

Pohjola Bank plc
Report by the Board of Directors
and Financial Statements 2013



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Report by the Board of Directors for 2013

- Consolidated earnings before tax amounted to EUR 473 million (372) and consolidated earnings before tax at fair value to EUR 456 million (790). Return on equity was 14.6% (11.2) and, excluding the effect of a reduction in the corporate tax rate, 12.4%.
- The Core Tier 1 ratio was 11.3% (10.6) and the pro-forma Common Equity Tier 1 (CET1) under CRD IV/CRR was 11.9%.
- The Banking loan portfolio increased by 5%. The average margin on the corporate loan portfolio improved to 1.57% (1.52). Impairment loss on receivables decreased to EUR 35 million (54) and the bank levy reduced earnings by EUR 17 million (–).
- Within Non-life Insurance, insurance premium revenue increased by 11% (10). The combined ratio improved to 91.6% (97.1). A reduction in the discount rate for pension liabilities decreased earnings by EUR 38 million (52). Excluding changes in reserving bases and amortisation on intangible assets arising from company acquisition, the operating combined ratio was 86.9% (90.5). Return on investments at fair value was 3.5% (10.8).
- Within Asset Management, assets under management increased by 16% to EUR 37.9 billion (32.8). Performance-based management fees amounted to EUR 4 million (15).
- Year on year, total expenses grew by 2%, or EUR 11 million, including the bank levy of EUR 19 million. Cost savings out of the EUR 25 million estimated for 2013 based on the efficiency-enhancement programme amounted to EUR 27 million.
- The Board of Directors proposes a dividend per share of EUR 0.67 (0.46) payable on Series A shares and EUR 0.64 (0.43) on Series K shares. This means a dividend payout ratio of 50%.
- Outlook for 2014: Consolidated earnings before tax in 2014 are expected to be higher than in 2013. In Banking, growth in the loan portfolio is expected to be at the same level as in 2013. Non-life Insurance's operating combined ratio is expected to vary between 87 and 91%. Detailed information on the outlook, see "Outlook for 2014" below.
- On 17 December 2013, the Finnish Parliament adopted the reduction of the corporate tax rate from 24.5% to 20% as of 1 January 2014. This change improved Pohjola's consolidated earnings after tax by EUR 65 million.

Earnings before tax

Million EUR	2013	2012	Change, %
Banking	251	221	13
Non-life Insurance	167	92	82
Asset Management	24	32	-27
Group Functions	32	27	18
Total	473	372	27
Change in fair value reserve	-17	418	
Earnings before tax at fair value	456	790	-42
Earnings per share, EUR	1.33	0.89	
Equity per share, EUR	9.52	8.67	
Average personnel	2,580	3,421	

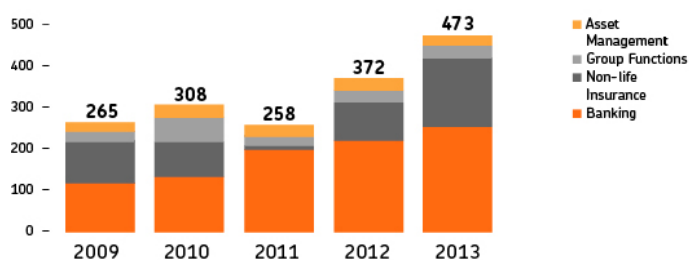
Financial targets

	2013	2012	Target
Return on equity, %	14.6	11.2	13
Core Tier 1, %	11.3	10.6	≥ 11
Operating cost/income ratio by Banking, %	36	34	< 35
Operating combined ratio by Non-life Insurance, %	86.9	90.5	< 92
Operating expense ratio by Non-life Insurance, %	18.7	21.5	18
Solvency ratio by Non-life Insurance, %	73	81	70
Operating cost/income ratio by Asset Management, %	53	47	< 45
Total expenses in 2015 at the same level as at the end of 2012	580	569	569
AA rating affirmed by at least two credit ratings at least at the main competitors' level	2	2	2
Dividend payout ratio at least 50% provided that Core Tier 1 ratio remains at least 10%	50*	51	≥ 50

* Board proposal

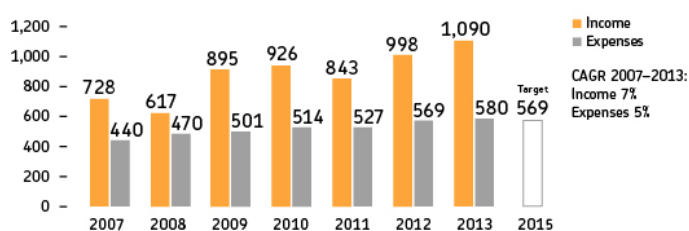
Earnings before taxes

€ million



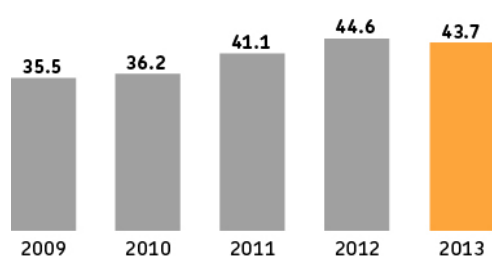
Income and cost developments, € million 2007–2013

€ million



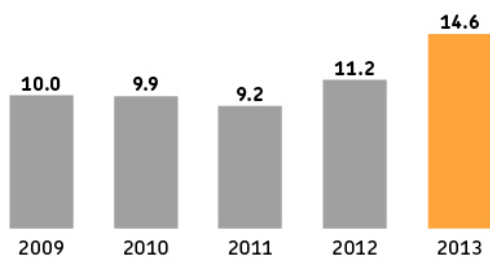
Balance sheet total

€ billion



Return on equity (ROE)

%



Operating environment

World economic growth was subdued in 2013. It was slower than a year ago not only in industrialised countries but also in emerging economies. The euro-area economy contracted over the previous year but output began to recover in 2013. Some crisis-ridden economies began to rebound. Economic uncertainty diminished and confidence improved towards the year end.

The European Central Bank (ECB) cut its main refinancing rate from the year-start 0.75% to 0.25%. The Euribor rates remained very low throughout 2013. Euro-area government bond yield spreads narrowed as markets calmed down.

The Finnish economy was weak in 2013 with decreasing GDP and increasing unemployment. The inflation rate decelerated markedly. Towards the year end, confidence began to improve in Finland too and there were more signs of exports recovery. Home prices rose by a few per cent but home sales and residential building were on the decrease.

World economic growth will strengthen in 2014 but remain below average. Economic growth in the US will speed up and the euro area economy will recover. An increase in exports will stimulate the Finnish economy but the economic growth rate will remain slow. The ECB will continue to conduct an expansionary monetary policy.

In the Finnish banking sector, the annual growth rate of the total consumer loan volumes slowed to 2%. This slowdown is explained by the uncertain economic outlook, slower housing markets and banks' tighter lending criteria. However, total corporate loans continued to grow at a relatively steady annual rate of 5%. In 2014, demand for loans is expected to remain weaker than average.

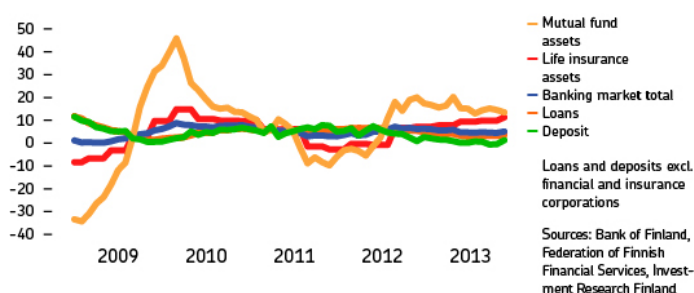
Growth in the total deposits made by private and corporate customers almost came to a halt last year. The use of current accounts increased, but the total term deposits were lower, as assets were allocated to savings products with higher investment risks because of favourable developments in financial markets and low interest rates.

Capital markets performed strongly during the second half of 2013. Mutual fund assets and insurance savings increased by 13% last year. Net asset inflows to mutual funds were positive throughout the year and life insurance premiums written increased by over 40% from their previous year's level. The trend in insurance savings continued as people shifted away from products with guaranteed technical interest in favour of unit-linked products.

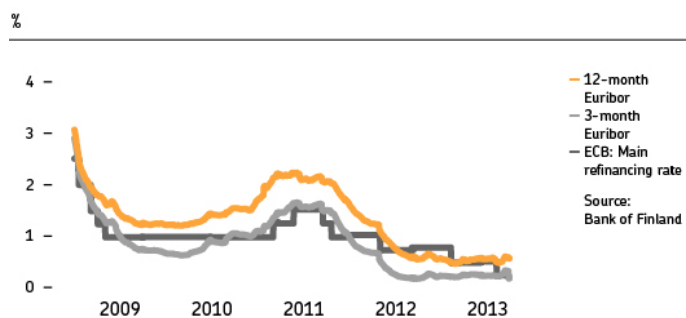
According to preliminary information, non-life insurance premiums written increased by 6% in 2013. Claims expenditure and claims paid remained, however, at the previous year's level.

Banking business

12-month change, %

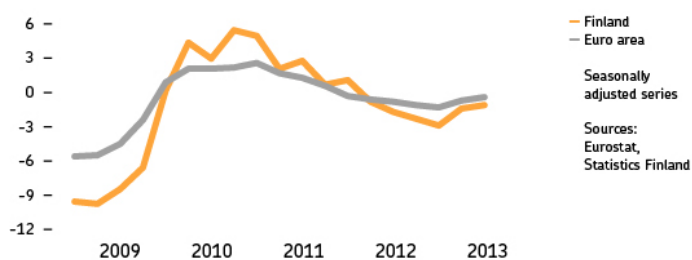


Euribor rates and ECB refi rate



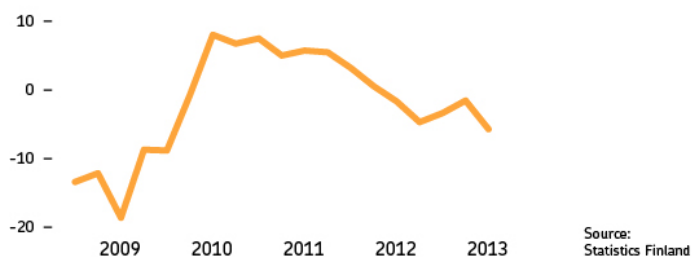
GDP

annual volume change, %



Fixed investments

annual volume change, %



Consolidated earnings analysis

Earnings analysis

€ million	2013	2012	Change, %
Net interest income			
Corporate and Baltic Banking	227	199	14
Markets	-3	31	
Other operations	5	33	-84
Total	229	263	-13
Net commissions and fees	162	169	-4
Net trading income	93	79	18
Net investment income	39	13	
Net income from Non-life Insurance			
Insurance operations	440	367	20
Investment operations	131	115	14
Other items	-43	-45	4
Total	529	438	21
Other operating income	38	37	1
Total income	1,090	998	9
Personnel costs	184	232	-21
ICT costs	90	87	3
Depreciation and amortisation	55	50	9
Other expenses	251	200	26
Total expenses	580	569	2
Earnings before impairment loss on receivables	510	429	19
Impairment loss on receivables	37	57	-36
Share of associates' profits	0	1	
Earnings before tax	473	372	27
Change in fair value reserve	-17	418	
Earnings before tax at fair value	456	790	-42

Consolidated earnings before tax improved by EUR 101 million to EUR 473 million (372). In Non-life Insurance, the reduction in the discount rate for pension liabilities decreased earnings by EUR 38 million (52). Total income increased by 9%. Total expenses grew by 2% due to the bank levy of EUR 19 million. Excluding the bank levy, total expenses would have decreased by 1%. Impairment loss on receivables decreased by EUR 20 million to EUR 37 million (57).

The fair value reserve before tax declined by EUR 17 million amounting to EUR 204 million on 31 December. Earnings before tax at fair value were EUR 456 million (790).

Combined net interest income from Corporate Banking and Baltic Banking grew by 14% year on year. The loan portfolio increased by 5%. The corporate loan portfolio's average margin increased by five basis points to 1.57% (1.52).

However, the Group's combined net interest income decreased by 13%. Net interest income from the liquidity buffer decreased as the Group was preparing for tighter liquidity regulation. The Markets division also showed lower net interest income than the year before.

Net trading income increased by 18%. The Markets division reported an increase in net trading income whereas the Group Functions showed a decrease in net trading income due to fair value changes in derivatives.

Net commissions and fees declined by 4% because performance-based management fees charged by Asset Management were markedly lower than the high level reported a year ago. Fees posted by Non-life Insurance decreased by EUR 5 million because of the transfer of responsibility for the collection of unemployment insurance contributions the Unemployment Insurance Fund. Net commissions and fees by Banking increased by 4%.

Net investment income increased to EUR 39 million (13). Capital gains on notes and bonds amounted to EUR 14 million (–2) and dividend income to EUR 24 million (15) including EUR 16 million (11) in interest on cooperative capital from Suomen Luotto-osuuskunta.

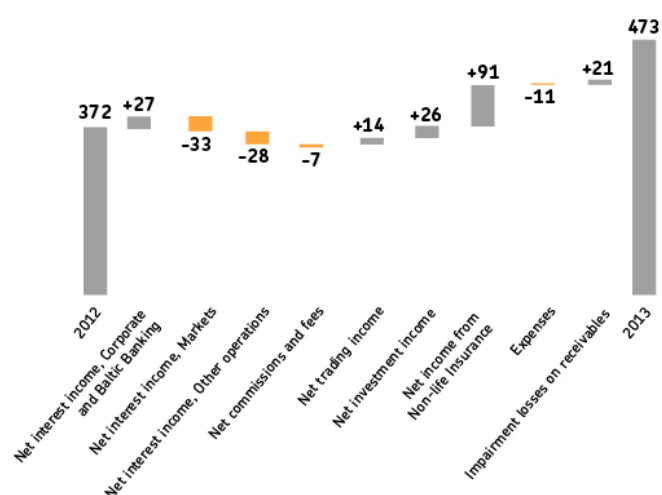
Within Non-life Insurance, net income increased by EUR 91 million, year on year. Insurance premium revenue increased by 11% and claims incurred by 7%. The reduction in the discount rate for pension liabilities from 3.0% to 2.8% increased claims incurred in 2013 by EUR 38 million. The 2012 reduction in the discount rate from 3.3% to 3.0% increased claims incurred by EUR 52 million. Investment income recognised in the income statement was EUR 16 million higher than the year before. Investment income includes EUR 41 million (40) in capital gains and impairment loss on investments totalled EUR 10 million (13). Return on investments at fair value was 3.5% (10.8).

Personnel costs decreased by EUR 48 million, or by 21% over the previous year's level. Lower personnel costs resulted from personnel reductions and the transfer of employment contracts to other companies within OP-Pohjola Group Central Cooperative Consolidated as part of the efficiency-enhancement programme. A non-recurring provision for expenses of EUR 7 million related to the efficiency-enhancement programme added to personnel costs a year ago.

Other expenses increased by 26%. Centralising staff and services within OP-Pohjola Group Central Cooperative Consolidated added to service charges included in other expenses. In addition, other expenses include EUR 19 million in the bank levy (–). Expenses of Omasairaala Oy, a hospital opened in early 2013, amounted to EUR 5 million (1).

Earnings before tax, Change between 2012 and 2013

€ million



Risk management

The purpose of risk management is to identify threats and opportunities affecting strategy implementation. The objective is to help achieve the targets set in the strategy by ensuring that risks are proportional to risk-bearing capacity.

Pohjola Group's major risks include credit risk, market risk, liquidity risk and underwriting risk. Strategic and operational risks, such as changes in the operating environment, competition or customer behaviour, are inherently related to all Group business lines.

A description of the risk management principles can be found in Note 2 "Pohjola Group's Risk Management and Capital Adequacy Management Principles".

Group risk exposure

Economic development in Finland remained weak but there were more signs of a gradual recovery. The Group's risk exposure remained stable. The Group has a strong risk-bearing capacity sufficient to secure business continuity.

No major changes occurred in credit risk exposure. Investment-grade exposures remained high. Doubtful receivables and past due payments remained low and impairment losses decreased significantly.

	2013	2012
Net loan losses and impairment losses, € million	37	57
% of the loan and guarantee portfolio	0.21	0.35
Doubtful receivables*), € million	40	34
% of the loan and guarantee portfolio	0.23	0.21
Past due payments, € million	27	21
% of the loan and guarantee portfolio	0.16	0.13

*) Include non-performing, zero-interest and under-priced receivables

The final loan losses recognised amounted to EUR 27 million EUR (35) and impairment losses to EUR 55 million (62). Loan loss recoveries and reversal of allowances for impairment losses totalled EUR 45 million (40).

The reduction in the discount rate for pension liabilities improved Non-life Insurance risk exposure. No major changes took place in the investment portfolio's risk exposure.

The Group's funding and liquidity position remained strong and the Group had good access to funding during 2013.

Liquidity buffer

Liquidity buffer

€ billion	31 Dec 2013	31 Dec 2012	Change, %
Deposits with central banks	2.0	5.6	-64.5
Notes and bonds eligible as collateral	7.4	5.4	36.6
Corporate loans eligible as collateral	3.3	3.0	9.9
Total	12.7	14.0	-9.6
Receivables ineligible as collateral	0.7	0.6	8.5
Liquidity buffer at market value	13.3	14.6	-8.8
Collateral haircut	-1.0	-0.9	9.4
Liquidity portfolio at collateral value	12.3	13.7	-10.0

As OP-Pohjola Group's central bank, Pohjola maintains a liquidity buffer which consists mainly of deposits with central banks, and notes, bonds and loans eligible for central bank refinancing. The liquidity buffer comprises notes and bonds issued by governments, municipalities, financial institutions and companies with all showing good credit ratings, securitised assets and corporate loans eligible as collateral.

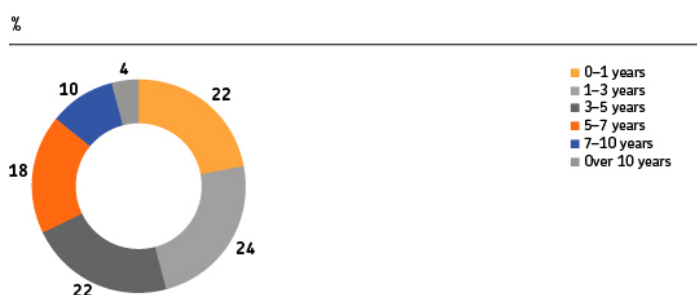
Measurement of the notes and bonds included in the liquidity buffer is based on mark-to-market valuations.

The liquidity buffer maintained by Pohjola plus other items based on OP-Pohjola Group's contingency funding plan can be used to cover wholesale funding for at least 24 months in the event wholesale funding becomes unavailable and total deposits decrease at a moderate rate.

Financial assets included in the liquidity buffer by credit rating 31 Dec. 2013



Financial assets included in the liquidity buffer by maturity 31 Dec. 2013



Major risks related to the Group's business are associated with developments in the overall economic environment and capital markets, as well as upcoming regulatory changes in the financial sector.

Operational risks

The most significant, identified operational risks pertain to systems, business processes, the accuracy of documentation, and the allocation of resources. Materialised operational risks resulted in EUR 2 million (2) in costs in 2013.

Country risk

External risks of the home markets, i.e. Finland, Estonia, Latvia and Lithuania, are included in country risk. A significant part of Pohjola Group's country risk pertains to the liquidity buffer and the investment portfolio managed by Non-life Insurance. On 31 December 2013, the amount of country risk amounted to EUR 11.1 billion, up by EUR 1.3 billion over the previous year. By region, the majority of the country risk applied to EU member states, with non-EU countries accounting for 7% (7) of country risk. The exposures cover all balance-sheet and off-balance-sheet items and are based on values used in capital adequacy.

Exposure split by geographic region and exposure class on 31 December 2013

EUR million	Central government and central bank exposures	Credit institution exposures	Corporate exposures	Retail exposures	Equity investments ¹	Notes and bonds eligible as collateral ²	Other exposures	Total
Finland	3,334	16,446	22,085	1,935	327	493	56	44,675
Baltic states	215	5	627	0	0	0	0	846
Other Nordic countries	52	534	441	7	19	1,164	8	2,225
Germany	1,420	194	118	0	4	338	0	2,075
France	101	373	78	0	25	779	0	1,354
GIIPS countries ³	26	27	17	0	17	379	0	466
Other EU member states	896	1,283	303	0	305 ⁴	514	0	3,301
Rest of Europe	0	305	83	0	44	37	0	468
USA	0	181	60	0	68	0	14	324
Asia	0	259	57	0	52	0	0	369
Other countries	1	52	61	0	153 ⁴	247	0	515
Total	6,045	19,658	23,931	1,942	1,014	3,950	78	56,619

¹ Also include €231 million in bond funds.

² Consist of RMBS, ABS and Covered Bond investments.

³ EUR 33 million of exposures to the GIIPS countries will mature in 2014.

Exposures to Spain totalled EUR 157 million and to Italy EUR 159 million.

⁴ Consist mainly of investments in Other EU member states in Europe funds and in Other countries in Emerging Markets and Global funds.

Exposure split by geographic region and exposure class on 31 December 2012

€ million	Central government and central banks	Credit institutions	Corporate	Retail investments	Equity ¹⁾	Collateralised notes and bonds ²⁾	Other	Total exposure
Finland	6,922	15,695	21,804	1,848	320	289	50	46,928
Baltics	67	2	397	0	1			467
Other Nordic countries	7	524	458	9	17	864	47	1,927
GIIPS countries ³⁾	25	78	17	0	16	411		547
Rest of EU	960	1,878	508	0	336	1,799	81	5,562
Rest of Europe		405	73	0	12	37	7	534
USA		257	95	0	86		12	451
Asia		263	57	0	31			352
Other countries		78	52	0	279 ⁴⁾	6	22	436
Total	7,981	19,179	23,463	1,858	1,098	3,407	220	57,205

¹ Also includes €304 million in bond funds

² Comprises RMBS, ABS and Covered Bond investments

³ EUR 58 million of exposures to the GIIPS countries will mature in 2013.

Exposures to Spain totalled EUR 173 million and to Italy EUR 171 million.

⁴ Consist mainly of investments in Emerging Markets and Global funds.

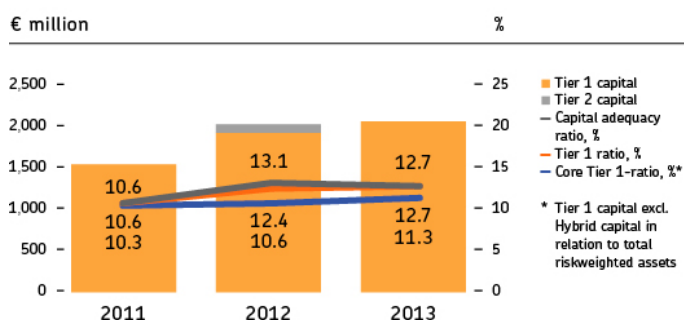
Capital Adequacy

Capital base and capital adequacy

Pohjola Group's Core Tier 1 ratio improved to 11.3% (10.6). In December, Pohjola Insurance Ltd and A-Insurance Ltd decided to distribute EUR 85 million in interim dividends for 2013 profit to Pohjola Bank plc, which increased the Core Tier 1 ratio by 0.5 percentage points. The Group's target for its Core Tier 1 ratio is at least 11%.

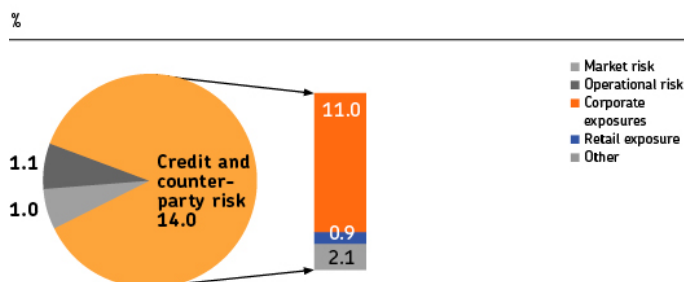
The capital adequacy ratio under the Act on Credit Institutions decreased to 12.7% (13.1), as against the statutory minimum requirement of 8%. In March, Pohjola Bank plc redeemed a Lower Tier 2 subordinated note of EUR 170 million, thereby decreasing the Group's capital adequacy under the Act on Credit Institutions by 1.1 percentage points.

Capital base and capital adequacy



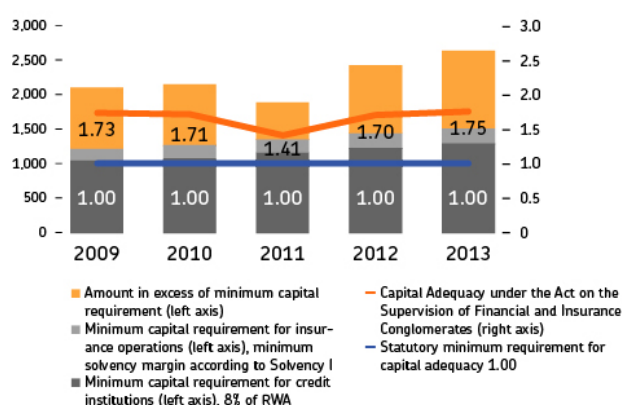
Risk-weighted assets increased by 5% in the year to December mainly as a result of higher credit and counterparty risk and market risks. The Banking loan portfolio increased by 5%. Risk-weighted assets totalled EUR 16.0 billion (15.3) on 31 December.

Risk-weighted assets total



Pohjola Group belongs to OP-Pohjola Group whose capital adequacy is supervised in accordance with the Act on the Supervision of Financial and Insurance Conglomerates. The Group's capital adequacy ratio under the Act was 1.75 (1.70) on 31 December.

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



Regulatory changes under Basel III and Solvency II

As a result of the financial crisis, the regulatory framework for banks' capital adequacy requirements is becoming more rigorous. The new Capital Requirement Directive and Regulation (CRD IV/CRR) was published in the EU Official Journal on 27 June 2013. These new rules and regulations will be phased in from 1 January 2014 and will implement the Basel III standards within the EU during 2014–19. These regulatory changes are aimed, for example, at improving the quality of banks' capital base, reducing the cyclic nature of capital requirements, decreasing banks' indebtedness and setting quantitative limits to liquidity risk.

From Pohjola's perspective, the most important individual change in the regulations relates to the treatment of insurance holdings within a banking-led financial and insurance conglomerate. On 27 November 2013, Pohjola and OP-Pohjola Group received permission from the Finnish Financial Supervisory Authority to treat insurance holdings within the conglomerate as risk-weighted assets. The method applied to insurance holdings leads to a risk-weight of approximately 280%. The permission will be valid from 1 January 2014 until 31 December 2014 at the latest. As a result of the European Central Bank taking over supervisory responsibilities for OP-Pohjola Group as credit institution, the ECB will decide on whether any further special permission is given to OP-Pohjola Group.

Other changes caused by CRD IV/CRR are expected to have a minor one-off negative effect on capital adequacy. The table below shows the estimated net effect (pro forma as of 31 December 2013) of the change in the treatment of insurance holdings and other changes caused by CRD IV/CRR.

Capital adequacy

%	31 Dec. 2013	CRD IV/CRR pro forma
Core Tier 1 ratio	11.3	-
Common Equity Tier 1 ratio (CET1)	-	11.9
Tier 1 ratio	12.7	13.0
Capital adequacy ratio	12.7	16.5

The requirements for capital buffers implemented through national legislation will add to capital requirements but the schedule for their implementation is not yet known. The upcoming liquidity regulation will add liquidity management costs. Profitability will play a key role when preparing for regulatory changes.

As part of OP-Pohjola Group, Pohjola as credit institution will be subject to direct supervision by the ECB in November 2014 under the current plan. The ECB will conduct an asset quality review (AQR) and stress test of OP-Pohjola Group as credit institution during 2014, in which Pohjola will participate.

The solvency regulations of the insurance sector are changing, too. Changes in the insurance sector's Solvency II regulations aim to improve the quality of insurance companies' capital base, improve their risk management, increase the risk-based capital requirements and harmonise insurance-sector solvency requirements in Europe. The regulations are still being processed, and are scheduled to come into effect at the beginning of 2016. The solvency capital requirement (SCR) for Non-life Insurance under Solvency II would have amounted to EUR 713 million (pro forma) based on underwriting and investment risks on 31 December 2013. Pohjola estimates that its Non-life Insurance business already fulfils the solvency capital requirement under the proposed Solvency II.

Capital base and capital adequacy

EUR million	31 Dec 2013	31 Dec 2012
Tier 1 capital		
Equity capital	3,043	2,769
Elimination of insurance companies' effect in equity capital (equity capital and Group eliminations)	-35	-6
Fair value reserve, transfer to Tier 2	-37	-36
Core Tier 1 capital before deductions and hybrid capital	2,970	2,728
Intangible assets	-193	-182
Excess funding of pension liability and fair value measurement of investment property	-4	-7
Dividend distribution proposed by Board of Directors	-212	-145
Investments in insurance companies and financial institutions	-703	-703
Shortfall of impairments – expected losses	-50	-60
Core Tier 1 capital	1,808	1,631
Hybrid capital	274	274
Shortfall of Tier 2 capital	-43	
Tier 1 capital	2,038	1,904
Tier 2 capital		
Fair value reserve	26	13
Debenture loans	683	853
Investments in insurance companies and financial institutions	-703	-703
Shortfall of impairments – expected losses	-50	-60
Transfer to Tier 1 capital	43	
Tier 2 capital		103
Total capital base	2,038	2,007
Deductions from Tier 1 and 2 capital		
Investments in insurance companies and financial institutions	-1,406	-1,406
Shortfall of impairments – expected losses	-99	-121
Total	-1,505	-1,527
Risk-weighted assets	16,048	15,320
Core Tier 1 ratio, %	11.3	10.6
Tier 1 ratio, %	12.7	12.4
Capital adequacy ratio, %	12.7	13.1

Capital base and capital adequacy measurement is based on approaches under Basel II. Pohjola has used the Internal Ratings Based Approach (IRBA) for corporate, credit institution and retail exposures as well as equity investments. Pohjola has used the Standardised Approach (SA) to measure credit risk for government exposures.

OP-Pohjola Group's capital adequacy ratio under the Act on Credit Institutions, Tier 1 ratio and Core Tier 1 ratio all stood at 14,3 % (14,1).

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

EUR million	31 Dec 2013	31 Dec 2012
Pohjola Group's equity capital	3,043	2,769
Hybrid instruments, perpetual bonds and debenture bonds	1,007	1,177
Other sector-specific items excluded from capital base	-5	-121
Goodwill and intangible assets	-880	-876
Equalisation provision	-198	-206
Proposed profit distribution	-212	-145
Items under IFRS deducted from capital base*	-16	-45
Shortfall of impairments – expected losses	-99	-121
Conglomerate's capital base, total	2,639	2,432
Regulatory capital requirement for credit institutions**	1,284	1,226
Regulatory capital requirement for insurance operations***	222	203
Conglomerate's total minimum capital requirement	1,506	1,429
Conglomerate's capital adequacy	1,134	1,004
Conglomerate's capital adequacy ratio (capital resources/minimum of capital resources)	1.75	1.70

* Excess funding of pension liability, Fair value measurement of investment property, Portion of cash flow hedge of fair value reserve

** Risk-weighted assets x 8%

*** Minimum solvency margin

OP-Pohjola Group's capital adequacy ratio was 1.90 (1.90).

Credit ratings

Pohjola Bank plc's credit ratings

Rating agency	Short-term debt	Outlook	Long-term debt	Outlook
Standard & Poor's	A-1+	Negative	AA-	Negative
Moody's	P-1	Stable	Aa3	Stable
Fitch	F1	Stable	A+	Stable

Pohjola Insurance Ltd's ratings

Rating agency	Rating	Outlook
Standard & Poor's	AA-	Negative
Moody's	A3	Stable

In 2013, no changes occurred in the credit rating of Pohjola Bank plc and the financial strength rating of Pohjola Insurance Ltd affirmed by Fitch Ratings Limited, Standard & Poor's Credit Market Services Europe Limited and Moody's Investors Services Ltd, including their rating outlook.

Fitch Ratings affirmed on 4 April 2013 and 20 November 2013 OP-Pohjola Group's and Pohjola Bank plc's long-term debt rating at A+ and short-term rating at F1 and the outlook remained stable.

Standard & Poor's affirmed Pohjola Bank plc's long-term debt rating at AA- and short-term debt rating at A-1+ on 31 July 2013, and Pohjola Insurance Ltd's financial strength rating at AA- on 5 July 2013, while keeping their outlook negative.

Pohjola's Efficiency-enhancement Programme

The efficiency-enhancement programme launched within Pohjola in late 2012 is aimed at achieving annual cost savings of around EUR 50 million by the end of 2015, job cuts accounting for around 40% of the estimated cost savings. The remaining cost savings will arise from eliminating overlapping activities and standardising practices within the framework of OP-Pohjola Group Central Cooperative Consolidated's efficiency-enhancement programme. The programme aims at annual cost savings of EUR 150 million within OP-Pohjola Group Central Cooperative Consolidated by the end of 2015.

Pohjola achieved 55% of the total annual cost savings of EUR 50 million in 2013, and expects to achieve cost savings of 24% in 2014 and the rest by the end of 2015. Non-life Insurance is anticipated to account for over 60% of the cost savings, Banking for slightly over 30% and Asset Management for the rest.

As its financial target, Pohjola Group aims to keep its total expenses at the end of 2015 at the 2012-end level. Despite the cost savings of EUR 27 million achieved within the framework of the efficiency-enhancement programme, Pohjola Group's total expenses were higher than at the end of 2012, which was partly affected by the bank levy of EUR 19 million. Cost savings came mainly from a reduction in personnel costs. Non-life Insurance accounted for 58% of the cost savings, Banking for 36% and Asset Management for 6%.

In September, OP-Pohjola decided to update its operating model for ICT services by outsourcing part of its application development and maintenance to Accenture and CGI. OP-Pohjola Group seeks to achieve annual cost savings of over EUR 20 million through this outsourcing after the transitional period. Pohjola Group's portion of these cost savings is already included in the EUR 50 million cost savings target mentioned above.

Financial performance and risk exposure by business segment

Banking

- Earnings before tax amounted to EUR 251 million (221). Higher customer business volumes and margins and lower impairment losses improved earnings.
- The loan portfolio grew by 5% to EUR 14.2 billion (13.5).
- The average corporate loan portfolio margin improved by 5 basis points to 1.57%.
- Impairment loss on receivables decreased to EUR 35 million (54), accounting for 0.20% of the loan and guarantee portfolio (0.34).
- Excluding the bank levy of EUR 17 million (–), expenses would have decreased by EUR 2 million. The operating cost/income ratio was 36% (34).

Banking: financial results and key figures and ratios

€ million	2013	2012	Change, %
Net interest income			
Corporate and Baltic Banking	227	199	14
Markets	-3	31	
Total	224	230	-3
Net commissions and fees	100	96	4
Net trading income	101	72	41
Other income	17	21	-16
Total income	443	418	6
Expenses			
Personnel costs	57	64	-10
ICT costs	31	27	13
Depreciation and amortisation	15	15	0
Other expenses	54	37	50
Total expenses	157	143	10
Earnings before impairment loss on receivables	285	275	4
Impairment loss on receivables	35	54	-37
Earnings before tax	251	221	13
Earnings before tax at fair value	260	226	15
Loan portfolio, € billion	14.2	13.5	5
Guarantee portfolio, € billion	2.7	2.7	1
Risk-weighted assets, € billion	14.1	13.3	5
Margin on corporate loan portfolio, %	1.57	1.52	3
Ratio of doubtful receivables*) to loan and guarantee portfolio, %	0.23	0.21	
Ratio of impairments of receivables to loan and guarantee portfolio, %	0.20	0.34	
Operating cost/income ratio, %	36	34	
Personnel	634	745	-15

*) Including non-performing, zero-interest and under-priced receivables

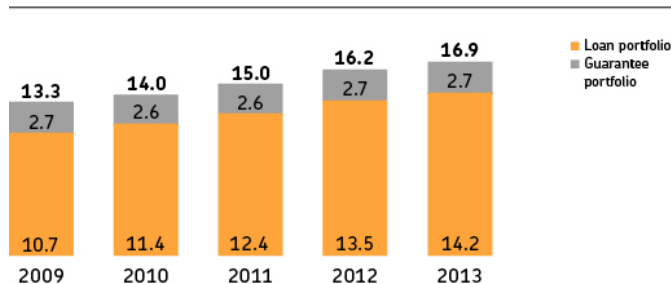
Earnings

Earnings before tax amounted to EUR 251 million (221). Impairment loss on receivables decreased markedly to EUR 35 million (54).

The loan portfolio grew by 5%, amounting to EUR 14.2 billion on 31 December. The corporate loan portfolio's average margin increased by 5 basis points to 1.57%.

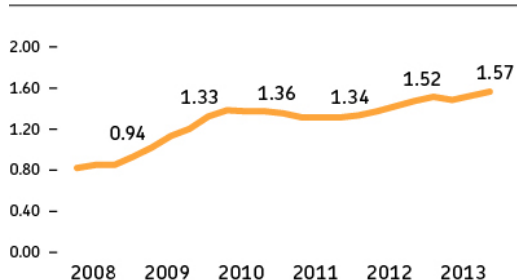
Loan and Guarantee portfolio

€ billion



Average margin on corporate loan portfolio

Percentage points



Pohjola's market share of corporate loans increased to 22.1% (21.5).

The guarantee portfolio remained at the 2012-end level, amounting to EUR 2.7 billion. Committed standby credit facilities decreased by EUR 0.3 billion to EUR 3.1 billion.

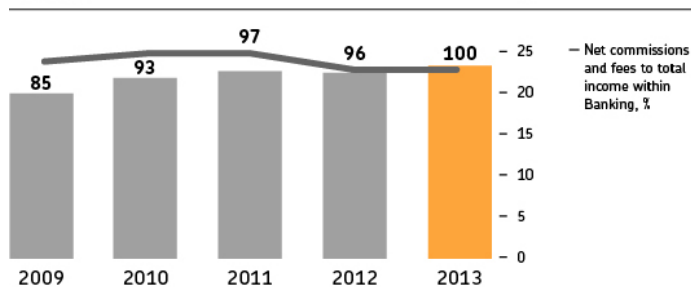
Combined net interest income from Corporate Banking and Baltic Banking grew by 14%.

Net commissions and fees increased by EUR 4 million year on year. Commissions and fees from financing and payment transactions increased by a total of EUR 5 million and those from securities issuance by EUR 3 million. Guarantee fees remained at the previous year's level but other commissions and fees lowered by EUR 3 million.

Net commissions and fees

€ million

%



Net interest income and net trading income from Markets were EUR 2 million lower than a year ago because of a decrease in trading income from foreign exchange and fixed income instruments measured at fair value. Trading income decreased by EUR 21 million whereas client income increased by EUR 14 million.

A decrease in other income and in depreciation and amortisation resulted mainly from a reduction in the maintenance lease portfolio.

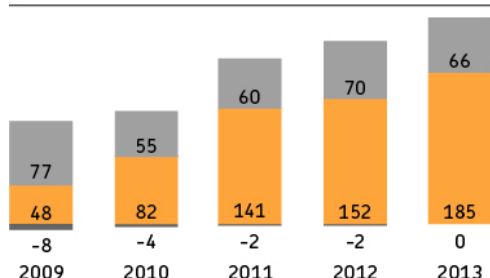
Total expenses increased by 10%. Total expenses would have reduced by 2% without the bank levy of EUR 17 million.

Earnings before tax by division

Million EUR	2013	2012	Change, %
Corporate Banking	185	152	21
Markets	66	70	-6
Baltic Banking	0	-2	97
Total	251	221	14

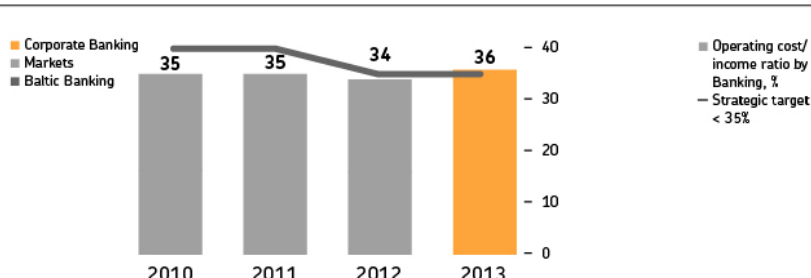
Banking's earnings before tax

€ million



Operating cost/income ratio by Banking

%



Risk exposure by Banking

Credit risk exposure

Credit risk monitoring highlights developments in total exposure and customer credit rating. Total exposure means the total amount of receivables and off-balance-sheet items exposed to credit risk, involving the principal and interest less impairment loss based on individually assessed receivables.

Risk exposure by Banking remained favourable. The exposure rating distribution remained good. In 2013, total exposure increased by EUR 0.7 billion to EUR 25.1 billion.

Total exposure by counterparty

€ billion	31 Dec 2013	31 Dec 2012	Change, %
Companies and housing associations	20.4	19.9	3%
Financial institutions and insurance companies	2.2	2.1	7%
Member banks and OP-Pohjola Group Central Cooperative	0.2	0.2	-6%
Public-sector entities	1.0	1.1	-9%
Households	1.1	1.0	12%
Non-profit organisations	0.2	0.2	-8%
Total	25.1	24.4	3%

Total exposure by rating category

Rating category	31 Dec 2013	31 Dec 2012	Change, € bn
1–2	2.4	2.5	-0.1
3–5	12.3	12.3	0.1
6–7	6.5	5.8	0.7
8–9	2.0	1.9	0.1
10	0.2	0.2	-0.1
11–12	0.3	0.3	0.0
Non-rated	0.2	0.2	-0.1
Households	1.1	1.0	0.1
Total	25.1	24.4	0.7

The ratio of investment-grade exposure – i.e. rating categories 1–5 – to total exposure, excluding households, remained at a healthy level, standing at 62% (63). The share of rating categories 11–12 decreased to 1.3% (1.4).

Of corporate customer exposure, the investment-grade exposure accounted for 56% (59) and the exposure of the lowest two rating categories amounted to EUR 310 million (331), representing 1.5% (1.7) of the total corporate exposure.

Corporate and housing association exposure by rating category

Rating category	31 Dec 2013	31 Dec 2012	Change, € bn
1–2	1.1	1.1	-0.1
3–5	10.4	10.5	-0.1
6–7	6.3	5.5	0.9
8–9	2.0	1.9	0.1
10	0.2	0.2	-0.1
11–12	0.3	0.3	0.0
Non-rated	0.2	0.2	-0.1
Total	20.4	19.9	0.6

Corporate exposure by industry remained highly diversified. The most significant industries included Wholesale and Retail Trade 10.2% (9.6), Renting and Operating of Residential Real Estate representing 9.9% (10.3), and Manufacture of Machinery and Equipment 9.1% (8.9). A total of 49% of the exposures within Renting and Operating of Residential Real Estate were guaranteed by general government.

On 31 December 2013, Baltic Banking exposures totalled EUR 0.8 billion (0.5), accounting for 3.2% (2.2) of total Banking exposures.

Large customer risks

Large customer risks include customer risks whose direct exposure exceeds 10% of the Group's capital base. The amount of large corporate customer exposures totalled EUR 2.7 billion (3.4) at the end of 2013. Pohjola's own funds covering the Group's large customer exposure amounted to EUR 2.1 billion (2.1). Large corporate customer exposure consisted of 11 groups of connected clients (13), accounting for 127% (159) of the capital base.

Past due payments, doubtful receivables and impairment loss

Past due payments increased by EUR 6 million to EUR 27 million and their ratio to the total loan and guarantee portfolio was 0.16% (0.13). Doubtful receivables – non-performing, zero-interest and under-priced receivables – increased by EUR 6 million to EUR 40 million, but their ratio to the loan and guarantee portfolio remained low, at 0.23% (0.21).

Net loan losses and impairment losses within Banking amounted to EUR 35 million (54), accounting for 0.20% (0.34) of the loan and guarantee portfolio. The final loan losses recognised amounted to EUR 17 million EUR (7) and impairment losses to EUR 55 million (59). Loan loss recoveries and reversal of allowances for impairment losses totalled EUR 38 million (11).

The Baltic Banking net loan losses and impairment losses amounted to EUR –1 million (–1), improving the result.

Market risk exposure

The Markets division within Banking is exposed to changes in market prices of interest rate, currency, commodity and credit risk premiums, of which the most relevant risk factors are interest rate and credit risks. Interest rate risk exposure averaged EUR 12.4 million (8.0) in 2013, based on the 1-percentage-point change in the interest rate. Overnight currency exposure and the associated risk remained low throughout the financial year. On 31 December, currency exposure amounted to around EUR 28 million (19).

Sensitivity analysis of market risk

Banking, EUR million	Risk parameter	Change	31 Dec 2013		31 Dec 2012	
			Effect on results	Effect on shareholders' equity	Effect on results	Effect on shareholders' equity
Interest-rate risk	Interest	1 percentage point	12		8	
Currency risk	Market value	10%	3		2	
Volatility risk						
Interest-rate volatility	Volatility	10 percentage points	5		1	
Currency volatility	Volatility	10 percentage points	1		0	
Credit risk premium*	Credit spread	0.1 percentage points	1	1	1	2

Sensitivity figures have been calculated as the sum of the currencies' intrinsic value.

* The credit risk premium has been calculated on notes and bonds at fair value through profit or loss and available for sale, included in liquidity buffer.

Derivatives business

Notes to the Financial Statements present derivative contracts by their purpose of use.

Non-life Insurance

- Earnings before tax improved to EUR 167 million (92). Earnings before tax at fair value were EUR 150 million (283). A reduction in the discount rate for pension liabilities reduced earnings by EUR 38 million (52).
- Insurance premium revenue increased by 11% (10).
- The number of loyal customer households increased by 45,612 (46,658).
- The balance on technical account improved. The operating combined ratio was 86.9% (90.5) and operating expense ratio 18.7% (21.5).
- Return on investments at fair value was 3.5% (10.8).

Non-life Insurance: financial results and key figures and ratios

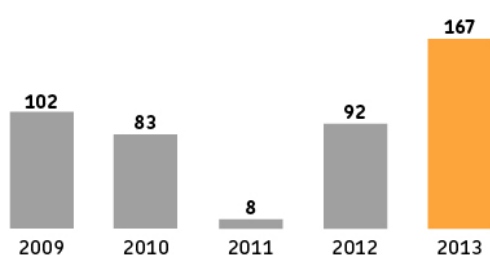
€ million	2013	2012	Change, %
Insurance premium revenue	1,249	1,126	11
Claims incurred	-889	-830	7
Operating expenses	-234	-242	-3
Amortisation adjustment of intangible assets	-21	-21	0
Balance on technical account	104	33	
Net investment income	132	115	14
Other income and expenses	-70	-57	23
Earnings before tax	167	92	82
Earnings/loss before tax at fair value	150	283	-47
Combined ratio, %	91.6	97.1	
Operating combined ratio, %	86.9	90.5	
Operating loss ratio, %	68.2	69.1	
Operating expense ratio, %	18.7	21.5	
Operating risk ratio, %	61.7	62.8	
Operating cost ratio, %	25.2	27.8	
Return on investments at fair value, %	3.5	10.8	
Solvency ratio, %	73	81	
Personnel	1,802	2,384	-24

Earnings

Earnings before tax improved to EUR 167 million (92) as a result of the strong balance on technical account and good investment performance. The reduction in the discount rate for pension liabilities from 3.0% to 2.8% increased claims incurred by EUR 38 million. The 2012 reduction in the discount rate from 3.3% to 3.0% increased claims incurred by EUR 52 million.

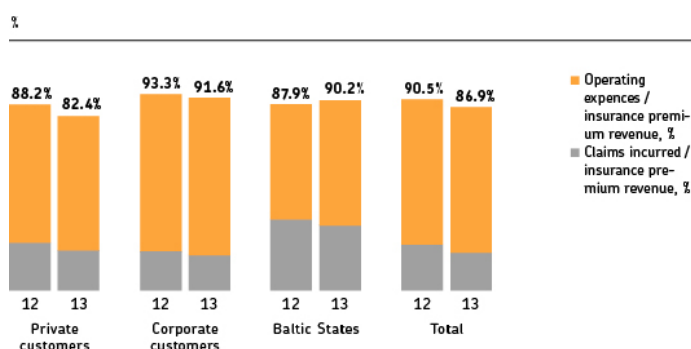
Non-life's earnings before tax

€ million



The balance on technical account was better than a year ago. Insurance premium revenue increased vigorously and operating expenses decreased, year on year. Total insurance premium revenue improved by 11% (10). The operating balance on technical account totalled EUR 164 million (106) and the operating combined ratio was 86.9% (90.5). These key operating figures exclude changes in reserving bases and amortisation on intangible assets arising from the corporate acquisition. The combined ratio, including the abovementioned items, was 91.6% (97.1).

Operating combined ratio

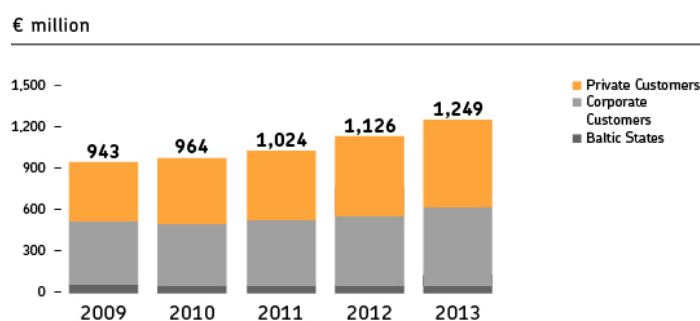


Insurance premium revenue

€ million	2013	2012	Change, %
Private Customers	630	566	11
Corporate Customers	567	513	10
Baltic States	52	46	13
Total	1,249	1,126	11

Growth in insurance premium revenue remained strong in both private and corporate customers. In the Baltic States too, insurance premium revenue rebounded. Measured in terms of the market share of premiums written, Pohjola was Finland's largest non-life insurer in 2012 with a 29.1% market share. The market share is expected to have increased further during 2013.

Insurance premium revenue by division



The number loyal customer households increased by 45,612 (46,658). On 31 December, the number of loyal customer households totalled 615,606 (569,994), of which up to 73% (69) also use OP-Pohjola Group cooperative banks as their main bank. OP-Pohjola Group cooperative banks' and Helsinki OP Bank's customers used OP bonuses that they had earned through the use of banking and insurance services to pay 1,783,000 insurance bills (1,629,000) with 253,000 (251,000) paid in full using bonuses. Insurance premiums paid using bonuses totalled EUR 89 million (82).

Sales of policies to private and corporate customers increased by 3% over the previous year. Pohjola updated its personal insurance policies and now the policy may extend its cover up to the age of 100 years. In early 2013, Pohjola opened Omasairaala Oy, a hospital for outpatient surgery specialising in orthopaedic diseases and injuries. In October, the hospital opened a private emergency service that supplements services provided in the public sector. In early December, Omasairaala became the provider of occupational healthcare services for the OP-Pohjola Group Central Cooperative Consolidated staff in the Helsinki Metropolitan Area.

Claims incurred increased by 9%, excluding the effect of the reduction in the discount rate for pension liabilities, or more slowly than insurance premium revenue. Claims incurred arising from new large claims were higher than a year ago. The reported number of large claims (in excess of EUR 0.3 million) amounted to 205 (173) in 2013, with their claims incurred retained for own account totalling EUR 138 million (125). Changes in claims for previous years improved the balance on technical account by EUR 10 million (27). The operating loss ratio was 68.2% (69.1) and the risk ratio (excluding indirect loss adjustment expenses) 61.7% (62.8).

Operating expenses decreased by 3% and the operating expense ratio improved to 18.7% (21.5). Efficiency improved as a result of strong growth in income and the efficiency-enhancement programme. The operating cost ratio (incl. indirect loss adjustment expenses) was 25.2% (27.8).

Other income and expenses increased by EUR 13 million, which weakened the financial results. Change in the principle of capital allocation to businesses increased financing costs by EUR 16 million within Non-life Insurance.

Operating balance on technical account and combined ratio (CR)

	2013		2012	
	Balance, € million	CR, %	Balance, € million	CR, %
Private Customers	111	82.4	67	88.2
Corporate Customers	48	91.6	34	93.3
Baltic States	5	90.2	6	87.9
Total	164	86.9	106	90.5

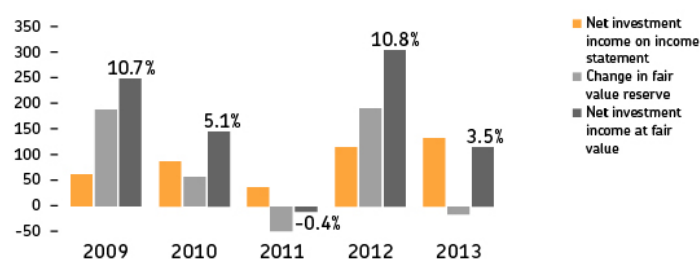
Among private customers in particular, profitability improved as a result of a strong increase in insurance premium revenue and a moderate increase in claims incurred.

Investment

Because of the unfavourable interest rate environment, investment income was lower than the year before. Investment income at fair value amounted to EUR 115 million (306) and return on investments at fair value was 3.5% (10.8). Net investment income recognised in the income statement was EUR 132 million (115).

Net investment income and change in fair value reserve

€ million



Risk exposure by Non-life Insurance

Major risks within Non-life Insurance include underwriting risks associated with claims developments, market risks associated with investment portfolios covering insurance liabilities and the discount rate applied to insurance liabilities.

On 31 December, Non-life Insurance solvency capital amounted to EUR 913 million (914) and the ratio of solvency capital to insurance premium revenue (solvency ratio) was 73% (81). Equalisation provisions were EUR 248 million (273).

Pohjola reduced the discount rate for Non-life Insurance pension liabilities by 0.2 percentage points from 3.0% to 2.8% as a result of low interest rates. This non-cash-flow-based change in the technical basis lowered consolidated earnings by EUR 38 million (52).

Underwriting risk exposure

The reinsurance of Non-life Insurance is managed on a centralised basis. Retention in both risk-specific reinsurance and catastrophe reinsurance is a maximum of EUR 5 million. The capacity of catastrophe reinsurance covering loss accumulation amounted to EUR 135 million. In addition, retention in large claims under the short-tail insurance products had an annual aggregate protection with a capacity of EUR 10 million in 2013. This protection will be brought into use when an annual claims expenditure arising from large claims is higher than usual.

Normal fluctuations in business operations are reflected in changes in earnings and shareholders' equity. The table below shows the effect of various risk parameters on shareholders' equity.

Sensitivity analysis of Non-life insurance

Risk parameter	Total amount in 2013, EUR million	Change in risk parameter	Effect on combined ratio	Effect on shareholders' equity, EUR million
Insurance premium revenue*	1,249	Up by 1%	Up by 0.9 pps	12
Claims incurred*	882	Up by 1%	Down by 0.7 pps	-9
Major loss, over EUR 5 million		1 loss	Down by 0.4 pps	-5
Personnel costs*	107	Up by 8%	Down by 0.7 pps	-9
Expenses by function**	311	Up by 4%	Down by 1.0 pps	-12
Inflation for collective liability	597	Up by 0.25 pps	Down by 0.3 pps	-4
Life expectancy for discounted insurance liabilities	1,564	Up 1 year	Down by 3.0 pps	-38
Discount rate for discounted insurance liabilities	1,564	Down by 0.1 pps	Down by 1.6 pps	-20

* Rolling 12-month

** Expenses by function in Non-life Insurance excluding expenses for investment management and expenses for other services rendered.

The number and size of claims vary annually. The year-on-year variation in earnings generated by the underwriting business is, to a large extent, explained by the claims incurred resulting from large claims.

A large part of insurance liabilities consists of annuities affected by estimated mortality and the discount rate used. Estimated mortality is based on the mortality model commonly used by Finnish insurers, which assumes the current trend of an increase in life expectancy to continue. This model was last updated in 2011.

Discounted insurance liabilities amounted to EUR 1,568 million (1,487). They were discounted using the discount rate of 3.0% (3.3) until 30 October 2013 and since that date using the discount rate of 2.8%. The duration of insurance liabilities is 12.6 years (12.4). The remaining insurance liabilities, EUR 1,025 million (961), were undiscounted, with a duration of 2.1 years (2.1).

Investment risk exposure

On 31 December 2013, the Non-life Insurance investment portfolio totalled EUR 3,219 (3,149), consisting of investments covering both insurance liabilities and the solvency capital.

Non-life Insurance investment portfolio by allocation

Allocation of investment portfolio	31 Dec 2013		31 Dec 2012	
	Fair value, EUR million	%	Fair value, EUR million	%
Money market instruments	113	4	42	1
Bonds and bond funds	2,309	72	2,369	75
Equities and private equity investments	426	13	367	12
Alternative investments	41	1	82	3
Real property	329	10	290	9
Total	3,219	100	3,149	100

The fixed-income portfolio by credit rating remained healthy, considering that investments within the “investment-grade” category represented 91% (92) and 74% (73) of the investments were rated at least A-. The average residual term to maturity of the fixed-income portfolio was 4.4 years (4.2) and the duration 3.7 years (4.2).

The running yield for direct bond investments averaged 2.7% (2.9) at the end of December.

Non-life Insurance fixed-income portfolio by maturity and credit rating on 31 December 2013, EUR million

Year(s)	0–1	1–3	3–5	5–7	7–10	10–	Total	%
Aaa	27	204	310	93	150	87	872	37%
Aa1–Aa3	112	67	72	15	10	32	308	13%
A1–A3	76	167	203	115	24	0	585	25%
Baa1–Baa3	38	61	123	129	33	19	402	17%
Ba1 or lower	51	69	53	6	9	3	189	8%
Internally rated	27	0	0	0		0	27	1%
Total	331	568	761	358	225	141	2,384	100%

The table above excludes credit derivatives.

Non-life Insurance's open currency position was EUR 136 million (254), accounting for 4% of the investment portfolio. The Group has been active in hedging against currency risks using currency derivatives.

The table below shows the sensitivity of investment risks and their effect of on shareholders' equity:

Non-life Insurance	Risk parameter	Change	Effect on shareholders' equity, EUR million	
			31 Dec 2013	31 Dec 2012
Bonds and bond funds ¹	Interest rate	1 pp	72	72
Equities ²	Market value	10%	35	30
Capital investments and unquoted equities	Market value	10%	10	10
Commodities	Market value	10%	1	1
Real property	Market value	10%	33	29
Currency	Currency value	10%	14	25
Credit risk premium ³	Credit spread	0.1 pp	8	9
Derivatives	Volatility	10 pps	2	0

¹ Include money-market investments, convertible bonds and interest-rate derivatives

² Include hedge funds and equity derivatives

³ Includes bonds and convertible bonds and money-market investments, excluding government bonds and interest-rate derivatives issued by developed countries

Asset Management

- Earnings before tax amounted to EUR 24 million (32). Performance-based management fees amounted to EUR 4 million (15).
- Assets under management increased by 16% to EUR 37.9 (32.8) from their 2012-end level.
- The operating cost/income ratio was 53% (47).

Asset Management: financial results and key figures and ratios

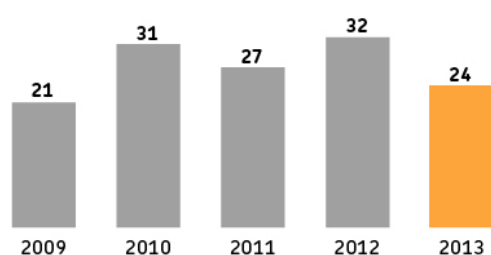
€ million	2013	2012	Change, %
Net commissions and fees	51	60	-15
Other income	4	5	-16
Total income	55	65	-15
Personnel costs	14	19	-25
Other expenses	17	14	23
Total expenses	32	33	-5
Share of associates' profits	0	0	-78
Earnings before tax	24	32	-27
Earnings before tax at fair value	24	32	-27
Assets under management, € billion	38	33	16
Operating cost/income ratio, %	53	47	
Personnel	88	153	-42

Earnings

Earnings before tax were EUR 24 million (32). Performance-based management fees worth EUR 4 million (15) were included in earnings. Earnings before tax include net profit shown by Access Capital Partners Group SA, an associated company, in proportion to Pohjola's shareholding.

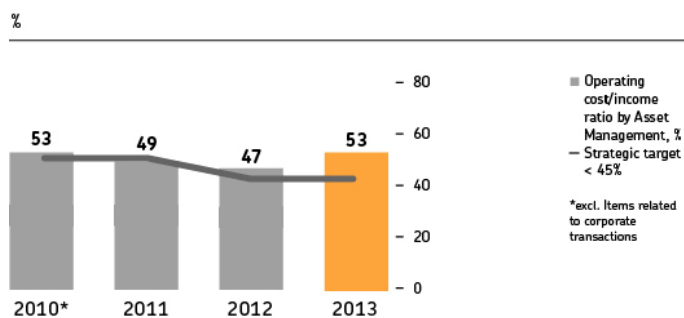
Asset Management's earnings before tax

€ million



The operating cost/income ratio was 53% (47).

Operating cost/income ratio by Asset Management



Assets under management increased by 16% from their 2013-start level, amounting to EUR 37.9 billion (32.8) on 31 December.

Assets under management

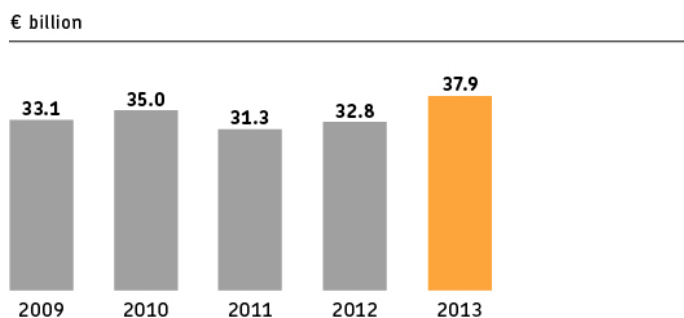
€ billion	2013	2012
Institutional Clients	21	19
OP Mutual Funds	12	10
Private	5	4
Total	38	33

Assets under management by asset class

%	2013	2012
Money market investments	15	16
Notes and bonds	37	40
Equities	32	27
Other	15	18
Total	100	100

The increase in assets under management was based on growth in OP Mutual Fund assets, good progress in net asset inflows and the higher market values of client portfolios. A total of 59% of mutual funds managed by Asset Management outperformed their benchmark index during the period.

Assets under management



Group Functions

- Earnings before tax amounted to EUR 32 million (27). These include EUR 14 million (-4) in capital gains on notes and bonds and EUR 24 million (15) in dividend income.
- Earnings before tax at fair value were EUR 23 million (250).
- Liquidity and access to funding remained good.

Group Functions: financial results and key figures and ratios

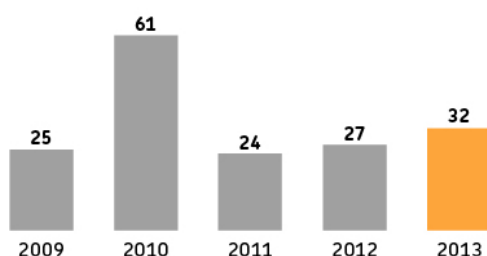
€ million	2013	2012	Change, %
Net interest income	26	36	-28
Net trading income	-12	1	
Net investment income	39	11	
Other income	7	16	-55
Total income	61	65	-6
Personnel costs	6	14	-57
Other expenses	20	20	0
Total expenses	26	34	-24
Earnings before impairment loss on receivables	35	30	14
Impairments loss on receivables	2	3	-24
Earnings before tax	32	27	18
Earnings before tax at fair value	23	250	-91
Liquidity buffer, € billion	13.3	14.6	-9
Risk-weighted assets € billion	1.9	1.9	0
Receivables and liabilities from/to OP-Pohjola Group entities, net position, € billion	4.7	3.2	46
Central Banking earnings, € million	9	8	7
Personnel	26	123	-79

Earnings

Earnings before tax amounted to EUR 32 million, or EUR 5 million higher than the year before. Earnings before tax at fair value were EUR 23 million, or EUR 227 million lower than a year ago when higher liquidity resulting from the ECB's long-term refinancing operations calmed down markets and reduced credit spreads.

The Group Functions' earnings before tax

€ million



Net interest income from the liquidity buffer decreased as the Group was preparing for tighter liquidity regulation. Net trading income was lower year on year due to the fair value changes of derivatives.

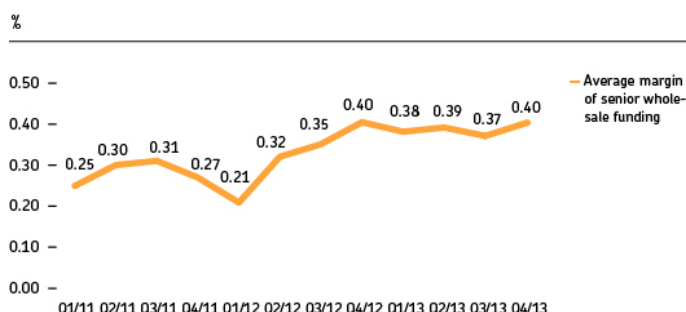
Net investment income included EUR 14 million in capital gains on notes and bonds (-4). Dividend income amounted to EUR 24 million (15) including EUR 16 million (11) in interest on cooperative capital from Suomen Luotto-osuuskunta. Impairment loss recognised on notes and bonds totalled EUR 2 million (3).

The bank levy increased other expenses by EUR 2 million.

Pohjola's access to funding remained good. During the financial year, Pohjola issued long-term bonds worth EUR 1.9 billion. During the second quarter, Pohjola issued in the international capital market a senior bond of EUR 500 million with a maturity of five years. It also issued its first Samurai bonds in the Japanese market, totalling 30 billion yen (EUR 237 million). In the third quarter, Pohjola issued in the international capital market a senior bond of EUR 750 million with a maturity of five years.

On 31 December, the average margin of senior wholesale funding was 40 basis points (40).

Average margin of senior wholesale funding



Risk exposure by Group Functions

Credit risk exposure

The Group Functions exposure totalled EUR 19.8 billion (20.4), consisting of notes and bonds to secure OP-Pohjola Group's liquidity, deposits with central banks and receivables from OP-Pohjola Group cooperative banks. A total of 99% (99) of the exposure came from investment-grade counterparties.

Group member cooperative banks and OP-Pohjola Group Central Cooperative with its subsidiaries form a significant customer group for Pohjola Bank plc acting as OP-Pohjola Group's central financial institution. Group member cooperative banks' and OP-Pohjola Group Central Cooperative's exposure increased by EUR 1.5 billion, or roughly 46%, year on year. All of their exposure was investment-grade exposure.

The Group Functions maintains the liquidity buffer in order to secure OP-Pohjola Group's liquidity. On 31 December 2013, the liquidity buffer amounted to EUR 13.3 billion (14.6), comprising primarily investments in notes and bonds issued by governments, municipalities, financial institutions and companies all showing good credit ratings, in securitised assets and corporate loans eligible as collateral.

Liquidity buffer by maturity and credit rating on 31 December 2013, EUR million

Year(s)	0–1	1–3	3–5	5–7	7–10	10–	Total	%
Aaa*	2,194	768	1,103	1,371	838	21	6,295	47%
Aa1–Aa3	5	273	423	571	269	1	1,542	12%
A1–A3	193	682	98	26	2	3	1,004	8%
Baa1–Baa3	165	193	65	15	35	1	474	4%
Ba1 or lower	29	118	30	7	43	0	227	2%
Internally rated**	329	1,209	1,255	363	127	483	3,766	28%
Total	2,915	3,243	2,974	2,353	1,314	509	13,308	100%

* incl. deposits with the central bank

** PD ≤ 0.40%

The liquidity buffer's (excl. deposits with the central bank) residual term to maturity averages 4.8 years.

Internally rated financial assets consist mainly of bonds issued by Finnish companies and institutions.

Market risk exposure

The most significant market risks exposed by the Group Functions comprise credit spreads included in the liquidity buffer and interest rate risk exposed by the banking book.

Interest rate risk exposure averaged EUR 28.4 million (16.1) in 2013, based on the 1-percentage-point change in the interest rate. On 31 December 2013, the market value of equity and private equity funds amounted to EUR 23 million (30). On 31 December 2013, capital tied to property holdings was EUR 38 million (30), of which property in own use accounted for EUR 3 million (3).

