OP Financial Group’s Interim Report for 1 January–31 March 2020

OP Financial Group's Interim Report 1 January–31 March 2020:

Earnings before tax EUR 129 million – income from customer business increased, changes in investment income and impairment loss weakened earnings

Earnings before tax Q1/2020	Net interest income Q1/2020	Net insurance income Q1/2020	Net commissions and fees Q1/2020	CET1 ratio 31 Mar 2020
€129 million	+9%	+21%	+4%	17.7%

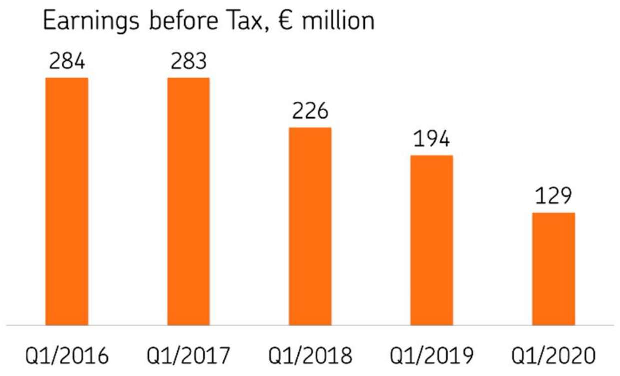
- Earnings before tax amounted to EUR 129 million (194).
- Income from customer business increased: net interest income increased by 9% to EUR 319 million (294), net insurance income by 21% to EUR 131 million (109) and net commissions and fees by 4% to EUR 244 million (234).
- The Vallila property was sold on 31 January 2020. OP Financial Group recognised a capital gain of EUR 96 million on the sale. OP Financial Group will continue operating in the property under a long-term lease agreement.
- The effects of the coronavirus pandemic (COVID-19) on capital market developments weakened investment income. Investment income fell by 88% year on year, to EUR 11 million (90).
- Total income decreased by 16% to EUR 662 million (790) (including the overlay approach, income increased by 11%).
- Total expenses rose by 12% to EUR 518 million (465) due to higher ICT costs, ICT depreciation and amortisation and charges of financial authorities.
- Impairment loss on receivables totalled EUR 105 million (11). Impairment loss on receivables was especially increased by the adoption of the new definition of default and the effects of the coronavirus pandemic on credit risk outlook.
- In the year to March, OP Financial Group's loan portfolio grew by 6% to EUR 93 billion (88) and deposits by 3% to EUR 65 billion (63).
- The CET1 ratio was 17.7% (19.5). The lower ratio was affected by the adoption of the new definition of default and the increase in the loan portfolio.
- Retail Banking earnings before tax fell by 85% to EUR 8 million (49). Net interest income increased by EUR 2 million, net commissions and fees by EUR 1 million and net investment income by EUR 14 million. Impairment loss on receivables, EUR 57 million, increased by EUR 49 million year on year. The loan portfolio increased by 4% and deposits by 6% in the year to March.
- Corporate Banking earnings before tax fell by 76% to EUR 14 million (56). Net interest income increased by 12% and net commissions and fees by 24%. Net investment income fell by 29%. The lower net investment income is explained by changes in Credit Valuation Adjustment (CVA) in derivatives owing to market changes. Impairment loss on receivables, EUR 47 million, increased by EUR 42 million year on year. The loan portfolio grew by 8% in the year to March.
- Insurance earnings before tax decreased by 33% to EUR 59 million (88). Net insurance income rose by 18% to EUR 138 million (117). Investment income decreased by EUR 51 million to EUR 21 million. The operating combined ratio was 92.7% (97.5).
- Other Operations earnings before tax were EUR 57 million (5). The sale of the Vallila property improved earnings by EUR 96 million.
- In January–March, OP Financial Group invested a total of EUR 82 million (74) in business development and improving customer experience.
- New OP bonuses accrued to owner-customers totalled EUR 65 million (69).
- The number of owner-customers in OP cooperative banks totalled 2.0 million. The number of OP Financial Group's joint banking and insurance customers totalled 1.3 million.
- In its stock exchange release on 21 April 2020, OP Financial Group weakened its earnings outlook for 2020: Earnings before tax for 2020 are expected to be lower than those for 2019 (previously at the same level). For more detailed information on the outlook, see "Outlook towards the year end".

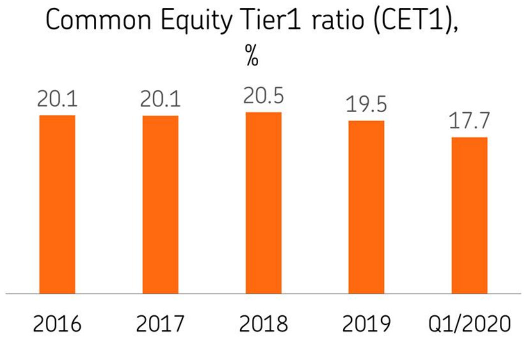
- On 27 April 2020, OP Cooperative's Board of Directors decided that OP Financial Group's long-term strategic target for the CET1 ratio be at least the CET1 capital adequacy requirement plus four percentage points. The CET1 target calculated by applying the March-end capital adequacy requirement was 14.9%. At the end of June, the target is estimated to be 13.9%.

OP Financial Group's key indicators

	Q1/2020	Q1/2019	Change, %	Q1–4/2019
Earnings before tax, € million	129	194*	-33.7	838
Retail Banking	8	49	-84.5	235
Corporate Banking	14	56	-75.5	311
Insurance	59	88	-32.8	373
Other Operations	57	5	963.0	-37
New OP bonuses accrued to owner-customers	-65	-69	-	-254
Return on equity (ROE), %	3.1	5.3	-2.2**	5.5
Return on equity, excluding OP bonuses, %	4.7	7.0	-2.4**	7.1
Return on assets (ROA), %	0.26	0.44	-0.17**	0.47
Return on assets, excluding OP bonuses, %	0.39	0.58	-0.19**	0.60
	31 Mar 2020	31 Mar 2019	Change, %	31 Dec 2019
CET1 ratio, %	17.7	20.2	-2.5**	19.5
Loan portfolio, € billion	93.0	88.0	5.7	91.5
Deposits, € billion	64.8	63.1	2.7	64.0
Ratio of non-performing receivables to loan and guarantee portfolio, %	1.5	1.1	0.4**	1.1
Owner-customers (1,000)	2,007	1,931	4.0	2,003

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





Comments by President and Group Chief Executive Officer Timo Ritakallio

Our customer business developed favourably in January–March. Our net interest income, net insurance income and net commissions and fees increased clearly year on year. Overall, OP Financial Group's income from customer business reached a record high level. Meanwhile, investment income fell sharply due to the weak development of the bond and equity markets. During the first quarter, the coronavirus crisis had a major impact on bond and equity markets.

Over the last 12 months, OP Financial Group's loan portfolio grew by 6% to EUR 93 billion. During the same period, the deposit portfolio grew by 3% to EUR 65 billion.

OP Financial Group's expenses increased by 12% year on year. This increase resulted mainly from higher ICT and development costs, regulation-related costs and personnel costs. Our ICT costs for 2020 will be further increased by a one-off investment in the IT infrastructure.

Impairment loss on receivables increased to EUR 105 million. This was attributable in particular to regulatory changes. In addition, the effects of the coronavirus pandemic on the credit risk outlook increased the impairment loss on receivables.

OP Financial Group's earnings before tax for January–March amounted to EUR 129 million, which was EUR 66 million lower than a year earlier. Earnings were reduced in particular by higher impairment loss on receivables and the steep decline in investment income.

The exceptional uncertainty caused by the coronavirus pandemic weakens OP Financial Group's investment income and credit risk outlook. OP Financial Group's earnings before tax for 2020 are expected to be lower than in 2019. Despite the coronavirus pandemic, OP Financial Group's capital adequacy is at a solid level. In addition, our funding position and liquidity are good. In March, our CET1 ratio was 17.7%.

We have taken several measures to support Finnish businesses and households in getting through the financial problems caused by the pandemic. We have offered repayment holidays for home loans and SMEs' corporate loans, free of charge, to those customers whose finances have been affected by the pandemic. We have received a total of 92,000 applications from private and corporate customers and have adopted robotics to speed up their processing. The robots preprocess applications and make and implement decisions. We are investigating the use of robotics to tackle even other challenges arising from the coronavirus.

OP cooperative banks provide separate service hours for people who need special support, and we have also opened a telephone helpline to support them in using our services during the coronavirus pandemic. We also implement our corporate responsibility by participating in an initiative to increase the coronavirus testing capacity and by donating the contribution of Pohjola Hospital staff to tasks that are critical to our society.

To ensure the health and safety of our personnel, we have made various efforts to provide safe working conditions in our offices and branches. We also encourage those whose tasks allow it to work from home as much as possible. Through these measures, we have ensured that our services that are critical to society are available despite the coronavirus crisis.

The coronavirus pandemic has derailed the global economy. Economic statistics cannot keep up with the current pace of change, and we cannot do much more than draw up scenarios of the future. We are facing extreme uncertainty in all respects.

The atmosphere is tense in the international financial market. However, the banking sector is now in a better shape than during the financial crisis of 2008, and prompt and extensive measures taken by central banks have helped to stabilise the market. This time, the financial market is not at the centre stage of the crisis.

Economic recovery depends first and foremost on the duration of restrictions implemented due to the exceptional situation caused by the coronavirus pandemic. The decisions that the Finnish Government will take in the next few months will have a major impact on our national economy, households and businesses for many years to come.

OP Financial Group’s Interim Report 1 January–31 March 2020

Contents

Business environment

The coronavirus pandemic derailed the global economy during the first quarter. Extensive restrictions have been imposed in an effort to stem the pandemic caused by the coronavirus. In the light of preliminary information, the world economy has rapidly slumped into recession. By way of exception, the service sector has suffered clearly more than industry.

Uncertainty in the financial market caused by the coronavirus began to escalate in February. The stock market tumbled. Risk premiums increased in the financial market and market operations were disrupted. The development of market interest rates was dichotomous. The interest rates decreased at first but began to increase slightly in March when expectations on rate cuts ran low and risk premiums increased.

Central banks launched exceptional operations to stabilise the market. The European Central Bank re-launched asset purchases and offered banks financing on easier terms.

The Bank of Finland announced that it would purchase commercial papers worth one billion euros on the market. Regulatory requirements for banks were temporarily alleviated in some respects.

The Government of Finland started to take historic measures to curb the spread of the coronavirus. As a result, the business in many service industries slackened drastically. The biggest impact of the exceptional measures will, however, take place in the second quarter.

The Government also announced extensive measures aimed at easing the negative effects of the restrictions on the economy. These include both direct financial support to companies and guarantees for bank loans they have raised.

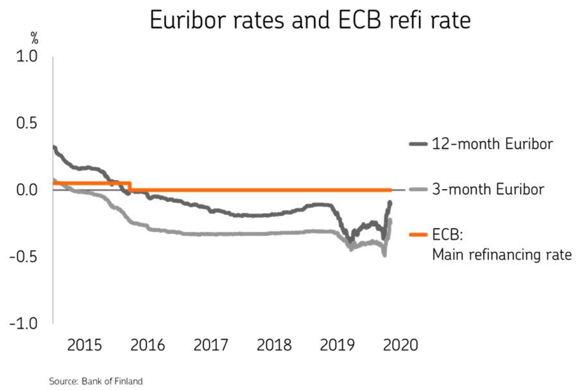
The economic outlook is exceptionally uncertain. The economy is expected to face a deep decline in the near future and to begin to recover gradually when the restrictions can be lifted. However, significant risks are involved in the development.

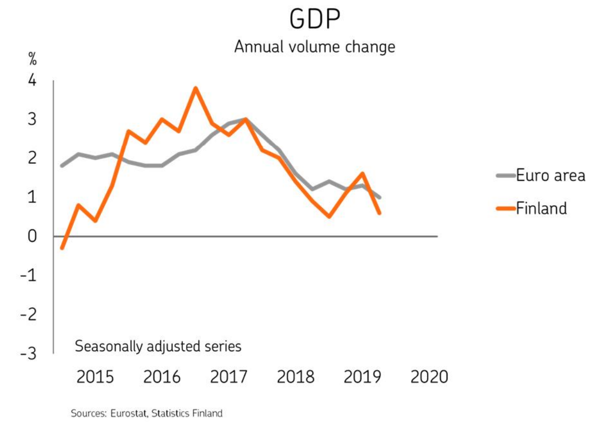
The coronavirus crisis had a stronger effect on banking towards the end of the first quarter. Total loans and deposits continued to grow in January–February mostly at the 2019-end pace, 5.2% ad 4.8%, respectively.

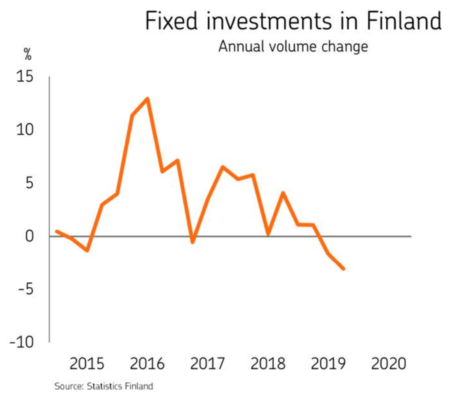
Demand for repayment holidays for corporate loans and home loans grew strongly in March due to the coronavirus crisis.

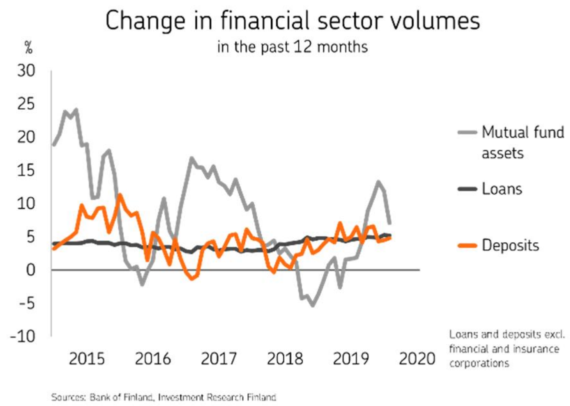
The value of the mutual funds registered in Finland sagged by EUR 18 billion to EUR 106.5 billion during the first quarter, mainly due to a negative value change. The net asset inflows of mutual funds were EUR 2.8 billion negative. The majority of redemptions made applied to bond funds.

In the insurance sector, the effects of the coronavirus pandemic are reflected in developments in premiums written and the amount of claims expenditure. In addition, the turbulent investment environment will present challenges to insurance companies.









