OP Corporate Bank plc's Financial Statements Bulletin 1 January–31 December 2020

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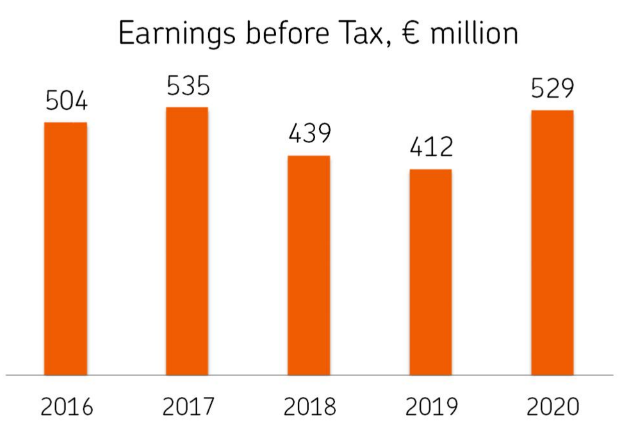
Earnings before tax Q1–4/2020	Net interest income Q1–4/2020	Net insurance income Q1–4/2020	CET1 ratio 31 Dec 2020
€529 million	+10%	+38%	15.1%

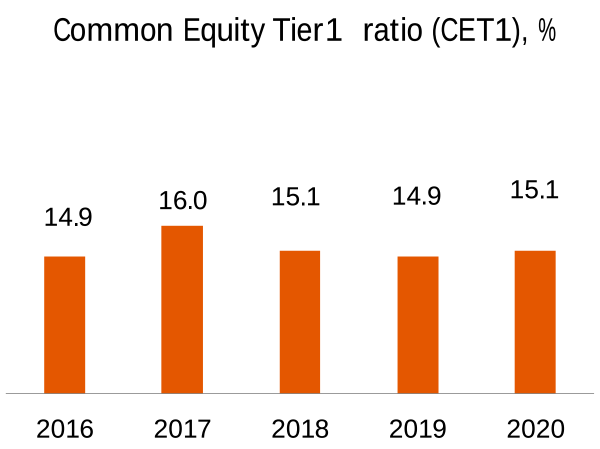
- Consolidated earnings before tax rose to EUR 529 million (412). Net insurance income increased by 38% to EUR 555 million (402) and net interest income by 10% to EUR 325 million (295). Transferring the rest of the management of the statutory earnings-related pension insurance to Ilmarinen Mutual Pension Insurance Company at the end of 2020 lowered the Group's and the Insurance segment's pension costs by EUR 85 million. Excluding the effect of the pension liability transfer, total expenses increased by 1% to EUR 641 million. The consolidated earnings were decreased by a fall of 41% in investment income to EUR 228 million (384).
- Corporate Banking earnings before tax increased by 15% to EUR 301 million (262). Net investment income increased by 22% to EUR 140 million (115) and net interest income by 3% to EUR 395 million (383). Corporate Banking earnings were weakened by an increase in expenses to EUR 231 million (220). Impairment loss on receivables totalled EUR 53 million (51). The loan portfolio grew in the year to December by 1% to EUR 24.0 billion (23.7).
- Insurance earnings before tax rose by 44% to EUR 288 million (200). Net insurance income increased by 38% to EUR 556 million (402). The reduction in the discount rate for insurance liability increased non-life insurance claims incurred by EUR 45 million (136). Investment income fell by 69% to EUR 75 million (242). The operating combined ratio improved to 87.8% (92.7).
- Other Operations earnings before tax were EUR –58 million (–50). Liquidity remained good despite the Covid-19 crisis.
- The Group's CET1 ratio was 15.1% (14.9).

OP Corporate Bank plc's key indicators

Earnings before tax, € million	Q1–4/2020	Q1–4/2019	Change, %
Corporate Banking	301	262	14.5
Insurance	288	200	44.3
Other Operations	-58	-50	-
Group total	**529**	412	28.5
Return on equity (ROE), %	9.2	7.8	1.4*
Return on assets (ROA), %	0.55	0.49	0.06*
	31 Dec 2020	31 Dec 2019	Change, %
CET1 ratio, %	15.1	14.9	0.1*
Loan portfolio, € million	24,485	23,829	2.8
Deposits, € million	13,300	11,103	19.8
Ratio of non-performing receivables to loan and guarantee portfolio, %	1.1	0.5	0.5*
Ratio of impairment loss on receivables to loan and guarantee portfolio, %	0.20	0.19	0.01*

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





OP Corporate Bank plc's Financial Statements Bulletin for 1 January–31 December 2020

Tables

Business environment

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

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

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

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

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

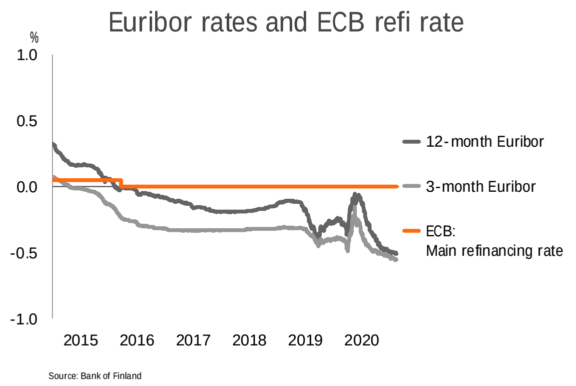
The Covid-19 pandemic will continue to cause uncertainty over the economic outlook. Increasing Covid-19 vaccination rates will support economic recovery. However, the interest rate environment is expected to remain low in the euro area.

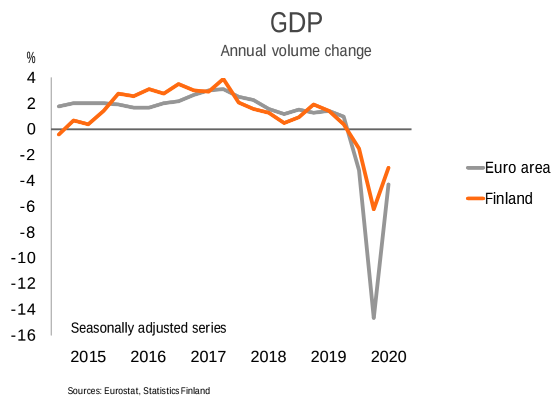
In banking, the pandemic intensified the growth in loans and deposits. April–May saw the greatest increase in loans at an annual rate of 6.8%. In December, the growth rate was 4.6%. At the end of December, corporate loans grew by 6.7% and consumer loans by 3.3%. Companies and public-sector entities lay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

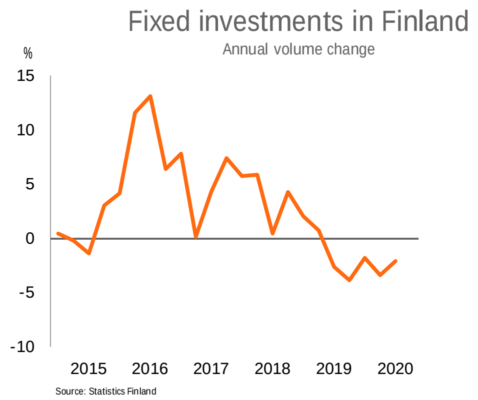
Growth in total deposits was at an exceptional level in 2020. Growth abated towards the year end from the peak of 16.8% reached in the summer, coming to 14.8% in December. In December, corporate deposits increased by 20.1% and household deposits by 8.5%.

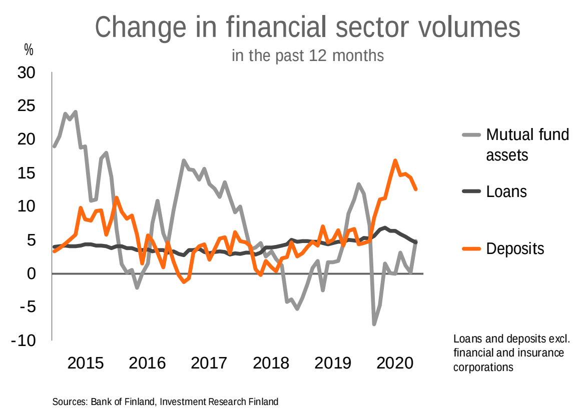
The value of mutual funds registered in Finland increased by EUR 7.5 billion to EUR 132.2 billion in 2020. EUR 6.3 billion of this increase was caused by a positive value change triggered by the strong rise in stock prices after the Covid-19 shock in spring.

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









Consolidated earnings

€ million	Q1–4/ 2020	Q1–4/ 2019	Change, %	Q4/ 2020	Q4/ 2019	Change, %
Net interest income	325	295	10.3	81	84	-3.6
Net insurance income	555	402	38.3	93	3	-
Net commissions and fees	5	-28	-	8	-12	-
Net investment income	233	450	-48.2	119	227	-47.6
Other operating income	29	47	-37.0	10	9	13.2
Total income	1,148	1,165	-1.5	310	311	-0.2
Personnel costs	196	184	6.5	56	46	21.5
Transfer of statutory earnings-related pension liability	-85			-85		
Depreciation/amortisation and impairment loss	53	63	-15.6	15	25	-42.0
Other operating expenses	393	386	1.8	98	99	-1.6
Total expenses	557	632	-12.0	84	171	-51.0
Impairment loss on receivables	-53	-51	4.2	12	-40	-
OP bonuses to owner-customers	-5	-4	3.5	-1	-1	-13.0
Overlay approach	-5	-66	-	-28	-19	-
Total earnings before tax	529	412	28.5	210	81	160.3

January–December

Consolidated earnings before tax rose to EUR 529 million (412). As regards income from customer business, net insurance income and net interest income increased. The Group's total income decreased by 1.5% to EUR 1,148 million, but including the overlay approach, income increased by 4.0% to EUR 1,143 million. The effect of the Covid-19 pandemic on capital market developments weakened investment income particularly in the first quarter. Investment income fell by 40.6% year on year to EUR 228 million. Total expenses decreased by 12.0% to EUR 557 million. This decrease was affected by the transfer of the remainder of the management of statutory earnings-related pension insurance and the related portfolio to Ilmarinen Mutual Pension Insurance Company, which reduced personnel costs by EUR 85 million. Excluding the effect of the pension liability transfer, expenses increased by 1%. Impairment loss on receivables totalled EUR 53 million (51).

Net interest income rose to EUR 325 million (295). Interest income increased by 20.4% to EUR 485 million and interest expenses by 43.3% to EUR 156 million. Higher interest income was mainly due to the Corporate Banking segment's higher lending margins and growth in the loan portfolio plus a decrease in the negative interest expenses for TLTRO (Targeted longer-term refinancing operations) funding granted by the European Central Bank. Furthermore, the negative interest rates for income on deposits made with OP Corporate Bank by OP Financial Group's member credit institutions increased interest income. Higher interest expenses were explained by higher negative interest expenses for central bank deposits and higher interest expenses for Tier 2 bonds and senior non-preferred bonds. During the reporting period, OP Corporate Bank borrowed EUR 6 billion under TLTRO funding offered by the European Central Bank to banks, which increased to EUR 8 billion. Senior non-preferred bonds increased by EUR 0.5 billion to EUR 1.7 billion and Tier 2 bonds by EUR 1.0 billion to EUR 2.4 billion. OP Corporate Bank Group's loan portfolio grew in the first quarter but began to decrease at the end of the second quarter. However, the loan portfolio grew in the year to December by 2.8% to EUR 24.5 billion. The volume of total deposits increased vigorously from the beginning of the second quarter until the last quarter, at the end of which the deposit portfolio partly decreased. During the reporting period, the deposit portfolio increased by 19.8% to EUR 13.3 billion.

