	109	22	40	52	-1	222
Depreciation/amortisation	12	5	14	34	-1	64
Other operating expenses	195	70	65	93	-202	221
Total expenses	**316**	**96**	**119**	**179**	**-204**	**507**
Impairments loss on receivables	-24	2	0	0	0	-22
OP bonuses to owner-customers	-37	-4	-5		0	-46
Temporary exemption (overlay approach)			-55	0	0	-55
Earnings before tax	**66**	**115**	**117**	**-22**	**-10**	**265**

Q1 earnings 2020, EUR million	Retail Banking	Corporate Banking	Insurance	Other operations	Group eliminations	OP Financial Group
Net interest income	230	101	0	-17	6	319
of which internal net income before tax		0		0		
Net insurance income			138		-6	131
Net commissions and fees	189	35	18	2	0	244
Net investment income	2	9	-129	-6	-16	-140
Other operating income	8	8	2	259	-169	107
Total income	**429**	**153**	**28**	**238**	**-186**	**662**
Personnel costs	110	20	36	43	0	208
Depreciation/amortisation	14	5	14	33	-1	65
Other operating expenses	190	63	64	103	-175	245
Total expenses	**314**	**87**	**114**	**179**	**-176**	**518**
Impairments loss on receivables	-57	-47	0	-2	0	-105
OP bonuses to owner-customers	-51	-5	-5		0	-60
Temporary exemption (overlay approach)			150	0	1	151
Earnings before tax	**8**	**14**	**59**	**57**	**-9**	**129**

Balance sheet 31 March 2021, EUR million	Retail Banking	Corporate Banking	Insurance	Other operations	Group eliminations	OP Financial Group
Cash and cash equivalents	55	169	0	27,459		27,683
Receivables from credit institutions	22,753	204	1,564	13,820	-37,835	506
Derivative contracts	542	4,198	91	408	-935	4,303
Receivables from customers	69,543	24,774	0	438	-942	93,813
Investment assets	651	446	9,553	18,822	-6,107	23,365
Assets covering unit-linked contracts			11,920			11,920
Intangible assets	33	203	782	275	-3	1,289
Property, plant and equipment (PPE)	337	4	120	163	-8	616
Other assets	319	576	1,317	451	-203	2,459
Tax assets	46	2	27	47	42	165
Total assets	**94,278**	**30,576**	**25,374**	**61,882**	**-45,991**	**166,119**
Liabilities to credit institutions	13,102	561		35,906	-36,341	13,229
Derivative contracts	339	3,460	32	100	-990	2,941
Liabilities to customers	60,214	12,525		3,147	-2,259	73,627
Insurance liabilities			9,388			9,388
Liabilities from unit-linked insurance and investments contracts			11,969			11,969
Debt securities issued to the public	13,556	1,173		21,518	-1,253	34,993
Provisions and other liabilities	744	1,019	492	1,388	-116	3,526
Tax liabilities	452	3	190	402	1	1,048
Subordinated liabilities			380	2,274	-413	2,242
Total liabilities	**88,407**	**18,740**	**22,453**	**64,735**	**-41,371**	**152,963**
Equity						**13,156**

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

Notes

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

Note 1. Accounting policies

The Interim Report has been prepared in accordance with IAS 34 Interim Financial Reporting and with the accounting policies presented in the financial statements 2020.

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 judgement has been used especially in the calculation of expected credit losses.

Expected credit losses

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

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

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

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

The actual 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 2020 financial statements.

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

2. Effective interest rate of TLTRO III loans

The effective interest rate has been calculated on TLTRO loans based on management judgement related to the fulfilment of net lending criteria for upcoming review periods. If any changes occur in this management judgement, they will be treated as changes in the loan’s carrying amount in such a way that the gross carrying amount of the loan will be recalculated in a way that it corresponds to the present value of the re-estimated cash flows that has been determined by discounting using the loan’s original effective interest rate. The resulting adjustment is recognised through profit or loss.