Sensitivity analysis of market risk

Group Functions, EUR million	Risk parameter	Change	31 Dec 2013		31 Dec 2012	
			Effect on shareholders' results	Effect on equity	Effect on shareholders' results	Effect on equity
Interest-rate risk	Interest rate	1 percentage point	27		22	
Interest-rate volatility	Volatility	10 percentage points	0		0	
Credit risk premium*	Credit spread	0.1 percentage points		30		19
Price risk						
Equity portfolio	Market value	10%		0		0
Private equity funds	Market value	10%		2		3
Property risk	Market value	10%	3		3	

Sensitivity figures have been calculated as the sum of the currencies' intrinsic value.

* The credit risk premium has been calculated on notes and bonds at fair value through profit or loss and available for sale, included in liquidity buffer.

Personnel and remuneration

On 31 December 2013, the Group had a staff of 2,550, or 854 less than a year ago. The majority of the personnel reductions are related to the transfer of employment contracts within OP-Pohjola Group Central Cooperative Consolidated.

Personnel by segment	31 Dec. 2013	31 Dec. 2012
Banking	634	745
Non-life Insurance	1.802	2.384
Asset Management	88	153
Group Functions	26	123
Total	2.550	3.404

A total of 402 Group employees (395) worked abroad.

The scheme for variable remuneration within OP-Pohjola Group and Pohjola consists of short-term, company-specific incentives and OP-Pohjola Group-wide long-term incentives. More detailed information on remuneration can be found in the Notes to the Financial Statements.

Capital expenditure

Capital expenditure for 2013 totalled EUR 45 million (43), Banking accounting for EUR 15 million (19), Non-life Insurance for EUR 27 million (22), Asset Management for EUR 2 million (1) and Group Functions for EUR 1 million (2). Capital expenditure mainly came from ICT investments.

Corporate social responsibility

Corporate social responsibility (CSR) is an integral part of Pohjola's business and, according to the strategy, is further developed as part of OP-Pohjola's CSR programme. This CSR programme comprises five components, their KPIs and targets for the KPIs.

More detailed information on OP-Pohjola Group's CSR programme can be found in OP-Pohjola Group's Annual Report 2013, covering a CSR report based on the GRI G4 Guidelines.

Group restructuring

Pohjola reorganised its capital market functions by combining functions specialising in debt and equity financing. As part of this change, Pohjola Corporate Finance Ltd merged with Pohjola Bank plc on 31 December 2013.

Pohjola opened a branch office in Lithuania in March since when Pohjola has provided its corporate customers services in all of the Baltic countries.

Shares and shareholders

Share series

Pohjola Bank plc shares are divided into Series A and K shares.

Series A shares (POH2S) available for subscription by the general public are quoted on NASDAQ OMX Helsinki Ltd. They have been quoted on the Large Cap list of NASDAQ OMX since 1989. In case of dividend payout, Series A shares entitle their holders to an annual dividend per share which is at least three cents higher than the dividend per share declared on Series K shares. Each Series A share entitles its holder to one vote at a General Meeting of Shareholders.

Unlisted Series K shares (POHKS) may be only held by and transferred between OP-Pohjola Group Central Cooperative – OP-Pohjola Group's central institution – cooperative banks and the cooperative bank company. At a shareholder's request, Series K shares may be converted into Series A shares. Each Series K share entitles its holder to five votes at a General Meeting of Shareholders.

Share capital

On 31 December 2013, Pohjola Bank plc's share capital totalled EUR 427,617,463.01. No changes have occurred in share capital since 2015.

Number of shares, votes and their changes

The number of shares and votes underwent the following changes in 2013.

Changes in number of shares 2013

Date	Number of Series A shares	% of total shares	Number of Series K shares	% of total shares	Total number of shares	Changes in number of shares	Reason for change
31 Dec. 2013	252,009,866	78.86%	67,541,549	21.14%	319,551,415		
14 Oct. 2013*	252,009,866	78.86%	67,541,549	21.14%	319,551,415	POH1S +33 880 POHKS -33 880	Conversion of Pohjola Series K shares held by OP-Pohjola member cooperative banks into Series A shares
2 Sept. 2013**	251,975,986	78.85%	67,575,429	21.15%	319,551,415	POH1S +33 188 POHKS -33 188	Conversion of Pohjola Series K shares held by OP-Pohjola member cooperative banks into Series A shares
31 Dec. 2012	251,942,798	78.84%	67,608,617	21.16%	319,551,415		

* Trading in the converted Series A shares began on NASDAQ OMX Helsinki on 15 October 2013.

** Trading in the converted Series A shares began on NASDAQ OMX Helsinki on 3 September 2013.

Changes in number of votes 2013

Date	Number of votes, Series A shares	% of total votes	Number of votes, Series K shares	% of total votes	Total number of votes	Changes in number of votes	Reason for change
31 Dec. 2013	252,009,866	42.73%	337,707,745	57.27%	589,717,611		
14 Oct. 2013*	252,009,866	42.73%	337,707,745	57.27%	589,717,611	POH1S +33 880 POHKS -169 400	Conversion of Pohjola Series K shares held by OP-Pohjola member cooperative banks into Series A shares
2 Sept. 2013**	251,975,986	42.72%	337,877,145	57.28%	589,853,131	POH1S +33 188 POHKS -165 940	Conversion of Pohjola Series K shares held by OP-Pohjola member cooperative banks into Series A shares
31 Dec. 2012	251,942,798	42.70%	338,043,085	57.30%	589,985,883		

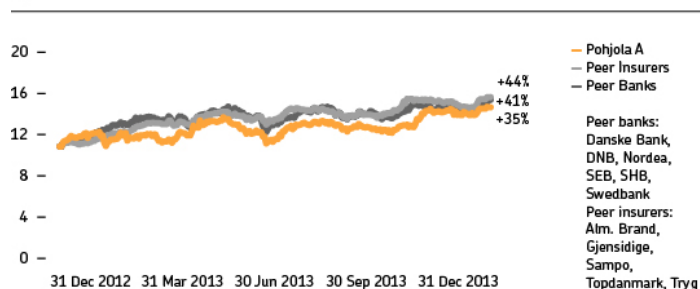
* Trading in the converted Series A shares began on NASDAQ OMX Helsinki on 15 October 2013.

** Trading in the converted Series A shares began on NASDAQ OMX Helsinki on 3 September 2013.

Total shareholder return, share price performance and market capitalisation

According to our promise to stakeholders based on Pohjola's strategy, we aim at a top-level total shareholder return (TSR) among our Nordic peer banks and insurers. In 2013, Pohjola's TSR exceeded that of its Nordic peer banks and almost reached almost the same level as its Nordic peer insurers.

Pohjola Total Shareholder Return vis-à-vis peer banks and insurance companies 2013
€



On the last trading date of the financial year, 30 December 2013, one Series A share closed at EUR 14.62 (28 Dec. 2012: 11.27). In 2013, the share price reached a high of EUR 14.67 (27 December) and a low of EUR 11.14 (24 June). Pohjola's market capitalisation amounted to EUR 4,672 million (3,601) at the end of December 2013.

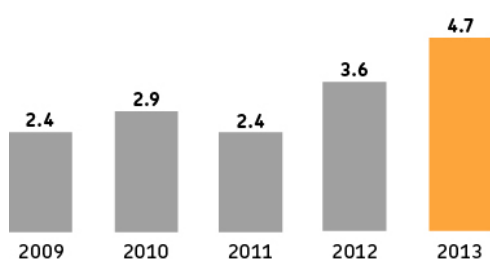
Share performance

Pohjola Series A share (POH1S)	2009	2010	2011	2012	2013
Year-end closing price, e	7.55	8.97	7.51	11.27	14.62
Year high, e	9.31	9.79	10.28	11.42	14.67
Year low, e	3.80	6.97	6.47	7.34	11.14
Market capitalisation (total Series A and K shares)*, € billion	2.41	2.86	2.40	3.60	4.67

*) In calculating the market capitalisation, Series K shares were valued at the price of Series A shares

Market capitalisation (A- and K-shares total)

€ billion



Share trading and trading venues

Trading in Series A shares in euro terms amounted to EUR 1,141 million in 2013 (1,133), while in volume terms it totalled 90 million shares (126).

Share trading (Nasdaq OMX Helsinki)

	2009	2010	2011	2012	2013
Volume, million	175	154	174	126	90
Turnover, EUR million	1,160	1,311	1,514	1,133	1,141

In 2013, 63.3% (72.2) of euro-denominated trading in Series A shares took place on NASDAQ OMX Helsinki and 36.7% (36.2) on multilateral trading facilities (MTF).

Trading venues*

Trading venue	% of euro-denominated trading in 2013, %
Nasdaq OMX	63.3
BATS Chi-X CXE (Chi-X)	21.7
Turquoise	8.7
BATS Chi-X BXE (Bats)	5.9
Burgundy	0.3
NYSE Arca	0.0
Frankfurt	0.0
Düsseldorf	0.0

* Source: Fidessa Fragmentation Index

Shareholders

On 31 December 2013, Pohjola had 32,267 shareholders, private individuals accounting for 95.4%. The number of nominee-registered shares on 31 December 2013 totalled 60.4 million, increasing by 9 million from their number on 31 December 2012. On 31 December 2013, these shares accounted for 24.0% (20.4) of all Series A shares.

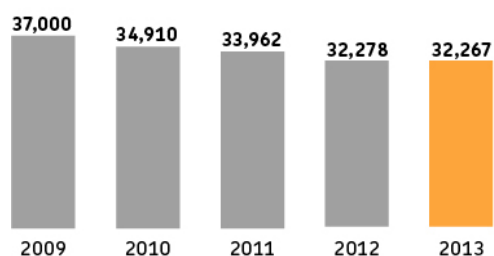
The Act on Cooperative Banks and Other Credit Institutions in the Form of a Cooperative requires that Pohjola Bank plc as OP-Pohjola Group's central financial institution be the subsidiary of OP-Pohjola Group Central Cooperative. On 31 December 2013, OP-Pohjola Group Central Cooperative held 37.2% of all shares and 61.3% of the votes conferred by all shares.

Number of shareholders

	31 Dec. 2013	31 Dec. 2012	Change
Holders of Series A shares (POH1S)	32,260	32,272	-12
Holders of Series K shares (POHKS)	104	109	-5
Total*	32,267	32,278	-11

* The combined number of holders of Series A and K shares differs from the total number of shareholders since some of the holders of Series K shares also hold Series A shares.

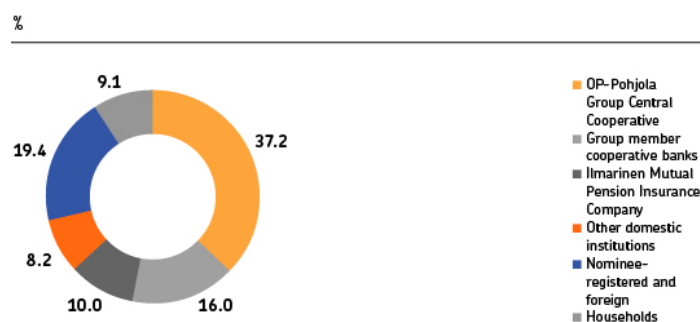
Number of shareholders



10 largest shareholders 31 Dec. 2013

31 Dec. 2013	% of total shares	% of Series A shares	% of total votes
1 OP-Pohjola Group Central Cooperative	37.24	23.15	61.31
2 Ilmarinen Mutual Pension Insurance Company	10.00	12.68	5.42
3 Oulun Osuuspankki	1.36	1.10	1.82
4 OP Bank Group Pension Fund	1.08	1.37	0.59
5 Nordea Fennia Fund	0.78	0.99	0.42
6 OP Bank Group Pension Foundation	0.73	0.92	0.39
7 Tampereen Seudun Osuuspankki	0.56	0.66	0.37
8 State Pension Fund	0.53	0.67	0.29
9 Suur-Savon Osuuspankki	0.47	0.53	0.37
10 Länsi-Suomen Osuuspankki	0.45	0.41	0.51
Nominee-registered shares, total	18.90	23.97	10.24
Other	27.90	33.53	18.27
Total	100.00	100.00	100.00

Holdings by type of shareholders 31 Dec 2013 (Series A and K total)



The Notes to the Parent Company Financial Statements (FAS) provide more detailed information on shareholdings by size and sector as well as the largest shareholders measured by the number of shares held and by the votes.

On 31 December 2013, members of the Board of Directors and the Group Executive Board held a total of 177,540 (168,602) Series A shares, representing 0.06% (0.05) of all shares and 0.03% (0.03) of votes. More detailed information on the shares held by Board and Executive Committee members can be found in the Corporate Governance Statement 2013.

Disclosure of shareholdings

No disclosure of shareholdings took place in 2013.

Shareholder agreements

As per the shareholder agreement of 5 May 2011 between OP-Pohjola Group Central Cooperative and Ilmarinen Mutual Pension Insurance Company (Ilmarinen), OP-Pohjola Group Central Cooperative as Pohjola's shareholder agrees to contribute to electing members to Pohjola's Board of Directors in such a way that one nominee appointed by Ilmarinen will be elected to Pohjola's Board of Directors as long as Ilmarinen's shareholding in Pohjola substantially corresponds to that effective on 5 May 2011 (10% of all shares).

Board authorisations to issue shares and buy back Pohjola's own shares, and stock option schemes

The Annual General Meeting (AGM) of 22 March 2013 authorised the Board of Directors to decide on one or several rights issues. The total number of Series A and Series K shares offered for subscription in such a rights issue may not exceed 24,000,000 and 6,000,000, respectively. The Board of Directors is also authorised to waive the shareholders' pre-emptive right (directed share issue),

should there be, from the Company's perspective, a financially cogent reason to do so, in accordance with the Limited Liability Companies Act. In such a case, this authorisation may be exercised for the purpose of financing and executing company acquisitions or other transactions relating to the Company's business. The authorisation contains the Board of Directors' right of stipulating the terms and conditions of a share issue and on other matters relating to these measures. The Board of Directors also has the right to determine whether the subscription price is to be entered in full or in part in the Company's reserve for invested non-restricted equity or in share capital. The authorisation is effective until 22 March 2014. On the basis of the authorisation, the Board of Directors did not make any decision on a share issue in 2013.

The AGM has not made any decision on buying back the Company's own shares nor authorised the Board of Directors to decide on such a buyback.

Pohjola has no valid stock-option schemes in place.

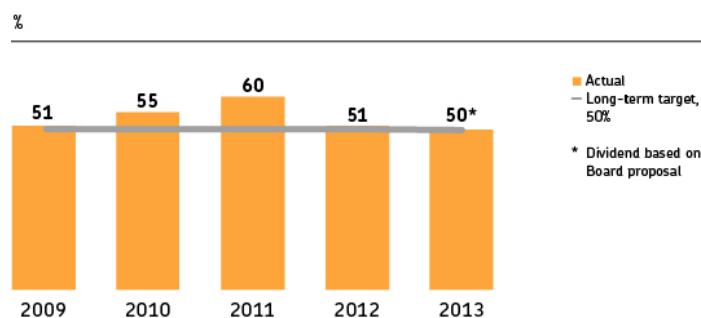
Share-related figures and ratios

The time series of share-related figures and ratios can be found in "Financial indicators and share-related figures and ratios" below.

Dividend policy and dividend payout

As its strategic goal, Pohjola aims at a dividend payout ratio of at least 50%, provided that the Core Tier 1 ratio remains at least 10%. The Board of Directors of Pohjola Bank plc proposes a dividend of EUR 0.67 (0.46) per share payable on Series A shares and EUR 0.64 (0.43) on Series K shares for the financial year 2013 (see "Pohjola Bank plc's Board proposal for the allocation of distributable funds" below). This corresponds to a 50% dividend payout ratio. The dividend payout ratio during 2009–13 averaged 53%.

Dividend payout ratio



Dividend payout and effective dividend yield

	2009	2010	2011	2012	2013*
Pohjola Series A share (POH1S), e	0.34	0.40	0.41	0.46	0.67
Pohjola Series K share (POHKS), e	0.31	0.37	0.38	0.43	0.64
Dividends paid out, EUR million	106.6	125.8	129.0	145.0	212.1
Effective dividend yield (Series A share), %	4.5	4.5	5.5	4.1	4.6

* Board proposal

Decisions by the Annual General Meeting

Pohjola Bank plc's Annual General Meeting (AGM) of 22 March 2013 adopted the Financial Statements for 2012, discharged members of the Board of Directors and the President and CEO from liability and decided to distribute a dividend of EUR 0.46 per Series A share and EUR 0.43 per Series K share. The AGM confirmed the number of members of the Board of Directors at eight. In addition, the AGM authorised the Board of Directors to decide on a share issue.

KPMG Oy Ab, Authorised Public Accountants, with Sixten Nyman, Authorised Public Accountant, (as reported by KPMG) acting as the chief auditor, was elected the Company's auditor.

Management

The AGM elected the following members to the Board of Directors until the closing of the next AGM: Jukka Hienonen, President and CEO; Jukka Hulkkonen, Managing Director; Mirja-Leena (Mirkku) Kullberg, Managing Director; Marjo Partio, Managing Director; Harri Sailas, President and CEO; and Tom von Weymarn. Marjo Partio is a new member of the Board of Directors.

In addition to the abovementioned Board members, Reijo Karhinen, Chairman of the Executive Board of the parent institution OP-Pohjola Group Central Cooperative and Executive Chairman and CEO, acts as the Chairman of the Board of Directors, by virtue of the "Laki talletuspankkien yhteenliittymästä" Act (Act on the Amalgamation of Deposit Banks), and Tony Vepsäläinen, Vice Chairman of the Executive Board of OP-Pohjola Group Central Cooperative and Chief Business Development Officer, as Vice Chairman, in accordance with the Articles of Association.

At its regrouping meeting on 22 March 2013 held after the Annual General Meeting of Pohjola Bank plc (Pohjola), the Board of Directors elected members to the Board's committees.

The Audit Committee comprises Tom von Weymarn (Chairman); Marjo Partio, Managing Director (Vice Chairman); and Mirja-Leena (Mirkku) Kullberg, Managing Director.

The Risk Management Committee comprises Tony Vepsäläinen (Chairman), Chief Business Development Officer; Jukka Hulkkonen (Vice Chairman), Managing Director; and Harri Sailas, President and CEO.

The Remuneration Committee comprises Reijo Karhinen, Executive Chairman and CEO (Chairman); Tony Vepsäläinen (Vice Chairman), Chief Business Development Officer; and Jukka Hienonen, President and CEO.

The Board of Directors assessed the independence of its members and concluded that Jukka Hienonen, Mirkku Kullberg and Tom von Weymarn are non-executive members independent of the Company and its major shareholders.

The Group Executive Committee comprises President and CEO Jouko Pölönen (Chairman) as of 15 November (Mikael Silvennoinen until 15 November), Vesa Aho, Karri Alameri, Hannu Jaatinen as of 28 October (Reima Rytsölä until 28 October), Petri Viertiö and Tarja Ollilainen.

Jouko Pölönen has acted as Pohjola's President and CEO since 15 November 2013. He has also continued to act as President of Pohjola Insurance Ltd. Jouko Pölönen succeeded Mikael Silvennoinen who took up a position as partner and Board Chairman of his family business and will be ready to serve on corporate boards.

Since 28 October 2013, Hannu Jaatinen has acted as acting Executive Vice President, Banking, and as member of Pohjola Group's Executive Committee. He succeeded Reima Rytsölä who joined another company.

Corporate Governance Statement

Pohjola Bank plc's Corporate Governance Statement can be found on the Company's website at www.pohjola.com.

Representative offices and branches abroad

Pohjola Bank plc runs a representative office in St. Petersburg and has branches in Estonia, Latvia and Lithuania. In addition, it has subsidiaries in Estonia, Latvia and Lithuania engaged in finance-company operations. Non-life insurance business in Estonia is conducted by a subsidiary with a branch in both Latvia and Lithuania.

Joint liability

Pohjola Bank plc is a member of the central institution (OP Pohjola Group Central Cooperative) of the amalgamation, as referred to in the “Laki talletuspankkien yhteenliittymästä” Act (Act on the Amalgamation of Deposit Banks), and belongs to said amalgamation.

Pohjola Bank plc, OP-Pohjola Group Central Cooperative as the central institution of the amalgamation, other companies belonging to the central institution’s consolidation group, the central institution’s member credit institutions and companies belonging to their consolidation groups, and credit institutions, financial institutions and service companies in which the abovementioned institutions jointly hold more than half of the voting rights form the amalgamation. Pohjola Group insurance companies are not members of the aforementioned amalgamation.

The member credit institutions within the amalgamation (183 OP-Pohjola Group’s member cooperative banks, Pohjola Bank plc, Helsinki OP Bank Plc, OP Mortgage Bank, OP-Kotipankki Oyj and OP-Process Services Ltd) and the central institution are jointly and severally liable for each other’s debts. A creditor who has not received payment of an overdue amount (principal debt) may demand payment from the central institution when the principal debt falls due. In such a case, the central institution must produce a statement referred to in said Act, showing the amount of liability apportioned to each member credit institution. This liability between the credit institutions is determined in proportion to the total assets shown in their most recently adopted balance sheets.

The member credit institutions, including Pohjola Bank plc, are obliged to participate in any necessary support measures aimed at preventing another member credit institution from going into liquidation, and to pay a debt for another member credit institution as referred to in Section 5 of the Act on the Amalgamation of Deposit Banks.

Furthermore, upon default of the central institution, a member credit institution shall have unlimited refinancing liability for the central institution’s debts as laid down in the Co-operatives Act.

The central institution supervises its member credit institutions as specified in the Act on the Amalgamation of Deposit Banks, confirms the operating principles referred to in Section 5 of said Act with which it must comply, and issues instructions to the member credit institutions on capital adequacy and risk management, good corporate governance and internal control to secure liquidity and capital adequacy, as well as instructions on compliance with uniform accounting policies in the preparation of the amalgamation’s consolidated financial statements.

Protection afforded by the Deposit Guarantee Fund and the Investors' Compensation Fund

By virtue of the law governing the Deposit Guarantee Fund, deposit banks as members of the amalgamation of cooperative banks (OP-Pohjola Group member cooperative banks, Pohjola Bank plc, Helsinki OP Bank Plc and OP-Kotipankki Oyj) are regarded as a single bank with respect to deposit guarantee. The Deposit Guarantee Fund reimburses a maximum of EUR 100,000 to an individual account holder who has receivables from deposit banks belonging to the amalgamation of cooperative banks

Pohjola Bank plc belongs to the Investors' Compensation Fund which will safeguard investors' undisputed claims due for payment if an investment firm or credit institution is unable to pay investor claims within the stipulated time, due to a reason other than temporary default. This compensation payable to the investor accounts for 90% of his claim, up to a maximum of EUR 20,000. The member credit institutions belonging to the amalgamation of the cooperative banks are considered to constitute a single credit institution in respect of investors' compensation. The Fund does not cover losses incurred due to changes in the prices of securities or to wrong investment decisions. The Fund safeguards only retail investors' claims.

Outlook for 2014

Within Banking, the loan portfolio is expected to grow at the same rate as in 2013. Due to the operating environment, corporate investments are expected to remain below their normal level. The greatest uncertainties related to Banking's financial performance are associated with volume developments and future impairment loss on the loan portfolio. Banking earnings before tax in 2014 are expected to be at the same level as or higher than in 2013.

Insurance premium revenue is expected to increase at a rate above the market average. The operating combined ratio is estimated to vary between 87% and 91% if the number of large claims is not much higher than in 2013. Expected investment returns are largely dependent on developments in the investment environment. The most significant uncertainties related to Non-life Insurance's financial performance pertain to developments in bond and capital markets and to the effect of large claims on claims expenditure. Non-life Insurance earnings before tax in 2014 are expected to be higher than in 2013.

The greatest uncertainties related to Asset Management's financial performance are associated with the actual performance-based commissions and fees tied to the success of investments and the amount of assets under management. Asset Management earnings before tax in 2014 are expected to be at the same level as or higher than in 2013.

The key determinants affecting the Group Functions' financial performance include net interest income arising from assets in the liquidity buffer, any capital gains or losses on notes and bonds and any impairment loss that may be recognised on notes and bonds in the income statement. Group Functions earnings before tax in 2014 are expected to be lower than in 2013 due to low interest rates and tighter liquidity regulation.

Consolidated earnings before tax in 2014 are expected to be higher than in 2013.

There is still great uncertainty about the economic outlook and the operating environment.

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

Pohjola Bank plc's Board proposal for the allocation of distributable funds

On 31 December 2013, the shareholders' equity of Pohjola Bank plc totalled EUR 1,855,039,485.05, of which EUR 703,532,356.31 represented distributable equity.

The following funds are at the AGM's disposal for profit distribution:

	€
Profit for 2013	278,723,651.89
Retained earnings	93,427,867.36
Reserve for invested non-restricted equity	307,931,364.75
Other non-restricted reserves	23,449,472.31
Total	703,532,356.31

The Board of Directors proposes that the Company's distributable funds be distributed to shareholders as follows: EUR 0.67 payable on 252,009,866 Series A shares, totalling EUR 168,846,610.22, and EUR 0.64 payable on 67,541,549 Series K shares, totalling EUR 43,226,591.36, i.e. the total proposed dividend distribution amounts to EUR 212,073,201.58.

The Board of Directors proposes that EUR 212,073,201.58 out of the profit for 2013 be allocated to dividend distribution. Accordingly, EUR 491,459,154.80 remains in the Company's distributable equity.

In addition, the Board of Directors proposes that a maximum of EUR 75,000 be available to the Board of Directors reserved from the distributable funds for donations and other charitable contributions.

The Company's financial position has not undergone any material changes since the end of the financial year 2013. The Company's liquidity is good and will not be jeopardised by the proposed profit distribution, in the Board of Directors' view.

The Board of Directors proposes that the dividend be paid to shareholders who have been entered in the Shareholder Register, maintained by Euroclear Finland Ltd, by the dividend record date on 25 March 2014 and that the dividend be paid on 3 April 2014.

Financial indicators and share-related figures and ratios

	2009	2010	2011	2012	2013
Return on equity (ROE), %	10.0	9.9	9.2	11.2	14.6
Return on equity at fair value (ROE), %***	19.2	9.3	3.1	23.3	14.3
Return on assets (ROA), %	0.6	0.6	0.6	0.7	1.0
Equity ratio, %	6.4	6.6	5.6	6.2	7.0
Average personnel	2,966	3,005	3,189	3,421	2,580
Cost/income ratio, %	56	56	62	57	53
Share-related figures and ratios	2009	2010	2011	2012	2013
Earnings per share (EPS), €					
Series A share**	0.66	0.72	0.68	0.90	1.33
Series K share**	0.63	0.69	0.65	0.87	1.30
Equity per share, €**	7.09	7.44	7.22	8.67	9.52
Dividend per share, €, **	0.33	0.39	0.40	0.45	0.66
Dividend payout ratio, %*, **	50.7	54.9	59.9	50.9	50.0
Effective dividend yield (Series A share), %*, **	4.5	4.5	5.5	4.1	4.6
Price/earnings ratio (P/E)**	11.5	12.5	11.2	12.7	11.0
Price/book ratio(P/B)**	1.06	1.21	1.04	1.30	1.54
Share price performance (Series A share)**					
Average, €**	6.32	8.61	8.52	8.99	12.64
Low, €**	3.80	6.97	6.47	7.34	11.14
High, €**	9.31	9.79	10.28	11.42	14.67
Year-end, €**	7.55	8.97	7.51	11.27	14.62
Market capitalisation (Series A share), € million	1,896	2,253	1,886	2,839	3,684
Market capitalisation (Series A and K shares), € million	2,413	2,866	2,400	3,601	4,672
Share trading volume (Series A share), 1,000	174,863	153,845	174,151	126,205	90,242
% of all shares	74.8	61.3	69.3	50.1	35.8
Issue-adjusted number of shares (Series A and K shares)					
Year average**	295,795,845	319,551,415	319,551,415	319,551,415	319,551,415
Year end**	319,551,415	319,551,415	319,551,415	319,551,415	319,551,415
Number of shares (Series A and K shares)					
Year average	295,795,845	319,551,415	319,551,415	319,551,415	319,551,415
Year end	319,551,415	319,551,415	319,551,415	319,551,415	319,551,415

* Board proposal: EUR 0.67 on Series A shares and EUR 0.64 on Series K shares.

** Due to Pohjola Bank plc's rights issue and new shares entered in the Trade Register on 4 May 2009, the per-share ratios have been adjusted retroactively using the share issue ratio.

*** The financial indicators for 2008–12 have not been adjusted retroactively due to the 2012 change of an accounting policy (IAS 19). The change has no major effect on the presented indicators.

Formulas for key figures and ratios

Return on equity (ROE), %

Profit for the period / Shareholders' equity (average of the beginning and end of period) x 100

Return on equity (ROE) at fair value, %

Comprehensive income for the period /

Shareholders' equity (average of the beginning and end of period) x 100

Return on assets (ROA), %

Profit for the period / Average balance sheet total (average of the beginning and end of the period) x 100

Equity ratio, %

Shareholders' equity / Balance sheet total x 100

Cost/income ratio, %

Personnel costs + Other administrative expenses + Other operating expenses /

(Net interest income + net income from Non-life Insurance + net commissions and fees + net trading income + net investment income + other operating income + share of associates' profit) x 100

Earnings per share (EPS)

Profit for the period attributable to owners of the Parent / Average share-issue adjusted number of shares during the period

Equity/share

Shareholders' equity / Share-issue adjusted number of shares on the balance sheet date

Dividend per share

Dividends paid for the financial year/ Share-issue adjusted number of shares on the balance sheet date

Dividend payout ratio, %

Dividend per share / Earnings per share x 100

Effective dividend yield, %

(Dividend per share) / Share-issue adjusted closing price during the period x 100

P/E ratio

Share-issue adjusted closing price during the period / Earnings per share

P/B ratio

Share-issue adjusted closing price during the period / Shareholders' equity / Share

Average share price

Total share turnover in euros / Share trading volume

Market capitalisation

Number of shares x closing price on the balance sheet date

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

Conglomerate's total capital base / Conglomerate's total minimum capital base

Capital adequacy ratio, %

Total capital base / Total minimum capital requirement x 8

Tier 1 ratio, %

Total Tier 1 capital / Total minimum capital requirement x 8

Core Tier 1 ratio, %

Total Tier 1 capital, excl. hybrid capital and shortfall of Tier 2 capital covered by hybrid capital / Total minimum capital requirement x 8

Common Equity Tier 1 capital ratio, % (CET1)*)

Common Equity Tier 1 (CET1)/Total risk exposure amount x 100

*) Common Equity Tier 1 capital (CET1) as defined in Article 26 of EU Regulation 575/2013 and total risk exposure amount as defined in Article 92.

Key ratios for Non-life Insurance

The key ratio formulas for Non-life Insurance are based on regulations issued by the Finnish Financial Supervisory Authority, using the corresponding IFRS sections to the extent applicable. The ratios 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.

Loss ratio (excl. unwinding of discount)

Claims and loss adjustment expenses / Net insurance premium revenue x 100

Expense ratio

Operating expenses + Amortisation/adjustment of intangible assets related to company acquisition /

Net insurance premium revenue x 100

Combined ratio (excl. unwinding of discount)

Loss ratio + expense ratio

Risk ratio + cost ratio

Solvency ratio

(+ Non-life Insurance net assets

+ Subordinated loans

+ Net tax liability for the period

- Deferred tax to be realised in the near future and other items deducted from the solvency margin

- Intangible assets)/

Insurance premium revenue x 100

Operating key ratios**Operating cost/income ratio**

(+ Personnel costs

+ Other administrative expenses

+ Other operating expenses excl. amortisation on intangible assets and goodwill related to Pohjola acquisition) /

(+ Net interest income

+ Net income from Non-life Insurance

+ Net commissions and fees

+ Net trading income

+ Net investment income

+ Other operating income

+ Share of associates' profit) x 100

Operating loss ratio

Claims incurred, excl. changes in reserving bases /

Insurance premium revenue, excl. net changes in reserving bases x 100

Operating expense ratio

Operating expenses / Insurance premium revenue, excl. net changes in reserving bases x 100

Operating combined ratio

Operating loss ratio + operating expense ratio

Operating risk ratio + Operating cost ratio

Operating risk ratio

Claims excl. loss adjustment expenses and changes in reserving bases / Net insurance premium revenue excl. changes in reserving bases x 100

Operating cost ratio

Operating expenses and loss adjustment expenses / Net insurance premium revenue, excl. changes in reserving bases, x 100

Values used in calculating the ratios

Non-life Insurance, € million	2013	2012
Non-life Insurance net assets	1,603	1,654
Net tax liabilities for the period	-8	-49
Own subordinated loans	50	50
Deferred tax to be realised in the near future and other items deducted from the solvency margin of the companies	-4	-6
Intangible assets	728	747
Changes in reserving bases, and other non-recurring items, € million	2013	2012
Change in discount rate	-38	-52

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Consolidated income statement

EUR million	Note	2013	2012
Net interest income	4	229	263
Impairment of receivables	5	37	57
Net interest income after impairments		193	206
Net income from Non-life Insurance	6	529	438
Net commissions and fees	7	162	169
Net trading income	8	93	79
Net investment income	9	39	13
Other operating income	10	38	37
Total income		1,053	941
Personnel costs	11	184	232
ICT costs		90	87
Depreciation/amortisation	12	55	50
Other expenses	13	251	200
Total expenses		580	569
Share of associates' profits/losses		0	1
Earnings before tax		473	372
Income tax expense	14	49	89
Profit for the period		424	283
Attributable to owners of the Parent		424	283
Total		424	283
Earnings per share (EPS), EUR			
Series A	15	1.33	0.90
Series K	15	1.30	0.87

Consolidated statement of comprehensive income

EUR million	Note	2013	2012
Profit for the period		424	283
Items that will not be reclassified to profit or loss			
Gains/(losses) arising from remeasurement of defined benefit plans		0	-10
Items that may be reclassified to profit or loss			
Change in fair value reserve			
Measurement at fair value		-1	401
Cash flow hedge		-16	17
Translation differences		0	0
Income tax on other comprehensive income			
Items that will not be reclassified to profit or loss			
Gains/(losses) arising from remeasurement of defined benefit plans		2	-2
Items that may be reclassified to profit or loss			
Measurement at fair value		-9	98
Cash flow hedge		-5	4
Total comprehensive income for the period		419	592
Total comprehensive income attributable to owners of the Parent		419	592
Total		419	592

Consolidated balance sheet

EUR million	Note	31 Dec. 2013	31 Dec. 2012
Liquid assets	16	2,046	5,643
Receivables from financial institutions	17	9,899	8,815
Financial assets at fair value through profit or loss	18		
Financial assets held for trading		435	246
Financial assets at fair value through profit or loss at inception		9	9
Derivative contracts	19	3,444	4,462
Receivables from customers	20	14,515	13,839
Non-life Insurance assets	21	3,539	3,523
Investment assets	22	7,427	5,431
Investment in associates	24	29	26
Intangible assets	25	910	922
Property, plant and equipment (PPE)	26	84	69
Other assets	27	1,367	1,600
Tax assets	28	15	36
Total assets		43,720	44,623

EUR million	Note	31 Dec. 2013	31 Dec. 2012
Liabilities to financial institutions	29	4,789	5,840
Financial liabilities at fair value through profit or loss	30		
Financial liabilities held for trading		4	3
Derivative contracts	31	3,420	4,557
Liabilities to customers	32	10,188	10,775
Non-life Insurance liabilities	33	2,746	2,599
Debt securities issued to the public	34	16,097	13,769
Provisions and other liabilities	35	2,075	2,550
Tax liabilities	36	375	485
Subordinated liabilities	37	984	1,275
Total liabilities		40,677	41,854
Shareholders' equity	38		
Capital and reserves attributable to equity holders of the Parent			
Share capital		428	428
Reserves		1,257	1,260
Retained earnings		1,358	1,081
Total shareholders' equity		3,043	2,769
Total liabilities and shareholder's equity		43,720	44,623

Consolidated cash flow statement

EUR million	2013	2012
Cash flow from operating activities		
Profit for the period	424	283
Adjustments to profit for the period	161	262
Increase (-) or decrease (+) in operating assets	-4,150	-668
Receivables from financial institutions	-986	-1,284
Financial asset at fair value through profit or loss	-338	167
Derivative contracts	28	27
Receivables from customers	-736	-1,190
Non-life Insurance assets	-77	-185
Investment assets	-2,289	1,810
Other assets	248	-14
Increase (+) or decrease (-) in operating liabilities	-2,040	2,913
Liabilities to financial institutions	-1,031	-124
Financial liabilities at fair value through profit or loss	1	2
Derivative contracts	-10	-22
Liabilities to customers	-588	2,750
Non-life Insurance liabilities	48	10
Provisions and other liabilities	-460	298
Income tax paid	-126	-65
Dividends received	51	45
A. Net cash from operating activities	-5,680	2,770
Cash flow from investing activities		
Decreases in held-to-maturity financial assets	129	320
Acquisition of subsidiaries and associates, net of cash acquired	-4	-3
Purchase of PPE and intangible assets	-45	-44
Proceeds from sale of PPE and intangible assets	3	2
B. Net cash used in investing activities	83	275
Cash flow from financing activities		
Increases in subordinated liabilities		502
Decreases in subordinated liabilities	-271	-274
Increases in debt securities issued to the public	24,340	22,516
Decreases in debt securities issued to the public	-21,833	-24,095
Dividends paid	-145	-129
Other monetary decreases in equity items	0	0
C. Net cash provided by (used in) financing activities	2,092	-1,479
Net increase/decrease in cash and cash equivalents (A+B+C)	-3,505	1,565
Cash and cash equivalents at year-start	6,177	4,612
Cash and cash equivalents at year-end	2,671	6,177
Interest received	1,790	2,448
Interest paid	-1,582	-2,153

Adjustments to profit for the financial year**Non-cash items and other adjustments**

Impairment losses on receivables	40	59
Unrealised net earnings in Non-life Insurance	108	164
Change in fair value for trading	-199	196
Unrealised net gains on foreign exchange operations	2	-254
Change in fair value of investment property	1	-1
Planned amortisation/depreciation	55	50
Share of associates' profits	1	1
Other	154	33

Items presented outside cash flow from operating activities

Capital gains, share of cash flow from investing activities	-1	0
Capital losses, share of cash flow from investing activities		13
Total adjustments	161	262

Cash and cash equivalents

Liquid assets*	2,051	5,654
Receivables from financial institutions payable on demand	620	523
Total	2,671	6,177

* Of which EUR 4 million (10) consists of Non-life Insurance cash and cash equivalents.

Consolidated statement of changes in equity

EUR million	Share capital	Fair value reserve			Retained earnings	Total equity
		Measure- ment at fair value	Cash flow hedge	Other reserves		
Balance at 1 January 2012	428	-159	10	1,093	934	2,306
Total comprehensive income for the period		303	13	0	276	592
Profit for the period					283	283
Other comprehensive income		303	13	0	-7	309
Profit distribution					-129	-129
EUR 0.41 per Series A share					-103	-103
EUR 0.38 per Series K share					-26	-26
Equity-settled share-based transactions					0	0
Other					0	0
Balance at 31 December 2012	428	144	23	1,093	1,081	2,769

EUR million	Share capital	Fair value reserve			Retained earnings	Total equity
		Measure- ment at fair value	Cash flow hedge	Other reserves		
Balance at 1 January 2013	428	144	23	1,093	1,081	2,769
Total comprehensive income for the period		8	-12	0	422	419
Profit for the period					424	424
Other comprehensive income		8	-12	0	-2	-6
Profit distribution					-145	-145
EUR 0.46 per Series A share					-116	-116
EUR 0.43 per Series K share					-29	-29
Equity-settled share-based transactions					-1	-1
Other					1	1
Balance at 31 December 2013	428	152	11	1,093	1,358	3,043

Segment information

The segment analysis has been prepared in accordance with IFRS 8 Operating Segments. Financial information serves as the basis of this standard, which the executive in charge monitors regularly. Defining segments and presentation are based on management reporting.

Pohjola Group is organised into three business segments – Banking, Non-life Insurance and Asset Management – and the Group Functions which together constitute the Group's operating segments. The Board of Directors is the executive body in charge of deciding on the Group's operations, which allocates resources to the reportable segments and assesses their performance.

Segment accounting policies

Segment reporting conforms to the accounting policies applied to the consolidated financial statements. Income, expenses, assets and liabilities which are considered to relate directly to and be reasonably attributable to the segments are allocated to the segments. Income, expenses, investments and capital which have not been allocated to the business segments are reported under the Group Functions. Inter-segment Group eliminations are reported under the "Eliminations" column. Intra-Group transfer prices are based on market prices. The acquisition costs of intangible and PPE assets are presented as investments. The number of employees in each segment is presented as the number of employees at the end of the period.

Capitalisation of Banking, Asset Management and the Group Functions is based on Pohjola Group's capital adequacy measurement under the Act on Credit Institutions. Capital requirements according to this measurement are allocated among the operating segments. The Group has allocated capital to its operating segments in such a way that the Core Tier 1 ratio stands at 11%.

Non-life Insurance capitalisation is based on the solvency capital requirement (SCR) within the proposed Solvency II framework plus intangible assets and goodwill arising from company acquisition. The SCR for Non-life Insurance has been covered by Core Tier 1 capital and the solvency requirement for intangible assets and goodwill by Tier 2 notes/bonds.

Banking

Pohjola's Banking provides corporate and institutional customers with solutions for their financing and financial management needs. Banking consists of the following divisions: Corporate Banking, Markets and Baltic Banking.

Corporate Banking provides corporate and institutional customers with financing and cash management services and financing services for foreign trade, and grants loans and guarantees as well as leasing and factoring services. Its income derives mainly from lending margins and commissions and fees resulting from the arrangement of financing and the management of payment transactions.

The Markets division's services range from the arrangement of debt issues, corporate finance services and custody, equity, foreign exchange, money market and derivative products to investment research. The division executes both its clients' and the Bank's orders in international financial markets and is also an active player in international derivatives markets, the government bond market in the euro area and corporate bond markets. Its income derives from net commissions and fees and income from trading. Pohjola Corporate Finance Ltd merged with Pohjola Bank plc on 31 December 2013 and is part of the Markets division.

Baltic Banking provides finance-company products in Estonia, Latvia and Lithuania. Pohjola has established itself in Estonia, Latvia and Lithuania through its own branch offices.

Non-life Insurance

The following three Group companies conduct Non-life Insurance business in Finland: Pohjola Insurance Ltd is a general non-life insurance company, A-Insurance Ltd focuses on non-life insurance for commercial transport and Eurooppalainen Insurance Company Ltd specialises in travel insurance. Non-life insurance business in Estonia is conducted by Seesam Insurance AS with a branch in both Latvia and Lithuania. On 1 January 2012, Pohjola Health Ltd merged with Excenta Ltd. As a result of the merger, the company operates under the corporate name of Pohjola Health Ltd which provides solutions for strategic wellness/wellbeing-at-work management solutions.

The Non-life Insurance segment also includes Omasairaala Oy which started its business in early 2013.

The range of Non-life Insurance products includes non-life policies for corporate and private customers. In addition, the domestic service network provides corporate customers with OP-Pohjola Group's life and pension policies and Ilmarinen Mutual Pension Insurance Company's employment pension policies while being in charge of customer service for Suomi Mutual Life Assurance Company and Ilmarinen. Furthermore, commissions and fees come from managing certain statutory charges and from risk management services.

Non-life Insurance pre-tax earnings consist of the balance on technical account, investment income and other income and expenses. The balance on technical account refers to insurance premium revenue less claims incurred and operating expenses. The most important profitability indicator is the combined ratio showing the proportion of claims incurred and operating expenses to insurance premium revenue. With respect to investment operations, Non-life Insurance is tasked with investing assets covering insurance liabilities and equity in a safe and profitable way conducting a policy of sufficient risk diversification.

Asset Management

The Asset Management business line comprises Pohjola Asset Management Ltd, Pohjola Asset Management Execution Services Ltd, Pohjola Property Management Ltd and the associated company Access Capital Partners Group SA. Pohjola Asset Management Ltd provides Finnish institutional clients and wealthy private individuals with discretionary and advisory investment management services. Furthermore, the portfolio management of OP Fund Management Company Ltd's mutual funds is mainly centralised within Pohjola Asset Management. In addition to its own portfolio management, Pohjola Asset Management has some 30 international partners boasting a wide range of funds for the needs of both institutional and private clients. Pohjola Property Management Ltd focuses on real property investment in Finland and on the selection of real estate funds in international markets. The division's income comes mainly from management commissions and fees.

Group Functions

In support of the Group and its business segments, the Group Functions comprises Finance, Risk Management, HR Services, and Corporate Communications.

It is responsible for the management of financing and liquidity for OP-Pohjola Group's retail banks and Pohjola Group, as well as for OP-Pohjola Group's wholesale funding. Income, expenses, investments and capital which have not been allocated to the business segments are reported under the Group Functions. Group taxes are allocated to the Group Functions in their entirety.

Eliminations

Inter-segment eliminations are presented under the "Eliminations" column.

Segment information

2013, EUR million	Banking	Non-life Insurance	Asset Management	Group Functions	Eliminations	Group total
Net interest income						
Corporate Banking and Baltic Banking Markets	227					227
Other operations	-3					-3
Total		-24	3	26	1	5
Total	224	-24	3	26	1	229
Net commissions and fees	100	17	51	-1	-4	162
Net trading income	101	0	0	-12	3	93
Net investment income	0		0	39		39
Net income from Non-life Insurance						
From insurance operations		440				440
From investment operations		132			-1	131
From other items		-43				-43
Total		529			-1	529
Other operating income	17	10	1	9	0	38
Total income	443	533	55	61	-1	1,090
Personnel costs	57	107	14	6		184
ICT costs	31	50	3	5	1	90
Amortisation on intangible assets related to company acquisitions		21	2			24
Other depreciation/amortisation and impairments	15	14	1	1		31
Other expenses	54	174	11	14	-2	251
Total expenses	157	366	32	26	-1	580
Earnings/loss before impairment of receivables	285	166	24	35	0	510
Impairments of receivables	35			2		37
Share of associates' profits/losses		0	0		0	0
Earnings before tax	251	167	24	32	0	473

Change in fair value reserve	9	-17	0	-9	0	-17
Gains/(losses) arising from remeasurement of defined benefit plans	0	0	0	0		0
Total comprehensive income for the period, before tax	260	150	24	23	0	457

2012, EUR million	Banking	Non-life Insurance	Asset Management	Group Functions	Eliminations	Group total
Net interest income						
Corporate Banking and Baltic Banking	199					199
Markets	31					31
Other operations		-8	3	36	2	33
Total	230	-8	3	36	2	263
Net commissions and fees	96	24	60	-2	-8	169
Net trading income	72	0	0	1	5	79
Net investment income	2		0	11		13
Net income from Non-life Insurance						
From insurance operations		367				367
From investment operations		115			0	115
From other items		-45				-45
Total		438			0	438
Other operating income	19	5	2	18	-7	37
Total income	418	458	65	65	-7	998
Personnel costs	64	135	19	14		232
ICT costs	27	51	3	6	1	87
Amortisation on intangible assets related to company acquisitions		21	2			24
Other depreciation/amortisation and impairments	15	9	1	1		27
Other expenses	37	150	8	13	-8	200
Total expenses	143	366	33	34	-7	569
Earnings/loss before impairment of receivables	275	92	32	30	0	429
Impairments of receivables	54			3		57
Share of associates' profits/losses		0	0		0	1
Earnings before tax	221	92	32	27	0	372
Change in fair value reserve	6	191	0	222	-1	418
Gains/(losses) arising from remeasurement of defined benefit plans	-7	-1	0	-2		-10
Total comprehensive income for the period, before tax	220	282	32	247	-1	780

31 Dec 2013, EUR million	Banking	Non-life Insurance	Asset Management	Group Functions	Eliminations	Group total
Receivables from customers	14,432			296	-213	14,515
Receivables from credit institutions	659	4	3	11,295	-16	11,945
Financial assets at fair value through profit or loss	487			-42		444
Non-life Insurance assets		3,750			-210	3,539
Investment assets	524	16	22	6,879	-14	7,427
Investments in associates		2	27			29
Other assets	3,792	781	114	1,241	-109	5,819
Total assets	19,894	4,553	166	19,669	-562	43,720
Liabilities to customers	7,035			3,309	-156	10,188
Liabilities to credit institutions	614			4,387	-213	4,789
Non-life Insurance liabilities		2,844			-98	2,746
Debt securities issued to the public				16,159	-62	16,097
Subordinated liabilities		50		934		984
Other liabilities	4,381	56	9	1,460	-33	5,874
Total liabilities	12,029	2,950	9	26,249	-561	40,677
Shareholders' equity						3,043
Average personnel	634	1,802	88	26		2,550
Capital expenditure, EUR million	15	27	2	1		45

31 Dec 2012, EUR million	Banking	Non-life Insurance	Asset Management	Group Functions	Eliminations	Group total
Receivables from customers	13,723			286	-169	13,839
Receivables from credit institutions	433	5	3	14,037	-19	14,458
Financial assets at fair value through profit or loss	360			-104		256
Non-life Insurance assets		3,627			-104	3,523
Investment assets	457	16	23	4,943	-9	5,431
Investments in associates		2	24			26
Other assets	4,681	773	127	1,585	-77	7,090
Total assets	19,653	4,423	178	20,748	-378	44,623
Liabilities to customers	6,786			4,055	-66	10,775
Liabilities to credit institutions	1,225			4,784	-169	5,840
Non-life Insurance liabilities		2,657			-58	2,599
Debt securities issued to the public				13,817	-48	13,769
Subordinated liabilities		50		1,225		1,275
Other liabilities	5,573	63	12	1,985	-36	7,595
Total liabilities	13,583	2,769	12	25,867	-377	41,854
Shareholders' equity						2,769
Average personnel	745	2,384	153	123		3,404
Capital expenditure, EUR million	19	22	1	2		43

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1. General information

Pohjola is Finland's leading non-life insurer and institutional asset manager and ranks among the leading corporate banks. Pohjola has a well-established and broad customer base consisting of companies and institutions to which it provides an extensive range of banking, non-life insurance and asset management services. In addition, Pohjola provides private customers with non-life insurance and asset management products and services. Pohjola also acts as the central bank for OP-Pohjola Group's cooperative banks.

Pohjola Group has the following four operating segments: Banking, Non-life Insurance, Asset Management, and the Group Functions. Banking provides corporate and institutional customers with financing, investment and payment transaction solutions on an international scale. Non-life Insurance provides corporate and private customers with non-life insurance products covering both statutory and voluntary policies. Asset Management is responsible for investment management services for OP-Pohjola Group's major institutional and private clients. Furthermore, Asset Management manages the portfolio of OP mutual funds on a centralised basis. In addition to these three business segments, the financial results of Central Banking and Treasury and administrative functions are presented under the Group functions segment.

Pohjola Bank plc belongs to OP-Pohjola Group, which consists of 183 cooperative banks and their central institution, OP-Pohjola Group Central Cooperative with its subsidiaries. OP-Pohjola Group's member credit institutions comprise Pohjola, Helsinki OP Bank Plc, OP-Kotipankki Oyj, OP Mortgage Bank and the member cooperative banks of OP-Pohjola Group Central Cooperative.

Pohjola Bank plc shares are listed on NASDAQ OMX Helsinki Ltd.

In accordance with the Laki talletuspankkien yhteenliittymästä Act (Act on the amalgamation of deposit banks), the member credit institutions, Pohjola included, and OP-Pohjola Group Central Cooperative are ultimately jointly and severally liable for each other's debts and commitments. If a member credit institution's own capital is depleted to such a low level owing to losses that the criteria, specified in the Act, for being placed in liquidation are fulfilled, OP-Pohjola Group Central Cooperative has the right to collect from its member credit institutions extra contributions on the basis of the combined balance sheets previously adopted.

Pohjola is domiciled in Helsinki and the street address of its registered office is Teollisuuskatu 1 B, FI-00510 Helsinki, Finland, and the postal address of its registered office is P.O. Box 308, FI-00013 Pohjola, Finland. A copy of Pohjola's consolidated financial statements is available at www.pohjola.fi or the Company's head office.

Pohjola Bank plc's parent company is OP-Pohjola Group Central Cooperative and Pohjola's consolidated accounts are included in its consolidated financial statements.

Copies of the financial statements of OP-Pohjola Group Central Cooperative are available at the following address: Vääksyntie 4, FI-00510 HELSINKI, Finland. OP-Pohjola Group's financial statements are available at www.pohjola.com or the company's head office.

The Board of Directors approved the consolidated financial statements for issue on 6 February 2014.

1.1 Basis of preparation

These consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS), applying IASs, IFRSs and SIC and IFRIC interpretations effective on 31 December 2013. The International Financial Reporting Standards refer to standards and their interpretations adopted in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council.

Pohjola Group adopted the following IFRS, interpretations and options in 2013:

- IFRS 13 – Fair Value Measurement. This Standard seeks to increase consistency in fair value measurements. It does not extend the use of fair value accounting in the financial statements but provides guidance on how fair value is determined where its use is required or permitted by other IFRSs. The new standard expanded note disclosure requirements applying to assets measured at fair value, or mostly financial instruments and investment property.
- Amended IAS 19 – Employee benefits. As a result of the amendments, the expected return on plan assets recognised in the income statement is determined based on the discount rate applicable to the defined benefit obligation. Pohjola Group voluntarily abandoned as of the beginning of 2012 the so-called corridor method in the recognition of actuarial gains and losses on defined benefit pension plans.
- Amendments to IFRS 7 – Financial Instruments Disclosures – Offsetting Financial Assets and Financial Liabilities. The amendments add a new note to the financial statements, which applies to financial instruments presented on a net basis in the balance sheet as well as to enforceable master netting arrangements and similar agreements.
- Amended IAS 1 – Presentation of Financial Statements. As a result of the amendments, items in other comprehensive income (OCI) which may be reclassified subsequently to profit or loss will be presented separately from other items in OCI that may not be reclassified subsequently to profit or loss. The amendment affected the presentation of the items in Pohjola Group's OCI.

Annual improvements to IFRSs (2009–11) had no material effect on Pohjola Group's financial statements.

Pohjola Group's consolidated financial statements were prepared at historical cost, with the exception of financial assets and liabilities at fair value through profit or loss, available-for-sale financial assets, hedged items in fair value hedging (for hedged risk), derivative contracts, investment property and share-based payments classified as liabilities and measured at fair value.

The financial statements are presented in millions of euro.

Pohjola Group presents capital adequacy information under Pillar III, in accordance with Standard 4.5 issued by the Finnish Financial Supervisory Authority, as part of its financial statements and, to the applicable extent, in the Report by the Board of Directors.

1.2 Use of estimates

The preparation of the financial statements in conformity with IFRS requires the Group's management to make judgements, estimates and assumptions in the application of the accounting policies. The section "Critical accounting estimates and judgements" provides more detailed information on applying accounting policies requiring management assessment and judgement.

1.3 Consolidation principles

The consolidated financial statements include the accounts of Pohjola Bank plc, the parent company, and its subsidiaries in which the parent company holds more than 50% of voting shares or over which the parent company otherwise exercises control. Control refers to the power to govern another company's financial and operating policies in order to benefit from its activities. Intra-Group shareholding has been eliminated using the acquisition method. The consideration transferred and the acquiree's identifiable assets acquired and liabilities assumed are measured at fair value at the time of acquisition. Acquisition cost in excess of net assets is presented under goodwill. If the cost of acquisition is less than the fair value of the net assets of the acquiree, the difference is recognised directly in the income statement.

Transaction costs are expensed as incurred. Any additional acquisition cost is measured at fair value and classified as a liability or equity. An additional acquisition cost classified as a liability is measured at fair value in the income statement on the balance sheet date.

Associated companies, in which Pohjola holds 20–50% of voting shares and over which Pohjola exercises significant influence but not control, are accounted for using the equity method.

Mutual property companies are consolidated in the same way as assets under joint control, in accordance with IAS 31, in proportion to shareholdings in them.

Subsidiaries or associates acquired during the financial year are consolidated from the date on which control or significant influence transfers to the Group and are de-consolidated from the date on which control or significant influence ceases.

Intra-Group transactions, receivables, liabilities and profit distribution are eliminated in the preparation of the consolidated financial statements.

1.3.1 Non-controlling interests

Profit for the financial year attributable to the owners of the parent and non-controlling interests is presented in the income statement, and total comprehensive income attributable to the owners of the parent and non-controlling interests is presented in the statement of comprehensive income.

Profit shown in the income statement and the statement of comprehensive income is also attributed to non-controlling interests in the event that their share, as a result, would become negative. Non-controlling interests are presented as part of the shareholders' equity in the balance sheet.

Non-controlling interests in an acquiree are measured either at fair value or as the proportionate share of net assets of the acquiree. The valuation principle applied is determined separately for each acquiree.

1.4 Foreign currency translation

The consolidated financial statements are prepared in euros – the functional and presentation currency of the Group's parent company. Non-euro transactions are recognised in euros at the exchange rate quoted on the transaction date or at the average exchange rate of the month of recognition. On the balance sheet date, non-euro monetary balance sheet items are translated into euros at the exchange rate quoted on the balance sheet date. Non-monetary balance sheet items measured at cost are presented at the exchange rate quoted on the transaction date.

The exchange rate differences arising from the translation of non-euro transactions and monetary balance-sheet items into euros are recognised as foreign exchange gains or losses under "Net trading income" in the income statement.

The income statements of foreign subsidiaries, whose functional currency is other than the euro, are translated into euros using the average exchange rate for the financial year, while their balance sheets are translated into euros using the exchange rate quoted on the balance sheet date. The resulting exchange rate differences are recognised as translation differences in other comprehensive income. For foreign subsidiaries, translation differences arising from the use of the acquisition method and from post-acquisition equity items are recognised in other comprehensive income. If a subsidiary is sold, any accumulated translation differences will be recognised as part of capital gain or loss in the income statement.

1.5 Financial instruments

1.5.1 Fair value determination

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of financial instruments is determined using either prices quoted in an active market or a company's own valuation techniques where no active market exists. Markets are deemed to be active if price quotes are easily and regularly available and reflect real and regularly occurring market transactions on an arm's length basis. The current bid price is used as the quoted market price of financial assets.

If the market has a commonly used valuation technique applied to a financial instrument to which the fair value is not directly available, the fair value is based on a commonly used valuation technique and market quotations of the inputs used by the technique.

If the valuation technique is not a commonly used technique in the market, a valuation model created for the instrument in question will be used to determine the fair value. Valuation models are based on widely used measurement techniques, incorporating all factors that market participants would consider in setting a price, and are consistent with accepted economic methodologies for pricing financial instruments.

The valuation techniques used include prices of market transactions, the discounted cash flow method and reference to the current fair value of another instrument that is substantially the same. The valuation techniques take account of estimated credit risk, applicable discount rates, the possibility of early repayment and other factors affecting the reliable measurement of the fair value of financial instruments.

The fair value of financial instruments is divided into the following three levels of hierarchy of valuation techniques:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and
- Inputs for the asset or liability that are not based on observable market data (Level 3).

If the inputs used to measure fair value are categorised into different levels of the fair value hierarchy, the fair value measurement is categorised in its entirety at the same level as the lowest level input that is significant to the entire measurement. The significance of inputs has been assessed on the basis of the fair value measurement in its entirety.

It is typical of illiquid instruments that their price calculated using a pricing model differs from the actual transaction price. However, the actual transaction price is the best evidence of the instrument's fair value. The Day 1 profit/loss, based on the difference between the actual transaction price and the price deriving from the pricing model that uses market prices, is recognised in the income statement over the term of the contract or a shorter period taking account of the product's structure and counterparty. However, the non-recognised amount will be recognised as soon as there is a genuine market price for the instrument or a well-established pricing practice is created in the market. The amount of illiquid financial assets is insignificant in the balance sheet.

1.5.2 Impairment of financial assets

At the end of each reporting period, the Group assesses whether there is objective evidence that a financial asset other than that carried at fair value through profit or loss is impaired.

A financial asset is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that the loss event has an impact on the estimated future cash flows of the financial asset that can be estimated reliably.

The criteria which are used to determine that there is objective evidence of an impairment loss include:

- a significant decline in the issuer's financial results, credit rating, balance sheet, payment status or business plans, and unfavourable changes in the issuer's economic and operating environment;
- a bona fide bid for the same or similar investment from the market below acquisition value;
- events or circumstances that significantly weaken the issuer's ability to operate on a going concern basis, such as negative cash flows resulting from operations, insufficient capital and shortage of working capital;
- indications that a borrower will enter bankruptcy or other reorganisation;
- a borrower's breach of contract;
- a concession granted to the borrower;
- impairment loss recognised earlier; and
- the disappearance of an active market for a financial asset.

In addition, a significant or prolonged decline in the equity instrument's fair value below its cost constitutes objective evidence of impairment.

A more detailed description of recognition of impairments can be found under the various financial instruments below.

1.5.3 Securities sale and repurchase agreements

The purchase price of securities bought under 'resell conditions' binding on both parties is recognised as a receivable under the balance sheet item determined by the counterparty. The difference between the purchase price and resale price is treated as interest income and accrued over the term of the agreement.

The selling price of securities sold under 'resell conditions' binding on both parties is recognised as a financial liability under the balance sheet item determined by the counterparty. The difference between the selling price and repurchase price is treated as interest expenses and accrued over the term of the agreement. Securities sold under the repurchase obligation and the corresponding securities provided as maintenance margin are included in the original balance sheet item despite the agreement.

1.5.4 Classification and recognition

Upon initial recognition, financial assets and liabilities are classified as follows: financial assets and liabilities at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets and other financial liabilities. The classification depends on the purpose for which the financial assets and liabilities were acquired.

The purchase and sale of financial assets and liabilities at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets are recognised in the balance sheet on the transaction date, or the date on which the Group agrees to buy or sell the asset or liability in question. Notes and bonds classified as loans and receivables are recognised as financial assets on the transaction date and loans granted on the date on which the customer draws down the loan.

Financial assets and liabilities are offset in the balance sheet if Pohjola Group currently has a legally enforceable right of set-off in the normal course of business and in the event of default, insolvency or bankruptcy, and intends to settle the asset and liability on a net basis. OTC interest rate derivatives for central counterparty clearing are offset in the balance sheet, which are cleared in the daily clearing process with London Clearing House.

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Financial liabilities are derecognised when they are extinguished, i.e. when the obligation is discharged, cancels or expires.

1.5.4.1 Financial assets and liabilities at fair value through profit or loss

Financial instruments at fair value through profit or loss include financial assets and liabilities held for trading, derivative contracts held for trading and financial assets at fair value through profit or loss at inception. Financial assets at fair value through profit or loss are initially recognised at fair value and transaction costs are charged to expenses. A subsequent change in fair value as well as capital gains and losses, interest income and expenses, and dividend income are recognised in the item by their nature in the income statement.

1.5.4.1.1 Financial assets and liabilities held for trading and derivative contracts held for trading

Assets held for trading include notes and bonds, and shares and participations acquired with a view to generating profits from short-term fluctuations in market prices. Liabilities held for trading refer to the obligation to deliver securities which have been sold but which have not been owned at the time of selling (short selling). Derivatives are also treated as held for trading unless they are designated as derivatives for effective hedging or they are guarantee contract derivatives.

1.5.4.1.2 Financial assets at fair value through profit or loss at inception

Financial assets at fair value through profit or loss at inception include financial assets which are designated as at fair value through profit or loss upon their initial recognition.

Financial assets recognised at fair value through profit or loss at inception comprise bonds which the Group, in accordance with its risk management principles, manages and assesses performance at fair value in order to receive a true and real-time picture of investment operations. Reporting to the Group's management is based on fair values.

Since the business involves investment on a long-term basis, financial assets are presented separately from those held for trading.

Financial assets at fair value through profit or loss also include hybrid instruments in which the fair value of an embedded derivative cannot be determined separately.

1.5.4.2 Loans and receivables

Financial assets classified as loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Receivables related to insurance contracts, claims administration contracts and disposal of investments are presented within this asset class. These financial assets are shown as receivables from customers, from credit and financial institutions or as Non-life Insurance assets in the consolidated balance sheet.

Loans and receivables are initially recognised at cost, which is the fair value of consideration given plus directly attributable transaction costs. Loans and receivables are carried at amortised cost after their initial recognition, using the effective interest method.

Impairment losses on loans and receivables are recognised on an individual or collective basis. Impairments will be assessed on an individual basis if the debtor's total exposure is significant. In other respects, impairments are assessed on a collective basis.

Impairment will be recognised and impairment losses incurred if there is objective evidence that the receivable cannot be recovered in full. The receivable has impaired if its present value of the estimated future cash flows – collateral included – is lower than the aggregate carrying amount of the loan and the related unpaid interest. Estimated future cash flows are discounted at the loan's original effective interest rate. If the loan carries a variable interest rate, the discount rate for measuring any impairment is the current effective interest rate determined under the agreement. Impairment loss recognised in profit or loss equals the difference between the loan carrying amount and the lower present value of future cash flows.

Impairment assessment is a two-phase process. Impairment is assessed individually for significant loans and receivables. If loans and receivables are not assessed individually, they will be assessed collectively for impairment. Losses incurred but not yet reported, which cannot yet be allocated to a certain loan, are recognised as collectively assessed impairment. Collectively assessed impairment provisions are based on a statistical model used in the measurement of economic capital. The model is derived from the expected credit loss model used in capital adequacy measurement, adjusted to correspond to the requirements under IFRS. The largest adjustments relate to minimum limits set for capital adequacy and to the materialisation of a loss event. In the model, receivables are classified into groups with similar credit risk by rating category. Collectively assessed impairment is measured based on the expected loss by rating category, and the measurement also takes account of the discounted present values of collateral and the average past loss experience.

If the contractual payment terms of a loan are modified, the reason for such modification and the severity class are documented using an internally defined scale. Loans may also be modified for reasons related to the management of customer relationships, not to the financial difficulties of the customer. Such modifications do not affect loan impairment assessment. In some cases, the Group may, due to the customer's financial difficulties, modify the loan terms and conditions, such as in terms of repayment holiday for a limited period or another loan modification, which are aimed at securing the customer's repayment capacity and limiting credit risk associated with liabilities. These modified loans are reported under doubtful receivables. Modifications in the contractual payment terms that are due to the customer's financial difficulties are forbearance measures and together with other criteria reduce the customer's credit rating and thereby increase collective impairment allowance. Modifications with the highest severity class are also forbearance measures that will have an effect on the loan being assessed for impairment on an individual basis. If the customer has adhered to the new payment terms and no impairment allowance has been recognised for the customer's exposure, it will be removed from doubtful

receivables. Modifications in payment terms are subject to regular monitoring and reporting to the management as an indicator anticipating customer solvency.

Impairment losses on loans are presented as an allowance of loans in the balance sheet and under "Impairment losses on doubtful receivables" in the income statement. Recognition of interest on the impaired amount continues after the recognition of impairment.

The loan is derecognised after the completion of debt-collection measures, or otherwise based on the management's decision. Following the derecognition, payments received are recognised as an adjustment to impairment losses on receivables. If there is subsequent objective evidence of the debtor's improved solvency, the amount of the impairment loss recognised earlier will be reassessed and any change in the recoverable amount will be recorded in the income statement.

1.5.4.3 Investments held to maturity

Investments held to maturity are non-derivative financial assets with fixed or determinable payments that the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are initially recognised at fair value to which transaction costs are added. These investments are subsequently carried at amortised cost after their initial recognition, using the effective interest method.

Impairment of investments held to maturity is reviewed on the basis of the same principles as that of loans and receivables. The difference between the carrying amount of notes and bonds and a lower present value of future cash flows is recognised as an impairment loss in the income statement.

Investments included in the financial assets held to maturity category are sold before their maturity only in exceptional cases mentioned in IAS 39.

1.5.4.4 Available-for-sale financial assets

Available-for-sale financial assets include non-derivative assets which are not classified as the abovementioned financial assets but which may be sold before their maturity, comprising notes and bonds, shares and participations.

At the time of their acquisition, available-for-sale financial assets are recognised at cost, which equals the fair value of the consideration paid plus transaction costs directly attributable to their acquisition. Available-for-sale financial assets are subsequently measured at fair value. Any changes in their fair value are recognised in other comprehensive income, from where they are transferred to the income statement when the asset is derecognised or there is objective evidence that the asset is impaired.

In the case of available-for-sale financial assets, for example, a significant downgrade of the credit rating of the issuer of bonds and notes, or a significant or prolonged decline in the equity instrument's fair value below its cost, constitutes objective evidence. If an equity instrument's market value continues to fall following impairment recognition, the impairment loss will be recognised in the income statement.