Earnings analysis and balance sheet

Earnings analysis, € million	Q1/2020	Q1/2019*	Change, %	Q4/2019	Change, %	Q1–4/2019
Earnings before tax	129	194	-33.7	161	-20.2	838
Retail Banking	8	49	-84.5	42	-82.1	235
Corporate Banking	14	56	-75.5	79	-82.8	311
Insurance	59	88	-32.8	94	-37.5	373
Other Operations	57	5	963.0	-41	-	-37
Income						
Net interest income	319	294	8.6	318	0.1	1,241
Net insurance income	131	109	20.8	9	-	421
Net commissions and fees	244	234	4.5	257	-4.9	936
Net investment income	-140	145	-196.3	257	-154.3	530
Other operating income	107	9	-	12	767.2	53
Total income	662	790	-16.2	854	-22.5	3,181
Expenses						
Personnel costs	208	197	5.8	208	-0.2	781
Depreciation/amortisation and impairment loss	65	59	11.4	88	-26.3	278
Other operating expenses	245	210	16.8	242	1.4	844
Total expenses	518	465	11.5	538	-3.8	1,903
Impairment loss on receivables	-105	-11	-	-51	-	-87
Temporary exemption (overlay approach)	151	-55	-	-40	-	-105
New OP bonuses accrued to owner-customers	-65	-69	-	-63	-	-254

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

Key indicators, € million	31 Mar 2020	31 Dec 2019	Change, %
Loan portfolio	92,982	91,456	1.7
Home loans	39,607	39,572	0.1
Corporate loans	22,762	22,509	1.1
Housing company and other loans	30,614	29,375	4.2
Guarantee portfolio	3,462	3,503	-1.2
Deposits	64,795	63,998	1.2
Assets under management (gross)*	73,297	83,106	-11.8
Mutual funds	21,861	25,610	-14.6
Institutional clients	22,581	24,445	-7.6
Private Banking	19,496	22,199	-12.2
Unit-linked insurance savings	9,358	10,852	-13.8
Balance sheet total	146,876	147,024	-0.1
Investment assets	23,631	23,509	0.5
Insurance liabilities	9,739	9,476	2.8
Debt securities issued to the public	32,333	34,369	-5.9
Equity capital	12,277	12,570	-2.3

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

January–March

OP Financial Group's earnings before tax amounted to EUR 129 million (194). The figure decreased by EUR 66 million over the previous year. Income from customer business, or net interest income, net insurance income and net commissions and fees, increased. In addition, the sale of the Vallila property increased earnings. Market developments caused by the coronavirus pandemic decreased investment income while increasing impairment loss on receivables. Earnings were also affected by the adoption of the new definition of default that increased impairment loss on receivables, and growth in expenses.

Net interest income increased by 8.6% to EUR 319 million. Net interest income reported by the Retail Banking segment increased by EUR 2 million and that by the Corporate Banking segment by EUR 11 million. In the year to March, OP Financial Group's loan portfolio grew by 5.7% to EUR 93.0 billion and deposits by 2.7% to EUR 64.8 billion.

Net insurance income totalled EUR 131 million (109). The Insurance segment's non-life insurance premium revenue increased by 3.6% to EUR 367 million. Claims incurred decreased by 3.8% to EUR 236 million. The operating combined ratio was 92.7% (97.5).

Net commissions and fees were EUR 244 million, or EUR 10 million higher than the year before. Refunds based on unit-linked management fees increased by EUR 4 million. Net commissions and fees from mutual funds, asset management and securities brokerage increased by EUR 3 million.

Net investment income decreased by EUR 285 million to EUR –140 million. Net income from financial assets recognised at fair value through profit or loss totalled EUR –131 million (261). As a result of the coronavirus crisis, the fair values of equities, and notes and bonds decreased significantly. An overlay approach is applied to certain equity instruments of insurance companies. Changes in the fair value of investments within the scope of the overlay approach are presented under the fair value reserve under equity. Total investment income fell by 87.6% year on year, to EUR 11 million. Capital gains recognised totalled EUR 23 million (54). The combined return on investments at fair value of OP Financial Group's insurance companies was –2.3% (2.6). The net change in the short-term life insurance supplementary interest rate provision increased earnings by EUR 10 million (11). Value changes in Credit Valuation Adjustment (CVA) in derivatives owing to market changes decreased earnings by EUR 15 million (–7).

Other operating income rose by EUR 98 million year on year to EUR 107 million. The sale of the Vallila property increased other operating income. OP Financial Group recognised a capital gain of EUR 98 million on the sale in other operating income and an expense of EUR 2 million in other operating expenses.
OP Financial Group will continue operating in the property under a long-term lease agreement, and the property was recognised as a right-of-use asset in the balance sheet. The value of the right-of-use asset under IFRS 16 was EUR 138 million and the lease liability was EUR 225 million.

Total expenses increased by 11.5% to EUR 518 million. Personnel costs increased by 5.8% to EUR 208 million. Depreciation/amortisation and impairment loss on PPE and intangible assets increased by 11.4% to EUR 65 million. Planned depreciation/amortisation increased by 8.5% to EUR 63 million. This increase resulted from higher development expenditure recognised for prior years. Impairment write-downs were EUR 2 million.

Other operating expenses increased by 16.8% to EUR 245 million. ICT costs increased by a total of EUR 26 million. Development costs were EUR 50 million (40). Charges of financial authorities increased by 21.9% to EUR 34 million.

Impairment losses on loans and receivables and on investments recognised under various income statement items that reduced earnings amounted to EUR 113 million (19), of which EUR 105 million (11) concerned loans and receivables. The new definition of default adopted in March increased impairment loss on receivables by EUR 44 million. As a result of the coronavirus crisis, customers have actively applied for repayment holidays on their loans and changes to their repayment schedules. Combined with the changes in macroeconomic parameters applied in the calculation of expected credit losses, this increased impairment loss on receivables by EUR 29 million. The ratio of non-performing receivables in loans and receivables to the loan and guarantee portfolio was 1.5% (1.1).

OP Financial Group's current tax amounted to EUR 33 million (40). The effective tax rate was 25.7% (20.7). The effective tax rate was increased by the changes in deferred taxes arising from the sale and leaseback of the Vallila property.

OP Financial Group's equity amounted to EUR 12.3 billion (12.6). Equity included EUR 2.9 billion (3.0) in Profit Shares, terminated Profit Shares accounting for EUR 0.1 billion (0.2). The return target for Profit Shares for 2020 is 3.25%. Interest payable on Profit Shares accrued during the reporting period is estimated to total EUR 24 million. The amount of interest to be paid for 2019 in October 2020 totalled EUR 97 million.

Comprehensive income of EUR –150 million (315) was decreased by changes in the fair value reserve. The fair value reserve declined by EUR 306 million to EUR –55 million from the end of 2019. Due mainly to the coronavirus crisis, the fair values of notes and bonds recognised through other comprehensive income decreased by EUR 271 million, and the fair values of equities within the scope of the overlay approach decreased by EUR 145 million.

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

OP Financial Group offers financial relief to its customers who have run into financial problems due to the coronavirus crisis. OP Financial Group offers both households and SMEs the opportunity to postpone their loan repayments if the coronavirus pandemic has affected their repayment capacity. Private customers have the opportunity to get a 12-month repayment holiday on their home loans. With respect to corporate customers, changes in repayment schedules will be evaluated on a case-by-case basis. In addition, guarantees provided by Finnvera will be used extensively. No separate fees will be charged for loan modifications. During the coronavirus crisis, private customers have applied for repayment holidays to approximately 78,000 loans by mid-April. The number of applications for repayment holidays and changes in repayment schedules on corporate loans totalled 14,000. Robots speed up the processing of repayment holiday applications for home loans by processing several thousands of applications per day.

OP Real Estate Asset Management supports the lessees of the business property units it manages with flexible lease payment if the coronavirus pandemic causes them financial difficulties. OP Real Estate Asset Management Ltd manages the portfolios of real estate funds that it and OP Fund Management are in charge of, and real estate units of OP Financial Group insurance companies. OP Real Estate Asset Management is the largest real estate fund investor in Finland.

To ensure safe use of banking and insurance services, OP Financial Group has centralised most of its services in digital channels. Some OP cooperative bank branches offer separate service hours for people that need special support. Individual branches have been closed temporarily due to the coronavirus pandemic. Moreover, OP helps and supports those in need of special support, and their friends and family, by providing a special telephone line. The purpose of this is to ensure that those in need of special support can do their banking transactions easily in the prevailing exceptional situation.

OP Financial Group participates in an initiative launched by Mehiläinen to expand coronavirus testing capacity by setting up an air transport connection for the samples to a partner laboratory in South Korea. Return flights are used for bringing protective equipment and sampling materials to Finland.

Pohjola Hospital will give its personnel's contribution in public healthcare tasks that are critical to society during the corona crisis. They will help, for example, in tracking the chains of transmission. Pohjola Hospital will pay the personnel's salaries during the time of temporary work.

OP Financial Group has enabled safe working conditions for its personnel in its offices and branches. Remote working is also encouraged for those whose tasks allow it as much as possible. Through these measures, OP has ensured the availability of services that are critical to the society despite the coronavirus crisis.

January–March events

Sale of the Vallila property

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

New definition of default

In the first quarter, OP Financial Group adopted the European Banking Authority's (EBA) Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013. The Guidelines harmonise the definition of default applied by European banks on their customers. The new process in accordance with the Guidelines recognises defaulted customers earlier, for example, based on information in external credit registers. As regards retail customers, the new process extends the default to cover all exposures of an individual obligor. This change increased the number of observations of default and weakened the parameters of credit risk.

OP Financial Group will apply a so-called two-step approach. The first step involved the change of the definition of default during the first quarter of 2020. The second step to be taken later involves the calibration of credit risk parameters. The supervisory obligation related to the adoption of the new definition of default increased the average risk weights of OP Financial Group's loan portfolio at the first step. Growth in the expected credit losses (ECL) in the income statement caused by the change in the definition of default has been taken into account in the effect on capital adequacy. OP Financial Group applied the new definition of default to expected credit losses as a change in the accounting estimate. Consequently, impairment loss on receivables in the income statement increased by EUR 44 million.

Sale of Automatia

OP Financial Group, Danske Bank and Nordea will sell the entire share capital of Automatia Pankkiautomaatit Oy to Loomis AB, which specialises in cash handling. In connection with this transaction, the sellers will commit themselves to new, long-term service agreements and will continue to be major customers of Automatia. The sale will have no effect on Automatia's services, such as the operation of Otto ATMs. In connection with the transaction, the parties agreed that Nordea and OP Financial Group will acquire rights to the Siirto brand currently owned by Automatia. Nordea and OP will continue to provide the Siirto service to their customers as before.
The completion of the sale is subject to regulatory approval and should take place in the third quarter of 2020. The sale is not expected to have any major impact on OP Financial Group's earnings.

OP Financial Group's strategic targets and focus areas

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

OP Financial Group's strategic targets	31 Mar 2020	31 Dec 2019	Target 2025
Return on equity (ROE) excluding OP bonuses, %	4.7	7.1	8.0
CET1 ratio, %	17.7	19.5	At least CET1 requirement + 4 pps
Brand recommendations, NPS (Net Promoter Score, private and corporate customers)	23	26	30
Credit rating	AA-/Aa3	AA-/Aa3	At least at the level of AA-/Aa3

On 27 April 2020, OP Cooperative's Board of Directors decided that OP Financial Group's target CET1 ratio be at least the CET1 capital adequacy requirement plus four percentage points. The CET1 target calculated by applying the March-end capital adequacy requirement was 14.9%. At the end of June, the target is estimated to be 13.9%.

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

OP Financial Group's strategic priorities for 2020 are:
- Best customer experience
- More benefit for owner-customers
- Excellent employee experience
- Faster growth in profits than in expenses
- Productive development.

The priorities reviewed annually will help achieve the shared vision: to be the leading and most appealing financial services group in Finland.

Promotion of the success of owner-customers and operating region

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

Allocation of earnings

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

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

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

Implementing OP Financial Group's mission successfully requires a strong capital base which the requirements set by the authorities also necessitate. OP Financial Group uses a significant amount of its earnings to enhance its capital base. That will require efficiency and earnings power of the Group in the years to come too.

A considerable amount of earnings is returned to the owner-customers in the form of OP bonuses and other benefits and discounts. According to the fundamental cooperative business principle, benefits are allocated on the basis of the extent to which each member uses the cooperative's services. OP's loyalty benefit programme consists of OP bonuses – generated in proportion to almost all of a person's transactions with OP – as well as benefits and discounts related to OP's banking services, insurance contracts and saving and investment services. Furthermore, some service packages are available only to owner-customers. Owner-customers also have the opportunity to contribute capital to their own OP cooperative bank through Profit Shares. Interest will be annually paid on Profit Shares as the banks' profit distribution.

OP Financial Group is one of the largest tax payers in Finland measured by tax on profits. By paying taxes in Finland, OP is contributing to prosperity in the whole of Finland.

Customer relationships and customer benefits

OP Financial Group had a total of 2.0 million (2.0) owner-customers at the end of the reporting period.

At the end of March, OP cooperative banks had a total of 3.6 million (3.6) banking customers. Private customers numbered 3.4 million (3.3) and corporate customers 0.3 million (0.3). Corporate Banking had 0.2 million customers (0.2) at the end of March.

The number of joint banking and insurance customers totalled 1.3 million (1.2) at the end of March.

Contributions made by OP cooperative banks' owner-customers to the banks' Profit Shares and cooperative shares totalled EUR 3.1 billion (3.2) on 31 March 2020.

OP cooperative banks' owner-customers earn OP bonuses through banking, insurance and asset management transactions. The value of new OP bonuses accrued in January–March totalled EUR 65 million (69). During the same period, a total of EUR 33 million (30) of bonuses were used to pay for banking and asset management services and EUR 32 million (30) to pay non-life insurance premiums.

In the reporting period, owner-customers benefitted EUR 8 million (8) from the reduced price of the daily services package of Retail Banking. Owner-customers were provided with EUR 17 million (15) in non-life insurance loyalty discounts. In addition, owner-customers bought, sold and switched the majority of the mutual funds without separate charges. The value of this benefit amounted to EUR 2 million (1).

The abovementioned OP bonuses and customer benefits totalled EUR 92 million (93), accounting for 41.6% (32.4) of OP Financial Group's earnings before tax and granted benefits.

Interest payable on Profit Shares accrued during the reporting period is estimated to total EUR 24 million (24). The return target for Profit Shares for 2020 is an interest rate of 3.25% (3.25).

