

OP-Pohjola Group

Report by the Executive Board and Financial Statements 2012



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2012 in brief

- OP-Pohjola Group's 2012 earnings before tax came to EUR 601 million (525). The Non-life Insurance and Wealth Management segments improved their performance significantly. Banking's performance was in the previous year's level.
- Earnings before tax at fair value soared to a new record at EUR 1,299 million thanks to a rise in the value of investments.
- The Group's income increased by a total of 10%. Net interest income contracted by 3%, while other income increased by 21%. Expenses increased by 9%.
- Impairments charges on receivables came to EUR 99 million (101).
- Earnings before tax in the last quarter amounted to EUR 108 million (37).
- Core Tier 1 ratio was a strong 14.1% (14.0). Without the effect of transition provisions limiting risk-based calculation methods, it stood at 14.8% (14.0).
- The number of joint banking and non-life insurance customers increased by a record 126,000.
- The corporate loan portfolio increased in the year to December by 9%, home loans by 8% and deposits by 9%. Within Non-life Insurance, insurance premium revenue rose by 10% during the financial year.
- The information and consultation of employees process related to the reorganisation of OP-Pohjola Group Central Cooperative Consolidated was concluded in December. As a result, the Central Cooperative decided to cut 561 jobs, with another 150 jobs to be outsourced.
- 2013 earnings before tax are expected to be about the same or slightly lower than in 2012. For more details, see "Outlook for 2013".

OP-Pohjola Group's key indicators

	2012	2011	Change, %
Earnings before tax, € million	601	525	14.5
Banking	437	447	-2.2
Non-life Insurance	92	8	
Wealth Management	101	47	
Returns to owner-members and OP bonus customers	192	176	8.8
	31 Dec 2012	31 Dec 2011	Change, %
Ratio of capital base to minimum amount of capital base **	1.90	1.80	0.10*
Core Tier 1 ratio, %	14.1	14.0	0.1*
Ratio of non-performing receivables to loan and guarantee portfolio, %	0.46	0.47	-0.02*
Joint banking and insurance customers, 1,000	1,425	1,299	9.7

* Change in ratio ** Under the Act on the Supervision of Financial and Insurance Conglomerates

Comparatives deriving from the income statement are based on the corresponding figures in 2011. Unless otherwise specified, balance-sheet and other cross-sectional figures on 31 December 2011 are used as comparatives.

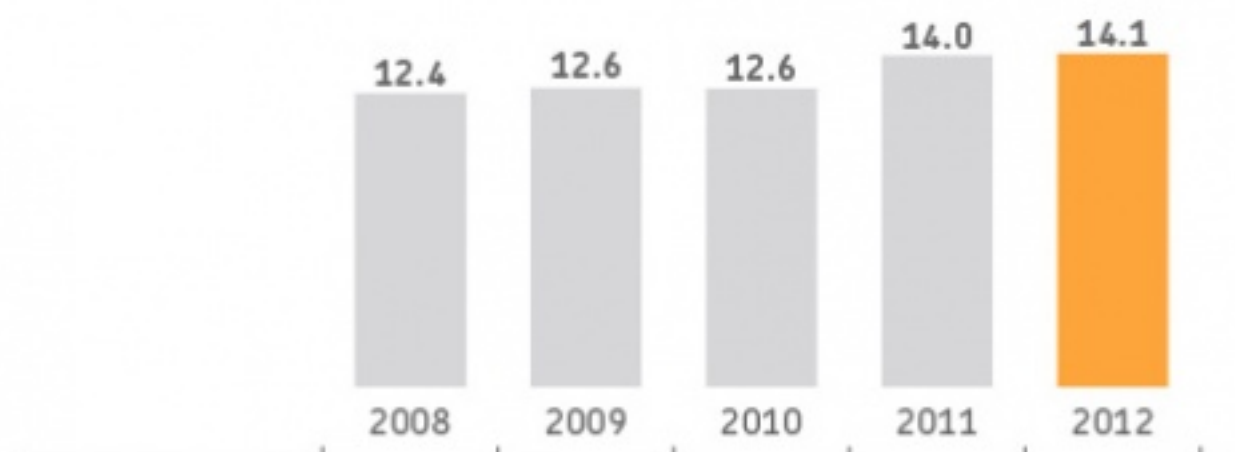
Earnings before Tax

€ million



Capital adequacy ratio

Core Tier 1, %



Operating Environment

Global economic growth slowed down in 2012, showing a slower growth rate than the last decade's average. Economic development was characterised by great uncertainty and was uneven. The US economy grew at a moderate pace and employment improved, whereas the euro area headed for a mild recession.

The European sovereign debt crisis continued to weigh on financial markets. In the early summer, uncertainties mounted as a result of Greece's parliamentary elections. During the second half, the greatest worries about the crisis faded after the European Central Bank (ECB) announced its government bond-purchase programme.

The ECB cut its key interest rate to 0.75% and in the first half increased market liquidity significantly through its extraordinary long-term refinancing operations. Market interest rates fell to record low during 2012.

Economic growth in Finland remained weak in 2012. Following the favourable first quarter, economic growth faded towards the year end. Economic growth was supported by consumer spending, whereas exports and capital spending were subdued. The slower economic growth made unemployment increase during the second half of the year. Home prices rose by a few per cent but home sales and residential building decreased slightly.

The global economic growth outlook for 2013 is still weaker than on average. Economic growth in the euro area will remain weak. The Finnish economy will at its best grow slowly. The ECB will keep its key interest rate low and, if required, take extraordinary measures to support financial stability. Euribor rates will remain record low.

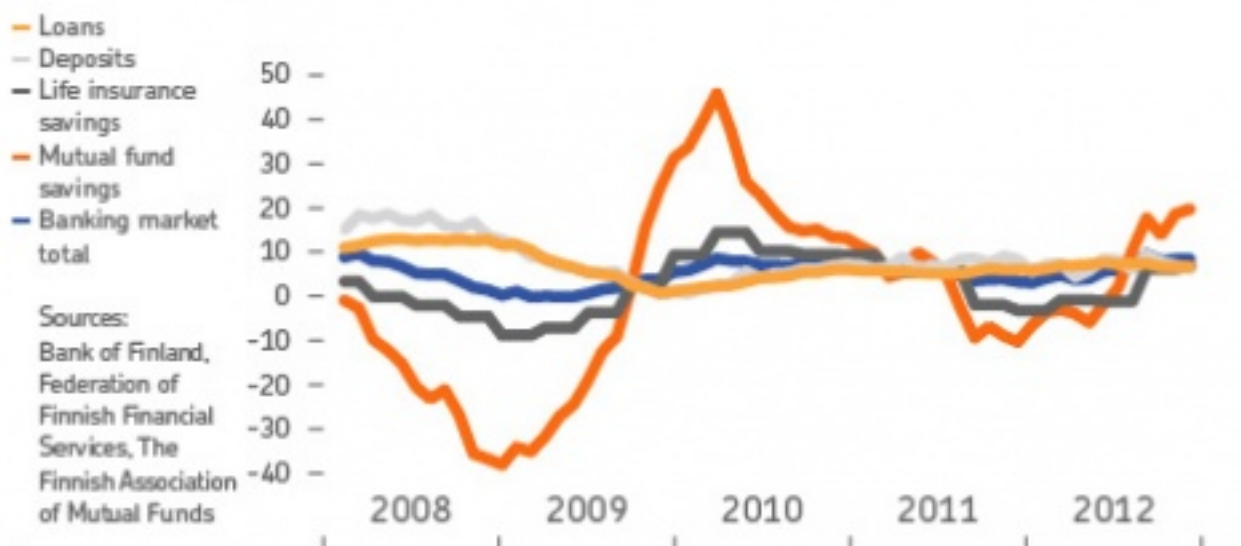
Last year, total loans in the Finnish banking sector increased by 7%, which was markedly above the average growth rate in the euro area. Loans to households continued their relatively steady growth, supported by lower market rates, whereas demand for corporate loans subsided in the second half as a result of the weaker economic outlook. Growth prospects on total loans for 2013 are dimmer than last year.

As a result of favourable developments in financial markets, mutual fund and insurance assets grew during the second half of 2012. Stock prices in Finland rose by an average of around 10% in 2012. Mutual funds' net asset inflows increased and life insurance premiums written rebounded. The growth rate of deposits slowed down slightly towards the year end as a result of a decline in market interest rates and the restored risk appetite. The year-end total deposits were 6% higher than the year before.

The total premiums written by the non-life insurance sector still grew at a steady annual rate of around 6%. Claims paid increased by 4%, which is a slower rate than previously. This can be specifically attributed to the better weather conditions than the year before.

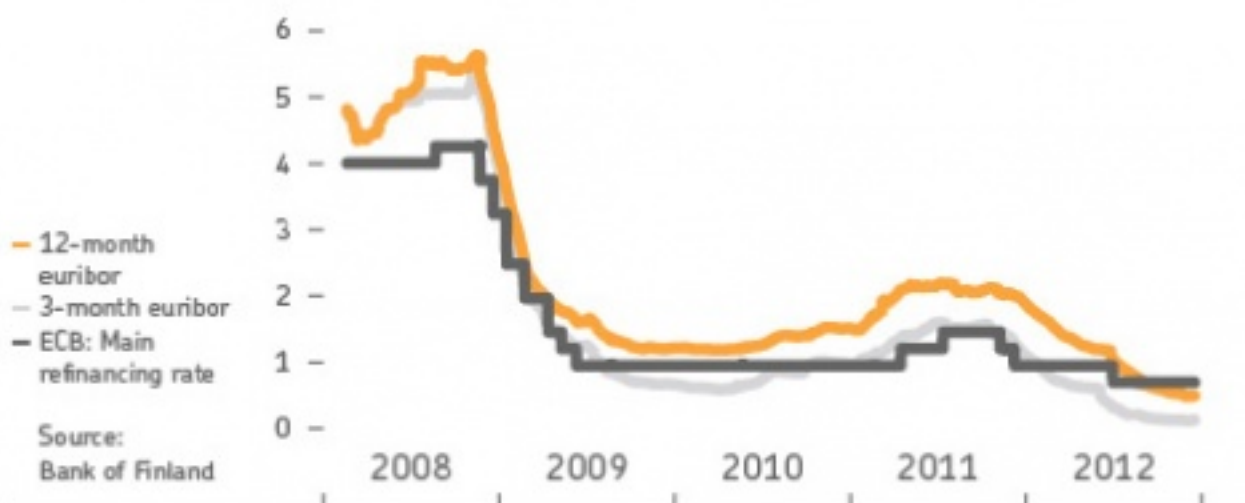
12-month change in banking

sector total, %



Euribor rates and ECB refi rate

%



GDP

annual change in volume, %



Fixed investments

annual change in volume, %



OP-Pohjola Group's Earnings and Total Assets

Earnings analysis

€ million	2012	2011	Change, %
Banking	437	447	-2.2
Non-life Insurance	92	8	
Wealth Management	101	47	
Earnings before tax	601	525	14.5
Gross change in fair value reserve	698	-400	
Earnings/loss before tax at fair value	1,299	125	
Return on economic capital, % *)	14.9	13.7	1.2*
Return on economic capital at fair value, % *)	27.8	6.3	21.5*
Income			
Net interest income	1,003	1,030	-2.6
Net income from Non-life Insurance	433	312	38.8
Net income from Life Insurance	108	72	51.2
Net commissions and fees	584	574	1.8
Net trading and investment income	132	80	65.7
Other operating income	111	93	18.6
Other income, total	1,368	1,131	21.0
Total income	2,371	2,160	9.7
Expenses			
Personnel costs	749	689	8.7
Other administrative expenses	378	351	7.7
Other operating expenses	352	318	10.7
Total expenses	1,479	1,358	8.9
Impairment loss on receivables	99	101	-2.6

Returns to owner-members and OP bonus customers

Bonuses	173	163	6.7
Interest on ordinary and supplementary cooperative capital	19	14	33.9
Total returns	192	176	8.8

*) 12-month rolling, change in percentage

Other key indicators

€ million	31 Dec 2012	31 Dec 2011	Change, %
Receivables from customers	65,161	60,331	8.0
Life Insurance assets	9,173	7,006	30.9
Non-life Insurance assets	3,492	3,205	8.9
Liabilities to customers	49,650	45,974	8.0
Debt securities issued to the public	19,270	20,005	-3.7
Equity capital	7,134	6,242	14.3
Balance sheet total	99,769	91,905	8.6
Tier 1 capital	5,352	4,753	12.6

January–December

OP-Pohjola Group's earnings before tax came to EUR 601 million (525).

Performance in the report period was boosted by good Non-life investment performance, better performance by Life Insurance and higher net trading income. Earnings were eroded by lower net interest income as a result of low interest rates, lower wealth management commissions and fees year on year and higher expenses incurred by the Group. Bonuses to owner-members and OP bonus customers recognised in the income statement grew by 6.7% year on year to EUR 173 million.

The Group's fair value reserve increased by EUR 698 in the report period million thanks to capital market performance, whereas a year ago it decreased by EUR 400 million. Earnings before tax at fair value came to EUR 1,299 million (125).

Pre-tax earnings by Banking, EUR 437 million, were 2.2% lower than a year ago as a result of higher expenses and lower net interest income. Despite the lower net interest income, earnings by Banking increased by a total of 3.5%. Net trading and investment income increased year on year to EUR 84 million (11). Net commissions and fees increased to EUR 543 million (538) as commissions related to lending and payment services increased. Banking had a cost/income ratio of 57.1 (56.3).

The operating combined ratio of Non-life Insurance was 90.5% (89.8). Pre-tax earnings increased year on year as a result of higher net investment income recorded and higher insurance premium revenue. The Wealth Management segment's earnings over the previous year increased owing to lower insurance liability supplements and the acquisition of Skandia Life Finland's business operations (Aurum Investment Insurance Ltd). This acquisition resulted in the recognition of a positive non-recurring item of EUR 19 million related to estimated cost and income synergies. In 2012, changes in reserving bases recorded in insurance operations weakened the Group's earnings by EUR 52 million (74). Investment income at fair value by both the Non-life Insurance and Wealth Management segments increased clearly over the previous year.

Expenses rose by 8.9% year on year primarily due to higher ICT and personnel costs related to business growth and

development, and by higher, accelerated depreciation on the Vallila business property. Higher personnel costs were mainly caused by an increase in the number of employees and higher pension costs. Personnel costs were also increased by non-recurring expenses of EUR 14 million related to the reorganisation programme of OP-Pohjola Group Central Cooperative Consolidated announced in September. Expenses without the reorganisation expenses and the above accelerated depreciation increased by 5.6%. The number of staff increased by 61 in 2012.

Impairment losses recognised under various income statement items that eroded earnings amounted to EUR 159 million (178), of which EUR 99 million (101) concerned loans and receivables. Net impairment loss on loans and receivables accounted for 0.15% (0.16) of the loan and guarantee portfolio.

Equity capital stood at EUR 7,134 million on 31 December, being 14.3% higher than on 31 December 2011. Equity capital was increased by the report period's profit and growth in the fair value reserve, Equity capital was also reduced by profit distribution.

The Board of Directors of Pohjola Bank plc proposes that a per-share dividend of EUR 0.46 (0.41) be paid on Series A shares and EUR 0.43 (0.38) on Series K shares, which would total EUR 145 million (129), of which the Group's internal dividend would account for 53%.

On 31 December, the cooperative capital investments and supplementary cooperative capital investments of the member cooperative banks' owner-members totalled EUR 759 million (756).

OP-Pohjola Group had 4,210,000 customers in Finland at the end of December. The number of private customers totalled 3,783,000 and that of corporate customers 428,000. The number of joint banking and non-life insurance customers increased by a record 126,000 from its 2011-end level to 1,425,000, as a result of cross-selling.

Key income statement items by quarter

	2012				2012	2011	Change
€ million	Q1	Q2	Q3	Q4			%
Net interest income	274	255	243	231	1,003	1,030	-2.6
Net income from Non-life Insurance	100	129	105	99	433	312	38.8
Net income from Life Insurance	32	16	27	33	108	72	51.2
Net commissions and fees	153	141	134	156	584	574	1.8
Other income	78	35	60	70	243	173	40.3
Total income	637	576	569	588	2,371	2,160	9.7
Personnel costs	199	190	184	176	749	689	8.7
Other administrative expenses	93	99	82	104	378	351	7.7
Other operating expenses	87	84	81	100	352	318	10.7
Total expenses	379	373	347	379	1,479	1,358	8.9
Impairments of receivables	11	17	19	51	99	101	-2.6
Returns to owner-members	44	52	46	50	192	176	8.8
Earnings before tax	203	134	156	108	601	525	14.5

OP-Pohjola Group's long-term financial targets

	31 Dec 2012	31 Dec 2011	Target
Capital adequacy under the Act on the Supervision of Financial and Insurance Conglomerates	1.90	1.80	1.6
Return on economic capital (12-month rolling), %	14.9	13.7	18
Growth differential between income and expenses, percentage points (12-month rolling)	0.8	-6.1	>0 %-points

OP-Pohjola Group aims to grow on a long-term basis and at a higher rate than the sector average. The Group's loan portfolio and Non-life Insurance premiums written increased at a higher rate in the year to December than the sector average. The growth of mutual funds and unit-linked savings policies, excluding the acquisition of Aurum Investment Insurance Ltd, were, on the other hand, slower than the sector average. OP-Pohjola Group nevertheless increased its market share in unit-linked insurance assets considerably following the acquisition of Aurum Investment Insurance Ltd.

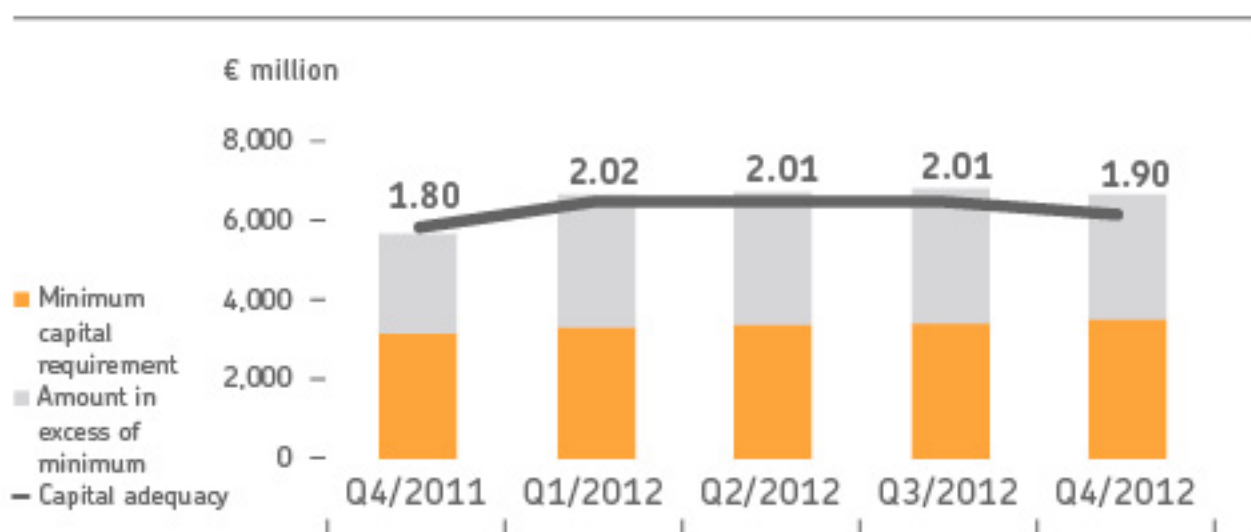
Capital Adequacy

On 31 December, OP-Pohjola Group's capital base, calculated according to the Act on the Supervision of Financial and Insurance Conglomerates, exceeded the minimum amount specified in the Act by EUR 3,112 million (2,486), which was 25% more than a year ago.

The minimum capital requirement under the above Act increased by 11.5% in 2012. The 11.9% increase in the minimum requirement set for Banking can be mainly attributed to growth in the loan portfolio and transition provisions related to capital adequacy measurement. The combined growth in the minimum capital requirement for Non-life and Life Insurance was 8.4%.

The capital base increased by 18% thanks to a 14% increase in equity capital and a Tier 2 issue of subordinated notes. Pohjola Bank plc issued a lower Tier 2 subordinated note worth EUR 500 million in February 2012. Pohjola Bank plc redeemed in the last quarter Upper Tier 2 perpetual subordinated notes of EUR 150 million and GBP 100 million. Changes in Tier subordinated notes increased the Group's capital adequacy specified in the Act on the Supervision of Financial and Insurance Conglomerates by 0.06 units in net terms.

Conglomerate's Capital Adequacy Ratio



As a result of the financial crisis, the regulatory framework for banks' capital requirements is becoming more rigorous, in an effort to improve the quality of their capital base, to increase capital buffers, to reduce the cyclic nature of capital requirements, to decrease banks' indebtedness and to set quantitative limits to liquidity risk. As things look now, these changes are due to be effective between 2014 and 2019. The Capital Adequacy Directive and regulation related to the changes are still under preparation. From the Group's viewpoint, the major changes in the new regulations in terms of capital adequacy requirements are related to how insurance company investments and supplementary cooperative capital are treated in terms of capital base measurement concerning capital adequacy and to the new minimum leverage ratio and liquidity requirements. On the basis of calculations based on the most recently available draft regulation, OP-Pohjola Group estimates that its banking capital adequacy will remain at its current level or to improve.

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 adequacy requirements and harmonise insurance sector solvency requirements in Europe. The

regulations are still being processed, and it is not known when they will come into effect. According to current interpretations, Solvency II will tighten solvency capital requirements but also increase the capital base. Non-life Insurance business already fulfils the solvency requirement under the proposed Solvency II. Life Insurance should fulfil the capital adequacy requirements under the proposed Solvency II when any adjustments related to the risk levels of investment assets and insurance liabilities that have already been initiated are taken into consideration.

Management of Risks and Solvency, and Risk Position

Risk and capital adequacy management: key objectives, principles and organisation in a nutshell

The purpose of risk and capital adequacy assessment is to secure OP-Pohjola Group's and its entities' risk-bearing capacity and ensure continuity of operations. Risk-bearing capacity is made up of good risk management that is proportionate to the extent and complexity of operations and of sufficient capital adequacy based on profitable business operations.

Risk and capital adequacy assessment contains risk identification, measurement, evaluation and limitation. It also involves determining reliably and independently the size of the capital buffer required for various risks and business operations, and allocating capital according to a plan in line with current and planned risk-taking. The Group's liquidity management is also part of risk and capital adequacy management.

OP-Pohjola Group's strategy outlines the Group's risk appetite and aspects of risk management that help to ensure that the strategy is carried out. According to the strategy adopted in 2012, the Group will secure its risk-bearing capacity in all circumstances and keep risk-taking vis-à-vis the risk-bearing capacity moderate. Each Group entity focuses on carrying out its role according to its service capabilities and risk-bearing capacities in accordance with common business models.

OP-Pohjola Group Central Cooperative (the Central Institution) is responsible for Group-level risk and capital adequacy management and for ensuring that the Group's risk management system is sufficient and kept up to date. The Central Institution issues Group entities with guidelines for ensuring risk management and ensures, through supervision, that the entities operate in accordance with official regulations, their own rules, guidelines issued by the Central Cooperative, OP-Pohjola Group's internal procedures and procedures that are appropriate and ethically sound for customer relationships. Entities belonging to OP-Pohjola Group are responsible for their own risk and capital adequacy management in accordance with the nature and extent of their operations. The subsidiaries' risk and capital adequacy management responsibilities were centralised in the parent company as part of the reorganisation of OP-Pohjola Group Central Cooperative Consolidated in early 2013.

OP-Pohjola Group's quantifiable risks are restricted by means of limits and a system of supervision limits that steer operations at Group level, in cooperative banks and entities belonging to the Group. The Central Cooperative's Supervisory Board has determined risk limits for 2012 concerning OP-Pohjola Group's capital adequacy as well as for credit, liquidity, market and insurance risks. The OP-Pohjola Group's Executive Board has set limits, derived from Group-level limits, for capital adequacy, profitability and efficiency, and control limit for various types of risk which the member cooperative banks and Helsinki OP Bank Plc must observe. These limits may not be exceeded. The cooperative banks and Helsinki OP Bank Plc use these limits to confirm their own limits, which are tighter than those set by the Central Institution. Similar limits are also in place concerning the capital adequacy and key risk types of companies within OP-Pohjola Group Central Cooperative Consolidated. The indicators are confirmed annually.

OP-Pohjola Group's risk exposure

Risk-bearing capacity

OP-Pohjola Group's risk exposure remained stable in 2012. The Group has a strong risk-bearing capacity sufficient to secure business continuity.

As specified in OP-Pohjola Group's strategy, the Group has two risk limit indicators for its capital adequacy. The first is capital adequacy prescribed in the Act on the Supervision of Financial and Insurance Conglomerates. The Group's risk limit for this capital adequacy ratio is 1.2, while the minimum statutory requirement is 1. On 31 December 2012, this ratio stood at 1.90, as against 1.80 a year earlier. OP-Pohjola Group's capital resources were EUR 2,420 million (1,864)

above the Group's internal risk limit and EUR 3,112 million (2,486) above the limit required by law.

The other strategy-based risk limit indicator for capital adequacy is the ratio of capital resources to economic capital, for which the risk limit stands at 1.2. On 31 December 2012, the ratio of capital resources to economic capital was 1.51 (1.54). The capital buffer above the Group's internal risk limit was EUR 1,271 million (1,739). The strong capital base acts as a buffer against unexpected losses and paves the way for business growth.

OP-Pohjola Group maintain a capital plan to ensure sufficient capital adequacy even in exceptional conditions. Capital management follows the principles of the Group's risk limit system. The primary risk indicator for capital planning is capital adequacy, as defined in the Act on the Supervision of Financial and Insurance Conglomerates. The amount of capital required to cover the risks is assessed by means of OP-Pohjola Group's internal economic capital model.

As part of normal business planning and management, OP-Pohjola Group creates a number of stress tests and scenario analyses. Stress tests are used to assess how various exceptionally serious situations may affect the liquidity, profitability or capital adequacy of the Group or its entity. According to the tests, OP-Pohjola Group's ability to absorb losses is sufficient and its capital adequacy would fulfil the current legal requirements in the coming years even in the event of deep recession.

Credit risks

No major changes took place in credit risk exposure, although market conditions were significantly more sluggish towards the end of the year.

On 31 December, OP-Pohjola Group's loan and guarantee portfolio stood at EUR 68.2 billion (62.8), or 9% higher year on year. Households accounted for 63% (64) and companies and housing associations 35% (35) of the entire loan and guarantee portfolio.

OP-Pohjola Group's industry and customer risks are diversified. On 31 December 2012, the largest single counterparty-related customer risk accounted for 6.9% (7.2) of the Group's capital resources. The total amount of significant customer exposure was 12.0% (24.4) of the Group's capital resources. Any customer exposure that accounts for at least 5% of the Group's capital resources is taken into account in measuring significant customer exposure. The risk limit for the greatest customer exposure is 15%, and the significant customer total is 100%. At OP-Pohjola Group, industry risk is calculated for each main line of business, with the following factored in: receivables and commitments in Banking, and direct investments in Life and Non-life Insurance. On 31 December 2012, the highest industry risk was 10.4% (10.4) by Renting and Operating of Other Real Estate. The industry risk limit is 16%.

OP-Pohjola Group's customers are given a credit rating on the basis of their risk exposure. 46% (47) of corporate exposures fall into the top five credit portfolio categories (out of twelve categories), also known as investment grade. 5% (5) of the corporate exposures were rated under the four poorest credit ratings. Of the six main categories for private customer exposure, 74% (74) of the exposures belonged to the top two categories, and 4% (5) in the two poorest.

At year-end, OP-Pohjola Group's non-performing and zero-interest receivables came to EUR 311 million (296), which accounted for 0.46% (0.47) of the loan and guarantee portfolio. The risk limit for this key ratio is 1.5%. The ratio of expected losses to exposure at default (EAD) was 0.4% (0.5) and the risk limit for this ratio was 1.0%. Expected losses are an estimate of the average annual losses caused by credit risks calculated using OP-Pohjola Group's own credit risk models. Net impairment loss on receivables recognised in 2012 amounted to EUR 99 million (101), accounting for 0.15% of the loan and guarantee portfolio (0.16). The number of payment schedule changes caused by customers defaulting on their payments has remained unchanged in the report period.

The majority of OP-Pohjola Group's country exposure is in EU countries. The exposures cover all balance-sheet and off-balance-sheet items and they are based on values used in capital adequacy calculations. Of exposures in GIIPS countries, those to Spain totalled EUR 196 million and those to Italy EUR 184 million.

Exposures by country 31 Dec 2012, € mill.	Central government and central banks		Credit institutions	Corporate	Retail investments ¹⁾	Collateralised Equity notes and bonds ²⁾		Other	Total exposure
	banks								
Finland	8.01		463	33.66	47.55	753	291	1.15	91.88
Other Nordic countries	7		566	633	63	44	864	78	2.26
Baltic States	67		2	412	11	4	-	-	496
GIIPS countries	25		87	30	12	16	412	3	585
Rest of EU	1.03		2.04	855	64	1.39	1.8	408	7.58
Rest of Europe	-		411	93	39	59	37	25	665
USA	-		271	164	20	294	8	41	798
Asia	-		263	57	13	71	-	-	405
Other	10		78	85	7	765 ³⁾	6	57	1.01
Total	9.14		4.18	35.99	47.78	3.39	3.42	1.77	105.67

¹⁾ Includes EUR 1,065 million in bond funds

²⁾ Comprises RMBS, ABS and Covered Bond investments

³⁾ Consist mainly of investments in Emerging Markets and Global funds

Loan and guarantee portfolio by sector

€ million	31 Dec 2012	31 Dec 2011	Change, %	Non-performing and zero-interest rate loans	
				31 Dec 2012	% of loan and guarantee portfolio
Enterprises and housing associations	23,725	21,709	9.3	108	0.5%
Renting and operation of residential real estate incl. housing associations	4,831	4,195	15.2	3	0.1%
Other renting and operating of real estate	3,021	2,761	9.4	14	0.5%
Wholesale and retail trade	2,607	2,314	12.7	10	0.4%
Services	1,697	1,571	8.0	13	0.7%
Construction	1,648	1,637	0.7	12	0.7%
Transportation and storage	1,550	1,411	9.8	8	0.5%
Manufacture of machinery and equipment (incl. services)	1,264	1,324	-4.5	4	0.3%
Financial and insurance services	1,095	695	57.5	8	0.8%
Buying and selling of own real estate	1,064	1,034	3.0	4	0.4%
Agriculture, forestry and fishing	823	773	6.5	6	0.7%
Forest Industry	657	718	-8.5	14	2.1%
Metal Industry	647	645	0.2	3	0.5%
Energy	617	476	29.4	0	0.0%
Food Industry	581	626	-7.1	3	0.6%
Chemical Industry	345	382	-9.7	0	0.1%
Other manufacturing	336	425	-20.9	3	1.0%
Other industries	942	721	30.7	2	0.2%
Public corporations and non-profit organisations	1,262	1,132	11.5	1	0.1%
Households	42,689	39,909	7.0	202	0.5%
Adjustments	484	37		0	
Total	68,160	62,788	8.6	311	0.46%

Liquidity risk

OP-Pohjola Group's funding and liquidity position is good. The percentage of deposits and notes and bonds of funding grew in 2012. The Group issued long-term bonds in 2012 worth a total of EUR 4.5 billion. Of these, Pohjola Bank plc, the Group's central bank, accounted for EUR 2.9 billion, while OP Mortgage Bank, which is responsible for issuing the Group's covered bonds, accounted for the rest. OP-Pohjola Group's short-term and long-term wholesale funding performed well throughout the report period.

OP-Pohjola Group secures its liquidity with a liquidity buffer which mainly consists of deposits with central banks and receivables eligible as collateral for central bank refinancing. The liquidity buffer's collateral value was EUR 13.7 billion

(14.0). 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.

The liquidity buffer and other sources of additional funding based on the Group's contingency funding plan are sufficient to cover wholesale funding for at least 24 months in the event wholesale funding becomes unavailable and total deposits decrease at a moderate rate.

The risk limit indicators for OP-Pohjola Group's liquidity risk consist of both the ratio of net cash flows by maturity affecting the structural funding risk to the Banking balance sheet total, and funding liquidity risk. The risk indicator for the structural funding risk indicates the maximum portion of the net cash flows in the Group's balance sheet that may mature within less than one year and within less than three and five years. On 31 December, the maturing net cash flows in the Group's balance sheet were in all maturity periods with upper limits clearly under the maximum specified by the risk limits.

The liquidity risk indicator shows how well the primary liquidity buffer can cover for 30 days the known or predictable net cash flows payable to parties outside the Group and also any unexpected yet moderate decline in deposits. At the end of the year, the primary liquidity buffer was sufficient to cover a period that was considerably longer than the 30 days that was used as a risk limit.

Market risks

OP-Pohjola Group's market risk exposure was within the set limits in the report period.

The most significant market risks affecting Banking are the effects of interest rate level changes on net interest income and the effect of change of credit spreads on the liquidity reserve value. The interest rate risk by Banking, measured as the effect of a 1-percentage point decrease on a 12-month net interest income and the value of investments, decreased considerably as a result of lower interest rates. Credit spread risk affects investments in bonds and notes issued by either governments or companies. Within Banking, credit spread risk is highest in notes and bonds included in the liquidity buffer. Credit spread risk by Banking decreased as the number of notes and bonds was reduced and uncertainty in the bond market was lifted.

In the assessment of market risks for insurance operations, the focus is on those related to investments and insurance liabilities, primarily interest rate risk. The interest rate risk of investments by Life Insurance increased, while that of insurance liabilities decreased. Interest rate risk of insurance liabilities was reduced by means of hedging, and by 31 December about half was hedged. Equity risk was reduced by selling investments.

The interest rate risk for Non-life Insurance's investments in the event of a one percentage point interest rate rise fell somewhat year on year, while that related to insurance liabilities increased somewhat. The sensitivity of investments with respect to falling share prices was lower than the year before, while the sensitivity of notes and bonds carrying credit risk to a higher credit spread was at the same level as a year ago.

In OP-Pohjola Group, the most significant currency risk lies in life insurance and non-life insurance investments. The open net foreign exchange position of both life and non-life insurance against the euro has risen somewhat. Within Banking in OP-Pohjola Group, currency risk has been concentrated in Pohjola Bank plc, where this risk was low throughout the year, and foreign exchange trading focused on intraday trading.

The commodity risk and volatility risk under options trading that are focused in Pohjola Bank plc are of low importance for OP-Pohjola Group.

OP-Pohjola Group's investment assets at fair value totalled EUR 19.8 billion (20.3) on 31 December 2012, with Pohjola Bank plc accounting for EUR 11.9 billion (12.6), making up most of the Group's liquidity buffer. Non-life Insurance's investment assets came to EUR 3.1 billion (2.8) and those of Life Insurance to EUR 3.6 billion EUR (3.7) on 31 December 2012. Insurance operations' investment assets, profits and insurance liabilities are covered in more detail below in the sections dealing with individual business segments. Cooperative banks' investment assets totalled EUR 0.9 billion (0.9) and those of OP-Pohjola Group Mutual Insurance Company EUR 0.4 billion (0.4).

Interest rate risk of financing, insurance market risk and real estate risk are proportioned in the risk limit system to the capital base. The market risk of trading is limited by means of Value-at-Risk indicators. At the year-end, the risk of all the above Group-level limit indicators was well below the set limit.

Operational risks

There were no major changes in the risk exposure of operational risks in 2012, but the Vallila 2015 office building project that began in the latter half of 2012 increased the risk exposure in the Central Cooperative. Risk assessments have identified problems related to information systems as the greatest operational risks. Financial losses caused by operational risks were small, some EUR 4.6 million.

Underwriting risks

No major changes took place in 2012 in Non-life Insurance's or Life Insurance's underwriting risks. The solvency of insurance companies improved thanks to their good performance and a rise in the market value of investments.

On 31 December 2012, Non-life Insurance solvency capital amounted to EUR 914 million (787). The ratio of solvency capital to insurance premium revenue (solvency ratio) was 81% (77).

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 stands at EUR 120 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 2012. This protection will be brought into use when an annual claims expenditure arising from major losses is higher than usual.

A large part of insurance liabilities consists of annuities affected by estimated mortality and the discount rate used. A one-year increase in the average life expectancy reduces equity capital by about EUR 34 million (33). 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. A fall in inflation by 0.1 percentage points reduces equity capital by about EUR 18 million (16).

On 31 December, Life Insurance's solvency margin was EUR 780 million (552), which was 3.6-fold the required minimum. The solvency ratio, or the ratio of solvency capital to weighted technical provisions, was 16.8% (12.9). The most significant risks in Life Insurance operations are associated with investments. Specific risk management instructions and operating policies have been laid down for the risk management of investment operations. An investment plan is made annually to determine the financial targets and to set quantitative and qualitative limits.

Within the risk limit system, the Group limits underwriting risk using the ratio of Non-life and Life Insurance economic capital to capital resources. On 31 December, the underwriting risk associated with both Non-life and Life accounted for around less than half of the 10% risk limits set for them.

Information on risk exposure in Non-life Insurance can also be found in the sections dealing with individual business segments.

Credit ratings

Rating agency	Short-term debt	Long-term debt
Fitch Ratings (OP-Pohjola Group and Pohjola Bank plc)	F1	A+
Standard & Poor's (Pohjola Bank plc)	A-1+	AA-
Moody's (Pohjola Bank plc)	P-1	Aa3

Fitch Ratings affirms a rating for both OP-Pohjola Group and Pohjola Bank plc. OP-Pohjola Group's financial position also affects credit ratings affirmed for Pohjola Bank plc.

Standard & Poor's affirmed on 16 May and 20 November 2012 Pohjola Bank plc's long-term debt rating at AA- and short-term debt rating at A-1+, and on 20 November, S&P revised the outlook from stable to negative.

Fitch Ratings affirmed on 10 October 2012 Pohjola Bank plc's long-term debt rating at A+ and short-term rating at F1 while keeping the outlook stable.

Moody's Investors Service downgraded on 31 May 2012 Pohjola Bank plc's long-term debt rating by one notch from Aa2 to Aa3, still affirming the rating as very strong, while Pohjola Bank plc's Prime-1 short-term debt and deposit ratings remained unchanged, with a stable outlook for these ratings.

Outlook for 2013

The global economy is expected to continue to grow moderately in 2013. The euro area economy fell into a recession in 2012 and this year its growth is expected to be negative or zero. The Finnish economy too contracted in the second half of 2012. However, it is expected to begin to grow at a slow pace in 2013.

The financial sector operating environment is expected to be difficult this year. Historically low market interest rates are decreasing banks' net interest income and weakening insurance companies' return on investments, while the weak market conditions will reduce demand for financial services and the bank tax confirmed in late 2012 will cause major costs to Finnish banks. Adjusting to the more rigorous regulatory environment in the financial sector will reduce profitability even further. Despite some stabilisation in the last six months, there is still a risk of the exacerbation of the European sovereign debt crisis, which would have an adverse effect on the entire financial sector.

Uncertainties related to the operating environment and the radically changing regulatory environment make it difficult to estimate OP-Pohjola Group's performance in 2013. Unless the operating environment turns out to be considerably weaker than expected, OP-Pohjola Group's financial performance is expected to be at about the same level as in 2012, or somewhat lower. The primary uncertainties affecting the financial performance in 2013 relate to the rate of business growth, impairment loss on receivables and changes in the investment environment.

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

Operations and Earnings by Business Segment

As a result of the adoption of the updated strategy, the life insurance business together with the asset management and mutual fund businesses that used to be under the Group's Banking operations was formed into a new Wealth Management segment. The change in business segment structure decreased Banking's pre-tax earnings for the financial year by approximately EUR 42 million. The figures for Aurum Investment Insurance Ltd, which was acquired in the third quarter, are presented under the Wealth Management segment. Reporting based on the new division of segments has begun from the beginning of the third quarter. The comparatives have been changed correspondingly.

OP-Pohjola Group's business segments are Banking, Non-life Insurance and Wealth Management. Non-segment operations are presented under 'Other Operations'. OP-Pohjola Group's segment reporting is based on accounting policies.

Summary of earnings by business segment

€ million	Income	Expenses	Other items *)	Earnings before tax 2012	Earnings before tax 2011	Change, %
Banking	1,692	967	-288	437	447	-2.2
Non-life Insurance	458	366	0	92	8	1,073.7
Wealth Management	237	136	0	101	47	114.4
Other Operations	441	449	-3	-10	32	-132.2
Eliminations	-456	-439	0	-18	-9	96.8
Total	2,371	1,479	-291	601	525	14.5

*) Other items contain returns to owner-members and OP bonus customers, and impairment losses on receivables

Banking

- OP-Pohjola Group became the intermediary for government payments on 1 December 2012.
- Earnings before tax fell by 2.2% to EUR 437 million.
- Income increased by a total of 3.5%. Net interest income contracted by 1.5%, while net commissions and fees increased by 1.0%.
- Impairment losses on receivables increased by 6.3%.
- In annual terms, growth was particularly strong in deposits and corporate and home loans.

Banking, key figures and ratios

€ million	2012	2011	Change, %
Net interest income	969	984	-1.5
Impairment loss on receivables	96	90	6.3
Other income	722	650	11.1
Personnel costs	433	405	6.8
Other expenses	534	516	3.5
Returns to owner-members and OP bonus customers	192	176	8.8
Earnings before tax	437	447	-2.2
€ million			
Home loans drawn down	7,601	7,435	2.2
Corporate loans drawn down	7,375	6,699	10.1
Net asset inflows of mutual funds	-698	-1,709	-59.1
No. of brokered property transactions	16,291	17,240	-5.5
€ billion	31 Dec 2012	31 Dec 2011	Change, %
Loan portfolio			
Home loans	31.7	29.3	8.0
Corporate loans	17.0	15.6	9.3
Other loans	16.4	15.2	7.9
Total	65.1	60.1	8.3
Guarantee portfolio	3.1	2.7	13.9
Deposits			
Current and payment transfer	23.7	21.6	9.7
Investment deposits	21.3	19.7	8.2
Total deposits	45.0	41.3	9.0
Market share,%			
Of loans	33.4	32.9	0.5
Of deposits (According to Bank of Finland definition)	34.1	34.4	-0.2

Banking enjoyed continued growth in terms of loans and deposits. The Group increased its market share in loans. The market share rose particularly well in corporate loans. Loan margins continued to rise throughout 2012 as banks passed higher funding costs onto lending margins and were preparing for tighter regulation. The margins of term deposits stopped rising in the second half of 2012.

OP-Pohjola Group's deposits increased by 9.0% during the report period. Payment transaction accounts increased by 9.7% and investment deposits by 8.2%.

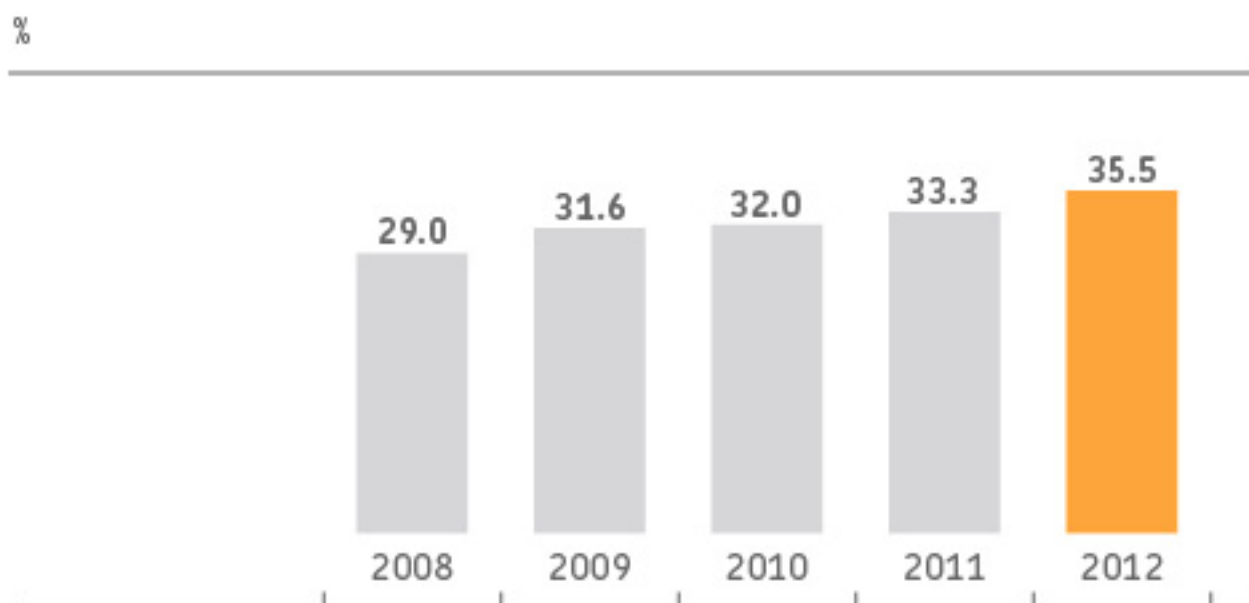
The number of homes sold through OP-Kiinteistökeskus real estate agents was 16,291 in the report period, or 5.5%

lower than a year ago (17,240).

The volume of new home loans drawn down increased by 2.2% year on year. Demand was supported by low interest rates. Loan interest rates are historically low, although margins are clearly higher than a year ago. The average margin of new home loans rose in the second half clearly above one percentage point. On 31 December, the Group held 36.9% (36.0) of the home mortgage portfolio. The consumer loan portfolio grew by 8.1% from last year's figure.

The corporate loan portfolio grew by 9.3% in the report period. The volume of new drawn down corporate loans was 10.1% higher year on year. The average margin of new loans was 1.8%. The Group's market share of corporate loans increased from 33.3% at the year-end 2011 to 35.5% on 31 December 2012.

Market share of corporate loans



The cooperative member banks had 1.4 million owner-members on 31 December, or 43,000 more than a year earlier. The Group member cooperative banks and Helsinki OP Bank Plc, which operates in the Helsinki Metropolitan Area, had a total of 1,285,000 OP bonus customers at the end of December.

Loyal customer bonuses earned by OP bonus customers totalled EUR 173 million, up by 6.7% year on year. In January–December, OP bonus customers used a total of EUR 96.0 million (98.4) of bonuses for banking services and EUR 81.7 million (66.3) for Pohjola non-life insurance premiums. Bonuses were used for the payment of 1,629,000 insurance bills, and 15% of these were paid in full using OP bonuses.

On 28 December 2012, the Finnish Parliament passed a bill on a temporary bank tax. This non-deductible expense concerning deposit banks affects not only all cooperative banks in OP-Pohjola Group but also Helsinki OP Bank Plc, Pohjola Bank plc and OP-Kotipankki Oyj between 2013 and 2015. The tax accounts for 0.125% of all risk-weighted assets, which means that the Group will incur additional non-deductible expenses of around EUR 46 million in 2013.

Earnings and risk exposure

Pre-tax earnings by Banking shrank by 2.2% to EUR 437 million as a result of lower net interest income and higher expenses.

Banking income increased by 3.5% to EUR 1,692 million. Net interest income contracted by 1.5% as a result of low market interest rates. Net commissions and fees increased by 1.0% as the commissions and fees for lending and payment

services increased. Wealth management commissions and fees fell short of those a year ago. Net trading and investment income grew by a total of EUR 74 million year on year mainly as a result of better derivatives business performance and improved value of investments. Banking had a cost/income ratio of 57.1 (56.3).

Banking's credit risk exposure remained stable with a moderate risk level. At EUR 96 million, impairment loss on receivables were, as expected, as low as they were a year ago. In annual terms, this is equivalent to a mere 0.15% of the loan and guarantee portfolio. Non-performing and zero-interest receivables were at the same level in relation to the loan and guarantee portfolio as a year ago. A total of 46% (47) of OP-Pohjola Group's corporate exposures, divided into 12 main categories, fell into the top five corporate loan portfolios, also known as investment grade.

OP-Pohjola Group's doubtful receivables as percentage of loan and guarantee portfolio

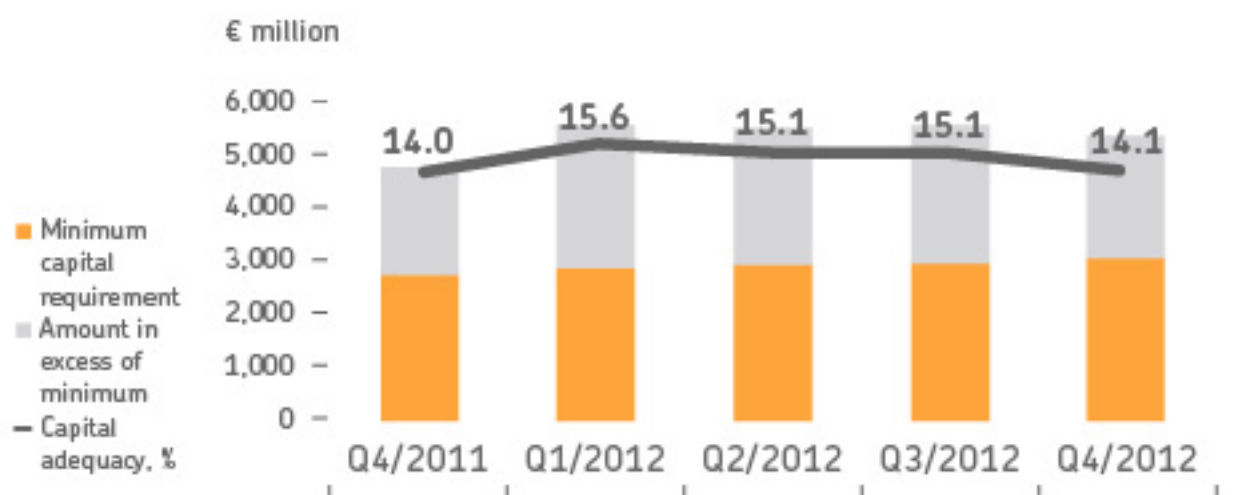
	31 Dec 2012		31 Dec 2011	
	€ million	%	€ million	%
Non-performing and zero-interest receivables, net	311	0.46	296	0.47
Impairment loss on receivables since 1 January, net	99	0.15	101	0.16

Capital base

Following permission from the Financial Supervisory Authority, the Group has applied the Internal Ratings Based Approach (IRBA) to the conglomerate's retail, corporate and credit institution exposures since December 2011. The Foundation Internal Ratings Based Approach (FIRB) is applied to corporate and credit institution 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 14.1% (14.0) at the end of 2012. Without the Basel I floor capital requirement, the Core Tier 1 ratio, Tier 1 ratio and the capital adequacy ratio under the Act on Credit Institutions would have been 14.8% (14.0). The statutory minimum for capital adequacy ratio is 8%, and for Tier 1 ratio 4%. In the autumn of 2011, the European Banking Authority (EBA) set the minimum requirement for the Core Tier 1 ratio at 9% applying to major European banks.

Capital Resources



The Group's Tier 1 capital amounted to EUR 5,352 million (4,753) on 31 December. This change was due to the EUR 500 million lower Tier 2 subordinated note issued by Pohjola Bank plc in February, redemption of Upper Tier 2 perpetual subordinated notes of EUR 150 million and GBP 100 million and the financial year's results and the positive value change of the fair value reserve.

Insurance company and financial institution investments, deducted from Tier 1 and 2 capital on a fifty-fifty basis, came to EUR 2,419 million (2,314). A total of EUR 498 million (542) have been deducted from equity capital as a shortfall of expected losses and impairment losses. Deductions from Tier 2 capital exceeded Tier 2 capital by EUR 364 million (706), which were deducted from Tier 1 capital.

The minimum capital requirement was EUR 3,047 million (2,722) on 31 December 2012, or 11.9% higher year on year. A rise in the loan portfolio and the Basel I floor transition provision included in the Group's capital adequacy measurement related to the Internal Ratings Based Approach that increases the capital requirement increased the capital requirement while the loan portfolio quality remaining unchanged. The minimum capital requirement grew in corporate exposure by EUR 120 million and in retail exposure by EUR 58 million. Credit and counterparty risk accounted for 85.5% (89.8) of the capital requirement. Operational risk accounted for 7.8% (8.5) of the capital requirement, the so-called Basel I floor for 4.8% (–) and market risk for 1.9% (1.7).

Non-life Insurance

- Earnings before tax amounted to EUR 92 million (8); earnings before tax at fair value were EUR 283 million (–39).
- Net investment income increased by EUR 79 million.
- Insurance premium revenue increased by 10% (6).
- The operating combined ratio stood at 90.5% (89.8).
- There were 570,000 loyal customer households on 31 December, increasing by 46,700 (42,700).
- Return on investments at fair value was 10.8% (–0.4).

Non-life Insurance, key figures and ratios

€ million	2012	2011	Change, %
Insurance premium revenue	1,126	1,024	10.0
Insurance claims and benefits	759	692	9.7
Net investment income	115	36	
Unwinding of discount and other items included in net income	–45	–46	3.4
Net income from Non-life Insurance	438	321	36.2
Other net income	20	23	–11.7
Personnel costs	135	125	7.3
Other expenses	231	211	9.7
Earnings before tax	92	8	
Gross change in fair value reserve	191	–47	
Earnings/loss before tax at fair value	283	–39	

Insurance premium revenue

Private Customers	566	503	12.5
Corporate and institutional customers	513	472	8.7
Baltic States	46	48	-3.5
Total insurance premium revenue	1,126	1,024	10.0

Key ratios for Non-life Insurance

Return on investments at fair value*, %	10.8	-0.4
Operating combined ratio*, %	90.5	89.8
Operating expense ratio*, %	21.5	21.8
Operating loss ratio*, %	69.0	68.0

* These operating figures exclude changes in reserving bases and amortisation on intangible assets arising from the corporate acquisition.

Sales of insurance policies proceeded well both in terms of private and corporate customers. Insurance premium revenue from private customers rose by 12.5% and that from corporate customers by 8.7%, year on year.

Growth in the number loyal customer households was record-high in 2012. There were 570,000 loyal customer households on 31 December, increasing by 46,700 (42,700). A total of 69% of these loyal customer households also use OP-Pohjola Group member cooperative banks as their main bank. OP-Pohjola Group member 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 1,629,000 insurance premiums (1,391,000) with 251,000 (209,000) paid in full using bonuses. Insurance premiums paid using bonuses totalled EUR 82 million (66).

Based on the strong growth of insurance premium revenue, it is estimated that OP-Pohjola Group solidified its position as Finland's largest non-life insurer measured by the market share of premiums written.