If the fair value of impaired notes and bonds classified as available-for-sale financial assets increases subsequently and this increase can be objectively regarded as being related to an event after their impairment loss recognition, the impairment loss will be reversed and recorded in the income statement. If the fair value of an impaired equity instrument increases subsequently, this increase will be recognised in other comprehensive income.

Interest income related to available-for-sale financial assets is recognised under "Net interest income" in the income statement and dividends under "Net investment income". For Non-life Insurance, both items are recognised under "Net income from Non-life Insurance".

The difference between the nominal value and the acquisition cost of fixed-rate bonds is recognised in interest income over the estimated residual term to maturity, using the effective interest method.

1.5.5 Cash and cash equivalents

Cash and cash equivalents consist of cash and receivables from credit institutions repayable on demand.

1.5.6 Other financial liabilities

Other financial liabilities include financial liabilities other than those at fair value through profit or loss, comprising deposits and other liabilities to credit institutions and customers, debt securities issued to the public and other financial liabilities. Other financial liabilities are recognised in the balance sheet on the settlement date and carried at amortised cost after initial recognition.

The difference between the nominal value and the acquisition cost of fixed-rate bonds is recognised in interest expenses over the estimated residual term to maturity, using the effective interest method.

1.5.7 Derivative contracts

Derivative contracts are classified as hedging derivative contracts and derivative contracts held for trading, containing interest rate, currency, equity, commodity and credit derivatives, measured at fair value at all times.

The Group's Risk Management has prepared methods and internal principles used for hedge accounting, whereby a financial instrument can be defined as a hedging instrument.

In accordance with the hedging principles, the Group can hedge against interest rate risk, currency risk and price risk by applying fair value hedge or cash flow hedge. While the latter refers hedging against risks causing cash flow fluctuations, the former refers to hedging against changes in the fair value of a hedged asset/liability.

Contracts may not be accounted for according to the rules of hedge accounting if the hedging relationship between the hedging instrument and the related hedged item, as required by IAS 39, does not meet the criteria of the standard. The Group's parent company, Pohjola Bank plc, also concludes derivative contracts which are in fact used to hedge against financial risks but which do not fulfil these criteria.

The fair value of OTC interest rate derivatives for central counterparty clearing is cleared in cash on a daily basis. In the balance sheet, these cleared derivatives are shown as a net change in cash. Other derivatives are presented on a gross basis, in which case positive value changes are presented as Derivative contracts under assets and negative value changes as Derivative contracts under liabilities.

1.5.7.1 Derivatives held for trading

The difference between interest received and paid on interest-rate swaps held for trading is recorded in interest income or expenses and the corresponding interest carried forward is recognised in other assets or other liabilities. Changes in the fair value of derivatives held for trading are recorded under "Net trading income" or "Net income from Non-life Insurance". Derivatives are carried as assets under "Derivative contracts" when their fair value is positive and as liabilities under "Derivative contracts" or "Non-life Insurance liabilities" when their fair value is negative.

Embedded derivatives associated with structured bonds issued are separated from the host contract and measured at fair value in the balance sheet, and changes in the fair value of these embedded derivatives and derivatives designated as hedging instruments are recognised in "Net interest income".

1.5.8 Hedge accounting

Hedge accounting is used to verify that changes in the fair value of a hedging instrument fully or partially offset changes in the fair value or cash flows of a hedged item.

The relationship between hedging and hedged instruments is formally documented, containing information on risk management principles, hedging strategy and the methods used to demonstrate hedge effectiveness. Hedge effectiveness is tested at the inception of the hedge and in subsequent periods by comparing respective changes in the fair value or cash flows of the hedging and hedged instrument. The hedge is considered highly effective if the change in the fair value of the hedging instrument or in cash flows offsets the change in the fair value of the hedged contract or portfolio or in cash flows within a range of 80–125%.

In hedge accounting, the Group does not apply an accounting model for macro hedging or the EU carve-out of IAS 39.

1.5.8.1 Fair value hedges

Fair value hedging against interest rate risk involves long-term fixed-rate debt instruments (Pohjola's own issues), individual bond and loan portfolios, as well as individual loans. The Group uses forward exchange contracts and interest-rate and currency swaps as hedging instruments. Hedging against equity and foreign currency risks applies to Non-life Insurance's equity fund investments.

Changes in the fair value of derivative contracts that are documented as hedging the fair value and are highly effective hedges are recognised in the income statement. Hedged assets and liabilities are also measured at fair value during the period for which the hedge is designated, and any fair value changes are recognised through profit or loss.

In fair value hedge accounting, changes in the fair value of the hedging and hedged instrument are recorded under "Net interest income", with the exception of changes in the fair value of mutual fund investments included in Non-life Insurance's available-for-sale financial assets and that of instruments hedging them, which are recognised in "Net income from Non-life Insurance".

1.5.8.2 Cash flow hedges

A cash flow hedge is a hedge of the exposure to the variability attributable to a particular risk associated with variable-rate debt or other variable-rate assets and liabilities. In addition, cash flow hedging is used to hedge the future interest flows of the loans defined on the basis of reference interest rate linkage. Interest rate swaps are among those used as hedging instruments.

Derivative contracts which are documented as cash flow hedges and provide effective hedges are measured at fair value. The effective portion of changes in the fair value of the hedging instrument is recognised in other comprehensive income. Any ineffective portion of changes in the fair value is recognised immediately in profit or loss. Fair value changes recognised in shareholders' equity are included in the income statement in the period when hedged items affect net income.

1.6 Investment property

Investment property is land and/or buildings or part thereof held to earn rental income or for capital appreciation. Property, a minor part of which is used by the owner company or its personnel, is also accounted for as investment property. However, a part of property used by the owner company or its personnel is not accounted for as investment property if the part can be sold separately. Investment property is shown as investment assets or as Non-life Insurance assets in the consolidated balance sheet.

Investment property is initially recognised at cost which includes transaction costs. It is subsequently carried at fair value. Investment property under construction is also measured at fair value only if the fair value can be determined reliably. Any changes in the fair value are recognised in "Net income from Non-life Insurance" or "Net investment income".

If no comparable market data is available on the actual transaction prices of the property comparable with the property under review, the Group uses the income approach and internal methods based on property-specific net income to determine the fair value of commercial, office and industrial premises. The Group uses OP-Pohjola Group's internal and external information in the income approach. A property's net income comprises the difference between rental income and maintenance charges and it is based on income under current leases or, if no lease is in force, on average market rents. Expenses deducted from income are mainly based on actual expenses. Assumption of underutilisation of the property is also taken into account in the calculation. For the income approach, the Group obtains information on market rental and cost levels from sources outside OP-Pohjola Group, in addition to its own expertise. The return requirements for investment property holdings are determined on the basis of the property's purpose of use, location and condition/modernity and are based on market data provided by KTI Property Information Ltd.

The fair value of residential buildings and land areas is primarily determined using the market approach, based on information on the actual transaction prices of similar properties and on OP-Pohjola Group's internal expertise. In the fair value of undeveloped plots, the Group has taken account of the planning and market situation at the time of appraisal. The fair value of major property holdings is based on valuation reports drawn up by Authorised Property Valuers. External valuers use a cash flow analysis as the basis for their appraisal.

1.7 Intangible assets

1.7.1 Goodwill

For business combinations on or after 1 January 2010, the Group measures goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree and the previous holding exceed OP-Pohjola Group's share of the fair value of the acquired assets and assumed liabilities.

For acquisitions before the above date, goodwill represents at the time of acquisition the excess of the cost of an acquisition over the fair value of OP-Pohjola Group's share of the net identifiable assets, liabilities and contingent liabilities of an acquiree.

Goodwill is tested annually for any impairment. For the purpose of impairment testing, goodwill is allocated to cash-generating units, which are either business segments or entities belonging to them. Goodwill is carried at cost less accumulated impairment losses.

1.7.2 Customer relationships

Identifiable customer relationships acquired through business combinations are measured at fair value upon acquisition. This intangible asset arising from customer relationships is amortised on a straight-line basis over the asset's estimated useful life. The estimated useful life of Pohjola Group's acquired customer relationships is 10–13 years.

1.7.3 Brands

Identifiable brands acquired through business combinations are measured at fair value upon acquisition. The estimated useful lives of brands acquired through business combinations are indefinite, since they will generate cash flows for an indefinable period. The value of brands is tested annually for impairment.

1.7.4 Deferred acquisition costs of insurance contracts

Foreign subsidiaries defer costs associated with the acquisition of new insurance contracts or with the renewal of existing contracts. The resulting intangible asset is amortised on a straight-line basis over the effective lives of the contracts, which is a policy period. An intangible asset is assessed annually for impairment in connection with testing the adequacy of the liability associated with insurance contracts.

1.7.5 Other intangible assets

Other intangible assets are measured at cost less accumulated amortisation and any impairment losses. These assets are amortised over their estimated useful lives, which is 2–10 years for computer software and licences and 5 years in general for other intangible assets. The useful lives of assets are reviewed on each balance sheet date and, if necessary, their value is tested for impairment.

Expenditure on the development of computer software or assets is presented as an intangible asset when their amount can be reliably determined and they will generate future economic benefits. The asset will be amortised from the time it is ready for use, mainly 3–10 years. An asset that is not yet ready for use is tested annually for impairment.

1.8 Property, plant and equipment

Property, plant and equipment (PPE) are carried at cost less accumulated depreciation and any impairment losses. These assets are depreciated on a straight-line basis over their estimated useful lives. Land is not subject to depreciation.

Subsequent expenditures are capitalised at the asset's carrying amount only if it is probable that the asset will generate greater economic benefits than initially estimated.

The estimated useful lives are mainly as follows:

Buildings	20–50 years
Machinery and equipment	3–10 years
IT equipment	3–5 years
Cars	5–6 years
Other PPE assets	3–10 years

The assets' residual value and useful lives are reviewed on each balance sheet date and adjusted as appropriate if expectations differ from previous estimates with respect to economic benefits.

1.8.1 Impairment of PPE and intangible assets

On each balance sheet date, the Group assesses whether there is any indication of an asset's impairment. If such indication exists, the amount recoverable from the asset will be estimated. Regardless of the existence of such indication, the recoverable amount is estimated for assets not yet available for use, goodwill and intangible assets with indefinite useful lives (brands). An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its future recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell (net selling price) or value in use. The recoverable amount is primarily determined on the basis of the asset's net selling price, but if this is not possible, the asset's value in use must be determined. The asset's value in use equals the present value of future cash flows expected to be recoverable from the asset. The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset. The need for impairment of the annually tested assets stated above is always determined on the basis of value-in-use calculations.

If the asset's net selling price cannot be determined and the asset does not generate cash flows independent of other assets, the need for impairment will be determined through the cash-generating unit, or the business segment or its company, to which the asset belongs. In such a case, the carrying amounts of the unit's assets are compared with the entire unit's recoverable amounts.

An impairment loss is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The increased carrying amount of the asset may not exceed the carrying amount of the asset that would have been determined had no impairment loss been previously recognised. Impairment losses on goodwill may not be reversed under any circumstances.

1.9 Leases

Whether a lease is classified as a finance lease or an operating lease depends on the substance of the transaction. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incident to ownership to the lessee. All other leases are classified as operating leases. Lease classification is performed at the inception of the lease.

Assets leased out under finance lease are recorded as receivables from customers in the balance sheet, to the amount equal to the net investment in the lease. Finance income is recognised in interest income based on a pattern reflecting a constant periodic rate of return on the lessor's net investment outstanding in respect of the finance lease.

Assets leased under finance lease are recognised as property, plant and equipment and the corresponding finance lease liability is included in other liabilities. At the inception of the lease term, these leased assets are recorded as assets and liabilities at the lower of the fair value of the asset and the present value of the minimum lease payments. Assets held under finance lease are depreciated over the shorter of the lease term or the life of the asset. Finance charges are recognised in interest expenses so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Assets leased out under operating lease are shown under property, plant and equipment and lease income is recognised on a straight-line basis over the lease term. Lease payments for leased assets under operating lease are recognised as expenses on a straight-line basis over the lease term.

1.10 Employee benefits

1.10.1 Pension benefits

Statutory pension cover for Pohjola Group companies' employees is arranged through pension insurance taken out with OP Bank Group Pension Fund or pension insurance companies. Some Group companies provide their employees with supplementary pension cover through OP Bank Group Pension Foundation or an insurance company.

Pohjola Group has both defined benefit and defined contribution plans. With respect to funded disability and old-age pensions, pensions managed by OP Bank Group Pension Fund are defined benefit plans. Pension plans managed by insurance companies may be either defined benefit or defined contribution plans. All of the plans managed by OP Bank Group Pension Foundation are defined benefit plans.

Expenses arising from pension plans are recognised under "Personnel costs" in the income statement. Contributions under defined contribution plans are paid to the insurance company and charged to expenses for the financial year to which they relate. No other payment obligations are included in defined contribution plans.

Defined benefit plans managed by insurance companies, OP Bank Group Pension Fund and OP Bank Group Pension Foundation are funded through payments based on actuarial calculations.

The liability recognised in the balance sheet in respect of the defined benefit plan is the present value of the defined benefit obligation on the balance sheet date less the fair value of plan assets.

Defined benefit obligations are calculated separately for each plan using the projected unit credit method. Pension costs are charged to expenses over the employees' expected working lives on the basis of calculations performed by authorised actuaries. The discount rate for the present value of the defined benefit obligation is determined on the basis of the market return on high-grade corporate bonds on the last date of the reporting period.

Actuarial gains and losses are recognised in other comprehensive income in the period in which they occur. When recognising actuarial gains and losses in other comprehensive income, these gains and losses cannot be reclassified through profit or loss in subsequent periods.

Plan curtailments are recognised when the curtailment occurs.

1.10.2 Share-based payments

Pohjola Group has short-term and long-term management incentive schemes in place, on the basis of which the person covered by the schemes may receive the related compensation for services rendered during each performance period partly as equity-settled payments (Pohjola Bank plc Series A shares) and partly as cash-settled payments. Depending on the settlement method used, transactions under these schemes are recognised either as equity-settled or cash-settled transactions.

Equity-settled share-based payments are measured at fair value on the grant date and the amount charged to expenses is recognised in personnel costs and an increase in shareholders' equity over the vesting period. Cash-settled share-based payments and the corresponding liability are measured at fair value at the end of each period and the amount charged to expenses is recognised in personnel costs and deferred expenses over the vesting period.

The estimated number of exercisable shares is checked on a quarterly basis. Any effects resulting from checking the original estimates are recognised in personnel costs and the corresponding adjustment is made in shareholders' equity and deferred expenses.

1.11 Insurance assets and liabilities

1.11.1 Classification of Non-life Insurance financial assets and liabilities

The section "Classification and recognition" under Financial Instruments contains information on the classification of financial assets and liabilities within Non-life Insurance.

1.11.2 Classification of insurance contracts issued by insurers

An insurance contract is a contract which transfers significant insurance risk from the policyholder to the insurer, as defined in IFRS 4. Other contracts which the company may issue under its licence represent investment contracts. If a contract does not involve any significant insurance risk on the balance sheet date but the policyholder has the right to change the contract in such a way that the contract transfers significant insurance risk to the insurer, the contract is classified as an insurance contract. Almost all of the contracts issued by non-life insurers are insurance contracts.

Insurance contracts are classified into risk groups in such a way that the risks of contracts are homogeneous in each group. This classification into categories takes account of the insured object and differences in the duration of contracts or the average length of the period between the occurrence of a loss event and the date of the fully-paid claim (claim settlement period).

The main insurance contract categories are short-term non-life contracts and long-term contracts.

Short-term policies usually have a policy term of 12 months or less, very rarely over 24 months. In particular, policies for private individuals, motor-vehicle policies and statutory workers' compensation policies are usually automatically renewable annual policies that are treated as short-term contracts.

Long-term non-life insurance contracts refer to contracts with an average minimum policy term of two years. These include perpetual insurance policies and decennial insurance policies under the Housing Transactions Act.

Descriptions of insurance contracts can be found in the section "Risk Management Principles", Insurance operations.

1.11.3 Recognition and measurement of insurance contracts issued by insurers

Contracts are recognised when an insurer's obligation to pay out the related claim begins following the occurrence of an insurance event.

Insurance contracts are measured and accounted for in accordance with IFRS 4 – Insurance Contracts. Investment contracts are measured in accordance with IAS 39.

Liabilities of contracts issued by insurers and measured under IFRS 4 are calculated mainly national in accordance with national accounting standards. However, equalisation provisions are not included in these liabilities but are included in shareholders' equity.

The liabilities comprise provisions for unearned premiums and claims liability. Non-life provisions for unearned premiums equal the liabilities arising from claims and other expenses expected for the remaining coverage periods of the recognised policies. The claims liability arises from reported and non-reported claims incurred and from their claims and settlement expenses paid in the future.

1.11.3.1 Measurement of insurance contracts issued by non-life insurers

Premiums are primarily recognised as revenue over the term of the contract. However, revenue recognition in decennial and perpetual insurance policies is based on the distribution of underwriting risk. In these policies, the portion of premiums written for the post-balance sheet date is recorded as provision for unearned premiums in the balance sheet and recognised as premium revenue relative to risk over the policy term.

Claims paid out and direct and indirect claim settlement expenses are charged to claims incurred on the basis of the date of loss occurrence. Claims unsettled on the balance sheet date for losses already occurred and their settlement expenses – including losses occurred but not yet reported to the Group (IBNR) – are reserved in the provision for unpaid claims consisting of both claims reserved for individual cases and statistically reserved claims. The provision, included in the provision for unpaid claims, for the future settlement of expenses is based on estimated costs.

Provision for unearned premiums for decennial insurance and perpetual insurance policies and provision for unpaid claims for annuities are discounted based on a constant discount rate for the entire pension period. When specifying the rate, the general trend for the interest rate is taken into account. The discount rate may not exceed the expected return on the assets covering the liability or the level set by the authorities. An increase in liabilities due to the passage of time (unwinding of discount) is shown in the income statement as a separate item within "Other Non-life Insurance items" under "Net income from Non-life Insurance".

1.11.4 Liability adequacy test on insurance contracts

On each balance sheet date, the Group tests for the adequacy of liabilities in the balance sheet, using current estimates of future cash flows from insurance contracts. If the test shows that the carrying amount of insurance liabilities, less intangible assets related to capitalised policy acquisition costs, is inadequate, the deficiency is recognised in profit or loss primarily by performing an additional amortisation on intangible assets and secondarily by increasing liabilities.

1.11.5 Premiums written

Premiums written included in net income from insurance operations in the income statement are a consideration of the insurance coverage that began during the period.

Insurance premium tax, but not commissions and credit loss on insurance premiums, is deducted from premiums written.

Insurance premiums based on non-life insurance contracts are recognised as premiums written when the insurance period begins.

1.11.5.1 Receivables and payables related to insurance contracts

Non-life Insurance premium receivables are recognised at the beginning of the insurance period when the right to the receivable is established. These receivables are mainly those from policyholders and only to a minor extent from insurance intermediaries. Prepaid insurance premiums are included in "Direct insurance liabilities" under Non-life Insurance liabilities.

Non-life Insurance receivables based on insurance contracts are tested for impairment on each balance sheet date. If there is objective evidence of an impaired receivable, its carrying amount is reduced through profit or loss. Both final impairment losses (credit losses) and impairment losses established statistically on the basis of the phase of collecting the charge are deducted from receivables.

1.11.6 Salvage and subrogation reimbursements

Subrogation reimbursements and damaged property that has come into the Group's possession are recognised at fair value under "Non-life Insurance assets" in the balance sheet when the claim is settled.

1.11.7 Reinsurance contracts

Reinsurance taken out by the Group refers to an insurance contract which meets the classification requirements set for insurance contracts and under which the Group may be paid compensation by another insurer if the Group becomes liable to pay compensation on the basis of other insurance contracts (ceded reinsurance).

Reinsurance assets are tested for impairment on each balance sheet date. If there is objective evidence that the Group may not receive all amounts to which it is entitled on the basis of the contract terms, the carrying amount of the reinsurance asset is reduced to correspond to the recoverable amount and the impairment loss is recognised in the income statement.

Non-life insurance benefits received under reinsurance contracts held are included in "Loans and receivables" or receivables "From reinsurance under Other assets", with the latter receivables corresponding to reinsurers' share of provision for unearned premiums and provision for unpaid claims of the insurance contracts reinsured by the Group. Items included in "Loans and receivables" are shorter-term receivables. Premiums unpaid to reinsurers are included in "Reinsurance liabilities" under Non-life Insurance liabilities.

1.11.8 Coinsurance and pools

The Group is involved in a few coinsurance arrangements with other reinsurers. Of coinsurance contracts, the Group treats only its share of the contract as insurance contracts and the Group's liability is limited to this share.

The Group also underwrites shares of insurance contracts through pools, whose members are primarily responsible for their own proportionate share of the underwriting risk. These shares are based on contracts confirmed annually. The Group treats as insurance contracts its own proportionate share of the direct insurance business managed by pools and of the reinsurance business from the pool to its members. The pool's share of these insurance contracts is treated as reinsurance. In some pools, members are responsible for an insolvent member's liabilities in proportion to their shares in the pool. The Group recognises liabilities and receivables based on joint liability if joint liability is likely to materialise.

1.12 Provisions and contingent liabilities

A provision is recognised for an obligation if the obligation is based on a past event and it is probable that an outflow of resources will be required to settle the obligation, but there is uncertainty about the timing or amount required in settlement. In addition, an entity must have a present legal or constructive obligation towards a third party as a result of past events. If it is possible to receive compensation for part of the obligation from a third party, the compensation is recognised as a separate asset, but only at the time when receipt of the compensation is actually certain.

1.13 Income tax

Income tax expense shown in the income statement includes current tax, based on the taxable income of Pohjola Group companies for the financial year, and income tax for prior financial years and deferred tax expense or income.

Deferred tax liabilities are recognised for all temporary differences between the carrying amount and taxable value of assets and liabilities. Deferred tax assets are calculated on tax-deductible temporary differences between the carrying amount and taxable value included in the financial statements, and on losses confirmed for tax purposes. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The Group offsets deferred tax assets and liabilities by company. Deferred tax assets and liabilities resulting from consolidation are not offset. Deferred tax assets and liabilities are measured at the tax rate that is expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted by the balance sheet date. If deferred tax originates from balance sheet items whose changes have no effect on the income statement, any change in deferred tax is recognised in other comprehensive income, not in the income statement.

1.14 Revenue recognition

Interest income and expenses for interest-bearing assets and liabilities are recognised on an accrual basis. Interest on receivables with non-settled, due payments is also recognised as revenue and this interest receivable is tested for impairment. The difference between the receivable's acquisition cost and its nominal value is allocated to interest income and that between the amount received and nominal value of the liability to interest expenses.

Commission income and expenses for services are recognised when the service is rendered. For one-off commissions covering several years that may have to be refunded at a later date, only the portion of their revenue related to the period is recognised.

Dividends are primarily recognised when they are approved by the General Meeting of Shareholders.

Income and expense items in the income statement are presented separately without offsetting them unless there is a justified reason for offsetting them in order to give a true and fair view.

Summary of presentation of income statement items:

Net interest income	Received and paid interest on fixed-income instruments, the recognised difference between the nominal value and acquisition value, interest on interest-rate derivatives and fair value change in fair value hedging, commissions and fees regarded as compensation for risk associated with a financial instrument and taken by the bank and are deemed to be an integral part of the financial instrument's effective interest
Net income from Non-life Insurance	Premiums written, change in insurance liability, investment income and expenses (interest, dividends, realised capital gains and losses, impairment losses) and claims paid
Net commissions and fees	Commission income and expenses, and the recognition of Day 1 profit related to illiquid derivatives
Net trading income	Fair value changes in financial instruments at fair value through profit or loss, excluding accrued interest, and capital gains and losses, as well as dividends
Net investment income	Realised capital gains and losses on available-for-sale financial assets, impairment losses, dividends as well as fair value changes in investment property, capital gains and losses, rents and other property-related expenses
Other operating income	Other operating income, central banking service fee
Personnel costs	Wages and salaries, pension costs, share-based payments, social expenses
Other administrative expenses	Office expenses, ICT costs, other administrative expenses
Other operating expenses	Bank levy, depreciation/amortisation, rents and other expenses

1.15 Segment reporting

Financial information, which the executive in charge monitors regularly, serves as the basis of defining operating segments. The Group's reportable operating segments comprise Banking, Non-life Insurance, Asset Management, and the Group Functions.

A description of the operating segments and segment accounting policies can be found as part of segment information.

1.16 Critical accounting estimates and judgements

The preparation of financial statements requires making estimates and assumptions about the future and the future actual results may differ from these estimates and assumptions. It also requires the management to exercise its judgement in the process of applying the Group's accounting policies.

Liabilities arising from insurance contracts involve several discretionary factors and uncertainty. With respect to Non-life Insurance, estimates are based on assumptions about the operating environment and on the actuarial analyses of the Group's own claims statistics. An especially higher degree of management judgement is required for determining the discount rate and estimating claims expenditure arising from the already occurred loss events. Information on uncertainties included in assumptions related to insurance contracts and their effects can be found in Notes 33 and 76.

The values of insurance contracts, customer relationships and brands acquired through business combinations are based on estimates of eg future cash flows and the applicable discount rate. Information on the effects of these assumptions and estimates can be found in Note 25.

Goodwill, assets with indefinite useful lives and intangible assets not yet available for use are tested annually for impairment. The recoverable amount determined in the impairment test is usually based on value in use, and its calculation requires estimates of future cash flows and the applicable discount rate. Information on the effects of these assumptions and estimates can be found in Note 25.

Impairment tests of receivables are performed on an individual or collective basis. An impairment test carried out for an individual receivable is based on the management's estimate of the future cash flows of the individual loan. The most critical factor in testing an individual loan for impairment is to determine the cash flow whose realisation is the most probable.

Collectively assessed impairment provisions are based on a statistical model used in the measurement of economic capital, in which expected future losses are adjusted for incurred losses based on historical data. In such a case, the management's judgement is required to assess how estimates of expected future losses adjusted for historical data correspond to the incurred losses and whether any possible adjustments for these are needed.

Available-for-sale financial assets, notes and bonds included in loans and receivables, and investments held to maturity must be tested for impairment on each balance sheet date. If there is objective evidence of an impaired asset, the impairment loss will be recognised in the income statement. Verifying objective evidence involves management judgement. Impairment loss on an equity instrument must also be recognised if there is a significant or prolonged decline in the fair value. Determining a significant and prolonged decline in the fair value is part of the normal management judgement. Defining objective evidence is a two-step approach where at first instruments that exceed certain indicators are regularly listed and put under closer review. The Group continuously assesses such instruments under review for impairment. Impairment loss will be recognised at the latest when the maximum limits specified for each instrument are exceeded with respect to the prolonged criteria (an average of 18 months) or the significant criteria of 40%.

The management must assess when markets for financial instruments are not active. The management must also assess whether an individual financial instrument is actively traded and whether the price obtained from the market is a reliable indication of the instrument's fair value. When the fair value of financial instruments is determined using a valuation technique, management judgement is required to select the applicable valuation technique. Whenever market observable input data is not available for outputs produced by valuation techniques, the management must evaluate how much other information will be used.

The present value of pension obligations depends on several factors determined based on actuarial calculations and using several assumptions. The discount rate, future increases in pay and pension and the inflation rate are the assumptions used to determine net costs (or income) arising from pensions. Changes in actuarial assumptions have an effect on the carrying amount of pension obligations. More detailed, related information can be found in Note 35.

The measurement of investment property at fair value is partially based on the management's estimates of the market value of property holdings. Investment property is also measured using a calculation model based on the income approach utilising estimates of future net yield on property holdings at carrying amount. More detailed, related information can be found in Note 88.

1.17 New standards and interpretations

In 2014, Pohjola Group will adopt the following standards and interpretations:

- IFRS 10 – Consolidated Financial Statements builds on the existing principles according to which control determines whether the parent company consolidates an entity. The standard includes new guidance on circumstances where control is difficult to assess. As a result of the amended standard, the number of companies to be included in OP-Pohjola Group's consolidated financial statements will increase when property companies and various mutual funds are consolidated. In the balance sheet, receivables from the public will decrease and property holdings will increase correspondingly. The fair value changes of mutual funds to be consolidated will transfer from the statement of comprehensive income to the income statement.
- IFRS 11 – Joint Arrangements focuses in the accounting treatment of joint arrangements on the rights and obligations arising from such arrangements rather than on their legal form. The standard classifies joint arrangement into two types: joint operations and joint ventures. In addition, the standard requires that joint ventures are accounted for only using the equity method. This amendment will have only a minor effect on OP-Pohjola Group's balance sheet and statement of comprehensive income.
- IFRS 12 – Disclosure of Interests in Other Entities includes disclosure requirements for all forms of interests in other entities, including associates, joint arrangements, structured entities and other unconsolidated entities. The new standard will increase disclosures in the notes to the financial statements related to the Group's holdings in other entities.
- IAS 32 – Financial Instruments: amendment to the presentation of Offsetting Financial Assets and Financial Liabilities. This amendment provides clarifications on the application of the rules for the offsetting of financial assets and financial liabilities and adds related application guidance. This amendment will have no material effect on the Group's consolidated financial statements.
- IAS 36 – Impairment of Assets, amendment Recoverable Amount Disclosures for Non-Financial Assets. This amendment clarifies the disclosure requirements for cash-generating units which have recorded impairment losses.
- IAS 39 – Financial Instruments: recognition and measurement, amendment Novation of Derivatives and Continuation of Hedge Accounting. The amendment concerns hedge accounting application criteria when a derivative contract is novated to a central counterparty. As a result of the amendment, hedge accounting can continue in such novation cases if specific conditions are met.
- IFRIC 21 Interpretation Levies applies to the accounting treatment for an obligation to pay a levy. The interpretation determines what the obligating event is that gives rise to the recognition of a liability. At OP-Pohjola Group, the interpretation applies, for example, to the recognition of a bank levy. The interpretation has not yet been adopted by the EU.

The IASB (International Accounting Standards Board) has also issued other future amendments to IFRSs. Other significant amendments to IFRSs that will take effect at a later date apply to the classification and measurement of financial instruments, assessment of impairment, hedge accounting, insurance contracts and leases. In addition, the IASB is also expected to issue other changes to financial statements information. OP-Pohjola Group is actively monitoring the progress of these changes.

Notes to the Consolidated Financial Statements

Note 2. Pohjola Group's Risk Management and Capital Adequacy Management Principles

Pohjola's core values, strategic goals and financial targets form the basis for risk and capital adequacy management.

The purpose of risk management is to identify threats and opportunities affecting strategy implementation. The objective is to help achieve the targets set in the strategy by ensuring that risks are proportional to risk-bearing capacity.

Pohjola Group's major risks include credit risk, market risks, liquidity risks, underwriting risks and market risks associated with investments, as well as strategic and operational risks associated with all business operations.

Pohjola Bank plc's Board of Directors approves Pohjola Group's risk and capital adequacy management principles, subject to an annual review, which are based on the risk management and capital adequacy management principles adopted by the Supervisory Board of OP-Pohjola Group Central Cooperative, the central institution. The principles provide guidelines on how Pohjola Group organises its risk management and internal capital adequacy assessment (ICAAP) process.

1. Organisation of risk management

As the highest decision-making body in matters associated with Pohjola Group's risk management and capital adequacy management, Pohjola's Board of Directors decides on the goals and organisation of risk management and capital adequacy management, confirms the risk and capital adequacy management principles, risk policy, investment plans and the main principles governing risk management. In addition, the Board supervises and monitors the implementation of risk management and capital adequacy management. The Board ensures the adequacy of risk management systems, confirms business goals, assesses the need for the Group's and Group companies' capital buffers, confirms capital plans and a proactive contingency plan for the capital base, and decides on principles for ensuring that the Company and its consolidated group operate in compliance with external regulation and internal instructions (compliance). It also decides on reporting procedures which senior management uses to monitor the Group's and subsidiaries' business, risk-bearing capacity and risk status. The Board assesses the appropriateness, extent and reliability of Pohjola Group's capital adequacy management on a holistic basis at least once a year. The Board also approves the Group's decision-making system, appoints members of Pohjola's Senior Credit Committee and confirms the description of the Underwriting Executives' duties and appointments.

The Board has appointed a Risk Management Committee for the purpose of preparing risk management and capital adequacy management duties for which the Board is responsible. The Committee is tasked with assisting the Board of Directors in ensuring that the Company and its consolidated group have adequate capital adequacy management and risk management systems covering all operations. The Committee shall also supervise the Company and its consolidated group so that they do not take excessive risks which would materially jeopardise the Company's and its consolidated group's capital adequacy, liquidity or profitability, and that the Company's and its consolidated group's risk-bearing capacity is sufficient to secure the continuity of operations.

To carry out its duties, the Risk Management Committee deals with the Company's and its consolidated group's capital adequacy management principles, risk policy and other general guidelines governing risk management. The Committee supervises the scope and performance of the Company's and its consolidated group's risk management systems and the quantity and quality of the Company's and its consolidated group's capital base, developments in their financial performance, risk exposure and compliance with the risk policy, credit limits and other instructions. It also supervises the Company and its consolidated group to ensure that risk management is in conformity with laws and regulations and instructions issued by relevant authorities. The Risk Management Committee reports to the Board of Directors.

The graph below depicts Pohjola Group's main decision-making bodies and reporting relationships in brief:



Pohjola Group's Executive Committee takes charge of the overall control of the Company and its consolidated group in such a way that the Group as a whole achieves its profit, risk-bearing capacity and other targets and goals by following shared strategies and policies. To carry out its duties, the Executive Committee shall particularly deal with the strategy and action plan of the Company and its consolidated group, significant issues to be presented to the Board of Directors, policy issues related to ALM and risk management as well as major purchases and projects.

Within the framework of authorisations confirmed by the Board of Directors, the Senior Credit Committee takes decisions on the exposure limit, credit limit and credit approval concerning customer, bank and country risks. The Senior Credit Committee is chaired by the Executive Vice President of Banking. The Senior Credit Committee has delegated decision-making powers in respect of less significant issues to the Credit Committee and the Executive Vice President of each business line, who makes credit risk decisions within the framework of confirmed authorisations.

Banking, Asset Management and Non-life Insurance bear the main responsibility for risk-taking, financial performance and compliance with the principles of internal control and risk and capital adequacy management. The business lines have the right to take decisions on risk-taking within the approved decision-making powers, exposure limits and credit limits in compliance with the Group's risk policy and guidelines.

The Boards of Directors of subsidiaries ensure that the subsidiaries comply, where applicable, with Pohjola Group's risk management and capital adequacy management principles, and that the subsidiaries have sufficient internal control and risk management systems in place in view of the nature and scope of their business operations.

Pohjola's risk and capital adequacy management responsibilities were centralised in OP-Pohjola Group Central Cooperative, the parent company, as part of the reorganisation of OP-Pohjola Group Central Cooperative Consolidated in early 2013. As a result, Pohjola's Risk Management Executives and ALM Executives ceased to exist in the first quarter of the year. Pohjola's CRO is still a member of Pohjola Group's Executive Committee and also a member of the management team of the parent company's Risk Management Control and sits on OP-Pohjola Group's Risk Management Committee. Pohjola's CFO is a member of the management team of the parent company's Business Control.

Pohjola's CRO is tasked with further developing and implementing integrated risk and capital adequacy management within Pohjola Group in cooperation with other Executive Committee members and the parent company's Risk Management. The CRO and the parent company's Risk Management assist the Board of Directors, the Risk Management Committee and the Audit Committee in the preparation and further development of the Group's risk and capital adequacy management principles and in the preparation of the Group's risk policy. In addition, the CRO and the parent company's Risk Management Control are in charge of monitoring and reporting the implementation of Pohjola Group's risk-bearing capacity and risk policy, and preparing and maintaining decision-making powers and instructions pertaining to risk-taking. Risk Management also assists in decision-making and controls the quality of the credit decision process. It also assesses risks associated with the introduction of new products and business models/concepts.

The coordination, monitoring and reporting related to the identification and assessment of strategic risks, business risks and operational risks are carried out by Risk Management.

OP-Pohjola Group Central Cooperative is responsible for OP-Pohjola Group-level risk and capital adequacy management and for ensuring that OP-Pohjola Group's risk management system is sufficient and up to date. OP-Pohjola Group's risk management control is a function independent of any of the business lines that defines, steers and supervises the overall risk management of OP-Pohjola Group and its institutions. As part of OP-Pohjola Group Central Cooperative Consolidated and OP-Pohjola Group, Pohjola Group complies in its risk management and capital adequacy management with the risk and capital adequacy management principles applied at the OP-Pohjola Group level. Risk Management and Internal Audit assess the performance of Pohjola Group's risk management and capital adequacy management on a regular basis.

2. Risk-bearing capacity and internal capital adequacy assessment process (ICAAP)

Pohjola Group's risk-bearing capacity involves a sufficient capital base based on profitable business, and qualitative factors, such as good corporate governance, internal control, risk management and capital adequacy management. Pohjola Group's statutory capital adequacy is determined on the basis of the Act on Credit Institutions. In the long-term, the Group's target for the Core Tier 1 ratio stands at least 11.0%.

Determined on the basis of the Insurance Companies Act, the statutory solvency of Non-life Insurance is influenced by the minimum requirements set for solvency capital, the minimum solvency margin and equalisation provision. The Non-life Insurance capitalisation target is 70% of insurance premium revenue.

Pohjola Bank plc uses the Foundation Internal Ratings-based Approach (FIRBA) under Basel II to measure its capital adequacy requirement for credit risk on corporate exposures, credit institution exposures, equity investments, trading book counterparty risks and securitised assets. It uses the Internal Ratings-based Approach to measure the capital requirement for credit risk on retail exposures. Pohjola uses the Standardised Approach (SA) to calculate its capital adequacy requirement for other credit risks and market risks. The Standardised Approach applies to the business in the Baltic States. The Standardised Approach is used to calculate the capital adequacy requirement for operational risks.

With the adoption of Basel II, the Internal Capital Adequacy Assessment Process, ICAAP, must involve assessing capital adequacy on the basis of an overall evaluation of risks, i.e. in the measurement of the minimum capital requirement the Group must take account of all material risks associated with business, such as risks included in the Pillar I minimum capital requirement (credit, market and operational risks), risks taken into account only partially in Pillar I, risks falling outside Pillar I (eg interest rate risk associated with the banking book and the concentration risk of loan portfolios) and risks inherent in the operating environment (eg the effect of business cycles and legislative amendments). Pohjola mainly uses its own economic capital model in assessing these risks.

As a result of the entry into force of Solvency II rules at the beginning of 2016, insurers will face significantly increased solvency capital requirements. There is so far uncertainty involved in the details of the calculation rules and various transitional provisions. Arrangements made by the Group for the entry into force of Solvency II have proceeded on schedule.

Capital adequacy management places a strong emphasis on profitability and effective capital management. The parent company is responsible for capital management on a coordinated basis. Every year, subsidiaries distribute their surplus capital to the parent company as dividends and, if necessary, the parent company injects capital into the subsidiaries through subordinated loans or equity investments.

The Group controls and monitors business by business line and allocates capital to the business lines on the basis of risks. The business lines' earnings are compared with the capital allocated to them and their operating return on equity is monitored against the set targets.

Forming part of integrated risk management, capital adequacy management aims to ensure effective capital management and the sufficient quantity and quality of capital in order to secure uninterrupted operations in the event of unexpected losses. Capital adequacy management is based on a proactive approach based on the Group's business strategy and plans. In addition to the capital adequacy target, the internal capital adequacy assessment process defines capitalisation targets by business line, capital adequacy forecasts, stress tests, scenarios and sensitivity analyses, as well as a contingency plan for maintaining the capital adequacy target considering all material risks arising from the business and changes in the operating environment.

Well-balanced risk-taking, the capital structure, strong earnings power and proactive risk management secure Pohjola Group's risk-bearing capacity.

3. Economic capital

Economic capital is Pohjola Group's own estimate of the amount of capital sufficient to cover any annual losses with a 99.97% level of confidence that may arise from risks associated with business and the operating environment. Economic capital is calculated using models for each risk type, the results of which are combined taking account of correlations between the risk types and the resulting diversification benefits. Risk Management analyses the model's performance at least once a year and presents any necessary changes to the model's structure or its variables. The central institution's Executive Board approves any risks included in the economic capital and the general rules related to the calculation of economic capital. Pohjola Group's Executive Committee annually assesses the model's performance from the Group's perspective. Pohjola Group's economic capital model was adopted in 2009.

Economic capital is better at describing the risk associated with business than the regulatory capital. The Group's economic capital model provides a calculatory basis for controlling businesses, i.e. capital can be allocated efficiently to correspond to each business unit's risks.

4. Risk appetite

Pohjola Group is a moderate risk taker and its business operations are based on a reasoned risk/return approach. The Group's risk appetite is defined by proportioning Group risk exposure to its risk-bearing capacity and expected returns. In its business operations, the Group exploits credit risks, market risks and funding risks as well as underwriting and investment risks. Business operations also involve strategic, business, compliance and operational risks. In 2014, the Group aims to keep its risk acceptance level cautious and allocate it to customer business in particular. In risk acceptance related to Non-life Insurance investment, the Group will gradually reduce its risk allocation according to its long-term plan.

In Banking, the aim is that the average amount of loan and impairment losses over the economic cycle should not exceed 0.30% of the loan and guarantee portfolio.

In Non-life Insurance, the aim is that the risk ratio between claims incurred (excl. loss adjustment expenses) and insurance premium revenue does not exceed 70%.

With respect to Non-life Insurance investment operations, the aim is that any annualised negative income at fair value from investment assets arising from investment risks with a 95% probability does not exceed EUR 50 million.

The Group Functions aims to secure OP-Pohjola Group's liquidity for a minimum of the next 12 months, based on its liquidity buffer and other measures according to its liquidity contingency plan, even if potential threat scenarios were to materialise.

The Group reviews its risk appetite annually and adjusts it by type of risk by setting target values for risk-specific parameters considering the economic cycle and market prospects. The Board of Directors reviews risk appetite and risk policy whenever the economic outlook changes substantially. It also assesses the risk acceptance level and risk appetite and the related updating needs on a half-yearly basis.

5. Risk policy

Pohjola Group's annually formulated risk policy, approved by Pohjola's Board of Directors, provides guidelines for risk acceptance. Pohjola's risk policy is based on OP-Pohjola Group's risk policy. In the risk policy and supplementary guidelines by risk type, risk appetite is apportioned to various types of risks in such a way that the Group is able to achieve its business goals without jeopardising its risk-bearing capacity and capital adequacy targets. The risk policy is also aimed at restricting the creation of risk concentrations.

In addition, Non-life Insurance is guided by risk policies applied to private and corporate customers, reinsurance principles, investment plans and the policy governing the hedging against interest rate risk associated with insurance liabilities.

6. Management of strategic and business risks

The management of strategic and business risks is aimed at creating a corporate culture with a risk-preventive approach. Risk management is based on systematic planning, diligence and continuity throughout business operations. Pohjola prevents the materialisation of risks by developing processes enabling the Group to identify and assess potential risks better and more efficiently manage measures taken to control risks.

6.1 Strategic risk and business risks

Strategic risks and business risks arise from competition, internal pressures or market forces which result in unexpected fluctuations in volumes, margins or costs, thus affecting the volatility of earnings and the achievement of long-term business goals. Strategic and business risks may also arise from opting for a wrong strategy and from mismanagement and inadequate monitoring or from slow reaction to changes in the operating environment.

6.2 Methods of the management of strategic and business risks, and their measurement

The Group manages strategic risks through continuous planning based on analyses and forecasts of developments in market areas, of competition and future customer needs. Pohjola Group annually revises its strategy by business line and monitors strategic risks by business line.

The Group monitors and assesses risks and their significance annually in connection with updating its business strategies and plans. At the same time, it also evaluates changes in the operating environment and competition and their effect on the implementation of the strategy, and links the identified risk factors to the planned strategic initiatives.

6.3 Monitoring and reporting strategic and business risks

Pohjola Group monitors strategic and business risks and the related risk-management measures by using risk maps and risk registers in which identified and assessed risks have been registered.

The Group draws up strategy and business risk reviews twice a year.

7. Management of operational risks

Operational risk refers to the risk of financial loss or other harmful consequences resulting from inadequate or failed processes, systems or external events. Operational risk also includes compliance risk. Operational risk may also materialise in terms of loss or deterioration of reputation or trust.

7.1 Methods of the management of operational risks, and their measurement

Operational risks are qualitative in nature and a company cannot ever fully hedge against them. Operational risk management is aimed at ensuring that no unforeseeable financial consequences or loss of reputation arise from risks.

The key area of operational risk management involves identifying and assessing risks and ensuring the effectiveness and adequacy of risk control and management tools, with the aim of identifying operational risks associated with all major products, services, functions, processes and systems, including outsourcing. Risk identification also involves paying attention to the illegal use of the banking system (money laundering and terrorism financing) as well as regulatory compliance-related risks.

The Group assesses the significance of identified risks through their financial effect and probability, and this assessment also takes account of reputational risk.

In its operational risk management, Pohjola adheres to a uniform OP-Pohjola Group level, system-supported operating model. Business units assess operational risks involving identifying and analysing their risks and defining and monitoring measures designed to reduce them. Each month, the business units report events above a certain threshold through the operational risk reporting and management system. The business lines describe in a reporting application reasons for the loss event and measures taken to prevent similar losses.

The Group and its companies assess the level of operational risks and risk-mitigating management tools on a regular basis or immediately whenever necessary, using standardised methods. Reports issued by Internal Audit and ensuring the flow of sufficient information also form an important part of operational risk management.

7.2 Monitoring and reporting operational risks

For reporting purposes, operational risks are divided into different categories. Identified and materialised risks are reported to the executive management. The most significant risks are also reported to the Risk Management Committee of Pohjola Bank plc's Board of Directors. In addition, material operational risks related to regulatory compliance are reported to the Board's Audit Committee.

8. Compliance risk management

Forming part of operational risk, compliance risks refer to risks resulting from non-compliance with external regulations, internal policies and appropriate procedures and ethical principles governing customer relationships. If this risk materialises, it may cause not only a financial loss but also other sanctions (eg a corporate fine and separate administrative fines for violation of obligations, and public warnings and reprimands). Compliance risk may also materialise in terms of loss or deterioration of reputation or trust.

The Compliance function forms part of organising good corporate governance. Compliance risk management is aimed at ensuring that the Group complies with external regulations and internal policies throughout its operations and functions, and that the Group applies appropriate procedures in customer relationships.

Compliance supports the senior management and the business lines in their compliance risk management, for instance, by keeping those responsible for the business lines informed of any material regulatory changes and of any effects they may have on the business lines, by drawing up guidelines supporting the application of the regulations, by identifying and evaluating proactively any major adverse consequences related to regulatory non-compliance. The Group identifies and assesses compliance risks as part of its operational risk identification and assessment process. Compliance risks associated with new products, services, practices and outsourcing are assessed as part of the implementation process.

The Compliance function monitors and ensures regulatory compliance by evaluating eg internal processes and procedures ensuring regulatory compliance and by proposing any necessary improvements.

9. Risk management: Banking

9.1 Credit risk management

Credit risk refers to a risk of loss arising from the inability of the bank's counterparties to meet their obligations and collateral not securing the bank's receivables. Credit risk also includes country risks and settlement risks, the former representing a credit risk associated with foreign receivables by country and the latter relating to the clearing and settlement process involving the risk of losing a receivable being settled. Credit risk management aims to restrict losses due to credit risks arising from customer and other exposures to an acceptable level whilst seeking to optimise the risk/return ratio. Credit approval and the effectiveness of the credit approval process play a key role in the management of credit risks. The process is guided by confirmed risk policy, decision-making powers and operating guidelines. Pohjola mitigates credit risks by diversifying its loan portfolio and defining collateral and covenant policies on a customer-specific basis and through active customer relationship management. It also mitigates credit risks by using netting agreements and exchange-traded products in derivatives trading. In order to further mitigate credit risks, Pohjola has defined a maximum customer exposure on the basis of its capital base, and has a credit limit system in place.

In settlement risk management, it is vital to ensure the reliability of counterparties. The Group mitigates settlement risks by concluding standard agreements and using only reliable clearing centres. Written guidelines are in place governing the use and assessment of collateral and valuation percentages for each type of collateral. Developments in collateral values are monitored on a regular basis. The value of collateral is re-assessed, for instance, when it has significantly changed or the customer's financial standing has weakened substantially. The Group exercises special care in assessing the value of collateral deemed as cyclical in nature, and its usability.

9.2 Credit risk policy

The risk policy and supplementary guidelines define principles governing the composition, diversification and customer selection in respect of total exposure, as well as the use of collateral and covenants, with a view to ensuring a sufficiently diversified loan portfolio in order to avoid excessive risk concentrations by country, customer sector, industry, credit rating, group of connected clients or time period.

For the portfolio analysis, customers are divided into the following six groups: corporate customers, financial and insurance institution, households, housing associations, OP-Pohjola Group institutions, public-sector entities, and non-profit institutions serving households.

Target values have been set for corporate exposure, for example, by rating category and a group of connected clients, as well as a relative maximum exposure by industry.

OP-Pohjola Group's rating system is not so far used extensively in Baltic Banking. For lending purposes Pohjola makes use of credit status reports provided by selected agencies in each country.

Risks associated with credit institutions are diversified by credit rating, issuer and product. In addition, in order to ensure the liquidity of negotiable fixed-income investments, the Group has determined minimum sizes for issues in which it can invest. Risks have also been diversified by setting country limits for each country.

9.3 Credit risk limits

The exposure limit is a euro-denominated ceiling on customer-specific exposure and uncovered exposure and is annually confirmed for at least corporate and institutional customers and credit institution customers whose actual or planned exposure exceeds EUR 5 million. An exposure limit may also include restrictions in terms of maturity or product. The Group also confirms a customer-specific risk acceptance policy for most corporate and institutional customers, comprising the minimum amount of collateral and the covenants to be used. The exposure limit is provided on condition that the counterparty is located in a country for which a country limit has been approved.

The country limit is a euro-denominated ceiling on receivables from a given country. The amount of the country limit for each country and any related time restriction are defined in accordance with the country's credit rating and Pohjola Bank plc's risk-bearing capacity in such a way that it supports the approved business principles. Country limits are reviewed at least once a year.

9.4 Credit process

The day-to-day credit process plays a crucial role in credit risk management. From the risk management perspective, its key stages include credit standing assessment (credit rating), credit approval and execution, which are separate processes. Risk Management supervises the credit process flow and quality.

9.5 Credit rating

At OP-Pohjola Group, credit risk models are used to control credit risk taking and assess the amount of risk involved. Credit rating covers models for credit risk parameters involving Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD).

Credit risk parameters within internal ratings

CREDIT RISK INDICATORS WITHIN INTERNAL CREDIT RATINGS		
Probability of loan defaults within 12 months	=	Probability of default (PD), %
Estimate of the loss caused by a loan default	=	Loss given default (LGD), %
Estimate of the sum the customer would owe the bank in case of insolvency	=	Exposure at default (EAD), €

Credit risk models are utilised, for example, in

- credit approval and pricing;
- specifying financing decision-making authorisations;
- setting and monitoring the loan portfolio's qualitative objectives;
- credit risk reporting;
- capital adequacy measurement using the Internal Ratings Based Approach (IRBA); and
- measuring economic capital and expected loss.

9.5.1 Probability of default

The purpose of credit rating is to divide customers into different groups according to the risk involved. A customer's credit rating is an estimate of the risk of some of the customer's exposures becoming non-performing receivables to OP-Pohjola Group within 12 months or of the customer having more serious payment defaults. The size of this risk is explained by average probability of default, or PD, estimated for each credit rating category, which is the average probability within one year over the economic cycle. In other words, when the economy is thriving, the actual proportion of defaulted customers in a given credit rating category is lower than the estimated PD, and when economic trends are poor, higher than the estimated PD.

OP-Pohjola Group uses several methods to evaluate customers' probability of default. Private customers' loans included in retail exposures in capital adequacy measurement are categorised using specific models in the application stage and as part of the bank's loan portfolio. Small business exposures included in retail exposures in capital adequacy measurement are categorised using 'A' rating or a rating model for low exposures. Mid-size and large companies' exposures included in corporate exposures are categorised using 'R' rating. Small business exposures included in corporate exposures are categorised using 'A' rating. An internal credit rating model is used for credit institution counterparties.

9.5.2 Assessment of corporate customer creditworthiness

Pohjola assesses the probability of default of its corporate customers using OP-Pohjola Group's internal 20-step credit rating system. Corporate exposure is put into categories ranging from 1.0 to 12.0, with defaulted customers falling into categories 11 or 12.

Rating of corporate customers in OP-Pohjola Group



Probability of default assessment of mid-size and large corporate customers ('R' rating) is based on the companies' financial indicators and qualitative background information transferred into a statistical scoring model. An expert familiar with the customer will make a rating proposal on the basis of what is suggested by the model and of any other information available. Any changes and uncertainties relating to the future outlook will be regarded as warning signs and exceptions to the rating provided by the model. Based on the expert's proposal, a decision on the customer's credit rating will be made at least once a year. The model currently used in 'R' rating was adopted at the beginning of 2008 and is annually validated according to the IRB requirements.

Suomen Asiakastieto Oy's rating model, Rating Alfa, which it has used since 1999, forms the basis of small corporate customers' 'A' ratings. This is a statistical regression model in which variables cover a comprehensive range of factors related to the company's payment method, key indicators based on financial statements, and other background information. The rating model has been supplemented with safety and backup clauses restricting the credit rating of a company if, for example, no financial statements are available. Scores provided by Rating Alfa have been calibrated with OP-Pohjola Group's internal credit ratings. The rating given to corporate exposures by the statistical model will be assessed annually and may be adjusted to correspond to the company's actual probability of default. The model has been used since the beginning of 2008 and was last partly updated in 2012.

Low exposure corporate customers are rated using a rating model for low exposures. Rating is based on customer history and payment behaviour data available from information systems. Each rating is updated once a month. The rating model for low exposures was adopted in 2009 and updated in 2012.

Irrespective of the model, each credit rating category is subject to the same probability of default, i.e. credit rating categories deriving from various models are comparable with one another. In deriving probability of default, Pohjola has used recent years' actual payment default data, long-term credit loss data and bankruptcy statistics and the cyclical nature of the model. The need for updating probabilities of default for each category is assessed annually.

The table below shows the correspondence between OP-Pohjola Group's credit rating categories for corporate exposure and the credit rating categories of an international rating agency.

Correspondence between corporate exposure rating categories and S&P ratings

S&P Rating	AAA...AA+	AA...BBB+	BBB...BBB-	BB+...BB-	B+...B	B-...CCC
OP-Pohjola Group rating	1.0–2.0	2.5–4.0	4.5–5.0	5.5–7.0	7.5–8.5	9.0–10.0

9.5.3 Assessment of credit institution creditworthiness

A specific 'L' rating model used to assess the probability of default of credit institutions is based on the probability of default deriving from qualitative and quantitative factors. Credit institution exposure is divided into 20 categories ranging from 1.0 to 12.0, with defaulted customers falling into categories 11–12.

The statistical model that forms the basis of credit ratings is based on empirical data on Pohjola Bank plc's international credit institutions as counterparties. The model applies the so-called sovereign ceiling rule according to which a private-sector counterparty cannot have a higher credit rating than the government. Pohjola decides on the credit ratings of credit institutions at least once a year or more frequently in the case of any changes in the credit institution's creditworthiness. The 'L' credit rating model was adopted in 2009 and last updated in 2012.

The table below shows the correspondence between OP-Pohjola Group's credit rating categories for credit institution exposure and the credit rating categories of international rating agencies.

Correspondence between credit institution exposure rating categories and S&P ratings

S&P Rating	AAA...AA+	AA...BBB+	BBB...BBB-	BB+...BB-	B+...B	B-...CCC
OP-Pohjola rating	1.0–2.0	2.5–4.5	5.0	5.5–7.0	7.5–8.0	8.5–10.0

9.5.4 Assessment of private customer creditworthiness

In the assessment of probability of default of private customers, exposures are divided into 16 rating categories from A+ to F, the latter representing exposures of defaulted customers. In this assessment, Pohjola uses a credit rating model of the customer's loan portfolio and the rating of the application stage. The rating of private customers is based on information available from the loan application, the customer's payment behaviour and other transaction history data. The scores calculated on the basis of this data determine the exposure category. Average PD has been calculated for each category for a period of 12 months.

The rating model for private customers' loan portfolio is used to categorise the exposures of private customers, some of whose debtors has had loans with OP-Pohjola Group for the last six months. The loan portfolio's rating categories are updated once a month. This model was adopted in 2006 and its current version dates back to 2013. The rating model for the loan portfolio is used in the assessment of credit risk and the measurement of capital requirement.

For exposures other than those mentioned above, Pohjola uses credit rating based on the application stage. Pohjola uses credit rating models for the application stage of finance-company products to categorise its private customer exposures, with updated versions being adopted in spring 2014. The models for assessing creditworthiness in use are as follows: car finance, trade finance and accounts with credit facility, and merchant MasterCard.

The rating based on the application stage supports the credit approval process, credit risk assessment and the pricing of new loans. This rating takes place as part of OP-Pohjola Group's credit process.

9.5.5 Country rating

Pohjola examines country risks on the basis of external credit ratings.

9.5.6 Loss given default and exposure at default

In addition to the models used for assessing the probability of default, Pohjola uses models for predicting loss given default (LGD) and exposure at default (EAD) to measure credit risk. In OP-Pohjola Group's credit risk models, LGD is an estimate of a financial loss (as a proportion of customer exposures at default) which the bank would incur if the customer defaulted within one year. EAD refers to the estimated amount of the bank's receivable from the customer at default. Estimating off-balance-sheet exposures involves using a credit conversion factor (CCF), which should capture how much of the off-balance has been assessed to be utilised at time of default.

9.6 Credit decision

The assessment of credit standing, the credit rating decision and the customer memorandum form the basis of a proposal for credit decisions. Account managers prepare proposals for the exposure limit, credit limit and financing in cooperation with credit directors and representatives from different product areas. Credit directors present the proposals for the exposure limit to the decision-making bodies. The proposals for a credit decision and exposure limit includes a report on the applicant, any previously granted credit and the related collateral and uncovered exposure. In addition to the assessment of credit standing and the credit rating decision, a credit proposal for corporate customers includes the collateral and covenant policy for short- and long-term exposure and a forecast of the development of the customer's financial standing. A financial statements analysis is always included in the proposal for the exposure limit of corporate customers and a company analysis is often also required of new corporate customers. In most cases, credit proposals for corporate and credit institution customers involve an opinion of credit risk issued by the bank and/or the central institution's Risk Management.

Pohjola credit decision-making bodies



The decision-making bodies make decisions to accept risks within the framework of their powers and in compliance with the risk policy, limits and policy guidelines. The powers of the decision-making bodies have been scaled on the basis of the customer's credit rating, exposure and uncovered exposure. Decisions on credit for private customers are based on OP-Pohjola Group's internal credit rating applicable to private customers using an automatic credit-decision system.

9.6.1 Measuring, monitoring and reporting credit risk

Pohjola measures credit risk on a customer-specific basis in terms of total exposure and uncovered exposure. Exposure refers to the total amount of balance sheet and off-balance-sheet items that the bank holds for a specific customer. Uncovered exposure is calculated as the difference between the exposure and the collateral value. Credit risk is also measured using a weighted collateral shortfall figure calculated by multiplying the customer-specific uncovered exposure against the probability of default corresponding to the customer's credit rating. Other credit risk indicators include the ratio of doubtful receivables and past due loan repayments to the loan and guarantee portfolio, as well as the ratio of loan losses to the loan and guarantee portfolio.

The credit risk associated with a loan portfolio is also measured by the amount of expected and unexpected losses and the development of expected losses in relation to the loan and guarantee portfolio. Various stress tests are also performed on the amount of the expected and unexpected losses.

Customer monitoring consists of an annual analysis of financial statements and interim reports, and continuous monitoring of the customer's payment behaviour and business. Pohjola Group monitors continuously its customers' payment behaviour, past due payments and doubtful loans using information obtained from both OP Pohjola Group's internal monitoring service and external services.

Customers whose financial status performance, credit risk and payment behaviour justify a more detailed examination are subject to special observation. In this context, the Group also analyses the need to change the customer's credit rating, the probability of a credit loss and the need to recognise an impairment loss. This often means that the credit approval decision is made by a higher-level decision-making body.

9.6.2 Decision-making and assessment related to credit risk models

OP-Pohjola Group's Risk Management Committee decides on the adoption of and any significant changes in the credit risk models. These decisions are based on the general principles governing credit ratings and the validation of credit risk models approved by the central institution's Executive Board. The models are developed and maintained by the central institution's Risk Management, independent of business lines/divisions.

The effectiveness of the credit rating process and credit risk models is subject to regular monitoring and supervision. Risk Management collects continuous feedback from the business lines/divisions on the effectiveness of the credit rating process and models related to credit risk parameters. It monitors monthly the models that automatically create a credit rating category, with a view to following changes in the loan portfolio and lending while ensuring the effectiveness of the rating process.

In addition, the quality of the models is assured at least once a year in accordance with the validation instructions approved by OP-Pohjola Group's Risk Management Committee. The set of the validation instructions contains requirements for quality assurance that must be carried out when adopting a model. Validation uses statistical methods to test, for example, the model's sensitivity and the validity of risk parameter estimates (PD, LGD and EAD). Validation also involves qualitative assessment, such as an analysis of user feedback, and a peer group analysis. The results of validation and any recommendations for required measures are reported to the Risk Management Committee, which decides on any improvements on the basis of the validation.

The central cooperative's Internal Audit is responsible for ensuring that validation is performed independent of businesses. It also inspects the credit risk models and their use in the central institution's companies and member cooperative banks as a matter of regular auditing.

9.6.3 Use of credit risk models in capital adequacy measurement

Pohjola uses the Foundations Internal Ratings Based Approach (FIRBA) to measure its capital adequacy requirement for credit risk on corporate and credit institution exposures. In FIRBA, an estimate of probability of default (PD) generated by OP-Pohjola Group's credit risk models affects the capital adequacy requirement for credit risk associated with the customer. Pohjola uses the so-called standard estimates supplied by the authorities on loss given default (LGD) and exposure at default (EAD).

Within IRBA to measuring the capital requirement for credit risk on retail exposures, PD, LDG and EAD values based on OP-Pohjola Group's internal models are used to calculate the risk weight. Pohjola uses the Standardised Approach (SA) for government and central bank exposures and for some exposures within other exposure categories. In the main, a simple model applies to equity investments. The PD/LGD method applies to OP-Pohjola Group's strategic investments, where the PD values are based on internal models and LGD standard estimates.

9.6.4 Securitised assets

Pohjola has not acted as an originator or manager of securitisation transactions but has invested in asset-backed securities issued by special purpose vehicles. Credit derivatives are not connected to asset-backed securities within Banking. In calculating the total amount of the risk-weighted assets of securitisation exposures, the Group has used IRBA to credit risk when the securitisation exposure belongs to the exposure category to which the assessment model based on credit rating is applied.

The Group applies credit ratings affirmed by Moody's, Fitch and Standard & Poor's to securitised exposures. Credit ratings issued by the one and the same credit rating agency apply to all tranches of the same securitisation transaction. If two selected credit rating agencies have affirmed credit ratings pertaining to a securitisation transaction, the lower rating will apply. If more than two selected credit rating agencies have affirmed credit ratings pertaining to a securitisation transaction, the two highest ratings will apply. If the two highest ratings differ from one another, the lower rating will apply.

10. Liquidity risk management

Liquidity risk management involves the management of structural funding risk and funding liquidity risk. A difference between the maturities of receivables and liabilities presents risks. Such a risk also arises if liabilities or receivables, or both, are concentrated with respect to counterparties, instruments or market segments. Liquidity risk may also result from changes in customer behaviour, the business environment or market liquidity.

Structural funding risk refers to uncertainty related to long-term lending, arising from the refinancing risk due to the structure of funding. Pohjola's structural funding risk mainly arises from the differences of the maturity structures between lending characterised by long maturity plus deposit funding dependent on customer behaviour within retail banking, and wholesale funding.

Funding liquidity risk refers to the risk that a bank will not be able to meet its current and future cash flows and collateral needs, both expected and unexpected, without affecting its daily operations or overall financial position.

For the management of funding liquidity risks, Pohjola maintains a liquidity portfolio consisting of liquid notes and bonds.

Funding liquidity management is governed by the regulations of the minimum reserve and marginal lending facility systems by the European Central Bank.

Liquidity risk management is based on policy guidelines issued by and risk limits approved by OP-Pohjola Group Central Cooperative. The Executive Board of OP-Pohjola Group Central Cooperative approves the qualitative targets set for the liquidity buffer, a funding plan, a business continuity and contingency funding plan in the case of threat scenarios and a liquidity status control model. The contingency funding plan involves a control model based on threshold levels, a contingency plan containing funding sources, and a contingency funding plan at operational level. The liquidity buffer's quantitative and qualitative targets, the contingency plan and the control model based on threshold levels have been determined on the basis of threat-scenario stress tests.

As the central financial institution of OP-Pohjola Group, Pohjola is responsible for the liquidity and sufficient liquidity buffer of OP-Pohjola Group. The liquidity buffer consists mainly of notes and bonds, issued by entities of high credit rating, which may be used as collateral for central bank debt or sold on the market in a flexible way.

Liquidity risk management aims to ensure that the buffers and other precautions are correctly proportioned to the risk-bearing capacity, to ensure capital commitment and to mitigate the structural funding risk and the funding liquidity risk arising from the balance sheet structure.

Funding liquidity risk management aims to ensure sufficient liquidity in an acute, unexpected liquidity squeeze, focusing on establishing and maintaining a framework for supporting sufficient liquidity, as well as planning precautionary measures.

Liquidity risk management involves planning liquidity and the balance sheet structure, maintaining a sufficient liquidity buffer and diversifying funding by maturity category, counterparty, product and market area. With a view to managing liquidity and funding liquidity risks, Pohjola Group carries out scenario analyses describing threats critical to liquidity and their effects on funding and liquidity, as well as tools to secure liquidity.

Every year, Pohjola Bank plc's Board of Directors confirms risk policy which describes the principles, methods and limits governing the management of liquidity risks. Group Treasury is responsible, on a centralised basis, for Pohjola's liquidity risk and funding liquidity risk management, long-term funding as well as the maintenance of liquidity portfolios.

Key sources of funding include issues of CDs and bonds/notes, deposits from other banks and member cooperative banks, deposits from the public and shareholders' equity. Pohjola's credit rating contributes to the access to and price of funding in international money and capital markets.

The risk policy specifies the minimum liquidity buffer and the maximum structural funding risk.

In addition, the risk policy includes a funding plan and a plan for securing OP-Pohjola Group's liquidity in case bad scenarios threatening liquidity materialise.

10.1 Measuring, monitoring and reporting liquidity risks

The Group monitors structural funding risk on the basis of net cash flows by maturity, for which it has set limits. The Group monitors long-term funding maturity using a maturity distribution, for which it has set limits. Funding liquidity management is based on the scenarios of maturing cash flows and the liquidity buffer, and the Group has set limits and target values for these scenarios. Stress tests measure liquidity in an improbable situation.

Risk Management and the Middle Office within Treasury report funding risks to the business lines/divisions and the management on a monthly basis. A liquidity risk report must be prepared on a daily basis.

11. Market risk management

Market risks in this section refer to Banking's and the Group Functions' exposure to market risks. Section "Risk Management of Non-life Insurance" below deals with market risks associated with investment operations by Non-life Insurance subsidiaries.

Market risks include the effects caused by changes in market prices (interest rates, foreign exchange rates, equity prices and credit spreads) or by implicit volatilities on the bank's financial performance. Market risks may have a direct effect on earnings or the effect may span several financial years. The recognition of the effects on earnings depends on how a vulnerable asset or derivative instrument is accounted for. Market liquidity has an effect on the formation of market prices. If markets lack sufficient depth or cease to function in a regular manner due to a disruption, market risks also arise due to the lack of market liquidity. In general, a decrease in market liquidity leads to weaker financial results due to higher liquidity premiums included in market prices.

Market risk management aims to limit risks arising from the volatility of balance-sheet and off-balance-sheet items to an acceptable level and to promote healthy financial performance by optimising the risk/return ratio.