Corporate responsibility

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

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

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

January–March highlights

OP Financial Group published its Integrated Corporate Responsibility Report for 2019 as part of its Annual Review in February 2020. Externally assured responsibility data was reported in accordance with the GRI Standards: Core option.

In February, OP published its first Green Bond Report that contains a description of the green bond issued in February 2019, including examples of businesses and projects financed and the environmental impacts achieved. Proceeds raised with OP's inaugural green bond of EUR 500 million are 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. Issuance of green bonds supports OP's Corporate Responsibility Programme's goal to foster a sustainable economy.

In February, OP published a Data Balance Sheet that depicts how OP Financial Group uses data to implement its strategy and, through this, improves its business, customer experience and risk management. By annually publishing its data balance sheet, OP promotes responsible data processing and describes its data management and data usage policies openly and transparently.

In March, OP began to teach financial literacy skills and the management of personal finances to secondary school pupils remotely. As many as 3,300 schoolchildren and 160 school classes have already participated in OP's remote teaching events on financial literacy. By providing remote teaching, OP supports teachers in providing financial literacy teaching in the exceptional situation caused by the coronavirus and, at the same time, help young people manage their personal finances in a concrete way.

Multichannel services

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

In the exceptional situation caused by the coronavirus, OP Financial Group has centralised most of its services in digital channels. In March, OP opened a special telephone line for those in need of special support, and their friends and family.

Mobile and online services, no. of logins (million)	Q1/2020	Q1/2019	Change, %
OP-mobile	95.0	66.3	43.4%
OP Business mobile	3.6	2.2	65.0%
Pivo	11.2	10.6	5.3%
Op.fi	21.9	26.2	-16.7%
	31 Mar 2020	31 Dec 2019	Change, %
Siirto payment, registered customers	708,401	666,321	6.3%

The use of the Mobile key identification method was extended to cover the op.fi service in January and online payments and other online services, such as MyTax and Kela, in March. The Mobile key already has more than 1.1 million active users, and almost 70% of logins are made by using the Mobile key.

Despite the expansion of mobile and online services, OP Financial Group still has Finland's most extensive branch network with 351 branches (352) across the country. The Group's own branch network is further supported by a comprehensive agency and partnership network, which is particularly important in terms of the sale of non-life insurance policies.

OP Financial Group has extensive presence in the most common social media channels where it has around 490,000 followers (480,000). In addition to OP Financial Group's national social media accounts, many OP cooperative banks have their own Facebook pages where they share publications targeted at local customers.

Capital adequacy and capital base

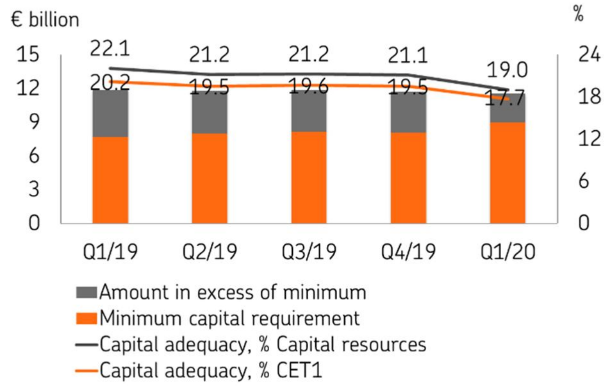
Capital adequacy under the Act on the Supervision of Financial and Insurance Conglomerates

OP Financial Group's capital base, calculated according to the Act on the Supervision of Financial and Insurance Conglomerates (FiCo), exceeded the minimum amount specified in the Act by EUR 2.1 billion (3.2). Banking capital requirement rose to 14.8% (14.5), calculated on risk-weighted assets. The ratio of the Group capital base to the minimum capital requirement was 123% (138). As a result of the buffer requirements for banking and the solvency requirements for insurance companies, the minimum FiCo solvency of 100% reflects the level within which the conglomerate can operate without regulatory obligations resulting from buffers below the required level.

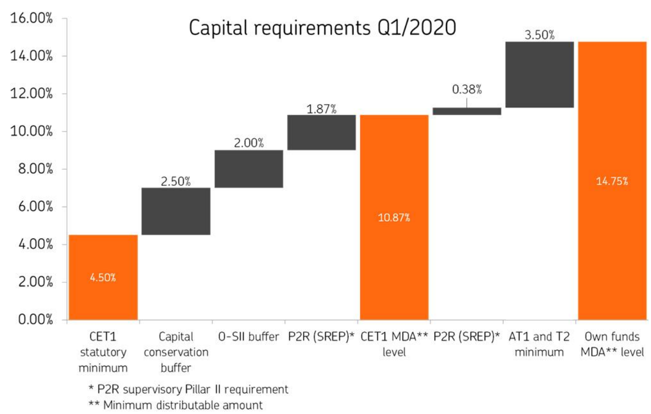
Capital adequacy for credit institutions

OP Financial Group's CET1 ratio was 17.7% (19.5). The lower ratio was affected in particular by the rise in risk weights caused by the new definition of default and the increase in the loan portfolio.

Capital resources



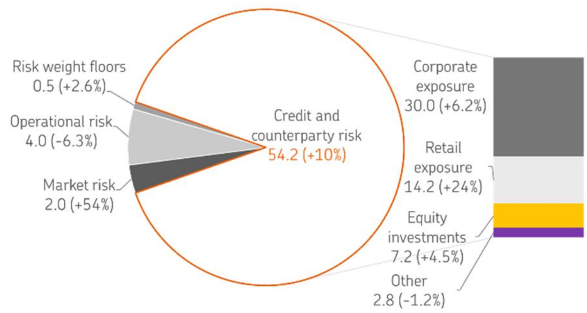
As a credit institution, OP Financial Group's capital adequacy is on a solid basis compared to the statutory requirements and those set by the authorities. The statutory minimum for the capital adequacy ratio is 8% and for the CET1 ratio 4.5%. The requirement for the capital conservation buffer of 2.5% under the Act on Credit Institutions, the O-SII buffer of 2% and the ECB's P2R requirement increase in practice the minimum capital adequacy ratio to 14.8% and the CET1 ratio to 10.9%.



The CET1 capital of OP Financial Group as a credit institution was EUR 10.7 billion (10.8). Banking earnings had a positive effect on the CET1 capital, while the increase in expected loss (EL) caused by the growth in risk parameters had a negative effect on the CET1 capital. The amount of Profit Shares in CET1 capital was EUR 2.9 billion (2.9).

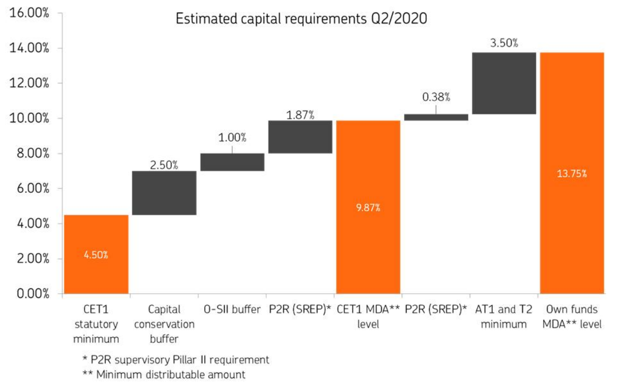
The risk exposure amount (REA) totalled EUR 60.7 billion (55.5), or 9.5% higher than on 31 December 2019. The risk-weight floor for retail exposures set by the ECB remained unchanged at EUR 0.5 billion. Because of the adoption of the new definition of default, the average retail and corporate exposure risk weights rose as result of the risk weighting factors set by the ECB. The loan portfolio grew especially in corporate exposures.

Risk Exposure Amount 31 March 2020
Total 60.7 € billion
(change from year end 9.5%)



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

The Finnish Financial Supervisory Authority (FIN-FSA) makes a macroprudential policy decision on a quarterly basis. In March 2020, the FIN-FSA reiterated its decision not to impose a countercyclical capital buffer requirement on banks. Simultaneously, the FIN-FSA announced that it would reduce the O-SII buffer requirement set for OP Financial Group to 1% and the systemic risk buffer requirement to 0% due to the coronavirus crisis. The reduced buffer requirements will become effective as of the second quarter. The risk weight floor of 15% set for home loans will be effective until the end of 2020. After the risk weights for home loans increased, the FIN-FSA's risk weight floor has no material effect on capital adequacy. The graph below shows the capital requirements as of the second quarter of 2020.



The upcoming EU regulation includes a requirement for measuring the degree of indebtedness, the leverage ratio. The leverage ratio of OP Financial Group's banking operations is estimated at about 8.1% (8.3) based on the existing interpretations, calculated using the March-end figures. According to the draft rules, the minimum ratio is 3%.

In OP Financial Group's view, the most significant open changes in the regulatory and supervisory environment affecting capital adequacy for credit institutions include obligations, if any, imposed by the supervisor due to the ECB's targeted review of internal (IRBA) models (TRIM), and changes resulting from the update of the EU capital requirements regulation (CRR2). The ECB review of the internal models for corporate exposures is expected to reduce OP Financial Group's CET1 ratio by around 1.2 percentage points. More detailed information on the effects is expected in the second half of 2020. The CRR2 changes are expected to reduce OP Financial Group's CET1 ratio by around 0.5 percentage points during 2021.

OP Financial Group has begun to discuss with the ECB on reassessing the extent of the IRBA application. Based on the current estimate, the change in the scope of IRBA would decrease OP Financial Group's CET1 ratio by around 0.6 percentage points during 2020. The final effect and its schedule will be specified after discussions with the supervisor and the approval process related to the scope of IRBA.

The OP Amalgamation Capital Adequacy Report for the first quarter of 2020 will be published in week 19.

Insurance

The solvency position of non-life insurance companies was good and the solvency position of the life insurance company was strong. The capital base was reduced by the lower value of investments. On the other hand, an increase in discount rate decreased insurance liability while increasing the capital base.

	Non-life insurance		Life insurance	
	31 Mar 2020	31 Dec 2019	31 Mar 2020	31 Dec 2019
Capital base, € mill.*	941	1,008	1,278	1,423
Solvency capital requirement, € mill.*	688	699	609	687
Solvency ratio, %*	137	144	210	207
Solvency ratio, % (excl. transitional provision)	137	144	169	170

*including transitional provisions

ECB's supervision

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

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

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

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

Liabilities under the Resolution Act

Under regulation applied to crisis resolution of credit institutions and investment firms, the resolution authority is authorised to intervene in the terms and conditions of investment products issued by a bank in a way that affects an investor's position. The EU's Single Resolution Board (SRB) based in Brussels is OP Financial Group's resolution authority. The SRB has set OP Financial Group's Minimum Requirement for own funds and Eligible Liabilities (MREL) at EUR 13.4 billion, accounting for 27.3% of the total risk exposure amount at the end of 2017. OP Financial Group aims to meet the requirements under the MREL with its capital base and other subordinated debt. OP Financial Group's MREL ratio was an estimated 42% at the end of the reporting period. The SRB has confirmed a resolution strategy for OP Financial Group whereby the resolution measures would apply to OP Corporate Bank acting as a Single Point of Entry.

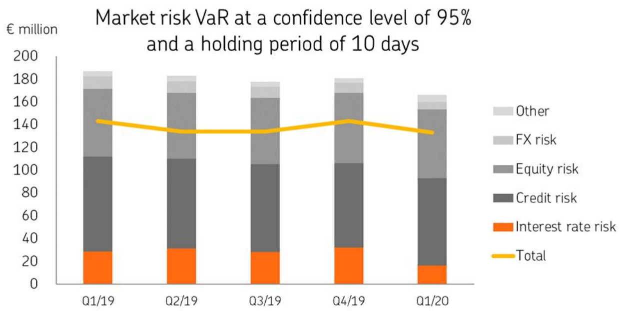
Risk exposure

When entering 2020, OP Financial Group had a strong capital base, capital buffers and risk-bearing capacity. The coronavirus pandemic that spread widely in early 2020 had a global effect on societies, which has further affected economic development and operating conditions in the financial sector, including in Finland. As a result of the direct and indirect implications of the coronavirus pandemic, OP Financial Group is exposed to a variety of risks that, if materialised, may quickly affect the sufficiency of capital and the undisrupted continuity of operations.

The good reputation of OP Financial Group is based on moderate risk-taking, a strong capital base and responsible operations. The pandemic may especially affect risks associated with lending, OP Financial Group's liquidity maintenance, investment assets and business processes. Based on the current information available, measures taken to secure OP Financial Group's operational continuity have been effective, and the Group's capital is sufficient to secure business continuity.

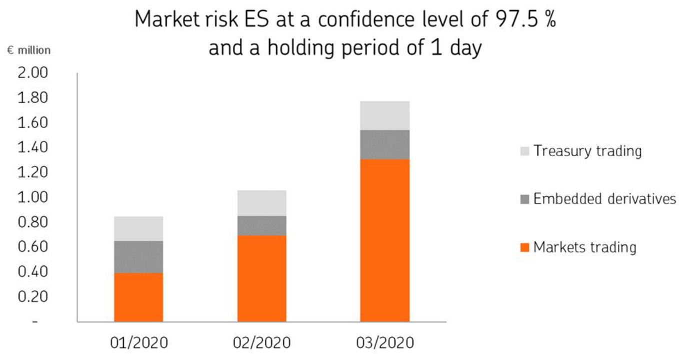
OP Financial Group's funding position and liquidity is good. In general, the corona crisis has been reflected in the price and availability of wholesale funding for banks. During the reporting period, OP Financial Group issued long-term bonds worth EUR 1.6 billion (1.9). The loan-to-deposit ratio remained stable during the reporting period.

The market risk level of OP Financial Group's long-term investments remained moderate. No major changes were made to the asset class allocation during the reporting period. The Group's VaR, a measure of market risk, was EUR 133 million (143) on 31 March 2020. The VaR risk metric includes the total balance sheets of the insurance institutions, the liquidity buffer and Banking's long-term bond investments. Insurance companies' total balance sheets contain investments, insurance liabilities and derivatives that hedge against interest rate risk associated with insurance liabilities. The 2020 figures no longer include risk associated with trading nor the interest rate risk exposure of Group Treasury, which is why the VaR risk metric for the reporting period is smaller than that a year ago.



The expected shortfall (ES) metrics have been used to measure trading risk since the beginning of 2020. Expected shortfall is a risk measure similar to the VaR measure, but instead of choosing from the return distribution the smallest loss of the losses remaining outside the confidence level, the expected value of the tail is calculated under ES, i.e. one-day expected shortfall at a given confidence level.

During the first quarter, market risk associated with trading increased as a result of the changed market situation.



The operational risk level remained moderate. Materialised operational risks resulted in a gross loss of approximately EUR 2 million (2) during the reporting period.