Earnings and risk exposure

Earnings before tax improved to EUR 92 million (8), mainly because of good investment performance. The discount rate for technical provisions related to pension liabilities was reduced from 3.3% to 3.0% owing to low interest rates, which increased insurance liabilities by EUR 52 million. During the same period a year ago, insurance liabilities were increased by a total of EUR 59 million as a result of a reduction of the discount rate and the higher life expectancy.

Growth in insurance premium revenue was brisk in both private and corporate customers. Total insurance premium revenue was up by 10% (6). Excluding the changes in reserving bases, the balance on technical account remained good. The operating combined ratio stood at 90.5% (89.8).

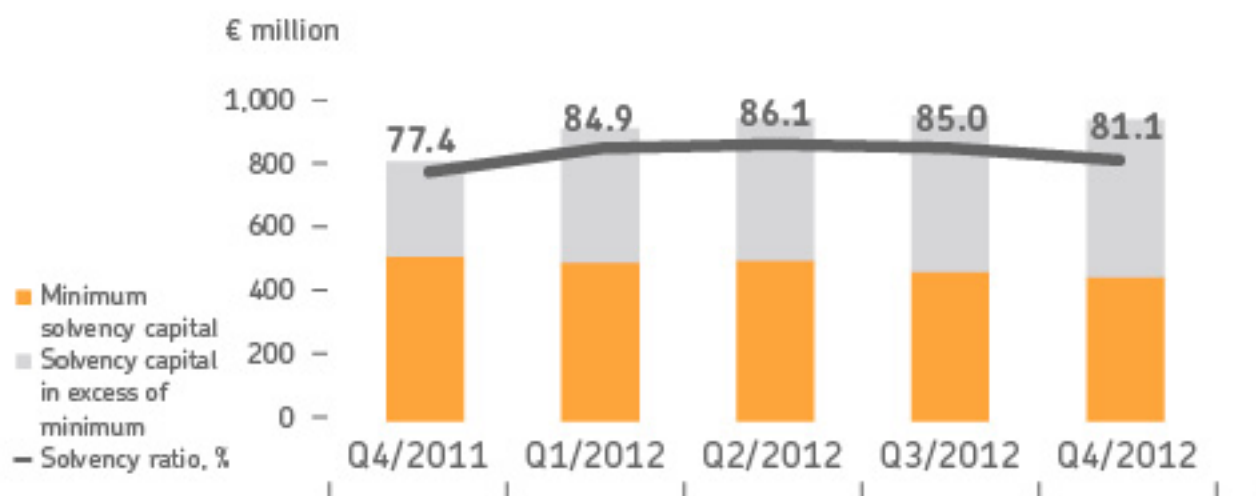
Excluding the changes in reserving bases, claims incurred increased by 12%. The number of losses reported increased by 8% as a result of a larger number of customers. Claims incurred due to new major losses were higher than a year ago. The operating risk ratio excluding indirect loss adjustment expenses stood at 62.8% (61.9). The reported number of major or medium-sized losses (in excess of EUR 0.1 million and over EUR 0.5 million in pension liabilities) came to 291 (234) in January–December, with their claims incurred retained for own account totalling EUR 120 million (92).

Higher commissions arising from sales growth and the larger number of employees added to operating expenses. OP-Pohjola recruited more personnel in 2011 for sales and claims services with a view to improving services for its growing customer base.

Return on investments at fair value was 10.8% (-0.4). Investment income at fair value amounted to EUR 306 million (-11). Impairment charges recognised in the income statement totalled EUR 13 million (42).

Non-life Insurance's risk-bearing capacity was good. Non-life Insurance's solvency capital stood at EUR 914 million (787) on 31 December. The equalisation provision that is included under solvency capital was EUR 273 million (353).

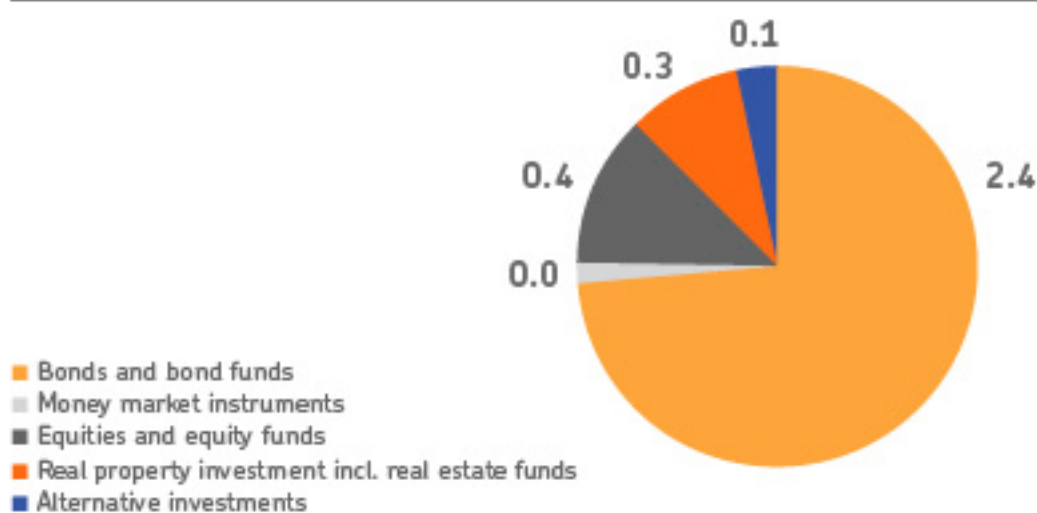
Solvency Capital and Solvency Ratio



On 31 December, the Non-life Insurance investment portfolio totalled EUR 3.1 billion (2.9), the asset allocation being as follows:

Investment assets 31 December 2012

€ billion



The fixed-income portfolio by credit rating remained healthy, considering that investments under the “investment-grade” accounted for 92% (91), and 73% of the investments were rated at least A-. The average residual term to maturity of the

fixed-income portfolio was 4.2 years (4.8) and the duration 4.2 years (3.9).

Wealth Management

- Earnings before tax were EUR 101 million (47) and earnings before tax at fair value EUR 315 million (–144).
- OP-Pohjola Group increased its market share considerably in unit-linked insurance savings following the acquisition of Aurum Investment Insurance Ltd.
- The share of unit-linked insurance of insurance savings increased to 61.9 (48.3).
- Return on investments at fair value was 9.2% (–1.5).

Wealth Management, key figures and ratios

€ million	2012	2011	Change, %
Life Insurance's net interest and risk result	19	–6	429.1
Net commissions and fees			
Fund and asset management	99	101	–2.2
Life insurance	98	89	10.7
Expenses	–25	–30	16.7
Total net commissions and fees	172	160	7.7
Other income	45	24	91
Personnel costs	32	30	8
Other expenses	104	101	3
Earnings before tax	101	47	114
Cross change in fair value reserve	214	–191	
Earnings/loss before tax at fair value	315	–144	
Market share, %	31 Dec 2012	31 Dec 2011	Change, %
Insurance savings	25	21	4.1
Unit-linked insurance savings	32	25	6.5
Mutual fund assets	18	21	–2.7
€ billion			
Insurance savings	8.6	6.7	28.2
Unit-linked	5.3	3.3	64.3

The commissions and fees of the new Wealth Management segment consist of commissions and fees from asset and fund management and life insurance policies.

Life Insurance has the strategic goal of increasing unit-linked insurance savings. As part of its strategy, OP-Pohjola Group Central Cooperative acquired on 31 August 2012 the share capital of Aurum Investment Insurance Ltd from Skandia Life Assurance Company Ltd, a subsidiary of Old Mutual plc. Unit-linked insurance savings increased from 1

January by 64.3%, of which the business acquired from Aurum Investment Insurance Ltd represented 41.0 percentage points. Growth was also boosted by the fact that investment savings regained their value and by a switch from with-profits policies to unit-linked policies. The share of unit-linked insurance savings of all insurance savings increased to 61.9% (48.3).

Earnings and risk exposure

Earnings before tax stood at EUR 101 million (47). Other income includes a non-recurring income of EUR 19 million arising from the acquisition of Aurum Investment Insurance Ltd. This income is based on the estimated cost and income synergies from the acquisition of Aurum. Cost benefits arise from more efficient policy management. Income benefits are derived from an extensive sale of banking and insurance services.

Earnings after a change in the fair value reserve came to EUR 315 million (-144). Life Insurance's net investment income excluding income from unit-linked insurance was EUR 244 million (192). The interest rate risk of insurance liabilities was hedged by means of interest rate derivatives, which increased the investment income by EUR 131 million (62), increasing the change in insurance liabilities by the same amount.

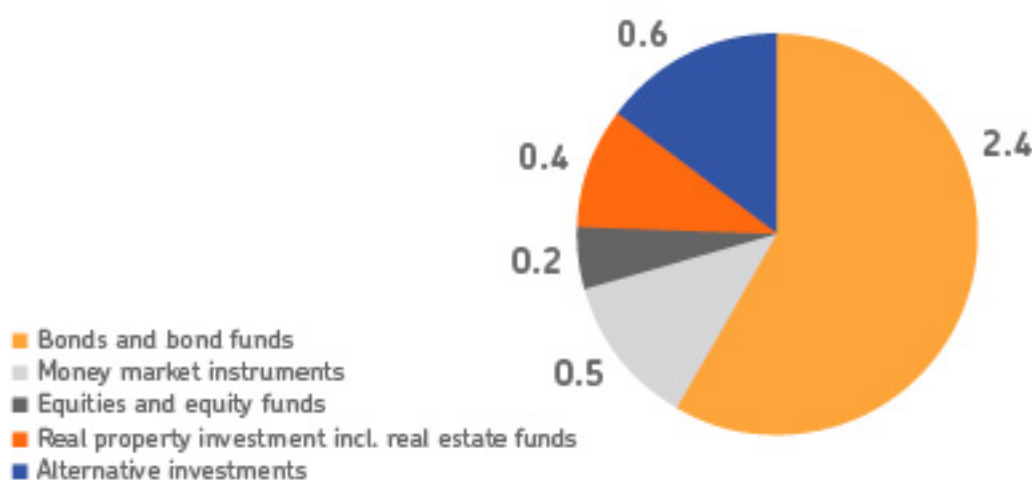
Life Insurance's efficiency fell as expenses increased in proportion to profits. Expenses were increased, for example, by transaction costs related to the acquisition of Aurum Investment Insurance Ltd. The cost ratio, which includes all income to cover operating expenses in which sales channel fees are excluded, rose to 34.6% (29.4).

Life Insurance's return on investments at fair value, excluding that on derivatives designated as hedging instruments for insurance liabilities, was 9.2% (-1.5).

Life insurance investment assets, excluding assets covering unit-linked insurance, amounted to EUR 4.2 billion (4.1), were divided as follows:

Investment assets 31 December 2012

€ billion



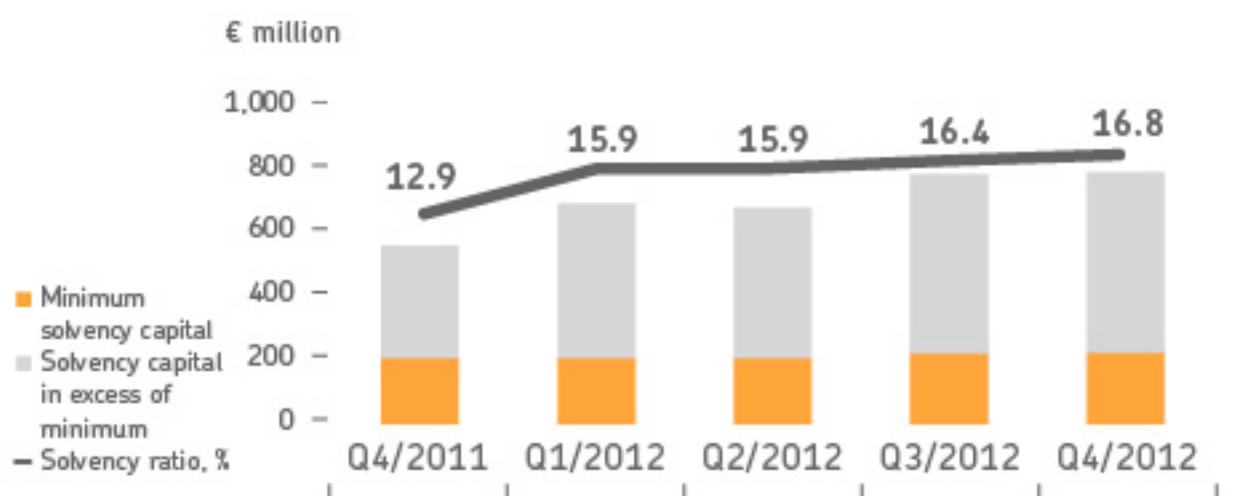
Investments under the 'investment-grade' accounted for 90% (76) of the fixed-income portfolio. The portfolio's modified duration was 3.2 years (3.0) on 31 December.

Assets of the mutual funds managed by OP-Pohjola Group totalled EUR 11.9 billion (11.5), increasing by 4.2% in the report period. Net asset inflows of OP-Pohjola Group's mutual funds were EUR 698 million in the negative (-1,709).

Assets managed by OP-Pohjola Group's Asset Management totalled EUR 41.1 billion (37.5) on 31 December, of which EUR 9.5 billion (9.9) was invested in OP-Pohjola Group's mutual funds and EUR 8.3 billion (6.2) in assets managed by OP-Private. OP-Pohjola Group companies accounted for EUR 8.8 billion of the managed assets.

Life Insurance's solvency improved as the market value of investment assets increased. Its solvency margin was EUR 780 million, which was 3.6-fold the required minimum. The solvency ratio, or the ratio of solvency capital to weighted insurance liabilities, was 16.8% (12.9).

Solvency Capital and Solvency Ratio



Other Operations

Other Operations, key figures and ratios

€ million	2012	2011	Change, %
Net interest income	24	31	-22.8
Net trading income	1	2	-53.0
Net investment income	7	22	-69.9
Other income	409	365	12.1
Expenses	449	377	18.9
Impairment loss on receivables	3	11	-73.7
Earnings/loss before tax	-10	32	-132.2

€ billion	31 Dec 2012	31 Dec 2011	Change, %
Receivables from credit institutions	8.5	7.0	20.4
Financial assets held for trading	-0.1	-0.1	-55.7
Investment assets	6.5	8.5	-23.5
Liabilities to credit institutions	4.9	5.2	-4.4
Debt securities issued to the public	14.4	15.7	-8.3

Other Operations' pre-tax losses for January–December were EUR 10 million (earnings of 32).

Net interest income decreased by 22.8%. Net investment income includes a total of EUR 25 million (1) of capital losses and impairment losses. Other Income consists to a large extent of intra-Group service charges, which are recorded as business segment expenses. Of the Other Operations expenses, EUR 149 million (128) were personnel costs and EUR 127 million (109) ICT costs. Expenses were also increased by the EUR 31 million immediate write-off concerning the business premises in Vallila, Helsinki.

Changes in OP-Pohjola Group's Structure

OP-Pohjola Group's consolidated financial statements include the accounts of 196 member cooperative banks (205), OP-Pohjola Group Central Cooperative Consolidated and OP Bank Group Mutual Insurance Company.

Luvian Osuuspankki merged with Nakkilan Osuuspankki on 31 March 2012. The bank's new name is Nakkila-Luvian Osuuspankki. Maskun Osuuspankki merged with Vakka-Suomen Osuuspankki on 31 March 2012. The bank's name was changed to Lounaisrannikon Osuuspankki. Huhtamon Osuuspankki merged with Vampulan Osuuspankki on 30 April 2012. Haminan Seudun Osuuspankki, Kotkan Seudun Osuuspankki, Kouvola Seudun Osuuspankki, Kymijoen Osuuspankki and Virolahden Osuuspankki merged on 31 May 2012 to form Kymenlaakson Osuuspankki. Lappeen Andelsbank merged with Andelsbanken för Åland on 31 August 2012. Sauvon Osuuspankki merged with Lounais-Suomen Osuuspankki on 30 September 2012.

OP-Services Ltd's licensed operations were transferred on 1 June 2012 to the newly established OP Process Services Ltd. Both companies are wholly-owned subsidiaries of OP-Pohjola Group Central Cooperative. Some 300 staff joined the new company. OP Process Services received a credit institution licence on 7 May 2012, and a clearing and account operator licence on 21 May 2012.

The plan published in December 2011 to buy Skandia Life's Finnish operations was carried out in August 2012 by acquiring the share capital of Aurum Investment Insurance Ltd.

Personnel and Remuneration

On 31 December, OP-Pohjola Group had 13,290 employees (13,229). The staff averaged 13,411 employees (12,858). Staff increases were related to business expansion and development. During 2012, 311 employees (370) retired at an average age of 61.5 years (61.5).

OP-Pohjola Group's scheme for variable remuneration comprises short-term company-specific incentives and long-term Group-wide incentives.

The long-term incentive scheme for the entire OP-Pohjola Group consists of a management incentive scheme, and a personnel fund for other staff.

The scheme consists of consecutive three-year performance periods, the first of which 2011–13. Those covered by the scheme will be entitled to receiving a certain number of Pohjola Bank plc Series A shares, if OP-Pohjola Group attains its strategy-based targets set for the performance period in question. The bonus based on the scheme will be paid out to the beneficiary in terms of shares and cash and in three instalments in 2015–2017 after the vesting period, provided that the Group's capital adequacy is higher than the internal minimum requirements on the payout date. Conditions related to employment or executive contracts have been attached to the bonus payout.

Executive Board members' contract

The OP-Pohjola Group Central Cooperative Supervisory Board shall decide on remuneration and other emoluments and benefits payable to OP-Pohjola Group's Executive Chairman, who also acts as the Central Cooperative's President, and other members of Central Cooperative's Executive Board. A written executive contract, approved by the Supervisory Board, stipulates the terms governing each Executive Board member's employment.

OP-Pohjola Group's Executive Chairman received EUR 887,884 in salary and emoluments and EUR 36,660 in fringe benefits, that is, a total of EUR 926,544. The other Executive Board members and deputy members received EUR 2,600,438 in salary and emoluments and EUR 92,819 in fringe benefits, i.e. a total of EUR 2,693,257.

The salary and emoluments include the part of the performance-based bonuses for 2011 payable in 2012. EUR 173,920 of the performance-based bonuses earned by the Executive Chairman and the Board in 2011 has been deferred to be paid in three instalments in 2013–2015. This is done in accordance with Decree no. 1372 of 2010 Decree of the Ministry of Finance on remuneration schemes in credit institutions and investment firms (Valtiovarainministeriön asetus luottolaitosten ja sijoituspalveluyritysten palkitsemisjärjestelmästä).

The Executive Chairman and CEO's retirement age is 62, The other Board members, deputy members and the Chief Audit Executive retire at 63. Pension benefits are determined in accordance with pension legislation and OP-Pohjola Group's own pension plans. The period of notice for the above and the employer is a maximum of 6 months. Persons with executive contracts will receive, if their employment relationship is terminated, a severance pay and a sum equivalent to a maximum of 12 month's pay.

Senior Management of OP-Pohjola Group Central Cooperative

OP-Pohjola Group Central Cooperative's Annual Cooperative Meeting was held on 27 March 2012. Of the members who were due to resign from the Supervisory Board for the term ending 2015, Director Jorma Vierula, Professor Jarmo Partanen, Managing Director Kari Manninen and Managing Director Juha Pullinen were re-elected. Assistant Director Jukka Kääriäinen was elected a new member to the Supervisory Board. Moreover, of the members who were due to resign from the Supervisory Board latest in the term ending 2015, Managing Director Jussi Ruuhela, Jorma Pitkälä, Managing Director Markku Salomaa, Timo Viitanen, M.A., Professor Paavo Pelkonen and Managing Director Timo Levo were re-elected. The following new members were elected: Annukka Nikola (Director, Administration), Jari Himanen (Managing Director), Tapani Eskola (Managing Director), Tuomas Kupsala (Managing Director), Seppo Pääkkö (Managing Director), Ilmo Aronen (R&D Director), Simo Kauppi (Managing Director), Juha Kiiskinen (Headmaster), Professor Jarna Heinonen and Ari Mikkola (Rector).

The Supervisory Board comprises 33 members.

At its first meeting after the Annual Cooperative Meeting, the Supervisory Board re-elected Paavo Haapakoski Chairman. Professor Jaakko Pehkonen and Managing Director Vesa Lehikoinen were re-elected Vice Chairmen.

Reorganisation Programme

As part of OP-Pohjola Group Central Cooperative Consolidated's reorganisation programme, the procedures for information and consultation of employees, as referred to in the Finnish Act on Co-operation within Undertaking, covering all personnel groups comprising 6,500 staff were concluded on 10 December 2012.

As a result, OP-Pohjola Group Central Cooperative Consolidated will cut 561 jobs. Of these, redundancies will total 247 and 314 employees will leave the Central Cooperative through other arrangements. In addition, 150 jobs will be outsourced.

The reorganisation programme is aimed at achieving annual cost savings of around 150 million euros by the end of 2015. The measures implemented by the end of 2012 are already estimated to have created savings of EUR 65 million. Within the framework of the programme, the production of services for OP-Pohjola Group Central Cooperative Consolidated and OP-Pohjola Group member cooperative banks will be centralised in OP-Services Ltd that is undergoing a major transformation. Job cuts account for a third of the total cost savings targets.

Responsibility

Corporate social responsibility (CSR) forms an integral part of OP-Pohjola Group's core values and strategy, and OP-Pohjola Group is committed to promoting CSR in its business. The basis of CSR is built around OP-Pohjola Group's values, strong capital base and professional risk management. According to the strategy, CSR at OP-Pohjola is visible in daily operations to both customers and employees. CSR activities take economic, social and environmental responsibility into consideration.

OP-Pohjola Group's Corporate Social Responsibility Programme provides guidelines for CSR activities. Responsibility for practical CSR activities lies with the Boards of Directors and Executive Boards of OP-Pohjola Group companies, which implement corporate social responsibility in accordance with their own decision-making processes.

The Corporate Social Responsibility Programme covers the following five themes:

Local Presence and Society draws attention to the Group's operations at local and regional levels. It also takes account of OP-Pohjola's position in Finland's financial infrastructure.

Stakeholder Responsibility encompasses measures with various stakeholders and stakeholder engagement and matters affecting employee and customer satisfaction. Transparent and clear communication and marketing also form part of stakeholder responsibility.

Responsible Products and Services covers the principles for responsible investment, development of a responsible lending process, as well as the responsibility of the banking and insurance services and products offered by OP-Pohjola.

The Ethical Business theme concerns the Code of Business Ethics, a variety of guidelines and their implementation within OP-Pohjola Group.

The Environment theme deals with the environmental impacts of OP-Pohjola Group's own operations.

In addition to laws and regulations, OP-Pohjola Group undertakes to comply with international commitments that guide operations. OP-Pohjola Group respects and is committed to promoting the principles of the United Nations Global Compact initiative. Moreover, Pohjola Asset Management Ltd and OP Fund Management Company Ltd have signed the UN Principles for Responsible Investment (UN PRI) and been accredited by the Carbon Disclosure Project (CDP) and Water Disclosure Project (WDP).

The Code of Business Ethics provides an ethical foundation for all those employed by OP-Pohjola, whatever their role, position or location.

Read more about OP-Pohjola Group's CSR programme in the Group's 2012 annual report.

Capital Expenditure and Service Development

The Central Cooperative and its subsidiaries are responsible for developing OP-Pohjola Group's services. ICT investments and related specifications make up a significant portion of costs of developing these services. EUR 95 million (54) of these costs consisted of ICT costs capitalised on the balance sheet for the period. EUR 66 million of the investments (30) were related to banking, EUR 20 million (18) to non-life insurance and EUR 8 million (6) to wealth management.

Legal Structure of the Amalgamation of the Cooperative Banks and OP-Pohjola Group

Amalgamation of the cooperative banks and OP-Pohjola Group

The amalgamation of cooperative banks belonging to OP-Pohjola Group is formed by its central institution, OP-Pohjola Group Central Cooperative, companies belonging to its 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.

The amalgamation does not form a corporate group, as referred to in the Accounting Act, or a consolidation group, as referred to in the Act on Credit Institutions. In Finland, the amalgamation is a unique financial entity governed under the Act on the Amalgamation of Deposit Banks.

OP-Pohjola Group is comprised of the amalgamation of the cooperative banks and those companies outside the amalgamation of which entities belonging to the amalgamation hold more than half of the total votes. The extent of OP-Pohjola Group differs from that of the amalgamation of the cooperative banks in that OP-Pohjola Group subsumes companies other than credit and financial institutions or service companies. The most important of these are the insurance companies with which the amalgamation forms a financial and insurance conglomerate.

Pohjola Bank plc, OP-Pohjola Group's central financial institution, is both a subsidiary of the central institution and also its member. The chairman of the Central Cooperative's Executive Board also acts as the chairman of Pohjola Bank plc's Board of Directors.

Control, risk management and capital adequacy of the amalgamation of cooperative banks

Pursuant to the Act on the Amalgamation of Deposit Banks, the consolidated capital base and liquidity of the companies within the amalgamation is controlled on a consolidated basis. The central institution is under an obligation to supervise the operations of its member credit institutions, issue instructions to them on risk management, good corporate governance and internal control to secure liquidity and capital adequacy, as well as instructions on compliance with standardised accounting policies in the preparation of the consolidated financial statements. In the manner as specified in its bylaws, the central institution may also confirm general principles to be followed by its member credit institutions in operations relevant to their amalgamation.

The obligation to issue guidelines and exercise supervision nevertheless does not give the central institution the power to dictate the course of the member credit institutions' business operations. Each member credit institution carries on its business independently within the scope of its own resources.

A company belonging to the amalgamation may not, in the course of its operations, take any risk of such magnitude that it poses a substantial danger to the consolidated capital adequacy or liquidity of the companies within the amalgamation. The central institution must by law pursue good corporate governance that enables effective risk management and have in place sufficient internal control and risk management systems in view of the performance of the amalgamation. The risk management principles applied to the amalgamation of the cooperative banks are included in OP-Pohjola Group's capital adequacy and risk management principles which are described in more detail in other parts of the Annual Review and in OP-Pohjola Group's IFRS Financial Statements.

The amalgamation must fulfil the minimum requirements for consolidated capital resources laid down in the Act on Credit Institutions. The total minimum capital base of the companies belonging to the amalgamation must suffice to

cover their aggregate exposure prescribed in more detail in the Act on Credit Institutions. Furthermore, the consolidated capital base of the companies belonging to the amalgamation shall be sufficient relative to their aggregate customer exposure and their significant combined holdings.

Member credit institution's capital adequacy and its supervision

With permission from the central institution, the minimum amount of capital resources of a member credit institution may be lower than required by the Act on Credit Institutions. The central institution may not give permission to its member credit institution to fall below the minimum prescribed in the Act on Credit Institutions if it has failed to comply with the central institution's instructions, unless such neglect is only minor. A permission of this kind may only be given for a period of three years but such a member credit institution's capital resources must nevertheless be a minimum of 80% of the amount prescribed in the Act.

The central institution may also permit member credit institutions to deviate from restrictions on customer exposure as referred to in the Act on Credit Institutions. By permission from the central institution for a maximum of three years, the customer exposure of an individual member credit institution may be a maximum of 40% of the member credit institution's capital resources, while the corresponding restriction under the Act on Credit Institutions is 25%. Customer exposure related to credit institutions and investment firms is prescribed about separately in the Act on the Amalgamation of Deposit Banks. Likewise, the maximum figures for ownership in business or industrial corporations by permission from the central institution are 25% and 75% of capital resources, although in the Act on Credit Institutions these figures are 15% and 60%, respectively.

A member credit institution does not bear the obligation of publishing an interim report in accordance with Section 157 of the Act on Credit Institutions.

Joining the amalgamation of the cooperative banks and withdrawal from its membership

Central institution members may include credit institutions if their bylaws or articles of association correspond with what is prescribed in the Act on the Amalgamation of Deposit Banks and if their bylaws or articles of association have been approved by the central institution. The central institution's Supervisory Board takes decisions on admitting new members.

A member credit institution has the right to withdraw its central institution membership. Even if a member credit institution withdraws its membership, the aggregate amount of capital resources of companies belonging to the amalgamation must be retained within the level prescribed in the Act on the Amalgamation of Deposit Banks.

A member credit institution can also be expelled from membership of the central institution in accordance with the Co-operatives Act. A member credit institution may also be expelled if it has neglected instructions issued by the central institution based on Section 17 of the Act on the Amalgamation of Deposit Banks in a way that significantly jeopardises liquidity or capital adequacy management, the application of joint principles related to the completion of financial statements or the supervision of adherence to them within the amalgamation. Expulsion is also possible if a member credit institution acts materially in breach of the amalgamation's general operating principles approved by the central institution.

The provisions of the Act on the Amalgamation of Deposit Banks governing payment liability of a member credit institution shall also apply to a former member credit institution which has withdrawn or expelled from the central institution, if less than five years have passed from the end of the calendar year of the member credit institution's withdrawal or expulsion from the central institution when a demand regarding payment liability is made on the member credit institution.

OP-Pohjola Group's financial statement and audit

The consolidated financial statements are referred to as OP-Pohjola Group's Financial Statements, because they represent a consolidation of the financial statements of all the significant companies belonging to OP-Pohjola Group. According to the Act on the Amalgamation of Deposit Banks, OP-Pohjola Group's financial statements must be prepared in compliance with the International Financial Reporting Standards, as set out in the Accounting Act. The Financial Supervisory Authority has issued more detailed regulations on the preparation of OP-Pohjola Group's financial

statements. The accounting policies applied are presented in the notes to OP-Pohjola Group's financial statements.

The central institution has a statutory obligation to issue instructions to the member credit institutions on observing uniform accounting policies in preparing OP-Pohjola Group's financial statements. The member credit institutions bear the obligation to provide the central institution with the information necessary for OP-Pohjola Group's consolidated financial statements. The central institution's auditors are given the right to obtain a copy of the documents relating to a member credit institution's audit for carrying out the audit of OP-Pohjola Group's financial statements.

The central institution's auditors audit OP-Pohjola Group's financial statements observing, as appropriate, the provisions of the Act on Credit Institutions. The financial statements are presented to and passed out at the Annual Cooperative Meeting of the central institution.

Supervision of the amalgamation of the cooperative banks

Pursuant to the Act on the Amalgamation of Deposit Banks, the amalgamation's central institution is supervised by the Financial Supervisory Authority, while the central institution's member credit institutions are supervised by the Financial Supervisory Authority and the central institution.

The central institution shall exercise oversight to ensure that the companies within the amalgamation operate in accordance with the laws, decrees and regulations issued by the relevant authorities governing financial markets, and their own bylaws or articles of associations and the instructions issued by the central institution by virtue of Section 17 of the Act on the Amalgamation of Deposit Banks. Furthermore, the central institution supervises the financial position of the companies within the amalgamation.

The Financial Supervisory Authority shall oversee the central institution so that it controls and supervises the operations of its member credit institutions in accordance with the provisions of the Act on the Amalgamation of Deposit Banks and that the companies within the amalgamation fulfil their legal requirements.

The audit of the central institution and its member credit institutions is carried out by the Audit function, which reports to the chairman of the central institution's Executive Board. Its tasks include auditing the central institution's member credit institutions and companies belonging to their consolidation groups as well as the internal audit of the central institution and its subsidiaries. Additionally, the member credit institutions can have their own internal audit.

The Audit function ensures that the member credit institutions, including their consolidation groups, comply with the relevant Acts, decrees, instructions and regulations issued by the authorities, instructions of the central institution as well as their own statutes or Articles of Association and that they operate in a profitable and prudent manner. The Audit function also ensures that the administration and business operations of the member credit institutions and the companies belonging to their consolidation groups are handled appropriately and efficiently and that the monitoring systems for their risks are in line with the requirements of their operations. The audits are conducted in the manner required for effective supervision and in accordance with generally accepted internal auditing standards.

Central institution's liability for debt and joint liability of member credit institutions

As a support measure referred to in the Act on the Amalgamation of Deposit Banks, the central institution shall be liable to pay any of its member credit institutions an amount that is necessary to prevent the credit institution from being placed in liquidation. The central institution shall also be liable for the debts of a member credit institution which cannot be paid using the member credit institution's capital.

Each member credit institution shall be liable to pay a proportionate share of the amount which the central institution has paid to either another member credit institution as part of support action or to a creditor of such member credit institution in payment of an amount overdue which the creditor has not received from the member credit institution. Furthermore, upon insolvency of the central institution, a member credit institution shall have unlimited refinancing liability for the central institution's debts as referred to in the Co-operatives Act.

Each member credit institution's liability for the amount the central institution has paid to the creditor on behalf of a member credit institution shall be divided between the member credit institutions in proportion to their last adopted balance sheets. The combined annual amount collected from each member credit institution in order to prevent liquidation of one of the member credit institutions may in each financial year account for a maximum of five thousandths of the last adopted balance sheet of each member credit institution.

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

According to the legislation concerning the Deposit Guarantee Fund, the deposit banks belonging to the amalgamation of the cooperative banks are considered to constitute a single bank in respect of deposit protection. The Deposit Guarantee Fund reimburses a maximum total of 100,000 euros to an individual account holder who has receivables from deposit banks belonging to the amalgamation of cooperative banks.

Under legislation concerning the Investors' Compensation Fund, the amalgamation of the cooperative banks is also considered as a single bank for purposes of compensation protection. The Investors' Compensation Fund's assets may be used to compensate an investor's receivables from companies belonging to the amalgamation of the cooperative banks to a total maximum of EUR 20,000.

Financial and insurance conglomerate

OP-Pohjola Group forms a financial and insurance conglomerate pursuant to the Act on the Supervision of Financial and Insurance Conglomerates. The amalgamation's central institution operates as the company at the head of the amalgamation pursuant to Section 3 of the Act on the Supervision of Financial and Insurance Conglomerates.

The Act stipulates a specific capital adequacy requirement for a financial and insurance conglomerate. OP-Pohjola Group's capital adequacy is stated as the amount of its capital resources in excess of the minimum capital requirement and as a ratio of the total amount of capital resources to the minimum amount of capital resources.

The Act also prescribes about the maximum limits for customer risks of a financial and insurance conglomerate. Moreover, Section 19 of the Act on the Amalgamation of Deposit Banks on the amalgamation's customer registers is applied to the financial and insurance conglomerate formed by OP-Pohjola Group.

The body of norms governing financial statements under the Act on the Supervision of Financial and Insurance Conglomerates is not applied to OP-Pohjola Group pursuant to Section 30 of the Act, because the Group prepares financial statements in compliance with International Financial Reporting Standards (IFRS).

Key Income Statement and Balance Sheet Items, and Financial Ratios 2008–2012

€ million	2008	2009	2010	2011	2012
Key income statement items, € million					
Net interest income	1,189	1,070	917	1,030	1,003
Net income from Non-life Insurance	345	396	382	312	433
Net income from Life Insurance	-139	-120	100	72	108
Net commissions and fees	433	496	563	574	584
Other income	-5	208	210	173	243
Personnel costs	598	622	643	689	749
Other expenses	640	625	643	669	730
Impairments of receivables	58	179	149	101	99
Returns to owner-members	154	160	163	176	192
Earnings before tax	372	464	575	525	601
Key balance sheet items - Assets, € million					
Receivables from credit institutions	2,450	1,982	1,121	1,104	840
Receivables from customers	51,708	52,992	56,834	60,331	65,161
Non-life Insurance assets	2,670	3,101	3,164	3,205	3,492
Life Insurance assets	5,093	6,331	7,544	7,006	9,173
Financial assets at fair value through profit or loss and investment assets	5,754	7,731	7,958	8,624	6,954
Property, plant and equipment, and intangible assets	1,973	1,941	1,875	1,871	2,030
Other assets	6,097	6,354	5,220	9,765	12,120
Total assets	75,746	80,430	83,715	91,905	99,769
Key balance sheet items - Liabilities and equity, € million					
Liabilities to credit institutions	693	2,174	1,696	1,783	1,965
Liabilities to customers	37,082	37,606	39,205	45,974	49,650
Debt securities issued to the public	18,164	19,945	19,577	20,005	19,270
Subordinated liabilities	1,874	1,872	1,825	1,555	1,736
Other liabilities	12,717	12,646	14,873	16,346	20,014
Equity capital	5,215	6,187	6,539	6,242	7,134
Total liabilities	75,746	80,430	83,715	91,905	99,769

Key ratios, %

Return on equity	4.1	5.9	6.9	6.8	7.2
Return on equity at fair value	-6.0	14.7	9.5	0.0	1.0
Return on assets	0.3	0.4	0.5	0.5	0.5
Equity ratio	6.9	7.7	7.8	6.8	7.2
Cost/income ratio	68	61	59	63	62
Capital adequacy ratio	12.6	12.6	12.8	14.0	14.1
Tier 1 ratio	12.6	12.6	12.8	14.0	14.1
Capital adequacy under the Act on the Supervision of Financial and Insurance Conglomerates	1.40	1.58	1.70	1.80	1.90

Calculation of key ratios

Return on equity (ROE), %	$= \frac{\text{Profit for the financial year}}{\text{Equity capital (average of the beginning and end of year)}} \times 100$
Return on equity at fair value, %	$= \frac{\text{Profit for the financial year} + \text{change in fair value reserve less deferred taxes (difference between the beginning and end of the year)}}{\text{Equity capital (average of the beginning and end of year)}} \times 100$
Return on assets (ROA), %	$= \frac{\text{Profit for the financial year}}{\text{Balance sheet total (average of the beginning and end of the year)}} \times 100$
Equity ratio, %	$= \frac{\text{Equity capital}}{\text{Total assets}} \times 100$
Cost/income ratio, %	$= \frac{\text{Personnel costs} + \text{Other administrative expenses} + \text{Other operating expenses}}{\text{Net interest income} + \text{net income from Non-life Insurance operations} + \text{net income from Life Insurance} + \text{net commissions and fees} + \text{net trading income} + \text{net investment income} + \text{other operating income} + \text{share of associates' profits/losses}} \times 100$
Core Tier 1 ratio, %	$= \frac{\text{Total Tier 1 capital, excl. Hybrid capital and shortfall of Tier 2 capital covered by hybrid capital}}{\text{Total minimum capital requirement}} \times 100$
Tier 1 ratio, %	$= \frac{\text{Tier 1 capital}}{\text{Risk-weighted assets, investments and off-balance-sheet items}} \times 100$
Capital adequacy ratio, %	$= \frac{\text{Total capital base}}{\text{Risk-weighted assets, investments and off-balance-sheet items}} \times 100$
Capital adequacy ratio under the Act on the Supervision of Financial and Insurance Conglomerates	$= \frac{\text{Conglomerate's total capital base}}{\text{Conglomerate's total minimum capital base}} \times 100$

Moreover, the following key ratios appear elsewhere in the Report by the Executive Board:

Non-life Insurance:

Combined ratio (excl. unwinding of discount), % Loss ratio + expense ratio
 Risk ratio + cost ratio

Loss ratio (excl. unwinding of discount), %
$$= \frac{\text{Claims and loss adjustment expenses}}{\text{Net insurance premium revenue}} \times 100$$

Expense ratio, %
$$= \frac{\text{Operating expenses + Amortisation/adjustment of intangible assets related to company acquisition}}{\text{Net insurance premium revenue}} \times 100$$

Risk ratio (excl. unwinding of discount), %
$$= \frac{\text{Claims excl. loss adjustment expenses}}{\text{Net insurance premium revenue}} \times 100$$

Cost ratio, %
$$= \frac{\text{Operating expenses and loss adjustment expenses}}{\text{Net insurance premium revenue}} \times 100$$

Life Insurance:

Operating cost ratio, %
$$= \frac{\text{Operating expenses before change in deferred acquisitions costs + loss adjustment expenses}}{\text{Expense loading}} \times 100$$

Banking:

Cost/income ratio, %
$$= \frac{\text{Personnel costs + Other administrative expenses + Other operating expenses}}{\text{Net interest income + net income from Non-life Insurance operations + net income from Life Insurance + net commissions and fees + net trading income + net investment income + other operating income + share of associates' profits/losses}} \times 100$$

OP-Pohjola Group's 2012 IFRS Financial Statements

OP-POHJOLA GROUP INCOME STATEMENT

EUR million	Notes	2012	2011	Change, %
Interest income		3,174	3,294	-4
Interest expenses		2,171	2,264	-4
Net interest income before impairment losses	5	1,003	1,030	-3
Impairment losses on receivables	6	99	101	-3
Net interest income after impairment losses		904	928	-3
Net income from Non-life Insurance	7	433	312	39
Net income from Life Insurance	8	108	72	51
Net commissions and fees	9	584	574	2
Net trading income	10	81	17	
Net investment income	11	52	63	-17
Other operating income	12	109	90	21
Personnel costs	13	749	689	9
Other administrative expenses	14	378	351	8
Other operating expenses	15	352	318	11
Returns to owner-members	16	192	176	9
Share of associates' profits/losses		2	4	-43
Earnings before tax		601	525	15
Income tax expense	17	119	89	33
Profit for the financial year		483	436	11
Attributable to, EUR million				
Profit for the period attributable to owners		483	436	11
Profit for the period attributable to non-controlling interest		-1	0	
Total		482	436	10

OP-Pohjola Group statement of comprehensive income

EUR million	Notes	2012	2011	Change, %
Profit for the financial year		483	436	11
Change in fair value reserve				
Measurement at fair value		648	-422	
Cash flow hedge		50	22	
Actuarial gains/losses on post-employment benefit obligations		-90	-137	
Translation differences		0	0	
Income tax on other comprehensive income				
Measurement at fair value		158	-106	
Cash flow hedge		12	5	
Actuarial gains/losses on post-employment benefit obligations		-22	-30	
Total comprehensive income for the financial year		942	28	

Attributable to, EUR million

Total comprehensive income for the period attributable to owners	941	28
Total comprehensive income for the period attributable to non-controlling interests	1	-
Total	942	28

Key figures and ratios	2012	2011
Return on equity, %	7.2	6.8
Return on equity at fair value, %	14.1	0.4
Return on assets, %	0.50	0.50
Cost/income ratio, %	62	63
Average personnel	13,411	12,858
Full-time	12,393	11,701
Part-time	1,018	1,157

OP-POHJOLA GROUP BALANCE SHEET

EUR million	Notes	31 Dec.		
		2012	31 Dec. 2011	1 Jan. 2011
Liquid assets	18	5,784	4,376	1,628
Receivables from credit institutions	19	840	1,104	1,121
Financial assets at fair value through profit or loss	20	358	281	519
Derivative contracts	21	4,436	3,307	1,933
Receivables from customers	22	65,161	60,331	56,834
Non-life Insurance assets	23	3,492	3,205	3,164
Life Insurance assets	24	9,173	7,006	7,544
Investment assets	25	6,596	8,343	7,438
Investment in associates	27	39	40	38
Intangible assets	28	1,320	1,169	1,159
Property, plant and equipment (PPE)	29	710	702	716
Other assets	30	1,745	1,884	1,496
Tax assets	31	115	158	125
Total assets		99,769	91,905	83,715
Liabilities to credit institutions	32	1,965	1,783	1,696
Financial liabilities at fair value through profit or loss	33	3	1	0
Derivative contracts	34	4,162	3,232	1,951
Liabilities to customers	35	49,650	45,974	39,205
Non-life Insurance liabilities	36	2,592	2,508	2,350
Life Insurance liabilities	37	8,970	6,932	7,290
Debt securities issued to the public	38	19,270	20,005	19,577
Provisions and other liabilities	39	3,297	2,840	2,332
Tax liabilities	40	990	834	948
Cooperative capital	41	622	624	647
Subordinated liabilities	42	1,114	931	1,178
Total liabilities		92,635	85,663	77,176

Equity capital**Capital and reserves attributable to OP-Pohjola Group's owners**

Share and cooperative capital		336	333	368
Share issue account		-	-	-
Translation differences		0	0	0
Reserves		3,022	2,433	2,768
Retained earnings		3,752	3,474	3,403
Non-controlling interests		24	3	-
Total equity capital	43	7,134	6,242	6,539
Total liabilities and equity capital		99,769	91,905	83,715

OP-POHJOLA GROUP CASH FLOW STATEMENT

EUR million	2012	2011
Cash flow from operating activities		
Profit for the financial year	483	436
Adjustments to profit for the financial year	874	432
Increase (-) or decrease (+) in operating assets	-3,151	-4,757
Receivables from credit institutions	262	40
Financial assets at fair value through profit or loss	172	161
Derivative contracts	30	-8
Receivables from customers	-4,941	-3,581
Non-life Insurance assets	-205	-181
Life Insurance assets	-252	419
Investment assets	1,742	-1,070
Other assets	41	-537
Increase (+) or decrease (-) in operating liabilities	4,081	6,936
Liabilities to credit institutions	153	66
Financial liabilities at fair value through profit or loss	2	1
Derivative contracts	-21	33
Liabilities to customers	3,676	6,769
Non-life Insurance liabilities	10	102
Life Insurance liabilities	22	-358
Provisions and other liabilities	240	323
Income tax paid	-99	-108
Dividends received	118	131
A. Net cash from operating activities	2,306	3,071
Cash flow from investing activities		
Increases in held-to-maturity financial assets	-49	-66
Decreases in held-to-maturity financial assets	334	297
Acquisition of subsidiaries, net of cash and cash equivalents acquired	-76	-6
Disposal of subsidiaries, net of cash and cash equivalents disposed	4	1
Purchase of PPP and intangible assets	-194	-109
Proceeds from sale of PPE and intangible assets	9	3
B. Net cash used in investing activities	28	119

Cash flow from financing activities

Increases in subordinated liabilities	500	181
Decreases in subordinated liabilities	-313	-430
Increases in debt securities issued to the public	24,457	39,026
Decreases in debt securities issued to the public	-25,484	-38,837
Increases in cooperative and share capital	221	216
Decrease in cooperative and share capital	-219	-238
Dividends paid and interest on cooperative capital	-78	-84
Returns to owner-members	-12	-22
Holdings in Pohjola Bank plc purchased from non-controlling interests	-	-227
Increases in invested unrestricted equity	-	-
Other	-	-
C. Net cash used in financing activities	-927	-415
Net change in cash and cash equivalents (A+B+C)	1,407	2,776

Cash and cash equivalents at period-start	4,465	1,689
Cash and cash equivalents at period-end	5,872	4,465

EUR million	2012	2011
Interest received	3,634	2,979
Interest paid	-2,277	-1,927

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

Impairment losses on receivables	113	112
Unrealised net earnings in Non-life Insurance	164	147
Unrealised net earnings in Life Insurance	325	-71
Change in fair value for trading	191	70
Unrealised net gains on foreign exchange operations	-254	142
Change in fair value of investment property	-15	2
Planned amortisation and depreciation	151	119
Share of associates' profits/losses	1	-2
Other	170	-120

Items presented outside cash flow from operating activities

Capital gains, share of cash flow from investing activities	-3	-2
Interest on cooperative capital	19	14
Other returns to owner-members	12	22
Total adjustments	874	432

Cash and cash equivalents

Liquid assets	5,798	4,381
Receivables from credit institutions payable on demand	74	84
Total	5,872	4,465

STATEMENT OF CHANGES IN OP-POHJOLA GROUP EQUITY CAPITAL

	Attributable to OP-Pohjola Group's owners						
	Fair value reserve						
	Share and cooper- ative capital	Fair value reserve	Cash flow hedge	Other reserves	Retained earnings	Non- controlling interests	Total
EUR million							
Balance at 1 January 2011	368	118	-6	2,656	3,590	0	6,726
Change in accounting policy under IAS 19	-	-	-	-	-187	-	-187
Balance at 1 January 2011, new accounting policy	368	118	-6	2,656	3,403	0	6,539
Transfer of cooperative capital to equity capital	1	-	-	-	-	-	1
Holdings in Pohjola Bank plc purchased from non-controlling interests*	-31	-	-	-79	-117	-	-227
Transfers between reserves	-	-	-	43	-43	-	-
Profit distribution	-	-	-	-	-74	-	-74
Total comprehensive income for the financial year	-	-316	16	-	322	0	22
Effect of change in accounting policy on comprehensive income for the period	-	-	-	-	6	-	6
Equity-settled share-based payment transactions	-	-	-	-	2	-	2
Other	-4	-	-	1	-26	3	-26
Balance at 31 Dec. 2011	333	-198	10	2,621	3,474	3	6,242

Attributable to OP-Pohjola Group's owners

Fair value reserve

EUR million	Share and cooperative capital	Fair value reserve	Cash flow hedge	Other reserves	Retained earnings	Non-controlling interests	Total
Balance at 1 January 2012	333	-198	10	2,621	3,474	3	6,242
Transfer of cooperative capital to equity capital	4	-	-	-	-	-	4
Transfers between reserves	-	-	-	61	-61	-	-
Profit distribution	-	-	-	-	-62	-	-62
Total comprehensive income for the financial year	-	489	38	-	414	1	942
Equity-settled share-based payment transactions	-	-	-	-	0	-	0
Other	-1	-	-	1	-13	21	8
Balance at 31 Dec. 2012	336	291	48	2,683	3,752	24	7,134

*OP-Pohjola Group Central Cooperative bought all Pohjola Bank plc Series A shares held by Suomi Mutual Life Assurance Company on 6 May 2011. These shares accounted for 7.26% of all Pohjola shares and 3.91% of all votes conferred by the shares.

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Note 1. OP-Pohjola Group's accounting policies under IFRS

1. General information

The amalgamation of cooperative banks engaging in banking and insurance operations (hereinafter OP-Pohjola Group) is a financial entity defined in the Act on Cooperative Banks and Other Cooperative Credit Institutions (hereinafter the Cooperative Banks Act) and the Act on the Amalgamation of Deposit Banks. Within the Group, OP-Pohjola Group Central Cooperative (hereinafter Central Cooperative) and its member credit institutions are ultimately jointly and severally responsible for each other's liabilities and commitments. OP-Pohjola Group does not form a corporate group, as referred to in the Accounting Act, or a consolidation group, as referred to in the Act on Credit Institutions. OP-Pohjola Group Central Cooperative and its member cooperative banks do not have control over each other, as referred to in general consolidated accounting principles, and therefore OP-Pohjola Group has no designated parent company.

OP-Pohjola Group Central Cooperative acts as the entire OP-Pohjola Group's strategic owner institution and as a central institution in charge of Group control and supervision.

The Act on the Amalgamation of Deposit Banks requires the Central Cooperative, as the central institution, to prepare consolidated financial statements for OP-Pohjola Group. The Central Cooperative's Executive Board is responsible for preparing the financial statements in accordance with applicable regulations.

The Central Cooperative is domiciled in Helsinki and the address of its registered office is Teollisuuskatu 1 b, P.O. Box 308, FI-00101 Helsinki.

A copy of OP-Pohjola Group's consolidated financial statements is available at or the Group's head office, visiting address Vääksyntie 4, P.O. Box 308, 00101 Helsinki.

The Executive Board of the Central Cooperative has approved these financial statements for issue on 6 February 2013.

1.1 Basis of preparation

OP-Pohjola Group's 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 2012. 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. OP-Pohjola Group's obligation to prepare its financial statements in accordance with IFRS is based on the Act on the Amalgamation of Deposit Banks.

OP-Pohjola Group adopted the following IFRSs, interpretations and options in 2012:

OP-Pohjola Group decided to voluntarily abandon as of the beginning of 2012 the so-called corridor method in the recognition of actuarial gains and losses on defined benefit pension plans. In accordance with the adopted recognition method under IAS 19, 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. More detailed information on this change can be found in Note 3 Change in accounting policy.

The following adopted standards have had no major effect on OP-Pohjola Group's financial statements:

- Amendment to IAS 12 Income Taxes (effective as of 1 January 2012)
- Amendment to IFRS 7 Financial Instruments: Disclosures – Transfers of Financial Assets (effective as of 1 January 2012)

OP-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 contracts (fair value hedging) and investment property and share-based payments classified as liabilities (measured at fair value).

The financial statements are presented in millions of euro.

According to the Act on the Amalgamation of Deposit Banks and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, the Central Cooperative's Executive Board must confirm any accounting policies for which IFRS provides no guidelines. Accordingly, the Central Cooperative's Executive Board has confirmed a principle under which Pohjola Bank plc's intra-Group holdings will be eliminated in a way that deviates from the acquisition method when forming OP-Pohjola Group's parent company in terms of accounting technique. The section 'Consolidation principles' deals with the elimination of intra-Group holdings.

OP-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, the Report by the Executive Board.

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

1.3.1 Technical parent company

The Act on the Amalgamation of Deposit Banks Act (599/2010) prescribes that the consolidated financial statements must be a combination of the financial statements or consolidated financial statements of central institution, OP-Pohjola Group Central Cooperative, and its member credit institutions. The consolidated financial statements also include institutions over which the abovementioned institutions jointly have control as prescribed in the Accounting Act. The preamble of Government Proposal 47/1996 to the Act on Co-operative Banks and Other Co-operative Credit Institutions, which previously determined how the financial statements were drawn, states that the equity capital of institutions included in the consolidated financial statements is composed of the Group member banks' equity capital, whereas with Pohjola Bank plc (former OKO), the equity capital comprises the part that is owned by other than institutions belonging to the amalgamation. In accordance with the above principle, OP-Pohjola Group has formed a technical parent company.

Within the technical parent company, intra-Group holdings, transactions, receivables and liabilities, distribution of profit and margins are eliminated. Deviating from the acquisition method, Pohjola Bank plc shares held by the Central Cooperative and Group member banks are eliminated against Pohjola Bank plc's share capital to the extent of the share's par value, and the portion above or below par value is eliminated against the fair value reserve or retained earnings, depending on the measurement practices of the Group company that holds the shares.

In the IFRS financial statements, OP-Pohjola Group's equity and cooperative capital consists of investments made in Pohjola Bank plc's share capital by shareholders outside OP-Pohjola Group, as well as of such cooperative contributions paid by members of OP-Pohjola Group member cooperative banks which the bank has an absolute right to refuse to redeem.

1.3.2 Subsidiaries, associates and joint ventures

The financial statements of the technical parent company and companies over which it exercises control are consolidated

into those of OP-Pohjola Group. Control over a company arises if the Group holds more than half of the votes or it otherwise exercises control over the company. Control refers to the power to govern another company's financial and operating policies in order to benefit from its activities.

Intra-Group holdings have 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, over which OP-Pohjola Group companies exercise significant influence, are accounted for using the equity method. Significant influence generally arises if the Group holds over 20% of the other company's votes or it otherwise exercises influence, not control, over the company.

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, associates or joint ventures acquired during the financial year are consolidated from the date on which control or significant influence transfers to the Group while those that have been sold 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 financial statements.