Net insurance income increased by EUR 154 million to EUR 555 million. Insurance premium revenue increased by 1.9% and claims incurred decreased by 12.1%. The reduction in the discount rate for insurance liability increased claims incurred by EUR 45 million (136). Claims incurred, excluding the reduction in the discount rate, decreased by 3.7%. Within the Insurance segment, the operating combined ratio improved to 87.8% (92.7) and operating risk ratio to 61.1% (65.1).

Net commissions and fees increased by EUR 33 million to EUR 5 million. Commission income totalled EUR 169 million (171). Lower commission income from health and wellbeing services reduced commission income. Commission income from securities brokerage, issue and payment transfers increased from the previous year. Commission expenses were EUR 35 million lower than the year before. Commission expenses were reduced by lower expenses from insurance brokerage and from health and wellbeing services. Commission expenses paid to OP Financial Group's member banks decreased by EUR 15 million year on year. This decrease was affected by the change in the commission model related to derivatives within OP Financial Group.

Net investment income decreased by EUR 217 million to EUR 233 million. Net income from financial assets recognised at fair value through other comprehensive income decreased by EUR 72 million to EUR 19 million. Capital gains on notes and bonds that were lower than a year ago mainly decreased these items through other comprehensive income. Net income from financial assets recognised at fair value through profit or loss fell by EUR 137 million to EUR 238 million. This fall was mainly caused by lower year-on-year income from value changes in equities and derivative transactions. The value changes in equities as well as dividends and shares of profit dropped by EUR 93 million. An item corresponding to the change in the discount rate of the non-life insurance insurance liability, EUR 45 million (136), is shown in a positive value change in net investment income. In addition, income from derivative transactions was increased a year ago by the earnings effect of EUR 16 million arising from the discontinuance of fair value hedge accounting related to TLTRO II funding. Net income from investment property, EUR –5 million, decreased by EUR 13 million. This decrease was mainly affected by property revaluation losses and higher maintenance charges and expenses. Rental income from property was EUR 1 million lower than a year ago.

Net investment income reported by the Insurance segment fell by EUR 228 million to EUR 80 million and by EUR 16 million to EUR 10 million reported by Other Operations but rose by EUR 25 million to EUR 140 million in the Corporate Banking segment. Changes made in the valuation models of derivatives reduced Corporate Banking net investment income a year ago. The overlay approach is applied to non-life insurance equity instruments recognised at fair value through profit or loss, which reduced investment income for the reporting period by EUR 5 million. A year ago, it decreased earnings by EUR 66 million. Changes in the fair value of investments within the scope of the overlay approach are presented under the fair value reserve under shareholders' equity. Including the overlay approach, Group investment income, EUR 228 million, decreased by EUR 156 million year on year. Investment income reported by the Insurance segment decreased by EUR 167 million to EUR 75 million. Return on investments by non-life insurance at fair value was 4.8% (8.4).

Other operating income, EUR 29 million, was EUR 17 million lower than the year before. A year ago, the rise in other operating income was explained by the sale of occupational healthcare service business. The reporting period saw a change in the commission structure model related to OP Financial Group's internal derivatives, which decreased internal service charges presented in other operating income.

Total expenses fell by EUR 76 million year on year, to EUR 557 million. Personnel costs, EUR 111 million, decreased by EUR 73 million. The personnel costs decreased by EUR 85 million due to the transfer of the remainder of the management of the statutory earnings-related pension insurance and the related portfolio to Ilmarinen Mutual Pension Insurance Company. Excluding the effect of the pension liability transfer, expenses increased by 1%. Excluding the effect of this transfer, personnel costs year on year increased by EUR 12 million totalling EUR 196 million. Depreciation/amortisation and impairment loss on receivables, EUR 53 million, decreased by EUR 10 million. Impairment write-downs were EUR 16 million lower than the year before. Depreciation on right-of-use assets increased by EUR 3 million. Other operating expenses rose by EUR 7 million to EUR 393 million. This increase is mainly explained by higher amounts charged by OP Cooperative and higher ICT costs and higher year-on-year charges of financial authorities.

The impairment loss on receivables recognised that reduces earnings totalled EUR 53 million (51). Impairment loss on receivables during the reporting period was increased by the effects of the Covid-19 pandemic on the loan portfolio quality and the adoption of a new definition of default in the first quarter due to regulatory change. Other factors increasing impairment loss on receivables included changes in the credit risk models used in the calculation of expected credit losses and the Covid-19-related update of macroeconomic parameters as well as the transfer of loans between impairment stages. Final net loan losses recognised for the reporting period totalled EUR 55 million (3). Growth in final net loan losses was affected by rearrangements of receivables. Loss allowance was EUR 318 million (318) at the end of the reporting period. The ratio of non-performing exposures to the loan and guarantee portfolio rose to 1.1% (0.5). Impairment loss on loans and receivables accounted for 0.20% (0.19) of the loan and guarantee portfolio.

Comprehensive income for the reporting period, EUR 446 million increased by EUR 37 million year on year. This increase came from change in the fair value reserve. The fair values of equities, and notes and bonds decreased significantly in the first quarter but rebounded in the beginning of the second quarter. In the third quarter, the fair value reserve returned to almost its year-end level and continued to improve during the last quarter. The fair value reserve before tax increased by EUR 55 million year on year, amounting to EUR 125 million on 31 December 2020. The fair values of notes and bonds recognised through other comprehensive income increased by EUR 65 million, and the fair values of equities within the scope of the overlay approach increased by EUR 1 million.

October–December

Earnings before tax for the fourth quarter rose by EUR 129 million amounting to EUR 210 million. Total income of EUR 310 million was at the previous year's level. Total expenses decreased by 51.0% to EUR 84 million. The decrease was mainly caused by the transfer of the management of the remaining statutory earnings-related pension cover and the related portfolio to Ilmarinen Mutual Pension Insurance Company. In addition, the earnings increase was especially explained by an increase of EUR 90 million in net insurance income to EUR 93 million. The reduction in the discount rate for insurance liability increased claims incurred by EUR 45 million (136). The earnings were also increased by reversal of impairment losses and higher net commissions and fees. Lower investment income and lower year-on-year net interest income decreased earnings.

Net interest income decreased by 3.6% to EUR 81 million. Interest income increased by 26.5% to EUR 129 million and interest expenses by 129.3% to EUR 47 million.

Net insurance income rose by EUR 90 million to EUR 93 million. The reduction in the discount rate used in the calculation of insurance liability increased claims incurred. A year ago, the discount rate was reduced from 1.5% to 1%, increasing claims incurred by EUR 136 million. In the reporting period, the discount rate was decreased from 1% to 0.85%, increasing claims incurred by EUR 45 million.

Net commissions and fees were EUR 8 million, while a year ago they totalled EUR –12 million. Commission income totalled EUR 47 million (42). Higher commission income was explained by securities issues and brokerage. Commission expenses fell by EUR 15 million to EUR 39 million. Commission expenses were mainly reduced by fees paid to member banks, which were EUR 6 million lower than a year ago and by lower expenses reported by insurance business.

Net investment income decreased in the fourth quarter by 47.6% to EUR 119 million. Net income from financial assets recognised at fair value through other comprehensive income decreased by EUR 17 million to EUR 5 million. This decrease was affected by capital gains on notes and bonds that were lower than a year ago. Net income from financial assets recognised at fair value through profit or loss fell by EUR 86 million to EUR 129 million. This fall was mainly due to income from derivative transactions that was lower than a year ago. An item corresponding to the change in the discount rate of the non-life insurance insurance liability, EUR 45 million (136), is shown in a positive value change in net investment income. Including the overlay approach applied to equity investments, which weakened investment income by EUR 28 million (–19), investment income fell by EUR 117 million year on year to EUR 91 million. Net income from investment property decreased by EUR 6 million, totalling EUR –10 million. This decrease was mainly affected by property revaluation losses.

Other operating income of EUR 10 million rose by EUR 1 million.

Total expenses decreased by EUR 87 million to EUR 84 million. This decrease was due mainly to the transfer of the remainder of pension liabilities to Ilmarinen Mutual Pension Insurance Company. Excluding the effect of this transfer, personnel costs increased by 21.5% to EUR 56 million and total expenses decreased by 1.3% to EUR 169 million.

Depreciation/amortisation and impairment losses fell to EUR 15 million (25) as a result of lower impairment losses a year ago. Other operating expenses were EUR 98 million (99).

Impairment loss on receivables totalled EUR 12 million (40) that improved earnings. Impairment losses in the last quarter were partly affected by the updates of the credit risk models applied to the calculation of impairments. Final net loan losses recognised totalled EUR 2 million (0).

The fourth-quarter comprehensive income of EUR 208 million (46) was increased by changes in the fair value reserve. The fair value reserve increased by EUR 61 million since the end of September, totalling EUR 125 million at the end of 2020.

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

During the Covid-19 crisis, OP Corporate Bank provided its customers with the opportunity to get a loan repayment holiday if the pandemic has caused disruptions in their business or repayment capacity. By the end of 2020, OP Corporate Bank had received around 7,000 applications from customers for loan modifications during the Covid-19 pandemic.

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

During the spring and summer, the Covid-19 pandemic increased the number of travel and business interruption insurance claims filed. In many other insurance lines, the number of claims decreased as a result of lower activity in general. Towards the year end, the number of claims restored to the pre-pandemic level. A total of EUR 37 million in Pohjola Insurance claims incurred related to the loss events caused by the pandemic. Most of the payouts were for major public events that had to be cancelled as well as for travel losses.

Pohjola Hospital made its staff available to help with critical public health functions related to the coronavirus crisis in the spring and summer. They helped, for example, in tracking the chains of infection. Pohjola Hospital paid the workers' wages.

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

October–December highlights

OP Bank Group Pension Fund transferred the majority of the management of its pension liability and earnings-related pension insurance to Ilmarinen Mutual Pension Insurance Company on 31 December 2018. Transfer of the pension liability remaining with OP Bank Group Pension Fund to Ilmarinen Mutual Pension Insurance Company took place on 31 December 2020. The liability transfer applied to the following OP Corporate Bank Group employers: Pohjola Insurance Ltd and Pohjola Hospital Ltd. The Representative Assembly of OP Bank Group Pension Fund decided on the liability transfer on 4 August 2020. The earnings effect of the transfer, EUR 85 million, was recognised as a deduction in OP Corporate Bank's personnel costs. The transfer had no effect on the CET1 ratio.

Corporate responsibility

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

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

To promote diversity, OP Financial Group's objective is that the proportion of both genders in defined executive positions is at least 40%. Women accounted for 28% (26) at the end of December.

During the year, OP Financial Group introduced new responsible products, provided financing to businesses to support their sustainable finance, reduced its emissions and increased information on the impacts of climate change.