Both trading and the banking book involve market risks. Trading aims to benefit from market price changes in the short term by actively taking market risks. The effects on earnings of the market risks taken in trading are mainly immediately reflected in changes in the fair value of assets and derivatives.

The banking book contains the bank's structural interest-rate risk arising from the loan and deposit portfolio, and domestic and foreign wholesale funding and derivative contracts hedging the abovementioned items. The banking book also includes liquidity buffers and other assets (for example shares, real property holdings and equity). The management of market risks associated with the banking book has the aim of hedging the Group's net financial income against interest rate fluctuations and maintaining OP-Pohjola Group's liquidity buffer at optimum levels. No currency risks are taken in the management of the banking book. The market risk associated with the banking book tends to materialise in net interest income recognised between financial periods.

Pohjola restricts its market risk exposure by means of the risk policy decided by the Board of Directors, the policy describing the methods applied in market risk measurement, and bank-level risk limits. In addition, the policy specifies those authorised to take open market risks and presents other restrictions with respect to taking market risks. The risk policy is subject to annual updating.

In addition to implementing its risk policy, Pohjola limits its liquidity portfolio's market risk exposure based on an investment plan for its liquidity portfolio, which specifies the basic allocation of investments (tactical asset allocation) within certain ranges. The liquidity portfolio mainly comprises deposits with central banks and notes and bonds eligible as collateral for central bank refinancing. The Board of Directors approves the investment plan on an annual basis.

Risk Management and the Middle Offices of the Markets division and Asset Management monitor and report market risks and their outcome to the business lines/divisions and executive management. The principles and indicators used in managing market risks involved in trading and the banking book are largely the same.

Analysing the risk exposure structure and markets on an ongoing basis and anticipating the impact of changes on the bank's risk exposure and earnings play a key role in market risk management. Effective market risk management requires real-time and accurate information on exposures and markets and a quick response to changes. The Group manages market risks by adjusting the risk exposure using both assets and derivative instruments within the risk limit framework, in line with the current market views. Derivative instruments can also be used to hedge market exposure or individual contracts against changes in market values or in order to secure net financial income.

11.1 Measuring, monitoring and reporting market risks

Pohjola uses the indicators shown in the table below to monitor market risks:

Type of risk	Risk indicator	Performance indicator	Frequency
Interest rate risk/trading portfolios	As part of VaR indicator	Change in market value	Daily
Interest rate risk/banking book	As part of VaR indicator	Change in market value, net financial income	Daily
Credit spread risk	As part of VaR indicator	Change in market value	Daily
Currency risk	As part of VaR indicator	Change in market value	Daily
Price risk of structured products and securitised investments	As part of VaR indicator (liquid investments) or separate VaR indicator (illiquid investments)	Change in market value	Daily (liquid investments) or monthly (illiquid investments)
Commodity risk	Separate VaR indicator, as part of VaR indicator	Change in market value	Daily
Equity risk	As part of VaR indicator,	Change in market value	Weekly
	20-percentage point change in market value		
Volatility risk	Effect of 1-percentage point volatility change on the present value of exposure	Change in market value	Daily (VaR) or monthly (scenario)

In the risk policy, the Board of Directors decides on the acceptable total market risk exposure level.

Pohjola mitigates its total market risk exposure by means of the Value-at-Risk limit (VaR), covering all key market risk exposures. The Group's Executive Committee allocate the total VaR limit to the business divisions whose management allocate the limits to their units/departments.

Market risk exposures requiring VaR limits are defined by using long-term, over-the-cycle volatility and correlation estimates. VaR levels have been calculated according to a one-day holding period at a 99% confidence level.

In addition to the VaR limit, specific VaR limits have been set for commodity derivatives and repurchased index-linked bonds issued by Pohjola Bank plc. Pohjola mitigates market risks associated with equity and private equity investments and the vega risk of option positions using limits based on sensitivity indicators. Nominal amount limits are used to mitigate market risk associated with underwriting commitments issued.

In addition to the VaR limits that mitigate risk exposure under an average economic situation, Pohjola manages market risks using dynamic VaR indicators sensitive to market movements. Furthermore, Pohjola applies risk factor sensitivity indicators for exposure, stress test scenarios and the monitoring of cumulative returns of trading positions. The risk measurement methods supplement with each other.

11.2 Interest rate risk

Interest rate risks arise from differences between the maturities of balance-sheet and off-balance-sheet items, interest rate reset dates or the bases of interest rates. In trading, interest rate risks materialise when market rates change as a result of changes in the market value of securities and derivative contracts. Interest rate risks exposed by the banking book translate into a change in net financial income, those by notes and bonds at fair value through profit or loss, included in the liquidity buffer, into a change in fair values shown in the income statement and those by available-for-sale notes and bonds into a change in fair value reserve under equity.

The balance sheet also includes structural interest rate risks arising from retail borrowing and non-interest-bearing balance sheet items. Any early repayment based on customer agreements may also create interest rate risks. Early repayments and retail borrowing do not constitute a significant item from the perspective of Pohjola's business. The Group monitors both items but has not modelled customer behaviour.

The Group measures and reports interest rate risks exposed by trading and the banking book on a daily basis using the same benchmarks and principles governing limits set for the risks. The interest rate risk of both trading and the banking book is included in the VaR indicator. In addition, Pohjola uses a specific tool to estimate the sensitivity of the accumulated net financial income to interest rate movements. Only specifically designated units may take interest rate risks within the set limits.

11.3 Credit spread risk

Credit spread risk refers to a position's negative change in the market value, arising from changes in the pricing of credit risk premiums and liquidity risk premiums in the market. The credit spread risk exposure is defined for notes and bonds used in trading and those in the banking book. Consequently, the price risk of notes and bonds are divided into interest rate risk and credit spread risk components.

Pohjola daily measures and set limits for credit spread risks as part of the VaR limit.

11.4 Currency risk

Currency risks arise if there is a gap between assets and liabilities denominated in the same currency. Currency risk management is carried out in the context of trading. Pohjola sets a limit for currency risk as part of the VaR limit. Foreign currency exposures are subject to daily reporting.

11.5 Price risk associated with structured products and securitised assets

Pohjola uses a specific risk indicator to monitor the price risk associated with structured and securitised bonds and notes. Structured products are entered in the trading book when Pohjola repurchases its index-linked bonds on the secondary market, in accordance with its promise. Investments in securitised assets are included in long-term investment assets.

The market risk of structured products and securitised assets are included in the VaR limit. The risk of liquid investments and illiquid investments is subject to daily and monthly reporting, respectively.

11.6 Commodity risk

Commodity risk arises from uncovered commodity derivative position. The Group takes commodity risk through electricity, oil and metal derivatives.

Commodity exposures are subject to daily reporting.

11.7 Equity risk

Equity risk arises from equity and private equity investments. Equity investments include shares held for trading and long-term ownership.

The risk policy specifies the principles regulating the composition of the equity portfolio and the selection of investments.

Treasury is responsible for the management of the equity portfolio for available-for-sale investments. Pohjola sets limits for equity risks as part of the VaR limit on daily basis.

Nominal amount limits are used to mitigate equity risk associated with underwriting commitments issued.

11.8 Volatility risk

Volatility risks arise from uncovered option exposure. Interest rate, currency and commodity options create volatility risk.

Interest rate, foreign currency and commodity volatility risks are subject to daily reporting.

11.9 Real estate risk

Real estate risks refer to risks associated with fair value changes in and returns on property holdings.

The risk policy specifies the principles regulating the composition of the real estate portfolio and the selection of investments. The Group makes annually value estimates and action plans for each property holding. Real estate risks are reported quarterly in the Group's risk analysis.

11.10 Derivatives business

Pohjola uses interest rate and currency derivatives actively and equity, equity index and credit derivatives to a lesser extent. Note 92 provides detailed information on the underlying values and credit equivalents. Derivatives are used for trading and hedging purposes as part of total exposure management. The Group monitors derivative risks as part of the total exposure in trading and treasury using the same benchmarks as for balance sheet exposure.

Counterparty risk involved in the derivatives business is monitored using credit equivalents determined on the basis of the repurchase cost of contracts (market value) and product-specific future credit risk factors. Risk measurement takes account of netting agreements concluded with a counterparty and of collateral securities received under the Credit Support Annex (CSA) agreement.

The purpose of hedging loans and debt issues against interest rate risks is to lock the margin, or the interest rate difference between the hedged and hedging item. Hedge effectiveness is assessed by the ratio between the interest rate risk figures and market values of the hedged and hedging items.

Additional earnings components related to the issued index-linked bonds are hedged using derivative structures. The hedging derivatives are equity, equity index, currency, interest rate, commodity and credit derivatives.

12. Risk management of Non-life Insurance

12.1 Risks of insurance operations

The insurance business is based on taking and managing risks. The largest risks pertain to risk selection and pricing, the acquisition of reinsurance cover, and the adequacy of insurance liabilities. The risk inherent in insurance liabilities lies mainly in insurance lines characterised by a long claims settlement period. In addition to underwriting risks, a major insurance business risk consists of the investment risk related to the assets covering insurance liabilities.

12.2. Underwriting risks

By taking out an insurance policy, the policyholder transfers his insurance risk to the insurer. The underwriting risk associated with an individual non-life insurance contract comprises two components. The first one is the occurrence of one or more loss events coverable under the contract and the second one is the size of the coverable loss. Both the number of coverable losses and the size of each individual loss are random in nature. The insurance terms and conditions require the occurrence of a coverable loss to be unforeseeable. On the other hand, the size of a loss sustained by the insured object generally depends heavily, for instance, on the cause of the loss and on the circumstances at the time of the loss event as well as on the details of the occurrence. In addition, one insurance contract may cover objects whose nature and value vary.

The insurance portfolio comprises a very large number of non-life insurance contracts. Because of this large size of the insurance portfolio, the expected number of claims is also great. If there is no connection between loss events, the law of large numbers according to the calculus of probability provides that the larger the number of underwriting risks in the portfolio, the smaller the relative variation in claims expenditure.

Since the lack of correlation between underwriting risks is never complete in real life, the insurer's claims risk in proportion to the size of the insurance portfolio never totally disappears, no matter how large the insurance portfolio. The remaining risk due to this correlation between underwriting risks is called non-diversifiable risk. Non-diversifiable risks usually relate to changes in the operating environment, such as economic fluctuations, which have a systematic effect on the incidence and size of loss in certain groups of insurance contracts. Inflation, for instance, may increase the size of loss simultaneously in a large part of the Group's insurance portfolio. Changes in the population's general mortality rate would, in turn, be reflected in the whole annuity portfolio in statutory insurance lines. A non-diversifiable risk may, in some cases, also relate to yet unknown and latent risks of loss applying to a large number of insurance contracts, with asbestos claims representing the most well-known examples from the near past.

An accumulation of loss due to natural catastrophes or large catastrophes caused by human activity constitutes a specific risk type. In such a case, one catastrophic event may in practice give rise to simultaneously payable claims for a large number of insured risks at high amounts. The resulting total claims expenditure may be extremely large. However, this risk can be diversified, since the Group operates in the region with a perceived relatively low risk of natural catastrophes, enabling the Group to protect against the risk through reinsurance.

12.2.1 Underwriting risk management

The most important tasks within underwriting risk management relate to risk selection and pricing, the acquisition of reinsurance cover, the monitoring of claims expenditure and the analysis of insurance liabilities. The Underwriting Executives act as the highest decision-making body in charge of underwriting risks. Responsible for Pohjola Group's underwriting risk management, the Underwriting Executives make underwriting decisions within the framework of powers confirmed by the boards of directors of the insurance companies, and report its decisions to these boards.

Decisions on customer and insurance object selection and risk pricing are made according to the Underwriting Guidelines. The UW Executives approve risks with the most significant effect and the most demanding risks while decisions on smaller risks, depending on the size and severity of the risk, require decisions made jointly by several underwriters or managers. For basic insurance lines, decisions are made on a system-supported basis and customers and the objects of insurance are selected within the powers allowed by instructions specifically approved.

12.2.2 Risk selection and pricing

Operating models highlight the role of risk selection and pricing. The Group has set limits for the size and extent of risk for each insurance line and risk concentration. The Group has a centralised data warehouse and analysis applications in place to support risk selection and pricing. Insurance terms and conditions serve as a vital tool in mitigating risks. In addition, risk analyses are performed on a customer or insurance line specific basis to mitigate risks.

12.2.3. Reinsurance

The reinsurance principles and the Group's maximum retention levels for different type of risks are annually approved by the Board of Directors. In practice, the Group's own retention levels can be kept lower than the maximum retention levels approved by the Board of Directors, if the reinsurance pricing supports this. The actual retention level is a maximum of EUR 5 million on a property per risk basis and EUR 5 million on a per event (accumulation) basis. The per event reinsurance cover had a capacity of EUR 135 million in 2013. In addition, claims under the short-tail business have an annual aggregate protection with a capacity of EUR 10 million.

Reinsurance has an effect on the solvency capital requirement. Only reinsurance companies with a sufficient rating are accepted as reinsurers. Moreover, maximum amounts have been confirmed for the amounts of risk that can be ceded to any one reinsurer. The maximum amount depends on the nature of the risk involved and on the company's financial strength.

12.2.4 Risk concentrations

The Group takes account of local risk concentrations in EML (Estimated Maximum Loss) estimates for property risks and through EML breakthrough cover included in reinsurance cover. Our operating region has no major risk of earthquakes. With respect to risks associated with other natural disasters, such as storms and floods, Finland is a stable area. However, the Group has protected against catastrophe accumulation losses through an extensive catastrophe reinsurance cover whose size has been dimensioned to correspond to the calculated size of a catastrophe loss occurring once every 200 years. The catastrophe accumulation cover applies to property damage and personal injuries.

12.2.5 Evaluation of insurance liabilities

The Group monitors the adequacy of insurance liabilities on an annual basis. Insurance liabilities arising from insurance contracts are determined on the basis of estimated future cash flows. The cash flows comprise claims paid out and loss adjustment expenses.

The amount of insurance liabilities has been estimated in such a way that it is, in reasonable probability, sufficient to cover the liabilities arising from insurance contracts. This has been performed by estimating an expected value for the insurance liability and then by determining a safety loading based on the degree of uncertainty related to the liability.

The provision for unearned premiums has mainly been determined in accordance with the pro rata parte temporis rule, calculated in relation to the duration of the insurance period. The provision for unearned premiums is determined for each insurance in contracts with companies and for private customers using specific statistical coefficients.

For the provision for unpaid claims, known losses above a provision level and the provision for unpaid claims for annuities are reserved on a case-by-case basis. The provision for unpaid claims for unknown losses and known losses below a case-specific provision level are reserved collectively using actuarial techniques.

The provision for unpaid claims for annuities corresponds to the discounted present value of cash flow of compensation for loss of income payable as continuous annuity. The discount rate is determined taking account of the current interest rate, security required by law and the maximum discount rate set by the authorities. On 31 December 2013, the discount rate used was 2.8% (2012: 3.0%). As a result of a reduction in the lower discount rate for pension liabilities, the provision for unpaid claims for annuities rose by EUR 38 million.

The valuation of collective liability is based on different statistical methods. In the valuation of collective liability, the largest risks relate to estimating the future rate of inflation (excl. compensation for loss of income), the adjustment of changes due to changed compensation practices and legislation in the development triangle of claims (i.e. whether history provides a true picture of the future) and the adequacy of historical information over dozens of years. Of the collective liability, only the liability for annuities has been discounted.

When estimating the collective liability for medical expenses and rehabilitation expenses benefits in statutory workers' compensation and motor liability insurance, the Group has taken account of the fact that claims paid for accidents occurred more than 10 years ago are financed through the pay-as-you-go system.

The evaluation of insurance liabilities always involves uncertainties which may be due, for instance, to the prediction of the claims trend, delays in verifying losses, cost inflation, legislative amendments and general economic development. Every three years, an external actuary performs for the Group an analysis of the appropriateness of the calculation bases and the amount of Group insurance liabilities. Such an analysis was last carried out in 2012.

12.3. Statutory insurance

By law, statutory insurance is mandatory for the policyholder. On the other hand, an insurance company is obliged to grant statutory insurance. The indemnification regulations and the amount of compensation are strictly prescribed by law. In addition, statutory lines of insurance are regulated by joint bodies which supervise compliance with consistent claims principles and claims standards. Private motor vehicles account for a larger share of the Group's motor liability insurance portfolio than motor vehicles owned by companies. In other respects, statutory insurance is mainly taken out by companies or other organisations.

With respect to statutory workers' compensation insurance, employers take out the insurance for the benefit of their employees to provide cover for occupational injuries and diseases. Motor liability insurance covers all bodily injuries resulting from the use of a motor vehicle on roads and, with certain restrictions, bodily injuries sustained by the driver who caused the accident, and material damage caused to a third party. Patient insurance covers bodily injuries caused to patients as a result of medical treatment.

12.3.1 Number and size of claims

The majority of claims expenditure in statutory lines of insurance for bodily injuries consists of compensation for loss of income and for medical care, which are covered in full. As an exception to the above, compensation for loss of income in statutory workers' compensation insurance is, before the age of 65 years, only covered up to 85% of the full compensation. Compensation for permanent loss of income is paid in the form of a lifetime annuity. In the case of death, the insured person's widow(er) and his/her children until the age of 25 years are entitled to survivors' pension. No maximum monetary amount has been set for pension benefits paid. With respect to statutory workers' compensation insurance and motor liability insurance, the insurance company is not, however, liable for the index increments of compensation for loss of income nor for any medical expenses that are paid for over ten years after the accident's occurrence. These are financed through the so-called pay-as-you-go system (see Pay-as-you-go system below).

As regards claims paid out under statutory lines of insurance, the public sector also charges for losses, based on actual costs incurred due to medical care, which have occurred after 2004. However, the risk for medical treatment expenses is substantially limited by the fact that medical treatment expenses for accidents that have occurred more than 10 years ago do not fall within the scope of compensation payable under insurance contracts (see Pay-as-you-go system below). In addition, Pohjola actively seeks to conclude contracts with different medical care providers in order to minimise costs.

In statutory workers' compensation insurance, a major loss may occur, since a large number of those insured may be working within a small area. A traffic accident may involve many casualties and injured persons, in addition to material damage. However, an upper limit of EUR 3.3 million applies to compensation payable for material damage under one motor liability policy.

In addition to accidental injuries, statutory workers' compensation insurance covers occupational diseases, which tend to develop slowly and therefore the evaluation of the related claims expenditure involves more uncertainty than accidents. Latent occupational diseases are an extreme example of this, in which the period from exposure until the actual outbreak of the disease may take several decades, such as asbestos-induced diseases. The death rate is high among those suffering from the most severe asbestos diseases, i.e. mesothelioma or lung cancer.

Since taking out insurance is mandatory in statutory lines of insurance, the law provides that insurers must aim at risk correlation in their rating of insurance policies in such a way that premiums are reasonably proportioned to the costs incurred due to the policies. Motor liability insurance has a no-claims bonus system under which a loss event raises the insurance premium. In statutory workers' compensation insurance schemes for large companies, the policyholder has the option of experience rating, which means that premiums are linked to the policyholder's own claims experience. The larger the company the stronger the linkage, and the more reliable the estimation of the company's actual risk level, measured on the basis of the company's own claims experience. A corresponding principle also applies to the rating of the largest vehicle fleets of a single policyholder. In this way, the risk associated with premium rating is limited, since the rating of the insured risk follows automatically, albeit not fully, the policyholder's own claims experience.

In 2013, the reinsurance of statutory workers' compensation insurance was arranged through a national catastrophe pool. The Group's share of the pool is determined by the market share in the insurance line concerned. The pool has acquired reinsurance cover of up to EUR 200 million and the retention level after the pool's share is EUR 5 million. In motor liability insurance, the retention is EUR 3 million for any single loss event. Pohjola withdrew from the catastrophe pool in early 2014 since when reinsurance of these insurance lines has been arranged as described in 12.4.1 below.

The provision for unpaid claims for annuities consists mainly of annuities of statutory insurance lines. Discounting is used in the computation of the provision for unpaid claims for annuities and the discount rate used is of great significance for the provision.

12.3.2 Uncertainties related to future cash flows

It is typical of the statutory lines of insurance that the period from the date of the occurrence of loss until the date on which the claim is fully paid is often long. Such underwriting business generates a long-term cash flow, on the evaluation of which medical-cost inflation and the mortality of beneficiaries have the greatest impact.

A downward trend in mortality increases cash flow from claims, since compensation for loss of income is mainly paid as lifetime annuity. Mortality has continued its downward trend in Finland and other industrialised countries for several decades. In Finland, the life expectancy of new-born babies has increased by around 1.5 years in the last ten years. This trend has been assumed to continue in the mortality model used by the Group for calculating insurance liabilities. The estimation of medical-cost inflation also plays a major role in the evaluation of cash flows. Advancements in medicine and improvements in living conditions have both decreased mortality and increased medical treatment expenses. In the projection of future cash flows, the Group has assumed medical-cost inflation to be two percentage points higher than the general inflation rate.

Since index increments in annuities under statutory insurance lines and medical expenses payable in excess of ten years after occurrence of a loss event are excluded from the scope of cover of an insurance contract (see Pay-as-you-go system below), the provision for unpaid claims contains practically no inflation risk in this respect. However, the medical-cost inflation risk associated with statutory lines of insurance concerns insurance liabilities arising from the Group's insurance contracts for the first ten years after occurrence of the loss event.

Losses coverable as occupational diseases resulting from exposure to asbestos fall, almost without exception, within the scope of occupational diseases covered under statutory workers' compensation insurance. The related compensation paid mainly covers medical expenses, loss of income and survivors' pensions. Assessing liabilities due to asbestos losses is difficult, since the latent period of various asbestos-induced diseases, i.e. the symptom-free period from asbestos exposure until the outbreak of an occupational disease, is long varying from 15 to 40 years on average, depending on the type of asbestos disease. In Finland, the use of asbestos ended mainly in the 1980s and was forbidden in 1994, with the 1960s and 1970s representing the peak years. The estimate of liabilities resulting from asbestos losses is based on the average claim amounts and on the estimated number of claims, which is based on national statistics on the use of asbestos as a raw material in Finland from 1905, on the assumed latent periods of various asbestos-induced diseases, and on the statistical data on asbestos claims reported. The Group reviews annually the sufficiency of claims provisions and the accuracy of assumptions. The scope of cover in statutory lines of insurance is fully regulated by legislation. All parties are therefore aware of the type of claims paid and the amount of compensation paid for each claim, which improves the predictability of future cash flows.

12.3.3 Pay-as-you-go system

The pay-as-you-go system is a scheme based on special laws governing each statutory line of insurance. Under this system, the financing of certain benefits, the so-called pay-as-you-go benefits, specified in these laws, have been arranged through the pay-as-you-go system. The system is a statutory scheme which does not generate any financial benefit or harm to the insurance company that would lead to changes in equity.

Pay-as-you-go benefits include index increments in annuities, medical treatment expenses paid under statutory workers' compensation insurance and motor liability insurance over ten years after the accident occurred, and certain other benefits and increases in benefits, as provided in special laws on various statutory lines of insurance.

In accordance with these laws, the pay-as-you-go benefits are financed through contributions charged annually by insurers from policyholders in connection with premium payment. The amount of this contribution is determined on the basis of the insurance company's market share of the line of insurance concerned during the same year. In particular, an insurance company which no longer underwrites the insurance line in question does not participate in the financing within the pay-as-you-go system. The amount collected through this contribution is annually remitted to the central institution for the particular insurance line, as provided by law, which is in charge of distributing the related funds in such a way that each company engaged, or was previously engaged, in the insurance line concerned receives exactly the amount that corresponds to the claims it had paid pay-as-you-go benefits during that year.

Accordingly, future policyholder generations will pay for the financing of future pay-as-you-go benefits. The obligation to insure regarding all statutory lines of insurance guarantees the financing basis for the system. For instance, in the case of statutory workers' compensation insurance, the contribution for financing the pay-as-you-go benefits payable in any given year is charged from all employers who have employees in Finland or Finnish employees assigned abroad in that particular year. Therefore, the financing of the pay-as-you-go system, based on the special laws governing statutory lines of insurance, could fail only if paid work, motor traffic or medical care in Finland ceased altogether.

12.4 Voluntary accident and health insurance

Under these lines of voluntary insurance, compensation is paid for medical expenses incurred due to treatment of a bodily injury or illness. In addition, a lump-sum benefit is paid in the case of handicap or death caused by injury or illness. The policyholder may be either a private individual or a company. The actual insurance risk between these two does not differ materially.

12.4.1 Number and size of claims

Claims are usually small in other accident and health insurance. The largest claims may arise from catastrophes with a large number of injured people. In designated crisis areas, insurance cover is not in force.

An upper age limit has generally been set for insured persons, with the aim of restricting the amount of claims paid under policies. Furthermore, a person to be insured under medical expenses insurance is, as the main rule, required to provide a health declaration on the basis of which the insured person's entitlement to compensation may be limited.

Insurers have the right to alter the price and terms and conditions of insurance annually when renewing automatically renewable annual policies. However, insurance legislation restricts the grounds for altering insurance premiums and terms and conditions, and these grounds must be listed in the insurance contract. Moreover, an insurance contract may not be terminated because of a loss event.

For new medical expenses insurance contracts written after 2004, the Group has set a policy-specific upper limit of EUR 50,000 for compensation for medical treatment expenses.

Pohjola has taken out reinsurance cover against catastrophe accumulation in statutory and voluntary accident and health insurance. Retention under reinsurance amounts to EUR 2.5 million and claims are paid up to EUR 25 million. In addition, the amount remaining for own account has been reinsured under general catastrophe cover.

12.4.2 Uncertainties related to future cash flows

Medical expenses insurance policies are mainly contracts which cover only medical treatment expenses incurred during the insurance period. Under the health insurance terms and conditions, insurance premiums may be raised in proportion to an increase in medical treatment expenses. Consequently, how the medical-cost inflation will develop does not add to any major uncertainty with respect to the future cash flows of the lines of health insurance.

Medical-cost inflation has a major impact on projecting cash flows in medical expenses insurance, with respect to illnesses for which compensation is paid for a long time. Rapid progress in medicine and rising pharmaceuticals costs will increase medical-cost inflation.

Developments in public healthcare will also affect future cash flows. If tax-funded public healthcare services decline, people will increasingly start financing their medical care through medical expenses insurance. Pohjola's Omasairaala, a hospital established in early 2013 for outpatient surgery specialising in orthopaedic diseases and injuries, and Pohjola's active partner network will supplement services provided by public-sector providers.

12.5 Comprehensive and cargo insurance

Comprehensive insurance policies cover loss of or damage to insured motor vehicles and railway rolling stock. The comprehensive insurance portfolio consists mainly of comprehensive motor vehicle policies taken out by private individuals and companies. Cargo insurance applies mainly to companies' transport risks, covering loss of or damage to goods in transit. This line of insurance also contains luggage and boat/yacht insurance whose policyholder is mainly a private individual.

12.5.1 Number and size of claims

Weather conditions have the greatest effect on the number and size of claims. Claims expenditure is therefore larger during the winter than during the summer.

The greatest risks within cargo insurance are associated with risk concentrations caused by sea transport and trading stock. In addition, weather conditions may involve accumulation risks covering a geographically large region, such as storms and floods, and the risk of snow and icy roads during the winter pertains to comprehensive insurance.

The rating of motor vehicle insurance employs a no-claims bonus system, under which the occurrence of a loss event raises the premium. In addition, the insurance company has the right to alter the premium annually. However, the premium paid by a private individual as the policyholder may be altered only if the conditions set out in the insurance contract are met.

The Group has taken out reinsurance cover against major loss of or damage to cargoes, with the retention under reinsurance amounting to EUR 5 million. In addition, the Group has taken out reinsurance cover for losses for own account under catastrophe cover under the same reinsurance agreement as property and business interruption policies. Retention under this catastrophe protection totals EUR 5 million per loss event.

The majority of the motor vehicle insurance portfolio comprises private individuals' policies. In other respects, the insurance risk in this class consists mainly of insurance taken out by companies.

12.5.2 Uncertainties related to future cash flows

Projecting future cash flows in private individual and motor vehicle insurance does not involve any major uncertainties. Almost all claims have been paid out within six months of the occurrence of the loss event. For other policies, the claim settlement period is somewhat longer.

12.6 Property and business interruption/consequential loss insurance

Property insurance covers loss of or damage to the insured property, excluding property coverable under comprehensive or cargo insurance. Companies and other institutions account for over half of the property insurance portfolio. This line also comprises business interruption insurance which covers financial losses arising from interrupted business operations due to damage to the company's property.

12.6.1 Number and size of claims

The largest single risks within property and business interruption insurance include fire, natural phenomenon and breakage risks exposed by companies' production facilities and buildings, and the related business interruption risks. Households' individual property risks are small and the related individual claims have no material effect on the Group's earnings. The majority of claims expenditure for households is due to leakage, fire and burglary claims.

The risk of natural catastrophes has been considered minor in Finland and the Baltic region, Pohjola has insured around 24% of all Finnish commercial forests against storms, and geographically these are dispersed all over Finland. On the basis of our current knowledge based on studies, it is still uncertain whether the recent storms are due to climate change or natural variations in climatic conditions. However, the studies have suggested that there are indications of a change in climatic conditions in the Group's operating region at least in the long term. The projected temperature increase will probably be reflected in changes in summer and winter conditions and, for instance, in higher precipitation, although there is no clear proof of higher temperatures intensifying storms in our region. Pohjola has prepared for natural catastrophes by taking out reinsurance contracts described in 12.2.3 above.

As a general rule, flood damage is excluded from the insurance terms and conditions of corporate property insurance. Comprehensive policies for private customers, buildings and farms cover flood when the government flood damages compensation system terminates in 2014.

In the selection of property and business interruption risks, the Group applies standardised procedures based on customer segments' various insurance needs and solutions. Rating is performed in a graded way in accordance with the size and severity of the risk. In the rating process, resources and managerial decision-making are increased as the size and severity grows.

Customer-selection and discount guidelines serve as guiding principles in the rating of corporate and institutional customers. The customer-selection guidelines provide details on a potential customer's eligibility for becoming a customer, taking account of eg payment defaults. In sectors characterised by large risks, the Group conducts stricter risk selection. The discount guidelines define the seller's, risk manager's, underwriter's and supervisor's powers to grant discounts by line of insurance and partly by customer segment. The Group also applies system authorisations to control the rating of small companies.

The Group monitors the profitability of property and business interruption insurance contracts using a diversified follow-up and analysis system based on an insurance and loss data warehouse. Profitability analyses are carried out by line of insurance, customer segment, business sector and customer care organisation.

The Group has the right to re-rate policies in connection with a policy renewal or to terminate a policy. However, the premium paid by a private individual as the policyholder may be altered only on conditions specified in the insurance contract.

The Group has reinsured its insurance portfolio under a non-proportional reinsurance treaty in which its retention amounts to EUR 5 million per underwriting risk. In addition, it has taken out reinsurance protection against catastrophe accumulation claims.

12.6.2 Uncertainties related to future cash flows

Projecting future cash flows in property and business interruption insurance does not involve any major difficulties. Claims are mainly paid within one year of the occurrence of the loss event and the amount of loss can be estimated reliably. By and large, the greatest uncertainty in claim-specific estimates pertains to new business interruption and accumulation losses.

With respect to monitoring the extent of storm damage, the Group monitors separately the damage caused by each storm. In each monthly report, the Group compares the initial overall loss estimate with the established claims expenditure and adjusts this estimate, where necessary.

12.7 Liability and legal expenses insurance

The lines of statutory insurance which comprise liability insurance components are not included in this group. Pure liability insurance covers loss provided that the insured party is liable to pay damages for a loss caused to a third party. Corporate insurance accounts for the majority of the insurance risk associated with this group. Legal expenses insurance covers financial loss resulting from legal expenses. Private individuals' insurance cover forms the majority of the insurance risk of this group.

12.7.1 Number and size of claims

Laws and legal practice governing the liability to pay damages have a major impact on the number and size of liability claims.

Claims made by private individuals are usually small. In addition, private individuals' risks account for a minor share of the total risk within the class.

The majority of corporate liability policies consist of product liability and commercial general liability policies. In the selection of insurance risk, the same guidelines apply as in property and business interruption insurance. In product liability insurance, for instance, the risk of losses incurred due to a single defect or act – the so-called serial losses – has been reduced in such a way that, for losses incurred at different times from the same defect, the total maximum indemnity equals the sum insured for the period during which the first loss was detected.

Legal expenses insurance covers expenses for legal proceedings incurred by the insured person. Since the insured person can contribute to the costs of legal proceedings, for instance, through the choice of attorney, legal expenses insurance applies a proportional deductible, whereby the customer always pays a certain percentage of the overall loss.

The Group's retention for liability insurance amounts to EUR 4 million for any single loss event.

12.7.2 Uncertainties related to future cash flows

Liability insurance is characterised by losses being revealed slowly. Once a loss has been reported, uncertainty may still prevail as regards the size of the loss. However, the most significant uncertainty relates to the assessment of unknown losses.

In liability insurance, claims can be allocated either by the time of occurrence or by the time at which the claim was made. This is of major significance with respect to cash flow projections. If the insurance contract stipulates that the loss must be allocated in accordance with the loss report, the policyholder cannot file new claims after an agreed period of time from the expiry of the insurance contract.

No significant uncertainty relates to cash flows from legal expenses insurance, since losses in this line are always reported promptly. The size of the losses does not therefore involve any major uncertainty.

12.8. Long-term insurance contracts

Long-term insurance contracts refer to contracts with an average minimum policy term of two years, comprising decennial insurance and perpetual insurance. Pohjola has not underwritten new guarantee insurance since 2009.

12.8.1 Number and size of claims

The majority of the decennial policies are statutory construction defects insurance policies. In these policies regarding residential buildings, a loss event requires a construction defect and the builder's default. Since the liability period under the insurance is 10 years, the risk of serial loss is involved. For a builder with exceptionally many recorded construction defects, the risk of default increases substantially.

In the case of a serial loss, the Group has a stop loss reinsurance treaty covering loss accumulation per underwriting year. Under the treaty, retention for each underwriting year is 300–400% of premiums written.

The underwriting of perpetual insurance was terminated in the 1970s. The insured property may be a building or a forest. The policyholder has paid a lump-sum premium for the entire insurance period. The unlimited cover is valid until the sum insured has been indemnified. The policyholder is entitled to surrender. Owing to the effect of inflation, the sums insured and risks or perpetual insurance are small. The policyholders consist mainly of private individuals.

12.9 Investment risks

In insurance business, investments comprise assets covering insurance liabilities and shareholders' equity. Through controlled investment risks, Pohjola aims to achieve the best possible return on the investment portfolio at an acceptable risk level while taking account of the structure of insurance liabilities and the solvency targets.

The most significant investment risks pertain to market, credit and liquidity risks which can materialise in terms of lower-than-expected return on investment assets or of impaired investments. The Group mitigates investment risks by diversifying investments as efficiently as possible by asset class, counterparty, sector, geographical area, and by ensuring that the investment portfolio is as liquid as possible.

In Non-life Insurance, investment operations are based on investment plans and investment authorisations, confirmed annually by the Board of Directors, which specify the basic allocation and range of investments by asset class, the organisation of investment, risk limits as well as decision-making powers and authority.

The basic allocation of investments by asset class forms the key investment-management tool. In its determination, Pohjola takes account of the operating environment and prospects, investment risks in relation to expected return, requirements set by insurance liabilities, requirements set by the authorities, rating targets and risk appetite.

Non-life Insurance applies the Asset/Liability Management (ALM) model used to determine the basic allocation. As a result of fluctuations in asset values and active investing, the Group occasionally deviates from the basic allocation within defined limits.

Investment operations are subject to monthly reporting to the Executive Committee, Risk Management and the non-life insurance companies' boards of directors. These reports specify the amount invested, recorded income by asset class and recorded income based on benchmark indices, as well as risk indicators.

Risk Management monitors daily the set risk limits set in the investment plan, key risk limits including allocation limits, interest rate and currency limits, counterparty credit-rating limits and diversification limits.

12.9.1 Market risk

Market risk consists of price, interest rate and currency risks. Changes in equity prices, interest rates, foreign exchange rates, prices of commodities and real properties have an effect on the value of, and annual income from, investment assets. The Group uses an internal ALM model and the market risk sensitivity analysis to assess the relation between the Non-life Insurance investment risk and solvency capital.

The maximum allocation of asset classes involving price risks, such as equities, alternative investments and real property, is subject to limits. The Group also manages investment risks by diversifying investments across various instruments, by region and by industry.

12.9.2 Interest rate risk

In addition to the sensitivity analysis, the interest rate risk associated with fixed-income portfolios is monitored using modified duration. The investment plan sets a range for the modified duration of fixed-income portfolios proportioned to the modified duration of a benchmark portfolio. In determining the interest rate risk limit, Non-life Insurance has taken account of the effect of interest rate risk arising from the discounting of insurance liabilities.

12.9.3 Currency risk

In the management of currency risks, Non-life Insurance takes account of the currency risk arising from both investments and insurance operations. Currency risks exposed by Non-life Insurance arise mainly from foreign equity investments. The investment plan specifies a limit set for currency risks and presents principles of hedging against currency risks by asset class. The Group is active in changing the degree of hedging within the risk limit according to the current market view.

12.9.4 Use of derivatives

For the management of market risk, the Group also uses derivatives. The investment plan defines the principles of their use every year. Interest rate, equity and credit derivatives may be used both for hedging purposes and for increasing the risk level of the portfolio, within defined limits. Currency derivatives may be used for hedging purposes only. Derivative contracts may be signed on regulated markets or with a counterparty whose long-term rating is adequate.

12.9.5 Credit risk

Credit risks associated with investment arise from the issuer's credit risk and the counterparty risk associated with derivative contracts. The Group manages credit risks by diversifying the portfolio and limiting the proportion of weaker credit risk in the portfolio. The investment plan specifies limitations regarding credit ratings and maximum investments regarding any single counterparty. The Group performs an internal credit risk assessment of non-rated issuers, on the basis of which it can make an investment decision.

12.9.6 Liquidity risk

In the investment plan, the Group annually assesses the liquidity status and takes account of its liquidity requirements when building up the investment portfolio. Active insurance operations show a surplus in terms of liquidity, since premiums written are collected before payment of compensation. Whenever necessary, the money market portfolio serves as the primary liquidity buffer. Investments in equities and notes/bonds consist mainly of quoted and liquid instruments.

Notes to the Consolidated Financial Statements

Note 3. Change in accounting policy

Since 1 January 2013, Pohjola Group has applied the amendments to IAS 19 Employee Benefits. The revised standard removes the option for entities to apply the so-called corridor method in the recognition of actual gains and losses and changes the calculation of net interest income on the net defined benefit liability. Under the revised standard, the expected return on plan assets used in the calculation of net interest income is calculated based on the discount rate of the plan liability.

The table below shows the effect of the change in the accounting policy on personnel costs for financial year 2012 and on other items in comprehensive income. Pohjola voluntarily stopped using the corridor method from the beginning of 2012. The change has no effect on the earnings per share (EPS) ratio.

EUR million	Previous accounting policy	New accounting policy	Effect of change in accounting policy
Income statement 2012			
Personnel costs	230	232	2
Income tax expense	89	89	0
Statement of comprehensive income 2012			
Gains/(losses) arising from remeasurement of defined benefit plans	-12	-10	2
Income tax on gains/(losses) arising from remeasurement of defined benefit plans	-3	-2	0

Notes to the Consolidated Financial Statements

NOTES TO THE INCOME STATEMENT

Note 4. Net interest income

EUR million	2013	2012
Interest income		
Receivables from credit institutions	65	93
Receivables from customers	304	346
Loans	281	321
Finance lease receivables	22	24
Impaired loans and other commitments	2	2
Notes and bonds	154	200
Held for trading	10	9
At fair value through profit or loss	0	0
Available for sale	133	168
Held to maturity	2	8
Loans and other receivables	9	15
Derivative contracts	1,246	1,680
Held for trading	1,335	1,770
Fair value hedge	-103	-99
Cash flow hedge	13	9
Ineffective portion of cash flow hedge	1	
Other	2	4
Total	1,771	2,323

Interest expenses

Liabilities to credit institutions	68	90
Financial liabilities at fair value through profit or loss	0	0
Liabilities to customers	27	44
Debt securities issued to the public	183	258
Subordinated liabilities	50	72
Subordinated loans	8	10
Other	42	62
Derivative contracts	1,213	1,595
Held for trading	1,362	1,731
Cash flow hedge	-149	-136
Other	1	2
Total	1,542	2,060
 Net interest income before fair value adjustment under hedge accounting	 229	 263
Hedging derivatives	-135	152
Value changes of hedged items	135	-152
Total net interest income	229	263

Notes to the Consolidated Financial Statements

NOTES TO THE INCOME STATEMENT

Note 5. Impairment loss on receivables

EUR million	2013	2012
Receivables eliminated as loan or guarantee losses	27	35
Recoveries of eliminated receivables	-4	-2
Increase in impairment losses on individually assessed receivables	53	62
Decrease in impairment losses on individually assessed receivables	-42	-37
Collectively assessed impairment losses	2	0
Total	37	57

Notes to the Consolidated Financial Statements

NOTES TO THE INCOME STATEMENT

Note 6. Net income from Non-life Insurance

EUR million	2013	2012
Insurance premium revenue		
Premiums written	1,346	1,215
Change in provision for unearned premiums	-37	-32
Gross insurance premium revenue	1,309	1,183
Reinsurers' share	-60	-57
Total	1,249	1,126
Net investment income	131	115
Claims incurred		
Claims paid (excl. loss adjustment expenses)	786	786
Change in provision for unpaid claims*	65	6
Gross total claims incurred	851	792
Reinsurers' share	-42	-33
Total	809	759
Other Non-life Insurance items	43	45
Net income from Non-life Insurance	529	438

Insurance premium revenue and insurance premiums ceded to reinsurers

Short-term insurance contracts		
Premiums written	1,342	1,211
Change in provision for unearned premiums	-38	-33
Change in provision for unexpired risks		0
Long-term insurance contracts		
Premiums written	4	4
Change in provision for unearned premiums	1	1
Gross insurance premium revenue	1,309	1,183
Reinsurers' shares of short-term insurance contracts		
Premiums written	-56	-48
Change in provision for unearned premiums	-3	-7
Reinsurers' share of long-term insurance contracts		
Premiums written	-1	-1
Change in provision for unearned premiums	0	0
Total reinsurers' share	-60	-57
Net insurance premium revenue	1,249	1,126

Net investment income from Non-life Insurance

Loans and receivables

Interest income	5	5
Interest expenses	-1	-1
Capital gains and losses		-1
Fair value gains and losses	-1	-1
Impairments	0	0

Total	3	2
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Net income from financial assets recognised at fair value through profit or loss

Interest income

Notes and bonds	1	0
Derivatives	0	0

Capital gains and losses

Notes and bonds	2	
Derivatives	-1	-11

Fair value gains and losses

Notes and bonds	3	2
Derivatives	4	-2

Total	8	-10
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Net income from available-for-sale financial assets

Notes and bonds

Interest income	53	57
Capital gains and losses	-2	35
Transferred from fair value reserve during financial year	21	-8
Fair value gains and losses	0	-1
Impairments	-2	-1
Total	69	82

Shares and participations

Dividends	26	29
Other income and expenses	4	4
Capital gains and losses	3	41
Transferred from fair value reserve during financial year	19	-27
Impairments	-8	-11
Total	44	36

Total	113	118
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Net income from investment property

Rental income	17	16
Capital gains and losses	-1	0
Value changes from fair value measurement	4	3
Maintenance charges and expenses	-12	-12
Other	-1	-1
Total	7	6

Total net investment income from Non-life Insurance **131** **115**

Unwinding of discount, Non-life Insurance

The increase in the discounted insurance liabilities of Non-life Insurance due to the passage of time (Note 33) (unwinding of discount) totals EUR 43 million (44). Unwinding of discount is computed monthly applying the discount rate at the end of the previous month and the insurance liabilities at the beginning of the current month. The discount rate was 3.7% from 31 December 2003 to 30 November 2004, 3.5% from 1 December 2004 to 30 November 2005, 3.3% from 1 December 2005 to 30 November 2007, 3.5% from 1 December 2007 to 30 November 2011, 3.3% from 1 December 2011 to 31 July 2012, 3.0% from 1 August 2012 to 31 October 2013 and 2.8% from 1 November to 31 December 2013.

* The item includes EUR 38 million (52) as a result of the changed discount rate for insurance liabilities.

Notes to the Consolidated Financial Statements

NOTES TO THE INCOME STATEMENT

Note 7. Net commissions and fees

EUR million	2013	2012
Commissions and fees		
Lending	45	43
Deposits	0	0
Payment transfers	31	17
Securities brokerage	21	20
Mutual fund brokerage	0	0
Securities issuance	8	10
Asset management and legal services	56	61
Insurance operations	17	24
Guarantees	16	16
Other	6	6
Total	202	196
Commission expenses		
Payment transfers	14	4
Securities brokerage	8	7
Securities issuance	4	7
Asset management and legal services	6	7
Other	8	3
Total	40	27
Net commissions and fees	162	169

Notes to the Consolidated Financial Statements

NOTES TO THE INCOME STATEMENT

Note 8. Net trading income

EUR million	2013	2012
Financial assets and liabilities held for trading		
Capital gains and losses		
Notes and bonds	2	12
Shares and participations	0	0
Derivatives	100	-30
Total	102	-18
Fair value gains and losses		
Notes and bonds	-1	-1
Shares and participations	0	0
Derivatives	-30	84
Total	-31	83
Dividend income		0
Assets and liabilities at fair value through profit or loss		
Capital gains and losses		
Notes and bonds		-1
Total		-1
Fair value gains and losses		
Notes and bonds	0	1
Total	0	1
Net income from foreign exchange operations		
Currency exchange	-1	256
Other	22	-243
Total	93	79

Notes to the Consolidated Financial Statements

NOTES TO THE INCOME STATEMENT

Note 9. Net investment income

EUR million	2013	2012
Available-for-sale financial assets		
Notes and bonds		
Capital gains and losses	14	11
Transferred from fair value reserve during the financial year	1	3
Shares and participations		
Capital gains and losses	0	0
Transferred from fair value reserve during the financial year	1	1
Impairments	0	0
Dividend income	24	15
Total available-for-sale financial assets	40	29
Financial assets carried at amortised cost		
Capital gains and losses*	0	-17
Total financial assets carried at amortised cost	0	-17
Investment property		
Rental income	1	1
Capital gains and losses		0
Gains and losses from fair value measurement	-1	1
Maintenance charges and expenses	-1	-1
Other	0	0
Total investment property	-1	1
Total net investment income	39	13

* Note 23 contains information on capital losses recognised in 2012 on financial assets carried at amortised cost.

Notes to the Consolidated Financial Statements

NOTES TO THE INCOME STATEMENT

Note 10. Other operating income

EUR million	2013	2012
Rental income from property in own use	0	0
Capital gains on property in own use	1	0
Central banking service fees	8	8
Rental income from assets rented under operating lease	10	12
Reinsurance commissions of Non-life Insurance	2	2
Other	16	15
Total	38	37

Notes to the Consolidated Financial Statements

NOTES TO THE INCOME STATEMENT

Note 11. Personnel costs

EUR million	2013	2012
Wages and salaries	127	173
Variable remuneration	20	17
Pension costs	28	31
Defined contribution plans	22	28
Defined benefit plans	6	3
Other social expenses	9	11
Total	184	232

Notes to the Consolidated Financial Statements

NOTES TO THE INCOME STATEMENT

Note 12. Depreciation and amortisation

EUR million	2013	2012
Depreciation and amortisation		
Buildings	1	1
Machinery and equipment	1	1
Intangible assets related to business combinations	24	24
Other intangible assets	20	14
Leased out assets	7	10
Other	0	0
Total	54	50
Impairment loss		
Property in own use	1	0
Total	1	0
Total	55	50

Notes to the Consolidated Financial Statements

NOTES TO THE INCOME STATEMENT

Note 13. Other expenses

EUR million	2013	2012
Other administrative expenses		
Office expenses	37	34
Telecommunication expenses	9	10
Marketing expenses	7	9
Corporate social responsibility expenses	1	1
Other administrative expenses	55	25
Total	109	79
Rental expenses	3	4
Expenses for property and business premises in own use	25	28
Expenses for realisation of repossessed items	1	1
Reinsurance commissions of Non-life Insurance	3	3
Credit losses of Non-life Insurance	6	4
Bank levy	19	
Other*	84	81
Total	251	200

* The item includes EUR 292,000 (334,000) in audit fees paid to auditors, EUR 143,000 (230,000) in fees for assignments as referred to in sub-paragraph 2, paragraph 1, section 1 of the Auditing Act, EUR 154,000 (81,000) in fees for legal counselling and EUR 396,000 (93,000) in fees for other services.

* The item includes EUR 51 million (48) in insurance business sales commissions paid to OP-Pohjola Group member banks.

Notes to the Consolidated Financial Statements

NOTES TO THE INCOME STATEMENT

Note 14. Income tax

EUR million	2013	2012
Current tax	96	110
Tax for previous financial years	-6	2
Deferred tax	-41	-23
Income tax expense	49	89
Corporate income tax rate	24.5	24.5

Reconciliation between tax expense in the income statement and tax expense calculated by the applicable tax rate

Earnings before tax	473	372
Tax calculated at a tax rate of 24.5% (2012:24.5%)	116	91
Tax for previous financial years	-6	2
Income not subject to tax	-9	-7
Expenses not deductible for tax purposes	7	3
Re-evaluation of unrecognised tax losses	0	0
Tax adjustments	6	0
Change in tax rate 1 Jan. 2014	-65	
Other items	0	-1
Tax expense	49	89

Notes to the Consolidated Financial Statements

NOTES TO THE INCOME STATEMENT

Note 15. Earnings per share

Earnings per share is calculated by dividing profit or loss for the financial year attributable to shareholders by the issue adjusted weighted average number of shares outstanding during the financial year.

	2013	2012
Profit for the year attributable to owners of the Parent (EUR million)	424	283
Weighted average number of shares (1,000)		
Series A shares	251,961	251,732
Series K shares	67,590	67,820
Total	319,551	319,551
Earnings per share (EPS), EUR		
Series A shares	1.33	0.90
Series K shares	1.30	0.87

Notes to the Consolidated Financial Statements

NOTES TO THE BALANCE SHEET

Note 16. Cash and cash equivalents

EUR million	31 Dec. 2013	31 Dec. 2012
Cash	1	2
Deposits with central banks repayable on demand		
Pohjola Bank's minimum reserve deposit	527	531
Cheque account	1,518	5,111
Total cash and cash equivalents	2,046	5,643

In accordance with the minimum reserve system under the euro system, credit institutions are obligated to have a minimum reserve deposit with their national central bank. The reserve deposit equals the required percentage of the reserve base, as specified by the European Central Bank. The reserve base includes deposits (extensive) and debt securities with a maximum maturity of two years. The reserve base does not include deposits from other parties subject to the minimum reserve obligation. The reserve deposit is currently 1% of the reserve base. Credit institutions within OP-Pohjola Group place a reserve deposit with Pohjola Bank plc, which acts as an intermediary authorised by OP-Pohjola Group credit institutions and is responsible for OP-Pohjola Group's obligation to place a deposit with the Bank of Finland.

Notes to the Consolidated Financial Statements

NOTES TO THE BALANCE SHEET

Note 17. Receivables from credit institutions

EUR million	31 Dec. 2013	31 Dec. 2012
Receivables from credit institutions		
Deposits		
Repayable on demand	620	523
Other	1	1
Total	622	524
of which receivables from credit institutions due in less than 3 months	622	524
Loans and other receivables		
Repayable on demand		
From other credit institutions	0	0
Total	0	0
Other		
From OP-Pohjola Group institutions	8,740	7,528
From other credit institutions	537	763
Total	9,277	8,291
Total receivables from credit institutions	9,899	8,815
Receivables from credit institutions include subordinated receivables	42	42

Notes to the Consolidated Financial Statements

NOTES TO THE BALANCE SHEET

Note 18. Financial assets at fair value through profit or loss

EUR million	31 Dec. 2013	31 Dec. 2012
Financial assets held for trading		
Government notes and bonds	8	5
Certificates of deposit and commercial papers	4	6
Debentures	6	1
Bonds	409	233
Other notes and bonds	7	1
Shares and participations	1	1
Total	435	246
Financial assets at fair value through profit or loss at inception		
Bonds	9	9
Total	9	9
Total financial assets at fair value through profit or loss	444	256

Notes and bonds at fair value through profit or loss and shares and participations by quotation and issuer

Financial assets held for trading, EUR million	31 Dec. 2013		31 Dec. 2012	
	Notes and bonds	Shares and participations	Notes and bonds	Shares and participations
Quoted				
From public sector entities	8		5	
From others	399		223	0
Other				
From public sector entities	4		6	
From others	23	1	12	1
Total	434	1	245	1

Financial assets at fair value through profit or loss at inception, EUR million	31 Dec. 2013		31 Dec. 2012	
	Notes and bonds	Shares and participations	Notes and bonds	Shares and participations
Quoted				
From others	4		5	
Other				
From others	5		5	
Total	9		9	
 Total financial assets at fair value through profit or loss	 443	 1	 255	 1

Financial assets at fair value through profit or loss include EUR 234 million (127) in notes and bonds eligible for central bank refinancing and EUR 11 million (1) in subordinated publicly-quoted notes and bonds.

Notes to the Consolidated Financial Statements

NOTES TO THE BALANCE SHEET

Note 19. Derivative contracts

EUR million	31 Dec. 2013	31 Dec. 2012
Held for trading		
Interest rate derivatives	2,836	3,894
Currency derivatives	169	28
Equity derivatives	108	124
Credit derivatives	3	4
Other	55	34
Total	3,171	4,084
Hedging derivative contracts		
Fair value hedging		
Interest rate derivatives	218	302
Currency derivatives	38	47
Interest rate derivatives	17	31
Total	273	379
Total derivative contracts	3,444	4,462

Derivative contracts in the balance sheet include positive value changes and paid premiums.

Notes to the Consolidated Financial Statements

NOTES TO THE BALANCE SHEET

Note 20. Receivables from customers

EUR million	31 Dec. 2013	31 Dec. 2012
Loans to the public and public sector entities	10,698	10,343
Notes and bonds	50	74
Finance lease receivables	1,148	1,048
Other receivables		
Other	2,879	2,620
Impairment losses on loans		
Based on credit risk	-259	-238
Impairment losses on notes and bonds		
Based on credit risk		-7
Total receivables from customers	14,515	13,839

Changes in impairments of loans and guarantees

EUR million	Loans	Notes and bonds	Bank guarantee receivables	Interest receivables	Total
Impairments 1 Jan. 2013	240	7	0	-2	246
Increase in impairments of individually assessed loans and receivables	52		1	-12	41
Change in impairments of collectively assessed loans and receivables	2				2
Reversal of impairments of loans and receivables individually assessed	-22			12	-11
Loans and guarantee receivables derecognised from balance sheet,					
of which an individually assessed impairment was recognised	-12	-7			-19
Exchange rate difference on impairments on loans		0			0
Impairments 31 Dec. 2013	260	0	1	-3	259

EUR million	Loans	Notes and bonds	Bank guarantee receivables	Interest receivables	Total
Impairments 1 Jan. 2012	189	33	2	-1	223
Increase in impairments of individually assessed loans and receivables	59	3	0	-16	46
Change in impairments of collectively assessed loans and receivables	0				0
Reversal of impairments of loans and receivables individually assessed	-6	0	0	15	8
Loans and guarantee receivables derecognised from balance sheet, of which an individually assessed impairment was recognised	0	-28	-2		-31
Exchange rate difference on impairments on loans		0			0
Impairments 31 Dec. 2012	240	7	0	-2	246

Finance lease receivables

Pohjola Group mainly offers transport equipment and industrial machinery and equipment through finance leases.

EUR million	31 Dec. 2013 31 Dec. 2012	
Maturity of finance leases		
Not later than one year	322	271
1–5 years	528	515
Over 5 years	390	336
Gross investment in finance leases	1,240	1,122
Unearned finance income (–)	-93	-75
Present value of minimum lease payments	1,148	1,048
Present value of minimum lease payment receivables		
Not later than one year	302	253
1–5 years	487	484
Over 5 years	358	311
Total	1,148	1,048
Gross increase during the financial year	487	567

Notes to the Consolidated Financial Statements

NOTES TO THE BALANCE SHEET

Note 21. Non-life Insurance assets

EUR million	31 Dec. 2013	31 Dec. 2012
Investments		
Loans and other receivables	62	104
Shares and participations	471	409
Investment property	106	112
Notes and bonds	2,035	1,983
Derivative contracts	4	1
Other participations	338	459
Total	3,015	3,069
Other assets		
Prepayments and accrued income	40	42
Other		
From direct insurance	324	290
From reinsurance	90	91
Cash in hand and at bank	4	10
Other receivables	64	20
Total	524	454
Total Non-life Insurance assets	3,539	3,523

Non-life Insurance investments**Loans and other receivables**

Loans and other receivables	61	103
Deposits with ceding undertakings	1	1
Total	62	104

Financial assets recognised at fair value through profit or loss

Notes and bonds	6	19
Derivative contracts	4	1
Total	10	20

Available-for-sale financial assets

Notes and bonds	2,029	1,964
Shares and participations	471	409
Other participations	338	459
Total	2,838	2,832

Investment property

Land and water areas	9	12
Buildings	97	101
Total	106	112

Total Non-life Insurance investments	3,015	3,069
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Breakdown of Non-life Insurance notes and bonds recognised through profit or loss and shares and participations and derivatives by quotation and issuer

EUR million	31 Dec. 2013			31 Dec. 2012		
	Notes and bonds	Shares and participations	Derivative contracts	Notes and bonds	Shares and participations	Derivative contracts
Quoted						
From others	6			19		
Other						
From others			4			1
Total	6		4	19		1

Available-for-sale financial assets of Non-life Insurance, 31 Dec. 2013, EUR million	Available-for-sale notes and bonds		Available-for-sale shares and participations			
	At fair value	At amortised cost	Total	At fair value	At cost	Total*
Quoted						
From public sector entities	465		465			
From others	1,549		1,549	581		581
Other						
From others	14		14	228		228
Total	2,029		2,029	809		809
Impairment losses for the financial year	-2		-2	-8		-8

* Available-for-sale shares and participations include EUR 471 million (409) in equities and mutual funds with equity risk and EUR 338 million (459) in other participations. Other participations consist mainly of units in bond, money market, convertible bond, commodities, hedge funds and real estate funds.

The available-for-sale financial assets of Non-life Insurance include EUR 4 million (3) in pledged items, consisting mainly of collateral for derivatives trading.

Available-for-sale financial assets of Non-life Insurance, 31 Dec. 2012, EUR million	Available-for-sale notes and bonds		Available-for-sale shares and participations			
	At fair value	At amortised cost	Total	At fair value	At cost	Total*
Quoted						
From public sector entities	444		444			
From others	1,515		1,515	655		655
Other						
From others	5		5	213		213
Total	1,964		1,964	868		868
Impairment losses for the financial year	-1		-1	-11		-11

Available-for-sale securities lent, EUR million	31 Dec. 2013	31 Dec. 2012
Notes and bonds		
Nominal value		125
Fair value		149

The securities lending agreement has a three-year term and the provided collateral is sufficient.

Changes in Non-life Insurance investment property, EUR million	2013	2012
Acquisition cost 1 Jan.	95	84
Increase	18	15
Decrease	-7	-3
Transfers between items	-20	-1
Acquisition cost 31 Dec.	86	95
Accumulated changes in fair value 1 Jan.	17	14
Changes in fair value during financial year	4	3
Decrease	-2	
Accumulated changes in fair value 31 Dec.	19	17
Carrying amount 31 Dec.	106	112

Construction and repair obligations regarding investment property amounted to EUR 2 million (15). The fair value of investment property holdings includes the portion of debt only with respect to joint ventures whose accounts are consolidated into the consolidated financial statements.

A total of 86% of Non-life Insurance's investment property holdings, or EUR 90 million, was appraised by external property valuers, all of them being authorised property valuers (AKA). These valuers were Olli Kantanen and Antti Hänninen employed by Realia Group Oy.

Notes to the Consolidated Financial Statements

NOTES TO THE BALANCE SHEET

Note 22. Investment assets

EUR million	31 Dec. 2013	31 Dec. 2012
Available-for-sale financial assets		
Notes and bonds	7,108	4,971
Shares and participations	89	105
Total	7,197	5,076
Financial assets held to maturity		
Notes and bonds	202	330
Total	202	330
Investment property		
Land and water areas	0	0
Buildings	28	24
Total	28	25
Total investment assets	7,427	5,431

Investment property does not include real property received as collateral in 2013 and 2012.

Available-for-sale financial assets and held-to-maturity investments on 31 Dec. 2013

EUR million	At fair value	Available-for-sale notes and bonds		Available-for-sale shares and participations		Held-to- maturity Total investments
		At amortised cost	Total	At fair value	At cost	
Quoted						
From public sector entities	6,725		6,725			
From others	322		322	7		7
Other						
From others	61		61	18	64	82
Total	7,108		7,108	24	64	89
Impairment losses for the financial year				0		0

Available-for-sale financial assets did not include subordinated publicly-quoted notes and bonds from others or subordinated notes and bonds other than publicly quoted from others. Investments in private equity funds, worth EUR 14 million (16), were measured at fair value. Non-quoted equities measured at cost within the portfolio amounted to EUR 68 million (80), of which non-consolidated shares of subsidiaries and associates came to EUR 0 million (0). It was not possible to determine reliably a fair value for investments measured at cost. Held-to-maturity investments included EUR 187 million (315) in notes and bonds eligible for central bank refinancing and EUR 15 million (14) in other publicly-quoted notes and bonds.

Available-for-sale financial assets and held-to-maturity investments on 31 Dec. 2012

EUR million	Available-for-sale notes and bonds			Available-for-sale shares and participations		Held-to- maturity Total investments
	At fair value	At amortised cost	Total	At fair value	At cost	
Quoted						
From public sector entities	4,656		4,656			
From others	247		247	9		9
Other						
From others	68		68	16	80	96
Total	4,971		4,971	25	80	105
Impairment losses for the financial year				0		0

Changes in investment property, EUR million	2013	2012
Acquisition cost 1 Jan.	26	27
Increase	4	
Decrease		-1
Acquisition cost 31 Dec.	30	26
Accumulated changes in fair value 1 Jan.	-1	-2
Changes in fair value during financial year	-1	1
Accumulated changes in fair value 31 Dec.	-2	-1
Carrying amount 31 Dec.	28	25

Changes in the fair value of investment property are recognised under Net investment income. The fair value of investment property holdings includes the portion of debt only with respect to joint ventures whose accounts are consolidated into the consolidated financial statements.

Information on investment property leased out under operating lease can be found in Note 95.

The investment property holdings were appraised by the following external property valuer: Raino Pesu, M.Sc. Tech, authorised property valuer (AKA), authorised real estate agent (LKV), appraisal expert, and Ville Vaarala, M.Sc. Tech, appraisal expert, on behalf of Corbel Oy.

Notes to the Consolidated Financial Statements

NOTES TO THE BALANCE SHEET

Note 23. Reclassified notes and bonds

The table below shows the carrying amounts and fair values of the reclassified notes and bonds.

EUR million, 31 Dec. 2013	Carrying amount	Fair value	Effective interest rate	Impairments arising from credit risk
Loans and other receivables	298	306	5.2	
Investments held to maturity	99	89	4.2	
Available-for-sale financial assets	42	42	4.2	
Total	438	436		

EUR million, 31 Dec. 2012	Carrying amount	Fair value	Effective interest rate	Impairments arising from credit risk
Loans and other receivables	413	401	5.4	7
Investments held to maturity	226	207	4.2	
Available-for-sale financial assets*	38	38	4.3	
Total	677	646		7

If notes and bonds were not reclassified and had been measured using fair values available in the market:

EUR million	2013		2012	
	Income statement	Fair value reserve	Income statement	Fair value reserve
Banking	-1		1	
Non-life Insurance	0	-1	1	4
Group Functions	29	-3	21	10
Total	27	-3	23	14

Loans and receivables and held-to-maturity investments were reclassified in 2008. Available-for-sale financial assets were reclassified in 2012.

* Of the held-to-maturity investments, Pohjola sold Irish RMBS with a carrying amount of EUR 36 million in the third quarter of 2012, due to a probable local legislative amendment. In this connection, Pohjola reclassified EUR 38 million in Irish RMBS within held-to-maturity investments to available-for-sale financial assets.

Interest accrued on reclassified notes and bonds in January–December totalled EUR 10 million (20). The price difference between the nominal value and acquisition value recognised in the income statement totalled EUR 3 million (7). Capital losses recognised on notes and bonds totalled EUR 2 million (17). Impairment losses recognised on notes and bonds amounted to EUR 0 million (3).

The Group used derivatives to hedge against interest rate risks, applying hedge accounting from 1 October 2008. Positive mark-to-market valuations recognised on hedging derivative contracts amounted to EUR 6 million. Negative mark-to-market valuations recognised in 2012 amounted to EUR 3 million.

Notes to the Consolidated Financial Statements

NOTES TO THE BALANCE SHEET

Note 24. Investment in associates

EUR million	2013	2012
Investment 1 Jan.	26	27
Additional acquisitions	4	
Share of profit for the financial year	0	1
Dividends	-1	-1
Investment 31 Dec.	29	26

Notes to the Consolidated Financial Statements

NOTES TO THE BALANCE SHEET

Note 25. Intangible assets

Changes in intangible assets, EUR million	Goodwill	Brands	Customer relationships related to insurance contracts and policy acquisition costs	Other intangible assets	Total
Acquisition cost 1 Jan. 2013	519	179	301	230	1,230
Increases				31	31
Decreases				-3	-3
Acquisition cost 31 Dec. 2013	519	179	301	259	1,258
Acc. amortisation and impairments 1 Jan. 2013		-7	-170	-131	-308
Amortisation during the financial year			-24	-20	-43
Decreases				3	3
Acc. amortisation and impairments 31 Dec. 2013		-7	-194	-148	-349
Carrying amount 31 Dec. 2013	519	172	108	111	910

Other intangible assets include computer software to the carrying amount of EUR 92 million and EUR 17 million in computer software under development.

Amortisation, impairment losses and their reversals were recognised on the income statement under Other operating expenses.

Changes in intangible assets, EUR million	Goodwill	Brands	Customer relationships related to insurance contracts and policy acquisition costs	Other intangible assets	Total
Acquisition cost 1 Jan. 2012	519	179	301	190	1,190
Increases	0			40	40
Decreases				0	0
Acquisition cost 31 Dec. 2012	519	179	301	230	1,230
Acc. amortisation and impairments 1 Jan. 2012		-7	-146	-116	-270
Amortisation during the financial year			-24	-14	-38
Other changes				0	0
Acc. amortisation and impairments 31 Dec. 2012		-7	-170	-131	-308
Carrying amount 31 Dec. 2012	519	172	131	99	922

Other intangible assets include computer software to the carrying amount of EUR 28 million and EUR 69 million in computer software under development.

Amortisation, impairment losses and their reversals were recognised on the income statement under Other operating expenses.

Intangible assets with indefinite economic lives, EUR million	31 Dec. 2013	31 Dec. 2012
Goodwill	519	519
Brands	172	172
Total	691	691

The economic lives of goodwill and brands acquired through business combinations are estimated to be indefinite, since they affect the accrual of cash flows for an indefinable period.

Other most significant intangible assets	31 Dec. 2013		31 Dec. 2012	
	Carrying amount, EUR million	Remaining amortisation period	Carrying amount, EUR million	Remaining amortisation period
Customer relationships	108	2–5 yrs	131	3–6 yrs
Software	92	2–5 yrs	28	2–5 yrs
Software under development	17		69	

Goodwill was acquired as part of the acquisition of Pohjola Group plc's business operations in 2005 and as part of the acquisition of Pohjola Finance Ltd (formerly K-Finance Ltd) in 2008. In 2011, goodwill increased as a result of the acquisition of Excenta Ltd, a strategic corporate wellness services provider. Brands, customer relationships and a significant part of computer software were acquired as part of the acquisition of the Non-life Insurance operations.