1.3.3 Non-controlling interests

Profit for the financial year attributable to the owners of the technical 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

OP-Pohjola Group's financial statements are presented in euros, which is the functional and presentation currency of the parent. 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 the statement of comprehensive income. For foreign subsidiaries, translation differences arising from the use of the acquisition method and from post-acquisition equity items are recognised under other items in the statement of 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 amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The fair value of financial instruments is determined using either prices quoted in an active market or the Group'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).

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 agreement. 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 OP-Pohjola Group's illiquid financial assets is insignificant in the balance sheet.

The illiquid financial liabilities (investment contracts) acquired in the purchase of Skandia Life Finland's operations (Aurum Investment Insurance Ltd) are measured at fair value according to IAS 39. The investment contracts' fair value is measured using a valuation technique which factors in, for example, the time value of money and the fair value of financial assets that are used to cover them. However, the value of the liability may not be lower than the contract's surrender value. These contracts have been categorised on level 3 in the fair value hierarchy.

1.5.2 Impairment of financial assets

At the end of each reporting period, Pohjola assesses whether there is objective evidence that a financial asset other than that recognised 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 reliably estimated.

The criteria which the Group uses to determine that there is objective evidence of an impairment loss include:

- 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;
- 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;
- obligor's breach of contract;
- a concession granted to the obligor;
- impairment recognised earlier; and
- the disappearance of an active market for the financial asset

A significant impairment of an equity instrument, or its impairment over a long period, below its acquisition cost represents 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 of financial Instruments in OP-Pohjola Group's balance sheet

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 and the net amount reported in the balance sheet only if there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis.

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, financial assets at fair value through profit or loss at inception, and liabilities from investment contracts with no entitlement to discretionary participation feature granted by insurance companies. Financial assets at fair value through profit or loss are initially recognised at fair value and transaction costs are charged to expenses.

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.

Financial assets and liabilities held for trading and derivative contracts are measured at fair value and any change in the fair value and any capital gains and losses, interest income and expenses as well as dividend income are recognised in the income statement.

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. 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 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, and investments related to unit-linked insurance policies.

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.

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.

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 of a debtor's reduced solvency after the initial recognition of the receivable. A receivable is impaired if the present value of estimated future cash flows – including the fair value of collateral – 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 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. The difference between the carrying amount of the loan and a lower recoverable amount is recognised as an impairment loss in the income statement. For notes and bonds classified as loans and receivables, the difference between the carrying amount of the note/bond and a lower recoverable amount is recognised as an impairment loss in the income statement.

For the purpose of a collective assessment of impairment, receivables are grouped into credit grades on the basis of credit risk. The amount recognised collectively as an impairment loss for each grade is determined by average estimated future losses based on historical loss experience and the probability of default.

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. 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. 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.

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.

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 recoverable amount is recognised as an impairment loss in the income statement.

If investments included in the financial assets held to maturity category are sold before their maturity, all of these investments must be reclassified out of this category into the available-for-sale financial assets category, except for the exceptional cases mentioned in the standard, and the Group may not classify these securities into the financial assets held to maturity category for the subsequent two years.

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 a security'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 items in the statement of comprehensive income.

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.

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.

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.

OP-Pohjola 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, OP-Pohjola Group can hedge against interest rate risk, currency risk and price risk by applying fair value hedge or cash flow hedge. Fair value hedging refers to hedging against changes in the value of the hedged asset, and cash flow hedging to hedging against changes in the fair value of future cash flows.

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. OP-Pohjola Group also concludes derivative contracts which are in fact used to hedge against financial risks but which do not fulfil these criteria.

1.5.7.1 Derivative instruments held for trading

The difference between interest received and paid on interest-rate swaps held for trading is recorded in net 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", "Net income from Non-life Insurance" or "Net income from Life Insurance". Derivatives are carried as assets under "Derivative contracts", "Non-Life Insurance assets" or "Life Insurance assets" when their fair value is positive and as liabilities under "Derivative contracts", "Non-life Insurance liabilities" or "Life Insurance liabilities" when their fair value is negative.

Embedded derivatives associated with structured bonds issued and certain loan agreements 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 related hedging derivatives 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 or cash flows fully or partially offset the corresponding changes 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 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%.

1.5.8.1 Fair value hedges

Fair value hedging against interest rate risk involves long-term fixed-rate debt instruments (such as the Group's own issues and certain term deposit issues), individual bond and loan portfolios, as well as individual loans. The Group uses

forward exchange contracts and interest-rate and currency swaps (OTC swaps) as hedging instruments. Hedging against equity and foreign currency risks applies to Non-life Insurance's and 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" (loans and own issues) and "Net investment income" (bonds included in available-for-sale financial assets) in the income statement or "Net investment income from Non-life Insurance" or "Net investment income from Life Insurance" (mutual fund investments included in available-for-sale financial assets).

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. 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 occupied by the owner company or its personnel, is also accounted for as investment property. However, a part of property occupied 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, Non-life Insurance assets or Life Insurance assets in OP-Pohjola Group's 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 fair value are recognised in "Net income from investment property" under Non-life Insurance, Life Insurance or investment.

If no comparable market data is available on the transaction prices of investment property, the Group uses the income capitalisation 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 capitalisation approach. A property's net income comprises the difference between rental income and maintenance charges and is based on income under current leases or, if no lease is in force, on assumptions about future rental income based on 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 capitalisation approach, the Group obtains information on market rental and cost levels from sources outside OP-Pohjola Group, in addition to the Group's own expertise. The return requirements for investment property holdings are determined on the basis of the property's purpose of use, location and condition/modernness 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 sales comparison 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, we have also factored in 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 the Group's share of the fair value of the acquired assets and assumed liabilities.

For acquisitions between 1 January 2004 and 31 December 2009, goodwill represents at the time of acquisition the excess of the cost of an acquisition over the fair value of the 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 Value of acquired insurance portfolio

An intangible asset corresponding to the value of an acquired insurance portfolio is recognised if the insurance portfolio is acquired directly from another insurance company or through the acquisition of a subsidiary. The fair value of acquired insurance policies is determined by estimating the present value of future cash flows on the basis of the insurance portfolio on the date of acquisition. Upon initial recognition, the fair value of acquired insurance policies is divided into two parts; a liability associated with insurance contracts measured in accordance with the applicable principles on the acquisition date, and an intangible asset. Subsequent to the acquisition, the intangible asset is amortised, depending on the business, either on a front-loaded basis or on a straight-line basis over the estimated effective lives of the acquired contracts. The effective lives are reviewed annually and the value is amortised over 1–4 years for non-life insurance and 15 years for life insurance. An intangible asset is tested annually in connection with testing the adequacy of the liability associated with insurance contracts.

1.7.3 Deferred acquisition costs of insurance contracts

OP-Pohjola Group defers in Baltic non-life insurance operations commission and other costs associated with the acquisition of new insurance contracts or the renewal of existing contracts. The resulting intangible asset is amortised on a straight-line basis over the effective lives of the contracts. An intangible asset is assessed annually in case of depreciation in connection with testing the adequacy of the liability associated with insurance contracts.

1.7.4 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 OP-Pohjola Group's acquired customer relationships is 5–13 years. The value of customer relationships is tested for impairment whenever necessary.

1.7.5 Brands

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

1.7.6 Other intangible assets

Other intangible assets are measured at cost less accumulated amortisation and any impairment losses. Computer software and licences are amortised over 2–10 years and other intangible assets over 5 years in general. 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 internally-generated intangibles (software) is capitalised starting from the time when the software is found to 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 assessed annually for impairment.

1.8 Property, plant and equipment

Property, plant and equipment (PPE) are stated at historical cost less 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
Emergency power units and generators	15 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

On the date of inception, leases (also when part of other arrangements) are classified as finance leases or operating leases depending 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 OP-Pohjola's employees is arranged through pension insurance taken out with OP Bank Group Pension Fund or pension insurance companies. Some OP-Pohjola Group companies provide their employees with supplementary pension cover through OP Bank Group Pension Foundation or an insurance company.

OP-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 classified as 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 asset 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 closing 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

OP-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 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 equity and deferred expenses.

In the consolidated financial statements, key personnel's shareholdings in subsidiaries are classified as liabilities in

conformity with IFRS 2, under the terms and conditions of the shareholder agreements. The portion of dividends corresponding to the liabilities is accounted for as personnel costs. These share-based schemes have been terminated.

1.11 Insurance assets and liabilities

1.11.1 Classification of financial assets within insurance business

The section 'Classification and recognition' under Financial Instruments contains information on the classification of financial assets within insurance operations.

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. The contracts are categorised by type or by containing homogenous risks. If several contracts are concluded simultaneously with a single counterparty or if contracts are otherwise interdependent, the significance of insurance risk is assessed jointly.

The savings and insurance components of insurance contracts are not unbundled.

Almost all of the contracts issued by non-life insurers are insurance contracts. Contracts in which the difference between realised and estimated losses are balanced with a supplementary premium have been categorised as investment contracts.

Since capital redemption contracts issued by life insurance companies do not involve insurance risk, they are classified as investment contracts. All of Aurum Investment Insurance's pension contracts are investment contracts, because they do not involve a significant insurance risk nor are the policyholders allowed to change them into such.

Insurance contracts are classified into risk groups in such a way that the risks of contracts are homogeneous in each group. This classification of non-life contracts takes account of the insured object, 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). As to life insurance policies, we take into account whether the savings are accumulated, how the return of the savings is determined and whether the contract is for life or death or disability risk.

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

Short-term non-life insurance policies usually have a policy term of 12 months or less, very rarely more than 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.

Life insurance contracts include single and regular premium endowment policies, individual pension policies, group pension policies supplementing statutory pension; and term insurance policies are issued mainly for death or disability. Life and pension insurance savings can have either a guaranteed interest rate, with a discretionary participation to the profit of the insurer, or unit-linked, in which the investment risk has been transferred to the policyholders.

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 and investment contracts where the contract holder has the right to transfer the savings for a guaranteed interest rate and thereby be entitled to discretionary participation feature are treated and measured according to Insurance Contracts standard IFRS 4. Other investment contracts are evaluated according to IAS 39

standard.

Liabilities of contracts issued by insurers and measured under IFRS 4 are calculated mainly in accordance with national accounting standards. However, equalisation provisions are not included in these liabilities. The current market rate is also taken into account in part of life insurance liability.

The liabilities comprise provisions for unearned premiums and claims liability. The life insurance provisions for unearned premiums consist of the liability calculated from the expected net claims and operating expenses during the contracts' remaining maturities minus future premiums during the remaining coverage periods of the recognised policies. 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 incurred claims and their claims 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 proportionally over the term of the contract. However, revenue recognition in decennial and perpetual insurance policies is based on the distribution of underwriting risk. The portion of premiums written for the post-balance sheet date is recognised as provision for unearned premiums in the balance sheet.

Claims paid out and direct and indirect claim settlement expenses incurred by the Group are charged to expenses on the basis of the date of loss occurrence. Claims unsettled on the balance sheet date for losses already incurred and their settlement expenses – including claims incurred but not yet reported (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 fixed discount rate. When specifying the rate, the underlying trend of 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".

1.11.3.2 Measurement of insurance contracts issued by life insurers

The portion of premiums written for risk insurance policies' post-balance sheet date, minus any yet unpaid insurance premiums, is recognised as provision for unearned premiums in the balance sheet.

The liabilities of savings-type insurance contracts are calculated as the capital value of future benefits, policy administration costs and future premiums. The capital value is calculated mainly by the discount rate, mortality, probability of disability and assumptions of operating expenses used for the pricing. The decided additional bonuses are included in the insurance liability.

The claims liability arises from claims incurred and from their claims and settlement expenses paid in the future.

The technical provisions' national discount rate, according to the Insurance Companies Act, cannot be any higher than what were used for the pricing. The discount rate may not exceed the expected return on the assets covering the liability or the level set by the authorities.

The company has savings at its own risk with interest rate guarantees ranging between 1.5 and 4.5%. The insurance liability of contracts whose interest rate guarantee is 4.5% has been supplemented so that the technical interest rate of insurance liabilities in financial statements based on national regulation is 3.5% while the technical interest rate of other discounts is the interest rate guarantee. The claims liability of life insurance policies, excluding the pensions in payment, is not discounted.

During 2011, life insurance business models have been changed so that the interest rate risk of guaranteed benefits has been actively reduced by entering into interest rate swaps that are recognised at fair value in the balance sheet. The value of derivatives is included in the liability, because any benefits from the derivatives are used for the guaranteed benefits of the contracts.

The main assumption when calculating the liability of unit-linked insurance contracts and investment contracts is that the market income of assets covering the insurance liability is benefited as income to the policy.

Some investment contracts are measured in accordance with IAS 39. The largest investment contract class consists of pension contracts issued by Aurum Investment Insurance. Investment contracts in the balance sheet are presented under "Life Insurance liabilities" as part of other liabilities.

1.11.4 Liability adequacy test on insurance contracts

On each balance sheet date, the adequacy of liabilities in the balance sheet is tested, using current estimates of future cash flows from insurance contracts. If the test shows that the carrying amount of insurance liabilities is inadequate, the deficiency is recognised in profit or loss by increasing the liabilities.

1.11.5 Premiums written

Premiums written are included in net income from insurance operations on the income statement.

Insurance premium tax and public charges collected on behalf of external parties, excluding commissions and credit loss on premiums, are deducted from premiums written.

Insurance premiums based on non-life insurance contracts are recognised as premiums written when charged at the time of falling due of the premium for the insurance period.

Life insurance premiums and investment contract payments are recognised under insurance premiums written on a cash basis. Commissions or credit losses are not deducted from premiums written.

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 and 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

Damaged property that has come into the Group's possession is recorded to its fair value as an allowance for claims incurred and recognised under "Non-life Insurance assets". Subrogation reimbursements for losses occurred are accounted for as an allowance for provision for unpaid claims. When the claim is settled, the receivable is recognised in "Non-life Insurance assets". The counter security of guarantee insurance is measured at fair value and the portion corresponding to provision for unpaid claims or to the claim paid is recognised in "Non-life Insurance Assets". Receivable from the liable party will not be recognised until the payment is received or receipt of payment is otherwise certain in practice.

1.11.7 Reinsurance contracts

Reinsurance taken out by OP-Pohjola 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 OP-Pohjola 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 other 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.

Life insurance amounts recovered from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and are recognised under either "Life Insurance assets" or "Life Insurance Liabilities" in the balance sheet.

1.11.8 Coinsurance and pools

OP-Pohjola 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.

OP-Pohjola 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. OP-Pohjola Group recognises liabilities and receivables based on joint liability if joint liability is likely to materialise.

1.11.9 Principle of equity concerning life insurance

With the exception of unit-linked parts of life insurance contracts, almost all life insurance contracts and some capital redemption contracts entitle to discretionary share of any surplus, as a supplement to guaranteed benefits, which may account for a significant portion of the total contractual benefits, but whose amount and timing is at the discretion of the company under the contract. Some unit-linked policies include an option for a discretionary participation feature. Additional benefits are distributed as additional return in excess of technical interest, additional death benefit or reduced premiums.

The distribution of the surplus is based on the principle of equity referred to in the Insurance Companies Act which requires that a reasonable amount of the surplus to which the contracts are entitled to is distributed to these policyholders provided the solvency requirements prevent this. It is necessary to aim at continuity with respect to the level of bonuses. Nevertheless, the principle of equity will not enable policyholders to demand any funds as debt. OP Life Assurance Company has published its additional benefit principles and its realisation on its web site. OP Life Assurance Company Ltd's Board of Directors decides on any additional benefits.

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 Non-current assets held for sale and discontinued operations

A non-current asset (or a disposal group) is classified as held for sale if the amount corresponding to its carrying amount will be recovered principally through its sale rather than continuous use. It is measured at the lower of carrying amount and fair value less costs to sell. However, this valuation principle does not apply to financial instruments, insurance contracts or investment property classified as held for sale. Such assets and the related liabilities are presented separately in the balance sheet.

1.14 Income tax

Income tax expense shown in the income statement includes current tax, based on the taxable income of OP-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 temporary taxable differences between the carrying amount of assets and liabilities and their tax base. 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 items in the statement of comprehensive income, not in the income statement.

1.15 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. The difference between the nominal value and the acquisition cost of fixed-rate bonds is recognised as interest income or expenses over the residual term to maturity.

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
Net income from Non-life Insurance	Premiums written, change in insurance liability, investment income, expenses (interest, dividends, realised capital gains and losses) and impairments
Net income from Life Insurance	Premiums written, change in insurance liability, investment income, expenses (interest, dividends, realised capital gains and losses) and impairments
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
Personnel costs	Wages and salaries, pension costs, share-based payments, social expenses
Other administrative expenses	Office expenses, IT costs, other administrative expenses
Other operating expenses	Depreciation/amortisation, rents, other expenses

1.16 Segment reporting

Financial information, which the executive in charge monitors regularly, serves as the basis of defining operating segments.

OP-Pohjola Group reports income statements and balance sheets for the following segments: Banking, Non-life Insurance and Wealth Management. Non-segment operations are presented in "Other Operations". Segments are reported in a way that is uniform with internal reporting submitted to the management. The Wealth Management segment, which was formed as a result of the new strategy that was approved in 2012, reports on the Group's mutual funds and life insurance businesses and Pohjola Group's asset management. The comparison data has been changed to correspond to the new segments. In segment reporting, Pohjola Group's asset management and Central Bank and Treasury are reported as part of Other Operations, as are income, expenses, investment and capital not included in actual business operations.

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

1.17 Critical accounting estimates and judgements

The preparation of financial statements requires making estimates and assumptions about the future and the actual results may differ from these estimates and assumptions. It also requires the management to exercise its judgement in the process of applying the 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 the final claims expenditure arising from the already occurred loss events.

Liabilities arising from life insurance contracts involve several discretionary factors and uncertainty. When we calculate life insurance liabilities, we primarily use assumptions on the date when the contract were made concerning insurance risk realisation, operating expenses and investment income. We follow the assumptions continuously and if it turns out that the liability calculated with these assumptions is too small, the liability is increased to meet the latest observations. The management's judgement is required especially in determining the discount rate of the liability, mortality assumption and amount of operating expenses related to future management of insurance policies.

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.

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.

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.

For the purpose of a collective assessment of impairment on receivables, receivables are grouped on the basis of similar credit risk characteristics. Impairment losses on receivables recognised collectively are based on estimates of future losses based on historical data. In such a case, the management's judgement is required to assess how estimates of future losses based on historical data correspond to realised losses and whether any adjustments for these estimates 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 will be recognised in the income statement. Verifying objective evidence involves management judgement. Impairment of an equity instrument must also be recognised if there is a significant or prolonged decline in the fair value. Determining significant or prolonged decline in the fair value is part of the normal management judgement, performed for each instrument taking account of general accounting policies and the criteria of standards.

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. Otherwise, the fair value of financial instruments is determined using a valuation technique. In such a case, 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 asset recognised in the balance sheet in respect of the defined benefit pension plan is the present value of the defined benefit obligation less the fair value of plan assets. This calculation uses actuarial assumptions for the future, involving the discount rate, the expected return on assets, future increases in pay and pension, the employee turnover rate and the inflation rate. The Note regarding Defined benefit pension plans presents this matter in greater detail.

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 capitalisation approach utilising estimates of future net yield on property holdings. The Notes regarding Investment property present this matter in greater detail.

1.18 New standards and interpretations

In 2013, OP-Pohjola Group will adopt the following standards and interpretations:

- 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 in case some other IFRS require or permit fair value measurements. The adoption of this standard will mainly affect disclosures in notes to the financial statements.
- 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. OP-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 certain new disclosures which apply to financial instruments presented on a net basis in the balance sheet as well as financial instruments subject to master netting arrangements and similar agreements. At the same time, the application guidance was also specified in IAS 32 – Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities – which will take effect on 1 January 2014
- Annual improvements to IFRSs 2009–2011 cycle. These changes may have a minor effect on OP-Pohjola Group's consolidated financial statements.
- Amended IAS 1 – Presentation of Financial Statements. As a result of the amendments, items in the statement of comprehensive income which may be reclassified subsequently to profit or loss will be presented separately from other items in the statement of comprehensive income that may not be classified subsequently to profit or loss.

The IASB (International Accounting Standards Board) has also issued other future amendments to IFRSs. The year 2014 will see the adoption within the EU of new standards related to consolidated financial statements and joint arrangements. Other significant amendments to IFRSs that will take effect 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 OP-Pohjola Group Financial Statements

CONTENTS

Note 2. OP-Pohjola Group's risk and capital adequacy management principles

1 General Principles of Risk and Capital Adequacy Management

OP-Pohjola Group is a financial and insurance conglomerate pursuant to the Act on the Supervision of Financial and Insurance Conglomerates and the Act on the Amalgamation of Deposit Banks. It is supervised by the Financial Supervisory Authority.

Good corporate governance, internal control, and the risk and capital adequacy management process are regulated by the Act on Credit Institutions, Act on Cooperative Banks and Other Cooperative Credit Institutions, Insurance Companies Act, Act on the Amalgamation of Deposit Banks, and standards, regulations and guidelines issued by the Financial Supervisory Authority. The Act on the Amalgamation of Deposit Banks prescribes that entities that are part of the amalgamation of the cooperative banks are monitored on a consolidated basis for capital adequacy, liquidity and customer risks.

OP-Pohjola Group Central Cooperative (later the Central Institution), as the Central Institution of the amalgamation of the cooperative banks, carries out control and supervision duties from its position at the head of the financial and insurance conglomerate formed by OP-Pohjola Group. It also acts as the Group's strategic owner institution. By virtue of Laki talletuspankkien yhteenliittymästä (Act on the Amalgamation of Deposit Banks), the Central Institution has both the right to control its credit institutions and the obligation to supervise their operations. The Central Institution fulfils these obligations through Group-level instructions and a system that reaches each bank. The Central Institution's Supervisory Board has accepted the key principles of the control system but can also decide on the use of more effective means of control which include a written warning issued by the Supervisory Board or, as a last resort, making a proposal to the Central Institution's Cooperative Meeting to expel a member credit institution from the amalgamation.

OP-Pohjola Group Central Cooperative is responsible for OP-Pohjola Group's capital adequacy management at Group level and ensuring that any related systems are adequate and appropriate. Each OP-Pohjola Group institution is responsible for its own risk and capital adequacy management. Owing to the joint responsibility prescribed by law, OP-Pohjola Group entities must be able to rely on all the entities to operate under the Group's principles of risk and capital adequacy management, other guidelines issued by the Central Institution, and regulations and guidelines issued by the authorities.

Risk management is carried out at Group level independently of all business operations. The application of the independence principle is determined separately in the entities' own guidelines, taking into consideration the extent and nature of their business.

1.1 Good corporate governance

Good corporate governance encompasses OP-Pohjola Group's senior and executive management, the relationships between its owners and other stakeholders, the setting of targets and deciding on ways of achieving them, and monitoring that the targets are achieved. In OP-Pohjola Group, it is the Central Institution's Supervisory Board that approves the principles of good corporate governance, while the Executive Board is responsible for ensuring that

operations are organised according to these principles. Good corporate governance is ensured by means of a clear frame of reference, systematically and comprehensively documented instructions and clearly defined decision-making processes.

The principles of good corporate governance are adhered to in all Group companies and entities, all bodies and all operations. Good corporate governance principles also include the recommendation of the Central Institution's Board on corporate governance.

Conformance with good corporate governance principles ensures that entities of OP-Pohjola Group are managed professionally and under sound and prudent business principles and that the entities in all business divisions operate reliably and with sufficient transparency.

1.2 Internal control

Internal control refers to procedures or operating practices within our organisation to ensure that the targets sets in the strategy are achieved, resources are used economically and the information available for management decisions is reliable. Internal control also ensures that risk management, custody of client assets and protection of property is adequately arranged. Conformance to regulations and approved ethics principles, too, are ensured through internal control. OP-Pohjola Group's internal control principles are approved by the Central Institution's Supervisory Board. Internal control is carried out in the entire Group at all levels of organisation.

The Central Institution's Supervisory Board makes regular updates to OP-Pohjola Group's strategy, guiding business planning and the setting of targets in all parts of the Group. When preparing the strategy, objectives are set for long-term performance indicators and annual indicators. The performance indicators along with limits and control limit indicators are the main sources of input for OP-Pohjola Group in setting targets and goals and monitoring them and rewarding for good results. The Central Institution checks regularly how successful OP-Pohjola Group's businesses have been in terms of their objectives and risks, and submit their reports to the management of OP-Pohjola Group' entities.

1.3 Risk and capital adequacy management

Risk and capital adequacy management falls under internal control. The purpose of risk and capital adequacy assessment is to secure OP-Pohjola Group's and its entities' risk-bearing capacity and ensure continuity of operations. Risk-bearing capacity is made up of good risk management that is proportionate to the extent and complexity of operations and of sufficient capital adequacy based on profitable business operations.

OP-Pohjola Group's risk and capital adequacy management principles are approved by OP-Pohjola Group Central Cooperative's Supervisory Board. We decide the principles on how the Group-level risk and capital adequacy management process is organised.

Risk and capital adequacy management consists of

- risk identification, measurement, evaluation and limitation
- determining reliably and independently how much capital is required for various risks and business operations
- allocating capital according to a plan in line with current and planned risk-taking, and
- Group liquidity management.

1.3.1 Risk identification, assessment and measurement

OP-Pohjola Group's risk and capital adequacy assessment process consists of the continuous identification and assessment of business and operating environment risks. The Central Institution's independent risk management follows the Group's risk exposure and risk-bearing capacity and reports regularly to the Board of its observations and assessments.

OP-Pohjola Group's quantifiable risks are restricted by means of limits and a system of supervision limits that steer operations at Group level, in cooperative banks and entities belonging to the Group. The Central Cooperative's Supervisory Board has determined risk limits for 2012 concerning OP-Pohjola Group's capital adequacy as well as for

credit, liquidity, market and insurance risks.

The OP-Pohjola Group's Executive Board has set limits, derived from Group-level limits, for capital adequacy, profitability and efficiency, and control limit for various types of risk which the member cooperative banks and Helsinki OP Bank Plc must observe. These limits may not be exceeded. The cooperative banks and Helsinki OP Bank Plc use these limits to confirm their own limits, which are tighter than those set by the Central Institution. Similar limits are also in place concerning the capital adequacy and key risk types of companies within OP-Pohjola Group Central Cooperative Consolidated. The indicators are confirmed annually.

Cooperative banks are guided on the basis of a system of risk categories. A bank's risk category will be determined in the system by financial factors (capital adequacy, profitability and risk exposure), qualitative factors (the bank's management system and quality of risk management and internal control) and by a statement from the Central Institution. When estimating qualitative factors, special emphasis is placed on any failure to adhere to instructions. A cooperative bank in any other than a minor breach of instructions issued pursuant to Section 17 the Act on the Amalgamation of Deposit Banks is always placed in the second-worst risk category in the five-tier system. Such cooperative banks will not be granted any such permission that is referred to in Sections 21 or 23. The Central Institution will analyse the cooperative banks' risk exposure and revises the risk categorisation regularly as part of the supervision process. The risk exposure assessment also includes stress tests.

Economic capital

Economic capital is OP-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.

The Central Institution's Risk Management will analyse the model's feasibility at least once a year and will present necessary changes to the model's structure or its variables. The Central Institution's Executive Board will approve any risks included in the economic capital and the general rules related to the calculation of the economic capital.

Economic capital is divided into quantitative and qualitative risks. Quantitative risks include credit risk, interest rate and equity risk for Banking, real estate risk, insurance market risks, and Non-life and Life Insurance underwriting risks. The risks we assess are divided into operational risks and other risks. 'Other risks' include any major risks that have not been taken into consideration in any other risk-specific models related to economic capital. These risks are typically caused by external factors, such as changes in the competitive or market situation or official regulations.

In OP-Pohjola Group's own model for economic capital, several risk types are assessed in more detail than required by the authorities. Such risk types include banking interest rate risk, insurance market risks and operational risks and other risks. The key differences in the calculation of economic capital for credit risks are related to concentration risk, collateral, guarantees and economic cycles. The above factors are taken into consideration more comprehensively in the calculation of economic capital than in capital adequacy calculations. Moreover, the calculation of economic capital differs significantly from capital adequacy calculations in that several risk types are calculated separately in terms of economic capital, while in capital adequacy calculations they are included in credit risk capital requirement.

Indicators based on economic capital are used in OP-Pohjola Group's performance, limit and control limit indicators, rewarding, credit and insurance policy pricing and capital planning when defining the capital conservation buffer.

Stress tests

Stress tests are used to assess how various exceptionally serious situations may affect the liquidity, profitability or capital adequacy of the Group or its entity. Stress tests assess the effect of both individual stress factors and the joint effect of multiple variables acting simultaneously. Stress tests cover all major risk affecting the Group's financial position.

The Central Institution's Risk Management assesses the needs for changing the stress testing framework annually or whenever the Group's business or risk profile changes significantly. It is the Central Institution's Executive Board that approves the stress test framework.

Sensitivity analyses are used as part of risk analysis for various risk types and the results are used to assess how, for

example, changes in the basic premises and parameters in the economic capital model would affect the risk model outcome and the risk position. Sensitivity analyses help us understand how certain premises affect the risk indicator values. Sensitivity analyses conducted at different shock levels give a concrete idea of the effects of different risks and the probability of losses of various sizes.

Scenario analyses are used, in particular, for analysing the impact of risks in the operating environment. They are derived from the financial estimate following the valid strategy which is based on the prevailing levels of different market variables and the Group's best estimates on future development. In scenario analyses, this basic estimate is strained using the impact of different risks. The analysis results are utilised in OP-Pohjola Group's capital planning to assess capital adequacy, and in the preparation of the Group's liquidity management.

1.3.2 Capital planning

OP-Pohjola Group makes a capital plan to ensure sufficient capital adequacy even in exceptional conditions. OP-Pohjola Group's capital plan contains the following parts:

- Current capital adequacy
- Quantitative and qualitative targets concerning capital adequacy
- Scenario calculations (stress testing) to assess the capital adequacy
- Predictable changes in capital base and capital adequacy
- Regulatory changes
- Allocation of capital within the Group
- Contingency plan
- Monitoring and control of capital adequacy by threshold levels

Each OP-Pohjola Group entity is responsible for its capital adequacy and must set their capital adequacy targets and limits according to guidelines set by the Central Institution.

2 Organisation of risk and capital adequacy management

The Central Institution is responsible for Group-level risk and capital adequacy management and for ensuring that the Group's risk management system is sufficient and kept up to date. The Central Institution issues Group entities with guidelines for ensuring risk management and ensures, through supervision, that the entities operate in accordance with official regulations, their own rules, guidelines issued by the Central Cooperative, OP-Pohjola Group's internal procedures and procedures that are appropriate and ethically sound for customer relationships. Entities belonging to OP-Pohjola Group are responsible for their own risk and capital adequacy management in accordance with the nature and extent of their operations.

The section below describes the organisation of risk and capital adequacy management in 2012. The subsidiaries' risk and capital adequacy management responsibilities were centralised in the parent company as part of the reorganisation of OP-Pohjola Group Central Cooperative Consolidated in early 2013.

2.1 OP-Pohjola Group Central Cooperative (Central Institution)

OP-Pohjola Group Central Cooperative's Supervisory Board approves the Group's strategy, which contains the main risk management policies. The Board also confirms OP-Pohjola Group's good corporate governance, internal control, risk and capital adequacy management principles, business objectives, capital plan principles and Group-level risk limits concerning capital adequacy and risk types. The Board follows regularly the business, risk-bearing capacity and risk situation of OP-Pohjola Group and OP-Pohjola Group Central Cooperative Consolidated.

At least once a year, the Central Institution's Executive Board ensures that OP-Pohjola Group's strategy, risk limits, capital plan and proactive contingency plan for capital resources are up to date. The Executive Board also ensures that

the systems and procedures for risk and capital adequacy management are sufficient and up to date and that any instructions concerning these are issued to OP-Pohjola Group entities. The Board approves OP-Pohjola Group's risk policy which contains the risk management guidelines, actions, objectives and limitations that are used to control business in order to implement the principles confirmed in the Group strategy. The Executive Board reports to the Supervisory Board on changes in the business, risk-bearing capacity and risk situation of OP-Pohjola Group, the Central Institution and entities belonging to it.

OP-Pohjola Group's risk management control is a function independent of business area that defines, steers and supervises the overall risk management of the Group and its entities, and analyses their risk exposure, and is responsible for maintaining and developing risk management systems and methods at Group level and for the entities. It maintains, develops and prepares risk management principles for approval by OP-Pohjola Group's Central Cooperative's Executive Board and Supervisory Board. Risk Management reports regularly on OP-Pohjola Group's risk and capital adequacy management, containing its assessment on the risk management quality OP-Pohjola Group and its companies, and the sufficiency of capital adequacy and liquidity in terms of strategic long-term success indicators, risk limits and existing and future official capital requirements.

OP-Pohjola Group's Risk Management Committee, which reports to OP-Pohjola Group's Executive Board, guides and controls the Group's risk and capital adequacy management and supervises adherence to OP-Pohjola Group's capital adequacy management policies. The Risk Management Committee approves the recommended actions for the validation of risk models and decides on the adoption of the models. It also approves any common business models to be adopted in the Group and supervises that risk management aspects are sufficiently taken into consideration in business and its development.

The Credit Risk Committee set by the OP-Pohjola Group's Executive Board defines, steers and supervises the Group's and its entities' credit process and credit risk exposure. It ensures that the credit portfolio corresponds to the chosen risk policy and that the exposures of a group of connected clients fall within set limits at Group level and in member institutions. Cooperative banks must have valid permission granted by the Credit Risk Committee if the customer risk of a customer entity already exceeds or is about to exceed 20% of the funds of the credit institution or its consolidation group. OP-Pohjola Group's Executive Board can set a more stringent limit than this for an individual cooperative bank. A decision is required from the Credit Risk Committee when the exposures of a group of connected clients of a cooperative bank or Helsinki OP Bank Plc in OP-Pohjola Group exceed five million euros, or when the bank wants to participate in a property project where the capital invested by OP-Pohjola Group is over EUR 5 million. In certain sectors that are susceptible to fluctuations, an exposure limit must be set to a bank by the Credit Risk Committee if the customer entity's liabilities exceed EUR 3.5 million.

OP-Pohjola Group's Rating Committee determines the credit ratings of the Group's medium-sized and large corporate customers and credit institution counterparties. The committee has members from the credit risk management groups of both the Central Institution and Pohjola Bank plc. Proposals for customers' credit ratings are made by experts in the Central Institution and Pohjola Bank plc that are specialised in a specific customer or a group of connected customers. People involved in proposing credit ratings or deciding about them cannot make actual credit decisions.

OP Bank Group Mutual Insurance Company (OVY) grants credit insurance to cooperative banks. OVY analyses the sufficiency of the customer's debt-servicing ability, the solidity of collateral and the quality of the cooperative bank's financing process for customer entities that exceed a specific amount of liability. The insurance decisions of OVY also guide bank-specific credit risk-taking. Credit insurance operations play a key role in OP-Pohjola Group's internal credit risk management and loss-balancing procedure, accounting for about 90% of OVY's insurance liabilities and premiums written. OVY also offers OP-Pohjola Group's entities collateral, liability and security insurance.

OP-Pohjola Group's Audit function supports capital adequacy management by checking that OP-Pohjola Group entities operate in a profitable and secure manner, in accordance with official regulations, the Central Institution's guidelines and their own rules and Articles of Association. It also audits risk management and whether the risk monitoring systems correspond with operational requirements.

2.2 Cooperative banks and entities belonging to OP-Pohjola Group Central Cooperative Consolidated

The cooperative banks and entities belonging to OP-Pohjola Group Central Cooperative Consolidated apply the Central Institution's risk and capital adequacy management principles as required by the nature and extent of their business. The

Supervisory Board approves cooperative banks' risk and capital adequacy management principles and supervises their implementation. In entities of the Central Institution, this is the responsibility of the Board of Directors or Executive Board acting as the Board.

In cooperative banks, the Board approves the procedures and operating instructions, business objectives, capital plan and risk limits. It is also responsible for risk management adequacy and supervises business, risk exposure and risk-bearing capacity. In guiding the banks' operations, the Board adheres to the Group's guidelines. In entities of the Central Institution, this is the responsibility of the Board of Directors or Executive Board acting as the Board.

The management of the cooperative banks and the Central Institution's entities are responsible for the implementation of capital adequacy management according to the principles and operating policies that have been agreed on, and report regularly on the entity's business, risk-bearing capacity and risk exposure to the Board.

Risk management is organised in each entity depending on its risk exposure, size and type and extent of operations. The largest OP-Pohjola Group entities have a risk management function that is independent of operational decision making. In small and medium-sized cooperative banks, the Managing Director is responsible for risk management. In cooperative banks, the independence of the assessment of risk management from business operations is generally realised so that the assessment of risk management is based on the reports produced by the Central Institution's risk management function, the bank risk categorisation carried out by the Central Institution as well as the assessments by the Central Institution's Audit function concerning the adequacy of the bank's risk and capital adequacy management.

Within Pohjola Group, Pohjola Bank plc's Board of Directors is the highest decision-making body in matters associated with risk management. The Board has elected among its members a Risk Management Committee that monitors the company's risk exposure and helps the Board to ensure that the company and the Group have the sufficient risk and capital adequacy management systems in place to cover all operations. The risk management executives, who report to the Risk Management Committee, coordinate and guide risk and capital adequacy management principles and policies. The Risk Management Committee also receives reports from the Balance Sheet Management Executives, which coordinate and guide the use of Pohjola Group's balance sheet. The Risk Management function, which is independent of business, develops and carries out risk and capital adequacy management in Pohjola Group in cooperation with the Finance function. The principles of risk and capital adequacy management within Pohjola are described in more detail in Pohjola's financial statements.

The Board of Directors is the highest decision-making body in matters associated with risk and capital adequacy management. The Managing Director, who reports to the Board of Directors, is responsible for planning, preparing and implementing internal supervision and risk management according to the Board's decisions. The person in charge of risk management, who reports to the Managing Director, develops and implements risk and capital adequacy management principles and controls risk management procedures. The Responsible Actuary, who reports to the Board and the Managing Director, ensures that the actuarial techniques applied in the company are appropriate.

3 Risk management in OP-Pohjola Group's strategy

OP-Pohjola Group's strategy outlines the Group's risk appetite and aspects of risk management that help to ensure that the strategy is carried out. According to the strategy approved in 2012, the Group will secure our risk-bearing capacity in all circumstances and keep risk-taking vis-à-vis the risk-bearing capacity moderate. Each Group entity focuses on carrying out its role according to its service capabilities and risk-bearing capacities in accordance with common business models.

OP-Pohjola Group's most significant business risks are strategic risk, credit risk, liquidity risk and market risks, of which interest rate risk and investment risks are the most important ones. Insurance risks, operational risks and compliance and concentration risks are significant for the financial services group's business. Concentration risks are not discussed in this document as a separate risk type, but together with other risk types.

4 Strategic risks

Strategic risks arise when a poor strategy has been selected or the chosen strategy goes not achieve the targets set. They may also be the result of poor implementation of the chosen strategy. Strategy implementation may also fail owing to changes in the operating environment or to poor leadership.

Strategic risks are managed by analysing the risks when drawing up the strategy and by continually monitoring and analysing changes in the operating environment and the realisation of the strategy. Strategic risk is reduced by regular planning, based on analyses and forecasts of customer needs, the development of different sectors and market areas, and the competition situation. The Group's strategic risks are reported on regularly. The strategic policies are processed extensively within the Group before being confirmed.

5 Operational risks

Operational risk refers to the risk of financial loss or other harmful consequences resulting from inadequate or failed processes, or incomplete or faulty procedures, systems or external events. Operational risk also includes compliance risk but not strategic risk. Operational risk may also materialise in terms of loss or deterioration of reputation or trust.

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. Realisation of such as risk may result not only in financial but also other sanctions. Such sanctions may include a corporate fine and separate administrative fines for violation of obligations, and reminders. Compliance risk may also materialise in terms of loss or deterioration of reputation or trust and the aim is to ensure that all OP-Pohjola Group entities comply with applicable legislation, official instructions and regulations, guidelines related to market self-regulation and OP-Pohjola Group's and its entities' internal principles and guidelines. Compliance operations also ensure that customer relationships are conducted with appropriate and ethically sound principles and practices.

5.1 Management tools

Operational risks are managed in OP-Pohjola Group by identifying and analysing risks and by ensuring that control and management measures are appropriate and sufficient. Reputational risk is managed proactively and in the long term by following regulations, good practices of the financial sector and the Group's Code of Business Ethics and by emphasising openness of operations and communications. Operational risk management does not always aim to remove the risk altogether but to bring it down to an acceptable level.

In its operational risk management, OP-Pohjola Group adheres to a uniform OP-Pohjola Group level, system-supported operating model. In this model, OP-Pohjola Group entities assess operational risks, that is, identify and analyse business risks and define and follow up on measures designed to reduce them. We also monitor risk events and close calls and losses that have occurred to other financial sector players, and analyse them to ensure that we have sufficient readiness to prevent similar losses.

Situations that may disrupt business operations have been prepared against by means of contingency planning in key business divisions. Contingency planning also forms the basis for preparation against emergency conditions referred to in the Emergency Powers Act. Contingency plans are tested according to testing plans that have been made.

According to OP-Pohjola Group's internal division of work, OP-Services Ltd is in charge of providing centralised services to Group companies and that they operate properly and without interruption. The Central Institution guides and supervises the operations of OP-Services Ltd and ensures that it has sufficient systems and procedures in place to serve the entire OP-Pohjola Group. OP-Pohjola Group entities are responsible for the management of their own operational risks as required by the nature and extent of their business.

Compliance risk is managed by monitoring changes in legislation and by providing the organisation with guidelines, training and consultation. The compliance function also supervises that the procedures chosen conform to the regulations. Compliance risks are identified, assessed and reported regularly according to the operational risk management model described above. Before any new operating model or product is launched, their risks are assessed as laid down by the Central Institution's Risk management function. All products offered or business models applied to OP-Pohjola Group's customers will have been approved at Group level.

Compliance operations have been organised in OP-Pohjola Group's entities by means of the Group's comprehensive compliance network. A part-time or full-time compliance officer is designated or a compliance function set up for each OP-Pohjola Group entity. The organisation of a compliance function depends on the quality and extent of the business involved.

5.2 Monitoring and reporting

OP-Pohjola Group entities identify operational risks associated with major products, services, functions, processes and systems, and outsourcing. Risk identification also involves paying attention to the illegal use of banking systems, such as money laundering and financing of terrorism as well as risks related to non-compliance. The Group assesses the significance of identified risks on the basis of their financial effect and probability. The assessment also evaluates the risk to reputation.

Risk assessments are made throughout the Group, the findings being used to make development plans. Operational risks are reported regularly to the management of the Central Institution and the entities. Any threat to imminent reputational risk will be reported immediately. The information obtained is used to support planning, decision-making and management.

6 Credit risks

Credit risk refers to a counterparty risk, that is, is risk of losses arising from the failure of the contracting parties to meet their obligations, and from the collateral not being able to secure the receivables. Credit risk management aims to restrict losses due to credit risks arising from customer exposure to an acceptable level.

Credit risk also includes country risks and settlement risks: the former representing a counterparty risk associated with foreign receivables by country while settlement risk refers to risk related to execution of trade which fails because the counterparty cannot deliver the security being traded or pay the required sales price.

Counterparty risk is reduced by the use of exchange-traded products and netting agreements and, in derivatives trade by the use of collateral. Country risk is restricted by limiting the amount of exposures of target countries and contracting parties within them. In settlement risk management, it is vital to ensure the reliability of counterparties. The Group mitigates risks by concluding standard agreements and using only reliable clearing centres.

OP-Pohjola Group's credit risk is primarily related to banking operations. Counterparty risk also included in insurance premiums, investments and reinsurance. In non-life insurance operations, credit risk management is based not only on customer selection but also on credit control and investment plans. Reinsurance credit risk is managed by using companies that have a sufficient credit rating.

The majority of credit and country risks related to credit institutions are the result of liquidity management by banking and insurance operations by insurance institutions. Counterparty and country risks affecting credit institutions may also be the result of interest rate trading and management of notes and bonds portfolio and trade financing.

6.1 Credit risk management within banking

Credit risk exposure is guided primarily by applying the Group's risk policy. Moreover, credit risk policies have been devised for different customer groups, and these policies are updated regularly. Credit risk policies define the target exposure level, risk-taking guidelines, customer selection in respect of total exposure, as well as the use of collateral and covenants, with a view to ensuring, for example, a sufficiently diversified loan portfolio in order to avoid excessive risk concentrations by customer group or sector. Targets have been set for cooperative banks per credit rating category concerning new credit and credit portfolio in order to retain the credit portfolio as high as possible. The credit rating controls the granting of exposure, consequences of insufficient collateral, and pricing of liabilities.

Lending will primarily be carried out on the basis of the customer's sufficient and verified debt servicing ability. A controlled and uniform financing process, guided by credit risk policies, decision-making financing authorisations and operating instructions, plays a key role in credit risk management. The starting point and the biggest strength of OP-Pohjola Group's member banks is their local and thorough understanding of their customers.

The liquidity of private customers is tested in case of an interest rates rise, and customers are offered repayment insurance in case of illness or unemployment. We try to avoid high financing percentages.

The assessment of corporate customers' debt servicing ability and credit risk is made by means of not only credit ratings but also payment behaviour; financial statement analyses and predictions; corporate analyses, statements and sector reviews; and surveys of customer needs, credit rating assessments and other documents produced by the banks' customer care representatives. The corporate customer business is based on service models into which risk management

has been closely integrated while at the same time ensuring that risk management remains independent.

Any foreseeable problems will be reacted to as early as possible. The operating models of weak and problem customers have been described separately to ensure uniform treatment of private, corporate and agricultural customers. 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 changes must be made to credit decision levels.

Country risk concerning individual countries limited

Group entities limit risks related in individual countries in the risk policies and investment plans. Country limits determine a country's maximum exposure and maturity. Country limits are primarily based on the country's external credit rating, but other information about the country is also utilised. In addition to imposing country limits, companies set limits on certain products based on the country's external rating.

6.2 Monitoring and reporting of banking operations

Credit risk developments are monitored at OP-Pohjola Group level at least monthly in relation to the limits set and to the control indicators. Other monitored things include credit rating reports that describe, for example, breakdown of exposure by credit rating category, percentage of non-rated exposure and the realisation of risk-based premium rating. We also monitor major customer exposure, reports on credit portfolio quality and structure, sufficiency of collateral, late payments and non-performing receivables, the amount of receivables for which OP Bank Group Mutual Insurance Company (OVY) loan portfolio insurance has been declined, and the number of payment schedule changes.

In view of various business environment scenarios, any consequences concerning credit risk exposure, credit losses and the capital requirement to cover credit risk will be assessed at least once a year. Stress test results are used, for example, in evaluating the size of capital conservation buffers.

At Group level, credit risks are limited using five limits. In order to avoid risk concentrations, three risk limits have been set at OP-Pohjola Group. A limit for an individual customer exposure measures the amount of exposure of a group of connected clients in relation to OP-Pohjola Group's capital base specified under Act on the Supervision of Financial and Insurance Conglomerates (RAVA). The limit for the total amount of major customer exposure encompasses all customer exposure that is at least 5% of the Group's capital base. The limit for industry risk limits the percentage of an individual industry of all OP-Pohjola Group's Banking's corporate sector receivables and commitments and Non-life and Life Insurance's direct equity and bond investments. In addition to concentration risks, credit risks have limits that restrict the ratio of non-performing receivables to the loan and guarantee portfolio, and the ratio of expected losses to liabilities.

6.3 Reducing credit risks

In order to ensure repayment of commitments, collateral must be provided for customer exposure, and any retail banking must primarily have collateral security. Collateral is evaluated by an independent party and using a conservative approach to fair value. The Group exercises special care in assessing the value of collateral deemed as cyclical in nature. OP-Pohjola Group's Executive Board approves confirms maximum valuation percentages for each type of collateral and the procedures for the acceptance of real estate, various shares, deposits and securities and any other assets or guarantees for use as collateral.

Developments in collateral values are monitored on a regular basis. Whenever a financing decision is made, we will check whether the collateral must be reassessed. A similar check is also made when the value of collateral has changed significantly or the client's financial standing has weakened substantially. The fair values of housing used as collateral is updated once a year on the basis of indexes derived from official sales price statistics.

Especially in the case of the largest corporate customers, covenants in loan agreements are used in addition to collateral. By monitoring these, we ensure that we receive an accurate picture of the company's situation and are in a position to re-assess their loan conditions, collateral requirements or pricing if the risk situation changes.

The cooperative banks have a loan portfolio insurance policy covering not only the loan portfolio but also bank guarantees. This policy reduces losses to individual cooperative banks as a result of loan losses. Insurance decisions are made separately for each group of connected clients that have a large exposure, in increased exposure and an elevated

credit risk detected by means of risk factor analysis.

6.4 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 risk parameters involving Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD).

CREDIT RISK INDICATORS WITHIN INTERNAL CREDIT RATINGS		
Probability of serious 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), €

In practice, credit risk models are utilised, for example, in

- credit approval and pricings
- specifying financing decision-making authorisations
- setting and monitoring the loan portfolio's qualitative objectives
- the amount of loan portfolio premium charged by OVY from the banks
- credit risk reporting
- in capital adequacy measurement using the Internal Ratings Based Approach (IRBA)
- measuring economic capital and expected loss.

6.4.1 Credit rating and probability of insolvency

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 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.

Assessing the probability of a private customer's solvency

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 of the customer's loan portfolio or, if no such rating exists, rating of the application stage. The rating is based on information available from the loan application, the customer's payment behaviour and other transaction history data that are scored. The combined scores are used to create rating categories and average PD has been calculated for each category for a period of 12 months.

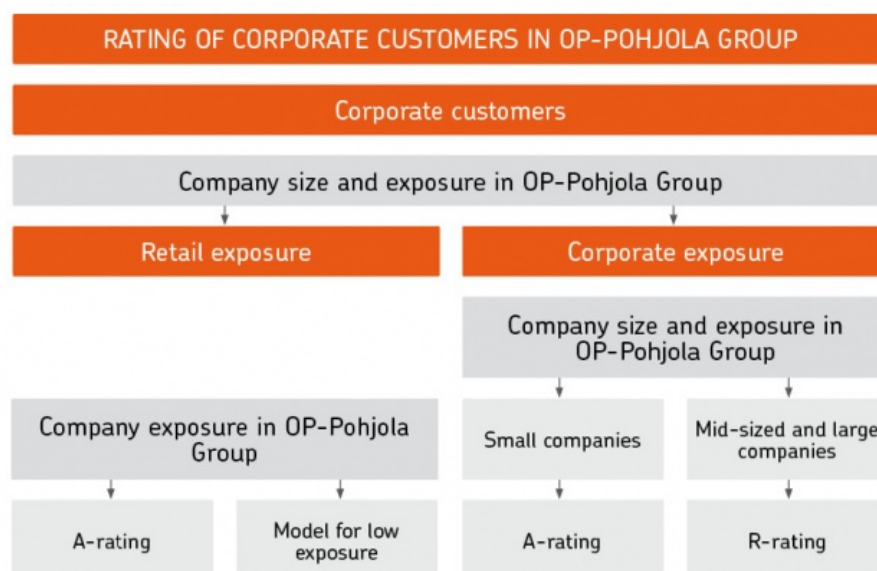
The rating model for private customers' loan portfolio is used to categorise the exposures of private customers, some of whose debtors has had loans with OP-Pohjola Group for the last six months. The loan portfolio's rating categories are updated once a month. This model was adopted in 2006 and its current version dates back to 2011.

If a private customer's exposure does not yet have an exposure category, home loans and secured consumer credit are put in the same category as in the application stage that is based on the scoring model made in 2008 and updated in 2011. As to financing company products and unsecured consumer loans, we use separate application stage models that were made in 2010. The former model was updated in 2011 and the latter in 2012.

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. The credit rating based on the application stage is valid for six months after which it will be replaced with the credit rating set for the loan portfolio if the customer had not previously have such credit rating.

Assessing the probability of a corporate customer's solvency

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 to 12, with defaulted customers falling under categories 11 or 12.



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 considered as warning signs and exceptions to the rating provided by the model. Based on the expert's proposal, OP-Pohjola Group's Rating

Committee will at least once year make the final decision on the customer's credit rating. The model currently used in 'R' rating was adopted at the beginning of 2008 and is annually validate according to the IRB requirements. Last time such validation was performed in 2012.

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 is annually validated according to the IRB requirements, and was partly updated in March 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 international rating agencies.

OP-Pohjola Group's credit ratings for corporate customers and Standard & Poor's (S&P) equivalent

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

Assessing the probability of a credit institution's solvency

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. The resultant probabilities are divided into 20 categories that form the basis of credit rating categories.

The statistical model that forms the basis of credit ratings is based on empirical data on Pohjola's international credit institutions as counterparties. The model is based on the so-called sovereign ceiling rule according to which a private-sector counterparty cannot have a higher credit rating than the government. OP-Pohjola Group's Rating Committee makes decisions on the ratings of credit institutions. The 'L' credit rating is updated 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 counterparties and the credit rating categories of international rating agencies.

OP-Pohjola Group's credit ratings for credit institutions and Standard & Poor's (S&P) equivalent

S&P Rating	AAA...AA+	AA...BBB+	BBB...BBB-	BB+...BB-	B+...B	B-...CCC
OP-Pohjola -rating	1,0–2,0	2,5–4,0	4,5–5,0	5,5–7,0	7,5–8,5	9,0–10,0

6.4.2 Loss given default and exposure at default

In addition to a model 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 share of customer exposures at default) which the bank would incur if the customer defaulted within one year. EAD refers to the estimated amount of receivable from the customer on the bank's balance sheet at default. Estimating off-balance-sheet exposures involves using a credit conversion factor (CCF). This factor should capture how much of the off-balance was utilised at time of default. In the main, a simple model applies to equity investments. The PD/LGD method related to equity investments applies to OP-Pohjola Group's strategic investments, where the PD values are based on internal models and LGD standard estimates.

6.4.3 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 of each customer's exposure.

6.4.4 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. The Central Institution's Risk Management function collects continuous feedback from the business lines/divisions on the effectiveness of the credit rating process and credit risk models. It monitors monthly the models that automatically create a credit rating category. The purpose of this monitoring is to follow changes in the credit portfolio and granting of loans that may, for example, indicate errors in IT implementation.

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.

OP-Pohjola Group 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 cooperative banks as a matter of regular auditing.