Retail Banking and Corporate Banking

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

For the time being, Banking's credit risk exposure has remained stable and credit risk moderate. The coronavirus pandemic will have a negative impact on Banking's credit risk exposure in 2020. The consequences have already been seen during the first quarter, mainly in increased demand for loan repayment holidays.

Forborne loans and non-performing receivables

	Performing forborne exposures (gross)		Non-performing receivables (gross)		Doubtful receivables (gross)		Loss allowance		Doubtful receivables (net)	
	31 Mar 2020	31 Dec 2019	31 Mar 2020	31 Dec 2019	31 Mar 2020	31 Dec 2019	31 Mar 2020	31 Dec 2019	31 Mar 2020	31 Dec 2019
Over 90 days past due, € billion			0.72	0.64	0.72	0.64	0.26	0.25	0.46	0.39
Unlikely to be paid, € billion			0.76	0.51	0.76	0.51	0.20	0.15	0.56	0.36
Forborne exposures, € billion	2.07	2.04	0.49	0.34	2.55	2.38	0.08	0.05	2.48	2.33
Total, € billion	2.07	2.04	1.97	1.48	4.03	3.52	0.54	0.45	3.50	3.07

In March 2020, OP Financial Group adopted the new definition of default, which increased the number of defaulted contracts. The amount of forborne exposures will grow during the second quarter, too. As a result of the coronavirus crisis, customers have actively applied for loan repayment holidays and changes to loan repayment schedules.

Key ratios	OP Financial Group		Retail Banking		Corporate Banking	
	31 Mar 2020	31 Dec 2019	31 Mar 2020	31 Dec 2019	31 Mar 2020	31 Dec 2019
Ratio of doubtful receivables to loan and guarantee portfolio, %	3.62	3.23	4.49	4.10	1.37	0.92
Ratio of non-performing receivables to loan and guarantee portfolio, %	1.49	1.09	1.69	1.30	0.97	0.53
Ratio of performing forborne exposures to loan and guarantee portfolio, %	2.13	2.14	2.80	2.80	0.40	0.39
Ratio of performing forborne exposures to doubtful receivables, %	58.77	66.19	62.32	68.30	27.11	42.09
Ratio of loss allowance to doubtful receivables, %	16.78	16.61	9.11	8.68	52.61	62.57

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

Retail Banking's interest rate risk in the banking book measured as the effect of a one-percentage point decrease on 12-month net interest income was EUR –46 million (–40) at the end of March. Interest income risk is calculated for a one-year period by dividing the sum of the interest income risk for the next three years by three.

Deposits within the scope of deposit guarantee (deposit insurance) and managed by OP Financial Group totalled EUR 38.6 billion (38.0) at the end of March. The Deposit Guarantee Fund compensates a maximum of EUR 100,000 for each OP Financial Group customer.

Insurance

Non-life insurance

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

A one-year increase in life expectancy would increase insurance liability for annuities by EUR 47 million (48). A 0.1 percentage point decrease in interest rates used in insurance liability valuation would increase insurance liabilities by EUR 26 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 bond investments and 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. No major changes were made to the asset class allocation during the reporting period. Market movements increased the risk level moderately. The VaR, a measure of market risk, was EUR 60 million (54) on 31 March 2020. Interest rate derivatives have been used to hedge against interest rate risk associated with insurance liability.

Life insurance

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

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

Investment risks associated with separated insurance portfolios transferred from Suomi Mutual and risks associated with changes in customer behaviour have been buffered. The buffer is sufficient to cover a significant negative return on the investment assets included in the separate portfolios, after which OP Financial Group will bear the risks associated with the portfolios. The buffers totalled EUR 222 million (327) on 31 March 2020.

The market risk level of investments remained moderate. No major changes were made to the asset class allocation during the reporting period. Market movements increased the risk level moderately. The VaR, a measure of market risk, was EUR 61 million (58) on 31 March 2020. Interest rate derivatives have been used to hedge against interest rate risk associated with insurance liability.

Other Operations

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

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

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

OP Financial Group monitors its liquidity and the adequacy of its liquidity buffer using, for example, the LCR (Liquidity Coverage Ratio). According to regulation, the LCR must be at least 100%. OP Financial Group's LCR was 138% (141) at the end of the reporting period.

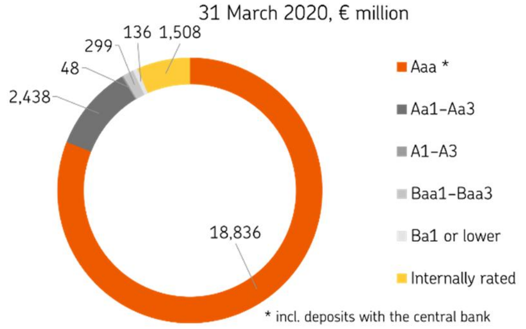
OP Financial Group monitors its long-term funding sufficiency, for example, by means of the Net Stable Funding Ratio (NSFR), which measures structural funding risk. In regulation, no minimum requirement for the NSFR has been set as yet. OP Financial Group's NSFR was 111% (112) at the end of the reporting period.

Liquidity buffer

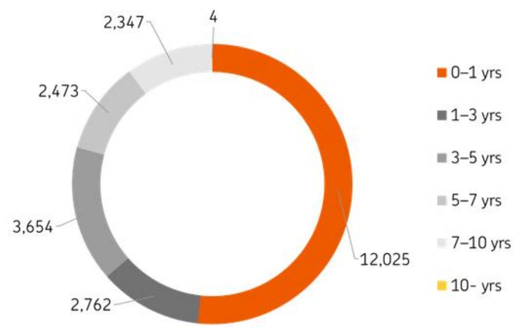
€ billion	31 Mar 2020	31 Dec 2019	Change, %
Deposits with central banks	10.1	11.9	-15.2
Notes and bonds eligible as collateral	11.0	11.1	-0.7
Corporate loans eligible as collateral	-	0.0	-
Total	21.1	23.0	-8.3
Receivables ineligible as collateral	2.1	2.0	8.2
Liquidity buffer at market value	23.3	25.0	-7.0
Collateral haircut	-0.9	-0.8	-
Liquidity buffer at collateral value	22.4	24.2	-7.3

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 March 2020, € million



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



Credit ratings

31 Mar 2020

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

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

The credit ratings did not change in the reporting period.

Financial performance by segment

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

Retail Banking

- Earnings before tax amounted to EUR 8 million (49). Impairment loss on receivables was EUR 50 million higher than a year ago. Impairment loss increased due mainly to the adoption of the new definition of default and the effects of the coronavirus pandemic.
- Total income increased by 3.8%. Both net interest income and net commissions and fees increased by 0.7% year on year. Net investment income totalled EUR 2 million (–13).
- Total expenses increased by 4.1% to EUR 314 million. Other operating expenses increased by 5.3% due to higher ICT costs and volumes. Depreciation/amortisation and impairment loss increased mainly as a result of the card renewal programme. Personnel costs decreased by 1.3%.
- The loan portfolio increased by 4.4% and the deposit portfolio by 5.8% in the year to March.
- Impairment loss on receivables was EUR 57 million (7). Non-performing receivables accounted for 1.7% (1.3) of the loan and guarantee portfolio.
- The most significant development investments focused on improving customer experience (for example, through the extended use of the Mobile key) and on customer service processes and the card renewal programme.

Key figures and ratios

€ million	Q1/2020	Q1/2019	Change, %	Q1–4/2019
Net interest income	230	228	0.7	922
Net commissions and fees	189	188	0.7	708
Net investment income	2	-13	-	-17
Other income	8	10	-17.4	43
Total income	429	413	3.8	1,657
Personnel costs	110	111	-1.3	426
Depreciation/amortisation and impairment loss	14	10	42.4	55
Other operating expenses	190	181	5.3	692
Total expenses	314	301	4.1	1,172
Impairment loss on receivables	-57	-7	-	-36
OP bonuses to owner-customers	-51	-56	-	-214
Earnings before tax	8	49	-84.5	235
Cost/income ratio, %	73.2%	73.0%	0.2*	70.7
Ratio of non-performing receivables to loan and guarantee portfolio, %	1.7	1.3	0.4*	1.3
Return on assets (ROA), %	0.03	0.16	-0.13*	0.24
Return on assets, excluding OP bonuses, %	0.22	0.40	-0.19*	0.45
€ million				
Home loans drawn down	1,679	1,627	3.2	7,799
Corporate loans drawn down	586	658	-10.9	2,729
No. of brokered residential property and property transactions	2,608	2,552	2.2	12,139
€ billion	31 Mar 2020	31 Mar 2019	Change, %	31 Dec 2019
Loan portfolio				
Home loans	39.6	38.7	2.3	39.6
Corporate loans	8.2	7.6	7.9	8.1
Housing company and other loans	20.8	19.5	7.1	20.4
Total loan portfolio	68.7	65.8	4.4	68.1
Guarantee portfolio	0.8	0.6	22.6	0.8
Deposits				
Current and payment transfer	36.5	34.0	7.2	35.4
Investment deposits	19.2	18.6	3.1	19.0
Total deposits	55.7	52.6	5.8	54.4

*Change in ratio

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

The loan portfolio increased in the year to March by 4.4% to EUR 68.7 billion. In January–March, new home loan drawdowns increased by 3.2% year on year. The home loan portfolio increased in the year to March by 2.3% to EUR 39.6 billion. Customers showed continued interest in protecting home loans and housing company loans against risks. On 31 March 2020, a total of 25.2% (24.5) of private customers' home loans were covered by interest rate protection. The corporate loan portfolio increased in the year to March by 7.9% to EUR 8.2 billion.

The deposit portfolio increased in the year to March by 5.8% to EUR 55.7 billion. Most of this increase came from current and payment transfer accounts, but also from investment deposits, with household deposits showing the strongest growth.

The aggregate number of investor and saver customers grew by almost 5,600 in the reporting period, totalling around 835,000 on 31 March 2020.

The volume of homes and real property sold and bought through the OP Koti real estate agents increased by 2.2% year on year.

The coronavirus pandemic affected Retail Banking's economic environment at the end of the reporting period. OP Financial Group offered households and SMEs the opportunity to apply for a loan repayment holiday if the coronavirus pandemic has affected their loan repayment capacity. This temporarily increased the number of such applications tenfold. The Group has considerably speeded up the processing of applications by using, for example, robots.

In January–March, the corona crisis had minor effects on Retail Banking's total income. The effects may increase if demand for services decreases considerably or if customer behaviour changes substantially. In addition, impairment loss on receivables may increase if customers' financial standing weakens materially.

As a result of the exceptional situation caused by the coronavirus pandemic, OP Financial Group's customers have taken a digital leap in the use of banking services. During the state of emergency, 85% of home loan applications were filed through digital channels, 90% of home loan negotiations were held remotely, all home viewings through OP Koti real estate agents were organised privately and bids were made digitally. In addition, the number of transactions completed on the digital platform for residential property transactions (DIAS) increased by 50%. In addition, online subscriptions for mutual fund units showed strong growth: as much as 92% of one-time subscriptions were made digitally.

Financial performance for the reporting period

Retail Banking earnings before tax were EUR 8 million (49). Net interest income grew by 0.7% to EUR 230 million as a result of an increase in the loan portfolio and a decrease in funding costs. Net commissions and fees rose by 0.7% to EUR 189 million. Net investment income totalled EUR 2 million (–13). Total income increased by 3.8% to EUR 429 million.

Total expenses increased by 4.1% to EUR 314 million. Personnel costs decreased by 1.3% to EUR 110 million following a decline in the number of personnel, year on year. Depreciation/amortisation and impairment loss increased by 42.4% to EUR 14 million, mainly as a result of the card renewal programme. Other operating expenses increased by 5.3% to EUR 190 million due to higher ICT costs and volumes. The EU stability contribution increased by EUR 3 million year on year. The amount of the stability contribution will be further specified during the second quarter.

Impairment loss on receivables increased to EUR 57 million (7). The new definition of default adopted in March increased impairment loss on receivables. As a result of the coronavirus crisis, customers have actively applied for repayment holidays on their loans and changes to their repayment schedules. Combined with the changes in macroeconomic parameters applied in the calculation of expected credit losses, this increased impairment loss on receivables, too. Non-performing receivables accounted for 1.7% (1.3) of the loan and guarantee portfolio.

Corporate Banking

- Earnings before tax amounted to EUR 14 million (56).
- Total income increased by 9.4%. Net interest income increased by 12.0% and net commissions and fees by 23.5%. Net investment income fell by 29.0%. CVA valuation weakened the income by EUR 15 million (7).
- Total expenses increased to EUR 87 million (76). Other operating expenses rose by 18.2% due to higher ICT costs and a higher stability contribution.
- In the year to March, the loan portfolio increased by 8.1% to EUR 24.3 billion and the deposit portfolio decreased by 1.7% to EUR 11.0 billion. Assets under management decreased by 2.9% year on year.
- Impairment losses amounted to EUR 47 million (5). Non-performing receivables accounted for 1.0% (0.5) of the loan and guarantee portfolio.
- The most significant development investments involved the upgrades of payment, finance and asset management systems.

Key figures and ratios

€ million	Q1/2020	Q1/2019	Change, %	Q1–4/2019
Net interest income	101	90	12.0	383
Net commissions and fees	35	28	23.5	125
Net investment income	9	13	-29.0	119
Other income	8	8	-5.1	27
Total income	153	140	9.4	655
Personnel costs	20	17	17.9	76
Depreciation/amortisation and impairment loss	5	5	-17.7	20
Other operating expenses	63	53	18.2	182
Total expenses	87	76	15.5	277
Impairment loss on receivables	-47	-5	-	-51
OP bonuses to owner-customers	-5	-4	-	-16
Earnings before tax	14	56	-75.5	311
Cost/income ratio, %	57.2	54.1	3.0*	42.3
Ratio of non-performing receivables to loan and guarantee portfolio, %	1.0	0.5	0.5*	0.5
Return on assets (ROA), %	0.15	0.77	-0.62*	0.85
Return on assets, excluding OP bonuses, %	0.20	0.81	-0.61*	0.90
€ billion	31 Mar 2020	31 Mar 2019	Change, %	31 Dec 2019
Loan portfolio				
Corporate loans	14.6	13.9	5.3	14.5
Housing company and other loans	9.7	8.6	12.6	9.2
Total loan portfolio	24.3	22.5	8.1	23.7
Guarantee portfolio	3.1	2.6	19.2	3.1
Deposits	11.0	11.2	-1.7	11.2
Assets under management (gross)**				
Mutual funds	21.9	24.1	-9.2	25.6
Institutional clients	22.6	22.4	0.7	24.3
Private Banking	8.8	8.3	6.0	9.9
Total (gross)	53.2	54.8	-2.9	59.8
€ million	Q1/2020	Q1/2019	Change, %	Q1–4/2019
Net inflows				
Private Banking clients	-7	25	-128.0	49
Institutional clients	-70	-30	-	-49
Total	-76	-5	-	1

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

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

The loan portfolio grew in the year to March by 8.1% to EUR 24.3 billion. The deposit portfolio decreased in the year to March by 1.7% to EUR 11.0 billion. Demand for capital market products increased from the previous year.