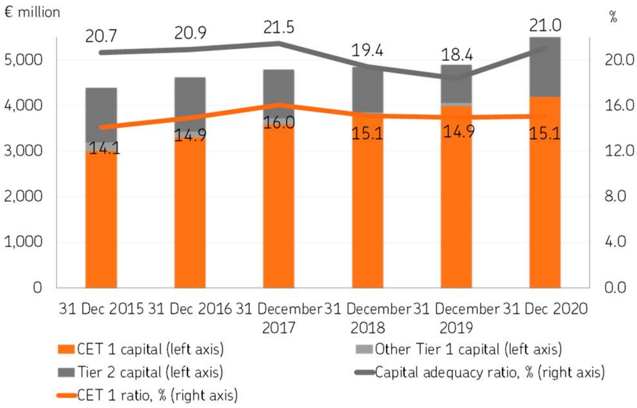
In February, OP published its first Green Bond Report that contains a description of the green bond of EUR 500 million issued by OP Corporate Bank in February 2019, including examples of businesses and projects financed and the environmental impacts achieved. Proceeds raised with the green bond were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

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

Pohjola Insurance was involved in collecting hobby equipment for children and young people together with the WFC 2020 (World Floorball Championship) partners and Hope ry. The Give a chance charity campaign brings joy of exercise to children and young people for whom it is not possible due their family's financial standing. The campaign period of 1–21 September 2020 involved collecting sports equipment for low-income families.

Group's capital adequacy

Capital base and capital adequacy



Capital adequacy for credit institutions

The Group's CET1 ratio was 15.1% (14.9) on 31 December 2020.

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

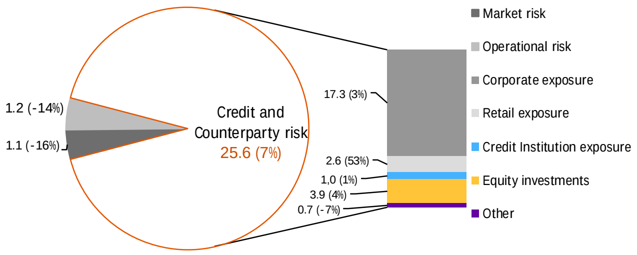
The CET1 capital totalled EUR 4.2 billion (4.0) on 31 December 2020. Insurance business result is not included in CET1 capital.

On 31 December 2020, the risk exposure amount (REA) totalled EUR 27.8 billion (26.7), or 4.5% higher than on 31 December 2019. Because of the adoption of the new definition of default, the average corporate exposure risk weights rose as result of the risk parameters set by the

European Central Bank (ECB). The corporate loan portfolio grew slightly from the end of 2019. OP Financial Group treats insurance holdings within the financial conglomerate as risk-weighted assets, based on permission from the ECB. Equity investments include EUR 3.9 billion (3.7) in risk-weighted assets of the Group's internal insurance holdings. Because of the adoption of the new definition of default, the risk-weighted assets of insurance holdings rose as result of the risk weighting factors set by the ECB. OP Corporate Bank Group is part of OP Financial Group, whose capital adequacy is supervised in accordance with the Act on the Supervision of Financial and Insurance Conglomerates. As part of OP Financial Group, OP Corporate Bank plc is supervised by the ECB.

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

Risk Exposure Amount 31 December 2020
Total €27.8 billion
(change from year end 4%)



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

OP Financial Group has begun discussions with the ECB on reassessing the extent of application of internal models (IRBA, Internal Ratings-Based Approach). Based on the current estimate, the change in the scope of IRBA will decrease OP Financial Group's CET1 ratio by around 0.7 percentage points during 2021. The final effect and its schedule will be specified after discussions with the supervisor and the approval process related to the scope of IRBA.

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 line regarding the MREL requirement when the supervisor makes its next MREL decision. The MREL ratio was an estimated 40% (43) at the end of 2020. The SRB has confirmed a resolution strategy for OP Financial Group whereby the resolution measures would apply to OP Corporate Bank acting as a Single Point of Entry.

Solvency of non-life insurance company

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

	31 Dec 2020	31 Dec 2019
Capital base, € million*	1,205	1,008
Solvency capital requirement (SCR), € million*	762	699
Solvency ratio, %*	158	144
Solvency ratio, % (excl. transitional provision)	158	144

*including transitional provisions

Credit ratings

OP Corporate Bank plc's credit ratings on 31 December 2020

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

Pohjola Insurance Ltd's financial strength ratings on 31 December 2020

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

OP Corporate Bank plc has credit ratings affirmed by Standard & Poor's Global Ratings Europe Limited and

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

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

Other ratings of OP Corporate Bank plc or Pohjola Insurance Ltd did not change in 2020.

On 22 January 2021, Standard & Poor's restored the outlook on OP Corporate Bank plc's long-term credit rating from negative to stable after the trend in the BICRA score, which describes the status of the Finnish banking system, restored from negative to stable. Standard & Poor's also changed the outlook on Pohjola Insurance Ltd's financial strength rating to stable alongside its revision of the parent company OP Corporate Bank plc.

Risk exposure

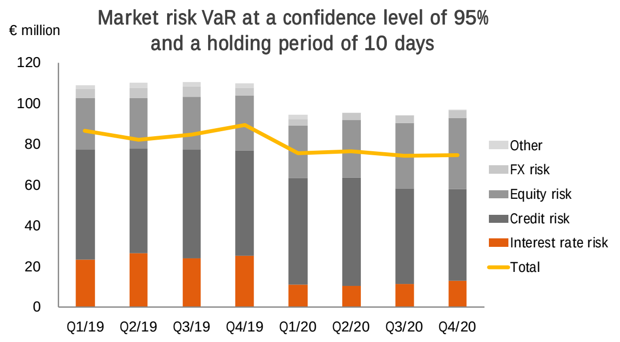
OP Corporate Bank implements its strategy by operating responsibly, taking moderate risk and maintaining a strong capital base and sufficient liquidity. When entering 2020, OP Corporate Bank had a strong risk-bearing capacity and sufficient capital base and liquidity in view of targets.

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

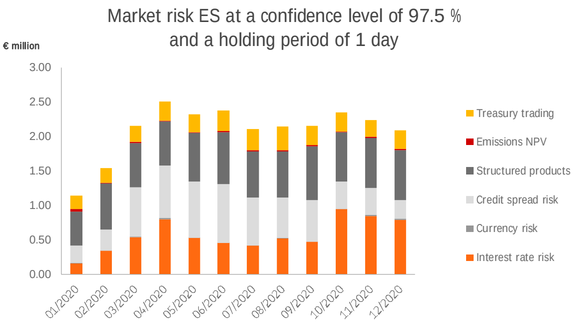
The Covid-19 pandemic affects OP Corporate Bank in three ways. The financial standing of customers affects OP Corporate Bank Group's account funds and the credit risk and insurance risk exposure. The crisis has increased the volume of deposit funds. The Covid-19 pandemic has weakened customers' debt-servicing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

The Group's funding and liquidity position is good. The availability of funding has remained good. In general, the Covid-19 crisis was also reflected in the price and availability of wholesale funding for banks. During the second quarter, the price and availability of wholesale funding began to normalise and risk premiums had already decreased by the end of the year to the pre-crisis level, due to strong support measures taken by central banks.

The market risk level of the Group's long-term investments remained moderate. No major changes were made to the asset class allocation during the reporting period. The Value-at-Risk (VaR) metric, a measure of market risks, was EUR 75 million (90) on 31 December 2020. The VaR risk metric includes the balance sheet total of the non-life insurance company concerned, the liquidity buffer and long-term banking bond investments. The non-life insurance balance sheet total contains investments, insurance liabilities and derivatives that hedge against interest rate risk associated with insurance liabilities. The 2020 figures no longer include risk associated with Markets nor the interest rate risk exposure of Group Treasury.



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



Operational risks remained moderate as targeted. Materialised operational risks resulted in a gross loss of EUR 1.8 million (0.7) during 2020. From the operational risk perspective, the implications of the Covid-19 pandemic on OP Corporate Bank Group were mild during the reporting period.

Corporate Banking

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

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

Repayment holidays and loan modifications due to the Covid-19 crisis OP Corporate Bank granted by the end of December totalled around EUR 1.0 billion in customer exposures. In OP Corporate Bank's 20-tier internal system for rating corporate customers, 9% of the corporate exposures to which a loan modification or repayment holiday was granted were categorised in the highest nine rating grades (excellent or good creditworthiness), while 9% were in the lowest five rating grades. The majority of the changes, 80%, applied to the six other grades.

Of the corporate exposures involving repayment holidays or loan modifications, 23% concerned operating and renting of real estate and 22% concerned transportation and storage. A total of 15% of the repayment holidays and loan modifications applied to the service sector.

At the end of December, expected credit losses were most recognised in the exposures of the forest industry, service sector and construction companies. Expected credit losses in all sectors are, however, moderate.

Corporate Banking's interest rate risk in the banking book measured as the effect of a one-percentage point change on a 12-month net interest income was EUR –21 million at the end of December. A rise in interest rates increases interest income risk. Interest income risk is calculated for a one-year period by dividing the sum of the interest income risk for the next three years by three.

Forborne loans and non-performing receivables

	Performing forborne exposures (gross)		Non-performing receivables (gross)		Doubtful receivables (gross)		Loss allowance		Doubtful receivables (net)	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
More than 90 days past due, € billion			0.10	0.13	0.10	0.13	0.08	0.11	0.02	0.02
Unlikely to be paid, € billion			0.35	0.24	0.35	0.24	0.13	0.13	0.21	0.12
Forborne exposures, € billion	0.25	0.11	0.08	0.02	0.33	0.13	0.05	0.01	0.28	0.11
Total, € billion	0.25	0.11	0.53	0.39	0.78	0.50	0.26	0.25	0.52	0.25

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

Key ratios	31 Dec 2020	31 Dec 2019
Ratio of doubtful receivables to loan and guarantee portfolio, %	2.0	0.9
Ratio of non-performing receivables to loan and guarantee portfolio, %	1.1	0.5
Ratio of performing forborne exposures to loan and guarantee portfolio, %	0.9	0.4
Ratio of performing forborne exposures to doubtful receivables, %	45.9	42.1
Ratio of loss allowance (receivables from customers) to doubtful receivables, %	85.5	59.3

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

For OP Corporate Bank plc, one customer's exposure exceeded 10% of the capital base covering customer risk, after allowances and other recognition of credit risk mitigation. Large customer risks amounted to EUR 0.5 billion.

Exposures by the Baltic Banking were EUR 3.6 billion (3.8), accounting for 9.2% (9.8) of total banking exposures of the Corporate Banking segment.