Note 2. Net interest income

EUR million	Q1 2021	Q1 2020
Interest income		
Receivables from credit institutions		
Interest	0	1
Negative interest	11	5
Total	11	5
Receivables from customers		
Loans	299	307
Finance lease receivables	8	8
Impaired loans and other commitments		0
Negative interest	7	4
Total	314	319
Notes and bonds		
Measured at fair value through profit or loss	0	0
At fair value through other comprehensive income	13	17
Amortised cost	0	0
Total	13	17
Derivative contracts		
Fair value hedge	-36	-33
Cash flow hedge	12	13
Ineffective portion of cash flow hedge	-1	2
Other		
Total	-25	-18
Other	6	2
Total	**320**	**325**
Interest expenses		
Liabilities to credit institutions		
Interest	0	-1
Negative interest	22	14
Total	22	13
Liabilities to customers	4	19
Notes and bonds issued to the public	41	61
Subordinated liabilities		
Subordinated loans	0	0
Other	15	11
Total	15	12
Derivative contracts		
Cash flow hedge	-69	-70
Other	-10	-31
Total	-79	-101
Other	1	1
Total	**4**	**5**
Net interest income before fair value adjustment under hedge accounting	**315**	**319**
Hedging derivatives	-83	83
Value changes of hedged items	84	-84
Total	**316**	**319**

Note 3. Net insurance income

EUR million	Q1 2021	Q1 2020
Net insurance premium revenue		
Premiums written	678	655
Insurance premiums ceded to reinsurers	-13	-7
Change in provision for unearned premiums	-321	-299
Reinsurers' share	20	12
Total	363	361
Net non-life insurance claims		
Claims paid	-221	-255
Insurance claims recovered from reinsurers	7	5
Change in provision for unpaid claims	3	12
Reinsurers' share	-1	3
Total	-211	-235
Other non-life insurance items	-2	-2
Life Insurance risk premiums collected	7	6
Total	**157**	**131**

Note 4. Net commissions and fees

Q1 2021, EUR million	Retail Banking	Corporate Banking	Insurance	Other operations	Elimi-nations	OP Financial Group
Commission income						
Lending	28	12		0	0	39
Deposits	5	1		0	0	6
Payment transfers	84	12		4	-20	80
Securities brokerage	3	9			-3	9
Securities issuance		3			0	3
Fund and management fees	11	59	22	0	-27	65
Asset management	6	7		0	-4	9
Legal services	6	0			0	6
Guarantees	3	3		0	0	6
Housing service	18				0	18
Insurance brokerage	40		14		-23	30
Life insurance total expense loadings			22			22
Health and wellbeing services			3		0	3
Other	0			0		0
Total	**204**	**106**	**60**	**4**	**-77**	**297**
Commission expenses						
Lending	0	0		0	0	0
Payment transfers	5	2	0	1	-3	5
Securities brokerage		1	0	0	0	1
Securities issuance	0	1		0	-1	0
Mutual funds		27	0		-27	0
Asset management		3	0	0	0	3
Guarantees		0				0
Insurance brokerage	-2		36		-22	13
Health and wellbeing services			1		0	1
Other	3	20	0	1	-21	3
Total	**6**	**54**	**38**	**3**	**-74**	**27**
Total net commissions and fees	**198**	**52**	**22**	**1**	**-3**	**270**

Q1 2020, EUR million	Retail Banking	Corporate Banking	Insurance	Other operations	Elimi-nations	OP Financial Group
Commission income						
Lending	28	11		1	0	40
Deposits	0	0			0	1
Payment transfers	83	10		3	-24	72
Securities brokerage	1	8			0	9
Securities issuance		1		0	0	1
Fund and management fees	10	53	22	0	-27	58
Asset management	10	5		0	-2	13
Legal services	5	0			0	5
Guarantees	2	3		0	0	5
Housing service	17					17
Insurance brokerage	40		15		-26	28
Life insurance total expense loadings			21			21
Health and wellbeing services			3		0	3
Total	**196**	**92**	**61**	**5**	**-80**	**274**
Commission expenses						
Lending	0	0		0	0	0
Payment transfers	5	2	0	1	-3	5
Securities brokerage		3	0	0	0	3
Securities issuance	0	1		0	-1	0
Mutual funds		27	0		-27	0
Asset management		2	0	0	0	3
Insurance brokerage	-2		42		-27	14
Health and wellbeing services			1		0	1
Other	4	22	0	1	-23	4
Total	**7**	**57**	**44**	**3**	**-80**	**30**
Total net commissions and fees	**189**	**35**	**18**	**2**	**0**	**244**

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

Note 5. Net investment income

EUR million	Q1 2021	Q1 2020
Net income from assets at fair value through other comprehensive income		
Notes and bonds		
Interest income	10	13
Other income and expenses	-1	0
Capital gains and losses	9	10
Currency fair value gains and losses	10	9
Impairment losses and their reversal*	2	-5
Total	**31**	**27**