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

Within asset management, net assets inflow decreased year on year, to EUR –76 million (–5). Assets under management decreased by 2.9% year on year, to EUR 53.2 billion. Assets under management included about EUR 11 billion (11) in assets of the companies belonging to OP Financial Group.

During the reporting period, the number of OP Mutual Fund unitholders increased in gross terms by about 18,000, to 868,000 unitholders. The Morningstar rating for OP Mutual Funds was 3.02 (3.21).

In January, OP announced that it would establish the OP Finland Infrastructure Fund that will invest in Finland's infrastructure. The Fund's portfolio manager will be OP Asset Management Ltd, and OP Fund Management Company Ltd is planned to be the fund manager. The purpose of the fund is to ensure responsible, professional, long-term ownership of Finnish infrastructure. The fund may invest in sectors such as energy production and distribution, telecommunications and transport infrastructure.

During the reporting period, OP Real Estate Asset Management announced that it would support the lessees of the business property units it manages with flexible lease payment if the coronavirus pandemic causes them financial difficulties.

During the reporting period, uncertainty caused by the coronavirus pandemic affected Corporate Banking through capital markets. The value changes in assets under management were negative, and credit spreads and volatility increased. On the other hand, trading on the capital market became more active. The change in the economic outlook affected impairment loss on receivables too. The effects of the coronavirus 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 were EUR 14 million (56). Total income amounted to EUR 153 million (140) and total expenses to EUR 87 million (76). The cost/income ratio weakened to 57.2% (54.1). Mainly as a result of an increase in the loan portfolio, net interest income grew by 12.0% to EUR 101 million. Lending margins widened too.

Net commissions and fees totalled EUR 35 million (28). An increase in other net commissions and fees is mainly due to the decline in OP Financial Group's internal charges.

Corporate Banking segment's net commissions and fees

€ million	Q1/2020	Q1/2019	Change, %
Mutual funds	26	25	1.5
Asset Management	3	4	-30.3
Other	7	0	-
Total	35	28	23.5

Net investment income fell by 29.0% to EUR 9 million. Changes made in the valuation models of derivatives reduced net investment income a year ago by EUR 22 million. CVA valuation weakened the income by EUR 15 million (–7). Higher credit spreads reduced the valuation of the trading book. Income from client trading rose.

Total expenses increased to EUR 87 million (76). Personnel costs increased by 17.9% to EUR 20 million. Other operating expenses increased by 18.2% to EUR 63 million. ICT costs increased by EUR 3 million and the EU stability contribution by EUR 3 million. The amount of the stability contribution will be further specified during the second quarter.

Impairment loss on receivables totalled EUR 47 million (5). The new definition of default adopted in March increased impairment loss on receivables. Changes in the macroeconomic parameters used in the calculation of expected credit losses increased impairment loss on receivables too. Non-performing receivables accounted for 1.0% (0.5) of the loan and guarantee portfolio.

Insurance

- Earnings before tax totalled EUR 59 million (88) due to lower investment income.
- Insurance premium revenue reported by non-life insurance grew by 3.6%.
- Investment income totalled EUR 21 million (72), including the overlay approach. Net return on investments at fair value reported by non-life insurance was EUR –98 million (42) and that by life insurance EUR –48 million (25).
- The non-life insurance operating combined ratio was 92.7% (97.5) and operating risk ratio 65.5% (70.5). The operating cost ratio was 27.2% (26.9).
- In life insurance, unit-linked insurance savings decreased by 13.8% to EUR 9.4 billion from the 2019-end level.
- Development investments focused on development of electronic services and the core system upgrade.

Key figures and ratios

€ million	Q1/2020	Q1/2019	Change, %	Q1–4/2019
Insurance premium revenue	367	355	3.6	1,479
Claims incurred	236	245	-3.8	1,077
Life insurance, net risk results	6	7	-14.5	29
Net insurance income	138	117	18.0	431
Life insurance, net commissions and fees	27	25	9.2	135
Non-life insurance, net commissions and fees	-11	-11	0.7	-49
Health and wellbeing, net commissions and fees	2	3	-31.8	13
Net commissions and fees	18	16	8.1	99
Net investment income	-129	129	-200.2	435
Other net income	1	-2	-	4
Total income	28	260	-89.4	969
Personnel costs	36	33	7.7	133
Depreciation/amortisation and impairment loss	14	13	9.1	71
Other operating expenses	64	65	-0.4	269
Total expenses	114	111	3.1	473
OP bonuses to owner-customers	-5	-4	-	-19
Temporary exemption (overlay approach)	150	-57	-	-104
Earnings before tax	59	88	-32.8	373
Return on assets (ROA), %	0.80	1.18	0.39*	1.29
Return on assets, excluding OP bonuses, %	0.86	1.24	0.38*	1.36
Operating combined ratio (non-life), %	92.7	97.5		92.7
Operating risk ratio (non-life), %	65.5	70.5		65.1
Operating cost ratio (non-life), %	27.2	26.9		27.7
Operating ratio (life), %	42.0	40.0		35.5

*Change in ratio

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

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

In March, the coronavirus pandemic meant a significant increase in customer inquiries and the number of travel insurance claims filed. In many other insurance lines, the number of claims decreased as a result of lower activity in general.

Pohjola Hospital offers its personnel's contribution to fighting the coronavirus pandemic. The company assesses the need for such help with the Ministry of Social Affairs and Health and various hospitals. Tracking the chains of transmission is among the first duties.

The value performance in the capital market was exceptionally poor because of the coronavirus pandemic. Unit-linked insurance savings decreased by 13.8% to EUR 9.4 billion from the 2019-end level. Net assets inflow of unit-linked insurance contracts amounted to EUR 61 million (–21). The amount of life insurance surrenders remained moderate.

Financial performance for the reporting period

Earnings before tax decreased to EUR 59 million (88). Net insurance income increased to EUR 138 million (117).

Non-life insurance: premium revenue

€ million	Q1/2020	Q1/2019	Change, %
Private Customers	208	197	5.3
Corporate Customers	159	157	1.5
Total	367	355	3.6

Claims incurred decreased by 3.8% to EUR 236 million. The reported number of large claims under property and business liability insurance (in excess of EUR 0.3 million) amounted to 24 (27) in January–March, with their claims incurred retained for own account totalling EUR 27 million (23). The coronavirus pandemic in particular increased claims expenditure related to travel losses. Changes in the provision for outstanding claims under statutory pensions improved earnings by EUR 6 million during the reporting period while reducing it by EUR 9 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 6 million (–15). The non-life insurance operating risk ratio excluding indirect loss adjustment expenses was 65.5% (70.5).

Net commissions and fees rose by 8.1% to EUR 18 million.

Total expenses increased by 3.1% to EUR 114 million. In non-life insurance, the operating cost ratio (including indirect loss adjustment expenses) was 27.2% (26.9).

The operating combined ratio was 92.7% (97.5) in non-life insurance. The operating ratios exclude the changed discount rate.

Investment

Investment income

€ million	Q1/2020	Q1/2019
At fair value through other comprehensive income	26	52
At fair value through profit or loss	-75	129
Amortised cost	2	1
Life insurance items*	-82	-57
Unwinding of discount (non-life)	-5	-7
Associated companies	5	11
Net investment income	-129	129
Temporary exemption	150	-57
Total	21	72

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

Investment income totalled EUR 21 million (72), including the overlay approach. Capital gains on investment amounted to EUR 8 million (21) in non-life insurance and to EUR 12 million (24) in life insurance.

Interest rate risk associated with insurance liability has been hedged through supplementary interest rate provisions and interest rate derivatives. The net change in the short-term life insurance supplementary interest rate provision increased earnings by EUR 10 million (11). Accrued supplementary interest rate provisions related to insurance liabilities (excluding the separated balance sheets) totalled EUR 478 million (426) on 31 March 2020. Short-term supplementary interest rate provisions accounted for EUR 35 million (46) of these provisions.

Non-life insurance: key investment indicators

€ million	Q1/2020	Q1/2019
Net return on investments at fair value, € million*	-98	42
Return on investments at fair value, %	-2.8	2.8
Fixed income investments' running yield, %	1.4	1.5
	31 Mar 2020	31 Dec 2019
Investment portfolio, € million	3,787	3,952
Investments within the investment grade category, %	93	92
A-rated receivables, minimum, %	61	61
Modified duration, %	4.2	4.0

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

Life insurance: key investment indicators*

€ million	Q1/2020	Q1/2019
Net return on investments at fair value, € million**	-48	25
Return on investments at fair value, %	-1.7	2.4
Fixed income investments' running yield, %	1.1	1.4
	31 Mar 2020	31 Dec 2019
Investment portfolio, € million	3,525	3,619
Investments within the investment grade category, %	90	88
A-rated receivables, minimum, %	62	64
Modified duration, %	2.8	2.9

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

Other Operations

Key figures and ratios

€ million	Q1/2020	Q1/2019	Change, %	Q1–4/2019
Net interest income	-17	-15	-	-59
Net commissions and fees	2	1	149.6	6
Net investment income	-6	14	-138.9	38
Other operating income	259	146	77.8	593
Total income	238	146	63.3	578
Personnel costs	43	35	20.9	148
Depreciation/amortisation and impairment loss	33	30	10.6	132
Other operating expenses	103	75	36.6	336
Total expenses	179	141	27.1	616
Impairment loss on receivables	-2	0	-462.9	0
Earnings before tax	57	5	963.9	-37

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

Financial performance for the reporting period

Earnings before tax amounted to EUR 57 million (5). Sale of the Vallila property improved earnings. Total income increased by 63.3% to EUR 238 million.

Net interest income was EUR –17 million (–15). Net investment income totalled EUR –6 million (14). Capital gains on notes and bonds were EUR 4 million lower than the year before.

Other operating income increased by 77.8% to EUR 259 million. The sale of the Vallila property increased other operating income. OP Financial Group recognised a capital gain of EUR 98 million on the sale in other operating income and an expense of EUR 2 million in other operating expenses. OP Financial Group will continue operating in the property under a long-term lease agreement. The property was recognised as a right-of-use asset in the balance sheet. The value of the right-of-use asset under IFRS 16 was EUR 138 million and the lease liability was EUR 225 million.

Total expenses increased by 27.1% year on year to EUR 179 million. Personnel costs increased by 20.9% to EUR 43 million. Depreciation/amortisation and impairment loss on PPE and intangible assets increased by 10.6% to EUR 33 million. This increase resulted from higher development expenditure recognised for prior years. Other operating expenses increased by 36.6% to EUR 103 million. ICT costs increased by EUR 21 million year on year.

On 31 March 2020, the average margin of OP Financial Group's senior and senior non-preferred wholesale funding, TLTRO funding and covered bonds was 21 basis points (19). Covered bonds are reported as part of the Retail Banking segment.

OP Financial Group's access to funding remained good. However, the wholesale funding market was disrupted in March due to the coronavirus crisis and the prices of long-term unsecured wholesale funding rose significantly and apace. In January, OP Financial Group issued a senior non-preferred bond of EUR 500 million with a maturity of seven years, and a covered bond of EUR 1.0 billion with a maturity of 8.25 years. In March, OP Financial Group took out a loan worth USD 500 million offered by the ECB to banks. The maturity of the loan is less than one year. Liquidity remained good during the reporting period despite the coronavirus crisis.

Service development

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

OP Financial Group's development expenditure for January–March totalled EUR 82 million (74). This included licence fees, purchased services, other external costs related to projects and in-house work. The capitalised development expenditure totalled EUR 24 million (34).

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 service production of the ICT infrastructure services has begun in respect of the server and capacity services. The transfer of the services is progressing as planned.

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

Personnel

On 31 March 2020, OP Financial Group had 12,228 employees (12,226). The number of employees averaged 12,187 (12,376).

Personnel at period end

	31 Mar 2020	31 Dec 2019
Retail Banking	7,194	7,230
Corporate Banking	898	907
Insurance	1,990	2,015
Other Operations	2,146	2,074
Total	12,228	12,226

During the reporting period, 61 OP Financial Group employees (64) retired at an average age of 62.5 years (62.0).

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

Changes in OP Financial Group's structure

OP Financial Group's consolidated financial statements at the end of the reporting period included the accounts of 142 OP cooperative banks (147) and OP Cooperative Consolidated. The number of OP cooperative banks decreased during the reporting period due to mergers.

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

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

Kannuksen Osuuspankki merged into Suomenselän Osuuspankki on 31 March 2020.

On 28 November 2019, Kesälahden Osuuspankki and Pohjois-Karjalan Osuuspankki accepted a merger plan, according to which the former will merge into the latter. The planned date for registration of the merger is 30 April 2020.

On 11 February 2020 and 13 February 2020, Honkilahden Osuuspankki and Euran Osuuspankki accepted a merger plan, according to which the former will merge into the latter. The planned date for registration of the merger is 31 July 2020.

On 21 January 2020, Parikkalan Osuuspankki, Simpeleen Osuuspankki and Etelä-Karjalan Osuuspankki accepted merger plans, according to which Parikkalan Osuuspankki and Simpeleen Osuuspankki will merge into Etelä-Karjalan Osuuspankki. The planned date for registration of the mergers is 31 August 2020.

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

Governance of OP Cooperative

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

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

At the beginning of 2020, the Board of Directors elected Jaakko Pehkonen as Chair and Jarna Heinonen as Vice Chair of the Board of Directors. On 7 January 2020, the Board of Directors elected from among its members the chairs, vice chairs and other members to the statutory Board Committees.

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

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

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

The Supervisory Council comprises 36 members.

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

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

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

Events after the reporting period

OP Financial Group postpones OP cooperative banks’ profit distribution, i.e. the payment of interest on Profit Shares for the financial year 2019, from June until October 2020 in line with the recommendations issued by the European Central Bank (ECB) and the Financial Supervisory Authority (FIN-FSA).
On 27 March 2020, the ECB issued a recommendation asking banks to postpone profit distribution until at least 1 October 2020. The FIN-FSA issued a similar recommendation to banks under its supervision on 28 March 2020 and refined it on 30 March 2020. The purpose of this recommendation is to safeguard the ability of banks to support the real economy by providing funding to businesses and households to alleviate the effects of the economic crisis caused by the corona pandemic.