Goodwill impairment test

Goodwill, EUR million	2013	2012
Non-life Insurance	407	407
Pohjola Asset Management Ltd	97	97
Leasing and Factoring Services	13	13
Wellbeing-at-work services	3	3
Total	519	519

Goodwill of Pohjola Group originates entirely from the acquisition of the business operations of Pohjola Group plc, Pohjola Finance Ltd and Excenta Ltd. Goodwill was determined by the so-called Purchase Price Allocation process (PPA). The resulting goodwill was allocated to the cash-generating units (CGUs), which were either business segments or entities included in them. The impairment testing of goodwill was carried out in accordance with IAS 36 on those CGUs for which acquisition cost calculations in accordance with PPA were made, i.e. Non-life Insurance, Asset Management, Leasing and Factoring Services, and wellbeing-at-work services.

For the purpose of goodwill testing, the value of the CGUs of Pohjola Group was determined by using the 'Excess Returns' method. Accordingly, profits for the current period and future periods were reduced by the return requirement set for shareholders' equity. Any excess return was discounted using a discount rate corresponding to the return requirement set for shareholders' equity in order to determine the present value of cash flows.

For Asset Management, Leasing and Factoring Services, and wellbeing-at-work services, the testing period was determined to be five years under IAS 36, including residual values. For Non-life Insurance, the testing period was determined to be the entire period of PPA amortisation plus one year free of PPA amortisation, which means an six-year testing period.

The forecasts used in cash flow statements are based on strategy figures for 2014–16, confirmed by Pohjola in 2012, and post-strategy-period expectations derived from them regarding business developments. Growth in cash flows for post-forecast periods ranges between 2 and 9%.

The discount rate used in the calculations was the market-based equity cost, which is in line with the applied value determination methods (i.e. through cash flows, only the value of equity belonging to investors was determined and the value was discounted by using the return requirement rate on shareholders' equity). The discount rate used in the calculations before tax (i.e. IFRS WACC) varied from 9.9 to 15.3%. In 2012, it varied from 10.4 to 15.5%. Pohjola increased the discount rate for Non-life Insurance by 0.5 percentage points to correspond to the discount rate based on market information. For other business lines, the discount rate based on market information was still lower than in the PPA statement and the discount rate used in previous financial years.

The impairment testing of goodwill did not lead to recognition of impairment losses.

A sensitivity analysis was carried out separately on each CGU on the basis of key parameters of each CGU.

The discount rate, combined ratio and net investment return (%) were used as key parameters in Non-life Insurance's sensitivity analysis – the same as in the previous year. The results of the sensitivity analysis did not undergo any major changes over the previous year. A 5.9-percentage point increase in the discount rate, a 3.9-percentage point increase in the combined ratio and a 1.6-percentage point decrease in net investment return compared with forecasts throughout the testing period, with one tested parameter changing and other parameters remaining unchanged, would entail an impairment risk. In 2012, the results were as follows: a 5.4-percentage point increase in the discount rate, a 3.3-percentage point increase in the combined ratio and a 1.2-percentage point decrease in net investment return compared with forecasts throughout the testing period, would have entailed an impairment risk.

The discount rate, growth rate (%) of assets under management and growth rate (%) of expenses were used as key parameters in Asset Management's sensitivity analysis. The parameters used were the same as in the previous year. The results of the sensitivity analysis did not differ significantly from those in the previous year. A 25-percentage point increase in the discount rate, an 12-percentage point decrease in assets under management and 14-percentage point growth in expenses compared with forecasts throughout the testing period, with other parameters remaining unchanged, would entail an impairment risk. In 2012, the results were as follows: a 28-percentage point increase in the discount rate, a 13-percentage point decrease in assets under management and 15-percentage point growth in expenses compared with forecasts throughout the testing period would have entailed an impairment risk.

The discount rate, growth rate (%) of the loan portfolio and a growth rate (%) of expenses were used as key parameters in Leasing and Factoring Service's sensitivity analysis. The parameters used were the same as in the previous year. The results of the sensitivity analysis did not change significantly on a year earlier. A 9.1-percentage point increase in the discount rate, a 92-percentage point decrease in the loan portfolio and a 13-percentage point increase in expenses compared with forecasts throughout the testing period, with other parameters remaining unchanged, would entail an impairment risk. In 2012, the results were as follows: a 10-percentage point increase in the discount rate, a 84-percentage point decrease in the loan portfolio and a 13-percentage point increase in expenses compared with forecasts throughout the testing period would have entailed an impairment risk.

The discount rate and a growth rate (%) of net sales and operating margin were used as key parameters in wellbeing-at-work services' sensitivity analysis. The parameters used were the same as last year. The results of the sensitivity analysis changed significantly from last year. A 5.4-percentage point increase in the discount rate, a 33-percentage point decrease in net sales and a 30-percentage point decrease in operating margin compared with forecasts throughout the testing period, with other parameters remaining unchanged, would entail an impairment risk. Last year the results were as follows: a 22-percentage point increase in the discount rate, a 100-percentage point decrease in net sales and a 48-percentage point decrease in operating margin compared with forecasts throughout the testing period would have entail an impairment risk.

Impairment testing of brands

Pohjola Group's brands originate entirely from the acquisition of Pohjola Group plc's business operations. Impairment testing was carried out separately for the Pohjola, Eurooppalainen, A-Vakuutus (A-Insurance) and Seesam brands, in accordance with IAS 36.

The value of the brands was determined by using the 'Relief from Royalty' method. Accordingly, their value was determined to be royalty savings accrued in the future from owning the brands, discounted to the present. The discount rate used in the calculations was the market-based equity cost defined for Non-life Insurance, plus an asset-specific risk premium. Pohjola increased the discount rate for Non-life Insurance by 0.5 percentage points to correspond to the discount rate based on market information. In addition, the same risk premium and the corresponding royalty percentages were applied in 2013 as in the PPA procedure and in previous years' tests.

All Pohjola brands are subject to a testing period of five years under IAS 36. The forecasts used in cash flow statements are based on strategy figures for 2014–16 updated for Non-life Insurance and post-strategy-period expectations derived from them regarding the business line's future developments. A 2% inflationary expectation was used as growth in cash flows for post-forecast periods.

As a result of testing brands for any impairment, Pohjola did not recognise any impairment loss on brands in its financial statements 2013. An impairment loss of EUR 1 million related to the Seesam brand was recognised in the 2011 and EUR 3 million in the 2009 and 2008 financial statements.

Impairment testing of other essential intangible assets

Pohjola Group's customer relationships and a significant part of computer software were acquired as part of the acquisition of the business operations of Pohjola Group plc. Intangible assets originating from customer relationships are charged to expenses using straight-line amortisation over their estimated economic lives, and no indications of the need for their impairment recognition have been discovered. Intangible assets originating from computer software used by Non-life Insurance and Asset Management were charged to expenses in full in prior financial years.

Notes to the Consolidated Financial Statements

NOTES TO THE BALANCE SHEET

Note 26. Property, plant and equipment

EUR million	31 Dec. 2013	31 Dec. 2012
Property in own use		
Land and water areas	5	3
Buildings	45	18
Total	50	22
Machinery and equipment	4	4
Other tangible assets	3	3
Leased-out assets	27	40
Total property, plant and equipment	84	69
of which construction in progress	0	0

Changes in property, plant and equipment (PPE), EUR million	Property in own use	Machinery and equipment	Other tangible assets	Leased- out assets	Total PPE
Acquisition cost 1 Jan. 2013	28	38	3	68	137
Increases	13	1	0	8	22
Decreases	-3	0	0	-25	-29
Transfers between items	20				20
Acquisition cost 31 Dec. 2013	58	39	3	51	151
Accumulated depreciation and impairments 1 Jan. 2013	-6	-34	0	-28	-68
Depreciation during the financial year	-2	-1	0	-11	-14
Impairments for the financial year	-2				-2
Reversals of impairments for the financial year	0				0
Decreases	2	0	0	15	18
Other changes	0				0
Accumulated depreciation and impairments 31 Dec. 2013	-7	-35	0	-24	-66
Carrying amount 31 Dec. 2013	50	4	3	27	84

Changes in property, plant and equipment (PPE), EUR million	Property in own use	Machinery and equipment	Other tangible assets	Leased- out assets	Total PPE
Acquisition cost 1 Jan. 2012	26	36	3	89	155
Increases	3	2	0	17	22
Decreases	-3	0	0	-37	-41
Transfers between items	1				1
Acquisition cost 31 Dec. 2012	28	38	3	68	137
Accumulated depreciation and impairments 1 Jan. 2012	-5	-33	0	-35	-73
Depreciation during the financial year	-1	-1		-14	-16
Reversals of impairments for the financial year	0				0
Decreases		0		19	19
Other changes	0			2	2
Accumulated depreciation and impairments 31 Dec. 2012	-6	-34	0	-28	-68
Carrying amount 31 Dec. 2012	22	4	3	40	69

Depreciation, impairment losses and their reversals are charged to Other operating expenses.

Pohjola Group primarily offers passenger cars through operating leases. The Group has leased out office facilities it does not need and such facilities are classified as investment property in the financial statements.

A breakdown of PPE leased out under operating lease can be found in Note 95.

Notes to the Consolidated Financial Statements

NOTES TO THE BALANCE SHEET

Note 27. Other assets

EUR million	31 Dec. 2013	31 Dec. 2012
Payment transfer receivables	35	18
Pension assets	5	9
Accrued income and prepaid expenses		
Interest	711	731
Other accrued income and prepaid expenses	9	17
Margin receivables related to derivative contracts	54	39
Other	553	786
Total	1,367	1,600

The item Other includes eg EUR 70 million (47) in accounts receivable from securities and EUR 408 million (606) in CSA collateral receivables.

Notes to the Consolidated Financial Statements

NOTES TO THE BALANCE SHEET

Note 28. Tax assets

EUR million	31 Dec. 2013	31 Dec. 2012
Income tax assets	2	0
Deferred tax assets	13	36
Total tax assets	15	36

Breakdown of tax assets and liabilities, EUR million

Deferred tax assets	31 Dec. 2013	31 Dec. 2012
Due to available-for-sale financial assets	0	5
Due to depreciation and impairment losses	0	0
Due to provisions and impairment losses on receivables	3	6
Due to timing difference of securities issued to the public	18	26
Due to defined-benefit pension plans	3	3
Due to consolidation of Group accounts	1	1
Due to other items	3	10
Set-off against deferred tax liabilities	-16	-16
Total	13	36

Deferred tax liabilities	31 Dec. 2013	31 Dec. 2012
Due to appropriations	212	232
Due to available-for-sale financial assets	37	51
Due to cash flow hedging	3	7
Due to elimination of equalisation provision	50	67
Due to fair value measurement of investment	10	9
Due to allocation of sale price of business combinations	54	74
Due to defined benefit pension plans	1	3
Due to other items	6	6
Set-off against deferred tax assets	-16	-16
Total	358	433

Changes in deferred taxes, EUR million	31 Dec. 2013	31 Dec. 2012
Deferred tax assets/liabilities 1 Jan.	-397	-321
Recognised on the income statement		
Intra-Group capital gains on business combinations		1
Provisions and impairments on receivables	-1	2
Appropriations	-22	-35
Elimination of equalisation provision	6	20
Fair value changes in and sale of investments	-3	28
Depreciation/amortisation and impairments	7	6
Timing difference of securities issued to the public	-4	5
Defined benefit pension plans	1	0
Change in tax rate 1 Jan. 2014	65	
Other	-8	-3
Recognised in statement of comprehensive income		
Fair value reserve		
Fair value measurement	-9	-88
Cash flow hedges	4	-4
Transfers to the income statement	10	-10
Change in tax rate 1 Jan. 2014	9	
Actuarial gains/losses on post-employment benefit obligations	0	3
Change in tax rate 1 Jan. 2014	-2	
Other	1	
Total deferred tax assets/liabilities 31 Dec.	-345	-397
Income tax assets/liabilities	-16	-52
Total tax assets/liabilities	-360	-449

Tax losses for which a deferred tax asset was not recognised came to EUR 7 million (9) at the end of 2013. The losses will expire before 2023.

A deferred tax liability has not been recognised for the EUR 31 million (29) of undistributed profits of the Baltic subsidiaries, since the assets have been permanently invested in these countries.

Notes to the Consolidated Financial Statements

NOTES TO THE BALANCE SHEET

Note 29. Liabilities to credit institutions

EUR million	31 Dec. 2013	31 Dec. 2012
Liabilities to central banks*	73	
Liabilities to credit institutions		
Repayable on demand		
Deposits		
With OP-Pohjola Group institutions	233	155
With other credit institutions	130	79
Other liabilities		
With OP-Pohjola Group institutions	361	358
With other credit institutions		0
Total	725	592
Other than repayable on demand		
Deposits		
With OP-Pohjola Group institutions	3,270	3,483
With other credit institutions	722	1,765
Total	3,992	5,248
Total liabilities to credit institutions and central banks	4,789	5,840

* Deposits from non-euro-area central banks

Notes to the Consolidated Financial Statements

NOTES TO THE BALANCE SHEET

Note 30. Financial liabilities at fair value through profit or loss

EUR million	31 Dec. 2013	31 Dec. 2012
Financial liabilities held for trading		
Short selling of securities	4	3
Total financial liabilities at fair value through profit or loss	4	3

Notes to the Consolidated Financial Statements

NOTES TO THE BALANCE SHEET

Note 31. Derivative contracts

EUR million	31 Dec. 2013	31 Dec. 2012
Held for trading		
Interest rate derivatives	2,910	4,053
Currency derivatives	193	6
Equity and index derivatives	32	74
Credit derivatives		0
Other	52	28
Total	3,186	4,161
Hedging derivative contracts		
Fair value hedging		
Interest rate derivatives	220	383
Currency derivatives	13	13
Cash flow hedge		
Interest rate derivatives	1	
Total	234	396
Total derivative contracts	3,420	4,557

The derivative contracts balance-sheet item includes negative changes in fair value and premiums received.

Notes to the Consolidated Financial Statements

NOTES TO THE BALANCE SHEET

Note 32. Liabilities to customers

EUR million	31 Dec. 2013	31 Dec. 2012
Deposits		
Repayable on demand		
Private	34	2
Companies and public sector entities	5,805	4,603
Total	5,839	4,605
Other		
Private	0	0
Companies and public sector entities	1,665	1,706
Total	1,665	1,706
Other financial liabilities		
Repayable on demand		
Private	10	12
Total	10	12
Other		
Companies and public sector entities	2,674	4,453
Total	2,674	4,453
Total liabilities to customers	10,188	10,775

Notes to the Consolidated Financial Statements

NOTES TO THE BALANCE SHEET

Note 33. Non-life insurance liabilities

EUR million	31 Dec. 2013	31 Dec. 2012
Insurance liabilities	2,593	2,448
Direct insurance liabilities	134	123
Reinsurance liabilities	9	13
Derivative contracts	0	3
Other	10	11
Total Non-life Insurance liabilities	2,746	2,599

Non-life Insurance contract liabilities and reinsurers' share

EUR million	31 Dec. 2013			31 Dec. 2012		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
Provision for unpaid claims for annuities	1,253	-4	1,249	1,205	-4	1,201
Other provisions by case	160	-55	105	151	-52	99
Special provision for occupational diseases	25		25	28		28
Collective liability (IBNR)	603	-6	597	555	-6	550
Reserved loss adjustment expenses	60		60	54		54
Provision for unearned premiums	493	-12	481	455	-15	440
Total Non-life Insurance insurance liabilities	2,593	-77	2,517	2,448	-76	2,372

Changes in insurance liabilities arising from insurance contracts and in receivables arising from reinsurance contracts

EUR million	2013			2012		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Provision for unpaid claims						
Provision for unpaid claims 1 Jan.	1,993	-62	1,932	1,944	-89	1,855
Claims paid in financial year	-866	39	-827	-857	61	-797
Change in liability/receivable	931	-42	889	863	-33	830
Current period claims	908	-46	862	815	-19	796
Increase (decrease) from previous financial years	-14	4	-10	-4	-14	-18
Change in discount rate	38		38	52		52
Unwinding of discount	42		42	43		43
Foreign exchange gains (losses)	-1		-1	0	0	0
Provision for unpaid claims 31 Dec.	2,100	-65	2,035	1,993	-62	1,932
Provision for unearned premiums						
Provision for unearned premiums 1 Jan.	455	-15	440	422	-22	399
Increase	451	-9	442	418	-5	412
Decrease	-415	12	-404	-385	13	-373
Change in discount rate	1		1			
Unwinding of discount	1		1	1		1
Provision for unearned premiums 31 Dec.	493	-12	481	455	-15	440
Total Non-life Insurance insurance liabilities	2,593	-77	2,516	2,448	-76	2,372

The provision for unearned premiums represents obligations relating to insurance cover which has not yet expired at the year-end.

Determination of insurance liabilities arising from non-life insurance contracts**a) Methods and assumptions used**

The amount of insurance liability has been estimated in such a way that it is, in reasonable probability, sufficient to cover the liabilities arising from insurance contracts. This has been performed by estimating an expected value for the insurance liability and, after that, by determining a safety margin based on the degree of uncertainty related to the liability.

The provision for unearned premiums arising from insurance contracts has mainly been determined in accordance with the pro rata parte temporis rule for each contract.

The provision for unpaid claims for annuities corresponds to the discounted present value of cash flow of compensation for loss of income payable as continuous annuity. The discount rate is determined taking account of the current interest rate, security required by law and the maximum discount rate set by the authorities and expected reasonable return on assets covering insurance liabilities. On 31 December 2013, the discount rate used was 2.8% (31 Dec. 2012 3.0%). The mortality model applied is the cohort mortality model which is based on Finnish demographic statistics and which assumes the current trend of an increase in life expectancy to continue.

The provision for unpaid claims includes asbestos liabilities which arise from occupational diseases coverable under statutory workers' compensation insurance. The forecasted cash flow of these claims is based on an analysis which takes account of to what extent asbestos was used annually as raw material in Finland and how the latency periods of different asbestos diseases are distributed. Trends in asbestos-related claims are monitored annually and the outcome has corresponded well to the forecast.

Determining collective liability is based on different statistical methods: Bornhuetter-Ferguson, Cape Cod and Chain Ladder. When applying these methods, other selections must also be made, in addition to the selection of the method, such as deciding on how many occurrence years' statistics the methods will be applied.

Bornhuetter-Ferguson

The Bornhuetter-Ferguson (BF) method is based on the assumption that, in each development year, a certain portion of claims is paid of the measure of exposure of the occurrence year. This measure of exposure can, for instance, be the number of policy years or insurance premium revenue adjusted by the loss ratio assumption. BF reacts slowly to changes in the development triangle of claims. In addition, BF is sensitive to the selection of the measure of exposure.

Cape Cod

The Cape Cod method corresponds to the BF method in such a way that the portion of claims paid out in a development year relative to the measure of exposure is evened out between the occurrence years. In the traditional Cape Cod method, the claims' proportion of the measure of exposure is the same evened constant for all occurrence years. In the generalised Cape Cod method, the claims' proportion of the measure of exposure for the year of occurrence is evened out on the basis of the observations made in the occurrence year and close to the occurrence year.

Chain Ladder

In the Chain Ladder (CL) method, the total claims expenditure for each occurrence year is determined by annual development factors. A development factor describes the relation between the successive development years in the cumulative claims development triangle. CL is sensitive to the observations in the first development years.

In the valuation of collective liability, the largest risks relate to

- Estimating the future rate of inflation (excl. indemnities for loss of income payable on the basis of statutory insurance)
- Adjustment of changes due to changed compensation practices and legislation in the development triangle of claims (i.e. whether history provides a correct picture of the future)
- Adequacy of historical information over dozens of years.

Of the collective liability, only the liability for annuities has been discounted.

For the assessment of collective liability, the Group's non-life insurance portfolio is divided into several categories by risk and eg maturity of the cash flow applying to compensation paid. In each category, collective liability is first calculated using each statistical method stated above, and the method that best suits the category under review is chosen. The selection criteria used includes how well the model would have predicted developments in prior years of occurrence and the sensitivity of the estimate generated by the model with respect to the number of statistical years used. The safety margin of 2–10% is added to the expected value generated by the selected model. The safety margin is determined by the uncertainty associated with future cash flows and duration, as well as the quality of historical data.

When estimating the collective liability for medical expenses and rehabilitation expenses benefits in statutory workers' compensation and motor liability insurance, the Group has taken account of the fact claims paid for losses occurred more than 10 years ago are financed through the pay-as-you-go system.

b) Changes in assumptions

As a result of a reduction in the lower discount rate, the provision for unpaid claims for annuities rose by EUR 38 million (52).

Effect of changes in methods and assumptions on amount of liability	2013	2012
EUR million (increase +/decrease - in liability)		
Change in discount rate	38	52
Total	38	52

c) Claims development

The claims triangle compares the actual claims incurred with previous estimates. The triangles describing claims development have been drawn up by occurrence year.

With the exception of long-term liabilities, claims development for the gross business is presented over a period of ten years. The claims triangle does not monitor the shares of pools and the trends in the rights of recourse related to statutory workers' compensation insurance. The capital value of finalised annuities is treated as if the annuities had been paid equalling the capital amount in connection with confirmation as final. For long-term liabilities, i.e. annuities confirmed as final and asbestos-related claims, information on the adequacy of insurance liabilities is provided.

Claims triangles, gross business, EUR million

Occurrence year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total
Estimated total claims expenditure											
0*	523	540	603	638	707	666	738	784	815	908	6,922
n+1	528	540	611	633	693	633	746	751	799		
n+2	521	535	591	627	691	640	744	750			
n+3	515	529	594	622	689	641	742				
n+4	518	532	594	622	704	649					
n+5	516	532	587	647	724						
n+6	517	529	587	656							
n+7	523	536	591								
n+8	528	536									
n+9	532										
Current estimate of total claims expenditure	532	536	591	656	724	649	742	750	799	908	6,887
Accumulated claims paid	-509	-515	-563	-619	-674	-586	-676	-653	-663	-469	-5,926
Provision for unpaid claims for 2004–2013	24	21	28	36	51	63	65	98	136	439	960

Provision for unpaid claims for previous years 138

* = at the end of the occurrence year

Development of claims due to latent occupational diseases, EUR million

Financial year	Collective liability	Known liabilities for annuities	Claims paid	Claims incurred	Changes in reserving basis*	Adequacy
2005	45	39	-4	-2	1	-1
2006	43	40	-4	-3		-3
2007	41	40	-4	-2	-1	-2
2008	40	41	-4	-4	3	-2
2009	42	43	-4	-8	4	-4
2010	38	44	-3	0		0
2011	35	50	-3	-6	5	-2
2012	32	53	-4	-4	2	-1
2013	28	53	-4	-1	1	0

Development of annuities confirmed as final, EUR million

Financial year	Year-start	Year-end	New annuity capital	Annuities paid	Changes in reserving basis*	Adequacy
2006	681	731	77	26		1
2007	731	745	60	28	-15	3
2008	745	766	55	30		4
2009	763**	771	42	32		2
2010	771	794	60	34		3
2011	794	895	66	35	77	7
2012	895	940	66	34	31	18
2013	940	965	51	37	23	12

* Effect of changes in the discount rate and the mortality model on final annuity capital.

** A small amount of healthcare and senior housing provisions was eliminated from 2009 figures.

Claims triangles, net business, EUR million

Occurrence year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total
Estimated total claims expenditure											
0*	504	511	580	621	656	649	693	721	796	862	6,594
n+1	510	519	593	623	656	620	707	697	783		
n+2	503	509	575	619	658	629	705	706			
n+3	500	509	577	615	656	629	702				
n+4	499	513	577	615	670	636					
n+5	499	513	569	624	683						
n+6	500	513	569	632							
n+7	506	518	573								
n+8	508	520									
n+9	512										
Current estimate of total claims expenditure	512	520	573	632	683	636	702	706	783	862	6,608
Accumulated claims paid	-491	-498	-545	-597	-634	-581	-639	-617	-649	-461	-5,711
Provision for unpaid claims for 2004–2013	22	22	28	35	49	55	62	89	134	401	897

Provision for unpaid claims for previous years 136

* = at the end of the occurrence year

Change in claims incurred based on loss events for prior financial years

Claims incurred based on loss events for prior financial years increased by EUR 27 million (24). The change in technical interest, EUR 38 million (52), added to claims incurred. Change in claims incurred based on loss events for prior financial years describes the adequacy of insurance liabilities, which on average is positive due to the security of insurance liabilities.

Claims administration contracts

On 31 December 2013, liabilities related to claims administration contracts totalled EUR 81 million (80).

Claims administration contracts are contracts which are not insurance contracts, but on the basis of which claims are paid on behalf of another party. Among these contracts, the most important are captive arrangements in which the insured risk is reinsured with a captive company belonging to the same Group of companies with the customer; index increases in annuities of statutory workers' compensation, motor liability and patient insurance policies; certain other increases in benefits; and medical treatment indemnities payable over ten years after the occurrence of the accident; as well as public sector patient insurance.

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NOTES TO THE BALANCE SHEET

Note 34. Debt securities issued to the public

EUR million	Average interest rate, % 31 Dec. 2013		Average interest rate, % 31 Dec. 2012	
Bonds	1.91	9,322	2.05	8,282
Other				
Certificates of deposit	0.21	1,775	0.47	1,516
Commercial papers	0.28	4,994	0.49	3,979
Other	0.57	101	0.51	144
Included in own portfolio in trading (–)*		–95		–152
Total debt securities issued to the public		16,097		13,769

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

Long-term loans and interest rate bases	Nominal amount	Interest rate	Maturity
Pohjola Bank plc Issue of EUR 60,000,000 Floating Rate Notes due 13 January 2014 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	60.0	EUB3M + 0.65%	13 Jan. 2014
Pohjola Bank plc Issue of EUR 750,000,000 4.50 per cent. Instruments due 2014 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	750.0	Fixed 4.5%	22 May 2014
OKO Osuuspankki Keskuspankki Oyj ("OKO Bank") Issue of NOK 400,000,000 Fixed Rate Notes Due 16 June 2014 under the EUR 5,000,000,000 Programme for the Issuance of Debt Instruments	47.8	Fixed 5.2%	16 June 2014
Pohjola Bank plc Issue of NOK 500,000,000 5.40 per cent. Fixed Rate Notes due June 2014 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	59.8	Fixed 5.4%	18 June 2014
Pohjola Bank plc Issue of CHF 100,000,000 Floating Rate Instruments due 11 July 2014 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	81.5	CHL3M + 0.40%	11 July 2014
Pohjola Bank Plc Issue of GBP 59,000,000 Floating Rate Notes due 26 September 2014 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	70.8	GBL3M + 0.36%	14 Sept. 2014
JPY 3,000,000,000 Term Loan Facility	20.7	Fixed 1.645%	17 Nov. 2014
Pohjola Bank plc Issue of EUR 50,000,000 Floating Rate Instruments due 9 February 2015 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	50.0	EUB3M	9 Feb. 2015
Pohjola Bank plc Issue of USD 60,000,000 Floating Rate Instruments due 13 March 2015 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	43.5	USL3M + 0.17%	13 March 2015

Pohjola Bank plc Issue of EUR 750,000,000 3.125 per cent. Instruments due 25 March 2015 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	750.0	Fixed 3.125%	25 March 2015
Pohjola Bank plc Issue of EUR 220,000,000 Floating Rate Instruments due 28 June 2015 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	220.0	EUB3M + 0.65%	28 June 2015
Pohjola Bank plc Issue of GBP 250,000,000 Floating Rate Notes due November 2015 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	299.9	GBL3M + 0.55%	9 Nov. 2015
Pohjola Bank plc Issue of EUR 10,000,000 2.62 per cent. Fixed Rate Instruments due 19 November 2015 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	10.0	Fixed 2.62%	19 Nov. 2015
JPY 2,000,000,000 Term Loan Facility	13.8	Fixed 1.706%	30 Nov. 2015
Pohjola Bank plc Issue of EUR 500,000,000 3.125 per cent. Instruments due 12 January 2016 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	500.0	Fixed 3.125%	12 Jan. 2016
OKO Osuuspankkien Keskuspankki Oyj ("OKO BANK") Issue of NOK 1,000,000,000 Fixed Rate Notes Due 15 February 2016 under the EUR 8,000,000,000 Programme for the Issuance of Debt Instruments	119.6	Fixed 4.185%	15 Feb. 2016
Pohjola Bank plc Japanese Yen Bonds JPY 21,100,000,000 - First Series (2013)	145.8	Fixed 0.519%	24 June 2016
Pohjola Bank plc Issue of JPY 5,000,000,000 Fixed Rate Instruments under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	34.5	Fixed 0.835%	26 Sept. 2016
Pohjola Bank plc Issue of EUR 750,000,000 2.625 per cent. Instruments due 20 March 2017 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	750.0	Fixed 2.625%	20 March 2017
Pohjola Bank plc Issue of EUR 60,000,000 Floating Rate Instruments due 30 May 2017 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	60.0	EUB3M + 0.90%	30 May 2017
Pohjola Bank plc Issue of EUR 750,000,000 3.00 per cent. Instruments due 8 September 2017 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	750.0	Fixed 3.00%	8 Sept. 2017
Pohjola Bank plc Issue of JPY 2,000,000,000 Floating Rate Instruments due 28 March 2018 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	13.8	JPL3M + 0.20%	28 March 2018
Pohjola Bank plc Issue of EUR 500,000,000 1.25 per cent. Instruments due 14 May 2018 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	500.0	Fixed 1.25%	14 May 2018
Pohjola Bank plc Japanese Yen Bonds JPY 6,900,000,000 - Second Series (2013)	47.7	Fixed 0.698%	26 June 2018
Pohjola Bank plc Japanese Yen Floating Rate Bonds JPY 2,000,000,000 - Second Series (2013)	13.8	JPL3M + 0.27%	26 June 2018
Pohjola Bank plc Issue of EUR 750,000,000 1.750 per cent. Instruments due 29 August 2018 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	750.0	Fixed 1.750%	29 Aug. 2018
Pohjola Bank plc Issue of EUR 10,000,000 Floating Rate Instruments due 20 September 2018 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	10.0	EUB3M + 0.39%	20 Sept. 2018
Pohjola Bank plc Issue of EUR 20,000,000 1.50 per cent. Fixed Rate Notes due 16 November 2018 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	20.0	Fixed 1.50%	16 Nov. 2018
Pohjola Bank plc Issue of EUR 10,000,000 1.965 per cent. Instruments due 19 November 2020 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	10.0	Fixed 1.965%	19 Nov. 2020
Pohjola Bank plc Issue of JPY 8,000,000,000 Fixed Rate Instruments due December 2020 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	55.3	Fixed 1.405%	3 Dec. 2020
Pohjola Bank plc Issue of EUR 60,000,000 3.75 per cent. Instruments due 1 March 2022 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	60.0	Fixed 3.75%	1 March 2022
Pohjola Bank plc Issue of EUR 50,000,000 3.086 per cent. Instruments due 23 August 2027 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	50.0	Fixed 3.086%	23 Aug. 2027

The interest rate is the rate according to the issue currency. The euro equivalents are calculated using the average rate of the European Central Bank on the balance sheet date. The nominal amount of structured bonds issued by Pohjola Bank plc was EUR 1,448 million (1,447). The bonds' interest rate is determined on the basis of interest, equity, equity index or similar underlying instruments. Any possible additional return on the bonds to the investor is hedged using a corresponding derivative structure.

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NOTES TO THE BALANCE SHEET

Note 35. Provisions and other liabilities

EUR million	31 Dec. 2013	31 Dec. 2012
Provisions	1	7
Other liabilities		
Payment transfer liabilities	869	1,039
Accrued expenses		
Interest payable	712	754
Other accrued expenses	64	70
Pension liabilities	20	21
Margin liabilities related to derivative contracts	0	0
Other	408	659
Total provisions and other liabilities	2,075	2,550

The item Other under Other liabilities includes EUR 15 million (49) in accounts payable on securities and EUR 359 million (568) in CSA collateral liabilities.

Changes in provisions

EUR million	Reorganisation	Total
1 Jan. 2013	7	7
Provisions used	-7	-7
31 Dec. 2013	1	1

Changes in provisions

EUR million	Reorganisation	Total
1 Jan. 2012		
Increase in provisions	7	7
31 Dec. 2012	7	7

Reorganisation

The reorganisation provision derives from expenses arising from personnel reduction. This provision was mainly realised during 2013.

Defined benefit pension plans

Pohjola Group has funded assets of its pension schemes through OP Bank Group Pension Fund, OP Bank Group Pension Foundation and insurance companies. Schemes related to supplementary pensions in the Pension Foundation and insurance company, as well as the TyEL (Employees' Pensions Act) funded old-age and disability pension schemes managed by the Pension Fund are treated as defined benefit plans. Contributions to the TyEL pay-as-you-go system are treated as defined contribution plans. The amount of the Group's pension liabilities is not substantial.

OP Bank Group Pension Fund

OP Bank Group Pension Fund manages statutory pension insurance for the employees of Pohjola Group employers as the Fund's members.

The statutory pension scheme under TyEL (Employees Pensions Act) provides pension benefits based on the years of employment and earnings as prescribed in the Act. Benefits under the employees pension scheme comprise old-age pension, part-time pension, disability pension, survivor's pension and rehabilitation benefits. The retirement age of the old-age pension under TyEL is 63–68 years.

The TyEL pension scheme is based on a system that is partly a funded system and partly a pay-as-you go system. A pension insurance institution, which has insured each employment, manages funding for each employee. The funded portion of the pension benefits disbursed annually by the Pension Fund accounts for an average of a quarter.

The Pension Fund aims to manage statutory pension insurance in such a way that the level of contributions will remain steady year after year and be below the average contribution level of the employees pension scheme. The most significant associated risk relates to the possibility of the actual return on investment assets being lower than the actual average investment return under the pension scheme. If such a risk materialises in several consecutive years, this would result in increasing the level of insurance contributions.

The most significant actuarial risks of OP Bank Group Pension Fund are associated with interest rate and market risks, future increases in pension benefits and systematically increasing life expectancy. A change in the discount rate for pension liabilities has a substantial effect on the amount of pension liabilities.

Under the Employee Benefit Funds Act, the Pension Fund shall invest its assets securely and profitably and in view of its liquidity. The Pension Fund must cover the insurance liability arising from pension obligations. When covering the insurance liability, the Pension Fund must consider what type of insurance business it conducts and, accordingly, must ensure the security of, return on and cashability of its assets and that they are appropriately versatile and properly diversified. The Employee Benefit Funds Act specifies in greater detail the assets and commitments with which the insurance liability must cover. As prescribed by law, the Pension Fund has a specific solvency limit which it must cover through its solvency capital.

Responsible for investment, the Board of Trustees of the Pension Fund approves the Pension Fund's investment plan related to its assets. A pension institution's chief actuary prepares annually a forecast for developments in insurance liabilities and pension costs. On this basis, investment asset allocation takes account of the requirements set by the nature of insurance liabilities for investment operations with respect to the level of security, productivity and liquidity, as well as the Pension Fund's risk-bearing capacity.

OP Bank Group Pension Foundation

OP-Bank Group Pension Foundation manages supplementary pension cover for employees provided by the employers within Pohjola Group. The purpose of the Pension Foundation is to grant old-age and disability pension benefits and sickness benefits to employees covered by the Pension Foundation activities, and survivors' pension benefits to their beneficiaries, and burial grant. In addition, the Pension Foundation may grant said employees benefits related to rehabilitation. Given that providing supplementary pension is voluntary, not all employers belonging to the Pension Fund belong automatically to the Pension Foundation. Supplementary pension cover provided by the Pension Foundation is fully funded.

The Pension Foundation covers every employee who has reached the age of 20 years and who has been employed, as specified by TyEL, for two consecutive years by the employer within the Pension Foundation and whose employment has begun before 1 July 1991. The salary/wage serving as the basis for the calculation of pension refers to pensionable pay based on one and the same employment and calculated under the Finnish Employees' Pensions Act, TEL, in force until 31 December 2006. The retirement age of those covered by the Pension Foundation varies from 60 to 65 years, depending on the personnel group to which the employee belongs under the Pension Foundation rules.

The most significant associated risk relates to the possibility of the actual return on investment assets being lower than the target set for the minimum return. If such a risk materialises in several consecutive years, this would result in charging contributions.

The most significant actuarial risks of OP Bank Group Pension Foundation are associated with interest rate and market risks, systematically increasing life expectancy and inflation risk. A change in the discount rate for pension liabilities has a substantial effect on the amount of pension liabilities.

Responsible for investment, the Board of Trustees of the Pension Foundation approves the Foundation's investment plan related to its assets. A pension institution's chief actuary prepares annually a forecast for developments in insurance liabilities and pension costs. On this basis, investment asset allocation takes account of the requirements set by the nature of insurance liabilities for investment operations with respect to the level of security, productivity and liquidity, as well as the Pension Foundation's risk-bearing capacity.

Balance sheet value of defined benefit plans, EUR million	Defined benefit obligations		Fair value of pension assets		Net liabilities (assets)	
	2013	2012	2013	2012	2013	2012
Opening balance 1 Jan.	184	143	-172	-141	12	2
Defined benefit pension costs recognised in income statement						
Current service cost	5	5			5	5
Interest expense (income)	6	6	-6	-6	0	0
Effect of plan curtailment or fulfilment of obligation	-4	-3	4	2		-1
Administrative expenses			0		0	
Total	8	8	-2	-4	6	3
Losses (gains) recognised in other comprehensive income arising from remeasurement						
Actuarial losses (gains) arising from changes in economic expectations	2	24			2	24
Return on TyEL interest rate difference and growth in old-age pension liabilities (net)	1	1	-1	-1		
Experience adjustments	-3	14			-3	14
Return on plan assets, excluding amount (–) of net defined benefit liability (asset)			0	-28	0	-28
Total	0	39	-1	-29	0	10
Other						
Employer contributions			-2	-3	-2	-3
Benefits paid	-5	-5	5	5		
Total	-5	-5	3	2	-2	-3
Closing balance 31 Dec.	186	184	-171	-172	15	12
Liabilities and assets recognised in the balance sheet, EUR million					31 Dec. 2013 31 Dec. 2012	
Net liabilities/assets (Pension Foundation)					-5	-9
Net liabilities/assets (Pension Fund)					5	7
Net liabilities/assets (Other pension plans)					15	14
Total net liabilities/assets					15	12

Pension Fund and Pension Foundation assets, grouped by valuation technique, 31 Dec. 2013, EUR million

	Level 1	Level 2	Level 3	Total
Shares and participations	9	0	6	16
Notes and bonds	18	26	1	45
Real property			16	16
Mutual funds	48	3	29	80
Structured investment vehicles			1	1
Derivatives	0	0		0
Other assets	7	1		7
Total	82	30	53	166

Pension Fund and Pension Foundation assets, grouped by valuation technique, 31 Dec. 2012, EUR million

	Level 1	Level 2	Level 3	Total
Shares and participations	7	0	7	15
Notes and bonds	23	26	1	50
Real property			13	13
Mutual funds	54	1	25	79
Structured investment vehicles		0	3	3
Derivatives		0		0
Other assets	5		1	6
Total	89	27	49	165

The fair value of Level 1 assets is determined on the basis of the quotes in markets.

The fair value of Level 2 assets 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.

The fair value Level 3 assets is determined using a pricing model whose input parameters involve uncertainty.

Proportion of the most significant assets of total fair value of plan assets, %	31 Dec. 2013	31 Dec. 2012
Shares and participations	10	9
Financial sector	5	4
Forest	3	4
Real estate	1	1
Other	1	1
Notes and bonds	27	30
Government bonds	6	10
Other	21	21
Real property	10	8
Mutual funds	48	48
Equity funds	27	18
Bond funds	11	21
Real estate funds	6	5
Hedge funds	5	5
Derivatives	0	0
Interest rate derivatives	0	
Currency derivatives	0	0
Other	0	
Structured investment vehicles	1	2
Other	4	3
Total	100	100

Pension plan assets include, EUR million	31 Dec. 2013	31 Dec. 2012
Pohjola Bank plc shares	9	4
Securities issued by OP-Pohjola Group companies	2	1
Other receivables from OP-Pohjola Group companies	6	12
Real property in Pohjola Group's use	2	2
Total	18	20

Contributions payable under the defined benefit pension plan in 2014 are estimated at EUR 3 million.

The duration of the defined benefit pension obligation in the Pension Fund on 31 December 2013 was 21.1 years and in the Pension Foundation 13.9 years.

Key actuarial assumptions used, 31 Dec. 2013	Pension Fund	Pension Foundation	Other
Discount rate, %	3.5	3.4	3.3
Future pay increase assumption, %	3.0	3.0	3.0
Future pension increases, %	2.1	2.0	2.0–2.1
Turnover rate, %	3.0	0.5	0.0
Inflation rate, %	2.0	2.0	2.0
Life expectancy for 65-year old people			
Men	19.0	19.0	19.0
Women	24.7	24.7	24.7
Life expectancy for 45-year old people after 20 years			
Men	20.6	20.6	20.6
Women	26.4	26.4	26.4

Key actuarial assumptions used, 31 Dec. 2012	Pension Fund	Pension Foundation	Other
Discount rate, %	3.5	3.5	3.5
Future pay increase assumption, %	3.0	3.0	3.0
Future pension increases, %	2.1	2.0	2.0
Turnover rate, %	3.0	0.5	0.0
Inflation rate, %	2.0	2.0	2.0
Life expectancy for 65-year old people			
Men	19.0	19.0	19.0
Women	24.7	24.7	24.7
Life expectancy for 45-year old people after 20 years			
Men	20.6	20.6	20.6
Women	26.4	26.4	26.4

Sensitivity analysis of key actuarial assumptions, 31 Dec. 2013	Change in defined benefit pension obligation			
	Pension Fund	Pension Foundation		
	EUR million	%	EUR million	%
Discount rate				
0.5 pp increase	-11	-9.1	-3	-6.2
0.5 pp decrease	10	8.4	3	5.8
Pension increases				
0.5 pp increase	12	10.1	3	6.2
0.5 pp decrease	-11	-9.1	-3	-5.9
Mortality				
1-year increase in life expectancy	4	3.3	1	2.5
1-year decrease in life expectancy	-4	-3.2	-1	-2.5

Notes to the Consolidated Financial Statements

NOTES TO THE BALANCE SHEET

Note 36. Tax liabilities

EUR million	31 Dec. 2013	31 Dec. 2012
Income tax liabilities	17	52
Deferred tax liabilities	358	433
Total tax liabilities	375	485

A specification of deferred tax liabilities can be found in Note 28.

Notes to the Consolidated Financial Statements

NOTES TO THE BALANCE SHEET

Note 37. Subordinated liabilities

	Average interest rate, %	31 Dec. 2013, EUR million	Average interest rate, %	31 Dec. 2012, EUR million
Subordinated loans	2.75	303	2.89	322
Other				
Debentures	5.39	681	5.18	954
Total subordinated liabilities		984		1,275

Hybrid bonds/subordinated loans

Hybrid bonds included in Tier 1

1 Subordinated loan of 10 billion Japanese yen (equivalent of EUR 69.0 million)

This is a perpetual loan (a loan without a due date) carrying a fixed interest rate of 4.23% until 18 June 2034 and subsequently a variable 6-month Yen Libor + 1.58% (step up). Interest will be annually payable on 18 June and 18 December. If interest cannot be paid for a given interest period, the obligation to pay interest for the period in question will lapse. The loan can be called in at the earliest in 2014 and can be annually repaid after 2014 on the interest due date on 18 June or 18 December. The loan's entire principal must be repaid in one instalment.

2 Subordinated loan of EUR 50 million

This is a perpetual loan without interest-rate step-ups, but with an 8% interest rate cap. The loan was issued on 31 March 2005 and its interest rate for the first year was 6.5% and thereafter CMS 10 years + 0.1%. Interest payments are made annually on 11 April. If interest cannot be paid for a given interest period, the obligation to pay interest for the period in question will lapse. The loan can be called in on the interest due date as of 11 April 2010 at the earliest, subject to authorisation by the Financial Supervisory Authority. The loan's entire principal must be repaid in one instalment.

3 Hybrid bond of EUR 60 million

This perpetual bond carries a variable interest rate based on 3-month Euribor + 0.65% payable quarterly on 28 February, 30 May, 30 August and 30 November. If interest cannot be paid for a given interest period, the obligation to pay interest for the period in question will lapse. It is possible to call in the loan at the earliest on 30 November 2015, subject to authorisation by the Financial Supervisory Authority, and thereafter on the interest due dates. After 2015, the loan carries a variable interest rate based on 3-month Euribor + 1.65% (step up). The entire loan principal must be repaid in one instalment.

4 Subordinated loan of EUR 40 million

This perpetual loan carries a variable interest rate based on 3-month Euribor + 1.25% payable quarterly on 28 February, 30 May, 30 August and 30 November. If interest cannot be paid for a given interest period, the obligation to pay interest for the period in question will lapse. Subject to authorisation by the Financial Supervisory Authority, the loan may be called in on the due date of interest payment of 30 November 2010. The entire loan principal must be repaid in one instalment.

5 Hybrid bond of EUR 50 million

Perpetual bond of EUR 50 million, issued on 17 June 2008, carries a variable interest rate based on 3-month Euribor + 3.05%, payable on a quarterly basis on 17 March, 17 June, 17 September and 17 December. If interest cannot be paid for a given interest period, the obligation to pay interest will lapse. Subject to authorisation by the Financial Supervisory Authority, the bond may be called in at the earliest on 17 June 2013 and thereafter on the due dates of interest payment. The entire loan principal must be repaid in one instalment.

6 Pohjola Insurance Ltd's capital bond

Pohjola Insurance Ltd's perpetual capital bond of EUR 50 million. Issued on 17 June 2008, the bond carries a variable interest rate based on 3-month Euribor + 3.20%, payable on a quarterly basis. Interest which cannot be paid on the interest payment date and interest which Pohjola Insurance Ltd could not have paid for previous interest payment dates constitute 'Unpaid interest'. Interest will accrue on unpaid interest in accordance with the interest rate applicable to the bonds and this additional interest accrued until each interest payment date will be added to unpaid interest on the interest payment date in question. The issuer agrees not to distribute dividends or other profit or to buy back own shares until unpaid interest has been paid in its entirety. The bond may be called in at the earliest in 2013 and its principal can be paid back only if the statutory terms and conditions are fulfilled. The bond will not be taken into account in the capital adequacy measurement under the Act on Credit Institutions but can be fully utilised in the capital adequacy measurement of the insurance company.

Loans 1 and 3 are included in hybrid instruments.

The Group has used derivatives to hedge against interest-rate and exchange-rate risks, and the financial statements include EUR 13.2 million in change in fair value recognised for hedging (16.3).

Debentures

- 1 A debenture loan of CHF 100 million (euro equivalent 81 million), which is a ten-year bullet loan, will mature on 14 July 2021. The loan carries a fixed interest rate of 3.375% p.a.
- 2 A debenture loan of EUR 100 million, which is a ten-year bullet loan, will mature on 14 September 2021. The loan carries a fixed interest rate of 5.25% p.a.
- 3 A debenture loan of EUR 500 million, which is a 10-year bullet loan, will mature on 28 February 2022. Under the terms and conditions of the loan, the issuer will have the opportunity for early redemption in case the principal cannot be counted as part of the bank's Tier 2 capital. The loan carries a fixed interest rate of 5.75% p.a.

Loans 1–3 were issued in international capital markets.

Fixed-rate debentures issued in Finland totalled EUR 0.7 million in 2012.

Pohjola Bank plc has no breaches of the terms and conditions of the loan contracts with respect to principal, interest and other conditions. The financial statements include EUR 0 million recognised for the price difference of the loans (2).

Notes to the Consolidated Financial Statements

NOTES TO THE BALANCE SHEET

Note 38. Shareholders' equity

EUR million	31 Dec. 2013	31 Dec. 2012
Capital and reserves attributable to owners of the Parent		
Share capital	428	428
Reserves		
Restricted reserves		
Share premium account	519	519
Reserve fund	204	204
Reserves provided for by Articles of Association		
Fair value reserve*		
From fair value measurement		
Notes and bonds	44	50
Shares and participations	108	94
From cash flow hedging	11	23
Other restricted reserves	1	1
Non-restricted reserves		
Reserve for Invested non-restricted equity	298	298
Other non-restricted reserves	72	72
Retained earnings		
Profit (loss) for previous periods	934	798
Profit (loss) for the period	424	283
Capital and reserves attributable to owners of the Parent	3,043	2,769
Total shareholders' equity	3,043	2,769

* The fair value reserve before tax totalled EUR 204 million (221) and the related deferred tax liability amounted to EUR 41 million (54). On 31 December, positive mark-to-market valuations of equity instruments before tax in the fair value reserve totalled EUR 148 million (132) and negative mark-to-market valuations EUR 13 million (8). In 2013, impairments recognised from the fair value reserve in the income statement totalled EUR 3 million (8), of which equity instruments accounted for EUR 2 million (7).

	Number of shares	
	Series A	Series K
1 Jan. 2012	251,169,770	68,381,645
Conversion of shares	773,028	-773,028
31 Dec. 2012	251,942,798	67,608,617
Conversion of shares	67,068	-67,068
31 Dec. 2013	252,009,866	67,541,549

Share capital and shares

Shares are divided into Series A and Series K shares. The shares have no nominal value. The stated value of each share is EUR 1.34 (not an exact figure). All issued shares have been paid up.

Series A shares available for subscription by the general public are quoted on the NASDAQ OMX Helsinki and are not subject to any purchase restrictions. Series K shares may be held only by Finnish cooperative banks, cooperative bank companies and the central institution of the amalgamation of cooperative banks, OP-Pohjola Group Central Cooperative. Series K shares may be converted into Series A shares at the written request of a shareholder or, in case of nominee-registered shares, at the written request of the asset manager registered in the book-entry register, within the limits of the minimum and maximum numbers of the share classes provided for in the Articles of Association.

If a dividend is paid, Series A shares entitle their holders to an annual dividend which is at least three (3) cents higher than the dividend declared on Series K shares.

Treasury shares

At year-end, Pohjola Bank plc or its subsidiaries or associates did not hold Pohjola Bank plc treasury shares. The Annual General Meeting has not authorised Pohjola to buy back own shares.

Proposed distribution of dividend

The Board of Directors will propose to the Annual General Meeting that a dividend of EUR 0.67 (0.46) be distributed on each Series A share and EUR 0.64 (0.43) on each Series K share, totalling EUR 212 million (145).

Share premium account

The share premium account was formed during the validity of regulations in force before 1 September 2006. Items entered in the share premium account include amounts exceeding the stated value paid for shares in a rights issue and amounts exceeding the stated value of a share and paid for share subscription based on stock options.

The share premium account may be lowered in compliance with the regulations governing the reduction of share capital and may be used to increase the share capital. The amount of the subscription price exceeding the stated value of shares subscribed in September and November 2006, based on stock options, was entered in the share premium account, because the General Meeting had made the decision on issuing stock options before the entry into force of the new Companies Act. Otherwise, it has no longer been possible to increase the share premium account since 1 September 2006.

Reserve fund

The reserve fund consists of profits transferred to it during previous periods and the loan loss provisions transferred to it in 1990. The reserve fund may be used to cover losses for which the non-restricted equity is not sufficient. The reserve fund may also be used to increase the share capital and it may be reduced in the same way as the share capital. Since 1 September 2006, it has no longer been possible to increase the reserve fund.

Fair value reserve

The fair value reserve includes the change in the fair value of available-for-sale financial assets. Items included in this reserve will be derecognised and recorded in the income statement when an available-for-sale financial asset is disposed of or is subject to impairment. The reserve also includes the net fair value change of interest rate derivatives as cash flow hedges verified as effective and adjusted for deferred tax. Fair value changes are included in the income statement in the period when hedged cash flows affect net income.

Other restricted reserves

These reserves consist of retained earnings based on the Articles of Association or rules which describe their purpose.

Reserve for Invested non-restricted equity

Capital raised through the rights offering in 2009 was entered in the reserve for invested non-restricted equity.

Other non-restricted reserves

These reserves consist of retained earnings based on decisions by the General Meeting.

Retained earnings

Retained earnings also contain untaxed reserves (voluntary provisions and accelerated depreciation) included in the statutory financial statements of Group companies, and the equalisation provision and actuarial gains/losses of insurance companies, which have been recognised in retained earnings less deferred tax in the IFRS financial statements.

Notes to the Consolidated Financial Statements

NOTES TO RISK MANAGEMENT

Note 2 covers risk management and capital adequacy management principles. Information on risk exposure by Banking and the Group Functions can be found in Notes 39–57, capital adequacy disclosures under Pillar III in Notes 58–74 and risk exposure by Non-life Insurance in Notes 75–86.

RISK EXPOSURE BY BANKING AND THE GROUP FUNCTIONS

The classification by Statistics Finland is used in these notes, deviating partly from the classification used in the risk exposure section presented in the Report by the Board of Directors.

Note 39. Assets and impairment losses recognised on them for the financial year

EUR million	31 Dec. 2013		31 Dec. 2012	
	Balance sheet value	Impairment losses	Balance sheet value	Impairment losses
Cash and cash equivalents	2,046		5,643	
Receivables from credit institutions	9,899		8,815	
Financial assets at fair value through profit or loss				
Notes and bonds	443		255	
Shares and participations	1		1	
Derivative contracts				
Held for trading	3,171		4,084	
Hedging	273		379	
Loans and other receivables				
Loans granted	10,695	257	10,340	238
Bonds and notes	50		74	7
Finance lease receivables	1,148		1,048	
Guarantee receivables	3	1	3	0
Other receivables	2,879		2,620	
Available-for-sale financial assets				
Notes and bonds	7,108		4,971	
Shares and participations	89		105	
Held-to-maturity financial assets				
Notes and bonds	202		330	
Off-balance-sheet commitments				
Bank guarantees	814		800	
Total	38,820	259	39,467	246

Notes to the Consolidated Financial Statements

RISK EXPOSURE BY BANKING AND THE GROUP FUNCTIONS

Note 40. Impairments by risk type

EUR million	31 Dec. 2013	31 Dec. 2012
Based on credit risk	259	246
Total	259	246

Notes to the Consolidated Financial Statements

RISK EXPOSURE BY BANKING AND THE GROUP FUNCTIONS

Note 41. Exposure

31 Dec. 2013, EUR million	Finland			Other countries		
	Balance sheet value	Impairments	Accrued interest	Balance sheet value	Impairments	Accrued interest
Assets						
Receivables from credit institutions	9,074		10	824		4
Receivables from customers	12,425	240	33	943	19	1
Finance leases	1,129			19		
Notes and bonds	1,408		22	6,345		63
Other	111			366		
Total	24,148	240	65	8,497	19	68
Off-balance-sheet commitments						
Unused standby credit facilities	4,501			227		
Guarantees and letters of credit	2,112			617		
Derivative contracts	858			2,636		
Other	114			246		
Total	7,585			3,725		
Total exposure	31,733	240	65	12,221	19	68

31 Dec. 2012, EUR million	Finland			Other countries		
	Balance sheet value	Impairments	Accrued interest	Balance sheet value	Impairments	Accrued interest
Assets						
Receivables from credit institutions	7,988		6	827		10
Receivables from customers	11,796	221	29	995	24	2
Finance leases	1,034			14		
Notes and bonds	1,063		15	4,492		61
Other	144			518		
Total	22,025	221	49	6,846	24	73
Off-balance-sheet commitments						
Unused standby credit facilities	5,202			142		
Guarantees and letters of credit	2,105			571		
Derivative contracts	953			3,724		
Other	120			181		
Total	8,380			4,617		
Total exposure	30,405	221	49	11,463	24	73

The tables show the recognised positive market value of derivative contracts.

Notes to the Consolidated Financial Statements

RISK EXPOSURE BY BANKING AND THE GROUP FUNCTIONS

Note 42. Exposure by sector

31 Dec. 2013, EUR million	Balance sheet values		Off-balance-sheet		Total
	Finnish	Foreign	Finnish	Foreign	
Non-banking corporate sector	12,451	869	6,441	625	20,386
Financial institutions and insurance companies	9,890	5,622	380	3,075	18,967
Households	1,098	22	235	0	1,355
Non-profit organisations	224	482	14		719
Public sector entities	550	1,571	514	24	2,659
Total	24,213	8,564	7,585	3,725	44,087

31 Dec. 2012, EUR million	Balance sheet values		Off-balance-sheet		Total
	Finnish	Foreign	Finnish	Foreign	
Non-banking corporate sector	11,577	781	7,088	412	19,859
Financial institutions and insurance companies	8,755	5,431	485	4,192	18,863
Households	972	19	223	0	1,214
Non-profit organisations	225	145	22		391
Public sector entities	545	543	561	12	1,663
Total	22,074	6,919	8,380	4,617	41,989

The balance sheet values are carrying amounts including impairments and accrued interest income.

Notes to the Consolidated Financial Statements

RISK EXPOSURE BY BANKING AND THE GROUP FUNCTIONS

Note 43. Receivables from credit institutions and customers, and doubtful receivables

31 Dec. 2013, EUR million	Not impaired (gross)	Impaired (gross)	Total	Impair- ments	Balance sheet value
Receivables from credit institutions and customers					
Receivables from credit institutions	9,899		9,899		9,899
Receivables from customers, of which	13,338	289	13,627	259	13,368
Bank guarantee receivables	1	1	3	1	1
Finance leases	1,148		1,148		1,148
Total	24,384	289	24,673	259	24,414
Receivables from credit institutions and customers by sector					
Non-banking corporate sector	12,624	289	12,913	253	12,660
Financial institutions and insurance companies	10,047		10,047		10,047
Households	1,125		1,125	6	1,119
Non-profit organisations	223	0	223	0	223
Public sector entities	365		365		365
Total	24,384	289	24,673	259	24,414
31 Dec. 2012, EUR million	Not impaired (gross)	Impaired (gross)	Total	Impair- ments	Balance sheet value
Receivables from credit institutions and customers					
Receivables from credit institutions	8,815		8,815		8,815
Receivables from customers, of which	12,741	296	13,037	246	12,792
Bank guarantee receivables	2	0	3	0	2
Finance leases	1,048		1,048		1,048
Total	22,604	296	22,900	246	22,654
Receivables from credit institutions and customers by sector					
Non-banking corporate sector	11,840	285	12,125	232	11,893
Financial institutions and insurance companies	9,112	10	9,122	7	9,115
Households	996		996	6	990
Non-profit organisations	224	0	225	0	225
Public sector entities	432		432		432
Total	22,604	296	22,900	246	22,654

Collectively assessed impairments on receivables are allocated to Non-banking Corporate Sector. Their amount came to EUR 17 million (15).

31 Dec. 2013, EUR million	Impairments					
	Not impaired (gross)	Impaired (gross)	Total	Arrears	Individually assessed	Collectively assessed
Doubtful receivables						
Receivables from customers, of which	45	289	333	27	241	17
Bank guarantee receivables	1	1	3		1	
Finance leases				0		
Total	45	289	333	27	241	17
Doubtful receivables by sector						
Non-banking corporate sector	39	289	328	22	241	11
Financial institutions and insurance companies	0		0	0		
Households	5		5	5		6
Non-profit organisations	0	0	0	0	0	
Public sector entities				0		
Total	45	289	333	27	241	17

31 Dec. 2012, EUR million	Impairments					
	Not impaired (gross)	Impaired (gross)	Total	Arrears	Individually assessed	Collectively assessed
Doubtful receivables						
Receivables from customers, of which	40	296	336	21	230	15
Bank guarantee receivables	2	0	3		0	
Finance leases	1		1	0		
Total	41	296	337	21	230	15
Doubtful receivables by sector						
Non-banking corporate sector	31	285	316	17	223	9
Financial institutions and insurance companies	0	10	10		7	
Households	10		10	4		6
Non-profit organisations	0	0	0	0	0	
Public sector entities				0		
Total	41	296	337	21	230	15

31 Dec. 2013, EUR million	Receivables from credit institutions and customers (gross)	Individually assessed		Receivables from credit institutions and customers (net)
Doubtful receivables				
Non-performing	99		59	40
Zero-interest	6		6	0
Underpriced	0		0	
Renegotiated	18			18
Impaired	209		175	34
Total	333		241	92

31 Dec. 2012, EUR million	Receivables from credit institutions and customers (gross)	Individually assessed	Receivables from credit institutions and customers (net)
Doubtful receivables			
Non-performing	96	63	33
Zero-interest	8	7	1
Underpriced	0	0	
Renegotiated	15		15
Impaired	218	160	58
Total	337	230	107

Doubtful receivables include non-performing, zero-interest and under-priced receivables as well as receivables that are subject to individually assessed impairment or receivables that have been renegotiated due to customer's financial difficulties. Interest on or principal of non-performing receivables has been due for payment and outstanding for three months. Zero-interest receivables have been agreed to carry zero interest for the purpose of securing customer payment capacity. Under-priced receivables have been priced below market prices to secure customer payment capacity. Impaired receivables include those that are subject to impairment but cannot be classified under any of the above categories. In addition, receivables which have not been classified under any of the above categories but the terms and conditions of the contract have been renegotiated to allow the borrower sufficient ability to service the debt are reported as renegotiated receivables. Renegotiated receivables were added to the definition of doubtful receivables in 2013 to also cover forbore receivables. Comparative information has been restated accordingly.

Key ratio, %	2013	2012
Exposures individually assessed for impairment, % of doubtful receivables	72.4%	68.4%

Past due but not impaired financial assets by maturity

31 Dec. 2013, EUR million	Days				Total
	Less than 30	30–90	Over 90–180	Over 180	
Past due but not impaired loans and receivables	312	63	10	25	409

31 Dec. 2012, EUR million	Days				Total
	Less than 30	30–90	Over 90–180	Over 180	
Past due but not impaired loans and receivables	398	41	4		443

Notes to the Consolidated Financial Statements

RISK EXPOSURE BY BANKING AND THE GROUP FUNCTIONS

Note 44. Credit losses and impairments

Credit losses and impairments

EUR million	2007	2008	2009	2010	2011	2012	2013
Gross credit losses and impairments	11	37	155	156	132	97	82
Reversals	-10	-9	-26	-52	-71	-40	-45
Net credit losses and impairments	1	28	129	104	60	57	37

A total of EUR 82 million (97) in new credit and guarantee losses and impairments were recognised for the financial year. The combined credit loss reversals and decreases in impairments totalled EUR 45 million (40). The net impact of credit and guarantee losses and impairments on profit came to EUR 37 million (57).

In 2013, credit and guarantee losses and impairments accounted for 0.21% (0.35) of the credit and guarantee portfolio.

Notes to the Consolidated Financial Statements

RISK EXPOSURE BY BANKING AND THE GROUP FUNCTIONS

Note 45. Corporate exposure by sector

Net exposure, 31 Dec. 2013	Balance sheet, EUR million	Off-balance-sheet, EUR million	Total, EUR million	Percentage distribution
Renting and operation of residential real estate	2,003	100	2,104	10.3
Trade	1,541	469	2,010	9.9
Operating of other real estate	1,401	345	1,746	8.6
Manufacture of machinery and equipment (incl. maintenance)	698	952	1,650	8.1
Energy	787	728	1,515	7.4
Construction	588	778	1,365	6.7
Transportation and storage	1,023	273	1,296	6.4
Buying and selling of own real estate	762	299	1,062	5.2
Services	675	388	1,062	5.2
Financial and insurance activities	863	191	1,054	5.2
Forest industry	549	410	959	4.7
Information and communication	489	418	907	4.4
Food industry	450	299	749	3.7
Manufacture of chemicals and chemical products	215	498	713	3.5
Metal industry	320	379	699	3.4
Agriculture, forestry and fishing	436	67	502	2.5
Other manufacturing	212	207	418	2.1
Water supply and waste management	179	89	268	1.3
Mining and quarrying	88	92	181	0.9
Other sectors	39	87	126	0.6
Public administration and defence (incl. compulsory social security)	0		0	0.0
Total	13,320	7,066	20,386	100.0

Net exposure, 31 Dec. 2012	Balance sheet, EUR million	Off-balance-sheet, EUR million	Total, EUR million	Percentage distribution
Renting and operation of residential real estate	1,952	191	2,143	10.8
Trade	1,444	428	1,872	9.4
Manufacture of machinery and equipment (incl. maintenance)	647	1,091	1,737	8.7
Operating of other real estate	1,405	199	1,604	8.1
Construction	595	860	1,455	7.3
Transportation and storage	1,035	317	1,352	6.8
Energy	454	815	1,269	6.4
Buying and selling of own real estate	888	312	1,200	6.0
Forest industry	477	521	998	5.0
Services	643	284	927	4.7
Financial and insurance activities	537	365	903	4.5
Metal industry	364	440	804	4.0
Information and communication	342	446	787	4.0
Food industry	458	272	730	3.7
Manufacture of chemicals and chemical products	168	493	661	3.3
Agriculture, forestry and fishing	469	105	574	2.9
Other manufacturing	226	201	427	2.2
Mining and quarrying	112	92	204	1.0
Water supply and waste management	126	63	189	1.0
Other sectors	15	6	21	0.1
Public administration and defence (incl. compulsory social security)	0		0	0.0
Total	12,358	7,501	19,859	100.0

Notes to the Consolidated Financial Statements

RISK EXPOSURE BY BANKING AND THE GROUP FUNCTIONS

Note 46. Corporate exposure by rating category

Rating	31 Dec. 2013		31 Dec. 2012	
	Net exposure, EUR million	%	Net exposure, EUR million	%
1.0–2.0	1,391	6.8	1,398	7.0
2.5–5.0	10,264	50.3	10,421	52.5
5.5–7.0	6,186	30.3	5,368	27.0
7.5–8.5	1,842	9.0	1,983	10.0
9.0–10.0	361	1.8	386	1.9
11.0–12.0	343	1.7	302	1.5
Total	20,386	100.0	19,859	100.0

Information on probability of default related to rating categories can be found in Note 66.

Notes to the Consolidated Financial Statements

RISK EXPOSURE BY BANKING AND THE GROUP FUNCTIONS

Note 47. Corporate exposure by the amount of customer's exposure

Amount of net exposure, 31 Dec. 2013, EUR million	Finland	Other countries	Total	%
0–1	988	200	1,187	5.8
1–10	2,629	393	3,022	14.8
10–50	4,302	794	5,096	25.0
50–100	4,338	108	4,446	21.8
Over 100	6,635		6,635	32.5
Total	18,892	1,494	20,386	100.0

Amount of net exposure, 31 Dec. 2012, EUR million	Finland	Other countries	Total	%
0–1	982	139	1,122	5.6
1–10	2,555	311	2,866	14.4
10–50	4,667	567	5,234	26.4
50–100	3,580	176	3,756	18.9
Over 100	6,881		6,881	34.6
Total	18,665	1,193	19,859	100.0

Notes to the Consolidated Financial Statements

RISK EXPOSURE BY BANKING AND THE GROUP FUNCTIONS

Note 48. Liabilities of financial institutions and insurance companies by rating category

Rating	31 Dec. 2013		31 Dec. 2012	
	Net exposure, EUR million	%	Net exposure, EUR million	%
1.0–2.0	11,550	61.3	10,196	54.5
2.5–5.0	6,887	36.6	7,896	42.2
5.5–7.0	252	1.3	460	2.5
7.5–8.5	125	0.7	134	0.7
9.0–10.0	17	0.1	10	0.1
Total	18,831	100.0	18,696	100.0

Pohjola has rated its financial institution and insurance company customers based on the rating methods used in OP-Pohjola Group's capital adequacy measurement. Exposures based on international credit rating agencies' credit rating categories are shown in OP-Pohjola Group's equivalent rating categories in the table.

Notes to the Consolidated Financial Statements

RISK EXPOSURE BY BANKING AND THE GROUP FUNCTIONS

Note 49. Secondary country risk by country risk category, excl. Finland

Country risk	Moody's equivalent	31 Dec. 2013		31 Dec. 2012	
		Net exposure, EUR million	%	Net exposure, EUR million	%
Category 1	Aaa	6,397	52.5	9,150	79.5
Category 2	Aa1–A3	4,227	34.7	865	7.5
Category 3	Baa1–Baa3	1,466	12.0	1,250	10.9
Category 4	Ba1–B3	67	0.6	217	1.9
Category 5	Caa1–C	33	0.3	21	0.2
Total		12,190	100.0	11,502	100.0

Secondary country (excl. Finland) risk takes account of the transfer of contract-related, real risks to another country through agreements or otherwise. The risk may transfer on the basis of an agreement, or a guarantee in most cases, or otherwise, such as transferring receivables from a company's branch office to the country where the company is headquartered.