6.5 Securitised assets

OP-Pohjola Group has not acted as an initiator or manager of securitisation transactions but has invested in conventional securitised assets issued through a special purpose company. In calculating the total amount of the risk-weighted assets of securitisation positions, the Group has used IRBA to credit risk when the securitisation position belongs to the exposure category to which the assessment model based on credit rating is applied.

The Group applies credit ratings 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 issued credit ratings pertaining to a securitisation transaction, the lower rating will apply. If more than two selected credit rating agencies have issued 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.

7 Liquidity risk

Banking's liquidity risk comprises structural funding risk and funding liquidity risk. The sources of liquidity risks include those arising from short-term balance-sheet items' maturity becoming out of balance, from the balance sheet structure, changes in customer behaviour, and risks associated with wholesale funding performance. Moreover, liquidity risk may arise from changes in regulation governing the management of business risks, reputational risk or liquidity.

Structural funding risk refers to uncertainty related to long-term lending, arising from the refinancing risk due to the structure of funding. OP-Pohjola Group'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.

Liquidity risk may arise when the Group or its entity cannot cope with known and unexpected, existing or future cash flows or collateral needs without this affecting business continuity, profitability or capital adequacy. Liquidity risks may arise, for instance, from a thinning out or inactivity of markets or a bank's weaker creditworthiness.

Insurance operations' liquidity risk is assessed individually from each insurance business's viewpoint. Insurance companies' investment assets act as a liquidity reserve for them. In insurance operations, liquidity is considered as the ability to pay compensation and other operating expenses following premiums written. In life insurance operations, we prepare for changes in customer behaviour, and a structural change in insurance liabilities from those with a guaranteed rate of interest to unit-linked.

7.1 Management tools

Liquidity risk management is based on the Group's risk policy and approved risk limits. OP-Pohjola Group Central Cooperative approves the qualitative targets set for the liquidity buffer, a funding plan and a contingency and business continuity plan in case of threat scenarios. The contingency and business continuity plan contains an operating model concerning liquidity for various threshold levels, funding sources and a contingency funding plan at operational level.

OP-Pohjola Group's liquidity management tools include the proactive planning of the funding structure, the Group's risk limits and control limits and monitoring indicators derived from them, the monitoring of the liquidity status and well-balanced liquidity buffer, planning and management of daily liquidity, as well as effective control of the Group's liquidity status. Funding liquidity management is governed by the regulations concerning the minimum reserve and marginal lending facility systems by the European Central Bank.

OP-Pohjola Group aims to ensure its liquidity by means of long-term financing planning, a liquidity buffer and sources of finance referred to in the contingency plan in the event of a situation where both money and capital markets were to close and deposit funding was to decrease moderately. The liquidity buffer has the size required for the time to implement the contingency plan in a liquidity crisis. Liquid funding may be made available by selling notes and bonds in the liquidity reserve or using them as collateral. The liquidity buffer consists of a notes and bonds portfolio eligible as collateral for central bank refinancing.

As the financial services group's central bank, Pohjola Bank plc is tasked with securing the liquidity of the entire Group and each cooperative bank or Group entity. The Group's daily liquidity management refers to managing liquidity of the Group's companies engaged in banking operations. The liquidity of OP-Pohjola Group's insurance and pension entities is transferred through bank accounts to the Group's overall liquidity. Any changes in their liquidity position will change Pohjola's liquidity position. The liquidity reserve of the entire OP-Pohjola Group's banking operations is managed at Pohjola.

The Group's funding planning is based on the proactive planning of the funding structure and on the risk limit set for the asset/liability structure. Deposits from the general public and wholesale funding form the basis of the Group's funding. Wholesale funding is planned on the basis of deposit funding and increase in lending. In order to secure funding, the Group utilises a diverse range of financial instruments while diversifying the sources of funding by maturity, geographic location, market and investor. Any surplus deposits to member banks are mainly channelled to Central Cooperative Consolidated accounts or instruments it has issued in order not to increase the Group's wholesale funding unnecessarily. Pohjola manages centrally the wholesale financing in the form of senior bonds and equity capital, while OP Mortgage

Bank handles funding based on mortgage-backed securities.

OP-Pohjola Group's Executive Board is responsible for OP-Pohjola Group's liquidity risk management, by means of various threshold levels. In cases of market disturbance, liquidity management is carried out according to the operational contingency plan. Each OP-Pohjola Group entity manages its liquidity within the framework of control limits issued by the Central Institution, account, deposit and credit terms and conditions and limits and regulations.

Entities engaged in insurance operations are primarily responsible for managing their liquidity. The entities' liquidity requirements are considered in the allocation of the investment portfolio.

7.2 Monitoring and reporting

Monitoring and reporting liquidity risks exposed by Group entities vary from real-time to quarterly practices, depending on the nature and extent of their business. Monitoring and reporting are based on the Group's risk limits and target figures. Depending on the entity and reporting level, reporting practices may vary from daily cash flow monitoring (funding liquidity) to the monitoring and forecasting of long-term funding structure (refinancing risk).

For each of those liquidity levels, the Group has specified control and monitoring practices which become more rigorous when moving up to the next level. The Group reports liquidity risks to the Central Institution's Executive Board on a regular basis and, with a heightened threshold level of liquidity status, will adopt weekly or daily progress reporting practices whenever necessary. Group entities report liquidity risks to their boards of directors regularly, applying at least the level which has been set for control limit indicators and limits.

The effect of threats and future scenarios related to structural funding risk and funding liquidity risk on the Group's liquidity, financial performance and capital adequacy is stress-tested as part of its capital adequacy assessment.

OP-Pohjola Group's risk limit for liquidity risk has been set for the ratio between net cash flows under time category which guide the structural financing risk and the Banking balance sheet, and for the indicator concerning liquidity risk. The risk indicator for the structural funding risk indicates the maximum portion of the net cash flows in the Group's balance sheet that may have a maturity within less than one, within less than three years and within less than five years. Agreements with a maturity date are included in the analysis of structural financing risk according to the maturity date or any earlier repayment date. The maturities of accounts with no maturity date have been modelled.

The indicator concerning liquidity risk shows how well the primary liquidity reserve can cover for 30 days the known or predictable net cash flows payable to parties outside the Group and also any unexpected yet moderate decline in deposits. At operational level, tighter control levels than the limit are set for indicators with a view to serving as an operational buffer. In addition, the Group uses risk indicators describing various aspects of liquidity risk.

Regular reports are made of the allocation distribution of investment portfolios. Sensitivity to liquidity risk is also assessed by means of stress tests.

8 Market risks

Market risk refers to a risk of loss or of lost income when the market price or volatility changes unfavourably. At OP-Pohjola Group, market risks include the following risks both on and off the balance sheet: interest rate risk, price risks, real estate risks, credit spread risks associated with investment operations, and market liquidity risk. Market risk is realised as an effect on earnings, a change in the fair value reserve, or the solvency of an insurance company and pension institution.

The greatest market risk for banking relates to the effect of a change in interest rates on net interest income, that is, interest income risk. The biggest market risks related to non-life and life insurance operations concern those related to investments and technical provisions, primarily interest rate risk.

In accordance with the division of tasks within the banking operations, the cooperative banks and Helsinki OP Bank Plc focus on retail banking. As the central bank of OP-Pohjola Group, Pohjola Bank plc manages the Group's payment transfers and Banking's currency risk, obtains wholesale funding, maintains international banking relationships, and is responsible for Banking's liquidity and centralised liquidity buffer maintenance. Cooperative banks carry out their money market and derivatives operations with Pohjola Bank plc.

OP-Pohjola Group applies fair value and cash flow hedging models in hedge accounting of the interest rate risk in banking and equity risk in insurance operations.

8.1 Management tools

The task of market risk management is to identify and assess market risks included in business operations, limit them to an acceptable level, and report them regularly and efficiently. This ensures that changes in market prices or other external market factors will not excessively deteriorate the long-term profitability or capital adequacy of any individual entity within the Group or of OP-Pohjola Group as a whole.

Guidelines that control and limit market risks include OP-Pohjola Group's risk and capital adequacy management principles and the Group's risk management guidelines that supplement them, and the Central Institution's risk management guidelines and OP-Pohjola Group's limits and control limit indicators. The board of directors of each entity has defined the objectives of market risk management, the principles of risk-taking and the organisation of market risk management.

The trading of cooperative banks and Helsinki OP Bank Plc in the money and capital markets has been restricted so that the number of trading portfolios per bank does not exceed the number permitted to small trading portfolios in the capital adequacy regulations related to market risk. The trading portfolio of a single bank may be a maximum of 5% of the total amount of items on and off the balance sheet.

It is Pohjola Bank plc in the financial services group that mostly uses derivatives: commodity, interest rate and currency derivatives both for trading and hedging purposes. In addition, Pohjola uses and equity index derivatives to protect against market risk. More detailed information on Pohjola's market risk management can be found in Pohjola's financial statements.

Cooperative banks use derivatives to protect euribor-linked interest rate risk against sinking interest rates and net interest income fluctuations. This is done by means of cash flow hedging in which interest rate flows in the euribor-linked credit portfolio are changed into fixed-rate interest by means of interest rate swaps. Cooperative banks also use a fair value hedging model in which cash flow of credit with fixed interest rate is changed to euribor-linked cash flow.

The portfolio of credit granted to customers at member banks with an interest-rate cap and any additional returns from index-linked term deposits are also always hedged with OTC swaps under hedge accounting principles. Customers' interest rate corridor options for credit are separated from the host contract, with their interest rate and volatility risk covered with opposite options. Long-term investments involve embedded derivatives, but they are not separated from the host contracts, because the investment is valued as a combination to fair value.

Insurance institutions manage the market risks related to investment and insurance liabilities by means of various investment instruments and derivative contracts. The use of interest rate, equity, exchange rate and credit risk derivatives is determined annually in the principles concerning companies' investment plans and derivatives. Derivatives may be used within the risk limits and in accordance with the investment plan also to increase the company's risk exposure. Derivatives' counterparty risk is managed by means of collateral. Non-standardised derivative contracts are only signed with a counterparty whose long-term rating meets the minimum requirement set. In addition to various derivatives contracts, insurance institution's long-term fixed-income investments include embedded derivatives that are not separated from host contracts in the financial statements. Contracts containing embedded derivatives are valued in the balance sheet at fair value and their value changes are recognised in the profit and loss.

8.2 Monitoring and reporting

The extent and frequency of market risk reporting in OP-Pohjola Group entities vary by the nature and extent of their business from real-time to quarterly monitoring. Such monitoring and reporting are based on the analysis of the developments in limits and control limit indicators, as specified in the confirmed business strategy and risk policy. Pohjola monitors and reports market risks on a daily basis and, to some extent, on a real-time basis. Other entities provide monthly reports to management but perform monitoring on a daily basis whenever necessary. The Central Institution's Risk Management provides market risk reports for the cooperative banks and regularly reports the development of the entire OP-Pohjola Group's balance sheet structure and market risks to the Central Institution's management.

Market risks are evaluated by means of sensitivity analyses, statistical volatility and correlation analyses, VaR (Value-at-Risk) and Expected Shortfall (ES).

OP-Pohjola Group

Risk) analyses, and stress tests. The Group monitors derivative risks as part of the exposure using the same benchmarks as for balance sheet exposure. The specifics of monitoring and reporting for each risk type have been described in the parts dealing with each individual risk type.

We use four limits to restrict market risks at Group level. Interest rate, credit spread, currency, equity and commodity risk related to trading, and the price risk related to structured products, are limited by means of a VaR limit. The market risk limit for insurance operations has been set on the basis of the ratio between the economic capital and the Group's capital resources concerning the risk in question. Within insurance operations, the economic capital for interest rate, exchange rate, credit spread, equity and commodity risks are calculated using the historical simulation VaR model. The third of the Group-level market risk limits has been set for interest rate risk related to funding, and the fourth for real estate risk. These limits are explained in more detail below in this Note in connection with the description of monitoring and reporting concerning each risk type.

8.3 Interest rate risk

Interest rate risk refers to changes in earnings, profitability and capital adequacy caused by interest rate fluctuations. Interest rate risk is manifested as the price risk of marketable securities portfolios, risk of a change in the present value of an insurance company's insurance liability cash flows, and the banking book's repricing risk. The price risk of securities portfolios materialises when market rates change and cause market values to change. Risk of a change in the present value of insurance liabilities materialises when the insurance liabilities' present value changes as a result of changes in market rates. Repricing risk arises from interest-rate bases and interest rate adjustment times differing between investment and acquisition.

OP-Pohjola Group's greatest interest rate risks are those related to retail Banking's banking book and to insurance operations. In non-life and life insurance operations, an interest rate risk is created when changes in the interest rate affect the value and earnings of investment assets and the cash-flows of insurance liabilities. The banking interest rate risk is derived from the banking book and Pohjola Bank plc's trading portfolio. The interest rate risk of items not in the trading book is by nature related to structural interest income from financing.

8.3.1 Management tools

The interest rate risk associated with the banking book of cooperative banks is mainly managed by the choice of borrowing and lending products and the terms and conditions offered. Cooperative banks may also protect against interest rate risk in their banking book by means of interest-rate derivatives as approved within the Group. In retail banking, interest rate derivatives are also used in customer business (interest rate caps, interest rate corridors and index-linked deposits). In addition to the interest rate monitoring standardised throughout the Group, Pohjola Bank plc interest rate risk is reduced by means of interest rate risk limits specific to responsibility areas. Interest rate risk related to trading and the banking book are limited using the same principles and indicators.

In life insurance operations, interest rate risk is high in liabilities to policyholders that are included in insurance liabilities. These liabilities consist of promises of fixed profits and any customer benefits. The purpose of Life Insurance's balance sheet management is to measure and control the company's entire net interest risk exposure. Interest rate risk for insurance liabilities is covered entirely or partly with interest rate derivatives in order to bring the overall risk exposure to the target level.

8.3.2 Monitoring and reporting

The calculation of interest rate risk for Banking includes all interest-bearing balance sheet items and off-balance-sheet items. This calculation does not make any assumptions of business growth. When assessing interest rate risks, items that are sensitive to interest rate changes are divided in net interest income and cash flow calculations on the basis of interest rate review dates. The interest-rate adjustment date for fixed-rate items is the same as their date of maturity. As to floating-rate items, we calculate, on the basis of the contract's interest rate information, the effect of interest rate changes on the net interest income from the current interest rate level by means of a forward method. The estimated re-pricing delays in administrative interest rates are considered in this analysis.

When determining the interest rate risk of banking operations, the impact of customer behaviour is also observed by modelling, on the basis of historical development of the deposit portfolio, the cooperative banks' deposit maturity structures and by assessing the deposits' average re-pricing delay. The delay in reviewing administrative interest rates has been modelled on the basis of interest rate history. A model for premature repayment of credit will be adopted in

2013.

The Group's financing interest rate risk limit is set on the basis of the interest rate risk's economic capital and the Group's capital resources. In the business control of cooperative banks, control limit indicators are in use for indicators that evaluate the effect of an interest rate change on the next 12 months' net interest income. As part of regular interest rate risk measurements and reporting, the Group carries out stress tests to analyse the effects of various interest rate changes on the present value of the interest rate risk position.

In non-life and life insurance operations, an interest rate risk is created when changes in the interest rate affect the present value of investment assets and the insurance liabilities. Interest rate risk arising from insurance companies' investments and insurance liabilities are managed by means of the economic capital method as part of market risk by insurance operations. Interest rate risk is also monitored by the effect of a change of one percentage point or basis point on the value of investments and the insurance liabilities.

8.4 Price risks

Price risks are the effects of market price changes on the value or profit of investments or the entire balance sheet. Price risks also include share, commodity, currency and volatility risks.

8.4.1 Equity risk

Equity risk refers to the risk of changes in market value arising from changes in the market values of equities and similar instruments.

The equity risk related to investments is managed by diversifying investment allocations and by means of derivatives. In order to have a good diversification in terms of geography, sector, currencies and individual companies, Finnish and European equity investments are partly direct and partly made through funds. Equity investments outside Europe have been made through funds.

8.4.2 Commodity risk

Commodity risk refers to risk to Group earnings caused by changes in their market value. Commodity risk is linked to insurance companies' investments and Pohjola Bank plc's trading. Commodity risk is controlled by means of securities selection and derivatives. Pohjola Bank plc applies the statistical VaR indicator to commodity risk, too.

8.4.3 Currency risk

In Banking, currency risk refers to the risk to the bank's earnings or change in market value due to changes in exchange rates. Open foreign exchange exposure arises when there is a difference between receivables and liabilities in the same currency. In OP-Pohjola Group banks, the currency risk is concentrated in Pohjola. Overnight currency risk is low within banking. The foreign exchange exposure of an individual cooperative bank is practically limited to travel exchange cash. In non-life and life insurance, currency risk is created as a result of changes to investment asset value caused by currency changes.

Pohjola Bank plc manages currency risk as total exposure by means of foreign exchange transactions and derivative contracts. In Non-life and Life Insurance, currency risk is managed by diversifying the investment allocation and through hedging currency derivatives. In non-life and life insurance, foreign currency exposure has a maximum limit in the investment plan. Currency risk is measured not only with VaR indicators but also with total net foreign currency exposure and currency pair exposures.

8.4.4 Volatility risk

Volatility risks refer to risks caused by a change in the volatility of a traded asset to the Group's earnings. Options trading and index-linked bonds and notes with option structures involve volatility risks. Volatility risk is limited through options.

It is only Pohjola Bank plc in OP-Pohjola Group that is taking an active volatility risk, but limiting this in options trading by means of sensitivity and VaR indicators.

8.5 Real estate risk

By property risk we refer to risk to an investment's market-based profit caused by market changes and property occupancy rate, both with reference to property and to similar instruments. Real estate risk is present in insurance institutions' investment portfolios. Cooperative banks' real estate investments are primarily related to banks' operating premise needs.

The objective of property exposure management is to recognise, evaluate, limit and monitor the impairment risk, rental income risk and risk of damage associated with property holdings. In non-life and life insurance, the principles of real estate risk management have been laid down in the investment plan.

The amount and earnings level of OP-Pohjola Group entities' property holdings are reported at least quarterly.

The Group's real estate risk limit has been set on the basis of the ratio between economic capital and the Group's capital base. The economic capital for investment property is based on an expert assessment (40% of balance sheet value), while property in own use is based on capital requirements in the capital adequacy measurement (8% of the balance sheet value). In insurance operations, the risks of indirect, market-quoted property investments (property funds etc.), are included in the calculation of the economic capital in terms of market risks.

8.6 Credit spread risk

Credit spread risk refers to a change in the value of financial instrument owing to a change in the credit spread. Credit spread risk materialises either as a price risk or when probability of default or market liquidity changes. Credit spread risk is controlled by means of investment selection, diversification and credit risk derivatives.

Credit spread is priced in the market as a return requirement which is added to the interest rates of interest rate swaps. Credit spread is measured as a change of 10 basis points in the credit spread, using the VaR method. Credit rate spread is measured in insurance companies belonging to the Group as part of the stress testing related to the investment portfolio's overall risk exposure.

8.7 Market liquidity risk

Market liquidity risk means that the Group may not be able to realise or cover its market exposures at the prevailing market price, since the market lacks sufficient depth or does not function due to a market disruption. Market liquidity risk is realised through some other risk: credit risk, liquidity risk or market risk.

8.8 Market risks related to investments

Market risks related to investments can be counterparty or market risks or operational risks.

Both OP-Pohjola Group's banking and insurance businesses engage in investing. The purpose of investing by Banking is to maintain OP-Pohjola Group's liquidity buffer and engage in short-term trading. Items included in the liquidity buffer are liquid notes and bonds eligible as collateral for central bank refinancing. As to trading, we aim to trade actively with various instruments and derivative contracts and to invest in Finnish and foreign notes and bonds to support customer business. In insurance companies, we invest in order to ensure customer profit (life insurance), to obtain assets covering insurance liabilities, and to gain a profit on insurance premiums invested.

8.8.1 Management tools

Managing investment risks is based on diversification by means of effective allocation selection. Risk-taking in investing is managed and restricted in OP-Pohjola Group's risk and capital adequacy management principles and risk policy. The risk policy provides the Group and its entities quantitative and qualitative restrictions in terms of products, regions and credit rating.

The risk policy is supplemented by OP-Pohjola Group's risk limits and control limit indicators and guidelines provided by the Central Institution. The boards of insurance companies also confirm separate instructions and policies related governing the risk management of investments. Annual investment plans, confirmed by the boards of directors of Group entities, determining the desired risk and return level are also very important. These investment plans also specify the mix, range and benchmark indices for investment assets as well as other restrictions on investment.

Insurance's investment assets are allocated under restrictions set by the insurance companies' insurance liabilities in terms of return on investment property, investment asset liquidity and the company's risk-bearing capacity. In Life Insurance, application of the principle of equity also affects investment targets and the amount of risk taken. Investments are effectively diversified among various asset classes and investment instruments, both by region and industry. The market risk is controlled by limiting the duration and percentage of fixed-income investments in the investment allocation.

8.8.2 Monitoring and reporting

The risk exposure of investments is measured with allocations based on the investments' historical value performance and with profit, risk, VaR and correlation models. Investment assets undergo sensitivity analyses to assess the effects of changes in share prices, interest rates and property values. A sensitivity analysis of the credit risk is also carried out for each investment. In order to assess the effects of exceptional market conditions, stress tests are factored in; for example, a simulation of the 2008–2009 financial market crisis.

9 Underwriting risks associated with Non-life Insurance

With an insurance contract, the policyholder transfers the 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.

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

However, risk independence is not complete, because changes in external circumstances may create a dependence between insurance risks. For example, the level of insurance risk in a given geographic area will to some extent depend on the current external conditions. Market fluctuations and changes in weather conditions are cases in point. Unidentified background factors may also affect insurance risks. Examples from recent history include cases of occupational diseases caused by exposure to asbestos dust, and the effect of higher life expectancy than predicted on the pension portfolio of statutory insurance.

A risk type apart consists of a claim accumulation generated by natural catastrophes or large catastrophes caused by human activity. 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 because OP-Pohjola Group operates in an area where the risk of natural catastrophes is considered fairly low and the Group can acquire protection against the risk through reinsurance.

9.1 Management tools

The most important tasks in managing insurance risks are risk assessment, selection and rating, obtaining reinsurance, and assessment of insurance liabilities.

Risk assessment, selection and pricing is emphasised in operational models. The purpose of customer selection is to ensure that a new customer relationship has the ability to succeed. The important thing about insurance pricing is that the policy price at least covers any expenses arising from policy. The Group limits the size and extent of risk for each insurance line and risk concentration. Insurance terms and conditions are a vital tool in controlling risks. In addition, customer or insurance line specific risk analyses are performed to limit risks.

Reinsurance is mainly focused on specific objects of insurance and on events that result in losses. In addition to this reinsurance cover for individual risk categories, we have reinsurance for loss accrual. The reinsurance principles and the maximum risk per claim retained for own account are annually drawn up by OP-Pohjola Group's risk policy function and approved by Pohjola's Board of Directors. Only companies with a sufficiently high credit rating are accepted as reinsurers. Moreover, maximum limits have been confirmed for the amounts of risk that can be ceded to any one reinsurer. These limits depend on the nature of the risk involved and on the reinsurance company's solvency.

The risk inherent in insurance liabilities lies mainly in insurance lines characterised by a long claims settlement period.

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. Insurance liability risk is controlled by monitoring the sufficiency of insurance liabilities on a regular basis.

9.2 Monitoring and reporting

Non-life Insurance has a probability model for the assessment of insurance risks in order to find an optimal capital adequacy level. As regards underwriting risks, the model takes account of the nature of insurance lines and the extent of reinsurance.

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 provision.

In order to ensure that the pricing corresponds with the risks, claims expenditure is monitored regularly in relation to insurance premiums.

In Group-level risk limit indicators, underwriting risks are restricted with an indicator that measures the ratio between the economic capital and the Group's capital base. The economic capital for underwriting risk is calculated with the company's own risk model.

Non-life Insurance risks are described in more detail in Pohjola's financial statements.

10 Underwriting risks associated with Life Insurance

The greatest underwriting risks associated with Life Insurance have to do with mortality, life expectancy (that is, longevity), work disability, customer behaviour and operating expenses. These factors are crucial in determining underwriting risk, because insurance premiums and the amount of insurance liabilities are based on assumptions based on them.

Mortality and life expectancy affect a life insurance company's risk exposure and pure life insurance policies and pension policies. Higher mortality than expected is a risk in pure life insurance policies, but when it comes to pensions and other pure endowment policies, a lower mortality causes the risk to materialise. Longevity risk is particularly prevalent in group pension insurance policies with a defined benefit plan, because these contracts do not contain a significant amount of the opposite mortality risk.

Work disability risk is included in insurance contracts on the basis of which we pay compensation for reduced work ability or losses caused by this.

Customer behaviour risk arises when the policyholder terminates a contract, stops paying as planned or changes the contract by exercising an option included, so that the changed contract carries a greater risk to the company. One example of such options is the customer's right to change the profit type of his assets from unit-linked to one with a guaranteed interest rate, which increases the market risk. Another example is postponement of pension, which increases the longevity risk. Savings insurance policies and capitalisation agreements with right of surrender, are particularly susceptible to business interruption risk; this is related to customer behaviour. Surrender of pension insurance is only possible under exceptional circumstances.

Expense risk refers to a situation in which realised insurance contract management expenses differ from how they were priced.

10.1 Management tools

Underwriting risks are managed through sufficient pricing, careful selection of exposure and reinsurance. Diversifying insurance between different insurance types also reduces risks. OP Life Assurance Company reinsures, when necessary, any major individual risks and risk concentrations.

Risks related to mortality and longevity are priced in a secure way on the basis of the conditions and situation prevailing when the policy is granted. The prices of such long-term agreements can be changed very little by the companies. This is why the risk for any later changes in the pricing bases will be carried by the insurance company so that the premiums of new policies are increased and the company records an insurance liability supplement to sold policies. Offering insurance policies that have opposite risk exposures reduces the net risk of our entire insurance portfolio.

The primary method for managing work disability risk is by appropriate pricing.

Business interruption risk related to customer behaviour and risk for a customer's option to change the profit type of his assets to one with guaranteed interest rate are controlled with a competitive product selection, suitable product structures and incentives and sanctions and the contract terms and conditions. Interruption of insurance policies may also jeopardise the accuracy of cost assumptions used for the pricing and thereby contribute to the realisation of the expense risk.

Expense risk is controlled by sufficiently high expense discipline and appropriate pricing. The realisation of assumptions made with regard to pricing are monitored regularly, and if necessary, the prices of new policies sold are increased, and the insurance liabilities with regard to the old policies supplemented accordingly.

10.2 Monitoring and reporting

Changes in insurance risks are monitored monthly by insurance type, with more detailed analysis made when necessary. A more detailed analysis is made annually, showing risk realisation by insurance type, sex and age groups. Operating expenses are monitored monthly by main categories. A more detailed report is made annually to analyse performance by insurance type and function. We also make monthly reports on customer behaviour, payments, interruptions and transfer of investment assets between different types of profit performance basis.

Legislative changes may lead to such changes in the insurance terms and conditions that may have an effect especially on the policy sales and customer behaviour. Such changes include law and directive amendments affecting long-term saving products or the pricing bases of life insurance policies. Life insurance companies follow any changes to the legislation and whenever necessary review their insurance contract pricing and terms and conditions as required and also ensure that companies' capital adequacy positions are assessed.

A Group-level limit was set for Life Insurance's underwriting risk which describes the economic capital of the underwriting risk in relation to the Group's capital base. The economic capital for underwriting risk is calculated with the company's own risk model.

The risk exposure of Life Insurance investments were described earlier in this Note and in more detail in the financial statements of OP Life Assurance Company Ltd and Aurum Investment Insurance.

Notes to OP-Pohjola Group Financial Statements

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Note 3. Change in accounting policy

OP-Pohjola Group decided to voluntarily abandon as of the beginning of 2012 the so-called corridor method in the recognition of actuarial gains and losses on defined benefit pension plans. On transition to IFRS in 2005, OP-Pohjola Group elected to recognise actuarial gains and losses in the income statement over the expected average remaining working lives of the active employees in the plan to the extent that they exceed 10% of the present value of the defined benefit obligation or the fair value of the plan assets. In accordance with the revised recognition method under IAS 19, 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.

This change in the accounting policies results in faster recognition of actuarial gains and losses than in the previously applied corridor method. By adopting this method, OP-Pohjola Group is also preparing for the requirements of the revised IAS 19 effective for financial years starting on or after 1 January 2013. The change in the accounting policy has been applied retrospectively and its effects on the comparatives of OP-Pohjola Group's consolidated balance sheet, income statement and statement of comprehensive income shown in these financial statements are as follows:

EUR million	Previous accounting policy	New accounting policy	Effect of change in accounting policy
Balance sheet 1 Jan 2011			
Assets			
Other assets	1,749	1,496	-253
Tax assets	125	125	0
Liabilities			
Provisions and other liabilities	2,333	2,332	0
Tax liabilities	1,014	948	-66
Shareholders' equity			
Retained earnings	3,590	3,403	-187

EUR million	Previous accounting policy	New accounting policy	Effect of change in accounting policy
Balance sheet 31 Dec 2011			
Assets			
Other assets	2,266	1,884	-382
Tax assets	158	158	0
Liabilities			
Provisions and other liabilities	2,839	2,840	1
Tax liabilities	928	834	-94
Shareholders' equity			
Retained earnings	3,763	3,474	-289
Income statement 2011			
Personnel costs	696	689	-7
Income tax expense	87	89	2
Statement of comprehensive income 2011			
Actuarial gains/losses on post-employment benefit obligations	-	-137	-137
Income tax on actuarial gains/losses on post-employment benefit obligations	-	-30	-30

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Note 4. Business combinations during the period

On 31 August 2012, OP-Pohjola Group Central Cooperative – the central institution of OP-Pohjola Group – bought the share capital of Aurum Investment Insurance Ltd, a Finnish life insurance company established in connection with the acquisition, from Skandia Life Assurance Company Ltd, a subsidiary of Old Mutual plc. On 28 August 2012 as part of the acquisition, Skandia Life's portfolio of 100,000 pension, savings and investment policies transferred to Aurum Investment Insurance Ltd which became an OP-Pohjola Group Central Cooperative subsidiary on 31 August 2012. The accounts of Aurum Investment Insurance Ltd have been included in OP-Pohjola Group's consolidated financial statements since 31 August 2012.

In these financial statements, the acquisition cost of Aurum Investment Insurance Ltd shares have been used as the acquisition cost in the consolidation of Group accounts. All related expert and consulting fees were charged to expenses.

Aurum Investment Ltd's premiums written included in OP-Pohjola Group's consolidated accounts amounted to EUR 45 million and earnings before tax to EUR 6 million.

The net arising from the difference between the fair value of the identifiable assets acquired and the liabilities assumed and the acquisition cost as a result of the consolidation, a gain from a bargain purchase, has been recognised in other operating income on the acquisition date. Any changes to the above net amount that may arise from the revision of the acquisition price based on the business volume development will be recognised directly in the income statement. This revision process is supposed to end by 31 March 2013. The identifiable assets acquired and the liabilities assumed comprise the net assets of Aurum Investment Insurance Ltd measured at fair value and other identifiable items identified in connection with the acquisition.

EUR million		Fair values used in consolidation
Life Insurance assets		1,360
Intangible assets		
Customer relationships		5
Insurance contracts		127
Other assets		1
Cash and cash equivalents		36
Total assets		1,528
Life Insurance liabilities		1,362
Provisions and other payables		5
Deferred tax liabilities		32
Total liabilities		1,399
Net assets		128
Interest in net assets acquired on 31 August 2012	100%	128
Total consideration paid in cash		108
Gain from bargain purchase, gross		20
Related transaction costs in the income statement.		2
Gain from bargain purchase, net		19
Total consideration paid in cash		108
Cash and cash equivalents of acquired subsidiary		36
Cash flow impact		72

Notes to OP-Pohjola Group Financial Statements

NOTES TO THE INCOME STATEMENT

Note 5. Net interest income

EUR million	2012	2011
Interest income		
Receivables from credit institutions	20	37
of which value changes of hedged items	-	-
Receivables from customers		
Loans	1,516	1,594
of which value changes of hedged items	19	27
Finance lease receivables	24	21
of which value changes of hedged items	-	0
Impaired loans and other commitments	3	4
Notes and bonds		
Held for trading	11	9
At fair value through profit or loss	1	0
Available for sale	194	441
of which value changes of hedged items	0	224
Held to maturity	12	23
Loans and other receivables	15	20
Derivative contracts		
Held for trading	1,466	1,457
of which hedging derivatives	-9	-16
Hedge accounting	-113	-321
of which hedging derivatives	-11	-239
Cash flow hedge	21	5
of which hedging derivatives	-	0
Other	5	5
Total	3,174	3,294

Interest expenses

Liabilities to credit institutions	39	37
of which value changes of hedged items	30	-20
Financial liabilities at fair value through profit or loss	0	0
of which value changes of hedged items	-	-
Liabilities to customers	407	397
of which value changes of hedged items	1	0
Notes and bonds issued to the public	671	726
of which value changes of hedged items	255	253
Subordinated liabilities		
Subordinated loans	10	8
of which value changes of hedged items	2	0
Other	58	31
of which value changes of hedged items	-	0
Derivative contracts		
Held for trading	1,388	1,389
of which hedging derivatives	-2	-1
Hedge accounting	-410	-329
of which hedging derivatives	-288	-273
Other	8	2
Other	1	3
Total	2,171	2,264
 Net interest income	 1,003	 1,030

Hedging instruments in hedge accounting showed net income of EUR 269.8 million (18.9) and net loss of hedged contracts came to EUR 269.3 million (-22.6).

Notes to OP-Pohjola Group Financial Statements

NOTES TO THE INCOME STATEMENT

Note 6. Impairment losses on receivables

EUR million	2012	2011
Receivables written down as loan and guarantee losses	67	85
Recoveries of receivables written down	-14	-11
Increase in impairment losses	108	115
Reversal of impairment losses	-60	-97
Collectively assessed impairment losses	-2	10
Total	99	101

Notes to OP-Pohjola Group Financial Statements

NOTES TO THE INCOME STATEMENT

Note 7. Net income from Non-life Insurance

EUR million	2012	2011
Insurance premium revenue		
Premiums written	1,215	1,120
Change in provision for unearned premiums	-32	-44
Gross insurance premium revenue	1,183	1,076
Reinsurers' share	-57	-53
Total	1,126	1,024
Net investment income	110	26
Claims incurred		
Claims paid (excl. loss adjustment expenses)	786	703
Change in provision for unpaid claims	6	51
Gross total claims incurred	792	754
Reinsurers' share	-33	-62
Total	759	692
Other Non-life Insurance items	45	46
Net income from Non-life Insurance	433	312

Insurance premium revenue and insurance premiums ceded to reinsurers

Short-term insurance contracts		
Premiums written	1,211	1,116
Change in provision for unearned premiums	-33	-45
Change in provision for unexpired risks	0	1
Long-term insurance contracts		
Premiums written	4	4
Change in provision for unearned premiums	1	0
Gross insurance premium revenue	1,183	1,076

Reinsurers' share of short-term insurance contracts

Premiums written	-48	-54
Change in provision for unearned premiums	-7	3

Reinsurers' share of long-term insurance contracts

Premiums written	-1	-1
Change in provision for unearned premiums	0	0

Total reinsurers' share	-57	-53
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Net insurance premium revenue	1,126	1,024
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Net investment income from Non-life Insurance**Loans and other receivables**

Interest income	5	8
Interest expenses	-1	-3
Capital gains and losses	-2	0
Fair value gains and losses	0	-1

Loans and other receivables total	2	4
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Net income from financial assets recognised at fair value through profit or loss

Interest income

Notes and bonds	0	0
Derivatives	0	0
Other	-	-
Total	0	0

Capital gains and losses

Notes and bonds	0	0
Shares and participations	-	-
Derivatives	-11	-18
Other	-	-
Total	-11	-18

Fair value gains and losses

Notes and bonds	2	0
Shares and participations	-	-
Derivatives	-2	0
Other	-	-
Total	0	0

Total net income from financial assets recognised at fair value through profit or loss	-10	-18
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Net income from available-for-sale financial assets

Notes and bonds

Interest income	56	54
Other income and expenses	0	0
Capital gains and losses	35	5
Transferred from fair value reserve during the financial year	-8	-13
Impairment losses and their reversal	-2	-34
Total	81	12

Shares and participations

Dividends	29	30
Other income and expenses	2	2
Capital gains and losses	41	-22
Transferred from fair value reserve during the financial year	-28	20
Impairment losses and their reversal	-10	-8
Total	33	22

Total net income from available-for-sale financial assets	114	34
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Net income from investment property

Rental income	15	13
Capital gains and losses	0	0
Value changes from fair value measurement	3	3
Maintenance charges and expenses	-12	-8
Other	-1	-1

Total net income from investment property	4	6
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Total net investment income from Non-life Insurance	110	26
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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 44 million (46). 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 and 3.3% from 1 December 2011 to 31 December 2011. and 3.0% from 1 August 2012 to 31 December 2012.

* Includes an increase of EUR 27 million (35) in technical provisions due to higher life expectancy and EUR 32 million in technical provisions as a result of the changed discount rate.

** In 2011, this included income of EUR 16 million arising from the removal of provision for the joint guarantee system.

Notes to OP-Pohjola Group Financial Statements

NOTES TO THE INCOME STATEMENT

Note 8. Net income from Life Insurance

EUR million	2012	2011
Premiums written	848	748
Insurance premiums ceded to reinsurers	-27	-27
Net investment income	635	-219
Claims incurred		
Benefits paid	644	711
Change in provision for unpaid claims	42	-15
Reinsurers' share	-11	-9
Other	-	-
Change in insurance contract liabilities		
Change in life insurance provision	619	-218
Reinsurers' share	-6	-11
Other	58	-28
Total net income from Life Insurance	108	72

Premiums written in Life Insurance

Premiums written from insurance contracts

Premiums written from insurance contracts with entitlement to discretionary portion of surplus (DPF)

Savings insurance	30	36
Personal pension insurance	41	45
Group pension insurance	71	74
Term insurance		
Personal insurance	79	74
Supplementary group insurance	2	2
Employees' group life insurance	10	9
Total term insurance	92	86
Total	233	241

Premiums written from unit-linked insurance contracts

Savings insurance	522	413
Personal pension insurance	83	85
Group pension insurance	9	9
Total	614	507
Total	848	748

Premiums written from investment contracts

Premiums written from investment contracts with entitlement to discretionary

portion of surplus	1	15
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Premiums written from investment contracts without entitlement to discretionary

portion of surplus	-	-
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Premiums written from unit-linked investment contracts	38	61
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Total	38	75
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Total direct insurance	886	823
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Assumed reinsurance	0	-
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Total premiums written	886	823
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Regular premiums from insurance contracts	521	464
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Regular premiums from investment contracts	37	0
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Single premiums from insurance contracts	311	284
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Single premiums from investment contracts	17	75
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Total	886	823
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Net investment income from Life Insurance

Loans and other receivables

Interest income	12	12
Interest expenses	-1	-1
Capital gains and losses	0	4
Impairment losses	-1	-8
Loans and other receivables total	10	8

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

Interest income

Notes and bonds	11	13
Derivatives	0	1
Other	-	-
Total	11	14

Capital gains and losses

Notes and bonds	-1	3
Shares and participations	-	-
Derivatives	-15	-38
Other	0	0
Total	-16	-35

Fair value gains and losses

Notes and bonds	3	4
Shares and participations	-	-
Derivatives	129	62
Other	-	-
Total	132	66

Dividend income

- -

Total net income from financial assets recognised at fair value through profit or loss

127 44

Net income from available-for-sale financial assets

Notes and bonds

Interest income	30	30
Capital gains and losses	19	3
Transferred from fair value reserve during the financial year	-16	1
Impairment losses and their reversal	0	-10
Total	34	23

Shares and participations

Dividends	61	73
Other income	2	6
Capital gains and losses	93	-30
Transferred from fair value reserve during the financial year	-57	57
Impairment losses	-31	-6
Total	69	99

Total net income from available-for-sale financial assets

103 122

Net income from investment property

Rental income	13	11
Capital gains and losses	-1	1
Value changes from fair value measurement	2	-1
Maintenance charges and expenses	-15	-7
Other	-1	-1
Total net income from investment property	-2	3

Assets serving as cover for unit-linked policies

Shares, participations and others

Interest income	0	0
Capital gains and losses	70	-123
Fair value gains and losses	303	-296
Other	24	24
Total assets serving as cover for unit-linked policies	397	-395

Exchange rate gains (losses)	0	0
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Total net income from investment operations	635	-219
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Benefits paid in Life Insurance**Benefits paid from insurance contracts**

Benefits paid from insurance contracts entitling to discretionary
portion of surplus

Savings insurance		
Maturities	147	174
Death benefits	50	67
Surrenders	45	69
Total	242	310
Personal pension insurance		
Annuities	58	52
Death benefits	1	2
Surrenders	2	2
Total	61	56
Group pension insurance		
Annuities	62	60
Lump-sum benefits	1	1
Surrenders	2	5
Total	65	66
Term insurance		
Personal insurance	23	22

Supplementary group insurance	1	1
Employees' group life insurance	7	7
Total	30	29
Benefits paid from unit-linked insurance contracts		
Savings insurance		
Maturities	40	29
Death benefits	39	30
Surrenders	157	182
Total	235	241
Personal pension insurance		
Annuities	5	5
Death benefits	1	1
Surrenders	3	3
Total	9	10
Group pension insurance		
Annuities	0	0
Death benefits	0	0
Surrenders	1	0
Total	1	0
Total benefits paid from insurance contracts	644	711
Benefits paid from investment contracts		
Benefits paid from investment contracts entitling to discretionary portion of surplus		
Capital redemption contracts		
Maturities	8	9
Surrenders	0	21
Total	9	30
Benefits paid from investment contracts not entitling to discretionary portion of surplus		
Capital redemption contracts		
Maturities	-	-
Surrenders	-	-
Total	-	-
Benefits paid from unit-linked investment contracts		
Maturities	13	2
Surrenders	68	45
Total	81	47
Total benefits paid from investment contracts	90	77

Total direct insurance	733	789
Assumed reinsurance	-	-
Total benefits paid in Life Insurance	733	789

Notes to OP-Pohjola Group Financial Statements

NOTES TO THE INCOME STATEMENT

Note 9. Net commissions and fees

EUR million	2012	2011
Commissions and fees		
Lending	176	160
Deposits	5	5
Payment transfers	175	160
Securities brokerage	21	31
Securities issuance	15	13
Mutual fund brokerage	74	88
Asset management and legal services	70	64
Insurance brokerage	54	53
Guarantees	22	22
Other	44	42
Total	656	638
Commission expenses		
Payment transfers	22	16
Securities	11	9
Other	39	39
Total	72	64
Net commissions and fees	584	574

The item Other commission expenses includes EUR 11 million (EUR 11 million) of commissions paid for asset management and legal assignments and EUR 28 million (EUR 28 million) of other commissions paid.

Notes to OP-Pohjola Group Financial Statements

NOTES TO THE INCOME STATEMENT

Note 10. Net trading income

EUR million	2012	2011
Financial assets and liabilities held for trading		
Capital gains and losses		
Notes and bonds	14	7
Shares and participations	1	1
Derivatives	-20	26
Other	-	-
Total	-5	34
Fair value gains and losses		
Notes and bonds	0	2
Shares and participations	6	-9
Derivatives	63	-10
Other	-	-
Total	69	-17
Dividend income from assets held for trading	1	1
Total financial assets and liabilities held for trading	64	17
Assets and liabilities recognised at fair value through profit or loss		
Capital gains and losses		
Notes and bonds	0	0
Shares and participations	-	-
Derivatives	0	2
Other	-	-
Total	0	3
Fair value gains and losses		
Notes and bonds	2	0
Shares and participations	-	-
Derivatives	0	-2
Other	-	-
Total	3	-2
Dividend income from assets recognised at fair value through profit or loss	-	-
Total assets and liabilities recognised at fair value through profit or loss	2	1

Net income from foreign exchange operations

Exchange-rate differences	257	-140
Other	-242	139
Total net income from foreign exchange operations	14	-1
Total net trading income	81	17

Notes to OP-Pohjola Group Financial Statements

NOTES TO THE INCOME STATEMENT

Note 11. Net investment income

EUR million	2012	2011
Available-for-sale financial assets		
Notes and bonds		
Capital gains and losses	14	9
Transferred from fair value reserve during the financial year	3	3
Impairment losses and their reversal	0	-1
Total	17	11
Shares and participations		
Capital gains and losses	3	3
Transferred from fair value reserve during the financial year	5	14
Impairment losses	-11	-4
Total	-2	14
Dividend income	24	26
Total net income from available-for-sale financial assets	38	51
Held-to-maturity notes and bonds		
Impairment losses and their reversal	-	-
Carried at amortised cost		
Capital gains and losses*	-12	1
Total net income carried at amortised cost	-12	1
Net income from investment property		
Rental income	38	40
Capital gains and losses	2	2
Gains on fair value measurement	13	-5
Maintenance charges and expenses	-28	-27
Other	1	1
Net income from investment property total	26	11
Other	-	-
Total net investment income	52	63

* Note 26 contains information on capital losses recognised on financial assets carried at amortised cost.

Notes to OP-Pohjola Group Financial Statements

NOTES TO THE INCOME STATEMENT

Note 12. Other operating income

EUR million	2012	2011
Rental income from property in Group use	13	13
Capital gains on property in Group use	3	2
Insurance claims and benefits	0	0
Other	93	75
Total	109	90

Other operating income' includes EUR 2 million (2) in other income from Non-life Insurance, EUR 8 million (7) in bond fees from Life Insurance, EUR 8 million (16) in lease income from leased assets, EUR 8 million (6) in ADP income, EUR 3 million (5) in income from credit risk management and EUR 64 million (39) in other operating income.

Notes to OP-Pohjola Group Financial Statements

NOTES TO THE INCOME STATEMENT

Note 13. Personnel costs

EUR million	2012	2011
Wages and salaries	618	582
Variable remuneration	11	11
Pension costs		
Defined contribution plans	82	76
Defined benefit plans	4	-11
Other personnel related costs	33	30
Total personnel costs	749	689

Notes to OP-Pohjola Group Financial Statements

NOTES TO THE INCOME STATEMENT

Note 14. Other administrative expenses

EUR million	2012	2011
Office expenses	73	67
IT expenses	141	124
Telecommunications	39	37
Marketing	49	49
Corporate social responsibility expenses	7	7
Other administrative expenses	69	67
Total other administrative expenses	378	351

Notes to OP-Pohjola Group Financial Statements

NOTES TO THE INCOME STATEMENT

Note 15. Other operating expenses

EUR million	2012	2011
Rental expenses	4	4
Expenses for property in Group use	84	89
Capital losses on property in Group use	0	0
Depreciation and amortisation		
Buildings	38	12
Machinery and equipment	20	19
Intangible assets	42	34
Intangible assets related to business combinations	34	30
Other	17	23
Total	151	118
Impairments		
Property in Group use	0	0
Goodwill	0	0
Other	0	1
Total	1	1
Contribution to the Deposit Protection Fund	29	30
Other	83	76
Total other operating expenses	352	318

The item Other in Other operating expenses includes EUR 14 million (EUR 14 million) in supervision, inspection and membership fees, EUR 9 million (EUR 8 million) in insurance and security expenses, EUR 9 million (EUR 9 million) in other expenses of Non-life Insurance and EUR 51 million (EUR 44 million) in other operating expenses.

Audit fees paid to auditors total EUR 1.9 million (EUR 1.9 million), whereas assignments as referred to in Section 1, Sub-paragraph 1(2) of the Auditing Act were EUR 0.1 million (EUR 0.1 million), fees for legal counselling EUR 0.1 million (EUR 0.1 million) and fees for other services EUR 1.4 million (EUR 0.9 million).

Notes to OP-Pohjola Group Financial Statements

NOTES TO THE INCOME STATEMENT

Note 16. Returns to owner-members

EUR million	2012	2011
Bonuses	173	163
Interest on cooperative capital	19	14
Total returns to owner-members	192	176

Returns to owner-members include interest on cooperative capital payable to the members of OP-Pohjola Group member cooperative banks for the financial year and bonuses earned by owner-members due to their regular use of banking services as loyal customers in the financial year.

Notes to OP-Pohjola Group Financial Statements

NOTES TO THE INCOME STATEMENT

Note 17. Income tax

EUR million	2012	2011
Current tax	149	107
Tax for previous financial years	2	1
Deferred tax	-33	-19
Income tax expense	119	89
Corporate income tax rate	24.5	26

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

Earnings before tax	601	525
Tax calculated at a tax rate of 24,5% (2011 26%)	147	129
Tax for previous financial years	2	1
Income not subject to tax	-14	-16
Expenses not deductible for tax purposes	18	19
Re-evaluation of unrecognised tax losses	-27	0
Tax adjustments	-1	1
Non-recurring item recognised at company acquisition	-5	-
Tax rate change on 1 Jan 2012	0	-43
Other items	-2	-1
Tax expense	119	89

Notes to OP-Pohjola Group Financial Statements

NOTES TO ASSETS

Note 18. Liquid assets

EUR million	31 Dec. 2012	31 Dec. 2011
Cash	143	130
Deposits with central banks repayable on demand		
Overnight deposits	-	4,050
Pohjola Bank's minimum reserve deposit	171	272
Other	5,470	-76
Total liquid assets	5,784	4,376

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 accounted for 2% of the reserve base on 31 December 2011. From the period starting on 18 January 2012 the required minimum reserve is 1%. 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 OP-Pohjola Group Financial Statements

NOTES TO ASSETS

Note 19. Receivables from credit institutions

EUR million	31 Dec. 2012	31 Dec. 2011
Deposits with central banks		
Other than repayable on demand	-	-
Receivables from credit institutions		
Deposits		
Repayable on demand	74	76
Other	3	-1
Total	77	75
Loans and other receivables		
Repayable on demand	-	-
Other	436	539
Notes and bonds	328	490
Total	763	1,029
Total	840	1,104
Impairment losses	-	-
Total receivables from credit institutions	840	1,104

Notes to OP-Pohjola Group Financial Statements

NOTES TO ASSETS

Note 20. Financial assets at fair value through profit or loss

EUR million	31 Dec. 2012	31 Dec. 2011
Financial assets held for trading		
Government notes and bonds	11	12
Certificate of deposits and commercial papers	6	18
Debentures	2	1
Bonds	226	160
Other notes and bonds	2	7
Shares and participations	91	69
Loans acquired and other receivables	-	-
Total	339	267
Financial assets at fair value through profit or loss at inception		
Government notes and bonds	-	-
Certificate of deposits and commercial papers	-	-
Debentures	-	-
Bonds	14	10
Other notes and bonds	5	4
Shares and participations	-	-
Loans acquired and other receivables	-	-
Total	18	14
Total financial assets at fair value through profit or loss	358	281

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

Financial assets held for trading	31 Dec. 2012		31 Dec. 2011	
	Notes and bonds	Shares and participations	Notes and bonds	Shares and participations
EUR million				
Quoted				
From public corporations	7	-	15	-
From others	234	90	164	69
Other				
From public corporations	6	-	13	-
From others	1	1	6	-
Total	248	91	198	69

Financial assets at fair value through profit or loss at inception	31 Dec. 2012		31 Dec. 2011	
	Notes and bonds	Shares and participations	Notes and bonds	Shares and participations
EUR million				
Quoted				
From public corporations	-	-	-	-
From others	14	-	10	-
Other				
From public corporations	-	-	-	-
From others	5	-	4	-
Total	18	-	14	-

Total financial assets at fair value through profit or loss	266	91	212	69
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Notes to OP-Pohjola Group Financial Statements

NOTES TO ASSETS

Note 21. Derivative contracts

EUR million	31 Dec. 2012	31 Dec. 2011
Held for trading		
Interest rate derivatives	3,470	2,637
Currency derivatives	28	82
Equity and index derivatives	124	138
Credit derivatives	4	2
Other	34	27
Total	3,659	2,892
Hedging derivative contracts		
Fair value hedging		
Interest rate derivatives	626	357
Currency derivatives	47	39
Equity and index derivatives	-	-
Credit derivatives	-	-
Cash flow hedge		
Interest rate derivatives	69	19
Total	741	416
Other hedging derivatives		
Interest rate derivatives	36	6
Other	0	-
Total	36	6
Total derivative contracts	4,436	3,307

The balance sheet item includes positive changes in fair value of derivative contracts as well as premiums paid.

Notes to OP-Pohjola Group Financial Statements

NOTES TO ASSETS

Note 22. Receivables from customers

EUR million	31 Dec. 2012	31 Dec. 2011
Loans to the public and public corporations	52,685	49,048
Notes and obonds	78	272
Finance lease receivables	1,048	902
Other receivables	11,763	10,478
Total	65,574	60,700
Impairment losses	-413	-369
Total receivables from customers	65,161	60,331

Changes in impairment losses on loans and guarantee receivables in receivables from customers and credit institutions

EUR million	Loans	Notes and bonds	Bank guarantee receivables	Interest receivables	Total
Impairment losses 1 January 2012	335	33	5	-4	369
Increase in impairments of individually assessed loans and receivables	100	3	5	-17	91
Change in impairments of collectively assessed loans and receivables	-2	-	-	-	-2
Reversal of impairments of loans and receivables individually assessed	-17	0	-1	16	-3
Loans and guarantee receivables derecognised from the balance sheet, of which an individually assessed impairment was recognised	-11	-28	-2	-	-41
Exchange rate difference adjustments	-	0	-	-	0
Impairment losses 31 December 2012	404	7	7	-5	413

EUR million					
Impairment losses 1 January 2011	322	21	3	-4	343
Increase in impairments of individually assessed loans and receivables	101	12	2	-18	97
Change in impairments of collectively assessed loans and receivables	9	-	-	-	9
Reversal of impairments of loans and receivables individually assessed	-42	0	-1	18	-25
Loans and guarantee receivables derecognised from the balance sheet, of which an individually assessed impairment was recognised	-55	0	-	-	-55
Exchange rate difference adjustments	-	1	-	-	1
Impairment losses 31 December 2011	335	33	5	-4	369

Finance lease receivables

Pohjola Bank plc within OP-Pohjola Group leases transport equipment and industrial machinery and equipment through finance leases.