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

Net income recognised at fair value through profit or loss		
Financial assets held for trading		
Notes and bonds		
Interest income and expenses	1	2
Fair value gains and losses	-2	-5
Total	-1	-4
Shares and participations		
Fair value gains and losses	0	-5
Dividend income and share of profits	1	2
Total	1	-3
Derivatives		
Interest income and expenses	11	26
Fair value gains and losses	-118	72
Total	-108	98
Total	**-107**	**91**
Financial assets that must be measured at fair value through profit or loss		
Notes and bonds		
Interest income	4	6
Fair value gains and losses	-29	-3
Total	-25	3
Shares and participations		
Fair value gains and losses	102	-171
Dividend income and share of profits	28	21
Total	130	-151
Total	**105**	**-148**
Financial assets designated as at fair value through profit or loss		
Notes and bonds		
Interest income	6	8
Fair value gains and losses	-31	-71
Total	-25	-62
Shares and participations		
Fair value gains and losses	8	9
Dividend income and share of profits	0	-3
Total	9	6
Derivatives		
Fair value gains and losses	-2	-18
Total	-2	-18
Total	**-18**	**-74**
Total net income from financial assets recognised at fair value through profit or loss	**-20**	**-131**

Net income from investment property		
Rental income	13	14
Fair value gains and losses	-1	4
Maintenance charges and expenses	-9	-15
Other	0	-1
Net income from investment property total	3	2
Net income from loans and receivables measured at amortised cost		
Loans and receivables		
Interest income	2	2
Interest expenses	-1	-1
Capital gains and losses		0
Impairment losses and their reversal	1	2
Loans and receivables total	2	4
Non-life insurance		
Unwinding of discount, Non-life insurance	-4	-5
Life insurance		
Interest credited on customers' insurance savings	-20	-21
Change in supplementary interest rate provisions	84	-52
Other technical items**	70	31
Total	134	-42

** 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	1	4
Consolidated using the equity method	1	3
Total	1	7
Total net investment income	**146**	**-140**

Note 6. Other operating expenses

EUR million	Q1 2021	Q1 2020
ICT costs		
Production	61	70
Development	29	36
Buildings	13	10
Government charges and audit fees	47	36
Purchased services	27	34
Data communications	8	11
Marketing	5	6
Corporate social responsibility	2	2
Insurance and security costs	1	4
Other	28	35
Total	**221**	**245**

Development costs

EUR million	Q1 2021	Q1 2020
ICT development costs	29	36
Share of own work	17	14
Total development costs in the income statement	**46**	**50**
Capitalised ICT costs	21	21
Capitalised share of own work	4	3
Total capitalised development costs	**25**	**24**
Advance payments	0	8
Total development costs	**70**	**82**
Depreciation/amortisation and impairment loss	44	45

Note 7. Impairment losses on receivables

EUR million	Q1 2021	Q1 2020
Receivables written down as loan and guarantee losses	38	21
Recoveries of receivables written down	-2	-2
Expected credit losses (ECL) on receivables from customers and off-balance-sheet items	-13	85
Expected credit losses (ECL) on notes and bonds*	0	2
Total	**22**	**105**

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

Credit risk exposures and related loss allowance

Exposures within the scope of accounting for expected credit losses by impairment stage 31 March 2021

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	60,879	7,249	61	7,310	1,895	70,084
Corporate Banking	23,673	1,145	195	1,340	490	25,503
Total	**84,552**	**8,394**	**256**	**8,651**	**2,384**	**95,587**
Off-balance-sheet limits						
Retail Banking	6,264	482	3	484	24	6,772
Corporate Banking	4,306	272	88	360	62	4,728
Total	**10,570**	**754**	**90**	**844**	**85**	**11,500**
Other off-balance-sheet commitments						
Retail Banking	3,851	75		75	12	3,938
Corporate Banking	6,504	395		395	103	7,002
Total	**10,355**	**470**		**470**	**115**	**10,940**
Notes and bonds						
Other Operations	13,124	31		31		13,155
Insurance	4,317	33		33	8	4,358
Total	**17,441**	**64**		**64**	**8**	**17,513**
Total exposures within the scope of accounting for expected credit losses	**122,919**	**9,682**	**347**	**10,028**	**2,593**	**135,540**