Insurance

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

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

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

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

Other Operations

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

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

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

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

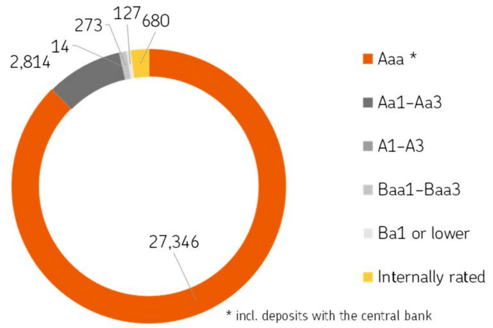
OP Financial Group monitors its long-term funding sufficiency, for example, by means of the Net Stable Funding Ratio (NSFR), which measures structural funding risk. In regulation, no minimum requirement for the NSFR has been set as yet. OP Financial Group's NSFR was 123% (112) at the end of the reporting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

Liquidity buffer

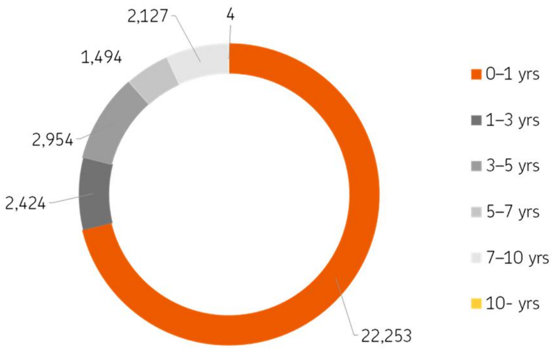
€ billion	31 Dec 2020	31 Dec 2019	Change, %
Deposits with central banks	21.6	11.9	81.1
Notes and bonds eligible as collateral	8.7	11.1	-21.9
Corporate loans eligible as collateral	-	0.0	-
Total	30.2	23.0	31.2
Receivables ineligible as collateral	1.0	2.0	-48.7
Liquidity buffer at market value	31.3	25.0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

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

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



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



For OP Corporate Bank plc acting as OP Financial Group's central financial institution, OP cooperative banks and OP Cooperative with its subsidiaries form a significant customer group. Of the aggregated exposures of the segments Other Operations and Corporate Banking, exposures of OP Financial Group entities represented 18.4%. These exposures increased during the year by EUR 4.5 billion. All exposures of OP cooperative banks and OP Cooperative are investment-grade exposures.

Financial performance by segment

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

Corporate Banking

- Earnings before tax increased by 14.5% to EUR 301 million.
- Total income increased by 9.6%. Net interest income increased by 3.0%. Net investment income increased by 21.6%. Value changes in Credit Valuation Adjustment (CVA) in derivatives owing to market changes decreased earnings by EUR 19 million (–12).
- Total expenses rose by 4.8% to EUR 231 million (220), of which the increase in ICT costs accounted for EUR 1 million and the increase in the EU stability contribution for EUR 2 million.
- The loan portfolio grew in the year to December by 1.2% to EUR 24.0 billion.
- Impairment loss on receivables increased by EUR 3 million to EUR 53 million (51). Non-performing receivables accounted for 1.1% (0.5) of the loan and guarantee portfolio.
- The most significant development investments involved the development of finance and payment systems.

Key figures and ratios

€ million	Q1–4/2020	Q1–4/2019	Change, %
Net interest income	395	383	3.0
Net commissions and fees	36	11	229.0
Net investment income	140	115	21.6
Other operating income	16	26	-39.4
Total income	587	536	9.6
Personnel costs	62	58	7.7
Depreciation/amortisation and impairment loss	12	14	-12.1
Other operating expenses	156	148	5.3
Total expenses	231	220	4.8
Impairment loss on receivables	-53	-51	5.1
OP bonuses to owner-customers	-2	-2	2.3
Earnings before tax	301	262	14.5
Cost/income ratio, %	39.3	41.1	-1.78*
Ratio of non-performing receivables to loan and guarantee portfolio, %	1.1	0.5	0.5*
Ratio of impairment loss on receivables to loan and guarantee portfolio, %	0.20	0.19	0.01*
Return on assets (ROA), %	1.03	0.91	0.12*
Return on assets, excluding OP bonuses, %	0.98	0.92	0.06*

	31 Dec 2020	31 Dec 2019	Change, %
Loan portfolio, € billion	24.0	23.7	1.2
Guarantee portfolio, € billion	2.6	3.1	-16.7
Deposits, € billion	13.1	11.2	17.2

*Change in ratio

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

Corporate Banking's loan portfolio increased in the year to December by 1.2% to EUR 24.0 billion. The guarantee portfolio totalled EUR 2.6 billion (3.1) and committed standby credit facilities amounted to EUR 4.3 billion (4.2). Demand for capital market products increased from the previous year.

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

Large Finnish corporations ranked OP Corporate Bank as Finland's best corporate bank in the Prospera Corporate Banking 2020 survey.

During the reporting period, OP Financial Group joined the European Payments Initiative (EPI) as a founding shareholder. The EPI has the objective of creating a unified and innovative European payment solution. The solution is aimed at creating a new payment system for European consumers and merchants.

In 2020, OP launched a new OP Corporate Hub service. It is a digital service that helps companies with liquidity and cash management and comprehensive financial monitoring. OP was the first bank in Finland to extend real-time SEPA instant credit transfers into businesses' mass payments in the corporate file transfer channel.

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

Financial performance for the reporting period

Corporate Banking earnings before tax increased by 14.5% to EUR 301 million (262). Total income increased by 9.6%. Total expenses increased by 4.8%. The cost/income ratio improved to 39.3% (41.1) year on year.

Net interest income grew by 3.0% to EUR 395 million (383) as a result of an increase in the loan portfolio and higher lending margins. Net commissions and fees increased to EUR 36 million (11). The increase in net commissions and fees was affected by the change in commissions paid to cooperative banks within OP Financial Group.

Net investment income totalled EUR 140 million, up 21.6% year on year. CVA valuation weakened earnings by EUR 19 million (–12). Income from client trading rose. Compared with the first quarter in particular, the narrowing of credit spreads increased the valuation of the trading book. Changes made in the valuation models of derivatives reduced net investment income a year ago by EUR 25 million.

Other operating income amounted to EUR 16 million (26). Impairment loss on receivables totalled EUR 53 million (51). The new definition of default adopted in March and the Covid-19 related changes in the macroeconomic parameters used in the calculation of expected credit losses increased, for their part, the impairment loss on receivables. Final net loan losses recognised for the reporting period totalled EUR 55 million (3). Non-performing receivables accounted for 1.1% (0.5) of the loan and guarantee portfolio.

Total expenses were EUR 231 million (220). Personnel costs increased by 7.7% to EUR 62 million (58). Other operating expenses increased by 5.3% to EUR 156 million. ICT costs increased by EUR 1 million and the EU stability contribution by EUR 2 million.

Insurance

- Earnings before tax increased by 44.3% to EUR 288 million (200). The transfer of statutory earnings-related pension liability improved earnings by EUR 85 million. Lower investment income reduced earnings.
- Insurance premium revenue increased by 1.9% and claims incurred decreased by 3.7%, excluding the effect of the change in the discount rate.
- Investment income totalled EUR 75 million (242), including the overlay approach. Net return on investments at fair value totalled EUR 25 million (96).
- The operating combined ratio improved to 87.8% (92.7) and operating risk ratio to 61.1% (65.1). The operating cost ratio was 26.6% (27.7).
- Development investments focused on development of electronic services and the core system upgrade.

Key figures and ratios

€ million	Q1–4/2020	Q1–4/2019	Change, %
Insurance premium revenue	1,506	1,479	1.9
Claims incurred	951	1,077	-11.7
Net insurance income	556	402	38.2
Non-life insurance, net commissions and fees	-36	-49	27.1
Health and wellbeing, net commissions and fees	8	13	-39.9
Net commissions and fees	-28	-36	22.3
Net investment income	80	308	-74.0
Other net income	1	-4	118.4
Total income	609	671	-9.2
Personnel costs	130	125	4.0
Transfer of statutory earnings-related pension liability	-85		
Depreciation/amortisation and impairment loss	39	47	-17.8
Other operating expenses	229	230	-0.6
Total expenses	313	403	-22.2
OP bonuses to owner-customers	-2	-2	4.8
Overlay approach	-5	-66	92.3
Earnings before tax	288	200	44.3
Return on assets (ROA), %	4.07	2.93	1.15*
Return on assets, excluding OP bonuses, %	4.10	2.96	1.15*
Operating combined ratio, %	87.8	92.7	
Operating risk ratio, %	61.1	65.1	
Operating cost ratio, %	26.6	27.7	

*Change in ratio

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

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

During the spring and summer, the Covid-19 pandemic increased the number of travel and business interruption insurance claims filed. In many other insurance lines, the number of claims decreased as a result of lower activity in general. Towards the year end, the number of claims restored to the pre-pandemic level. Claims incurred as a result of the Covid-19 pandemic totalled EUR 37 million.

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

Customers have been satisfied with services provided by Pohjola Hospital. Among surgery customers, the NPS was 97 (97) between January and December.

Financial performance for the reporting period

Earnings before tax amounted to EUR 288 million (200). Net insurance income increased to EUR 556 million (402). The non-life insurance discount rate was decreased from 1.0% to 0.85%, which reduced net insurance income by EUR 45 million (136). An item corresponding to the change in the discount rate of the non-life insurance insurance liability, EUR 45 million (136), is shown in a positive value change in net investment income.

Insurance premium revenue

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

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

Claims incurred, excluding change in the discount rate, declined by 3.7%. The reported number of new large claims under property and business liability insurance (in excess of EUR 0.3 million) amounted to 119 (87) in January–December, with their claims incurred retained for own account totalling EUR 131 million (80). The Covid-19 pandemic in particular increased claims expenditure related to travel losses and business interruptions. Changes in the provision for outstanding claims under statutory pensions improved earnings by EUR 10 million during the reporting period while weakening them by EUR 4 million a year ago.

Changes in claims for previous years, excluding the effect of the discount rate change, improved the balance on technical account by EUR 39 million (24). The non-life insurance operating risk ratio excluding indirect loss adjustment expenses was 61.1% (65.1).

The transfer of statutory earnings-related pension liability reduced pension costs by EUR 85 million. Excluding the transfer of the statutory earnings-related pension liability, expenses decreased by 1.2%, down EUR 5 million from a year ago. The operating cost ratio (including indirect loss adjustment expenses) was 26.6% (27.7).

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

Investment

Investment income

€ million	Q1–4/2020	Q1–4/2019
At fair value through other comprehensive income	13	84
At fair value through profit or loss	94	249
Amortised cost	-3	1
Non-life insurance items	-21	-27
Associated companies	-3	1
Net investment income	80	308
Overlay approach	-5	-66
Total	75	242

Investment income totalled EUR 75 million (242), including the overlay approach. Capital gains on investments totalled EUR 23 million (90).

Non-life insurance: key investment indicators

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

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

Other Operations

- Earnings before tax amounted to EUR –58 million (–50).
- The EBT included EUR 5 million (7) in capital gains on notes and bonds.
- Liquidity remained good despite the Covid-19 crisis.

Key figures and ratios

€ million	Q1–4/2020	Q1–4/2019	Change, %
Net interest income	-59	-64	-
Net commissions and fees	-2	-2	-
Net investment income	10	26	-60.2
Other operating income	15	7	99.9
Total income	-37	-33	-
Personnel costs	3	1	284.1
Other expenses	19	17	11.0
Total expenses	22	18	24.3
Impairment loss on receivables	1	0	369.3
Earnings before tax	-58	-50	-
Receivables and liabilities from/to the amalgamation's central cooperative and member credit institutions, net position, € billion	-9.5	-3.8	-

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

Financial performance for the reporting period

Other Operations earnings before tax amounted to EUR –58 million (–50). Earnings before tax at fair value were EUR –21 million (–51). The widening credit spread due to the coronavirus crisis reduced the fair value reserve in the first quarter. Later on, the European Central Bank's stimulus measures narrowed credit spreads and the fair value reserve has improved.

Net interest income was EUR –59 million (–64). Net interest income was improved by TLTRO III (Targeted longer-term refinancing operations) funding provided by the ECB to banks and the ECB's change in the deposit facility rate in the second half of 2019.

Net investment income totalled EUR 10 million (26). Net investment income included EUR 5 million (7) in capital gains on notes and bonds. The earnings effect of EUR 16 million arising from the discontinuance of TLTRO II funding improved net investment income reported a year ago.