Notes to the Consolidated Financial Statements

RISK EXPOSURE BY BANKING AND THE GROUP FUNCTIONS

Note 50. Collateral received by type of collateral

EUR million	31 Dec. 2013	% 31 Dec. 2013	31 Dec. 2012	%
Object of financing as collateral	1,870	27.1	1,895	26.2
Property or lease mortgage on office or industrial property	1,655	24.0	1,715	23.8
Public-sector guarantees	1,613	23.4	1,900	26.3
Shares and participations, other	614	8.9	545	7.5
Shares in housing corporations, and housing associations and property companies in residential use	332	4.8	319	4.4
Business mortgage	258	3.7	251	3.5
Property or lease mortgage on residential property	164	2.4	176	2.4
Other collateral	157	2.3	175	2.4
Factoring	142	2.1	134	1.9
Bank guarantee	89	1.3	110	1.5
Total	6,893	100.0	7,221	100.0

Received collateral by type of collateral has been calculated on the basis of the values of collateral held by the bank allocated to liabilities. The collateral's fair value is used as the basis for calculating the collateral value which is derived from the fair value on the basis of valuation percentages, based on conservative estimates, by type of collateral.

Notes to the Consolidated Financial Statements

RISK EXPOSURE BY BANKING AND THE GROUP FUNCTIONS

Note 51. Funding structure

EUR million	31 Dec. 2013	% 31 Dec. 2012	%
Liabilities to credit institutions	4,789	12.9	15.8
Financial liabilities at fair value through profit or loss	4	0.0	0.0
Liabilities to customers			
Deposits	7,504	20.2	17.1
Other	2,683	7.2	12.1
Debt securities issued to the public			
Certificates of deposit and ECPs	6,769	18.2	14.9
Bonds	9,328	25.1	22.4
Other liabilities	2,075	5.6	6.9
Subordinated liabilities	984	2.6	3.4
Shareholders' equity	3,043	8.2	7.5
Total	37,179	100.0	100.0

Notes to the Consolidated Financial Statements

RISK EXPOSURE BY BANKING AND THE GROUP FUNCTIONS

Note 52. Maturity of assets and liabilities by residual term to maturity

31 Dec. 2013, EUR million	Less than 3 months	3–12 months	1–5 years	5–10 years	More than 10 years	Total
Liquid assets	2,046					2,046
Financial assets at fair value through profit or loss						
Notes and bonds	37	34	293	73	6	443
Receivables from credit institutions	5,399	672	3,303	500	24	9,899
Receivables from customers	2,344	1,755	7,593	1,352	1,472	14,515
Available-for-sale financial assets						
Notes and bonds	82	375	3,453	3,177	21	7,108
Held-to-maturity financial assets						
Notes and bonds	64	22	115	0		202
Total assets	9,973	2,858	14,757	5,103	1,523	34,214
Liabilities to credit institutions	2,148	537	1,692	412		4,789
Financial liabilities at fair value through profit or loss	4					4
Liabilities to customers	9,060	372	209	280	267	10,188
Debt securities issued to the public	5,694	3,910	6,029	414	50	16,097
Subordinated liabilities	40	169	94	681		984
Total liabilities	16,945	4,988	8,023	1,788	317	32,061
Guarantees	77	67	540	21	210	914
Other guarantee liabilities	257	402	473	25	410	1,568
Loan commitments	4,728					4,728
Commitments related to short-term trade transactions	80	79	73	15		247
Other	251	1	4	104		359
Total off-balance-sheet commitments	5,392	549	1,090	165	619	7,816

31 Dec. 2012, EUR million	Less than 3 months	3–12 months	1–5 years	5–10 years	More than 10 years	Total
Liquid assets	5,643					5,643
Financial assets at fair value through profit or loss						
Notes and bonds	7	18	181	39	11	255
Receivables from credit institutions	5,830	743	1,544	675	23	8,815
Receivables from customers	2,182	1,772	6,867	1,653	1,364	13,839
Available-for-sale financial assets						
Notes and bonds	183	202	2,718	1,845	22	4,971
Held-to-maturity financial assets						
Notes and bonds	20	103	205	1		330
Total assets	13,866	2,838	11,515	4,213	1,421	33,853
Liabilities to credit institutions	2,752	455	1,988	646		5,840
Financial liabilities at fair value through profit or loss	3					3
Liabilities to customers	8,847	1,332	111	450	35	10,775
Debt securities issued to the public	5,053	2,547	5,785	335	50	13,769
Subordinated liabilities	171	250	132	683	40	1,275
Total liabilities	16,825	4,584	8,016	2,114	125	31,662
Guarantees	24	86	350	53	369	882
Other guarantee liabilities	250	296	339	29	444	1,359
Loan commitments	5,343					5,343
Commitments related to short-term trade transactions	94	41	300			435
Other	182	0	5	113		301
Total off-balance-sheet commitments	5,893	424	994	195	814	8,320

Financial assets at fair value through profit or loss consist of notes and bonds which may be sold anytime. Notes and bonds included in available-for-sale financial assets may be sold whenever necessary. Notes and bonds included in financial assets at fair value through profit or loss and those included in available-for-sale financial assets are, however, presented within the sub-category determined on the basis of the remaining term to maturity in the table. Nominal amounts of debt are presented under categories by maturity. Financial liabilities held for trading are presented under the shortest maturity category. In its financial risk management, Pohjola Group uses forward exchange contracts and interest-rate and currency swaps. Since their net effect on the financial risk in euro countervalue is insignificant, they are not specifically presented.

Debt repayable on demand, included in the shortest maturity category, totalled EUR 6.6 billion (5.2).

Notes to the Consolidated Financial Statements

RISK EXPOSURE BY BANKING AND THE GROUP FUNCTIONS

Note 53. Liquidity buffer

Liquidity buffer by maturity and credit rating on 31 December 2013, EUR million

Year(s)	0–1	1–3	3–5	5–7	7–10	10–	Total	Proportion, %
Aaa*	2,194	768	1,103	1,371	838	21	6,295	47.3
Aa1–Aa3	5	273	423	571	269	1	1,542	11.6
A1–A3	193	682	98	26	2	3	1,004	7.5
Baa1–Baa3	165	193	65	15	35	1	474	3.6
Ba1 or lower	29	118	30	7	43	0	227	1.7
Internally rated**	329	1,209	1,255	363	127	483	3,766	28.3
Total	2,915	3,243	2,974	2,354	1,314	509	13,308	100.0

* incl. deposits with the central bank

** PD \leq 0.40%

The liquidity buffer's (excl. deposits with the central bank) residual term to maturity averages 4.8 years.

Notes to the Consolidated Financial Statements

RISK EXPOSURE BY BANKING AND THE GROUP FUNCTIONS

Note 54. Maturities of assets and liabilities by maturity or repricing

31 Dec. 2013, EUR million	1 month or less	>1–3 months	>3–12 months	>1–2 years	>2–5 years	>5 years	Total
Cash and cash equivalents	2,046						2,046
Financial assets at fair value through profit or loss							
Notes and bonds	18	96	48	28	176	76	443
Receivables from credit institutions	4,924	2,816	1,171	268	542	177	9,899
Receivables from customers	4,919	5,282	2,079	441	1,011	784	14,515
Available-for-sale financial assets							
Notes and bonds	404	348	296	544	2,351	3,165	7,108
Held-to-maturity financial assets							
Notes and bonds	139	63					202
Total assets	12,451	8,605	3,595	1,281	4,080	4,202	34,214
Liabilities to credit institutions	2,113	1,064	535	183	643	251	4,789
Financial liabilities at fair value through profit or loss	4						4
Liabilities to customers	8,419	1,364	364	0		40	10,188
Debt securities issued to the public	1,659	5,853	3,150	1,001	4,112	322	16,097
Subordinated liabilities		184	119			681	984
Total liabilities	12,195	8,465	4,169	1,183	4,755	1,294	32,061

Debt repayable on demand totalled EUR 6.6 billion, consisting mainly of public deposits.

31 Dec. 2012, EUR million	1 month or less	>1–3 months	>3–12 months	>1–2 years	>2–5 years	>5 years	Total
Cash and cash equivalents	5,643						5,643
Financial assets at fair value through profit or loss							
Notes and bonds	6	33	6	24	136	49	255
Receivables from credit institutions	5,897	1,379	813	99	439	188	8,815
Receivables from customers	5,864	4,100	1,894	394	812	776	13,839
Available-for-sale financial assets							
Notes and bonds	176	433	111	488	1,927	1,836	4,971
Held-to-maturity financial assets							
Notes and bonds	241	88					330
Total assets	17,827	6,032	2,824	1,005	3,315	2,850	33,853
Liabilities to credit institutions	2,468	1,475	610	250	680	358	5,840
Financial liabilities at fair value through profit or loss	3						3
Liabilities to customers	7,584	1,821	1,329	1		40	10,775
Debt securities issued to the public	1,702	4,962	1,990	1,146	3,718	251	13,769
Subordinated liabilities		371	150	72		683	1,275
Total liabilities	11,757	8,628	4,080	1,468	4,398	1,331	31,662

Debt repayable on demand totalled EUR 5.2 billion, consisting mainly of public deposits.

Notes to the Consolidated Financial Statements

RISK EXPOSURE BY BANKING AND THE GROUP FUNCTIONS

Note 55. Sensitivity analysis of market risk

On 31 December 2013, market risks accounted for 6.0% (4.7) of the risk-weighted assets.

EUR million	Risk parameter	Change	31 Dec. 2013		31 Dec. 2012	
			Effect on results	Effect on shareholders' equity	Effect on results	Effect on shareholders' equity
Interest-rate risk	Interest rate	1 pp	39		29	
Currency risk	Market value	10%	3		2	
Volatility risk						
Interest rate volatility	Volatility	10 pps	5		1	
Currency volatility	Volatility	10 pps	1		0	
Credit risk premium*	Credit spread	0.1 pps	1	31	1	20
Price risk						
Equity portfolio	Market value	10%		0		0
Private equity funds	Market value	10%		2		3
Real estate risk	Market value	10%	3		3	

Sensitivity figures have been calculated as the sum of the currencies' intrinsic value.

* The credit risk premium has been calculated on notes and bonds at fair value through profit or loss and available for sale, included in liquidity buffer.

Notes to the Consolidated Financial Statements

RISK EXPOSURE BY BANKING AND THE GROUP FUNCTIONS

Note 56. Equity risk

On 31 December 2013, the market value of equity and private equity funds totalled EUR 25 million (31), of which the equity portfolio accounted for EUR 1 million (4) and the private equity funds including their investment commitments EUR 24 million (27). The year-end equity portfolio was divided into two sectors: information technology 87% (12) and telecommunication services 13% (3).

Investments in private equity funds totalled EUR 14 million (16) and binding unexecuted investment commitments EUR 9 million (12).

Notes to the Consolidated Financial Statements

RISK EXPOSURE BY BANKING AND THE GROUP FUNCTIONS

Note 57. Real estate risk

On 31 December 2013, capital invested in property holdings amounted to EUR 32 million (28), with properties in own use representing EUR 3 million (3).

In 2013, the Group obtained an external appraisal's estimates of the fair value of property holdings, on the basis of which their combined fair value corresponds to capital tied to the property holdings. It is estimated that real estate risks are low.

Note 22 and Note 26 (Property in own use) provide detailed information on changes in investment property during the financial year.

Notes to the Consolidated Financial Statements

PILLAR III DISCLOSURES

Notes 58–74 present a summary of the capital adequacy of consolidation group of the amalgamation of cooperative banks, as specified in Standard 4.5 (Supervisory Disclosure of capital adequacy information) by the Finnish Financial Supervisory Authority (Pillar III disclosures). Given that this information is based on the consolidated credit institution capital adequacy, it is not directly comparable with other information disclosed on Pohjola Group. Complete Pillar III information can be found in OP-Pohjola Group's financial statements.

The consolidation group that forms the basis of Pohjola Bank plc's capital adequacy comprises Pohjola Group companies excluding insurance companies and their subsidiaries.

Pohjola has applied the Internal Ratings Based Approach (IRBA) to retail, credit institution and corporate exposures and equity investments. The Standardised Approach (SA) is used for other exposure categories.

Note 58. Capital base

EUR million	31 Dec. 2013	31 Dec. 2012
Tier 1 capital		
Equity capital	3,043	2,769
Elimination of insurance companies' effect in equity capital (equity capital and Group eliminations)	-35	-6
Fair value reserve, transfer to Tier 2	-37	-36
Core Tier 1 capital before deductions	2,970	2,728
Intangible assets	-193	-182
Excess funding of pension liability and fair value measurement of investment property	-4	-7
Dividend distribution proposed by Board of Directors	-212	-145
Investments in insurance companies and financial institutions	-703	-703
Impairments – shortfall of expected losses	-50	-60
Core Tier 1 capital	1,808	1,631
Hybrid capital	274	274
Shortfall of Tier 2 capital	-43	
Total Tier 1 capital for calculating capital adequacy	2,038	1,904
Tier 2 capital		
Fair value reserve	26	13
Debenture loans	683	853
Investments in insurance companies and financial institutions	-703	-703
Impairments – shortfall of expected losses	-50	-60
Transfer to Tier 1 capital	43	
Total Tier 2 capital for calculating capital adequacy	0	103
Total capital base	2,038	2,007

Deductions from Tier 1 and 2 capital

Investments in insurance companies and financial institutions	-1,406	-1,406
Impairments – shortfall of expected losses	-99	-121
Total	-1,505	-1,527

Investments in Pohjola Group's insurance companies have been deducted from the capital base.

Hybrid capital is included in the capital base to the amount based on the exchange rate quoted on the issue date. Hybrid capital includes hybrid instruments under the transition rules, with EUR 134 million of their total amount involving an incentive to early redemption.

Core Tier 1 capital = Total Tier 1 capital excl. hybrid capital and shortfall of Tier 2 capital covered by hybrid capital.

Notes to the Consolidated Financial Statements

PILLAR III DISCLOSURES

Note 59. Minimum capital requirement

Pohjola has applied the Internal Ratings Based Approach (IRBA) to retail, credit institution and corporate exposures and equity investments. The Standardised Approach (SA) is used for other exposure categories. Investments in Pohjola Group's insurance companies have been deducted from the capital base. Pohjola has used the Foundation Internal Ratings Based Approach (FIRBA) to measure capital requirement for corporate and credit institution exposures. This approach uses internal credit ratings to determine a customer's probability of default (PD), whereas loss given default (LDG) and credit conversion factor (CF) are standard estimates supplied by the authorities. Pohjola has used the Internal Ratings Based Approach (IRBA) to measure capital requirement for retail exposures. This approach uses internal credit ratings to determine a customer's PD, and LGD and CF are estimated internally. In December 2013, the Finnish Financial Supervisory Authority approved changes in models applied to OP-Pohjola's private customers with respect to determining probability of default, estimating loss given default and estimating credit conversion factor. This change increased the average risk weight of retail exposures. Pohjola used the former model version in 2012 retail exposures and the CF 100% according to special permission of the Financial Supervisory Authority.

It is possible to use various methods to measure capital adequacy requirement for equity investments. In the PD/LGD method, investments' risk-weighted exposure is calculated using PD, based on internal credit rating, and the official LGD. According to the Simple Risk Weight Approach, investments' risk-weighted exposure amount derives from multiplying each investment by the risk-weight determined by the type of investment.

Pohjola has used the Standardised Approach to measure capital requirement for operational risks.

EUR million	31 Dec. 2013		31 Dec. 2012	
	Capital requirement	Risk-weighted assets*	Capital requirement	Risk-weighted assets*
Credit and counterparty risk	1,121	14,007	1,086	13,576
Internal Ratings Based Approach (IRBA)	1,055	13,192	1,039	12,993
Credit institutions	88	1,096	95	1,185
Corporate	829	10,367	828	10,347
Retail	70	874	46	571
Secured by real estates	0	2	0	2
Other	70	873	46	569
Equity investments	16	195	17	207
PD/LGD method	5	59	5	60
Basic Indicator Approach	11	136	12	146
Private equity investments	4	54	9	114
Listed equity investments	0	3	1	11
Other	6	79	2	21
Securitisation positions	51	636	51	640
Other positions	2	23	3	42
Standardised Approach (SA)	65	814	47	583
Central government and central banks	7	82	3	41
Credit institutions	3	44	1	8
Corporate	48	598	37	466
Retail	5	67	5	64
Other	5	67	5	64
Other positions	2	24	0	4
Market risks	77	958	58	723
Trading book	71	889	57	709
Position risk	71	889	57	709
All activities	5	69	1	15
Foreign exchange risk (incl. gold)	4	49		
Commodity risk	2	20	1	15
Settlement/delivery risk	0	1		
Operational risk	87	1,083	82	1,020
Total	1,284	16,048	1,226	15,320

* Risk-weighted assets = Capital requirement / 0.08

Capital requirement for counterparty risk amounts to EUR 42 million (43).

Notes to the Consolidated Financial Statements

PILLAR III DISCLOSURES

Note 60. Capital ratios

	31 Dec. 2013	31 Dec. 2012
Ratios, %		
Capital adequacy ratio	12.7	13.1
Tier 1 capital ratio	12.7	12.4
Core Tier 1 capital ratio	11.3	10.6
Capital base*, EUR million		
Capital base	754	781

* Capital base above the minimum capital requirement

The IRBA transitional provision (Basel 1 floor) has no effect on capital adequacy ratios.

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PILLAR III DISCLOSURES

Note 61. Total exposures by exposure class

31 Dec. 2013, EUR million	On-balance-sheet exposures	Off-balance-sheet exposures	Derivatives exposures	Gross exposures	Average exposure during the year
Internal Ratings Based Approach (IRBA)	19,863	9,734	1,099	30,696	30,502
Credit institutions	5,050	497	565	6,111	5,963
Corporate	12,822	9,170	533	22,525	22,451
Retail	1,639	58	1	1,697	1,662
Corporate	530	16	1	547	564
Private	1,109	42		1,151	1,098
Equity investments	98	9		108	117
Securitisation positions	231			231	276
Other positions	23			23	33
Standardised Approach (SA)	14,704	7,650	584	22,938	23,412
Central government and central banks	4,913	193	468	5,575	6,554
Credit institutions	9,139	7,111	114	16,365	15,961
Corporate	610	116	1	727	641
Retail	15	230		245	239
Corporate					0
Private	15	230		245	239
Other positions	27			27	17
Total	34,567	17,384	1,683	53,634	53,913

31 Dec. 2012, EUR million	On-balance- sheet exposures	Off-balance- sheet exposures	Derivatives exposures	Gross exposures	Average exposure during the year
Internal Ratings Based Approach (IRBA)	18,894	10,213	1,200	30,308	30,340
Credit institutions	4,721	505	587	5,814	6,894
Corporate	12,185	9,580	613	22,378	21,276
Retail	1,508	117	0	1,625	1,492
Corporate	528	52	0	580	538
Private	981	65	0	1,045	954
Equity investments	116	12		127	111
Securitisation positions	321			321	518
Other positions	43			43	48
Standardised Approach (SA)	15,552	7,796	536	23,885	22,596
Central government and central banks	6,922	240	372	7,533	6,788
Credit institutions	8,136	7,258	163	15,557	15,118
Corporate	472	81	2	555	446
Retail	15	217		233	238
Corporate	0			0	10
Private	15	217		233	228
Other positions	7			7	5
Total	34,447	18,010	1,736	54,193	52,935

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PILLAR III DISCLOSURES

Note 62. Exposure split by geographic region and exposure class

31 Dec. 2013, EUR million	Central government and central banks	Credit institutions	Corporate	Retail investments	Equity	Securitisation positions	Other
Finland	3,194	16,816	21,668	1,935	96	9	50
Other Nordic countries	52	1,485	390	7	0		
Baltic States	214	5	613	0			
Rest of EU	2,113	3,192	454	0	6	222	
Rest of Europe		324	57	0	5		
USA		97	8	0			
Asia		259	46	0			
Other	1	299	16				
Total exposure	5,575	22,476	23,252	1,942	108	231	50

31 Dec. 2012, EUR million	Central government and central banks	Credit institutions	Corporate	Retail investments	Equity	Securitisation positions	Other
Finland	6,790	15,882	21,628	1,848	116		50
Other Nordic countries	7	1,202	403	9	0		
Baltic States	67	2	383	0			
Rest of EU	668	3,386	341	0	3	315	
Rest of Europe		391	50	0	8		
USA		166	42	0			
Asia		263	55	0			
Other	1	77	31	0		6	
Total exposure	7,533	21,370	22,933	1,858	127	321	50

Notes to the Consolidated Financial Statements

PILLAR III DISCLOSURES

Note 63. Exposure split by residual maturity and exposure class

31 Dec. 2013, EUR million	< 3 months	3–12 months	1–5 yrs	5–10 yrs	> 10 yrs	Total
Internal Ratings Based Approach (IRBA)	6,300	3,269	15,225	3,597	2,197	30,696
Credit institutions	853	544	3,077	1,543	94	6,111
Corporate	5,121	2,642	10,740	1,933	2,090	22,525
Retail	274	54	1,302	56	11	1,697
Corporate	31	24	452	30	11	547
Private	243	30	851	26	0	1,151
Equity investments						108
Securitisation positions	33	27	104	66	1	231
Other positions	18	3	2			23
Standardised Approach (SA)	11,594	4,334	4,231	2,449	329	22,938
Central government and central banks	2,449	35	898	1,905	289	5,575
Credit institutions	8,454	4,210	3,149	525	27	16,365
Corporate	428	89	177	20	13	727
Retail	245					245
Private	245					245
Other positions	19	1	8			27
Total	17,894	7,603	19,457	6,047	2,526	53,634

31 Dec. 2012, EUR million	< 3 months	3–12 months	1–5 yrs	5–10 yrs	> 10 yrs	Total
Internal Ratings Based Approach (IRBA)	6,588	3,365	14,370	3,283	2,573	30,308
Credit institutions	675	674	3,098	1,279	87	5,814
Corporate	5,587	2,578	9,861	1,881	2,470	22,378
Retail	293	56	1,209	54	14	1,625
Corporate	70	25	438	32	14	580
Private	223	30	771	21	0	1,045
Equity investments						127
Securitisation positions		54	196	69	1	321
Other positions	34	3	6			43
Standardised Approach (SA)	14,971	5,160	1,971	1,609	174	23,885
Central government and central banks	5,925	40	578	853	137	7,533
Credit institutions	8,449	5,011	1,326	742	28	15,557
Corporate	364	108	60	13	10	555
Retail	233	0				233
Corporate		0				0
Private	233					233
Other positions	0	0	6			7
Total	21,559	8,526	16,341	4,892	2,748	54,193

Notes to the Consolidated Financial Statements

PILLAR III DISCLOSURES

Note 64. Corporate exposures by sector

31 Dec. 2013, EUR million	Exposure	RWA	Capital requirement
Manufacture of machinery and equipment (incl. maintenance)	2,480	824	66
Trade	2,364	1,197	96
Renting and operation of residential real estate	2,213	560	45
Energy	1,844	476	38
Operating of other real estate	1,788	792	63
Financial and insurance activities	1,689	679	54
Construction	1,568	932	75
Services	1,393	642	51
Transportation and storage	1,252	965	77
Forest industry	1,087	739	59
Buying and selling of own real estate	1,077	684	55
Information and communication	874	388	31
Food industry	839	488	39
Metal industry	810	632	51
Manufacture of chemicals and chemical products	661	163	13
Other manufacturing	636	423	34
Agriculture, forestry and fishing	465	265	21
Other sectors	281	187	15
Water supply and waste management	278	80	6
Mining and quarrying	200	138	11
Total	23,798	11,255	900

31 Dec. 2012, EUR million	Exposure	RWA	Capital requirement
Manufacture of machinery and equipment (incl. maintenance)	2,579	861	69
Trade	2,336	1,027	82
Renting and operation of residential real estate	2,272	508	41
Operating of other real estate	1,679	747	60
Financial and insurance activities	1,670	599	48
Energy	1,615	431	34
Construction	1,578	904	72
Transportation and storage	1,321	1,031	82
Buying and selling of own real estate	1,214	729	58
Services	1,144	673	54
Forest industry	1,094	803	64
Metal industry	919	651	52
Food industry	820	452	36
Information and communication	795	292	23
Manufacture of chemicals and chemical products	695	200	16
Other manufacturing	568	408	33
Agriculture, forestry and fishing	565	283	23
Mining and quarrying	244	154	12
Other sectors	206	190	15
Water supply and waste management	198	73	6
Total	23,513	11,016	881

Corporate exposures by sector also include corporate customers with retail exposures. This standard industrial classification is based on the latest TOL 2008 classification issued by Statistics Finland.

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PILLAR III DISCLOSURES

Note 65. Exposures (credit risk under SA) by risk weight before and after credit risk mitigation

Risk weight %, 31 Dec. 2013, EUR million	Exposure before credit risk mitigation	Exposure after credit risk mitigation	RWA
0	21,674	23,283	
20	129	129	26
50	132	132	66
75	245	245	67
100	757	756	655
150	0	0	0
Other risk weights	1	1	0
Total	22,938	24,547	814

Risk weight %, 31 Dec. 2012, EUR million	Exposure before credit risk mitigation	Exposure after credit risk mitigation	RWA
0	22,947	24,663	
20	152	152	23
50	11	62	31
75	233	233	64
100	540	538	465
Other risk weights	2	2	1
Total	23,885	25,650	583

In its capital adequacy measurement for credit risk under the Standardised Approach to determine the exposure's risk weight, Pohjola Group applies credit ratings by Moody's Investors Service or Fitch Ratings to receivables from central governments and central banks and corporations. External credit assessment determines the receivable's credit rating category. In the capital adequacy requirement for receivables, the risk weight is determined by the credit rating category. Pohjola has also applied risk weights based on the credit rating category to government exposures.

The risk weight of international development banks' receivables may also be determined on the basis of other than credit rating based on external credit assessment. If the risk weight is affected by external credit assessment, credit ratings issued by the aforementioned rating agencies will also apply to the risk weighting of international development banks' receivables in capital adequacy measurement.

For a receivable in capital adequacy measurement, the security-specific credit rating of the issue programme or arrangement, to which the receivable belongs, must be used. If such a rating is not available, the issuer's general credit rating will be used, provided that it is available.

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PILLAR III DISCLOSURES

Note 66. Corporate exposures (FIRBA) by rating category

Rating category, 31 Dec. 2013	Exposure value (EAD), MEUR	Average PD, %*	Average risk weight, %	RWA, MEUR	Minimum capital requirement, MEUR
1.0–2.0	1,047	0.0	15.2	159	13
2.5–5.0	8,588	0.2	40.0	3,433	275
5.5–7.0	4,338	1.2	98.8	4,287	343
7.5–8.5	1,337	4.7	145.5	1,946	156
9.0–10.0	240	23.5	225.5	541	43
11.0–12.0	500	100.0			
Total	16,051	1.2	64.6	10,367	829

Rating category, 31 Dec. 2012	Exposure value (EAD), MEUR	Average PD, %*	Average risk weight, %	RWA, MEUR	Minimum capital requirement, MEUR
1.0–2.0	1,028	0.0	15.1	155	12
2.5–5.0	8,806	0.2	40.6	3,577	286
5.5–7.0	3,876	1.4	100.3	3,887	311
7.5–8.5	1,445	4.9	147.0	2,124	170
9.0–10.0	266	30.7	227.2	605	48
11.0–12.0	490	100.0			
Total	15,911	1.4	65.0	10,347	828

* The defaults, or rating categories 11.0 and 12.0, are not included in the average PD.

The assessment of PD values concerning the exposures of mid-size and large companies in 'R' rating categories has been performed using a partial 'R' category, based on key indicators, and payment default data from 2003 to 2009. Since information on payment default was available only during the economic upturn, the Group analysed the required adjustment using credit loss and bankruptcy statistics until 1991 and time series of foreign banks' defaults until 1990. PD values have also been adjusted with a margin of conservatism, which is the larger the fewer the companies in each category.

In 2013, the data used for defining A rating scores consisted of Rating Alfa scores based on Suomen Asiakastieto Oy's model, and internal payment default data between 2006 and 2010. The score limits for A rating have been set in such a way that the PD values within the categories correspond to the PD values within R rating.

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PILLAR III DISCLOSURES

Note 67. Credit institution exposures (FIRBA) by rating category

Rating category, 31 Dec. 2013	Exposure value (EAD), MEUR	Average PD, %	Average risk weight, %	RWA, MEUR	Minimum capital requirement, MEUR
1.0–2.0	2,034	0.0	5.4	110	9
2.5–5.0	3,592	0.1	23.1	831	66
5.5–7.0	148	1.4	65.2	97	8
7.5–8.5	101	4.5	50.5	51	4
9.0–10.0	2	27.8	263.4	6	1
Total	5,878	0.2	18.7	1,096	88

Rating category, 31 Dec. 2012	Exposure value (EAD), MEUR	Average PD, %	Average risk weight, %	RWA, MEUR	Minimum capital requirement, MEUR
1.0–2.0	1,573	0.0	6.4	100	8
2.5–5.0	3,474	0.1	23.5	817	65
5.5–7.0	283	1.4	81.2	230	18
7.5–8.5	66	3.8	49.3	32	3
9.0–10.0	2	26.8	260.3	5	0
Total	5,398	0.2	22.0	1,185	95

For defining the score limits for each rating category and PD values for credit institution exposures, Pohjola has used L rating scores from 2008–2010 and external credit ratings and the corresponding payment default data between 1983 and 2010. PD values have been adjusted with a margin of conservatism in order to take account of uncertainties associated with the data.

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PILLAR III DISCLOSURES

Note 68. Retail exposures by rating category (AIRB)

Retail exposures rating, private customers 31 Dec. 2013

Rating category	Exposure value (EAD), MEUR	Average PD, %*	Average risk weight, %	RWA, MEUR	Minimum capital requirement, MEUR
A	4	0.0	4.2	0	0
B	99	0.2	13.8	14	1
C	429	0.5	31.3	134	11
D	342	2.2	60.2	206	16
E	233	18.6	95.5	223	18
F	7	100.0	110.2	7	1
Total	1,114	4.8	52.4	584	47

Retail exposures rating, private customers 31 Dec. 2012

Rating category	Exposure value (EAD), MEUR	Average PD, %*	Average risk weight, %	RWA, MEUR	Minimum capital requirement, MEUR
A	39	0.1	10.6	4	0
B	534	0.6	24.2	129	10
C	212	2.5	42.8	91	7
D	190	6.6	52.4	100	8
E	54	25.4	75.0	40	3
F	15	100.0	35.6	6	0
Total	1,045	3.4	35.4	370	30

* The defaults, or rating category F, are not included in the average PD.

Retail exposures rating, corporate customers 31 Dec. 2013

Rating category	Exposure value (EAD), MEUR	Average PD, %*	Average risk weight, %	RWA, MEUR	Minimum capital requirement, MEUR
2.5–5.0	93	0.4	23.2	22	2
5.5–7.0	279	1.4	46.3	129	10
7.5–8.5	105	5.1	61.9	65	5
9.0–10.0	41	34.8	98.5	41	3
11.0–12.0	15	100.0	218.9	34	3
Total	534	4.6	54.4	291	23

Retail exposures rating, corporate customers 31 Dec. 2012

Rating category	Exposure value (EAD), MEUR	Average PD, %*	Average risk weight, %	RWA, MEUR	Minimum capital requirement, MEUR
2.5–5.0	85	0.4	15.8	13	1
5.5–7.0	235	1.5	28.3	67	5
7.5–8.5	190	4.9	43.8	83	7
9.0–10.0	54	32.2	63.0	34	3
11.0–12.0	15	100.0	31.5	5	0
Total	579	5.4	34.9	202	16

* The defaults, or rating categories 11.0 and 12.0, are not included in the average PD.

For defining score limits for each rating category based on models for assessing private customers' solvency and thereby PD values, payment default data from 2007 until 2012 has been used. The score limits for each rating category also take account of an adjustment using time series of the unemployment rate until 1989 and of the uncertainties associated with the data using a margin of conservatism.

Data used for defining score limits for each rating category for small exposures of corporate customer retail exposures consist of payment default data from 2007 until 2011. The score limits for small exposures have been set in such a way that the PD values within the categories correspond to the PD values within R rating. PD values have been adjusted with a margin of conservatism in the same way as PD values in R ratings. Note 66 presents the statistical data on A rating for retail exposures applicable to corporate customers.

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PILLAR III DISCLOSURES

Note 69. Equity investments (IRBA) by rating category

Rating category, 31 Dec. 2013	Exposure value (EAD), MEUR	Average PD, %	Average risk weight, %	RWA, MEUR	Minimum capital requirement, MEUR
1.0–2.0	54	0.1	96.4	52	4
5.5–7.0	3	1.3	248.2	7	1
Total	57	0.2	103.8	59	5

Rating category, 31 Dec. 2012	Exposure value (EAD), MEUR	Average PD, %	Average risk weight, %	RWA, MEUR	Minimum capital requirement, MEUR
1.0–2.0	54	0.1	96.5	52	4
5.5–7.0	3	1.3	244.4	8	1
Total	58	0.2	104.9	60	5

The Group applies the PD/LGD method for equity investments to Pohjola Bank plc's strategic investments.

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PILLAR III DISCLOSURES

Note 70. Expected loss and impairments

EUR million	Credit institution exposures	Corporate exposures	Retail exposures		Equity	Total
			Exposures secured by real estates	Renewable	Other investments	
31 Dec. 2013						
EL	3	173	0		21	198
Impairments		260	0		1	260
31 Dec. 2012						
EL	4	180	0		19	203
Impairments		231	0		6	237
31 Dec. 2011						
EL	16	179	1		13	209
Impairments	8	186	0		0	194
31 Dec. 2010						
EL		219			0	218
Impairments		182				182
31 Dec. 2009						
EL		162			1	162
Impairments		121				121

The expected loss shown in the above table is based on parameters generated by OP-Pohjola Group's internal credit risk models. These parameters include a considerable number of various factors of conservatism preventing risk underestimation but do not fully correspond to those used in capital adequacy measurement. For corporate and credit institution exposures, Pohjola uses only PD parameters in capital adequacy measurement.

Capital adequacy measurement parameters include a larger number of factors of conservatism compared with the internal credit risk models. Due to the factors of conservatism involved in the parameters, the expected loss of capital adequacy measurement was substantially high, EUR 360 million (357). Shortfall of expected losses of capital adequacy measurement over impairment losses related to IRBA-based exposure classes has been deducted from the capital base. Impairment losses on equity investments are not taken into account in calculating the deduction.

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PILLAR III DISCLOSURES

Note 71. Equity investments, BIA

EUR million	31 Dec. 2013			31 Dec. 2012		
	Exposure	RWA	Minimum capital requirement	Exposure	RWA	Minimum capital requirement
Private equity investments, risk weight 190%	28	54	4	60	114	9
Listed equity investments, risk weight 290%	1	3	0	4	11	1
Other, risk weight 370%	21	79	6	6	21	2
Total	51	136	11	70	146	12

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PILLAR III DISCLOSURES

Note 72. Collateral used in capital adequacy measurement

31 Dec. 2013, EUR million	Exposure	Guarantees	Financial collateral	Other collateral	Average LGD, %
Internal Ratings Based Approach (IRBA)	30,696	1,681	50	1,506	
Credit institutions	6,111	41		0	25.9
Corporate	22,525	1,616	50	762	44.6
Retail	1,697	24	0	745	41.0
Secured by real estates	4	0		3	29.8
Other	1,694	24	0	741	41.0
Equity investments	108				
Basic Indicator Approach	51				
PD/LGD method	57				
Securitisation positions	231				
Other positions	23				
Standardised Approach (SA)	22,938	7			
Central government and central banks	5,575	7			
Credit institutions	16,365				
Corporate	727				
Retail	245				
Other	245				
Other positions	27				
Total	53,634	1,688	50	1,506	

31 Dec. 2012, EUR million	Exposure	Guarantees	Financial collateral	Other collateral	Average LGD, %
Internal Ratings Based Approach (IRBA)	30,308	1,808	51	1,477	
Credit institutions	5,814	199		0	28.9
Corporate	22,378	1,587	51	792	44.6
Retail	1,625	22	0	685	28.2
Secured by real estates	5	0		5	27.0
Other	1,620	22	0	680	28.2
Equity investments	127				
Basic Indicator Approach	70				
PD/LGD method	58				
Securitisation positions	321				
Other positions	43				
Standardised Approach (SA)	23,885	9			
Central government and central banks	7,533	9			
Credit institutions	15,557				
Corporate	555				
Retail	233				
Other	233				
Other positions	7				
Total	54,193	1,817	51	1,477	

The average LGD has been calculated as the weighted average of the exposure value (EAD).

Guarantees and collateral related to retail exposures are treated as part of LGD.

In the SA and IRBA applied to credit institution and corporate exposures, Pohjola utilises the following real collateral securities specified in the capital adequacy regulations: residential buildings and shares entitling their holders to the possession of an apartment, deposits and securities (equities). Deposits and securities are financial collateral, as referred to in the regulatory framework, and alternative methods are available for their accounting treatment. OP-Pohjola Group has treated financial collateral in the above approaches using the so-called comprehensive method and volatility adjustments ordered by the relevant regulator.

In the SA and IRBA applied to credit institution and corporate exposures, only approved guarantors specified in the capital adequacy regulations may be used, such as guarantees granted by the Finnish State and other states, and those granted by municipalities and banks. Guarantees issued by companies or credit derivatives were not used. Offsetting balance-sheet or off-balance-sheet items was not applied in capital adequacy measurement.

In the IRBA applied to retail exposures, it is possible to use collateral securities on a more extensive basis than in the SA applied to credit institution and corporate exposures. In determining LDG estimates for retail exposures, Pohjola has used contract, customer, default, collateral and debt-collection data from 2003 until 2011. Pohjola applies the definition of payment default as in the PD models.

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PILLAR III DISCLOSURES

Note 73. Derivative contracts and counterparty risk

Credit risk arising from derivative contracts is defined as a credit equivalent based on the daily market valuation of derivative contracts.

The size of customer limits are defined on the basis of assets included in derivative contracts and the estimated validity of the contracts.

Credit risk arising from bank counterparties is through collateral, which means the use of ISDA Credit Support Annex (CSA) contract associated with the ISDA general agreement. In the collateral system, the counterparty provides cash or securities in security for the receivable. Matching between counterparties are performed on a daily basis.

Counterparty risk associated with derivative contracts arises from receivables which Pohjola Bank plc may have from its counterparties in case they default. Pohjola Group measures counterparty risk using a fair value model, whereby the amount of liability comprises the contract market value and the expected potential future exposure.

Pohjola Bank plc manages counterparty risks associated with derivative contracts through master agreements which enables netting of contractual obligations in counterparty defaults as well as through collaterals and optional early termination clauses. There are legal opinions ensuring the enforceability of netting provisions of the master agreements in each derivative counterparty's national legislation. Pohjola Group uses netting for counterparty exposure arising from derivative contracts in both capital adequacy measurement and the monitoring of credit risk limits. With respect to credit institutions as counterparties, Pohjola also always uses credit support annex to derivative master agreements, in which case the received collateral reduces counterparty risk.

The Group confirms corporate counterparty exposure limits once a year and in this connection also checks the status of collateral applying to the limits for derivative transactions.

If S&P had downgraded Pohjola's credit rating from AA- to A on 31 December 2013, no additional collateral would have been required. If the credit rating had been downgraded in 2012, additional collateral of EUR 5 million would have been required.

Capital adequacy requirement due to counterparty risk may arise from items related to financing operations and the trading book. Capital adequacy requirement due to counterparty risk is calculated, for example, on OTC derivatives and sale and repurchase agreements.

Counterparty risk contract types, 31 Dec. 2013, EUR million	Gross exposure value	Benefits from netting	Exposure value after netting	Collateral received	Exposure value
Derivative contracts	4,935	2,844	2,091	408	1,683
Interest rate derivatives	3,893	2,404	1,489	318	1,171
Currency derivatives	742	363	379	36	343
Equity and index derivatives	198	76	122	54	68
Other	101		101		101
Total	4,935	2,844	2,091	408	1,683

Counterparty risk contract types, 31 Dec. 2012, EUR million	Gross exposure value	Benefits from netting	Exposure value after netting	Collateral received	Exposure value
Derivative contracts	6,117	3,775	2,342	606	1,736
Interest rate derivatives	5,233	3,304	1,929	488	1,441
Currency derivatives	661	401	260	79	181
Equity and index derivatives	160	70	90	39	51
Other	63		63		63
Total	6,117	3,775	2,342	606	1,736

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PILLAR III DISCLOSURES

Note 74. Securitisation positions

Securitisation positions by rating category, Moody's equivalent, EUR million	2013		2012	
	Exposure	RWA	Exposure	RWA
Non-trading book positions				
Securitisation positions	231	636	311	603
Aaa	48	4	99	7
Aa1–Aa3	25	2	30	3
A1–A3	19	4	52	10
Baa1–Baa3	64	54	67	50
Ba1–Ba3	44	176	31	113
B1 or lower	30	397	32	421
Re-securitisation positions			10	38
B1 or lower			10	38
Total	231	636	321	640
Matured and impaired securitisation positions by exposure type, 31 Dec. 2013, EUR million				
	Exposure	Matured	Impaired	Impairment losses
Internal Ratings Based Approach (IRBA)				
Non-trading book positions				
Securitisation positions	231			
CDO	2			
ABS	0			
RMBS	228			
Total	231			

**Matured and impaired securitisation positions by exposure type,
31 Dec. 2012, EUR million**

	Exposure	Matured	Impaired	Impairment losses
Internal Ratings Based Approach (IRBA)				
Non-trading book positions				
Securitisation positions	311			
CDO	5			
ABS	2			
RMBS	303			
Re-securitisation positions	10		10	7
CDO	10		10	7
Total	321		10	7

The IRBA has been applied to securitisation positions. Pohjola pays special attention to bonds' structural and collateral-related features in its investment in securitised assets.

Notes to the Consolidated Financial Statements

RISK EXPOSURE BY NON-LIFE INSURANCE

Note 75. Risk-bearing capacity

On 31 December 2013, the solvency capital of Non-life Insurance amounted to EUR 913 million (914) and the solvency ratio stood at 73% (81). The financial strength rating of Pohjola Insurance affirmed by Standard & Poor's is AA-. The Board of Directors has confirmed A as the targeted rating.

Non-life Insurance must fulfil all capital adequacy requirements set by regulatory authorities mainly at company level. All non-life insurance companies are governed by the same requirement set for their minimum solvency margin based on EU directives. In addition, Finnish legislation also lays down capital adequacy requirements for Finnish insurance companies.

The risk-bearing capacity describes the proportion of a company's solvency capital to various income statement and balance sheet items. Solvency capital proportioned to claims incurred and insurance premium revenue describes the company's ability to cope with underwriting risks. Solvency capital proportioned to insurance liabilities describes the company's ability to cope with risks related to the estimation of insurance liabilities. Similarly, solvency capital proportioned to the investment portfolio describes the company's ability to cope with the risks related to investments.

	31 Dec. 2013		31 Dec. 2012	
	EUR million	Risk- bearing capacity, %	EUR million	Risk- bearing capacity, %
Solvency capital	913		914	
Claims incurred*	882	104	830	110
Insurance premium revenue*	1,249	73**	1,126	81**
Insurance liabilities*	2,517	36	2,372	39
Investment portfolio	3,219	28	3,149	29

* Reinsurers' share (net business) deducted

** Solvency ratio

Notes to the Consolidated Financial Statements

RISK EXPOSURE BY NON-LIFE INSURANCE

Note 76. Sensitivity analysis of Non-life insurance

The table below shows the effect of various risk parameters on profit and solvency capital:

Risk parameter	Total in 2013, EUR million	Change in risk parameter	Effect on shareholders' equity, EUR million	Effect on combined ratio
Insurance portfolio or insurance premium revenue*	1,249	Up by 1%	12	Up by 0.9 pps
Claims incurred*	882	Up by 1%	-9	Down by 0.7 pps
Large claim, over EUR 5 million		1 major loss	-5	Down by 0.4 pps
Personnel costs*	107	Up by 8%	-9	Down by 0.7 pps
Expenses by function**	311	Up by 4%	-12	Down by 1.0 pps
Inflation for collective liability	597	Up by 0.25 pps	-4	Down by 0.3 pps
Life expectancy for discounted insurance liabilities	1,564	Up 1 year	-38	Down by 3.0 pps
Discount rate for discounted insurance liabilities	1,564	Down by 0.1 pps	-20	Down by 1.6 pps

* Moving 12-month

** Expenses by function in Non-life Insurance excluding expenses for investment management and expenses for other services rendered.

Notes to the Consolidated Financial Statements

RISK EXPOSURE BY NON-LIFE INSURANCE

Note 77. Premiums written and sums insured by class

Premiums written by EML* class in corporate property insurance

The degree of risk in property insurance can be evaluated by dividing risks into classes by their EML* amounts. The table below shows premiums written calculated for each risk class.

EUR million	5–20	20–50	50–100	100–300
2013	13	14	14	9
2012	14	15	14	6

* EML = Estimated Maximum Loss per object of insurance

Premiums written by TSI* class in corporate liability insurance

The degree of risk in liability insurance can be evaluated by dividing risks into classes by their TSI* amounts. The table below shows premiums written calculated for each risk class.

EUR million	2–4	4–10	10–30	30–90
2013	3	6	8	3
2012	4	6	7	2

* TSI = Total Sum Insured

Sums insured in decennial insurance

The sum insured of insurance contracts depicts the volume of decennial insurance (construction defects insurance). The gross and net amounts of the sum insured are itemised in the table below. The liability period of decennial insurance is 10 years.

EUR million	Gross		Net*	
	2013	2012	2013	2012
Decennial insurance	2,287	2,110	2,282	2,105

* For insurance company's own account after reinsurers' share but before counter guarantee

Notes to the Consolidated Financial Statements

RISK EXPOSURE BY NON-LIFE INSURANCE

Note 78. Trend in large claims

Number of detected large claims by year of detection for 2009–13

Non-life Insurance monitors carefully claims expenditure arising from large claims. The claims expenditure explains a significant part of the annual fluctuation in the underwriting result. In addition, monitoring the claims expenditure arising from large claims helps to detect any changes in risks or risk selection. In this analysis, large claims are those whose gross amount exceeds EUR 2 million. Most large claims occur in property and business interruption insurance. In statutory policies, the risk of large claim is small relative to the large volume of the line of business.

Gross amount						
Number of claims exceeding EUR 2 million	Statutory lines	Other accident and health	Hull and cargo	Property and business interruption	Liability and legal expenses	Longterm
2009	3			5	2	
2010	1			12		
2011				5		1
2012	3			7	1	
2013	4			6	1	
Total claims, EUR million					216	
Gross amount, total claims, EUR million						
2009–13	26			164	20	7
Net amount						
Number of claims exceeding EUR 2 million	Statutory lines	Other accident and health	Hull and cargo	Property and business interruption	Liability and legal expenses	Longterm
2009	3			4	1	
2010				10		
2011				4		1
2012	3			6	1	
2013	4			6	1	
Total claims, EUR million					144	
Net amount, total claims, EUR million						
2009–13	24			106	10	4

Notes to the Consolidated Financial Statements

RISK EXPOSURE BY NON-LIFE INSURANCE

Note 79. Insurance profitability

Trends in insurance premium revenue (gross and net) and combined ratio (net)

Insurance premium revenue describes the volume of an insurance class, enabling the evaluation of the importance of the insurance class in relation to the whole portfolio. Similarly, the combined ratio (CR) is used to evaluate fluctuations in the results of the insurance class and the profitability of the class. The combined ratio is presented separately adjusted for one-off items relating to previous insurance periods.

2013, EUR million	Gross IP revenue	Net IP revenue	Net CR*	Net** CR*
Statutory lines	459	458	93%	85%
Other accident and health	158	158	88%	88%
Hull and cargo	264	261	90%	90%
Property and business interruption	343	296	89%	88%
Liability and legal expenses	80	73	82%	82%
Long-term	5	4	15%	15%
Total	1,309	1,249	90%	87%
2012, EUR million	Gross IP revenue	Net IP revenue	Net CR*	Net** CR*
Statutory lines	422	420	95%	83%
Other accident and health	134	134	97%	97%
Hull and cargo	240	237	96%	96%
Property and business interruption	309	265	95%	94%
Liability and legal expenses	73	67	99%	99%
Long-term	5	4	0%	0%
Total	1,183	1,126	95%	91%

* The combined ratio is calculated by dividing the sum of claims incurred (net) and operating expenses of insurance business by insurance premium revenue (net). Amortisation on intangible rights is excluded from the calculation.

** One-off changes affecting the balance on technical account have been eliminated.

Notes to the Consolidated Financial Statements

RISK EXPOSURE BY NON-LIFE INSURANCE

Note 80. Information on the nature of insurance liabilities

Information on the nature of liabilities	2013	2012
Net liabilities due to insurance contracts (EUR million)		
Latent occupational diseases	26	29
Other	2,491	2,343
Total (before transfers)	2,517	2,372
Duration of debt (years)		
Discounted insurance liabilities	12.6	12.4
Undiscounted insurance liabilities	2.1	2.1
Total	8.7	8.6
Discounted net debt (EUR million)		
Known provision for claims for annuities	1,252	1,206
Collective liability	275	240
Provision for unearned premiums	37	36
Total	1,564	1,483

Notes to the Consolidated Financial Statements

RISK EXPOSURE BY NON-LIFE INSURANCE

Note 81. Insurance liabilities by estimated maturity

31 Dec. 2013, EUR million	0–1 yr	1–5 yrs	5–10 yrs	10–15yrs	Over 15 yrs	Total
Provision for unearned premiums*	349	100	18	5	9	481
Provision for unpaid claims						
Undiscounted	264	183	49	9	4	508
Discounted	93	418	311	232	474	1,527
Total insurance liabilities	707	701	377	246	486	2,517

* Includes EUR 37 million in discounted liability.

31 Dec. 2012, EUR million	0–1 yr	1–5 yrs	5–10 yrs	10–15yrs	Over 15 yrs	Total
Provision for unearned premiums*	320	92	16	5	8	440
Provision for unpaid claims						
Undiscounted	253	174	46	9	3	485
Discounted	90	403	297	219	437	1,446
Total insurance liabilities	663	669	359	233	448	2,372

* Includes EUR 36 million in discounted liability.

Notes to the Consolidated Financial Statements

RISK EXPOSURE BY NON-LIFE INSURANCE

Note 82. Risk exposure of insurance investments

Allocation of investment portfolio	31 Dec. 2013		31 Dec. 2012	
	Fair value, EUR million*		Fair value, % EUR million*	%
Money market total	113	4	42	1
Money market instruments and deposits**	113	3	44	1
Derivative instruments***	1	0	-2	0
Total bonds and bond funds	2,309	72	2,369	75
Governments	471	15	469	15
Inflation-indexed bonds	90	3	71	2
Investment Grade	1,485	46	1,460	46
Emerging markets and High Yield	236	7	352	11
Structured investments	27	1	16	1
Total equities	426	13	367	12
Finland	88	3	83	3
Developed markets	191	6	126	4
Emerging markets	47	1	53	2
Fixed assets and unlisted equities	4	0	6	0
Private equity investments	95	3	99	3
Total alternative investments	41	1	82	3
Hedge funds	23	1	38	1
Commodities	5	0	6	0
Convertible bonds	13	0	38	1
Total property investments	329	10	290	9
Direct property investments	219	7	186	6
Indirect property investments	110	3	103	3
Total	3,219	100	3,149	100

* Includes accrued interest income

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

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

Notes to the Consolidated Financial Statements

RISK EXPOSURE BY NON-LIFE INSURANCE

Note 83. Sensitivity analysis of investment risks

The table below shows the sensitivity of investment risks by investment category. The discount rate sensitivity analysis related to the calculation of insurance liabilities is presented in Note 76. Effects of changes in investments and insurance liabilities offset one another.

Non-life Insurance	Portfolio at fair value, EUR million	Risk parameter	Effect on shareholder's equity, EUR million		
	31 Dec. 2013		Change	31 Dec. 2013	31 Dec. 2012
Bonds and bond funds*	2,322	Interest rate	1 pp	72	72
Equities**	349	Market value	10%	35	30
Capital investments and unquoted equities	100	Market value	10%	10	10
Commodities	5	Market value	10%	1	1
Real property	329	Market value	10%	33	29
Currency	136	Currency value	10%	14	25
Credit risk premium***	2,422	Credit spread	0.1 pp	8	9
Derivatives		Volatility	10 pps	2	0

* Include money-market investments, convertible bonds and interest-rate derivatives

** Include hedge funds and equity derivatives

*** Includes bonds and convertible bonds and money-market investments, excluding government bonds issued by developed countries

Notes to the Consolidated Financial Statements

RISK EXPOSURE BY NON-LIFE INSURANCE

Note 84. Interest-rate risk

The market risk arising from changes in interest rates is monitored by classifying investments by instrument, in accordance with duration. The table below does not indicate the balancing effect which the insurance liabilities have on the interest-rate risk, because only some insurance liabilities have been discounted using an administrative interest rate (Note 33).

Fair value by duration or repricing date, EUR million*	31 Dec. 2013	31 Dec. 2012
0–1 year	331	135
>1–3 years	568	545
>3–5 years	761	909
>5–7 years	358	392
>7–10 years	225	236
>10 years	141	139
Total	2,384	2,356
Modified duration	3.7	4.2
Effective interest rate, %	2.0	1.8

* Includes money-market investments and deposits, bonds, convertible bonds and bond funds.

Fixed-income portfolio by maturity and credit rating on 31 Dec. 2013*, EUR million

Year(s)	0–1	1–3	3–5	5–7	7–10	10–	Total	Proportion, %
Aaa	27	204	310	93	150	87	872	36.6
Aa1–Aa3	112	67	72	15	10	32	308	12.9
A1–A3	76	167	203	115	24	0	585	24.6
Baa1–Baa3	38	61	123	129	33	19	402	16.9
Ba1 or lower	51	69	53	6	9	3	189	7.9
Internally rated	27	0	0	0			27	1.2
Total	331	568	761	358	225	141	2,384	100.0

* Excludes credit derivatives.

The maturity is presented until the end of the term to maturity. If the paper includes a call option, the maturity is presented until the first possible Call date.

The average credit rating of the Non-life Insurance fixed-income portfolio is Moody's A1.

The term to maturity of the Non-life Insurance fixed-income portfolio averages 4.4 years (calculated on the basis of the call date and the maturity date).

Notes to the Consolidated Financial Statements

RISK EXPOSURE BY NON-LIFE INSURANCE

Note 85. Currency risk

Foreign currency exposure, EUR million	31 Dec. 2013	31 Dec. 2012
USD	54	98
SEK	-3	-4
JPY	2	11
GBP	14	8
LVL, LTL**		0
Other	62	132
Total*	136	254

* The currency exposure was 4.2% (8.1) of the investment portfolio. It is calculated as the sum total of individual currencies' intrinsic values.

** ERM2 currencies

Notes to the Consolidated Financial Statements

RISK EXPOSURE BY NON-LIFE INSURANCE

Note 86. Counterparty risk

Credit rating, consistent with Moody's, EUR million	31 Dec. 2013		31 Dec. 2012	
	Investment*	Insurance**	Investment*	Insurance**
Aaa	872		853	0
Aa1–Aa3	308	8	278	20
A1–A3	585	23	578	26
Baa1–Baa3	402	0	448	0
Ba1 or lower	189		198	
Internally rated	27	49	1	35
Total	2,384	80	2,356	82

* Include money-market investments and deposits, bonds and bond funds

** Includes the reinsurers' share of insurance liabilities, and receivables from reinsurers

Notes to the Consolidated Financial Statements

OTHER NOTES TO THE BALANCE SHEET

Note 87. Classification of assets and liabilities

Assets 31 Dec. 2013, EUR million	Loans and receivables	Held to maturity	At fair value through profit or loss*	Available for sale	Hedging derivatives	Carrying amount total
Cash and balances with central banks	2,046					2,046
Receivables from credit institutions and central banks	9,899					9,899
Derivative contracts			3,171		273	3,444
Receivables from customers	14,515					14,515
Non-life Insurance assets**	586		116	2,838		3,539
Notes and bonds***		202	443	7,108		7,754
Shares and participations			1	89		90
Other receivables	2,405		28			2,433
Total	29,451	202	3,759	10,034	273	43,720

Assets 31 Dec. 2012, EUR million	Loans and receivables	Held to maturity	At fair value through profit or loss*	Available for sale	Hedging derivatives	Carrying amount total
Cash and balances with central banks	5,643					5,643
Receivables from credit institutions and central banks	8,815					8,815
Derivative contracts			4,084		379	4,462
Receivables from customers	13,839					13,839
Non-life Insurance assets**	558		132	2,832		3,523
Notes and bonds***		330	255	4,971		5,555
Shares and participations			1	105		107
Other receivables	2,654		25			2,678
Total	31,509	330	4,496	7,909	379	44,623

Liabilities 31 Dec. 2013, EUR million	At fair value through profit or loss	Other liabilities	Hedging derivatives	Carrying amount total
Liabilities to credit institutions		4,789		4,789
Financial liabilities held for trading (excl. derivatives)	4			4
Derivative contracts	3,186		234	3,420
Liabilities to customers		10,188		10,188
Non-life Insurance liabilities****	0	2,746		2,746
Debt instruments issued to the public		16,097		16,097
Subordinated liabilities		984		984
Other liabilities		2,451		2,451
Total	3,190	37,253	234	40,677

Liabilities 31 Dec. 2012, EUR million	At fair value through profit or loss	Other liabilities	Hedging derivatives	Carrying amount total
Liabilities to credit institutions		5,840		5,840
Financial liabilities held for trading (excl. derivatives)	3			3
Derivative contracts	4,161		396	4,557
Liabilities to customers		10,775		10,775
Non-life Insurance liabilities****	3	2,596		2,599
Debt instruments issued to the public		13,769		13,769
Subordinated liabilities		1,275		1,275
Other liabilities		3,035		3,035
Total	4,167	37,291	396	41,854

* Assets at fair value through profit or loss include financial assets held for trading, financial assets at fair value through profit or loss at inception and investment property.

** Non-life Insurance assets are specified in Note 21.

*** On 31 December 2013, notes and bonds included EUR 9 million (9) in notes and bonds recognised using the fair value option. Notes and bonds of EUR 50 million (74) within loans and other receivables include in "Receivables from customers".

**** Non-life Insurance liabilities are specified in Note 33.

Debt securities issued to the public are carried at amortised cost. On 31 December 2013, the fair value of these debt instruments was EUR 147 million (243) 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 carrying amount, but determining reliable fair values involves uncertainty.

Notes to the Consolidated Financial Statements

OTHER NOTES TO THE BALANCE SHEET

Note 88. Recurring fair value measurements by valuation technique

Financial assets recognised at fair value on 31 Dec. 2013, EUR million

	Level 1	Level 2	Level 3	Total
Recognised at fair value through profit or loss				
Banking	152	292		444
Non-life Insurance		6		6
Derivative financial instruments				
Banking	10	3,222	212	3,444
Non-life Insurance	4	0		4
Available-for-sale				
Banking	5,632	1,550	14	7,197
Non-life Insurance	1,670	917	251	2,838
Total financial instruments	7,468	5,987	477	13,932
Investment property				
Banking			28	28
Non-life Insurance			106	106
Total investment property			134	134
Total	7,468	5,987	611	14,066

Financial assets recognised at fair value on 31 Dec. 2012, EUR million

	Level 1	Level 2	Level 3	Total
Recognised at fair value through profit or loss				
Banking	125	115	16	256
Non-life Insurance		13	6	19
Derivative financial instruments				
Banking	7	4,265	190	4,462
Non-life Insurance	1	0		1
Available-for-sale				
Banking	4,060	1,001	16	5,076
Non-life Insurance	1,822	759	251	2,832
Total financial instruments	6,015	6,153	479	12,647
Investment property				
Banking			25	25
Non-life Insurance			112	112
Total investment property			137	137
Total	6,015	6,153	615	12,784

Financial liabilities recognised at fair value on 31 Dec. 2013, EUR million

	Level 1	Level 2	Level 3	Total
Recognised at fair value through profit or loss				
Banking		4		4
Derivative financial instruments				
Banking	35	3,254	131	3,420
Total	35	3,258	131	3,423

Financial liabilities recognised at fair value on 31 Dec. 2012, EUR million

	Level 1	Level 2	Level 3	Total
Recognised at fair value through profit or loss				
Banking		3		3
Derivative financial instruments				
Banking	21	4,377	159	4,557
Non-life Insurance	3	0		3
Total	23	4,381	159	4,563

Fair value measurement**Banking derivatives**

Pohjola obtains the price of listed derivatives directly from markets. In the fair value measurement of OTC derivatives, Pohjola uses models and techniques commonly used in markets. These are needed, for instance, to create yield curves and currency conversion charts and volatility surfaces as well as for option valuation. The input data of these models can generally be derived from markets. In the fair value measurement of some contracts, however, Pohjola has to use models where input data cannot be observed in the market and therefore they must be assessed. Such contracts are included in Level 3.

Pohjola Bank's Middle Office is responsible for the fair value measurement of Banking derivatives and the quality and reliability of market data, valuation curves and volatility surfaces used in them, as part of its daily fair value measurement process, including the measurement of Level 3 hierarchy. Middle Office compares regularly valuation prices with valuations supplied by CSA counterparties and central counterparties and, whenever necessary, determine any possible significant valuation differences.

OP-Pohjola Group's Risk Management Control is responsible for approval of new fair value measurement models and techniques and supervision of the fair value measurement process. Verifying fair values is based, for example, on valuation using alternative sources for market prices and other input data. In this verification process, valuation prices can be compared with prices supplied by CSA counterparties and central counterparties. In addition, it is possible to use valuation services provided by third parties.

The fair value measurement of unsecured derivatives takes account of the credit risk of the parties to a transaction. Credit risk is adjusted with a Credit Valuation Adjustment (CVA) and with a Debt Valuation Adjustment (DVA). CVA and DVA valuation adjustments are calculated per each counterparty on the net market value of derivative position.

Non-life Insurance's available-for-sale financial investments

The prices of securities are primarily obtained from market information sources and valued on a daily basis. Some securities are subject to less frequent pricing, such as once a month. In such a case, pricing is based on official valuations published by brokers, issuers or other market participants or their estimates. Such contracts are included in Level 3.

Level 1: Quoted prices in active markets

This level includes equities listed on major stock exchanges, quoted corporate debt instruments, bonds issued by governments and financial institutions with credit rating of at least A-, and exchange-traded derivatives. The fair value of these instruments is determined on the basis of 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. The fair value hierarchy level at Pohjola Group includes OTC derivatives, treasury bills/notes, debt instruments issued by companies and financial institutions, repo agreements, and securities lent or borrowed.

Level 3: Valuation techniques using unobservable inputs

Valuation techniques whose input parameters involve special uncertainty. The fair value determination of the financial instruments included within this level contains inputs not based on observable market data (unobservable inputs). This level includes the most complex OTC derivatives, certain private equity investments, and illiquid bonds, structured bonds, including securitised bonds and structured debt securities, and hedge funds. In many cases, the 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.

During 2013, EUR 145 million (121) in bonds were transferred from level 1 to level 2, due to changes in credit ratings.

Valuation techniques whose input parameters involve uncertainty**Specification of financial assets and liabilities**

Financial assets, EUR million	Recognised at fair value through profit or loss		Derivative financial instruments		Available-for-sale		Total assets
	Banking	Non-life Insurance	Banking	Non-life Insurance	Banking	Non-life Insurance	
Opening balance 1 Jan. 2013	16	6	190		16	251	479
Total gains/losses in profit or loss	-16		22		-1	-5	0
Total gains/losses in other comprehensive income						14	14
Purchases						33	33
Sales						-41	-41
Settlements		-6					-6
Closing balance 31 Dec. 2013			212		14	251	477

Financial assets, EUR million	Recognised at fair value through profit or loss		Derivative financial instruments		Available-for-sale		Total assets
	Banking	Non-life Insurance	Banking	Non-life Insurance	Banking	Non-life Insurance	
Opening balance 1 Jan. 2012	4	6	187		14	259	470
Total gains/losses in profit or loss	11		3		0	-4	12
Total gains/losses in other comprehensive income		0			2	9	11
Purchases						37	37
Sales						-51	-51
Closing balance 31 Dec. 2012	16	6	190		16	251	479

Financial liabilities, EUR million	Recognised at fair value through profit or loss		Derivative financial instruments		Total liabilities
	Banking	Non-life Insurance	Banking	Non-life Insurance	
Opening balance 1 Jan. 2013			159		159
Total gains/losses in profit or loss			-28		-28
Closing balance 31 Dec. 2013			131		131

Financial liabilities, EUR million	Recognised at fair value through profit or loss		Derivative financial instruments		Total liabilities
	Banking	Non-life Insurance	Banking	Non-life Insurance	
Opening balance 1 Jan. 2012			178		178
Total gains/losses in profit or loss			-19		-19
Closing balance 31 Dec. 2012			159		159

Total gains/losses included in profit or loss by item for the financial year on 31 Dec. 2013

EUR million	Net interest income or net trading income	Net investment income	Net income from Non-life Insurance	Statement of comprehensive income/ Change in fair value reserve	Net gains/losses on assets and liabilities held at year-end
Realised net gains (losses)	-16	2	-5		-19
Unrealised net gains (losses)	50	-3		14	60
Total net gains (losses)	34	-1	-5	14	42

Total gains/losses included in profit or loss by item for the financial year on 31 Dec. 2012

EUR million	Net interest income or net trading income	Net investment income	Net income from Non-life Insurance	Statement of comprehensive income/ Change in fair value reserve	Net gains/losses on assets and liabilities held at year-end
Realised net gains (losses)	11	0	-4		8
Unrealised net gains (losses)	22			11	33
Total net gains (losses)	34	0	-4	11	41

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 Pohjola, 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.

Changes in the levels of hierarchy

No major changes occurred in valuation techniques in 2013.

Sensitivity analysis of input parameters involving uncertainty

Type of instrument 31 Dec. 2013, EUR million	Receivables	Liabilities	Net balance	Sensitivity analysis	Reasonably possible change in fair value
Derivatives					
Index-linked bond hedges and structured derivatives*	212	-131	81	9.1	11%
Available-for-sale					
Illiquid investments	72		72	10.8	15%
Private equity funds**	110		110	11.0	10%
Real estate funds***	83		83	16.6	20%
Investment property***	134		134	26.8	20%

* Following stress scenarios: the combined value change of volatility of shares (30%), dividends of shares (30%), credit risk premiums (30%) and significant correlation changes.

** The value of private equity funds depends mainly on the profit performance of portfolio companies and the PE ratios of similar listed companies. The Total Value to Paid-in (TVPI) multiple, which has changed an average of 10%, is used to monitor the progress of the fair value of private equity funds.

*** In the valuation of real estate funds and investment property, Pohjola mainly uses the income approach whose main components are yield requirement and net rent. A +/- 1 percentage point change in the yield requirement leads on average to around 20% change in the fair value.

Notes to the Consolidated Financial Statements

OTHER NOTES TO THE BALANCE SHEET

Note 89. Collateral given

Balance sheet value, EUR million	31 Dec. 2013	31 Dec. 2012
Given on behalf of own liabilities and commitments		
Mortgages	1	1
Pledges	5	12
Other	485	623
Other collateral given		
Pledges*	5,705	4,618
Total	6,196	5,254
Total collateral given		
Mortgages	1	1
Pledges	5,711	4,630
Other	485	623
Total	6,196	5,254
Total collateralised liabilities	490	592

* Of which EUR 2,000 million in intraday settlement collateral.

Notes to the Consolidated Financial Statements

OTHER NOTES TO THE BALANCE SHEET

Note 90. Financial collateral held

EUR million	31 Dec. 2013	31 Dec. 2012
Fair value of collateral received		
Other	359	568
Total	359	568

The credit risk arising from derivatives is mitigated through collateral, which means the use of ISDA Credit Support Annex (CSA) contract associated with the ISDA general agreement. In the collateral system, the counterparty provides securities or cash in security for the receivable. The amount of CSA-related collateral received in cash totalled EUR 359 million on the balance sheet date (568). The Group had no securities received as collateral on the balance sheet date.