Loss allowance by impairment stage 31 March 2021

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	-30	-59	-2	-61	-282	-373
Corporate Banking	-21	-26	-2	-28	-234	-283
Total	**-50**	**-85**	**-4**	**-89**	**-517**	**-656**
Off-balance-sheet commitments**						
Retail Banking	-1	-1		-1		-2
Corporate Banking	-12	-1		-1	-8	-21
Total	**-13**	**-2**		**-2**	**-8**	**-22**
Notes and bonds***						
Other Operations	-2	-1		-1		-2
Insurance	-6	-1		-1	-4	-10
Total notes and bonds	**-7**	**-2**		**-2**	**-4**	**-13**
Total	**-70**	**-89**	**-4**	**-93**	**-528**	**-691**

* 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 March 2021	Stage 1	Stage 2			Stage 3	
		Not more than 30 DPD	More than 30 DPD	Total		Total
Receivables from customers; on-balance-sheet and off-balance-sheet items						
Retail Banking	70,994	7,806	64	7,870	1,930	80,794
Corporate Banking	34,483	1,812	283	2,095	655	37,233
Loss allowance						
Retail Banking	-31	-60	-2	-62	-282	-375
Corporate Banking	-32	-27	-2	-30	-242	-304
Coverage ratio, %						
Retail Banking	-0.04%	-0.77%	-2.66%	-0.78%	-14.62%	-0.46%
Corporate Banking	-0.09%	-1.50%	-0.84%	-1.41%	-36.99%	-0.82%
Receivables from customers; total on-balance-sheet and off-balance-sheet items	**105,477**	**9,618**	**347**	**9,965**	**2,585**	**118,027**
Total loss allowance	**-63**	**-87**	**-4**	**-91**	**-524**	**-679**
Total coverage ratio, %	**-0.06%**	**-0.91%**	**-1.17%**	**-0.92%**	**-20.29%**	**-0.57%**
Carrying amount, notes and bonds						
Other Operations	13,124	31		31		13,155
Insurance	4,317	33		33	8	4,358
Loss allowance						
Other Operations	-2	-1		-1		-2
Insurance	-6	-1		-1	-4	-10
Coverage ratio, %						
Other Operations	-0.01%	-1.87%		-1.87%		-0.02%
Insurance	-0.13%	-4.01%		-4.01%	-45.03%	-0.24%
Total notes and bonds	**17,441**	**64**		**64**	**8**	**17,513**
Total loss allowance	**-7**	**-2**		**-2**	**-4**	**-13**
Total coverage ratio, %	**-0.04%**	**-2.97%**		**-2.97%**	**-45.03%**	**-0.07%**

Exposures within the scope of accounting for expected credit losses by impairment stage 31 December 2020

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

Loss allowance by impairment stage 31 December 2020

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

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

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

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

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

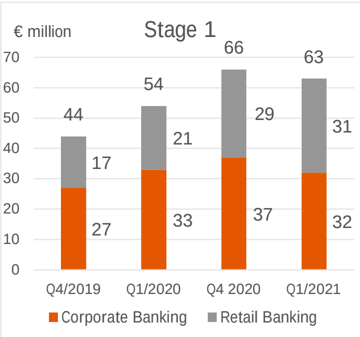
Summary and key indicators 31 December 2020	Stage 1	Stage 2			Stage 3	
		Not more than 30 DPD	More than 30 DPD	Total		Total
Receivables from customers; on-balance-sheet and off-balance-sheet items						
Retail Banking	70,972	7,089	60	7,149	1,902	80,023
Corporate Banking	33,923	1,829	225	2,054	663	36,640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

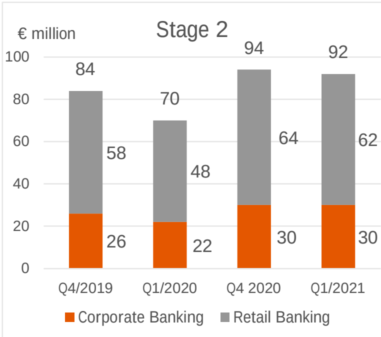
The following flow statements show the changes in loss allowance by impairment stage during January-March 2021.