EUR million	31 Dec. 2012	31 Dec. 2011
Maturity of finance leases		
Not later than one year	271	236
1-5 years	515	477
Over 5 years	336	311
Gross investment in finance leases	1,122	1,024
Unearned finance income (-)	-75	-122
Present value of minimum lease payments	1,048	902
Present value of minimum lease payment receivables		
Not later than one year	253	212
1-5 years	484	426
Over 5 years	311	264
Total	1,048	902
Unguaranteed residual value due to the lessor	-	-
Variable rent recognised as revenue during the financial year	-	-
Adjustment recognised under minimum rent receivables	-	-
Gross increase in the financial period	576	380

Notes to OP-Pohjola Group Financial Statements

NOTES TO ASSETS

Note 23. Non-life Insurance assets

EUR million	31 Dec. 2012	31 Dec. 2011
Investments		
Loans and other receivables	104	117
Equities	409	435
Investment property	112	98
Notes and bonds	1,960	1,540
Derivative contracts	1	0
Other	452	565
Total	3,038	2,754
Other assets		
Prepayments and accrued income	41	35
Other		
From direct insurance	290	262
From reinsurance	91	121
Cash in hand and at bank	10	6
Other receivables	20	26
Total	454	451
Total Non-life Insurance assets	3,492	3,205

Non-life Insurance investments	31 Dec. 2012	31 Dec. 2011
Loans and other receivables		
Loans	103	116
Deposits with ceding undertakings	1	0
Total	104	117
Financial assets recognised at fair value through profit or loss		
Notes and bonds	19	6
Equities	-	-
Derivative contracts	1	0
Total	20	7
Available-for-sale financial assets		
Notes and bonds	1,941	1,533
OP-Pohjola Group		

Shares and participations	409	435
Other participations	452	565
Total	2,802	2,534
Investment property		
Land and water areas	12	11
Buildings	101	86
Total	112	98
Total Non-life Insurance investments	3,038	2,754

Breakdown of Non-life Insurance notes and bonds recognised through profit or loss, shares and participations and derivatives by quotation and issuer.

EUR million	31 Dec. 2012			31 Dec. 2011		
	Notes and bonds	Shares and participations	Derivative contracts	Notes and bonds	Shares and participations	Derivative contracts
Quoted						
From public corporations	-	-	-	-	-	-
From others	19	-	-	6	-	-
Other						
From public corporations	-	-	-	-	-	-
From others	-	-	1	-	-	0
Total	19	-	1	6	-	0

Available-for-sale financial assets of Non-life Insurance, 31 December 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 corporations	444	-	444	-	-	-
From others	1,492	-	1,492	655	-	655
Other						
From public corporations	-	-	-	-	-	-
From others	5	-	5	206	-	206
Total	1,941	-	1,941	861	-	861
	-2	-	-2	-10	-	-10

* Available-for-sale shares and participations include EUR 409 million (EUR 435 million) in equities and mutual funds with equity risk and EUR 459 million (EUR 568 million) 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 3 million (EUR 3 million) in pledged items. The items mainly consist of notes and bonds in collateral for derivatives trading.

Available-for-sale financial assets of Non-life Insurance, 31 December 2011

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 corporations	521	-	521	-	-	-
From others	953	-	953	813	-	813
Other						
From public corporations	-	-	-	-	-	-
From others	60	-	60	188	-	188
Total	1,533	-	1,533	1,000	-	1,000
	-34	-	-34	-8	-	-8

Changes in Non-life Insurance investment property	2012	2011
Acquisition cost 1 January	84	76
Increase	15	9
Decrease	-3	-2
Transfers between items	-1	-
Acquisition cost 31 December	95	84
Accumulated changes in fair value 1 January	14	11
Changes in fair value during financial year	3	3
Decrease	-	-
Other changes	-	-
Accumulated changes in fair value 31 December	17	14
Carrying amount 31 December	112	98

Constructions and repair obligations regarding investment property in the accounting period amounted to EUR 15 million (17). The fair value of investment property holdings excludes the portion of debt.

A total of 67% of Non-life Insurance's investment property holdings, or EUR 75 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 OP-Pohjola Group Financial Statements

NOTES TO ASSETS

Note 24. Life Insurance assets

EUR million	31 Dec. 2012	31 Dec. 2011
Investments		
Loans and other receivables	168	226
Equities and shares	1,702	2,470
Investment property	156	120
Notes and bonds	1,506	762
Derivative contracts	130	50
Other		
Total	3,663	3,628
Investments serving as cover for unit-linked policies		
Shares, participations and other investments	5,373	3,262
Other assets		
Prepayments and accrued income	44	32
Other		
Direct insurance operations	12	12
Reinsurance operations	77	71
Cash in hand and at bank	3	0
Total	137	115
Total Life Insurance assets	9,173	7,006

	31 Dec. 2012	31 Dec. 2011
Life Insurance investments		
Loans and other receivables		
Loans	158	216
Deposits with ceding undertakings	-	-
Other receivables	10	10
Total	168	226
Financial assets recognised at fair value through profit or loss		
Notes and bonds	87	93
Shares and participations	-	-
Derivative contracts	130	50
Total	217	143
Available-for-sale financial assets		
Notes and bonds	1,419	669
Shares and participations	1,702	2,470
Total	3,122	3,139
Investment property		
Land and water areas	21	17
Buildings	135	103
Total	156	120
Total investments	3,663	3,628

Breakdown of Life Insurance notes and bonds recognised at fair value through profit or loss and shares and participations by quotation and issuer

EUR million	31 Dec. 2012			31 Dec. 2011		
	Notes and bonds	Shares and parti- cipations	Derivative contracts	Notes and bonds	Shares and parti- cipations	Derivative contracts
Quoted						
From public corporations	-	-	-	-	-	-
From others	87	-	130	93	-	50
Other						
From public corporations	-	-	-	-	-	-
From others	-	-	-	-	-	-
Total	87	-	130	93	-	50

Available-for-sale financial assets of Life Insurance, 31 December 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 corporations	404	-	404	-	-	-
From others	1,015	-	1,015	1,702		1,702
Other						
From public corporations	-	-	-	-	-	-
From others	-	-	0	-	-	-
Total	1,419	-	1,419	1,702	-	1,702
Impairment losses for the financial year	0	-	0	-31	-	-31

Available-for-sale financial assets of Life Insurance, 31 December 2011

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 corporations	102	-	102	-	-	-
From others	567	-	567	2,470		2,470
Other						
From public corporations	-	-	-	-	-	-
From others	0	-	0	-	-	-
Total	669	-	669	2,470	-	2,470
Impairment losses for the financial year	-10	-	-10	-6	-	-6

Changes in Life Insurance investment property	2012	2011
Acquisition cost 1 January	99	111
Increase	47	14
Decrease	-12	-24
Transfers between items	-1	-2
Acquisition cost 31 December	132	99
Accumulated changes in fair value 1 January	22	24
Changes in fair value during financial year	2	-3
Decrease	-	-
Other changes	-	-
Accumulated changes in fair value 31 December	23	22
Carrying amount	156	120

The fair value of investment property holdings excludes the portion of debt. Constructions and repair obligations regarding investment property amounted to EUR 2 million (17).

Notes to OP-Pohjola Group Financial Statements

NOTES TO ASSETS

Note 25. Investment assets

EUR million	31 Dec. 2012	31 Dec. 2011
Available-for-sale financial assets		
Notes and bonds	5,446	6,923
Shares and participations	327	256
Total	5,772	7,179
Held-to-maturity investments	401	753
Investment property		
Land and water areas	44	43
Buildings	379	368
Total	423	411
Total investment assets	6,596	8,343

Held-to-maturity investments include other bonds issued by the government totalling EUR 1 million (EUR 1 million), bonds totalling EUR 294 million (EUR 613 million), and other notes and bonds totalling EUR 106 million (EUR 139 million). Investment property contain property used as collateral worth EUR 8 million (EUR 7 million).

Available-for-sale financial assets and held-to-maturity investments, 31 December 2012

EUR million	Available-for-sale notes and bonds			Available-for-sale shares and participations			Held-to-maturity investments
	At fair value	At amortised cost	Total	At fair value	At cost	Total	
Quoted							
From public corporations	1	-	1	-	-	-	-
From others	5,367	-	5,367	183	0	183	381
Other							
From public corporations	0	-	0	-	-	-	-
From others	77	-	77	69	75	143	20
Total	5,446	-	5,446	252	75	327	401
Impairment losses for the financial year	0	-	0	-11	-	-11	0

Available-for-sale financial assets include EUR 17 million (EUR 0 million) in subordinated publicly-quoted notes and bonds from others.

Available-for-sale financial assets and held-to-maturity investments, 31 December 2011

EUR million	Available-for-sale notes and bonds			Available-for-sale shares and participations			Held-to-maturity investments
	At fair value	At amortised cost	Total	At fair value	At cost	Total	
Quoted							
From public corporations	36	-	36	-	-	-	0
From others	6,869	-	6,869	159	0	159	750
Other							
From public corporations	1	-	1	-	-	-	-
From others	17	-	17	58	40	97	3
Total	6,923	-	6,923	216	40	256	753
Impairment losses for the financial year	-1	-	-1	-4	-	-4	-

Changes in investment property	2012	2011
Acquisition cost 1 Jan.	402	413
Business operations acquired	-	-
Increases	26	23
Decreases	-24	-29
Transfers between items	-2	-5
Acquisition cost 31 Dec.	401	402
Accumulated changes in fair value	9	16
Changes in fair value during the financial year	13	-5
Decreases	0	-1
Other changes	-1	-1
Accumulated changes in fair value 31 Dec.	22	9
Carrying amount 31 Dec.	423	411

Increases in investment property include EUR 1 million (EUR 2 million) in capitalised expenses recognised after the acquisition. Depreciation, impairment losses and their reversals under PPE are charged to Other operating expenses. Changes in the fair value of investment property are recognised under Net investment income. The fair value of investment property holdings excludes the portion of debt.

OP-Pohjola Group companies own investment property subject to restrictions concerning their assignment and sales price under the legislation on state-subsidized housing loans, such property being worth EUR 2 million (2). Group companies had EUR 18 million (11) in construction and repair obligations regarding investment properties that were based on preliminary agreements.

Within Pohjola Group, Pohjola Bank primarily offers passenger cars through operating leases. A breakdown of investment property and tangible assets leased out under operating lease can be found in Note 52.

Notes to OP-Pohjola Group Financial Statements

NOTES TO ASSETS

Note 26. Reclassified notes and bonds

The table below shows the carrying amounts and fair values of the reclassified notes and bonds.

EUR million, 31 Dec 2012	Carrying amount	Fair value	Effective interest rate	Impairments arising from credit risk
Loans and other receivables	531	528	5.5	8
Investments held to maturity*	226	207	4.2	-
Available-for-sale financial assets	38	38	4.3	-
Total	795	773		8

EUR million, 31 Dec 2011	Carrying amount	Fair value	Effective interest rate	Impairments arising from credit risk
Loans and other receivables	994	951	6.3	29
Investments held to maturity*	573	502	4.2	8
Available-for-sale financial assets	-	-	-	-
Total	1,566	1,452		37

If notes and bonds were not reclassified and had been measured using fair values available in the market:

EUR million	31 Dec. 2012		31 Dec. 2011	
	Income statement	Fair value reserve	Income statement	Fair value reserve
Banking	1	-	-1	-1
Non-life Insurance	1	4	1	-4
Life Insurance	4	-6	4	-10
Group Functions	21	10	-41	-4
Total	27	8	-37	-19

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 31 million (49). The price difference between the nominal value and acquisition value recognised in the income statement totalled EUR 8 million (13). Capital losses recognised on notes and bonds totalled EUR 17 million. A year ago, capital gains amounted to EUR 1 million. Impairment losses recognised on notes and bonds amounted to EUR 3 million (12). The Group used derivatives to hedge against interest rate risks, applying hedge accounting from 1 October 2008. Negative mark-to-market valuations recognised on hedging derivative contracts amounted to EUR 3 million (4).

Notes to OP-Pohjola Group Financial Statements

NOTES TO ASSETS

Note 27. Investment in associates

EUR million	31 Dec. 2012	31 Dec. 2011
Investment 1 January	40	38
Business acquisitions	0	0
Share of profits for the financial year	2	4
Dividends	-3	-2
Impairment losses	0	0
Dissolved associated companies	-	-
Value change	-	-
Investment 31 December	39	40

Notes to OP-Pohjola Group Financial Statements

NOTES TO ASSETS

Note 28. Intangible assets

Changes in intangible assets	2012				Total
	Goodwill	Brands	Customer relationships related to insurance contracts and policy acquisition costs	Other intangible assets	
Acquisition cost 1 January	632	179	361	556	1,728
Business operations acquired	-	-	132	-	132
Increases*	0	-	-	94	95
Decreases	0	-	-	-12	-12
Transfers between items	-	-	-	0	0
Acquisition cost 31 December	633	179	493	639	1,943
Acc. amortisation and impairments 1 January	-	-7	-183	-369	-559
Amortisation during the financial year	-	-	-34	-35	-69
Impairments during the financial year	-	-	-	-	0
Reversal of impairments during the financial year	-	-	-	-	-
Decreases	-	-	-	5	5
Other changes	-	-	-	0	0
Acc. amortisation and impairments 31 December	-	-7	-217	-399	-623
Carrying amount 31 December	633	172	276	239	1,320

* Internal development work accounts for EUR 3 million (EUR 5 million). Other intangible assets include computer software to the carrying amount of EUR 64 million (EUR 71 million) and EUR 161 million (EUR 95 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	2011				Total
	Goodwill	Brands	Customer relationships related to insurance contracts and policy acquisition costs	Other intangible assets	
Acquisition cost 1 January	630	179	361	486	1,655
Business operations acquired	-	-	-	-	-
Increases*	3	-	-	53	56
Decreases	0	-	-	-1	-1
Transfers between items	-	-	-	18	18
Acquisition cost 31 December	632	179	361	556	1,728
Acc. amortisation and impairments 1 January	-	-6	-153	-337	-496
Amortisation for the period	-	-	-30	-32	-62
Impairments for the period	-	-1	-	-	-1
Reversal of impairments during the financial year	-	-	-	-	-
Decreases	-	-	-	0	0
Other changes	-	-	-	0	0
Accumulated amortisation and impairments 31 December	-	-7	-183	-369	-559
Carrying amount 31 December	632	172	178	186	1,169

Intangible assets with indefinite economic lives

EUR million	31 Dec. 2012	31 Dec. 2011
Goodwill	633	632
Brands	172	172
Total	805	804

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

EUR million	31 Dec. 2012	31 Dec. 2011
	Carrying amount	Carrying amount
Customer relationships	140	160
Insurance contracts	136	18
Software	64	71
Software under development	161	95

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. Goodwill increased in 2011 as a result of the acquisition of Excenta Ltd, a strategic corporate wellness services provider, and in 2012 as a result of OP-Kiinteistökeskus Oy's acquisition of Espoon 1-Housing Oy's real estate business related housing in Finland. Brands, customer relationships and a significant part of computer software were acquired as part of the acquisition of the businesses of Pohjola Group plc.

Goodwill impairment test

EUR million	Goodwill	
	31 Dec. 2012	31 Dec. 2011
Non-life Insurance	390	390
Asset management	97	97
Mutual funds	71	71
Life Insurance	49	49
Systems service business	10	10
Finance company services	13	13
Wellbeing-at-work services	3	3
Other business	0	-
Total	633	632

Testing goodwill for impairment

Goodwill of OP-Pohjola Group originates entirely from the acquisition of the business operations of Pohjola Group plc 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. 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. for Non-life Insurance, Life Insurance, Asset Management, mutual fund and systems service (Systeemipalvelu) and work wellbeing business.

The value of the CGUs of OP-Pohjola Group was, for the goodwill testing, determined by the 'Excess Returns' method. Accordingly, the profits for the current and future periods were reduced by the return requirement on equity capital. Any excess return was discounted by a discount rate corresponding to the return rate on equity capital in order to determine the present value of cash flows.

For Life Insurance, Asset Management and mutual fund business as well as Leasing and Factoring Services and wellbeing at work services the testing period was determined to be five years under IFRS 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 a seven-year testing period.

The forecasts used in cash flow statements are based on OP-Pohjola Group's business strategy, confirmed in 2012 by OP-Pohjola Group Central Cooperative's Supervisory Board, and expectations derived from them concerning business development in 2013–2015. Growth in cash flows for post-forecast periods ranges between 2 and 15%. Within Life Insurance, however, premiums written in interest-bearing investment operations are expected to fall further throughout the entire test period.

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 equity capital). The discount rate used in the calculations before tax (i.e. IFRS WACC) varied from 10.4 to 15.5%. In 2011, it varied from 10.4 to 15.9%. For all business lines, the discount rates based on market data were still lower than those used in goodwill testing for impairment.

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 essential 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 5.5-percentage point increase in the discount rate, a 3.5-percentage point increase in the combined ratio and a 1.3-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 2011, the results were as follows: a 5.0-percentage point increase in the discount rate, a 3.5-percentage point increase in the combined ratio and a 1.5-percentage point decrease in net investment return compared with forecasts throughout the testing period, would have entailed an impairment risk.

Life Insurance key parameters were the discount rate, the growth rate of operating expenses and the investment margin percentage. These parameters were the same as last year. The results of the sensitivity analysis have not changed significantly from last year, except for the investment margin percentage. A 7-percentage point increase in the discount rate, a 13-percentage point increase in operating expenses and a 1.2-percentage point decrease in investment margin percentage compared with forecasts throughout the testing period, with other parameters remaining unchanged, would entail an impairment risk. Last year the results were as follows: Correspondingly, last year a 13-percentage point increase in the discount rate, a 17-percentage point increase in operating expenses and a 2.3 percentage point decrease in investment margin percentage 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 20-percentage point increase in the discount rate, an 13-percentage point decrease in assets under management and 15-percentage point growth in expenses compared with forecasts throughout the testing period, with other parameters remaining unchanged, would entail an impairment risk. In 2011, the results were as follows: a 30-percentage point increase in the discount rate, a 13-percentage point decrease in assets under management and 16-percentage point growth in expenses compared with forecasts throughout the testing period would have entailed an impairment risk.

Mutual funds' key parameters were the discount rate, growth rate of mutual fund assets and the growth rate of fixed expenses. These parameters were the same as last year. The results of the sensitivity analysis did not change significantly from the previous year. A 6.0-percentage point increase in the discount rate, a 2.9-percentage point decrease in fund assets and a 4.8-percentage point growth in fixed expenses 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 5.1-percentage point increase in the discount rate, a 2.4-percentage point decrease in fund assets and a 4.2-percentage point growth in fixed expenses compared with forecasts throughout the testing period would have entailed an impairment risk.

The discount rate and the growth and profit percentage of service income were used as key parameters in the sensitivity analysis of the systems service business. These parameters were the same as last year. The results of the sensitivity analysis have not changed significantly from last year. A 31-percentage point increase in the discount rate, a 29-percentage point decrease in service income and a 2.2-percentage point decrease in the 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: 31-percentage point increase in the discount rate, a 28-percentage point decrease in service income and 2.2-percentage point decrease in the margin 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 were significantly better than the year before. A 10-percentage point increase in the discount rate, a 84-percentage point decrease in the loan portfolio and a 13-percentage point increases in expenses compared with forecasts throughout the testing period, with other parameters remaining unchanged, would entail an impairment risk. In 2011, the results were as follows: a 16-percentage point increase in the discount rate, a 21-percentage point decrease in the loan portfolio and a 17-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 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, with other parameters remaining unchanged, would entail an impairment risk. Last year the results were as follows: a 6.1-percentage point increase in the discount rate, a 24-percentage point decrease in net sales and a 6.0-percentage point decrease in operating margin compared with forecasts throughout the testing period would have entail an impairment risk.

Impairment testing of brands

OP-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 used the same discount rate for Non-life Insurance as in the 2011 test. In addition, the same risk premium and the corresponding royalty percentages were applied in 2012 as in the PPA procedure and in previous years' tests.

All OP-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 2013–15 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, OP-Pohjola did not recognise any impairment loss on brands in its financial statements 2012. 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

OP-Pohjola Group's customer relationships, insurance contracts and a significant part of computer software were acquired as part of the acquisition of the business operations of Pohjola Group plc. In connection with the acquisition of Aurum Investment Insurance Ltd in 2012, intangible assets were recognised relating to customer relationships and insurance contracts.

Intangible assets originating from customer relationships and insurance contracts are charged to expenses using either accelerated appreciation or straight-line amortisation, depending on the business line, over their estimated useful lives. No indications of the need for impairment recognition have been discovered. Intangible assets derived from software used by Non-life Insurance, Life Insurance, Asset Management, and mutual funds expensed in full in prior financial years.

Notes to OP-Pohjola Group Financial Statements

NOTES TO ASSETS

Note 29. Property, plant and equipment

EUR million	31 Dec.	
	2012	31 Dec. 2011
Property in Group use		
Land and water areas	72	61
Buildings	531	522
Machinery and equipment	50	48
Other tangible assets	17	17
Leased-out assets	40	54
Total property, plant and equipment	710	702
of which construction in progress	2	3

Changes in property, plant and equipment (PPE), and investment property	2012				
	Property in Group use	Machinery and equipment	Other tangible assets	Leased-out assets	Total PPE
Acquisition cost 1 January	752	238	32	89	1,111
Business operations acquired	-	-	-	-	-
Increases	88	23	1	17	129
Decreases	-28	-10	0	-37	-76
Transfers between items	3	1	0	-	4
Acquisition cost 31 December	815	252	32	68	1,167
Accumulated depreciation and impairments 1 January	-169	-190	-14	-35	-409
Depreciation for the financial year	-45	-19	-1	-14	-79
Impairments for the financial year	0	-	-	-	0
Reversal of impairments during the financial year	0	0	-	-	0
Decreases	5	7	0	19	31
Other changes	-2	0	0	2	0
Accumulated depreciation and impairments 31 December	-212	-202	-15	-28	-457
Carrying amount 31 December	603	50	17	40	710

Changes in property, plant and equipment (PPE), and investment property	2011				Total PPE
	Property in Group use	Machinery and equipment	Other tangible assets	Leased-out assets	
Acquisition cost 1 January	747	275	31	112	1,165
Business operations acquired	-	-	-	-	-
Increases	34	21	1	19	75
Decreases	-14	-58	0	-42	-115
Transfers between items	-15	0	0	-	-15
Acquisition cost 31 December	752	238	32	89	1,111
Accumulated depreciations and impairments 1 January	-163	-229	-14	-43	-449
Depreciation for the financial year	-20	-18	-1	-16	-55
Impairments for the financial year	-1	-	-	-	-1
Reversal of impairments during the financial year	1	-	-	-	1
Decreases	6	57	0	23	86
Other changes	9	0	-	1	10
Accumulated depreciations and impairments 31 December	-169	-190	-14	-35	-409
Carrying amount 31 December	583	48	17	54	702

Notes to OP-Pohjola Group Financial Statements

NOTES TO ASSETS

Note 30. Other assets

EUR million	31 Dec.		
	2012	31 Dec. 2011	1 Jan. 2011
Payment transfer receivables	19	30	24
Pension assets	49	86	194
Accrued income and prepaid expenses			
Interest	818	972	657
Other accrued income and prepaid expenses	26	36	76
Other	833	761	546
Total	1,745	1,884	1,496

The Other item of Other assets includes EUR 46 million (EUR 5 million) of accounts receivable for securities, EUR 95 million (EUR 122 million) of derivative receivables and EUR 692 million (EUR 634 million) of other assets.

Notes to OP-Pohjola Group Financial Statements

NOTES TO ASSETS

Note 31. Tax assets

EUR million	31 Dec. 2012	31 Dec.	
		2011	1 Jan. 2011
Income tax assets	11	20	35
Deferred tax assets	104	139	90
Total tax assets	115	158	125

Deferred tax assets	31 Dec. 2012	31 Dec.	
		2011	1 Jan. 2011
Due to available-for-sale financial assets	7	66	22
Due to depreciation and impairments	1	1	1
Due to provisions and impairments on loans	24	24	26
Cash flow hedge	-	-	2
Due to losses related to taxation	44	61	36
Due to hedging of interest rate risk associated with technical provisions	40	15	-
Due to timing difference of securities issued to the public	26	21	18
Due to consolidation of Group accounts	7	8	8
Due to defined-benefit pension plans	12	1	0
Due to provision for reorganisation arising from personnel reduction	4	-	-
Due to immediate write-off for Vallila commercial property	8	-	-
Due to other items	22	21	16
Set-off against deferred tax liabilities	-91	-80	-40
Total	104	139	90

Deferred tax liabilities	31 Dec. 2012	31 Dec.	
		2011	1 Jan. 2011
Due to appropriations	578	598	584
Due to available-for-sale financial assets	95	2	57
Cash flow hedge	17	5	0
Due to elimination of equalisation provision	139	88	116
Defined benefit pension plans	13	20	49
Due to fair value measurement of investment	75	103	53
Allocation of price of corporate acquisitions	105	79	91
Due to consolidation of Group accounts	-3	-1	2
Due to other items	-2	0	2
Set-off against deferred tax assets	-91	-80	-40
Total	926	815	915
 Net deferred tax asset (+)/liability (-)	 -822	 -676	 -825

Changes in deferred taxes	31 Dec.	
	2012	2011
Deferred tax assets/liabilities 1 January	-676	-825
Recognised in the income statement		
Elimination of capital gains on securities of companies acquired	1	0
Effect of losses	-17	29
Provisions and impairments on receivables	3	3
Appropriations	-51	-50
Amortisation/depreciation and impairments	7	7
Eliminations of equalisation provisions	18	23
Defined-benefit pension plans	-3	-7
Due to hedging of interest rate risk associated with technical provisions	25	16
Investment valuation	37	-64
Change in tax rate 1 Jan. 2012	-	51
Other	12	11

Recognised in statement of comprehensive income

Allocation of purchase price of company acquisitions	-31	-
Available-for-sale financial assets		
Changes in fair value	-125	101
Cash flow hedge	-12	-6
Transfers to the income statement	-33	8
Change in tax rate 1 Jan. 2012	-	-4
Actuarial gains/losses on post-employment benefit obligations	22	36
Change in tax rate 1 Jan. 2012	-	-6
Other	2	-
Total deferred tax assets 31 December, asset (+)/liability (-)	-822	-676
Income tax assets, asset (+)/liability (-)	-52	0
Total tax assets, asset (+)/liability (-)	-874	-676

Tax losses for which a deferred tax asset was not recognised came to EUR 12 million (EUR 112 million) at the end of 2012. The losses will expire before 2022.

A deferred tax liability has not been recognised for the EUR 29 million (EUR 21 million) of undistributed profits of the Baltic subsidiaries, since the assets have been permanently invested in these countries.

Notes to OP-Pohjola Group Financial Statements

NOTES TO LIABILITIES AND EQUITY CAPITAL

Note 32. Liabilities to credit institutions

EUR Million	31 Dec. 2012	31 Dec. 2011
Liabilities to central banks	-	230
Liabilities to credit institutions		
Repayable on demand		
Deposits	104	90
Other liabilities	0	0
Due and ordered for collection from other banks	-	-
Total	104	90
Other than repayable on demand		
Deposits	1,775	1,403
Other liabilities	86	59
Repo liabilities	-	-
Total	1,861	1,462
Total liabilities to credit institutions and central banks	1,965	1,783

Notes to OP-Pohjola Group Financial Statements

NOTES TO LIABILITIES AND EQUITY CAPITAL

Note 33. Financial liabilities at fair value through profit or loss

EUR million	31 Dec. 2012	31 Dec. 2011
Financial liabilities held for trading		
Repo liabilities	-	-
Short selling of securities	3	1
Other	-	-
Total financial liabilities at fair value through profit or loss	3	1

Notes to OP-Pohjola Group Financial Statements

NOTES TO LIABILITIES AND EQUITY CAPITAL

Note 34. Derivative contracts

EUR million	31 Dec. 2012	31 Dec. 2011
Held for trading		
Interest rate derivatives	3,591	2,689
Currency derivatives	6	19
Equity and index derivatives	74	84
Credit derivatives	0	2
Other	28	25
Total	3,698	2,820
Hedging derivative contracts		
Fair value hedging		
Interest rate derivatives	450	399
Currency derivatives	13	13
Equity and index derivatives	-	-
Credit derivatives	-	-
Other	0	0
Cash flow hedge		
Interest rate derivatives	0	0
Other	-	-
Total	464	412
Total derivative contracts	4,162	3,232

The balance sheet item includes negative changes in value of derivative contracts as well as premiums received.

Notes to OP-Pohjola Group Financial Statements

NOTES TO LIABILITIES AND EQUITY CAPITAL

Note 35. Liabilities to customers

EUR million	31 Dec. 2012	31 Dec. 2011
Deposits		
Repayable on demand		
Private	22,564	20,865
Companies and public corporations	11,418	9,624
Total	33,981	30,489
Other		
Private	7,615	8,527
Companies and public corporations	3,415	2,288
Total	11,030	10,815
Total deposits	45,011	41,304
Other financial liabilities		
Repayable on demand		
Private	13	2
Companies and public corporations	3	9
Total	16	10
Other		
Private	2	2
Companies and public corporations	4,621	4,657
Total	4,623	4,659
Total other financial liabilities	4,639	4,670
Total liabilities to customers	49,650	45,974

Notes to OP-Pohjola Group Financial Statements

NOTES TO LIABILITIES AND EQUITY CAPITAL

Note 36. Non-life Insurance liabilities

EUR million	31 Dec.	
	2012	31 Dec. 2011
Insurance liabilities	2,448	2,365
Direct insurance liabilities	123	122
Reinsurance liabilities	13	15
Derivative contracts	3	1
Other	4	4
Total Non-life Insurance liabilities	2,592	2,508

Non-life Insurance contract liabilities and reinsurers' share

EUR million	31 Dec. 2012			31 Dec. 2011		
	Gross	Rein- surers' share	Net	Gross	Rein- surers' share	Net
Provision for unpaid claims for annuities	1,205	-4	1,201	1,155	-3	1,152
Other provisions by case	151	-52	99	147	-80	67
Special provision for occupational diseases	28	-	28	31	-	31
Collective liability (IBNR)	555	-6	550	559	-6	553
Reserved loss adjustment expenses	54	-	54	52	-	52
Provision for unearned premiums	455	-15	440	422	-22	400
Provision for unexpired risks	-	-	-	0	-	0
Total Non-life Insurance contract liabilities	2,448	-76	2,372	2,365	-111	2,254

Changes in insurance contract liabilities and reinsurance contract receivables

EUR million	31 Dec. 2012			31 Dec. 2011		
	Gross	Rein- surers' share	Net	Gross	Rein- surers' share	Net
Provision for unpaid claims						
Provision for unpaid claims 1 Jan.	1,944	-89	1,855	1,847	-60	1,788
Claims paid in financial year	-857	61	-797	-765	33	-733
Change in liability/receivable	863	-33	830	816	-62	754
Current period claims	815	-19	796	784	-63	721
Increase(decrease) from previous financial years	-4	-14	-18	-27	1	-25
Change in discount rate	52	-	52	32	-	32
Other change in reserving basis	-	-	-	27	-	27
Unwinding of discount	43	-	43	45	-	45
Foreign exchange gains (losses)	0	0	0	0	0	0
Provision for unpaid claims 31 Dec.	1,993	-62	1,932	1,944	-89	1,855
Provision for unearned premiums						
Provision for unearned premiums 1 Jan.	422	-22	399	377	-19	357
Increase	418	-5	412	386	-8	378
Decrease	-385	13	-373	-342	5	-337
Foreign exchange gains (losses)	-	-	-	0	-	0
Unwinding of discount	1	-	1	1	-	1
Provision for unearned premiums 31 Dec.	455	-15	440	422	-22	399
Total Non-life Insurance contract liabilities	2,448	-76	2,372	2,365	-111	2,254

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 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 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 2012, the discount rate used was 3.0% (31 Dec. 2011: 3.3%). 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 that claims paid for losses occurred more than 10 years ago are financed through the pay-as-you-go system.

b) Changes in assumptions and methods

As a result of a reduction in the lower discount rate, the provision for unpaid claims for annuities rose by EUR 52 million (32).

Effect of changes in methods and assumptions on amount of liability	2012	2011
EUR million (increase +/-decrease - in liability)	-	-
Change in discount rate	52	32
Change in reserving basis of collective liability	-	-
Adjustment to calculation of unearned premium provision	-	-
Change in the mortality model	-	27
Provision for change in the mortality model	-	-
Total	52	59

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 five 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 values of confirmed pensions were recognised as if they had been paid to the amount confirmed. As to the long-term liabilities, that is, confirmed pensions and asbestos damage, information on the sufficiency of contract liability has been presented.

Claims triangles, gross business (EUR million)

Occurrence year	2005	2006	2007	2008	2009	2010	2011	2012	Total
Estimated total claims expenditure									
0*	540	603	638	707	666	738	784	815	5,491
n+1	540	611	633	693	633	746	751	-	-
n+2	535	591	627	691	640	744	-	-	-
n+3	529	594	622	689	641	-	-	-	-
n+4	532	594	622	704	-	-	-	-	-
n+5	532	587	647	-	-	-	-	-	-
n+6	529	587	-	-	-	-	-	-	-
n+7	536	-	-	-	-	-	-	-	-
Current estimate of accumulated claims expenditure									
	536	587	647	704	641	744	751	815	5,424
Accumulated claims paid									
	-508	-556	-609	-642	-570	-648	-607	-450	-4,591
Provision for unpaid claims for 2005-2012									
	27	30	37	62	71	96	144	365	834
Provision for unpaid claims for previous years									187

* = at the end of the occurrence year

Development of claims due to latent occupational diseases, (EUR million)

Financial year	Collective liabilities for liability	Known 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

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

* 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	2005	2006	2007	2008	2009	2010	2011	2012	Total
Estimated total claims expenditure									
0*	511	580	621	656	649	693	721	796	5,228
n+1	519	593	623	656	620	707	697	-	-
n+2	509	575	619	658	629	705	-	-	-
n+3	509	577	615	656	629	-	-	-	-
n+4	513	577	615	670	-	-	-	-	-
n+5	513	569	624	-	-	-	-	-	-
n+6	513	569	-	-	-	-	-	-	-
n+7	518	-	-	-	-	-	-	-	-
Current estimate of accumulated claims expenditure									
	518	569	624	670	629	705	697	796	5,208
Accumulated claims paid									
	-481	-489	-525	-569	-592	-538	-565	-392	-4,430
Provision for unpaid claims for 2005-2012									
	26	30	36	61	63	91	116	354	778
Provision for unpaid claims for previous years									181

* = 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 24 million (34). The change in technical interest, EUR 52 million, added to claims incurred. The change in technical interest, EUR 32 million, and in the mortality model, EUR 27 million, added to claims incurred in 2011. 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 2012, liabilities related to claims administration contracts totalled EUR 80 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.

Notes to OP-Pohjola Group Financial Statements

NOTES TO LIABILITIES AND EQUITY CAPITAL

Note 37. Life Insurance liabilities

EUR million	31 Dec. 2012	31 Dec. 2011
Unit-linked contract liabilities	5,357	3,257
Liabilities for unit-linked insurance contracts	4,288	3,210
Liabilities for unit-linked investment contracts	1,069	47
Other than unit-linked contract liabilities	3,592	3,665
Other insurance liability than guaranteed portion of unit-linked insurance	3,577	3,642
Liability for bonus reserves under insurance contracts	1	3
Other liability than guaranteed portion of unit-linked investment contracts	14	21
Liability for bonus reserves under investment contracts	-	-
Derivative contracts	0	0
Other liabilities		
Accrued expenses and deferred income	3	1
Other		
Direct insurance operations	1	1
Reinsurance operations	3	3
Other	15	6
Total	21	10
Total Life Insurance liabilities	8,970	6,932

Changes in insurance liabilities 2012

Liabilities, EUR million	1 Jan. 2012	Growth in liability arising from insurance premiums	Dis- charged liabilities	Credited interest and changes in value	Other charges and credits	Other items	31 Dec. 2012
Unit-linked contract liabilities	3,257	652	-328	366	-35	1,445	5,357
Liabilities for unit-linked insurance contracts	3,210	600	-247	335	-26	414	4,287
Liabilities for unit-linked investment contracts	47	51	-81	31	-9	1,031	1,070
Other than unit-linked contract liabilities	3,633	234	-392	109	-82	57	3,560
Other insurance liability than unit-linked liability discounted with interest rate guarantee	3,548	233	-383	109	-82	-71	3,354
Other liability than unit-linked investment contracts discounted with interest rate guarantee	21	1	-9	0	0	1	14
Liability for bonus reserves	3					-1	1
Reserve for decreased discount rate	0	0	0	0	0	28	28
Effect of discounting with market interest rate	62	0	0	0	0	101	163
Other items	32	0	0	0	0	0	32
Total	6,922	886	-720	475	-116	1,502	8,949

Other items for 2012 include EUR 1,362 million in liability of the date of acquisition of Aurum Investment Insurance.

The dependence of unit-linked contracts is the policyholder's choice. At company level, the value change cannot be compared with any benchmark index. Similarly, return from guaranteed-interest investment contracts cannot reliably be compared with any benchmark index. The return is based on the return on assets covering the liability and management judgement when it distributes customer bonuses. Company assets have no benchmark.

Changes in insurance liabilities 2011

Liabilities, EUR million	1 Jan. 2011	Growth in liability arising from insurance premiums	Dis- charged liabilities	Credited interest and changes in value	Other charges and credits	Other items	31 Dec. 2011
Unit-linked contract liabilities	3,140	555	-306	-413	-25	305	3,257
Liabilities for unit-linked insurance contracts	3,094	495	-252	-408	-24	305	3,210
Liabilities for unit-linked investment contracts	47	61	-54	-6	0	0	47
Other than unit-linked contract liabilities	4,013	256	-464	124	-43	-253	3,633
Other insurance liability than unit-linked liability discounted with interest rate							

guarantee	3,958	241	-441	123	-78	-255	3,548
Other liability than unit-linked investment contracts discounted with interest rate guarantee	26	15	-23	1	0	3	21
Liability for bonus reserves	30	0	0	0	-27	0	3
Reserve for decreased discount rate	0	0	0	0	0	0	0
Effect of discounting with market interest rate	0	0	0	0	62	0	62
Other items	33	0	0	0	0	-1	32
Total	7,186	811	-770	-290	-68	51	6,922

When determining the liabilities related to insurance and investment contracts other than unit-linked contracts and to unit-linked policies, OP-Pohjola Group has complied with the Finnish Accounting Standards, with the exception of two principles. The equalisation provision is not insurance contract liability as stated in IFRS but part of equity capital. Moreover, in 2011 the Group started using a technical provision discount rate that is closer to the current interest rate. Insurance and capital redemption contract savings have been entered in the life insurance company's balance sheet at its own investment risk with their interest rate guarantees ranging between 1.5% and 4.5% and discounted to the amount of the interest guarantee in the national financial accounts' technical provisions. Part of the interest rate risk between the market and discount rate has been hedged using interest rate derivatives, the value of which has been entered as part of the liability from insurance and capital redemption contracts.

Other items for 2012 include liability of the date of acquisition of Aurum Investment Insurance.

Unit-linked investment contracts are measured at fair value.

The liability of unit-linked policies is valued at the market values of assets associated with contracts on the balance sheet date.

Life insurance liabilities act as term life insurance liabilities.

Amounts recovered from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and are recognised in the balance sheet separately.

Group pension insurance liabilities were increased in 2011 and 2012 owing to the higher life expectancy.

Notes to OP-Pohjola Group Financial Statements

NOTES TO LIABILITIES AND EQUITY CAPITAL

Note 38. Debt securities issued to the public

EUR million	Average interest rate %	31 Dec. 2012	Average interest rate % 31 Dec. 2011	
Bonds	2.32	13,764	2.86	11,644
Other				
Certificates of deposit	0.48	1,535	1.59	3,493
Commercial paper	0.49	3,979	1.31	4,689
Money market debt securities	-	-	-	-
Other	0.51	144	0.75	297
Included in own portfolio in trading (-)*		-152		-119
Total debt securities issued to the public		19,270		20,005

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

Most significant issues in 2012	Nominal amount	Interest rate
OP Mortgage Bank		
OP Mortgage Bank Coverage Bond 5/2012	1,250	Fixed 1.625
Pohjola Bank plc		
Pohjola Bank plc Issue of GBP 200,000,000 Floating Rate Instruments due 23 September 2013 under the EUR 15,000,000,000 Programme for the Issuance of Debt Instruments	245	GBL3M + 0.12%
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%
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	72.3	GBL3M + 0.36%
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%
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	306.3	GBL3M + 0.55%
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%
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%

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%
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%
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%

Notes to OP-Pohjola Group Financial Statements

NOTES TO LIABILITIES AND EQUITY CAPITAL

Note 39. Provisions and other liabilities

EUR million	31 Dec. 2012	31 Dec. 2011
Provisions	15	1
Other liabilities		
Payment transfer liabilities	1,062	864
Accrued expenses		
Interest payable	920	1,026
Other accrued expenses	368	356
Other	933	593
Total	3,282	2,839
Total provisions and other liabilities	3,297	2,840

Other' under Other liabilities includes EUR 49 million (EUR 7 million) in accounts payable on securities, EUR 55 million (EUR 15 million) in pension liabilities, EUR 703 million (EUR 34 million) in liabilities for derivative contracts and EUR 126 million (EUR 538 million) in other accounts payable.

Changes in provisions

EUR million	Reorganisation	Other provisions	Total
1 Jan. 2011			
Increase in provisions	14	0	14
Provisions used	-	-	-
Reversal of unused provisions	-	-	-
31 Dec. 2011	14	0	14

Reorganisation

The reorganisation provision derives from expenses arising from personnel reduction. This provision will mainly be realised during 2013.

Defined benefit pension plans

OP-Pohjola Bank Group has funded assets of its pension schemes through OP-Pohjola Group Pension Fund, OP-Pohjola Group Pension Foundation and insurance companies. Schemes related to supplementary pensions 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.

	31 Dec.		
	2012	31 Dec. 2011	1 Jan. 2011
Balance sheet values of defined benefit pension plans			
Fair value of assets	1,394	1,304	1,410
Present value of funded obligations (-)	-1,396	-1,229	-1,224
Present value of unfunded obligations	-4	-4	-4
Net receivable (+)/ liability (-)	-6	71	182
Assets and liabilities recognised in the balance sheet			
Assets	49	86	194
Liabilities	-55	-15	-13
Net assets (+) / liabilities (-)	-6	71	182
Plan assets include			
Pohjola Bank plc shares	58	40	49
Securities issued by companies included in OP-Pohjola Bank Group	25	10	46
Other receivables from companies included in OP-Pohjola Bank Group	57	117	-
Properties used by OP-Pohjola Bank Group	27	23	12
Total	167	190	107
Defined benefit pension costs in the income statement			
Current service cost	26	25	
Interest cost	54	54	
Expected return on plan assets	-74	-90	
Transfer from TEL pooling liability	-	-	
Past service costs	-	-	
Effect of curtailment of plans or settlements	-2	0	
Total defined benefit pension costs in income statement	4	-11	
Actuarial gains (+)/losses (-) recognised in other comprehensive income during financial year	-90	-137	
Cumulative actuarial gains (+)/losses (-) recognised in other comprehensive income	-500	-409	-272
Actual return on plan assets	120	-75	

The expected long-term return on plan assets within the pension schemes is based on long-term time series and analyses of risk premiums for various asset classes. The expected return has been defined consistently, taking account of historical returns, the current market status and the strategic allocation of assets.

Changes in present value of obligation	31 Dec.	
	2012	31 Dec. 2011
Present value of obligation 1 January	1,233	1,228
Current service cost	26	25
Interest cost	54	54
Actuarial gains and losses	127	-34
Exchange rate differences	-	-
Benefits paid	-46	-45
Past service cost	-	-
Business combinations	-	-
Curtailment of plan	-2	-
Settlement of obligation	-2	-2
Return on TyEL interest rate difference and growth in old-age pension liabilities (net)	9	6
Change in division ratio	-	-
Present value of obligation 31 December	1,400	1,233

Changes in fair value of assets	31 Dec.	
	2012	31 Dec. 2011
Fair value of assets 1 January	1,304	1,410
Expected return on plan assets	74	90
Actuarial gains and losses	37	-171
Employer contributions	17	17
Benefits paid	-46	-45
Settlement of obligation	-2	-2
Return on TyEL interest rate difference and growth in old-age pension liabilities (net)	9	6
Change in division ratio	-	-
Fair value of assets 31 December	1,394	1,304

Contributions payable to the defined benefit plan in 2013 are estimated at EUR 12 million.

Proportion of most important asset groups of total fair value of plan assets, %	31 Dec.		
	2012	31 Dec. 2011	1 Jan. 2011
Shares and participations	20	20	33
Notes and bonds	46	41	42
Property	13	13	18
Other assets	21	26	7
Total	100	100	100

Principal actuarial assumptions used	31 Dec.	
	2012	31 Dec. 2011
Discount rate, %	3.50	4.50
Expected long-term return on plan assets, %	3,50-5,10	4,61-5,90
Assumed future salary increase, %	3.00	3.00
Future pension increases, %	2,00-2,10	2,00-2,40
Turnover rate, %	0,00-3,00	0,00-3,00
Inflation, %	2.00	2.00
Average remaining service time in years	1-21	1-19

A decline in the discount rate was the most substantial change in actuarial assumptions in the financial statements 2012. This decline increases pension obligations and actuarial losses recognised in other comprehensive income. The effect of a 0.1-percentage point change in the discount rate on the financial statements 2012 is around EUR+/- 22 million.

Surplus of defined benefit pension plans and experience adjustments	31 Dec. 2012	31 Dec. 2011	1 Jan. 2011	31 Dec. 2010	31 Dec. 2009	31 Dec. 2008
Present value of obligation	1,400	1,233	1,228	1,228	1,119	992
Fair value of assets	-1,394	-1,304	-1,410	-1,410	-1,278	-1,148
Surplus (-) or deficit (+)	6	-71	-182	-182	-159	-156
Experience adjustment on liabilities	-43	-35	-14	-14	-24	-52
Experience adjustments on assets	37	-171	63	63	60	-299

Notes to OP-Pohjola Group Financial Statements

NOTES TO LIABILITIES AND EQUITY CAPITAL

Note 40. Tax liabilities

EUR million	31 Dec.		
	2012	31 Dec. 2011	1 Jan. 2011
Income tax liabilities	64	19	34
Deferred tax liabilities	926	815	915
Total tax liabilities	990	834	948

Notes to OP-Pohjola Group Financial Statements

NOTES TO LIABILITIES AND EQUITY CAPITAL

Note 41. Cooperative capital

EUR million	31 Dec. 2012	31 Dec. 2011
Cooperative capital	5	5
Supplementary cooperative capital	617	619
Total cooperative capital	622	624
of which cancelled cooperative capital	78	90

Cooperative capital and supplementary cooperative capital included in equity in the national financial statements of OP-Pohjola Group member cooperative banks are classified as liability in IFRS financial statements, as member banks do not have an absolute right to refuse to return the capital to members.

Cooperative capital is returned to members in a year from the end of the financial period during which the related demand was made. Supplementary cooperative capital is returned in six months from the end of the financial period during which the related demand was made.

In 2006–2007, regulations on member banks' cooperative capital were amended in such a way that member banks have the right to refuse to return cooperative capital to their members. Owing to this amendment, EUR 4 million (EUR 1 million) in member banks' cooperative capital has been transferred from liabilities to equity.

Notes to OP-Pohjola Group Financial Statements

NOTES TO LIABILITIES AND EQUITY CAPITAL

Note 42. Subordinated liabilities

EUR million	Average interest rate %	31 Dec. 2012	Average interest rate % 31 Dec. 2011	
Subordinated loans	3.17	210	3.77	241
Other				
Perpetual loans	0.00	0	5.08	256
Debentures	5.22	904	4.86	433
Other	-	-	-	-
Total subordinated liabilities		1,114		931

Main terms and conditions of the subordinated loans are as follows:

Innovative instruments included in Tier 1

1) Subordinated loan of 10 billion Japanese yen (equivalent of EUR 88.0 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) Perpetual bond 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 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) Perpetual bond of EUR 60 million

This perpetual loan 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 Supervision 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) Perpetual bond 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 dates of interest payment. 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. 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 16.3 million in change in fair value recognised for hedging (18.1).

Perpetual loans and debentures

- 1) A debenture loan of EUR 170 million which can be called in at the earliest on 25 March 2013, subject to authorisation by the Financial Supervisory Authority. The loan carries a fixed interest of 5.75%. If the loan is not called in early, the accrued interest will be based on 3-month Euribor + 1.9% + 1.50%.
- 2) A debenture loan of EUR 100 million, which is a five-year bullet loan, will mature on 23 December 2013. The loan carries a variable 12-month Euribor rate + 2.25%
- 3) A debenture loan of CHF 100 million (euro equivalent 83 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.
- 4) 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.
- 5) 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 1–5 were issued in international capital markets.

Fixed-rate debentures issued in Finland totalled EUR 0.7 million (EUR 1.9 million) on 31 December 2012.

Issue date	Carrying amount, EUR million	Interest rate, %	Due date
3/3/2008	0.7	4.1	3 March 2013

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 2 million recognised for the price difference of the loans (0).

Other subordinated loans

On 27 October 1999, OP Life Assurance Company issued a subordinated loan worth EUR 25,830,000 with a fixed coupon rate of 7.0% for 70 years.

On 20 September 2001, OP Life Assurance Company issued a subordinated loan worth EUR 10,000,000 with a fixed coupon rate of 6.15% for 10 years.

Notes to OP-Pohjola Group Financial Statements

NOTES TO LIABILITIES AND EQUITY CAPITAL

43. Equity capital

EUR million	31 Dec. 2012	31 Dec. 2012	1 Jan. 2011
Capital and reserves attributable to OP-Pohjola Group owners			
Share and cooperative capital (incl. share issue)	336	333	368
Reserves			
Restricted reserves			
Share premium account	478	477	514
Reserve fund	799	793	803
Reserves according to the Articles of Association/regulations	-	-	-
Fair value reserve			
Cash flow hedge	48	10	-6
Translation differences	-	-	-
Measurement at fair value			
Notes and bonds	85	-181	-75
Shares and participations	207	-17	194
Other restricted reserves	2	1	1
Non-restricted reserves			
Reserve for invested non-restricted equity	143	143	164
Other non-restricted reserves	1,261	1,207	1,174
Retained earnings			
Profit (loss) for previous financial years	3,270	3,038	2,963
Profit (loss) for the financial year	482	436	440
Equity capital attributable to OP-Pohjola Group's owners	7,110	6,239	6,539
Non-controlling interests	24	3	0
Total equity capital	7,134	6,242	6,539

The fair value reserve before tax amounted to EUR 449 million (-249) and the related deferred tax liability amounted to EUR 110 million (deferred tax asset of 61). On 31 December, positive mark-to-market valuations of equity instruments in the fair value reserve totalled EUR 260 million (198) million and negative mark-to-market valuations EUR 21 million (211). During 2007-12, impairment charges recognised from the fair value reserve in the income statement totalled EUR 632 million, of which EUR 55 million were recognised in 2012.

Share capital and shares

OP-Pohjola Group's share capital consists of investments made in Pohjola Bank's Series A shares by shareholders external to the banking group. These shareholders may hold only Pohjola Bank's Series A shares quoted on the NASDAQ OMX Helsinki. The shares have no nominal value. The stated value of each share is EUR 1.34 (not an exact figure).

Changes in shareholdings of external shareholders

	Number of shares (1,000)
1 Jan. 2011	176,405
Exercise of stock options	-
Equity trades with external parties	-26,544
31 Dec. 2011	149,861
Exercise of stock options	-
Equity trades with external parties	-757
31 Dec. 2012	149,104

Cooperative capital

Cooperative capital, included in OP-Pohjola Group's equity capital, comprises such cooperative contributions paid by members of OP-Pohjola Group member cooperative banks which the member banks have the absolute right to refuse to return.

Reserves

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 nominal value paid for shares in a rights issue; amounts paid for share subscriptions based on stock options and convertible bonds; capital gains on disposal of treasury shares; the amount of the reduction of share capital which is not used to cover confirmed loss, is not transferred to a reserve to be used in accordance with a decision by the General Meeting of Shareholders or is not distributed to shareholders; payouts on unsubscribed shares that must be paid when a limited liability company is established; any payouts to the company resulting from shares that have been sold because the shareholder has not included the shares in the book-entry system; and payment received for a share that was not claimed at the capitalisation issue.

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. Since 1 September 2006, it has no longer been possible to increase the share premium account.

Reserve fund

The reserve fund consists of profits transferred to it during previous periods and of the portion transferred to it from member cooperative banks' revaluation reserves and loan loss provisions. The reserve fund may be used to cover losses for which non-restricted equity capital is not sufficient. The reserve fund may also be used to raise the share capital and it can be lowered in the same way as the share capital. In cooperative credit institutions, the reserve fund can only be used to cover losses. In a limited liability company, it has not been possible to increase the reserve fund since 1 September 2006.

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 other rules describing their purpose.

Reserve for invested non-restricted equity

Capital raised by Pohjola Bank plc through its 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 the Articles of Association or other rules, or decisions taken by the General Meeting, Representatives' Meeting, or Cooperative 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 of insurance companies, which have been recognised in retained earnings less deferred tax in the IFRS financial statements.

Notes to OP-Pohjola Group Financial Statements

OTHER NOTES TO THE BALANCE SHEET

Note 44. Notes and bonds eligible for central bank refinancing

EUR million	31 Dec. 2012	31 Dec. 2011
Financial assets at fair value through profit or loss	96	109
Available for sale		
Measured at fair value	4,625	6,258
Measured at cost	-	-
Held to maturity	316	577
Total notes and bonds eligible for central bank refinancing	5,037	6,943

Only Pohjola Bank plc within OP-Pohjola Group is eligible for central bank refinancing.

Notes to OP-Pohjola Group Financial Statements

OTHER NOTES TO THE BALANCE SHEET

Note 45. Subordinated notes and bonds

EUR million	31 Dec. 2012	31 Dec. 2011
Publicly quoted		
From public corporations	2	1
From others	1	-
Total	4	1
Other		
From public corporations	-	-
From others	1	1
Total	1	1
Total included financial assets at fair value through profit or loss	5	2
 Investment assets		
Publicly quoted		
From public corporations	-	-
From others	17	0
Total	17	0
Other		
From public corporations	-	-
From others	1	18
Total	1	18
Total included in investment assets	18	18

Notes to OP-Pohjola Group Financial Statements

OTHER NOTES TO THE BALANCE SHEET

Note 46. Collateral given

	31 Dec. 2012	31 Dec. 2011
EUR million	Balance sheet value	Balance sheet value
Given on behalf of own liabilities and commitments		
Mortgages	1	1
Pledges	4,633	6,834
Others	583	492
Total	5,218	7,327
Given on behalf of associates		
Mortgages	-	-
Pledges	-	-
Others	-	-
Total	-	-
Given on behalf of others		
Mortgages	-	-
Pledges	-	-
Others	-	-
Total	-	-
Total collateral given		
Mortgages	1	1
Pledges	4,633	6,834
Others	583	492
Total	5,218	7,327
Total collateralised liabilities	592	765

Notes to OP-Pohjola Group Financial Statements

OTHER NOTES TO THE BALANCE SHEET

Note 47. Financial collateral held

Within OP-Pohjola Group, Pohjola Bank has received collateral, in accordance with the Financial Collateral Act, which it may resell or repledge.