Notes to the Consolidated Financial Statements

NOTES TO CONTINGENT LIABILITIES AND DERIVATIVES

Note 91. Off-balance-sheet commitments

EUR million	31 Dec. 2013	31 Dec. 2012
Guarantees	914	882
Other guarantee liabilities	1,568	1,359
Loan commitments	4,728	5,343
Commitments related to short-term trade transactions	247	435
Other	359	301
Total off-balance-sheet commitments	7,816	8,320

Notes to the Consolidated Financial Statements

NOTES TO CONTINGENT LIABILITIES AND DERIVATIVES

Note 92. Derivative contracts

Derivatives held for trading 31 Dec. 2013

EUR million	Nominal values/ residual term to maturity			Total	Fair values*		Potential future exposure
	<1 year	1–5 years	>5 years		Assets	Liabilities	
Interest rate derivatives							
Interest rate swaps	19,446	68,860	30,033	118,339	2,231	2,288	3,022
Cleared by the central counterparty	2,350	9,295	4,419	16,065	70	51	183
OTC interest rate options							
Call and caps							
Purchased	3,113	5,351	2,119	10,584	173	4	237
Written	2,324	5,807	3,099	11,230	0	137	5
Put and floors							
Purchased	2,909	6,655	1,667	11,232	230	1	302
Written	3,318	7,306	1,094	11,717	0	145	27
Total OTC interest rate derivatives	31,111	93,979	38,011	163,101	2,634	2,575	3,593
Interest rate futures	3,966	6,624		10,591	7	3	
Interest rate options							
Put							
Purchased	2,000			2,000		0	
Written	4,000			4,000	1		
Total exchange traded derivatives	9,966	6,624		16,591	8	3	
Total interest rate derivatives	41,077	100,603	38,011	179,692	2,642	2,578	3,593
Currency derivatives							
Forward exchange agreements	13,644	338	84	14,067	132	143	291
Interest rate and currency swaps	344	1,353	1,303	3,001	160	177	329
Currency options							
Call							
Purchased	178	11		189	3		5
Written	208	8		217	0	8	0
Put							
Purchased	167	8		175	1		3
Written	101	0		101		1	
Total OTC currency derivatives	14,643	1,719	1,387	17,750	296	328	629
Total currency derivatives	14,643	1,719	1,387	17,750	296	328	629

Equity and index derivatives

Equity index options

Call

Purchased	194	582		776	77		135
Total OTC equity and index derivatives	194	582		776	77		135
Total equity and index derivatives	194	582		776	77		135

Credit derivatives

Credit default swaps	4	99	15	118	13	0	13
Total credit derivatives	4	99	15	118	13	0	13

Other

Other swaps	227	523	166	917	56	30	145
Other options							
Call							
Purchased	18	11		29	0		3
Written	18			18		0	
Put							
Purchased	9			9	0		1
Written	9			9		0	
Total other OTC derivatives	281	534	166	981	56	30	150
Other forward agreements and futures	109	118	6	233	9	34	1
Total other derivatives	390	652	172	1,214	65	64	151
Total derivatives held for trading	56,307	103,656	39,586	199,549	3,092	2,971	4,521

Derivatives held for trading 31 Dec. 2012

EUR million	Nominal values/ residual term to maturity			Total	Fair values*		Potential future exposure
	<1 year	1–5 years	>5 years		Assets	Liabilities	
Interest rate derivatives							
Interest rate swaps	15,028	62,342	30,426	107,796	3,264	3,333	4,032
Forward rate agreements	260			260	0	0	0
OTC interest rate options							
Call and caps							
Purchased	4,381	5,884	1,701	11,965	373	7	426
Written	3,963	4,761	2,367	11,091		348	
Put and floors							
Purchased	7,849	3,605	1,142	12,596	191		226
Written	8,405	3,336	722	12,462		69	
Total OTC interest rate derivatives	39,885	79,928	36,358	156,171	3,828	3,757	4,683
Interest rate futures	2,621	2,958	142	5,721	1	5	
Interest rate options							
Put							
Purchased	1,000			1,000		0	
Written	1,000			1,000	0		
Total exchange traded derivatives	4,621	2,958	142	7,721	1	6	
Total interest rate derivatives	44,506	82,886	36,499	163,891	3,829	3,762	4,683

Currency derivatives

Forward exchange agreements	18,238	539	65	18,842	129	226	343
Interest rate and currency swaps		1,400	298	1,698	77	89	169
Call							
Purchased	123			123	2		4
Written	142			142		2	
Put							
Purchased	108			108	1		2
Written	100			100		1	
Total OTC currency derivatives	18,711	1,939	363	21,013	209	318	518
Total currency derivatives	18,711	1,939	363	21,013	209	318	518

Equity and index derivatives

Equity index options							
Call							
Purchased	261	819	6	1,085	50		132
Put							
Purchased	42			42	0		
Total OTC equity and index derivatives	303	819	6	1,127	50		132
Equity futures and forward contracts	0			0		0	
Total exchange traded derivatives	0			0		0	
Total equity and index derivatives	303	819	6	1,127	50	0	132

Credit derivatives

Credit default swaps	122	92		214	10	2	11
Total credit derivatives	122	92		214	10	2	11

Other

Other swaps	135	423	73	631	24	19	82
Other options							
Call							
Purchased	33	16		49	6		11
Written	23	5		28		0	
Put							
Purchased	7	5		11	0		2
Written	7	5		11		0	
Total other OTC derivatives	205	453	73	732	30	20	95
Other forward agreements and futures	83	132	5	220	7	18	1
Total other derivatives	288	585	78	952	37	37	96
Total derivatives held for trading	63,930	86,320	36,947	187,197	4,135	4,120	5,440

Derivative contracts for hedging purposes – fair value hedge 31 Dec. 2013

EUR million	Nominal values/ residual term to maturity			Total	Fair values*		Potential future exposure
	<1 year	1–5 years	>5 years		Assets	Liabilities	
Interest rate derivatives							
Interest rate swaps	2,248	11,378	5,060	18,686	335	242	453
Cleared by the central counterparty	40	1,139	601	1,779	5	17	20
Total OTC interest rate derivatives	2,248	11,378	5,060	18,686	335	242	453
Total interest rate derivatives	2,248	11,378	5,060	18,686	335	242	453
Currency derivatives							
Interest rate and currency swaps	1,628	803	137	2,567	46	83	113
Total OTC currency derivatives	1,628	803	137	2,567	46	83	113
Total currency derivatives	1,628	803	137	2,567	46	83	113
Total derivative contracts, fair value hedge	3,876	12,181	5,197	21,254	381	325	565

Derivative contracts for hedging purposes – cash flow hedge 31 Dec. 2013

EUR million	Nominal values/ residual term to maturity			Total	Fair values*		Potential future exposure
	<1 year	1–5 years	>5 years		Assets	Liabilities	
Interest rate derivatives							
Interest rate swaps	200	800		1,000	21	1	25
Cleared by the central counterparty		200		200	0	1	1
Total OTC interest rate derivatives	200	800		1,000	21	1	25
Total interest rate derivatives	200	800		1,000	21	1	25
Total derivative contracts, cash flow hedge	200	800		1,000	21	1	25
Total derivative contracts held for hedging	4,076	12,981	5,197	22,254	402	326	590

Derivative contracts for hedging purposes – fair value hedge 31 Dec. 2012

EUR million	Nominal values/ residual term to maturity			Total	Fair values*		Potential future exposure
	<1 year	1–5 years	>5 years		Assets	Liabilities	
Interest rate derivatives							
Interest rate swaps	494	8,240	3,053	11,787	429	405	516
Total OTC interest rate derivatives	494	8,240	3,053	11,787	429	405	516
Total interest rate derivatives	494	8,240	3,053	11,787	429	405	516
Currency derivatives							
Forward exchange agreements	11			11	0	0	0
Interest rate and currency swaps	1,122	808	153	2,083	85	22	148
Total OTC currency derivatives	1,133	808	153	2,095	85	22	148
Total currency derivatives	1,133	808	153	2,095	85	22	148
Total derivative contracts, fair value hedge	1,627	9,048	3,207	13,882	513	427	664

Derivative contracts for hedging purposes – cash flow hedge 31 Dec. 2012

EUR million	Nominal values/ residual term to maturity			Total	Fair values*		Potential future exposure
	<1 year	1–5 years	>5 years		Assets	Liabilities	
Interest rate derivatives							
Interest rate swaps	200	800		1,000	35		39
Total OTC interest rate derivatives	200	800		1,000	35		39
Total interest rate derivatives	200	800		1,000	35		39
Total derivative contracts, cash flow hedge	200	800		1,000	35		39
Total derivative contracts held for hedging	1,827	9,848	3,207	14,882	549	427	703

Total derivative contracts 31 Dec. 2013

EUR million	Nominal values/ residual term to maturity			Total	Fair values*		Potential future exposure
	<1 year	1–5 years	>5 years		Assets	Liabilities	
Interest rate derivatives	43,525	112,782	43,071	199,378	2,997	2,821	4,071
Cleared by the central counterparty	2,390	10,634	5,020	18,044	76	69	204
Currency derivatives	16,270	2,522	1,524	20,317	342	412	742
Equity and index-linked derivatives	194	582		776	77		135
Credit derivatives	4	99	15	118	13	0	13
Other derivatives	390	652	172	1,214	65	64	151
Total derivatives	60,383	116,637	44,783	221,803	3,494	3,297	5,112

Total derivative contracts 31 Dec. 2012

EUR million	Nominal values/ residual term to maturity			Total	Fair values*		Potential future exposure
	<1 year	1–5 years	>5 years		Assets	Liabilities	
Interest rate derivatives	45,199	91,926	39,553	176,678	4,293	4,168	5,238
Currency derivatives	19,844	2,747	517	23,107	294	340	666
Equity and index-linked derivatives	303	819	6	1,127	50	0	132
Credit derivatives	122	92		214	10	2	11
Other derivatives	288	585	78	952	37	37	96
Total derivatives	65,757	96,168	40,154	202,079	4,684	4,547	6,143

* Fair values include accrued interest which is shown under other assets or provisions and other liabilities. In addition, the fair value of derivatives for central counterparty clearing is offset in the balance sheet.

Interest rate derivatives for central counterparty clearing are offset in the balance sheet. Note 93 below presents the effects of netting. Other derivative contracts are presented on a gross basis in the balance sheet. In capital adequacy measurement, Pohjola Group also applies netting of derivatives. Note 73 above presents the effects of netting. Netting would reduce the credit equivalent of Pohjola Bank plc's derivative contracts by EUR 3,381 million (4,359).

Notes to the Consolidated Financial Statements

NOTES TO CONTINGENT LIABILITIES AND DERIVATIVES

Note 93. Financial assets and liabilities offset in the balance sheet or subject to enforceable master netting arrangements or similar agreements

Financial assets offset in the balance sheet or subject to enforceable master netting arrangements or similar agreements

31 Dec. 2013, EUR million	Gross amount of financial assets	Gross amount of financial liabilities deducted from financial assets*	Net amount presented in the balance sheet**	Financial assets not set off in the balance sheet		
				Financial assets***	Collateral received	Net amount
Banking derivatives	3,515	-71	3,444	-2,393	-359	691
Non-life Insurance derivatives	4		4			4
Total derivatives	3,518	-71	3,447	-2,393	-359	695

Financial liabilities offset in the balance sheet or subject to enforceable master netting arrangements or similar agreements

31 Dec. 2013, EUR million	Gross amount of financial liabilities	Gross amount of financial assets deducted from financial liabilities*	Net amount presented in the balance sheet**	Financial liabilities not set off in the balance sheet		
				Financial liabilities***	Collateral given	Net amount
Banking derivatives	3,484	-64	3,420	-2,393	-408	619
Total derivatives	3,484	-64	3,420	-2,393	-408	619

* Incl. daily cleared derivatives on a net basis included in cash and cash equivalents, totalling 8 million euros.

** Fair values excluding accrued interest.

*** It is Pohjola Bank plc's practice to enter into master agreements for derivative transactions with all derivative counterparties.

Central counterparty clearing for OTC derivatives

In anticipation of entry into force of central counterparty clearing required by the European Market Infrastructure Regulation (Regulation (EU) No. 648/2012), Pohjola Bank plc started in February 2013 central counterparty clearing in London Clearing House for new interest rate derivatives covering standardised OTC derivative transactions entered into with financial counterparties. Since Pohjola Bank plc is not a direct member of London Clearing House, it will manage central counterparty clearing for OTC derivative transactions with a few, separately selected clearing brokers with which it has concluded clearing agreements. The central counterparty will become the derivatives counterparty at the end of the daily clearing process. Based on this operating model, daily payments for derivatives are netted. In addition, collateral is paid or received daily, which corresponds to the change in the fair value of open positions (variation margin). As a result of the change in the operating model, interest rate derivatives cleared by the central counterparty are presented on a net basis in the balance sheet. This change has not yet had any substantial effect on the consolidated balance sheet.

Other bilaterally cleared OTC derivative contracts

The ISDA Master Agreement or the Master Agreement of the Federation of Finnish Financial Services or Pohjola Bank plc will apply to derivative transactions between Pohjola Bank plc and other clients and to derivative transactions to which central counterparty clearing in accordance with the Regulation does not pertain. On the basis of these agreements, derivative payments may be netted per transaction on each payment date and in the event of counterparty default and bankruptcy. It is also possible to agree on collateral on a counterparty-specific basis in the terms and conditions of the agreement. Such derivatives are presented on a gross basis in the balance sheet.

Notes to the Consolidated Financial Statements

NOTES TO CONTINGENT LIABILITIES AND DERIVATIVES

Note 94. Contingent liabilities and assets

Insurance companies belonging to the Group underwrite insurance policies through pools. Pool members are primarily responsible for their own proportionate share of the risk. Proportionate shares are based on contracts confirmed annually. In certain pools, pool members are responsible for an insolvent member's liabilities in proportion to their shares in the pool. Group insurance companies recognise liabilities and receivables based on joint liability if joint liability is likely to materialise.

In December 2010, Pohjola Bank plc sold its subsidiary Pohjola Capital Partners Ltd to its existing management. In addition to the selling price, Pohjola will be entitled to an additional price of a total of EUR 0.7 million if the size of a new limited partnership based private equity fund established by the sold company or its direct or indirect owners at a later date reaches EUR 75 million based on commitments received at the time of closing. This amount will be paid to the seller on 31 March 2014 at the earliest, as specified in the terms and conditions of the sale. Entitlement to this amount also requires that Pohjola alone or together with OP-Pohjola Group companies (excl. Group member banks) make a minimum commitment of EUR 20 million to the new fund on the same terms as other investors, provided that the new fund reaches a minimum size of EUR 50 million.

Notes to the Consolidated Financial Statements

NOTES TO CONTINGENT LIABILITIES AND DERIVATIVES

Note 95. Operating leases

Pohjola Group as Lessee

Some Group companies have leased the premises they use. The term of these leases varies between one and ten years and they usually include the option of extending the lease after the original date of termination. The Group has subleased some of its premises. In addition, some Group companies have leased motor vehicles and office equipment. Rental expenses of EUR 20 million (26) due to the abovementioned items were recognised under Other operating expenses.

Future minimum lease payments under non-cancellable operating leases

EUR million	31 Dec. 2013	31 Dec. 2012
No later than 1 year	13	13
Later than 1 year and no later than 5 years	11	25
Later than 5 years	0	1
Total	25	39
Expected future minimum lease payments from non-cancellable subleases	15	25

Pohjola Group as Lessor

Pohjola Group companies have leased out investment properties they own, which generated lease income of EUR 17 million (17). In addition to investment properties, the Group has primarily leased out passenger cars, which generated lease income of EUR 5 million (10).

Future minimum lease payments receivable under non-cancellable operating leases

EUR million	31 Dec. 2013	31 Dec. 2012
No later than 1 year	30	30
Later than 1 year and no later than 5 years	52	53
Later than 5 years	40	37
Total	123	120

Notes to the Consolidated Financial Statements

NOTES TO CONTINGENT LIABILITIES AND DERIVATIVES

Note 96. Asset management

Within Pohjola Group, Pohjola Asset Management Limited runs asset management business and provides institutional customers and wealthy private individuals with discretionary and advisory portfolio management services. Pohjola Asset Management Limited is responsible for the financial management of most of OP Fund Management Company's mutual funds.

Pohjola Asset Management Ltd's discretionary asset management portfolio on 31 December 2013 totalled EUR 26.1 billion (20.8) and advisory asset management portfolio EUR 9.5 billion (9.9).

Notes to the Consolidated Financial Statements

NOTES TO CONTINGENT LIABILITIES AND DERIVATIVES

Note 97. Ownership in other companies

Changes in subsidiaries and associates in 2013

Pohjola Corporate Finance Ltd, a Pohjola Bank plc subsidiary, merged with the parent company. As a result of an additional investment in Access Capital Partners Group S.A., Pohjola Bank plc holds 45% of the company's shares. Pohjola Property Management Ltd established a new subsidiary, Pohjola Asuntorahasto I GP Oy.

Subsidiaries (consolidated) in 2013

Company	Domicile	% of shareholding	% of votes
A-Insurance Ltd	Helsinki	100	100
Conventum Venture Finance Ltd	Helsinki	100	100
Eurooppalainen Insurance Company Ltd	Helsinki	100	100
Kaivokadun PL-hallinto Oy	Helsinki	100	100
Omasairaala Oy	Helsinki	100	100
PAM USA Funds Ltd	Helsinki	100	100
Pohjola Asset Management Ltd	Helsinki	100	100
Pohjola Asset Management Execution Services Ltd	Helsinki	100	100
Pohjola Asuntorahasto I GP Oy	Helsinki	100	100
Pohjola Finance Estonia AS	Estonia	100	100
Pohjola Finance SIA	Latvia	100	100
Pohjola Health Ltd	Helsinki	100	100
Pohjola Insurance Ltd	Helsinki	100	100
Pohjola Property Management Ltd	Helsinki	100	100
Real Estate Debt and Secondaries GP Oy	Helsinki	100	100
Real Estate Fund Finland Oy	Helsinki	100	100
Real Estate Fund Finland III GP Oy	Helsinki	100	100
Real Estate Fund of Funds Finland Oy	Helsinki	100	100
Seesam Insurance AS	Estonia	100	100
UAB Pohjola Finance	Lithuania	100	100

Subsidiaries (consolidated) in 2012

Company	Domicile	% of shareholding	% of votes
A-Insurance Ltd	Helsinki	100	100
Conventum Venture Finance Ltd	Helsinki	100	100
Eurooppalainen Insurance Company Ltd	Helsinki	100	100
Kaivokadun PL-hallinto Oy	Helsinki	100	100
Omasairaala Oy	Helsinki	100	100
PAM USA Funds Ltd	Helsinki	100	100
Pohjola Asset Management Ltd	Helsinki	100	100
Pohjola Asset Management Execution Services Ltd	Helsinki	100	100
Pohjola Corporate Finance Ltd	Helsinki	100	100
Pohjola Finance Estonia AS	Estonia	100	100
Pohjola Finance SIA	Latvia	100	100
Pohjola Health Ltd	Helsinki	100	100
Pohjola Insurance Ltd	Helsinki	100	100
Pohjola Property Management Ltd	Helsinki	100	100
Real Estate Debt and Secondaries GP Oy	Helsinki	100	100
Real Estate Fund Finland Oy	Helsinki	100	100
Real Estate Fund Finland III GP Oy	Helsinki	100	100
Real Estate Fund of Funds Finland Oy	Helsinki	100	100
Seesam Insurance AS	Estonia	100	100
UAB Pohjola Finance	Lithuania	100	100

Associates (consolidated) in 2013

Name	Domicile	Assets, EUR million	Liabilities, EUR million	Net sales, EUR million	Profit/Loss, EUR million	% of shareholding
Access Capital Partners Group S.A.	Belgium	20	13	21	1	45.0
Autovahinkokeskus Oy	Espoo	9	1	9	0	27.8

Associates (consolidated) in 2012

Name	Domicile	Assets, EUR million	Liabilities, EUR million	Net sales, EUR million	Profit/Loss, EUR million	% of shareholding
Access Capital Partners Group S.A.	Belgium	27	17	24	5	40.0
Autovahinkokeskus Oy	Espoo	9	1	8	1	27.8

Joint ventures in 2013

Name	Domicile	% of shareholding
Kiinteistö Oy Helsingin Puutarhurinkuja 2	Helsinki	100
Kiinteistö Oy Kanta-Sarvis II	Tampere	100
Kiinteistö Oy STC Viinikkala	Helsinki	100
Kiinteistö Oy Vantaan Kisällintie 13	Helsinki	100
Tikkurilan Kauppatalo Oy	Helsinki	53.7

Joint ventures in 2012

Name	Domicile	% of shareholding
Kiinteistö Oy Helsingin Puutarhurinkuja 2	Helsinki	100
Kiinteistö Oy Kanta-Sarvis II	Tampere	100
Kiinteistö Oy STC Viinikkala	Helsinki	100
Kiinteistö Oy Vantaan Kisällintie 13	Helsinki	100
Tikkurilan Kauppatalo Oy	Helsinki	53.7

The consolidated financial statements include the share of assets and related liabilities under joint control.

Notes to the Consolidated Financial Statements

OTHER NOTES

Note 98. Related-party transactions

Pohjola Group's related parties comprise its parent company OP-Pohjola Group Central Cooperative, subsidiaries consolidated into the Group, associates and administrative personnel and other related-party entities. The list of Pohjola Group's associates can be found in Note 97. Pohjola Group's administrative personnel comprises Pohjola Bank plc's President and CEO, members of the Board of Directors and their close family members. Related parties also include companies over which a person among administrative personnel or his close family member exercises significant influence. Other related-party entities include OP Pension Fund, OP Pension Foundation and sister companies within OP-Pohjola Group Central Cooperative Consolidated.

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

Related-party transactions in 2013

EUR million	Parent company	Associates	Administrative personnel	Others*
Loans		3		4,335
Other receivables	7			215
Deposits	71	0		664
Other liabilities	0			436
Interest income	0	0		183
Interest expenses	3			250
Dividend income	0			6
Net income from Non-life Insurance				5
Net commissions and fees	0	0	0	15
Net trading income				119
Other operating income	0			7
Operating expenses	17			131

Contingent liabilities and derivatives

Off-balance-sheet commitments

Guarantees				74
Other guarantee liabilities				6
Loan commitments	20			171

Derivative contracts

Nominal values		3		16,884
Credit equivalents		0		94

Salaries, other short-term benefits and performance-based pay

Salaries, other short-term benefits and performance-based pay	2
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Related-party holdings

Number of shares	118,992,151	150,359	6,612,043
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Related-party transactions in 2012

EUR million	Parent company	Associates	Administrative personnel	Others*
Loans	70	3		4,614
Other receivables	4			247
Deposits	12	0		801
Other liabilities	0			572
Interest income	1	0		297
Interest expenses	4			309
Dividend income	0			3
Net income from Non-life Insurance	0			5
Net commissions and fees	0	0	0	27
Net trading income				-130
Other operating income	0			8
Operating expenses	13			100

Contingent liabilities and derivatives**Off-balance-sheet commitments**

Guarantees				70
Other guarantee liabilities				7
Loan commitments	8			163

Derivative contracts

Nominal values		4		17,073
Credit equivalents		0		136

Salaries, other short-term benefits and performance-based pay

Salaries, other short-term benefits and performance-based pay	1
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Related-party holdings

Number of shares	118,992,151	146,842	6,610,338
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* Other related-party entities include OP Bank Group Pension Fund, OP Bank Group Pension Foundation and their sister companies within OP-Pohjola Group Central Cooperative Consolidated.

Board member fees 2013

The Annual General Meeting approved the following Board emoluments:

Monthly fees and attendance allowance paid to Board members in 2013 totalled EUR 570,600. The Chairman's monthly emoluments totalled EUR 8,000, the Vice Chairman's EUR 5,500 and other members' EUR 4,500. An additional monthly emolument of 1,000 euros is paid to a Board committee chair who is not the Chairman or Vice Chairman of the Board. All Board members received an attendance allowance of EUR 550 for each meeting. Monthly Board emoluments are treated as pensionable salary.

Reijo Karhinen, Chairman	EUR 107,000
Tony Vepsäläinen, Vice Chairman	EUR 78,650
Board members:	
Merja Auvinen (until 22 March 2013)	EUR 16,250
Jukka Hienonen	EUR 65,000
Jukka Hulkkonen	EUR 59,500
Mirja-Leena Kullberg	EUR 61,700
Marjo Partio (since 22 March 2013)	EUR 44,350
Harri Sailas	EUR 62,800
Tom von Weymarn	EUR 75,350

In the financial year 2013, the members of the Board of Directors did not receive any share-based payments from the Company.

Salaries and performance-based bonuses paid to the President and CEO and his deputy in the financial year ending 31 December 2013 were as follows:

Jouko Pölönen, President and CEO (since 15 Nov. 2013)	EUR 50,081
Mikael Silvennoinen, President and CEO (until 14 Nov. 2013)	EUR 1,039,275*

The period of notice applicable under the President and CEO's executive contract is six months. According to this contract, the Company must pay the President and CEO severance pay equalling his 12-month total salary, in addition to compensation for loss of office, if the Company dismisses him or he has to resign or terminate the contract due to a reason attributable to the Company. In case the executive contract terminates due to reasons attributable to the Company, the President and CEO will be entitled to bonuses under the short- and long-term incentive schemes for the year of contract termination, provided that the schemes' performance criteria and the criteria for payment under the schemes' terms and conditions are fulfilled and his executive contract has been effective throughout the performance year. In addition, the President and CEO belongs to the long-term management incentive scheme (2011–13), under which bonuses will be paid from 2015 until 2017. He has unlimited company car benefit.

Pohjola can pay the performance-based bonus accrued in 2013 to President and CEO Silvennoinen according to his executive contract provided that the Board of Directors so decides. Pohjola will not pay any bonus under the long-term management share-based incentive scheme (2011–13) to Silvennoinen.

* Includes salaries and bonuses paid to the President and CEO for 1 January–17 December 2013. Includes a portion of the amount paid in 2013 and earned in 2012 based on the short-term remuneration scheme. Of the remaining portion of the 2012 bonus, EUR 58,271 has been deferred for payment between 2014 and 2016. Includes a portion paid in 2013 and earned in 2011 based on the short-term remuneration scheme. Of the remaining portion of the 2011 bonus, EUR 32,069 has been deferred for payment between 2014 and 2015. Detailed information on the deferment procedure can be found in Note 99 below.

Pension obligations regarding President and CEO and Board members

The CEO employment contract does not stipulate any specific retirement age for the President and CEO. The President and CEO is covered by TyEL (the Finnish Employees Pensions Act) which provides pension benefits based on the years of employment and earnings as prescribed in the Act. The retirement age is 63–68 years, depending on his choice. In addition to the statutory pension scheme, President and CEO Mikael Silvennoinen was covered by OP Bank Group Pension Foundation's supplementary pension scheme. Under that scheme, the retirement age applied to the President and CEO is 64 years. Pension accrued under the supplementary pension scheme may begin to be paid out as a paid-up pension before the old-age pension, if employment with OP-Pohjola Group terminates. In such a case, the minimum retirement age for men is 57 years. No supplementary pension scheme applies to President and CEO Pölönen. Board members' attendance allowances are treated as pensionable salary. More detailed information on Pohjola Group's pension arrangements can be found in Note 35 Provisions and other liabilities.

EUR 1,000	Pension costs under TyEL plan*		IFRS expense of voluntary supplementary pension	
	2013	2012	2013	2012
Jouko Pölönen, President and CEO (since 15 Nov. 2013)	49	45		
Mikael Silvennoinen, President and CEO (until 14 Nov. 2013)	87	85	62	56

* IFRS expense has been used for the portion of the TyEL defined benefit plan and the equalisation portion of an employee's contribution less the employee's portion of the contribution has been used for the defined contribution plan.

Notes to the Consolidated Financial Statements

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Note 99. Variable remuneration

Personnel fund

On 26 October 2004, Pohjola Bank plc joined OP Personnel Fund. On 31 December 2013, the Fund had some 2,150 Pohjola Group employees. The Personnel Fund covers all those not included in the management incentive scheme or Baltic operations.

Payment of profit-based bonuses to OP Personnel Fund in 2013 was based on the achievement of the following targets: OP-Pohjola Group's pre-tax earnings with a 40% weighting, and both OP-Pohjola Group's corporate customer business market share increase and the change in loyal customers with a weighting of 30%. Profit-based bonuses for 2013 transferred to the Fund account for some 4.6% (2%) of the combined salaries and wages earned by the Fund's members. The bonuses recognised in 2013 totalled EUR 5.9 million (1.7).

Long-term management incentive scheme in 2010 and before

The Group's previous long-term management incentive scheme (2008–10) applied to Pohjola Bank plc's President and CEO, Senior Vice Presidents, Executive Vice Presidents, heads of departments and those in charge of separately defined managerial, supervisory and expert duties. On 31 December 2010, the scheme covered 136 people. The Board of Directors confirmed the inclusion of the President and CEO and members of the Executive Committee in the scheme, and the selection principles with respect to other people in the scheme. Pohjola Group's Executive Committee confirmed the selection of the other people in the scheme.

Those included in the long-term management incentive scheme had the opportunity to receive Pohjola Bank plc shares as annual bonuses, provided that the Company achieved the targets based on its strategy set for the year in question. Those covered by the scheme will receive shares (after tax) they have earned in three years' time following the beginning of the performance year.

Equity-settled and cash-settled bonus payments are recognised as personnel costs over the performance periods. Expenses charged under the scheme for the financial year amounted to EUR 1.2 million (1.4).

Remuneration schemes in 2013

OP-Pohjola Group's remuneration schemes are in compliance with regulation in the financial sector and are based on OP-Pohjola Group's strategic targets.

OP-Pohjola Group's variable remuneration principles take account of the Group's risk exposure and risk management methods. The performance indicator targets have been set at a level that does not encourage excessive risk-taking. Long-term variable remuneration is based on reaching OP-Pohjola Group's targets, whereas short-term variable remuneration is based on how an individual Group company or business unit reaches its targets. The maximum amount of remuneration is limited in all schemes.

Long-term management incentive scheme from 2011

In 2011, Pohjola Bank plc's Board of Directors decided that the company would join OP-Pohjola Group's long-term management incentive scheme with OP-Pohjola Group-level targets. These targets conform to those of OP Personnel Fund for the entire OP-Pohjola Group's personnel.

Pohjola Bank plc's directors and designated persons in key positions are included in the long-term management share-based incentive scheme. OP-Pohjola Group Central Cooperative's Supervisory Board has decided that a maximum of 75 people be included in the scheme.

The bonus is determined by the management position. If the set targets are annually achieved at 100%, the management and key employees will be entitled to a bonus equalling their regular 2–12-month salary subject to PAYE tax.

The scheme consists of consecutive three-year performance periods, the first of which is 1 January 2011–31 December 2013. The bonus for the 2011–13 performance period will be paid after a deferral period in three equal instalments by the end of each June in 2015–17.

The target bonus was determined at the beginning of the scheme, i.e. the maximum remuneration in terms of Pohjola Bank plc Series A shares. The target bonus for the 2011–13 performance period amounts to 1.2 million shares, around half of it based on cash-settled payments and half on equity-settled payments.

OP-Pohjola Group Central Cooperative's Supervisory Board determines the performance indicators for the scheme and targets set for them separately for each performance period. The targets for 2011–2013 are based on the following criteria:

- Growth in the number of customers using OP-Pohjola as the main bank and insurer
- Change in the market share of corporate customer business
- Return on economic capital

Bonuses will be paid to their beneficiaries provided that OP-Pohjola Group's capital adequacy ratio under the Act on the Supervision of Financial and Insurance Conglomerates is 1.3 or higher on the bonus payout date and that the person within the scheme is employed by OP-Pohjola Group up to the payout date.

Under the scheme, Pohjola Bank plc shares are accounted for as equity-settled transactions and cash that covers the taxes is accounted for as cash-settled transactions. Expenses for the scheme are recognised from the beginning of the performance period up to the date of payment (vesting period) as personnel costs, and the corresponding liability is recognised under deferred expenses or shareholders' equity. The equity-settled portion is based on the fair value of the share on the grant date, with expected discounted dividends factored in. The weighted average share price on the grant date was 7.59 euros. On 31 December 2013, the amount of equity-settled payments recognised in equity totalled EUR 1.2 million (1.1). Liability arising from the amount of cash-settled payments is measured at fair value on each balance sheet date, totalling EUR 2.3 million (1.8) on 31 December 2013.

OP-Pohjola Group's Supervisory Board manages the long-term scheme and supervises compliance with it. The Supervisory Board may exercise discretion to change the terms and conditions of the scheme and postpone bonus payments for compelling reasons.

Short-term incentive schemes

In short-term schemes, the performance period is one calendar year and the bonus is primarily paid in cash. The short-term incentive schemes are based on performance and other business targets specified for each business unit, covering all Pohjola Group's staff.

Bonuses under the short-term schemes are primarily accounted for as cash-settled transactions. Expenses for the schemes are recognised from the beginning of the performance period up to the date of payment (vesting period) as personnel costs, and the equivalent liability is recognised under deferred expenses. Liability is measured at fair value on each balance sheet date, totalling EUR 12.4 million (12.0) on 31 December 2013.

Deferment of variable remuneration

The payment of variable remuneration has been prescribed in Government decree no. 1372/2010. If a person is categorised on the basis of his duties as belonging to a group that may cause considerable risk (identified staff) to his company, the company may defer the payment of variable remuneration over three years under certain conditions.

Identified staff in Pohjola Group include managing directors and other key management personnel, other people with a major impact on the company's risk exposure, Internal Control and other designated persons or special groups.

Identified staff will have their variable remuneration payment deferred and their bonuses paid half in cash and Pohjola Bank plc shares (or tied to its value) if their variable remuneration for a 12-month performance period exceeds EUR 50,000 – the maximum recommended by the Financial Supervisory Authority – or two months' fixed gross salary above this amount. The remuneration of the identified staff is reviewed up to the EUR 50,000 deferment limit as a whole, considering both long- and short-term remuneration.

If the euro maximum for deferment is exceeded, some bonus is paid immediately, while the rest is deferred and the deferred bonus will be paid within the next three years. In case of such deferment under the short-term scheme, half of the bonus is paid in cash and half as Pohjola Bank plc Series A shares (or cash tied to the price of a Pohjola Bank plc Series A share). This means that the accounting treatment of bonus payments based on equity-settled payments under the scheme will change to equity-settled transactions.

Expenses recognised for variable remuneration*

EUR million	2013	2012
Personnel fund	6	2
Short-term schemes	12	12
Previous long-term schemes		
Schemes for 2007–10	1	1
Long-term scheme underway		
Scheme for 2011–13	1	2
Total	20	17

* Excl. social expenses

Notes to the Consolidated Financial Statements

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Note 100. Events after the balance sheet date

On 6 February 2014, OP-Pohjola Group Central Cooperative, the central institution of OP-Pohjola Group, decided to make a public voluntary bid for all Pohjola Bank plc shares that are not yet held by OP-Pohjola Group Central Cooperative.

On 5 February 2014, the Supervisory Board of OP-Pohjola Group Central Cooperative decided to increase OP-Pohjola Group's capital adequacy target from the current 15% (CT1) to 18% (CET1). The Executive Board which acts as the Board of Directors of OP-Pohjola Group Central Cooperative, Pohjola Bank plc's parent institution, has proposed to the Board of Directors of Pohjola Bank plc that Pohjola's CET1 target be increased to 15% and that Pohjola Group's dividend payout ratio be decreased to 30% as of dividend distribution for the financial year 2014 until the CT1 reaches the new target. Pohjola Bank plc's Board of Directors will assess Pohjola Group's financial targets and any measures to achieve them in such a way that the updated financial targets can be confirmed by the Annual General Meeting of 20 March 2014.

Parent Company Financial Statement (FAS)

FINANCIAL STATEMENTS

Income statement

EUR million	2013	2012
Interest income	1,740	2,288
Net lease income	27	28
Interest expenses	-1,545	-2,064
Net interest income	222	252
Income from equity investments	184	134
From subsidiaries	158	118
From affiliates	3	2
From other companies	23	13
Commissions and fees	133	114
Commission expenses	-43	-25
Net income from securities and foreign exchange trading	102	64
Net income from securities trading	76	41
Net income from foreign exchange trading	26	23
Net income from available-for-sale financial assets	15	15
Net income from hedge accounting	-1	4
Net income from investment property	0	0
Other operating income	21	25
Administrative expenses	-128	-135
Personnel costs	-62	-80
Wages and salaries	-51	-66
Social expenses	-11	-14
Pension costs	-8	-10
Other social expenses	-2	-4
Other administrative expenses	-66	-55
Depreciation/amortisation and write-downs on tangible and intangible assets	-11	-8
Other operating expenses	-40	-21
Impairment losses on loans and other commitments	-38	-58
Operating profit	417	360
Appropriations	-86	-142
Income taxes	-52	-23
Taxes for the financial year	-38	-27
Taxes for previous financial years	0	-2
Change in deferred taxes	-14	6
Profit from operations after taxes	279	195
Profit for the financial year	279	195

Balance sheet

Assets

EUR million	31 Dec. 2013	31 Dec. 2012
Cash and cash equivalents	2,046	5,643
Notes and bonds eligible for refinancing with central banks	7,368	5,426
Treasury bills		
Other	7,368	5,426
Receivables from credit institutions	9,676	8,486
Repayable on demand	620	522
Other	9,056	7,964
Receivables from the public and public sector entities	13,398	12,817
Repayable on demand		
Other	13,398	12,817
Lease assets	1,153	1,068
Notes and bonds	695	596
From public sector entities	4	7
From other	691	589
Shares and participations	82	99
Shares and participations in affiliates	32	28
Shares and participations in subsidiaries	1,249	1,252
Derivative contracts	3,332	4,476
Intangible assets	49	43
Tangible assets	17	17
Investment property and shares and participations in investment property	10	10
Other property and shares and participations in property companies	3	3
Other tangible assets	3	3
Other assets	847	889
Deferred income and advances paid	722	742
Deferred tax assets	8	20
Total assets	40,675	41,602

Liabilities

EUR million	31 Dec. 2013	31 Dec. 2012
Liabilities		
Liabilities to credit institutions	4,789	5,840
Central banks	73	
Credit institutions	4,716	5,840
Repayable on demand	725	592
Other	3,992	5,248
Liabilities to the public and public sector entities	10,343	10,841
Deposits	7,660	6,377
Repayable on demand	5,995	4,671
Other	1,665	1,706

Other liabilities	2,683	4,464
Repayable on demand	10	12
Other	2,674	4,453
Debt securities issued to the public	16,255	13,969
Bonds	9,384	8,321
Other	6,870	5,648
Derivative contracts and other liabilities held for trading	3,256	4,577
Other liabilities	1,452	1,691
Other liabilities	1,452	1,689
Statutory provisions	0	2
Deferred expenses and advances received	762	797
Subordinated liabilities	934	1,225
Subordinated loans	253	272
Other	681	954
Total liabilities	37,790	38,940
Appropriations	1,029	943
Depreciation difference	138	126
Voluntary provisions	891	816
Shareholders' equity		
Share capital or cooperative capital	428	428
Share capital	428	428
Share premium account	524	524
Other restricted reserves	200	197
Reserve fund	164	164
Fair value reserve	36	34
Cash flow hedging	12	23
Fair value measurement	24	11
Non-restricted reserves	331	331
Reserve for invested non-restricted equity	308	308
Other reserves	23	23
Retained earnings	93	45
Profit for the financial year	279	195
Total shareholders' equity	1,855	1,720
Total liabilities and shareholders' equity	40,675	41,602
Off-balance-sheet commitments	7,725	8,216
Commitments given to a third party on behalf of customers	2,727	2,676
Guarantees and pledges	2,479	2,241
Other	247	435
Irrevocable commitments given on behalf of customers	4,999	5,541
Securities repurchase commitments	9	12
Other	4,989	5,529

Cash flow statement

EUR million	31 Dec. 2013	31 Dec. 2012
Cash flow from operating activities		
Profit for the financial year	279	195
Adjustments to profit for the financial year	1	214
Increase (-) or decrease (+) in operating assets	-4,047	-706
Notes and bonds eligible for refinancing with central banks	-2,255	1,915
Receivables from financial institutions	-1,092	-1,447
Receivables from the public and public sector entities	-641	-1,058
Lease assets	-78	-341
Notes and bonds	-260	251
Shares and participations	4	1
Derivative contracts	26	35
Investment property		0
Other assets	249	-62
Increase (+) or decrease (-) in operating liabilities	-2,004	2,932
Liabilities to credit institutions and central banks	-1,031	-124
Liabilities to the public and public sector entities	-496	2,768
Derivative contracts and other liabilities held for trading	-22	-28
Other liabilities	-454	316
Income tax paid	-28	-27
Dividends received	99	134
A. Net cash from operating activities	-5,700	2,741
Cash flow from investing activities		
Increases in held-to-maturity financial assets		
Decreases in held-to-maturity financial assets	129	320
Acquisition of subsidiaries and associates	-4	-4
Disposal of subsidiaries and associates		
Purchase of tangible and intangible assets	-16	-19
Proceeds from sale of tangible and intangible assets	0	0
B. Net cash used in investing activities	109	298
Cash flow from financing activities		
Increases in subordinated liabilities		502
Decreases in subordinated liabilities	-271	-274
Increases in debt securities issued to the public	24,340	22,516
Decreases in debt securities issued to the public	-21,833	-24,095
Dividends paid	-145	-129
Other monetary decreases in equity items	0	0
C. Net cash used in financing activities	2,092	-1,480
Cash and cash equivalents transferred due to combination	-3,499	1,559
Cash and cash equivalents at year-start	6,165	4,605
Cash and cash equivalents at year-end	2,666	6,165
Interest received	1,758	2,417
Interest paid	-1,585	-1,738

Adjustments to profit for the financial year**Non-cash items**

Change in fair value for trading	-166	220
Unrealised net gains on foreign exchange operations	2	-254
Change in fair value of investment assets	85	-45
Depreciation/amortisation, change in depreciation/amortisation difference and voluntary provisions	90	365
Impairment losses on receivables	41	60
Other	-52	-143

Items presented outside cash flow from operating activities

Capital gains, share of cash flow from investing activities	0	0
Capital losses, share of cash flow from investing activities		12
Gains/losses on merger, portion of cash flow from investing activities	1	

Total adjustments	1	214
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Cash and cash equivalents

Liquid assets	2,046	5,643
Receivables from credit institutions payable on demand	620	522
Total	2,666	6,165

Notes to the Parent Company Financial Statements (FAS)

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Note 2. Net lease income

Note 3. Income from equity investments

Note 4. Commissions and fees

Note 5. Net income from securities and foreign exchange trading

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Parent Company's (Pohjola Bank plc) Accounting Policies

General information

Pohjola Bank plc is a Finnish credit institution whose businesses comprise Corporate Banking, Markets, Central Banking and Group Treasury. In addition, the Company includes Other Operations involving administrative functions.

Pohjola Bank plc (hereinafter Pohjola or the Company) is part of OP-Pohjola Group which currently consists of 183 independent cooperative banks and their central institution OP-Pohjola Group Central Cooperative and other member credit institutions. OP-Pohjola Group's member credit institutions comprise Pohjola, Helsinki OP Bank Plc, OP-Kotipankki Oyj, OP Mortgage Bank and the member cooperative banks of OP-Pohjola Group Central Cooperative.

In accordance with the Laki talletuspankkien yhteenliittymästä Act (Act on the amalgamation of deposit banks), the member credit institutions, Pohjola included, and OP-Pohjola Group Central Cooperative are ultimately jointly and severally liable for each other's debts and commitments. If a member credit institution's own capital is depleted to such a low level owing to losses that the criteria, specified in the Act, for being placed in liquidation are fulfilled, OP-Pohjola Group Central Cooperative has the right to collect from its member credit institutions extra contributions on the basis of the combined balance sheets previously adopted.

Pohjola is domiciled in Helsinki and the street address of its registered office is Teollisuuskatu 1 B, FI-00510 Helsinki, Finland. A copy of Pohjola's consolidated financial statements is available at www.pohjola.com or the Company's head office whose street address is Vääksyntie 4, FI-00510 Helsinki.

Basis of preparation

Pohjola Bank plc's financial statements based on national regulation are prepared and presented according to the Act on Credit Institutions, the Ministry of Finance Decree on the Financial Statements and Consolidated Financial Statements of a Credit Institution and Investment Firm, the Accounting Act and the Financial Supervisory Authority's Standard on financial statements and annual report. In addition, the central institution of the amalgamation of cooperative banks, OP-Pohjola Group Central Cooperative, issues instructions for compliance with unified accounting principles and the preparation of the financial statements.

Pohjola Bank plc's financial statements are presented in millions of euros and have been prepared on the basis of original acquisition costs, with the exception of financial assets and liabilities held for trading, financial assets at fair value through profit or loss at inception, available-for-sale financial assets, derivative contracts and hedged items (for hedged risk) in fair value hedging and derivative contracts measured at fair value.

The preparation of financial statements requires the management to make assessments and estimates and exercise its judgement in the process of applying the accounting policies.

Foreign currency translation

Pohjola Bank plc's financial statements are prepared in euros, which is the presentation currency. Non-euro transactions are recognised in euros at the exchange rate quoted on the transaction date or at the average exchange rate of the month of recognition. On the balance sheet date, non-euro monetary balance sheet items are translated into euros at the exchange rate quoted on the balance sheet date. Non-monetary balance sheet items measured at cost are presented at the exchange rate quoted on the transaction date.

The exchange rate differences arising from the translation of non-euro transactions and monetary balance sheet items into euros are recognised as foreign exchange gains or losses under "Net income from foreign exchange trading" in the income statement.

Financial instruments

Fair value determination

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of financial instruments is determined using either prices quoted in an active market or the Company's own valuation techniques where no active market exists. Markets are deemed to be active if price quotes are easily and regularly available and reflect real and regularly occurring market transactions on an arm's length basis. The current bid price is used as the quoted market price of financial assets.

If the market has a commonly used valuation technique applied to a financial instrument to which the fair value is not directly available, the fair value is based on a commonly used valuation technique and market quotations of the inputs used by the technique.

If the valuation technique is not a commonly used technique in the market, a valuation model created for the instrument in question will be used to determine the fair value. Valuation models are based on widely used measurement techniques, incorporating all factors that market participants would consider in setting a price, and are consistent with accepted economic methodologies for pricing financial instruments.

The valuation techniques used include prices of market transactions, the discounted cash flow method and reference to the current fair value of another instrument that is substantially the same. The valuation techniques take account of estimated credit risk, applicable discount rates, the possibility of early repayment and other factors affecting the reliable measurement of the fair value of financial instruments.

The fair value of financial instruments is divided into the following three levels of hierarchy of valuation techniques:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2);
- and Inputs for the asset or liability that are not based on observable market data (Level 3).

If the inputs used to measure fair value are categorised into different levels of the fair value hierarchy, the fair value measurement is categorised in its entirety at the same level as the lowest level input that is significant to the entire measurement. The significance of inputs has been assessed on the basis of the fair value measurement in its entirety.

It is typical of illiquid instruments that their price calculated using a pricing model differs from the actual transaction price. However, the actual transaction price is the best evidence of the instrument's fair value. The Day 1 profit/loss, based on the difference between the actual transaction price and the price deriving from the pricing model that uses market prices, is recognised in the income statement over the term of the contract or a shorter period taking account of the product's structure and counterparty. However, the non-recognised amount will be recognised as soon as there is a genuine market price for the instrument or a well-established pricing practice is created in the market. The amount of illiquid financial assets is insignificant in the balance sheet.

Impairment of financial assets

At the end of each reporting period, the Company assesses whether there is objective evidence that a financial asset other than that carried at fair value through profit or loss is impaired. A financial asset is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that the loss event has an impact on the estimated future cash flows of the financial asset that can be estimated reliably.

The criteria which Pohjola uses to determine that there is objective evidence of an impairment loss include:

- a significant decline in the issuer's financial results, credit rating, balance sheet, payment status or business plans, and unfavourable changes in the issuer's economic and operating environment;
- a bona fide bid for the same or similar investment from the market below acquisition value;
- events or circumstances that significantly weaken the issuer's ability to operate on a going concern basis, such as negative cash flows resulting from operations, insufficient capital and shortage of working capital;
- indications that a borrower will enter bankruptcy or other reorganisation;
- a borrower's breach of contract; a concession granted to the borrower;
- impairment loss recognised earlier; and
- the disappearance of an active market for the financial asset

In addition, a significant or prolonged decline in the equity instrument's fair value below its cost constitutes objective evidence of impairment.

A more detailed description of recognition of impairments can be found under the various financial instruments below.

Securities sale and repurchase agreements

The purchase price of securities bought under 'resell conditions' binding on both parties is recognised as a receivable under the balance sheet item determined by the counterparty. The difference between the purchase price and resale price is treated as interest income and accrued over the term of the agreement.

The selling price of securities sold under 'resell conditions' binding on both parties is recognised as a financial liability under the balance sheet item determined by the counterparty. The difference between the selling price and repurchase price is treated as interest expenses and accrued over the term of the agreement. Securities sold under the repurchase obligation and the corresponding securities provided as maintenance margin are included in the original balance sheet item despite the agreement.

Classification and recognition

Upon initial recognition, financial assets and liabilities are classified as follows: financial assets and liabilities at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets and other financial liabilities. The classification depends on the purpose for which the financial assets and liabilities were acquired. Financial assets at fair value through profit or loss are subdivided into financial assets held for trading and financial assets at fair value through profit or loss at inception. Financial liabilities at fair value through profit or loss are financial liabilities held for trading.

The purchase and sale of financial assets and liabilities at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets are recognised in the balance sheet on the transaction date, or the date on which the Company agrees to buy or sell the asset or liability in question. Notes and bonds classified as loans and receivables are recognised as financial assets on the transaction date and loans granted on the date on which the customer draws down the loan.

Financial assets and liabilities are offset in the balance sheet if Pohjola currently has a legally enforceable right of set-off in the normal course of business and in the event of default, insolvency or bankruptcy, and intends to settle the asset and liability on a net basis. OTC interest rate derivatives for central counterparty clearing are offset in the balance sheet, which are cleared in the daily clearing process with London Clearing House.

Pohjola derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Financial liabilities are derecognised when they are extinguished, i.e. when the obligation is discharged, cancels or expires.

Financial assets and liabilities held for trading

All financial assets and liabilities that are expected to generate short-term profits arising from fluctuations in interest rates, prices and quotations or in which an embedded derivative contract cannot be separated from the host contract are classified as held for trading. Liabilities held for trading refer to the obligation to deliver securities which have been sold but which have not been owned at the time of selling (short selling).

Financial assets and liabilities held for trading include derivatives other than those used for hedging purposes.

Financial assets and liabilities held for trading are recognised at fair value in the balance sheet, and subsequent changes in the fair value are recognised under "Net income from securities trading" in the income statement.

Financial assets at fair value through profit or loss at inception

Financial assets at fair value through profit or loss at inception include financial assets which are designated as at fair value through profit or loss upon their initial recognition. These financial assets are measured at fair value and any change in their fair value and any capital gains and losses, interest income and expenses as well as dividend income are recognised in the income statement.

Financial assets recognised at fair value through profit or loss at inception comprise bonds which the Company, in accordance with its risk management principles, manages and assesses performance at fair value in order to receive a true and real-time picture of investment operations. Reporting to the Group's management is based on fair values.

Since the business involves investment on a long-term basis, financial assets are presented separately from those held for trading.

Financial assets at fair value through profit or loss also include hybrid instruments in which the fair value of an embedded derivative cannot be determined separately. These financial assets are measured at fair value in the balance sheet, and any subsequent changes in the fair value are recognised under "Net income from securities trading" in the income statement.

Loans and receivables

Financial assets classified as loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans and receivables are initially recognised at cost, which is the fair value of consideration given plus directly attributable transaction costs. Loans and receivables are carried at amortised cost after their initial recognition, using the effective interest method.

Impairment losses on loans and receivables are recognised on an individual or collective basis. Impairment will be assessed on an individual basis if the debtor's total exposure is significant. In other respects, impairment is assessed on a collective basis.

Impairment will be recognised and impairment losses incurred if there is objective evidence that the receivable cannot be recovered in full. The receivable has impaired if its present value of the estimated future cash flows – collateral included – is lower than the aggregate carrying amount of the loan and the related unpaid interest. Estimated future cash flows are discounted at the loan's original effective interest rate. If the loan carries a variable interest rate, the discount rate for measuring any impairment is the current effective interest rate determined under the agreement. Impairment loss recognised in profit or loss equals the difference between the loan carrying amount and the lower present value of future cash flows.

Impairment assessment is a two-phase process. Impairment is assessed individually for significant loans and receivables. If loans and receivables are not assessed individually, they will be assessed collectively for impairment. Losses incurred but not yet reported, which cannot yet be allocated to a certain loan, are recognised as collectively assessed impairment. Collectively assessed impairment provisions are based on a statistical model used in the measurement of economic capital. In the model, receivables are classified into groups with similar credit risk by rating category. Collectively assessed impairment is measured based on the expected loss by rating category, and the measurement also takes account of the discounted present values of collateral and the average past loss experience.

If the contractual payment terms of a loan are modified, the reason for such modification and the severity class are documented using an internally defined scale. Loans may also be modified for reasons related to the management of customer relationships, not to the financial difficulties of the customer. Such modifications do not affect loan impairment assessment. In some cases, the Company may, due to the customer's financial difficulties, modify the loan terms and conditions, such as in terms of repayment holiday for a limited period or another loan modification, which are aimed at securing the customer's repayment capacity and limiting credit risk associated with liabilities. These modified loans are reported under doubtful receivables. Modifications in the contractual payment terms that are due to the customer's financial difficulties are forbearance measures and together with other criteria reduce the customer's credit rating and thereby increase collective impairment allowance. Modifications with the highest severity class are also forbearance measures that will have an effect on the loan being assessed for impairment on an individual basis. If the customer has adhered to the new payment terms and no impairment allowance has been recognised for the customer's exposure, it will be removed from doubtful receivables. Modifications in payment terms are subject to regular monitoring and reporting to the management as an indicator anticipating customer solvency.

Impairment losses on loans are presented as an allowance of loans in the balance sheet and under "Impairment losses on receivables" in the income statement. Recognition of interest on the impaired amount continues after the recognition of impairment.

The loan is derecognised after the completion of debt-collection measures, or otherwise based on the management's decision. Following the derecognition, payments received are recognised as an adjustment to impairment losses on receivables. If there is subsequent objective evidence of the debtor's improved solvency, the amount of the impairment loss recognised earlier will be reassessed and any change in the recoverable amount will be recorded in the income statement.

Investments held to maturity

Investments held to maturity are non-derivative financial assets with fixed or determinable payments that the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are initially recognised at fair value to which transaction costs are added. These investments are subsequently carried at amortised cost after their initial recognition, using the effective interest method.

Impairment of investments held to maturity is reviewed on the basis of the same principles as that of loans and receivables. The difference between the carrying amount of notes and bonds and a lower present value of future cash flows is recognised as an impairment loss in the income statement.

Investments included in the financial assets held to maturity category are sold before their maturity only in exceptional cases mentioned in IAS 39.

Impairment of investments held to maturity is reviewed on the basis of the same principles.

Available-for-sale financial assets

Available-for-sale financial assets include non-derivative assets which are not classified as the abovementioned financial assets but which may be sold before their maturity, comprising notes and bonds, shares and participations.

At the time of their acquisition, available-for-sale financial assets are recognised at cost, which equals the fair value of the consideration paid plus transaction costs directly attributable to their acquisition. Available-for-sale financial assets are subsequently measured at fair value.

If the fair value cannot be determined reliably, shares and participations necessary for operations and other unquoted shares and participations are measured at cost. Any changes in their fair value are recognised in the "Fair value reserve" under shareholders' equity, from where they, including any capital gain or loss, are transferred to "Net income from available-for-sale financial assets" in the income statement when the asset is derecognised or impaired. Interest income and dividends are recorded in the income statement.

In the case of available-for-sale financial assets, for example, a significant downgrade of the credit rating of the issuer of bonds and notes, or a significant or prolonged decline in the equity instrument's fair value below its cost, constitutes objective evidence.

If an equity instrument's market value continues to fall following impairment recognition, the impairment loss will be recognised in the income statement.

If the fair value of impaired notes and bonds classified as available-for-sale financial assets increases subsequently and this increase can be objectively regarded as being related to an event after their impairment loss recognition, the impairment loss will be reversed and recorded in the income statement. If the fair value of an impaired equity instrument increases subsequently, this increase will be recognised in shareholders' equity.

Interest income and dividends related to available-for-sale financial assets are recognised in the income statement.

The difference between the nominal value and the acquisition cost of fixed-rate bonds is recognised in interest income over the estimated residual term to maturity, using the effective interest method.

Participating interests, and shares and holdings in Group companies

Participating interests, and shares and holdings and other equity investments in Group companies are recognised at cost or, if the item's value on the balance sheet date is found to be lower than the acquisition cost due to impairment, at cost less impairment loss.

Impairment losses are recognised under "Impairment losses on other financial assets" in the income statement.

Cash and cash equivalents

Cash and cash equivalents consist of cash and receivables from credit institutions repayable on demand.

Other assets

Other assets comprise receivables repayable on demand arising from payment transfers, receivables in various clearing accounts, marginal account receivables related to derivative contracts and all other receivables that cannot be presented under any other suitable balance sheet item, such as various accounts receivable and rental receivables.

Other financial liabilities

Other financial liabilities include financial liabilities other than those at fair value through profit or loss, comprising deposits and other liabilities to credit institutions and customers, debt securities issued to the public and other financial liabilities. Other financial liabilities are recognised in the balance sheet on the settlement date and carried at amortised cost after initial recognition.

The difference between the nominal value and the acquisition cost of fixed-rate bonds is recognised in interest expenses over the estimated residual term to maturity, using the effective interest method.

Other liabilities

Other liabilities consist mainly of payment transfer liabilities, accounts payable and liabilities related to securities trading.

Derivative contracts

Derivatives are divided into hedging and non-hedging contracts. Both hedging and non-hedging derivatives are recognised at fair value in the balance sheet. Accrued interest on non-hedging interest rate swaps is recognised in interest income and interest carried forward corresponding to them in deferred income and deferred expenses. Changes in the fair value of non-hedging interest-rate, loan, currency, equity and commodity derivatives are recognised under "Net income from securities trading" in the income statement. Positive fair value changes and premiums paid for derivative contracts are recognised as assets under "Derivative contracts" while negative fair value changes and premiums received from derivative contracts are recognised under "Derivative contracts and other liabilities held for trading".

The Group's Risk Management has prepared methods and internal principles used for hedge accounting, whereby a financial instrument can be defined as a hedging instrument.

In accordance with the hedging principles, the Group's Parent Company, Pohjola Bank plc, can hedge against interest rate risk, currency risk and price risk by applying fair value hedge or cash flow hedge. While the latter refers hedging against risks causing cash flow fluctuations, the former refers to hedging against changes in the fair value of a hedged asset/liability.

Pohjola Bank plc enters into derivative contracts which are in fact used to hedge against financial risks but which do not fulfil these criteria.

Embedded derivatives associated with structured bonds issued are separated from the host contract and measured at fair value in the balance sheet, and changes in the fair value of these embedded derivatives and derivatives designated as hedging instruments are recognised in "Net interest income".

The fair value of OTC interest rate derivatives for central counterparty clearing is cleared in cash on a daily basis. In the balance sheet, these cleared derivatives are shown as a net change in cash. Other derivatives are presented on a gross basis, in which case positive value changes are presented as Derivative contracts under assets and negative value changes as Derivative contracts under liabilities.

Hedge accounting

Hedge accounting is used to verify that changes in the fair value of a hedging instrument fully or partially offset changes in the fair value or cash flows of a hedged item. The relationship between hedging and hedged instruments is formally documented, containing information on risk management principles, hedging strategy and the methods used to demonstrate hedge effectiveness. Hedge effectiveness is tested at the inception of the hedge and in subsequent periods by comparing respective changes in the fair value or cash flows of the hedging and hedged instrument. The hedge is considered highly effective if the change in the fair value of the hedging instrument or in cash flows offsets the change in the fair value of the hedged contract or portfolio or in cash flows within a range of 80–125%.

Fair value hedges

Fair value hedging against interest rate risk involves long-term fixed-rate debt instruments (Pohjola's own issues), individual bond and loan portfolios, as well as individual loans. Pohjola uses forward exchange contracts and interest-rate and currency swaps as hedging instruments.

Changes in the fair value of derivative contracts that are documented as hedging the fair value and are highly effective hedges are recognised in the income statement. Hedged assets and liabilities are also measured at fair value during the period for which the hedge is designated, and any fair value changes are recognised through profit or loss. In fair value hedge accounting, changes in the fair value of the hedging and hedged instrument are recorded under "Net interest income".

Cash flow hedges

A cash flow hedge is a hedge of the exposure to the variability attributable to a particular risk associated with variable-rate debt or other variable-rate assets and liabilities. In addition, cash flow hedging is used to hedge the future interest flows of the loans defined on the basis of reference interest rate linkage. Interest rate swaps are among those used as hedging instruments.

Derivative contracts which are documented as cash flow hedges and provide effective hedges are measured at fair value. The effective portion of changes in the fair value of the hedging instrument is recognised in other comprehensive income. Any ineffective portion of changes in the fair value is recognised immediately in profit or loss. Fair value changes recognised in shareholders' equity are included in the income statement in the period when hedged items affect net income.

Lease assets

Leased out assets and lease assets' advance payments are recognised at non-depreciated cost and presented under "Lease assets" in the balance sheet. As a rule, lease assets are depreciated according to the annuity depreciation method.

Lease income from leased out assets based on lease contracts less planned depreciation on the lease assets are recognised under "Net lease income". In addition, the item includes impairment losses on lease assets, capital gains and losses on the disposal of lease assets, commissions charged from customers and other income and expenses directly attributable to lease contracts. Other income and expenses due to leases are included in the income statement item that corresponds to the nature of the income or expense item.

Intangible assets

Intangible assets are stated at cost less amortisation and write-downs. These assets are amortised over their estimated useful lives, which is 2–10 years for computer software and licences and 5 years in general for other intangible assets. The useful lives of assets are reviewed on each balance sheet date.

Planned amortisation and write-downs on intangible assets are recognised under "Depreciation/amortisation and write-downs on tangible and intangible assets" in the income statement.

Tangible assets

Investment property

Investment property is land and/or building or part thereof held to earn rental income and/or for capital appreciation. Property, a minor part of which is occupied by the owner company or its personnel, is also accounted for as investment property.

Investment property is stated at cost less planned depreciation and write-downs. Land and shares and holdings in property companies can be subject to revaluation if their probable selling price on the balance sheet date is permanently higher than the original acquisition cost. Expenses incurred after the original acquisition will be capitalised only if it is probable that the resulting economic benefit from the property will be higher than initially estimated.

The fair value of business, office and industrial premises classified as investment property holdings and presented in the related note to the financial statements is primarily determined using the income approach based on direct capitalisation. The fair value of investment property under construction can be presented only if its fair value can be determined reliably. The fair value of land, water and forest areas and residential buildings is primarily determined using the market approach. Recognition of write-downs is based on their consistency and materiality.

Income, expenses, capital gains and losses, planned depreciation and write-downs related to investment property are recognised under "Net income from investment property" in the income statement.

Other tangible assets

Tangible assets are stated at cost less accumulated depreciation and any write-downs. Assets are depreciated on a straight-line basis over their estimated useful lives. Planned depreciation is not applicable to land and shares in property companies.

Subsequent expenditures are capitalised at the asset's carrying amount only if it is probable that the asset will generate greater economic benefits than initially estimated.

The estimated useful lives are mainly as follows:

Buildings	30–50 years
Machinery and equipment	4–10 years
IT equipment	3–5 years
Cars	6 years
Other tangible assets	5–10 years

The assets' residual value and useful lives are reviewed on each balance sheet date and adjusted as appropriate if expectations differ from previous estimates with respect to economic benefits.

Assets' planned depreciation and write-downs are recognised under "Depreciation/amortisation and write-downs on tangible and intangible assets" in the income statement. Income from and capital gains on property in the Company's own use are recognised under "Other operating income and expenses" and capital losses under "Other operating expenses" in the income statement.

Employee benefits

Pension benefits

The statutory pension cover for Pohjola Bank plc's employees is managed through payments to OP Bank Group Pension Fund and supplementary pension cover through OP Bank Group Pension Foundation. The Pension Foundation has been closed to new employees since 1 July 1991. Expenses arising from pension plans are recognised under "Personnel costs" in the income statement. Pension liabilities are fully covered.

Share-based payments

Pohjola Bank plc has short-term and long-term management incentive schemes in place, on the basis of which the person covered by the schemes may receive the related compensation for services rendered during each performance period partly as equity-settled payments (Pohjola Bank plc Series A shares) and partly as cash-settled payments. Depending on the settlement method used, transactions under these schemes are recognised either as equity-settled or cash-settled transactions.

Equity-settled share-based payments are measured at fair value on the grant date and the amount charged to expenses is recognised in personnel costs and an increase in shareholders' equity over the vesting period. Cash-settled share-based payments and the corresponding liability are measured at fair value at the end of each period and the amount charged to expenses is recognised in personnel costs and deferred expenses over the vesting period.

The estimated number of exercisable shares is checked on a quarterly basis. Any effects resulting from checking the original estimates are recognised in personnel costs and the corresponding adjustment is made in shareholders' equity and deferred expenses.

Personnel fund

Pohjola Bank plc belongs to OP-Pohjola Group's OP Personnel Fund into which bonuses are paid on the basis of pre-agreed principles, depending on the achievement of targets. Bonuses transferred to the Fund are recognised under "Wages and salaries" in the income statement and the counterpart as "Deferred expenses" in the balance sheet.

Statutory provisions

A statutory provision is recognised for an obligation in the income statement and balance sheet if the obligation is based on a past event and it is probable that an outflow of resources will be required to settle the obligation, but there is uncertainty about the timing or amount required in settlement. In addition, an entity must have a present legal or constructive obligation towards a third party as a result of past events. If it is possible to receive compensation for part of the obligation from a third party, the compensation is recognised as a separate asset, but only at the time when receipt of the compensation is actually certain.

Bank levy

Pohjola Bank plc is subject to the Laki väliaikaisesta pankkiverosta Act (Act on Temporary Bank Levy), according to which it shall annually pay a bank levy accounting for 0.125% of its risk-weighted assets. The bank levy is recognised in other operating expenses during the calendar year.

Hybrid capital

Hybrid capital instruments are recorded as a separate balance-sheet item under "Subordinated liabilities". In capital adequacy measurement, these instruments are included in Tier 1 capital. Interest on these instruments may be paid only within the limits of distributable funds.

Appropriations

The depreciation difference under appropriations in the balance sheet includes the accumulated difference between depreciation made and planned depreciation. Voluntary provisions contain voluntary appropriations made which are appropriations permitted by tax law. Such a provision is eg the loan loss provision permitted for deposit banks by the Business Income Tax Act. According to this Act, a deposit bank may deduct a credit loss provision made during the tax year, the amount of which accounts for a maximum of 0.6% of the total amount of receivables at the end of the tax year.

The total amount of non-reversed credit loss provisions made during the tax year and earlier may account for a maximum of 5% of the total amount of receivables at the end of the tax year.

An increase and decrease in depreciation made and planned depreciation as well as voluntary provisions are recognised under appropriations in the income statement. Appropriations in the income statement and balance sheet also include deferred tax liabilities. The amount of and change in voluntary provisions do not reflect Pohjola's calculated risks.

Income taxes

Income taxes shown in the income statement include current tax, based on the taxable income of Pohjola Bank plc, income tax for prior financial years and deferred tax expense or income.

Deferred tax liabilities are recognised for all temporary differences between the book value and taxable value of assets and liabilities. Deferred tax assets are calculated on tax-deductible temporary differences between the book value and taxable value included in the financial statements, and on losses confirmed for tax purposes. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The Company offsets deferred tax assets and liabilities. Deferred tax assets and liabilities are measured at the tax rate that is expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted by the balance sheet date. If deferred tax originates from balance sheet items not recognised in the income statement, any change in deferred tax is recognised in shareholders' equity, not in the income statement.

Revenue recognition

Interest income and expenses for interest-bearing assets and liabilities are recognised on an accrual basis. Interest on receivables with non-settled, due payments is also recognised as revenue and this interest receivable is tested for impairment. The difference between the receivable's acquisition cost and its nominal value is allocated to interest income and that between the amount received and nominal value of the liability to interest expenses.

Commission income and expenses for services are recognised when the service is rendered. For one-off commissions covering several years that may have to be refunded at a later date, only the portion of their revenue related to the period is recognised.

Dividends are primarily recognised when they are approved by the General Meeting of Shareholders.

Offsetting income statement items

Income and expense items in the income statement are presented separately without offsetting them unless there is a justified reason for offsetting them in order to give a true and fair view.