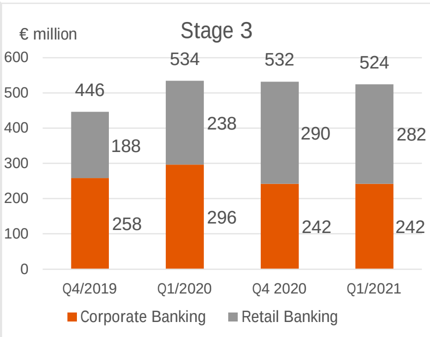
Receivables from customers and off-balance-sheet items, EUR million	**Stage 1**	**Stage 2**	**Stage 3**	
	12 months	**Lifetime**	**Lifetime**	**Total**
Loss allowance 1 January 2021	**65**	**93**	**533**	**692**
Transfers from Stage 1 to Stage 2	-2	13		11
Transfers from Stage 1 to Stage 3	0		4	4
Transfers from Stage 2 to Stage 1	1	-6		-5
Transfers from Stage 2 to Stage 3		-8	22	14
Transfers from Stage 3 to Stage 2		1	-6	-5
Transfers from Stage 3 to Stage 1	2		-4	-2
Increases due to origination and acquisition	2	1	2	5
Decreases due to derecognition	-4	-4	-8	-15
Changes in risk parameters (net)	-2	-1	12	9
Decrease in allowance account due to write-offs		0	-29	-29
Net change in expected credit losses	**-2**	**-3**	**-8**	**-13**
Loss allowance 31 March 2021	**63**	**91**	**524**	**679**

During the reporting period when the economic impact of the Covid-19 pandemic levelled off, OP Financial Group has stopped separating the effects of Covid-19 from the development of other expected credit losses.

The following graphs illustrate the trend in the expected credit losses of customer receivables by impairment stage during the last few years, showing their growth during the Covid-19 pandemic and how they have levelled off.



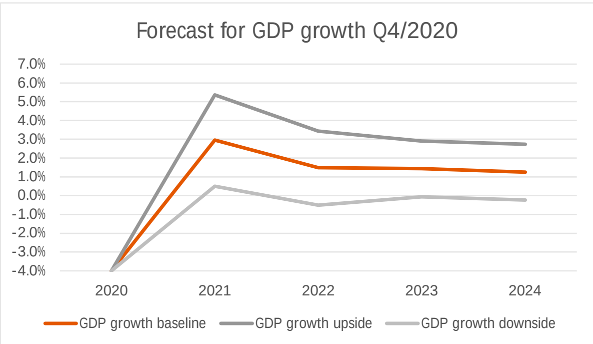


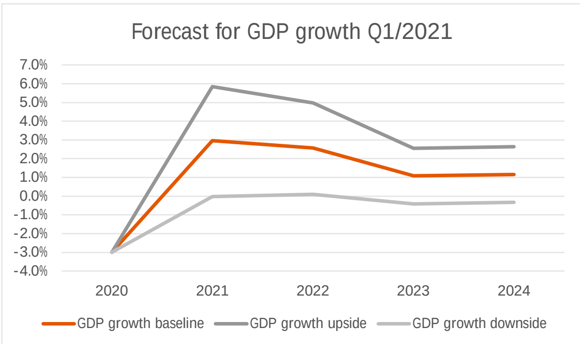


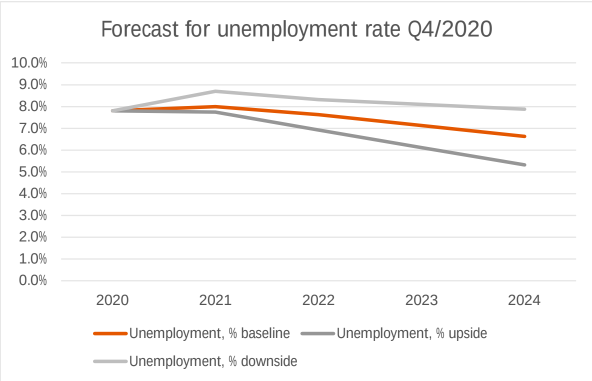
OP Financial Group still provides its customers with the opportunity to get a maximum of 12-month repayment holiday on their home loans. As regards corporate customers, changes in repayment schedules will be evaluated on a case-by-case basis, and guarantees provided by Finnvera will be used extensively. In loan modifications, forborne loans and customers in default are identified according to the normal set of instructions.