Fair value of collateral received	31 Dec. 2012	31 Dec. 2011
Notes and bonds	-	-
Equities	-	-
Other	568	409
Total	568	409

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 568 million on the balance sheet date (409). The Group had no securities received as collateral on the balance sheet date.

Notes to OP-Pohjola Group Financial Statements

OTHER NOTES TO THE BALANCE SHEET

Note 48. Classification of assets and liabilities

Assets, EUR million	Loans and other receivables	Investments held to maturity	Financial assets at fair value through profit or loss*	Available-for-sale financial assets	Hedging derivatives	Carrying amount total
Cash and balances with central banks	5,784	-	-	-	-	5,784
Receivables from credit institutions and central banks	840	-	-	-	-	840
Derivative contracts	-	-	3,733	-	703	4,436
Receivables from customers	65,161	-	-	-	-	65,161
Non-life Insurance assets**	558	-	132	2,802	-	3,492
Life Insurance assets***	305	-	5,746	3,122	-	9,173
Notes and bonds	-	401	266	5,446	-	6,113
Shares and participations	-	-	91	327	-	418
Other receivables	3,929	-	423	-	-	4,352
Total 31 December 2012	76,577	401	10,392	11,696	703	99,769

Assets, EUR million	Loans and other receivables	Investments held to maturity	Financial assets at fair value through profit or loss*	Available-for-sale financial assets	Hedging derivatives	Carrying amount total
Cash and balances with central banks	4,376	-	-	-	-	4,376
Receivables from credit institutions and central banks	1,104	-	-	-	-	1,104
Derivative contracts	-	-	2,897	-	410	3,307
Receivables from customers	60,331	-	-	-	-	60,331
Non-life Insurance assets**	567	-	104	2,534	-	3,205
Life Insurance assets***	342	-	3,525	3,139	-	7,006
Notes and bonds	-	753	212	6,923	-	7,888
Shares and participations	-	-	69	256	-	325
Other receivables	3,953	-	411	-	-	4,364
Total 31 December 2011	70,672	753	7,219	12,852	410	91,905

Liabilities, EUR million	Financial liabilities at fair value through profit or loss****	Other liabilities	Hedging derivatives	Carrying amount total
Liabilities to credit institutions	-	1,965	-	1,965
Financial liabilities held for trading (excl. derivatives)	3	-	-	3
Derivative contracts	3,743	-	419	4,162
Liabilities to customers	-	49,650	-	49,650
Non-life Insurance liabilities	3	2,589	-	2,592
Life Insurance liabilities	5,371	3,600	-	8,970
Debt securities issued to the public	-	19,270	-	19,270
Subordinated loans	-	1,114	-	1,114
Other liabilities	-	4,909	-	4,909
Total 31 December 2012	9,119	83,097	419	92,635

Liabilities, EUR million	Financial liabilities at fair value through profit or loss****	Other liabilities	Hedging derivatives	Carrying amount total
Liabilities to credit institutions	-	1,783	-	1,783
Financial liabilities held for trading (excl. derivatives)	1	-	-	1
Derivative contracts	2,837	-	395	3,232
Liabilities to customers	-	45,974	-	45,974
Non-life Insurance liabilities	1	2,507	-	2,508
Life Insurance liabilities	3,278	3,654	-	6,932
Debt securities issued to the public	-	20,005	-	20,005
Subordinated loans	-	931	-	931
Other liabilities	-	4,298	-	4,298
Total 31 December 2011	6,117	79,151	395	85,663

*Assets at fair value through profit or loss include financial assets for trading, financial assets at fair value through profit or loss at inception, and investments and investment property covering unit-linked contracts.

**Non-life Insurance assets are specified in Note 21.

**Life Insurance assets are specified in Note 22.

****Includes the balance sheet value of insurance liabilities related to unit-linked contracts.

Debt securities issued to the public are carried at amortised cost.

On 31 December 2012, the fair value of these debt instruments was approximately EUR 198 million higher than their carrying amount, based on information available in markets and employing commonly used valuation techniques.

Subordinated liabilities are carried at amortised cost. Their fair values are lower than the carrying amounts, but it is difficult to determine fair values reliably in the current market situation.

Notes to OP-Pohjola Group Financial Statements

OTHER NOTES TO THE BALANCE SHEET

Note 49. Financial instruments recognised at fair value, grouped by valuation technique

31 Dec. 2012				
Fair value				
Financial assets measured at fair value, EUR million	Level 1*	Level 2**	Level 3***	Total
Financial assets at fair value through profit or loss				
Banking	125	209	23	358
Non-life Insurance	-	13	6	19
Life Insurance	-	7	80	87
Derivatives				
Banking	7	4,403	25	4,436
Non-life Insurance	1	0	-	1
Life Insurance	-	130	-	130
Available-for-sale financial assets				
Banking	4,514	1,209	49	5,772
Non-life Insurance	1,799	759	244	2,802
Life Insurance	1,626	789	707	3,122
Total	8,072	7,520	1,135	16,727

31 Dec. 2011				
Fair value				
Financial assets measured at fair value, EUR million	Level 1*	Level 2**	Level 3***	Total
Financial assets at fair value through profit or loss				
Banking	105	164	13	281
Non-life Insurance	-	-	6	6
Life Insurance	-	-	93	93
Derivatives				
Banking	15	3,271	21	3,307
Non-life Insurance	0	0	-	0
Life Insurance	-	50	-	50
Available-for-sale financial assets				
Banking	5,869	1,262	47	7,179
Non-life Insurance	1,725	552	257	2,534
Life Insurance	2,011	392	737	3,139
Total	9,725	5,691	1,173	16,590

31 Dec. 2012				
Fair value				
Financial liabilities measured at fair value, EUR million	Level 1*	Level 2**	Level 3***	Total
Financial liabilities at fair value through profit or loss				
Banking	-	3	-	3
Non-life Insurance	-	-	-	-
Life Insurance	-	-	-	-
Derivatives				
Banking	21	4,056	85	4,162
Non-life Insurance	3	0	-	3
Life Insurance	-	-	-	-
Total	23	4,059	85	4,168

31 Dec. 2011				
	Fair value			
Financial liabilities measured at fair value, EUR million	Level 1*	Level 2**	Level 3***	Total
Financial liabilities at fair value through profit or loss				
Banking	1	-	-	1
Non-life Insurance	-	-	-	-
Life Insurance	-	-	-	-
Derivatives				
Banking	23	3,113	96	3,232
Non-life Insurance	0	0	-	1
Life Insurance	-	0	-	-
Total	24	3,114	96	3,234

* 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 market quotes.

** 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.

*** 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, illiquid bonds, structured bonds, including securitised bonds and structured debt securities, and hedge funds.

Transfers between levels of the fair value hierarchy

During 2012, EUR 130 million in bonds were transferred from level 1 to level 2, due to changes in credit ratings.

Reconciliation of Level 3 items

Specification of financial assets and liabilities

Financial assets, EUR million	Financial assets at fair value through profit or loss		Available-for-sale financial assets		Derivative contracts		Total assets
	Banking	Insurance	Banking	Insurance	Banking	Insurance	
Opening balance 1 Jan 2012	13	99	47	993	21	-	1,173
Total gains/losses in profit or loss	10	3	0	-11	4	-	7
Total gains/losses in other comprehensive income	-	0	1	19	-	-	21
Purchases	-	-	0	132	-	-	132
Sales	0	-11	0	-182	-	-	-193
Issues	-	-	-	-	-	-	-
Settlements	0	-5	0	0	-	-	-5
Transfers into Level 3	-	-	-	-	-	-	-
Transfers out of Level 3	-	-	-	-	-	-	-
Closing balance 31 Dec 2012	23	87	49	951	25	-	1,135

Financial assets, EUR million	Financial assets at fair value through profit or loss		Available-for-sale financial assets		Derivative contracts		Total assets
	Banking	Insurance	Banking	Insurance	Banking	Insurance	
Opening balance 1 Jan 2011	14	124	61	936	65	-	1,199
Total gains/losses in profit or loss	1	4	-1	-10	-43	-	-50
Total gains/losses in other comprehensive income	-	-	2	37	-	-	38
Purchases	-	-	3	229	-	-	232
Sales	-2	-28	-15	-195	-	-	-241
Issues	-	-	-	-	-	-	-
Settlements	0	-1	0	-3	-	-	-5
Transfers into Level 3	-	-	-	-	-	-	-
Transfers out of Level 3	-	-	-	-	-	-	-
Closing balance 31 Dec 2011	13	99	47	993	21	-	1,173

Financial liabilities, EUR million	Banking	Insurance	Available-for-sale financial assets		Derivative contracts		Total assets
			Banking	Insurance	Banking	Insurance	
Opening balance 1 Jan 2012	-	-	-	-	96	-	96
Total gains/losses in profit or loss	-	-	-	-	-11	-	-11
Total gains/losses in other comprehensive income	-	-	-	-	-	-	-
Purchases	-	-	-	-	-	-	-
Sales	-	-	-	-	-	-	-
Issues	-	-	-	-	-	-	-
Settlements	-	-	-	-	-	-	-
Transfers into Level 3	-	-	-	-	-	-	-
Transfers out of Level 3	-	-	-	-	-	-	-
Closing balance 31 Dec 2012	-	-	-	-	85	-	85

Financial liabilities, EUR million	Banking	Insurance	Available-for-sale financial assets		Derivative contracts		Total assets
			Banking	Insurance	Banking	Insurance	
Opening balance 1 Jan 2011	-	-	-	-	56	-	56
Total gains/losses in profit or loss	-	-	-	-	39	-	39
Total gains/losses in other comprehensive income	-	-	-	-	-	-	-
Purchases	-	-	-	-	-	-	-
Sales	-	-	-	-	-	-	-
Issues	-	-	-	-	-	-	-
Settlements	-	-	-	-	-	-	-
Transfers into Level 3	-	-	-	-	-	-	-
Transfers out of Level 3	-	-	-	-	-	-	-
Closing balance 31 Dec 2011	-	-	-	-	96	-	96

Total gains/losses included in profit or loss by item for the financial year on 31 Dec 2012

						Total gains/ losses for the financial year included in profit or loss for assets/ liabilities held at year-end
EUR Million	Net interest income or net trading income	Net income from investment income	Net income from Non-life Insurance	Net income from Life Insurance	Statement of compre- hensive income	
Total gains/losses in profit or loss	3	0	-4	-4	21	17
Total	3	0	-4	-4	21	17

Total gains/losses included in profit or loss by item for the financial year on 31 Dec 2011

						Total gains/ losses for the financial year included in profit or loss for assets/ liabilities held at year-end
EUR million	Net interest income or net trading income	Net income from investment income	Net income from Non-life Insurance	Net income from Life Insurance	Statement of compre- hensive income	
Total gains/losses in profit or loss	-3	-1	-5	-2	38	28
Total	-3	-1	-5	-2	38	28

Derivatives included in Level 3 comprise structured derivatives for customer needs, whose market risk is covered by a corresponding derivatives contract. Level 3 derivatives relate to structured bonds issued by Pohjola, whose return is determined by the value performance of an embedded derivative instrument. The value change of embedded derivatives are also presented in the itemised income statement.

Sensitivity of Level 3 measurements to reasonably possible alternative assumptions

The Group did not change classification between the levels of hierarchy in 2012.

Notes to OP-Pohjola Group Financial Statements

NOTES TO CONTINGENT LIABILITIES AND DERIVATIVES

Note 50. Off-balance-sheet commitments

	31 Dec. 2012	31 Dec. 2011
Guarantees	948	1,084
Other guarantee liabilities	1,688	1,612
Pledges	3	2
Loan commitments	10,855	10,363
Commitments related to short-term trade transactions	455	248
Other	479	606
Total off-balance-sheet commitments	14,428	13,914

Notes to OP-Pohjola Group Financial Statements

NOTES TO CONTINGENT LIABILITIES AND DERIVATIVES

Note 51. Contingent liabilities and assets

Insurance companies belonging to OP-Pohjola 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.

In May 2013, Pohjola Bank plc will have the right and obligation to buy 5% of Access Capital Partners Group S.A shares. On 31 December 2010, the fair value of this shareholding amounted to EUR 3.5 million.

In May 2011, Pohjola Insurance Ltd acquired Excenta Ltd, a strategic corporate wellness services provider, from its management and Elisa Corporation. For 2013, Pohjola Insurance Ltd is obliged to pay an additional purchase price to sellers as private persons, if Pohjola Group's wellbeing/wellness business achieves its target for net sales and EBDIT. The additional purchase price (acquisition cost) will be calculated after the adoption of the financial statements for the year concerned.

Notes to OP-Pohjola Group Financial Statements

NOTES TO CONTINGENT LIABILITIES AND DERIVATIVES

Note 52. Operating leases

OP-Pohjola Group as Lessee

Some OP-Pohjola Group companies have leased the office 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. OP-Pohjola Group companies have subleased some of their premises. In addition, some companies have leased motor vehicles and office equipment. Other operating expenses include EUR 27 million (26) in rental expenses.

Future minimum lease payments under non-cancellable operating leases

EUR million	31 Dec. 2012	31 Dec. 2011
No later than 1 year	13	13
Later than 1 year and no later than 5 years	27	30
Later than 5 years	1	1
Total	41	44
Expected future minimum lease payments from non-cancellable subleases	8	11

OP-Pohjola Group as Lessor

OP-Pohjola Group companies have leased out investment properties they own, which generated lease income of EUR 65 million (63) in 2012. In addition, the Group has primarily leased out passenger cars, which generated lease income of EUR 8 million (16).

Future minimum lease payments receivable under non-cancellable operating leases

EUR million	31 Dec. 2012	31 Dec. 2011
No later than 1 year	46	52
Later than 1 year and no later than 5 years	95	87
Later than 5 years	68	53
Total	209	191

Notes to OP-Pohjola Group Financial Statements

NOTES TO CONTINGENT LIABILITIES AND DERIVATIVES

Note 53. Derivative contracts

Derivatives held for trading 31 December 2012

	Nominal values/residual maturity				Fair values		Potential future exposure
EUR million	<1 year	1–5 years	>5 years	Total	Assets	Liabilities	
Interest rate derivatives							
Interest rate swaps	12,191	48,510	29,444	90,145	3,371	2,880	4,054
Forward rate agreements	260	-	-	260	0	0	0
OTC interest rate options							
Call and caps							
Purchased	4,381	5,883	1,781	12,045	373	7	427
Written	3,919	4,234	1,959	10,112	0	348	-
Put and floors							
Purchased	7,805	3,078	734	11,617	147	0	173
Written	8,405	3,335	702	12,442	-	69	-
Total OTC interest rate derivatives	36,961	65,041	34,620	136,621	3,891	3,304	4,655
Interest rate futures	2,694	2,958	142	5,793	1	5	-
Interest rate options							
Call							
Purchased	-	-	-	-	-	-	-
Written	-	-	-	-	-	-	-
Put							
Purchased	1,000	-	-	1,000	-	0	-
Written	1,000	-	-	1,000	0	-	-
Total exchange traded derivatives	4,694	2,958	142	7,793	1	6	-
Total interest rate derivatives	41,655	67,998	34,762	144,415	3,892	3,309	4,655

Currency derivatives

Forward exchange agreements	18,174	538	65	18,778	129	226	342
Interest rate and currency swaps	0	1,400	298	1,698	77	89	169
Currency options							
Call							
Purchased	123	-	-	123	2	-	4
Written	142	-	-	142	-	2	-
Put							
Purchased	108	-	-	108	1	-	2
Written	100	-	-	100	-	1	-
Total OTC currency derivatives	18,647	1,938	363	20,948	209	318	517
Currency futures	-	-	-	-	-	-	-
Total currency derivatives	18,647	1,938	363	20,948	209	318	517

Equity and index derivatives

Forward equity agreements	-	-	-	-	-	-	-
Forward equity index agreements	-	-	-	-	-	-	-
Equity options							
Call							
Purchased	-	-	-	-	-	-	-
Written	-	-	-	-	-	-	-
Put							
Purchased	-	-	-	-	-	-	-
Written	-	-	-	-	-	-	-
Equity index options							
Call							
Purchased	261	819	6	1,085	50	-	132
Written	-	-	-	-	-	-	-
Put							
Purchased	42	0	-	42	0	-	0
Written	-	-	-	-	-	-	-
Total OTC equity and index derivatives	303	819	6	1,127	50	-	132
Equity futures	0	-	-	0	-	0	-
Equity index futures	-	-	-	-	-	-	-
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
Credit-linked notes	-	-	-	-	-	-	-
Total return swaps	-	-	-	-	-	-	-
Other credit derivatives	-	-	-	-	-	-	-
Total credit derivatives	122	92	-	214	10	2	11

Other

Other forward contracts	4	2	-	6	1	0	1
Other swaps	91	399	73	563	23	18	77
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	165	430	73	669	30	19	90
Other futures contracts	79	130	5	215	6	18	-
Total other derivatives	244	561	78	883	36	37	90
Total derivatives held for trading	60,971	71,408	35,209	167,588	4,197	3,666	5,405

Derivatives held for trading 31 December 2011

EUR million	Nominal values/residual maturity				Fair values		Potential future exposure
	<1 year	1-5 years	>5 years	Total	Assets	Liabilities	
Interest rate derivatives							
Interest rate swaps	12,758	42,779	28,895	84,432	2,159	1,931	2,806
Forward rate agreements	400	-	-	400	3	0	3
OTC interest rate options							
Call and caps							
Purchased	3,539	6,879	1,813	12,230	261	9	322
Written	2,146	5,983	2,291	10,419	0	239	-
Put and floors							
Purchased	3,473	9,963	517	13,953	128	0	185
Written	3,146	10,930	267	14,343	-	66	-

Total OTC interest rate derivatives	25,462	76,534	33,782	135,777	2,550	2,245	3,316
Interest rate futures	3,691	261	-	3,952	0	1	-
Interest rate options							
Call							
Purchased	2,000	-	-	2,000	-	0	-
Written	2,000	-	-	2,000	-	2	-
Put							
Purchased	-	-	-	-	-	-	-
Written	8,000	-	-	8,000	2	-	-
Total exchange traded derivatives	15,691	261	-	15,952	2	3	-
Total interest rate derivatives	41,153	76,795	33,782	151,729	2,553	2,248	3,316

Currency derivatives

Forward exchange agreements	15,833	558	89	16,480	412	277	605
Interest rate and currency swaps	112	1,185	480	1,778	91	103	188
Currency options							
Call							
Purchased	341	-	-	341	2	-	6
Written	382	-	-	382	-	3	-
Put							
Purchased	276	-	-	276	5	-	8
Written	290	-	-	290	-	6	-
Total OTC currency derivatives	17,235	1,743	570	19,547	511	389	806
Currency futures	-	-	-	-	-	-	-
Total currency derivatives	17,235	1,743	570	19,547	511	389	806

Equity and index derivatives

Forward equity agreements	-	-	-	-	-	-	-
Forward equity index agreements	-	-	-	-	-	-	-
Equity options							
Call							
Purchased	-	-	-	-	-	-	-
Written	-	-	-	-	-	-	-
Put							
Purchased	-	-	-	-	-	-	-
Written	-	-	-	-	-	-	-

Equity index options

Call							
Purchased	95	1,110	6	1,211	55	-	150
Written	-	-	-	-	-	-	-
Put							
Purchased	-	0	-	0	-	-	0
Written	-	-	-	-	-	-	-
Total OTC equity and index derivatives	95	1,110	6	1,211	55	-	150
Equity futures	53	-	-	53	-	1	-
Equity index futures	65	-	-	65	0	0	-
Total exchange traded derivatives	117	-	-	117	0	1	-
Total equity and index derivatives	213	1,110	6	1,328	55	1	150

Credit derivatives

Credit default swaps	45	191	-	236	2	2	4
Credit-linked notes	-	-	-	-	-	-	-
Total return swaps	-	-	-	-	-	-	-
Other credit derivatives	-	-	-	-	-	-	-
Total credit derivatives	45	191	-	236	2	2	4

Other

Other forward contracts	0	-	-	0	0	-	0
Other swaps	85	154	16	255	11	5	35
Other options							
Call							
Purchased	0	20	-	20	1	-	3
Written	0	9	-	10	-	1	-
Put							
Purchased	0	6	-	7	0	-	1
Written	0	6	-	7	-	0	-
Total other OTC derivatives	87	195	16	298	12	6	39
Other futures contracts	96	119	7	221	13	20	-
Total other derivatives	182	314	22	519	25	26	39
Total derivatives held for trading	58,828	80,152	34,379	173,359	3,145	2,666	4,316

Derivative contracts for hedging purposes – fair value hedging 31 December 2012

	Nominal values/residual maturity				Fair values		Potential future exposure
EUR million	<1 year	1–5 years	>5 years	Total	Assets	Liabilities	
Interest rate derivatives							
Interest rate swaps	2,735	8,294	3,084	14,114	435	405	523
Forward rate agreements	-	-	-	-	-	-	-
OTC interest rate options							
Call and caps							
Purchased	-	1	20	21	-	0	0
Written	44	527	408	979	-	-	-
Put and floors							
Purchased	44	527	408	979	44	-	53
Written	-	1	20	21	-	-	-
Total OTC interest rate derivatives	2,822	9,350	3,940	16,112	479	406	576
Interest rate futures	-	-	-	-	-	-	-
Interest rate options							
Call							
Purchased	-	-	-	-	-	-	-
Written	-	-	-	-	-	-	-
Put							
Purchased	-	-	-	-	-	-	-
Written	-	-	-	-	-	-	-
Total exchange traded derivatives	-	-	-	-	-	-	-
Total interest rate derivatives	2,822	9,350	3,940	16,112	479	406	576

Currency derivatives

Forward exchange agreements	90	-	-	90	0	0	1
Interest rate and currency swaps	1,122	808	153	2,083	85	22	148
Currency options							
Call							
Purchased	-	-	-	-	-	-	-
Written	-	-	-	-	-	-	-
Put							
Purchased	-	-	-	-	-	-	-
Written	-	-	-	-	-	-	-
Total OTC currency derivatives	1,212	808	153	2,173	85	22	149
Currency futures	-	-	-	-	-	-	-
Total currency derivatives	1,212	808	153	2,173	85	22	149

Equity and index derivatives

Forward equity agreements	-	-	-	-	-	-	-
Forward equity index agreements	-	-	-	-	-	-	-
Equity options							
Call							
Purchased	-	-	-	-	-	-	-
Written	-	-	-	-	-	-	-
Put							
Purchased	-	-	-	-	-	-	-
Written	-	-	-	-	-	-	-
Equity index options							
Call							
Purchased	-	-	-	-	-	-	-
Written	-	-	-	-	-	-	-
Put							
Purchased	-	-	-	-	-	-	-
Written	-	-	-	-	-	-	-
Total OTC equity and index derivatives	-	-	-	-	-	-	-
Equity futures	-	-	-	-	-	-	-
Equity index futures	-	-	-	-	-	-	-
Total exchange traded derivatives	-	-	-	-	-	-	-
Total equity and index derivatives	-	-	-	-	-	-	-

Credit derivatives

Credit default swaps	-	-	-	-	-	-	-
Credit-linked notes	-	-	-	-	-	-	-
Total return swaps	-	-	-	-	-	-	-
Other credit derivatives	-	-	-	-	-	-	-
Total credit derivatives	-	-	-	-	-	-	-

Other

Other forward contracts	-	-	-	-	-	-	-
Other swaps	44	23	-	67	1	1	5
Other options							
Call							
Purchased	-	-	-	-	-	-	-
Written	-	-	-	-	-	-	-
Put							
Purchased	-	-	-	-	-	-	-
Written	-	-	-	-	-	-	-
Total other OTC derivatives	44	23	-	67	1	1	5
Other futures contracts	-	-	-	-	-	-	-
Total other derivatives	44	23	-	67	1	1	5
Total derivatives held for hedging	4,078	10,181	4,093	18,352	565	428	730

Derivative contracts for hedging purposes – cash flow hedge 31 Dec. 2012

	Nominal values /residual term to maturity				Fair values		Potential future exposure
EUR million	<1 year	1–5 years	>5 years	Total	Assets	Liabilities	
Interest rate derivatives							
Total OTC interest rate derivatives	210	1,480	224	1,914	35	40	46
Total interest rate derivatives	210	1,480	224	1,914	35	6	46

Derivative contracts for hedging purposes – fair value hedging 31 December 2011

	Nominal values/residual maturity				Fair values		Potential future exposure
EUR million	<1 year	1–5 years	>5 years	Total	Assets	Liabilities	
Interest rate derivatives							
Interest rate swaps	3,374	8,150	3,282	14,806	229	412	319
Forward rate agreements	-	-	-	-	-	-	-
OTC interest rate options							
Call and caps							
Purchased	-	-	-	-	-	-	-
Written	21	386	194	601	-	0	-
Put and floors							
Purchased	21	386	194	601	17	0	22
Written	-	-	-	-	-	-	-
Total OTC interest rate derivatives	3,416	8,921	3,671	16,009	245	412	340
Interest rate futures	-	-	-	-	-	-	-
Interest rate options							
Call							
Purchased	-	-	-	-	-	-	-
Written	-	-	-	-	-	-	-
Put							
Purchased	-	-	-	-	-	-	-
Written	-	-	-	-	-	-	-
Total exchange traded derivatives	-	-	-	-	-	-	-
Total interest rate derivatives	3,416	8,921	3,671	16,009	245	412	340

Currency derivatives

Forward exchange agreements	49	-	-	49	0	0	0
Interest rate and currency swaps	711	595	162	1,468	114	30	164
Currency options							
Call							
Purchased	-	-	-	-	-	-	-
Written	-	-	-	-	-	-	-
Put							
Purchased	-	-	-	-	-	-	-
Written	-	-	-	-	-	-	-
Total OTC currency derivatives	760	595	162	1,517	114	31	164
Currency futures	-	-	-	-	-	-	-
Total currency derivatives	760	595	162	1,517	114	31	164

Equity and index derivatives

Forward equity agreements	-	-	-	-	-	-	-
Forward equity index agreements	-	-	-	-	-	-	-
Equity options							
Call							
Purchased	-	-	-	-	-	-	-
Written	-	-	-	-	-	-	-
Put							
Purchased	-	-	-	-	-	-	-
Written	-	-	-	-	-	-	-
Equity index options							
Call							
Purchased	-	-	-	-	-	-	-
Written	-	-	-	-	-	-	-
Put							
Purchased	-	-	-	-	-	-	-
Written	-	-	-	-	-	-	-
Total OTC equity and index derivatives	-	-	-	-	-	-	-
Equity futures	-	-	-	-	-	-	-
Equity index futures	-	-	-	-	-	-	-
Total exchange traded derivatives	-	-	-	-	-	-	-
Total equity and index derivatives	-	-	-	-	-	-	-

Credit derivatives

Credit default swaps	-	-	-	-	-	-	-
Credit-linked notes	-	-	-	-	-	-	-
Total return swaps	-	-	-	-	-	-	-
Other credit derivatives	-	-	-	-	-	-	-
Total credit derivatives	-	-	-	-	-	-	-

Other

Other forward contracts	-	-	-	-	-	-	-
Other swaps	57	44	-	101	2	-	9
Other options							
Call							
Purchased	-	-	-	-	-	-	-
Written	-	-	-	-	-	-	-
Put							
Purchased	-	-	-	-	-	-	-
Written	-	-	-	-	-	-	-
Total other OTC derivatives	57	44	-	101	2	-	9
Other futures contracts	-	-	-	-	-	-	-
Total other derivatives	57	44	-	101	2	0	9
Total derivatives held for hedging	4,233	9,560	3,833	17,626	362	442	513

Derivative contracts for hedging purposes – cash flow hedge 31 Dec. 2011

EUR million	Nominal values /residual term to maturity				Fair values		Potential future exposure
	<1 year	1–5 years	>5 years	Total	Assets	Liabilities	
Interest rate derivatives							
Interest rate swaps	200	1,170	175	1,545	18	6	26
Total OTC interest rate derivatives	200	1,170	175	1,545	18	6	26
Total interest rate derivatives	200	1,170	175	1,545	18	6	26

Total derivatives 31 December 2012

EUR million	Nominal values/residual maturity				Fair values		Potential future exposure
	<1 year	1–5 years	>5 years	Total	Assets	Liabilities	
Interest rate derivatives	44,687	78,829	38,926	162,441	4,371	3,715	5,277
Currency derivatives	19,859	2,746	517	23,122	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	584	78	950	37	37	96
Total derivatives	65,259	83,069	39,527	187,855	4,762	4,094	6,181

Total derivatives 31 December 2011

EUR million	Nominal values/residual maturity				Fair values		Potential future exposure
	<1 year	1–5 years	>5 years	Total	Assets	Liabilities	
Interest rate derivatives	44,769	86,886	37,628	169,283	2,798	2,659	3,682
Currency derivatives	17,995	2,338	732	21,065	625	419	970
Equity and index-linked derivatives	213	1,110	6	1,328	55	1	150
Credit derivatives	45	191	-	236	2	2	4
Other derivatives	239	358	22	619	27	26	48
Total derivatives	63,261	90,882	38,388	192,531	3,507	3,108	4,855

* Fair values include accrued interest which is shown under other assets or provisions and other liabilities in the balance sheet.

In capital adequacy measurement, Pohjola Group applies netting of derivatives. Note 97 presents the effects of netting on counterparty risk. However, derivative contracts are presented in gross amounts on the balance sheet and in this note. Netting would reduce the credit equivalent of Pohjola Bank plc's derivative contracts by EUR 4,359 million (3,446) for capital adequacy purposes.

Notes to OP-Pohjola Group Financial Statements

OTHER NOTES

Note 54. Holdings in other companies

Changes in subsidiaries and associates during the financial year

Pohjola Health Ltd and Excenta Ltd, Pohjola Insurance Ltd's subsidiaries, merged at the beginning of 2012 and the merged company now operates under the name of Pohjola Health Ltd. Pohjola Insurance Ltd founded Omasairaala Oy, a hospital for outpatient surgery, specialising in the examination and treatment of orthopaedic diseases and injuries. The hospital began to operate in early 2013. Pohjola Property Management Ltd established a subsidiary, Real Estate Debt and Secondaries GP Ltd.

On 31 August 2012, OP-Pohjola Group Central Cooperative acquired the share capital of Aurum Investment Insurance Ltd from Skandia Life Assurance Company Ltd, a subsidiary of Old Mutual plc.

Subsidiaries included in the financial statements of the amalgamation of cooperative banks (OP-Pohjola Group) in 2012

Company	Domicile/home country	Shareholding, %	Votes, %
196 member cooperative banks*			
OP-Pohjola Group Central Cooperative	Helsinki	100.0	100.0
Pohjola Bank plc	Helsinki	53.3	74.7
Real Estate Fund Finland III Ky (Group)	Helsinki	66.7	66.7
Helsinki OP Bank Plc	Helsinki	100.0	100.0
OP-Kotipankki Oyj	Helsinki	100.0	100.0
OP Mortgage Bank	Helsinki	100.0	100.0
OP Fund Management Company Ltd	Helsinki	100.0	100.0
OP Life Assurance Company Ltd	Helsinki	100.0	100.0
Aurum Investment Insurance Ltd	Helsinki	100.0	100.0
Helsingin Seudun OP-Kiinteistökeskus Ltd	Helsinki	100.0	100.0
OP IT Procurement Ltd	Helsinki	100.0	100.0
OP Bank Group Mutual Insurance Company	Helsinki	100.0	100.0
OP-Services Ltd*)	Helsinki	100.0	100.0
OP Process Services Ltd	Helsinki	100.0	100.0
OP-Vallila Rahasto VYM Oy	Helsinki	100.0	100.0
OP-Vallila Rahasto Ky	Helsinki	83.9	83.9
Real Estate Fund Finland III Ky	Helsinki	66.7	66.7

Pohjola Group companies :

Pohjola Asset Management Limited	Helsinki	100.0	100.0
Pohjola Corporate Finance Ltd	Helsinki	100.0	100.0
Pohjola Insurance Ltd	Helsinki	100.0	100.0
A-Insurance Ltd	Helsinki	100.0	100.0
Seesam Insurance AS	Estonia	100.0	100.0
Eurooppalainen Insurance Company Ltd	Helsinki	100.0	100.0
Pohjola Property Management Ltd	Helsinki	100.0	100.0
Pohjola Health Ltd	Helsinki	100.0	100.0
Omasairaala Oy	Helsinki	100.0	100.0
Real Estate Fund	Helsinki	100.0	100.0
Real Estate Fund of Funds Finland Oy	Helsinki	100.0	100.0
Real Estate Fund Finland III GP Oy	Helsinki	100.0	100.0
Real Estate Debt and Secondaries GP Oy	Helsinki	100.0	100.0
Conventum Venture Finance Ltd.	Helsinki	100.0	100.0
Kaivokadun PL-hallinto Ltd	Helsinki	100.0	100.0
PAM USA Funds Oy	Helsinki	100.0	100.0
Pohjola Asset management Execution Services Oy	Helsinki	100.0	100.0
Pohjola Finance Estonia AS	Estonia	100.0	100.0
Pohjola Finance SIA	Latvia	100.0	100.0
UAB Pohjola Finance	Lithuania	100.0	100.0

Name	Balance sheet 2012, EUR million	Capital adequacy, % 31 Dec. 2012	Managing Director 31 Dec. 2012
Akaan Seudun Op	125	42.6	Heikki Teräväinen
Alajärven Op	233	33.5	Jari Leivo
Alastaron Op	51	28.5	Timo Viitanen
Alavieskan Op	55	28.8	Antero Alahautala
Alavuden seudun Op	183	25.0	Jussi Ruuhela
Andelsbanken för Åland	253	16.2	Håkan Clemes
Andelsbanken Raseborg	356	15.4	Lars Björklöf
Artjärven Op	43	35.6	Reijo Hurskainen
Askolan Op	101	28.9	Tuulikki Kyyhkynen
Auran Op	78	29.7	Sauli Nuolemo
Enon Op	110	30.4	Raili Hyvönen
Etelä-Karjalan Op	1,174	31.0	Jari Himanen
Etelä-Pohjanmaan Op	803	17.1	Olli Tarkkanen
Etelä-Päijänteen Op	146	22.3	Jari Laaksonen
OP-Pohjola Group			

Euran Op	164	34.9	Lenni Kankaanpää
Forssan Seudun Op	313	21.7	Jouni Hautala
Haapamäen Seudun Op	54	35.1	Hannu Petjoi
Hailuodon Op	36	28.7	Eija Sipola
Halsuan Op	31	24.0	Heidi Pöyhönen
Hartolan Op	60	29.9	Kari Leskinen
Hauhon Op	44	35.0	Timo Metsola
Haukivuoren Op	54	33.6	Seppo Laurila
Heinäveden Op	75	41.0	Jukka Tuomisto
Himangan Op	68	18.0	Kalevi Humalajoki
Hirvensalmen Op	39	34.7	Kirsi Hännikäinen
Honkilahden Op	30	46.5	Jukka-Pekka Koivisto
Humppilan Op	60	32.0	Jari Salokangas
Hämeenlinnan Seudun Op	646	19.9	Olli Liusjärvi
Ikaalisten Op	101	22.9	Antero Sorri
Ilomantsin Op	114	22.8	Raija Tahvanainen
Itä-Uudenmaan Op	323	14.0	Arto Nurmi-Aro
Janakkalan Op	313	46.1	Vesa Lehtikainen
Joensuun Seudun Op	608	18.9	Esko Mononen
Jokioisten Op	94	30.2	Vesa Rantanen
Juuan Op	113	25.2	Tuomo Mustonen
Jämsän seudun Op	231	42.3	Heikki Rosti
Kainuun Op	450	25.3	Seppo Rytivaara
Kalajoen Op	192	18.6	Pertti Sarkkinen
Kalkkisten Op	18	29.8	Heikki Leppähaara
Kangasalan seudun Op	367	22.3	Jari Linjala
Kangasniemen Op	174	40.0	Leo Pakkanen
Kannuksen Op	86	21.7	Juha Lundström
Karjalan Op	30	30.6	Pentti Laaksonen
Karkun Op	21	38.0	Kaarina Sacklén
Karvian Op	64	24.2	Antti Suomijärvi
Kaustisen Op	78	21.2	Asko Ahonen
Keikyän Op	32	33.2	Heikki Nelimarkka
Kemin Seudun Op	266	34.7	Pertti Stöckel
Kerimäen Op	62	39.8	Jarmo Kaivonurmi
Keski-Suomen Op	1,748	17.6	Keijo Manner
Keski-Uudenmaan Op	1,255	26.9	Juhani Rinta-Kartano
Kesälahden Op	58	40.8	Seppo Manninen
Kihniön Op	33	30.4	Pirjo Haapa-aho Vehniä

Kiihtelysvaaran Op	85	26.0	Pasi Leppänen
Kiikoisten Op	29	34.2	Harri Vehkalahti
Kiteen Seudun Op	259	32.8	Ari Karhapää
Koillis-Savon Seudun Op	363	35.1	Seppo Pääkkö
Koitin-Pertunmaan Op	66	33.0	Jouko Iso-Kuortti
Kokkolan Op	695	15.5	Kimmo Peuranto
Korpilahden Op	80	35.0	Tuomas Kupsala
Korsnäs Andelsbank	73	35.0	Jan-Erik Westerdahl
Kronoby Andelsbank	118	35.9	Sten-Ole Nybäck
Kuhmoisten Op	50	24.0	Teemu Sarhema
Kuhmon Op	148	29.5	Hannu Kurkinen
Kuortaneen Op	64	27.2	Markku Jaatinen
Kurun Op	47	36.0	Marja-Leena Siuro
Kuusamon Op	172	23.6	Kari Kivelä
Kymenlaakson Op	1,374	26.9	Marjo Partio
Kärkölän Op	64	38.6	Arto Haavikko
Käylän Op	26	32.5	Katja Koskinen
Köyliön Op	65	31.6	Jari Valonen
Lapin Op	85	30.1	Eero Laiho
Lehtimäen Op	49	16.4	Veli-Jussi Haapala
Lemin Op	71	20.9	Eero Innanen
Leppävirran Op	137	33.0	Jukka Kilpeläinen
Limingan Op	72	21.8	Petteri Juusola
Liperin Op	166	28.0	Jalo Lehtovaara
Loimaan Seudun Op	225	31.2	Juha Pullinen
Lokalahden Op	32	31.1	Irma Sirén
Lopen Op	102	36.1	Keijo Bragge
Lounaisrannikon Op	444	26.9	Juha-Pekka Nieminen
Lounais-Suomen Op	259	35.4	Vesa Viitaniemi
Luhangan Op	46	41.3	Tuomas Puttonen
Luopioisten Op	32	33.2	Esa Jokinen
Luumäen Op	89	37.5	Mikko Antikainen
Länsi-Kymen Op	245	21.5	Pertti Olander
Länsi-Suomen Op	2,007	27.7	Simo Kauppi
Länsi-Uudenmaan Op	722	17.2	Jarmo Viitanen
Maaningan Op	83	39.4	Ari Väänänen
Marttilan Op	70	44.4	Matti Vahalahti
Mellilän Seudun Op	33	48.7	Aarre Anttila
Merimaskun Op	31	27.1	Marjo Linnakoski

Metsämaan Op	28	31.5	Jussi Nieminen
Miehikkälän Op	55	47.6	Kalevi Salonen
Mouhijärven Op	62	24.1	Rainer Sillanpää
Mynämäen Op	127	36.4	Kimmo Ranta
Myrskylän Op	20	25.7	Jorma Rouhiainen
Mäntsälän Op	172	30.7	Heikki Kananen
Mäntän Seudun Op	218	28.1	Janne Nuutinen
Nagu Andelsbank	42	23.5	Johan Broos
Nakkila-Luvian Op	176	37.2	Jussi Kuvaja
Niinijoen Op	34	43.6	Jouni Tammelin
Nivalan Op	173	14.6	Markku Niskala
Nousiaisten Op	174	31.9	Ville Aakula
Op Kantrisola	85	32.1	Bo Hellen
Orimattilan Op	182	32.7	Jukka Sipilä
Oripään Op	55	18.0	Jouko Rekolainen
Oriveden seudun Op	165	30.9	Pertti Pyykkö
Oulaisten Op	180	32.5	Jari Anttila
Oulun Op	2,291	17.2	Timo Levo
Outokummun Op	105	27.6	Eero Eskelinen
Paattisten Op	81	31.5	Soile Noren
Paltamon Op	56	34.2	Jorma Niemi
Parikkalan Op	105	34.6	Tuomo Liukka
Parkanon Op	91	28.0	Ari Heinonen
Pedersörenejdens Andelsbank	377	19.1	Thomas Hulten
Perhon Op	67	23.8	Pekka Pajula
Peräseinäjoen Op	95	33.4	Juha Mäki
Pielaveden Op	87	25.7	Jouni Karhinen
Pielisen Op	427	23.9	Jaana Reimasto- Heiskanen
Pihtiputaan Op	62	33.6	Vesa Isosalo
Pohjois-Savon Op	1,486	19.9	Jaakko Ojanperä
Pohjolan Op	805	23.3	Markku Salomaa
Polvijärven Op	111	26.1	Ari Noponen
Porvoon Op	507	21.4	Mauri Molander
Posion Op	94	46.3	Vesa Jurmu
Pudasjärven Op	162	49.9	Teuvo Perätalo
Pukkilan Op	56	34.6	Ari Talkara
Pulkkilan Op	35	39.4	Eero Keskitalo
Punkalaitumen Op	83	34.4	Petri Antila
Puolangan Op	69	31.9	Jouni Ahokumpu
OP-Pohjola Group			

Purmo andelsbank	34	24.0	Stig-Göran Jansson
Pyhälaakson Op	179	25.3	Timo Suhonen
Päijät-Hämeen Op	1,090	13.3	Timo Laine
Pöytyän Op	81	26.8	Tuomo Jokinen
Raahen seudun Op	291	33.0	Ari Pohjola
Rantasalmen Op	132	50.5	Vesa Auvinen
Rautalammin Op	64	29.9	Esko-Pekka Markkanen
Riihimäen Seudun Op	320	32.2	Seppo Runsamö
Riistaveden Op	98	21.4	Pauli Kröger
Ruoveden Op	119	17.3	Leena Selkee
Ruukin Op	107	33.5	Kalle Arvio
Rymättylän Op	58	31.0	Antero Nikki
Rääkkylän Op	84	25.6	Olli Koivula
Sallan Op	63	31.6	Anne Harju
Salon Op	789	24.5	Jukka Hulkkonen
Satakunnan Op	397	42.1	Olli Näsi
Savitaipaleen Op	99	36.4	Leo-Petteri Nevalainen
Sideby Andelsbank	14	29.9	Johan Ingves
Siikajoen Op	41	27.7	Raija Fingerroos
Siikalatvan Op	78	32.3	Ismo Välijärvi
Simpeleen Op	70	44.2	Asko Imppola
Somerniemen Op	31	22.4	Pertti Kujala
Someron Op	138	23.1	Pertti Purola
Sonkajärven Op	88	34.8	Esko Nissinen
Sotkamon Op	108	37.3	Juhajouni Karttunen
Sulkavan Op	64	24.8	Kari Haverinen
Suomenselän Op	262	24.2	Kari Ahola
Suomussalmen Op	105	24.4	Timo Polo
Suonenjoen Op	111	24.5	Antti Hult
Suur-Savon Op	1,523	25.5	Kari Manninen
Sysmän Op	102	37.3	Sakari Kangas
Säkylän Op	69	29.1	Jari Katila
Taivalkosken Op	62	23.5	Riitta-Liisa Ahokumpu
Taivassalon Op	54	21.5	Sari Kaivola-Murto
Tampereen Seudun Op	2,491	14.0	Mikko Rosenlund
Tarvasjoen Op	48	29.3	Esa Hentula
Tervolan Op	66	36.7	Hannu Neuvonen
Tervon Op	48	33.9	Jani Kääriäinen
Toholammin Op	91	25.4	Leena Kälviä

Tornion Op	227	20.5	Pentti Alaperä
Turun Seudun Op	2,368	18.6	Olli-Pekka Saario
Tuupovaaran Op	51	35.8	Simo Penttinen
Tyrnävän Op	63	24.2	Antto Joutsiniemi
Ullavan Op	35	19.8	Jarmo Hätälä
Urjalan Op	113	33.0	Sami Pietilä
Utajärven Op	160	28.4	Raimo Tuovinen
Uukuniemen Op	13	29.6	Mikko Purmonen
Vaasan Op	685	21.5	Ulf Nylund
Valkeakosken Op	178	28.0	Juha Luomala
Vammalan Seudun Op	207	16.4	Jyrki Rantala
Vampulan Op	77	29.6	Kari Hänti
Vehmersalmen Op	59	36.2	Petri Tyllinen
Vesannon Op	56	20.6	Esa Keränen
Vetelin Op	27	27.3	Jarmo Lehojärvi
Vetelin Ylipään Op	29	23.8	Mikael Hanhilahti
Vihannin Op	99	31.9	Jari Kantomaa
Vimpelin Op	61	26.7	Kari Jukantupa
Virtain Op	149	30.7	Ari Kakkori
Ylitornion Op	107	29.9	Heikki Eteläaho
Ylivieskan Op	203	14.4	Jarmo Somero
Yläneen Op	75	35.0	Heikki Eskola
Ypäjän Op	63	34.8	Kirsi-Marja Hiidensalo
Ähtärin Op	56	16.2	Markku Kallio
Östra Korsholms Andelsbank	7	30.6	Jussi Lahti
Övermark Andelsbank	33	21.1	Mårten Vikberg

Associated companies

Associates (consolidated) in 2012

Name	Domicile	Assets	Liabilities	Net sales	Profit/ Loss	Holding, %
Realinvest Oy	Helsinki	10	1	0	0	25.3
Finanssidata Oy	Helsinki	15	12	63	0	36.0
Automatia Pankkiautomaatit Oy	Helsinki	373	349	56	4	33.3
Autovahinkokeskus Oy	Espoo	9	1	8	1	27.8
Access Capital Partners Group S.A.	Belgium	27	17	24	5	40.0
Total		434	380	151	10	

The Group's associated companies are unquoted companies.

Associates (consolidated) in 2011

Name	Domicile	Assets	Liabilities	Net sales	Profit/ Loss	Holding, %
Realinvest Oy	Helsinki	10	1	0	-1	25.3
Finanssidata Oy	Helsinki	13	10	53	0	36.0
Automatia Pankkiautomaatit Oy	Helsinki	290	266	57	4	33.3
Autovahinkokeskus Oy	Espoo	8	1	7	1	27.8
Access Capital Partners Group S.A.	Belgium	28	23	16	2	40.0
Total		349	301	133	6	

The Group's associated companies are unquoted companies.

Joint ventures

Joint ventures in 2012

Name	Domicile	Sector	Holding
Kiinteistö Oy Arkadiankatu 23	Helsinki	Property holding and management	100.0
Kiinteistö Oy Kaisaniemenkatu 1	Helsinki	Property holding and management	22.4
Kiinteistö Oy Kanta-Sarvis II	Tampere	Property holding and management	100.0
Kiinteistö Oy Piispankalliontie 13-15	Espoo	Property holding and management	100.0
Kiinteistö Oy Jyväskylän Torikulma	Jyväskylä	Property holding and management	41.7
Kiinteistö Oy Jyväskylän Kassatalo	Jyväskylä	Property holding and management	100.0
Kiinteistö Oy Vammalan Torikeskus	Vammala	Property holding and management	100.0
Kiinteistö Oy Turun Asemanseutu	Turku	Property holding and management	49.5
Kiinteistö Oy Säästöraha	Oulu	Property holding and management	100.0
Kiinteistö Oy Ansatie 5	Helsinki	Property holding and management	100.0
Kiinteistö Oy Uusi Paino	Helsinki	Property holding and management	100.0
Kiinteistö Oy Quartetto Intermezzo	Helsinki	Property holding and management	100.0
Kiinteistö Oy Grand Cargo Terminal 1	Helsinki	Property holding and management	100.0
Kiinteistö Oy Grand Cargo Terminal 2	Vantaa	Property holding and management	100.0
Kiinteistö Oy Tampereen Ratinankaari	Tampere	Property holding and management	100.0
Kiinteistö Oy Tampereen Hämeenkatu 12	Tampere	Property holding and management	100.0
Mikkelin Forum Oy	Mikkeli	Property holding and management	87.1
Kiinteistö Oy Hämeenkivi	Tampere	Property holding and management	100.0

Companies owned by Pohjola Insurance Ltd:			holding %
Tikkurilan Kauppatalo Oy	Vantaa	Property holding and management	53.7
Kiinteistö Oy Helsingin Puutarhurinkuja 2	Helsinki	Property holding and management	100.0
Kiinteistö Oy Vantaan Kisällintie 13	Vantaa	Property holding and management	100.0
Kiinteistö Oy STC Viinikkala	Vantaa	Property holding and management	100.0

The consolidated financial statements include the share of assets and related liabilities under joint control.

Joint ventures in 2011

Name	Domicile	Sector	Holding
Kiinteistö Oy Arkadiankatu 23	Helsinki	Property holding and management	100.0
Kiinteistö Oy Kaisaniemenkatu 1	Helsinki	Property holding and management	22.4
Kiinteistö Oy Kanta-Sarvis II	Tampere	Property holding and management	100.0
Kiinteistö Oy Piispankalliontie 13-15	Espoo	Property holding and management	100.0
Kiinteistö Oy Jyväskylän Torikulma	Jyväskylä	Property holding and management	41.7
Kiinteistö Oy Jyväskylän Kassatalo	Jyväskylä	Property holding and management	100.0
Kiinteistö Oy Vammalan Torikeskus	Vammala	Property holding and management	100.0
Kiinteistö Oy Turun Asemanseutu	Turku	Property holding and management	49.5
Kiinteistö Oy Säästöraha	Oulu	Property holding and management	100.0
Kiinteistö Oy Ansatie 5	Helsinki	Property holding and management	100.0
Kiinteistö Oy Tampereen Sähkökortteli	Tampere	Property holding and management	100.0
Kiinteistö Oy Tampereen Hämeenkatu 12	Tampere	Property holding and management	100.0
Mikkelin Forum Oy	Mikkeli	Property holding and management	87.1
Kiinteistö Oy Hämeenkivi	Tampere	Property holding and management	100.0

Companies owned by Pohjola Insurance Ltd:			Pohjola's holding %
Tikkurilan Kauppatalo Oy	Vantaa	Property holding and management	53.7
Kiinteistö Oy Helsingin Puutarhurinkuja 2	Helsinki	Property holding and management	100.0
Kiinteistö Oy Vantaan Kisällintie 13	Vantaa	Property holding and management	100.0
Kiinteistö Oy STC Viinikkala	Vantaa	Property holding and management	100.0

The consolidated financial statements include the share of assets and related liabilities under joint control.

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Note 55. Related-party transactions

OP Bank Group's related parties:

The related parties of OP-Pohjola Group include associates, administrative personnel and other related party companies. The administrative personnel comprise OP-Pohjola Group's Executive Chairman (Chairman of the Executive Board of OP-Pohjola Group Central Cooperative), President of OP-Pohjola Group Central Cooperative, members and deputy members of the Executive and Supervisory Boards and their close relatives. Related parties also include companies over which a person among administrative personnel or his close family member exercises significant influence. Other communities considered as related parties include OP Bank Group Pension Fund and OP Bank Group Pension Foundation.

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

The period of notice observed by OP-Pohjola Group's Executive Chairman, other OP-Pohjola Group Central Cooperative's Board members and deputy members and the employer is a maximum of 6 months. When employment is terminated, executive contracts specify instances in which they will receive not only their regular salary but also a severance pay equal to a maximum of 12 months' salary.

Related-party transactions 2012

	Associates	Administrative personnel	Others
Loans	118	7	-
Other receivables	0	-	0
Deposits	9	5	61
Other liabilities	-	-	-
Interest income	0	0	-
Interest expenses	0	0	1
Insurance premium revenue	0	0	2
Dividend income	-	-	-
Commission income	0	0	0
Commission expenses	0	0	0
Other operating income	-	-	-
Impairment losses on loans	-	-	-
Impairment losses on loans at year-end	-	-	-
Off-balance-sheet commitments			
Guarantees	-	-	-
Irrevocable commitments	-	-	-
Other off-balance-sheet commitments	-	-	-

Salaries and other short-term benefits, and performance-based pay

Salaries and other short-term benefits	-	5	-
Performance-based pay	-	-	-

Related-party holdings

Number of stock options	-	-	-
Number of shares	-	250,374	5,784,097
Number of participations	-	6,896	-

Related-party transactions 2011

	Associates	Admini- strative personnel	Others
Loans	93	15	-
Other receivables	0	3	0
Deposits	5	12	121
Other liabilities	-	-	-
Interest income	0	0	-
Interest expenses	0	0	1
Insurance premium revenue	0	0	2
Dividend income	-	-	-
Commission income	0	0	0
Commission expenses	0	0	0
Other operating income	-	-	-
Impairment losses on loans	-	-	-
Impairment losses on loans at year-end	-	-	-

Off-balance-sheet commitments

Guarantees	-	-	-
Irrevocable commitments	-	-	-
Other off-balance-sheet commitments	-	0	-

Salaries and other short-term benefits, and performance-based pay

Salaries and other short-term benefits	-	5	-
Performance-based pay	-	-	-

Related-party holdings

Number of stock options	-	-	-
Number of shares	-	211,450	5,784,097
Number of participations	-	4,899	-

Notes to OP-Pohjola Group Financial Statements

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Note 56. Variable remuneration

Personnel fund

About 94 of the central institution's personnel are members of OP-Pohjola Group's Personnel Fund.

Payment of profit-based bonuses to OP Personnel Fund in 2012 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 weighing of 30%. Profit-based bonuses for 2012 transferred to the Fund account for some 2% (3%) of the combined salaries and wages earned by the Fund's members. The bonuses recognised in 2012 totalled EUR 7 million (15).