Outlook towards the year end

Measures to restrain the coronavirus pandemic threw the global economy into a recession during the first quarter. The early-year optimistic sentiment in the stock market turned into a sharp fall in prices. In the financial market, the funding costs of banks increased markedly. The market expects interest rates to remain somewhat unchanged towards the year end. However, uncertainty in the market is exceptionally high. The Government seeks to alleviate the direct effects of the corona crisis on the finances of banks’ and insurance companies’ customers, but, at this point, it is still difficult to evaluate the long-term effects of the crisis.

The exceptional uncertainty caused by the coronavirus pandemic weakens OP Financial Group’s investment income and credit risk outlook. OP Financial Group’s earnings before tax for 2020 are expected to be lower than in 2019 (previously at the same level).

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

Formulas for key figures and ratios

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

Alternative Performance Measures

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

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

Indicators based on a separate calculation

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

Ratio of loss allowance to doubtful receivables, %	Loss allowance / 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 ratio.
**Non-performing 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 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	Q1/2020	Q1/2019	Q1–4/2019
Insurance premium revenue	368	355	1,478
Claims incurred	269	275	1,060
Operating expenses	73	72	311
Balance on technical account	27	9	107
Reduction in discount rate			-136
Investment income and expenses	-69	64	307
Other income and expenses	-1	-6	-23
Earnings before tax	-43	67	255
Temporary exemption (overlay approach)	82	-33	-65
Earnings before tax	39	35	190

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

Capital adequacy and solvency

Capital adequacy for credit institutions

Capital base, € million	31 Mar 2020	31 Dec 2019
OP Financial Group's equity capital	12,277	12,570
Effect of insurance companies on the Group's shareholders' equity is excluded	-36	-237
Fair value reserve, cash flow hedge	-180	-141
Common Equity Tier 1 (CET1) before deductions	12,062	12,192
Intangible assets	-609	-630
Excess funding of pension liability and valuation adjustments	-151	-76
Cooperative capital deducted from capital base	-2	-142
Planned profit distribution and unpaid profit distribution for previous period	-113	-97
Shortfall of ECL minus expected losses	-471	-428
CET1 capital	10,716	10,819
Hybrid capital to which transitional provision is applied	40	60
Additional Tier 1 capital (AT1)	40	60
Tier 1 capital (T1)	10,756	10,879
Debenture loans	773	806
Tier 2 Capital (T2)	773	806
Total capital base	11,530	11,685

Risk exposure amount, EUR million	31 Mar 2020	31 Dec 2019
Credit and counterparty risk	53,691	49,216
Standardised Approach (SA)	4,372	4,101
Central government and central banks exposure	397	304
Credit institution exposure	23	8
Corporate exposure	2,746	2,646
Retail exposure	1,121	1,069
Equity investments	21	22
Other	64	52
Internal Ratings-based Approach (IRB)	49,589	45,115
Credit institution exposure	1,116	1,023
Corporate exposure	27,221	25,580
Retail exposure	13,049	10,320
Equity investments	7,210	6,898
Other	993	1,293
Market and settlement risk (Standardised Approach)	2,012	1,309
Operational risk (Standardised Approach)	3,964	4,232
Valuation adjustment (CVA)	255	191
Other risks		11
Total risk exposure amount	60,192	54,959
Risk weight floors based on ECB's decision	518	505
Total risk exposure amount including risk weight floors	60,710	55,464

Ratios, %	31 Mar 2020	31 Dec 2019
CET1 capital ratio	17.7	19.5
Tier 1 ratio	17.7	19.6
Capital adequacy ratio	19.0	21.1

Ratios, fully loaded, %	31 Mar 2020	31 Dec 2019
CET1 capital ratio	17.7	19.5
Tier 1 ratio	17.7	19.5
Capital adequacy ratio	18.9	21.0

Capital requirement, EUR million	31 Mar 2020	31 Dec 2019
Capital base	11,530	11,685
Capital requirement	8,968	8,068
Buffer for capital requirements	2,561	3,617

The capital requirement of 14.8% comprises the minimum requirement of 8%, the capital conservation buffer of 2.5%, the O-SII buffer requirement of 2.0%, the minimum requirement (P2R) of 2.25% (2.0 a year ago) set by the ECB and the changing capital conservation buffers by country for foreign exposures.

Leverage ratio, EUR million	31 Mar 2020	31 Dec 2019
Tier 1 capital (T1)	10,756	10,879
Total exposure	132,303	131,504
Leverage ratio, %	8.1	8.3

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

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

€ million	31 Mar 2020	31 Dec 2019
OP Financial Group's equity capital	12,277	12,570
Hybrid instruments and debenture loans	813	866
Other sector-specific items excluded from capital base	-249	-349
Goodwill and intangible assets	-1,370	-1,393
Insurance business valuation differences*	725	720
Planned profit distribution and unpaid profit distribution for previous period	-113	-97
Items under IFRS deducted from capital base**	-223	-150
Shortfall of ECL minus expected losses	-445	-402
Conglomerate's total capital base	11,415	11,766
Regulatory capital requirement for credit institutions***	8,017	7,132
Regulatory capital requirement for insurance operations*	1,297	1,386
Conglomerate's total minimum capital requirement	9,314	8,518
Conglomerate’s capital adequacy	2,101	3,248
Conglomerate’s capital adequacy ratio (capital base/minimum of capital base) (%)	123	138

* Differences between fair values and carrying amounts based on the solvency of insurance companies and an estimate of SCR.
** Excess funding of pension liability, portion of cash flow hedge of fair value reserve.
*** Total risk exposure amount x 14.8%, a year ago 14.5%.

Transitional provisions have been taken into account in figures.

Income statement

EUR million	Notes	Q1 2020	Q1 2019
Net interest income	2	319	294
Net insurance income	3	131	109
Net commissions and fees	4	244	234
Net investment income	5	-140	145
Other operating income		107	9
Total income		**662**	**790**
Personnel costs		208	197
Depreciation/amortisation		65	59
Other expenses	6	245	210
Total expenses		**518**	**465**
Impairments loss on receivables	7	-105	-11
OP bonuses to owner-customers		-60	-64
Temporary exemption (overlay approach)		151	-55
Earnings before tax		**129**	**194**
Income tax expense		33	40
Profit for the period		**96**	**154**
Attributable to:			
Profit for the period attributable to owners		94	153
Profit for the period attributable to non-controlling interest		2	1
Profit for the period		**96**	**154**

Statement of comprehensive income

EUR million	Notes	Q1 2020	Q1 2019
Profit for the period		**96**	**154**
Items that will not be reclassified to profit or loss			
Gains/(losses) arising from remeasurement of defined benefit plans		75	-8
Items that may be reclassified to profit or loss			
Change in fair value reserve			
Measurement at fair value		-279	83
Cash flow hedge		48	70
Temporary exemption (overlay approach)		-151	56
Translation differences		0	0
Income tax			
Items that will not be reclassified to profit or loss			
Gains/(losses) arising from remeasurement of defined benefit plans		-15	2
Items that may be reclassified to profit or loss			
Measurement at fair value		56	-17
Cash flow hedge		-10	-14
Temporary exemption (overlay approach)		30	-11
Total comprehensive income for the period		**-150**	**315**
Attributable to:			
Total comprehensive income for the period attributable to owners		-152	313
Total comprehensive income for the period attributable to non-controlling interests		2	1
Total comprehensive income for the period		**-150**	**315**

Balance sheet

EUR million	Notes	31 March 2020	31 Dec 2019
Cash and cash equivalents		10,215	11,988
Receivables from credit institutions		237	246
Derivative contracts	16	5,682	4,824
Receivables from customers		92,989	91,463
Investment assets		23,631	23,509
Assets covering unit-linked contracts		9,364	10,831
Intangible assets		1,383	1,406
Property, plant and equipment (PPE)		662	524
Other assets		2,437	1,684
Tax assets		275	235
Non-current assets held for sale			314
Total assets		**146,876**	**147,024**
Liabilities to credit institutions		3,296	2,632
Derivative contracts		4,148	3,316
Liabilities to customers		69,460	68,289
Insurance liabilities	8	9,739	9,476
Liabilities from unit-linked insurance and investment contracts	9	9,395	10,862
Debt securities issued to the public	10	32,333	34,369
Provisions and other liabilities		3,943	3,163
Tax liabilities		1,012	1,050
Subordinated liabilities		1,272	1,290
Liabilities associated with non-current assets held for sale			6
Total liabilities		**134,598**	**134,454**
Equity capital			
Share of OP Financial Group's owners			
Cooperative capital			
Cooperative share		207	209
Profit shares		2,903	3,029
Fair value reserve	11	-55	251
Other reserves		2,172	2,185
Retained earnings		6,878	6,730
Non-controlling interests		**172**	**166**
Total equity capital		**12,277**	**12,570**
Total liabilities and equity capital		**146,876**	**147,024**

Statement of changes in equity capital

EUR million	Cooperative capital	Fair value reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity capital
	Attributable to owners						
Balance at 1 January 2019	**3,241**	**7**	**2,183**	**6,157**	**11,588**	**154**	**11,742**
Total comprehensive income for the period		167	0	147	**313**	1	**315**
Profit for the period				153	**153**	1	**154**
Other comprehensive income		167		-6	**160**		**160**
Profit distribution				-47	**-47**	-3	**-49**
Change in membership and profit shares	-91				**-91**		**-91**
Transfer of reserves			1	-1			
Other				0	**0**	22	**22**
Balance at 31 March 2019	**3,150**	**174**	**2,184**	**6,256**	**11,763**	**175**	**11,938**

EUR million	Cooperative capital	Fair value reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity capital
	Attributable to owners						
Balance at 1 January 2020	**3,238**	**251**	**2,185**	**6,730**	**12,404**	**166**	**12,570**
Total comprehensive income for the period		-306		154	**-152**	2	**-150**
Profit for the period				94	**94**	2	**96**
Other comprehensive income		-306		60	**-245**		**-245**
Profit distribution				-19	**-19**		**-19**
Change in membership and profit shares	-128				**-128**		**-128**
Transfer of reserves			-14	14			
Other				0	**0**	4	**3**
Balance at 31 March 2020	**3,110**	**-55**	**2,172**	**6,878**	**12,105**	**172**	**12,277**

Cash flow statement

EUR million	Q1 2020	Q1 2019
Cash flow from operating activities		
Profit for the period	96	156
Adjustments to profit for the period	359	92
Increase (-) or decrease (+) in operating assets	**-2,794**	**-1,673**
Receivables from credit institutions	5	25
Derivative contracts	-26	10
Receivables from customers	-1,618	-882
Non-life insurance assets	23	32
Investment assets	-259	-333
Other assets	-918	-526
Increase (+) or decrease (-) in operating liabilities	**2,131**	**2,252**
Liabilities to credit institutions	609	-38
Derivative contracts	-25	-11
Liabilities to customers	1,171	1,284
Insurance liabilities	71	56
Liabilities from unit-linked insurance and investment contracts	-217	129
Provisions and other liabilities	522	832
Income tax paid	-34	-48
Dividends received	24	19
A. Net cash from operating activities	**-219**	**798**
Cash flow from investing activities		
Acquisition of subsidiaries, net of cash acquired	0	0
Purchase of PPP and intangible assets	-18	-39
Proceeds from sale of PPE and intangible assets	401	1
B. Net cash used in investing activities	**383**	**-39**
Cash flow from financing activities		
Increases in debt securities issued to the public	6,897	9,405
Decreases in debt securities issued to the public	-8,702	-7,827
Increases in cooperative and share capital	97	101
Decreases in cooperative and share capital	-225	-192
Lease liabilities	-9	
C. Net cash used in financing activities	**-1,941**	**1,487**
Net change in cash and cash equivalents (A+B+C)	**-1,777**	**2,246**
Cash and cash equivalents at period-start	**12,168**	**12,423**
Cash and cash equivalents at period-end	**10,391**	**14,669**
Interest received	**427**	**431**
Interest paid	**173**	**-216**
Cash and cash equivalents		
Liquid assets	10,215	14,566
Receivables from credit institutions payable on demand	176	103
Total	**10,391**	**14,669**

Segment reporting

Segment information

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

Q1 earnings 2019, EUR million	Retail Banking	Corporate Banking	Insurance	Other operations	Group eliminations	OP Financial Group
Net interest income	228	90	-3	-15	-7	294
of which internal net income before tax	0	-2	-3	4		
Net insurance income			117		-8	109
Net commissions and fees	188	28	16	1	0	234
Net investment income	-13	13	129	14	1	145
Other operating income	10	8	1	146	-156	9
Total income	**413**	**140**	**260**	**146**	**-169**	**790**
Personnel costs	111	17	33	35	0	197
Depreciation/amortisation	10	5	13	30	0	59
Other operating expenses	181	53	65	75	-164	210
Total expenses	**301**	**76**	**111**	**141**	**-164**	**465**
Impairments loss on receivables	-7	-5	0	0	0	-11
OP bonuses to owner-customers	-56	-4	-4		0	-64
Temporary exemption (overlay approach)			-57		2	-55
Earnings before tax	**49**	**56**	**88**	**5**	**-3**	**194**

Balance sheet 31 March 2020, EUR million	Retail Banking	Corporate Banking	Insurance	Other operations	Group eliminations	OP Financial Group
Cash and cash equivalents	73	19	1,793	10,090	-1,760	10,215
Receivables from credit institutions	14,341	131	27	9,337	-23,600	237
Derivative contracts	617	5,353	509	314	-1,111	5,682
Receivables from customers	68,468	25,078	0	408	-965	92,989
Investment assets	310	939	9,248	18,199	-5,066	23,631
Assets covering unit-linked contracts			9,364			9,364
Intangible assets	42	218	788	338	-3	1,383
Property, plant and equipment (PPE)	356	2	141	178	-14	662
Other assets	285	494	1,132	720	-193	2,437
Tax assets	100	5	44	91	36	275
Total assets	**84,593**	**32,239**	**23,046**	**39,675**	**-32,677**	**146,876**
Liabilities to credit institutions	8,624	736		17,632	-23,697	3,296
Derivative contracts	358	4,471	98	373	-1,153	4,148
Liabilities to customers	55,673	11,067		5,154	-2,435	69,460
Insurance liabilities			9,739			9,739
Liabilities from unit-linked insurance and investments contracts			9,395			9,395
Debt securities issued to the public	12,637	1,125		18,661	-90	32,333
Provisions and other liabilities	652	1,221	921	1,338	-189	3,943
Tax liabilities	490	4	126	392	-1	1,012
Subordinated liabilities	-18	9	380	1,296	-395	1,272
Total liabilities	**78,416**	**18,635**	**20,661**	**44,847**	**-27,960**	**134,598**
Equity						**12,277**

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

Notes

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

Note 1. Accounting policies

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

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

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

Definition of default

In the IFRS 9 based calculation, OP Financial Group applies the same definition of default as in internal credit risk models (IRB). OP Financial Group assesses default using its internal rating system based on payment behaviour. Default as definition for private customers 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 default customer when it is probable that the customer will not pay their loan obligations in full without OP Financial Group resorting to measures (e.g. realisation of collateral) or no later than when payment related to financial assets is more than 90 days past due.