In December 2020, the average margin of senior and senior non-preferred wholesale funding and TLTRO funding was 20 basis points (22). The cost is lowered by TLTRO funding.

OP Corporate Bank's access to funding remained good. In January–December, OP Corporate Bank issued long-term bonds worth EUR 5.9 billion. In March, the wholesale funding market was disrupted due to the Covid-19 crisis. Particularly in short-term wholesale funding, prices rose sharply, and it was not possible to renew maturing contracts for a certain period of time. Long-term unsecured wholesale funding too experienced a markedly steep rise in risk premiums. During the second quarter, the wholesale funding market clearly began to recover. By the end of the year, risk premiums had already decreased to the pre-crisis level, due to strong support measures taken by central banks.

In January, OP Corporate Bank issued a senior non-preferred bond of EUR 500 million with a maturity of 7 years. In May and June, it issued two senior bonds of EUR 1 billion with a maturity of 5.25 and 4 years. In addition, OP Corporate Bank issued in November a senior bond of EUR 1 billion with a maturity of 7 years.

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

In March, OP Corporate Bank took out financing worth USD 500 million with a maturity of less than one year offered by the ECB to banks. In June, OP Corporate Bank participated in the third series of the ECB's targeted longer-term refinancing operations (TLTRO-III) with a total of EUR 6.0 billion. OP Corporate Bank's TLTRO III financing amounts to a total of EUR 8.0 billion.

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

On 31 December 2020, investments by the amalgamation's central cooperative and the member credit institutions in OP Corporate Bank were EUR 9.5 billion higher than funding borrowed by them from Group Treasury. The change in the net position was mainly due to OP Mortgage Bank's covered bond funding which results in higher volumes of OP cooperative banks' investments in Group Treasury than before. In addition, since April the member credit institutions have made a liquidity deposit in Group Treasury, enabling the allocation of the liquidity requirement to the member credit institutions.

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

Service development

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

ICT costs of OP Corporate Bank's service development and production maintenance totalled EUR 208 million (204). These include licence fees, purchased services, other external costs related to projects and inhouse work. Production ICT costs increased by EUR 37 million to EUR 174 million. Total development costs declined by EUR 36 million to EUR 70 million. The capitalised development expenditure totalled EUR 36 million (38).

In the spring of 2019, OP Financial Group concluded a five-year agreement with Tata Consultancy Services Ltd (TCS) on the production of ICT services. The agreement involves the ICT infrastructure services used by OP Financial Group, such as mainframe, server and capacity services. The agreement also includes data centre and cloud services. The transfer of ICT infrastructure services to TCS is progressing as planned and is estimated to be finalised in February 2021.

More detailed information on OP Corporate Bank's investments can be found under each business segment's section in this financial statements bulletin.

Group restructuring

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

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

OP Corporate Bank is planning a restructuring whereby Pohjola Insurance Ltd would be transferred from the ownership of OP Corporate Bank plc to the direct ownership of OP Cooperative. The plan was announced in 2014 for the first time. In addition, a merger of OP Corporate Bank plc's Baltic subsidiaries into their parent company, OP Corporate Bank, is being planned.

Corporate governance and management

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

Personnel and remuneration

On 31 December 2020, the Group had 2,916 employees (2,675). Personnel increased from the 2019-end level in the Insurance segment in particular. The increase was chiefly caused by the transfer of OP cooperative banks' non-life insurance sales to Pohjola Insurance.

Personnel at period end

	31 Dec 2020	31 Dec 2019
Corporate Banking	741	700
Insurance	2,136	1,947
Other Operations	39	28
Total	2,916	2,675

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

Proposal by the Board of Directors for profit distribution

As shown in the financial statements of 31 December 2020, the company's distributable funds, which include EUR 59,620,449.54 in profit for the financial year, totalled EUR 1,216,623,784.29. The company's distributable funds totalled EUR 1,548,004,621.35.

The Board of Directors proposes that no dividend be distributed and that the profit for the financial year 2020 is entered in the account of retained earnings/loss.

The company's financial position has not undergone any material changes since the end of the financial year 2020. The company has good liquidity.

Outlook for 2021

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

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

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

Full-year earnings estimates for 2021 will only be provided at the OP Financial Group level, in its financial statements bulletin and interim reports.

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

Formulas for key figures and ratios

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

Alternative Performance Measures

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

Non-life insurance key ratios:

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

Key indicators based on a separate calculation

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

	Doubtful receivables at period end
Ratio of loss allowance (receivables from customers) to doubtful receivables, %	$\frac{\text{Loss allowance for receivables from customers in the balance sheet}}{\text{Doubtful receivables at period end}}$ x 100
Loan and guarantee portfolio	Loan portfolio + guarantee portfolio

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

Non-life insurance operating result

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

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

Capital adequacy and solvency

Capital adequacy for credit institutions

Capital base, € million	31 Dec 2020	31 Dec 2019
OP Corporate Bank Group's equity	4,796	4,374
The effect of insurance companies on the Group's equity is excluded	-407	-202
Fair value reserve, cash flow hedge	-2	0
Common Equity Tier 1 (CET1) before deductions	4,388	4,171
Intangible assets	-40	-51
Excess funding of pension liability and valuation adjustments	-28	-26
Planned profit distribution		
Shortfall of ECL minus expected losses	-125	-112
CET1 capital	4,195	3,982
Hybrid capital to which transitional provision is applied	55	88
Additional Tier 1 capital (AT1)	55	82
Tier 1 capital (T1)	4,249	4,064
Debenture loans	1,602	811
Excess of ECL minus expected losses		26
Tier 2 capital (T2)	1,602	837
Total capital	5,852	4,900

Risk exposure amount, € million	31 Dec 2020	31 Dec 2019
Credit and counterparty risk	25,414	23,753
Standardised Approach (SA)	2,943	2,687
Central government and central banks exposure	78	78
Credit institution exposure	9	8
Corporate exposure	2,796	2,540
Retail exposure	0	8
Equity investments	11	8
Other	49	45
Internal Ratings-based Approach (IRB)	22,361	21,066
Credit institution exposure	1,029	1 023
Corporate exposure	14,455	14,148
Retail exposure	2,646	1,725
Equity investments	3,934	3,772
Other	406	399
Market and settlement risk (Standardised Approach)	1,096	1,309
Operational risk (Standardised Approach)	1,190	1,387
Valuation adjustment (CVA)	138	191
Other risks		11
Total risk exposure amount	27,838	26,651

Ratios, %	31 Dec 2020	31 Dec 2019
CET1 capital ratio	15.1	14.9
Tier 1 ratio	15.3	15.2
Capital adequacy ratio	21.0	18.4

Ratios, fully loaded, %	31 Dec 2020	31 Dec 2019
CET1 capital ratio	15.1	14.9
Tier 1 ratio	15.1	14.9
Capital adequacy ratio	20.8	18.1

Capital requirement, EUR million	31 Dec 2020	31 Dec 2019
Capital base	5,852	4,900
Capital requirement	2,925	2,824
Buffer for capital requirements	2,927	2,077

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

TABLES

Income statement

EUR million	Notes	Q1–4 2020	Q1–4 2019	Q4 2020	Q4 2019
Net interest income	2	325	295	81	84
Net insurance income	3	555	402	93	3
Net commissions and fees	4	5	-28	8	-12
Net investment income	5	233	450	119	227
Other operating income		29	47	10	9
Total income		**1,148**	**1,165**	**310**	**311**
Personnel costs		111	184	-29	46
Depreciation/amortisation		53	63	15	25
Other expenses	6	393	386	98	99
Total expenses		**557**	**632**	**84**	**171**
Impairments loss on receivables	7	-53	-51	12	-40
OP bonuses to owner-customers		-5	-4	-1	-1
Temporary exemption (overlay approach)		-5	-66	-28	-19
Earnings before tax		**529**	**412**	**210**	**81**
Income tax expense		108	79	46	15
Profit for the financial year		**421**	**332**	**164**	**65**
Attributable to:					
Profit for the financial year attributable to owners of the Parent		429	328	173	67
Profit for the financial year attributable to non-controlling interest		-8	5	-9	-2
Profit for the financial year		**421**	**332**	**164**	**65**

Statement of comprehensive income

EUR million	Notes	Q1–4 2020	Q1–4 2019	Q4 2020	Q4 2019
Profit for the financial year		**421**	**332**	**164**	**65**
Items that will not be reclassified to profit or loss					
Gains/(losses) arising from remeasurement of defined benefit plans		-38	-6	-20	9
Items that may be reclassified to profit or loss					
Change in fair value reserve					
Measurement at fair value		60	35	48	-52
Cash flow hedge		2	0	1	1
Temporary exemption (overlay approach)		7	66	27	19
Income tax					
Items that will not be reclassified to profit or loss					
Gains/(losses) arising from remeasurement of defined benefit plans		8	1	4	-2
Items that may be reclassified to profit or loss					
Measurement at fair value		-12	-7	-10	10
Cash flow hedge		0	0	0	0
Temporary exemption (overlay approach)		-1	-13	-5	-4
Total comprehensive income for the financial year		**446**	**409**	**208**	**46**
Attributable to:					
Total comprehensive income for the financial year attributable to owners of the Parent		454	404	218	48
Total comprehensive income for the financial year attributable to non-controlling interests		-8	5	-9	-2
Total comprehensive income for the financial year		**446**	**409**	**208**	**46**

Balance sheet

EUR million	Notes	31 Dec 2020	31 Dec 2019
Cash and cash equivalents		21,764	11,914
Receivables from credit institutions		11,252	9,126
Derivative contracts	15	5,370	4,874
Receivables from customers		24,485	23,829
Investment assets		18,433	17,174
Intangible assets		706	709
Property, plant and equipment (PPE)		136	114
Other assets		1,812	1,334
Tax assets		33	51
Total assets		**83,991**	**69,126**
Liabilities to credit institutions		28,888	15,334
Derivative contracts		4,265	3,882
Liabilities to customers		15,894	15,503
Insurance liabilities	8	3,326	3,234
Debt securities issued to the public	9	21,903	22,726
Provisions and other liabilities		1,982	2,148
Tax liabilities		492	452
Subordinated liabilities		2,444	1,474
Total liabilities		**79,194**	**64,752**
Equity capital			
Capital and reserves attributable to owners of the parent			
Share capital		428	428
Fair value reserve	10	125	70
Other reserves		1,093	1,093
Retained earnings		3,108	2,710
Non-controlling interests		**44**	**74**
Total equity capital		**4,797**	**4,374**
Total liabilities and equity capital		**83,991**	**69,126**

Statement of changes in equity capital

EUR million	Share capital	Fair value reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity capital
	Attributable to owners						
Balance at 1 January 2019	428	-12	1,093	2,559	4,067	80	4,147
Total comprehensive income for the financial year		81		323	404	5	409
Profit for the financial year				328	328	5	332
Other comprehensive income		81		-5	77		77
Profit distribution				-173	-173	-11	-184
Other			0	0	0	1	1
Balance at 31 December 2019	428	70	1,093	2,710	4,299	74	4,374

EUR million	Share capital	Fair value reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity capital
	Attributable to owners						
Balance at 1 January 2020	428	70	1,093	2,710	4,299	74	4,374
Total comprehensive income for the financial year		55		399	454	- 8	446
Profit for the financial year				429	429	- 8	421
Other comprehensive income		55		-30	25		25
Profit distribution						-8	-8
Other				-1	-1	-14	-15
Balance at 31 December 2020	428	125	1,093	3,108	4,753	44	4,797