Long-term management incentive scheme in 2010 and before

The previous long-term management incentive scheme comprised people selected by employers within OP-Pohjola Group. Depending on how well they had achieved targets set annually, those covered by the scheme were entitled to a bonus calculated on the basis of their monthly salary. The bonus will be paid in two years' time following the end of the performance period as equity-settled transactions (Pohjola Bank plc series A shares) and cash-settled transactions. The bonus payments are recognised as personnel costs over the performance periods until 2013.

A total of EUR 4 million (8) of bonuses were entered under previous management incentive schemes in 2012.

New incentive schemes in 2011

The new, specified financial sector's EU-level variable remuneration regulations came into effect on 1 January 2011. OP-Pohjola Group's remuneration schemes conform to these 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 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

Managers and designated persons in key positions under the long-term management incentive scheme in OP-Pohjola Group Central Cooperative and Group member banks and their subsidiaries who the management of the company in question or the Central Institution's Supervisory Board have named, a total of 367 (372) people.

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 2011–2013 performance period is paid after a deferral period in three equal instalments by the end of each June in 2015–2017.

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 5.1 million shares (5.1) 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 2011–2013 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 the 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.

The bonus is accounted for in bookkeeping in all other OP-Pohjola Group companies except Pohjola Group as cash. At Pohjola Group, share bonuses are accounted for in bookkeeping as equity-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 average price of a share on payment date was EUR 7.59. The liability is valued on each balance sheet date at fair value, amounting to EUR 15 million (5) on 31 December 2012.

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. Short-term incentive schemes are company-specific and cover the entire personnel of OP-Pohjola Group.

Short-term bonuses are primarily accounted for in bookkeeping 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. The liability is valued at each balance sheet date at fair value.

Deferral of variable remuneration

The payment of variable remuneration has been prescribed in Government decree no. 1372. If a person is categorised on the basis of his duties as belonging to a group that may cause considerable risk (person affecting risk profile) to his company, the company may defer the payment of variable remuneration over three years under certain conditions.

These persons affecting the risk profile in OP-Pohjola Group 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 EUR 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 EUR 50,000 deferral limit as a whole, considering both long- and short-term remuneration.

If the euro maximum for deferral 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 deferral under the short-term scheme, half of the bonus is always 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).

Incentive schemes based on ownership

The management of Pohjola Asset Management Ltd and Pohjola Corporate Finance Ltd held shares of the companies concerned indirectly. These schemes pertained to the share ownership plan for the companies' key employees, with a view to enabling their long-term engagement. These share-based schemes have been terminated.

Expenses recognised for variable remuneration*

EUR million	2012	2011
Personnel fund	7	15
Short-term schemes**	30	35
Previous long-term schemes		
Schemes for 2007–10	4	9
Extended long-term schemes:		
Scheme for 2011–13	10	5
Total	52	65

* Excl. social expenses

** The figure for 2011 includes EUR 1.6 million in expenses arising from the share ownership plans

Notes to OP-Pohjola Group Financial Statements

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Note 57. Events after the balance sheet date

Central counterparty clearing for OTC derivatives

The European Market Infrastructure Regulation (EMIR) adopted by the European Parliament introduces provisions governing OTC derivatives. This market regulation requires financial counterparties and certain non-financial counterparties separately defined in the regulation to clear standardised OTC derivative contracts through central counterparties. The new regulation is aimed, for example, at greater transparency, reducing counterparty credit risk and providing regulators with more and better information on derivative markets.

This approach applies to the central counterparty clearing for Pohjola Bank plc's standardised OTC derivative transactions that Pohjola Bank plc will begin in February 2013 for new interest rate derivatives.

Due to the change in the approach, interest rate derivatives subject to clearing through central counterparties will be netted in the balance sheet as against reporting them currently on a gross basis. Presentation of other derivatives will not change. As a result of the change, Pohjola's consolidated balance sheet total will decrease by an estimated EUR 2 billion in 2013 when the existing portfolio of OTC derivatives is transferred to central counterparty clearing.

Notes to OP-Pohjola Group Financial Statements

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Note 58. Segment reporting

Segment information

As a result of the adoption of the updated strategy, the life insurance business together with the asset management and mutual fund businesses previously presented as part of the Group's Banking operations was formed into a new Wealth Management segment. The figures for Skandia Life Finland (Aurum Investment Insurance Ltd), which was acquired in 2012, are presented under the Wealth Management segment. This segment change reduced the Banking segment's earnings before tax for 2012 by around EUR 42 million (37). The comparatives have been changed accordingly.

OP-Pohjola Group's business segments are Banking, Non-life Insurance and Wealth Management. Non-segment operations are presented under 'Other Operations'. OP-Pohjola Group prepares its segment reporting in compliance with its accounting policies

Companies within Banking are the member banks, Helsinki OP Bank Plc, OP-Kotipankki Oyj, OP Mortgage Bank and OP Fund Management Company Ltd and certain smaller companies supporting banking services in their entirety. Pohjola Group's Banking and Asset Management segments are also included under OP-Pohjola Group's Banking. The operations of OP Bank Group Mutual Insurance Company's are also included under Banking, because the majority of the company's business consists of credit insurance to OP-Pohjola Group's retail banks.

Net interest income is the most significant income component. Income also comes from commissions and fees, and investments. Expenses arise mainly from personnel and other administrative costs, from the network of offices and from returns to owner-members. The most significant risk category pertains to credit risks but business also involves market risks and operational risks.

The Wealth Management Segment comprises the following operations: OP Life Assurance Company Ltd and Aurum Investment Insurance Ltd engaged in the Group's life and pension insurance business, OP Fund Management Company Ltd engaged in mutual fund business, and Pohjola Group's Asset Management segment. The most significant items of income generated by the Wealth Management include life insurance net interest and risk results and commissions and fees arising from life insurance, asset management and mutual fund operations.

The commissions and fees of the new Wealth Management segment consist of those from asset and fund management and life insurance policies

The Non-life Insurance segment encompasses the operations of OP-Pohjola Group's non-life insurance companies, i.e. Pohjola Insurance Ltd, Eurooppalainen Insurance Company Ltd, A-Insurance Ltd, the Seesam companies operating in the Baltic countries, as well as the operations of service companies supporting non-life insurance.

Non-life insurance products include non-life insurance policies sold to corporate and private customers. Net income generated by Non-life Insurance derives mainly from premiums written and investment income. The most significant risks in Non-life Insurance pertain to insurance risks and investment risks.

Other Operations includes operations that support the business segments, particularly the operations of OP-Pohjola Group Central Cooperative, OP-Services Ltd and OP Process Services Ltd as well as Pohjola Group's central banking and Group administration. Costs of the services for the business segments are allocated to the segments in the form of internal service charges. The allocation of other equity capital to the business segments is carried out through an internal bank under Other Operations, which means that any positive results in excess of the target level will be shown under

Other Operations.

Segment accounting policies

OP-Pohjola Group's segment reporting is based on accounting policies applied in its financial statements. Income, expenses, assets and liabilities which have been 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 segments and inter-segment Group eliminations are reported under 'Group eliminations'. The segments' earnings and profitability is assessed in terms of pre-tax earnings.

Equity allocated to retail banking operations accounts for 9% of the risk-weighted assets required by the Credit Institutions Act and equity allocated to Pohjola Group's banking services operations for 7% of the risk-weighted assets. The unallocated part of equity is assigned to 'Other operations' outside the business lines.

Income statement and balance sheet by segment in 2012

Income statement, EUR million	Banking	Non-life Insurance	Wealth Management	Other operations	Eliminations	OP-Pohjola Group
Interest income	3,324	0	3	859	-1,012	3,174
Interest expenses	2,354	8	0	835	-1,026	2,171
Net interest income before impairment losses	969	-8	3	24	14	1,003
Impairment losses on receivables	96	-	-	3	-	99
Net interest income after impairment losses	874	-8	3	21	14	904
Net income from Non-life Insurance	-	438	-	-	-5	433
Net income from Life Insurance	-	-	-	-	108	108
Life Insurance's net interest and risk result	-	-	19	-	-19	-
Net commissions and fees	543	23	-	16	1	584
Commissions and fees from fund and asset management	-	-	111	-	-111	-
Commissions and fees from life insurance	-	-	98	-	-98	-
Commission expenses	-	-	-37	-	37	-
Net trading income	84	0	0	1	-5	81
Net investment income	49	-	3	7	-7	52
Other operating income	44	5	39	393	-372	109
Personnel costs	433	135	32	149	0	749
Other administrative expenses	320	104	30	193	-269	378
Other operating expenses	214	127	74	107	-170	352
Returns to owner-members	192	-	-	-	-	192
Share of associates' profits/losses	2	0	0	0	0	2
Earning before tax	437	92	101	-10	-18	601
Income tax expense						119
Profit for the financial year						483

Balance sheet 31 Dec. 2012	Banking	Non-life Insurance	Wealth Management	Other operations	Eliminations	OP-Pohjola Group
Liquid assets	170	-	-	5,614	-	5,784
Receivables from credit institutions	4,539	5	26	8,484	-12,214	840
Financial assets at fair value through profit or loss	504	-	5,460	-102	-5,505	358
Derivative contracts	4,482	-	164	396	-606	4,436
Receivables from customers	65,719	-	153	286	-997	65,161
Non-life Insurance assets	-	3,627	-	-	-135	3,492
Life Insurance assets	-	-	0	-	9,173	9,173
Investment assets	3,285	16	3,465	6,480	-6,651	6,596
Investment in associates	8	2	24	3	1	39
Intangible assets	57	747	399	122	-5	1,320
Property, plant and equipment	575	22	9	102	1	710
Other assets	807	4	746	1,194	-1,007	1,745
Tax assets	31	11	24	35	15	115
Total assets	80,180	4,434	10,472	22,614	-17,929	99,769

Balance sheet 31 Dec. 2012	Banking	Non-life Insurance	Wealth Management	Other operations	Eliminations	OP-Pohjola Group
Liabilities to credit institutions	9,213	-	-	4,925	-12,172	1,965
Financial liabilities at fair value through profit or loss	3	-	-	-	-	3
Derivative contracts	3,959	-	0	683	-479	4,162
Liabilities to customers	46,216	-	-	4,095	-661	49,650
Non-life Insurance liabilities	-	2,595	-	-	-3	2,592
Life Insurance liabilities	-	-	8,955	-	15	8,970
Debt securities issued to the public	5,853	-	-	14,358	-941	19,270
Provisions and other liabilities	2,354	124	218	930	-328	3,297
Tax liabilities	439	170	79	321	-18	990
Cooperative capital	809	-	-	1,443	-1,630	622
Subordinated liabilities	200	50	91	1,225	-452	1,114
Total liabilities	69,044	2,939	9,343	27,979	-16,670	92,635
Equity capital						7,134

Net income from the Baltic countries came to EUR 5 million and net assets to EUR 45 million.

Income statement and balance sheet by segment in 2011

Income statement, EUR Million	Banking	Non-life Insurance	Wealth Management	Other operations	Elimi- nations	OP-Pohjola Group
Interest income	3,402	0	4	1,184	-1,296	3,294
Interest expenses	2,418	2	0	1,153	-1,309	2,264
Net interest income before impairment losses	984	-2	3	31	13	1,030
Impairment losses on receivables	90	-	-	11	-	101
Net interest income after impairment losses	894	-2	3	20	13	928
Net income from Non-life Insurance	-	321	-	-	-9	312
Net income from Life Insurance	-	-	-	-	72	72
Life Insurance's net interest and risk result	-	-	-6	-	6	-
Net commissions and fees	538	20	-	13	2	574
Commissions and fees from fund and asset management	-	-	114	-	-114	-
Commissions and fees from life insurance	-	-	89	-	-89	-
Commission expenses	-	-	-43	-	43	-
Net trading income	11	-	0	2	4	17
Net investment income	48	0	0	22	-8	63
Other operating income	51	5	18	352	-336	90
Personnel costs	405	125	30	128	0	689
Other administrative expenses	321	99	26	172	-266	351
Other operating expenses	194	112	75	77	-141	318
Returns to owner-members	176	-	-	-	-	176
Share of associates' profits/losses	2	0	2	0	0	4
Earning before tax	447	8	47	32	-9	525
Income tax expense						89
Profit for the financial year						436

Balance sheet 31 Dec. 2011	Banking	Non-life Insurance	Wealth Management	Other operations	Eliminations	OP-Pohjola Group
Liquid assets	138	-	-	4,238	-	4,376
Receivables from credit institutions	4,688	0	20	7,045	-10,650	1,104
Financial assets at fair value through profit or loss	356	-	3,354	-66	-3,364	281
Derivative contracts	3,392	-	63	215	-362	3,307
Receivables from customers	60,665	-	204	207	-745	60,331
Non-life Insurance assets	-	3,352	-	-	-147	3,205
Life Insurance assets	-	-	0	-	7,006	7,006
Investment assets	3,068	16	3,493	8,468	-6,703	8,343
Investment in associates	8	2	25	3	1	40
Intangible assets	42	756	271	105	-5	1,169
Property, plant and equipment	588	21	70	20	3	702
Other assets	1,053	2	372	1,012	-555	1,884
Tax assets	46	16	16	79	2	158
Total assets	74,045	4,166	7,888	21,326	-15,520	91,905
Balance sheet 31 Dec. 2011	Banking	Non-life Insurance	Wealth Management	Other operations	Eliminations	OP-Pohjola Group
Liabilities to financial institutions	7,312	-	-	5,153	-10,682	1,783
Financial liabilities at fair value through profit or loss	1	-	-	-	-	1
Derivative contracts	2,841	-	1	699	-309	3,232
Liabilities to customers	41,189	-	0	5,028	-243	45,974
Non-life Insurance liabilities	-	2,543	-	-	-36	2,508
Life Insurance liabilities	-	-	6,924	-	8	6,932
Debt securities issued to the public	5,199	-	-	15,664	-858	20,005
Provisions and other liabilities	2,130	69	78	793	-230	2,840
Tax liabilities	435	122	2	293	-17	834
Cooperative capital	807	-	-	1,443	-1,625	624
Subordinated liabilities	223	50	91	1,005	-438	931
Total liabilities	60,137	2,784	7,096	30,079	-14,432	85,663
Equity capital						6,242

Net income from the Baltic countries came to EUR 1 million and net assets to EUR 31 million.

Notes to OP-Pohjola Group Financial Statements

NOTES TO RISK MANAGEMENT

OP-Pohjola Group's capital adequacy and risk management principles are described in Note 2. OP-Pohjola Group's exposure is presented in notes 59–64; Banking and Investment Services' risk exposure, including capital adequacy information in accordance with Pillar III, in notes 65–98; Non-life Insurance's risk exposure in notes 99–110 and that of Life Insurance in notes 111–119.

OP-Pohjola Group's risk exposure

Note 59. OP-Pohjola Group's risk limit system, based on OP-Pohjola Group's 2012 business strategy, and limit indicator values

OP-Pohjola Group's Supervisory Board confirms risk limits related to the Group's capital adequacy and credit and liquidity, market and underwriting risks. These limits are used to control the Group's risk-taking. OP-Pohjola Group's risk limit system is based on the updated business strategy adopted in the summer of 2012.

Indicator	Risk limit	31 Dec. 2012	31 Dec. 2011
Capital adequacy			
Capital adequacy ratio, (Act on the Supervision of Financial and Insurance Conglomerates)	1.20	1.90	1.80
Capital adequacy/economic capital requirement	1.20	1.51	1.54
Credit risks			
Largest single customer risk / capital resources	15.0	6.9	7.2
Total of significant customer risks / capital resources, %	100.0	12.0	24.4
Industry risk / corporate receivables and commitments, %	16.0	10.4	10.4
Ratio of doubtful receivables to loan and guarantee portfolio, %	1.50	0.46	0.47
Expected losses/EAD	1.0	0.4	0.5
Liquidity risks			
Banking structural funding risk / Banking balance sheet, %			
≤ 12 months	-5	1.3	-2.9
≤ 3 years	0	6.3	3.4
≤ 5 years	2	9.5	8.0
Funding liquidity risk, days	30	75	58
Market risks			
Financing interest rate risk exposure / capital resources, %	10	1.6	4.3
Trading VaR, 99%, 1 day, EUR million	10	2.6	2.0
Insurance market risk / capital resources, %	30	16.9	16.1
Property risk / capital resources, %	8	3.4	3.6
Underwriting risks			
Non-life Insurance underwriting risk / capital resources, %	10	5.1	4.7
Life Insurance underwriting risk / capital resources, %	10	5.9	3.5

Notes to OP-Pohjola Group Financial Statements

OP-POHJOLA GROUP'S RISK EXPOSURE

Note 60. OP-Pohjola Group's capital adequacy

Note 2, OP-Pohjola Group's risk and capital adequacy management principles, provides a description of how the Group organises its Group-level risk and capital-adequacy management process. OP-Pohjola Group and all of its institutions fulfil the capital adequacy requirements set by the authorities.

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

EUR million	31 Dec. 2012	31 Dec. 2011
OP-Pohjola Group's equity capital	7,134	6,242
Cooperative capital, hybrid instruments, perpetual bonds and debenture bonds	1,676	1,518
Other sector-specific items excluded from capital base	-1	-12
Goodwill and intangible assets	-1,272	-1,114
Equalisation provision	-212	-271
Proposed profit distribution	-68	-61
Items under IFRS deducted from capital base*	-179	-164
Shortfall of impairments – expected losses	-498	-542
Conglomerate's total capital base	6,581	5,596
Regulatory capital requirement for credit institutions**	3,047	2,722
Regulatory capital requirement for insurance operations***	421	388
Minimum amount of conglomerate's capital resources	3,468	3,111
Conglomerate's capital adequacy	3,112	2,486
Conglomerate's capital adequacy ratio (capital base/minimum of capital base)	1.90	1.80

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

** Risk-weighted assets x 8%

*** Minimum solvency margin

Capital adequacy

As specified in OP-Pohjola Group's strategy, the Group has two risk limit indicators for its capital adequacy. The first is capital adequacy prescribed in the Act on the Supervision of Financial and Insurance Conglomerates. The Group's risk limit for this capital adequacy ratio is 1.2, while the minimum statutory requirement is 1. On 31 December 2012, this ratio stood at 1.90, as against 1.80 a year earlier. OP-Pohjola Group's capital resources were EUR 2,420 million (1,864) above the Group's internal risk limit and EUR 3,112 million (2,486) above the limit required by law.

The other strategy-based risk limit indicator for capital adequacy is the ratio of capital resources to economic capital, for which the risk limit stands at 1.2. On 31 December 2012, the ratio of capital resources to economic capital was 1.51 (1.54). The capital buffer above the Group's internal risk limit was EUR 1,271 million (1,739). The strong capital base acts as a buffer against unexpected losses and paves the way for business growth.

Notes to OP-Pohjola Group Financial Statements

OP-POHJOLA GROUP'S RISK EXPOSURE

Note 61. Credit risk in Banking

OP-Pohjola Group's industry and customer risks are diversified. On 31 December 2012, the largest single counterparty-related customer risk accounted for 6.9% (7.2) of the Group's capital resources. The total amount of significant customer exposure was 12.0% (24.4) of the Group's capital resources. Any customer exposure that accounts for at least 5% of the Group's capital resources is taken into account in measuring significant customer exposure. The risk limit for the greatest customer exposure is 15%, and the significant customer total is 100 %. At OP-Pohjola Group, industry risk is calculated for each main line of business, with the following factored in: receivables and commitments in Banking, and direct investments in Life and Non-life Insurance. On 31 December 2012, the highest industry risk was 10.4% (10.4) by Renting and Operating of Other Real Estate. The industry risk limit is 16%.

At year-end, OP-Pohjola Group's non-performing and zero-interest receivables came to EUR 311 million (296), which accounted for 0.46% (0.47) of the loan and guarantee portfolio. The risk limit for this key ratio is 1.5%. The ratio of expected losses to exposure at default (EAD) was 0.4% (0.5) and the risk limit for this ratio was 1.0%. Expected losses are an estimate of the average annual losses caused by credit risks calculated using OP-Pohjola Group's own credit risk models. Net impairment loss on receivables recognised in 2012 amounted to EUR 99 million (101), accounting for 0.15% of the loan and guarantee portfolio (0.16).

Notes to OP-Pohjola Group Financial Statements

OP-POHJOLA GROUP'S RISK EXPOSURE

Note 62. Liquidity risk

OP-Pohjola Group's risk limit for liquidity risk has been set for the ratio between net cash flows under time category which guide the structural funding risk and the Banking balance sheet, and for the indicator concerning liquidity risk.

The risk indicator for the structural funding risk indicates the maximum portion of the net cash flows in the Group's balance sheet that may mature within less than one year and within less than three and five years. On 31 December, the maturing net cash flows in the Group's balance sheet were in all maturity periods with upper limits clearly under the maximum specified by the risk limits.

The liquidity risk indicator shows how well the primary liquidity buffer can cover for 30 days the known or predictable net cash flows payable to parties outside the Group and also any unexpected yet moderate decline in deposits. At the end of the year, the primary liquidity buffer was sufficient to cover a period that was considerably longer than the 30 days that was used as a risk limit.

Notes to OP-Pohjola Group Financial Statements

OP-POHJOLA GROUP'S RISK EXPOSURE

Note 63. Market risks

The Group's financing interest rate risk limit represents the ratio of the interest rate risk's economic capital requirement to the Group's capital resources. On 31 December, the ratio of the Group's financing interest rate risk to capital resources was considerably lower than the risk limit which was 10%.

OP-Pohjola Group limits its Trading market risk using the VaR limit (99% confidence level, 1-day time horizon) within its risk limit system. On 31 December, the VaR of Trading accounted for around a quarter of the EUR 10 million euro risk limit set for it.

The market risk limit for insurance operations has been set on the basis of the ratio between the economic capital requirement and the Group's capital resources concerning the risk in question. On 31 December, the market risk limit for insurance operations relative to capital resources accounted for around half of the 30% risk limit set for it.

The Group's real estate risk limit has been set on the basis of the ratio between economic capital requirement and the Group's capital base. On 31 December, the real estate risk relative to capital resources accounted for less than half of the 8% maximum risk limit.

Notes to OP-Pohjola Group Financial Statements

OP-POHJOLA GROUP'S RISK EXPOSURE

Note 64. Insurance risks

Within the risk limit system, the Group limits underwriting risk using the ratio of Non-life and Life Insurance economic capital requirement to capital resources. On 31 December, the underwriting risk associated with both Non-life and Life accounted for around less than half of the 10% risk limits set for them.

Notes to OP-Pohjola Group Financial Statements

RISK EXPOSURE BY BANKING

Note 65. Financial assets and impairment losses recognised on them for the financial year

EUR million	31 Dec. 2012		31 Dec. 2011	
	Balance sheet value	Impairment losses	Balance sheet value	Impairment losses
Liquid assets	5,784	-	4,376	-
Receivables from financial institutions	840	-	1,104	-
Receivables from credit institutions				
Notes and bonds	266	-	212	-
Shares and participations	91	-	69	-
Other	-	-	-	-
Derivative contracts				
Held for trading	3,697	-	2,892	-
Hedging	703	-	410	-
Recognised at fair value through profit or loss	36	-	6	-
Loans and other receivables				
Loans granted	64,108	406	59,423	365
Finance lease receivables	1,048	-	902	-
Repo contracts	-	-	-	-
Bank guarantee receivables	6	7	6	4
Other receivables	0	-	0	-
Available-for-sale financial assets				
Notes and bonds	5,446	-	6,923	-
Shares and participations	327	-	256	-
Other	-	-	-	-
Held-to-maturity investments				
Notes and bonds	401	-	753	-
Off-balance-sheet commitments				
Bank guarantees	2,635	-	2,696	-
Total financial assets	85,388	413	80,026	369

Notes to OP-Pohjola Group Financial Statements

RISK EXPOSURE BY BANKING

Note 66. Exposure

	Finland			Other countries		
	Balance sheet value	Impairments	Accrued interest	Balance sheet value	Impairments	Accrued interest
31 Dec. 2012						
Financial assets						
Receivables from credit institutions	13	-	0	827	-	10
Receivables from customers	63,096	389	101	1,017	25	2
Finance leases	1,034	-	-	14	-	-
Notes and bonds	1,346	-	23	4,767	-	61
Other	112	-	-	518	-	-
Total	65,602	389	124	7,143	25	73
Off-balance-sheet commitments						
Unused standby credit facilities	10,713	-	-	143	-	-
Guarantees and letters of credit	2,517	-	-	573	-	-
Derivative contracts	885	-	-	3,724	-	-
Other	300	-	-	183	-	-
Total	14,414	-	-	4,623	-	-
Total exposure	80,016	389	124	11,766	25	73

31 Dec. 2011	Finland			Other countries		
	Balance sheet value	Impair- ments	Accrued interest	Balance sheet value	Impair- ments	Accrued interest
Financial assets						
Receivables from credit institutions	123	-	0	981	-	8
Receivables from customers	58,561	324	152	868	45	2
Finance leases	893	-	-	9	-	-
Notes and bonds	1,108	-	20	6,780	-	101
Other	112	-	-	437	-	-
Total	60,796	324	172	9,075	45	111
Off-balance-sheet commitments						
Unused standby credit facilities	10,182	-	-	181	-	-
Guarantees and letters of credit	2,533	-	-	411	-	-
Derivative contracts	725	-	-	2,767	-	-
Other	379	-	-	229	-	-
Total	13,819	-	-	3,587	-	-
Total exposure	74,616	324	172	12,662	45	111

Positive market value was recognised for derivative contracts.

Notes to OP-Pohjola Group Financial Statements

RISK EXPOSURE BY BANKING

Note 67. Exposure by sector

	Balance sheet values		Off-balance-sheet		Total
	Domestic	Foreign	Domestic	Foreign	
31 Dec. 2012					
Non-banking corporate sector	20,924	988	9,336	417	31,664
Financial institutions and insurance companies	636	5,490	580	4,192	10,898
Households	42,685	34	3,574	2	46,295
Non-profit organisations	654	145	84	0	884
Public corporations	826	559	840	12	2,237
Total	65,725	7,216	14,414	4,623	91,978
31 Dec. 2011					
Non-banking corporate sector	18,873	750	8,830	422	28,875
Financial institutions and insurance companies	787	7,553	590	3,163	12,092
Households	39,984	35	3,640	1	43,660
Non-profit organisations	579	195	142	0	916
Public corporations	745	653	617	2	2,017
Total	60,968	9,186	13,819	3,587	87,561

Notes to OP-Pohjola Group Financial Statements

RISK EXPOSURE BY BANKING

Note 68. Receivables from credit institutions and customers, and doubtful receivables

31 Dec. 2012	Receivable base			Total impair- ments	Balance sheet value
	Not impaired (gross)	Impaired (gross)	Total		
Receivables					
Receivables from credit institutions	840	-	840	-	840
Receivables from customers	64,025	502	64,527	413	64,113
Bank guarantee receivables	4	8	12	7	6
Finance leases	1,048	-	1,048	-	1,048
Overdrafts	2	-	2	-	2
Total	65,914	502	66,416	413	66,003
Receivables by sector					
Non-banking corporate sector	20,822	422	21,244	332	20,911
Financial institutions and insurance companies	1,051	10	1,062	7	1,054
Households	42,691	65	42,757	72	42,685
Non-profit organisations	650	5	654	2	653
Public corporations	700	-	700	-	700
Total	65,914	502	66,416	413	66,003

	Receivable base				
	Not impaired (gross)	Impaired (gross)	Total	Total impair- ments	Balance sheet value
31 Dec. 2011					
Receivables					
Receivables from credit institutions	1,104	-	1,104	-	1,104
Receivables from customers	59,358	440	59,798	369	59,429
Bank guarantee receivables	6	4	10	4	6
Finance leases	902	-	902	-	902
Overdrafts	13	-	13	-	13
Total	61,377	440	61,817	369	61,448
Receivables by sector					
Non-banking corporate sector	18,730	307	19,038	264	18,774
Financial institutions and insurance companies	1,462	65	1,527	33	1,494
Households	39,949	62	40,011	72	39,939
Non-profit organisations	580	6	587	0	586
Public corporations	655	-	655	-	655
Total	61,377	440	61,817	369	61,448

31 Dec. 2012	Impairments					
	Not impaired (gross)	Impaired (gross)	Total	Arrears	Individually assessed	Collectively assessed
Doubtful receivables						
Receivables from credit institutions	0	-	0	-	-	-
Receivables from customers	398	502	900	265	355	59
Bank guarantee receivables	4	8	12	10	7	0
Finance leases	1	-	1	0	-	-
Overdrafts	2	-	2	0	-	-
Total	401	502	903	266	355	59
Doubtful receivables by sector						
Non-banking corporate sector	94	422	516	135	309	24
Financial institutions and insurance companies	0	10	10	0	7	-
Households	301	65	367	129	37	35
Non-profit organisations	1	5	6	2	2	0
Public corporations	4	-	4	0	-	-
Total	401	502	903	266	355	59

Impairments

31 Dec. 2011	Not impaired (gross)	Impaired (gross)	Total	Arrears	Individually assessed	Collectively assessed
Doubtful receivables						
Receivables from credit institutions	0	-	0	-	-	-
Receivables from customers	360	441	801	226	308	61
Bank guarantee receivables	6	4	10	6	4	0
Finance leases	2	-	2	0	-	-
Overdrafts	13	-	13	0	-	-
Total	375	441	816	226	308	61
Doubtful receivables by sector						
Non-banking corporate sector	109	308	417	105	240	23
Financial institutions and insurance companies	0	65	65	-	33	-
Households	258	62	319	118	34	38
Non-profit organisations	1	6	8	3	0	0
Public corporations	7	-	7	0	-	-
Total	375	441	816	226	308	61

31 Dec. 2012	Portfolio	Impair- ments	Balance sheet value
Doubtful receivables			
Non-performing	456	149	307
Zero-interest	12	8	4
Underpriced	130	1	129
Other	305	197	108
Total	903	355	549

31 Dec. 2011	Portfolio	Impair- ments	Balance sheet value
Doubtful receivables			
Non-performing	415	122	293
Zero-interest	10	7	4
Underpriced	113	1	111
Other	278	178	100
Total	816	308	508

Doubtful receivables include non-performing, zero-interest, under-priced receivables and other doubtful receivables. 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. Other doubtful receivables include those that are subject to impairment but cannot be classified under any of the above categories, and overdrafts and guarantee receivables. Arrears include unpaid interest on receivables and unpaid instalments.

31 Dec. 2012	Less than 30 days	30–90 days	90–180 days	Over 180 days.	Total
Matured receivables, not impaired	880	400	7	1	1,288

31 Dec. 2011	Less than 30 days	30–90 days	90–180 days	Over 180 days.	Total
Matured receivables, not impaired	638	378	6	1	1,023

Notes to OP-Pohjola Group Financial Statements

RISK EXPOSURE BY BANKING

Note 69. Impairment losses on receivables

	31 Dec. 2012	31 Dec. 2011
Impairment losses on receivables	175	200
Reversal of impairment losses	-60	-97
Payments on eliminated receivables	-14	-11
Net change in group-specific impairment losses	-2	10
Total	99	101
Net impairments, % of receivables portfolio	0.15	0.17

Notes to OP-Pohjola Group Financial Statements

RISK EXPOSURE BY BANKING

Note 70. Private customer exposure by credit category

Category	31 Dec. 2012		31 Dec. 2011	
	Net exposure	% Net exposure		%
A	23,238	50.2	22,144	50.7
B	10,952	23.7	10,156	23.3
C	5,591	12.1	5,115	11.7
D	4,439	9.6	4,234	9.7
E	1,414	3.1	1,343	3.1
F	661	1.4	669	1.5
Non-rated	-	-	-	-
Total	46,295	100.0	43,660	100.0

The probability of default (PD) of exposures with a credit rating of A and B is a maximum of 0.01%.

Notes to OP-Pohjola Group Financial Statements

RISK EXPOSURE BY BANKING

Note 71. Corporate exposure by sector

31 Dec. 2012	Balance sheet	Net exposure		Percentage-distribution
		Off-balance sheet	Total	
Renting and operation of residential real estate	4,824	1,179	6,004	19.0
Operating of other real estate	2,883	346	3,229	10.2
Trade	2,489	675	3,164	10.0
Construction	1,157	1,184	2,341	7.4
Manufacture of machinery and equipment (incl. maintenance)	865	1,166	2,032	6.4
Services	1,522	441	1,962	6.2
Transportation and storage	1,399	382	1,781	5.6
Energy	654	888	1,542	4.9
Bying and selling of own real estate	951	317	1,268	4.0
Forest industry	632	559	1,190	3.8
Metal industry	609	495	1,104	3.5
Information and communication	562	469	1,030	3.3
Agriculture, forestry and fishing	870	143	1,013	3.2
Financial and insurance activities	750	251	1,000	3.2
Food industry	614	310	923	2.9
Manufacture of chemicals and chemical products	268	506	773	2.4
Other manufacturing	419	233	652	2.1
Mining and quarrying	184	104	287	0.9
Water supply and waste management	203	87	290	0.9
Other sectors	59	18	77	0.2
Total	21,912	9,753	31,664	100

31 Dec. 2011	Net exposure			
	Balance sheet	Off-balance sheet	Total	Percentage-distribution
Renting and operation of residential real estate	4,132	929	5,061	17.5
Operating of other real estate	2,680	266	2,946	10.2
Trade	2,171	707	2,878	10.0
Construction	1,109	1,105	2,214	7.7
Manufacture of machinery and equipment (incl. maintenance)	794	1,302	2,096	7.3
Services	1,222	578	1,800	6.2
Transportation and storage	1,385	413	1,798	6.2
Forest industry	345	855	1,200	4.2
Bying and selling of own real estate	983	170	1,153	4.0
Metal industry	712	428	1,140	3.9
Manufacture of chemicals and chemical products	522	571	1,093	3.8
Energy	638	341	979	3.4
Food industry	781	92	874	3.0
Agriculture, forestry and fishing	594	269	863	3.0
Information and communication	437	388	825	2.9
Financial and insurance activities	308	461	769	2.7
Other manufacturing	424	181	605	2.1
Mining and quarrying	188	117	306	1.1
Water supply and waste management	141	75	216	0.7
Other sectors	56	4	61	0.2
Total	19,623	9,252	28,875	100

Notes to OP-Pohjola Group Financial Statements

RISK EXPOSURE BY BANKING

Note 72. Corporate exposure by rating category

Rating	31 Dec. 2012		31 Dec. 2011	
	Net exposure	% Net exposure		%
1,0–2,0	1,353	4.3	1,161	4.0
2,5–5,0	13,095	41.4	12,325	42.7
5,5–7,0	10,885	34.4	9,804	34.0
7,5–8,5	4,669	14.7	4,231	14.7
9,0–10,0	1,056	3.3	804	2.8
11,0–12,0	606	1.9	550	1.9
Non-rated	-	-	-	-
Total	31,664	100.0	28,875	100.0

Probabilities of default related to credit ratings are explained in Note 93.

Notes to OP-Pohjola Group Financial Statements

RISK EXPOSURE BY BANKING

Note 73. Corporate exposure by the amount of customer's exposure

31 Dec. 2012

Amount of exposure, EUR million	Finland	Other countries	Total	%
0–1	6,474	156	6,631	20.9
1–10	7,277	504	7,781	24.6
10–50	5,782	567	6,349	20.1
50–100	3,697	177	3,874	12.2
Over 100	7,030	-	7,030	22.2
Total	30,259	1,405	31,664	100.0

31 Dec. 2011

Amount of exposure, EUR million	Finland	Other countries	Total	%
0–1	6,102	173	6,275	21.7
1–10	6,417	390	6,806	23.6
10–50	5,135	559	5,694	19.7
50–100	3,811	50	3,861	13.4
Over 100	6,239	-	6,239	21.6
Total	27,704	1,172	28,875	100.0

Notes to OP-Pohjola Group Financial Statements

RISK EXPOSURE BY BANKING

Note 74. Secondary country risk by country risk category (excl. Finland)

Country risk	Moody's equivalent	31 Dec. 2012		31 Dec. 2011	
		Net exposure	% Net exposure		%
Category 1	Aaa	9,417	79.8	10,202	80.4
Category 2	Aa1–A3	869	7.4	1,387	10.9
Category 3	Baa1–Baa3	1,259	10.7	805	6.3
Category 4	Ba1–B3	237	2.0	263	2.1
Category 5	Caa1–C	22	0.2	35	0.3
Total		11,804	100.0	12,692	100.0

Category 2 (excl. Finland) 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 OP-Pohjola Group Financial Statements

RISK EXPOSURE BY BANKING

Note 75. Structure of OP-Pohjola Group funding

EUR million	31 Dec. 2012	% 31 Dec. 2011		%
Liabilities to credit institutions	1,965	2.4	1,783	2.3
Financial liabilities at fair value through profit or loss	3	0.0	1	0.0
Liabilities to customers				
Deposits	45,011	54.2	41,304	52.7
Other	4,639	5.6	4,670	6.0
Debt securities issued to the public				
Certificates of deposit, commercial papers and ECPs	5,506	6.6	8,361	10.7
Bonds	13,764	16.6	11,644	14.9
Other liabilities	3,297	4.0	2,840	3.6
Subordinated liabilities	1,114	1.3	931	1.2
Cooperative capital	622	0.7	624	0.8
Equity capital	7,134	8.6	6,242	8.0
Total	83,056	100.0	78,400	100.0

Notes to OP-Pohjola Group Financial Statements

RISK EXPOSURE BY BANKING

Note 76. Maturity of financial assets and liabilities by residual maturity

31 Dec. 2012	Less than 3 months	3–12 months	1–5 years	5–10 years	More than 10 years	Total
Financial assets						
Liquid assets	5,784	-	-	-	-	5,784
Financial assets at fair value through profit or loss						
Notes and bonds	7	22	181	44	12	266
Receivables from credit institutions	161	354	306	17	1	840
Receivables from customers	3,764	6,493	24,469	15,315	15,120	65,161
Investment assets						
Available-for-sale notes and bonds	208	259	3,121	1,831	27	5,446
Held-to-maturity notes and bonds	20	105	265	12	0	401
Total financial assets	9,945	7,232	28,342	17,219	15,161	77,899
Transfer of financial assets held for trading	-7	-22	-181	-44	-12	-266
to less-than-3-months category	266	-	-	-	-	266
Total financial assets in internal reporting	10,204	7,211	28,161	17,174	15,149	77,899

	Less than 3 months	3–12 months	1–5 years	5–10 years	More than 10 years	Total
Financial liabilities						
Liabilities to credit institutions	1,780	166	0	20	-	1,965
Financial liabilities at fair value through profit or loss	3	-	-	-	-	3
Liabilities to customers	40,868	5,698	2,484	461	139	49,650
Debt securities issued to the public	5,052	2,832	10,032	1,189	165	19,270
Subordinated liabilities	171	111	126	674	33	1,114
Total financial liabilities	47,873	8,806	12,642	2,344	337	72,002
Transfer of private customers' deposit repayable on demand from the less-than-3-months category to the 3-12-months category	-22,577	22,577	-	-	-	-
Total financial liabilities in internal reporting	25,296	31,383	12,642	2,344	337	72,002
Guarantees	40	97	313	77	420	948
Other guarantee liabilities	305	382	443	53	505	1,688
Loan commitments	10,855	-	-	-	-	10,855
Commitments related to short-term trade transactions	101	50	302	0	2	455

Other	183	2	29	268	2	483
Total off-balance-sheet commitments	11,484	531	1,086	398	930	14,428

31 Dec. 2011	Less than 3 months	3–12 months	1–5 years	5–10 years	More than 10 years	Total
Financial assets						
Liquid assets	4,376	-	-	-	-	4,376
Financial assets at fair value through profit or loss						
Notes and bonds	33	36	129	13	1	212
Receivables from credit institutions	172	296	528	108	1	1,104
Receivables from customers	3,540	5,802	21,974	14,043	14,973	60,331
Investment assets						
Available-for-sale notes and bonds	96	248	4,769	1,786	25	6,923
Held-to-maturity notes and bonds	167	195	353	38	0	753
Total financial assets	8,383	6,576	27,752	15,988	15,000	73,698
Transfer of financial assets at fair value through profit or loss to the less-than-3-months category	-33	-36	-129	-13	-1	-212
	212	-	-	-	-	212
Total financial assets in internal reporting	8,563	6,540	27,623	15,975	14,999	73,698

	Less than 3 months	3–12 months	1–5 years	5–10 years	More than 10 years	Total
Financial liabilities						
Liabilities to credit institutions	1,707	61	0	15	-	1,783
Financial liabilities at fair value through profit or loss	1	-	-	-	-	1
Liabilities to customers	37,779	5,477	2,032	440	247	45,974
Debt securities issued to the public	6,428	4,495	7,336	1,746	-	20,005
Subordinated liabilities	4	315	393	183	36	931
Total financial liabilities	45,918	10,348	9,761	2,384	282	68,693
Transfer of private customers' deposit repayable on demand from the less-than-3-months category to the 3-12-months category	-20,867	20,867	-	-	-	-
Total financial liabilities in internal reporting	25,051	31,215	9,761	2,384	282	68,693

Guarantees	13	27	398	86	560	1,084
Other guarantee liabilities	260	422	458	51	421	1,612
Loan commitments	10,363	-	-	-	-	10,363
Commitments related to short-term trade transactions	69	81	95	0	3	248
Other	227	3	3	373	3	608
Total off-balance-sheet commitments	10,931	532	954	510	987	13,914

Notes to OP-Pohjola Group Financial Statements

RISK EXPOSURE BY BANKING

Note 77. Maturities of financial assets and liabilities by maturity or repricing

31 Dec. 2012	1 month or less	>1-3 months	>3-12 months	>1-2 years	>2-5 years	Over 5 years	Total
Financial assets							
Liquid assets	5,784	-	-	-	-	-	5,784
Financial assets at fair value through profit or loss							
Notes and bonds	6	33	11	30	129	57	266
Receivables from credit institutions	85	280	327	1	148	0	840
Receivables from customers	22,519	17,502	21,755	587	1,748	1,049	65,161
Available-for-sale financial assets							
Notes and bonds	176	469	168	566	2,239	1,827	5,446
Held-to-maturity financial assets							
Notes and bonds	241	89	2	5	54	10	401
Total financial assets	28,812	18,372	22,263	1,189	4,318	2,943	77,899
Financial liabilities							
Liabilities to credit institutions	1,145	634	181	0	5	0	1,965
Financial liabilities at fair value through profit or loss	3	-	-	-	-	-	3
Liabilities to customers	38,357	3,114	5,676	2,220	136	147	49,650
Debt securities issued to the public	1,640	4,935	1,823	2,355	7,112	1,404	19,270
Subordinated liabilities	-	216	144	72	0	683	1,114
Total financial liabilities	41,145	8,900	7,824	4,647	7,253	2,234	72,002

31 Dec. 2011	1 month or less	>1-3 months	>3-12 months	>1-2 years	>2-5 years	Over 5 years	Total
Financial assets							
Liquid assets	4,376	-	-	-	-	-	4,376
Financial assets at fair value through profit or loss							
Notes and bonds	39	32	31	42	59	9	212
Receivables from credit institutions	268	301	311	38	114	72	1,104
Receivables from customers	23,237	15,056	19,441	439	1,148	1,010	60,331
Available-for-sale financial assets							
Notes and bonds	415	603	143	317	3,616	1,831	6,923
Held-to-maturity financial assets							
Notes and bonds	413	309	6	2	10	13	753
Total financial assets	28,746	16,300	19,932	838	4,946	2,935	73,698
Financial liabilities							
Liabilities to credit institutions	1,456	251	76	-	0	0	1,783
Financial liabilities at fair value through profit or loss							
	1	-	-	-	-	-	1
Liabilities to customers	35,585	2,863	5,467	1,644	284	131	45,974
Debt securities issued to the public	3,064	5,533	3,481	155	5,998	1,774	20,005
Subordinated liabilities	0	109	387	171	82	182	931
Total financial liabilities	40,106	8,756	9,410	1,970	6,365	2,087	68,693

Notes to OP-Pohjola Group Financial Statements

RISK EXPOSURE BY BANKING

Note 78. Sensitivity analysis of market risk

EUR million	Risk parameter	Change	31 Dec 2012		31 Dec 2011	
			Effect on earnings*	Effect on equity capital	Effect on earnings*	Effect on equity capital
Interest rate risk	Interest rate	1 pp	94	40	176	37
Currency risk	Market value	10 pps	12	-	14	-
Volatility risk						
Interest rate volatility	Volatility	10 pps	1	-	1	-
Currency volatility	Volatility	10 pps	0	-	0	-
Credit risk premium*	Credit risk margin	0.1 pp	1	20	0	24
Price risk						
Equity portfolio	Market value	10%	-	10	-	9
Private equity funds	Market value	10%	-	7	-	8
Property risk	Market value	10%	3	42	3	42

Interest rate risk has been calculated for each currency as the sum of the intrinsic values of Group member banks' 12-month net interest income volatility and the volatility of the present values of the Group's other balance sheet cash flows.

The credit risk premium is calculated on available-for-sale notes and bonds at fair value through profit or loss, included in the liquidity portfolio.

Notes to OP-Pohjola Group Financial Statements

PILLAR III DISCLOSURES

Notes 79–98 disclose information on the capital adequacy of the consolidated group of the amalgamation of cooperative banks, as specified in Standard 4.5 Supervisory Disclosure of capital adequacy information by the Financial Supervisory Authority (Pillar III disclosures). Given that this information is based on the consolidated capital adequacy on the amalgamation of cooperative banks, it is not directly comparable with information disclosed on OP-Pohjola Group.

The amalgamation of the cooperative banks comprises its central institution (OP-Pohjola Group Central Cooperative), the central institution's member credit institutions and companies belonging to their consolidation groups. Although OP-Pohjola Group's insurance companies do not belong to the amalgamation of the cooperative banks, investments made in them have a major impact on capital adequacy calculated in accordance with the capital adequacy regulations for credit institutions.

Since September 2008, the Internal Ratings Based Approach (IRBA) has been applied to Pohjola Bank plc corporate exposures and to equity investments of the amalgamation of cooperative banks. The amalgamation of OP-Pohjola Group member banks received permission from the Financial Supervisory Authority in October 2011 to use the Internal Ratings Based Approach (IRBA) in their capital adequacy measurement. Since 31 December 2011, the amalgamation of the cooperative banks has applied IRBA to retail, credit institution and corporate exposures and to equity investments. The Standardised Approach (SA) is used for other exposure categories.

Note 79. Capital base

EUR million	31 Dec. 2012	31 Dec. 2011
Tier 1 capital		
OP-Pohjola Group's equity capital	7,134	6,242
The effect of insurance companies on the Group's shareholders' equity is excluded (incl. OVY's technical provisions)	-160	178
Fair value reserve, transfer to Tier 2	-82	144
Supplementary cooperative capital not included in equity capital	620	622
Core Tier 1 capital before deductions	7,513	7,186
Intangible assets	-372	-342
Excess funding of pension liability and fair value measurement of investment property and deferred tax assets on previous losses	-100	-119
Dividend distribution proposed by Board of Directors	-68	-61
Investments in insurance companies and financial institutions	-1,210	-1,157
Shortfall of impairments – expected losses	-249	-271
Shortfall of other Tier 1 capital	-163	-484
Core Tier 1 capital	5,352	4,753
Hybrid capital	201	223
Shortfall of Tier 2 capital	-364	-706
Transfer to Core Tier 1 capital	163	484
Total Tier 1 capital for calculating capital adequacy	5,352	4,753
Tier 2 capital		
Fair value reserve	34	-154
Perpetual bonds	0	285
OVY's equalisation provision	218	215
Debenture loans	842	375
Investments in insurance companies and financial institutions	-1,210	-1,157
Shortfall of impairments – expected losses	-249	-271
Transfer to Tier 1 capital	364	706
Tier 2 capital	-	-
Total capital base	5,352	4,753
Deductions from Tier 1 and 2 capital		
Investments in insurance companies and financial institutions	2,419	2,314
Shortfall of impairments – expected losses	498	542
Total	2,917	2,856

Investments in OP-Pohjola Group's insurance companies and non-consolidated financial institutions have been deducted from the capital base. OP-Pohjola has also deducted as investments in financial institutions over 10%-investments in private equity funds, excluding funds managed by Vaaka Partners Ltd, based on special permission for the deductions given by the Financial Supervisory Authority.

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. The equalisation provision of OP Bank Group Mutual Insurance Company (OVY) less tax liabilities are included under upper Tier 2 capital. The cooperative capital to be returned to unitholders during the following quarter was not included under capital base.

Core Tier 1 capital = Total Tier 1 capital excl. excl. hybrid capital and shortfall of Tier 2 capital covered by hybrid capital

Notes to OP-Pohjola Group Financial Statements

PILLAR III DISCLOSURES

Note 80. Minimum capital requirement

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 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. Based on special permission given by the Financial Supervisory Authority, 100% has been used as CF for retail exposures.

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.

OP-Pohjola Group has used the Standardised Approach to measure capital requirement for operational risks.

EUR million	31 Dec. 2012		31 Dec. 2011	
	Capital requirement	Risk-weighted assets*	Capital requirement	Capital requirement
Credit and counterparty risk	2,606	32,575	2,445	30,556
Internal Ratings-based Approach (IRB)	2,472	30,902	2,317	28,965
Credit institutions	95	1,189	114	1,421
Corporate	1,524	19,048	1,415	17,681
Retail	601	7,516	550	6,876
Secured by real estates	454	5,671	406	5,077
Other	148	1,845	144	1,799
Equity investments	120	1,499	90	1,122
PD/LGD method	1	8	1	10
Simple Risk Weight Approach	119	1,491	89	1,112
Private equity investments	20	255	14	176
Listed equity investments	31	384	14	176
Other	68	852	61	761
Securitisation positions	51	640	65	809
Other positions	81	1,009	84	1,055
Standardised Approach (SA)	134	1,673	127	1,591
Central government and central banks	4	46	14	175
Credit institutions	2	19	2	29
Corporate	66	822	55	688
Retail	63	782	56	696
Other	63	782	56	696
Other positions	0	4	0	2
Market risks	58	723	46	571
Trading book	57	709	44	551
Position risk	57	709	44	551
All activities	1	15	2	20
Commodity risk	1	15	2	20
Operational risk	236	2,954	232	2,903
Requirement during transition period	147	1,841	-	-
Total	3,047	38,093	2,722	34,030
Total, excluding requirement during transition period	2,900	36,252	2,722	34,030

*Risk-weighted assets = Capital requirement / 0.08

Capital requirement for counterparty risk amounts to EUR 43 million (EUR 35 million).

Notes to OP-Pohjola Group Financial Statements

PILLAR III DISCLOSURES

Note 81. Capital ratios

	31 Dec. 2012		31 Dec. 2011	
	Ratios			
	under transition provisions	Ratios excl. transition provisions	Ratios under transition provisions	Ratios excl. transition provisions
Ratios, %				
Capital adequacy ratio	14.1	14.8	14.0	14.0
Tier 1 ratio	14.1	14.8	14.0	14.0
Core Tier 1 ratio	14.1	14.8	14.0	14.0
Capital base*, EUR million				
Capital base	2,305	2,452	2,031	2,031

*Capital base above minimum capital requirement

Notes to OP-Pohjola Group Financial Statements

PILLAR III DISCLOSURES

Note 82. Total exposures by exposure class

31 Dec. 2012, EUR million	On-balance-sheet exposures	Off-balance-sheet exposures	Derivatives exposures	Gross exposures	Average exposure during the year	Average CF
Internal Ratings-based Approach (IRBA)	70,915	14,667	1,200	86,782	84,818	
Credit institutions	4,733	509	587	5,830	6,912	
Corporate	21,444	11,913	613	33,970	32,156	
Retail	42,942	2,208	0	45,151	32,156	100%
Corporate	1,387	233	0	1,620	1,561	100%
Private	41,555	1,975	0	43,530	42,206	100%
Equity investments	464	36	-	500	432	
Securitisation positions	321	-	-	321	518	
Other positions	1,011	-	-	1,011	1,034	
Standardised Approach (SA)	9,340	2,396	374	12,110	11,269	
Central government and central banks	7,396	501	372	8,269	7,474	
Credit institutions	71	99	1	170	217	
Corporate	839	57	2	898	842	
Retail	1,027	1,739	-	2,766	2,731	
Corporate	0	0	-	0	10	
Private	1,027	1,739	-	2,766	2,721	
Other positions	7	-	-	7	5	
Total	80,255	17,063	1,574	98,892	96,088	

31 Dec. 2011, EUR million	On-balance- sheet exposures	Off- balance- sheet exposures	Derivatives exposures	Gross exposures	Average exposure during the year	Average CF
Internal Ratings-based Approach (IRBA)	68,653	13,084	1,118	82,855	-	
Credit institutions	6,926	430	638	7,994	-	
Corporate	19,344	10,519	480	30,343	-	
Retail	40,287	2,095	0	42,382	-	100%
Corporate	1,311	190	0	1,501	-	100%
Private	38,976	1,906	0	40,881	-	100%
Equity investments	323	40	-	363	453	
Securitisation positions	715	-	-	715	-	
Other positions	1,058	-	-	1,058	-	
Standardised Approach (SA)	7,872	2,275	282	10,429	-	
Central government and central banks	6,072	326	280	6,678	5,491	
Credit institutions	168	96	1	265	-	
Corporate	719	66	1	785	-	
Retail	910	1,787	-	2,697	-	
Corporate	0	20	-	20	-	
Private	910	1,767	-	2,677	-	
Other positions	3	-	-	3	-	
Total	76,525	15,358	1,400	93,284	-	

Exposures on average have not been presented from exposure classes which underwent IRBA transition in 2011.