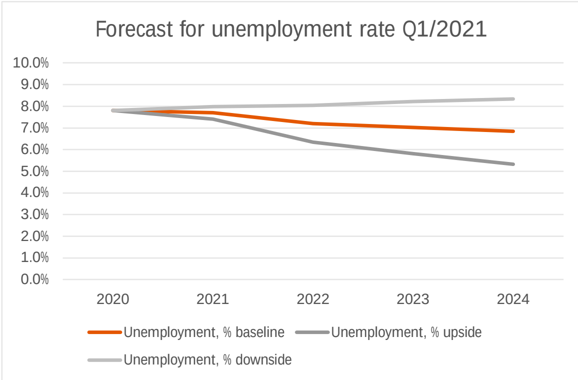
In ECL measurement, macroeconomic factors are updated on a quarterly basis. The ECL is measured as the weighted average under three scenarios. Scenario weights have been at normal level, or downside 20%, baseline 60% and upside 20%. During the first quarter of 2021, more positive macroeconomic forecasts decreased expected credit losses by around EUR 5 million.

The following graphs illustrate change in forecasts for GDP and the unemployment rate between Q4/2020 and Q1/2021.









Notes and bonds, EUR million	**Stage 1**	**Stage 2**	**Stage 3**	
	12 months	**Lifetime**	**Lifetime**	**Total**
Loss allowance 1 January 2021	**7**	**3**	**6**	**16**
Transfers from Stage 1 to Stage 3	0		0	0
Transfers from Stage 2 to Stage 1	0	0		0
Transfers from Stage 3 to Stage 1	0			0
Increases due to origination and acquisition	1		0	1
Decreases due to derecognition	-1	-1	-1	-3
Changes in risk parameters (net)	0	0	0	0
Other adjustments	0	0		0
Net change in expected credit losses	**-1**	**-1**	**-1**	**-2**
Loss allowance 31 March 2021	**6**	**2**	**5**	**13**

The table below shows the change in loss allowance by impairment stage during 2020.

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

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

Note 8. Insurance liabilities

EUR million	31 March 2021	31 Dec 2020
Provision for unpaid claims		
Provision for unpaid claims for annuities	3,267	1,596
Other provision for unpaid claims	1,125	1,121
Reserve for decreased discount rate (value of hedges of insurance liability)	-41	16
Total	4,351	2,733
Provisions for unearned premiums	4,964	593
Life insurance insurance liabilities	74	6,047
Total	**9,388**	**9,374**

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

EUR million	31 March 2021	31 Dec 2020
Liabilities from unit-linked insurance	9,978	9,449
Investment contracts	1,992	1,873
Total	**11,969**	**11,323**

Note 10. Debt securities issued to the public

EUR million	31 March 2021	31 Dec 2020
Bonds	12,313	12,217
Subordinated bonds (SNP)	2,472	1,689
Covered bonds	12,520	13,252
Other		
Certificates of deposit	141	273
Commercial paper	7,667	7,347
Included in own portfolio in trading (–)*	-120	-72
Total debt securities issued to the public	**34,993**	**34,706**

*Own bonds held by OP Financial 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 2020	**44**	**65**	**141**	**251**
Fair value changes	-271	-145	63	-353
Capital gains transferred to income statement	-8	-10		-18
Impairment loss transferred to income statement		3		3
Transfers to net interest income			-15	-15
Deferred tax	56	30	-10	76
Closing balance 31 March 2020	**-179**	**-56**	**180**	**-55**

EUR million	Fair value through other comprehensive income: Notes and bonds	Shares and participations (overlay approach)	Cash flow hedging	Total
Opening balance 1 January 2021	**109**	**70**	**203**	**382**
Fair value changes	-31	82	-50	1
Capital gains transferred to income statement	-10	-28		-38
Impairment loss transferred to income statement				
Transfers to net interest income			-11	-11
Deferred tax	8	-11	12	9
Closing balance 31 March 2021	**77**	**113**	**155**	**345**

The fair value reserve before tax amounted to EUR 431 million (–68) at the end of the reporting period and the related deferred tax asset/liability was EUR –86 million (14). The loss allowance on notes and bonds recognised at fair value through other comprehensive income totalled EUR 2 million (–7) in the fair value reserve during the reporting period. Data on 31 March 2020 is used as comparatives.