Cash flow statement

EUR million	Q1–4 2020	Q1–4 2019
Cash flow from operating activities		
Profit for the period	421	332
Adjustments to profit for the period	-23	249
Increase (-) or decrease (+) in operating assets	**-5,383**	**-1,482**
Receivables from credit institutions	-3,032	471
Derivative contracts	-22	-53
Receivables from customers	-693	-1,503
Investment assets	-1,159	-433
Other assets	-478	36
Increase (+) or decrease (-) in operating liabilities	**13,605**	**-1,110**
Liabilities to credit institutions	13,456	-414
Derivative contracts	-276	5
Liabilities to customers	391	-918
Insurance liabilities	10	- 14
Provisions and other liabilities	25	231
Income tax paid	-54	-53
Dividends received	25	32
A. Net cash from operating activities	**8,590**	**-2,032**
Cash flow from investing activities		
Acquisition of subsidiaries, net of cash acquired	0	
Purchase of PPP and intangible assets	-37	-42
Proceeds from sale of PPE and intangible assets	4	4
B. Net cash used in investing activities	**-32**	**-39**
Cash flow from financing activities		
Subordinated liabilities, change	978	0
Debt securities issued to the public, change	-944	2,278
Dividends paid	0	-173
Lease liabilities	-5	- 3
C. Net cash used in financing activities	**29**	**2,103**
Net change in cash and cash equivalents (A+B+C)	**8,586**	**33**
Cash and cash equivalents at period-start	12,902	13,355
Effect of foreign exchange rate changes*	357	- 485
Cash and cash equivalents at period-end	21,846	12,902
Interest received	941	1,097
Interest paid	-681	-763
Cash and cash equivalents		
Liquid assets	21,764	11,914
Receivables from credit institutions payable on demand	82	988
Total	**21,846**	**12,902**

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

Segment reporting

Segment information

Q1–4 earnings 2020, EUR million	Corporate Banking	Insurance	Other operations	Group eliminations	Group total
Net interest income	395	-6	-59	-4	325
of which internal net income before tax	-25		25		
Net insurance income		556		-1	555
Net commissions and fees	36	-28	-2	-1	5
Net investment income	140	80	10	3	233
Other operating income	16	7	15	-8	29
Total income	**587**	**609**	**-37**	**-11**	**1,148**
Personnel costs	62	46	3		111
Depreciation/amortisation	12	39	2		53
Other operating expenses	156	229	17	-9	393
Total expenses	**231**	**313**	**22**	**-9**	**557**
Impairments loss on receivables	-53	0	1		-53
OP bonuses to owner-customers	-2	-2			-5
Temporary exemption (overlay approach)		-5			-5
Earnings before tax	**301**	**288**	**-58**	**-1**	**529**

Q1–4 earnings 2019, EUR million	Corporate Banking	Insurance	Other operations	Group eliminations	Group total
Net interest income	383	-19	-64	-5	295
of which internal net income before tax	-3	-14	17		
Net insurance income		402		-1	402
Net commissions and fees	11	-36	-2	-1	-28
Net investment income	115	308	26	1	450
Other operating income	26	16	7	-2	47
Total income	**536**	**671**	**-33**	**-8**	**1,165**
Personnel costs	58	125	1	0	184
Depreciation/amortisation	14	47	1	0	63
Other operating expenses	148	230	16	-8	386
Total expenses	**220**	**403**	**18**	**-8**	**632**
Impairments loss on receivables	-51	0	0		-51
OP bonuses to owner-customers	-2	-2			-4
Temporary exemption (overlay approach)		-66			-66
Earnings before tax	**262**	**200**	**-50**		**412**

Balance sheet 31 December 2020, EUR million	Corporate Banking	Insurance	Other operations	Group eliminations	Group total
Cash and cash equivalents	224	0	21,540		21,764
Receivables from credit institutions	97	620	11,180	-645	11,252
Derivative contracts	5,144	25	209	-8	5,370
Receivables from customers	24,701	0	482	-699	24,485
Investment assets	491	3,667	14,303	-28	18,433
Intangible assets	35	654	18	- 0	706
Property, plant and equipment (PPE)	4	130	1	0	136
Other assets	559	719	545	-11	1,812
Tax assets	0	6	27	0	33
Total assets	**31,254**	**5,821**	**48,305**	**-1,390**	**83,991**
Liabilities to credit institutions	564		29,014	-690	28,888
Derivative contracts	4,082	1	192	-10	4,265
Liabilities to customers	13,182	136	3,221	-645	15,894
Insurance liabilities		3,326		0	3,326
Debt securities issued to the public	855		21,076	-28	21,903
Provisions and other liabilities	746	333	919	-16	1,982
Tax liabilities	2	104	386	0	492
Subordinated liabilities	0	135	2,309		2,444
Total liabilities	**19,431**	**4,035**	**57,116**	**-1,388**	**79,194**
Equity					**4,797**

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

Notes

Note 1. Accounting policies

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

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

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

Expected credit losses:

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

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

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

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

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

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

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

Goodwill and assets with indefinite useful lives

Goodwill and assets with indefinite useful lives are subject to an annual impairment test or whenever there is any indication that the value of the cash-generating unit applied in testing in may have lowered. The recoverable amount determined in the impairment test is usually based on value in use, and its calculation requires estimates of future cash flows and of the discount rate level applied in calculating their present value. A total of EUR 419 million in goodwill and EUR 162 million in the value of brands are covered by impairment tests. During the reporting period, goodwill and assets with an indefinite useful lives were tested. Despite the Covid-19 crisis, expectations of future cash lows have not substantially changed, so no impairment loss was recognised based on the test.

2. Definition of default

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

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

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

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

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

3. Calculation of expected credit loss on notes and bonds

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

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

4. Changes in ECL models and parameters

In November, OP Corporate Bank updated its estimates of two LGD model parameters: the non-collateral return and the cure rate. The cure rate for impairment stages 1 and 2 was updated based on data complying with the new definition of default adopted in Q1/2020. The estimates for the non-collateral return and the cure rate for impairment stage 3 were made time-dependent so that they will decrease if the period of default or debt collection increases. Expected credit losses increased by roughly EUR 3 million, which was recognised as a change in the accounting estimate in profit or loss.

In December, OP Corporate Bank updated its lifetime PD model for corporate exposures based on data complying with the new definition of default adopted in Q1/2020, among other things. In addition, OP Corporate Bank further specified model segmentation and revised the explaining macroeconomic factors so as to include GDP and real interest rate (previously, the factors included GDP and 12-month Euribor for large companies and investments for other companies). Expected credit losses decreased by EUR 7 million , which was recognised as a model change in profit or loss.

In addition, the effect of the calibration of the private customer credit rating model in December has been taken into account based on the data according to the new definition of default adopted in Q1/2020. Expected credit losses increased by EUR 3 million, which was recognised as a change in the accounting estimate in profit or loss.

Note 2. Net interest income

EUR million	Q1–4 2020	Q1–4 2019	Q4 2020	Q4 2019
Interest income				
Receivables from credit institutions				
Interest	29	17	9	4
Negative interest	56	11	23	1
Total	85	27	32	6
Receivables from customers				
Loans	361	346	90	92
Finance lease receivables	37	31	9	8
Impaired loans and other commitments	0	0		0
Negative interest	27	15	8	4
Total	425	392	107	104
Notes and bonds				
Measured at fair value through profit or loss	0	1	0	0
At fair value through other comprehensive income	62	81	14	19
Amortised cost	0	0	0	
Total	62	81	14	19
Derivative contracts				
Fair value hedge	-99	-109	-27	-30
Cash flow hedge		0		
Ineffective portion of cash flow hedge		0		0
Other	4	6	1	2
Total	-94	-103	-26	-29
Other	7	5	2	2
Total	**485**	**403**	**129**	**102**
Interest expenses				
Liabilities to credit institutions				
Interest	78	88	19	20
Negative interest	102	66	34	15
Total	179	154	53	35
Liabilities to customers	9	9	0	0
Notes and bonds issued to the public	150	171	29	42
Subordinated liabilities				
Subordinated loans	4	4	1	1
Other	58	45	16	11
Total	62	49	17	12
Derivative contracts				
Cash flow hedge	-162	-164	-41	-43
Other	-87	-115	-12	-28
Total	-249	-279	-53	-71
Other	5	5	1	2
Total	**156**	**109**	**47**	**20**
Net interest income before fair value adjustment under hedge accounting	329	294	83	82
Hedging derivatives	15	14	-2	-20
Value changes of hedged items	-18	-13	1	22
Total	**325**	**295**	**81**	**84**

Note 3. Net insurance income

EUR million	Q1–4 2020	Q1–4 2019	Q4 2020	Q4 2019
Net insurance premium revenue				
Premiums written	1,508	1,494	260	264
Insurance premiums ceded to reinsurers	7	-2	3	-3
Change in provision for unearned premiums	-8	-14	127	119
Reinsurers' share	-1	0	-11	-7
Total	1,506	1,478	379	372
Net non-life insurance claims				
Claims paid	-954	-1,017	-249	-242
Insurance claims recovered from reinsurers	27	21	11	5
Change in provision for unpaid claims	-24	-79	-47	-124
Reinsurers' share	8	2	4	-7
Total	-943	-1,073	-282	-369
Other non-life insurance items	-7	-4	-5	0
Total	**555**	**402**	**93**	**3**

Note 4. Net commissions and fees

Q1–4 2020, EUR million	Corporate Banking	Insurance	Other operations	Group eliminations	Group total	Q4 2020
Commission income						
Lending	47		0	-1	46	13
Deposits	3		0	0	2	1
Payment transfers	32		0	-8	24	6
Securities brokerage	27			0	27	7
Securities issuance	11		0	0	11	3
Mutual funds	0	0	0		0	0
Asset management	14			0	14	4
Legal services	0				0	0
Guarantees	12		0	0	12	3
Insurance operations		13			13	3
Health and wellbeing services		13		0	12	3
Other	0		0	7	7	2
Total	**146**	**25**	**0**	**-3**	**169**	**47**
Commission expenses						
Lending	1		0		1	0
Payment transfers	2	1	0	-1	2	1
Securities brokerage	4		0	0	4	1
Securities issuance	2		0	0	2	1
Mutual funds		0			0	0
Asset management	3	0	1		4	1
Guarantees	0			0	0	0
Insurance operations		48		0	48	12
Health and wellbeing services		5		0	4	1
Other*	97	0	1	0	97	21
Total	**110**	**53**	**2**	**-1**	**164**	**39**
Total net commissions and fees	**36**	**-28**	**-2**	**1**	**5**	**8**

* The item includes EUR 91 million in commission expenses paid to member banks arising from derivatives trading. In October–December, commissions paid totalled EUR 21 million.