Notes to OP-Pohjola Group Financial Statements

PILLAR III DISCLOSURES

Note 83. Exposure split by geographic region and exposure class

31 Dec. 2012, EUR million	Central government and central banks	Credit institutions	Corporate	Retail	Equity investments	Securitisation positions	Other
Finland	7,515	502	33,543	47,704	471	-	1,018
Other Nordic countries	7	1,211	415	63	3	-	-
Baltic States	67	2	385	11	-	-	0
Rest of EU	669	3,387	345	61	18	315	-
Rest of Europe	-	391	50	39	8	-	-
USA	-	167	43	17	-	-	-
Asia	-	263	55	14	-	-	-
Other	10	77	31	7	-	6	-
Total exposure	8,269	6,000	34,868	47,917	500	321	1,018

31 Dec. 2011, EUR million	Central government and central banks	Credit institutions	Corporate	Retail	Equity investments	Securitisation positions	Other
Finland	5,902	756	29,878	44,884	348	-	1,058
Other Nordic countries	-	1,701	421	55	3	-	-
Baltic States	6	4	204	8	-	-	3
Rest of EU	760	5,037	468	61	7	668	0
Rest of Europe	-	303	46	39	4	-	-
USA	-	226	39	15	0	-	-
Asia	-	155	40	12	0	-	-
Other	10	76	34	5	-	48	-
Total exposure	6,678	8,258	31,129	45,079	363	715	1,061

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PILLAR III DISCLOSURES

Note 84. Exposure split by residual maturity and exposure class

31 Dec. 2012, EUR million	< 3 months	3–12 months	1–5 yrs	5–10 yrs	> 10 yrs	Total
Internal Ratings-based Approach (IRBA)	9,489	4,647	20,778	13,809	37,559	86,782
Credit institutions	675	678	3,106	1,280	90	5,830
Corporate	7,198	3,134	12,075	4,419	7,145	33,970
Retail	1,444	777	5,396	7,212	30,322	45,151
Corporate	295	75	818	294	138	1,620
Private	1,148	702	4,578	6,918	30,184	43,530
Equity investments	-	-	-	-	-	500
Securitisation positions	-	54	196	69	1	321
Other positions	173	3	6	829	-	1,011
Standardised Approach (SA)	9,238	360	1,252	1,019	240	12,110
Central government and central banks	6,424	55	623	973	194	8,269
Credit institutions	79	43	33	14	1	170
Corporate	639	99	83	32	46	898
Retail	2,096	163	507	0	-	2,766
Corporate	0	0	0	0	-	0
Private	2,096	163	507	0	-	2,766
Other positions	1	0	6	-	-	7
Total	18,727	5,007	22,030	14,828	37,799	98,892

31 Dec. 2011, EUR million	< 3 months	3–12 months	1–5 yrs	5–10 yrs	> 10 yrs	Total
Internal Ratings-based Approach (IRBA)	8,806	4,256	21,171	13,290	34,967	82,855
Credit institutions	1,114	674	4,601	1,521	84	7,994
Corporate	6,032	2,748	11,008	4,527	6,028	30,343
Retail	1,309	695	5,082	6,440	28,856	42,382
Corporate	244	71	767	279	141	1,501
Private	1,066	625	4,314	6,161	28,715	40,881
Equity investments	-	-	-	-	-	363
Securitisation positions	76	132	471	34	1	715
Other positions	274	7	8	768	-	1,058
Standardised Approach (SA)	7,601	281	1,448	860	238	10,429
Central government and central banks	4,898	15	753	808	205	6,678
Credit institutions	110	47	78	29	2	265
Corporate	583	60	88	23	32	785
Retail	2,009	159	528	0	-	2,697
Corporate	20	0	0	0	-	20
Private	1,989	159	528	0	-	2,677
Other positions	1	1	2	-	-	3
Total	16,407	4,537	22,619	14,151	35,205	93,284

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PILLAR III DISCLOSURES

Note 85. Past due and impaired exposures by exposure class

31 Dec. 2012, EUR million	Past due loans	Impaired loans	Total	Individually assessed impairments	Collectively assessed impairments	Total
Internal Ratings-based Approach (IRBA)	1,804	546	2,350	367	53	420
Credit institutions	2	2	3	1	-	1
Corporate	875	411	1,287	301	47	348
Retail	927	77	1,004	46	6	51
Corporate	71	11	82	9	-	9
Private	855	67	922	37	6	42
Equity investments	-	46	46	12	-	12
Securitisation positions	-	10	10	7	-	7
Other positions	0	-	0	-	-	-
Standardised Approach (SA)	16	-	16	1	6	7
Central government and central banks	0	-	0	-	-	-
Corporate	0	-	0	1	6	7
Retail	16	-	16	-	-	-
Corporate	0	-	0	-	-	-
Private	16	-	16	-	-	-
Other positions	-	-	0	-	-	-
Total	1,820	546	2,366	368	59	426

31 Dec. 2011, EUR million	Past due loans	Impaired loans	Total	Individually assessed impairments	Collectively assessed impairments	Total
Internal Ratings-based Approach (IRBA)	1,692	396	2,088	285	53	339
Credit institutions	29	9	38	9	-	9
Corporate	768	313	1,081	231	53	284
Retail	896	70	966	43	-	43
Corporate	74	10	84	9	-	9
Private	821	60	881	34	-	34
Equity investments	-	3	3	3	-	3
Other positions	0	-	0	-	-	-
Standardised Approach (SA)	19	9	28	3	7	10
Central government and central banks	0	1	1	1	-	1
Credit institutions	0	-	0	-	-	-
Corporate	0	8	8	2	7	9
Retail	19	-	19	-	-	-
Corporate	-	-	-	-	-	-
Private	19	-	19	-	-	-
Other positions	-	-	0	-	-	-
Total	1,711	405	2,116	288	60	349

Past due liabilities are liabilities in the standard method, the interest or capital of which are over 90 days overdue. In the FIRB method, past due liabilities are categorised under insolvent customers belonging to rating categories 11–12 or F.

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PILLAR III DISCLOSURES

Note 86. Corporate exposures by sector

EUR million	31 Dec. 2012		
	Exposure	RWA	Capital requirement
Renting and operation of residential real estate	6,015	2,974	238
Operating of other real estate	4,100	2,535	203
Trade	3,592	1,998	160
Manufacture of machinery and equipment (incl. maintenance)	2,903	1,048	84
Services	2,498	1,651	132
Financial and insurance activities	2,438	1,006	80
Construction	2,407	1,523	122
Transportation and storage	1,758	1,370	110
Energy	1,687	401	32
Forest industry	1,348	954	76
Agriculture, forestry and fishing	1,218	920	74
Metal industry	1,201	884	71
Food industry	972	562	45
Information and communication	969	399	32
Manufacture of chemicals and chemical products	808	259	21
Other manufacturing	682	500	40
Bying and selling of own real estate	622	422	34
Other sectors	605	620	50
Mining and quarrying	356	226	18
Water supply and waste management	308	113	9
Total	36,489	20,365	1,629

EUR million	31 Dec. 2011		
	Exposure	RWA	Capital requirement
Renting and operation of residential real estate	5,164	2,633	211
Trade	3,175	1,740	139
Operating of other real estate	3,023	1,915	153
Manufacture of machinery and equipment (incl. maintenance)	2,794	974	78
Construction	2,391	1,486	119
Services	2,307	1,649	132
Transportation and storage	1,776	1,335	107
Energy	1,481	399	32
Financial and insurance activities	1,478	653	52
Forest industry	1,228	1,010	81
Bying and selling of own real estate	1,179	736	59
Metal industry	1,143	721	58
Agriculture, forestry and fishing	1,064	911	73
Food industry	1,008	578	46
Manufacture of chemicals and chemical products	810	340	27
Information and communication	782	364	29
Other sectors	666	557	45
Other manufacturing	648	510	41
Mining and quarrying	298	192	15
Water supply and waste management	234	82	7
Total	32,650	18,785	1,503

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 87. Matured and depreciated corporate exposure by sector

31 Dec. 2012, EUR million	Contactual	Past due loans	Impaired loans	Individually assessed impairments	Collectively assessed impairments
Forest industry	191	190	111	96	-
Manufacture of machinery and equipment (incl. maintenance)	148	148	83	72	-
Trade	131	131	65	37	-
Other manufacturing	80	80	20	9	-
Services	71	71	30	21	-
Construction	62	62	14	12	-
Operating of other real estate	58	57	21	10	-
Metal industry	52	52	24	17	-
Transportation and storage	35	34	4	4	-
Agriculture, forestry and fishing	29	28	7	5	-
Financial and insurance activities	22	22	10	7	-
Food industry	17	17	12	8	-
Manufacture of chemicals and chemical products	14	14	11	6	-
Water supply and waste management	14	14	4	3	-
Bying and selling of own real estate	8	7	0	0	-
Renting and operation of residential real estate	7	7	1	0	-
Information and communication	6	6	2	2	-
Mining and quarrying	4	4	0	0	-
Other sectors	1	1	0	1	52
Energy	1	1	0	0	-
Total	950	947	422	311	53

31 Dec. 2011, EUR million	Contactual	Past due loans	Impaired loans	Individually assessed impairments	Collectively assessed impairments
Trade	179	178	73	56	-
Manufacture of machinery and equipment (incl. maintenance)	149	149	79	61	-
Forest industry	114	114	59	45	-
Services	73	73	25	17	-
Construction	69	68	20	18	-
Other manufacturing	52	52	10	3	-
Operating of other real estate	43	43	15	8	-
Metal industry	37	37	17	13	-
Transportation and storage	33	33	4	3	-
Agriculture, forestry and fishing	25	24	6	4	-
Food industry	19	19	10	7	-
Financial and insurance activities	18	18	3	2	-
Water supply and waste management	13	13	1	1	-
Other sectors	8	0	6	0	60
Renting and operation of residential real estate	7	7	0	0	-
Information and communication	6	6	2	1	-
Mining and quarrying	4	4	0	0	-
Energy	2	2	-	-	-
Bying and selling of own real estate	1	1	0	0	-
Manufacture of chemicals and chemical products	1	1	0	0	-
Total	854	842	331	242	60

Notes to OP-Pohjola Group Financial Statements

PILLAR III DISCLOSURES

Note 88. Past due and impaired exposures by geographic region

EUR million	31 Dec. 2012				31 Dec. 2011			
	Past due loans	Impaired loans	Individually assessed impairments	Collectively assessed impairments	Past due loans	Impaired loans	Individually assessed impairments	Collectively assessed impairments
Finland	1,758	506	339	59	1,650	372	262	60
Other Nordic countries	23	10	6	-	13	10	9	-
Baltic States	1	0	0	-	0	0	0	-
Rest of EU	35	23	18	-	39	20	16	-
Rest of Europe	2	1	1	-	5	3	1	-
USA	0	-	-	-	0	0	0	-
Asia	0	-	-	-	1	-	-	-
Other	0	6	4	-	3	-	-	-
Total	1,820	546	368	59	1,711	405	288	60

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Note 89. Exposures by credit rating before and after credit risk mitigation

Risk weight %, EUR million	31 Dec. 2012			31 Dec. 2011		
	Exposure before credit risk mitigation	Exposure after credit risk mitigation	RWA	Exposure before credit risk mitigation	Exposure after credit risk mitigation	RWA
0	8,228	10,715	-	6,730	9,067	-
10	-	-	-	-	-	-
20	212	213	34	230	344	61
35	-	-	-	-	-	-
50	20	71	35	13	13	6
75	2,750	2,750	758	2,678	2,678	669
100	882	875	820	757	892	827
150	16	16	24	20	19	28
350	-	-	-	-	-	-
1250	-	-	-	-	-	-
Other risk weights	2	2	1	1	1	0
Total	12,110	14,643	1,673	10,429	13,013	1,591

In its capital adequacy measurement for credit risk under the Standardised Approach to determine the exposure's risk weight, OP-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. OP-Pohjola Group 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 90. Retail exposures by rating category (IRBA)

Retail exposures rating, private customers on 31 December 2012

Rating category	Exposure value (EAD), MEUR	*Average risk weight, PD, %	Average %	RWA	Minimum capital requirement
A	22,175	0.1	3.3	735	59
B	10,562	0.6	13.9	1,467	117
C	5,250	2.2	29.7	1,559	125
D	3,341	7.3	50.9	1,701	136
E	1,347	24.5	69.4	935	75
F	850	100.0	73.3	623	50
Total	43,525	1.8	16.1	7,021	562

Retail exposures rating, private customers on 31 December 2011

Rating category	Exposure value (EAD), MEUR	*Average risk weight, PD, %	Average %	RWA	Minimum capital requirement
A	20,915	0.1	3.5	722	58
B	9,551	0.6	14.2	1,360	109
C	4,702	2.2	30.9	1,451	116
D	3,623	7.4	54.4	1,970	158
E	1,270	24.4	72.8	924	74
F	815	100.0	4.6	33	3
Total	40,875	1.9	15.8	6,460	517

* The defaults, or rating category F, are not included in the average PD.

Corporate exposure of retail exposure (IRBA) by rating and PD category on 31 December 2012

Rating category	Exposure value (EAD), MEUR	Average risk weight, PD, %	Average risk weight, %	RWA	Minimum capital requirement
1,0–2,0	-	-	-	-	-
2,5–5,0	211	0.4	10.2	22	2
5,5–7,0	836	1.2	21.6	180	14
7,5–8,5	348	5.3	44.9	156	13
9,0–10,0	154	35.5	71.2	110	9
11,0–12,0	66	100.0	40.9	27	2
Total	1,615	5.5	30.6	495	40

Corporate exposure of retail exposure (IRBA) by rating and PD category on 31 December 2011

Rating category	Exposure value (EAD), MEUR	Average risk weight, PD, %	Average risk weight, %	RWA	Minimum capital requirement
1,0–2,0	-	-	-	-	-
2,5–5,0	129	0.4	7.1	9	1
5,5–7,0	868	1.4	20.7	180	14
7,5–8,5	313	5.5	42.2	132	11
9,0–10,0	116	36.1	71.3	83	7
11,0–12,0	69	100.0	18.5	12	1
Total	1,496	5.0	27.8	416	33

* 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, payment default data from 2006 until 2012 has been used. In assessing PD values for each rating category, OP-Pohjola Group has analysed the required adjustment equivalent to corporate customer rating using time series of the unemployment rate until 1989. PD values have also been adjusted with a margin of conservatism in order to take account of the uncertainties associated with the data.

Data used for defining score limits for each rating category for small exposures of corporate customer retail exposures consist of parameters and internal payment default data from 2007 until 2010. 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 91 presents the statistical data on A rating for retail exposures applicable to corporate customers.

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Note 91. Corporate exposures (FIRB) by rating category

Corporate exposures by rating category and PD grade 31 Dec. 2012

Rating category	Exposure value (EAD), EUR million	Average risk weight, PD, %	Average %	RWA	Minimum capital requirement
1.0–2.0	1,134	0.0	14.9	169	13
2.5–5.0	10,821	0.2	42.2	4,569	366
5.5–7.0	8,285	1.4	92.9	7,698	616
7.5–8.5	3,769	5.0	133.3	5,023	402
9.0–10.0	789	32.1	201.4	1,590	127
11.0–12.0	799	100.0	-	-	-
Total	25,597	2.3	74.4	19,048	1,524

Corporate exposures by rating category and PD grade 31 Dec. 2011

Rating category	Exposure value (EAD), EUR million	Average risk weight, PD, %	Average %	RWA	Minimum capital requirement
1,0 - 2,0	884	0.0	14.9	131	11
2,5 - 5,0	10,249	0.2	42.4	4,348	348
5,5 - 7,0	7,386	1.4	95.4	7,047	564
7,5 - 8,5	3,448	5.1	139.1	4,796	384
9,0 - 10,0	659	28.0	206.2	1,358	109
11,0 - 12,0	686	100.0	-	-	-
Total	23,312	2.1	75.8	17,681	1,415

* 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 2012, 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 2009. 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 92. Credit institution exposures (FIRB) by rating category

31 Dec. 2012

Rating category	Exposure value (EAD), MEUR	Average PD, %	Average risk weight, %	RWA	Minimum capital requirement
1,0–2,0	1,576	0.0	6.4	101	8
2,5–5,0	3,481	0.1	23.6	820	66
5,5–7,0	284	1.4	81.2	231	18
7,5–8,5	66	3.8	49.3	32	3
9,0–10,0	2	26.8	260.4	5	0
11,0–12,0	2	100.0	-	-	-
Total	5,410	0.2	22.0	1,189	95

31 Dec. 2011

Rating category	Exposure value (EAD), MEUR	Average PD, %	Average risk weight, %	RWA	Minimum capital requirement
1,0–2,0	2,200	0.0	7.7	170	14
2,5–5,0	4,893	0.1	18.5	906	73
5,5–7,0	294	1.7	99.2	292	23
7,5–8,5	34	4.2	119.2	40	3
9,0–10,0	6	22.2	219.4	13	1
11,0–12,0	29	100.0	-	-	-
Total	7,456	0.2	19.1	1,421	114

* The defaults, or rating categories 11.0 and 12.0, are not included in the average PD.

For defining the score limits for each rating category and PD values, Pohjola has used L rating scores from 2008 until 2010 and external credit ratings and the corresponding payment default data between 193 and 2010. PD values have also 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 93. Equity investments by rating category

31 Dec. 2012

Rating category	Exposure value (EAD), MEUR	Average risk weight, PD, %	Average weight, %	RWA	Minimum capital require- ment
5,5–7,0	3	1.3	244.4	8	1

31 Dec. 2011

Rating category	Exposure value (EAD), MEUR	Average risk weight, PD, %	Average weight, %	RWA	Minimum capital require- ment
5,5–7,0	4	1.3	233.0	10	1

The PD/LGD method related to equity investments is applied to strategic investments outside OP-Pohjola Group.

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Note 94. Expected loss and impairments

Loss, EUR million	Credit institution exposures	Corporate exposures	Retail exposures		Equity investments	Total
			Exposures secured by real estates	Other		
31 Dec. 2012						
(EL)	4	307	53	95	8	467
Impairments	1	348	16	35	12	412
31 Dec. 2011						
(EL)	17	293	58	102	6	476
Impairments	9	284	13	29	3	339
31 Dec. 2010						
(EL)	-	219	-	-	11	229
Impairments	-	182	-	-	2	184
31 Dec. 2009						
(EL)	-	162	-	-	10	171
Impairments	-	121	-	-	2	123
31 Dec. 2008						
(EL)	-	68	-	-	1	69
Impairments	-	24	-	-	-	24

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, OP-Pohjola Group 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 898 million (878). 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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Note 95. Equity investments, Simple Risk Weigh Approach

EUR million	31 Dec. 2012			31 Dec. 2011		
	Exposure	RWA	Minimum capital requirement	Exposure	RWA	Minimum capital requirement
Private equity investments, risk weight 190%	134	255	20	92	176	14
Listed equity investments, 290%	133	384	31	61	176	14
Other, risk weight 370%	230	852	68	206	761	61
Total	497	1,491	119	359	1,112	89

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Note 96. Collateral used in capital adequacy calculation

31 Dec. 2012, EUR million	Exposure	Guaran- tees	Financial collateral	Other collateral	Average LGD, %
Internal Ratings-based Approach (IRB)	86,782	3,512	390	54,597	
Credit institutions	5,830	199	-	0	28.9
Corporate	33,970	2,360	170	1,159	44.5
Exposures to which Pohjola applies its own LGD and/or CF estimates	45,151	953	220	53,438	14.3
Secured by real estates	39,859	280	98	52,638	11.4
Other	5,291	673	122	800	36.3
Equity investments	500	-	-	-	
Basic Indicator Approach	497	-	-	-	
PD/LGD method	3	-	-	-	
Securitisation positions	321	-	-	-	
Other positions	1,011	-	-	-	
Standardised Approach (SA)	12,110	16	-	-	
Central government and central banks	8,269	15	-	-	
Credit institutions	170	1	-	-	
Corporate	898	-	-	-	
Retail	2,766	-	-	-	
Other	2,766	-	-	-	
Other positions	7	-	-	-	
Total	98,892	3,528	390	54,597	

31 Dec. 2011, EUR million	Exposure	Guaran- tees	Financial collateral	Other collateral	Average LGD, %
Internal Ratings-based Approach (IRB)	82,855	2,640	305	50,477	
Credit institutions	7,994	369	-	0	28.7
Corporate	30,343	2,271	92	1,093	44.6
Exposures to which Pohjola applies its own LGD and/or CF estimates	42,382	-	213	49,384	14.8
Secured by real estates	37,251	-	97	48,632	11.7
Other	5,132	-	116	753	37.2
Equity investments	363	-	-	-	
Basic Indicator Approach	359	-	-	-	
PD/LGD method	4	-	-	-	
Securitisation positions	715	-	-	-	
Other positions	1,058	-	-	-	
Standardised Approach (SA)	10,429	69	-	-	
Central government and central banks	6,678	68	-	-	
Credit institutions	265	1	-	-	
Corporate	785	-	-	-	
Retail	2,697	-	-	-	
Other	2,697	-	-	-	
Other positions	3	-	-	-	
Total	93,284	2,709	305	50,477	

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, OP-Pohjola Group utilises the following real securities specified in the capital adequacy regulations: residential buildings and shares entitling their holders to the possession of a flat, deposits and stocks (equities). Deposits and stocks are financial collateral, as referred to in the regulatory framework, and alternative methods are available for their accounting treatment. OP-Pohjola Group applies the so-called comprehensive method to financial collateral in the above approaches, using 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 securities on a more extensive basis than in the SA applied to retail exposures and credit institution and corporate exposures. In determining LGD estimates for retail exposures, OP-Pohjola Group has used contract, security and debt-collection data from 2003 until 2009. Applying the definition of payment default is consistent with the PD models.

Residential buildings acting as guarantee and shares entitling their holders to the possession of a flat constitute the largest collateral type used in capital adequacy. The effect of other real securities on the capital adequacy of credit risks is much less significant. Collateral which has been used has come from a number of sources, the largest single one being the State of Finland.

Notes to OP-Pohjola Group Financial Statements

PILLAR III DISCLOSURES

Note 97. 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. OP-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. OP-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, OP-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 OP-Pohjola Group's credit rating from AA- to A, additional collateral of EUR 5 million (9) 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.

Note 53 presents counterparty risks associated with OTC derivatives. The exposure value of sale and repurchase agreements amounted to EUR 0 million.

Counterparty risk contract types, 31 Dec. 2012, MEUR	Gross exposure value	Benefits from netting	Exposure value after netting	Collateral received	Exposure value
Derivative contracts	5,946	4,381	1,565	0	1,565
Interest rate derivatives	5,061	3,792	1,269	0	1,269
Currency derivatives	661	480	181	0	181
Equity and index derivatives	155	105	50	0	50
Other	68	4	65	0	65
Total	5,946	4,381	1,565	0	1,565

Counterparty risk contract types, 31 Dec. 2011, MEUR	Gross exposure value	Benefits from netting	Exposure value after netting	Collateral received	Exposure value
Derivative contracts	4,939	3,037	1,902	408	1,494
Interest rate derivatives	3,769	2,392	1,377	273	1,104
Currency derivatives	972	578	394	104	290
Equity and index derivatives	150	63	86	30	56
Other	49	3	46	1	44
Credit derivatives	4	-	4	-	4
Total	4,943	3,037	1,906	408	1,498

Notes to OP-Pohjola Group Financial Statements

PILLAR III DISCLOSURES

Note 98. Securitisation positions

Securitisation positions by rating category, Moody's equivalent, EUR million	2012		2011	
	Exposure	RWA	Exposure	RWA
Non-trading book positions				
Securitisation positions	311	603	698	600
Aaa	99	7	391	29
Aa1-Aa3	30	3	57	5
A1-A3	52	10	73	12
Baa1-Baa3	67	50	92	55
Ba1-Ba3	31	113	68	286
B1 or lower	32	421	16	213
Re-securitisation positions	10	38	18	209
Aaa	-	-	-	-
Aa1-Aa3	-	-	-	-
A1-A3	-	-	2	0
Baa1-Baa3	-	-	-	-
Ba1-Ba3	-	-	-	-
B1 or lower	10	38	16	209
Total	321	640	715	809

Matured and impaired securitisation positions by exposure type, 31 Dec. 2012, EUR million	Exposure	Past due	Impaired	Impairment losses
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

Matured and impaired securitisation positions by exposure type, 31 Dec. 2011, EUR million		Exposure	Past due	Impaired	Impairment losses
Non-trading book positions					
Securitisation positions		698	-	23	15
CDO		49	-	23	15
ABS		81	-	-	-
RMBS		568	-	-	-
Re-securitisation positions		18	-	17	11
CDO		18	-	17	11
Total		715	-	40	25

The IRBA has been applied to securitisation positions. OP-Pohjola Group pays special attention to bonds' structural and collateral-related features in its investment in securitised assets.

Notes to OP-Pohjola Group Financial Statements

RISK EXPOSURE OF NON-LIFE INSURANCE

Note 99. Risk-bearing capacity

On 31 December 2012, the solvency capital of Non-life Insurance amounted to EUR 914 million (787) and the solvency ratio stood at 81 % (77). Moody's downgraded The financial strength rating of Pohjola Insurance is AA- affirmed by Standard & Poor's in December 2011. 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 contract liabilities describes the company's ability to cope with risks related to the estimation of insurance contract liabilities. Similarly, solvency capital proportioned to the investment portfolio describes the company's ability to cope with the risks related to investments.

	31 Dec. 2012		31 Dec. 2011	
	EUR million	Risk-bearing capacity, %	EUR million	Risk-bearing capacity, %
Solvency capital	914		787	
Claims incurred*	830	110	754	104
Insurance premium revenue*	1,126	81**	1,024	77**
Insurance contract liabilities*	2,372	39	2,254	35
Investment portfolio	3,149	29	2,863	27

* Reinsurers' share (net business) deducted

** Solvency ratio

Notes to OP-Pohjola Group Financial Statements

RISK EXPOSURE OF NON-LIFE INSURANCE

Note 100. Sensitivity analysis

The table below shows the effect of various risk parameters on profit and solvency capital:

Risk parameter	Total in 2012, EUR million	Change in risk parameter	Effect on profit/solvency, EUR million	Effect on combined ratio
Insurance premium revenue	1,126	Up by 1%	11	Up by 0.9 pps
Claims incurred	830	Up by 1%	-8	Down by 0.7 pps
Large claim, over EUR 5 million	-	1 major loss	-5	Down by 0.9 pps
Personnel costs	129	Up by 8%	-10	Down by 0.9 pps
Expenses by function *	306	Up by 4%	-12	Down by 1.1 pps
		Up by 0.25 pps		
Inflation for collective liability	550		-4	Down by 0.3 pps
Life expectancy for discounted insurance liabilities	1,483	Up 1 year	-34	Down by 3.0 pps
		Down by 0.1 pps		
Discount rate for discounted insurance liabilities	1,483		-18	Down by 1.6 pps

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

Notes to OP-Pohjola Group Financial Statements

RISK EXPOSURE OF NON-LIFE INSURANCE

Note 101. 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
2012	14	15	14	6
2011	15	12	15	4

* EML = Estimated Maximum Loss per object of insurance

Division of 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
2012	4	6	7	2
2011	2	6	4	3

* TSI = Total Sum Insured

Sums insured in guarantee and decennial insurance

The sum insured of insurance contracts depicts the volume of guarantee and decennial insurance (construction defects insurance). The gross and net amounts of the sum insured are itemised by contract type in the table below. The liability period of decennial insurance is 10 years.

EUR million	Gross	Net*		
	2012	2011	2012	2011
Contract guarantees	1	1	1	1
Loan guarantees	1	3	1	3
Other	2	3	2	3
Guarantee insurance	3.9	7	3.9	7
 Decennial insurance	 2,110	 1,937	 2,105	 1,904

* For insurance company's own account after reinsurers' share but before counter guarantee

Notes to OP-Pohjola Group Financial Statements

RISK EXPOSURE OF NON-LIFE INSURANCE

Note 102. Trend in large claims

Number of detected large claims by year of detection for 2008–12

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 losses exceeding EUR 2 million	Statutory lines	Other accidents and health	Property and Liability and			Long-term
			Hull and cargo	business interruption	legal expenses	
2008	-	-	-	4	1	-
2009	3	-	-	5	2	-
2010	1	-	-	12	-	-
2011	-	-	-	5	-	1
2012	3	-	-	7	1	-
Total claims, EUR million						239

Gross amount, total claims, EUR million

2008–2012	14	-	-	190	30	7
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Net amount

Number of losses exceeding EUR 2 million	Statutory lines	Other accidents and health	Property and Liability and			Long- term
			Hull and cargo	business interruption	legal expenses	
2008	-	-	-	4	1	-
2009	3	-	-	4	1	-
2010	-	-	-	10	-	-
2011	-	-	-	4	-	1
2012	3	-	-	6	1	-
Total claims, EUR million						129

Net amount, total claims, EUR million

2008–2012	13	-	-	107	11	4
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Notes to OP-Pohjola Group Financial Statements

RISK EXPOSURE OF NON-LIFE INSURANCE

Note 103. 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.

	Gross	Net	Net	Net**
2012, EUR million	IP revenue	IP revenue	CR*	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	1183	1126	95%	91%

	Gross	Net	Net	Net**
2011, EUR million	IP revenue	IP revenue	CR*	CR*
Statutory lines	385	384	98%	83%
Other accident and health	124	124	91%	91%
Hull and cargo	217	214	95%	95%
Property and business interruption	280	239	97%	97%
Liability and legal expenses	65	59	88%	88%
Long-term	4	3	24%	24%
Total	1076	1024	96%	90%

* 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 has not been taken into account.

** One-off changes affecting the balance on technical account have been eliminated.

Notes to OP-Pohjola Group Financial Statements

RISK EXPOSURE OF NON-LIFE INSURANCE

Note 104. Information on the nature of insurance liabilities

Information on the nature of liabilities	2012	2011
Net insurance contract liabilities (EUR million)		
Latent occupational diseases	29	32
Other	2,343	2,222
Total (before transfers)	2,372	2,254
Duration of debt (years)		
Discounted insurance contract liabilities	12.4	12.1
Undiscounted insurance contract liabilities	2.1	2.1
Total	8.6	8.3
Discounted net debt (EUR million)		
Provision for known unpaid claims for annuities	1,206	1,157
Collective liability (IBNR)	240	235
Provision for unearned premiums	36	35
Total	1,483	1,427

Notes to OP-Pohjola Group Financial Statements

RISK EXPOSURE OF NON-LIFE INSURANCE

Note 105. Insurance contract liabilities by estimated maturity

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 contract liabilities	663	669	359	233	448	2,372

* Includes EUR 34 million in discounted liability

31 Dec. 2011, EUR million	0–1 yr	1–5 yrs	5–10 yrs	10–15yrs	over 15 yrs	Total
Provision for unearned premiums*	291	83	15	4	7	400
Provision for unpaid claims						
Undiscounted	244	163	44	8	3	462
Discounted	90	398	289	211	404	1,392
Total insurance contract liabilities	625	644	347	223	414	2,254

* Includes EUR 33 million in discounted liability

Notes to OP-Pohjola Group Financial Statements

RISK EXPOSURE OF NON-LIFE INSURANCE

Note 106. Risk exposure of insurance investments

Allocation of investment portfolio	31 Dec. 2012		31 Dec. 2011	
	Fair value*, EUR million	%	Fair value*, EUR million	%
Money market total	42	1	48	2
Money market instruments and deposits**	44	1	83	3
Derivatives***	-2	0	-34	-1
Total bonds and bond funds	2,369	75	2,050	72
Governments	469	15	672	23
Inflation-linked bonds	71	2	96	3
Investment Grade	1,460	46	988	35
Emerging markets and High Yield	352	11	287	10
Structured Investments	16	1	6	0
Total equities	367	12	379	13
Finland	83	3	92	3
Developed markets	126	4	153	5
Emerging markets	53	2	53	2
Unlisted equities	6	0	5	0
Private equity investments	99	3	91	3
Equity derivatives***	0	0	-16	-1
Total alternative investments	82	3	132	5
Hedge funds	38	1	69	2
Commodities	6	0	0	0
Convertible bonds	38	1	64	2
Total property investment	290	9	254	9
Direct property investment	186	6	161	6
Indirect property investment	103	3	92	3
Total	3,149	100	2,863	100

* Includes accrued interest income

** Includes notes and bonds recategorised under loans and receivables related to financial receivables, settlement receivables and liabilities and market value of derivatives.

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

Notes to OP-Pohjola Group Financial Statements

RISK EXPOSURE OF NON-LIFE INSURANCE

Note 107. 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 technical provisions is presented in Note 100 dealing with technical provisions. Effects of changes in investment and insurance contract liabilities offset one another.

Non-life Insurance, EUR million	Portfolio at fair value, 31 Dec. 2012	Risk parameter	Change	Effect on solvency capital, EUR million	
				31 Dec. 2012	31 Dec. 2011
Bonds and bond funds *	2,406	Interest rate	1 pp	72	84
Equities **	300	Market value	10%	30	35
Venture capital funds and unlisted shares	105	Market value	10%	10	10
Commodities	6	Market value	10%	1	0
Real property	290	Market value	10%	29	25
Currency	254	Value of currency	10%	25	20
Credit risk premium ***	2,428	Credit risk margin	0.1 pp	9	8
Derivatives****	-	Volatility	10 pps	2	4

* 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

**** 20 percentage points in equity derivatives, 10 percentage points in interest rate derivatives and 5 percentage points in currency derivatives

Notes to OP-Pohjola Group Financial Statements

RISK EXPOSURE OF NON-LIFE INSURANCE

Note 108. 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 contract liabilities have on the interest-rate risk, because only some of the insurance contract liabilities have been discounted using an administrative interest rate (Note 36)

Fair value by duration or repricing date*, EUR million	31 Dec. 2012	31 Dec. 2011
0–1 year	135	249
>1–3 years	545	612
>3–5 years	909	629
>5–7 years	392	265
>7–10 years	236	257
>10 years	139	134
Total	2,356	2,146
Modified duration	4.2	3.9
Effective interest rate, %	1.8	3.4

* Includes money market investments and deposits, bonds, convertible bonds and bond funds

Fixed-income portfolio by maturity and credit rating on 31 Dec 2011, EUR million

Year(s)	0–1	1–3	3–5	5–7	7–10	10–	Total	Proportion, %
Aaa	14	145	323	187	106	77	853	36.2%
Aa1–Aa3	27	47	142	23	12	27	278	11.8%
A1–A3	37	194	220	88	38	1	578	24.5%
Baa1–Baa3	25	80	176	68	74	26	448	19.0%
Ba1 or lower	32	79	47	26	6	8	198	8.4%
Internally rated	1	0	0	–	0	–	1	0.0%
Total	135	545	909	392	236	139	2,356	100.0%

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 Aa3.

The term to maturity of the Non-life Insurance fixed-income portfolio averages 4.7 years (calculated on the basis of the call date and the maturity date).

Notes to OP-Pohjola Group Financial Statements

RISK EXPOSURE OF NON-LIFE INSURANCE

Note 109. Currency risk

Foreign currency exposure, EUR million	31 Dec. 2012	31 Dec. 2011
USD	98	64
SEK	-4	9
JPY	11	-7
GBP	8	4
LVL, LTL**	0	-22
Other	132	90
Total*	254	196

*The currency exposure was 6.8% (8.3) of the investment portfolio. It is calculated as the sum total of individual currencies' intrinsic values.

** These are ERM2 currencies

Notes to OP-Pohjola Group Financial Statements

RISK EXPOSURE OF NON-LIFE INSURANCE

Note 110. Counterparty risk

Credit rating, consistent with Moody's, EUR million	31 Dec. 2012		31 Dec. 2011	
	Investment*	Insurance**	Investment*	Insurance**
Aaa	853	0	784	0
Aa1–Aa3	278	20	345	39
A1–A3	578	26	426	38
Baa1–Baa3	448	0	334	0
Ba1 or lower	198	–	180	–
Internal rating	1	35	17	35
Total	2,356	82	2,085	112

* Includes money market investments, deposits and bonds and bond funds.

** Includes the reinsurers' share of insurance contract liabilities, and receivables from reinsurers.

Notes to OP-Pohjola Group Financial Statements

RISK EXPOSURE BY WEALTH MANAGEMENT

Note 111. Asset management

Within OP-Pohjola Group, Pohjola Asset Management Limited runs asset management business and provides institutional customers and wealthy private individuals with discretionary and consultative 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 2012 totalled EUR 20.8 billion (19.4) and consultative asset management portfolio EUR 9.9 billion (9.8).

Notes to OP-Pohjola Group Financial Statements

RISK EXPOSURE BY WEALTH MANAGEMENT

Note 112. Information on the nature of insurance liabilities and their sensitivity analysis

Risk-bearing capacity of Life Insurance based on statutory indicators

Life insurance companies must fulfil the solvency requirements prescribed by law. The focus is on ensuring that the solvency margin is higher than the minimum requirement and that life insurance companies' early warning supervision requirements are fulfilled. The main principles of early warning supervision are in line with Solvency II that is being prepared by the EU with the intention of preparing life insurance companies for new legislation that will replace, for example, the current solvency margin requirement.

At the end of the financially difficult year 2012, the life insurance companies' solvency margin stood at EUR 780 million while a year ago it amounted to EUR 552 million. The minimum solvency margin is EUR 218 million (2012).

Life insurance risk-bearing capacity is measured in terms of solvency ratio, which means the ratio of the sum of solvency margin and equalisation provisions, or solvency capital, to the sum of technical provisions under FAS. Based on the Group's strategy, the target solvency ratio set for life insurance is 14 %. The Group also monitors the ratio of solvency capital in excess of the minimum of the solvency margin to the risk associated with investment.

Portfolio of insurance and investment contracts in Life Insurance 31 Dec 2012

	Liability, 31 Dec. 2012, EUR million	Number of insureds or contracts	Duration on yield curve, 31 Dec. 2012
Unit-linked contracts	5,353	369,687	10.4
Unit-linked insurance contracts	4,283	296,060	10.1
Life Insurance/Savings	3,395	161,897	9.7
Individual pension insurance	847	129,540	11.2
Group pension insurance	41	4,623	16.2
Unit-linked investment contracts	1,070	73,627	11.8
Pension contracts	1,011	73,354	12.4
Capital redemption contracts	59	273	3.0
Other than unit-linked contracts	3,397	405,193	10.5
Insurance contracts discounted with technical interest rate	3,383	405,147	10.6
Life Insurance/Savings	1,124	48,431	7.4
Rate of guaranteed interest 4.5%	69	2,336	7.7
Rate of guaranteed interest 3.5%	631	20,976	9.7
Rate of guaranteed interest 2.5%	420	24,868	3.6
Rate of guaranteed interest 1.5%	4	251	8.3

Individual pension insurance	924	62,868	10.5
Rate of guaranteed interest 4.5%	294	10,534	5.7
Rate of guaranteed interest 3.5%	428	25,353	8.6
Rate of guaranteed interest 2.5%	201	26,883	15.0
Rate of guaranteed interest 1.5%	1	98	9.5
Group pension insurance	1,162	35,009	14.2
Defined benefit 3.5%	1,094	30,720	14.2
Defined benefit 2.5%	36	1,042	12.9
Defined benefit 1.5%	0	28	12.9
Defined contribution 3.5%	4	66	14.1
Defined contribution 2.5%	24	3,097	16.9
Defined contribution 1.5%	3	56	14.1
Individual risk life insurance	160	251,147	4.0
Group life insurance	14	7,692	0.9
Other than unit-linked investment contracts discounted with technical interest rate	14	46	2.0
Capital redemption contracts	14	46	2.0
Rate of guaranteed interest 3.5%	1	3	0.5
Rate of guaranteed interest 2.5%	12	42	2.2
Rate of guaranteed interest 1.5%	0	1	4.0
Effect of discounting with market interest rate	163	-	-
Other items in underwriting reserves/ insurance contract liabilities	32	-	-
Total	8,945	774,880	10.4

Sensitivity of life insurance liabilities to changes in calculation principles

Because a great deal of very long-term savings insurance and investment insurance policies have been sold, some policyholders surrender their policies before their maturity, if their circumstances so require. For this reason, the number of surrenders is large. The company takes account of the resulting loss of surpluses or deficits when making the early warning calculations for life insurance companies.

The risk of surrender for individual pension plans is very small, since by law this can only be done in specific cases such as divorce and long-term unemployment. The accumulated insurance savings are paid back to the policyholder upon surrender.

Many people are putting off claiming their individual pensions. Often, when taking out a pension, policyholders do not have a realistic view of when they will actually retire. Tax laws have also changed over the decades, allowing people to claim their individual pensions later.

Pension companies' mortality data show that the life expectancy figures used in calculating pensions are too low. However, the mortality risk and longevity risk of individual pensions offset each other, to the point that there is no need for a mortality supplement despite the rise in life expectancy. On the other hand, in group pension insurance, the longevity risk is higher than the mortality risk, and the liabilities have therefore had to be supplemented. If the mortality assumption is modified, by increasing the life expectancy of policyholders by one year on average, the liabilities will grow by EUR 22 million (22).

Since in savings insurance and investment insurance, the mortality and longevity risks almost offset each other, no mortality supplement has been needed.

When determining the insurance liability, the company has followed national accounting policies with the exception of two principles. The equalisation provision is not included under insurance liability. Secondly, the company's discount rate is closer to the current interest rate. The company has insurance contract savings at its own risk with interest rate guarantees ranging between 1.5% and 4.5%. The insurance liability of contracts whose interest rate guarantee is 4.5% has been supplemented so that the technical interest rate of insurance liabilities in financial statements based on national regulation is 3.5% while the technical interest rate of other discounts is the interest rate guarantee. The company has used interest rate derivatives to hedge against some of the interest rate risk that exists between the market and discount rate. Since the benefit deriving from derivatives are used for guaranteed benefits involved in insurance and capital redemption contracts, their liability is increased from the value of the national financial statements by the value of the derivatives, EUR 163 million (62).

The liability of unit-linked policies is measured at the market values of assets associated with the policies on the balance sheet date

Investment contracts come in two types: OP Life Assurance Company Ltd's investment contracts are capital redemption contracts and Aurum Investment Insurance Ltd's pension contracts. Some capital redemption contracts include entitlement to a discretionary participation feature and they are measured in the same way as insurance contracts as specified in the Insurance Contracts standard (IFRS4). Some exclude this entitlement and they are measured and classified as contracts recognised at fair value through profit or loss, in accordance with IAS 39. All pension insurance contracts issued by Aurum Investment Insurance Ltd are measured in compliance with IAS 39.

In financial statements based on national regulation, lowering the discount rate by 0.1 percentage point would increase the technical provisions by EUR 28 million (32).

Notes to OP-Pohjola Group Financial Statements

RISK EXPOSURE BY WEALTH MANAGEMENT

Note 113. Expected maturity of insurance and investment contracts

31 dec. 2012, EUR million	Duration						
	2013– 2014	2015–2016	2017–2021	2022–2026	2027–2031	2032–2036	2037–
Unit-linked contracts	-705	-824	-1,449	-1,114	-860	-588	-1,070
Insurance contracts	-636	-737	-1,200	-777	-577	-435	-942
Life Insurance/Savings	-569	-620	-970	-590	-426	-317	-761
Individual pension insurance	-65	-113	-220	-177	-142	-110	-155
Group pension insurance	-3	-3	-10	-10	-10	-9	-26
Investment contracts	-70	-87	-249	-337	-283	-153	-127
Pension contracts	-41	-74	-231	-337	-283	-153	-127
Capital redemption contracts	-28	-14	-19	-1	0	0	0
Other than unit-linked contracts	-742	-627	-1,244	-843	-653	-497	-1,110
Insurance contracts	-732	-614	-1,230	-839	-652	-496	-1,110
Life Insurance/Savings	-421	-181	-331	-184	-121	-82	-173
Rate of guaranteed interest 4.5%	-14	-18	-23	-13	-10	-6	-5
Rate of guaranteed interest 3.5%	-163	-89	-216	-135	-96	-71	-160
Rate of guaranteed interest 2.5%	-244	-74	-90	-35	-14	-5	-8
Rate of guaranteed interest 1.5%	-1	-1	-1	-1	-1	0	0
Individual pension insurance	-153	-297	-570	-348	-262	-187	-363
Rate of guaranteed interest 4.5%	-55	-101	-178	-64	-19	-3	0
Rate of guaranteed interest 3.5%	-72	-125	-231	-152	-103	-54	-43
Rate of guaranteed interest 2.5%	-26	-70	-161	-132	-140	-130	-320
Rate of guaranteed interest 1.5%	0	0	0	0	0	0	0
Group pension insurance	-117	-115	-304	-299	-266	-227	-573
Defined benefit 3.5%	-112	-109	-289	-285	-252	-214	-538
Defined benefit 2.5%	-2	-3	-7	-5	-3	-3	-10
Defined benefit 1.5%	0	0	0	0	0	0	0
Defined contribution 3.5%	0	-1	-2	-1	-1	-1	-3
Defined contribution 2.5%	-2	-2	-6	-9	-9	-9	-20
Defined contribution 1.5%	0	-1	-1	0	-1	-1	-3
Individual pure risk insurance	-30	-19	-24	-8	-2	0	0

Group life insurance	-11	-1	0	0	0	0	0
Investment contracts	-7	-7	-1	0	0	0	0
Capital redemption contracts	-7	-7	-1	0	0	0	0
Rate of guaranteed interest 3.5%	-1	0	0	0	0	0	0
Rate of guaranteed interest 2.5%	-6	-7	-1	0	0	0	0
Rate of guaranteed interest 1.5%	0	0	0	0	0	0	0
Liability for bonus reserves	-1	0	0	0	0	0	0
Reserve for decreased discount rate	-2	-6	-13	-4	-2	-1	0
Other items in insurance liabilities	-32	0	0	0	0	0	0
Total	-1,479	-1,451	-2,693	-1,957	-1,513	-1,085	-2,180

31 Dec. 2011 EUR million	Duration						2036–
	2012– 2013	2014–2015	2016–2020	2021–2025	2026–2030	2031–2035	
Unit-linked contracts	-455	-560	-1,013	-646	-488	-360	-697
Insurance contracts	-439	-549	-1,003	-644	-488	-360	-697
Life Insurance/Savings	-377	-458	-797	-481	-347	-263	-569
Individual pension insurance	-60	-88	-194	-155	-135	-92	-115
Group pension insurance	-2	-3	-12	-8	-6	-5	-13
Investment contracts	-16	-11	-11	-2	0	0	0
Pension contracts	0	0	0	0	0	0	0
Capital redemption contracts	-16	-11	-11	-2	0	0	0
Other than unit-linked contracts	-858	-709	-1,291	-891	-714	-550	-1,156
Insurance contracts	-842	-704	-1,288	-891	-714	-550	-1,156
Life Insurance/Savings	-525	-286	-383	-210	-141	-92	-189
Rate of guaranteed interest 4.5%	-16	-12	-34	-13	-10	-8	-8
Rate of guaranteed interest 3.5%	-294	-100	-227	-152	-110	-77	-171
Rate of guaranteed interest 2.5%	-214	-172	-120	-43	-20	-7	-10
Rate of guaranteed interest 1.5%	-1	-1	-1	-1	-1	0	0
Individual pension insurance	-148	-273	-554	-347	-275	-201	-322
Rate of guaranteed interest 4.5%	-59	-97	-177	-68	-22	-4	0
Rate of guaranteed interest 3.5%	-67	-114	-234	-153	-105	-65	-49
Rate of guaranteed interest 2.5%	-22	-62	-142	-126	-148	-131	-273
Rate of guaranteed interest 1.5%	0	0	0	0	0	0	0
Group pension insurance	-130	-126	-329	-326	-297	-257	-644
Defined benefit 3.5%	-125	-120	-310	-313	-285	-247	-617
Defined benefit 2.5%	-3	-3	-8	-6	-4	-3	-10
Defined benefit 1.5%	0	0	0	0	0	0	0
Defined contribution 3.5%	-1	-1	-2	-1	0	-1	-3
Defined contribution 2.5%	-2	-2	-7	-7	-7	-6	-12

Defined contribution 1.5%	0	0	-2	0	-1	-1	-2
Individual pure risk insurance	-27	-17	-22	-7	-2	0	0
Group life insurance	-12	-1	0	0	0	0	0
Investment contracts	-14	-5	-3	0	0	0	0
Capital redemption contracts	-14	-5	-3	0	0	0	0
Rate of guaranteed interest 3.5%	-9	0	0	0	0	0	0
Rate of guaranteed interest 2.5%	-5	-5	-3	0	0	0	0
Rate of guaranteed interest 1.5%	0	0	0	0	0	0	0
Liability for bonus reserves	-3	0	0	0	0	0	0
Reserve for decreased discount rate	0	0	0	0	0	0	0
Other items in insurance liabilities	-32	0	0	0	0	0	0
Total	-1,345	-1,269	-2,304	-1,537	-1,202	-910	-1,852

Notes to OP-Pohjola Group Financial Statements

RISK EXPOSURE BY WEALTH MANAGEMENT

Note 114. Life insurance profitability

EUR million	2012			2011		
	Risk income	Claims incurred	Claim ratio	Risk income	Claims incurred	Claim ratio
Life insurance	300	284	95%	307	292	95%
Pure risk insurance	30	15	52%	26	12	46%
Insurance saving	271	269	99%	281	280	100%
Pension insurance	30	28	94%	22	61	277%
Defined benefit	21	19	91%	13	52	393%
Defined contribution	9	9	102%	9	9	104%
OP Life Assurance Company	330	313	95%	329	352	107%

The defined-benefit group pension includes the longevity provision of EUR 40 million in 2011 and EUR 1.8 million in 2012.

Notes to OP-Pohjola Group Financial Statements

RISK EXPOSURE BY WEALTH MANAGEMENT

Note 115. Risk exposure of investment operations

Allocation of investment property	31 Dec. 2012		31 Dec. 2011	
	Fair value, EUR million	%	Fair value, EUR million	%
Fixed-income investments*				
Bonds	1,609	40	959	24
Other money market instruments****	332	8	232	6
Mutual funds	828	21	1,036	26
Shares and participations				
Equities and mutual funds****	230	6	601	15
Alternative investments**	567	14	710	18
Properties***	448	11	438	11
Total	4,014	100	3,976	100

*Include accrued interest and notes and bonds reclassified into loans and receivables within financial assets. Exclude interest rate derivatives used to hedge interest rate risk associated with insurance liabilities.

**Incl. investments in hedge funds and private equity investments

***Only direct investments in properties

****Incl. effect of equity futures

Notes to OP-Pohjola Group Financial Statements

RISK EXPOSURE BY WEALTH MANAGEMENT

Note 116. Sensitivity analysis of investment property

31 Dec. 2012	Portfolio at fair value, EUR million	Risk parameter	Effect on equity capital, EUR million		
			Change	31 Dec. 2012	31 Dec. 2011
Bonds and bond funds	2,437	Interest rate	1 pp	90	63
Shares and alternatives	797	Market value	10 per cent	80	131
Properties	448	Market value	10 per cent	45	66

Notes to OP-Pohjola Group Financial Statements

RISK EXPOSURE BY WEALTH MANAGEMENT

Note 117. Interest-rate risk

Fair value by duration or repricing date, EUR million	31 Dec.	
	2012	31 Dec. 2011
0–1 year	644	840
>1–5 years	1,268	1,074
>5–10 years	716	207
>10–20 years	133	44
>20 years	6	9
Total	2,767	2,176
Modified duration	3.2	3.0
Average interest rate, %	2.6	4.1

Fixed-income portfolio by maturity and credit rating on 31 Dec 2011, EUR million

Year(s)	0–1	1–3	3–5	5–7	7–10	10–	Total	Proportion
Aaa	31	1	156	92	126	123	530	19.2%
Aa1–Aa3	375	48	31	9	16	32	511	18.5%
A1–A3	57	116	126	115	86	10	509	18.4%
Baa1–Baa3	113	307	256	186	61	11	934	33.8%
Ba1 or lower	58	90	35	56	9	1	249	9.0%
Internally rated	7	0	21	0	4	-	33	1.2%
Total	643	562	626	458	302	176	2,767	100.0%

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 a Life Insurance portfolio by Moody's is A2.

The average residual term to maturity of a Life Insurance fixed-income portfolio is 4.1 years (calculated on from the call date and maturity date)

Notes to OP-Pohjola Group Financial Statements

RISK EXPOSURE BY WEALTH MANAGEMENT

Note 118. Currency risk

Foreign currency exposure, EUR million	31 Dec. 2012	31 Dec. 2011
USD	153	303
SEK	2	2
JPY	0	0
GBP	17	14
Other	190	19
Total*	361	337

*Total net currency exposure

The currency exposure was 9.0% (8.5) of the investment portfolio.

Notes to OP-Pohjola Group Financial Statements

RISK EXPOSURE BY WEALTH MANAGEMENT

Note 119. Counterparty risk

Credit rating distribution, EUR million

Moody's equivalent	31 Dec. 2012	31 Dec. 2011
AAA	530	274
AA	511	505
A	509	372
BBB	934	508
BB+ or lower	249	445
Not Rated	33	71
Total *	2,767	2,176

* Includes money-market investments and deposits, bonds and bond funds.

Statement concerning the financial statements

We have adopted the Report of the Executive Board and the consolidated Financial Statements of the amalgamation of the cooperative banks (OP-Pohjola Group) specified in the Act on Cooperative Banks and Other Cooperative Credit Institutions and Act no. 599/2010 on the amalgamation of deposit banks for the financial year from 1 January to 31 December 2012. The report and the Financial Statements are presented to, and passed out at, the General Meeting of OP-Pohjola Group Central Cooperative.

Helsinki, 12 February 2013

Executive Board of OP-Pohjola Group Central Cooperative

Reijo Karhinen Tony Vepsäläinen

Tom Dahlström Carina Geber-Teir

Harri Luhtala Erik Palmén

Teija Sarajärvi

Auditor's Report

This document is an English translation of the Finnish auditor's report. Only the Finnish version of the report is legally binding.

To the members of OP-Pohjola Group Central Cooperative

We have audited the consolidated financial statements and the report by the Executive Board for the year ended on 31 December 2012 of the amalgamation of the cooperative banks (OP-Pohjola Group) pursuant to the Act on the Amalgamation of Deposit Banks as well as to the Act on Cooperative Banks and Other Cooperative Credit Institutions. The financial statements comprise the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity and cash flow statement and notes to the financial statements.

The Responsibility of the Executive Board and the President of OP-Pohjola Group Central Cooperative

The Executive Board and the President of OP-Pohjola Group Central Cooperative are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU in a manner explained in more detail in the notes to the financial statements, as well as for the preparation of the report by the Executive Board that give a true and fair view in accordance with the laws and regulations governing the preparation of the report of the Board of Directors in Finland.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements and on the report by the Executive Board 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 on the report by the Executive Board are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report by the Executive Board. 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 by the Executive Board 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 entity'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 consolidated financial statements and the report by the Executive Board. In carrying out the audit, we also acquainted ourselves with the financial statement policies adopted by the Group's member institutions, as well as the auditors' reports and other related reporting submitted by their auditors.

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 OP-Pohjola Group in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU.

Opinion on the Report of the Executive Board

In our opinion, the report by the Executive Board gives a true and fair view of OP-Pohjola Group's financial performance and financial position in accordance with the laws and regulations governing the preparation of the report of the Board of Directors in Finland. The information in the report by the Executive Board is consistent with the information in the consolidated financial statements.

Helsinki, 18 February 2013

KPMG OY AB

Sixten Nyman

Authorized Public Accountant