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

In the first quarter of 2020, OP Financial Group adopted the European Banking Authority's (EBA) guidelines on the application of the definition of default (Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013): EBA/GL/2016/07 and EBA/RTS/2016/06). The Guidelines harmonise the definition of default applied by European banks on their customers. The process in accordance with the Guidelines recognises default earlier, for example, based on the unlikeliness to pay criteria that include, for example, information 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 100 euros and 1 per cent of the contract's or the customer's balance sheet exposures in retail exposures and to 500 euros and 1 per cent of the contract's or the customer's balance sheet exposures in exposures other than retail exposures.

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

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

Sale of the Vallila property

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

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

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

Change in accounting policies in 2019

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

Notes to the income statement

Note 2. Net interest income

EUR million	Q1 2020	Q1 2019
Interest income		
Receivables from credit institutions		
Interest	1	0
Negative interest	5	6
Total	5	6
Receivables from customers		
Loans	307	298
Finance lease receivables	8	6
Impaired loans and other commitments	0	0
Negative interest	4	3
Total	319	307
Notes and bonds		
Measured at fair value through profit or loss	0	1
At fair value through other comprehensive income	17	21
Amortised cost	0	0
Total	17	22
Derivative contracts		
Fair value hedge	-33	-26
Cash flow hedge	13	13
Ineffective portion of cash flow hedge	2	4
Other	0	-5
Total	-18	-14
Other	2	1
Total	**325**	**322**
Interest expenses		
Liabilities to credit institutions		
Interest	-1	2
Negative interest	14	17
Total	13	18
Liabilities to customers	19	18
Notes and bonds issued to the public	61	60
Subordinated liabilities		
Subordinated loans	0	0
Other	11	11
Total	12	12
Derivative contracts		
Cash flow hedge	-70	-61
Other	-31	-31
Total	-101	-92
Other	1	1
Total	**5**	**17**
Net interest income before fair value adjustment under hedge accounting	**319**	**305**
Hedging derivatives	83	15
Value changes of hedged items	-84	-27
Total	**319**	**294**

Note 3. Net insurance income

EUR million	Q1 2020	Q1 2019
Net insurance premium revenue		
Premiums written	655	634
Insurance premiums ceded to reinsurers	-7	-10
Change in provision for unearned premiums	-299	-288
Reinsurers' share	12	12
Total	361	347
Net non-life insurance claims		
Claims paid	-255	-293
Insurance claims recovered from reinsurers	5	9
Change in provision for unpaid claims	12	41
Reinsurers' share	3	-1
Total	-235	-244
Other non-life insurance items	-2	-1
Life Insurance risk premiums collected	6	7
Total	**131**	**109**

Note 4. Net commissions and fees

Q1 2020, EUR million	Retail Banking	Corporate Banking	Insurance	Other operations	Elimi-nations	OP Financial Group
Commission income						
Lending	28	11		1	0	40
Deposits	0	0			0	1
Payment transfers	56	8		3	-3	64
Securities brokerage	1	8			0	9
Securities issuance		1		0	0	1
Mutual funds	10	53	0	0	-27	36
Asset management	10	5		0	-2	13
Legal services	5	0			0	5
Guarantees	2	3		0	0	5
Housing service	17					17
Insurance brokerage	40		15		-26	28
Life insurance total expense loadings			21			21
Refund of unit-linked management fees			22			22
Health and wellbeing services			3		0	3
Other	27	2		0	-21	8
Total	**196**	**92**	**61**	**5**	**-80**	**274**
Commission expenses						
Payment transfers	5	2	0	1	-3	5
Securities brokerage		3	0	0	0	3
Securities issuance	0	1		0	-1	0
Mutual funds		27			-27	0
Asset management		2	0	0	0	3
Insurance operations	-2		42		-27	14
Health and wellbeing services			1		0	1
Other	4	22	0	1	-23	4
Total	**7**	**57**	**44**	**3**	**-80**	**30**
Total net commissions and fees	**189**	**35**	**18**	**2**	**0**	**244**

Q1 2019, EUR million	Retail Banking	Corporate Banking	Insurance	Other operations	Elimi-nations	OP Financial Group
Commission income						
Lending	28	10	0	1	0	39
Deposits	0	0		0	0	1
Payment transfers	54	7		3	-3	60
Securities brokerage	0	6			-1	6
Securities issuance		2		0	0	2
Mutual funds	7	48			-20	35
Asset management	8	6			-3	10
Legal services	6	0			0	6
Guarantees	2	3		0	0	5
Housing service	16					16
Insurance brokerage	43		14		-28	30
Life insurance total expense loadings			24			24
Refund of unit-linked management fees			18			18
Health and wellbeing services			6		0	5
Other	33	4		0	-27	9
Total	**197**	**87**	**62**	**4**	**-83**	**267**
Commission expenses						
Payment transfers	4	1	0	1	-3	3
Securities brokerage		3	0		-1	3
Securities issuance	0	1		0	0	1
Mutual funds		23			-21	2
Asset management		2	0	0	0	3
Insurance operations	-3		43		-28	12
Health and wellbeing services			3			3
Other	9	28	0	2	-32	7
Total	**10**	**58**	**46**	**3**	**-83**	**34**
Total net commissions and fees	**188**	**28**	**16**	**1**	**0**	**234**

Note 5. Net investment income

EUR million	Q1 2020	Q1 2019
Net income from assets at fair value through other comprehensive income		
Notes and bonds		
Interest income	13	18
Other income and expenses	0	0
Capital gains and losses	10	30
Currency fair value gains and losses	9	8
Impairment losses and their reversal*	-5	1
Total	**26**	**56**

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

Net income recognised at fair value through profit or loss

	Q1 2020	Q1 2019
Financial assets held for trading		
Notes and bonds		
Interest income and expenses	2	1
Fair value gains and losses	-5	3
Total	-4	4
Shares and participations		
Fair value gains and losses	-5	7
Dividend income and share of profits	2	0
Total	-3	7
Derivatives		
Interest income and expenses	26	22
Fair value gains and losses	72	76
Total	98	97
Total	**91**	**108**
Financial assets that must measured at fair value through profit or loss		
Notes and bonds		
Interest income	6	6
Fair value gains and losses	-3	1
Total	3	6
Shares and participations		
Fair value gains and losses	-171	70
Dividend income and share of profits	21	12
Total	-151	82
Total	**-148**	**89**
Financial assets designated as at fair value through profit or loss		
Notes and bonds		
Interest income	8	10
Fair value gains and losses	-71	54
Total	-62	64
Shares and participations		
Fair value gains and losses	9	0
Dividend income and share of profits	-3	2
Total	6	2
Derivatives		
Fair value gains and losses	-18	-2
Total	-18	-2
Total	**-74**	**64**
Total net income from financial assets recognised at fair value through profit or loss	**-131**	**261**

Net income from investment property		
Rental income	14	17
Fair value gains and losses	4	7
Maintenance charges and expenses	-15	-16
Other	-1	-2
Net income from investment property total	2	6
Net income from loans and receivables measured at amortised cost		
Loans and receivables		
Interest income	2	2
Interest expenses	-1	0
Capital gains and losses	0	0
Impairment losses and their reversal	2	-1
Loans and receivables total	4	0
Non-life insurance		
Unwinding of discount, Non-life Insurance	-5	-7
Life insurance		
Interest credited on customers' insurance savings	-21	-22
Change in supplementary interest rate provisions	-52	-39
Other technical items**	31	-110
Total	-42	-170

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

Associated companies		
Accounted for using the fair value method	4	7
Consolidated using the equity method	3	-8
Total	7	-2
Total net investment income	**-140**	**145**

Note 6. Other operating expenses

EUR million	Q1 2020	Q1 2019
ICT costs		
Production	70	53
Development	36	28
Buildings	10	14
Government charges and audit fees	36	30
Purchased services	34	28
Data communications	11	9
Marketing	6	7
Corporate social responsibility	2	2
Insurance and security costs	4	2
Other	35	36
Total	**245**	**210**

Development costs

EUR million	Q1 2020	Q1 2019
ICT development costs	36	28
Share of own work	14	12
Total development costs in the income statement	**50**	**40**
Capitalised ICT costs	21	31
Capitalised share of own work	3	3
Total capitalised development costs	**24**	**34**
Advance payments	**8**	
Total development costs	**82**	**74**
Depreciation/amortisation and impairment loss	45	38

Note 7. Impairment losses on receivables

EUR million	Q1 2020	Q1 2019
Receivables written down as loan and guarantee losses	21	17
Recoveries of receivables written down	-2	-2
Expected credit losses (ECL) on receivables from customers and off-balance-sheet items	85	-3
Expected credit losses (ECL) on notes and bonds*	2	0
Total	**105**	**11**

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

Credit risk exposures and related loss allowance

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

Exposures	Stage 1	Stage 2			Stage 3	
EUR million		Not more than 30 DPD	More than 30 DPD	Total		Total exposure
Receivables from customers (gross)						
Retail Banking	61,249	6,385	119	6,504	1,277	69,030
Corporate Banking	25,092	1,369	186	1,555	544	27,191
Total	**86,341**	**7,754**	**304**	**8,059**	**1,821**	**96,221**
Off-balance-sheet limits						
Retail Banking	5,831	304	1	305	16	6,152
Corporate Banking	4,978	320	85	405	81	5,464
Total	**10,809**	**624**	**86**	**710**	**97**	**11,616**
Other off-balance-sheet commitments						
Retail Banking	2,946	73		73	15	3,034
Corporate Banking	6,816	110		110	104	7,030
Total	**9,762**	**182**		**182**	**119**	**10,064**
Notes and bonds						
Other Operations	13,077	98		98		13,175
Insurance	4,367	8		8	8	4,384
Total	**17,444**	**106**		**106**	**8**	**17,559**
Total exposures within the scope of accounting for expected credit losses	**124,356**	**8,667**	**390**	**9,057**	**2,046**	**135,459**

Loss allowance by stage 31 March 2020

On-balance-sheet exposures and related off-balance-sheet limits*	Stage 1	Stage 2			Stage 3	
EUR million		Not more than 30 DPD	More than 30 DPD	Total		Total loss allowance
Receivables from customers						
Retail Banking	-20	-45	-2	-47	-238	-305
Corporate Banking	-31	-19	-1	-20	-289	-340
Total	**-51**	**-64**	**-3**	**-68**	**-526**	**-645**
Off-balance-sheet commitments**						
Retail Banking	-1	-1		-1	0	-2
Corporate Banking	-3	-1		-1	-8	-12
Total	**-4**	**-2**		**-2**	**-8**	**-14**
Notes and bonds***						
Other Operations	-4	-1		-1		-5
Insurance	-8	-1		-1	-6	-14
Total notes and bonds	**-12**	**-2**		**-2**	**-6**	**-19**
Total	**-66**	**-68**	**-3**	**-71**	**-540**	**-677**

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

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

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

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

Summary and key indicators 31 March 2020	Stage 1	Stage 2			Stage 3	
		Not more than 30 DPD	More than 30 DPD	Total		Total
Receivables from customers; on-balance-sheet and off-balance-sheet items						
Retail Banking	70,025	6,762	120	6,882	1,309	78,216
Corporate Banking	36,886	1,799	271	2,070	728	39,684
Loss allowance						
Retail Banking	-21	-46	-2	-48	-238	-307
Corporate Banking	-33	-20	-1	-22	-296	-351
Coverage ratio, %						
Retail Banking	-0.03%	-0.68%	-1.53%	-0.70%	-18.15%	-0.39%
Corporate Banking	-0.09%	-1.13%	-0.49%	-1.05%	-40.70%	-0.89%
Receivables from customers; total on-balance-sheet and off-balance-sheet items	**106,912**	**8,561**	**390**	**8,951**	**2,037**	**117,900**
Total loss allowance	**-54**	**-67**	**-3**	**-70**	**-534**	**-658**
Total coverage ratio, %	**-0.05%**	**-0.78%**	**-0.81%**	**-0.78%**	**-26.21%**	**-0.56%**
Carrying amount, notes and bonds						
Other Operations	13,077	98		98		13,175
Insurance	4,367	8		8	8	4,384
Loss allowance						
Other Operations	-4	-1		-1		-5
Insurance	-8	-1		-1	-6	-14
Coverage ratio, %						
Other Operations	-0.03%	-0.96%		-0.96%		-0.04%
Insurance	-0.17%	-10.15%		-10.15%	-66.82%	-0.32%
Total notes and bonds	**17,444**	**106**		**106**	**8**	**17,559**
Total loss allowance	**-12**	**-2**		**-2**	**-6**	**-19**
Total coverage ratio, %	**-0.07%**	**-1.65%**		**-1.65%**	**-66.82%**	**-0.11%**

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

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

Loss allowance by stage 31 December 2019

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

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

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

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

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

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

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

Receivables from customers and off-balance-sheet items, EUR million	Stage 1	Stage 2	Stage 3	
	12 months	Lifetime	Lifetime	Total
Loss allowance 1 January 2020	**44**	**83**	**446**	**573**
Transfers from Stage 1 to Stage 2	-2	13		11
Transfers from Stage 1 to Stage 3	-1		28	27
Transfers from Stage 2 to Stage 1	1	-7		-6
Transfers from Stage 2 to Stage 3		-15	63	48
Transfers from Stage 3 to Stage 2		0	-3	-3
Transfers from Stage 3 to Stage 1	0		0	
Increases due to origination and acquisition	4	1	1	6
Decreases due to derecognition	-5	-8	-4	-17
Changes in risk parameters (net)	15	2	13	30
Decrease in allowance account due to write-offs		0	-11	-11
Net change in expected credit losses	**11**	**-14**	**88**	**85**
Loss allowance 31 March 2020	**55**	**70**	**534**	**658**

Effect of the application of the new definition of default

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

Coronavirus pandemic (COVID-19)

To prevent the significant economic effects caused by the coronavirus pandemic (COVID-19), the EU member states have implemented a variety of financial support measures. On 2 April 2020, the European Banking Authority (EBA) published clarification to relief on processing payment moratoria due to the COVID-19 pandemic in the capital requirements regulation for applying, for example, to forborne exposures and default before 30 June 2020 (EBA/GL/2020/02 "Guidelines on legislative and non-legislative moratoria on loan payments applied in the light of the COVID-19 crisis"). 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.