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

Note 12. Collateral given

EUR million	31 March 2021	31 Dec 2020
Given on behalf of own liabilities and commitments		
Pledges	1	136
Loans (as collateral for covered bonds)	15,984	15,722
Others	15,027	9,784
Total collateral given*	**31,012**	**25,643**
Secured derivative liabilities	874	1,078
Other secured liabilities	13,004	8,143
Covered bonds	12,520	13,252
Total	**26,398**	**22,473**

* In addition, bonds with a book value of EUR 2.1 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	27,683						27,683
Receivables from credit institutions	506						506
Derivative contracts			3,306			997	4,303
Receivables from customers	93,813						93,813
Assets covering unit-linked contracts				11,920			11,920
Notes and bonds	1	17,916	301	2,132	379		20,728
Equity instruments		-21	72	195	1,540		1,786
Other financial assets	2,522						2,522
Financial assets							**163,262**
Other than financial instruments							2,857
Total 31 March 2021	**124,525**	**17,895**	**3,680**	**14,246**	**1,919**	**997**	**166,119**

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

Liabilities, EUR million	Financial liabilities at fair value through profit or loss	Other liabilities	Hedging derivatives	Carrying amount total
Liabilities to credit institutions		13,229		13,229
Derivative contracts	2,610		332	2,941
Liabilities to customers		73,627		73,627
Insurance liabilities		9,388		9,388
Liabilities from unit-linked insurance and investment contracts	11,969			11,969
Debt securities issued to the public		34,993		34,993
Subordinated loans		2,242		2,242
Other financial liabilities		2,746		2,746
Financial liabilities				**151,136**
Other than financial liabilities				1,828
Total 31 March 2021	**14,579**	**136,225**	**332**	**152,963**

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

Bonds included in debt securities issued to the public are carried at amortised cost. On 31 March, the fair value of these debt instruments was approximately EUR 724 million (810) higher than their carrying amount, based on information available in markets and employing commonly used valuation techniques. Subordinated liabilities are carried at amortised cost. Their fair values are higher than their amortised costs, but determining reliable fair values involves uncertainty.

Note 14. Recurring fair value measurements by valuation technique

Fair value of assets on 31 March 2021, EUR million	Level 1	Level 2	Level 3	Total
Recognised at fair value through profit or loss				
Equity instruments	826	314	646	1,786
Debt instruments	2,083	525	203	2,812
Unit-linked contracts	7,846	4,074		11,920
Derivative financial instruments	0	4,226	78	4,303
Fair value through other comprehensive income				
Debt instruments	15,993	1,554	368	17,916
Total financial instruments	**26,748**	**10,693**	**1,295**	**38,737**
Investment property			626	626
Total	**26,748**	**10,693**	**1,921**	**39,363**

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

Fair value of liabilities on 31 March 2021, EUR million	Level 1	Level 2	Level 3	Total
Recognised at fair value through profit or loss				
Unit-linked contracts	7,879	4,091		11,969
Derivative financial instruments	0	2,909	31	2,941
Total	**7,879**	**7,000**	**31**	**14,910**

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

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 2021	**916**	**61**	**301**	**1,278**
Total gains/losses in profit or loss	-213	16	0	-196
Total gains/losses in other comprehensive income			0	0
Purchases	10		0	10
Sales	-19			-19
Settlements	-6		-1	-6
Transfers into Level 3	162		107	268
Transfers out of Level 3			-39	-39
Closing balance 31 March 2021	**850**	**78**	**368**	**1,295**

Financial liabilities, EUR million	Derivative contracts	Total liabilities
Opening balance 1 January 2020	**42**	**42**
Total gains/losses in profit or loss	-10	-10
Closing balance 31 March 2021	**31**	**31**

Total gains/losses included in profit or loss by item on 31 March 2021

EUR million	Net interest income	Net investment income	Statement of comprehensive income/ Change in fair value reserve	Total gains/ losses included in profit or loss for assets/ liabilities held at the reporting period
Realised net gains (losses)	-234	21	0	-213
Unrealised net gains (losses)	27		0	27
Total net gains (losses)	**-207**	**21**	**0**	**-186**

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 during the reporting period.