Off-balance-sheet commitments

Off-balance-sheet commitments include commitments made for a third party on behalf of customers, such as guarantees and various guarantee engagements, and irrevocable commitments made for customers, such as binding supplementary loan arrangements, loan commitments, standby credit facilities and underwritings.

Commitments made for a third party on behalf of customers are recognised as off-balance-sheet commitments to the amount to which guarantee corresponds at most from time to time. Irrevocable commitments made for customers are recognised to the maximum amount which may have to be paid on the basis of them.

Notes to the Parent Company Financial Statements (FAS)

NOTES TO THE INCOME STATEMENT

Notes concerning an entity under the Group's control

Note 1. Interest income and expenses

EUR million	2013	2012
Interest income		
Receivables from credit institutions	65	93
Receivables from the public and public sector entities	278	317
Notes and bonds	157	204
Derivative contracts	1,239	1,670
Trading items	1,329	1,761
Hedge accounting	-90	-90
of which cash flow hedge	13	9
Other	2	4
Total	1,740	2,288
Of which interest income from impaired receivables	2	2
Interest expenses		
Liabilities to credit institutions	68	90
Liabilities to the public and public sector entities	27	44
Debt securities issued to the public	187	263
Derivative contracts and other liabilities held for trading	1,215	1,596
Subordinated liabilities	48	70
Other	1	1
Total	1,545	2,064

Interest income received from Group and associated companies and interest expenses paid to them

EUR million	2013		2012	
	Subsidiaries	Associates	Subsidiaries	Associates
Interest income	2	0	2	0
Interest expenses	2		3	

Notes to the Parent Company Financial Statements (FAS)

NOTES TO THE INCOME STATEMENT

Note 2. Net lease income

EUR million	2013	2012
Lease income	285	249
Planned depreciation	-254	-217
Leased asset write-downs		
Capital gains and losses (net) on the disposal of lease assets	2	2
Commissions and fees	1	1
Other income	1	0
Other expenses	-6	-8
Total	27	28

Notes to the Parent Company Financial Statements (FAS)

NOTES TO THE INCOME STATEMENT

Note 3. Income from equity investments

EUR million	2013	2012
Available for sale	23	13
Subsidiaries	158	118
Affiliates	3	2
Total	184	134

Notes to the Parent Company Financial Statements (FAS)

NOTES TO THE INCOME STATEMENT

Note 4. Commissions and fees

EUR million	2013	2012
Commissions and fees		
Lending	45	42
Deposits	0	0
Payment transfers	31	17
Mutual funds		
Asset management	11	9
Legal services	0	0
Securities brokerage	21	20
Securities issuance	7	7
Guarantees	16	16
Other	2	2
Total	133	114
Commission expenses		
Service fees paid	15	4
Securities brokerage and issuance	8	11
Refunds of fees for shares	6	6
Other	15	4
Total	43	25

Notes to the Parent Company Financial Statements (FAS)

NOTES TO THE INCOME STATEMENT

Note 5. Net income from securities and foreign exchange trading

Net income from securities and foreign exchange trading 2013

EUR million	Capital gains and losses	Due to fair value changes	Other income	Total
Notes and bonds	2	-2		0
Fair value option		0		0
Shares and participations	0	0		0
Other	-4	-2		-6
Derivative contracts		-2	83	82
Liabilities held for trading	0	0		0
Total net income from securities trading	-2	-5	83	76
Net income from foreign exchange trading				26
Total net income from securities and foreign exchange trading				102

Net income from securities and foreign exchange trading 2012

EUR million	Capital gains and losses	Due to fair value changes	Other income	Total
Notes and bonds	-6	1		-5
Fair value option	-1	1		1
Shares and participations	0	0		0
Other	0	-2		-2
Derivative contracts		87	-40	48
Liabilities held for trading	0	0		0
Total net income from securities trading	-6	86	-40	41
Net income from foreign exchange trading				23
Total net income from securities and foreign exchange trading				64

Notes to the Parent Company Financial Statements (FAS)

NOTES TO THE INCOME STATEMENT

Note 6. Net income from available-for-sale financial assets

EUR million	2013	2012
Notes and bonds		
Capital gains and losses	14	11
Transferred from fair value reserve during the financial year	1	3
Total	14	14
Shares and participations		
Capital gains and losses	0	0
Impairment losses	0	0
Transferred from fair value reserve during the financial year	1	1
Total	1	0
Total net income from available-for-sale financial assets	15	15

Notes to the Parent Company Financial Statements (FAS)

NOTES TO THE INCOME STATEMENT

Note 7. Net income from hedge accounting

EUR million	2013	2012
Net income from hedging instruments	-14	-14
Net income from hedged items	13	18
Total	-1	4

Notes to the Parent Company Financial Statements (FAS)

NOTES TO THE INCOME STATEMENT

Note 8. Net income from investment property

EUR million	2013	2012
Rental and dividend income	1	1
Other income	0	0
Capital gains		0
Rental expenses	-1	0
Planned depreciation		
Capital losses		
Write-downs and their reversals		
Other expenses	0	0
Total	0	0

Notes to the Parent Company Financial Statements (FAS)

NOTES TO THE INCOME STATEMENT

Note 9. Other operating income

EUR million	2013	2012
Rental income from property in own use	0	0
Capital gains on property in own use	0	0
Income from central banking services	8	8
Other	13	16
Total	21	25

Notes to the Parent Company Financial Statements (FAS)

NOTES TO THE INCOME STATEMENT

Note 10. Depreciation/amortisation and write-downs on tangible and intangible assets

EUR million	2013	2012
Planned depreciation	11	8
Write-down	0	0
Total	11	8

Notes to the Parent Company Financial Statements (FAS)

NOTES TO THE INCOME STATEMENT

Note 11. Other operating expenses

EUR million	2013	2012
Rental expenses	6	7
Expenses for property in own use	0	0
Bank levy	19	
Merger loss	1	
Other	14	13
Total	40	21

Notes to the Parent Company Financial Statements (FAS)

NOTES TO THE INCOME STATEMENT

Note 12. Impairment losses on loans and other commitments and other financial assets

31 Dec 2013, EUR million	Gross impairment losses on individually assessed receivable	Gross impairment losses on collectively assessed receivable	Reductions	Entered in income statement
Impairment losses on loans and other commitments				
Receivables from credit institutions				
Receivables from the public and public sector entities	80	2	-45	38
Guarantees and other off-balance-sheet items				
Other				
Total	80	2	-45	38
Impairment losses on other financial assets				
Held-to-maturity debt securities				
Shares and interests in group entities				
Participating interests				
Total				
Total impairment losses	80	2	-45	38
<hr/>				
31 Dec 2012, EUR million	Gross impairment losses on individually assessed receivable	Gross impairment losses on collectively assessed receivable	Reductions	Entered in income statement
Impairment losses on loans and other commitments				
Receivables from credit institutions				
Receivables from the public and public sector entities	96	1	-39	58
Guarantees and other off-balance-sheet items				
Other				
Total	96	1	-39	58
Impairment losses on other financial assets				
Held-to-maturity debt securities				
Shares and interests in group entities				
Participating interests				
Total				
Total impairment losses	96	1	-39	58

Notes to the Parent Company Financial Statements (FAS)

NOTES TO THE INCOME STATEMENT

Note 13. Income taxes

EUR million	2013	2012
Income taxes from operations	52	23
Total income taxes	52	23

Notes to the Parent Company Financial Statements (FAS)

NOTES TO THE INCOME STATEMENT

Note 14. Income, operating profit or loss and assets and liabilities by Division

31 Dec 2013, EUR million	Corporate Banking	Markets	Group Treasury	Baltics	Other	Total
Income*	289	139	71	7	172	677
Operating profit	154	63	51	-4	153	417
Assets	14,599	4,457	19,584	590	1,444	40,675
Liabilities	7,087	4,383	25,852	338	131	37,790
Personnel	352	182	33	60	5	631
31 Dec 2012, EUR million	Corporate Banking	Markets	Group Treasury	Baltics	Other	Total
Income*	258	135	79	4	131	606
Operating profit	132	69	63	-4	100	360
Assets	14,043	4,971	20,647	433	1,509	41,602
Liabilities	6,546	6,628	25,392	229	144	38,940
Personnel	430	207	48	47	74	806

* Income consists of the following items in the income statement: interest income, income from equity investments, commissions and fees, net income from securities and foreign exchange trading, net income from available-for-sale assets, net income from hedge accounting, net income from investment property and other operating income.

Notes to the Parent Company Financial Statements (FAS)

NOTES TO THE BALANCE SHEET

Note 15. Receivables from credit institutions

EUR million	31 Dec. 2013	31 Dec. 2012
Repayable on demand		
Deposits	333	457
Other	287	65
Total	620	522
Other than those repayable on demand		
Deposits	1	1
From OP-Pohjola Group institutions	6,855	4,958
Other	2,201	3,005
Total	9,056	7,964
Total receivables from credit institutions	9,676	8,486
of which subordinated receivables	42	42

Pohjola Bank plc has only receivables repayable on demand from central banks.

Notes to the Parent Company Financial Statements (FAS)

NOTES TO THE BALANCE SHEET

Note 16. Receivables from the public and public sector entities

EUR million	31 Dec. 2013	31 Dec. 2012
Receivables from the public and public sector entities by sector		
Non-banking corporate sector and housing corporations	10,876	10,357
Financial institutions and insurance companies	23	82
Public sector entities	168	203
Non-profit organisations serving households	212	212
Households	1,099	973
Foreign	1,036	1,003
Collective impairments	-17	-14
Total	13,398	12,817
of which subordinated receivables	35	55

The balance-sheet item includes EUR 6.3 million in loans for which interest income is not recognised (6.5).

Write-downs on loans

Write-downs at year-start	244	219
+ Write-downs on individually assessed receivables during the financial year	53	61
+/- Write-downs on collectively assessed receivables during the financial year	2	1
- Write-downs reversed for individually assessed receivables during the financial year	-22	-6
- Actual impairment losses recorded during the financial year		
of which write-downs on individually assessed receivables were made previously	-19	-31
Exchange rate difference on write-downs on loans	0	0
Write-downs at year-end	258	244

Final loan losses of EUR 27 million (34) were recognised from receivables.

Notes to the Parent Company Financial Statements (FAS)

NOTES TO THE BALANCE SHEET

Note 17. Asset leased out under finance leases

EUR million	31 Dec. 2013	31 Dec. 2012
Advance payments	37	95
Machinery and equipment	811	725
Real property and buildings	245	206
Other assets	59	42
Total	1,153	1,068

Notes to the Parent Company Financial Statements (FAS)

NOTES TO THE BALANCE SHEET

Note 18. Notes and bonds

Notes and bonds eligible for refinancing with central banks and other notes and bonds 31 December 2013

EUR million	Eligible for refinancing with central banks	Other notes and bonds	Total	Of which subordinated
Financial assets at fair value through profit or loss	234	306	540	11
Available for sale	6,725	375	7,100	
Held to maturity	187	15	202	
Held in another portfolio	222		222	
Total	7,368	695	8,064	11

Notes and bonds eligible for refinancing with central banks and other notes and bonds 31 December 2012

EUR million	Eligible for refinancing with central banks	Other notes and bonds	Total	Of which subordinated
Financial assets at fair value through profit or loss	127	281	408	1
Available for sale	4,656	300	4,956	
Held to maturity	315	14	330	
Held in another portfolio	328		328	
Total	5,426	596	6,022	1

Publicly-quoted and other notes and bonds 31 December 2013

EUR million	Publicly quoted	Other	Total
Financial assets at fair value through profit or loss	493	47	540
Available for sale	7,047	53	7,100
Held to maturity	202		202
Held in another portfolio		222	222
Total	7,743	321	8,064

Publicly-quoted and other notes and bonds 31 December 2012

EUR million	Publicly quoted	Other	Total
Financial assets at fair value through profit or loss	356	52	408
Available for sale	4,903	53	4,956
Held to maturity	330		330
Held in another portfolio		328	328
Total	5,589	433	6,022

The Financial assets through profit or loss at fair value category includes EUR 9.4 (12.9) million in financial assets at fair value through profit or loss at inception, all of them quoted publicly.

Notes and bonds by type, EUR million	31 Dec. 2013	31 Dec. 2012
Financial assets at fair value through profit or loss		
Treasury bills		
Local authority papers	4	6
Commercial papers		
Certificates of deposit		
Convertible bonds	7	5
Other bonds	529	397
Total	540	408
Available for sale		
Convertible bonds	1	1
Other bonds	7,099	4,955
Total	7,100	4,956
Held to maturity		
Other bonds	202	330
Total	202	330
Held in another portfolio		
Other bonds	222	328
Total	222	328

By 31 December 2013, all Pohjola Bank plc's notes and bonds accrued interest recognised in accounting.

Notes to the Parent Company Financial Statements (FAS)

NOTES TO THE BALANCE SHEET

Note 19. Reclassified notes and bonds

The table below shows the carrying amounts and fair values of the reclassified notes and bonds.

31 Dec 2013, EUR million	Carrying amount	Fair value	Effective interest rate	Impairments arising from credit risk
Loans and other receivables	285	292	5.3	
Investments held to maturity	99	89	4.2	
Available-for-sale financial assets	42	42	4.2	
Total	426	423		

31 Dec 2012, EUR million	Carrying amount	Fair value	Effective interest rate	Impairments arising from credit risk
Loans and other receivables	394	380	5.3	7
Investments held to maturity	226	207	4.2	
Available-for-sale financial assets*	38	38	4.3	
Total	659	626		7

Value changes as shown below, if notes and bonds were not reclassified and had been measured at fair value:

EUR million	Q1–4/2013		Q1–4/2012	
	Income statement	Fair value reserve	Income statement	Fair value reserve
Banking	-1		1	
Group Functions	29	-3	21	10
Total	28	-3	22	10

Loans and receivables and held-to-maturity investments were reclassified in 2008. Available-for-sale financial assets were reclassified in 2012.

* Of the held-to-maturity investments, Pohjola sold Irish RMBS with a carrying amount of EUR 36 million in the third quarter of 2012, due to a probable local legislative amendment. In this connection, Pohjola reclassified EUR 38 million in Irish RMBS within held-to-maturity investments to available-for-sale financial assets.

Interest accrued on reclassified notes and bonds in January–December totalled EUR 9 million (19). The price difference between the nominal value and acquisition value recognised in the income statement totalled EUR 3 million (7). Capital losses on bonds and notes totalled EUR 2 million (17) and impairment loss amounted to EUR 0 million (3). Pohjola used derivatives to hedge against interest rate risks, applying hedge accounting from 1 October 2008. Positive mark-to-market valuations recognised on hedging derivative contracts amounted to EUR 6.0 million. Negative mark-to-market valuations recorded a year ago amounted to EUR 3.0 million.

Notes to the Parent Company Financial Statements (FAS)

NOTES TO THE BALANCE SHEET

Note 20. Shares and participations

31 Dec 2013, EUR million	Publicly quoted	Other	Total
Shares and participations			
Available for sale	1	109	110
Shares in subsidiaries		1,249	1,249
Total	1	1,358	1,360

31 Dec 2012, EUR million	Publicly quoted	Other	Total
Shares and participations			
Available for sale	4	124	127
Shares in subsidiaries		1,252	1,252
Total	4	1,376	1,380

EUR 19.0 (36.7) million in shares and participations other than those quoted publicly was measured at fair value and the rest at cost.

EUR million	31 Dec. 2013	31 Dec. 2012
Shares and participations by sector		
Non-banking corporate sector and housing corporations	20	24
Financial institutions and insurance companies	1,293	1,311
Foreign entities	50	45
Total	1,363	1,380

Notes to the Parent Company Financial Statements (FAS)

NOTES TO THE BALANCE SHEET

Note 21. Derivative contracts

Derivative contracts for hedging purposes – fair value hedge in 2013

EUR million	Nominal values/residual term to maturity			Total	Fair values	
	<1 year	1–5 years	>5 years		Positive	Negative
Interest rate derivatives	2,248	11,378	5,060	18,686	335	242
Interest rate swaps	2,248	11,378	5,060	18,686	335	242
Currency derivatives	1,628	803	137	2,567	46	83
Interest rate and currency swaps	1,628	803	137	2,567	46	83

Derivative contracts for hedging purposes – cash flow hedge in 2013

EUR million	Nominal values/residual term to maturity			Total	Fair values	
	<1 year	1–5 years	>5 years		Positive	Negative
Interest rate derivatives	200	800		1,000	21	1
Interest rate swaps	200	800		1,000	21	1

Derivative contracts held for trading in 2013

EUR million	Nominal values/residual term to maturity			Total	Fair values	
	<1 year	1–5 years	>5 years		Positive	Negative
Interest rate derivatives	41,842	104,754	38,194	184,790	2,657	2,600
Futures and forwards	3,680	6,624		10,304	3	3
Options	18,669	28,742	7,979	55,390	412	295
Called	8,828	14,312	3,786	26,926	411	5
Put	9,842	14,430	4,192	28,464	1	289
Interest rate swaps	19,446	69,110	30,082	118,638	2,231	2,291
Other swap contracts	46	278	134	458	10	12
Currency derivatives	14,684	1,719	1,387	17,791	296	329
Futures and forwards	13,686	338	84	14,108	132	144
Options	654	28	0	682	4	8
Called	345	19		365	4	
Put	309	8		318	0	8
Interest rate and currency swaps	344	1,353	1,303	3,001	160	177
Equity derivatives	194	582	0	776	77	0
Futures and forwards						
Options	194	582	0	776	77	0
Called	194	582		776	77	
Put						
Other derivatives	348	473	54	874	67	53
Futures and forwards	109	118	6	233	9	34
Options	53	11	0	64	0	0
Called	27	11		38	0	
Put	27			27		0
Other swap contracts	181	245	32	459	46	18
Credit derivatives	4	99	15	118	13	0

The underlying value for interest rate derivative contracts is the nominal value, for currency derivative contracts the euro-denominated stated value of the purchased currency on the balance sheet date, and for equity derivative contracts the probable value of equities on the balance sheet date. The values are expressed in gross amounts. Interest from market value is presented in deferred income and deferred expenses.

Credit equivalents of contracts in 2013

EUR million	Made for hedging purposes		Held for trading
	Fair value hedge	Cash flow hedge	
Interest rate derivatives	453	25	3,668
Futures and forward contracts			0
Options			595
Called			560
Put			35
Interest rate swaps	453	25	3,025
Other swap contracts			49
Currency derivatives	113		630
Futures and forwards			292
Options			9
Called			9
Put			0
Interest rate and currency swaps	113		329
Equity derivatives			135
Futures and forwards			
Options			135
Called			135
Put			
Other derivatives			115
Futures and forwards			1
Options			4
Called			4
Put			
Other swap contracts			96
Credit derivatives			13

Derivative contracts for hedging purposes – fair value hedge in 2012

EUR million	Nominal values/residual term to maturity			Total	Fair values	
	<1 year	1–5 years	>5 years		Positive	Negative
Interest rate derivatives	494	8,240	3,053	11,787	429	405
Interest rate swaps	494	8,240	3,053	11,787	429	405
Currency derivatives	1,122	808	153	2,083	85	22
Interest rate and currency swaps	1,122	808	153	2,083	85	22

Derivative contracts for hedging purposes – cash flow hedge in 2012

EUR million	Nominal values/residual term to maturity			Total	Fair values	
	<1 year	1–5 years	>5 years		Positive	Negative
Interest rate derivatives	200	800		1,000	35	
Interest rate swaps	200	800		1,000	35	

Derivative contracts held for trading in 2012

EUR million	Nominal values/residual term to maturity			Total	Fair values	
	<1 year	1–5 years	>5 years		Positive	Negative
Interest rate derivatives	45,829	83,618	36,599	166,046	3,836	3,779
Futures and forward contracts	1,375	2,958	142	4,474	0	3
Options	29,334	18,086	5,932	53,352	565	424
Called	15,087	9,989	2,843	27,919	564	7
Put	14,246	8,097	3,089	25,432	0	417
Interest rate swaps	15,028	62,342	30,475	107,845	3,267	3,339
Other swap contracts	93	232	51	375	4	12
Currency derivatives	18,725	1,939	363	21,027	209	318
Futures and forwards	18,252	539	65	18,856	129	226
Options	473			473	3	3
Called	231			231	3	
Put	241			241		3
Interest rate and currency swaps		1,400	298	1,698	77	89
Equity derivatives	261	819	6	1,085	50	0
Futures and forwards	0			0		0
Options	261	819	6	1,085	50	0
Called	261	819	6	1,085	50	0
Put						
Other derivatives	318	442	28	787	43	27
Futures and forwards	83	132	5	220	7	18
Options	70	30		100	6	1
Called	40	21		61	6	
Put	30	10		39		1
Other swap contracts	42	191	23	256	20	7
Credit derivatives	122	89		211	10	2

The underlying value for interest rate derivative contracts is the nominal value, for currency derivative contracts the euro-denominated stated value of the purchased currency on the balance sheet date, and for equity derivative contracts the probable value of equities on the balance sheet date. The values are expressed in gross amounts. Interest from market value is presented in deferred income and deferred expenses.

Credit equivalents of contracts in 2012

EUR million	Made for hedging purposes		Held for trading
	Fair value hedge	Cash flow hedge	
Interest rate derivatives	516	39	4,723
Futures and forward contracts			0
Options			654
Called			654
Put			
Interest rate swaps	516	39	4,036
Other swap contracts			33
Currency derivatives	148		518
Futures and forwards			343
Options			5
Called			5
Put			
Interest rate and currency swaps	148		169
Equity derivatives			132
Futures and forwards			
Options			132
Called			132
Put			
Other derivatives			74
Futures and forwards			1
Options			13
Called			13
Put			
Other swap contracts			49
Credit derivatives			11

Pohjola Bank plc's derivatives business adopted netting of derivatives during 2011. However, derivative contracts are presented in gross amounts in this note. Netting would reduce the credit equivalent of Pohjola Bank plc's derivative contracts by EUR 3,381 million (4,359).

Notes to the Parent Company Financial Statements (FAS)

NOTES TO THE BALANCE SHEET

Note 22. Intangible assets and tangible assets and changes during the financial year

Intangible assets

EUR million	31 Dec. 2013	31 Dec. 2012
Goodwill	2	4
IT costs	39	13
Other long-term expenditure	9	26
Total	49	43

Tangible assets

31 Dec 2013, EUR million	In own use	Investment property	
		Book value	Fair value
Property holdings			
Land and water	0	0	0
Buildings	0		
Shares and holdings in property companies	3	10	33
Total	3	10	33

Other tangible assets 3

31 Dec 2012, EUR million	In own use	Investment property	
		Book value	Fair value
Property holdings			
Land and water	0	0	0
Buildings	1		
Shares and holdings in property companies	3	10	31
Total	3	10	31

Other tangible assets 3

Changes in intangible and tangible assets during the financial year

EUR million	Goodwill	Other intangible assets	Investment property	Property in own use	Other tangible assets
Acquisition cost 1 January 2013	12	96	14	4	50
+ increases during the year		16		0	0
- decreases during the year		-2		0	0
+/- transfers between items					
- planned depreciation/amortisation	-2	-8		0	0
-/+ impairment losses and their reversals				0	
+ accumulated depreciation/amortisation and write-downs on adjustments and transfers 1 January		2			0
- accumulated depreciation/amortisation 1 January	-8	-56	0	-1	-47
- accumulated impairment 1 January			-3	0	
Book value 31 December 2013	2	48	10	3	3

Notes to the Parent Company Financial Statements (FAS)

NOTES TO THE BALANCE SHEET

Note 23. Other assets

EUR million	31 Dec. 2013	31 Dec. 2012
Accounts receivable from securities	70	47
Payment transfer receivables	35	18
Derivative contracts	125	56
Margin receivables related to derivative contracts	54	39
Accounts receivable	92	5
Emissions allowances	18	28
Other	453	696
Total	847	889

"Other" under Other assets includes EUR 408 million (606) in CSA collateral receivables.

Notes to the Parent Company Financial Statements (FAS)

NOTES TO THE BALANCE SHEET

Note 24. Deferred income and advances paid

EUR million	31 Dec. 2013	31 Dec. 2012
Interest		
Interest receivables	714	734
Interest advances paid	6	4
Total	720	738
Other		
Other advances paid	1	2
Other deferred income	1	2
Total	2	4
Total deferred income and advances paid	722	742

Notes to the Parent Company Financial Statements (FAS)

NOTES TO THE BALANCE SHEET

Note 25. Deferred tax assets and liabilities

31 Dec 2013, EUR million	Deferred tax assets	Deferred tax liabilities	Net
From timing differences	41	24	17
From other temporary differences	0	9	-9
Total	41	33	8

31 Dec 2012, EUR million	Deferred tax assets	Deferred tax liabilities	Net
From timing differences	31	0	31
From other temporary differences	5	16	-11
Total	36	16	20

Deferred tax assets include a total of EUR 0.00 in deferred tax assets recognised on losses confirmed in taxation (-).

Deferred tax assets and liabilities arising from other temporary differences comprise deferred tax assets and liabilities based on revaluations of available-for-sale financial assets recognised in the fair value reserve under equity and of derivatives designated as cash flow hedges.

Revaluations 31 December 2013

The balance sheet does not include any revaluation (-).

Appropriations

31 Dec 2013, EUR million	Balance sheet value	Deferred tax liability	Net
Depreciation difference	138	28	110
Voluntary provisions	891	178	713
Total	1,029	206	823

31 Dec 2012, EUR million	Balance sheet value	Deferred tax liability	Net
Depreciation difference	126	31	95
Voluntary provisions	816	200	616
Total	943	231	712

Depreciation difference and voluntary provisions have been entered in the balance sheet to the amount of non-deducted deferred tax.

Notes to the Parent Company Financial Statements (FAS)

NOTES TO THE BALANCE SHEET

Note 26. Debt securities issued to the public

EUR million	Book value	Nominal value	Book value	Nominal value
	31 Dec. 2013	31 Dec. 2013	31 Dec. 2012	31 Dec. 2012
Certificates of deposit	1,775	1,776	1,525	1,526
Bonds	9,486	9,430	8,465	8,380
Other	4,994	4,997	3,979	3,982
Total	16,255	16,203	13,969	13,889

Notes to the Parent Company Financial Statements (FAS)

NOTES TO THE BALANCE SHEET

Note 27. Other liabilities

EUR million	31 Dec. 2013	31 Dec. 2012
Payment transfer liabilities	869	1,039
Accounts payable on securities	15	49
Margin liabilities related to derivative contracts	0	0
Other	567	604
Total	1,452	1,691

Other' includes EUR 183 million in equity and derivative liabilities (10) and EUR 359 million (568) in CSA collateral liabilities.

Notes to the Parent Company Financial Statements (FAS)

NOTES TO THE BALANCE SHEET

Note 28. Statutory provisions

EUR million	Reorganisation	Total
1 Jan. 2013	2	2
Decrease in provisions	2	2
31 Dec. 2013	0	0

EUR million	Reorganisation	Total
1 Jan. 2012		
Increase in provisions	2	2
31 Dec. 2012	2	2

The reorganisation provision derives from expenses arising from personnel reduction. This provision was mainly realised during 2013.

Notes to the Parent Company Financial Statements (FAS)

NOTES TO THE BALANCE SHEET

Note 29. Deferred expenses and advances received

EUR million	31 Dec. 2013	31 Dec. 2012
Interest		
Interest liabilities	717	757
Interest advances received	0	0
Total	717	757
Other		
Other advance payments received	1	0
Vacation pay liabilities	8	10
Tax liabilities	10	1
Other deferred expenses	26	29
Total	45	40
Total deferred expenses and advances received	762	797

Notes to the Parent Company Financial Statements (FAS)

NOTES TO THE BALANCE SHEET

Note 30. Subordinated liabilities

EUR million	Book value	Nominal value
Subordinated loans	253	269
Other		
Perpetual loans		
Debenture loans	681	681
Total	934	951

Perpetual loans and debentures

1. A debenture loan of CHF 100 million (euro equivalent 81 million), which is a ten-year bullet loan, will mature on 14 July 2021. The loan carries a fixed interest rate of 3.375% p.a.
2. A debenture loan of EUR 100 million, which is a ten-year bullet loan, will mature on 14 September 2021. The loan carries a fixed interest rate of 5.25% p.a.
3. A debenture loan of EUR 500 million, which is a 10-year bullet loan, will mature on 22 August 2022. Under the terms and conditions of the loan, the issuer will have the opportunity for early redemption in case the principal cannot be counted as part of the bank's Tier 2 capital. The loan carries a fixed interest rate of 5.75% p.a.

Loans 1–3 were issued in international capital markets.

Fixed-rate debentures issued in Finland totalled EUR 0.0 million (0.7) on 31 December 2013.

Hybrid bonds/subordinated loans

Hybrid bonds included in Tier 1

- 1) Subordinated loan of 10 billion Japanese yen (equivalent of EUR 69.0 million)

This is a perpetual loan (a loan without a due date) carrying a fixed interest rate of 4.23% until 18 June 2034 and subsequently a variable 6-month Yen Libor + 1.58% (Step up). Interest will be annually payable on 18 June and 18 December. If interest cannot be paid for a given interest period, the obligation to pay interest for the period in question will lapse. The loan can be called in at the earliest in 2014 and can be annually repaid after 2014 on the interest due date on 18 June or 18 December. The loan's entire principal must be repaid in one instalment.

2) Subordinated loan of EUR 50 million

This is a perpetual loan without interest-rate step-ups, but with an 8% interest rate cap. The loan was issued on 31 March 2005 and its interest rate for the first year was 6.5% and thereafter CMS 10 years + 0.1%. Interest payments are made annually on 11 April. If interest cannot be paid for a given interest period, the obligation to pay interest for the period in question will lapse. The loan can be called in on the interest due date as of 11 April 2010 at the earliest, subject to authorisation by the Financial Supervisory Authority. The loan's entire principal must be repaid in one instalment.

3) Hybrid bond of EUR 60 million

This perpetual bond carries a variable interest rate based on 3-month Euribor + 0.65% payable quarterly on 28 February, 30 May, 30 August and 30 November. If interest cannot be paid for a given interest period, the obligation to pay interest for the period in question will lapse. It is possible to call in the loan at the earliest on 30 November 2015, subject to authorisation by the Financial Supervisory Authority, and thereafter on the interest due dates. After 2015, the loan carries a variable interest rate based on 3-month Euribor + 1.65% (Step up). The entire loan principal must be repaid in one instalment.

4) Subordinated loan of EUR 40 million

This perpetual loan carries a variable interest rate based on 3-month Euribor + 1.25% payable quarterly on 28 February, 30 May, 30 August and 30 November. If interest cannot be paid for a given interest period, the obligation to pay interest for the period in question will lapse. Subject to authorisation by the Financial Supervisory Authority, the loan may be called in on the due date of interest payment of 30 October 2010. The entire loan principal must be repaid in one instalment.

5) Hybrid bond of EUR 50 million

Perpetual bond of EUR 50 million, issued on 17 June 2008, carries a variable interest rate based on 3-month Euribor + 3.05%, payable on a quarterly basis on 17 March, 17 June, 17 September and 17 December. If interest cannot be paid for a given interest period, the obligation to pay interest will lapse. Subject to authorisation by the Financial Supervisory Authority, the bond may be called in on 17 June 2013 at the earliest and thereafter on the due dates of interest payment. The entire loan principal must be repaid in one instalment.

Loans 1 and 3 are included in hybrid instruments.

Pohjola Bank plc has no violations of the terms and conditions of the loan contracts with respect to principal, interest and other conditions. The financial statements include EUR 0 million recognised for the price difference of the loans (2).

Derivatives have been used to hedge against interest-rate and exchange-rate risks, and the financial statements include EUR 13.2 million in change in fair value recognised for hedging (16.3).

Notes to the Parent Company Financial Statements (FAS)

NOTES TO THE BALANCE SHEET

Note 31. Shareholders' equity

EUR million	Shareholder's equity 1 Jan. 2013	Increases	Decreases	Transfers between items	Shareholder's equity 31 Dec. 2013
Total shareholders' equity	1,720				1,855
Share capital	428				428
Share premium account	524				524
Other restricted reserves	197				200
Reserve fund	164				164
Fair value reserve	34	13	11		36
Fair value measurement	11	13			24
Cash flow hedge	23		11		12
Non-restricted funds	331				331
Reserve for invested non-restricted equity	308				308
Other funds	23				23
Retained earnings or losses after adjustments	239		146		93
Profit or loss for the financial year		279			279

Changes in fair value reserve

EUR million	At year-start 1 Jan. 2013	Increases	Decreases	Transferred to income statement	At year-end 31 Dec. 2013
Notes and bonds	-15	29	6	-1	8
Deferred tax	5		7		-2
Shares and participations	26	4	13	-1	16
Deferred tax	-8	4			-4
Other	23	4	15		12
Cash flow hedge	31		15		15
Deferred tax	-7	4			-3
Total	34	38	34	-1	36

EUR million	Shareholder's equity 1 Jan. 2012	Increases	Decreases	Transfers between items	Shareholder's equity 31 Dec. 2012
Total shareholders' equity	1,483				1,720
Share capital	428				428
Share premium account	524				524
Other restricted reserves	26				197
Reserve fund	164				164
Fair value reserve	-137	171			34
Fair value measurement	-147	158			11
Cash flow hedge	10	13			23
Non-restricted funds	331				331
Reserve for invested non-restricted equity	308				308
Other funds	23				23
Retained earnings or losses after adjustments	174	0	125	-4	45
Profit or loss for the financial year		195			195

Changes in fair value reserve

EUR million	At year-start 1 Jan. 2012	Increases	Decreases	Transferred to income statement	At year-end 31 Dec. 2012
Notes and bonds	-149	178	40	-3	-15
Deferred tax	48		44		5
Shares and participations	2	31	7	-1	26
Deferred tax	-1		8		-8
Other	10	17	4		23
Cash flow hedge	13	17			31
Deferred tax	-3		4		-7
Total	-137	227	51	-4	34

Notes to the Parent Company Financial Statements (FAS)

NOTES TO THE BALANCE SHEET

Note 32. Restricted and non-restricted equity and non-distributable equity items

EUR million	31 Dec. 2013	31 Dec. 2012
Shareholders' equity		
Restricted equity	1,152	1,149
Non-restricted equity	704	571
Total shareholders' equity	1,855	1,720

EUR million	31 Dec. 2013	31 Dec. 2012
Distributable funds		
Non-restricted equity	372	239
Fair value reserve		
Total distributable funds	372	239

Notes to the Parent Company Financial Statements (FAS)

NOTES TO THE BALANCE SHEET

Note 33a. Financial assets and liabilities by residual term to maturity

31 Dec 2013, EUR million	Less than 3 months	3–12 months	1–5 years	5–10 years	over 10 years
Notes and bonds eligible for refinancing with central banks	170	392	3,672	3,110	25
Receivables from credit institutions	5,380	664	3,109	499	24
Receivables from the public and public sector entities	2,403	1,498	6,932	1,260	1,304
Notes and bonds	45	58	447	142	2
Total assets	7,999	2,613	14,160	5,011	1,355
Liabilities to credit institutions and central banks	2,148	537	1,692	406	6
Liabilities to the public and public sector entities	9,215	372	209	258	289
Debt securities issued to the public	5,742	3,933	6,110	420	50
Subordinated liabilities	40	119	94	681	
Total liabilities	17,145	4,962	8,104	1,765	345

31 Dec 2012, EUR million	Less than 3 months	3–12 months	1–5 years	5–10 years	over 10 years
Notes and bonds eligible for refinancing with central banks	225	360	3,044	1,765	33
Receivables from credit institutions	5,794	698	1,313	658	23
Receivables from the public and public sector entities	2,189	1,616	6,319	1,393	1,299
Notes and bonds	32	21	405	137	
Total assets	8,240	2,695	11,081	3,954	1,355
Liabilities to credit institutions and central banks	2,752	455	1,988	646	0
Liabilities to the public and public sector entities	8,913	1,332	111	446	39
Debt securities issued to the public	5,100	2,577	5,901	334	50
Subordinated liabilities	171	200	132	683	40
Total liabilities	16,935	4,564	8,132	2,108	129

Deposits other than fixed-term deposits are included in the maturity class 'less than 3 months'.

Notes to the Parent Company Financial Statements (FAS)

NOTES TO THE BALANCE SHEET

Note 33b. Classification of assets and liabilities

31 Dec 2013, EUR million	Loans and receivables	Held to maturity	At fair value through profit or loss*	Available for sale	Hedging derivatives	Carrying amount total
Cash and balances with central banks	2,046					2,046
Receivables from credit institutions and central banks	9,898					9,898
Derivative contracts			3,059		273	3,332
Receivables from customers	13,860					13,860
Notes and bonds**		202	540	7,100		7,842
Shares and participations				1,331		1,331
Other receivables	2,230		135			2,365
Total assets	28,034	202	3,734	8,431	273	40,675

31 Dec 2013, EUR million	At fair value through profit or loss	Other liabilities	Hedging derivatives	Carrying amount total
Liabilities to credit institutions		4,789		4,789
Financial liabilities held for trading (excl. derivatives)	4			4
Derivative contracts	3,018		234	3,252
Liabilities to customers		10,343		10,343
Debt instruments issued to the public		16,255		16,255
Subordinated liabilities		934		934
Other liabilities		3,243		3,243
Total liabilities	3,022	35,564	234	38,820

31 Dec 2012, EUR million	Loans and receivables	Held to maturity	At fair value through profit or loss*	Available for sale	Hedging derivatives	Carrying amount total
Cash and balances with central banks	5,643					5,643
Receivables from credit institutions and central banks	8,814					8,814
Derivative contracts			4,097		379	4,476
Receivables from customers	13,244					13,244
Notes and bonds**		330	408	4,956		5,694
Shares and participations			0	1,352		1,352
Other receivables	2,370		10			2,380
Total assets	30,070	330	4,516	6,308	379	41,602

31 Dec 2012, EUR million		At fair value through profit or loss	Other liabilities	Hedging derivatives	Carrying amount total
Liabilities to credit institutions			5,840		5,840
Financial liabilities held for trading (excl. derivatives)		3			3
Derivative contracts		4,177		396	4,574
Liabilities to customers			10,841		10,841
Debt instruments issued to the public			13,969		13,969
Subordinated liabilities			1,225		1,225
Other liabilities			3,431		3,431
Total liabilities		4,180	35,306	396	39,883

* Assets at fair value through profit or loss include financial assets held for trading, financial assets at fair value through profit or loss at inception and investment property.

** On 31 December 2013, notes and bonds included EUR 9 million (9) in notes and bonds recognised using the fair value option.

Debt securities issued to the public are carried at amortised cost. On 31 December 2013, the fair value of these debt instruments was EUR 147 million (243) 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 carrying amount, but determining reliable fair values involves uncertainty.

Notes to the Parent Company Financial Statements (FAS)

NOTES TO THE BALANCE SHEET

Liite 33c. Financial instruments measured at fair value, grouped by valuation technique

Financial instruments measured at fair value in the balance sheet, 31 Dec. 2013, EUR million

	Level 1	Level 2	Level 3	Total
Assets				
Recognised at fair value through profit or loss	152	388		540
Derivative contracts	10	3,110	212	3,332
Available-for-sale	5,632	2,787	12	8,431
Total assets	5,794	6,285	224	12,303
Liabilities				
Recognised at fair value through profit or loss		4		4
Derivative contracts	35	3,086	131	3,252
Total liabilities	35	3,090	131	3,256

Financial instruments measured at fair value in the balance sheet, 31 Dec. 2012, EUR million

	Level 1	Level 2	Level 3	Total
Assets				
Recognised at fair value through profit or loss	125	268	16	408
Derivative contracts	7	4,278	190	4,476
Available-for-sale	4,060	2,235	14	6,308
Total assets	4,192	6,781	219	11,192
Liabilities				
Recognised at fair value through profit or loss		3		3
Derivative contracts	21	4,394	159	4,574
Total liabilities	21	4,397	159	4,577

Level 1: Quoted prices in active markets

This level includes equities listed on major stock exchanges, quoted corporate debt instruments, bonds issued by governments and financial institutions with credit rating of at least A-, and exchange-traded derivatives. The fair value of these instruments is determined on the basis of 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. The fair value hierarchy level at Pohjola Bank plc includes OTC derivatives, treasury bills/notes, debt instruments issued by companies and financial institutions, repo agreements, and securities lent or borrowed.

Level 3: Valuation techniques using unobservable inputs

Valuation techniques whose input parameters involve special uncertainty. The fair value determination of the financial instruments included within this level contains inputs not based on observable market data (unobservable inputs). This level includes the most complex OTC derivatives, certain private equity investments, and illiquid bonds, structured bonds, including securitised bonds and structured debt securities, and hedge funds. In many cases, the Level 3 fair value is based on pricing information from a third party.

EUR million	31 Dec. 2013	31 Dec. 2012
Net income for the financial year from Level 3		
Realised net income	-14	12
Unrealised net income	46	24
Total net income	33	36

Notes to the Parent Company Financial Statements (FAS)

NOTES TO THE BALANCE SHEET

Note 34. Assets and liabilities denominated in euros and foreign currencies

31 Dec 2013, EUR million	Euros	Foreign currencies	Of which	
			Subsidiaries	Associates
Receivables from credit institutions	9,264	412		
Receivables from the public and public sector entities	12,586	811	232	
Notes and bonds	8,050	14		
Derivative contracts	2,988	345	13	
Other assets	6,149	57	1,351	32
Total assets	39,036	1,639	1,597	32
Liabilities to credit institutions and central banks	4,371	418		
Liabilities to the public and public sector entities	9,426	917	156	
Debt securities issued to the public	11,301	4,953	62	
Derivative contracts and liabilities held for trading	2,942	314	15	
Subordinated liabilities	784	151		
Other liabilities	2,152	62	2	
Total liabilities	30,975	6,816	236	

31 Dec 2012, EUR million	Euros	Foreign currencies	Of which	
			Subsidiaries	Associates
Receivables from credit institutions	8,235	250		
Receivables from the public and public sector entities	11,957	860	185	
Notes and bonds	6,004	18		
Derivative contracts	4,189	287	13	
Other assets	9,757	46	1,312	28
Total assets	40,141	1,461	1,510	28
Liabilities to credit institutions and central banks	4,838	1,002		
Liabilities to the public and public sector entities	9,362	1,479	66	
Debt securities issued to the public	9,670	4,299	48	
Derivative contracts and liabilities held for trading	4,321	255	16	
Subordinated liabilities	1,054	171		
Other liabilities	2,429	59	0	
Total liabilities	31,674	7,265	131	

Notes to the Parent Company Financial Statements (FAS)

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Note 35. Share series at year-end and authorisations given to the Board of Directors

	Series A	Series K	Total
Share capital, EUR	337,234,681	90,382,782	427,617,463
No. of shares	252,009,866	67,541,549	319,551,415
Percentage of share capital	78.9	21.1	100
Votes per share	1	5	
Percentage of votes	42.7	57.3	100

In 2013, the number of Pohjola Bank plc Series K shares converted into Series A shares totalled 67,068 (773,028). The number of Series K shares converted into Series A shares on 2 September 2013 totalled 33,188 and those converted into Series A shares on 14 October 2013 totalled 33,880.

Restrictions on share acquisition:

- Series A shares intended for the general public are listed on the Large Cap List of NASDAQ OMX Helsinki.
- Series A shares are not subject to any purchase restrictions.
- Holding of series K shares is restricted to Group cooperative banks and OP-Pohjola Group Central Cooperative.
- Series K shares may be converted into Series A shares at the written request of the shareholder or, in case of nominee-registered shares, at the written request of the asset manager registered with the book-entry register.

If a dividend is paid, Series A shares entitle their holders to an annual dividend which is at least three (3) cents higher than the dividend paid on Series K shares.

Authorisations granted to the Board of Directors

Pohjola Bank plc's Annual General Meeting of 22 March 2013 authorised the Board of Directors to decide, until the closing of the following Annual General Meeting, on one or several rights issues. The total number of Series A and Series K shares offered for subscription in such a rights issue may not exceed 24,000,000 and 6,000,000, respectively. The Board of Directors is also authorised to waive the shareholders' pre-emptive right (private placement), should there be, from the Company's perspective, a financially cogent reason to do so, in accordance with the Limited Liability Companies Act. In such a case, this authorisation may be exercised for the purpose of financing and executing company acquisitions or other transactions relating to the Company's business. The authorisation contains the Board of Directors' right of stipulating the terms and conditions of a share issue and on other matters relating to these measures. The Board of Directors also has the right to determine whether the subscription price is to be entered in full or in part in the Company's reserve for invested non-restricted equity or in share capital.

Notes to the Parent Company Financial Statements (FAS)

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Note 36. Variable remuneration

Personnel fund

On 26 October 2004, Pohjola Bank plc joined OP Personnel Fund. On 31 December 2013, some 630 Pohjola Bank plc's employees were its members. At Pohjola Bank plc, the personnel fund covers all those not included in the management incentive scheme or Baltic operations.

Payment of profit-based bonuses to OP Personnel Fund in 2013 was based on the achievement of the following targets: OP-Pohjola Group's pre-tax earnings with a 40% weighting, and both OP-Pohjola Group's corporate customer business market share increase and the change in the number of loyal customers with a weighing of 30%. Profit-based bonuses for 2013 transferred to the Fund account for some 4,6 % (2%) of the combined salaries and wages earned by the Fund's members. The bonuses recognised in 2013 totalled EUR 2.1 million (0.5).

Long-term management incentive scheme in 2010 and before

The Group's previous long-term management incentive scheme (2008–10) applied to Pohjola Bank plc's President and CEO, Senior Vice Presidents, Executive Vice Presidents, heads of departments and those in charge of separately defined managerial, supervisory and expert duties. On 31 December 2010, the scheme covered 136 people within the Group. The Board of Directors confirmed the inclusion of the President and CEO and members of the Executive Committee in the scheme, and the selection principles with respect to other people in the scheme. Pohjola Group's Executive Committee confirmed the selection of the other people in the scheme.

Those included in the long-term management incentive scheme had the opportunity to receive Pohjola Bank plc shares as annual bonuses, provided that the company achieved the targets based on its strategy set for the year in question. Those covered by the scheme will receive shares (after tax) they have earned in three years' time following the beginning of the performance year.

Bonuses in the form equity-settled and cash-settled payments are recognised as personnel costs. In the parent company financial statements, expenses charged under the scheme for the financial year amounted to EUR 0.8 million (0.9).

Remuneration schemes in 2013

OP-Pohjola Group's remuneration schemes conform to financial regulation and are based on OP-Pohjola Group's strategic goals.

OP-Pohjola Group's variable remuneration principles take account of the Group's risk exposure and risk management methods. The performance indicator targets have been set at a level that does not encourage excessive risk-taking. Long-term variable incentives are based on reaching OP-Pohjola Group's targets, whereas short-term variable incentives are based on how an individual Group company or business unit reaches its targets. The maximum amount of remuneration is limited in all schemes.

Long-term management incentive scheme from 2011

In 2011, Pohjola Bank plc's Board of Directors decided that the company would join OP-Pohjola Group's long-term management incentive scheme with OP-Pohjola Group-level targets. These targets conform to those of OP Personnel Fund for the entire Group's personnel.

The directors of Pohjola Bank plc and its subsidiaries and designated persons in key positions are included in the long-term management share-based incentive scheme. OP-Pohjola Group Central Cooperative's Supervisory Board has designated a maximum of 75 people in the scheme.

The bonus is determined by the management position. If the set targets are annually achieved at 100%, the management and key employees will be entitled to a bonus equalling their regular 2–12-month salary subject to PAYE tax.

The scheme consists of consecutive three-year performance periods, the first of which is 1 January 2011–31 December 2013. The bonus for the 2011–13 performance period will be paid after a deferment period in three equal instalments by the end of each June in 2015–17.

The target bonus was determined at the beginning of the scheme, i.e. the maximum remuneration in terms of Pohjola Bank plc Series A shares. This target bonus for the 2011–13 performance period is 1.2 million shares which will be partly based on cash-settled payments (the amount of tax withheld) and equity-settled payments.

OP-Pohjola Group Central Cooperative's Supervisory Board determines the performance indicators for the scheme and targets set for them separately for each performance period. The targets for 2011–13 are based on the following criteria:

- Growth in the number of customers using OP-Pohjola as the main bank and insurer
- Change in the market share of corporate customer business
- Return on economic capital

Bonuses will be paid to their beneficiaries provided that OP-Pohjola Group's capital adequacy ratio under the Act on the Supervision of Financial and Insurance Conglomerates is 1.3 or higher and that the person within the scheme is employed by OP-Pohjola Group up to the payment date.

Under the scheme, Pohjola Bank plc shares are accounted for as equity-settled transactions and cash that covers the taxes is accounted for as cash-settled transactions. Expenses for the scheme are recognised from the beginning of the performance period up to the date of payment (vesting period) as personnel costs, and the equivalent liability is recognised under deferred expenses or shareholders' equity. The portion of shareholders' equity is based on the fair value of the share on the grant date, with expected discounted dividends factored in. The fair value determined on the grant date averaged 7.59 euros. On 31 December 2013, the amount of equity-settled payments recognised in equity totalled EUR 0.6 million (0.7). Liability arising from the amount of cash-settled payments is measured at fair value on each balance sheet date, totalling EUR 1.1 million (1.1) on 31 December 2013.

OP-Pohjola Group's Supervisory Board manages the long-term scheme and supervises compliance with it. The Supervisory Board may exercise discretion to change the terms and conditions of the scheme and postpone bonus payments for compelling reasons.

Short-term incentive schemes

In short-term schemes, the performance period is one calendar year and the bonus is primarily paid in cash. The short-term incentive schemes are based on performance and other business targets specified for each business unit, covering all Pohjola Bank plc's staff.

Bonuses under the short-term schemes are primarily accounted for as cash-settled transactions. Expenses for the schemes are recognised from the beginning of the performance period up to the date of payment (vesting period) as personnel costs, and the equivalent liability is recognised under deferred expenses. Liability is measured at fair value on each balance sheet date, totalling EUR 7.0 million (8.9) on 31 December 2013.

Deferment of variable remuneration

The payment of variable remuneration has been prescribed in Government decree no. 1372/2010. If a person is categorised on the basis of his duties as belonging to a group that may cause considerable risk (identified staff) to his company, the company may defer the payment of variable remuneration over three years under certain conditions.

Identified staff in Pohjola Bank plc include managing directors and other key management personnel, other people with a major impact of the company's risk exposure, Internal Control and other designated persons or special groups.

People who may affect the company's risk profile will have their variable remuneration payment deferred and their bonuses paid half in cash and Pohjola Bank plc shares (or tied to its value) if their variable remuneration for a 12-month performance period exceeds €50,000 – the maximum recommended by the Financial Supervisory Authority – or two months' fixed gross salary above this amount. The remuneration of the person affecting the company's risk profile is viewed up to the €50,000 deferment limit as a whole, considering both long- and short-term remuneration.

If the euro maximum for deferment is exceeded, some bonus is paid immediately, while the rest is deferred. and the deferred bonus will be paid in equal instalments within the next three years. In case of such deferment under the short-term scheme, half of the bonus is paid in cash and half as Pohjola Bank plc shares (or cash tied to the price of a Pohjola Bank plc share). This means that the accounting treatment of bonus payments based on equity-settled transactions under the scheme will change to equity-settled payments.

Expenses charged for variable remuneration *)

EUR million	2013	2012
Personnel fund	2	0
Short-term schemes	7	9
Previous long-term schemes		
Schemes for 2007–2010	1	1
Long-term scheme underway		
Scheme for 2011–2013	0	1
Total	10	11

*) Excluding social expenses

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Note 37. Major shareholders and breakdown of shareholding

Major shareholders in terms of votes

(10 largest shareholders based on the Shareholder Register on 31 December 2013)

		No. of shares	shares overall	% of shares	No. of votes	% of votes
OP-Pohjola Group Central Cooperative	A	58,351,020				
	K	60,641,131	118,992,151	37.2	361,556,675	61.3
Ilmarinen Mutual Pension Insurance Company	A	31,955,142				
	K		31,955,142	10.0	31,955,142	5.4
Oulun Osuuspankki	A	2,764,504				
	K	1,590,916	4,355,420	1.4	10,719,084	1.8
Keski-Suomen Osuuspankki	A	12,572				
	K	717,448	730,020	0.2	3,599,812	0.6
OP Bank Group Pension Fund	A	3,455,529				
	K		3,455,529	1.1	3,455,529	0.6
Länsi-Suomen Osuuspankki	A	1,035,080				
	K	395,716	1,430,796	0.4	3,013,660	0.5
Pohjois-Savon Osuuspankki	A	721,081				
	K	379,936	1,101,017	0.3	2,620,761	0.4
Sijoitusrahasto Nordea Fennia	A	2,500,000				
	K		2,500,000	0.8	2,500,000	0.4
OP Bank Group Pension Foundation	A	2,328,568				
	K		2,328,568	0.7	2,328,568	0.4
Tampereen seudun Osuuspankki	A	1,674,668				
	K	102,708	1,777,376	0.6	2,188,208	0.4
Total			168,626,019	52.7	423,937,439	71.8
Nominee-registered shares	A		60,402,444	18.9	60,402,444	10.2
Total number of shareholders			32,267			

Major shareholders in terms of shareholdings

(10 largest shareholders based on the Shareholder Register on 31 December 2013)

	No. of shares	% of shares	% of votes
OP-Pohjola Group Central Cooperative	118,992,151	37.2	61.3
Ilmarinen Mutual Pension Insurance Company	31,955,142	10.0	5.4
Oulun Osuuspankki	4,355,420	1.4	1.8
OP Bank Group Pension Fund	3,455,529	1.1	0.6
Sijoitusrahasto Nordea Fennia	2,500,000	0.8	0.4
OP Bank Group Pension Foundation	2,328,568	0.7	0.4
Tampereen Seudun Osuuspankki	1,777,376	0.6	0.4
The State Pension Fund	1,700,000	0.5	0.3
Suur-Savon Osuuspankki	1,502,712	0.5	0.4
Länsi-Suomen Osuuspankki	1,430,796	0.5	0.5
Total	169,997,694	53.3	71.5
Nominee-registered shares	60,402,444	18.9	10.2

Shareholdings by number of shares held (based on the Shareholder Register on 31 December 2013)

Number of shares (Series A and K shares)

	No. of shareholders	% of shareholders	No. of shares	% of shares
1–100	4,751	14.7	286,477	0.1
101–1000	20,999	65.1	7,894,451	2.5
1001–10 000	5,842	18.1	16,101,161	5.0
10 001–100 000	527	1.6	14,490,795	4.5
100 001–1 000 000	125	0.4	102,887,151	32.2
1 000 001–	23	0.1	177,891,380	55.7
In joint account				
Total	32,267	100	319,551,415	100

Shareholdings by sector (based on the Shareholder Register on 31 December 2013)

Shareholder type	Shareholders	% of shareholders	% of shares	No. of votes	% of votes
Non-banking corporate sector	835	2.6	2.1	6,684,543	1.1
OP-Pohjola Group Central Cooperative and member cooperative banks	184	0.6	53.3	440,385,537	74.7
Other financial institutions and insurance companies	51	0.2	2.7	8,661,174	0.9
Public sector entities	24	0.1	12.2	38,939,353	6.6
Non-profit organisations	329	1.0	1.2	3,800,889	0.6
Households	30,777	95.4	9.1	29,219,370	5.0
Foreign	57	0.2	0.5	1,624,301	0.8
Nominee-registered shareholders	10	0.0	18.9	60,402,444	10.2
In joint account					
Total	32,267	100	100	589,717,611	100

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Note 38. Assets pledged as collateral

Assets pledged as collateral

EUR million	31 Dec. 2013	31 Dec. 2012
Given on behalf of own debts and commitments		
Mortgages		
Pledges		
Other	485	623
Total	485	623
Other given on own behalf		
Mortgages		
Pledges*	5,705	4,618
Other		
Total	5,705	4,618
Total assets pledged as collateral	6,190	5,241

* of which EUR 2,000 million in intraday settlement collateral and the rest pledged but unencumbered.

Secured liabilities totalled EUR 489 (591) million.

Other collateral given on own behalf consists of collateral required for the maintenance of liquidity.

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Note 39. Pension liabilities

EUR million	31 Dec. 2013	31 Dec. 2012
Direct liabilities from pension commitments	3	3
Share of the excess margin of pension liabilities on the pension fund and on other liabilities		
Repayment of the excess margin of the pension fund recorded as pension cost adjustment		

The statutory pension cover for Pohjola Bank plc employees is managed through the OP Bank Group Pension Fund and the supplementary pension cover through the OP Bank Group Pension Foundation. The Foundation has not accepted new beneficiaries since 30 June 1991. Pohjola Bank plc's pension liabilities are fully covered.

Notes to the Parent Company Financial Statements (FAS)

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Note 40. Lease and other rental liabilities

Material contract terms and conditions regarding termination and redemption

Pohjola Bank plc has no significant lease or other rental liabilities. The contracts primarily cover personnel car leases with a maturity of three years.

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Note 41. Off-balance-sheet commitments

EUR million	On behalf of subsidiaries	On behalf of affiliates	On behalf of others	Total
Off-balance-sheet commitments 31 December 2013	12		7,713	7,725
Commitments given to a third party on behalf of customers			2,727	2,727
Guarantees and pledges			2,479	
Other			247	
Irrevocable commitments given on behalf of customers	12		4,986	4,999
Loan commitments	12		4,728	
Other			258	

EUR million	On behalf of subsidiaries	On behalf of affiliates	On behalf of others	Total
Off-balance-sheet commitments 31 December 2012	8		8,209	8,216
Commitments given to a third party on behalf of customers	0		2,676	2,676
Guarantees and pledges	0		2,241	
Other			435	
Irrevocable commitments given on behalf of customers	8		5,533	5,541
Loan commitments	8		5,342	
Other			191	

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Note 42. Other contingent liabilities and commitments at the year-end

On 31 December 2013, Pohjola Bank plc's commitments to private equity funds amounted to EUR 9.5 (11.6) million and relate to those presented in Note 41.

Client assets related to brokerage amounted to EUR 0.3 (0.2) million included in 'Liabilities to the public and public sector entities'.

Accounts payable related to brokerage totalled EUR 53.3 (47.7) million and accounts receivable EUR 53.1 (47.4) million.

Notes to the Parent Company Financial Statements (FAS)

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Note 43. Personnel and members of administrative bodies, and related parties

Average personnel in 2013	Average no.	Change during the year
Permanent full-time personnel	608	-183
Permanent part-time personnel	17	17
Fixed-term personnel	39	-24
Total	664	-190

Remuneration paid to members of administrative bodies in 2013	Wages and salaries, EUR million
Members of the Board of Directors, President and CEO, and Deputy CEO	2

The Annual General Meeting approved the following Board emoluments:

Monthly emoluments and attendance allowance paid to Board members in 2013 totalled EUR 570,600. The Chairman's monthly emoluments totalled EUR 8,000, the Vice Chairman's EUR 5,500 and other members' EUR 4,500. An additional monthly emolument of EUR 1,000 is paid to a Board committee chair who is not the Chairman or Vice Chairman of the Board. All Board members received an attendance allowance of EUR 550 for each meeting. Monthly Board emoluments are treated as pensionable salary.

Reijo Karhinen, Chairman	EUR 107,000
Tony Vepsäläinen, Vice Chairman	EUR 78,650

Members of the Board of Directors:

Merja Auvinen (member until 22 March 2013)	EUR 16,250
Jukka Hienonen	EUR 65,000
Jukka Hulkkonen	EUR 59,500
Mirja-Leena Kullberg	EUR 61,700
Marjo Partio (member since 22 March 2013)	EUR 44,350
Harri Sailas	EUR 62,800
Tom von Weymarn	EUR 75,350

In the financial year 2013, the members of the Board of Directors did not receive any share-based bonuses from the Company.

Salaries and performance-based bonuses paid to the President and CEO in the financial year ending 31 December 2013 were as follows:

Jouko Pölönen, President and CEO since 15 November 2013, EUR 50,081.

Mikael Silvennoinen, President and CEO until 14 November 2013, EUR 1,039,275.*

* Includes salaries and bonuses paid to the President and CEO for 1 January–17 December 2013. Includes a portion of the amount paid in 2013 and earned in 2012 based on the short-term incentive scheme. Of the remaining portion of the 2012 bonus, EUR 58,271 has been deferred for payment between 2014 and 2016. Includes a portion paid in 2013 and earned in 2011 based on the short-term remuneration scheme. Of the remaining portion of the 2011 bonus, EUR 32,069 has been deferred for payment between 2014 and 2015. Payment of deferred amounts requires a Board decision. Detailed information on the deferment procedure can be found in Note 36.

The period of notice applicable under the President and CEO's executive contract is six months. According to this contract, the Company must pay the President and CEO severance pay equalling his 12-month total salary, in addition to compensation for loss of office, if the Company dismisses him or he has to resign or terminate the contract due to a reason attributable to the Company. In case the executive contract terminates due to reasons attributable to the Company, the President and CEO will be entitled to bonuses under the short- and long-term incentive schemes for the year of contract termination, provided that the schemes' performance criteria and the criteria for payment under the schemes' terms and conditions are fulfilled and his executive contract has been effective throughout the performance year. In addition, the President and CEO belongs to the long-term incentive scheme (2011–13), under which bonuses will be paid from 2015 until 2017. He has unlimited company car benefit.

In addition, the President and CEO belongs to the long-term incentive scheme (2011–13), under which bonuses will be paid from 2015 until 2017. He has unlimited company car benefit. Pohjola can pay the performance-based bonus accrued in 2013 to President and CEO Silvennoinen according to his executive contract provided that the Board of Directors so decides. Pohjola will not pay any bonus under the long-term management share-based incentive scheme (2011–13) to Silvennoinen.

The CEO executive contract does not stipulate any specific retirement age for the President and CEO. The President and CEO is covered by TyEL (the Finnish Employees Pensions Act) which provides pension benefits based on the years of employment and earnings as prescribed in the Act. The retirement age is 63–68 years, depending on his choice. In addition to the statutory pension scheme, President and CEO Mikael Silvennoinen was covered by OP Bank Group Pension Foundation's supplementary pension scheme. Under that scheme, the retirement age applied to the President and CEO is 64 years. Pension accrued under the supplementary pension scheme may begin to be paid out as a paid-up pension before the old-age pension, if employment with OP-Pohjola Group terminates. In such a case, the minimum retirement age for men is 57 years. No supplementary pension scheme applies to President and CEO Pölönen. Attendance fees payable to Board members for each meeting do not accrue pension.

Loans, guarantees and collateral granted to members of the administrative bodies on 31 December 2013

As at 31 December 2013 and 31 December 2012, Pohjola Bank plc had not granted loans or guarantees to members of the Board of Directors.

Pension commitments

Members of the administrative and supervisory bodies are not covered by any pension commitments. Furthermore, no pension commitments have been made for previous members of these bodies.

Auditors' remuneration	2013	2012
Audit	EUR 136,308	EUR 137,516
Other services based on legislation*	EUR 131,120	EUR 190,497
Tax counselling	EUR 102,784	EUR 30,421
Other services	EUR 304,601	EUR 60,009
Total	EUR 674,813	EUR 418,443

* Assignments as referred to in sub-paragraph 2, paragraph 1, Section 1 of the Auditing Act.

Related parties

Pohjola Bank plc's related parties include the President and CEO, deputy CEO, members of the Board of Directors, the auditor and deputy auditor or the chief auditor representing the firm of authorised public accountants, and the abovementioned persons' spouses or persons living in a spousal-type relationship with them and their underage children.

In addition, the related parties include those who, on the basis of shareholdings, hold a minimum of 20% of Pohjola Bank plc shares or, on the basis of shareholdings, stock options or convertible bonds, have or may have the equivalent shareholding or voting rights in Group entities, unless the entity to which the shareholding applies is of minor significance to the entire Group. These entities' corresponding persons mentioned in the previous paragraph are also included in the related parties.

The related parties also include entities and foundations over which the aforementioned persons have control, alone or together with the other person.

Transactions based on ownership, EUR million	2013	2012
Loans and other receivables	7	74
Deposits and other debts	72	12
Net interest income	-2	-1
Dividend income	0	0
Net commissions and fees	0	0
Net other operating income	-9	-4
Guarantees and other off-balance-sheet commitments	20	8

No impairments have been recognised for the items.

Management holdings

On 31 December 2013, Pohjola Bank plc's Board members and President and CEO held a total of 150,359 Series A shares, accounting for 0.047% of all shares and 0.025% of votes conferred by all shares.

Notes to the Parent Company Financial Statements (FAS)

OTHER NOTES

Note 44. Holdings in other companies 31 December 2013

Subsidiaries	Holding, %	Equity capital	Profit or loss for the financial year
Pohjola Asset Management Ltd Helsinki	85	27	16
Pohjola Insurance Ltd Helsinki	100	392	150
A-Insurance Ltd Helsinki	100	63	10
Pohjola Property Management Ltd Helsinki	100	2	2
Kaivokadun PL-hallinto Oy Helsinki	100	5	0
Vakuutuspalvelu Otava Oy Helsinki	100	0	0
Conventum Venture Finance Ltd. Helsinki	100	10	0
Northclaims Oy Helsinki	100	0	0
VH-Holding 1 Oy Helsinki	100	5	0
Pohjola Finance Estonia AS Estonia	100	3	1
Pohjola Finance SIA Latvia	100	7	1
UAB Pohjola Finance Lithuania	100	4	1

Participating interests	Holding, %	Equity capital	Profit or loss for the financial year
Suomi Väärirahoitusrahasto I Ky Helsinki	22.08	8	1
Promotion Equity I Ky Helsinki	29.41	7	2
Access Capital Partners Group SA Belgium	45	8	1
Finnmezzanine Rahasto III B Ky Helsinki	49.49	2	0

Pohjola Bank plc has no shareholdings in companies in which it would have unlimited liability.

Notes to the Parent Company Financial Statements (FAS)

OTHER NOTES

Note 45. Trustee Services

Pohjola Bank plc provides the general public with investment services and asset management and custodian services. Pohjola Bank plc holds no assets based on discretionary investment management or on another agreement.

Notes concerning an entity under the Group's control

Pohjola Bank plc's parent company is OP-Pohjola Group Central Cooperative and Pohjola's consolidated accounts are included in its consolidated financial statements. Copies of the financial statements of OP-Pohjola Group Central Cooperative are available at OP-Pohjola, Vääksyntie 4, Vallila, Helsinki.

The accounts of Pohjola Bank plc are consolidated into those of Pohjola Group. Copies of the financial statements of Pohjola Group are available at www.pohjola.com or OP-Pohjola, Vääksyntie 4, Vallila, Helsinki.

Signatures

Helsinki, 6 February 2014

The Report by the Board of Directors and the Financial Statements signed by:

Reijo Karhinen

Merja Auvinen

Jukka Hienonen

Jukka Hulkkonen

Mirkku Kullberg

Harri Sailas

Tony Vepsäläinen

Tom von Weymarn

Jouko Pölönen
President and CEO

We today issued a report on the audit performed.

Helsinki, 6 February 2014

KPMG Oy Ab
Authorized Public Accountants

Sixten Nyman
Authorized Public Accountant

This document is an English translation of the Finnish auditor's report. Only the Finnish version of the report is legally binding.

Auditor's Report

To the Annual General Meeting of Pohjola Bank plc

We have audited the accounting records, the financial statements, the report of the Board of Directors, and the administration of Pohjola Bank plc for the year ended 31 December 2013. The financial statements comprise the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity, cash flow statement, and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

Responsibility of the Board of Directors and the President and CEO

The Board of Directors and the President and CEO are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the preparation of financial statements and the report of the Board of Directors that give a true and fair view in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the President and CEO shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the report of the Board of Directors are free from material misstatement, and whether the members of the Board of Directors of the parent company or the President and CEO are guilty of an act or negligence which may result in liability in damages towards the company or have violated the Limited Liability Companies Act, Act on Credit Institutions or the articles of association of the company.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and report of the Board of Directors that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Opinion on the company's financial statements and the report of the Board of Directors

In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of both the consolidated and the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

Other opinions

We recommend that the financial statements should be adopted. The proposal by the Board of Directors regarding the use of the profit shown at the balance sheet is in compliance with the Limited Liability Companies Act. We recommend that the Members of the Board of Directors of the parent company and the President and CEO should be discharged from liability for the financial period audited by us.

Helsinki, 6 February 2014

KPMG OY AB

Sixten Nyman
Authorized Public Accountant in Finland

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