The Finnvera guarantees will reduce the ECL amount through LGD components in the ECL calculation.

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

The coronavirus crisis has been taken into account in the ECL measurement by updating macroeconomic factors to be in line with the March-end estimate and by giving a larger weight to the downside scenario; downside 40%, baseline 50% and upside 10% (previously downside 20%, baseline 60% and upside 20%). For instance, GDP growth for 2020 is predicted to range from –2.5% to –6.0% in different scenarios and that for 2021 from 2.1% to 4.8% in different scenarios (V-shaped recovery scenario).

In addition, OP Financial Group made an unallocated provision due to the coronavirus crisis regarding the applications for loan modifications not processed by 31 March 2020 that the ECL measurement model could not yet take into consideration. Of these, the Group assessed forbearance measures and their transfer to Stage 2 or 3 and the resulting increase in the ECL.

The effect of the coronavirus crisis on growth in expected credit losses totalled EUR 29 million. Significant uncertainty still exists related to the economic development caused by the coronavirus crisis.

Notes and bonds, EUR million	Stage 1	Stage 2	Stage 3	
	12 months	Lifetime	Lifetime	Total
Loss allowance 1 January 2020	**6**	**1**	**5**	**13**
Transfers from Stage 1 to Stage 2	0	0		0
Transfers from Stage 3 to Stage 1	0		-1	-1
Increases due to origination and acquisition	3	1	1	4
Decreases due to derecognition	0			0
Changes in risk parameters (net)	2	0	1	3
Changes due to update in the methodology for estimation (net)	1		0	1
Net change in expected credit losses	**6**	**0**	**0**	**6**
Loss allowance 31 March 2020	**12**	**2**	**6**	**19**

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

Receivables from customers and off-balance-sheet items, EUR million	Stage 1	Stage 2	Stage 3	
	12 months	Lifetime	Lifetime	Total
Loss allowance 1 January 2019	**40**	**83**	**409**	**532**
Transfers from Stage 1 to Stage 2	-3	22		19
Transfers from Stage 1 to Stage 3	-4		15	11
Transfers from Stage 2 to Stage 1	2	-11		-10
Transfers from Stage 2 to Stage 3		-14	33	19
Transfers from Stage 3 to Stage 2		5	-16	-11
Transfers from Stage 3 to Stage 1	1		-2	-2
Increases due to origination and acquisition	16	15	14	45
Decreases due to derecognition	-7	-14	-24	-44
Changes in risk parameters (net)	-1	-2	48	45
Decrease in allowance account due to write-offs	0	0	-31	-31
Net change in expected credit losses	**4**	**0**	**37**	**41**
Loss allowance 31 December 2019	**44**	**83**	**446**	**573**
Net change in expected credit losses Q1 2019	**-3**	**1**	**-1**	**-3**

Notes and bonds, EUR million	Stage 1	Stage 2	Stage 3	
	12 months	Lifetime	Lifetime	Total
Loss allowance 1 January 2019	**6**	**4**	**4**	**14**
Transfers from Stage 1 to Stage 2	0	1		1
Transfers from Stage 1 to Stage 3	0		2	2
Transfers from Stage 2 to Stage 1	0	-2		-2
Transfers from Stage 3 to Stage 1	0		0	0
Increases due to origination and acquisition	2	0	0	2
Decreases due to derecognition	-2	-2	-1	-4
Changes in risk parameters (net)	0	0	0	0
Changes due to update in the methodology for estimation (net)	0			0
Net change in expected credit losses	**0**	**-2**	**1**	**-1**
Loss allowance 31 December 2019	**6**	**1**	**5**	**13**
Net change in expected credit losses Q1 2019	**0**	**-3**	**1**	**-1**

Note 8. Insurance liabilities

EUR million	31 March 2020	31 Dec 2019
Provision for unpaid claims		
Provision for unpaid claims for annuities	1,565	1,571
Other provision for unpaid claims	1,099	1,101
Reserve for decreased discount rate (value of hedges of insurance liability)	31	-22
Total	2,695	2,650
Provisions for unearned premiums	883	584
Life insurance insurance liabilities	6,161	6,242
Total	**9,739**	**9,476**

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

EUR million	31 March 2020	31 Dec 2019
Liabilities from unit-linked insurance	7,837	9,086
Investment contracts	1,558	1,776
Total	9,395	10,862

Note 10. Debt securities issued to the public

EUR million	31 March 2020	31 Dec 2019
Bonds	9,838	12,657
Subordinated bonds	1,659	1,156
Covered bonds	13,164	12,097
Other		
Certificates of deposit	111	
Commercial paper	7,615	9,716
Included in own portfolio in trading (–)*	-54	-101
Total debt securities issued to the public	**32,333**	**34,369**

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

Note 11. 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	**-5**	**-21**	**33**	**7**
Fair value changes	101	62	87	250
Capital gains transferred to income statement	-18	-14		-32
Impairment loss transferred to income statement		8		8
Transfers to net interest income			-17	-17
Deferred tax	-17	-11	-14	-42
Closing balance 31 March 2019	**62**	**24**	**89**	**174**

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

The fair value reserve before tax totalled EUR –68 million (314) and the related deferred tax asset/liability EUR 14 million (–63). During the reporting period, positive mark-to-market valuations of equity instruments in the fair value reserve totalled EUR 14 million (71) and negative mark-to-market valuations EUR 165 million (15), 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 -7 million (2) in the fair value reserve during the reporting period.
A negative fair value reserve may recover by means of asset appreciation and recognised impairments.

Note 12. Collateral given

EUR million	31 March 2020	31 Dec 2019
Given on behalf of own liabilities and commitments		
Pledges	134	230
Loans (as collateral for covered bonds)	14,475	14,551
Others	4,306	3,496
Total collateral given*	**18,914**	**18,277**
Secured derivative liabilities	1,366	1,098
Other secured liabilities	2,601	2,209
Covered bonds	13,184	12,097
Total	**17,151**	**15,404**

* In addition, bonds with a book value of EUR 7.2 billion have been pledged in the central bank, of which EUR 1.5 billion in intraday settlement collateral. Given that the bonds are available for withdrawal without the central bank's advance permission, they are not presented in the table above.

Note 13. Classification of financial assets and liabilities

			Fair value through profit or loss				
Assets, EUR million	Amortised cost	Fair value through other comprehen-sive income	Financial assets held for trading	Financial assets designated as at fair value through profit or loss	Must be measured at fair value through profit or loss	Hedging derivatives	Carrying amount total
Cash and cash equivalents	10,215						10,215
Receivables from credit institutions	237						237
Derivative contracts			4,764			918	5,682
Receivables from customers	92,989						92,989
Assets covering unit-linked contracts				9,364			9,364
Notes and bonds	1	17,850	712	2,137	478		21,178
Equity instruments		0	71	205	1,140		1,417
Other financial assets	2,529						2,529
Financial assets							**143,612**
Other than financial instruments							3,263
Total 31 March 2020	**105,972**	**17,851**	**5,547**	**11,706**	**1,618**	**918**	**146,876**

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

Liabilities, EUR million	Financial liabilities at fair value through profit or loss	Other liabilities	Hedging derivatives	Carrying amount total
Liabilities to credit institutions		3,296		3,296
Derivative contracts	3,540		608	4,148
Liabilities to customers		69,460		69,460
Insurance liabilities		9,739		9,739
Liabilities from unit-linked insurance and investment contracts	9,395			9,395
Debt securities issued to the public		32,333		32,333
Subordinated loans		1,272		1,272
Other financial liabilities		3,267		3,267
Financial liabilities				**132,911**
Other than financial liabilities				1,688
Total 31 March 2020	**12,935**	**119,368**	**608**	**134,598**

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

Bonds included in debt securities issued to the public are carried at amortised cost. On 31 March, the fair value of these debt instruments was approximately EUR 503 (529) million higher than their carrying amount, based on information available in markets and employing commonly used valuation techniques. Subordinated liabilities are carried at amortised cost. Their fair values are higher than their amortised costs, but determining reliable fair values involves uncertainty.

Note 14. Recurring fair value measurements by valuation technique

Fair value of assets on 31 March 2020, EUR million	Level 1	Level 2	Level 3	Total
Recognised at fair value through profit or loss				
Equity instruments	549	240	628	1,417
Debt instruments	1,615	1,229	482	3,327
Unit-linked contracts	5,722	3,642	0	9,364
Derivative financial instruments	7	5,667	8	5,682
Fair value through other comprehensive income				
Equity instruments		0		0
Debt instruments	11,813	5,091	947	17,850
Total financial instruments	**19,706**	**15,869**	**2,066**	**37,640**
Investment property			711	711
Total	**19,706**	**15,869**	**2,777**	**38,352**

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

Fair value of liabilities on 31 March 2020, EUR million	Level 1	Level 2	Level 3	Total
Recognised at fair value through profit or loss				
Unit-linked contracts	5,741	3,654	0	9,395
Other		0		0
Derivative financial instruments	5	4,137	6	4,148
Total	**5,746**	**7,791**	**6**	**13,543**

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

Level 1: Quoted prices in active markets

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

Level 2: Valuation techniques using observable inputs

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

Level 3: Valuation techniques using unobservable inputs

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

Transfers between levels of the fair value hierarchy

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

Reconciliation of Level 3 items

Specification of financial assets and liabilities

Financial assets, EUR million	Financial assets at fair value through profit or loss	Derivative contracts	Fair value through other comprehen-sive income	Total assets
Opening balance 1 January 2020	**1,181**	**74**	**214**	**2,143**
Total gains/losses in profit or loss	-496	-66	0	-561
Total gains/losses in other comprehensive income	0		-3	-3
Purchases	42		5	47
Sales	-19		-1	-20
Transfers into Level 3	406		121	527
Transfers out of Level 3	-4		-63	-68
Closing balance 31 March 2020	**1,110**	**8**	**273**	**2,066**

Financial liabilities, EUR million	Derivative contracts	Total liabilities
Opening balance 1 January 2020	**32**	**32**
Total gains/losses in profit or loss	-26	-26
Closing balance 31 March 2020	**6**	**6**

Total gains/losses included in profit or loss by item for the financial year on 31 March 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)	-467	-28	0	-496
Unrealised net gains (losses)	-40		-3	-42
Total net gains (losses)	**-507**	**-28**	**-3**	**-538**

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

Changes in the levels of hierarchy

No major changes occurred in valuation techniques in 2020.

Note 15. Off-balance-sheet commitments

EUR million	31 March 2020	31 Dec 2019
Guarantees	851	711
Other guarantee liabilities	2,311	2,459
Loan commitments	12,818	13,180
Commitments related to short-term trade transactions	300	333
Other*	1,378	1,311
Total off-balance-sheet commitments	**17,658**	**17,995**

* Of which Non-life Insurance commitments to private equity funds amount to EUR 188 million (194).

Note 16. Derivative contracts

Total derivatives 31 March 2020

	Nominal values/residual maturity				Fair values*	
EUR million	<1 year	1–5 years	>5 years	Total	Assets	Liabilities
Interest rate derivatives	47,196	71,852	80,560	199,607	3,859	2,177
Cleared by the central counterparty	13,325	38,323	45,375	97,024	73	52
Currency derivatives	43,586	6,228	2,389	52,204	1,318	1,415
Equity and index-linked derivatives	1	2		3		0
Credit derivatives	58	1,664	112	1,835	8	26
Other derivatives	316	380	11	708	40	83
Total derivatives	**91,158**	**80,126**	**83,073**	**254,357**	**5,225**	**3,700**

Total derivatives 31 December 2019

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

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

Note 17. Investment distribution of the Insurance segment

Non-life Insurance	31 March 2020		31 December 2019	
Investment asset portfolio allocation	Fair value*, EUR million	%	Fair value*, EUR million	%
Money market total	**459**	**12**	**547**	**14**
Money market instruments and deposits**	455	12	541	14
Derivatives***	4	0	6	0
Total bonds and bond funds	**2,604**	**69**	**2,644**	**70**
Governments	476	13	447	11
Investment Grade	1,570	41	1,669	42
Emerging markets and High Yield	282	7	253	6
Structured Investments****	277	7	275	7
Total equities	**376**	**10**	**426**	**11**
Finland	75	2	116	3
Developed markets	162	4	172	4
Emerging markets	65	2	67	2
Unlisted equities	6	0	6	0
Private equity investments	68	2	65	2
Total alternative investments	**35**	**1**	**35**	**1**
Hedge funds	35	1	35	1
Total property investment	**313**	**8**	**300**	**8**
Direct property investment	160	4	159	4
Indirect property investment	153	4	141	4
Total	**3,787**	**100**	**3,952**	**104**

* Includes accrued interest income.

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

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

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

Life Insurance	31 March 2020		31 December 2019	
Investment asset portfolio allocation	Fair value*, EUR million	%	Fair value*, EUR million	%
Total money market instruments	**572**	**16**	**386**	**11**
Money market investments and deposits**	569	16	381	11
Derivatives***	3	0	5	0
Total bonds and bond funds	**2,305**	**65**	**2,555**	**71**
Governments	420	12	516	15
Investment Grade	1,398	40	1,548	44
Emerging markets and High Yield	199	6	200	6
Structured investments****	288	8	290	8
Total equities	**364**	**10**	**406**	**11**
Finland	68	2	105	3
Developed markets	154	4	156	4
Emerging markets	58	2	61	2
Fixed assets and unquoted equities	3	0	3	0
Private equity investments	81	2	81	2
Total alternative investments	**41**	**1**	**41**	**1**
Hedge funds	41	1	41	1
Total real property investments	**243**	**7**	**231**	**6**
Direct property investments	95	3	93	3
Indirect property investments	148	4	138	4
Total	**3,525**	**100**	**3,619**	**100**

* Includes accrued interest income.

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

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

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

Note 18. Related-party transactions

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

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

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

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

Financial reporting in 2020

Half-year Financial Report H1/2020	21 July 2020
Interim Report Q1–3/2020	22 October 2020
OP Amalgamation Capital Adequacy Report 1 January–31 March 2020	Week 19
OP Amalgamation Capital Adequacy Report 1 January–30 June 2020	Week 31
OP Amalgamation Capital Adequacy Report 1 January–30 September 2020	Week 44

Helsinki, 28 April 2020

OP Cooperative
Board of Directors

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

www.op.fi