Q1–4 2019, EUR million	Corporate Banking	Insurance	Other operations	Group eliminations	Group total	Q4 2019
Commission income						
Lending	46	0	0	-1	45	12
Deposits	2		0	0	1	0
Payment transfers	37		0	-14	23	6
Securities brokerage	21		0	0	21	6
Securities issuance	6		0	0	6	2
Mutual funds	0		0		0	0
Asset management	13			0	13	4
Legal services	0				0	0
Guarantees	12		0	0	12	3
Insurance operations		13			13	3
Health and wellbeing services		22		0	21	3
Other				13	13	2
Total	**138**	**35**	**0**	**-2**	**171**	**42**
Commission expenses						
Lending	0		0		0	0
Payment transfers	2	1	0	-1	2	1
Securities brokerage	8		0	0	7	2
Securities issuance	2		0		2	0
Asset management	3	0	1		4	1
Insurance operations		62			62	19
Health and wellbeing services		8			8	2
Other*	113	0	1	0	114	29
Total	**127**	**71**	**2**	**-1**	**199**	**54**
Total net commissions and fees	**11**	**-36**	**-2**	**-1**	**-28**	**-12**

* The item includes EUR 106 million in commission expenses paid to member banks arising from derivatives trading. In October–December, commissions paid totalled EUR 27 million.

Note 5. Net investment income

EUR million	Q1–4 2020	Q1–4 2019	Q4 2020	Q4 2019
Net income from assets at fair value through other comprehensive income				
Notes and bonds				
Interest income	27	36	6	8
Other income and expenses	-3	-9	-3	-5
Capital gains and losses	11	58	4	23
Currency fair value gains and losses	-14	3	-7	-6
Impairment losses and their reversal*	-2	2	4	1
Total	**19**	**91**	**5**	**21**

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

Net income recognised at fair value through profit or loss

EUR million	Q1–4 2020	Q1–4 2019	Q4 2020	Q4 2019
Financial assets held for trading				
Notes and bonds				
Interest income and expenses	4	6	0	2
Fair value gains and losses	2	-1	2	-8
Total	6	4	2	-6
Shares and participations				
Fair value gains and losses	-4	-5	-3	-6
Dividend income and share of profits	9	5	3	4
Total	5	0	0	-1
Derivatives				
Interest income and expenses	9	11	-9	8
Fair value gains and losses	199	248	102	184
Total	208	259	93	192
Total	**219**	**264**	**96**	**184**
Financial assets that must be measured at fair value through profit or loss				
Notes and bonds				
Interest income	2	2	0	1
Fair value gains and losses	3	-3	0	-4
Total	5	-0	1	-3
Shares and participations				
Fair value gains and losses	-1	85	30	30
Dividend income and share of profits	16	27	4	5
Total	15	112	33	35
Total	**19**	**112**	**34**	**31**
Total net income from financial assets recognised at fair value through profit or loss	**238**	**375**	**129**	**216**

Net income from investment property				
Rental income	26	27	8	7
Fair value gains and losses	-7	3	-12	-5
Maintenance charges and expenses	-26	-19	-6	-6
Other	1	-4	0	-1
Net income from investment property total	-5	7	-10	-4
Net income from loans and receivables measured at amortised cost				
Loans and receivables				
Interest income	5	5	1	1
Interest expenses	-4	-1	-2	0
Impairment losses and their reversal	0	-2	0	-1
Loans and receivables total	0	3	-1	0
Non-life insurance				
Unwinding of discount, Non-life Insurance	-21	-27	-5	-6
Associated companies				
Consolidated using the equity method	2	1	1	0
Total	2	1	1	0
Total net investment income	**233**	**450**	**119**	**227**

Note 6. Other operating expenses

EUR million	Q1–4 2020	Q1–4 2019	Q4 2020	Q4 2019
ICT costs				
Production	174	137	44	36
Development	34	67	8	17
Buildings	0	7	-2	2
Government charges and audit fees*	52	40	11	9
Purchased services	34	34	9	8
Data communications	10	10	2	2
Marketing	11	13	4	4
Corporate social responsibility	3	2	1	0
Insurance and security costs	3	4	1	1
Other	72	72	20	19
Total	**393**	**386**	**98**	**99**

* Include EUR 26 million in service charges paid to OP Cooperative. In October–December, the share of the internal service charges was EUR 7 million.

Development costs

EUR million	Q1–4 2020	Q1–4 2019	Q4 2020	Q4 2019
ICT development costs	34	67	8	17
Share of own work	0	1	0	0
Total development costs in the income statement	**34**	**68**	**8**	**18**
Capitalised ICT costs	36	38	8	12
Capitalised share of own work		0		0
Total capitalised development costs	**36**	**38**	**8**	**12**
Total development costs	**70**	**106**	**16**	**30**
Depreciation/amortisation and impairment loss	37	49	9	22

Note 7. Impairment losses on receivables

EUR million	Q1–4 2020	Q1–4 2019	Q4 2020	Q4 2019
Receivables written down as loan and guarantee losses	-55	-4	-3	-1
Recoveries of receivables written down	1	1	0	0
Expected credit losses (ECL) on receivables from customers and off-balance-sheet items	1	-47	15	-40
Expected credit losses (ECL) on notes and bonds*	1	0	0	0
Total	**-53**	**-51**	**12**	**-40**

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

Credit risk exposures and related loss allowance

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

Exposures EUR million	Stage 1	Stage 2 Not more than 30 DPD	More than 30 DPD	Total	Stage 3	Total exposure
Receivables from customers (gross)						
Corporate Banking	23,609	1,190	156	1,346	499	25,454
Total	**23,609**	**1,190**	**156**	**1,346**	**499**	**25,454**
Off-balance-sheet limits						
Corporate Banking	4,048	377	69	446	65	4,558
Total	**4,048**	**377**	**69**	**446**	**65**	**4,558**
Other off-balance-sheet commitments						
Corporate Banking	6,267	262		262	99	6,628
Total	**6,267**	**262**		**262**	**99**	**6,628**
Notes and bonds						
Other Operations	13,141	50		50		13,191
Insurance	2,349	30		30	9	2,388
Total	**15,490**	**80**		**80**	**9**	**15,579**
Total exposures within the scope of accounting for expected credit losses	**49,413**	**1,909**	**225**	**2,135**	**671**	**52,219**

Loss allowance by impairment stage 31 December 2020

On-balance-sheet exposures and related off-balance-sheet limits* EUR million	Stage 1	Stage 2 Not more than 30 DPD	More than 30 DPD	Total	Stage 3	Total loss allowance
Receivables from customers						
Corporate Banking	-25	-28	-1	-29	-227	-281
Total	**-25**	**-28**	**-1**	**-29**	**-227**	**-281**
Other off-balance-sheet commitments**						
Corporate Banking	-12	-1		-1	-14	-27
Total	**-12**	**-1**		**-1**	**-14**	**-27**
Notes and bonds***						
Other Operations	-1	-1		-1		-2
Insurance	-3	-1		-1	-3	-7
Total notes and bonds	**-4**	**-2**		**-2**	**-3**	**-10**
Total	**-41**	**-31**	**-1**	**-32**	**-245**	**-318**

* Loss allowance 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	Total
		Not more than 30 DPD	More than 30 DPD	Total		
Receivables from customers; on-balance-sheet and off-balance-sheet items						
Corporate Banking	33,923	1,829	225	2,054	663	36,640
Loss allowance						
Corporate Banking	-37	-29	-1	-30	-242	-309
Coverage ratio, %						
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	**33,923**	**1,829**	**225**	**2,054**	**663**	**36,640**
Total loss allowance	**-37**	**-29**	**-1**	**-30**	**-242**	**-309**
Total coverage ratio, %	**-0.11%**	**-1.59%**	**-0.55%**	**-1.48%**	**-36.48%**	**-0.84%**
Carrying amount, notes and bonds						
Other Operations	13,141	50		50		13,191
Insurance	2,349	30		30	9	2,388
Loss allowance						
Other Operations	-1	-1		-1		-2
Insurance	-3	-1		-1	-3	-7
Coverage ratio, %						
Other Operations	-0.01%	-1.34%		-1.34%		-0.02%
Insurance	-0.13%	-3.90%		-3.90%	-36.16%	-0.31%
Total notes and bonds	**15,490**	**80**		**80**	**9**	**15,579**
Total loss allowance	**-4**	**-2**		**-2**	**-3**	**-10**
Total coverage ratio, %	**-0.03%**	**-2.30%**		**-2.30%**	**-36.16%**	**-0.06%**

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

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

Loss allowance by impairment stage 31 December 2019

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

* Loss allowance is recognised as one component to deduct the balance sheet item.

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

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

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

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

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

Receivables from customers and off-balance-sheet items, EUR million	Stage 1 12 months	Stage 2 Lifetime	Stage 3 Lifetime	Total
Loss allowance 1 January 2020	**27**	**26**	**257**	**310**
Transfers from Stage 1 to Stage 2	-1	7		6
Transfers from Stage 1 to Stage 3	-1		29	28
Transfers from Stage 2 to Stage 1	0	-3		-3
Transfers from Stage 2 to Stage 3		-4	28	24
Transfers from Stage 3 to Stage 2		0	-3	-2
Transfers from Stage 3 to Stage 1	0		0	0
Increases due to origination and acquisition	16	7	4	27
Decreases due to derecognition	-6	-6	-32	-44
Changes in risk parameters (net)	7	5	-7	5
Changes due to update in the methodology for estimation (net)	-5	-2		-7
Decrease in allowance account due to write-offs			-33	-33
Net change in expected credit losses	**10**	**4**	**-14**	**-1**
Loss allowance 31 December 2020	**37**	**29**	**243**	**309**
Net change in expected credit losses Q4 2020	**-6**	**-5**	**-4**	**-14**

Effect of the application of the new definition of default

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

The second step taken in the fourth quarter involved taking account of the effect of the calibration of the credit rating model for private customers so as to comply with the new definition of default. This increased ECL by EUR 3 million, which is presented as a change in risk parameters.

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

Furthermore, in the fourth quarter, OP Corporate Bank updated its lifetime PD model for corporate exposures based on data complying with the new definition of default, among other things. In addition, OP Corporate Bank further specified model segmentation and revised the explaining macroeconomic factors so as to include GDP and real interest rate (previously GDP and 12-month Euribor for large companies and investments for other companies). ECL decreased by EUR 7 million; it is presented as a change in model assumptions and methodology.

COVID-19 pandemic

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

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

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

In the ECL measurement, the Covid-19 crisis has been taken into account by updating macroeconomic factors on a quarterly basis. When the crisis began in the first quarter, a larger weight was given to the downside scenario; downside 40%, baseline 50% and upside 10%. The situation stabilised in the second quarter, after which the scenario weights have been normal; downside 20%, baseline 60% and upside 20%. For example, GDP growth for 2021 is predicted to be from 0.5% to 5.4% in different scenarios, and that for 2022 is predicted to be from 0.5% to 3.4% in different scenarios. The unemployment rate for 2021 is predicted to be from 7.7% to 8.7% in different scenarios, and that for 2022 is predicted to be from 6.9% to 8.3% in different scenarios.

The effect of the COVID-19 crisis on growth in expected credit loss during 2020 totalled approximately EUR 17 million. This was reflected in the transfer of contracts from impairment stages 1 and 2 to impairment stages 2 and 3, and in growth in risk parameters, especially in PD. Uncertainty still exists related to the economic development caused by the COVID-19 crisis.