Note 15. Off-balance-sheet commitments

EUR million	31 March 2021	31 Dec 2020
Guarantees	695	686
Other guarantee liabilities	2,219	2,160
Loan commitments	15,388	13,826
Commitments related to short-term trade transactions	401	255
Other*	1,540	1,535
Total off-balance-sheet commitments	**20,242**	**18,461**

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

Note 16. Derivative contracts

Total derivatives 31 March 2021

	Nominal values/residual maturity				Fair values*	
EUR million	<1 year	1–5 years	>5 years	Total	Assets	Liabilities
Interest rate derivatives	21,720	68,158	83,937	173,815	2,995	1,800
Cleared by the central counterparty	9,909	40,326	51,417	101,652	33	37
Settled-to-market (STM)	6,463	26,034	38,190	70,687	26	30
Collateralised-to-market (CTM)	3,446	14,293	13,227	30,965	7	8
Currency derivatives	41,472	5,629	1,318	48,420	1,039	930
Equity and index-linked derivatives		2		2	0	
Credit derivatives	69	819	105	993	0	0
Other derivatives	178	471	15	664	69	27
Total derivatives	**63,440**	**75,079**	**85,375**	**223,894**	**4,103**	**2,757**

Total derivatives 31 December 2020

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

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

Note 17. Investment distribution of the Insurance segment

Non-life insurance	31 March 2021		31 December 2020	
Investment asset portfolio allocation	Fair value*, EUR million	%	Fair value*, EUR million	%
Money market total	**504**	**12**	**461**	**11**
Money market instruments and deposits**	498	12	456	11
Derivatives***	6	0	5	0
Total bonds and bond funds	**2,617**	**63**	**2,684**	**65**
Governments	628	15	605	15
Inflation-linked bonds		0	10	0
Investment Grade	1,643	40	1,602	39
Emerging markets and High Yield	165	4	280	7
Structured Investments****	181	4	188	5
Total equities	**600**	**14**	**525**	**13**
Finland	129	3	112	3
Developed markets	280	7	237	6
Emerging markets	126	3	110	3
Fixed assets and unquoted equities	6	0	6	0
Private equity investments	59	1	59	1
Total alternative investments	**33**	**1**	**33**	**1**
Hedge funds	33	1	33	1
Total property investment	**396**	**10**	**398**	**10**
Direct property investment	251	6	251	6
Indirect property investment	145	3	148	4
Total	**4,150**	**100**	**4,102**	**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).
**** Includes covered bonds, bond funds and illiquid bonds.

Life insurance	31 March 2021		31 December 2020	
Investment asset portfolio allocation	Fair value*, EUR million	%	Fair value*, EUR million	%
Total money market instruments	**522**	**15**	**493**	**14**
Money market investments and deposits**	518	14	490	14
Derivatives***	4	0	3	0
Total bonds and bond funds	**2,322**	**64**	**2,414**	**67**
Governments	460	13	447	12
Inflation-linked bonds			9	0
Investment Grade	1,495	42	1,497	42
Emerging markets and High Yield	105	3	191	5
Structured investments****	262	7	270	7
Total equities	**537**	**15**	**471**	**13**
Finland	99	3	86	2
Developed markets	248	7	214	6
Emerging markets	115	3	101	3
Fixed assets and unquoted equities	3	0	3	0
Private equity investments	72	2	67	2
Total alternative investments	**39**	**1**	**40**	**1**
Hedge funds	39	1	40	1
Total real property investments	**182**	**5**	**185**	**5**
Direct property investments	50	1	50	1
Indirect property investments	133	4	135	4
Total	**3,602**	**100**	**3,602**	**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 equivalent).
**** Includes covered bonds, bond funds and illiquid bonds.

Note 18. Related-party transactions

OP Financial Group's related parties comprise subsidiaries consolidated into OP Financial Group, associates, key management personnel and their close family members, and other related-party entities. OP Financial Group's key management personnel comprises OP Financial Group's President and Group Chief Executive Officer, members of OP Cooperative's Executive Management Team and directors directly reporting to the President and Group Chief Executive Officer, the Chair and members of OP Cooperative's Board of Directors as well as members of the Supervisory Council. Related parties of the management also include companies over which key management persons or their close family member exercises significant influence. Other entities regarded as related parties include OP 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 2020.

Financial reporting in 2021

Half-year Financial Report H1/2021	28 July 2021
Interim Report Q1–3/2021	27 October 2021
OP Amalgamation Capital Adequacy Report Q1	Week 18
OP Amalgamation Capital Adequacy Report H1/2021	Week 31
OP Amalgamation Capital Adequacy Report Q1–3/2021	Week 44

Helsinki, 28 April 2021

OP Cooperative
Board of Directors

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

www.op.fi