Notes and bonds, EUR million	Stage 1 12 months	Stage 2 Lifetime	Stage 3 Lifetime	Total
Loss allowance 1 January 2020	**4**	**1**	**3**	**8**
Transfers from Stage 1 to Stage 2	0	1		1
Transfers from Stage 1 to Stage 3	0		0	0
Transfers from Stage 3 to Stage 1	0		0	0
Increases due to origination and acquisition	2	0	1	3
Decreases due to derecognition	-1	-1	0	-2
Changes in risk parameters (net)	0	0	0	0
Changes due to update in the methodology for estimation (net)	0			0
Net change in expected credit losses	**1**	**1**	**0**	**2**
Loss allowance 31 December 2020	**5**	**2**	**3**	**10**
Net change in expected credit losses Q4 2020	**0**	**0**	**0**	**0**

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

Receivables from customers and off-balance-sheet items, EUR million	Stage 1 12 months	Stage 2 Lifetime	Stage 3 Lifetime	Total
Loss allowance 1 January 2019	**27**	**30**	**207**	**263**
Transfers from Stage 1 to Stage 2	-1	9		8
Transfers from Stage 1 to Stage 3	-4		7	3
Transfers from Stage 2 to Stage 1	0	-3		-3
Transfers from Stage 2 to Stage 3		-7	9	2
Transfers from Stage 3 to Stage 2		0	-2	-2
Transfers from Stage 3 to Stage 1	0		-1	-1
Increases due to origination and acquisition	8	4	6	19
Decreases due to derecognition	-4	-4	-7	-14
Changes in risk parameters (net)	0	-4	40	37
Decrease in allowance account due to write-offs			-2	-2
Net change in expected credit losses	**0**	**-4**	**51**	**47**
Loss allowance 31 December 2019	**27**	**26**	**257**	**310**
Net change in expected credit losses Q4 2019	**5**	**4**	**1**	**9**

Notes and bonds, EUR million	Stage 1 12 months	Stage 2 Lifetime	Stage 3 Lifetime	Total
Loss allowance 1 January 2019	**4**	**2**	**2**	**9**
Transfers from Stage 1 to Stage 2	0	1		1
Transfers from Stage 1 to Stage 3	0		1	1
Transfers from Stage 2 to Stage 1	0	-1		-1
Transfers from Stage 3 to Stage 2				
Transfers from Stage 3 to Stage 1	0		0	0
Increases due to origination and acquisition	1	0	0	1
Decreases due to derecognition	-2	-1	0	-3
Changes in risk parameters (net)	-1	0	0	0
Changes due to update in the methodology for estimation (net)	0			0
Net change in expected credit losses	**0**	**-1**	**1**	**-1**
Loss allowance 31 December 2019	**4**	**1**	**3**	**8**
Net change in expected credit losses Q4 2019	**0**	**-1**	**-2**	**-2**

Note 8. Insurance liabilities

EUR million	31 Dec 2020	31 Dec 2019
Provision for unpaid claims		
Provision for unpaid claims for annuities	1,596	1,571
Other provision for unpaid claims	1,121	1,101
Reserve for decreased discount rate (value of hedges of insurance liability)	16	-22
Total	2,733	2,650
Provisions for unearned premiums	593	584
Total	**3,326**	**3,234**

Note 9. Debt securities issued to the public

EUR million	31 Dec 2020	31 Dec 2019
Bonds	12,666	11,955
Subordinated bonds (SNP)	1,689	1,156
Other		
Certificates of deposit	273	
Commercial paper	7,347	9,716
Included in own portfolio in trading (–)*	-72	-101
Total debt securities issued to the public	**21,903**	**22,726**

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

Note 10. Fair value reserve after income tax

	Fair value through other comprehensive income			
EUR million	Notes and bonds	Shares and participations (overlay approach)	Cash flow hedging	Total
Opening balance 1 January 2019	**3**	**-15**	**0**	**-12**
Fair value changes	52	41	0	93
Capital gains transferred to income statement	-17	12		-4
Impairment loss transferred to income statement		13		13
Transfers to net interest income			0	0
Deferred tax	-7	-13	0	-20
Closing balance 31 December 2019	**31**	**38**	**0**	**70**

	Fair value through other comprehensive income			
EUR million	Notes and bonds	Shares and participations (overlay approach)	Cash flow hedging	Total
Opening balance 1 January 2020	**31**	**38**	**0**	**70**
Fair value changes	65	1	2	68
Capital gains transferred to income statement	-5	1		-4
Impairment loss transferred to income statement		5		5
Deferred tax	-12	-1	0	-14
Closing balance 31 December 2020	**79**	**44**	**2**	**125**

The fair value reserve before tax amounted to EUR 156 million at the end of the reporting period and the related deferred tax liability was EUR 31 million. At the end of 2019, the fair value reserve totalled EUR 87 million and the related deferred tax liability was EUR 17 million. During the reporting period, positive mark-to-market valuations of equity instruments in the fair value reserve totalled EUR 61 million (51) and negative mark-to-market valuations EUR 6 million (3), owing to the application of the overlay approach. The loss allowance on notes and bonds recognised at fair value through other comprehensive income totalled EUR –1 million (2) in the fair value reserve during the reporting period.
The negative fair value reserve may recover by means of asset appreciation, capital losses and recognised impairments.

Note 11. Collateral given

EUR million	31 Dec 2020	31 Dec 2019
Given on behalf of own liabilities and commitments		
Pledges	39	79
Others	9,710	3,496
Total collateral given*	**9,749**	**3,575**
Secured derivative liabilities	1,078	1,098
Other secured liabilities	8,046	2,093
Total	**9,124**	**3,191**

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

Note 12. Classification of financial assets and liabilities

			Fair value through profit or loss			
Assets, EUR million	**Amortised cost**	**Fair value through other comprehen-sive income**	**Financial assets held for trading**	**Must be measured at fair value through profit or loss**	**Hedging derivatives**	**Carrying amount total**
Cash and cash equivalents	21,764					21,764
Receivables from credit institutions	11,252					11,252
Derivative contracts			5,161		209	5,370
Receivables from customers	24,485					24,485
Notes and bonds	814	16,052	332	24		17,222
Equity instruments		0	19	775		794
Other financial assets	1,839					1,839
Financial assets						**82,726**
Other than financial instruments						1,265
Total 31 December 2020	**60,154**	**16,052**	**5,511**	**799**	**209**	**83,991**

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

Liabilities, EUR million	Financial liabilities at fair value through profit or loss	Other liabilities	Hedging derivatives	Carrying amount total
Liabilities to credit institutions		28,888		28,888
Derivative contracts	4,070		195	4,265
Liabilities to customers		15,894		15,894
Insurance liabilities		3,326		3,326
Debt securities issued to the public		21,903		21,903
Subordinated loans		2,444		2,444
Other financial liabilities		1,803		1,803
Financial liabilities				**78,522**
Other than financial liabilities				672
Total 31 December 2020	**4,070**	**74,257**	**195**	**79,194**

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

Bonds included in debt securities issued to the public are carried at amortised cost. On 31 December 2020, the fair value of these debt instruments was approximately EUR 303 million (232) higher than their carrying amount, based on information available in markets and employing commonly used valuation techniques. Subordinated liabilities are carried at amortised cost. Their fair values are higher than their amortised costs, but determining reliable fair values involves uncertainty.

Note 13. Recurring fair value measurements by valuation technique

Fair value of assets on 31 December 2020, EUR million	Level 1	Level 2	Level 3	Total
Recognised at fair value through profit or loss				
Equity instruments	377	95	321	794
Debt instruments	65	38	253	356
Derivative financial instruments	0	5,309	61	5,370
Fair value through other comprehensive income				
Equity instruments		0		0
Debt instruments	14,219	1,536	297	16,052
Total financial instruments	**14,661**	**6,978**	**933**	**22,572**
Investment property			306	306
Total	**14,661**	**6,978**	**1,238**	**22,878**

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

Fair value of liabilities on 31 December 2020, EUR million	Level 1	Level 2	Level 3	Total
Recognised at fair value through profit or loss				
Other		0		0
Derivative financial instruments	0	4,222	42	4,265
Total	**0**	**4,223**	**42**	**4,265**

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

Level 1: Quoted prices in active markets

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

Level 2: Valuation techniques using observable inputs

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

Level 3: Valuation techniques using unobservable inputs

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

Transfers between levels of the fair value hierarchy

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

Reconciliation of Level 3 items

Specification of financial assets and liabilities

Financial assets, EUR million	Financial assets at fair value through profit or loss	Derivative contracts	Fair value through other comprehen-sive income	Total assets
Opening balance 1 January 2020	**834**	**74**	**875**	**1,783**
Total gains/losses in profit or loss	-507	-13	0	-520
Total gains/losses in other comprehensive income			0	0
Purchases	59		1	60
Sales	-43		-3	-46
Transfers into Level 3	232		-499	-267
Transfers out of Level 3			-77	-77
Closing balance 31 December 2020	**574**	**61**	**297**	**933**

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

Total gains/losses included in profit or loss by item for the financial year on 31 December 2020

EUR million	Net interest income	Net investment income	Statement of comprehensive income/ Change in fair value reserve	Total gains/ losses for the financial year included in profit or loss for assets/ liabilities held at year-end
Realised net gains (losses)	-497	-11	0	-507
Unrealised net gains (losses)	-22		0	-22
Total net gains (losses)	**-519**	**-11**	**0**	**-529**

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

Changes in the levels of hierarchy

No major changes occurred in valuation techniques in 2020.

Note 14. Off-balance-sheet commitments

EUR million	31 Dec 2020	31 Dec 2019
Guarantees	447	550
Other guarantee liabilities	1,539	1,882
Loan commitments	5,364	5,146
Commitments related to short-term trade transactions	227	315
Other*	676	699
Total off-balance-sheet commitments	**8,254**	**8,593**

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

Note 15. Derivative contracts

Total derivatives 31 December 2020

	Nominal values/residual maturity				Fair values*	
EUR million	<1 year	1–5 years	>5 years	Total	Assets	Liabilities
Interest rate derivatives	44,980	82,907	93,570	221,457	4,168	2,948
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	48,909	4,121	1,880	54,910	1,032	1,067
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	**94,112**	**87,570**	**95,462**	**277,144**	**5,253**	**4,042**

Total derivatives 31 December 2019

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

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

Note 16. Investment distribution of the Insurance segment

Investment asset portfolio allocation	31 Dec 2020 Fair value, EUR million*	%	31 Dec 2019 Fair value, EUR million*	%
Money market total	**461**	**11**	**547**	**14**
Money market instruments and deposits**	456	11	541	14
Derivative instruments***	5	0	6	0
Total bonds and bond funds	**2,684**	**65**	**2,644**	**67**
Governments	605	15	447	11
Inflation-indexed bonds	10	0		0
Investment Grade	1,602	39	1,669	42
Emerging markets and High Yield	280	7	253	6
Structured investments****	188	5	275	7
Total equities	**525**	**13**	**426**	**11**
Finland	112	3	116	3
Developed markets	237	6	172	4
Emerging markets	110	3	67	2
Fixed assets and unlisted equities	6	0	6	0
Private equity investments	59	1	65	2
Total alternative investments	**33**	**1**	**35**	**1**
Hedge funds	33	1	35	1
Total property investments	**398**	**10**	**300**	**8**
Direct property investments	251	6	159	4
Indirect property investments	148	4	141	4
Total	**4,102**	**100**	**3,952**	**100**

* Includes accrued interest income.

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

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

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

Note 17. Related-party transactions

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

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

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

Financial reporting in 2021

Time of publication of 2020 reports:

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

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

Interim Report Q1/2021	28 April 2021
Half-year Financial Report H1/2021	28 July 2021
Interim Report Q1–3/2021	27 October 2021

Helsinki, 10 February 2021

OP Corporate Bank plc
Board of Directors

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